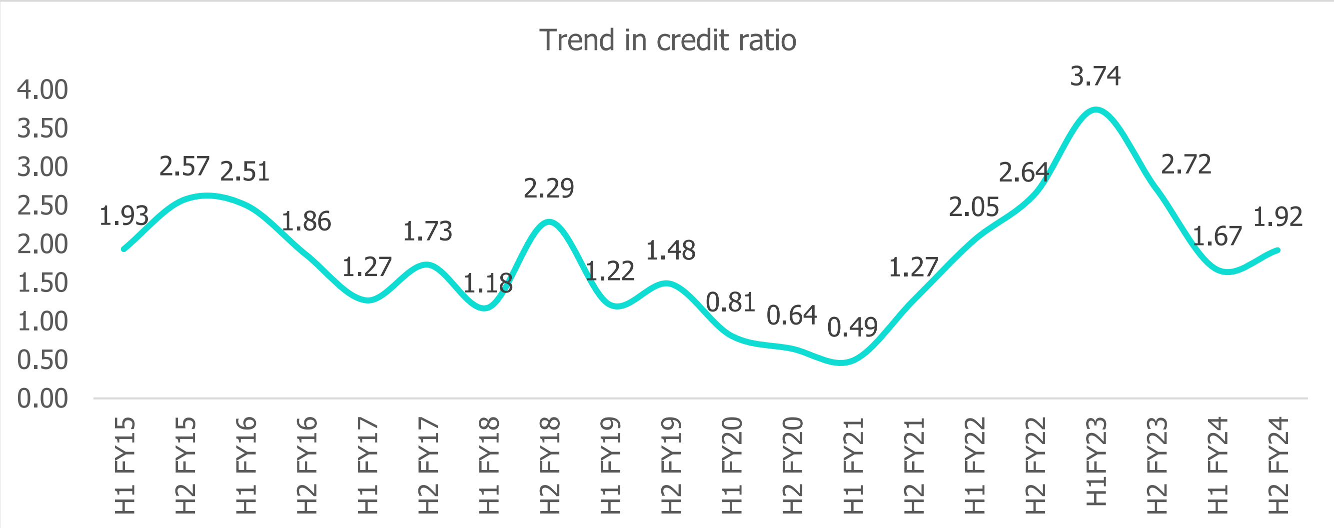
Press Release

Corporate India Resilient but Global Uncertainties Linger

Credit Quality Assessment for H2FY24

April 01, 2024

CareEdge Ratings' credit ratio, which measures the ratio of upgrades to downgrades, witnessed an upswing, improving to 1.92 in H2FY24 after normalising for the previous two half years, from the peak of 3.74 in H1FY23. The credit ratio is comfortably higher than the 10-year average of 1.57. During H2FY24, CareEdge Ratings upgraded the ratings of 357 entities and downgraded the ratings of 186 entities. The credit ratio of the Investment Grade (IG)[1] entities saw moderation from 1.98 in H1FY24 to 1.90 in H2FY24, while the credit ratio of the Below Investment Grade (BIG)[2] portfolio, improved from 1.18 in H1FY24 to 1.95 in H2FY24, hinting at a broad-based uptick in the credit quality of CareEdge Ratings' rated portfolio.



Entities catering to domestic demand exhibited upbeat performance with the resilient domestic economy clocking robust GDP growth, strong investment demand, consistent performance in key high-frequency economic indicators and sustained growth in bank credit. Global uncertainties however persist with weak export demand, elevated interest rates, slowdown in China and geopolitical risks, reflecting on the operations of the export focussed entities.

Sachin Gupta, Executive Director and Chief Rating Officer at CareEdge Ratings, said, "Indian corporates have demonstrated resilience amid the lingering global challenges, manifesting in the uptick in CareEdge Ratings' credit ratio during H2FY24. Performance of the Indian corporates is supported by strong domestic demand, deleveraging of the balance sheets, enhanced profitability, scaling up and project commissioning of infrastructure projects. Sustainability of the strong performance of the Indian corporates in the lull global backdrop would remain critical."

CareEdge Ratings' credit ratio for the manufacturing and services sector climbed up to 1.80 in H2FY24 from 1.38 in H1FY24. **Ranjan Sharma, Senior Director, CareEdge Ratings (Corporate Ratings),** shared, "The sectors that witnessed most upgrades during H2FY24 were hospitality, realty, auto dealerships and jewellery retailers, reflecting healthy consumer spending in these sectors in India. Auto component manufacturers, iron & steel, healthcare and transport services, also continued to do well, as was also witnessed in H1FY24. The downgrades were primarily observed in chemicals, textiles and cut and polished diamonds (CPD) sectors, primarily due to slowdown in export demand and Chinese competition. Subdued global demand continued to impact export focused entities during H2 FY24 as well. China's slowdown can make certain sectors vulnerable to competition from it due to their aggressive exports in global markets including India. However, the manufacturing/services sector's overall credit quality is expected to remain stable due to sustained domestic demand."

[1] Investment Grade: CARE BBB- and above ratings

[2] Below Investment Grade: CARE BB+ and below ratings

Credit ratio of the infrastructure sector continues to stand strong at 2.29 in H2FY24, moving up from 2.21 in H1FY24. **Rajashree Murkute, Senior Director at CareEdge Ratings (Infrastructure Ratings),** expressed, "The robust trend in the credit ratio in infrastructure reflects the buoyancy in transport infrastructure and power segments. The construction sector continued to exhibit a mixed performance in H2FY24 as well. The key drivers of upgrades were project commissioning in road hybrid annuity model (HAM) segment and solar power generation space, the realisation of past overdues due to implementation of the equated monthly instalment (EMI) scheme. Besides consequent deleveraging, refinancing at superior terms and structured financing avenues further boosted the financial flexibility of EPC developers."

The credit ratio for the BFSI (Banking, Financial Services, and Insurance) sector tempered from 4.20 in H1FY24 to 1.94 in H2FY24. **Sanjay Agarwal, Senior Director at CareEdge Ratings (BFSI Ratings)**, said, "The moderation in the credit ratio can be mainly attributed to downgrades in a few large Non-Banking Financial Companies (NBFCs) groups due to legacy issues and the impact of the RBI regulations on some fin-techs. While the BFSI sector's credit ratio dipped, it continued to remain well above its long-term average credit ratio of 1.20 over the last 10 years. NBFCs also saw upgrades in H2FY24 with strong business performance, supported by scaling up and resultant improvement in profitability. Banks saw upgrades in H2FY24, mainly triggered by sustained improvement in asset quality, comfortable capitalisation and profitability, mainly in the mid-sized banks." He added, "Net Non-Performing Assets (NPA) have reached a historic low of 0.7% in Q3FY24. Moreover, despite rising interest rates, profitability in mid-sized NBFCs/ financial services is expected to be protected, with business growth leading to optimization of operating expenditure, moderated increase in interest rates and controlled credit costs. Credit outlook is expected to be stable for the sector."

To sum up, Credit Ratio for Indian corporates continued on a steady growth path despite the challenges in the global economy. CareEdge Ratings believes that overall, the credit outlook for Corporate India is stable, anchored by healthy domestic demand, deleveraged balance sheets and government's infrastructure focus. Going ahead, the geopolitical risks, prolonged global slowdown, risk of dumping from China and weather-related uncertainties remain key monitorables on the credit risk.

For further insights on this and to hear from industry experts, we welcome you to our **webinar on April 03, 2024**, **from 4:00 pm to 5:00 pm**. Please click on the link below to register:

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