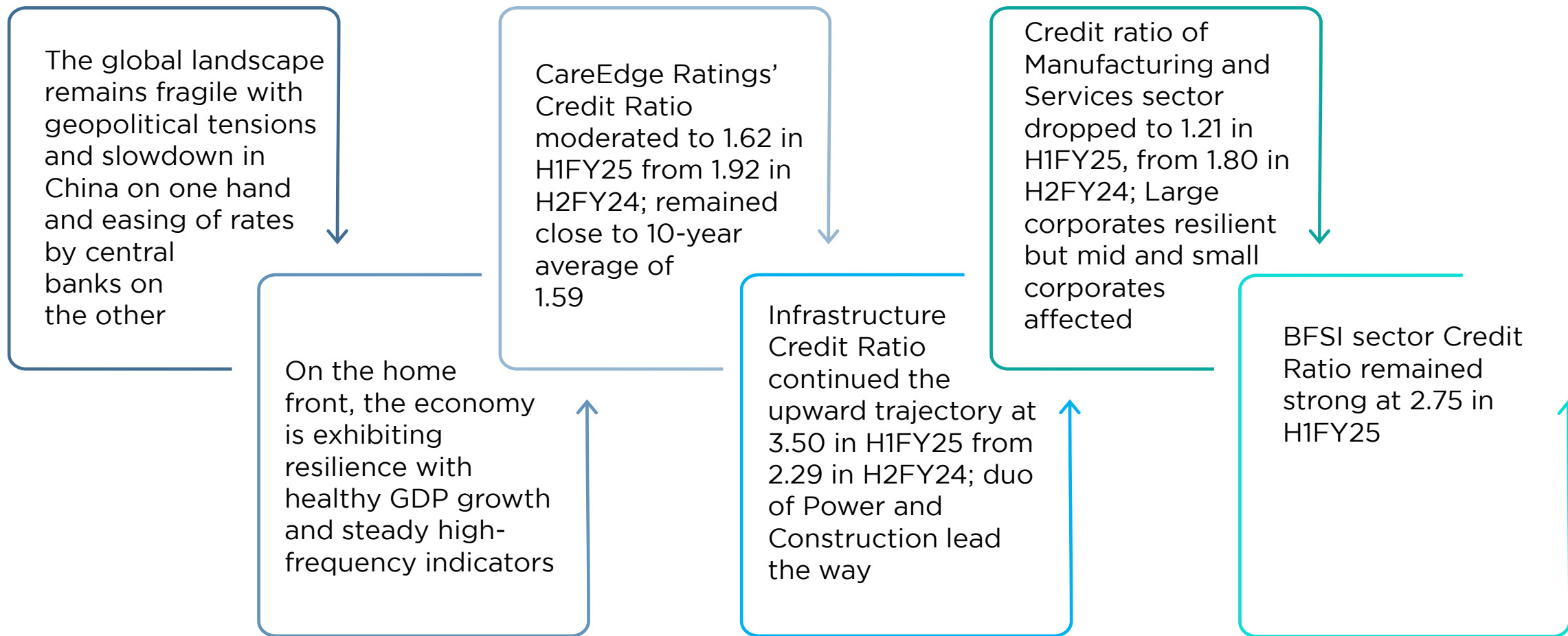


CareEdge Webinar

# Corporate India: Cautiously optimistic amid global uncertainties

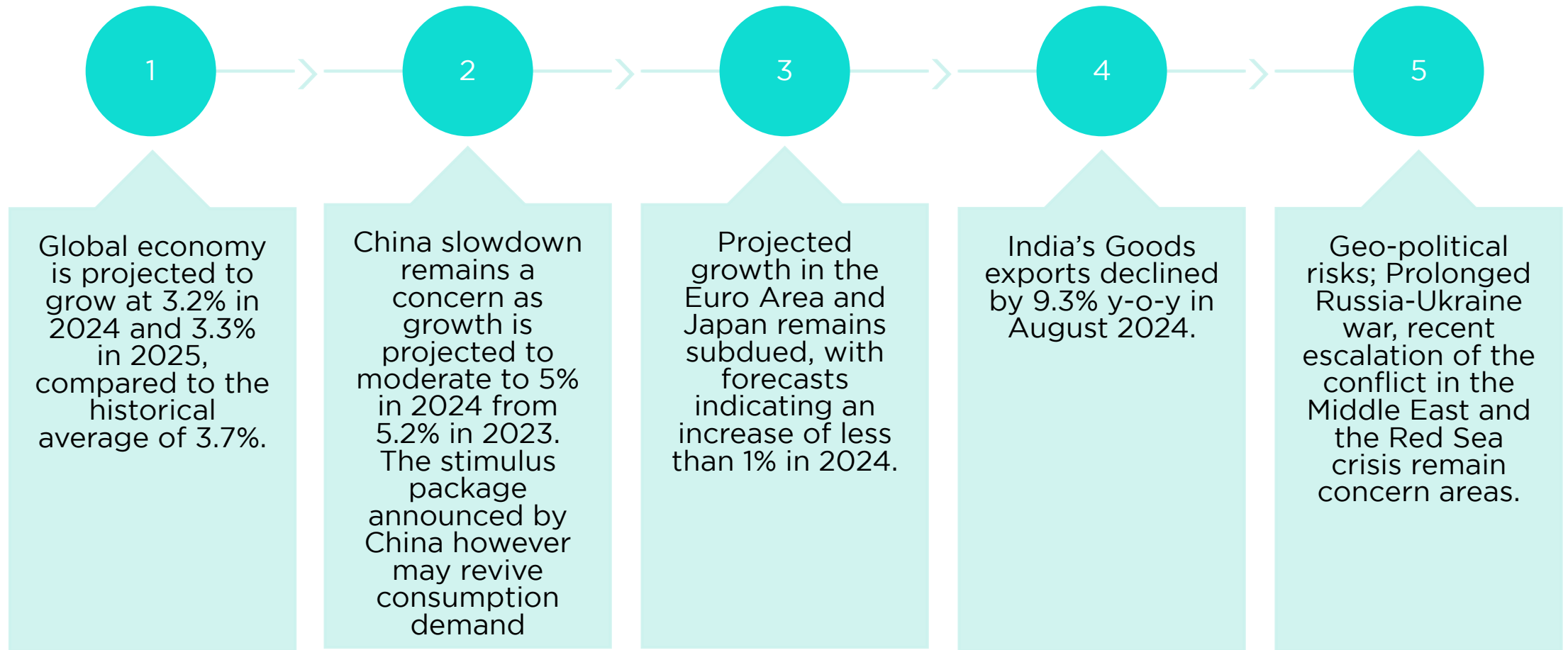
CareEdge Ratings' Credit Quality Assessment for H1FY25

# Key Highlights



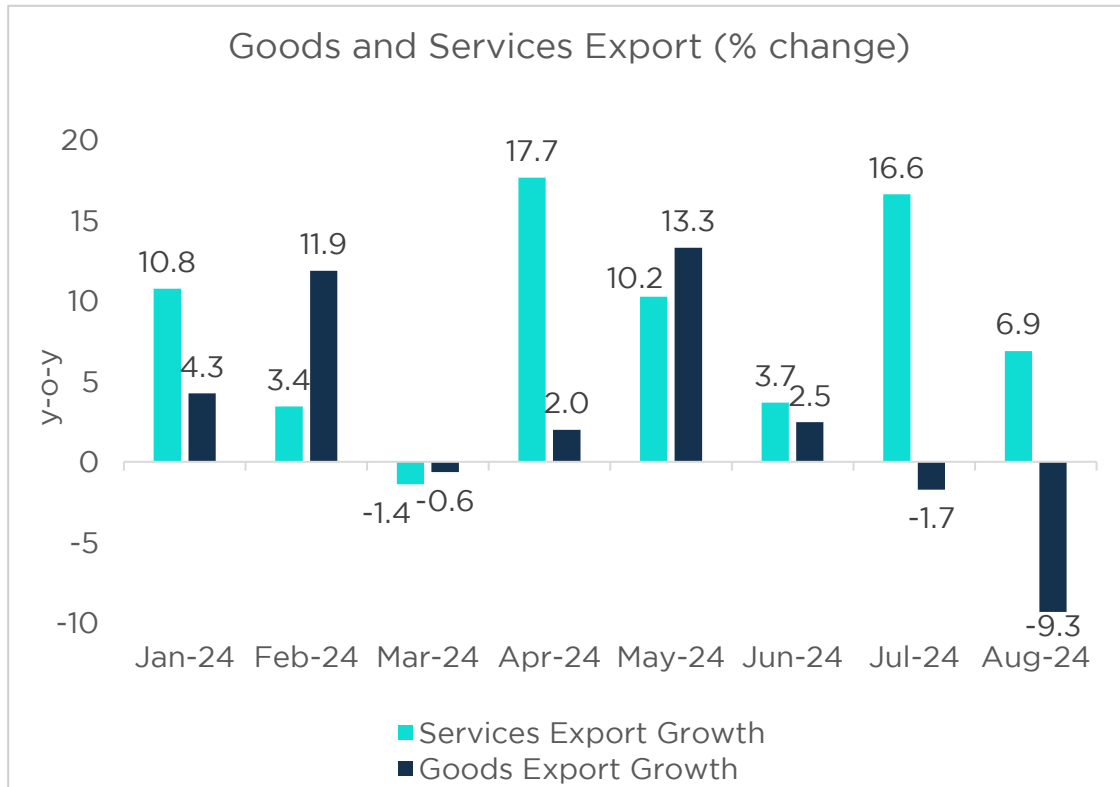
# Economy

# Global Economic Uncertainties Linger

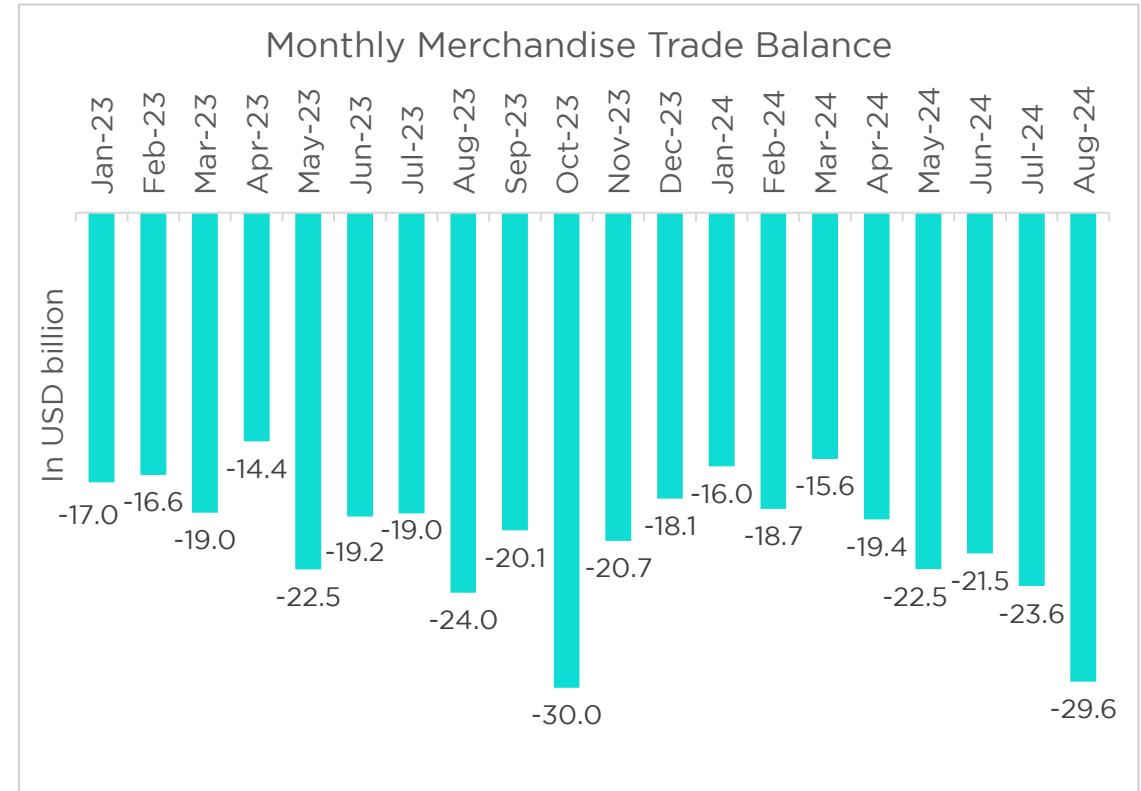


Global figures are sourced from IMF, World Economic Outlook

# Export Dynamics: Goods Fall, Services sustained



Source: CMIE



Source: CMIE

- Goods exports experienced a contraction in July and August. However, the overall export performance was supported by a positive expansion in services exports.
- India's merchandise trade deficit has hit a 10-month high in August.

# Domestic Economic Momentum Remains Steady

India's GDP growth bounced from 7% in FY23 to 8.2% in FY24.

GDP growth is projected to remain healthy at 7% in FY25.

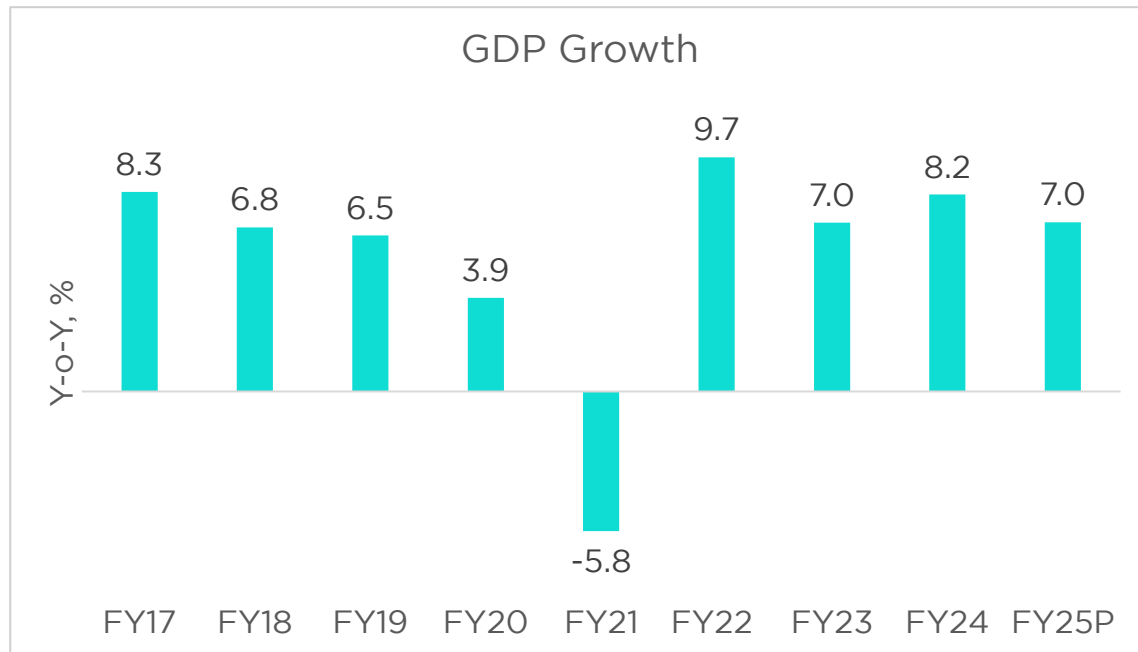
Private final consumption expenditure saw a significant recovery with growth jumping to 7.4% in Q1FY25 up from 4% in the previous quarter. Given the good monsoon, rural demand is expected to be strong.

Economic activity continues to remain healthy as seen in the high-frequency indicators such as tax collections, E-way bills and PMI.

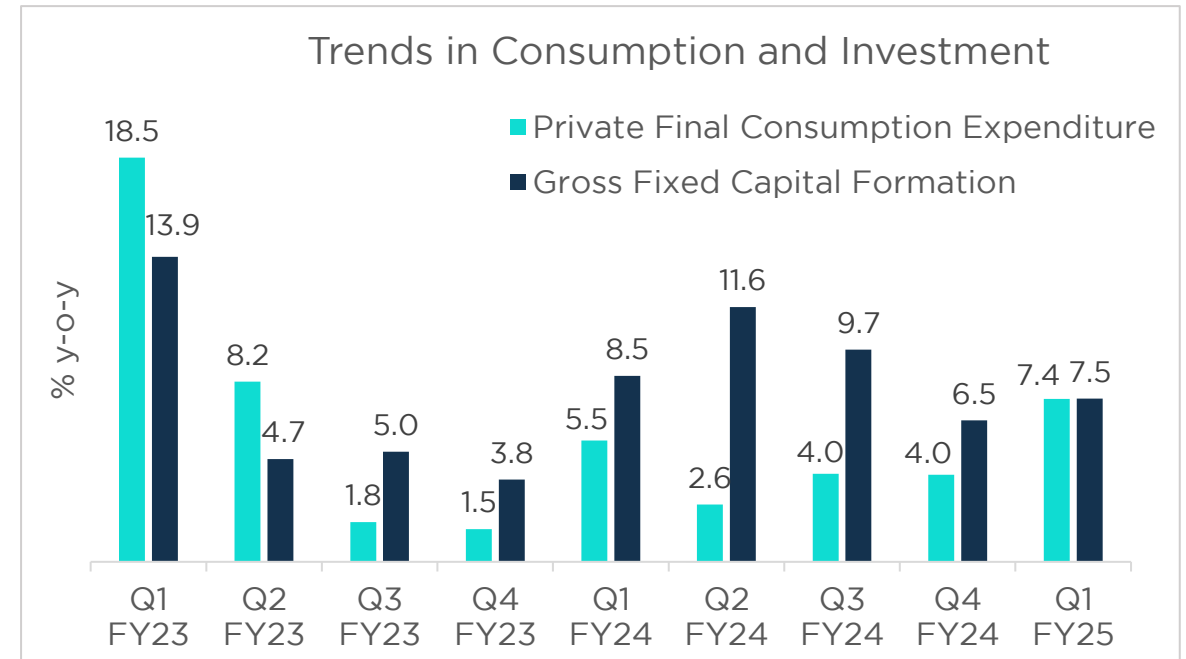
Retail inflation moderated to 3.6% in July and August 2024, supported by favorable base effect and moderation in food prices. Core inflation remained largely benign.

On the policy front, we anticipate that the RBI may initiate a shallow rate cut cycle in the second half of the fiscal year if food inflation remains at comfortable levels.

# Economic Growth Remains Healthy



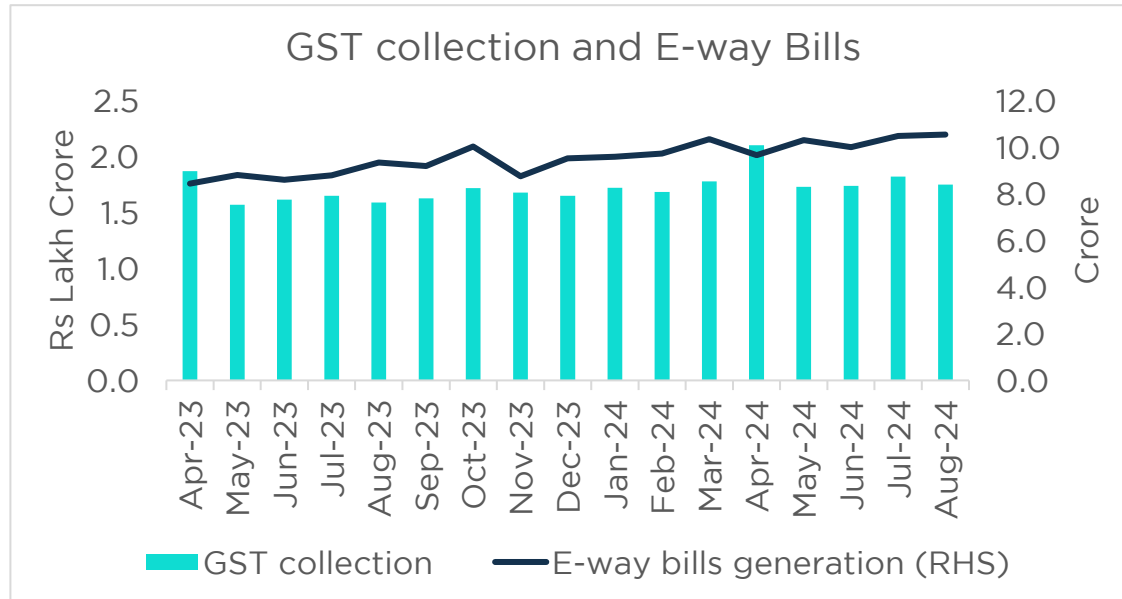
Source: MOSPI



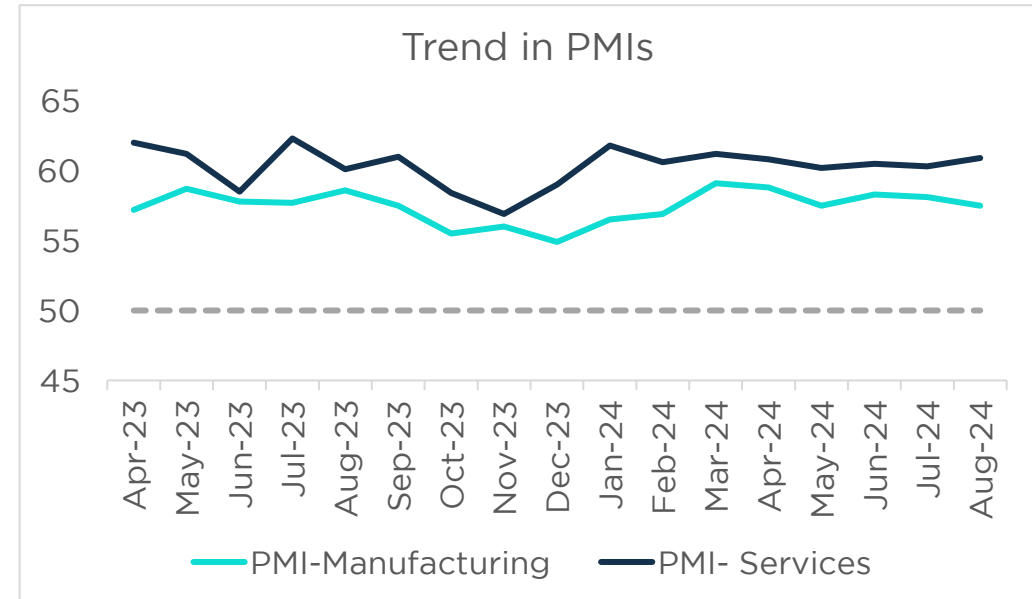
Source: MOSPI

- For the full fiscal year 2025, we project GDP growth to be 7%.
- In FY 2024, the GDP growth was largely driven by 9% growth in investments led by govt capex.
- Private final consumption expenditure, has seen an uptick in the last 3 quarters. Also, considering that we have had a good monsoon, rural demand is expected to be strong, further supporting the private consumption expenditure for the upcoming quarters.

# High Frequency Indicators Show Steady Momentum in Economic Activity



Source: CEIC

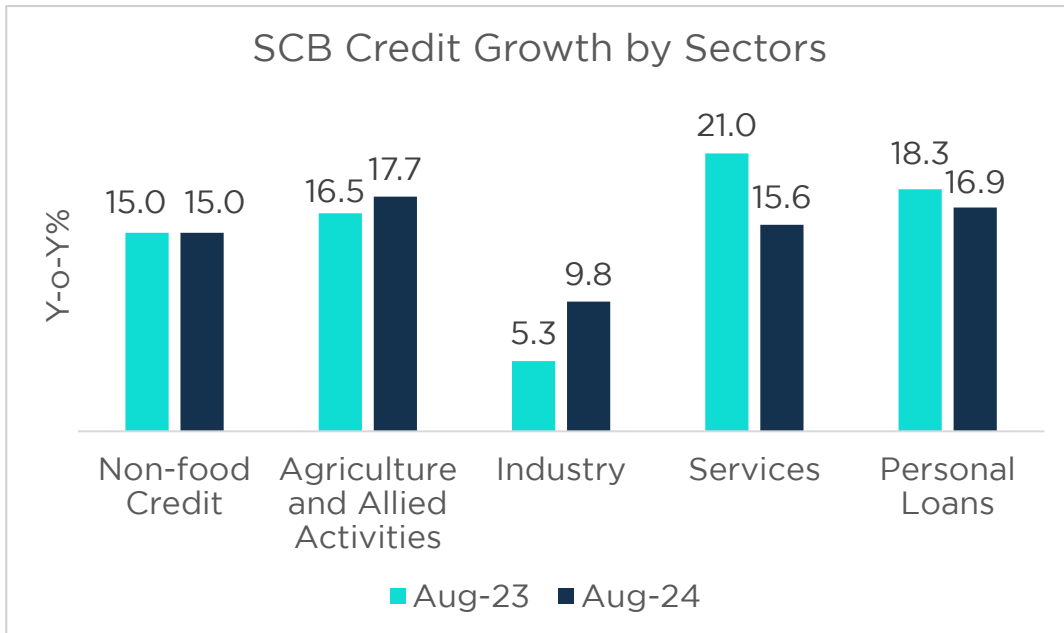


Source: CEIC

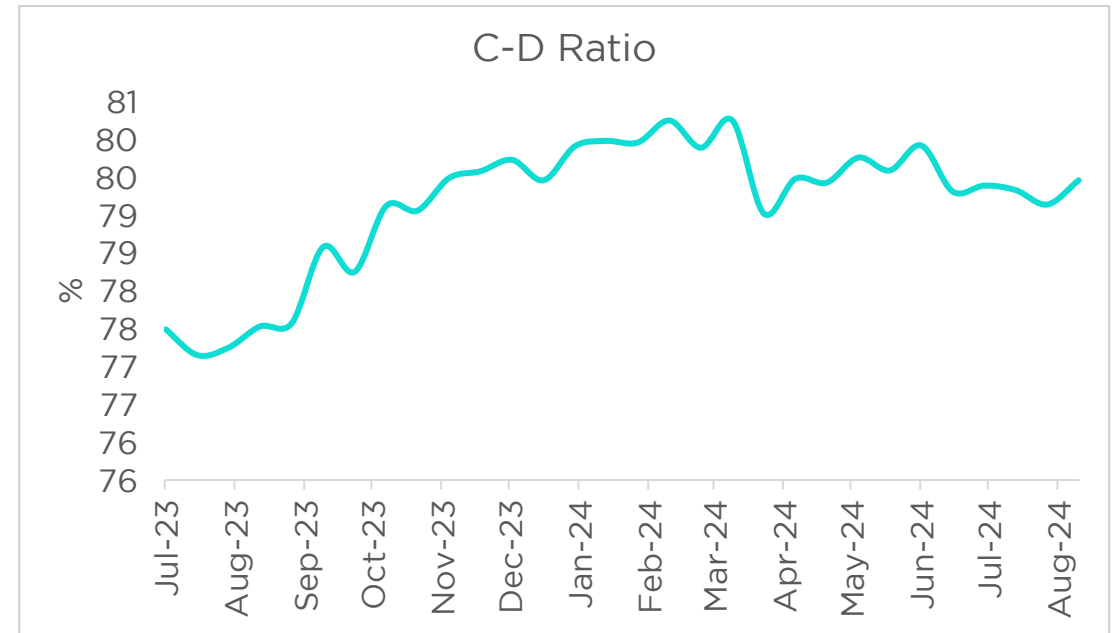
- Growth in GST collection and E-way bills generation averaged at 10% and 16% respectively in FY25 till date.
- PMI manufacturing and services averaged 58 and 60.5 respectively in FY25 till date, higher than average of 57.2 and 60.3 in FY24.



# Services and retail credit growth moderates



Source: CEIC; Note: Growth rates excludes for the impact of the HDFC merger

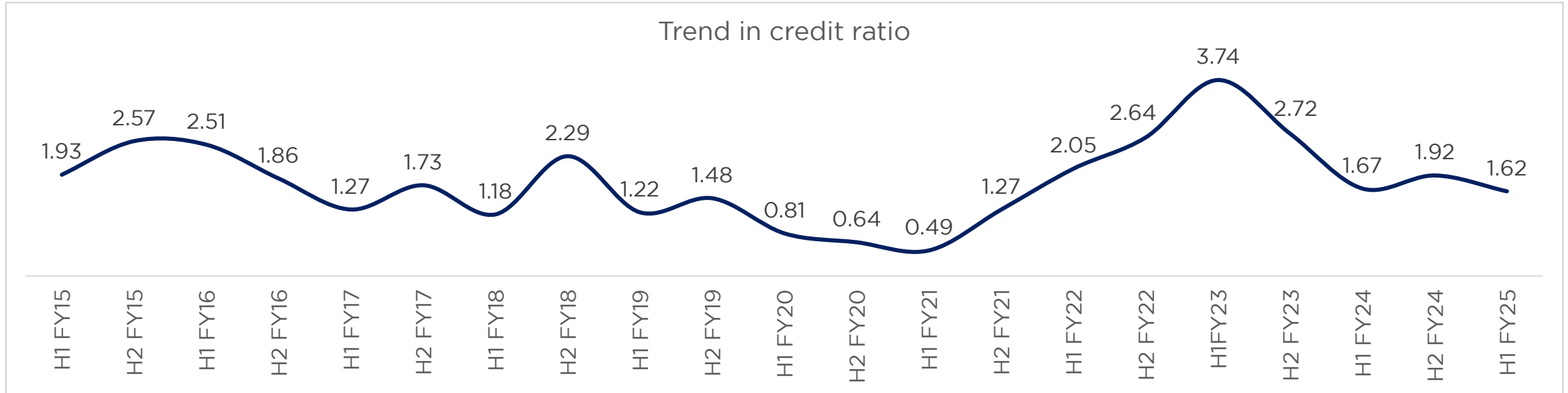


Source: RBI

- Non-food credit growth clocked 15% in Aug 2024 matching the level recorded a year ago.
- C-D ratio remained marginally below 80%.
- Risk weights were increased on NBFCs, credit cards, and consumer loans.
- Proposed changes to Liquidity Coverage Ratio norms to also impact bank credit growth

## **Credit Quality Assessment H1FY25**

# Moderate decline in credit ratio: Aligning with decadal trends



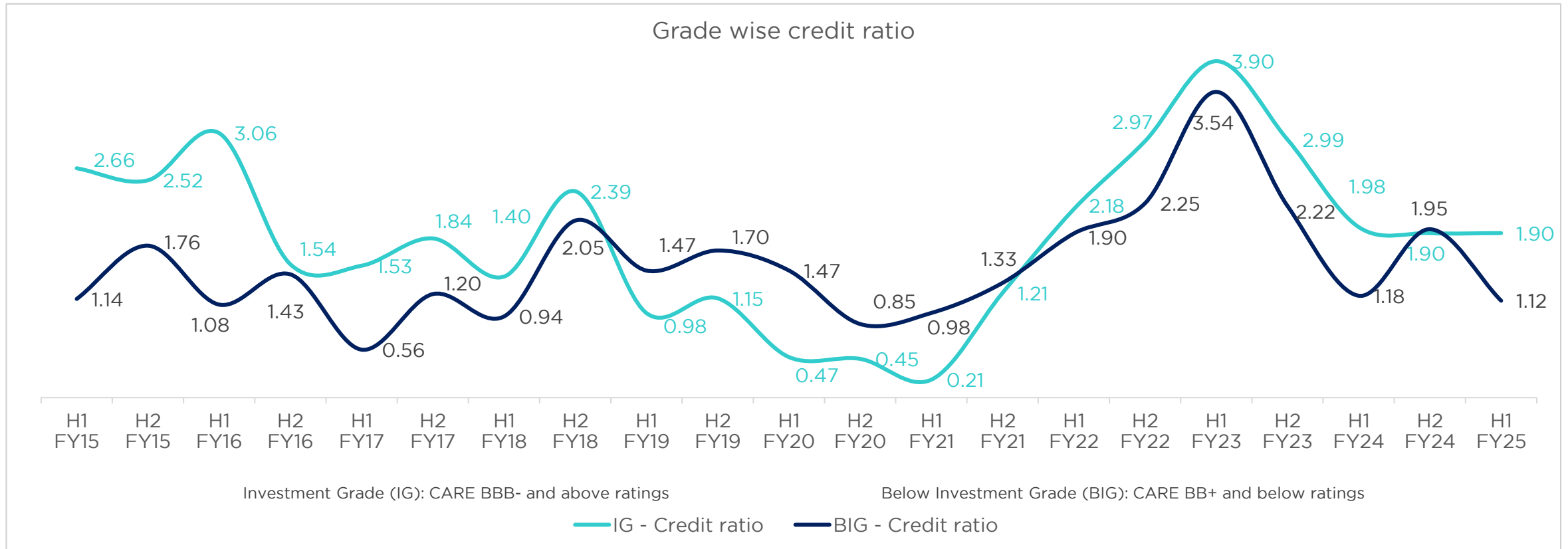
Source: CareEdge Ratings

Credit Ratio = Upgrades/Downgrades - A ratio higher than unity denotes more upgrades than downgrades. An increase in ratio as compared to previous periods denotes an improvement in the credit quality of rated entities and vice versa.

Credit ratio moderated to 1.62 times in the first half of fiscal 2025 down from 1.92 times in the second half of last fiscal. Overall, there were 215 upgrades and 133 downgrades across sectors in the first half, with export-oriented sectors like Textiles and Chemicals experiencing higher downgrades.

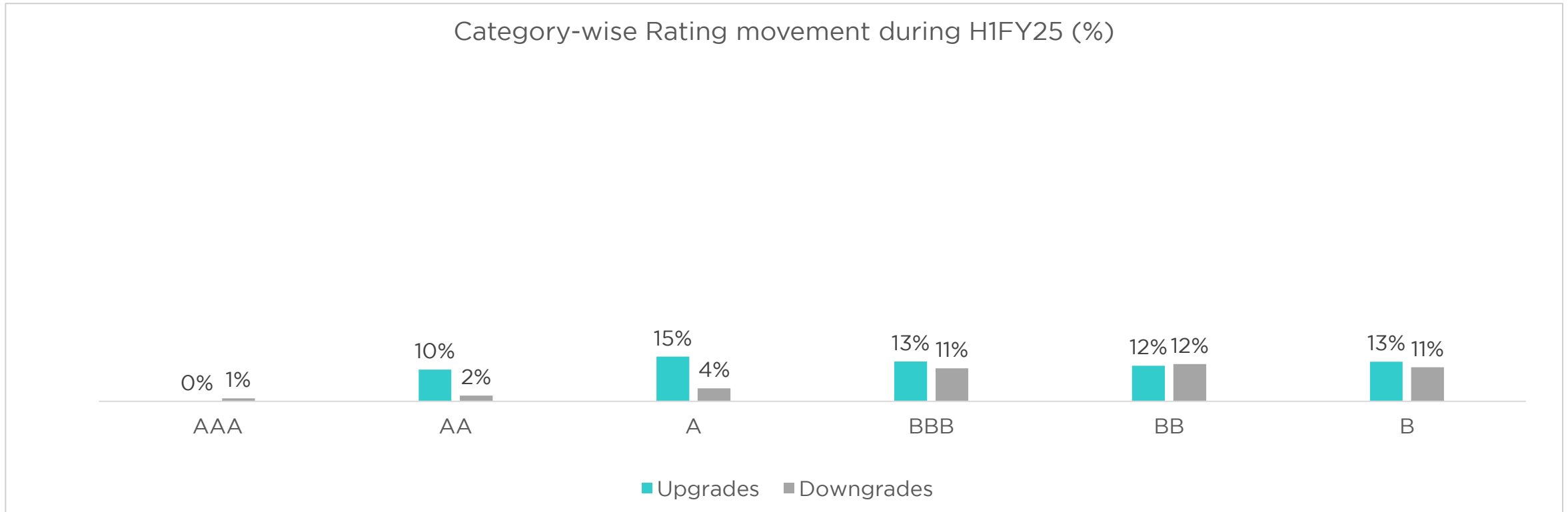
Despite the moderate dip in H1, the credit ratio remained close to the 10-year average (up to fiscal 2024) of 1.59.

# Credit ratio: Sub-investment grade faces steep fall



- The credit ratio of the Below Investment Grade (BIG) portfolio, plunged down from 1.95 in H2FY24 to 1.12 in H1FY25, pulling down the overall credit ratio. Below investment grade entities in Chemicals, Textiles and Agricultural foods saw downgrades.
- The credit ratio for Investment Grade (IG) entities however remained steady at 1.90, indicating that the investment-grade portfolio has exhibited higher resilience.

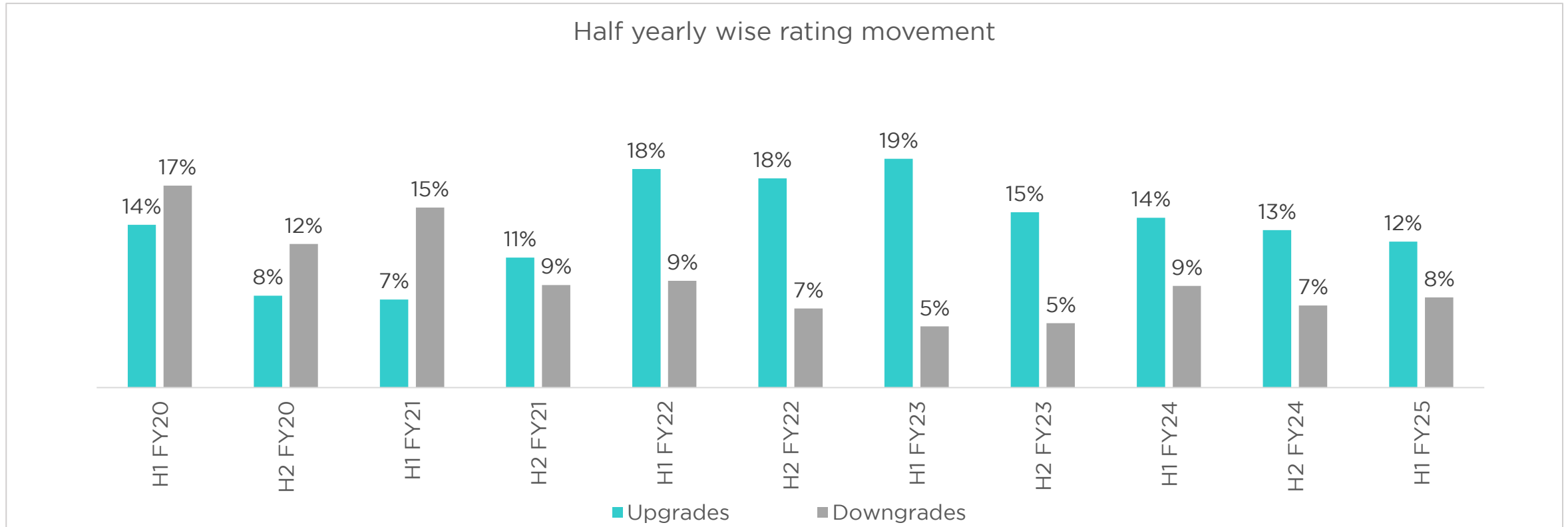
# Higher ratings hold strong



Source: CareEdge Ratings

Nearly all investment-grade rating categories experienced more upgrades than downgrades, showcasing resilience in higher-rated entities.

# Upgrades taper while downgrades inch up

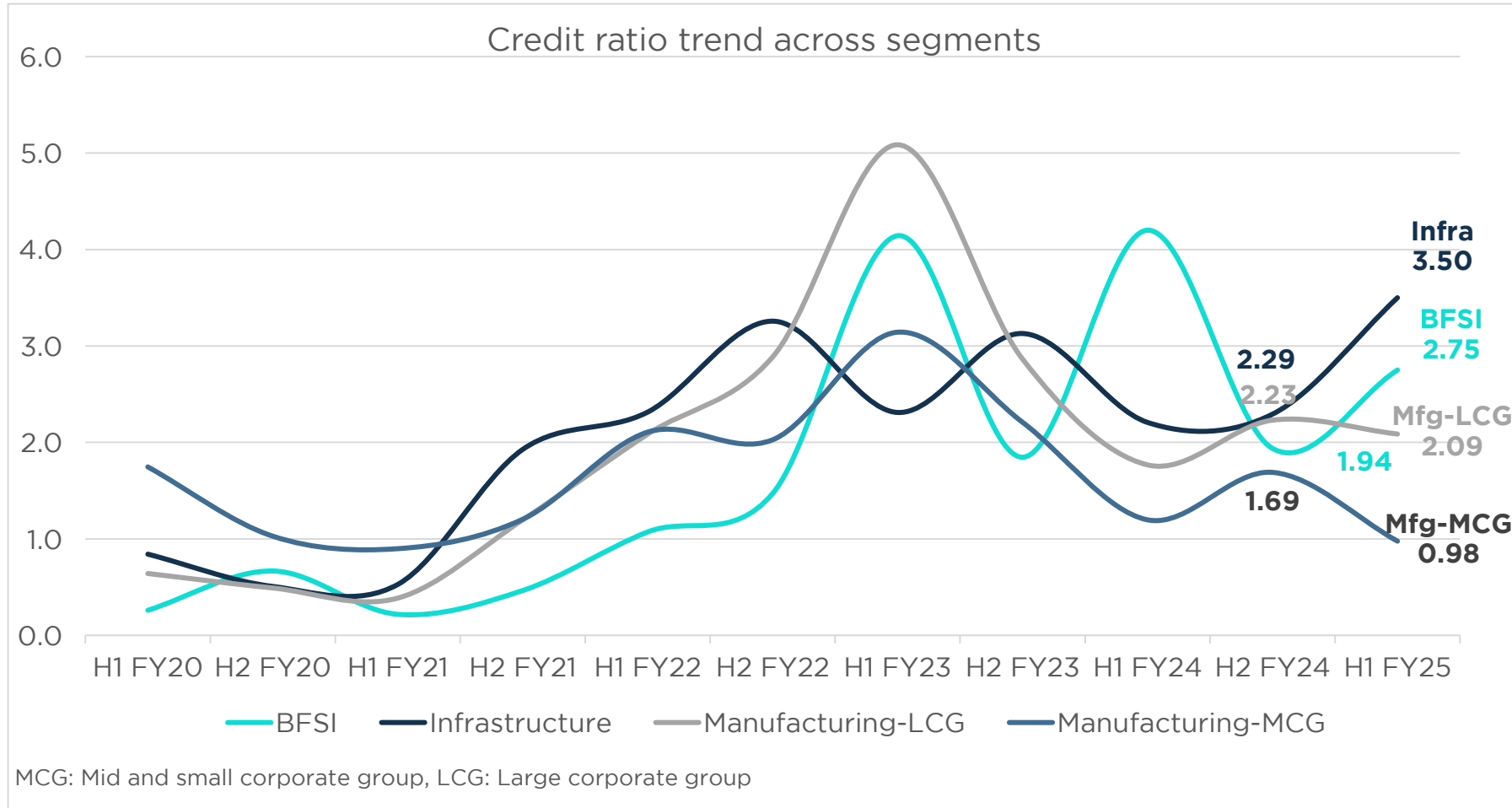


Source: CareEdge Ratings

In the first half of FY2025, the trend of rating movements shows a gradual decline in upgrades at 12% in the latest half year, reflecting a cautious optimism while downgrades have inched up to 8% in that period.

## **Sectoral credit ratio trend**

# Buoyancy in credit ratio across the board except for mid and small corporates



Source: CareEdge Ratings

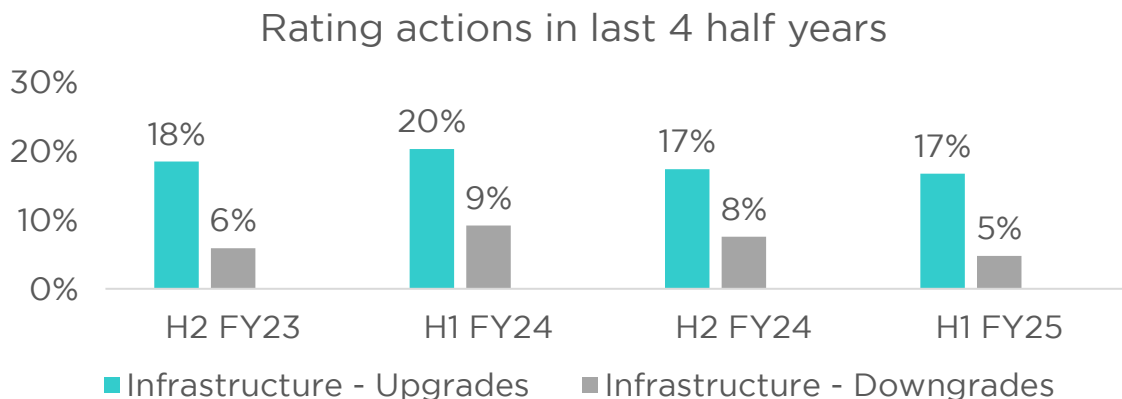
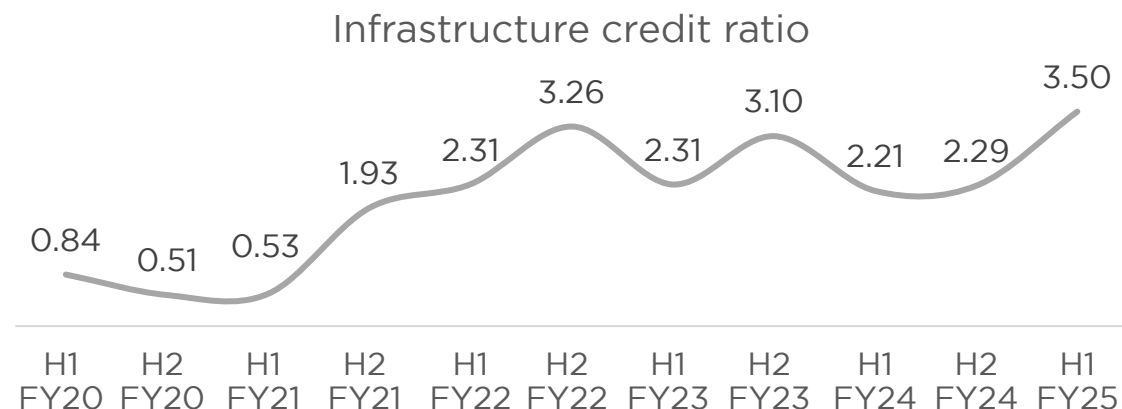
- The **credit ratio for Infrastructure sector** saw an uptick in H1FY25, driven by significantly higher number of upgrades in power and construction.
- In the **Manufacturing and services sector, credit ratio** for large corporates saw marginal dip in H1FY25 to 2.09. On the other hand, the MCG segment credit ratio saw a steep decline to 0.98.
- The **credit ratio for the BFSI sector** improved to 2.75 in H1FY25 from 1.94 in H2FY24. This was mainly driven by strong performance by both, NBFCs and Banks.



# Infrastructure Sector

# Infrastructure: Credit ratio remains upbeat

Outlook: Stable



Source: CareEdge Ratings

## Key identifiable drivers:

### Upgrades

- Commissioning of projects, especially in the road Hybrid Annuity Model (HAM) segment & solar power generation space.
- Timely payments from most of the state distribution utilities resulting in faster than expected de-leveraging for power producers
- Favourable resolution of key regulatory issues along with tie up of power through medium term Power Purchase Agreements (PPAs)
- Steady order inflows, improved execution and stable profitability, particularly for mid-sized infra-EPC players in contrast to previous periods
- Operational HAM assets & launch of InvITs enhancing financial flexibility of large EPC developers

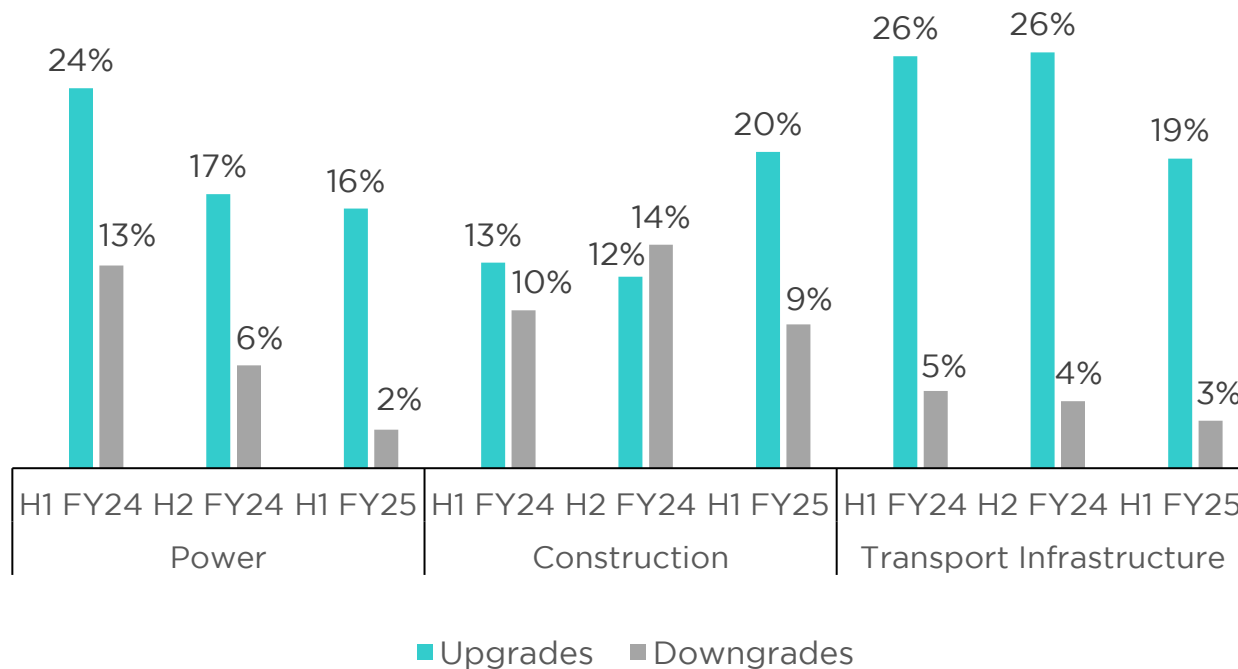
### Downgrades

- Sluggish execution pace, weak order book position and high working capital intensity put pressure on the credit profile of moderate EPC players
- Weakening of financial flexibility of specific groups marked by inability to tie up equity funding for growth

# Power and Construction drive infra upgrades followed by Transport Infrastructure

Outlook: Stable

Rating actions in last 3 half years



Source: CareEdge Ratings

## Outlook

### ❖ Power:

- Thermal PLF expected to remain healthy at 70% in FY25
- Merchant prices to moderate in FY25 from FY24 levels; yet expected to remain higher than Rs. 4 per unit
- Renewable tariffs poised to stay competitive compared to conventional power, aided by declining module prices
- The share of storage-based investments are expected to rise over the medium term

### ❖ Construction:

- Diversified EPC players will benefit from increased focus on transmission, urban infrastructure, water, and roads.
- However, slower order book additions in the current fiscal, especially in Q1FY25 due to elections, and increased working capital intensity are putting pressure on the credit profiles of mid-sized EPC players.

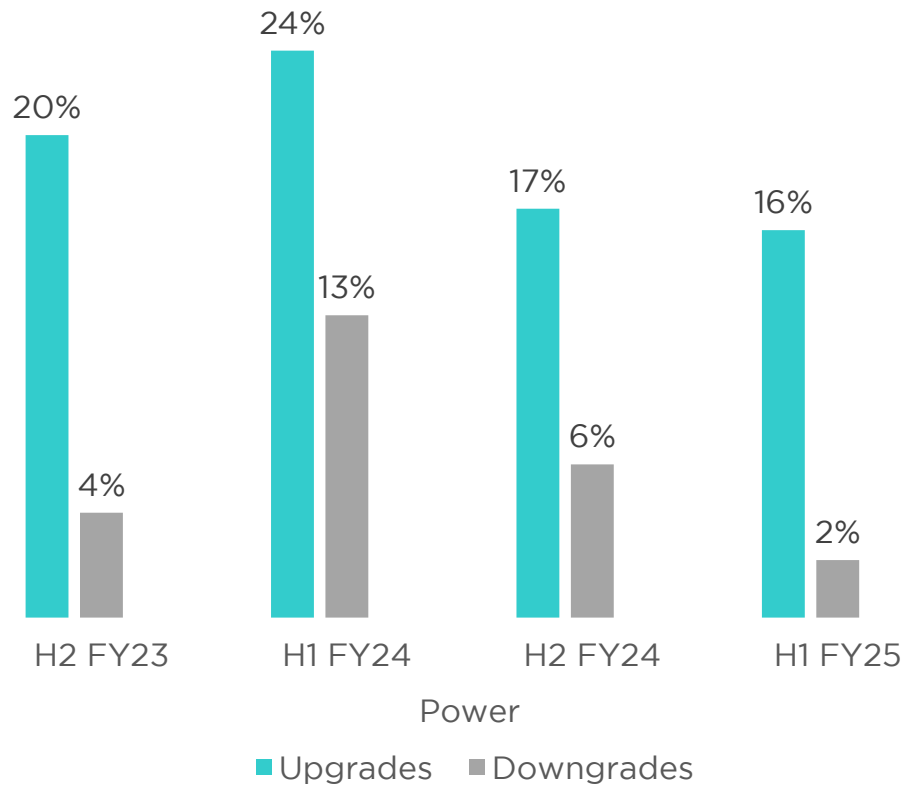
### ❖ Transport infrastructure:

- Revenue visibility enhanced with infrastructure push by the Government across segments - airports, seaports, highways & urban infrastructure
- Strong traffic performance boosts revenue profile

# Power: Robust demand, and improved collections charge the sector

Outlook: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

## Upgrades driven by:

### Thermal

- Adequate coal availability along with robust demand, resulting in higher PLFs
- Buoyant exchange rates have resulted in higher realization for merchant capacity
- Timely payments from most of the state distribution utilities have accelerated de-leveraging for power producers.
- Favourable resolution of key regulatory issues along with tie up of power through medium term Power Purchase Agreements (PPAs)

### Renewables

- Longer operational track record along with stabilization of operations with better PLFs
- Realisation of past overdues due to implementation of Equated Monthly Installment (EMI) scheme

## Downgrades driven by:

### Thermal & Renewables-

- Suboptimal operational performance on account of lower resource availability along with increase in operating costs
- Weakening of financial flexibility of specific groups marked by inability to tie up equity funding for growth

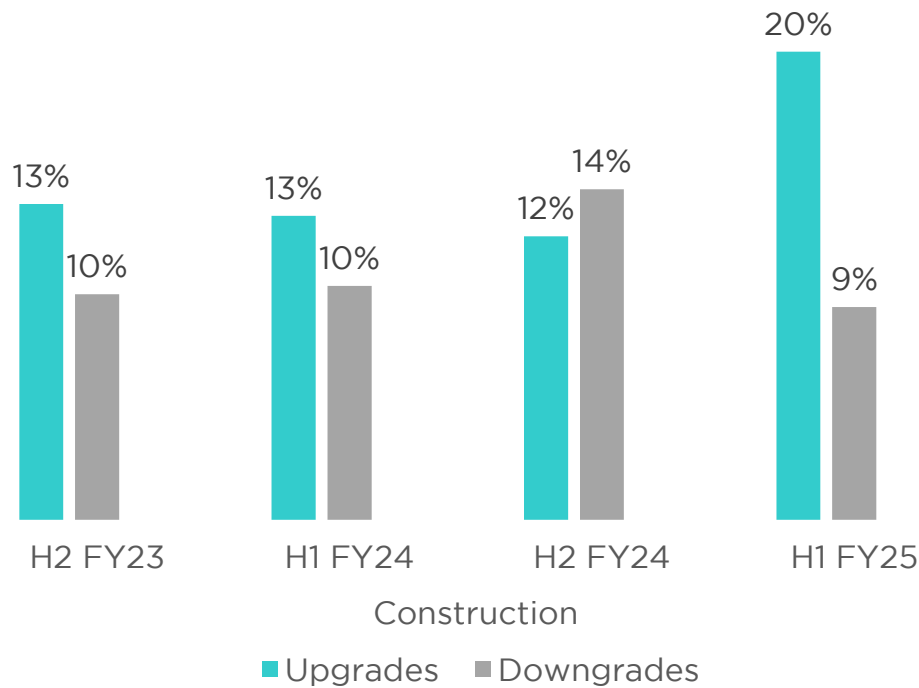
## Outlook:

- Sustained high demand leading to high thermal PLFs (64% in FY23, 69% in FY24). Thermal PLF expected to remain healthy at ~70% in FY25
- Merchant prices to moderate in FY25 from FY24 levels; yet expected to remain higher than Rs. 4 per unit
- Renewables tariffs to remain competitive vis a vis conventional power aided by decline in module prices; Adequate bidding pipeline with REIAs expected to tender ~50 GW annually
- The share of storage-based investments are expected to rise over the medium term

# Construction: Steady order inflows expected; while working capital intensity persists

Outlook: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

## Upgrades driven by:

- Opportunities for diversified EPC players via National Infrastructure Pipeline (NIP)
- Steady order inflows and improved execution particularly for mid-sized infra-EPC players in contrast to previous periods

## Downgrades driven by:

- Slow execution and inadequate working capital financing arrangement impacting cashflow position

## Outlook: Infrastructure led order book to continue

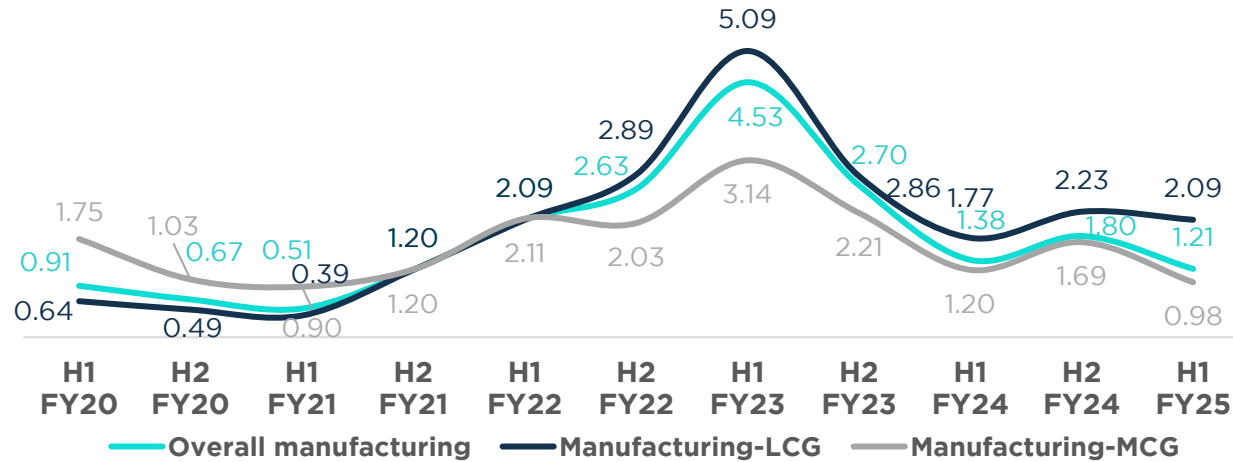
- Revenue growth backed by satisfactory orders in hand
- Diversified EPC players to benefit from thrust on transmission, urban infrastructure, water and roads
- Heightened execution challenges in road projects due to aggressive bidding
- Lower order book addition in the current fiscal; particularly Q1FY25 due to elections
- Working capital intensity to remain unchanged

# Manufacturing / Services

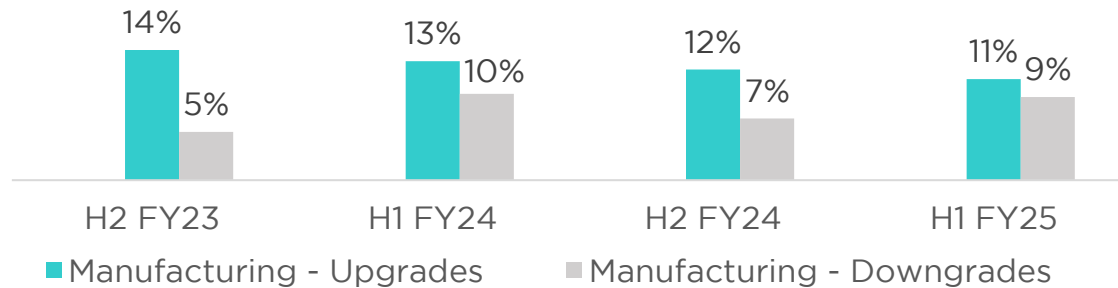
# Manufacturing/services: Credit ratio hit by mid and small corporates

Outlook: Stable

Manufacturing/Services credit ratio



Rating actions in last 4 half years

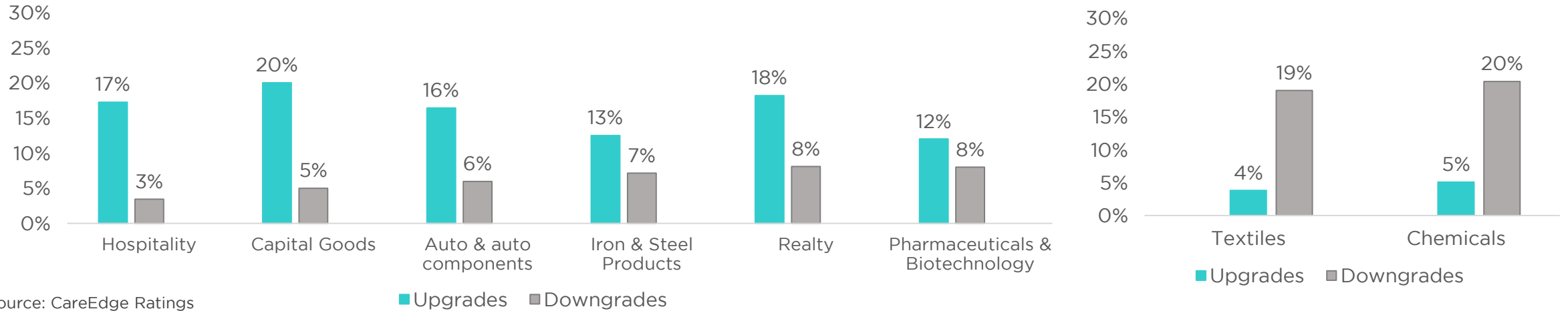


## Key Rating Drivers

- Key sectors driving rating upgrades during H1FY25 were Hospitality, Capital goods, Auto & Auto components, Iron & Steel, Realty, and Pharmaceuticals, primarily driven by healthy domestic demand. Most of these sectors did well even during FY24.
- About 80% of the total downgrades in this sector during H1 FY25 were in the mid and small corporate segment, significantly pulling down the overall credit ratio.
- Small and mid-sized Textile manufacturers operating in single segment of the value chain were impacted by the challenging industry scenario while segments of the Chemical sector, especially those in basic/commodity chemicals space, continued to face headwinds due to pricing pressure arising principally from intense Chinese competition. This trend has largely continued for more than a year now. These apart, smaller entities with inherently weak credit profiles across Agricultural food products and Trading sectors, too, witnessed rating downgrades during H1FY25.
- In general, larger companies especially those in higher Investment Grade rating categories exhibited greater resilience and experienced a marginal dip during H1FY25.

# Domestic-focused sectors remain resilient while export-oriented sectors face stress

Upgrades & Downgrades as a % of reviews in H1FY25



Source: CareEdge Ratings

## Outlook

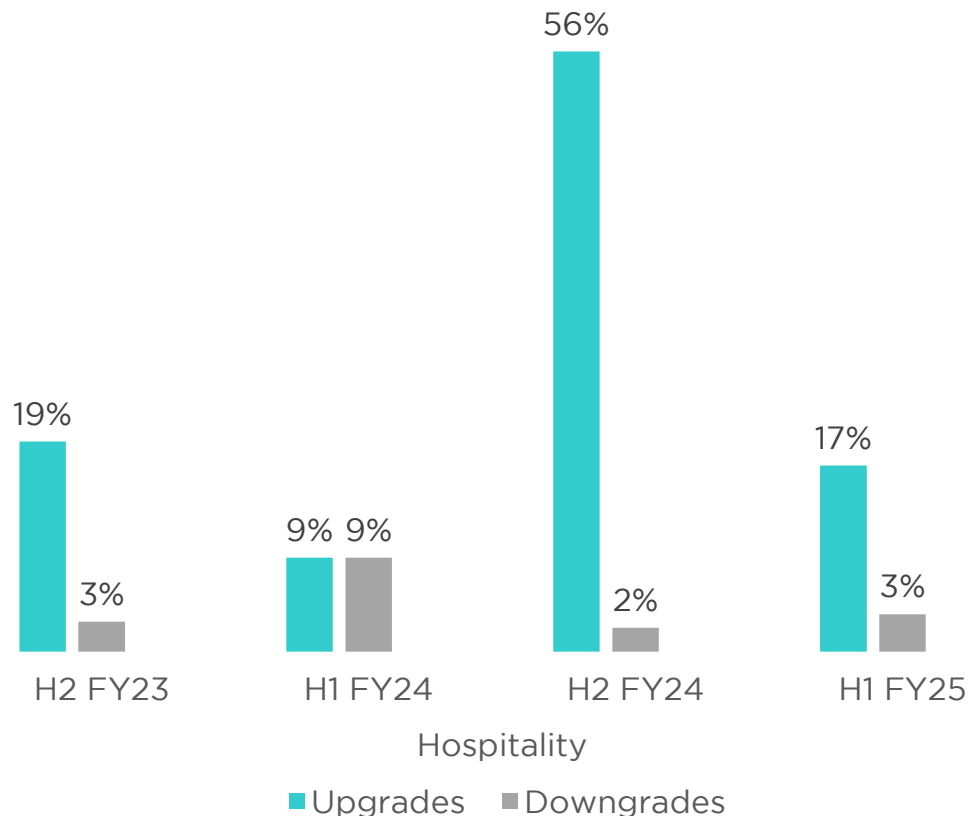
- The credit quality of the manufacturing sector is expected to be stable on the back of sustained domestic demand and Government spending on infrastructure. Service sector entities focused on domestic consumer spending will continue to benefit. Expectation of better rural demand and consumer spending during upcoming festive season could support credit profile in H2FY25.
- China's economic struggles and slowdown can make certain segments of the manufacturing sector vulnerable to competition from it due to its aggressive exports in global markets including India; albeit implementation of tariff and non-tariff barriers can cushion the impact in the domestic market to an extent. Geopolitical risks and higher freight costs (especially those arising from the Red Sea crisis) may act as additional dampeners for some export focused sectors.



# Hospitality: Checked-in to growth phase

Outlook: Positive

Rating actions in last 4 half years



Source: CareEdge Ratings

## Upgrades driven by:

- Higher occupancy and Average Room Rent (ARR) due to increased leisure, MICE (Meetings, Investments, Conferences, Exhibitions), and business travel demand
- Sustained cost-optimisation measures from the Covid-19 period and operating leverage benefits significantly improving operating margins

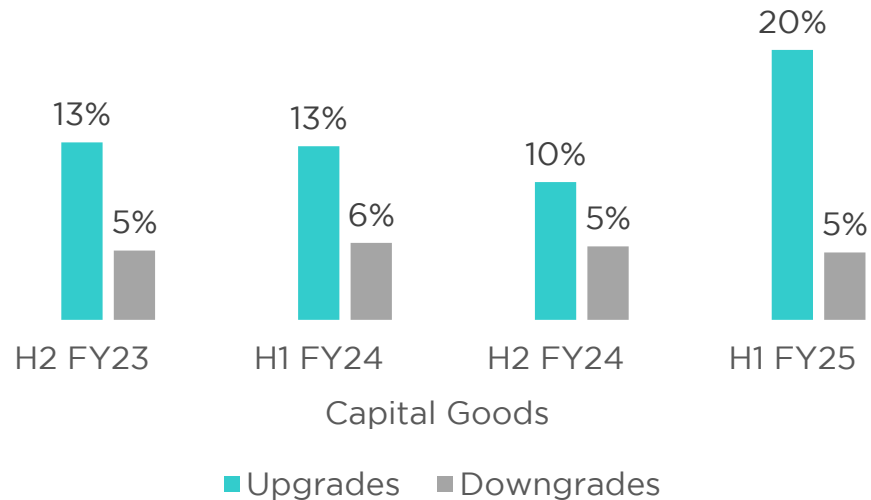
## Outlook:

- Deferred and new projects have resumed, but supply growth (CAGR 4-5% over the next 3-4 years) will lag demand, supporting operating metrics
- Pan-India hotel occupancy is expected to be 67-69%, with ARR at Rs 7,800-7,900 in FY25. Revenue Per Available Room (RevPAR) is projected to grow 8-9% on a high FY24 base
- Sustenance of domestic leisure travel, demand from the MICE and business travel segments, along with rise in FTAs and lower supply growth vis-à-vis strong demand growth to support the operating metrics.
- Foreign tourist arrivals (FTAs) have witnessed a year-on-year uptick of 17% in FY24 and is expected to cross pre-covid levels in fiscal year 2025, though contingent of geo-political factors.

# Capital Goods: Robust demand from various industries to continue

Outlook: Stable

Rating actions in last 4 half years



## Upgrades driven by:

- Increase in order book position and execution led by high demand from end user industries like railways, power and turnkey project construction.
- Healthy and improved profitability along with comfortable debt coverage indicators.

## Downgrades driven by:

- Low profitability impacting debt coverage metrics.
- Significant delays in recovery of debtors (primarily government entities) leading to stretched working capital

## Outlook:

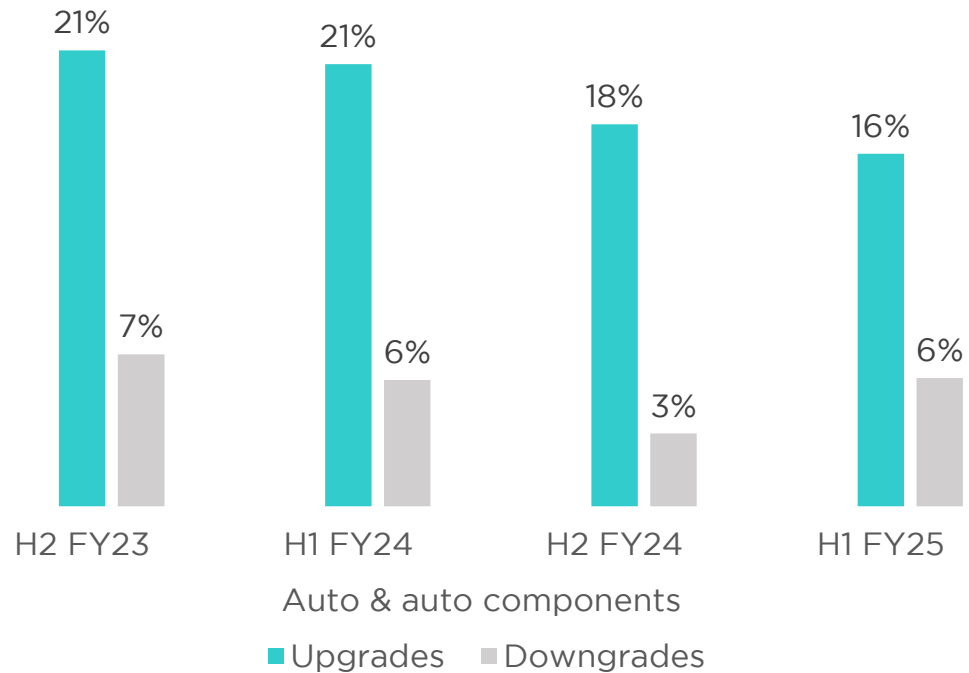
- Outlook for engineering and capital goods sector remains stable with growth anticipated in various industries such as infrastructure, electricity, mining, oil and gas, refining, steel, automobiles, and consumer durables.
- The Make in India initiative and the government's focus on ease of doing business is likely to present several opportunities in the sector.

Source: CareEdge Ratings

# Auto & Auto Components: Going steady albeit anticipation of a slower growth

Outlook: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

## Upgrades driven by:

- Healthy domestic demand supported by better product mix with higher premiumization.
- Continued strong demand for Utility Vehicles in the Passenger Vehicles (PV) and Two-Wheeler segment.
- Healthy capacity utilization and deleveraging leading to improved credit metrics for auto ancillaries.

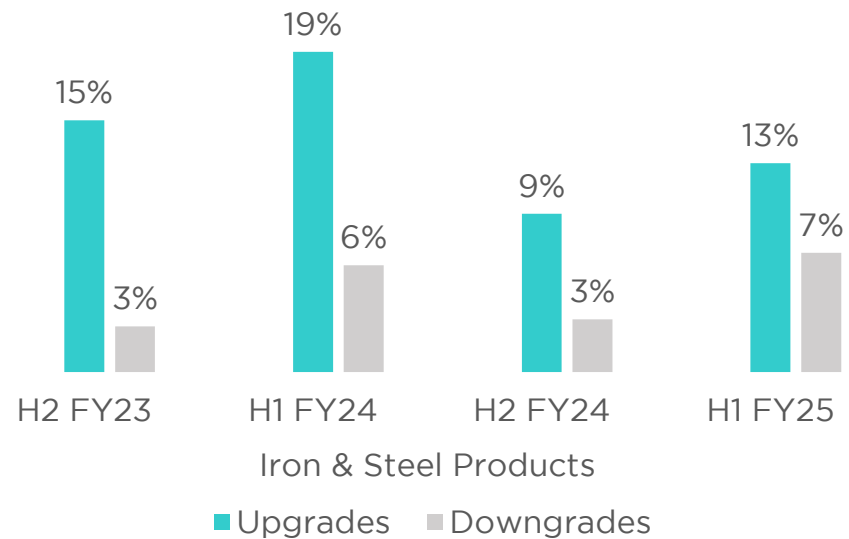
## Outlook:

- The credit profile of the auto and auto components players is anticipated to remain stable, despite a slower passenger vehicle volume growth and a muted commercial vehicle growth. However, demand for two-wheelers is expected to stay strong.

# Iron & Steel: Pricing pressure to continue despite robust demand outlook

Outlook: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

## Upgrades driven by:

- Strong domestic demand and high-capacity utilization in the first half of FY25 though pricing pressure persists due to weak global demand and higher imports.
- The domestic steel industry remained resilient, bolstered by the government's focus on infrastructure spending and sustained demand from key end-user industries like real estate, automobiles, pipe manufacturing, and capital goods.

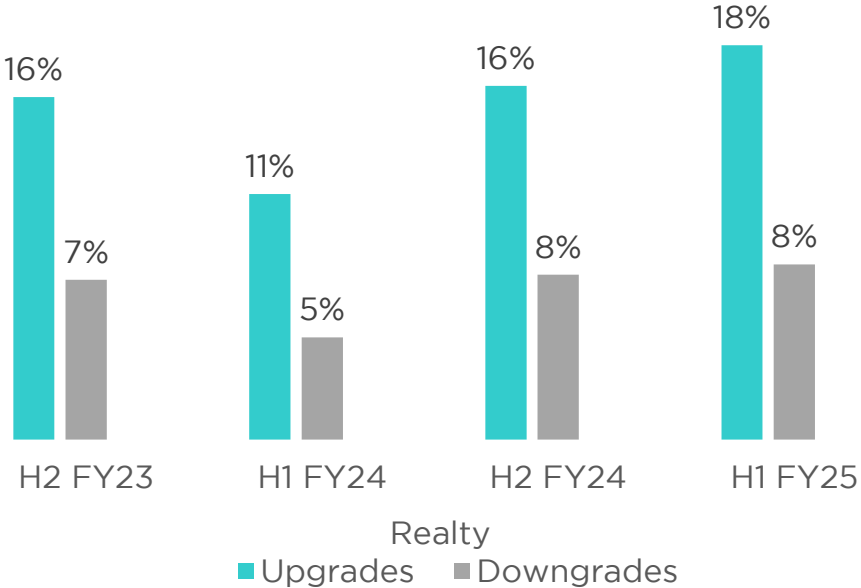
## Outlook:

- Domestic steel consumption is expected to grow at a CAGR of ~8.50% over the next 2-3 years, driven by strong demand from various sectors. The Union Budget's focus on capital expenditure and infrastructure is boosting short to medium-term demand.
- The government has extended anti-dumping duties on certain stainless-steel pipes and tubes for five years and imposed countervailing duties on some steel imports from China and Vietnam to protect domestic producers.
- Global coking coal prices are expected to average \$180-200 per tonne in CY24, and iron ore prices \$80-100 per tonne. With global steel prices stabilizing around \$500-530 per tonne, domestic steel manufacturers' profitability is likely to normalize.

# Realty: Residential on positive bias; Commercial leasing holds steady

Outlook:  
Residential: Moderately Positive  
Commercial: Stable

Rating actions in last 4 half years



**Upgrades driven by:**

- Bouyancy in sales and collections (residential segment), translating into timely completion of projects and reduced reliance on debt.
- Surge in occupancy levels (leasing portfolio) and recovery in rental collections (retail sector)
- Improvement in promoter’s/sponsor’s credit profile

**Downgrades driven by:**

- Weakening of promoter’s/sponsor’s credit profile.
- Delay in project execution and weaker than anticipated debt coverage indicators

**Outlook:**

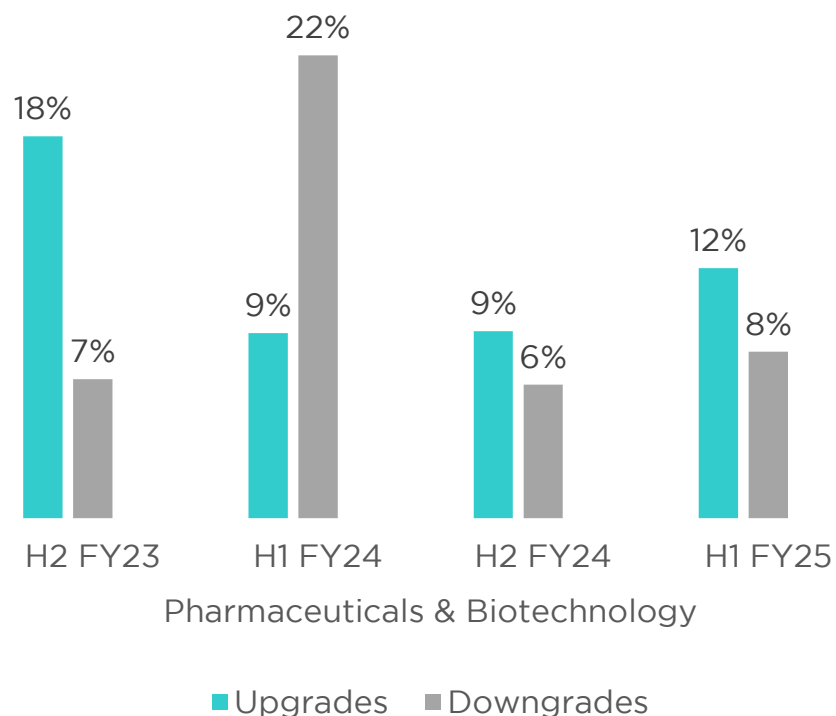
- Residential demand to remain buoyant in CY24 led by luxury segment sales.
- Sales are likely to improve by 8-10% in CY24 aided by strong launch pipeline by large developers. Inventory overhang is likely to remain close to a year.
- Due to slowdown in global markets, the demand for commercial leasing spaces by MNCs has slowed down, yet office leasing is expected to improve by 5-6% in CY24 on y-o-y basis
- Close monitoring of occupancy levels in upcoming deliveries required, as SEZ amendment bill has brought around 30msf of vacant SEZ space at par with non-SEZ area.
- Retail mall consumption would continue to grow despite inflationary pressures. Vacancy level would remain range bound at 15-17% in key 8 cities with rental appreciation of 10-15%.

Source: CareEdge Ratings

# Pharmaceuticals & Biotechnology: Increase in demand and softening of RM prices to expand profitability margins

Outlook: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

## Upgrades driven by:

- Raising funds through IPOs, rights issues, and other means to reduce debt and fund research activities, improving credit risk profiles
- Increased revenue and profitability margins due to a shortage of critical drugs in regulated markets, higher demand for chronic therapeutic segments in the domestic market and softening raw material prices.

## Downgrades driven by:

- Product concentration risk and reduced demand for Covid products, weakening financial risk profiles.
- Challenges in navigating complex and changing regulatory environments, leading to delays in product launches and dented margins for companies facing regulatory issues

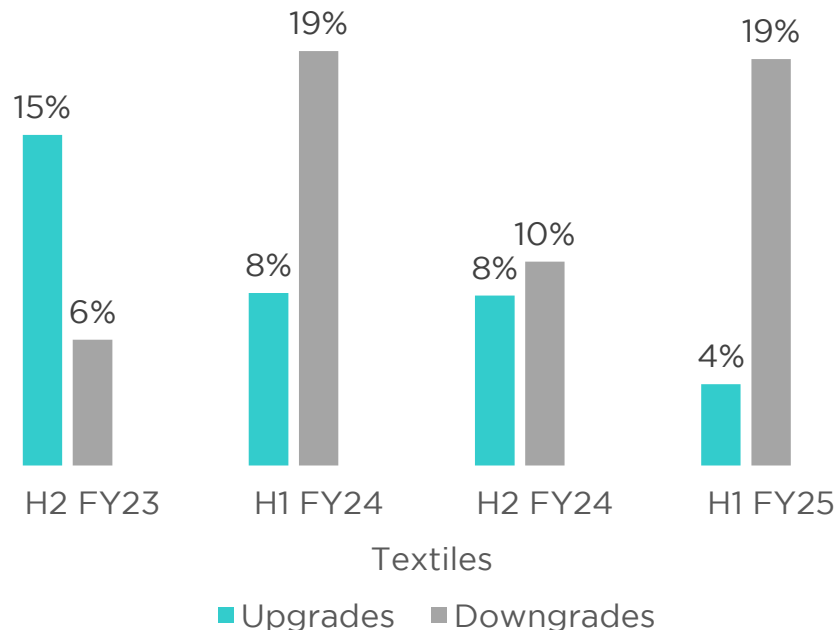
## Outlook:

- Overall Credit profiles are expected to remain stable due to low reliance on debt and well managed balance sheets.
- Operating margins expected to expand by about 100 bps in FY25 over FY24 as the raw material prices stabilize, freight rates normalise and pricing pressure in the US generics market eases. Also, patent cliff is expected to provide healthy opportunity to pharma exports.

# Textiles: Hit by global headwinds

Outlook: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

## Downgrades driven by:

- Weakening of operational and financial parameters owing to subdued export demand impacting small and mid-sized entities operating in a single segment of value chain
- Pile-up of inventory leading to elongated operating cycle and stretched liquidity

## Upgrades driven by:

- Reduction in debt levels through monetization of non-core assets, subsidies from government and infusion of funds by promoters

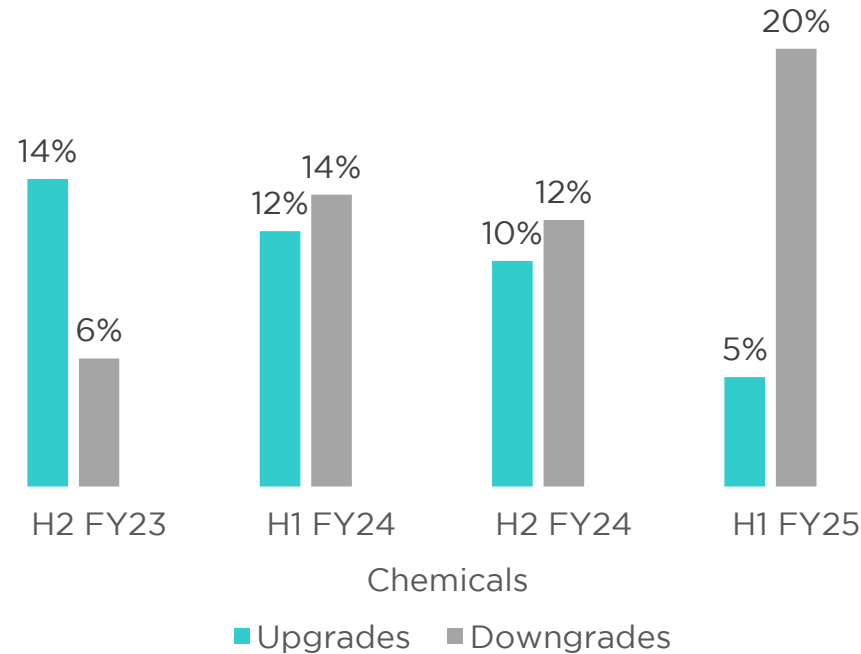
## Outlook: Stable

- The ready-made garments (RMG) sector is recovering, with exports growing by 6% year-on-year in the first four months of FY25. This growth is expected to continue, especially with increased market share following the crisis in Bangladesh.
- Reduced inflation and interest rates in the US and Europe are likely to boost retail demand, prompting global brands to replenish inventories.
- Cotton yarn production and export volumes have remained stable year-on-year in the first four months of FY25. Growth is expected in the upcoming quarters, driven by demand from ready-made garments and home textiles.
- However, alignment of domestic cotton prices with international prices will be crucial for supporting Indian exports.

# Chemicals: Moderate recovery expected in H2FY25

Outlook:  
Basic Chemicals: Negative  
Specialty chemicals: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

## Downgrades driven by:

- Subdued sales due to Intense competition from China and decline in demand in the export markets.
- Reduced profitability on lower realisations and high interest rates.
- Agro chemicals remained subdued due to sharp drop in realizations driven by supply surge from China. Also, sales in specialty chemicals segment were affected due to subdued realizations.

## Upgrades driven by:

- Reduction in raw material prices resulting in improved margins despite lower topline.

## Outlook:

- Overall performance expected to improve in FY25 compared to low base of FY24 with recovery from H2FY25 on the back of above normal monsoon and reduction in Chinese imports.
- Companies catering to some specialty chemicals are expected to recover faster than basic chemicals and agrochemicals.
- Chemical sector continues to remain highly reliant on exports and will face pricing challenges due to Chinese dumping along with high freight cost keeping margins under pressure.

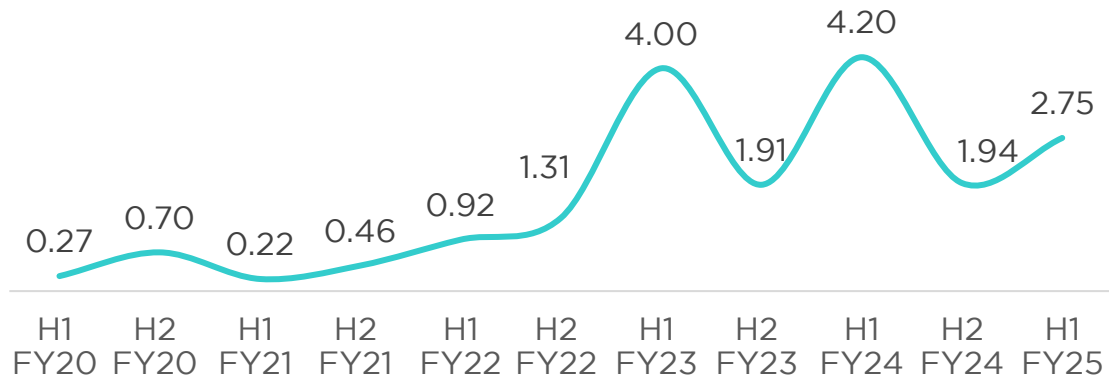


# Banking and Financial Services

# Credit Cost near bottom; NIMs to compress

**Outlook: Stable**

BFSI credit ratio

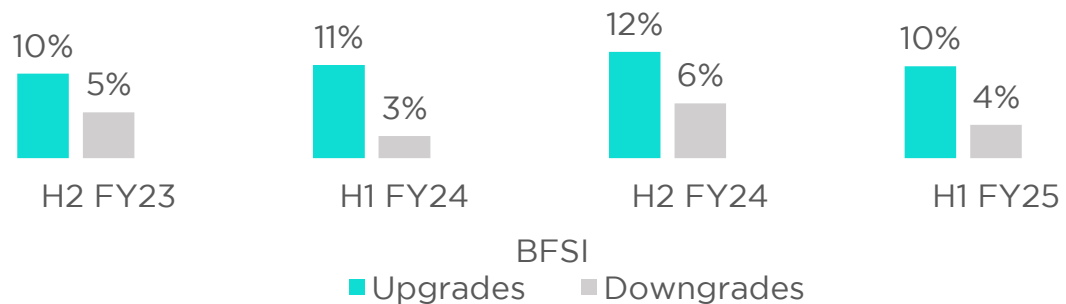


- Credit ratio for the BFSI sector reported an improvement to 2.75 in H1FY25 reversing the decline reported for the previous half year. Strong financial performance of both, NBFCs and banks led to upgrades during H1 FY25, leading to improvement in credit ratio.

**Outlook:**

- Credit growth in banking sector to moderate on account of challenges in raising deposits and draft guidelines on ECL and LCR when implemented.
- Compression of net interest margin (NIM) is expected with elevated costs of deposits leading to increase in MCLR of banks.
- Credit costs are expected to remain low however may see slight uptick towards the end of FY25.
- The credit outlook is expected to be stable for Banks and financial services entities.

Rating actions in last 4 half years

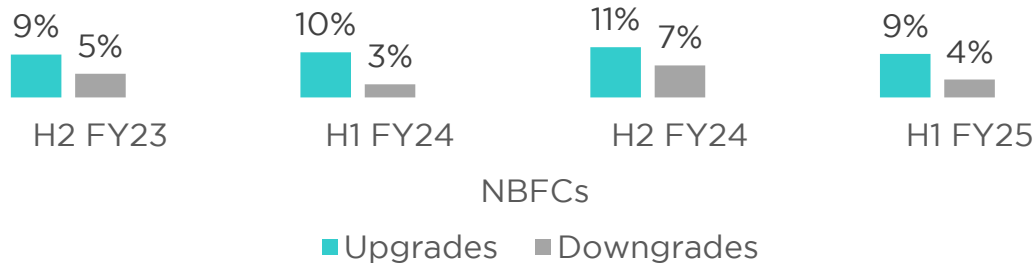


Source: CareEdge Ratings

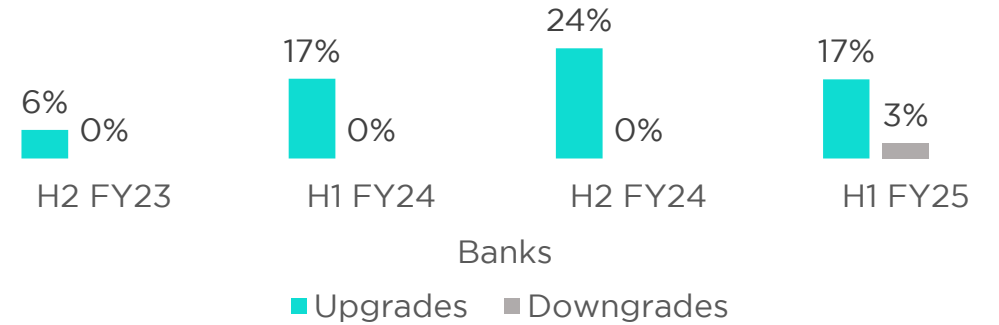
# Scale and asset quality supports strong performance

Outlook: Stable

Rating actions in last 4 half years



Rating actions in last 4 half years



Source: CareEdge Ratings

- The trend of NBFCs witnessing significantly higher upgrades than downgrades has continued in H1FY25
- Upgrades in the NBFCs were primarily driven by improving AUM, healthy asset quality, higher profitability and improved capitalization. Downgrades in H1FY25 were largely in smaller NBFCs and fintech companies.
- Increasing the risk weights on unsecured consumer loans led to moderation in growth with increasing cost of funding. Credit losses in unsecured space is a key monitorable.
- With rising MCLR for bank lending, profitability margins in mid sized NBFCs/ financial services entities are expected to see moderation.

- Upgrades in the banking sector over the past two years were mainly on account of improvement in asset quality, capitalization and profitability
- During H1FY25, banks continued to see upgrades, except one bank which saw downgrade due to deterioration in performance post adverse regulatory action
- Net NPA ratio for the banking sector is at its lowest ever level of 0.6% at the end of Q1FY25 (down from 0.7% at the end of Q3FY24) due to continued improvement in asset quality and high provisioning coverage maintained by banks.

# Credit Quality Outlook

# Summing up and Way forward

Credit Ratio of CareEdge Ratings' portfolio saw a moderation in H1FY25; Credit ratio aligned to the 10-year average on the back of steadfast domestic demand amid lingering global challenges.

The economy is expected to maintain a growth rate of 7% in 2025, with inflation predicted to ease to 4.8%, providing a more stable economic environment.

India Inc continues to face global headwinds; however, we expect the resilience to continue for large entities while mid and small corporates may see some moderation.

In this backdrop, the credit ratio in the near term is expected to remain range-bound

Moving forward, sustenance of domestic demand, impact of the geopolitical risks, quantum of easing in policy rates by major central banks and slowdown in China remain key monitorables on the credit risk

# Thank you

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## About Us

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd previously known as CARE Risk Solutions Pvt Ltd, (II) CARE ESG Ratings Ltd, previously known as CARE Advisory Research and Training Ltd and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd.

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