ON THE WATCHLIST are hospitality, retail, travel & tourism, entertainment and realty cos; rating actions likely from May if situation doesn't improve

Extended Curbs may Bring Downgrades, say Rating Cos

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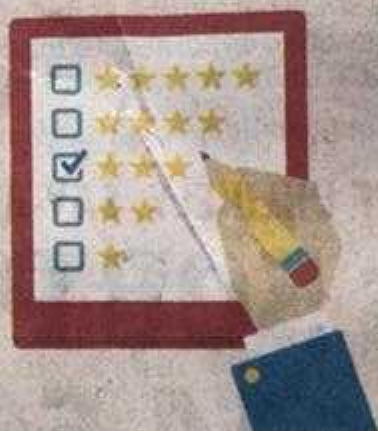
Outlook Under a Cloud

Hospitality, textiles, realty, construction and **auto dealers** faced **more downgrades** in **last 6-12 months**

During the second half of **FY21**, there were only **142 upgrades** against **778 downgrades**



But, credit outlook for most sectors improved with recovery picking up from **October-March**

Now, that would depend on the course of the **pandemic**

Mumbai: Rating companies will likely be busy the next few months as they assess the risk of the latest round of business curbs after a series of regulatory and judicial interventions swept many weaknesses under the carpet after the first round of lockdowns last year.

While no immediate rating downgrades could happen, a lot of companies in hospitality, retail, travel & tourism, commercial realty and entertainment could see sharp downgrades.

"We have begun reviewing our ratings portfolio across the board," said Ajay Mahajan, CEO at CARE Ratings. "The final outcomes of these reviews will also depend on whether similar measures like those taken last by the government and regulators, are in the offing or not. We see a more adverse impact on the MSME sector and unsecured smaller lenders."

Sectors that experienced a high downgrade rate in FY21 included hospitality, textiles, real estate, construction and automobile dealerships. These sectors have faced more downgrades in the past 6-12 months.

"If lockdowns extend next couple of weeks with no regulatory intervention, credit quality will take a hit," said K Ravichandran, deputy chief rating officer at ICRA. "Sectors like hospitality, consumer retail, shopping malls, multiplexes, and non-banks including micro-entities are likely to face the brunt. Some companies in those sectors may have availed relief measures last year and could face a double whammy now." ICRA has just concluded an internal mapping of clients' credit risk profile in the wake of the second wave triggering localised restrictions on mobility.

In the second half of FY21, there were just about 142 upgrades against 778 downgrades, show industry data compiled by Acuite Prime Rating Migration Database. The credit ratio was at 0.18% reflecting a clear swing towards downgrades.

Credit ratio is measured as upgrades to downgrades. The gauge falling well below one shows the weakening creditworthiness of companies facing more downgrades.

"The optimism around the economy has been quickly replaced by despondency due to the unexpected intensity of the second Covid wave and its potential implications on the nascent growth momentum," said Sankar Chakraborty, group CEO, Acuite Ratings. "Given that the impact of the pandemic will be more prolonged for these sectors, in particular, one can expect material rating actions to kick in if the intensity and the lockdowns don't taper down by May 2021."

Although this time lockdowns are not as stringent as last year, they are bound to interrupt production. Last year, logistics hit manufacturers. Now, manpower could pose the same threat with more people falling sick.