Credit ratio, or upgrades over downgrades, up at 2.08 as companies regain normalcy in business; it stood at 0.36 in April-June last year

Rating Upgrades See a Sharp Rise in June Qtr Since Covid Outbreak

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Mumbai: Rating companies reported their sharpest rise in upgrades compared to downgrades in June quarter since the beginning of the pandemic early last year as local companies regain business normalcy, demonstrating better creditworthiness amid a slew of relief measures.

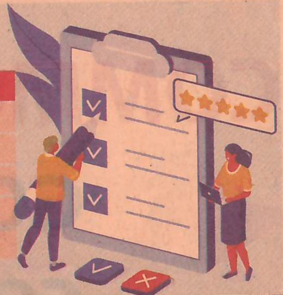
The credit ratio, a gauge for the financial health of companies, shot up to 2.08 in June quarter from 1.77 January-March quarter with credit agencies upgrading 771 companies over 370 downgrades, according to Prime Acuité Credit Rating Migrations Database that compiled data from seven local credit rating companies including Acuite, Brickwork, CARE, Crisil, Icra, India Ratings and Infomerics.

The credit ratio, or upgrades over downgrades, has seen a steady rise after the first quarter of last fiscal. The gauge was at 0.36 in April-June last year with 241 upgrades versus 662 downgrades. A ratio below 1 indicates the deteriorating financial health of the corporate sector.

Rating Movements

Quarter	Upgrades	Downgrades	Ratio
Q1FY21	241	662	0.36
Q2FY21	551	596	0.92
Q3FY21	673	585	1.15
Q4FY21	836	471	1.77
Q1FY22	771	370	2.08

Source: **Prime Acuité Credit Rating Migrations Database**



"The first quarter upgrades are a reflection of factors including government spending, liquidity support and curtailed overhead costs," said K Ravichandran, deputy chief rating officer of Icra Ratings. "Loan restructuring plans have worked well for companies, which could avoid possible downgrades."

"Migration has started happening from the unorganised sector to the organised sector," he said.

Labour movement to urban projects has resumed after migrant labourers rushed back to their homes in the hinterland amid strict lockdowns last year. Lockdowns in the second wave of the pandemic have been more relaxed than the first wave of infections.

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"With vaccination drive gathering momentum, the trend towards normalisation is likely to also catch on in contact-intensive sectors," said Suman Chowdhury, chief analytical officer, Acuite Ratings. "The rate of upgrades rose at the sharpest pace since outbreak of the pandemic last year."

"Corporates in several sectors have performed better than expectations in FY21 and those in others may regain business normalcy in FY22," he said.

"The second wave impact on the economy is not all-encompassing with supply chain activity remaining unaffected," said Sachin Gupta, chief rating officer at CARE Ratings. "The commodity cycle also helped lift business fortunes for many sector companies like steel or metal." "Besides, the business optimism, backed by rising vaccination, added to it, resulting in more upgrades," he said.

Steel companies have revived their fortunes with record high steel prices giving a new lease of life to the industry.

The banking system has surplus liquidity of ₹5.45 lakh crore. Both the government and the Reserve Bank of India came out with a plethora of plans to fill funding needs.

The finance ministry launched the Emergency Credit Line Guarantee Scheme (ECLGS) last year in May to rescue the pandemic-hit economy. It was aimed at providing unsecured loans to micro, small and medium enterprises.