

# Credit ratio rising to 2.3x in April-August signals improved health of India Inc

The number of upgrades increased 2.4 times while downgrades dipped by 40 per cent: Acuité Ratings

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Mumbai, September 8

Indicating an improvement in corporate health, the credit ratio (upgrades to downgrades) rose to 2.3x in April-August 2021 from 0.56x in the corresponding previous period. The number of upgrades increased 2.4 times in the same period while the downgrades dipped almost 40 per cent, according to Acuité Ratings.

Further, the number of upgrades during the period is similar to that in the pre-Covid year, while the number of downgrades has almost halved from those levels.

Crisil Ratings had also recently revised the credit quality outlook of India Inc for FY 2022 to 'positive' from 'cautiously optimistic' earlier. A Crisil Ratings study of 43 sectors (accounting for 75 per cent of the ₹36-lakh crore outstanding rated debt, excluding the financial sector) shows the current recovery is broad-based.

## Resilient performance

Acuité Ratings said the sharp upsurge in the credit ratio during April-August can be attributed to a resilient performance in FY21 by the manufacturing sector, including



debt levels lower than feared early on during the Covid pandemic.

## Other factors

"With steady progress in vaccination and gradually declining risks of a third wave, private consumption demand is expected to revive from H2FY22 and ratings have

started to factor in such a scenario," Acuité Ratings said. Other reasons include buoyancy in the export sector since H2FY21 that has largely offset the weak domestic demand. Favourable monsoon conditions and a rich harvest since last year have kept rural demand steady despite a moderate impact of the second wave. And, a recovery in the core infrastructure sectors with the focus on higher investments leading to higher demand scenario in steel, cement and power.

The improving credit ratio in the financial sector reflects a significant moderation in concerns on asset quality deterioration and liquidity impairment, given the monetary and financial support measures.