

Steady recovery, improving demand key factors, but Covid 3.0 still a near-term risk

Rate of Rating Upgrades Surpasses Pre-Covid Levels on Growth Pickup

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Mumbai: Rating companies reported upgrades, better than even pre-Covid levels, in the first half of this financial year in definitive signs of robust economic recovery.

Credit ratio (CR) or upgrades over downgrades, a gauge for companies' financial health, climbed to 2.43. Credit agencies upgraded 1,719 companies over 708 downgrades between April and September this fiscal year, according to Prime Acuité Credit Ratings Migration Database that compiled data from seven local credit rating companies — Acuite, Brickwork, CARE, CRISIL, ICRA, India Ratings and Infomericus.

The CR was at 0.63 in the corresponding period last year. This gauge is even better than the first six months of the fiscal year 2020, which had pegged at 1.05. CR below one indicates deteriorating financial health of the corporate sector.

"The sharp improvement in credit ratio reflects the steady recovery in the economic environment post the disruption from the pandemic," said Suman Chowdhury, chief analytical officer, Acuité Ratings. "At the same time, this also points to growing optimism around improving

Strong Sailing

	H1FY20	H1FY21	H1FY22*
Upgrades	1,618	802	1,719
Downgrades	1,540	1,214	708
Credit Ratio	1.05	0.66	2.43

*Upto Sep 29, 2021 Source: Prime-Acuite Database



demand due to substantial progress in vaccination."

Infrastructure-linked sectors including roads, renewable energy, and construction and engineering have seen the biggest upgrades. Some other sectors that led the pack of upgrades include ferrous metals, pharmaceuticals, healthcare, power, auto ancillaries, and real estate. "The incremental pressures on the credit quality of India Inc. — because of weak economic growth and the pandemic — seem to have largely subsided," ICRA said in a note Friday. Upgrades more than doubled in the year-on-year basis with even outpacing pre-Covid levels when there were 1,618 upgrades.

For downgrades, the contact-intensive sectors are still facing credit pressures.

Hospitality, Aviation, residential

real estate, fashion are mostly facing downgrades. Outlook remains 'negative' for these sectors.

There were 708 downgrades this year compared with 1,214 in the corresponding period last year and 1,540 in H1, FY20, show Prime-Acuite data.

Infra-linked sectors like roads, renewable energy, construction, engineering see biggest upgrades

Banks' loan growth, according to CRISIL Ratings is expected to recover to 9-10% this fiscal from 5% in the previous year. Non-banks

with improving capitalisation and liquidity are likely to expand their

assets at a faster pace than last year.

"A sustained recovery in domestic demand, government impetus to infrastructure spending, and export growth... have led to a strong rebound in business risk profiles of India Inc, thereby driving the increase in upgrades," said Gurpreet Chhatwal, managing director, CRISIL Ratings, in a note.

The banking system has a surplus cash of ₹8.03 lakh crore compared with ₹5.45 lakh crore in July. A plethora of central government and central bank measures have kept the system flush with enough cash.

However, any outbreak of a third wave of coronavirus could well upset the appcart. "A potential third wave is the key near-term risk to our 'positive' credit quality outlook," said Somasekhar Vemuri, senior director, CRISIL Ratings.