ICRA

PRESS RELEASE

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Performance of ICRA-Assigned Ratings in H1 FY2025

Rating upgrades continue to reign over the credit landscape

The overall credit conditions in the corporate and the financial sector have remained conducive in the past three years, which has contributed to a much higher proportion of rating upgrades than downgrades. The rating actions taken by ICRA in H1 FY2025 marked a continuation of these trends. The Credit Ratio of ICRA-assigned ratings, defined as the ratio of the number of upgrades to that of downgrades, stood at 2.2x in H1 FY2025 (2.1x in FY2024), an outcome of the **largely benign operating environment, demand buoyancy in select sectors, improvement in risk profiles as assets transitioned from project-stage to operational-stage,** and **a broader trend in de-leveraging**.

The **borrowing costs of India Inc. have risen by around 160 basis points (bps)** between April 2022 and September 2024. Yet, the rating downgrades have remained contained because of the **counterbalancing effect of the healthy growth in profits supported both by well-behaved commodity prices as well as steady (although somewhat uneven) demand conditions across various sectors**. Even as the producers of commodities like steel and cement have seen their realisations soften in the past 30 months, their raw material costs, energy costs, and freight costs have fallen off too. Accordingly, entities in these sectors have maintained their profit margins and are estimated to continue on the profit growth path in the medium term on the back of continued investment momentum in the real estate and the infrastructure sectors. These trends have warded off downside credit pressures in general, while contributing to rating upgrades in several cases.

Improving business fundamentals, and not mere industry tailwinds, **has been the primary driver of rating upgrades** over the years and H1 FY2025 was no exception. In H1 FY2025, around 50% of the rating upgrades were driven by the growth in profits supported by economies of scale, or the operationalisation of projects and hence the ebbing of project risks, and other business-related factors. Only 10% of the upgrades were triggered by industry tailwinds and these mostly pertained to the hospitality sector, where supply additions continue to lag demand, which has had a favourable impact on the sector's Average Room Rates and Occupancy Ratios.

Another major driver of rating upgrades in H1 FY2025 has been the **consistent trend in the de-leveraging of balance sheets**. Among a sample of around 2,500 entities analysed by ICRA, it has been observed that these entities incurred a cumulative capital expenditure (capex) of Rs. 35 trillion in the five-year period until FY2024, which was 34% higher than the cumulative capex incurred in the preceding block of five years until FY2019. Despite the rise in capex, especially by the publicly listed entities, data indicates that managements have been prudent in their funding mix and debt hasn't risen in tandem with the expansion in the gross block. This is seen in the Total Debt/ PBDIT of the sample entities recording an improvement to 1.8x as on March 31, 2024, versus 3.0x as on March 31, 2020. Moreover, several financial sector entities have been able to bolster their capital position through equity infusion and healthy internal accruals.

Apart from the high credit ratio, another measure of a conducive credit environment is the **reducing proportion of defaults**. ICRA's portfolio saw five instances of defaults in H1 FY2025, four of which were rated in the non-investment grade. The lone investment grade default was by a housing finance company that had missed its payments because of an operational reason, and not because of performance weakness. The rating of this entity was downgraded to the Default category and simultaneously reinstated to [ICRA]BBB+.

Commenting on the overall developments, **K. Ravichandran, Chief Rating Officer, ICRA**, said: "*The credit quality of India Inc. remains steady, and in the past six months, there hasn't been an imperative to change the outlook on any*

sector. There are some emerging pockets of concern, however, like an expansion in household debt, growth in unsecured lending, with early signs of rising delinquencies in unsecured retail and microfinance segments. Also, some sectors that have export dependency, namely, chemicals and cut & polished diamonds, continue to face demand and profitability challenges. These apart, several global risk factors are at play – China faces demand-supply mismatches because of which credit risk transmission is a possibility for the commodity producers in India through the price channel. Geopolitical developments also add to the uncertainty."

On the domestic macroeconomic front, there are several reassuring indicators**.** ICRA estimates India's GDP to grow by 7.0% in FY2025, outpacing the growth in other large economies. The fiscal deficit of the Government of India is expected to reduce to 4.9% in FY2025 (5.6% in FY2024) despite the rise in Government capex. Consumer price inflation is expected to moderate to 4.5% in FY2025 (5.4% in FY2024). Kharif sowing has been up by 2.2% YoY so far and the high all-India reservoir levels augur well for the rabi season, which should support rural incomes. As for the fund flows, depending on the extent and the timing of initiation of the rate cut cycle in India, more foreign capital flows could be expected into India, at a time when India's foreign exchange reserves are touching record highs.

All in all, the healthy macroeconomic position, growing corporate profits, and adequately capitalised financial sector currently provide the nurturing conditions for an extended runway of improving credit profiles of India Inc.

The detailed report can be accessed at this link.

ANNEXURE

Trend in the ratings activity

Trend in the Credit Ratio	FY2021	FY2022	FY2023	FY2024	H1 FY2025	Comments
Financial Sector	0.9	3.5	5.0	5.7	3.4	*The steady improvement in asset quality and credit growth backed sufficiently by fresh equity capital issuances has enhanced credit profiles*
Power	1.6	2.0	1.9	2.9	2.9	*The sector has been consistently seeing more upgrades than downgrades with projects becoming operational, the comfort of a longer track record of steady plant load factor, and the shortening of the receivable cycle*
Hospitality	0.1	0.4	5.5	23 upgrades, NIL downgrades	12 upgrades, NIL downgrades	*The rating actions since FY2023 reflect the spectacular rebound in demand and pricing power post-Covid*
Chemicals & Petrochemicals	2.8	12.0	3.0	0.6	0.4	*Global demand pressures, an oversupply situation, and dumping of the produce in India by other manufacturing nations has posed credit challenges lately*

Textiles & Apparels	0.1	2.6	4.9	0.5	0.3	*Tepid demand conditions and input cost pressures have triggered downgrades in the past 18 months*
Overall	**0.9**	**3.0**	**2.8**	**2.1**	**2.2**	

Notes

Credit Ratio is defined as the ratio of the number of entities upgraded to that downgraded during the period of analysis.

NOTE: The calculations do not capture the ratings that were in the Issuer Not Cooperating (INC) category at the beginning of the year. Also, the calculations exclude the entities whose ratings were downgraded during the year because of their non-cooperation unless it was a case of a downgrade to the [ICRA]D category.

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