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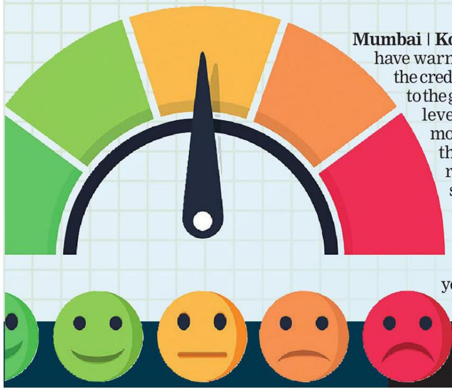
WARNING SIGNS Crisil and Icra see persistent pressure on credit quality due to global slowdown & firm-specific concerns

India Inc's Credit Quality may Face Headwinds in FY20



Our Bureaus

Mumbai | Kolkata: Major ratings firms have warned of headwinds ahead in the credit quality of corporates due to the global slowdown and entity-level issues. Crisil has seen more rating upgrades in FY19 than downgrades while Icra's rating actions showed persistent pressure on the credit quality of India Inc. Crisil upgraded 1,238 ratings in 2018-19 versus 716 downgrades during the year, compared with 1,402 upgrades and 839 downgrades in 2017-18. Its credit ratio, or the ratio of upgrades to downgrades, at 1.72 in FY19 was higher than 1.67 in FY18.

"While increased private consumption supported by budgetary announcements augur well for FY20 credit outlook, some headwinds are gathering (pace)," said Somasekhar Vemuri, senior director, Crisil Ratings. "We expect moderation in the credit ratio as global growth slackens and the pace of government infrastructure spending slows."

Slower growth in government spending on infrastructure also means investment-linked sectors such as construction, engineering, steel, and construction equipment will see only moderate buoyancy. Demand in real estate remains weak and refinancing risks also cloud the overall outlook. Competitive pressures are unlikely to ease for telecom operators, with the newest entrant expanding into more segments.

"Downward rating actions in FY19 weren't caused by sector-wide or specific macro risks that affected the credit quality en masse," said Jitin Makkar, head, credit policy, Icra.

"The downgrades were driven mostly by firm-specific concerns emanating from deterioration in business profiles or worsening of capital structures or increased liquidity pressures on the rated entities." Icra saw rating drift, calculated as the average upgraded notches per rated entity, minus the average downgraded notches per rated entity (an indicator of the extent and direction of rating changes) descending to -12% in FY2019.

This was not only higher than the past five-year average of -8%, but was also higher than the rating drift of -11% experienced in FY2018. Bank non-performing assets ratio is expected to fall in FY20, aided by moderation in slippages and recoveries from NCLT-backed resolutions.

The sector's gross NPAs are expected to decline to 8.5% in FY20 from 10% in FY19.

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>
> **SOMASEKHAR VEMURI,**
> **SENIOR DIRECTOR, CRISIL RATINGS**

Slowing Down

Crisil's credit ratio		Icra's rating drift		
1.72: FY19	1.67: FY18	-12%: FY19	-11%: FY18	-8%: 5-year average