

PRESS RELEASE

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Credit quality trends and performance of ICRA-assigned ratings

Indian corporate credit strength endures; geopolitical risks key monitorable

Rating agency ICRA highlighted that the credit profile of Indian corporates remained resilient in 2025-26 despite the challenging global environment marked by tariff-related disruptions and heightened geopolitical tensions. Timely policy interventions by the Government of India, aimed at supporting domestic consumption and sustaining infrastructure investment, helped anchor credit quality and mitigate external headwinds.

Reflecting this resilience, ICRA upgraded the ratings of 388 entities in 2025-26, while those of 124 entities were downgraded, resulting in a strong credit ratio of 3.1x. This represents a significant improvement over the credit ratio of 2.0x in 2024-25 and 2.1x in 2023-24, underscoring benign credit quality trends across most sectors.

As 2025-26 drew to a close, external pressure appeared to be easing, with lower tariff-related risks and improving domestic macroeconomic conditions placing the Indian economy on a favourable footing as it prepared to enter 2026-27. However, the escalation of the West Asia conflict has once again highlighted the global interconnectedness of economies and the potential for regional developments to have far-reaching domestic implications.

Commenting on the evolving macroeconomic environment, **K. Ravichandran, Executive Vice President & Chief Rating Officer, ICRA**, said: *“The alleviation of US tariff-related risks and the signing of the India-EU trade agreement had significantly reduced external headwinds. Alongside GST rate cuts, income tax relief, easing inflation and transmission of policy rate cuts, these developments had strengthened the outlook for Indian corporates entering 2026-27. However, the escalation of hostilities in West Asia since late February 2026 has reintroduced risks, particularly for India’s energy and food security. A prolonged conflict or disruption of the Strait of Hormuz could constrain the supply of oil, gas and fertilisers, triggering global supply shocks. While higher subsidies could cushion commodity price pressure, they may strain Government finances. Moreover, corporates could face a moderation in demand and pressure on margins amid rising inflation.”*

ICRA’s rating actions in 2025-26 continued to reflect the underlying strength of Indian corporates, supported by healthy balance sheets, steady domestic demand, and the Government’s sustained focus on infrastructure development and clean energy. India’s growing role as a global hub for technology, research and analytical services also supported demand across segments such as commercial real estate.

Rating upgrades during the year were largely driven by entity-specific factors, including strengthening business profiles, improvement in parent credit profiles, reduced project risk, particularly in power and roads, and enhancement in financial profiles through equity infusions or debt reduction via scheduled amortisation. Sector-specific dynamics supported upgrades in hospitality, while stress in microfinance and select chemical segments contributed to downgrades. Power, realty, hospitality, auto components and roads, together comprising around a quarter of ICRA’s portfolio, accounted for nearly half of the total rating upgrades.

Credit quality remained benign, with a low default rate of 0.4% in 2025-26. Of the nine defaults recorded during the year, only one involved an investment-grade entity, a non-banking financial company (NBFC) focussed on micro, small and medium enterprise (MSME) lending that faced liquidity stress following covenant breaches arising from

asset quality pressure. The large rating change rate (LRCR), defined as the proportion of ratings upgraded or downgraded by three or more notches, remained contained at 1.2%, below the 5-year average of 1.5%.

Trade policy developments remained a key macro driver in 2025-26. The US and the EU together account for around 40% of India's exports. The imposition of a 50% tariff by the US on Indian exports, among the highest levied on any trading partner, had adversely impacted export competitiveness in sectors such as cut and polished diamonds, textiles and seafood. However, the interim trade arrangement with the US in February 2026, which reduced tariffs to 18%, followed by the imposition of a uniform global tariff of 10% after the annulment of reciprocal tariffs by the US Supreme Court, has materially eased tariff pressure. Nonetheless, the possibility of alternative legal routes to sustain tariffs keeps trade policy uncertainty elevated.

Meanwhile, the signing of the India-EU trade agreement after two decades of negotiations is a watershed moment, creating the world's largest free trade zone, accounting for approximately 25% of global GDP and 20% of global trade. Once operational, the agreement is expected to enhance competitiveness across key sectors, including apparel and textiles, leather and footwear, marine products, pharmaceuticals, chemicals and auto components. However, the withdrawal of EU Generalised Scheme of Preferences (GSP) benefits from January 1, 2026 presents near-term headwinds until the free trade agreement (FTA) is fully implemented.

India's external vulnerability remains elevated due to its import dependence, with around 45% of the import basket comprising oil and gas, gold, diamonds and fertilisers. This dependence is further accentuated by high regional concentration, with a significant share of these imports sourced from West Asia. Beyond energy and fertilisers, spillover risks arise through trade and remittances as the region accounts for nearly 15% of India's exports and around one-third of inward remittances.

"While higher crude prices, shipping costs and rupee depreciation would have a broad-based cost impact, the direct effect of the West Asia conflict would be more pronounced for sectors such as fertilisers, gems and jewellery, airlines, basmati rice, downstream oil and gas, ceramics and MSMEs," added **Ravichandran**. High import dependence on the region for energy, fertilisers and feedstock could result in supply constraints in fertilisers, posing risks to the upcoming kharif season and increasing the subsidy burden. Airlines could face pressure on margins due to higher ATF prices, rupee depreciation and flight disruptions, while oil marketing companies may see earnings impacted by fuel under-recoveries if retail prices remain unchanged. MSMEs remain particularly vulnerable due to limited financial buffers, with cost pressure and export disruptions potentially straining entities across services, manufacturing, logistics and remittance-dependent regions.

Although prospects for a private capex revival had improved ahead of the conflict, supported by trade tailwinds, consumption-boosting measures, healthy capacity utilisation and strong corporate balance sheets, the trajectory of the conflict remains a key monitorable. Elevated energy prices could fuel global inflation, trigger monetary tightening and weigh on global and domestic demand, capital flow and corporate profitability.

Looking ahead, domestic consumption and the Government's continued emphasis on infrastructure development are expected to remain the primary growth drivers through 2026-27. While policy tailwinds and domestic demand are likely to anchor economic growth, prolonged geopolitical tensions would affect growth, inflation, fiscal metrics and the external balance. Reflecting these risks, ICRA has revised its GDP growth estimate for 2026-27 to 6.5% from 7.1% (7.5% estimated for 2025-26). Sustained escalation in the conflict, leading to higher energy prices and tighter supplies, could further weigh on India's growth outlook.

ANNEXURE

Rating activity trend in select sectors

Sector	2022-23	2023-24	2024-25	2025-26	Comments on 2025-26 rating actions
Auto component	6.0	10.0	5.0	2.4	Healthy sales and earnings growth along with the benefits from operating leverage and cost optimisation measures, led to upgrades.
Chemicals & petrochemicals*	2.8	0.6	1.5	1.6	Upgrades were largely concentrated among value-added and specialty players, driven by improved scale and earnings. In contrast, downgrades were primarily seen in commodity players, reflecting pressure on margins due to weak global demand and overcapacity. In some cases, rating actions reflected the impact of cost rationalisation, fund infusion or debt-funded capex.
Finance	5.0	5.7	2.5	2.1	Rating upgrades were mainly in the banking, housing finance, and capital market segments, supported by increased scale and a stable-to-improving financial profile. Changes in ownership and stronger linkages with the parent also contributed to upgrades. Downgrades were largely concentrated in the microfinance, personal loan, and SME segments due to asset quality pressure.
Hotels	5.5	Upgrades: 23 Downgrades: NIL	Upgrades: 17 Downgrades: NIL	Upgrades: 25 Downgrades: NIL	The sector has remained on a strong trajectory over the past four years, with improvement in occupancy

					and average room rates driving multiple upgrades.
Power	1.9	2.9	3.4	5.2	Project completion, track record of steady operating performance and strengthening of parent's credit profile have resulted in upgrades.
Realty	30.5	4.3	4.5	5.6	Improved leasing activity in the office and retail segments and healthy sales and collections in the residential segment have led to rating upgrades.
Textiles	4.9	0.5	0.2	1.3	Some apparel and home textile exporters were upgraded, driven by strong revenue growth and diversified geographical presence. Other factors included equity infusions, strengthening of parental linkages, and curing of past delays. Downgrades were largely concentrated in the fabric and domestic apparel segment due to subdued demand.
Roads	5.3	1.7	15.0	9.5	Alleviation of project risk, receipt of a few initial annuities (for annuity projects) and increase in toll collections (for toll projects) resulted in upgrades in the sector.
Overall	2.8	2.1	2.0	3.1	

*Excludes chemical traders

Notes

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

NOTE: The rating performance indicators cited in this document do not cover structured finance ratings and exclude ratings that were in the Issuer Not Cooperating (INC) category at the beginning of the year. Also, calculations exclude non-cooperation-related rating downgrades during the year unless it was a case of a downgrade to the [ICRA]D category.

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For further information, please contact:

Media Contacts:

Naznin Prodhani

Vice President Group - Head Media & Communications
ICRA Ltd.
Tel: + (91 124) 4545300,
Dir – 4545 860
Email: communications@icraindia.com

Saheb Singh Chadda

Manager - Media & Communications
ICRA Ltd.
Mob: +91- 9833669052
Email: communications@icraindia.com

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