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Credit Quality Trends and the Performance of ICRA-Assigned Ratings

India Inc.'s strong balance sheets positioned to navigate global uncertainties

FY2025 marked the fourth consecutive year of improving credit profiles, with ICRA's rating upgrades consistently outnumbering downgrades during this period by at least two to one. In the just-concluded fiscal, ICRA upgraded the ratings of 301 entities and downgraded 150. Although the Credit Ratio of ICRA-assigned ratings, defined as the ratio of the number of entities upgraded to that downgraded, moderated to 2.0x in FY2025 from the peak of 3.0x in FY2022, it remained healthy.

Commenting on the overall developments, **K. Ravichandran, Executive Vice President & Chief Rating Officer, ICRA**, said: "*India Inc. has experienced an extended period of credit profile improvement, much of it due to strengthening balance sheets. Over the past decade, the aggregate operating profits of around 6,000 listed and unlisted entities analysed by us have grown at a CAGR of 12%, while their total debt has increased by only 4%. From a credit perspective, this enhanced the ability of corporate India to bear the cyclical challenges of recent periods posed by commodity price inflation, rising interest rates, and subdued demand. Apart from this general trend, a notable trend in the power, road, and realty sectors has been the increase in the proportion of upgrades due to reduced project risk, sometimes alongside debt refinancing at lower borrowing costs. In FY2025, around 16% of rating upgrades by ICRA were attributed to this factor, compared to the five-year average of 10%.*"

Rating actions in FY2025 were driven by:

- A broader trend in **deleveraging in the corporate sector**, enabled by healthy profit growth amid slower capital expenditure growth
- Rating upgrades in the **financial sector,** concentrated in H1 FY2025, attributed to increased scale and higher profitability alongside controlled credit costs
- Improved risk profiles of **assets/ entities transitioning from project-stage to operational-stage**
- Continued **demand buoyancy in select sectors,** such as hospitality.

The strengthening of India Inc.'s credit profile is particularly noteworthy given the tumultuous past few years, which have been marked by global supply chain disruptions, commodity price fluctuations, inflation, and volatility in interest rates and currency values. As is often the case, the sectoral picture has been mixed:

The **aviation** and **hospitality** sectors, two sectors that were among the hardest-hit during the Covid-19 period, have posted a steady recovery and have now considerably surpassed pre-pandemic levels in terms of revenues and profits.

Since 2020, the **fertiliser** and **oil** sectors have experienced significant volatility in their profit margins due to Covid-19 and global conflicts. Despite this, they have maintained stable ratings, supported by their linkages with the Government and the strategic importance of these sectors to the economy.

For the **ferrous metals** sector, the supply shock of 2021 had meant a sharp ascension in steel prices during that period, outpacing that of the key raw materials like iron ore and coking coal. This surge in profits then, had allowed steelmakers to significantly deleverage their balance sheets. The lighter balance sheets have now been enabling steelmakers to weather the downward pressures on profitability, ensuing from rising imports, softening steel prices, and global trade uncertainties.

Similarly, the **chemicals** sector had attained all-time high profit margins in FY2021 and FY2022. However, a subsequent demand slowdown in developed markets due to inflation, and more importantly, a global supply glut from new capacities in China and the Middle East have constricted margins. This has increased downgrade pressures, even though not substantially, as leverage levels in the sector remain manageable.

"*To quantify, the upward trend in ICRA-assigned credit ratings over the past few years, which includes periods of downward pressures from the pandemic and subsequent rebound and global conflicts, has been marked by an* ***average rating upgrade by 0.5 notches*** *for the universe of entities on whom ICRA maintained a consistent rating coverage between March 2019 and March 2025. Sectoral outcomes, however, vary. For instance, the hospitality sector has seen one of the highest increases—1.1 notches—driven by rising occupancies and room rates. In comparison, the aviation sector's ratings have only been restored to* *pre-pandemic levels, after downgrades during Covid-19. Among lagging sectors, the textiles-spinning sector experienced an average downgrade of 2.1 notches during the aforesaid period due to demand fluctuations and the unfavourable spread between yarn and cotton prices*," added **Ravichandran**.

Other indicators of the strength of credit profiles for India Inc. include **default rates** and instances of **sharp rating changes**. The overall default rate of ICRA-assigned ratings has been trending down over the years (0.2% in FY2025 against the five-year average of 0.8%), with notable reduction in the investment grade default rate. In FY2025, ICRA's portfolio recorded seven defaults in total, two of which were from the investment grade. Both investment grade defaults involved corporate governance issues that were identified *ex-post*. Large Rating Change Rate or LRCR, defined as the proportion of ratings downgraded or upgraded by three or more notches cumulatively, has also been trending downward over the years, highlighting a reduction in the severity of rating changes (LRCR was 0.7% in FY2025 vis-a-vis the five-year average of 1.5%).

As the new financial year begins, there is a question of whether **domestic urban consumption demand growth** will recover. ICRA's outlook is optimistic, supported by the income tax relief announced in the Union Budget for FY2026, lower food inflation (estimated at 4.9% in FY2026 versus an estimated 7.0% in FY2025), anticipated policy rate cuts, and improved credit availability. Another concern is how worse the **asset quality numbers of financial sector entities** could get, particularly those with large unsecured loan books. Indeed, the extended bout of a benign credit cycle for financial sector entities has shown signs of ending with evidence of an increase in fresh slippage and credit costs associated with unsecured loans. However, ICRA views this as a normalisation of the asset quality cycle, with the overall credit profile of financial sector entities expected to remain steady, supported in part by the recent measures[1] taken by the RBI, which will ease the operating conditions for lenders. Within the financial sector, NBFCs-microfinance would likely continue to witness pressures on asset quality and hence profitability in FY2026, although to a lesser extent than in FY2025. **On the global front, the uncertainties have widened**—from geopolitical conflicts causing supply chain and trade disruptions to industrial policies, including tariff tussles, causing investment and trade uncertainties, as well as volatility in bond yields and currencies. This will continue to weigh on India's merchandise exports growth prospects. Services export growth, however, is likely to outpace merchandise export growth.

The detailed report can be accessed at this **link**.

[1] The RBI has taken several policy measures lately – (a) 25 bps rate cut in Feb 2025, with more rate cuts likely over the next few months; (b) restoration of risk weights on exposures of banks to NBFCs effective from April 1, 2025, (c) risk weights for microfinance loans of banks reinstated to 100% from 125% (d) revised guidelines on priority sector lending effective from April 1, 2025, (e) liquidity restoration measures taken in Q4 FY2025 through open market operations, variable rate repo auctions and USD/ INR buy-sell swap auctions.

ANNEXURE

Trend in the ratings activity in select sectors

Trend in the Credit Ratio	FY2021	FY2022	FY2023	FY2024	FY2025	Comments on FY2025 rating actions
Financial Sector	0.9	3.5	5.0	5.7	2.5	*Improvement in scale and profitability amidst controlled credit costs. Capital profiles also improved for a few entities supported by equity infusion*
Power	1.6	2.0	1.9	2.9	3.4	*Upgrades driven by company-specific reasons (mostly in the renewables segment) – improved generation performance, recovery of receivables, equity infusion, commissioning of assets etc.*
Realty	1.0	3.0	30.5	4.3	4.5	*Upgrades driven by company-specific reasons in the commercial real estate segment (leased properties) – debt refinancing, improvement in occupancy, reduction in project risk, equity infusion*
Roads	0.8	1.8	4.0	1.5	18.0	*Upgrades driven by company-specific reasons—Debt refinancing/ restructuring, healthy growth in toll collections, alleviation of project execution risk, change in sponsor along with financial closure; significantly lesser downgrades in FY2025 compared with prior years*
Hospitality	0.1	0.4	5.5	23 upgrades, NIL downgrades	17 upgrades, NIL downgrades	*The momentum of the strong rebound in credit quality post-pandemic has persisted and reflects in rising occupancies and room rates, amid lagging supply additions*
Textiles & Apparels	0.1	2.6	4.9	0.5	0.2	*<u>Yarn</u>: Downgrades because of tepid demand conditions and pressures on margins* *<u>Apparels</u>: Downgrades because of company-specific reasons – intense competition pressuring margins, large debt-funded capacity expansion along the value chain etc.*
Chemicals & Petrochemicals	2.8	12.0	3.0	0.6	1.0	*Global subdued demand and overcapacity have been posing credit challenges*
Overall	**0.9**	**3.0**	**2.8**	**2.1**	**2.0**	

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 the structured finance ratings and do not include 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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