# Positive vibes

## Ratings Round-Up Second half, fiscal 2024

## Analytical contacts

**Krishnan Sitaraman**
Senior Director and
Chief Ratings Officer
CRISIL Ratings
krishnan.sitaraman@crisil.com

**Somasekhar Vemuri**
Senior Director,
Regulatory Affairs and Operations, and Chief Criteria Officer
CRISIL Ratings
somasekhar.vemuri@crisil.com

**Rama Patel**
Senior Director
CRISIL Ratings
rama.patel@crisil.com

**Varsha Chandwani**
Associate Director
CRISIL Ratings
varsha.chandwani@crisil.com

**Hardeep Bhogal**
Manager
CRISIL Ratings
hardeep.bhogal@crisil.com

**Vidyank Nayar**
Senior Rating Analyst
CRISIL Ratings
vidyank.nayar@crisil.com

**Nikita Mahadik**
Rating Analyst
CRISIL Ratings
nikita.mahadik@crisil.com

Piyush Khanduri, Senior Rating Analyst also contributed to this report.

**Design:** Kamraj Nadar

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# Executive summary

In line with our expectations, the CRISIL Ratings credit ratio (rating upgrades to downgrades) moderated in the second half of fiscal 2024 but remained elevated at 1.79 times compared with 1.91 times in the first half. In all, there were 409 upgrades and 228 downgrades.

For fiscal 2025, the credit quality outlook remains positive with upgrades seen continuing to outpace downgrades, driven by domestic demand, low corporate debt levels and tailwinds from the ongoing infrastructure build-out.

The upgrade rate dipped a marginal ~70 basis points to 12.0% compared with the first half. Sectors gaining from strong domestic consumption and government spending dominated the upgrades. The infrastructure and linked sectors outperformed the CRISIL Ratings portfolio with construction, renewable power and road assets leading the upgrades.

The downgrade rate, at 6.7%, remains closer to the 10-year average. As expected, some export-linked sectors, such as textile and seafood saw a higher downgrade rate due to subdued global demand or high-cost inventory that impacted profitability.

That said, the reaffirmation rate remained steady at ~81%.

The three key pillars of India Inc's credit quality — deleveraged balance sheets, sustained domestic demand and government-led capex — kept the upgrade rate elevated in the second half of fiscal 2024. That's above the 10-year average for the sixth consecutive half-year. While commodity prices have softened, revenue of upgraded companies grew ~13% in fiscal 2024 largely led by a pick-up in volume. With balance sheets in most sectors at their healthiest, capacity utilisation around peak levels and expected interest rate cuts, a broad-based pick-up in private capex is finally in sight.

The proprietary CRISIL Ratings' credit quality framework for the corporate and infrastructure sectors — the COIN framework — provides our credit quality outlook for fiscal 2025 on 38 sectors accounting for ~72% of the rated debt.

Key takeaways from our COIN framework:

- For fiscal 2025, as many as 21 of 26 corporate sectors have strong to favourable credit quality outlook, marked by robust balance sheets and healthy operating cash flows — expected to be as much, or higher, than in fiscal 2024
- These include auto-component manufacturers, hospitality and education sector companies where the credit quality is supported by healthy domestic demand
- It also includes sectors benefiting from the government's infrastructure spending, such as construction companies, and steel, cement and capital goods manufacturers
- Four corporate sectors — specialty chemicals, agrochemicals, textile - cotton spinning and diamond polishers are facing headwinds given their fortunes are aligned with global macroeconomic conditions, which are subdued at present. Barring diamond polishers, the other three are expected to witness partial recovery, following a challenging fiscal 2024. That said, these sectors do have strong balance sheets and hence the outlook on the sectors is stable to moderate

- Only one corporate sector — auto dealers — is expected to have a moderate credit quality outlook. While cash flows here are expected to grow, balance sheets have relatively higher leverage to fund inventory needs
- All 12 infrastructure sectors have strong to favourable credit quality outlook. They are benefiting from government initiatives in renewable energy and logistics. Residential real estate is riding on buoyant consumer demand, with inventory levels expected to drop further in fiscal 2025 despite new launches

Notably, none of the sectors analysed has a negative credit quality outlook

The financial sector's (banks and non-banks) strong credit quality is supported by steady credit growth, healthy capitalisation and stable asset quality.

For banks, credit growth is expected to remain healthy in fiscal 2025, but grow a tad slower at ~14%, compared with ~16% estimated for fiscal 2024, given the likely moderation in economic growth. A key monitorable here would be the ability to mobilise cost-effective deposits. While rising deposit rates could impact net interest margins, asset quality metrics are likely to be benign with gross non-performing assets continuing to decline.

For non-banks, growth in assets under management may moderate to 15-17% in fiscal 2025 from ~18% in fiscal 2024, with regulatory measures curtailing expansion of the unsecured loan book even as traditional segments grow at a steady pace. The asset quality outlook is stable for most non-bank segments but remains monitorable for unsecured and microfinance loans.

The outlook on India Inc's credit quality is positive for the first half of fiscal 2025, with upgrades expected to outnumber the downgrades. This is largely led by tailwinds from the domestic economy and despite export-linked sectors only gradually ticking up in the wake of uneven global recovery. Domestically, food inflation still weighs on rural demand even as the overall inflationary pressure eases. To maintain its favourable position, India Inc will need to be watchful of supply-chain disruptions from escalation in geopolitical tensions.

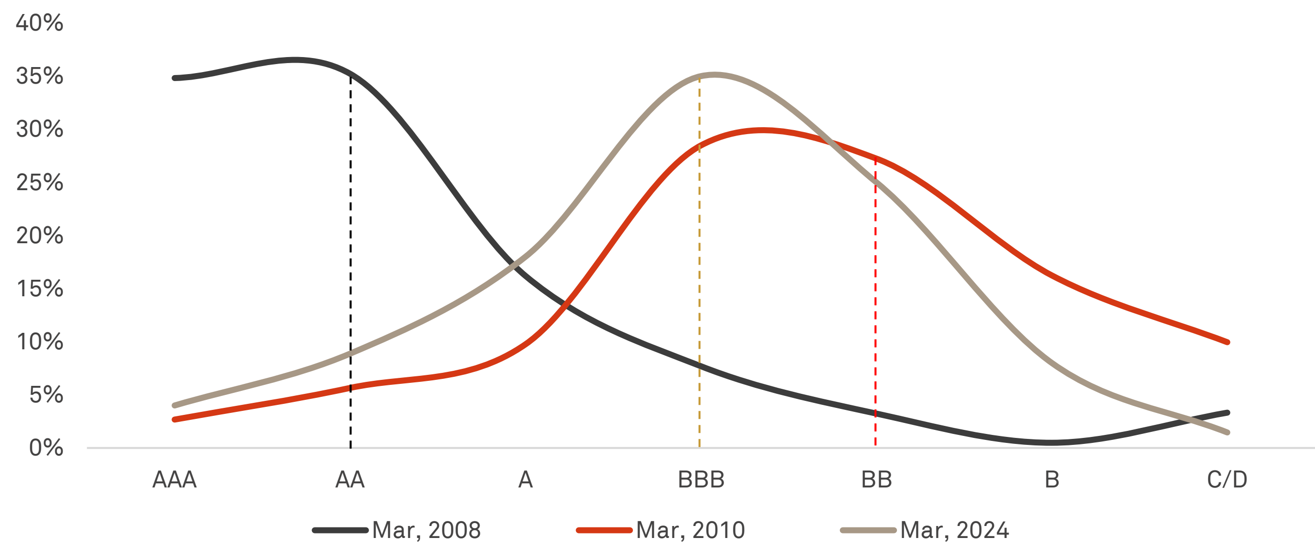
# About Ratings Round-Up

The Ratings Round-Up is a semi-annual publication that analyses rating actions by CRISIL Ratings and traces the linkages between such actions and the underlying economic and business trends. It takes a deep dive into sectoral trends and outlines expectations for credit quality based on an understanding of the current business environment and the likely performance in the near future. This edition analyses the rating actions from September 30, 2023, to March 30, 2024.

*Note: A credit rating is an opinion on the likelihood of timely repayment of debt. Therefore, analysis of rating actions on a large and diverse portfolio of companies is a reasonable indicator of the outlook for the economy.*

## Median rating for CRISIL Ratings portfolio remains in 'BBB' category

**Figure 1: Trends in rating distribution of the CRISIL Ratings portfolio**




The vertical dotted lines represent the median rating category for the respective distribution

*Source: CRISIL Ratings*

Our outstanding ratings as on March 30, 2024, cover around 7,000[1] companies. Of these, 65% are in the 'BBB[2]' or above rating categories. Until March 2008, the median rating for the CRISIL Ratings portfolio resided within the 'AA' category. With the introduction of bank loan ratings in 2007 and rapid expansion of the rated portfolio, especially in the lower rating categories, the median rating moved to 'BB' as on March 31, 2010, and remained there till fiscal 2021. The median rating transitioned to the 'BBB' category in fiscal 2022 and persisted at this level until fiscal 2024.

This shift since fiscal 2022 is attributable to the portfolio shrinking at the lower end of the rating spectrum — a phenomenon seen across the rating industry in India. This is mainly because many banks have increased the threshold of minimum exposure necessitating an external credit rating over the past several years. This has led to non-cooperation in the rating process by rated entities, especially those in the sub-investment-grade categories.

[1] This excludes companies in the 'Issuer not cooperating' (INC) category. The CRISIL Ratings portfolio had ~12,000 INC issuers as on March 30, 2024. Including INC ratings, our outstanding rating list would comprise ~19,000 issuers.

[2] The proportion of ratings in the 'BB' or lower categories reduced from ~76% as of March 2013 to 34% as of March 2024

# Analysis of rating actions in the second half of fiscal 2024

In the previous Ratings Round-Up (H1-24), we had anticipated a positive credit quality trend, with upgrades outnumbering downgrades in the second half of fiscal 2024 based on steady domestic demand driving growth for manufacturing companies. Besides, the government push to infrastructure and linked sectors enabled timely project commissioning and ramping up of operations post project commissioning.

In line with our expectation, the upgrades continued to outnumber the downgrades. The credit ratio remains elevated at 1.79 albeit down from 1.91 in the previous half. The trend of upgrades outnumbering downgrades reflects the resilience of corporate India as it withstands global turbulence. In all, there were 409 upgrades and 228 downgrades in the second half of fiscal 2024.

To be sure, the momentum provided by government-led capital expenditure (capex) and strong domestic consumption have kept up the fortunes of India Inc. The trend in credit quality is also mirrored in performance of the Indian economy, which is estimated to have grown 7.6% in fiscal 2024.

There were three factors driving the positive credit quality of corporates in fiscal 2024: deleveraged balance sheets, sustained domestic demand and government-driven capex. These factors kept the upgrade rate elevated at 12.0%, higher than the 10-year average.

The government has been making conscious efforts to not only ramp up public investment but also provide allied support, such as well-structured concession agreements, strong central counterparties and balanced monetisation platforms such as infrastructure investment trusts (InVITs) and real estate investment trusts (ReITs). This is visible in our upgrades, with the credit ratio of core infrastructure sectors at 4.85 for the second half of fiscal 2024.

Corporate balance sheets remain strong, as demonstrated by the estimated median gearing of ~0.45 times for the CRISIL Ratings portfolio at the end of fiscal 2024. Interest cover was also healthy at nearly 5 times for fiscal 2024.

The downgrade rate, at 6.7%, remains closer to the 10-year average. Sectors such as textiles, edible oil and agricultural products have been facing headwinds owing to fluctuations in raw material prices. Not surprisingly, operating margin pressure was the primary reason for ~33% of all downgrades in the second half of fiscal 2024.

The positive undercurrent for the economy and India Inc does give the signal that private capex is poised to take off, riding on India's steadfast growth and capacity utilisation hovering around peaks.

As per CRISIL Market Intelligence & Analytics, capex in the industrial sector is expected to gather steam in both the conventional and emerging sectors. Investments for capex are expected to grow 9-11% annually over the next four fiscals, with a pick-up in the industrial segment and steady pace in the infrastructure segment. In absolute terms, industrial capex averaged Rs. 3.9 lakh crore per annum between fiscals 2019 and 2023. It is likely to rise to ~Rs 6.5 lakh crore between 2024 and 2028. Production-Linked Incentive (PLI) schemes will give an additional boost to private capex over the medium term.

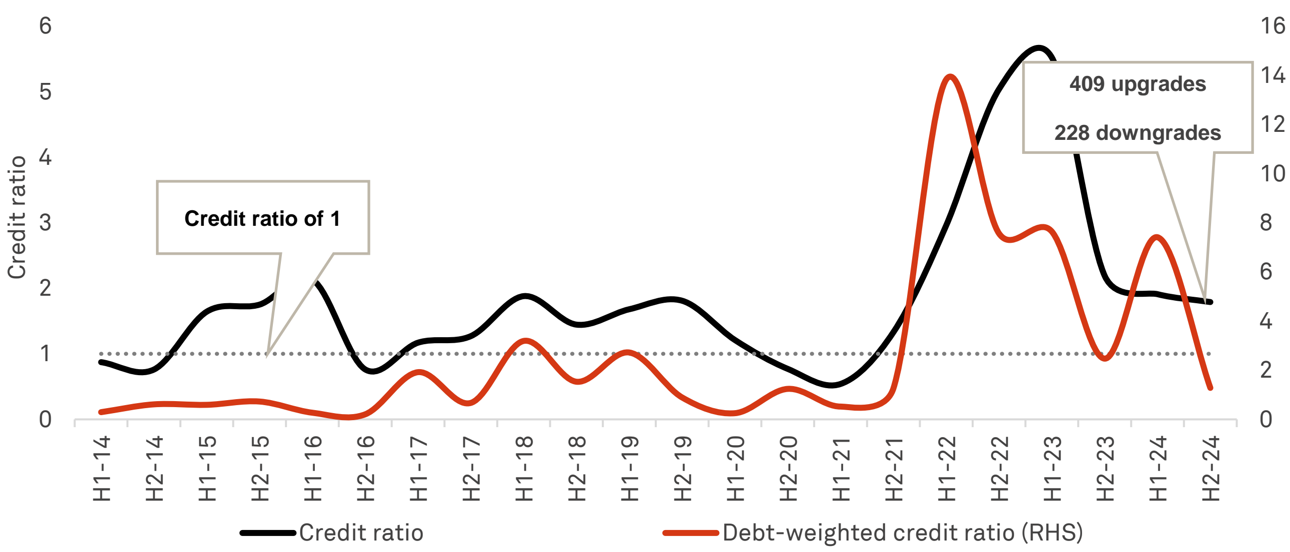
But a global slowdown has been looming as high interest rates have kept world economic growth on leash. Even as the exports sector has recovered thanks to an unexpectedly buoyant US economy providing some respite, there is still cause for worry as the global economy continues to face headwinds.

Moreover, higher prices of spices, vegetables and pulses have pushed up food inflation, besides imparting some volatility in the food inflation trajectory. That, along with the ongoing Red Sea crisis in the Middle East, has led to higher logistics costs, particularly for agriculture-linked sectors that work on wafer-thin margins.

In the next sections, we will take a deep dive into the credit ratio and debt weighted credit ratio trends. We will also cover the break-up of rating actions.

## Second-half credit ratio at 1.79 versus 1.91 in the first

**Figure 2: Credit ratio moderates marginally in the second half, debt-weighted credit ratio sees a steeper fall**

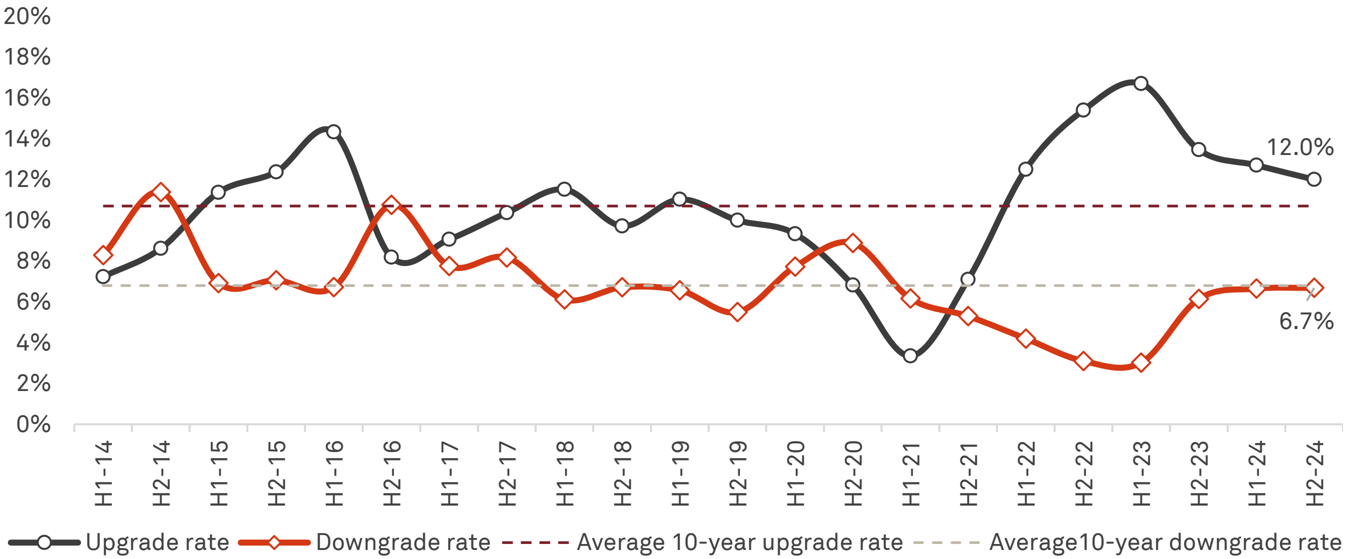



While the credit ratio eased a touch to 1.79, the debt weighted credit ratio (DCR) moderated sharply to 1.28 from 7.3. The DCR was high in the first half due to upgrades of some large corporates with sizeable debt.

Adjusting for group[3] upgrades and downgrades (where many companies belong to the same business group and have similar ratings and hence upgrades or downgrades are considered as one), the credit ratio was 1.86[4] (1.76 in the first half of fiscal 2024) because of more group downgrades.

[3] In case of largely homogenous groups, with significant business, financial and managerial linkages the ratings of individual entities are arrived at by following the homogenous group criteria and the rating actions are usually in tandem.
[4] Group upgrades/downgrades are considered for 3 or more companies

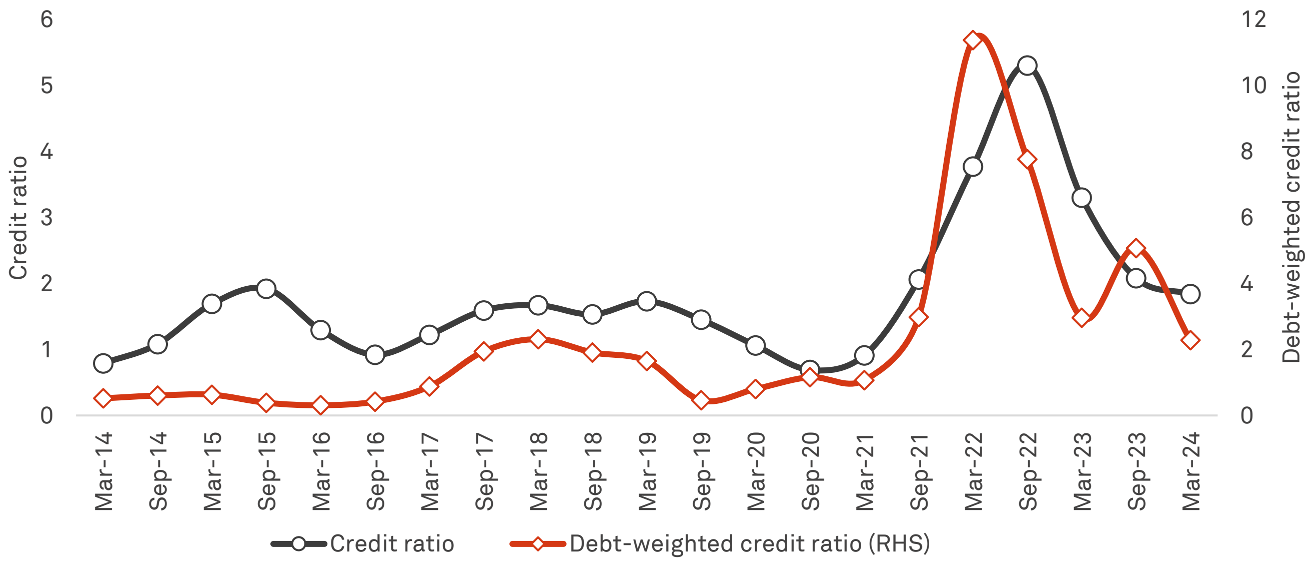
**Figure 3: Trends in upgrade and downgrade rates**




The upgrade rate slipped from 12.8% in the first half to 12.0% in the second half of fiscal 2024. However, it remains above the 10-year average for the sixth consecutive half, mainly because of upgrades in sectors such as automotive (auto) components, education, large and mid-sized construction companies, and infrastructure segments such as roads and renewables.

The downgrade rate stayed at 6.7%, close to the 10-year average as sectors with substantial exports, especially textile, saw more of those. Some downgrades were also seen in marine products and agricultural products such as edible oil because of global headwinds. That said, a vast majority (~81%) of our portfolio continues to see reaffirmations or no change in ratings.

**Figure 4: Trends in credit ratio and debt-weighted credit ratio on a 12-month rolling basis**




On a 12-month rolling basis, the credit ratio dropped to 1.84 in March 2024 from 2.08 in September 2023. The DCR moderated from 5.07 in September 2023 to 2.28 in March 2024.

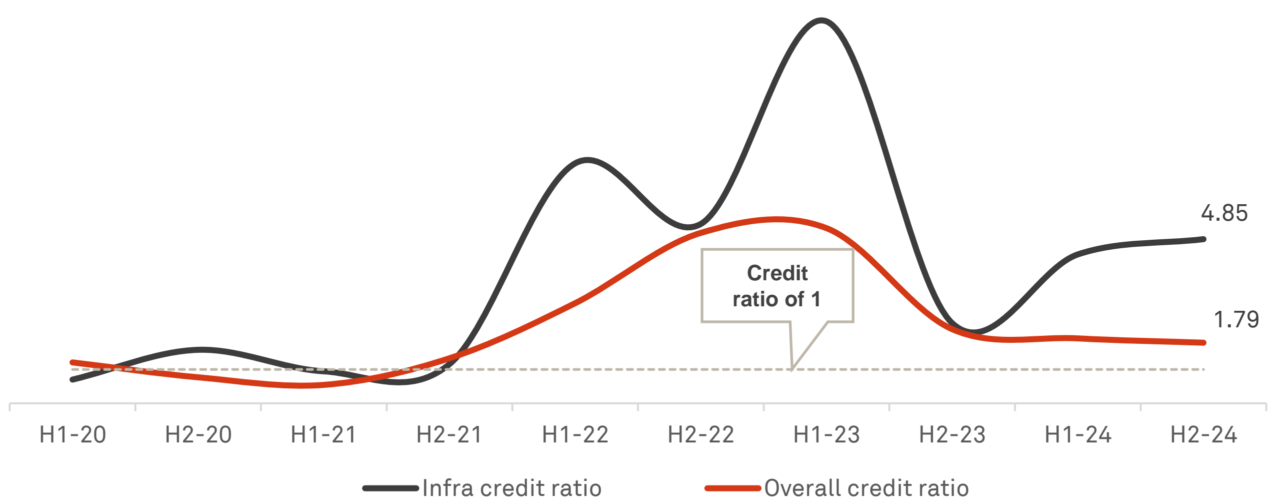
## Analysis of upgrades

India's growth story continued in the second half of fiscal 2024, despite global headwinds. Domestic demand, which has largely been driven by urban dwellers and the government's infrastructure push, remained resilient and continued to be the growth engine for the economy. Upgrades in sectors such as auto, apparel retail and education, along with growth in household consumption, point towards sustained domestic demand.

Automotive component makers and automobile dealers have had high upgrade rates on the back of strong demand from original equipment manufacturers (OEMs). Penetration of electric vehicles (EVs), especially in the scooter segment, is likely to increase, supporting overall demand. But automotive component firms with high exposure to exports will see limited growth as continued inflationary trends impact consumption in key overseas markets.

Core infrastructure (including real estate) had a credit ratio of 4.85 in the second half of fiscal 2024.

**Figure 5: Trends in the overall credit ratio and the infrastructure sector credit ratio**




Some sector-based reasons for core infrastructure upgrades are:

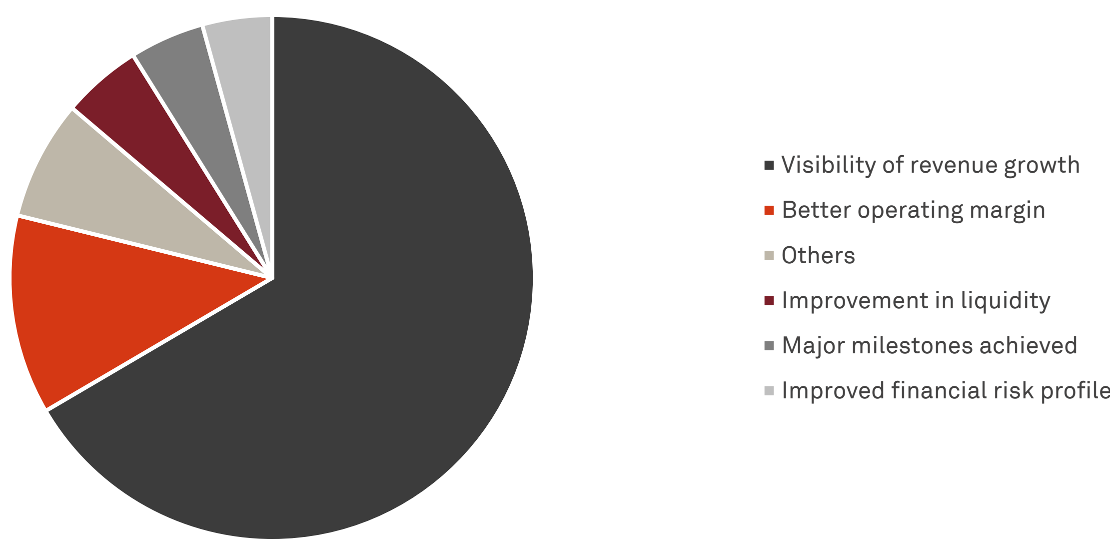
- **Road assets:** Driven largely by achievement of crucial milestones, which mitigated project implementation risks, and completion certificates from authorities enabling payment of annuities for hybrid annuity model projects. A few toll road projects were upgraded on improved collections with steady growth in vehicle traffic
- **Renewable power:** Some upgrades have been led by sustained improvement in operating efficiency as seen in higher plant load factors and better-than-expected turnaround in receivables from counterparties. Consequently, liquidity positions improved significantly
- **Residential real estate:** Buoyant demand across the mid, premium and luxury segments drove robust sales growth in the past two fiscals, despite a jump in capital values and the six-year-high interest rates. Moreover, with the advent of the Real Estate Regulatory Authority and the insolvency laws, consumers have shown greater confidence in buying residential real estate, specially from large, established builders.

## Analysis of the upgrades

Top two factors accounting for ~80% of such actions were:

- Visibility of revenue growth
- Better operating margin

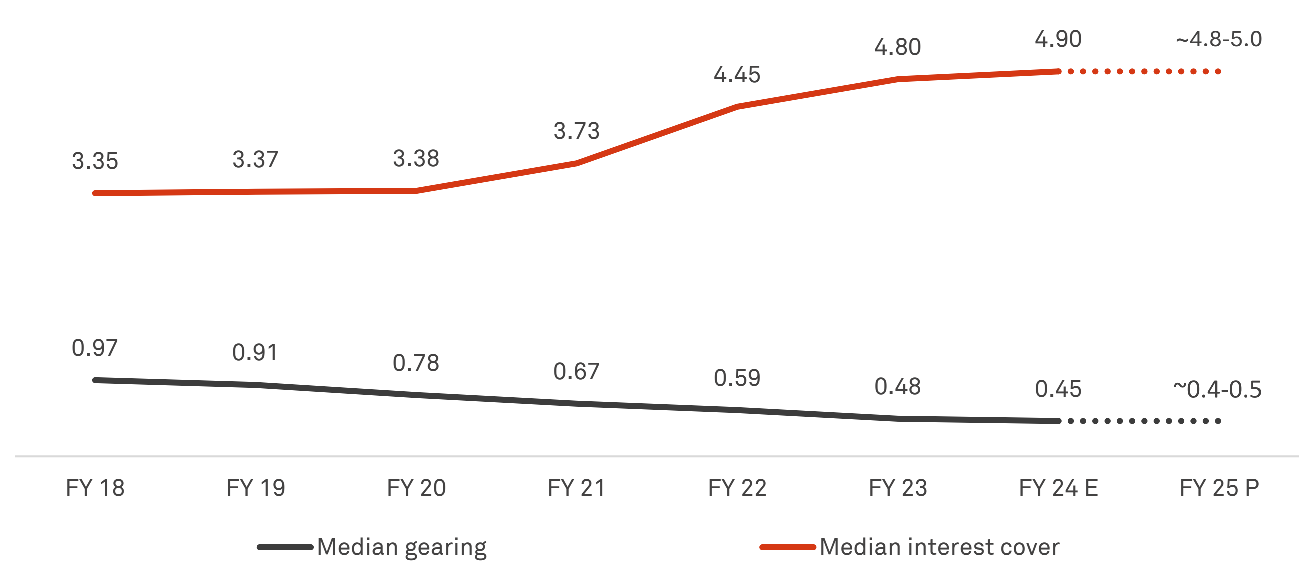
**Figure 6: Primary reasons for upgrades in the second half of fiscal 2024**




Revenue growth — mostly volume-driven — contributed to ~67% of all upgrades. Enhanced scale of operations spurred revenue growth, with capacity utilisation at decadal highs. In infrastructure, achievement of project milestones, order books in line with expectations (which provided revenue visibility), and better operating efficiencies in renewables were the drivers for upgrades. Higher operating margin was the primary reason for ~12% of all upgrades.

With corporates deleveraging since the past few fiscals, gearing levels are expected to remain benign at ~0.5 times for fiscal 2025. There is sufficient cushion for capex, given the optimisation of capacity utilisation. Sectors such as hospitals, auto (especially electric vehicles and automotive components) and even fast-moving consumer goods (FMCG) will take up capex. While gearing is expected to be comfortable for fiscal 2025, the extent of debt funding will be monitorable.

**Figure 7: Median gearing and interest cover for the CRISIL Ratings portfolio**




## Analysis of the downgrades

The downgrade rate was close to the 10-year average.

Some sectors that saw higher downgrades were textiles (including home textiles), marine products, edible oil and other agricultural products. Downgrades were also significant in small and medium-sized construction companies.

As seen in the first half of fiscal 2024, sectors linked to exports continue to underperform due to the global headwinds.

The textile sector was impacted with a downgrade rate as high as ~13% largely led by downgrades in textile cotton spinning. Yarn prices have fallen significantly, while cotton prices have stayed put, resulting in reduced cotton yarn spreads. The revenue is estimated to decline in fiscal 2024 with prices falling by 20-25%. Also, profitability is estimated to be at a decadal low. However, it is to be noted that there were fewer downgrades in domestic ready-made garment (RMG) manufacturers.

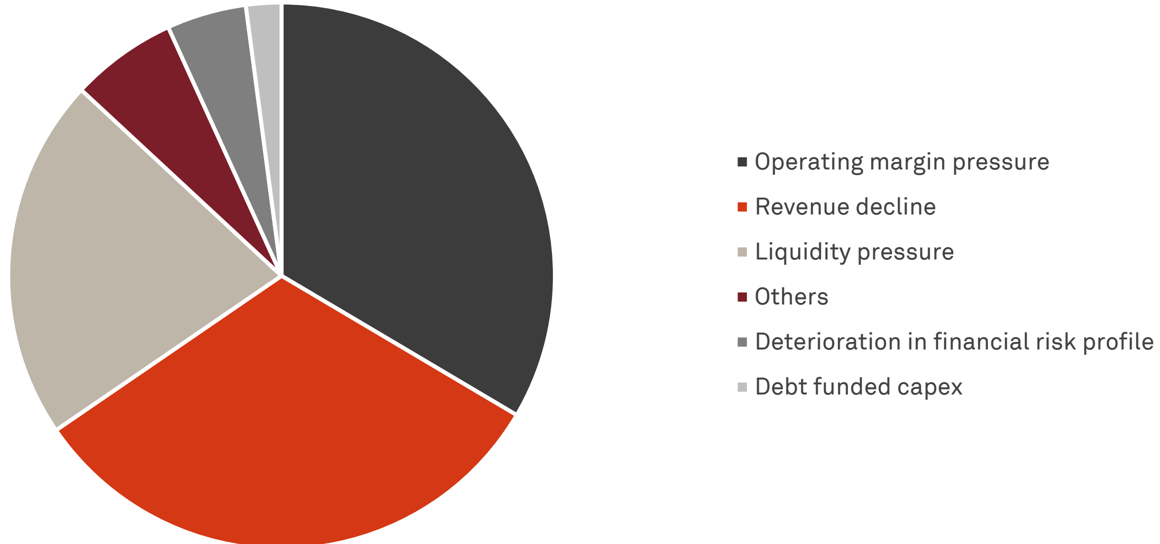
Marine exports saw higher downgrades due to stronger competition in exports from Ecuador and a stretch in receivables.

Agriculture-based sectors have seen higher downgrades largely because of lower operating margins. Drop in realisations after highs seen in fiscal 2023 have impacted farm sectors, especially edible oil. A surge in edible oil imports, primarily palm oil, has impacted viability for domestic edible oil refiners, which have seen a drop in margins in fiscal 2024.

Downgrades were also seen in small and medium-sized construction companies because of lower-than-expected order book and higher receivable days. With upcoming elections, there has been impact on tendering and hence lower order book, which has affected smaller companies disproportionately.

With most sectors mentioned above facing profitability pressure, decline in operating margin has been one of the major reasons for the downgrade of 34% of companies.

**Figure 8: Reasons for downgrades in the second half of fiscal 2024**



# Macroeconomic outlook

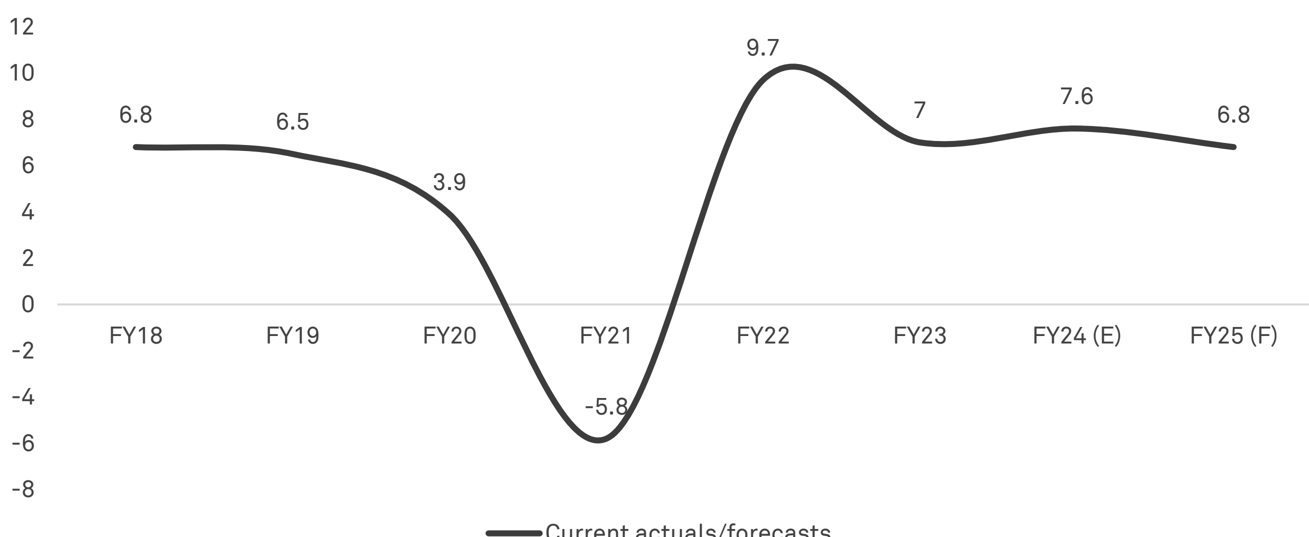
India's gross domestic product (GDP) is expected to grow 7.6% in fiscal 2024 after the first three quarters surged at over 8%. This is being driven by a significant surge in investments and the net taxes impact on GDP.

Strong domestic consumption and government focus on infrastructure build-out have been the propellers of growth. A surprisingly resilient US added to the cheer as the country's GDP rose 2.5% in 2023 after 1.9% in 2022, making it an outlier among major advanced economies.

While India's growth is seen easing to 6.8% in fiscal 2025, it will remain the fastest-growing large economy. The interim budget for fiscal 2025 prioritises fiscal consolidation, while maintaining focus on capex growth.

Lower inflation has been supportive and will bolster consumer purchasing power. But a continuation of this trend, however, will be a function of how the monsoon pans out and boosts agricultural output. And a gradual uptick in private sector investments should diversify and strengthen investment growth.

**Figure 9: India's GDP growth (%)**



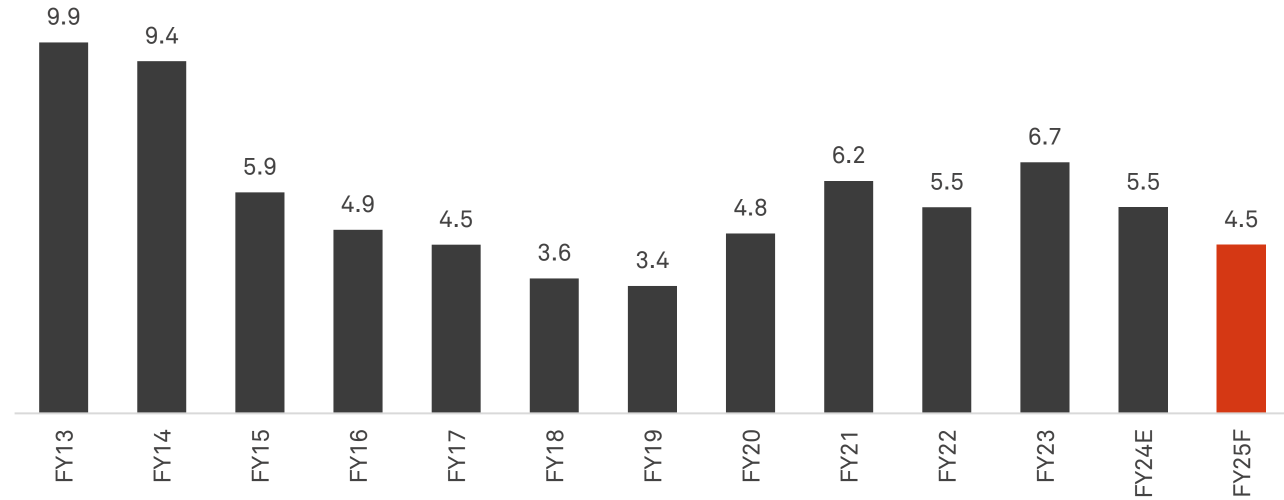

*Source: India GDP: CRISIL Centre for Economic Research (CCER), National Statistical Office (NSO) (E) – Estimates, (F) Forecasts*

Consumer price inflation (CPI) is expected to ease to 4.5% in fiscal 2025 from ~5.5% estimated for fiscal 2024 on softer commodity prices and improved agriculture output.

Weather risks remain a significant unknown. Food inflation had played spoilsport in fiscal 2024, led by higher TOP (tomato, onion and potato) prices. It has a 39% weight in the Consumer Price Index (CPI). Hence, swings in the gauge can significantly move the headline number.

Core inflation is seen low, but there could be some low-base effect in fiscal 2025. Geopolitical tensions could also create pressure.

**Figure 10: CPI over the years**




*Source: CRISIL Market Intelligence and Analytics*

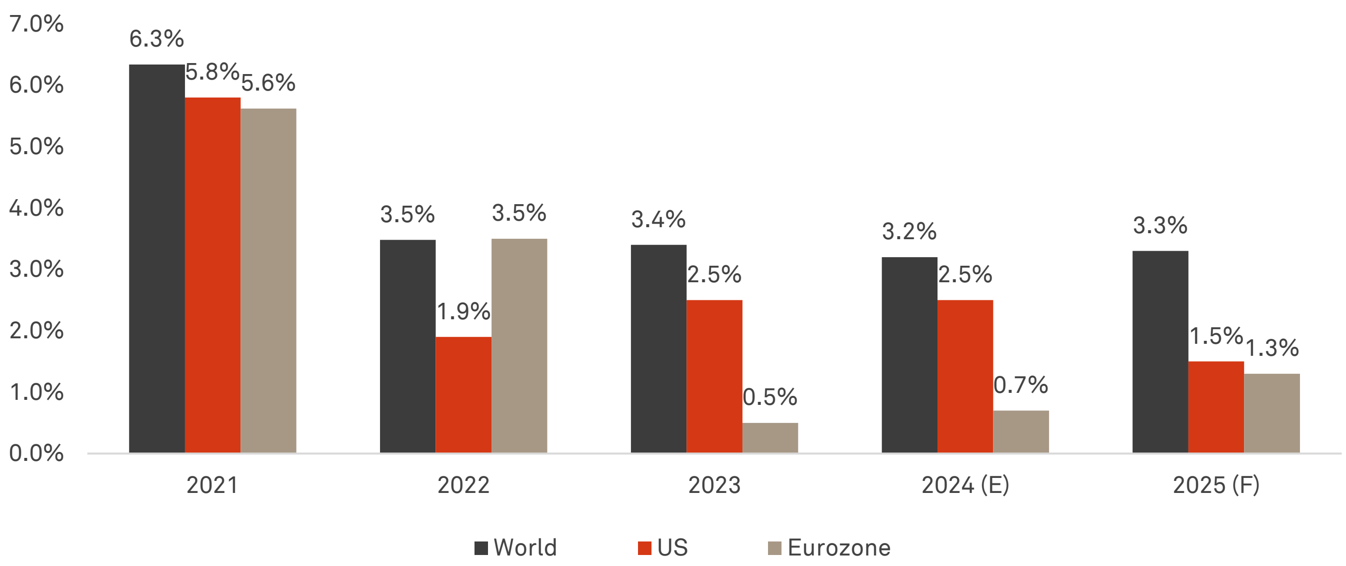
In calendar 2023, global economic headwinds were fewer than anticipated. Notably, the US surpassed growth expectations and appears to have emerged unscathed from steep funds rate hikes by the US Federal Reserve.

This could be because the US is some distance away from geopolitically tense zones. Moreover, it was able to release natural gas resources in response to higher energy costs that impacted Europe. S&P Global estimates a marginal moderation in global growth to 3.2% in 2024 (from 3.4% in 2023), including that for the US. This marks the third consecutive year of declining growth rate, highlighting the persistent effect of tight monetary policies, constrained financial conditions and subdued global trade and investment.

The ongoing Red Sea crisis presents multi-faceted challenges. As transport times and freight costs have risen, particularly affecting key Asia-Europe shipping lanes, and the crisis which has continued for almost 4 months, the situation has become increasingly worrisome for exporters.

Further escalation or continuation of the crisis could compound the challenges, drive up logistics costs and curtail crude oil supplies. Compounding matters is the fact that over 60 countries, including major economies such as the US and India, are having their general elections, which adds another uncertainty to the already complex landscape of global trade.

**Figure 11: Global GDP growth (%)**




*Source: CRISIL Market Intelligence and Analytics, S&P Global: Economic Outlook Emerging Markets Q2 2023: Global Crosscurrents Make For A Bumpy Deceleration*

# Credit quality outlook is 'positive' for this fiscal

India Inc's credit quality outlook is positive for the first half of fiscal 2025 with upgrades expected to outnumber downgrades. Companies would continue to benefit from robust domestic demand, government-led capex and strong balance sheets.

The upward revisions seen in India's GDP growth underscores healthy domestic consumption and the multiplier effect of the ongoing infrastructure buildout. These, along with deleveraged corporate financials, are expected to keep the credit quality outlook of India Inc positive.

Corporates are expected to keep a watch on geopolitical tensions, which can impact supply chains and inflation.

Higher-than-expected inflation can weigh on rural demand domestically and on growth globally. These could impact recovery in related sectors, particularly the export-oriented ones.

In the financial sector, bank credit growth is expected to be healthy in fiscal 2025, but a tad slower over fiscal 2024 given likely moderation in economic growth. Similarly, growth in the assets under management of non-banks is seen moderating due to regulatory curtailment of unsecured lending.

The asset quality of banks is seen benign, while that of non-banks is seen stable. Within the lending portfolio of non-banks, unsecured and microfinance loans would bear watching

Given this milieu, we look at the credit quality outlook of different sectors in fiscal 2025:

# Sectoral credit quality outlook

## COIN framework: Corporate and infrastructure credit quality outlook:

The Ratings Round-Up for first half of fiscal 2024 was the fourth time that we had presented our corporate credit health framework[5]. The matrix evolved in the wake of the Covid-19 pandemic, offering our outlook on different sectors.

We have reworked the framework for this edition for a more meaningful representation in the current scenario and after the emergence of companies from the impact of the pandemic.

**The background of COIN framework:**

The COIN framework separates the representation of the corporate and infrastructure[6] sectors to assess parameters that are relevant to the respective segments.

For corporates, it analyses operating cash flow (change in absolute estimated Ebitda[7] on-year) and balance sheet strengths expected by the end of this fiscal. For the infrastructure sector-related segments, it analyses relevant parameters relating to revenue growth and debt protection metrics by using a separate framework.

We have also realigned the number of sectors covered to 38 from 43 to ensure more meaningful representation. Three sectors have been combined, four were dropped given the lower share in rated debt, and two were added.

Thus, the proprietary COIN framework provides our credit quality outlook on 38[8] sectors (accounting for ~72% of the rated debt) for fiscal 2025.

## Credit quality outlook framework for 26 corporate sectors

### Methodology and assumptions

We analysed 26 key sectors on two key parameters:

1. Operating cash flow strength (expected growth in absolute Ebitda in fiscal 2025 over fiscal 2024)
2. Balance sheet strength (expected change in gearing as on March 31, 2025, over March 31, 2024)

The framework factors in likely changes for these parameters based on current estimations. These two parameters help arrive at the overall sector credit quality outlook, as summarised below:

[5] To evaluate corporate credit health, we have assessed aggregate data on companies in the sector

[6] Covered under infra are 12 sectors (residential and commercial real estate, gas distribution, airports, toll roads and HAM, ports & services, thermal power, power - Transco, renewable power, private discom), with a new addition - data centres

[7] EBITDA refers to earnings before interest, tax, and depreciation & amortisation

[8] excluding financial services and infra

**Figure 12: Parameters for assessing corporate credit quality outlook**

| | | Balance sheet strength for fiscal 2025 over fiscal 2024 | |
|---|---|---|---|
| | | Robust balance sheet | Moderate balance sheet |
| Operating cash flow growth in fiscal 2025 over fiscal 2024 | Healthy (>10%) | Strong outlook | Moderate outlook |
| | Moderate (0 to 10%) | Favourable outlook | |
| | Declining (<0%) | Stable to moderate outlook | Negative outlook |

For instance, in the cement sector, absolute Ebitda is expected to grow 12-14% in fiscal 2025 over fiscal 2024, led by increase in volume and softening of fuel cost, which would improve profitability. Hence, cash flow growth in fiscal 2025 would be healthy (Figure 12). The sector is estimated to have a robust balance sheet. Combining the two, the sector has a strong credit quality outlook in fiscal 2025.

The sectoral credit quality outlook arrived at by this methodology is represented by way of a heatmap (Figure 13), where the background colour of each block represents the credit quality outlook for the sector.

The size of the blocks in the heatmap gives an approximate relative size of rated debt for that sector.

Within each block for a sector, two additional growth[9] indicators provide information on (i) expected growth in revenue for fiscal 2025, and (ii) expected growth in Ebitda margin (Figure 14). A combination of both (i) and (ii) leads to change in cash flows. The extent of expected growth is indicated by the colour of these two indicators (Figure 15).

[9] Growth indicator for Ebitda margin is calculated based on percentage change in bps. For instance, for a sector operating at a 4% margin, an increase by >10% would mean a margin growth by >40 bps. Similarly, for a sector operating at 15% margin, an increase by >10% would mean a margin growth by >150 bps

**Figure 13: Corporate credit quality outlook for 26 sectors**

Sector outlook for FY25

Construction - Roads & Bridges
Oil & Gas Refining & Marketing
Retail
Telecom
Auto (2W, PV)
Edible Oil
Cement
Education
Hospitality (hotels & resorts)
Industrials
Pharma formulations
Sugar
Fertiliser
Auto components
Hospitals
Information technology
Specialty chemicals
Diamond polishers
Auto dealers
Agro Chemicals
Textile - Cotton Spinning
Textile - RMG
Steel
Gold Jewellery & retailing
Auto CV
FMCG

*Industrials include industrial machinery, consumables and electrical components*

- **Strong outlook:** Sectors expected to see healthy operating cash flow — through margin expansion or volume growth or both — as well as robust balance sheets (very strong or strong). 11 of the 26 sectors have strong credit quality outlook. These are represented by a green background
- **Favourable outlook:** Sectors that may see moderate operating cash flow strength but still maintain a robust balance sheet. This covers 10 sectors, and are represented in light green background
- **Stable to moderate outlook:** Sectors that are expected to see unfavourable operating cash flow cushioned by robust balance sheets. We have four sectors here, represented by the yellow background
- **Moderate outlook:** Sectors that are expected to see favourable or moderate operating cash flow, but moderate balance sheets. We have one sector in this bucket, represented in light red background
- **Negative outlook:** Sectors that are expected to see a decline in operating profit and moderate balance sheet strength. There are no sectors here

**Figure 14: Representation of outlook for a sector**

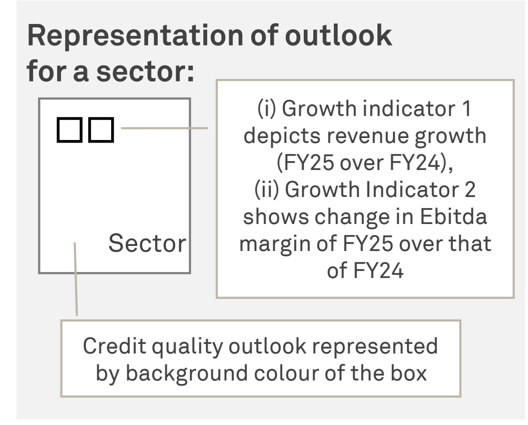



**Figure 15: Legends used for growth indicators**

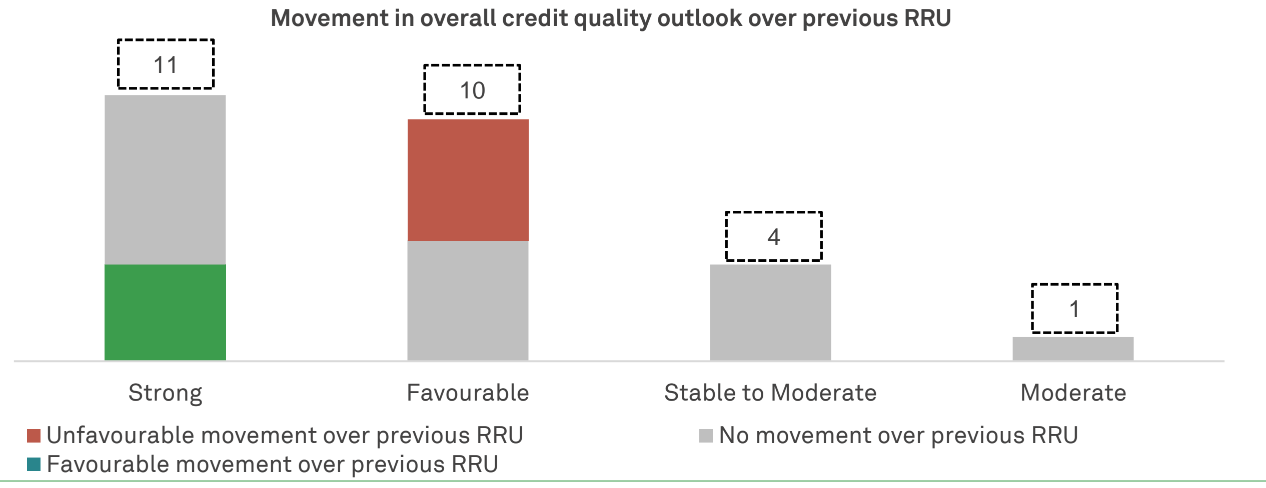
Legend used for growth indicators:

| > 10% | |
|---|---|
| 0-10% | |
| < 0% | |

**Key conclusions from the study on corporates**

The underlying methodology to arrive at the sectoral credit quality outlook is similar to the Ratings Round-up (RRU) for the first half of fiscal 2024. We have compared the credit quality outlook of each sector with the credit outlook in the previous edition of the RRU. For this comparison, we have looked at only sectors present in the current version of our framework to ensure a like to like comparison.

**Figure 16: Key conclusions of corporate framework**




*Number in the dotted box represents count of sectors*

**Movement largely due to changes in operating cash-flow strength:**

None of the sectors saw a deterioration in balance sheet strength

- **The credit quality outlook is strong to favourable** for 21 of 26 corporate sectors, characterised by robust balance sheets with cash flows in fiscal 2025 (expected to be substantially higher than fiscal 2024). These include automobile and allied sectors — where credit quality is supported by healthy demand, with new vehicle launches and stable input prices; fertilisers — which benefit from lower gas prices, and edible oil — which benefits from steadfast domestic consumption and improved margins

  Other sectors included education — where growth in enrolment rates and regular fees hikes are expected to be growth supportive; and hospitals — where improvement in revenue per bed and healthy occupancy levels are expected to support growth. Also included are allied sectors brought into prominence by the government's infrastructure spends, such as construction, steel and cement.

- **Stable to moderate** credit quality category includes four corporate sectors — specialty chemicals, agrochemicals, textile cotton spinning and diamond polishers — which face headwinds as their fortunes

are aligned with global macroeconomic conditions. Nevertheless, barring diamond polishers, the other three sectors are expected to see partial recovery after a challenging fiscal 2024.

- The next category includes automotive dealers whose credit quality outlook is **moderate**, as cash flows are expected to grow, while balance sheets remain constrained by relatively higher leverage to fund large inventory.
- It is noteworthy that none of the sectors under analysis has a **negative** credit quality outlook.

## Credit quality outlook framework for 12 infrastructure segments

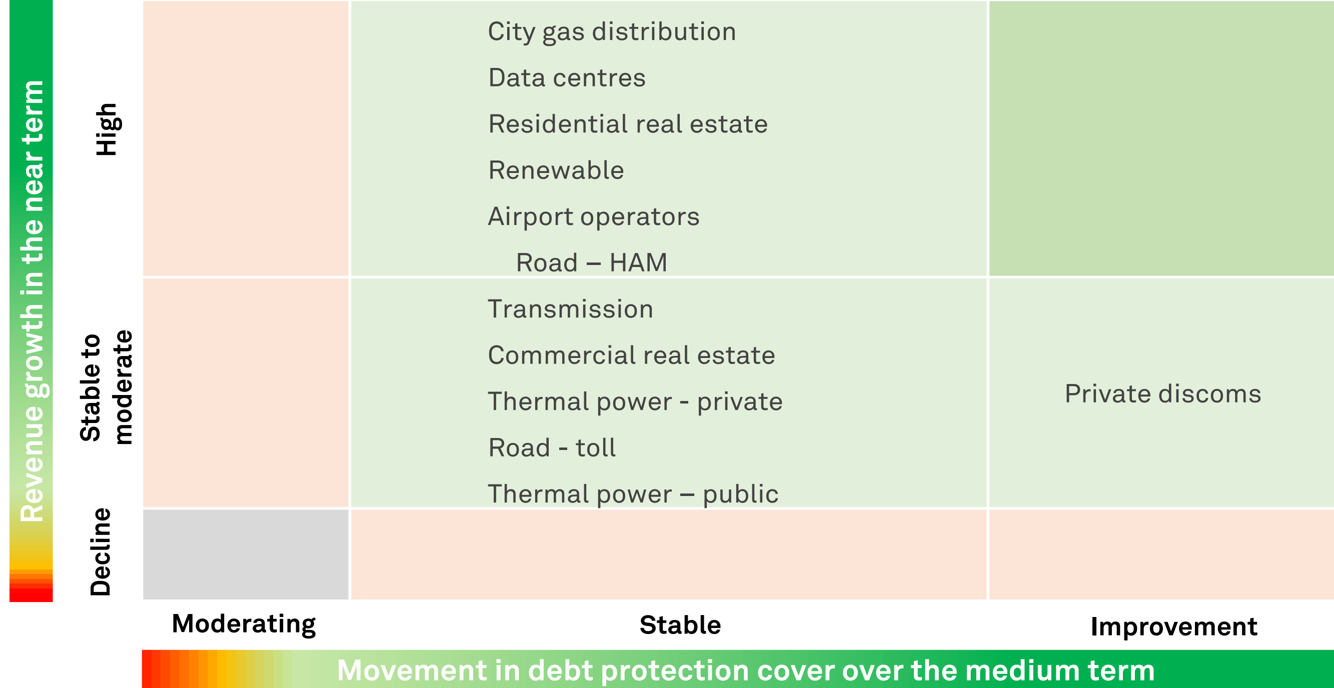
The infrastructure sector is characterised by visibility and stability in revenue after project commissioning on account of presence of fixed price, long-term contracts. Developers and groups can face issues when there are cost and time overruns in project implementation, or when operating performance deteriorates either on account of lower performance on metrics or higher-than-anticipated costs. Taking into account these unique drivers, we have analysed credit outlook for identified infrastructure sectors using a customised framework.

**Methodology**

- The framework analyses identified sectors on two parameters. On X axis, we have plotted expected change in debt protection covers[10] (generally debt service coverage ratio [DSCR]) over the medium term. Division has been done into three categories of a) fall in debt protection cover, b) increase in debt protection cover by over 10%, and c) when debt protection cover remains stable.
- On Y axis, revenue growth for the sector is plotted with the three categories being: a) decline in revenue over the near term, b) increase in revenue growth in the near term, and c) revenue growth remaining range bound in the near term.

[10] Metrics used for debt protection covers is DSCR for the above infrastructure sectors, except for residential real estate where the metrics used is debt to cash flow from operations; for CGD, the metrics used is debt/Ebitda

**Figure 17: Infrastructure framework for 12 sectors**




**Key conclusions from the study on the infrastructure sector:**

- Credit outlook is favourable for all 12 infrastructure sectors. Revenue growth for all is expected to increase or remain stable in fiscal 2025. Six out of the 12 sectors are expected to see relatively higher growth of over 10% on-year. This is due to new projects getting commissioned, driven by the government's focus on increasing capacity in infrastructure sectors.
- Sectors such as renewable, HAM roads, data centres and residential real estate are expected to see relatively higher capex intensity. However, the passive nature of renewable, data centres, and HAM road assets and high demand visibility for residential real estate keep these sectors favourably placed from a credit quality perspective.
- Movement in leverage in terms of debt protection covers is expected to remain stable over the medium term for 11 sectors and improve for 1. This is due to stability in cash flows stemming from long-term contracts, tariff revisions and prepayment of debt in some sectors.

# Credit quality outlook for key sectors in fiscal 2025

In this section, we present the credit quality outlook for some sectors that are a part of our COIN framework and their expected performance on key parameters (revenue visibility, profitability, gearing and working capital) in fiscal 2025 compared with fiscal 2024.

For revenue, profitability and gearing or balance sheet strength, the indicators and their legend have the same meaning as in the COIN framework (*refer to section titled 'COIN framework').* However, here we have used green, amber and red colours as three indicators. For working capital, a green indicator represents an improvement, amber represents no change and red means likely deterioration in fiscal 2025 over fiscal 2024.

## Corporate sectors

## Strong credit quality outlook

These sectors are likely to have healthy cash flow and robust balance sheets in fiscal 2025 over fiscal 2024.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|
| **Auto passenger vehicles (PV)** | Green | Amber | Green | Amber |

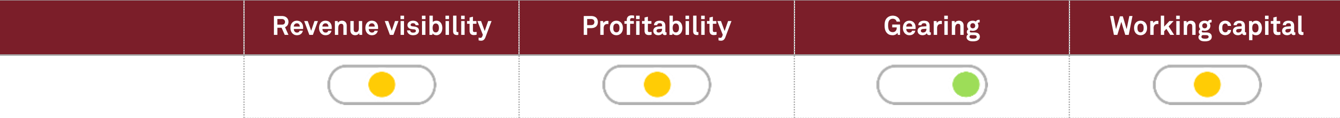
**Estimates for fiscal 2024: Revenue growth 15.5%; Ebitda margin 11.3%**

**Expectation for fiscal 2025: Revenue growth 8-10%; Ebitda margin 11.5-12.5%**

Overall revenue growth in fiscal 2025 is expected to be aided by domestic volume scaling a new high for the third straight year, supported by sports utility vehicles (SUVs), notwithstanding muted demand for cars and exports. Domestic demand for utility vehicles (UVs) is likely to be supported by a healthy pipeline of new model launches across price points, including electric variants, and improved availability of semiconductors.

Operating margin is expected to remain stable, benefitting from a favourable sales mix, with increasing share of SUVs with higher realisations, along with stable commodity prices.

The total capex outlay for fiscal 2025 is expected to be around Rs 26,000 crore, geared towards new UV models, electric vehicle (EV) launches, fresh greenfield capacities of major players and debottlenecking.



**Auto two-wheelers**

**Estimates for fiscal 2024: Revenue growth 10-12%; Ebitda margin 15.5%**

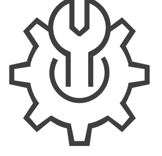
**Expectation for fiscal 2025: Revenue growth 8-10%; Ebitda margin 15.5%**

Revenue growth in fiscal 2025 is expected to moderate vis-à-vis fiscal 2024. Penetration of premium motorcycles should continue to increase, thereby supporting blended realisations. Stable commodity cost is likely to keep price hikes in check. Volume growth is expected to be modest, in line with demand for entry-level motorcycles, which is yet to revert to pre-pandemic levels. Exports will likely continue to face headwinds owing to high inflationary conditions and the global slowdown. Penetration of EVs is likely to increase, thereby supporting overall demand, though the pace of adoption remains contingent upon continuance of fiscal incentives.

Operating margin is likely to remain stable in fiscal 2025 due to modest growth in volume, better realisations and steady raw material prices.

Capex of Rs 2,600-2,800 crore, planned for fiscal 2025, is expected to be largely towards EVs and maintenance.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|



**Automotive components**

**Estimates for fiscal 2024: Revenue growth 11.5%; Ebitda margin 12-13%**

**Expectation for fiscal 2025: Revenue growth 9-11%; Ebitda margin 13.3%**

Overall revenue growth in fiscal 2025 is expected to be supported by steady demand from OEMs, the largest sub-segment, followed by the replacement market. That said, exports will likely see limited growth, with continued inflationary trends impacting consumption in key markets.

In fiscal 2024, improvement in operating margin was driven by better realisations, stable input cost and continued cost-efficiency measures. The margin is expected to remain stable in fiscal 2025.

Capex of nearly Rs 19,000 crore is likely to be incurred in fiscal 2025, primarily to cater to increased requirement from OEMs, investment for EV components and those related to the PLI scheme.

**Education**

**Estimates for fiscal 2024: Revenue growth 12-14%; Ebitda margin 26-27%**

**Expectation for fiscal 2025: Revenue growth 16-18%; Ebitda margin 26%**

Revenue growth of schools and colleges in fiscal 2025 is expected to be supported by higher enrolments and regular hikes in fees. Demographic dividends and governmental efforts are likely to push enrolment rates. This, coupled with regular fee hike, should lead to double-digit growth.

Operating margin is likely to expand to 26-27%, aided by growth in revenue and better fixed-cost coverage. Annual capex will likely be similar to fiscal 2024, funded partly through debt, with the balance sheets of education institutions having the cushion to absorb the impact.

| | Order book/ revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

**Cement**

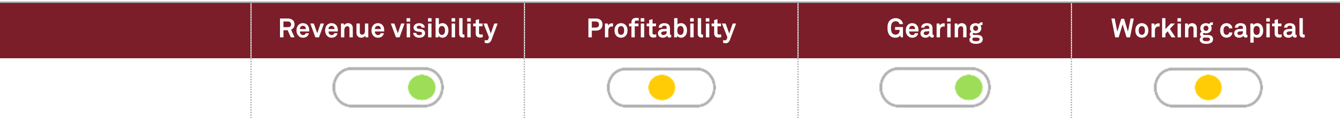
**Estimates for fiscal 2024: Revenue growth 11%; Ebitda margin 17%**

**Expectation for fiscal 2025: Revenue growth 8%; Ebitda margin 18%**

After three consecutive years of strong growth, led by step up in infrastructure as well as housing activities, demand is expected to grow at a moderate pace of 6-7% to nearly 470 million tonne in fiscal 2025. The impending general elections could impact demand for cement in the otherwise-strong first quarter, which is followed by a seasonally weak second quarter. Demand growth, thus, will likely be more concentrated in the second half of the fiscal.

Profitability is expected to average Rs 1,000-1,025 (Ebitda per tonne) in fiscal 2025 versus Rs 950-975 in fiscal 2024. This is because power and fuel cost, which accounts for 30-35% of production cost per tonne, has fallen over 15% in fiscal 2024 following a softening of coal/petcoke prices. However, the entire benefit of the same will likely reflect in the current fiscal owing to a lag of 3-6 months in clearing the high-price fuel inventory.

Capex is likely to see a significant uptick in fiscal 2025, as cement makers have embarked on sizeable expansion riding on healthy balance sheets. An analysis by CRISIL Ratings, covering cement manufacturers that account for almost 90% of the overall sales volume, indicates a total capex of Rs 42,000 crore to be incurred in fiscal 2025 versus Rs 32,000 crore incurred in fiscal 2024.



**Hospitals**

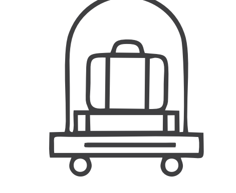
**Estimates for fiscal 2024: Revenue growth 14%; Ebitda margin 16%**

**Expectation for fiscal 2025: Revenue growth 11-12%; Ebitda margin 16-16.5%**

Average revenue per operating bed, which is already healthy, is likely to sustain in fiscal 2025, with increasing share of international patients and complex surgeries. Strong occupancy levels on increased bed capacities will likely support revenue growth, too. Operating margin is expected to improve in fiscal 2025, driven by higher operating leverage even as upfront cost associated with continuous bed additions goes up.

In fiscal 2025, the pace of organic bed additions is expected to remain at levels seen in fiscal 2024, i.e., around 2,000 beds, involving capex of over Rs 5,000 crore, which is likely to be prudently funded.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|



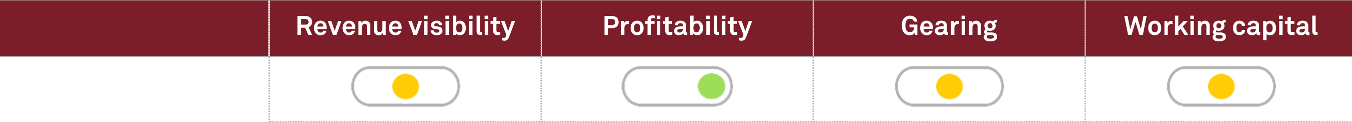
**Hospitality (Hotels and resorts)**

**Estimates for fiscal 2024: Revenue growth 15-17%; Ebitda margin 32.5%**

**Expectation for fiscal 2025: Revenue growth 11-13%; Ebitda margin 32.5%**

Healthy revenue growth in fiscal 2025 is likely to be backed by steady demand riding on modest new supply, robust domestic leisure and business travel and traction in international travel. Average room rent (ARR) is expected to grow at a steady pace and occupancies likely to be healthy.

New hotel room additions are expected to remain moderate at around 5% per year due to high capital investment, long payback period and cyclical nature of the industry.



| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

**Edible oil**

**Estimates for fiscal 2024: Revenue growth (8-10%); Ebitda margin 3.4%**

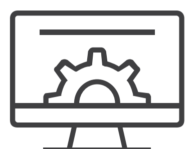
**Expectation for fiscal 2025: Revenue growth 3-5%; Ebitda margin 4.2%**

With steady rise in consumption and correction in prices of a few types of edible oil, revenue is expected to have de-grown in fiscal 2024 and should recover in fiscal 2025. Growth will likely be driven by higher volume, backed by strong domestic consumption. After declining 50-80 basis points (bps) in fiscal 2024 on account of input price volatility, the margin is expected to improve in fiscal 2025, aided by stable prices of primary raw material.

Branded players have added capacities, considering rise in domestic demand. Capex is expected to increase by 8-10% in fiscal 2025.

The impact of El Niño conditions and escalation of geo-political complexities remain monitorable.

| | Order book/ revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|



**Information technology (IT)**

**Estimates for fiscal 2024: Revenue growth 5-7%; Ebitda margin 22%**

**Expectation for fiscal 2025: Revenue growth 6-8%; Ebitda margin 20-22%**

Recovery in fiscal 2025 is likely to be backed by an expected uptick in the pace of order execution in the banking, financial services, and insurance (BFSI) and retail segments (contributing to around 45% of revenue), with softening of interest rates resulting in lower inflation. Manufacturing, communication and other segments, which contribute to the balance portion of revenue, will likely witness steady growth. Operating margin is likely to sustain in fiscal 2025, with net addition in employee base remaining modest.

## Favourable credit quality outlook

These sectors are expected to have favourable trends in one of the two parameters — operating cash flow strength or balance sheet strength. Absolute operating profit is expected to improve for fiscal 2025, and the balance sheet strength is expected to be strong or very strong.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

**Construction (roads)**

**Estimates for fiscal 2024: Revenue growth 10%; Ebitda margin 14%**

**Expectation for fiscal 2025: Revenue growth 9%; Ebitda margin 14%**

The sector is expected to see steady revenue growth in fiscal 2025, driven by a healthy order book position, along with push for increased pace of road construction. The pace of construction of national highways is expected to increase to 34-36 km per day in fiscal 2025, from 32-34 km per day estimated for fiscal 2024.

Operating margin has stabilised in fiscal 2024, after declining over the past two fiscals, and should remain steady in fiscal 2025. While softening of input cost supports the margin, high competitive intensity will likely keep the margin below erstwhile highs. Balance sheets have strengthened over the years due to monetisation and equity infusion and will likely remain healthy, aided by steady internal accrual. Incremental asset monetisation is expected to further strengthen balance sheets.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

**Auto CV**

**Estimates for fiscal 2024: Revenue growth 9%; Ebitda margin 10%**

**Expectation for fiscal 2025: Revenue growth 5-7%; Ebitda margin 10-11%**

Moderation in revenue growth is expected to be driven by price hikes as volume growth is expected to be modest for medium and heavy commercial vehicles (M&HCVs) and flattish for light commercial vehicles (LCVs). The likelihood of a brief slowdown in infrastructure spending owing to general elections and continuing high interest rates will likely impact overall M&HCV growth. Demand for LCVs could remain subdued due to high-base effect and moderation in spends by e-commerce players.

Realisations could draw support from price hikes by Commercial vehicle (CV) manufacturers in view of increased cost associated with implementation of regulatory norms. Higher average realisations and stable raw material prices will likely help the operating margin sustain in fiscal 2025.

With volume growth remaining modest and headroom available in capacities, capex spends in fiscal 2025 are expected to remain stable at Rs 4,300-4,600 crore and may be largely towards EVs (mainly in LCV and buses segments), maintenance, and adherence to various regulatory norms.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|
| Textiles – RMG | ● | ● | ● | ● |

**Estimates for fiscal 2024: Revenue growth 9-11%; Ebitda margin 9.8%**

**Expectation for fiscal 2025: Revenue growth 7-8%; Ebitda margin 9.5-10%**

The readymade garment (RMG) industry is expected to witness a slowdown in growth in fiscal 2025, with volume likely to grow 5-7% and a moderate increase in realisations. Continued buoyant domestic demand and gradual recovery in exports to key destinations (mainly US and Europe) should support the operating performance of RMG makers.

Steady revenue growth and cotton prices will likely keep the operating margin steady in fiscal 2025, after an 80-100 bps increase in fiscal 2024.

Credit metrics are expected to remain stable on low capex requirement and healthy cash generation.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|
| Steel (primary) | ● | ● | ● | ● |

**Estimates for fiscal 2024: Revenue growth 3-4%; Ebitda margin 18%**

**Expectation for fiscal 2025: Revenue growth 5%; Ebitda margin 18%**

Volume growth is expected to taper in fiscal 2025 (12-14% in fiscal 2024) due to a high-base effect and a reduction in the government's budgetary capex outlay. That said, domestic demand should still be robust at 5-6%, against muted growth in global steel demand (1.5–2.5%) and is expected to ensure solid capacity utilisation of over 80% for primary steel producers.

The top primary producers are expected to incur capex of Rs 55,000-60,000 crore per annum over the next couple of fiscals, compared with capex of around Rs 30,000 crore incurred per annum over the past five fiscals, towards capacity expansion and efficiency improvement. Despite ongoing capex, leverage should be comfortable, supported by healthy cash accrual.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

Steel (Secondary)

**Estimates for fiscal 2024: Revenue growth 3-4%; Ebitda margin 6%**

**Expectation for fiscal 2025: Revenue growth 5-6%; Ebitda margin 5-6%**

Domestic secondary steel makers are expected to see volume growth of 6-8% in fiscal 2025, driven by continued thrust on infrastructure spending and demand from housing segments. After falling in fiscal 2024, long steel realisations are expected to stabilise, resulting in revenue growth of 5-6%.

Operating margins will likely witness moderation in fiscal 2025 owing to a drop in realisations. However, lower raw material prices should prevent further correction. Capex in the sector, which has been healthy in the last two years owing to high capacity utilisation, is expected to slow down, with most of the enhanced capacities coming on board.

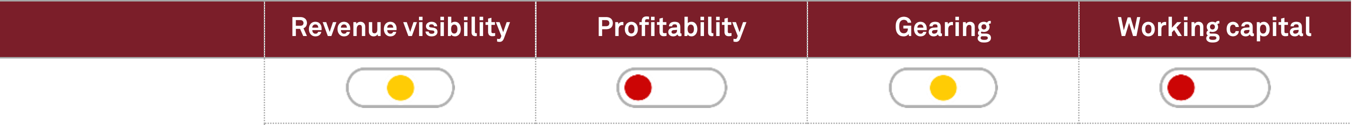
| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

FMCG

**Estimates for fiscal 2024: Revenue growth 6.5%; Ebitda margin 21%**

**Expectation for fiscal 2025: Revenue growth 5-7%; Ebitda margin 21%**

Revenue is expected to grow 5-7% in fiscal 2025, driven by expansion in volume and modest price realisations. While urban demand (55-60% of overall revenue) is expected to maintain a steady growth momentum, rural demand could make a gradual comeback after a delayed recovery witnessed in fiscal 2024 due to unseasonal rains and elevated food inflation. That said, pick-up in rural demand is likely to remain contingent on a normal monsoon in fiscal 2025 and moderation in the rural inflation level. Increase in minimum support prices and continued government spends on rural infrastructure projects will likely help augment rural income, too. This should help sustain operating margins in fiscal 2025.




**Gold jewellery & retailing**

**Estimates for fiscal 2024: Revenue growth 17.5%; Ebitda margin 7.8%**

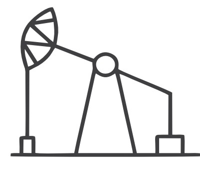
**Expectation for fiscal 2025: Revenue growth 8-10%; Ebitda margin 7.2-7.7%**

Revenue growth in fiscal 2025 is expected to be driven largely by higher gold prices, with volume growth remaining modest. Shift in demand from the unorganised to organised sector, coupled with continued store expansions (at least among larger retailers) to smaller towns and cities, should aid revenue growth, too.

With increased marketing (including promotional offers/discounts) and store-related expenses, operating margin will likely moderate marginally in fiscal 2025, yet exceed the pre-Covid level of 6.8-7%.

While reliance on debt may increase to cover the higher working capital requirement (towards inventory and store expansions), debt metrics are expected to remain adequate.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|



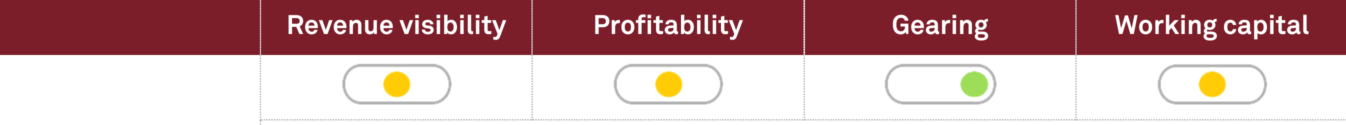
**Oil refining**

**Estimates for fiscal 2024: Revenue growth (8%); Ebitda margin 8-10%**

**Expectation for fiscal 2025: Revenue growth (14%); Ebitda margin 5-7%**

Revenue is likely to dip owing to lower average crude oil prices expected at $80-85 per barrel in fiscal 2025. At the same time, operating margin could moderate to 5-7% in fiscal 2025, from 8-10% in fiscal 2024, due to lower retail fuel prices, but exceed the 10-year average margin of 3-5%.

That said, a substantial rise in crude oil prices and/or any decision to slash retail fuel prices could significantly impact performance of oil marketing companies.



| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

Pharma formulations

**Estimates for fiscal 2024: Revenue growth 7-9%; Ebitda margin 21-21.5%**

**Expectation for fiscal 2025: Revenue growth 8-10%; Ebitda margin 21-21.5%**

Growth in revenue in fiscal 2025 is expected to be aided by healthy growth in demand from overseas markets and steady domestic sales.

Domestic players are expected to witness healthy growth in revenue from the US amid easing of pricing pressures and increase in share of abbreviated new drug approvals. Growth in semi-regulated markets will likely be aided by recovery in key markets.

Domestic market is expected to continue its steady growth, driven by increase in prices and new product launches, while volume growth for existing products is likely to remain modest.

Moderation in input prices and steady growth should help the operating margin sustain in fiscal 2025.

## Stable to moderate credit quality outlook

The following sectors are expected to see continued moderation or further decline in cash flows in fiscal 2025 even as balance sheets remain strong.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

Textiles Cotton-spinning

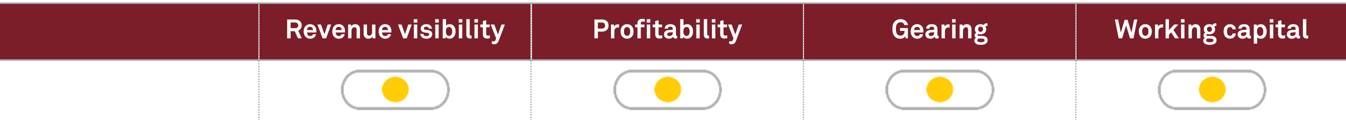
**Estimates for fiscal 2024: Revenue growth (5-7%); Ebitda margin 8.5-9%**

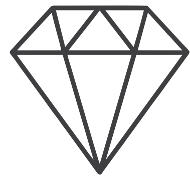
**Expectation for fiscal 2025: Revenue growth 4-6%; Ebitda margin 10-10.5%**

Recovering from a 5-7% de-growth in fiscal 2024, revenue for cotton yarn spinners is expected to grow 4-6% in fiscal 2025, driven by steady demand from RMG and home textile segments and stable yarn prices.

Operating margin is likely to improve 100-150 bps to 10-10.5% in fiscal 2025, recovering from decadal lows of 8.5-9% in fiscal 2024, as cotton prices are expected to remain in check, backed by better arrivals.

Despite impact on profitability and debt protection metrics in fiscal 2024, credit profiles for fiscal 2025 will likely be supported by deleveraged balance sheets and improvement in cash accrual.



**Diamond**

**Estimates for fiscal 2024: Revenue growth (30%); Ebitda margin 3-3.5%**

**Expectation for fiscal 2025: Revenue growth 0%; Ebitda margin 3-3.5%**

Continued slowdown in key markets of the US and China amid economic headwinds, along with competition from lab-grown diamonds, is estimated to have resulted in a 30% on-year dip in exports in fiscal 2024. Demand is expected to remain flat in fiscal 2025 owing to elevated interest rates in the US and slowdown in China. The impact of G7 prohibition on diamonds from Russia remains monitorable.

Slow demand will likely keep prices subdued, but low inventory in the value chain should insulate prices from falling any further. Operating margin is expected to remain low amid weak demand scenarios.

Working capital requirement is likely to be low owing to cautious purchases of rough diamonds, thus keeping leverage low. This should support the modest credit profile of the sector somewhat in an otherwise-weak demand scenario.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|

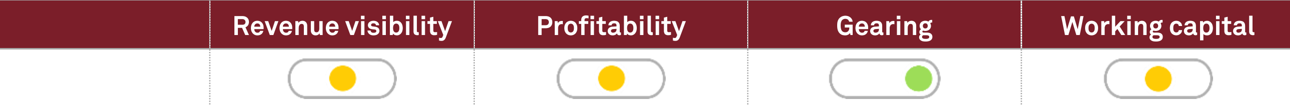
**Specialty chemicals**

**Estimates for fiscal 2024: Revenue growth (8-9%); Ebitda margin 9.5-10.5%**

**Expectation for fiscal 2025: Revenue growth 3-5%; Ebitda margin 11%**

Revenue growth in fiscal 2025 is expected to be driven by higher domestic volume, post a de-growth in fiscal 2024. A steep fall in realisations following huge supply from China and slowdown in key export markets of the US and Europe impacted revenue growth in fiscal 2024. With demand conditions normalising and realisations stabilising, the margin is expected to improve 75-100 bps in fiscal 2025 after being impacted by inventory losses in fiscal 2024.

Given the muted demand scenario and sub-optimal cash generation, players are incurring only essential capex in a bid to conserve cash.



Agrochemicals

**Estimates for fiscal 2024: Revenue growth (13-15%); Ebitda margin 10%**

**Expectation for fiscal 2025: Revenue growth 3-4%; Ebitda margin 11%**

De-growth in fiscal 2024 was substantial in case of exports (around 52% of revenue). This was due to a steep fall in realisations following a supply deluge from China, subdued demand owing to higher global channel inventories necessitating destocking, and adverse weather conditions in key export markets. Delayed monsoon and low domestic reservoir levels partly impacted domestic demand.

With realisations having stabilised and inventory destocking almost over, demand from key exports markets, i.e., the US and Brazil, should return from the second half of fiscal 2025. However, this is likely to be contingent upon weather conditions prevailing in those geographies.

Demand in the domestic market would largely hinge on the monsoon pattern in India. With a sharp drop in revenue, operating margin is estimated to have fallen to 9.5-10.5% in fiscal 2024 due to lower operating leverage and recognition of inventory losses. With raw material prices having stabilised, the margin may improve 75-100 bps in fiscal 2025.

The credit quality outlook on the sector remains stable, given the strong balance sheets.

## Stable to moderate credit quality outlook

The following sector is expected to see a decline in operating profit and have a moderate balance sheet in fiscal 2025.

| | Revenue visibility | Profitability | Gearing | Working capital |
|---|---|---|---|---|
| **Auto dealers** | | | | |

**Estimates for fiscal 2024: Revenue growth 14%; Ebitda margin 3.5-4%**

**Expectation for fiscal 2025: Revenue growth 8-9%; Ebitda margin 3.5-4%**

Auto dealers are expected to clock 8-9% revenue growth in fiscal 2025, compared with around 14% projected for fiscal 2024, driven by a 5-5.5% increase in sales volume, premiumisation and moderate price hikes by OEMs.

Increase in sales volume would be supported by healthy domestic demand in both PV and two-wheeler segments, especially in the fast-growing UV and executive and premium motorcycles segments. This is despite increased competition from their electric variants. Growth in CV sales volume will likely moderate due to a high-base effect.

Operating margin is expected to remain low but stable, supported by revenue growth and steady contribution from ancillary sales (service, spare parts and insurance). However high inventory levels would keep leverage relatively higher.

## Infrastructure sectors

### Strong to favourable credit quality outlook

| | Revenue visibility | Profitability | DSCR |
|---|---|---|---|
| **Renewable power** | | | |

**Estimates for fiscal 2024: Revenue growth 20%; Ebitda margin: 80%**

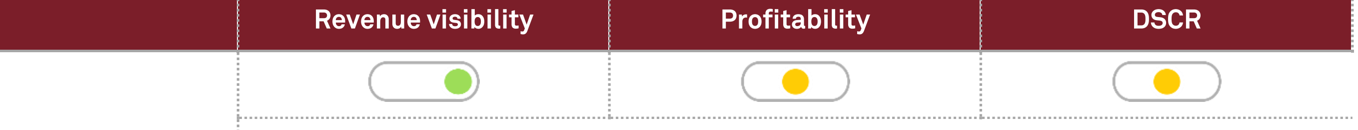
**Expectation for fiscal 2025: Revenue growth 15%; Ebitda margin 80%**

The pace of renewable capacity addition is expected to augment driven by steps taken by the government, such as the increase in auction intensity seen since the start of calendar year 2023. With this push, overall capacity is expected to grow 25-30 GW in fiscal 2025, taking installed solar and wind base to over 150 GW by March 2025.

Government focus has also been seen on development of storage infrastructure with over 40% of auctions completed in fiscal 2024 being round the clock or following demand tenders, which require development of storage capacities.

Operational performance remains a key monitorable. Performance of solar power assets has been largely resilient compared with P90[11] estimates, but the performance of wind power assets continues to be subdued.

[11] P90 = Annual P90 generation estimate indicates generation that is likely to happen with 90% confidence during the project's tenure.



| | Revenue visibility | Profitability | DSCR |
|---|---|---|---|

**Airport**

**Estimates for fiscal 2024: Revenue growth 20%; Ebitda margin 52.5%**

**Expectation for fiscal 2025: Revenue growth 15%; Ebitda margin 50%**

Air traffic volume at Indian airports is estimated to have grown 15% to 375 million in fiscal 2024 and expected to grow 6-8% to over 400 million in fiscal 2025.

Buoyed by traffic volume, revenues of airports would also climb. Both aeronautical and non-aeronautical revenues are expected to go up 30-40% in fiscal 2025, driven by increasing volume of higher-spending international passengers and more monetisation opportunities coming onstream from almost-complete capacity expansions at private airports.

After factoring in cost escalations and tariff hikes, cash flows of private airports in fiscal 2025 are expected to rise 25-30% from fiscal 2024 levels. This should help the airports maintain a long-term debt service coverage ratio (DSCR) of 1.4 times on average.

| | Volume growth | Inventory levels | Debt to total asset |
|---|---|---|---|

**Residential real estate**

**Estimates for fiscal 2024: Demand/volume growth 10-12%**

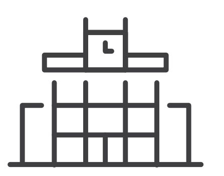
**Expectation for fiscal 2025: Demand/volume growth 10-12%**

Despite the high base of the previous fiscal and affordability challenges caused by higher interest rates and capital values, sales (in msf) of residential real estate developers is estimated to have grown 12-14% in fiscal 2024 across the top 7 cities (Mumbai Metropolitan Region, National Capital Region, Bengaluru, Pune, Hyderabad, Chennai and Kolkata). In fiscal 2025, too, sales are expected to remain buoyant and see a 10-12% growth, with a likely moderation in interest rates keeping affordability healthy.

Developers could continue to focus on new launches as inventory overhang across top 7 cities is estimated to decline to ~2.1 years of sales in fiscal 2025, down from an estimated ~2.4 years of sales in fiscal 2024.

Debt to cash flow from operations is expected to have improved to 1.4-1.5 times in fiscal 2024 and will likely improve to 1.2-1.4 times in fiscal 2025 compared with the pre-pandemic level of ~5 times.

| | Net absorption growth | Occupancy | DSCR |
|---|---|---|---|



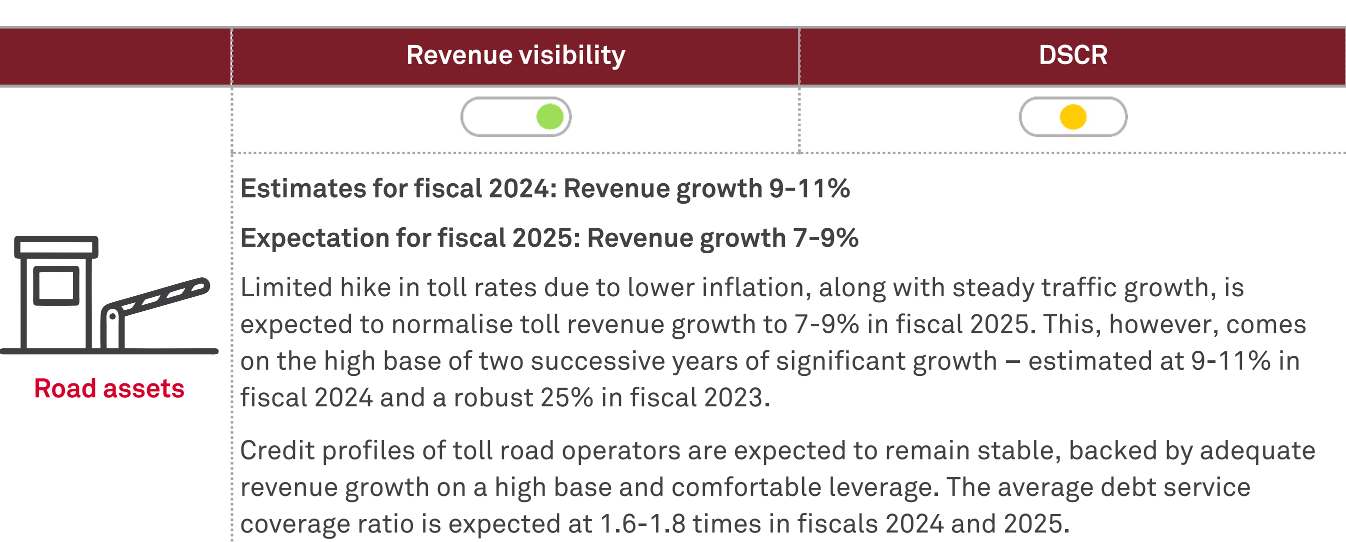
**Commercial real estate**

**Estimates for fiscal 2024: Net absorption growth to be flat; occupancy 84-86%**

**Expectation for fiscal 2025: Net absorption growth 8-10%; occupancy 86-88%**

Net leasing of commercial office space in India is expected to grow 10-12% in fiscal 2025 after a stagnant performance in fiscal 2024. This is likely to be supported by stable demand from BFSI and other non-IT corporates as well as continued traction on return-to-office. Cost competitiveness of the Indian office market should also drive demand from global players after a year of cautious decision-making.

Credit profiles will likely remain stable with limited impact on already operational assets. The ratio of debt to Ebitda and debt service coverage indicator should be comfortable under 5 times and at 1.6-1.7 times, respectively, in fiscals 2024 and 2025.



| | Revenue visibility | DSCR |
|---|---|---|

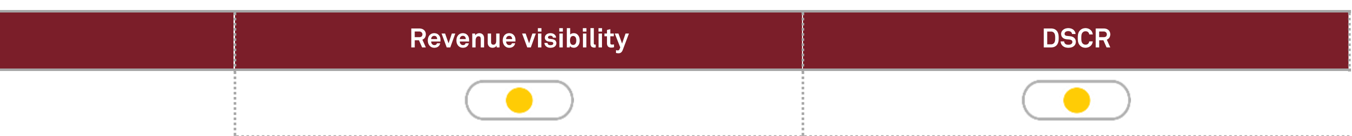
**Road assets**

**Estimates for fiscal 2024: Revenue growth 9-11%**

**Expectation for fiscal 2025: Revenue growth 7-9%**

Limited hike in toll rates due to lower inflation, along with steady traffic growth, is expected to normalise toll revenue growth to 7-9% in fiscal 2025. This, however, comes on the high base of two successive years of significant growth – estimated at 9-11% in fiscal 2024 and a robust 25% in fiscal 2023.

Credit profiles of toll road operators are expected to remain stable, backed by adequate revenue growth on a high base and comfortable leverage. The average debt service coverage ratio is expected at 1.6-1.8 times in fiscals 2024 and 2025.



| | Revenue visibility | DSCR |
|---|---|---|

**Thermal Power**

Power demand is expected to post a 6-7% compounded annual growth over the medium term, after an estimated 7-7.5% on-year growth last fiscal, mainly due to healthy economic growth outlook. In fiscal 2025, operating profitability of coal-based power plants will likely grow 5-7% over fiscal 2024 due to higher demand, tariff revisions and margins in short-term markets.

Addition of conventional capacities should remain stable over fiscals 2024 to 2028 due to growing focus on non-fossil fuel capacity. Over the last couple of fiscals, working capital release under multiple initiatives of the Ministry of Power[12], such as Aatmanirbhar Bharat Package and late payment surcharge scheme, have worked well for the sector. Sustenance of timely payments by counterparties remains a key monitorable.

[12] CEA had issued the advisory vide letter dated January 20, 2023, and July 07, 2023

# Indian financial sector credit quality outlook stable

## Bank credit growth to moderate but continue to be healthy

### Asset quality, capital buffers and profitability to remain comfortable

Bank credit growth is estimated to have been robust at ~16%[13] in fiscal 2024, after clocking 15.9% in the previous fiscal, driven by broad-based economic recovery and strong retail demand. In fiscal 2025, however, the growth could moderate to ~14% given a lower expected GDP growth, high-base effect, lower growth in unsecured retail loans and lagging deposit growth. While a capex pick-up could provide tailwinds, the November 2023 regulatory requirement to enhance risk weights by 25 percentage points on such exposures as well as on lending to higher rated non-banking financial companies (NBFCs) could weigh on credit growth, especially unsecured consumer credit.

Asset quality trends are benign, with gross non-performing assets (NPAs) expected to trend downwards from 3.9% as on March 31, 2023, to ~2.5% as on March 31, 2025. The corporate segment is likely to see continued improvement, with gross NPAs expected to fall below 2% from a peak of ~16% as on March 31, 2018, because of a significant clean-up by banks and stronger risk management and underwriting norms. Fundamentally, the health of corporate India has improved with secular deleveraging over the past few fiscals and through the pandemic. Retail asset quality is expected to remain steady despite some uptick in unsecured loan NPAs.

In terms of profitability, the improvement in asset quality and high existing provisioning cover ratio (PCR) has helped reduce incremental credit costs, thereby enhancing the return on assets (RoA) to 1.1% in fiscal 2023 and an estimated 1.2% in fiscal 2024. In fiscal 2025, CRISIL Ratings expects compression of 10-20 bps in net interest margin (NIM) as deposit rate hikes play out. While lower credit costs could provide some offset on account of continued benign asset quality and already strong PCR, RoA could moderate to 1-1.1%; that, however, would still be reasonably healthy compared with past levels.

From a capitalisation perspective, the banking sector now has adequate buffers and is well placed for growth over the medium term. This is despite the recent regulatory increase in risk weights on exposure to unsecured consumer credit and to higher-rated NBFCs, which may impact capital adequacy levels, albeit marginally. Public sector banks have benefitted from capital infusion by the government, as also from improved internal accruals. While most private banks have traditionally maintained comfortable buffers, many are also benefiting from capital raised in the past few fiscals.

In terms of funding, it is important that deposit growth does not lag too far behind. The differential between credit growth and deposit growth is estimated to have narrowed to ~300 bps in fiscal 2024 from ~500 bps in fiscal 2023 as bank deposit rates continue their upward march. Competition for deposits among banks will likely be par for the course. Banks are likely to walk the tightrope between growing their deposit base and protecting profitability, depending on their ability to mobilise cost-effective deposits.

To avoid a repeat of the asset quality challenges seen earlier, banks are likely to maintain their credit underwriting standards while focusing on credit growth. Overall, the banking sector is on a relatively stronger footing today than in the past few years.

[13] Excluding the impact of the merger of a large housing finance company (HFC) with a private sector bank in fiscal 2024

## NBFC assets under management (AUM) to grow steadily; regulatory measures to calibrate unsecured loan growth

NBFC[14] growth has been back in the limelight since fiscal 2023, after weathering multiple challenges, which were exacerbated by the pandemic. After growing ~15% in fiscal 2023, the sectoral assets under management (AUM) are estimated to have grown ~18% in fiscal 2024 and is expected to expand at 15-17% in fiscal 2025 on the back of continued strong credit demand across retail loan segments.

Resilient economic activity, stronger balance sheets driven by higher liquidity, capital and provisioning buffers, and better asset quality should drive growth. The downstream impact of the government's planned capex outlay and continued focus on housing for all, through multiple schemes, should increase demand across the input sectors for housing as well as for micro, small and medium enterprise (MSME) credit.

Nevertheless, AUM growth is expected to be relatively broad-based across retail segments. Home loans are expected to grow ~15% in fiscal 2025, supported by improved affordability, higher urbanisation and mortgage penetration, while vehicle finance is expected to grow ~17% on the back of steady underlying-asset sales, demand for fleet replacement and higher ticket sizes. That said, used vehicle financing will likely continue to outpace new-vehicle financing and NBFCs could see a steady increase in the proportion of the former in the overall mix.

Growth of unsecured loans[15] on the other hand, is expected to taper to 25-35% in fiscal 2025 from an estimated growth of ~35% in fiscal 2024, following the increase in risk weights towards unsecured consumer credit to 125% from 100%. Signs of moderation in growth were already seen in the last quarter of fiscal 2024.

Borrowing costs are also expected to go up for NBFCs as banks factor in the enhanced risk weights on loans to NBFCs while deciding their lending rates. The cost of borrowing for NBFCs has already increased 25-50 bps over the last quarter of fiscal 2024. The increased cost of funds should result in some compression in net interest margins (NIMs). At the same time, credit cost may stabilise as asset quality metrics across most retail product segments have improved and borrower credit profiles are expected to hold because of the resilient domestic macroeconomic environment.

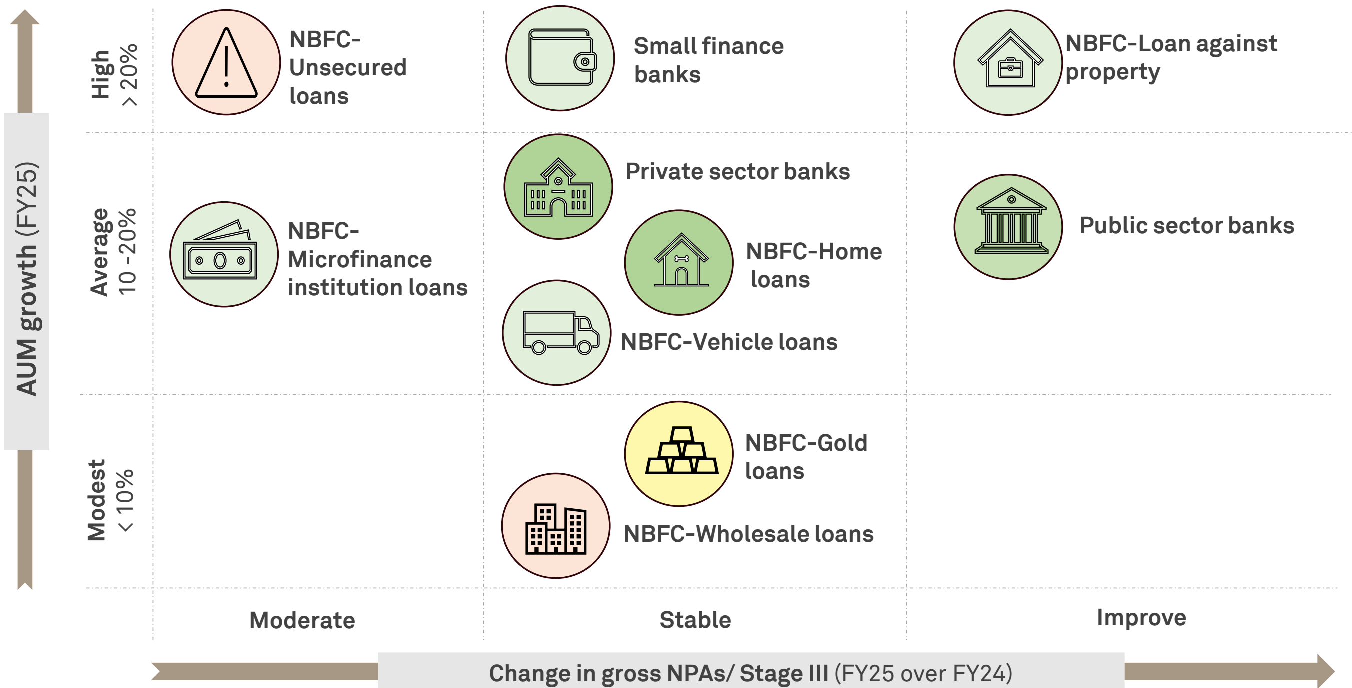
That said, asset quality in the unsecured segment will likely need to be watched, given the higher growth seen in the segment, especially in the context of high interest rates, inflation and indebtedness of the borrowers. The recent spurt in private loan waiver campaigns amid staff attrition challenges could impact the asset quality of microfinance loans. Moreover, any major challenges stemming from continued intense competition from banks in traditional asset classes would be monitorable, too.

Regulations for NBFCs have been evolving and need to be monitored. At the same time, business models of NBFCs would continue to develop. As large NBFCs turn towards non-traditional segments, symbiotic partnerships may increase with emerging NBFCs focused on specific segments such as unsecured lending. Such partnerships could deepen between banks and NBFCs as well. Longer-term partnerships and favourable regulations would be crucial for sustenance of such business models.

[14] NBFCs include HFCs but exclude government-owned NBFCs; HFCs exclude HDFC Ltd post its merger into HDFC Bank
[15] Unsecured loans include consumer loans (personal loans and consumer durable loans) and business loans to SMEs

## Credit quality outlook for the financial sector

### Figure 18: Financial sector framework




**We have presented here the credit quality outlook for the financial sector**

The framework represents three things:

- The X axis represents the expected change in gross non-performing assets in fiscal 2025 over fiscal 2024
- The Y axis represents the growth in assets under management in fiscal 2025
- The colour of the respective segments indicates the overall credit quality outlook keeping in mind the CRAMEL framework (capitalisation, resources, asset quality, market position, earnings, and liquidity)

### Figure 19: Legend for credit quality outlook

**Overall credit quality outlook:**
*(background shade)*

| Stable | Strong |
| --- | --- |
| Moderate | Stable to Strong |

No sub-segments under Negative outlook

As seen in Figure 18, the asset quality is expected to remain stable for most sub-segments of the financial sector, barring unsecured and microfinance (MFI) loans of NBFCs (non-banking financial companies). The growth rate is also expected to be >=10%, except for gold loans and wholesale loans.

Healthy credit demand and strong balance sheets would support credit profiles. Thus, credit quality for most of the sub-segments is Stable/Strong.

As far as unsecured loans are concerned, there have been concerns on overleveraging of personal loan borrowers, which could lead to a rise in delinquencies. Also, in light of private campaigns on loan waivers in certain states and the upcoming elections, the delinquencies of MFI loans could also increase. Thus, the credit quality outlook for these segments is also expected to be moderate.

Overall, the credit profiles of banks and NBFCs are supported by healthy balance sheets and comfortable asset quality. That said, evolving regulatory measures could have a bearing on the growth of the respective segments and will remain monitorable.

## Guided by systemic credit growth, securitisation volume growth to continue; retail pools exhibit steady performance

Securitisation[16] volume mounted to ~Rs 1.4 lakh crore in the first nine months of fiscal 2024, representing ~20% on-year growth. The continuing double-digit credit growth for investing banks and originating NBFCs contributed to the momentum and should continue to shape growth.

The number of transactions exceeded ~750 in the first nine months of fiscal 2024, compared with ~650 in the same period of fiscal 2023, driven by broad-based market participation from over 135 originators and 75 investors.

Traditionally, the share of direct assignments (DAs) in market volumes has been higher than pass through certificates (PTCs; 55-60%), given the preference for DA transactions in mortgages, which has historically been the asset class contributing the highest volume. However, in the first quarter of fiscal 2024, a prominent mortgage financier that contributed hefty DA volumes merged with a bank and stopped participating in the securitisation market given its merger with a private bank.

This has led to the share of PTCs in market volumes (~55%) overtaking that of DAs (~45%) in the first nine months of fiscal 2024. On the asset class front, vehicle loans now occupy the highest proportions owing to the drop in mortgage volumes, with securitisation in this asset class being largely though the PTC route.

Microfinance and business loan securitisations have also exhibited strong growth, and their proportion in market volumes has also risen with the share of mortgages shrinking. While personal loan securitisations saw rapid volume growth in the first two quarters of fiscal 2024, changes in banking regulations on risk weights for this segment are likely to cause a drag on market activity going forward. Gold loan securitisations (mostly via the DA route), which amounted to ~8% of the volume in the first nine months of fiscal 2024, are also expected to witness volume drop going forward due to regulatory developments in this space.

Amid lagging deposit growth across the banking industry, small finance banks (SFBs) have also turned to securitisation as a funding avenue, making their presence felt as a new class of originators with issuances of ~Rs 7,000 crore in the first nine months of fiscal 2024 compared to ~Rs 6,000 crore in fiscal 2023.

Banks continue to be the largest investors, accounting for over 90% of market volume. However, transaction structures among PTCs are also adapting to meet the needs of a growing basket of investors such as mutual funds, non-banks and insurance companies. Structures such as replenishment transactions, which enable longer-tenure PTC issuances saw traction across asset classes fiscal 2024. Multi-tranche structures with differential credit and tenure profiles also saw interest from capital market and non-bank investors.

Recent risk-weight related regulations increasing risk weights on bank lending to NBFCs could spur originators to include securitisations as a key part of their resource diversification agenda. Investors in PTCs would also continue to benefit from steady collection performance, structuring flexibility, and optimised capital consumption. Overall, with the expected healthy credit growth across the financial sector, securitisation volumes are expected to see steady traction in fiscal 2025.

The collection efficiencies of securitised pools backing CRISIL-rated PTCs have remained stable and healthy across asset classes over the last six months except for collection variability noted in some geographies in the pools backed by microfinance loans.

[16] Securitisation refers to transactions done through both the passthrough certificates (PTC) and direct assignment (DA) route

For CRISIL-rated commercial vehicle finance pools, the median monthly collection efficiency has been 98-100% over the last six months as underlying economic activity remains robust. Median monthly collection ratios for pools comprising mortgages, two-wheeler loans and education loans were also healthy at ~99%.

In the microfinance segment, collections have been stable across CRISIL-rated MFI pools, with median monthly collection ratios (MCRs) of 98-100% in the first half of fiscal 2024. However, in the December 2023 quarter, collections in certain states were impacted due to private campaigns on loan waivers and staff attrition related challenges. The impact of these on pool performance going forward is a key monitorable. However, the credit enhancements in microfinance PTCs are adequate to cover sporadic delinquency upticks due to such events, in line with the rating levels for these transactions.

In line with expectations, unsecured SME loan pools have shown some volatility in collection, with median monthly collections of 91-97% over the last six months. Secured business loan backed transactions, on the other hand, have shown stable collection performance, with median collection efficiency of 98% or higher over the same timeframe. The total credit support (both internal and external credit enhancements) in these pools is adequate to mitigate collection variability risk and commensurate with the rating levels.

The performance of all rated pools, along with any industry developments are monitored to factor in their impact on the ratings of PTCs, and the credit enhancement levels in CRISIL-rated PTCs are commensurate with their outstanding ratings.

**Figure 20: Securitisation market volumes and proportion of DA vs. PTC**

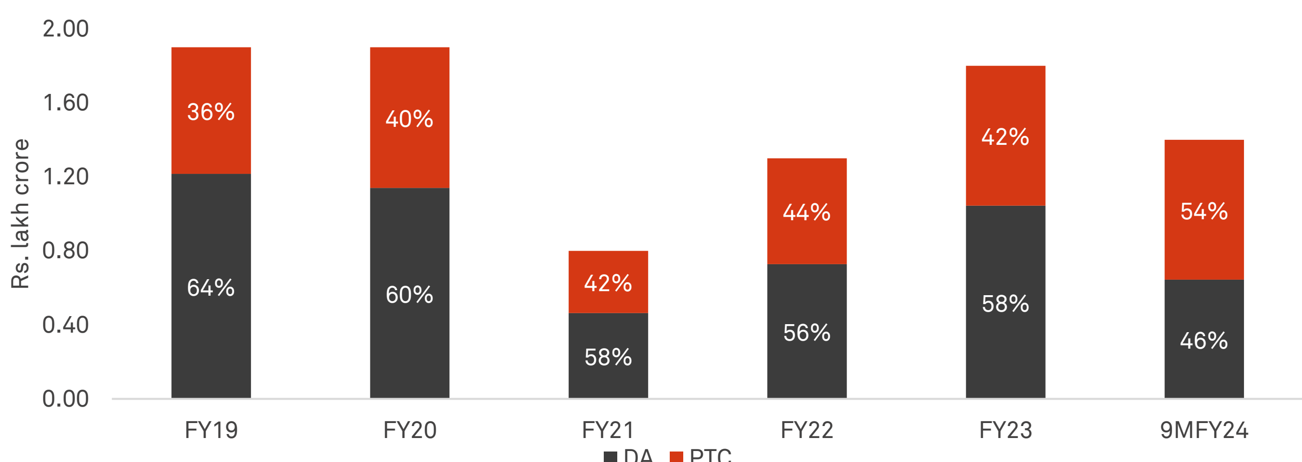
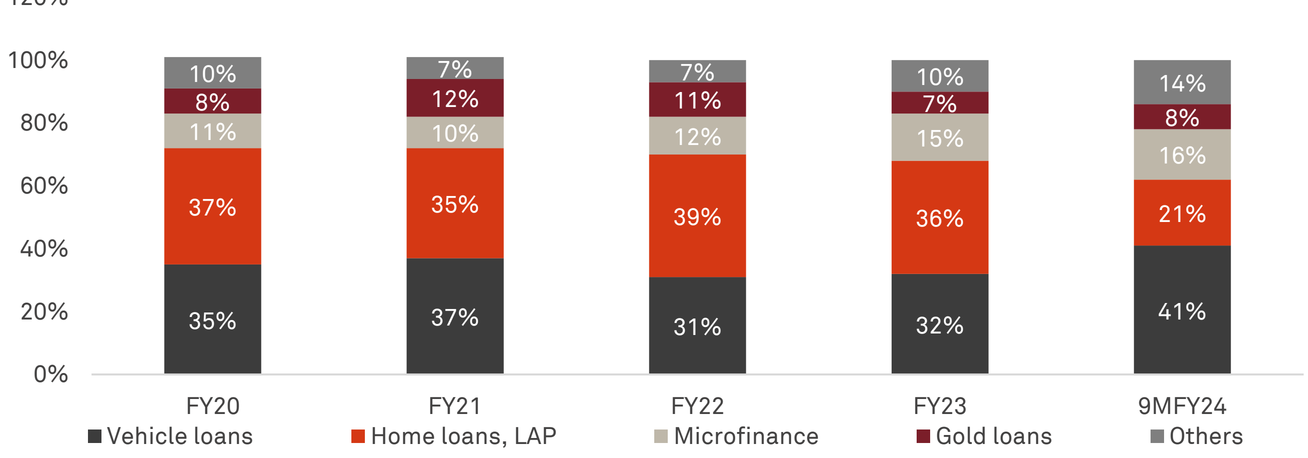
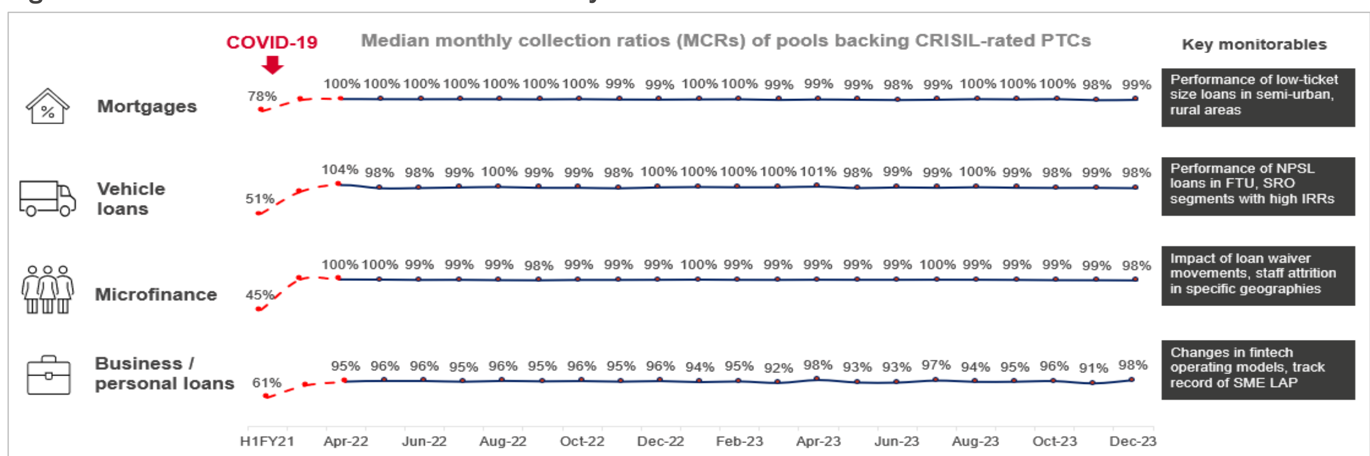



**Figure 21: Asset-class wise proportion of securitisation market volumes**



## Figure 22: Asset-class wise collection efficiency



# Epilogue

The Indian economy is expected to grow 6.8% in fiscal 2025, moderating slightly from an estimated 7.6% growth in fiscal 2024.

On the back of healthy economic activity in fiscals 2023 and 2024, capacity utilisation of the manufacturing sector has recovered to levels seen before the Covid-19 pandemic.

The government has led capex growth in infrastructure-related sectors through policy intervention and direct spending. It has created suitable models for incentivising private participation in sectors such as renewable power, roads, airports and ports.

Further, corporate balance sheets are stronger now, with improvement in gearing across sectors. Lower commodity prices should help improve the profitability of India Inc as well as keep inflation in check.

That said, India's export destinations have seen uneven growth. A global recovery is thus pertinent to the health of some of the export-driven sectors.

After a pause in a series of rate hikes by central banks globally, policy rate cuts are now on the horizon. India Inc has remained steadfast largely due to a resilient domestic economy.

However, the impact of geopolitical issues impacting supply chains and uneven global recovery amid higher-than-expected inflation impacting export sectors would bear watching.

# Notes

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CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

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