Financials

CRISIL Ratings Roundup: Credit ratio improves to 2.18x; banks' credit growth seen at 14.5-15.5%

Asset quality, RoA to deteriorate slightly; rural, export-oriented sectors under watch

CRISIL Ratings hosted a webinar on Ratings Round-Up to discuss the credit quality, growth outlook and key risks across corporate, financial and infrastructure sectors. Corporate balance sheets remain resilient, supported by healthy domestic demand, government capex and improved financial buffers. However, potential rate hikes, elevated crude prices, El Nino-related rural stress and geopolitical developments are key monitorables. Following are the key insights from the session:

KEY HIGHLIGHTS:

- Corporate credit quality resilient so far; macro headwinds warrant monitoring.
- Bank credit growth is expected at 14.5-15.5% YoY; NBFC AUM growth should remain stronger at 18-19% YoY
- Residential real estate and hospitality enter a calibrated growth phase
- Textiles: Polyester under pressure; cotton yarn outlook is relatively better
- Renewables and data centers see strong investment momentum; but infrastructure constraints remain
- Ceramics sector faces near-term weakness but domestic demand provides a structural cushion
- **GNPAs could increase by 10-20bp over FY27, while RoAs may decline by >5bp**

Credit ratio improves to 2.18x (1.5x in 2HFY26); macro headwinds warrant monitoring

Corporate credit quality remains resilient, with the credit ratio improving to 2.18x from 1.50x in 2HF26 and reaffirmation rates at 81%. **About 31 of 34 sectors remain resilient, with stress largely restricted to diamond polishing, polyester textiles and specialty chemicals. Upgrade rate, led by auto, capital goods and infrastructure, stood at 13% vs. 6% downgrades, primarily across construction and textiles.** Stronger balance sheets and government measures have improved corporate resilience to geopolitical and commodity shocks. **GDP growth is expected at ~7% in FY27, while Brent at USD88-93/bbl, INR/USD at 94-97 and El Nino are key risks,** with current macro headwinds potentially persisting till Dec'26.

Government capex supports capital goods, EPC and infrastructure

Capital goods and EPC are supported by strong government capex, **with ~40% of upgrades driven by government spending.** Continued government investment should support order books and credit quality, while a recovery in exports could provide an additional growth driver as tariff and geopolitical disruptions normalize. Operational toll roads are witnessing healthy traffic growth and stable performance, although limited availability of new assets and increased competition have pushed up valuations. Stronger underwriting and leverage controls provide some protection against balance-sheet risks.

Renewables and data centers see strong investment momentum

Solar additions remain strong, with ~40GW commissioned last year and a similar pace expected this year, increasingly shifting toward hybrid renewable projects and battery energy storage systems. The key constraint is moving from generation capacity addition to grid evacuation and transmission infrastructure, with structural bottlenecks expected to broadly normalize by FY28-29. **Data-center investments are also gaining momentum, aided by government incentives, tax benefits and India's cost advantage over overseas locations.** However, securing long-term hyperscale/ customer tie-ups is critical given the high upfront capex and fixed-cost intensity.

Residential real estate and hospitality entering a calibrated growth phase

Residential real estate is moving to a more calibrated growth phase after the strong post-pandemic recovery, with demand expected to remain largely flat, prices to stay stable and inventory to rise gradually. Large developers, however, continue to gain

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market share despite moderate industry growth**. Hospitality remains comparatively resilient, with revenue growth expected at 10-12%, supported by domestic and leisure travel and higher ARR, which should partly offset any occupancy pressure.** Industry EBITDA margins of ~35% provide a cushion against cost inflation, while the continued shift by large hotel chains toward asset-light/managed models should limit balance-sheet leverage.

MFI stress still elevated; sees diversification toward non-MFI segments

MFI credit costs remain significantly elevated at up to ~12% vs. ~2-3% for non-MFI businesses, prompting lenders to gradually reduce MFI concentration and diversify toward other retail segments. Larger MFIs remain relatively better positioned given their established distribution networks. **While sowing remains broadly in line with last year, lower yields from drought/El Nino conditions could pressure rural incomes and asset quality.** The impact is partly cushioned by growing diversification of rural income, with ~40% coming from non-crop activities, **although tractor volumes could moderate amid weaker rural purchasing power.**

Textiles: Polyester under pressure; cotton yarn outlook is relatively better

Polyester remains one of the key stressed sectors amid elevated crude prices and limited pass-through ability. **Polyester yarn volume growth is expected to decline 2-3%, with revenue growth at 4-5% and EBITDA margins potentially contracting by 100bp to 5.5%.** In contrast, cotton yarn has a relatively better outlook, supported by export demand from Bangladesh and China as well as FTAs. Revenue growth is expected at 9-11%, driven by 4-5% volume growth and better realizations.

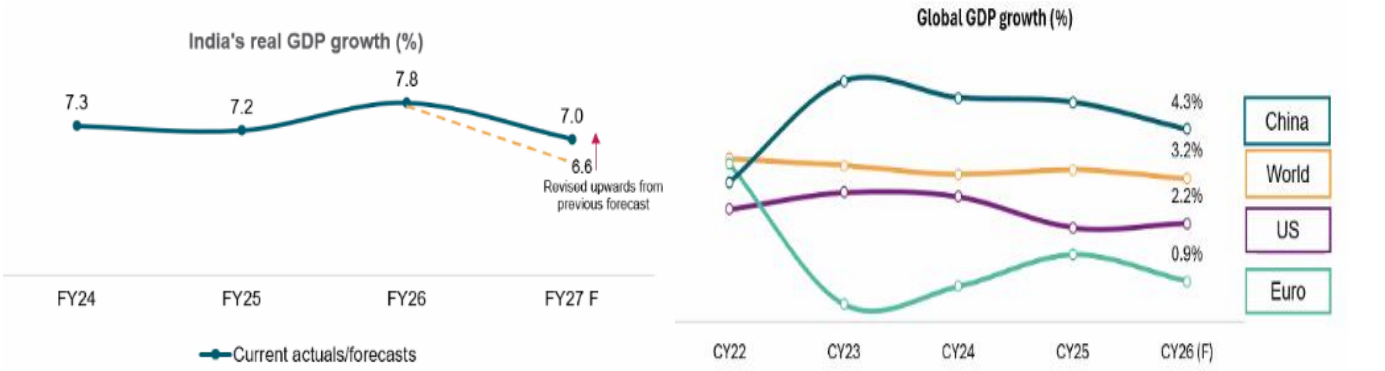
Ceramics facing near-term weakness; domestic demand providing cushion

Ceramics saw a weak 1H due to lower capacity utilization, although supply-chain normalization and recovery in domestic demand are supporting a gradual revival. With 60-65% of demand coming from the domestic market, the sector has a structural cushion against external volatility. **Industry revenue is nevertheless expected to decline 8-10%, partly due to price correction,** while profitability is expected to remain around 9-10%.

Credit growth to remain healthy; asset quality, RoA to dip slightly

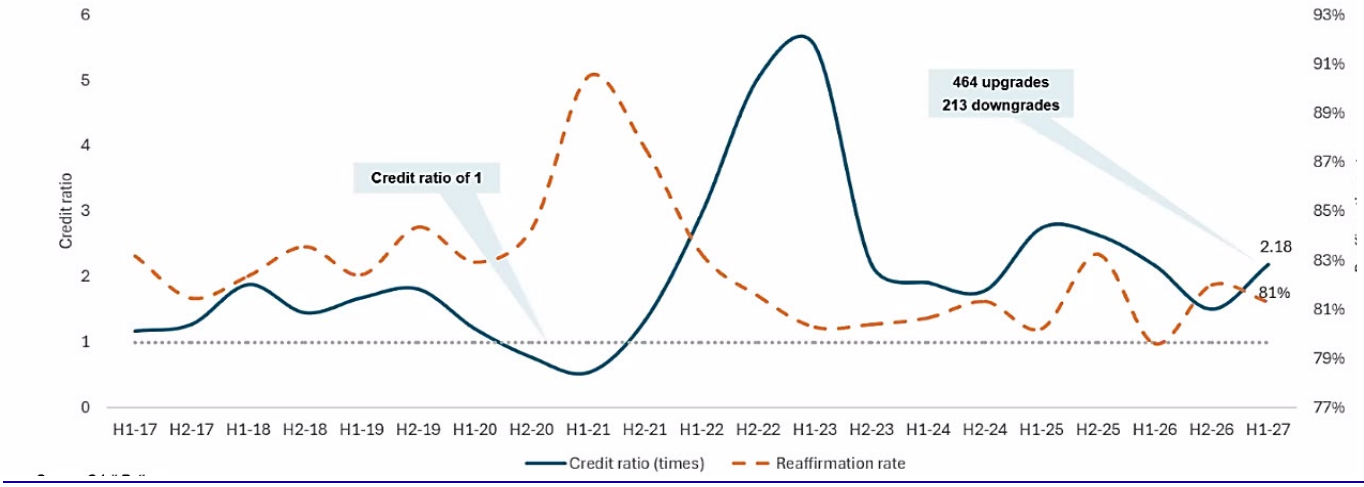
- Bank credit growth is expected at 14.5-15.5%, driven by MSME and retail, while corporate funding is likely to increasingly shift toward the bond market. NBFC AUM growth should remain strong at 18-19%, supported by retail demand, although unsecured business loans and micro-LAP remain areas to monitor.
- **Though overall asset quality is resilient, GNPAs could potentially increase by 10-20bp in FY27 after robust improvement in the past few years. RoA may decline by >5bp but remain above long-term averages.**
- FCNR (B) inflows have eased near-term liquidity and liability cost pressure, while a potential rate hike could affect banks through higher bond yields and weaker home-finance demand.
- CRISIL estimates a ~10bp/20bp impact on median interest cover from 25bp/50bp hikes and ~5bp impact on NBFCs' returns on managed assets. Rural-linked credit is a watchpoint amid potential El Nino/drought-related pressure on incomes.

Exhibit 1: India to remain the fastest-growing large economy in the world



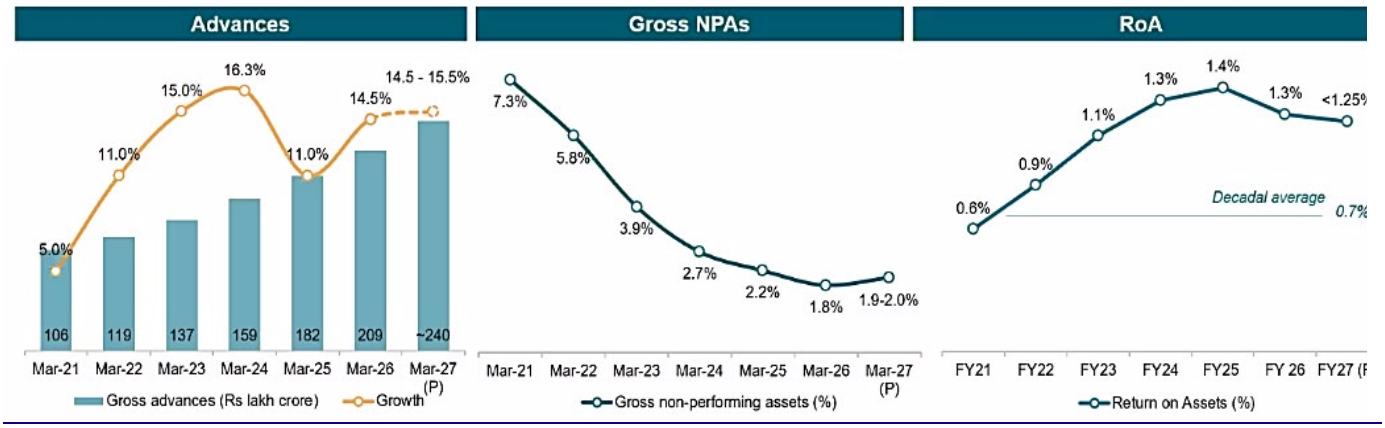
Source: CRISIL, MOFSL

Exhibit 2: Credit ratio improved to 2.18x in 1HFY27 from 1.50x in 2HFY26



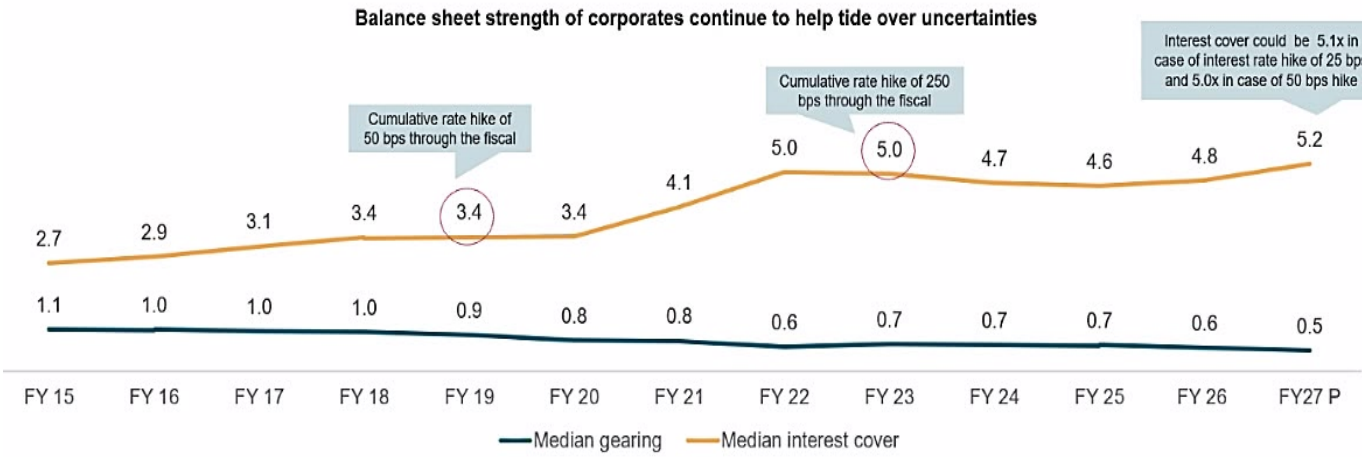
Source: CRISIL, MOFSL

Exhibit 3: Growth to pick up to 14.5-15% in FY27; RoA to moderate below 1.25%, while GNPA to inch up to 1.9-2.0%



Source: CRISIL, MOFSL

Exhibit 4: Structural strengths cushion India Inc against potential rate hikes



Source: CRISIL, MOFSL

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