Inflation, rates may hit $114-bn firm debts: S&P

'Deterioration in credit profile may not lead to large-scale defaults even in stressed scenario'

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Credit profiles could deteriorate for up to $114 billion of debt in the books of Indian companies tackling rising interest rates and inflation, said Standard and Poor's (S&P) on Tuesday.

The deterioration in credit profile is, however, unlikely to lead to large-scale defaults even in a stress scenario due to buffers in the economy and the companies' financials, said the global rating agency.

The stress test of more than 800 (mostly unrated) Indian companies and representing $570 billion in debt showed credit profiles could deteriorate for up to 20 per cent of Indian corporate debt, said S&P in a report titled Inflation And Rate Hits Won't Knock Out India Inc.

Rated issuers are usually better placed to withstand rising rates and higher input costs. This is due to the significant deleveraging over the last two years and improved liquidity position of companies, said Neel Gopalakrishnan, a credit analyst with S&P Global Ratings.

Renewable energy companies are more exposed to rising rates due to large capital expenditure. S&P does not expect defaults in its rated portfolio, which also benefits from access to domestic banks and capital markets.

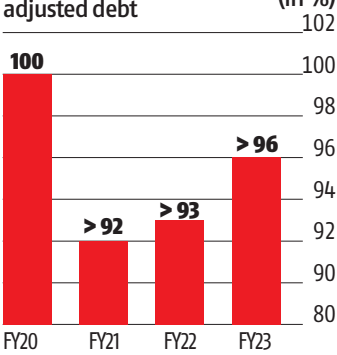
India's continued strong economic growth helps companies' revenues. Policy rates in India are rising from a low base, and most borrowers are accustomed to high interest rates.

Indian borrowers have strong access to funding from domestic banks, including government-owned banks, with lower spread volatility than capital markets. A significant deleveraging by Indian corporates amid a protracted downturn in the past decade, S&P added.

Referring to implications for the Indian banking sector, the rating agency said it expected the Indian banking sector to solidify its position. In the base case scenario, the sector's weak loans will continue to decline to 4.5-5 per cent of gross loans by March 31, 2024. This category includes non-performing loans (NPLs) and performing restructured loans. In such a severe stress scenario, NPLs in the banking sector could rise by 50 basis points (bps) to 75 bps. The impact on mortgages should be limited, it said.

DEBT FACTOR

Rated corporate issuers have significantly deleveraged adjusted debt



SECTOR-WISE IMPACT OF RATES, INFLATION

Sector	Renewable energy	Airports	Ports
Interest rate	Moderate	Low to	Low moderate
Inflation	Low	moderate	Moderate
Foreign exchange	Moderate	Low to moderate	Low to moderate

Source: S&P report