

Rating agencies expect India Inc's credit quality in FY27 to be stable but cautious

RISK OUTLOOK. They flagged moderation in credit ratios in H2FY26, amid rising geopolitical uncertainty

Our Bureau
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India Inc's credit quality outlook for fiscal 2027 is expected to be broadly stable but cautious amid geopolitical risks arising from the West Asia war, which will cloud the external environment and test corporate resilience, according to credit rating agencies.

The agencies gave the aforementioned outlook even as most of them reported that India Inc's credit ratio moderated in the second half (H2) of FY26 against the first half (H1).

CREDIT PRESSURE

CareEdge Ratings noted that the evolving macroeconomic backdrop, marked by intensifying geopolitical tensions and shifting trade dynamics, is beginning to weigh on India Inc's credit quality.

For Crisil Ratings, the credit ratio stood at 1.50 times in H2FY26, down from 2.17 times in H1FY26. The ratio for CareEdge Ratings and India Ratings and Research (Ind-Ra) stood at 1.93 times (2.56 times) and 3.1 times (3.3 times), respectively. However, ICRA recorded an improvement in the ratio at 3.2 times (2.9 times).

Referring to a stress test of 30 sectors, accounting for 65 per cent of the agency's rated corporate debt exposed to

the West Asia conflict either directly or indirectly, Subodh Rai, Managing Director, observed that Crisil Ratings' assessment indicates that 23 of these sectors will see limited impact on credit profiles because of the conflict, despite higher input prices and disruption in gas supply.

RISK WARNING

"Clearly, strong balance sheets (median debt-to-equity ratio of 0.45 times as of March 31, 2026) lend cushion. The impact could be moderately negative for six sectors and adversely affect one." However, he cautioned that a prolonged conflict would be a systemic risk and could have a cascading impact on India Inc's credit quality.

Six sectors — airlines, polyester textiles, specialty chemicals, flexible packaging manufacturers, auto component makers and diamond polishers — could see a moderately negative impact on their credit quality mainly because of the impact on operating margin, per Crisil Ratings.

WATCHFUL STANCE

Somasekhhar Vemuri, Senior Director, Crisil Ratings, said, "Our credit quality outlook is stable for now, backed by resilient domestic demand and strong corporate balance sheets. But overall, we remain cautious as the dura-



KEY DOWNSIDE. The credit cycle shows early signs of cooling as external risks begin impacting rating trends

tion and intensity of the West Asia conflict are uncertain. If it prolongs, slower global growth, gas availability challenges, higher-for-longer crude oil prices, and consequently, an impact on consumer sentiment will bear watching."

K Ravichandran, Executive Vice-President and Chief Rating Officer, ICRA, observed that the escalation of hostilities in West Asia since late February has reintroduced risks, particularly for India's energy and food security.

He cautioned, "While higher subsidies could cushion commodity price pressure, they may strain government finances. Moreover, corporates could face a moderation in demand and pressure on margins amid rising inflation."

As per ICRA's assessment, while higher crude prices, shipping costs and rupee de-

preciation would have a broad-based cost impact, the direct effect of the West Asia conflict would be more pronounced for sectors such as fertilisers, gems and jewellery, airlines, basmati rice, downstream oil and gas, ceramics and MSMEs.

Sachin Gupta, Executive Director and Chief Rating Officer, CareEdge Ratings, said that given India's high dependence on energy imports, a prolonged conflict situation could have cascading effects — fuelling inflation, widening the current account deficit, exerting pressure on fiscal balances and weighing on growth.

In this context, CareEdge estimated that if crude oil were to average \$100 per barrel in FY27, GDP growth could moderate to 6.5 per cent, while inflation may rise to 5.1-5.3 per cent."

Gupta said, "While domestic policy measures and

relatively stronger corporate balance sheets provide some cushion, the critical question is whether these domestic levers will be sufficient to keep credit quality on course if the global environment deteriorates further. For now, the answer leans towards yes — but the margin for comfort is narrowing."

Ind-Ra said the corporate credit outlook is cautious for FY27, which is expected to see a confluence of risks spanning energy availability, input costs, inflation dynamics, fiscal balances, subdued global trade and El Niño concerns.

Arvind Rao, Senior Director, Ind-Ra, cautioned that energy-intensive segments such as fertilizers, ceramics, glass, aviation, packaging and quick service restaurants face the sharpest near-term pressure from supply disruptions and input cost spikes, while stronger sectors — namely compressed natural gas, oil marketing companies — are better positioned to absorb margin compression.

While risks are aplenty, support is expected from continued government capex, strong balance sheets, structural reforms, new trade agreements and range-bound inflation that is improving real wages, leading to a resilient GDP growth rate of 6.9 per cent (as per 2012 base) and excluding the impact of the West Asia war.