

Rating agencies warn of war risks to India Inc's credit quality

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India Inc faces war-related risks to credit quality in FY27

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The second half of FY26 (October-March) saw some easing in tariff-related risks. The India-EU trade deal combined with GST rate cuts, income tax relief, easing inflation and transmission of policy rate cuts improved the credit outlook for Indian companies, they said.

“These developments had strengthened the outlook for Indian corporates entering 2026-27. However, the escalation of hostilities in West Asia since late February 2026 has reintroduced risks, particularly for India’s energy and food security,” said K. Ravichandran, executive vice-president & chief rating officer, Icria, said in a statement.

As such, with FY26 already seeing a rise in the rate of corporate downgrades due to tariff-related pressures and geopolitical tensions, rating agencies are now worried that a prolonged West Asia war could further put pressure on companies’ balance sheets. “FY26 credit profiles do not reflect even incipient stress from the evolving conflict, as the escalation materialised only in the closing month of the financial year. However, as the conflict continues to escalate, the five years of balance sheet strengthening that corporate India



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has undertaken since FY21 will be tested in FY27,” said Arvind Rao, senior director, head of credit policy group, India Ratings.

The credit ratio for Crisil Ratings, a measure of the proportion of rating upgrades to downgrades, moderated to 1.50 times in the second half of FY26 from 2.17 times in the first half of the fiscal year. A credit ratio of 1.5 indicates that for every downgrade, there were 1.5 upgrades.

The upgrade rate declined to 10.6% from

14.0% in the previous half, aligning with the 11% average of the past decade. On the other hand, the downgrade rate edged up to 7.0% (6.4% in the first half), a tad higher than 10-year average.

Care Ratings’ credit ratio fell to 1.93 times in the second half of FY26 from 2.56 times in the first half. The downgrade rate, at 7%, was below the long-term average of 10%.

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