

Press Release

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CRISIL Ratings annual default rate low for two straight fiscals

K-shaped recovery evident in the default rates of investment¹ and sub-investment-grade ratings

The CRISIL Ratings annual default rate² stood at 2.2% for fiscal 2022, the second straight time it has been low after 2.0% in fiscal 2021. That's nearly half the 4.1% average of the past decade.

However, the default rate could increase going forward as pandemic-induced relief measures are withdrawn and volatile input prices create cost pressure, especially for entities rated in the sub-investment-grade category.

Within categories, the default rate for investment-grade ratings declined last fiscal over fiscal 2021, while that for sub-investment grade increased.

There are two factors behind the overall annual default rates staying low. First is the proactive relief measures announced by the regulators and the government, especially the loan moratorium and emergency credit guaranteed lines, which eased pressure on credit profiles and staved off defaults to a good extent.

Second is the rising proportion of companies rated by CRISIL Ratings in the investment-grade category. Of the close to 7,000 cooperative issuers rated by CRISIL Ratings as of March 2022, 55% were in the investment-grade category compared with ~24% in March 2016. This is primarily because of higher incidence of sub-investment-grade-rated entities moving out of the rating coverage by either turning non-cooperative, or by seeking withdrawal given that lenders have increased the threshold for minimum debt required to be rated by credit rating agencies.

The default rate in the investment grade is typically on the lower side (average 0.5% between fiscals 2011 and 2020). It touched a decadal low of 0.03% last fiscal from an already low 0.17% in fiscal 2021.

This also reflects the robustness of surveillance mechanisms at CRISIL Ratings, including early warning frameworks and vulnerability analyses.

However, for the sub-investment-grade category — dominated by MSMEs³ — the annual default rate increased to 5.24% last fiscal from 3.90% in fiscal 2021 against 6.1% average between fiscals 2011 and 2020. Of the entities that defaulted last fiscal, about 90% were MSMEs.

Says Somasekhar Vemuri, Senior Director, CRISIL Ratings, “Recent trends in the default rate reflect a K-shaped recovery. The recovery has been faster and sharper for larger and mid-sized corporates, whereas MSMEs have borne a disproportionate impact of the pandemic. Elevated level of stressed assets in the MSME loan-books of banks and non-banks, and a large number of MSMEs availing of restructuring schemes are also indicative of their stress. The default rate in the sub-investment-grade category would have been even higher but for the relief measures.”

The increase in default rate in the sub-investment grade has not significantly impacted the overall default rate because of their reducing proportion in the total rated portfolio over the years.

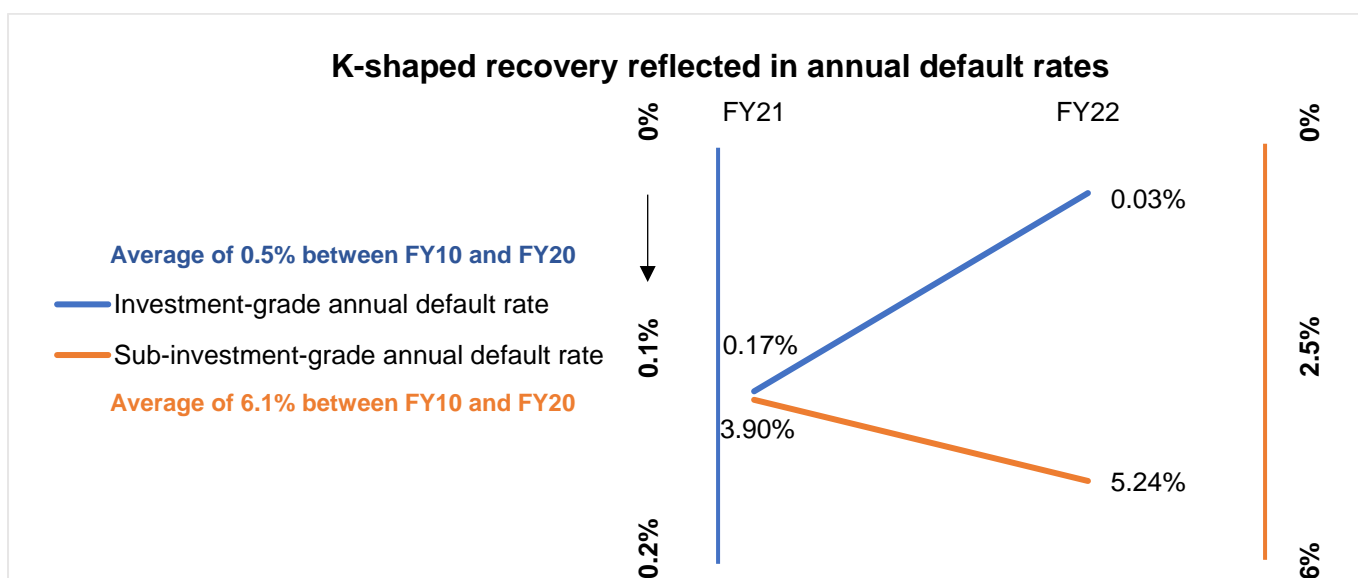
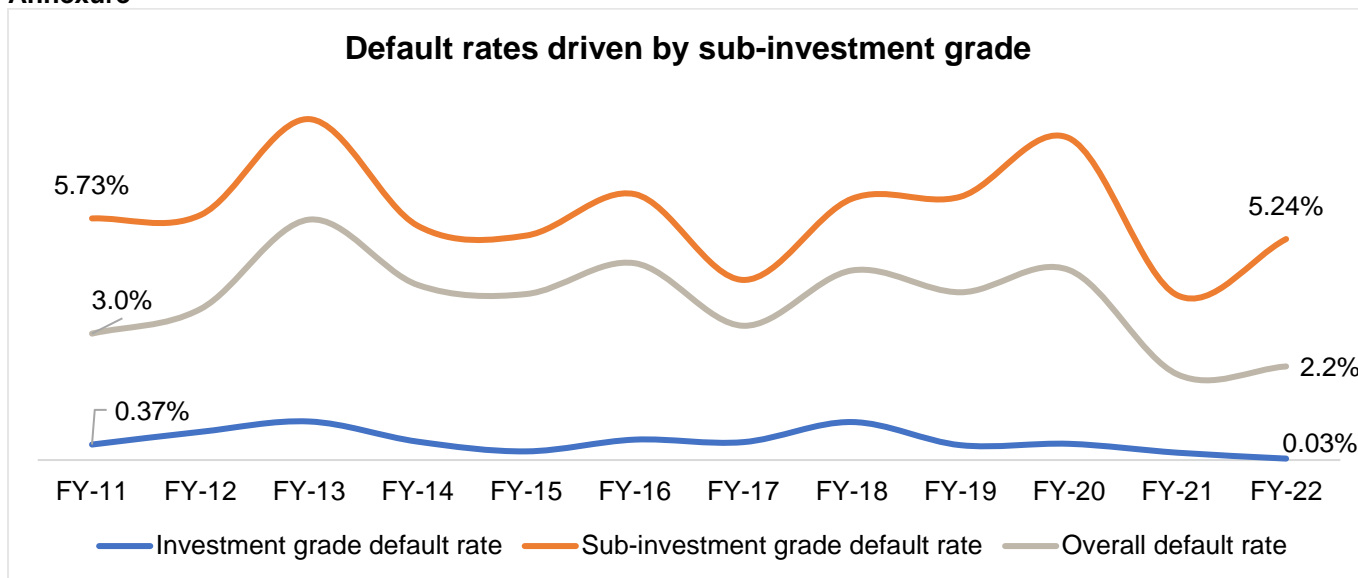
As the benefits of government relief measures recede and cost pressures rise due to volatile input prices, the CRISIL Ratings' annual default rates could see an uptick, especially in the sub-investment-grade category predominated by MSMEs. However, the overall annual default rate continues to be cushioned by the skew in the rated portfolio mix towards the more-resilient investment grade category.

¹Entities rated in BBB category and above are investment-grade and conversely, those rated in BB category and below are sub-investment grade.

²Default rate is defined as the proportion of total defaults in a particular year to total non-default long-term ratings outstanding at the beginning of the year. Ratings that were outstanding at the beginning of the year but were withdrawn/suspended or turned non-cooperative (excluding the ones that defaulted) during that year are excluded.

³Entities classified as micro, small and medium enterprises (MSME) with turnover of less than or equal to Rs 250 crore
Note: CRISIL Ratings also publishes its Default and Rating Transition Study on an annual basis. Archives for all the publications starting 2004 are available on the website and can be accessed here: <https://www.crisil.com/en/home/our-analysis/publications/default-study.html>

Annexure



Source: CRISIL Ratings

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