CRISIL Ratings

Resilient run

Ratings Round-Up | First half, fiscal 2025

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Contents

Executive summary

The CRISIL Ratings credit ratio, or the proportion of rating upgrades to downgrades, increased to 2.75 times in the first half of this fiscal from 1.79 times in the second half of last fiscal. This highlights the sustained strengthening of India Inc's credit quality.

Overall, there were 506 upgrades and 184 downgrades. The annualised upgrade rate of 14.5% outpaced the average of ~11% for the past decade, while the downgrade rate of 5.3% was lower than the 10-year average of 6.5%. Notably, the rating reaffirmation rate continued to be stable at ~80%.

Rating upgrades continued to surpass downgrades, reflecting resilient domestic growth, supported by the government's continued policy support towards infrastructure build, revival of rural consumption demand and leaner corporate balance sheets. As many as 38% of the upgrades were from the infrastructure and linked sectors. The primary drivers include acquisitions by strong sponsors and lower than expected debt, particularly in the renewables sector, reduction in project risks as road projects achieve critical milestones, progressive order execution in construction and a healthy order book in the capital goods sector.

On the other hand, the rating downgrades were spread across sectors. The downgrades seen in agricultural products and textiles sectors were due to volatile realisations and moderation in global demand, respectively. Furthermore, entity-specific liquidity issues, particularly in companies rated in the sub-investment grade category, also contributed to the downgrades.

Gearing will remain healthy (below 0.5 time) despite private sector capital expenditure (capex) showing signs of revival from the sharp decline seen during the pandemic. The capex is to accommodate the improving capacity utilisation.

However, capex intensity — measured as capex over Ebitda[1] — remains moderate, averaging 50% over fiscals 2024 and 2025 as against the decadal high of 72% during fiscal 2016. This, together with lean corporate balance sheets, implies that India Inc has significant financial headroom to support broad-based capex as utilisation levels rise. A CRISIL Ratings analysis of about 900 companies indicates as much.

The proprietary CRISIL Ratings credit quality framework for the corporate and infrastructure sectors — known as the Corporate and Infrastructure (COIN[2]) framework — provides the credit quality outlook for 38 sectors, accounting for more than 75% of the rated debt this fiscal.

Takeaways from the COIN framework:

- For this fiscal, most of the sectors (21 of 26 corporate sectors) are expected to sustain robust balance sheets and healthy operating cash flows.
- Fast-moving consumer goods (FMCG) and pharmaceutical formulations are expected to perform better than previous expectations. The FMCG sector is supported by recovery in rural demand, led by better monsoon and easing inflation. For pharmaceutical formulations, revenue growth this fiscal will be aided by

[1] Ebitda: Earnings before interest, taxes, depreciation, and amortization
[2] A credit quality outlook framework for the corporate and infrastructure sectors. The framework factors in growth in cash flows and balance sheet strength for corporate, and revenue growth and movement in debt protection cover for infrastructure.

improved realisations in the US generics market and the sustained volume uptick expected from new product launches.

- Four corporate sectors — specialty chemicals, agrochemicals, textile cotton spinning and diamond polishers — which we had called out as facing headwinds from global macroeconomic conditions six months ago, remain constrained. That said, they continue to have strong balance sheets.
- Only one corporate sector — automobile dealers — is affected by relatively high leverage due to a recent significant buildup in passenger vehicle inventory.
- All the 12 infrastructure assets are expected to have stable debt protection metrics, while maintaining the revenue growth momentum.

The financial sector (banks and non-banks) has strong credit quality, supported by steady credit growth, healthy capitalisation and stable asset quality.

For **banks**, credit growth is expected to remain healthy at ~14% this fiscal, despite moderation from 16% last fiscal. The revision in risk weights on lending to some of the faster growing segments is driving the moderation in credit growth. The ability to mobilise cost-effective deposits continues to be a key monitorable. Asset quality metrics are likely to remain benign with gross non-performing assets expected to touch another decadal low. While net interest margins are set to compress 10-20 basis points this fiscal, low credit costs will support banks' profitability.

For **non-banks**, growth in assets under management may moderate to ~17% this fiscal from ~20% last fiscal, as they recalibrate growth strategies in the unsecured loan book. Traditional segments are expected to expand at a steady pace. Asset quality of microfinance loans is showing early signs of stress and, hence, credit costs are likely to increase. Lower ticket size segments of unsecured personal loans also bear watching given their higher growth and inherently vulnerable borrower segment. On the funding front, non-banks were able to diversify resource mobilisation avenues beyond bank loans during the first half of this fiscal. Adherence and adaptability to an evolving regulatory landscape remain critical as well.

The positive credit quality outlook on India Inc is largely led by government infrastructure investment and private consumption, also reflected in the healthy GDP growth expected this fiscal. Particularly, the expected decline in interest rate will support domestic demand as inflationary pressures subside. However, we remain watchful of the impact of heightened geopolitical risks on India's export-oriented sectors and supply chains.

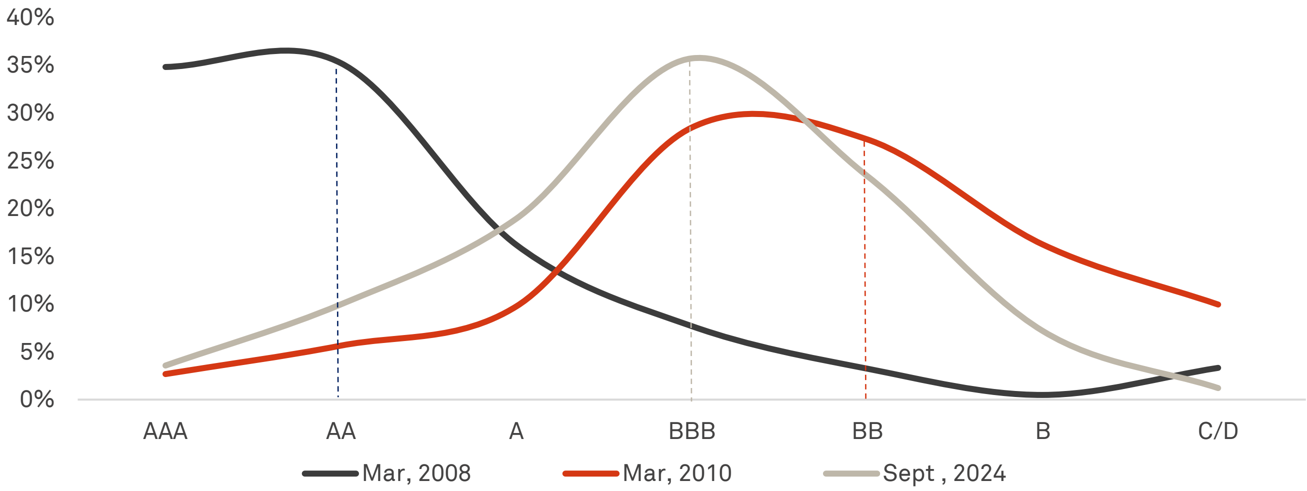
About Ratings Round-Up

The Ratings Round-Up is a semi-annual publication that analyses rating actions by CRISIL Ratings and traces the linkages between such actions and the underlying economic and business trends. It takes a deep dive into sectoral trends and outlines expectations for credit quality based on an understanding of the current business environment and the likely performance in the near future. This edition analyses the rating actions from March 31 to September 29, 2024.

Note: A credit rating is an opinion on the likelihood of timely repayment of debt. Therefore, analysis of rating actions on a large and diverse portfolio of companies is a reasonable indicator of the outlook for the economy.

Median rating for CRISIL Ratings portfolio remains in 'BBB' category

Figure 1: Trends in rating distribution of the CRISIL Ratings portfolio



Note: The vertical dotted lines represent the median rating category for the respective distribution
Source: CRISIL Ratings

As on September 29, 2024, our rated portfolio comprises around 7,000[3] companies. As indicated in the graph above, ~68% are in the 'BBB'[4] or above rating categories, up from 65% in March 2024. The median rating transitioned to the 'BBB' category in fiscal 2022 from the 'BB' category and has remained at this level.

Until March 2008, the median rating for the CRISIL Ratings portfolio was in the 'AA' category. With the introduction of bank loan ratings in 2007 and rapid expansion of the rated portfolio, especially in the lower rating categories, the median rating moved to 'BB' in fiscal 2010 and remained in the category till fiscal 2021. Subsequently, the median rating shifted to investment grade rating in fiscal 2022 as the portfolio started shrinking at the lower end of the rating spectrum, mainly because many banks have increased the threshold of minimum exposure requiring an external credit rating. This has led to non-cooperation in the rating process by rated entities, especially those in the sub-investment-grade categories.

[3] This excludes companies in the 'Issuer not cooperating' (INC) category. The CRISIL Ratings portfolio had ~12,250 INC issuers as on September 29, 2024. Including INC ratings, our outstanding rating list would comprise ~19,200 issuers.
[4] The proportion of ratings in the 'BB' or lower categories has progressively reduced from ~76% as of March 2013 to 32% as of September 2024.

Analysis of rating actions in the first half of this fiscal

India is one of the fastest-growing major economies, with GDP growth projected at 6.8% for fiscal 2025. This growth is driven by strong domestic consumption and government spending. GDP data for the first quarter of fiscal 2025 indicates an uptick in private consumption while gross fixed investment has been slower than earlier. A robust services segment and buoyant manufacturing segment showcase resilience in domestic demand. There are some signs of slowdown in demand in urban pockets but subsiding inflationary pressures and expected interest rate cuts are likely to lift demand during the festive season in the second half.

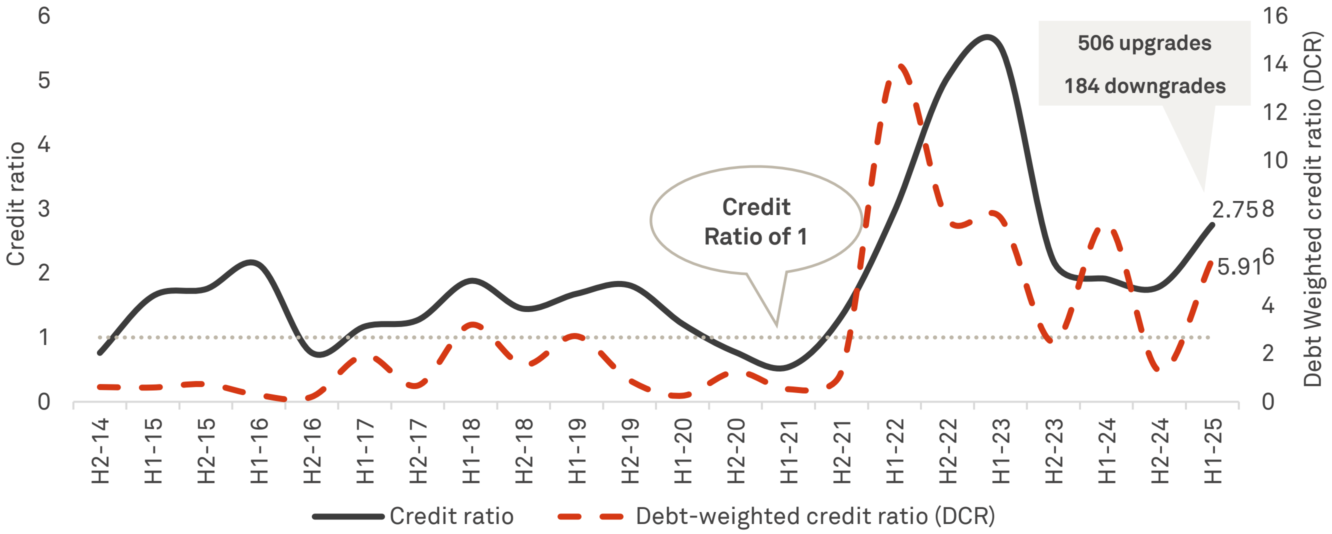
CRISIL Ratings credit ratio at 2.75 in the first half of this fiscal

An analysis of rating actions in the first half of this fiscal underscores the positive credit quality outlook CRISIL Ratings had anticipated in the second half of last fiscal. The credit ratio stands at 2.75 in the first half of fiscal 2025, compared with 1.79 in the second half of fiscal 2024 (refer to *Figure 2*).

The debt-weighted credit ratio (DCR)[5] jumped to 5.91 from 1.28. The higher DCR is due to upgrades of some large corporates with sizeable debt.

Adjusting for group[6] upgrades and downgrades (where many companies belong to the same business group and have similar ratings and hence upgrades or downgrades are considered as one), the credit ratio is 2.54[7] (1.86 in the second half of fiscal 2024), mainly because of upgrades of group companies in the renewables sector and also in automobile sector.

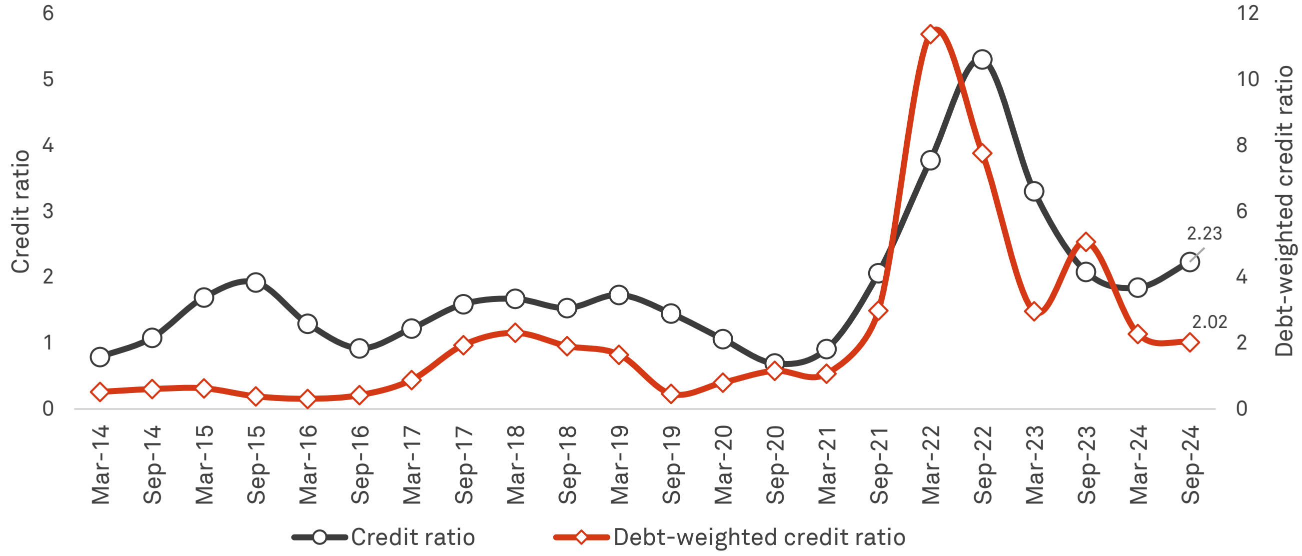
Figure 2: Trend in credit ratio and DCR



[5] DCR is defined as the ratio of debt in the books of companies upgraded to debt in the books of companies downgraded
[6] In case of largely homogenous groups, with significant business, financial and managerial linkages, the ratings of individual entities are arrived at by following the homogenous group criteria and the rating actions are usually in tandem.
[7] Group upgrades/downgrades are considered for 3 or more companies

To mitigate the impact of short-term fluctuations and capture the underlying momentum, we extended our analysis to incorporate a 12-month rolling basis credit ratio. The 12-month rolling credit ratio and DCR stand at 2.23 times and 2.02 times (refer to *Figure 3*), respectively, suggesting that the improvement in credit quality is a sustained trend. This is a positive indicator for the Indian corporate sector, as it implies that the underlying fundamentals are driving the enhancement in credit profiles.

Figure 3: Trends in credit ratio and DCR on a 12-month rolling basis



Upgrade rate rises, downgrade rate below the 10-year average

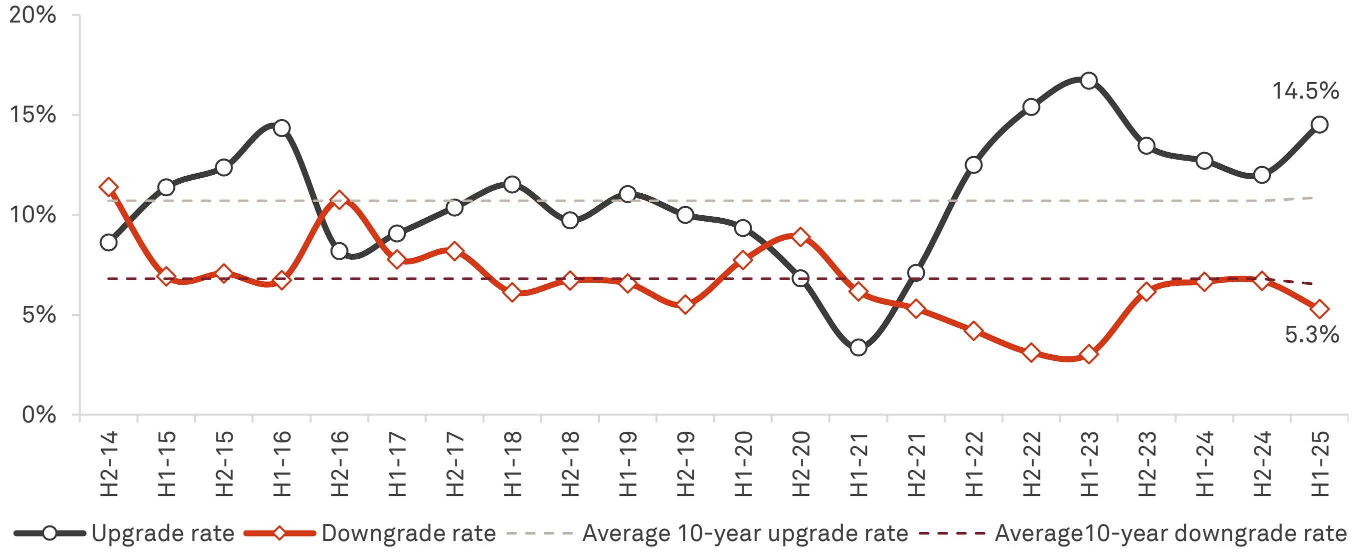
In the first half of fiscal 2025, there were 506 upgrades and 184 downgrades, indicating a positive bias in credit profiles. Notably, around 80% of the portfolio ratings were reaffirmed or unchanged, which is in line with the historical average. As a result, the modified credit ratio (MCR)[8] was 1.11 in the first half of fiscal 2025 vis-a-vis 1.06 in the previous half.

The annualised upgrade rate rose to 14.5% in the first half of this fiscal from 12% in the second half of fiscal 2024 (refer to *Figure 4*). A sector-wise breakdown of the upgrades reveals that as many as 38% of the upgrades were from the infrastructure and linked sectors. The primary drivers include acquisition by stronger sponsors and lower-than-expected debt in the renewables sector, improved order execution in construction sector, reduction in project risks as road projects achieve critical milestones, and healthy order book in the capital goods sector.

The downgrade rate, at 5.3%, is below the 10-year average (refer to *Figure 4*). This suggests that while some sectors are facing challenges, the overall credit quality of Indian corporates remains stable. The downgrades seen in agricultural products and textiles sectors were due to volatile realisations and moderation in global demand, respectively. Select companies with sub-investment grade ratings facing liquidity issues also contributed to the downgrades.

[8] Modified credit ratio is defined as the ratio of rate of upgrades and reaffirmations to the rate of downgrades and reaffirmations

Figure 4: Trends in upgrade and downgrade rates



Reasons for upgrades

Our analysis of rating actions for the first half of this fiscal reveals that more than 75% of upgrades were driven by improvement in revenue/profitability related factors on the back of improved revenue visibility from healthy order book (particularly in the capital goods sector), sustained business performance and completion of project milestones. Meanwhile, ~11% of upgrades were attributed to parentage related aspects (either upgrade in the parent or change in parent), as illustrated in *Figure 5.*

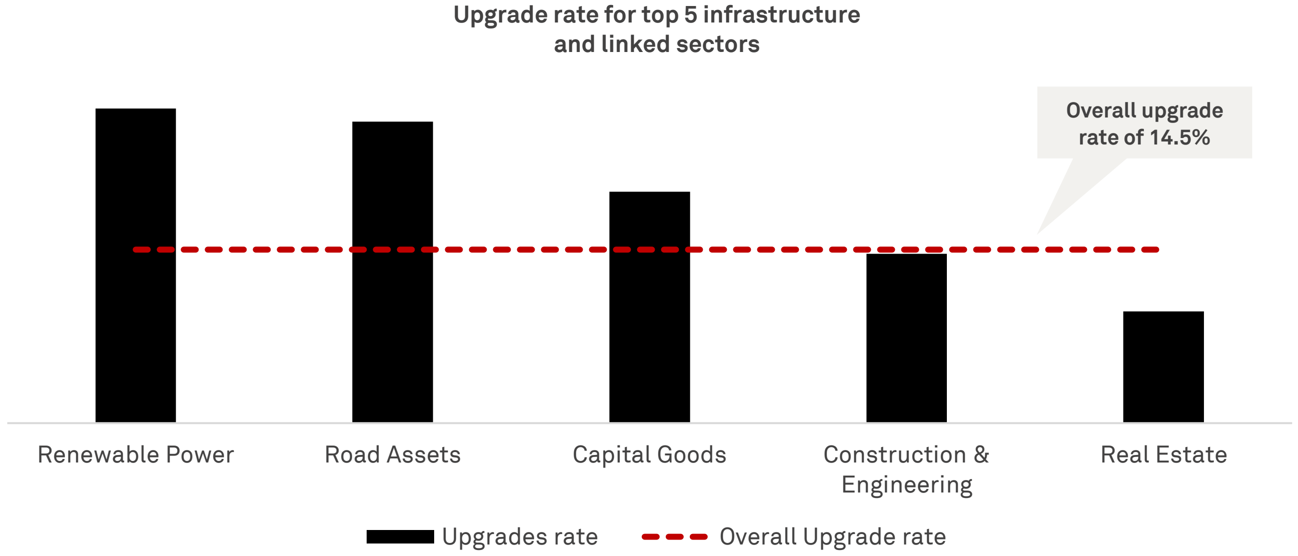
Figure 5: Analysis of upgrade rating actions (size of each box represents share in total upgrades)

At the segmental level, we observed an increase in upgrade rate across all the segments, that is, infrastructure and linked sectors, services, domestic manufacturing, while exports clocked the lowest upgrade rate (refer to *Figure 7*).

- **Infrastructure and linked sectors:** The upgrade rate in this segment stood at ~18%, higher than the overall upgrade rate of 14.5% driven by:
    1. Construction EPC players benefitting from improved order execution and cash flows,
    2. Renewables because of acquisition by stronger sponsors and lower-than-expected debt,
    3. Capital goods backed by improved revenue visibility from strong order book driven by uptick in private capex and infra buildout.

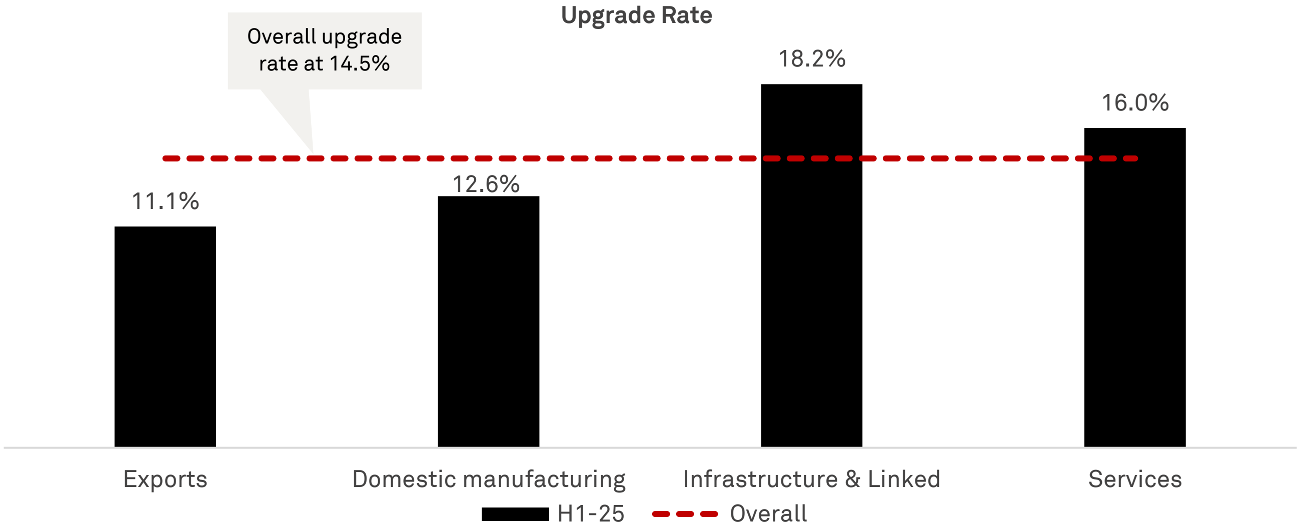
The top five segments in the infrastructure and linked sectors accounted for ~31% of total upgrades, with three sectors having a higher upgrade rate than the overall upgrade rate of 14.5% (see *Figure 6*).

Figure 6: Upgrade rate of top 5 infrastructure and linked sectors



- **Services:** The upgrade rate of about 16% was higher than the overall upgrade rate. The major contributors are educational services driven by increased student intake, and hospitality, which benefited from higher occupancy and average room rates.
- **Domestic manufacturing:** This segment recorded an upgrade rate of 12.6%, with auto components predominantly driving the upgrades. Auto component upgrades were driven by improvement in revenue/profitability and revenue visibility from healthy order books.
- **Exports:** The upgrade rate for exports improved to 11.1% in this half from 8.9% in the second half of last fiscal, but remains constrained by headwinds for textiles. Improvement in revenue and improved pricing in the US generics market and improved operating leverage drove the upgrades for pharmaceuticals.

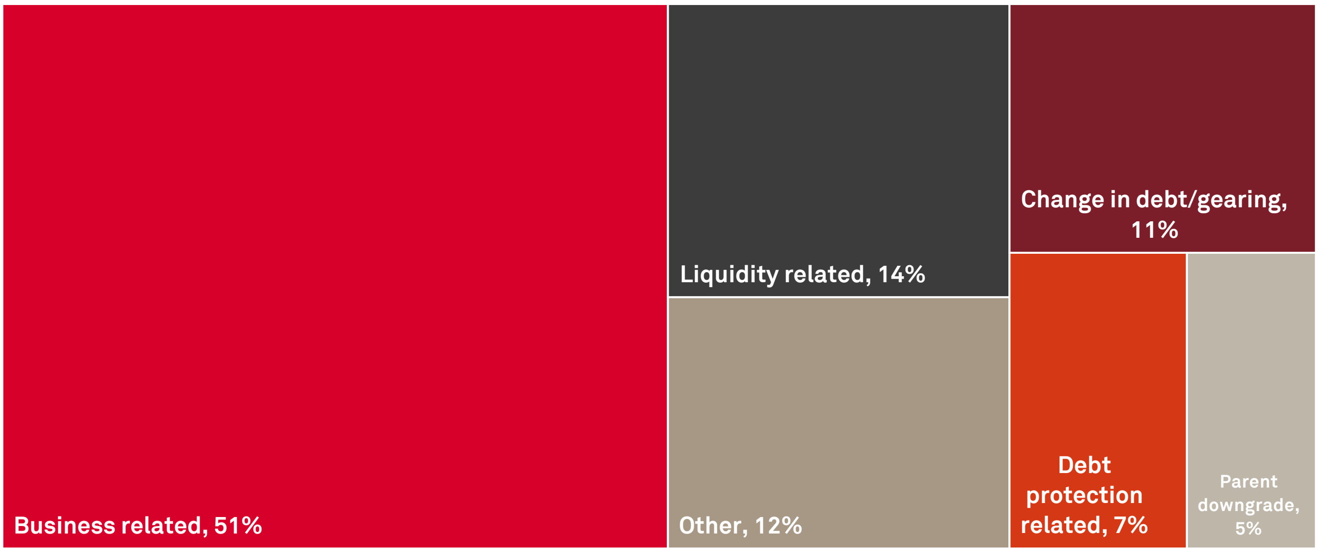
Figure 7: Segmental upgrade rate



Reasons for downgrades

Analysis of downgrades during the first half of fiscal 2025 shows that around half of the downgrades were driven by revenue/profitability issues, including weaker-than-expected demand or order book. Meanwhile, ~14% of downgrades were attributed to entity-specific stretched liquidity, specifically in sub-investment grade rating categories, and ~11% of downgrades were due to change in debt/gearing related issues (refer to *Figure 8)*.

Figure 8: Analysis of downgrades (size of each box represents the share in total downgrades)

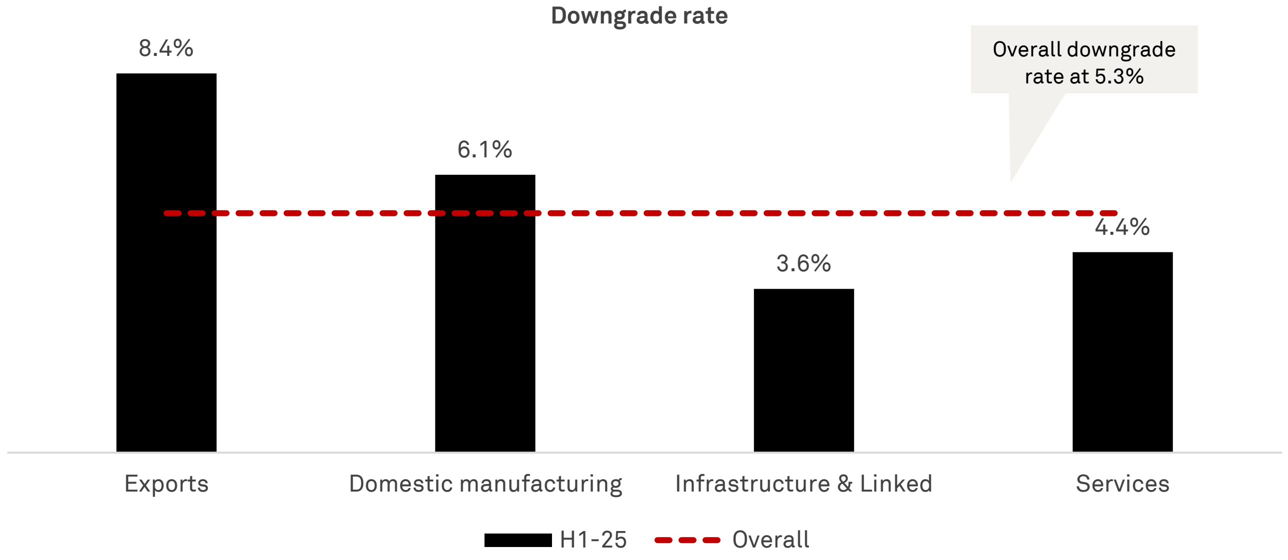


At the segmental level, the downgrade rate dipped across segments compared with the second half of last fiscal. Notably, majority of the downgrades were in domestic manufacturing, followed by exports, infrastructure and services (refer to *Figure 9*).

- Agricultural products witnessed downgrades on account of decline in both, revenue and profitability, due to declining realisations.

- Textiles saw high downgrades because of decline in revenue on account of slowdown in overseas markets. That said, textile exports are expected to recover this fiscal.
- Entity-specific liquidity issues in sub-investment grade led to some downgrades.

Figure 9: Segmental downgrade rate



Macroeconomic outlook

The country ended fiscal year 2024 on a high note, surpassing market estimates with an 8.2% on-year growth. This marks the third consecutive year of GDP growth exceeding expectations, despite global uncertainties. Strong domestic demand and continuous government efforts toward capex drove this growth.

For fiscal 2025, CRISIL expects India's GDP growth to moderate to 6.8%. The first quarter of this fiscal has already seen 6.7% GDP growth, which is in line with expectations. While the long election cycle did delay government spending in the first quarter, private consumption has picked up significantly, driven by improving rural conditions and acceleration in fixed investment led by private investments, that is, household and private corporate investments.

For the rest of the decade (fiscals 2025-2031), CRISIL expects India's GDP growth averaging at 6.7%. Manufacturing sector growth in medium term will be aided by 3 'Ps':

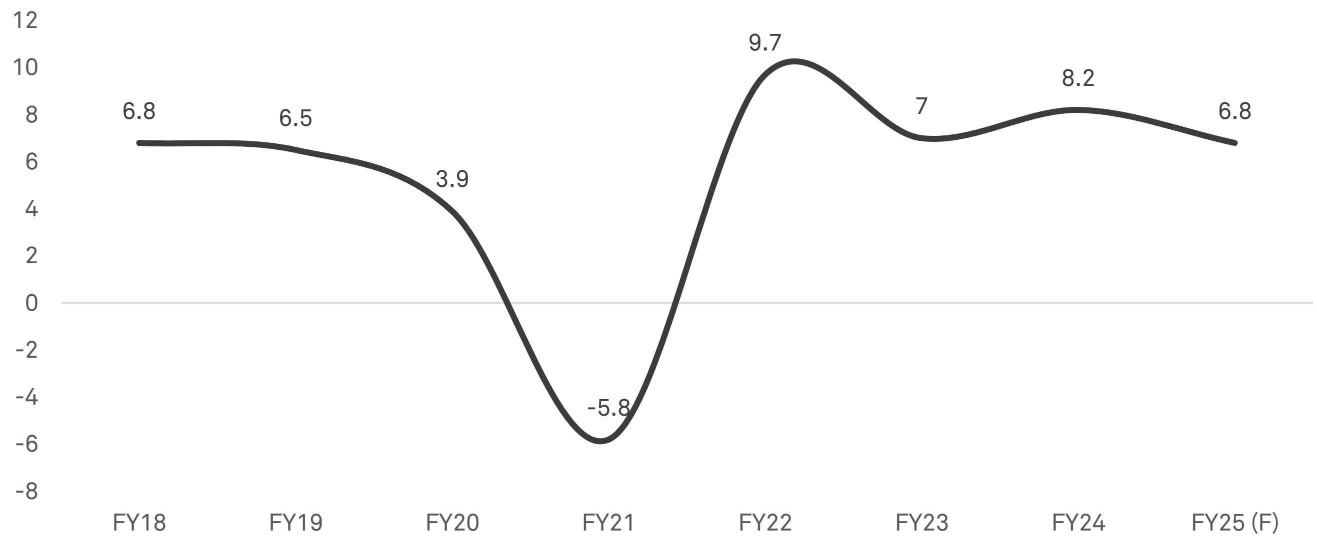
a. **P**hysical infrastructure, that is, optimised logistics and supply chain

b. **P**rocess improvement, reflected in the ease of doing business and digital transformation

c. **P**olicies, with supportive frameworks such as production-linked incentive scheme and bilateral trade agreements

The outlook is positive, with private consumption and investment expected to remain healthy for the rest of the fiscal, driven by increased government spending and infrastructure buildout. Further, private consumption is poised to rise driven by rural demand while investment prospects hinge on a sustained pick-up in private investment.

Figure 10: India's GDP growth (%)



Source: India GDP: CRISIL Centre for Economic Research (CCER), National Statistical Office (NSO), (F) Forecasts

After three years of high inflation, consumer price index (CPI) inflation eased to 5.4% in fiscal 2024, which is a promising sign. This is expected to decline further to 4.5% in fiscal 2025, driven by softer food prices and the arrival of fresh supplies. This decrease in inflation will likely boost consumption, which is already expected to rise due to strong rural demand. A good monsoon and higher agricultural production will further support consumption growth, aided by government spending on employment and asset-creating schemes.

Meanwhile, geopolitical tensions continue to threaten supply chains and commodities, as reflected in the surge in crude oil prices from December 2023 to April 2024. While the prices have since eased, any escalation in the ongoing geopolitical uncertainties could lead to a surge or constrain supply chains.

Credit quality outlook is 'positive’ for this fiscal

India Inc’s credit quality outlook is positive for the second half of fiscal 2025, with upgrades expected to outnumber downgrades. Companies would continue to benefit from robust domestic demand, continued government spending on infrastructure and strong balance sheets of corporate India.

India’s healthy GDP growth expectations in fiscal 2025 underscores healthy domestic consumption and the multiplier effect of the ongoing infrastructure buildout. These, along with deleveraged corporate balance sheets, are expected to keep the credit quality outlook of India Inc positive.

Corporates are expected to keep a watch on geopolitical tensions, which can impact supply chains and could again see inflation rising. The global macroeconomic conditions continue to weigh on the operating performance of export-oriented sectors such as diamond polishers, textiles and specialty chemicals.

In the financial sector, bank credit growth is expected to be healthy in fiscal 2025, but a tad slower over fiscal 2024 due to revision in risk weights on lending to some of the faster growing segments. Similarly, growth in the AUM of non-banks is seen moderating due to regulatory measures aimed at reining in high growth levels in unsecured lending.

The asset quality of banks is seen benign, while that of non-banks is seen stable. Within the lending portfolio of non-banks, unsecured and microfinance loans would bear watching

Given this milieu, we look at the credit quality outlook of different sectors in fiscal 2025:

Sectoral credit quality outlook

COIN framework: Corporate and infrastructure credit quality outlook

The Ratings Round-Up for the second half of fiscal 2024 was the first time we had presented the COIN framework, which separates the representation of the corporate and infrastructure sectors to assess parameters that are relevant to these segments. We continue to present our credit quality outlook through the COIN framework.

The background of COIN framework:

The COIN framework separates the representation of the corporate and infrastructure[9] sectors.

For corporates, it analyses operating cash flow (change in absolute estimated Ebitda on-year) and balance sheet strengths expected by the end of this fiscal. For the infrastructure segments, it analyses relevant parameters relating to revenue growth and debt protection metrics by using a separate framework.

The proprietary COIN framework provides our credit quality outlook on 38 sectors (accounting for more than 75% of the rated debt[10]) for fiscal 2025.

Credit quality outlook framework for 26 corporate sectors

Methodology and assumptions

We analysed 26 key sectors on two key parameters (same as the previous edition of Ratings Round-Up):

1. Operating cash flow strength (expected growth in absolute Ebitda in fiscal 2025 over fiscal 2024)
2. Balance sheet strength expected gearing as on March 31, 2025

[9] Covered under infra are 12 sectors (residential and commercial real estate, gas distribution, airports, toll roads and HAM, ports & services, thermal power, power - transco, renewable power, private discom), with a new addition - data centres
[10] Excluding financial services and infra

These two parameters help arrive at the overall sector credit quality outlook, as summarised below:

Figure 11: Parameters for assessing corporate credit quality outlook

		Balance sheet strength for fiscal 2025	
		Robust balance sheet	Moderate balance sheet
Operating cash flow growth in fiscal 2025 over fiscal 2024	Healthy (>10%)	Strong outlook	Moderate outlook
	Moderate (0 to 10%)	Favourable outlook	
	Declining (<0%)	Neutral	Negative outlook

For instance, in the Hospitality (hotels & resorts) sector, absolute Ebitda is expected to grow 14-16% in fiscal 2025 over fiscal 2024, led by robust demand for domestic leisure and business travel and revival in foreign tourist travels. Hence, cash flow growth in fiscal 2025 would be healthy (*refer to Figure 11*). The sector is estimated to have a robust balance sheet. Combining the two, the sector has a strong credit quality outlook in fiscal 2025.

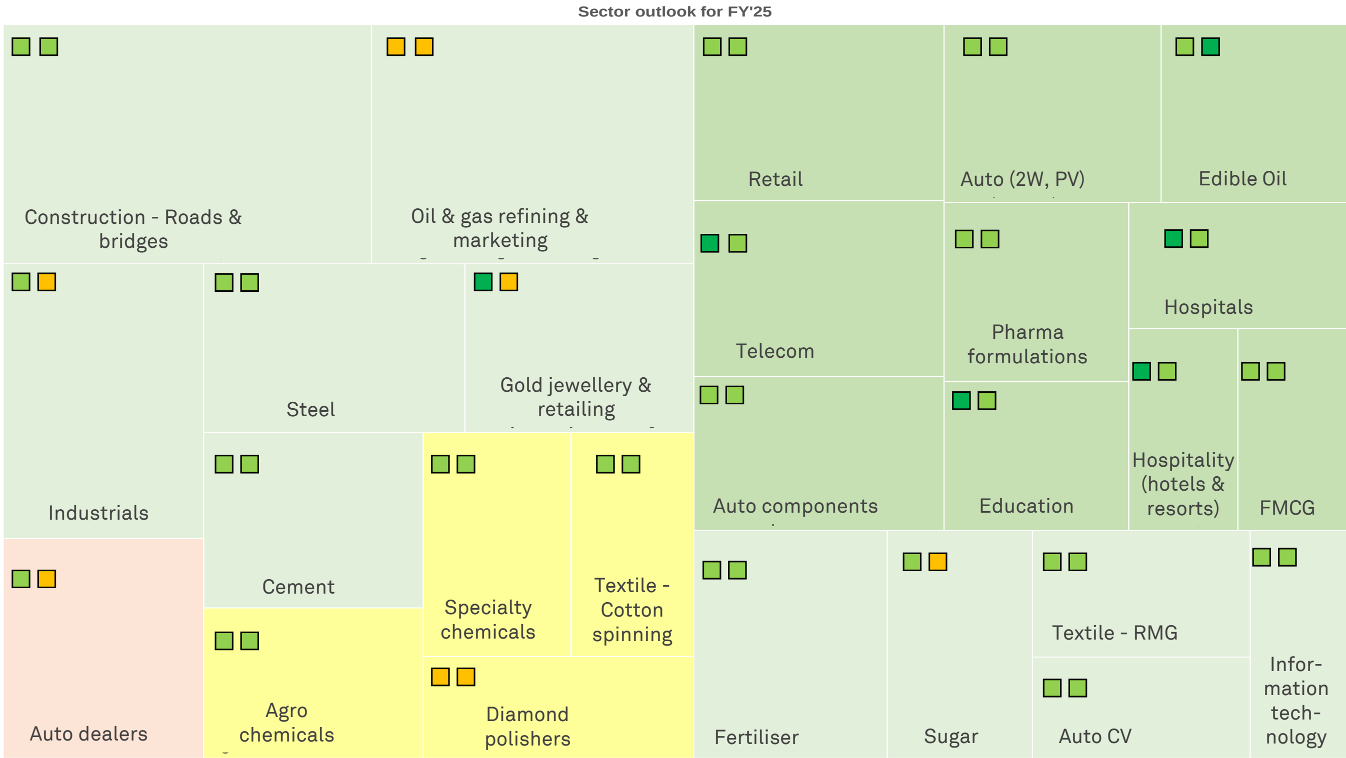
The sectoral credit quality outlook arrived at by this methodology is represented by way of a heatmap (*refer to Figure 12*), where the background colour of each block represents the credit quality outlook for the sector.

The size of the blocks in the heatmap gives the approximate relative size of rated debt for that sector.

Within each block for a sector, two additional growth indicators provide information on (i) expected growth in revenue for fiscal 2025, and (ii) expected growth in Ebitda margin[11] (*refer to Figure 13*). The combination of both leads to change in cash flows. The extent of expected growth is indicated by the colour of these two indicators (*refer to Figure 14*).

[11] Growth indicator for Ebitda margin is calculated based on percentage change in basis points (bps). For instance, for a sector operating at a 7% margin, an increase by >10% would mean a margin growth by >70 bps. Similarly, for a sector operating at 20% margin, an increase by >10% would mean a margin growth by >200 bps

Figure 12: Corporate credit quality outlook for 26 sectors



Industrials include industrial machinery, consumables and electrical components

- **Strong outlook:** Sectors expected to see healthy operating cash flow — through margin expansion or volume growth or both — as well as robust balance sheets (very strong or strong). 10 of the 26 sectors have strong credit quality outlook. These are represented by a green background
- **Favourable outlook:** Sectors that may see moderate operating cash flow strength but still maintain a robust balance sheet. This covers 11sectors, and are represented in light green background
- **Neutral outlook:** Sectors that are expected to see unfavourable operating cash flow cushioned by robust balance sheets. We have four sectors here, represented by a yellow background
- **Moderate outlook:** Sectors that are expected to see favourable or moderate operating cash flow, but moderate balance sheets. We have one sector in this bucket, represented in light red background
- **Negative outlook:** Sectors that are expected to see a decline in operating profit and modest balance sheet strength. There are no sectors here

Figure 13: Representation of outlook for a sector

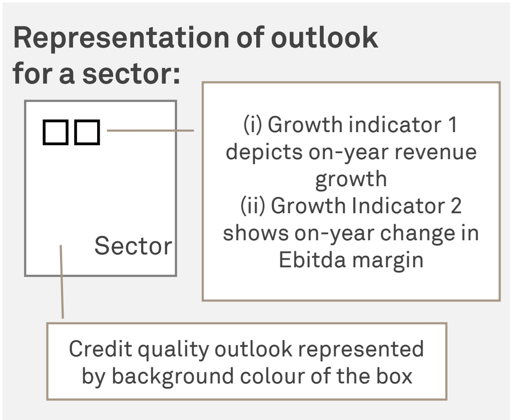
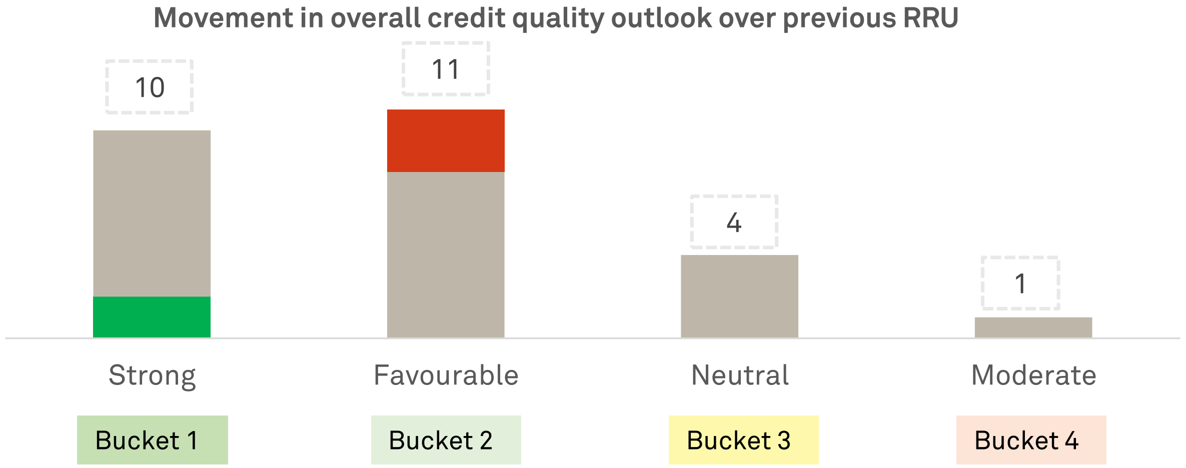


Figure 14: Legends used for growth indicators

Figure 15: Key conclusions of the corporate framework



Number in the dotted box represents count of sectors

↑ movement over H2 24 | No movement over H2 24 | ↓ movement over H2 24

Note: RRU – Ratings Round up

Movement due to changes in operating cash flow strength:

Sector	Upward movement
FMCG	↑
Pharma formulations	↑

Sector	Downward movement
Cement	↓
Fertiliser	↓
Information technology	↓

↑ Movement to bucket 1 ↓ Movement to bucket 2

None of the sectors saw a deterioration in balance sheet strength

- **The credit quality outlook is strong to favourable** for 21 of 26 corporate sectors, characterised by robust balance sheets with cash flows in fiscal 2025 (expected to be substantially higher than fiscal 2024). These include automobile and allied sectors — where credit quality is supported by healthy demand and price hikes, edible oil — which will benefit from stable demand and upward correction in prices.

  Other sectors include hospitality — where improvement in revenue, driven by robust demand and revival of foreign tourist arrivals, is expected to support growth; education — where growth in enrolment rates and regular fees hikes are expected to be growth supportive. Also included are allied sectors brought into prominence by the government's infrastructure spending, such as construction companies and cement. Capital goods manufacturers benefit from both infrastructure-related capex as well as the uptick seen in private sector capex.

- **Neutral** credit quality category remains unchanged with four corporate sectors — specialty chemicals, agrochemicals, textile cotton spinning and diamond polishers — which still face headwinds due to global macroeconomic conditions. These sectors continue to have strong balance sheets and hence, the outlook on the sectors is neutral.

- The **Moderate** category remains unchanged, too, and includes automotive dealers whose credit quality outlook is **moderate**, as cash flows are expected to grow while balance sheets remain constrained by relatively higher leverage to fund large passenger vehicle inventory. Inventory of PV dealers, though currently high, is expected to reduce with improving demand, but steady-state inventory levels will be higher than the previous fiscals.
- This time as well, none of the sectors analysed has a **negative** credit quality outlook.

Credit quality outlook framework for 12 infrastructure segments

The infrastructure sector is characterised by visibility and stability in revenue after project commissioning on account of the presence of fixed price, long-term contracts. Developers and groups can face issues when there are cost and time overruns in project implementation, or when operating performance deteriorates either on account of lower performance on metrics or higher-than-anticipated costs. Considering these unique drivers, we have analysed credit quality outlook for identified infrastructure sectors using a customised framework.

Methodology

- The framework analyses identified sectors on two parameters. On X axis, we have plotted the expected change in debt protection covers[12] (generally debt service coverage ratio [DSCR]) over the medium term, divided into three categories — a) fall in debt protection cover, b) increase in debt protection cover by over 10%, and c) stable debt protection cover.
- On Y axis, revenue growth for the sector is plotted with the three categories being: a) decline in revenue in the near term, b) increase in revenue growth, and c) revenue growth remaining range bound.

Figure 16: Infrastructure framework for 12 sectors

Revenue growth in the near term	Moderating	Stable	Improving
High		City Gas Distribution Data centres Residential Real estate Commercial Real Estate Airport operators	
Steady		Transmission Private discoms Renewable Road - HAM Thermal power - private Road - Toll Thermal power - public	
Decline			

Movement in debt protection cover over the medium term

[12] Metric used for debt protection cover is DSCR for the above infrastructure sectors, except for residential real estate, where the metric used is debt to cash flow from operations; for city gas distribution, the metric used is debt/Ebitda

Key conclusions from the study on the infrastructure sector:

- Credit quality outlook is favourable for all 12 infrastructure sectors. Revenue growth for all is expected to increase or remain stable in fiscal 2025. Five of the 12 sectors are expected to see relatively higher growth of over 10% on-year. This is driven by the government's continued focus on increasing capacity in infrastructure sectors and new projects getting commissioned. Commercial real estate players will move from 'stable' to 'high' revenue growth for fiscal 2025 over fiscal 2024, driven by healthy demand from global capability centres, BFSI[13] and manufacturing sectors.
- Sectors such as renewable, HAM roads and data centres are expected to see relatively higher capex. However, the passive nature of renewable, data centres and HAM road assets and high demand for residential real estate keep these sectors favourably placed from a credit quality perspective.
- Movement in leverage in terms of debt protection covers is expected to remain stable over the medium term for all sectors. This is due to stability in cash flows stemming from long-term contracts, tariff revisions and prepayment of debt in some sectors. Private discoms (distribution companies) have moved from 'improving' to 'stable' category in debt protection covers mainly due to tariffs not being as high as expected and due to capex by the players.

[13] Banking, Financial services and Insurance

Credit quality outlook for key sectors this fiscal

In this section, we present the credit quality outlook for some sectors that are a part of our COIN framework and their expected performance on key parameters (revenue visibility, profitability, gearing and working capital) in fiscal 2025 compared with fiscal 2024.

For revenue, profitability and gearing or balance sheet strength, the indicators and their legend have the same meaning as in the COIN framework (*refer to section titled 'COIN framework').* However, here we have used green, amber and red colours as indicators — a green indicator represents an improvement, amber represents no change, and red means likely deterioration in fiscal 2025 over fiscal 2024.

Parameters wise explanation of indicators

Indicator	Revenue growth in fiscal 2025	Improvement in operating margin*	Balance sheet strength	Working capital
		fiscal 2025 vis a vis fiscal 2024	represented by gearing as on fiscal 2025	fiscal 2025 vis a vis fiscal 2024
Green	More than 10%	Improvement of more than 10%	Very strong	Improvement
Amber	Between 0-10%	Improvement between 0-10%	Strong	Stable
Red	Degrowth	Decline in margin	Moderate	Deterioration

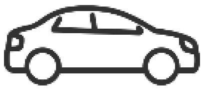
**Improvement in operating margin depicts change in Ebitda margin (%) in FY25 over FY24. The thresholds given are applied on base operating margin (FY24). For example, for a sector operating at 20% margin in FY24, a threshold of > 10% change would mean an improvement by more than 200 bps in FY25. This would be depicted in green. If the increase in margin in FY25 is from 0 to 200 bps (less than 10%) it is indicated by amber. And a decline in margin would be indicated in red.*

Corporate sectors

Strong credit quality outlook

These sectors are likely to have healthy cash flow and robust balance sheets in fiscal 2025 over fiscal 2024.

	Revenue visibility	Profitability	Gearing	Working capital



Auto - PVs

Estimates for fiscal 2025 (E): Revenue growth: 6-7%; Ebitda margin: 12.0-12.5%

Overall PV revenue is expected to grow 6-7% in fiscal 2025, reaching a new high of around 50 lakh units. This growth will be driven by a 4-5% increase in domestic volume and 10-12% (albeit on a small base) increase in export volume, as well as modest increase in realisations as demand for utility vehicles (UVs) continues to rise. Export growth is anticipated to benefit from improving global economic conditions in key markets and potential rate cuts in those economies. However, slow urban demand has pushed up inventory at the dealer level. While growth has been impacted in the first few months of this fiscal, it is largely supported by UV demand, which is also expected to benefit from anticipated rate cuts in the second half of this fiscal. Operating profitability in fiscal 2025 will benefit from price hikes made earlier, increased sales volume of higher priced vehicles, and raw material prices remaining range bound.

The total capex outlay for fiscal 2025 is estimated at Rs 25,000-26,000 crore and is geared towards capacity enhancements, new UV model, electric vehicle launches and debottlenecking.

	Revenue visibility	Profitability	Gearing	Working capital

Auto - Two-wheelers

Expectation for fiscal 2025: Revenue growth 12-13%; Ebitda margin 15.5-16.0%

Revenue growth in fiscal 2025 is expected to remain healthy at 12-13% — this is higher than earlier expectations because of revival in rural demand and premiumisation in urban markets. Stable commodity prices will keep raw material costs in check, while the increasing popularity of higher priced vehicles and new models will continue to drive realisations and domestic volume, especially in urban markets. Revival is seen in rural sales due to better monsoon and higher disposable incomes. Export growth will remain sluggish due to economic challenges in key markets. The electric two-wheeler market is expected to continue to grow at a healthy pace, especially in the second half, with the recent announcement of Rs 10,000 discount for fiscal 2025, and Rs 5,000 for fiscal 2026; as part of the prime minister E-drive scheme for a total of 24.79 lakh vehicles.

	Revenue visibility	Profitability	Gearing	Working capital

Operating margin will stay steady given ongoing volume growth and stable commodity prices.

Capex of ~Rs 2,800 crore is expected this fiscal, with focus on investments in electric vehicles, research and development for new models and technology upgradation, and debottlenecking.

	Revenue visibility	Profitability	Gearing	Working capital

Automotive components

Estimates for fiscal 2025 (E): Revenue growth: 9-10%; Ebitda margin: 13.0-13.5%

The steady demand, albeit slower than last fiscal, from original equipment manufacturers (OEMs), especially in the two-wheeler and PV segments, will drive revenue growth for auto components. The replacement market will also contribute to this growth. However, export growth may be modest due to gradual demand revival in North America and Europe, which make up 45-50% of total exports.

Operating margin is expected to improve 30-40 bps in fiscal 2025. Stable raw material prices and operating leverage benefits will be offset by increased freight costs due to geopolitical uncertainties.

Capex intensity will be aligned with investments by automobile OEMs, mainly focusing on PLI scheme-related capacity expansion and for EV-related components. The estimated capex for fiscal 2025 is Rs 17,500 crore, up from Rs 12,500 crore last fiscal.

	Revenue visibility	Profitability	Gearing

Education

Expectation for fiscal 2025: Revenue growth 12-14%; Ebitda margin 28%

Revenue growth of schools and colleges in fiscal 2025 is expected to be supported by higher enrolments and regular hikes in fees. Demographic dividends and government efforts are likely to push enrolment rates. This, coupled with regular fee hike, would lead to double-digit growth.

Operating margin is likely to remain stable at 28%, aided by growth in revenue and better fixed-cost coverage. Annual capex will likely be slightly lower than fiscal 2024, funded partly through debt, with the balance sheets of education institutions having the cushion to absorb the impact.

	Revenue visibility	Profitability	Gearing	Working capital

FMCG

Expectation for fiscal 2025: Revenue growth 7-9%; Ebitda margin 20-21%

Revenue is expected to grow 7-9% in fiscal 2025, driven by expansion in volume and modest growth in price realisations. Rural demand, which constitutes about 40% of the overall revenue for the sector, is expected to see a sustained recovery led by better monsoon and easing inflation, a major factor impacting performance in the past few quarters. Increase in minimum support prices of key crops and continued government spends on rural infrastructure will further aid growth.

Traction in urban demand will remain a key monitorable. Increasing premiumisation and growth in volume are expected to expand operating margin by 50-75 bps to 20-21%.

Healthy cash and cash surpluses built up over time add to the liquidity cushion, which permits increasing capex and acquisitions without strain on balance sheets. Capex is expected at Rs 11,000-12,000 crore in fiscal 2025 compared with an estimated 17,000 crore in fiscal 2024. Debt protection metrics will remain strong due to healthy cash generation, low reliance on debt and negative working capital cycle.

	Revenue visibility	Profitability	Gearing	Working capital

Hospitals

Expectation for fiscal 2025: Revenue growth: 13-14%; Ebitda margin: 16.0-16.5%

The expected revenue growth is driven by addition of beds, increasing average revenue per occupied bed and a higher share of complex surgeries. This, combined with steady occupancy should help sustain healthy operating margin at ~16%, despite rising fixed costs, owing to bed additions.

Hospital companies may continue expanding bed capacity in current facilities and establishing new facilities, leading to capex of Rs 6,500 crore this fiscal, higher than fiscal 2024. However, healthy cash flow from existing operations will ensure reliance on external borrowing remains moderate.

	Revenue visibility	Profitability	Gearing	Working capital
Hospitality (hotels and resorts)				

Expectation for fiscal 2025: Revenue growth 12-14%; Ebitda margin 33.0-33.5%

Revenue growth in fiscal 2025 are driven by robust demand for domestic leisure and business travel and revival in foreign tourist arrivals. These are expected to cross pre-pandemic levels this fiscal. Moderate addition in branded rooms (4-5% addition this fiscal) may help increase average room rent by 5-6% and ensure occupancy improves 150-200 bps to 71.5-73% this fiscal.

Strong cash generation will ensure limited reliance on external debt for capex, keeping gearing comfortable below 0.7 time.

	Revenue visibility	Profitability	Gearing	Working capital
Pharma formulations				

Expectation for fiscal 2025: Revenue growth 9%; Ebitda margin 22.5-23.0%

Revenue growth in fiscal 2025 will be aided by healthy growth in demand from overseas markets (both regulated and semi-regulated) and steady domestic sales. Growth in the regulated markets of the US and Europe will be driven by continued drug shortages, higher prices in the US generics market and the volume uptick expected from new product launches. Growth in semi-regulated markets will be aided by recovery in select African and Latin American countries.

Benefits of operating leverage amid steady input prices and easing pricing pressure leading to improved realisations in the US markets. Thus, the operating margin may expand 50-100 bps this fiscal. While organic capex shall continue to be steady, the sector is witnessing strong inorganic activity. Debt protection metrics will remain healthy due to strong cash generation.

	Revenue visibility	Profitability	Gearing	Working capital

Edible oil

Expectation for fiscal 2025: Revenue growth ~9.5%; Ebitda margin 3.6%

Despite steady rise in consumption, revenue de-grew in fiscal 2024 due to a decline in realisations, particularly for sunflower oil and soybean oil. The revenue is expected recover this fiscal, driven by stable demand and higher prices. However, the prices have increased because of increase in import duty for major oils. After declining 50-80 bps in fiscal 2024 on account of input price volatility, the margin is expected to improve in fiscal 2025, aided by favourable price movements and better realisations. The hedging policies adopted by players will continue to insulate them from any sharp movement in prices.

Branded players have added capacities, considering the rise in domestic demand. Capex may increase ~5% this fiscal, majorly towards capacity addition and regular maintenance for improved productivity.

The impact of El Niño conditions, changes in duty structure and escalation of geopolitical complexities remain monitorable

Favourable credit quality outlook

These sectors are expected to have favourable trends in one of the two parameters — operating cash flow strength or balance sheet strength. Absolute operating profit is expected to improve in fiscal 2025 and the balance sheet strength is expected to be strong or very strong.

	Revenue visibility	Profitability	Gearing	Working capital

Gold jewellery & retailing

Expectation for fiscal 2025: Revenue growth 22-25%; Ebitda margin 7.1-7.2%

Strong double-digit revenue growth is likely in fiscal 2025, led by higher gold prices. Volume growth, albeit modest, should be driven by the recent custom duty cut in the first half and will be supported by festive season in the second half of the fiscal. Shift in demand from the unorganised to organised sector, along with continued double-digit store expansions to smaller towns and cities, should also aid revenue growth.

Higher input cost and a one-time inventory loss due to the custom duty cut may impact the operating margin slightly. Besides, higher-priced inventory will lead to large working capital borrowing.

	Revenue visibility	Profitability	Gearing	Working capital
Construction (roads)				

Expectation for fiscal 2025: Revenue growth 7-9%; Ebitda margin 13-14%

Revenue growth is expected to moderate in fiscal 2025, as lower highway awarding last fiscal will weigh on the order book position of road developers. The Ministry of Road Transport and Highways (MoRTH) awarded an average of ~12,500 kilometre (km) projects between fiscals 2022 and 2023, but the number dropped to 8,581 km last fiscal. Consequently, the order books of road construction companies declined to 2.3 times their annual revenue at the end of last fiscal from 2.6 times in fiscal 2023.

Operating margin, on the other hand, is expected to hold steady as prices of key raw materials — steel and bitumen — are down 5-17% from their peaks in fiscal 2022. Since most projects are awarded on fixed-price basis, this will keep operating profitability steady at 13-14% despite the increased competitive intensity at the time of awarding of these projects. Balance sheets have strengthened over the years due to asset monetisation and equity infusion and will likely remain healthy, aided by steady internal accrual.

	Revenue visibility	Profitability	Gearing	Working capital
Auto - CV				

Expectation for fiscal 2025: Revenue growth 4-5%; Ebitda margin 10.5-11.0%

Revenue growth this fiscal will be driven by price increases, with volume growth expected to be modest for medium and heavy commercial vehicles (MHCVs) and flattish for light commercial vehicles (LCVs). MHCV demand has been impacted by the temporary slowdown in infrastructure spending during the first quarter due to the general. Demand for LCVs will remain subdued due to the high-base effect and moderation in spends by e-commerce players.

Higher realisations and stable input prices will lead to sustenance of operating margin at ~11% for fiscal 2025, in line with the previous fiscal.

The modest increase in volume will keep capacity utilisation of CV makers at 72-74% for fiscal 2025, eliminating the need for significant capacity addition and keeping capital spend in check. Hence, capex in fiscal 2025 should remain stable at ~Rs 4,000 crore.

	Revenue visibility	Profitability	Gearing	Working capital
Textiles – RMG				

Expectations for fiscal 2025: Revenue growth 4-6%; Ebitda margin 11.0-11.5%

The readymade garment (RMG) industry is expected to witness moderate growth of 4-6% in fiscal 2025, as domestic demand may remain muted due to overstocking by retailers over the last fiscal. However, festive season and the higher number of wedding days during the second half of the fiscal could spur revival in domestic demand.

Exports, on the other hand, are expected to witness recovery in demand, after two fiscals of de-growth, due to continued discretionary spending in the key export destinations as well as cost competitiveness of RMG exporters.

Steady revenue growth and cotton prices will likely keep the operating margin at 11.0-11.5% in fiscal 2025.

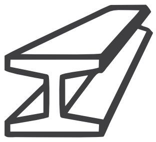
	Revenue visibility	Profitability	Gearing	Working capital
Steel (primary)				

Expectation for fiscal 2025: Revenue growth 3-4%; Ebitda margin 15-16%

Volume growth is expected to taper in fiscal 2025 due to the high-base effect (~14% in fiscal 2024) That said, domestic demand should still be robust at 8-9%, against muted growth in global steel demand (1–2%) and should ensure solid capacity utilisation of over 80% for primary steel producers. While trend of higher imports and moderation in steel prices may continue this fiscal as well amid the risk of Chinese oversupply, the impact on operating earnings will be limited. This is because of robust domestic demand and cost efficiencies of domestic primary producers.

The top primary producers are expected to undertake capex of Rs 65,000-70,000 crore per annum over the next couple of fiscals, towards capacity expansion and efficiency improvement. Despite the ongoing capex, leverage should be comfortable, supported by healthy cash accrual.

	Revenue visibility	Profitability	Gearing	Working capital
Steel (secondary)				



Steel (secondary)

Expectation for fiscal 2025: Revenue growth 5-6%; Ebitda margin 5-6%

Domestic secondary steel makers revenue growth is expected to be driven by continued thrust on infrastructure spending and demand from housing segments. After declining in fiscal 2024, long steel realisations are expected to stabilise

Operating margin may marginally improve this fiscal owing to a drop in prices of key inputs. Capex, which has been healthy in the past two years owing to high-capacity utilisation, may slow down this fiscal, with most enhanced capacities coming on board.

	Order book/ revenue visibility	Profitability	Gearing	Working capital
Information technology (IT)				

Information technology (IT)

Expectation for fiscal 2025: Revenue growth 5-7%; Ebitda margin 22-23%

Revenue growth may be moderate at 6% this fiscal, with modest technology spends in the four key segments — BFSI (revenue share of ~30%), retail (~15%), technology (10%) and communications and media (10%) — which account for ~65% of the revenue of the Indian IT services sector. BFSI and retail segments will see slow growth of 4-5% despite rate cut expectations in the second half of the fiscal as customers focus on automation and optimising costs, while large discretionary spends will continue to witness deferrals. Manufacturing and healthcare segments will remain key growth drivers with healthy growth of 9-10%. Operating margin may sustain at 22-23% this fiscal, as they adopt a cautious approach on fresh hiring, effect modest salary increments and focus on improving utilisations.

	Revenue visibility	Profitability	Gearing	Working capital
Oil & gas refining & marketing				

Expectation for fiscal 2025: Revenue growth (1-2)% Ebitda margin 5-7%

Marginal dip in revenue is expected this fiscal owing to softening oil prices. Oil prices have dropped to ~$70 per barrel from ~$82 per barrel in the first half of fiscal 2025 and ~$83 per barrel average last fiscal. Operating profits could decline on-year due to lower diesel cracks, receding discounts on crude oil imported from Russia and on factoring crude oil price at an average of $79 per barrel for this fiscal. That said, if oil prices continue to sustain at the current level of $70 per barrel for the rest of the fiscal, with no corresponding reduction in retail prices of petrol and diesel, operating profits could be higher than estimated.

The industry continues to undertake capex towards refinery expansions to meet domestic demand. Capex is expected at ~Rs 58,500 crore this fiscal.

	Revenue visibility	Profitability	Gearing	Working capital
Cement				

Expectation for fiscal 2025: Revenue growth 7%; Ebitda margin 18%

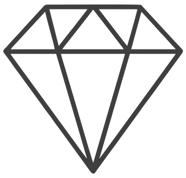
After three consecutive years of strong growth led by step up in infrastructure as well as housing activities, cement demand should grow at a moderate pace of 7-8% to reach 475-480 million tonne in fiscal 2025. This tapering of growth is on the high base of last fiscal and owing to slowdown in construction momentum during the first half of this fiscal because of labour unavailability during the general elections followed by seasonal weakness. Demand is likely to rebound in the second half of the year, on expectation of higher investments in infrastructure and industrial segments, resurgence in the rural sector following a good monsoon and continued traction in urban housing.

Profitability (represented by Ebitda per tonne) is expected to remain rangebound at Rs 975-1,000 in fiscal 2025 (Rs 981 in fiscal 2024) as the benefit of reduction in power and fuel cost owing to stable petcoke/coal price may be offset by marginal dip in realisation.

Capex is likely to see an uptick in fiscal 2025 as cement makers have embarked on sizeable expansion, supported by their healthy balance sheets. An analysis of cement manufacturers accounting for almost 86% of the overall sales volume, indicates total capex of Rs 41,000 crore in fiscal 2025 versus Rs 25,000 crore in fiscal 2024. Cement players are also looking to grow inorganically, which could entail additional cash outflow. Yet, the capex intensity is expected to remain comfortable owing to healthy profitability.

Neutral credit quality outlook

The following sectors are expected to see continued moderation or further decline in cash flow in fiscal 2025 even as balance sheets remain strong. Sectors such as specialty chemicals and textiles were impacted in fiscal 2024. While these sectors have recovered to some extent, these still are classified in neutral credit quality outlook because of low base in the previous fiscal and are also below peak levels seen in fiscals 2022 and 2023.

<table>
<tr><th></th><th>Revenue visibility</th><th>Profitability</th><th>Gearing</th><th>Working capital</th></tr>
<tr><td rowspan="2">
Diamond</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="4">Expectation for fiscal 2025: Revenue growth (25%); Ebitda margin 3.0-3.5%

Exports of polished natural diamonds remain affected by continued slowdown in the key markets of the US and China amid economic headwinds, along with competition from lab-grown diamonds in the US and gold in China. This is expected to result in a 25% on-year dip in exports in fiscal 2025. Holiday season sales, during the second half of the fiscal, remain monitorable.

Slow demand will likely keep prices subdued, amidst limited supply by miners and prudent purchases by polishers. Falling inventory in the value chain should insulate prices from declining beyond 10%. Operating margin is expected to remain flattish amid weak demand environment.

Working capital requirement is likely to reduce owing to cautious purchases of rough diamonds by polishers. Absence of any major capex and limited working capital requirement will keep leverage low and aid debt protection metrics. This should provide some support to the modest credit profiles in the sector in an otherwise weak demand environment.</td></tr>
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	Revenue visibility	Profitability	Gearing	Working capital

Specialty chemicals

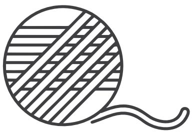
Expectation for fiscal 2025: Revenue growth 3-5%; Ebitda margin 12.5-13.0%

Revenue will likely increase 3-4% in fiscal 2025, after a 9% decline last fiscal, yet will remain lower than previous peak achieved in fiscal 2023. The growth this fiscal will be driven by domestic demand. Recovery in exports is expected to be gradual amid challenging global macroeconomic conditions. From the end-user perspective, segments such as flavours and fragrances, surfactants and personal care products are likely to experience a quicker recovery, while agrochemicals and polymers may take longer to bounce back given continuing supply deluge from China.

As demand stabilises and pricing pressures in certain product categories ease, operating margin may improve by 50-100 bps to about 13% following a decline of 300-400 bps in the previous fiscal following dumping by China.

Due to the anticipated demand growth, capex may rise to ~Rs 14,500 crore this fiscal owing to expanding applications in emerging technologies, downstream product value chains and efforts to enhance operational efficiency.

	Revenue visibility	Profitability	Gearing	Working capital



Textiles

Cotton spinning

Expectation for fiscal 2025: Revenue growth 4-6%; Ebitda margin 10.0-10.5%

Recovering from a 6% de-growth in fiscal 2024, revenue for cotton yarn spinners is expected to rise 4-6% this fiscal, driven by steady demand from RMG and home textile segments and stable cotton prices. However, movement of domestic cotton prices versus international prices and the impact on cotton yarn exports will remain monitorable.

Operating margin may improve 100-150 bps to 10.0-10.5% in fiscal 2025, recovering from decadal low of 8.5-9.0% in fiscal 2024, as cotton prices are expected to remain in check.

Consequently, improvement in credit profiles for fiscal 2025 will be supported by deleveraged balance sheets, moderate capex and higher cash accrual.

	Revenue visibility	Profitability	Gearing	Working capital
Agrochemicals				

Estimates for fiscal 2025: Revenue growth: 3-4%; Ebitda margin: 10.5-11.0%

Revenue growth may be modest at 3-4% this fiscal, driven by the domestic market due to increased farming activity following a better monsoon. This has led to improved kharif sowing compared to last year, with expectations of relatively better rabi sowing as well. However, exports, which contribute 55% to the sector's revenue, are expected to be sluggish despite modest volume recovery in key markets such as the US, Latin America and Europe, owing to pricing pressure from China affecting realisations.

Operating profitability of domestic agrochemical players is likely to improve in fiscal 2024, supported by cost-correction measures by most players amid slower-than-expected global demand recovery, lesser inventory write-offs and steady enhancement in operating leverage.

Capex may increase marginally to ~Rs 6,000 crore in fiscal 2025 from ~Rs 5,500 crore last fiscal.

Moderate credit quality outlook

The following sector is expected to see a decline in operating profit and have a moderate balance sheet in fiscal 2025.

	Revenue visibility	Profitability	Gearing	Working capital
Auto dealers				

Expectation for fiscal 2025: Revenue growth 7-9%; Ebitda margin 3.0-3.5%

Revenue growth of auto dealers will slow to 7-9% this fiscal, after a healthy ~14% last fiscal, due to moderation in sales volume growth and modest price hikes by OEMs.

Inventory of PV dealers, though currently high, is expected to reduce with improving demand, but steady-state inventory will be higher than the previous years.

Operating margin may moderate to 3.0-3.5% due to high discounts and offers rolled out to prevent any further inventory pile-up. Credit metrics are likely to moderate due to rising inventory and moderating profitability.

Infrastructure sectors

Parameters wise explanation of indicators

Indicator		Revenue growth in the near term	Movement in debt protection cover over the medium term
Green		High	Improving
Amber		Steady	Stable
Red		Decline	Moderating

Favourable credit quality outlook

	Revenue visibility	Profitability	DSCR
Renewable power			

The pace of renewable capacity addition is expected to pick up, driven by steps taken by the government, such as the increase in auction intensity since the start of calendar year 2023. With this push, overall capacity is expected to grow 25-30 gigawatt (GW) in fiscal 2025, taking installed solar and wind power capacities to over 150 GW by March 2025.

Capacity addition is being undertaken largely by leading private players and will contribute to the expected revenue growth. At a sectoral level, operational performance being in line with expectation remains monitorable. Performance of solar power assets has been largely resilient compared with P90[14] estimates, but the performance of wind power assets continues to be subdued.

[14] P90=Annual P90 generation estimate indicates generation that is likely to happen with 90% confidence during the project's tenure.

	Revenue visibility	Profitability	DSCR
Airport			

Estimates for fiscal 2025: Revenue growth 15%; Ebitda margin 50%

Air traffic volume at Indian airports is estimated to grow 12-14% to over 420 million passengers in fiscal 2025 and is expected to grow 8-10% to over 460 million passengers in fiscal 2026.

Buoyed by the traffic volume, revenue of airports is also expected to climb. Both aeronautical and non-aeronautical revenues are expected to go up by ~15% in fiscal 2025, driven by increasing volume of higher-spending international passengers and more monetisation opportunities coming onstream from almost-complete capacity expansions at private airports.

After factoring in cost escalations and tariff hikes, cash flows of private airports in fiscal 2025 may rise 25-30% on-year. This should help airports maintain a steady long-term DSCR.

	Volume growth	Inventory levels	Debt to CFO
Residential real estate			

Expectation for fiscal 2025: Demand/volume growth 10-12%

Residential developers across the top seven cities (Mumbai Metropolitan Region, National Capital Region, Bengaluru, Pune, Hyderabad, Chennai and Kolkata) are expected to continue their growth trajectory, with volume growth of 10-12% this fiscal, following a growth of ~16% last fiscal. This growth is driven by continuing premiumisation, favourable affordability and rising per-capita incomes.

Consequently, inventory decreased to ~2.4 years in fiscal 2024 from 2.8 years in fiscal 2023 and ~4 years before the pandemic. Despite a strong pipeline of new launches, healthy demand is expected to keep inventory comfortable at 2.1-2.3 years this fiscal.

With strong collections and continued focus on deleveraging, the ratio of debt to cash flow from operations is expected to remain strong in fiscal 2025.

	Net absorption growth	Occupancy	DSCR

Commercial real estate

Expectation for fiscal 2025: Net absorption growth 10-12%; occupancy 82-83%

Net leasing of commercial office space in India is expected to grow 10-12% in fiscal 2025, as it reaches the pre-pandemic level of 41-43 million square feet. The growth will be driven by healthy demand from global capability centres, BFSI and manufacturing sectors. However, overall occupancy is likely to remain steady as commercial office supply will be high, similar to last fiscal.

The commercial real estate portfolio will benefit from improving net leasing demand and amendment to the Special Economic Zones (SEZ) Act, 2005, which allows floor-wise denotification of IT/ITeS SEZs. The DSCR is expected to remain strong this fiscal.

	Revenue visibility	DSCR

Road assets

Expectation for fiscal 2025: Revenue growth 6-8%

Limited hike in toll rates due to lower inflation, along with steady traffic growth, should normalise toll revenue growth to 6-8% in fiscal 2025 over the high base of two successive years of significant growth (9-11% in fiscal 2024 and a robust 25% in fiscal 2023).

Credit profiles of toll road operators will remain stable, backed by adequate revenue growth and comfortable leverage.

	Revenue visibility	DSCR

Thermal power

Expectation for fiscal 2025: Power demand: 5.5-6.0%; EBITDA margin 33%

After an estimated 7.6% on-year growth last fiscal, power demand is expected to rise 5.5-6.0% this fiscal, led by strong economic activity. Moderation in demand growth is partly attributable to the high base of the previous year and higher rainfall over a prolonged monsoon. In fiscal 2025, operating margin of coal-based power plants should remain healthy (in line with fiscal 2024), supported by growing demand for energy and adequate margin in short-term markets.

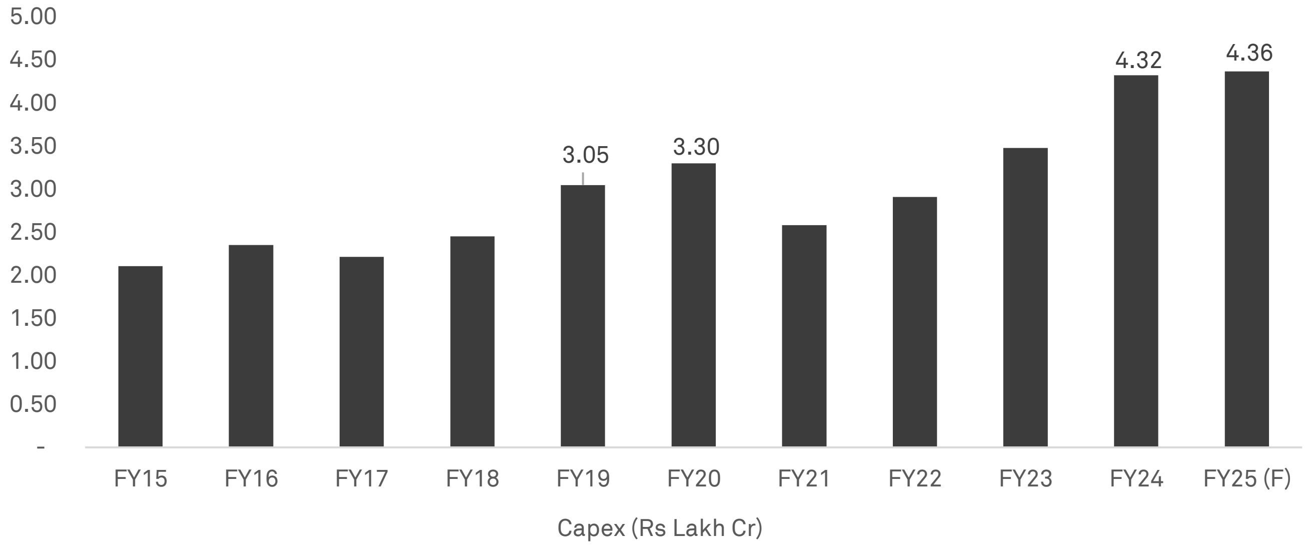
Capacities of nearly 25GW are likely to be added over fiscals 2025 to 2028 despite the growing focus on renewable power. Over the past couple of fiscals, the sector has benefitted from multiple initiatives of the Ministry of Power, such as the Aatmanirbhar Bharat Package, the late payment surcharge scheme and resolution of regulatory receivables pending for a long time. Nonetheless, sustenance of timely payments by counterparties remains monitorable.

Reviving private capex in manufacturing sector

The manufacturing sector is expected to benefit from the sustained demand environment, with overall capacity utilization rate around ~ 76%[15] and estimated to rise further. This sets the stage for a revival in private sector capital expenditure (capex).

Our analysis[16] of about 900 companies reveals that average annual capex is expected to be Rs ~4.3 lakh crore for each of fiscals 2024 and 2025 (refer *figure 17*), an increase from an average of Rs ~3.2 lakh crore annually over fiscals 2019 and 2020 *(representative of pre-pandemic levels).* The top five sectors, accounting for more than half of the total capex are expected to drive this growth, with traditional industries such as cement, primary steel, and aluminum continuing to invest in fiscals 2025 and 2026, driven by the government's infrastructure push. The government's focus on infrastructure development, as outlined in the National Infrastructure Pipeline, is expected to provide a significant impetus to capex growth in these sectors. Additionally, the production-linked incentive (PLI)scheme, aimed at promoting domestic manufacturing, is also expected to support capex growth in sectors such as auto components, textiles, pharmaceuticals, and electronics

Figure 17: Private capex trend

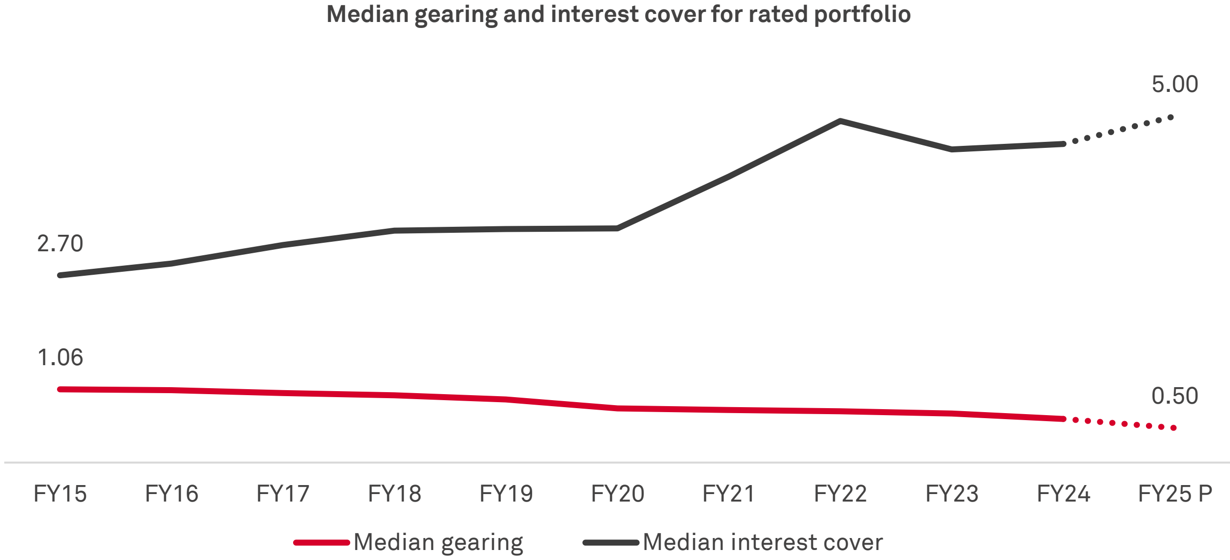


While we see that the capex seems to be increasing in absolute terms, when this is analysed in terms of capex intensity (measured as capex over EBITDA), it remains moderate, averaging about 50% over fiscals 2024 and 2025 (*refer to figure 17*).

The sustained deleveraging of balance-sheets across corporates, with median gearing at less than 0.5 time in fiscal 2025, there is more than enough headroom in the corporate balance-sheets to undertake debt-funded capex. (*refer to figure 18*).

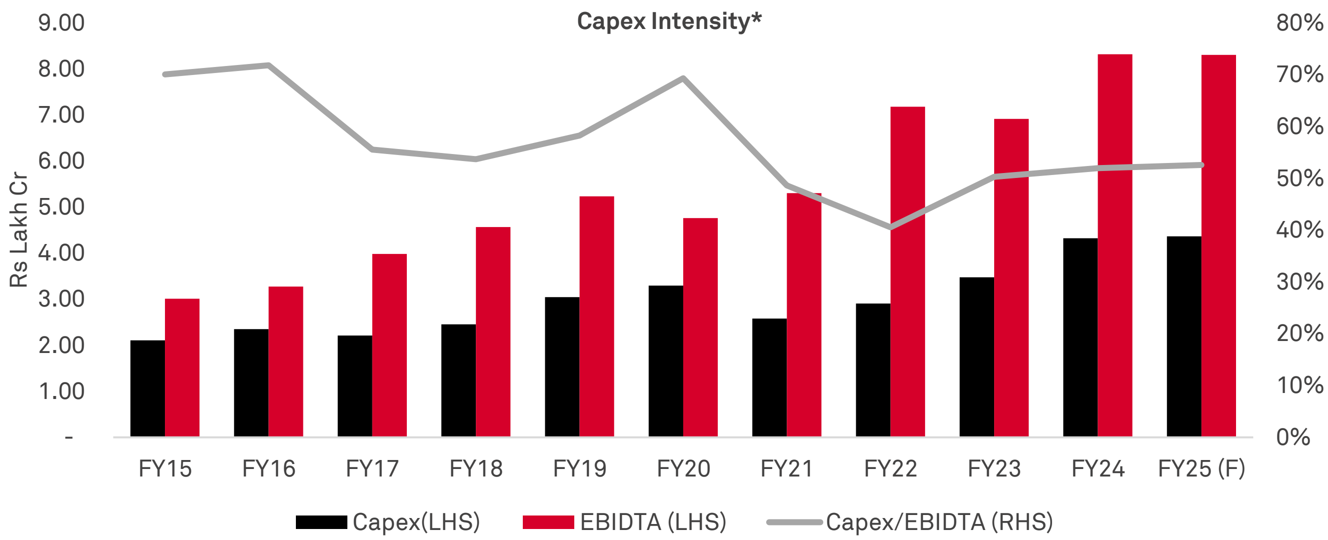
[15] RBI OBICUS Survey, Aug 2024
[16] Analysis of ~900 companies, majority of which are rated by CRISIL Ratings. Excludes capex on infrastructure

Figure 18: Median gearing and interest cover for rated portfolio



Note: Median numbers for fiscal 2025 have been arrived from database comprising ~5,000 companies (excluding financial sector entities). These companies had outstanding ratings as of June 2024, and consistent availability of data over fiscals till 2025.

Figure 19: Trend in capex intensity



Overall, our analysis suggests that the corporate sector is well-positioned to invest in growth initiatives, driven by its strong credit quality, sustained demand, and improving capacity utilization. Nevertheless, gearing is expected to remain healthy even when capex revival is observed.

Indian financial sector credit quality outlook stable

Bank credit growth and profitability to stay healthy despite moderation; asset quality remains robust

In fiscal 2025, bank credit growth is expected to moderate to ~14% from ~16%[17] last fiscal. While the fundamental drivers of credit demand remain supportive, somewhat slower GDP growth *(on a high base of 8.2% last fiscal)* and revision in risk weights on lending to some of the faster growing segments could temper growth. The ability to mobilise cost-effective deposits remains monitorable.

Asset quality trends are benign, with gross NPAs expected to trend downwards to ~2.5% by the end of fiscal 2025, from 2.8% a year ago. The corporate credit segment is likely to see sustained improvement, with gross NPAs expected to fall below 2% from a peak of ~16% as on March 31, 2018, aided by significant clean-up by banks and stronger risk management and underwriting norms. Fundamentally, the health of corporate India has improved with secular deleveraging over the past few fiscals and through the pandemic. Retail asset quality should remain steady despite some uptick in NPAs from unsecured loans.

In terms of profitability, improvement in asset quality and the high provisioning cover ratio (PCR) has helped reduce incremental credit cost, thereby enhancing the return on assets (RoA) to a 20-year high of 1.3% in fiscal 2024. While some moderation is expected with a compression of 10-20 bps in NIM, overall profitability should be comfortable with RoA of 1.0-1.2% this fiscal.

From the capitalisation perspective, the banking sector now has adequate buffers and is well placed for growth over the medium term. This is despite the recent regulatory hike in risk weights on exposure to unsecured consumer credit and higher-rated NBFCs. Over the past few years, public sector banks (PSBs) have benefitted from capital infusion by the government, as also from the improved internal accrual. While most private banks have traditionally maintained comfortable buffers, many are also benefiting from capital raised in the past few fiscals. As of March 2024, all PSBs had Tier I buffer of more than 200 bps while almost all private sector banks had a Tier I buffer of over 300 bps. Overall capital adequacy ratio of scheduled commercial banks stood at 16.7%.

In terms of funding, deposit growth should not be too far behind credit growth. The differential between growth in credit and deposits is estimated to have narrowed to ~300 bps in fiscal 2024 from ~500 bps in fiscal 2023. Banks have also been managing their funding requirement through other avenues, such as dipping into their excess statutory liquidity ratio (SLR). An analysis by CRISIL Ratings reveals the excess SLR holding has declined and the reduced flexibility makes deposit growth even more critical.

The scramble for deposits among banks will likely be par for the course. Banks are likely to walk the tightrope between growing their deposit base and shielding their profitability, riding on their ability to mobilise cost-effective deposits. Health of the overall banking sector remains robust, backed by healthy capitalisation, and sound asset quality with gross and net NPAs at decadal lows, along with high provisioning cover.

[17] Excluding the impact of the merger of a large housing finance company (HFC) with a private sector bank in fiscal 2024

AUM growth of NBFCs to taper amid recalibration in some segments; overall asset quality largely stable

Growth in the AUM of NBFCs[1] is expected to moderate to ~17% this fiscal from ~20% last fiscal as they recalibrate growth strategies for some segments such as microfinance and unsecured loans. Traditional segments are expected to grow at a steady pace.

Resilient economic activity, healthy balance sheets, driven by higher liquidity, capital and provisioning buffers, and stable asset quality should drive growth.

Home loans are expected to grow 13-15% in fiscal 2025, supported by better affordability, higher urbanisation and mortgage penetration, while vehicle finance is expected to grow 15-17%, led by steady underlying-asset sales, demand for fleet replacement and higher ticket sizes. Growth in unsecured loans[18] could taper to 25-30% in fiscal 2025 from ~35% in fiscal 2024. This follows the increase in risk weights towards unsecured consumer credit to 125% from 100%, with signs of moderation already visible in the past few quarters.

Asset quality is expected to remain stable across segments, except for microfinance and unsecured loans. Asset quality of MFI loans is showing early signs of stress because of lending to over-leveraged borrowers, debt-waiver campaigns, continued high attrition of field staff and ground-level operational challenges, amid elections and the intense heat wave. Hence, credit cost of MFI loans is likely to increase. The asset quality of unsecured loans, primarily lower ticket size loans, will also bear watching, given their higher growth and the inherently vulnerable borrower segment. Moreover, any major challenges stemming from intense competition from banks in traditional asset classes will be monitorable.

Non-banking players have been able to diversify resource mobilisation avenues beyond bank loans, following the Reserve Bank of India's mandate to increase risk weights on bank loans to higher-rated NBFCs. This will remain a key imperative for non-banks for the rest of the year. While banks will remain the dominant source of funding for these players, non-convertible debentures (NCDs) will become more attractive over the next few quarters, amidst expectation of repo rate cut, which appears to have already been priced-in by investors. However, in a bid to diversify their funding mix and optimise funding cost, non-banks will also continue to tap other avenues such as securitisation and foreign currency borrowings (FCBs).

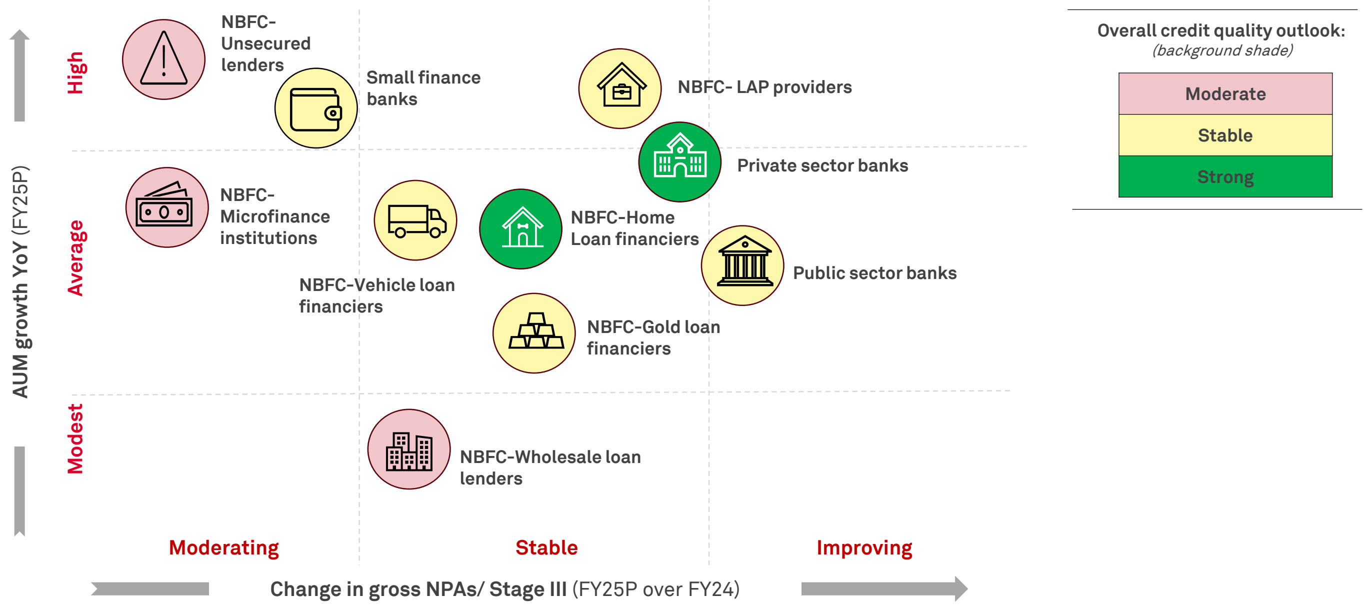
Nevertheless, the borrowing costs for NBFCs have risen by 20-50 bps over the past few quarters, as banks factor in enhanced risk weights on loans to NBFCs while deciding their lending rates. The increased cost of funds may partly compress the NIM this fiscal, leading to moderation in RoA by 10-20 bps.

All said, regulations for NBFCs are evolving and need to be monitored. Therefore, adherence to regulatory compliance and adaptability to an evolving regulatory landscape remain critical.

[1] Excludes government owned NBFCs but includes housing finance companies and micro-finance institutions
[18] Unsecured loans include consumer loans (personal loans and consumer durable loans) and business loans to SMEs

Credit quality outlook for the financial sector

Figure 20: Financial sector framework



We have presented here the credit quality outlook for the financial sector.

The framework represents three things:

- The X axis represents the expected change in gross NPAs in fiscal 2025 over fiscal 2024
- The Y axis represents the growth in AUM in fiscal 2025
- The colour of the respective segments indicates the overall credit quality outlook keeping in mind the CRAMEL framework (capitalisation, resources, asset quality, market position, earnings, and liquidity)

As seen in *Figure 20*, the asset quality is expected to remain stable for most sub-segments, barring unsecured and microfinance (MFI) loans extended by NBFCs and small finance banks. The growth rate is expected to be above average for all segments, except wholesale loans, which is a de-focused segment for most NBFCs.

Healthy credit demand and strong balance sheets will support credit profiles. Thus, credit quality for most sub-segments is **Stable/Strong**. Delinquencies of unsecured loans need to be monitored amid concerns of overleveraging of personal loan borrowers and the inherent vulnerability of the borrower segment. In light of private campaigns on loan waivers and weather-related challenges, delinquencies of MFI loans could increase. Thus, the credit quality outlook for these segments, including wholesale loans, is likely to be **Moderate**.

That said, evolving regulatory measures could have a bearing on the growth of segments and remain monitorable.

Securitisation volume growth to be driven by NBFC resource diversification and bank originations; retail pool performance largely stable

Securitisation volume[19] reached ~Rs 45,000 crore in the first three months of fiscal 2025, clocking ~17% on-year growth (adjusted[20] for the exit of a large HFC[21] and regulatory measures on gold loan securitisation). Strong retail credit growth, resource diversification measures undertaken by NBFCs, and increasing origination by banks will support the growth momentum in securitisation volume in the near term.

Over the past two fiscals, the securitisation market landscape has been dynamic with new patterns emerging in asset class composition, preference for pass-through certificates (PTCs) vs direct assignments (DA), and new originators and investor classes tapping the market.

In the first quarter of this fiscal, vehicle loans, mortgage and microfinance were the top three asset classes, comprising ~41%, ~25% and ~14% of the overall volume, respectively. Other asset classes, namely business and personal loans, booked significant growth, with their volume share increasing to ~20% from ~12% in the year-ago period. Gold securitisation volume, however, dipped due to regulatory developments.

Between the two routes of securitisation, PTCs had the higher share of ~53%, against direct assignments (DAs) at ~47%. While PTCs dominated securitisation of vehicle and personal loans, DAs accounted for majority of mortgage, microfinance and business loan securitisations.

NBFCs continue to dominate the market as key originators and will increase reliance on securitisation as a key funding avenue as they explore resource diversification away from bank loans.. This is against the backdrop of increase in risk weights on bank lending to NBFCs.

However, in recent quarters, the market has seen increased participation from banks (especially large private sector banks) as originators. Banks are looking for newer channels to raise funds to meet the growing credit demand, as the credit-deposit ratio continues to rise. Bank originations reached ~Rs 8,500 crore in the first quarter of fiscal 2025 from ~Rs 10,000 crore in fiscal 2024. In the second quarter of fiscal 2025, bank originations are likely to double in volume compared with the first quarter.

In terms of investor segments, while banks account for ~90% of the securitisation market, NBFCs and other investors such as alternative investment funds, insurers and high networth individuals/family offices have also started showing interest in this space. The market has seen an influx of new structures, involving time tranche, replenishment, turbo amortisation, etc, customised to suit the needs of the broader investor base.

What has helped boost the investor confidence in this space is the performance track record of securitised pools, which have weathered multiple cycles of macroeconomic stress. Inherent credit protection available in PTCs has shielded investors from volatility in collections.

For the vehicle loan pools rated by CRISIL Ratings, the median monthly collection ratios (MCRs) ranged from ~97% to ~101% in the past six months. Although collections in May 2024 were impacted by the general elections and heat wave, the MCR bounced back to ~99% in June 2024, with expedited recovery efforts. The

[19] Refers to structured finance transactions including pass-through certificates and direct assignment transactions
[20] Unadjusted market volume stood at Rs 55,000 crore in the first quarter of fiscal 2024
[21] Housing finance company

two-wheeler pools rated by CRISIL Ratings have also shown steady performance, with median MCR of over 97%. For mortgage-backed securities pools, too, the MCRs have been stable at 98-100%.

The microfinance segment has been showing a consistent dip in MCRs (~94% in June 2024) in recent months, due to socio-political and industry-wide challenges such as private loan waiver campaigns across certain geographies, high attrition, over-leveraging of borrowers and general elections and the heat wave in the first quarter. The performance of microfinance pools will remain monitorable in the near term. That said, the internal and external credit enhancement in these pools are currently estimated to provide adequate cushion to monthly investor payouts.

Performance of all rated pools, along with any industry developments, are monitored to factor in their impact on the ratings of PTCs, and credit enhancement levels in PTCs rated by us are commensurate with their outstanding ratings.

Figure 21: Securitisation market volume and proportion of DA versus PTCs

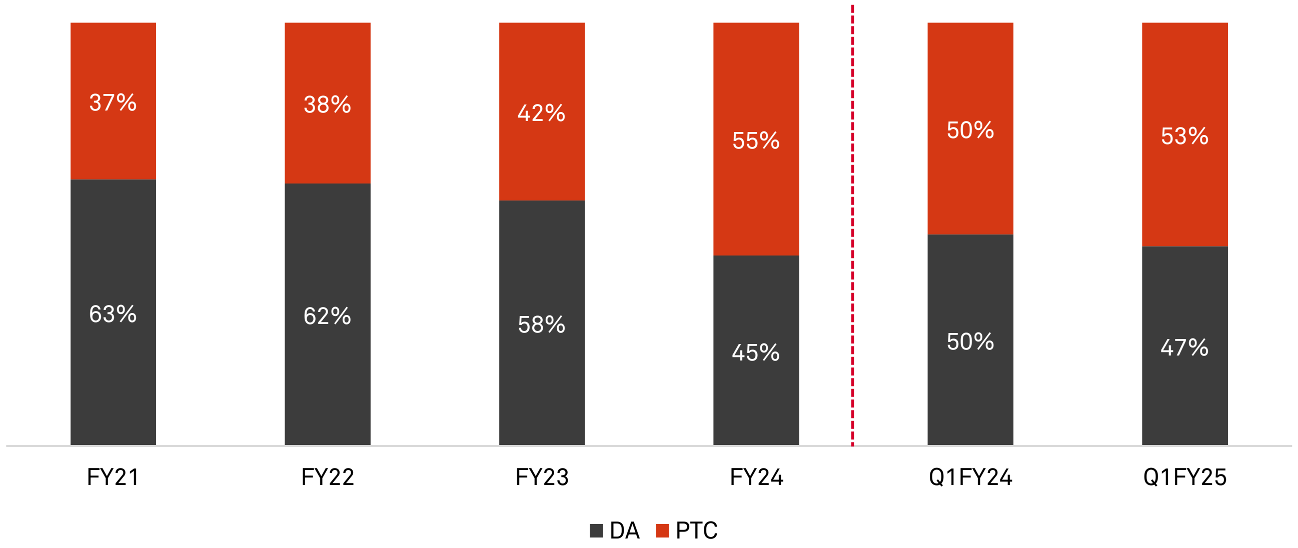


Figure 22: Asset-class wise proportion of securitisation market volume

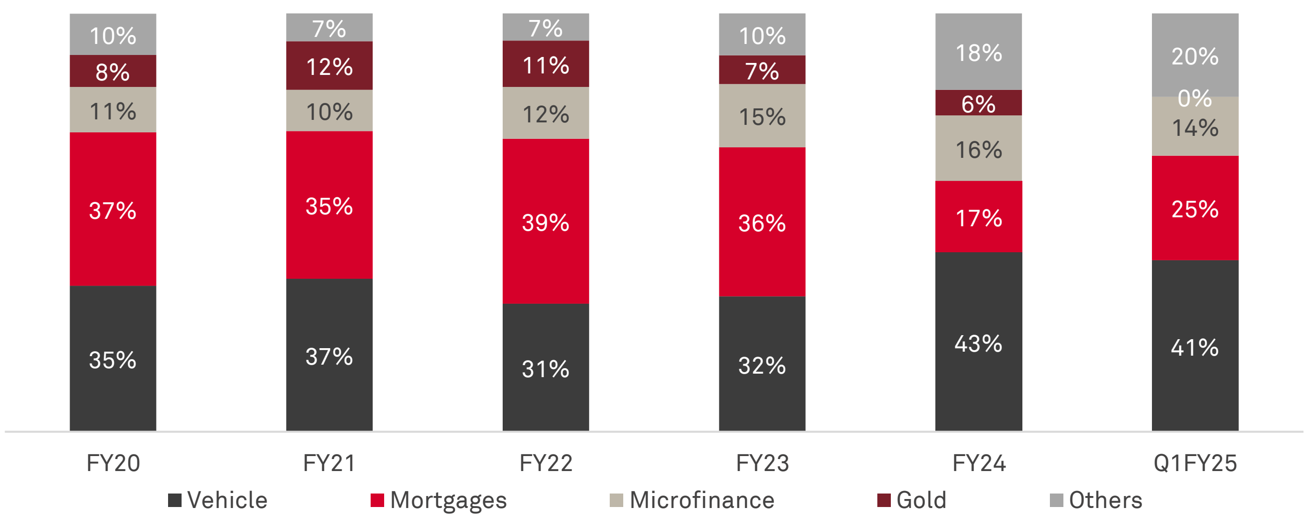
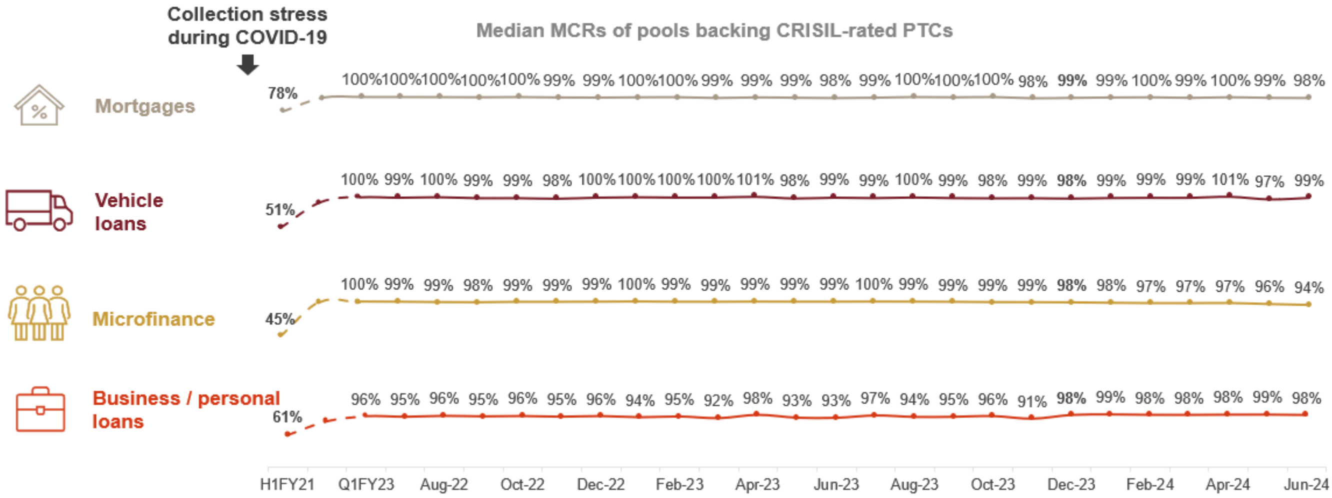


Figure 23: Asset-class wise collection efficiency



Epilogue

As we look ahead to the rest of this fiscal, the credit quality outlook is positive, driven by the government's infrastructure investments and improving private consumption.

At the sectoral level, most sectors are likely to maintain robust balance sheets and healthy operating cash flow. The infrastructure sector is expected to exhibit stable debt protection metrics while sustaining its revenue growth momentum.

The financial sector, comprising banks and non-banks, is poised to demonstrate steady credit growth, healthy capitalization and stable asset quality.

The confluence of lean corporate balance sheets, healthy bank balance sheets, rising capacity utilisation and sustained domestic demand has created significant financial headroom for India Inc to support a broad-based capex revival. However, some potential risks do warrant close monitoring, such as the impact of geopolitical issues on supply chains, moderation in domestic urban consumption, and asset quality concerns regarding delinquencies in unsecured loan and microfinance borrower segments.

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