

Rating agencies downbeat on corporate India as defaults rise

Credit crunch has left businesses in country struggling to raise funds and pay debts



Moody's has lowered its outlook for oil and gas companies such as Bharat Petroleum © Reuters

Benjamin Parkin in Mumbai and Stephanie Findlay in New Delhi 11 HOURS AGO

Rating agencies have soured on India Inc as a credit crunch leaves businesses struggling to raise funds and pay debts, pushing default rates to their highest in five years.

Moody's has a negative outlook on more than half of the non-financial companies it provides ratings on, its highest level in 10 years.

The New York-based agency, which in early November downgraded its [credit outlook for India](#) to negative, has lowered its outlook for oil and gas companies such as Bharat Petroleum and information technology groups Infosys and Tata Consultancy Services.

The proportion of companies falling into default rose to 3.7 per cent in the year ended March, the latest figures available, according to Fitch's local subsidiary India Ratings and Research — the highest since 2014. The number of downgrades made by the agency also exceeded upgrades for the first time since 2013.

The pessimism comes as India enters the second year of a severe liquidity squeeze, sparked by a meltdown in the country's shadow banking system.

A wave of defaults among large, non-bank lenders, starting with financial group IL&FS in September 2018, prompted a cash shortage that has left more and more businesses struggling to raise funds.

Nimble but less-regulated lenders that provide last-mile financing to many companies have grown to rival banks as a crucial [source of finance](#) for everything from real estate developers to

second-hand car dealers. In a recent report, S&P warned that the risk of contagion was rising due to stress on India's non-bank financial sector.

Companies "with high leverage have consistently shown deterioration", wrote analysts at India Ratings and Research. Businesses with less debt "have continued to either strengthen their balance sheets or have used their financial flexibility to acquire other entities or gain market share".

Large parts of corporate India have languished as a result, analysts say.

Non-performing loans as a proportion of bank assets were 12 per cent last year, according to Fitch, one of the highest levels in the world. The rate has since fallen to 9 per cent, more recent data showed.

Amit Tandon, founder of Institutional Investor Advisory Services and Fitch Rating's former India head, said increased regulatory scrutiny on the rating agencies themselves has forced them to take a tougher approach.

IL&FS had enjoyed a triple A rating from local Moody's affiliate ICRA until just before it defaulted last year, catching investors off-guard and sparking regulatory pressure on the credit agencies to overhaul their methodologies.

ICRA's chief executive was [ousted earlier this year](#) amid a regulatory probe over its role in the IL&FS collapse.

"It has an impact in terms of how aggressive you want to be in your rating calls," Mr Tandon said of increased scrutiny from regulator, with the agencies now more sceptical of companies' claims about fundraising plans. "They want to see some concrete evidence rather than intentions."