

# Strain in the Strait

## Ratings Round-Up

Second half, fiscal 2026



**Crisil Ratings analytical contacts:**

**Krishnan Sitaraman**

Chief Ratings Officer and Senior Director  
krishnan.sitaraman@crisil.com

**Somasekhar Vemuri**

Chief Criteria Officer and Senior Director  
Regulatory Affairs and Operations  
somasekhar.vemuri@crisil.com

**Ramesh Karunakaran**

Senior Director  
ramesh.karunakaran@crisil.com

**Jaya Mirpuri**

Director  
jaya.mirpuri@crisil.com

**Varsha Chandwani**

Associate Director  
varsha.chandwani@crisil.com

**Hardeep Bhogal**

Manager  
hardeep.bhogal@crisil.com

**Vidyank Nayar**

Senior Rating Analyst  
vidyank.nayar@crisil.com

**Nikita Ramdas Mahadik**

Senior Rating Analyst  
nikita.mahadik@crisil.com

**Mahima Rawat**

Rating Analyst  
mahima.rawat@crisil.com

## Contents

Executive summary.....	4
About Ratings Round-Up .....	7
Rating actions in the second of fiscal 2026.....	8
Macroeconomic outlook .....	14
Impact of West Asia conflict on India Inc .....	16
Credit quality outlook stable but cautious for fiscal 2027 .....	22
Credit quality outlook for key sectors .....	26
Indian financial sector credit quality outlook .....	49
Securitisation sector.....	52

## Executive summary

The credit ratio, or the proportion of rating upgrades-to-downgrades, stood at 1.50 times in the second half of fiscal 2026, moderating from 2.17 times in the first half.

Overall, there were 383 upgrades and 255 downgrades during the period.

Also, the reaffirmation rate was ~82% vs ~80% in the previous half, underscoring the resilience of companies.

The upgrade rate, though, declined to ~10.6% from 14.0% in the previous half, aligning with the 11% average of the past decade. Infrastructure and related sectors—construction and engineering, roads, renewables, capital goods—and healthcare were at the forefront of the upgrades.

The downgrade rate edged up to 7.0% from 6.4% in the first half, a tad higher than the 10-year average. Consequently, the credit ratio moderated, with the overhang of tariff-related uncertainties impacting companies with greater dependence on exports.

Going forward, India Inc is expected to benefit from the tailwinds of the goods and services tax (GST) rationalisation and some lag effect of income tax cuts announced last year, infrastructure capital expenditure (capex) spends of the government, and reversal of the US reciprocal tariffs. Defence, infrastructure and healthcare sectors should continue to see improvement in credit profiles.

The West Asia conflict, however, would increase cost pressures and necessitate a realignment of supply chains for India Inc. Amid this, India Inc's credit quality outlook for fiscal 2027, though, is stable but cautious.

We conducted a stress test of 30 sectors exposed to the West Asia conflict either directly or indirectly, accounting for 65% of our rated corporate debt.

**Our assessment indicates 23 of the 30 sectors will see limited impact on their credit profiles because of the conflict, despite higher input prices and disruption in natural gas supply. Clearly, strong balance sheets (median debt-to-equity ratio of 0.45 time as on March 31, 2026) lends cushion. The impact could be moderately negative for six sectors and adversely affect one. A prolonged conflict would, however, be a systemic risk and could have a cascading impact on India Inc's credit quality.**

While it is not possible to predict with precision when the conflict will end and when crude oil and natural gas supplies will normalise, our stress test is based on the following key assumptions for fiscal 2027:

- Conflict-related fuel disruption and stabilisation period lasts for 4-5 months (starting from February 28, 2026, and 3-4 months in fiscal 2027)
- Crude oil prices at \$100 per barrel in the first quarter and averaging \$85-90 for the full fiscal
- First-order impact is from the natural gas supply shock, crude oil-linked price increases, and direct trade and foreign currency exposures. Second-order impact due to inflationary pressures affecting discretionary demand in some pockets has also been considered

Based on these assumptions, we have assessed the impact of the conflict on sector revenue and operating margin. We have further evaluated whether balance sheet strength can offset the impact. We have, however, not considered further policy or regulatory support measures. The results are as follows:

- Only one of the 30 sectors assessed is expected to be adversely impacted
  - The **ceramics** sector is likely to be the hardest hit, given its significant reliance on natural gas. Production halts in certain areas could shave off revenue by one-third and profitability by half

- Six sectors could see moderately negative impact on their credit quality, mainly because of the impact on operating margin
  - **Airlines** would face a triple whammy of travel restrictions, fuel cost spike and rupee depreciation
  - Crude-linked sectors such as **polyester textiles, specialty chemicals** and **flexible packaging manufacturers** would have limited flexibility to pass on higher input costs
  - **Auto component makers** would have limited flexibility to pass on higher production cost in the aftermarket, and could see lagged pass-through of higher input prices and freight costs to customers
  - The operating margin of **diamond polishers** would be impacted, as sourcing through alternative hubs would increase procurement costs
- The remaining 23 sectors would see limited impact on their credit quality on account of:
  - **Strong balance sheets:** A decline of 10-30% in operating margin in **fertilisers, paints, agrochemicals** and **tyres** would be cushioned by healthy balance sheets. Even large and diversified engineering procurement and construction (EPC) players with a high order book of 20-25% in West Asia are expected to withstand the impact, provided the duration of the conflict is not prolonged
  - **Ability to pass on raw material and logistic price increases:** While **basmati rice millers** have sizeable direct exposure to West Asia, exports are likely to continue via alternative routes and destinations, whereas higher logistics costs are expected to be passed on to customers. **City gas distributors** are also likely to pass on price increases even as supply chain disruptions constrain revenue
  - **Limited requirement of gas-based fuel or availability of alternative fuels:** The **cement** sector can switch to alternative fuels such as coal and could partially pass on increased production costs. Balance sheets, though, would remain strong
  - We envisage a positive impact for one sector: **Upstream oil** companies will benefit because higher crude oil prices translate to more revenue as costs are fixed
- **No major impact of foreign currency depreciation:** Our analysis shows companies either have a natural hedge through trade or have forward cover on their foreign exchange exposure. The share of foreign currency debt in corporate debt is also low

But if the conflict is prolonged, some sectors considered resilient earlier may see vulnerabilities emerge. These vulnerabilities would be more prominent in sectors where the demand is discretionary or dependent on global demand drivers<sup>1</sup>.

Bank credit growth in fiscal 2027 is expected at ~13% on-year, a tad lower than in fiscal 2026, which is in line with the economic growth. Credit growth will still be reasonable, driven by micro, small and medium enterprises (MSMEs) and the retail sector, and continued substitution of corporate bonds with bank loans because of relatively lower interest rates. The West Asia conflict could drive up India Inc's working capital debt in the short term even as private sector capital expenditure (capex) may see some lag. Sustained deposit growth will be crucial, as the gap with credit growth has widened. Gross non-performing assets are expected to remain range bound.

Non-banks will see assets under management continue to grow at a steady 18-19% on-year in fiscal 2027, driven by consumption demand and supportive policy measures. The unsecured business loan and micro loan against property segments have seen an uptick in delinquencies and will remain under watch. The impact of stock market decline on asset

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<sup>1</sup>The sectoral impact outlined in the scenario analysis does not necessarily mean all companies in that sector will experience a similar impact on credit quality. Individual credits may have case specific nuances, such as stronger balance sheets or parent support and, hence, their credit quality outlook may be different from that of the overall sector's

quality of personal loans, especially of leveraged retail investors, would bear watching. The asset quality of microfinance loans, though, is expected to stabilise, but the impact of policy measures in a few states, such as loan waivers and stricter loan recovery measures, will need to be monitored. Still, balance sheets will remain healthy.

For both banks and non-banking financial companies (NBFCs), however, the impact of the West Asia conflict on MSMEs with exposure to the region as well as on those dependent on gas supplies and crude oil will bear watching.

**Corporate India's agility and resilience are being tested again post the Covid-19 pandemic and the tariff tantrum. Our credit quality outlook is stable for now, backed by resilient domestic demand and strong corporate balance sheets. But, overall, we remain cautious as the duration and intensity of the West Asia conflict is uncertain. If it prolongs, slower global growth, challenges with regard to natural gas availability and higher-for-longer crude oil prices and, consequently, impact on consumer sentiment will be monitorables. In this scenario, the government and regulators may have to step up relief and supportive measures, as seen in the past, with the extent of these also likely to have a bearing on the credit quality outlook.**

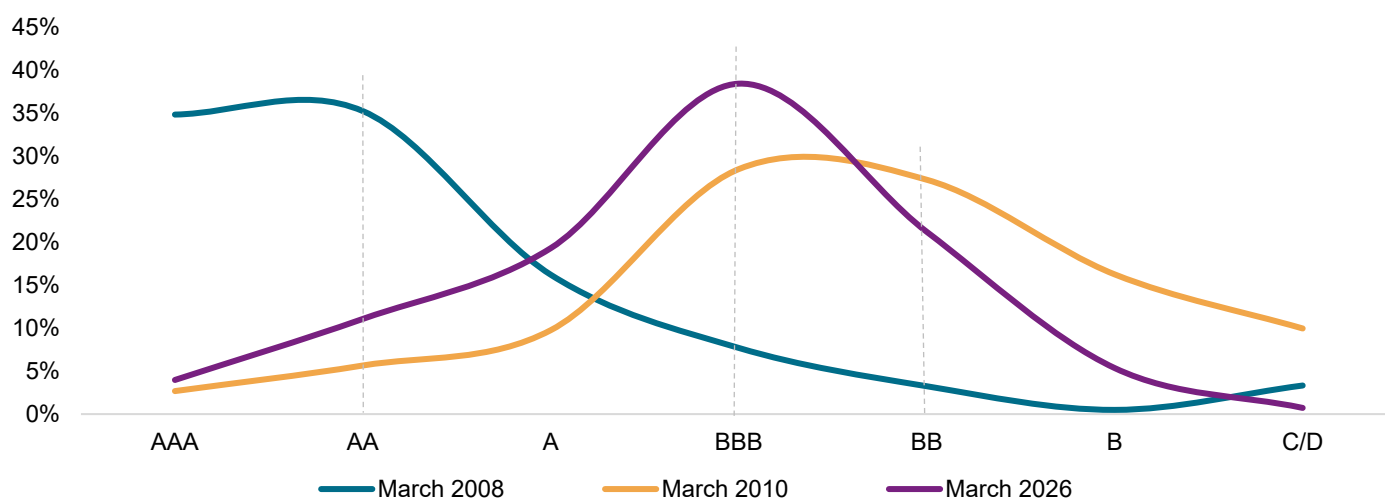
## About Ratings Round-Up

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 India Inc's credit quality, based on an understanding of the current business environment and the likely performance in the near term. This edition analyses the rating actions from September 29, 2025 to March 30, 2026.

*Note: A credit rating on an entity is a credit rating agency's opinion on the likelihood of timely repayment of debt by the entity. Therefore, analysis of rating actions on a large and diverse portfolio of companies rated by Crisil Ratings is a reasonable indicator of the outlook for the economy.*

## Median rating of our portfolio remains in the 'BBB' category

**Figure 1: Trends in rating distribution of our portfolio**



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

Source: Crisil Ratings

As on March 30, 2026, our rated portfolio comprised ~7,300<sup>2</sup> companies. As indicated in the above graph, ~73% are in the investment grade<sup>3</sup> rating categories. The median rating remains in the 'BBB' rating category; the median had transitioned to the 'BBB' rating category in fiscal 2022 from 'BB' and has remained at this level since then.

Until March 2008, the median rating for our portfolio was in the 'AA' rating category. With the introduction of bank loan ratings in 2007 and the rapid expansion of the rated portfolio, especially in the lower rating categories, the median rating moved to 'BB' in fiscal 2010 and remained there till fiscal 2021.

In fiscal 2022, the median rating shifted to the investment grade rating category, 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. That said, Crisil Ratings has the largest share of cooperative ratings.

<sup>2</sup> This excludes companies in the 'Issuer not cooperating' (INC) category. Our portfolio had ~12,600 non-cooperative issuers as of March 2026. Including INC ratings, our outstanding rating list comprise ~19,900 issuers

<sup>3</sup> The proportion of ratings in the 'BB' or lower categories has progressively reduced from ~76% as of March 2013 to 27% as on March 30, 2026

## Rating actions in the second of fiscal 2026

In the second half of fiscal 2026, India Inc showed agility in dealing with global uncertainty, even as domestic demand was bolstered by fiscal and monetary policy measures. While the domestic economic momentum remained steady, external headwinds, ranging from geopolitical tensions to fragmented global trade, continued to shape corporate performance.

Towards the end of fiscal 2026, the global environment has turned fragile, and India Inc's agility will be tested once again in this decade. Old world disruptors such as geopolitical uncertainties in the Gulf region and crude oil supply shocks have found their way into the new world order. Natural gas supplies have hit a chokepoint and are likely to have long-term implications, necessitating the sourcing of alternative fuels.

However, as stated in our previous publication, upgrades have continued to outnumber downgrades in the second half of fiscal 2026, albeit at a slower pace. Also, the reaffirmation rate of 82% is a tad higher than the previous half, indicating stability of the credit profiles.

India Inc has been on a relatively strong footing despite the geopolitical uncertainties. Government capex has oiled the wheels of the Indian economy over the past few fiscals, whereas private capex has increased in small pockets. Infrastructure sectors, led by roads and renewables, continued to be the heavyweights for upgrades. Meanwhile, companies depending on overseas demand witnessed pressure. For textile and shrimp exporters, however, the pace of downgrades slowed as tariff-related challenges ebbed.

India's real gross domestic product (GDP) is expected to clock a 7.1% growth in fiscal 2027, moderating from 7.6% in fiscal 2026. There are downside risks to this expectation as global uncertainties weigh on domestic demand drivers and supportive policy measures.

It is in this backdrop that we analyse the underlying reasons for our rating actions.

### **Credit ratio at 1.50 times in the second half of fiscal 2026 compared with 2.17 times in the first half**

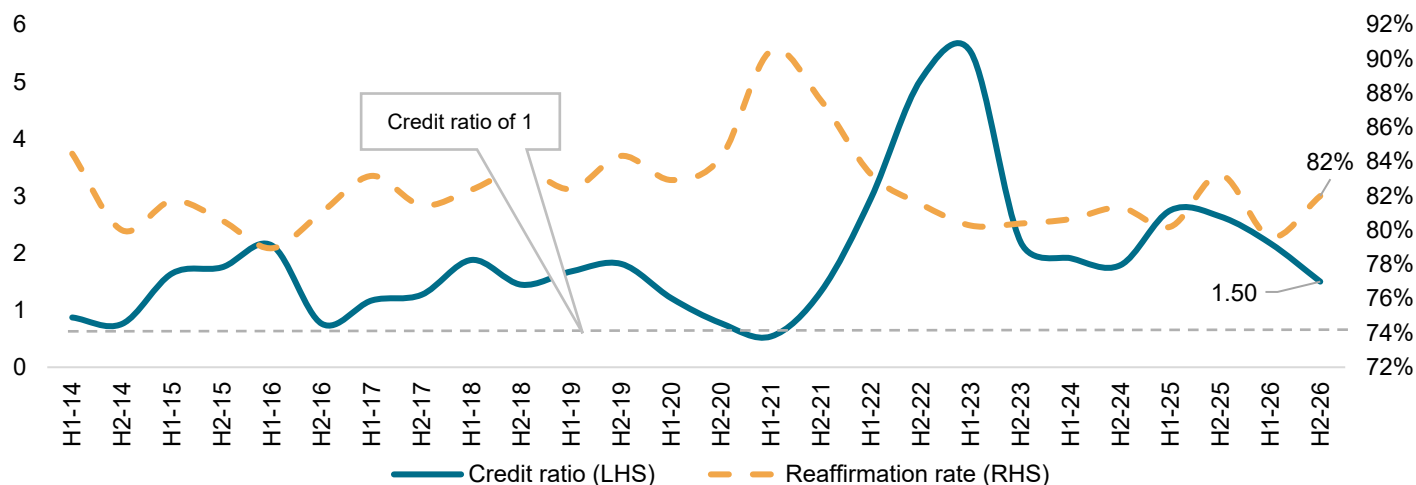
In the previous edition, we predicted a stable credit quality outlook for India Inc. Upgrades were expected to surpass downgrades. This is reflected in the credit ratio of 1.50 times<sup>4</sup> for the second half of fiscal 2026, though down from 2.75 times in the first half.

The second half of fiscal 2026 saw 383 rating upgrades and 255 rating downgrades. Also, around 82% of the portfolio ratings remained unchanged or were reaffirmed, demonstrating stability in the ratings. The modified credit ratio stood at 1.04 times in the second half of the fiscal vs 1.09 times in the corresponding period of the previous fiscal.

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<sup>4</sup> Adjusting for group 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 stood at 1.46 times. The group upgrades were in independent power producers, and the hospital and auto component sectors

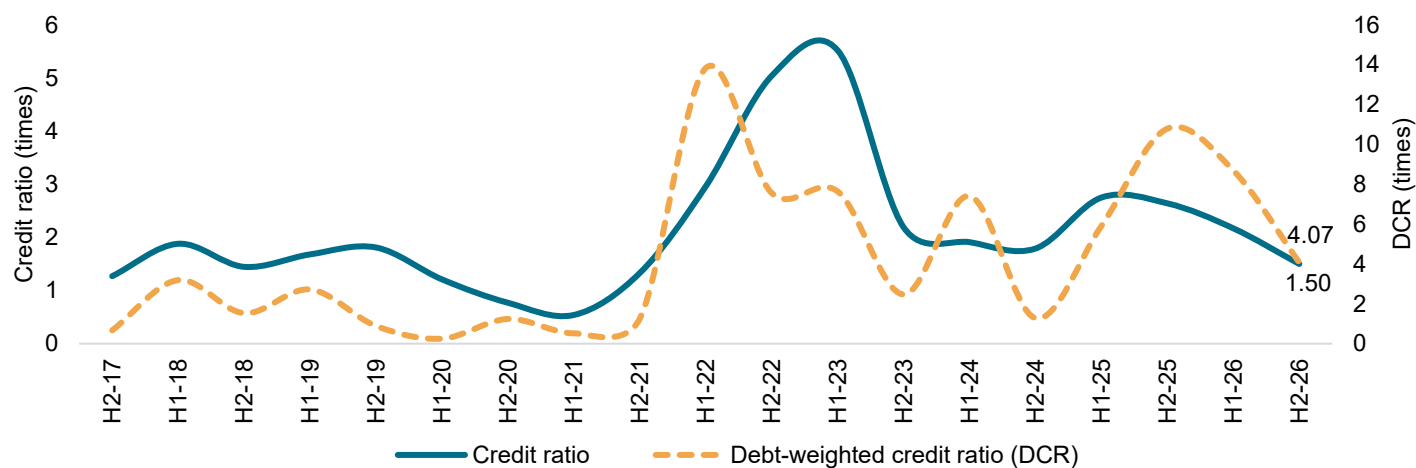
**Figure 2: Trend in credit ratio and reaffirmation rate**



Source: Crisil Ratings

The debt-weighted credit ratio (DCR) was 4.07 times in the second half of fiscal 2026, dipping from 10.79 times in the corresponding period of the previous fiscal.

**Figure 3: Trend in credit ratio and DCR**

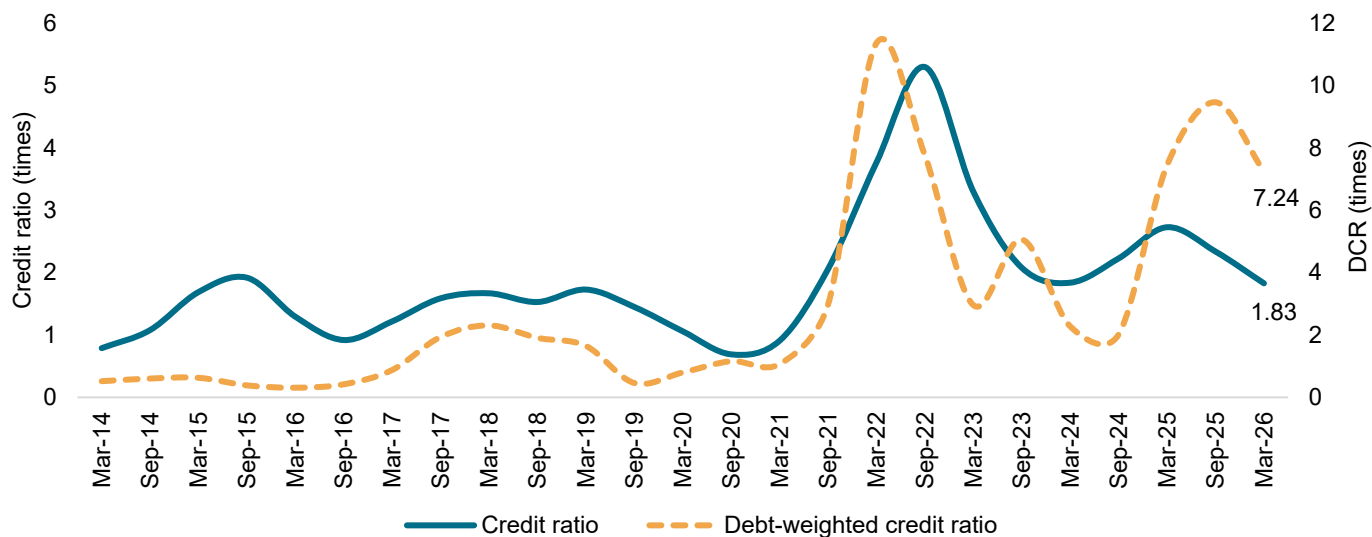


Source: Crisil Ratings

To smoothen short-term volatility and gauge the underlying trend, we analysed data over a one-year rolling period<sup>5</sup> (see Figure 4).

<sup>5</sup> One-year rolling period is a block of 12 months. For instance, for March 2026 calculation, one-year rolling period is 12 months ending March 2026

**Figure 4: Trends in credit ratio and DCR on a one-year rolling basis**



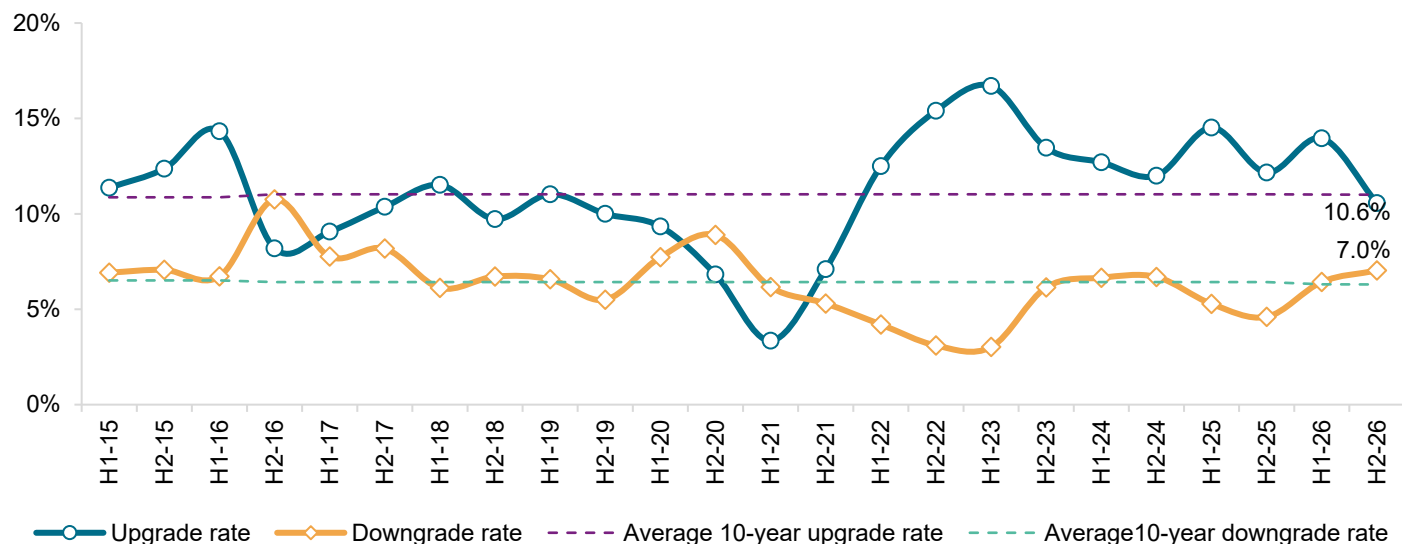
Source: Crisil Ratings

## Upgrade rate moderates, but stays in line with the 10-year average; downgrade rate edges above the decadal average

The upgrade rate of 10.6% for the second half of fiscal 2026 was almost in line with the 10-year average. Certain sectors demonstrated resilience, with infrastructure and linked sectors, such as renewables, roads and real estate development, exhibiting a relatively higher upgrade rate. This was driven by strong debt protection metrics, enhanced capacity utilisation and achievement of major milestones.

That said, these sectors saw upgrade rates moderate from the preceding half. The export-oriented sectors saw sharper moderation in upgrade rates. Specifically, pharmaceuticals (pharma) and specialty chemicals saw fewer upgrades in the second half of fiscal 2026 compared with the first half.

**Figure 5: Trends in upgrade and downgrade rates**



Source: Crisil Ratings

The downgrade rate increased to 7.0%, slightly above the 10-year average. Downgrades were widespread across the portfolio, but companies with higher dependence on exports were relatively more affected. Specifically, textile spinning and building product manufacturers (including ceramics and granite) saw a higher incidence of downgrades amid increased pressure from global market trends.

In contrast, shrimp exporters, a sector we highlighted as among the most vulnerable to US tariffs, saw fewer downgrades, with companies demonstrating higher resilience as players were able to pass on higher tariff-related prices to end-consumers. The sector is also expected to see some tailwinds with the US reciprocal tariff pressure abating.

## Rating actions in the second half of fiscal 2026

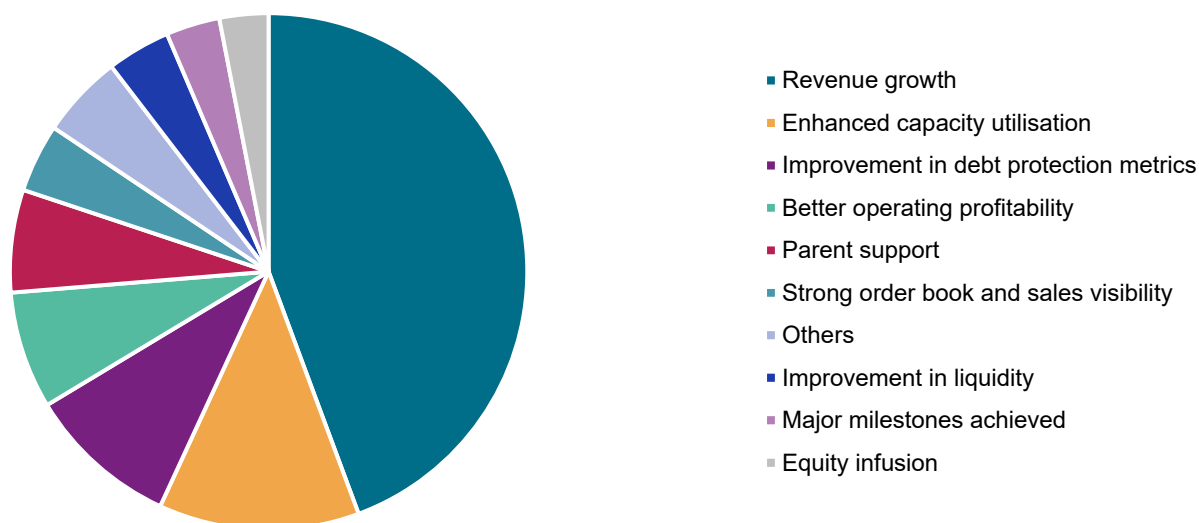
### What powered upgrades

Our analysis of rating actions in the second half of fiscal 2026 indicates that the upgrade momentum was in line with the 10-year average, though down from the first half. This was underpinned by healthy operating performance and a steady improvement in credit profiles.

- Revenue growth remained the primary driver, accounting for ~45% of the upgrades
- Enhanced capacity utilisation and strong order books, particularly in infrastructure-linked sectors, continued to support upgrades

Better financial risk profiles, particularly debt-protection metrics, bolstered the upgrades in the real estate and power sectors. Improved operating profitability also supported the upgrades.

**Figure 6: Reasons for upgrade**



### Analysis of upgrades

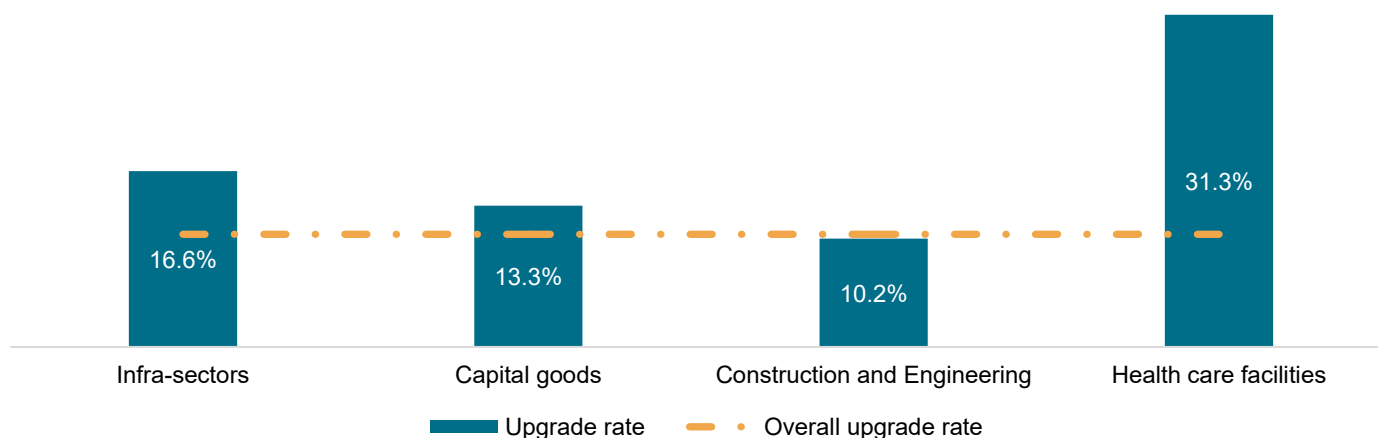
Upgrades in the second half of fiscal 2026 were led by infrastructure and allied sectors, in line with government-led capex. While the pace of upgrades has tempered compared with the first half of fiscal 2026, these sectors continued to show a higher propensity for upgrades.

Infra and linked sectors reported an upgrade rate of ~17%, compared with the overall upgrade rate of ~11%, reflecting continued benefits from the government's thrust on infrastructure. Capital goods and construction & engineering recorded

high upgrade rates, supported by sustained project execution and order visibility. Healthcare facilities saw a relatively higher upgrade rate (including a group upgrade of six companies), driven by capacity additions and higher occupancy. Union Budget announcements for fiscal 2027 are also supportive, and we expect the capex momentum in healthcare facilities to continue. However, in case of a prolonged conflict in West Asia, there may be some impact on actual allocations as the government may prioritise relief measures for vulnerable sections. This will be a monitorable.

- Infrastructure and allied sectors
  - Upgrades in road assets were fuelled by the timely achievement of project milestones and a strong track record of timely receipt of annuity payments
  - Renewable sector upgrades were driven by robust debt-protection metrics and generation performance in line with P90 benchmarks. The sector's growth momentum is expected to continue, fuelled by policy-led expansion
  - The real estate development sector was driven by premiumisation, rental income growth, steady bookings and the success of organised retail spaces such as malls. This trend favours large, established developers who are well-equipped to capitalise and drive sustained growth in the sector
- Capital goods upgrades were linked to demand from infrastructure and energy transition-related segments, including solar-linked components
- Construction and engineering benefitted from a healthy order pipeline and progress in project execution. Revenue visibility was supported by ongoing infrastructure projects, though the order book was tilted towards non-road sectors such as power, irrigation and bridges

**Figure 7: Sectors leading upgrades**



## Analysis of downgrades

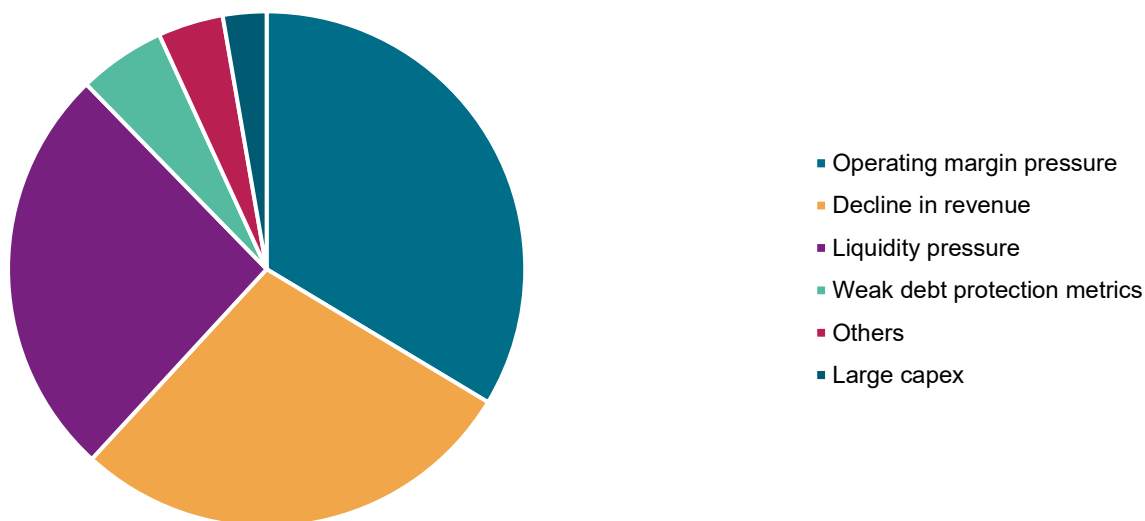
An analysis of the downgrades during the second half of fiscal 2026 shows that ~60% of the downgrades were driven by revenue/profitability issues.

The downgrades reflect a confluence of operational stress and external headwinds. Most were driven by pressure on core business fundamentals, with operating margin compression (34%), revenue decline (28%) and liquidity constraints (26%) emerging as the dominant factors.

Notably, liquidity stress was more concentrated in the sub-investment-grade segment, which accounted for ~75% of such cases, underscoring the relatively lower financial flexibility and higher vulnerability of these entities.

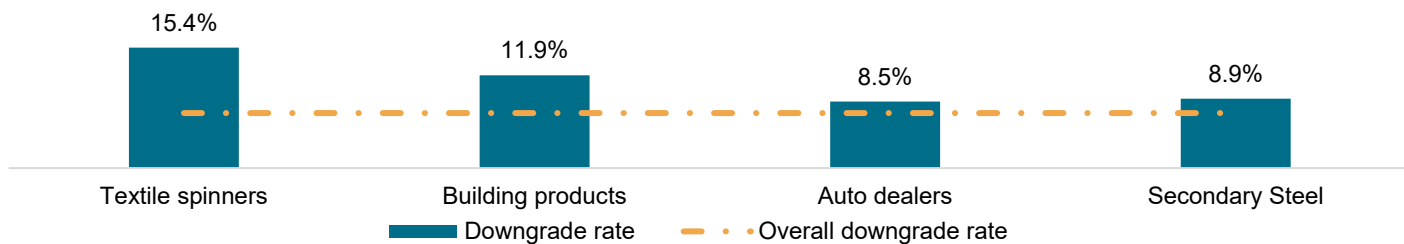
At the macro level, the environment remained uneven for some sectors exposed to global markets. While domestic demand provided some support, export-oriented sectors faced a weaker operating landscape, with subdued global demand and trade uncertainties weighing on operating performance. Moreover, frequent changes in tariff regimes led to uncertainty in demand, which had a dampening effect on export performance for sectors such as textile spinning and diamond polishing. On the other hand, the shrimp sector, which was earlier identified for its vulnerability to the US tariffs, saw a lower downgrade rate with better ability to pass on the tariff-related costs.

**Figure 8: Reasons for downgrade**



At the segmental level, downgrades persisted in a few export-oriented sectors affected by global headwinds arising from the imposition of the US tariffs.

**Figure 9: Major sectors that saw downgrades**



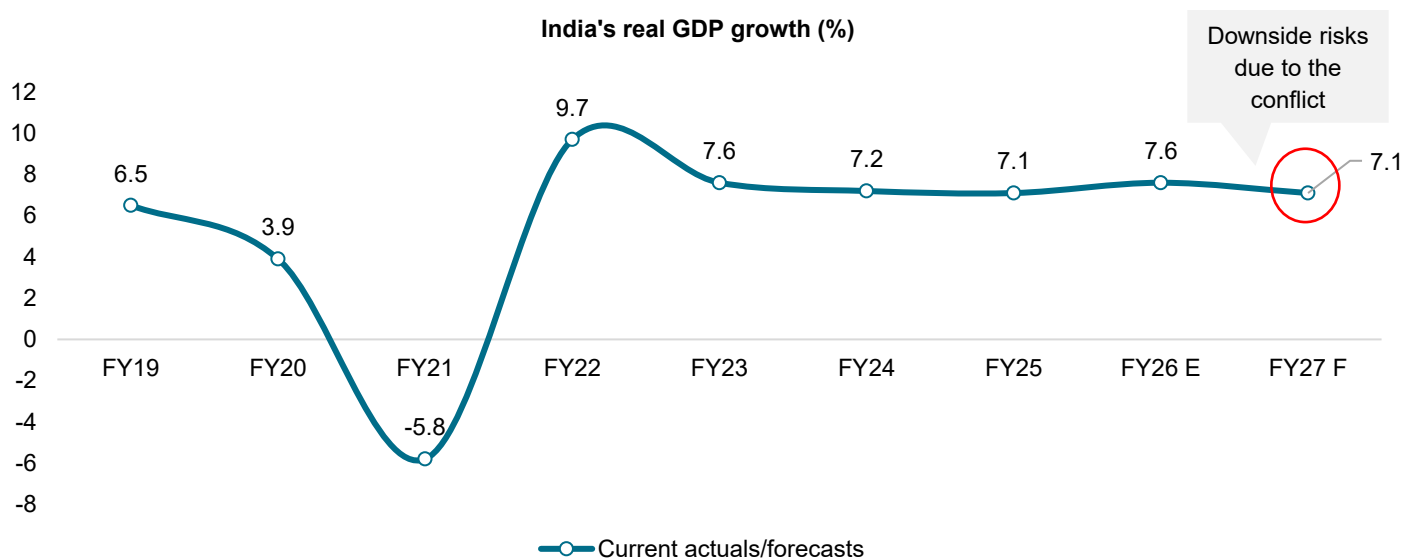
- Textiles spinners saw downgrades driven by a decline in overseas demand and volatility in raw material prices
- Elevated downgrades for building product manufacturers were due to subdued demand from overseas markets, particularly in globally traded segments such as ceramics and granite
- Downgrade in ratings of auto dealers were driven by higher discounts impacting the interest coverage. However, the sector is expected to improve due to the recent GST rate cuts
- The secondary steel sector saw a higher number of downgrades due to larger-than-expected, debt-funded capex

## Macroeconomic outlook

India's GDP<sup>6</sup> growth is expected to moderate in fiscal 2027. Growth should be supported by healthy private consumption. Some moderation in consumption growth is expected towards the latter part of fiscal 2027 as the one-time benefits of tax cuts fade. Downward revision in the US tariffs and free trade agreements should help Indian exporters. However, the persistent risks suggest the outlook may remain tilted to the downside. Prolonged West Asia conflict could increase input shortages and costs, weaken exports and weigh on growth. Private consumption is expected to remain the key growth driver in fiscal 2027. Lower inflation, income tax relief for middle-income households and GST rationalisation measures are expected to support disposable incomes, while policy rates are likely to remain steady and aid consumption demand.

The GST rationalisation (September 2025) reduced rates on mass consumption items, including auto, consumer durables such as air conditioners and televisions and fast-moving consumer goods (FMCG) such as packaged foods and personal care. The rapid spread of state-level unconditional cash transfers, now adopted by 16 states, is expected to support lower-income consumption.

**Figure 10: India's real GDP growth (%) – Base-case scenario**



F: Crisil Ratings forecasts

Source: NSO, Crisil Ratings

The consumer price index (CPI) may rise to an average of 4.3% in fiscal 2027 from 2.5% in fiscal 2026, driven by normalisation of food inflation from record lows. Within the non-food category, under the base case, some impact of higher crude oil prices is likely to be offset by a moderation in precious metals inflation as it faces a high base effect.

Weather-related risks such as potential El Niño effects on agriculture in the latter part of the year are a monitorable. So far, the fuel price impact of the West Asia conflict remains contained by government intervention to reduce excise duty on retail consumption of petrol and diesel. Additional burden, if faced, is expected to be shared between the government, oil marketing companies and consumers. Therefore, some upside risk to inflation arises if the energy price shock persists. Similarly, in that scenario, second-round impact via higher core inflation could also be felt.

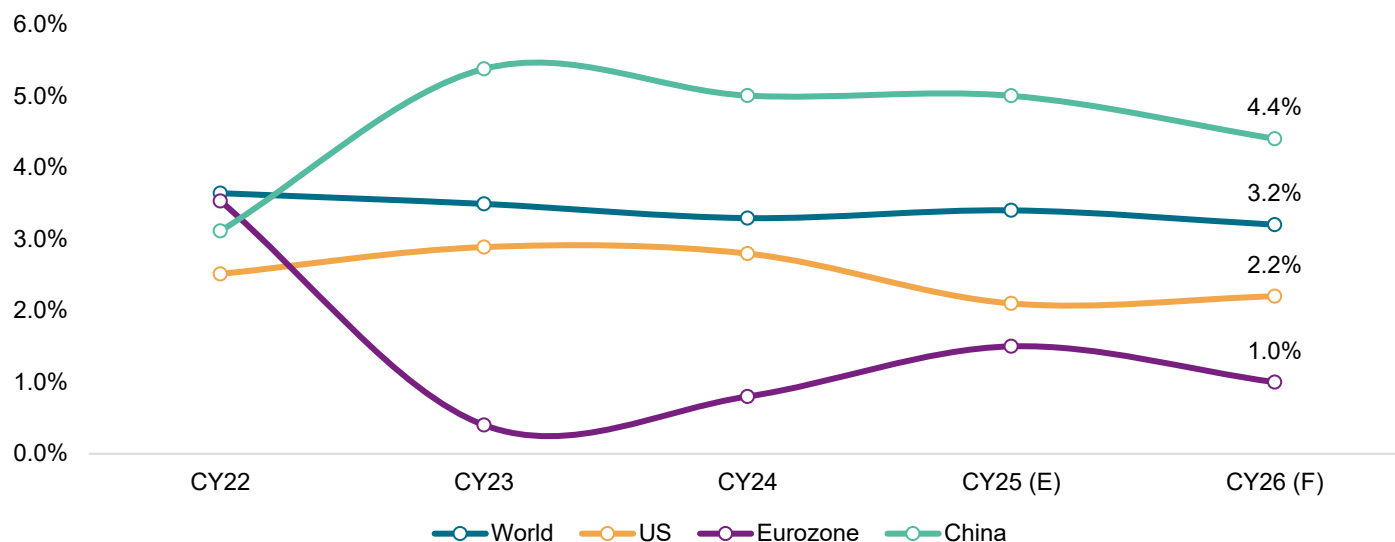
<sup>6</sup> Note: A new national accounts series has been released with 2022-2023 as the base year, superseding the 2011-2012 series, with growth numbers available from fiscal 2024. The revised series incorporates new segments and administrative data sets, alongside methodical improvements such as double inflation in manufacturing wherever possible and the use of granular price data for deflators.

F: Forecast; fiscal 2026 value is as per National Statistics Office's (NSO's) Second Advance Estimate; Source: NSO, Crisil Ratings

In response to this emerging inflationary trend, we anticipate that the Reserve Bank of India (RBI) will maintain a cautious stance on monetary policy, keeping interest rates steady for now.

Global growth is expected to moderate to 3.2 % in calendar year 2026, based on the assumption of temporary, supply-driven oil shock. However, risks are tilted to the downside from prolonging West Asia conflict. Europe and Asia are likely to be hit to a greater extent on costs and economic growth as they are net energy importers. However, the impact on US, a net energy exporter, is likely to be less severe. The energy-driven inflation is also squeezing the space available for monetary easing for energy importers.

**Figure 11: Global GDP growth (%)**



F: S&P forecasts (March 2026)

Source: IMF, S&P Global Ratings, Crisil Ratings

## Impact of West Asia conflict on India Inc

The recent geopolitical situation in West Asia has resulted in severe, ongoing disruption of global shipping. The shutdown of the Strait of Hormuz for commercial shipping since the conflict started led to rapid depletion of crude oil and derivative supplies for countries dependent on this route, creating a critical energy supply emergency.

The Strait of Hormuz is used by major, Gulf countries producing oil and LNG. Most of the production from this region is shipped to Asian countries. About 20% of global LNG is shipped through this route, while around a third of the global fertiliser trade is done from here.

The surge in global crude oil prices past ~\$100 per barrel, driven by the West Asia conflict and disruptions in the Strait of Hormuz, has created significant economic pressure on India, which depends on this region for ~90% of its liquified petroleum gas (LPG) requirement and ~70% of its LNG requirement. Crude oil from this region contributes to ~50% of India's domestic needs. However, India has responded with agility, tapping alternative sources and tweaking rules to prioritise consumption for impacted segments.

It is important to note that even if the conflict ends soon, the damaged oil and gas production facilities, disrupted supply chains and pending supply backlogs would take a while for supply of crude and crude oil derivatives to stabilise from the affected Strait of Hormuz and revert to the pre-conflict normal.

### **Stress test**

We analysed the possible impact an extended conflict and the time to return to normalcy in supply chains would have on India Inc.

### **Assumptions**

For our study on the credit quality impact on different sectors, we assumed:

- The impact period of the conflict and return to normalcy of 4-5 months (starting from February 28, 2026; in other words, 3-4 months in fiscal 2027)
- Increase in input costs due to spike in crude oil prices to around \$100 in the first quarter of fiscal 2027, and an average of \$85-90 for the entire fiscal
- Exchange rate likely to be Rs 92-94 per US dollar on an average during this period of disruption

### **Methodology**

From Crisil Ratings' portfolio, we assessed that about 30 sectors are exposed to the conflict in West Asia, either directly or indirectly. These 30 sectors account for ~65% of our rated portfolio. We analysed the proportion of inputs that relate to crude oil derivatives, as well as revenue and cost-side dependency from West Asia (in terms of both imports and exports) to shortlist the sectors that would see an impact of the conflict.

We then factored-in this impact based on our assumptions to arrive at expected revenue and operating margin for fiscal 2027. The resulting numbers were compared with our pre-conflict revenue and operating margin estimates to assess the impact of the conflict. Further, to assess the overall credit quality impact, we factored-in sector-specific balance-sheet profiles that would help the players in these sectors navigate this supply-chain shock.

## Representation of the outcome of the stress test

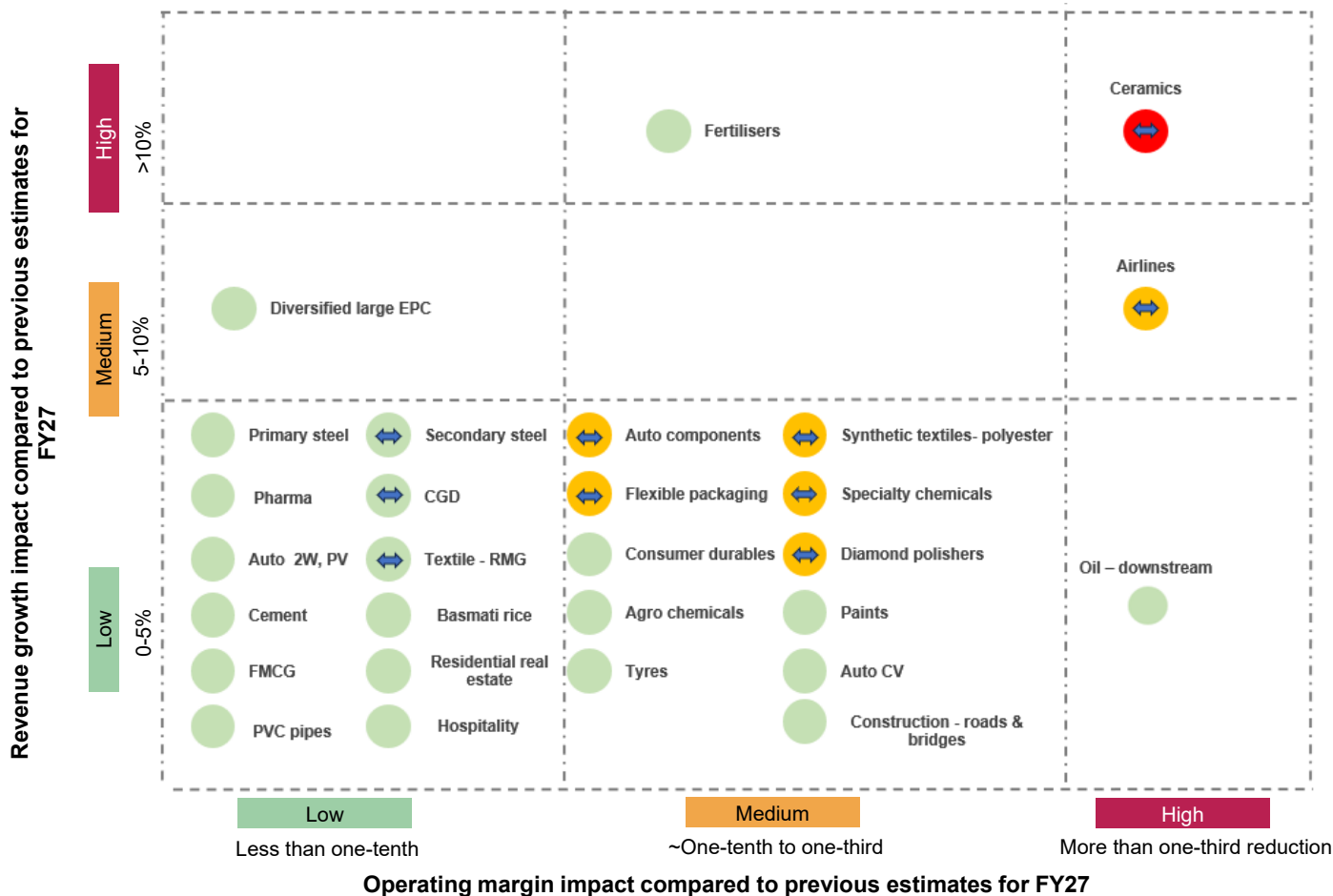
**Credit quality impact**  
(based on impact on revenue and operating margin, as well as balance sheet strength)

- Neutral/Stable
- Moderately negative
- Negative

We have plotted the impact on revenue growth (Y-axis) and operating margins (X-axis). In addition, balance-sheet strength has been factored-in as it is a critical input to assess the overall credit quality impact. For most of the sectors, the balance-sheet strength is strong or very strong. For sectors where the balance sheet is moderate, we have indicated this with a ↔ sign.

Revision in revenue growth forecast for fiscal 2027 to 5% from 10% would mean a 5% revenue growth impact. Revision in operating margin forecast for fiscal 2027 to 10% from 15% would mean a one-third decline in margin.

**Figure 12: Potential impact of the West Asia conflict on sectoral revenue and profitability**



## Key conclusions

We now present the conclusions from the stress test.

Assessment of 30 sectors exposed to the West Asia conflict\* (~65% of rated debt):



Remaining sectors will witness limited direct impact of the West Asia conflict and hence have been excluded from the analysis.

Individual credits may have case-specific nuances such as stronger balance sheets or parent support and hence their credit quality outlook may be different at a company level from that of the overall sector.

### I. Credit quality outlook: Neutral/Stable

These sectors are expected to be relatively unaffected in terms of credit quality, given their ability to effectively manage the impact. Further, strong balance sheet strength in most of these sectors provides room to withstand short-term challenges from supply chain disruption.

#### A. Low revenue impact, margin impact of less than one-tenth

##### (i) Impact of direct fuel/crude derivative as a raw material input

**Cement:** With fuel costs standing at ~15% of revenue, there would be an impact on the operating margin. Some impact on revenue could also arise on account of demand-side softness. However, the ability to switch to alternate fuels (such as coal) and absorb higher costs, together with strong balance sheets, provides respite.

**Polyvinyl chloride pipes:** There could be pricing pressure due to elevated input costs. Also, management of inventory becomes crucial if input prices fluctuate. Volume growth could be impacted due to lower demand.

**CGD:** Compressed natural gas (CNG) and domestic piped natural gas (PNG-D) together account for ~70% of city gas distribution (CGD)'s sales volume and are expected to be the least affected, as natural gas supply for these segments largely comes from domestic sources. However, the remaining ~30% of CGD volumes, which caters to PNG industrial and commercial (I&C), is largely sourced through imported gas. Hence, the PNG I&C segment is expected to get impacted due to the halt in production at the LNG facility in Qatar. Daily sales volume could moderate 8-10% on reduced natural gas supply. The ability to pass on cost increases to end customers could cushion the profitability of CGD players.

**Primary steel:** While domestic steel demand could soften by 200-250 bps, uptick in realisations is expected to provide cushion. Ebitda margins are expected to remain healthy at ~15-16%. This is due to relatively low share of gas based DRI capacity in primary steel sector in India (~18% of total installed capacity) and also ability of players to pass through costs. That said, the situation is evolving, and the implications for primary steel players will continue to be monitored and assessed.

**Secondary steel (moderate balance sheet strength):** Most players in the secondary steel use induction furnaces which could use coal or gas depending on the availability. Availability of fuel and raw material as an input could be a challenge and hence elevated cost pressure could impact production and profitability, somewhat.

## **(ii) Second-order demand/inflation impact**

**FMCG:** A general increase in input costs due to a rise in fuel and materials using crude oil derivatives as inputs could impact margins. Discretionary consumers could also be impacted.

**Auto (two-wheelers and passenger cars):** Impact on revenue would be felt due to expected impact on inflation and consumer sentiment. Very strong balance sheets provide enough resilience to players in this sector to navigate the current environment.

**Residential real estate:** Demand in a scenario of rising costs could be impacted. Additionally, the flow of money from non-resident Indians into real estate markets could be subdued.

**Hospitality:** Some impact is expected on the food and beverages segment, which forms 30-35% of the sectoral revenue. However, the majority of hotel chains have PNG connections and electrical appliance set-ups. Reliance on LNG/LPG is low and estimated at 15–20%. Recovery post-normalisation is expected to be swift in this segment as there is no first-order impact and supply chain disruptions.

**Pharma:** Second-order effects through higher costs for materials and logistics could lower margins. Players could benefit from partial offset through currency depreciation benefit on exports.

**Basmati rice:** While volumes would remain steady, the working capital cycle is expected to stretch due to logistical hurdles such as inadequate availability of ships, longer transit times and payment-related challenges, resulting in a rise in working capital debt. Healthy balance sheets would be supportive.

**Textile – readymade garments (RMG; moderate balance sheet strength):** Prolonged elevated crude prices could result in inflation-led impact on demand.

## **B. Medium revenue impact, margin impact of less than one-tenth**

### **(i) Second-order demand/inflation impact**

**Diversified large EPC:** Few diversified large EPC players have ~20% of their order book in West Asia. These players would experience pressure on execution momentum due to regional conflicts. The ongoing conflict will also impact the cost of critical inputs, which would be partially met through a cost escalation clause.

## **C. Low revenue impact, margin impact of one-tenth to one-third**

### **(i) Impact of direct fuel/crude derivative as a raw material input**

**Paints:** Sales volumes are likely to be impacted somewhat with partial passthrough of elevated raw material and freight costs; this would affect margins. While some demand would be impacted from entry-level segments for original equipment manufacturers (OEMs), exposure to export markets other than West Asia would be supportive. Very strong balance sheets provide enough resilience to players in this sector to navigate the current environment.

**Construction – roads and bridges:** Impact due to the rise in cost of bitumen and lower availability could result in delayed projects and impact on margins.

**Tyres:** Approximately 45% of the raw material basket is linked to crude oil (synthetic rubber, carbon black), which is rising, while natural rubber prices are also concurrently trending higher. The West Asia conflict has driven up insurance and shipping costs, further pressuring profitability.

**Agrochemicals:** Fertilisers (the first input for the farming process) are expected to see a 10-15% decline in production on account of gas availability issues. Also, an increase in packing and freight costs for both domestic and export segments could affect margins.

#### **(ii) Second-order demand/inflation impact**

**Consumer durables:** Impact can be there on the refrigerator segment (30% of sectoral revenues) owing to dependence on West Asia for refrigerant gas. Owing to the increase in copper and aluminium prices, there will be an impact on margins.

**Auto commercial vehicles (CV):** Rising inflation and fuel prices are likely to dampen consumer sentiments. This, combined with potential price hikes by OEMs, may cause transporters to defer purchases of replacement vehicles as well as new ones.

### **D. Low revenue impact, margin impact of more than one-third reduction**

#### **(i) Impact of direct fuel/crude derivative as a raw material input**

**Oil – downstream:** There is an expected moderation in operating performance due to the possible impact of government policies on pricing if crude oil prices remain elevated. However, players benefit from the government's strategic support.

### **E. High revenue impact, margin impact of one-tenth to one-third**

#### **(i) Impact of direct fuel/crude derivative as a raw material input**

**Fertilisers:** The urea sector is likely to see a dual impact as production will go down due to the expected gas availability to the extent of 70%, according to a government directive, but at these levels, plant efficiency goes down, and hence raw material (gas) cost goes up. For complex fertilisers, production is likely to get impacted as ammonia shortages may happen globally, which can impact complex fertiliser production. However, government may step in to provide relief.

## **II. Moderately negative credit outlook, moderate balance sheet**

### **A. Low revenue impact, margin impact of ~one-tenth to one-third**

#### **(i) Impact of direct fuel/crude derivative as a raw material input**

**Synthetic textiles - Polyester:** Volumes could be impacted as higher prices of yarn will hurt demand. While higher raw material prices are expected to be passed on, lower volume could impact operating profitability.

**Specialty chemicals:** With ~30% of operating costs being crude linked, there would be an impact on profitability. Further, moderation in domestic demand could be seen from end-use sectors such as dyes, personal care, flavours and fragrances, etc. This sector also exports a third of its output and faces realisation pressure from China.

**Auto components:** Some of the auto parts, such as leather sheets, plastics, tyres and paints, are largely crude based. Availability of these products, along with availability of gas used in smelting and furnaces in various processes, will remain a monitorable. Continuous elevated crude prices will be a deterrent to operating margins, which could see moderation. Some players could be impacted by large working capital requirements.

**Flexible packaging:** An increase in polyethylene terephthalate chips could result in higher realisation as costs are being passed on to customers. ~80% of domestic demand is from the FMCG segment, wherein demand is largely non-discretionary. In some cases margins might get impacted as players might have to absorb the increase in crude-linked raw material prices (50–55% of revenue) partially.

**(ii) Second-order demand/geographical dependence**

**Diamond polishers:** Demand sentiment could be dampened given the geopolitical situation. Further, procurement costs could increase due to sourcing from alternative hubs.

**B. Medium revenue impact; margin impact of more than one-third reduction****(i) Impact of direct fuel/crude derivatives as a raw material input**

**Airlines:** Airlines are likely to face the triple whammy of travel restrictions, fuel cost spikes and rupee depreciation. Around 15% of capacities are deployed on the West Asia route. Airspace restrictions in West Asia may also impact other international routes. With fuel costs accounting for 25% of the total operating cost for airlines, spike in crude oil prices may have an adverse impact on operating margin. While airlines may pass on the higher fuel cost partly by hiking ticket fares, this is likely to impact discretionary travel demand. In addition, airlines often operate leased aircraft and lease payments are denominated in foreign currency. Hence, the rupee depreciation is likely to impact their overall cost. Strong balance sheets and/or parent support may provide some respite to a few players.

**III. Negative credit quality outlook, moderate balance sheet strength****A. High revenue impact; margin impact of more than one-third reduction****(i) Impact of direct fuel/crude derivatives as a raw material input**

**Ceramics:** This sector is highly dependent on LNG/propane for production; supply chains have been hit, impacting production. An impact of ~35% on revenue could be seen, and the operating margin may reduce 50%.

**IV. Positive credit quality impact**

**Oil – upstream:** Upstream players could benefit from healthy realisations due to an increase in crude oil prices. Government could step in with some measures on taxation of windfall gains.

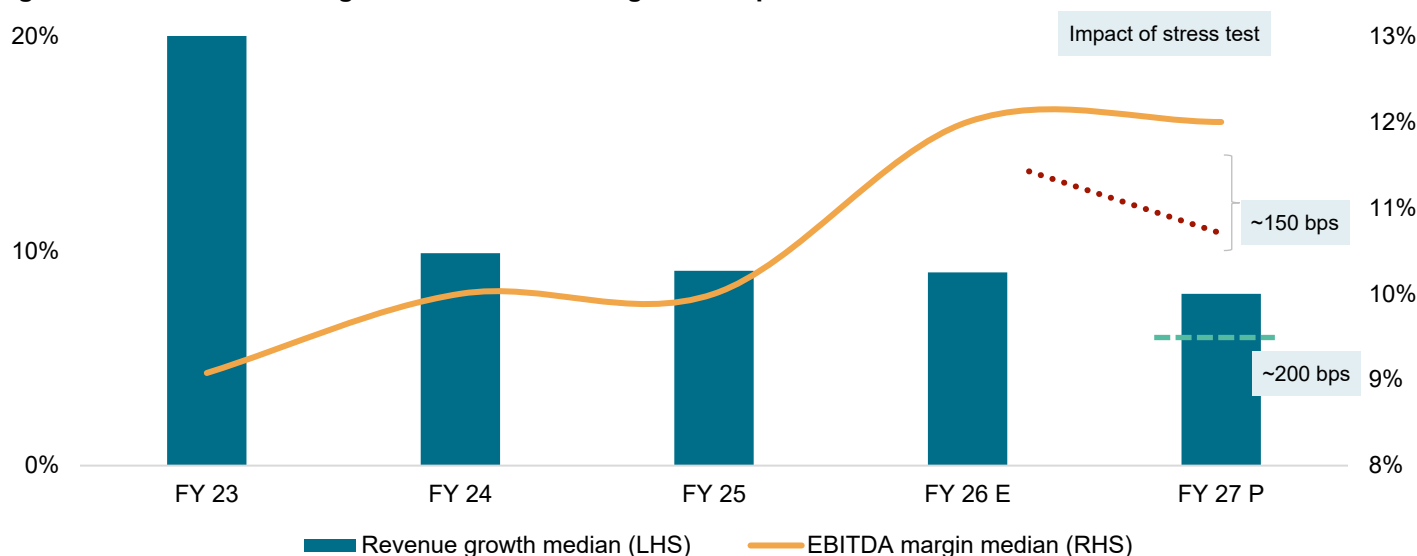
## Credit quality outlook stable but cautious for fiscal 2027

The credit outlook for India Inc remains stable, albeit cautious, amid evolving global uncertainties. Our baseline assumption is that the West Asia conflict is likely to be temporary and domestic demand drivers will sustain. Discretionary consumption is expected to support growth in fiscal 2027, aided by GST rationalisation, Direct Benefit Support and the government push for infrastructure development.

Our analysis of revenue growth and earnings before interest, tax, depreciation and amortisation (Ebitda) margin covers 70% of our rated debt. Median revenue growth is projected at ~8% for fiscal 2027, while the median Ebitda margin is expected to remain stable at ~12%.

However, downside risks persist in case of continued geopolitical tensions in West Asia. Prolonged disruptions in supply chains may compress operating margin by ~150 basis points (bps), driven by elevated raw material and logistics costs, which may weigh on profitability.

**Figure 14: Median revenue growth and Ebitda margin in our portfolio**



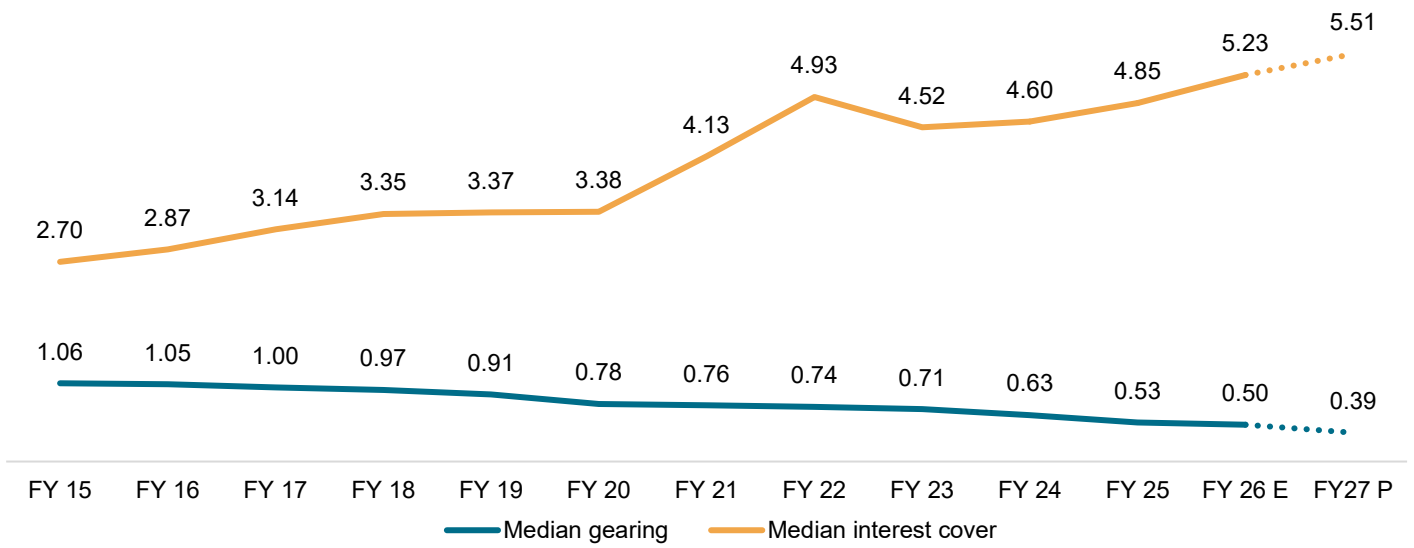
### Balance sheet strength to help tide over uncertainties

The balance sheets of India Inc remained strong, supported by sustained deleveraging over the last decade. Median gearing was expected to be ~0.5 time as of March 31, 2026, while the interest coverage ratio is expected to be a healthy ~5 times in fiscal 2026. Notwithstanding higher working capital requirement, gearing is likely to remain low in fiscal 2027.

Lower leverage cushions against global uncertainties. As a result, corporates are better positioned to fund increased working capital requirement without weakening their credit risk profiles. Strong balance sheets enhance financial flexibility, enabling companies to absorb shocks arising from uncertain global events, such as the West Asia crisis.

While corporates had pencilled in capex for fiscal 2027, this may change depending on geopolitical developments.

**Figure 13: Gearing, interest coverage: Strong balance sheets continue to support**



## Key sectors expected to see favourable credit quality outlook



### Defence

- Revenue growth is expected to sustain at 13-15% in fiscal 2027, driven by strong domestic demand and government policies
- Order book is expected at ~Rs 55,000 crore at the end of fiscal 2026, providing revenue visibility and supporting revenue growth
- The operating margin is expected to remain stable at 22–23%, supported by the built-in price escalation clauses in contracts
- Equity infusions over the past three fiscals have kept balance sheets healthy despite incremental working capital debt and capex plans
- Total outside liabilities to tangible net worth (TOLTNW) ratio is expected to be 1.15 times, indicating manageable debt
- Interest coverage ratio is expected to be healthy at 5.5 times, indicating ability to service debt



### Healthcare (hospitals and pharma)

#### Hospitals

- Private hospitals are expected to grow 14-15% in fiscal 2027, driven by healthy occupancy and higher realisation; operating margin is expected at 20-20.5% despite ongoing investments, driven by healthy demand and operating leverage
- Debt protection metrics are expected to remain healthy, with an interest coverage ratio of ~6 times and a debt-to-Ebitda ratio of 1.7 times
- Expansion in this sector through organic and inorganic mix has shifted from 60:40 to 80:20. Elevated valuation (~2.2 times premium) has been prudently funded through internal accrual, equity and moderate debt

#### Pharma

- Domestic and semi-regulated markets to drive revenue growth for the pharma sector



**Infrastructure (data centres and renewables)**

**Data centres**

- Revenue is expected to grow 19% in fiscal 2027, driven by increasing demand for digital technologies and platforms
- Robust capacity additions, with capacity of 1.1-1.3 gigawatts (GW) expected to be commissioned during fiscals 2026-2028; utilisation for data centres is expected to remain high at 90–95%, in line with the past three fiscals

**Renewables**

- Commercial and industrial (C&I) renewable capacity is expected to surge ~40% in the two fiscals through 2028
- The C&I segment policies, such as Green Energy Open Access rules and incentives offered by states, are driving growth in the sector




**Reason for cautious outlook**

The Covid-19 pandemic and global economic uncertainties have already tested corporate India's agility and resilience. While our credit quality outlook remains stable for now, we are cautious because of the uncertain duration and intensity of the West Asia conflict. If the turmoil continues, the government may need to implement relief measures, as seen in the past, which could impact the credit quality outlook. Additionally, potential second-order effects of slower global growth, higher energy prices and their impact on consumer sentiment warrant close monitoring.

## Credit quality outlook for key sectors

This section focuses on the credit quality outlook for some sectors and their performance on key parameters (revenue visibility, profitability, gearing and working capital cycle for corporate sectors and relevant parameters for infrastructure sectors) in fiscal 2027, compared with fiscal 2026.

### Parameter-wise explanation of indicators

Indicator	Revenue growth in FY27	Improvement in operating margin*	Balance sheet strength	Working capital cycle
		FY26 vs FY27	Represented by gearing as on March 31, 2026	FY26 vs FY27
<b>Green</b> 	More than 10%	Improvement by more than a tenth	Healthy	Improvement
<b>Amber</b> 	0-10%	Improvement up to a tenth	Adequate	Stable
<b>Red</b> 	Degrowth	Decline in the operating margin	Weak	Weakening

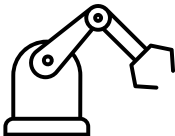
*\*Improvement in the operating margin depicts change in the Ebitda margin (%) in fiscal 2026 over the previous fiscal. The thresholds are applied on the base operating margin (last fiscal). For example, for a sector operating at 20% margin in the last fiscal, a threshold of an improvement more than a tenth would mean improvement by more than 200 bps in fiscal 2027. This would be depicted in green. If the increase in margin in fiscal 2026 is from 0 to 200 bps (less than a tenth), it is indicated in amber. Decline in the margin is indicated in red.*


The overall credit quality outlook is determined based on the above-mentioned indicators. The sectors have been categorised into strong, stable and neutral/negative based on the credit quality outlook.


Credit quality outlook	FY26 over FY25
<b>Strong</b>	Healthy Ebitda and strong balance sheet
<b>Stable</b>	Moderate Ebitda and strong balance sheet
<b>Neutral or negative</b>	Decline in Ebitda or continued subdued performance


## Corporate sectors


### Strong credit quality outlook


	Revenue visibility	Profitability	Gearing	Working capital
 <b>Capital goods</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 12-14%; Ebitda margin: 12-14%</b></p> <p>Revenue growth is backed by a stable domestic market with a healthy order backlog, and continued execution of industrial capex across sectors. The capex is largely seen in renewables and infrastructure-related investments in railways, metros and defence. The order book in the capital goods segment also benefits from emerging sectors such as data centres, semiconductors and energy transition.</p> <p>Despite rising commodity prices stemming from the ongoing geopolitical tensions, operating profitability is expected to remain comfortable at 12-14%, owing to the ability of players to pass on cost increases and a healthy operating leverage. Any steep rise in commodity prices and freight costs remains monitorable. Healthy cash generation, moderate capex and low reliance on debt will keep debt protection metrics healthy.</p> <p><b>West Asia impact:</b> The industry's exposure to exports is 25-30%, while the exposure to West Asia is not significant. However, any sharp rise in commodity prices and freight costs and their impact on profitability bear watching.</p>			


	Revenue visibility	Profitability	Gearing
 <b>Education</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 11-13%; Ebitda margin: 28%</b></p> <p>Revenue growth in the schools and colleges segment should be supported by higher enrolments and regular fee hikes. The demographic dividend and government efforts are likely to push enrolment rates. This, along with regular fee hikes, will likely lead to revenue growth of 11-13% for the fifth consecutive year.</p> <p>The operating margin is expected to remain stable at 28%, aided by revenue growth and better fixed-cost coverage. Annual capex may be slightly higher in fiscal 2027 compared with the previous fiscal, funded partly through debt; balance sheets of educational institutions have adequate headroom to absorb additional debt.</p> <p><b>West Asia impact:</b> Schools and colleges are unlikely to be impacted much by the West Asia conflict with limited presence in that region.</p>		

	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Hospitals</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 14-15%; Ebitda margin: 20.0-20.5%</b></p> <p>The sector's growth will be driven by sustained demand, reflected in healthy occupancy despite continuous bed additions. Revenue is likely to get a boost from a steady rise in average revenue per occupied bed (ARPOB) owing to the rising share of complex procedures in high-end specialisations, such as cardiology, oncology, neurology, gastroenterology and orthopaedics (CONGO).</p> <p>Abolition of the 18% GST on health insurance premiums will enhance healthcare affordability and drive hospital visitation rates, supporting growth.</p> <p>The operating profitability will sustain amid healthy occupancy and favourable case mix, which will offset pre-operational expenses associated with ongoing bed additions.</p> <p>The sector has been on an expansion spree over the last 2-3 fiscals, which is expected to continue in fiscal 2027, with ~4,500 beds to be added at capital outlay of Rs 14,500-15,000 crore. Despite sizeable capex plans, reliance on external borrowing will be moderate as the capex will be funded mainly through internal accrual.</p> <p><b>West Asia impact:</b> Medical tourism accounts for 5-7% of the hospital sector's revenue, with Bangladesh and West Asia being the primary sources, accounting for over ~85% of patient footfall. The geopolitical situation in these geographies has affected this segment. In response, the sector is diversifying into alternative markets, such as Africa and Southeast Asia, to offset potential revenue loss. Given the relatively minor contribution of medical tourism to the sector's revenue, the impact is likely to be minimal.</p>			

	Revenue visibility	Profitability	Gearing	
 <p><b>Telecom</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 15-17% and Ebitda margin: 54-55%</b></p> <p>Revenue growth of 15-17% is expected in fiscal 2027 for telcos predominantly due to growth in average revenue per user (ARPU). Telcos are expected to take tariff hikes which will drive the improvement in ARPU, further supported by rising data consumption. Data consumption per month is expected to increase by around 10% to ~36 giga bytes (GB) leading to organic growth in ARPUs.</p> <p>Increase in ARPU results in surge in operating profitability, given that ~60% of the overall cost of telcos are fixed in nature. Thus, telecom industry benefits from high operating leverage and hence, growth in revenues will lead to expansion in operating margins by ~100 bps to reach 54 – 55%. This augurs well for the credit profiles of telcos.</p> <p><b>West Asia impact:</b> Not applicable</p>			

	Revenue visibility	Profitability	Gearing	Working capital
 <b>Defence</b>	<b>Expectation for fiscal 2027: Revenue growth: 13-15%; Ebitda margin: 22-23%</b>			
	Revenue growth is driven by a strong order book (five times the revenue) and continued government focus on modernisation and indigenisation.			
	The operating profitability is expected to remain stable with process improvements, better product mix and presence of built-in price escalation clauses.			
	Large working capital requirement is mainly funded through government advances and payables, leading to lower reliance on debt.			
	<b>West Asia impact:</b> Exports account for 15-17% of the sector's revenue. The West Asia conflict will have no material impact on the top line, as direct orders are minimal. However, the unhindered supply of raw materials, including critical elements such as rare earth minerals and semiconductors, which are largely imported, will be monitorable.			

	Revenue visibility	Profitability	Gearing	
 <b>Data centres</b>	<b>Expectation for fiscal 2027: Revenue growth: 18-20%; Ebitda margin: 41-42%</b>			
	Revenue growth is led by the increased use of digital technologies and platforms by both enterprises and retail consumers. Installed capacity is expected to grow 350-400 MW to 1.9-2.0 GW in fiscal 2027 to capture the buoyant demand.			
	The strong demand will ensure healthy capacity utilisation of 90-95%, along with a stable operating margin, leading to comfortable cash flows. Players are expected to incur sizeable capex for capacity additions, mostly debt-funded. However, increasing cash flow from operational capacities will keep leverage steady and thus support credit profiles.			
	<b>West Asia impact:</b> Not applicable			


	Revenue visibility	Profitability	DSCR (Debt service coverage ratio)
 <p><b>Renewable power</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 10-15%; Ebitda margin: 80-85%</b></p> <p>The pace of renewable energy capacity additions is expected to be fast, with 50-55 GW expected to be added in fiscal 2027, as against ~48 GW added in fiscal 2026. This will be driven by:</p> <ul style="list-style-type: none"> <li>• Building of a utility pipeline due to high auctioning in fiscals 2024 and 2025</li> <li>• Push from the C&amp;I and residential rooftop segments, driven by high differential from grid tariff and policy push under the PM Surya Ghar Yojana (PMSGY), respectively</li> </ul> <p>The leverage of renewable groups is expected to inch up in fiscal 2027 as capex ramps up.</p> <p><b>West Asia impact: Nil</b></p>		


	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Pharma formulations</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 7-9%; Ebitda margin: 21-22%</b></p> <p>Revenue growth will be supported by a steady increase in domestic demand and continued momentum in semi-regulated markets, particularly Africa and Latin America.</p> <p>Ebitda margin is expected to moderate by ~100 bps due to pricier raw materials and higher logistics costs. This risk will be partly offset by new product launches, even as compliance costs continue to weigh.</p> <p>The potential impact of Section 232 tariff investigations on US revenue remains monitorable. In the meantime, strong cash generation will keep debt protection metrics healthy.</p> <p><b>West Asia impact:</b> Beyond its role as a minor hub for pharmaceutical exports, sustained disruptions in the region could lead to increased freight and transport costs, owing to limited container availability for exports. Additionally, dependence on natural gas and chemical intermediaries for the production of key inputs, such as isopropyl alcohol (IPA), could amplify the impact on manufacturing costs for some players. This will remain monitorable.</p>			

## Stable credit quality outlook

	Revenue visibility	Profitability	Gearing	Working capital
<p><b>Information technology (IT)</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 4-6%; Ebitda margin: 21-22%</b></p> <p>Revenue growth will be driven by depreciation of the rupee against the US dollar and other currencies, while constant currency revenue continues to be subdued amid weakened demand in key markets, such as the US and Europe (85% of revenue). Geopolitical uncertainties and trade disruptions are likely to impact discretionary spending, constraining growth in constant currency terms.</p> <p>Operating margin, too, will benefit from the currency depreciation besides a healthy mix of higher-value digital and artificial intelligence (AI)-led deal executions. Overall, the sector margin will remain steady at 21-22%.</p> <p>Healthy balance sheets with negligible debt and sizeable cash surplus will ensure stable credit profiles. However, the credit profiles may be impacted by the rapid adoption of AI across the globe, affecting the order inflow from global banking, financial services and insurance (BFSI) customers.</p> <p><b>West Asia impact:</b> Because of limited exposure to the impacted region, no major direct impact is expected.</p>			

	Net absorption growth	Occupancy	DSCR
<p><b>Commercial real estate</b></p>	<p><b>Expectation for fiscal 2027: Net absorption growth: 6-7%; occupancy: 84%</b></p> <p>Net absorption growth of Grade A office space in India is expected to stabilise at 6-7% in fiscal 2027, reaching 51-52 million square feet, after a strong recovery following the Covid-19 pandemic with 13-14% annual growth reported over the three years through fiscal 2026. The growth will be driven by steady demand from global capability centres, BFSI and flexible workspaces, but partly offset by cautious leasing by the domestic IT/ITeS sector amid global economic uncertainties and the increasing influence of AI.</p> <p>For office players rated by us, steady occupancy and rental growth will yield healthy credit profiles, with the DSCR and debt-to-Ebitda ratio projected to remain steady at 1.8-1.9 times and 4.4-4.6 times, respectively, in fiscal 2027 (vs 1.7-1.8 times and 4.6-4.7 times, respectively, estimated in fiscal 2026).</p> <p><b>West Asia impact:</b> Minimal</p>		

	Revenue visibility	Profitability	Gearing	Working capital
 <b>FMCG</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 7-9%; Ebitda margin: 19-20%</b></p> <p>Revenue growth will be led by rising realisations with high pricing owing to expected increase in crude oil-linked raw material prices and elevated edible oil prices. Volume growth may be constrained by inflationary pressure and slow growth in rural demand. Benefits of GST rate rationalisation may have peaked.</p> <p>The operating profitability is expected to moderate by 80-100 bps owing to raw material inflation and elevated advertising spends. Increasing raw material costs are expected to be passed on only partially owing to volume growth challenges.</p> <p>Healthy liquidity on the back of cash surplus built over time allows for acquisitions without straining balance sheets and supports the strong debt protection metrics for the sector.</p> <p><b>West Asia impact:</b> While the sector is largely domestic-focused with only a few companies exposed to West Asia, the impact of the ongoing conflict will be in the form of high cost of crude oil-linked raw materials. Companies will partially pass on the impact. Additionally, the overall inflationary environment can impact volume amid constrained household budgets. Inventory could increase as companies may stock up more owing to the conflict.</p>			

	Revenue visibility	Profitability	Gearing	Working capital
 <b>Fertiliser</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 4-5%; Ebitda margin: 7-8%</b></p> <p>Revenue growth will be largely supported by expected high realisation because of increased raw material prices, which are passed through and realised by way of higher subsidy. While good monsoon (El Nino impact a monitorable) shall support demand, supply shortages for raw materials and imported fertilisers due to the impact of the conflict amid the kharif season may affect volume.</p> <p>The operating margin is expected to reduce by 140-170 bps owing to expected decline in production, while government support through additional subsidy support will remain a monitorable.</p> <p>The financial risk profiles of players are likely to remain stable with expectations of timely and adequate release of government subsidy, along with healthy liquidity and strong balance sheets.</p> <p><b>West Asia impact:</b> The disruptions in supply chain may result in a 10-15% dip in the domestic production of fertilisers. This is because India is dependent on West Asia for key raw materials such as LNG for urea production, and sulphur and ammonia for complex fertiliser production.</p> <p>The sector is accorded second priority (after households) for allocation of natural gas at 70% of average consumption in the past six months.</p>			

For complex fertiliser players, profitability will depend on nutrient-based subsidy rates, which may require an upward revision due to the recent rise in key raw material prices. For urea manufacturers, sub-optimal capacity utilisation owing to the natural gas supply issue will increase energy consumption relative to applicable energy efficiency norms, impacting profitability. Hence, capacity utilisation as well as energy consumption will be monitorable.

Revenue visibility	Profitability	Gearing	Working capital



Cement

**Expectation for fiscal 2027: Revenue growth: 8-10%; Ebitda margin: 18-19%**

Revenue growth is aided by a 7-8% volume growth with sustained expansion in the rural housing segment and pick-up in the infrastructure segment, which together account for 60-65% of sectoral demand.

**West Asia impact:** Profitability (represented by Ebitda per tonne) is expected to grow moderately to over Rs 1,025, ~Rs 50 higher than in fiscal 2026, which saw a sharp recovery. If the conflict prolongs, it can have some downside risks for profitability, given the surging price of pet coke, which is a crude-oil derivative and a key energy source for the sector. However, the cement industry has the flexibility to switch to alternative fuels (such as coal) and can pass on the elevated input prices to consumers depending on competitive dynamics, which will cushion the impact.

Revenue visibility	Profitability	Gearing	Working capital



Construction


**Construction – roads**


**Expectation for fiscal 2027: Revenue growth: 0-2%; Ebitda margin: 10.0-11.0%**


Revenue growth will be muted as companies navigate low national highway awarding. Awarding declined below an average of 8,000 km over fiscals 2024 and 2026 from 12,000 km for fiscals 2022 and 2023. Diversification into state roads and other infrastructure segments such as transmission, renewable power, railways and urban infrastructure should offer some respite. The operating profitability, nevertheless, is expected to remain steady.


Subdued operating performance, along with stretched working capital cycles and equity commitments for ongoing public-private partnership (PPP) projects, may impact leverage and coverage metrics. That said, timely asset monetisation has resulted in significant strengthening of balance sheets, and continued activity therein will keep incremental debt in check.

**West Asia impact:** Although majority of the projects executed by road developers have built in escalation clauses linked to a mix of Wholesale Price Index and CPI, they are unlikely to absorb the full impact of rise in prices of key commodities such as bitumen, steel, cement and fuel. Further, the benefit of price escalation comes with a lag. Thus, the operating margin is expected to be impacted by 125-175 bps in the near term in case of a prolonged impact of the conflict. High costs, along with execution of aggressively bid contracts, may also lead to deferment/slowdown in the pace of execution in certain pockets and will remain a monitorable.

	Revenue visibility	Profitability	Gearing	Working capital
 <b>Textiles - RMG</b>	<b>Expectation for fiscal 2027: Revenue growth: 6-8%; Ebitda margin: 9-10%</b>			
	Revenue growth is driven by sustained demand in the domestic market (75% of sector revenue). Exports will be supported by rationalisation of tariff on exports to the US, which account for 8-10% of revenue.			
	The operating margin is expected to recover, driven by improved profitability in the US market.			
	Credit metrics are expected to improve a tad with higher accrual.			
However, persistently high crude oil prices, resulting in elevated inflation, could dampen demand and remain a key area of focus.				
<b>West Asia impact:</b> The industry has minimal exposure to West Asia and is unlikely to be materially impacted by it. RMG is not a power-intensive sector and hence has limited dependence on oil and gas.				

	Revenue visibility	Profitability	Gearing	Working capital
 <b>Cotton yarn spinning</b>	<b>Expectation for fiscal 2027: Revenue growth: 5-7%; Ebitda margin: 9.5-10%</b>			
	Revenue growth is driven by steady demand from the domestic and overseas markets, as well as improved realisations from the domestic downstream industry amid stable cotton prices. Realisations had moderated in fiscal 2026 as downstream players shared a portion of the high tariff with spinners.			
	Credit profiles are expected to be supported by deleveraged balance sheets, moderate capex and improving cash accrual.			
	<b>West Asia impact:</b> The sector is not expected to be impacted by the conflict, given its negligible exposure to the region. While cotton spinning is a power-intensive sector, it has minimal dependence on oil or gas as a power source.			

	Revenue visibility	Profitability	Gearing
 <b>Shrimp</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 8-10%; Ebitda margin: 7-7.5%</b></p> <p>Revenue growth is supported by diversification into new markets and high sales volume in the existing non-US markets. However, Indian shrimp exports to the US have reduced 15-20% due to the impact of high tariffs from August 2025. Recent trade deals with several countries will aid the diversification attempts of shrimp processors and help improve revenue for fiscal 2027. Realisations and operating profitability improved in fiscal 2026, supported by a significant depreciation of the Indian rupee versus the US dollar and euro. The operating margin is expected to remain steady at 7-7.5% as players have been able to pass on the tariff impact to end consumers.</p> <p><b>West Asia impact:</b> Indian shrimp exporters have limited exposure to West Asia where the blocking of the Strait of Hormuz impacted 3% trade. However, a prolonged conflict can have an impact on the global economy and freight costs. This could have a bearing on the export potential and operating profitability of shrimp processors.</p>		

	Revenue visibility	Profitability	Gearing	Working capital
 <b>Diamond polishing</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 6-7%; Ebitda margin: 4.25-4.5%</b></p> <p>India is a dominant player in the global diamond polishing segment, processing over 90% of diamonds. The industry has declined sequentially in the past three fiscals due to reducing overseas demand, following the rise in demand for lab-grown diamonds, a cheaper substitute and volatility in reciprocal tariffs in the key overseas market, the US. However, reduction in US tariff and steady domestic demand will result in Indian diamond polishers logging a 6-7% on-year growth in revenue.</p> <p>The proportion of direct US exports (which halved in fiscal 2026 from 35% earlier) is expected to recover as the economy rebounds and disposable incomes increase with easing of tariff. While domestic demand has supported sales, China, another key market, faces challenges due to subdued consumer confidence.</p> <p>Fall in realisation by 10-12% amid competition from economical lab-grown diamonds, along with increased shipment costs, may result in an operating margin of 4.25-4.5%. Limited reliance on external debt will keep leverage under check, while a low operating margin will suppress debt protection metrics.</p> <p><b>West Asia impact:</b> The escalating conflict could prevent diamond polishers from fully benefitting from the reduced tariff, currently at 10%, and the interim trade deal that is likely to eliminate the reciprocal tariff on Indian gems and diamonds, effectively bringing down the US tariff to zero. The UAE and Israel are among key trading hubs for polishers. Given that polishers import 70% of roughs from the UAE and Israel (West Asia itself accounts for 49%) and export 20% to them, the conflict may temporarily impact shipments. However, other trading hubs such as Belgium may support shipments, if the conflict prolongs.</p>			

Revenue visibility	Profitability	Gearing	Working capital

**Expectation for fiscal 2027: Revenue growth: 8-10%; Ebitda margin: 3.5-3.7%**

India relies on imports for 55-60% of its edible oil needs, primarily palm, sunflower, and soybean oil. Overall realizations would see a 5-7% growth largely driven by higher prices of palm and sunflower crude due to supply-side constraints and geopolitical headwinds. However, volume growth is expected to remain steady at 2.5-3.0%. Hence Revenues are expected to grow by 8-10% in fiscal 2027.



Edible oil


The operating margin is expected to witness a 30-50 basis points uptick in fiscal 2027 due to higher realizations given pass on in price changes happen with a lag. The hedging policies adopted by players will continue to insulate them from sharp price movements.


Working capital requirements are expected to increase marginally due to high-cost inventory and increased dependence on working capital borrowings. Players are expected to undertake debt-funded capital expenditure (capex) for capacity enhancement and maintenance to improve production efficiencies in fiscal 2027, driven by the steady rise in demand. The past deleveraging of balance sheets will support the credit profiles of players.


However, the impact of ongoing geopolitical challenges, further changes in the duty structure of edible oils, and international trade dynamics bears watching


**West Asia impact:**


There is no direct impact on India as it is a net importer of Edible oil. However, if the war prolongs, Sunflower Oil players may face an indirect impact due to the effect on key suppliers from Ukraine and Russia, potentially leading to higher logistics costs and longer lead times for delivery


	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Apparel retail</b></p>	<p><b>Estimates for fiscal 2027: Revenue growth: 11-13%; Ebitda margin: 13.5-14.0%</b></p> <p>The domestic apparel retail sector is expected to sustain its double-digit revenue growth trajectory with revenue projected to rise 11-13% in fiscal 2027. This growth will be driven by the continued shift in consumer preference towards fast fashion segments, and the anticipated benefits from GST rate rationalisation.</p> <p>However, the operating margin is expected at 13.5-14.0%, driven by improved store productivity, resulting from the maturation of previously added stores and gradual addition of stores, partially offset by an increase in cotton yarn prices.</p> <p>Retailers are expected to focus on enhancing efficiency in existing stores and achieving early break-even points for new stores, rather than aggressive area expansion.</p> <p><b>West Asia conflict impact:</b> Given the sector's limited exposure to global trade, the impact of the conflict is not expected to be significant.</p>			


	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Gold jewellery and retailing</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 25-30%; Ebitda margin: 8.4-8.6%</b></p> <p>Gold jewellery retailers are expected to maintain their growth momentum seen in fiscal 2026, driven by a surge in realisation. Volume is expected to decline 5-7%. However, with realisation improving 30-35%, the overall revenue growth is seen at 25-30%. The shift in demand from the unorganised to the organised sector and consumers buying gold as an investment will limit the volume decline. The increase in gold prices is expected to enhance the operating margin, but this benefit will be partially offset by increased promotional and marketing expenditure. As a result, the operating margin is projected to remain steady at 8.4-8.6%.</p> <p>Moreover, the rise in gold prices may lead to high inventory holding, resulting in increased dependence on working capital borrowing. Nevertheless, slower store addition amid weaker demand will offset the working capital increase at a comfortable gearing.</p> <p><b>West Asia impact:</b> There is no direct impact, though exports of a few jewellers exposed to the region may be affected. Gold prices are expected to remain volatile, which may have a bearing on profitability, if the conflict prolongs.</p>			


	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Auto – passenger vehicles (PVs)</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 9-11%; Ebitda margin: 10.0-10.5%</b></p> <p>Revenue growth will be driven by higher sales volume and realisations. Domestic PV volume will be fuelled by GST rate revisions (tail-end impact), stable interest rates and new model launches (especially in electric vehicles). Realisation will be driven by modest price hikes, a shift towards utility vehicles and higher-end variants, and CNG variants and automatic transmissions. PV exports will grow slowly at 0-2% owing to the West Asia conflict and steep tariff imposed by Mexico. However, sustained demand in emerging economies will support Indian automakers' export-oriented approach. The operating profitability is expected to dip to 10-10.5% due to higher raw material prices, but healthy operating leverage and price hikes will help.</p> <p><b>West Asia impact:</b> Direct exposure to West Asia is minimal, at less than 5%. However, indirect impact is expected to be more pronounced, given that a significant proportion of auto component products, including leather sheets, plastics, tyres and paints are derived from crude oil-based inputs. Continuous availability of these products, as well as a stable supply of gas, which is extensively utilised by auto component manufacturers across various processes, including smelting, forging, casting and stamping, will remain monitorable.</p>			

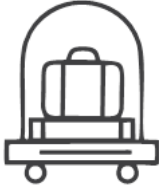
	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Auto – two-wheelers</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 11-12%; Ebitda margin: 16-16.5%</b></p> <p>Revenue is expected to be supported by volume growth of 7-9% and continued premiumisation. Domestic demand, which accounts for ~80% of volume, will be aided by improved affordability following the GST rate rationalisation and recovery in rural demand on the back of healthy farm income. Electric two-wheeler growth is expected to revive with favourable ownership economics and the launch of affordable models.</p> <p>Exports are expected to maintain their strong momentum and continue outpacing domestic growth in fiscal 2027, with limited presence in West Asia.</p> <p>Operating margins may be slightly impacted by elevated raw material cost on account of the conflict in West Asia.</p> <p><b>West Asia impact:</b> The ongoing conflict is not likely to have a material impact on two-wheeler OEMs as the region accounts for less than 1% of total sales volume and there is limited dependence on imports from the region.</p>			

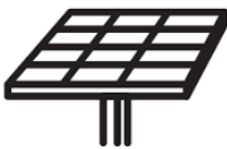
	Revenue visibility	Profitability	Gearing	Working capital
 <b>Auto – CVs</b>	<b>Expectation for fiscal 2027: Revenue growth: 6-7%; Ebitda margin: 11-12%</b>			
	Revenue growth is expected to be driven by both light commercial vehicle and medium and heavy commercial vehicle segments. Volume is expected to grow 5-6%, driven by better freight demand. Rationalisation of GST rates across products, coupled with interest rate cuts, has provided a boost to consumption, and replacement demand is also likely to pick up.			
	Operating margins are expected to see a slight impact from higher commodity costs.			
<b>West Asia impact:</b> The ongoing crisis may not have any material impact on auto OEMs, as West Asia accounts for only around 2% of the total sales volume and there is limited dependence on imports from the region. However, a prolonged conflict and sustained increase in raw material cost may curtail their ability to pass on the rising cost and impact margins.				


	Revenue visibility	Profitability	Gearing	Working capital
 <b>Auto dealers</b>	<b>Expectation for fiscal 2027: Revenue growth: 7-9%; Ebitda margin: 3.3-3.5%</b>			
	Revenue is likely to grow 7-9% in fiscal 2027, supported by a 6-7% increase in volume. This is despite the high base effect, as revenue grew 8-10% and volume 11-12% in fiscal 2026.			
	Growth in the first half of fiscal 2027 will benefit from the tailwinds of the GST reduction and the relatively low base seen in the first half of fiscal 2026, sustaining the momentum in retail demand. In the second half, implementation of the 8th Pay Commission recommendations should boost incomes of government and public-sector employees, and translate into incremental demand and volume. The usual festive demand, lower penetration in Tier 2 and 3 cities and rural markets, and increased liquidity from tax benefits in fiscal 2025, are likely to continue.			
	Operating margin may improve to 3.3-3.5% (up 100–200 bps vis-à-vis the previous fiscal) with volume growth and higher operating leverage. Better demand will help reduce inventory and curtail higher discounts.			
Inventory levels have moderated to about 90 days, with improved revenue growth after the GST rate rationalisation.				
Credit metrics are likely to be comfortable with continued demand, improved profitability and reduced inventory.				
<b>West Asia impact:</b> A prolonged conflict could lead to inflation, lower disposable income and higher interest rates, and, thus, have an adverse impact on consumers' discretionary demand and auto dealers' revenue.				


	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Sugar</b></p>	<p><b>Estimates for fiscal 2027: Revenue growth: 3-4%; Ebitda margin: 7-8%</b></p> <p>Revenue growth is expected to moderate to 3-4% in fiscal 2027 from 7-8% estimated for fiscal 2026. This would be on account of lower revenue from the distillery segment, with less ethanol allocated by oil marketing companies (OMCs) from the molasses route in volume terms, and muted growth in domestic sales (by 1-2%). Exports are seen rising to 1.58 million tonne in sugar season (SS) 2025-26, from around 1 million tonne in SS 2024-25.</p> <p>Operating margin is expected to be slightly lower at 7-8% in fiscal 2027, as against 8-9% in fiscal 2026, owing to an increase in the fair and remunerative prices of sugarcane, from Rs 340 per quintal in SS 2024-25 to Rs 355 per quintal in SS 2025-26. Price of ethanol (through the molasses route) remained steady for the year, adding to pressure on profitability.</p> <p><b>West Asia impact:</b> Exports, mainly to Africa, form around 3.4% of the total volume, thereby limiting any major impact of the ongoing conflict on the sector.</p>			

	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Agrochemicals</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 7-9%; Ebitda margin: 12.5-13.0%</b></p> <p>Revenue is expected to grow 7-9% in fiscal 2027. The domestic market, accounting for almost 50% of the revenue, is expected to see healthy offtake during the kharif season, driven by higher reservoir levels. However, the predicted El Niño event may lead to a weak monsoon and impact kharif sowing. Exports, which account for the balance 50% of revenue, are expected to grow, driven by demand from North and Latin America.</p> <p>Debt protection metrics are likely to be adequate, backed by healthy balance sheets and stable working capital levels.</p> <p><b>West Asia impact:</b> The sector has negligible direct revenue exposure to West Asia but may face indirect impact on operations from crude oil-linked derivatives and gas supply constraints. The kharif season, which accounts for 60-65% of sales, may be impacted by a shortage of fertilisers and higher cost of freight and packaging. Overall, these factors will need monitoring.</p>			

	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Hospitality – hotels and resorts</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 11-12%; Ebitda margin: 34.5-35%</b></p> <p>Revenue growth will be driven by continued momentum in domestic leisure, business and MICE (meetings, incentives, conventions and exhibitions) segments. Despite sizeable room additions, average room rent is expected to increase 5-6%, while occupancy will remain stable at 74-75%. Room additions are geographically well spread, with major additions coming up in Tier 2 and 3 spiritual and leisure locations. Operating margin will sustain, driven by benefits of operating leverage. Strong cash flow, sizeable equity raises and a pre-dominantly asset-light expansion strategy will keep credit profiles stable. Domestic tourism could see tailwinds with diversion of traffic from international tourism.</p>			
	<p><b>West Asia impact:</b> The food and beverage segment, which constitutes 30-35% of overall sectoral revenue, could be marginally impacted by a shortage of LNG/LPG. While large hotel chains have access to PNG and electric connections, there is still 15-20% dependence on LNG/LPG. In case of continued shortage in supply of LNG/LPG, hotel chains could curtail their menu offerings, which might further impact revenue from this segment and overall profitability of the hospitality sector.</p>			

	Utilisation levels	Profitability	Gearing
 <p><b>Solar module manufacturing</b></p>	<p><b>Expectation for fiscal 2027: Capacity to grow 15-20 GW, utilisation levels to moderate</b></p> <p>Module manufacturing capacity is expected to increase 15-20 GW (currently 172 GW) and cell capacity 70-80 GW (currently 24 GW) in fiscal 2027. This will be supported by domestic demand and government-led schemes. However, annual demand for solar modules is expected to be in the range of 65-70 GW, which will lead to moderation in capacity utilisation</p>		
	<p>Further, oversupply in the module manufacturing segment could impact margin. Integrated players could maintain a healthy margin of 23-27% in fiscal 2027, aided by higher demand for DCR modules (domestic content requirement) against the current operational capacity.</p> <p><b>West Asia impact:</b> No impact</p>		

	Volume growth	Profitability	Debt/EBITDA
 <b>City gas distribution</b>	<b>Expectation for fiscal 2027: Volume growth: 7-8%; Ebitda: Rs 7-7.5/scm</b>		
	<p>Volume was expected to grow 7-8% in fiscal 2027, supported by systematic network expansion into emerging geographical territories and cleaner fuel adoption. However, reduced natural gas supply due to the ongoing conflict in West Asia will moderate this growth.</p>		
	<p>Operating margin is likely to remain stable at Rs 7-7.5/scm, supported by the ability to pass on cost hikes and high proportion of contracted supplies.</p>		
	<p>Annual capex may be slightly higher than that in fiscal 2026, funded partly through debt with a higher moratorium period, giving headroom to fund capex via internal cash flow. Debt/Ebitda ratio is likely to be range-bound at 1-1.25 times at the industry level in fiscal 2027.</p>		
<b>West Asia impact: Neutral for credit profile.</b>			
<p>Daily sales volume is expected to moderate 8-10% on account of reduced natural gas supply due to the ongoing conflict in West Asia, until the situation stabilises in the near term. All the same, the ability to pass on cost hikes to end-customers will cushion profitability.</p>			
<p>The CGD industry has three segments: CNG, PNG D and PNG I&amp;C. CNG and PNG-D together account for around 70% of sales volume and would be the least affected, as natural gas supply is met largely from domestic sources. However, around 30% CGD volume from PNG I&amp;C, largely sourced via imports, could be impacted by the halt in production at the LNG facility in Qatar. India imports nearly 45% of its LNG requirement from Qatar.</p>			

	Revenue visibility	Profitability	DSCR
 <b>Airport</b>	<b>Expectation for fiscal 2027: aeronautical revenue growth: 35-40%; non-aeronautical revenue growth: 10-12%; Ebitda margin: 48-50%</b>		
	<p>While growth in airport traffic (in volume terms) was muted in fiscal 2026, it is expected to rebound 6-7% to 450-460 million passengers in fiscal 2027, driven by strong economic activity, untapped demand and easing of capacity constraints at select metros. With operational disruptions arising from recent geopolitical developments in West Asia, growth in traffic remains monitorable.</p>		
	<p>Aeronautical revenue for PPP airports is likely to grow 35-40% in fiscal 2027, driven by operationalisation of new airports, tariff hikes at select airports and growth in passenger traffic. Non-aeronautical revenue at these airports is also expected to grow in double digits, supported by the expansion of non-aeronautical footprint and higher average transaction value per passenger.</p>		
	<p>Moreover, improved cash flow of PPP airports, expected in fiscal 2027, should help them maintain a steady long-term DSCR.</p>		

**West Asia impact:** Recent geopolitical developments have led to temporary airspace restrictions over parts of West Asia, causing operational disruptions. The disruptions are expected to be limited since West Asia represents nearly 40% of India's international airport traffic and 8–10% of India's overall airport traffic.



**Expectation for fiscal 2027: Revenue growth: 7-9%; Ebitda margin: 2-3%**

Operating performance is likely to moderate in fiscal 2027, if elevated crude oil prices persist. The impact will depend on the extent to which cost increases are passed on to end consumers. Factoring in partial pass-through of cost escalations largely to industrial and commercial customers, revenue is expected to grow 7-9%. Operating margin could decline significantly to 2-3%, from 7-9% in fiscal 2026.

Despite the subdued outlook, companies are expected to incur average annual capex of Rs 70,000 crore.

**West Asia impact:** India imports nearly 85% of its crude oil requirement, with 50-60% sourced from West Asia. While this indicates significant regional exposure, domestic refiners have started sourcing from alternate geographies, which has helped sustain production levels.

For LPG, import dependence remains high. Although OMCs are maintaining inventory through increased domestic throughput, any prolonged disruption in imports could impact availability.



**Oil and gas refining and marketing**



**Expectation for fiscal 2027: Demand/volume growth: 0-2%; sales booking (value) growth: 4-6%**

After a phase of high growth between fiscals 2022 and 2025, sales (value) growth across the top seven cities (Mumbai Metropolitan Region, National Capital Region, Bengaluru, Pune, Hyderabad, Chennai and Kolkata) is estimated to have moderated to 4-6% in fiscal 2026, as demand (volume) was stagnant due to elevated capital values and delay in launches on account of challenges pertaining to approval in certain cities.

With the flattening of both average selling price and demand growth, sales (value) are expected to grow at a similar pace of 4-6% in fiscal 2027. Average selling price and demand (volume) growth is projected at 3-5% and 0-2%, respectively, in fiscal 2027.

Resultantly, inventory levels are expected to inch up to 3.2-3.4 years in fiscal 2027, from 2.8-3 years in the two prior fiscals, as supply growth continues to outpace rise in demand.

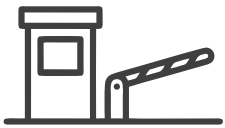
Despite the moderation in sales growth, operating performance remains healthy, underpinned by steady collections. The substantial cash flow generation has helped developers reduce reliance




**Residential real estate**

on external debt for funding project construction. Resultantly, their debt-to-CFO ratio is projected to be 1.1-1.3 times for fiscal 2027.

**West Asia impact:** No direct impact. However, a long-drawn conflict may result in higher inflation and take a toll on consumer discretionary demand.

	Revenue visibility	DSCR
 <b>Road assets</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 6-8%</b></p> <p>Traffic growth of 4-5%, on a like-to-like basis, along with a 2-3% hike in the toll rate, in line with the benign inflationary environment, will help toll collections grow at a steady pace of 6-8% in fiscal 2027. This will be despite the substantial expansion in the country's national highways network over the past decade. Growth in both traffic segments—passenger and commercial—should be resilient, backed by steady economic activity and strong increase in personal mobility.</p> <p>While the implementation of toll rate hike and announcement of FASTag annual pass for private vehicles have been delayed, these have been or are expected to be adequately compensated, limiting any material impact on toll road operators. Credit profiles of toll road operators will, thus, remain stable.</p> <p><b>West Asia impact:</b> Increase in bitumen and fuel prices may lead to an escalation in maintenance cost. Nevertheless, toll road operators will have the flexibility to defer major maintenance subject to road conditions, thus limiting the impact on cash flow.</p>	

## Primary steel

	Revenue visibility	Profitability	Gearing	Working capital
 <b>Steel (primary)</b>	<p><b>Expectation for fiscal 2027: Revenue growth: 7-8%; Ebitda margin: 15-16%</b></p> <p>Domestic demand will remain healthy, clocking growth of 7-9% in fiscal 2027, in line with fiscal 2026. Capacity additions undertaken by companies in fiscal 2026 will start contributing to their earnings from fiscal 2027. There could be some pressure on margins, especially in the first quarter of fiscal 2027 due to likely increases in energy and freight cost amid the ongoing war in West Asia. However, the pressure on margins could be limited because the cost increases are not likely to be more than 8-10% of the total cost and also because companies in the sector can pass on price hikes to consumers in case the conflict prolongs. In a base case scenario of the war not extending beyond the first quarter of fiscal 2027, margins are expected to remain robust, driven by support to realisations from the imposition of safeguard duties from the end of calendar year 2025.</p> <p>The credit metrics are expected to improve marginally in fiscal 2027, supported by an improved earnings base, with newly added capacities ramping up gradually and limited additional debt.</p>			

**West Asia impact:**

A prolonged conflict in West Asia may impact Indian steel production, particularly those manufacturers using the Direct Reduction Iron (DRI) route, which accounts for 18% of installed capacity. Natural gas, a significant input cost (15-25%), may be affected.

Downstream capacities relying on gas for value-added products may also be affected, accounting for 13-17% of sales volume of the top players. The situation is evolving, and the full impact is yet to be determined. Companies maintain inventory stocks and seek alternate options, but the implications for Indian steel players will need to be monitored.

Revenue visibility	Profitability	Gearing	Working capital

**Expectation for fiscal 2027: Revenue growth: 5-7%; Ebitda margin: 6-6.5%**


The revenue growth of the domestic secondary steel segment is driven by the thrust on infrastructure spending and demand from housing. After declining in first nine months of fiscal 2026, realisations improved about 15% in the fourth quarter. Further, realisations are expected to remain steady during fiscal 2027 on account of continued demand and limited capacity addition. Rather, players have invested in backward integration to counter the increase in power cost. There could be some pressure on margins, especially in the first quarter of fiscal 2027, due to potential increases in energy prices and those of semi-finished products, particularly for non-integrated companies, along with freight cost escalations amidst the ongoing conflict in West Asia. However, the same could be limited as it is not likely to be more than 6-8% of total cost and industry's ability to pass through price hikes in case the same prolongs. In a base case scenario, if the war does not extend beyond the first quarter of fiscal 2027, margins could improve as finished good prices are expected to remain steady and secondary players are expected to harness the benefit of increased level of backward integration.



**Steel (Secondary)**

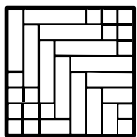
**West Asia impact:**


A prolonged conflict in West Asia may impact secondary steel companies with large sized DRI kilns, as they depend on coking coal, which is primarily imported from South Africa and the prices of the same have started increasing on account of issues pertaining to logistics. However, the impact on players with smaller DRI kilns will be limited as their dependency is less and can be replaced by charging more Indian coal, compromising on some efficiency loss.


	Revenue visibility	DSCR
 <b>Thermal power</b>	<p><b>Expectation for fiscal 2027: Power demand: 4-6%; revenue growth: 3-5%; Ebitda margin: 34-35%</b></p> <p>Growth in power demand is expected to recover to 4-6% on-year during fiscal 2027. Plant load factors (PLFs) are expected at 64-66% in fiscal 2027, in line with fiscal 2026.</p> <p>Capex is set to increase. However, given the long gestation periods, a significant part of capacity addition would be back-ended. Only 8-10 GW of thermal capacity is expected to be added over fiscals 2027 and 2028 (~10 GW in fiscal 2026).</p> <p><b>West Asia impact:</b> The conflict in West Asia has disrupted energy supply chains significantly. As a result, the government of India is prioritising gas supply for household usage. Since India has ~20 GW of gas-based power generation capacity, which might get affected due to limited gas supplies, the PLFs of coal-based plants are expected to rise.</p>	

**Moderately negative/negative credit quality outlook for sectors under our stress test**

Below sectors have negative/moderately negative credit quality outlook only if the scenario as mentioned on page no 18 pans out.

	Revenue visibility	Profitability	Gearing	Working capital
 <b>Ceramics</b>	<p><b>Expectation for fiscal 2027: Revenue decline: 25-30%; Ebitda margin: 8.2-8.5%</b></p> <p>Revenue growth will be impacted by 25–30% because the supply of LNG and propane—key raw materials that account for 35% of the cost of goods sold (COGS)—is curtailed, forcing most ceramic plants to either shut down production or operate at reduced levels. This will impact domestic revenue because of low availability and higher prices.</p> <p>Further, disruptions in the supply chain are expected to impact exports. West Asia accounts for 15% of exports out of a total of 40% of exports in the ceramics industry.</p> <p><b>West Asia impact:</b> Production at various ceramic plants has either been halted or reduced due to the lack of or low availability of gas.</p> <p>Exports to West Asia are the highest for any given geography, so a long-term supply chain disturbance will have an impact on the industry.</p>			

	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Specialty chemicals</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 4-6%; Ebitda margin: 13.5-14.0%</b></p> <p>Revenue growth is led by steady domestic demand, while growth in exports is expected to be muted due to global trade-related uncertainties and geopolitical concerns.</p> <p>Operating profitability to drop ~200 bps to 13.5-14.0% since the prices of several raw materials are linked to those of crude oil, which have risen sharply, and sustained pricing pressure on most segments following continued dumping by China. However, higher operating leverage aided by volume-led growth and expected implementation of Chinese anti-involution policy on select chemicals from April 1, 2026, are expected to partly offset the pressure on pricing.</p> <p><b>West Asia impact:</b> The direct impact on revenue is not material as West Asia's share in overall chemical revenue is 3-4%. For specialty chemical companies, ~30% of operating costs are linked to crude oil. Hence, a sustained rise in crude oil prices could weigh on the profitability, given the sector's limited ability to pass through increased costs, especially because of dumping by China.</p>			

	Revenue visibility	Profitability	Gearing	Working capital
 <p><b>Auto components</b></p>	<p><b>Expectation for fiscal 2027: Revenue growth: 7-8%; Ebitda margin: 10.5-11.5%</b></p> <p>Steady demand from OEMs (~68% of revenue) and momentum from GST rate revision are driving revenue growth. The aftermarket segment—~15% of revenue—remains steady. Growth in exports, which account for 17% of revenue, is led by a rising share of critical and higher value-added components. Furthermore, increasing premiumisation and higher localisation are also sustaining growth.</p> <p>Operating profitability is expected to dip up to ~100 bps to 10.5-11.5% in fiscal 2027 due to rising input costs and supply chain disruptions because of geopolitical uncertainties, offset partially by improved realisation from a shift towards higher value-added components.</p> <p><b>West Asia impact:</b> Direct exposure to West Asia is limited, but the segment may experience indirect effects of a potential ~20% reduction in gas allocation as per extant guidelines, although production is not affected so far. The industry's dependence on crude oil-based products, including leather, plastics, tyres and paints, makes their uninterrupted supply critical. Furthermore, the industry's reliance on gas for various manufacturing processes such as smelting, forging, casting and stamping, will be monitorable.</p>			

	Revenue visibility	Profitability	Gearing	Working capital



## Packaging

**Expectation for fiscal 2027: Revenue growth: 10-12%; Ebitda margin: 9-11%**

Flexible packaging industry's revenue growth is expected at 10-12%, supported by healthy traction in both domestic (~70% of sectoral sales) and export markets. Growth in the domestic market will be driven by steady demand from the FMCG segment, which accounts for nearly 80% of domestic sales, while reduction in tariff by the US government will benefit exports. Realisations, too, are expected to increase, driven by higher crude oil-linked raw material prices as players can pass on such increases through periodic resets.

**West Asia impact:** Exports to West Asia account for less than 10% of overall sales and, hence, no direct revenue impact is envisaged as players will redirect exports to the US and European markets. However, overall manufacturing costs will go up as crude oi-linked raw materials form 70-75% of total costs. Periodic price reset clauses with buyers will allow players to pass on such price fluctuations, limiting any significant impact on operating profitability.

# Indian financial sector credit quality outlook

## Bank credit profile to remain healthy

### Growth to remain steady in fiscal 2027; profitability, asset quality better than decadal averages

Bank credit growth in fiscal 2027 is likely to be ~13%, broadly in line with the ~14% estimated for fiscal 2026. However, it will be a normalisation from the healthy growth seen in the second half of fiscal 2026. Furthermore, there are downside risks to real GDP amid the conflict in West Asia and would remain a monitorable for bank credit growth expectations as well.

While credit growth was somewhat muted in the first half of fiscal 2026, it picked up in the second half because of supportive government and regulatory stimuli that increased consumption. The reversal of bond market substitution has also supported growth in recent months.

The sustained effect of these, in addition to increased working capital requirements, will drive credit growth in fiscal 2027.

Amid these tailwinds, the uncertainties related to the ongoing geopolitical conflicts could impact economic growth and liquidity, in turn affecting the base case estimates of credit growth and asset quality.

Credit growth in the corporate sector, which accounts for ~36% of the domestic bank credit, is expected to grow 9–10% in fiscal 2027, range-bound when compared with fiscal 2026. Corporate credit growth in fiscal 2026 was supported by the reduction in pricing arbitrage between bank loans and bond markets, shifting credit demand back to banks and leading to an increase in early-stage private capex. Moreover, ongoing infrastructure buildout will continue to drive the growth of sectors such as road and power. In sectors such as basic metals and metal products, select large players are expected to drive the revival of a longer capex cycle, thereby aiding growth. Furthermore, increased working capital intensity for corporate India would also support credit growth.

However, banks with a high credit-deposit (CD) ratio may seek alternative funding sources, which can increase their cost of funds. If banks choose to pass on this cost to corporate borrowers, corporate growth may be constrained.

That said, geopolitical conflicts and tariff-related uncertainties, coupled with the reliance on internal accruals by corporates and equity raising for planned spends, will bear watching.

Retail loans, constituting ~33% of domestic bank lending, are expected to grow 14–15% for fiscal 2027, on a par with last fiscal's growth. Home loans, which will continue to account for almost half of this portfolio, is expected to drive growth as better affordability with lower interest rates ensure sustained demand for housing. Growth in vehicle loans, which had picked up following the GST reforms, is likely to remain range-bound. Unsecured loans are likely to witness a higher growth as the quality of newer originations improves. Lastly, gold loans — which have a relatively smaller share of the retail portfolio of banks — will grow ~100% in fiscal 2027 on the back of a small base.

The MSME<sup>7</sup> segment (~18% of overall credit) will remain the fastest growing portfolio for the banking sector with an expansion of over 22%, comparable with that of fiscal 2026, though notably higher than the ~15% recorded in fiscal 2025. The growth is likely to be fuelled by two key factors: Government initiatives such as the three-tier stimulus for MSMEs announced in the budget and the doubling of collateral-free loan limits to enhance funding access, liquidity and transaction settlements, and the strengthening of operational and digital infrastructure of MSMEs, which has enabled formal data access. This will improve the accuracy of banks' underwriting models, enabling them to efficiently capitalise on growing demand in this segment.

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<sup>7</sup>Micro, small and medium enterprises

Agricultural credit growth, which will continue to be linked to monsoon, is expected to be range-bound at 10–11% in fiscal 2027.

Asset quality, measured by gross non-performing assets (GNPAs), is likely to have bottomed out at 2.2–2.3% as of March 2026, but is expected to remain range-bound at 2.3–2.5% by March 2027. The corporate portfolio has undergone a significant clean-up with banks adopting strong risk management and underwriting standards. Correspondingly, the health of corporate India has improved with secular deleveraging over the past few fiscals. This will result in corporate NPAs remaining stable.

NPAs in the MSME and corporate segments may witness a cyclical inch-up, particularly in the export-oriented and LNG and crude-linked sub-segments in case of prolonged geopolitical conflicts.

Lastly, while retail GNPAs are expected to remain steady, delinquencies in the unsecured retail portfolio will remain monitorable.

In terms of capitalisation, the banking sector has adequate buffers and is well-placed to grow over the medium term.

With respect to profitability, in the prevailing downward interest rate cycle — as assets reprice faster than deposits — the return on assets (RoA) for banks is set to moderate to ~1.25–1.30% in fiscals 2026 and 2027 from ~1.4% in fiscal 2025 as the net interest margin (NIM) slips 5-15 bps. It will still be at a healthy level considering the sector's average RoA in the past 20 years was ~0.8%.

Lastly, there is growing emphasis on higher technological integration in banking, with a data-driven approach leveraging financial, non-financial and macroeconomic data, as well as predictive modelling. Although the use of GenAI is still at a nascent stage for many banks, it is gaining traction. At the same time, banks will need to be vigilant on attendant risks — cybersecurity, data breaches and digital frauds, among others — and their constantly evolving nature.

Overall, the credit profiles of banks are strong, backed by comfortable capitalisation and improved asset quality.

## **NBFCs to grow steadily in fiscal 2027**

### **Overall asset quality to remain range-bound even as pockets of vulnerabilities emerge**

NBFCs<sup>8</sup> are expected to see assets under management (AUM) grow steadily at 18–19% in fiscal 2027 and cross Rs 50 lakh crore by March 2027. Healthy consumption demand and supportive policy measures are likely to help sustain retail credit demand across asset classes. However, risk calibration and funding access dynamics will impact growth outlooks differently across entities and asset segments.

Vehicle finance and home loans would see steady growth despite intensifying competition. Vehicle finance (~22% of NBFC AUM) growth would be supported by GST cuts that have given a fillip to unit sales across vehicle categories, particularly cars, and this momentum is likely to continue. Additionally, increasing preference for premium vehicles among buyers and a focus on used-vehicle financing will support AUM growth in the segment.

In home loans (~22% of NBFC AUM), while the long-term demand for end-user housing remains strong, growth could be marginally slower due to intense competition, especially from public sector banks, in the prime home loan market.

However, exercising due caution on heightened customer leverage will help NBFCs adopt a risk-calibrated growth, especially in the MSME and unsecured loan segments. While growth of personal loans (~11% of NBFC AUM) fell sharply in the previous fiscal as players undertook strategic recalibration of target customer segments on the back of regulatory measures. With improved performance of newer originations, growth of personal loans will improve in fiscal 2027.

<sup>8</sup> NBFCs include housing finance companies (HFCs) but exclude government-owned NBFCs

However, unsecured MSME business loans (~6% of NBFC AUM) have seen an increase in delinquencies amid higher borrower leverage and adjacencies with the microfinance customer segment. Therefore, growth here is expected to be slower compared to previous two fiscals.

Growth in loan against property (LAP)/secured MSME segment (~15% of NBFC AUM) is expected to normalise but remain robust. The gold loan segment (~6% of AUM) should continue to outperform other asset classes, driven by increased formalisation, with a shift from unorganised players, high gold prices and NBFCs' interest in entering the gold finance market.

Asset quality is expected to remain largely stable across key segments. However, lenders are expected to adopt a cautious stance in the smaller-ticket loan against property segment due to an increase in early delinquencies. The impact of stock market decline on asset quality of personal loans, especially of leveraged retail investors, would bear watching. Moreover, while the asset quality of microfinance loans is seen stabilising, the impact of the Bihar Micro Finance Institutions (Regulation of Money Lending and Prevention of Coercive Actions) Bill and the farm loan waiver in Maharashtra will need to be monitored.

From a liabilities' perspective, the share of bank loans in borrowings of NBFC had moderated ~170 bps in the first half of fiscal 2026 to ~41% (September 30, 2025). However, it saw an uptick to ~42% as on December 30, 2025. The RBI's sectoral deployment report also indicated a rise in bank funding to NBFCs to ~Rs 16 lakh crore as of January 2026; it had stayed almost flattish at ~Rs 13.8 lakh crore during April to September 2025. The introduction of the Credit Guarantee Scheme for Microfinance Institutions (CGSMFI 2.0) in March 20, 2026, could increase bank funding to microfinance institutions.

For mid-sized players, access to bank funding has not fully picked up yet. Hence, their ability to raise funds through alternate routes remain an important determinant for growth.

Besides bank loans, NBFCs also tapped external commercial borrowings (ECBs), while housing finance companies relied on National Housing Bank (NHB) refinancing. A recent amendment in ECB regulations are expected to give greater borrowing flexibility for NBFCs in the medium term. In the near term, however, sharp rupee depreciation amid the geopolitical uncertainties could make this route less attractive.

In all this, the capital structure of NBFCs remains healthy, supported by strong internal accrual and sizeable equity raises in the last few years. NIMs should also improve for the sector even as recent rate cuts will have a differential impact on various players depending on the relative share of floating rate assets and liabilities in the books as well as the benchmark-linkage of floating rate loans, which will determine the extent and pace of re-pricing. But with credit costs expected to increase somewhat, profitability, as measured by RoMA, is expected to be marginally moderate yet healthy at 2.4% in fiscal 2027.

Overall, NBFCs are well poised to navigate the growth-risk-funding trifecta, which will support consumption and, thereby, retail credit growth. That said, the performance of small-sized NBFCs, especially those who continue to report losses and have limited access to funding (both debt and equity) will remain a monitorable. But given the evolving landscape, NBFCs will need to stay agile, and adapt to changes in customer dynamics, funding availability and technology usage, while ensuring strong risk management and strict regulatory compliance. Any major impact on retail consumption demand owing to the ongoing geopolitical conflicts would bear watching.

## Securitisation sector

### Securitisation volume at Rs 1.87 lakh crore in the first nine months, driven by growth in NBFC originations

Securitisation volumes<sup>9</sup> continued their steady momentum, with a 5% on-year increase to Rs 1.87 lakh crore in the first nine months of fiscal 2026. This growth was largely driven by sustained originations by NBFCs.

Originations by NBFCs posted a strong on-year growth of 35% for the third quarter alone, driven by strong volumes in both gold and vehicle loan pools. This resulted in a shift in the originator mix for the third quarter with NBFCs accounting for ~97% of the retail volumes<sup>10</sup>, compared with ~71% for the corresponding period last year. The number of originators also increased to around 200 (mostly NBFCs) from around 150 in the corresponding year-ago period. We expect volumes to be steady from NBFCs as they continue to raise funds via securitisation route.

In contrast, bank originations were muted, with their share being negligible in the third quarter of fiscal 2026. However, with the CD ratio showing a marginal increase for most banks, we can expect some increase in bank-led originations.

Pass-through certificate (PTC) transactions continued to dominate volumes in the nine-month period. PTCs' share rose to 62% of volumes, which also includes two large deals from non-financial sector entities. The new co-lending guidelines<sup>11</sup> have increased operational complexities, prompting some originators to shift away from co-lending transactions. This trend is likely to drive a sustained growth in direct assignment (DA) volume in the near-to-medium term.

Among retail asset classes, gold loan securitisation experienced a significant uptick in volumes, rising to 12% of the market volume over the nine-month period. However, the market was largely dominated by a single leading originator.

Vehicle loans, including commercial vehicles and two-wheelers, accounted for 43% of the market volumes, down from 48% in the corresponding period of fiscal 2025. Mortgage-backed securitisation declined to around 17% in the first nine months of fiscal 2026 from 23% in the corresponding period of the previous fiscal, due to subdued volumes from a large private bank, which had securitised large volumes last fiscal.

The MFI sector has maintained a steady share of 12% of the total volume over the nine-month period. This represents a modest increase from 11% in the same period last year, despite the sector experiencing stress that impacted disbursements. The share of personal loans and business loans reduced marginally to ~15% (vs ~16%) in the first nine months as investors have been cautious towards unsecured asset classes and micro loans against properties on account of asset quality concerns.

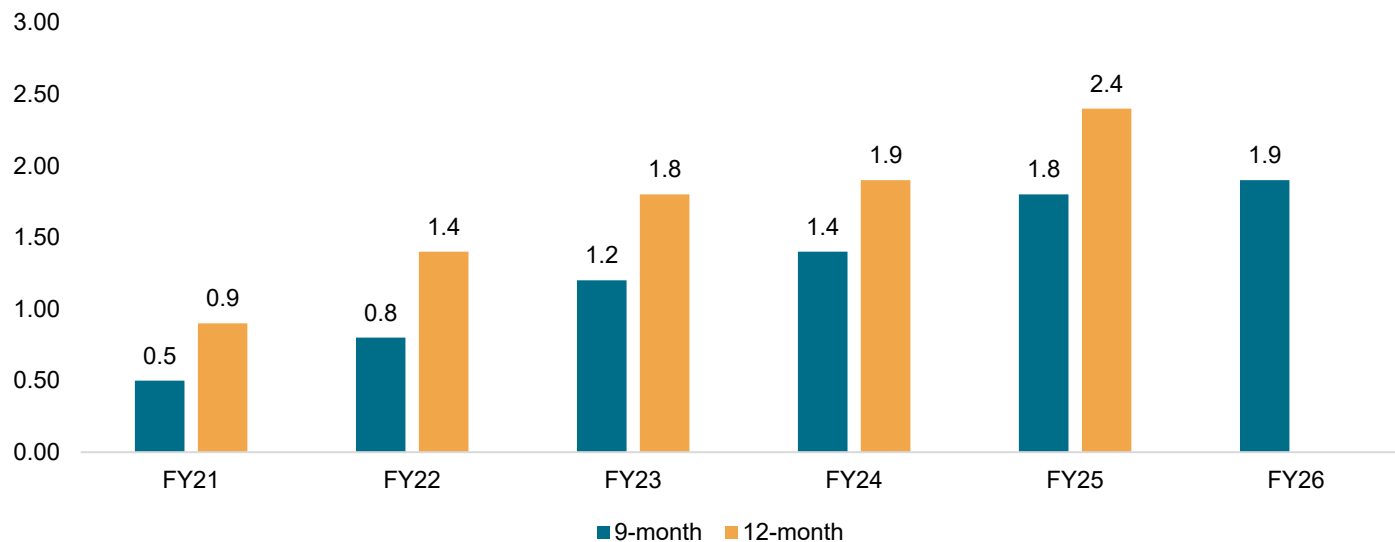
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<sup>9</sup> Refers to structured finance transactions involving issuance of PTCs and direct assignment transactions

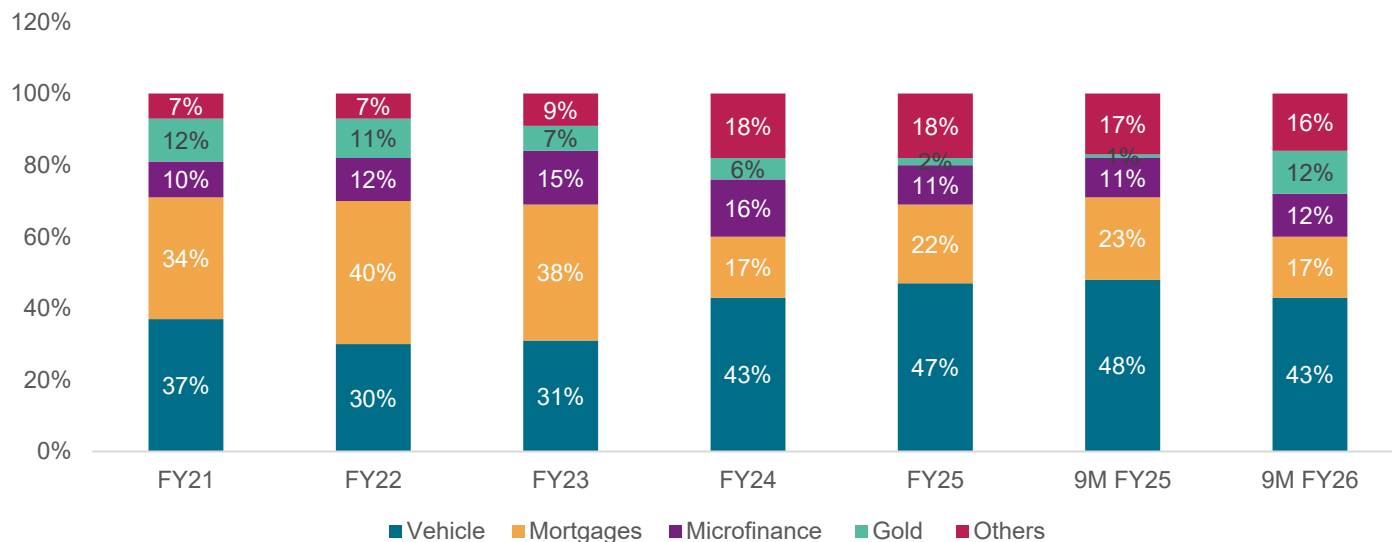
<sup>10</sup> Retail volumes exclude Rs 21,000 crore corporate loan PTC issuance in the second quarter of fiscal 2026

<sup>11</sup> Under the new directions, the partner regulated entity (RE) is required to take its share from the originating RE within 15 calendar days from the date of disbursement, resulting in heightened need for integration between the co-lending partners, in turn increasing operational intensity

**Figure 15: Securitisation volume (Rs lakh crore)**

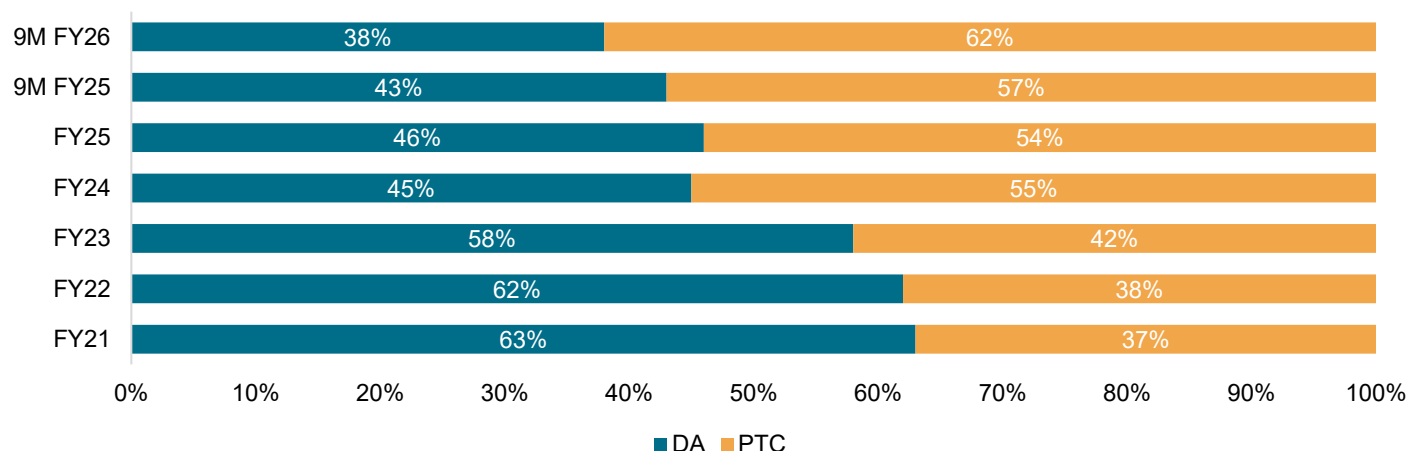


**Figure 16 : Asset class-wise proportion\* of securitisation market volume**



\* Excludes PTCs from non-financial sector entities; Others comprise business loan, personal loan, education and lease-backed transactions

**Figure 17 : Securitisation market volume and share of DA versus PTCs**



### Performance of securitisation transactions

The performance of securitised vehicle loan pool has been strong, with a median monthly collection ratio<sup>12</sup> (MCR) of 98–99% in third quarter of fiscal 2026. This was driven by steady earnings from freight demand and stable rates over the past year. As a result, we have seen a reduction in early delinquencies across originators and a healthy collection performance across rated pools as well.

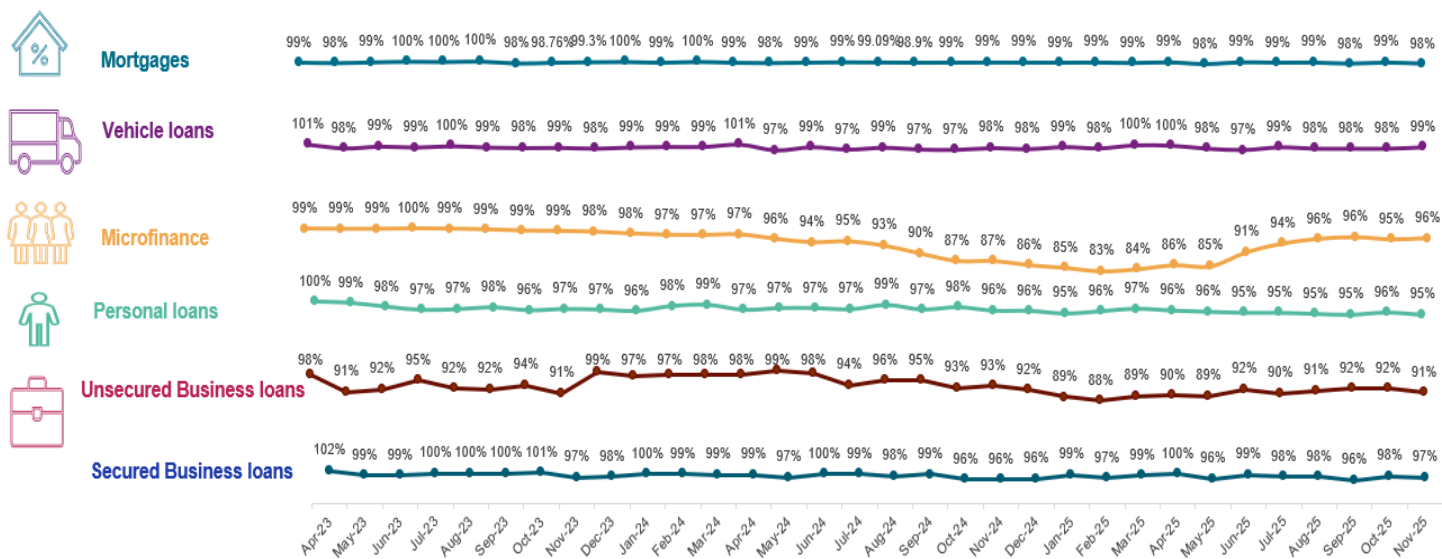
The performance of the MFI pool rated by us has shown a positive trend, especially in the second and third quarters of fiscal 2026, with the median MCRs reaching 96% as of December 2025 payouts. This improvement is primarily attributed to the better collection performance of newer pools. These pools increasingly contain loans that were disbursed in accordance with guardrails implemented by self-regulating organisations. Older pools, where collections declined following the stress in the sector, have run down significantly, providing sufficient buffer in terms of internal and external credit enhancements to support investor payouts. However, any regional or regulatory development, which could have an adverse impact on the sector’s asset quality, will remain monitorable.

Median MCRs for personal loan pool have consistently ranged between 96–99% over the past two years, even in volatile market conditions. This reflects better credit quality of cherry-picked loans from the portfolios that are a part of securitisation transactions. The performance of the unsecured SME pool, however, has been moderate with median MCRs ranging between 89–92% in the first nine months of fiscal 2026. In contrast, the secured SME pool has exhibited better performance, maintaining a median MCR of ~98%.

The performance of mortgage-backed securities remains strong, with a median MCRs of ~99%.

<sup>12</sup> Monthly collection ratio = (Collection against current month billing + Overdue collections)/ Current month billing

Figure 18 : Asset class-wise collection efficiency



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