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India Inc credit quality remains resilient despite West Asia conflict: Crisil Ratings

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Crisil Ratings

a company of S&P Global

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Indiaâ??s corporate credit quality is expected to remain broadly resilient despite ongoing geopolitical tensions in West Asia, supported by strong balance sheets, stable domestic demand, and sustained government-led capital expenditure, according to Crisil Ratings.

However, the ratings agency cautioned that profitability pressures are likely to intensify as companies contend with supply-chain disruptions, elevated crude oil prices, higher freight and fuel costs, and a depreciating rupee amid an evolving conflict environment.

Stress test across 34 sectors signals margin compression

Crisil conducted a stress test covering 34 sectors, accounting for nearly 65 per cent of rated corporate debt, under the assumption that supply-chain disruptions could persist for nine months this fiscal year, compared with a six-month base case,

and crude oil prices averaging $110 per barrel versus a base assumption of $95.

The analysis suggests that operating profitability across corporate India could decline by approximately 200 basis points, from an earlier expectation of around 12 per cent, although sectoral impacts are expected to vary significantly.

Despite margin pressures, revenue growth is expected to remain relatively resilient, supported by partial pass-through of higher costs in several industries and sustained domestic consumption.

Profitability pressure outweighs topline risk

According to Crisil Ratings, cost pressures will be a more significant challenge than revenue slowdown for most companies.

â??For companies, managing costs and profitability will be a bigger challenge than achieving topline growth. Of the 34 sectors stress-tested, 22 would see operating profitability being culled more than 10 per cent due to higher inventory costs and inability to fully pass on the burden to consumers immediately,â?• said Subodh Rai, Managing Director, Crisil Ratings.

He added that even partial cost pass-through mechanisms would support revenues, while controlled leverage levels and domestic demand strength would help stabilise credit profiles. Only eight sectors, representing around 10 per cent of rated corporate debt, are expected to face material credit quality deterioration.

Balance sheet strength anchors resilience

Corporate Indiaâ??s financial health has strengthened significantly over the past decade, with median gearing declining to approximately 0.5x as of March 2026, while interest coverage ratios have more than doubled to over 5x.

Crisil noted that this improved financial position provides sufficient buffer to absorb near-term profitability shocks, even as working capital requirements gradually rise under prolonged supply-chain stress conditions.

Policy interventions, including credit support schemes for MSMEs, are also expected to provide additional cushioning in vulnerable segments.

Sectoral stress concentrated in select industries

Among the most impacted sectors, ceramics is expected to face the sharpest deterioration, with potential revenue decline of up to one-third and a near halving of profitability due to gas shortages and supply-side constraints.

Seven additional sectors are expected to experience moderate negative credit impact, including airlines, polyester textiles, specialty chemicals, flexible packaging, auto components, diamond processing, and basmati rice exports.

Airlines are particularly exposed to airspace disruptions, higher fuel costs, and currency depreciation, while export-linked industries face cost pressures and demand volatility. Auto component manufacturers may experience delayed cost pass-through, while basmati exporters are expected to see weaker offtake in key markets.

Currency impact mixed across sectors

Crisil noted that rupee depreciation presents a mixed impact across industries. Most companies benefit from natural hedging or forward cover mechanisms, while sectors without natural hedgesâ??such as edible oilsâ??have historically demonstrated strong ability to pass on costs to consumers.

Foreign currency borrowing exposure remains limited and largely hedged across corporate India.

Export-oriented sectors including pharmaceuticals, textiles, garments, shrimp processing, and electronics are expected to benefit from improved global competitiveness due to currency depreciation.

Outlook: stable but cautious

Overall, Crisil maintained a stable but cautious outlook for India Incâ??s credit quality, citing strong domestic demand and balance-sheet strength as key stabilisers, while warning that prolonged geopolitical instability could amplify inflationary pressures and further strain demand conditions.

â??If the strife and the stabilisation period are prolonged further, supply hiccups would exacerbate inflation and amplify demand disruption. Therefore, the crucial monitorables are the magnitude of the conflict and the extent and duration of the increase in fuel prices,â?• said Somasekhar Vemuri, Senior Director, Crisil Ratings.