S&P Global Ratings

Corporate Top Trends Update

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This report does not constitute a rating action

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India

Firms Protected By Growth, Funding, Credit Strength

Key Takeaways

- India's low U.S. exposure reduces tariff risks, but indirect effects, such as trade redirection to the country, could hit the steel and chemicals sectors.
- Firms are protected by robust growth and strengthened credit quality; most will fund onshore given better access to deepening liquidity onshore.
- About 30% of our outlooks on rated firms are positive while 20% are negative, driven largely by the positive sovereign outlook and the recent negative actions on the Adani group entities.

Tariffs may strain some of India's corporate sectors despite healthy rated firms and low U.S. exposure. India's exports to the U.S. amount to only 2% of its GDP, a third of the average in Asia-Pacific. However, its growing trade surplus with the U.S., which amounted to a sizable US$50 billion in 2024 (see chart 1), could subject the country to new tariffs, particularly as the U.S. mulls reciprocal levies on trading partners.

Chart 1

India's low U.S. exports will limit direct tariff impact

India's trade with the U.S.

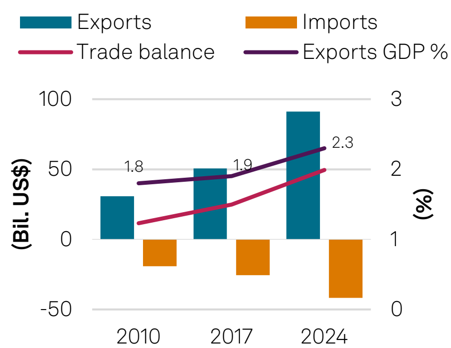
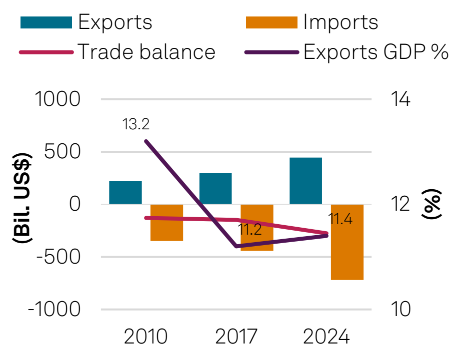


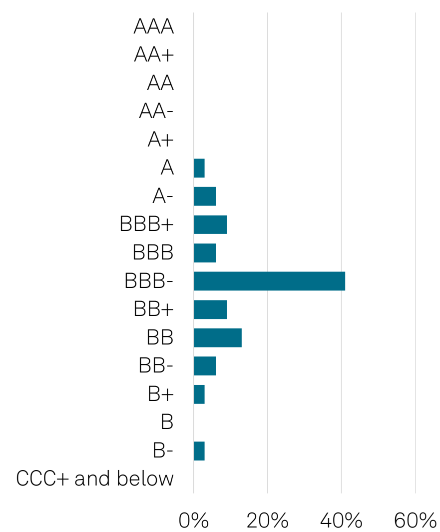
Chart 2

India's smaller export sector reduce indirect tariff risks

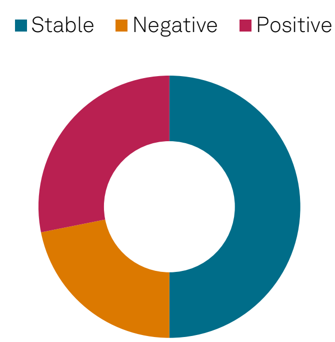
India's total trade



Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Indirect effects from these tariffs, such as slowing global growth, may have limited impact on India, as its export sector amounts to just over a tenth of its GDP (see chart 2). Years of credit improvements and healthy economic growth also reinforce rated firms' resilience. That said, new U.S. duties may redirect trade flows to the country, which could disrupt sectors such as steel and chemicals.

Domestic focus and strong fundamentals bolster Indian firms' defenses. Most of our rated Indian firms can withstand temporary earnings slowdowns. Improvements in operating and financial strength over the last few years provide more cushion to help absorb such pressures. Firms in the country also benefit from a growing economy, supported by strong infrastructure and consumer spending. Our economists expect India's GDP to expand by 6.7% in the fiscal year beginning April 1, 2025, making the country the fastest growing economy in Asia-Pacific.

Few sectors with high U.S. exposure. Sectors with a high dependence on U.S. markets are mainly IT services, chemicals, and autos. Services are not subject to tariffs, but in the auto sector, some firms, such as Tata Motors Ltd., via Jaguar Land Rover Automotive PLC (JLR), has relatively high exposure to the U.S. The firm could be affected if the U.S. imposes tariffs on autos made in the U.K.

Sectors such as steel and chemicals could also be hit indirectly if new tariffs lead to trade diversion away from the U.S. and into India as producers try to compensate for loss of U.S. sales. Rising imports from China, for example, have already pushed down steel prices in 2024.

Korea and Japan, which accounted for 15% of U.S. steel imports in 2024, could also redirect exports to India. Under our new downside scenarios, leverage for the sector could be 45% higher than our base case. For more details, please see "Indian Steelmakers Face Harsher Downside Scenarios On U.S.-Tariff Effect," March 5, 2025.

Capital expenditure to rise significantly for utilities. India plans to expand renewable capacity to an ambitious 500 gigawatts (GW) by 2032 from about 200GW currently. There is also significant investment in the transmission sector. Power Grid Corp. of India Ltd. could double its capital expenditure to more than Indian rupee 300 billion per annum for the next few years.

Data as March 10, 2025. Source: S&P Global Ratings.

Such plans will make these utilities the exceptions to the declining leverage trend among Indian corporates, but they are unlikely to strain ratings, as leverage of affected firms will likely rise only moderately. This is because the additional debt will be supported by solid demand, a growing earnings base as new capacities come online, and a favorable regulatory backdrop that protects profitability. For example, NTPC Ltd.'s ratio of debt to EBITDA will likely rise to 5x by March 2027, a manageable pickup from the 4.7x currently.

Broad-based revenue and EBITDA growth to continue. We expect median revenue and EBITDA growth of our rated firms to reach nearly 8% in fiscal 2025. This would mark the fifth straight year of such expansion. Steel, chemicals and airport sectors will likely report above-average EBITDA growth.

In our base case, steel producers will benefit from a modest decline in input prices and a substantial increase in volumes following recent capacity additions, although product prices will likely stay rangebound. This is assuming no impact on steel prices from trade diversion under the U.S tariffs.

The chemicals sector will continue to recover following the downturn in 2024. Airports, particularly Delhi Airport, will benefit from higher passenger yields once new rates are implemented. Utilities' EBITDA will grow at about 10%, on the back of rising demand and new capacity.

The exception will be autos. The sector will post modest growth as it enters a cyclical slowdown after a period of sharp sales gains that peaked in 2023. While the Indian economy is also slowing after a period of brisk expansion, looser monetary policy and government initiatives to boost consumer demand should fortify demand for the sector.

Onshore liquidity and access to drive domestic funding. We expect Indian firms to predominantly fund onshore this year given the lower cost of domestic markets. Offshore channels, including dollar bonds, remain an option, but companies will likely use this selectively. Most issuers have limited or manageable need for refinancing or growth funding.

Sovereign outlook positive but idiosyncratic risks remain. About 30% of our outlooks on rated Indian firms are positive while 20% are negative, driven largely by linkages to the positive sovereign outlook and the recent negative actions on the Adani group entities.

This highlights idiosyncratic risks that remain on the horizon even though we expect the credit metrics of most of our rated issuers to modestly improve or stay broadly stable. The negative outlooks on Adani's group companies represent about half of the negative outlooks on Indian corporate ratings. The cause--an ongoing investigation by the U.S. Department of Justice--is not an operational issue, but it could hit the group's credit quality.

Related Research

India

- India Corporate and Infrastructure Ratings – The momentum is positive, Aug. 12, 2024
- Indian Conglomerates Poised For US$800 Billion Investment Push, Oct. 14, 2024
- Indian Steelmakers Face Harsher Downside Scenarios On U.S.-Tariff Effect, March 5, 2025

Editor's note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

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