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Dun & Bradstreet India Data Updates

6% of listed companies have seen rating downgrade, as per their 2022 financial performance.

According to the 2022 risk spread, 74% of listed companies are categorized under the risk indicator of "fair" and "limited" and requires close monitoring before engaging in any business transaction.

Risk Indictor	Strong (1)	Good (2)	Fair (3)	Limited (4)
Interpretation	Minimal Trading Risk	Low Risk	Slightly Greater Than Average Risk	Significant Trading Risk
Risk Spread 2022	71 (3%)	507 (23%)	1,262 (56%)	404 (18%)
Risk Spread 2021	67 (3%)	473 (21%)	1,350 (60%)	354 (16%)
Indicative KPIs of businesses falling under each risk category	• Top Industry player • Part of large conglomerate having strong internal controls and corporate governance • High growth companies and businesses with consistently improved KPIs • Timely compliance to regulatory & statutory requirements		• Inconsistent growth trend • Companies having stress on working capital • Loss making businesses with limited instance of non-compliance	• Significant working capital stressed businesses • Insolvency & bankruptcy filing / loan default • Businesses with negative tangible net worth • Non-compliant companies
Likelihood of impact to existing supply chain	Low	Minimal	High	Very High

*Analysis of 2244 companies, which excludes companies which have no operating revenue in any of last 2 years and businesses operating in bank/FIs/insurance space

Key performance insight

Positive Trend

- 1.7K companies have shown a positive growth in topline
- 1.6K companies have reported a positive operating margin, however, 28% have shown a degrowth over previous year
- 1.6K companies have reported growth in tangible net worth over prior year
- 1.7k companies have reported net profit during FY 2022
- 1.2K companies have reported profit in both Q1 and Q2 of 2022

Negative Trend

- 544 companies have shown a negative growth in topline
- 676 companies have shown negative operating margin
- 155 companies have defaulted in loan repayment
- 290 companies are highly leveraged out of which 269 have negative tangible net worth
- 514 companies have incurred net losses in FY 2022
- 346 companies have reported losses in both Q1 and Q2 of 2022

Zombie Firms in India

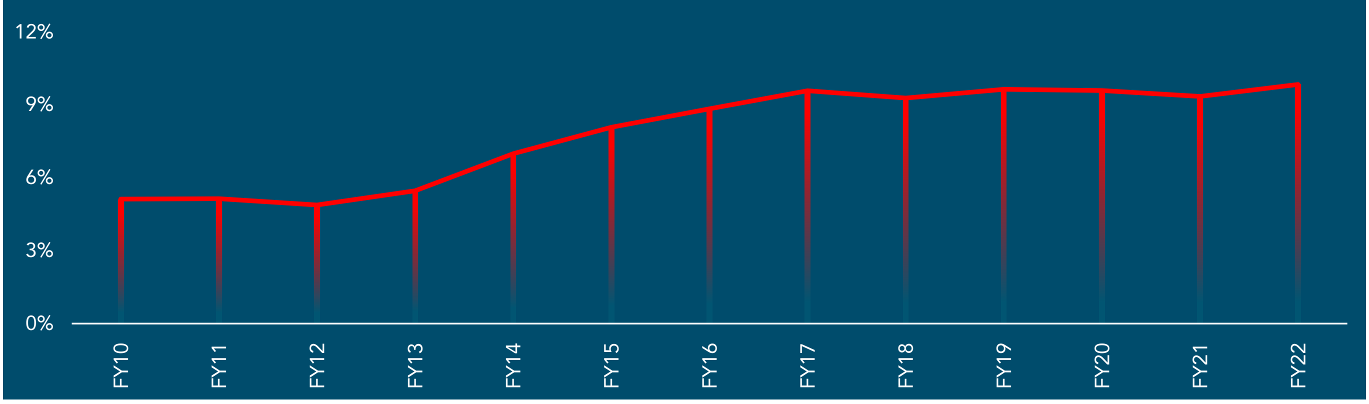
By Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet

Dun & Bradstreet's analysis finds that zombie firms have increased in India over the past decade. The share of Zombies (as a percentage of listed companies) doubled between FY12 and FY22, from 4.9% to 9.8%. Zombie firms are those that do not generate sufficient profits to cover their debt servicing costs over an extended period. We identify a company as a Zombie if its Interest Coverage Ratio (ICR) has been less than 1 for at least 3 consecutive years and if it is at least 10 years old. ICR is a measure of a company's ability to meet its interest payment. The inclusion of the second criterion – age – is necessary because start-ups may need a few years to pass by before investment projects start to deliver returns. The rise of zombie firms has dire economic consequences. Several studies have shown that zombies depress market prices, distort credit allocation, and crowd out both investment and employment at healthy firms. These disruptions impede business dynamism and weigh on the aggregate productivity of the sector and by large, the economy.

Zombie firms thrive during phases of rapid economic expansion. However, they are the among the first businesses to fail during an economic downturn. Massive fiscal packages, a flood of cheap liquidity in the capital markets, and creditors forbearance kept these businesses afloat during the COVID-19 pandemic. The global economy is now in the midst of one of the most internationally synchronous episodes of monetary policy tightening of the past half century. Credit standards too have been tightened. The road to normalisation is a long one given that real interest rates are still in deep negative territory and inflation remains elevated and sticky across many countries. The rise in interest rates and input costs continue to impact the bottom line of these firms, forcing them to borrow more to service the existing debt. Zombies could have trouble rolling over their debt if credit standards tighten further. While there may not be a significant increase in the percentage of these zombie firms becoming bankrupt, there will be more pockets of distress surfacing in 2023.

For businesses, zombies represent a high level of credit and operational risk. Hence, as a first step, it's important for businesses to identify which of their suppliers, vendors, and customers are zombies. Establishing red flag alerts to be notified of deteriorating credit scores and legal events such as lawsuits and liens, which can signal a potential bankruptcy, is recommended. Monitoring can help businesses stay ahead of unforeseen circumstances that may require an additional level of decision-making and business readiness that would otherwise be overlooked when times are good.

Zombie firms as a % of listed companies in India



Note: N=~3,300 companies
Source: Dun & Bradstreet