

# The rating said BBB-. The balance sheet had been warning for months

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**Maxim:** *Always look at the balance sheet* — Peter Lynch

*Profit tells you how a year went. The balance sheet tells you whether a company or a lender can survive a bad one, and it usually speaks long before the rating does.*

A company does not go bust because of a bad year. It goes bust because it walked into the bad year carrying more than it could hold.

That makes this a good month to look. The July–September results season is under way, and Sebi's listing rules require companies to publish a statement of assets and liabilities with their half-year results, so a fresh balance sheet now sits beside the profit numbers. Borrowing has also just become dearer: the RBI raised its repo rate by a quarter point to 5.50% this month, [Business Today reported](#). Heavy borrowers feel that first.

Think of two colleagues with the same salary. One has savings and no loans. The other has a car loan, a home loan and a credit-card balance that rolls over every month. Their pay slips look identical. If you had to lend to one of them, you would ask for the bank statement. The profit and loss account is the pay slip. The balance sheet is the bank statement and the loan file together.

## A flat in the Camellias

Gensol Engineering was one of the market's favourite clean-energy stories of the early 2020s. It built solar projects, it financed the electric cabs run by BluSmart, an affiliate co-founded by its promoter, and after moving from the SME platform to the main board in 2023 its shares kept climbing. Clean power and electric mobility in one listed company: it had every ingredient of a good story.

The balance sheet told a quieter one. By early 2025 the company owed about ₹1,146 crore, roughly twice its shareholders' equity, [Angel One noted](#) that March. Much of that debt had bought vehicles leased to the related company. And the quarterly shareholding pattern showed that by September 2024 about four-fifths of the promoters' shares were pledged against loans.

In the first week of March 2025, CARE Ratings and ICRA cut the company's bank-loan rating from BBB- straight to D, citing delays in servicing its debt, [Business Today reported](#). Then came Sebi's interim order in April. Of the money borrowed from state lenders IREDA and PFC to buy electric vehicles, the regulator found prima facie that about ₹262 crore could not be accounted for. Some of it, Sebi said, had gone towards a luxury apartment in DLF's Camellias in Gurugram, and letters sent to rating agencies in lenders' names had falsely confirmed timely repayment, [Value Research reported](#).

By mid-April the shares were down about 90% from their 52-week high, [Moneycontrol reported](#). No outsider could have seen forged letters or a flat bought with scooter money. But you did not need to. Debt at twice equity, borrowing to fund a related party and promoters who had pledged most of their holding were each reason enough to demand a much bigger margin of safety, and all three were in public filings well before the rating moved.

## Big lenders have balance sheets too

Size is no protection. In March 2025 IndusInd Bank, one of India's larger private lenders, disclosed that faulty accounting of its internal derivative trades would cut its net worth by about 2.35%, and its shares fell sharply. An external review by Grant Thornton later put the cumulative hit to profit at about ₹1,960 crore, [Business Standard reported](#) that April. For a bank, the balance sheet is the business, so the notes on investments, derivatives and accounting changes matter as much as the headline profit.

The pattern is older than either case. In 2018 IL&FS, carrying more than ₹91,000 crore of borrowings, kept its top rating until a few weeks before it defaulted. Much of its debt was short-term money funding projects that would take years to pay back, and debt funds that held its paper took the losses. Sebi later fined the three rating agencies for being slow to act, [The Week reported](#).

Three very different borrowers, one lesson. What a borrower owns, owes and can turn into cash quickly decides whether a bad month stays a bad month, and the rating is usually the last to say so.

## Five questions to ask before you lend or invest

You do not need to be an accountant for this. You need the annual report, the half-year results on the NSE or BSE website, and for funds, the monthly factsheet.

1. **Is profit turning into cash?** Compare cash from operations with profit over three to five years in the annual report. Profit rising year after year while cash lags well behind means money is getting stuck in unpaid bills or unsold stock.
2. **Can it pay what falls due this year?** Set cash and liquid investments against borrowings due within twelve months, shown under current liabilities. A company that must keep borrowing just to repay old loans is living on its lenders' mood, as IL&FS was, and dearer money makes that mood worse.
3. **Is debt growing faster than the business?** Track borrowings against net worth across several years, not one. Debt rising faster than sales, especially in a slowing industry, is often how a balance-sheet crisis begins.
4. **What is in the notes?** Read the notes on contingent liabilities, guarantees to group companies and related-party dealings, and check the shareholding pattern for pledged promoter shares. A heavy pledge, or large dealings with a promoter's other companies, as at Gensol, means the risk is higher than it looks.
5. **For a bond or debt fund, who are you really lending to?** Read the issuer's rating rationale, not just the letter grade, because a rating can lag. For a debt fund, check the factsheet for credit quality, the largest holdings and how much sits in lower-rated paper.

The rule to keep: if you cannot explain how a company, a borrower or a fund will meet what it owes over the next year from cash it already has or reliably earns, do not lend to it or buy it, however strong the profit, the story or the rating. A good balance sheet will not make a stock rise. It decides whether you are still around when the business recovers.

Gensol's rating moved in March 2025. Its debt, its pledged shares and its dealings with a related company were in public filings long before that, for anyone who turned past the profit page. This results season, turn the page.

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