

RADAR Model Study of the Impact of the Coronavirus Pandemic on Japanese Companies

Using the RADAR model, we investigated changes in the credit ratings of listed Japanese companies.

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Table1. Changes in Ratings of Listed Companies (Before to After Coronavirus Pandemic)

	Listed Companies excluded Banks, Securities, and Insurances	Restaurants	Hotels	Railways
Rating Increase	33.7%	13.8%	0.0%	8.7%
Rating Unchanged	46.1%	25.5%	33.3%	26.1%
Rating Decrease	20.2%	60.6%	66.7%	65.2%

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In March 2023, the Japanese government relaxed its measures against the coronavirus pandemic, leaving the choice of wearing masks up to individuals. In addition, a greater number of tourists from abroad have recently entered Tokyo. It can be said that the Japanese people are finally realizing that the coronavirus crisis is coming to an end.

This paper investigates how the credit quality of Japanese listed companies changed from the time when the coronavirus pandemic began to the time of its ending, using results from the RADAR model. This quantitative model, provided by Nikkei Financial Technology Research Institute (or Nikkei FTRI), uses financial information to estimate R&I's credit ratings. It can calculate a 20-point rating from aaa to d to measure a company's creditworthiness. RADAR includes a large company model, a medium-sized company model, and RADAR Public, which provides ratings for local governments. All of these models provide estimated R&I credit ratings. Also available is RADAR Global, which targets the ratings of foreign companies.

We calculated rating changes before and after the pandemic for Japanese listed companies (excluding banks, securities, and insurance) using RADAR's large-company model. For the pre-coronavirus data, we used the main fiscal year end data for the period from April 2019 to March 2020. The post-coronavirus data was based on the financial results for the period from April 2022 to December 2022. To reflect the most recent outcomes, for the post-coronavirus information, we used the more recent data for either the main fiscal year end or the quarterly fiscal year end. For example, for firms with a fiscal year ending in March, we used the March 2020 financial results for the pre-transition period and the December 2022 third-quarter financial results for the post-transition period.

The calculated rating trends were classified into three categories: rating increase, rating unchanged, and rating decrease, as shown in the table below. The table demonstrates that 33.7% of all companies increased their credit ratings during the pandemic. A total of 46.1% remained unchanged, while 20.2% decreased their credit ratings. (See Table 1.)

The conclusion that more companies saw their credit ratings rise than fall during the coronavirus pandemic may seem counterintuitive. However, there are many companies in the manufacturing sector whose earnings improved to some extent due to increased exports resulting from the trend toward a weaker yen and the creation of new demand through phenomena such as so-called stay-at-home consumption. These results are also consistent with R&I's rating results and Statistics of Listed Companies. First, R&I's public rating results for business corporations showed that the number of rating upgrades exceeded the number of downgrades in 2020, 2021, and 2022. Moreover, there were only three defaults for listed companies during the period from 2020 to March 2023 (Renown, Nuts, and Tella). This indicates that defaults for listed companies did not increase during the pandemic.

Of course, this is not to say that there were no publicly traded companies that were adversely affected by the coronavirus pandemic. Many companies in certain industries were strongly affected by the event. We surveyed businesses in the restaurant, hotel, and railroad industries as representative of those companies that we believe were particularly impacted by the pandemic, with businesses in these three industries being downgraded more often than upgraded. (see Table 1.)

First, the restaurant industry is thought to have experienced a significant impact on business performance, as the government often requested restrictions such as shorter business hours in response to the spread of the coronavirus outbreak. This caused the public to drastically cut back on dining out. A survey of listed companies in the restaurant industry revealed that 13.8%, 25.5%, and 60.6% had their credit ratings upgraded, unchanged, and downgraded, respectively.

Second, looking at the hotel industry, demand for lodging plummeted as the number of foreign tourists fell sharply and Japanese people also cut back on hotel stays. A survey of listed companies in the hotel industry showed that none of them had their credit ratings upgraded, while approximately 33.3% and 66.7% experienced unchanged and downgraded ratings, respectively.

Third, the railroad industry was similarly affected, experiencing a significant decline in rail usage. This was a result of the decline in travel, as well as the widespread implementation of telecommuting and online conferencing. Of the listed railroad companies, 8.7% had their credit ratings upgraded and 26.1% experienced unchanged figures, while 65.2% underwent downgrades.

These results indicate that while corporate credit quality is on the rise for Japanese listed

companies as a whole compared to pre-coronavirus conditions, recovery from the pandemic is still a way off for some industries, such as food service, hotels, and railroads.

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