

India Inc. wraps FY2025 with margin resilience; braces for a cautious FY2026: ICRA



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ICRA projects a modest 4–6% revenue growth for India Inc. in H1 FY2026, reflecting uneven domestic demand conditions. While rural consumption is expected to hold firm, urban recovery remains tentative—supported by fiscal measures and easing inflation, but lacking broad-based momentum. Further, spending by the Government of India had lagged in FY2025, but there are signs of it picking up in Q1 FY2026 and more in the coming quarters and getting closer

to the budgeted estimates. However, headwinds like the evolving global uncertainties, especially trade tariffs, and geopolitical tensions can weigh on the growth rates, particularly for select export-oriented sectors such as agro-chemicals, textiles, auto and auto components, cut and polished diamonds, and IT services. The operating profit margin (OPM) for India Inc. for H1 FY2026 is likely to be sustained at 18.2-18.5% (largely similar to that seen in FY2025), supported by resilient demand and softening of some input costs like crude oil, coal, and steel. With the Monetary Policy Committee (MPC) upfronting the repo rate cut of 50 bps in the June 2025 policy (100 bps in total since February 2025), India Inc.'s interest coverage is expected to improve to around 5.1-5.2 times in H1 FY2026.

Rural demand is likely to draw strength from the healthy rabi harvest cash flows as also the kharif output in the ongoing cropping cycle. As per the second advance estimates released in March 2025, a healthy YoY increase of 6.8% in kharif crop output is forecast based on a normal and well distributed monsoon in 2025. However, urban demand growth is likely to remain in the slow lane in H1 FY2026 with the benefits of the sizeable income tax relief in the Union Budget 2025, monetary easing by the Reserve Bank of India, and moderation in food inflation, expected to show up in discretionary consumption spending in the latter part of the fiscal. That said, geopolitical developments and fears of a growth slowdown across the globe may adversely impact consumer sentiments, thereby upsetting the current steady demand.

Geopolitical tensions have been spreading to new regions and are influencing regional dynamics and remain key concerns for the global economy. This, and the evolving trade policies, would have a bearing on the global trade patterns and global growth. On one hand, the protectionism impulse is taking root in the US, and on the other, Free Trade Agreements are being signed

among countries to continue the globalisation push. As the export-oriented sectors in India navigate these mixed developments, FY2026 would continue to be a year of tepidness for India's merchandise exports, with tariff-related uncertainty posing the key downside risk. At the same time, services exports from India, particularly IT services exports, would also gear down as customers in the US, the largest market for India's IT exports, show caution in spending.

The aggregate revenues of 589 listed companies evaluated by ICRA (excluding financial sector entities) expanded by 6.7% YoY during FY2025. A smaller sample of 217 companies that have declared their Q1 FY2026 results so far have shown an aggregate revenue growth of 5.5% YoY. Revenue growth across most sectors has been subdued in Q1 FY2026, barring a select few like hospitality and electronic manufacturing services. While retail companies and quick service restaurants have reported healthy overall revenue growth, same store sales growth has been subdued.

Corporate India had reported OPM in FY2025 at around 18%, which has remained steady at similar levels in Q1 FY2026 (based on the results declared so far). Consumption-linked sectors like FMCG, retail, consumer durables and automobiles have seen margin compression ranging between 30-175 basis points YoY in Q1 FY2026. In comparison, commodity and investment-linked sectors like steel, textiles, oil, cement and chemicals have seen margin expansion in the range of 90-400 basis points YoY.

In FY2025, India Inc. did not see a material increase in borrowings. The sectoral picture, however was mixed—some sectors like power, iron & steel, metals & mining and cement saw an increase in debt levels due to increase in working capital intensity and debt-funded capital expenditure (capex), whereas auto OEMs, telecom, oil & gas and construction sectors saw moderation in debt levels backed by robust cash generation.

Despite the variations in debt levels across sectors, India Inc. reported largely stable credit metrics. Four sectors – power, telecom, oil & gas and iron & steel - accounted for around 70% of ICRA's sample set companies' debt as on March 31, 2025. The interest coverage ratio of ICRA's sample set companies, adjusted for sectors with relatively low debt levels (i.e., upon excluding IT, FMCG and pharmaceuticals), remained range-bound at 4.6 times in FY2025 as against 4.5 times in FY2024, with the same being maintained at similar levels in Q1 FY2026. The credit metrics for India Inc. are expected to remain stable, going forward, despite expectations of some debt addition to support capex.

ICRA expects India's GDP growth to ease to 6.2% in FY2026 from 6.5% in FY2025. The year FY2026 has begun with heightened uncertainty around global trade policies, with the outlook for domestic drivers of growth, particularly private consumption and Government investment bearing

cautious optimism. However, that for merchandise and IT exports, and private capex, especially in export-oriented sectors, appears muted, although the relative tariff scenario will evolve as the year progresses. ICRA also expects the private capex cycle to remain measured in view of the above uncertainties. Nonetheless, certain sunrise sectors such as electronics, semi-conductors and niche segments within the automotive space like electric vehicles will continue to see a scale-up in investments, in line with the various production-linked incentives programmes

announced by the Government of India. Further, entities linked with the Indian Railways and Defence sectors would also see their large order books translating into revenues and earnings.

Government spending along with pick-up in urban demand will remain a key monitorable over the coming quarters. Further, India Inc.'s ability to navigate the uncertainty in macroeconomic and geopolitical environments remains critical.