PRESS RELEASE

February 24, 2025

India Inc. to record 7-8% revenue growth in Q4 FY2025: ICRA

- ***Continued upbeat rural demand and expected improvement in urban demand to drive revenue growth and expansion in operating profit margin for Corporate India***
- ***Evolving global economic and political scenario and pick-up in Government spending will remain key monitorables over the near term***

ICRA expects ~7-8% YoY revenue growth for India Inc. in Q4 FY2025, led by revival in rural demand and uptick in Government spending. However, headwinds like the evolving global uncertainties, especially trade tariffs, can weigh on the growth levels. Further, the recovery in the operating profit margins (OPM) for India Inc witnessed over the past quarter is likely to be sustained at ~18.2-18.4%, supported by an increase in demand, led by improved consumer sentiments. Coupled with lower interest costs, owing to the recent repo rate cut, this will result in a marginal expansion in the interest coverage ratio for India Inc. to ~4.6-4.7 times in Q4 FY2025, against 4.5 times in Q3 FY2025.

Commenting on the trends, **Kinjal Shah, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA Limited,** said: *"Rural demand is expected to be upbeat in H1 CY2025, aided by the robust output for most kharif crops and the favourable outlook for the ongoing rabi season. Beyond that, a normal and well distributed monsoon in 2025 is crucial to support the agricultural outcomes. Further, after remaining sluggish over the last few quarters, urban demand is expected to improve, aided by the sizeable income-tax relief in the Union Budget 2025, the monetary easing by the Reserve Bank of India, and the expectations of a moderation in food inflation, which would augment discretionary consumption."*

Evolution of the global economic and political scenario, movement in foreign exchange rates, impact of the new US President's policies, pick up in government spending and a revival in the domestic urban demand would remain the key monitorables over the near term. Overall, ICRA expects the private capital expenditure (capex) cycle to remain measured in view of the uncertainties around geopolitical developments and relatively subdued outlook on merchandise exports from India. 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.

ICRA's analysis of the Q3 FY2025 performance of 602 listed companies (excluding financial sector entities) in Q3 FY2025 revealed 6.8% YoY revenue growth, supported by improved demand across consumption-oriented sectors like consumer durables, FMCG, retail, hotels and airlines, while a few commodity-oriented sectors like iron and steel witnessed some decline, following lower realisations owing to weak global demand and influx of cheaper imports from China. The sequential revenue growth remained modest at 3.5%, led by continued slowdown in urban demand, although some recovery was witnessed in Q3 due to the festive season. Moreover, the ongoing geopolitical tensions continue to impact demand sentiments, especially for export-oriented sectors such as agro-chemicals, textiles, auto and auto components, cut and polished diamonds, and IT services.

Corporate India also reported a slight expansion in OPM in Q3 FY2025, by 31 bps to 18.1% on a YoY basis on the back of increased revenues, coupled with some moderation in input costs. Moreover, on a sequential basis, the OPM improved by around 72 bps in Q3 FY2025.

Sectors like metals & mining, fertilisers, pharmaceuticals, power, hotels, oil & gas and chemicals reported YoY improvement in OPM on the back of better product mix and operating leverage benefits. However, others like cement and tyres reported YoY contraction in the same on account of a slowdown in demand, particularly in urban areas, additionally impacted by higher input costs. For some sectors like airlines, adverse foreign exchange movements impacted the OPM on a YoY basis. While the input costs have softened in recent months, they remained elevated compared to the past levels, and accordingly, India Inc.'s OPM is yet to revive to its historic highs (19% seen in FY2022).

The interest coverage ratio of ICRA's sample set companies, adjusted for sectors with relatively low debt levels (IT, FMCG and pharmaceuticals), improved on a YoY basis to 4.5 times in Q3 FY2025 from 4.3 times in Q3 FY2024 due to increased profitability more than offsetting slightly higher interest outgo (due to a rise in debt levels).

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