PRESS RELEASE

December 02, 2024

Operating profit margin (OPM) for India Inc is expected to improve in H2 FY2025: ICRA

- ***Pick up in government spending, revival in domestic urban demand and global developments on tariffs and trade will remain key monitorables over the near term***

ICRA expects sequential revenue growth for India Inc. in Q3 FY2025, led by improved rural demand and uptick in Government spending, additionally supported by the festive season. However, headwinds such as uneven urban demand and evolving global uncertainties could weigh on growth in H2 FY2025. On balance, ICRA expects the operating profit margin (OPM) for India Inc to improve in the coming quarters. As a result, the credit metrics of India Inc. in Q3 FY2025 are estimated to improve with the interest coverage ratio in the range of 4.5-5.0 times, against 4.1 times in Q2 FY2025.

Commenting on the trends, **Kinjal Shah, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA Limited,** said: *"While corporate India witnessed a muted sequential revenue growth in Q2 FY2025, led by ongoing slowdown in urban demand, lower Government spending amid monsoon-related disruptions, the same is expected to improve in the coming quarters. This would be supported by continued growth in consumption oriented sectors like FMCG, Retail as well as improved revenues in commodity oriented sectors like iron and steel and cement, among others, led by uptick in Governemnt capex spending as well as increased rural demand. Nonetheless, ongoing geopolitical tensions and the possibility of higher tariffs remain an overhang on demand sentiments, especially for export-oriented sectors such as textiles and cut and polished diamonds."*

ICRA's analysis of the Q2 FY2025 performance of 590 listed companies (excluding financial sector entities) revealed a 6% YoY revenue growth for Corporate India and a moderation in OPM, by 102 bps to 16.9%. Despite the YoY growth in revenues, higher input cost with weak urban demand, adversely impacted the margins. On a sequential basis, the OPM declined by around 81 bps in Q2 FY2025. While the input costs have softened in recent months, they remained higher compared to the historic levels, and accordingly, India Inc.'s OPM is yet to revive to its historic highs (19% seen in FY2022). Q3 outlook

The interest coverage ratio of ICRA's sample set companies, adjusted for sectors with relatively low debt levels (IT, FMCG and pharma), declined on a YoY basis to 4.1 times in Q2 FY2025 from 4.5 times in Q2 FY2024 due to a decline in operating profits and higher interest outgo. India Inc. reported a marginal 4% YoY increase in debt levels as on September 30, 2024. Despite the variations in debt levels across sectors, India Inc. reported largely stable credit metrics over the recent past. The improvement in earnings on the back of recovery in demand across some sectors arrested the sharp increase in Total Debt/OPBITDA levels of India Inc. during H1 FY2024 (total debt/OPBITDA at 3.36 times as on September 30, 2024, against 3.37 times as on September 30, 2023). Q3 outlook

*"*With the Monetary Policy Committee (MPC) having taken a pause, on rate hikes since its April 2023 meeting and with expectations of improvement in OPM, India Inc.'s interest coverage is expected to increase in the near term", **Shah** added.

Evolution of the global economic scenario, pick up in government spending and a revival in urban demand would remain the key monitorables over the near term.

Click here to access our previous press releases on the sector.

For further information, please contact:

Media Contacts:	
Naznin Prodhani Head – Group Corporate Communications & Media Relations ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email: naznin.prodhani@icraindia.com	**Shreya Bothra** Senior Manager - Corporate Communications & Media Relations ICRA Ltd Tel: + (91 022) 61693300, Dir - 61693367 Email: shreya.bothra@icraindia.com

Disclaimer:

This Press Release is being transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The Press Release may be used by you in full or in part without changing the meaning or context thereof, but with due credit to ICRA Limited. However, ICRA Limited alone has the sole right of distribution of its Press Releases for consideration or otherwise through any media including, but not limited to, websites and portals.

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

Click on the icon to visit our social media profiles.