ICRA

OUTLOOK
FY2026

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#ICRAOutlookFY2026

MACRO OUTLOOK

Macro Outlook

GDP	INFLATION	REPO RATE	FISCAL DEFICIT	EXTERNAL ACCOUNT
Real GDP Growth FY2025: +6.3% FY2026: +6.5% Real GVA Growth FY2025: +6.3% FY2026: +6.3%	CPI Inflation FY2025: +4.7% FY2026: +4.2% WPI Inflation FY2025: +2.3% FY2026: +2.7%	25 bps repo rate cut in April 2025 25 bps repo rate cut in June or August 2025, predicated on growth-inflation outcomes	Fiscal Deficit/GDP FY2025: 4.7% FY2026: 4.4%	Current Account/GDP FY2025: -0.8% FY2026: -1.0%

Source: ICRA Research

Domestic consumption and investment activity to improve in FY2026 even as the outlook for external demand remains mired with uncertainty

Rural demand is likely to remain upbeat, aided by rabi cash flows and above-normal reservoir levels, which would provide some insurance against a delayed start or inadequate rainfall in the early part of the monsoon season. However, a well-distributed and normal monsoon remains key to support farm sentiments and incomes beyond H1 CY2025.

The combination of the sizeable income-tax relief in the Union Budget for FY2026, rate cuts leading to lower Equated Monthly Instalments (EMIs), and a moderation in food inflation is expected to boost household disposable incomes and urban consumption in FY2026.

The GoI's capex is budgeted to rise by 10.1% in FY2026, which augurs well for investment activity. Besides, the outlook for residential investment appears healthier, auguring well for construction activity. However, while private capex may gain some traction, it will likely remain non-exuberant, amid the muted outlook for exports and heightened uncertainty around trade policies.

The tepidness in India's merchandise exports is expected to continue in the near term, with the onset of a tariff war posing downside risks to the outlook. However, services exports are likely to outpace merchandise export growth.

Source: ICRA Research

ICRA's sectoral outlook as of March 2025

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Positive
Hotels
Capital goods

Negative
Power – distribution
Chemicals (basic, petrochemicals)
Telecom towers
Cut & polished diamonds
NBFC-Microfinance Institutions (NBFC-MFI)

Stable		
Construction & construction equipment	Tyres	Media – broadcasting & exhibitors
Cement	Renewable energy/ Power transmission/ Thermal	Dairy Bulk tea
Ferrous metals	Upstream oil & gas	Retail (fashion, consumer durables & electronics)
Non-ferrous metals	Oil refining & marketing	Insurance (life & general)
Roads & road logistics	Gas utilities	Airlines & airport infra
Real estate – residential, commercial & retail	Ports	IT services
Jewellery – retail	Pharma	Telecom services
Brokerage	Healthcare	Chemicals (speciality)
Automobile & automobile dealership	Fertilisers	Bank
Auto components	Sugar	NBFCs (infra, retail NBFCs, HFC) & SFB

Note: NBFC - Non-Banking Financial Companies

FY2025 witnessed two revisions in outlooks

EXHIBIT: Outlook as on March 2024 and March 2025

	Mar 2024	Mar 2025	
Positive	**1 sector** 1. Hotels	**1 sector** 1. Hotels 2. Capital goods*	Hotels continued to be in the positive outlook throughout FY2025
Negative	**6 sectors** 1. Bulk tea, 2. Basic chemicals, 3. Petrochemicals, 4. Cut and polished diamonds, 5. Power-Distribution, 6. Telecom towers	**6 sectors** 1. Basic chemicals, 2. Petrochemicals, 3. Cut and polished diamonds, 4. Power-Distribution, 5. Telecom towers 6. NBFC-MFI	Bulk tea's outlook changed from 'Negative' to 'Stable' and NBFC-MFI's outlook downgraded from 'Stable' to 'Negative' during FY2025

*Source: ICRA Research; Note: * ICRA has started issuing Capital goods outlook from FY2025*

One upward and one downward movement in outlook in FY2025

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EXHIBIT: Month-on-month outlook for past one year

Sector	Apr 2024	May 2024	Jun 2024	Jul 2024	Aug 2024	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Bulk tea	Negative	Negative	Negative	Negative	Negative	Negative	Negative	Negative	Stable	Stable	Stable	Stable
NBFC-MFI	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Negative	Negative	Negative	Negative

Reasons for change in outlook

Bulk tea

- The profitability of domestic bulk tea entities has improved significantly in FY2025, driven by a sharp rise in tea prices. The bulk tea producers are projected to report OPBDITA/kg of ~Rs 30/kg in FY2025, compared to losses reported in FY2024
- While margins are expected to moderate in FY2026 due to an anticipated revision in wage rates following a pause in the current fiscal and a projected softening of tea prices, OPBDITA/kg is expected to stay within ICRA's threshold for a stable outlook. Hence, the outlook for the bulk tea industry has been revised to Stable from Negative

NBFC-MFI

- ICRA expects NBFC-MFIs AUM to decline by up to 5% in FY2025 amid mounting asset quality concerns, followed by some improvement in FY2026.
- The sharp increase in the overall overdue book in 9M FY2025 poses significant downside risks to the near-term loan quality of the sector. This, along with compression in net interest margins, is likely to result in a return on average managed assets (RoMA) of 0.0-0.4% in FY2025, significantly lower than the record high of 3.6% in FY2024.
- ICRA has a Negative outlook on the sector given the significant near-term headwinds on growth, asset quality and profitability.

Source: ICRA Research

Demand growth driving positive outlook; however, expansion remains a monitorable

Hotels — Positive Outlook

Drivers	▪ Sustenance of domestic leisure travel, demand from meetings, incentives, conferences, and exhibitions (MICE) including weddings, and business travel to drive demand in FY2026. ▪ Renovation, refurbishment and upgradation in several hotels resulting in superior product and higher Average Room Rates (ARR). ▪ Improvement in infrastructure and air connectivity, favourable demographics, and anticipated growth in large-scale MICE events with the opening of multiple new convention centres in the last few years to drive demand over the medium term. ▪ Supply, which is expected to grow at a CAGR of 4.5-5% over the medium term, would lag demand supporting an upcycle. ▪ Larger players would also benefit from revenues/share of profits generated from hotel expansions through management contracts and operating leases. ▪ Sustenance of a large part of the cost-rationalisation measures undertaken during Covid period, along with operating leverage benefits, to continue to result in higher margins compared to pre-Covid levels.
Challenges	▪ Foreign tourist arrivals (FTA) are yet to recover to pre-Covid levels; FTA improvement would depend on the global macro-economic environment. ▪ Exogenous shocks, if any, could result in demand disruption. ▪ Improvement in return on capital employed (RoCE) would depend on expansion strategy and could be constrained by high capital cost of new properties owing to increased land and construction cost, in case of asset-heavy expansion.

No major Government support for the sector

Source: ICRA Research

Government’s budgetary allocation for capex expected to provide a growth opportunity for the entities in the capital goods segment

Capital goods	Positive Outlook

Drivers	Consistent capex from end-user industries, especially power along with cement, real estate data centers, etc, also coupled with elevated government capex.
Challenges	Slowdown in end-user industry capex can translate into weaker order flows for the capital goods industry.

No major Government support for the sector

Source: ICRA Research

Government support for some sectors with negative outlook to support domestic manufacturers

Negative Outlook

Sector	Drivers	Challenges	Govt Support
Basic chemicals	▪ Robust domestic demand. ▪ Healthy economic growth.	▪ Over-supply situation with dumping in India. ▪ Weak global demand. ▪ Volatility in prices.	Government has imposed anti dumping duty and mandatory BIS certification* for imports of certain chemicals to safeguard domestic manufacturers.
Petro chemicals	▪ Healthy economic growth. ▪ High spend on infrastructure and real estate.	▪ Volatility in prices. ▪ Regulatory actions like ban on single-use plastic. ▪ Prolonged downcycle owing to weak demand and new capacities additions globally.	Government has imposed mandatory BIS certification for imports of certain chemicals to safeguard domestic manufacturers.
Telecom towers	▪ Increase in usage and deployment of 5G is likely to result in demand for towers. ▪ Improvement in the capitalisation of end customers will result in increased capex spends on network deployment.	▪ Further consolidation end-user industry. ▪ Competition from alternative technologies like satellite communications. ▪ Right of way related challenges.	PLI# by Government in equipment space; no PLI for towers.

*Source: ICRA Research Note: * BIS - BIS certification is issued by the Bureau of Indian Standards (BIS) in India, # PLI – Production linked incentives*

Government support for some sectors with negative outlook would support domestic manufacturers

Negative Outlook

Sector	Drivers	Challenges	Govt Support
Cut & polished diamonds	▪ Polished prices are expected to recover gradually in FY2026 owing to pick-up in demand, thus improving the rough-polished price differential. ▪ Continued controlled supply by miners and price reduction in roughs will continue to play a key role.	▪ Macro-economic headwinds in key markets, i.e., the US and China and growing competition from lab grown diamonds, particularly in large carat sizes (> 1.0 carat) continue to constrain the growth momentum. ▪ Severity of G7 sanctions on Russian origin diamonds will remain a monitorable.	No major Government support.
NBFC-MFI	▪ Adequate funding and liquidity ▪ Adequate capitalisation	▪ Asset quality concerns ▪ Weak earnings performance amid margin pressure and elevated credit cost ▪ Socio-political, climatic and operational challenges	Funding to NBFC-MFIs for the purpose of onward lending to Priority Sector Lending (PSL) segments is eligible to be classified as PSL.
Power distribution	▪ Favourable outlook on electricity demand growth ▪ Support from the Central government through efficiency improvement and infrastructure upgradation schemes	▪ Weak operating efficiencies reflected from the high distribution losses in certain states remain a concern ▪ Lack of timely and adequate tariff revisions impact the profitability of the utilities ▪ Further, the large debt burden used to fund the past losses constrain the financial profile of the discoms	Revamped reforms-based & results-linked scheme under way for power distribution segment with outlay of Rs. 3.0 trillion including grant of Rs. 0.97 trillion.

Source: ICRA Research

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THANK YOU!