

OUTLOOK FY2026

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#ICRAOutlookFY2026



📴 Macro Outlook						
GDP	INFLATION	REPO RATE	FISCAL DEFICIT	EXTERNAL ACCOUNT		
			होडि			
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



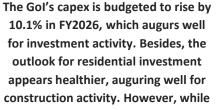
Domestic consumption and investment activity to improve in FY2026 even as the outlook for external demand remains mired with uncertainty





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.



private capex may gain some traction, it will likely remain nonexuberant, 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.

ICRA's sectoral outlook as of March 2025



	Positive		Stable						
	Hotels	F	Construction & construction equipment		Tyres	<u>E</u>	Media – broadcasting & exhibitors		
	Capital goods		Cement	*	Renewable energy/ Power transmission/ Thermal		Dairy Bulk tea		
	Negative		Ferrous metals		Upstream oil & gas	P	Retail (fashion, consumer durables & electronics)		
			Non-ferrous metals		Oil refining & marketing	Ê	Insurance (life & general)		
<u> </u>	Power – distribution	5	Roads & road logistics	5	Gas utilities	X	Airlines & airport infra		
2	Chemicals (basic, petrochemicals)		Real estate – residential, commercial & retail		Ports		IT services		
*	Talacom toward	Ö	Jewellery – retail	<u>क</u>	Pharma		Telecom services		
	Telecom towers		Brokerage		Healthcare	2	Chemicals (speciality)		
	Cut & polished diamonds		Automobile & automobile dealership		Fertilisers	<u></u>	Bank		
Ē.	NBFC-Microfinance Institutions (NBFC-MFI)		Auto components		Sugar		NBFCs (infra, retail NBFCs, HFC) & SFB		



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Note: NBFC - Non-Banking Financial Companies



EXHIBIT: Outlook as on March 2024 and March 2025

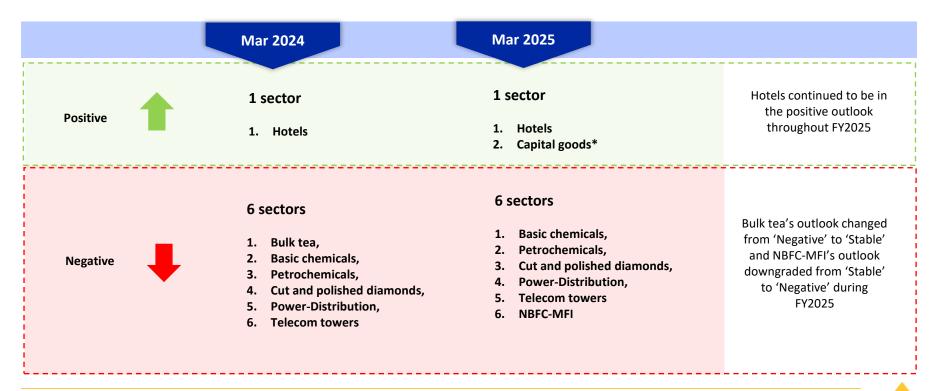






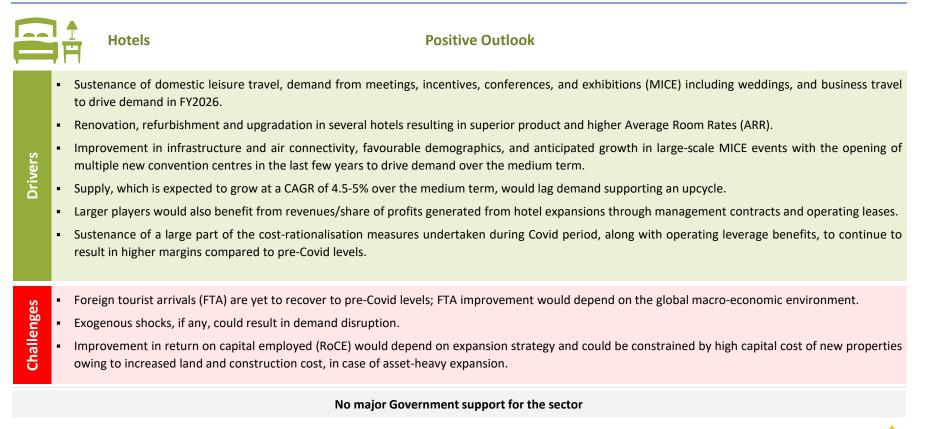
EXHIBIT: Month-on-month outlook for past one year

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	Stable	Stable	Stable	Stable							
NBFC-MFI	Stable	Negative	Negative	Negative	Negative							

Reasons for chan	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. 						

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







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 alc capex.	ng with cement, real estate data centers, etc, also coupled with elevated government
Challenges	Slowdown in end-user industry capex can translate into weaker	order flows for the capital goods industry.
	No major Gove	ernment support for the sector



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



	••	Drivers	Challenges	Govt Support
Negative Outlook	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.



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



		Drivers	Challenges	Govt Support
Negative Outlook	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.













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