PRESS RELEASE

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Credit metrics of India Inc. to improve to 4.5-5.0 times in Q3 FY2024: ICRA

- ***Steady demand scenario coupled with softening in the input costs fuelled India Inc's margin expansion in Q2 FY2024***
- ***Revival in earnings coupled with an extended pause on rate hike by the Monetary Policy Committee (MPC) aided YoY improvement in interest coverage metric for India Inc***

ICRA expects the credit metrics of India Inc. to show slight sequential improvement in Q3 FY2024, with interest coverage increasing to 4.5-5.0 times in Q3 FY2024 from 4.5 times in Q2 FY2024. This would benefit from improved earnings of Corporate India, on the back of continuing, albeit moderating tailwinds from commodity prices and seasonally strong demand during the recently concluded festive season.

Commenting on the trends, **Ms. Kinjal Shah, Vice President & Co-Group Head – Corporate Ratings, ICRA Limited,** said: *"The 1.6% YoY and 0.1% sequential revenue growth for Corporate India in Q2 FY2024 was supported by steady demand; however, the YoY revenue expansion was curtailed to an extent due to a general decline in the realisation levels amidst softening of input costs for most of the sectors. While consumer and infrastructure-oriented sectors supported the expansion, commodity-oriented sector revenues contracted following price correction from the unprecedented levels in the recent past. "*

"While revenue growth is expected to continue into Q3 FY2024, aided partially by festive period demand, the ability of Corporate India to sustain the same remains to be seen, given the uncertainties in the global economic environment. The overall impact of food inflation on rural demand and associated sectors would also remain a key monitorable. Along with this, the concerns of on-going geo-political tensions may also adversely impact demand sentiment, especially for export-oriented sectors. Furthermore, the pace of growth is likely to remain muted as the base effect catches up, as is already visible in recent quarters," added Ms. Shah.

ICRA's analysis of the Q2 FY2024 performance of 601 listed companies (excluding financial sector entities) revealed expectedly improved operating profit margins (OPM), increasing by 398 bps and 64 bps on a YoY and seqential basis, respectively. This was primarily aided by softening in commodity prices. However, while the input costs softened in recent months, they remain elevated compared to the historic levels, and accordingly, India Inc.'s OPM is yet to revive to its historic highs.

Improvement in earnings coupled with a pause in rate hikes by the MPC in the recent past (thereby restricting the upward movement in finance cost), led to YoY improvement in interest coverage ratio to 4.5 times for Q2 FY2024 from 3.9 times in Q2 FY2023 for ICRA's sample set companies[1]. However, it remained flattish on a sequential basis. An expected revival in earnings coupled with pause on rate hike is likely to result in an improvement in India Inc's interest coverage to 4.5-5.0 times in Q3 FY2024, although inflationary trends remain a monitorable in the long run.

"*While India Inc's performance in Q3 FY2024 is expected to be supported by the seasonally strong festive period, the uncertainties in the global economic environment, ongoing geo-political developments, and the impact of ongoing food inflation on rural sentiment and related sectors are potential headwinds. Accordingly, the ability of India Inc. to navigate these challenges remains critical. Furthermore, as the base effect catches up, the revenue*

[1] ICRA's sample set of companies includes 601 listed companies excluding financial sector entities00

growth momentum is likely to slow down, with YoY revenue growth estimated at 2-4% for Q3 FY2024 as well as H2 FY2024," **Ms. Shah** reiterated.

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