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PRESS RELEASE

February 26, 2026

Domestic demand remains key amid a volatile export environment: ICRA

- India Inc. is poised for a healthy revenue growth of 8-10% on a YoY basis in Q4 2025-26, supported by steady rural demand and signs of recovery in urban consumption
- Overall operating profit margin (OPM) to improve on a YoY basis, although sectoral divergences will remain
- Near-term export environment remains uncertain because of tariff vacillations and geopolitical developments

Rating agency ICRA expects India Inc. to sustain its favourable YoY revenue growth of 8-10% in Q4 2025-26 (vis-à-vis 10.6% YoY increase in Q3 2025-26) and expand its OPM by 50-75 basis points (bps) on a YoY basis, led by firm rural demand and a gradual recovery in urban consumption following recent reduction in Goods & Services Tax (GST) rates. As a result, credit metrics are expected to remain healthy, with an estimated interest coverage ratio of 5.3-5.5 times in Q4 2025-26, broadly stable compared with 5.3 times recorded in Q3 2025-26.

Commenting on the trends, **Kinjal Shah, Senior Vice President & Co-Group Head - Corporate Ratings, ICRA Limited,** said: *"Domestic rural demand remains resilient, while policy tailwinds such as GST rate rationalisation, income tax relief announced in the Union Budget 2025, cumulative reduction of 125 bps in policy rates by the Reserve Bank of India between February and December 2025, and easing food inflation are expected to support a gradual revival in urban consumption. On the external front, the recent cut in US tariff and various free trade agreements have improved the medium-term growth prospects for export-oriented sectors such as textiles, diamonds, leather, and auto components. However, near term uncertainty in the trade environment is far from over, given the tariff vacillations, ongoing geopolitical tensions, and the evolving supply-chain realignments."*

ICRA's analysis indicates that GST 2.0 reforms impacted various sectors differently. Consumption-oriented sectors such as automobiles emerged as key beneficiaries, reflected in around 20% YoY growth in sales volumes across several segments in Q3 2025-26. In contrast, the EBITDA margins of printing and writing paper companies witnessed pressure owing to the emergence of an inverted duty structure, which led to an accumulation of input tax credit and higher working capital intensity. Further, in the hospitality sector, while the overall demand trend remained healthy, mid-scale hotel operators recorded a modest margin dip in Q3 2025-26 due to withdrawal of certain input tax credit benefits, which limited the ability to offset tax incidence on operating costs.

Export-oriented sectors continued to face margin pressure in Q3 2025-26. Garment and home textile exporters reported margin compression of over 200 bps as higher US tariffs than competing countries compelled them to offer price discounts to protect their volume share. In contrast, select footwear manufacturers, with limited ability to reduce prices to offset increased tariffs, reported order deferments and cancellations owing to relatively higher tariff on Indian exports. In the auto components segment, export revenues were adversely impacted by the continued slowdown in Class-8 truck demand in the US, which weighed on volumes for suppliers with meaningful exposure to the North American commercial vehicle market.

Commodity price trends also resulted in divergent sectoral outcomes in Q3 2025-26. Gold jewellery retailers benefitted from the continued uptrend of gold prices, which supported strong revenue growth and margin expansion, even as sales volumes declined. In the metals space, copper miners reported growth in revenues and margins, driven by higher copper prices. Conversely, copper price inflation exerted margin pressure on downstream users, including copper smelters and air-conditioner manufacturers as higher raw material costs could not be fully passed through, resulting in margin compression in Q3 2025-26.

“*Private capex is showing early signs of revival, but the capex cycle is not yet broad-based. While the balance sheets are supportive (financial leverage is low and cash flows are generally growing well), investment decisions remain selective, given the global uncertainty and uneven domestic demand recovery. Private capex stands out in select segments of manufacturing (like defence, electronics manufacturing, and other production-linked incentive-supported segments), renewables, and data centres etc. Several of these are policy-backed segments, which partly mitigate execution and demand risks. Over the medium term, sustainability of India Inc’s credit profile will depend on how effectively policy measures and sector-specific adjustments mitigate uncertainties arising from global trade dynamics, commodity price volatility, and geopolitical risks*, “ **Shah** added.

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