

PRESS RELEASE

November 25, 2025

Festive demand and GST rationalisation to bolster India Inc.'s Q3 FY2026 performance, despite export pressures: ICRA

- India Inc. is poised for a healthy revenue growth of 8-10% YoY in Q3 FY2026
- Operating profit margin (OPM) to show improvement amid expectations of an upbeat demand as commodity prices soften on a YoY basis

Rating agency ICRA expects India Inc. to sustain healthy YoY revenue growth of 8-10% in Q3 FY2026 (vis-à-vis 9.2% YoY in Q2 FY2026), led by firm rural demand and expectations of a revival in urban demand. Coupled with the softening input costs like crude oil and coal, ICRA projects an improvement in the operating profit margin (OPM) by 50-100 bps on a YoY basis. As a result, the credit metrics of India Inc. in Q3 FY2026 are likely to marginally improve with interest coverage ratio at 5.3-5.5 times, against 5.0 times in Q2 FY2026.

Commenting on the trends, **Kinjal Shah, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA Limited**, said: *“Domestic rural demand remains resilient and tailwinds like GST rate rationalisation, income tax relief announced during the Union Budget 2025, 100 bps interest rate cut by the Reserve Bank of India between February 2025 and November 2025 (leading to lower borrowing costs) and easing food inflation are expected to boost urban consumption. That said, the ongoing geopolitical tensions and steep US tariffs continue to impact demand sentiments, especially for export-oriented sectors such as agro-chemicals, textiles, auto and auto components, seafoods, cut and polished diamonds, and IT services.”*

ICRA's analysis of the performance of 2,966 listed companies (excluding financial sector entities) in Q2 FY2026 revealed 9.2% YoY revenue growth, led by **healthy demand** in consumption-oriented sectors like retail, hotels and auto, and infrastructure-oriented sectors like capital goods and cement. A seasonal **slowdown in demand** in the oil & gas, airlines and power sector and deferment of purchases in the consumer durables and FMCG sector amid expectations of a GST rate rationalisation, however, led to a lower revenue growth of 2.5% on a sequential basis. IT services companies faced growth challenges in constant currency terms, owing to cautious spending by US clients amid global uncertainties.

An unusually prolonged monsoon this year dampened the Q2 FY2026 year-on-year revenue growth across several sectors. Companies selling air conditioners, beer and value-added dairy products saw muted demand as the shorter summer curtailed consumption. Further, agrochemical companies faced reduced offtake because of fewer spraying opportunities, while even hospitals in certain regions reported cancellations of planned surgeries, underscoring the widespread impact of the extended rains.

With regard to the US tariff impact, auto component exporters saw a decline in volume offtake from the US auto original equipment manufacturers in Q2 FY2026, as tariffs constrained production and sales in the US market, even as Indian exporters largely avoided tariff-induced pricing pressures. In contrast, textile exporters—both home textiles as well as apparels—chose to defend market share by partially absorbing the tariff hike impact, which resulted in margin compression.

While the overall urban demand growth has been tepid over the past 18-20 months, a changing product mix, with early indications of premiumisation across some categories, is supporting headline revenue growth at a time when volume growth has been soft. Likewise, organised players in sectors like hospitality, hospitals, and gold jewellery

retail are expanding their footprint through a mix of acquisitions and other commercial arrangements, supporting overall revenue growth.

Corporate India reported a YoY rise in OPM by 140 bps to 16.1% in Q2 FY2026. The margin expansion in sectors like telecom, cement and oil & gas was led by improved demand and better realisations. However, this was partly offset by a margin contraction in fertilisers, construction and retail due to lower realisations and/or higher input prices. However, on a sequential basis, the OPM remained largely flat, due to lower profitability in sectors like retail, hotels, metals & mining, cement and airlines, mainly on account of seasonality. The interest coverage ratio of ICRA's sample set of companies, adjusted for sectors with relatively lower debt levels (IT, FMCG and pharma), saw YoY improvement to 5.0 times in Q2 FY2026 from 4.1 times in Q2 FY2025 as growth in operating profits more than offset the increase in the interest costs due to higher working capital and capex requirements.

Given the uncertain global environment and tariff-related ambiguity, ICRA expects the private capex cycle to remain measured. However, certain sectors such as electronics, semi-conductors, data centres and niche segments within the automotive space like electric vehicles will continue to see a scale-up in investments. Further, Government capex is expected to support the overall investment activity, although the headroom for investment growth is likely to be lower in H2 FY2026, after the upfronting seen in H1 FY2026.

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