MOODY'S RATINGS

Press Release

ICRA

Moody's Ratings and ICRA: Indian corporates remain well-positioned to navigate through tariff and geopolitical challenges

• Moody's: Strong domestic consumption and low export reliance will shield Indian corporates from US tariffs and geopolitical uncertainties.

• ICRA: Urban consumption expected to recover in FY2026 supported by income tax relief, further rate cuts and easing food inflation

Mumbai, June 4, 2025: Moody's Ratings (Moody's) says most Moody's-rated Indian non-financial companies are not directly affected by US import tariffs due to their focus on domestic consumption and low dependence on exports.

Government initiatives to boost private consumption, expand manufacturing capacity and increase infrastructure spending will help offset the weakening outlook for global demand.

"Shifts in global supply chains coupled with the Indian government's efforts to increase local production will benefit domestic manufacturing. However, challenges such as the inadequacy of skilled labor, evolving logistics infrastructure and complex land and labor laws in the country could constrain the growth of India's manufacturing sector", says Vikash Halan, a Moody's Ratings Managing Director.

Indian corporates will continue investing in new capacity to cater to the sustained growth in domestic consumption. Moody's estimates that Moody's-rated India non-financial companies will spend around $50 billion annually in capital spending over the next two years.

Most companies will fund majority of their capital spending from internal accruals such that average portfolio leverage, as measured by debt/EBITDA, will remain at or near current levels of 3.0x.

Meanwhile, Moody's Indian affiliate ICRA notes that Indian corporates are, on the whole, well-positioned to navigate prevailing tariff uncertainties and geopolitical risks, though sectoral impacts vary.

Select auto parts categories, cut and polished diamonds, and seafood exports have notable exposure to the U.S. market and may face headwinds from demand moderation or rising competition. In contrast, the textiles sector is expected to benefit from its comparative advantage over China, further supported by the recently concluded India-UK Free Trade Agreement, according to ICRA.

Geopolitical tensions, particularly the India–Pakistan conflict, may weigh on near-term demand for travel and hospitality services. Nonetheless, India's overall exposure to these risks remains moderate. ICRA projects India's GDP growth at 6.3% in FY2025 and 6.2% for FY2026. Rural demand is likely to remain healthy, aided by robust rabi harvest cash flows and reservoir levels.

"Urban consumption, muted in FY2025, is expected to recover in FY2026, supported by income tax relief, further rate cuts, and easing food inflation—benefiting sectors like automobiles, consumer goods, and services," says Mr. K Ravichandran, EVP and Chief Rating Officer, ICRA Ltd.

Domestic manufacturing continues to gain traction under the Production-Linked Incentive (PLI) scheme, especially in mobile phones, pharmaceuticals, and food products.

Additionally, double-digit growth in the capital expenditure budget of the Centre and states is set to boost construction and allied sectors.

Meanwhile, corporate sector balance sheets have strengthened, with corporate debt/OPBITDA improving to 2.1x (Mar 2025) from 3.2x (Mar 2019). In the financial sector, despite the asset quality concerns in segments of unsecured lending and microfinance, the bank and NBFC balance sheets remain sound and well-equipped to fund the credit needs of the economy, liquidity conditions permitting.

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