



'COMPANIES CONTROLLED COSTS IN FY25'

Bank of Baroda Chief Economist Madan Sabnavis on why the impact of RBI's rate cuts will depend on demand across specific industries in FY26

BY RAHUL OBEROI

IN AN INTERACTION with *Business Today*, Madan Sabnavis, Chief Economist, Bank of Baroda, talks about the factors behind India Inc's performance and why forex volatility is a persistent concern for Indian companies, especially since Donald Trump became the US President. Edited excerpts:

▶▶▶ **How do you assess the overall financial health of India Inc?**

The financial health of India Inc has improved significantly in recent years. One of the key indicators of this is the interest coverage ratio,

which has remained steady at six-seven times. That's a strong signal that corporates are comfortably meeting their interest obligations, despite operating in a high-interest rate environment, especially with the repo rate being at elevated levels over the last couple of years.

While corporate profitability hasn't been uniformly strong—owing to sector-specific demand challenges—the overall improvement in the interest coverage ratio reflects financial resilience.

This trend is further supported by the low levels of non-performing

assets (NPAs) in the banking system, which indicates that the repayment capacity has remained robust.

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Are Indian companies better equipped to handle global shocks?

When we talk about global tensions, one of the biggest challenges for Indian corporates is the volatility in foreign exchange rates. While global commodity prices—barring crude oil—have largely been stable and are even trending downward in 2025, forex volatility remains a persistent concern, especially since

the time of the Trump administration.

The cost of hedging has become a critical issue, and many Indian companies don't maintain fully hedged positions, which leaves them exposed to currency fluctuations. While Indian industry is predominantly domestic-focused and somewhat insulated from global trade shocks, certain export-oriented sectors—like pharmaceuticals, gems and jewellery, readymade garments, and to some extent electronics—could still face the impact of global tariff barriers or demand shifts. While India Inc. is rela-



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tively insulated, the risks are real and sector specific.



Employee costs grew by 7% in FY25, the lowest in four years, compared to 13-16% growth in the previous three years. What explains this slowdown?

There has been a lot of concentration in terms of controlling overall costs. This includes employee costs also. We have not seen companies normally giving double-digit increments. That is something that has slowed down. Second, if you look in terms of overall hiring at various levels, it also shows a mixed pattern. Not all companies are hiring. For example, several IT companies are opting for layoffs. When you have a layoff, people who earn a higher salary tend to get laid off. All these factors have actually combined to bring about slower growth in terms of wage or salary bill.



Do you think the Reserve Bank of India's (RBI's) rate cuts will finally push corporate profitability and investment plans in the ongoing fiscal year?

The impact of rate cuts will depend largely on demand environment across specific industries. In infrastructure-linked sectors—such as steel, cement, chemicals, and capital goods—where demand remains strong, we can expect a pickup in investment activity. These sectors are already witnessing robust demand, and lower interest rates could further support their capex plans.

However, when it comes to consumer-oriented industries, the story is different. Over the past couple of years, inflation has dented urban consumption, and many of these companies are still operating with surplus capacity. So, for them, a cut in interest rates alone may not be sufficient to trigger fresh investments unless demand picks up meaningfully.



Why has sales growth slowed over the past two years, and what kind of topline and bottom line performance do you expect from India Inc in FY26?

The slowdown in sales over the past two years is largely a result of the post-Covid adjustment. Initially, there was a strong pent-up demand in manufacturing, but that eventually peaked and began to taper off, led by high inflation. Later, we witnessed a surge in demand for services like travel and tourism, which continues to some extent even now.

This uneven recovery has created phases where topline growth was strong but profit margins were under pressure, and later, when profits improved, topline growth became subdued.

Looking ahead to FY26, with inflation expected to decline—possibly to 3.7–3.8%—the pricing pressures should ease. This, coupled with a gradual revival in consumption, could support revenue growth for companies. **BT**

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SVP-Research at Religare Broking.

A high base due to post-Covid rebound and pricing pressures also hit sales. Employee expense growth was 7%, the lowest in four years compared to 13–16% in the previous three years, reflecting cautious hiring amid global uncertainties.

“As normalisation ensued in the years post Covid, employee expense growth also plateaued. We saw macro slowdown over the past couple of years, stagnant salaries and fewer job opportunities for freshers. The onslaught of AI has improved the productivity of existing employees in many sectors, resulting in less employee headcount growth. Many roles have also been eliminated,” says Patni.

SECTORAL BREAKDOWN

Sectors like real estate, defence, healthcare and financial services reported strong earnings, while FMCG and information technology (IT) remained under pressure. Real estate, in particular, has benefitted from favourable financing and increased demand after the pandemic. Defence has been bolstered by rising budget allocations and the government's push for indigenisation.

The combined net profit of real estate companies grew by more than 30% in FY25 compared to 75% in FY24 and 5.4% in FY23. “Strong project launches and sustained demand, especially in premium and luxury segments, have driven earnings recovery for the sector. Rising disposable incomes and an increase in the number of dual-income households are also boosting demand for mid-income housing,” says Rahul Singh, CIO-Equities, Tata Mutual Fund. He believes the recent rate cut environment is support-

ive, while continued government spending should indirectly benefit the sector in FY26. Further, urbanisation is accelerating, especially in Tier II and III cities, which should drive the next wave of real estate demand.

On the other hand, the combined profit of defence firms increased nearly 18% in FY25 as against 39% in FY24 and 12% in FY23. “Driven by a steady rise in orders, the government’s push for indigenisation and growing export opportunities, defence companies have delivered robust numbers,” says Devarsh Vakil, Head of Prime Research, HDFC Securities.

The combined net profit of FMCG companies hit a record high of nearly ₹74,000 crore in FY25, as against ₹55,000 in FY24. The sector witnessed the highest profit growth in at least five years. “India’s consumption story is structural. With the world’s largest and youngest population and rising

incomes, demand continues to grow across rural and urban markets. Beyond staples like detergents and home care, faster growth is coming from evolving segments such as personal care, snacking, beverages, ready-to-eat, and eating out,” says Singh. Good monsoons last year, as well as this year, have brought back rural demand, boosting FMCG, which was struggling post-pandemic.

But the IT sector is struggling. The combined revenue of all players increased just 5% for the second straight year.

Vakil of HDFC Securities has a cautious view and says the sector is facing significant headwinds from escalating tariff wars and trade tensions, which are threatening to disrupt cross-border operations and increase costs for companies heavily reliant on global delivery models and H-1B visa programmes. The rapid advancement of artificial intelligence (AI) poses an existential challenge to traditional IT services business models, as AI-powered automation threatens to replace routine coding, testing, and maintenance tasks that form the backbone of many service contracts.

CAPEX CYCLE

In spending, government-led capex continued to be the primary avenue for asset building in FY25, as it has been over the last three years. However, public spending slowed in H1FY25 due to election-related constraints. A full-fledged and sustained rebound in private sector capex was missing despite the government’s nudge.

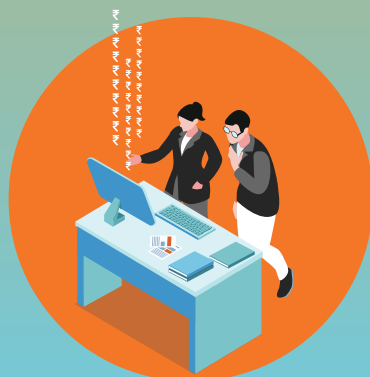
As per the CMIE Economic Outlook, the value of projects completed by the private sector stood at ₹2.7 lakh crore in FY25, down 25% YoY. The number was ₹3 lakh crore for the public sector, down 49% YoY. Several experts

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A SNAPSHOT

- 1 Balance sheet of India Inc looks robust with low debt and strong internal accruals funding capex
- 2 FY25 profit growth remained stable, despite muted topline and external macroeconomic headwinds
- 3 Private capex remains subdued, but is expected to pick up as consumption and utilisation improve
- 4 Earnings of defence, real estate and FMCG sectors outperformed in FY25, while IT and capital goods faced headwinds
- 5 Policy support and rate cuts signal optimism, but global uncertainties still pose challenges ahead



expect private capex to pick up in FY26, backed by strong balance sheets, declining interest rates, and improving consumption.

“With the RBI cutting repo rates by 100 bps and a 50 bps cash reserve ratio (CRR) cut expected to improve liquidity, the environment is ripe for the private capex to rise,” says Chadawar. “We could see an uptick in private capex over the next 12-18 months, driven by falling cost of capital, improving credit growth, economic momentum, and sound balance sheets. A pick-up could be visible once the uncertainty over the Trump tariff subsides.”

According to Jain, capacity utilisation for many manufacturing companies is currently around 75%. Unless this reaches above 80%, or there is a significant and broad-based recovery in private consumption, large-scale private capex is unlikely.

“From the second half of FY26, we could see a more meaningful recovery in overall consumption. This, in turn, should gradually lead to higher capacity utilisation and eventually trigger private capex—possibly by late FY26 or FY27—as rising demand justifies new investments,” he says.

The RBI’s surprise 50 bps rate cut in June 2025, combined with additional CRR cuts, has improved market sentiment. Analysts believe that liquidity is expected to remain strong, supporting credit growth, particularly in the second half of FY26. The Union Budget for FY26 also announced tax relief for the middle class and increased allocations for rural infrastructure and consumption-boosting schemes. The fiscal deficit target has been revised to 4.4% (from 4.8% earlier), indicating a balance between discipline and stimulus.

“The government is consciously shifting towards supporting the rural and middle-class economy to stimulate consumption. This is a key driver for sustaining the broader recovery,” says Chadawar.

ROAD AHEAD

While profitability remains, balance sheets are healthier and macro indicators, coupled with government at the Centre, point toward a supportive policy environment, challenges remain. The headwinds include global geopolitical uncertainty, crude oil price volatility, tariff concerns, and muted urban consumption.

“After a phase of consolidation in FY25, we expect FY26 to be a year of revival,” says Gopal Jain, Managing Partner, Gaja Capital. “Public capex is expected to drive FY26 GDP growth to 6.3-6.5%, though private investment revival remains crucial, and consumption



“Most of the capex is funded through internal accruals or equity issuance. Overall, the health of domestic corporates looks strong”

HITESH JAIN

Strategist, Institutional Equities Research, YES Securities



“With the world’s largest and youngest population and rising incomes, demand continues to grow across rural and urban markets”

RAHUL SINGH

CIO-Equities, Tata Mutual Fund

needs a boost. Manufacturing and construction look set for 8-10% earnings growth, supported by PLI schemes and government contracts.” Experts believe the earnings trajectory will improve in FY26. Financials, infrastructure, auto, and cement sectors are expected to lead the growth with double-digit earnings. Meanwhile, IT, FMCG, and pharma may post modest single-digit growth. In short, sectors driven by India’s domestic growth story are likely to be in a sweet spot in the coming year. **BT**

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