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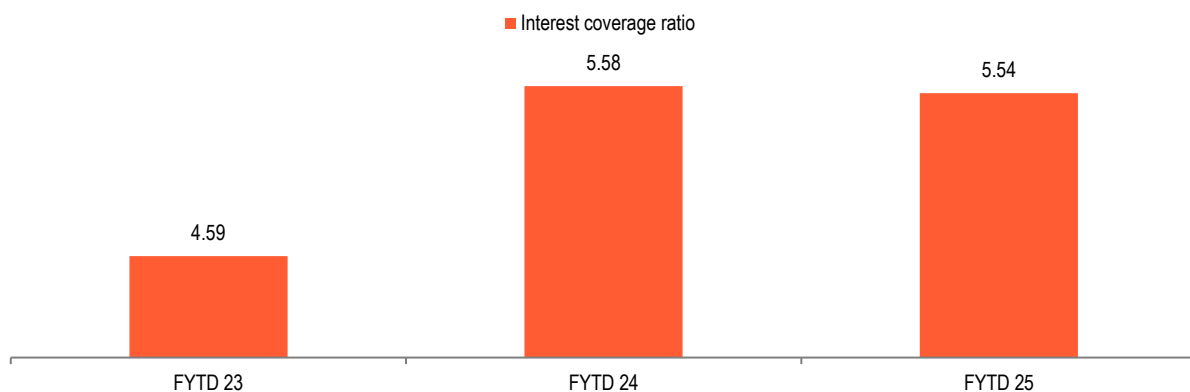
How has interest coverage ratio of India Inc. fared?

Interest coverage ratio (ICR) is an important indicator of soundness of financial health of a company. The ratio, which is calculated by dividing the Profit Before Interest and Tax (PBIT) by the interest expenditure, gives a sense of debt serviceability capabilities of a company. In particular, the ratio indicates whether a company is making enough profits to cover its interest expenses. Ideally, an ICR above 1 is desirable, with a higher ratio generally indicating that the company has a higher buffer to service its debt. In this analysis, we have looked at the ICR for a sample of 2,954 companies in FYTD25 (Apr'24-Dec'24) with the same period last year, to see if there has been an improvement or deterioration in the same. The data is based on the published interim results of the companies.

Interest coverage ratio

Overall, the ICR has remained virtually unchanged at 5.54 in FYTD25 compared with 5.58 in the same period last year. Incidentally, the weighted average lending rate (WALR) of SCBs (fresh rupee loans) also remained broadly similar at around 9.40% in FYTD25 versus 9.34% in FYTD24. The marginal dip in ICR is consistent with a slowdown in profit growth in a few sectors. However, the ICR of over 5 indicates that corporate balance sheets remain healthy, and profit growth is more than adequate to cover the interest costs. When compared with FYTD23, the ICR has increased by close to 100bps, indicating a significant improvement in debt serviceability capability of companies. It must be noted that the ICR is impacted by both the interest costs, which in turn depends on the interest rates, as well as profit growth.

Figure 1: Interest coverage ratio of India Inc.



Source: AceEquity, Bank of Baroda Research

Sector wise ICR

Sector-wise, the movement in ICR has been presented in Table 1. There has been an increase in ICR for a wide majority of sectors in FYTD 25 when compared with the same period last year. Some important observations that can be made from the table are:

- Out of a total of 32 sectors, only 13 witnessed a moderation in ICR in FYTD 25 versus FYTD 24.

- Further, 19 sectors had an ICR higher than the overall ICR ratio of 5.54 in FYTD 25. This held even in FYTD 24.
- ICR for all sectors was above 1 in FYTD 25, which is considered as a viable ICR. Notably in FYTD 24, telecom sector had an ICR below 1 which has now improved. An increase in telecom tariff has aided the recovery in profit growth in the sector. This is likely to improve further in the coming quarters.

Table 1: Movement in sector-wise ICR

Sector	ICR FYTD 24		ICR FYTD 25	
Mining	143.08	↑	111.49	↓
IT	44.89	↓	45.63	↑
Gas Transmission	50.92	↓	43.99	↓
Inds. Gases & Fuels	17.64	↓	20.97	↑
Automobile & Ancillaries	14.63	↑	16.72	↑
FMCG	17.68	↓	16.67	↓
Healthcare	10.74	↓	14.94	↑
Alcohol	13.92	↑	12.89	↓
Capital Goods	9.74	↑	10.97	↑
Business Services	8.83	↑	10.00	↑
Consumer Durables	7.18	↓	9.14	↑
Chemicals	8.30	↓	8.37	↑
Hospitality	6.54	↑	7.32	↑
Non - Ferrous Metals	5.41	↓	7.21	↑
Media & Entertainment	3.97	↓	6.72	↑
Plastic Products	5.78	↓	6.60	↑
Diamond & Jewellery	5.02	↓	6.41	↑
Retailing	4.60	↓	5.98	↑
Electricals	5.61	↓	5.76	↑
Crude Oil	8.76	↑	5.27	↓
Diversified	7.36	↓	4.01	↓
Iron & Steel	3.81	↑	3.99	↑
Construction Materials	5.69	↑	3.91	↓
Logistics	3.41	↓	3.72	↑
Textile	3.53	↑	3.41	↓
Power	3.48	↑	3.33	↓
Paper	6.05	↓	3.12	↓
Infrastructure	2.05	↑	2.71	↑
Realty	2.32	↑	2.64	↑
Aviation	3.03	↑	2.18	↓
Agri	2.76	↓	2.08	↓
Telecom	0.55	↑	1.03	↑
Total	5.58	↑	5.54	↓

Source: AceEquity, Bank of Baroda Research

- It is also important to look at the ICR in relation to the debt levels of a sector. In terms of the total outstanding debt levels as of Mar'24, the top 10 most heavily indebted sectors are

power, telecom, crude oil, iron and steel, infrastructure, non-ferrous metals, textiles, automobiles, logistics and chemicals.

- Within these, 7 sectors have shown an improvement in ICR vis-à-vis last year. Notably, ICR of sectors such as automotive and non-ferrous metals has seen a sharp improvement. While a decline in interest costs explains the improvement in ICR of the automobile sector, for non-ferrous metals, the improvement can be attributed to higher growth in profits.
- Amongst the 3 sectors which have noted a moderation in ICR, while the decline is marginal in case of textiles and power, the ICR of crude oil sector has moderated sharply from 8.76 last year to 5.27 in FYTD25. A sharp decline in profits in the sector explains the decline. However, the ICR is still well above 5.

Conclusion

India Inc. remains comfortably placed to meet its debt obligations as reflected by the ICR. Despite the marginal dip, the ICR remains high by historical standards. Further, barring a few exceptions, the ICR of sectors which have the highest debt levels, has either improved or remained virtually unchanged when compared with last year, which also attests to the strength of Indian companies when it comes to debt serviceability. With the RBI embarking on the long-awaited rate cut cycle, the interest costs for India Inc. are likely to come down which is likely to reflect in an improvement in ICR. Profitability should also ideally improve with an uptick in domestic consumption as well as increase in selling prices.

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