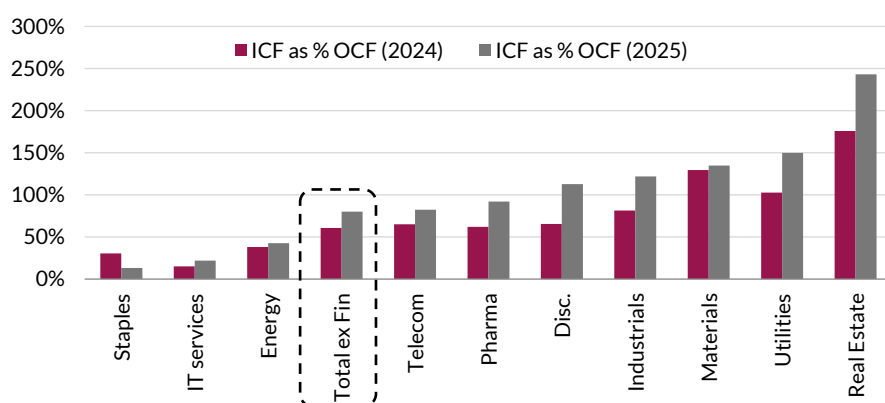


OCF for BSE200 ex-Financials grew only 2% YoY in FY25, vs 21% CAGR over FY19-24. Sales growth was weak and EBITDA margins fell. This was mostly due to a 17% YoY fall in Energy EBITDA; OCF ex-Energy rose 10% YoY. ICF grew 34% YoY, as acquisitions jumped 3.1x YoY to Rs 0.8 tn (mostly in Utilities/Pharma), and capex grew 13% (Utilities/Telecom). Energy capex (the largest contributor) grew a mere 2%. As ICF rose to 80% of OCF, given growing dividends, net debt grew Rs 1.8 tn (up for only the second time in five years). Debt-to-EBITDA was flat and debt-to-equity fell further. We expect these trends to continue – slowing operating profits, steady growth in capex, and continuing acquisitions pushing up corporate net debt.

Exhibit 1: Broad-based ramp-up in ICF vs OCF in FY25 vs FY14



Source: Refinitiv, Axis Capital

OCF for BSE200 slowed in FY25 due to lower EBITDA growth (mostly OMCs)

In FY25, operating cashflow (OCF) for BSE200 ex-Financials rose just 2% YoY to Rs 11.8 tn, lower than 21% CAGR over FY19-24. This was led by (1) slower revenue growth at just 5% YoY, (2) decline in operating margins, and (3) increase in working capital, particularly in Industrials (HAL) and Discretionary (M&M). OCF concentration rose in FY25, with 50% of incremental OCF coming from just ten firms. Energy (including Reliance) remained the largest contributor (30% total OCF) but was also the cause of the YoY decline. Ex-energy, OCF was up 7% YoY, led by Infosys, JSW Steel, SAIL, and Airtel.

ICF surged driven by higher acquisitions and capex in Utilities, Telecom

Investing cash flow (ICF) grew 34%YoY to Rs 9.5 tn, pushing ICF to 80% of OCF in FY25, the highest since FY19, but lower than the 2010-19 average of 98%. The growth was driven by higher acquisitions (Rs 0.8 tn in FY25 vs Rs 0.3 tn in FY24), led by major activities in Utilities (JSW Energy, Adani Power, Adani Energy), Pharma (Mankind, Dr Reddy's), and Materials (Grasim, Ambuja Cements). Capex grew 13% YoY, driven by Utilities (Adani group, NTPC, Power grid) and Telecom (Vodafone, Airtel). Energy, which continued to be the leading contributor to capex, saw a mere 2% YoY increase.

Trend of corporate deleveraging eased, as net debt rose by Rs 1.8 tn in FY25

FY25 saw net debt addition of Rs 1.8 tn for BSE200 ex-Financials, only the second time in the past five years. The increase was driven by four sectors: Energy, Materials, Industrials, and Utilities. The increase in net debt though was in-line, with EBITDA growth for the set and thus, net debt-to-EBITDA ratio remained flat at 1.5, and net debt-to-equity ratio at 0.4 remains the lowest since 2011. Dividends stayed strong and increased 21% YoY to Rs 3.2 tn in FY25. We expect the trend of higher capex and acquisitions to continue and weaker OCF (likely to continue in FY26E) to continue to push up demand for new debt.

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