# India Inc's profit to GDP ratio dips in Q2

## Ratio for manufacturing firms at 9-quarter low

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The corporate profit to gross domestic product (GDP) ratio declined sharply in the previous two quarters, reversing the steep rise seen in the second half of financial year 2020-21 (FY21) and FY22.

The combined net profit of the 3,361 listed companies in *Business Standard*'s sample was equivalent to 3.48 per cent of India's GDP at current prices in the September quarter (Q2FY23), down from 3.57 per cent in Q1, and 4.39 per cent in Q2FY22, which was a decadal high. The Q2 figure was, however, higher than the pre-Covid average of 2.3 per cent.

The decline in the ratio was led by manufacturing companies, which saw their profit as a percentage of the GDP fall to a nine-quarter low. In contrast, firms in the services sector — especially banks, financial services, and insurance (BFSI) companies — reported record high earnings in Q2 and increased their profit share.

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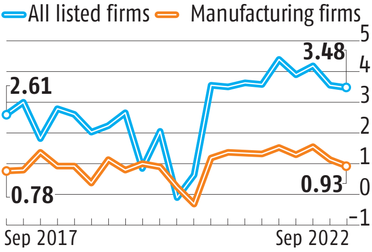
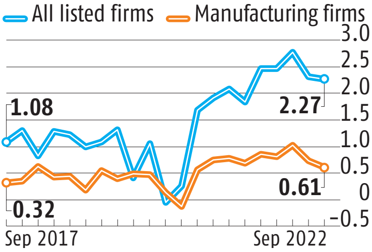
## TRACKING THE TREND

### Corporate profit as % of GDP




### Trend in quarterly net profits (₹ trn)




Note: Based on the quarterly earnings of a constant sample of 3,361 listed companies
Sources: Capitaline, Centre for Monitoring of Indian Economy
Compiled by *BS* Research Bureau

to be made, the pricing mechanism is likely to set a ceiling price for drugs going off patent at 50 per cent of the innovator price. And if there is any other drug that is already under price control in combination with the patented molecule, then one may take a ceiling price which is 20 per cent lower than the prevailing ceiling price," said an industry source.

## India Inc's...

The combined net profit of the firms in the sample declined 7.8 per cent year-on-year (YoY) in Q2 to ₹2.27 trillion from around ₹2.47 trillion a year ago. Quarterly corporate earnings were 18.2 per cent lower than the record high of ₹2.78 trillion seen in Q4FY22.

In comparison, India's quarterly nominal GDP at current prices grew 16.2 per cent YoY to ₹65.31 trillion in Q2. The nominal GDP, however, declined 1.3 per cent from the record high of ₹66.15 trillion in Q4FY22 (See adjoining charts).

The decline in overall corporate profits was largely due to a contraction in margins and earnings of manufacturing companies in the last few quarters because of the cumulative effects of higher input costs and low price realisation in many segments.

The combined net profits of manufacturing companies declined 29.3 per cent YoY to around ₹60,950 crore in Q2 from around ₹86,200 crore a year ago. Earnings in the sector were down nearly 41 per cent from the record hisgh of ₹1.03 trillion in Q3FY22.

As a result, the manufacturing companies' profit to GDP ratio reverted to the pre-Covid level, declining to 0.93 per cent in Q2 from 1.13 per cent in Q1 and the record high of 1.53 per cent in Q2FY22. In comparison, these firms' profit to GDP ratio was 0.90 per cent on average between June 2017 and December 2019.

Analysts expect a further decline in the corporate profit to GDP ratio.

"Corporate earnings in FY21 and FY22 were episodic in nature, fuelled by an unprecedented fiscal and monetary stimulus by developed countries during the pandemic and its spillover effect on India. This has now reversed, leading to a drag on earnings," said Dhananjay Sinha, director and head of equity at Systematix Institutional Equity.

According to him, the biggest risk to earnings comes from banks, which had benefited from a decline in interest rates after the outbreak of the pandemic, a rise in credit growth, and an improvement in the finances of the non-financial sector.

"The recent deterioration in the financial ratios of non-financial firms and a rise in borrowing costs would begin to weigh on banks' earnings in forthcoming quarters, hitting overall corporate earnings," Sinha added.

Banks' share in corporate profits touched a record high of around 27 per cent in Q2FY23, up from 18.4 per cent a year ago and a big increase over the pre-Covid share of around 5 per cent on average.

Other experts, however, expect a reversal in the trend in the next two quarters. "Corporate earnings may start growing once again as commodity and energy prices have begun to decline and interest rates have peaked. This will translate into higher corporate margins in the second half of FY23 and better demand for consumer and industrial products," said G Chokkalingam, founder and managing director of Equinomics Research & Advisory Services.

Equity investors too seem to believe that the worst is over for India Inc. The combined market capitalisation of BSE listed companies was up nearly 6.5 per cent since the end of September, and the market has rallied nearly 19 per cent since the end of June.

## FBIL...

"Essentially, offshore regulators would want things like file reports of transaction legs, etc from FBIL. Every regulator wants to have an oversight on participants operating within their domain," a treasury official said.

Commenting on CCIL's derecognition, which was done also by the Bank of England (BoE), Rabi Sankar said talks were on regarding this. The ESMA's move, announced on October 31, comes into effect on May 1, 2023. If it happens, the decision will hamper the bond and derivative trading operations of European banks in India.

"We are engaging with them (ESMA and BoE). This is con-