

India Inc profit surges 65% but shows lopsided growth

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There has been a sharp recovery in the headline corporate earnings in the April-June 2023 quarter (Q1FY24), after a dismal showing by early bird companies. The combined net profit of the 983 listed companies that have declared their quarterly results, so far, was up 64.7 per cent year-on-year to record a high of ₹2.68 trillion in the first quarter, but growth in earnings remained lopsided because most of the incremental gains came from a handful of companies.

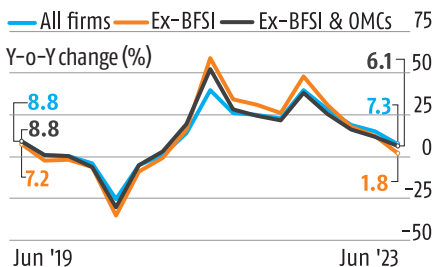
Moreover, the quarterly numbers showed a continued slowdown in revenue growth. The combined net sales of all companies in the sample were up just 7.3 per cent Y-o-Y in Q1FY24, the lowest in the past 10 quarters. Unlike profit growth, most sectors, with the exception of banking & finance and automotive, reported a slowdown in topline growth in the June quarter.

Listed companies in the *Business Standard* sample added ₹1.05 trillion to their combined net profit in Q1FY24 — most in nine quarters — but nearly two-thirds of this growth was accounted for by only five companies, three of which were government-owned oil marketing companies (OMCs).

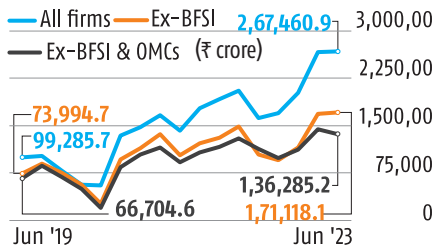


TRACKING THE TREND

Revenue growth slides further



Record earnings



BFSI: Banks, non-banking finance companies and insurance, OMCs: Govt-owned oil & gas marketing companies
 Note: Based on early bird sample of 983 companies
 Source: Capitaline, Bloomberg, Compiled by BS Research Bureau

ish, amid a continued pause on the repo rate and stance in the upcoming policy review," Aditi Nayar, chief economist at ICRA, said.

The central bank has projected average CPI inflation in Q1 to be at 4.6 per cent and 5.2 per cent for Q2.

"Given the transient nature of shocks in food items, particularly in some vegetables, our base case is a status quo on rates through FY24, with the earliest rate cut foreseen only in the June 2024 policy review," Nayar said.

None of the respondents expect the central bank to revise its growth forecasts for the current financial year. Even if interest rates are kept unchanged, the tone of the policy is likely to be hawkish due to near-term inflation pressures.

India Inc...

OMC earnings are highly volatile and depend on exogenous factors, such as changes in indirect taxes on transport fuel and international crude oil prices. This, analysts said, raises a question mark over the future trajectory of corporate earnings.

"As we exclude certain sectors, the picture on profit changes significantly, indicating that this growth in earnings has not been broad-based," said Madan Sabnavis, chief economist at Bank of Baroda.

Public sector oil refiner and marketer Bharat Petroleum Corporation (BPCL) was the single biggest contributor, accounting for 16 per cent of YoY growth in the overall corporate earnings in Q1FY24. The oil major reported a ₹16,863 crore positive swing in net profit to ₹10,824 crore in Q1FY24, from a net loss of ₹6,148 crore a year ago. It was followed by Hindustan Petroleum which swung from a net loss of ₹8,557 crore a year ago to a net profit of ₹6,766 crore. Indian Oil Corporation reported a net profit of ₹14,437 crore in the quarter ago, against a net loss

of ₹279.4 crore a year ago.

State Bank of India was the fourth biggest contributor; it reported 153 per cent YoY growth in net profit to ₹18,537 crore in the June 2023 quarter. Tata Motors was the fifth biggest contributor to overall earnings growth; it witnessed ₹9,500 crore positive swing in consolidated earnings -- from a net loss of ₹5,007 crore a year ago to a net profit of ₹3,652 crore.

Beyond these five, other big contributors to incremental growth in earnings included InterGlobe Aviation (IndiGo), Adani Power, ICICI Bank, HDFC Bank, Bank of Baroda, and Bharti Airtel.

Excluding banks, finance & insurance (BFSI) and public sector OMCs, the combined net profit of the rest of sample companies was up 20.4 per cent YoY in Q1FY24, an improvement over 11.1 per cent YoY growth in Q4FY23 but a slowdown from 23.6 per cent YoY growth in Q1FY23. Net profit growth for the sample would recede further to just 7.3 per cent YoY in Q1FY24 if automotive companies were excluded from the sample.

"The Q1FY24 corporate earnings, so far, have been in line, with the performance of heavyweights, such as Tata Motors, BPCL, HDFC Bank, ICICI Bank, and Axis Bank, driving the aggregate. However, growth has been led only by BFSI and auto, while the oil and gas sector reported a 2.6x surge in profit YoY, underpinned by the improvement in marketing margins of OMCs," wrote analysts at Motilal Oswal Financial Services.

A skewed distribution of earnings, coupled with a sharp slowdown in revenue growth, raises concerns about the direction of corporate earnings in the forthcoming quarters.

Ambani...

The oil to chemicals (O2C) and oil and gas segments together contributed more than half of the company's total Ebitda in

