India Inc still leans on imports to drive sales

Growth in forex revenue continues to lag increase in forex expenses

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Mumbai, 7 September

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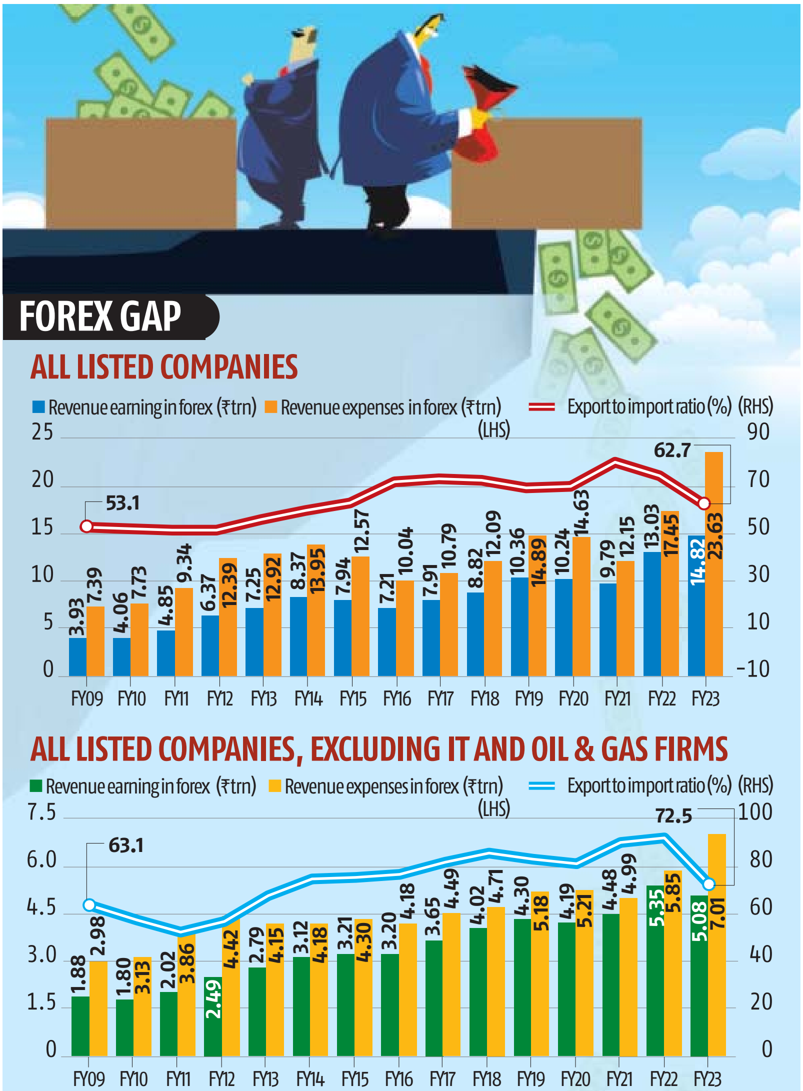

Source: Capitaline. Compiled by BS Research Bureau

Corporate India continues to remain heavily import-dependent for inputs.

Listed Indian firms spent 35.5 per cent more foreign exchange (forex) revenue year-on-year (Y-o-Y) for importing goods and services, compared to a 26.2 per cent Y-o-Y growth in net sales reported by these companies in FY23.

As a result, the forex expenses to net sales ratio of 795 listed companies in *Business Standard*'s sample, excluding banks and finance firms, rose to an eight-year high of 30.6 per cent in FY23 from 28.5 per cent a year ago, and a low of 27.1 per cent in FY16. In comparison, the combined forex revenue earned by these companies via exports was up 13.7 per cent Y-o-Y in the last financial year, growing much slower than the growth in revenue. As a result, contribution of exports to corporate net sales declined to an 11-year low of 19.2 per cent in FY23, down from a high of 21.3 per cent a year ago.

As a result, the gap between India Inc's forex expenses and forex revenue jumped to a record high of ₹8.81 trillion in FY23, which was equivalent to 11.4 per cent of these companies' net sales last financial year. The sample companies reported combined forex revenue of ₹14.82 trillion in FY23, up from ₹13.03 trillion a year ago. In the same period, these companies recorded forex expenses worth a combined ₹23.63 trillion in the last financial year, up from ₹17.45 trillion a year ago. As a result, their forex revenue to forex expenses ratio fell to 62.7 per cent in FY23, the lowest since FY14. (See the adjoining charts). In the last five years, these companies' combined forex earnings have increased at a compound annual growth rate (CAGR) of 10.9 per cent against 12.3 per cent CAGR in net sales. In this period, these companies' forex expenses have grown at a CAGR of 14.4 per cent.

The gap between forex earnings and forex expenses is bigger if information technology (IT) services companies such as TCS and Infosys, and oil refining majors such as Reliance Industries and Indian Oil Company are excluded from the sample. While IT sector is the biggest forex earner accounting for nearly 35 per cent of all India Inc export revenues. Oil companies are biggest importer accounting for nearly 60 per cent of imports and 31 per cent of exports.

The combined forex revenues of 744 companies, excluding IT and oil & gas, was down 5 per cent Y-o-Y at ₹5.08 trillion, while their forex expenses were up 19.8 per cent Y-o-Y in the last financial year. As a result, the export to import ratio for these companies declined to 72.5 per cent in FY23, the lowest since FY13.

Experts attribute India Inc's growing forex gap to the companies' higher reliance on imports. "An increasing number of firms in the consumer goods space either import components for further assembly and sell in India, or they import completely built units for sale in the domestic market," said Dhananjay Sinha, head, equity strategy and research at brokerage firm Systematix Institutional Equity. According to Sinha, index of industrial production (IIP) data suggests that the production of consumer durable goods has been stagnant in recent years compared to a positive growth in the overall consumer demand in the economy. The gap between consumer demand and production is being filled through imports. Others say that corporate India's forex revenue and expenses reflect India's overall foreign trade. "There was a sharp slowdown in India's merchandise exports and imports in FY23 compared to FY22 and this is what corporate numbers are showing," said Madan Sabnavis, chief economist, at Bank of Baroda. According to the data from the Reserve Bank of India, the country's goods exports were up 5.7 per cent in FY23, a sharp slowdown from 44.6 per cent seen a year ago. In comparison, goods imports were up 17 per cent in the last financial year, against a 55.4 per cent growth in FY22.