India Inc earnings, revenue growth in Q2 may stay muted

Low costs, higher margins may drive sequential pickup in profit growth

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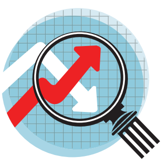
Brokerages expect slower growth in industry's volumes and revenue in July-September 2024 (Q2FY25). But they anticipate a sequential pickup in profit growth, driven by low costs of raw materials and reduced operating expenses, along with higher margins.

According to their estimates, the combined net profits of Nifty 50 companies are expected to grow 8.7 per cent year-on-year (Y-o-Y) in the quarter, an improvement from a 1 per cent Y-o-Y decline in Q1FY25, but low in comparison to 29.7 per cent in Q2FY24.



Q2 RESULT PREVIEW

The analysis is based on the quarterly number of 49 of the Nifty 50 firms whose earnings estimates are available for Q2FY25 (excluding Adani Enterprises). The combined numbers for previous quarters include the figures for HDFC, which merged with HDFC Bank in July last year.

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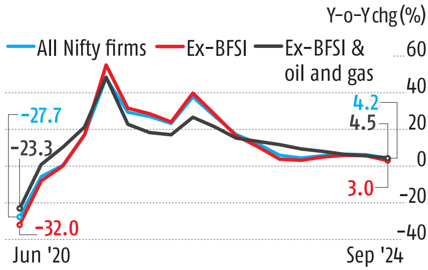
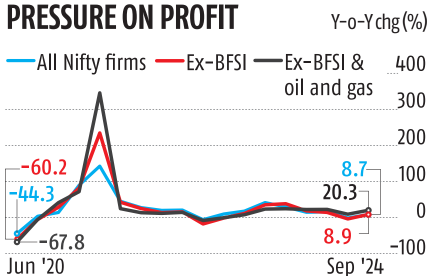
REVENUE GROWTH SLOWS FURTHER



PRESSURE ON PROFIT



Note: Brokerage Estimates for September 2024 quarter; actuals for previous quarters
Source: Brokerage estimates, Bloomberg, Capitaline
Compiled by *BS* Research Bureau

ORDER WINS, INPUT COSTS TO KEEP CAPITAL GOODS ON RAILS P13

Analysts see signs of strain in India Inc earnings

HDFC's earnings estimates were available for Q1FY24 and those have been added to the HDFC Bank numbers for that quarter.

The combined net sales of the index companies (net interest income in the case of banks and shadow banks) are expected to grow just 4.2 per cent Y-o-Y in Q2FY25, growing at the slowest pace in the last 15 quarters. For comparison, these companies' combined net sales were up 4.5 per cent Y-o-Y in Q2FY24 and they were up 6.3 per cent Y-o-Y in Q1FY25.

According to Elara Capital, signs of strain in corporate earnings are emerging. The second quarter this financial year is set to be the first in seven to see a decline in Y-o-Y and quarter-on-quarter (Q-o-Q) earnings because domestic cyclicals may struggle to fully offset the persistent drag from commodity sectors.

"An unfavourable base further exacerbates the anticipated weakness," wrote analysts at the brokerage in their earnings estimate for the second quarter.

Analysts at Motilal Oswal Financial Services (MOSFL) expect a flat quarter. "We estimate the MOFSL Universe earnings to remain flat (lowest in eight quarters) and Nifty earnings to grow marginally by 2% YoY in 2QFY25 (lowest in 17 quarters). Ex-OMCs, we expect the MOFSL Universe and Nifty earnings to grow 7 per cent Y-o-Y and 5 per cent Y-o-Y, the lowest in 8 and 17 quarters, respectively," write analysts at the brokerage in their earnings preview report.

The Nifty 50 companies in the sample are expected to report combined net profits of around ₹1.91 trillion in Q2FY25, up from around ₹1.76 trillion in Q2FY24 and around ₹1.93 trillion in Q1FY25.

Their combined net sales (net interest income in the case of lenders) are likely to grow to ₹14.2 trillion in Q2FY25 from ₹13.62 trillion in Q2FY24 and ₹15.73 trillion in Q1FY25.

Tata Steel, Bharti Airtel, and Tata Motors are expected to be biggest contributors to growth in corporate earnings in the second quarter while Bharat Petroleum Corporation Ltd, JSW Steel, and Oil & Natural Gas Corporation (ONGC) are expected to be on top of the list of laggards.

In comparison, Q2FY25 could be one of the worst quarters for fast-moving consumer goods companies with brokerages estimating either a Y-o-Y decline in individual companies' net profit or at best low single-digit growth in earnings, on low single-digit growth in net sales.

It is likely to be a mixed quarter for the information-technology services sector with Tech Mahindra, Wipro, and Tata Consultancy Services expected to report double-digit growth in earnings while Infosys and HCL Technologies are likely to disappoint, according to brokerage estimates.

The banking, financial services, and insurance (BFSI) sector, the single-biggest contributor to the post-pandemic jump in corporate earnings, is likely to witness a slowdown in earnings growth in Q2FY25. The sector's combined net profits are expected to grow 8.4 per cent in Q2FY25, down from 14.6 per cent Y-o-Y growth in Q2FY24.

The country's top lenders such as HDFC Bank, ICICI Bank, State Bank of India, and IndusInd Bank are expected to be the biggest laggards with low single-digit growth in their net profits in Q2FY25, while non-bank lenders such as Bajaj Finance and Shriram Finance and life insurance companies such as SBI Life Insurance are likely to report double-digit growth