Tepid earnings growth likely for India Inc in Q3

Revenue too seen growing in single digit, suggest brokerage estimates

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After a poor showing in the first two quarters of 2024-25, the corporate sector could report a modest recovery in revenue and earnings growth for the October-December quarter (Q3FY25). The growth rate might, however, still be in single digits and at best track the underlying inflation in the economy, suggest brokerage estimates. This would likely result in further downgrades for the Nifty 50 index forward earnings per share (EPS) for FY25 and FY26 and weigh on Indian equity markets.

According to estimates by various brokerages, the combined net profit of the Nifty 50 companies could grow 7.9 per cent year-on-year — the fastest rate in three quarters and a big improvement from the 1.8 per cent in Q2FY25, but a deceleration from the 15.4 per cent recorded in Q3FY24.

The index companies' combined net sales (net interest income in case of banks and non-bank lenders) is expected to grow 5.1 per cent Y-o-Y in Q3FY25 — a modest recovery from the 4.5 per cent in Q2FY25, but still lower than the 5.4 per cent in Q3FY24. This would mean a seventh straight quarter of single-digit revenue growth rate, and a third straight quarter of single-digit earnings growth rate, for India's top listed companies.

The analysis is based on the quarterly numbers of 48 of the 50 Nifty companies whose earnings estimates for Q3FY25 are available. The estimates for SBI Life Insurance Co and HDFC Life Insurance were not available. The aggregate numbers for previous quarters include those of HDFC, which merged with HDFC Bank in July 2023. HDFC's earnings estimates for Q1FY24 were added to the HDFC Bank numbers for that quarter.

The 48 index companies in our sample are likely to report a combined net profit of ₹1.97 trillion in Q3FY25, up from around ₹1.83 trillion in Q3FY24 and ₹1.88 trillion in Q2FY25. Their net sales (net interest income in case of lenders) are expected to grow to around ₹14.51 trillion in Q3FY25 from ₹13.81 trillion a year earlier and ₹15.55 trillion in Q2FY25.

According to brokerage estimates, the earnings recovery in Q3FY25 could be led by State Bank of India (net profit up 42.4 per cent Y-o-Y), Bharti Airtel (up 113.3 per cent), Bharat Petroleum (48.2 per cent), Hindalco Industries (66 per cent) and ICICI Bank (11.4 per cent). Turn to Page 6

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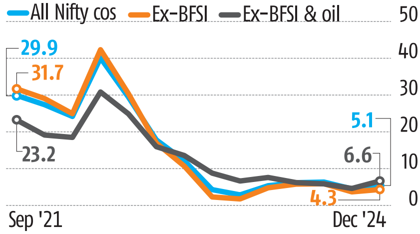
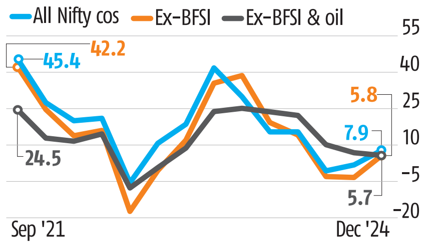
ANOTHER MUTED RESULTS SEASON?

Net sales growth (Y-o-Y chg in%)



Net profit growth (Y-o-Y chg in%)



Note: Brokerage Estimates for Dec-24 quarter; Actuals for previous quarters; BFSI: Banks, Non-banking finance companies and Insurance
Source: Brokerage Estimates, Bloomberg, Capitaline
Compiled by BS Research Bureau

BP expands India play

"The TSP will review the field performance and identify improvements in reservoir, facilities and wells to enhance the production from MH field," ONGC said.

Meanwhile, ONGC has stated the ICB tender invited bids from international operators with proven technical expertise, financial strength, and a track record in similar projects, and an annual revenue of at least $75 billion.

BP, the sixth-largest global oil major, already has an active presence in India's oil and gas exploration and production sector.

As part of the partnership with Reliance Industries (RIL), BP also operates 1,900 fuel retail stations across India and produces oil and gas from a deepwater block in the Krishna-Godavari basin.

"We look forward to bringing our long experience of optimising performance and recovery from major mature fields around the world to help unlock and enhance production from Mumbai High, India's largest oil & gas field (25 per cent of India's oil production). We look forward to working with ONGC to create value for both the country and the companies involved, and supporting India's increasing energy needs," William Lin, EVP Gas and Low Carbon Energy at BP said.

Foreign exploration and production majors have struggled to break ground in India, struggling due to regulatory hurdles, lack of viable reserves, and India's evolving energy policies. BP had acquired a 30 per cent stake in 21 oil and gas blocks from Reliance Industries for $7.2 billion in 2011.

BFSI firms may see better earnings, revenue growth than rest of India Inc

Together, these five might account for nearly 83 per cent of all incremental growth in earnings in the quarter. At the other end of the spectrum, IndusInd Bank, JSW Steel, Tata Steel, Coal India and Tata Motors are expected to be laggards, reporting Y-o-Y earnings declines.

Banking, finance and insurance (BFSI) companies are again expected to report better earnings and revenue growth than the rest of India Inc. Index companies excluding BFSI could see their combined net profit growing 5.8 per cent Y-o-Y, while their net sales might have grown 4.3 per cent Y-o-Y during the quarter. For perspective, non-BFSI companies' combined earnings had contracted on a Y-o-Y basis in the first two quarters of FY25.

"The overall modest earnings growth is broadly anticipated to be driven by the BFSI sector (8 per cent Y-o-Y), along with capital goods (26 per cent), technology (9 per cent), health care (19 per cent), and real estate (58 per cent).

Conversely, earnings growth is likely to be weakened by global cyclicals, such as metals (minus 8% Y-o-Y), oil & gas (minus 4 per cent), and cement (minus 45 per cent)," write analysts at Motilal Oswal Securities in their earnings estimates for Q3FY25. The brokerage has now cut its FY25E and FY26E Nifty EPS by 0.6 per cent and 1.7 per cent to ₹1,050 and ₹1,220, respectively. It expects Nifty EPS to grow by 4 per cent and 16 per cent in FY25 and FY26, respectively.

BS SUDOKU # 4475

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HOW TO PLAY

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