Post-Covid boom in profits yet to show in India Inc capex

Corporate profits have grown at a CAGR of 32.4% since FY20 but firms' net fixed assets have grown at 8.6% CAGR in FY20-24

KRISHNA KANT
Mumbai, 9 September

The last four years, the best for corporate profits in a long time, have not been as impressive for corporate capital expenditure.

The combined net profits of India's top listed companies excluding banks, financial services, and insurance (BFSI) increased at a compound annual growth rate (CAGR) of 32.4 per cent since FY20, a sharp jump from the 7.4 per cent in corporate earnings between FY14 and FY19.

However, this didn't translate into corresponding growth in corporate investment in fixed assets such as plant and machinery.

The combined net fixed assets including capital work in progress of the non-BFSI companies in the *Business Standard* sample grew at a CAGR of 8.6 per cent during FY20-24, slightly more than the 8.5 per cent in fixed assets during FY14-19. (See the adjoining charts.)

The annual net profits of 898 non-BFSI companies in the Business Standard sample are up more than three times in the last four years from nearly ₹3 trillion in FY20 to ₹9.17 trillion in FY24. In the same period, the combined net fixed assets of these companies increased 39.3 per cent from around ₹51 trillion at the end of FY20 to around ₹71 trillion at the end of FY24.

Analysts attribute the divergence between earnings growth and capex to a slowdown in revenue growth.

"The boom in earnings in recent years has done little to improve overall demand in the economy, resulting in poor revenue growth. Besides, year-on-year growth in revenues and profits has been volatile in recent years, making it tough for companies to project future growth and earnings. This is discouraging them from making large investments in new projects," said Dhananjay Sinha, co-head, research and equity strategy, Systematix Institutional Equity.

The companies' combined net sales were up just 2.9 per cent in FY24, down sharply from the 24.4 per cent in FY23, and their asset utilisation ratio, as measured by comparing net sales and assets, declined last financial year.

The companies in the sample have been drawn from those comprising the BSE 500, BSE Mid-Cap and BSE Small Cap indices. They had a combined market capitalisation of ₹430 trillion on September 6, accounting for 93.5 per cent of the combined market capitalisation of all 4,192 actively traded companies on the BSE. All BSE traded companies had a combined market capitalisation of ₹460 trillion on Friday.

The numbers suggest the companies use the post-Covid boom in earnings to strengthen and de-leverage their balance sheet, reward their shareholders with higher dividend and share buyback, and build cash reserves.

The companies' combined gross borrowing grew at a CAGR of only 4.8 per cent during FY20-24, down sharply from the 7.5 per cent during FY14-19.

Adjusted for cash and equivalents on their books, net debt grew at a CAGR of only 1.9 per cent during FY20-24, down sharply from the 9.4 per cent during FY14-19.

In comparison, these companies' combined net worth grew at a CAGR of 12.5 per cent during FY20-24, up from the 9.5 per cent CAGR in net worth during FY14-19.

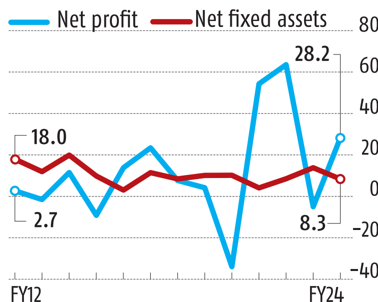
As a result, these companies' gross debt to equity ratio declined to 0.67 at the end of FY24, the lowest in at least 14 years.

Turn to Page 5

LAGGING CORPORATE CAPEX

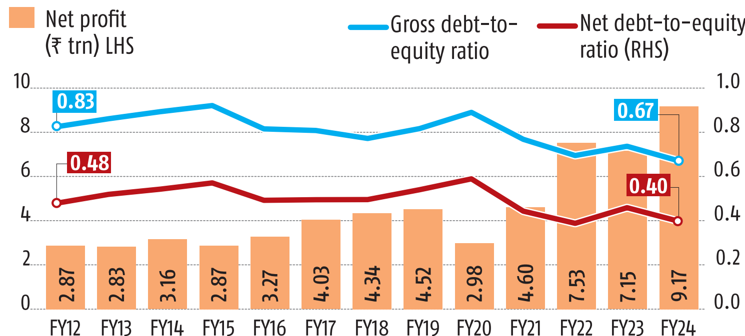
Growth in earnings and net fixed assets of non-BFSI companies

Y-o-Y change in %



HIGHER EARNINGS, BETTER BALANCE SHEET

Net profit and balance sheet leverage ratio of non-BFSI companies



Note: Based on constant sample of 898 companies excluding BFSI from BSE 500, BSE Midcap and BSE Smallcap index
Source: Capitaline, Business Standard Calculation

Compiled by BS Research Bureau

Faster growth in net worth due to spike in retained earnings

The net debt to equity ratio declined to 0.4 at the end of FY24, just a notch above the 14-year low of 0.39 at the end of FY22. The ratio had peaked at 0.59 in FY20.

Faster growth in net worth was largely due to a sharp rise in retained earnings -- the proportion of net profits that companies save as reserves and surplus. The profit and loss account balance in the company's reserves grew at a CAGR of 20.2 per cent in the last four years and more than doubled in value since FY20. These accumulated profits accounted for 46.9 per cent of all reserves in FY24, up sharply from the 36.4 per cent in FY24 and the highest in at least 14 years.