

# India Inc earnings to shrink

**KRISHNA KANT &  
SAMEER MULGAONKAR**  
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The July-September quarter (second quarter, or Q2) of 2022-23 (FY23) could mark the end of the period of unprecedented rise in India Inc's earnings in the aftermath of the pandemic.

Most brokerages expect a contraction in corporate earnings and a moderation in revenue growth in Q2FY23 due to a combined effect of demand slowdown, decline in commodity prices, and margin contraction in sectors such as information technology services, fast-moving consumer goods, and cement.

According to various

estimates by brokerages, India's top 50 companies — that are part of the Nifty50 Index — are expected to report a collective net profit of ₹1.38 trillion in Q2FY23, down 5.5 per cent from ₹1.46 trillion in Q2 of 2021-22 (FY22).

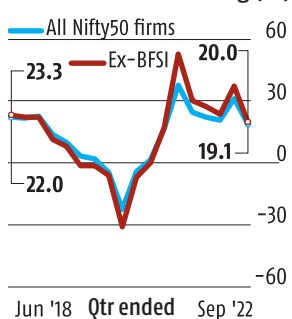


If estimates turn out to be true, this will be the first year-on-year (YoY) decline in corporate earnings after eight consecutive

quarters of YoY expansion in earnings. The index companies' combined net profit in Q2 will also be the lowest since the first quarter (Q1) of FY22.

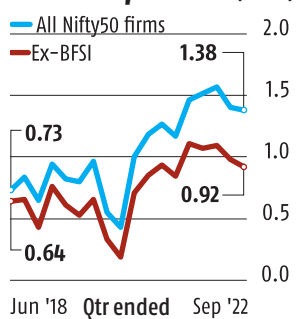
The decline in the combined earnings of Nifty50 companies will result in a decline in the index's earnings per share (EPS), which could weigh

## NET SALES GROWTH SLOWS



BFSI: Banking, financial services and insurance  
Compiled by BS Research Bureau

## CORPORATE PROFITS DECLINE, AGAIN (₹ trn)



Source: Capitaline

on the broader equity market.

Equity valuations in India are among the highest globally on expectations of faster earnings growth. The non-financial companies are expected to perform even worse.

According to brokerage esti-

mates, the combined net profit of 39 Nifty50 companies, excluding banking, financial services and insurance (BFSI), is expected to decline 16.9 per cent YoY to ₹92,000 crore in Q2FY23, from about ₹1.1 trillion a year ago.

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drivers are sales through Cloud software suite licences and software subscription fees.

There are reports that Indian information technology companies' hiring on campus and at entry level may be 20 per cent lower in 2023-24.

In step with this, Zoho said it was hiring at a slower pace because recruitment had been high over the past one and a half years. "We used to grow (hiring) at 20-25 per cent per year, but it has come down to 10 per cent now," said Vembu.

The company is betting big on tier II and tier III cities because it says a big part of the talent pool comes from there.

As advice to growing SaaS companies, Vembu said such players should focus on survival rather than growth in preparing to tide over the global crisis. "When central banks do not control inflation, we could see a 1970 situation of stagflation — with inflation and economic stagnation. That also is possible. Central banks have put us in a tough situation and I blame them for this," he said.

## India Inc...

The combined net profit of non-BFSI companies in Q2FY23 is expected to be the lowest in five quarters.

The combined revenues of the index companies are estimated to continue to grow, thanks to a combination of higher volumes and price hikes, but growth is expected to decelerate.

The combined net sales of

Nifty50 companies is expected to grow 19.1 per cent in Q2FY23, down from 24.6 per cent YoY growth in Q2FY22 and 31.1 per cent growth YoY in Q1FY23.

The combined net sales of index companies, excluding BFSI, is expected to grow 20 per cent YoY in Q2FY23, down from 30.3 per cent YoY growth a year ago and 37 per cent YoY growth in the first quarter of FY23.

Banking and non-banking lenders are once again expected to top the earnings charts. The combined net profit of 11 BFSI companies in the Nifty50 is expected to grow 30.4 per cent to ₹45,900 crore in Q2FY23, while their combined net interest income is expected to grow 12.4 per cent YoY to ₹1.45 trillion in Q2FY23.

The analysis is based on Q2FY23 earnings estimates from brokerages, including Motilal Oswal Financial Services, Kotak Institutional Equities, Edelweiss Securities, and YES Securities. "We expect our coverage universe (MOFSL) earnings to decline 17 per cent, while the Nifty50 earnings will remain flat YoY in Q2. The aggregate performance is adversely impacted by a sharp drag from global commodities. Excluding metals and oil and gas, we expect MOFSL and the Nifty50 to post a solid 30 per cent earnings growth each, fuelled by BFSI and automotive," writes research analyst Gautam Duggad of MOFSL. The brokerage expects this to trigger an earnings downgrade.

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