India Inc's profits relative to capital employed at 14-yr high

Improving return ratios can be positive for FPI flows

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Companies are squeezing more profits from their operations relative to the capital they put to work, the highest now since 2011.

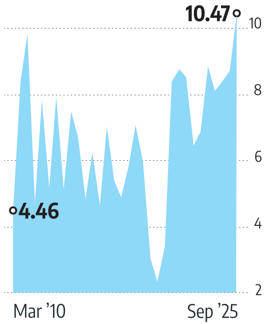
Profit after tax relative to capital employed came in at 10.47 per cent in September, shows data from the Centre for Monitoring Indian Economy (CMIE), higher than the 8.41 per cent seen in September last year. This is the highest since March 2010.

The latest numbers cover 3,307 non-financial sector companies. Capital employed includes money invested by shareholders as well as borrowed funds. Higher numbers indicate that the company is able to deploy funds in a profitable manner. Other indicators also show a similar uptick.

ILLUSTRATION: BINAY SINHA

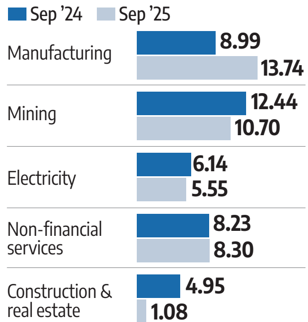
Rising trend

PAT as % of capital employed



Manufacturing uptick

PAT as % of capital employed



Note: *Based on a sample of 3,307 non-financial companies with data available for September 2025.
Source: CMIE

For example, profit relative to net worth, the ratio that measures returns to shareholder funds, is at its highest (15.66 per cent) since March 2010.

"Over the last few quarters, Indian companies have learnt to be resilient in turbulent times," said independent market expert Deepak Jasani.

Till the second quarter (July-September) this financial year, sales had not been growing well but margins were protected during the phase of poor top line growth. In the second quarter, sales growth picked up pace and profitability improved, he said, contributing to rising return ratios.

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Financial and engineering companies are expected to continue to do well in the future. The automobile sector may have reached some saturation temporarily and information technology continues to face uncertainties. Domestic-focused companies are expected to do well as are some export-oriented ones like the pharmaceutical sector. The outlook for broader market-level return ratios may face some downward pressure from new-age companies getting listed, according to Jasani.

"There are a lot of new startups (being) listed. Their profitability is poor so far while net worth is bulky due to a series of fund raises," he said.

The broader sectoral data shows some improvement in ventures like manufacturing, which saw profit after tax relative to capital employed rise to double-digit territory of 13.74 per cent in September. Non-financial services also showed an improvement. Electricity dipped. Mining as well as construction and realty also saw a decline (chart 2).

Higher-return ratios can have implications for foreign-portfolio investment.

Foreign investors often look to invest in countries where companies are able to generate higher returns relative to equity capital invested by shareholders. This return on equity (RoE) is higher in India than in many other emerging markets (EMs), noted an October 2025 Motilal Oswal Financial Services India Strategy report authored by research analysts including Deven Mistry, Gautam Duggad, Aanshul Agarawal, and Abhishek Saraf.

"While geopolitical risks remain a key concern in the near term, India's improving corporate earnings outlook, sustained domestic inflows, superior RoEs among EM peers (at over 15 per cent), and the historically underweight positioning of foreign investors (since 2009) suggest a higher likelihood of upside from current levels," it said.

Foreign portfolio investors (FPIs) have been net sellers by ₹ 45,054.65 crore in 2025-26 (FY26), after having sold over ₹1.2 trillion in FY25.

"Moreover, India's rising dominance within EM is expected to continue, supported by its diversified investment opportunities and deepening market, making it increasingly difficult for global investors to ignore for long," added the Motilal Oswal report.