Corporate profits decline in Q2, a first in nine quarters

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The post-Covid boom in corporate earnings, as expected, seems to have ended, at least for now, as companies saw margins and profits shrink in the July-September quarter (Q2) of FY23, or 2022-23.

Notably, this is the first decline in India Inc's quarterly earnings since the April-June 2020 quarter, which was impacted due to the outbreak of Covid-19.

The Q2 earnings were adversely affected by the higher cost of raw materials and energy, besides a reversal in the interest rate cycle, resulting in a higher interest expense for companies in the non-financial sectors. India Inc's revenues, however, continued to grow in healthy double digits thanks to higher raw material prices and inflation, which boosted price realisations across sectors.

The combined net profit of 2,725 listed companies across all sectors was down 6.3 per cent year-on-year (YoY) in Q2 —the first contraction after eight consecutive quarters of YoY growth.

In comparison, corporate earnings were up 22.3 per cent YoY in Q1 of FY23 and they were up 37.8 per cent YoY in the year-ago period.

The companies in this sample reported a combined net profit of ₹2.06 trillion, down from ₹2.20 trillion a year ago and ₹2.08 trillion in the previous quarter.

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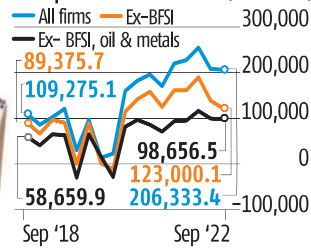
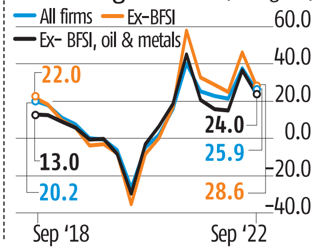
UNDER PRESSURE

The trend in quarterly net profit (in ₹ crore)



The trend in quarterly net sales growth (% chg YoY)



BFSI: Banks, financial services, and insurance

Compiled by BS Research Bureau; Source: Capitaline concrete and collective resolve to ensure peace, harmony, and security in the world. "I have repeatedly said that we have to find a way to return to the path of ceasefire and diplomacy in Ukraine. Over the past century, the Second World War wreaked havoc in the world. After that, the leaders of that time made a serious effort to take the path of peace. Now it's our turn," he said. Modi hinted that India is willing to act as a mediator. "I am confident that next year when the G20 meets in the holy land of Buddha and Gandhi, we will all agree to convey a strong message of peace to the world," he said. India is set to take over the G20 presidency from Indonesia after the summit.

Presiding over the G20, a forum for international economic cooperation representing around 85 per cent of the global GDP, over 75 per cent of the global trade, and about two-thirds of the world population, represents a unique leadership opportunity for New Delhi's foreign policy.

The PM highlighted the crisis in the supply of essential goods across the world. Modi also flagged the current shortage of fertilizers in terms of food security. "Today's fertiliser shortage is tomorrow's food crisis, for which the world will not have a solution," he said. The PM pointed out multilateral institutions have failed to address these challenges and therefore, the world has greater expectations from the G20.

"We should also not hesitate to acknowledge that multilateral institutions such as the UN have been unsuccessful on these issues. And we have all failed to make suitable reforms in them," he said. He added that will work for global consensus on all these issues during its G20 presidency. India will take over the annual presidency of the G20 on Wednesday at the end of the current summit. During their brief interaction, the prime minister and the US president reviewed the state of India-US strategic partnership, including in sectors like critical and emerging technologies and artificial intelligence.

Corporate...

In comparison, the combined net sales of all listed companies in this sample were up 25.9 per cent YoY in Q2 to ₹29.3 trillion.

However, the corporate earnings would have been even worse if not for the big jump in those of the banks in the second quarter.

The combined net profit of 31 listed banks in this sample was up 54.8 per cent YoY to a record high of ₹60,600 crore in Q2, up from ₹39,150 crore a year ago and around ₹45,600 crore in Q1 of FY23.

Banks benefited from higher interest rates on loans to customers and faster growth in credit. Their gross interest income was up 18.5 per cent YoY in Q2, the best in at least the past four years.

Non-bank lenders and insurance companies — finance companies in short — performed better and their combined net profit was up 13.6 per cent YoY to around ₹22,750 crore in Q2, up from around ₹20,000 crore a year ago but down marginally from around ₹23,250 crore in Q1 of FY23.

It was, however, a tough quarter for non-financial firms with a sharp decline in margins and profits due to the combined effect of higher input as well as finance costs.

The combined net profit of the companies excluding that of banks, financial services, and insurance (BFSI) as well as stock-broking was down 23.6 per cent YoY in Q2, their worst showing in nine quarters.

In comparison, their combined earnings were up 41.2 per cent YoY in the year-ago quarter and were up 10.8 per cent YoY in Q1 of FY23.

EPFO...

Under the scheme, for new employees with monthly wages below ₹15,000, the government paid both the employees' and the employers' contribution towards EPF for two years — in total 24 per cent of wages — in establishments employing up to 1,000 workers.

For establishments with more than 1,000 workers, the government paid only the employees' share of EPF contribution, or 12 per cent of wages, in respect of new staffers.

The scheme was intended to benefit a total of 7.2 million workers. Until July this year, benefits have been provided to 5.9 million workers through 150,000 establishments in the country. The terminal date for registration of beneficiaries under the scheme was extended from June 2021 to March this year.

The Centre spent ₹405 crore and ₹5,000 crore in 2020-21 and 2021-22, respectively, under the scheme. It has budgeted ₹6,400 crore for the current financial year.

Rajasthan (29.3 per cent) has also eclipsed in employment generation under the Pradhan Mantri Rojgar Protsahan Yojana as percentage of total EPF subscriber base, closely followed by Haryana (29.2 per cent) and Uttar Pradesh (28.3 per cent).

The scheme was launched in August 2016 to benefit workers earning up to ₹15,000 per month. The last date for registration under the scheme ended in March 2019.

Under the scheme, employers were provided with incentive to enhance formal employment by reimbursement of 8.33 per cent the Employee Pension Scheme contribution made by the employer in respect of new employment for three consecutive years from the date of registration.

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