Non-BFSI firms' profits shrink for 2nd quarter

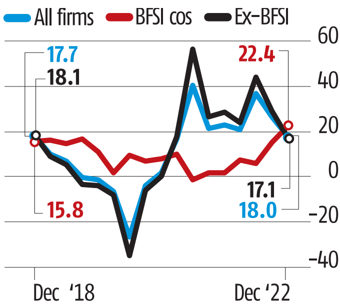
Banks account for most of incremental growth in India Inc earnings

KRISHNA KANT
Mumbai, 16 February

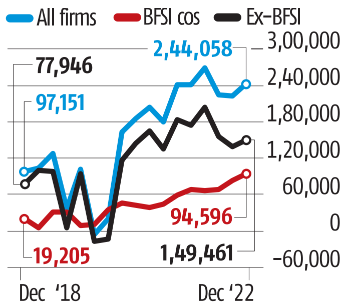

ILLUSTRATION: AJAY MOHANTY

CORPORATE REPORT CARD

Quarterly net sales growth
(In % YoY)



Quarterly net profit
(In ₹ crore)



Note: Based on quarterly results of a common sample of 3,344 companies across sectors
BFSI: Banks, financial services, insurance & stock broking
Source: Capitaline; Compiled by BS Research Bureau

Corporate results for October-December 2022 (Q3FY23) suggest a sharp slowdown in economic activities in non-financial services, including manufacturing.

On costs, companies got some respite from rising prices of commodities and energy but these gains were offset largely by faster growth in interest expenses.

A combination of slowdown in revenue growth and a faster rise in expenses adversely affected the earnings of non-BFSI (banking, financial services, and insurance) companies.

In contrast, a rise in the interest burden for India Inc translated into an earnings bonanza for lenders, especially banks. The third quarter was the best for banks in at least four quarters and they accounted for most of the incremental growth in corporate earnings in the period.

Net sales growth for listed companies excluding banks, finance, insurance, and stockbroking declined to an eight-quarter low of 17.1 per cent year-on-year (YoY) in Q3FY23, down sharply from the 29.2 per cent in Q2FY23 and 28.4 per cent in the third quarter of FY22.

The combined interest expenses for non-financial companies were up 22.8 per cent YoY in Q3FY23, growing at the fastest pace in at least the last 17 quarters. For comparison, there was a moderation in their raw material costs, which grew 20.7 per cent YoY in Q3FY23, slower than the 41.3 per cent YoY a year ago and 43 per cent YoY in Q2FY23.

The combined net profits of 2,790 listed companies (ex-BFSI) were down 14.2 per cent YoY to around ₹1.49 trillion in Q3FY23 from ₹1.74 trillion a year ago.

In comparison, these companies' combined net profits were down 23.8 per cent YoY in Q2FY23 to ₹1.39 trillion.

Turn to Page 6

Benches.

Another GoM on capacity-based taxation will also be tabled at the Council meeting, according to the agenda.

The panel has proposed strict measures to curb evasion on paan masala, chewing tobacco and similar products. However, it said that a capacity-based levy may not be prescribed as it may not be in the spirit of the GST levy and may not be permissible in terms of the constitutional mandate in the GST.

The report suggested that the compensation cess levied on such evasion-prone commodities shall be changed from the current ad valorem tax to a specific tax-based levy to boost the first stage (manufacturer level) collection of revenue.

Besides, efforts shall be made for the implementation of a track-and-trace mechanism for all tobacco products, preferably by the end of the 2023, while carrying out the associated infrastructural, systemic and legal feasibility studies to implement the same.

Q3...

Listed banks' combined gross interest income was up 25.2 per cent YoY, up sharply from 3.5 per cent growth a year ago and the best in at least the last 17 quarters.

Similarly, the combined gross interest income of non-bank finance companies (NBFCs), including insurance, was up 16.4 per cent YoY in Q3FY23, a sharp turnaround from a 2.3 per cent YoY contraction in the third quarter of FY22. This was the best showing by finance companies in the last seven quarters.

Faster growth in the top line also reflected in the lenders' earnings. Banks' combined net profits were up 42.7 per cent YoY to a record high of ₹67,943 crore in Q3FY23. They were up from ₹47,603 crore a year ago and ₹61,037 crore in Q2FY23.

In the same vein, NBFCs' combined net profits reached a new high of ₹26,653 crore in Q3FY23, up 35.4 per cent YoY against ₹19,687.4 crore a year ago and ₹22,844 crore in Q2FY23.

However, the combined net profits of all 3,344 listed companies in the Business Standard sample were up 1.1 per cent in Q3FY23 to ₹2.44 trillion against ₹2.41 trillion a year ago and ₹2.23 trillion in Q2FY23. The listed companies' combined net profits in the third quarter were, however, 9.5 per cent lower than the record high ₹2.7 trillion in Q4FY22.

Analysts expect a further slowdown in corporate growth in the fourth quarter.

"The net sales growth for non-BFSI companies is expected to decline to 8-10 per cent YoY in Q4FY23, given the end of post-Covid pent-up demand and macroeconomic factors such as continued contraction in India's foreign trade," said Dhananjay Sinha, director and head research & strategy, at Systematix Institutional Equity.

He expects net profits to remain under pressure, given rising interest rates and a recent rally in the prices of industrial metals and crude oil.

Economists expect this to adversely affect India's GDP growth.

"A decline in profit is important as GDP calculations, for several sectors use value added where a big component is profit before depreciation interest and taxes (PBDIT). This will have a bearing on Q3 GDP numbers," wrote Madan Sabnavis, chief economist, Bank of Baroda.

Adani...

The group had previously said its companies faced no material refinancing risk and no near-term liquidity requirement.

Executives also said that $390 million of debt coming due over the next 12 months at the Adani Transmission Step-One Ltd level will be repaid using cash from operations, the people said.

Investors are zeroing in on the Adani group's finances after Hindenburg Research accused it of fraud and market manipulation — charges it denies.

The conglomerate, whose business interests range from ports to renewable energy, tapped international markets to raise more than $8 billion worth of US currency bonds in recent years. It also took out at least that much in foreign-currency loans, data compiled by *Bloomberg* shows.

However, a spike in yields following the Hindenburg report has stoked concerns among some investors and analysts that at least for now debt financing costs would be prohibitively expensive for new bond deals. The Adani Green Energy notes are currently quoted at around 86 cents on the dollar, having jumped by about eight points following the refinancing news from the call, according to CBBT pricing compiled by *Bloomberg*.

BLOOMBERG