

# BFSI's share in India Inc profits hits record high

Surges to 41.5% in September quarter as other sectors face headwinds

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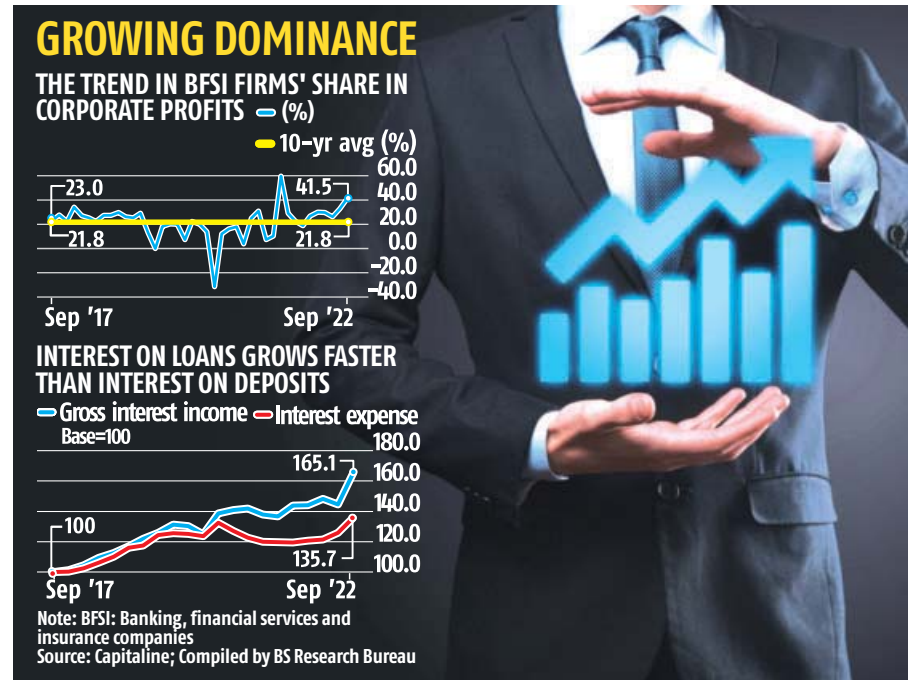
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The financial services sector, including banks, continues to prosper even as the rest of corporate India faces earnings headwinds from higher commodity prices and rising inflation.

The share of banks, financial services, insurance, and stock broking (or BFSI) in overall corporate profits reached a record high of 41.5 per cent during the July-September 2022 period (Q2 of FY23), nearly double its historical 10-year average share of 21.8 per cent. However, this is excluding the June quarter of 2020, when the share of BFSI jumped to nearly 60 per cent because many other sectors saw a sharp fall in profits or reported loss following lockdowns amid the outbreak of Covid.

In comparison, the BFSI segment accounted for 30 per cent of India Inc's combined earnings in the year-ago period and 32.7 per cent in the first quarter this financial year.

The earnings boom in the



BFSI segment has come at a time when non-financial companies have seen their profits taking a hit from higher interest rates and commodity prices.

The 450 BFSI companies in Business Standard's sample

together reported their highest ever adjusted net profit of nearly ₹86,000 crore in Q2, up 33 per cent on a year-on-year (YoY) basis and nearly three times their pre-Covid high net profit of around ₹30,000 crore

in the April-June 2019 quarter (Q1 of FY20).

The biggest gains came to banks, which reported a 35.8 per cent YoY growth rate in their combined net profit in Q2 FY23.

fares,” the spokesperson added.

The weekly domestic flights of Air India and AirAsia India have increased by 3.6 per cent and 11.2 per cent, respectively, in December 2022 compared to the same period last year. These two carriers did not respond to queries from Business Standard.

Bharatt Malik, senior vice-president, flights, Yatra.com, said, “Having seen a high demand in the summer season, we anticipate a similar increase during the festive holidays in December. Price surge is common during the festive seasons. We can expect the airfares to increase further as we move closer to Christmas and New Year.”

## BFSI's share...

In comparison, the combined adjusted net profit of the non-BFSI companies in the sample was down 20 per cent YoY in Q2 FY23 due to higher operating and finance costs.

This dichotomy in corporate performance has led some analysts to ask whether the gains to lenders came at the cost of the non-BFSI sectors.

“Banks in particular have demonstrated considerable robustness in recent quarters aided by higher lending growth, muted deposit rate hikes, and a rising risk appetite. The gains in the profitability of banks, however, mirror the rising interest burden for non-finance companies and their worsening operating profits,” said Dhananjay Sinha, director and head of equities and research at Systematix Institutional Equity.

The BFSI companies' gross interest income was up 14.9 per cent YoY in Q2 FY23, while their interest expense grew 13.6 per cent, leading to an expansion of their net interest margin. This

has been the trend during the post-pandemic period. The gross interest income of the BFSI companies is up 32.3 per cent cumulatively since the March 2020 quarter (Q4 of FY20) compared to just 9.8 per cent growth in their interest expense, resulting in a sharp rise in the banks' margin in the period.

Analysts say this growing gap in the earnings of the BFSI companies and the rest of India Inc is not sustainable and may reverse in the forthcoming quarters. “The BFSI sector cannot prosper for long if other sectors continue to struggle. The long-term trends in the operating profits of banks and non-bank sectors generally move in tandem. In the current context of contracting profits of the non-BFSI sector, leading to the fading of incentives for capex, it is likely that the profit growth of banks may also decelerate,” Sinha said.

Others, however, expect the BFSI sector to maintain its dominance in corporate profits in the near to medium term.

“It's wrong to say that lenders have gained at the expense of borrowers. The rise in banks' earnings is largely due to a decline in bad loans, rise in yields on loans, and faster credit growth, and the growth momentum seems to be sustainable,” said Madan Sabnavis, chief economist at Bank of Baroda.

Others say that most of the non-financial sector faces earnings headwinds.

“The BFSI sector is expected to lead earnings growth for at least four quarters more, given the margin and growth headwinds in other big industries such as oil and gas, IT services and metals and mining among others,” said G Chokkalingam, founder and managing director Equinomics Research & Advisory Services.