India Inc leaders flag slowdown worries as global recession looms

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Executives at some of India's top companies have been striking a note of caution amid the June quarter results season, saying slowdown concerns are real as global recession looms.

On Tuesday, the International Monetary Fund (IMF) cut its forecast for global economic growth to 3.2 per cent for 2022 and 2.9 per cent for 2023. It said there was a marked deceleration when compared to the 6.1 per cent economic growth seen in 2021.

Companies from Reliance Industries (RIL) to Larsen & Toubro (L&T), Ultratech, JSW Steel, Hindustan Unilever (HUL) and ITC have been quick to pick up the cues. They said uncertainty prevails with regard to overall demand and investment.

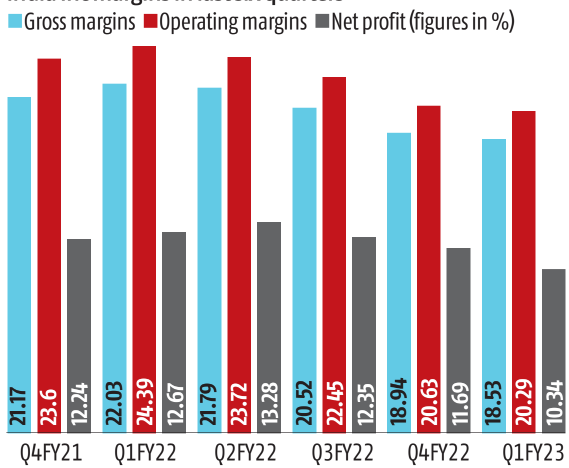
"There is global stress in terms of growth," R Shankar Raman, whole-time director and chief financial officer (CFO), L&T, said on Tuesday.

"All major economies are recalibrating their growth and India will be no exception. We need to wait and watch to see how the situation pans out for us," Raman said, while announcing the company's earnings.

Last week, RIL's CFO V Srikanth echoed the same sentiment, saying recession fears were overtaking oil-market fundamentals.

CLOUDS OF UNCERTAINTY

India Inc margins in last six quarters



Note: Gross, operating and net profit margins calculated as % of sales; data filtered for BSE500 companies that have declared their Q1 results; excludes BFSI

Compiled by *BS* Research Bureau

Source: Capitaline

"This could result in lower prices and margins," he warned, as the benchmark Singapore-Dubai hydrocracking margin fell 58 per cent in a month. The benchmark margin is a measure of profitability for crude refiners.

Chairman of the top two consumer goods companies, namely ITC and HUL, were even more blunt in their assessment of the market.

"In fast-moving consumer goods, there are concerns arising out of inflation and its impact on demand. While there are some early signs of moderation in commodity prices, the situation remains dynamic," ITC Chairman and Managing Director (MD) Sanjiv Puri said during a virtual briefing last week.

Sanjiv Mehta, chief executive officer (CEO) and MD, HUL, said, "From a macro perspective, it is very important that we manage inflation. The (FMCG) market, especially, from a lens of volume, remains soft. Inflation is a concern for consumers."

The FMCG market in the April-June quarter reported a volume decline of 5 per cent, estimates by analysts as well as companies such as Godrej Consumer and Marico showed in their quarterly updates.

This came as inflationary pressures grew, forcing companies to take price hikes. HUL alone took a 12 per cent price increase across its portfolio in Q1. Most other companies were no different as they sought to protect margins by passing on inflationary pressures to consumers.

A closer look at India Inc's margins in Q1 show that despite its best effort, gross, operating and net profit margins in the June quarter for companies were the lowest in six quarters. They stood at 18.53 per cent, 20.29 per cent and 10.34 per cent, respectively, data compiled by *BS* Research Bureau shows.

This shows the volatility on the crude, commodity and currency fronts experienced by companies across sectors, analysts said. The data has been filtered for BSE500 companies that have declared their Q1 results, excluding banking and financial services firms.

The country's largest cement company Ultratech, while announcing its Q1 results last week, said, "After a strong end to FY22, cement demand was impacted by overall inflationary trends and lower labour availability in the June quarter."

Kumar Mangalam Birla, chairman, Ultratech, said in the company's latest annual report that global supply-chain disruptions due to the lockdowns had been replaced by new disruptions caused by the war in Ukraine and the economic sanctions thereof. This had led to severe challenges for companies, as economies battled a sharp rise in fuel and food inflation.

"Central banks have been forced to respond to surging prices with aggressive rate hikes. With the stance of monetary policy shifts, there is greater turbulence in the currency markets. The dollar has strengthened, while emerging economies have witnessed downward pressure on their currencies," he said.

In a conversation with *Business Standard*, Seshagiri Rao, joint MD and group CFO, JSW Steel, the country's largest steel maker, said he hoped for a rebound in Q3.

The company had slashed planned capital expenditure by ₹5,000 crore in FY23, it said last week. This was in the wake of falling steel prices and slowing demand.

Rao added that special projects had been put on hold. However, capex for key projects such as the 7.5-million-tonne expansion at Vijaynagar in Karnataka and a 2.5-million-tonne plant at Bhushan Power and Steel would continue.