

India Inc's Profit Soars, Sales Slow in Q1 FY24

September 05, 2023 | Economics

The highlight of Q1 FY24 aggregate corporate performance was a sharp jump in profitability, despite a substantial deceleration in revenue growth. Net sales for a sample of 2,076 companies grew marginally by 0.6% (y-o-y) in Q1 FY24, the slowest pace in the last 11 quarters. Concurrently, operating profit jumped nearly 26% (y-o-y), the highest expansion rate in eight quarters. This is in complete divergence from the trend that was witnessed during the last fiscal where revenue growth outpaced, and profitability was under pressure due to a dramatic rise in input prices post the Russia-Ukraine war.

It is important to note here that muted growth in sales is not necessarily indicative of a weakening of domestic demand strength. While the base effect had some bearing on the sales growth numbers, other factors like weak demand from overseas markets and lower global commodity prices were the main culprits.

Higher profitability during the quarter was mostly led by lower expenditure by the firms due to falling raw material costs. Data shows that the cost of raw materials contracted sharply annually and sequentially. Employee costs continued to rise, albeit at a moderating pace.

With regard to financial ratios, profit margins saw a significant improvement in line with the sharp jump in operating profit. Higher operating profit also helped sustain firms' debt servicing capability despite rising interest costs. Thus, the interest coverage ratio improved to 6.2 from 6.0 a year ago.

Table 1: Quarterly Corporate Performance – Q1 FY24

	Unit	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Net Sales	Rs Lakh Crore	29.8	29.5	29.7	31.0	30.0
	Y-o-Y %	43.7	25.9	15.1	10.0	0.6
Expenditure	Rs Lakh Crore	26.0	26.2	25.9	26.5	25.3
	Y-o-Y %	50.1	32.4	18.1	10.8	-2.7
Cost of Services and Raw Materials*	Rs Lakh Crore	11.6	11.3	11.0	11.3	10.6
	Y-o-Y %	68.3	42.5	19.5	7.3	-9.1
Employee Cost*	Rs Lakh Crore	2.1	2.1	2.2	2.3	2.4
	Y-o-Y %	12.8	13.8	13.9	17.2	14.0
Operating Profit	Rs Lakh Crore	4.2	3.9	4.4	5.1	5.3
	Y-o-Y %	10.8	-6.5	1.1	5.9	26.4
Profit After Tax	Rs Lakh Crore	1.7	1.4	1.8	2.2	2.4
	Y-o-Y %	10.5	-25.9	-8.0	-1.4	39.8
	Unit	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Operating Profit Margin	%	14.1	13.1	14.8	16.4	17.8
Interest Coverage Ratio	-	6.0	5.1	5.4	6.1	6.2

Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies;

* Data pertains to a smaller sample of companies

Exhibit 1: Overall Corporate Performance

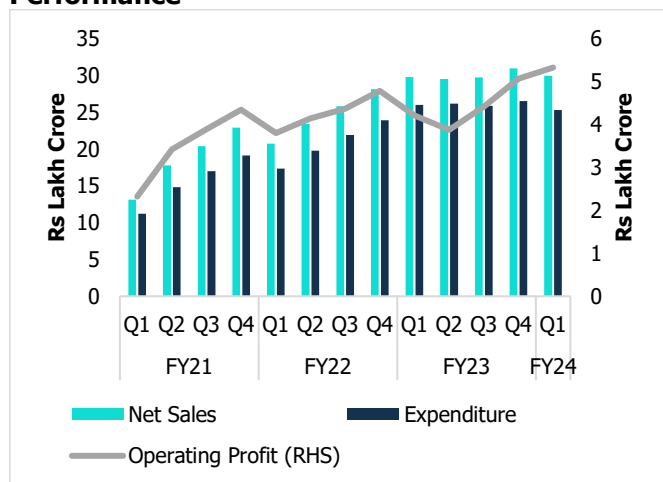
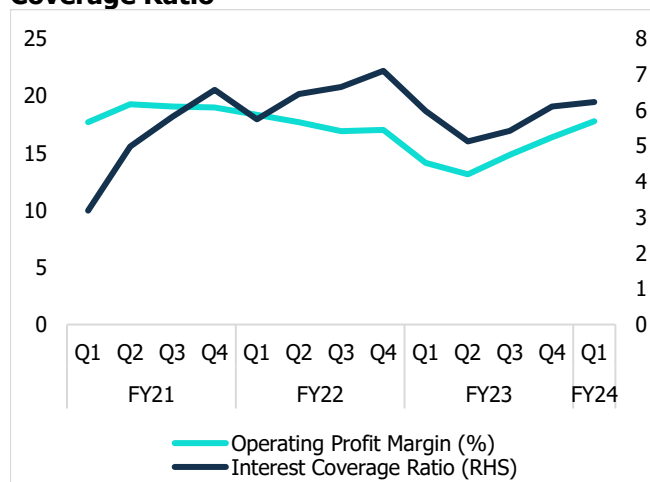


Exhibit 2: Operating Profit Margin & Interest Coverage Ratio



Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies

Sectoral Picture Mixed – Q1 FY24

The strong growth in operating profits during the quarter was steered by sectors such as infrastructure-related, capital goods, automobiles, FMCG, oil & gas, realty, pharmaceuticals, and drugs. However, global economic uncertainty weighed on the performance of export-oriented sectors (textiles and IT) while moderation in commodity prices played a spoilsport for sectors like chemicals and non-ferrous metals.

Table 2: Matrix of Sector-wise Performance of Corporates

		Net Sales (Y-o-Y %)		
		Less than 0	0-20	Above 20
Operating Profit (Y-o-Y %)	Less than 0	Chemicals Non - Ferrous Metals Textile	Iron & Steel	Media & Entertainment
	0-20	Power	Telecom Cement Realty Retailing FMCG IT White Goods	Infrastructure Hospitality
	Above 20	Oil & Gas Logistics	Pharmaceuticals & Drugs Capital Goods	Aviation Automobile & Ancillaries

Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies

The infrastructure and cement sectors logged strong annual growth in both net sales and operating profits. The healthy performance of construction-related sectors was also mirrored in the Q1 FY24 GDP figures as they continued to benefit from the government’s sustained push towards infrastructure spending. An encouraging performance was also seen in the capital goods sector with net sales and operating profits growing by 13% and 29% respectively.

The automobile and ancillaries sector logged strong double-digit growth in both net sales and operating profits rising by 22.9% and 82.7%, respectively. This upbeat performance of the auto sector was supported by healthy demand as well as price hikes implemented by automakers.

The growth in net sales of the FMCG companies slowed to 2.2% (y-o-y), however, operating profit grew by a healthy 12% (y-o-y) benefitting from easing raw material costs. The weak growth in sales volume can be attributed to weak volume growth, more so in the rural markets. A similar pattern was also visible in the white goods segment which consists of consumer durables such as domestic appliances, electronics, etc. This trend is in line with the muted performance seen in the industrial output of consumer durables during the first quarter of the current fiscal.

As in the previous quarter, commodity-related sectors such as chemicals and non-ferrous metals recorded a year-on-year contraction in net sales and operating profits due to lower commodity prices. Despite the iron & steel sector recording a modest growth in net sales by 5.3% (y-o-y), their profitability disappointed with operating profits dipping by 17.3% (y-o-y). Though strong domestic demand conditions and lower prices of key inputs (coking coal and iron ore) have been tailwinds for the steel sector, an uncertain global scenario and moderation in output prices have weighed on the profitability. Net sales in the oil and gas sector contracted sharply while operating profits recorded a notable jump. The profitability of OMCs received a boost from lower crude oil prices compared to a year-ago period and no cut in retail prices of petrol and diesel. Also, earnings in the refining segment benefitted from the availability of cheaper Russian crude oil in Q1 FY24.

Sectors such as textiles and IT which are dependent on external demand remained pressured during Q1 FY24. Net sales and operating profits for the textile sector contracted for the fourth successive quarter as sluggishness in external demand continued. The IT sector logged healthy growth on a year-on-year basis, both in terms of net sales (11.3%) as well as operating profit (11.7%). However, it exhibited weakness on a sequential basis which could be attributed to deferments/ramp-downs in discretionary IT spending amid the weakness in select markets such as the US and Europe.

Large Corporates Steer Profits in Q1

Based on the annual turnover, the companies have been classified as micro and small (up to Rs 500 crore), medium (Rs 500 crore – Rs 5,000 crore) and large (> Rs 5,000 crore). Our sample is dominated by micro and small companies with more than 50% share. Despite this, their share in overall revenue and profit was just around 1%. In Q1 FY24, the total revenue for micro and small companies contracted by 2.2% whereas, profitability grew by a modest 5.3%. India Inc's profitability in Q1 FY24 was steered mainly by the large corporates which logged an upbeat growth in operating profits by 30% (y-o-y) while their net sales grew only marginally by 0.5% (y-o-y). The performance of medium-sized companies was subdued with net sales and operating profits rising by just 2% and 1%, respectively.

Table 3: Size-wise Analysis - Q1 FY24

	Net Sales	Operating Profits	Expenditure	Operating Profit Margin
	Year-on-Year %	Year-on-Year %	Year-on-Year %	%
Large	0.5	30.1	-3.4	18.2
Medium	2.0	1.1	2.3	14.8
Micro & Small	-2.2	5.3	-2.0	12.7

Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies

Way Forward

The outlook for corporate profitability remains positive with raw material prices continuing the downward trajectory. The lower base from a year ago will also support profit growth in the next quarter. However, high inflation experienced in Q2 along with poor prospects for the agricultural sector could weigh on domestic demand having implications for sectors such as FMCG, retailing, and white goods. Export-sensitive sectors such as textiles and IT could continue to feel the heat of uncertain global economic conditions. On a positive note, the momentum seen in capital goods and infrastructure-related sectors is likely to continue. Furthermore, a likely uptick in the private capex cycle could bode well for these sectors. Going ahead, the volatility in crude oil prices and external headwinds remain the key watchouts for the performance of corporates.

Annexure

Table 1: Net Sales

	Net Sales					
	Rs Lakh Crore			Year-on-Year Growth (%)		
	Q1 FY22	Q1 FY23	Q1 FY24	Q1 FY22	Q1 FY23	Q1 FY24
Automobile & Ancillaries	2.09	2.76	3.39	114.90	31.60	22.87
Aviation	0.04	0.15	0.19	213.06	259.43	22.32
Capital Goods	0.35	0.54	0.61	56.86	52.99	12.96
Cement	0.47	0.58	0.64	52.00	23.12	10.85
Chemicals	0.35	0.50	0.46	72.40	43.64	-8.87
Oil & Gas	5.61	9.30	8.12	75.57	65.73	-12.70
FMCG	0.79	1.01	1.04	30.46	28.80	2.22
Hospitality	0.03	0.08	0.09	156.44	160.97	22.53
Infrastructure	0.64	0.79	0.98	40.74	24.00	24.01
Iron & Steel	1.49	1.89	1.99	115.00	26.62	5.34
IT	1.53	1.89	2.10	17.71	22.86	11.25
Logistics	0.17	0.24	0.22	64.76	38.62	-4.75
Media & Entertainment	0.09	0.13	0.18	27.59	36.70	37.21
Non - Ferrous Metals	0.82	1.15	1.02	69.84	39.14	-11.29
Pharmaceuticals & Drugs	0.68	0.70	0.82	17.49	2.69	16.57
Power	0.89	1.25	1.25	16.82	41.06	-0.46
Realty	0.14	0.19	0.21	75.00	42.40	6.11
Retailing	0.10	0.22	0.26	54.24	117.69	19.23
Telecom	0.51	0.59	0.64	17.65	14.67	9.64
Textile	0.39	0.47	0.41	196.21	19.09	-12.35
White Goods	0.13	0.22	0.23	70.05	68.50	4.03

Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies

Table 2: Operating Profit Margin

Operating Profit Margin (%)									
	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Automobile & Ancillaries	10.7	12.6	12.6	13.0	10.2	12.2	14.0	14.6	15.2
Aviation	-37.5	4.0	21.3	0.3	0.4	-1.8	22.4	21.8	32.0
Capital Goods	10.1	14.1	14.6	16.5	12.4	14.6	15.0	18.5	14.2
Cement	25.3	21.1	16.1	17.3	15.8	9.9	13.2	15.9	16.4
Chemicals	19.6	17.7	19.5	19.3	19.2	17.1	18.0	18.3	16.7
Oil & Gas	9.9	9.5	9.1	9.9	5.0	4.5	7.0	10.9	13.5
FMCG	20.2	20.4	19.7	18.9	19.1	19.0	20.2	20.4	21.0
Hospitality	-2.8	15.9	22.8	19.1	26.1	20.3	25.2	25.0	24.2
Infrastructure	17.2	16.8	16.1	14.7	16.2	15.7	15.3	14.2	15.6
Iron & Steel	29.7	26.4	20.9	18.6	16.5	8.0	9.9	13.2	12.9
IT	25.6	25.2	24.7	24.1	22.3	22.8	23.3	22.9	22.4
Logistics	26.8	30.2	28.6	24.9	23.4	28.3	27.1	29.2	30.9
Media & Entertainment	23.1	27.8	30.9	27.2	23.4	18.4	19.9	18.4	16.7
Non - Ferrous Metals	26.6	26.3	25.0	25.8	23.0	18.0	16.4	19.6	17.5
Pharmaceuticals & Drugs	24.8	21.5	22.4	18.9	21.6	22.3	22.5	22.5	24.1
Power	38.5	37.0	39.8	41.7	34.7	32.7	35.7	35.9	41.1
Realty	25.9	22.2	22.0	24.5	22.5	22.3	19.5	20.7	24.3
Retailing	0.7	9.4	11.7	9.0	11.6	10.0	10.5	8.7	11.0
Telecom	43.2	44.0	44.1	46.7	43.1	42.6	41.2	45.4	46.1
Textile	13.1	15.1	15.0	13.9	11.8	9.9	9.0	8.9	9.7
White Goods	7.1	9.8	8.7	8.9	7.7	8.2	7.7	8.6	7.9

Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies

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