

Corporate Profitability Contracts Further in Q2 FY25 Amid Slowing Sales

December 09, 2024 | Economics



The corporate performance of the non-financial firms softened in Q2 FY25 as net sales further slowed, and profitability contracted more deeply. Expenditure growth continued to outpace net sales growth. Factors like muted government expenditure, slowing urban demand, escalating geopolitical tensions, high inflation in primary articles, sluggish external demand, and weather-related disruptions have impacted corporate profitability.

This report analyses the corporate performance of listed non-finance companies. Part I examines the quarterly performance of 2,337 companies. Within this, Section (A) provides an overview of the aggregate performance of these companies, while Section (B) presents a snapshot of the performance of select 21 sectors (See Annexure 1 for details).

I. Corporate Performance – Q2 FY25

Aggregate Analysis

In Q2 FY25, the growth in net sales of non-financial firms slowed to 5% Y-o-Y from 6.4% Y-o-Y in the previous quarter (Table 1). Despite marginal moderation compared to the last quarter, expenditure growth remained high, growing by 7.1% Y-o-Y in Q2 FY25. Consistent with the trend from the previous quarter, expenditure growth continued to outpace revenue growth. This divergence between revenue and expenditure growth impacted profitability. Consequently, operating profit margins fell from 17.2% in Q1 to 16.6% in Q2. The contraction in profit after tax (PAT) also deepened, falling by 2% Y-o-Y in Q2, a sharper drop than the 0.4% YoY decline seen in Q1.

Within expenditures, employee cost rose in Q2, increasing by 7.5% Y-o-Y from 7.3% Y-o-Y growth in the prior quarter. Meanwhile, the growth in the cost of services and raw materials moderated to 7.9% Y-o-Y in Q2 from 8.9% Y-o-Y in Q1, though it remained elevated. However, over the past year, the growth in employee cost has moderated from 12.2% in Q2 FY24. This could be indicative of weakness in labour market and wage growth, with implications for consumption demand.

Table 1: Overall Quarterly Analysis

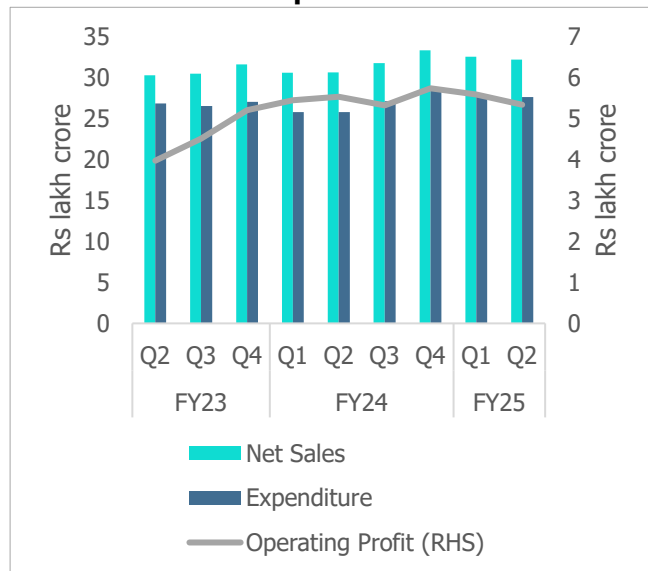
Particulars	Unit	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Net Sales	Rs Lakh Cr	30.7	31.8	33.3	32.5	32.2
	% y-o-y	1.2	4.3	5.4	6.4	5.0
Expenditure	Rs Lakh Cr	25.8	27.1	28.3	27.7	27.6
	% y-o-y	-4.0	2.3	4.8	7.3	7.1
Cost of Services and Raw Materials*	Rs Lakh Cr	11.0	11.5	12.0	11.7	11.8
	% y-o-y	-3.0	3.4	4.4	8.9	7.9
Employee Cost*	Rs Lakh Cr	2.5	2.6	2.6	2.7	2.7
	% y-o-y	12.2	10.4	6.4	7.3	7.5
Operating Profit	Rs Lakh Cr	5.5	5.3	5.7	5.6	5.3
	% y-o-y	39.2	18.0	10.3	2.6	-3.4
Profit After Tax (PAT)	Rs Lakh Cr	2.3	2.3	2.6	2.4	2.2
	% y-o-y	50.1	22.6	18.8	-0.4	-2.0
Ratios		Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Operating Profit Margin	%	18.0	16.7	17.2	17.2	16.6

Source: Ace Equity & CareEdge; Note: Results based on a sample of 2337 listed non-finance companies; * Data pertains to a smaller sample of companies (1803 listed non-finance companies)

The moderation in the sales growth can be attributed to a weakening urban consumption demand and sluggish external demand. Slowing government capex also impacted the cement, iron and steel sales. On the brighter side, recent high-frequency data suggests a recovery in the rural demand scenario.

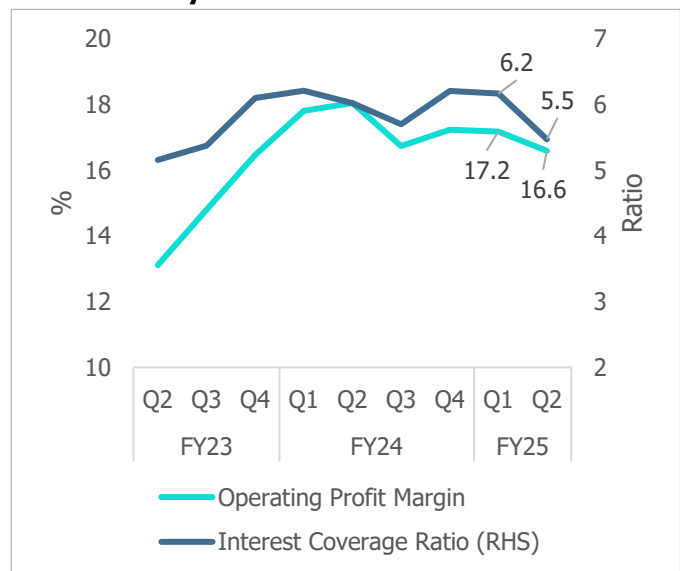
The cost of goods and raw materials has remained elevated, reflecting a sharp rise in industrial metals and Brent crude prices in Q1FY25. The Bloomberg industrial metals price index and Brent crude prices were up 4.7% Y-o-Y and 9% Y-o-Y, respectively, in Q1FY25. Higher commodity prices generally impact the costs of goods sold with a lag. However, the commodity prices corrected in Q2 FY25. The Bloomberg commodity price index fell by 8% Y-o-Y in Q2, largely due to a fall in energy prices. Global energy prices corrected amid demand concerns, particularly from China. The cost of logistics has also risen due to supply chain disruptions, as major shipping lanes like the Red Sea and Panama Canal were impacted by geopolitical and environmental issues. On the financing front, higher policy rates and tighter liquidity conditions throughout FY25 have kept borrowing costs elevated for corporates. Falling profitability and higher interest costs have resulted in a fall in interest coverage ratio, which fell to 5.5% in Q2 FY25 from 6.2% in the previous quarter.

Exhibit 1: Overall Corporate Performance



Source: Ace Equity and CareEdge

Exhibit 2: Key Ratios



Source: Ace Equity and CareEdge

Sectoral Overview

We have closely analysed the financial performance of 21 select sectors (detailed in Annexure I) for Q2 FY25. Among these, 11 sectors reported double-digit growth in both net sales and operating profit. Key performers include capital goods, telecom, white goods, pharmaceuticals, logistics, and retailing, all of which sustained double-digit growth in both metrics. Among the major sectors, the performance of iron and steel, crude oil, cement, automobiles, and power lagged in Q2.

The capital goods sector benefited from increased domestic order inflows following the general elections and lower commodity prices in Q2. The telecom sector saw positive effects from the upward revision of tariffs by major service providers. The white goods sector, particularly air conditioners and refrigerators, experienced higher demand due to recovering rural consumption and seasonal weather changes. Similarly, the pharmaceutical sector performed well, driven by several factors contributing to growth in the domestic market. The sector saw a notable increase in demand across both acute and chronic segments, and the 4% to 5% price revision allowed under the National

Pharmaceutical Pricing Authority (NPPA) positively impacted revenue growth. Additionally, easing input pricing pressures, the revival of biotech funding, the launch of speciality products, and deeper penetration into the generic market all supported export growth for pharma companies.

Among the sectors with weak performance in Q2, the cement and iron and steel industries were particularly affected by a slowdown in government capital expenditure. The slowdown in infrastructure spending, lower international steel prices, and higher imports from China due to oversupply in their domestic market impacted the profitability of the iron and steel sector. Although growing domestic demand supported sales in the aviation sector, profitability was negatively impacted by issues such as aircraft groundings and rising aviation turbine fuel (ATF) costs. Oil marketing companies faced adverse performance due to rising global uncertainty and declining refining margins. Recent economic data suggests a slowdown in urban demand, which has affected the automotive industry as elevated inventories persisted ahead of the festive season.

Growth in Select Sectors in Q2 FY25 (YoY, %)

Table 2: Net Sales		
Less than 6%	6 to 12%	Above 12%
Iron & Steel	IT	Infrastructure
Cement	Pharmaceuticals & Drugs	Aviation
Media & Entertainment	Textile	Logistics
Crude Oil	Chemicals	Telecom
Power	Hospitality	Capital Goods
Automobile & Ancillaries	FMCG	Realty
Non - Ferrous Metals		Retailing
		White Goods

Table 3: Operating Profit		
Less than 0%	0 to 15%	Above 15%
Crude Oil	Automobile & Ancillaries	Pharmaceuticals & Drugs
Cement	FMCG	Telecom
Realty	IT	Logistics
Aviation	Textile	Hospitality
Iron & Steel	Chemicals	Non - Ferrous Metals
Media & Entertainment	Infrastructure	Capital Goods
Power		Retailing

Source: Ace Equity and CareEdge. *Crude Oil covers petrochemicals, refineries, and oil exploration

Way Forward

While sales and profitability for Indian firms remained subdued in Q2 FY25, we anticipate improvement in the coming quarters. Factors such as a prolonged monsoon, declining urban demand, and reduced public capital expenditure negatively affected economic growth and consequently corporate performance. GDP growth for H1 FY25 slowed to 6% Y-o-Y compared to 8.2% in FY24. Nevertheless, we expect this slowdown to be temporary, with a projected growth rate of 6.8% Y-o-Y in H2. As the government increases its capital expenditure spending, investment is expected to improve, and policy support from the RBI will further boost growth. However, we project GDP growth to be lower at 6.5% in FY25 compared to our earlier estimate of around 7%. We anticipate a 25-basis point cut in the RBI's February policy meeting. A future reduction in the repo rate is expected to support private capital expenditure, but a sustained recovery in consumption will be crucial for driving a meaningful increase in corporate capex. Healthy agricultural production and likely moderation in food inflation should be supportive of consumption in the coming quarters. However, the extent of recovery in urban demand needs to be closely monitored.

On the external front, global growth remains relatively weak, with the IMF projecting a 3.2% growth rate for both 2024 and 2025. While growth in developing Asian countries is expected to slow, the growth outlook for developed economies like the US and Japan has been revised upward. Stronger growth in the US should support export

demand, particularly for IT services. Commodity prices, including Brent Crude, are likely to remain subdued due to weak demand from China and anticipated increases in US petroleum production under the new administration. Lower global commodity prices should benefit the margins of domestic manufacturing firms.

However, the depreciating pressure on the Indian rupee remains a concern, as the US dollar strengthens. Markets now anticipate fewer rate cuts from the Federal Reserve, as policies proposed by the new administration, such as tax cuts and higher tariffs, are likely to be inflationary. The US Federal Reserve is now expected to reduce policy rates by 25 basis points in 2024 and by approximately 50-75 basis points in 2025, lower than previously estimated. This has intensified the depreciating pressure on the rupee. While a weaker rupee can support domestic exports, it may adversely impact the overall economy, given India's status as a net importer. Going forward, it will be crucial to monitor the implementation of the new US administration's policies and China's response, as these will play a significant role in shaping market dynamics. Geopolitical risks will also remain an important factor to watch.

Thus, the overall performance of corporates in the coming quarters will depend upon the unfolding of the global growth scenario and domestic demand conditions. It is also crucial to monitor any external risks associated with geopolitical tensions, commodity price shocks and weather events. On the domestic front, key budgetary announcements in February and RBI's monetary policy decisions will be closely watched.

Annexure 1: Performance of Select Sectors in Q2 FY25

Sectors	Net Sales	Total Expenditure	Operating Profit	Operating Profit Margin	Interest Coverage Ratio
	y-o-y%	y-o-y%	y-o-y%	%	
Automobile & Ancillaries	4.6	5.2	4.6	15.7	7.0
Aviation	13.5	20.3	-12.0	14.4	2.0
Capital Goods	14.3	13.0	22.7	17.7	11.0
Cement	-5.7	-2.0	-22.8	13.6	5.2
Chemicals	9.9	9.6	12.5	17.0	6.1
Crude Oil	0.5	8.6	-46.4	7.4	4.8
FMCG	10.8	11.5	8.2	17.7	14.8
Hospitality	10.2	9.6	17.0	22.3	5.2
Infrastructure	12.5	12.3	14.4	16.2	2.5
Iron & Steel	-6.4	-6.3	-5.1	13.5	4.0
IT	6.6	6.3	9.3	22.8	33.0
Logistics	13.6	12.7	16.1	29.3	7.4
Media & Entertainment	-4.1	-1.6	-2.5	20.8	4.2
Non - Ferrous Metals	5.4	3.6	18.6	23.6	6.8
Pharmaceuticals & Drugs	9.0	6.8	15.8	26.0	16.4
Power	4.2	7.8	-1.2	36.4	3.6
Realty	18.6	20.7	-12.0	23.3	2.4
Retailing	21.3	20.9	24.7	10.7	6.2
Telecom	14.0	12.3	16.0	46.1	2.4
Textile	9.6	9.7	11.6	10.9	4.0
White Goods	40.3	40.7	33.1	7.4	9.8

Source: Ace Equity and CareEdge. Crude Oil covers petrochemicals, refineries, and oil exploration.

Annexure 2: Performance of Select Sectors

Sectors	Operating Profit				
	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
	y-o-y%				
Automobile & Ancillaries	53.0	33.8	25.5	17.7	4.6
Aviation	598.9	59.7	46.3	7.1	-12.0
Capital Goods	25.1	19.1	35.3	30.6	22.7
Cement	83.7	58.1	27.2	-4.3	-22.8
Chemicals	-14.7	-22.9	-16.9	12.7	12.5
Crude Oil	179.8	30.0	-7.1	-39.3	-46.4
FMCG	10.6	2.7	6.8	10.3	8.2
Hospitality	22.0	47.2	18.6	6.6	17.0
Infrastructure	20.2	8.2	18.1	11.8	14.4
Iron & Steel	66.2	41.2	-3.1	1.2	-5.1
IT	7.7	2.8	9.3	7.9	9.3
Logistics	8.7	29.4	19.4	21.6	16.1
Media & Entertainment	20.4	-2.6	9.2	-7.1	-2.5
Non - Ferrous Metals	14.5	23.2	1.1	38.0	18.6
Pharmaceuticals & Drugs	26.4	22.0	26.8	25.6	15.8
Power	28.6	5.1	13.4	0.9	-1.2
Realty	73.3	57.5	31.6	28.8	-12.0
Retailing	26.1	39.8	50.1	29.4	24.7
Telecom	11.9	19.0	5.9	6.0	16.0
Textile	-0.1	25.7	15.2	23.4	11.6
White Goods	7.3	15.2	13.6	56.3	33.1

Source: Ace Equity and CareEdge. Crude Oil covers petrochemicals, refineries, and oil exploration.

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