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How have companies fared in Q2FY23?

Our analysis of the financial performance of an aggregate sample of 1,917 companies shows that net sales continue to increase, despite witnessing slight moderation. Higher expenditure costs have implied gross profits have slowed while net profits have declined. Interest costs are inching up but their impact has not yet been felt. Amongst key sectors, iron & steel, construction materials, hospitality have seen significant decline in profits.

Key takeaways from financial results of an aggregate **1,917 companies**:

1. Quarterly financial performance shows that net sales rose by 24% in Q2FY23 against 27.4% in Q2FY22.
2. In absolute terms, net sales were up at Rs 25.6 lakh crore in Q2FY23 as against Rs 20.6 lakh crore in Q2FY2.
3. Profitability on the other hand has weakened on account of expenditure increasing at a faster rate than sales. This has resulted in 2.4% increase in gross profits compared with 9.4% increase in Q2FY22.
4. However, both PAT and PBT have registered negative growth, with PAT declining by 5.4% and PBT by 1.3% in Q2FY23, compared with 58.7% and 51.3% increase, respectively, in Q2FY22.

Table 1: Performance of companies on aggregate basis

All companies	Sep-20	Sep-21	Sep-22
Net Sales			
Absolute, Rs crore	16,21,454	20,64,923	25,61,453
YoY Growth, %	-3.7	27.4	24.0
Total Expenditure			
Absolute, Rs crore	11,79,594	15,81,604	20,66,368
YoY Growth, %	-6.4	34.1	30.7
Gross Profit			
Absolute, Rs crore	4,41,860	4,83,320	4,95,085
YoY Growth, %	4.4	9.4	2.4
PBT			
Absolute, Rs crore	1,93,360	2,92,644	2,88,897
YoY Growth, %	111.4	51.3	-1.3
PAT			
Absolute, Rs crore	1,45,736	2,31,345	2,18,841
YoY Growth, %	174.5	58.7	-5.4

Source: Ace Equity, Bank of Baroda Research

Next, we analyse the financial results of **1,519 companies** excluding Banks, Finance, Insurance and IT companies. Some interesting results which emerged are:

1. Net sales growth was steady at 26.7% compared 37.5% growth in Q2FY22.
2. Growth in overall expenditure was higher at 34.4% in Q2FY23 versus 38% during the same period last year.
3. As a result, gross profits, PBT, PAT all declined.
4. Interest coverage ratio has improved to 5.3 in Q2FY23 from 3.5 during last year in the same period. Interest burden of companies (% of turnover) has also reduced and has fallen to levels below pre-pandemic times. It fell from 2.6% to 2.4% in Q2FY23.

Table 2: Performance of companies excluding financials and IT

Excl. Banks, finance, insurance and IT software	Sep-20	Sep-21	Sep-22
Net Sales			
Absolute, Rs crore	11,08,403	15,24,041	19,31,445
YoY Growth, %	-8.1	37.5	26.7
Total Expenditure			
Absolute, Rs crore	9,37,846	12,94,455	17,39,900
YoY Growth, %	-10.9	38.0	34.4
Gross Profit			
Absolute, Rs crore	1,70,557	2,29,586	1,91,545
YoY Growth, %	11.1	34.6	-16.6
Interest			
Absolute, Rs crore	41,617	39,676	46,645
YoY Growth, %	-2.0	-4.7	17.6
PBT			
Absolute, Rs crore	1,06,019	1,72,468	1,40,513
YoY Growth, %	*	62.7	-18.5
PAT			
Absolute, Rs crore	80,141	1,37,822	1,06,397
YoY Growth, %	*	72.0	-22.8

Source: Ace Equity, Bank of Baroda Research|*growth rates are impacted by steep changes in absolute terms

Sector wise performance-Net Sales:

1. In terms of net sales, out of 38 sectors analysed, 15 reported above average (24%) growth in net sales. These included sectors like: trading, hospitality, industrial gases & fuels, aviation, paper, retailing, chemicals, automobiles, logistics, gas, and power. Net sales growth in these sectors ranged between 25-110%.
2. However, amongst these sectors, compared with last year, sales had moderated in hospitality, paper, retailing, crude oil, gas transmission and power.
3. Sectors like media & entertainment, ship building and FMCG also witnessed 20-21% growth in net sales in Q2FY23 and were higher even compared with last year (Q2FY22).
4. On the other hand, sectors such as infrastructure, diamond & jewellery, capital goods, realty, textile and consumer durables, have seen significant slowdown in net sales in Q2FY23,

compared with Q2FY22. While last year, sales of these sectors averaged 42.6%, it averaged only 10.6% in the current quarter.

5. Only mining and photographic product sectors witnessed negative growth in sales in Q2FY23.

Sector wise performance-Profitability:

1. In terms of PAT, out of 38 sectors analysed, 13 reported above 30% growth in PAT in Q2FY23. These included sectors like: realty, paper, agri, trading, consumer durables, alcohol, diamond & jewellery, infrastructure, retailing, healthcare and capital goods.
2. Sectors such as automobiles, non-ferrous metals, and chemicals recorded PAT growth between 20-29%.
3. Nearly 14 sectors reported negative growth in profits, within which sharpest decline was seen in hospitality, iron & steel, construction materials, plastics, crude oil, textile, media & entertainment, industrial gases & fuels and plastics.
4. The rising input costs have impacted industries such as industrial gases and fuels, aviation, hospitality, logistics, education &training and trading, where total expenditure cost rose the most.

Table 3: Sector-wise Net Sales and PAT

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="5">Net Sales</th></tr>
<tr><th>Negative</th><th>0-10%</th><th>10-20%</th><th>20-30%</th><th>Above 30</th></tr>
<tr><th rowspan="5">PAT</th><th>Negative</th><td>Mining
Photographic Product</td><td>Textile
Ferro Manganese
Plastic Products Iron & Steel</td><td>Electricals
Construction Materials</td><td>Logistics
Ship Building
Media & Entertainment</td><td>Inds. Gases & Fuels
Crude Oil
Hospitality</td></tr>
<tr><th>0-10%</th><td></td><td></td><td>Ratings
Telecom</td><td>Gas Transmission
Power</td><td>Aviation</td></tr>
<tr><th>10-20%</th><td></td><td></td><td>Abrasives
FMCG</td><td>Diversified</td><td></td></tr>
<tr><th>20-30%</th><td></td><td></td><td>Non – Ferrous Metals</td><td>Chemicals</td><td></td></tr>
<tr><th>Above 30%</th><td></td><td>Realty
Consumer Durables
Alcohol
Healthcare</td><td>Agri
Diamond & Jewellery;
Infrastructure
Capital Goods</td><td>Miscellaneous</td><td>Paper
Trading
Education & Training
Retailing</td></tr>
</table>

Source: Ace Equity, Bank of Baroda Research

Table 4: Sector-wise performance in Q2FY23

%	Net sales growth, Sep'22	PAT growth, Sep'22
Abrasives	12.2	17.1
Agri	10.5	97.9
Alcohol	3.8	74.4
Automobile & Ancillaries	31.7	28.4
Aviation	56.3	4.3
Capital Goods	14.7	36.2
Chemicals	37.3	20.7
Construction Materials	13.4	-75.4
Consumer Durables	1	99.9
Crude Oil	35.6	-56.1
Diamond & Jewellery	17.9	54.7
Diversified	25.5	13.4
Education & Training	53.4	182.4
Electricals	14.2	-1.9
Ferro Manganese	0.6	-60.1
FMCG	19.8	14.8
Gas Transmission	26.7	8.8
Healthcare	9.1	41.5
Hospitality	82.2	-258.8
Inds. Gases & Fuels	70	-32.4
Infrastructure	18.1	45.8
Iron & Steel	6.9	-86.7
Logistics	27.9	-2.7
Media & Entertainment	20.7	-34.6
Mining	-41.9	-16.8
Miscellaneous	29.1	245
Non - Ferrous Metals	11.3	23.9
Paper	51.6	195.2
Photographic Product	-69.7	-137.2
Plastic Products	3.7	-68.6
Power	25	0.8
Ratings	16.2	8.8
Realty	6.7	429.2
Retailing	40.8	56.4
Ship Building	20.6	-8
Telecom	16.7	3.5
Textiles	5.2	-53.4
Trading	110.2	188.7

Source: Ace Equity, Bank of Baroda Research

<u>Reasons driving sectoral performances:</u>

Automobiles

On the back of better availability of electronic components, industry reported higher sales volume. However, the electronics component shortages are still limiting production volumes. Profits were affected by high commodity price increases and electronic component supply constraints. Price hikes were initiated in India and international markets by most producers given rising costs. Companies also spent more on marketing with the digital space gaining in importance.

Cement

Domestic sales volume grew well with capacity utilization improving to upwards of 70% in some companies. Segments such as low-cost housing and infrastructure have been well supported by the Government and provided support to sales. While volumes and realisations were relatively stable, profitability and margins were impacted by higher input costs. Margins were affected by higher energy costs and decline in realization. The increase in cost of raw materials including fly ash, slag and gypsum pressurized companies. There was a surge in prices of imported coal by multiple times.

Steel

Average capacity utilization of above 85% witnessed in some companies. Exports were impacted by the imposition of export duty in May 2022. On the positive side supplies to auto, appliances, and Renewables (solar & wind) sectors went up. However demand from the construction and capital goods sectors were impacted by seasonal factors and remained low. Operating costs came down due to fall in raw material prices. Iron ore and Coking coal prices have declined while energy costs remain elevated. Realization per ton has also improved year-on-year as companies gradually passed on the raw material price hike to customers.

Aluminium/copper

Performance impacted by rising input costs which were partially offset by higher volumes and better realisations. Further forex movements affected costs. Demand was steady for cans, aerospace, buildings, auto etc. where pent up demand provided support.

Oil and gas

Oil and Gas business benefited from sustained production through operational efficiency and better realization with increase in ceiling price for domestic gas by the government. On account of a freeze on retail prices of petrol and diesel refineries were affected and reported losses.

Fertilizers

Performance was led by better energy efficiency. Overall revenue growth was driven by higher gas prices which is a pass through. The fertilizer segment on YTD basis showed better performance due to government support for subsidy mainly on complex fertilizers.

Paints

Extended monsoon impacted sales in Q2FY23. The premium and luxury ranges in Wood Finishes, waterproofing and select emulsions did well. There was some down trading in luxury range to premium and economy due to the steep price increases undertaken in the last 6 months in these products. However, there was good traction in sales in Tier-1, Tier-2 and Tier-3 cities—all showed high double-digit growth over corresponding quarter last year. Rural markets grew at a slower pace especially in north and central regions. Auto business showed good growth in the quarter. Profitability improved significantly on the back of price increases undertaken to negate inflation as well as cost efficiency measures

Pharmaceuticals
The industry was characterized by subdued demand, pressures on sales realisation, higher input costs and USD appreciation. All this affected the profit margins for last two quarters.

Pulp and paper
Demand for writing and printing paper (WPP) got a fillip on account of the ban on single-use plastic. The board segment was affected by lower demand and competitive low-priced imports. Exports had slowed down due to the prevalent economic conditions in USA and Europe.

Textiles
Textile business faced challenging times as export orders have been affected from USA and EU. However, apparel fabric demand has been stable in the domestic market. Prices were under pressure due to decreasing cotton rates and low demand in international markets. Volatile raw material prices further put pressure on the EBITDA margin.

Jewellery
With the pandemic induced uncertainty as well as lockdowns behind, the market situation has returned to normalcy with increase in the consumer footfalls and spending. Industry dynamics have changed with a demand shift towards organised players. Government's impetus towards formalising this sector with mandatory hallmarking norms is a further tailwind for the industry. Companies have reported entry of new buyers in the quarter contributing to high value purchases. Also low interest rates has pushed households to jewellery as a mode of savings.

Consumer appliances
Sales were affected by high retail inflation which resulted in weak consumer demand. Sales of mixers grew steadily in H1 with higher sales in alternate online channels. Same also seen in the lighting and fans industry where rural stress and weak consumer demand affected turnover. LED lighting bulbs replacement cost continued to witness a major reduction. In case of appliances there was robust growth across all home comfort appliances viz. water heaters, coolers and irons.

Cosmetics
Demand on the whole remained stable despite rising prices. Shampoos portfolio continued on strong growth trajectory even as prices rose. Fabric wash continued to witness high growth driven by movement to premium products.

Food
Food products (packed food) registered higher revenue growth. This was only partly offset by an expected hit on margin due to inflation in key inputs that was not fully passed on to protect volume growth. Margins, however, could remain under pressure near-term, but improving shift to premium products and cost efficiencies should help offset that.
Edible oils experienced dual market shocks of high prices followed by a steep decline in prices. However, turnover remained flat due to slow uptick in semi-urban and rural demand. However, softened prices may lead to demand recovery going ahead. Price correction in edible oils led to de-stocking at distributor level. Festivities and weddings expected to drive overall growth.

Bakery products were affected due to higher wheat prices.

Sugar
Higher domestic sugar and ethanol prices contributed to the earnings though could not compensate for the higher input costs of last season. Prices were higher for ethanol and sugar.

Films

The movie industry was affected due to some negative factors. Films released were conceptualized pre-pandemic and not in sync with current consumer taste. Further, negative social media against some Bollywood movies/stars militated against releases. The audience also were more discerning with focus on quality of content rather than super-star presence. Advertisement revenue was affected as companies spent less while cost of production went up due to general rise in prices.

Media

The second quarter of the current fiscal saw a fairly conducive business environment. However, inflationary pressures continued in the form of elevated input costs, arising largely from geopolitical factors which affected profitability. On the positive side, print business showed revenue growth on the back of an increase in both advertising and circulation revenue.

IT

The currency benefit due to rupee depreciation along with a flatter workforce improved performance of the sector. Growth was aided by ongoing spending by retailers towards making their supply chains more agile and resilient, and improving the shopping experience for their customers. There was also an uptick in the travel, transportation and hospitality sector, driven by increased investment in resilient operations. The communications and media segments made investments around 5G for delivering personalized offerings to consumers. Salary hikes have been invoked by several companies without compromising on margin growth.

Retail

It was noticed that discretionary items in the non-FMCG segment while recovering have not come back to pre-pandemic levels. The inflationary stress is more acute at lower price points in discretionary non-FMCG categories. The average basket values continue to be elevated and footfalls lower than pre-pandemic levels in some establishments. But on the aggregate there was an increase in footfalls as people migrated from digital channels.

Real estate

Housing demand continued to remain buoyant during the period. Residential sector performance continues to witness ongoing improvement and despite the rise in mortgage rates, affordability of home ownership remains high. The luxury segment witnessed sustained demand with a clear shift towards larger homes. Consumer preferences have turned towards quality offerings from large and credible players. The interest rate hike was on expected lines and have not had any material impact on housing demand so far.

The office portfolio has shown steady recovery with improvement in occupancies. With the same holding for rental business. Sales growth has been better compared to pre-COVID levels. Healthy demand expected to remain over next few quarters with potential rise in rentals.

Hotels and Restaurants

Average Unit Realization (AUR) showed steady improvement driven by high occupancies. Average rates and RevPAR continue to be higher than their pre-pandemic levels for the month. On the restaurants side, Q2 was potentially a challenging quarter with revenue being impacted on account of the higher vegetarian festival days and inflation peaking during the period. Some did not consciously raise prices even with inflation rising to maintain customer loyalty. Inflation continued to rise thus impacting gross margins significantly.

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