2 June 2022

Corporate performance: FY22 – Are happy days back?

The corporate sector made a smart comeback in FY22 on the back of both a recovery in the economy as well as a low base effect which had been largely influenced by the lockdown in 2020-21. Sales of a sample of 2108 companies grew by 27.5% compared with degrowth of -1.9% in FY21 and -0.8% in FY20. This does indicate a possible turning point for the sector. Even growth over FY20 was high at 25.1%. Growth in turnover is a very important indicator of demand conditions in the economy which was depressed due to the pandemic.

A similar performance was also reflected in growth in profits where both operating profit and net profit grew by 17.3% and 57.4% respectively in FY22. Profit growth however was high in FY21 too with companies working on lowering their employee cost through a combination of layoffs and pay-cuts or a combination of the two to control growth in expenses. Further post-lockdown, the third and fourth quarters did witness some pent up demand which helped certain sectors. Also companies had started passing on the higher input costs to the consumer gradually in the last two quarters of the year.

Table 1 shows the movement in sales and profit for the sample companies.

Table 1: Summary performance of 2108 companies in last three years (Rs crore and % growth)

2108 companies	2019	2020	2021	2022	2020	2021	2022
	Rs crore				% growth		
Net Sales	68,48,069	67,92,071	66,64,845	84,95,020	-0.8	-1.9	27.5
Operating profit	14,03,187	14,15,431	15,96,204	18,72,749	0.9	12.8	17.3
Net profit	4,54,385	2,85,946	5,47,986	8,62,399	-37.1	91.6	57.4

Source: BoB Research

The performance is even better if the BFSI sector (banks, insurance and finance companies) is excluded. This is because the base effect was sharper as the BFSI sector performed well in FY21 since it was relatively less affected by the lockdown. This is revealed in Table 2 below which shows that sales increased by 35.3% while operating profit and net profit increased by 24.8% and 64.8% respectively this year.

Also significantly the growth in interest payments was negative in the last two years. This was due to a combination of slowdown in borrowing and reduction in interest rates on account of the measures invoked by the RBI during the pandemic. Further several companies have been deleveraging in the last couple of years where loans are being repaid due to the cost factor. Companies have been accessing the ECB market to a larger extent given a stable currency and lower interest rates in the euro market given the easy liquidity conditions pursued by the western central banks as part of the quantitative easing programmes post 2011. The combination of higher profits and lower interest rates improved the overall solvency of the system with the interest cover ratio improving.

Table 2 also shows that the profit margins have witnessed an improvement with net profit margin increasing from 7.6% to 9.2% between FY21 and FY22. However, operating profit margin had declined in FY22 compared with FY21 though was still high at 18.1% and higher than in FY20 and FY19.

Table 2: Performance on 1789 non-financial companies (Rs crore and % change)

1789 companies	2019	2020	2021	2022	2020	2021	2022
	Rs crore				% change		
Sales	54,74,759	52,42,534	50,07,859	67,75,317	-4.2	-4.5	35.3
Operating profit	9,28,834	8,72,354	9,82,507	12,25,788	-6.1	12.6	24.8
Interest	1,46,875	1,70,984	1,66,006	1,59,749	16.4	-2.9	-3.8
Net profit	4,00,832	2,10,146	3,79,406	6,25,263	-47.6	80.5	64.8
Ratios (%)							
Interest cover	6.3	5.1	5.9	7.7			
OP/sales	17.0	16.6	19.6	18.1			
NP/sales	7.3	4.0	7.6	9.2			

Source: BOB Research

Is this performance broad based? What size has got to say?

A pertinent question to ask in this context is whether this performance has been uniform across the spectrum. The size wise analysis reveals some interesting findings. There was varied performance by different sets of companies depending on their size. It may be recollected that in FY21 the government and RBI had offered several sops to the MSME sector which started with the definition where the size limits in terms of turnover was changed to Rs 5, Rs 50 and Rs 250 crore respectively for the micro, small and medium sectors. Tables 3-5 give the summary performance of these sectors in terms of growth in net sales, net profit and interest cover ratio (excludes finance companies for this indicator).

Table 3 shows that the overall growth in sales for the sample was propped up by the large companies (turnover of above Rs 250 crore). There were 1055 companies which would qualify as being large in the sample of 2108 units which is around 50%. These companies accounted for almost 80% of sales of the aggregate sample companies. This gives an idea of how their performance dominates the overall picture.

The MSMEs however had varied performance. The 303 micro enterprises witnessed negative growth in sales for the third successive year though the de-growth rate in FY22 had improved over FY21. The implication here is that even before the pandemic the micro sector was not doing well which got exacerbated in FY21. The smaller companies have witnessed a recovery with sales growing by 7.2% after two years of negative growth. The same is repeated for medium enterprises where sales have grown at a sharper rate of 20.5% in FY22.

Table 3: Size-wise growth in net sales (%)

	Number	2020	2021	2022
Micro	303	-34.7	-69.6	-25.3
Small	319	-30.7	-58.4	7.2
Medium	431	-37.8	-11.1	20.5
Large	1055	-0.2	-1.6	27.5

Source: BoB Research

Net profit indicators followed similar trend. Table 4 shows that for the micro enterprises, net profits have been negative (i.e. losses) in all four years. The absolute level of losses however came down progressively in the last 2 years from Rs 472 crore in FY20 to Rs 379 crore in FY21 and Rs 105 crore in FY22. The measures taken by the government to enable credit, moratorium, restructuring of advances, preference for government purchases, forcing corporates to honour their creditor obligations etc. helped them significantly.

For small enterprises there were losses in 2019 and 2020 which turned to marginal profits in FY21 and further accelerated in FY22. Medium enterprises also turned around smartly in FY22. Large companies had the best performance even though profits fell in FY20.

Table 4: Net profit growth size-wise (%)

Net profit	2020	2021	2022
Micro	Losses	Losses	Losses
Small	Losses	Losses	Large increase
Medium	Losses	Loss turns +	116.4
Large	-35.9	85.3	57.0

Source: BOB Research

The positive factor of the performance which has been witnessed across all the segments is the improvement in the interest cover ratio. This can be attributed directly to the policies pursued by the RBI. The worrisome factor however is that while the ratios tended to dip and then rise, by FY22, it is less than 2 for the micro and small units which does indicate potential stress in debt servicing for some of them. This needs to be highlighted because a large number of MSME accounts have been restructured but their ability to ultimately service their debt depends on their performance. Given that growth in sales has been negative for the micro units while operating profits still are under pressure for the micro and small units, their vulnerability would tend to increase and hence need to be monitored.

Table 5: Interest cover ratio

	2019	2020	2021	2022
Micro	1.2	0.5	0.2	1.7
Small	1.0	0.9	0.9	1.8
Medium	1.0	-	2.3	2.4
Large	6.5	5.3	6.0	7.8

Source: BOB Research

On the whole the interest cover for India Inc. has shown improvement across the board in FY22, which is a positive factor form the banking perspective as it does indicate that the most challenging times regarding NPAs are behind us.

Performance-industry wise.

The industry-wise performance has been provided in the appendices. In general the low base effect of FY20 and FY21 has provided an upward thrust for virtually all industries. There has hence been an improvement in sales and profits across all segments.

One way of separating the performers is to short-list those which have witnessed higher than sample average growth in both net sales and net profit.

These are: automobiles, capital goods, diamonds and jewellery, diversified group of companies, industrial gases, mining, iron and steel, non-ferrous metals, paper.

Industries like media, infrastructure, banking and alcohol have registered high growth in net profit while chemicals, crude oil, electricals, hospitality, plastics, retail, textiles and trading have higher than average growth in net sales.

There were two sectors that registered degrowth in profit which are telecom and education.

The table gives some factors guiding corporate performance in FY22.

Sector	Factors driving performance/outlook
Real estate	1. Liquidity crunch in residential segment 2. High inventory levels 3. Cost escalation challenges 4. Delay in new launches 5. ESG compliance being pursued which adds to cost 6. Luxury homes do well 7. Recovery seen in rental property 8. Collections improve through the year
Restaurants	1. Recovery in Q4 post omicron fear 2. Dine in increase which does not cannibalize delivery 3. Challenges is in pricing with costs going up
Auto	1. Semiconductor problem still persists 2. Rural demand lower than anticipated 3. SUVs have done well across markets 4. Second wave affected demand for cars 5. Price of commodities such as steel, aluminium and precious metals increased sharply during the year. Companies had to increase their final prices.
Crude oil	1. Affected by cost-price matrix 2. New wells drilled by exploration companies which bodes well for future
Logistics	1. Sharp recovery seen with normalcy
Paints	1. Recovery seen in building and automotive paints 2. Major problem is raw material costs 3. Companies have been increasing prices 4. Decorative paints doing well as post covid several households go in for redoing their residences.
Fertilizers	1. Higher input cost main problem. To be affected more now with war on and natural gas price increasing. 2. Prospect good for FY23 as foodgrains production to increase to new level of 330 mn tonnes which will mean higher consumption
Sugar	1. Better price realizations witnessed in the year
Manmade fibres	1. Increase in demand due to higher cotton prices and shifts to manmade yarn
FMCG	1. Concern has been raw material prices 2. Companies have been changing grammage to ensure MRP is not affected. 3. When prices increased demand has been affected at margin 4. Rural demand not as good s last year

	5. New channels for distribution being explored by companies in rural India
Retail	1. Garments business recovered post delta episode 2. Second half has been very good 3. Offline stores have seen increasing footfalls 4. Ecommerce growth in tandem 5. Companies cutting down on non-viable stores 6. Youth fashion and premium clothing do very well 7. Opening of offices and hosting of ceremonies helps to revive demand
Food products	1. Raw material prices have gone up which includes edible oil, flour and packaging 2. Companies lowering grammage 3. Supply chain disruptions affecting flow of raw materials 4. Industry positive of future for packaged snacks with schools and colleges opening and country now not having any restrictions. 5. Edible oil manufacturers benefit form high prices as seen in turnover growth
Tyres	1. Revival in OEMs helps industry a lot 2. Demand from rural side has been lower this year 3. Inflation a major worry as costs have gone up and companies have increased their prices. Crude oil an important cost for the industry. 4. Replacement market good for truck radial and utility vehicle segment 5. Exports have helped growth for some companies.
Ceramics etc.	1. Cost escalation a major challenge this year 2. Good things is real estate sector has come out of recession 3. New projects being taken on augur well for industry 4. Capacity utilization in sanitary ware segment has shown improvement
Drugs and pharmaceuticals	1. Pricing challenges in global markets 2. Higher input costs being passed on to consumer
Engineering	1. EPC contracts have been rising 2. Delays in giving awards relative to floating tenders
Cement	1. Demand up mainly due to the housing for all schemes. 2. Public infra spending has aided industry 3. Warehouses being created has also added to demand 4. Prices have gone up as input costs are up due to freight, fuel, packaging etc. 5. Urban demand up as stock of inventory of houses came down. This was good for new projects.
Telecom	1. Change in tariff has affected entry level customers
Paper	1. Recovery witnessed in packaging segment of industry 2. Shift to online affected demand for school/text books
Steel	1. Prices have been rising aiding final producers 2. Input costs also up

	3. Demand for steel high due to infra work of the government in particular 4. Demand from auto and construction also steady 5. Global demand-supply imbalances develop due to the war 6. Companies have also lowered their inventory levels 7. Coal prices can be a risk factor going ahead
Hospitality	1. Sees rebound in Q4 2. IPL contributes to same 3. Air travel has increased manifold 4. Occupancy rates going up in hotels 5. Corporate travel also picking up which augurs well

Source: BoB Research

Going ahead…

Can the FY22 results be extrapolated into FY23? Probably not because the conditions are very different today than they were in FY22. On the positive side there is no covid wave or lockdown of any sort and hence normalization is back. However, the war has led to certain adverse developments in the form of high inflation which will go with higher interest rates too that will in turn pressurize corporates in interest payments. The rupee is also under pressure which will constantly weigh on the RBI. Inflation will come in the way of consumption and investment revival can be slowed down if the situation does not reverse in the next couple of months. The Q1 performance will provide some clue on which industries are resilient to these conditions.

Appendix 1: Growth in net sales

Sector	Number	**2020**	**2021**	**2022**
Agri	72	11.1	12.6	10.3
Alcohol	11	4.1	-9.2	19.1
Automobile & Ancill	126	-17.3	-4.7	28.2
Bank	33	11.8	9.4	1.9
Capital Goods	143	-16.7	-5.2	29.1
Chemicals	150	-1.7	3.2	37.4
Construction Mat.	62	-2.2	2.4	18.2
Consumer Durables	31	3.1	-1.8	18.8
Crude Oil	18	-6.0	-13.1	48.1
Diamond & Jewellery	21	5.1	-0.4	42.6
Diversified	11	-9.8	-8.2	40.5
Education & Training	9	-13.4	-32.7	11.1
Electricals	24	1.5	-6.7	35.5
Finance	281	16.0	-3.0	6.1
FMCG	69	2.9	7.4	20.2
Healthcare	119	6.6	7.0	7.0
Hospitality	28	5.3	-64.8	92.7
Inds. Gases & Fuels	11	-4.2	-22.8	61.8
Infrastructure	48	-0.1	-0.8	19.8
Insurance	6	14.1	9.0	11.3
Iron & Steel	66	-10.0	16.2	54.0
IT	117	8.5	4.3	19.7
Logistics	29	-0.6	-6.4	27.1
Media & Entertain	53	6.1	-30.2	18.5
Mining	10	-6.5	24.1	67.0
Non - Ferrous Metals	22	-11.8	8.4	54.9
Others	64	-6.1	-21.6	36.8
Paper	23	-7.0	-22.1	50.7
Plastic Products	58	-8.5	7.9	33.2
Power	28	5.0	2.1	17.0
Realty	63	1.5	-15.3	18.8
Retailing	16	14.4	-20.9	33.4
Telecom	21	10.7	12.5	12.3
Textile	157	-6.3	-10.4	53.3
Trading	110	-8.7	-6.1	41.5
All companies	*2111*	*-0.8*	*-1.9*	*27.5*

Appendix: growth in Net profits (%)

Sector	Number	2020	2021	2022
Agri	72	-2.6	96.3	6.4
Alcohol	11	-7.1	-38.4	89.1
Automobile & Anc	126	-44.9	4.2	64.8
Bank	33	*	*	59.6
Capital Goods	143	-83.4	437.7	106.5
Chemicals	150	11.8	14.3	38.8
Construction Mat	62	57.7	40.3	11.5
Consumer Durables	31	0.4	12.9	-8.4
Crude Oil	18	-53.1	115.7	32.7
Diamond & Jewellery	21	12.1	-34.3	121.0
Diversified	11	25.7	-18.2	90.5
Education & Training	9	*	-36.8	negative
Electricals	24	-14.3	10.2	15.7
Finance	281	14.2	-3.7	16.7
FMCG	69	36.9	-16.6	12.4
Healthcare	119	37.0	3.1	-6.7
Hospitality	28	47.3	-236.6	(1) to (+)
Inds. Gases & Fuels	11	16.3	-15.3	70.0
Infrastructure	48	12.4	-40.2	89.8
Insurance	6	-20.5	45.3	-21.3
Iron & Steel	66	-20.1	188.2	98.0
IT	117	10.0	1.8	32.8
Logistics	29	-21.3	29.6	7.9
Media & Entertain	53	-24.9	-15.9	77.4
Mining	10	-23.7	62.7	63.1
Non - Ferrous Metals	22	-98.3	*	71.5
Others	64	298.6	-46.8	85.4
Paper	23	-3.8	-68.8	164.2
Plastic Products	58	45.4	95.8	38.4
Power	28	-22.8	50.1	37.5
Realty	63	-65.2	-90.4	2148.1
Retailing	16	-14.9	-92.4	1654.0
Telecom	21	*	-45.6	negative
Textile	157	-84.3	40.3	449.1
Trading	110	29.5	-37.1	201.0
All companies	*2111*	*-37.1*	*91.6*	*57.4*

**: Single company distortions with very high/low numbers*

Appendix 3: Interest cover ratio

Sector	Number	2019	2020	2021	2022
Agri	72	2.96	2.92	4.48	5.30
Alcohol	11	9.16	9.76	8.39	21.53
Automobile & Anci	126	17.14	11.60	10.33	11.36
Capital Goods	143	9.09	4.00	4.31	7.92
Chemicals	150	7.73	7.57	11.40	15.97
Construction Mat	62	4.09	4.42	6.58	6.94
Consumer Durables	31	12.27	11.26	12.25	13.20
Crude Oil	18	9.97	5.59	6.76	10.26
Diamond & Jewellery	21	18.38	11.77	8.50	14.31
Diversified	11	10.72	7.55	8.87	15.74
Education & Training	9	3.14	2.69	1.38	2.64
Electricals	24	6.31	5.79	6.54	6.78
FMCG	69	48.55	31.10	31.16	36.48
Healthcare	119	8.32	8.93	12.75	13.63
Hospitality	28	3.87	3.99	0.35	2.55
Inds. Gases & Fuels	11	64.31	30.03	29.21	45.28
Infrastructure	48	4.21	3.50	3.33	3.97
Iron & Steel	66	3.91	3.15	5.38	11.75
IT	117	99.01	48.15	66.44	84.05
Logistics	29	5.08	3.99	4.39	4.22
Media & Entertain	53	9.05	5.62	4.73	5.76
Non - Ferrous Metals	22	5.77	4.60	7.73	12.14
Others	64	4.37	5.33	5.16	6.18
Paper	23	6.22	5.61	3.70	6.11
Plastic Products	58	6.07	4.93	8.29	12.65
Power	28	3.43	3.44	3.84	4.32
Realty	63	1.88	1.76	1.42	1.77
Retailing	16	11.22	5.07	3.24	5.58
Telecom	21	1.38	1.48	1.77	1.82
Textile	157	1.84	2.55	2.50	5.19
Trading	110	2.11	2.47	2.45	3.45

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