Corporate performance in Q3-FY23

The third quarter of the year was expected to be more buoyant as this coincides with the festival cum harvest season. The kharif harvest was reported to be good and the rural demand conditions were expected to improve. With the shadow of the lockdown induced by covid behind us, the performance of companies was expected to be positive in terms of growth in turnover. The only negative factor happened to be inflation which was high during this period which could have come in the way of consumption. However, GST collections were robust with collections of around Rs 4.5 lakh crore in the period Oct-Dec which was the highest recorded in any quarter. It is against this background that the results of 2119 companies in this study should be analyzed.

In the third quarter of the year, IIP growth was subdued at 2.4% with the manufacturing sector averaging a little less than 1%. Consumer goods production had fallen by 2.7% while intermediate goods registered fairly flat growth. Infrastructure related industries performed better supported by affirmative action from the central government.

WPI inflation for manufactured goods was 3.8% and had come down compared with 7.3% in Q2 as global commodity prices had cooled. Headline CPI inflation remained elevated at 6.1% which was also the core inflation rate.

Table 1: Summary financials of 2119 companies Q3-FY23 (Rs crore)

2119 companies	2020	2021	2022	2021	2022
	Rs crore			% growth	
Net Sales	16,96,801	21,08,948	24,48,345	24.3	16.1
Expenditure	12,94,493	16,26,976	19,19,393	25.7	18.0
Interest	2,22,881	2,19,389	2,74,106	-1.6	24.9
PBT	2,10,488	2,74,634	2,89,893	30.5	5.6
Tax	56,530	65,365	69,533	15.6	6.4
Profit after tax	1,53,958	2,09,269	2,20,361	35.9	5.3
Ratios	%				
Effective Tax rate	26.9	23.8	24.0		
Net Profit margin	9.1	9.9	9.0		

Table 1 shows that there was a slowdown in growth in sales from 24.3% to 16.1% for the sample companies. However, the number is still impressive as it comes on a high base where pent up demand in FY22 tended to be blown up due to negative performance in FY21. While total expenditure also slowed down, growth was higher than that in sales resulting in pressure on profit growth (PBT) which slowed down to 5.6% from 30.5%. The same was reflected in just 5.3% growth in PAT. Interest payments for the sample showed an increase of 25% against a slight fall in FY22 as this was the time when the RBI had also increased the interest rates with the repo rate going up by 225 bps since April to December. It was increased further in the February policy.

This performance has been propped up by the BFSI and IT sectors as a rising interest rate scenario is good for the former. The IT sector has remained resilient notwithstanding the expected recession in the west.

Table 2 excludes these companies to get a closer picture of how India Inc. performed.

Table 2: Financials of 1666 non-BFSI/IT companies

1666 companies	2020	2021	2022	2021	2022
	Rs crore			% growth	
Net Sales	11,96,852	15,60,156	17,84,010	30.4	14.3
Expenditure	10,22,666	13,55,781	15,90,902	32.6	17.3
PBIT	1,59,345	1,87,781	1,74,207	17.8	-7.2
Interest	31,136	30,347	39,335	-2.5	29.6
PBT	1,28,209	1,57,434	1,34,871	22.8	-14.3
Tax	35,650	35,402	30,551	-0.7	-13.7
Profit after tax	92,558	1,22,032	1,04,320	31.8	-14.5
Ratios	**%**				
Effective Tax Rate	27.8	22.5	22.7		
NPM	7.7	7.8	5.8		
Interest cover (times)	5.12	6.19	4.43		

When these 453 firms are excluded, the performance changes considerably.

- Growth in sales is still quite firm at 14.3% in Q3-FY23.
- Growth in expenditure is higher at 17.3% and 300 bps higher than that in sales against just 190 basis when the aggregate sample is considered.
- Interest costs are up by 29.6% against a fall of 2.5% last year. This is due to both higher borrowings and cost.
- PBT and PAT have both fallen by 14.3% and 14.5% respectively which is significant as profit margins too have come down from 7.8% in Q3-FY22 to 5.8% in Q3-FY23.
- The effective tax rate remains virtually unchanged.
- Interest cover has however gone down from 6.19 to 4.43. In Q3-FY22 it had increased mainly due to the easy interest rate regime maintained by the RBI as the repo rate was at 4%.

Clearly a more detailed analysis is required to further understand these results. This is done in two stages: size wise and industry-wise. The size wise performance would indicate whether the smaller firms have recovered while the industry-wise study will show as to how broad-based or narrow-based is this performance. Table 2 showed that the removal of two sectors diminished overall performance.

Size-wise performance

Tables 3 and 4 illustrate how the micro, small, medium and large firms performed in this quarter. The definition is based on how the Ministry for MSMEs has defined them and Q3 sales is used as the yardstick for such classification where the norms have been divided by 4.

Table 3: Sales and Net profit of sample companies: Size-wise (Rs crore)

		2020		2021		2022	
	No	Sales	Net profit	Sales	Net profit	Sales	Net profit
Micro	278	374	-35	197	37	100	-103
Small	327	2,320	-4,188	2,550	-512	1,850	-137
Medium	431	12,617	662	14,679	1,569	14,321	871
Large	1083	16,81,489	1,57,519	20,91,523	2,08,175	24,32,074	2,19,730
All	2119	16,96,801	1,53,958	21,08,948	2,09,269	24,48,345	2,20,361

The overall picture is clearly dominated by the large companies. Their growth in sales and profits largely drives the overall performance. The MSMEs have not witnessed steady growth in turnover. For micro and small units sales have been coming down while the medium size firms witnessed an increase in 2021 but a slight decline in 2022.

Table 4: Growth in sales and profit: Size-wise (%)

	2021		2022	
	Sales	**Net profit**	**Sales**	**Net profit**
Micro	-47.5	Loss to profit	-48.9	Profit to Loss
Small	9.9	Decline in losses	-27.4	Improved loss
Medium	16.3	137.1	-2.4	-44.5
Large	24.4	32.2	16.3	5.6
All	24.3	35.9	16.1	5.3

Size wise data shows that the SME sector was affected on both counts. Sales had fallen for all three categories while net profits growth decline for medium size units. In case of micro and small companies they were still in losses. Therefore, their overall financial performance is still once of concern.

Industry-wise overview

Industries were affected by a variety of factors.

1. Higher input costs were encountered by most industries and while cooling down of global commodity prices in 2022 post July did help to lower costs, most companies were in the process of passing on the higher cost which was not done in 2020 and 2021.
2. Industries like textiles were affected by export demand coming down and were buffeted by higher input costs too.
3. Exports impacted diamonds and jewelry too with the currency being volatile.
4. Industries related to crude oil including refining, gases, plastics, chemicals, logistics were affected by high input costs that affected profits.
5. Metals sector witnessed fall in profits which can be attributed more to rising cost of power and inputs. This will improve in Fy24 as prices have come down.
6. The BFSI sector followed by automobiles did very well in terms of both growth in sales and profits. A rising interest rate environment helps the BFSI space. Auto benefited from domestic demand picking up and the availability of semiconductors issue being progressively resolved.
7. Hospitality segment did well on both profits and sales as pent up demand led to upsurge in occupancy rates. The higher costs were passed on quite seamlessly and consumers did not mind paying it. The lower base of negative growth in sales in 2021 helped to prop up growth.
8. Consumer durables witnessed flat growth in Q3-FY23 and profits continued to decline as costs went up which could not be passed in an inflationary environment. The FMCG segment however did pass on higher costs which was also reflected in the CPI inflation numbers for personal care products which was 7.4% during this period. For household goods too, the inflation number was 7.5% which is still in the process of full transmission.
9. Cement benefited from the housing push but higher costs have come in the way of profits which have decline this quarter.

10. Agri based industries have witnessed stable increase in sales and profit and here costs have been transmitted to a large extent as seen in edible oils, sugar, cereals based products, dairy products etc.
11. Infra industries have also benefited from government capex with sales growth of 13%.
12. Retailing and trading witnessed high growth in sales as pent up demand was evident. However, costs did depress the profit margins which could not keep pace.
13. Healthcare continued to do well with both domestic and export demand propping the pharma sector. Costs too were passed on with inflation being 5.9% for this quarter. As these are necessities, demand does not get affected.
14. Realty witnessed smart growth in sales as well as profits with the affordable segment matching growth in the premium variety. This was the time when bank loans also have risen sharply for houses.
15. The IT sector continued to witness growth of 19.3% in sales on top of 23.3% in Q3 of last year. This implies that the possible negative impact on this sector due to the slowdown in the west has not been visible. Growth in profits however continues to be low at less than 10% for both the periods indicating to some extent pricing pressures.

The matrix below maps growth in sales and net profits for various industries.

Sales → Net profit ↓	Negative growth	0-10%	10-20%	Above 20%
Negative	Textiles Alcohol Mining	Non-ferrous Diamonds and jewelry Consumer durables Media and entertain. Iron and steel	Plastics Chemicals Crude Construction mat Telecom Logistics	Industrial gases
0-10%		Agriculture	IT	Retailing Trading
10-20%			Capital goods	
Above 20%		Insurance	Healthcare Electricals FMCG Infrastructure Finance	Banks Auto Power Paper Hospitality Realty

Interest cover

Interest cover is a quick metric of the debt servicing ability of companies/industries. With interest costs going up during FY23 due to the RBI action the effect on interest cover is important. As seen above, there has been pressure on growth in profits for the non-BFSI sector. The table below gives the movement in interest cover multiple for various industries. While it has come down for the sample average, it remains quite robust at over 4 times.

Interest cover (PBIT/Interest) for Q3

Sector	IC20	IC21	IC22
FMCG	20.92	22.67	22.54
Inds. Gases & Fuels	30.22	51.53	12.54
Healthcare	11.61	11.38	12.27
Diversified	9.07	14.02	11.95
Diamond & Jewellery	7.02	12.27	11.14
Automobile & Ancil	9.90	7.45	9.94
Capital Goods	7.54	9.44	9.64
Paper	3.10	6.35	9.43
Chemicals	11.46	15.91	9.35
Alcohol	9.05	9.94	8.39
Agri	5.39	7.84	8.06
Hospitality	-0.09	3.34	7.94
Electricals	6.52	6.01	7.17
Consumer Durables	13.66	11.63	6.87
Non - Ferrous Metals	9.41	12.13	6.61
Trading	5.60	7.82	6.23
Retailing	3.42	6.71	5.70
Mining	10.59	11.44	5.55
Plastic Products	6.26	5.56	5.04
Construction Mat	6.73	5.87	4.40
Realty	2.66	2.62	4.13
Miscellaneous	2.34	3.14	4.02
Infrastructure	3.78	3.68	3.70
Logistics	3.72	4.02	3.27
Media & Entertain	3.44	4.51	3.26
Crude Oil	5.84	7.08	3.17
Iron & Steel	5.00	8.58	3.17
Power	2.60	2.92	2.93
Textile	3.45	5.02	1.69
Telecom	-0.00	1.45	0.12
All (excl BFSI and IT)	**5.13**	**6.21**	**4.25**

With the exception of telecom which has specific issues, all industries have IC of above 1. Textiles is probably the only sector to have an IC less than 2. 19 of the 30 sectors witnessed a decline in IC with interest costs rising as well as profits coming down due to reasons described earlier.

Concluding remarks

Corporate performance excluding BFSI and IT has been quite dualistic with sales growth being stable but profits coming down. Input costs have had an impact on this performance. The picture is dominated by the large companies and the MSMEs have not performed well. Industry performance is quite diverse depending on market conditions. The interest cover for the sample companies has come down though the overall ratios are quite healthy across most sectors. A decline in profit is important as GDP calculations for several sectors use value added where a big component is profits (PBDIT). This will have a bearing on Q3 GDP numbers.

Appendix 1

Growth in net sales in Q3: (%)

Sector	Number	2021	2022
Agri	67	8.8	6.7
Alcohol	5	10.2	-12.9
Automobile & Ancil	128	8.0	21.9
Bank	36	3.5	25.1
Capital Goods	145	23.2	11.1
Chemicals	172	38.8	18.1
Construction Mat	68	9.1	14.6
Consumer Durables	32	5.8	0.0
Crude Oil	18	42.5	14.8
Diamond & Jewellery	21	28.2	9.6
Diversified	12	26.7	10.0
Electricals	27	25.2	12.7
Finance	293	10.2	16.7
FMCG	106	21.9	11.1
Healthcare	103	1.8	14.6
Hospitality	39	95.6	44.4
Inds. Gases & Fuels	9	66.7	36.3
Infrastructure	44	29.8	13.0
Insurance	6	18.9	8.1
Iron & Steel	64	39.5	6.9
IT	119	23.3	19.3
Logistics	29	14.0	17.9
Media & Entertain	42	24.5	7.2
Mining	7	13.5	-16.0
Miscellaneous	59	45.2	34.4
Non - Ferrous Metals	23	55.0	0.0
Paper	25	45.3	43.9
Plastic Products	53	10.1	13.9
Power	23	25.5	24.3
Realty	46	-3.0	16.9
Retailing	16	32.6	24.1
Telecom	16	15.9	12.3
Textile	159	41.0	-15.1
Trading	107	6.2	20.4
Grand Total	**2119**	24.3	16.1

Appendix 2

Growth in net profits (%)

Sector	Number	2021	2022
Agri	67	16.3	3.9
Alcohol	5	14.3	-50.0
Automobile & Anc	128	-28.7	63.0
Bank	36	63.5	45.5
Capital Goods	145	35.6	19.9
Chemicals	172	40.1	-1.0
Construction Mat	68	-22.6	-31.0
Consumer Durables	32	-30.1	-20.0
Crude Oil	18	15.4	-41.9
Diamond & Jewellery	21	88.5	-1.2
Diversified	12	28.5	15.1
Electricals	27	4.2	52.8
Finance	293	100.6	27.4
FMCG	106	8.7	21.3
Healthcare	103	2.9	21.8
Hospitality	39	-257.8	136.8
Inds. Gases & Fuels	9	74.5	-63.2
Infrastructure	44	-12.1	29.9
Insurance	6	-64.6	294.8
Iron & Steel	64	48.3	-58.0
IT	119	5.9	7.5
Logistics	29	32.1	-16.4
Media & Entertain	42	37.3	-35.3
Mining	7	-15.7	-60.8
Miscellaneous	59	127.1	105.3
Non - Ferrous Metals	23	34.9	-33.2
Paper	25	141.6	195.3
Plastic Products	53	-12.7	-16.9
Power	23	44.0	29.6
Realty	46	-27.9	125.8
Retailing	16	175.1	5.7
Telecom	16	Imp	sharp fall
Textile	159	67.1	-92.3
Trading	107	149.3	1.8
Grand Total	**2119**	35.9	5.3

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