4TH November

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Update of Financial Results, Q2FY23:

Net sales of companies remained robust, despite slight moderation in Q2FY23 compared to the same period of previous year. However, higher raw material cost impacted profitability numbers. Notably, excluding banks, financial services, insurance and IT software companies, the profitability numbers have declined in Q2FY23. This is on account of the performance of companies in important sectors such as iron and steel, oil and construction. Interest coverage ratio also declined as interest rates in the economy went up.

Key takeaways from financial results of an aggregate of **630 companies**:

1. Quarterly financial performance shows that net sales continue to grow at a robust double digit pace of 25% in Q2FY23 against 26.4% in Q2FY22.
2. In absolute terms as well, net sales saw an uptick of Rs 13.75 lakh crore in Q2FY23 against Rs 11 lakh crore in Q2FY22 and far above pre pandemic level of Rs 8.70 lakh crore.
3. *However, divergence on the profitability frontier still continued.* Higher input cost have impacted the PAT numbers. Thus moderation in growth was noticed, from 30.9% in Q2FY22, it grew by only 2% in Q2FY23 and far lower to pre pandemic's growth of 61.4%.
4. PBT numbers also showed the same trend. It moderated to 2.4% in Q2FY23 compared to 33.5% growth in Q2FY22.

All companies	Sep-20	Sep-21	Sep-22
Net Sales			
Absolute, Rs crore	8,69,983	10,99,925	13,75,354
YoY Growth, %	-1.1%	26.4%	25.0%
PAT			
Absolute, Rs crore	1,01,640	1,33,028	1,35,718
YoY Growth, %	61.4%	30.9%	2.0%
PBT			
Absolute, Rs crore	1,30,292	1,73,985	1,78,099
YoY Growth, %	74.9%	33.5%	2.4%

Source: Ace Equity, bank of Baroda Research

We have analysed the financial results of companies excluding Banks, Finance, Insurance and IT companies. This exercise is conducted to see the performance of non-financial/IT companies in Q2FY23 as profit indicators of financial companies improved considerably, which might overshadow the performance. Some interesting results which emerge are:

1. Net sales showed moderation in Q2FY23 to 28.6% compared to 39.2% growth seen in Q2FY22.
2. Considerable anomaly is noticed in the profitability frontier. It remained in red territory. Both PAT and PBT declined by 19.9% and 20.8% in Q2FY23 compared to growth of 45% and 53.4% respectively, in Q2FY22.

3. Even stress is noticed on the interest coverage ratio which fell sharply to 4.5 in Q2FY23 from 6.4 in Q2FY22.
4. *The anomaly is because of the performance of large companies in sectors such as iron and steel, oil, construction, logistics and textiles.*

Excl. Banks, finance, insurance and IT software	Sep-20	Sep-21	Sep-22
Net Sales			
Absolute, Rs crore	5,21,190	7,25,404	9,32,662
YoY Growth, %	-7.8%	39.2%	28.6%
PAT			
Absolute, Rs crore	48,451	70,275	56,295
YoY Growth, %	82.7%	45.0%	-19.9%
PBT			
Absolute, Rs crore	59,945	91,970	72,842
YoY Growth, %	206.1%	53.4%	-20.8%
Interest			
Absolute, Rs crore	18,486	17,053	21,078
Interest cover ratio	4.2	6.4	4.5

Source: Ace Equity, bank of Baroda Research

Sector wise performance

1. Sector wise, banks seem to have performed better. Banks showed a double digit growth of PAT by 56.6% in Q2FY23 against 15.6% in Q2FY22, supported by higher interest income in the rising rate cycle.
2. Net sales of FMCG companies remained buoyant growing by 19.4% in Q2FY23 compared to 13% in Q2FY22, despite higher inflation. Higher input costs were successfully transmitted to the consumers.
3. For Auto companies as well net sales improved to 33.1% in Q2FY23 against 20.6% in Q2FY22 and compared to pre pandemic growth in net sales of 3.7% seen in Q1FY21.
4. Consumer durables segment still remained a laggard despite this quarter having festive demand. Net sales only increased by 0.1% in Q2FY23 compared to 23.6% in the same period of previous year
5. The rising input costs have impacted industries such as crude oil, iron and steel, automobile and ancillaries, Chemicals and FMCG sectors the most, whose expenditure on cost of services and raw materials, rose the most.
6. Importantly, interest coverage ratio for industries such as telecom, diamond and jewellery, logistics and Media & Entertainment remained below 2, which is worrisome. For sectors such as power, construction materials, crude oil hospitality and textile, the interest coverage ratio remained below the sample average of 4.5.

Table 1: Sector-wise performance in Q2FY23

	Net sales growth, Sep'22	PAT growth, Sep'22	Interest cover, Sep'22
Alcohol	5.10%	98.90%	35.3
Automobile & Ancillaries	33.10%	68.20%	26.4
Aviation	-17.40%	8.20%	25.6
Bank	19.50%	56.60%	n.a.
Capital Goods	19.30%	-4.70%	42.7
Chemicals	37.80%	20.60%	13.5
Construction Materials	14.30%	-61.30%	4.3
Consumer Durables	0.10%	163.30%	20.5
Crude Oil	38.20%	-67.60%	2.5
Diamond & Jewellery	29.30%	-290.30%	1.7
Electricals	17.20%	33.10%	12.4
Finance	12.50%	19.60%	n.a.
FMCG	19.40%	15.80%	69.6
Healthcare	24.10%	64.20%	18.9
Hospitality	56.80%	-442.50%	3.2
Infrastructure	16.70%	3.10%	4.7
Iron & Steel	8.00%	-81.90%	2.4
IT	20.90%	2.30%	70.6
Logistics	18.00%	-121.40%	0.7
Media & Entertainment	47.60%	10.30%	0.7
Mining	20.80%	243.40%	255.7
Non - Ferrous Metals	19.90%	66.50%	10.1
Paper	69.80%	182.70%	14.1
Power	42.80%	3.00%	2.7
Realty	-18.30%	15.30%	10.6
Retailing	35.90%	49.40%	15.5
Telecom	19.70%	21.90%	1.6
Textile	8.20%	-63.10%	3.5

Source: Ace Equity, bank of Baroda Research

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