Corporate Performance of India Inc

19 December 2023

Economic Research Department, Bank of Baroda

Financial performance

Q2FY24 corporate performance

- Corporate performance of India Inc. in Q2-FY24 has been marked by higher profitability even though revenue growth has moderated to a large degree.
- This is based on a sample of 3,265 companies.
- Sales growth in Q2FY24 was muted at 2.8% compared with 24.3% in Q2FY23.
- On the other hand, all profitability indicators have shown double-digit growth.
- Lower commodity prices have resulted in lowering input costs and improved profitability.

Indicators	In Rs. Crores		% YoY	
	Q2-FY23	Q2-FY24	Q2-FY23	Q2-FY24
Net Sales	27,96,778	28,76,102	24.3	2.8
Expenditure	23,82,711	22,83,803	28.5	-4.2
Operating profit	5,57,470	7,26,169	1.8	30.3
PBT	2,95,348	3,93,054	1.2	33.1
PAT	2,24,215	2,91,321	-2.0	29.9

Source: AceEquity, Bank of Baroda Research

Performance of non-financial companies

- The picture if we exclude the BFSI sector remains the same. However, the magnitude is different.
- Excluding the BFSI sector, net sales have declined by 0.5%, which is in contrast to a small but positive growth in the overall sample.
- However, profit growth is even higher led by a relatively higher decline in expenses.

	In Rs. Crores		% YoY	
	Q2-FY23	Q2-FY24	Q2-FY23	Q2-FY24
Net Sales	22,25,334	22,14,656	26.1	-0.5
Expenditure	19,87,004	18,72,636	33.1	-5.8
Operating profit	2,99,754	3,97,384	-11.1	32.6
Interest	50,099	55,556	17.8	10.9
PBT	1,74,991	2,57,942	-21.8	47.4
PAT	1,32,957	1,88,148	-25.4	41.5
Interest cover	4.49	5.64	-	-

Industry-wise analysis

Net Sales \ Profits	less than 0	0-10	10-20	more than 20
less than 0	Chemicals Insurance Paper Plastic products Textiles Trading Diversified			Crude oil Gas transmission Inds. Gases & Fuels Logistics
0-10	Agro products Alcohol Consumer durables Iron and Steel* Mining Non-ferrous metals Telecom	Healthcare IT	FMCG	Power
10-20	Diamond and jewellery	Retailing Miscellaneous		Automobile & ancillaries Capital goods Construction mater Electricals Hospitality Infrastructure Realty
more than 20				**Bank** **Finance** **Media & entertain**

Sector specific issues

Factors having a negative impact

Factors having a positive impact

Weak rural demand	Delay in festive season	Weak global demand	Lower input prices	Government capex
• FMCG • 2 wheeler and tractor sales • Paints	• Textiles, especially RMGs • FMCG	• IT • Gems and jewellery • Textiles	• FMCG • Auto • Cement • Crude oil	• Cement • Iron and steel • Construction • Real estate

Interest coverage ratio

Interest coverage ratio

- Interest cover ratio of the companies has improved to 5.64 from 4.49 last year, which reflects the fact that the increase in interest rates has not really lowered the debt servicing capability of companies.

- It must be noted that RBI has kept its policy rate unchanged since Feb'23. However, banks have increased WALR on fresh loans to 9.38% in Sep'23 versus 9.2% in Jun'23 and 8.59% in Sep'22.

- Barring telecom and iron and steel all other sectors had an ICR of above 2. (The performance of steel industry has been distorted by the presence of one company which posted high losses due to special conditions).

- 16 sectors (out of 32) witnessed an improvement in ICR in Q2-FY24 vis-à-vis Q2-FY23.

- Interestingly the 10 largest indebted sectors such as power, crude oil, infrastructure, realty, automobiles, chemicals, logistics and textiles, have witnessed improvement in their ICR.

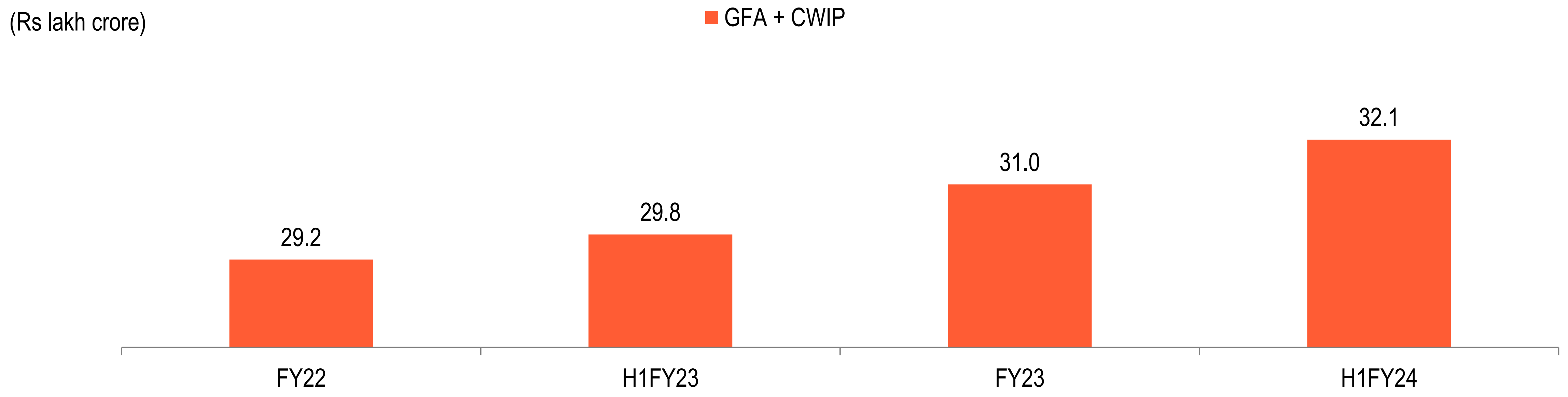
- Growth in profits will be maintained in H2FY24 as well, given that the WPI inflation has been fairly muted. If this continues it will also have a soothing effect on the quality of assets.

Interest coverage ratio-Sectorwise

ICR below 2	ICR between 2 and 3	ICR between 3 and 5	ICR above 5
• Telecom • Iron and steel	• Textile • Infrastructure • Agri • Miscellaneous • Logistics	• Real estate • Power • Media and entertainment • Retailing • Construction materials • Hospitality	• Diamond and jewellery • Paper • Electricals • Plastic products • Consumer durables • FMCG • Auto and ancillaries • Chemicals • Crude oil

Fixed asset creation

Asset creation by India Inc.

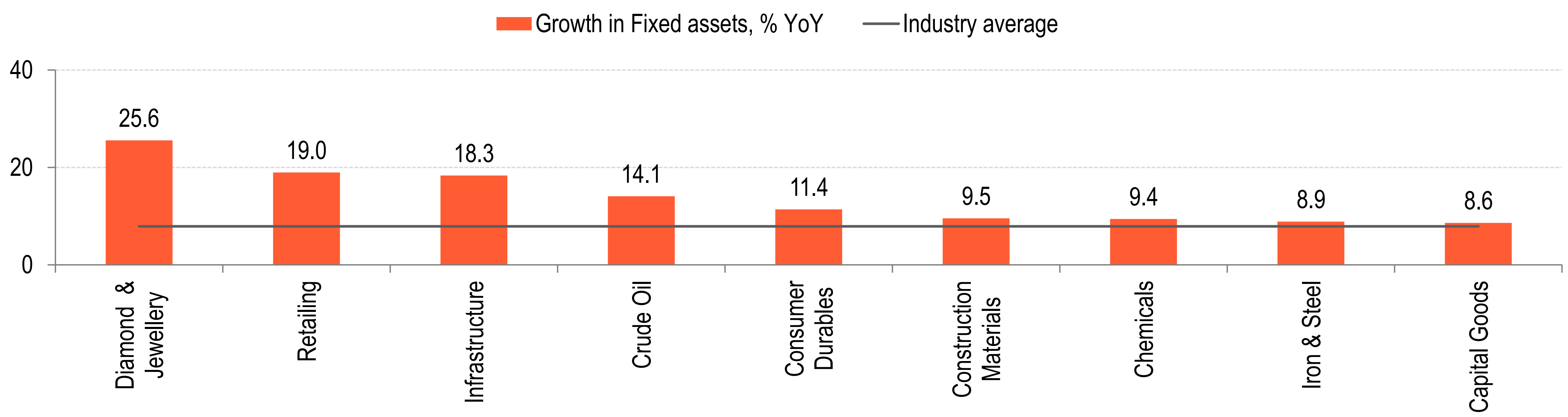


Source: Ace Equity, Bank of Baroda Research, H1: Sep

- Fixed asset creation by India Inc has been measured by sum of gross fixed assets and capital work in progress.

- Half yearly balance sheet of 1,420 companies show that growth in stock of fixed assets has risen by 7.9% to Rs 32.1 lakh crore in Sep'23 from Rs 29.8 lakh crore in Sep'22.

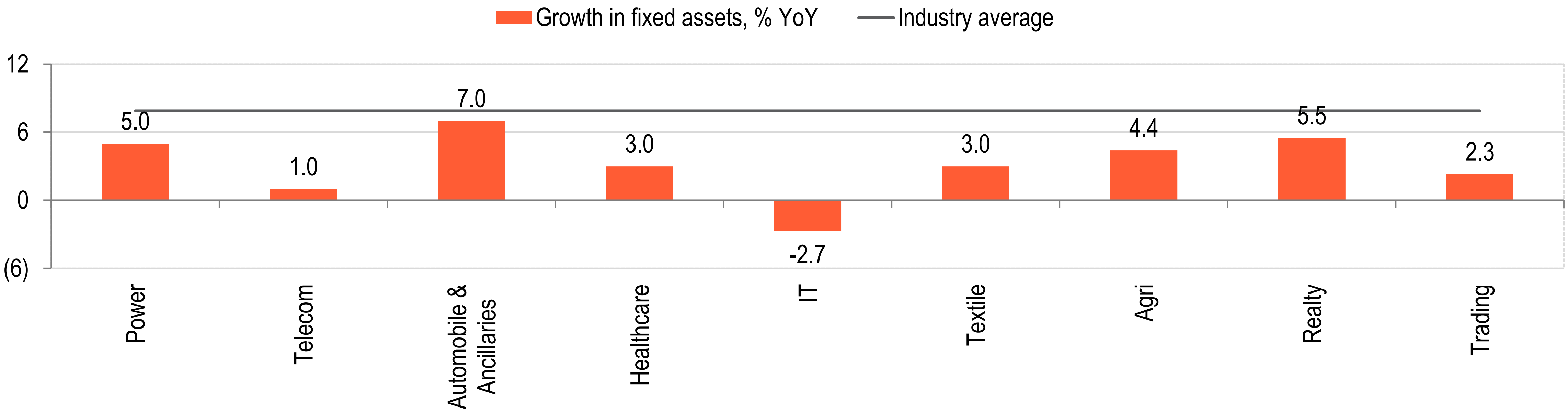
Sector wise picture



Source: Ace Equity, Bank of Baroda Research

- Sectors where fixed asset creation has happened at a faster pace than industry average includes *diamond and jewellery, infrastructure and crude oil*; amongst others.
- These industries have expanded in line with growing demand conditions.

Some infra sectors still a drag down

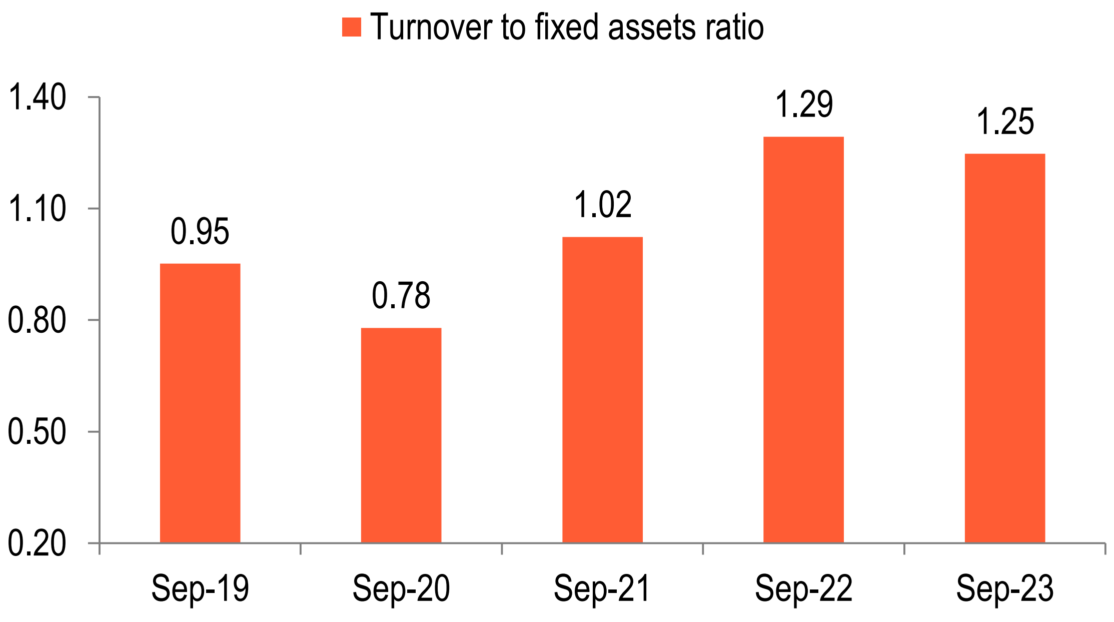


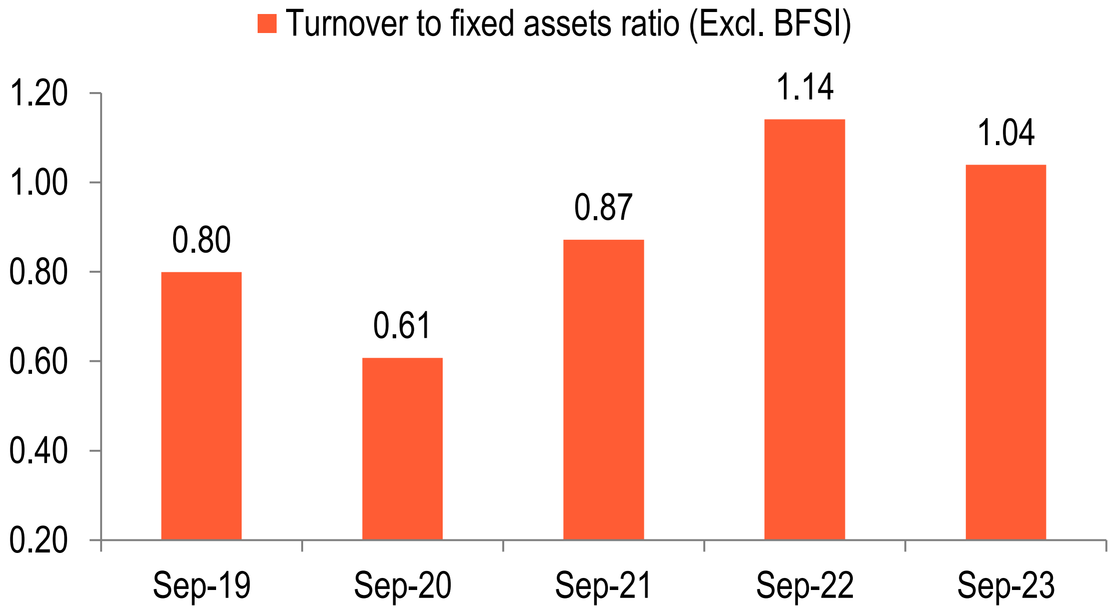
Source: Ace Equity, Bank of Baroda Research

- Power, Telecom and auto are trailing behind in terms of asset creation.

Turnover to fixed asset ratio

Turnover to fixed assets of India Inc.

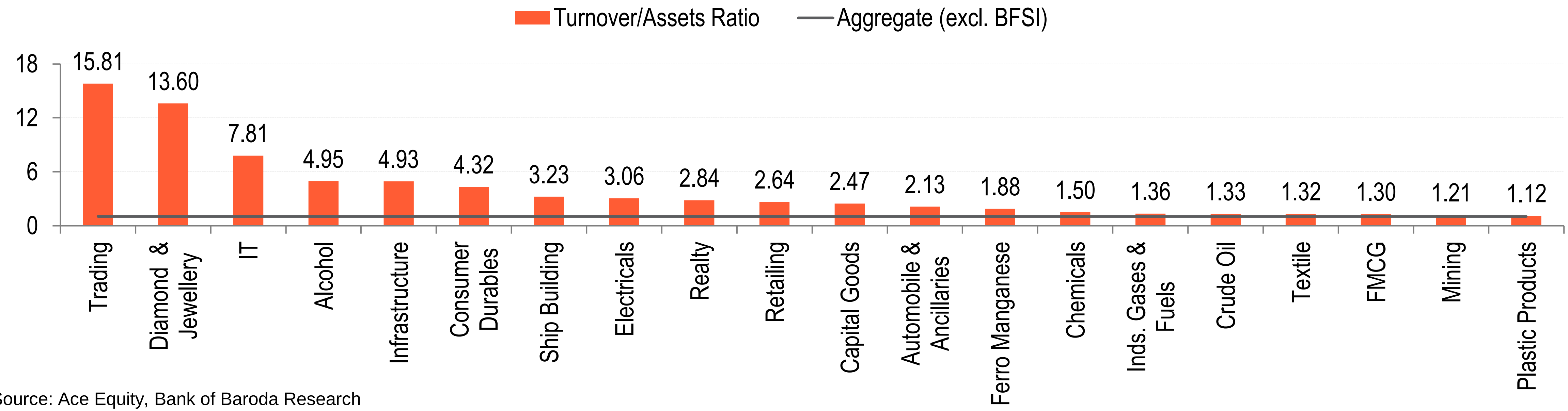




Source: Ace Equity, Bank of Baroda Research

- Here we are trying to look at capacity utilization of the economy through the lens of ratio of turnover to fixed assets ratio of India Inc.
- Balance sheets and P/L data of 1,982 companies show that turnover to assets ratio has remained higher than the pre pandemic level at 1.25 in H1FY24.
- Excluding BFSI sector (1,752 companies), the ratio is at 1.04 in H1FY24.

Sector wise picture



Source: Ace Equity, Bank of Baroda Research

- Industries such as infrastructure, electricals and realty were at the top end of the spectrum, posting a better ratio in H1FY24.
- Major infra related sectors such as capital goods, auto and ancillaries and chemicals were in the median range.
- Telecom, power, construction materials, gas transmission and iron and steel were at the bottom.

Ratios higher than pre-pandemic period

Sectors	Sep-19	Sep-20	Sep-21	Sep-22	Sep-23
Infrastructure	**4.20**	**2.90**	**3.82**	**4.41**	**4.93**
Consumer Durables	4.94	3.19	4.13	4.78	4.32
Electricals	1.94	1.42	2.10	2.83	3.06
Capital Goods	**1.87**	**1.35**	**1.97**	**2.46**	**2.47**
Automobile & Ancillaries	**1.58**	**1.03**	**1.53**	**1.98**	**2.13**
Ferro Manganese	1.22	1.13	1.94	2.67	1.88
Chemicals	**1.23**	**1.08**	**1.39**	**1.82**	**1.50**
Inds. Gases & Fuels	1.10	0.71	1.04	1.76	1.36
Crude Oil	**1.09**	**0.73**	**1.13**	**1.69**	**1.33**
Industry (excl. BFSI)	**0.80**	**0.61**	**0.87**	**1.14**	**1.04**

Source: Ace Equity, Bank of Baroda Research

Interesting Results

- Majority of the industries had higher ratios compared with pre-pandemic times with *trading, IT, electricals, miming and infrastructure* showing significant increase.

- However, for *FMCG and consumer durables,* the ratio has been lower than pre pandemic level due to moderation in sales.

- In fact the slight moderation visible in H1FY24 in the ratio is primarily on account of sharper pace of decline in sales.

- The movement of turnover to fixed assets ratio also corroborates the capacity utilisation data of RBI which also mirrors the same trend.

Thank You

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For further details about this publication, please contact:

Madan Sabnavis
Chief Economist
Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com

Aditi Gupta
Economist
Bank of Baroda
+91 22 6698 5794
aditi.gupta3@bankofbaroda.com

Dipanwita Mazumdar
Economist
Bank of Baroda
+91 22 6698 5794
dipanwita.mazumdar@bankofbaroda.com

