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Financial Performance of Companies: Q1-FY24

The overall performance of companies in the first quarter of FY24 has shown a different picture from that seen in FY23. This time, there has been a sharp pick-up in growth in profits while growth in sales has slowed down substantially. Hence the picture is different from the preceding three quarters where turnover growth was impressive but profits were depressed due to higher input costs.

Q1 has been characterized by growth in industry by 4.5% (12.8% in Q1-FY23), composite PMI averaging 60.9 (58.0), credit growth of 18.1% (12.3%), inflation 4.6% (7.3%), and exports (-) 9.3% (+3.3%).

Table 1 below gives an overview of the performance of a sample of 2322 companies for the last two years.

Table 1: Overview of performance of 2322 companies

2322 Companies	2021	2022	2023	2022	2023
	Rs crore			% change	
Net sales	19,30,685	27,07,226	27,82,281	40.2	2.8
Total expenses	15,51,928	22,33,228	22,19,954	43.9	-0.6
Operating profit	3,78,757	4,73,998	5,62,327	25.1	18.6
PBT	2,39,320	2,96,950	4,08,728	24.1	37.6
PAT	1,77,014	2,25,007	3,11,066	27.1	38.2

Source: BoB Research calculations

As can be seen in the table there has been a sharp slowdown in growth in net sales to 2.8% compared with 40.2% last year during the same quarter. The moderation in growth goes along with the fact that the IIP had witnessed lower growth this quarter on a high base of last year. But what is significant is that even though the PMIs have been very impressive the same has not been reflected in the sales growth numbers. The lower growth in sales was accompanied also with a more than commensurate fall in expenses, which was -0.6%. This in turn helped in maintaining growth in operating profit at 18.6%. Lower commodity prices globally did help to put a check on expenses on raw materials for most industries. Higher growth in operating profit as well as profit after tax was witnessed in this quarter.

The performance has been skewed by the inclusion of the BFSI sector which includes banks, finance companies and insurance. If these are excluded there is a contrast witnessed. Sales have fallen by 2.5% while profit growth has been maintained at 34.4% with operating costs also falling at a higher rate. However, the general trend remains unchanged of sales being downbeat with profits improving.

Interest costs increased sharply by 12.5% which was higher than that of 9.8% in 2022. The higher growth in profits has worked for these sample companies as the interest cover has improved to 6.82 from 6.0 last year. Hence higher interest rates has not impacted the debt service capability as profits have been robust this quarter.

Table 2: Overview of corporate performance excluding BFSI sector

1963 companies	2021	2022	2023	2022	2023
	Rs crore			% change	
Net sales	14,51,468	21,68,637	21,15,272	49.4	-2.5
Total expenses	12,14,927	19,12,411	17,99,007	57.4	-5.9
Operating profit	2,36,541	2,56,226	3,16,264	8.3	23.4
Interest	36,341	39,894	44,862	9.8	12.5
PBT	1,81,497	1,98,998	2,61,039	9.6	31.2
PAT	1,34,532	1,48,915	2,00,141	10.7	34.4
Interest cover	5.99	5.99	6.82		

Source: BoB Research calculations

Size-wise performance

The sample is dominated by the larger companies which have annual sales of above Rs 250 crore (Rs 62.5 crore in Q1-FY24). While the sample is biased towards the non-MSME companies a trait that comes across all groups of companies is that there has been an improvement in net profits for the MSMEs which moved from negative to positive in Q1-FY24. But, growth in sales was negative across the board. In case of micro and small units the decline in sales was a continuation of what was witnessed in Q1-FY23. Therefore, there is some concern on the topline growth.

Table 3: Size –wise performance of companies

Category	Number	2022	2023	2022	2023
		Growth in sales		Growth in net profits	
Large	1159	49.9	-2.5	11.5	32.9
Medium	420	30.3	-1.9	*	#
Small	264	-62.5	-12.3	*	#
Micro	121	-7.1	-44.7	*	#

Micro: sales: up to Rs 1.25 crore Small: Rs 1.25 cr-12.5 cr Medium: Rs 12.5 cr-Rs 62.5 cr
Large: Above Rs 62.5 crore *: Positive profit to negative profit # negative profit to positive profit

The improvement witnessed in profits for all the 4 segments did help to improve the interest cover ratio as seen in Table 4.

Table 4: Interest cover ratio: Size-wise

Group	2021	2022	2023
Large	6.13	6.27	6.92
Medium	1.87	1.01	2.53
Small	0.81	-0.31	2.87
Micro	0.16	0.11	1.93

Source: BoB Research calculations

It may be recollected here that the RBI started raising rates in May 2022 and hence the major impact on interest cost was felt from the second quarter onwards. In Q1-FY24 there was a turnaround for the MSME segments with improved profitability.

Interest cover

During this period it was observed that the RBI had kept the repo rate unchanged at 6.5% in the two policies in April and June. Hence there was no institutional change made in interest rates. Banks however did take calls on their interest rates based on their requirements on both the deposits and credit sides. For the banking system as a whole the weighted average lending rate (WALR) on fresh loans varied over the months. From 9.32% in March, it came down to 9.08% in April. But it rose to 9.27% in May and declined again to 9.20% in June. Hence, the rates were lower than those at the end of the last financial year.

The table below gives the interest cover ratio (PBIT/interest) for the sample companies and excludes banks and insurance from the sample.

Table 5: Interest cover: Sector-wise

Sector	2021	2022	2023
Finance	1.41	2.01	1.72
Chemicals	12.75	15.30	9.97
Textile	3.58	4.58	2.20
Capital Goods	3.27	10.82	8.67
Automobile & Ancillaries	6.82	9.34	13.16
Healthcare	14.66	13.68	12.91
IT	74.56	50.06	50.31
FMCG	12.84	12.89	14.23
Trading	6.18	7.28	7.95
Agri	3.32	3.29	2.86
Iron & Steel	10.89	7.51	4.30
Construction Materials	6.83	5.90	5.71
Plastic Products	5.80	7.25	5.90
Realty	2.58	3.07	2.54
Infrastructure	2.52	1.84	3.13
Media & Entertainment	4.40	5.84	3.75
Hospitality	-1.41	6.61	8.62
Consumer Durables	6.80	10.48	7.70
Logistics	2.03	2.36	3.77
Paper	2.98	9.56	8.48
Power	3.07	3.70	3.93
Electricals	4.56	5.98	6.42
Non - Ferrous Metals	8.28	8.21	4.92
Telecom	1.08	1.24	1.56
Retailing	-1.61	5.15	4.81
Crude Oil	6.60	4.79	9.87
Diamond & Jewellery	1.45	10.25	8.66
Diversified	7.62	11.42	5.03
Others	8.59	9.96	10.09
Mining	135.75	59.73	75.05
All	**3.89**	**4.21**	**4.35**

Source: BoB Research calculations

The sample companies witnessed continued improvement in the interest cover ratio.

- Barring finance and telecom all other sectors had an IR of above 2.
- Realty, textiles and agro products had a ratio of 2-3.
- 17 of the 32 sectors had IR of above 5.
- 13 witnessed an improvement in Q1-FY24.

Industry-wise performance

The table below gives an overview of growth in sales and net profits of various industries in the first quarter of this year over that of last year. Different ranges have been specified for both the variables. As can be seen, the performance of various industries vary significantly for this quarter. In general:

- Banks and infrastructure oriented industries have done very well this quarter. This includes construction materials. However for iron and steel and capital goods, profit growth was negative even as sales growth was high as demand emanated mainly from the government capex plans.
- Services have done well such as retail and hospitality. Media has witnessed growth in sales though profits have been under pressure.
- On the consumer side the performance was mixed. FMCG did well in sales and profit though durables witnessed negative growth in profits and sales. Agri products did reasonably well with growth of 0-10% in both the variables. Automobile sector witnessed high growth in both sales and profits.

Table 6: Growth in net sales and net profit in Q1-FY24 Matrix

Sales → **Net profit ↓**	**<0**	**0-10**	**10-20**	**>20**
<0	Chemicals Textiles Plastic products Realty Durables Non ferrous Diversified	Iron and steel	Capital goods Media, entertainment	Finance
0-10		Agri products Mining	Construction material Diamonds Jewel	
10-20	Trading	FMCG	IT	
>20	Logistics Paper products Power Crude oil	Telecom	Auto & ancillary Healthcare Hospitality Electricals Retailing	Infrastructure Banks

Source: BoB Research calculations

The developments in various industries as well the reasons for the performance has been provided below based on the investor presentations made by companies in these sectors.

FMCG

One of the key contributing factors to good performance has been the reduction in inflation. Sequential moderation in inflation has positively impacted consumer spending power and is resulting in gradual improvement in offtakes in the industry. Sales growth was marginally higher as companies passed on the benefits of lower input costs to our consumers. While demand trends in the sector remained stable during the quarter, signs of improvement on a sequential basis were not clearly visible. Further, while urban markets were steady, the anticipated pickup in rural demand remained elusive. Moderating headline inflation, hike in MSPs, easing liquidity pressures and forecast of a near-normal monsoon continue to fuel hopes of a gradual recovery in rural demand in the course of the year. During the quarter, the performance of the domestic business was affected by significant trade destocking in especially in edible oils.

There were signs of Premiumization in key segments. Premium personal care remained as did fabric wash and household care. But the F and B business especially summer centric products had a muted quarter due to unseasonal rains and a moderate summer. Lower Unit Packs (LUP) have gained more acceptance in the rural markets. Hair oil business continued to grow in urban areas though price pressures came in the way of rural demand.

Home products and appliances

Demand for home products like fans was affected by unseasonal rains. Growth in appliances was also subdued and it is expected to pick up in the festival season in Q2 and Q3. Demand for water purifiers as well as vacuum cleaners was stagnant during this period with the inflation factor holding back purchases.

Real estate

Companies did continue to witness sustained demand for homes across our various cities. Sales momentum was maintained which was accompanied by higher price realization and product mix moving more towards luxury segment.

Jewellery

Despite significant volatility in gold prices throughout the quarter, Akshaya Tritiya sales in April and wedding purchases in June were robust. Categories of gold and studded grew well. Companies also expanded their stores across the country. Consumer preferences for premium brands resulted in good uptick in the average selling price for luxury products.

Steel

Capacity utilization improved for several companies and crossed 90% in some cases due to steady demand. Domestic demand continued to grow though steel spot prices moderated in line with global cues. Stronger growth was witnessed in key segments such as branded products and retail and industrial products and projects. However, sales in some companies were affected due to destocking. Operating costs were up driven by higher iron ore prices, partly offset by lower coal and power & fuel costs.

Aluminium

Net sales impacted by lower average aluminium prices and shipments. Revenues were nearly flat in line with lower metal prices which were partly offset by higher shipments. Segments where demand was lower were beverage cans and specialties shipments, mainly in building and construction.

Cement

Domestic sales volume grew supported by good demand in the housing sector as well as infra activity with capacity utilization rates moving upwards of 85%. On the downside there was an increase in cost of raw materials: fly ash, slag and gypsum etc.

Two wheelers

There was sustained buoyancy on the domestic front which made up for the weaker exports performance. There was some uptick in demand due to the seasonal marriage markets in some segments.

Automobiles

Q1 retails and wholesales increased significantly reflecting the continuing improvement in supply constraints. Chip and other supply constraints continued to ease with the benefit of agreements and relationships with key suppliers. Profit margins were higher reflecting higher wholesales and pricing.

Auto ancillary

Segments related to the CV industry did well while those linked with passenger cars and two wheelers witnessed lower demand in the OEM segment. Replacement demand however continued to be steady which was partly met by excess inventories. Exports demand however was robust across all segments and was not affected by the global economic slowdown.

Paints

The auto OEM and general industrial coating sales were up for major companies. The slower growth of the two wheeler industry did however impact demand. There was also good export demand for some firms especially from the Middle East region though macro-economic challenges and adverse forex conditions came up in Asian markets. Home Décor categories like fabrics, decorative lighting, UPVC doors & windows maintained their high growth trajectory. Water proofing material demand picked up before the onset of the monsoon. This held in both the rural and urban areas. Margins were supported by operational, formulation and sourcing efficiencies as well as moderation in raw material prices.

Textiles: Garment

Sales of garments was affected by lower demand from weddings due to fall in number of wedding dates and other categories. Fabric price realisation softened slightly reflecting lower raw material prices. Online demand did better than store sales for several companies. Consumer demand in US was muted and few green shoots seen in EU. Domestic demand also remained soft in Q2 progresses and the industry is hoping for Q3 to bring in a turnaround.

Retail

Companies focussed on expanding number of outlets to enhance business. Focus was on driving non-food sales where the margins are higher. Apparel sales were impacted due to discretionary slowdown during the quarter, especially in small towns.

Hotels

The hotel industry in India saw rates rise in this quarter boosting RevPAR (revenue per available room). Pent up demand led to steady business for hotels in Q1. This was propped up significantly by the G-20 Summit which led to high acquisition of rooms on rent from the government side.

Restaurants

Industry has focussed a lot on opening of new touch point outlets for customers and hence it is back to the dine-in model. Delivery continued to do well as work from home continued in several companies.

Tyres

Industry focussed on operational efficiencies, product Premiumization, digitalization and cost optimization as part of business plans. This was also aided by stable raw material prices.

Telecom

The focus of the plans this quarter was on winning quality customers and driving Premiumization. Hence the customer base for new 4G customers grew significantly for one of the leading companies.

Printing books and education

The first quarter has consistently been a robust period for standalone Publication business, primarily due to the reopening of schools. Companies did start to increase prices gradually as volumes increased. Due to the inherent nature of the business, there is always a two-quarter lag in procurement of raw material and sales realization. Hence the margins were affected due to the escalation in raw material prices which was procured in the previous quarters.

Packaging

Volumes were driven by increased flexible packaging and exports which effectively offset subdued domestic demand and the impact of declining realizations caused by the fall in key raw material prices.

Sanitary ware

It was a subdued quarter for this industry as companies did focus more on offloading stocks. Capacity utilization rates were much lower on this count. Replacement demand too was muted this quarter with the price factor at work. Inflationary concerns and rising interest rate have slightly impacted the demand for mid and lower priced offerings. Profit margins were supported by lower gas prices which controlled costs.

Insecticides

The industry benefited from a good monsoon in certain regions which boosted demand. However, the use of surplus inventory did come in the way of growth. Prospects for the second quarter are positive with the monsoon picking up. Export demand however was impacted with the El Nino fear keeping them down.

Travel

Industry benefited from pent up demand in all areas. The forex business as well as holiday sales went up sharply.

Concluding remarks

The overall performance has been mixed with industries performing in a differential manner. While sales growth has been depressed, profits have improved at the aggregate level. Yet around 12 industries have witnessed lower growth in net profit relative to last year. Clearly the performance is not broad-based. The impact of higher input costs that were not passed on in the previous two years has exerted pressure on growth in profits.

Q2 is more likely to be similar and given that most of the festivals have been delayed, the expected demand is likely to be more visible in the third quarter though September may witness some momentum. Demand will be affected by the final performance of agriculture which will drive demand. Urban demand should be steady though the push received from pent-up phenomenon of last year will be missing. At the statistical level, decline in profit in the last three quarters of FY23 should provide a favourable base effect in Q2.

Annex 1: Growth in net sales (%)

Sector	Number	2022	2023
Finance	316	11.6	21.4
Chemicals	179	52.1	-10.4
Textile	166	32.6	-12.4
Capital Goods	156	54.4	12.0
Automobile & Ancillaries	144	53.8	13.4
Healthcare	125	0.1	14.4
IT	122	24.5	10.7
FMCG	106	27.2	3.0
Trading	99	138.4	-20.4
Agri	74	25.1	0.4
Iron & Steel	74	25.5	5.7
Construction Materials	70	27.8	12.3
Plastic Products	65	38.8	-9.9
Realty	65	39.5	-9.3
Infrastructure	54	29.5	23.9
Media & Entertainment	45	43.5	11.8
Hospitality	41	210.3	19.2
Bank	36	10.2	34.7
Consumer Durables	35	62.7	-2.2
Logistics	34	34.2	-4.2
Paper	33	75.8	-1.7
Power	33	59.7	-6.6
Electricals	27	47.0	15.8
Non - Ferrous Metals	24	43.5	-8.2
Telecom	22	15.1	9.0
Retailing	21	127.9	16.9
Crude Oil	20	65.7	-13.4
Diamond & Jewellery	18	149.1	17.1
Diversified	11	56.2	-6.1
Insurance	8	17.6	2.2
Others	99	73.2	-4.2
Mining	10	-17.7	1.2
Grand	**2322**	40.2	2.8

Annex 2: Growth in Net Profits (%)

Sector	Number	2022	2023
Finance	316	172.6	-16.5
Chemicals	179	45.4	-16.0
Textile	166	46.6	-64.9
Capital Goods	156	406.8	-23.4
Automobile & Ancillaries	144	44.7	67.6
Healthcare	125	-7.4	35.5
IT	122	5.4	17.7
FMCG	106	20.1	10.9
Trading	99	50.9	12.3
Agri	74	-15.2	1.3
Iron & Steel	74	-30.4	-33.2
Construction Materials	70	-17.1	4.3
Plastic Products	65	30.7	-23.9
Realty	65	9.8	-19.8
Infrastructure	54	-29.0	146.1
Media & Entertainment	45	32.4	-25.8
Hospitality	41	*	25.7
Bank	36	37.1	68.7
Consumer Durables	35	79.9	-1.3
Logistics	34	89.3	84.0
Paper	33	210.0	36.9
Power	33	50.4	23.6
Electricals	27	61.4	41.5
Non - Ferrous Metals	24	3.9	-5.8
Telecom	22	*	170.7
Retailing	21	*	26.5
Crude Oil	20	-27.7	202.8
Diamond & Jewellery	18	*	7.4
Diversified	11	63.6	-47.1
Insurance	8	*	*
Others	99	45.9	55.9
Mining	10	-47.7	3.3
Grand	**2322**	27.1	38.2

**: Movement from (-) to (+) or vice versa. Also very high growth rates can be denoted here.*

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