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Corporate performance: Q2FY24

India Inc.'s performance based on a sample of a 3,265 companies spread out across 35 sectors in Q2-FY24 has been ambivalent. The quarter was marked by increased profitability, even as sales growth remained muted. At a disaggregated level, while banks and service related sectors benefited from higher credit offtake and pent-up demand respectively, signs of stress were visible in certain pockets. Consumer oriented industries such as FMCG etc. noted muted growth as rural demand continues to lag. This will be a key factor to monitor going forward

Corporate performance of India Inc. in Q2-FY24 has been marked by higher profitability even though revenue growth has moderated to a large degree. Lower commodity prices have resulted in lowering input costs and improved profitability. On the other hand, sales growth has remained muted for the second consecutive quarter. While base effect can explain some part of this moderation, delay in festive season and patchy monsoon have also weighed on revenue growth as demand was affected.

For a sample of 3,265 companies, sales growth in the last quarter rose at a meek pace of 2.8%, compared with a 24.3% growth in Q2-FY23. Expenditure growth has declined sharply by 4.2%, after increasing by 28.5% in Q2-FY23. This was led largely by a decline in costs of raw materials. As a result, profitability parameters have shown a sharp improvement. Operating profits, profit before tax and net profits have all registered double digit growth in Q2-FY24. Profits after tax, which had declined by 2% in Q2-FY23, rose at an impressive pace of ~30% in Q2-FY24.

Table 1: Overview of performance of 3,265 companies

	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

The overall performance has been skewed to an extent due to the inclusion of BFSI sector which includes banks, finance and insurance companies. To get a clear picture, we exclude the BFSI sector (Table 2), and the sample reduces to 2,749 companies. While the overall picture remains the same of higher profits and lower sales, 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.

Interest cover ratio of the companies has shown a marked improvement, led by both lower growth in interest costs as well as higher growth in profits. The interest cover ratio of the companies has improved to 5.64 from 4.49 last year. This bodes well from the perspective of debt service capability of these companies.

Table 2: Overview of corporate performance ex. BFSI sector (2,749 companies)

	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	-	-

Source: AceEquity, Bank of Baroda Research

Sector-wise movement in interest cover

It must be noted that RBI has kept its policy rate unchanged since Feb'23. However, in order to meet their business requirements, banks have increased the rates charged on fresh rupee loans. In fact, the weighted average lending rate (WALR) on fresh loans stood at 9.38% in Sep'23 versus 9.2% in Jun'23 and 8.59% in Sep'22. Overall growth in bank credit for this quarter was 17.6% which was marginally lower than 18.9% last year. Even so, the ICR has shown an improvement as the higher interest costs have been offset by a sharp uptick in profits.

Table 3 below gives the interest cover ratio (PBIT/interest) for the sample companies excluding the BFSI sector. As stated earlier, there has been an improvement in the interest cover ratio for major sectors during Q2-FY24. The following observations can be made:

- The improvement in ICR for the sample companies is a reflection of the fact that the increase in interest rates has not really lowered the debt servicing capability of companies. Therefore the fear that higher repo rate leading to higher lending rates would pressurize companies has been put aside.
- 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).
- Interestingly the 10 largest indebted sectors such as power, crude oil, infrastructure, realty, automobiles, chemicals, logistics and textiles, besides the two mentioned earlier have witnessed improvement in their ICR.
- A total of 5 sectors had an ICR of 2-3. These included: textiles, infrastructure, agro products and logistics.
- 19 of the 32 sectors had ICR of above 5.
- 16 sectors witnessed an improvement in ICR in Q2-FY24 vis-à-vis Q2-FY23.

Quite clearly the ICR will be dependent mainly on performance of companies in terms of growth in profits. Based on trends witnessed in the first two quarters it does seem like that growth in profits will be maintained in the following two quarters too given that the WPI inflation numbers which reflect to a large extent the growth in input costs has been under control at low if not negative levels. If this feature continues it will also have a soothing effect on the quality of assets.

Table 3: Interest cover: Sector-wise

Sector	Q2-FY22	Q2-FY23	Q2-FY24
Telecom	0.40	0.45	0.41
Iron & Steel	11.15	1.99	1.94
Textile	5.38	3.11	2.31
Infrastructure	2.05	2.29	2.57
Agri	3.53	5.50	2.63
Miscellaneous	1.02	1.02	2.90
Logistics	2.23	2.34	2.97
Realty	3.06	1.72	3.05
Power	3.31	2.90	3.56
Media & Entertainment	4.57	3.59	4.11
Retailing	2.97	4.71	4.14
Construction Materials	5.70	2.21	4.42
Hospitality	1.17	4.29	4.61
Diamond & Jewellery	5.38	6.75	5.18
Paper	3.35	9.24	5.65
Non - Ferrous Metals	9.76	3.20	6.38
Electricals	6.99	6.15	6.51
Plastic Products	8.64	7.93	6.79
Consumer Durables	12.57	15.28	7.12
Trading	4.46	10.28	7.66
Diversified	13.51	12.96	8.41
Chemicals	11.61	9.05	9.07
Crude Oil	7.96	4.15	9.25
Capital Goods	7.51	9.45	11.36
Healthcare	12.84	14.91	12.05
Alcohol	21.08	23.02	13.32
Automobile & Ancillaries	9.16	10.18	15.90
Inds. Gases & Fuels	39.87	20.14	17.37
FMCG	19.98	21.96	18.47
IT	84.23	56.08	46.34
Gas Transmission	46.89	46.78	59.58
Mining	145.53	89.19	93.46
Total	**6.26**	**4.49**	**5.64**

Source: AceEquity, Bank of Baroda Research

Sector-wise performance

In terms of sector wise performance, net sales in 19 sectors has been higher than the sample average which is 4.3% (excl. miscellaneous). However, when compared with last year, only 7 sectors have seen higher growth in net sales relative to the same quarter last year. These include: banks, finance, real estate, electricals, mining, healthcare and media and entertainment.

For net profits, the number of sectors showing higher growth than the average of 22.1% are 16. Even when compared with the same period last year, 11 sectors show higher growth in profits. Hence, clearly the profit picture which seems upbeat at an overall level requires a much closer look.

The table below gives an overview of growth in sales and net profits of various sectors in Q2FY24 on a YoY basis, divided into different ranges. The following points stand out:

- As has been the case for the last few quarters, banks have continued to perform extremely well in Q2-FY24 as well, with both profits as well as sales increasing by more than 20%. Buoyant credit demand, along with higher interest rates and improved asset quality has helped profitability of banks. This is also true for the finance sector as well which comprises of NBFCs and HFCs etc.
- Infrastructure oriented industries and capital goods have also done reasonably well in Q2-FY24. This also holds true for real estate and construction materials. On the other hand, despite some traction in sales, profits in mining and non-ferrous metals remained negative.
- Services continued to do well supported by pent-up demand. This is especially true for hospitality which exhibited double-digit growth in both sales and profits. On the other hand, both net sales and profit growth in the retail sector remained muted amidst a drop in discretionary spending and delay in festive season.
- The performance of IT services has remained downbeat this quarter amidst a challenging global macro-economic environment.
- Auto sector has also recorded a good performance this quarter with both sales and profits registering double-digit growth. Strong demand, easing semi-conductor issues and lower commodity prices aided this performance.
- However, the performance of other consumer goods, such as FMCG and consumer durables was somewhat dismal, with both registering muted sales growth. Weak rural demand due to delayed and patchy monsoon as well as shift in festive season were the primary reason for the weak performance.

Table 4: Growth in net sales and net profit in Q1-FY24 Matrix

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 materials Electricals Hospitality Infrastructure Realty
more than 20				**Bank** **Finance** **Media & entertainment**

Source: AceEquity, Bank of Baroda Research | Note: *PAT has been impacted by losses in one company, excluding it, profits growth of the sector has been robust

Some key takeaways from investor presentations for key sectors has been summarized below.

FMCG

- Major players indicated a significant divergence between rural and urban demand
- Rural demand continued to be weak
- Erratic rains and high food inflation impacted demand
- Delay in festive season also impacted sales
- Prices of raw materials have eased
- Increased competition including from small regional players has also impacted growth
- Price cuts by some companies in certain segments
- Inventory levels were higher due to stocking up ahead of the festive season
- Market players positive on future outlook amidst festive demand, easing liquidity pressure, government spending and pickup in domestic growth
- Rural demand to also get a boost from lower inflation, higher MSPs and good kharif sowing
- Risks remain from volatility in global commodity prices, geo-political uncertainties and El-Nino shock

Real estate

- Housing demand remained upbeat in Q2FY24 despite it being a seasonally weak quarter
- Steady domestic growth along with a pause in RBI's interest rate cycle and moderation in inflation has lifted consumer sentiments
- Demand shifting towards premium and larger configuration segments
- Companies foresee a further uptick in sales during the festive season and are responding with new launches

Gems and jewellery

- Sales maintained a healthy momentum despite seasonal factors
- Profits were however lower due to elevated gold prices
- Lower export demand due to challenging global outlook continue to weigh on future outlook
- Festive demand and upcoming marriage season are key tailwinds

Automobiles

- Sector witnessed strong growth in both sales and profits
- Led by softening commodity prices and easing supply-chain disturbances related to semi-conductors, raw material costs eased further
- Sale of passenger vehicles and commercial vehicles outperformed
- Weakness in rural demand manifested in lower sales volumes of two-wheelers and tractor sales
- Demand for EVs was robust despite FAME-II subsidy cut
- Outlook for H2 is positive on the back of a gradual decline in inflation, festive demand, seasonality, improved supplies and new launches.

Cement

- Demand for construction materials including cement boosted by buoyancy in infrastructure sector and housing demand
- Cement prices have also edged up due to higher demand

- Input costs have come down
- Cement demand is poised to grow further fuelled by continued focus on infrastructure sector and real estate sector

Paints
- Erratic rainfall and delayed festive season impacted business
- Rural demand lagged urban
- Traction was seen in luxury segment
- Exports were impacted by weakness in global demand and currency depreciation
- Input prices moderated
- Outlook is positive supported by festive and marriage season, pickup in construction sector and government's capex
- Headwinds remain from escalation in the war in Middle-East and its impact on commodity prices and global demand

Fertilizers
- Prices of raw materials have moderated but showed an upward trend from Aug'23
- Sales was impacted due to decline in government subsidy under the NBS and erratic rainfall
- Decline in import prices of P&K fertilizer impacted sale growth
- Urea sales lower due to lower gas prices
- Fertilizers prices are inching up due to demand and supply mismatch these include phosphatic fertilizers such as DAP, NPK, MOP
- Forecast of a normal North-East monsoon bodes well for the sector in the coming quarter

Crude oil
- Oil marketing companies (OMCs) registered a stellar growth in profits amidst improved margins due to lower oil prices globally

Iron and steel

- Robust demand for steel due to increase in auto production and government spending
- Weak demand from overseas markets, especially Europe
- Prices of raw materials such as coking coal and iron ore have increased but the impact will be felt in next quarters
- Outlook for H2 is positive with strong double-digit growth expected led by government's infra spending, PLI, demand from housing and auto sector
- Rural demand also poised for a revival
- Private sector capex expected to pick up amidst high capacity utilization and deleveraging

Hospitality

- Improvement in revenues and profits of hotels
- Demand continues to be strong
- Foreign travel still recovering
- Both average room rate (ARR) and revenue per available room (RevPAR) have posted solid gains, especially in the luxury segment
- Supply continues to lag behind demand
- Positive impetus from G-20, ICC Men's World Cup and marriages

Textiles

- Retail demand remained weak due to drop in discretionary spending
- Global macro landscape also unfavourable
- Issues with domestic availability of cotton and high import duties
- Signs of improvement particularly for woven fabrics
- While demand is expected to improve gradually, lower production of cotton poses a big risk to the industry

Concluding remarks

Corporate performance in Q2FY24 has been broadly in line with the trend seen last quarter. While profit growth has seen a marked improvement, sales growth has been much more sombre. A correction in commodity prices and the resulting decline in input costs for companies has contributed to the uptick in profits.

However, various sectors have performed differentially. Even so, performance of banks and financial institutions has been consistently remarkable. Apart from this, infrastructure linked industries have also continued to perform well amidst the government's big capex push. Auto, real estate and hospitality industries are also benefitting from pent-up demand and changing consumer preferences amidst emergence of a growing middle-class. On the other hand, other consumer driven sectors such as FMCG, consumer durables etc. have been impacted due to weak rural demand due to patchy monsoon, elevated food inflation and delay in festive season.

On the positive side, the outlook for almost all sectors looks bright with companies betting big on the festive demand. Positive tailwinds will also come from lower commodity prices and a dip in domestic inflation. However, this will be contingent on a pickup in rural demand which in turn will demand. While kharif sowing has progressed well despite some irregularities, concerns remain over the rabi crops due to low reservoirs level in the country.

Annex 1: Growth in net sales (%)

Sector	Number of companies	Net sales, In Rs. Crore		Growth in Net sales, % YoY	
		Q2-FY23	Q2-FY24	Q2-FY23	Q2-FY24
Finance	473	81,711	1,00,239	13.0	22.7
Textile	255	42,051	41,395	-1.3	-1.6
Chemicals	218	1,23,745	1,08,122	36.3	-12.6
Capital Goods	213	52,465	58,084	11.4	10.7
Trading	197	49,843	35,236	56.0	-29.3
Healthcare	187	61,761	66,580	6.7	7.8
Automobile & Ancillaries	179	1,92,927	2,16,895	32.7	12.4
IT	179	1,48,813	1,57,611	24.3	5.9
FMCG	148	1,07,774	1,09,691	17.0	1.8
Agri	109	22,528	24,452	11.1	8.5
Iron & Steel	100	1,54,934	1,62,394	12.8	4.8
Realty	99	13,213	15,276	-0.6	15.6
Plastic Products	97	15,245	14,911	-1.2	-2.2
Construction Materials	86	51,004	57,034	13.6	11.8
Miscellaneous	83	24,960	28,841	52.0	15.5
Infrastructure	78	60,257	68,765	18.0	14.1
Media & Entertainment	68	7,895	10,033	15.9	27.1
Hospitality	61	5,467	6,314	68.7	15.5
Logistics	49	16,814	15,809	24.0	-6.0
Paper	43	9,346	7,635	46.1	-18.3
Consumer Durables	42	16,794	17,269	6.5	2.8
Bank	36	3,08,866	3,98,063	17.9	28.9
Electricals	35	10,378	12,069	13.0	16.3
Power	35	89,283	91,786	32.3	2.8
Non - Ferrous Metals	32	50,519	53,854	11.2	6.6
Diamond & Jewellery	29	16,586	18,642	13.4	12.4
Telecom	27	45,137	47,202	17.5	4.6
Retailing	25	22,744	26,477	39.0	16.4
Crude Oil	24	7,07,451	6,46,742	35.6	-8.6
Mining	13	5,187	5,671	-42.1	9.3
Diversified	12	15,695	15,323	25.0	-2.4
Inds. Gases & Fuels	11	55,982	46,046	68.0	-17.7
Alcohol	9	17,163	17,246	5.3	0.5
Insurance	7	1,80,867	1,63,145	19.1	-9.8
Gas Transmission	6	11,372	11,250	44.0	-1.1
Total	**3,265**	**27,96,778**	**28,76,102**	**24.3**	**2.8**

Source: AceEquity, Bank of Baroda Research

Annex 2: Growth in Net Profits (%)

Sector	Number of companies	PAT, In Rs. Crore		Growth in PAT, % YoY	
		Q2-FY23	Q2-FY24	Q2-FY23	Q2-FY24
Finance	473	23,865	29,907	26.2	25.3
Textile	255	1,641	1,116	-49.4	-32.0
Chemicals	218	9,547	9,366	18.2	-1.9
Capital Goods	213	4,894	6,683	37.9	36.6
Trading	197	2,348	1,801	153.6	-23.3
Healthcare	187	10,809	11,202	38.0	3.6
Automobile & Ancillaries	179	12,222	22,396	30.5	83.2
IT	179	25,766	27,037	-21.8	4.9
FMCG	148	12,171	13,470	12.7	10.7
Agri	109	2,087	714	84.6	-65.8
Iron & Steel	100	3,185	139	-86.6	-95.6
Realty	99	458	1,645	-70.5	259.4
Plastic Products	97	1,798	1,288	14.2	-28.4
Construction Materials	86	1,048	3,767	-75.9	259.3
Miscellaneous	83	-407	1,786	10.1	*
Infrastructure	78	2,748	3,620	24.3	31.7
Media & Entertainment	68	559	1,010	-34.9	80.7
Hospitality	61	529	674	*	27.5
Logistics	49	1,238	1,572	60.8	27.0
Paper	43	986	775	216.4	-21.5
Consumer Durables	42	1,757	757	89.1	-56.9
Bank	36	48,287	62,609	71.4	29.7
Electricals	35	685	875	13.6	27.8
Power	35	11,271	18,997	3.2	68.5
Non - Ferrous Metals	32	3,565	3,149	-54.4	-11.7
Diamond & Jewellery	29	1,154	1,000	46.3	-13.4
Telecom	27	-7,140	-9,144	7.8	-28.1
Retailing	25	1,299	1,341	199.2	3.2
Crude Oil	24	16,951	50,678	-56.5	199.0
Mining	13	3,685	3,408	-16.9	-7.5
Diversified	12	1,448	1,162	7.1	-19.7
Inds. Gases & Fuels	11	2,419	3,388	-36.1	40.1
Alcohol	9	797	609	53.7	-23.6
Insurance	7	19,106	10,657	439.9	-44.2
Gas Transmission	6	1,438	1,871	7.3	30.1
Total	**3,265**	**2,24,215**	**2,91,321**	**-2.0**	**29.9**

Source: AceEquity, Bank of Baroda Research| Note: *denotes movement from (-) to (+) or vice versa, or very high growth rates

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