June 3, 2023

Corporate Performance: Q4-FY23

The corporate sector recorded a fairly steady performance in Q4 of FY23 though growth in sales and net profits slowed down relative to last year. The sector was affected by various forces. On the positive side pent up demand in several areas helped to push up turnover. The correction in prices also helped to bring down input costs in the latter part of the year. However, on the downside the crisis in Ukraine led to high commodity price inflation in the first part of the year. While inflation did temper down, companies did start passing on the higher input costs from Q3 onwards which affected demand in some sectors. Hence inflation had a mixed effect on the prospects on industry. Export markets were weak which was expected as the global economy slowed down. The RBI kept increasing the repo rate which put pressure on the interest costs of companies. Therefore, these factors had a differential impact on the performance of companies.

Our earlier studies for Q2 and Q3 showed that while top line growth was steady, net profits of non-BFSI sample companies had declined. Q4-FY23 has been different. Against this background, Table 1 and Table 2 show two things. Growth in sales was steady though lower than last year. Growth in net profits has slowed down for both the aggregate sample as well as the one which excludes BFSI companies. The difference from the past is that growth in net profit is positive indicating some recovery.

Table 1: Performance of 2096 companies (Rs crore)

2096 companies	2021	2022	2023	2022	2023
	Rs crore			% change	
Net Sales	20,08,906	24,30,415	27,21,090	21.0	12.0
Profit after tax	1,87,499	2,36,501	2,77,513	26.1	17.3
PAT margin	9.3	9.7	10.2		

Table 1 reveals that growth in sales has slowed down from 21% in Q4-FY22 to 12% in Q4-FY23 for the sample of 2096 companies while that in net profits has moved from 26.1% to 17.3% during this period. There has been improvement in net profit margin in both the years.

Table 2 excludes BFSI companies. Here the performance is relatively muted with sales growth of 8.8% and net profit of 7.5%. The higher base effect as well as dilution of pent up demand in some sectors contributed to this slower growth. The net profit margin however has been falling over the last two years of this quarter though the dip in Q4-FY23 has been very marginal.

A significant observation here is that the interest cover ratio for the sample of 1797 companies came down to 5.82 from 6.45 last year after witnessing an improvement in FY22. This was a result of both lower growth in PBIT as well as higher interest costs due to the lending rates increasing in the banking system. PBIT had grown by just 4.8% this quarter compared with 9.4% last year. However, interest costs increased sharply by 16.3% compared with 4.7% in Q4-FY22.

Table 2: Performance of 1797 non-BFSI companies

1797 companies	2021	2022	2023	2022	2023
	Rs crore			% change	
Net Sales	16,64,908	20,58,229	22,38,783	23.6	8.8
PBIT	2,38,953	2,61,477	2,74,135	9.4	4.8
Interest	38,711	40,512	47,113	4.7	16.3
Profit after tax	1,53,545	1,68,895	1,81,559	10.0	7.5
Interest cover	6.17	6.45	5.82		
PAT margin	9.2	8.2	8.1		

Industry-wise performance

Growth has not been even across sectors and a differential picture is observed. Sectors have been impacted by different sets of factors as demand and supply conditions varied. Detailed tables are provided in the Appendices at the end.

Sales growth was 12% for the aggregate sample companies.

- The industries which grew at a higher rate than the average were: banks, insurance and Finance in the BFSI sector. Services received a boost from the pent up demand which got reflected in hospitality, diamonds and jewellery, logistics, IT, retail, and trading. Within manufacturing auto did well on the consumer oriented front while construction material, power and industrial gases performed positively on the industrial front.
- Low growth was witnessed in case of textiles, alcohol, plastic products, mining, gas transmission and iron and steel.
- Food based products and health care had maintained their sales growth at the average level which was also the case with paper.
- Industries like electricals, FMCG, chemicals, infra, capital goods, media, telecom, realty, consumer durables registered single digit growth. Price pressures did come in the way of demand; and rural demand was less robust than expected across some of these industries.

The industries which were under pressure in Q4-FY23 would need to be watchful in FY24 as overall economic growth is poised to be lower and export market (to the extent that the industry is dependent on foreign markets) less accommodative.

In terms of growth in profit the matrix was different. For the sample companies, growth was 17.3% driven by the BFSI sector and 7.5% if this segment is excluded.

- The industries where growth in profits was higher than 17.3% were banks, insurance, crude oil, insurance, trading, retail, FMCG, auto, infrastructure, durables, health care, paper, electricals and hospitality.
- The industries which witnessed a drop in the growth in PAT were iron and steel, IT, chemicals, non-ferrous metals, textiles, trading, agri products, realty, alcohol, capital goods, mining and plastic products.
- Those that were more moderate were power, mining, gas transmission.

What were the macro factors affecting some of the industries: (based on the presentations made by various companies).

Cement

The industry was affected by muted realisations in the face of higher raw material driven by high-cost inventory for some companies. There was some comfort in reduced freight costs. Energy costs remained high which put pressure on profits. Demand was driven by the housing segment across all geographies. Schemes such as PMAY, PMGSY, Housing for All helped growth. Also the infrastructure segment grew in Mumbai led by Metro and Mumbai Trans Harbour Link (MTHL) and coastal road projects.

Food

Growth was broadly driven by a volume recovery across various segments with good margins. Premiumization remained the key to higher growth in profits. Some companies had witnessed significant improvement in pricing which made up for higher input costs. Growth was also enabled by the e-commerce platform mode of sale.

Personal care

Both personal care and household products grew well with focus being again on the premium portfolio for higher realizations to cover costs. Cost of materials consumed and purchases of stock-in-trade increased across the board. Rural demand remained muted for several companies.

2 wheelers

Sector had been constrained early on due to supply shortages as well as constrained overseas markets for the most part of the year. Companies made good on the spares front as well as brought in new models to push up overall sales. However, pricing remained judicious which helped to an extent to counter the phenomenon of sluggish exports.

Real estate

The sector is going through an upcycle with residential sales across all key markets in the country being robust. The mortgage rates have gone up but not really come in the way of demand and the sector sees a positive outlook going ahead. The affordable segment however could be impacted. Formalization of the Indian real estate sector has helped to streamline activity. The other positive factor helping demand is that it is being driven by relatively low inflation-adjusted home prices in many years.

Paper

Different segments have been impacted by various factors. Writing & Printing paper demand was low due to seasonal impact of closure of education institutions for summer holidays. Demand in board segment expected to remain stable with positive sentiments in Q1 FY24 which also holds for the tissue segment Cost pressures are still there with competition from low-priced imports and excess supply from domestic mills. Export demand from Europe/USA has been low and will continue to be so in the first part of FY24 due to recession tendencies.

Textiles

FY23 has been pressurized by geopolitical tensions and soaring raw material costs. As the year progressed, the fall out of some of those events had a bearing on demand from USA, EU and UK. Towards the latter part of the year, raw material prices stabilized, but the overall operating environment and customer sentiments globally was subdued. Domestic demand was affected by higher inflation which affected discretionary demand. But demand for premium products did well. However, operating margin for several companies suffered due to dual impact of high cost raw material and product supply at higher incentives and schemes for the distribution channel.

There was a reduction in cotton prices and ocean freights which has helped the industry. However, with the global economy still being downbeat, demand was subdued. The industry expects the second half of the year to be positive for demand with improved market sentiment.

Pesticides/seeds

Exports witnessed good momentum while domestic demand remained steady with stable agricultural production. Gross margins however were lower due to high cost volatility which was mitigated only partly through pricing measures.

Retail

Robust sales were witnessed ion Q4 which was broad based with a healthy balance of price, volume and product mix. Companies banked on physical stores to prop up sales which supplemented the e-commerce channel. Slowdown in discretionary consumption was witnessed in in rural areas, while Tier II and III cities registered comparatively higher growth rates. There was some increase in revenue primarily due to larger average transaction amounts, as well as an uptick in customer visits and the introduction of new stores. Some companies reported high capacity utilization rates.

Passenger cars

Companies witnessed high growth in sales both domestic and exports with the pent up demand phenomenon playing out. Also the supplies of chips improved which helped to clear backlog of wait lists. There was an improvement in capacity utilization too which led to better realization amidst cost reduction efforts. Companies spent more on advertising and promotion. Premium models tended to do better as price increases did not matter.

Health care

Volumes continued to increase in value terms in both the markets: domestic and exports. There were cost pressures however which had to be tackled. With covid behind us, companies also had to get back to their mainline business and drugs related to the pandemic were no longer being sought. Medical devices business which peaked during covid due to increased demand and inventory build-up has also stabilized in last quarters and is on upward journey.

Tyres

Volume growth in OEM segment was positive which helped to negate the decline in exports. The pricing environment remained stable during this quarter which was enabled by raw material prices cooling down. Industry expects the margin performance to remain healthy on back of correction in input prices

Restaurants

Dine in growth with elevated consumer experience continued to drive business momentum. Digital sales saw sharp improvement led by improvements in Self Ordering Kiosks (SOK's) put up by companies besides online delivery. Prices did increase to cover high increases in inputs- food raw materials as well as wages, power, rents etc. This however, did not lower demand.

Paints/adhesives

Revenue growth was primarily driven by domestic demand and the same from rural and semi-urban regions improved during the quarter. The moderation in input costs led to improvement in gross margin. Automotive business had another quarter of good growth aided by increased price realization. Healthy double-digit growth in value and volume was enabled by record number production by OEMs in the auto sector. Decorative business showed healthy volume and value growth in-spite of an inflationary environment aided by some mix improvement. Gross margins showed improvement over corresponding quarter last year and sequentially on the back of lower raw material prices.

Jewellery

New customer additions continued to stay healthy with the wedding season also nearing. Further, demand improved as individuals preferred gold and jewellery as safe investment. Opening of new showrooms during the quarter in India and positive consumer sentiment provided support.

Shipping

Tanker markets continued the strong run that began in March 2022 while dry bulk markets were weak during the period due to seasonal factor as well as global slowdown.

Aluminium

The sector did well on back of support from electrical and auto industries. Building and construction was marginally impacted by rising interest rates and consumer durables was subdued. In case of beverage packing demand was stable. For vehicles continuing positive levels of pent-up demand as well as focus on electric vehicles in production mix favoured aluminum use.

Steel products

Products gained traction both in the domestic and export markets. Companies had moved towards higher value added grades which provided a fillip. The other measures which helped were 'Make in India' initiatives by the government, implementation of BIS and other accreditations and anti-dumping duty on some imports.

Consumer appliances

Strong momentum witnessed in appliances due to pent up demand with new consumers entering the market. Consumer lighting witnessed slowdown as was the case with fans. Build-up of inventory in the past came in the way of fresh production.

Sugar

Production was good given high demand in both domestic and export market. Ethanol Blending Program has helped in growth of volumes.

Media: Print

Print performance was satisfactory despite challenging environment. High newsprint prices continued to impact operating profit which also caused some publications to increase their prices. Industry got support from normal flow of advertisements which was combined with outdoor events.

Interest cover ratio

FY23 was characterized by an increasing rate regime as the RBI increased the repo rate by 250 basis points to control inflation. This led to an increase in the lending rates of banks. The WALR (weighted average lending rate) on fresh loans increased from 7.63% in March 2022 to 9.32% in March 2023. The median value of MCLR for 1 year increased from 7.25% to 8.60% during this period. Clearly, the cost of borrowing had increased sharply. At the same time, growth in credit for the system was higher at 15% compared with 9.6% last year. Therefore, a combination of higher borrowings at a higher cost added to interest expenses. Profits, as seen have not risen across the board and hence there was some pressure on the interest cover ratio (defined as PBIT to Interest).

The table below gives the interest cover ratio of various industries for Q4 of FY22 and FY23.

Table3: Movement in interest cover ratio

Sector	2022	2023	Sector	2022	2023
Mining	69.61	106.21	IT	67.73	44.66
Capital Goods	13.18	13.27	Gas Transmission	32.69	31.58
Automobile & Anc	11.21	11.47	FMCG	20.88	20.76
Hospitality	2.76	8.05	Inds. Gases & Fuels	38.68	11.69
Paper	6.07	7.42	Non - Ferrous Metals	18.28	10.69
Diamond & Jewellery	6.1	7.19	Consumer Durables	10.28	9.71
Electricals	7.03	7.12	Healthcare	11.4	8.94
Trading	3.92	4.66	Alcohol	16.11	8.8
Infrastructure	3.77	4.44	Diversified	12.27	8.39
Retailing	3.1	3.47	Chemicals	13.68	8.28
Logistics	1.81	3.17	Crude Oil	7.4	7.15
Others	0.95	2.91	Plastic Products	7.31	6.81
Telecom	0.29	0.54	Agri	6.15	5.72
			Construction Materials	6.12	5.08
			Realty	5.73	4.98
			Iron & Steel	9.72	4.66
			Power	3.71	3.25
			Textile	4.21	2.58
			Media & Entertain	-3.76	-3.8

As can be seen in the table, telecom and media were the only two sectors will very low or negative interest cover mainly due to profits being down. Industries like power, textiles and realty witnessed a decline in interest cover where the ratio was less than 5. Therefore the situation does appear to be fairly comfortable.

The frequency distribution of companies based on interest cover ratio is given below.

Table 4: Frequency distribution of companies by interest cover ratio

Range of interest cover	Q4-FY22	Q4-FY23
Loss	211	241
<1	64	77
1-2	124	140
2-5	309	314
5-10	244	248
>10	712	655
Total	1664	1675

Please note: (companies which had no interest outflow are excluded and hence does not sum to 1797)

Higher interest costs did put some pressure on debt servicing capability though it was more severe only at the lowest and highest ranges.

Size-wise view

The growth in sales of companies in various size categories is presented below. While the sample size is tilted heavily towards the larger companies which have annual turnover of above Rs 250 crore, the picture is interesting. The small and micro firms have witnessed negative growth in sales while the medium sized companies have registered positive growth, albeit marginal, in Q4 of FY23. This comes after a decline in turnover in FY22. Therefore there has been some semblance of recovery which is not visible for the small and micro enterprises. While the number of companies in these groups is small, this could nonetheless be representative of the overall picture.

Size	Number	2022	2023
		% growth	
Large	1,227	21.6	12.1
Medium	401	-3.3	1.1
Small	263	-64.7	-59.8
Micro	205	-14.0	-45.1
Total	**2,096**	**21.0**	**12.0**

Concluding remarks

The Q4 results do show a turnaround in terms of growth in profits which is positive compared to the preceding two quarters. There is some variation across industries. Interest cover ratio while being lower for the quarter does not indicate vulnerability across most industries. Though the sample size is small when it comes to size-wise classification there is a sense of the micro and small enterprises still being under pressure.

Appendix 1: Sales and Net Profits: Industry-wise

Sector	2021	2022	2023	2022	2023
	Rs crore			% growth	
Crude Oil	4,72,182	6,23,408	6,53,578	32.0	4.8
Bank	2,65,913	2,88,897	3,80,538	8.6	31.7
Automobile & Ancillaries	1,46,554	1,65,496	1,95,100	12.9	17.9
Iron & Steel	1,14,914	1,60,003	1,61,536	39.2	1.0
IT	1,07,293	1,32,659	1,53,751	23.6	15.9
FMCG	80,334	94,529	1,02,161	17.7	8.1
Finance	78,085	83,289	1,01,769	6.7	22.2
Chemicals	66,589	91,301	98,604	37.1	8.0
Power	55,343	74,760	85,312	35.1	14.1
Infrastructure	70,744	77,369	83,648	9.4	8.1
Capital Goods	60,394	68,602	74,703	13.6	8.9
Insurance	58,117	64,903	74,143	11.7	14.2
Construction Materials	51,170	54,299	61,454	6.1	13.2
Healthcare	49,760	53,820	60,296	8.2	12.0
Inds. Gases & Fuels	25,749	41,826	52,688	62.4	26.0
Telecom	38,310	42,550	45,058	11.1	5.9
Non - Ferrous Metals	26,204	34,845	35,378	33.0	1.5
Textile	29,674	37,296	33,515	25.7	-10.1
Trading	24,809	24,383	29,063	-1.7	19.2
Agri	18,254	20,096	22,455	10.1	11.7
Retailing	14,270	17,119	21,373	20.0	24.8
Consumer Durables	17,392	18,957	20,329	9.0	7.2
Diversified	14,021	18,450	19,086	31.6	3.4
Realty	16,243	17,267	18,787	6.3	8.8
Alcohol	15,837	16,574	15,603	4.7	-5.9
Diamond & Jewellery	13,163	13,362	15,588	1.5	16.7
Logistics	11,219	13,178	14,932	17.5	13.3
Plastic Products	12,482	14,634	14,096	17.2	-3.7
Electricals	8,827	11,218	12,108	27.1	7.9
Paper	5,795	7,477	8,440	29.0	12.9
Media & Entertainment	6,426	7,305	7,912	13.7	8.3
Mining	8,935	9,438	7,876	5.6	-16.5
Gas Transmission	5,360	7,461	7,486	39.2	0.3
Hospitality	2,887	4,099	6,383	42.0	55.7
Others	15,652	19,542	26,338	24.9	34.8
Aggregate sample	**20,08,906**	**24,30,415**	**27,21,090**	**21.0**	**12.0**

Appendix 2: Net Profits: Industry-wise

Sector	2021	2022	2023	2022	2023
		Rs crore		% growth	
Crude Oil	32,637	27,074	38,301	-17.0	41.5
Bank	23,431	44,677	68,350	90.7	53.0
Automobile & Ancillaries	9,671	13,341	17,437	38.0	30.7
Iron & Steel	22,261	20,241	12,153	-9.1	-40.0
IT	19,769	28,355	25,974	43.4	-8.4
FMCG	10,160	10,917	12,882	7.5	18.0
Finance	10,524	22,929	27,604	117.9	20.4
Chemicals	6,401	9,287	7,383	45.1	-20.5
Power	10,902	16,209	17,312	48.7	6.8
Infrastructure	3,892	3,247	5,035	-16.6	55.1
Capital Goods	5,529	8,635	8,670	56.2	0.4
Insurance	1,805	2,697	4,628	49.4	71.6
Construction Materials	6,317	4,953	3,991	-21.6	-19.4
Healthcare	7,027	5,593	7,057	-20.4	26.2
Inds. Gases & Fuels	3,198	3,893	1,719	21.7	-55.8
Telecom	-6,468	-7,940	-5,627	*	*
Non - Ferrous Metals	3,933	5,719	4,181	45.4	-26.9
Textile	2,202	1,768	983	-19.7	-44.4
Trading	-271	457	714	-268.6	56.1
Agri	1,391	1,516	1,497	9.0	-1.2
Retailing	331	540	875	63.1	62.1
Consumer Durables	1,309	914	1,097	-30.1	20.0
Diversified	1,458	2,072	1,307	42.1	-36.9
Realty	1,376	3,203	3,154	132.9	-1.5
Alcohol	444	511	413	15.0	-19.2
Diamond & Jewellery	709	479	770	-32.4	60.7
Logistics	714	560	2,138	-21.5	281.8
Plastic Products	1,654	1,938	1,193	17.2	-38.4
Electricals	663	757	977	14.2	29.0
Paper	433	538	991	24.3	84.2
Media & Entertainment	16	-1,658	-2,050	*	*
Mining	3,252	2,436	2,637	-25.1	8.2
Gas Transmission	913	855	967	-6.4	13.1
Hospitality	-79	301	1,145	*	280.5
Others	-2	-512	1,654	*	-422.8
	1,87,499	2,36,501	2,77,513	26.1	17.3

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