

Corporate performance: Q4-FY24

Financial performance of India Inc. continued to be marked by a moderation in sales growth, even as profit growth picked up when compared with last year. Banks and the auto sector remained the outperformers and contributed to most of the growth in both sales and profits. This was similar to the trend witnessed in the last 3 quarters of the year. FMCG sector still awaits a meaningful recovery in demand, with many companies resorting to a volume-led approach by undertaking price cuts.

On the positive side, there is some momentum in sectors such as textiles and consumer durables. Improvement in external demand should also aid the performance of other export-oriented sectors. However, companies are likely to struggle to maintain margins as global commodity prices have stabilized. Further, demand for capex linked sectors is likely to be curtailed due to elections and monsoon. An expected recovery in rural demand should provide some comfort. Overall, we believe that corporate performance in FY25 could be marked by higher volume growth given stable growth conditions in the economy.

Financial performance of corporates in Q4 FY24:

Financial performance of 2537 companies suggests that Q4-FY24 was marked by a slowdown in net sales, even as profit growth exhibited an uptick on a YoY basis. Table 1 presents a summary of the financial performance. Sales growth moderated from 10.2% in Q4 FY23 to 7.8% in Q4 FY24. Expenditure growth remained stable at 7.5%. This was also reflected in a significant improvement in profitability. All major profit indicators witnessed an improvement led by lower input prices as global commodity prices were elevated in Q4 FY23.

Table 1: Overview of performance of 2,537 companies

	<u>In Rs. Crores</u>		<u>% YoY</u>	
	Q4-FY23	Q4-FY24	Q4-FY23	Q4-FY24
Net Sales	28,93,818	31,18,746	10.2	7.8
Expenditure	23,26,311	25,01,706	7.6	7.5
Operating profit	6,52,128	7,81,006	12.5	19.8
PBT	3,51,677	4,29,656	6.4	22.2
PAT	2,78,333	3,25,853	8.4	17.1

Source: AceEquity, Bank of Baroda Research

There was improvement in sales growth on a sequential basis. On the other hand, profit growth saw a marked slowdown as commodity prices stabilized and as such the tailwinds from the correction in global commodity prices have largely been utilized. For a comprehensive analysis of financial performance of India Inc in Q3 FY24, please refer to our [earlier report](#).

To get a better picture of the financial performance of India Inc. it is essential to analyze the sample after excluding the BFSI sector, which tends to lend a considerable degree of bias to the total picture as banks have been riding on a sustained business upcycle amidst buoyant credit growth in the economy. This information is summarized in Table 2 for a sample of 2,259 companies.

Sales growth for the non-BFSI sector is much more somber at just 4.4% compared with 8.3% in the last quarter of FY23. Lower growth in expenditure and interest costs have contributed positively to profit growth. It must however be noted that the growth in profits for the non-BFSI sector is lower than the overall growth in profits.

Aided by both lower interest costs as well as an improvement in profitability, the interest coverage ratio (ICR) of the companies has shown an improvement. It must be noted that the ICR indicates the debt servicing capability of a company as it shows whether the company is making enough profits to meet its interest liabilities. The ICR is calculated as a ratio of profit before interest and tax (PBIT) and the interest cost. In Q4FY24, the ICR has increased to 5.89 from 5.5 in Q4 FY23. The improvement in ICR must be viewed against the backdrop of higher interest rates and muted sales growth.

Table 2: Overview of corporate performance ex. BFSI sector (2,259 companies)

	<u>In Rs. Crores</u>		<u>% YoY</u>	
	Q4-FY23	Q4-FY24	Q4-FY23	Q4-FY24
Net Sales	22,60,550	23,60,872	8.3	4.4
Expenditure	19,46,064	20,22,437	9.2	3.9
Interest	51,603	54,771	17.3	6.1
Operating profit	3,63,545	4,11,118	-1.0	13.1
PBT	2,32,061	2,67,639	-6.8	15.3
PAT	1,87,651	2,00,787	-3.7	7.0
Interest cover	5.50	5.89	-	-

Source: AceEquity, Bank of Baroda Research

Sector-wise movement in interest cover

There are marked differences between sectors with respect to interest cover ratio which can be seen in Table 3. Despite an increase in weighted average lending rates (WALR) by banks in Q4 FY24, most sectors have seen an improvement in ICR compared with Q4 FY23. This is because a large part of the increase in interest costs has been offset by an improvement in profit growth. Sector wise ICR shows the following important facts:

- Out of a total of 33 sectors, only 12 witnessed a moderation in ICR in Q4 FY24 compared with the same period last year.
- There is an improvement in ICR for the top 3 highly indebted sectors, namely power, telecom and crude oil. It must be mentioned here that the ICR for the telecom sector at 0.71, is less than ideal. The sector continues to see high debt levels due to several factors such as AGR dues and spectrum auction as well as high capex requirements, thus contributing to a much higher interest rate burden. For both crude oil and power, while there has been an improvement in ICR in Q4 FY24, it still trails behind Q4 FY22.
- Sectors which saw the maximum improvement in ICR vis-à-vis Q4 FY23 are healthcare, gas transmission, industrial gases and fuels and automobiles and ancillaries.

- On the other hand, sectors which saw a significant deterioration in ICR include Non-ferrous metals, FMCG, paper and electricals.

It is interesting to note that while the ICR has shown an improvement vis-à-vis last year, it is still lower than Q4 FY22. This is because interest rates were significantly lower in FY22 as the repo rate was reduced to just 4% to stimulate growth. With a subsequent increase in interest rates, the ICR too inched up but is now showing signs of improvement, led by an uptick in corporate profitability. In this context, it is important to note that the RBI has kept the repo rate unchanged at 6.5% since Feb'23.

Table 3: Interest cover: Sector-wise

Sector	Q4FY 22	Q4 FY23	Q4 FY24
Mining	87.96	146.24	89.03
IT	64.49	43.36	46.79
Gas Transmission	41.39	39.70	46.39
Miscellaneous	10.38	*	19.66
Capital Goods	17.69	13.41	18.57
Healthcare	10.68	8.42	16.79
Automobile & Ancillaries	13.89	11.23	16.03
Inds. Gases & Fuels	36.65	9.58	15.61
FMCG	19.44	19.09	14.07
Alcohol	13.39	7.94	12.34
Consumer Durables	11.08	9.49	10.39
Plastic Products	26.55	8.54	7.93
Hospitality	2.41	6.20	7.47
Business Services	6.25	3.64	7.12
Crude Oil	8.76	6.61	6.72
Construction Materials	7.36	5.43	6.58
Chemicals	12.29	7.32	6.31
Retailing	3.01	3.36	5.63
Paper	5.92	7.81	5.45
Trading	4.84	4.77	5.35
Electricals	6.49	7.19	4.95
Iron & Steel	11.32	4.86	4.63
Textile	4.92	2.81	4.57
Agri	5.29	5.73	4.28
Infrastructure	2.38	2.73	4.27
Logistics	1.72	2.18	3.96
Non - Ferrous Metals	10.75	11.95	3.96
Diamond & Jewellery	2.70	3.58	3.55
Diversified	10.16	7.57	3.42
Power	3.64	2.56	3.23
Realty	3.99	3.78	2.83
Media & Entertainment	*	*	1.64
Telecom	0.28	0.55	0.71
Total	6.66	5.50	5.89

Source: AceEquity, Bank of Baroda Research

With RBI likely to wait until it gets more clarity on the progress of monsoon, we do not anticipate a rate cut before Oct'24. Further, with transmission of earlier repo rates majorly completed, the interest costs for India Inc. are likely to remain stable in H1FY25.

Hence, corporate profits will be the most significant driver of debt serviceability going. Companies might face headwinds on this front as the benefits from lower input prices have largely been utilized leading to a negative base effect. This is already manifesting in higher WPI inflation in recent months. Hence, we may see some moderation in ICR going forward. On the positive side, the corporate sector has been diversifying its debt portfolio through alternate channels such as corporate bonds and external commercial borrowings (ECBs) etc. based on relative cost advantage, which might keep interest costs contained to an extent.

Sector-wise performance

In terms of sector-wise performance, out of the 33 sectors, 17 recorded sales growth higher than the aggregate level of 7.8%. Further, while on an aggregate basis there has been a slowdown in sales growth, a total of 17 sectors have witnessed an improvement in Q4 FY24. These include consumer durables, insurance, textiles and plastic products amongst others.

For net profits, a total of 16 sectors showed higher growth than the average of 17.1%. In comparison to last year, 22 sectors show higher growth than Q4-FY23.

Table 4 provides an overview of growth in sales and net profits of various sectors in Q4-FY24 on a YoY basis, divided into different ranges. The following points stand out:

- The performance of the chemicals sector was weak on both sales as well as profit parameters. However, even within chemicals there was a mixed performance.
 - o The fertilizers, pesticides and agrochemicals sector witnessed another weak quarter. Demand in the sector continued to be impacted by low reservoir levels and uneven rainfall in parts of the country. External demand conditions were also weak due to a patchy recovery in China, a key market. On the positive side, there was a significant recovery in the pigments and dyes segment.
 - o Growth in net sales for paints was muted, which major companies attributed to price cuts as well as weak demand. Delay in wedding season in Q1 and a slowdown in government spending due to elections impacted demand. Urban areas outperformed rural markets which continued to be impacted by high inflation. Hence, there was a clear trend emerging of down trading in the premium segment, especially in rural areas towards economy products. However, the outlook was largely positive.
- Similarly, even the iron and steel industry witnessed a decline in both sales and PAT. Sales growth was dampened by imports as well as destocking ahead of elections. On the other hand, profit growth was impacted by higher prices of key inputs such as coking coal and iron ore.
- There was moderation in sales for the crude oil sector. PAT was severely impacted due to a decline in gross refining margins as well as a reduction in fuel prices announced by the government in Mar'24.
- The performance was FMCG sector less than satisfactory as sales continued to remain muted, while PAT growth turned negative. Urban and premium focused products continued to drive demand. On the rural front, the picture was mixed. While a few companies reported a pickup in

rural demand, others still noted a weakness in the rural sector. The overall outlook, however, was fairly positive, amidst expectations of a normal monsoon and reduction in inflationary pressures. On the profit front, with raw material prices largely stabilizing, tailwinds from lower input prices have largely been realized. Apart from this, some companies also resorted to price cuts amidst high inflation and increased competition from regional players. Companies are increasing spending on advertising and promotion. There is also a growing consensus that FMCG companies are moving towards a volume led growth by enforcing price cuts.

- For Indian IT companies, performance in Q4 remained almost steady. Demand continued to remain weak even as major players announced an uptick in new deals. Discretionary demand conditions remained constrained amidst a continued focus on cost efficiency. There has been an increased demand for new age technologies such as AI, cloud, enterprise development and cyber security. Demand from the BFSI segment was weak amidst high inflation and interest rates. However, the situation is expected to reverse in FY25 with pent-up demand visible in the BFSI segment. On the other hand, the manufacturing segment witnessed a steady growth momentum in areas such as IoT, digital transformation etc. Amongst geographies, while demand from the US was subdued, demand from other regions such as the UK exhibited some positive momentum. Employee headcount moderated further.
- The real estate sector continued to witness an upswing with major market players reporting a strong interest among homebuyers. There was some moderation in sales growth due to base effect but the outlook for the sector is positive, led by expectations of a rate cut and the emergence of a growing middle-income class. Demand for the premium segment continued to be robust, indicating increasing affluence.
- For the cement sector, sales growth showed moderation due to base effect. Demand during the quarter was strong, led by front loading of government expenditure ahead of elections as well as continued demand from the real estate sector. Some companies, however, reported labour shortages. PAT growth was robust led by lower input costs, particularly pet coke prices. Most companies expect a muted demand scenario in H1FY25 due to elections and monsoon but expect a sharp pickup in H2FY25.
- Hospitality segment continued to witness a strong demand momentum, major companies remained upbeat on the outlook of the sector.
- After remaining an underperformer for the last few quarters, the textiles sector exhibited signs of a recovery in Q4 FY24. Despite weak external demand, sales growth picked up led by increased demand for home textiles. On the other hand, demand for industrial fabrics, primarily from Europe, remained muted. PAT growth was healthy despite higher freight costs due to the Red Sea issue. Cotton prices remained broadly steady.
- The consumer durables industry benefitted from the earlier than expected onset of summer and extreme heatwaves in some parts of the country, especially the southern parts. There was increased demand from households for cooling products. Sales of fans picked up pace, with demand for premium fans picking up significantly. Margins saw an expansion led by both cost-saving initiatives as well as measured price increases. Sales of air conditioners also picked up sharply. On the other hand, there was continued weakness in the lighting segment, but the market is expected to have stabilized. Apart from this, increased demand from sectors such as manufacturing, data centres, hospitality, retailing and infrastructure also benefited sales.

Table 4: Growth in net sales and net profit in Q3-FY24 Matrix

		Net Profits			
		less than 0	0-10	10-20	more than 20
Net Sales	less than 0	Paper Chemicals Agri Iron and steel Diversified			Industrial gases and fuels
	0-10	Mining Non-ferrous metals Crude oil FMCG Plastic products Realty Telecom Power		Gas transmission IT	Trading Construction materials Hospitality Textiles Logistics
	10-20	Miscellaneous Media and entertainment Electricals	Insurance	Consumer durables	Infrastructure Business services Automobile and ancillaries Healthcare Alcohol Capital goods Diamond and jewellery
	more than 20				Bank Retailing Finance

Source: AceEquity, Bank of Baroda Research

- The performance of the auto sector remained impressive, despite a negative base effect. Sales growth continued to be in double digits led by sustained demand momentum, particularly in the passenger vehicle (PV) segment. Continuing with the trend seen in the last few quarters, demand for SUVs and premium variants outperformed and drove demand in the PV segment. Demand for EVs and CNG variants witnessed greater traction, suggesting a change in consumer preference towards green vehicles. On the other hand, demand for commercial vehicles remained downbeat, however major players indicated that the segment is poised for a revival amidst the government's capex thrust. There was a marked increase in profitability in the sector due to higher sales volumes, favorable product mix, lower commodity prices and cost reduction efforts. Some companies also reported an increase in prices.
- However, demand for tractors was downbeat due mainly to an erratic monsoon and lower reservoir levels which had a negative impact on sowing and output. Interestingly, sales of two-wheelers, which is also an important barometer used to measure rural demand, have shown a healthy growth with industry players anticipating a further recovery in FY25. Within this segment as well, there has been a growing preference towards premium and EV variants.
- The capital goods sector and infrastructure related industries replicated their strong performance even in Q4 FY24 with both sales and profit growth posting double-digit growth. Government's continued thrust on capex and infrastructure development as well defense sector indigenization

translated into strong order inflows for major industry players. Cost optimization measures aided growth in profitability.

- The diamonds and jewelry sector saw a steady growth in sales despite higher gold prices as companies resorted to new products and offers to attract customers. PAT saw a moderate dip due to higher prices of gold.
- For the pharmaceuticals sector, there was significant improvement in both sales and PAT. Improvement in demand, both domestic and external, especially in the US, led to better volume growth. On the other hand, soft input prices as well as price hikes translated into better profit growth.
- The performance of banks continued to be impressive. The quarter was marked by healthy growth in business and stable asset quality. Credit growth continued to be driven by retail. Deposit growth also picked up pace.
- Retailing sector performed reasonably well on both the sales and PAT matrix led by improved demand led by new product launches and increased penetration into newer markets.

Concluding remarks

Corporate performance of India Inc. in Q4FY24 was marked by an improvement in profits matrix, even as sales growth was largely muted on a YoY basis. Banks and financial companies as well as the auto sector continued to outperform and did most of the heavy lifting. On the other hand, FMCG companies continued to report a dismal performance with the rural demand picture still fuzzy. Capex announcements by companies have shown a pickup which should be positive for growth. However, our analysis shows that there are only a few industries which are investing, suggesting that the investment picture remains lop-sided. Further, companies are increasingly looking at alternate sources of funds with both corporate bonds issuances and ECBs approvals surging in FY24.

The outlook is heavily contingent on the monsoon trajectory, with both timing and distribution of rainfall likely to play an important part in the revival of the FMCG sector. Export oriented sectors also await a recovery in demand, even as some pockets such as textiles witnessing early green shoots. IT sector growth is also impaired muted discretionary demand, which is expected to see a revival in FY25.

Overall, we believe that the corporate sector is likely to see a more volume-led growth in FY25. Headwinds are likely to emerge in FY25 with the positive base effect from lower commodity prices waning. This may impact profitability going ahead.

Annexure 1: Growth in net sales (%)

Sector	Number of companies	Net Sales, In Rs. crore		Net Sales, % YoY	
		Q4 FY23	Q4 FY24	Q4 FY23	Q4 FY24
Finance	235	86,185	1,08,396	21.3	25.8
Textile	198	39,797	42,451	-11.8	6.7
Capital Goods	190	77,097	90,345	9.1	17.2
Chemicals	194	1,03,519	93,867	5.0	-9.3
Healthcare	167	62,454	69,598	8.9	11.4
Automobile & Ancillaries	171	2,03,057	2,25,729	17.8	11.2
IT	138	1,54,548	1,59,146	16.4	3.0
Trading	118	27,193	28,389	7.5	4.4
FMCG	130	1,06,275	1,10,514	7.5	4.0
Agri	82	26,164	25,383	14.2	-3.0
Iron & Steel	78	1,68,606	1,65,524	4.5	-1.8
Construction Materials	79	62,161	65,850	12.9	5.9
Plastic Products	82	16,125	16,826	-12.0	4.3
Realty	71	20,773	22,043	12.4	6.1
Infrastructure	68	85,927	95,080	7.5	10.7
Hospitality	56	6,694	7,097	56.0	6.0
Media & Entertainment	52	8,780	9,744	9.8	11.0
Logistics	45	16,419	17,740	7.3	8.0
Consumer Durables	41	20,184	22,392	5.0	10.9
Bank	36	3,60,605	4,33,331	31.5	20.2
Paper	36	8,733	7,742	13.3	-11.3
Electricals	34	13,193	15,209	10.9	15.3
Power	31	85,179	93,355	12.5	9.6
Business Services	29	6,215	6,880	8.8	10.7
Non - Ferrous Metals	30	54,032	55,003	-2.0	1.8
Retailing	25	22,137	26,693	22.9	20.6
Telecom	25	46,874	50,608	8.6	8.0
Diamond & Jewellery	21	16,642	19,673	15.2	18.2
Crude Oil	22	7,01,534	7,16,510	6.5	2.1
Alcohol	11	15,889	18,045	-5.5	13.6
Diversified	9	15,777	15,500	0.5	-1.8
Mining	8	8,766	8,797	-15.3	0.4
Inds. Gases & Fuels	8	48,017	47,123	23.6	-1.9
Insurance	7	1,86,478	2,16,146	-4.1	15.9
Miscellaneous	5	249	276	-5.1	10.8
Gas Transmission	5	11,542	11,742	14.2	1.7
Grand Total	2,537	28,93,818	31,18,746	10.2	7.8

Source: AceEquity, Bank of Baroda Research

Annexure 2: Growth in Net Profit (%)

Sector	Number of companies	PAT, In Rs. Crore		Growth in PAT, % YoY	
		Q4-FY23	Q4-FY24	Q4-FY23	Q4-FY24
Finance	235	22,157	31,908	21.2	44.0
Textile	198	1,344	3,389	-51.3	152.1
Capital Goods	190	8,909	12,758	-30.3	43.2
Chemicals	194	7,281	6,949	-27.3	-4.6
Healthcare	167	7,207	15,976	22.5	121.7
Automobile & Ancillaries	171	17,847	22,803	1.1	27.8
IT	138	26,059	29,905	-7.8	14.8
Trading	118	734	1,102	4.8	50.2
FMCG	130	13,025	11,972	17.6	-8.1
Agri	82	1,910	1,583	11.8	-17.1
Iron & Steel	78	12,528	11,253	-43.8	-10.2
Construction Materials	79	4,213	5,351	-20.4	27.0
Plastic Products	82	1,772	1,433	-29.1	-19.1
Realty	71	3,596	2,203	30.1	-38.7
Infrastructure	68	3,920	7,868	77.0	100.7
Hospitality	56	1,013	1,344	275.1	32.7
Media & Entertainment	52	-2,064	-535	58.7	*
Logistics	45	1,221	2,402	159.2	96.7
Consumer Durables	41	1,082	1,260	7.6	16.5
Bank	36	50,827	74,752	30.4	47.1
Paper	36	1,024	630	87.8	-38.5
Electricals	34	1,029	662	38.1	-35.6
Power	31	13,557	12,929	-26.1	-4.6
Business Services	29	176	537	-65.9	205.3
Non - Ferrous Metals	30	19,107	4,861	92.9	-74.6
Retailing	25	847	1,888	64.1	122.8
Telecom	25	-5,551	-4,885	-30.4	12.0
Diamond & Jewellery	21	373	852	18.4	128.2
Crude Oil	22	38,806	36,918	7.9	-4.9
Alcohol	11	436	690	-18.0	58.5
Diversified	9	846	171	-46.1	-79.8
Mining	8	3,071	1,896	15.7	-38.3
Inds. Gases & Fuels	8	1,368	3,055	-61.2	123.3
Insurance	7	17,697	18,405	275.7	4.0
Miscellaneous	5	-330	83	*	*
Gas Transmission	5	1,296	1,484	6.7	14.5
Total	2,537	2,78,333	3,25,853	8.4	17.1

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

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