

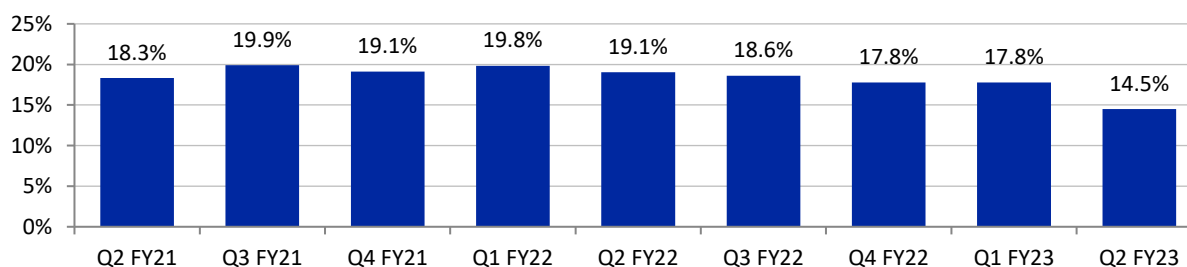
PRESS RELEASE
December 1, 2022

Global headwinds continue to weigh on earnings of India Inc., aggregate revenues up 27% on YoY basis: ICRA

- *While India Inc. reported healthy revenue growth trends during Q2 FY2023, earnings continued to be pressurised due to commodity and energy cost inflation, OPM contracted 455 bps*
- *General price hikes coupled with recent easing in input costs may pave the way for margin improvement in H2 FY2023, but geopolitical events and global recession concerns can play spoilsport*
- *Debt levels of India Inc. increased in FY2021 combined with earnings erosion, credit indicators worsened during H1 FY2023 and may remain unchanged in short-term*

ICRA's study of the Q2 FY2023 performance of 625 listed companies (excluding financial sector entities) has expectedly shown positive trends in revenues, with a YoY growth of 27.3%. The sequential growth in revenues during the quarter was, however, subdued at 2.8%, and the trends varied across sectors. On a YoY basis, all the major sectors reported growth in revenues in Q2 FY2023, with sectors like hotels, oil & gas, airlines, and power reporting sizeable YoY growth, albeit on a low base. Companies were, however, unable to realise the benefits of the revenue growth in their earnings performance, with the operating profit margin (OPM) contracting on both YoY as well as a sequential basis during Q2 FY2023 to multi-year lows.

Exhibit: Trend in aggregate OPM of the Corporate Sector



Source: ICRA research

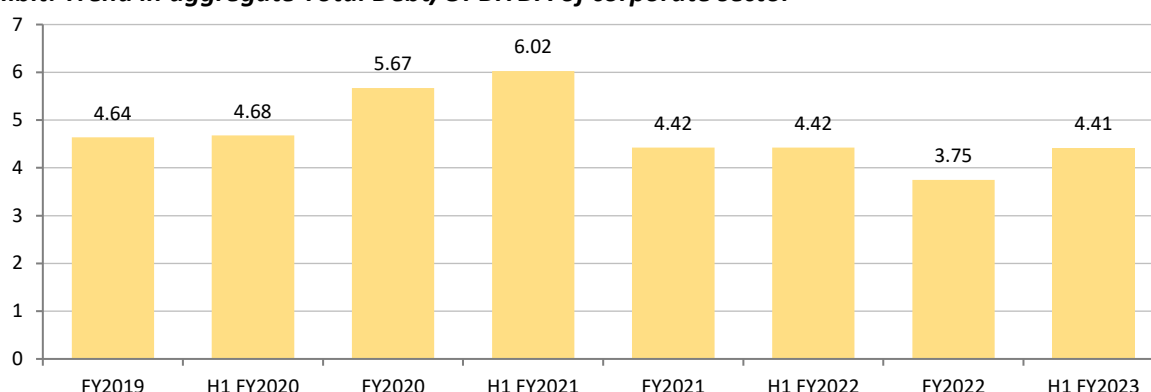
Commenting on the trends, **Ms. Kinjal Shah, Vice President & Co-Group Head – Corporate Ratings, ICRA**, said, “The YoY growth in revenues during Q2 FY2023 was primarily driven by increased realisation levels on account of input cost inflation, while volume growth was relatively subdued. Several consumer-oriented sectors like consumer durables, retail and FMCG were impacted by moderation in demand on account of inflationary environment and softness in rural demand. ICRA’s analysis shows that the OPM of India Inc. contracted by 455 bps on YoY basis to 14.5% during the quarter. While margin pressures are likely to ease gradually from Q3 FY2023 onwards, given the recent trends in softening of commodity prices, uncertainties remain, given the evolving geo-political situation. Overall, despite some softening and stabilisation of commodity prices over recent months, India Inc.’s ability to arrest the slide in earnings will be dependent on headwinds such as energy cost inflation, evolving recessionary trends in developed markets, and the impact of fluctuations in forex on both imports as well as export-oriented sectors.”

In terms of sectoral performance, construction, automotive, and airlines reported a significant growth in revenues on a sequential basis due to successive price hikes and steady demand. At the same time, sectors like hotels, power, oil & gas, metals & mining, textiles, and consumer durables witnessed a sequential decline in revenues during the quarter. The same can be attributed to subdued demand and supply chain issues, especially for export-oriented sectors. On the profitability front, while few sectors such as logistics, tyres, and automotive OEMs reported sequential expansion in OPM driven by a confluence of factors such as gradual revival in demand and correction in commodity prices, a majority of sectors reported sequential contraction in OPM due to inability/ limited ability to pass on input cost hikes, adverse demand conditions, and supply chain

constraints. Metals & mining, cement, iron & steel were a few of the sectors which saw a steep sequential decline in OPM during the quarter.

The interest coverage ratio of ICRA's sample, adjusted for sectors with relatively low debt levels (IT, FMCG, and pharma) witnessed a YoY deterioration in Q2 FY2023 to 4.0 times, mainly on account of a) lower earnings in select sectors and b) higher interest rates in the wake of rate hikes by the RBI. Additionally, increased reliance on external borrowings by India Inc. in the light of suppressed earnings and increase in working capital intensity across many sectors on account of higher raw material prices and increased inventory to mitigate supply chain uncertainties has also contributed to the same. Accordingly, both interest cover and Total Debt/OPBITDA of India Inc. reported a sequential weakening in Q2 FY2023; however, are expected to show gradual improvement over the near to medium term.

Exhibit: Trend in aggregate Total Debt/OPBITDA of corporate sector



Source: ICRA research

Ms. Sruthi Thomas, Assistant Vice President & Sector Head – Corporate Ratings, ICRA Limited, added, “While the credit metrics remained at a moderate level in Q2 FY2023, marginal improvement is likely going forward given the recent trends in softening of commodity prices, reduction in energy cost and easing of supply chain constraints. However, the impact of the ongoing geo-political conflict and possible recessionary situation, as well as the changes in Monetary Policy, including firming up of interest rates, on the macroeconomic environment remains to be seen.”

ICRA believes that the sequential recovery in the overall performance of India Inc. is contingent upon how well the entities are able to cope with the headwinds going forward – while general price increases taken by entities across sectors coupled with recent softening in the input costs may pave the way for margin recovery in H2 FY2023, concerns of a global recession coupled with an ongoing geo-political situation which may adversely impact demand sentiments could derail the pace of recovery. Furthermore, the movement in foreign exchange may also play a crucial role in scripting the performance of India Inc.

~ Ends ~

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[India Inc. pens a story of revenue growth even as it grapples with margin headwinds](#)

For further information, please contact:

Media Contacts:

Naznin Prodhani

Head Media & Communications
ICRA Ltd

Shreya Bothra

Manager - Media & Communications
ICRA Ltd

Tel: + (91 124) 4545300,

Dir - 4545860

Email:

naznin.prodhani@icraindia.com

Mob: +91- 9810934940

Email:

shreya.bothra@icraindia.com

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