

Q3FY25: Profitability improves while question remains on sustainability of momentum

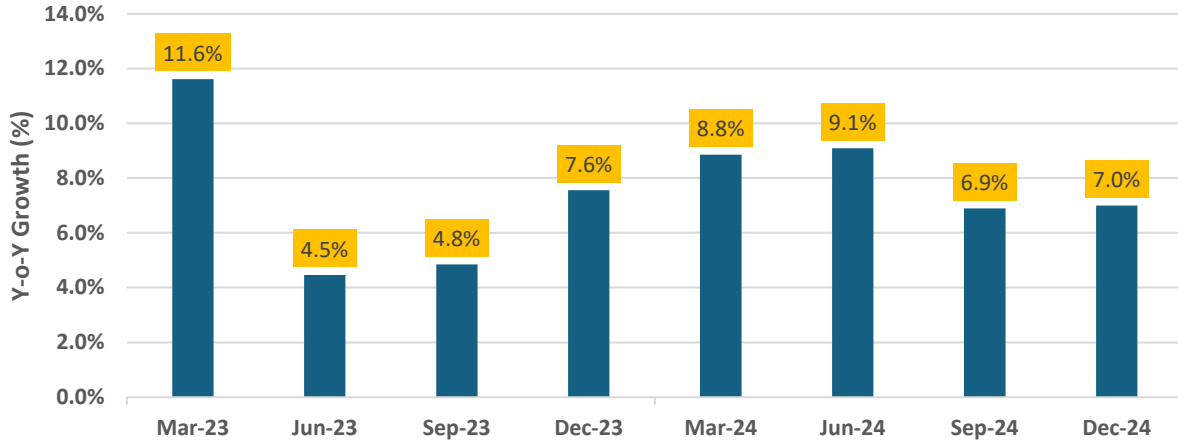


BANKING RESEARCH TEAM

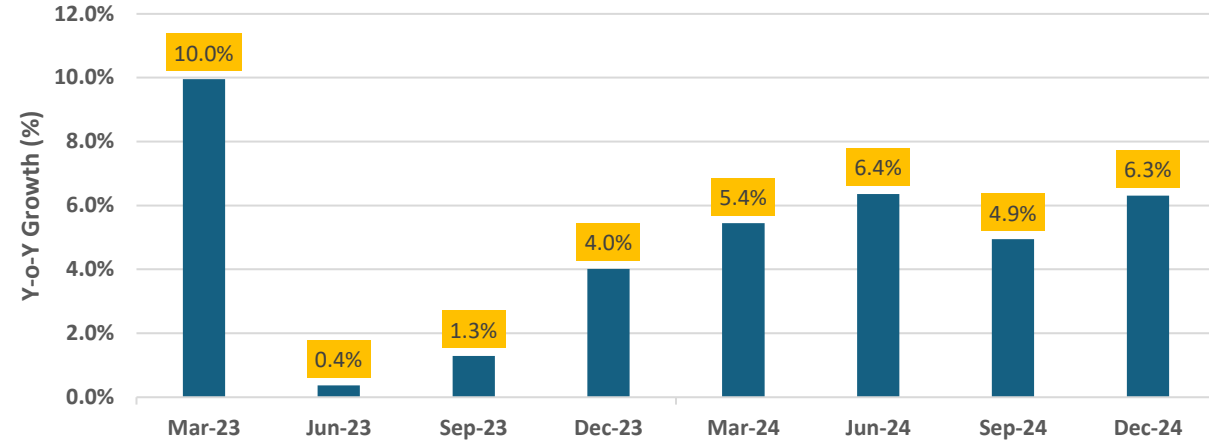
- ❖ Corporate performance of listed corporates in Dec'25 quarter showed signs of recovery driven by stabilizing costs, demand recovery and operational efficiencies, along with government incentives and capex support bolstering industrial performance.
- ❖ Dec'24 Net Sales growth rates indicate a moderate yet steady expansion, with all corporates growing at 7.0% Y-o-Y, Manufacturing companies at 5.4%, and Manufacturing(Ex-petro) companies leading at 8.8%. The Manufacturing excluding petroleum companies shows relatively strong momentum, likely due to increased industrial output and resilient domestic demand in the current quarter. Revenue in Dec'24 quarter grew in single digits, nevertheless, fared better than Q2FY25 growth.
- ❖ Dec'24 operating profit data suggests moderate recovery, with all Companies (9.9%) and Manufacturing (5.7%) regaining some growth after previous declines. Manufacturing (Ex-petro) at 7.6% is showing more resilience. The improvement in operating profit for listed corporates in Dec'24 is driven by softening input costs, lower commodity prices and higher festive and industrial demand.
- ❖ Dec'24 PAT data shows healthy profitability, with All Companies at 16.0% and Manufacturing at 6.5%, indicating recovery from mid-2024 lows. Manufacturing (Ex-petro) at 10.1% highlights stronger resilience.
- ❖ Based on the recent trends in Net Sales, Operating Profit, and PAT, Mar'25 quarter (Q4 FY25) is expected to witness moderate yet stable growth. However, key risks for Q4FY25 include, inflationary pressures, weak demand and commodity price volatility which could impact corporate margins. Global slow down, tariff war & dumping issues may disrupt broad based recovery in manufacturing sector and may delay revival of private capex.

Net Sales growth on a recovery path

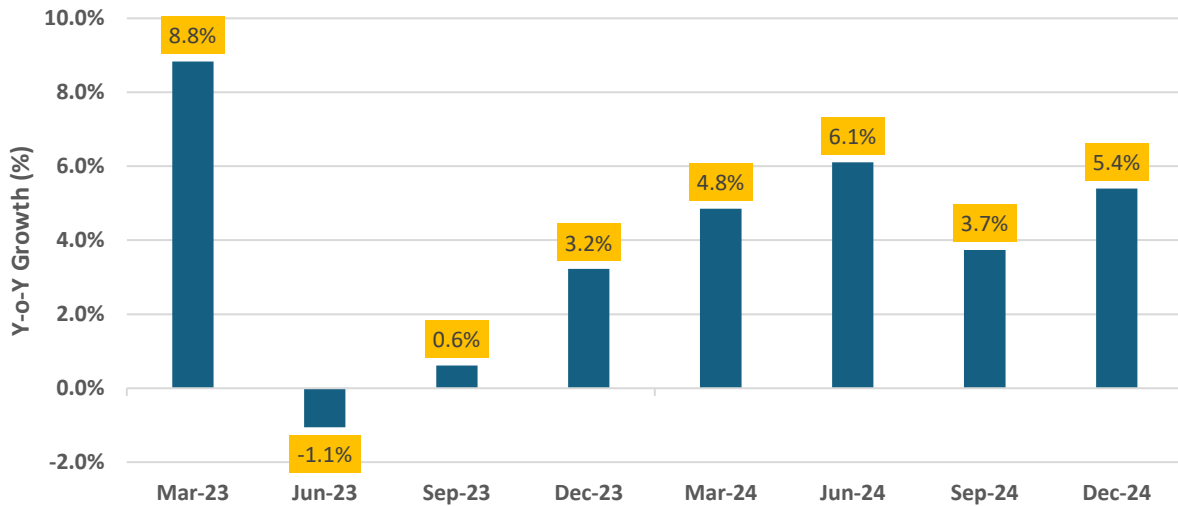
Net Sales - All Companies



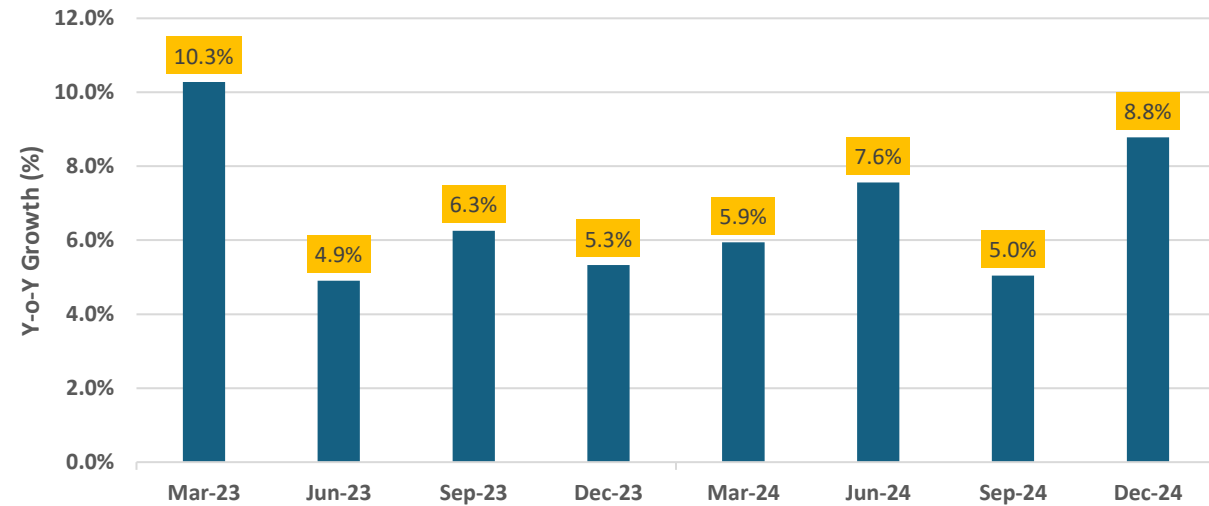
Net Sales - All Companies (Ex BFSI)



Net Sales - Manufacturing

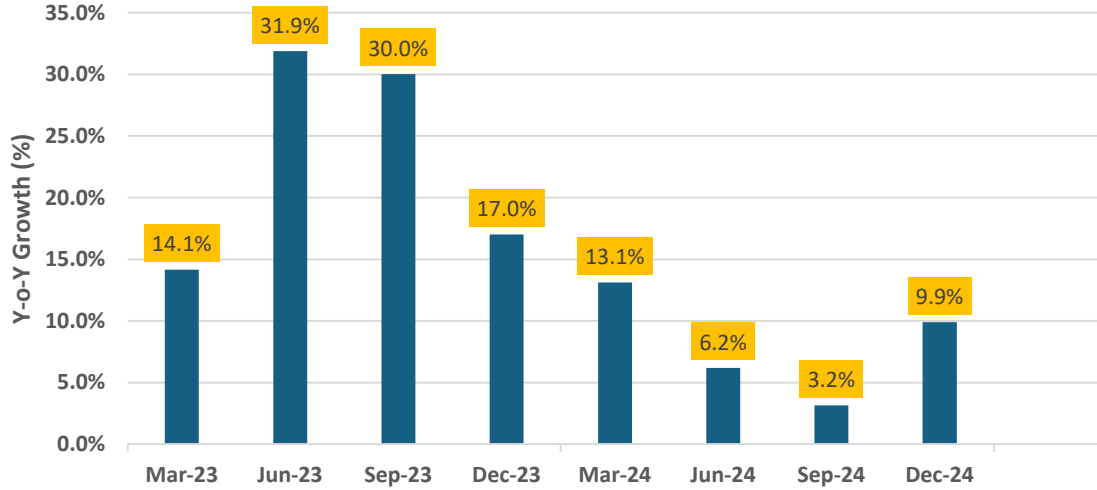


Net Sales - Manufacturing (Ex Petro)

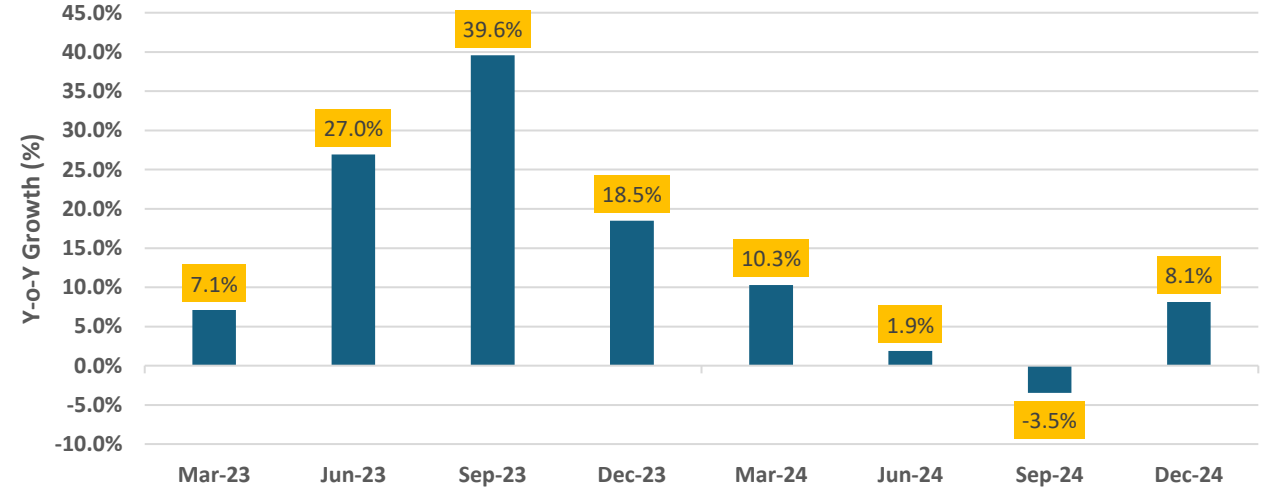


Operating Profit gets momentum due to lower input cost & improved demand

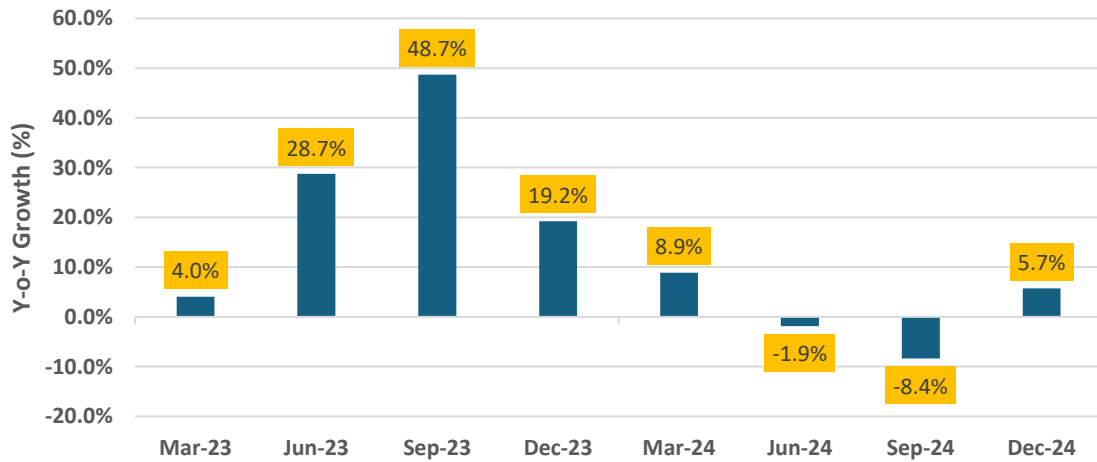
Operating Profit - All Companies



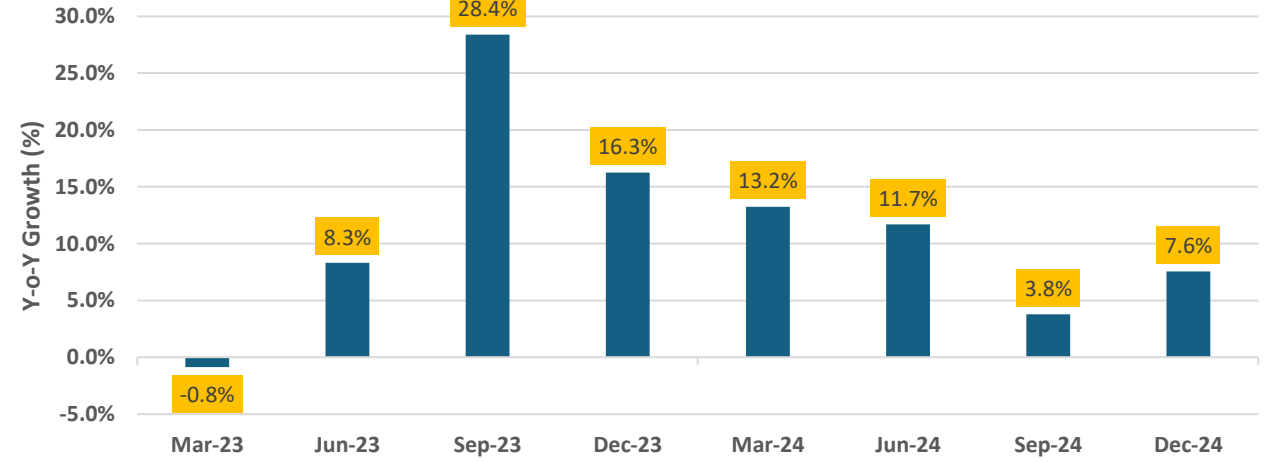
Operating Profit - All Companies (ex BFSI)



Operating Profit - Manufacturing

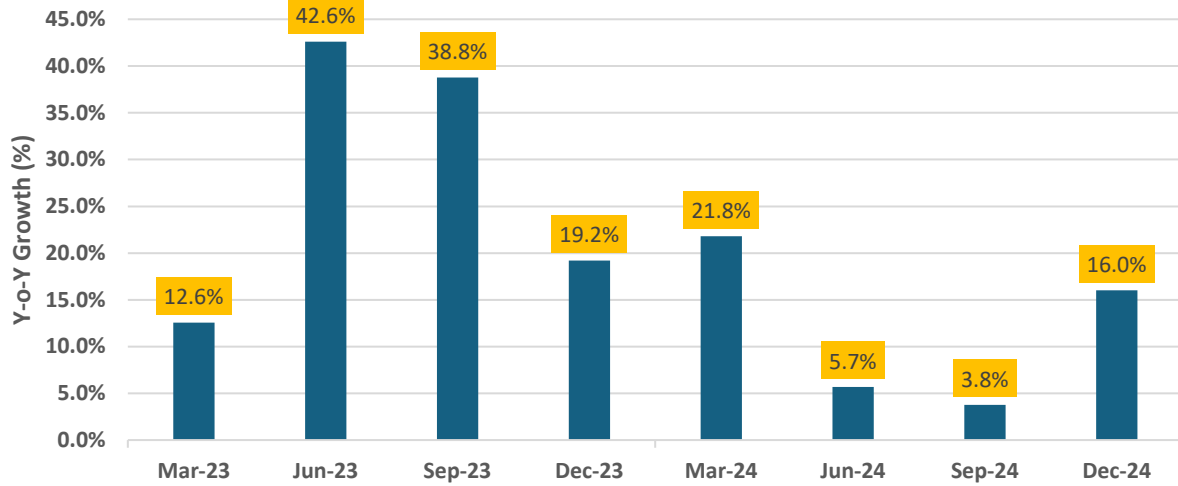


Operating Profit - Manufacturing (Ex Petro)

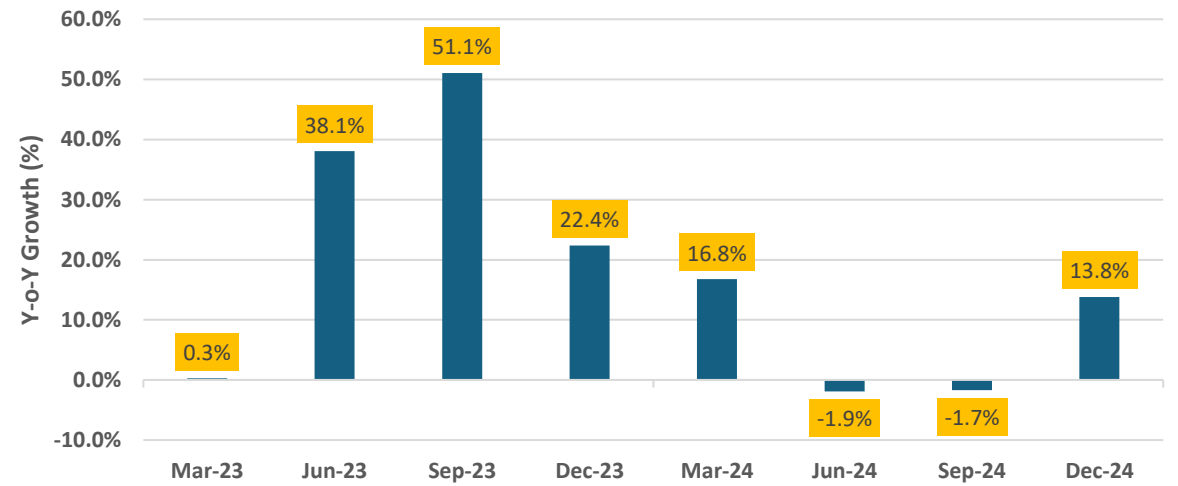


PAT turns positive for manufacturing but concern remains

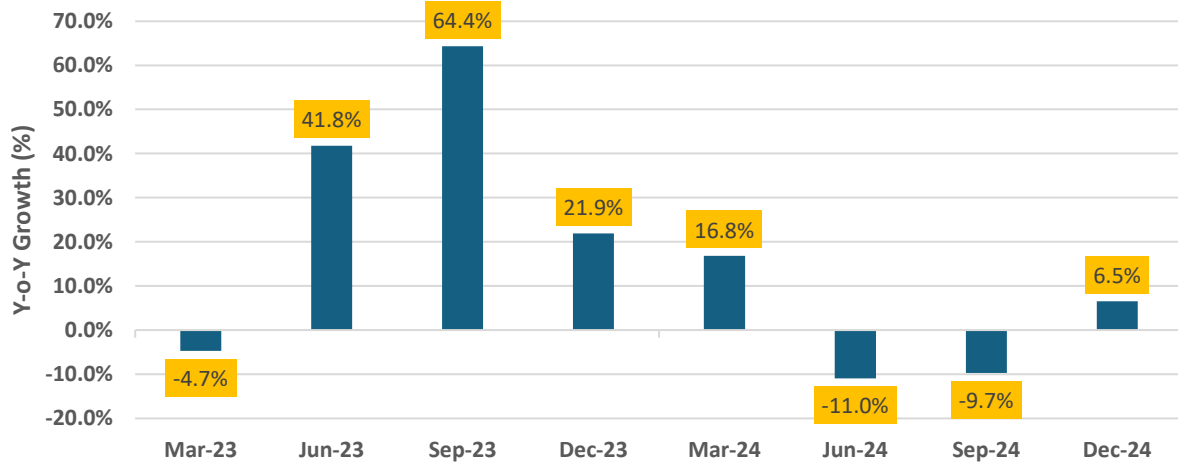
PAT- All Companies



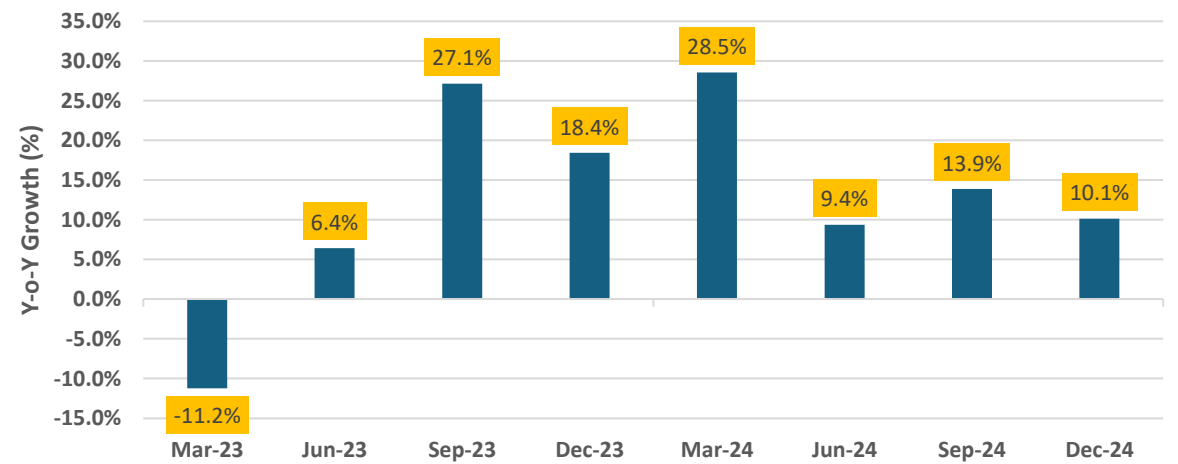
PAT- All Companies (ex BFSI)



PAT- All Companies Manufacturing



PAT- All Companies Manufacturing (Ex Petro)



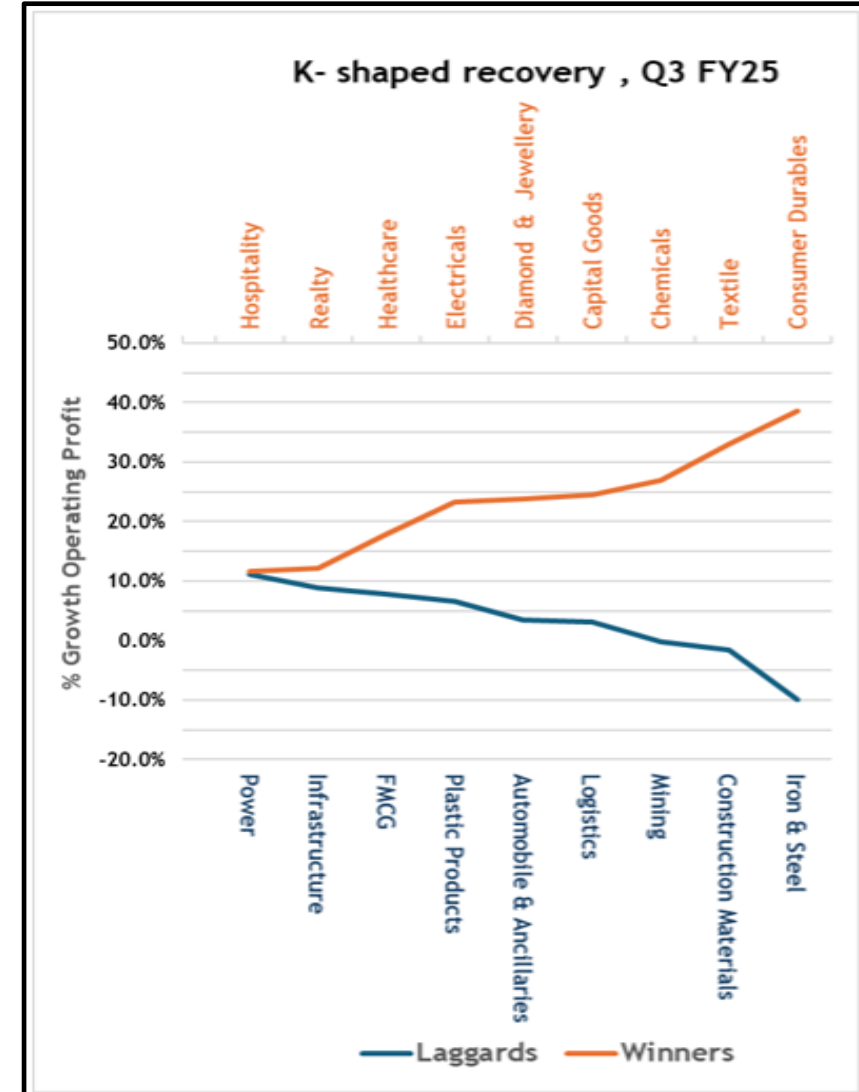
Winners and Laggards (w.r.t. Operating profit growth in Q3FY25)

Winners

- Consumer Durables
- Textile
- Telecom
- Chemicals
- Capital Goods
- Electricals
- Healthcare
- Ship Building
- Hospitality
- Power
- IT

Laggards

- Infrastructure
- FMCG
- Automobile & Ancillaries
- Logistics
- Crude Oil
- Mining
- Construction Materials
- Ferro Manganese
- Iron & Steel
- Gas Transmission
- Inds. Gases & Fuels



Winners and Laggards (w.r.t Operating Profit)

Sectors	Y-o-Y Growth % (Operating Profit)							
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Consumer Durables	7.7%	6.5%	7.4%	15.2%	13.8%	55.6%	33.0%	38.6%
Textile	-25.9%	-24.4%	0.7%	16.8%	13.0%	20.3%	8.6%	33.0%
Telecom	5.6%	16.7%	11.5%	19.0%	6.2%	5.9%	16.0%	29.1%
Chemicals	-7.6%	-21.5%	-9.0%	-30.1%	-13.2%	8.1%	7.0%	26.9%
Capital Goods	22.6%	33.4%	25.4%	20.1%	37.2%	31.5%	27.2%	24.6%
Electricals	38.4%	45.9%	28.2%	3.6%	3.9%	0.8%	12.8%	23.3%
Healthcare	23.4%	23.8%	23.4%	19.4%	27.6%	25.9%	17.8%	18.0%
Ship Building	-24.7%	45.0%	46.0%	76.4%	171.8%	90.8%	45.7%	17.6%
Hospitality	97.0%	19.2%	23.4%	50.3%	19.3%	3.1%	14.5%	11.7%
Power	-0.6%	16.5%	28.7%	5.1%	13.7%	1.1%	-0.9%	11.1%
IT	12.6%	13.1%	7.3%	1.5%	8.6%	7.4%	9.2%	9.3%
Infrastructure	8.2%	19.8%	17.9%	13.3%	13.2%	9.8%	14.1%	8.9%
FMCG	16.3%	10.6%	11.1%	1.5%	8.0%	10.3%	6.9%	7.7%
Automobile & Ancillaries	40.6%	83.7%	53.8%	34.2%	25.6%	17.8%	4.5%	3.5%
Logistics	20.9%	32.4%	7.9%	29.5%	19.6%	24.5%	13.0%	3.2%
Crude Oil	18.6%	113.1%	128.0%	28.4%	-2.0%	-30.4%	-35.3%	0.7%
Mining	-1.9%	12.4%	31.1%	29.0%	13.0%	9.3%	-11.7%	-0.2%
Construction Materials	-0.1%	13.6%	74.9%	53.5%	25.8%	-4.3%	-20.8%	-1.6%
Ferro Manganese	-46.4%	-55.4%	14.0%	72.0%	7.4%	182.7%	67.4%	-3.8%
Iron & Steel	-29.0%	-17.7%	66.5%	41.1%	-3.0%	1.4%	-5.3%	-9.9%
Gas Transmission	-1.9%	-4.4%	8.9%	5.3%	12.9%	8.6%	-9.4%	-17.5%
Inds. Gases & Fuels	-58.5%	-26.5%	48.8%	121.7%	125.9%	59.7%	8.7%	-21.1%

Dec'24 - Sectoral Performance

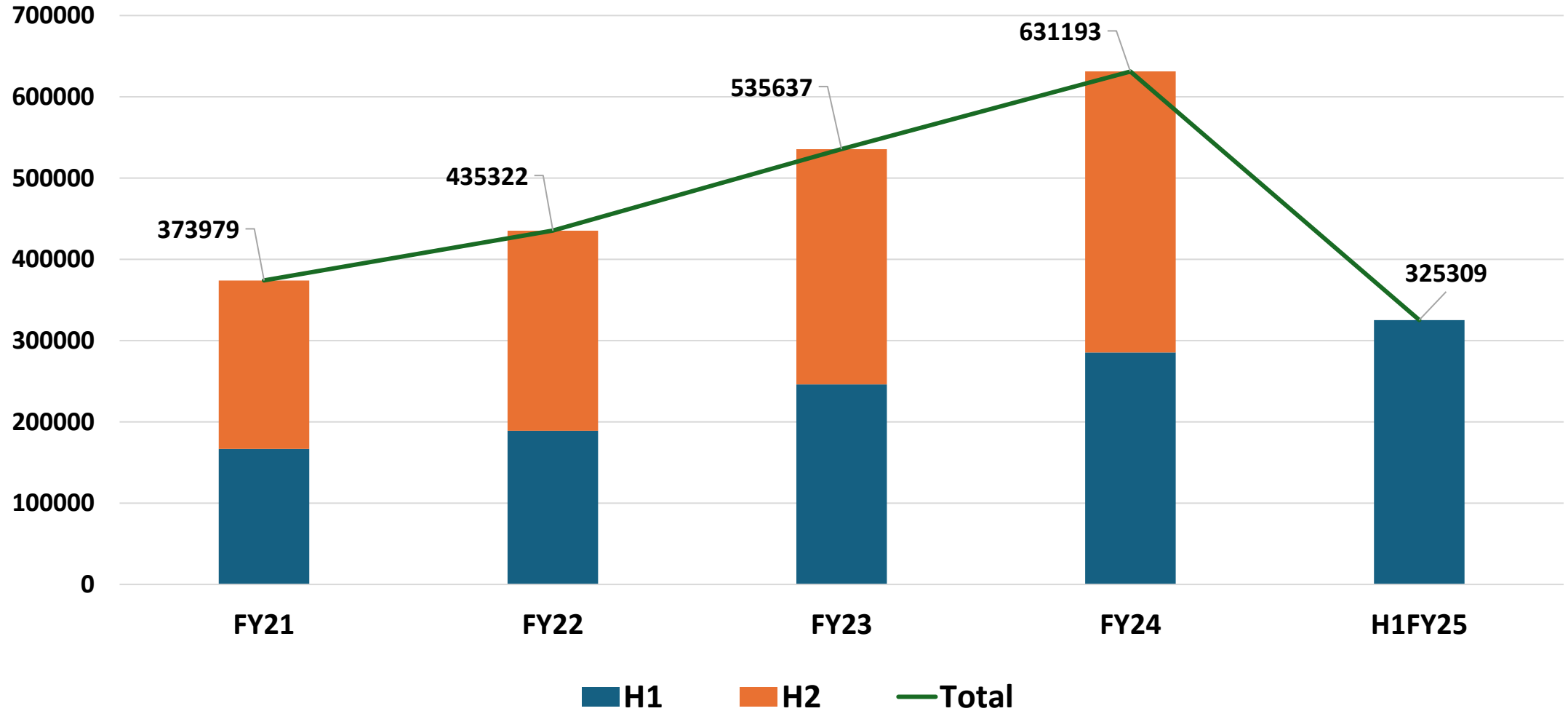
Net Sales Dec'24		
Y-o-Y Growth less than 10%	Y-o-Y Growth b/w 10-20%	Y-o-Y Growth more than 20%
Plastic Products	Capital Goods	Consumer Durables
Alcohol	Electricals	Diamond & Jewellery
Automobile	Telecom	Ship Building
IT	Realty	Retailing
Gas Transmission	Finance	
Agri	FMCG	
Power	Textile	
Ferro Manganese	Non - Ferrous Metals	
Mining	Healthcare	
Construction Materials	Infrastructure	
Iron & Steel	Logistics	
Inds. Gases & Fuels	Chemicals	
Crude Oil	Hospitality	
Insurance		
Paper		

Operating Profit Dec'24		
Y-o-Y Growth less than 10%	Y-o-Y Growth b/w 10-20%	Y-o-Y Growth more than 20%
IT	Retailing	Consumer Durables
Infrastructure	Healthcare	Non - Ferrous Metals
FMCG	Ship Building	Textile
Plastic Products	Finance	Telecom
Automobile	Bank	Chemicals
Logistics	Realty	Capital Goods
Trading	Hospitality	Electricals
Crude Oil	Alcohol	Insurance
Mining	Power	
Construction Materials		
Ferro Manganese		
Agri		
Iron & Steel		
Gas Transmission		
Inds. Gases & Fuels		
Paper		

PAT Dec'24		
Y-o-Y Growth less than 10%	Y-o-Y Growth b/w 10-20%	Y-o-Y Growth more than 20%
FMCG	Inds. Gases & Fuels	Infrastructure
Automobile	Finance	Chemicals
Crude Oil	Realty	Non - Ferrous Metals
Ferro Manganese	IT	Consumer Durables
Mining	Construction Materials	Electricals
Plastic Products	Logistics	Capital Goods
Gas Transmission	Ship Building	Insurance
Business Services	Hospitality	Healthcare
Agri	Power	Bank
Iron & Steel		
Textile		
Paper		
Trading		
Telecom		

- The capital expenditure (capex) for H1FY25 remained muted due to general elections and uneven rainfall in the first half of the current financial year.
- Subdued demand also had an impact on the corporate capex growth in H1FY25, However, sectors like crude oil, Power, Automobiles, Iron and Steel and Construction materials have shown decent growth numbers, which augurs well for the second half of FY25.
- Government has set a record target of Rs 11.11 lakh crore which has not taken off in a big way due to restrictions in approving budget for the big projects due to model code of conduct. Government may push the capex in the remaining part of the financial year in order to reach the targeted figure.
- With the increased level of Central as well as state government capex private capex is also expected to increase, in FY25.
- Infrastructure sector is expected to attract a significant share of the capex, with the 'roads & bridges' and 'power' sectors and Refineries leading the way.
- However, there are some concerns about the corporate capex target, with some sectors experiencing slower growth. Additionally, global economic uncertainties and geopolitical tensions could also impact the capex plans.
- Trade tariffs war induced after the change of regime in the US presidency in Jan 2025, may impact the growth of capex, owing to weak export demand and policy uncertainties, delaying the need for capacity building in Indian manufacturing utilities.

Capex (Rs in cr)



Total 609 companies (Mfg) whose data available for the corresponding period taken for study.

Winners

- Power
- Capital Goods
- Retailing
- Hospitality
- Textile
- Automobile & Ancillaries
- Realty
- Infrastructure

Laggards

- Logistics
- Iron & Steel
- Healthcare
- Crude Oil
- Construction Materials
- Telecom
- Consumer Durables
- Chemicals

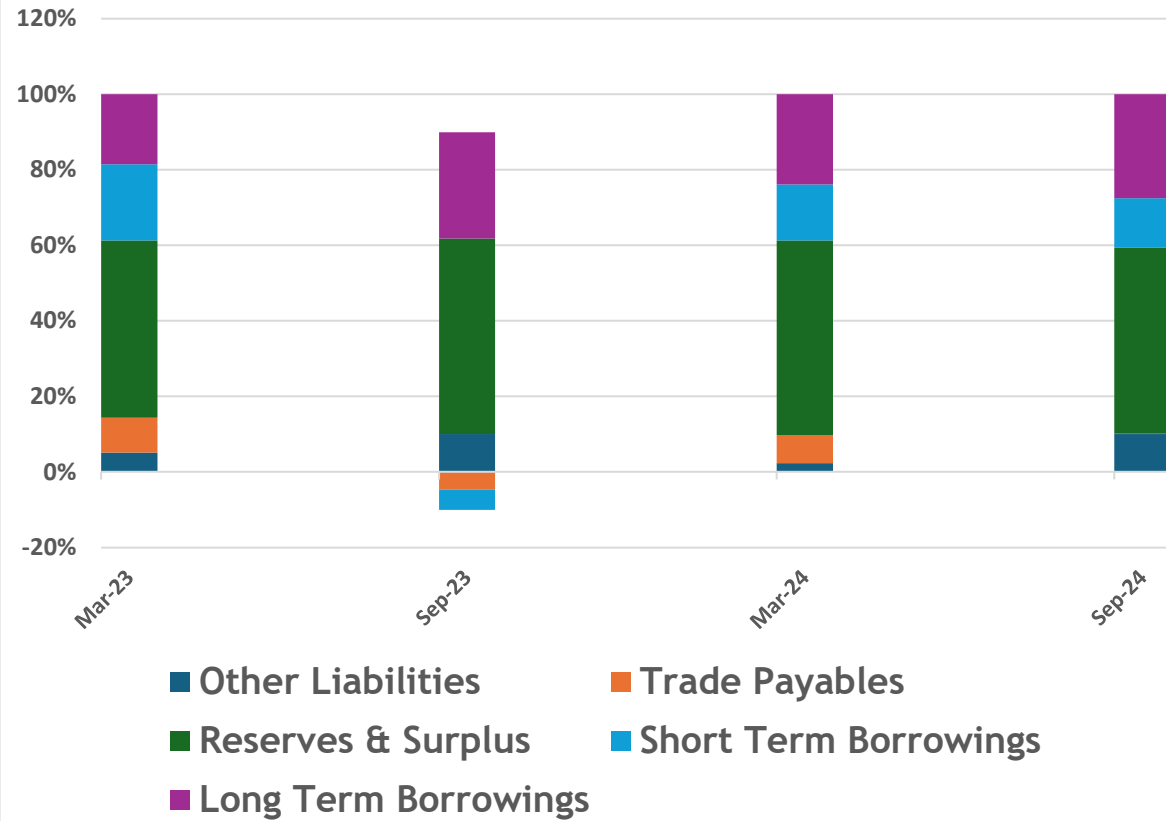
Source of Funds

- Reserves and surplus forms the major chunk of the source of fund utilized by the corporates to build capacities in H1FY25, data of 5226 listed corporates shows. Half yearly change in reserves and surpluses is 49% in H1FY25.
- Long term borrowings comes second in terms of fund raised by the listed corporates under study. . Half yearly change in long term borrowing is 28% in H1FY25.
- Short term borrowings shows moderate change in the last 4 half yearly periods, however H1FY24 shows negative growth of 6 % in Short term borrowings.
- Remaining fund was raised through trade payables and other liabilities.

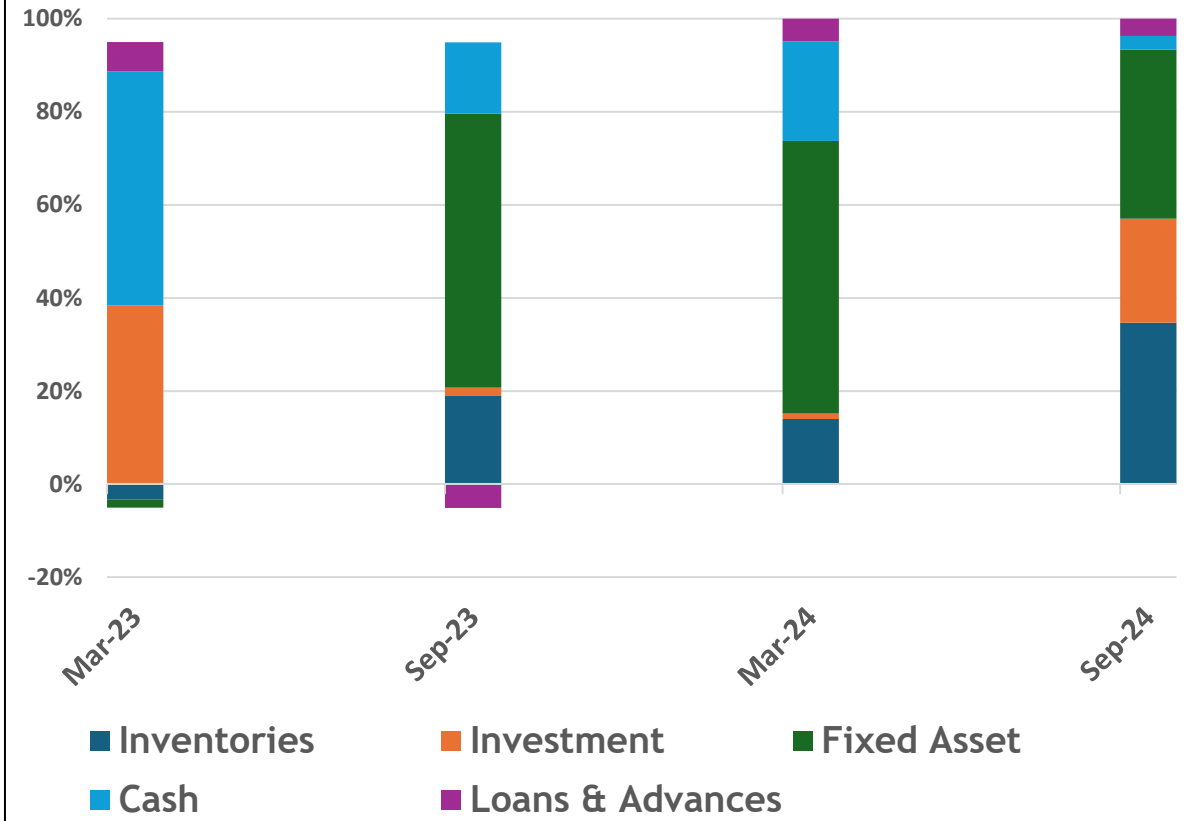
Uses of funds

- Our study shows, majority of funds was utilized in building capacities by investing in fixed assets. Half yearly change in building fixed asset is 36% in H1FY25.
- Secondly, the funds were utilized in inventories, which is reflected in the decent sales figures of the corporates in the ensuing quarters. Half yearly change in inventories is 35% in H1FY25.
- Change in investment in H1FY25 is 22% as compared with 1% in H2FY24.
- Remaining funds, was retained in cash and Loans Advances by the listed corporates. Change in Half-yearly figures in H1FY25 is 3% and 4% respectively.

Sources of Fund (Half-yearly Changes)



Uses of Funds (Half-yearly Changes)



Sample Size – Total Companies – 5226

Source: UBI Research & Ace equity

Consumer Durables

- Significant Growth in Dec'24 Compared to Dec'23 - The sector grew from 15.2% in Dec'23 to 38.6% in Dec'24, indicating a sharp acceleration in demand.
- Net sales shows a strong growth trend, with a notable surge in the later half, reaching 40.1% in Sep'24 and 36.4% in Dec'24.
- The PAT figures shows high volatility with sharp recovery seen in Dec'24 quarter.
- Consumer durables, especially electronics and home appliances, saw a robust growth during festive sales due to higher disposable income and aggressive financing options.
- With good monsoon and MSP hike, rural demand for consumer durables rebounded strongly.

Textiles

- Net Sales shows gradual recovery from negative growth (-6.2% in Mar'23) to 13.5% in Dec'24, indicating rising domestic and export demand, supported by stable cotton prices and a weaker rupee boosting exports.
- Operating Profit: increased from -25.9% in Mar'23 to 33.0% in Dec'24, reflecting better capacity utilization, cost efficiencies, and easing raw material costs.
- Export incentives/PLI and high festive demand, gave much philip to the sector, however rising labor costs and global demand slowdown impacted PAT growth in Dec'24 quarter.
- India's textile sector saw good growth on the back of export push due to the PLI scheme and Free Trade Agreements (FTAs) with trade partner countries.

Chemicals

- Declining sales from Mar'23 (-10.0%) to Dec'23 (-17.4%), followed by a gradual recovery to 10.3% in Dec'24, suggesting a rebound driven by higher global demand and easing raw material prices.
- Operating Profit saw a significant contraction in 2023 (-30.1% in Dec'23) but strong improvement to 26.9% in Dec'24.
- PAT of chemical companies recorded a robust growth of 75.4% Y-o-Y in Dec'24 quarter marking a significant recovery as compare with the corresponding quarter.
- Declining crude oil prices (down 20% in 2024) lowered input costs for chemical manufacturers helped the sector recover over the previous quarters.

Capital Goods

- Consistent growth from 9.8% in Dec'23 to 18.4% in Dec'24, reflecting strong industrial demand, infrastructure expansion, and increased government spending on capex.
- Operating Profit peaked at 37.2% in Mar'24, driven by higher order execution and improved capacity utilization, before stabilizing at 24.6% in Dec'24.
- PAT of capital goods sector recorded a robust growth of 24.3% Y-o-Y in Dec'24 quarter.
- India's capital goods sector grew in 2024, supported by a ₹10 lakh crore infrastructure push by the government.

Power

- Net Sales: saw fluctuation in sales, Y-o-Y growth peaking at 15.5% in Mar'23 and 14.8% in Jun'24, followed by moderate growth of 5.3% in Dec'24, indicating seasonal demand variations and power consumption trends.
- Operating Profit: peaked at 28.7% in Sep'23 but declined to -0.9% in Sep'24, suggest fluctuations in coal prices and higher renewable energy integration.
- PAT saw a double-digit growth of 10.6% in Dec'24 quarters.
- The power sector's performance in 2024 was shaped by rising demand, green energy investments, and tariff adjustments, leading to fluctuating operating margins but steady net sales growth of 5.3% in Dec'24

FMCG

- Net Sales: growth was subdued in 2023 (0.7% in Jun'23 and Dec'23) but picked up momentum in 2024 (14.2% in Dec'24), indicating a revival in rural demand and premiumization trends.
- Operating profit dropped to 1.5% in Dec'23 but improved to 7.7% in Dec'24.
- Profitability saw a steep decline (-15.5% in Mar'24) but recovered to 7.4% in Dec'24, indicating pricing recovery and demand revival.
- The Indian FMCG sector saw a robust growth, with urban premiumization and e-commerce penetration helping FMCG companies improve profitability.

Automobile

- Net Sales: saw growth in early 2023 (23.8% in Mar'23) but tapering off to 8.1% in Dec'24, indicating initial demand surge post-pandemic but moderation due to market saturation.
- Operating profit peaked at 83.7% in Jun'23 but fell to 3.5% in Dec'24, reflecting higher raw material costs and lower demand.
- PAT declined to -1% in Dec'24 quarter on back of lower-than-expected automobile demand in-spite of festival season.
- The automobile sector witnessed strong growth in 2023, driven by post-pandemic recovery, (Mainly SUVs and Evs), but slowed in 2024 due to rising input costs, demand issues and export headwinds, leading to 8.1% net sales growth and a PAT decline of -1.0% in Dec'24.

Infrastructure

- Net Sales: saw strong growth in 2023 (22.7% in Jun'23, 16.2% in Dec'23), but slightly tapering in 2024 (10.5% in Dec'24), indicating a steady execution of projects amid government capex push.
- Infrastructure sector saw healthy margins with a peak of 19.8% in Jun'23, stabilizing at 8.9% in Dec'24, suggesting cost optimization and steady execution of large projects.
- PAT (Profit After Tax): Significant jump in Dec'24 (135.6%) despite early headwinds, reflecting project completions and capex push.
- The infrastructure sector showed strong momentum in Dec' 24, supported by record government spending, project execution, and policy reforms, making up for the lost time in first half of FY25.

Crude Oil

- Net Sales: Declining trend from 6.4% in Mar'23 to -0.4% in Dec'24, reflecting global crude oil price volatility and reduced refining margins.
- Operating profit saw fluctuation, peaking at 128.0% in Sep'23, but turning negative (-35.3%) in Sep'24, indicating sharp cost pressures and fluctuating refining margins.
- PAT (Profit After Tax): Surged to 264.9% in Jun'23, but dropped to -3.9% in Dec'24, due to windfall taxes, weak demand, and lower crude realizations.
- The GRM (Gross Refining Margin) for Indian refiners dropped from \$12/bbl in 2023 to \$6/bbl in 2024, squeezing profitability of oil marketing companies

Iron & Steel

- Weak performance with negative growth in most of the quarters (-6.4% in Sep'24, 0.7% in Dec'24), reflecting lower domestic demand & lower exports due to global slowdown and dumping from china.
- Operating Profit saw high volatility, peaking at 66.5% in Sep'23, but declining to -9.9% in Dec'24, indicating cost pressures and declining steel prices.
- PAT has shown a degrowth of -36.1% in Dec'24 quarter due to weak pricing power and higher energy costs.
- The iron & steel sector faced pricing pressure and weak global demand in 2024, leading to flat net sales and a sharp PAT decline in Dec'24, despite policy support from cost efficiencies.

Thank You !

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