

Corporate earnings growth slowed in Q1-FY25 weighed down by petroleum sector

- Topline & Bottom line both slowing down as per Q1-FY25 performance.
- Corporate profitability has been buoyed by lower commodity prices during the last 12 quarters, yet the impact faded in Q1-FY25.
- The sectoral divide visible, as a few sectors dominate in terms of corporate performance, mainly led by emerging, infrastructure sectors.
- The drag on overall corporate earnings from select sectors like Refinery and Oil Exploration is significant vis-à-vis outperforming sectors like Auto, Construction-Real Estate, Manufacturing of Electrical equipment etc. For instance, overall net profit after tax growth clocked -1% YoY in Q1-FY25 and if we exclude the petroleum sector, corporate profitability spikes to +14% YoY.

Capex growth driven by Govt-led sectors; broad based private capex recovery on watch

- Our analysis shows that listed corporates' capex has clocked c.20% YoY growth consistently for last 3 years totaling Rs 8.5 lakh crores in FY24.
- Funding of Capex is being mostly done via internal accruals/QIPs/FPOs/VC-PE funds, as against bank credit with net rise in long term debt in FY24 at Rs 66,220 Cr only.
- From a sectoral perspective, listed corporates' capex is showing a "K-shaped Recovery" (similar to corporate profitability), wherein some sectors are outperforming (Infrastructure & allied sectors, emerging sectors etc.) while some are yet to consider expansion plans.
- While PSUs are holding the baton for listed corporates' capex till now, private capex recovery has been relatively lagging and led by sectors witnessing government push.
- While public capex has probably hit its absorptive capacity, *"it is time for the private corporate sector to come forward in a big way"* (quoting the RBI Governor). However, we need to closely watch for domestic and global demand trends in the wake of US recession concerns.
- Broad-based private capex recovery is still awaited, thereby keeping a lid on industry credit growth for banks. Capex has been led primarily by specific sectors like Refineries, Metal, Manufacturing, Cement, and other emerging sectors like Power Generation, Renewables, Auto etc. Defence is another sector showing promising growth with approved capital acquisition proposals of Rs 1.45 lakh crore.
- Interestingly, sectors like refineries have shown a divergence between capex and profitability performance.
- RBI data shows that capex is likely to significantly increase to Rs 2.45 lakh Crore in FY25, using current project sanctions, while trends in recent years shows that total disbursements are way lower vs original sanctions.

A. Corporate Earning & Sectoral Overview

Overall earnings performance of the listed corporates indicates while the top line (net sales) has been under persistent downward pressure in recent quarters after peaking at 42% YoY in Q1-FY23 and stabilised in 4-6% range during last 3-4 quarters. Meanwhile, profitability was relatively supported by tailwinds from lower commodity prices (with negative YoY growth). Interestingly, in Q1-FY25, net profit after tax slipped to (-1%) YoY from 46% same period last year, as some sectors were a significant drag. Refineries and oil exploration sub-sectors profits dropped by (-53%) & (-36%) respectively and excluding them, corporate profitability growth was relatively better at 16%.

By:

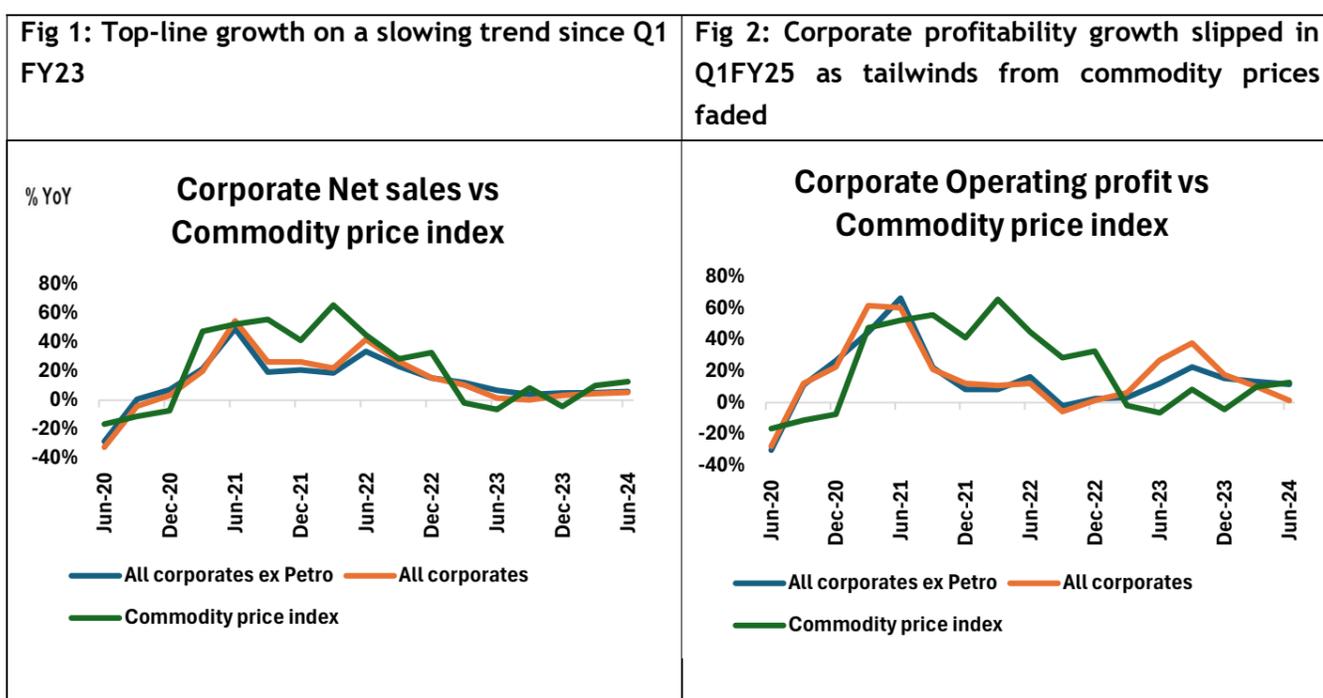
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Sectoral performance

In terms of key sectoral drivers of corporate profitability, robust growth seen in sectors like Construction-Real Estate (277%), Automobile (28%), Consumer durables (57%), Electrical equipment (58%), Pharma (41%) etc. Findings reveal that few sectors have shown growth in Operating profit and net profit despite slowdown in topline like Diamond & Jewellery. The lower revenue growth with higher profitability can be linked to lower input cost, improved supply chain and logistic costs. Meanwhile, sectors like power generation showed a positive topline growth while profitability was weak.



Source: Ace equity, Bloomberg, UBI research

Going forward, given the sharp downward pressure on commodity prices in Q2-FY25 (oil prices at c.USD 75/bbl, lowest levels since Dec'23) and if the trend continues to persist, we are likely to see a favourable reversal in corporate profitability growth in the coming quarters.

B. Corporate capex - key trends

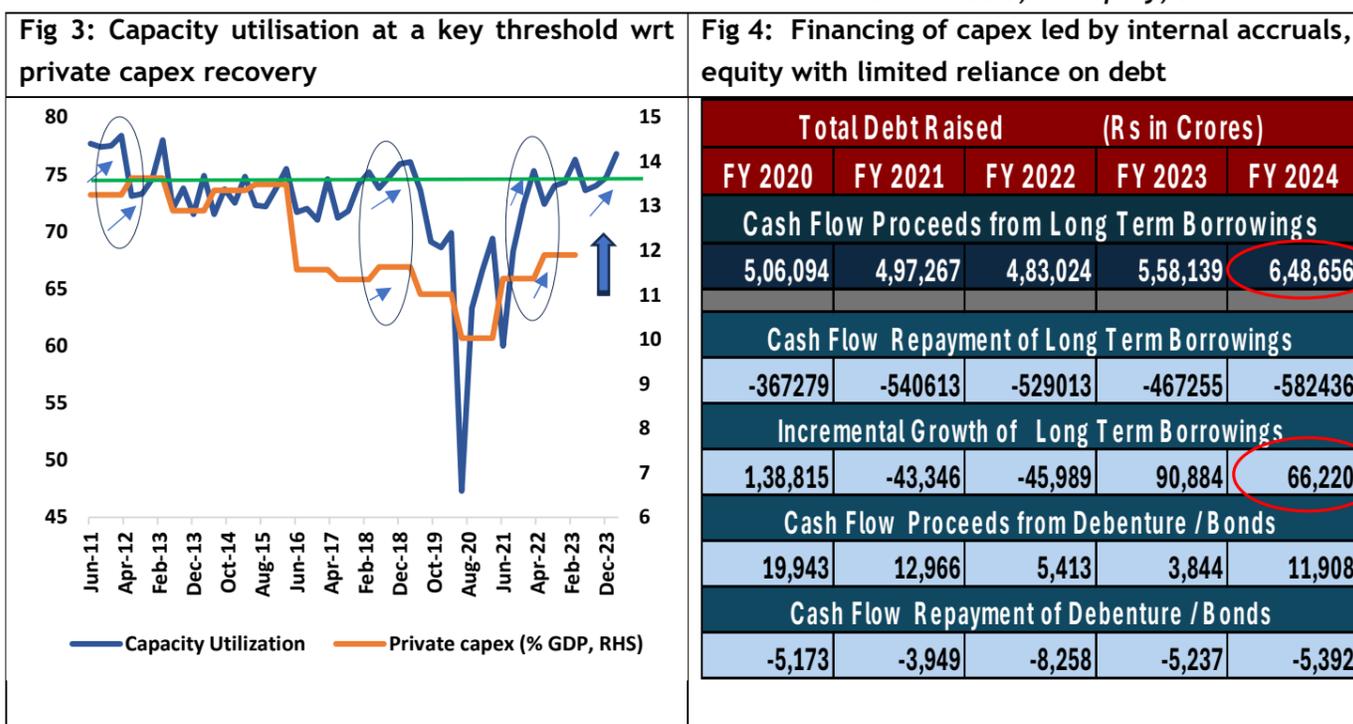
Private capex likely to gain further traction in FY25

Capital expenditure has a higher multiplier effect, it enhances the future productive capacity of the economy, and results in a higher rate of future economic growth. Hence, a sustainable growth model requires a broad-based pick up in overall capex. However, as seen in case of corporate earnings performance, listed corporates' capex is also witnessing a K-shaped recovery and Capex growth has been led by government led sectors and sunrise sectors. There has been a significant increase in the capex of the Union government from an average of 1.7% of GDP during 2008-20 to 3.0% during 2021-25, focused on infrastructure sectors like roads, railways, defence etc. Recent trends of capex by corporates (sector wise) has also shown positive trend (Except few sectors) as shown in Annexure I. We have analysed the capex performance of corporates based on the cash flows towards purchase of fixed asset viz. Property, Plant and Equipment. The sample of top 635 companies roughly represent majority of the total listed corporate capex. Capex spending is led by sectors viz. Refineries, Power generation, Auto, Iron & Steel, Metal, Manufacturing, Cement & Construction material. However, sectors like Fertilizer & agrochemicals, and Textiles etc. have shown below par capex pickup. Private sector has done a capex spending of Rs 8.4 Lakh Crore in FY24 as compared with Rs 7.06 Lakh Crore in FY23 showing a year-on-year growth of around 20%.

Average capacity utilization is at a crucial threshold of c. 76% but trends vary across sectors

Capacity utilization based on the RBI survey for the manufacturing sector with a slight upward movement seen in recent quarters (Q4-FY24: 74.6%). The survey also indicates slight increase in key business indicators like Inventory to sales ratio, Finished goods to sales ratio and Raw material to sales ratio.

Source: CEIC, Ace equity, UBI research



Financing of capex primarily via sources other than bank credit

It is interesting to note that majority of listed companies are financing capex through internal cash accruals, backed by healthy earnings, and rising operating profits. It needs to be noted that cleaner balance sheets helped corporates raise funds through alternative sources like QIPs/FPOs and PE/VC etc.

While total capex undertaken by listed corporates amounted to Rs 8.5 lakh crores in FY24, The incremental change in long term debt was only Rs 66,220 crore.

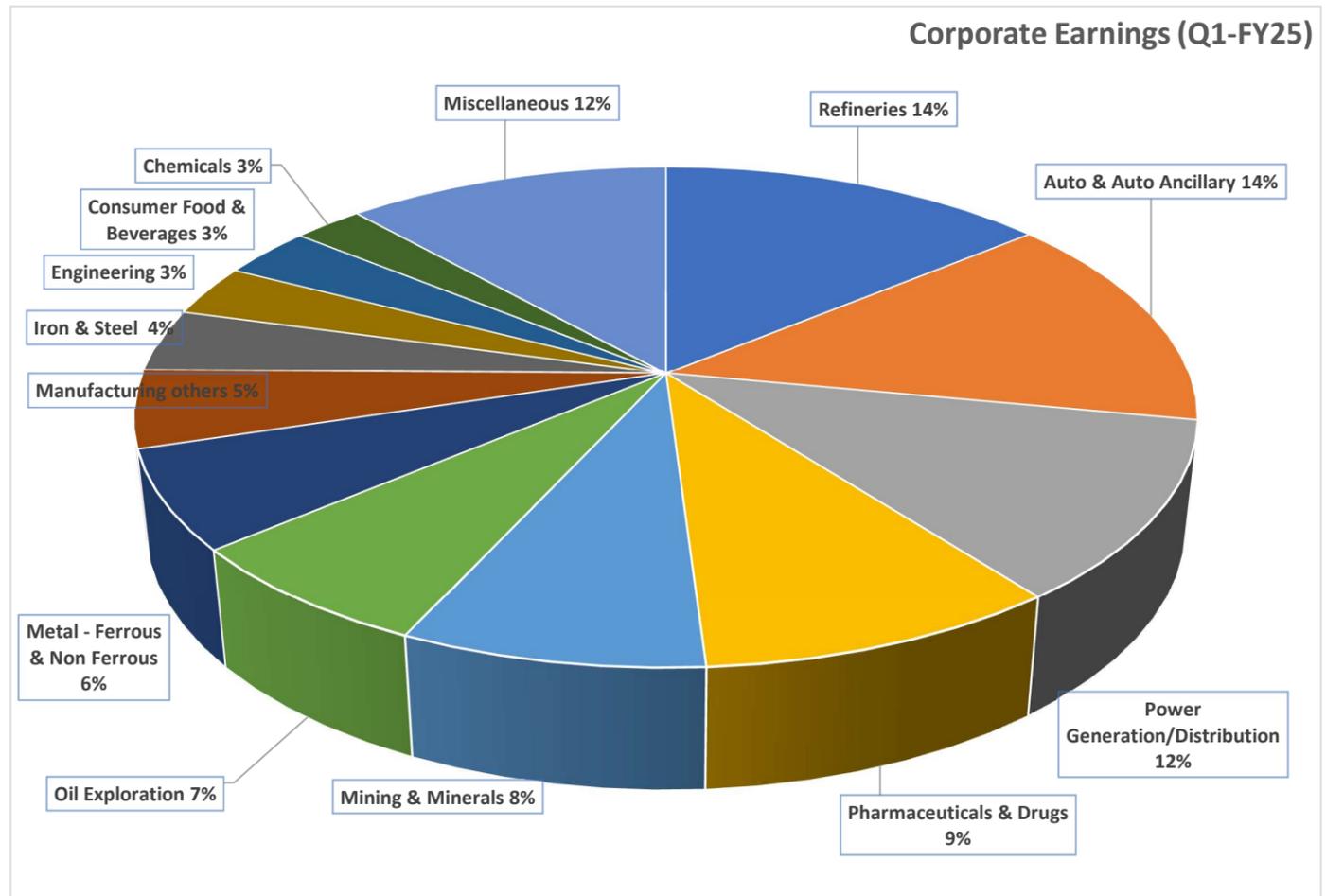
Outlook remains favourable yet broad based private capex recovery on watch

The outlook with regards to Private Capex spending growth looks positive with whole host of capex announcements by leading corporates. As per Moody's Ratings estimate the rated Indian companies will spend USD 45-50 billion annually over the next 1-2 years towards capex as companies boost capacity and self-sufficiency. The oil and gas sector will collectively account for over 60% of the rated Indian portfolio's spending over the next couple of years. This significant rise is due to rising domestic demand, improved corporate earnings and government focus on infrastructure development.

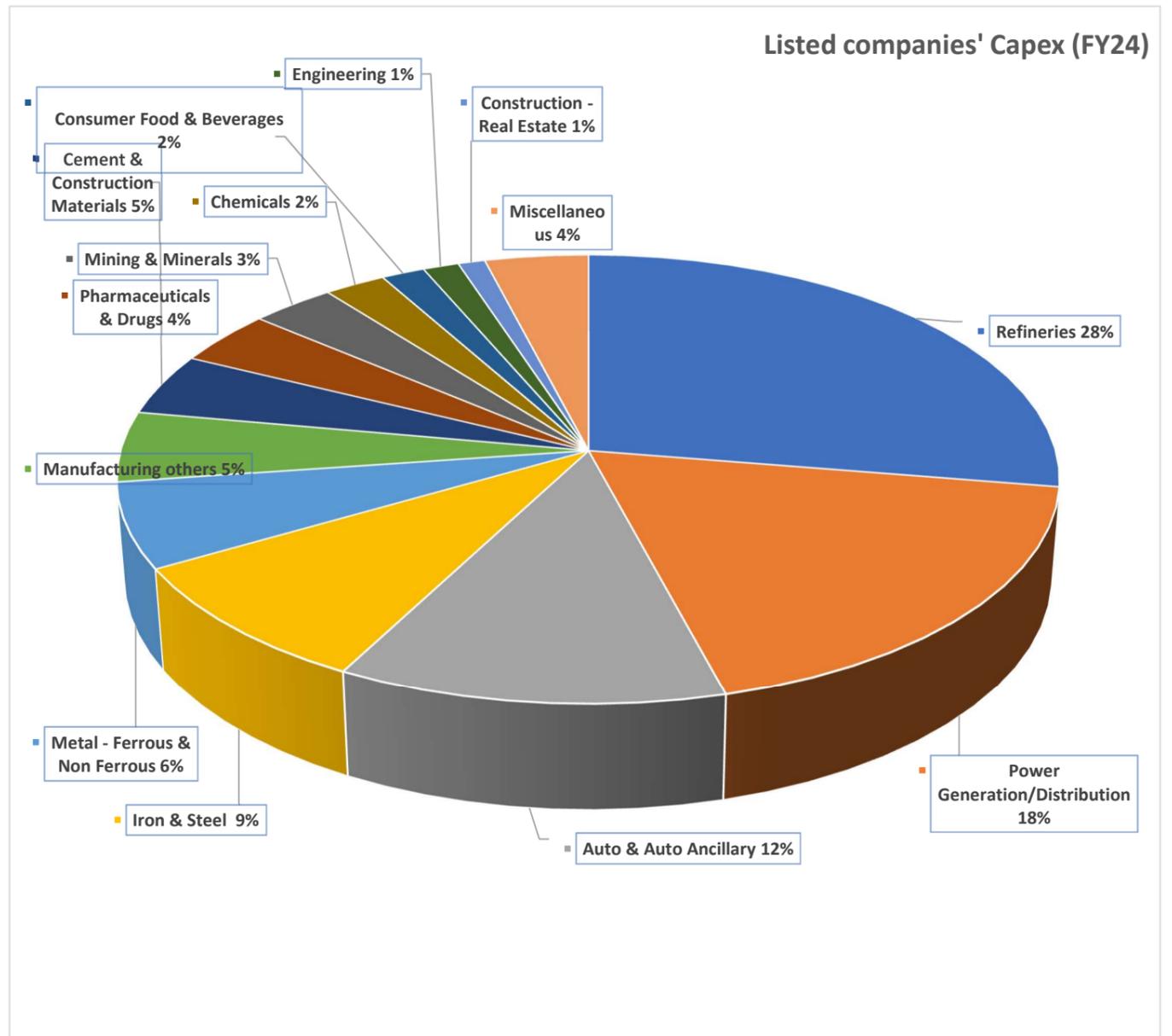
Further, as per [RBI study](#) on investment of private corporates based on the projects sanctioned by bank/FIs during 2023-24 indicate that total envisaged cost of the projects financed by banks/FIs reached a new high of ₹3.91 lakh crore with capex envisioned to ₹2.45 lakh crore in 2024-25. The government's thrust on infrastructure has helped to crowd-in private capex recovery. Infrastructure sector continued to attract the major share of envisaged capital investment mainly by 'Roads & Bridges' and 'Power' sector led by renewables. However incremental debt of corporates is not significant mainly due to higher repayment of long-term debt by corporates from few sectors. While public capex has reached its absorptive capacity, the private capex is expected to come in a big way in the coming years in light of higher capacity utilization and growing demand.

Fig 5: “K-shaped” recovery in corporate earnings and capex

Sector wise share of corporate earnings (Q1-FY25)



Sector wise share of top listed companies' capex (FY24)



Source: Ace equity, UBI research

Corporate Performance (Sector wise YOY % growth)

Sectors	Sample Count	Net sales			Operating Profit			Profit after Tax		
		Jun-23	Mar-24	Jun-24	Jun-23	Mar-24	Jun-24	Jun-23	Mar-24	Jun-24
Consumer Food & Beverages	124	6%	12%	12%	23%	18%	15%	25%	48%	11%
Auto & Auto Ancillary	121	24%	14%	10%	97%	27%	18%	426%	84%	28%
Cement & Construction Materials	68	11%	7%	-2%	14%	28%	-4%	10%	29%	-17%
Chemicals	149	-10%	-5%	4%	-22%	-17%	13%	-31%	-48%	-2%
Construction - Real Estate	146	5%	24%	20%	13%	37%	29%	-47%	70%	277%
Consumer Durables	26	3%	18%	36%	3%	10%	42%	-2%	12%	57%
Diamond & Jewellery	40	57%	-15%	-20%	0%	-3%	6%	-11%	-9%	6%
Electric & Electronics Equipments	86	16%	21%	20%	43%	43%	41%	-46%	39%	58%
Engineering	122	21%	14%	9%	19%	14%	10%	449%	21%	12%
Engineering - Industrial Equipment	120	14%	15%	13%	27%	19%	22%	28%	10%	34%
Fertilizer & Agrochemicals	56	-15%	-18%	-1%	-37%	-15%	11%	-63%	-38%	-10%
Food processing	61	-4%	-4%	6%	-14%	-4%	15%	-45%	-16%	29%
Iron & Steel	108	5%	-1%	0%	-18%	-6%	0%	-34%	-31%	-23%
Manufacturing others	134	7%	12%	9%	13%	33%	14%	12%	28%	11%
Metal - Ferrous & Non Ferrous	30	-11%	-3%	8%	-33%	-1%	37%	-39%	-8%	36%
Mining & Minerals	13	4%	-2%	1%	12%	13%	9%	16%	6%	6%
Oil Exploration	13	-12%	3%	3%	42%	5%	-21%	75%	21%	-36%
Others	1193	3%	8%	8%	24%	14%	12%	37%	16%	21%
Paper & Paper Products	47	1%	-12%	-6%	31%	-37%	-41%	39%	-44%	-58%
Pharmaceuticals & Drugs	171	14%	11%	10%	25%	28%	25%	21%	41%	41%
Plastic Products	110	-6%	7%	7%	-15%	1%	17%	-30%	48%	72%
Power Generation/Distribution	38	-1%	9%	15%	16%	13%	1%	32%	80%	-7%
Refineries	7	-9%	3%	4%	162%	-5%	-34%	509%	-18%	-53%
Textile	300	-14%	10%	8%	-27%	22%	1%	21%	67%	14%
Grand Total	3283	2%	5%	6%	28%	11%	2%	46%	17%	-1%
Grand Total(Ex Petro)	3263	7%	6%	7%	15%	14%	12%	20%	24%	16%

Listed corporates capex (sector wise)

Sector	Capex based on Cash Flow (In Cr)					Y-o-Y % Growth			
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2021	FY2022	FY2023	FY2024
Refineries	115580	130317	124094	155700	163687	13%	-5%	25%	5%
Power Generation/Distribution	55231	58332	77074	74780	108662	6%	32%	-3%	45%
Auto & Auto Ancillary	59778	39730	42703	52945	70247	-34%	7%	24%	33%
Iron & Steel	32413	23592	32970	44349	53134	-27%	40%	35%	20%
Metal - Ferrous & Non Ferrous	18395	14899	18944	27104	36376	-19%	27%	43%	34%
Manufacturing others	12500	9716	16565	22759	30114	-22%	70%	37%	32%
Cement & Construction Materials	12411	11208	18823	24290	26408	-10%	68%	29%	9%
Pharmaceuticals & Drugs	16053	16896	20941	24480	23226	5%	24%	17%	-5%
Mining & Minerals	8524	12685	13540	17068	19480	49%	7%	26%	14%
Chemicals	9480	7777	11525	12839	14186	-18%	48%	11%	10%
Consumer Food & Beverages	3315	3413	5002	7355	10003	3%	47%	47%	36%
Engineering	11410	11092	7260	8399	8270	-3%	-35%	16%	-2%
Construction - Real Estate	4330	5646	5038	4631	6199	30%	-11%	-8%	34%
Fertilizer & Agrochemicals	4912	4634	6303	6621	4831	-6%	36%	5%	-27%
Electric & Electronics Equipments	1394	739	1468	2138	3983	-47%	99%	46%	86%
food processing	1673	1193	2306	3199	3064	-29%	93%	39%	-4%
Plastic Products	1700	1894	1936	2267	3030	11%	2%	17%	34%
Engineering - Industrial Equipments	1672	1307	1727	2306	3022	-22%	32%	34%	31%
Textile	2214	3415	3466	5348	2681	54%	1%	54%	-50%
Consumer Durables - Electronics & Domestic Appliances	943	559	1114	1316	1426	-41%	99%	18%	8%
Diamond & Jewellery	614	228	419	1359	1038	-63%	84%	224%	-24%
Paper & Paper Products	834	1245	893	371	760	49%	-28%	-58%	105%
Grand Total	534017	494453	589863	706835	848841	-7%	19%	20%	20%

Source: Ace equity, UBI research

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