

Corporate performance Q2 FY25 - looking for silver linings amid dark clouds



BANKING RESEARCH TEAM

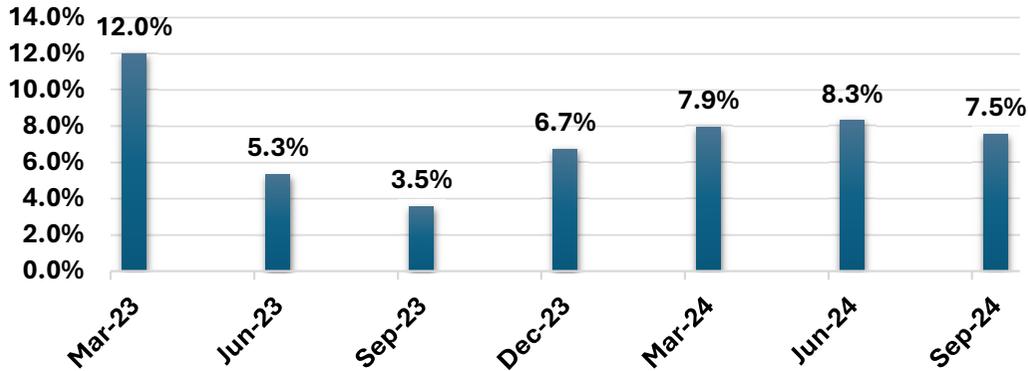
Corporate performance weakens in Q2FY25 while outlook for H2FY25 remains favourable.



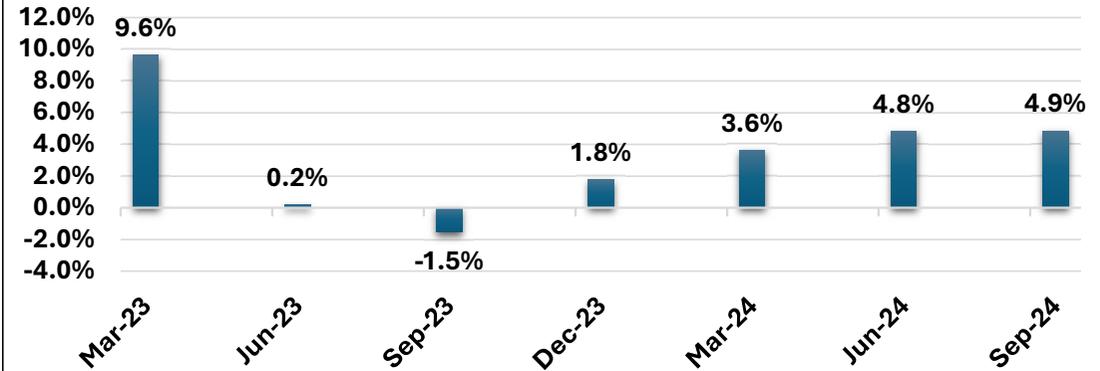
- ❖ **K-shaped recovery continues** to remain the key underlying theme in terms of corporate performance. Our analysis of Sept'24 (Q2 FY25) quarter earnings shows persistent downward pressure on operating profit and PAT growth as it hit lowest level since Q1FY24. This is probably attributed to base effect on excess rainfall this year weighing on business activity along with weakness in urban consumption demand amid fall in real purchasing power.
- ❖ Operating profit grew by 3.2% in Sept'24 as against 6.5% in Jun'24 quarter. Showing similar trend, PAT clocked a growth of 3.7% in Sept'24 as against 6.4% in Jun'24. This marks **continued downtrend in the last 6 quarters**. However, adjusted for the drag from Oil and Gas sector, overall corporate performance improves to 7.2% and 6.6% in operating profit and PAT respectively.
- ❖ Sectors like Consumer Durables, Capital Goods, Finance, Pharma, IT and Logistics performed well, while Crude Oil, FMCG, chemicals, automobiles, power, construction material, Iron & Steel and Infrastructure remained laggards.
- ❖ **Capex of corporates is Rs 3.25 lakh crore in Sept'24 as against Rs 2.64 lakh crore in Sept'23 showing a growth of over 15% y-o-y.** Sectors leading the capex pickup are Crude oil, power, automobiles, iron & Steel, construction materials while chemical, FMCG, capital goods, textile and consumer durables are lagging in capex recovery cycle. **Retained earnings remained the primary source of funds for the corporates in H2FY25, as against bank borrowings shows that animal spirits are yet to be witnessed among Indian corporates.**
- ❖ Overall outlook for H2-FY25 is relatively positive, backed by higher government capex, strong festival season-driven demand in auto and retail, and a softening of crude oil prices. However, disruption caused by external factors like impact of hike in international trade tariffs by the new US President and global macro uncertainty may further delay the broad-based capex recovery.

Net Sales shows modest growth recovery since Q2 FY24

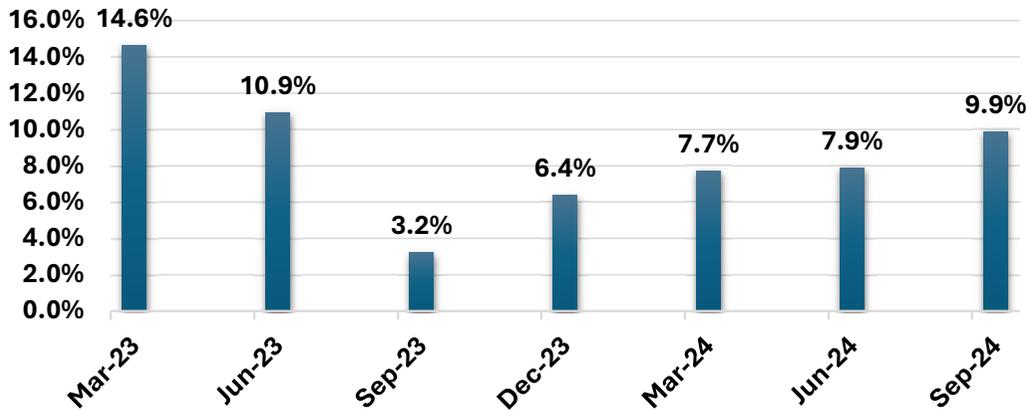
**Net Sales - All Companies
(Y-o-Y Growth)**



**Net Sales - Manufacturing
(Y-o-Y Growth)**



**Net Sales - Manufacturing (Ex-Petro)
(Y-o-Y Growth)**



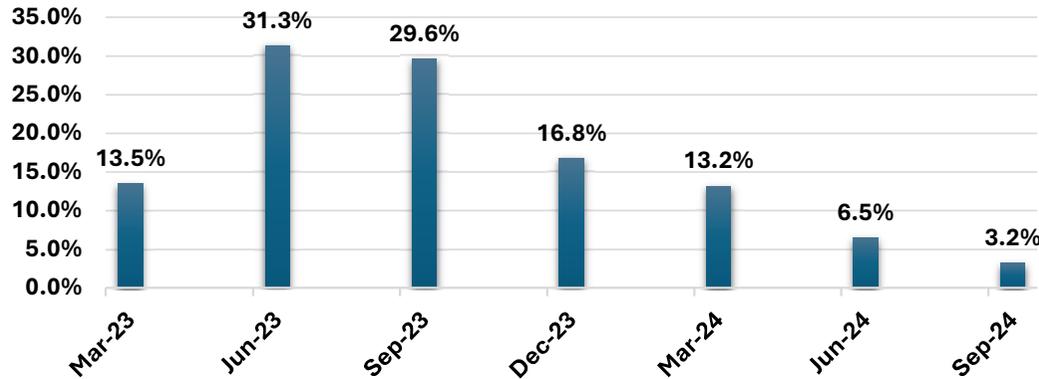
- Overall revenue growth trend moderated to 7.5% in Sept'24 from 8.3% in June'24.
- Sales revenue of Manufacturing Companies saw a marginal growth of 4.9% v/s 4.8% in June24
- Growth of 9.9% is seen in sales revenues for the Mfg. companies adjusted for the drag from Oil and Gas sector.
- Overall revenue growth for corporates is dragged by Petroleum companies.
- Outlook for H2 FY25 appears relatively better on increased government spending and pick up in rural demand.

Sample Size -Total companies -2581, Manufacturing -1473, MFG.(Ex Petro)-1452.

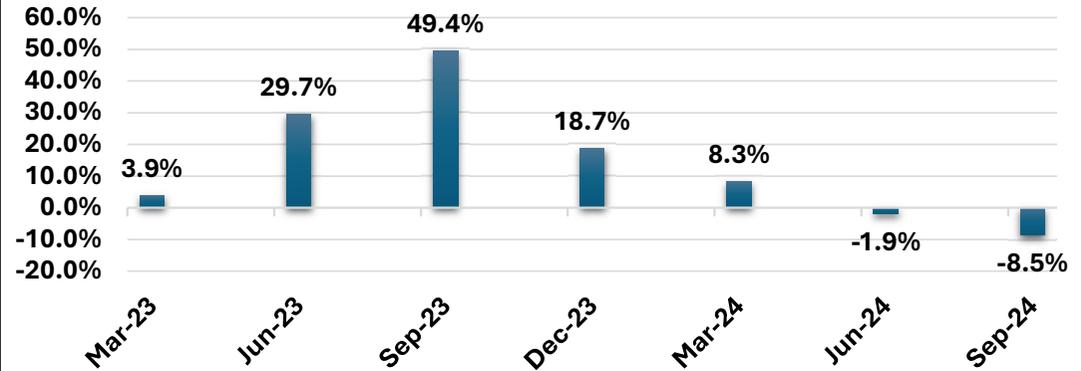
Source: UBI Research & Ace equity

Operating profit hit six quarter lows in Q2 FY25

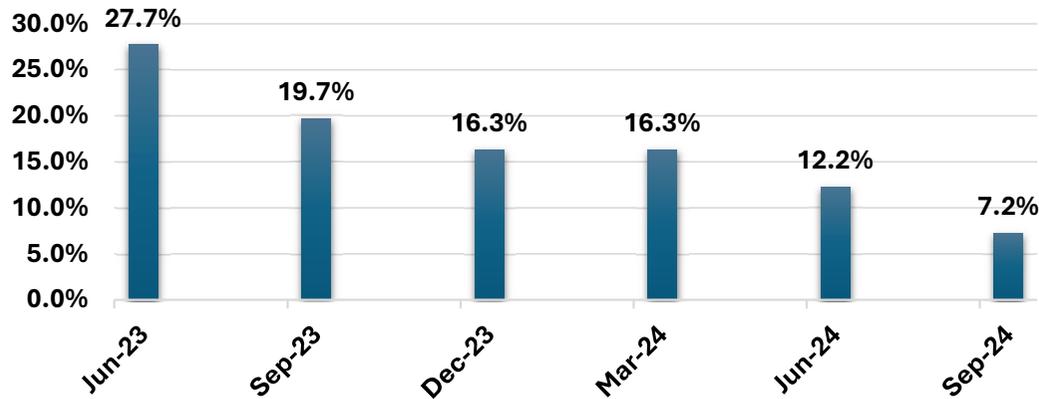
Operating Profit - All Companies (Y-o-Y Growth)



Operating Profit - Manufacturing (Y-o-Y Growth)



Operating Profit - Manufacturing (Ex- Petro) (Y-o-Y Growth)



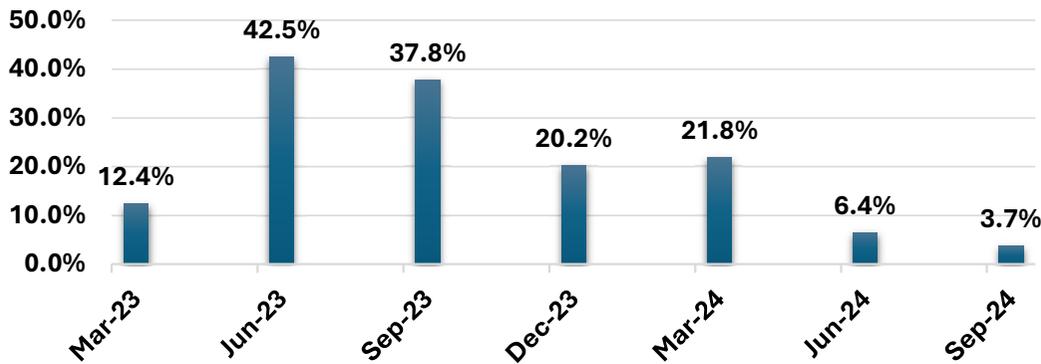
- Operating profit growth in Q2 FY25 slipped to lowest level in 6 quarter i.e. since Q1FY24. This is probably attributed to base effect on excess rainfall this year weighing on business activity along with weakness in urban consumption demand amid fall in real purchasing power.
- Oil and Gas sector along with other sectors like Iron & steel, Cement etc drags the overall profitability of the manufacturing sector for the corporates for the period Q2FY25.
- Excluding Oil and Gas Operating profit clocked the growth of 7.2% in Q2 FY25 v/s -8.5% of operating profit in manufacturing sector.

Sample Size -Total companies -2581, Manufacturing -1473, MFG.(Ex Petro)-1452.

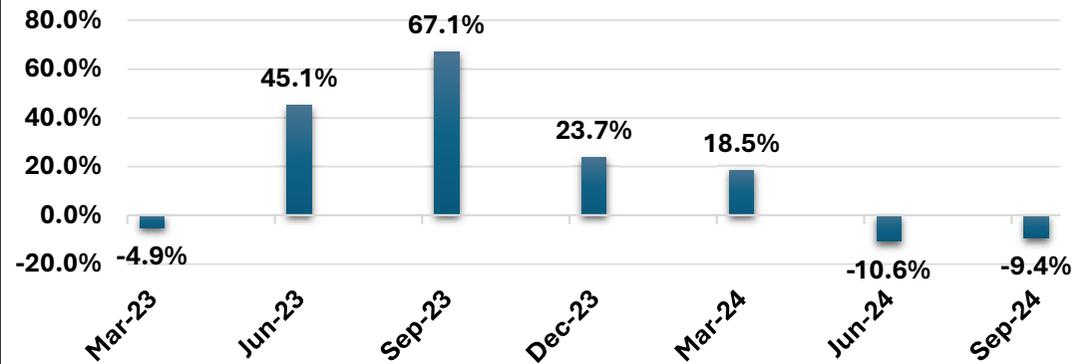
Source: UBI Research & Ace equity

PAT growth also on a downtrend in line with operating profit

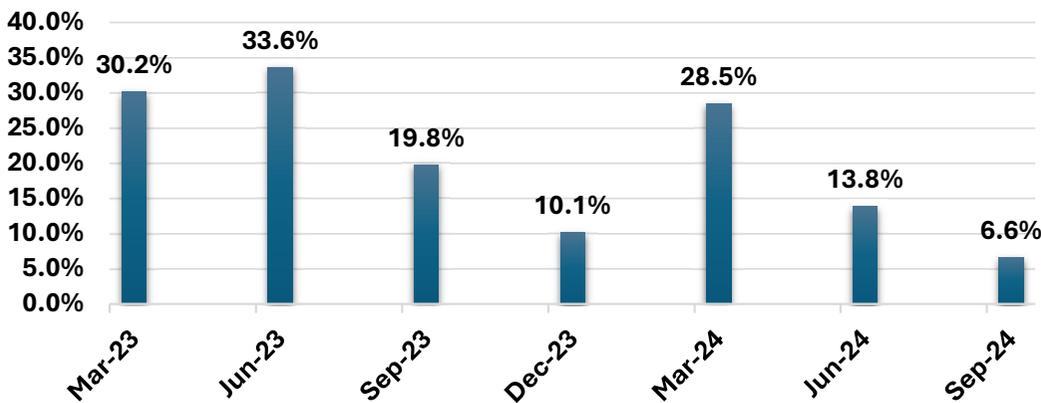
**PAT - All Companies
(Y-o-Y Growth)**



**PAT - Manufacturing
(Y-o-Y Growth)**



**PAT - Manufacturing (Ex Petro)
(Y-o-Y Growth)**



- PAT is following the similar trend as operating profit. The downward trend is seen in the last 6 quarters i.e. from H1FY24
- There is sharp decline in terms of profit after tax (PAT) to 3.7% in Sept'24 from 6.4% in June'23 for corporates taken as per sample.
- Manufacturing companies PAT has seen a continues downward trend since Dec'23 quarter. PAT growth in Sept'24 quarter was -9.4%.
- However, Adjusted for Oil and gas companies PAT has grown by 6.6% among manufacturing companies

Sample Size -Total companies -2581, Manufacturing -1473, MFG.(Ex Petro)-1452.

Source: UBI Research & Ace equity

K- Shaped Recovery is led by IT, Capital Goods and Pharma while Crude Oil, Cement & Steel lag

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Union Bank
of India
Good people to bank with

Winners

- Consumer Durables
- Telecom
- Capital Goods
- Insurance
- Logistics
- Realty
- Bank
- IT
- Healthcare
- Finance

Laggards

- Infrastructure
- FMCG
- Chemicals
- Textile
- Automobile & Ancillaries
- Power
- Construction Materials
- Hospitality
- Iron & Steel
- Crude Oil

K- Shaped Recovery is led by IT, Capital Goods and Pharma while Crude Oil, Cement & Steel lag

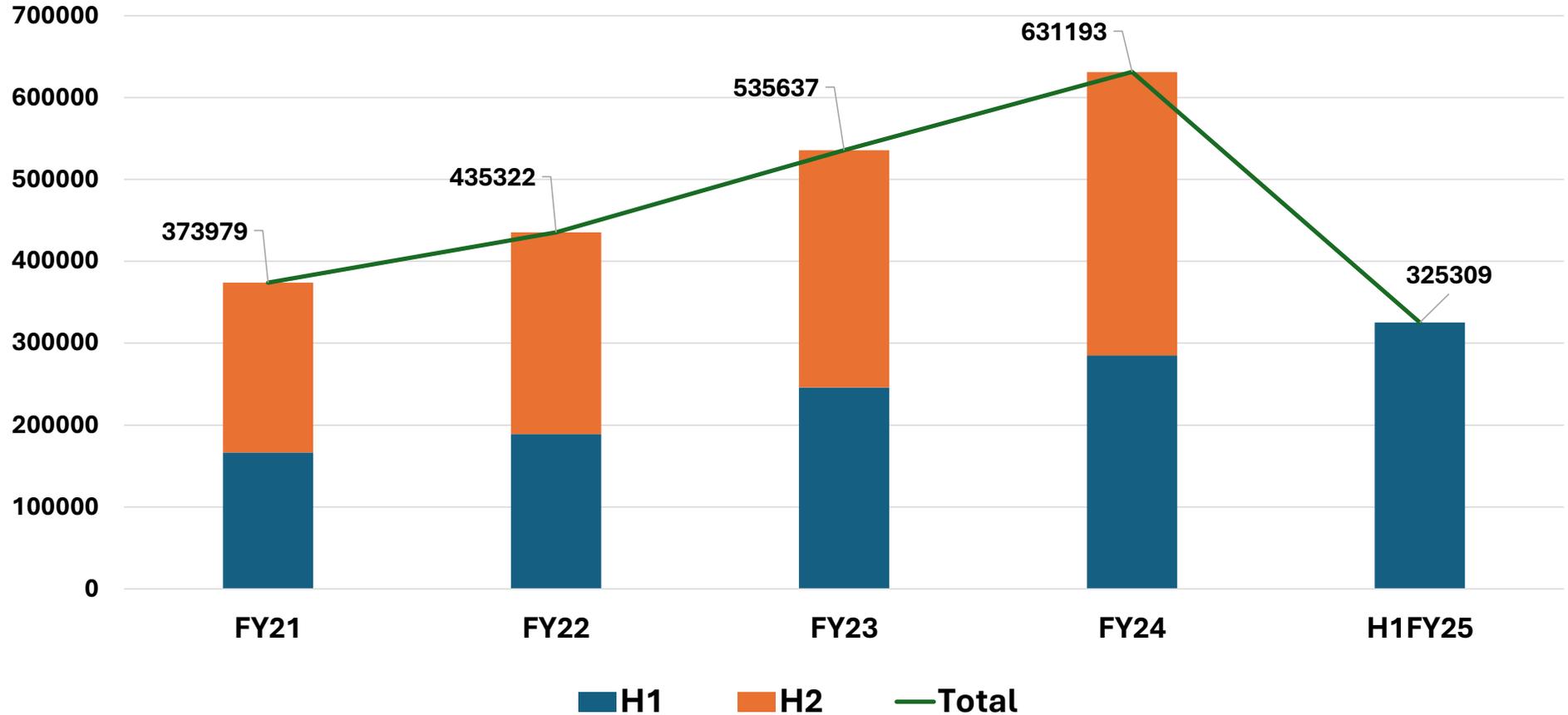
Sectors	Count	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Automobile & Ancillaries	168	40%	83%	53%	34%	25%	18%	4%
Capital Goods	181	21%	28%	25%	19%	36%	31%	24%
Chemicals	203	-10%	-24%	-9%	-30%	-10%	27%	7%
Construction Materials	75	0%	14%	71%	52%	25%	-5%	-21%
Consumer Durables	38	9%	7%	8%	16%	14%	56%	34%
Crude Oil	21	18%	110%	125%	26%	-2%	-30%	-35%
Diamond & Jewellery	26	60%	-1%	-12%	-7%	-4%	4%	4%
Electricals	35	36%	44%	26%	4%	3%	1%	14%
FMCG	129	17%	11%	11%	3%	8%	10%	7%
Infrastructure	65	7%	20%	20%	8%	17%	11%	14%
Iron & Steel	78	-29%	-18%	66%	41%	-3%	1%	-5%
Non - Ferrous Metals	26	-25%	-32%	15%	23%	1%	38%	19%
Paper	30	76%	31%	-17%	-32%	-38%	-42%	-34%
Plastic Products	74	-12%	-17%	29%	20%	-3%	19%	18%
Power	35	-1%	16%	29%	5%	13%	1%	-1%
Textile	182	-27%	-25%	0%	24%	15%	20%	9%
MFG. Total	1366	5%	31%	50%	18%	7%	-3%	-9%
MFG. Ex Petro	1345	0%	9%	28%	14%	12%	12%	5%
Grand Total	2581	13%	31%	30%	17%	13%	6%	3%

Sample Size -Total companies -2581, Manufacturing -1473, MFG.(Ex Petro)-1452.

Source: UBI Research & Ace equity

Manufacturing Capex in H1 FY25 outperformed H1 FY24

Capex (Rs in cr)



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

Manufacturing Capex revival led by Crude Oil, Power, Auto and Iron & Steel



- The capital expenditure (capex) for H1FY25 remained muted due to general elections and uneven rainfall in the first half of the current financial year.
- Capex of corporates is Rs 3.25 lakh crore in Sept'24 as against Rs 2.64 lakh crore in Sept'23 showing a growth of over 15% y-o-y. Sectors leading the capex pickup are Crude oil, power, automobiles, iron & Steel, construction materials while chemical, FMCG, capital goods, textile and consumer durables are lagging in capex recovery cycle.
- Crude oil sector is leading the capex revival cycle by doing Rs 1.02 lakh crore capex in H1FY25 among other sectors in-spite of lagging with respect to corporate earnings.
- Infrastructure sector is expected to attract a significant share of the capex, with the 'roads & bridges' and 'power' sectors and Refineries leading the way. Increased government spending is likely to help crowd in capex in the sector with the likely pick up seen in H2 FY25.
- However, there are some concerns about the corporate capex trends, 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 presidentship 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.

Manufacturing Capex pick up led by Crude Oil, Power, Auto, Iron & Steel and Pharma

[In Rs Cr]

Sectors	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Sep-24
Crude Oil	158658	164971	160645	203745	216072	101749
Power	49787	54323	71244	69298	101743	66479
Automobile	46138	35153	38323	46340	58227	32903
Iron & Steel	33027	24490	32274	46344	54615	28519
Non - Ferrous Metals	15874	13887	17587	25102	34502	17649
Construction Materials	9490	8257	15594	19583	23954	11815
Healthcare	15019	14729	18225	20474	21882	11211
Chemicals	14379	10875	16459	20642	20779	9983
Infrastructure	13071	4748	8009	10962	11742	5506
Inds. Gases & Fuels	9304	5770	7044	9887	13342	4925
FMCG	6283	4926	7067	8459	10078	3819
Capital Goods	4299	3062	3857	5625	7451	3632
Textile	2863	3752	3311	6215	3738	2148
Plastic Products	1161	1167	1448	1531	1986	1253
Electricals	816	689	1276	977	1635	1022
Consumer Durables	1204	745	1615	2011	1910	1016
Gas Transmission	1559	1638	2703	2209	2066	909
Paper	768	1275	933	256	280	126
Grand Total	383700	354456	407614	499657	586004	325462

Source - Ace Equity

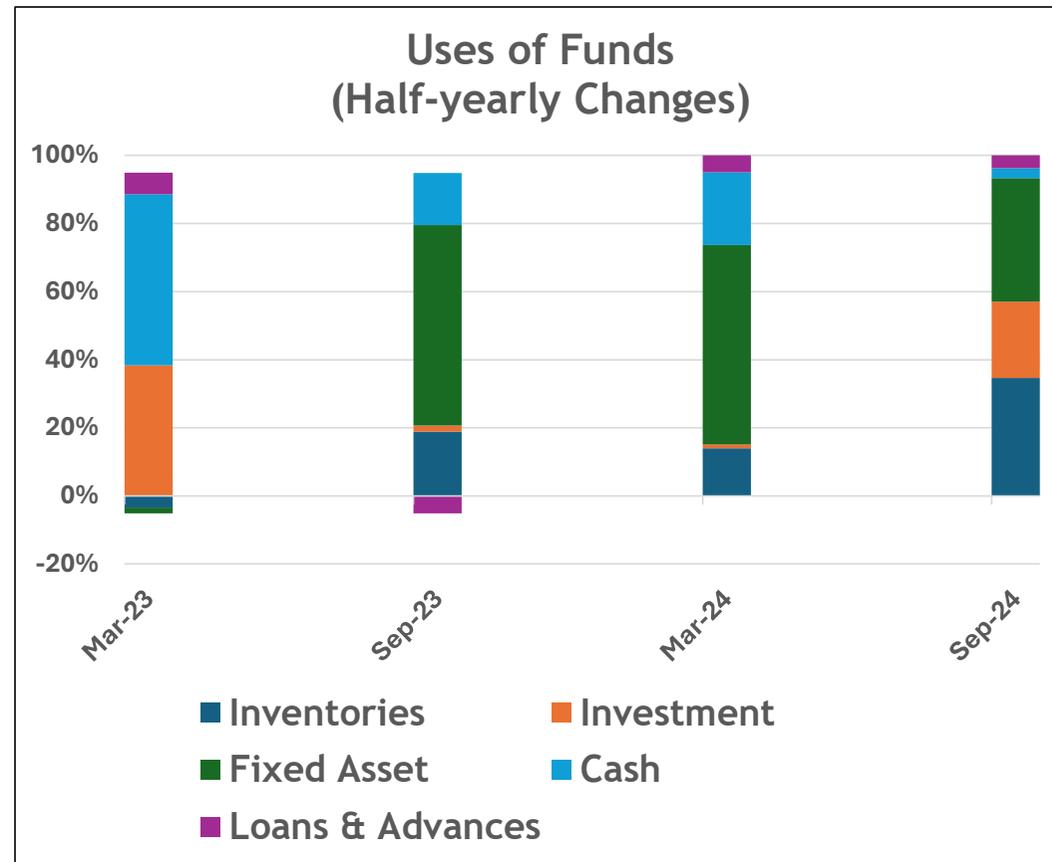
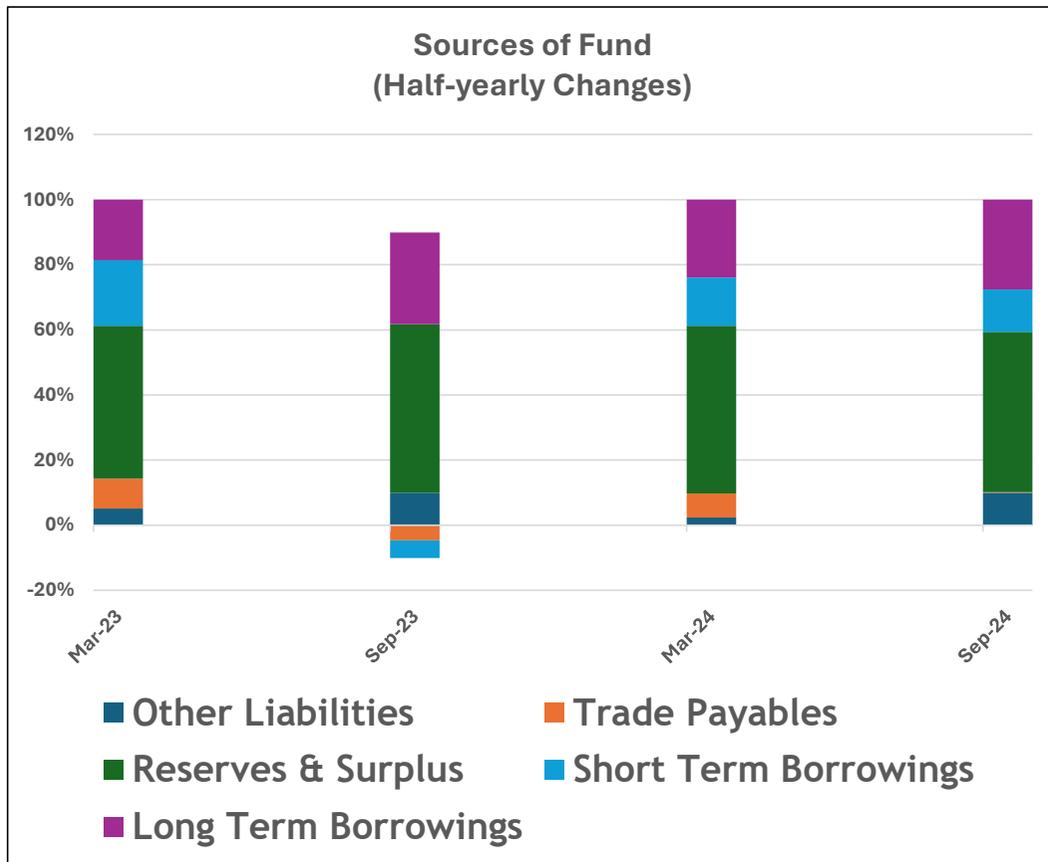
Source of Funds

- Reserves and surplus forms the major chunk of the source of fund utilized by the corporates to build capacities, data of 5226 listed corporates shows. Half yearly growth 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 growth 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 growth 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 growth in inventories level is 35% in H1FY25.
- Growth 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. Growth in Half-yearly figures in H1FY25 is 3% and 4%, respectively.

Retained earnings/reserves stays as primary source of funding



Sample Size - Total Companies - 5226

Source: UBI Research & Ace equity

Consumer demand is slowing

1. FMCG (*Rural urban divide – Outlook is favourable*)

- FMCG has shown a moderation in PAT as well as operating profit growth. Weak quarterly result is due to subdued consumer demand, particularly in urban regions, as reflected by various economic indicators. Meanwhile, Rural demand has however, seen revival which is evident from the increased 3-wheeler and tractor sales.
- Festive season could provide boost in the consumer sentiments, making the outlook positive in the near to medium term.
- As per NielsenIQ's latest FMCG Quarterly Snapshot, while rural areas saw a growth of 6% (vs 6.1% in Q3 2023), up from 5.2% in the last quarter, urban areas saw a marginal growth of 2.8% (vs 11% in Q3 2023) compared to 2.1% in the previous quarter.

2. Automobile (*Negative but festive sales and H2 show favourable outlook*)

- Automobile sector's PAT has degrown by 4% on a y-o-y basis in Q2FY25 as compared with 27% growth in the previous quarter i.e. in Q1FY25.
- Weakening electric car market also added to the slackening growth of automobile industry.
- However strong growth across all segments is seen in Oct'24 as retail sales witnessed a significant growth of 32% YoY and 64% MoM, as per data published by FADA (Federation of automobile dealers associations).
- Owing to festive and wedding season demand and discount offers given by OEMs *outlook of the automobile sector stays positive*.
- However, we will keep a close watch on trends in the coming months.

Capex primarily led by government spending with broad based private capex recovery still lagging

1. Construction materials (Steel, Cement)

- Quarterly performance of Construction companies has slumped through H1FY25 due to delays in the approval and disbursement of the fiscal budget, owing to general elections, monsoon and general slowdown in demand.
- Even with lagging private capex recovery, the sector outlook appears positive with the revival of government's capex in the 2nd half of FY25.
- Union government has envisioned a Public capex target of Rs 11.11 lakh crore in the Union budget. While capex was down 15% y-o-y in H1, it is likely to take off in the remaining period of FY25, makes the outlook positive.

2. Capital goods

- Capital Goods sector has shown a double-digit PAT y-o-y growth of 38.9% in Q2FY24.
- Overall, H1FY25 period was good for industrial good companies with strong order book and tender pipeline.
- Post election revenue growth of the sector is expected to ramp up .
- Private capex is likely to see growth in data centre and industrial automation.
- Industries such as energy transition, wind and solar etc saw spurt in demand which augurs well for the sector in H2FY25.

Commodity led sectors may see some salutary effect from lower global commodity prices

1. Oil & gas (earnings vs capex divide)

- Oil and Gas Sector performance in the second quarter of FY25 remained subdued showing a negative PAT growth of 57.9%, while operating profit has degrown by 40.4% y-o-y in Sept 24 quarter.
- However, Spending towards purchase of PPE (Property plant & equipment) is growing at an y-o-y growth rate of 6.4% in Q2FY25 with an actual amount of Rs 87,288 Cr in Sept'24 quarter on a consolidated basis.
- Recent global macroeconomic challenges, particularly slowdown in China, has put downward pressure on GRMs, which has since fallen to \$3-4/barrel.
- Capacity expansion in the refining sector continues, *indicating confidence in long-term demand and growth outlook*. Capex in the sector remains progressively high due to requirement of capacity addition.

2. Chemicals

- Chemical sector saw a modest y-o-y PAT growth of 3.8% in H1FY25.
- First half of FY25 for India's chemical sector remained subdued owing to weak demand scenario.
- Agrochemical end-user industry also continues to see pressure.
- The key issues have been Chinese dumping, leading to pressure on margins.
- Also, export environment has been relatively muted in the sector.
- The agrochemical industry is also experiencing muted demand due to uneven rainfall and Chinese over supply.
- Outlook for the sector remains negative despite softening of commodity prices.

Exports led sectors show mixed outlook

1. Textiles (stays under pressure yet premiumisation remains)

- Textile sector has shown a negative y-o-y growth of 2.5% over same period of previous quarter. Operating profit also grew only by 7.4% y-o-y in Sept'25 quarter.
- Slow growth can be attributed to the demand slump and weak export market. In textile industry growing divergence is observed where premium brands are putting up a good performance while non premium brands are facing pressure.
- The outlook for the sector remains neutral with positive bias, due to export picking up in the recent quarter.

2. IT (Recovery underway)

- Indian IT sector continues to see revival in the growth prospect establishing its position as a global leader in technology services export. IT sector PAT grew by 16.4% on y-o-y basis in Sept'24 quarter.
- Strong IT service demand led to decent performance of the IT sector in H1FY25. However, policy change in the US can have an impact on the sector as it is the largest market for the Indian IT companies having total IT exports of about \$200 billion in FY24.
- Sectoral outlook remains positive but the journey ahead requires key challenges to be addressed like need for investment in digital infrastructure and changing policy scenario in the US market.

3. Pharma (Demand remains strong)

- Healthcare sector saw a double-digit y-o-y growth of 11.4% in Sept'24 quarter of the companies which has published its financial reports.
- Within healthcare sector pharma industry has shown robust growth in the recent period driven by strong domestic market and robust export demand.
- Notably, India has the most USFDA-approved plants outside of the US as quoted by EY report.
- Improvement in the supply chain management, competitive pricing and transition towards innovative healthcare delivery model reaffirms the Pharma sector growth outlook to be positive.
- Healthcare sector led by pharma has shown revival in capex cycle and is among the leading sectors with respect to building capacities.

Thank You !

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