



INDIAN CORPORATE SECTOR: Q2 FY2023 PERFORMANCE REVIEW AND OUTLOOK

**Global headwinds continue to weigh
on earnings**

NOVEMBER 2022



1 Summary



2 Financial performance of the corporate sector in Q2 FY2023



3 Key trends in the macroeconomic environment



4 Key trends in the Indian corporate sector



While Corporate India reported a sizeable 27% YoY growth in revenues across sectors (albeit on a low base) in Q2 FY2023, the earnings continued to face significant headwinds, mainly from commodity and energy cost inflation.

Continuation of inflationary challenges and evolution of the geo-political situation remain key monitorables going into H2 FY2023.



- The revenue growth of Corporate India in Q2 FY2023 was expectedly strong, aided by the low base of the previous year, which was recovering only gradually from the second wave of the pandemic. Additionally, stable demand in most sectors and price hikes undertaken across several sectors, supported growth.



- Accordingly, the aggregate revenues of 625 listed companies evaluated by ICRA (excluding financial sector entities) grew by 27.3% YoY and 2.8% sequentially during Q2 FY2023. These trends were visible across sectors, although to a varying degree. While sectors like construction, automotive, airlines, among others, reported significant QoQ growth in revenues in Q2 FY2023 due to successive price hikes and steady demand, few others like hotels, power, oil & gas, metals & mining, textiles and consumer durables witnessed sequential decline in revenues during the quarter.



- Despite the revenue growth, the operating profit margin (OPM) of India Inc. contracted significantly both on a sequential as well as YoY basis during Q2 FY2023 to 14.5%, which was at multi-year lows due to the continued macro headwinds and inflationary trends with high commodity prices, freight costs, energy costs and supply chain disruptions; erratic monsoons also affected certain sectors.



- These inflationary pressures, which could not be passed on entirely to the customers, resulted in 455 bps YoY contraction in OPM, despite operating leverage benefits. The challenging operating environment has also led to increased dependance on working capital borrowings, which, coupled with subdued earnings and increased finance costs, is likely to exert pressure on credit metrics of India Inc. over near term.



- ICRA believes that while Q3 FY2023 revenues, especially in consumer-oriented sectors, are likely to see a boost aided by the seasonally strong festive period, these ongoing challenges are likely to continue to weigh on margins, though stabilisation of commodity prices provides some comfort.



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