Q4 Bounce: India Inc beats D-Street view with strong show

Inflation and likely asset-quality slippages in the aftermath of the second wave are potential downside risks.

Synopsis

For the June quarter, Duggad expects the year-on-year performance to be better due to a low base, although the sequential trend may be weak due to the second wave of the pandemic. But he is more optimistic about the remainder of the year.

ET Intelligence Group: Indian **companies** harnessed demand buoyancy to register robust sales and profit expansion in the March quarter, and the momentum underpinning last year's V-shaped recovery should resume in the latter half of **FY22** as economic activity accelerates in lockstep with the pace of vaccinations.

A low statistical base also helped add sheen to the report cards of companies regardless of size, with analysts having pencilled in strong growth undergirded by pent-up demand.

"The performance was in-line for our coverage universe of stocks and better than expected for the Nifty," said Gautam Duggad, research head, Motilal Oswal year, the highest in a decade, and unthinkable a year ago."

For a 13-quarter common sample of 2,437 companies, revenue expanded 16% year-on-year, the fastest pace in at least nine quarters. Net profit surged nearly seven times. In the year-ago quarter, profit had fallen 73.5%, while revenue dropped 5.8%.

For the June quarter, Duggad expects the year-on-year performance to be better due to a low base, although the sequential trend may be weak due to the second wave of the pandemic. But he is more optimistic about the remainder of the year.

"We expect the earnings momentum to accelerate in FY22 as vaccinations accelerate and the economy opens up further," Duggad said. Banking and financial companies and commodities are expected to drive FY22 earnings growth, he said. Excluding banks and finance companies, revenues of the companies studied expanded a bit faster at 17%, while net profit growth at six times was a tad lower.

Companies continued to surpass street estimates during the fourth quarter. Deepak Jasani, retail research head, HDFC Securities, said more companies were able to beat the estimates than those missing earnings projections.

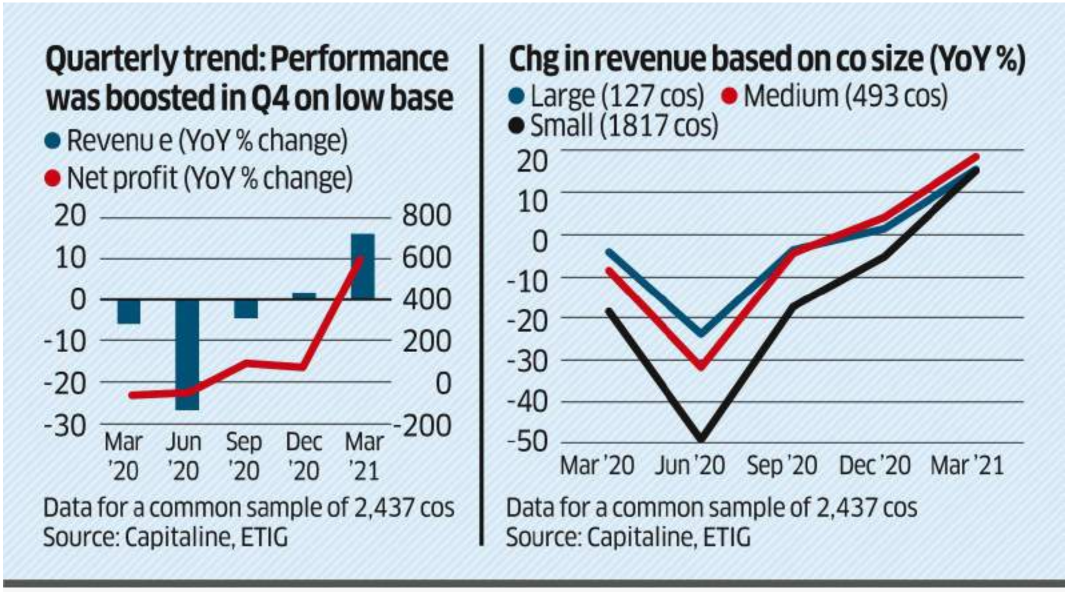
"While the top-line growth was aided by a combination of a subdued base, demand recovery and higher realisations, profit growth was helped also by continuing cost cuts," Jasani said.

Operating margins of the companies expanded to 20% in the March quarter from 14% a year ago. After hitting a high of 20.4% in the September quarter, margins softened due to rising raw material costs.

"We expect some moderation in margins now given the twin headwinds of commodity cost escalation and lockdown-induced operating deleverage for the June 2021 quarter," said Duggad.

Aggregate interest coverage ratios for the sample, excluding banks and finance companies, improved to a 13-quarter high of 5.9 from 2.1 a year ago.

"At the aggregate level, interest coverage ratio has improved very sharply on account of higher profits and lower interest expense," rating agency CARE noted in a report. It added that companies in sectors hit by the pandemic, such as travel and hospitality, reported deterioration in the ratio implying reduced ability to service debt.



Large companies with FY21 revenue exceeding Rs 10,000 crore showed greater resilience during the four quarters of the past fiscal year than did medium-sized companies with revenue between Rs 1,000 crore and Rs 10,000 crore. Small companies, with sales of Rs 1,000 crore or less, reported the highest drop in revenue during the period.

To be sure, performance was less uniform, with industries such as leisure, travel and dining showing stress.
"Automobiles, cement, metals, oil & gas, agriculture, banks, and IT sectors did well while aviation, **FMCG**, multiplexes, restaurants, retail, hotels and travel expectedly disappointed," said Jasani.

Inflation and likely asset-quality slippages in the aftermath of the second wave are potential downside risks.

"The outlook for many sectors remains hazy amid the second wave of Covid-19," said Jasani. "Management commentaries, particularly in industries such as banking and financial services, consumer goods and automobiles, have turned cautious."