panorama

June 2024

Key Insights:

Higher operating margins drove FY24 corporate earnings, while sales growth lagged

- The manufacturing sector's real GVA recovered in FY24 due to higher operating profit growth of listed manufacturers and lower WPI inflation
- Higher operating profit growth was due to a decline in raw material costs, driven by a fall in commodity prices
- Employee expense growth of listed corporates moderated on account of a reduction in IT sector workforce
- The banking sector witnessed a moderation in the net interest margins due to an increase in deposit rates

Private corporate investment picked up alongside improvements in debt sustainability

- The debt-to-equity ratio for the corporate sector fell in FY24, while the interest coverage ratio improved
- The proportion of debt held by highly leveraged companies (debt-to-equity > 2) fell in FY24, and that held by companies with an interest coverage ratio < 1 also decreased
- Private sector continued to ramp up investments in FY24. Investments have grown at 19% CAGR since FY21
- Momentum in private investments is expected to persist due to high asset turnover and capacity utilisation

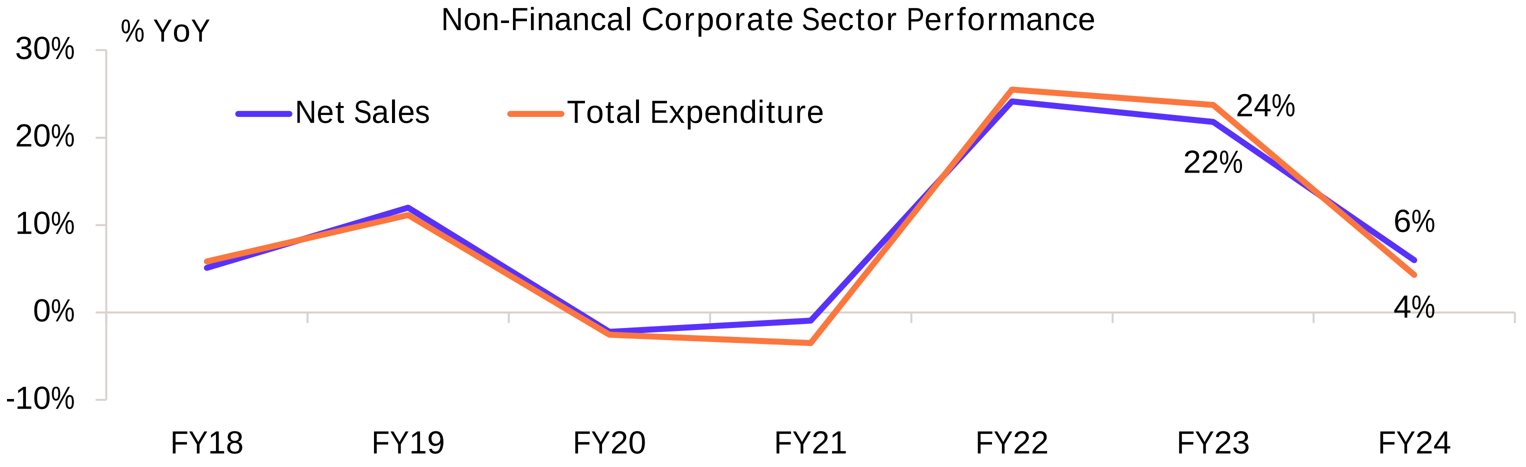
Infrastructure outperforms consumption; premium outperforms the mass category

- Infrastructure outperforms consumption in terms of investment returns amid a shift to investment-led growth
- FMCG experienced weak volume growth due to subdued consumption but showed improvement in H2 FY24
- Premiumization trend continued in FY24 across categories – passenger cars, motorcycles, residential RE etc.
- Consumption growth appears to have bottomed out and is expected to recover in FY25-26

Corporate Sector

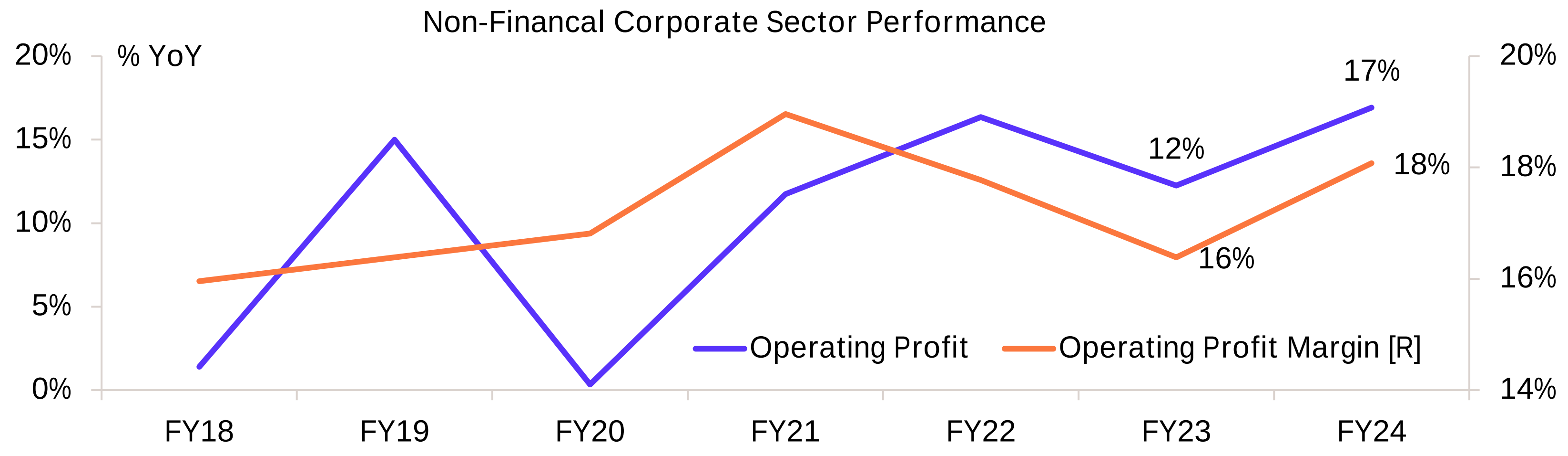
Corporate earnings were driven by higher profit margins in FY24

The decline in sales growth was matched by a sharper reduction in expenditure growth due to falling commodity prices



Listed corporates witnessed a sharp decline in sales growth in FY24

Expenditure growth experienced an even sharper decline, partly due to a significant fall in commodity prices in FY24



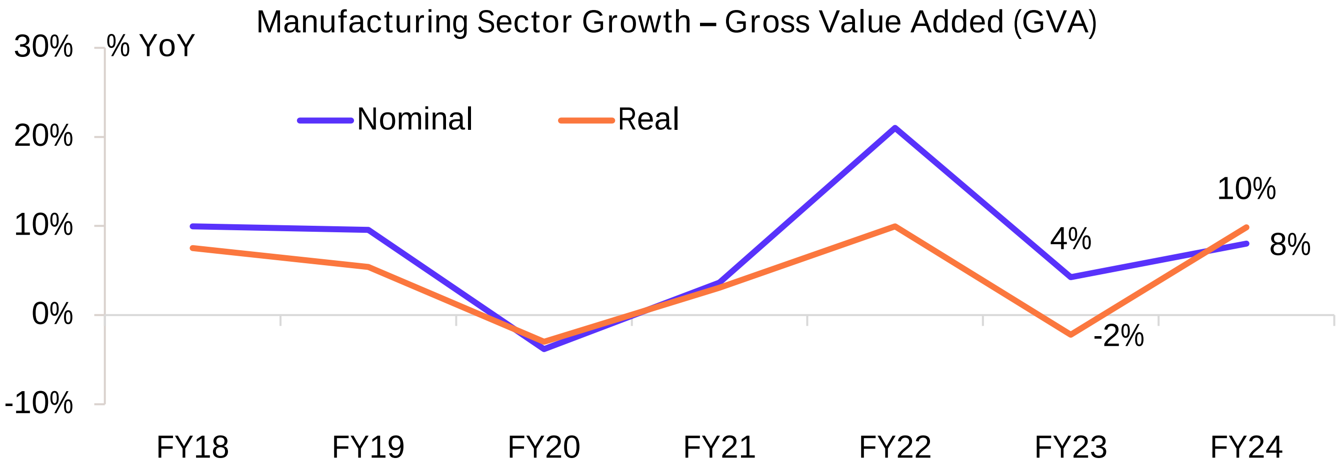
Consequently, corporates witnessed an improvement in operating profit margins and a higher operating profit growth in FY24

Source: Ace Equity, 360 ONE Asset Research

Note: Non-financial corporate sector performance based on a sample set of 2200+ companies and excludes power, petro, metal, and construction sectors

Manufacturing sector witnessed a steep recovery in FY24

Real manufacturing Gross Value Added (GVA) was driven by a fall in raw material costs and lower WPI inflation

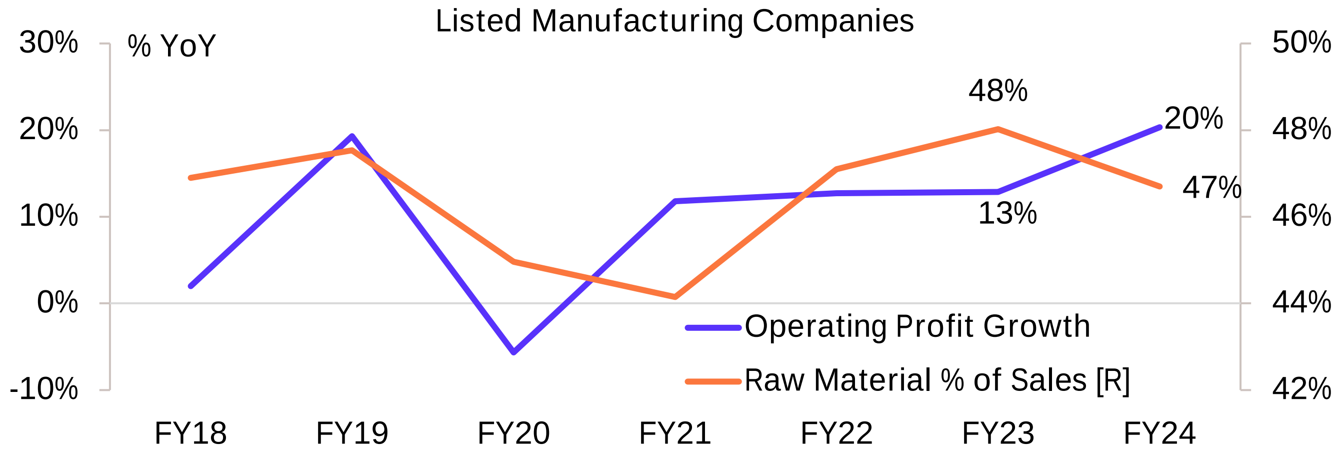


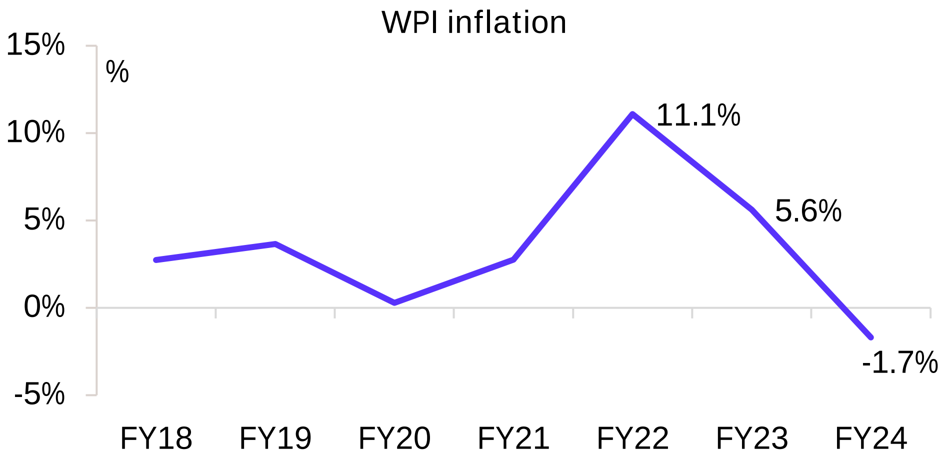
The manufacturing sector's nominal Gross Value Added (GVA) increased by 8% YoY in FY24, up from 4% YoY in FY23

The higher growth was due to the increase in operating profit growth of listed manufacturing companies, driven by a decline in raw material costs

Real growth witnessed a steeper recovery at 10% YoY from -2% in FY23, attributable to a decline in WPI inflation

Real GVA is derived by deflating nominal GVA by WPI



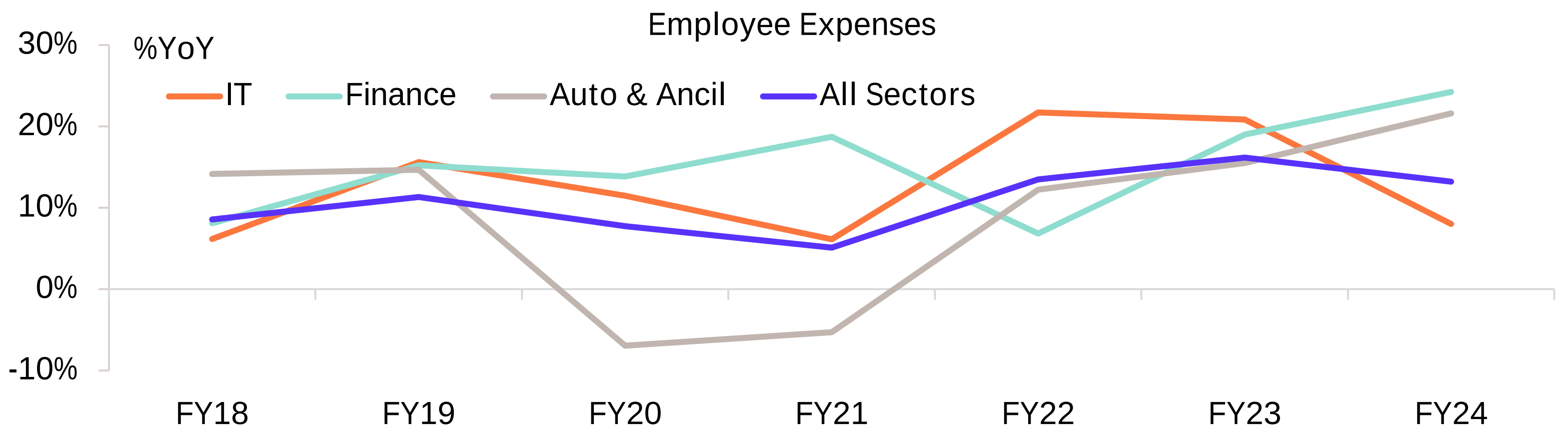


Source: Ace Equity, MOSPI, 360 ONE Asset Research

Note: Listed manufacturing companies data based on a sample set of 1500+ companies, WPI – Wholesale Price Index

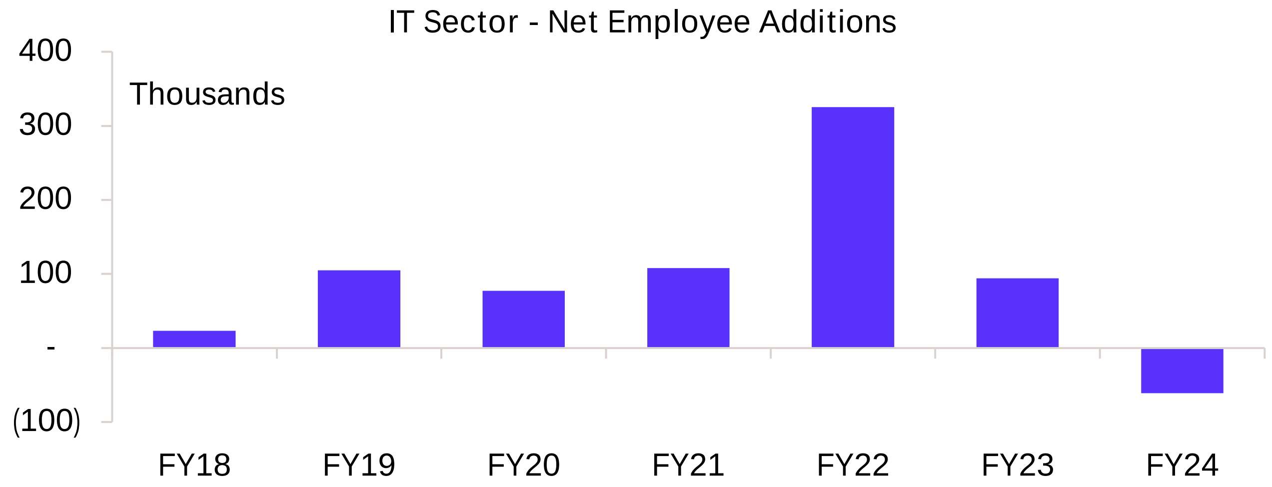
Employee expenses growth of listed corporates moderated in FY24

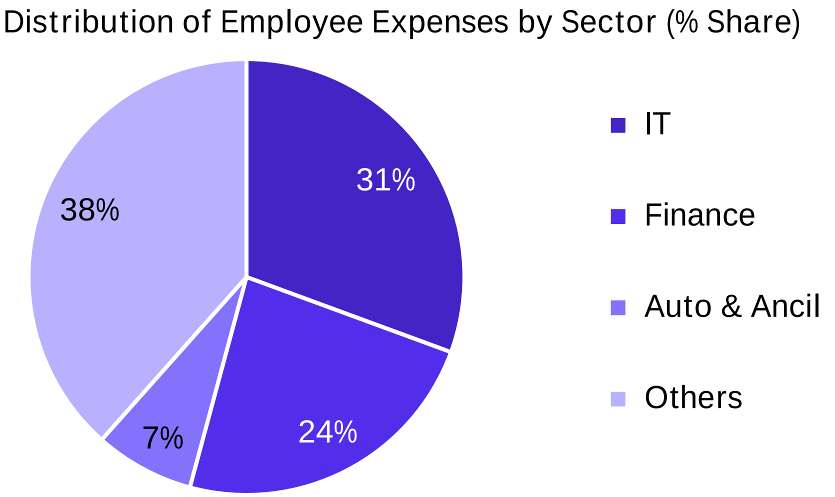
The moderation resulted from a sharp decline in IT sector employee expenses growth due to a reduction in the workforce



The IT sector employee expenses growth witnessed a steep decline in FY24 due to a significant reduction in employee strength

However, this was partially balanced by higher employee expenses growth in the finance and 'auto & ancillary' sectors



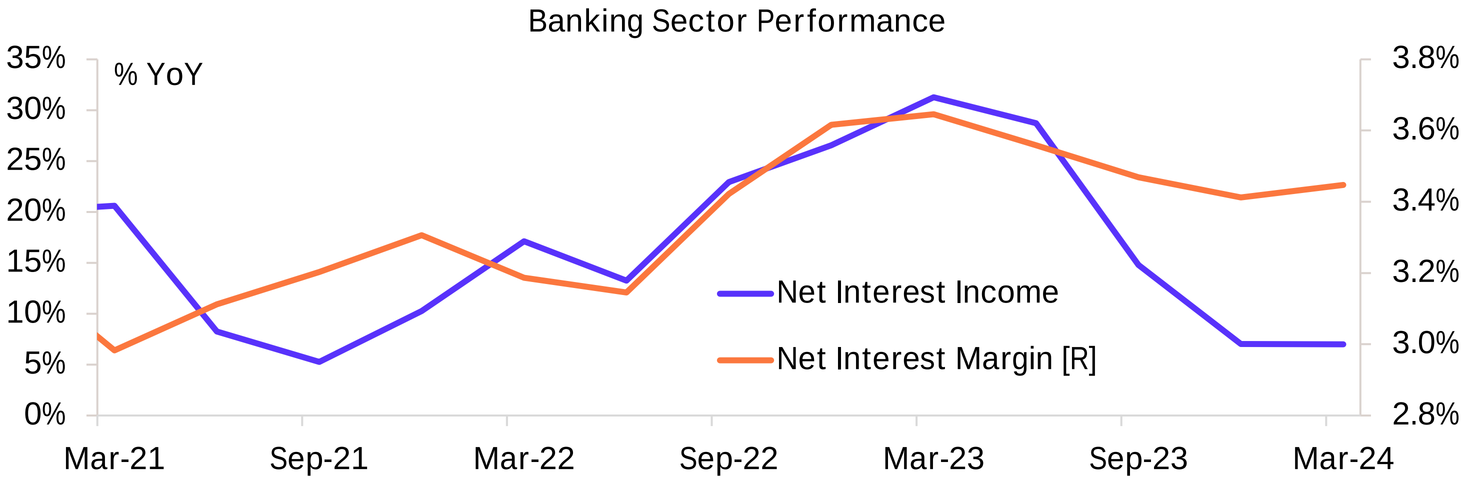


Source: Ace Equity, Avendus Spark, 360 ONE Asset Research

Note: Employee expenses and distribution based on a sample set of 3000+ companies

Banking sector witnessed a moderation in the net interest margins

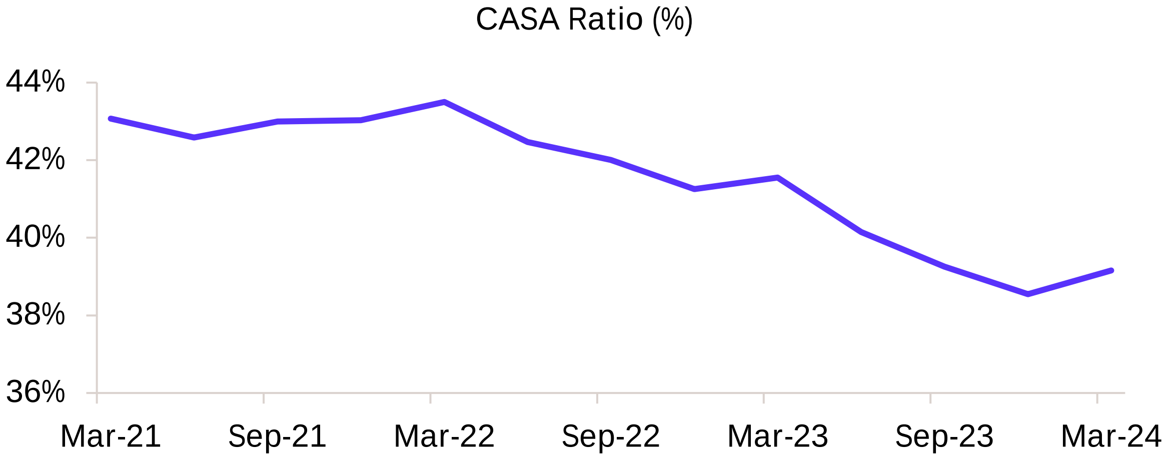
The banking system's cost of deposits rose as banks increased term deposit rates, and the CASA ratio fell

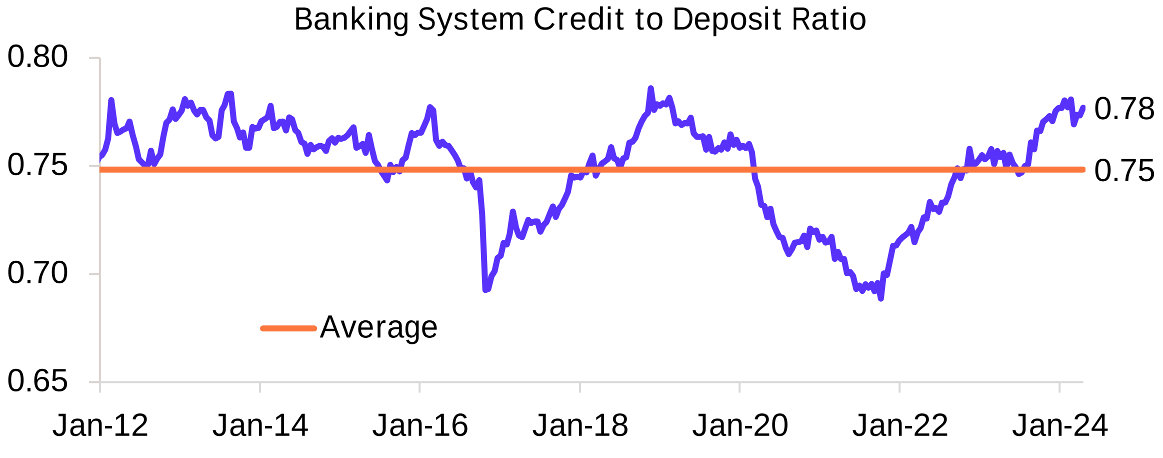


The banking system's net interest income growth moderated in FY24 as net interest margins fell due to the rise in the cost of deposits

Banks increased term deposit rates as competition for deposits intensified due to a high credit-to-deposit ratio

The increase in term deposit rates also led to a shift away from low-cost current and savings deposits (CASA), further raising the cost of deposits for banks





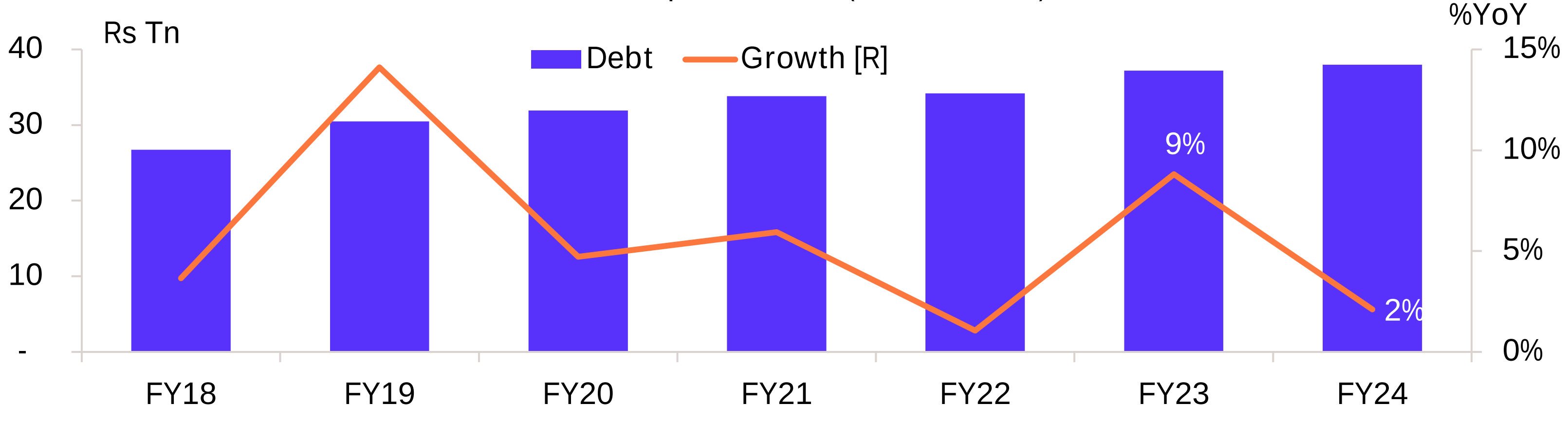
Source: Ace Equity, RBI, Avendus Spark, 360 ONE Asset Research

Note: Banking sector performance based on a sample set of 14 banks

Corporate debt growth moderated in FY24, and sustainability improved

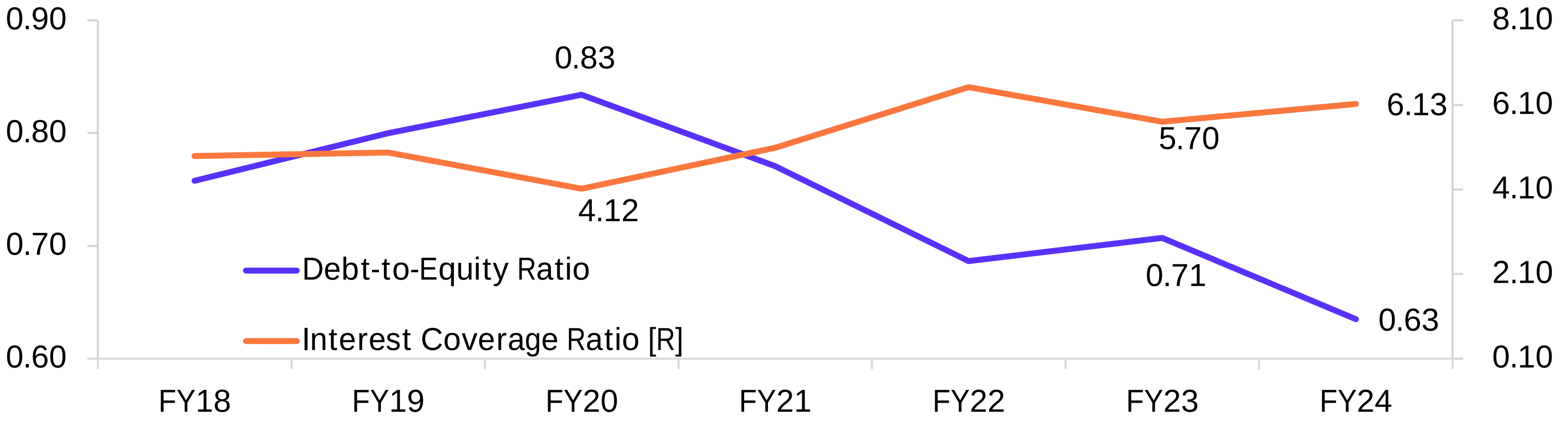
The debt-to-equity ratio for the corporate sector fell in FY24, while the interest coverage ratio improved

Listed Corporate Debt (Ex Financials)



The corporate debt growth moderated to 2% YoY in FY24 from 9% YoY growth in FY23

Debt Sustainability



The debt sustainability parameters improved in FY24

Specifically, the debt-to-equity ratio improved to 0.63 in FY24 from 0.71 in FY23, while the interest coverage ratio, calculated as EBITDA/interest, increased to 6.13 from 5.70 during the same period

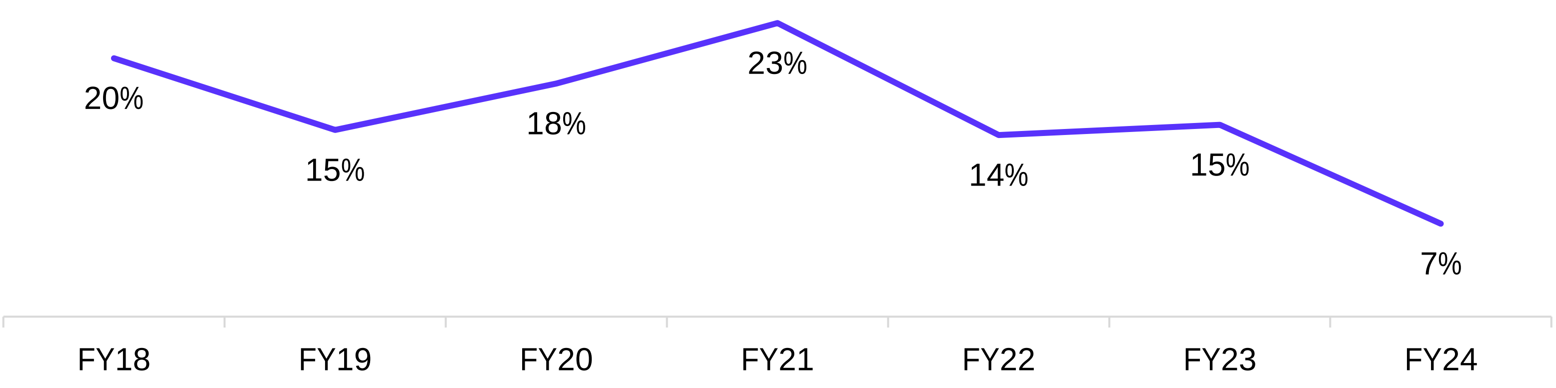
Source: Ace Equity, 360 ONE Asset Research

Note: Listed corporate debt based on a sample set of 2,700+ companies

Proportion of debt held by highly leveraged companies fell in FY24

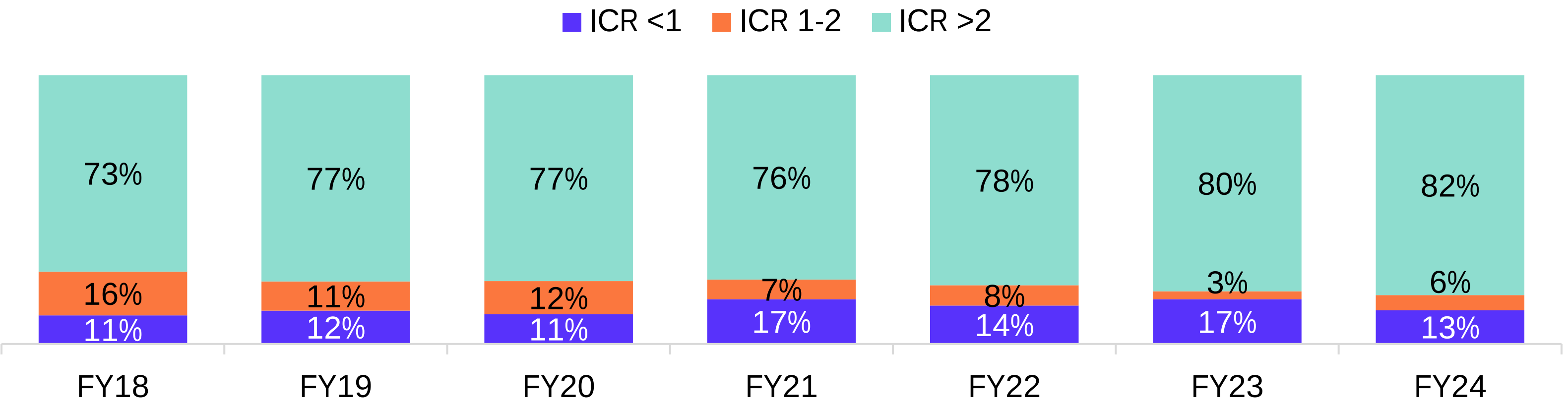
Distribution of debt based on the interest coverage ratio also improved

Proportion of Total Debt Held by Companies with Debt-to-Equity Ratios Above 2



The proportion of total debt held by highly leveraged companies, with a debt-to-equity ratio above 2, declined to 7% in FY24 from 15% in FY23

Distribution of Debt Based on Companies' Interest Coverage Ratio (ICR) - % Share



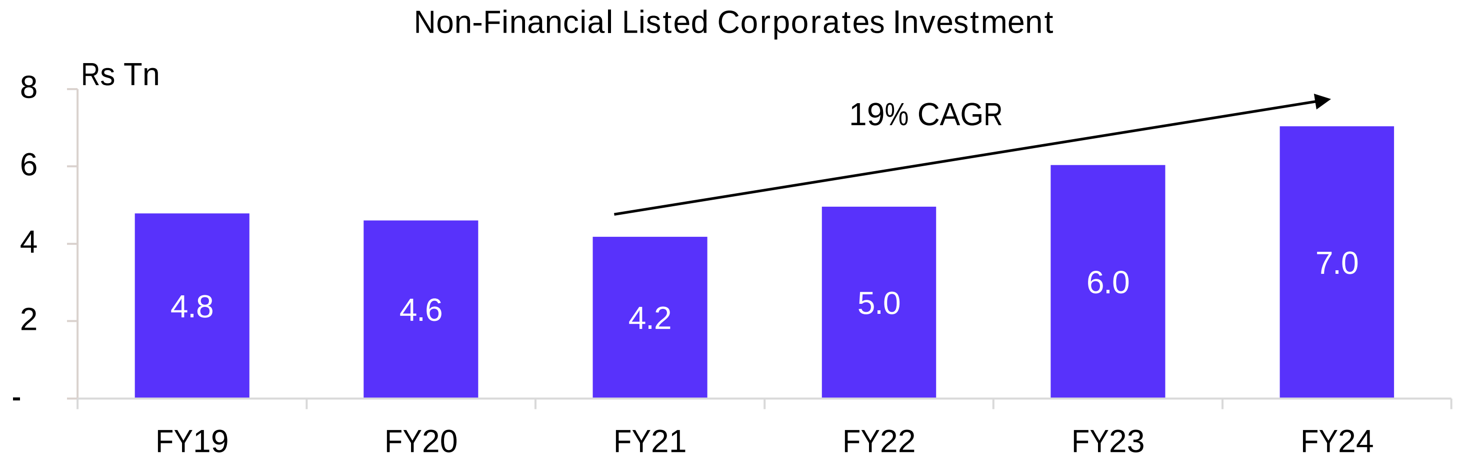
The proportion of debt held by companies with an interest coverage ratio (ICR) > 2 increased to 82% in FY24 from 80% in FY23, while that held by companies with ICR < 1 decreased to 13% from 17% in the previous year

Source: Ace Equity, 360 ONE Asset Research

Note: Listed corporate debt based on a sample set of 2,700+ companies. % Share may not add up to 100% due to rounding

Private sector continued to ramp up investments in FY24

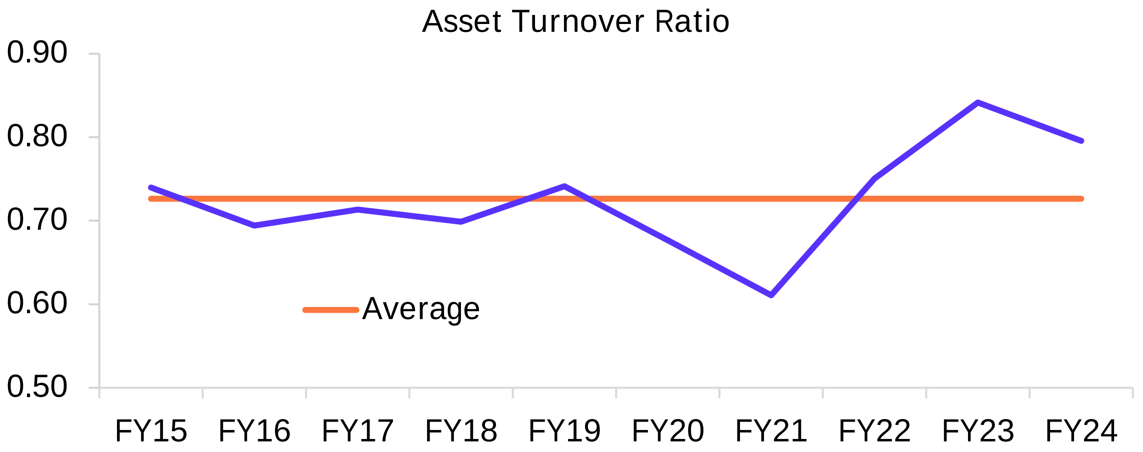
Momentum in private sector investments is expected to persist due to high asset turnover and capacity utilisation

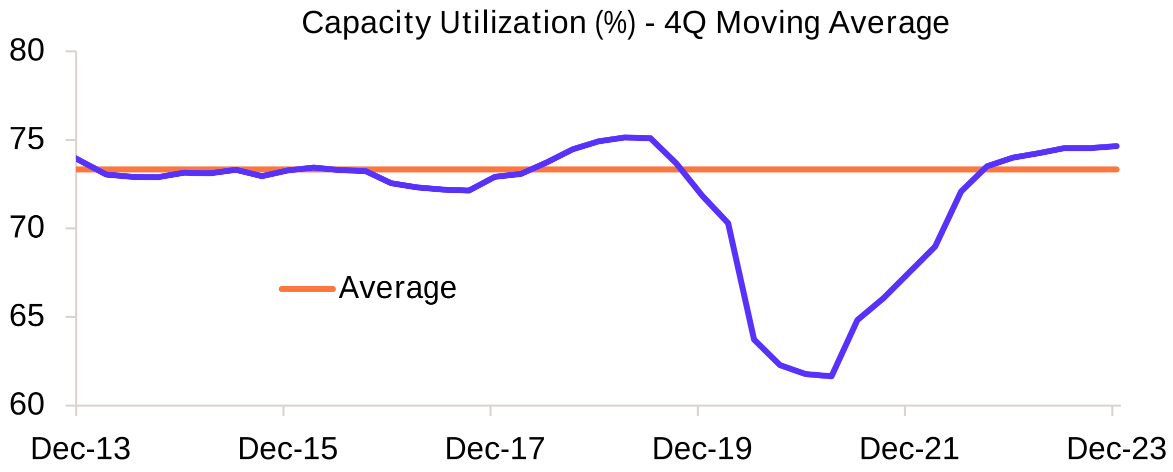


Private sector investments have continued to rise in FY24 after hitting a low in FY21

Investments have grown at a CAGR of 19% since FY21

We expect the private investment momentum to persist, supported by high asset turnover and capacity utilisation





Source: Ace Equity, RBI, 360 ONE Asset Research

Note: Non-financial listed corporate capital expenditure and asset turnover based on 1000+ companies

Infra outperforms consumption amid a shift to investment-led growth

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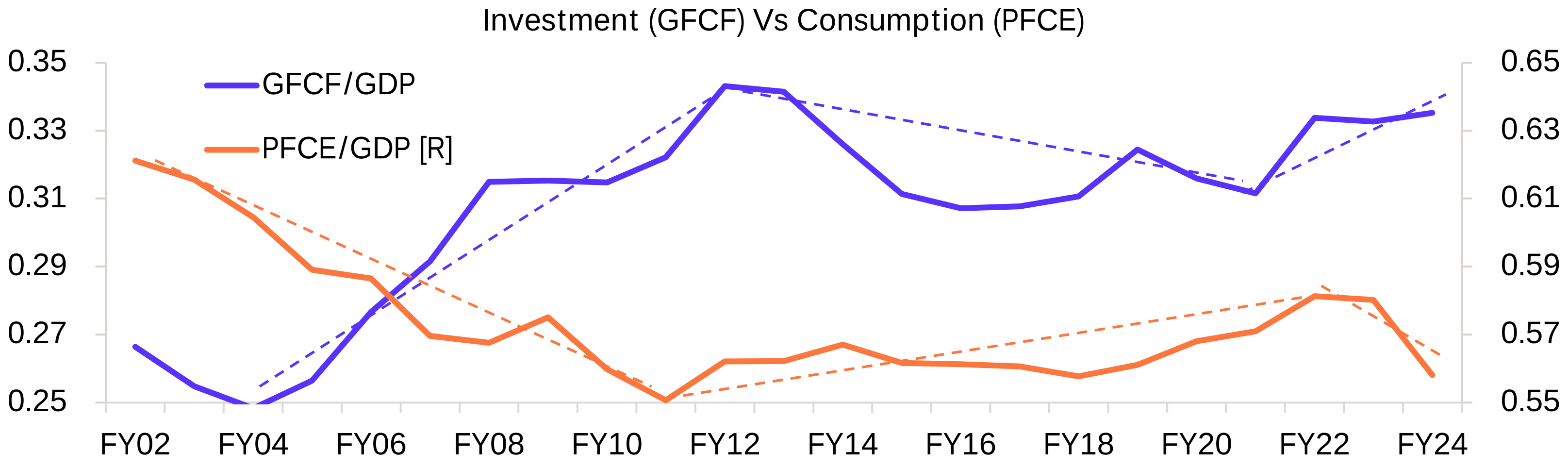
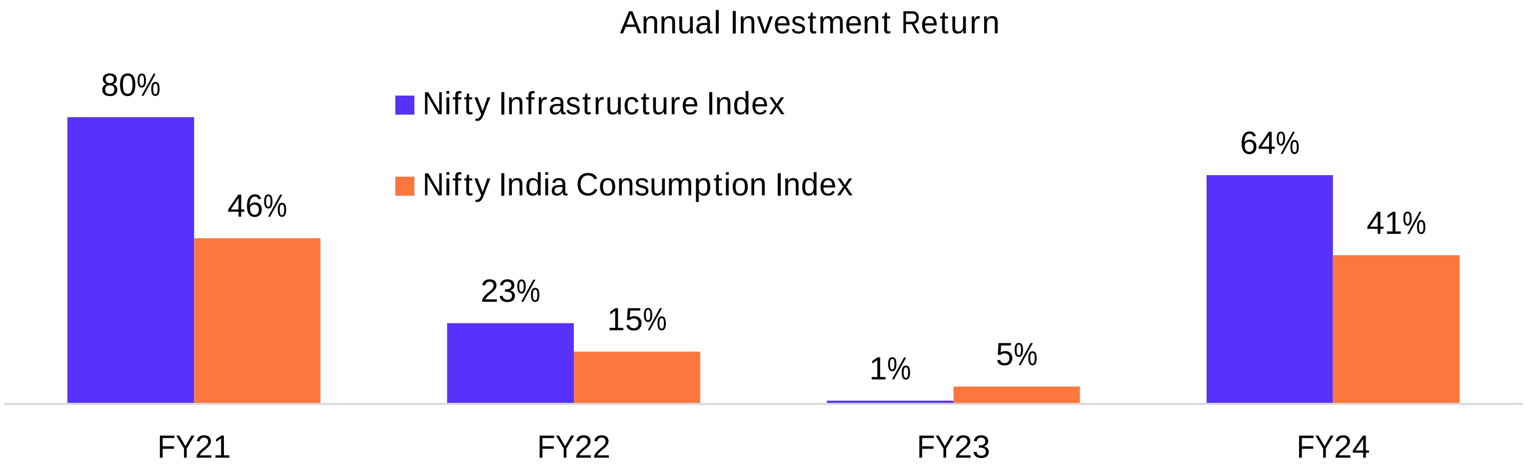
The share of investments in real GDP has increased, while that of consumption has declined



The share of investments in real GDP increased to 33.5% in FY24 from 31.2% in FY21

During the same period, the share of consumption decreased from 57.1% to 55.8%

This signifies a shift from consumption-led growth to investment-led growth



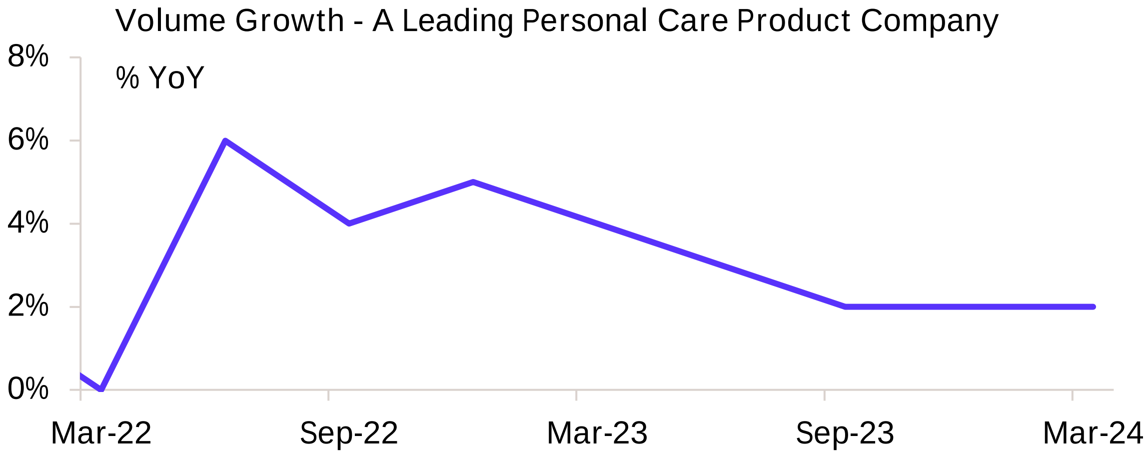
As a result, infrastructure has significantly outperformed consumption in terms of investment returns in three of the past four years

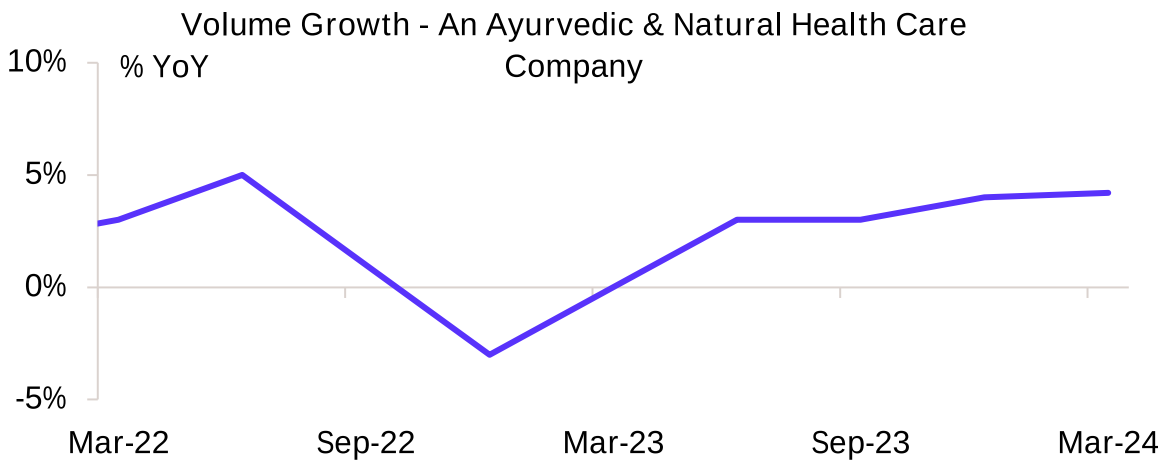
Source: MOSPI, NSE, 360 ONE Asset Research

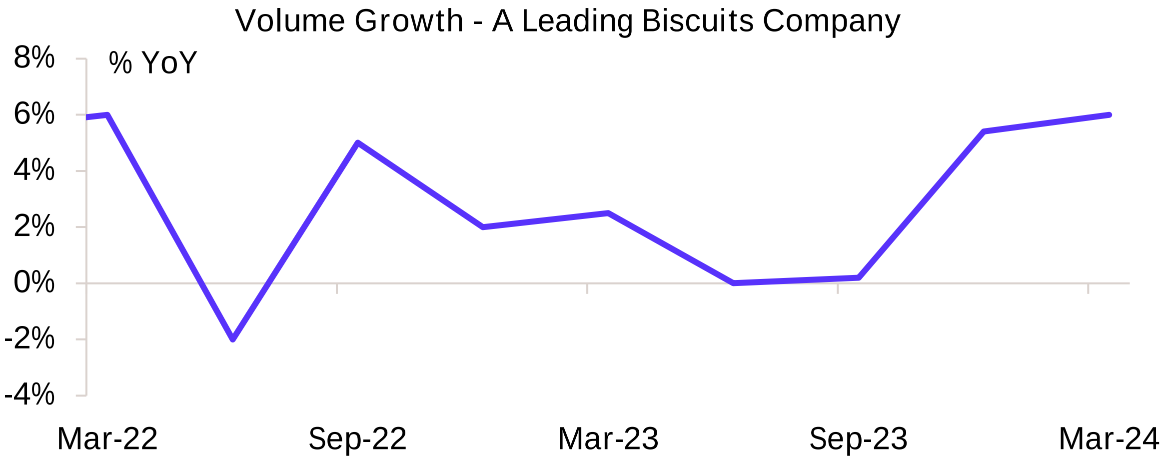
Note: GFCF – Gross Fixed Capital Formation, PFCE – Private Final Consumption Expenditure

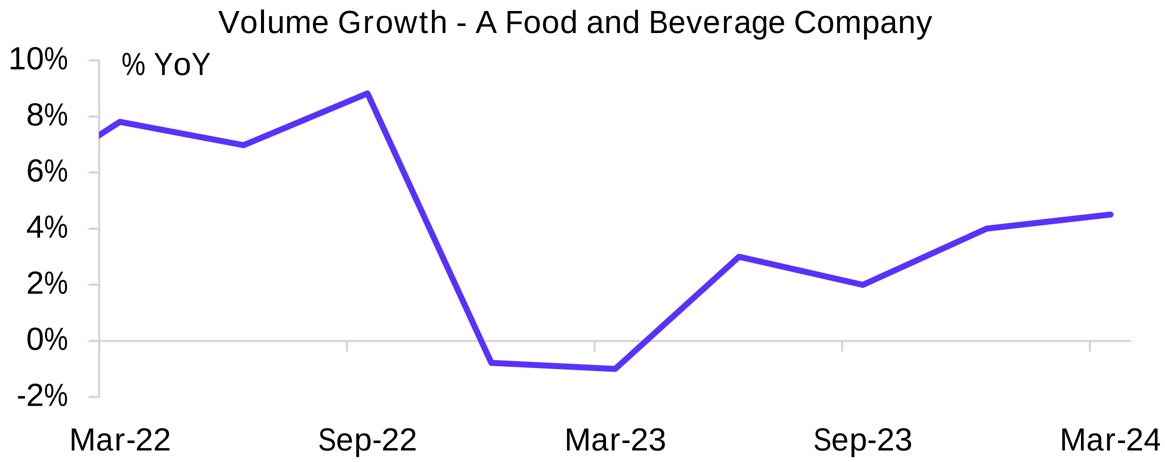
FMCG witnessed subdued volume growth due to weak consumption

However, a gradual recovery was observed during the second half of FY24







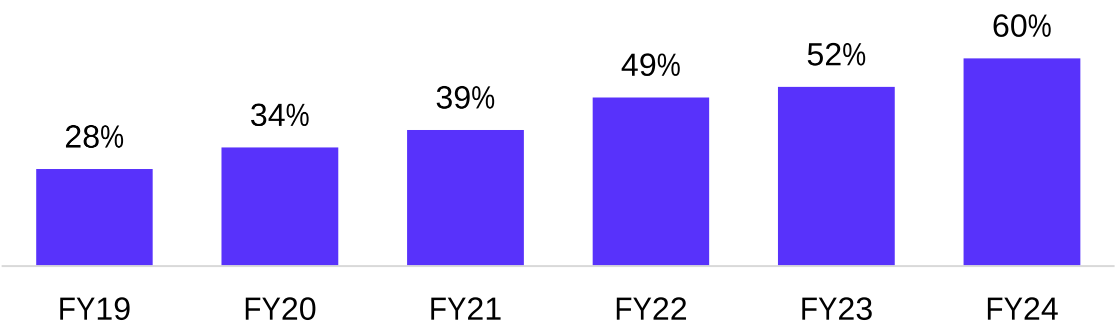


Source: Avendus Spark, 360 ONE Asset Research

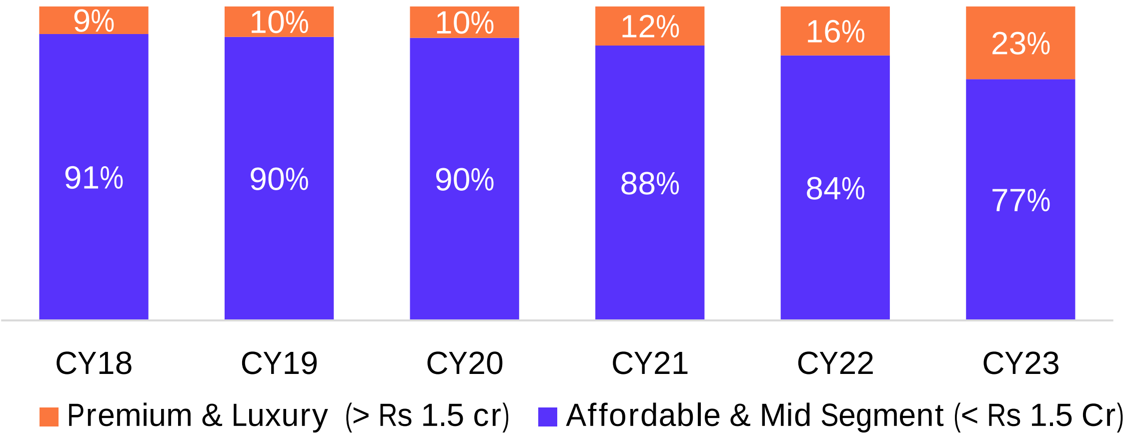
Premiumisation trend continued in FY24 across categories

Premium goods sales continued to thrive in FY24, while mass-market products lagged, reflecting a K-shaped recovery

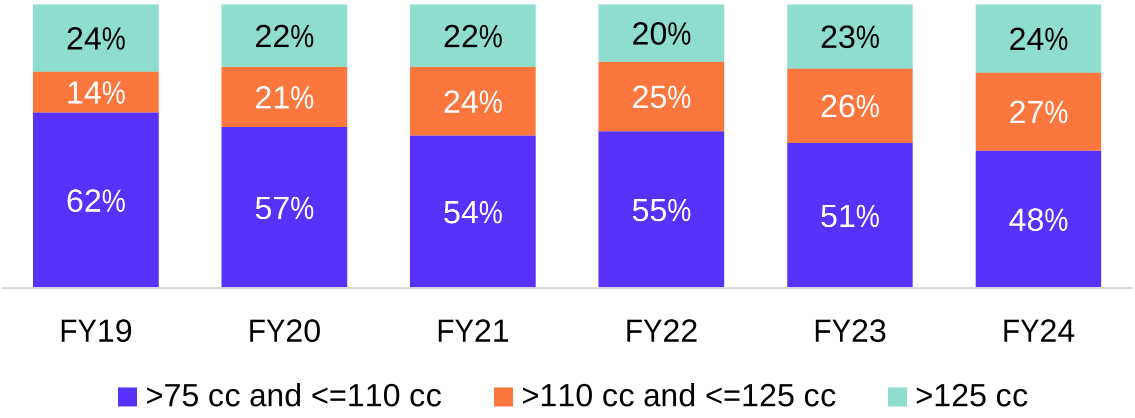
Share of Multi-Utility Vehicles in Passenger Vehicle Sales



Residential Sales Tier 1 Cities - % Share



Mix of Motorcycle Sales



The share of multi-utility vehicles in total passenger vehicle sales increased to 60% in FY24 from 52% in FY23

The share of premium and luxury residential real estate in total sales across Tier 1 cities increased to 23% in 2023 from 16% in 2022

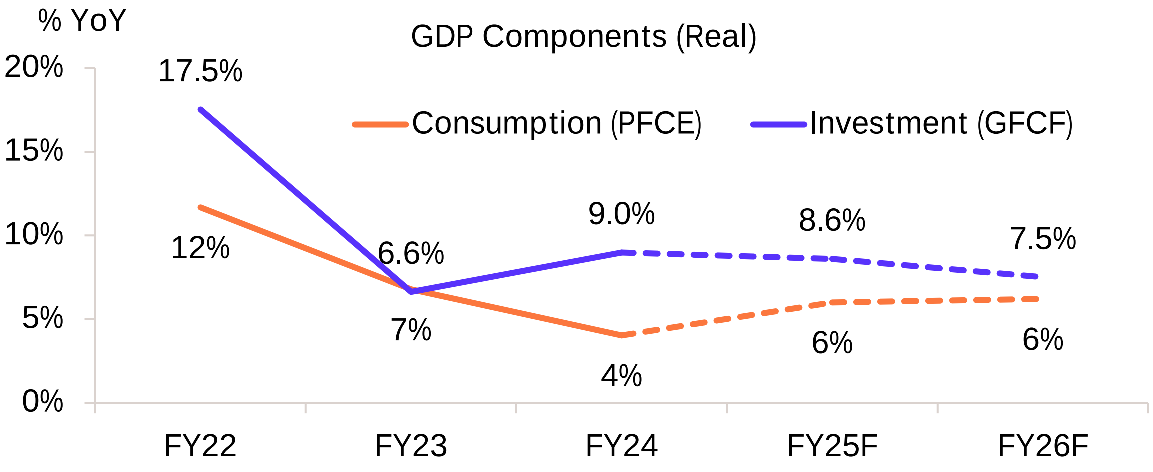
The mix of motorcycle sales also shifted to higher CC (>110 cc) bikes

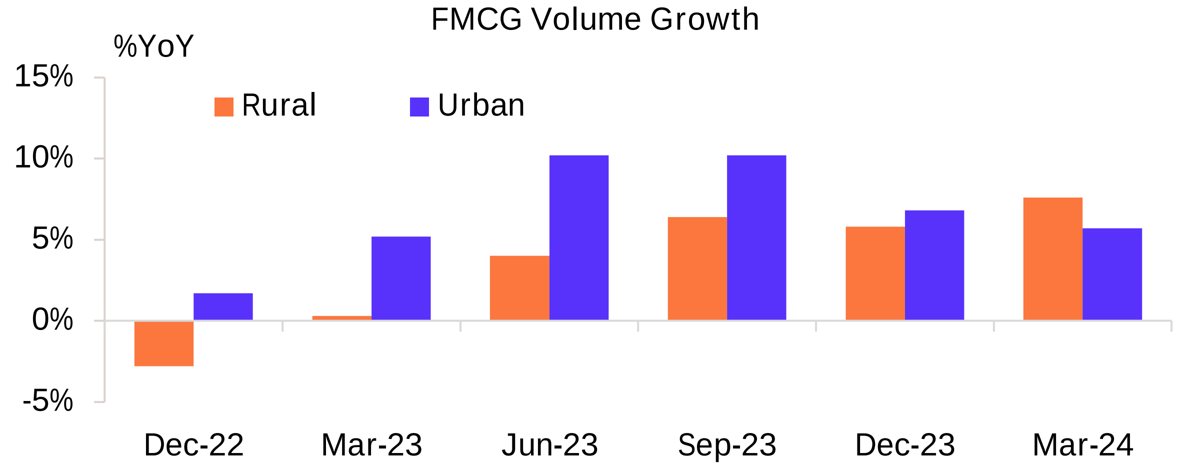
FMCG companies also reported healthy growth in sales of premium products, while mass-market products lagged

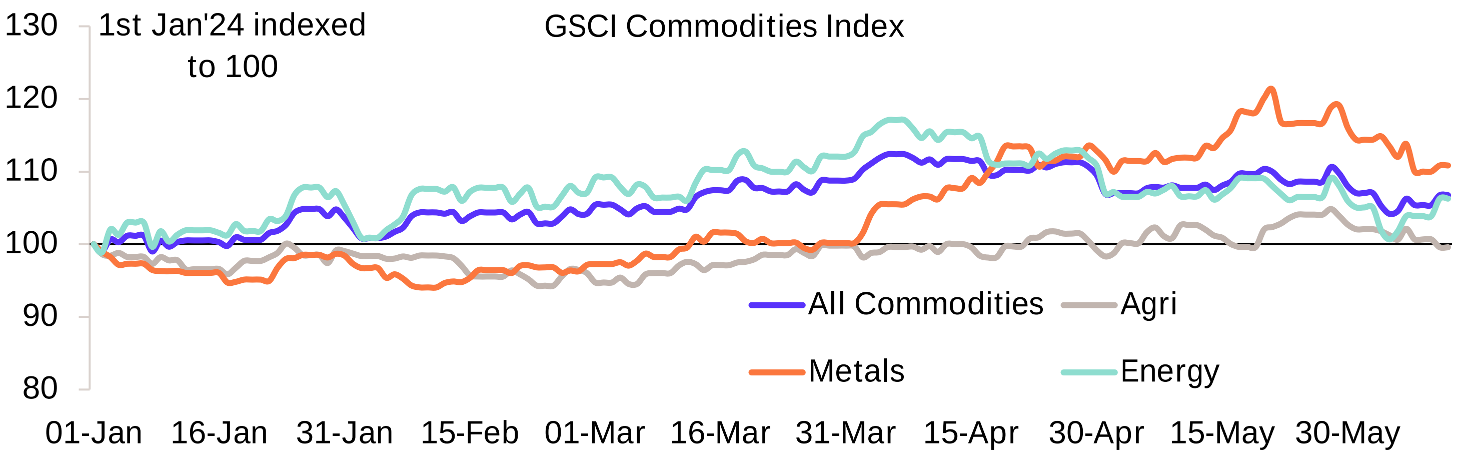
Source: CMIE, Avendus Spark, 360 ONE Asset Research

Outlook: Consumption growth appears to have bottomed out

Operating profit margins could come under pressure due to the rise in metal prices







Consumption growth is expected to recover to 6% YoY in FY25-26 from 4% in FY24, while investment growth could slow down over the next two years

The rural sector is already showing signs of recovery, and a well-distributed normal monsoon could further boost rural consumption

However, profit margins could come under pressure due to higher metal prices

Source: Bloomberg, NielsenIQ, RBI ,360 ONE Asset Research

Note: F – Forecasts based on median forecast in the 88th round of RBI's Survey of Professional Forecasters on Macroeconomic Indicators

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