Q2 Performance for 2017-18

Why in news?

\n\n

- Corporate earnings have shown a mild recovery.
- But the overall valuations still remains a major concern.

\n\n

What is the status of the economy?

\n\n

- India Inc.’s earnings performance for the second quarter of the financial year has turned out to be largely in line with expectations.
- Both revenue and profits have shown signs of improvement that suggest a slow but steady pick-up in demand.
- This is comforting news, considering the twin shocks of demonetisation and the hasty implementation of the GST.
- While, both demonetisation and GST are definitely disruptive, they are transitory in terms of their economic impact.
- It was feared that these would have significant medium to long-term effects on the economy.
- Notably, most analysts had already revised their earnings estimates downwards to accommodate for business losses due to uncertainity in policy.

\n\n

What are the observed negatives?

\n\n

\n
- Financials of many companies are yet to fully recover to match their performance prior to demonetisation.
\n
- This is striking in sectors such as microfinance and housing finance, where companies have struggled to revive their loan book.
\n
- Companies dependent on consumer demand have clearly taken a hit.
\n
- Many have clocked profit growth through cost-cutting rather than superior revenues.
\n
- However, a return to largely normal earnings growth is more likely going ahead, as the economy returns to a more stable policy climate.
\n

\n\n

How has the ‘Financial Markets’ responded?

\n\n

\n
- The market has been hitting new highs every passing week.
\n
- Despite the shares are indeed expensively priced, financial markets don’t seem worried about the lack of sufficient earnings growth.
\n
- Inital Public Offering – IPOs are opening to sky-high offeres, and are trading at a historically expensive ‘price to earnings ratio’.
\n
- The tightening of liquidity by major central banks like the U.S. Federal Reserve has not dampened its spirits either.
\n
- Domestic mutual funds have effectively fill the gap left by pullout of foreign capital.
\n
- This has largely been due to a surge in retail investors putting in money through monthly plans.
\n

\n\n

What is the way forward?

\n\n

\n

- Ramping up spending in the economy by reviving credit growth and ‘government spending’ is already being done.
  \n
- These could yield some positive results but will take time.
  \n
- A full sustainable uptick in corporate earnings remains hazy.
  \n
- A swift and tactful sorting out of the ‘GST tangles’ could help in for reviving consumption and investment to an extant.
  \n

\n\n

\n\n

Source: The Hindu

\n

