Qurater II - Earning Growth

What is the issue?

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- There has been some earning recovery in the 2nd quarter, but profitablilty has been low.
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- There is also no clear concensus on the growth estimates.
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What are the statistics?

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- The July-September 2017 earnings of India Inc were muted as companies struggled to adjust to the GST that rolled out on July 1.
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- While revenue growth was the second best in 3 years, profitability proved to be a major concern.
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- Combined net profit for 1,852 companies declined by 2.6% even as revenue grew by 8.7% year on.
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- **Contributing Sectors -** Notably, the financial and energy sectors propped up the overall numbers.
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- Excluding them, the revenue growth was just 6.9% and net profits plummeted due to increasing raw material and employee costs.
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- **Large Firms -** A further disaggregation of the data reveals that large-cap companies did better than the small- and mid-sized ones.
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- A strong performance by companies in refining, finance, automobiles and metals has contributed to this.
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- This is also an indication that large firms were also able to withstand

demonetisation and the GST better.
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- Also, the combined net profit of Nifty 50 companies was up 12.1% during this quarter (2nd) as against a 0.3% decline in the 1st quarter.
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- Notably, Nifty companies account for 80.1% of the net profits of the entire sample, up from 78.8% a year ago.
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What were the positives?

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- Bank slippages were lower during the second quarter of this financial year and non-performing assets did not rise much.
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- **Restocking -** Consumer businesses such as automobiles also recovered from the lows of the April quarter.
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- This was due to distributors and dealers restocking after the implementation of the GST to target an early festive season.
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- **Revised Estimates -** The earnings season also saw analysts raising their consensus estimates of Nifty stocks to around 10% for 2017-18.
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- This was a surprising change from the sharp cuts to consensus earnings every quarter in the recent past.
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- Notably, the number of Nifty companies that missed their estimates fell to its lowest in the last three years.
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What are the concerns?

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- The past 3 years have seen ambitious forecasts at the beginning of the year followed by sharp cuts as the year progressed.
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- While some are projecting strong earning growth ahead, not all analysts agree.
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- Rather, an early Diwali, GST and a weak base is thought to be driving the trend rather than actual growth.
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- Notably, some brokerages have already scaled down their earnings estimated by about 25-30% from the consensus estimate.
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- While the upgrades in consensus earnings in the 2nd quarter have seen the stock market rally, the latest concerns leave the market vulnerable.
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Source: Business Standard

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