Shobhana edit

Given how the economy has been slowing, India Inc was, in any case, not expected to turn in an exceptional performance for the three months to March. The first lot of results are modest, indicating that companies are struggling to grow their profits; for a sample of 80 companies (excluding banks and financials), net profits crashed by 30% year-on-year. That's despite revenues rising 16% y-o-y and also the fact that the universe includes a host of technology heavyweights. At Maruti Suzuki , revenues rose just 1.4% y-o-y with volumes dipping slightly and realisations up just 2.1%, while Hero Motocorp reported a fall in revenues of nearly 8% y-o-y.

The numbers make it clear that companies don't have enough pricing power to be able to pass on the elevated cost of commodities and, consequently, operating margins are contracting. At Tata Global Beverages, for instance, higher commodity costs and weak realisations resulted in a sharp 280 basis points fall in gross margins and fall in ebitda margins of 230 bps y-o-y. Again, at Hero Motocorp, operating margins came in at 13.6% in Q4FY19, smaller than in Q4FY18.

The bright spots so far have been very few. TCS turned in an impressive performance posting a strong growth in constant currency revenues, up nearly 13% y-o-y with a board-based increase across verticals. In contrast, Q4FY19 was a sedate quarter for Infosys whose revenues were driven by a single vertical and whose margins saw a contraction; ebit margins fell 320 basis points y-o-y. Again, Ultratech reported a strong set of numbers but ACC missed on virtually every metric.

The worry is that analysts don't see much of a revival in consumer demand in the near future; in the case of Maruti, for instance, they believe growing volumes in 2019-20 will not be easy because demand in urban India remains somewhat sluggish and will be further impacted by the significant increase in car prices due to regulatory changes. As is known, the carmaker has been offering attractive discounts to push sales. Indeed, companies could be under more pressure in 2019-20. Among the many macro headwinds they face are rising crude oil prices, slowing global growth and trade, limited liquidity and elevated interest rates. The weakness in consumption and exports will spill over into production and investment; factory output both in January and February was anaemic due to a sharp correction in capital and intermediate goods while infrastructure and consumption output growth also slowed. The Indian economy grew at a pitiable 6.6% y-o-y in the December 2018 quarter, the slowest in six quarters and the momentum is expected to slow further in Q4FY19 and through 2019-20. The services sector, the biggest contributor to the economy, showed a deceleration; incumbent telecom operators were hurt badly post the entry of RIL into the space in September 2016 and are just beginning to recover. The concern is that companies will not add either capacity or people; even now, it’s just a handful of large companies in the banking and IT sectors that are hiring in meaningful numbers. Hopefully, the rains will not play truant else the farm distress could get exacerbated and rural demand will suffer.