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'Be the Bank of Choice for a Transforming India'

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BOTTOMLINE OF INDIAN COMPANIES SHOW A SIGNIFICANT IMPROVEMENT WITH TRIPLE BENEFIT OF LOW INTEREST COST, EXPENDITURE REDUCTION AND LOW TAXES

It has been a roller coaster ride in the corporate space in FY21 and even FY22. Even as around 4000 listed entities for FY21 reported 5% decline in top line, EBIDTA and PAT grew by 24% and 105% respectively over FY20. Most importantly, 15 sectors have now reduced loan funds by around Rs 2.09 lakh crore during pandemic year FY21. Sectors such as Refineries, Steel, Fertilisers, Textiles, Mining, etc. have reduced their loan funds in the range of 6% to 64% in FY21.

The reduction in effective Tax rate (ETR) in FY20 coupled with a prolonged period of low interest rate regime fuelled by the pandemic seem to have been a blessing in disguise for India Inc. during pandemic year. **Effective tax rate for the said listed entities declined from 35% in FY20 to 26% in FY21 though actual tax paid increased by more than Rs 50000 crore. Many sectors including Engineering, Realty, Automobiles, Trading etc**. had reported effective tax rate reduction ranging from 1%-24% in FY21 as compared to FY20.

Despite this, tax collections have been impressive in FY22 with corporation tax revenue at record highs. Our analysis shows that cut in taxes in FY20 has contributed 19% to the top line of sample sectors during pandemic with sectors like cement, tyres and consumer durables showing significant contribution even in excess of 50%.

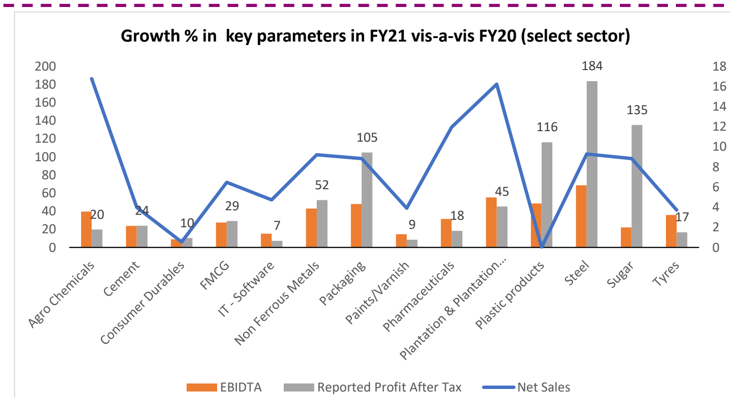
An extended period of low interest rate have also helped companies in massive deleveraging and contributed on an average 5% to the overall top line. Sectors like Consumer Durables, Healthcare and Cement have benefitted the most. In terms of expenditure reduction, the overall contribution on top line has been as much as 31% with most companies finding out new ways to navigate through the pandemic. Sectors like Apparel and Refineries have cut cost by as much 107% on an average. Expenditure has, however, climbed up in sectors like metals, agro chemicals among others reflecting the increase in input costs with a surge in global commodity prices. Employee costs have been cut on an average by 3% in FY21. The maximum cut in employee costs have been in sectors facing the consumers.

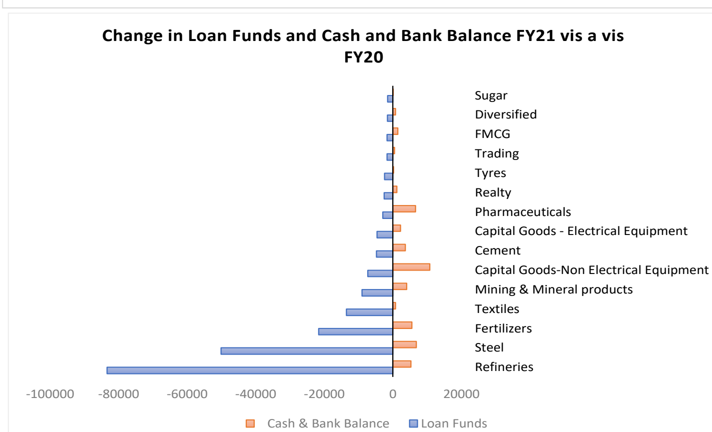
Interestingly, with robust direct tax collections, especially corporation tax, in Q1FY22 we believe that the gap between GVA and GDP will be large as the GDP growth in Q1 FY22 would be buoyed by the taxes.

With the RBI hinting at an extended period of accommodative policy, we believe this augurs well for better corporate results and hence robust tax collections going forward and the beginning on a new investment cycle the sooner we are able to reach a critical mass of vaccination.

CORPORATE PERFORMANCE AND DELEVERAGING

- While analyzing the results of around 4000 listed entities for FY21, we observed a 5% decline in top line, while EBIDTA and PAT grew by 24% and 105% respectively over FY20.
- However, excluding BFSI and refineries the set **reported 3% decline in top line and 41% and 90% growth** in EBIDTA and PAT respectively. Sectors that reported better growth numbers across parameters includes Cement, Agro Chemicals FMCG, Pharma, IT, Steel etc.
- From the set of around 4000 listed entities, we observe that sectors such as Refineries, Steel, Fertilisers, Textiles, Mining, etc. have reduced their loan funds in the range of 6% to 64% in FY21. **Top 15 sectors reduced loan funds by around Rs 2.09 lakh crore during pandemic year FY21.**
- Interestingly, in some sectors, where loan reduction seen, also reported increase in cash and bank balance at the end of FY21 also indicating better profitability in FY21 because of various cost cutting measures including finance and wage bill
- Top 15 sectors reduced loan funds by around Rs 2.09 lakh crore during pandemic year FY21.





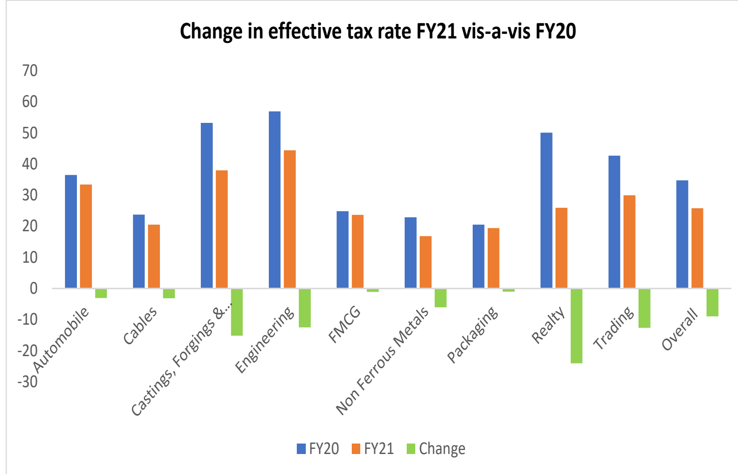
Source: SBI Research; Cline

REDUCTION IN EFFECTIVE TAX RATE (ETR) A BLESSING FOR INDIA INC. DURING PENDEMIC YEAR

- Effective tax rate, for around 4000 listed entities, **decreased from 35% in FY20 to 26% in FY21 though actual tax paid increased by more than Rs 50000 crore** to Rs 1.90 lakh crore in FY21 from Rs 1.40 crore in FY20. Many sectors including Engineering, Reality, Automobiles, Trading etc. had reported effective tax rate reduction ranging from 1%-24% in FY21 as compared to FY20.
- While Realty sector reported decline in ETR from 50% in FY20 to 26% in FY21, Automobile sector reported a reduction of 3% in ETR i.e. from 36% in FY20 from 33% in FY20. Further, Trading sector reported a reduction of 13% in ETR while FMCG and packaging reported a reduction of 1% each in ETR in FY21 as compared to FY20.

CORPORATE TAX COLLECTIONS ARE BEST IN 2 DECADES

- The first two months of FY22 saw a central fiscal deficit of just Rs 1.2 lakh crore, Rs 2.3 lakh crore lower than the Rs 3.5 lakh crore averaged during the same period in FY19 and FY20. The deficit reduction was on the back of higher tax revenue of Rs 1 lakh crore. Of the total collections, Corporation Tax Revenue was Rs 43,454 crore, vis-a-vis Rs 16,981 crore in FY20, Rs 1126 crore in FY19. But, out of the budgeted Rs 5.5 lak crore, the Centre has already garnered 8% and given that the company profits are on record highs, Centre can comfortably meet its tax revenue goals.
- Our analysis shows that cut in taxes in FY20 has contributed 19% to the top line of companies during pandemic with sectors like cement, tyres and consumer durables showing a significant contribution in excess of 50%.
- An extended period of low interest rate has also helped companies in massive deleveraging and contributed on an average 5% to the overall top line. Sectors like Consumer Durables, Healthcare and Cement has benefitted the most.
- Expenditure reduction, has contributed as much as 31% to top line with most companies finding out new ways to navigate through the pandemic. Sectors like Apparel and Refineries have cut cost by as much 107% on an average. Expenditure have however climbed up in sectors like metals, agro chemicals among others reflecting the increase in input costs with a surge in global commodity prices.
- Employee costs have been cut on an average by 3% in FY21. The maximum cut in employee costs has been in sectors facing the consumers.



Source: SBI Research; Cline, effective tax rate calculated based on actual tax paid including MAT, FBT, deferred tax etc., on profit before tax for the respective year, aggregate basis for the total set of companies under the respective sectors

% Share in contribution of Components in Percentage Change in Net sales -Major Sectors				
Sector	Tax	Interest	Expenditure	Employees Cost
Cement	59%	-19%	-15%	-2%
Tyres	59%	5%	-35%	15%
Consumer Durables	53%	-23%	-29%	-89%
Petrochemicals	41%	-1%	-56%	8%
IT - Software	28%	-3%	-40%	59%
Steel	21%	-7%	-16%	6%
Packaging	17%	-6%	27%	6%
Readymade Garments	17%	-7%	-99%	-36%
Pharmaceuticals	14%	-6%	30%	10%
Healthcare	13%	-26%	91%	-39%
FMCG	13%	-3%	17%	12%
Commodity Brokers	11%	-3%	40%	8%
Agro Chemicals	10%	0%	63%	4%
Textiles	8%	0%	-58%	-9%
Refineries	4%	0%	-115%	1%
Gas Distribution	4%	0%	-95%	0%
Non Ferrous Metals	4%	1%	29%	-1%
Bearings	3%	-6%	-162%	2%
Logistics	3%	0%	-145%	-3%
Paper	-4%	-2%	-59%	-2%
Source: SBI Research, Cline				

Note: Expenditure includes Raw materials, Input cost, Other selling and admin. expenses excluding Employee cost, interest, depreciation etc.

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