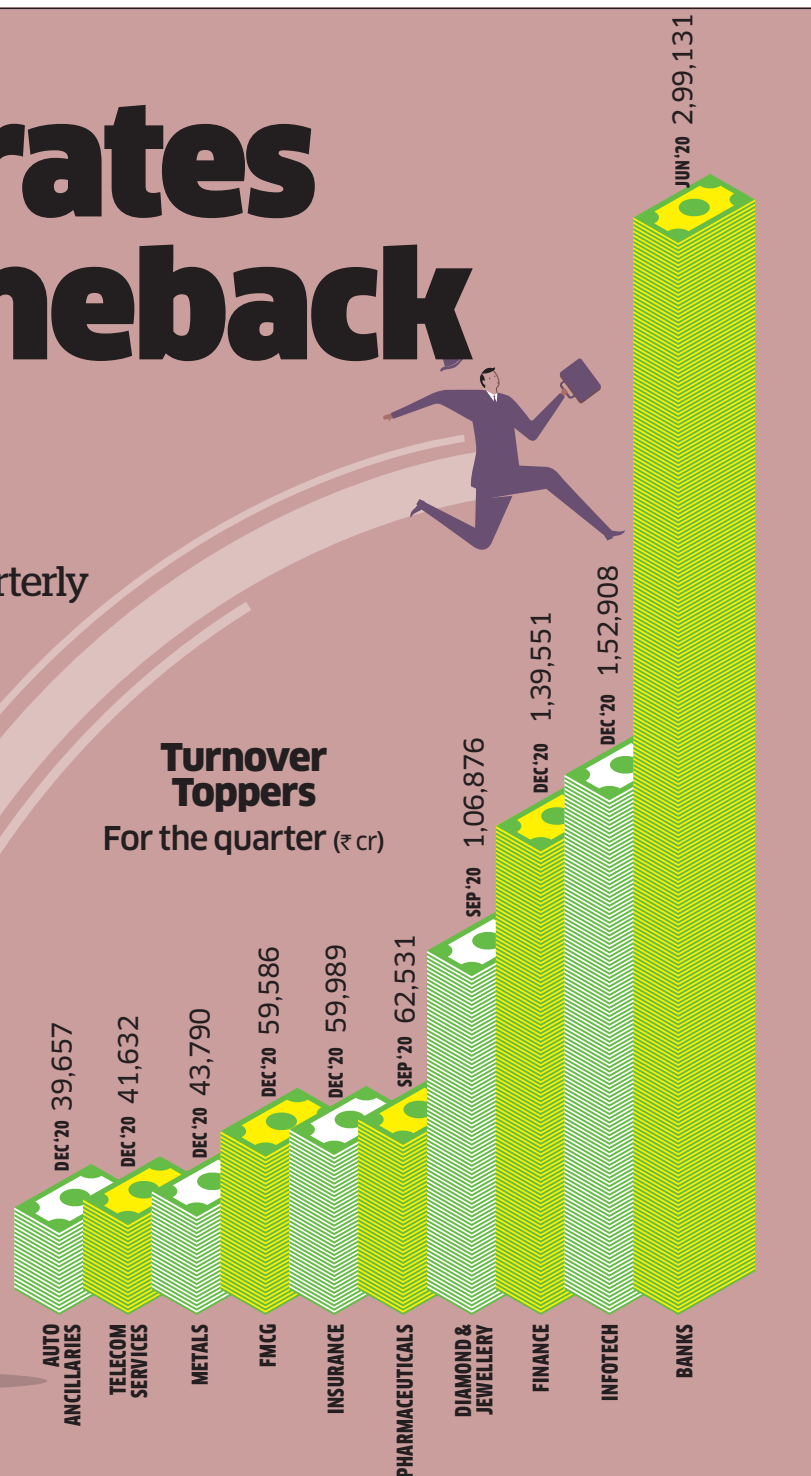


Corporates on Comeback Trail

Despite the lockdown, quarterly results show several companies have registered their best performance due to cost rationalisation and higher demand



Shailesh Menon and Shailesh Kadam

In the first week of April, as India's Covid tally surged, a 30-member technical team at Minda Stoneridge's Pune plant was tasked with an unusual project for Mahindra & Mahindra: convert speedometers to ventilator gauges. The auto manufacturer had volunteered to manufacture life-saving ventilators for Covid hospitals in the country.

Within 15 days, the Minda team designed a gauge to monitor the patients' inhalation cycle, oxygen concentration and lung pressure. By mid-May, the Mahindra group rolled out its first batch of ventilators, priced less than ₹8,000.

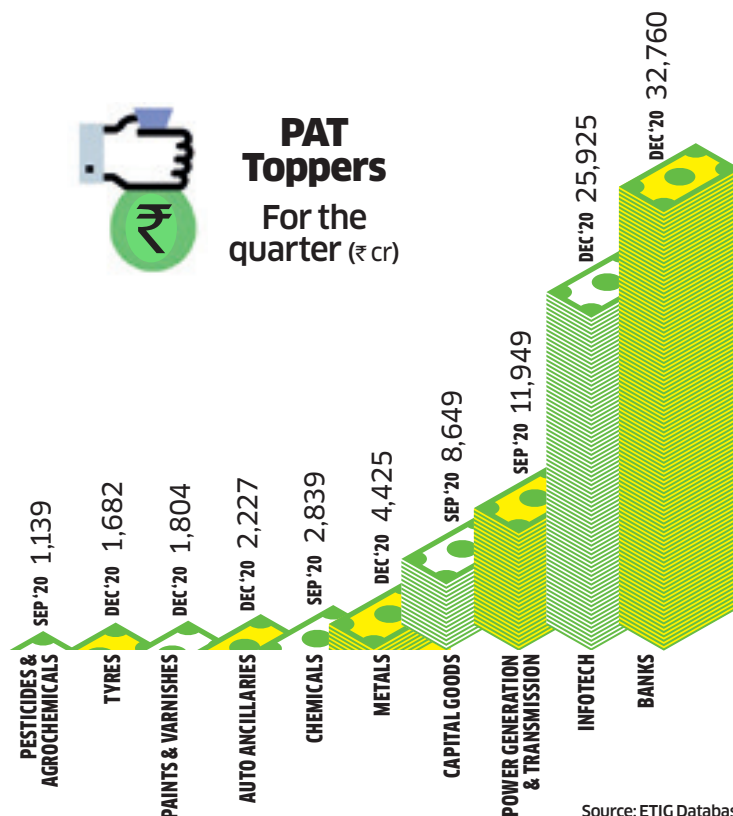
"Those were tough times," recalls Ashok Minda, chairman & CEO of Minda Corporation. "Our plants were shut due to the lockdown, and there were so many uncertainties back then." By supplying M&M with the desired number of ventilator gauges, the auto parts maker earned the trust and goodwill of one of India's largest automakers. When business prospects turned better in June, Minda started getting more orders for auto parts. In the quarter ended December – the third quarter or Q3 of 2020-21 – the company logged its best profit after tax (PAT), at ₹40 crore, on revenues of ₹716 crore.

While M&M's goodwill brought in more business, strong cost rationalisation helped the company post good numbers, says Minda. "We analysed our profile and loss statement line by line to weed out cost inefficiencies. We kept our cash flows and balance sheet healthy. We started making products that automakers import. We streamlined our workforce to improve productivity."



PAT Toppers

For the quarter (₹ cr)



Source: ETIG Database

Note: Banks recorded their best numbers in the June quarter, while pharma booked their best sales in the September quarter. Most other sectors did exceptionally well in the third quarter

Post-Result Commentary



"Our largest two business verticals, BFSI and retail, showed good sequential growth in a seasonally weak quarter. On a year-on-year basis, life sciences and healthcare continue to grow in double digits"

V Ramakrishnan, CFO, TCS
(earnings call)



"Asset growth across product segments remains strong, and retail deposit franchise continues to improve. Large banks with healthy operational performance, strong balance sheet and capital position are better placed when growth comes back"

Amitabh Chaudhry, MD & CEO, Axis Bank (earnings call)

"We registered a strong growth in order inflows in the third quarter on the back of some very prestigious and high order wins, most notably in the infrastructure and the hydrocarbon segment"

L&T management (earnings call)



"We delivered strong growth in aerosols, electric formats and non-mosquito portfolio. Soaps delivered a second consecutive quarter of double-digit sales growth of 15%, while hair colours recorded a sharp recovery"

Nisaba Godrej, CMD, Godrej Consumer Products (results commentary)



"Essentials (household products) were at elevated levels of demand at the beginning of the year due to pantry up-stocking. This has started to normalise with diversification of consumers' purchase basket. Modern trade, institutional business continue to face challenges with lower footfalls"

Varun Berry, MD, Britannia Industries (results commentary)



"We pivoted our deliveries to domestic markets, to cater to the requirements of our local customers, by reducing exports. All the segments, especially automotive, have performed extremely well"

T V Narendran, CEO & MD, Tata Steel (results commentary)



"The company has been able to drive profitable growth through improvement in market shares, continued control on overheads and cash flow management. An increase in our product prices will partially offset rising commodity and fuel prices"

Niranjan Gupta, CFO, Hero MotoCorp (results commentary)



"RBI's moratorium on term loans helped borrowers to tide over the initial stress. Else, we may have seen a severe credit crisis, and a lot of defaults"

Ashutosh Khajuria, ED & CFO, Federal Bank

Minda is not the only company to have revamped its operational matrices to stay afloat in the year of the pandemic. From conserving capital to cost optimisation, headcount reduction to product portfolio rationalisation and increased technology adoption, corporate India has employed every trick in the book to survive a tough year. Many of these strategic changes made on a war footing – along with some good fortune in the form of a faster demand recovery and lesser-than-expected job losses – helped several businesses to post their best ever earnings. Nearly 160 companies in BSE-500 have booked their best PAT numbers between April and December of this fiscal year. In terms of sales, around 200 large and mid-cap companies have logged their best numbers this year.

This was possible because of the cost-reduction measures, says Rakesh Valecha, senior director (core analytical group), India Ratings and Research. "Companies that have reported higher profits managed to reign in their fixed costs and lower interest cost through efficient working capital management. There's an increased focus on inventory and receivable management besides reducing wastages within the system."

Improvement in turnover at large companies was largely on account of "market consolidation" across business sectors, consultants opine. While several mid-sized and large companies escaped the pandemic unscathed, numerous capital-starved small-cap companies went belly up during the lockdown. "Given that many sectors in the industrial segment have exhibited a degrowth in revenues during the first 9 months, larger companies across sectors have benefitted at the expense of smaller ones and gained market share. This indirect consolidation has provided some pricing power though industry capacity utilisation is yet to reach levels where companies start looking at new capex," says Valecha.

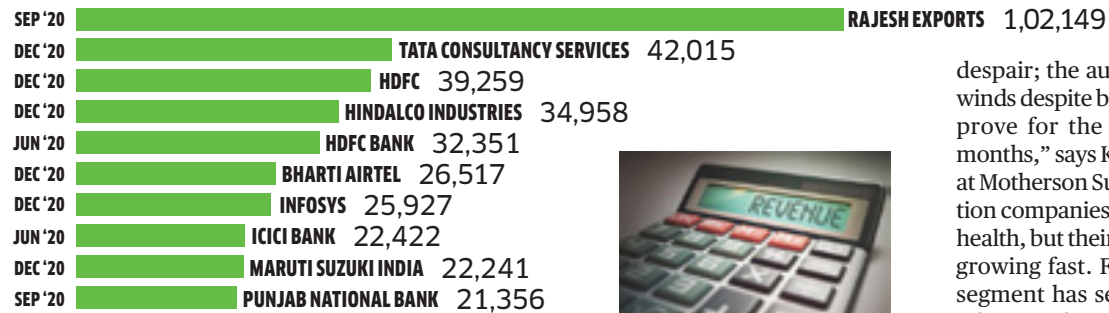
Around the time Minda was building ventilator gauges for M&M, Motherson Sumi Systems was working on a similar project for Maruti Suzuki. Motherson, much like its smaller peer Minda, posted its best sales and PAT numbers in Q3 at ₹1,126 crore and ₹250 crore, respectively.

The Noida-based company was ready with a strategy even before the pandemic had reached the Indian shores as its China operations had already felt the sting. "The first thing we did was to simplify and streamline our processes," says GN Gauba, CFO of the group. "So we put in order our supply and product delivery channels and optimised inventory levels. We rationalised cost at all levels to make our operations efficient. We were sure of a demand spurt in the unlock phase – and it happened exactly the way we anticipated."

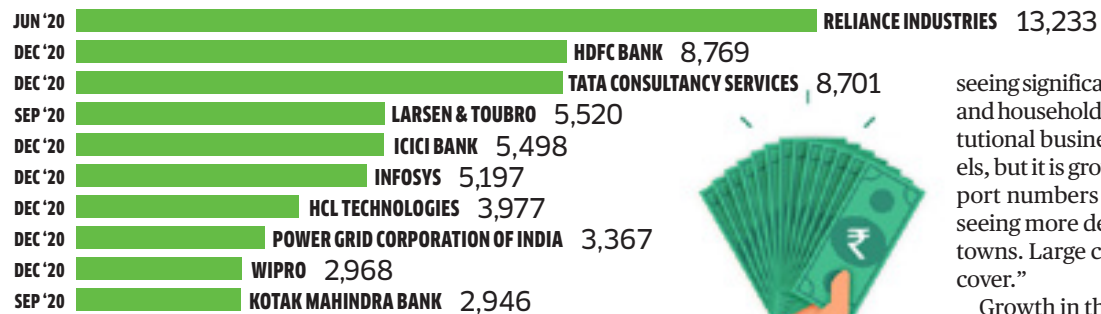
A bulk of the company's cost rationalisation measures would be retained for the long term, says Gauba. "We do not intend to suffocate the business. So we'll allow some cost elements to come back to pre-Covid levels. But measures taken to improve our processes and efficiencies will be permanent."

India Inc increased profitability by also cutting staff costs. Companies in sectors such as information technology; bank-

Big Revenue Earners For the quarter (₹ cr)



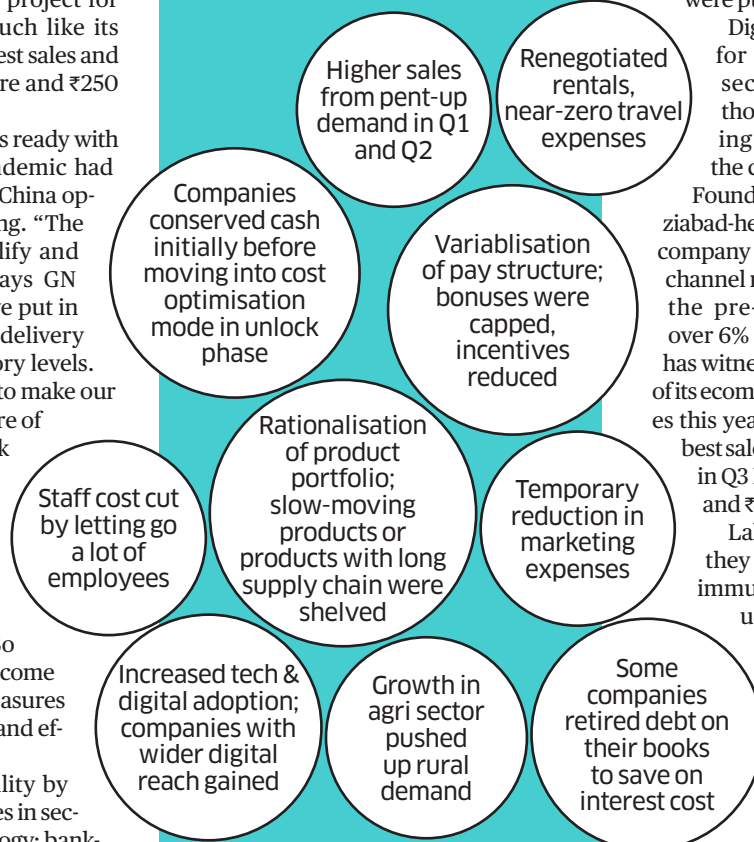
Big PAT Earners For the quarter (₹ cr)



* BSE-500 companies | Source: ETIG Database
Note: Companies that posted their record numbers



Factors That Helped Companies Post Record Results



ing, financial services and insurance; retail and ecommerce and travel & hospitality retrenched several employees during the lockdown months. New-age businesses and a few private banks hired part-time gig workers to slash fixed-staff costs. "In the initial months of the pandemic, companies put more focus on cost optimisation than growth," says Ashish Nanda, business consulting leader at EY. "They variabilised pay, capped bonuses and cut employee incentives."

Nanda says several companies rationalised their product portfolios and focused more on viable products and brands. "Products that were not popular were taken out, and the ones with long supply chains were put on the back burner."

Digital channels were helpful for companies across sectors. More so for those in consumer-facing businesses. Take the case of Dabur India. Founded in 1884, the Ghaziabad-headquartered FMCG company has grown its digital channel revenues from 1% in the pre-Covid months to over 6% now. The company has witnessed a near-tripling of its ecommerce-led businesses this year. Dabur posted its best sales and PAT numbers in Q3 FY21 at ₹2,728 crore and ₹492 crore, respectively.

Lalit Malik, CFO of Dabur India, says they increased sales by launching 50 immunity building and hygiene products and by using their omnichannel distribution network effectively. "We reduced our cost of doing business, renegotiated recurring expenses such as rent and controlled our working capital cycle well, to always be cash-flow positive." FMCG companies expect

growth in the coming quarters but say the pace of growth will moderate thereafter. According to analysts, demand has still not touched pre-Covid levels.

Aviation, travel and hospitality businesses are still in despair; the auto sector is still facing headwinds despite base demand. "Things may improve for the auto sector in the coming months," says Kunal Malani, head of strategy at Motherson Sumi. Real estate and construction companies may still not be in the pink of health, but their purchase lists to vendors are growing fast. Fast-moving electrical goods segment has seen a significant increase in sales over the previous four months.

Polycab India, a large player in this segment, has posted revenues of ₹2,750 crore and a PAT of ₹245 crore in Q3. "Our business recovered in the second quarter, mainly on account of our retail business," says Gandharv Tongia, CFO of Polycab. "We're seeing significant growth in our wires, lighting and household appliances business. Our institutional business is still below pre-Covid levels, but it is growing at a gradual pace. Our export numbers are fairly on track too. We're seeing more demand from smaller cities and towns. Large cities will take some time to recover."

Growth in the agriculture sector – and the resultant rise in rural demand – has helped a lot of companies recover faster from the lows of the quarter ended June. Cement companies are big beneficiaries of firm rural demand.

"Covid has had limited impact on rural India. The recovery has been faster in smaller towns and villages," says Mahendra Singhi, MD & CEO, Dalmia Cement. "We're seeing good demand from smaller towns and villages." He says there is sustained demand for cement in east and south. "Demand will go up nationwide over the next two quarters."

A lower interest rate environment also helped companies by giving them room to borrow to meet working capital needs and stimulate consumer demand through offers.

The banking sector, seen as highly vulnerable in the initial months of the outbreak, came up trumps in the second and third quarter. Several top private banks and some PSU lenders have posted their best earnings this fiscal year.

The Reserve Bank of India's moratorium on term loans helped borrowers to tide over the initial stress, says Ashutosh Khajuria, ED & CFO of Federal Bank. "Else, we may have seen a severe credit crisis, and a lot of defaults." This ensured the Q3 results of banks were encouraging. "Less than 2% of assets have come up for restructuring. This means borrowers are confident of meeting their repayment obligations. Slip-

pages could be higher than the pre-Covid levels, but most banks have a strong capital base and balance sheet to withstand mild-to-moderate NPA shocks," he says.

Lenders can also be happy that the cost-to-deposit ratio has come down; high-yielding and loans have widened revenue streams and fee-based income is improving.

Cost control is likely to remain the key focus of all businesses for some more quarters. All eyes are on the bottom line till the managers can get on top of the situation. ■

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