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Sensex cos record lower growth in Q1 profits

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New Delhi, Aug 2: India Inc.'s hypersonic race to the finishing line is not over yet, but the breakneck speed at which Corporate India was steaming ahead has definitely met a hurdle on the way, in the form of the appreciating rupee. A look at the FY'07 first quarter results will prove the phenomenon. Companies like Ranbaxy, ICICI Bank, State Bank of India and Reliance Industries have exhibited breakthrough figures. Ranbaxy's profits surged 118 percent; banking major ICICI Bank's net jumped by 25 percent; gross refinery margin of Reliance stood at a record \$15.4/bbl; and banking behemoth SBI took the market with surprise by registering a growth of 78.50 percent in profits. Yet, look a little deeper and you realise that all's not as hunky dory, as most companies have benefited from one-time

gain like rupee appreciation or sell-off of NPAs (the case with most banks).

The software industry, especially, has faced a major blow. The top four software services companies posted the slowest year-on-year growth. And blowing them all away is rupee appreciation (rupee has strengthened by about 9.05 percent in '07). "It all was unexpected, unprecedented, harsh impact on the operating performance. It's rare to see such a major appreciation. Rupee is strengthening, and would continue but the pace during this first quarter was dangerous, we expect a gradual rupee appreciation from the next quarters and not a one-time appreciation like this time," exclaims Rajiv Mehta, IT Analyst, Indiainfoline.

On a positive note, Dipen Shah, VP, PCG-Research,

Kotak Securities Ltd. says, "Yes, most companies have been impacted on the revenue and margins fronts. However, several of them (especially the larger ones) have been able to restrict

the impact through hedging and other margin levers." Ranbaxy would have a different view altogether. Was it not rupee appreciation that made profits leap this high? No, disagrees Malvinder Mohan Singh, CEO & Managing Director, Ranbaxy. He clearly mentions, "the surge in profit was driven by volume and launch of new products. Forex impact was somehow in favour of Ranbaxy."

While hedging will remain in focus, the companies will have to take a good look at their margins. "I think it will be fair to say that the days of 30-40 percent growth in rupee terms are over. If you look at all the numbers, the dollar growth of the four major IT companies is on track. Only the rupee growth has been affect-

ed," said an analyst on conditions of anonymity.

Core operating earnings have grown at much lower rates. Growth for a large number of companies was helped by other income. This, in turn, was due to a one-off factor, the appreciation in the rupee. Companies that borrowed abroad ended up paying a lower interest in rupee terms. Operating profit growth for the Sensex companies, which excludes such income, was just 15.88 percent. Worse still, the growth in net sales, at 15 percent, was the lowest in at least the last four quarters. Excluding financial companies and firms in the oil and gas sector, which somewhat distort the picture, operating profit growth of Sensex firms stood at 17.87 percent last quarter, down substantially from 33.42 percent in the March quarter, and about 50 percent in the preceding two quarters.

