

Big cos gain mkt share, but small biz in distress

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MUMBAI: The distress faced by small and unorganized companies during the second Covid wave and gains in market share of the bigger firms who remained largely unscathed would reflect in their June quarter earnings.

The smaller firms suffered under the weight of localized and uneven lockdowns and shorter business hours in the fiscal first quarter, affecting operations as well as consumer demand. The quarterly earnings season began on July 8 with Tata Consultancy Services Ltd.

Analysts said smaller businesses lost market share to bigger rivals despite FY21 being a turnaround year in corporate earnings for India Inc., marked by margin expansion and high deleveraging of balance sheets.

“Continuity of Covid restrictions will mean the differences will continue to play out in the June quarter between organized and unorganized players,” said Deepak Jasani, head, retail research, HDFC Securities.

He said that once the lockdowns are relaxed entirely, some of the unorganized players will adapt and return to business, but several others would have been forced to down shutters.

Among sectors, retail, jewellery, real estate, apparel, building products, footwear, electrical equipment, plastics/rubber products, food products, security services, dairy, hospitals and diagnostics, beverages, tobacco, leather, wood and wood products, paper and paper products, chemicals, metal fabrication and education have a high presence of unorganized firms and the pandemic has quickened the pace of shifting market share from them to the organized firms, Jasani said.

Analysts at Edelweiss Securities said divergence in growth rates between organized and unorganized firms can be attributed to factors such as tightening of lending norms for small- and medium-sized enterprises (SMEs) by banks, lack of raw material availability and labour



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shortages. Larger players, by design, are better placed to cope with a supply shock than the smaller firms, the brokerage firm said.

Meanwhile, the June quarter is expected to witness pressure on margin expansion as raw material costs have risen sharply. Prices of basic raw materials such as crude oil and metals jumped during the quarter. Brent crude prices rose 18%, while aluminium, copper, zinc and lead gained 5-16%.

According to JM Financial, organized firms are best placed to pass on price increases to offset higher raw material costs. “Even in a period of high input price inflation in the past, revenue growth trajectory has not been materially impacted, barring one or two quarters and organized players, in fact, gain market share in a period of high input cost inflation,” it said.

In the white goods and durables segment, analysts at ICICI Securities expect migration from unorganized to organized sector to steadily generate value for the latter. “The large appliances market in India is dominated by multinational companies. Due to consistent technological changes and higher investments in R&D (research and development), we believe they will continue to dominate the said segment of the market,” the brokerage said.

The white goods and durables

market comprising the five major segments of television, washing machines, air conditioners, refrigerators and dishwashers is dominated by large multinationals such as Whirlpool, Samsung and LG.

According to Reliance Securities Ltd, mid-cap firms may see flat sequential growth in the June quarter as strong demand momentum seen in the second half of FY21 was halted due to the second Covid wave from mid-April, with utilization declining by 30-40% in April and May.

“The mid-cap companies under our coverage universe faced challenges on the demand front with limited market hours across states. Ebitda margin is expected to degrow by 360 basis points (bps) YoY and 30bps QoQ,” Reliance Securities said.

Kotak Institutional Equities Research expects net profits for Sensex companies to jump 72% from a year ago in the June quarter but decline 3% sequentially. For Nifty stocks, the brokerage expects profits to grow 127% from a year ago but fall 6% sequentially.

Kotak estimates earnings per share of Sensex at ₹2,303 for FY22 and ₹2,631 for FY23, and of the Nifty at ₹715 for FY22 and ₹813 for FY23. It expects banks, capital goods, IT services, metals and mining, upstream oil, gas and consumable fuel companies to lead earnings growth in Q1.