

COMPANIES IN DISCRETIONARY, MATERIALS, AND INDUSTRIALS SECTORS HIT HARDEST

Delayed Government Payments Hit Cos' Operating Cash Flows in H1

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Mumbai: India Inc's operating cash flow (OCF) weakened significantly in the half year ended September 30, falling to 71.4% of their earnings before interest, tax, depreciation and amortisation 81.8% in the previous six months (excluding banking, financial services and insurance).

Free cash flow, meanwhile, plunged to 35.9% of profit after tax (PAT) from 55.1% a year earlier, according to data from Emkay Research.

Discretionary, materials and industrials sectors were hit the hardest, facing weaker cash flows alongside rising capex. The slowdown in OCF is largely attributed to delayed government payments, according to analysts.

"The weak earnings growth was compounded by worsening cash flows," said Seshadri Sen, head of research and strategist at Emkay Global. "The silver lining is that delayed government payments, which likely caused the OCF weakness, should recover in the second half of FY25," he said. "Whi-

le the capex pickup is a positive for the long term, the cash-flow challenges pose a near-term headwind for markets."

The net profit of Nifty50 companies grew just 2.4% YoY in the quarter ended September 30, while for the BSE 500 group, it fell 0.5%. Consumer discretionary companies reported a 1.4% drop in PAT, while energy firms suffered a sharp 49% fall.

"Weaker-than-expected demand, inventory stocking ahead of the festive season and a slowdown in government capex contributed to higher working capital needs in 1H FY25," said

Rakesh Vyas, co-chief investment officer at Quest Investment Advisors. "Demand weakness is driven by rural economic challenges, reduced urban consumption, stricter unsecured lending norms and slower decision-making ahead of elections."



Positive festive sales, boosted by better consumer deals, could help improve OCF in the second-half of fiscal year, say analysts

Crunch Time

For BSE 500 Companies (ex-BFSI)

6M Ended	OCF/EBITDA	FCF/PAT
Sep '22	37.6	-5.3
Mar '23	118.4	127.0
Sep '23	79.9	65.8
Mar '24	81.8	55.1
Sep '24	71.4	35.9

Source: Bloomberg, Emkay Research



In recent years, many companies have pursued expansion, driven by strong cash flow, balance sheet deleveraging and broad sector growth. In FY24, BSE 500 companies generated over ₹4 lakh crore in OCF, exceeding their capital expenditure requirements.

Positive festive sales, boosted by better consumer deals, could help improve OCF in the second half of this fiscal year, analysts said.

"Election-related spending delays, high domestic food inflation, uneven rainfall and the global economic slowdown weighed on revenues and margins," said

Vinod Nair, head of research at Geojit Financial Services.

"Moving forward, we expect business conditions to improve in the December and March quarters, offering short-term relief to the market."

According to Rakesh Vyas of Quest Investment Advisors, private sector investments may slow as companies delay new projects to align with weak demand conditions. "This moderation could help maintain strong balance sheets but highlights cautious sentiment in the face of subdued demand," he added.