Profit concentration in India Inc rises amid private sector growth

20 most profitable companies account for 65% of corporate profits

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Big private sector companies have cornered a large chunk of the corporate profit pie in the last few years as small and public sector firms struggle with poor profitability. This has resulted in a steady rise in profit concentration.

India's 20 most profitable companies accounted for nearly 65 per cent of all corporate profits in the listed space in the first half of 2021-22 (FY22), as against a 62.4 per cent share in FY21 and 52 per cent a decade ago in FY12. However, this was lower than the record-high profit concentration of 72 per cent in FY20. This is attributed to a surge in the profitability of commodity producers and public sector banks in the last one year.

The 20 most profitable listed firms reported a combined net profit of ₹2.49 trillion in the first half of FY22, up 78 per cent from around ₹1.4 trillion in the first half of FY21. In the same period, the combined net profit of all 815 companies in the Business Standard sample was up 84 per cent year-on-year to ₹3.93 trillion from ₹2.14 trillion in the first half of FY21.

Reliance Industries (RIL) was the most profitable company in the first half of FY22 with a net profit of around ₹26,000 crore (adjusted for exceptional gains and losses).

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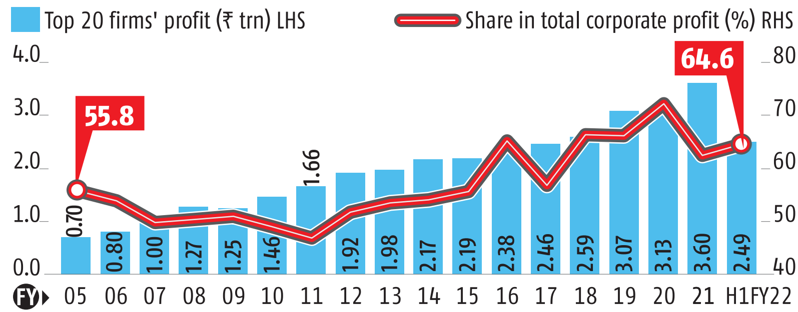
BIG GROWS BIGGER



Source: Capitaline

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Profit...

It was followed by Oil & Natural Gas Corporation (ONGC) at ₹24,000 crore and State Bank of India at ₹21,700 crore. In all, there were three public sector companies among the 10 most profitable companies in H1FY22, and seven PSUs among the top 20 profitable firms. RIL has been topping the profit chart every year since FY14. Prior to that, the government-owned ONGC was the most profitable company for nearly a decade between FY05 and FY13. The relative decline of ONGC is emblematic of PSUs' falling fortunes. For example, six out of the 10 most profitable firms in FY05 (the first year for which we collected data) were public sector firms, and there were 12 PSUs in the top 20 list that year.

The rise in profit concentration has resulted in the similar concentration in corporate or promoter capital as captured by the company's net worth or equity. Analysts say that since a firm's net worth is a big determinant of its investment capacity, a growing concentration in the former means that big firms in the private sector may continue to grow faster than smaller firms. This could translate into even higher profit concentration in future.

The top 20 firms (in terms of net worth) accounted for 46 per cent of all the net worth of listed companies in the first half of FY22, slightly down from 46.7 per cent in FY21 but up from around 42 per cent a decade ago in FY12.

These firms had a combined net worth of around ₹31 trillion compared with India Inc's combined net worth of ₹67.5 trillion at the end of H1FY22. RIL topped the chart with a net worth of around ₹7.42 trillion at the end of H1FY22.

The net worth concentration in H1FY22 was, however, lower than the record high of nearly 50 per cent (for the top 20 firms) in FY05, but this is largely because the top 20 list in FY05 was dominated by public sector firms, unlike now. For example, ONGC had the biggest net worth in FY05, followed by National Thermal Power Corporation and RIL.

Ration...

The Budget for financial year 2021-22 (FY22) estimated the