Top 20 private companies lose $36 billion in tough FY12; AV Birla, Bajaj & Hero Group gain the most

Investors in companies run by Kumar Mangalam Birla,Rajiv Bajaj and the Munjals ended up richer last fiscal year as these shares outperformed the Sensex while those with shares in firms run by Gautam Adani and the Ambani brothers lagged behind.

The Adani Group, which runs utilities and ports, and the Ambani brothers top the list of 20 private sector business groups that lost $36 billion, or Rs 1,81,132 crore, in market cap last fiscal as faltering economic growth and high input and interest costs ate into profits.

An ETIG analysis shows three out of five promoters among the top 20 company owners by market capitalisation reported an erosion in market value at the end of March 2012, as the markets slumped over 10%. Besides, 56 of the top 100 companies based on market capitalisation failed to earn any return during the year.
The fall was the first in three years. The sample's market cap had fallen by $135 billion (Rs 6,90,623 crore) in FY09. Among the top 20 promoters who figured in the analysis, the performance of theAdani Group was the worst, with a 41.5% fall.

RIL's Market Cap Fell 28% in FY12

Adani Group's flagship company,Adani Enterprises, lost half its market capitalisation last year after a Karnataka Lokayukta report rapped the company for its alleged involvement in illegal iron ore transportation activities. The value of the group's other companies - Adani Power and Adani Port & Special Economic Zone - also fell.

Mukesh Ambani-led Reliance Industries reported a 28% drop in market cap during the year as a fall in gas output and sliding margins at its refining and petrochemicals businesses weighed on performance. Younger brother Anil Ambani's Reliance Group was another major loser with its market capitalisation down by 20.3% as all its six group companies failed to earn returns. The Tata Group, which topped our list of largest promoter groups, ended the year with a marginal drop of 3.4% in market cap. Though as many as 20 out of 29 group companies reported a loss in market cap, the overall impact was limited thanks to the impressive performance of Tata Motors, Titan Industries, Tata Global Beverages and retail chain Trent.

Among the gainers were the diversified AV Birla Group with a 5.6% gain, the Bajaj Group at 11.8%, and Hero Group (28.3%). Analysts say the lacklustre performance could be attributed to the slide in profitability. "What we have begun to see is the funnel effect on the income statements. Sales are rising but without imparting growth of similar magnitude to bottom lines due to difficulty in passing on higher raw material costs, steeper fuel expenses and increasing interest outgo due to relatively expensive borrowing," says Sandeep Singal, who co-heads institutional equities at Emkay Global Financial Services.

Says Sadanand Shetty, fund manager, Taurus Mutual Fund, "At present, we are at the cheapest point in terms of valuation of companies." According to him, sectors such as capital goods, engineering and banking are expected to do well. But not many are optimistic. "With higher prices of coal, electricity and transportation, inflation may not taper off easily in the near term. If that happens, the RBI may find it challenging to cut interest rates at a faster clip any time soon," says Singal.

Some fund managers advise against investing in sectors such as infrastructure and construction, which have concerns related to execution and high leverage. Sunil Singhania, head (equities), Reliance Mutual Fund, says, "FY13 would be a year of stock-picking. There would select stocks in sectors such as pharma, IT, cement and certain interest rate-sensitive sectors which would do well in FY13."

(Economic Times)