

# Check revenue and profit numbers before investing in a company

By [Sanket Dhanorkar](#), ET Bureau | 6 Oct, 2014, 08.00AM IST

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With the [economy](#) showing signs of revival, [India Inc](#) is gearing up for growth. While quite a few companies struggled to generate steady revenues during the downturn, most saw a sharp dip in profits. Now, the focus for most businesses is back on improving their profitability. Should you opt for companies that have a healthier bottom line or pick those with high top-line growth?



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## Why profits matter

Both revenues and profits are crucial indicators of a company's financial strength. A company's revenues drive its operations, and also contribute to its profitability in the long run if there is a steady flow. Higher revenues would mean nothing if expenses also keep going up. If the bottom-line, or profit, is growing, it means the company is running its operations efficiently. Says Ambareesh Baliga, managing partner, global wealth management, Edelweiss Financial Services: "It shows that the companies have been able to improve margins even during difficult times, and keep a handle on their costs." Share prices also respond primarily to earnings, or profit, growth and not revenues. Healthy profit growth is also likely to translate into more dividends for shareholders. However, a company will not be able to sustain high profit growth if it experiences continually declining revenues. Says Vikas Gupta, executive vice-president, Arthveda Fund Management: "It is not possible for earnings to keep outpacing revenues for a long period, except in some businesses such as IT and ITeS." He also cautions investors not to focus too much on earnings growth without considering the company's valuations as the counters will not be cheap.

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## Companies that made the cut

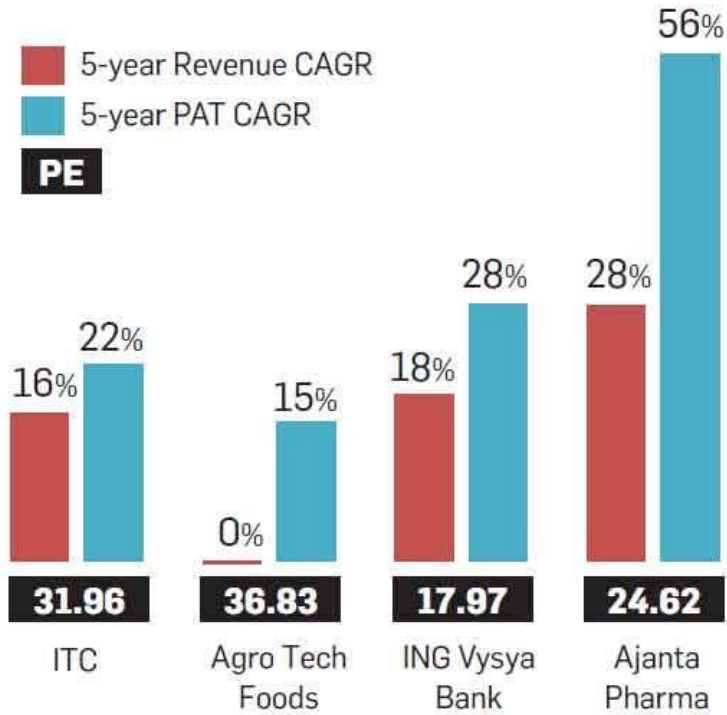
We looked at the five-year track record of companies in the BSE-500 universe to identify those businesses which have clocked higher profit growth compared to their topline growth. First, we identified companies that have reported faster profit growth for each year during the period under consideration. Only four companies made it to this list. It is not surprising to find ITC in this category. The company not only registered consistent revenue growth throughout this difficult period, but also managed to clock a higher profit growth during the past five years. Profits grew at a [CAGR](#) of 22%, while revenues jumped at a healthy CAGR of 16% over the past five years. [Ajanta Pharma](#) has fared even better. Thanks to a 100% increase in its profits last year, the company's profit growth was 56% during the past five years. [ING Vysya Bank](#) is another company to have churned out higher profit growth in the past five years. [Agro Tech Foods](#) has seen profits outpacing its revenues consistently, but a highly erratic revenue growth and dwindling profit growth do not provide comfort.

Apart from these, there are several companies which have averaged a faster profit growth than revenue growth during the past five years, but not necessarily exceeded revenue growth every year (see graphic).



# Companies that are running their operations efficiently

Companies that reported higher profit growth than revenue growth in each of the past five years.

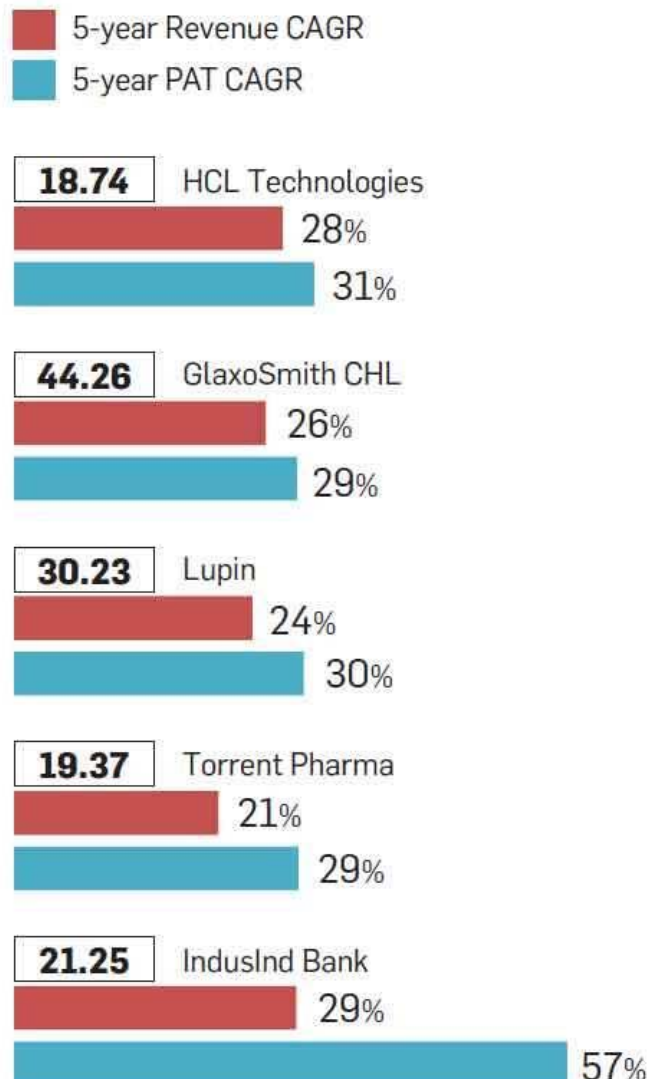


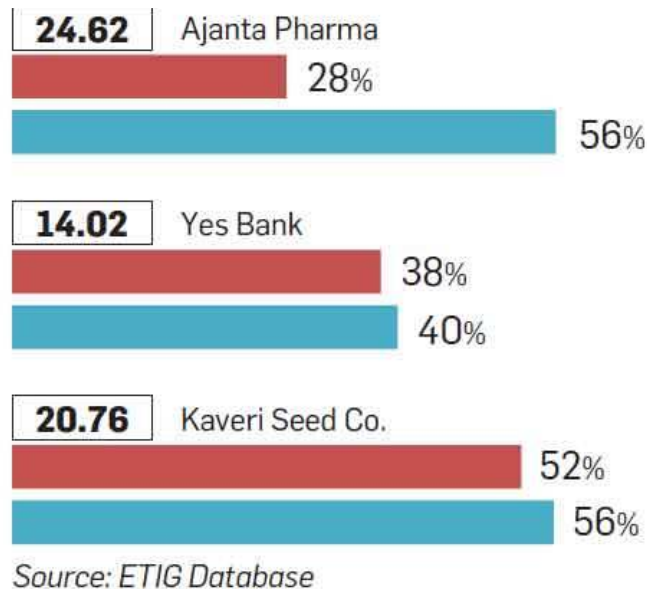
At the other end of the spectrum are companies that could not match their profit growth with the growth in revenues. These companies have clocked lower profit growth for each of the past five years. The balance sheets of DLF, Unitech and Phoenix Mills are stretched. IT major Infosys is in this list, which is a reflection of the rocky terrain it has been navigating over the past few years.

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## ***Strong performance in the past five years make them good picks***

*Companies that clocked higher profit growth than revenue growth over the past five years.*

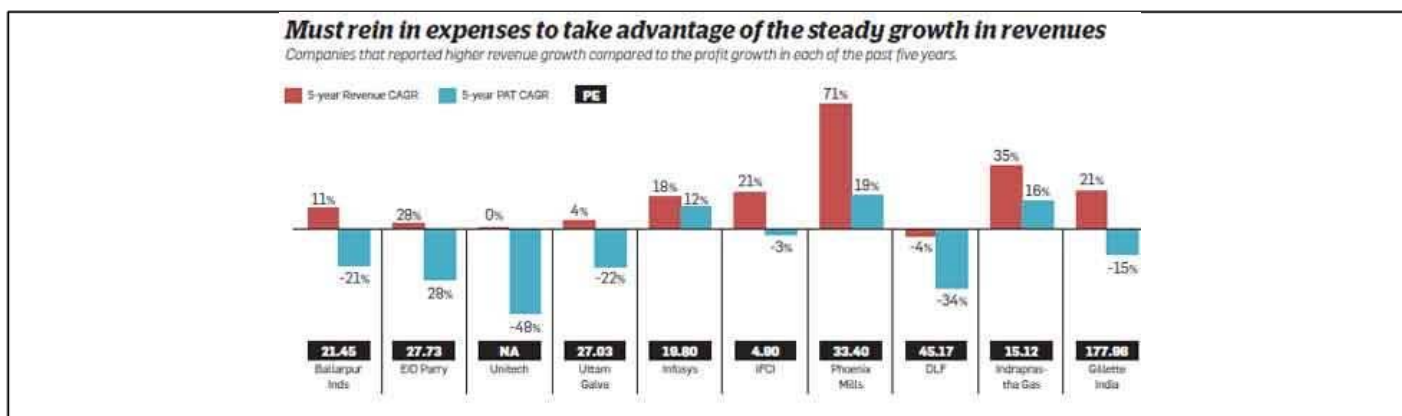




### Companies that made the cut

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