

Large-caps fare better than SMEs in first 9 months of FY14

The hardest hit have been companies with sales less than Rs 100 crore, with their profits declining from Rs 413 crore in April-December 2012 to a cumulative loss of Rs 1,113 crore in the first nine mo

Puneet Wadhwa and Deepak Korgaonkar; New Delhi / Mumbai March 04, 2014 Last Updated at 22:46 IST

According to a recent study by CARE Ratings, companies with net annual sales of over Rs 1,000 crore have witnessed a positive growth in net profit by an average 3.6 per cent for the first nine months of the current financial year 2013-14 (April-December 2013).

On the other hand, companies with sales between Rs 250 and Rs 1,000 crore reported a positive growth in sales but a negative growth in net profit, findings suggest.

The hardest hit have been companies with sales less than Rs 100 crore with their profits declining from Rs 413 crore in April-December 2012 to a cumulative loss of Rs 1,113 crore in first nine months of FY13. Net sales of these companies also dipped 11.3 per cent during this period, findings suggest.

“Sales have been affected mainly by low demand conditions which has its genesis in low consumer demand. High inflation has put pressure on consumption patterns of households which are spending more on food and have less to spend on consumer goods. This has had backward linkages with other sectors of the economy. Also government spending has been compromised to meet fiscal targets, which has affected demand for goods,” points out Madan Sabnavis, chief economist, CARE Ratings.

Gaurav Dua, head of research at Sharekhan suggests that while export-driven sectors have been the mainstay of the earnings performance in the past few quarters, not much has changed for the domestic consumption based businesses that struggle on account of weakness in demand, high interest rates and policy uncertainty.

Industrial production

Meanwhile, the slowdown in industrial production also seems to have dented financial performance. An analysis of the performance over the nine months of FY14 for 2,997 companies, excluding banks, suggests that net profit decreased 1.8 per cent, as against growth of 4.7 per cent during the same period in FY13. The growth in net sales, too, slowed down significantly to 6.6 per cent from 7.7 per cent last year, the report suggests.

“This appears to be largely in-line with the overall slowdown in industrial production the country has witnessed in FY14. Profit margin declined to 7.7 per cent for nine months of FY14 from 8.3 per cent in the corresponding period last financial year,” Sabnavis said.

According to the report, metal, consumer durables, mining and minerals sectors have witnessed a reduction in profit margin, which is supported by the contemporaneous slowdown in the production indices of these industries from April to December 2013.

However, profit margin of sectors like oil exploration, information technology, tractors, breweries and distilleries, dyes and pigments, trucks and LCV, telecommunication and ceramics and sanitary ware have seen margin improvement during the period.

Outlook

With the growth continuing to be on our estimated trajectory, Indranil Pan, chief economist, Kotak Mahindra Bank maintains that India has likely seen the trough in growth.

“It is unlikely that growth would touch sub-4.5 per cent in the next few quarters. With some positive base effects aiding the cause along with stabilisation in the industrial sector growth, India’s GDP growth is likely to hover around the five per cent mark. However, we note that a sharp recovery will depend on the investment cycle revival,” he says.

Analysts suggest the first quarter of the next financial year could be a turning point from the point of view of consumption. Also, the election process will provide a boost for the industry as demand picks up for autos, fuel, paper, printing, food items, etc, as the campaigning season gets on the way. However, for this to get meaningfully reflected in the financials, the wait could be a bit longer.

“Practically speaking things will happen from Q3 of FY15 onwards provided there is a good monsoon and rural spending increases. This did not happen in FY14 but one can hope for a turnaround provided the budget provides fiscal incentives to industry. Typically auto, consumer goods, textiles should see an increase in demand from the consumer side, while government spending on infrastructure will be manifested in demand for cement, steel, machinery – basic and capital goods. Both can happen simultaneously and the former will provide backward linkages with intermediate and basic goods industries,” Sabnavis suggests.