

Corporate Performance: FY13

Overview:

A study of the performance of 1,297 non financial companies showed that net sales increased by 12.6% in FY13 as against 21.1% in the previous year while net profit increased by 11.7% in FY13 compared with a negative growth of 5.7% in FY12.

Tables 1 give information on the financial performance for FY12 and FY13.

Table 1: Summary Performance of 1,297 non financial companies

Growth (%)	FY12	FY13
Net Sales	21.1	12.6
Total Expenses	23.7	12.8
Raw Material Expenses	27.4	12.1
Salaries and Wages	17.2	16.0
Interest Expenses	46.9	23.3
Depreciation	9.7	12.4
Profit before tax	-3.5	10.0
Taxes	3.5	5.0
Net Profit	-5.7	11.7
Ratio (%)		
PBT Margin	12.3	12.0
Net Profit Margin	9.2	9.1
Interest cover	3.7	3.4

Source: ACE Equity

The overall performance of the non-financial companies can be attributed to the following factors:

- Net sales registered a growth of 12.6% in FY13 compared with 21.1% in the previous year. The decline in growth rate of sales could be attributed to the low industrial production numbers with slack conditions in the economy. Industrial production grew by 1.0% in FY13 as against 2.9% last year. Growth in the core industries, which account for 37.9% of IIP, witnessed slower growth of 2.6% in FY13 as against 5.0% growth in FY12 indicating lower production activity in the fiscal gone by.
- Total expenses grew by 12.8% in FY13 as against 23.7% in FY12.
 - The comforting factor has been that the growth in raw materials expenses growth witnessed a significant decline from 27.4% in FY12 to 12.1% in FY13. This is mainly because of decline in the average inflation from 8.9% in FY12 to 7.4% in FY13, thereby bringing down the nominal value of raw materials purchases.

- Salaries and wages saw a decline in the growth from 17.2% in FY12 to 16% in FY13. This indicates that the corporate sector has not really reduced the growth in wage bill which could be in the form of higher employment as well as increase in salaries.
- Interest expenses saw a drastic decline. The growth in the same declined from 46.9% in FY12 to 23.3% in FY13. Growth in bank credit witnessed a decline from 17.0% in FY12 to 14.1% in FY13. Incremental credit in FY13 declined to Rs 6,509 billion (Rs 6,698 billion). Lower interest expenses growth was more on account of lower off take in credit. Additionally to the extent that banks lowered interest rates, as seen by the base rate coming down from average of 10.45% in April 2012 to 10.09% in March 2013, there were savings in growth in interest costs.
- Net profit margin, defined by net profit to sales ratio declined marginally to 9.1% in FY13 as against 9.2% in the previous year.
- Interest cover, defined by PBIT to interest expenses ratio declined to 3.4 times as against 3.7 times in FY12.

Size Wise Analysis:

While the overall performance of the corporate sector looks positive, a break down according to size would throw light on whether or not the performance has been even across different size groups. Table 2 below gives the composition of the sample companies based on the net sales in FY13. Also, the share of each size group is given in terms of net sales in FY13.

Table 2: Sample Profile by size according to net sales

Size Range (Rs crore)	No	Growth Net Sales (%)	Growth Net profit (%)	Share (%)
Above 1,000	262	13.6	11.1	91.6
500-1,000	134	4.3	-9.9	4.3
100-500	326	4.3	36.8	3.6
50-100	98	-13.0	1.8	0.3
Less than 50	477	-11.5	-12.5	0.2

Source: ACE Equity

Some interesting observations that emerge from this table are:

- The top 262 companies each having sales of over Rs 1,000 crore, account for 91.6% of total sales of the sector have the highest growth in net sales, followed by the next 460 companies in the range Rs 100 – 1,000 crore with growth of 4.3%. The growth in sales for other lower sized groups registered negative growth.
- However, growth in net profit was largely dominated by the 326 companies having sales between Rs 100 – 500 crore, accounting for 3.6% of total sales.
- Small corporate companies (below Rs 50 crore sales) have witnessed negative growth in profits and sales.

Banking Sector:

The performance of 40 banking companies showed that net sales (all interest income) increased by 16.3% in FY13 as against 33.8% in the previous year. Interest expenses, however grew at a higher rate of 19.0% (44.1%), putting pressure on growth in net interest income. The growth in provisions and contingencies, which includes provisions for NPAs moderated to 16% (31.8%) in FY13. Net profit saw a decline in growth to 10.6% as against 15.2% in FY12. Consequently, net profit margin continued to be under pressure and declined to 11.1% as against 11.7% in FY12.

Average Gross NPAs and the Net NPAs increased to 2.91% (2.36%) and 1.54% (1.09%) respectively in FY13. More significantly, gross NPA has increased by Rs 123,705 crore resulting in a growth rate of 93.6% in FY13. The high growth in NPAs may be attributed to the lower growth in industry as well as sales of the corporate sector which has impacted asset quality. According to the CDR cell, total restructured assets also increased from Rs 1.50 lakh crore in March 2012 to Rs 2.29 lakh crore in March 2013. The impact of the economic slowdown is getting reflected in the increase in NPAs. On the positive side, all the banks have maintained capital adequacy ratio of above 10%. 10 banks saw an increase in this ratio in FY13 when compared with last year.

Concluding remarks:

- Corporate performance has shown improvement in terms of profits; however growth in sales witnessed a decline.
- The better performance has mainly been due to the relatively better performance of the large size companies.
- Impact of interest costs subdued due to lower credit growth.
- Banks witnessed a decline in net profit margin. However, more concern on the growth in NPAs
- Banks appear to be well capitalized, which is a comforting factor.

Contact:**Anuja Jaripatke Shah****Associate Economist***anuja.jaripatke@careratings.com*

91-022-67543552

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