

Corporate Performance: Q3-FY18...Recovery on the anvil?

The trend performance of a sample of 1,572 companies (excluding banks) over Q2-FY18 reveals a positive picture, with net profits growth showing improvement and reaching Q3-FY17 levels while growth in net sales has recovered though would take time to reach earlier high levels.

Net sales grew by 9.7% in Q3-FY18 after growing by about 19% in Q3-FY17, while Net profits registered growth of 13.6% over a growth of 13.8% in the corresponding period last year.

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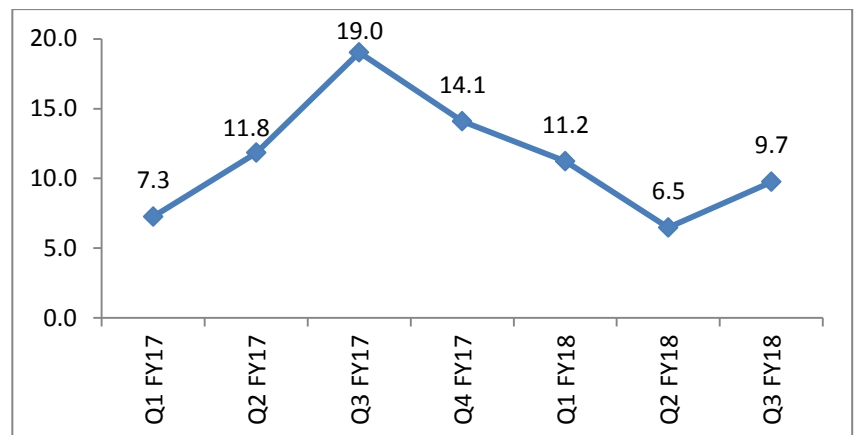
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Chart 1: Net Sales Growth – (Excluding Banks) (%)

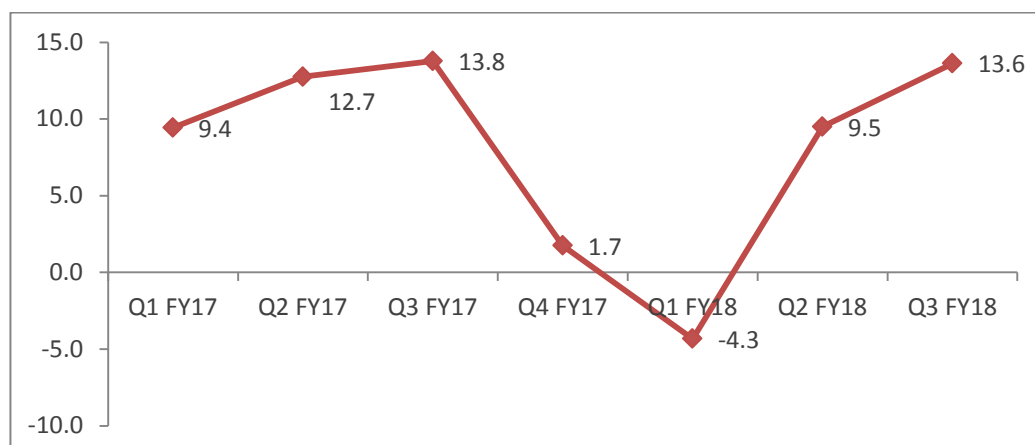


Source: ACE Equity

- In Q3-FY18 the aggregate set of companies has reported 9.7% growth over 19% in Q3-FY17.
- Last year, despite demonetization, industry was able to report 19% y-o-y growth during the third quarter. However, post December with demonetization impact being fully felt with slower manufacturing activity aggregate performance of companies has been on a declining trend.
- Post July 1, 2017 (Q2-FY18) with the implementation of Goods and Services Tax (GST) growth in sales was affected with two successive low growth rates.
- Nonetheless, in Q3-FY18, we can see the net sales of aggregate set have witnessed an increase. However, the industry is expected to take some time before it reaches the pre-demonetization levels in terms of sales growth once the GST disruption settles.

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Chart 2: Net Profit Growth (Excluding Banks) (%)



Source: ACE Equity

- Net profits have managed to register growth rate of 13.6% in Q3-FY18 which is comparable to that in Q3 FY17.
- After registering a sharp decline in growth from 13.8% in Q3-FY17 to 1.7% in Q4-FY17, net profit fell by 4.3% in Q1-FY18. This may be attributed to the implementation of GST where companies had gone in for de-stocking.
- Net profits growth recovered in Q2-FY18 and further to 13.6% in Q3 FY18.
- The recovery appears palpable even in terms of profit margin (Table 1).

Table 1: Profit Margins (Excluding Banks) (%)

	Profit margins	
	Operating Profit Margins	Net Profit Margins
Q1 FY17	19.1	8.7
Q2 FY17	17.9	8.6
Q3 FY17	17.3	7.6
Q4 FY17	18.0	7.6
Q1 FY18	16.1	6.9
Q2 FY18	18.5	7.4
Q3 FY18	18.1	8.6

Source: ACE Equity

Table 2: Interest Cover (Excluding Banks and Finance) (Times)

1305 companies	Interest Cover
Q1 FY17	6.50
Q2 FY17	6.41
Q3 FY17	6.11
Q4 FY17	7.14
Q1 FY18	6.17
Q2 FY18	6.58
Q3 FY18	7.34

Source: ACE Equity

- Interest cover (ratio of PBDIT/interest) has been calculated for the sample of 1,305 companies (excluding banks and finance). *Interest cover was the highest in Q3 FY18 at 7.34 times over the last 7 quarters.*

Conclusion:

- *In terms of Net profits, it can be said that the industry is on the turnaround path post demonetization and GS. However, in terms of net sales the industry still needs some time to get back on track.*

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