

Corporate Performance: Q3-FY15 and 9M-FY15

A study of the performance of 2,934 companies showed that net sales declined by -0.2% in Q3 FY15 as against 6.5% increase in the previous year while net profits declined significantly by 28.3% over a positive growth of 2.5% last year. Consequently, the cumulative growth in sales for the first nine months moderated to 4.2% over 7.5% last year with growth in net profits too slowing down to 3.3% from 4.2% in the previous year. This clearly suggests the weak performance of the corporates. The lower growth in sales volumes could be largely attributed to the weakness in the global and domestic demand conditions. Also despite the softening inflation in the past few months the gains from the same remain invisible indicated by the declining profitability.

Table 1 below provides information on the financial performance in Q3 FY15 over Q3 FY14 and cumulative 9MFY15 over 9MFY14 of the entire sample.

Table 1: Performance Summary of all companies (2,934 companies for Q3 and for 9M)

% Growth	Q3 FY14	Q3 FY15	9MFY14	9MFY15
Net Sales	6.5	-0.2	7.5	4.2
Expenditure	6.2	-1.3	6.7	2.7
Net Profit	2.5	-28.3	4.2	3.3
Ratio				
Net Profit Margin	7.0%	5.0%	6.6%	6.5%

Source: ACE Equity

Table 2: Performance summary excluding Banks (2,894 companies for Q3 and for 9M)

% Growth	Q3 FY14	Q3 FY15	9MFY14	9MFY15
Net Sales	5.3	-1.8	6.7	3.1
Expenditure	5.6	-1.8	6.1	2.4
Interest	14.3	8.7	16.3	9.1
Net Profit	9.1	-36.6	10.1	0.9
Ratio				
Profit Margin	6.9	4.4	6.2	6.1
Interest Cover	2.9	2.2	2.7	2.7

Source: ACE Equity

Table 2 provides the information regarding the performance of a sub sample of the aggregate excluding banks.

- Net sales registered a drop of 1.8% in Q3-FY15 as against 5.3% positive growth in the previous year. For the cumulative period 9M-FY15 growth in net sales too moderated to 3.1% from 6.7% last year.

- Total expenses also decreased by 1.8% against 5.6% growth in the previous year during the third quarter. Hence, the cumulative growth for the nine months too slowed down to 2.4% over 6.1% in the corresponding period last year.
- The interest expenses increased by 8.7% over 14.3% during the quarter. In cumulative terms interest expenses recorded a growth of 9.1% against 16.3 in previous fiscal.
- Net profits too remained under pressure. It declined significantly by -36.6% against a positive growth of 9.1% during the quarter last year. Accordingly, cumulative net profit was seen at 0.9% over 10.1% growth for 9M-FY15.
- Interest cover, defined as the Profit before Interest and Tax (PBIT) to interest declined from 2.9% in Q3 last fiscal to 2.2% of the current fiscal while the on cumulative basis it remained stable at 2.7%.

How does this compare with overall economic performance?

The lower performance of the corporate sector looked at from both points of view (including and excluding banks) for the nine-month period is at variance with the GDP data. Based on GDP data the gross value added in manufacturing increased by 8.7% during the 9 month period at current prices which can be compared with growth in net sales, though was lower than that in FY14 at 9.5%. This holds for the other sectors too: mining 0.8% (3.1%), construction 8.1% (9.1%), trade, hotels and restaurants 12.1% (17.9%). Hence while the direction is the same in most segments (except electricity), the corporate performance looks depressed given the low growth in sales as well as net profit.

Further, for the third quarter, except mining which had negative growth in sales of 5.6%, growth in current prices was high at 6.3% in manufacturing, 13.1% in electricity, 2.4% in construction, 7.9% in trade hotels, and 16.5% in finance. Here the disconnection between the GDP growth numbers and corporate performance is starker.

Size wise analysis

Analysis of the sub-sample of 2,615 companies according to the size below highlights the performance across different size groups. The groups here have been defined based on net sales for the 9M period ending December 2014. Table 3 below gives the composition of the sample companies based on the net sales from Apr- Dec'14.

Table 3: Sample Profile by size according to net sales (9M-FY15)

Size Range (Rs Cr)	No. of companies	Net Sales Growth (%)	Net Profits/Losses Growth (%)
Above 1,000	407	4.8	9.2
500-1,000	218	4.8	5.5
250-500	267	-5.9	-33.7
100-250	413	2.0	-80.5
Less than 100	1,310	-10.3	34.9

Source: ACE Equity

Some interesting observations -

- The top 407 companies with sales above Rs.1,000 cr each, which comprised 15.6% of the sample, accounted for approximately 90% of the total sales driving the overall performance. This group of companies recorded 4.8% increase in net sales and highest net profit growth of 9.2%.
- The group with sales between Rs.500 cr- Rs.1,000cr constituting around 8.3% of the sample, also registered 4.8% growth in net sales while its net profit increased by 5.5%.
- In Contrast to the first two groups, the companies with sales between Rs.250 cr – Rs.500cr registered negative growth of 5.9% and a sharp decline in profits by 33.7%.
- Similarly, the companies with size between Rs.100- 250 cr though recorded a positive growth in sales at 2% their aggregate net profits declined by 80.5%
- The smaller companies with less than Rs.100 crore which constitute for nearly 50% of the sample have incurred high losses which increased by 34.9% from Rs.2,577cr to Rs.3,475 cr for the period Apr- Dec'14 over Apr-Dec'13. Net sales of these companies also fell significantly by 10.3% during the period.
- The above analysis suggests that the large sized firms have performed relatively better with positive growth in sales and increased profitability when compared with the smaller ones. The smaller sized firms continue to underperform incurring huge losses and lower sales.

Banking sector

- The financial performance of 40 banking companies showed that the growth in aggregate net sales (interest income) moderated to 8.7% in Q3-FY15 as against 13.3% during the same period in the previous year. In cumulative terms for the period Apr- Dec'14, the growth in net sales slowed down to 10.8% over 11.9% in the corresponding period last year.
- Interest expenses too registered a moderation in growth at 8.9% over 14.1% for the quarter. For the cumulative period the growth in interest expenses reduced marginally to 11.2% against 11.7% last year.
- Provisions and contingencies which include provisions for NPAs registered a much lower growth of 11.6% over 34.8% for the quarter last year. In cumulative terms growth was 1.5% over 47.6% in the corresponding period last year.
- Net profits increased by 11.8% as against a sharp decline of 20.6% in the previous year. Consequently, the net profit margin improved a tad to 7.8% against 7.6%. On cumulative basis the net profit growth was 12.7% as against a negative growth of 14% last year. Accordingly, the net profit margin inched up by 8.7% over 8.5%.
- Gross NPAs stood at Rs 2,92,957 cr as of Dec'14 increasing by Rs 49,765 cr over Dec'13. This indicates growth of 20.5% in gross NPAs across 40 banks albeit lower than the 35.8% growth recorded as of Dec'13.
- **The gross NPA ratio increased to 4.40% so far in FY15 compared with 4.03% in FY14. Net NPA ratio increased to 2.64% against 2.36% in the same period in FY14.**

Table 4: Performance summary of 40 banks

Growth Rate (%)	Q3 FY14	Q3FY15	Apr-Dec 2013	Apr- Dec 2014
Net Sales	13.3	8.7	11.9	10.8
Interest Expenses	14.1	8.9	11.7	11.2
Provisions and contingencies	34.8	11.6	47.6	1.5
Net Profit	-20.6	11.8	-14.0	12.7
Net Profit Margin	7.6	7.8	8.5	8.7
Gross NPAs	35.8	20.5	35.8	20.5
Net NPAs	50.0	22.8	50.1	22.1

Source: ACE Equity

Industry wise analysis

The IIP grew at 2.1% during 9M-FY15 over near zero growth of 0.1% in FY14 during the same period last year. Similar trend has been witnessed across the manufacturing segment largely aided by the growth in output of capital goods (4.8% growth vis-a-vis -0.4%) and basic goods (6.9% as against 1.5%). Below industry wise performance covering more than 60 sectors have been evaluated in terms profitability and interest cover for 9M-FY15 over 9M-FY14.

- **Net Profit Margin improved for 34 sectors** – Some of the sectors which witnessed significant improvements included the metal industry (37.9% to 43.9%) followed by Telecommunication (3.5% to 9.0%), Batteries (1.4% to 5.3%), Shipping (-1.0% to 2.7%), Packaging (-0.7% to 2.6%), Dyes & Pigments (4.1% to 6.8%), Bearings (5.4% to 8.1%), Construction –real estate (9.0% to 11.5%), Woods & wood products (3.6% to 6.1%), Castings & Forgings (6.1% to 8.3%) and Logistics (8.7% to 10.3%).
- **Net profit margins for 20 sectors witnessed a moderation-** Some of which recorded a significant decline include Mining & Minerals (61.9% to 25.4%), TV broadcasting and software production (12.7% to 4.4%), Oil Exploration (31.8% to 25.1%), Tea/ Coffee (13.5% to 9.6%), Automobiles (6.8% to 3.0%), Refractories (16.7% to 13.1%) and Breweries & Distilleries (4.5% to 1.0%). Besides, the sectors that registered losses included Medical equipment/ supplies/ accessories (12.5% to -25.4%) and Solvent Extraction (1.4% to -0.2%).
- **Interest cover defined by the ratio of PBIT to interest improved for 35 sectors.** These include Diesel engines, Household & personal products, Metals, IT-software, Electronic components, Lubricants, Bearings, Pesticides & agrochemicals, fasteners, paints and batteries.
- **While interest cover for 23 industries reduced during the same period.** Some of these include Refractories, oil exploration, Electric equipment, Medical equipment, Cigarettes/Tobacco and Mining & minerals.

Table 5: Industry wise performance summary

Industry	No. of companies	Profit Margin		Interest Cover	
		Apr-Dec '13	Apr-Dec '14	Apr-Dec '13	Apr-Dec '14
Metals	28	37.9	43.9	43.3	57.2
Cigarettes/ Tobacco	4	25.7	25.5	195.0	191.4
Mining & Minerals	20	61.9	25.4	7.5	4.7
Oil Exploration	11	31.8	25.1	72.4	43.5
IT- Software	132	22.1	22.8	39.4	50.6
Pharmaceuticals & Drugs	109	14.1	14.8	6.6	8.9
Household & Personal products	17	14.6	14.2	43.2	93.6
Power Generation/ Distribution	29	13.1	13.5	3.1	2.6
Refractories	3	16.7	13.1	*	*
Diesel Engines	6	11.7	12.5	149.1	218.8
Printing / stationary/publishing	18	12.8	12.5	10.1	11.8
Construction-Real Estate	72	9.0	11.5	1.7	1.9
Logistics	14	8.7	10.3	5.1	4.9
Tea/ Coffee	21	13.5	9.6	7.7	5.3
Pesticides & Agrochemicals	22	9.0	9.5	7.3	11.3
Paints	9	9.3	9.3	32.5	35.8
Telecommunication	20	3.5	9.0	1.9	3.2
Electronics-Components	16	7.4	8.8	13.0	18.2
Castings & Forgings	17	6.1	8.3	3.1	4.4
Bearings	7	5.4	8.1	6.0	10.1
Dyes & Pigments	15	4.1	6.8	2.7	5.0
Fasteners	2	6.3	6.8	5.8	9.5
Tyres & Allied	7	5.2	6.3	3.5	4.6
Rubber Products	11	5.1	6.1	4.4	4.7
Woods & Wood Products	8	3.6	6.1	2.4	3.4
Aluminium & Aluminium Products	9	6.6	5.9	5.0	3.1
Engineering	106	5.8	5.8	3.3	2.7
Hospital & Healthcare Services	17	8.0	5.7	3.6	3.5
Electrodes & Welding Equipment	6	4.6	5.4	2.5	2.8
Auto Ancillary	63	5.1	5.4	4.9	5.6
Batteries	5	1.4	5.3	1.9	4.4
Lubricants	6	4.8	5.2	4.9	9.8
Chemicals	73	5.2	5.1	3.5	3.2
Consumer Durables	16	3.8	4.9	8.1	8.3
Film Production, Distribution & Entertainment	31	6.1	4.6	3.2	2.5
Leather	14	4.6	4.6	3.1	3.3

TV Broadcasting & Software Production	19	12.7	4.5	5.9	3.7
Steel & Iron Products	89	3.5	3.8	1.9	1.9
Plastic Products	39	3.5	3.7	2.2	2.2
Fertilisers	16	3.0	3.7	2.8	3.3
Electric Equipment	26	5.1	3.5	9.6	4.9
Cement & Construction materials	32	3.5	3.4	1.7	1.6
Ferro & Silica Manganese	4	3.7	3.3	1.9	1.9
Automobiles	14	6.8	3.0	6.6	5.4
Forgings	7	3.9	2.9	3.2	3.3
Shipping	14	-1.0	2.7	1.0	1.3
Packaging	43	-0.7	2.6	1.1	1.8
Consumer Food	52	2.2	2.5	3.0	3.1
Cable	17	1.7	2.4	1.7	1.7
Compressors	4	5.2	2.1	3.9	2.1
Ceramics/Marble/granite	19	0.8	2.0	1.6	2.1
Textile	243	1.6	1.9	1.6	1.6
Industrial Gases & Fuels	10	2.0	1.8	6.6	4.7
Refineries	6	0.9	1.5	2.2	3.8
Breweries & Distilleries	10	4.5	1.0	2.1	1.3
Paper & Paper Products	34	-0.2	0.2	1.0	1.1
Diamond & Jewellery	23	-0.2	0.1	0.8	1.8
Transmission Towers/ Equipment	4	0.3	0.0	1.3	1.0
Solvent Extraction	18	1.4	-0.2	2.5	1.2
Petrochemicals	11	-2.2	-1.6	0.0	0.3
Hotel, Resort & Restaurants	46	-9.1	-5.5	0.5	0.7
Sugar	24	-9.7	-7.9	-0.5	-0.3
Medical Equipments/ Supplies/ Accessories	10	12.5	-25.4	3.0	-1.4

Source: ACE Equity

*: Ratio distorted by very small numbers

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