# Quarterly expectations

**India Inc's revenues are robust but profitability margins will be negatively impacted**

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As far as memory serves, the world has not faced calamities of this magnitude, both natural and political, concurrently. Q4 of this fiscal experienced political turbulence in Egypt spreading to the Middle East and a devastating earthquake and tsunami in Japan. Crude oil, the commodity impacting most of the economies globally, has shot off to about $105 per barrel with political unrest in the oil producing nations. Though, the Japanese calamity has subdued oil demand, its impact on prices has been moderate.

Domestically, rising inflation, increasing subsidies, upward revision in interest rates by the RBI and falling IIP loomed large over Indian Inc. Considering these, the Union Budget was a directional budget to boost agricultural output and reduce food prices in the longer term. Foreign Institutional Investors (FIIs) have been net sellers during Q4 FY11 taking out ₹7,044.40 crore till March 2011 with increasing inflation and deficit concerns. However, CARE Ratings expects revenues of Indian Inc to be robust in Q4 FY11 due to higher domestic demand, but the profitability margins of many sectors will be negatively impacted due to rising commodity prices and interest rates and the inability of the industry to completely pass on the higher costs increase to consumers.

## SECTOR-WISE ANALYSIS

**Refining** companies are expected to post increased revenues and better profitability margins due to higher gross refining margins led by rising crude prices and the shut down of Japanese refineries. The damages will force Japan to cut its consumption of crude oil and increase its purchases of refined fuel from abroad.

Most **banks** have paid higher advance tax in March 2011 (y-o-y) implying good profitability numbers. Advance growth has been 22 per cent up to February 2011 and lending rates have improved with no incremental cost on CASA accounts. Also, the share of CASA deposits to total deposits has increased during FY11.

**The gems and jewellery** sector witnessed increased revenues due to higher exports. January and February 2011 have seen positive growth in exports on a y-o-y basis.

Companies in the **print media** segment will see improved revenues due to increasing circulation & advertisement value and volume led by an improved economic scenario. Operating margins may, however, remain marginally impacted due to rising input costs. However, revenues and profitability of **multiplex** companies will see substantial decline due to reduced occupancy rates owing to ongoing cricket matches and no big ticket movie releases this quarter.

**Hotel** companies will see growth in average room rates and occupancy rates due to rising foreign tourist arrivals and domestic tourist arrivals and lower base effect.

Companies in the **automobile** sector will see higher revenues but a dip in profitability due to rising input & advertisement costs.

**Cement** companies will witness increased revenues due to 6-7 per cent volume growth and improved price realisations, however, margins will be impacted due to a more than proportionate rise in input and interest costs.

Revenues and profitability of **sugar** companies will be subdued in Q4 FY11 due to lower realisations and higher cane prices.

Increasing property prices and interest rates and thereby lower affordability has led to falling property registrations. Though the residential realty segment may see a decline, improving business sentiments prompting companies to expand business may see recovery in the commercial realty segment. CARE expects **real estate** companies solely relying on the residential segment, to witness subdued revenues and profitability compared to those players deriving their revenues from commercial sales/leasing segment.

**Telecom** companies will witness muted revenue and profitability growth due to declining ARPUs and higher interest and depreciation costs.

**The steel** sector will witness margin pressures due to rising input costs. However, revenues would improve due to an increasing demand from automobile and construction sectors.

Revenues of **retail** sector companies will see healthy growth driven by an improved economic scenario and higher consumer spending. However, net profit margin is expected to remain range bound due to rising costs, especially interest cost.

**Garment manufacturers'** profitability will be hit due to rising cotton and polyester prices and an inability to pass on the price rise to consumers.

The devastating natural calamity in Japan will negatively impact many export intensive sectors like textiles, IT/ITeS and gems and jewellery. These sectors are expected to witness lower revenues during Q1 and Q2 FY12 due to lower demand from Japan, the third largest economy in the world. •

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