

India Inc gets rich dividend of falling input costs

CEOs say if this trend continues, it will help improve earnings

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Indian companies are reporting higher profits due to falling raw materials costs, triggered by steep fall in crude oil prices globally. Chief executive officers (CEOs) say if this trend continues for a few more quarters, it will help India Inc to improve corporate earnings in the rest of 2016, which is facing very difficult external environment.

Statistics for the December quarter results so far shows that Reliance Industries (RIL) saved close to Rs 22,343 crore in its raw material costs, as Brent oil prices fell to around \$31 per barrel. RIL's revenues were also down Rs 23,600 crore during the same period and explain the drastic fall in its raw material costs, which a pass is through. Analysts said the big beneficiaries would be cement, fertiliser and power companies and will report higher profits in the December quarter due to falling coal prices.

Take for example, the Aditya Birla Group's cement company, UltraTech. The company reported a 4.7 per cent rise in revenues and a 5.4 per cent drop in raw materials costs, which boosted its profits to Rs 509 crore in the December quarter. "Lower coal and petcoke prices played an important role in contributing to Ultratech reporting higher profits. We expect this trend to continue," said Atul Daga, chief financial officer of cement major, UltraTech.

Another big beneficiary of falling oil prices were the Indian airline firms. IndiGo and SpiceJet reported higher sales even as aircraft fuel prices fall sharply. SpiceJet's sales were up 11 per cent, while costs were down 35 per cent in the December quarter. Its rival IndiGo also reported a similar trend as average aviation turbine fuel price declined by 16 per cent in the December quarter versus first quarter of the current financial year.

PROFITABILITY

Y-o-y change for December quarter

(Change ₹ crore)

	Net sales		Raw material cost	
Reliance Industries	-23,629	⚡	-2,234.3	⚡
Chambal Fertilisers	11.9		-358.3	
Coromandel Inter	-206.6		-241.3	
SpiceJet	141.7		-195.7	
Hindustan Unilever	243.7		-171.2	
Kesoram Industries	-196.3		-143.9	
Hindustan Zinc	-418.5		-124.2	
UltraTech Cement	259.7		-109.9	
Essel Propack	-50.4		-76	
Rallis India	-78.5		-57.2	

Source: Capitaline
Compiled by BS Research Bureau

But aviation analysts said risk for airlines include large swings in the price of fuel which can have outsized impact on results and a weakening rupee versus the US dollar. "Despite the ability to hedge and implement fuel surcharges, the impact on US dollar-denominated fuel prices as local currencies fluctuate, i.e. a weaker local currency will result in higher fuel expense," said a Citi analyst.

Experts said though overall industry impact of lower raw material prices would tend to be positive, there could be variations across companies. And that's because progress in infrastructure projects though in the right direction has not been all pervasive. Further, some power projects would have other issues with regard to investments made that have been held up due to other challenges like land or environment. A combination of such factors would get reflected in differential performance in coming quarters.

"We have observed that several producers have also lost their pricing power in the market, though in general the price changes have been positive for

these cement and power sectors. We are hence hopeful of these two sectors leveraging the benefit of lower prices of inputs," said D R Dogra, CEO and managing director of CARE Ratings.