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Employment in Corporate sector

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India is one of the world's fastest growing economies having witnessed a robust growth of 7.2% on an average in the previous five years and a significant growth of 8.2% observed in Q1-FY19. To maintain this path growth must be accompanied by the creation of meaningful, secure and remunerative employment at a commensurate pace. With the informal economy accounting for 90% of the labour force (as per a report released by the International Labour Organisation) it is onerous to have a grounded and comprehensive view on labour markets and employment generation.

The objective of this study is to focus on the employment scenario in the formalised set-up i.e. corporate sector based on the annual report filings by the corporate entities. As the deadline set by the Companies Act, 2013 of submitting the annual report within six months of the balance sheet data has elapsed, this is a more detailed and comprehensive study involving a larger sample.

This report summarises the major findings on employment growth and remuneration to employees based on a sample of 1610 companies which have published their annual report in FY18. The data compiled pertain to information on the number of permanent employees in the organisation as of the end of the year. This study also looks to analyse the employment growth and employee cost under various parameters like

- Sector
- Size of the organisation (based on net sales)

In addition, sector wise analysis of the total employee cost and average employee cost has also been undertaken.

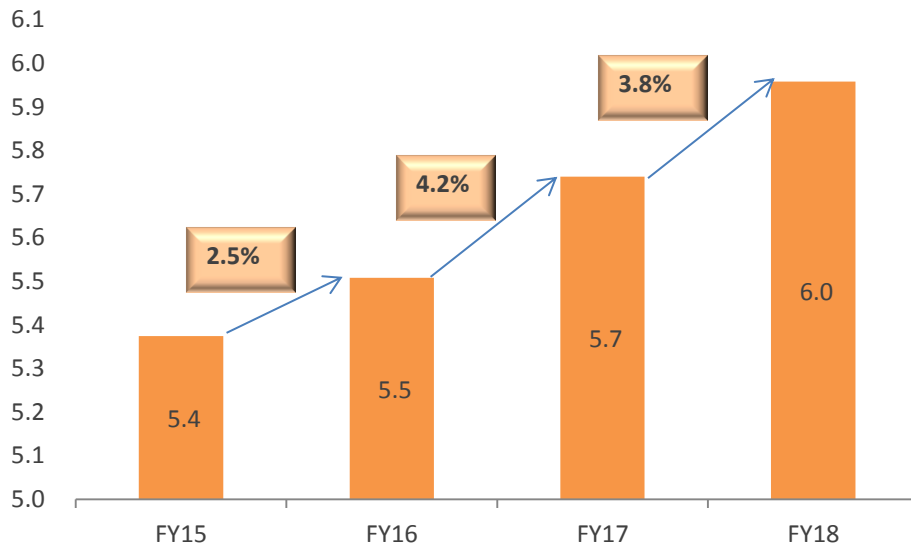
The data has been collected for four consecutive years i.e. FY15, FY16, FY17 and FY18 from ACE Equity. The report compiles data on the employment numbers in line with the above mentioned parameters for the entities covered in the sample following which the employee cost for the same sample is studied in detail.

Employment

The total number of employees in the sample of 1610 companies was 6.0 million in FY18. The net sales for this sample was Rs. 5.6 lakh crs and were around 58.8% of the total sample of 12,671 companies in the database having recorded a net sales of Rs. 9.6 lakh crs in FY18.

Chart 1 highlights the number of employees and employment growth in the sample under study. The total permanent employees rose from 5.4 million in FY15 to 6.0 million in FY18, having witnessed a CAGR of 3.5% during FY15-FY18. The employees count witnessed growth of 3.8% during FY18 over a growth of 4.2% during FY17. On an average in the last four years, the net addition to the permanent employees has been 0.2 million annually for this sample under study.

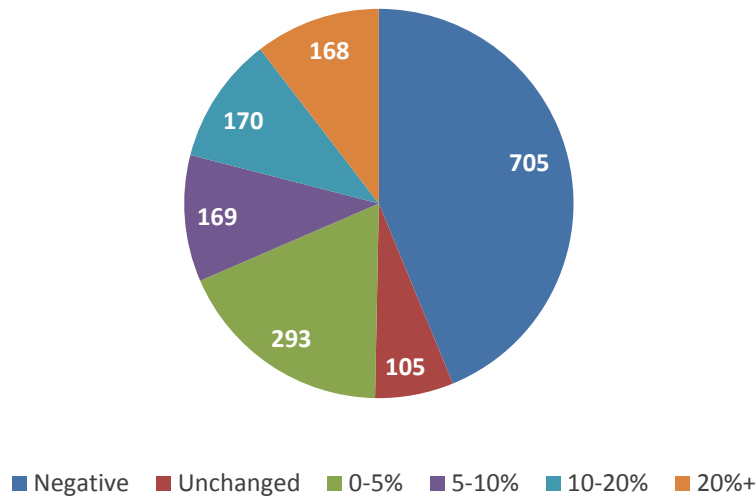
Chart 1: Permanent Employee Number (Mil) and Employment growth (%)



Source: CARE Ratings

Chart 2 highlights the number of companies which have witnessed either positive or negative growth in employment in FY18. For better presentation, we have bifurcated the positive employment growth into 3 buckets i.e. employment growth of 0 – 5%, 5 -10%, 10-20% and more than 20% growth.

Chart 2: Number of companies witnessing employment growth in FY18



Source: CARE Ratings

The moderation in overall employment growth at 3.8% in FY18 compared with an employment growth of 4.2% in FY17 could in part be attributed to 50.3% of companies witnessing negative growth and unchanged employment growth over the preceding year. In addition, Table 1 also explains the rationale behind the moderation in employment growth in FY18. Out of the 1610 sample companies, there are 792 entities which have witnessed lower employment growth in FY18 than in FY17 while 55 entities have witnessed the same growth in the preceding two years (FY17 and FY18) under study. These entities which are either witnessing a slower employment growth or unchanged growth comprise 52.6% of the total companies in the given sample.

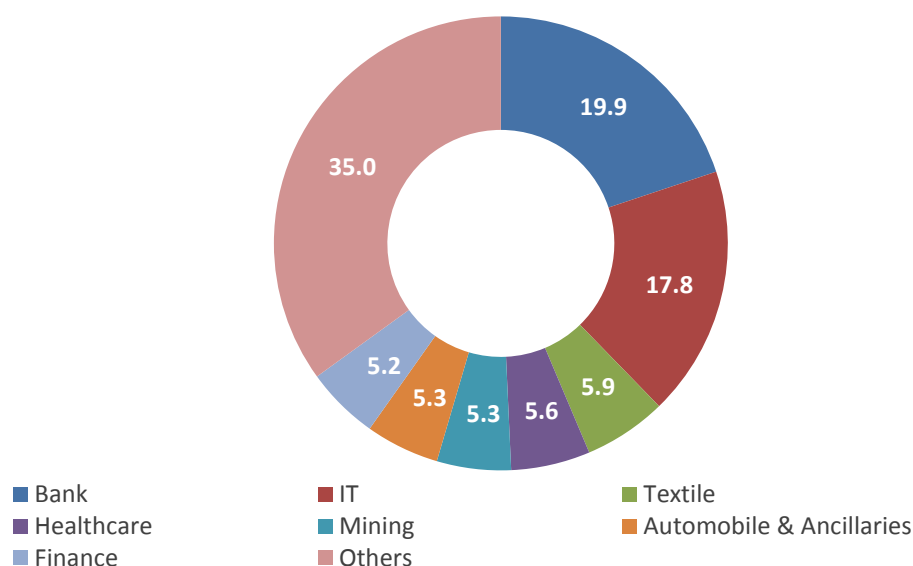
Table 1: Year on year employment growth comparison (Nos)

Category	Nos
Higher employment growth in FY18 than FY17	763
Lower employment growth in FY18 than FY17	792
Same growth	55
Total sample	1610

Source: CARE Ratings

Sector-wise analysis

The break-up of 6.0 million employees in FY18 in different sectors has been analysed in Chart 3. The chart covers the Top 7 sectors which comprise 65% of the total employees covered in the above sample. There are a total of 41 sectors under study and we observe that the balance 34 sectors (grouped under “Others”) comprise 35% of the total employees under study.

Chart 3: Sector-wise proportion of total employees in FY18 (%)

Source: CARE Ratings

A drill-down further in the sectoral analysis shows that

- 50.1% of the total employees in FY18 are in the service sector,
- 40.4% in the manufacturing sector,
- 6.0% in miscellaneous & diversified sector and
- A small proportion of 3.4% in agriculture sector.
- Out of the total employees, 19.8% and 5.2% are employed in the banking and finance sector respectively.

A sector-wise analysis has been presented in Table 2 to check for the sectors which have performed better than the aggregate employment growth of 3.8% in FY18. The table below shows that there are 9 sectors which have witnessed growth of more than 3.8%, out of which 3 sectors have witnessed double-digit growth. The balance 33 sectors have witnessed growth below the 3.8% aggregate level, 20 of which have witnessed negative growth.

Table 2: Sector wise analysis of employment growth in FY18 (%)

More than 3.8%	Less than 3.8%
Double digit growth: Miscellaneous (31.4%), Finance (14.0%), Retail (13.05%) Single digit growth: Construction (9.6%), Infrastructure (9.0%), Ratings (8.0%), Bank (6.6%), Non-ferrous metals (5.1%), Plastic products (4.5%)	Electricals (3.8%), Aviation (3.4%), Textile (3.3%) Automobile (3.2%), FMCG (3.2%), Industrial Gases & Fuels (2.9%), Healthcare (2.5%), Realty (2.5%), Crude oil (2.1%), IT (1.4%), Power (0.4%), Diamond & Jewellery (0.3%) Negative growth: Photographic products (-11.1%), Diversified (-9.6%), Telecom (-7.6%), Trading (-6.5%), Education & Training (-5.3%), Capital goods (-5.1%), Alcohol (-4.6%), Paper (-4.3%), Mining (-3.7%), Iron & Steel (-2.8%), Ship Building (-2.4%), Gas Transmission (-2.3%), Agriculture (-2.0%), Ferro Manganese (-2.0%), Media (-1.9%), Abrasives (-1.5%), Logistics (-0.8%), Hospitality (-0.7%), Consumer durables (-0.6%), Chemicals (-0.4%)

Source: CARE Ratings

Link between employment and sales

The employment growth should theoretically be linked to an extent with growth in the top line growth of companies. Table 3 juxtaposes sales growth in FY18 with the employment growth to understand whether the growth in sales is contributing to the employment growth.

Table 3: Sales growth (%) vs Employment growth (%)

Sales growth (%)	Employment Growth (%)			
	Negative	0-5	5-10	10-15
Negative	Education, Photographic, Telecom	Diamond & Jewellery	-	Finance
0-5	Agri , Hospitality, Paper	Healthcare, IT, Realty, Textile	-	-
5-10	Alcohol, Capital goods, Logistics, Media & Entertainment	Aviation, FMCG, Plastic, Power	Bank, Infrastructure	-
10-15	Abrasives, Chemicals, Consumer Durables, Ship Building	-	Ratings	Retail
15-20	Gas Transmission	Automobile, Crude oil, Electricals, Industrial gases & fuels	Construction	-
20+	Ferro Manganese, Iron & Steel, Mining , Trading	-	Non-ferrous	-

Source: CARE Ratings

*Excludes miscellaneous and diversified sectors in the above analysis

- The above table shows that there are 16 out of 39 sectors which witnessed positive sales growth had negative employment growth reflective of higher sales growth not translating into employment growth in these sectors.
- Finance sector is an exception as it has observed a negative sales growth but has witnessed a significant growth in employment in FY18.

- There has been a significant double-digit growth in the sales and employment numbers in the retail sector.
- The employment growth in Ratings, Construction and non-ferrous sectors has been backed by a robust double-digit sales growth.

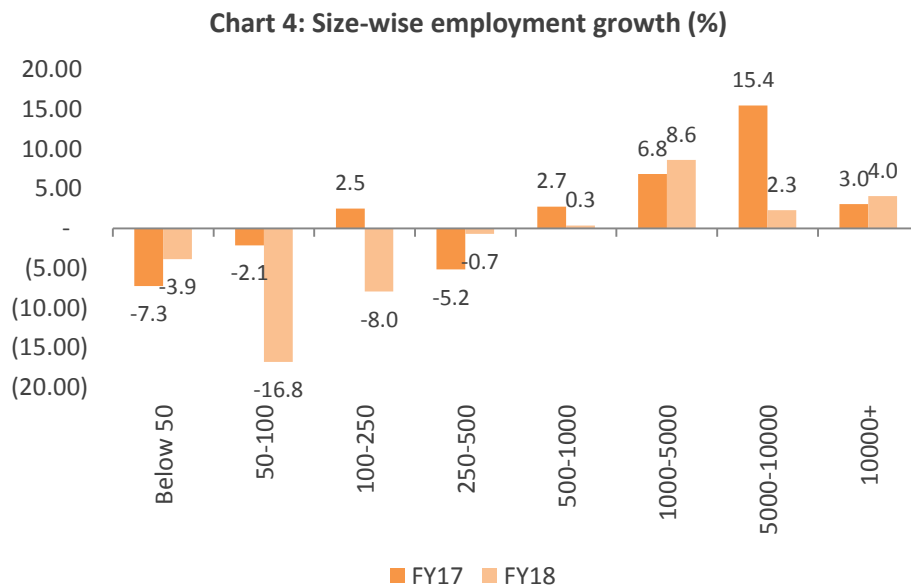
Size-wise Analysis

Chart 4 captures the employment growth based on the size of the company for FY18. The companies have been divided into eight categories and the number of companies falling in the respective category as on FY18 has been presented in Table 4.

Table 4: Classification of companies based on net sales (Rs. crs)

Size	Nos
Below 50	338
50-100	132
100-250	232
250-500	220
500-1000	178
1000-5000	346
5000-10000	75
10000+	89
Total	1610

Source: CARE Ratings



Source: CARE Ratings

The above chart highlights the following points:

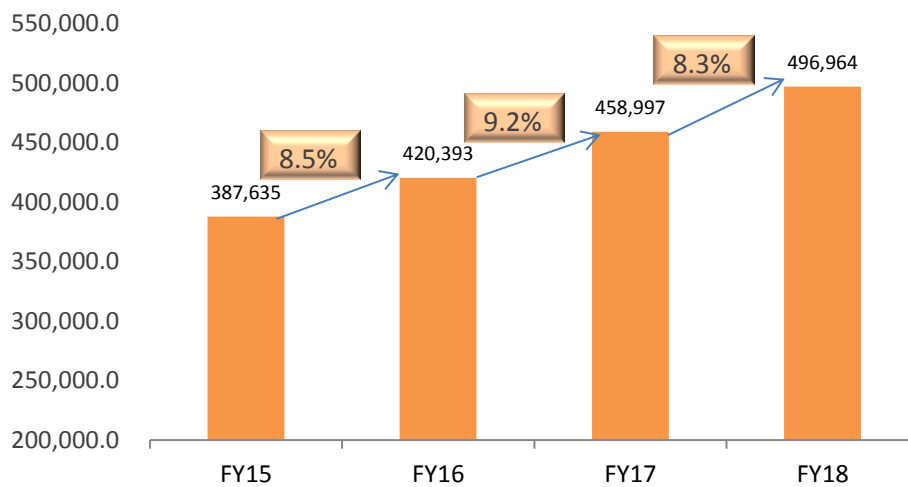
- On an average, there has been positive employment growth during FY18 among large companies having net sales of Rs 500 crs and above. Companies having net sales below Rs. 500 crs have witnessed negative employment growth during FY18.
- Companies having net sales of below Rs. 50 crs, Rs 50-100 crs and Rs. 250 – 500 crs have witnessed negative employment growth during the previous 2 years (FY17 and FY18).

- There has been a higher employment growth in FY18 over FY17 in companies having net sales above Rs. 10,000 crs and between Rs. 1,000-5,000 crs.
- Companies having net sales between Rs 5,000 -10,000 crs witnessed a sharp decline in employment growth at 2.3% in FY18 over a robust growth of 15.4% in FY17.

Employee cost

Along with the understanding on the employment data for the above sample, it is interesting to find out the employee cost for the same set of companies. Chart 5 shows the total employee cost (as disclosed on the face of the profit and loss account) for the previous four years from FY15 to FY18. Data shows that on the whole there has been a sustained increase in the total salary cost for these sample companies during the last four years. The moderation in employee cost at 8.3% in FY18 is over a higher growth in salary cost at 9.2% in FY17. The total employee cost witnessed a CAGR of 8.3% during FY15-FY18.

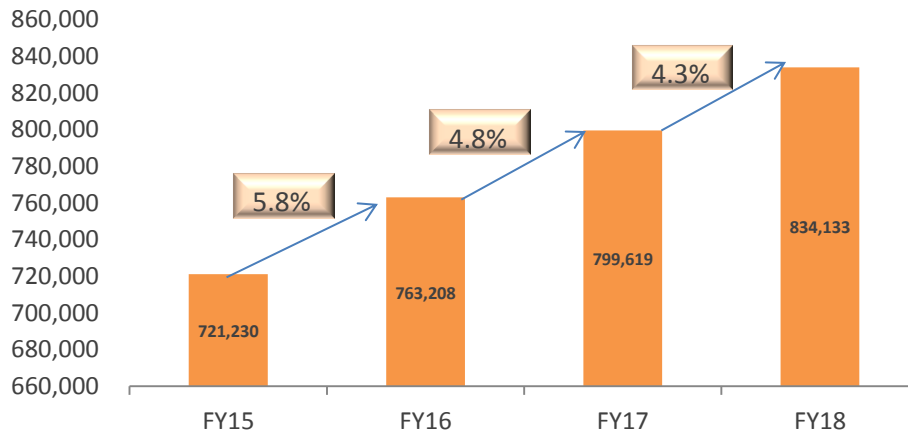
Chart 5: Total employee cost (Rs. lakh crs) and growth during last 4 years (%)



Source: CARE Ratings

The average employee cost for the 1610 companies has grown from Rs. 7.2 lakhs in FY15 to Rs. 8.3 lakhs in FY18, witnessing a CAGR of 5.0% during the given period. Chart 6 displays the growth in the average cost during the last 4 years. There has been a moderation in average employee cost growth during FY18 at 4.3% over the growth at 4.8% in FY17.

Chart 6: Average Employee cost (Rs. lakhs) and growth during FY15-FY18

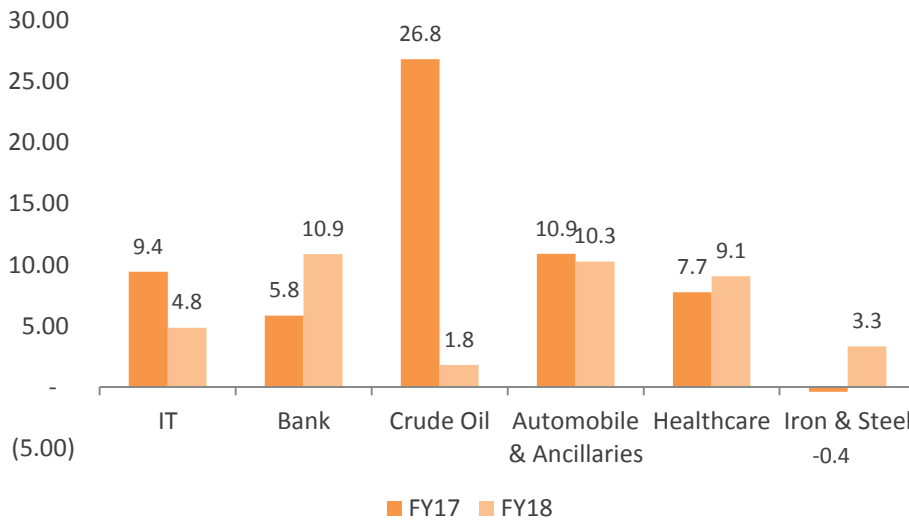


Source: CARE Ratings

Sector-wise analysis of Employee cost

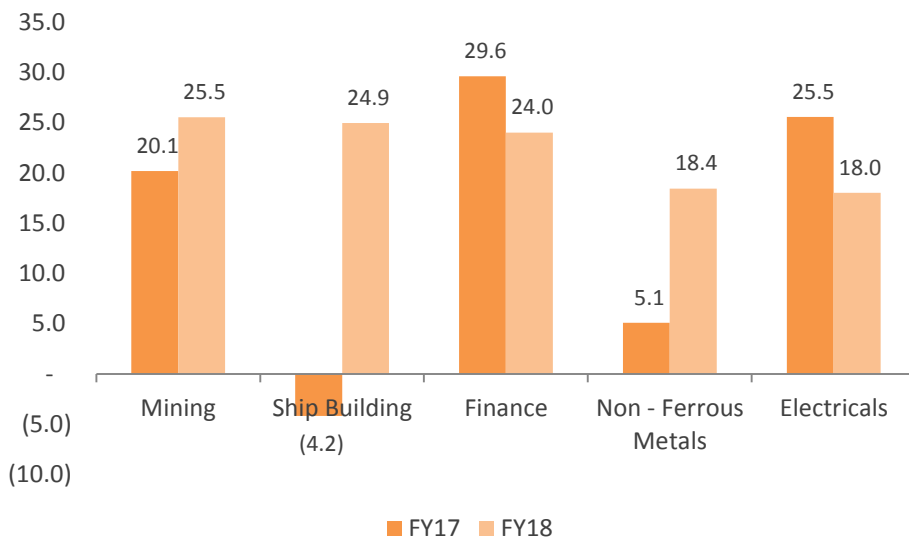
Chart 7 and Chart 8 summarises the sector wise growth in the employment cost during FY17 and FY18 compared with previous year. For better presentation, Chart 7 depicts the growth in the employment cost in the top 6 sectors which have the largest employment while chart 8 depicts the top 5 sectors which has witnessed the fastest growth in the employment cost in FY18.

Chart 7: Growth in employment cost of the top-6 sectors having the largest employment (%)



Source: CARE Ratings

Chart 8: Growth in employment cost of the sectors witnessing fastest growth (%)



Source: CARE Ratings

The above 2 charts summarises the following pointers:

- None of the sectors covered in Chart 7 (employing the largest number of people) have witnessed the fastest employee cost growth in FY18.
- Top-6 largest employing sectors have witnessed positive growth in employment cost in FY18. Sectors like banks, automobiles and iron & steel have witnessed higher growth in employment cost in FY18 over FY17.
- Crude oil sector witnessed the sharpest moderation in the growth in employment cost from 26.8% in FY17 to 1.8% in FY18.
- Out of the 5 sectors studied in Chart 8, 4 sectors which have witnessed double-digit growth in the employee cost are part of the manufacturing segment, while only 1 sector is in the services segment.
- There are 4 sectors namely telecom (-3.3%), paper (-4.0%), photographic products (-8.7%) and education & training (-14.6%) which has witnessed a negative growth in FY18. It is interesting to note that telecom, photographic products and education & training has witnessed a negative growth in employee cost in FY17 as well.

Sector-wise average employee cost

The above two charts (Chart 7 and Chart 8) summarised the movement of the total employee cost across various sectors. The following analysis covered in Table 5 and Chart 9 provides the particulars of the average employee cost across different sectors. The following numbers need to be read with caution as the average employee cost calculated includes the managerial remuneration and staff welfare expenses. The average employee cost calculated for each sector is based on the total employee cost of the respective sector during a given financial year divided by the total permanent employees in the given sector.

Table 5 analyses the average employee cost for all the sectors during the financial year FY18. For better presentation, the sectors have been grouped under various salary bracket based on the average employee cost.

Table 5: Frequency distribution of the sector-wise average employee cost (Rs. lakhs)

Average Employee Cost Categories	Sectors
Below Rs. 2.5 lakhs	No of sectors: 3 Mining (0.7), Agri (2.2), Textile (2.5)
Rs. 2.5 – Rs. 5 lakhs	No of sectors: 5 Education (3.4), Retail (3.4), Plastic (3.9), Finance (4.3), Photographic (4.9)
Rs. 5 – Rs. 7.5 lakhs	No of sectors: 8 Hospitality (5.6), Healthcare (5.8), Paper (5.8), Logistics (5.8), Diamond (5.9), Media (5.9), Ferro Manganese (6.6), FMCG (7.3)
Rs. 7.5 – Rs. 10 lakhs	No of sectors: 8 Electricals (7.5), Construction (7.8), Non-ferrous (8.3), Realty (8.5), Abrasives (8.7), Automobile (8.7), Telecom (9.4), Bank (9.9)
Rs. 10-Rs. 12.5 lakhs	No of sectors: 7 Chemical (10.1), Infrastructure (10.1), Iron & Steel (10.3), Trading (10.6), Consumer Durables (11.4), Capital goods (11.8), IT (12.4)
Rs. 12.5 lakhs +	No of sectors: 8 Alcohol (13.2), Gas Transmission (15.1), Ship Building (15.2), Ratings (16.8), Power (17.3), Aviation (18.1), Industrial Gases & Fuel (26.7), Crude oil (27.2)

Source: CARE Ratings

* Figures in brackets in Rs. lakhs

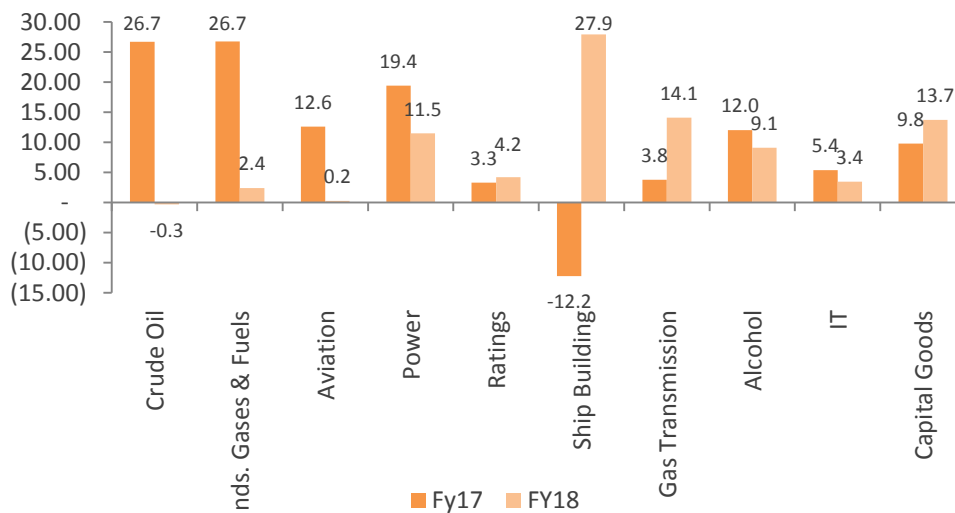
It is interesting to note that there are 10 out of 15 sectors in the average employee cost bracket of Rs. 10 lakhs and above falling within the manufacturing segment. The manufacturing segments has approx. 60% of their total expenses disbursed on raw material consumption, leaving a smaller proportion to be expended on other expenses including the salary bill. Despite employee cost contributing to be the highest expenses in the services segment, there are only 5 sectors (Trading, IT, Gas Transmission, Aviation and Ratings) having one of the highest average employee cost. The reasoning behind the sectors within the services segment not having the highest average employee cost could be that these sectors employing a large number of employees (as studied in Chart 3).

Chart 9 compares the growth in the average employee cost in FY17 and FY18 for the top -10 sectors having the highest average employee cost.

Key pointers from the analysis of the average employee cost across sectors are:

- There are 26 out of the 39 sectors which have witnessed a growth in the average employee cost more than the growth in the average employee cost taking all sectors together. The growth in the average employee cost on an overall basis (as studied in Chart 6) is 4.3% in FY18

Chart 9: Annual growth in average employee cost (%)



Source: CARE Ratings

- It was observed that 21 out of the 39 sectors had witnessed a positive growth in the average employee cost in FY18 over the growth witnessed in FY17
- The top 3 sectors having the highest average employee cost (Crude oil, Industrial gases and fuels and aviation) have witnessed a sharp decline in the growth in the average employee cost in FY18 over FY17. This is following a higher growth in the average employee cost witnessed in FY17.
- Only 2 sectors namely crude oil (-0.3%) and education & training (-9.8%) witnessed a contraction in average employee cost in FY18.
- Mining (30.3%), Ship-building (27.9%) and Logistics (17.3%) witnessed the highest growth in the per employee expenditure in FY18. A total of 14 sectors witnessed double-digit growth in FY18.

Concluding Remarks

- There has been a moderation in the overall employment growth in FY18 over FY17. However, the employment growth of 3.8% in FY18 for the samples covered has been much slower than the 6.7% economic growth achieved in FY18, reflective of the proposition that higher economic growth is weakly translating into higher job creation.
- The decline in employment growth rate can be attributed to there being a larger number of companies having witnessed lower or negative employment growth in FY18 over FY17 relative to the companies witnessing higher employment growth.
- In addition, more than 50% of the companies have either witnessed a negative employment growth or unchanged growth in FY18.
- There are only 8 sectors which have witnessed a higher employment growth in FY18 than the overall average employment growth of 3.8% in FY18. These sectors are namely: Finance (14%), Retail (13.1%), Construction (9.6%), Infrastructure (9%), Ratings (8%), Bank (6.6%), Non-ferrous (5.1%), Plastic products (4.5%).
- On juxtaposing the sales growth with employment growth, we can conclude that there are many sectors in which sales growth has not led to a corresponding growth in employment.
- The large size companies (having net sales of Rs. 500 crs and above) have witnessed positive employment growth in FY18. The companies having net sales of below Rs 500 crs (Below Rs 50 crs, Rs 50-100 crs, Rs. 100-200 crs, Rs. 250-500 crs) have witnessed contraction in employment growth. On an average, companies having net sales of Rs. 1000 – 5000 crs and above Rs. 10000 crs have witnessed a higher growth in FY18 over FY17.
- In FY18, the growth in total employee cost (8.3%) and average employee cost (4.3%) has been higher than the growth in the total permanent employees. However, just like growth in total permanent employees has seen a moderation in FY18 over FY17, both (employee cost and average employee cost) also witnessed a moderation in FY18 over FY17.
- There are 20 out of the 39 sectors which have witnessed double digit growth in total employment cost in FY18. Top-6 largest employing sectors have witnessed positive growth in employment cost in FY18. Sectors namely banks, automobiles and iron & steel have witnessed higher growth in employment cost in FY18 over FY17.
- There are 4 sectors which witnessed a negative growth in total employee cost in FY18 namely Telecom (3.3%), Paper (4.0%), Photographic (8.7%), Education & Training (14.6%)
- It was observed that 21 out of the 39 sectors had witnessed a positive growth in the average employee cost in FY18 over the growth witnessed in FY17.

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