Corporate Performance: Q3-FY18 – Industry Analysis – Part III

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Note: The following study includes analysis of company's performance that announced results on or before February 15, 2018.

The performance of a sample of 2,885 companies in Q3 FY18 over the last year (Q3 FY17) reveals a subdued performance picture, with both net sales and net profits showing slower growth during the quarter vis-à-vis Q3 FY17. Net sales growth slowed down to 8.7% in Q3 FY18 after registering a growth of over 14% in Q3 FY17. Also, net profit registered a much slower growth of about 3% in FY18. However, the Indian economy is slowly picking momentum leaving behind the demonetization and GST implementation issues that hampered industry performance in Q4 FY17 and followed till Q2 FY18.

Usually, the overall performance gets skewed to an extent due to the performance of banks, oil companies and refineries, IT and finance which are guided by other exogenous factors. Banks have been affected by NPA recognition and provisioning which finally affects profits growth. Refinery/oil companies get affected by the international price of crude oil and drastic changes in the last couple of quarters has swung growth in net sales and net profits. IT companies tend to get affected by global factors and carry almost negligible leverage while finance companies, by virtue of their operations are distinct from other services segments.

However, in Q3 FY18, after excluding the banks, IT, oil exploration & refinery and finance companies, the performance of industry depicts almost similar trend as that of the aggregate sample. For analysis purposes, these industries have been excluded sequentially in Table 2 to provide a disaggregated picture.

Tables 1 & 2 provide an overview of the same.

- For the aggregate sample, growth in sales has slowed down from 14.1% to 8.7% and net profits have registered only marginal growth compared with last year. Excluding banks/finance/IT/oil exploration & refineries the growth in sales was lower at 7.6% compared with 11.2% last year.

- Excluding banks, IT, oil & refinery and finance, the growth in net profits remained lower in Q3 FY18 at 16.7% from 31.9% growth in Q3 FY17.
- In terms of movement in net profit margin there has been a decline to 6.4% vis-à-vis 6.7% registered last year. Excluding banks, IT, oil exploration & refinery and finance, margins increased by about 40 basis points to 5.7% in Q3 FY18. (Tables 1 and 2).

Table 1: Aggregate performance (all companies)

Q3	Rs crore			Growth (%)	
2,885 companies	**FY16**	**FY17**	**FY18**	**FY17**	**FY18**
Net sales	1,268,008	1,446,860	1,572,340	14.1	8.7
Net profits	68,921	97,542	100,428	41.5	3.0
Net profit margin (%)	5.4	6.7	6.4		

Source: AceEquity

Table 2: Industry performance – Excluding banks, IT, oil exploration & refineries and finance (%)

Minus banks, IT, refineries, Finance	Rs crore			Growth (%)	
2,205 companies	**FY16**	**FY17**	**FY18**	**FY17**	**FY18**
Net sales	669,826	744,796	801,501	11.2	7.6
Net profits	29,775	39,288	45,864	31.9	16.7
Net profit margin (%)	4.4	5.3	5.7		

Source: AceEquity

Interest cover

Interest cover (ratio of PBDIT/interest) has been calculated for the sample of 2,205 companies (excluding banks, IT, oil exploration & refinery and finance). *The interest cover improved in Q3 FY18 to 3.9 times from 3.5 times in Q3 FY17.*

Conclusion:

- Last year in Q3 FY17, despite demonetization, industry (excluding banks, IT, oil exploration & refinery and finance companies) was able to report 11.2% y-o-y growth during the third quarter. However, post December the aggregate performance of companies had 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 in Q1 and Q2 FY18.
- However, industry is expected to take some time before it reaches the pre-demonetization levels in terms of sales growth once the GST disruption settles.

Industry wise analysis

The table below provides information on industry wise performance of 50 sectors. The indicators included are net sales and net profit growth for the two quarters.

Table 3: Growth in Net Sales in Q3 (%)

Industry	No of companies	FY17	FY18
Consumer Goods (Non-discretionary)	**244**	**7.3**	**5.7**
Consumer foods	62	11.0	11.7
Sugar	27	20.5	8.0
Tea/Coffee	16	-1.3	11.0
Pharmaceuticals & drugs	116	5.2	2.2
Household & Personal products	23	4.4	5.4
Consumer Goods (Discretionary)	**141**	**-5.3**	**-4.4**
Textiles	123	-3.5	1.4
Consumer Durables-Domestic Appliances	13	3.9	8.0
Consumer Durables-Electronics	5	-24.3	-57.9
Automobiles & Related	**95**	**13.8**	**11.9**
Passenger Cars	2	19.8	-0.8
Tractors	2	18.8	11.0
Two & Three Wheelers	6	4.5	11.3
Auto Trucks/LCVs	4	7.3	42.2
Tyres & allied services	7	14.7	7.9
Auto Ancillary	74	20.5	7.8
Capital Goods	**254**	**6.5**	**5.1**
Engineering-Industrial Equipment	96	8.6	6.3
Electronics -Components	18	4.0	-23.8
Electrodes & welding Equipment	10	13.4	128.8
Electric Equipment	41	21.2	-5.4
IT-Hardware	9	4.7	-12.4
Engineering Construction	69	0.0	5.5
Telecom Equipment	11	9.4	30.2
Metals	**108**	**39.2**	**16.0**
Steel & Iron products	75	43.2	14.9
Aluminium & aluminium products	11	19.0	19.2
Metals - Non-ferrous	20	32.4	18.5
Metals - Ferrous	2	-26.9	-56.9
Construction/Real Estate	**161**	**9.2**	**7.1**
Cement	38	12.2	7.6
Ceramics/Marble/Granite/Sanitary ware	26	5.3	1.8
Construction - Real Estate	97	4.0	7.4
Banking	**38**	**2.6**	**6.7**

Banks - Public	21	-0.6	5.5
Banks - Private	17	10.9	9.3
Finance	**252**	**16.2**	**16.5**
Housing Finance	14	18.5	11.5
Finance - NBFC	238	13.6	22.3
Services	**215**	**2.2**	**-1.5**
Hospitals & Healthcare Services	21	14.4	13.1
Retailing	14	-11.3	7.1
IT- Software	132	7.3	3.8
Telecommunications - Service Providers	9	-5.1	-19.1
Hotels, Resorts & Restaurants	39	4.3	4.2
Oil/Refinery/Mining	**26**	**33.8**	**12.4**
Mining & minerals	10	72.1	5.3
Refineries	6	35.5	12.3
Oil Exploration	10	9.7	14.3
Others	**225**	**3.1**	**5.5**
Pesticides & Agrochemicals	21	20.0	3.3
Fertilizers	21	-17.8	14.9
Dyes & pigments	16	11.6	8.2
Paper & Paper products	39	18.5	14.4
Diamond & Jewellery	22	17.2	-16.8
Rubber products	8	-0.3	-0.4
Plastic products	79	-2.3	10.1
Paints Total	5	14.7	-1.4
Industrial Gases & Fuels	14	3.6	18.6

Source: AceEquity, CARE Ratings

- Of the 50 industries considered here, 40 industries have witnessed positive growth in sales in Q3 FY18. Some of the leading industries were consumer goods, consumer durables – domestic appliances, automobiles, metals, construction/real estate, banking and finance – NBFCs and Housing, Hospitals and Hotels, Oil exploration, fertilizers, paper & paper products, industrial gases and fuels, etc.
- 10 industries witnessed negative y-o-y growth in net sales of Q2 FY18 with significant declines witnessed in electronic components and electric equipment, IT hardware, metals – ferrous, diamond & jewellery and telecom service providers. Rubber products and paints industry was also marginally down.

Conclusions

- Sales in industries related to households where demand is inelastic remained largely stable with nominal slowdown.
- Pharmaceuticals and drugs registered marginal slowdown while household & personal products witnessed an increase in sales y-o-y during Q3 FY18.
- Consumer industries like textiles and consumer durables which get extended to auto segment witnessed an improvement on back of release of pent up demand from the previous quarters along with festival demand.

- Services like telecom service providers were affected most perceptibly on back of price wars among telecom players led to a decline in sales during the quarter. Growth in construction/real estate related activities registered y-o-y growth as marginal signs of improvement in demand was seen. The banking and finance companies (both housing finance and NBFCs) also did well.

Table 4 provides information on growth in net profit for various industry groups classified under specified headings.

Table 4: Net Profit Q3

Industry	No of companies	Net Profit (Rs Crore)			Growth in Net Profit (%)	
		FY16	FY17	FY18	FY17	FY18
Consumer Goods (Non-discretionary)	**244**	**6,744**	**8,122**	**7,669**	**20.4**	**-5.6**
Consumer foods	62	815	899	1,268	10.2	41.1
Sugar	27	(109)	627	(145)	*	*
Tea/Coffee	16	164	170	339	3.2	99.7
Pharmaceuticals & drugs	116	4,111	4,376	3,876	6.4	-11.4
Household & Personal products	23	1,762	2,051	2,331	16.4	**13.7**
Consumer Goods (Discretionary)	**141**	**(1,386)**	**(784)**	**(5,165)**	**-43.4**	*
Textiles	123	(1,507)	(479)	(4,255)	*	*
Consumer Durables-Domestic Appliances	13	202	153	300	-24.4	96.1
Consumer Durables-Electronics	5	(82)	(458)	(1,211)	-	-
Automobiles & Related	**95**	**6,059**	**6,051**	**8,116**	**-0.1**	**34.1**
Passenger Cars	2	2,017	2,828	3,015	40.2	6.6
Tractors	2	43	66	123	52.2	86.3
Two & Three Wheelers	6	2,153	2,256	2,390	4.8	5.9
Auto Trucks/LCVs	4	103	(858)	638	*	*
Tyres & allied services	7	938	866	887	-7.7	2.4
Auto Ancillary	74	804	893	1,064	11.0	19.2
Capital Goods	**254**	**-165**	**952**	**1,968**	*	**106.8**
Engineering-Industrial Equipment	96	(517)	814	835	*	2.5
Electronics-Components	18	(38)	(13)	2	-65.7	*
Electrodes & welding Equipment	10	48	36	707	-26.7	1,890.3
Electric Equipment	41	643	1,075	740	67.0	-31.1
IT-Hardware	9	1	(4)	3	*	*
Engineering Construction	69	(248)	(657)	(479)	165.0	-27.1
Telecom Equipment	11	(56)	(299)	160	434.7	*

Metals	**108**	**-5,353**	**1,728**	**4,009**	*	**132.0**
Steel & Iron products	75	(8,297)	(1,172)	(126)	*	*
Aluminium & aluminium products	11	145	149	738	2.7	393.9
Metals - Non-ferrous	20	2,787	2,739	3,396	-1.7	24.0
Metals - Ferrous	2	11	11	2	2.7	-84.4
Construction/Real Estate	**161**	**997**	**1,087**	**1,476**	**9.0**	**35.8**
Cement	38	260	137	1,228	-47.4	*
Ceramics/Marble/Granite/Sanitary ware	26	130	135	115	3.9	-14.7
Construction - Real Estate	97	607	815	133	34.3	-83.7
Banking	**38**	**312**	**10,569**	**-6,943**	*	*
Banks - Public	21	(11,230)	598	(18,097)	*	*
Banks - Private	17	11,541	9,971	11,154	-13.6	11.9
Finance	**252**	**5,385**	**6,052**	**12,028**	**12.4**	**98.7**
Housing Finance	14	2,987	3,540	8,025	18.5	126.7
Finance - NBFC	238	2,397	2,512	4,003	4.8	59.3
Services	**215**	**15,457**	**16,596**	**16,516**	**7.4**	**-0.5**
Hospitals & Healthcare Services	21	212	143	159	-32.5	10.7
Retailing	14	449	187	(171)	-58.3	*
IT- Software	132	14,320	15,683	18,334	9.5	16.9
Telecommunications - Service Providers	9	263	439	(1,963)	66.7	*
Hotels, Resorts & Restaurants	39	212	143	159	-32.5	10.7
Oil/Refinery/Mining	**26**	**16,361**	**22,333**	**28,736**	**36.5**	**28.7**
Mining & minerals	10	1,121	697	1,210	-37.8	73.6
Refineries	6	13,291	16,737	21,787	25.9	30.2
Oil Exploration	10	1,948	4,899	5,740	151.4	**17.2**
Others	**225**	**3,298**	**4,224**	**5,505**	**28.1**	**30.3**
Pesticides & Agrochemicals	21	-7.17	116.96	380.39	*	225.2
Fertilizers	21	486.10	701.55	1085.93	44.3	54.8
Dyes & pigments	16	46.14	73.43	95.02	59.2	**29.4**
Paper & Paper products	39	118.43	218.87	253.50	84.8	**15.8**
Diamond & Jewellery	22	567.77	499.56	428.19	-12.0	-14.3
Rubber products	8	26.55	19.49	17.32	-26.6	-11.2
Plastic products	79	418.51	343.83	432.46	-17.8	25.8
Paints Total	5	684.32	712.79	838.83	4.2	17.7
Industrial Gases & Fuels	14	957	1,538	1,973	60.7	28.3

*Note: values marked as * cannot be considered due to high +/- impact*

Source: AceEquity, CARE Ratings

- 8 industries namely telecom service providers, retailing, textiles, consumer electronics, sugar, steel & iron products, engineering construction and PSBs reported net loss during the quarter
- 31 industries registered positive growth in Q3 FY18 out of which 5 industries witnessed growth lower than that in the comparable period last year while the rest posted y-o-y higher profits in Q2 FY18.
- 8 industries registered y-o-y decline in net profits during the quarter. Maximum decline was witnessed in engineering construction, construction real estate, diamond & jewellery, rubber products, ferrous metals, ceramics, etc. Profitability of services like telecom service providers and hospitals were also impacted.

Below mentioned are various factors contributing to the growth and de-growth in sales and profit for the third quarter of this financial year

- **Cement:**
  - Cement industry registered growth in sales during Q3 FY18 on back of **pick-up in volumes on account of increased demand due to Pradhan Mantri Awaas Yojana (PMAY), smart cities and infrastructure push by the government** in the last two quarters.
  - In terms of profits, the industry witnessed a mixed performance.

- **Automobiles:**
  - Auto industry has recovered post the various policy implementations during the year namely - BS-III vehicles ban, GST implementation and rate revisions, and has managed to post healthy sales in Q3 FY18 on back of **on back of near normal monsoon in most parts of the country and increased farm activities and higher farm incomes.**
    - Tractor segment has benefitted from this during the quarter.
  - Commercial vehicles – trucks-M&HCVs/LCVs segment has witnessed strong y-o-y sales on back of infrastructure related policy announcements by government in the last two quarters.
  - **With launch of new models** in Passenger vehicles and Two wheeler segments, demand has been continuously rising in the country.
    - Also exports registered witnessed strong sales during the quarter for all segments.
  - Industry registered higher profits during the quarter that can be attributed to healthy sales booked coupled with lower expenses.

- **Household & personal products:**
  - The demand for the industry being non-discretionary, the industry sales registered growth **led by volumes** during the quarter.
  - **With tax incidence on various products coming down post GST, many players passed on the benefits to consumers by offering discounts and various schemes to maintain the volume sold**.
  - Profits grew by about 13.5% in Q3 FY18, marginally lower than that in Q3 FY17.

- **Pharmaceuticals and drugs:**
  - Sales registered growth, however lower than Q3 FY17 as the industry continues to witness regulatory challenges in the US market.
  - However, profits registered y-o-y decline of over 11% on back of **increased competition and price erosion in the US generic market** during the quarter.

- **Non-ferrous metals:**

- Sales have registered a growth of about 20% y-o-y in Q3 FY18 on back of robust monetary policy of the government brightening the demand supply dynamics in the country aided by improved demand from construction, power and automobile sectors.
- Global aluminium and copper prices increased by about 23% and 29% respectively during the quarter.
- With higher realizations and lower input costs, the industry has registered double-digit growth in profits during the quarter.

- **Fertilizers:**
  - Sales registered positive growth of about 15% in Q3 FY18 vis-à-vis a decline of about 18% in Q3 FY17 **on back of increased capacities leading to higher production and sales**.
  - **Led by higher operational efficiencies along with lower finance costs and additional subsidy disbursement by government,** profits recorded a sharp double-digit growth in the quarter.
  - More states have been added in the Direct Benefit Transfer (DBT) perview on a pilot basis which has helped bring down the working capital pressure faced by the players due to delayed subsidy payouts by the government.

- **Steel & iron:**
  - The industry's performance registered growth, however lower than Q3 FY17 on sales front on a y-o-y basis backed by **higher volumes and realisations**.
  - Also, cost-control initiatives by a top player supported the industry's performance during the quarter.
  - **Out of the companies that declared results, top 5 players (accounting for about 75% of the market) have registered a cumulative sales growth of over 14% y-o-y in Q3 2018.**

- **Textiles:**
  - Textiles sales during the quarter improved marginally vis-à-vis a decline posted in the corresponding period last year led by **slight improvement in demand that led to pick up in volumes.**
  - However, sharp appreciation in rupee and reduced duty drawback during the quarter led to slower movement in profits booked.
  - Out of the companies that declared results, one company has registered huge loss of Rs 4,745 crores in Q3 FY18 as against Rs 800 crores in Q3 FY17 impacting the performance of the industry.

- **Construction**:
  - Industry has witnessed a higher growth of 7.4% in Q3 FY18 over a growth of 4% in Q3 FY17 on back of **improved orders from the government** and movement of more projects to execution stage during the quarter.
  - Profits however, remained in the negative territory for the industry.

- **Sugar:**
  - Sugar industry witnessed a slower growth in net sales during the quarter vis-à-vis Q3 FY17. Also, **subdued sugar prices on account of higher production** are believed to have affected the industry's operating performance.
  - Average small grade **sugar prices in Mumbai declined by 1.9% on ay-o-y basis** in the quarter.

- **Telecom:**
  - Industry was affected by **price wars among players** leading to double-digit decline in the sales during Q3 FY18.
  - Apart from this, a reduction in Interconnection Usage Charges (IUC) to 6 paise per minute from 14 paise per minute also impacted the industry's performance.

- **Paints:**
  - Sales declined marginally during the quarter on back of **slower recovery in demand post GST implementation** vis-à-vis last year season.
  - However, profits have registered a double-digit growth of about 18%.

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