

Corporate Performance: Q1 FY14

Overview:

A study of the performance of 1,248 companies showed that net sales increased by 5.4% in Q1 FY14 as against 17.5% in the previous year while net profit increased by 7.2% compared with a growth of 0.6% in Q1 FY13. Lower growth in costs, especially of raw materials and slowdown in growth in interest costs did assist in pushing up profits. Net profit margin remained virtually unchanged at 10.1%.

Tables 1 give information on the financial performance for the first quarter FY13 and FY14.

Table 1: Summary Performance of 1,248 companies

Growth (%)	Q1 FY13	Q1 FY14
Net Sales	17.5	5.4
Other Income	14.3	22.6
Total Income	17.4	6.3
Total Expenses	18.1	3.5
Raw Material Expenses	16.3	-4.2
Salaries and Wages	17.6	15.5
Interest Expenses	29.4	10.2
Depreciation	9.3	13.0
Profit before tax	0.4	8.7
Taxes	-0.2	13.4
Net Profit	0.6	7.2
Ratio (%)		
PBT Margin	13.3	13.7
Net Profit Margin	10.0	10.1
Interest cover	1.7	1.7

Source: ACE Equity

The overall performance of the companies can be attributed to the following factors:

- Net sales registered a growth of 5.4% in Q1 FY14 compared with 17.5% in the previous year. The decline in growth rate of sales could be attributed to the low industrial production numbers with slack conditions in the economy. Industrial production grew by 0.1% in April – May FY14 as against 0.6% last year. Growth in the core industries, which account for 37.9% of IIP, witnessed slower growth of 1.6% in Q1 FY14 as against 6.9% growth in Q1 FY13 indicating lower production activity in the quarter gone by.
- Total expenses grew by 3.5% in Q1 FY14 as against 18.1% in the corresponding period last year.

- The growth in raw materials expenses (constitutes around 48% of total expenditure) entered the negative territory (-4.2%). This is mainly because of decline in the average inflation from 7.5% in Q1 FY13 to 4.8% in Q1 FY14, thereby bringing down the nominal value of raw materials purchases. Also, the core inflation declined from 6.0% in Q1 FY13 to 3.2% in Q1 FY14. Quite clearly the impact of rupee depreciation in May and June has not affected the performance this quarter.
- Salaries and wages, which comprise around 13% of total expenditure, saw a decline in the growth rate from 17.6% in Q1 FY13 to 15.5% in Q1 FY14.
- Interest expenses saw a drastic decline. The growth in the same declined from 29.4% in Q1 FY13 to 10.2% in Q1 FY14. Growth in bank credit witnessed a decline from 3.3% in Q1 FY13 to 2.9% in Q1 FY14. Lower interest expenses growth was more on account of lower off take in credit. Additionally to the extent that banks lowered interest rates, as seen by the base rate coming down from average of 10.36% in Q1 FY13 to 10.09% in Q1 FY14, there were savings in growth in interest costs.
- Net profit margin, defined by net profit to sales ratio remained virtually unchanged at 10.1%.
- However, Interest cover, defined by PBIT to interest expenses ratio remained stable at 1.7 times

Size Wise Analysis

A break down according to size would throw light on whether or not the performance has been even across different size groups. Table 2 below gives the composition of the sample companies based on the net sales in Q1 FY14. Also, the share of each size group is given in terms of net sales in Q1 FY14.

Table 2: Sample Profile by size according to net sales

Size Range (Rs crore)	No	Growth Net Sales (%)	Growth Net profit (%)	Share (%)
Above 1,000	119	5.6	11.3	81.2
500-1,000	73	9.0	27.6	7.8
100-500	247	2.6	-17.8	8.8
50-100	121	1.2	-14.1	1.3
Less than 50	688	-7.4	-22.1	0.9

Source: ACE Equity

Some interesting observations that emerge from this table are:

- The top 119 companies each having sales of over Rs 1,000 crore, account for 81.2% of total sales of the sector have a growth of 5.6% in net sales.
- Highest growth in net sales (9.0%) is registered by companies with sales of between Rs 500 crore – Rs 1000 crore. The growth in sales for the lower sized groups (sales of Rs 50 -100 crore and less than Rs 50 crore) stood at 1.2% and -7.4%.
- Growth in net profit was largely dominated by the 192 companies having sales above 500 crore.

- Net Profit for companies with sales between Rs 500 crore – Rs 1000 crore grew by 27.6%, followed by companies with sales of more than Rs 1000 crore (11.3%)
- Companies with sales of less than Rs 500 crore registered negative growth in profits

Industry Wise Analysis

- Growth in net sales improved in case of;
 - Air conditioners
 - Ceramics & Sanitary ware
 - Electronics
 - Packaging
 - Paints
 - Pesticides
 - Printing
 - Tea/Coffee
 - Telecom
 - Textiles
- Negative sales growth was witnessed in case of;
 - Abrasives
 - Auto ancillary
 - Automobiles
 - Bearings
 - Casting/Forging
 - Cement & Construction Activities
 - Chemicals
 - Diesel engine
 - Diversified
 - Electric Equipments
 - Electrodes
 - Fertilizers
 - Metals
 - Mining & Minerals
 - Steel & Iron
 - Sugar
- **Fourteen industry groups witnessed an improvement in net profit growth;** Auto Ancillary, Cable, Chemicals, Consumer Durables, Electronics, Financial Services, Glass, IT, Metals, Paper, Plastic, Power Generation, Printing and Tea/Coffee
- **Net profit margin** defined as a ratio of profits to net sales was unchanged at 10.1% for Q1 FY14

- **Industries that showed improvement in profit margins were:** Auto Ancillary (6.1% to 6.7%), Cables (3.3% to 4.2%), Chemicals (5.5% to 5.9%), Consumer Durables (4.8% to 5.1%), Diesel Engines (13.0% to 13.8%), Financial Services (18.4% to 18.6%), Glass (4.0% to 5.5%), IT (20.5% to 21.8%), Metals (21.6% to 42.7%), Packaging (0.2% to 1.8%), Paper (1.9% to 2.2%), Plastic (6.3% to 6.7%), Printing (11.0% to 11.8%), Tea/Coffee (6.0% to 7.6%), Textiles (1.4% to 3.7%) and Tyres & Allied (4.9% to 7.6%)
- **Interest cover** defined as sum of interest, provisions and net profit to interest payments remained steady at 1.7 times
 - **Industries witnessing improvement in interest cover were:** Abrasive (20.7 to 23.0), Auto Ancillary (8.3 to 10.1), Chemicals (3.9 to 4.1), Cable (2.3 to 2.5), Consumer Durables (6.0 to 7.2), Consumer Food (8.9 to 19.1), Diversified (0.7 to 1.2), Dyes & Pigment (8.9 to 11.6), Electronics (12.6 to 13.7), Glass (1.5 to 2.0), IT (33.8 to 49.3), Packaging (1.4 to 1.9), Paper (1.3 to 1.9), Pesticides (7.5 to 8.4), Printing (9.3 to 11.8), Tea/Coffee (4.6 to 6.0), Textiles (1.4 to 2.2), Tyres & Allied (4.6 to 7.1) and Wood & wood products (1.7 to 1.9)

Banking Sector:

The performance of 35 banking companies showed that net sales (all interest income) increased by 10.0% in Q1 FY14 as against 24.8% in the previous year. Interest expenses, grew at a lower rate of 8.5% (27.9). The growth in provisions and contingencies, which includes provisions for NPAs increased significantly by 48.2% (19.1%) in Q1 FY14. Net profit saw a decline in growth to 7.7% as against 22.3% in Q1 FY13. Consequently, net profit margin continued to be under pressure and declined to 11.2% as against 11.4% same period last year.

Average Gross NPAs and the Net NPAs increased to 3.24% (2.58%) and 1.91% (1.33%) respectively in Q1 FY14. More significantly, gross NPA has increased by Rs 43,057 crore resulting in a growth rate of 43.6% in Q1 FY14. The high growth in NPAs may be attributed to lower economic conditions as well as negative growth in profits of the medium and smaller sized companies. The impact of the economic slowdown is getting reflected in the increase in NPAs. On the positive side, all the banks have maintained capital adequacy ratio of above 10%. 12 banks saw an increase in this ratio in FY13 when compared with last year.

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Annexure

Table 1: Growth in Net Sales and Net Profits

Industry	Growth %	No of Companies	Net Sales		Net Profit	
			Q1 FY14	Q1 FY13	Q1 FY14	Q1 FY13
Abrasives		3	-2.0	7.5	-12.4	-14.8
Air conditioners		3	14.2	10.4	7.5	45.4
Auto ancillary		33	-0.8	17.2	9.0	-8.5
Automobiles		6	-4.7	16.8	-2.4	-4.2
Bearings		7	-7.5	4.7	-20.6	-13.9
Breweries & Distilleries		4	5.5	7.0	-19.1	-0.2
Cable		6	0.6	37.9	26.5	15.9
Casting/Forging		12	-7.1	4.2	-75.8	*
Cement & Construction activities		18	-1.4	20.0	-30.9	34.6
Ceramics & Sanitary ware		11	22.8	14.6	-10.2	3.4
Chemicals		28	-6.8	16.4	0.1	-13.5
Real Estate		26	17.6	22.3	-32.0	24.8
Consumer Durables		10	8.3	13.5	14.1	-6.6
Consumer Food		22	14.0	18.1	12.6	23.3
Diamond & Jewelry		12	14.8	17.1	10.4	16.8
Diesel engine		5	-10.2	15.3	-4.4	-8.6
Diversified		10	-4.1	7.4	*	*
Dyes & Pigment		5	7.3	17.6	-3.1	38.8
Electric Equipments		6	-5.8	7.6	-31.6	-52.9
Electrodes & Welding equipment		4	-18.1	15.3	-49.9	33.1
Electronics		10	16.1	-1.3	26.6	-69.1
Engineering		36	4.1	16.6	2.1	3.9
Fertilizers		9	-0.8	-15.8	-42.4	-48.2
Finance		151	15.0	28.7	16.2	14.0
Glass		4	11.5	22.3	52.7	-54.4
Hotel		13	6.9	14.3	-18.3	-9.1
Gases & Fuels		5	18.7	52.5	-20.4	2.6
IT		72	18.0	25.5	25.2	19.5
Metals		6	-41.5	5.0	16.0	-23.0
Mining & Minerals		6	-60.7	-13.7	*	-51.8
Packaging		11	15.6	3.2	*	-97.7
Paints		3	11.8	7.8	2.0	8.4
Paper & Paper products		11	8.7	10.1	28.6	-70.6
Pesticides		11	19.9	14.6	8.8	41.9
Pharmaceuticals		37	12.8	15.7	-23.8	-19.7
Plastic		20	8.6	10.4	14.9	-23.0
Power Generation		14	3.5	14.8	4.1	-20.2
Printing		9	12.5	2.6	20.2	-13.8

Steel & Iron	22	-0.1	25.5	*	-76.6
Sugar	9	-19.6	20.4	*	-95.4
Tea/Coffee	8	33.6	10.5	69.0	-64.7
Telecom	8	12.9	9.6	-8.8	12.1
Textiles	81	17.1	7.5	*	23.1
Tyres & Allied	3	2.4	19.2	59.5	*
Wood & Wood Products	6	8.4	15.1	5.9	-53.7

*Unusually high growth rates (positive as well as negative)

Table 2: Net Profit Margin and Interest Cover Ratio

Industry	Growth %	No of Companies	Net Profit Margin		Interest Cover Ratio	
			Q1 FY14	Q1 FY13	Q1 FY14	Q1 FY13
Abrasives		3	9.2	10.3	23.0	20.7
Air conditioners		3	3.3	3.5	3.1	3.5
Auto ancillary		33	6.7	6.1	10.1	8.3
Automobiles		6	7.5	7.4	17.6	20.5
Bearings		7	7.4	8.7	24.4	36.0
Breweries & Distilleries		4	5.0	6.6	2.1	2.3
Cable		6	4.2	3.3	2.5	2.3
Casting/Forging		12	-1.8	-7.0	1.0	-0.4
Cement & Construction activities		18	9.2	13.1	6.0	8.8
Ceramics & Sanitary ware		11	4.4	6.1	3.2	3.3
Chemicals		28	5.9	5.5	4.1	3.9
Real Estate		26	15.7	27.2	2.4	6.6
Consumer Durables		10	5.1	4.8	7.2	6.0
Consumer Food		22	8.9	9.0	19.1	8.9
Diamond & Jewelry		12	3.8	3.9	6.5	8.4
Diesel engine		5	13.8	13.0	^	^
Diversified		10	0.7	-2.1	1.2	0.7
Dyes & Pigment		5	7.7	8.5	11.6	8.9
Electric Equipments		6	1.2	1.7	2.0	2.2
Electrodes & Welding equipment		4	5.6	9.1	40.0	^
Electronics		10	3.6	3.3	13.7	12.6
Engineering		36	6.6	6.7	2.9	3.3
Fertilizers		9	1.8	3.1	1.3	2.4
Finance		151	18.6	18.4	1.5	1.5
Glass		4	5.5	4.0	2.0	1.5
Hotel		13	6.6	8.7	4.6	6.4
Gases & Fuels		5	2.7	4.0	9.6	12.5
IT		72	21.8	20.5	49.3	33.8
Metals		6	42.7	21.6	8.6	11.9
Mining & Minerals		6	-10.0	21.4	0.2	5.7

Packaging	11	1.8	0.2	1.9	1.4
Paints	3	11.2	12.2	^	^
Paper & Paper products	11	2.2	1.9	1.9	1.3
Pesticides	11	9.8	10.8	8.4	7.5
Pharmaceuticals	37	8.1	12.1	3.4	6.5
Plastic	20	6.7	6.3	5.0	4.9
Power Generation	14	13.8	13.7	3.3	3.8
Printing	9	11.8	11.0	11.8	9.3
Steel & Iron	22	0.0	1.6	1.0	1.5
Sugar	9	-9.2	-0.2	-0.2	1.1
Tea/Coffee	8	7.6	6.0	6.0	4.6
Telecom	8	5.3	6.6	2.3	2.2
Textiles	81	3.7	1.4	2.2	1.4
Tyres & Allied	3	7.6	4.9	7.1	4.6
Wood & Wood Products	6	2.3	2.4	1.9	1.7

^ Unusually high numbers