

Corporate Performance: Q2 FY14

Overview:

A study of the performance of 2,010 companies showed that net sales increased by 10.2% in Q2 FY14 as against 14.3% in the previous year while net profits decreased by 20.0% (+66.3% last year). However, if 9 refineries/gas companies and 40 banks are excluded then net profits would decline by 3.4% as against growth of 24.6% in Q2 FY13. Net profit margins declined to 7.0% as against 9.6% in Q2 FY13 for 2,010 companies. However excluding the refining companies and banks, net profit margin stood at 9.1% in Q2 FY14 (10.3%).

Table 1 provides information on the financial performance for the last five quarters for the entire sample.

Table 1: Summary Performance of 2,010 companies

Growth (%)	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14
Net Sales	14.3	9.3	6.7	6.8	10.2
Net Profit	66.3	11.8	0.4	84.3	-20.0
Ratio (%)					
Net Profit Margin	9.6	7.6	9.4	6.6	7.0
Interest cover	1.9	1.7	1.9	1.6	1.7

Source: ACE Equity

Table 2: Summary Performance of 1,961 companies (excluding refineries and banks)

Growth (%)	Q2 FY13	Q2 FY14
Net Sales	8.1	8.7
Other Income	24.2	7.7
Total Income	8.2	8.6
Total Expenses	6.0	8.8
Raw Material Expenses	8.2	4.8
Salaries and Wages	14.4	16.4
Interest Expenses	18.3	21.2
Depreciation	11.4	19.9
Profit before tax	22.6	-4.3
Taxes	17.5	-6.8
Net Profit	24.6	-3.4
Ratio (%)		
PBT Margin	14.0	12.3
Net Profit Margin	10.3	9.1
Interest cover	3.3	2.8

Table 2 provides information on a sub-sample of 1,961 companies.

- Net sales registered a growth of 8.7% in Q2 FY14 compared with 8.1% in the previous year. This can be attributed to higher growth industrial production numbers. Industrial production grew by 1.7% in July – September FY14 as against 0.4% last year. However, Growth in the core industries, which account for 37.9% of IIP, witnessed slower growth of 4.9% in Q2 FY14 as against 6.6% growth in Q2 FY13.
- Total expenses grew by 8.8% in Q2 FY14 as against 6.6% in the corresponding period last year.
 - The raw materials expenses (constitutes around 48% of total expenditure) grew by 4.8% lower than the 8.2% registered in Q2 FY13. This is mainly because of decline in the average inflation from 7.9% in Q2 FY13 to 6.4% in Q2 FY14, thereby bringing down the nominal value of raw materials purchases. Also, the core inflation (inflation of manufactured products) declined from 6.2% in Q2 FY13 to 2.3% in Q2 FY14.
- Interest expenses increased from 18.3% in Q2 FY13 to 21.2% in Q2 FY14. This may be attributed to both higher lending as well as interest rates, as the RBI had invoked measures to tighten liquidity which led to rates rising in the light of the forex problem. Increase in interest expenses can also be on account of currency depreciation in Q2 FY14 (rupee depreciated from Rs 59.42 per dollar to Rs 62.82 per dollar) while in Q2 FY13 the currency witnessed appreciation (the exchange rate moved from Rs 55.35 per dollar to Rs 52.8 per dollar)
- Net profit declined by 3.4% in Q2 FY14 as against positive growth of 24.6% growth in Q1 FY13.
- Net profit margin, defined by net profit to sales ratio, declined to 9.1% as against 10.3% in Q2 FY13
- Interest cover, defined by PBIT to interest expenses declined to 2.8 times from 3.3 times in Q2 FY13.

Size Wise Analysis

A breakdown of these 1,961 companies 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 Q2 FY14. Caution needs to be exercised here as change in turnover on size wise basis could have a bias as companies with increase in turnover could spill over to the next sales band. Also, the share of each size group is given in terms of net sales in Q2 FY14.

Table 3: Sample Profile by size according to net sales

Size Range (Rs crore)	No	Growth Net Sales (%)	Growth Net profit (%)	Share (%)
Above 1,000	121	11.4	-1.2	66.7
500-1,000	112	4.9	-27.1	13.0
100-500	426	3.8	8.8	15.7
50-100	234	4.0	-37.2	2.7
Less than 50	1,068	-7.1	-10.8	1.9

Source: ACE Equity

Some interesting observations that emerge from this table are:

- 233 companies which constitute around 80% of total sales of the sample dominate the overall performance of the corporate sector.
- The top 121 companies each having sales of over Rs 1,000 crore, account for 66.7% of total sales of the sector have a growth of 11.4% in net sales, accounting for highest growth in sales, followed by companies with sales of between Rs 500 – 1,000 crore growing by 4.9%. The growth in sales for the lower sized groups (sales of Rs 50 -100 crore and less than Rs 50 crore) stood at 4.0% and -7.1%.
 - Quite clearly, smaller companies witnessed slower growth in sales along the pecking order.
- Growth in net profit decline across all the ranges barring companies with net sales between Rs 100 – 500 crore, growing by 8.8%.
- The smaller companies have definitely had more pressures on their accounts relative to the larger ones though profits were almost uniformly affected.

Rating wise analysis

A breakdown of companies according to the credit rating (provided by CARE) would throw light on the performance across various rating category. Out of 1,970 non bank companies, CARE has rated 300 companies (constituting sales of 48.8% of the total sample). *Caution must be exercised when interpreting these results as the sample sizes are small in a number of these categories.* Table 4 provides the composition of the sample companies based on rating categories

Table 4: Performance based on rating category

Category	Number of companies	Growth Net Sales (%)	Growth Net profit (%)
AAA	8	14.1	1.7
AA	18	14.8	-14.1
A	34	15.5	-13.1
BBB	124	5.8	-51.2
Non-investment grade	116	7.2	-42.0

Source: ACE Equity, CARE

- Companies across all rating categories witnessed growth in net sales
 - However highest growth was witnessed in the higher rated companies.
 - Growth was lower in case of the non-investment grade and BBB categories.
- Net profits witnessed decline across almost all the categories though the decline appeared to be higher for the BBB and non-investment grade companies.

Banking Sector:

The performance of 40 banking companies showed that net sales (all interest income) increased by 12.0% in Q2 FY14 as against 17.8% in the previous year. Interest expenses, grew at a lower rate of 11.5% (21.4). The growth in provisions and contingencies, which includes provisions for NPAs increased significantly by 63.1% (-3.4%) in Q2 FY14. Net profit declined by 24.9% as against positive growth of 13.0% in Q2 FY13. Consequently, net profit margin continued to be under pressure and declined to 7.3% as against 10.9% same period last year.

- Gross NPAs has increased by Rs 61,497 crore resulting in a growth rate of 36.7% in Q2 FY14. The high growth in NPAs may be attributed to lower economic conditions as well as profit pressures on companies (PBIT increased by only 4.8% as against 20.1% last year). The impact of the economic slowdown is getting reflected in the increase in NPAs.
- Average Gross NPAs and the Net NPAs increased to 3.92% (3.37%) and 2.20% (1.71%) respectively in Q2 FY14.
- 35 banks witnessed an increase in net NPA ratio while 33 banks witnessed an increase in gross NPA ratio.
- On the positive side, all the banks have maintained capital adequacy ratio of above 10% (data available for 36 banks), the table below provides a frequency distribution for the same.

Range (%)	No of Banks
10 – 11	6
11 – 12	12
12 – 15	14
Above 15	4

Source: ACE Equity

Industry Wise Analysis

- **Growth in net sales improved in case of;** Abrasives, Air conditioners, Bearings, Ceramics & Sanitary ware, Real Estate, Consumer durables, Consumer food, Dyes & pigments, Fertilizers, Glass, Hotels, IT, Metals, Packaging, Pesticides, Plastic, Printing, Tea & Coffee, Telecom, Textiles and Wood & wood products
- **Negative sales growth** was witnessed in case of; Auto ancillary, Automobiles, Breweries & distilleries, Cable, Casting or forging, Cement & construction activities, Diamond & Jewellery , Diesel engine, Diversified, Electric equipments, Electrodes & welding equipment, Engineering, Steel & iron and Sugar
- **Fourteen industry groups witnessed an improvement in net profit growth;** Auto Ancillary, Real estate, Cable, Consumer food, Mining & Minerals & Paints

Table 6: Growth in Net Sales and Net Profits

Industry	Growth %	No of Companies	Net Sales		Net Profit	
			Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14
Abrasives		3	0.5	2.6	-25.7	-7.4
Air conditioners		5	1.0	2.4	*	-13.5
Auto ancillary		66	4.9	-0.2	-12.3	9.6
Automobiles		17	3.9	-3.8	28.4	-30.6
Bearings		9	-1.7	4.3	-16.6	-2.8
Breweries & Distilleries		14	16.3	-3.6	-47.7	*
Cable		15	21.9	-7.9	*	4.8
Casting/Forging		19	2.8	-1.8	*	*
Cement & Construction activities		36	19.0	-2.0	132.8	-66.7
Ceramics & Sanitary ware		19	12.5	16.4	-117.8	-148.6
Chemicals		77	8.3	2.4	-11.7	-24.1
Real Estate		55	-5.3	5.7	-36.9	7.1
Consumer Durables		15	9.9	11.5	14.7	-3.2
Consumer Food		51	20.7	11.5	-16.4	21.4
Diamond & Jewelry		17	7.7	-9.6	11.2	-21.6
Diesel engine		5	1.7	-7.8	13.9	-18.5
Diversified		15	18.0	-1.0	189.9	9.4
Dyes & Pigment		15	13.7	23.0	3.6	*
Electric Equipments		29	-4.5	-7.1	-43.0	-101.8
Electrodes & Welding equipment		9	8.3	-11.4	40.9	-37.2
Electronics		22	-1.5	0.4	-24.2	-6.9
Engineering		97	9.3	-1.4	4.5	-33.4
Fertilizers		21	7.0	8.0	-6.4	-50.0
Finance		273	28.4	13.8	50.6	7.0
Glass		11	5.5	7.5	-103.0	*
Hotel		34	7.5	8.3	*	*
Gases & Fuels		10	38.4	21.9	20.1	-22.1
IT		14	-0.4	10.0	-3.5	-17.3
Metals		21	8.8	17.9	13.5	7.7
Mining & Minerals		15	-3.9	177.9	0.5	2.9
Packaging		31	11.6	15.5	56.1	-44.4
Paints		7	18.7	15.7	7.5	25.1
Paper & Paper products		29	16.9	11.1	-161.9	-134.0
Pesticides		19	9.6	30.6	*	*
Pharmaceuticals		84	19.6	11.0	55.8	-24.7
Plastic		46	9.9	16.5	23.1	-35.0
Power Generation		20	9.2	3.1	13.3	-28.3
Printing		13	8.3	9.4	15.5	-6.9

Steel & Iron	21	14.6	-21.0	*	*
Sugar	22	23.7	-0.7	*	*
Tea/Coffee	17	4.4	35.7	42.5	16.6
Telecom	7	5.1	57.8	-43.8	-20.5
Textiles	189	8.9	17.2	*	7.5
Tyres & Allied	7	14.2	1.1	288.2	45.1
Wood & Wood Products	9	12.7	13.6	252.8	-39.4

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

- **Net profit margin**, defined by net profit to sales ratio declined to 7.0% as against 9.6% in Q2 FY13
 - **Industries that showed improvement in profit margins were:** Auto Ancillary (5.4% to 5.9%), Breweries & distilleries (2.6% to 28.5%), Cable (2.9% to 3.3%), Casting or forging (1.7% to 4.4%), Consumer food (5.7% to 6.2%), Diversified (6.2% to 6.9%), Dyes & pigments (3.8% to 12.3%), Paints (8.7% to 9.4%), Pesticides (6.6% to 10.2%) and Tyres & Allied (3.8% to 5.5%)
- **Interest cover** defined by PBIT to interest expenses declines marginally to 1.7 times from 1.9 times in Q2 FY13.
 - **Industries witnessing improvement in interest cover were:** Abrasive (16.5 to 21.0), Auto Ancillary (5.2 to 5.8), Breweries & distilleries (1.7 to 5.8), Cable (1.9 to 2.1), Casting/ forging (2.1 to 2.4), Diversified (2.9 to 3.1), Dyes & pigments (3.0 to 8.1), Pesticides (4.0 to 8.2) and Tyres & Allied (2.9 to 3.9).

Table 7: Net Profit Margin and Interest Cover Ratio

Industry	Growth %	No of Companies	Net Profit Margin		Interest Cover Ratio	
			Q2 FY13	Q2 FY14	Q2 FY13	Q2 FY14
Abrasives		3	9.0	8.1	16.5	21.0
Air conditioners		5	3.1	2.6	3.4	2.6
Auto ancillary		66	5.4	5.9	5.2	5.8
Automobiles		17	7.4	5.3	8.1	6.2
Bearings		9	8.7	8.1	27.3	26.2
Breweries & Distilleries		14	2.6	28.5	1.7	5.8
Cable		15	2.9	3.3	1.9	2.1
Casting/Forging		19	1.7	4.4	2.1	2.4
Cement & Construction activities		36	8.7	2.9	5.3	2.2
Ceramics & Sanitary ware		19	-0.5	0.2	1.3	1.4
Chemicals		77	6.8	5.1	4.4	3.3
Real Estate		55	13.5	13.6	1.9	1.8
Consumer Durables		15	4.7	4.1	4.8	4.6
Consumer Food		51	5.7	6.2	7.5	7.6
Diamond & Jewelry		17	3.0	2.6	3.9	2.7
Diesel engines		5	13.9	12.3	^	^
Diversified		15	6.2	6.9	2.9	3.1
Dyes & Pigment		15	3.8	12.3	3.0	8.1
Electric Equipments		29	5.1	-0.1	5.4	1.7
Electrodes & Welding equipment		9	9.8	7.0	8.5	5.5
Electronics		22	5.2	4.8	8.7	6.6
Engineering		97	6.0	4.0	2.8	2.2
Fertilizers		21	5.3	2.5	5.1	2.8
Finance		273	23.2	21.9	1.6	1.5
Glass		11	-0.2	-4.2	1.0	0.7
Hotel		34	-9.0	-29.8	0.3	-0.9
Gases & Fuels		10	5.4	3.5	13.1	10.3
IT		14	2.5	1.8	4.0	3.5
Metals		21	40.2	36.7	54.4	50.3
Mining & Minerals		15	59.8	22.1	16.4	2.5
Packaging		31	3.6	1.7	2.0	1.6
Paints		7	8.7	9.4	25.4	31.0
Paper & Paper products		29	1.7	-0.5	1.5	0.7
Pesticides		19	6.6	10.2	4.0	8.2
Pharmaceuticals		84	18.2	12.4	10.5	7.3
Plastic		46	5.3	2.9	2.5	2.0
Power Generation		20	20.0	13.9	5.4	3.3

Printing	13	12.1	10.3	11.2	8.6
Steel & Iron	21	1.8	-1.0	1.6	1.0
Sugar	22	4.8	-15.5	1.6	-0.9
Tea/Coffee	17	24.3	20.9	14.4	12.4
Telecom	7	-24.7	-12.4	-0.3	0.0
Textiles	189	3.1	2.9	2.0	2.0
Tyres & Allied	7	3.8	5.5	2.9	3.9
Wood & Wood Products	9	5.7	3.0	3.0	2.2

[^] Unusually high numbers

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