

June 17 2010

Corporate Performance FY10

Contacts:

Madan Sabnavis
Chief Economist
91-022-67543489

Samruddha Paradkar
Associate Economist
91-022-67543407

Krithika Subramanian
Associate Economist
91-022-67543321

Corporate performance for the year 2009-10 was characterized by improved net profit margins mainly on account of cost cutting as top line growth was subdued with net sales of a sample of 3216 companies registering a growth rate of 5.2% as against 20.6% in FY2009. However, net profit margin was lower than that in FY07 and FY08.

These numbers are contrary to the high growth numbers in industrial production for the year based on the Index of Industrial Production (IIP) and need to be reconciled. The low level of industrial growth in FY09 has provided an upside to the numbers for FY10. In FY09 while corporate sales grew by 20%, net profits had declined.

Change in prices of most industries remained subdued in FY10 with the food industry in particular being the exception as it was impacted by the drought conditions which led to a fall in output of several crops.

Profits were up as total cost increased at a lower rate than total income with the EBDIT increasing by 14.4%, which was higher than that in FY09 at 11.9%. The corporate sector did benefit from lower interest rates which also helped in lowering the growth in interest payments, which in turn helped to improve net profits growth from negative 6.8% to positive 21.5%. The effective tax rate for this sector continued to increase marginally during the five-year period.

Profits of most sectors showed a higher growth in FY10 compared with FY09. The exceptions however were banking (27% to 15.8%), caustic soda (-10.2% to -10.9%), cosmetics & toiletries (19.6% to 6.4%), fertilizers (-3.3% to -5.3%), hotels & hospitality (-31.6% to -46%), pesticides (26.1% to 17.8%) and telecom (33% to -37.2%).

Net profit margins improved in most sectors with the exceptions being construction, dyestuffs, ceramics, caustic soda, telecom, non-ferrous metals and hotels & hospitality services.

Sample

Table 1: Financial Performance of Companies (FY06-FY10) Rs crore

	Financial Performance of 3,216 companies				
	2006	2007	2008	2009	2010
Net Sales	16,14,249	20,63,600	24,91,532	30,05,437	31,62,776
Other income	73,524	99,692	1,19,161	1,31,063	1,43,529
Stocks	17,220	15,266	25,214	7,239	25,652
Total income	17,04,993	21,78,558	26,35,907	31,43,739	33,31,957
Raw materials	897,844	11,28,453	13,11,720	15,94,704	16,29,967
Salaries and wages	1,09,140	1,35,972	1,61,045	1,96,463	2,17,017
Other expenses	2,86,623	3,57,060	4,53,228	5,58,339	5,76,463
Total expenses	12,93,608	16,21,484	19,25,994	23,49,505	24,23,447
EBIDT	4,11,385	5,57,074	7,09,913	7,94,234	9,08,509
Interest	1,36,724	1,80,209	2,54,403	3,44,317	3,56,349
Depreciation	54,095	64,940	72,913	84,263	102,091
Provisions	68,996	94,851	114,527	115,753	146,364
Provision for taxes	50,353	75,858	95,398	88,805	113,537
Net profit	1,51,570	2,17,074	2,68,071	2,49,901	3,03,705

Source: Unaudited annual financial results from CMIE Prowess

The sample chosen for this study comprises 3,216 companies in both the manufacturing and financial sectors classified under 40 industry groups and sub-groups. Overall sales of the sample chosen was around Rs 31.6 lakh crore in 2009-10 (Table 1), which would be sized at around 50% of India's GDP at current market prices. In terms of value added the sample accounts for around 18% of GDP. The manufacturing companies had a share of 85% in this selected sample of companies.

Financial performance of companies

Table 2 shows that for this set of companies, sales increased by 5.2% in FY10, which was the lowest in the last 4 years. Growth in sales had slowed down in FY08 and FY09 relative to FY07 when growth had peaked at 27.8%, but was still high at around 20%. Top line growth was however low and contrary to the picture presented by overall growth in the IIP which showed manufacturing sector growing by 10.9% in FY10 relative to 2.8% in FY09. There was a substantial increase in the build-up of stock in FY10 as they went back to the pre-FY09 levels. In FY09 stocks had declined by 71.3%. Growth in other income had tended to slow down in the last three years and was at the lowest of 9.5% in FY10. As a consequence of low growth in net sales and other income, total income increased by a modest 6% in FY10 as against 19.3% in FY09.

Growth in total expenses had come down more than commensurately compared with sales and increased 3.1% caused by lower growth in raw materials (2.2% in FY10 as against 21.6% in FY09), salaries and wages (10.5% as against 22%) and other expenses (3.2% as against 23.2%). As total expenses grew at a slower rate than total income, EBDIT increased at a higher rate of 14.4% in FY10 compared with

11.9% in FY09. Cost cutting was hence the primary reason behind enhanced profit growth in FY10.

A substantial decline in rate of growth of interest costs of just 3.5% as against 35.3% in FY09 was aided by lower interest rates (average PLR on a point to point basis had declined by 50 bps in the year). This helped to increase net profits by 21.5% as against a fall of 6.8% in absolute levels of net profit in FY09. This was contrary to the FY09 picture when interest costs had increased by 35.3% on top of growth of 31.8% and 41.2% in FY07 and FY09, resulting in a decline in net profits by 6.9%. It is significant to note that interest costs as a percent of net sales has showed an increasing trend for manufacturing companies and has risen from 1.75% in FY06 to 2.18% in FY10. This is reflective of higher investment taking place. Growth in interest payments for manufacturing companies was buoyant between FY07-FY09.

Table 2: Growth in Corporate Financial indicators (%)

	2007	2008	2009	2010
<i>Net Sales</i>	27.8	20.7	20.6	5.2
Other income	35.6	19.5	10.0	9.5
Stocks	-11.3	65.2	-71.3	254.4
<i>Total income</i>	27.8	21.0	19.3	6.0
Raw materials	25.7	16.2	21.6	2.2
Salaries and wages	24.6	18.4	22.0	10.5
Other expenses	24.6	26.9	23.2	3.2
<i>Total expenses</i>	25.3	18.8	22.0	3.1
<i>EBIDT</i>	35.4	27.4	11.9	14.4
Interest	31.8	41.2	35.3	3.5
Depreciation	20.0	12.3	15.6	21.2
Provisions	37.5	20.7	1.1	26.4
Provision for taxes	50.7	25.8	-6.9	27.8
<i>Net profit</i>	43.2	23.5	-6.8	21.5

Reconciling with IIP numbers

The manufacturing sector grew by 10.9% in FY10 aided by a low base as growth was just 2.8% in FY09. Table 3 below gives a 'what if' scenario for different growth scenarios in FY10 in case growth in FY09 was at 8, 7 and 6 % respectively. Growth in FY10 would have then been in the region of 5.5 to 7.5%. Quite clearly growth has been propped up by the low base year effect.

Table 3: Simulating growth in FY10 based on "What if"

	Actual	Assuming growth in FY09		
FY09	2.8	6.0	7.0	8.0
FY10	10.9	7.5	6.5	5.5

Source: CSO and CARE (for simulation)

Ratio analysis

Table 4 provides information on some important ratios on the performance of the sample companies in the last 5 years.

- a. Profit margins have shown a turnaround in FY10 after declining in FY09. Margins had been increasing between FY07 and FY08. This, as mentioned earlier was due to cost-cutting measures undertaken by the corporate sector.
- b. Interest cover defined as EBIT to interest payments has shown an improvement in FY10, though the ratio has been on the decline from FY06 onwards.
 - a. However, if the finance companies are excluded, the interest cover for the manufacturing sector shows a different trend, increasing in FY07 to 8.78 and then declining to 8.43 and 5.11 in FY08 and FY09 respectively before rising again in FY10 to 6.43.
- c. The effective tax rate defined as tax provisions to profits before tax has shown an increasing trend and peaked in FY2010, notwithstanding the fiscal stimulus that was provided. Clearly, the benefits were on the indirect taxes and expenditure fronts and not on direct taxes for the corporates.
- d. The contribution of other income was constant over the years and did not add significantly to total revenue for the sector as a whole.
- e. In terms of share in total expenses, the ratio of salaries & wages increased marginally in FY10 to 9% while that of raw materials came down.

Table 4: Important ratios (%)

	2006	2007	2008	2009	2010
Net profit to sales	9.4	10.5	10.8	8.3	9.6
EBIDT to Sales	25.5	27.0	28.5	26.4	28.7
Interest cover (times)	2.61	2.73	2.50	2.06	2.26
For manufacturing companies	7.61	8.78	8.43	5.11	6.43
Effective tax rate	24.9	25.9	26.2	26.2	27.2
Other income to total income	4.4	4.6	4.6	4.2	4.3
Salaries & wages to total expenses	8.4	8.4	8.4	8.4	9.0
Raw material to total expenses	69.4	69.6	68.1	67.9	67.3
Other expenses to total expenses	22.2	22.0	23.5	23.8	23.8

Sector-wise analysis

Tables 5, 6 and 7 provide sector-wise details on three indicators:

- A. Growth in Net Sales
- B. Growth in Net Profits
- C. Net profit margins

Table 5 shows that:

- o Net sales for the sample were propped up by the finance sector, which otherwise on its own had registered a lower growth rate in FY10 relative to FY09.
- o Within the manufacturing sector, the sectors that showed higher growth in net sales relative to the previous year were the auto segment (cars, CVs,

- two-wheelers, auto ancillaries), beverages, electronics, paints, gems and jewelry, cotton textiles and cement.
- Industries such as construction (affected by higher interest rates), ceramics, glass, food products (other than beverages), chemicals, petro-products, electricity, machinery, telecom, tyres and tubes, IT, hotels and hospitality and metals witnessed lower growth in FY10.
 - Construction sector was affected by the economic slowdown as well as more difficult conditions set by banks in lending to related sectors such as mortgages at the retail end.
 - Food products were affected by the drought as supplies of raw materials were stymied on account of low production.
 - Low agricultural production in turn had an impact on farm inputs such as fertilizers and pesticides.
 - Another factor that may have affected some sectors is the low growth or decline in prices of manufactured products, as indicated by the Wholesale Price Index (WPI).
 - Prices had increased in case of food products, glass, chemicals (such as cosmetics, pesticides and drugs and pharma) etc.

Net profits growth

- Profits of most of the sectors showed an increase in FY10 over FY09. (Table 6)
 - The exceptions were banking, caustic soda, cosmetics and toiletries, dyestuffs, fertilizers & hospitality (second successive year), pesticides, cotton textiles and telecom.
- Sustained growth in profits was witnessed in case of two wheelers, paints and food products.
 - In case of most of the industries it was a change from a negative or low growth in profits in FY09 to a positive/high growth rate in FY10.

Net profit margin

As a consequence of both the growth in sales and net profits, the overall profit margins showed an improvement almost across the board (Table 7). While there were a few industries which witnessed decreased profit margins in FY10, the significant ones which had sharp declines were

- telecom
- construction
- caustic soda
- non-electrical machinery
- hotels and hospitality sectors.

Table 5: Growth in Net Sales and Change in Prices based on WPI

	Growth in Net Sales (%)				Change in WPI (%)	
	2007	2008	2009	2010	2009	2010
All	27.8	20.7	20.6	5.2	8.4	3.8
Finance	25.4	27.4	28.0	9.3		
Manufacturing companies	28.2	19.8	19.5	4.6	8.1	3.2
Passenger cars	21.9	21.2	12.9	41.3		
Two wheelers	15.0	0.5	6.1	22.5	2.5	4.9
Commercial Vehicles	32.0	5.2	-13.5	35.3	5.2	0.1
Auto Ancillary	24.3	13.2	5.4	10.5	14.9	2.9
Banking	24.2	31.1	29.4	8.7		
Cement	58.8	19.5	15.3	17.9	2.7	-0.1
Construction	47.1	50.6	21.9	16.6		
Ceramics	26.2	18.2	13.5	4.1	4.1	2.3
Glass	12.4	40.9	24.7	7.6	-0.9	10.0
Food Products	21.2	21.0	18.6	15.6	10.0	16.8
Vegetable oils	22.3	30.1	12.3	5.9	7.4	-5.9
Sugar	16.4	-5.9	22.3	14.7	12.4	45.3
Beverages, tobacco	26.1	17.7	15.0	17.7	9.5	5.1
Chemicals	23.2	17.4	25.4	-3.5	7.2	4.4
Caustic soda	15.0	15.0	26.2	-8.0	14.4	-2.6
Cosmetics, toiletries etc	13.0	14.5	38.1	-4.8	7.7	12.3
Drugs & Pharmaceuticals	23.8	21.7	12.6	10.1	1.9	19.5
Dyestuffs	-2.2	24.2	12.3	2.2	6.7	-4.7
Fertilizers	12.9	13.6	70.3	-24.3	8.7	-2.5
Polymers	9.9	8.6	4.9	3.8	6.1	-6.8
Paints etc	17.5	15.2	14.5	16.8	10.4	4.8
Pesticides	10.8	23.4	34.0	5.3	5.0	18.6
Crude oil	16.8	6.5	11.7	-5.7	11.1	-4.8
Petro Products	25.1	17.2	24.6	-4.3		
Electricity	20.7	20.8	17.9	7.4	1.1	0.7
Textiles	19.2	19.3	8.2	6.8	6.0	6.0
Synthetic textiles	22.5	21.5	8.0	4.1	2.9	-2.0
Cotton Textiles	14.1	17.7	7.8	18.9	7.8	8.4
Non-electrical machinery	31.8	18.1	17.2	4.4	5.2	0.9
Electrical machinery	41.8	34.7	12.9	6.4	4.2	-1.1
Electronics	23.1	3.8	13.3	16.0	-3.2	0.0
Telecommunication	86.6	27.3	21.8	2.3		
Ferrous metals	27.5	23.2	15.2	3.3	1.4	-3.1
Steel	26.2	19.6	14.9	2.8	20.6	-13.6
Non-ferrous metals	60.5	2.2	-8.7	11.3	-6.5	-4.5
Tyres and tubes	26.2	12.4	22.6	6.4	6.7	6.0
Gems and Jewelry	29.5	28.3	21.6	34.4		
Hotels, hospitality services	32.1	13.8	-8.5	-10.2		
Information technology	43.4	24.7	22.7	7.4		
Diversified	23.1	17.4	25.0	6.9		

P.S: WPI prices are broadly indicative as the % change is for a closely-related group and may not perfectly match the industry concerned. Where such a match does not exist, the cells have been left blank.

Table 6: Change in net profits: sector-wise

	2007	2008	2009	2010
All	43.2	23.5	-6.8	21.5
Finance	26.5	35.9	16.8	17.6
Manufacturing companies	47.1	21.1	-12.2	22.7
Passenger cars	32.0	8.4	-28.5	121.5
Two wheelers	-26.6	8.2	27.1	76.6
Commercial Vehicles	22.6	4.6	-45.9	107.9
Auto Ancillary	42.5	5.0	-23.6	40.2
Banking	24.5	33.1	27.0	15.8
Cement	228.2	29.8	-17.2	18.0
Construction	88.1	89.9	-8.2	9.4
Ceramics	11.3	-5.9	-57.3	-14.6
Glass	-35.7	60.7	-44.5	108.9
Food Products	95.7	-17.1	31.0	56.5
Vegetable oils	54.4	60.9	-22.0	50.2
Sugar	-13.3	-102.6	*	23.3
Beverages, tobacco	58.0	10.1	-2.8	26.4
Chemicals	47.3	18.4	-22.1	45.8
Caustic soda	135.1	-35.9	-10.2	-10.9
Cosmetics, toiletries etc	13.7	11.0	19.6	6.4
Drugs & Pharmaceuticals	50.1	23.6	-37.9	64.0
Dyestuffs	-62.9	323.2	135.9	-16.1
Fertilizers	6.2	30.9	-3.3	-5.3
Polymers	805.9	58.3	-94.1	*
Paints etc	208.9	-28.1	29.6	46.1
Pesticides	7.1	25.7	26.1	17.8
Crude oil	8.3	6.9	-3.1	3.8
Petro Products	53.8	14.8	-25.8	54.0
Electricity	17.4	17.3	3.9	12.5
Textiles	29.7	-10.6	-59.8	173.4
Synthetic textiles	70.3	28.4	-29.2	61.9
Cotton Textiles	9.1	-44.9	-125.1	*
Non-electrical machinery	41.5	18.5	-25.2	3.1
Electrical machinery	50.0	54.5	1.3	38.6
Electronics	*	-11.1	-47.2	23.7
Telecommunication	200.5	36.4	33.3	-37.2
Ferrous metals	50.0	31.0	-30.7	40.9
Steel	50.1	24.0	-28.1	35.7
Non-ferrous metals	93.4	-5.9	-27.3	8.7
Tyres and tubes	145.9	5.4	-55.9	225.2
Gems and Jewelry	133.4	23.6	-59.1	262.6
Hotels, hospitality services	61.7	9.3	-31.6	-46.0
Information technology	56.5	21.3	5.4	22.7
Diversified	49.7	69.0	-32.0	18.6

*: net profit changes from negative to positive.

Table 7: Net Profit Margin

	2006	2007	2008	2009	2010
All	9.4	10.5	10.8	8.3	9.6
Finance	14.0	14.1	15.1	13.8	14.8
Manufacturing companies	8.7	10.0	10.1	7.4	8.7
Passenger cars	9.7	10.5	9.4	5.9	9.3
Two wheelers	9.5	6.0	6.5	7.8	11.2
Commercial Vehicles	6.9	6.4	6.4	4.0	6.2
Auto Ancillary	7.1	8.2	7.6	5.5	7.0
Banking	12.6	12.7	12.9	12.6	13.4
Cement	8.6	17.8	19.4	13.9	13.9
Construction	8.7	11.2	14.1	10.6	10.0
Ceramics	6.2	5.5	4.4	1.7	1.4
Glass	9.6	5.5	6.2	2.8	5.4
Food Products	3.3	5.3	3.6	4.0	5.4
Vegetable oils	1.7	2.1	2.6	1.8	2.6
Sugar	9.8	7.3	-0.2	6.8	7.3
Beverages, tobacco	14.5	18.2	17.0	14.3	15.4
Chemicals	4.7	5.6	5.7	3.5	5.3
Caustic soda	13.5	27.6	15.4	11.0	10.6
Cosmetics, toiletries etc	13.9	14.0	13.5	11.7	13.1
Drugs & Pharmaceuticals	13.8	16.7	17.0	9.4	14.0
Dyestuffs	3.5	1.3	4.6	9.6	7.8
Fertilizers	6.2	5.9	6.8	3.8	4.8
Polymers	0.5	4.4	6.4	0.4	3.3
Paints etc	5.4	14.1	8.8	10.0	12.5
Pesticides	7.7	7.4	7.5	7.1	8.0
Crude oil	37.7	35.0	35.1	30.5	33.5
Petro Products	3.5	4.3	4.2	2.5	4.0
Electricity	22.9	22.2	21.6	19.0	19.9
Textiles	6.5	7.0	5.3	2.0	5.0
Synthetic textiles	6.7	9.3	9.9	6.5	10.1
Cotton Textiles	5.5	5.3	2.5	-0.6	2.3
Non-electrical machinery	11.4	12.3	12.3	7.9	7.8
Electrical machinery	5.7	6.1	7.0	6.2	8.1
Electronics	-2.8	6.5	5.6	2.6	2.8
Telecommunication	10.7	17.2	18.4	20.2	12.4
Ferrous metals	9.9	11.6	12.3	7.4	10.1
Steel	11.2	13.3	13.8	8.6	11.4
Non-ferrous metals	18.0	21.7	19.9	15.9	15.5
Tyres and tubes	3.2	6.2	5.8	2.1	6.4
Gems and Jewelry	1.6	3.0	2.8	1.0	2.6
Hotels, hospitality services	17.0	20.8	19.9	14.9	9.0
Information technology	20.8	22.7	22.1	19.0	21.7
Diversified	5.4	6.6	9.5	5.2	5.7

This page has been left blank intentionally

Disclaimer

The Report is prepared by the Economics Division of CARE Limited. The Report is meant for providing an analytical view on the subject and is not a recommendation made by CARE. The information is obtained from sources considered to be reliable and CARE does not guarantee the accuracy of such information and is not responsible for any decision taken based on this Report.