**STUDIES**

September 2nd 2011

# Corporate Performance Q1-FY12

*Contact:*
*Madan Sabnavis, Chief Economist*
*madan.sabnavis@careratings.com*
samruddha.paradkar@careratings.com
*krithika.subramanian@careratings.com*
*Anuja.jaripatke@careratings.com*

A study of 2508 companies in the corporate sector reveals that while top line growth was maintained at 27.4% during Q1-FY12, net profit growth was subdued at 3.3%. In particular, the banking sector was impacted more severely with net profit declining by 2.3% during this period. Growth in sales after adjusting for inflation would still be impressive given that overall industrial growth was lower during this quarter relative to that last year.

**Growth in Financial variables (%) Q1-FY12 over Q1-FY11**

| ***Growth indicators*** | **All** | **Non-banks** | **Banks** |
|---|---|---|---|
| ***No of companies*** | ***2508*** | ***2465*** | ***43*** |
| Net Sales | 27.4 | 26.1 | 35.4 |
| Other income | 16.2 | 30.3 | 4.7 |
| Stocks | -32.7 | -32.7 | n.a |
| Operating Expenditure | 26.8 | 26.8 | 27.0 |
| Raw materials | 30.9 | 30.9 | n.a. |
| Salary and wages | 18.4 | 18.7 | 17.3 |
| Other expenses | 16.9 | 14.1 | 34.5 |
| Interest | 42.4 | 30.5 | 45.1 |
| Provisions for tax | 13.1 | 19.4 | -1.2 |
| PBIT | 24.4 | 13.7 | 33.0 |
| PBT | 6.2 | 9.7 | -2.0 |
| PAT | 3.3 | 5.5 | -2.3 |

n.a.: not applicable

The sample of 2508 companies had net sales of Rs 766,776 cr during the quarter and comprised 2465 non-banking and 43 banking companies.

**Some highlights are:**

1. Growth in sales at 27.4% was impressive given that industrial production as well as overall services sector growth as indicated by GDP numbers was at a lower level.
2. Three factors that affected the performance of non-bank companies were:

   a. Slower industrial growth of 6.8% as against 9.6% in Q1-FY11. Higher growth in sales was also a result of offloading of inventories as stocks declined by 32.7% during this period.

   b. High inflation of 9.6% for all goods and 7.2% for manufactured products. This provided a benefit on the sales side as well as increased raw material costs that increased at a higher rate of 30.9% relative to sales. This was a chief factor affecting profits.

i. The ratio of raw materials cost to total operating expenses increased from 70.9% to 73.2% for the non-bank companies.

c. Rising interest rate scenario with the RBI increasing the interest rates by 25 bps between January and March and then by 75 bps between April-June. This led to pressure on growth in profits as interest costs increased by 30.5% for the non-bank companies. This impacted profit before tax which increased by 9.4% even after PBIT increased by 13.7%.

*Interest costs have started to hurt corporates*

3. Bank profits were squeezed more by high growth in non-tax provisions, which rose by 50.1%. Most of this may be attributed to the increase in NPAs provisions.
    a. The upward movement in interest rates during this period pressurized interest margins. Interest expenditure increased by 45.1% while interest on advances rose by 38.8%.

*Pressure on bank NPAs*

4. The effective tax rate too was pressurized for the sample companies. It increased from 29.2% to 31.1% which in turn put pressure on net profit.

*No respite on tax front*

**Performance ratios**

| ***Net profits to sales*** | **2010** | **2011** |
|---|---:|---:|
| All companies | 7.3 | 5.9 |
| Non-bank companies | 6.1 | 5.1 |
| Banks | 14.7 | 10.6 |

High pressure of both raw materials cost and interest rates depressed profit margins for the sample companies from 7.3% to 5.9% in Q1-FY12. The decline was sharper for banks whose margins fell by nearly 400 bps. For non-bank manufacturing companies, the decline was by 100 bps.

*Profit margins under pressure*

**Impact of higher interest costs**

The high growth in interest costs was reflected in a rise in its proportion to sales from 2.19% to 2.26% and the reduction in interest cover from 6.46% to 5.59%.

| ***Non-bank companies*** | **2010** | **2011** |
|---|---:|---:|
| Interest to sales | 2.19 | 2.26 |
| Interest cover | 6.46 | 5.59 |

**Industry-wise performance (Annex 1)**

*Sales growth moderated further if banks and chemicals are excluded*

- While the sample companies registered growth of 27.4% in sales, only 3 industry groups grew at a higher rate: chemicals, two wheelers and banks. (In fact, if chemicals and banks are excluded growth in sales would be only 18.6% during this quarter). Excluding banks, the manufacturing companies registered growth in sales of 26.1% and the industry groups which grew at comparably though marginally lower rate were food products, non-ferrous metal products and auto ancillaries.
- The sectors which registered a low growth in sales were electronics (5.2%), telecom services (9.0%) and drugs and pharmaceuticals (9.8%).
- Raw material costs rose at a higher rate than that of sales for the sample companies. Due to rising commodity prices, these costs exceeded the growth in sales in case of textiles, chemicals, non-metallic mineral products including cement, non-ferrous metal products, electrical machinery, passenger cars, two wheelers, telecom, power generation, and construction services.
- Interest costs increased by 30.5% for non-banking companies. The sectors that are more capital dependent which were affected were construction, food products, textiles, tyres and tubes, cement, electronics, and telecom services.
- Growth in net profit for the same was 3.3% for overall sample and 5.5% for non-bank companies. The industries doing better were electronics (100.7%), non-electrical machinery (76.9%), food products (38.5%), non ferrous metal products (33.7%), 2 wheelers (18.5%), passenger cars (16.2%), auto ancillaries (14.1%), chemicals (13.7%), power generation and distribution (12%), IT (10.7%) and non-metallic minerals (7.9%).
- The industries that witnessed negative growth in net profit were textiles, electrical machinery, commercial vehicles, telecom services, banks, tyres and tubes and petroleum products.

**Profit margin (Annex 2)**

*Few industries register improvement in net profit margin*

The table below provides information on net-profit margin for the sample companies. The industries where margins have improved have been shaded in green. As can be seen, only 6 industries registered improvements in net profit margin: food products, drugs and pharmaceuticals, non-ferrous metal products, non-electrical machinery, electronics, and passenger cars.

## Annex 1: Growth indicators: Industry-wise

| Growth indicators | | Sales | Raw Mat | Interest | PAT |
|---|---|---|---|---|---|
| Food and food products | 230 | 25.8 | 22.3 | 40.9 | 38.5 |
| Textiles | 284 | 20.6 | 29.2 | 31.4 | -30.3 |
| Chemicals | 559 | 35.8 | 38.3 | 27.6 | 13.7 |
| Tyres and tubes | 13 | 37.3 | 48.5 | 81.1 | -42.4 |
| Drugs and Pharma | 154 | 9.8 | 14.0 | 16.1 | 20.3 |
| Petroleum products | 7 | 40.8 | 41.8 | 34.3 | -39.2 |
| Fertilizers | 28 | 25.6 | 11.5 | 11.7 | 10.4 |
| Non metallic minerals | 139 | 17.8 | 20.9 | 29.1 | 7.9 |
| Cement | 36 | 12.3 | 13.7 | 30.0 | 1.9 |
| Ferrous metal products | 198 | 22.5 | 21.6 | 22.8 | -0.1 |
| Non-ferrous metal products | 35 | 25.5 | 27.9 | 38.8 | 33.7 |
| Non electrical machinery | 115 | 18.9 | 17.6 | 19.0 | 76.9 |
| Electrical machinery | 107 | 12.2 | 16.1 | 44.2 | -11.6 |
| Electronics | 75 | 5.2 | 5.1 | 22.6 | 100.7 |
| Commercial vehicles | 4 | 13.5 | 13.2 | -10.5 | -3.3 |
| Passenger cars | 3 | 13.0 | 20.5 | 17.3 | 16.2 |
| Two wheelers | 10 | 27.8 | 30.9 | -16.2 | 18.5 |
| Auto ancillaries | 99 | 25.0 | 24.1 | 29.5 | 14.1 |
| Power gen and dist | 30 | 17.0 | 21.2 | 22.2 | 12.0 |
| Telecom services | 19 | 9.0 | 23.5 | 93.7 | -81.3 |
| IT | 222 | 24.3 | 36.8 | 17.8 | 10.7 |
| Construction | 187 | 11.3 | 13.6 | 33.8 | -19.5 |
| Diversified | 23 | 18.8 | 23.6 | 38.1 | -11.8 |
| Miscellaneous | 126 | 18.1 | 26.9 | 37.2 | -21.8 |
| Banks | 43 | 35.4 | - | 45.1 | -2.3 |
| **All companies** | **2508** | **27.4** | **30.9** | **42.4** | **3.3** |

**Annex 2: Net Profit Margin**

*Profit margins under pressure virtually across the board*

| **Net profit to sales** | **2010** | **2011** |
|---|---|---|
| Food and food products | 5.5 | 6.1 |
| Textiles | 2.5 | 2.2 |
| Chemicals | 1.3 | 1.1 |
| Tyres and tubes | 3.5 | 1.5 |
| Drugs and Pharmaceuticals | 12.6 | 13.7 |
| Petroleum products | -1.0 | -1.0 |
| Fertilizers | 5.7 | 5.0 |
| Non metallic minerals | 7.8 | 7.1 |
| Cement | 12.2 | 11.1 |
| Ferrous metal products | 10.6 | 8.6 |
| Non-ferrous metal products | 16.9 | 17.9 |
| Non electrical machinery | 6.1 | 9.0 |
| Electrical machinery | 5.9 | 4.7 |
| Electronics | 3.4 | 6.5 |
| Commercial vehicles | 4.0 | 3.4 |
| Passenger cars | 7.4 | 7.6 |
| Two wheelers | 11.5 | 10.7 |
| Auto ancillaries | 5.9 | 5.4 |
| Power generation & distribution | 20.2 | 19.4 |
| Telecom services | 9.1 | 1.6 |
| IT | 19.7 | 17.6 |
| Construction | 10.1 | 7.3 |
| Diversified | 3.7 | 2.7 |
| Miscellaneous | 8.5 | 5.6 |
| Banks | 14.7 | 10.6 |
| **All companies** | **7.3** | **5.9** |