

## Corporate Performance: Q1-FY16

In order to understand the performance of the corporate sector, this study is divided into two parts. The first part looks at 5 important sectors, namely, manufacturing, services, IT and ITES, banking and NBFCs while the second provides an overview of the performance of various industries.

The results of the various sample companies used in this study do indicate lower growth rates in key performance indicators for the first quarter of current fiscal year in comparison with the corresponding period of last year. The lower growth in net sales and declining profits in these sectors is largely attributed to weakness in demand as also decline in prices. Despite a negative producer's inflation as measured by the WPI signaling lower raw material costs, growth in profits do not appear to be satisfactory.

### A. Sector wise Analysis

#### a. Manufacturing Sector

Net sales of a sample of 1,468 manufacturing companies declined in Q1-FY16 by 10.4% as against an increase of 11.9% during the same period of FY15. Net profits grew by 3.5% for these companies compared with a high growth rate of 106% last year. The results are distorted by the presence of 7 refinery companies which witnessed volatile performance on account of the sharp movement in the price of crude oil. Therefore, these companies have been excluded from the sample to gauge the financial performance of the manufacturing sector.

Table 1 below provides information on the financial performance in Q1-FY16 over Q1-FY15 for a sample of 1,461 manufacturing companies excluding refineries.

**Table 1: Performance Summary of manufacturing sector (1,461 companies)**

	Q1-FY15 (Rs. lkh cr)	Q1-FY16 (Rs. lkh cr)	Q1-FY15 (% Growth)	Q1 -FY16(% Growth)
<b>Net Sales</b>	4.40	4.46	11.6	1.3
<b>Expenditure</b>	3.86	3.92	10.3	1.8
<b>Interest</b>	0.16	0.17	19.4	5.8
<b>Net Profit</b>	0.33	0.26	50.3	-21.5
<b>Ratios</b>		<b>Q1-FY15</b>		<b>Q1-FY16</b>
<b>Net Profit Margin</b>		7.4		5.7
<b>Interest Cover</b>		3.7		3.1

Source: ACE Equity

During the first quarter of the year, the manufacturing sector, as represented by the IIP component, at the economy level had grown at a slower rate of 3.6% compared with 3.9% last year. The financial performance of the 1,461 sample companies in this sector revealed the following.

- Growth in net sales declined sharply from 11.6% in Q1-FY15 to 1.3% in Q1-FY16.
- Growth in total expenditure was lower in FY16 (1.8%) vis-a-vis FY15 (10.3%).
- Net profits declined by 22% in Q1-FY16 compared with a positive rate of growth of 50.3% in Q1-FY15.

- The profit margin, taken as ratio of PAT to net sales showed a fall in tandem with the growth rate of net profit as it fell to 5.7% in Q1-FY16 from 7.4% in Q1- FY15.
- Interest cover, defined as the Profit before Interest and Tax (PBIT) to interest, decreased from 3.7 in Q1-FY15 to 3.1 in Q1-FY16.

### Size wise Analysis

This section of the study breaks down the sample of 1,461 companies by size, to see if the performance of the companies differs across size groups. The size groups have been defined on the basis of net sales figures for the first quarter of FY16. Table 2 below gives the composition of the sample differentiated across various size groups for Q1-FY16.

The 98 companies in the size range of sales of above Rs 1,000 crore each, constituted 61% of total sales of the sample companies and dominated the overall performance. The next two size ranges of Rs 500-1000 crore and Rs 250-500 crore had shares of 14% and 10% respectively. Hence, the top 316 companies in terms of sales above Rs 250 crore each accounted for 85% of the total sales. The range of Rs 100-250 had a share of 9%, while the last two groups had shares of 4% and 2% respectively.

**Table 2: Sample Profile by Size**

Size Range (Rs. Crore)	No. Of Companies	Net Sales (% Growth)	Net Profits (% Growth)	Interest Cover (Q1-FY16)
<b>Above 1,000</b>	98	2.6	-9.1	4.3
<b>500-1,000</b>	92	2.4	-62.7	3.3
<b>250-500</b>	126	1.0	13.4	2.8
<b>100-250</b>	236	1.2	-53.5	1.6
<b>50-100</b>	216	-7.4	-76.2	1.6
<b>Less than 50</b>	693	-13.2	-54.7	0.4

Source: ACE Equity

The size wise breakdown provides some interesting results:

- The largest sized companies witnessed the highest growth in sales of 2.6%, and the growth rate kept reducing for size groups almost sequentially, with smaller sized companies witnessing lower growth rates which turned negative for the last two groups of sales less than Rs 100 crore.
- Most size groups witnessed negative growth in net profits. The size-group of sales between Rs 250-500 crore witnessed positive increase which was due to a combination of losses falling for some companies as well as increase in profits for a set of 5 companies in various industries.
- Interest cover was highest for the companies with turnover of over Rs 1,000 cr in Q1-FY16. This ratio kept declining with the size groups and the lowest size group had a cover of just 0.4.

**b. Services Sector (excluding banks, NBFCs and IT)**

**Table 3: Performance Summary of Service sector (373 companies)**

	Q1-FY15 (Rs. lkh cr)	Q1-FY16 (Rs. lkh cr)	Q1-FY15 (% Growth)	Q1- FY16 (% Growth)
<b>Net Sales</b>	1.38	1.39	0.4	0.4
<b>Expenditure</b>	1.00	0.95	-3.4	-4.6
<b>Interest Payments</b>	0.17	0.20	12.2	15.8
<b>Net Profit</b>	0.13	0.15	22.4	13.6
<b>Ratios</b>		<b>Q1-FY15</b>		<b>Q1-FY16</b>
<b>Net Profit Margin</b>		9.2		10.5
<b>Interest Cover</b>		2.0		2.0

Source: ACE Equity

The services considered in the study include, telecommunications, hotels and restaurants, airlines, ports, shipping and logistics among others.

- The growth of net sales was stable at 0.4% in Q1-FY16 as it was in Q1-FY15. Net sales had increased by Rs.519 crore during the same period.
- Total expenditure grew at a lower rate in this quarter of FY16 in comparison with the same quarter last year. Growth rates remained negative at -4.6% in Q1-FY16, declining from -3.4% in same period last year.
- Net profits rose for the service sector from Rs.12,792 cr in Q1-FY15 to Rs.14, 528 cr in Q1-FY16. Growth in profits was lower at 13.6% in Q1-FY16 compared with 22.4% during the same period last year.
- Interest cover is maintained at 2.0 for the fiscal year as the profit before interest and tax witnessed an increase of 11.2% while interest payments growth is 15.8%.

**c. IT and ITES**

Table 4 provides information on the performance a sample of 138 IT & ITES companies.

- Net sales in the IT & ITES sector grew by 9.6% in Q1-FY16, lower than 15.8% witnessed in the same period last year. Net sales increased from Rs 52,032 cr in Q1-FY15 to Rs 60,176 cr in the quarter this year.
  - However, growth in sales in this segment was higher than that in both the manufacturing sector as well as services sector (excluding banks and NBFCs).
- Total expenditure increased to Rs 43,947 cr in Q1-FY16 from Rs 38,742 cr in Q1-FY15 while the rate of growth in expenditure was 12.5% and 13.4% respectively.
- Net profits grew at a lower rate of 4% in Q1-FY16 compared with 45% in Q1-FY15.
- Net profit margin slowed down marginally from 22% in Q1-FY15 to 21% in Q1-FY16.

**Table 4: Performance Summary of IT and ITES sector**

	Q1-FY15 (Rs. cr)	Q1-FY16 (Rs. cr)	Q1-FY15 (% Growth)	Q1- FY16 (% Growth)
<b>Net Sales</b>	52,032	60,176	15.8	9.6
<b>Expenditure</b>	38,742	43,947	13.4	12.5
<b>Net Profit</b>	13,341	13,877	44.8	4.0
<b>Ratios</b>		<b>Q1-FY15</b>		<b>Q1-FY16</b>
<b>Net Profit Margin</b>		22.0		21.0

Source: ACE Equity

#### d. Banking sector

- The financial performance of 39 banks showed that the growth in aggregate interest income moderated to 8.1% in Q1-FY16 as against 12.9% during the same period in the previous year.
- Interest expenses too registered a moderation in growth at 7.6% compared with 13.9% last year.
- Provisions and contingencies which include provisions for NPAs registered growth of 38.5% (-8.3%). It may be inferred that they made higher provisions for NPAs this quarter as banks have made such adjustments for restructured assets on similar lines from April 2015 onwards.
- Net profits grew at negative rate of -7.4% in Q1-FY16 compared with positive growth rate of 3.3% in the same period last year. Net profit margin also came down to 8.5% from 9.9% in the same period.
  - This may be attributed to higher increase in operating cost as well as provisions.
- Asset quality
  - Gross NPAs stood at Rs 3,20,554 cr in Q1-FY16 increasing by Rs 69,521 cr over Q1-FY15. This indicates growth of 27.7% in gross NPAs across 39 banks on top of 20.9% growth rate in Q1-FY15. Quite clearly there has been a major increase in the NPAs in the last 2 years.
  - Total advances for these banks witnessed lower growth rate of 9.6% in Q1-FY16 compared with growth rate of 14.6% in the same period last year.
  - The Gross NPA ratio increased continuously from 3.74% in Q1-FY14 to 3.97% in Q1-FY15 to 4.63% in Q1-FY16.
  - Net NPA ratio increased from 2.12% to 2.28% to 2.64% during these time periods.
- The capital adequacy ratio profile for Q1-FY16 for 30 banks looked like the following:
  - 4 had CAR of above 13%,
  - 8 between 12 and 13%
  - 12 between 11 and 12%
  - 5 between 10 and 11%
  - And 1 below 10%

**Table 5: Performance summary of 39 banks**

Growth Rate (%)	Q1- FY15	Q1-FY16
Interest income	12.9	8.1
Interest Expenses	13.9	7.6
Operating Expenses	8.5	12.9
Provisions and contingencies	-8.3	38.5
Net Profit	3.3	-7.4
Net Profit Margin	9.9	8.5
Gross NPAs	20.9	27.7
Net NPAs	23.2	26.3
Gross NPA ratio	3.97	4.63
Net NPA ratio	2.28	2.64

Source: ACE Equity

#### e. NBFCs

A study of a sample of 56 NBFCs analyzed here reveals that these companies have performed better than most other sectors of the economy. Table 6 provides the information regarding the performance of a sub sample of the aggregate NBFCs

- Net sales registered an increase of 11.7% in Q1-FY16 as against 8.7% in the previous year.
- Total expenses, however increased at a higher rate of 17.3% as against 15.2% in the same period of last year.
- As expenditure grew at a faster rate than sales, net profit grew at a lower rate of 3.2% (8.2%).
  - Net profit margin declined from 15.7% in Q1-FY15 to 14.5% in Q1-FY16.

**Table 6: Performance Summary of NBFCs**

	Q1-FY15 (Rs. cr)	Q1-FY16 (Rs.cr)	Q1-FY15 (% Growth)	Q1-FY16 (% Growth)
Net Sales	10,723	11,976	8.7	11.7
Expenditure	3,235	3,794	15.2	17.3
Net Profit	1,688	1,742	8.2	3.2
<b>Ratios</b>		<b>Q1-FY15</b>		<b>Q1-FY16</b>
Net Profit Margin		15.7		14.5

Source: ACE Equity

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## B. Industry wise analysis

At the macro level, the IIP grew at 3.2% for Q1-FY16 which was lower than 4.5% in Q1-FY15. Growth was affected by the mining and quarrying sector (2.9% in Q1-FY15 to 0.7% in Q1-FY16) while some recovery was witnessed in the manufacturing sector. The table below provides information on industry wise performance, covering 66 sectors. The indicators included are sales growth, profit margin and interest cover. In short, growth in sales improved for 24 industries, NPM in 30 industries and interest cover for 41 industries.

- Net Sales growth improved in case of 24 sectors** – Some of the sectors that showed improved growth rates of net sales are Forgings (-1.1% to 33.7%), Cables (-0.45 to 29.8%), Ferro & Silica Manganese(-22% to 6.1%), Solvent Extraction (-33.5% to -9.3%), Breweries and Distilleries (-4.8% to 10%), Tea/Coffee (-1.5% to 12.7%), Compressors (-10.4% to 3.5%), Printing and Stationary (1% to 13.7%), Non-ferrous metals (4.4% to 14.2%),Hotels/Resorts & Restaurants (3.2% to 11.7%) and Automobiles (4.2% to 11.4%).Wood products (-6.1% to 4.6%).
- Growth in net sales declined in 42 sectors** – The major slowdown in growth was seen for Dyes Pigments(46.9% to 26.4%), Rubber &Rubber products(24.9% to -16.3%), Industrial gases and fuels(19.7% to -17.4%), Refineries(12.3% to -23.3%), Cigarettes and Tobacco(23.8% to -7.7%), Mining (6.9% to -23.7%), Pharmaceutical &Drugs (35.5% to 5.9%), Telecommunications Equipment (29.9% to 0.9%) and Aluminium & aluminium products (24.4% to 5.2%).
- Net Profit Margin improved in case of 34 sectors** - Some of the sectors which witnessed significant improvements in NPM include TV Broadcasting &Software(-12.3% to 13.2%), Hotels/Resorts & Restaurants(-11.3% to 0.2%), Medical Equipment(10.1% to 17.3%), Films production and distribution(0.2% to 7.4%), Tyres and allied products (5.9% to 10.9%), Lubricants(8.3% to 12.9%), refineries (2.6% to 6.2%), Chemicals (5.6% to 9.1%), Ceramics (1.5% to 4.4%), and Petrochemicals (-0.9% to 1.6%).
- Net Profit Margins declined in case of 32 sectors** – The sectors which saw a decline in their NPM are Telecommunications equipment (39.1% to 6.9%), Mining and Minerals(59.8% to 37.5%), Breweries/Distilleries (22.4% to 4.5%), Pharmaceuticals & Drugs(30.7% to 16.2%), Sugar(-5.7% to -15%), Dyes & pigments(15.6% to 6.5%), Finance(19.8% to 11.1%), Steel and iron products(3.8% to -0.4%) among other sectors.
- Interest Cover improved in the case of 40 sectors-** The sectors that witnessed improvement in their interest cover include Cigarettes & Tobacco (146.2 to 178.2), Paints (36.6 to 62.3), non-ferrous metals (53.7 to 75.4), Refractories(63.1 to 84.2), Household & Personal Products (77.2 to 98.0), Oil Exploration (74 to 89.6), Lubricants (19.4 to 33.5), TV broadcasting and software (-0.3 to 7.1), Tyres & allied products(4.9 to 10.3), Refineries(6.5 to 11.8), and Medical Equipment and Supplies (8.7 to 12.8).
- Interest cover worsened in case of 23 sectors** – Some of the sectors that showed a worsening of interest cover comprise Dyes &Pigments(19.0 to 9.8), Mining (23 to 14.9), Pharmaceuticals &Drugs (17.2 to 10.4), Solvent extraction(8 to 1.7), telecommunications equipment (8.4 to 3.3), IT-Software (70.0 to 64.9), Breweries/Distilleries(4.6 to 2.7), Telecommunications Service Providers (6.0 to 4.0), and Castings and Forgings (1.8 to 0.5).

Table 7: Industry wise performance summary

Industry	No. Cos	Net Sales (% Gwth)		Profit Margin (%)		Interest Cover	
		FY15	FY16	FY15	FY16	FY15	FY16
Aluminum & Aluminum Products	14	24.4	5.2	6.2	2.8	3.3	1.7
Auto Ancillary	69	7.6	5.6	5.9	6.9	6.1	7.9
Automobiles	14	4.2	11.4	7.1	8.2	6.4	7.6
Batteries	7	13.9	0.9	8	8.2	15.9	18.4
Bearings	12	16.4	6.5	9	8.1	22.6	23.7
Breweries & Distilleries	10	-4.8	10	22.4	4.5	4.6	2.7
Cable	12	-0.4	29.8	2.6	2.9	1.9	1.9
Castings & Forgings	22	14.5	16.4	2.6	-4.2	1.8	0.5
Cement & Construction Material	36	9.9	0.2	6.7	3.4	2.6	1.7
Ceramics, Marble, Granite, Sanitary ware	16	17.9	7.7	1.5	4.4	1.9	3.4
Chemicals	86	10.2	-1.9	5.6	9.1	3.5	5.0
Cigarettes & Tobacco	5	23.8	-7.7	22.9	25.2	146.2	178.2
Compressors	9	-10.4	3.5	3.8	5.3	4.0	5.7
Construction- Real Estate	92	3.9	-1.3	9.0	6.5	1.7	1.5
Consumer Durables	12	11.2	5.8	5.1	2.5	6.2	7.9
Consumer Food	44	4.5	-11.3	0.7	-1.2	2.3	1.7
Diamonds & Jewellery	18	-5.9	-5.8	3.9	3.7	4.1	4.8
Diesel Engines	5	3.5	6.3	13.8	13.1	*	*
Dyes & Pigments	19	46.9	-26.4	15.6	6.5	19	9.8
Electric Equipment	24	-7.9	0.9	-0.4	1.9	1.2	2.3
Electrodes & Welding Equipment	9	10.7	-14.7	6.3	3.3	4.4	3.5
Electronic- Components	20	10.8	10.2	4.4	1.1	8	1.7
Engineering	36	1.1	3.1	6.1	6.6	4.9	5.0
Fasteners	5	12.4	4.6	5.3	5.3	4.0	3.9
Ferro & Silica Manganese	10	-22	6.1	-6.4	-4.3	0.3	0.4
Fertilizers	19	20.9	6.3	2.5	1.1	2.3	1.8
Film Production, Distribution etc	26	16.6	20	0.2	7.4	1.3	3.5
Finance	145	19	13.4	19.8	11.1	1.4	1.4
Forgings	18	-1.1	33.7	3.7	3.8	2.2	2.3
Hospital & Healthcare Services	20	18.2	16.2	5.8	5.3	3.4	3.5
Hotel, Resorts & Restaurants	24	3.2	11.7	-11.3	0.2	0.3	1.4
Household & Personal Products	19	13.7	7.9	13.3	13	77.2	98
Industrial Gases & Fuels	11	19.7	-17.4	1.5	2.9	3.3	4.1
IT- Software	100	16.4	10.4	24.8	22.7	70	64.9
Leather	16	14.3	8.8	6.4	8.3	5.9	6.9
Logistics	15	2.8	8.9	10.2	9.5	4.7	4.9
Lubricants	8	-3.0	-5.4	8.3	12.9	19.4	33.5
Medical Equipment, Supplies & Accessories	8	1.6	9.6	10.1	17.3	8.7	12.8
Metals- Non Ferrous	10	4.4	14.2	40.8	41.9	53.7	75.4
Mining & Minerals	18	6.9	-23.7	59.8	37.5	23	14.9

NBFCs	110	10.7	12.5	16.3	14.5	1.5	1.4
Oil Exploration	11	13.6	0.5	23.5	24.4	74	89.6
Packaging	37	20.6	11.2	0.7	0.9	1.4	1.6
Paints	7	16.1	6.1	9.5	11.9	36.6	62.3
Paper & Paper Products	36	6.3	7.3	0.8	-0.3	1.1	1.1
Pesticides & Agrochemicals	22	12.8	4.3	7.8	8.5	6.8	7.2
Petrochemicals	7	16.6	3.3	-0.9	1.6	1.0	2.1
Pharmaceuticals & Drugs	90	35.5	5.9	30.7	16.2	17.2	10.4
Plastic Products	50	13.6	5.8	5	6	2.7	3.4
Power Generation & Distribution	22	13.1	-0.8	12.8	14.2	2.7	2.5
Printing & Publishing	11	10.9	4.9	14.3	13.8	13.8	14
Printing & Stationary	6	1.0	13.7	0.8	2.6	1.3	2.6
Refineries	7	12.3	-23.3	2.6	6.2	6.5	11.8
Refractories	7	0.9	2.4	10.2	11	63.1	84.2
Rubber & Rubber Products	8	24.9	-16.3	4.0	3.9	3.0	3.2
Shipping	14	-11.2	-7.0	5.4	7.8	1.6	1.7
Solvent Extraction	14	-33.5	-9.3	6.3	1.5	9.5	3.5
Steel & Iron Products	43	10.5	2.1	3.8	-0.4	1.9	1
Sugar	33	-5.0	-4.7	-5.7	-15	0.3	-0.7
Tea, Coffee	24	-1.5	12.7	2.4	1.6	2.3	2.2
Telecom Equipment	19	29.9	0.9	39.1	6.9	8.4	3.3
Telecommunication service provider	7	11.4	9.8	11.8	9.9	6.0	4.0
Textile	140	12.1	-3.0	2.8	4.7	1.9	2.5
Transmission Towers & Equipment	5	11.3	2.6	1.4	-2.2	1.4	0.9
TV Broadcasting & Software Production	21	10.2	4.2	-12.3	13.2	-0.3	7.1
Tyres & Allied	9	8.7	-1.1	5.9	10.9	4.9	10.3
Wood & Wood Products	10	-6.1	4.6	10.2	11.0	63.1	84.2

Source: ACE Equity

\*: Ratio distorted by extreme numbers

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