

Corporate Performance: Q2-FY16

Overview:

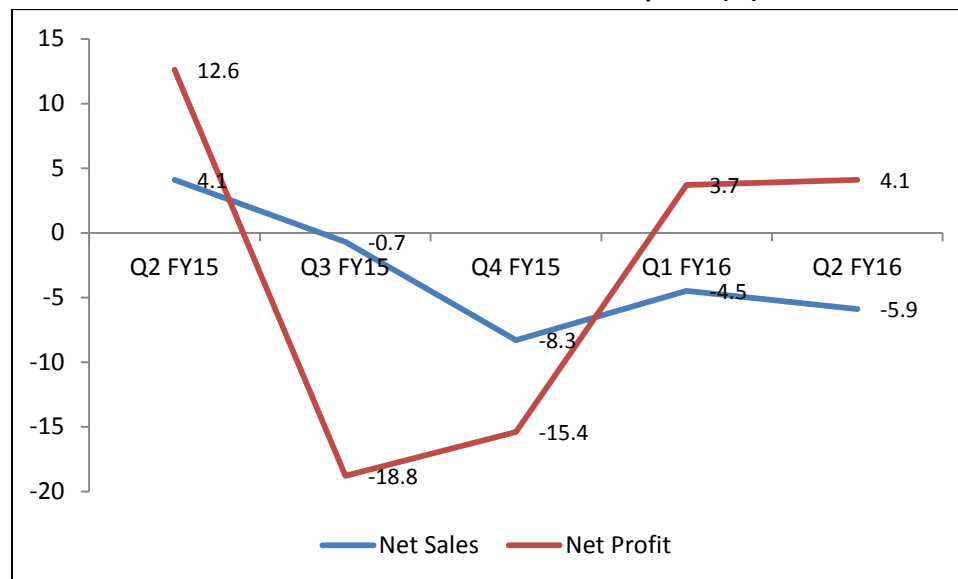
A study of the performance of 2,074 companies showed that net sales declined by 5.3% in H1-FY16 as against growth of 7.0% in H1-FY15. Net profit witnessed a positive growth of 4.1% which was however lower compared with 24.8% growth in H1-FY15.

Taking a look at the quarterly performance, a sample of 2,054 companies showed that net sales declined by 5.9% in Q2-FY16 compared with 4.1% increase in the previous year while net profit increased by 4.1% compared with a growth of 12.6% in Q2-FY14.

The negative growth in net sales is largely attributed to weakness in demand and pricing power. Despite negative producer's inflation as measured by the WPI signaling also lower raw material costs, growth in profits do not appear to be satisfactory.

The graph below maps the quarterly net sales and net profit movement from Q2-FY15

Chart 1: Growth in net sales & net profit (%)



Source: ACE Equity

Net Sales after recording a positive growth in Q2-FY15, has witnessed negative growth in the next four quarters. Net profit experienced a negative growth in Q3-FY15 and Q4-FY15 which turned into positive growth for the next two quarters.

Sector wise Analysis

Manufacturing Sector

Net sales of a sub-sample of 1,367 manufacturing companies declined in Q2-FY16 by 12.7% as against an increase of 1.5% during the same period of FY15. Net profits grew by 8.2% for these companies compared with negative growth of 7.3% last year. The results are affected significantly by the presence of refinery companies which witnessed volatile performance on account of the sharp movement in the price of crude oil. Excluding the oil companies, net sales declined by 0.2% while net profits grew at a higher rate of 10.6%. Table 1 below provides information on the financial performance of the manufacturing sector.

Table 1: Performance Summary of manufacturing sector (1,367 companies)

	Q2-FY15 (% Growth)	Q2-FY16 (% Growth)
Net Sales	1.5	-12.7
Expenditure	1.9	-14.1
Interest	-1.1	-3.3
Net Profit	-7.3	8.2
Ratio		
Net Profit Margin	4.8	6.0
Interest Cover	4.3	4.6

Source: ACE Equity

During the second quarter of the year, the manufacturing sector, as represented by the IIP component, at the economy level had grown at a slightly higher rate of 1.5% compared with 0.4% last year. The financial performance of the 1,367 sample companies in this sector revealed the following;

- Growth in net sales declined sharply from 1.5% in Q2-FY15 to -12.7% in Q2-FY16.
- Growth in total expenditure experienced negative growth of 14.1% in FY16 as against growth of 1.9% in FY15
- Net profits increased by 8.2% in Q2-FY16 compared with negative growth of 7.3% in Q2-FY15.
- The profit margin, taken as ratio of PAT to net sales showed an improvement in tandem with the growth rate of net profit as it increased to 6.0% in Q2-FY16 from 4.8% in Q2-FY15.
- Interest cover, defined as the Profit before Interest and Tax (PBIT) to interest, increased marginally from 4.3 in Q2-FY15 to 4.6 in Q2-FY16.

Size wise Analysis

This section of the study breaks down the sample of 1,367 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 second quarter of FY16. Table 2 below gives the composition of the sample differentiated across various size groups for Q2-FY16.

The 105 companies in the size range of sales of above Rs 1,000 crore each, constituted 77.3% 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 9.0% and 5.9% respectively. Hence, the top 328 companies in terms of sales above Rs 250 crore each accounted for 92% of the total sales.

Table 2: Sample Profile by Size

Size Range (Rs. Crore)	No. Of Companies	Net Sales (% Growth)	Net Profits (% Growth)	Net Profit Margin	Interest Cover
Above 1,000	105	-15.6	4.3	6.6	6.3
500-1,000	97	1.6	22.8	5.8	3.0
250-500	126	-1.5	16.0	5.2	3.2
100-250	211	0.8	-21.3	2.5	1.9
Less than 100	828	-8.5	-70.9	-1.8	1.0

Source: ACE Equity

The size wise breakdown provides some interesting results:

- The largest sized companies witnessed the highest negative growth in sales of 15.6%, followed by the lowest group (Less than Rs 100 crore) with a negative growth of 8.5%
- Except size group between Rs 100-250 crore and less than 100 crore, the other three groups witnessed positive growth in net profit
- Profit margin was highest for the companies with turnover of over Rs 1,000 cr in Q2-FY16. This ratio kept declining with the size groups
- Interest cover was highest for the companies with turnover of over Rs 1,000 cr in Q2-FY16. This ratio here also kept declining with the size groups and the lowest size group had a cover of just 1.0. Quite clearly the smaller companies had lower interest cover reflecting the pressure on their P & L.

Banking sector

Table 3: Summary Performance of 37 banks

Growth Rate (%)	Q2- FY15	Q2-FY16
Interest income	10.8	7.0
Interest Expenses	11.2	5.7
Operating Expenses	11.0	10.8
Provisions and contingencies	-0.5	22.0
Net Profit	29.5	-1.5
Net Profit Margin	8.3	7.7
Gross NPAs	1.9	26.8
Net NPAs	18.7	22.9
Gross NPA ratio	4.2	4.9
Net NPA ratio	2.4	2.7

Source: ACE Equity

- The reduction in interest rates by the RBI over this period as well as lower levels of banking business affected the performance of bank interest income and expenditure.
 - The financial performance of 37 banks showed that the growth in aggregate interest income moderated to 7.0% in Q2-FY16 as against 10.8% during the same period in the previous year.
 - Interest expenses too registered a moderation in growth at 5.7% compared with 11.2% last year.
 - Growth in net interest income was almost unchanged at 10% in the Q2-FY16.
- Provisions and contingencies which include provisions for NPAs registered growth of 22.0% (-0.5%). Gross NPAs too increased at a higher rate this quarter. It may be pointed out that the restructured assets of banks are to be treated on par with NPAs in case of non-performance from FY16 onwards.
- Net profits declined by 1.5% in Q2-FY16 compared with positive growth rate of 29.5% in the same period last year, which may be attributed more to higher provisions as operating expenses growth was virtually unchanged. Net profit margin also came down to 7.7% from 8.3% during this period.
- Asset quality
 - Gross NPAs stood at Rs 3,36,685 crore in Q2-FY16 increasing by Rs 71,129 crore over Q2-FY15. This indicates growth of 26.8% in gross NPAs across 37 banks on top of 16.9% growth rate in Q2-FY15.
 - **The Gross NPA ratio increased continuously from 4.0% in Q2-FY14 to 4.2% in Q2-FY15 to 4.9% in Q2-FY16.**
 - Net NPA ratio increased from 2.3% to 2.4% to 2.7% during these time periods.
- The capital adequacy ratio profile for Q2-FY16 for 27 banks looked like the following:
 - 6 had CAR of above 13%,
 - 5 between 12 and 13%
 - 11 between 11 and 12%
 - And 5 below 11%

Industry wise analysis

At the macro level, the IIP grew at 4.6% for Q2-FY16 which was higher than 1.3% in Q2-FY15. Growth was majorly boosted by recovery in the manufacturing sector; which witnessed a growth of 4.6% in Q2-FY16 as against 0.4% in Q2-FY15. The table below provides information on industry wise performance, covering 51 sectors. The indicators included are sales and net profit growth, profit margin and interest cover.

- **Net Sales growth improved in case of 12 sectors** – Some of the sectors that showed improved growth rates of net sales are Pharmaceuticals (11.8% to 18.6%), Cables (13.5% to 15.0%), Petrochemicals (-13.9% to 13.3%), Hotels (6.3% to 8.5%), Plastic products (5.9% to 7.1%), Engineering (-1.3% to 5.8%), Metals (3.2% to 4.4%)

- **Growth in net sales declined in 39 sectors** – The major slowdown in growth was seen for Agriculture (93.9% to -50.1%), Steel & Iron (4.1% to -17.4%), Mining & Minerals (41.1% to -12.8%), Consumer food (7.0% to -12.5%), Chemicals (3.9% to -5.5%), Rubber Products (9.7% to -4.8%)
- **Net Profit growth improved in case of 29 sectors** – Some of the sectors that showed improved growth rate are Pharmaceuticals (23.5% to 92.7%), Dyes & Pigments (64.8% to 87.2%), Plastic Products (1.2% to 48.5%), Abrasives (18.5% to 37.8%), Aluminium (-77.7% to 31.5%), Power Generation (14.3% to 30%), Chemicals (7.2% to 22.3%)
- **Growth in net profit declined in 21 sectors** – The major slowdown in growth was seen for Steel & Iron (41.1% to -76.6%), Real Estate (28.4% to -53.1%), Casting/Forging (2.8% to 29.6%), Cable (7.6% to -6.5%), Printing (8.2% to -3.5%), Pesticides & Agrochemicals (10.3% to -2.6%)
- **Net profit margins** were positive for 44 industries, only 7 industries namely, Sugar, Glass, Hotels, Casting/Forging, Packaging and Mining & Minerals had negative margins.
- Interest Cover ratio profile for 51 industries looks like;
 - 9 sectors had interest cover above 10 times,
 - 13 sectors between 5 – 10 times
 - 25 sectors between 1 and 5 times
 - And 4 sectors below 1 time (glass, hotels, mining and sugar)

Appendix

Table 1: Industry wise performance

Industry	No of Companies	Net Sales (%)		Net Profit (%)	
		Q2 FY15	Q2 FY16	Q2 FY15	Q2 FY16
Abrasives	4	10.8	4.7	18.5	37.9
Agriculture	6	93.9	-50.1	*	*
Air Conditioners	4	7.8	3.1	*	-19.8
Aluminum & Aluminum Products	8	-49.9	-9.5	-77.8	31.5
Auto Ancillary	67	14.0	5.6	12.2	34.1
Automobile	19	12.9	10.9	-27.8	*
Batteries	5	25.1	2.2	10.3	19.7
Bearings	11	12.3	2.4	*	*
Breweries & Distilleries	9	9.5	6.5	-97.3	*
Cable	16	13.5	15.0	7.6	-6.5
Castings/Forgings	19	32.5	-4.5	2.8	-29.5
Cement	30	14.8	3.1	*	-42.8
Ceramics	20	13.1	5.2	*	*
Chemicals	89	3.9	-5.5	7.2	22.3
Consumer Durables	19	13.8	3.2	15.8	15.9
Consumer Food	66	7.0	-12.5	*	-18.9
Diamond & Jewellery	26	-26.6	-6.3	*	-18.9
Diversified	20	3.6	4.9	-5.7	7.2
Dyes & Pigments	24	5.5	1.9	-64.8	87.2
Electric Equipment	33	-13.4	3.8	*	*
Electronics	23	22.0	7.3	*	37.3
Engineering	118	-1.3	5.8	3.6	7.3
Fertilizers	16	7.5	2.8	24.0	5.7
Finance	347	13.7	11.5	17.5	-8.5
Glass	13	5.3	-3.2	-90.9	*
Hotel, Resort & Restaurants	32	6.3	8.5	-53.3	-78.8
Household & Personal Products	18	12.9	5.8	11.1	3.7
IT	16	-4.8	4.4	*	*
Leather	9	20.6	2.5	7.5	33.2
Metal	15	3.2	4.4	29.0	5.3
Mining & Minerals	17	41.1	-12.8	76.5	*
Oil Exploration	11	-10.8	-1.5	-33.0	-6.3
Packaging	28	16.7	14.0	-80.8	-43.3
Paints	8	14.7	3.8	8.1	17.5
Paper & Paper Products	33	2.3	4.2	*	*
Pesticides & Agrochemicals	21	10.3	-4.7	10.3	-2.6
Petrochemicals	7	-13.9	13.3	*	95.3
Pharmaceuticals & Drugs	99	11.8	18.6	-23.6	92.7
Plastic Products	58	5.9	7.1	1.2	48.5
Power Generation/Distribution	23	8.7	6.1	14.4	30.0

Printing	17	6.0	-0.4	8.2	-3.5
Real Estate	78	9.6	-4.2	28.4	-53.1
Refineries	8	-3.9	-28.8	-40.2	10.8
Rubber Products	8	9.7	-4.8	*	-24.9
Steel & Iron	74	4.1	-17.4	41.1	-76.6
Sugar	23	-6.4	-13.9	-53.4	-60.6
Tea/Coffee	18	4.4	4.3	-19.1	-5.3
Telecom	13	14.0	2.4	*	-46.0
Textile	216	2.3	-3.8	16.6	19.1
Tyres & Allied	10	6.6	-0.9	54.8	44.7
Wood & Wood Products	5	-11.9	2.9	29.4	19.3

Source: ACE Equity, *: Ratio distorted by extreme numbers

Table 2: Industry wise performance

Industry	No of Companies	Net Profit Margin		Interest Cover	
		Q2 FY15	Q2 FY16	Q2 FY15	Q2 FY16
Abrasives	4	8.4	11.1	*	*
Agriculture	6	2.5	16.1	0.9	2.0
Air Conditioners	4	5.1	4.0	6.2	5.3
Aluminum & Aluminum Products	8	1.1	1.5	1.3	1.5
Auto Ancillary	67	4.9	6.2	4.6	6.7
Automobile	19	3.4	7.5	7.3	12.6
Batteries	5	8.0	9.3	*	*
Bearings	11	8.5	8.5	*	*
Breweries & Distilleries	9	0.8	26.8	1.4	8.3
Cable	16	3.5	2.8	2.0	1.7
Castings/Forgings	19	0.1	-1.6	1.3	1.0
Cement	30	6.8	3.8	3.5	2.4
Ceramics	20	-0.1	3.9	1.5	4.8
Chemicals	89	5.9	7.6	3.8	4.6
Consumer Durables	19	4.7	5.3	7.1	9.1
Consumer Food	66	4.5	4.1	5.1	3.8
Diamond & Jewellery	26	4.0	3.5	2.6	2.3
Diversified	20	8.6	8.8	5.4	5.8
Dyes & Pigments	24	3.2	5.9	3.0	4.7
Electric Equipment	33	-2.0	0.8	0.8	1.4
Electronics	23	7.8	9.9	16.9	*
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Fertilizers	16	4.3	4.5	3.7	3.9
Finance	347	21.6	17.8	1.5	1.4
Glass	13	-0.6	-4.2	1.1	0.7
Hotel, Resort & Restaurants	32	-12.1	-2.4	0.2	0.6
Household & Personal Products	18	13.2	12.9	*	*
IT	16	1.7	0.3	3.3	1.6
Leather	9	5.6	7.3	6.8	7.1
Metal	15	46.6	47.1	*	*

Mining & Minerals	17	4.2	-0.2	2.0	0.9
Oil Exploration	11	24.9	23.7	*	*
Packaging	28	-1.0	-0.5	0.8	1.2
Paints	8	8.8	10.0	*	*
Paper & Paper Products	33	0.2	3.4	1.0	1.9
Pesticides & Agrochemicals	21	9.3	9.6	8.1	7.9
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