Corporate Performance: Q4 FY18 and FY18

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Note: The following study includes analysis of company's performance that announced results on or before May 28, 2018.

The financials of 1,377 companies in Q4 FY18 *(Chart 1 & 2)* over the last year (Q4 FY17) reveals subdued performance, with net sales showing slower growth during the quarter vis-à-vis Q4 FY17 while net profits registering a sharp double-digit decline of 53.4% vis-à-vis a growth of 30.7% in Q4 FY17. Net sales growth slowed down to 9.1% in Q4 FY18 after registering a growth of 11.4% in Q4 FY17.

Usually, the overall performance gets skewed to an extent due to the performance of banks which are guided by other exogenous factors. Banks have been affected by NPA recognition and provisioning which finally affects profits.

In Q4 FY18, after excluding the banks and finance companies *(Chart 3 & 4),* the performance of industry (1,344 companies) depicts almost similar trend as that of the aggregate sample in terms of sales. However, in terms of profits, the aggregate performance of companies witnessed a sharp improvement and increased by over 29.3% y-o-y vis-à-vis a marginal decline of about 3.1% registered in Q4 FY17.

As can be seen, the Indian economy has been slowly picking momentum leaving behind the demonetization and GST implementation concerns that hampered industry performance between Q3 FY17 and Q2 FY18.

Chart 1: Net sales growth rate (%)

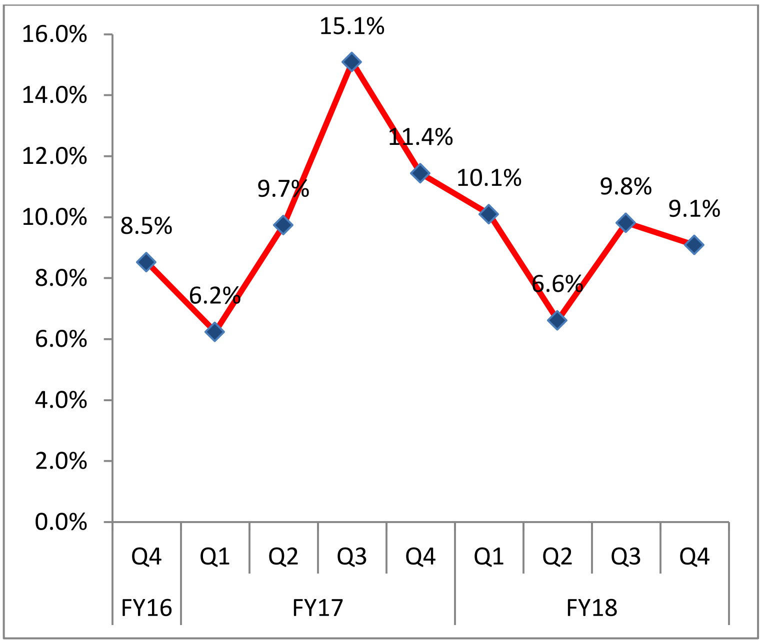
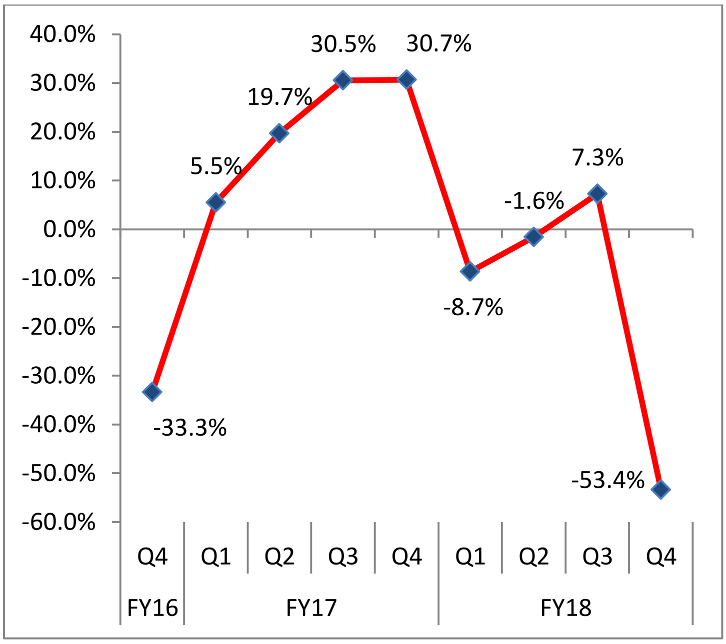


Chart 2: Net profit growth rate (%)



Source: AceEquity

Chart 3: Net sales – Excluding banks (%)

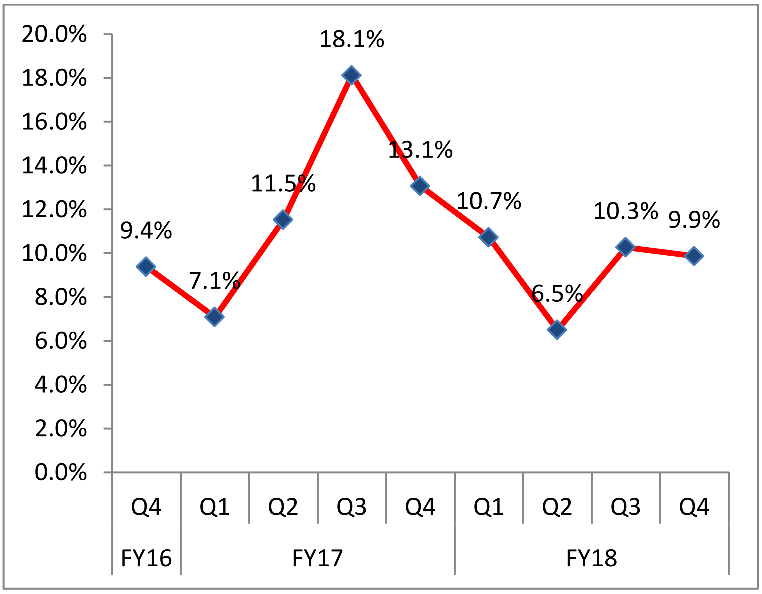
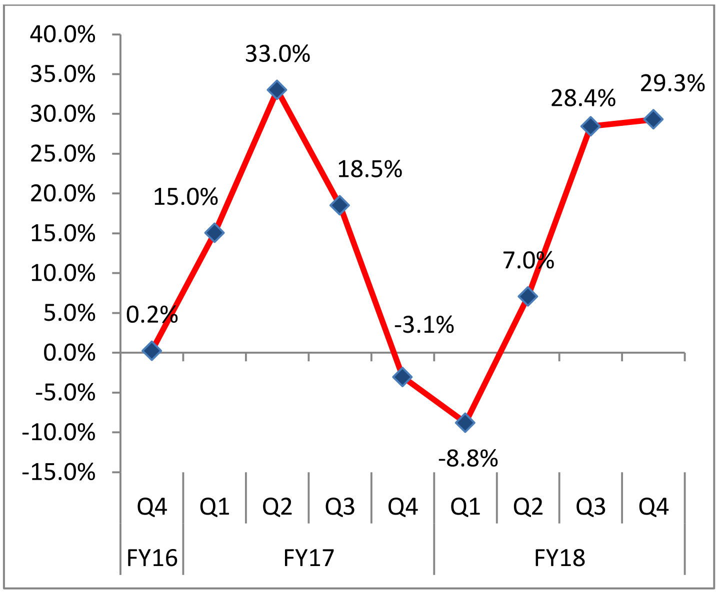


Chart 4: Net profits – Excluding banks (%)



Source: AceEquity

Overall performance – FY18

For the aggregate sample of 1,256 companies, sales registered a growth of 10.9% y-o-y vis-à-vis a growth of 6.4% in FY17 while net profits have registered a decline of about 11% compared with a double-digit growth witnessed during the corresponding period last year. Excluding banks, the growth in sales was higher at 11.8% compared with 7% during same period last year.

Table 1: Aggregate performance (all companies)

1,256 companies	FY16	Rs crore FY17	FY18	Growth (%) FY17	FY18
Net sales	3,987,624	4,242,115	4,705,400	6.4	10.9
Net profits	275,188	330,201	294,193	20.0	-10.9
Net profit margin (%)	6.9	7.8	6.3		

Source: AceEquity

In terms of movement in net profit margin there has been a decline to 6.3% vis-à-vis 7.8% registered last year. Excluding banks, margins increased by about 30 basis points to 8.5% in Q4 FY18. *(Tables 1 and 2)*

Table 2: Industry performance – Excluding banks (%)

Excluding Banks 1,222 companies	FY16	Rs crore FY17	FY18	Growth (%) FY17	FY18
Net sales	3,192,110	3,416,720	3,820,589	7.0	11.8
Net profits	244,817	281,633	324,080	15.0	15.1
Net profit margin (%)	7.7	8.2	8.5		

Source: AceEquity

Interest cover

Interest cover (ratio of PBDIT/interest) has been calculated for the sample of 966 companies (excluding banks and finance). *The interest cover improved to 7.2 times in FY18 from 6.5 times in FY17.*

Industry-wise analysis

The table below provides information on industry wise performance of 51 sectors. The indicators included are net sales and net profit growth for two financial years.

Table 3: Growth in Net Sales – FY17 & FY18 (%)

Industry	No of companies	FY17	FY18
Consumer Goods (Non-discretionary)	**110**	**1.7**	**4.2**
Consumer foods	20	6.8	9.0
Sugar	11	5.8	9.4
Tea/Coffee	9	121.8	51.1
Solvent Extraction	11	1.4	13.4
Pharmaceuticals & drugs	48	-1.4	1.7
Household & Personal products	11	3.3	2.9
Consumer Goods (Discretionary)	**51**	**19.8**	**8.8**
Textiles	43	36.6	15.0
Consumer Durables-Domestic Appliances	5	21.4	8.7
Consumer Durables-Electronics	3	7.3	6.6
Automobiles & Related	**53**	**9.2**	**11.8**
Passenger Cars	2	19.0	5.5
Tractors	2	18.6	19.3
Two & Three Wheelers	5	2.0	10.6
Auto Trucks/LCVs	3	5.1	21.2
Tyres & allied services	7	-18.0	-34.4
Auto Ancillary	34	12.8	8.3
Capital Goods	**88**	**3.5**	**10.7**
Engineering	56	0.7	7.4
Electronics -Components	5	4.5	2.6
Electrodes & welding Equipment	4	-0.8	145.7
Electric Equipment	17	3.0	-3.6
Telecom Equipment	6	27.3	24.2
Metals	**40**	**14.2**	**16.1**
Steel & Iron products	30	19.4	14.4
Aluminium & aluminium products	3	10.2	22.4
Metals - Non-ferrous	7	6.5	18.8
Construction/Real Estate	**94**	**4.1**	**4.5**
Cement	20	5.9	6.4
Ceramics/Marble/Granite/Sanitary ware	9	5.2	-0.2
Construction - Real Estate	44	-2.6	1.7
Engineering Construction	21	4.3	2.9
Banking	**34**	**3.5**	**7.0**
Banks - Public	18	-0.2	5.8
Banks - Private	16	12.4	9.6
Finance	**103**	**13.7**	**15.9**
Housing Finance	12	15.7	14.5
Finance - NBFC	91	11.4	17.5
Services	**91**	**13.9**	**6.0**

Hospitals & Healthcare Services	7	11.3	7.7
Retailing	13	47.0	12.6
IT- Software	52	9.2	4.7
Telecommunications - Service Providers	5	2.1	-14.3
Hotels, Resorts & Restaurants	14	7.2	6.1
Oil/Refinery/Mining	**14**	**8.7**	**14.7**
Mining & minerals	7	-0.9	71.2
Refineries	5	8.8	14.5
Oil Exploration	2	-10.5	55.0
Others	**96**	**-1.7**	**9.2**
Pesticides & Agrochemicals	10	10.2	1.1
Fertilizers	9	-17.1	9.1
Dyes & pigments	6	5.6	9.1
Paper & Paper products	17	9.6	2.8
Diamond & Jewellery	6	14.2	16.6
Rubber products	5	14.3	4.6
Plastic products	30	7.9	4.5
Glass	3	1.7	0.6
Paints	4	5.8	0.9
Industrial Gases & Fuels	6	-6.6	15.1

Source: AceEquity, CARE Ratings

- Of the 50 industries considered here, majority of industries have witnessed positive growth in sales during FY18 except for 5 industries. Out of these, with positive sales growth, 19 industries registered y-o-y higher growth vis-à-vis FY17. Some of the leading industries were consumer goods, solvent extraction, auto – tractors, two & three wheelers and trucks/LCVs, metals – aluminium and non-ferrous, banking and finance – NBFCs and mining, refinery and oil exploration, fertilizers, dyes & pigments, diamond & jewellery, industrial gases and fuels, etc.
- 5 industries witnessed negative y-o-y growth in net sales of FY18 with significant declines witnessed in electric equipment, ceramics/marble/granite/sanitary ware and telecom service providers.

Conclusions

- Sales in industries related to households where demand is inelastic remained witnessed growth of about 100 basis points with nominal slowdown in sugar.
- Consumer industries like textiles and consumer durables grew y-o-y but at a slower pace
- Also, consumer industries which gets extended to auto segment witnessed an improvement led by tractors, two & three wheelers and trucks/LCV segments on back of release of pent up demand from the previous quarters along with favorable monsoon.
- Services like telecom service providers were affected most perceptibly on back of continued price wars among telecom players that led to a decline in sales during the quarter. Growth in construction/real estate related activities registered y-o-y growth as marginal signs of improvement in demand was seen. The banking and finance companies (both housing finance and NBFCs) also did well.

Table 4 provides information on growth in net profit for various industry groups classified under specified headings.

Table 4: Net Profit FY17 & FY18

Industry	No of companies	Net Profit (Rs Crore)			Growth in Net Profit (%)	
		FY16	FY17	FY18	FY17	FY18
Consumer Goods (Non-discretionary)	**110**	**21,557**	**24,798**	**19,964**	**15.0**	**-19.5**
Consumer foods	20	2,377	2,541	3,166	6.9	24.6
Sugar	11	-328	1,462	-2,812	*	*
Tea/Coffee	9	386	529	719	37.1	35.9
Solvent Extraction	11	836	1,058	984	26.5	-7.0
Pharmaceuticals & drugs	48	11,051	11,197	8,805	1.3	-21.4
Household & Personal products	11	7,235	8,012	9,102	10.7	13.6
Consumer Goods (Discretionary)	**51**	**3,543**	**3,814**	**3,934**	**7.6**	**3.1**
Textiles	43	2,774	2,656	2,480	-4.2	-6.6
Consumer Durables-Domestic Appliances	5	716	1,019	1,198	42.2	17.6
Consumer Durables-Electronics	3	53	139	256	161.8	84.8
Automobiles	**53**	**23,233**	**23,255**	**25,517**	**0.1**	**9.7**
Passenger Cars	2	5,332	7,334	7,778	37.5	6.1
Tractors	2	175	284	457	62.3	60.9
Two & Three Wheelers	5	8,936	9,360	10,187	4.7	8.8
Auto Trucks/LCVs	3	378	-1,144	536	*	*
Tyres & allied services	7	5,101	3,947	3,023	-22.6	-23.4
Auto Ancillary	34	3,311	3,474	3,536	4.9	1.8
Capital Goods	**88**	**3,215**	**2,351**	**4,208**	**-26.9**	**79.0**
Engineering	56	2,396	2,561	2,666	6.9	4.1
Electronics-Components	5	-3	55	8	*	-85.2
Electrodes & welding Equipment	4	123	81	2,009	-33.7	2,371.1
Electric Equipment	17	1,456	792	1,033	-45.6	30.4
Telecom Equipment	6	-757	- 1,139	-1,509	*	*
Metals	**40**	**-8,486**	**27,078**	**26,930**	*****	**-0.5**
Steel & Iron products	30	-5,331	6,045	8,668	*	43.4
Aluminium & aluminium products	3	1	7	23	437.4	216.3
Metals - Non-ferrous	7	-3,156	21,025	18,239	*	-13.3
Construction/Real Estate	**94**	**6,562**	**4,657**	**8,661**	**-29.0**	**86.0**
Cement	20	1,908	1,324	5,889	-30.6	344.7
Ceramics/Marble/Granite/Sanitary ware	9	419	527	497	26.0	-5.8

Construction - Real Estate	44	2,800	1,369	258	-51.1	-81.1
Engineering Construction	21	1,435	1,436	2,017	0.1	40.4
Banking	**34**	**29,957**	**47,587**	**-31,511**	**58.8**	*
Banks - Public	18	-10,366	5,229	-71,573	*	*
Banks - Private	16	40,323	42,358	40,062	5.0	-5.4
Finance	**103**	**22,707**	**6,228**	**7,874**	**-72.6**	**26.4**
Housing Finance	12	12,795	3,482	4,086	-72.8	17.3
Finance - NBFC	91	9,912	2,746	3,788	-72.3	37.9
Services	**91**	**63,364**	**18,039**	**13,633**	**-71.5**	**-24.4**
Hospitals & Healthcare Services	7	206	97	87	-53.0	-9.8
Retailing	13	666	170	153	-74.5	-9.8
IT- Software	52	52,609	15,605	16,236	-70.3	4.0
Telecommunications - Service Providers	5	9,773	2,139	2,868	-78.1	-234.1
Hotels, Resorts & Restaurants	14	110	29	25	-74.1	-12.8
Oil/Refinery/Mining	**14**	**44,689**	**62,014**	**65,470**	**38.8**	**5.6**
Mining & minerals	7	432	555	957	28.5	72.6
Refineries	5	44,241	61,414	64,452	38.8	4.9
Oil Exploration	2	16	45	60	175.8	32.5
Others	**96**	**11,648**	**15,207**	**18,619**	**30.6**	**22.4**
Pesticides & Agrochemicals	10	1,259	1,460	1,852	16.0	26.9
Fertilizers	9	1,694	2,653	3,254	56.6	22.7
Dyes & pigments	6	22	47	37	113.1	-21.9
Paper & Paper products	17	-44	-249	2	*	*
Diamond & Jewellery	6	1,107	1,240	1,791	12.0	44.4
Rubber products	5	28	34	34	23.6	-0.4
Plastic products	30	1,361	1,676	1,802	23.2	7.5
Glass	3	-78	35	-102	*	*
Paints	4	2,741	2,532	2,571	-7.6	1.6
Industrial Gases & Fuels	6	3,558	5,778	7,377	62.4	27.7

*Note: values marked as * cannot be considered due to high +/- impact*

Source: AceEquity, CARE Ratings

- 4 industries namely telecom service providers, PSBs, telecom equipment, sugar reported net loss during the quarter
- 30 industries registered positive growth in FY18 out of which 13 industries witnessed growth lower than that in the comparable period last year while the rest posted y-o-y higher profits in FY18.
- 18 industries registered y-o-y decline in net profits during the quarter. Maximum decline was witnessed in pharmaceutical & drugs, tyres & allied services, metals, electronics components, construction real estate, private

banks, telecom service providers, hotels, resorts & restaurants, dyes & pigments, etc. Profitability of rubber and hospitals were also impacted.

Below mentioned are various factors contributing to the growth and de-growth in sales and profit for the financial year 2018 (FY18) as mentioned in various company presentations. ***However, some industries such as glass, paints, textiles, plastics, ceramics, etc. are highly unorganised and therefore the performance will not necessarily be reflected in the analysis mentioned below.***

- **Cement:**
  - Execution and implementation of infrastructure projects have picked up considerably post Q3 FY18. Road projects under "**Bharatmala**" and **Metro and Smart projects** have led to sharp demand for cement industry.
  - Affordable housing and overall improvement in construction activity in both rural and urban areas in housing have led to steady demand from the real estate segment.

- **Automobiles:**
  - Auto industry has recovered post the various policy implementations during the year namely - BS-III vehicles ban, GST implementation and rate revisions and has managed to post healthy sales in FY18 on back of **on back of near normal monsoon in most parts of the country and increased farm activities along with higher farm incomes and disposable incomes.**
    - Tractor segment has benefitted from this during the quarter**.**
  - Commercial vehicles – trucks-M&HCVs/LCVs segment has witnessed strong y-o-y sales on back of infrastructure related policy announcements by government during the year.
  - **With launch of new models** in passenger vehicles and two wheeler segments, demand has been continuously rising in the country.
    - Also exports registered witnessed strong sales during the quarter for all segments.
  - Industry registered higher profits during the quarter that can be attributed to healthy sales booked coupled with lower expenses.

- **Household & personal products:**
  - The demand for the industry being non-discretionary, the industry sales registered growth **led by volumes** during the quarter.
  - **With tax incidence on various products coming down post GST, many players passed on the benefits to consumers by offering discounts and various schemes to maintain the volume sold during the year**.

- **Pharmaceuticals and drugs:**
  - Sales registered growth, however only marginally high at 1.7% in FY18 as the industry continues to witness regulatory challenges in the US market. Exports to the US market increased by 6.2% y-o-y to USD 1.3 billion in the Q4 FY18 supporting the industry's sales growth during the year
  - However, profits registered y-o-y decline of over 21% on back of **increased competition and price erosion in the US generic market** during the quarter.

- **Non-ferrous metals:**
  - Sales have registered a growth of about 19% aided by improved demand from construction, power and automobile sectors.
  - **Global aluminum and copper prices increased by about 21% and 25%** respectively during the quarter.
  - Also, higher production led by **operational efficiencies** in aluminum industry has helped the players register double-digit growth in profits during the quarter.

- **Fertilizers:**
  - Sales registered positive growth of over 9% in FY18 vis-à-vis a decline of about 17% in FY17.
  - The fertilizer segment was benefitted from shift in product mix towards the high-realization NPK fertilizers, and increase in fertilizer prices
  - **Led by higher operational efficiencies along with lower finance costs and additional subsidy disbursement by government,** profits recorded a sharp double-digit growth in the year.
  - Also, more states have been added in the Direct Benefit Transfer (DBT) purview on a pilot basis reducing the working capital pressure faced by the players due to delayed subsidy payouts by the government.

- **Steel & iron:**
  - The industry's performance registered growth which was however lower than FY17 on sales front on a y-o-y basis backed by **higher steel prices on account of a growth in international prices along with improved domestic demand**. The prices of HR coils, CR coils and TMT bars averaged at Rs 46,075 per tonne, Rs. 49,436 per tonne and Rs 39,935 per tonne, respectively, during the year. The **prices grew by 18-20%** on a y-o-y basis
  - Also, cost-control initiatives by a top player supported the industry's performance during the quarter.
  - **Out of the companies that declared results, top 5 players (accounting for about 80% of the market) have registered a cumulative sales growth of about 16% y-o-y in FY18.**

- **Textiles:**
  - Textiles sales during the year improved at a slower pace vis-à-vis a higher growth posted in the corresponding period last year led by **slower pick-up in demand led by GST disruptions during the year. Volume sales were affected on account of various rate changes under the tax regime.**
  - Also, sharp appreciation in rupee and reduced duty drawback during the quarter led to slower movement in profits booked on exports.

- **Construction**:
  - Industry has witnessed only a marginal growth of 1.7% in FY18 over a decline of 2.6% in FY17 due to subdued construction activities in organized real estate in second half of Q1 & Q2 FY18.
  - Q1 & Q2 FY18 witnessed negligible inventory addition on account of introduction of RERA. However, large real-estate players followed up with launches beginning Q3 especially in the residential segment
- **Sugar:**
  - Sugar industry witnessed a lower growth in net sales during FY18 vis-à-vis FY17. While the sugar prices remained higher on a y-o-y basis in the first two quarters of the Fy18, they started declining on a y-o-y basis in the next two quarters on account of bumper production during the sugar season 2017-18. This, in turn, affected the industry's operating performance.

- The small grade sugar prices in Mumbai averaged at Rs.35.9 per kg during FY18, a y-o-y decline of 3.3%.

- **Telecom:**
  - Industry was affected by **ongoing intense competition** among the telecom players leading to double-digit decline in the sales growth during FY18.
  - This has resulted in decline of industry's Average Revenue per User (ARPU) in each of the quarters. **The all-India GSM ARPU averaged at Rs 81 during the period Apr-Dec 2017 vis-à-vis Rs 117 during the corresponding period previous year, a y-o-y fall of about 31%.**
  - In addition to this, the Interconnection Usage Charges **(IUC) was reduced to 6 paise per minute from 14 paise per minute** in September 2017 and International Termination Charges (ITC) was cut to 30 paise per minute from 53 paise per minute in January 2018 which also impacted the industry's performance during FY18.

- **Paints:**
  - Sales increased only marginally during the quarter on back of **slower recovery in demand post GST implementation** vis-à-vis last year season.
  - However, profits have registered a marginal growth of about 1.6% in FY18 vis-à-vis a decline of about 7.6% in FY17.

- **Solvent Extraction:**
  - The industry's sales were influenced **by mixed off take of volumes** during the year. Net sales registered a growth of 13.4% y-o-y over a 1.4% during the same period last year.
  - An **increase in edible oil import duties** by the government on varieties of edible oils in November 2017 are believed to have resulted in higher prices of edible oils.

- **Paper & paper products:**
  - Industry registered slower growth of about 3% in sales on a y-o-y basis.
  - Increasing demand, **better product mix, and lower finance costs** coupled with higher volumes supported the demand for the industry during the year.

- **Diamond & Jewellery:**
  - Net sales witnessed a higher growth of 16.6% in FY18 vis-à-vis a growth rate of 14.2% during FY17.
  - With organized sector growing at a faster rate, improvement in **product mix and higher sales of studded jewellery** along with **cost control** drove the demand for the sector
  - However, GST refunds and increasing working capital requirements have tempered numbers to some extent

- **Finance - NBFC:**
  - Bank loans to NBFCs has registered a sharp double-digit growth of about 27% in FY18 vis-à-vis a growth of about 11% in FY17 while bank credit to housing segment has witnessed a rise of over 13% in FY18.
  - This has resulted in NBFCs witnessing a 17.5% growth in sales in FY18 over 11.4% in FY17 along with increasing trend of financialization of savings, better risk management, Pradhan Mantri Awas Yojana (PMAY) and tax incentives for Mid-Income Affordable Housing and increase in small ticket home loans.

- **Glass:**
  - Sales registered marginal increase of 0.6% y-o-y in FY18 led by **sluggish demand** from user industries for most varieties of glass.
  - While increase in output of automobiles helped fibre glass to witness rise in business orders, slow movement in construction activity during H1 FY18 restricted the rise

- **Ceramics/Marble/Granite/Sanitary ware:**
  - The industry witnessed **slower off-take** from user industry along with issues related to **GST implementation** (tax rate on tiles under GST increased to 28% vis-à-vis 12-14.5% rates earlier, this rate was revised to 18% later)
  - Margins of the players were impacted on back of high operational costs

- **Plastic products:**
  - Industry net sales grew but at a slower pace of 4.5% y-o-y vis-à-vis 7.9% growth registered during the corresponding period previous year.
  - **Demand for PVC** in India dropped by ~6% in H1 FY18 on lower demand from agricultural sector. Also, demand remained low from real estate sector due to disruption caused by RERA. Demand during the year was also impacted on account of de-stocking and re-stocking activity before and after the GST implementation. However, **reduction in GST rate from 28% to 18%** in November 2017 boosted the growth to the industry in H2 FY18.

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