

Corporate Performance for FY12

A study of the performance of 1,961 companies showed that net sales increased by 21.3% in FY12 as against 20.8% in the previous year while net profit declined by 5.3% in FY12 compared with a growth of 19.3% in FY11. However, **corporate performance, as represented by a sample of 1,701 non financial companies** shows that while there has been steady **growth in sales by 17.5%, net profit declined by 16.5%**. The IIP growth during the year was just 2.8% compared with 8.2% for the same period in the previous year, hence growth in sales can be termed as satisfactory. This is in contrast to the scenario in FY11 when both sales and net profit registered growth rates over above 17%.

Tables 1 and 2 give information on the financial performance for the two financial years FY11 and FY12 (Table 1) as well as quarterly performance during FY12 (Table 2).

The overall performance of the non-financial companies can be attributed to the following factors

- Net sales registered a growth of 17.5% in FY12 compared with 20.4% in the previous year. Growth in net sales peaked in Q1 with 25%, moderated in Q2 and remained flat in Q3. However, Q4 saw a significant drop, with net sales increasing by 11.9% for that quarter. The continuous decline in growth rate is significant as it shows a trend that needs to be arrested. This was also in line with the declining trend in IIP growth that set off from the quarter ending March 2011 onwards. Therefore, it is now a case of 5 successive lower growth rates in quarterly industrial production.
- Higher growth in total expenses relative to sales in FY12.
 - High growth in raw materials cost due to inflation has been an important driver of this phenomenon. The raw materials to sales ratio has been high over the year (increased from 58.8% in FY11 to 60.3% in FY12) indicating thereby that raw material cost rose at a faster rate than sales. Producers were unable to pass on the higher costs fully to the consumers, thus putting pressure on profits.
 - The comforting factor has been control in increase in salaries and wages which has been more moderate despite rising inflation, growth was 15.7% in FY11 (16% in FY12).
- The persistent increase in interest rates by the RBI since March 2010 pushed up the growth in interest costs to 39.2% in FY12 compared with 19.7% in FY11. The RBI had increased the repo rate by 175 basis points from 6.75% as on March 31, 2011 to 8.50% as on March 31, 2012. The average base rate of banks increased from 9.12% to 10.48% during this period.

- The quarterly growth rates in interest costs for the sample shows a very gradual slowdown in Q3 and Q4 from 45.8% in Q2 to 43.2% in Q3 and 37.6 % in Q4.
- Increase in Interest expenses for the sample companies led to a lower interest cover of 4.4 times for the financial year FY12 as against 6.3 times in FY11
- Net profit registered a negative growth of 16.5% in the last financial year compared with 17.5% growth in FY11. As in case of net sales, growth in net profit also peaked in Q1, consequent to which it registered a negative growth in the subsequent three quarters.
- Net profit margin, defined by net profit to sales ratio stood at 6.9% last year. Profit margin deteriorated in Q2 and Q3 for the year but improved to 7.5% in the last quarter.

Table 1 and Table 2 below give information on the overall performance of these sample companies for all the four quarters and the overall financial year.

Table 1: Summary Performance of 1,701 companies (Annual)

Growth (%)	FY11	FY12
Net sales	20.4	17.5
Other & extra-ordinary income	57.6	-0.7
Change in stock	49.2	-33.7
Total expenses	22.0	19.6
Raw materials	25.4	20.5
Salaries and wages	15.7	16.0
Interest expenses	19.7	39.2
Depreciation	15.1	8.8
Provisions and contingencies	22.3	1.7
Net profit	17.5	-16.5
Ratios		
Net profit to sales	9.6	6.9
Interest to sales	2.4	2.8
Raw materials to sales	58.8	60.3
Interest cover	4.4	6.3

Source: CMIE

Table 2: Summary Performance of 1,701 companies (FY12)

Growth (%)	Q1	Q2	Q3	Q4
Net sales	25.2	19.0	20.2	11.9
Other & extra-ordinary income	32.1	-45.0	58.0	57.2
Change in stock	-70.5	77.9	192.0	-86.0
Total expenses	25.4	21.3	27.5	13.3
Raw materials	29.7	24.4	27.8	11.2
Salaries and wages	20.4	17.5	19.4	15.2
Interest expenses	31.4	45.8	43.2	37.6
Depreciation	9.2	10.0	10.6	5.2
Provisions and contingencies	25.0	-25.1	28.2	5.0
Net profit	2.9	-34.0	-33.3	-6.6
Ratios				
Net profit to sales	7.8	6.7	4.9	7.5
Interest to sales	2.4	2.8	2.7	2.9
Raw materials to sales	59.9	60.2	61.7	59.6
Interest cover	5.5	4.3	3.9	4.6

Source: CMIE

Industry-wise performance

- **Growth in net sales improved in case of**
 - food and beverages,
 - synthetic textiles,
 - paints,
 - drugs and pharmaceuticals,
 - petroleum products,
 - cement,
 - gems & jewellery,
 - ferrous metals,
 - aluminium products,
 - Information Technology,
 - Banking and other financial services.

- **Negative sales growth was witnessed in case of**
 - Electronics
 - Passenger cars.

- **One of the factors affecting industry was high inflation where high raw materials cost could not be passed on to the consumers. The sectors impacted significantly were:**
 - Food products, textiles, pesticides, fertilizers, petroleum products, polymers, gems & jewellery, glass, ceramic products, ferrous metal products, aluminum products, polymers, electricity, commercial vehicles, two wheelers and passenger cars.
 - Share of raw materials to sales declined in case of dyestuff, drugs and pharmaceuticals, tyres and tubes, cement, electrical machinery, and electronics.
- **Eight industry groups witnessed an improvement in net profit growth;** Food and beverages, pesticides, paints, cosmetics, cement, Auto ancillaries, IT and other financial services.
- Net profit margin defined as a ratio of profits to net sales declined from 9.6% to 6.9% for the last year.
 - The industries that showed improvement in profit margins were: Cosmetics (11.9% to 12.5%), Cement (9.4% to 9.7%), IT (20.0% to 20.6%) and other financial services (56.0% to 68.7%).
- Interest cover defined as sum of interest, provisions and net profit to interest payments declined for the sample from 6.3 times in FY11 to 4.4 times in FY12. The industries witnessing sharp declines in interest cover were:
 - Synthetic textiles (6.9 to 4.1), Fertilizers (7.1 to 5.2), Electricity (6.1 to 4.2), Drugs and Pharmaceuticals (8.8 to 5.0) and Gems & Jewellery (7.0 to 4.5)

Industry specific factors

1. Cement: was able to improve profits mainly due to better capacity utilization and sales.
2. Telecom services: registered negative growth in profits due to consumer traction as well as regulatory intervention.
3. IT sector: Profits improved despite low global economic activity, driven by better internal management and innovation.
4. Aluminium sector: Profits were under pressure due to higher fuel costs and lower realizations on aluminium sales.

5. Ferrous metals: Sales were buoyant on account of good demand; however profits were under pressure on account of higher raw material costs.
6. Paints: Sales and profits improved due to robust sales in all the verticals.
7. Banking: Profits rose on demand for loans from both large and small companies and mortgages from individuals. However, margins under pressure due to higher interest outgo.
8. Electricity: registered a loss due to unavailability of domestic coal, high prices of imported coal and limited availability of transmission lines.
9. Tyres and tubes: Sales grew at a slower rate due to lower replacement demand as well as disturbances in certain production lines, affecting net profit of the sector as well.
10. Drugs and pharmaceuticals: Profitability was affected by stagnant demand and higher raw material costs
11. Passenger cars were impacted by high interest rates and lower consumption sentiment.
12. Two wheelers: maintained its profit margin due to increase in exports and effective use of raw materials.
13. Construction: Sales increased marginally; affected by low economic activity and capital formation coupled with rising interest costs.

Banking sector

The performance of 40 banking companies showed that net sales (all interest income) increased by 33.5% in FY12 as against 20.2% in the previous year. Interest expenses grew at a significantly higher rate of 43.8% (10.7%) while increase in salaries and wages was moderate at 7.2% (34.5%). The growth in net interest income defined as net sales minus interest expense declined to 16.5% (40.1%) in FY12 which shows the impact of rising interest rates during the year. As a result the net profit saw a decline in growth rate to 15.4% as against 19.8% in the previous year.

The Gross NPAs and the Net NPAs increased by 46.3% (23.2%) and 56.8% (13.9%) respectively in the last financial year. This reflects the growing strain in the economy.

Annexure

Table 3: Industry wise growth in Net Sales, Net profits and Net profit margin

	Net Sales		Net Profits		Net Profit Margin	
	FY11	FY12	FY11	FY12	FY11	FY12
Food and Beverages	19.6	22.2	-48.5	23.3	1.7	1.7
Cotton textiles	30.0	5.4	*	*	4.5	-1.4
Synthetic textiles	-3.8	10.0	-26.8	-30.4	9.6	6.1
Fertilizers	24.0	7.4	55.3	-17.0	6.6	5.1
Pesticides	12.7	12.3	-23.2	10.6	5.5	5.4
Paints	23.7	24.4	4.4	18.3	11.1	10.6
Dyestuff	35.6	7.4	62.2	-90.8	5.1	0.4
Drugs & Pharmaceuticals	14.7	16.4	13.4	-61.3	14.9	5.0
Cosmetics	11.6	11.6	6.4	17.2	11.9	12.5
Polymers	43.7	2.4	50.8	-34.2	5.1	3.3
Petroleum	28.4	31.2	26.4	-23.0	7.1	4.2
Tyres & tubes	21.5	16.1	-41.8	-30.9	2.7	1.6
Cement	11.5	22.5	-30.3	26.3	9.4	9.7
Glass	15.8	14.8	-15.0	-24.7	3.9	2.6
Gems & Jewellery	29.5	60.2	51.6	32.6	4.6	3.8
Ceramic products	32.9	28.3	*	-54.8	4.6	1.6
Ferrous metals	17.5	18.4	9.8	-17.9	8.9	6.2
Aluminium products	30.7	36.8	56.2	-39.4	5.9	2.6
Copper products	19.9	14.2	30.3	7.8	9.2	8.7
Non electrical machinery	22.5	10.5	31.3	3.2	8.1	7.6
Electrical machinery	15.8	6.4	-16.3	-38.1	5.9	3.4
Electronics	-7.7	-11.6	-20.7	-13.6	2.6	2.5
Commercial vehicles	54.3	14.9	49.0	-10.3	5.6	4.4
Passenger cars	23.4	-3.2	-6.4	-29.9	6.1	4.4
Two wheelers	28.4	20.6	36.6	3.7	14.2	12.2
Auto ancillaries	33.5	12.7	-2.2	21.1	7.0	7.6
Diversified	16.9	12.3	*	-83.6	32.6	4.7
Electricity	18.0	17.5	8.5	-8.3	17.1	13.4
Hotels	24.2	10.6	20.7	-2.9	13.7	12.0
Telecom	13.8	11.9	-22.7	-70.5	9.2	2.4
IT	18.6	20.1	15.2	23.9	20.0	20.6
Construction	14.5	14.8	9.6	-9.6	9.5	7.5
Banking	20.2	33.5	19.8	15.4	13.5	11.7
Other financial services	21.9	24.2	26.5	52.4	56.0	68.7

* Unusually high growth rates (positive as well as negative)

Table 4: Raw materials to Sales (%) and Interest Cover ratio

	Raw materials to Sales		Interest Cover ratio	
	FY11	FY12	FY11	FY12
Food and Beverages	77.1	77.9	1.8	1.8
Cotton textiles	65.1	66.1	2.2	0.8
Synthetic textiles	66.0	67.8	6.9	4.1
Fertilizers	74.1	75.1	7.1	5.2
Pesticides	57.5	59.6	2.8	2.7
Paints	61.6	62.5	#	#
Dyestuff	74.0	73.4	3.1	1.6
Drugs & Pharmaceuticals	47.1	45.4	8.8	5.0
Cosmetics	52.7	52.6	#	#
Polymers	74.8	79.2	6.3	3.7
Petroleum	80.7	85.2	8.4	6.4
Tyres & tubes	73.3	72.6	2.8	1.6
Cement	18.7	18.0	6.0	6.0
Glass	28.4	29.7	2.0	1.5
Gems & Jewellery	88.0	91.3	7.0	4.5
Ceramic products	53.2	56.7	2.6	1.6
Ferrous metals	55.2	56.1	3.6	2.7
Aluminium products	72.2	73.4	3.0	1.8
Copper products	76.6	76.4	9.3	6.1
Non electrical machinery	65.0	65.0	10.0	8.5
Electrical machinery	74.3	73.2	5.8	3.4
Electronics	66.7	66.0	2.0	1.9
Commercial vehicles	74.6	75.0	5.2	3.7
Passenger cars	77.6	79.3	#	29.0
Two wheelers	72.6	73.2	#	#
Auto ancillaries	62.5	62.5	5.6	5.6
Diversified	68.3	67.8	24.7	3.7
Electricity	60.5	63.7	6.1	4.2
Hotels	5.2	5.5	5.0	3.5
Telecom	5.9	5.5	4.9	1.7
IT	7.8	6.8	26.9	22.1
Construction	36.1	37.2	4.2	3.2
Banking	n.a	n.a	1.5	1.4
Other financial services	1.4	1.5	2.4	2.7

Unusually high numbers

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