Financial Performance of Companies: Q3-FY12

Corporate performance for Q3-FY12, as represented by a sample of 1,521 companies shows that while there has been continued steady top line growth with ***sales increasing by 23.6%, net profits declined by 5.1%***. The IIP growth during this quarter was just 0.9% compared with 8.6% for the same period of 2010 and hence growth in sales has been fairly satisfactory even after adjusting for inflation of between 9-10%. This is contrast to the scenario in the third quarter of FY11 when both sales and net profit registered growth rates over above 20%. The picture is the same when looked at cumulatively for 9 months for the same set of companies.

The lower performance may be attributed to the following factors:

1. Higher growth in total expenses relative to sales in 2011-12. This in turn has been due to a combination of various factors. High growth in raw materials cost due to inflation has been the most important driver of this phenomenon. Inflation during this quarter on an average basis at 8.8% was comparable with that in 2010 at 8.9%. The raw materials to sales ratio has increased over the time period chosen 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. This ratio had increased from ***42.1% to 44.7%*** in the two periods.

High inflation was witnessed in case of tractors, motor cycles, machine tools, ferrous metals, petrochemicals intermediates, fertilizers and food products such as edible oils, beverages. Shortfall in coal production had also led to an increase in coal prices.

2. The relentless increase in interest rates by the RBI increased the average base rates of banks from ***8.88% in April to 10.38%*** in December i.e. 150 bps. This has pushed up interest costs, which when measured as a per cent of sales increased from 14.3% in Q3-FY11 to 17.3% in Q3-FY12. Interest expenses for the sample companies had shown the sharpest increase of 48.9% in this quarter (48.5% for the cumulative 9 months period), which has lowered the interest cover from ***2.58 times in Q3-FY11 to 2.10 in Q3-FY12.***

Two mitigating factors however have been:

- Increase in salaries and wages has been more moderate despite rising inflation. This in turn has affected to a certain extent the overall consumption demand pattern emanating from personnel working in the formal sector.
- Overall growth in provisions has been lower even over the 9 months period.

Table 1 below gives information on the overall performance of these sample companies for the two periods: third quarter and cumulative first three quarters of the year.

Table 1: Summary performance of 1,521 companies

Growth (%)	**Q3-FY11**	**Q3-FY12**	**9 Months FY11**	**9 Months FY12**
Net sales	20.0	23.6	20.3	24.5
Total expenses	19.7	29.5	20.3	27.3
Raw materials	19.3	31.3	24.9	28.6
Salaries and wages	25.5	16.5	22.6	16.8
Interest expenses	17.8	48.9	7.6	48.5
Depreciation	3.1	14.1	15.4	9.7
Provisions and contingencies	27.0	14.2	26.7	11.0
Net profit	22.9	-5.1	24.8	-3.8
Ratios				
Net profit to sales	***12.9***	***9.9***	***13.6***	***10.5***
Interest to sales	***14.3***	***17.3***	***14.3***	***17.0***
Raw materials to sales	***42.1***	***44.7***	***42.6***	***44.0***
Interest cover	***2.58***	***2.10***	***2.66***	***2.15***

Industry-wise performance

- Growth in net sales improved in case of fertilizers, cosmetics, petroleum products, cement, ferrous metal products, electrical machinery, commercial vehicles, electricity, IT and banks. This was also synchronous with higher growth in the farm sector, and increased demand for consumer goods and improved performance of the basic goods and electricity sectors.
    - Negative sales growth was witnessed in case of cotton textiles and passenger cars.
- Net profit margin has declined for the sample companies from 12.9% to 9.9%. This was also witnessed over all the three quarters put together.

- Only three industry groups witnessed an improvement in net profit margins: cement, cosmetics etc and dyestuffs.

- As mentioned earlier, one of the factors affecting industry was high inflation where high raw materials cost could not be passed on to the consumers. The sectors specifically impacted significantly in this regard were:
  - Food products, textiles, paints, petroleum products, ceramic wares, ferrous metals, aluminum products, electronics, passenger cars, and electricity.
  - Share of raw materials to sales declined significantly in case of pesticides, polymers, tyres and tubes, gems and jewelry, and copper product.
- Interest cover defined as sum of interest, depreciation, provisions and net profit to interest payments declined for the sample from 2.6 to 2.1. While this sector was affected by high interest rates, a mitigant was lower borrowings during this period as reflected by the following.
  - Bank credit growth slowed down from 9.9% during Sept-Dec 2010 to 6.6% in Sep-Dec 2011.
- The industries witnessing sharp declines in interest cover were:
  - Telecom (17 to 5.8), electronics (12.8 to 9.0), non-electrical machinery (34.4 to 23.8), gems and jewelry (30.4 to 20.9), drugs and pharma (21.1 to 10.7), fertilizers (16.9 to 8.6) and textiles (both cotton and synthetics).

Industry specific factors

1. Cement was able to improve profit margin mainly due to better capacity utilization and sales despite pressure on profit on account of higher coal costs. The rupee depreciation in fact pushed up price of imported coal.
2. Telecom services were under pressure due to consumer traction as well as regulatory intervention.
3. Non-electrical machinery was affected by both lower demand as well as higher cost of raw material which lowered profit margins. In case of electrical machinery sales were up partly due to exports while domestic demand remained sluggish.
4. IT did have to bear the brunt of lower global economic activity though better internal management and innovation which improved growth in profit.
5. Copper and copper products. The decrease in profit was mainly on account of lower LME prices, higher coal costs and manufacturing expenses, which more than offset the benefit of higher volumes and realization on account of rupee depreciation.

6. Ferrous metals. While production and sales were buoyant on account of good demand, margins were under pressure on account of higher raw material costs. Steel prices had remained virtually flat during this quarter.
7. Tyres and tubes sales grew at a slower rate due to lower replacement demand as well as disturbances in certain production lines of companies. This affected overall growth in profits as well as profit margin.
8. Cosmetics and related products registered higher growth in sales due to a combination of new products and further penetration into the rural markets. This more than compensated for the higher cost of raw materials leading to an improvement in profit margin.
9. Drugs and pharmaceuticals profitability was affected by stagnant demand, higher raw material costs and higher growth in interest payments.
10. Petro-products performance was influenced to a large extent by global factors as well as weakness in domestic economic conditions especially in the refining and petrochemicals businesses.
11. Automobile industry (passenger cars and commercial vehicles) was impacted by higher petrol prices, high interest rates and lower consumption sentiment. Raw material costs increased due to higher exchange rate paid by the companies and a part of this was passed on to the consumers which impacted demand.
12. Two wheelers maintained its profit margin at a higher level due to steady growth in sales and effective use of raw materials where costs were buffeted by the depreciation of the rupee.
13. Construction sales affected directly by low economic activity and capital formation coupled with rising interest costs. This finally impacted profit margins.

Table 2: Industry wise growth in net sales and net profit and Net profit Margin

	Net sales		*Net profit*		*Net profit margin*	
Net sales	**Q3-2010**	**Q3-2011**	**Q3-2010**	**Q3-2011**	Q3-2010	Q3-2011
All companies	20.0	23.6	22.9	-5.1	12.9	9.9
Food products	15.9	11.1	0.8	-1.5	11.7	10.4
Cotton textiles	34.4	-5.8	268.9	-150.1	6.3	-3.4
Synthetic textiles	21.1	9.7	38.9	-41.7	38.9	-41.7
Fertilizers	12.7	22.8	49.3	-35.5	7.6	4.0
Pesticides	16.0	8.2	-25.2	7.4	5.6	5.6
Paints	33.6	21.5	17.9	22.5	9.6	9.7
Dyestuffs	49.9	17.3	-36.8	*	1.9	12.1
Drugs and pharma	12.7	12.1	26.4	-37.3	18.7	10.5
Cosmetics	11.5	17.1	-12.2	31.3	11.3	12.7
Polymers	29.8	15.1	403.1	-106.1	4.0	-0.2
Petroleum products	7.7	39.0	24.8	-20.4	7.1	4.1
Tyres and tubes	30.6	14.7	-34.6	-49.2	1.7	0.8
Cement	25.9	28.3	-21.8	99.0	5.3	8.3
Glass products	18.8	16.9	58.8	-47.7	6.9	3.1
Gems and jewelry	41.2	26.0	73.0	25.2	6.6	6.6
Ceramic products	44.1	34.8	*	13.1	4.3	4.1
Ferrous metals	15.4	22.9	0.4	-43.3	7.8	3.6
Aluminum products	0.2	2.5	65.5	-78.8	16.6	3.4
Copper products	18.6	5.6	426.0	-8.7	8.4	7.3
Non-electrical machinery	23.2	13.9	27.5	-5.0	12.0	10.0
Electrical machinery	11.3	13.2	-0.1	-29.2	7.2	4.5
Electronics	14.0	0.8	-23.1	-8.4	9.3	8.5
Commercial vehicles	27.5	30.2	-49.0	21.6	2.2	2.0
Passenger cars	25.7	-17.3	-12.3	-72.0	6.0	2.0
Two wheelers	33.7	17.2	11.5	25.2	10.4	11.2
Auto ancillaries	34.4	12.7	46.9	18.5	5.5	5.8
Diversified	28.1	12.5	-12.3	-124.1	5.7	-1.2
Electricity	12.4	22.3	-12.3	-28.6	18.7	10.9
Hotels	16.3	6.3	-3.4	-10.3	12.4	10.5
Telecom services	14.6	14.1	-23.2	-27.3	13.6	8.7
Information technology	20.5	30.2	15.9	23.6	23.0	21.8
Construction	30.6	15.6	11.2	-16.3	9.7	7.0
Banks	24.2	34.4	25.7	6.3	14.8	11.7
Other financial services	30.4	30.1	38.5	3.2	25.7	20.4

*: Big jump from positive to negative or vice versa

Table 3: Raw materials to sales and Interest cover

	Raw materials to sales		Interest cover	
Raw materials to sales	**Q3-2010**	**Q3-2011**	**Q3-2010**	**Q3-2011**
All companies	42.1	44.7	2.58	2.10
Food products	57.2	60.2	9.91	8.28
Cotton textiles	64.1	66.9	4.33	1.50
Synthetic textiles	61.2	67.4	10.92	7.05
Fertilizers	66.5	87.9	16.92	8.58
Pesticides	58.3	56.7	4.00	4.34
Paints	54.4	59.7	42.38	37.65
Dyestuffs	75.9	75.6	2.31	6.63
Drugs and pharma	39.0	41.9	21.09	10.68
Cosmetics	48.7	49.6	80.14	80.22
Polymers	83.5	77.6	3.81	1.78
Petroleum products	81.5	88.9	17.82	11.36
Tyres and tubes	75.1	71.7	2.68	1.72
Cement	22.5	21.1	4.90	6.12
Glass products	30.2	31.5	4.26	2.86
Gems and jewelry	77.6	65.6	30.44	20.87
Ceramic products	57.3	68.1	3.15	2.91
Ferrous metals	62.0	66.6	5.47	3.09
Aluminum products	18.1	22.3	*	*
Copper products	90.5	77.5	9.01	5.55
Non-electrical machinery	60.0	62.5	34.42	23.80
Electrical machinery	68.7	70.6	10.95	6.20
Electronics	60.3	64.2	12.78	9.02
Commercial vehicles	78.9	78.6	3.83	3.70
Passenger cars	77.0	80.8	*	*
Two wheelers	72.4	72.7	*	*
Auto ancillaries	64.0	63.6	6.25	5.77
Diversified	66.1	74.1	9.55	2.24
Electricity	56.0	62.5	7.65	5.14
Hotels	0.1	0.1	4.39	4.85
Telecom services	2.4	2.3	17.01	5.85
Information technology	4.3	4.2	*	*
Construction	41.5	41.6	5.65	4.27
Banks	@	@	@	@
Other financial services	0.6	0.1	1.75	1.52

*: samples give large numbers. @: not relevant for banks

Contact:

Madan Sabnavis	***Anuja Jaripatke***
Chief Economist	***Assocaite Economist***
madan.sabnavis@careratings.com	Anuja.jaripatke@careratings.com
91-022-67543489	*91-022-67543552*