CARE Ratings
Professional Risk Opinion

Corporate performance Q1-FY22

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Main findings

- Corporate performance as represented by a sample of 3008 companies reveals that there was a sharp increase in net sales and net profits mainly due to the base effects. Growth rates get moderated significantly when aggregates are compared over 2019.
- A size wise analysis shows that the smaller companies with quarterly sales of less than Rs 10 crore each witnessed a decline in sales compared with 2020. Further except for the size-group of above Rs 500 crore, all other segments witnessed lower sales in 2021 compared with 2019.
- Around more than half the sample companies had not yet reached the sales level of 2019 in the first quarter. Clearly there is a long distance to be travelled here.
- An industry wise analysis shows that there were 6 clear leaders in terms of growth in sales: banks, finance, IT, telecom, healthcare and agricultural products. Most services were pushed back and while growth was high compared with 2020, they had not reached the 2019 level. Overall, 18 of the 36 sectors considered here had sales levels lower than that of 2019.

A backdrop to interpreting numbers

The performance of companies was bound to be good, if not exaggerated in Q1 of this year due to the base effect. It may be recollected that last year, the lockdown meant that there was limited activity even in manufacturing for two months. The situation this year was different even through there were regional lockdowns as manufacturing got differentiated from services. Even for services, conditions were marginally better given that rules of engagement were different for some of them in certain states. The results hence have to be viewed keeping in mind these qualifications.

Aggregate performance

The table below gives a summary of the performance of 3008 companies for Q1. Figures for the last three years have been provided as well as growth rates in 2021 and 2020. In an attempt to even out the base effect in 2021, the last column reckons growth over 2019, which ,as can be seen, moderates the picture considerably.

3008 companies	Rs crore			Growth rate (%)		
Indicator	2019	2020	2021	2020	2021	2021 over 2019
Net Sales	18,29,821	13,24,756	18,93,569	-27.6	42.9	*3.5*
Cost of Services & Raw Materials	5,43,759	2,58,536	5,45,434	-52.5	111.0	*0.3*
Electricity Power & Fuel Cost	46,504	29,993	45,579	-35.5	52.0	*-2.0*
Employee Cost	1,60,359	1,65,561	1,86,095	3.2	12.4	*16.0*
Selling & Distribution Expenses	22,325	15,314	20,400	-31.4	33.2	*-8.6*
Interest	2,50,279	2,65,797	2,40,567	6.2	-9.5	*-3.9*
Depreciation	63,655	65,822	69,888	3.4	6.2	*9.8*
Profit after tax	1,25,208	30,953	1,68,301	-75.3	443.7	*34.4*

Source: CARE Ratings

- Growth in sales was impressive at 43% in 2021 but gets diluted to 3.5% when compared with 2019. Therefore, while there has been improvement in sales, it is still not very steady.
- Raw material costs have gone up sharply in 2021 relative to 2020 which is in accordance with the higher commodity prices being witnessed. But again, when compared with 2019, the increase is marginal at 0.3%. During the pandemic there was a tendency for commodity prices to fall as demand slackened sharply. A similar picture is seen for power costs which have decline compared with 2019. Here it is more due to physical consumption of power rather than price as the latter has been steady. Lower production and lockdown in 2020 meant decline in demand for power.
- The increase in staff costs is interesting because growth of 12.4% means that companies have been increasing both the headcount as well as salaries of the staff. In 2020 companies tended to cut back on salaries in a bid to check costs as establishments remained closed for 2 months.

- Interest costs exhibit a decline both when compared with 2019 as well as 2020. This is again due to a combination of two reasons. The first is that companies have tended to borrow less money from banks. In the first quarter there was a decline in credit by 1%. In case of both manufacturing and services growth was negative at 1.7% and 1.1% respectively. The second factor was the cost of capital which had come down over time. The average MCLR was down by around 25 bps. The WALR for fresh loans had come down by 62 bps between June 2020 and June 2021. Clearly the push given by the RBI of lowering the repo rate and enhancing liquidity in the system to maintain a net surplus of Rs 4-5 lakh crore helped corporates in managing their interest costs.
- The final impact of all these factors on profit was positive as seen in an impressive growth of 34.4% over 2019 (disregarding 2020 due to the large negative base effect).

The overall picture is not very different when the BFSI segment is excluded from the sample. It may be recollected that last year, the BFSI outperformed the rest of the corporate sector as they were fully operational. Besides the monetary stimulus provided by the RBI through the TLTROs and other measures did enhance the flow of funds to the NBFCs and kept their business steady. Growth in sales of the sample excluding BFSI was 2.3% over 2019 and net profit 26.8%.

Does size matter?

Sales in Q1 (Rs crore)

Sales Range of quarterly sales	Number	2019	2020	2021
Less than 10 crore	1,108	7,163	2,908	2,708
10-25	354	9,510	4,815	5,863
25-100	581	39,676	19,205	31,686
100-500	547	1,43,016	79,940	1,32,721
500+	418	16,30,456	12,17,888	17,20,590
Total	**3,008**	**18,29,821**	**13,24,756**	**18,93,569**

Source: CARE Ratings

While the overall performance does show that corporate performance has been very buoyant relative to 2020 and marginally better than 2019, a size-wise analysis shows that the performance was driven by the larger companies defined as those with quarterly sales each of above Rs 500 core. The table above shows that for the very small companies with sales of less than Rs 10 crore, the growth in sales was negative in 2021, meaning thereby that the second round of lockdown has pushed these MSE enterprises even further back this year. For the other companies in the three ranges of Rs 10-25 crore, Rs 25-100 crore and Rs 100-500 crore, while there was an improvement in sales in 2021 over 2020, it was still lower than that in 2019. Therefore, it was just 14% of these groups which had sales crossing the 2019 level.

Interestingly of the 3008 companies, only 1335, which is 44% of the sample, had sales which were higher than that in 2019. This means that nearly more than half the sample companies have not yet reached their 2019 levels. Further if 224 companies are excluded which registered less than Rs 1 crore increase in sales, the proportion comes down to 37%. 711 companies had witnessed lower sales in 2021 relative to 2020.

In terms of profits, the companies in the range of Rs 0-10 crore and Rs 10-25 crore witnessed losses for the second successive quarter. Again, roughly half the companies witnessed lower profits in 2021 relative to 2020.

Therefore, the picture emerging is that the performance has been driven more by the larger companies and that roughly half the sample has still not recovered from the double lockdown.

How about performance of industries?

This is also interesting as it has been observed that the lockdown had affected sectors in a disparate manner. Those in manufacturing and in the essential category which includes healthcare, FMCG including food products, and to an extent infra based like metals and cement tended to do better than others in both the rounds of lockdowns. Services like hotels, foreign trade based, entertainment, retail etc. did tend to encounter challenges due to the differing rules of engagement.

The table below gives information of growth in sales of industries which have not yet recovered.

Growth in sales: Industries where growth negative relative to 2019 (%)

Industry	2020	2021	2021-2019
Diamonds & Jewellery	-90.0	220.7	-68.0
Hospitality	-84.1	116.4	-65.5
Aviation	-80.6	88.2	-63.5
Retailing	-66.1	44.0	-51.2
Media & Entertain.	-49.9	22.1	-38.8
Consumer Durables	-54.7	64.5	-25.6
Realty	-55.5	74.0	-22.5
Alcohol	-51.8	69.3	-18.3
Paper	-51.0	75.6	-14.1
Capital Goods	-45.4	57.9	-13.8
Electricals	-46.7	62.0	-13.7
Infrastructure	-42.7	53.0	-12.3
Automobile & Ancil.	-65.8	162.4	-10.3
Diversified	-45.0	70.0	-6.5
Trading	-58.3	125.9	-5.9
Inds. Gases & Fuels	-38.8	55.9	-4.7
Textile	-62.8	160.7	-3.1
Insurance	-6.5	5.9	-1.0

The table shows that as many as 18 industry groups have yet to reach the turnover of 2019 level even while growth in 2021 compared with 2020 has been very impressive. Of these 8 are in the services sector which is significant as it vindicates the view that this segment has not yet recovered from the lockdowns. 4 of them are directly related to household spending which again indicates that there is still a long distance to be covered before normalcy can be restored and the explanation of pent up demand is not really sustainable.

The auto industry should be highlighted here as this is one industry which has been showing fairly volatile numbers in terms of growth in monthly sales. 3 industries are in the area of capex where normalcy has not yet returned, while 1 (paper) has been affected by the lockdowns and the changing trends in household behaviour with respect to education and news even while packaging has seen an uptick.

The industries that have done well due to either inherent buoyancy or a recovery, which are mainly in the manufacturing segment barring BFSI are presented in the table below.

Industries that have registered higher growth in turnover relative to 2019 (%)

	2020	2021	2021-2019
Logistics	-31.4	47.2	1.0
Construction Material	-34.7	55.8	1.7
Crude Oil	-42.5	77.4	2.0
Finance	0.7	2.5	3.2
Power	-7.9	13.7	4.7
Plastic Products	-33.9	59.8	5.6
Gas Transmission	-54.3	132.7	6.4
Bank	14.1	-3.3	10.3
FMCG	-13.7	30.3	12.4
Ferro Manganese	-34.3	73.6	14.0
Agri	6.2	10.3	17.1
Telecom	3.1	17.2	20.7
IT	2.7	17.6	20.7
Chemicals	-19.6	51.6	21.9
Healthcare	3.8	17.6	22.1
Non - Ferrous Metals	-25.6	80.0	33.9
Iron & Steel	-40.6	127.5	35.1
Mining	-40.9	208.4	82.2

There were 18 industries which witnessed high growth in sales in 2021 compared with 2020 and 2019. However, as can be seen 12 of them had witnessed negative growth in sales in 2019 and hence had inflated growth in 2021. The 6 leaders with positive growth in 2019 as well as 2021 (over 2019) were banks, finance, agri, telecom, IT and healthcare. These industries were impervious to the developments taking place on the lockdown front and hence were able to witness sustained growth. These would also be the sectors that will be driving economic growth this year.

Factors driving performance of the industries: An overview of what shaped their performance in Q1-FY22 relative to FY21

The **automobile** industry after witnessing growth in H2-FY21, recorded a slow-down in momentum with the onset of the 2nd wave of coronavirus. However, the performance in Q1-FY22 continues to be impressive on account of the less stringent restrictions viewed against the complete lockdown of last year i.e. Q1-FY21. Moreover, automobile exports picked up on account of rebound in international demand. Lower capacity utilisation levels, weak domestic demand, adverse commodity prices, supply-side disruptions, semi-conductor shortages were the issues faced by the automobile industry in the first quarter of FY22. The performance of this industry is likely to witness a gradual improvement contingent upon the evolving nature of the domestic Covid-19 situation and pick-up in demand.

The performance of the **IT** industry has been impressive on account of large deal flows and growth across all industry verticals. All geographical markets registered healthy growth in Q1-FY22. However, the resurgence of Covid-19 infections decelerated the pace of growth in India and Asia Pacific. Cloud Services, Cyber Security, Analytics & Insights and Enterprise Application Services have been the main drivers of growth momentum in Q1-FY22.

FMCG industry has shown resilience in Q1-FY22 primarily on account of the learnings from last year. The FMCG industry benefitted from continuation of business activities amid staggered lockdowns as against the complete closure in Q1-FY21. However, the spread of covid-19 infections into the rural segments weighed upon the demand. Though consumer discretionary spending witnessed a sequential derailment in the first quarter of FY22, it continued to be higher supported by an eroded base of last year. With imposition of curbs and restrictions on mobility, the tendency for stocking up of convenience foods and other consumer products has been relatively less compared with that of last year. The momentum in demand for personal care and hygiene continued.

The **consumer durables** industry has witnessed negative growth relative to the 2019. Subdued consumer demand weighed on sales of the electronic consumer durables. The peak season sales of summer products were affected by the localised restrictions imposed across states. The industry players dominant in the international markets benefitted from encouraging exports growth. Escalation in costs of electronic components, metals and other inputs have led to erosion of margins. This industry is expected to benefit from exports and higher demand for home comfort products driven by the WFH culture.

Airlines, leisure travel, hotels & restaurants were industries hard-hit by the resurgence of Covid-19 and renewed curbs on mobility. However, leisure travel witnessed a rebound in June'21 on the back of increased demand for staycations and weekend getaways amid easing of restrictions. Closure of restaurants affected the dine-in segment for a significant period in the first quarter. However, the delivery segment boosted the revenues in this sector. Recovery was faster towards June'21 with gradual reopening of restaurants with restrictions on timings and occupancy. The domestic travel restrictions and bleak prospects for international operations affected the revenues of the airlines sector during the first quarter of FY22. However, revenues are believed to have witnessed a rebound in June'21 albeit at a lacklustre pace. Apart from the harsh 2nd wave of Covid-19 in the country, the rising fuel prices are considered a big negative for the revenue in the airlines industry.

The **retailing** business continued to witness recovery aided by revival in demand as restrictions were eased in states recording a fall in infection rates. Moreover, social distancing protocols and restrictions on movement of individuals boosted the e-commerce uptake.

Sugar, textiles, paints and paper were industries that witnessed a derailment in growth. Sugar sales were lower on account of the pandemic led disruptions. The sugar inventories are likely to ease on the back of strong export fundamentals and diversion towards ethanol production. There has been a slowdown in the progressive growth of the textile industry. However, unlike last year the impact across manufacturing units has been largely uneven due to localised lockdowns of varying intensity imposed across states. Paints witnessed a slowdown in demand momentum during April-May'21. However, it witnessed a recovery in June'21. Growth in the domestic decorative business was aided by demand from Tier 1/2 markets vis-à-vis demand from Tier 3/4 markets in the same quarter last year. Strengthening material inflation and erosion of margins was a major challenge faced by the industry. The sales of paper products are likely to improve with the subsiding 2nd wave of coronavirus and easing of restrictions. Gradual re-opening of educational institutions is further likely to boost the demand for paper products.

In the **drugs and pharmaceutical** segment, the demand for branded prescription, trade generics and consumer wellness products remained robust. Further, this sector received a boost from the products launched by players dominant in the international markets. Hospital and healthcare services have been impacted by the greater number of individuals requiring emergency coronavirus related care and hospitalisations. Augmentation of the existing facilities to treat the rising coronavirus caseload resulted in lower surgery count during this quarter.

In case of **iron and steel**, overall demand was impacted during Q1FY22 with intermittent disruptions caused due to second wave of COVID but domestic demand in segments like railways, process industry and elevators remained stable. Demand from consumer facing segments like auto, pipe & tube recovered by the end the quarter. The industry performed well due to better preparedness in terms of safe practices, improved cost management, supply chain optimisation, production alignment with demand and enhanced automation. Government's focus on developing sustainable infrastructure with low life-cycle cost material, and improving economic outlook are likely to further boost stainless steel demand in the coming quarters.

Aluminium industry's performance in Q1FY22 was driven by robust volume growth and higher price realisation as aluminium margins were at record highs in June quarter, led by firm base metal prices. Aluminium LME price ($/MT) registered 60% growth(Y-o-Y) this quarter backed by strong macro conditions and an upswing in demand for innovative and sustainable aluminium products.

Growth in **non-ferrous metals** industry was driven by recovery in metal prices and higher volumes in line with the robust demand. Zinc and lead prices increased by 49% and 27% during the quarter on Y-o-Y basis. The rise in cost of production (COP) on account of higher commodity prices for coal, cement, and diesel were balanced by better capital management and structural cost initiatives.

For **capital goods**, growth in sales in Q1FY22 was higher due to the negative base. However, when compared with the corresponding quarter of FY 2019, sales figures are still lower. It shows that recovery is still in progress. The impact of Covid was countered to some extent due to strong order book driven by industries and railways. Extensive use of remote management and digital solutions, coupled with a diverse product mix, ensured a resilient top-line performance in a challenging market.

The **engineering (construction)** industry witnessed net sales and margin growth (Y-o-Y) on account of healthy order book, improved overhead recovery and better execution of projects despite the second wave. Higher handover of residential flats in the Realty business, better progress of projects in Smart World & Communication and higher demand in Construction Equipment and Rubber Processing Machinery business aided revenue growth.

Net sales in **cement** industry registered a growth in Q1 (Y-o-Y) backed by strong growth in volumes. Firm cement prices coupled with strong performance of special cement led to improved realisations and better profit margins. Individual Home Builder (IHB) demand across states led by rural and urban housing contributed to industry's growth. Effective fuel source management dampened the impact of input cost (coal prices) increase. The ceramics industry also reported stable margins in Q1 FY22 due to realisation gains, operational efficiency and cost control measures despite increasing input costs.

Net profit (y-o-y) in **power** segment grew in Q1FY22 against Q1FY21 due to impressive revenue growth during the quarter. Despite the partial lockdown during the quarter, the electricity consumption showcased significant growth through the quarter registering a growth of 17% YoY to 340BU. This was driven by a strong pickup in economic activity coupled with a low base effect. Peak demand had reached all time high of 197 GW in June'21. Consistent strong financial performance of power companies is backed by robust growth in capacities and improved Solar and Wind Capacity Utilization Factor (CUF).

The **realty** industry witnessed encouraging demand in the residential business despite disruptions caused due to the second wave. A temporary slowdown was reported in rental business as most of the companies continue to operate remotely. New Sales exhibited sustained momentum during the quarter on yearly basis. However, overall sales in the top seven markets took a hit on sequential basis. Revenue from operations registered sharp growth (YoY) because of ready to move in homes with Occupancy Certificate (OC). Property prices remained stagnant in tier I cities on Q-o-Q and increased 2% on a Y-o-Y basis. The growth in housing market was led by Mumbai and Bengaluru during this quarter as the market sentiments were boosted by historic low home loan rates and government interventions like stamp duty waiver.

Net sales growth for **pesticides** (Y-o-Y) during the quarter inched up on the back of strong demand and robust volume growth. Better realisations due to favourable commodity prices (~+14% for food grains, ~36-48% for cash crops, pulses, etc.) led to improved profit margins despite increased cost pressure. Good monsoon and availability of water boosted farmer sentiment and resulted in good growth in rabi season 2020 which in turn supported the industry's performance in Q1.

In case of **ports**, the year-on-year growth in net sales was aided by the low base of the year-ago quarter coupled with recovery in the global economy during 2021 that helped cargo volumes. Revamping of cost structure, efficient capital management and operational efficiency helped in improving overall industry's performance.

The **crude oil** segment witnessed higher net profit for the quarter ended in June'21 as compared to the corresponding quarter of previous financial year mainly on account of inventory gains and better petrochemical margins during the current quarter. Additionally, a lower base resulted in strong Y-o-Y recovery. On Q-o-Q basis, domestic demand was impacted by second wave led lockdowns. However, an increase in benchmark gross refining margin and higher crude oil prices aided the industry during the period. Brent crude averaged at $ 68.83 /bbl, up 13% (Q-o-Q) at 11-quarter high supported by robust global fuel demand and supply management by the OPEC+.

The **telecom** industry was mostly unaffected by second wave. Growth in net sales (Y-o-Y) was observed during the quarter on account of improving realizations and sustained increase in 4G customer base. Connectivity business sustained momentum despite Covid 2nd wave as telecommunication services were covered under essential services.

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