Corporate Performance: Q3-FY17

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-67543489

Darshini Kansara
Research Analyst
darshini.kansara@careratings.com
91-022-67543679

Mradul Mishra
mradul.mishra@careratings.com
91-022-6754 3515

The performance of a sample of 2,126 companies over the last quarter (Oct-Dec) 2016 period reveals a positive picture, with both net sales and net profits growth showing improvement. Net sales grew by 6.6% in Q3 2017 after the negative growth of 4.8% in Q3 FY16. Net profit registered growth of 39.7% over a decline of 11.3% in the corresponding period last year. A part of the better performance may be attributed to the low base effect too.

The overall performance has however, been skewed to an extent due to the performance of banks, oil companies, IT and finance which were guided by other exogenous factors. Banks have been affected by NPA recognition and provisioning which finally affects profits growth. Refinery/oil companies get affected by the international price of crude oil and drastic changes in the last couple of years has swung growth in net sales and net profits. IT companies tend to get affected by global factors and carry almost negligible leverage while finance companies, by virtue of their operations are distinct from other services segments.

These industries have been excluded sequentially in Table 1 to provide a disaggregated picture. Table 1 shows the following:

- For the aggregate sample, both growth in sales and net profits has been positive over negative growth rates last year.
- Excluding banks, the growth in net profits has slowed down from 39.7% to 25.1%.
- Excluding finance companies further from the sample improves the performance marginally for net sales, while net profit growth increased to 27%
- Excluding oil companies & IT firms, the performance does come down for net sales while net profits continue to improve.

In terms of movement in net profit margin there has been an increase across the disaggregated categories with the lowest level being witnessed in the sample which excludes banks, finance, IT and refinery and oil companies (Table 2).

Table 1: Aggregate performance (Growth in %)

	No of companies	Net Sales Q3FY16	Net Sales Q3FY17	Net Profit Q3FY16	Net Profit Q3FY17
All companies	**2,126**	-4.8	6.6	-11.3	39.7
Minus banks	2,088	-6.7	7.7	13.3	25.1
Minus banks, finance	1,784	-7.2	7.5	13.6	27.0
Minus banks, IT, oil/refinery and finance	1,640	-0.3	5.1	-7.1	29.6

Source: ACE Equity

Table 2: Net profit margin (%)

	No of Cos	Q3FY16	Q3FY17
All companies	2,126	5.9	7.7
Minus banks	2,088	7.3	8.4
Minus banks, finance	1,784	6.8	8.0
Minus banks, IT, oil and finance	1,640	5.3	6.6

Source: ACE Equity

- Net Profit margin witnessed an increase when compared with Q3 FY16
- Excluding banks, the profit margins improved to 8.4% in Q3 FY17 from 7.3%
- However, excluding banks, IT, oil and finance companies, the net margin saw some moderation to 6.6% for the total sample.

Interest cover

Interest cover (ratio of PBDIT/interest) has been calculated for the sample of 1,640 companies (minus banks, IT, oil and finance). The interest cover was marginally lower in Q3- FY17 to 3.88 times from 3.98 times in Q3-FY16.

Size wise Analysis

This section of the study breaks down the sample of 1,640 companies (excluding banks, finance, IT & oil 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 third quarter of FY17. Table 2 below gives the composition of the sample differentiated across various size groups for Q3-FY17.

The 117 companies in the size range of sales of above Rs 1,000 crore each, constituted 67% 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 13.3% and 8.8% respectively. Hence, the top 368 companies in terms of sales above Rs 250 crore each accounted for 89.1% of the total sales.

During Q3-FY17, small companies (size range of sales below Rs 100 crore) faced the heat of the demonetization drive of the government as a large proportion of transactions in small companies happen on cash basis and operations were impacted quite markedly. Small companies therefore posted a cumulative loss of Rs 1,161 crore. Net profits had increased from Rs 79 cr in Q3-FY15 to Rs 964 cr in Q3-FY16. Companies with sales between Rs 100 crore and Rs 250 crore posted a 71.6% decline in net profit from Rs 1146 cr to Rs 325 cr on top of a decline of 14.6% in Q3-FY16.

Table 3: Sample Profile by Size

Size Range (Rs. Cr)	No. Of Companies	Net Sales (%)		Net Profits (%)	
		Q3 FY16	Q3 FY17	Q3 FY16	Q3 FY17
Above 1,000	114	-1.2	8.5	-22.5	48.0
500-1,000	109	2.3	0.3	730.3	-9.9
250-500	145	0.9	-0.1	-51.1	239.1
100-250	223	5.0	1.1	-14.6	-71.6
Less than 100	1,049	-3.3	-9.9	1124.1	-220.5

Source: ACE Equity

The size wise breakdown provides the following results:

- Companies with sales above Rs 1,000 crore witnessed growth of sales of 8.5% and clearly dominated the aggregate performance. All other groups witnessed lower growth in sales in this quarter.
- High growth in net profit was also seen in companies with sales above Rs 1,000 crore.
- Companies in the range 500-1,000 crore and 100-250 crore, registered only marginal growth in sales of 0.3% and 1.1% respectively.
- All the companies in size range between sales of Rs 250 and 500 crore registered virtually flat growth in sales Q3 FY17. However, growth in net profit was impressive as it increased from Rs 661 crore to Rs 2,240 crore.
- Interestingly, the size range with maximum number of companies i.e. less than Rs 100 cr, registered the lowest growth in net sales as well as net profit for Q3 2017.

Conclusions

The overall performance has been driven by the large companies that have also been less impacted by the demonetization process as they were less impacted directly on account of limited availability of cash. Those at the lower end of the size scales witnessed lower growth in both sales and profit.

Industry wise analysis

The table below provides information on industry wise performance of 50 sectors classified under various broad heads. The indicators included are net sales and net profit growth for the two quarters.

Table 4: Growth in net sales in Q3 (%)

Industry	No of companies	FY16	FY17
Consumer Goods (Non-discretionary)	**181**	**9.0**	**5.0**
Consumer foods	47	5.8	8.3
Sugar	26	0.7	14.9
Tea/Coffee	11	4.0	-5.3
Pharmaceuticals & drugs	83	18.1	5.1
Household & Personal products	14	-0.3	-1.8
Consumer Goods (Discretionary)	**186**	**5.9**	**4.5**
Textiles	173	-1.2	-0.9
Consumer Durables-Domestic Appliances	8	14.9	-4.5
Consumer Durables-Electronics	5	-2.6	-24.8
Automobiles & Related	**72**	**8.1**	**3.6**
Passenger Cars	2	19.0	7.0
Tractors	3	-9.7	17.9
Two & Three Wheelers	7	6.0	-4.5
Auto Trucks/LCVs	3	23.3	4.8
Tyres & allied services	7	-6.1	3.2
Auto Ancillary	50	-3.3	7.8
Capital Goods	**168**	**4.1**	**9.6**
Engineering	9	-5.4	16.0
Engineering-Industrial Equipment	87	-1.1	6.1
Electronic-Components	13	6.3	15.7
Electrodes & welding Equipment	10	2.0	-6.4
Electric Equipment	35	12.2	15.4
IT-Hardware	6	-16.1	-17.8
Telecom Equipment	8	13.7	-8.2
Metals	**83**	**-15.7**	**31.8**
Steel & Iron products	61	-18.3	34.8
Aluminium & aluminum products	8	-8.9	12.9
Metals - Non-ferrous	12	-7.2	25.1
Metals - Ferrous	2	-29.6	-26.3
Construction/Real Estate	**147**	**3.7**	**-2.8**
Cement	32	1.4	-1.5
Ceramics/Marble/Granite/Sanitary ware	18	2.8	0.1
Construction - Real Estate	54	16.7	-15.6
Engineering Construction	43	2.6	-0.9

Banking	**38**	**4.2**	**2.2**
Banks - Public	24	0.5	-0.7
Banks - Private	14	16.1	10.3
Finance	**161**	**4.4**	**15.0**
Housing Finance	13	13.4	16.5
Finance - NBFC	148	-3.9	13.5
Services	**169**	**10.5**	**2.4**
Hospitals & Healthcare Services	15	10.6	8.6
Retailing	10	42.3	-27.2
IT- Software	104	10.0	7.3
Telecommunications - Service Providers	8	6.3	-0.9
Hotels, Resorts & Restaurants	32	8.0	2.9
Oil/Refinery/Mining	**22**	**-22.5**	**13.0**
Mining & minerals	6	-44.0	61.4
Refineries	6	-23.6	13.0
Oil Exploration	10	-4.3	8.6
Others	**172**	**-11.3**	**7.8**
Pesticides & Agrochemicals	17	-0.3	14.1
Dyes & pigments	14	6.8	7.5
Paper & Paper products	31	0.9	13.4
Diamond & Jewellery	16	-1.6	20.8
Rubber products	10	10.0	-7.5
Plastic products	66	4.5	1.4
Paints Total	5	5.4	2.2
Industrial Gases & Fuels	13	-28.4	0.3

- Out of the industries considered here, 32 have witnessed positive growth in sales in Q3 FY17. Some of the leading industries were sugar, pharmaceutical & drugs, tractors, engineering, electric components, metals, housing finance, NBFCs, hospitals & healthcare, mining, refineries, pesticides, paper & paper products, diamond & jewellery, etc.
- 17 industries witnessed negative growth in net sales of Q3 FY17 with significant declines witnessed in consumer durables, two-wheelers, ferrous metals, IT hardware, telecom equipment, real estate construction. Retailing was also down.

Conclusions

Industries related to households where transactions are largely in cash were affected negatively. Discretionary consumer industries like textiles and durables which can be extended to auto segment (except tractors, ancillary and tyres) were impacted in this quarter. In case of tractors a good monsoon was a factor pushing growth. Tyres and ancillary growth may be attributed to the ‘replacement’ demand more than OEM. Within non-discretionary consumer goods household and personal goods segment as well as drugs and pharmaceuticals were affected.

Services like retailing were affected most perceptibly while hospitality and telecom were also on the downslide. Everything related to real estate – construction, cement, engineering construction were also affected as consumers deferred purchases. The industries that did well were in the areas of infrastructure where government spending compensated for low private demand. These included capital goods and metals. The finance companies also did well – both housing finance and NBFCs.

Table 5 provides information on growth in net profit for various industry groups classified under specified headings.

Table 5: Net Profit Q3

Industry	No. of companies	Net Profit (Rs Crore)			Growth in Net Profit (%)	
		Q32015	Q32016	Q32017	FY16	FY17
Consumer Goods (Non-discretionary)	**181**	**2,137**	**6,454**	**7,180**	**202.0**	**11.2**
Consumer foods	47	393	533	433	35.6	-18.8
Sugar	26	(831)	(69)	277	-91.7	-501.4
Tea/Coffee	11	203	173	156	-14.8	-9.8
Pharmaceuticals & drugs	83	573	4,168	4,577	627.4	9.8
Household & Personal products	14	1,799	1,649	1,737	-8.3	5.3
Consumer Goods (Discretionary)	**186**	**43**	**805**	**(765)**	**1772.1**	**-195.0**
Textiles	173	150	799	180	432.7	-77.5
Consumer Durables-Domestic Appliances	8	63	174	172	176.2	-1.1
Consumer Durables-Electronics	5	(170)	(168)	(1,117)	-1.2	564.9
Automobiles & Related	**72**	**4,766**	**5,814**	**6,763**	**22.0**	**16.3**
Passenger Cars	2	1,744	2,017	2,857	15.7	41.6
Tractors	3	24	20	(3)	-16.7	-115.0
Two & Three Wheelers	7	1,655	2,134	2,229	28.9	4.5
Auto Trucks/LCVs	3	39	240	212	515.4	-11.7
Tyres & allied services	7	812	985	893	21.3	-9.3
Auto Ancillary	50	492	418	575	-15.0	37.6
Capital Goods	**168**	**(2,925)**	**442**	**2,190**	**-115.1**	**395.5**
Engineering	9	62	68	97	9.7	42.6

Engineering-Industrial Equipment	87	859	(165)	1,068	-119.2	-747.3
Electronic-Components	13	6	(28)	4	-566.7	-114.3
Electrodes & welding Equipment	10	23	28	15	21.7	-46.4
Electric Equipment	35	(3,692)	627	1,179	-117.0	88.0
IT-Hardware	6	2	1	2	-50.0	100.0
Telecom Equipment	8	(185)	(89)	(175)	-51.9	96.6
Metals	**83**	**4,343**	**(5,354)**	**2,239**	**-223.3**	**-141.8**
Steel & Iron products	61	1,154	(7,333)	(595)	-735.4	-91.9
Aluminium & aluminium products	8	415	146	135	-64.8	-7.5
Metals - Non-ferrous	12	2,755	1,820	2,687	-33.9	47.6
Metals - Ferrous	2	19	13	12	-31.6	-7.7
Construction/Real Estate	**147**	**2,275**	**1,203**	**477**	**-47.1**	**-60.3**
Cement	32	636	249	56	-60.8	-77.5
Ceramics/Marble/Granite/Sanitary ware	18	118	140	144	18.6	2.9
Construction - Real Estate	54	539	578	440	7.2	-23.9
Engineering Construction	43	982	236	(163)	-76.0	-169.1
Banking	**38**	**16,789**	**369**	**10,227**	**-97.8**	**2671.5**
Banks - Public	24	6,898	(10,905)	568	-258.1	-105.2
Banks - Private	14	9,891	11,274	9,659	14.0	-14.3
Finance	**161**	**4,669**	**5,177**	**5,876**	**10.9**	**13.5**
Housing Finance	13	2,528	2,897	3,402	14.6	17.4
Finance - NBFC	148	2,141	2,280	2,474	6.5	8.5
Services	**169**	**15,841**	**16,234**	**16,601**	**2.5**	**2.3**
Hospitals & Healthcare Services	15	39	86	70	120.5	-18.6
Retailing	10	62	366	101	490.3	-72.4

IT- Software	104	13,641	14,495	15,305	6.3	5.6
Telecommunications - Service Providers	8	2,100	935	926	-55.5	-1.0
Hotels, Resorts & Restaurants	32	(1)	352	199	-35300.0	-43.5
Oil/Refinery/Mining	**22**	**8,933**	**16,201**	**22,072**	**81.4**	**36.2**
Mining & minerals	6	2,367	1,140	613	-51.8	-46.2
Refineries	6	1,993	12,996	16,171	552.1	24.4
Oil Exploration	10	4,573	2,065	5,288	-54.8	156.1
Others	**172**	**2,092**	**2,257**	**3,279**	**7.9**	**45.3**
Pesticides & Agrochemicals	17	182	(80)	44	-144.0	-155.0
Dyes & pigments	14	28	46	85	64.3	84.8
Paper & Paper products	31	39	60	217	53.8	261.7
Diamond & Jewellery	16	315	405	387	28.6	-4.4
Rubber products	10	15	23	14	53.3	-39.1
Plastic products	66	188	442	410	135.1	-7.2
Paints Total	5	541	684	714	26.4	4.4
Industrial Gases & Fuels	13	784	677	1,408	-13.6	108.0

- Only 5 industries reported net loss on a y-o-y basis during the quarter.
- However, in absolute value terms, 20 industries witnessed negative growth in net profit in Q3 FY17.
- Maximum decline was witnessed in industry group of consumer foods, textiles, auto trucks/LCVs, tyres & allied services, aluminum, retailing, hotels, resorts and restaurants, telecom service providers, mining & minerals, rubber & plastic products etc.
- 23 industries registered a positive growth in net profits in Q3 2017

Below mentioned are various factors contributing to the growth and de-growth in sales and profit for the third quarter of this financial year ***as revealed by various companies*** in their quarterly presentations:

Most of the industries in Q3 2017 that have posted lower growth numbers were affected by the liquidity crunch caused by the demonetization drive of the government. The effect was felt most by the smaller companies as we can also see from the financials. This led to slower movement in the consumer durables, industrial activity, etc. which led to lower sales during the quarter.

1. Cement: The industry was affected by delay in execution of projects, slow construction activity and surplus inventory in urban real estate. As a good proportion of transactions happen on cash basis, the activity has slowed down leading to only marginal growth in sales, while the profits margins declined. Top 5 players in cement industry have recorded a cumulative drop in sales by about 2% in Q3 2017 on back of lower demand led by liquidity crunch caused by demonetization drive.

- Automobile: Auto industry suffered the maximum on account of the demonetization drive. Sales of two-wheelers declined in the rural markets, while that of passenger cars slowed down as the purchase was deferred by consumers.
- Household & personal products: The demand for the industry being non-discretionary, the industry witnessed only marginal decline in the sales during the quarter. Many players offered discounts and various schemes to maintain the volume sold, therefore the effect on profits was off-set.
- Two – three wheelers: Both domestic and exports market saw a downward trend in sales during the quarter. In domestic markets, as most of the demand comes from tier II and tier III cities, where most transactions happen on a cash basis, the sales took a hit and declined during the quarter. Also, in the global market the industry continues to face headwinds due to volatile business environment driven by continued weakness in crude prices and sharp depreciation of local currencies.
- Steel & iron: Steel industry registered a strong growth in sales during the quarter on back of higher government spending on infrastructure which made up for the lower demand from industries such as auto, consumer durables etc. . Out of the companies that declared results, top 5 players (accounting for about 78% of the market) have registered a cumulative sales growth of about 47% y-o-y in Q3 2017.
- Textiles: Textiles demand during the quarter remained weak as consumers were holding back any discretionary spending and postponing the purchase.
- Sugar: Sugar industry witnessed a double digit growth in net sales during the quarter. This was mainly led by higher sugar prices during the quarter. The sector is aided by Central and State Government's rational policies, to ensure sustainability of the Industry and the farmer.
- Retailing: Net sales saw a sharp decline as demand remained weak during the quarter. Also, profits growth continues to be in negative territory.
- Paints: The industry was impacted by the price decrease as well as demand for core protective coating products being be affected by low infrastructure spends

Looking ahead

Based on the performance of the industries in Q3 and analysis of the forces that have been driving them, the following are the expectations in terms of outlook for Q4 FY17 and FY18.

Table 6: Outlook for Q4-FY17 and FY18

Sectors expected to recover	
Automobiles	
Commercial Vehicles	On back of higher outlay for infrastructure and transportation segment will be positive for the CV segment demand
Tractors	Higher allocation for farm credit shall fuel demand for farm equipment and tractors segment
Two-wheelers	Reduction in tax burden for individuals earning below Rs 5 Lakh is likely to increase demand for two-wheelers and small car segment. There should be some recovery on account of deferred demand during Q3 which should manifest in Q4 and Q1-FY18

Cement	Higher outlay and focus on Infrastructure, housing (including affordable housing) and rural development are likely to boost the cement demand over the next 12 months or so. The central government also has higher outlays for roads in the Budget.
Construction	The continued focus of the government on infrastructure development through increased allocation towards roads, railways, irrigation, etc, would be beneficial for the construction industry. Also, focus of government on promoting affordable housing will augur well for the industry
Oil & Gas	In view of the deficit domestic gas production, the decrease in the duty from 5% to 2.5% is likely to benefit petrochemical industry wherein LNG is used as a feed stock. Also, the formation of integrated 'oil major' will likely have strong bargaining power and will be the likes of the bigger oil companies globally. Also, setting up of Strategic crude oil reserves will benefit companies during high crude oil prices
Real Estate	Infrastructure status of affordable housing: Under the scheme for profit-linked income tax deduction for promotion of affordable housing, carpet area instead of built-up area of 30 and 60 square meters will be counted. This would enable purchasers to get more spacious homes and affordable housing segment will be more lucrative for the developers. Reduction of long-term capital gains tax period from 3 years to 2 years might lead to increase in demand since this may increase the secondary sales as well. A critical factor will be the price of housing, which is expected to moderate to some extent on account of the demonetization impact. If it does, combined with relatively lower interest rates, there could be a thrust for this industry.
Paints	The demand for the industry is forecasted to improve on back of government push given to real estate, affordable housing and infrastructure industry. Also, higher disposable income in the hands of consumers is expected to contribute to the demand
Telecom	Telecom sector will be the backbone of all these initiatives (Rural digitization initiatives such as “Bharat Net”, “DigiGaon”, “Swayam”, incentivizing of cashless/ digital payments) and thus would get benefited because of rise in data consumption
Sectors expected to remain neutral	
Engineering and Capital goods	Higher investments in railway infrastructure, national highways, power infrastructure, defence expenditure proposed for FY 2017-18 vis-à-vis FY 2016-17 would translate in orders for railway equipment manufacturers, power transmission and distribution equipment, defence equipment manufacturers etc.
Pharmaceuticals	With NLEM (National List of Essential Medicine) 2015 and DPCO (Drug Price Control Order) 2016 already in place, some more drugs are likely to come under price control but this is not likely to impact growth of the pharmaceutical industry. Indian Pharmaceutical Industry (IPI), which derives growth primarily from export market, is expected to continue to see similar growth trend in line with the last 3 years. However, companies with links with the USA could be under pressure on account of the policies pursued there.
Steel	Demand expected to be up due to the infra thrust of the government. The progress of construction segment including real estate would further provide clues.

Sector movement - Can't say	
Banking	The revival in the banking sector hinges on economic revival which would lead to improvement in asset quality and profitability. On the capital adequacy front, there is substantial requirement of capital especially for PSU banks given the significant deterioration in their asset quality.
Information Technology	India has capabilities in delivering both on-shore and off-shore services to global clients and emerging technologies offer new opportunities for top IT firms in India. However, US policy implications on the industry are yet to be seen.

A major disruption in the performance of industries that cannot be conjectured now would be the implementation of the GST. This would affect specific companies in particular which are not geared for this transformation.

On the whole it does appear that the coming quarters should be better, though the performance will be disparate across sectors. The pace of growth will be driven broadly by:

- GST and impact
- Monsoon
- Private sector investment
- Consumer spending
- Global developments especially in USA with regards to policy stance.

CORPORATE OFFICE:
CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com