August 21, 2017 I Industry Research

Corporate Performance: Q1-FY18

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

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 2,108 companies over the last quarter (Apr-Jun) 2017 period reveals a negative picture, with net sales showing slower growth and net profits growth showing deterioration. Net sales growth slowed down to 8.7% in Q1 FY18 after registering a growth of 9.5% in Q1 FY17. Also, net profit registered a decline of about 15.7% in FY18 over a decline of 1.7% in the corresponding period last year. This slowdown in industry performance can be attributed to the uncertainties revolving around the implementation of Goods and Services Tax (GST) from July 1, 2017.

Usually, the overall performance gets skewed to an extent due to the performance of banks, oil companies, IT and finance which are 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.

However, in Q1 FY18, after excluding the banks, IT, oil & refinery and finance companies, the performance of industry depicts similar trend as that of the aggregate sample. For analysis purposes, these industries have been excluded sequentially in Table 2 to provide a disaggregated picture.

Tables 1 & 2 provide an overview of the same.

- For the aggregate sample, growth in sales has slowed down from 9.5% to 8.7% and net profits further declined over marginal negative growth rate last year. Excluding banks/finance/IT/refineries the growth in sales was lower at 6.6% compared with 17.3% last year.
- Net profits declined by 15.7% for the aggregate sample from -1.7% last year. Excluding banks, IT, oil & refinery and finance, the growth in net profits further declined from +4.9% growth to negative 24.9%

In terms of movement in net profit margin there has been a further declined for both the samples. (Tables 1 and 2).

Table 1: Aggregate performance (all companies)

All companies (Q1)	(Rs crore)			Growth (%)	
2,108 companies	2016	2017	2018	2017	2018
Net sales	1,245,431	1,363,628	1,482,766	9.5	8.7
Net profits	105,552	103,721	87,475	-1.7	-15.7
Net profit margin (%)				7.6	5.9

Source: AceEquity

- Net sales grew at a slower rate of 8.7% in Q1 FY18 on top of 9.5% in Q1 FY17
- Net profits declined by 15.7% y-o-y to Rs 87,475 crore in Q1 FY18 from Rs 103,721 crore in Q1 FY17
- Profit margins witnessed a degrowth when compared to the Q1 FY17

Table 2: Industry performance – Excluding banks, IT, oil & refineries and finance (%)

Minus banks, IT, refineries, Finance (Q1)	Rs crore			Growth (%)	
1,522 companies	2016	2017	2018	2017	2018
Net sales	602,693	707,128	754,032	17.3	6.6
Net profits	40,204	42,184	31,688	4.9	-24.9
Net profit margin (%)				6.0	4.2

Source: AceEquity

- Net sales grew at a much slower rate of 6.6% in Q1 FY18 on top of 17.3% in Q1 FY17
- Net profits declined by a sharp 24.9% y-o-y to Rs 31,688 crore in Q1 FY18 from Rs 42,184 crore in Q1 FY17
- Profit margins witnessed a degrowth when compared to the Q1 FY17
- Excluding banks, IT, oil & refinery and finance companies, the net margins further contracted

Interest cover

Interest cover (ratio of PBDIT/interest) has been calculated for the sample of 1,522 companies (excluding banks, IT, oil & refinery and finance). *The interest cover was marginally lower in Q1 FY18 to 3.71 times from 3.89 times in Q1 FY17.*

Size wise Analysis

This section of the study breaks down the sample of 1,522 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 first quarter of FY18. Table 2 below gives the composition of the sample differentiated across various size groups for Q1-FY18.

The 156 companies in the size range of sales of above Rs 1,000 crore each, constituted 74% 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 12.1% and 7.8% respectively. Hence, the top 368 companies in terms of sales above Rs 250 crore each accounted for 93.9% of the total sales.

During Q1 FY18, all companies faced the heat of the uncertainties revolving around the implementation of GST by the government as most companies were destocking goods before July 1 and operations were impacted quite markedly. While companies with net sales more than Rs 100 crore managed to post cumulative profits in absolute values (however, lower than that in Q1 FY17), small companies posted a cumulative loss of Rs 674 crore during the quarter. Companies with sales between Rs 100 crore and Rs 250 crore posted the highest decline of 78.1% in net profit during the quarter from Rs 870 crore in Q1 FY17 to Rs 191 crore in Q1 FY18.

Table 3: Sample Profile by Size

Size Range (Rs. Cr)	No. Of Companies	Net Sales (%)		Net Profits (%)	
		Q1 FY17	Q1 FY18	Q1 FY17	Q1 FY18
Above 1,000	156	23.1	8.0	5.0	-23.2
500-1,000	131	6.9	5.6	13.2	-18.3
250-500	160	7.2	5.3	41.7	-34.9
100-250	173	2.8	2.0	20.8	-78.1
Less than 100	902	-11.3	-12.6	-271.2	NA

Note: NA – value cannot be determined due to high +/- values
Source: AceEquity

The size wise breakdown provides the following results:

- All groups witnessed comparatively lower growth in sales in this quarter. Companies with sales above Rs 1,000 crore witnessed growth of sales of 8% and clearly dominated the aggregate performance.
- All groups registered y-o-y lower net profits except for companies in net sales less than Rs 100 crore range. Companies in less than Rs 100 crore net sales range has reported a net loss in absolute value terms.
- Interestingly, the size range with maximum number of companies i.e. less than Rs 100 crore, registered a y-o-y loss during the quarter.

Conclusions

The overall performance has been driven by the large companies that accounted for over 75% of the share in terms of total net sales. They recorded lower net profits of about 23.2% y-o-y in Q1 FY18. Those at the lower end of the size scales witnessed negative growth in both sales and profit.

Industry wise analysis

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

Table 4: Growth in net sales in Q1 (%)

Industry	No of companies	FY17	FY18
Consumer Goods (Non-discretionary)	**176**	**5.9**	**-2.1**
Consumer foods	55	2.3	-0.2
Sugar	17	19.1	19.7
Tea/Coffee	6	8.8	3.1
Pharmaceuticals & drugs	83	3.3	-11.2
Household & Personal products	15	10.6	2.4
Consumer Goods (Discretionary)	**86**	**3.2**	**9.2**
Textiles	76	-6.8	9.8
Consumer Durables-Domestic Appliances	8	53.3	6.3
Consumer Durables-Electronics	2	12.6	18.1
Automobiles & Related	**55**	**20.5**	**4.7**
Passenger Cars	2	22.4	10.5
Tractors	2	8.7	10.1
Two & Three Wheelers	5	18.5	7.8
Auto Trucks/LCVs	4	24.1	-7.2
Tyres & allied services	7	14.0	0.5
Auto Ancillary	35	24.0	8.2
Capital Goods	**130**	**4.7**	**7.8**
Engineering	8	2.8	26.2
Engineering-Industrial Equipment	66	12.5	6.7
Electronics -Components	12	8.6	10.6
Electrodes & welding Equipment	5	-9.7	20.7
Electric Equipment	25	13.2	16.8
IT-Hardware	4	18.7	-2.5
Telecom Equipment	10	-11.0	23.2
Metals	**70**	**3.7**	**24.0**
Steel & Iron products	52	6.0	23.1
Aluminium & aluminium products	5	10.5	17.4
Metals - Non-ferrous	10	-1.7	27.1
Metals - Ferrous	3	66.7	-94.1
Construction/Real Estate	**172**	**9.7**	**8.3**
Cement	32	13.2	13.7
Ceramics/Marble/Granite/Sanitary ware	13	13.6	0.3
Construction - Real Estate	77	13.4	6.4
Engineering Construction	50	5.5	4.5

Banking	**37**	**1.4**	**6.2**
Banks - Public	21	-3.2	5.6
Banks - Private	16	14.3	7.6
Finance	**236**	**7.2**	**13.7**
Housing Finance	13	14.1	12.6
Finance - NBFC	223	0.7	14.9
Services	**159**	**10.3**	**-0.9**
Hospitals & Healthcare Services	16	12.9	11.4
Retailing	10	19.0	13.4
IT- Software	97	10.7	2.3
Telecommunications - Service Providers	9	7.7	-12.8
Hotels, Resorts & Restaurants	27	3.9	6.1
Oil/Refinery/Mining	**21**	**1.6**	**26.8**
Mining & minerals	6	0.1	64.5
Refineries	8	2.1	17.8
Oil Exploration	7	-20.3	6.2
Others	**137**	**2.7**	**8.7**
Pesticides & Agrochemicals	16	15.7	1.1
Dyes & pigments	7	22.2	2.1
Paper & Paper products	28	10.4	-4.7
Diamond & Jewellery	17	22.4	14.5
Rubber products	6	7.4	-5.2
Plastic products	48	0.3	3.9
Paints Total	5	24.3	6.1
Industrial Gases & Fuels	10	-20.4	11.8

Source: AceEquity, CARE Ratings

- Out of the industries considered here, 41 have witnessed positive growth in sales in Q1 FY18. Some of the leading industries were sugar, consumer durables – electronics, passenger cars and tractors, capital goods, metals, finance - NBFCs, hotels, resorts and restaurants, mining, refineries, plastic products, industrial gases and fuels, etc.
- 8 industries witnessed negative growth in net sales of Q1 FY18 with significant declines witnessed in pharmaceuticals and drugs, auto trucks/lcvs, ferrous metals, telecom service providers. Paper and Paper products, Diamond and jewellery and rubber products were also down.

Conclusions

Industries related to households where demand is inelastic remained largely stable with minimal slowdown. However, pharmaceuticals and drugs industry saw a sharp dip on account of lower exports. Consumer industries like textiles and durables which get extended to auto segment except tractors witnessed an improvement as players were destocking inventories before implementation of GST which led to higher sales. 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 which slowed down during the quarter. Within non-discretionary consumer goods consumer foods, household and personal goods segment as well as drugs and pharmaceuticals were affected.

Services like telecom service providers were affected most perceptibly while hospitals and retailing were also on the downslide. Growth in everything related to real estate – construction, cement, engineering construction declined but was restricted as marginal signs of improvement in demand post demonetisation were seen. The finance companies however 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 Q1

Industry	No of companies	Net Profit (Rs Crore)			Growth in Net Profit (%)	
		Q12016	Q12017	Q12018	FY17	FY18
Consumer Goods (Non-discretionary)	**176**	**4,010**	**8,231**	**6,833**	**105.3**	**-17.0**
Consumer foods	55	834	1,018	655	22.0	-35.7
Sugar	17	186	358	(655)	92.3	-283.2
Tea/Coffee	6	191	99	70	-48.2	-29.1
Pharmaceuticals & drugs	83	884	4,872	5,019	451.4	3.0
Household & Personal products	15	1,915	1,885	1,744	-1.6	-7.5
Consumer Goods (Discretionary)	**86**	**(6,173)**	**(812)**	**78**	**-86.9**	**-109.7**
Textiles	76	(6,633)	(1,170)	(136)	-82.4	-88.3
Consumer Durables-Domestic Appliances	8	404	320	177	-20.8	-44.6
Consumer Durables-Electronics	2	57	38	38	-32.0	-2.1
Automobiles & Related	**55**	**5,313**	**6,821**	**6,151**	**28.4**	**-9.8**
Passenger Cars	2	2,322	2,446	2,058	5.3	-15.8
Tractors	2	91	75	56	-17.7	-25.0
Two & Three Wheelers	5	2,470	2,325	2,011	-5.9	-13.5
Auto Trucks/LCVs	4	(319)	409	499	-228.1	22.0
Tyres & allied services	7	326	1,162	1,118	256.1	-3.8
Auto Ancillary	35	423	404	409	-4.4	1.2
Capital Goods	**130**	**1,164**	**509**	**1,053**	**-56.3**	**107.0**
Engineering	8	95	90	54	-4.9	-40.2
Engineering-Industrial Equipment	66	658	715	758	8.7	6.0
Electronics-Components	12	(14)	19	(6)	-230.1	*
Electrodes & welding Equipment	5	33	(4)	23	-112.6	*
Electric Equipment	25	538	(186)	362	-134.6	*
IT-Hardware	4	6	12	2	94.5	-85.3
Telecom Equipment	10	(151)	(136)	(140)	-9.6	*
Metals	**70**	**1,035**	**137**	**1,811**	**-86.7**	**1218.2**
Steel & Iron products	52	(1,193)	(254)	(957)	-78.7	*
Aluminium & aluminium products	5	82	137	180	67.4	31.3
Metals - Non-ferrous	10	2,142	233	2,576	-89.1	1004.6
Metals - Ferrous	3	5	21	12	365.2	-43.6
Construction/Real Estate	**172**	**4,127**	**2,872**	**1,713**	**-30.4**	**-40.4**
Cement	32	3,396	1,922	869	-43.4	-54.8
Ceramics/Marble/Granite/Sanitary ware	13	65	100	57	54.9	-43.2

Construction - Real Estate	77	675	708	668	4.9	-5.6
Engineering Construction	50	(9)	142	119	*	-16.2
Banking	**37**	**11,235**	**10,438**	**18,546**	**-7.1**	**77.7**
Banks - Public	21	(307)	221	8,844	-171.8	3903.9
Banks - Private	16	11,542	10,217	9,702	-11.5	-5.0
Finance	**236**	**6,001**	**5,897**	**4,759**	**-1.7**	**-19.3**
Housing Finance	13	3,254	3,287	2,555	1.0	-22.3
Finance - NBFC	223	2,747	2,611	2,204	-5.0	-15.6
Services	**159**	**15,380**	**17,125**	**15,838**	**11.3**	**-7.5**
Hospitals & Healthcare Services	16	142	170	143	19.8	-15.7
Retailing	10	131	416	(14)	217.4	-103.3
IT- Software	97	16,316	14,962	13,872	-8.3	-7.3
Telecommunications - Service Providers	9	(1,270)	1,606	1,921	-226.4	19.7
Hotels, Resorts & Restaurants	27	61	(29)	(86)	-146.9	198.9
Oil/Refinery/Mining	**21**	**20,317**	**27,453**	**26,107**	**35.1**	**-4.9**
Mining & minerals	6	1,242	877	1,665	-29.4	89.8
Refineries	8	14,682	21,724	18,266	48.0	-15.9
Oil Exploration	7	4,393	4,851	6,176	10.4	27.3
Others	**137**	**3,794**	**4,574**	**2,740**	**22.3**	**-38.0**
Pesticides & Agrochemicals	16	393	794	392	102.0	-50.7
Dyes & pigments	7	38	49	31	30.8	-36.6
Paper & Paper products	28	13	125	38	827.8	-69.4
Diamond & Jewellery	17	551	386	389	-29.9	0.6
Rubber products	6	13	12	13	-8.7	13.9
Plastic products	48	419	491	547	17.3	11.3
Paints Total	5	678	807	651	18.9	-19.4
Industrial Gases & Fuels	10	1,504	1,751	679	16.5	-61.2

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

- 7 industries reported net loss on a y-o-y basis during the quarter
- However, on a y-o-y basis, 33 industries witnessed lower growth in net profit in Q1 FY18.
- Maximum decline was witnessed in industry group of consumer goods, automobiles and related, construction and real estate, finance, refineries, paper & paper products, pesticides & agrochemicals, etc. Profitability of services like hospitality and retailing were also impacted.
- 11 industries registered a positive growth in net profits in Q1 FY18

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

Most of the industries in Q1 FY18 that have posted lower growth numbers were affected by the destocking goods before implementation of GST from July 1, 2017 by the government. The effect was felt most of the companies as we can also see from the financials. This led to slower movement in the consumer durables, industrial activity, etc which led to comparatively lower sales during the quarter.

- **Cement:** Cement industry saw marginal signs of improvement post the demonetisation drive of the government in terms of sales. The industry registered marginally higher sales during Q1 FY18, however, profits declined by over 50% on a y-o-y basis on account of higher raw material cost. Demand picked up on back of re-monetization and improved liquidity as well as new product launches by players.

- **Automobiles:** Auto industry suffered the maximum during Q1 FY18 on account of uncertainties revolving around tax rates under GST. Sales of all automobiles and related industry registered positive growth but at a lower rate while auto trucks/lcv segment sales declined during the quarter. Sales increased in Apr-May while again slowed down in June 2017 post the GST rates were announced. On a y-o-y basis, however, most segments have recorded marginal positive sales. Tractors sales recorded y-o-y higher rate on back of good monsoon and increased farm activities. However, the profits registered were affected negatively on account of various discounts, exchange offers and easy financing options offered by players to offload the stocks.

- **Household & personal products:** The demand for the industry being non-discretionary, the industry witnessed marginal sales growth, however comparatively lower on a y-o-y basis during the quarter. Many players offered discounts and various schemes to maintain the volume sold and clear the stock before GST, therefore the effect on profits was off-set.

- **Two – three wheelers:** Both domestic and exports market saw an upward trend in sales during the quarter. In domestic markets, as most of the demand comes from tier II and tier III cities, the pent up demand post demonetisation translated into sales during the quarter. Also, in the global market the industry witnessed an upswing during the quarter. However, growth was restricted as the industry continues to face headwinds due to volatile business environment driven by 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 81% of the market) have registered a cumulative sales growth of over 27% y-o-y in Q1 2018. Top player registered growth on back of capacity additions. However, profits declined sharply on back of higher input cost for some players along with marginal destocking activity prior to GST by some players.

- **Textiles:** Textiles demand during the quarter picked up as the pent up demand released by consumers that were holding back any discretionary spending and postponing the purchase post liquidity crunch. Top 5 palyers together registered a sales growth of 16% y-o-y. Note: Net profits remained negative on account of exceptional losses recorded by a top player accounting for over 18% share in sales during the quarter.

- **Sugar:** Sugar industry witnessed a double digit growth in net sales during the quarter. Also, despite higher sugar prices during the quarter, the companies registered a cumulative loss on account of exceptional losses and higher finance costs incurred by 2 large players. The sector is aided by Central and State Government's rational policies, to ensure sustainability of the Industry and the farmer.

- **Retailing:** Net sales increased but at a lower rate on a y-o-y basis as demand remained muted 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 by individuals.

Table 6: Outlook for 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 which should manifest during the year
Cement	Demand for cement is expected to pick up in the coming quarters given picking up of infrastructure projects especially the ones implemented by Central Government. Demand from real estate would remain to be on the low given the dual impact of GST and RERA having slowed down the industry.
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
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.
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. Also government will provide interest subsidy to affordable housing buyers, this will have positive impact on real estate
Steel	Demand expected to be up due to the infra thrust of the government. In addition to this, the government gave nod for the policy that provides preference to domestically produced steel to be procured by the government for its projects. 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.

CORPORATE OFFICE:
CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com