

Corporate Performance: Q3-FY18: Part II

In Part II of the evaluation of corporate performance during the third quarter of the year, a disaggregated picture is presented on the profitability numbers of a sample of 1,567 companies over the last two years. The sample excludes banks and finance companies – banks as they have extreme performance due to the NPA issue and finance companies due to the high interest cost component.

The third quarter has been particularly positive for the manufacturing sector with IIP growth being 2%, 8.8% and 7.1% respectively in October, November and December.

The details of the income and expenditure variables of the sample are provided in Table 1 below. Some of the highlights are:

- Growth in sales in Q3-FY18 was much lower than that in FY17 at 9.3% as against 17.7% last year. While different sectors have been affected by industry specific reasons, lower growth may be attributed to a combination of the ongoing restocking process, adjustment to GST especially at the SME level, limited pick-up in demand, and high base effect.
- Growth in other income has been impressive this quarter, though its share in total income is less than 3%.
- Growth in total expenditure was in line with the growth in sales with the number being marginally lower at 8.9% as against 9.3% in sales. This was notwithstanding the fact that growth in raw material and employee cost increased at higher rates. Other expenses growth was curtailed to bring about lower growth in total expenditure.
- As a proportion of sales, the ratio of raw materials increased while that of employee cost was unchanged at 8%.
- Interest costs declined by 5.1% due to lower interest rates as lending rates were lowered by banks. When rates are reduced, a large part of the loans taken get re-priced at a lower rate.
- Tax payments increased at a lower rate of 20.4% as against 47.1% last year. This led to a decline in the effective tax rate from 28.4% in Q3-FY17 to 27.7% in Q3-FY18.
- Growth in net profit was lower at 24.6% in 2017 compared with 25.3% last year in the third quarter. However, with sharper decline in growth in net sales, overall net profit margin improved from 7.3% to 8.3% during this period.

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- Interest cover for the entire sector continues to witness improvement over the three time periods.

Performance of companies in third quarter (Rs crore/%)

1,567 companies	Rs crore			% change	
	Dec-15	Dec-16	Dec-17	Dec-16	Dec-17
Sales	907,962	1,068,820	1,168,010	17.7	9.3
Other income	25,587	25,130	33,533	-1.8	33.4
Expenditure	775,267	913,320	994,863	17.8	8.9
Raw materials	324,245	366,492	426,674	13.0	16.4
Employee cost	80,479	85,370	93,121	6.1	9.1
Interest	27,073	30,817	29,254	13.8	-5.1
Depreciation	37,668	41,311	44,934	9.7	8.8
Tax	21,046	30,963	37,282	47.1	20.4
Net profit	62,374	78,156	97,362	25.3	24.6
Ratios (%)					
RM to sales	35.7	34.3	36.5		
Staff cost to sales	8.9	8.0	8.0		
Interest cover	5.5	5.9	7.1		
PAT/Sales	6.9	7.3	8.3		

Cumulative performance

The 9-months performance of a sample of 1558 companies reveals similar trends.

Performance of companies in 9M (Rs crore/%)

15,58 Cos 9M	Rs crore			% change	
	Dec-15	Dec-16	Dec-17	Dec-16	Dec-17
Net sales	2,681,585	2,978,295	3,264,748	11.1	9.6
Other income	72,238	80,836	82,802	11.9	2.4
Expenditure	2,281,416	2,528,744	2,777,678	10.8	9.8
Raw materials	977,738	982,555	1,135,142	0.5	15.5
Employee cost	230,123	247,943	267,424	7.7	7.9
Interest	78,530	86,603	86,085	10.3	-0.6
Depreciation	106,696	118,392	128,753	11.0	8.8
Tax	69,681	91,388	99,359	31.2	8.7
Net profit	205,556	242,459	249,101	18.0	2.7
Ratios (%)					
RM to sales	36.5	33.0	34.8		
Staff to sales	8.6	8.3	8.2		
Interest cover	5.9	6.2	6.5		
PAT/Sales	7.7	8.1	7.6		

The major difference in the cumulative performance is that net profit margins have dipped from 8.1% to 7.6% as net profit growth was low at 2.7%. This was due to the fact that growth in expenses was higher than that of sales with raw material costs increasing sharply. Interest payments declined, while depreciation and tax growth was the same as for the third quarter. Also the effective tax rate increased from 27.4% to 28.5% during this period. Interest cover improved though was at a lower level than that in Q3.

Does size matter? (Q3-FY18)

There has been a varied performance across various size groups of companies during this quarter. The table below classifies them into 6 groups with 3 performing above average.

Size Range Rs cr	No of Cos	Sales Rs cr	Share (%)	Sales growth (%)	Net profit growth (%)
Above 10,000	22	625,914	54	11.0	28.1
5,000-10,000	17	120,681	10	1.6	6.2
1,000-5,000	115	215,917	18	10.5	27.6
500-1,000	130	90,686	8	12.4	50.5
100-500	366	90,540	8	5.6	8.6
Less than 100	917	24,269	2	-1.2	*

*: negative to positive

Concluding remarks

The overall performance in Q3 indicates a recovery is on the anvil. The consolidated picture is lower in terms of profit, which means that Q3 has been able to overwhelm the lower performance in the first two quarters. If such a profile is maintained or improved in Q4, then it would be possible to conclude that the corporate sector has turned the corner and would be on an upward trajectory next year.

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