Economics

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Corporate Performance: FY14 (Early results)

Overview:

A study on the performance of 880 companies showed that net sales increased by 12% in FY14 as against 15.3% in the previous year, while net profit increased by 8.2% in FY14 compared with growth of 13.1% in FY13. Accordingly, the net profit margin moderated from 9.8% to 9.5% during the fiscal. The deterioration in the overall performance has been the outcome of muted investment and lower market demand.

Financial performance in FY14 over FY13 for a sample of 880 companies is given below:

Table 1: Financial Performance of all companies (880)

% Growth	FY13	FY14
Net Sales	15.3	12.0
Expenditure	14.6	11.8
Interest Expenses	20.8	13.1
Net Profit	13.1	8.2
	Ratio	
Profit Margin	9.8%	9.5%

Source: ACE Equity

Table 2: Financial Performance excluding banks (845 companies)

% Growth	FY13	FY14
Net Sales	14.6	12.0
Expenditure	14.5	11.4
Interest Expenses	27.3	17.0
Net Profit	14.7	15.3
	Ratio	
Profit Margin	9.3%	9.6%
Interest cover	2.9	2.9

Source: ACE EQUITY

Table 2 provides summary of performance of 845 non-bank companies.

- Net sales recorded a growth of 12% in FY14 compared with 14.6% in the previous year. Lower growth in sales is attributed to weak industrial output during the year. Industrial output contracted by 0.1% for the second consecutive year over low growth of 1.1% in FY13 on account of lower investments and depressed consumer demand.
- Total expenditure across companies grew by 11.4% in FY14 as against 14.5% in FY13.
- Interest expenses registered significant decline. The growth rate dipped from 27.3% in FY13 to 17% in FY14. This may be attributed more to the lower demand for credit from industry

and services rather than interest rates. RBI had increased interest rates by 75 bps during the year after lowering it by 25 bps to begin with.

- Interest cover, defined as Profit before Interest and Tax (PBIT) to interest payments, remained unchanged at 2.9% during the fiscal.
- Net profit margin (net profit to net sales) increased to 9.6% in the financial year as against 9.3% in the corresponding quarter of the previous year. This was a result of growth in net profit being higher than that in sales.

Banking Sector

- Financial results of 35 banking companies (does not include SBI) showed that net sales (interest earned) increased by 12% in FY14 as against 17.2% in the previous year.
- The growth in 'provisions and contingencies' increased to 37% (24.2%) in FY14. Higher provisions were necessitated on account of build-up of NPAs.
- Net profit witnessed a sharp decline of 9.1% as against 9.4% in the previous year.
- As a result, net profit margin continued to be under pressure and declined to 9.1% as against 11.2% last year.
- Non-performing assets (NPAs) have increased sharply during the year as a slowing economy resulted in higher quantum of bad loans.
  - Gross NPAs and the net NPAs as a percentage of advances surged to 3.5% (2.82%) and 2.04% (1.57%) respectively in FY14.
  - Gross NPAs increased by around 43% from Rs 120,664 crore to Rs. 172,409 crore for these 35 banks. Net NPAs increased by 47.3%.
  - Gross NPA has increased by Rs 51,745 crore in FY14 while the advances have shown an increase of Rs 6.5 lakh crore, resulting in incremental gross NPA ratio of 8%. Depressed economic conditions were responsible for high NPAs.
- On the positive side, banks have maintained capital adequacy ratio of above 10% (data available for 35 banks). Out of the 35 banks 8 reported an increase in this ratio in FY14 when compared with the previous fiscal.

To sum up

Corporate performance during the year was affected by the muted pace of economic growth. The banking sector did push down overall performance while non-bank companies did witness improvement in profit margins. In case of banks, the NPAs continued to rise sharply thus putting pressure on profit margins. However, as per norms banks maintained the minimum capital adequacy requirements during the year.

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