

## Corporate Performance: FY14

In the last five years, India's economic performance has been influenced by several global as well as domestic concerns. In FY09, following the global meltdown, the economic growth rate of India had dropped to 6.7% from an average growth of 8.8% in the preceding five years. In response to this, several fiscal and monetary measures were implemented to promote growth. Subsequently, economy showed signs of recovery in FY10 and went on to record healthy growth of over 9% in FY11. However, since the last three years slowing domestic investments and weak consumer confidence coupled with subdued global growth has led to a substantial moderation in domestic economic activity. India's economic growth virtually halved to sub 5% level in FY13 and FY14.

In the light of India's economic performance, analysis of the financial performance of the Indian corporate sector over the last five years (FY10- FY14) has been carried out.

### Corporate sector financial highlights: FY10- FY14

In order to study the financial performance of the Indian corporate sector, a sample size of 1,642 companies has been considered. Table 1 provides a snapshot of the financial performance of these companies in the past five years. Table 2 provides the information regarding the five year performance of a sub-sample of the aggregate excluding banks.

**Table 1: Financial highlights of all companies (1,642\*)**

% Growth	FY10	FY11	FY12	FY13	FY14
Net Sales	5.7	22.1	23.6	11.0	9.0
Expenditure	1.8	23.4	23.8	10.6	9.7
Interest	3.7	13.4	44.1	19.8	12.8
Net Profit	22.6	18.1	-0.8	4.7	4.9
<b>Ratio</b>					
Net Profit Margin (%)	10.7	10.4	8.3	7.9	7.6

Source: ACE Equity

\* includes 3 PSU- Oil Marketing Companies

**Table 2: Financial summary excluding Banks (1,603\*\*)**

Growth rate (%)	FY10	FY11	FY12	FY13	FY14
Net sales	5.3	22.3	21.9	10.0	8.4
Expenditure	1.3	23.4	24.3	10.4	9.4
Interest	-0.9	20.4	44.6	22.3	14.4
Net Profit	24.0	17.7	-4.3	3.2	9.2
<b>Ratio</b>					
Net Profit Margin (%)	10.3	9.9	7.7	7.3	7.3
Interest Cover	4.8	4.7	3.5	3.1	3.0

Source: ACE Equity

\*\* includes 3 OMCs

- Growth in sales picked up sharply in FY11 and FY12 which can be partly attributed to high levels of inflation during the period (the Wholesale Price Index (WPI) for FY11 and FY12 was 9.6% and 9% respectively). The growth in sales during the period was also aided by the overall healthy demand in the domestic economy. Industrial growth was high at 8.2% in FY11 but slowed down to 2.9% in FY12. Industrial growth moderated considerably in the subsequent years with FY14 recording a 0.11% contraction. GDP growth too dropped to below 5% in the last 2 years owing to weak demand and depressed investments. Consequently, sales growth too declined in FY13 and FY14.
- Total expenditure has mirrored a trend similar to that of Sales in terms of growth rate over the last five years. The aggregate expenditure across the companies increased significantly in FY11 and FY12 while it moderated in FY13 and FY14.
- The increase in raw material cost coupled with weakness in demand (lower sales) made it difficult for producers to pass on the incremental cost onto consumers, thereby putting pressure on their profits. This has been evidenced from the steep decline in corporate profits in the last 3 fiscals.
- The steady increase in interest rates since March'10 by the RBI to tackle persistent high inflation pushed up interest costs considerably. In the 2 year period i.e. FY11 and FY12, the RBI hiked repo rates by 350 bps.
- Interest cover, defined as the Profit before Interest and Tax (PBIT) to interest also demonstrates a downward trend from 4.8% in FY10 to 3% in FY14.
- Net profit margin, defined by the net profit to net sales ratio too witnessed a decline in the last five years from 10.3% in FY10 to 7.3% in FY14.

### Size wise analysis- FY14 over FY13

With overall performance of the corporate sector being subdued in FY14, a study of the sub-sample of 1,574 companies according to size would throw light on whether or not the performance has been uniform across different size groups. The size groups have been defined based on net sales for FY14. Table 3 below gives the composition of the sample companies based on the net sales for FY14.

**Table 3: Sample Profile by size according to net sales- FY14**

Size Range (Net Sales: Rs Cr)	No of companies	Net Sales Growth (%)	Net Profits Growth (%)	Net profit margin (%)
<b>All companies</b>	1,574	8.4	9.2	7.3
<b>Above 1,000</b>	354	8.8	9.0	7.2
<b>500-1,000</b>	160	7.7	2.5	4.6
<b>250-500</b>	186	-1.0	26.6	22.6
<b>100-250</b>	230	3.4	-32.8	2.6
<b>Less than 100</b>	644	-14.7	(334.7)	-5.1

Source: ACE Equity

Some interesting observations -

- The top 354 companies with sales above Rs 1,000 cr each, which comprised 22% of the total companies examined, accounted for nearly 94% of the total sales and dominated the overall performance. These companies registered the highest increase in sales of 8.8%. Net profit increased by 9% while net profit margin was retained at 7.2%.
- The group with size of Rs 500cr-Rs.1,000 cr registered sales growth of 7.7%. The growth in 230 companies with sales between Rs.100 cr to Rs.250 cr recorded a lower but positive growth of 3.4% while the growth in sales for other smaller sized groups contracted.
- The highest net profit growth of 26.6% was recorded in the group with size of Rs.251 cr to Rs.500 cr with the net profit margin improving from 17% to 22.6% in FY14. However, the small companies with sales below Rs.100 cr incurred overall heavy losses which escalated by 334.7% in FY14.

Overall, it can be concluded that the larger sized firms performed better than the smaller sized firms during the year.

### Banking sector

A study of the performance of 39 banking companies showed that interest income grew at a slower rate during FY14 with the moderation in credit growth and deterioration in asset quality.

Low economic growth conditions coupled with the high interest rate regime put pressure on the banks performance as NPAs witnessed a continued and substantial increase in FY14 also. The analysis of the available data for these 39 banks shows that the gross NPA ratio i.e. NPA's as a percent of total advances, of these banks increased from 3.3% in FY13 to 3.8% in FY14. In terms of absolute numbers NPA's grew 34.5% in FY14 (to Rs. 2,41,415crs), following the 36.1% growth in gross NPA's in FY13 (to Rs. 1,79,537 crs). This increase in NPA's has necessitated banks to undertake larger loss & contingencies provisioning. Provisioning of the 39 banks grew 37.6% (to Rs. 85,420 crs) in FY14 from the 16% growth (to Rs. 62,084 crs) recorded in FY13, thereby pressuring the net profit margin of the banks. A contraction in net profit by 10.6% in FY14 led to the decline in net profit margins to 8.8% from 11.1% in FY13.

**Table 4: Performance summary of 39 banks**

Growth Rate (%)	FY13	FY14
<b>Net Sales (Interest Income)</b>	16.3	12.3
<b>Provisions and contingencies</b>	16.0	37.6
<b>Net Profit</b>	10.6	-10.6
<b>Net Profit Margin</b>	11.1	8.8
<b>Gross NPAs</b>	36.1	34.5
<b>Net NPAs</b>	51.2	43.3
<b>Gross NPA Ratio%</b>	3.3	3.8
<b>Net NPA Ratio %</b>	1.7	2.2

Source: ACE Equity

### Industry wise analysis

Industry wise performance covering 59 sectors has been evaluated here in terms of profitability in the past two years. (Annexure: table7)

- In FY14 sectors such as metals, oil exploration, cigarettes, IT, BPO and Finance recorded high profit margins, ranging between 20%-42%. Margins for these sectors were seen to have improved/ remained stable from that in FY13, despite subdued global economic activity. Although, profit margins for the mining & minerals sector was high at 48% in FY14, it nearly halved from the 93% of FY13.
- **The profit margins improved in FY14 from that in FY13 for nearly 27 sectors** (45% of the sectors examined here). BPO, shipping, film production, pharmaceuticals, telecommunications, automobiles, pesticides & agro chemicals, dyes & pigments and textiles are some of the sector that have seen improved growth in the fiscal year gone by.
- **Profit margins have moderated for 29 sectors (49% of the sectors examined here)**. It included sectors such as cement, telecommunication service, construction, automobiles, paints, tea coffee, fertilizers, textiles- man made, chemicals, Industrial gases & fuel, refineries and packaging. The slowdown in these sectors is reflective of the low demand conditions in the economy in the last 2 fiscals.
- Sectors such as sugar, paper & paper products, iron & iron products, wood & wood products, glass, petrochemicals and hotels have recorded losses in FY14.

### Performance of top fifty companies- Nifty

The performance of the 50 nifty companies has been presented below in table 5. Information was available for 46 of the 50 companies.

**Table 6: Performance of top fifty companies- Nifty (% Growth)**

% Growth	FY10	FY11	FY12	FY13	FY14
<b>Net Sales</b>	9.5	22.1	25.4	11.2	10.4
<b>Expenditure</b>	8.9	25.6	26.9	11.0	11.7
<b>Interest</b>	-2.5	9.7	41.0	20.6	12.0
<b>Net Profit</b>	15.3	16.5	14.0	8.6	10.8
<b>Ratio</b>					
<b>Net Profit Margin</b>	<b>14.8</b>	<b>14.1</b>	<b>12.8</b>	<b>12.5</b>	<b>12.5</b>

Source: ACE Equity

- In line with India's economic performance, the nifty companies reflect a similar trend over the past five years. For these 46 nifty companies, sales and expenditure peaked in FY11 and FY12 and moderated in subsequent years.
- Also, the net profit margins for these companies have been under pressure with rising interest burden. The net profit margins have gradually slowed down from 14.8% in FY10 to 12.5% in FY14.

## Annexure

Table 7: Industry wise performance summary (% Growth)

	No. of companies	Net Profit Margin %	
		FY13	FY14
Mining& Minerals	15	92.9	47.7
Metals- Ferrous & Non Ferrous	15	46.4	42.0
Oil Exploration	6	30.4	31.2
Cigarettes	3	23.9	25.2
IT	74	21.2	22.2
BPO/ITES	6	14.8	20.3
Finance	177	20.8	20.0
Pharmaceuticals & Drugs	44	14.1	16.3
TV broadcasting & Software Production	11	16.0	15.5
Household & Personal Products	11	15.2	14.9
Logistics	4	15.8	14.9
Power Generation & Distribution	17	15.7	13.8
Construction - Real Estate	42	16.0	11.7
Automobile- two & three wheelers	6	10.5	10.7
Shipping	4	4.1	9.7
Paints	4	11.2	9.7
Telecommunication -Service provider	5	7.4	9.6
Telecommunication -Equipment	6	6.8	9.5
Automobiles- tractors	1	8.4	9.3
tea/ Coffee	9	9.9	9.2
Pesticides & Agrochemicals	9	6.2	8.5
Electronic- Components/ Equipments	26	11.9	8.0
Hospital & Healthcare Services	7	7.4	8.0
Steel/ Sponge Iron/ Pig Iron	23	7.2	7.2
Engineering	71	6.6	6.9
Dyes & Pigments	12	5.4	6.8
Automobiles Passenger cars	1	5.6	6.5
Castings/ Forgings	14	6.0	6.2
Auto-ancillary	44	5.8	6.0
Diversified	8	7.6	5.7
Bearings	6	6.9	5.5
Rubber products	7	5.4	5.5
Plastic Products	27	5.0	5.4
Consumer Durables	10	5.2	5.2
Consumer Food	33	4.0	5.0
Ceramics/Marble/ Granite/ sanitary	8	5.0	4.8
Leather	6	4.4	4.8

Fertilizers	11	5.3	4.5
Film Production & Entertainment	11	-1.5	4.3
Cement & Construction Materials	25	6.7	4.2
Textile	107	2.6	3.9
Diamond & Jewellery	12	4.6	3.9
Textile Man made	6	3.9	3.7
Chemicals	54	5.3	3.3
Cable	11	2.5	2.8
Industrial Gases & Fuels	9	4.3	2.6
Travel services	4	2.3	2.3
Refineries	7	1.8	2.2
Packaging	12	1.1	1.3
Automobiles- trucks/ lcvs	3	3.2	1.0
Solvent Extraction	10	1.0	0.8
Trading	37	1.4	0.3
Sugar	4	9.9	-0.1
Paper & Paper Products	14	0.6	-0.3
Iron & iron products	11	0.4	-1.4
Wood & Wood Products	5	-1.5	-2.2
Glass	8	-4.9	-3.7
Petrochemicals	3	1.8	-11.1
Hotel, Resorts, Restaurants	21	-9.1	-17.5

Source: ACE Equity

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