

Corporate Performance- FY15

The Indian economy recorded stable growth in fiscal year 2014-15 with various sectors of the economy performing better relative to FY14. While the agriculture sector slowed down on the back of a weak and uneven monsoon earlier in FY15, industry showed some signs of revival towards the end of FY15 while service sector largely remained robust. The GDP growth in FY15 came in at 7.3% vis-a-vis 6.9% in FY14 while inflation (both headline and consumer) drifted lower continuously throughout the fiscal. Corporate performance in Q1, Q2 and Q3-FY15 has however remained a weak link in the economy, making it an oft discussed point. After a lacklustre FY14, industry and market players have been closely tracking corporate performance in FY15 with broad expectations of an improvement in sales and profit margins.

In light of the above, this report puts together the corporate performance in the last five years. Section A details the annual performance, section B reviews the performance in the eight quarters gone by and section C analyses the industry wise performance in FY15.¹

A. Annual Performance

Corporate Sector Financial Highlights: FY11-FY15

The corporate sector performance in FY15 is analysed in line with the performance in the preceding four years for a sample of 3,597 companies. Table 1 provides a snapshot of the financial performance of the aggregate sample and Table 2 provides the same for a sub-sample (3,558 companies) excluding banks.

Table 1: Financial Highlights of All Companies (3,597)

<i>% Growth</i>	FY11	FY12	FY13	FY14	FY15
Net Sales	18.8	24.0	9.9	8.5	-2.5
Total Expenditure	18.8	26.0	10.5	9.2	-11.1
Interest	13.7	44.0	19.7	13.2	9.3
Net Profit	15.9	-3.0	4.9	3.0	0.0
Ratio					
Profit Margin (%)	9.47	7.39	7.08	6.73	6.89

Source: ACE Equity

The overall performance in FY15 has been typified by decline in sales and a sharper fall in expenditure leading to stagnant net profit. This statistical phenomenon has helped to improve the net profit margin, which as indicated earlier is not due to any increase in profit.

¹Note the data for this study is sourced from ACE Equity as of 5th June '15.

Table 2: Financial Highlights Excluding Banks (3,558)

% Growth	FY11	FY12	FY13	FY14	FY15
Net Sales	18.6	22.7	9.0	7.9	-4.5
Total Expenditure	19.1	24.7	9.4	8.0	-5.3
Interest	20.9	43.9	21.3	15.2	6.2
Net Profit	15.2	-6.6	3.6	6.7	-1.7
Ratio					
Profit Margin (%)	8.92	6.77	6.47	6.40	6.57
Interest Cover	4.55	3.36	3.02	2.82	2.79

Source: ACE Equity

- A disturbing observation is that there has been three successive years when growth in sales has been less than 10%. Further, while growth in sales was high in FY12, growth in net profit turned negative and has not quite recovered since then. This picture accompanied by declining interest cover for the corporate sector has also been manifested in growing incidence of stressed assets in the economy. Profit margin has been in the range of 6-7% in the last 4 years which is lower than that in FY11.
- Net sales of corporates have receded to a five year low as they contracted by 4.5% in FY15 over the 7.9% growth in FY14. This fall in sales can be partly attributed to the prevalence of a price effect arising from the lower headline inflation in FY15 and as also to a weak domestic demand in the economy. The average capacity utilization ratio for industry according to RBI data was just around 70-72% indicating low demand.
- Total expenditure of the companies also dropped sharply from a growth of 8% in FY14 to a negative growth of 5.3%. This is on account of the lower inflation seen in FY15. Wholesale Price (WPI) inflation came in at a five year low of 2% in FY15 with manufacturing WPI down at 2.4% (2.99% in FY14, 5.4% in FY13, 7.3% in FY12 and 5.7% in FY11). Thus, companies benefited from the lower inflation as it made expenditure less costly compared with the previous years.
- Interest costs of the corporates have eased down as they recorded a 6.2% increase over the previous year's growth of 15.2%. This may be attributed more to lower borrowings with bank credit growing by 5.6% to the manufacturing and services sectors. Lowering of the repo rate by the RBI as inflation fell within its comfort range should get reflected next year as Banks exercised interest rate cuts only in Q1 FY15. In the last five years, interest cost increased at the slowest pace in FY15.
- Pressured by weak sales and muted demand environment, corporates have seen reduced net profits in FY15. Following the contraction in FY12, net profits had revived, albeit gradually, in FY13 and FY14 with a growth of 3.6% and 6.7% respectively. However, net profits dwindled in FY15 as they deteriorated by 1.7% during the year. This also implies that producers/ companies were unable to benefit from the reduced inflation as weak demand impacted sales and thereby profits.
- Profit margins have been fluctuating around the 6.5% mark since FY12. Margins improved marginally in FY15 at 6.57% over 6.4% in FY14.
- Interest cover defined as Profit Before Interest and Tax also mirrors the trend seen in profit margin as it moved lower by 2.79% in FY15 over 2.82% growth in FY14. Interest cover thereby stands in stark contrast to the 4.6% level in FY11 after which it entered into a downturn.

Hence, the overall picture for the corporate sector has been cloudy in FY15 which appears to be one of the more unfavorable years in the last quinquennium.

Corporate Sector Financial Highlights (Excluding Banks and Oil Companies): FY11-FY15

In order to avoid any possible skewing of the analysis on account of the presence of oil companies (exploration and refineries) in the sample, they were excluded in this sub-sample. Thus, this sub-sample comprises 3,538 companies. The overall picture does get altered.

Table 3 below captures the financial highlights of this sub-sample excluding banks and oil companies.

Table 3: Financial Highlights Excluding Banks and Oil Companies (3,538)

% Growth	FY11	FY12	FY13	FY14	FY15
Net Sales	16.0	20.3	6.2	8.1	-1.1
Total Expenditure	15.7	22.6	5.6	8.4	-1.8
Interest	20.5	42.5	21.5	17.8	8.8
Net Profit	17.3	-8.0	3.5	3.3	2.9
Ratio					
Profit Margin (%)	10.70	8.15	7.99	7.64	7.94
Interest Cover	4.16	3.09	2.79	2.52	2.52

The trends in these major financial parameters are largely parallel to that for the broader sample of companies.

- Net sales fell by 1.1% in FY15 for this sub-sample following the growth of 8.1% in FY14. This is the lowest growth recorded in net sales in the last five years.
- Similarly, total expenditure contracted by 1.8% as low inflation resulted in reduced expenditure costs across companies. For the sample including oil companies, the decline was sharper as they benefited from declining crude oil prices.
- Notably, fall in net profits in this sub-sample is lower than that corresponding contraction in the same in the larger sample; thereby implying that the performance of the big oil companies influenced the results for the entire sample.
- Interest costs receded markedly with a fall in growth rate at 8.8% over 17.8% in FY15. This rate is higher than that for the aggregate sample as the oil companies do tend to be large borrowers in the market and due to lower oil price had less demand from the banking system.
- Profit margin and interest cover mirror the trends in their counterparts in the larger sample at a growth rate of 7.94% and 2.52% respectively.

Size Wise analysis: FY15 over FY14

In order to analyse the subdued corporate performance in FY15 in a better perspective, the sample is broken down on the basis of size to form certain sub-samples. The size groups have been identified based on net sales in FY15. Table 4 below captures the performance of the companies of various sizes in FY15.

Table 4: Sample Profile by Size (FY15 over FY14)

Size Range (Net Sales in Rs. Cr.)	No of Companies	Net Sales Growth (%)	Interest Growth (%)	Net Profit Growth (%)	Profit Margin (%)
Above 1,000	543	0.9	9.8	1.7	7.24
500-1,000	258	1.2	3.3	-38.2	2.61
250-500	291	-60.6	-5.7	-1.9	12.37
100-250	425	-4.1	6.4	-863.2	-1.88
Less than 100	2,080	-40.2	-19.6	-31.2	-19.12

Source: ACE Equity

Some interesting observations follow,

- Top 543 companies with net sales higher than Rs. 1,000 Cr. comprise around 15% of the sample but dominate with a share of 92% in the total sales of all companies (Table 5). They were the major influencers in the aggregate sample performance of corporates. Their interest cost recorded the highest increase at 9.8% while they were the only sub-sample to record a positive increase in net profit in FY15 at 1.7% over FY14 levels.
- The second tier companies with net sales between Rs. 500 Cr. – Rs. 1,000 Cr. was the only other sub-group to record any expansion in net sales at 1.2% in FY15.
- Despite the highest reduction in net sales (-60.6%), the highest profit margin across the groups was seen in companies with net sales between Rs. 250 Cr. – Rs. 500 Cr as their net profit underwent a lower moderation than net sales and profit margins remained high relative to the remainder groups..
- Net profit growth fell most steeply for the companies with net sales between Rs. 100 Cr. – Rs. 250 Cr while majority of the companies (58% of total) which come in the bracket of less than 100 Cr. in net sales in FY15 recorded the highest contraction in profit margin by 19.12%.

Table 5: Distribution of Net Sales. Profit and Interest (% Share of total)

	Net Sales	Net Profit	Interest
Above 1,000	92.8	97.5	96.2
500 -1,000	3.4	1.3	1.6
250 – 500	1.9	3.3	0.8
100 – 250	1.3	-0.3	0.7
Less than 100	0.7	-1.8	0.6

Source: ACE Equity & CARE Calculation

Banking Sector

The performance of the banking sector is reviewed here. It is revealed that there has been a slowdown in the interest income as also deterioration in the asset quality of Indian banks in FY15.

- The banking system remained under pressure in FY15. The analysis of the 39 banks shows that interest earnings of banks grew at a slower pace of 10.2% in FY15 as against 12.3% in FY14. There was also moderation in total income and expenditure growth in FY15 compared with FY14 levels.
- However, there was an improvement in the net profit as they grew by 7.8% in FY15 vis-à-vis contraction of 10.8% in the previous year. Profit margin on the other hand drifted only marginally lower to 8.6% in FY15.
- Growth in provisions was lower in FY15.
- While the growth rate of Gross and Net NPAs moderated slightly in FY15 at 25.1% and 25.8% respectively, their presence in the banking system increased significantly to 4.3% and 2.4% respectively in FY15.

Table 5: Performance Highlights of the Banking Sector (39 Banks)

% Growth	FY14	FY15
Net Sales (Interest Earned)	12.3	10.2
Total Income	12.8	10.9
Total Expenditure	17.3	11.8
Provisions and Contingencies	38.0	8.9
Net Profit	-10.8	7.8
Net NPAs	43.2	25.8
Gross NPAs	34.5	25.1
Ratio (%)		
Profit Margin	8.8	8.6
Net NPAs (Ratio %)	2.2	2.4
Gross NPAs (Ratio %)	3.8	4.3

Source: ACE Equity

B. Quarterly Performance: FY11- FY15

Financial performance of corporates in the last eight quarters is reviewed in this section from Q1-FY14 to Q4-FY15. The analysis is performed for a sample of 3,388 companies. Summary of the financial performance is given in Table 5 below.

- While juxtaposing the four quarters of FY14 vis-à-vis FY15, it is seen that there was a continuous improvement in Profit Margins despite fluctuating sales and Net profits in FY14. However, in FY15, Profit margins have been fluctuating even as net sales showed continuous weakening.
- As regards net sales, Q4-FY15 appears to be the most unsatisfactory quarter over the last two years. While it was the second consecutive quarter of a slowdown in net sales growth, it was a rather steep contraction at -7.9% in Q4-FY15 vis-à-vis a strong growth of 8.2% in Q4 FY14. In FY15, there has been a progressive moderation in net sales growth over the four quarters.

Table 5: Quarterly Financial highlights of all companies (3,388)

% Growth	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15
Net Sales	6.6	9.5	6.8	8.2	9.8	3.6	-0.6	-7.9
Total Expenditure	2.9	11.7	6.7	8.0	7.5	2.3	-1.7	-10.8
Interest	10.5	13.6	14.0	14.3	12.5	10.2	8.6	8.3
Net Profit	73.4	-23.4	-5.0	2.6	33.7	14.6	-28.7	-11.2
Ratio								
Profit Margin (%)	6.09	6.38	7.13	8.17	7.50	7.02	5.12	7.87

Source: ACE Equity

- On the back of inflation being at five year low, total expenditure also underwent the maximum decline at -10.8% in Q4 FY15 as against a growth of 8.0% in Q4 FY14. However, inflation was significantly higher in FY14 relative to FY15.
- Interest costs have recorded the slowest increase in Q4 FY15 in the last eight quarters as RBI eased the policy repo rate twice and some benefit may have passed to companies.
- A comparison across the last eight quarters suggests that net profit growth while in the negative space in Q4 FY15 (-11.2%) is lower than the steep contraction of -28.7% in Q3 FY15 and -23.4% in Q2 FY14.
- Profit margins of companies bettered in Q4-FY15 to 7.87% from 5.12% in the previous quarter.

C. Industry Wise Performance in FY15

Industrial growth as represented by the Index of Industrial Production (IIP) figures displayed signs of a revival in FY15 with a y/y growth of 2.8% in FY15 over -0.1% in FY14. The Manufacturing IIP particularly stood at a three year high growth of 2.3%. However, when juxtaposed with the financial performance of the broad sample, there is an overt contradiction between the two. Hence, an industry wise analysis is performed here to closely examine the sectoral performance in FY15 relative to FY14.

- **Net Sales growth increased for 22 sectors:**
 - 'Aluminium & aluminium products' recorded an increase in net sales by 16% from 4.7% while under IIP, 'aluminium production' also saw a growth of 13.3% in FY15 over -5.0% in FY14).
 - 'Automobiles' sector underwent a marked increase from -4.5% to 7.6% which is corroborated in the IIP growth of 4.5% in 'passenger cars production' and 6.3% growth in 'MPV production' in FY15.
 - The 5.3% growth in net sales in 'mining & minerals' sector in FY15 (-7.3% in FY14) is supported by the 1.42% growth in IIP- 'mining & quarrying' in FY15 (-0.6% in FY14)
 - There was a considerable increase in net sales in the sectors of 'cables' (10.3% from 1.5%), 'cement & construction material' (5.7% from -0.7%), 'fasteners' (14% from -0.1%), 'forgings' (26.2% from 6%) and 'lubricants' (16.4% from -9.8%)

- **Net sales diminished for some sectors:** ‘Chemicals’ industry recorded a fall in net sales growth from 8.1% in FY14 to 0.2% in FY15 thereby mirroring the fall in IIP- ‘chemicals’ from 8.9% in FY14 to -0.2% in FY15. Decline in the growth in net sales of industries such as ‘paper and paper products’ (-0.7% from 13.6%), ‘electric equipment’ and ‘consumer food’ was not reflected in the broader indices of the same under the IIP.
- **Profit margin increased for 27 sectors:**
 - Profit margins increased for the sectors of ‘bearings’ (8.5% from 7.6%), ‘consumer durables’ (2.5% from 1.1%), ‘Dyes & Pigments’ (23% from 5.7%), ‘finance’ (19.6% from 9.5%)
 - On the other hand profit margins thinned down for industries such as ‘automobiles’ (6.9% to 4.4%), ‘cable’ (2.2% to 0.7%), ‘fertilizers’ (3.5% to 2.4%), ‘film production, distribution and entertainment’ (5.4% to 2%), ‘oil exploration’ (31% to 19.7%),.
- **Interest cover improved in 38 sectors:**
 - There is a noteworthy growth in the interest cover in the sectors of ‘bearings’ (29.3% from 27%), ‘Diesel engines’ (205% from 149%), ‘forgings’ (9.6% from 4.6%), ‘household and personal products’ (93% from 48%), ‘metals-non ferrous’ (92% from 65%).
 - Sectors that recorded a moderation in interest cover included ‘aluminium and aluminium products’ (3.5% to 2.8%), ‘cigarettes & tobacco’ (165.6% to 144.3%), ‘electric equipment’ (3.1% to 0.04%).

Table 6: Industry-wise Performance Summary

Industry	No. of Companies	Net Sales (% Growth)		Profit Margin (%)		Interest Cover	
		FY14	FY15	FY14	FY15	FY14	FY15
Forgings	8	6	26.2	10	14.4	4.6	9.6
Castings & Forgings	22	11.4	23.3	1.5	1.3	1.6	1.4
Diamonds & Jewellery	32	-	20.6	-0.9	0.8	0.8	1.8
Hospital & Healthcare Services	20	13.5	18.9	5.2	5.6	3	3.7
Lubricants	9	-9.8	16.4	10	9.8	16.3	14.3
Aluminium & Aluminium Products	19	4.7	16	5.7	5.4	3.5	2.8
Batteries	8	4.7	15.1	7.5	7.5	11.5	15
Fasteners	5	-0.1	14	4.2	5.9	2.6	4.3
Leather	19	17.4	12.4	6.8	6.51	5.8	5.8
Household & Personal Products	20	10.6	11.9	13.9	13.9	47.9	93.1
Ceramics, Marble, Granite, Sanitaryware	25	12.9	11.7	0.2	2.3	1.5	2.6
Pharmaceuticals & Drugs	155	13.2	10.8	12.6	10.8	4.1	5.2
Cable	23	1.5	10.3	2.2	0.7	1.6	1.3
Bearings	11	4.1	9.7	7.6	8.5	24	29.3
IT- Software	203	27.8	9.7	21.6	22.2	33.2	46.1
Auto Ancillary	90	3.6	9.4	5.6	5.5	3.7	3.2
Electronic- Components	33	2.3	9.4	9.1	10.2	9.1	14.2
Telecommunication service provider	8	10	9.3	16	10.6	3.7	3.5
TV Broadcasting & Software Production	27	13.7	9.3	11.5	6.8	5.2	5.5
Fertilizers	22	5.3	8.2	3.5	2.4	2.6	2.7
Cigarettes & Tobacco	6	11.7	7.9	24.8	25.1	165.5	144.3
Automobiles	18	-4.5	7.6	6.9	4.4	7.3	7
Logistics	17	4	7.6	8	10.1	4.3	4.6
Telecommunication Equipment	21	20.9	7.4	-0.7	16.4	1.5	4.6
Textile	256	13.9	6.6	1.1	0.7	1.3	1.3
Film Production, Distribution & Entertainment	43	19.4	6.5	5.3	2	2.7	1.8
Pesticides& Agrochemicals	23	21.9	6.4	6.9	6.9	5.7	5.5
Paints	9	13	6.2	8.7	9.4	29.3	35.6
Cement & Construction Material	48	-0.7	5.7	6	5.1	2.3	2
Consumer Food	102	8.1	5.7	3	3	3.3	3.3
Diesel Engines	5	-7.3	5.4	11.6	12.2	149.8	205.1
Mining & Mineral	29	-7.3	5.3	105.3	92.3	31.5	31.5
Rubber & Rubber Products	13	2.1	5.1	7.4	4.9	3.7	3.8
Power Generation & Distribution	32	8.4	4.8	14.3	14.3	2.7	2.7
Hotel, Resorts & Restaurants	49	5.9	4.6	-14.2	-4	0.1	1.3
Plastic Products	87	13.1	4.3	4.2	4.3	2.4	2.7
Construction- Real Estate	136	1.6	4.2	8.8	9.6	1.7	1.9
Metals- Non Ferrous	11	6.9	4.1	40.5	44.8	64.8	92
Industrial Gases & Fuels	19	19.1	4	2	2.9	4.4	3.4

Printing & Publishing	18	10.6	3.8	13.3	13.1	9.9	12.4
Steel & Iron Products	43	6.7	3.5	0.6	0.6	1.2	1.4
Refractories	9	8.1	3.4	11.6	8.8	71.3	104.1
Tyres & Allied	13	7.2	3.2	5.6	7.1	4.3	6.2
Consumer Durables	26	7	2.8	1.1	2.5	1.3	1.5
Packaging	46	7.5	2.8	-3.7	-1.5	0.6	0.6
Engineering	77	-6.3	1.1	6.9	5.9	4	3.5
Dyes & Pigments	27	32.6	0.4	5.7	23	3.4	5.4
Chemicals	122	8.1	0.2	4.1	5.1	2.9	3.1
Transmission Towers & Equipment	7	14.4	-0.2	0.8	-0.3	1.3	1.1
Paper & Paper Products	50	13.6	-0.7	0.9	0.4	1.2	1.2
Compressors	7	-0.1	-0.8	6.1	5.2	4.4	3.4
Petrochemicals	11	-	-0.8	-2.6	-2.9	0	-0.1
Tea, Coffee	29	9.5	-1.2	10.8	5.6	5.1	3.2
Sugar	36	-2	-1.4	-9.4	-8.2	-0.2	0
Breweries & Distilleries	18	5.3	-2.4	-36	-6.7	-3.7	0.9
Oil Exploration	13	1.1	-3.9	31	19.7	152.8	73
Printing & Stationary	8	10.6	-6.4	0.3	-3.8	1.2	0.4
Metals- Ferrous	24	-5.3	-7	4.4	3.9	2.6	2.5
Wood & Wood Products	14	9	-7.8	3.7	6.7	2.3	3.5
Electric Equipment	48	-8.2	-10.7	3.8	-3.5	3.1	0.04
Medical Equipment, Supplies & Accessories	10	-	-11.2	-3.5	-18.5	3.1	1.9
Refineries	8	7.9	-11.4	2.2	2.5	4.1	5.5
Shipping	16	-	-11.5	-1	2.6	1	1.2
Electrodes & Welding Equipment	10	-6	-11.7	7.4	5.2	5.9	4.7
Ferro & Silica Manganese	12	9.3	-14.5	-2.3	-5.2	0.6	0.4
Solvent Extraction	25	4	-44.1	-11.2	-5	-3.7	0.2
Finance	572	25.8	-45.6	9.5	19.6	1.5	1.5

Source: ACE Equity

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Appendix

Quarterly Performance of Sub-Sample

- Excluding Banks

Table 7: Quarterly Financial highlights Except Banks (3,349)

<i>% Growth</i>	Q4 FY11	Q4 FY12	Q4 FY13	Q4 FY14	Q4 FY15
Net Sales	23.51	16.73	5.09	7.43	-10.91
Total Expenditure	22.86	16.82	4.89	8.07	-12.12
Interest	38.71	41.50	12.85	14.79	6.92
Net Profit	13.60	15.74	-1.29	5.17	-21.62
Ratio					
Profit Margin (%)	8.74	8.65	8.07	7.97	7.00
InterestCover	4.61	3.91	3.54	3.30	2.86

Source: ACE Equity

- Excluding Banks and Oil Refineries and exploration companies

Table 8: Quarterly Financial highlights Except Banks and Oil Companies (3,330)

<i>% Growth</i>	Q4 FY11	Q4 FY12	Q4 FY13	Q3 FY14	Q4 FY15
Net Sales	19.64	13.29	2.67	7.29	1.42
Total Expenditure	19.13	14.44	3.19	7.12	1.06
Interest	38.33	40.90	14.90	17.35	9.09
Net Profit	18.27	-4.57	-11.80	17.74	-17.14
Ratio					
Profit Margin (%)	10.52	8.84	7.51	8.35	6.81
Interest Cover	4.23	3.26	2.76	2.62	2.35

Source: ACE Equity