

Corporate Performance: Q1FY15

A study of the performance of 1,437 companies (including banks) showed that net sales increased by 12.7% in Q1 FY15 when compared with 5.9% in the previous year while net profit increased sharply by 25% compared with a growth of 4.5% in Q1 FY14. Accordingly, Net profit margin increased to 10.1% from 9.1% in Q1FY14. This appears to be largely in line with the pickup in industrial production that has been witnessed in the recent months where the industrial output registered a significant cumulative growth of 3.9% (Apr- June'14) over a negative growth of -1% (Apr-June'13) in the corresponding period of the previous fiscal.

Table 1 provides information on the financial performance of Q1FY15 over Q1FY14

Table 1: Performance summary of all companies (1,437 companies)

Growth rate (%)	Q1 FY14	Q1 FY15
Net sales	5.9	12.7
Expenditure	4.2	11.5
Interest Expenses	10.9	13.5
PAT	4.5	25.0
Ratio		
Net Profit Margin	9.1	10.1
Interest Cover	1.6	1.6

Source: ACE Equity

Table 2: Performance summary excluding Banks (1,401 companies)

Growth rate (%)	Q1 FY14	Q1 FY15
Net sales	4.6	12.5
Expenditure	2.9	11.7
Interest Expenses	16.7	12.0
PAT	5.7	33.7
Ratio		
Net Profit Margin	8.5	10.1
Interest Cover	2.9	3.2

Source: ACE Equity

Table 2 provides the information of the financial performance of a sub-sample of the aggregate excluding the banking segment. The overall performance of these non-banking companies can be attributed to the following factors:

- Net sales witnessed a substantial growth of 12.7% in Q1FY15 compared with a lower growth of 5.9% in the previous fiscal. This pickup in growth of sales is attributed to a significant increase in the industrial output indicating improving conditions in the economy. The index of industrial

production showed a growth of 3.9% for the cumulative period Apr- June'14 against a diminishing growth of -1% in Apr-June'13.

- Aggregate expenditure across companies was recorded at 11.5% in Q1FY15 as against a much lower growth of 4.2% in Q1FY14.
 - The growth in cost of raw material expenses which accounts for more than 50% of the total expenditure turned to be higher at 12.8% from a negative 2.6% recorded earlier. *This could be partly attributed to the elevated inflation recorded at 5.7% during the first quarter of the current fiscal against 4.8% in the corresponding period of the last fiscal.*
 - On the other hand, growth in salaries and wages moderated from 16.4% in Q1FY14 to 10% in Q1FY15. *Companies have worked on containing employee cost.*
 - Also, growth in interest expenses was seen at 11.5% lower than 17.3% recorded earlier. The growth in bank credit witnessed a decline from 2.7% in Q1FY14 to 2.1% in Q1FY15. *Clearly, the lower growth in interest expense was on account of lower off take in credit.*
- Net profits registered a significant growth of 33.7% in Q1FY15 compared with 5.7% growth in Q1 FY14. Higher growth in sales relative to expenditure as well as low base effect helped to increase growth in net profit.
- Net profit margin, defined by the net profit to net sales ratio also increased in Q1 FY15 at 10.1% over 8.5% in Q1 FY14.
- Interest cover, defined as the Profit before Interest and Tax (PBIT) to interest increased from 2.9 in Q1 last fiscal to 3.2 in Q1 of the current fiscal. *This is a positive signal for the corporate sector. The interest cover multiple has been coming down over the years from 4.8 in FY10 to 3 in FY14. This was also the time when CARE's Modified Credit ratio (MCR) improved from 0.88 to 1.02.*

Size wise Analysis

A breakdown of a sub-sample of 1,437 companies as per the size would throw light on whether or not the performance has been even across different size groups. The size groups have been defined based on net sales for the first quarter of the current financial year. Table 3 below gives the composition of the sample companies based on the net sales of Q1FY15. *Caution needs to be exercised here as change in turnover on size wise basis could have a bias as companies with increase in turnover could spill over to the next sales band.*

Table 3: Sample Profile by size as per net sales- Q1FY15

Size Range (Rs Cr)	No. of companies	Net Sales Growth (%)	Net Profits Growth (%)	Net profit Margin (%)
Above 1,000	134	13.8	23.1	11
500-1,000	108	7.5	31.4	7.4
250-500	124	12.4	159.3	6.2
100-250	180	12.1	13.3	7.9
Less than 100	892	(1)	(40.6)	1.6

Source: ACE Equity

Some interesting observations are given below:

- The positive feature here is that all the size groups with the exception of the smallest size group witnessed positive growth in sales within the same range. There was a fall in sales for the size group of Rs 100 cr though it was very marginal.
- Top 134 companies with sales above Rs.1,000 crore each, which comprised 9.3% of the total companies, accounted for nearly 79% of the total sales. These companies recorded the highest increase in sales of 13.8%. Growth in net profits of these companies was recorded at 23.1% with a net profit margin of 11%.
- Companies with sales between Rs.500 crore to Rs.1,000 crore registered sales growth of 7.5% while the growth in sales of 180 companies with sales between Rs.100 cr to Rs.250 cr recorded a higher growth of 12.4%. Also, the growth in sales of smaller sized companies was recorded at 12.1%.
- The highest net profit growth of 159.3% was recorded in the group with size of Rs.100 cr to Rs.250 cr with net profit margin rising sharply from 2.4% to 6.2 %
- The smaller companies (less than Rs 100 cr) profits declined by 40.6%. Growth in Net sales of these companies also turned negative during this period with their net profit margin declining to 1.6%.

Banking sector

- The financial performance of 36 banking companies indicate that the aggregate net sales (interest earned) increased by 13% in the first quarter of the current financial year as against 10% recorded in the corresponding period of the previous fiscal.
- Provisions and contingencies, which includes provisions for NPAs declined by 9.9% vis-a-vis a positive growth of 44.4% over the corresponding period in Q1FY14.
- Net profits recorded an increase of 4.5% as against growth of 2.5% in FY14. However, the net profit margin continued to be under pressure and declined to 10.1% as against 11% in the same period last year.
- Gross NPAs stood at Rs 2,39,421 cr as of June'14 increasing by Rs 38,089 cr over June'13 indicating a growth of 16% in Gross NPAs across 35 banks, a substantial decline from 27.9% recorded as of June'13.
- *The gross NPA ratio increased to 3.9% in Q1FY15 compared with 3.7% in Q1FY14. Net NPA ratio was at 2.2% against 2.1% in the Q1FY14.*
- 13 out of 22 public sector banks witnessed an increase in their Gross NPA ratio. On the other hand, 3 out of the 14 private sector banks recorded a decline in NPAs while 2 banks registered an increase.

Table 4: Performance summary of 36 banks

Growth Rate (%)	Q1FY14	Q1FY15
Net Sales	10.0	13.0
Provisions and contingencies	44.4	-9.9
PAT	2.5	4.5
Net Profit Margin	11.0	10.1
Gross NPAs	3.7	3.9
Net NPAs	2.1	2.2

Source: ACE Equity

Industry wise analysis

Industrial growth witnessed a turnaround in the first quarter of the current fiscal year. Hence, an industry wise performance covering 46 sectors has been evaluated here in terms of growth in output and profitability in the Q1FY15 compared with Q1FY14.

- Growth in **net sales was positive across almost all the sectors** examined here **barring** tea/coffee, engineering, Automobiles-Trucks & LCVs and diamond jewellery, which registered a negative growth in sales. *A robust growth in sales was witnessed in case of mining & minerals segment which is in line with the significant increase in output. The growth in production in the mining sector turned positive to 3.2% in Q1FY15 from -4.6% Q1FY14.*
- *Growth in sales across other sectors as well when juxtaposed with output also portrayed a similar picture. For instance: output in automobiles- trucks & LCVs as indicated by motors, trailers and semi-trailers witnessed a decline by -6%. Growth in output in printing also slowdown by -5.2%. Output in Chemicals turned positive by 1%. Growth in production of cement also improved considerably to 9.5% from 3.4% earlier. Fertilizer production also picked up by 8.6% compared with 2.5% last fiscal.*
- **Profit Margins improved for 26 industries** (56% of the sector examined here)-some of which witnessed a significant improvement are Mining Minerals (-38.5% to 2.7%), Pharmaceuticals (6.9% to 28%), Dyes & pigments (6.3% to 14.3%), Telecom (7.8% to 15.7%), Steel & Iron (-0.4% to 3.8%), Glass (-2.1% to 1.7%), Wood & Wood Products (1.8% to 5.4%), IT (20.6% to 23.2%), Consumer Durables (4.3% to 5.6%), castings/ Forgings (4.3% to 5.6%), etc.
- **Profit margins moderated for 17 sectors.** It included sectors such as Tea/ coffee (12.9% to 3.2%), hotels (5.3% to 2.9%), Metals (45.4% to 43.3%), Printing & stationary (12.3% to 10.9%), Abrasives (9% to 10.9%), Diamond jewellery (3.8% to 2.7%), Automobiles – 2& 3 wheelers (10.3% to 9.4%), Engineering (5.1% to 4.2%), etc.

Table 5: Industry wise performance summary (%)

Sectors	No. of companies	Net Sales		Net Profit Margin	
		Q1FY14	Q1FY15	Q1FY14	Q1FY15
Mining & Minerals	10	-66.9	1,381.3	-38.5	2.7
Pharmaceuticals	66	11.6	28.0	6.9	34.9
Dyes & Pigments	8	9.8	27.1	6.3	14.3
Electrodes & Welding equipment	8	-28.7	24.8	1.5	5.7
Castings/Forgings	13	-3.4	24.5	6.3	7.5
Fertilizers	15	-6.0	20.3	2.2	2.5
Ceramics & Sanitary ware	12	19.7	19.7	4.5	4.7
Auto ancillaries	51	-1.4	19.4	5.9	5.7
Consumer Durables	12	8.3	16.2	4.3	5.6
IT	111	22.0	16.1	20.6	23.2
Paints	8	9.4	15.6	9.4	9.4
Bearings	8	-9.2	14.2	7.6	9.2
Electronics	15	12.4	14.0	3.7	3.3
Automobiles-2&3 wheelers	7	-0.6	13.6	10.3	9.4
Telecom	12	13.5	13.5	7.8	15.7
Plastic products	20	4.4	13.3	14.0	13.9
Wood & Wood Products	6	10.0	13.3	1.8	5.4
Pesticides	18	22.0	13.2	9.0	9.1
Cement & Construction activities	26	-1.3	13.1	7.7	7.5
Finance	229	24.8	12.7	18.7	18.4
Chemicals	53	-6.6	12.6	5.9	6.4
Consumer Food	32	14.1	12.6	8.3	8.0
Diversified	10	0.3	12.5	9.7	7.8
Paper & Paper products	21	11.0	10.9	0.1	0.8
Steel & Iron	52	-5.3	10.5	-0.4	3.8
Textiles	102	14.3	10.5	-0.7	3.2
Breweries & Distilleries	11	-1.1	8.5	7.8	7.6
Electric Equipment	17	-0.2	7.4	-7.2	-3.5
Printing & Stationery	9	14.0	6.9	12.3	10.9
Sugar	18	-12.5	5.6	-9.2	-6.4
Packaging	20	10.9	5.5	2.9	3.3
Tyres	12	3.2	5.3	6.1	6.3
Hotel	21	7.2	5.2	5.3	2.9
Abrasives	4	0.0	4.6	9.0	7.6
Glass	6	6.0	4.0	-2.1	1.7
Real Estate	43	7.0	3.4	12.7	13.7
Metals	16	5.4	3.4	45.4	43.3
Diesel engine	5	-10.2	2.1	13.8	16.2

Automobiles- Tractors	2	8.0	1.3	9.0	8.2
Cable	9	-6.7	0.0	3.6	3.2
Tea/Coffee	16	7.4	-0.7	12.9	3.2
Engineering	67	-9.1	-3.9	5.1	4.2
Automobiles-Trucks & LCVs	5	-13.6	-6.7	5.1	4.5
Diamond & Jewelry	15	18.5	-27.8	3.8	2.7

Source: ACE Equity

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