

Corporate Performance: Q3-FY14 and 9M-FY14

Overview:

A study of the unaudited financial results of 3,181 companies shows that net sales increased by 7.1% in Q3 FY14 as against 7.5% in Q3 FY13, while net profits grew by 2.7% (9.7% last year). However, the analysis of the performance over the nine months of FY14 for 3,037 companies suggests that net profits decreased by 4.8% in FY14 as against growth of 7.3% during the same period in FY13. This appears to be largely in line with the overall slowdown in industrial production the country has witnessed in FY14 where the index of industrial production witnessed a decline of 0.1% while manufacturing output declined by 0.6% during this period. Profit margin declined to 7.8% for 9M-FY14 from 8.8% in the corresponding period last fiscal.

Table 1 provides information on the financial performance in Q3 FY14 over Q3 FY13 and cumulative April-December 2013 over April-December 2012 of the entire sample.

Table 1: Performance summary of all companies (3,181 companies for Q3 and 3,037 for 9M))

% Growth	Q3 FY13	Q3 FY14	Apr-Dec 2012	Apr-Dec 2013
Net Sales	7.5	7.1	9.6	7.6
Expenditure	5.7	5.6	8.4	7.4
Net Profit	9.7	2.7	7.3	-4.8
Ratio				
Profit Margin	8.1%	7.8%	8.8%	7.8%

Source: ACE Equity

Table 2: Performance summary excluding Banks (3,141 companies for Q3 and 2,997 for 9M)

Growth rate (%)	Q3 FY13	Q3 FY14	Apr-Dec 2012	Apr-Dec 2013
Net sales	6.1	5.8	7.7	6.6
Expenditure	5.4	4.9	8.1	6.6
Net Profit	11.0	10.0	4.7	-1.8
Ratio				
Profit Margin	7.6%	7.9%	8.3%	7.7%
Interest Cover	2.9	2.8	3.1	2.8

Source: ACE Equity

Table 2 provides the information regarding the performance of a sub sample of the aggregate excluding banks.

- Net sales for this sample witnessed growth of 5.8% in Q3 FY14 as against 6.1% in the corresponding quarter of last year. For the period April to December 2013 growth in net sales had slowed down significantly to 6.6% from 7.7% last year. This deterioration can be attributed to the continued slowdown of the Index of Industrial Production (IIP) in the country. Industrial

production stands diminished to -0.1% for the cumulative nine months in FY14 over the same in FY13.

- Total expenditure across companies grew at 4.9% in Q3 FY14 as against 5.4% in Q3 FY13 while growth in total expenditure for the nine months period this fiscal decreased significantly to 6.6% from 8.1% in the corresponding period last year.
- Net profits growth was 10% in Q3 FY14 compared with 11.0% in Q3 FY13. The cumulative net profits from April to December 2013 declined by 1.8% against a growth of 4.7% in FY13.
- Net profit margin, defined by the net profit to net sales ratio witnessed a marginal increase in Q3 FY14 at 7.9% over Q3 FY13 (7.6%). But, for the nine months period, there was a decline from 8.3% to 7.7%.
- Interest cover, defined as the Profit before Interest and Tax (PBIT) to interest declined marginally from 2.9% in Q3 last fiscal to 2.8% in Q3 of the current fiscal (3.1% to 2.8% for the nine-month period).

Size wise analysis

A breakdown of a sub-sample of 2933 companies according to 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 9M period ending December 2013.

Table 3 below gives the composition of the sample companies based on the net sales from April –December 2013. 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 according to net sales

Size Range (Rs Cr)	No of companies	Net Sales Growth (%)	Net Profits Growth (%)
Above 1,000	342	7.9	3.6
500-1,000	228	3.8	-38.6
250-500	286	0.5	-13.1
100-250	421	-3.1	-97.5
Less than 100	1,656	-11.3	-369.5

Source: ACE Equity

Certain interesting observations emerge from the above table;

- The large companies with sales over Rs 1,000 cr each witnessed a positive growth in profits by 3.6%. These companies constituted around 85% of the total sample in terms of sales and also had the highest growth in sales. The table clearly indicates that the large companies alone registered positive profit in this period relative to all other companies.
- Companies with sales between Rs 250 and Rs 1000 cr had positive growth in sales, but negative growth in net profits.

- The smaller companies (less than Rs 100 cr) have incurred high losses with their profits having declined from Rs 412.9 cr to a cumulative loss of Rs 1,112.9 cr thereby leading to a decline in profits by 369.5% in April – December 2013. Net sales of these companies also fell significantly by 11.3% during this period.
- Gross bank credit to micro and small companies had increased by 14.4% in April-December 2013 over the same period last year. The total outstanding credit to the micro and small enterprises was Rs 3,252 bn as of December 2013 (2,717 cr in December 2012). However, it is these companies that have incurred maximum losses in the current fiscal so far. This is indicative also of the pressure to be put on bank NPAs.
- The above analysis clearly suggests that while there is a slowdown in sales and profits for all companies, the SMEs have been hardest hit in fiscal '14 relative to the large ones in terms of sales and profits.

Banking sector

The performance of 40 banking companies showed that net sales (interest income) increased by 11.9% in the period from April – December 2013 as against 18.9% in the previous year. Interest expenses, grew at a marginally lower rate of 11.7% (21.4%). The growth in provisions and contingencies, which includes provisions for NPAs rose sharply by 47.6% vis-a-vis a growth of only 4.1% over the corresponding period in 2012. Net profit declined by 14% as against positive growth of 16.9% in the nine month period in FY13. Consequently, net profit margin continued to be under pressure and declined to 8.5% as against 11.1% in the same period last year.

Table 4: Performance summary of 40 banks

Growth Rate (%)	April –December 2012	April- December 2013
Net Sales	18.3	11.9
Interest Expenses	21.4	11.7
Provisions and contingencies	4.1	47.6
Net Profit	16.9	-14.0
Net Profit Margin	11.1	8.5
Gross NPAs	43.1	35.8
Net NPAs	55.1	50.1

Source: ACE Equity

- Gross NPAs stand at Rs 2,43,191 cr as of December 2013 increasing by Rs 64,161 cr over the December 2012. This implies that there has been a growth of 35.8% in Gross NPAs across 40 banks, which although relatively less than the same in FY13 (43.1%) still remains significantly high.
- The gross NPA ratio increased to 4.03% so far in FY14 compared with 3.45% in FY13. Net NPA ratio increased to 2.30% against 1.78% in the same period in FY13.
- 22 out of 25 public sector banks and 12 out of 15 private sector banks witnessed an increase in their gross NPA ratio.
- 38 out of 40 banks maintained their capital adequacy ratio above 10%.

Industry wise analysis

Industrial growth has been negative in FY14 so far with similar trends being seen within the manufacturing sector as well as capital and consumer goods (based on use-based classification). Hence, an industry wise analysis is done below to identify the industry specific performance in FY14.

- The production in the manufacturing sector declined by 0.6% for the cumulative period in FY14 so far compared with a growth of 0.7% over the same period in FY13. This is reflected in the performance across most industries which witnessed a fall in profit margin. For instance, the industries of metal, consumer durables, mining and minerals witnessed a reduction in profit margin which is supported by the contemporaneous slowdown in the production indices of these industries from April to December 2013.
- **Profit Margin improved for 12 industries** namely Oil exploration (29.6% to 31.8%), IT (18.9% to 19.5%), tractors (8% to 9.5%), breweries and distilleries (4.1% to 16.1%), dyes and pigments (2.4% to 5%), trucks and LCV (2.2 to 2.5%), castings and forgings (1.6% to 3.6%), wood and wood products (2.9% to 3.1%), printing (-0.6% to 0.8%), telecommunication (-0.35 to 2.3%), ceramics and sanitary ware (-1.4% to -0.4%) and glass (-2.25 to -1.8%).
- **Interest cover defined by the ratio of PBIT to interest improved for 13 industries.** These industries are oil exploration, metal, IT, two wheelers, breweries and distilleries, dyes and pigments, casting and forging, wood and wood products, printing, pharmaceuticals, telecommunication and ceramics and sanitary ware.
- **Industries of pharmaceuticals, consumer food, pesticides, power generation and distribution remained largely flat in April-December 2013 relative to their profit margin over the same period in FY13.**

Table 5: Industry wise performance summary

Industry	No of companies	Profit Margin		Interest Cover	
		Apr-Dec '12	Apr-Dec '13	Apr-Dec '12	Apr-Dec '13
Oil exploration	12	29.6	31.8	53.6	71.1
IT	188	18.9	19.5	22.1	26.2
Refineries	7	10.5	8.5	24.2	15.7
Tractors	3	8.0	9.5	15.9	15.2
Power generation and distribution	27	12.3	12.0	9.4	8.8
Tea / coffee	26	13.8	12.4	8.0	7.6
2 wheelers	7	6.6	6.5	7.4	7.6
Industrial gases and fuels	14	4.6	2.7	12.6	7.4
Electronics	24	14.7	6.7	15.0	7.0
Bearings	9	6.4	5.2	7.0	6.0
Pesticides	23	12.7	12.3	6.3	5.9
Electrodes and welding equipment	11	7.0	6.3	5.5	4.5
Engineering	76	7.1	5.7	5.2	4.1
Real estate construction	96	4.0	2.5	4.0	3.8
Consumer durables	21	4.0	2.5	4.0	3.8
Auto ancillary	85	4.7	4.3	3.9	3.7
Breweries & Distilleries	14	4.1	16.1	1.8	3.4
Dyes and pigments	27	2.4	5.0	2.0	3.2
Plastic Products	76	16.0	13.1	4.2	3.2
Chemicals	108	7.1	4.1	4.4	2.8
Trucks and LCV	4	2.2	2.5	3.0	2.3
Casting / forging	25	1.6	3.6	1.7	2.3
Wood and wood products	11	2.9	3.1	2.0	2.2
Mining and Mineral	24	9.3	8.8	2.3	2.1
Printing	23	-0.6	0.8	0.8	2.1
Consumer food	80	2.0	1.9	2.0	2.1
Pharmaceuticals	125	3.2	3.1	1.9	2.0
Cable	22	2.9	2.4	2.0	1.8
Telecommunication	22	-0.3	2.3	1.2	1.7
Cement	38	7.2	3.2	2.9	1.6
Engineering Construction	58	4.1	2.3	2.0	1.5
Electric equipment	42	3.3	-0.5	3.5	1.5
Finance	378	20.8	19.9	1.5	1.5
Textile	284	1.6	1.2	1.5	1.4
Ceramics and sanitary ware	25	-1.4	-0.4	1.1	1.3
Diamond and jewellery	34	2.9	0.5	3.1	1.1
Gas and transmission	3	2.7	-1.1	1.5	0.9
Paper and Paper products	44	-0.6	-0.5	0.9	0.9
Glass	12	-2.2	-1.8	0.6	0.8
Packaging	41	0.0	-3.0	1.1	0.8
Hotels	47	-0.5	-11.4	1.1	0.3
Steel	77	4.7	4.1	2.5	2.2

Source: ACE Equity

Contact:

Madan Sabnavis

Chief Economist

madan.sabnavis@careratings.com

91-022-67543489

Garima Mehta

Associate Economist

garima.mehta@careratings.com

91-022-61443526

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