ICRA

Indian Corporate Sector: Q4 FY2019 Performance Review and Outlook

May 2019

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Financial Performance of the Indian Corporate Sector in Q4 FY 2019

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Key trends in the Indian Corporate Sector

Summary

Q4 FY2019 performance characterised by decline in revenue growth and lower margins

The Q4 FY2019 financial results released by 304 companies in the Indian Corporate Sector shows sequential drop in revenue growth to 10.7% from 20.1% in Q3 FY2019 (on a YoY basis). The key reason for the dip in revenue growth was weak consumer sentiment, as reflected by decline in Automobile sales, decline in volume growth across FMCG companies, weak demand for Consumer Durables and tepid demand for Decorative Paints. Among the various consumer oriented sectors, only companies in the Consumer Foods sector reported healthy volume growth during the quarter. As a result, the overall revenue growth in consumer oriented companies in ICRA's sample was only 2.3% in Q4 FY2019.

The revenue growth for commodity-linked sectors in ICRA's sample was 12.4% in Q4 FY2019 on a YoY basis, which was driven by healthy volume growth in Cement and Steel sector and higher realisations for Oil and Gas entities (on a YoY basis). Among other sectors, the IT sector reported strong revenue growth of 17.6% in Q4 FY2019 (in INR terms) supported by higher USD exchange rate (on a YoY basis). The revenue growth on USD basis was 7.8% for a sample of major IT companies.

The aggregate EBITDA margin for companies in ICRA's sample declined by 78 bps on a YoY basis to 16.8% because of factors such as lower absorption of overhead costs due to decline in sales (Auto OEMs), adverse product mix, higher input costs and higher fuel prices. However, the aggregate EBITDA margin grew by 92 bps on a sequential basis because of sequential easing of commodity prices, appreciation in INR leading to lower cost of imports, price hikes in several sectors leading to lower cost pressures.

Summary

Weak consumer sentiments and uncertainty due to general elections to impact Q1 FY2020 performance

The Q1 FY2020 performance is also expected to remain muted because of continued weakness in consumer-linked sectors and uncertainty related to the general elections. This is reflected in the 17.1% decline in PV wholesale dispatch and 16.4% decline in two-wheeler wholesale dispatch on a YoY basis in April 2019.

Comments from some other sectors such as construction equipment manufacturers, commercial vehicle OEMs and auto component manufacturers indicate weak performance in the current quarter. Although the muted consumer sentiments will have an adverse impact on the revenue growth, factors such as benign commodity prices (steel, sugar and some other non-ferrous metals) will support profitability indicators to an extent. The profitability indicators could come under pressure if the global oil prices continue upward trajectory.

Summary

While revenue growth moderated in Q4 FY 2019, the margins improved on sequential basis

Revenue growth

10.7%

Revenue Growth

Significant moderation in revenue growth on QoQ basis from 20.1% in Q3 FY2019 and 20.8% in 9m FY2019

Weak consumer demand

Prices for some commodities declined on a QoQ basis

5.5%

Decline in revenues from commodity sectors on a QoQ basis

The revenues from commodity-linked sectors declined 5.5% on a QoQ basis because of decline in prices of select commodities like Steel and Aluminium.

Change in margins

92 bps

Improvement in EBITDA margins on QoQ basis

The decline in prices of some commodities, price hikes and appreciation in INR against the USD on sequential basis helped improvement in margins on QoQ basis

78 bps

Drop in EBITDA margins on YoY basis

However, higher RM costs and fuel expense on a YoY basis led to **margin contraction in 20 out of 33 sectors** in ICRA's sample.

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Thank You!