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Indian Corporate (non-Financial) Sector: Q4 FY2020 Performance Review and Outlook

June 2020

Agenda

01

Summary

02

Financial Performance of the Indian Corporate Sector in Q4 FY 2020

03

Key trends in the Indian Corporate Sector

Summary

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Impact of pandemic visible on performance of India Inc. starting from Q4 FY2020,…

- The Indian corporate (non-financial) sector, already grappling with weakening macroeconomic scenario, faced major disruption because of ongoing Covid-19 pandemic. Across sectors, the impact of the outbreak started showing its impact in the financial performance of corporate entities from Q4 FY2020. The financial results of 184 companies (excluding financial sector entities) that have so far declared results indicate aggregate revenues contracted by 2.9% on a YoY basis in Q4 FY2020 compared to a growth of 12.6% in the same period in the previous fiscal.

- The contraction in revenues is visible in most major sectors, especially, consumer-oriented and commodity-linked sectors. Despite somewhat buoyant sentiments at the beginning of the quarter, major consumer-oriented sectors such as FMCG, Consumer Durables, Auto OEMs and Ancillaries, reported either decline or marginal growth in sales volumes, weighed down by changed consumer sentiments. The nationwide lockdown imposed from March 25, 2020 dealt the final blow, and revenues from the above mentioned sectors contracted by 9% during Q4 FY2020 on YoY basis.

- Additionally major impact on revenues came from commodity-linked sectors, wherein revenues contracted by 15% on a YoY basis. Almost all the major commodity sectors, including Oil and Gas, Metals & Mining, Iron & Steel, Cement etc. reported revenue contraction on the back of tepid realisations due to benign commodity prices and subdued volumes.

- Industrial and Infrastructure-oriented sectors also contributed to the slowdown with 9% and 4% YoY de-growth respectively during the quarter. Select sectors such as IT, reported moderate revenue growth of 7% in INR terms, although organic growth remained muted due to deceleration in key verticals like BFSI. Additionally, sectors like Pharmaceuticals, Consumer Food and Telecom helped arrest the extent of revenue contraction.

Summary

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..both revenues and margins contracting on a YoY as well as sequential basis

- Given the visible pressures on demand, the profitability of India Inc. was adversely impacted during Q4 FY2020, with EBITDA and PBT margins contracting on a YoY and sequential basis. The EBITDA margins of 184 companies in our sample stood at 16.8%, down 31 bps over the same period of the previous fiscal, while PBT declined by 195 bps to 7.1%.

- Out of 29 sectors in the sample, companies in nearly 20 sectors witnessed margin contraction during Q4 FY2020. Some of the key sectors with sharp margin contraction included airlines, hotels, automotive, textiles, oil & gas, metals and mining etc. Subdued demand and or tepid realisations, impacted the absorption of fixed overheads in these sectors. In contrast, profitability indicators were relatively stable in sectors like cement, media, tyres and iron & steel, largely due to pricing discipline and benign input costs offering impetus in a challenging demand environment.

- During the quarter, financial results of select companies were also marred by sizeable impairment in the carrying value of their investments. The impairments can be largely linked to disruption caused by the ongoing pandemic and its impact of growth prospects and value of commodity-linked assets especially in the Oil & Gas segment.

- India Inc. will deliver an even weaker performance during Q1 FY2021 given the extended lockdown. Major part of Q1 FY2021 has seen negligible manufacturing, infrastructure development and sharply reduced discretionary demand. Although the production and consumption of essential goods continued during the lockdown, the impact on production and consumption of discretionary items has been significant, both due to the restrictions in place, as well as bleak consumer sentiment.

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Impact to be further pronounced during Q1 FY2021 given the extended lockdown

- Although business activity has gradually resumed post easing of the lockdown from end of May 2020, challenges remain given the subdued demand, supply chain constraints, labour availability issues, and social distancing norms. The demand sentiment remains subdued, given the layoffs, pay-cuts and general uncertainty regarding job stability. Discretionary purchases, especially large-ticket items like automobiles, holidays, air travel, residential real estate etc. will remain subdued over the near-term.

- Rural demand sentiment however remain relatively strong, supported by a healthy rabi output and expectations of a normal monsoon, which will provide some impetus to the consumer-oriented sectors.

- Global commodity prices, which contracted sharply in recent months on account of the pandemic and associated impact on global demand, would also continue to exert pressure on realisations of commodity-oriented sectors over the near term. The construction and infrastructure sectors continue to be plagued by liquidity woes, with delayed contractor payments. Additionally, the pandemic brought about its own set of challenges including restriction on construction activity, and displacement of migrant labour.

- Accordingly, cement production and steel consumption volumes contracted by 5% and 7% respectively during Q4 FY2020, and commercial vehicles and construction equipment reported significant drop in sales. Along with revival in consumer demand sentiment, pickup in infrastructure projects and execution remains critical for the overall recovery in the Indian Corporate sector, which is expected to be slow and painful.

Summary

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Focus has shifted towards sustenance through enhancing liquidity and cost rationalisation

- High velocity data including rising unemployment rates, falling consumer sentiment index, rapidly falling automotive sales and road transportation corroborate the degree of ongoing pain across corporate sectors. Electricity and petroleum products consumption have suffered steep declines and finished steel consumption dropped 25% in April. The manufacturing PMI for April deteriorated sharply to 27.4, the service PMI dropped to an all time low of 5.4 in April. India's merchandise exports declined by 60.3% in April while imports contracted by 58.6%.

- The rural demand, however, shows signs of resilience, supported by Government initiatives towards minimizing lockdown impacted in the rural ecosystem.

- Going forward, the priority of India Inc. would be on managing liquidity, cutting cost and improving digital infrastructure, wherever possible. Pay reduction, employee rationalization and renegotiating on vendor agreements such as lease rentals have already been effected by many corporates. However, despite these efforts, credit implications of the pandemic will remain significant for many entities.

- Since the beginning of March till end of May, ICRA has taken 364 negative rating actions on its corporate (non-financial sector) portfolio. This reflects negative rating actions on ~11% of its rated portfolio. Majority of these ratings have been because of the disruption caused by the ongoing pandemic. ICRA also has negative outlook on sectors like aviation, hotels & restaurants, real estate, automobiles, retail, ferrous metals, textile garments and oil & gas upstream.

Thank You!

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