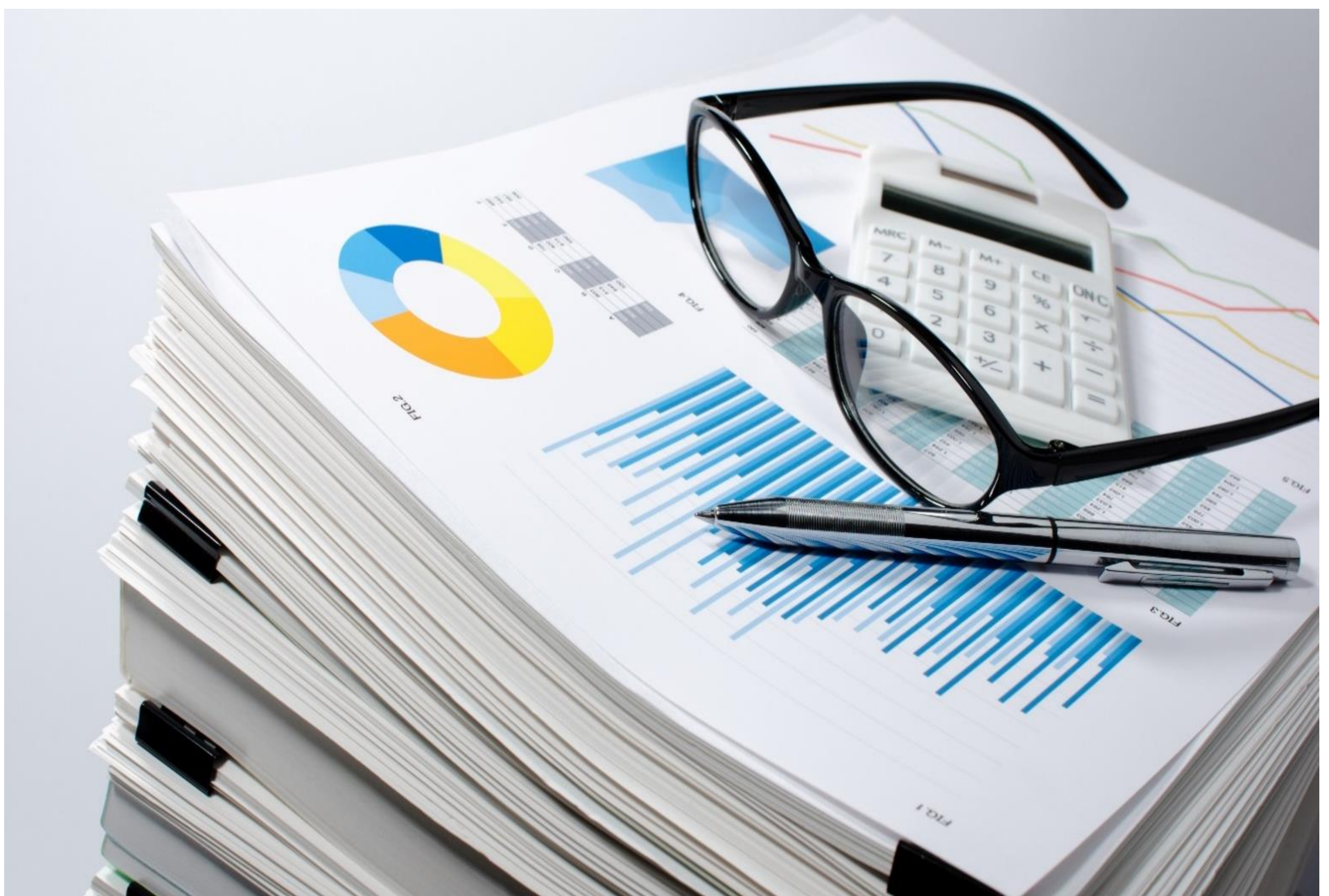
Research

CRISIL
An S&P Global Company

India Inc revenue growth at a 14-quarter low in Q2

EBITDA growth to be lowest in nine quarters

October 2019



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Industry outlook

Results preview (July-September 2019)

Revenue growth to decline 3% in Q2 FY20, the most in 14 quarters

India Inc's revenue growth – excluding banking, financial services, and insurance (BFSI) and oil companies – is estimated to have declined ~3% on-year in the second quarter (Q2) of fiscal 2020, the lowest in the past 14 quarters, on account of muted private consumption demand.

In the past four quarters – from Q2 fiscal 2019 to Q1 fiscal 2020 – aggregate revenue of companies grew at an average of 11-12%. CRISIL Research's assessment is based on the analysis of 300 companies comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies).

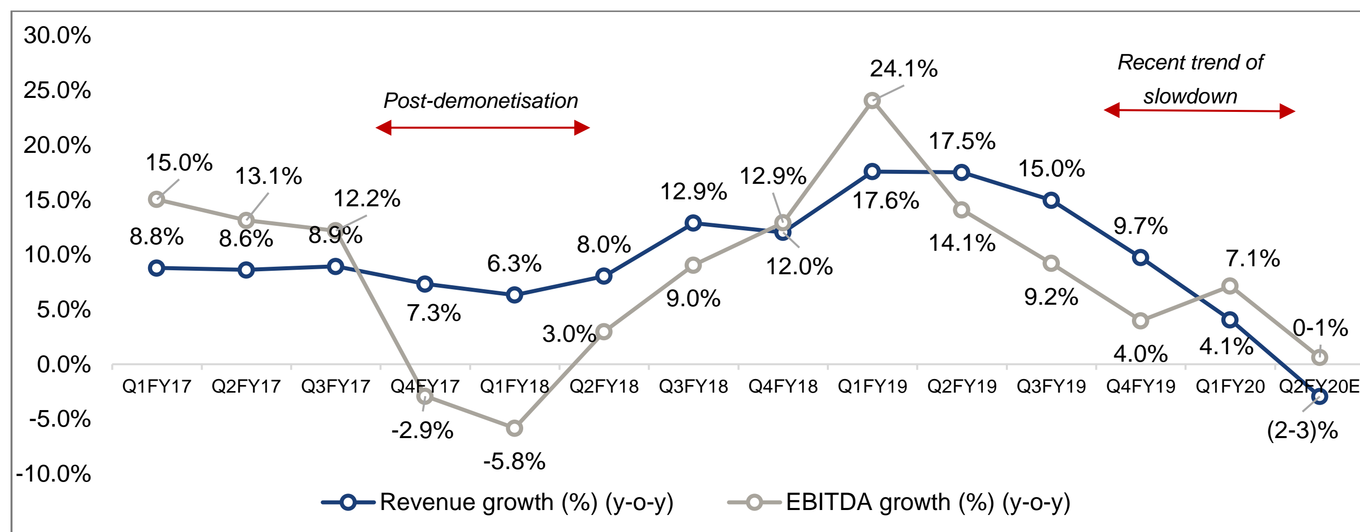
The decline in revenue has largely been on account of consumer-linked sectors, which are estimated to have witnessed 5% contraction in revenue during Q2 fiscal 2020. Companies in the automobiles sector are estimated to have posted a sharp decline of 24-26% in revenue. This can be attributed to the decline in sales on account of muted consumer sentiment amid high cost of ownership for passenger vehicles (PVs), deferment of purchases because of expected Goods and Services Tax (GST) cuts, lower freight demand aggravated by the new axle norms, and weak financials of commercial vehicles (CVs).

In a rub-off of the impact, auto components revenue is estimated to have reduced by 14-16% due to production cuts. On the other hand, despite an estimated growth of 5-6% in cement revenue, construction-linked sectors are expected to have seen ~5% on-year decline in revenue in Q2 fiscal 2020. This is on account of ~15% on-year fall in steel products mainly led by declining realisation.

Interestingly, Q1 fiscal 2020 had witnessed trend reversal in earnings before interest, tax, depreciation and amortisation (EBITDA), which grew by 7.1% on 4.1% revenue growth. This was on account of a sharp improvement in EBITDA of consumer services such as airlines, telecom and retailing.

However, in Q2 fiscal 2020, pressure from the automobiles sector, due to lower utilisation and export-linked sectors on account of absence of rupee tailwind coupled with higher operational cost, is expected to have dragged EBITDA growth to 0-1%. It should be noted that the last time a sharp EBITDA decline was observed was post demonetisation during January-June 2017. Thus, in Q2 fiscal 2020, companies are estimated to have posted the lowest revenue and EBITDA growth in nine quarters.

Last four quarters witnessed falling revenue growth; trend to continue in Q2 FY20 as well



Notes: 1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres; E- Estimated
2) Analysis is across 300 companies comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies)
Source: CRISIL Research

Sharp decline in automobiles and steel products revenue growth likely; other sectors to see moderation

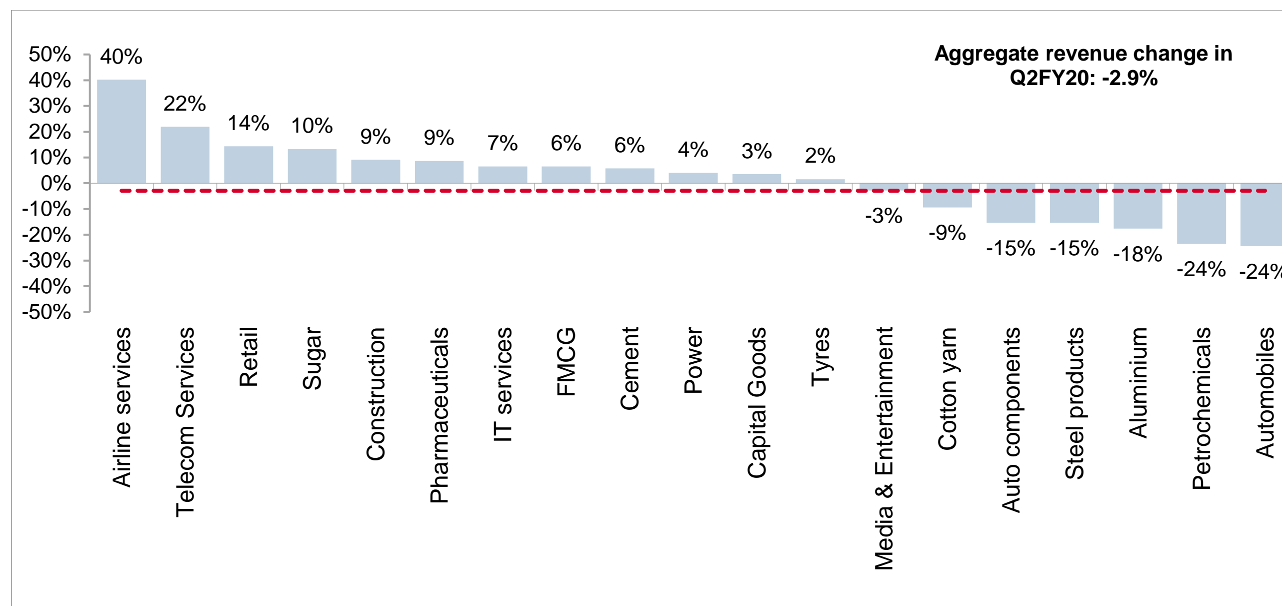
Sector	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20E
Key sectors	**8.0%**	**12.9%**	**12.0%**	**17.6%**	**17.5%**	**15.0%**	**9.7%**	**4.1%**	**-2.9%**
Automobiles	20.3%	24.8%	27.0%	33.8%	13.7%	5.2%	0.3%	-9.2%	-24.5%
Cement	13.6%	33.7%	30.4%	23.8%	24.6%	13.6%	12.9%	9.2%	5.8%
FMCG	6.5%	10.1%	3.2%	10.3%	9.1%	10.5%	8.7%	6.6%	6.5%
IT services	3.4%	4.0%	5.0%	13.3%	17.8%	19.2%	17.3%	11.3%	6.5%
Pharmaceuticals	0.0%	2.3%	7.9%	16.2%	9.5%	13.9%	11.2%	11.7%	8.6%
Power	1.3%	4.3%	-0.1%	3.5%	10.1%	12.6%	5.2%	11.8%	4.0%
Steel products	22.6%	24.7%	22.0%	32.7%	26.5%	11.8%	9.1%	-2.8%	-15.4%

Notes: 1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres; E- Estimated
2) Analysis is across 300 companies comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies)
Source: CRISIL Research

- **Automobiles:** Revenue is estimated to have declined 24-26% on-year because of muted consumer sentiment. High cost of ownership and deferment of purchases on expected GST rate cuts, impacted sales of PVs and two-wheelers, whereas lower freight demand, aggravated by the new axle norms and a weak product mix, affected CV realisation. Revenue of PVs, two-wheelers, tractors and CVs is estimated to have declined 23-25%, 12-14%, 17-19% and 48-50%, respectively.

- **Fast-moving consumer goods (FMCG):** CRISIL Research expects a lower on-year aggregate revenue growth of 5-7% in Q2 fiscal 2020. The sector is facing a slowdown, especially in rural consumption, which is expected to drag down FMCG growth.
- **Steel products:** Revenue is expected to have sharply declined ~15% on-year in Q2 fiscal 2020, due to a fall in realisation and slower demand growth. Domestic steel prices are expected to have declined 14% on-year following global cues.
- **Cement:** Aggregate revenue of large, mid-sized and small players is estimated have been 5-7% higher, primarily driven by a 2-4% on-year increase in realisation. Volume growth of 1.5-2% is expected, led by UltraTech, due to the addition of Binani assets, which were not part of the company until Q3 fiscal 2019. Among other companies, we expect ACC and Dalmia Cement to report a marginal expansion in volume.
- **Power:** At an aggregate level (across generation, transmission and distribution or T&D segments), revenue is estimated to have recorded slower growth of 3-4% because of a slowdown in power demand across regions. During Q2, the average plant-load factor (PLF) of thermal power plants (excluding gas-based capacity) is projected to have been low at 55-56% compared with ~59% in the same quarter last year, driven by weak power demand and addition of ~6 GW of thermal capacity over the past one year, slowing down generation revenue. Also, transmission revenue is likely to have increased by only 6-7% on-year because of a sharp decline in capitalisation in Q1 fiscal 2020.
- **Information technology (IT) services:** Rupee revenue for Q2 fiscal 2020 is expected to have increased at a moderate pace of 7% on-year, due to the absence of favourable rupee movement, coupled with the expectation of a moderation in the performance for the BFSI sector in the United States (US).
- **Pharmaceuticals:** Aggregate revenue of large formulation players is expected to have increased 10-12% on-year in Q2 fiscal 2020. Moderating pricing pressure in the US, coupled with new product launches, mainly limited competition and niche products, would continue to support revenue growth. However, the aggregate revenue for small and mid-sized players is expected to have risen by only 1-3% on-year on a high base of the Q2 fiscal 2019, when a few companies enjoyed a windfall from limited competition launches and supply opportunities for valsartan products.

While demand moderation is broad-based, a sharp decline in automobiles, steel and petrochemicals revenue growth would drag overall revenue to negative territory



Notes: Analysis is across 300 companies comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies)

Source: CRISIL Research

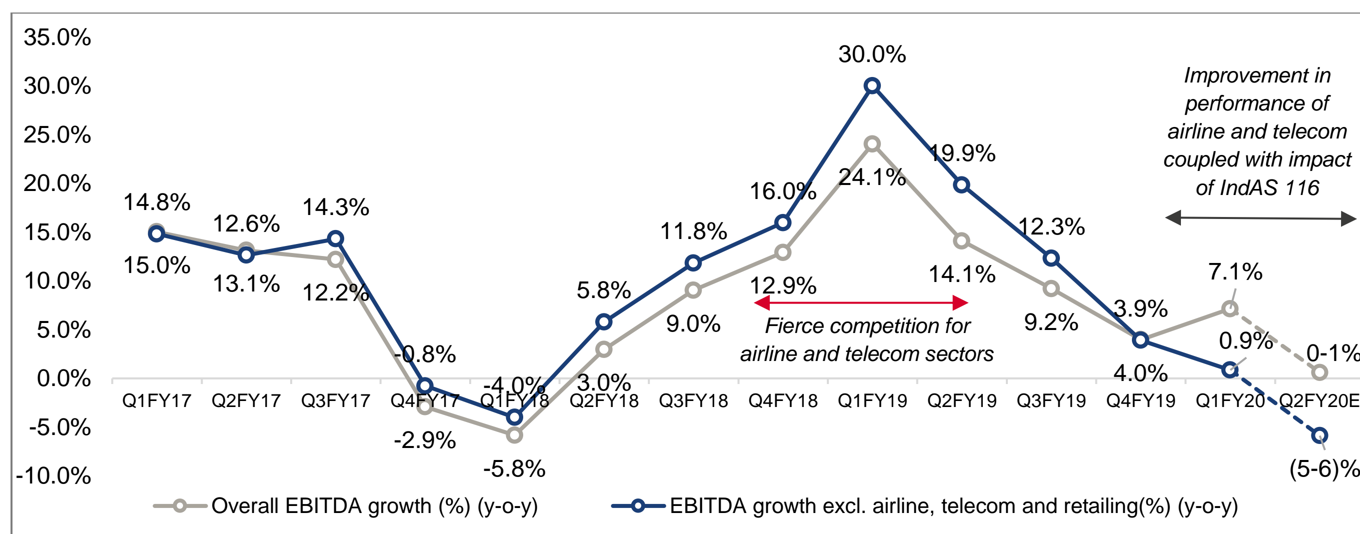
Other sectors expected to have impacted overall revenue

- **Airline services:** Aggregate revenue of the set is expected to have increased 40-42% on-year, on the back of a strong increase in passenger traffic and fares, despite low single-digit passenger traffic growth for the industry.
- **Retail:** CRISIL Research estimates revenue to have increased 13-15% on-year to Rs 176-179 billion in Q2 fiscal 2020 because of a slowdown in consumption. Lower demand is likely to have restricted further growth.
- **Construction:** Revenue is estimated to have improved on-year, thanks to execution in major segments such as national highways and the Pradhan Mantri Awas Yojana – which accounts for about two-thirds of total construction investments – is expected to drive the revenue for players.
- **Capital goods:** Revenue growth is expected to have remained in low single digits with growth in the 3-4% range on-year, as companies accelerate execution pace to clear their order backlogs.
- **Petrochemicals:** Revenue is expected have decreased 23-25% in Q2 fiscal 2020 because of lower petrochemical realisation amid a fall in feedstock naphtha prices (~25% on-year decline) following lower crude oil prices.
- **Aluminium:** Revenue is estimated to have decreased because of a fall in domestic realisation, in line with the trend in global prices, which are estimated to have declined 15-17% on-year in the quarter. However, rupee depreciation will limit the fall in domestic prices to 13-15%.

Q2 FY20 to see muted EBITDA growth due to support from consumer services sectors such as airlines, telecom and retailing; excluding them, overall EBITDA to decline by 6%

At an aggregate level, CRISIL Research estimates muted EBITDA growth of 0-1% in Q2 fiscal 2020. This takes into account support from consumer discretionary sectors such as telecom services, airline services and retailing, which will continue to witness margin expansion on-year due to the implementation of Ind AS 116. Excluding these sectors, EBITDA will decline by 5-6%. This is on account of pressure from the automobiles sector due to lower utilisation and export-linked sectors on account of absence of rupee tailwind coupled with higher operational cost.

Excluding airlines, telecom and retailing, EBITDA decline for remaining sectors to be worse than fall in revenue



Notes: Analysis is across 300 companies comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies); E- Estimated

Source: CRISIL Research

Aggregate EBITDA margin is estimated at 19-20% in Q2 fiscal 2020 with 50-100 bps expansion on-year. However, for some of the key sectors such as automobiles and steel products, EBITDA margins are likely to have declined by 250-300 bps due to lower utilisation/ realisation. On the other hand, cement companies are likely to have witnessed 500 bps margin expansion on account of improved realisation and lower power and fuel cost.

Overall margins to improve by 50-100 bps on-year in Q2 fiscal 2020

Sector	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20E
Key sectors	**19.7%**	**19.5%**	**19.1%**	**19.9%**	**19.1%**	**18.5%**	**18.1%**	**20.5%**	**19.8%**
Automobiles	13.7%	12.9%	12.1%	12.8%	12.5%	10.7%	10.3%	10.6%	10.0%
Cement	17.1%	16.2%	17.0%	16.6%	14.4%	14.6%	18.3%	23.1%	19.8%
FMCG	24.4%	25.2%	26.3%	25.3%	25.4%	25.3%	26.1%	26.4%	25.4%
IT services	23.2%	23.1%	23.3%	23.1%	23.6%	23.9%	23.2%	22.4%	22.3%
Pharmaceuticals	20.8%	20.9%	19.6%	19.3%	20.0%	21.4%	18.6%	21.0%	20.0%
Power	37.7%	34.0%	33.9%	35.5%	36.6%	34.1%	31.4%	37.7%	37.6%
Steel products	15.2%	18.6%	20.9%	22.1%	21.0%	19.5%	17.3%	17.0%	18.0%

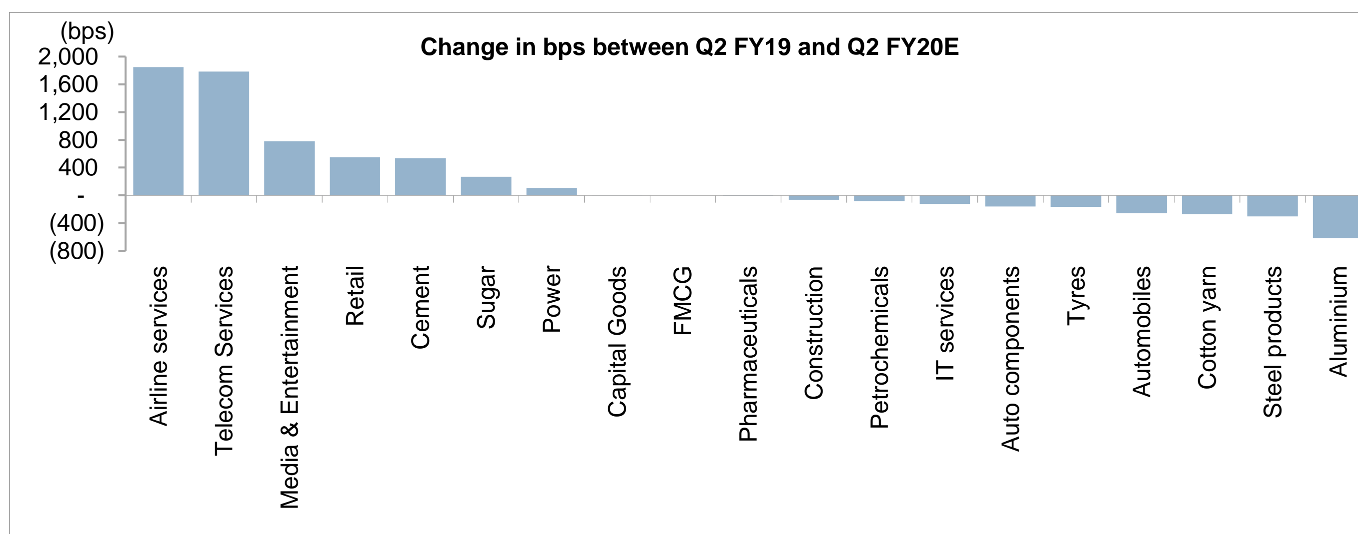
Notes: Notes: 1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres; E- Estimated
2) Analysis is across 300 companies comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies)
Source: CRISIL Research

Sectoral aggregate EBITDA margin: analysis based on a sample set of companies

- **Airline services:** Margin is estimated to have improved 1,800-2,000 bps with a flattish on-year rupee-dollar exchange rate and a fall in fuel costs, and implementation of Ind AS 116. As per this standard, operating lease rentals of aircraft will now be considered as a right-to-use asset on the balance sheet. This will now be realised in the profit and loss statement as depreciation and interest expense, thereby boosting EBITDA. Moreover, a 10% decline in fuel cost per litre, and a flattish on-year rupee-dollar exchange rate are also expected to curb operating costs, boosting margins
- **Telecom services:** Margin to improve ~1,700-1,800 bps, helped by Airtel's 'war on waste' strategy, improving synergy in Vodafone Idea operations, revenue growth, and implementation of Ind AS 116 accounting principles
- **Cement:** Margin to be 500-550 bps higher, led by a rise in realisation. Fall in power and fuel costs, because of lower international prices of petcoke and imported coal (for captive power plants), will also aid profitability
- **Steel products:** Margin to stay under pressure, led by high domestic iron ore costs and declining realisation. Despite a recent correction in global iron ore prices, we expect domestic iron ore prices to rise, due to upcoming auctions of mining leases in March 2020
- **Aluminium:** Margin to shrink 600-700 bps, led by a steep fall in revenue and marginal easing of cost pressure. While domestic realisation is expected to have declined 13-15% on-year, cost is expected to have declined only 10-12%, as NALCO enjoys a high proportion of captive raw materials (coal and bauxite). The drop in alumina prices by ~40%, will limit margin contraction to 600-700 bps
- **Automobiles:** Margin to contract 250-300 bps, with all segments impacted by lower capacity utilisation amid demand slowdown
- **IT services:** Margin to slip 120-130 bps due to the absence of rupee tailwind, coupled with higher onsite employee costs and higher investments in digital services

- **FMCG:** Margin to be stable. An increase in the prices of raw materials such as copra, sugar and milk, is likely have been offset by a decline in prices of crude-based raw materials
- **Pharmaceuticals:** Margin to be flat as high remediation costs, research & development costs and promotional expenses will be constraints for most companies
- **Power:** Margin to rise on revenue growth and a decline in fuel costs, led by a drop in both domestic e-auction and imported coal prices. Margins in the transmission segment would have expanded due to lower operating expenses. However, distribution margin would have slightly contracted 20-30 bps because of increased power-purchase costs and lower tariff hikes.
- **Sugar:** Margin to rise 250-300 bps on a surge in realisation against a slow rise in cane and other operating costs.

Margin improvement to be led by consumer discretionary and cement sectors



Note: Analysis is across 300 companies comprising ~60% of National Stock Exchange's market cap (excluding financial services and oil companies)

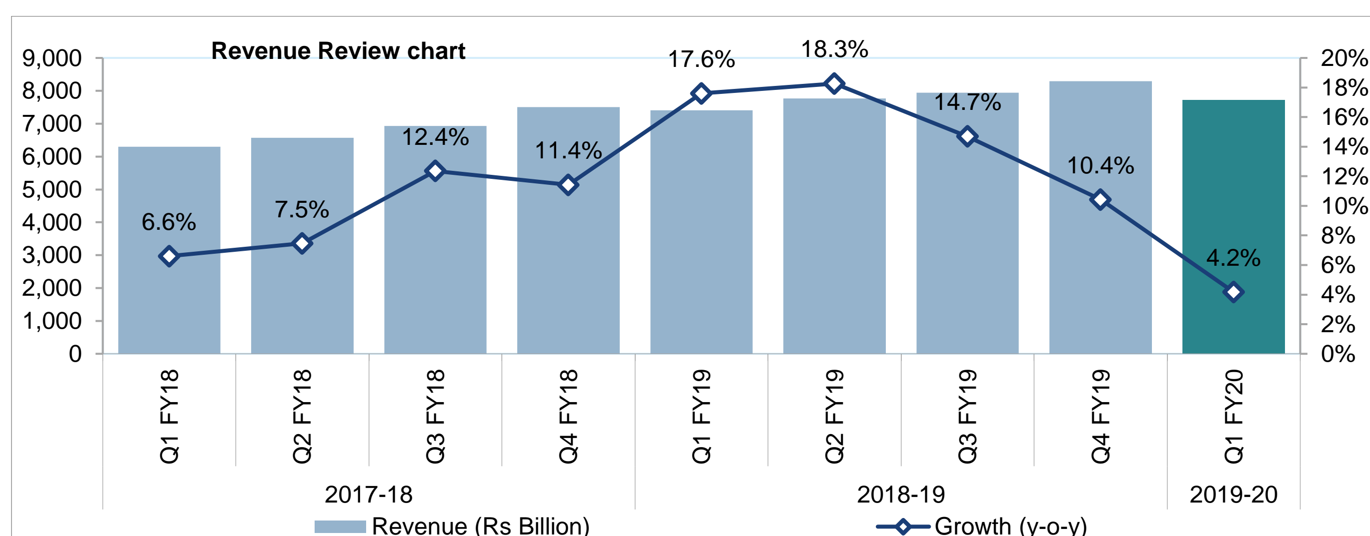
Source: CRISIL Research

Results review (April-June 2019)

Revenue growth slows down as demand slips

Aggregate topline growth of over 430 companies across 50 sectors (excluding financial services and oil) slowed down to 4.2% on-year in the first quarter of fiscal 2020, compared with 17.6% on-year in the previous corresponding quarter. Similarly, growth in aggregate revenues of 20 key sectors, too, slowed to 4.1% on-year, compared with ~17.6% in the previous corresponding quarter. The deceleration was because of weakening demand in key consumption-led sectors and a decline in realisation of commodities.

Revenue growth fell to single digits amid slowdown



Note: Analysis is on the basis of more than 430 companies, comprising ~65% of the National Stock Exchange's market cap (excluding financial services and oil companies).

Source: CRISIL Research

Consumption-linked sectors such as automobiles, auto components and tyres, reported negative or low growth on muted demand. Low rural consumption also led to moderation in growth of sectors such as FMCG. Construction-linked sectors such as steel products were impacted by a fall in realisation. As a result, their aggregate revenue slipped 2.8% on-year in the first quarter of fiscal 2020.

Some other sectors, however, fared well. These include airline services, cement, IT services and pharmaceuticals reported healthy revenue numbers, with price hikes supporting the first two, and a weak rupee boosting the latter two.

Revenues of export linked sectors continued to lead sector's overall growth

	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
Overall	**6.6%**	**7.5%**	**12.4%**	**11.4%**	**17.6%**	**18.3%**	**14.7%**	**10.4%**	**4.2%**
Key sectors	**6.3%**	**8.0%**	**12.9%**	**12.0%**	**17.6%**	**17.5%**	**15.0%**	**9.7%**	**4.1%**
Automobiles	4.7%	20.3%	24.8%	27.0%	33.8%	13.7%	5.2%	0.3%	-9.2%
Cement	11.1%	13.6%	33.7%	30.4%	23.8%	24.6%	13.6%	12.9%	9.2%
FMCG	0.8%	6.5%	10.1%	3.2%	10.3%	9.1%	10.5%	8.7%	6.6%
IT services	2.6%	3.4%	4.0%	5.0%	13.3%	17.8%	19.2%	17.3%	11.3%
Pharmaceuticals	-8.9%	0.0%	2.3%	7.9%	16.2%	9.5%	13.9%	11.2%	11.7%
Power	3.8%	1.3%	4.3%	-0.1%	3.5%	10.1%	12.6%	5.2%	11.8%
Steel products	24.7%	22.6%	24.7%	22.0%	32.7%	26.5%	11.8%	9.1%	-2.8%

Notes:
1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres. Overall industry covers key sectors and other sectors (automotive castings, ceramic tiles, commodity chemicals, chlor-alkalies, coal, coffee, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, IT (ES), material handling, oilfield equipment, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, textiles, transmission towers and telecom towers).
2) Analysis is on the basis of over 430 companies, comprising ~65% of the National Stock Exchange's market cap (excluding financial services and oil companies).
Source: CRISIL Research

Drags to revenue growth: analysis based on a sample set of companies in each sector

- **Automobiles:** Revenue growth declined 9.2% -- the first time it happened in the past two years – as demand slowed further. Revenue of passenger vehicle (PV) OEMs declined more than 12%, due to lower volume, while those of CV OEMs declined 17% on-year. Revenues of two-wheeler makers dipped a marginal ~0.6% on-year, despite a 10% slide in volume, as higher realisations helped
- **Steel products:** Revenue growth slipped 3% on-year, because of falling realisation and moderating consumption amid weak demand from the automobiles and construction segments
- **Cement:** Revenue growth was a healthy 9% on-year in the first quarter of fiscal 2020, led by ~8% rise in realisation, as cement volumes declined in the quarter. Revenue of UltraTech, the largest contributor to the sample set, grew 16.2%. The company's domestic cement business saw a 2.1% increase in sales volume, along with 12.6% rise in realisation
- **FMCG:** Revenue growth moderated to ~7% on-year from the ~9.5% run-rate of the previous three quarters, because of a slowdown in rural consumption
- **IT services:** Revenue growth was 11.3% on-year, led by double-digit growth (>20%) in digital services and better performance in banking, financial services, and insurance (BFSI) sector in the US. Within the IT space, the revenue of Tier I companies increased ~12% on-year, followed by mid-tier players at 8% on-year

- **Pharmaceuticals:** Revenue growth rose 11.7% on-year, spurred by new launches and normalising pricing pressures. Limited competition launches aided growth for most players. The revenue growth of mid-sized players was led by an increase in export revenue
- **Power:** Revenue growth of generation and T&D rose ~12% on-year. The generation segment saw higher PLFs and better merchant power realisations, because of healthy demand. The transmission segment saw an 8% increase on-year, because of strong asset capitalisation by Power Grid Corporation of India Ltd. The distribution segment, too, grew 6%, due to a rise in demand

Other key sectors: analysis based on a sample set of companies in each sector

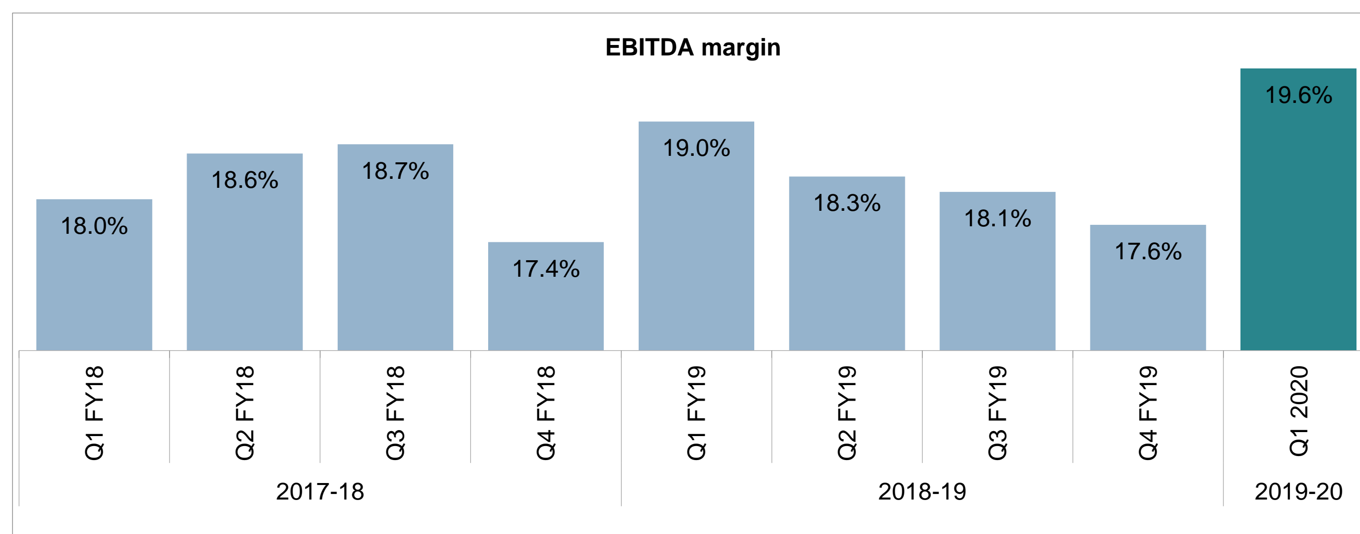
- **Airline services:** Revenue growth surged 42% on-year, due to a 9-10% rise in air fares, along with a 23% on-year rise in aggregate passenger traffic
- **Aluminum:** Revenue growth plunged 14% on-year, led by a fall in realisation as well as sales and production, due to disruptions after cyclone Fani
- **Capital goods:** Revenue growth slid 11.4% on-year in the first quarter of fiscal 2020, largely led by a 24% decline in BHEL's revenue in the quarter, because of lower execution of the order backlog amid land constraints and delayed clearances
- **Petrochemicals:** Revenue growth fell ~10% on-year as product prices remained subdued amid a fall in production volume
- **Retail:** Revenue growth of organised retailers rose ~17% on-year, driven by volume growth across categories for key players and same-store sales
- **Sugar:** Revenue growth of north-based sugar mills grew 11% on-year, because of higher realisations as sugar prices increased 8%. Revenue of south-based mills increased 7% on-year, as sugar prices rose 10%. However, lower sales volumes of a few companies, such as Dharani Sugars and E I D Parry, led to a slower revenue growth of the sample set

EBITDA margin expanded slightly amid moderation in top-line growth

Aggregate EBITDA margin widened to 19.6% during the quarter from 19% a year ago. This is a ~60-70 bps increase, compared with an average a ~10 bps decline in the last fiscal. The improvement in profitability was because of easing commodity prices.

However, aggregate EBITDA growth slowed to ~7.9% compared with an average growth of 15.8% over the past fiscal. A further expansion was truncated by a moderation in topline growth.

Pressure on EBITDA margins eased on account to lower commodity prices



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Source: CRISIL Research

Sectorally, there was a sharp improvement in the margins of airline and telecom services, due to the adoption of Ind AS 116 accounting standard from April 1, 2019. Margin expansion on-year in the cement sector was driven by higher realisations and lower operating costs. Margins of key consumption-driven sectors, such as automobiles, auto components and tyres, though, shrunk because of demand slowdown, in other key segments such as aluminium and steel products, it was due to lower realisations.

Cement and consumer-centric sectors helped margin expansion

	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
Overall	**18.0%**	**18.6%**	**18.7%**	**17.4%**	**19.0%**	**18.3%**	**18.1%**	**17.6%**	**19.6%**
Key sectors	**18.8%**	**19.7%**	**19.5%**	**19.1%**	**19.9%**	**19.1%**	**18.5%**	**18.1%**	**20.5%**
Automobiles	10.5%	13.7%	12.9%	12.1%	12.8%	12.5%	10.7%	10.3%	10.6%
Cement	20.1%	17.1%	16.2%	17.0%	16.6%	14.4%	14.6%	18.3%	23.1%
FMCG	23.4%	24.4%	25.2%	26.3%	25.3%	25.4%	25.3%	26.1%	26.4%
IT services	22.3%	23.2%	23.1%	23.3%	23.1%	23.6%	23.9%	23.2%	22.4%
Pharmaceuticals	17.3%	20.8%	20.9%	19.6%	19.3%	20.0%	21.4%	18.6%	21.0%
Power	35.8%	37.7%	34.0%	33.9%	35.5%	36.6%	34.1%	31.4%	37.7%
Steel products	13.3%	15.2%	18.6%	20.9%	22.1%	21.0%	19.5%	17.3%	17.0%

Notes:

1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres. Overall industry covers key sectors and other sectors (automotive castings, ceramic tiles, commodity chemicals, chlor alkalies, coal, coffee, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, IT (ES), material handling, oilfield equipment, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, textiles, transmission towers and telecom towers).

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Source: CRISIL Research

Operating margins across sectors: analysis based on a sample set of companies in each sector

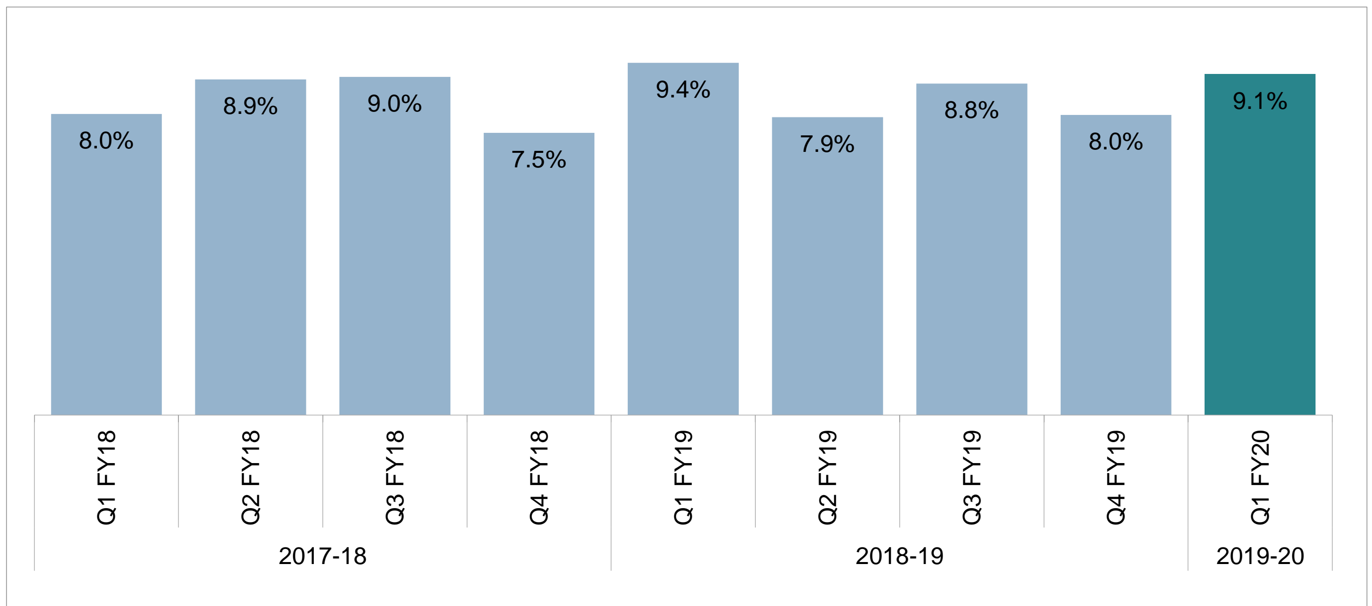
- **Airline services:** Margin increased eight-fold after the implementation of Ind AS 116 accounting standard and hence are not comparable. In the first quarter of fiscal 2020, the airline industry has adopted Ind AS 116. Consequently, operating lease rentals of aircraft, which were a part of operating expenses earlier, will now be classified as depreciation and interest expense
- **Automobiles:** Margins across automobile categories contracted ~220 bps on-year, impacted by lower capacity utilisation due to muted demand. PVs were impacted the most, where margins contracted ~450 bps. Margins of the CV segment fell ~195 bps on-year, that of the two-wheeler segment fell ~115 bps, despite lower raw material cost
- **Cement:** Margin for the sector improved ~650 bps on-year, driven by higher realisation and a fall in freight costs. Easing crude prices led to a rise in the prices of downstream products, such as petcoke, furnace oil, and diesel, leading to improved profitability
- **FMCG:** Margin expanded by 104 bps on-year, because of lower crude-led raw material and copra costs
- **IT services:** Margin contracted ~70 bps on-year, due to higher employee epxenses as a result of wage hikes during the period
- **Pharmaceuticals:** Margin increased 150 bps on-year. Sun Pharma's marigns improved because of lower employee and R&D costs. Cipla reported better margins because of better product mix
- **Power:** Margin improved ~220 bps on-year, mainly because of rising topline and better utilisation
- **Steel products:** Margin shrunk ~500 bps because of declining realisation and rising input costs
- **Sugar:** Margin improved 300 bps on lower raw material cost and government subsidies

Net profit margins stay under the pump: analysis based on a sample set of companies in each sector

Aggregate net margin declined ~30 bps to 9.1% from 9.4% in the first quarter of fiscal 2020, as net profit grew a marginal 0.9%

- Cement sector witnessed a ~300 bps net margin expansion on-year in-line with improvement in operating margins
- Power sector witnessed a ~300 bps decline, despite an improvement in EBITDA margin, as Adani Power reported losses because of the recognition of Rs 10 billion of write-off towards receivables, and advances due to the acceptance of the resolution plan for the acquisition of Korba power plant
- Steel products' net margin plunged ~44% on-year, which saw net margin deteriorate ~300 bps on-year. This is line with pressures on their top lines and operating margins, due to lower realisations and rising input costs

Industry net margin shrank a notch (on-year)



Note: Analysis is on the basis of over 430 companies, comprising ~65% of the National Stock Exchange's market cap (excluding financial services and oil companies).
Source: CRISIL Research

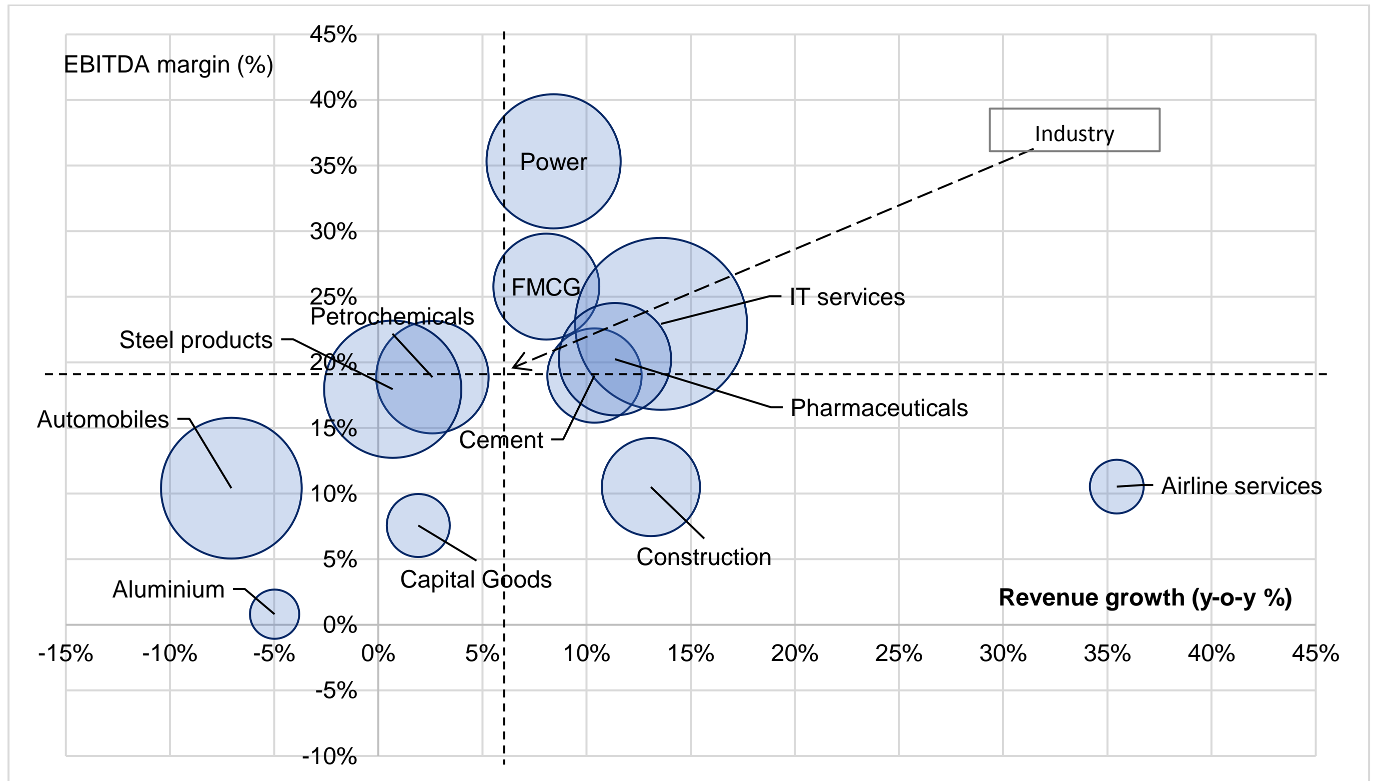
Power and Steel companies dragged overall margins down

	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
Overall	**8.0%**	**8.9%**	**9.0%**	**7.5%**	**9.4%**	**7.9%**	**8.8%**	**8.0%**	**9.1%**
Key sectors	**8.4%**	**9.8%**	**9.4%**	**8.8%**	**10.1%**	**8.4%**	**9.0%**	**8.3%**	**9.1%**
Automobiles	6.6%	8.5%	7.7%	6.4%	8.7%	8.3%	7.5%	6.8%	8.9%
Cement	10.1%	6.4%	6.1%	6.8%	7.2%	3.8%	5.6%	8.8%	10.4%
FMCG	15.8%	17.1%	18.7%	18.5%	17.3%	18.4%	18.1%	20.4%	18.1%
IT Services	17.7%	18.4%	19.4%	18.2%	17.8%	17.9%	17.8%	18.0%	17.0%
Pharmaceuticals	5.3%	12.7%	17.0%	8.7%	11.3%	9.5%	11.4%	8.3%	12.1%
Power	12.2%	13.9%	9.2%	11.0%	14.3%	13.8%	9.6%	9.6%	11.2%
Steel products	-1.8%	1.0%	4.0%	6.0%	7.0%	3.7%	6.0%	3.0%	4.0%

Notes:
1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres. Overall industry covers key sectors and other sectors (automotive castings, ceramic tiles, commodity chemicals, chlor alkalies, coal, coffee, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, IT (ES), material handling, oilfield equipment, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, textiles, transmission towers and telecom towers).
2) Analysis is on the basis of over 430 companies, comprising ~65% of the National Stock Exchange's market cap (excluding financial services and oil companies).
Source: CRISIL Research

Sectoral performance metrics

Revenue growth versus EBITDA margin across key sectors in the past four quarters



Note: Data represents aggregate performance of the mentioned sectors for four quarters (Q3 FY19 to Q2 FY20E); size of the bubble indicates sector's share in overall industry's revenue; E- Estimated

Source: CRISIL Research

Impact of corporate tax rate cut

Top 430 listed companies to witness tax savings to the tune of Rs 16,000 crore

CRISIL Research's analysis of nearly 430 companies – spread across 50 sectors such that they cover more than 65% of the National Stock Exchange's market capitalisation (excluding financial services and oil companies) – indicates that effective tax rate paid by the set was at 25% last fiscal. These companies accounted for ~14% of the tax paid by India Inc last fiscal.

Of these companies, nearly 90 made losses last fiscal. Our analysis indicates these companies could see tax savings of Rs 16,000 crore on account of corporate tax rate cut. However, against this, their total debt was Rs 11 lakh crore as of last fiscal. Of this, 69% debt is long-term in nature. Hence, at an aggregate level, if companies plan to use this tax saving for deleveraging, total debt will reduce by just 1-2%.

A caveat: these estimates are based on profit before tax for fiscal 2019. Given that we expect 5-6% growth in India Inc revenues and EBIDTA for fiscal 2020, the savings could end up a tad higher. Our interactions with players in the consumption space indicate an intent to pass on benefits from these in the form of discounts and tactical price shifts to gain market share. As for capex, it will be a function of how much these actions revive demand. New sectors such as electric vehicles and their batteries, cellphone manufacturing, and consumer electronics may gain traction over medium term under the 'Make in India' programme because of the tax benefits announced on new investments.

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Annexure 1

Price indicators

Rs	Unit	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20E
Steel flat	Rs/tonne	36,593	38,333	38,500	43,300	45,033	44,667	45,467	43,050	42,717	38,500
Steel long	Rs/tonne	34,667	34,500	35,000	40,167	40,633	38,867	40,666	40,033	41,200	39,178
Aluminium	Rs/tonne	1,48,137	1,45,005	1,54,081	1,58,610	1,73,031	1,65,293	1,63,584	1,50,127	1,46,600	1,41,500
Iron ore	Rs/tonne	1,639	1,637	1,782	2,350	2,237	2,314	2,742	2,270	2,226	2,350
Cement	Rs per bag	349	335	326	327	327	332	328	339	373	360
Sugar (Mumbai S 30)	Rs/quintal	3,958	3,704	3,416	3,087	2,869	3,063	2,930	3,010	3,110	3,170
Crude oil	$/barrel	50.2	51.7	62	66.9	74.5	75.1	67.4	63.1	69	61.8
Coal	Rs/tonne	1330	1329	1366	1573	1483	1512	1527	1634	1515	1540
Telecom ARPUs	Rs/month	149	138	123	112	99	93	99	116	130	132
Re/ $ movement	Rs/USD	64.4	64.3	64.7	64.3	67.0	70.1	72.1	70.5	69.5	70.0

Note: Exchange rate represents average rate for the quarter; E- Estimated
Source: CRISIL Research

Volume indicators

YoY growth	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20 E
Automobiles	**8%**	**13%**	**16%**	**23%**	**18%**	**6%**	**7%**	**-7%**	**-11%**	**-15%**
CVs	-12%	14%	29%	29%	51%	27%	4%	-1%	-14%	-34%
Cars & UVs	6%	8%	3%	7%	14%	-3%	-4%	-4%	-15%	-25%
Two-wheelers	9%	13%	17%	25%	18%	7%	9%	-7%	-10%	-13%
Cement (large + mid)	6%	13%	22%	11%	15%	14%	10%	11%	-2%	2%
Cement - large	8%	14%	23%	12%	16%	15%	10%	11%	-3%	1%
Cement - mid	-1%	9%	21%	7%	12%	12%	11%	12%	1%	3%
Steel	10%	5%	5%	5%	4%	5%	8%	7%	7%	5%
Aluminium	20%	17%	19%	17%	18%	9%	6%	1%	-2%	-1%
Telecom data	174%	306%	481%	557%	324%	210%	164%	110%	281%	110%

E- Estimated
Source: CRISIL Research

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