Research

CRISIL
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No respite for India Inc

Revenue and EBITDA drop in Q3, EBITDA margin stays muted

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Industry outlook

Results preview (October-December 2019)

Revenue declines for the second quarter in a row

CRISIL Research expects revenue of coporate India – excluding banking, financial services and insurance (BFSI), and oil companies – to have declined 2-3% on-year in the third quarter (Q3) of fiscal 2020, mainly due to muted private consumption and a decline in revenue of industrial- and construction-linked sectors.

This marks the second successive quarter of degrowth, coming after a 3-4% decline in the three months ended September 30, 2019

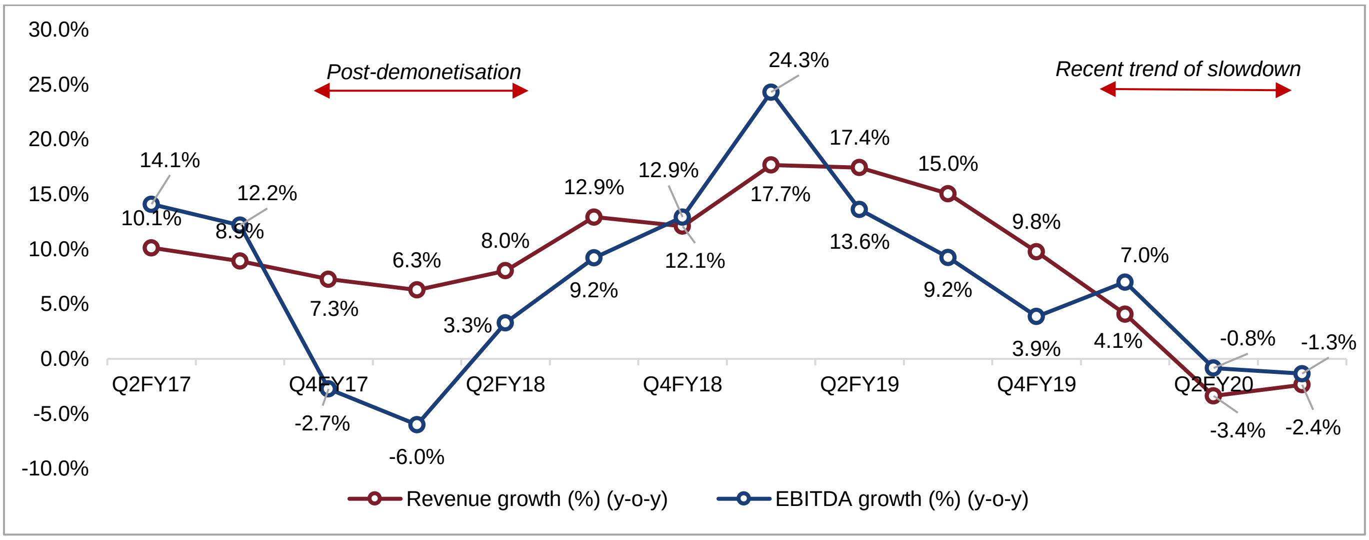
The assessment is based on an analysis of 300 companies, comprising ~60% of the National Stock Exchange's market cap (excluding BFSI and oil companies).

The decline in revenue is largely on account of falling revenue of consumer-linked sectors, which are estimated to have contracted 1-2% on-year. In fact, revenue of automobile companies is estimated to have posted a sharp slide of 9-10% on-year. This could be attributed to muted purchase of passenger vehicles (PVs) and two-wheelers, lower freight demand aggravated by the new axle norms, weak product mix and weak finance availability for commercial vehicles (CVs). In a rub-off, auto component manufacturers' revenue is estimated to have decreased 13-15% on-year amid production cuts.

Also, while the cement sector's revenue is estimated to have risen ~4% on-year, the revenue of construction-linked sectors is estimated to have declined ~6% on-year in Q3 fiscal 2020. This was on account of 18-19% on-year fall in steel products, mainly led by declining realisation.

The situation was downbeat for industrial commodities such as petrochemicals as well, which is estimated to have declined 17-19% on-year on account of lower realisation. Further, the 3-4% on-year decline in revenue of power companies was because of a slowdown in power demand across regions.

Five-quarter deceleration in revenue growth to continue in Q3 as well



E: Estimated
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.
2) Analysis is of 300 companies, comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies).
Source: CRISIL Research

- **Automobile** revenue is estimated to have declined 9-10% on-year, led by the CV segment. Revenue for CV manufacturers is estimated to have declined ~32% on-year in Q3 owing to ~29% on-year fall in sales volume and ~5% on-year decrease in average realisation. Lower freight demand, aggravated by new axle norms and weak product mix, affected CV realisations. Weak consumer sentiment impacted sales volume of PVs and two-wheelers, with the two segments' on-year revenue declining ~6% and ~1%, respectively
- **Steel products** revenue is estimated to have declined ~18% on-year owing to a fall in realisation and moderating demand. Domestic steel prices are estimated to have declined 10-12% on-year in Q3 following global cues, despite pick-up in steel prices post October 2019
- Revenue of **petrochemical** companies is estimated to have decreased 17-19% on-year owing to lower realisation due to fall in feedstock naphtha price (~7% on-year decline) coupled with slowdown in the global economy. Price of key products is estimated to have declined because of ample supply along with low upstream prices
- In the case of **power**, at an aggregate level, i.e. across generation, and transmission and distribution (T&D), revenue is estimated to have declined 3-4% on-year because of a slowdown in power demand across regions. In Q3, the average plant-load factor (PLF) of thermal power plants (excluding gas-based capacity) is estimated to have been low at 55-56% compared with ~62% in the same quarter last year, driven by weak power demand. Also, transmission revenue is likely to have increased only 7-8% on-year because of a sharp decline in capitalisation in first half of fiscal 2020

Decline in auto, power, petrochemicals and steel products revenue growth likely; other sectors to see moderation

Sector	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20E
Key sectors	**12.9%**	**12.1%**	**17.7%**	**17.4%**	**15.0%**	**9.8%**	**4.1%**	**-3.4%**	**-2.4%**
Automobiles	24.8%	27.0%	33.8%	13.7%	5.2%	0.2%	-9.2%	-25.7%	-9.4%
Cement	33.7%	30.4%	23.8%	24.6%	13.6%	12.9%	9.2%	7.4%	4.0%
FMCG	10.1%	3.2%	10.3%	9.6%	10.5%	8.7%	6.6%	4.2%	5.0%
IT services	4.0%	5.0%	13.3%	17.8%	19.2%	17.3%	11.3%	8.3%	6.8%
Petrochemicals	37.7%	29.8%	49.1%	57.3%	34.0%	9.9%	-9.8%	-15.7%	-18.1%
Pharmaceuticals	2.3%	7.9%	16.2%	9.5%	13.9%	11.2%	11.7%	11.3%	5.3%
Power	4.2%	0.1%	3.6%	10.3%	13.1%	4.9%	12.2%	0.3%	-3.4%
Steel products	24.7%	22.2%	32.9%	26.8%	11.9%	9.4%	-2.6%	-14.9%	-18.5%

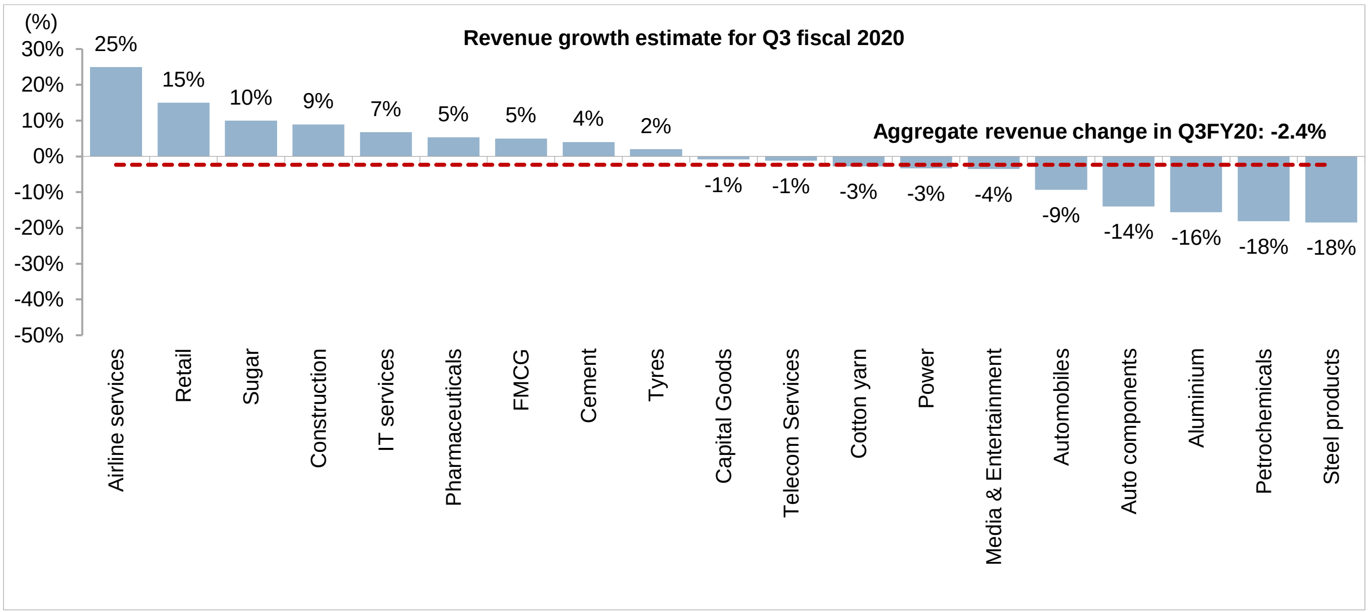
E: Estimated
Notes:
1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals,

construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres.
2) Analysis is of 300 companies, comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies).
Source: CRISIL Research

Growth expected to have decelerated for the following sectors, though revenue is unlikely to have declined:

- The **fast-moving consumer goods (FMCG)** segment is estimated to have logged low on-year aggregate revenue growth of 4-6% in Q3 under the impact of slowdown, especially in rural consumption
- In the case of **information technology (IT) services**, rupee revenue is estimated to have increased at a moderate 7% on-year due to the absence of favourable foreign exchange movement and moderation in the performance of the BFSI sector in the US, which is one of the largest demand segments for the IT industry
- Aggregate revenue of large, mid-sized and small **cement** players is estimated to have been ~4% higher on-year during the quarter. This was primarily because of a 5-6% on-year increase in volume, driven by acquired assets of Binani Cements and Century by UltraTech. However, revenue of mid-size and small players is estimated to have declined on account of low sales volume and a fall in realisation. Also, at an aggregate level, cement volume was muted
- In the **pharmaceuticals** space, while aggregate revenue of large formulation players is estimated to have increased 4-6% on-year as pricing pressure in the US eased, increased scrutiny of the US Food and Drug Administration on some plants is likely to have delayed product approvals/launches for a few players. The aggregate revenue of small and mid-sized players, rose 5-6% on-year in Q3, led by increase in export revenue for most players. Healthy growth is estimated on the domestic front with the onset of winter season

While demand moderation was broad-based, a sharp decline in auto, steel and petrochemicals revenue dragged overall revenue into negative territory



Note: Analysis is of 300 companies, comprising ~60% of the National Stock Exchange's market cap (excluding financial services and oil companies).
Source: CRISIL Research

Other sectors impacting overall revenue

- **Capital goods** manufacturers' revenue is likely to have been tepid, with a possible decline of 0.5-1.0% on-year, as companies accelerate the pace of execution to clear order backlogs amid weak order intake
- **Aluminium** sector's revenue is estimated to have decreased as well because of a fall in domestic realisation, in line with the trend in global prices, which declined 10-12% on-year in the quarter. The fall on the domestic front was accelerate because of weak domestic demand and rupee depreciation, which led to a sharper fall in domestic realisation to the tune of 18-20% on-year

However, other sectors are estimated to have fared well this quarter:

- **Airline services'** aggregate revenue of the set is estimated to have increased 24-26% on-year on the back of a strong rise in passenger traffic, despite low single-digit passenger traffic growth for the industry
- The festive season brought some cheer to the **retail** sector, with CRISIL Research estimating 14-16% on-year growth in revenue of retailers in Q3
- **Construction** companies' revenue is estimated to have improved on-year, driven by project execution in major segments such as national highways and Pradhan Mantri Awas Yojana, which accounted for about two-thirds of total construction investment pie. Also, road projects awarded in fiscal 2018 are receiving appointed date in fiscal 2020

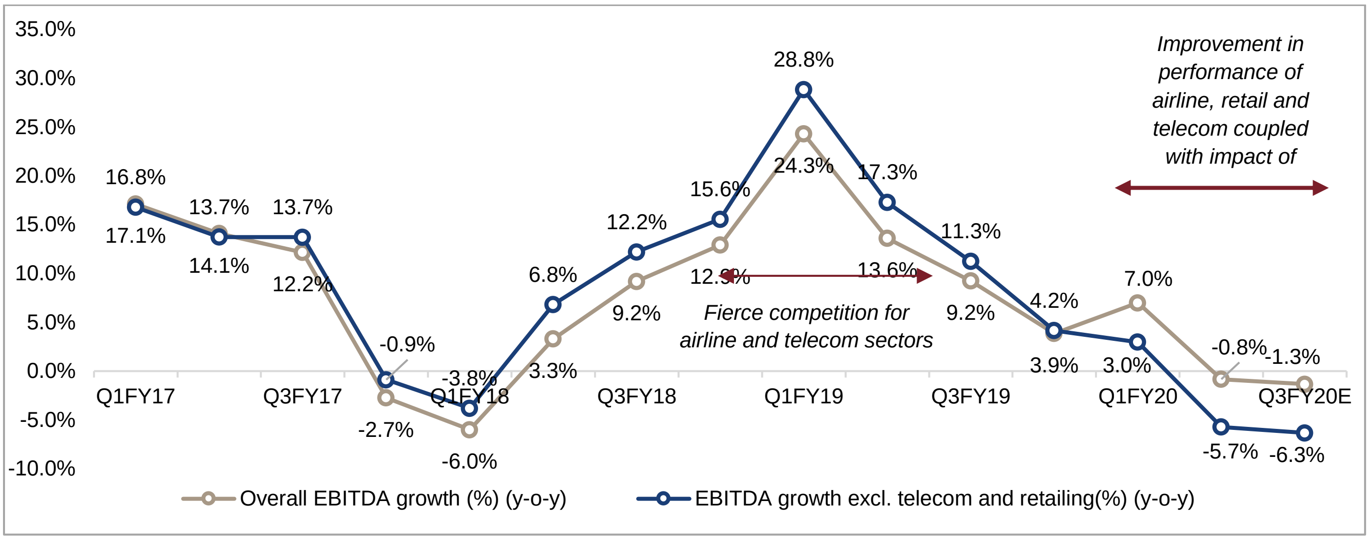
EBITDA likely declined despite support from telecom and retailing; excluding these, decline would have been 6-7%

CRISIL Research estimates earnings before interest, tax, depreciation and amortisation (EBITDA) to have declined 1-2% on-year at an aggregate level in Q3 fiscal 2020 – a second quarter on the trot. It should be noted that the last time EBITDA declined barring Q2 fiscal 2020, was post demonetisation, during January-June 2017.

The slip in EBITDA was on account of pressure from the automobiles sector due to lower on-year utilisation and construction-linked sectors such as steel, which saw margins contract due to a slump in domestic realisation. Petrochemicals too is estimated to have witnessed a fall in EBITDA on account of decline in revenue.

A sharper decline was arrested because of support from consumer discretionary sectors such as telecom services and retailing, which continued to witness margin expansion on-year owing to the implementation of Ind AS 116. Excluding these sectors, EBITDA would have slipped 6-7% on-year.

Excluding telecom and retailing, EBITDA decline for remaining sectors sharper than fall in revenue



E- Estimated

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

Source: CRISIL Research

Meanwhile, aggregate EBITDA margin was 18-19% in Q3 fiscal 2020, which was a ~20 basis point (bps) expansion on-year. However, for some key sectors such as automobiles and steel products, EBITDA margin is likely to have deteriorated 150-350 bps on-year due to lower utilisation/ realisation. On the other hand, cement companies are likely to have witnessed 200 bps on-year margin expansion on account of improved realisation, and lower power and fuel cost.

Overall margin to improve slightly on-year in Q3 fiscal 2020

Sector	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20E
Key sectors	**19.4%**	**19.1%**	**19.9%**	**19.0%**	**18.5%**	**18.1%**	**20.4%**	**19.5%**	**18.6%**
Automobiles	12.9%	12.1%	12.8%	12.5%	10.7%	10.4%	10.6%	9.1%	8.8%
Cement	16.2%	17.0%	16.6%	14.4%	14.6%	18.3%	23.1%	18.6%	16.7%
FMCG	25.2%	26.3%	25.3%	24.9%	25.3%	26.1%	26.4%	26.3%	25.3%
IT services	23.1%	23.3%	23.1%	23.6%	23.9%	23.2%	22.4%	23.2%	23.1%
Petrochemicals	19.9%	19.5%	21.7%	20.1%	17.7%	18.8%	20.1%	20.5%	17.8%
Pharmaceuticals	20.9%	19.6%	19.3%	20.0%	21.4%	18.6%	21.0%	20.7%	20.1%
Power	34.0%	33.8%	35.6%	36.3%	34.0%	31.0%	37.5%	37.6%	34.3%
Steel products	18.7%	21.1%	22.3%	21.1%	19.7%	17.4%	17.1%	14.9%	16.2%

E: Estimated

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.

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

Source: CRISIL Research

- **Automobile** industry's margin contracted 250-300 bps on-year, with all segments impacted by lower capacity utilisation despite slightly lower raw material cost
- **IT services'** margin slipped 40-80 bps on-year mainly due to the absence of a rupee tailwind, higher onsite employee cost, and increased investments in digital services
- **Pharmaceutical** companies' margin contracted as regulatory issues and research and development cost constrained most companies
- In the case of the **power** sector, margin contracted on account of decline in revenue
- Margin of **steel products** sector was under pressure, led by a slump in domestic realisation. However, falling coking coal prices coupled with stable domestic iron ore prices provided some respite to players

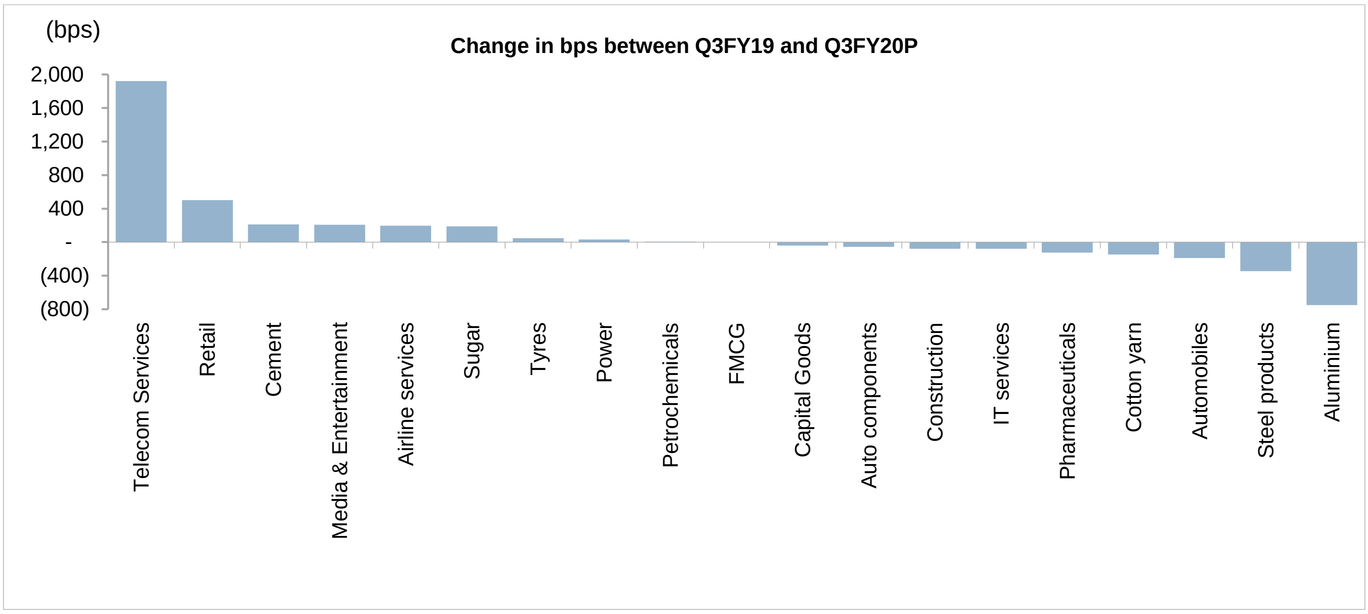
In contrast:

- **Petrochemical** companies' margin was largely range-bound owing to similar fall in product prices and input cost
- **FMCG** companies' margin was stable as increase in prices of raw materials such as sugar, flour, palm oil and milk were likely offset by decline in prices of crude-based raw materials as well as cost rationalisation by players

The bright spot was:

- **Cement**, wherein margin was 200-250 bps higher on-year, led by a rise in realisation. Fall in power and fuel cost because of lower international prices of petcoke and imported coal (for captive power plants) also aid profitability

Margin improvement led by telecom, consumer discretionary and cement sectors



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Source: CRISIL Research

Other sectors impacting overall EBITDA margin

- **Aluminium** makers' margin shrunk 700-800 bps on-year led by a steep fall in revenue and marginal easing of cost pressure. While domestic realisation is estimated to have declined 18-20% on-year, cost is likely to have declined only 10-12% on-year, as National Aluminium Company enjoys a high proportion of captive raw materials (coal and bauxite). The drop in alumina prices by ~40% on-year, though, limited further deterioration in margin

However:

- **Telecom services** companies' margin improved 1,900-2,000 bps on-year on account of implementation of Ind AS 116 accounting principles. However, on a comparable basis, the margin improved only slightly as players tried to rationalise costs to increase accruals after the order on adjusted gross revenue (AGR)
- **Airline services'** margin is also estimated to have widened, improving ~200 bps on-year, owing to a relatively flat on-year rupee-dollar exchange rate, a fall in fuel cost, and implementation of Ind AS 116. Moreover, the 12-14% on-year decline in fuel cost per litre and a flattish on-year rupee-dollar exchange rate are also estimated to have curbed operating cost, thereby boosting margin
- **Sugar** industry's margin widened 150-200 bps on-year owing to a surge in realisation vis-à-vis slow rise in cane prices and other operating cost

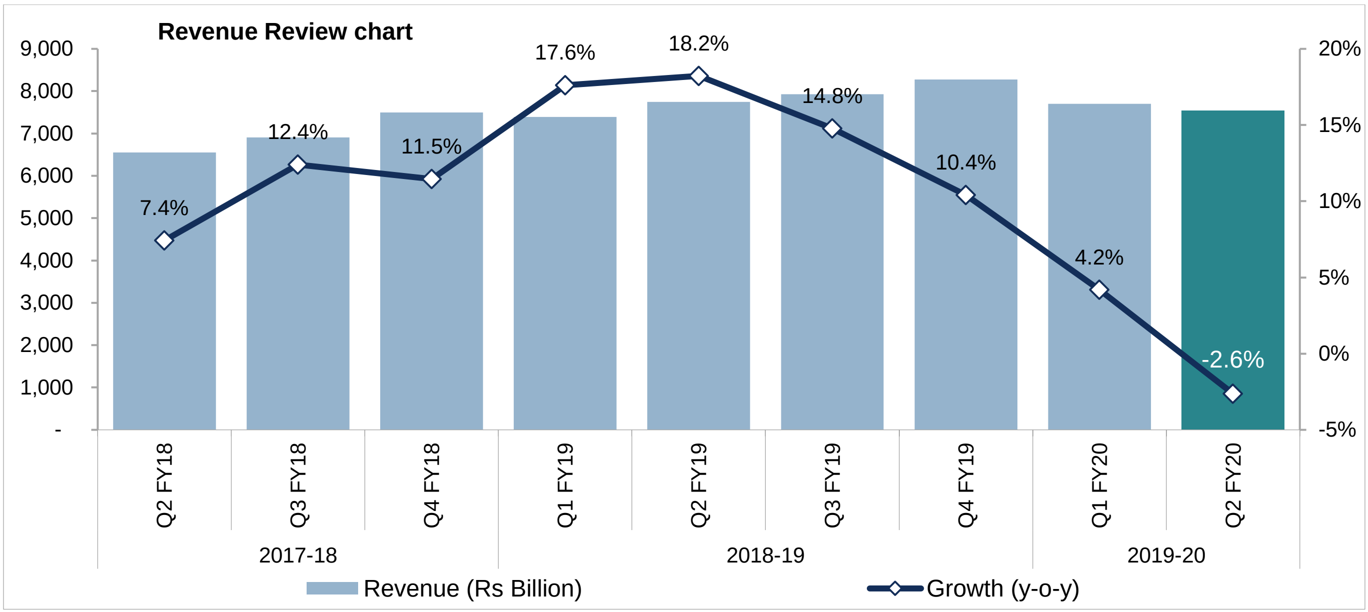
Results review (July-September 2019)

Revenue declined as demand slipped

Aggregate topline of over 430 companies across 50 sectors (excluding financial services and oil) declined 2.6% on-year in the second quarter (Q2) of fiscal 2020, compared with 18.2% on-year rise in the previous corresponding quarter. This was the first time aggregate corporate revenue declined in 14 quarters.

Similarly, aggregate revenue of 20 key sectors, too, declined 3.4% on-year, compared with ~17.4% on-year growth in the previous corresponding quarter. The slide was because of weakening demand in key consumption-led sectors and decline in realisation of commodities.

Corporate revenue declined for first time in 14 quarters



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

Source: CRISIL Research

Revenue of consumption-linked sectors such as automobiles, auto components and tyres fell 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 falling realisation. As a result, their aggregate revenue fell 5.7% on-year in Q2 fiscal 2020.

Some sectors, however, fared well. Airline services, cement, IT services and pharmaceuticals reported healthy revenue numbers, with increasing passenger traffic and price hikes supporting the first two, respectively, and improvement in digital services revenue and new product launches the latter two, respectively.

Significant decline in auto, petrochemicals and steel sectors dragged overall growth

	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Overall	**7.4%**	**12.4%**	**11.5%**	**17.6%**	**18.2%**	**14.8%**	**10.4%**	**4.2%**	**-2.6%**
Key sectors	**8.0%**	**12.9%**	**12.1%**	**17.7%**	**17.4%**	**15.0%**	**9.8%**	**4.1%**	**-3.4%**
Automobiles	20.3%	24.8%	27.0%	33.8%	13.7%	5.2%	0.2%	-9.2%	-25.7%
Cement	13.6%	33.7%	30.4%	23.8%	24.6%	13.6%	12.9%	9.2%	7.4%
FMCG	6.5%	10.1%	3.2%	10.3%	9.6%	10.5%	8.7%	6.6%	4.2%
IT services	3.4%	4.0%	5.0%	13.3%	17.8%	19.2%	17.3%	11.3%	8.3%
Petrochemicals	16.1%	37.7%	29.8%	49.1%	57.3%	34.0%	9.9%	-9.8%	-15.7%
Pharmaceuticals	0.0%	2.3%	7.9%	16.2%	9.5%	13.9%	11.2%	11.7%	11.3%
Power	1.3%	4.2%	0.1%	3.6%	10.3%	13.1%	4.9%	12.2%	0.3%
Steel products	22.5%	24.7%	22.2%	32.9%	26.8%	11.9%	9.4%	-2.6%	-14.9%

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

- **Automobile** sector's revenue growth declined 26% on-year as demand continued to slow down. Revenue of PV original equipment manufacturers (OEMs) declined 24% on-year due to lower volume, whereas those of CV OEMs declined 45% on-year. Revenue of two-wheeler makers dipped 11% on-year because of lower retail sentiment and dealer inventory liquidation
- **Petrochemical** manufacturers' revenue fell 16% on-year owing to falling product prices
- **Steel products'** revenue growth slipped 15% on-year because of declining realisation and moderating consumption, amid weak demand from the automobiles and construction sectors

Sectors that were relatively flat were:

- **Power**, which saw revenue growth of generation and T&D rise a mere 0.3% on-year. Revenue of the generation segment declined on account of on-year fall in PLF, from ~59% to ~52%. The transmission segment saw a 4% on-year increase because of transmission line additions by Power Grid Corporation of India. The distribution segment, too, grew 7% on-year due to a rise in demand
- **FMCG** sector's revenue growth moderated to ~4% on-year from a ~8.8% on-year run-rate of the previous four quarters, because of a slowdown in rural consumption

The sectors that posted healthy growth were:

- **Pharmaceuticals, which posted revenue growth of 15% on-year, spurred by new launches and moderating pricing pressures. Limited competition launches aided growth for most players. Revenue growth of mid-sized players was led by increase in export revenue**
- **Cement** manufacturers' revenue growth was a healthy 7% on-year, led by improving realisation, even as cement volume remained stagnant in the quarter. Revenue of UltraTech, the largest contributor to the sample set, grew 16.8% on-year. The company's domestic cement business (ex-Century) saw a ~2% on-year increase in sales volume, along with 6% on-year rise in realisation
- **IT service** companies' **r**evenue growth was 8% on-year, led by >20% on-year growth in digital services

Other key sectors that impacted revenue

- **Aluminium** industry's revenue plunged 18% on-year, led by falling realisation. Domestic aluminium prices declined ~15% on-year following a 21% on-year decline in global prices (LME + premiums). However, rupee depreciation limited the fall
- **Capital goods'** revenue growth slid 2.5% on-year, largely led by a 8% on-year decline in Bharat Heavy Electricals' revenue in the quarter. This was on account of delayed execution in state utility projects, given delayed payments from the customer's end. This also led to an inventory build-up

Meanwhile:

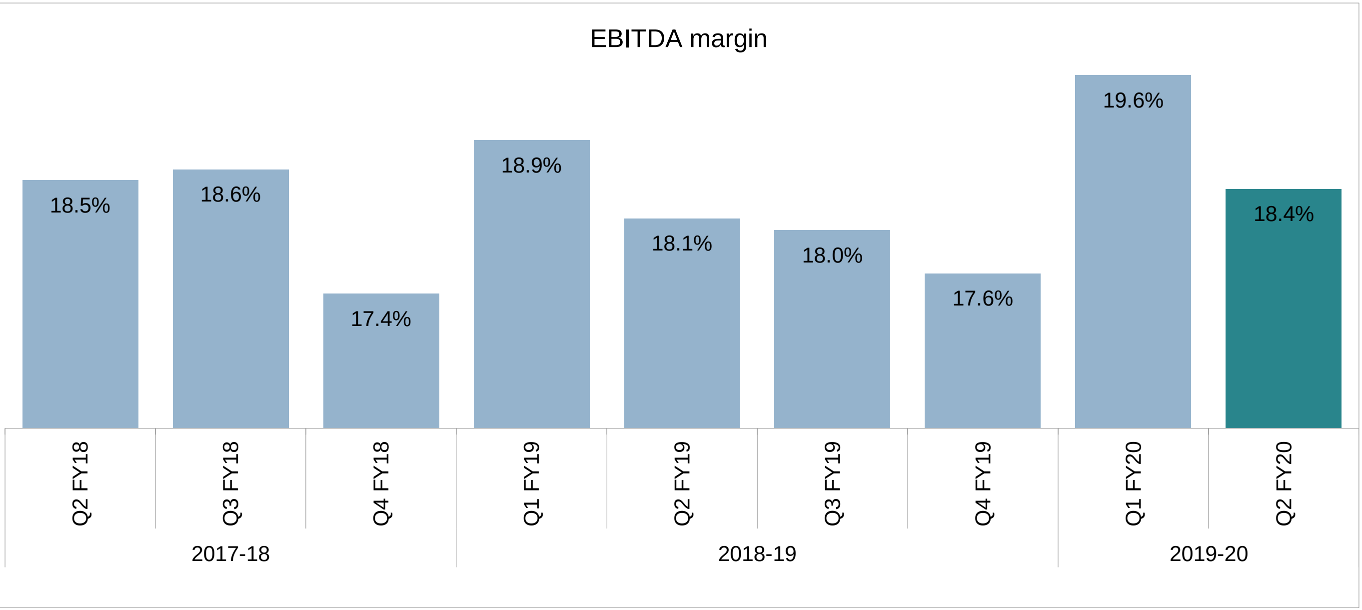
- **Airline services'** revenue growth surged 36% on-year due to a 21% on-year rise in aggregate passenger traffic coupled with ~7-8% on-year rise in yields
- Revenue growth of organised **retailers** rose 15% on-year, driven by volume rise across categories for key players and same-store sales
- **Sugar** industry's revenue growth of North-based sugar mills grew ~4% on-year owing to 2.3% on-year rise in sugar realisation. Revenue of South-based mills rose a sharp 43% on-year owing to higher sugar sales volume in domestic and export markets, with realisation being higher by 5%

EBITDA margin expanded slightly amid decline in topline

Aggregate EBITDA declined ~1% on-year compared with average growth of 15.7% over the past fiscal. Decline in EBITDA was because of falling revenue.

However, aggregate EBITDA margin widened to 18.4% during the quarter from 18.1% a year ago. This was a ~30 bps improvement compared with a mere ~6 bps expansion in the last fiscal. The improvement in profitability was because of easing commodity prices.

Lower commodity prices led to marginal EBITDA expansion amid falling revenue



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Source: CRISIL Research

Sectorally, there was a sharp improvement in the margins of airline, telecom services and retailing companies following the adoption of Ind AS 116 accounting standard from April 1, 2019. But, excluding the impact of Ind AS 116, overall profitability was range bound.

Margin expansion on-year in the cement sector was on higher realisation and lower operating cost. Margins of key consumption-driven sectors such as automobiles, auto components and tyres, though, shrunk because of demand slowdown, and in other key segments such as aluminium and steel products due to lower realisation.

Cement and consumer-centric sectors supported margin expansion

	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Overall	**18.5%**	**18.6%**	**17.4%**	**18.9%**	**18.1%**	**18.0%**	**17.6%**	**19.6%**	**18.4%**
Key sectors	**19.7%**	**19.4%**	**19.1%**	**19.9%**	**19.0%**	**18.5%**	**18.1%**	**20.4%**	**19.5%**
Automobiles	13.7%	12.9%	12.1%	12.8%	12.5%	10.7%	10.4%	10.6%	9.1%
Cement	17.1%	16.2%	17.0%	16.6%	14.4%	14.6%	18.3%	23.1%	18.6%
FMCG	24.4%	25.2%	26.3%	25.3%	24.9%	25.3%	26.1%	26.4%	26.3%
IT services	23.2%	23.1%	23.3%	23.1%	23.6%	23.9%	23.2%	22.4%	23.2%
Petrochemicals	20.7%	19.9%	19.5%	21.7%	20.1%	17.7%	18.8%	20.1%	20.5%
Pharmaceuticals	20.8%	20.9%	19.6%	19.3%	20.0%	21.4%	18.6%	21.0%	20.7%
Power	37.7%	34.0%	33.8%	35.6%	36.3%	34.0%	31.0%	37.5%	37.6%
Steel products	15.3%	18.7%	21.1%	22.3%	21.1%	19.7%	17.4%	17.1%	14.9%

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

- Margins across **automobile** categories contracted ~340 bps on-year, impacted by lower capacity utilisation due to muted demand. PVs were impacted the most, where the margin shrank ~580 bps on-year. Margin of the CV segment weakened ~980 bps on-year and that of the two-wheeler segment shrunk ~20 bps on-year, despite slightly lower raw material cost
- **Steel product** sector's margin shrunk ~500 bps on-year on account of declining realisation
- **IT services** industry's margin contracted a slight ~10 bps on-year due to higher employee expense

The bright spots were:

- **Cement**, wherein margin improved ~420 bps on-year, driven by higher realisation and fall in raw material and power costs
- **Airline services'** margin improved ~1,700 bps on-year after implementation of Ind AS 116 accounting standard, and, hence, are not comparable. In the first quarter of fiscal 2020, the airline industry adopted Ind AS 116. Consequently, operating lease rentals of aircraft, which were part of operating expense earlier, were classified as depreciation and interest expense
- **FMCG** companies posted 143 bps on-year expansion in margin on account of a benign input cost environment
- **Petrochemical** industry's margin expanded a slight 17 bps on-year, primarily driven by Reliance Industries. Flexibility in terms of feedstock enabled the company to maintain its margin, whereas players with single feed such as GAIL (India) and Indian Oil Corporation reported contraction in margin
- **Power** sector's margin improved ~130 bps on-year, mainly because of decline in raw material and employee expenses
- **Pharmaceuticals'** margin expanded a low 55 bps on-year as margin improvement of Cipla, Dr Reddy's, among others, was offset by contraction in margins of Aurobindo, Cadila and Glenmark
- **Sugar** sector's margin edged higher by 20 bps on-year as rise in cane cost was offset by higher sugar and ethanol realisation

Net profit margin of sectors

Aggregate net margin deteriorated ~220 bps on-year to 5.8% from 8% in Q2 fiscal 2019, with:

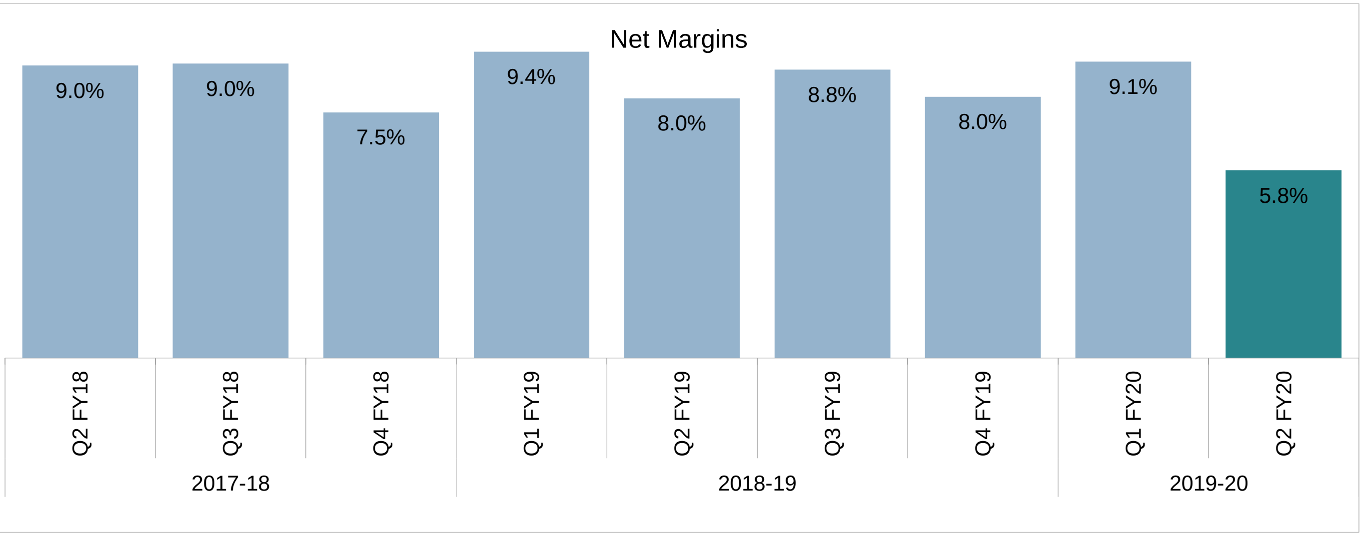
- Telecom services' net margin contracting 10,500 bps on-year an account of provisions made towards AGR dues

In contrast, margins improved for:

- Cement sector, which saw a ~275 bps on-year expansion, in-line with improvement in operating margin
- Power sector, which witnessed a ~140 bps on-year expansion, mainly on account of lower tax outgo

- Steel products, which saw ~520 bps widening on-year on account of corporate tax cut by the government

Telecom losses led to industry net margin shrinkage



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

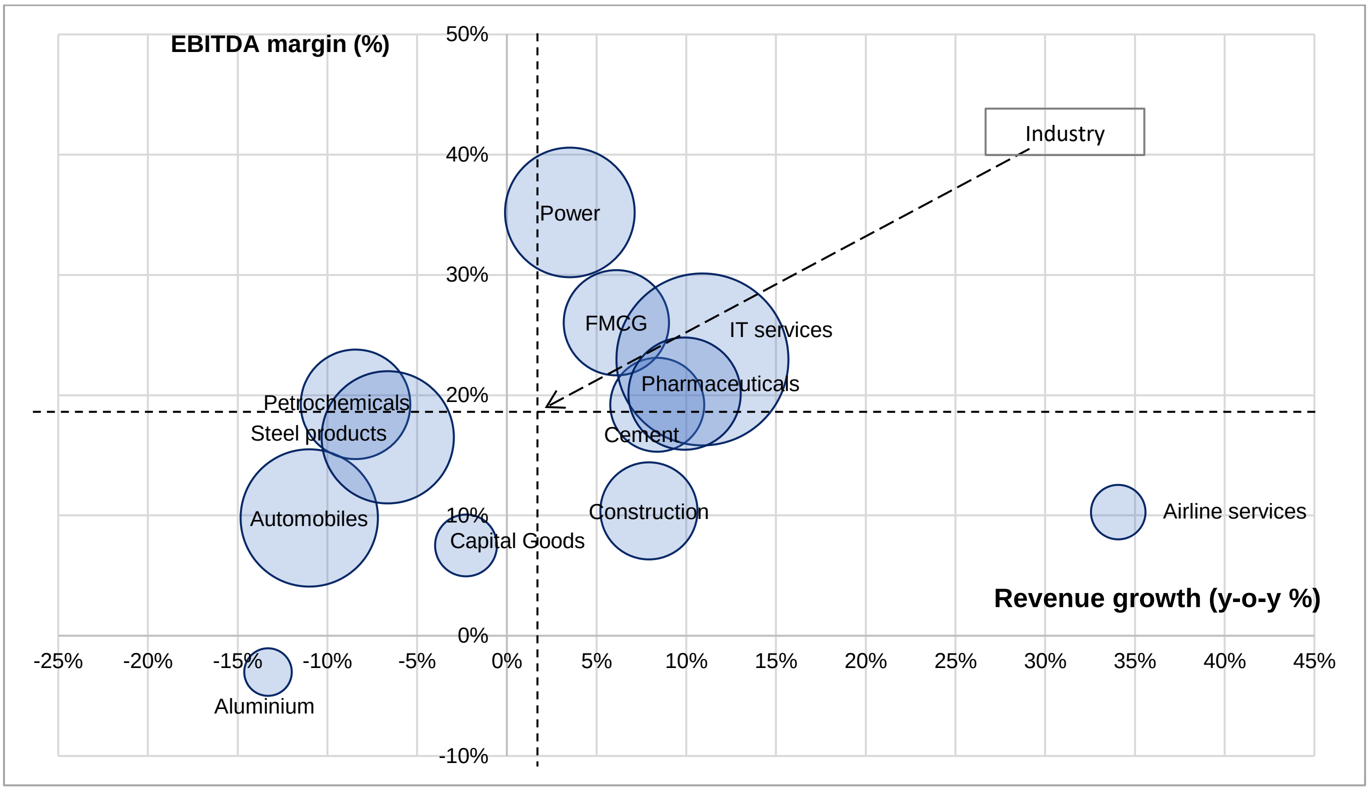
Telecom and auto losses led to contraction in net margin

	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Overall	**9.0%**	**9.0%**	**7.5%**	**9.4%**	**8.0%**	**8.8%**	**8.0%**	**9.1%**	**5.8%**
Key sectors	**9.8%**	**9.4%**	**8.8%**	**10.1%**	**8.4%**	**9.0%**	**8.3%**	**9.1%**	**5.4%**
Automobiles	8.5%	7.7%	6.4%	8.7%	8.3%	7.5%	6.8%	8.9%	6.3%
Cement	6.4%	6.1%	6.8%	7.2%	3.8%	5.6%	8.8%	10.4%	6.5%
Petrochemicals	11.1%	10.5%	10.9%	11.7%	10.9%	10.1%	11.6%	12.8%	13.4%
FMCG	17.1%	18.7%	18.5%	17.3%	18.3%	18.1%	20.0%	18.1%	21.6%
IT services	18.4%	19.4%	18.2%	17.8%	17.9%	17.8%	18.0%	17.0%	17.3%
Pharmaceuticals	12.7%	17.0%	8.7%	11.3%	9.5%	11.4%	8.3%	12.1%	11.4%
Power	13.9%	9.2%	11.0%	14.3%	13.8%	9.6%	9.6%	11.2%	15.2%
Steel products	1.2%	4.2%	6.2%	7.2%	3.9%	6.2%	3.0%	4.2%	9.1%

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/ITeS, 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 past four quarters



Note: Data represents aggregate performance of the mentioned sectors for four quarters (Q4 fiscal 2019 to Q3 fiscal 2020E); size of the bubble indicates sector's share in overall industry's revenue.

Source: CRISIL Research

Annexure 1

Price indicators

	Unit	Q2FY18	Q3 FY18	Q4 FY18	Q1FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20E
Steel Flat	Rs/tonne	38,333	38,500	43,300	45,033	44,667	45,467	43,050	42,717	38,150	36,000
Steel Long	Rs/tonne	34,500	35,000	40,167	40,633	38,867	40,666	40,033	41,200	39,183	38,500
Aluminum	Rs/tonne	145,005	154,081	158,610	173,031	165,293	163,584	150,127	146,660	141,367	135,583
Iron Ore	Rs/tonne	1,637	1,782	2,350	2,237	2,314	2,742	2,270	2,226	2,209	2,200
Cement	Rs per bag	335	326	327	327	332	328	339	373	358	342
Coal	Rs/tonne	1,329	1,366	1,573	1,483	1,512	1,527	1,634	1,515	1,526	1,550
Sugar (Mumbai S 30)	Rs/quintal	3,704	3,416	3,087	2,869	3,063	2,930	3,010	3,110	3,116	3,200
Crude oil	$/barrel	52	62	67	75	75	67	63	69	62	61
Telecom ARPU's	Rs/unit	138	123	112	99	93	99	116	119	118	125
Re/ $ movement	Rs/USD	64.3	64.7	64.3	67.1	70.1	72.1	70.5	69.5	70.4	71.3

E: Estimated

Note: Exchange rate represents average rate for the quarter

Source: CRISIL Research

Volume indicators

On-year	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20E
Automobiles	**8%**	**13%**	**16%**	**23%**	**18%**	**6%**	**7%**	**-7%**	**-12%**	**-18%**	**-9%**
CVs	-12%	14%	29%	29%	51%	27%	4%	-1%	-14%	-35%	-22%
Cars	13%	18%	11%	11%	24%	-1%	-1%	-1%	-18%	-30%	-3%
Two-wheelers	2%	10%	12%	24%	18%	7%	9%	-7%	-12%	-30%	-12%
Cement (large + mid)	6%	13%	22%	11%	15%	14%	10%	11%	-2%	2%	4%
Cement - large	8%	14%	23%	12%	16%	15%	10%	9%	-3%	6%	6%
Cement - mid	-1%	9%	21%	7%	12%	12%	11%	12%	1%	-2%	-1%
Steel	10%	5%	5%	5%	4%	5%	8%	7%	7%	3%	2%
Aluminium	34%	30%	33%	29%	31%	16%	10%	1%	-2%	-1%	-4%
Telecom data	174%	306%	481%	557%	324%	210%	164%	110%	281%	110%	85%

E: Estimated

Source: CRISIL Research

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