Press Release
September 27, 2018 | Mumbai

Q2 corporate revenue growth to nearly double YoY to 12.1%

Sans steel, operating margin seen down 70 bps, underscoring rising cost pressures

Revenues of corporates are expected to log a robust 12.1% on-year growth in the second quarter of fiscal 2019, or nearly twice the 6.4% growth in the corresponding quarter of last fiscal, because of low-base effect and higher realisation for steel makers.

On the flipside, cost pressures are clearly rising. To be sure, aggregate operating margins would be up 5-10 basis points (bps) in the second quarter, but this would be primarily because of the performance of steel makers. Shorn of steel, that number would be plunging ~70 bps. And if cost pressures continue to rise, the gradual ascent in operating margins seen from the fourth quarter of last fiscal could reverse (*see Annexure*).

The forecast is based on CRISIL Research's analysis of 365 companies (excluding those from the banking, financial services and insurance, and oil sectors), which account for ~65% of the market capitalisation of the National Stock Exchange.

Says Prasad Koparkar, Senior Director, CRISIL Research, "Demand recovery is expected to be driven by discretionary, consumption-led sectors such as airline services, automobiles, fast-moving consumer goods (FMCG) and retail. While automobiles are expected to see an 4% growth in sales, airline services should see passenger traffic rise 16% on-year."

Retail, FMCG and automobiles will benefit from the low-base effect caused by the rollout of the Goods and Services Tax in the second quarter of fiscal 2018. Makers of steel and aluminum, and coal miners will benefit from improved sales realisation, while cement manufacturers will be helped by higher volumes. Investment-linked sectors such as housing and capital goods have also been supportive because of public spending.

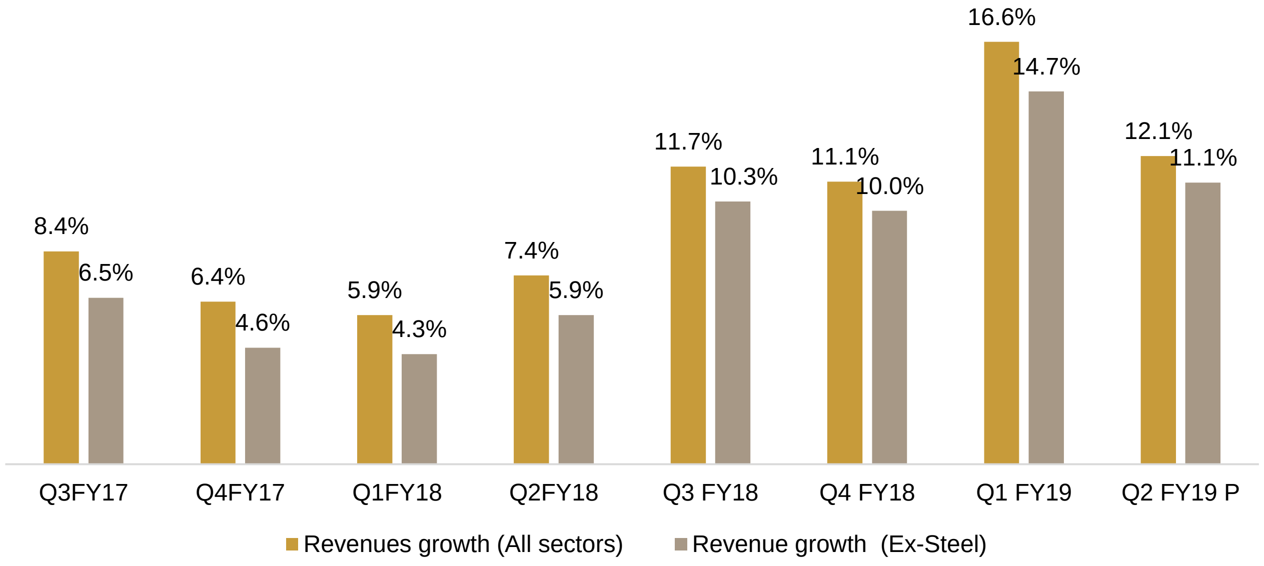
Higher crude oil prices and falling rupee are also skewing the input cost math for companies. Crude oil is up ~45% on-year in the second quarter, while the rupee, which had depreciated 4% in the first quarter, has lost ~9% more in the second.

Says Rahul Prithiani, Director, CRISIL Research, "Oil and rupee will impact the cost structures of most sectors. Additionally, domestic prices of coal, long steel, flat steel and aluminium are expected to rise 15%, 14%, 17% and 12%, respectively, on-year. That would add to the cost pressure for end-use sectors."

Airlines, automobiles, aluminium and cement will be the sectors bearing the brunt of rising cost of raw materials. However, margins for steel are expected to improve significantly due to an uptick in realisations. Conversely, the rupee's fall will prop revenue growth for export-linked sectors, especially IT and pharmaceuticals.

Annexure: key charts

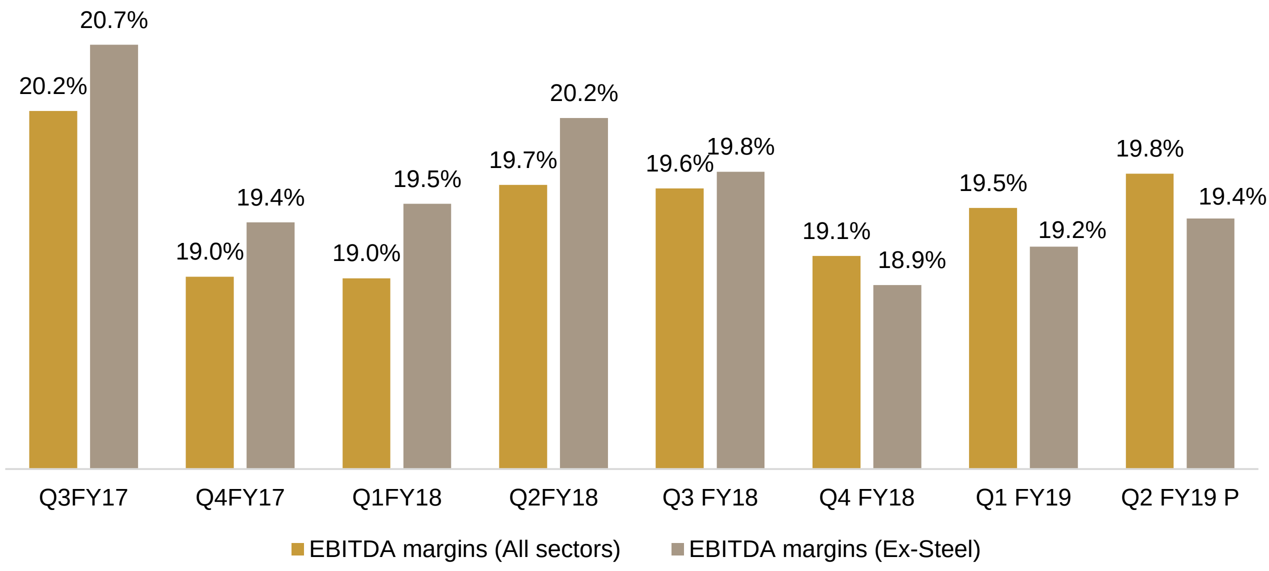
Revenue: Pick-up in demand, low-base effect mean robust growth should continue



Note: Graph depicts revenue percentage growth y-o-y of 365 companies for the past 8 quarters

Source: CRISIL Research

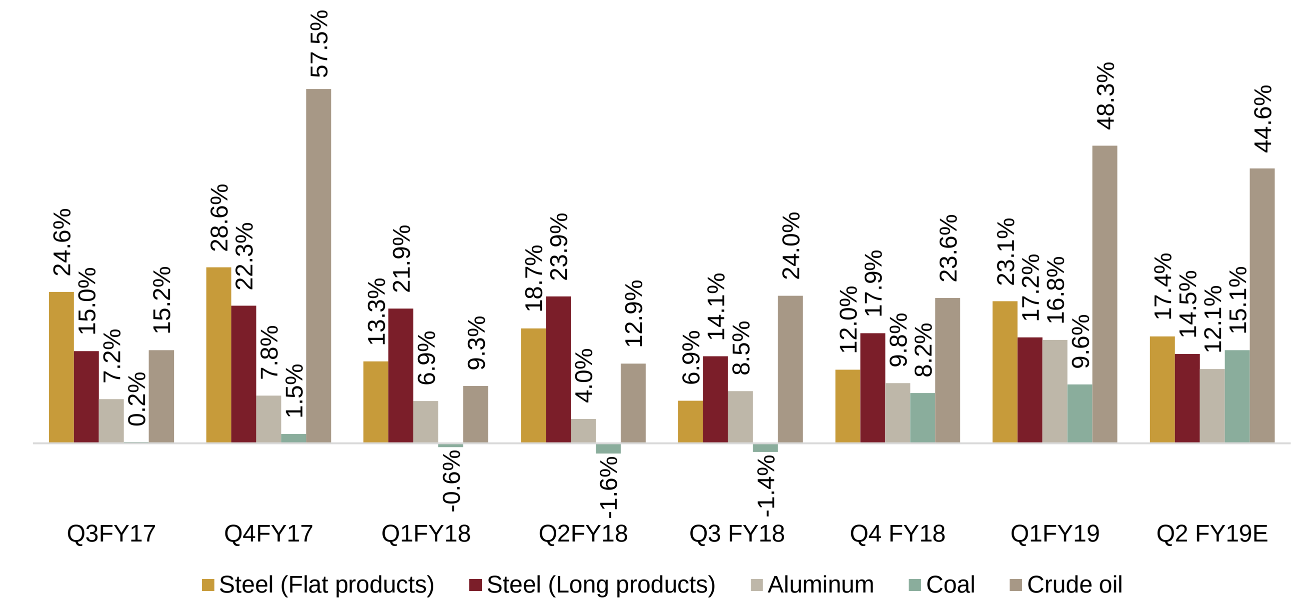
Operating margin: Higher realisation in steel lends buoy; ex-steel, it would be negative



Note: Graph depicts EBITDA margins of 365 companies for past 8 quarters

Source: CRISIL Research

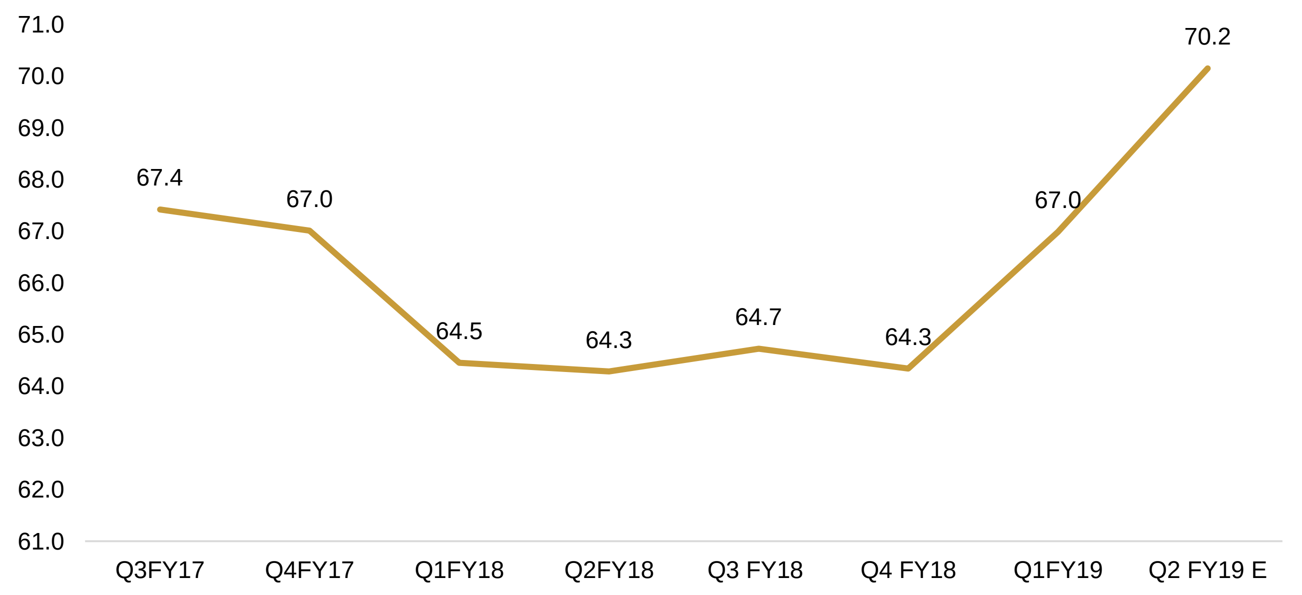
Cost: Rising prices of key commodities is creating pressure



Note: Graph depicts percentage change in commodity prices y-o-y

Source: CRISIL Research

Rupee depreciation: adding to cost pressure, but beneficial to export-linked sectors



Note: Graph depicts average value of INR against the dollar on a quarterly basis; Q2 FY19 estimate based on actuals till 25th Sept 2018.

Source: FPIL, CRISIL Research

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