Press release

January 14, 2020 | Mumbai

Q3 revenue likely fell 2-3% as slowdown gave no quarter

EBITDA also estimated to have declined for the second quarter in a row

Lower commodity prices and languishing demand across consumption segments likely pared India Inc's revenue for the second quarter on the trot in the three months ended December 31, 2019, shows a CRISIL Research estimate based on an analysis of 300 companies that account for ~60% of the market capitalisation of the National Stock Exchange (NSE), excluding banking, financial services, insurance, and oil players.

At 2-3%, the decline exacerbates the pain from a 3-4% decline seen the previous quarter. This marks a hard fall from the preceding four quarters (between the second quarter of fiscal 2019 and the first quarter of fiscal 2020), when aggregate revenue had grown 11-12% on average.

Says Prasad Koparkar, Senior Director, CRISIL Research, "Pain in automobiles continues owing to demand slowdown. Aggregate revenue of listed automobile players is estimated to have dropped 9-10% in the third quarter. In a rub-off, revenue of automotive component makers is estimated to have fallen 13-15% amid production cuts. During the quarter, revenue growth of fast moving consumer goods companies, too, is expected to have moderated 4-6%, owing to weakening rural consumption."

Among sectors, aggregate revenue of power companies is estimated to have declined 3-4%, against an average of 8% in the previous four quarters, due to a slowdown in power demand across regions.

Revenue of petrochemicals companies is expected to have fallen 17-19% on-year due to lower realisations amid a fall in feedstock naphtha prices (~7%) as crude prices trended lower.

Construction-linked sectors are expected to log a revenue decline of ~6% on-year, because of an 18-19% decline in steel products and falling realisations (flat steel prices dropped 21%).

Large cement players, though, will likely log ~4% growth in revenue, primarily on account of a rise in volumes.

Overall, earnings before interest, tax, depreciation and amortisation (EBITDA) is expected to have fallen 1-2% on-year for the quarter, adding to a nearly 1% drop the previous quarter. This comes despite support from telecom and retailing sectors, which are benefiting from accounting changes. Excluding these, the fall would have been sharper, at 6-7%.

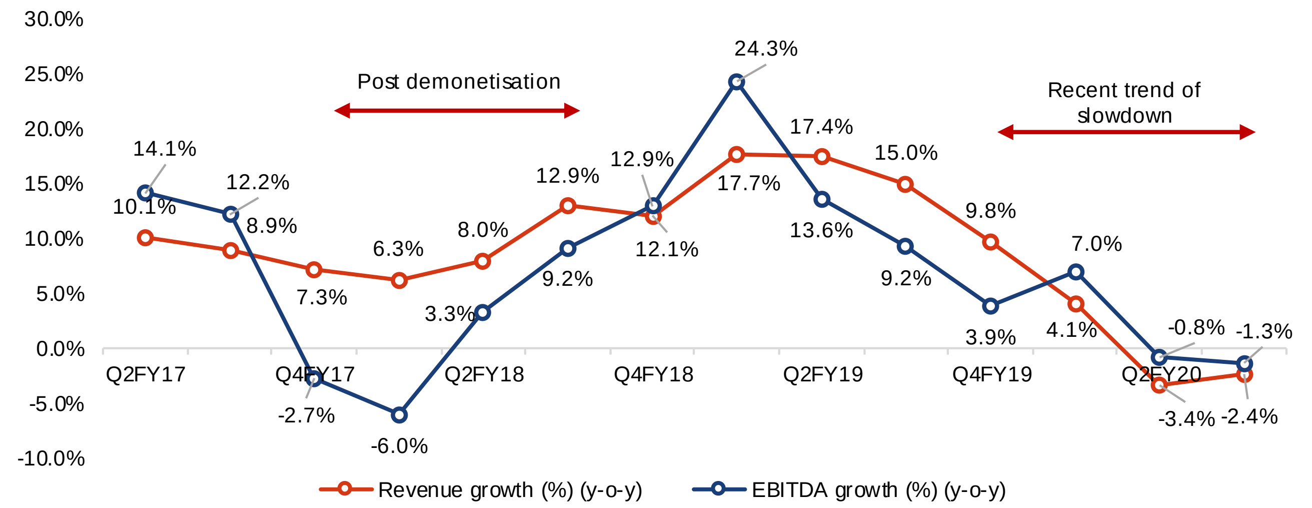
One reason for the decline is higher fixed cost amid weak demand for sectors such as automobiles, which nullified gains from lower commodity prices. Second, weak global demand and weakness of rupee hurt export-linked sectors. Among other factors, domestic prices of flat steel and aluminium were lower on-year by ~21% and ~14%, respectively, and oil prices softened 9%.

Says Hetal Gandhi, Director, CRISIL Research, "For key sectors such as automobiles and steel products, EBITDA margin is expected to have declined 150-350 bps on-year, given lower utilisation and a slump in domestic realisations, respectively. Indeed, nine of 19 key sectors evaluated are expected to show an on-year drop in margins for the quarter. On the other hand, cement companies' margins are likely to have expanded 200 bps on account of improved realisations and lower power and fuel costs."

Annexure

The story in charts

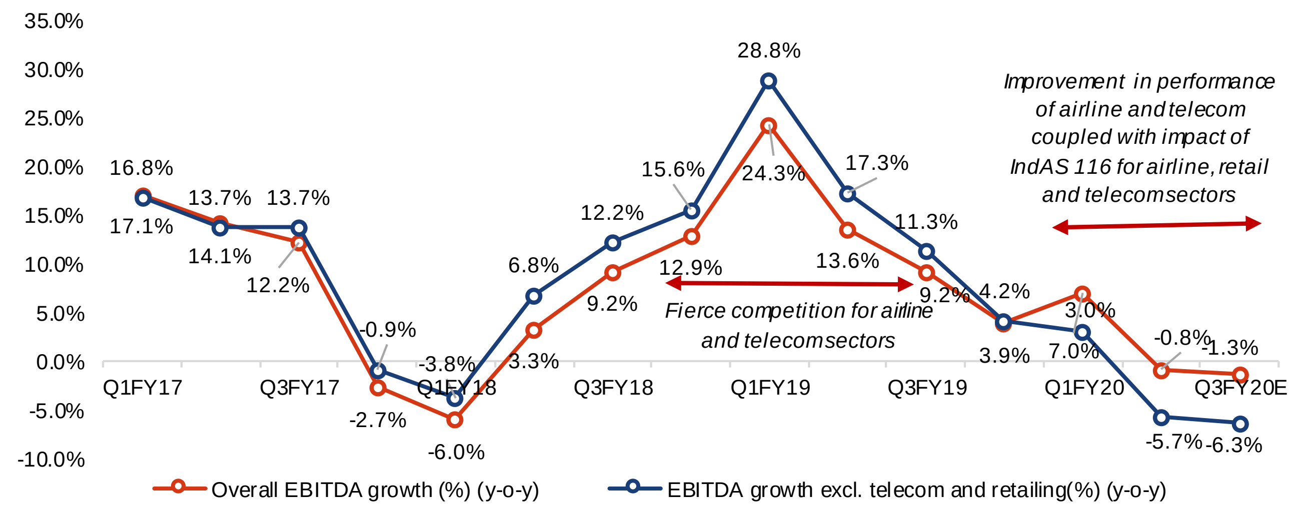
Last five quarters witnessed falling revenue growth on-year



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

Source: CRISIL Research

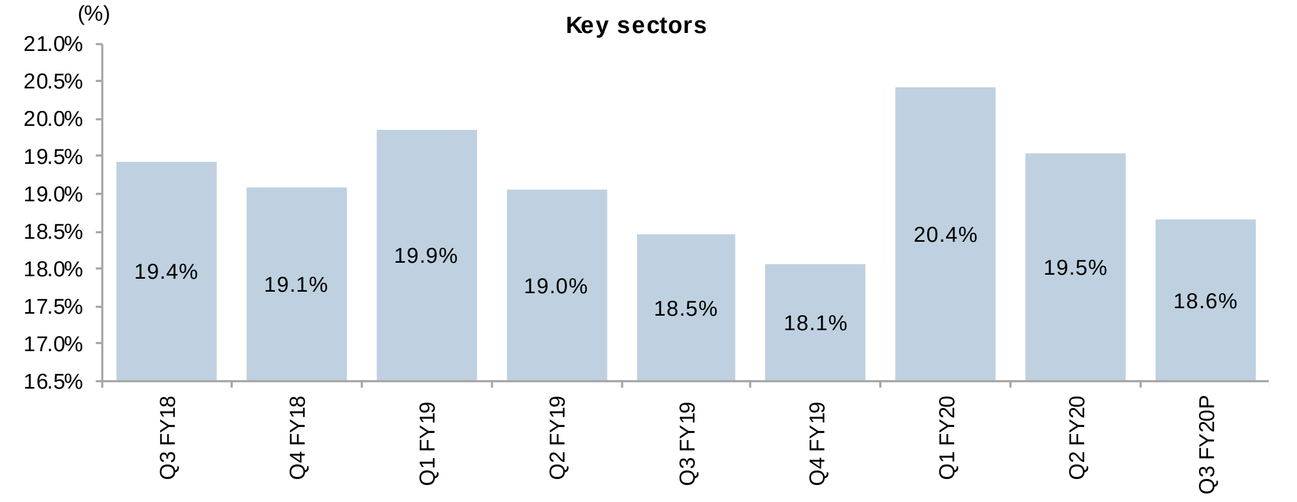
EBITDA decline is even steeper for sectors other than telecom and retailing



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

Source: CRISIL Research

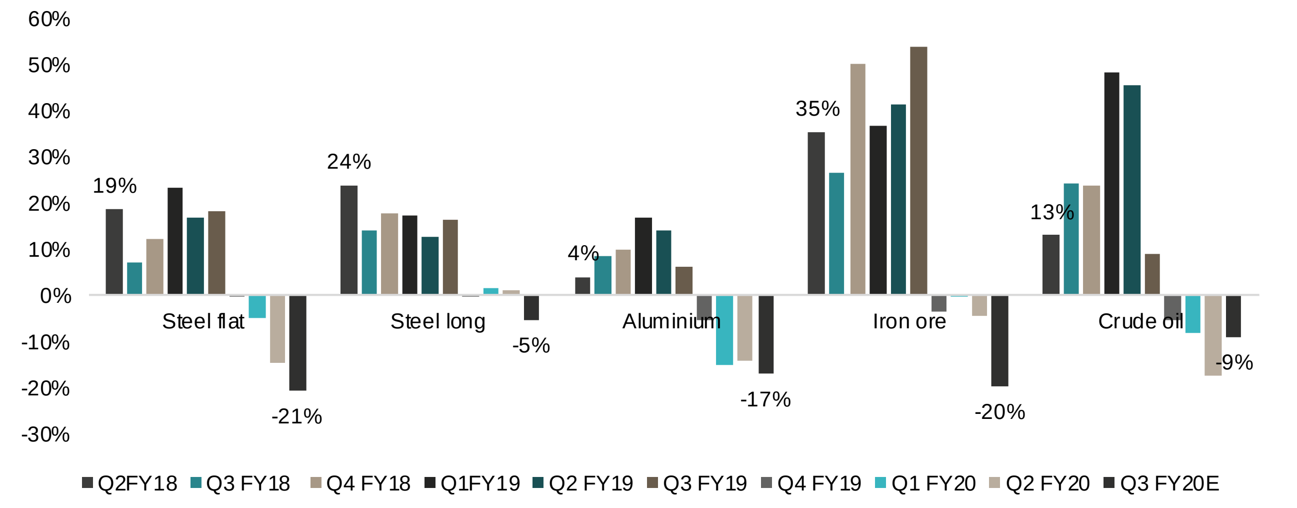
Overall EBITDA margin expanded marginally in Q3FY20 on-year



Note: Analysis is across 300 companies comprising ~60% of the NSE's market cap (excluding financial services and oil companies); E- estimated

Source: CRISIL Research

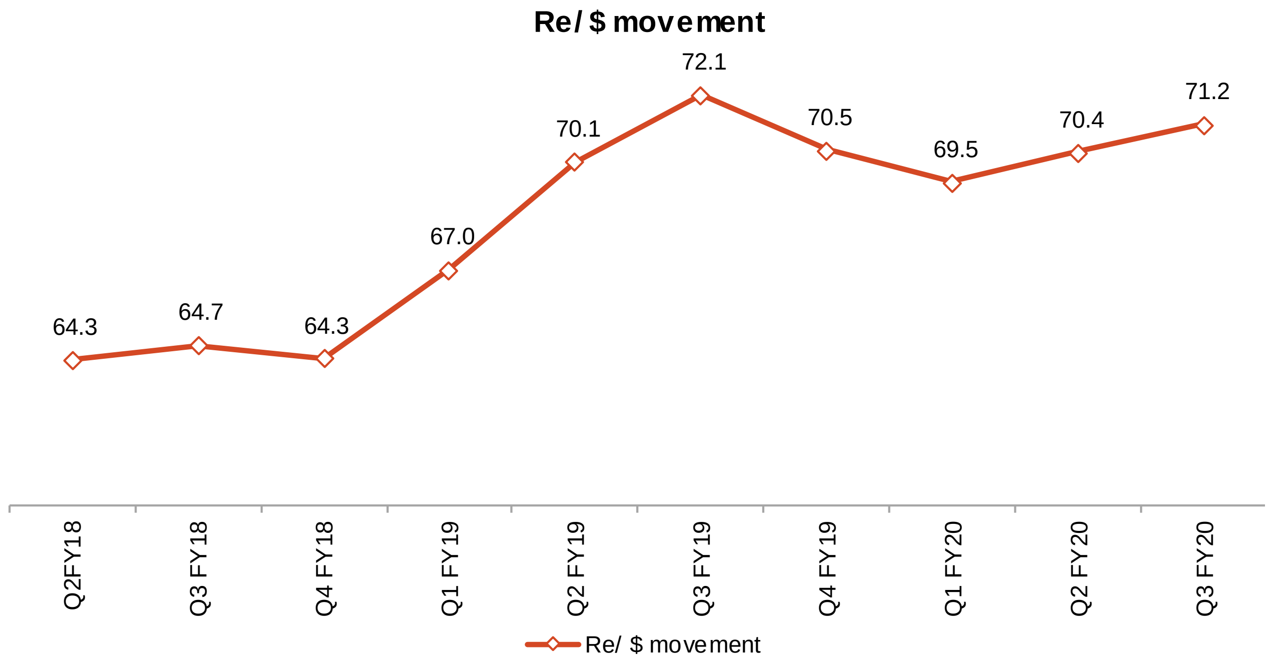
Low commodity prices augur well for end-user industries



Note: Graph depicts on-year percentage change in commodity prices; E- estimated

Source: CRISIL Research

Boost to export-linked sectors tapering, as currency depreciation wears off



Note: Graph depicts average value of rupee against the dollar on a quarterly basis

Source: CRISIL Research

For further information,

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