Research

CRISIL
An S&P Global Company

Revenue growth persists but with pallid margins

Quarterly update of industry performance

January 2019

Industry outlook

Revenue outlook (October-December fiscal 2019)

Growth momentum to moderate slightly

CRISIL Research expects 12-13% on-year revenue growth for corporates, excluding banking, financial services, insurance, and oil companies, in the third quarter of fiscal 2019. Though this will be the fifth consecutive quarter of double-digit growth, the momentum is expected to be slower than in the first half of the fiscal, when the average growth was ~17% on year. However, the growth in the third quarter comes on a high base, as the year-ago period had seen a sharp 13% revenue rise. In the first half of last fiscal, the growth was ~7%.

We expect incremental growth in the third quarter of fiscal 2019 to be driven by continued government spending, higher realisations, especially for commodities, and sustained positive demand sentiment in key consumption-linked sectors.

A pick up in execution in various government schemes such as Prime Minister's Awas Yojana (PMAY), National Highways Authority of India (NHAI) projects and transmission and distribution (T&D) schemes are expected to aid growth in linked sectors such as cement, steel and infrastructure-related sectors of construction and capital goods. Commodity-linked sectors, such as steel products, natural gas and petrochemicals, are also expected to grow sharply due to better realisations.

Hence, commodities such as natural gas, steel products and cement are expected to grow ~37%, 27% and 10% on year due to volume and realisations growth, while infrastructure-related sectors such as construction is also expected to grow ~12% on year. Consumption-linked sectors such as airline services and retail are seen growing at ~17% on year.

Additionally, rupee is expected to be weaker ~11% y-o-y in Q3 FY19, which will boost export-oriented sectors such as information technology (IT) services and pharmaceuticals, which are projected to grow ~21% and ~10% on year.

On the other hand, the revenue growth is constrained this quarter partly due to sector-specific issues which are likely to dampen revenue outlook for key sectors. While for automobiles, a rise in ownership costs and weaker finance availability are expected to slow down revenue growth to ~4% on year, growth in sugar, aluminium and telecom services is expected to weaken due to lower realisations. Similarly, fast moving consumer goods (FMCG) will witness a moderation in rural demand causing growth to taper to ~8% on year this quarter.

Sectoral revenue growth

Sector	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19 P
Key sectors	**8.5%**	**7.3%**	**6.5%**	**8.2%**	**12.9%**	**11.9%**	**17.6%**	**17.1%**	**12.6%**
Airline services	12.2%	10.3%	18.1%	15.9%	14.1%	15.4%	11.2%	11.7%	17.1%
Cement	1.9%	6.2%	11.4%	13.7%	24.1%	20.3%	15.6%	14.7%	9.6%
FMCG	1.2%	6.0%	0.8%	6.5%	10.1%	3.2%	9.8%	9.1%	8.0%
IT services	8.4%	5.8%	2.7%	3.4%	3.8%	4.9%	13.0%	17.5%	20.7%
Pharmaceuticals	10.3%	0.6%	-8.3%	0.7%	1.8%	7.2%	15.5%	8.7%	9.6%
Power	0.2%	-0.2%	4.2%	1.7%	4.8%	0.6%	3.6%	10.3%	8.2%
Steel products	31.0%	27.2%	23.9%	23.2%	25.3%	21.2%	35.0%	25.6%	27.2%

Source: CRISIL Research

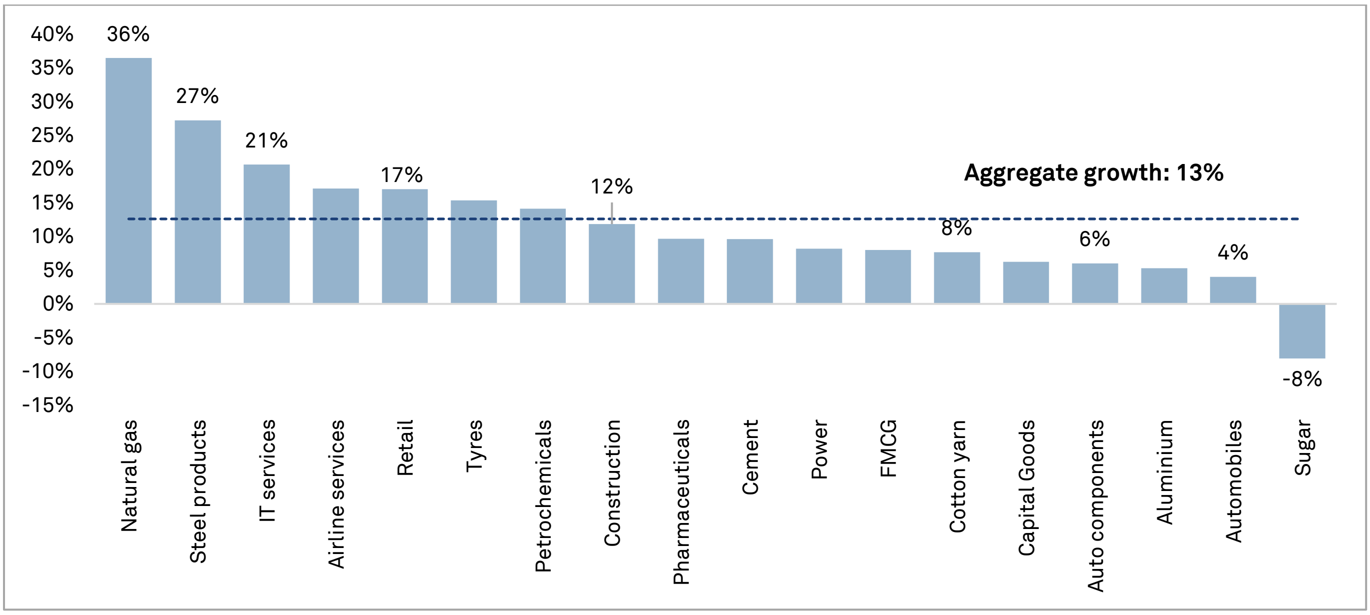
Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres.

Note 2: Media and entertainment excludes the DTH segment due to incomparable financials y-o-y; telecom services includes only Bharti Airtel.

- **Airline services:** We expect aggregate revenue of the sample set to increase 16-18% on year in the third quarter of fiscal 2019 on the back of a strong growth in passenger traffic, primarily in the domestic sector. While, passenger traffic on domestic routes is projected to increase 15-17% on year, the realisations are also projected to rise 2-4% on account of strong demand and rise in fares. The international segment is also expected to support and is estimated to grow 12-14% on year.
- **Cement:** Aggregate revenue across large-, mid- and small-sized players is expected to witness a growth of ~10%. This will primarliy be driven by an ~8% volume growth on an average across segments. A ramp-up in production or capacity addition by key players and a positive demand scenario will support volumes.
- **FMCG:** CRISIL Research expects on-year aggregate revenue growth of 7-9%. The growth will see some moderation because of a patchy monsoon and less-than-expected increase in farm income.
- **IT services:** The rupee's depreciation against the dollar so far this fiscal would likely boost the sector's revenue. This will be further supported by a likely pickup in spending in the US market and double-digit growth rate in the digital services segment.
- **Pharmaceuticals:** A favorable domestic market and new product launches coupled with the rupee's depreciation would support revenues for both large- and mid-sized formulation players. Similarly, bulk drug players are also expected to witness robust growth, with key players projected to achieve a healthy rise in revenue. The rupee's depreciation will support growth of export-oriented companies in this segment as well.
- **Power:** We expect generation revenue to rise 6-7% as an increase in tariff is supported by increased demand. Transmission revenue is projected to rise 16-18% on-year, owing to improved execution of substation and transmission projects.
- **Steel products:** Revenue for the quarter is expected to witness robust 25-30% growth, led by healthy volume growth and higher steel prices. Domestic steel prices are estimated to see a significant rise of 16-18% on

year, primarily on account of the rupee's depreciation, healthy domestic demand growth (9-10% on year), and higher iron ore prices.

Revenue growth outlook for Q3 FY19



Source: CRISIL Research

Other sectors expected to drive revenue

- **Capital goods:** Revenue for the aggregate set is expected to witness a 6-7% growth on year, as order inflow continues to witness positve growth momentum. A pick-up in execution coupled with improved demand sentiment from categories such as renewables, transportation projects and power T&D is expected to support the growth.
- **Construction:** Revenue is expected to improve on year as execution in major segments such as national highways and PMAY is expected to be higher during the quarter.
- **Natural gas:** Revenue is likely to increase 39-46% on year owing to higher LNG prices in the regasification segment, while upward revision in pipeline tariffs is expected to aid 25-27% transmission revenue growth. Increase in sales volumes and higher gas prices for the distribution segment are likely to support the revenue growth as well.
- **Petrochemicals:** The sample set's revenue is expected to increase 13-15% on year owing to improvement in the realisations due to a rise in price of feedstock naphtha following higher crude oil prices.
- **Retail:** CRISIL Research projects 16-18% increase in revenue on year in the third quarter of fiscal 2019 driven by a shift in festival season to the third quarter. In fiscal 2018, part of the festival season was in the second quarter.
- **Textiles:** CRISIL Research expects the industry's revenue to be driven by a rise in exports to Bangladesh, Pakistan and China as well as domestic demand.
- **Tyres:** Volumes are estimated to increase 12-14% on the back of higher demand from original equipment manufacturers (OEMs) or automobile makers and the replacement segment. The revenues are seen growing ~15% on year.

Profitability outlook

Ebitda growth turns anemic, margins tepid

Even though double digit top-line growth is expected in Q3 FY19, CRISIL Research expects higher input costs to constrain margin expansion for India Inc.

On an overall basis, Ebitda (earnings before interest, taxes, depreciation, and amortisation) margins would likely stay tepid with a marginal ~0-50 basis points (bps) decline possible. Of the 21 major sectors, we expect the margins for 15 to contract owing to cost pressures. Ebitda growth is also expected to slow down to slightly lower than ~10% on year from double-digit growth seen over the past three consecutive quarters (the fourth quarter of fiscal 2018 and the first and second quarters of fiscal 2019), when the average growth was ~15% on year.

Higher commodity and raw material prices are expected to take a toll on margins, especially for large sectors such as airline services, automobiles, aluminium, cement, construction and natural gas. Domestic prices of coal, steel (long), steel (flat) and aluminium are expected to rise 13%, 15%, 18% and 6%, respectively, on year during the quarter. Crude oil prices, meanwhile, are expected to rise 10-11% on year, despite a softening in prices on a sequential basis. A ~11% on year weakening of the rupee adds to the worries. On top of all this, airlines, cement and FMCG companies have limited ability to pass on the input cost rise due to competitive pressures. All these factors are expected to accentuate pressure on the margins in Q3 FY19.

Steel products, however, would benefit from significantly improved realisations, with the companies having the ability to pass through increase in input prices. Similarly, for export-linked sectors, especially for IT services and pharma, the rupee's depreciation will limit the margin erosion.

Sectoral EBITDA margins

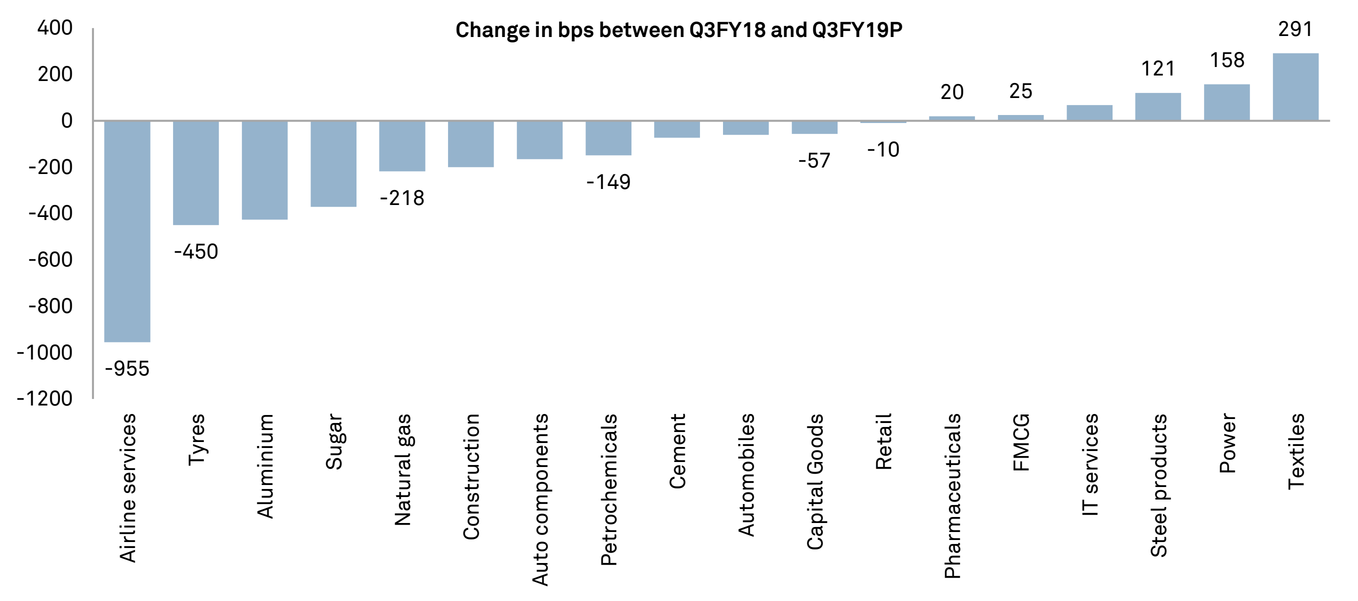
Sector	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19 P
Key Sectors	**20.3%**	**18.8%**	**19.1%**	**20.0%**	**19.7%**	**18.9%**	**19.6%**	**18.9%**	**19.2%**
Airline services	12.3%	5.8%	10.6%	9.4%	11.0%	-3.7%	-4.7%	-14.2%	1.4%
Cement	16.6%	17.1%	20.6%	17.8%	16.2%	16.9%	17.0%	14.2%	15.5%
FMCG	23.8%	24.1%	23.4%	24.4%	25.1%	26.3%	25.4%	25.4%	25.4%
IT services	23.8%	23.4%	22.2%	23.2%	23.1%	23.4%	23.1%	23.5%	23.8%
Pharmaceuticals	24.0%	18.3%	17.3%	20.9%	20.9%	19.7%	19.3%	20.0%	21.1%
Power	35.7%	33.5%	36.2%	38.0%	34.1%	34.5%	36.1%	37.6%	35.7%
Steel products	15.4%	15.2%	13.4%	15.2%	18.5%	21.0%	22.0%	21.0%	19.8%

Source: CRISIL Research

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres.

Note 2: Media and entertainment excludes the DTH segment due to incomparable financials y-o-y; telecom services includes only Bharti Airtel.

Change in EBITDA margin outlook in Q3 FY19



Source: CRISIL Research

- **Airline services:** Players will continue to face pressure on the margins. This would be the result of higher crude oil prices y-o-y, a steep fall in the rupee and a limited ability to pass through the increase in costs entirely due to stiff competition.
- **Automobiles:** We expect the margins to contract ~60 bps on year, largely due to rising raw material costs. Operating margins are expected to fall across segments as rising commodity prices and increased discount schemes and/or marketing expenses are set to add to the cost pressures.
- **Aluminium:** The margins are expected to contract ~350-450 bps on year, largely on account of rising raw material prices (alumina).
- **Cement:** The margin is seen deteriorating ~50-100 bps, led by higher power and fuel costs due to increasing prices of petcoke and increased dependence on imported coal. Higher diesel prices would also be impacting freight costs for the sector. Tepid realisations will also impact profitability this quarter.
- **IT services:** We project the margin rising 50-70 bps overall, mainly on account of the favourable fluctuation in the rupee exchange rate against foreign currencies.
- **Natural gas:** We expect the margins to contract owing to a rise in gas prices and comparatively higher operating costs.
- **FMCG:** The margins are expected to see a marginal ~0-50 bps on-year rise. Even though the high crude oil prices in the previous quarter may have an impact this quarter on pacakaging costs and other derivatives used as inputs, a decline in non-crude-oil-related inputs and product premiumisation are expected to support.
- **Pharmaceuticals:** The margins are expected to remain tepid with a marginal increase of ~0-20 bps on year. While specialty products, limited product launches and the rupee's depreciation will offer support, increased expenses related to these products and disruptions in bulk drug supply from China will limit the margin expansion.

- **Power:** Aggregate margins across generation, transmission and distribution are expected to increase ~150-160 bps, mainly driven by resolution of fuel supply issues, fall in costs for certain large independent power producers (IPPs) in generation and tariff hikes in the distribution segment.
- **Retail:** Margins of the sample set is expected to contract marginally (0-10 bps on year) on account of price cuts offered during the quarter.
- **Sugar:** Margins expected to decline 350-400 bps on year mainly on account of higher input costs and depressed realisations.
- **Steel products:** Despite a healthy top-line growth, only 100-150 bps expansion on year is expected in the margins due to rising input costs. Iron ore prices are estimated to rise a significant ~35%, while coking coal prices are expected to rise 8% owing to the rupee’s weakening.
- **Textiles:** We expect the margins to expand ~250-300 bps on year. This would be due to the increased ability of spinners to pass on the higher cotton prices in the light of strong demand. Also, the players are expected to post inventory gains on cotton stocks.

Results review (July-September 2018)

High growth momentum continues in Q2 FY19 driven by commodities and consumption spending

Aggregate top-line growth across 50 sectors was in double digits at 18% in the second quarter of fiscal 2019. The 21 key sectors witnessed double-digit growth (~17%) for the fourth consecutive quarter. This was the highest revenue growth seen over the past 10 quarters with more than half of these sectors achieving double-digit growth.

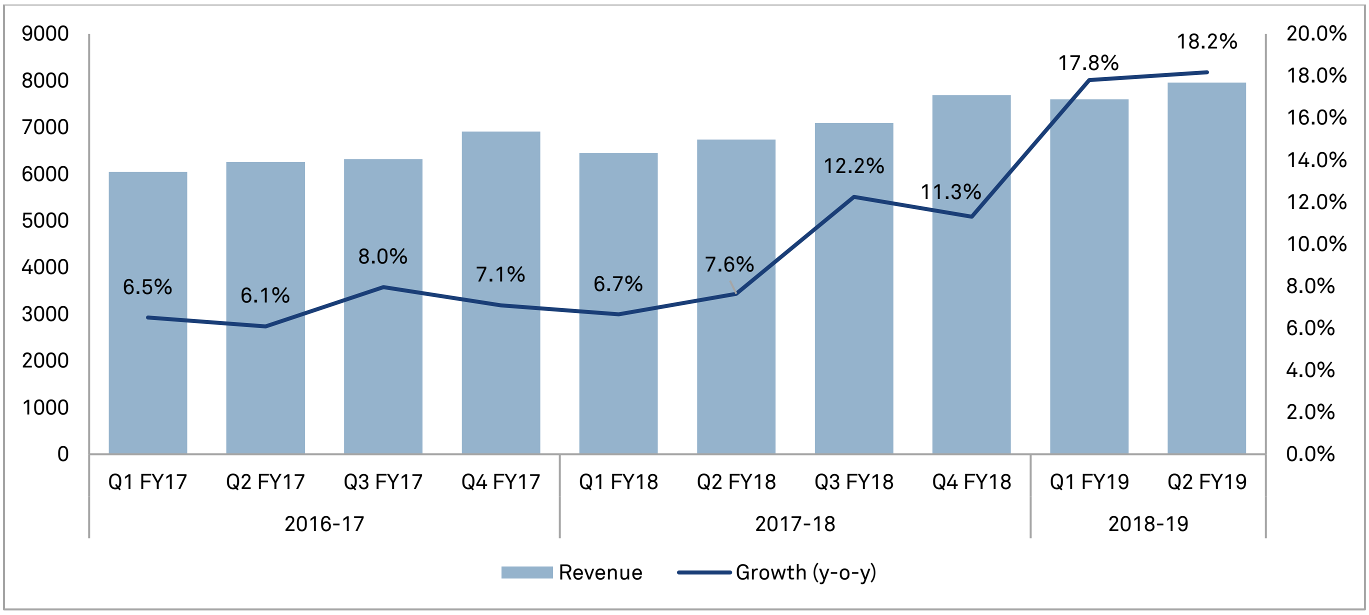
Consumption-linked sectors such as airlines, automobiles, and retail grew robustly, driven by volume growth as a consequence of an improvement in domestic demand. Even export-linked sectors such as IT services and pharmaceuticals registered healthy growth, aided mainly by a weaker rupee.

Key commodity-linked sectors, such as cement, steel products, aluminium and natural gas, continued to thrive. Commodities such as steel products, natural gas and aluminium largely benefited from a rise in prices while cement grew primarily on strong volume growth.

Sugar remained a laggard as a sharp fall in prices caused a ~25% drop in revenue.

The analysis is corroborated from the performance of over 500 companies across 50 sectors (excluding financial services and oil).

Highest revenue growth over the past 10 quarters



Note: Media and entertainment excludes the DTH segment due to incomparable financials y-o-y; telecom services includes only Bharti Airtel.

Source: CRISIL Research

Sectoral revenue growth

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Overall	**6.1%**	**8.0%**	**7.1%**	**6.7%**	**7.6%**	**12.2%**	**11.3%**	**17.8%**	**18.2%**
Key sectors	**7.8%**	**8.5%**	**7.3%**	**6.5%**	**8.2%**	**12.9%**	**11.9%**	**17.6%**	**17.1%**
Airline Services	11.7%	12.2%	10.3%	18.1%	15.9%	14.1%	15.4%	11.2%	11.7%
Cement	1.7%	1.9%	6.2%	11.4%	13.7%	24.1%	20.3%	15.6%	14.7%
FMCG	6.5%	1.2%	6.0%	0.8%	6.5%	10.1%	3.2%	9.8%	9.1%
IT services	8.8%	8.4%	5.8%	2.7%	3.4%	3.8%	4.9%	13.0%	17.5%
Pharmaceuticals	8.2%	10.3%	0.6%	-8.3%	0.7%	1.8%	7.2%	15.5%	8.7%
Power	0.5%	0.2%	-0.2%	4.2%	1.7%	4.8%	0.6%	3.6%	10.3%
Steel products	11.1%	31.0%	27.2%	23.9%	23.2%	25.3%	21.2%	35.0%	25.6%

Source: CRISIL Research

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, 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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Key segments that supported on-year revenue growth in the second quarter

- **Airline services:** The aggregate revenue of the three airlines considered in the sample set rose 12% on year in the second quarter of fiscal 2019, because of a 19% rise in aggregate passenger traffic.
- **Cement**: Aggregate revenue grew a healthy 15% on year, largely driven by an increase in sales volume, despite tepid realisations. While large players' revenues increased 16%, mid-sized companies' grew ~11%, and smaller players' ~20%. Revenue of UltraTech, the largest contributor to the sample set, registered 20% growth, driven by a ~20% increase in sales volume through inorganic expansion.
- **FMCG:** The sector recorded 9% on-year growth in revenue, mainly because of expanding volume.
- **IT services:** The sector witnessed revenue growth of 17.5%, mostly due to a weaker rupee. Digital services continue to be the growth driver for most players. Revenue of both tier-I and mid-tier companies increased ~17% on year.
- **Pharmaceuticals:** Aggregate revenue in the quarter increased ~9% on year, mainly supported by growth in exports and the rupee's depreciation. However, a weak domestic market partially offset the growth. The revenues of large formulation players, mid/small-sized players, and bulk drug players rose 4%, 5% and 38% on year.
- **Power:** Revenues of power generation companies rose ~10% on year to ~Rs 480 billion during the quarter. The transmission segment, driven by Power Grid Corporation of India Ltd (PGCIL), saw revenues grow ~16% while aggregate revenue for the distribution segment increased ~8%.
- **Steel products:** Aggregate revenue increased ~26% on year owing to increase in realisations as well as notable sales growth of large steel players. Revenues of large players such as Tata, JSW and SAIL

(accounting for 76% of the overall set) rose higher at ~26% on year. Other industry players also posted top-line growth of 25%. Demand grew robustly at ~7% on year during the quarter on account of strong domestic sales.

Other key sectors

- **Aluminum:** Revenues for companies in the sample witnessed a robust 15% on-year growth, led by increase in realisations and higher sales volume of Nalco. Domestic aluminium prices improved ~14% on year led by higher global prices (London Metal Exchange prices + premiums) along with the sharp depreciation of the rupee. Domestic demand for aluminium also improved significantly during the quarter, growing at a healthy pace of 12-13% on account of a lower base and sharp offtake from the power sector.
- **Automobiles:** The automobile sector posted close to 14% on-year growth, that too on a high base of 20% revenue growth witnessed in the second quarter of fiscal 2018. This was because most categories – commerical vehicels (CVs), tractors and two-wheelers – witnessed robust growth. CV sales volumes grew 25% on year while realisations rose 2%, aiding a revenue growth of 28% y-o-y. Revenue growth in tractors (9%) and two-wheelers (16%) was aided by higher sales volume. Conversely, revenue growth in the cars segment was limited to 3% on year on account of a decline in sales volume on a high base.
- **Capital goods:** Overall revenue for the capital goods sector was up 17% on year in the second quarter of fiscal 2019 with a low base and robust order book execution coming into play. All firms in the set with the exception of Bharat Heavy Electricals Ltd (BHEL) saw double-digit revenue growth during the quarter.
- **Natural gas:** Revenue in the regasification segment grew 38%, driven by higher LNG prices. Transmission revenues increased 29% on year on account of higher volumes, tariff hike and strong trading margins. Distribution revenue increased 28% on year on account of a rise in sales volume and upward revision of CNG (compressed natural gas) and PNG (piped natural gas) prices, leading to 14% uptick in average realisations.
- **Petrochemicals:** Revenue of our sample set of petrochemical companies increased ~57% on year in the second quarter of fiscal 2019, led by an increase in volume and rise in product prices. A pickup in downstream demand drove volume growth. Stabilisation in production of refinery off-gas cracker by Reliance Industries Limited (RIL) further helped volumes. This was supported by an increase in crude oil prices which resulted in higher product prices during the quarter.
- **Retail:** Aggregate revenue of organised retailers in the sample set increased 19% on year. This was mainly driven by strong volume growth in various categories for key players.
- **Sugar:** Revenues from sugar plunged ~25% on year, mainly owing to falling realisations and tepid/decline in volumes. Revenue of north India-based sugar mills decreased 15% on year, while revenue of south-based mills fell a sharper 35%, owing to lower sales volumes and a steep decline in prices.

Ebitda margins contract under pressure from higher raw material prices

Aggregate Ebitda margin declined ~70 bps to 18.1% in the second quarter of fiscal 2019 from 18.8% in same quarter of the last fiscal. The fall in profitability was due to the continued rise in input costs, led by rising commodity prices.

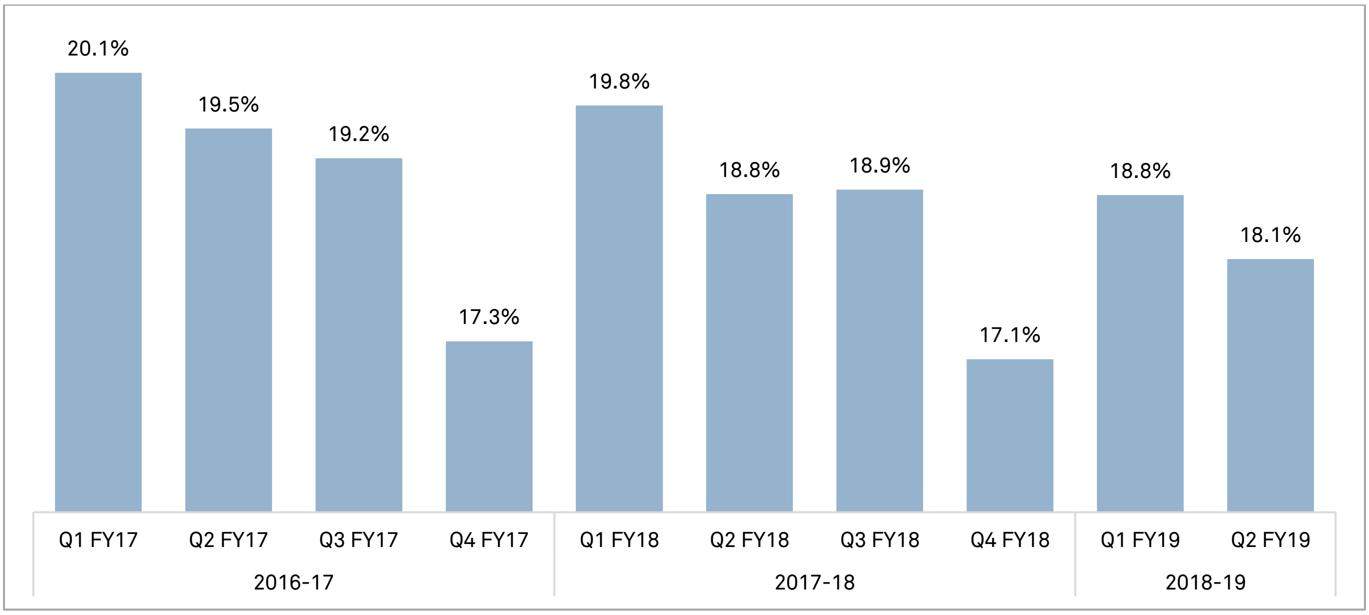
The margins of consumer-linked sectors such as airline services, automobiles, retail and sugar shrank, led by a rise in input costs. Increase in prices of metal inputs and crude oil coupled with limited ability to pass on costs to end-consumers was the main reason that dented the profitability for these sectors. For sugar companies, lower product prices and a supply glut impacted the margins. Among other key sectors, margins of aluminium, natural gas and cement also contracted due to a rise in input costs. Prices of iron ore, coal and crude oil went up ~41%, ~14% and ~45% on year during the second quarter of this fiscal.

However, the impact was somewhat blunted by the strong top-line growth due to a recovery in demand. Additionally, realisations improved for commodities, petrochemicals and automobiles due to either higher commodity prices or product mix benefits, limiting margin erosion.

Of the key commodities, steel witnessed robust margin expansion led by significant improvement in realisations, with prices of flat steel and long steel rising 17% and 13% on year. The margins in the export-linked IT services sector got a boost from the depreciating rupee and recovery in specific segments. The rupee saw a significant ~9% on-year fall against the dollar during the qaurter. Consumer-linked sectors such as FMCG and textiles saw margin expansion owing to higher volume growth from improved demand and ability to pass on increased cotton prices in the case of the latter.

Despite aggregate Ebitda growth of ~14% on-year, Ebitda margins contracted 70 bps during the quarter as higher commodity prices superseded the rise in profitability from demand recovery.

Ebitda margins dented by a rise in input costs



Note: Media and entertainment excludes the DTH segment due to incomparable financials y-o-y; telecom services includes only Bharti Airtel.

Source: CRISIL Research

Sectoral Ebitda margins

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Overall	**19.5%**	**19.2%**	**17.3%**	**19.8%**	**18.8%**	**18.9%**	**17.1%**	**18.8%**	**18.1%**
Key sectors	**20.6%**	**20.3%**	**18.8%**	**19.1%**	**20.0%**	**19.7%**	**18.9%**	**19.6%**	**18.9%**
Airline services	5.6%	12.3%	5.8%	10.6%	9.4%	11.0%	-3.7%	-4.7%	-14.2%
Cement	18.6%	16.6%	17.1%	20.6%	17.8%	16.2%	16.9%	17.0%	14.2%
FMCG	23.7%	23.8%	24.1%	23.4%	24.4%	25.1%	26.3%	25.4%	25.4%
IT services	23.5%	23.8%	23.4%	22.2%	23.2%	23.1%	23.4%	23.1%	23.5%
Pharmaceuticals	24.3%	24.0%	18.3%	17.3%	20.9%	20.9%	19.7%	19.3%	20.0%
Power	37.3%	35.7%	33.5%	36.2%	38.0%	34.1%	34.5%	36.1%	37.6%
Steel products	13.0%	15.4%	15.2%	13.4%	15.2%	18.5%	21.0%	22.0%	21.0%

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, 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

- **Airline services:** A rise in crude oil prices and the rupee's depreciation led to a surge in fuel cost and non-fuel expenses per available seat kilometre for the carriers. However, an on-year rise in aggregate PLF (passenger load factor) for the sample set (both domestic and international) supported operating margins to an extent.
- **Automobiles:** The margins of automobile players contracted, impacted by higher baisc raw material prices. The decline was 120 bps on year for tractor manufacturers, 160 bps for passenger vehicles and 200 bps for two-wheelers, mainly due to higher input prices and limited ability to pass on the increase. Conversely, margins rose 155 bps for commercial vehicle manufacturers due to better capacity utilisation and cost reduction intitiatives.
- **Cement:** The margins declined ~360 bps on year despite the surge in sales volume due to an increase in power, fuel and freight costs. The higher crude oil prices led to a rise in the prices of downstream products, such as petcoke, furnace oil and diesel, impacting the profitability of all players.
- **FMCG:** The margins rose ~100 bps on year, supported by cost rationalisation.
- **IT services:** The margins rose ~30 bps, mainly due to the depreciation of the rupee against the dollar and lower staff expenses.
- **Pharmaceuticals:** The aggregate margins fell ~90 bps on year with the fall the steepest for the large formulation players. This was due to bulk drug supply disruptions from China that pushed up input costs and sale of low margin products by certain players. However, the erosion was limited by an increase in the margins of a section of the companies on the back of the currency depreciation and better product mix.
- **Power:** The margins were lower by ~50 bps on year, mainly due to a rise in fuel prices (coal) and other expenses in the generation segment and partial shutdown of certain large plants (Mundra).
- **Steel products:** The margins were up 580 bps on year, led by a strong top-line growth and higher realisations.

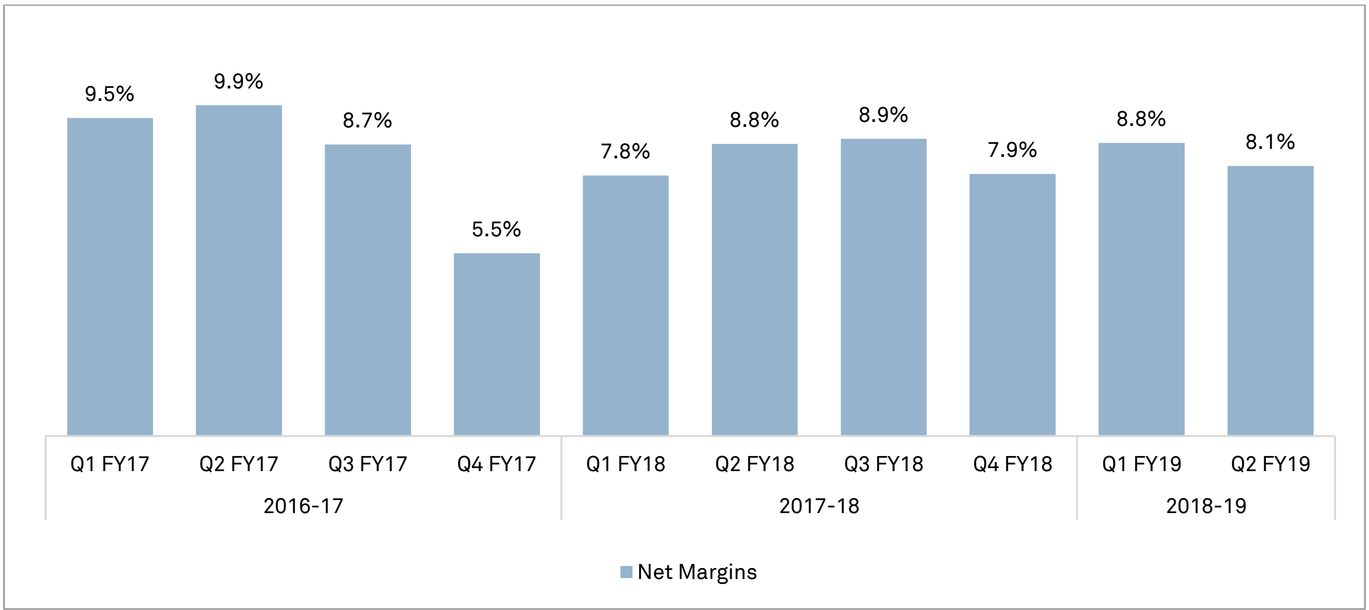
- **Sugar:** The margins shrunk ~180 bps on year owing to higher raw material cost and a 14-16% decline, depending on region, in sugar realisations amid higher production.

Net margin also contracts on the back of Ebitda contraction

Aggregate net margins contracted ~70 bps on year to 8.1% from 8.8% in the second quarter of fiscal 2018.

Net profits grew only ~9% during the quarter, despite a 17.5% on-year growth in Ebitda. A firmer interest rate regime, rise in costs of short-term debt instruments towards the end of the quarter and pressure on operating margins dampened the bottom line. The margins were in line with operating performance for most sectors, with 11 of 21 key sectors showing a decline at the net level.

Industry net margin



Note: Media and entertainment excludes the DTH segment due to incomparable financials y-o-y; telecom services includes only Bharti Airtel.

Source: CRISIL Research

Sectoral net margin

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Overall	**9.9%**	**8.7%**	**5.5%**	**7.8%**	**8.8%**	**8.9%**	**7.9%**	**8.8%**	**8.1%**
Key industries	**10.8%**	**9.2%**	**5.1%**	**8.2%**	**9.6%**	**9.3%**	**8.9%**	**9.4%**	**8.5%**
Airline Services	2.8%	6.5%	9.1%	7.8%	5.5%	8.1%	-6.3%	-9.0%	-16.4%
Cement	7.5%	6.0%	8.1%	10.0%	6.4%	6.4%	7.0%	7.5%	4.4%
FMCG	16.5%	17.1%	17.4%	15.8%	17.1%	18.7%	18.5%	17.3%	18.4%
IT services	18.3%	18.8%	18.4%	17.6%	18.4%	19.4%	18.1%	17.7%	17.9%
Pharmaceuticals	15.7%	14.6%	10.6%	5.3%	12.6%	17.2%	8.6%	11.3%	9.6%
Power	10.4%	9.4%	-3.3%	10.4%	11.8%	7.9%	9.5%	12.0%	11.7%
Steel products	-2.6%	-0.2%	1.1%	-2.2%	0.6%	3.9%	5.9%	6.9%	3.5%

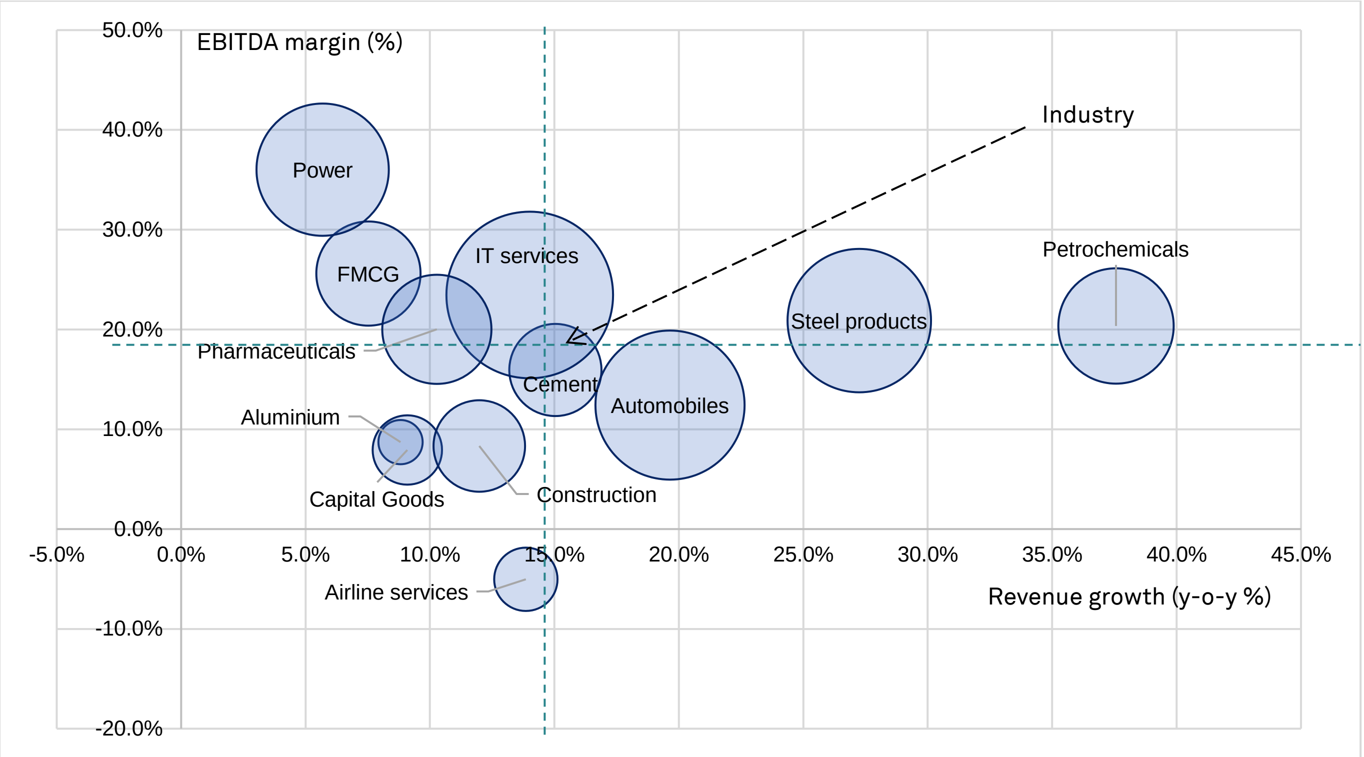
Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres. Overall 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).

Note 2: Media and entertainment excludes the DTH segment due to incomparable financials y-o-y; telecom services includes only Bharti Airtel.

Source: CRISIL Research

Sectoral performance metrics

Revenue growth versus Ebitda margin across key sectors in past four quarters



Source: CRISIL Research

Note: Data represents aggregate performance of the mentioned sectors for <u>four quarters (Q4 FY18 to Q3 FY19 P)</u>; size of the bubble indicates sector's share in overall industry's revenue

Annexure 1

Price indicators

Rs	Unit	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19 E
Steel flat	Rs/tonne	36,000	38,667	36,593	38,333	38,500	43,300	45,033	44,667	45,500
Steel long	Rs/tonne	30,667	34,074	34,667	34,500	35,000	40,167	40,633	38,867	40,333
Aluminium	Rs/tonne	142,053	144,463	148,137	145,005	154,081	158,610	173,031	165,293	163,000
Iron ore	Rs/tonne	1,411	1,567	1,639	1,637	1,782	2,350	2,237	2,314	2,412
Cement	Rs per bag	324	319	348	333	324	325	324	329	327
Sugar (Mumbai S 30)	Rs/quintal	3,769	4,045	3,958	3,704	3,416	3,087	2,869	3,063	2,984
Crude oil	$/barrel	50	54	50	52	62	67	75	75	69
Coal	Rs/tonne	1,385	1,454	1,330	1,329	1,366	1,573	1,483	1,512	1,550
Telecom ARPUs	Rs/month	174	159	157	146	132	122	111	106	112
Re/ $ movement	Rs/USD	67.5	67.0	64.5	64.3	64.7	64.3	67.0	70.2	72.0

Note: Exchange rate represents average rate for the quarter

Source: CRISIL Research

Volume indicators

YoY growth	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3FY19 E
Automobiles									
CVs	1%	4%	-12%	14%	29%	29%	50%	27%	4%
Cars	3%	15%	13%	17%	11%	11%	23%	-2%	-1%
Two-wheelers	-7%	-5%	2%	10%	12%	24%	18%	7%	10%
Cement (large + mid)	0%	7%	6%	13%	22%	11%	15%	14%	8%
Cement - large	-1%	6%	8%	14%	23%	12%	16%	15%	9%
Cement - mid	4%	9%	-1%	9%	21%	7%	12%	12%	7%
Steel	16%	18%	10%	5%	5%	5%	4%	5%	5%
Aluminium	2%	0%	1%	2%	0%	1%	3%	1%	1%
Natural gas									
Natural gas - regasification	34%	17%	14%	16%	17%	18%	15%	-1%	-2.4%
Natural gas - transmission	4%	5%	4%	9%	13%	12%	13%	3%	-1%
Natural gas - distribution	80%	79%	9%	11%	12%	10%	10%	12%	14%
Telecom data	NA	NA	174%	306%	481%	557%	324%	210%	156%

Note: NA – Not Available; Due to merger of Vodafone-Idea comparable telecom data for Q3 FY17 and Q4 FY17 is not available.

Source: CRISIL Research

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