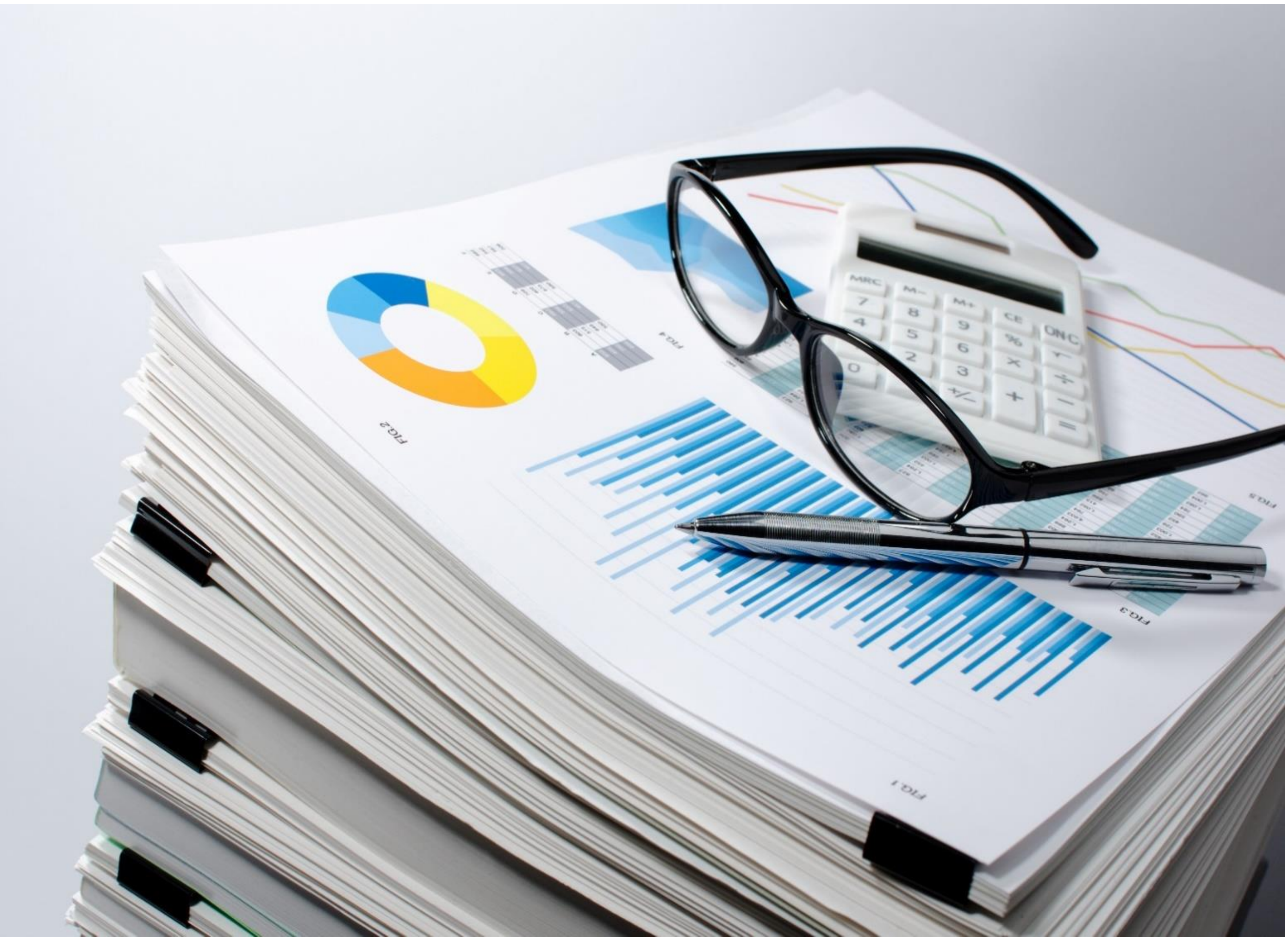
Research

CRISIL
An S&P Global Company

Revenue growth expected to fall as commodity cycle reverses

Quarterly update of industry performance

March 2019



Industry outlook

Revenue outlook (January-March fiscal 2019)

Growth momentum to moderate as commodity-driven growth cycle reverses

CRISIL Research expects 8-9% on-year revenue growth for corporates, excluding banking, financial services, insurance, and oil companies, in the fourth quarter of fiscal 2019. The growth momentum is expected to slow down compared with the first three quarters of the fiscal when the average growth was ~16.5% on year.

We expect the moderation to be mainly driven by lower growth in key sectors, especially commodities, where prices are expected to fall. This is a reversal in trend from the previous few quarters when topline was driven by high realisations in commodity segments.

Prices of steel (flat) are likely to have remained flat on year while prices of steel (long) and aluminum are expected to be ~1% and ~4% lower on year, respectively. Similarly, an expected fall in crude oil prices may have impacted the end prices of petrochemical products, causing lower growth for this segment as well.

Further, among the consumer-driven sectors, automobiles continues to witness a slowdown in the face of a rise in ownership costs. This has impacted ancillary sectors of auto components and tyres, which have also witnessed a moderation in growth.

On the other hand, the revenue growth is supported by healthy consumption demand for key consumer segments such as airline services and organised retail, which are expected to grow in the range of 15-20% on year. Fortunes for the sugar sector seem to have reversed, supported by a hike in its minimum selling price aiding topline growth.

Additionally, the rupee is expected to be ~10% weaker on year, which will boost export-oriented sectors such as information technology (IT) services and pharmaceuticals, which are projected to grow ~17% and ~11% on year.

Another point to be noted is that, growth in the fouth quarter comes on a high base as the year-ago period had seen a healthy 12% revenue rise. Conversely, growth in the first half of the last fiscal was only ~7% on an average.

Sectoral revenue growth

Sector	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19 P
Key sectors	**7.3%**	**6.6%**	**8.2%**	**12.5%**	**12.2%**	**17.7%**	**16.8%**	**14.9%**	**8.8%**
Automobiles	6.8%	4.7%	20.3%	24.8%	27.0%	33.8%	13.7%	5.2%	1.8%
Cement	6.2%	11.4%	13.7%	24.1%	20.3%	15.6%	14.7%	13.5%	9.9%
FMCG	6.0%	0.8%	6.5%	10.1%	3.2%	9.8%	9.1%	10.5%	9.0%
IT Services	5.8%	2.7%	3.4%	3.5%	4.9%	13.0%	17.0%	18.8%	16.6%
Pharmaceuticals	0.6%	-8.3%	0.7%	1.8%	7.2%	15.5%	8.7%	13.9%	11.2%
Power	-0.2%	3.8%	1.3%	4.3%	0.1%	3.5%	10.1%	12.6%	9.6%
Steel products	27.1%	23.8%	23.2%	25.3%	21.3%	35.0%	25.6%	11.1%	6.2%

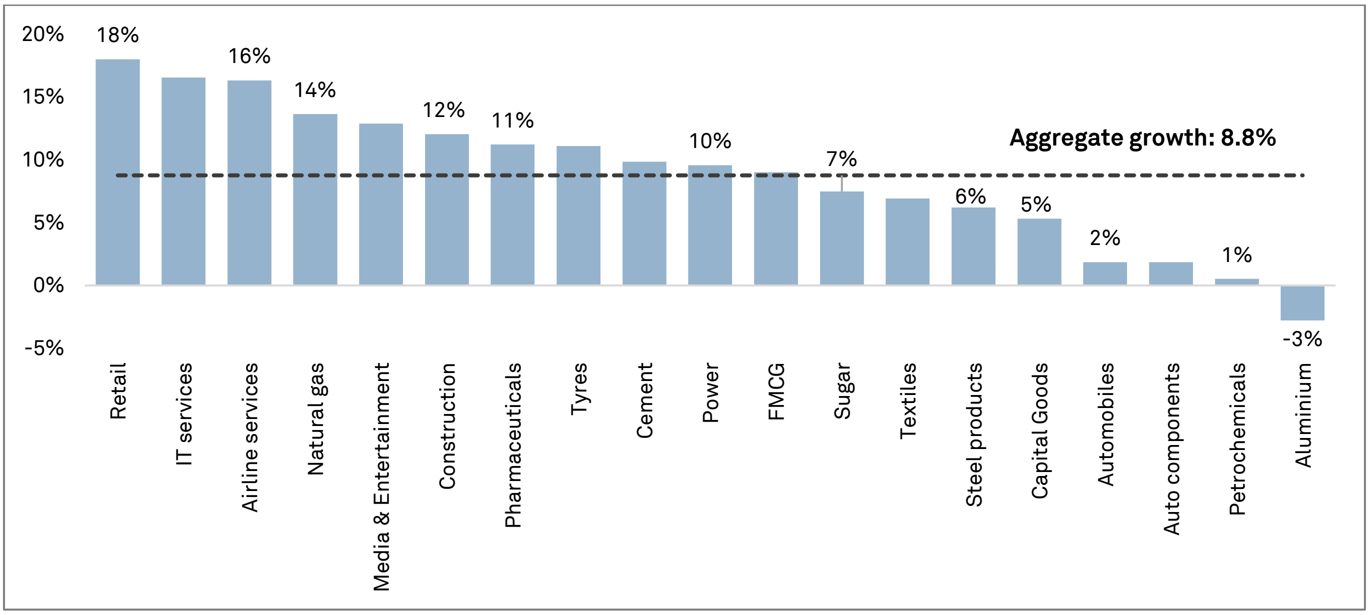
Source: CRISIL Research

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

Note2: Analysis is across 354 companies comprising 67% of National Stock Exchange market cap (excluding financial services and oil companies)

- **Automobiles:** Revenue is projected to grow a sharply lower ~2% on year for overall automobiles, on the back of poor demand for key categories of passenger vehicles (PVs) and commercial vehicles (CVs). While, an increase in cost of ownership, hardening of interest rates (on-year) and higher upfront insurance costs have hit demand for PVs, lower freight demand and higher freight capacity created (due to enforcement of the revised axle norm) have caused a slowdown for CVs. Only the two-wheeler segment is projected to see a better growth of ~7% on year. PVs are seen growing 3%, while CVs are likely to see a 3% decline on year, respectively.
- **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% on-year volume growth and a 4% on-year price hike on an average across segments. Although demand traction continues to be positive, volume growth is expected to be lower compared with the previous few quarters.
- **FMCG:** CRISIL Research expects on-year aggregate revenue growth of 8-10%. The growth will be driven by rising distribution network and a proposed increase in government spending on rural areas.
- **IT services:** The rupee's depreciation against the dollar thus far this fiscal would likely boost the sector's revenue, which is expected to grow ~17% on year. 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:** New product launches, new volume opportunities in the US and the rupee's depreciation are seen helping revenue growth of 10-12% on year for large formulation players. Bulk drug players are also expected to witness robust growth due to a projected rise in revenue for key entities in the segment and the effect of the rupee's depreciation which would support export-oriented companies.
- **Power:** We expect generation revenue to rise 9-10% due to higher projected plant load factors (PLFs) and elevated short-term power prices. Transmission revenue is projected to rise 13-15% on year, owing to improved execution of substation and transmission projects.
- **Steel products:** Revenue is expected to witness slower growth during the quarter, led by tepid realisations. Domestic steel prices are estimated to see a ~1% decline on year but volumes are expected to be up ~7%. However, overall growth will be restricted to ~6% on year.

Revenue growth outlook for Q4 FY19



Note: Analysis is across 354 companies comprising 67% of National Stock Exchange market cap (excluding financial services and oil companies)

Source: CRISIL Research

Other sectors expected to impact overall revenue

- **Airline services:** We expect aggregate revenue of the sample set to increase 15-17% on year on the back of a strong increase in fares, primarily in the domestic sector. This is due to certain one-time events this quarter such as grounding of a significant number of planes of a large player in the set, temporary shut down of the Mumbai airport and temporary grounding of all the 737 Max 8 aircraft models in the Indian fleet. Further, traffic on domestic routes is projected to increase 8-10% on year. A 7-9% on-year growth in the international segment is also expected to support.
- **Aluminium:** A decline is expected in the sector's revenue following an expected ~4% fall in prices on year pulling revenue down 2-4%.
- **Capital goods:** Revenue for the aggregate set is expected to witness a 5-6% growth on year, slower than the growth in the previous quarter which had come on a low base. Order inflow continues to witness positive growth momentum. A pick-up in execution and improved demand sentiment for categories such as renewables, transportation projects and power T&D are expected to support the growth.
- **Construction:** Revenue is expected to improve on year as execution in major segments such as national highways and the Pradhan Mantri Awas Yojana (PMAY) is expected to be higher during the quarter.
- **Natural gas:** Revenue growth is likely to be slower at 8-13% on year in the regasification segment, while upward revision in pipeline tariffs is expected to aid 12-15% transmission revenue growth. Overall, the natural gas segment is projected to grow 13-14% on year. However, this is lower than the ~30% average growth witnessed during the first nine months of the current fiscal, as LNG prices are expected to soften and demand is also expected to be lower sequentially.
- **Petrochemicals:** The sample set's revenue is expected to remain flat or witness a marginal increase of ~0.5-1.0% on year, owing to lower petrochemicals' realisations, due to a fall in feedstock naphtha price on the back of lower crude oil prices.

- **Retail:** CRISIL Research projects 17-19% on-year growth in revenue to Rs 159-161 billion for retailers. Recent changes in foreign direct investment in e-commerce is expected to shift demand towards organised brick-and-mortar retailers.

Profitability outlook

Ebitda growth remains anemic mainly due to lower topline growth

CRISIL Research expects the moderation in revenue growth during January-March of fiscal 2019 to trickle down to Ebitda (earnings before interest, taxes, depreciation, and amortisation) as well. Ebitda growth is expected to be lower at ~7% on year compared with the double-digit growth seen during the first half of the fiscal, when the average growth was ~16% on year, but on a low base. However, growth during the quarter under preview comes on a high base of 13% seen in the year-ago quarter.

Overall, Ebitda margins would likely stay tepid at 18.7% with a marginal ~0-50 basis points (bps) decline. Of the 21 major sectors, we expect the margins for 9 to contract mainly owing to lower realisations.

Ebitda is also negatively impacted by lower profitability in the key commodity segment of steel which had been supporting margins over the previous six quarters.

Conversely, Ebitda contraction is limited by an expected fall in commodity and crude oil prices during the quarter, easing pressure on margins for several end-use segments. Domestic prices of coal, steel (long), steel (flat) and aluminium are expected to be lower by 1.5%, 0.2%, 0.5% and 4.2%, respectively, on year. Crude oil prices, meanwhile, are expected to have fallen 5-6% on year. Similarly, for export-linked sectors, especially for IT services and pharma, the rupee's depreciation will limit the margin erosion.

Sectoral Ebitda margins

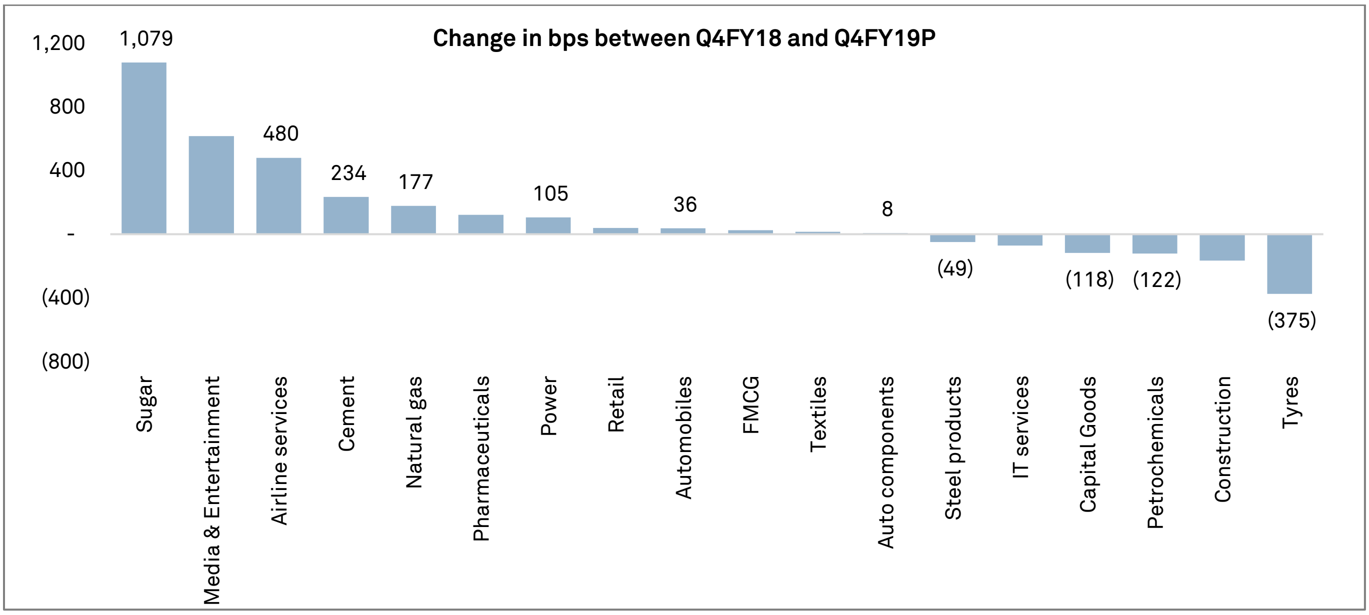
Sector	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19 P
Key Sectors	**18.9%**	**18.9%**	**19.7%**	**19.4%**	**19.0%**	**19.5%**	**18.6%**	**18.0%**	**18.7%**
Automobiles	11.1%	10.5%	13.7%	12.9%	12.1%	12.8%	12.5%	10.7%	12.5%
Cement	17.1%	20.6%	17.8%	16.2%	16.9%	17.0%	14.2%	15.0%	19.3%
FMCG	24.1%	23.4%	24.4%	25.1%	26.3%	25.4%	25.4%	25.3%	26.6%
IT Services	23.4%	22.2%	23.2%	23.2%	23.4%	23.1%	23.6%	23.5%	22.7%
Pharmaceuticals	18.3%	17.3%	20.9%	20.9%	19.7%	19.3%	20.0%	21.4%	20.9%
Power	33.5%	35.8%	37.7%	34.0%	34.0%	35.5%	36.6%	34.3%	35.0%
Steel products	15.2%	13.3%	15.1%	18.5%	20.9%	22.0%	20.9%	19.5%	20.4%

Source: CRISIL Research

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

Note2: Analysis is across 354 companies comprising 67% of National Stock Exchange market cap (excluding financial services and oil companies)

Outlook of change in EBITDA margins for Q4 FY19



Note: Analysis is across 354 companies comprising 67% of National Stock Exchange market cap (excluding financial services and oil companies)

Source: CRISIL Research

- **Airline services:** We expect the Ebitda margins to improve 480 bps on year to about 0-2% on account of a significant rise in air fares during the quarter.
- **Automobiles:** We expect the margins to contract ~0-50 bps on year, with all segments (except CVs) witnessing a decline due to deeper discounts offered to prop up consumer sentiment (for PVs and two-wheelers) and lower capacity utilisations (in tractors). However, this is offset by falling raw material costs as commodity prices soften, especially in the CV segment where margins are expected to rise 160-170 bps.
- **Aluminium:** The margins are expected to contract ~600-700 bps on year, largely on account of a fall in revenues and increased input cost pressures.
- **Cement:** At an aggregate level, across large-, mid- and small-sized players, the margins are seen improving ~200-250 bps, mainly led by a sharp improvement in realisations due to a price hike rolled out in select regions.
- **IT services:** We project a ~50-100 bps decline in margins, mainly due to higher onsite employee costs and an increase in investments in digital services.
- **Natural gas:** We expect aggregate margins across regassification, transmission and distribution to expand ~170-180 bps owing to a decline in LNG prices.
- **FMCG:** The margins are expected to see a marginal ~0-50 bps on-year rise. Even though, the prices of raw materials such as copra, sugar and milk are expected to increase, the players are expected to increase product prices offsetting some of the pressure.
- **Pharmaceuticals:** Aggregate margins are expected to rise ~120-130 bps on year. This will be due to specialty and limited competition launches and stable raw material cost during the quarter.
- **Power:** Aggregate margins across generation, transmission and distribution are expected to increase ~100-110 bps, mainly driven by top-line growth owing to higher generation and realisations.

- **Sugar:** The trend of declining margins is expected to reverse this quarter as a hike in the minimum selling price of sugar leads to a sharp improvement in realisations.
- **Steel products:** Trend of margin expansion is expected to reverse due to lower revenue growth and elevated costs, especially iron ore.

Results review (October-December 2018)

Commodity-led growth, consumption spending drive momentum

Aggregate top-line growth across 50 sectors was 15% in the third quarter of fiscal 2019. The 21 key sectors witnessed double digit growth for the fifth consecutive quarter in Q3 FY19 with growth at ~15%. Although, this is a moderation from the ~18% revenue growth witnessed in the previous quarter, the momentum has continued, mainly driven by commodities and positive demand in key consumption-led segments. More than half of the sectors analysed achieved double-digit growth, aiding India Inc's revenue during the quarter.

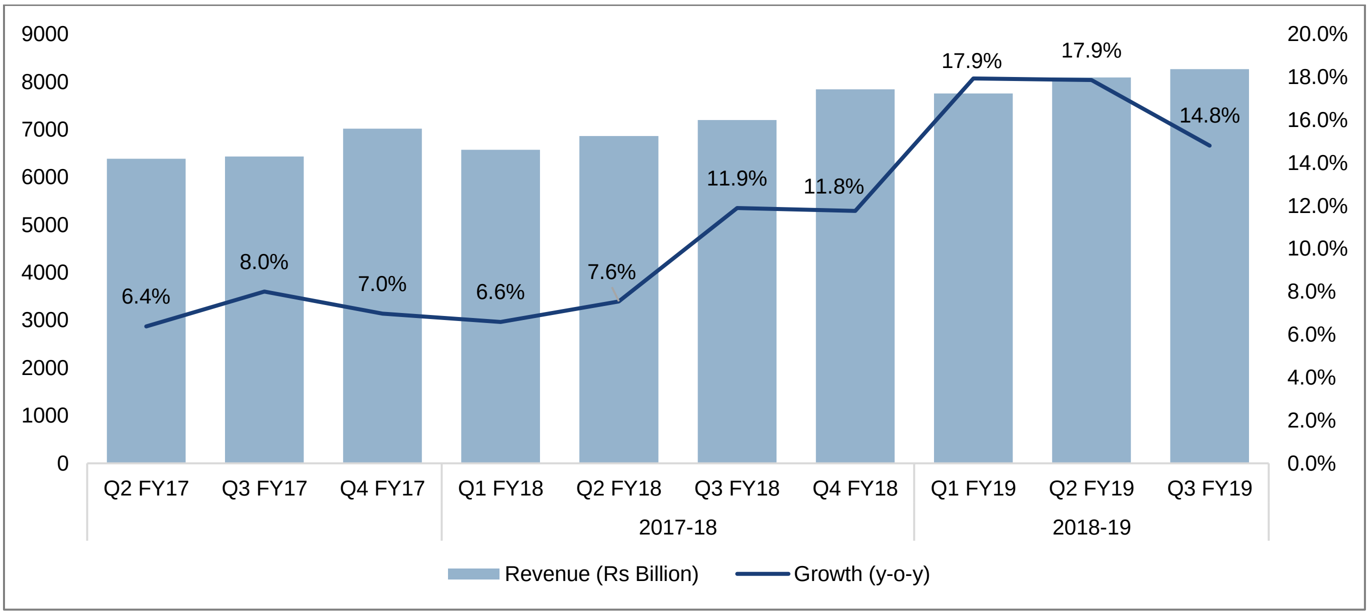
Consumption-linked sectors such as airlines, FMCG and retail witnessed healthy growth as a consequence of an improvement in the domestic demand. Export-linked sectors such as IT services and pharmaceuticals also grew robustly, aided mainly by a weaker rupee.

Key commodity-linked sectors, such as cement, steel products, aluminium and natural gas, continued to thrive, largely benefiting from a rise in volumes. Steel products, natural gas and aluminium also witnessed higher realisations on year.

Sugar remained a laggard as a sharp fall in prices caused a ~3% drop in revenue.

The review is done based on performance analysis of over 500 companies across 50 sectors (excluding financial services and oil).

Revenue growth moderates but still on a high



Note: Analysis is on the basis of more than 500 companies comprising ~70% of National Stock Exchange market cap (excluding financial services and oil companies)

Source: CRISIL Research

Sectoral revenue growth

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
Overall	**8.0%**	**7.0%**	**6.6%**	**7.6%**	**11.9%**	**11.8%**	**17.9%**	**17.9%**	**14.8%**
Key sectors	**8.6%**	**7.3%**	**6.6%**	**8.2%**	**12.5%**	**12.2%**	**17.7%**	**16.8%**	**14.9%**
Automobiles	2.7%	6.8%	4.7%	20.3%	24.8%	27.0%	33.8%	13.7%	5.2%
Cement	1.9%	6.2%	11.4%	13.7%	24.1%	20.3%	15.6%	14.7%	13.5%
FMCG	1.2%	6.0%	0.8%	6.5%	10.1%	3.2%	9.8%	9.1%	10.5%
IT Services	8.4%	5.8%	2.7%	3.4%	3.5%	4.9%	13.0%	17.0%	18.8%
Pharmaceuticals	10.3%	0.6%	-8.3%	0.7%	1.8%	7.2%	15.5%	8.7%	13.9%
Power	0.2%	-0.2%	3.8%	1.3%	4.3%	0.1%	3.5%	10.1%	12.6%
Steel products	30.9%	27.1%	23.8%	23.2%	25.3%	21.3%	35.0%	25.6%	11.1%

Source: CRISIL Research

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, 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

- **Automobiles:** The automobile sector posted a marginal 5% on-year growth, as demand sentiment continued to slow down. This was because key categories of CVs and PVs witnessed slower growth. CV sales volumes and realisations fell 1% and 2%, respectively, causing a 3% decline in revenue on year. PV revenue growth was 2% on year as sales volume grew a marginal 0.4% only. Conversely, revenue growth in the tractor and two-wheeler segments was robust at 17% and 15% on year, respectively.
- **Cement**: Despite tepid realisations, aggregate revenue grew a healthy ~14% on year, largely driven by an ~10% increase in sales volumes on year across segments (large, mid, small). Large players' revenues increased 14%, mid-sized companies' ~13%, and that of smaller players ~12%. Revenue of UltraTech, the largest contributor to the sample set, registered 17% growth, driven by a ~13% increase in sales volume through inorganic expansion.
- **FMCG:** The sector grew ~11% on year, driven by an increase in volumes.
- **IT services:** The sector witnessed 19% revenue growth, mostly due to a weaker rupee. Digital services continued to be the growth driver for most players. Revenue of tier-I and mid-tier companies increased ~19% and 18% on year.
- **Pharmaceuticals:** Aggregate revenue during the quarter increased ~14% on year, mainly supported by growth in exports, expecially to the US market, and the rupee's depreciation.
- **Power:** Revenues of power generation companies rose ~14% on year to ~Rs 482 billion during the quarter, as key players saw an increase in plant load factor (PLF). Revenue of the transmission segment, driven by Power Grid Corporation of India Ltd (PGCIL), saw a ~13% growth and that of the distribution segment ~4%.

- **Steel products:** Aggregate revenue increased ~11% on year owing to increase in realisations as well as sales growth of large steel players. Revenue of large players such as Tata, JSW and SAIL (accounting for 75% of the overall set) grew 9% on year, despite a decline in volumes, mainly driven by higher realisations. Other industry players also posted top-line growth of 17%. Demand grew at ~8% on year during the quarter on account of strong domestic sales, but exports were lower by 44% during the quarter.

Other key sectors

- **Airline services:** Aggregate revenue of three airlines in the sample set rose ~16% on year due to an increase in ticket fares, along with a 13% surge in aggregate passenger traffic.
- **Aluminum:** Sample companies' revenues witnessed a robust ~16% on-year growth led by higher sales volumes and a ~6% rise in domestic realisations. Domestic aluminium prices improved ~6% on year despite lower global prices (LME + premiums) due to a sharp depreciation in domestic currency. However, domestic demand for aluminium moderated during the quarter after growing at a healthy pace in the first half of fiscal 2019.
- **Capital goods:** Overall revenue for the capital goods sector was up 10% on year with execution of a healthy order book buildup aiding the top line. All firms in the set except GE T&D saw double-digit revenue growth.
- **Natural gas:** Revenue in the regasification segment grew 30%, driven by higher LNG prices. Transmission revenues increased 15% on year on account of higher volumes, tariff hike and higher LNG prices. Distribution revenue increased 28% on year on account of a rise in sales volume and upward revision of prices of CNG (compressed natural gas) and PNG (piped natural gas), leading to 16% uptick in average realisations.
- **Petrochemicals:** Revenue of our sample set of petrochemical companies increased ~34% on year, led by an increase in volume and rise in product prices. An increase in crude oil prices resulted in higher product prices.
- **Retail:** Aggregate revenue of organised retailers in the sample set increased 23% on year. This was mainly driven by the shift in festival season to the third quarter of the fiscal, leading to strong volume growth in various categories for key players.
- **Sugar:** Sugar revenues plunged ~3% on year, mainly owing to falling realisations, especially for the south-based sugar mills. Revenue of north India-based sugar mills improved 7% on year, driven primarily by a sharp growth in the distilley segment, while revenue of south-based mills fell 18%, owing to a steep decline in prices.

Ebitda margins contract under pressure from higher raw material prices

Aggregate Ebitda margin declined ~95 bps to 17.7% during the quarter from 18.6% in the year-ago. The fall in profitability was due to the continued rise in input costs, led by high commodity prices on year.

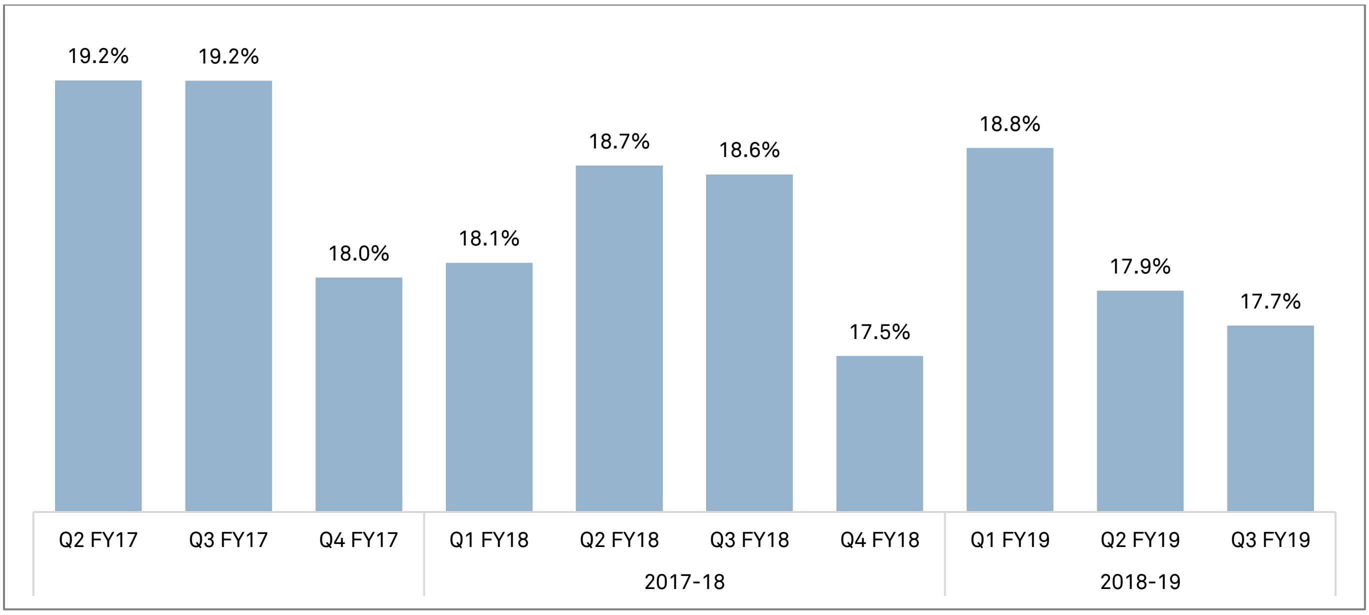
The margins of key consumption-driven sectors such as airline services and automobiles contracted, led by a rise in input costs. Increase in prices of metals and crude oil and limited ability to pass on costs to end-consumers were the main reasons that dented the profitability of these sectors. Among other key segments, aluminium, natural gas and cement also suffered margin contraction due to a rise in input costs. Prices of iron ore and crude oil went up ~57% and ~9% on year during the third quarter of this fiscal. Additionally, the rupee was weaker by a significant ~11% on year against the dollar during the quarter, adding to cost pressures.

However, the impact was somewhat blunted by the strong top-line growth due to a recovery in demand.

Of the key commodities, steel witnessed robust margin expansion led by a significant improvement in realisations, with prices of flat steel and long steel rising 18% and 16% on year. For the export-linked IT services sector, the margins got a boost from the depreciating rupee and recovery in specific segments.

Despite healthy top-line growth, aggregate Ebitda growth was in single digit at ~9% on year. Ebitda margins contracted 95 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



Source: CRISIL Research

Note: Analysis is on the basis of more than 500 companies comprising ~70% of National Stock Exchange market cap (excluding financial services and oil companies)

Sectoral Ebitda margins

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
Overall	**19.2%**	**18.0%**	**18.1%**	**18.7%**	**18.6%**	**17.5%**	**18.8%**	**17.9%**	**17.7%**
Key sectors	**20.1%**	**18.9%**	**18.9%**	**19.7%**	**19.4%**	**19.0%**	**19.5%**	**18.6%**	**18.0%**
Automobiles	11.9%	11.1%	10.5%	13.7%	12.9%	12.1%	12.8%	12.5%	10.7%
Cement	16.6%	17.1%	20.6%	17.8%	16.2%	16.9%	17.0%	14.2%	15.0%
FMCG	23.8%	24.1%	23.4%	24.4%	25.1%	26.3%	25.4%	25.4%	25.3%
IT Services	23.8%	23.4%	22.2%	23.2%	23.2%	23.4%	23.1%	23.6%	23.5%
Pharmaceuticals	24.0%	18.3%	17.3%	20.9%	20.9%	19.7%	19.3%	20.0%	21.4%
Power	35.7%	33.5%	35.8%	37.7%	34.0%	34.0%	35.5%	36.6%	34.3%
Steel products	15.4%	15.2%	13.3%	15.1%	18.5%	20.9%	22.0%	20.9%	19.5%

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, 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

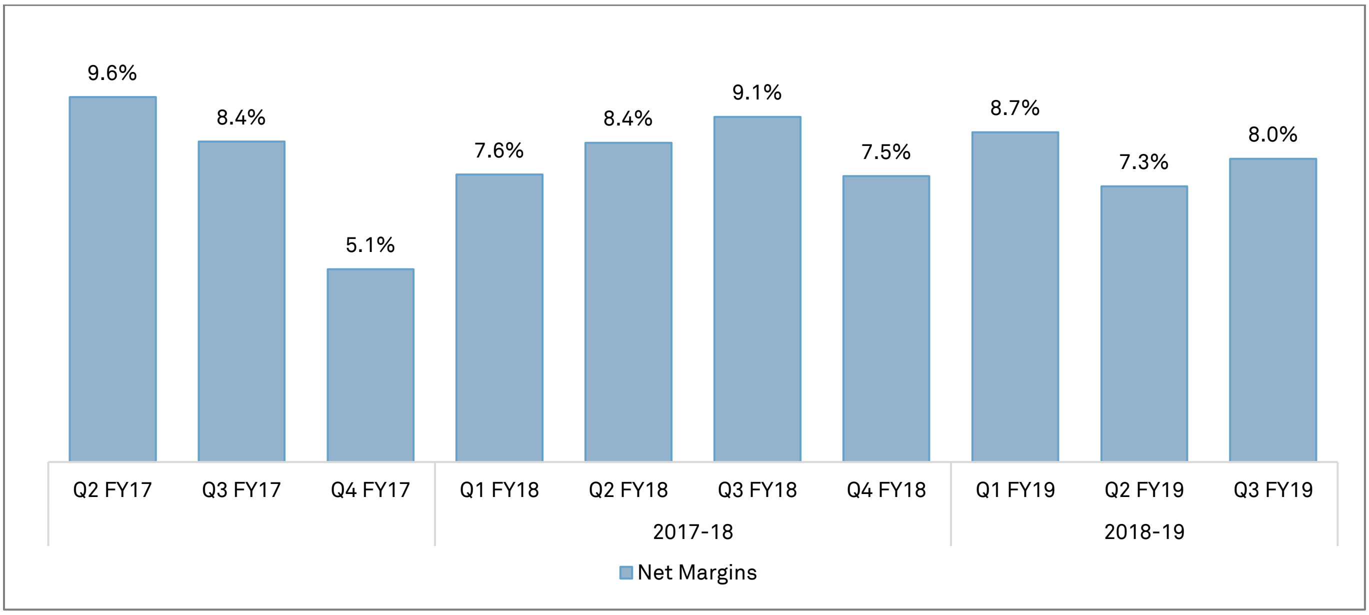
- **Airline services:** Rising crude oil prices and a depreciating Indian rupee led to a rise in fuel cost and non-fuel expenses per available seat kilometres (ASKM) for the carriers, as a majority of expenses such as lease rentals and maintenance are linked to the US dollar. Aggregate PLF (passenger load factor) for the sample set (both domestic and international included) also declined 192 bps on year.
- **Automobiles:** Aggregate margins across automobile categories contracted 220 bps, impacted by higher basic raw material prices. The decline was 125 bps on year for tractor manufacturers, 580 bps for PVs and 220 bps for two-wheelers, mainly due to higher input prices and limited ability to pass on the cost increase. The margins were also under pressure from higher selling expenses and an increase in employee expenses.
- **Cement:** Aggegate margins across categories (large, mid, small) declined ~120 bps on year, despite the surge in sales volumes, as costs for power, fuel and freight increased. Also, 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 improved only a marginal ~20 bps on year because of an increase in input costs.
- **IT services:** The margins rose ~30 bps, constrained by higher selling expenses and impairement losses for certain players. However, it was supported by the rupee's depreciation against the dollar and lower staff expenses.
- **Pharmaceuticals:** Aggregate margins were up ~50 bps on year as currency depreciation and a better product mix supported. However, supply disruptions from China pushed up raw material prices across segments.
- **Power:** The margins were marginally up ~30 bps, mainly due to improved generation aiding top-line growth in the generation segment.
- **Steel products:** Sharp rise in input costs limited operating margin expansion to 102 bps, despite robust revenue growth.
- **Sugar:** The margins shrunk ~255 bps owing to a 13-14% decline (varied for regions) in sugar realisations.

Net margin contracts too

Aggregate net margins contracted ~110 bps on year to 8.0% from 9.1% in the third quarter of fiscal 2018.

Net profit grew only ~1%, despite a 15% topline and ~9% Ebitda growth. The margins were in line with operating performance for most sectors, with 14 of 20 key sectors showing a decline at the net level.

Industry net margin



Note: Analysis is on the basis of more than 500 companies comprising ~70% of National Stock Exchange market cap (excluding financial services and oil companies)

Source: CRISIL Research

Sectoral net margin

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
Overall	**8.4%**	**5.1%**	**7.6%**	**8.4%**	**9.1%**	**7.5%**	**8.7%**	**7.3%**	**8.0%**
Key industries	**8.8%**	**4.7%**	**7.9%**	**9.1%**	**9.5%**	**8.5%**	**9.2%**	**7.5%**	**8.0%**
Automobiles	6.6%	5.7%	6.6%	8.5%	7.7%	6.4%	8.7%	8.3%	7.5%
Cement	6.0%	8.1%	10.0%	6.4%	6.4%	7.0%	7.5%	4.4%	5.6%
FMCG	17.1%	17.4%	15.8%	17.1%	18.7%	18.5%	17.3%	18.4%	18.1%
IT Services	18.8%	18.4%	17.6%	18.4%	19.4%	18.1%	17.7%	17.9%	17.8%
Pharmaceuticals	14.6%	10.6%	5.3%	12.6%	17.2%	8.6%	11.3%	9.6%	11.4%
Power	9.4%	-3.3%	10.4%	11.9%	7.9%	9.6%	12.1%	11.8%	8.5%
Steel products	-0.3%	1.1%	-2.3%	0.5%	3.8%	5.7%	6.7%	3.4%	5.8%

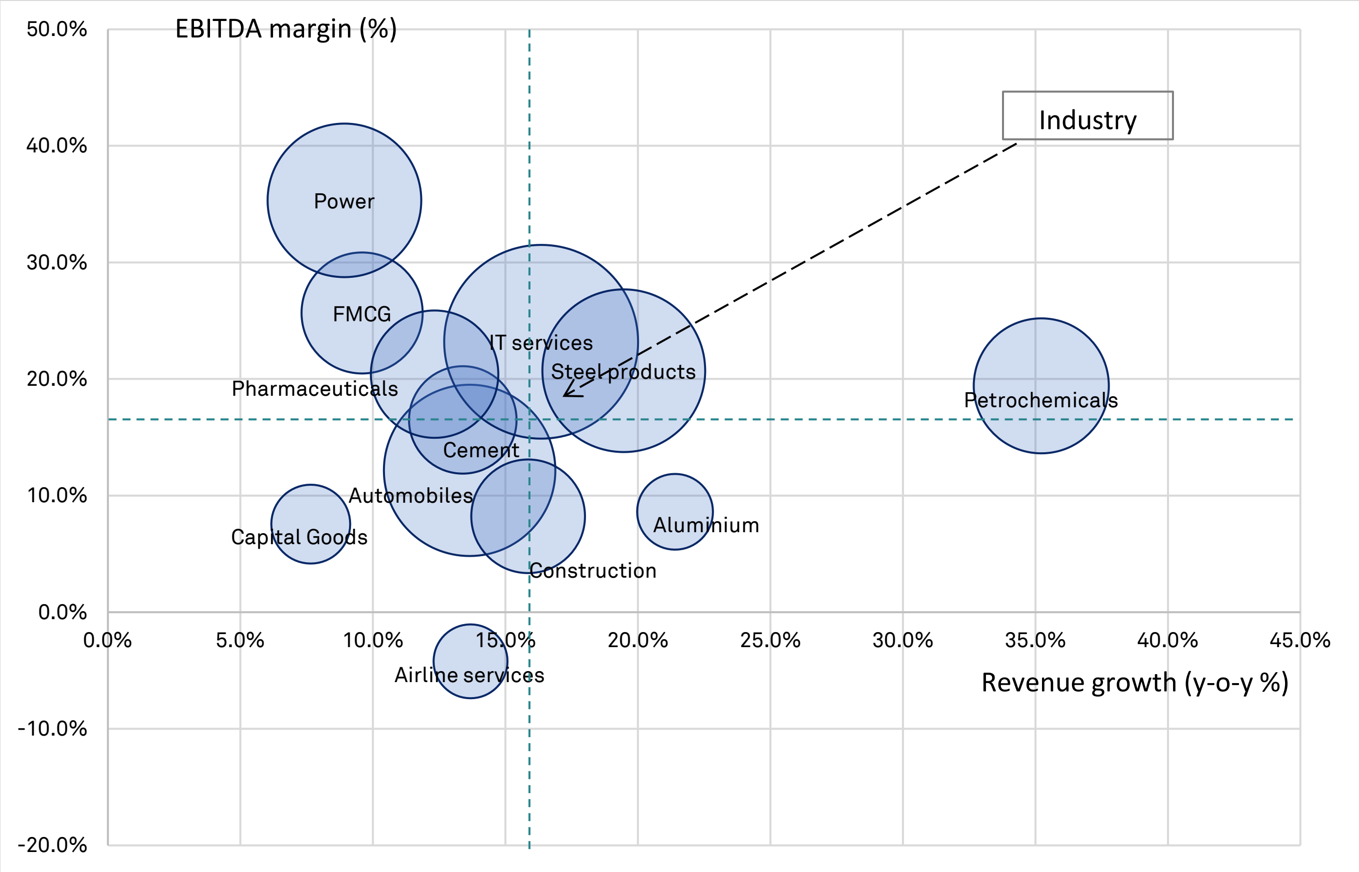
Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres. Overall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

Note2: Analysis is on the basis of more than 500 companies comprising ~70% of National Stock Exchange 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



Source: CRISIL Research

Note: Data represents aggregate performance of the mentioned sectors for four quarters (Q1 FY19 to Q4 FY19 P); size of the bubble indicates sector's share in overall industry's revenue

Annexure 1

Price indicators

Rs	Unit	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19 P
Steel flat	Rs/tonne	38,667	36,593	38,333	38,500	43,300	45,033	44,667	45,467	43,200
Steel long	Rs/tonne	34,074	34,667	34,500	35,000	40,167	40,633	38,867	40,666	39,966
Aluminium	Rs/tonne	144,463	148,137	145,005	154,081	158,610	173,031	165,293	163,584	152,000
Iron ore	Rs/tonne	1,567	1,639	1,637	1,782	2,350	2,237	2,314	2,799	2,708
Cement	Rs per bag	319	348	333	324	325	324	329	325	338
Sugar (Mumbai S 30)	Rs/quintal	4,045	3,958	3,704	3,416	3,087	2,869	3,063	2,930	3,250
Crude oil	$/barrel	54.1	50.2	51.7	62.0	66.9	74.5	75.1	67.4	63.0
Coal	Rs/tonne	1454	1330	1329	1366	1573	1483	1512	1527	1550
Telecom ARPUs	Rs/month	159	157	146	132	122	111	106	106	113
Re/ $ movement	Rs/USD	67.0	64.5	64.3	64.7	64.3	67.1	70.1	72.1	70.6

Note: Exchange rate represents average rate for the quarter, Q4 FY19 P value is based on actuals up to 22nd March 2019.
Source: CRISIL Research

Volume indicators

YoY growth	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19 P
Automobiles									
CVs	4%	-12%	14%	29%	29%	50%	27%	4%	-2%
Cars	15%	13%	17%	11%	11%	23%	-2%	-1%	0%
Two-wheelers	-5%	2%	10%	12%	24%	18%	7%	9%	5%
Cement (large + mid)	7%	6%	13%	22%	11%	15%	14%	10%	8%
Cement - large	6%	8%	14%	23%	12%	16%	15%	10%	9%
Cement - mid	9%	-1%	9%	21%	7%	12%	12%	11%	7%
Steel	18%	10%	5%	5%	5%	4%	5%	8%	7%
Aluminium	23%	20%	17%	19%	17%	18%	9%	6%	4%
Natural gas									
Natural gas - regasification	17%	14%	16%	17%	18%	15%	-1%	-9%	1%
Natural gas - transmission	5%	4%	9%	13%	12%	13%	3%	0%	3%
Natural gas - distribution	79%	9%	11%	12%	10%	10%	12%	11%	11%
Telecom data	NA	174%	306%	481%	557%	324%	210%	162%	123%

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

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