Press Release

October 10, 2019 | Mumbai

India Inc's revenue likely fell to a 14-quarter low in Q2

Nine-quarter low for EBITDA growth, too; gains on input costs nullified by high fixed cost

A sharp drop in demand across consumption segments pulled down corporate revenue – excluding that of banking, financial services, insurance and oil companies – by ~3% on-year in the second quarter of fiscal 2020, a CRISIL Research estimate shows.

The estimate is based on an analysis of 430 companies, which account for ~65% of the market capitalisation (excluding financial services and oil companies) of the National Stock Exchange.

This is the first time in 14 quarters that revenues have declined. In the previous four quarters, i.e. between Q2FY19 and Q1FY20, aggregate revenue had grown 11-12% on average.

Says Prasad Koparkar, Senior Director, CRISIL Research, "Automobiles, one of the key sectors driven by consumption spending, continues to reel under a demand slowdown. Aggregate revenue of listed automobile players is estimated to have dropped ~25% in the second quarter. In a rub-off, revenue of automotive component makers is estimated to have fallen 14-16% amid production cuts. As for FMCG, weakened rural consumption and a high base are expected to have caused a moderation in growth to 6-7% compared with 8.7% on average in the previous four quarters."

Construction-linked sectors are expected to log an overall decline of ~5% on-year in revenue in the second quarter. This is on account of ~15% on-year decline in steel products, mainly due to declining realisations, as flat steel prices dropped 14%. Cement players, though, will likely log a 5-6% rise in revenue despite a drop in volumes, given higher realisations.

On the industrial side, revenue of petrochemical companies is expected to fall 23-25% due to lower petrochemical realisations amid a fall in feedstock naphtha prices (~25% on-year decline) following lower crude oil prices. For companies in power sector, aggregate revenue growth is estimated to have logged a slower pace of 3-4% against an average of 10% in the previous four quarters due to a slowdown in power demand across regions.

As for earnings before interest, tax, depreciation and amortisation (EBITDA), growth is expected to have fallen to 0-1% as higher fixed cost amid weak demand for sectors such as automobiles nullified the gains from lower commodity prices, and weak global demand and absence of rupee tailwind hurt export-linked sectors. Among others, domestic prices of flat steel and aluminium were lower on-year by ~14% each in the second quarter, though long steel prices remained range bound. Additionally, oil prices softened 18% on-year.

Interestingly, Q1FY20 had witnessed a healthy EBITDA growth of 7.1% despite a 4.1% revenue growth. This was on account of a sharp improvement in the EBITDA of consumer discretionary services such as airlines, telecom and retailing, and lower commodity prices.

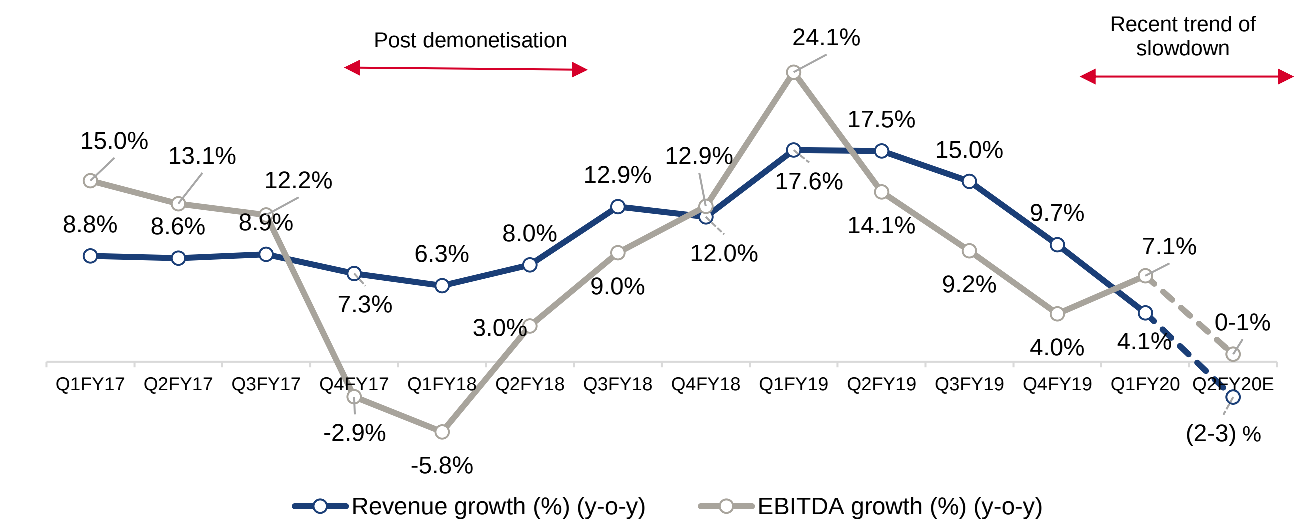
Says Hetal Gandhi, Director, CRISIL Research, "While overall EBITDA continues to show growth, excluding sectors such as airlines and telecom, which are benefiting from consolidation and a revival in pricing, the EBITDA profits may show a decline of 5-6% for the second quarter. Indeed, 10 of 19 key sectors evaluated are expected to show an on-year drop in margins."

For key sectors such as automobiles, auto components and steel products, EBITDA margins are likely to decline by 250-300 bps. On the other hand, cement companies are likely to witness margin expansion by 500 bps on account of improved realisations and lower power and fuel costs. Airline and telecom services are also expected to see some expansion in margins.

In the second half of this fiscal, a low base of last year could provide some respite to corporate revenue growth.

Annexure: The story in charts

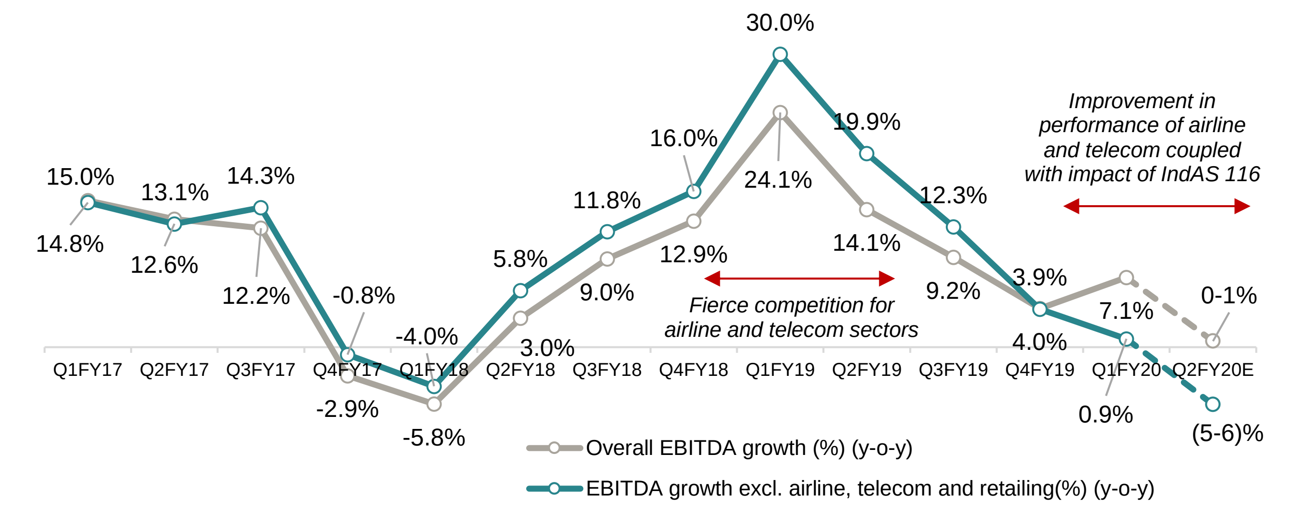
Revenue growth expected to have fallen for the fifth quarter in a row



Note: Analysis is across 430 companies comprising ~65% of the National Stock Exchange's market cap (excluding financial services and oil companies); E- Estimated

Source: CRISIL Research

EBITDA decline for sectors other than airline, telecom and retailing worse than fall in revenue



Note: Analysis is across 430 companies comprising ~65% of the National Stock Exchange's market cap (excluding financial services and oil companies); E- Estimated

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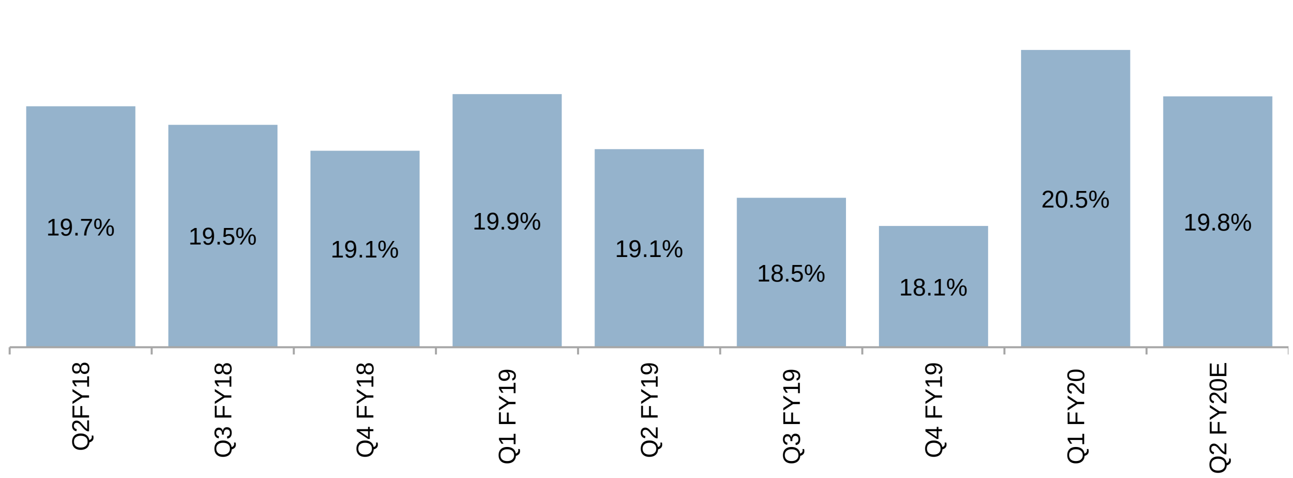
Overall EBITDA margins may have declined 50-100 bps on-quarter in Q2FY20



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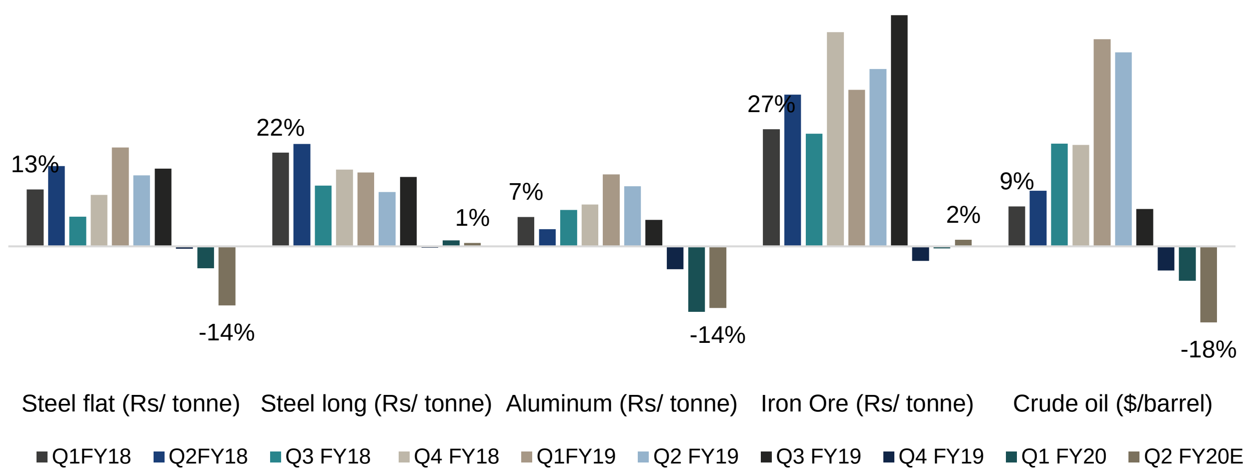
Source: CRISIL Research

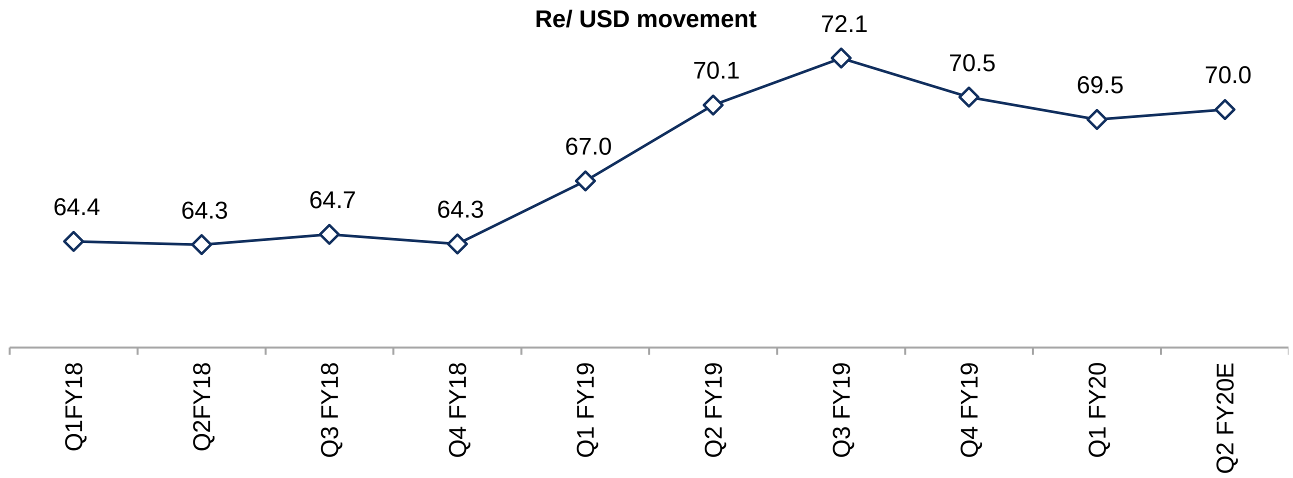
Low commodity prices augur well for end-user industries



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

Source: CRISIL Research

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



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

Source: CRISIL Research

For further information,

Analytical contacts

Prasad Koparkar
Senior Director
CRISIL Limited
prasad.koparkar@crisil.com

Hetal Gandhi
Director
CRISIL Limited
hetal.gandhi@crisil.com

Media contacts

Saman Khan
Media Relations
CRISIL Limited
D: +91 22 3342 3895
M: +91 95940 60612
B: +91 22 3342 3000
saman.khan@crisil.com

Hiral Jani Vasani
Media Relations
CRISIL Limited
D: +91 22 3342 5916
M: +91 982003 9681
B: +91 22 3342 3000
hiral.vasani@crisil.com

Parmeshwari Bhumkar
Media Relations
CRISIL Limited
D: +91 22 3342 1812
M: +91 841184 3388
B: +91 22 3342 3000
parmeshwari.bhumkar@crisil.com

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