Press Release

July 09, 2019 | Mumbai

Q1 revenue growth to be the slowest in 2 years

Deceleration in consumption, lower realisations to blame

Corporate revenue is seen growing 5-6% in the first quarter of fiscal 2020, the slowest pace in two years, because of a broad-based slowdown in consumption, which has affected sectors such as automobiles and fast-moving consumer goods (FMCG).

That compares with an average revenue growth of 14-15% in the past four quarters.

The estimate is based on CRISIL Research's analysis of 295 companies, which account for ~60% of the market capitalisation of the National Stock Exchange. The analysis excludes banking, financial services and insurance (BFSI) and oil sectors.

Says Miren Lodha, Director, CRISIL Research, "Automobiles, one of the key sectors driven by consumption spending, continues to reel under a demand slowdown. Higher cost of ownership continues to dampen consumer sentiment for passenger vehicles, while commercial vehicle sales are being impacted by new axle norms, inventory build-up and liquidity crunch. This also impacts ancillary sectors such as auto components and tyres, which are expected to report lower growth. As for FMCG, weakened rural consumption and a high base are expected to cause a moderation in growth."

Adding to the pain from a slowdown in consumption is a fall in realisations in key commodity categories, which supported revenue growth in fiscal 2019, especially the first half. An expected softening in commodity prices will moderate growth in sectors such as steel, aluminium, natural gas and petrochemicals.

A slower weakening of the rupee, at ~4% on-year compared with ~8% on average over fiscal 2019, is also expected to scrape some growth off key export-linked sectors such as information technology (IT) services. Revenue growth for the latter is expected to moderate to ~12% on year compared with the ~17% average growth rate over the past four quarters.

That said, the decline in revenue growth, is cushioned somewhat by sectors such as airline services, cement, and sugar where price hikes have aided realisations and consequently topline growth.

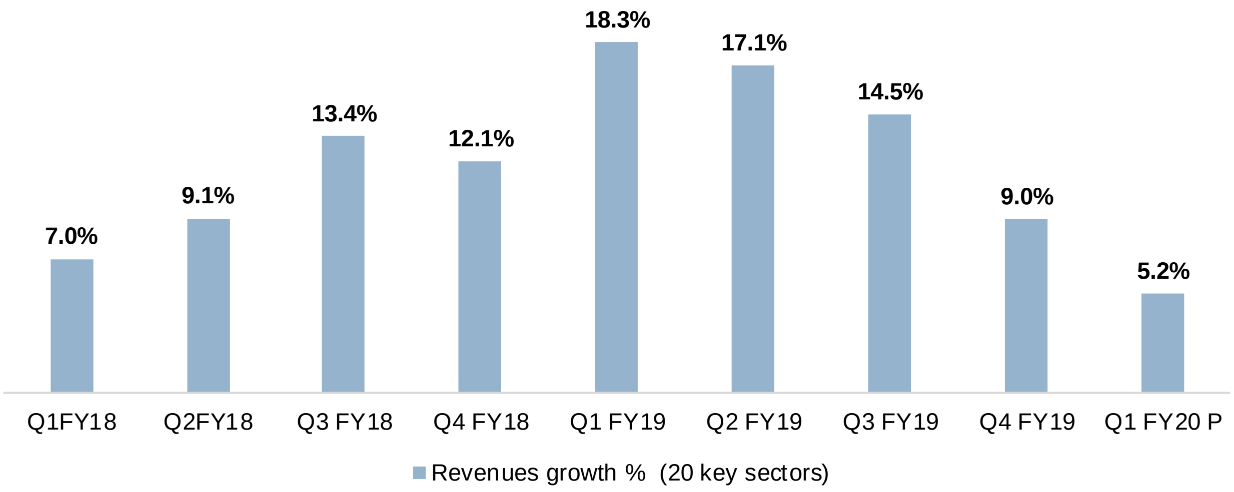
Says Prasad Koparkar, Senior Director, CRISIL Research, "With lower topline growth, India Inc is also staring at lower profitability at the operating level. Growth in operating profit, or EBITDA, is expected to be lower at ~3% on-year compared with ~13% on average in the preceding four quarters. Operating margin is seen contracting up to 50 basis points to ~19.5% as topline shrinks."

However, an expected softening in prices of most of the common commodities and crude oil on-year is expected to limit margin erosion as end-use sectors benefit from lower input prices.

Domestic prices of flat steel and aluminium are lower by around 5% and 15% respectively, while long steel prices will report only a marginal increase of ~1% on-year in the first quarter. Additionally, oil prices are estimated to lower by 8% on-year. Thus, while lower realisations for commodities will impact revenue growth this quarter, a fall in commodity prices will lend support to profitability for end-use sectors.

Annexure: key charts

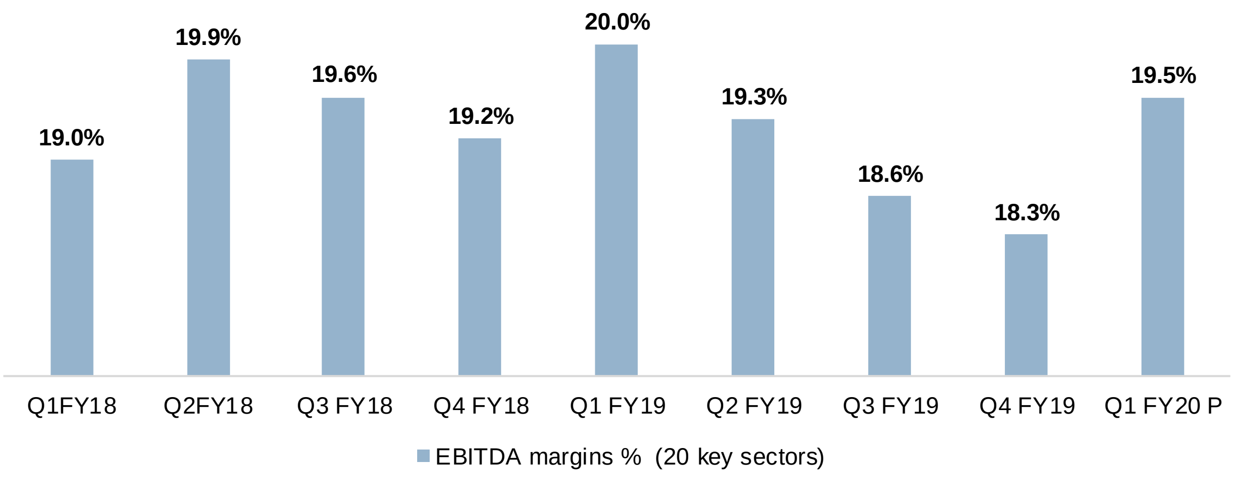
Revenue growth still on declining trajectory



Note: Graph depicts on-year revenue percentage growth of 295 companies in the past nine quarters; P – Projected

Source: CRISIL Research

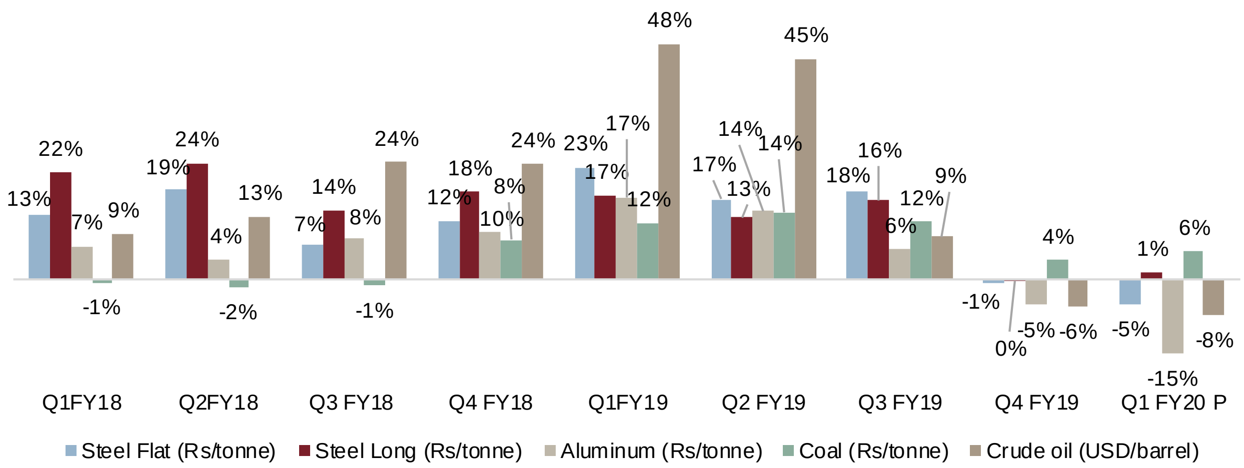
Operating margins supported by lower input costs, but marginally lower on-year



Note: Graph depicts EBITDA margin percentage of 295 companies in past nine quarters: P - Projected

Source: CRISIL Research

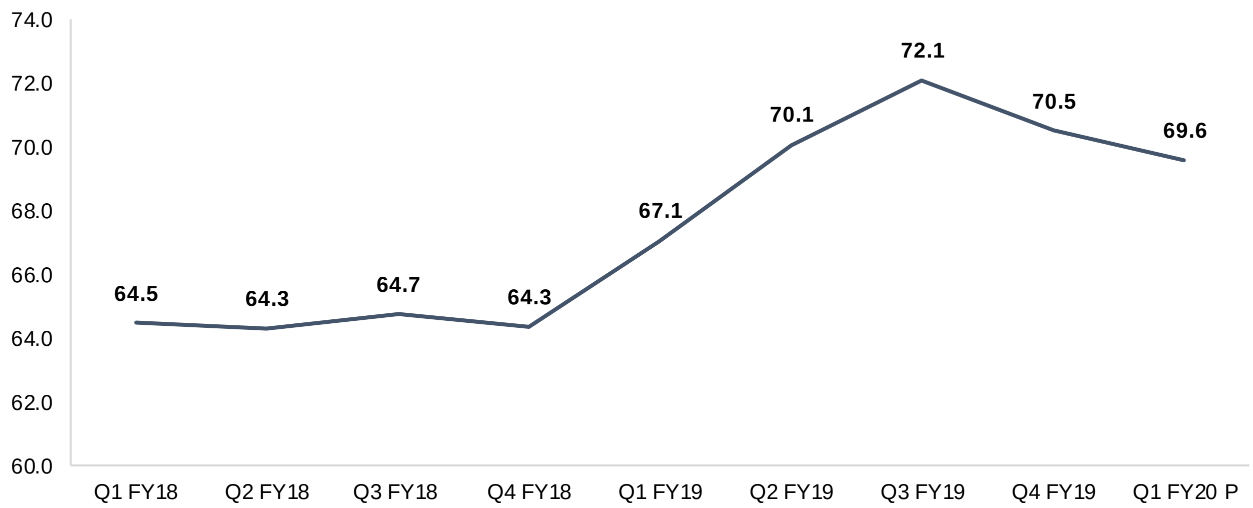
Commodity prices climbing down, in good augury for end-user industries



Note: Graph depicts on-year percentage change in commodity prices; P- Projected

Source: CRISIL Research

As rupee gets stronger, boost to export-linked sectors tapering



Note: Graph depicts average value of rupee against the dollar on a quarterly basis; value for Q1 FY20 P based on actual data till June 28, 2019; P - Projected

Source: CRISIL Research

For further information,

Analytical contacts

Prasad Koparkar
Senior Director
CRISIL Limited
B: +91 22 3342 3000
prasad.koparkar@crisil.com

Miren Lodha
Director
CRISIL Limited
B: +91 22 3342 3000
miren.lodha@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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