Research

CRISIL
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CRISIL Quip

Q4 fiscal 2021: Sectoral result forecasts

April 2021

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Industry outlook

Results preview (January-March 2021)

Revenue riding north

India Inc appears to be on the path to recovery with revenue up 15-17% on-year to Rs 6.9 lakh crore in the fourth quarter of fiscal 2021 for ~300 companies, excluding banking, financial services and insurance (BFSI), and oil companies. There has been a recovery across sectors, led by higher volumes and commodity prices, although consumer discretionary services, such as airline services and media, continue to tread water. Sequentially, revenue is up 6-7% on-quarter.

Volume gains in the fourth quarter are also attributable to the low base of March 2020, when the lockdown to tackle the Covid-19 pandemic was imposed. That said, we are also seeing a sequential recovery in demand across sectors.

Among the sectors expected to perform well, steel products, construction and cement, which are construction-linked, are forecast to grow 30-32% on-year, aided by higher realisations, coupled with an increase in infrastructure activities on a low base.

The automobiles industry is expected to record steep growth, pegged at 45-47% on-year, given a low base, higher wholesale sales volumes, and higher realisations led by the implementation of Bharat Stage-VI (BS-VI) emission norms. This, in turn, is expected to have driven growth for ancillary segments such as auto components and tyres that are estimated to grow a robust 26-28% on-year.

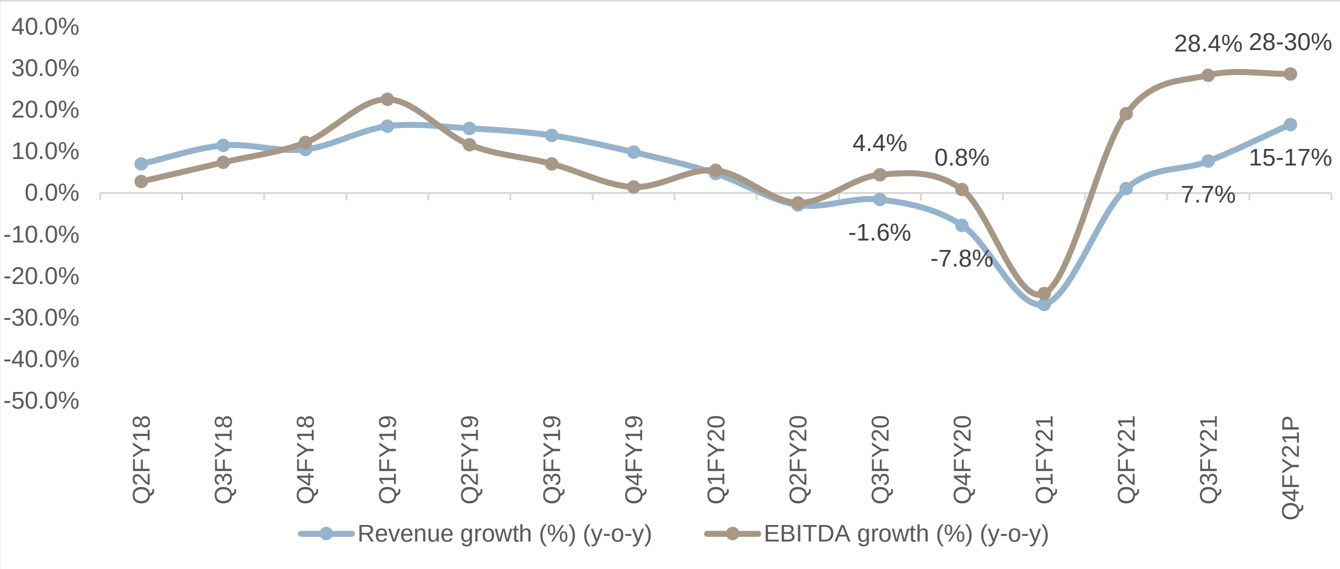
However, not all sectors are expected to grow, with a cloud of uncertainty continuing to loom over consumer discretionary sectors. Revenue in sectors like airline services is estimated to drop by ~30% on-year, owing to social distancing measures to contain the spread of the pandemic as well as constrained disposable incomes.

With a visible recovery in the second half of fiscal 2021, the overall revenue for ~300 companies is estimated at Rs 23.8 lakh crore in fiscal year 2021, a mere 0.5% lower on-year.

Despite pandemic-related restrictions, there was sustained growth in export-linked sectors such as IT services and pharmaceuticals, with players reporting an ~6% on-year increase in revenue in fiscal 2021. The government thrust on public spending also arrested a fall in revenue for construction-linked sectors. Construction players are estimated to clock an ~10% on-year decline in revenue due to a weak performance in the first half of the fiscal. On the other hand, players in the commodity space, such as steel players, gained from a volume recovery in the second half of the fiscal, coupled with higher realisations – resulting in an ~10% on-year increase in revenue during the year.

However, overall revenue growth for India Inc was constrained by a fall in consumer discretionary products and services revenue. The pandemic posed a severe blow to players in this segment as revenue fell 10-12% on-year in fiscal 2021 due to a shift in consumer spending patterns, with consumers increasingly cautious about spending money.

Revenue to post double-digit growth post fourth quarter rebound



P: Projected

Notes:

1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services, and tyres

2) 300 companies have been analysed, comprising 55-60% of the National Stock Exchange's market cap (excluding financial services and oil companies)

Source: CRISIL Research

Sector-wise:

- **Automobile** company revenue is estimated have improved 45-47% on-year, driven by higher volume on a low base, with the pandemic, BS-VI transition and subsequent lockdown in March 2020 having severely impacted sales in the fourth quarter of fiscal 2020.
- **Pharmaceutical** manufacturers are expected to have grown a healthy 7-9% on-year, led by export demand from the US and Europe, and accrued benefit from the global de-risking of supply chains from China.
- **Construction** sector revenue is expected to have risen 12-15% on-year on a lower base as close to half of March 2020 was lost due to the lockdown, despite March being the strongest month seasonally for construction activities. Also, monthly payments by government departments, an increased focus by the NHAI on execution, coupled with dilution of retention money norms would lead to improved project execution.
    - Among construction-linked sectors, the aggregate revenue of **cement** players is expected to have risen 17-18% on-year due to increased demand, riding on a pick-up in non-trade demand from the infrastructure segment and continued traction in the affordable housing segment.
    - **Steel companies** are also expected to post a whooping 45-50% on-year increase in revenue, led by rising realisations (~27% on-year increase) and healthy demand in the fourth quarter of fiscal 2021 on the low base of last year (sales and production by steelmakers was impacted in the last two weeks of March 2020 due to the lockdown).
- **IT services**, a major contributor to India Inc's revenue, is expected to have grown a modest 6-7% on-year, aided by robust demand for digital services (~44% of total revenue) and rupee depreciation of ~2% on-year. Continued increase in focus on digital is expected to drive growth in BFSI, communication and media. While

renewed lockdowns and restrictions may limit new deals, maintenance activities and work-from-home will continue to support revenue.

- Similarly, **petrochemical** company revenue is expected to have increased 40-45% on-year, supported by an increase in realisations, led by rise in feedstock crude oil and naphtha prices (~21% on-year increase). Further, demand is expected to improve on the low base of the fourth quarter of fiscal 2020.
- The hardest hit were **consumer discretionary services** such as airlines services, where revenue is expected to have plummeted 30-35% on-year on an aggregate basis. Airline services have been hit hard by a significant decline in domestic passenger traffic on account of the pandemic, although the extent of the decline in the fourth quarter is estimated to have been lower than the previous three quarters. A further drop in revenue will be restricted as fares are expected to record an 8-12% on-year rise due to extension of the lower and upper price caps introduced by the DGCA and an upward revision of the fare bands by 10-30%.

Healthy revenue recovery across sectors in the fourth quarter

Sector	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1FY21	Q2 FY21	Q3 FY21	Q4 FY21E
Key sectors	**9.8%**	**4.7%**	**-2.9%**	**-1.6%**	**-7.8%**	**-26.8%**	**1.1%**	**7.7%**	**16-17%**
Automobiles	0.2%	-9.2%	-25.7%	-11.3%	-30.4%	-71.5%	4.1%	21.8%	45-47%
Cement	12.9%	9.2%	7.4%	5.4%	-6.9%	-29.7%	5.2%	13.4%	17-18%
FMCG	7.9%	5.8%	4.0%	2.7%	-7.3%	-8.3%	5.5%	9.0%	14-16%
IT services	17.2%	11.1%	8.1%	7.8%	7.6%	4.2%	4.3%	5.9%	6-7%
Petrochemicals	-1.1%	-21.4%	-27.8%	-19.2%	-17.5%	-30.2%	17.1%	36.1%	40-45%
Pharmaceuticals	11.5%	10.7%	10.4%	4.0%	4.5%	3.9%	8.9%	7.9%	7-9%
Power	8.9%	12.9%	0.3%	-2.3%	8.7%	-10.7%	5.4%	3.1%	4-5%
Steel products	8.9%	-2.9%	-15.2%	-7.5%	-19.3%	-39.4%	12.1%	21.2%	45-50%

E: Estimated

Notes:

1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services, and tyres

2) 300 companies were analysed, comprising 55-60% of the National Stock Exchange's market cap (excluding financial services and oil companies)

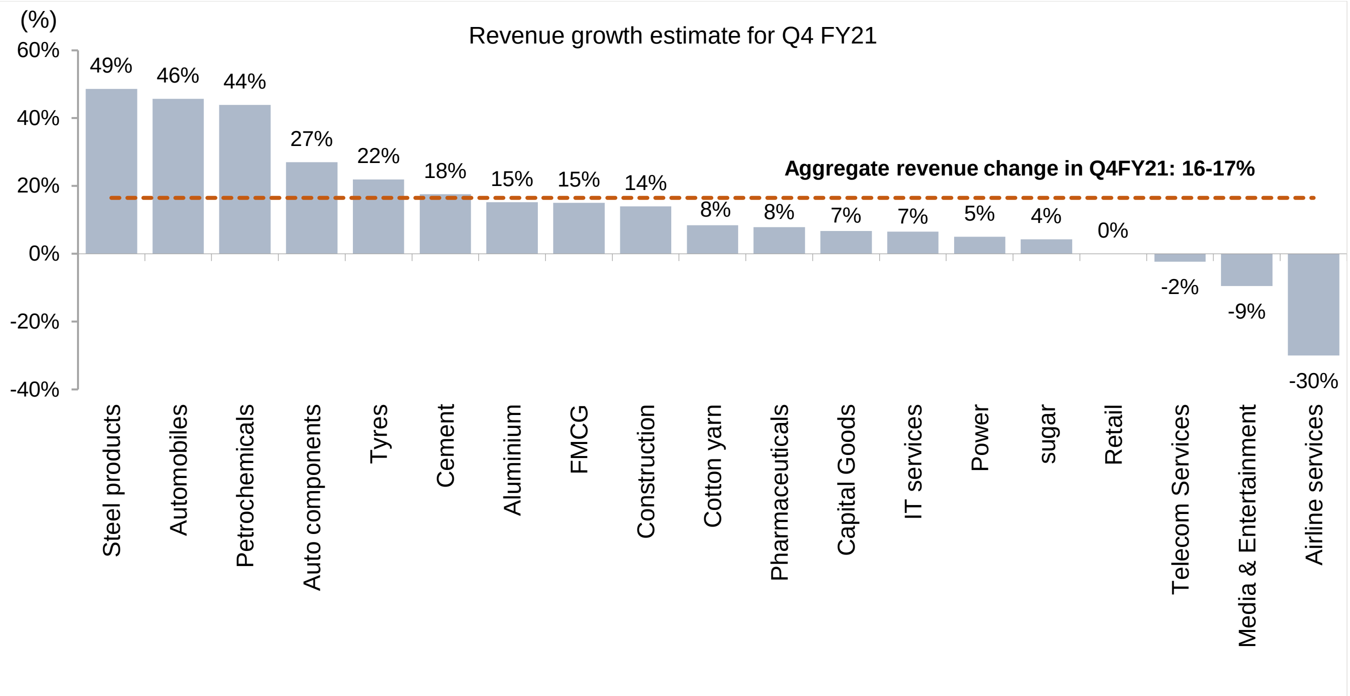
Source: CRISIL Research

Other sectors impacting overall revenue

- **Aluminium** sector revenue is expected to have increased 15% on-year, mainly due to higher metal prices and stable production volumes.
- **Telecom services** revenue is expected to decline marginally by 2% on-year, owing to removal of IUC charges.
- **Power generation** company revenue is expected to have risen 4-5% on-year, led by a continued recovery in power demand, coupled with the low base of the fourth quarter in the previous fiscal. Demand from industrial consumers has reverted to near-normal levels as industrial facilities recorded a jump in utilisation on the back of pent-up demand and a festive season recovery, but commercial demand remains below pre-pandemic levels as several commercial spaces such as major offices and educational institutions continue to operate remotely.

- **Capital goods** manufacturers revenue is expected to increase 6-7% on-year with economic activity picking up, coupled with a low revenue base of the fourth quarter of fiscal 2020. Order intake is also expected to pick up, coupled with faster execution of pending order backlogs.

Sharp recovery in steel and automobile-linked sectors drives growth



Note: 300 companies were analysed, comprising 55-60% of the National Stock Exchange's market cap (excluding financial services and oil companies)

Source: CRISIL Research

Significant EBITDA improvement in fourth quarter

CRISIL Research expects corporate earnings before interest, tax, depreciation and amortisation (EBITDA) to have improved 28-30% on-year at an aggregate level in the fourth quarter of fiscal 2021. However, sequentially, EBITDA growth is estimated to be flat, given rising commodity prices.

Healthy revenue growth, higher realisations and cost-cutting measures by players are expected to have helped expand EBITDA in the fourth quarter of fiscal 2021, while rising commodity prices amidst a recovery in demand restricted a further rise. In fact, domestic prices of flat steel and aluminium are estimated to have increased by a significant ~32% and ~19% on-year, respectively, in the fourth quarter. Further, crude oil prices, also rose 21% on-year.

Consequently, aggregate EBITDA is estimated to be Rs 1.5 lakh crore, with margins expanding 205 basis points (bps) on-year to 21.7% in the fourth quarter.

Sequentially, however, EBITDA margin is expected to have contracted 150-200 bps, mainly because of a deterioration in the margins of key sectors, such as steel, cement, and power, due to the rising cost of inputs (such as petcoke and iron ore) and higher freight rates.

With this, fiscal 2021 saw an all-time high EBITDA of ~Rs 5.3 lakh crore (for ~300 companies) and margins at 22.2%, led by cost-cutting measures.

Margins expand on-year, led by telecom services, steel, and cement

Sector	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1FY21	Q2 FY21	Q3 FY21	Q4 FY21P
Key sectors	**18.0%**	**20.2%**	**19.4%**	**19.6%**	**19.7%**	**21.5%**	**22.2%**	**23.3%**	**21.7%**
Automobiles	10.4%	10.6%	9.1%	10.1%	7.1%	-3.7%	11.0%	11.4%	11.0%
Cement	18.3%	23.1%	18.6%	17.4%	20.9%	24.6%	24.5%	22.7%	20.3%
FMCG	12.5%	11.1%	14.5%	13.5%	15.5%	15.4%	26.1%	33.3%	26.7%
IT services	26.2%	26.8%	26.3%	26.8%	24.5%	24.6%	26.8%	26.3%	24.2%
Petrochemicals	22.3%	20.9%	21.4%	22.4%	21.9%	22.3%	24.6%	25.0%	24.2%
Pharmaceuticals	18.7%	20.9%	20.6%	20.1%	19.0%	23.5%	24.2%	23.6%	22.0%
Power	31.2%	37.9%	38.3%	37.5%	33.2%	41.3%	40.9%	37.9%	34.4%
Steel products	17.4%	17.1%	14.9%	14.1%	24.4%	10.0%	20.4%	28.9%	25.1%

P: Projected

Notes:

1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres

2) 300 companies have been analysed, comprising 55-60% of the National Stock Exchange's market cap (excluding financial services and oil companies)

Source: CRISIL Research

Sector-wise:

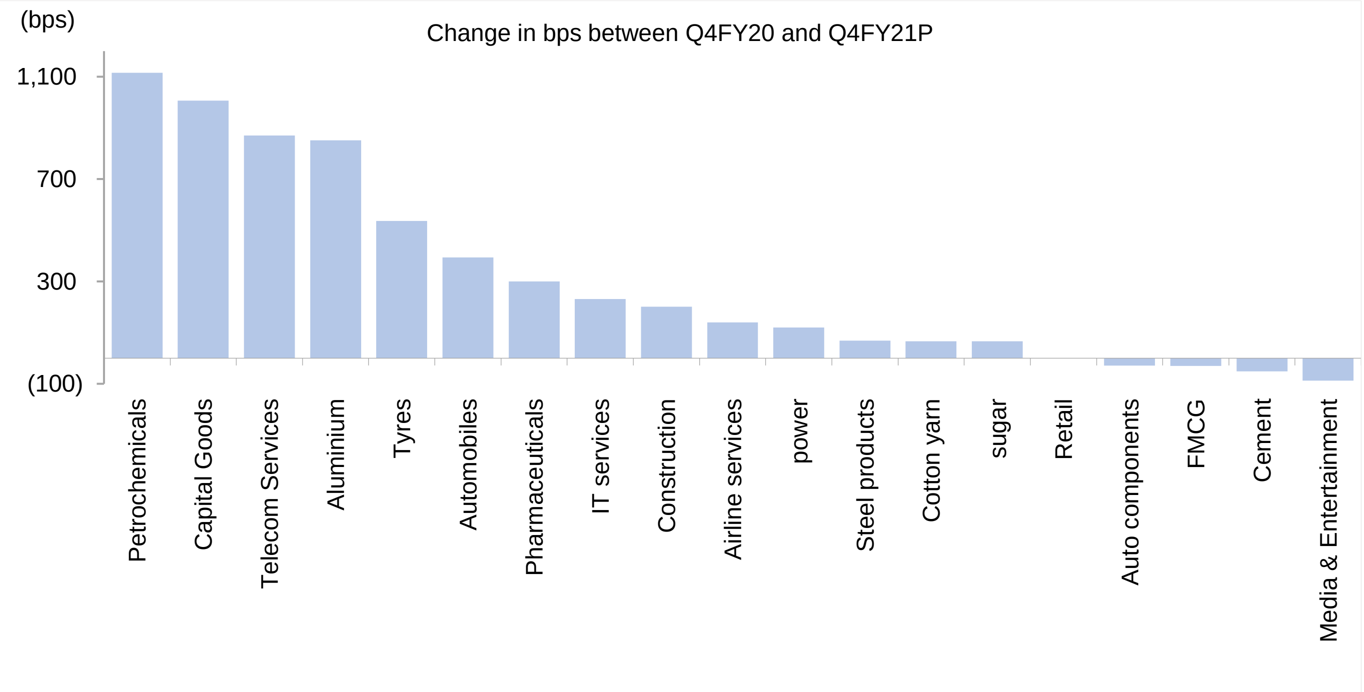
- **Petrochemical** margins are expected to have expanded 1,000-1,100 bps on-year, led by higher spreads due to a sharper fall in input cost vis-à-vis product prices.
- **Telecom** company margins are expected to have expanded ~870 bps on-year, owing to removal of IUC charges, resulting in a lowering of access charges for telcos.
- For **aluminium** manufacturers, margins are expected to have improved 840-860 bps on-year, mainly due to lower costs and higher metal prices. The London Metal Exchange prices for the March quarter are expected to be between $2000-2100/ tonne, compared with $1690/tonne in the same period last fiscal.
- **Automobiles** industry EBITDA margin is expected to have expanded on-year by ~390 bps, driven by higher capacity utilisation.
- For **pharmaceutical** companies, margins are likely to have expanded between 290-330 bps on-year, as the benefits of operational efficiencies and lower expenses continue compared to last previous year. But, sequentially, margins are expected to have contracted 150-170 bps, given that the benefit of lower operational expense (seen in the past two quarters) is likely to have waned.
- **IT services** margins are expected to have expanded 220-240 bps on-year, supported by cost optimisation, increasing automation and an improving offshore mix.
- In the **construction** industry, margins are likely to have expanded by up to ~200 bps on-year, but only a mere 30 bps sequentially, as project execution returned to normal, along with cost savings, as companies utilised the pandemic to focus on improving operating efficiencies and adopting stringent cost-control measures.

- Margins of **steel products** companies are expected to have improved a mere ~70 bps pn-year as rising volume and prices were likely to be partially offset by a rise in coking coal and iron-ore prices. While domestic iron ore prices are increasing on account of a supply crunch in the market, coking coal prices are increasing on the back of increased demand from non-China steel producing countries. But, sequentially, this increase in input cost would lead to a margin contraction of nearly 380 bps.
- For **cement** companies, margins are expected to have contracted ~50 bps on-year due to sluggish realisation growth, coupled with rising cost pressure. Sequentially, margin contraction is expected to be higher at ~230 bps, owing to rising domestic petcoke and imported coal prices, along with higher freight cost, amidst rising diesel prices.

Other sectors affecting overall EBITDA margin

- Margins of **airline services** to be between 8-12%, given passenger load factor of 68-73%, compared with 83% in the year-ago quarter, lower demand due to the pandemic, and sustained fixed costs, despite the decline in operations. Thus, margins are expected to have contracted 240-250 bps sequentially.
- In the **power sector**, margins are likely to improve 110-130 bps on-year, led by topline growth, but partially offset by a marginal increase in fuel cost, given the recovery in coal prices.
- Margins for **FMCG** players are expected to have contracted 30-50 bps on-year despite price hikes, as increasing raw material prices continues to weigh on margins. Sequentially, margin dip to be sharper at nearly 200 bps.

Margins of a majority of sectors likely improved on-year



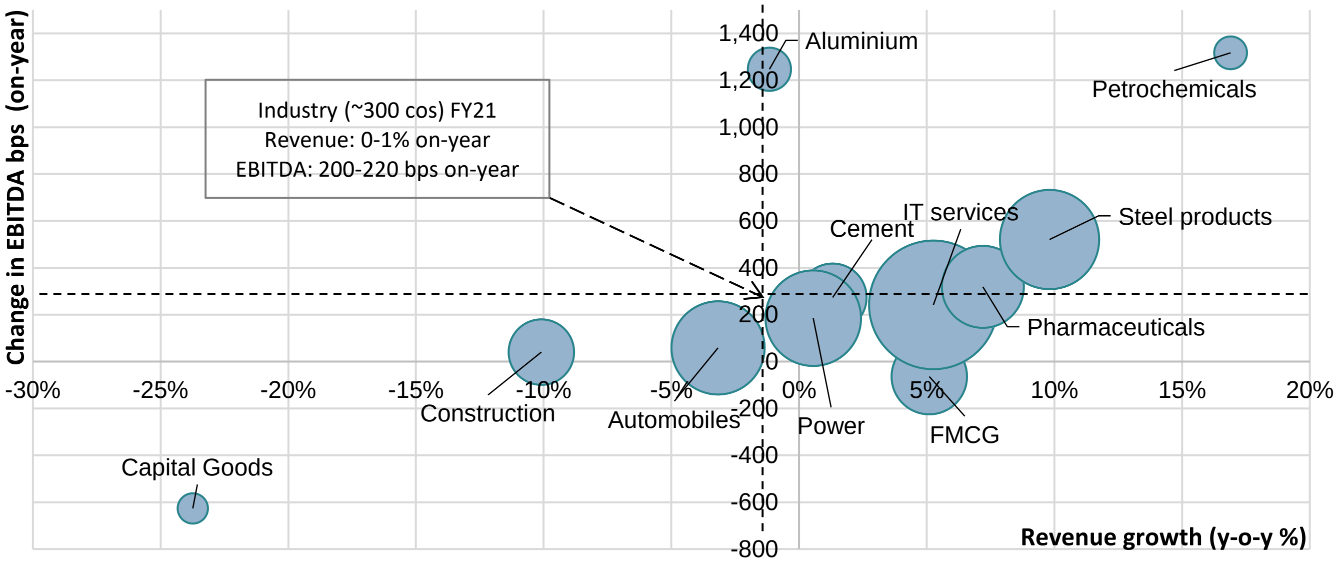
P: Projected

Note: Analysis is based on 300 companies, comprising 55-60% of National Stock Exchange's market cap (excluding financial services and oil companies)

Source: CRISIL Research

Sectoral performance metrics

Revenue growth versus EBITDA margin across key sectors in FY21



Note: Data represents aggregate performance of the mentioned sectors for fiscal 2021; size of the bubble indicates sector's share in overall industry's revenue

Source: CRISIL Research

Results review (October – December 2020)

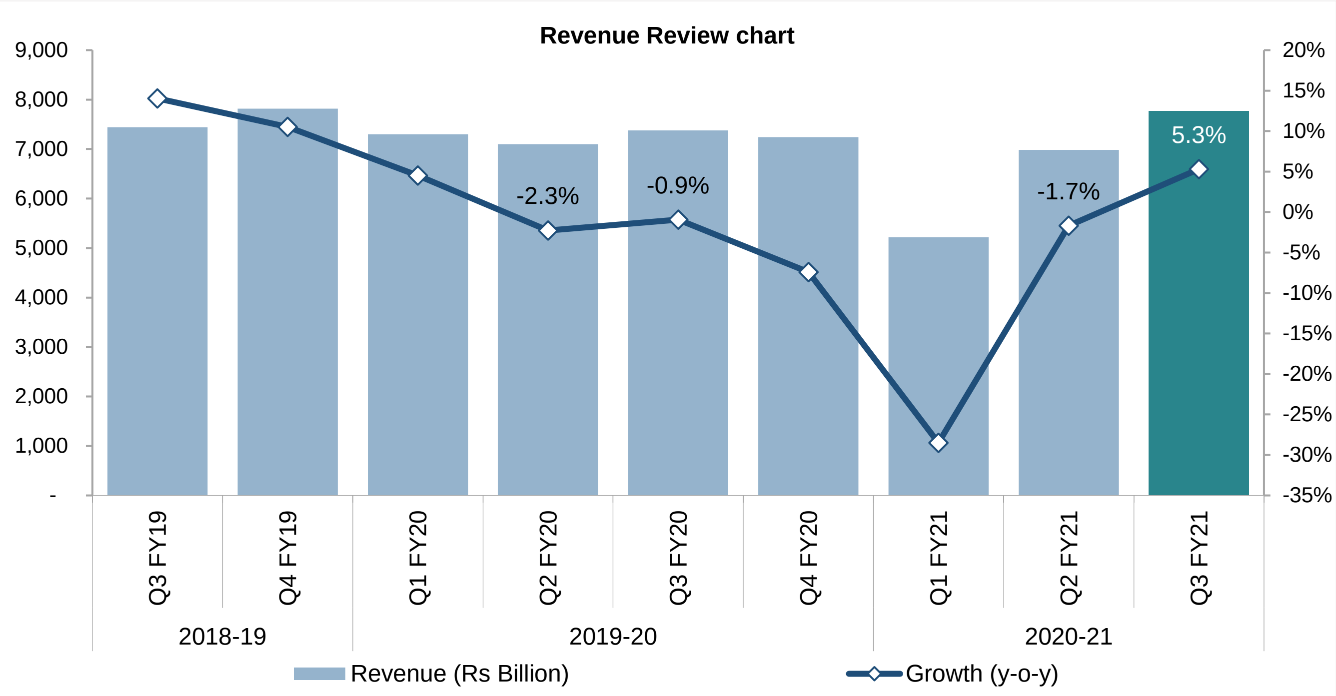
An across-the-board recovery is evident in the third quarter of fiscal 2021.

The aggregate topline of ~460 companies across 50 sectors (excluding financial services and oil) increased ~5% on-year in the third quarter of fiscal 2021, compared with an ~2% on-year decline in the previous quarter.

This marks the first time India Inc has posted positive growth since the pandemic hit the country.

The revenue growth of sectors such as consumer staples, export-linked sectors such as pharma and IT and construction-linked sectors such as cement and steel more than offsets the revenue fall in consumer discretionary sectors such as airlines services, media and entertainment and hotels.

Revenue increased as economic activities resumed



Note: Analysis is based on ~460 companies, constituting 60-65% of market capitalisation of National Stock Exchange-listed companies (excluding financial services and oil companies)

Source: CRISIL Research

Consumption-linked sector revenue has shown signs of recovery. Within that space, revenue of consumer discretionary products rose ~12% on-year as automobiles-linked sectors registered healhy growth, aided by higher realisations and pent-up demand during the festive season. Also, revenue of consumer staples rose 10% on-year, driven by a recovery in the FMCG segment. On the other hand, sectors like airlines, hotels, and retailing, continue to be among the worst-hit (>13% drop for consumer discretionary services) as discretionary spending continues to be low amid amid uncertainty about future income and the need to save for future medical expenses.

Construction-linked sector revenue rose 12% on-year, led by growth in sectors such as steel and cement, driven by a pick-up in infrastructure activities and traction in demand from individual housing (IHB) in semi-urban and rural region. Further, with migratory labour workforce levels returning to normal, the decline in the revenue of construction companies was restricted to a mere -1% on-year. Export-linked sector revenue, such as pharmaceuticals and IT services, was supported by rupee depreciation of 4% during the quarter. Pharmaceuticals revenue also improved, aided by higher global demand.

Rise in revenue of cement, steel, export-linked, and consumer staples led overall revenue growth

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
Overall	**10.5%**	**4.5%**	**-2.3%**	**-0.9%**	**-7.4%**	**-28.5%**	**-1.7%**	**5.3%**
Key sectors	**9.8%**	**4.7%**	**-2.9%**	**-1.6%**	**-7.8%**	**-26.8%**	**1.1%**	**7.7%**
Automobiles	0.2%	-9.2%	-25.7%	-11.3%	-30.4%	-71.5%	4.1%	21.8%
Cement	12.9%	9.2%	7.4%	5.4%	-6.9%	-29.7%	5.2%	13.4%
FMCG	7.9%	5.8%	4.0%	2.7%	-7.3%	-8.3%	5.5%	9.0%
IT services	17.2%	11.1%	8.1%	7.8%	7.6%	4.2%	4.3%	5.9%
Petrochemicals	-1.1%	-21.4%	-27.8%	-19.2%	-17.5%	-30.2%	17.1%	36.1%
Pharmaceuticals	11.5%	10.7%	10.4%	4.0%	4.5%	3.9%	8.9%	7.9%
Power	8.9%	12.9%	0.3%	-2.3%	8.7%	-10.7%	5.4%	3.1%
Steel products	8.9%	-2.9%	-15.2%	-7.5%	-19.3%	-39.4%	12.1%	21.2%

Notes:

1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, 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, coal, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, ITeS, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, textiles, transmission towers and telecom towers)

2) Analysis is based on ~460 companies, constituting 60-65% of market capitalisation of National Stock Exchange-listed companies (excluding financial services and oil companies)

Source: CRISIL Research

Sector-wise:

- **Steel product** companies revenue rose by a robust 21% on-year, on account of bumper realisations, coupled with an ~11% on-year increase in steel demand, led by a recovery in state capex, auto production, white goods output and real estate construction. Further, domestic prices of flat steel and long steel rose by 29% on-year and 17% on-year, respectively, further supporting revenue growth.
- **Pharmaceutical** industry revenue rose by a healthy ~8% on-year, aided by global demand, especially from the US and Europe, and a weakening rupee.
- **Cement** sector revenue rose ~13% on-year, owing to an ~9% on-year rise in cement volume, on the back of sustained demand from individual housing (IHB) in semi-urban and rural region, and healthy pick-up in infra activities from October onwards, which led to volume growth across regions for pan-India players.
- **FMCG** sector revenue rose ~9% on-year, on account of improving demand from urban areas/ metros, as well as festive demand during the quarter.
- **Power** sector revenue rose 3% on-year. Revenue of power generation companies rose ~4% on-year as players posted improved power sales volumes on account of higher industrial and commercial activity post the easing of lockdowns. Also, transmission segment revenue grew 8% on-year. However, distribution segment revenue declined 6% on-year as electricity demand, mainly in the commercial and industrial customer categories, remained low.

- Automobile company revenue rose ~22% on-year, led by a pick-up in sales volumes across categories. For PV manufacturers, revenue rose ~13% on-year, owing to ~13% on-year improvement in volume and flat realiastions. For two-wheeler manufacturers, sales volume increased ~20% on-year amidst the festival season, Also, realisations improved 6-8% on-year due to BS-VI price hikes and further price hikes undertaken by all players to offset rising raw material prices. Revenue of CV manufacturers increased 31% on-year due to an ~19% on-year increase in sales volumes and ~10% on-year increase in realisations. The growth in tractor sales was further aided by a favourable monsoon, strong festive demand, higher sowing, positive farmer sentiment on account of expected high rabi output, and greater government support through early procurement and higher disbursement under income support schemes.
- **IT services** revenue grew a modest 6% on-year because of rupee depreciation and high double-digit growth (~21%) in digital services (constituted nearly 44% of revenue).
- **Petrochemical** manufacturers' revenue rose ~36% on-year, owing to rise in sales volumes, coupled with a steep rise in product prices. Further, demand from downstream segments also improved with some recovery in economic activity.

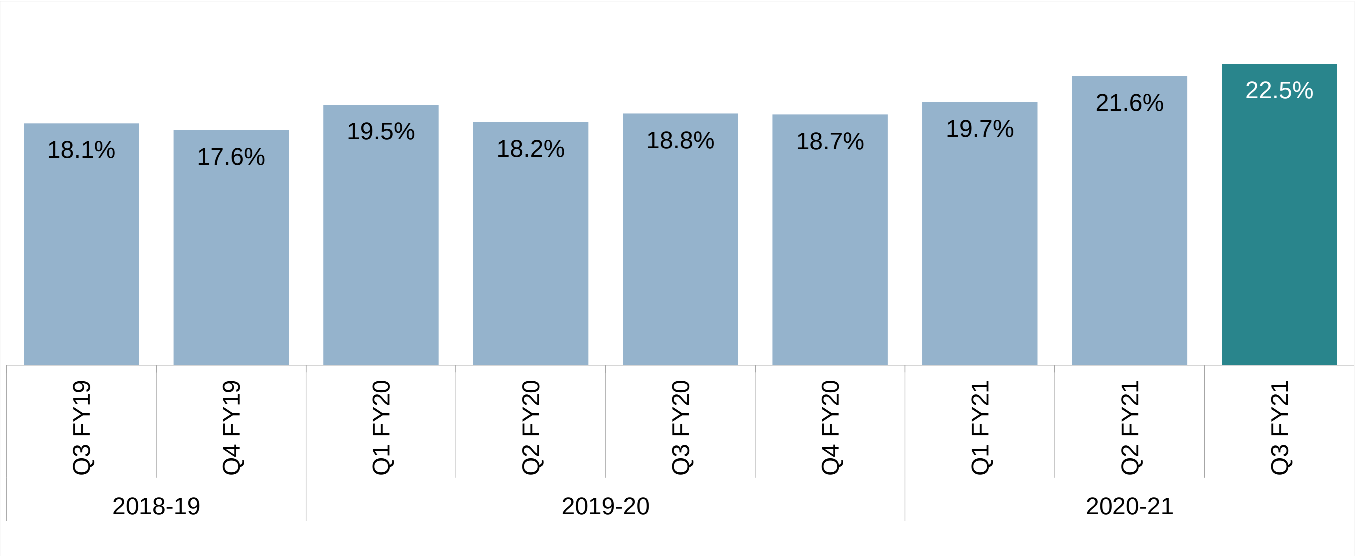
Other key sectors that impacted revenue

- **Aluminium** industry revenue rose 5% on-year, owing to higher metal prices on-year and a marginal rise in production volumes. Aluminium prices for the quarter averaged $1984/tonne, up 13% on-year, in tandem with the current base metal prices rally owing to strong Chinese demand.
- **Capital goods** revenue slid 20% on-year, constrained by the low revenue of most companies due to a fall in demand from the industrial and energy segments.
- **Sugar** mills revenue rose 7% on-year, led by higher revenue from the distillery segment as mills diverted a higher amount of cane towards B-heavy molasses.
- **Organised retailers** saw revenue fall ~26% on-year, on account of lower footfalls despite the opening up of malls, amidst several challenges thrown up by the pandemic. However, the decline was lower than was seen in the previous two quarters, driven by festive season demand.
- **Airline services** revenue nosedived 51% on-year, attributable to a 45% on-year plunge in capacity and 11% on-year drop in revenue per available seat km.

EBITDA margin at all-time high, owing to recovery across sectors and cost-reduction initiatives

Aggregate EBITDA rose 26% on-year amidst improving utilisation levels and better management of power, fuel and raw material costs. In fact, in absolute terms, the third quarter of fiscal 2021 witnessed record EBITDA profits. Aggregate margin, at 22.5%, improved nearly 370 bps during the quarter.

EBITDA margin expands on account of better cost management measures



Note: Analysis is based on ~460 companies, constituting 60-65% of market capitalisation of National Stock Exchange-listed companies (excluding financial services and oil companies).

Source: CRISIL Research

Sectorally, margins of construction-linked industries, such as cement and steel products, expanded at a healthy rate, owing to higher realisation, cost-control measures, and low input cost. Margins of pharmaceutical and IT services sectors improved on account of resilient revenue growth and lower on-year expense amidst the pandemic.

But margins of travel and tourism-related sectors, such as airline services and hotels, and retail sectors, contracted considerably, arresting any further expansion in margins.

EBITDA margins improving across most key sectors

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
Overall	**17.6%**	**19.5%**	**18.2%**	**18.8%**	**18.7%**	**19.7%**	**21.6%**	**22.5%**
Key sectors	**17.9%**	**20.2%**	**19.3%**	**19.6%**	**19.6%**	**20.9%**	**22.7%**	**23.4%**
Automobiles	10.4%	10.6%	9.1%	10.1%	7.1%	-3.7%	11.0%	11.4%
Cement	18.3%	23.1%	18.6%	17.4%	20.9%	24.6%	24.5%	22.7%
Petrochemicals	12.5%	11.1%	14.5%	13.5%	15.5%	15.4%	26.1%	33.3%
FMCG	26.2%	26.8%	26.3%	26.8%	24.5%	24.6%	26.8%	26.3%
IT services	22.3%	20.9%	21.4%	22.4%	21.9%	22.3%	24.6%	25.0%
Pharmaceuticals	18.7%	20.9%	20.6%	20.1%	19.0%	23.5%	24.2%	23.6%
Power	31.2%	37.9%	38.3%	37.5%	33.2%	41.3%	40.9%	37.9%
Steel products	17.4%	17.1%	14.9%	14.1%	24.4%	10.0%	20.4%	28.9%

Notes:

1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres. The overall industry covers key sectors and other sectors (automotive castings, ceramic tiles, commodity chemicals, coal, distillers and breweries, edible oil,

educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, ITeS, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, textiles, transmission towers and telecom towers)

2) Analysis is based on ~460 companies, constituting ~60-65% of market capitalisation of National Stock Exchange-listed companies (excluding financial services and oil companies)

Source: CRISIL Research

Impact on EBITDA margin of key sectors

- Margins of **cement** manufacturers widened ~520 bps on-year, led by stellar volume growth and better pricing on-year, as well as rationalisation initiatives by the companies in previous quarters.
- **Steel product sector margin** skyrocketed ~1480 bps on-year, in line with higher revenue growth on-year, owing to bumper realisations and 23% on-year fall in coking coal prices during the quarter, which provided relief to steelmakers.
- The **pharmaceuticals** sector's margin expanded ~350 bps on-year, led by operational efficiencies, and lower expenses (lower travelling and promotional costs during the pandemic), and some product-specific opportunities.
- **IT services** margin improved ~265 bps on-year to 25.0%, owing to favourable rupee movement and lower travel costs, sub-contracting costs and marketing expenses.
- The **power** industry's margin contracted marginally by ~45 bps on-year due to increase in fuel cost and other operating expenses.
- The **automobile** industry's margin expanded ~135 bps on-year, owing to higher capacity utilisation as well as improved realisations.
- **Airline services** margin declined ~435 bps on-year due to an ~1,500 bps on-year drop in passenger load factor fuelled by the pandemic. Furthermore, fixed and semi-variable costs, such as employee costs, lease rentals, parking charges and minimum maintenance costs, still have to be borne by operators despite reduced operations.
- The margin of **FMCG** companies contracted ~50 bps on-year due to rise in raw material prices.

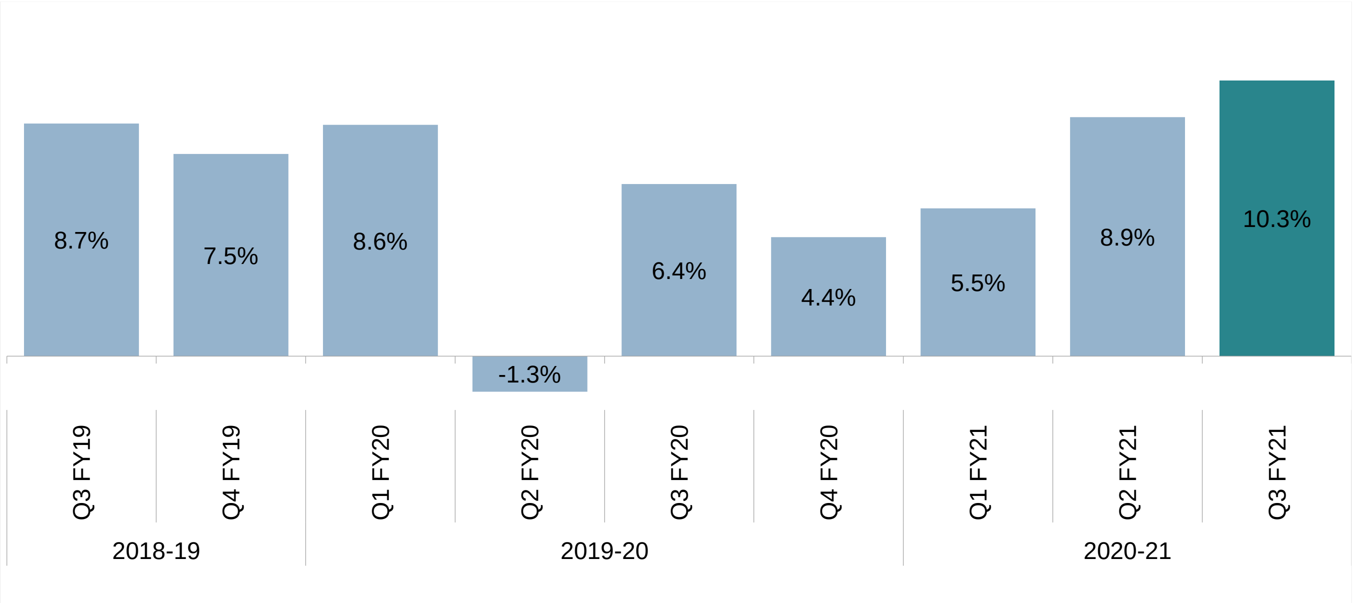
Net profits at new high; net profit margin of sectors expanded in line with EBITDA margins

India Inc continued to make gains in the third quarter despite pandemic-induced disruptions. Aggregate net profits touched ~Rs 0.8 lakh crore in the third quarter of fiscal 2021, while margins improved ~385 bps on-year to 10.3%, as:

- Net profit margin of **cement and steel intermediaries**, both construction-linked sectors, expanded ~505 bps and ~1045 bps on-year, respectively, because of healthy operating performance and falling coking coal prices
- The **power** sector's net profit margin expanded 710 bps on-year, due to higher surcharge, dividend income and lower interest cost.
- The **automobile** sector's net profit margin expanded ~50 bps, aided by higher EBITDA margins but offset to a certain extent by higher interest outgo.
- However, the **airline** sector's net profit margin was -10%, attributable to the drop in operating margin, and rise of 6% on-year in depreciation and amortisation expense because of a 4% on-year increase in the fleet strength, coupled with 8% on-year increase in interest cost.
- The **hotel** industry continued to report net losses for the third subsequent quarter, with net profit margin at ~(22%).

- Net profit margin of the **capital goods**, **telecom services** and **retailing** sectors also shrankconsiderably.

Industry net profit margin improved



Note: Analysis is based on ~460 companies, constituting 60-65% of market capitalisation of National Stock Exchange-listed companies (excluding financial services, telecom and oil companies).

Source: CRISIL Research

Cement, petrochemicals, pharmaceuticals, power and steel sectors aided improvement in overall net profit margin

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
Overall	**7.5%**	**8.6%**	**-1.3%**	**6.4%**	**4.4%**	**5.5%**	**8.9%**	**10.3%**
Key sectors	**7.6%**	**8.4%**	**-3.3%**	**6.0%**	**4.7%**	**5.7%**	**8.9%**	**10.4%**
Automobiles	6.8%	8.9%	6.3%	4.7%	-7.2%	-11.1%	3.7%	5.2%
Cement	8.8%	10.4%	6.5%	6.8%	14.5%	10.5%	11.8%	11.8%
FMCG	20.1%	18.3%	21.5%	20.9%	19.7%	19.1%	19.6%	19.5%
IT services	18.1%	17.1%	17.4%	17.5%	17.0%	16.6%	17.3%	19.4%
Petrochemicals	1.3%	-0.3%	1.3%	0.9%	2.7%	-1.3%	5.5%	9.2%
Pharmaceuticals	8.9%	12.4%	11.4%	6.5%	11.2%	7.7%	15.1%	18.4%
Power	9.9%	11.1%	15.3%	5.9%	-0.7%	10.1%	19.0%	13.0%
Steel products	3.8%	4.5%	9.6%	2.3%	4.0%	-1.7%	7.5%	12.8%

Notes: 1) Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, 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, coal, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, IT/ITeS, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, textiles, transmission towers and telecom towers)

2) Analysis is based on ~460 companies, constituting 60-65% of market capitalisation of National Stock Exchange-listed companies (excluding financial services and oil companies)

Source: CRISIL Research

Annexure 1

Price indicators

Rs.	Unit	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21E
Steel Flat	Rs/tonne	43,050	42,717	38,150	36,150	39,300	38,300	39,850	46,717	52,000
Steel Long	Rs/tonne	40,033	41,200	39,183	38,316	42,830	42,830	41,400	44,900	52,500
Aluminium	Rs/tonne	1,50,127	1,46,660	1,41,367	1,36,363	1,42,460	1,37,033	1,46,000	1,60,210	1,70,000
Iron Ore	Rs/tonne	2,270	2,226	2,209	1,985	2,318	2,193	2,205	3,300	4,500
Cement	Rs per bag	339	373	358	343	352	377	366	362	360
Sugar (Mumbai S30)	Rs/quintal	3,010	3,110	3,116	3,200	3,136	3,103	3,198	3,107	3,067
Crude oil	$/barrel	63	69	62	63	51	31	43	45	61
Telecom ARPU	Rs/unit	119	121	124	127	137	139	146	153	137
Re/ $ movement	Rs/USD	70.5	69.5	70.4	71.2	72.4	75.9	74.4	73.8	72.9

E: Estimated

Note: Exchange rate is average rate for the quarter

Source: CRISIL Research

Price indicators (on-year)

On-year	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21E
Steel Flat	-1%	-5%	-15%	-20%	-9%	-10%	4%	29%	31-33%
Steel Long	0%	1%	1%	-6%	7%	4%	6%	17%	22-23%
Aluminium	-5%	-15%	-14%	-17%	-5%	-7%	3%	17%	18-20%
Iron Ore	-3%	0%	-5%	-28%	2%	-1%	0%	66%	93-95%
Cement	4%	14%	8%	5%	4%	1%	2%	6%	1-3$%
Sugar (Mumbai S 30)	-2%	8%	2%	9%	4%	0%	3%	-3%	(1-3)%
Crude oil	-6%	-8%	-18%	-7%	-20%	-54%	-31%	-29%	20-22%
Telecom ARPU's	6%	23%	33%	15%	15%	15%	18%	21%	(1)-1%
Re/ $ movement	10%	4%	1%	-1%	3%	9%	6%	4%	0-2%

E: Estimated

Note: Exchange rate is average rate for the quarter

Source: CRISIL Research

Volume indicators

On-year	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21E
CVs	-1%	-14%	-35%	-19%	-48%	-85%	-20%	-1%	46%
Cars	-1%	-18%	-30%	2%	-16%	-81%	16%	13%	32%
Two-wheelers	-2%	-5%	-18%	-13%	-24%	-69%	3%	20%	21%
Cement (large+mid)	11%	-2%	2%	1%	-13%	-30%	8%	9%	14%
Cement - large	9%	-3%	6%	6%	-12%	-29%	8%	11%	16%
Cement - mid	12%	1%	-2%	-1%	-14%	-33%	-2%	3%	10%
Steel	7%	7%	3%	1%	-12%	-57%	-6%	11%	20%
Aluminium	1%	-2%	-1%	-5%	-2%	-5%	-2%	0%	0%
Telecom data	110%	281%	110%	85%	65%	42%	35%	31%	0%

E: Estimated

Source: CRISIL Research

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