Press Release

January 7, 2019 | Mumbai

India Inc revenue growth seen down 400-500 bps in Q3

High-base effect main cause; cost pressure to crimp margin growth, too

Corporate revenue growth is expected to print at 12-13% on-year for the third quarter of this fiscal ended December 31, 2018, or 400-500 basis points lower than the ~17% on average in the first two quarters. That's primarily because of the high-base effect created by the 13% growth seen in the third quarter of last fiscal, which followed ~7% in the preceding two quarters.

Growth in operating profit (EBITDA; or earnings before interest, tax, depreciation and amortisation), is also expected to print lower, at just below 10% on-year compared with ~15% over the three quarters preceding.

Linked to this, India Inc is expected to report a margin contraction of ~50 basis points (bps) on-year for the quarter amid rising raw material costs across sectors.

The forecast is based on CRISIL Research's analysis of 362 companies, which account for ~67% of the market capitalisation of the National Stock Exchange, excluding banking, financial services and insurance (BFSI) and oil sectors.

Says Prasad Koparkar, Senior Director, CRISIL Research, "Commodity and infrastructure-linked sectors are expected to support revenues for the quarter ended December. Steel, cement, natural gas and petrochemicals are expected to be driven by volume and/or realisation growth, while sectors such as construction and capital goods are expected to grow on a pickup in execution of key infrastructure-led government schemes. In consumption spending-led sectors such as airline services and retail, revenues will be supported by positive demand sentiment, while in export-oriented segments such as IT services and pharma, the boost would come from a weak rupee on a y-o-y basis."

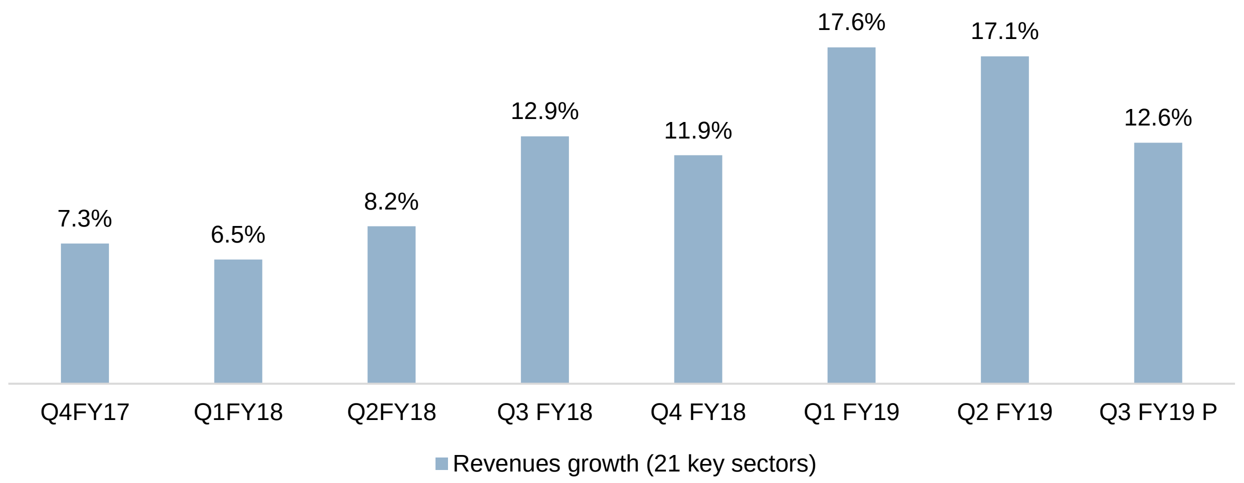
However, overall revenue growth will be constrained by a demand slowdown in automobiles, sugar, aluminium and telecom services. Automobiles revenue is expected to have been impacted by a rise in ownership costs, while the other sectors would bear the impact of lower realisations and competitive pressures.

Even with healthy topline growth, India Inc is expected to face dampened profitability at the operating level with rising input prices building pressure on the cost structure. Despite softening of commodity prices and a weakening of the rupee towards the end of Q3 FY19, the prices of most common commodities remain high on-year. Having said that, full impact of the softening may be visible in the fourth quarter of this fiscal.

Says Rahul Prithiani, Director, CRISIL Research, "Domestic prices of coal, long steel, flat steel and aluminium are expected to have risen 13%, 15%, 18% and 6%, respectively, on-year in the third quarter. Additionally, oil prices are expected to print 10-11% higher even as rupee depreciation would be ~11% on-year. Limited ability to pass through increased input prices to end customers in sectors such as airlines, cement, retail and telecom due to competitive pressures and high sensitivity to price movements will also accentuate pressure on the margins."

Annexure: key charts

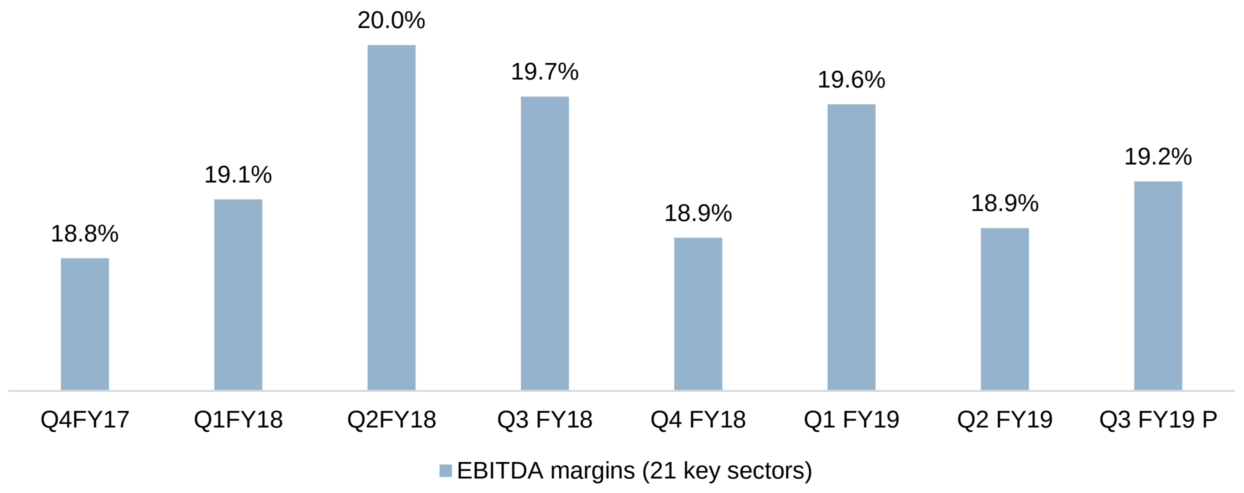
Revenue: Growth momentum likely moderated, but on a high base



Note: Graph depicts revenue percentage growth y-o-y of 362 companies for the past 8 quarters

Source: CRISIL Research

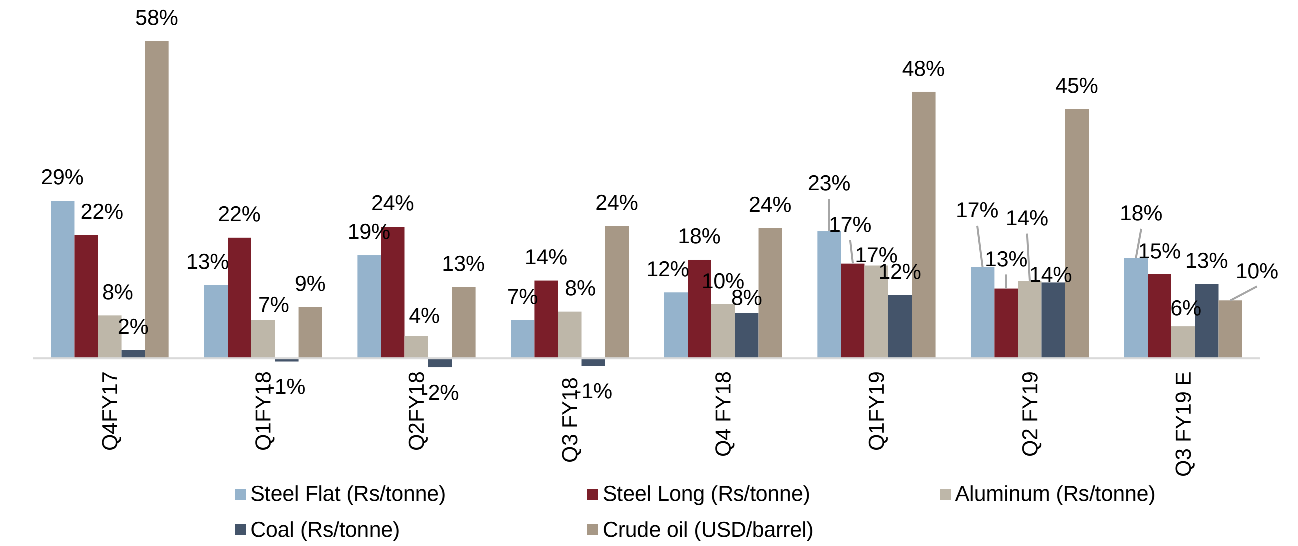
Operating margin: Margins expected to be under pressure



Note: Graph depicts EBITDA margin percentage of 362 companies for past 8 quarters

Source: CRISIL Research

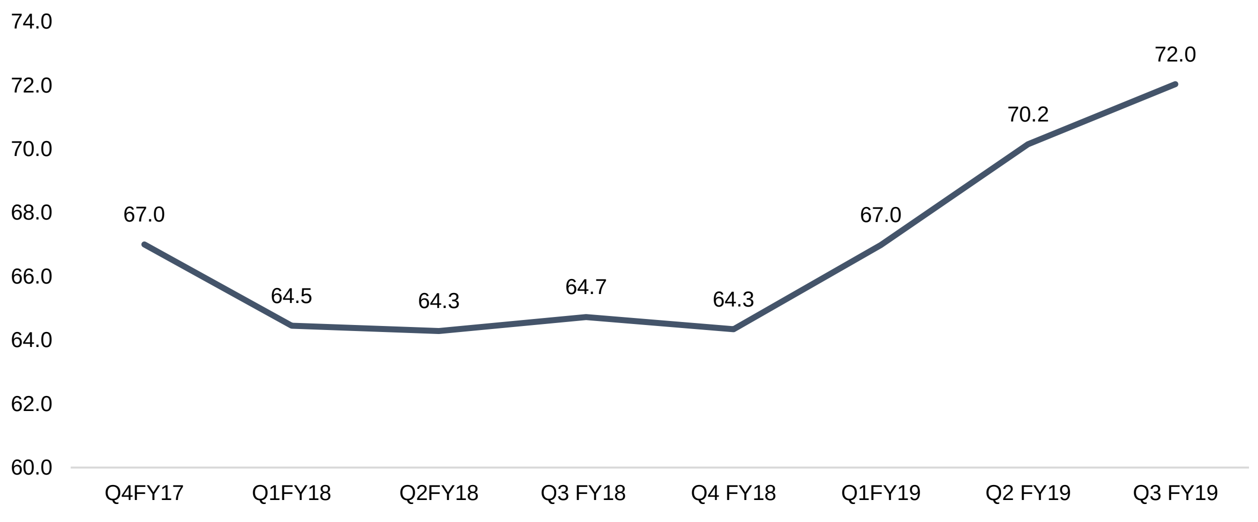
Cost: Commodity price rise sustained, though softer on-quarter



Note: Graph depicts percentage change in commodity prices y-o-y

Source: CRISIL Research

Rupee depreciation: Added to cost pressure, but beneficial to export-linked sectors



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

Source: CRISIL Research

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