Research

CRISIL
An S&P Global Company

Size matters in viral bout

Analysis of corporate profitability shows the smaller the company, the sharper the pain

Chartbook

Small hit big

Large corporates resilient amid pandemic, not so small ones

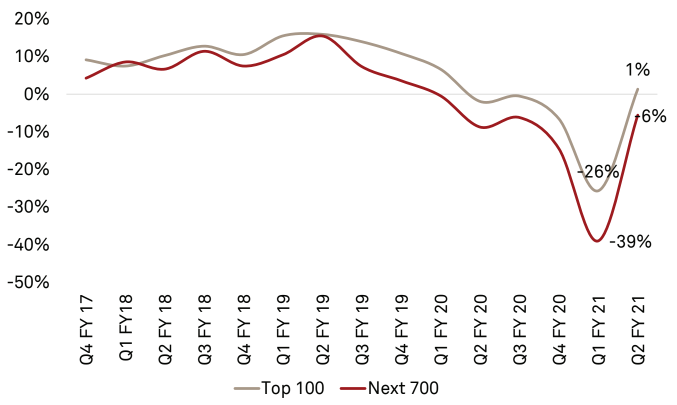
Size matters, the pandemic appears to have reiterated.

A CRISIL Research analysis indicates the revenue of corporate India – excluding banking, financial services and insurance (BFSI), and oil companies – remained stable on-year in the second quarter this fiscal, after having fallen ~29% on-year in the first.

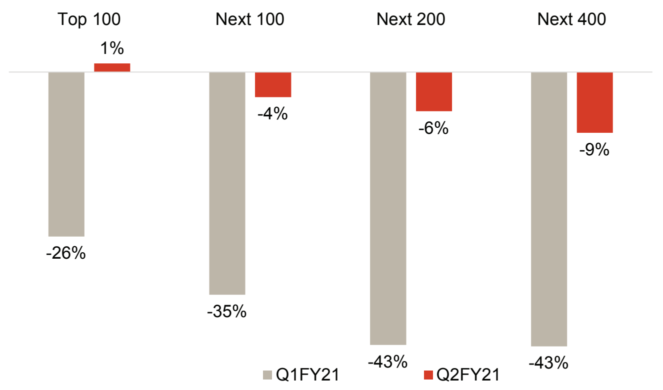
Large players saw muted revenue growth. However, small players, which are typically low on bargaining power and cash-crunched remained in the red. The smaller the company, the more excruciating the pain.

Indeed, less than 20% of the smaller 400 companies logged revenue growth, as against nearly 35% of the top 100 companies that grew in the first half of the fiscal.

Gap in revenue growth between large and small players has narrowed



Smaller the player, greater the dip in revenue



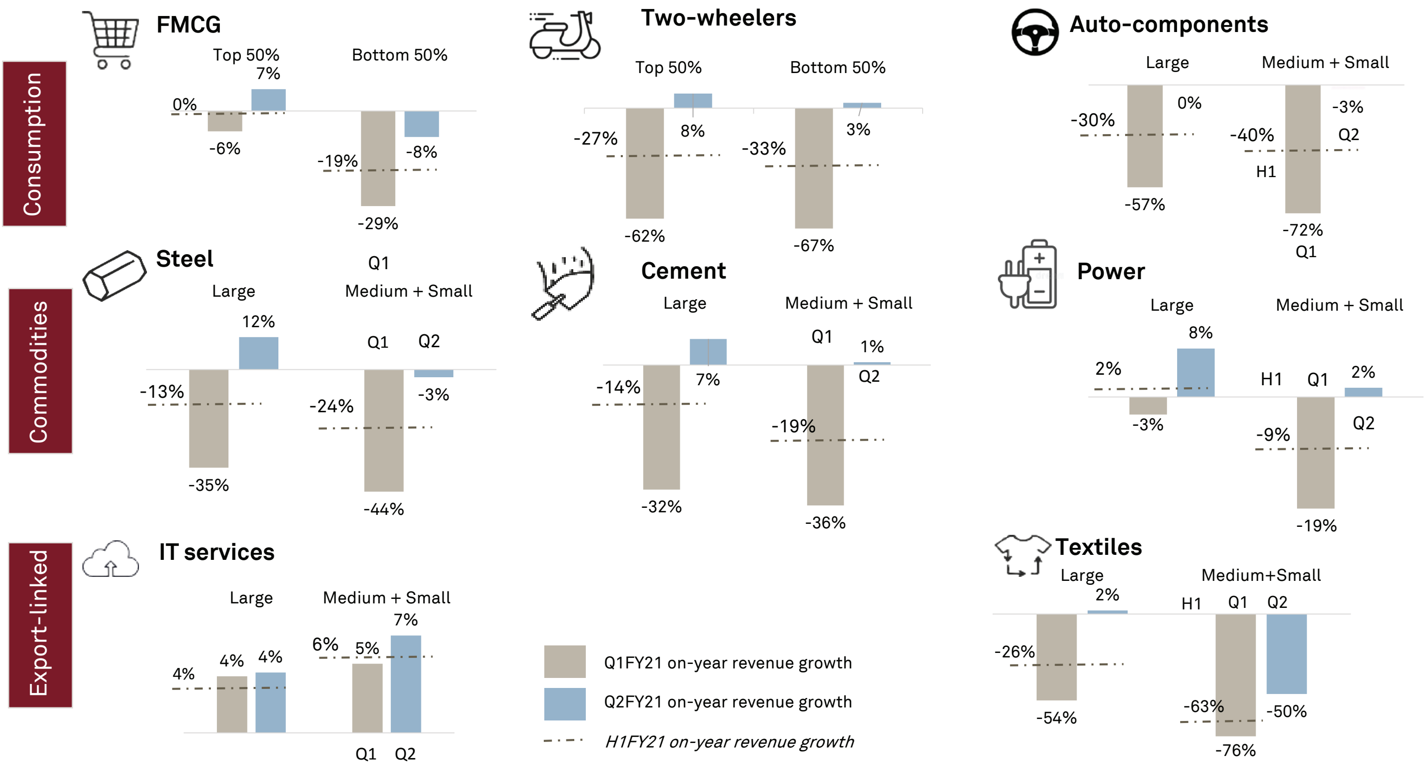
Note: Our sample set considers ~800 listed companies, comprising ~85% of the National Stock Exchange's market cap (excluding financial services and oil companies)
Source: CRISIL Research

A sectoral analysis also corroborates the trend – big hit on small companies.

In consumption- and commodity-linked sectors, most large players logged growth in the second quarter, while their smaller counterparts de-grew.

Among exporters, smaller textile businesses – readymade garments and cotton yarn – suffered chronic pain, while IT services showed resilience with both large and small players showing steady sequential growth.

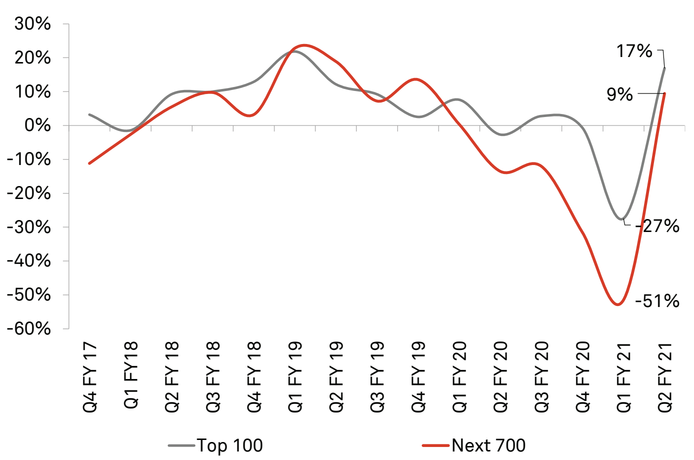
Sectoral trend mirrors aggregate performance in Q2



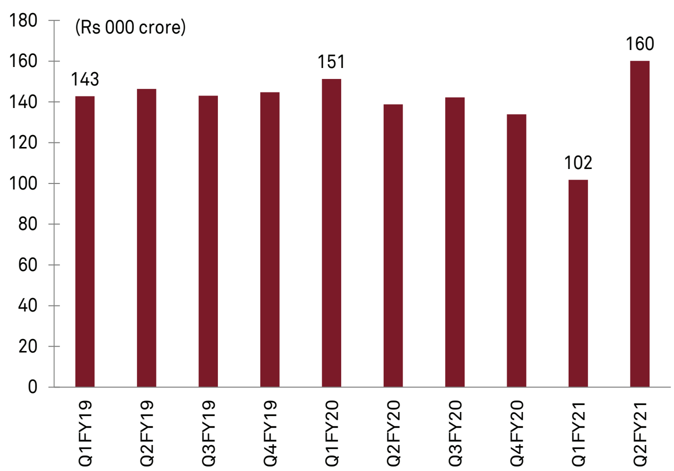
Source: CRISIL Research
Note: For sectors like auto-components and textiles, companies with FY20 revenue greater than Rs 500 crore have been classified as large. Tier-I IT companies, too, are classified as large, while for other sectors, companies have been classified as large on the basis of their capacity.

Aggregate earnings before interest, tax, depreciation and amortisation (Ebitda) rose ~15% on-year in the second quarter amid improving utilisation levels, along with better management of power, fuel and raw material cost by large companies. Ebitda fell ~32% in the previous quarter. Absolute Ebitda profit hit a 12-quarter high in the second quarter of fiscal 2021. Aggregate margins, too, improved by over 100 bps despite a rise in raw material cost during the period.

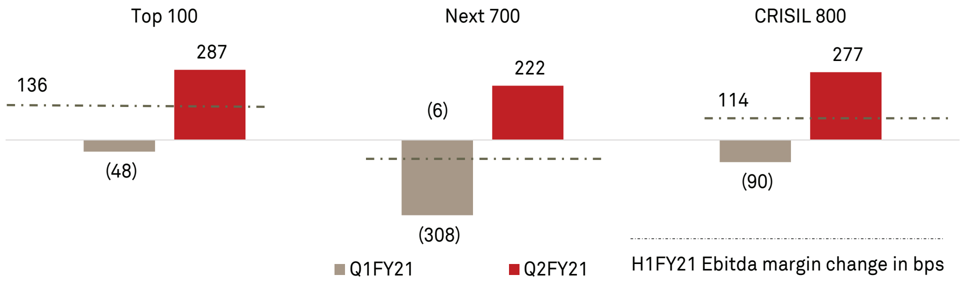
Gap in fall in operating profit between large and small players also narrowed in Q2



Absolute Ebitda reached all-time high

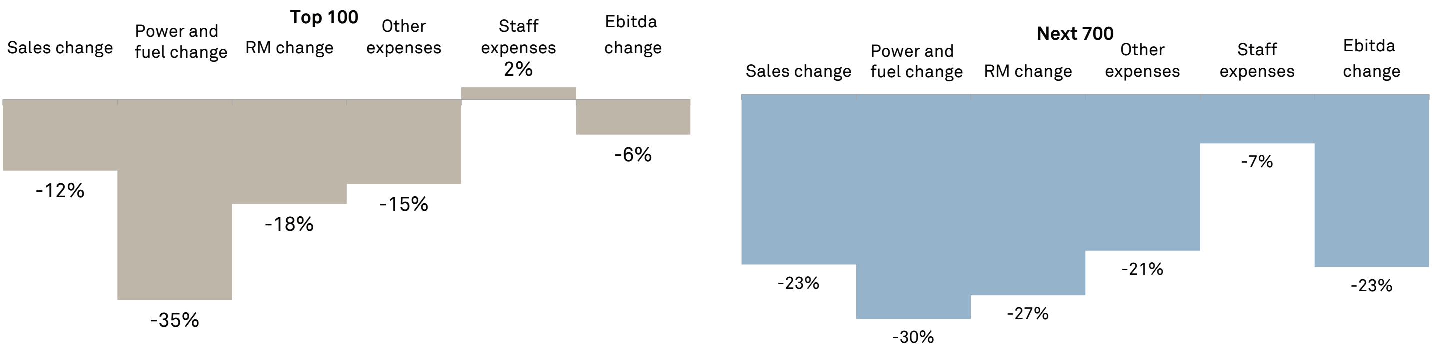


Rise in Ebitda margin broad-based in Q2FY21



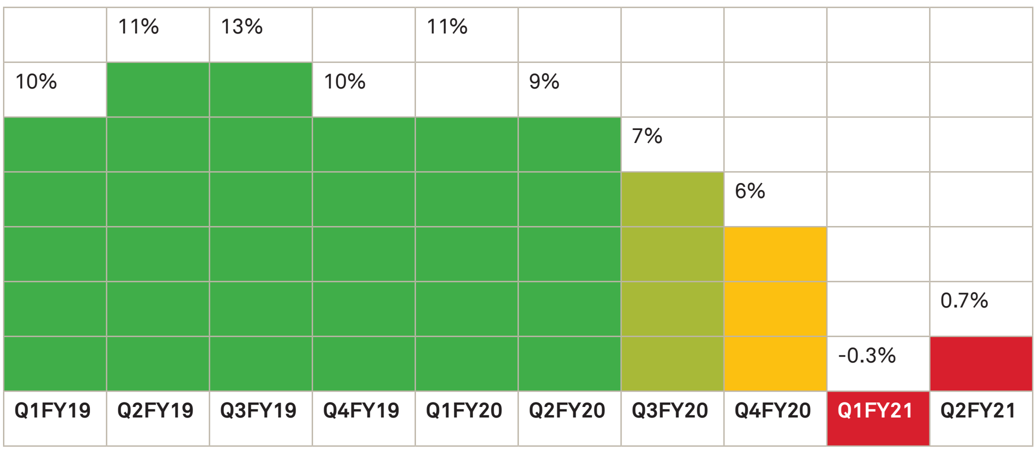
Note: Represents change in Ebitda margin on-year
Source: CRISIL Research

Better ability of larger players to manage power, fuel and input cost expanded margin in H1FY21



Source: CRISIL Research

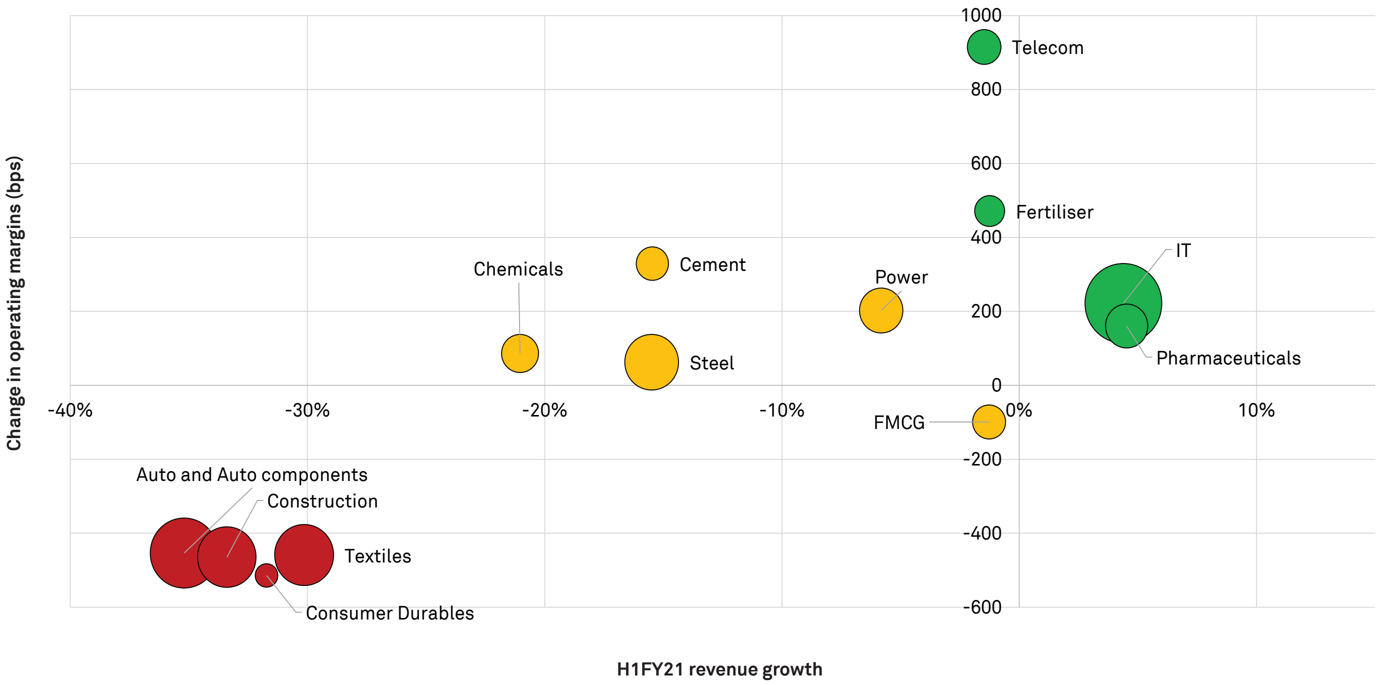
After a fall in Q1, employee expense inches up in Q2



Source: CRISIL Research

Employee expense for manufacturing firms (370 firms) is expected to have contracted 4% on-year, while service players, which reported moderate growth rates, incurred higher on-year cost.

Commodities, farm-linked and select export sectors outperformed

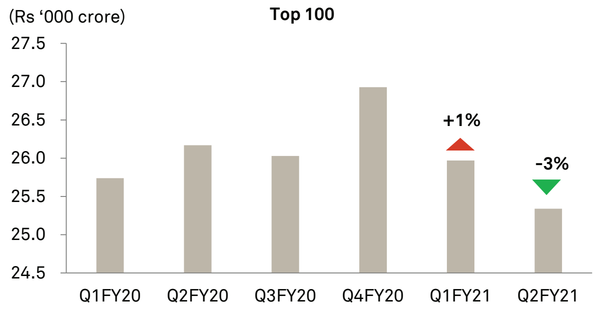


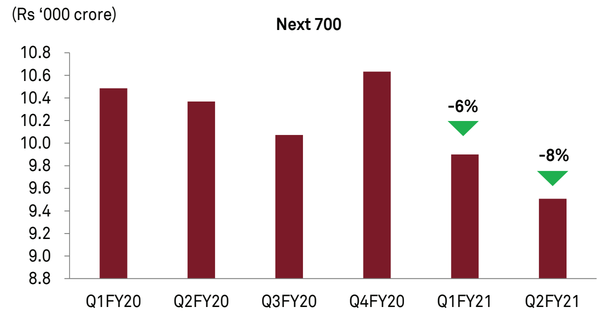
Note: In H1FY21, operating margins of airlines and hotels fell ~62% points with a 79% fall in revenue
The size of the bubble represents the industry size as of FY20
Source: CRISIL Research

- Export-linked sectors such as IT and pharmaceuticals outperformed in the fiscal first half due to rupee depreciation and good demand in the export markets
- Chemicals witnessed a 21% decline owing to weak demand and lower average realisations
- The fertiliser sector's revenue dropped ~1%, despite robust demand, on account of reduced subsidy bill caused by lower gas pooled prices and lower nutrient-based subsidy rates, which impacted revenue of urea and non-urea players
- Consumer discretionary sectors, such as auto-components, airlines, hotels and consumer durables were hit hard by multiple lockdowns, which impacted sales volume, persistent supply issues and lower discretionary spend
- Travel-linked sectors such as airlines and hotels were the worst impacted; their revenue de-grew ~79% owing to travel restrictions and social distancing norms, which curtailed people movement
- The telecom industry witnessed healthy growth in margins in the first half due to higher average revenue per user post the tariff hikes in December last year, supported by customer uptrading (2G to 4G). Ebitda margin expanded 500-550 bps, driven by higher realisations
- Construction-linked sectors such as steel and cement witnessed double digit de-growth. However, their margin expanded, aided by benign costs and higher realisations
- The power sector's revenue declined due to lower sales volume on account of the lockdown-induced fall in power demand. However, Ebitda margin expanded owing to lower fuel and operating costs

While absolute interest cost corrected, total debt was constant, but cost of debt dropped.

Absolute interest cost fell modestly for large players, more for smaller ones

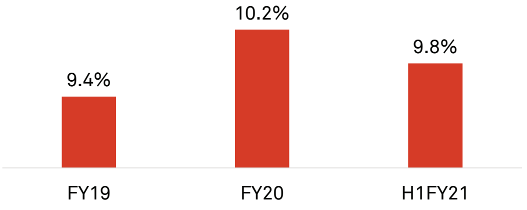




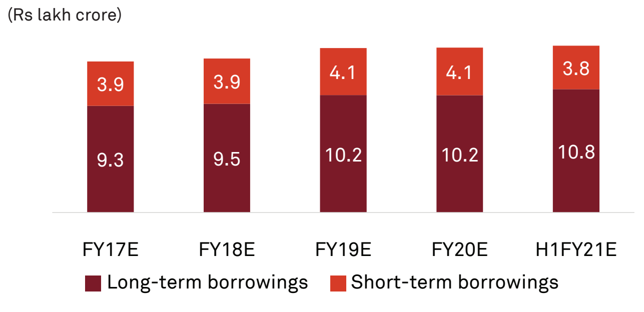
Source: CRISIL Research

Despite debt levels remaining stable, interest cost reduced due to lower cost of debt and lack of utilisation of working capital limits amid weak demand.

Average cost of debt fell

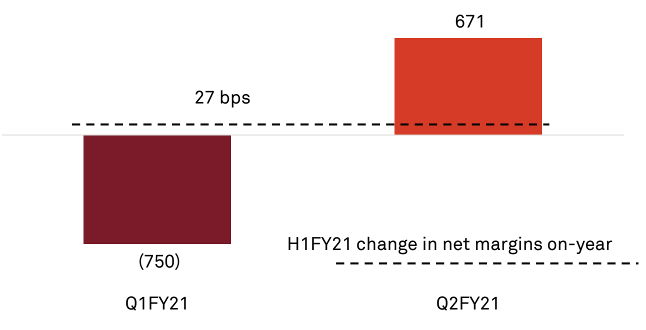


Debt levels held steady in FY21

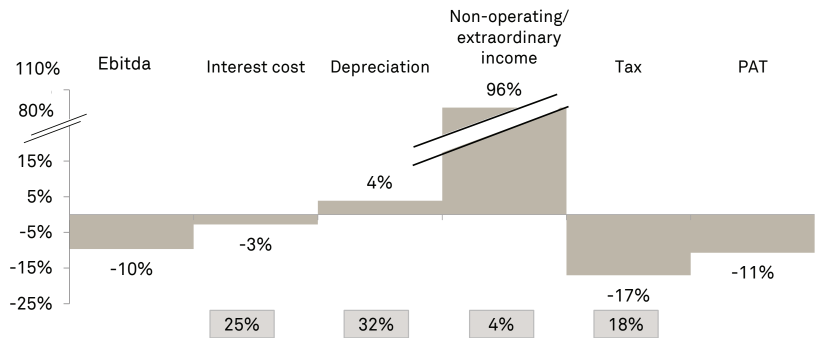


Source: CRISIL Research

Net margin recovered in Q2FY21



Drop in net profit has mirrored Ebitda movement



Source: CRISIL Research

Values in grey boxes represent share of the respective line item as a percentage of H1FY20 Ebitda.

The bounce-back in the second quarter of this fiscal, from the lows logged in the first, is expected to continue as high frequency indicators show a recovery trend for the third quarter as well.

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