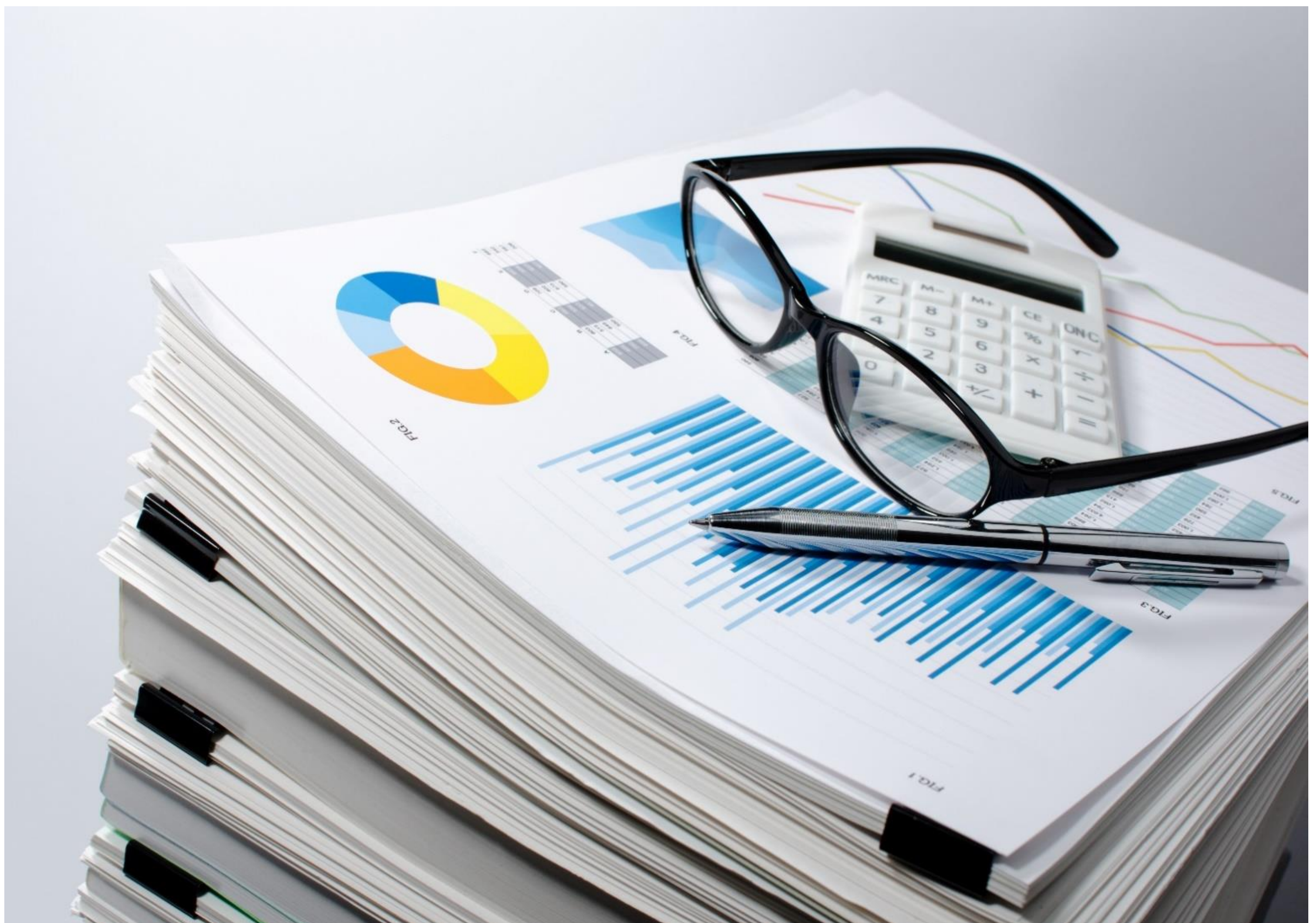
Research

CRISIL
An S&P Global Company

Fastest Q1 revenue growth in 3 years

Quarterly update of industry performance

July 2018



Industry outlook

Revenue outlook (April-June 2018)

Double-digit growth expected riding on consumption sectors and commodity prices

CRISIL Research expects corporate revenue growth, excluding that of banking, financial services, insurance, and oil companies, for the quarter to June 30, 2018, to print ~13% on-year. This would mark the third consecutive quarter of double-digit growth.

Sustained, broad-based recovery across consumption-linked sectors, coupled with higher commodity prices, is helping India Inc grow faster.

Consumption-linked sectors, with the exception of telecom services, are expected to grow in the mid-to-high teens for the fourth consecutive quarter. This will be driven by improving macros, a pickup in consumer sentiment, and growing rural demand, besides government support to farmers and expectations of a third year of normal monsoon. Inflation, though rising, is not going off the handle, aiding consumer sentiment.

Commodity-linked sectors, such as steel products and petrochemicals, are expected to continue growing as prices surge. Cement will continue to witness high volume-driven growth, led by a significant increase in capacity for a large player and high demand from the affordable-housing segment.

Export-linked sectors are also showing signs of improvement on a low base. We expect both information technology (IT) services and pharmaceuticals to clock double-digit growth. Though pricing and regulatory pressures from the US have increased, new product launches and improving domestic demand (primarily benefiting mid-sized and small formulation players, such as FDC and Pfizer) are expected to help limit the damage. The 4% rupee depreciation has also aided double digit export growth.

The competitive intensity in the telecom industry has intensified since January 2018 as the cut in interconnect usage charges started getting passed on to customers through lower tariffs and post-paid plans.

Agricultural commodity-linked sectors such as sugar and cotton yarn are unlikely to log any expansion in revenue, given softer commodity prices.

Sectoral revenue growth

Sector	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19 P
Key sectors	**7.3%**	**7.4%**	**8.6%**	**7.0%**	**6.2%**	**7.7%**	**11.9%**	**10.9%**	**12.8%**
Automobiles	9.6%	11.0%	2.7%	6.8%	4.7%	20.3%	24.8%	27.0%	34.3%
FMCG	5.7%	6.5%	1.2%	6.0%	0.8%	6.6%	10.1%	3.3%	10.8%
IT services	14.0%	8.6%	8.3%	5.8%	2.6%	3.6%	4.0%	5.0%	10.1%
Pharmaceuticals	8.8%	8.3%	10.4%	0.6%	-8.3%	0.7%	1.9%	7.4%	13.2%
Power	3.1%	0.6%	4.9%	-0.1%	6.4%	3.4%	5.6%	0.7%	-0.6%
Steel products	-3.0%	10.2%	30.4%	26.7%	23.9%	23.4%	25.2%	21.2%	37.5%
Telecom services	6.7%	6.8%	-2.5%	-14.0%	-15.8%	-22.0%	-29.3%	-26.8%	-30.4%

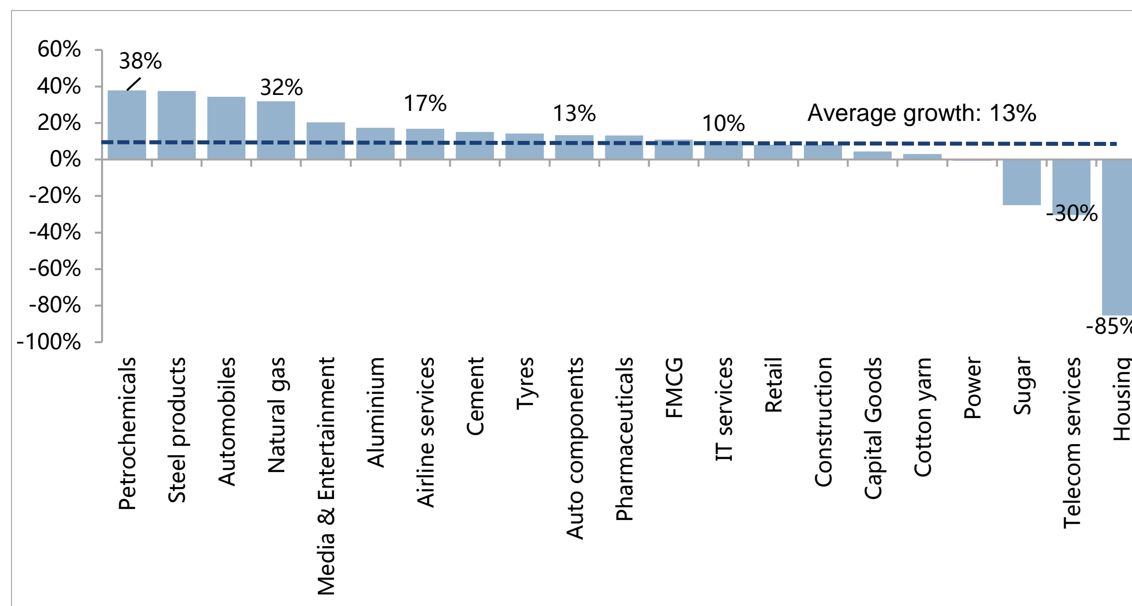
Source: CRISIL Research

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media & entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, telecom services, cotton yarn and tyres

- **Automobiles:** Revenue of key auto segments such as commercial vehicles (CVs) and cars is seen growing at a robust pace, as volumes surge on a low base of the quarter before the Goods and Services Tax (GST) was rolled out. A change in product mix towards higher-priced vehicles is also aiding realisation growth. CV revenue is expected to grow over 70%, followed by that of cars at over 30% and two-wheelers at over 15%. Rural sentiment seemed to be aiding growth for cars and two wheelers on expectations of another year of normal monsoons.
- **Fast-moving consumer goods (FMCG):** We expect aggregate revenue to improve ~11% on-year, riding on improving macros, a pickup in consumer sentiment, and growing rural demand on expectation of a third year of normal rains. Moreover, rural incomes will likely remain buoyant in a pre-election year.
- **IT services:** On-year growth in rupee revenue is projected to pick up from sub 5% in the previous four quarters to a healthy 10%. This is mainly because of the rupee's 3.56% on-year depreciation, and improvement in spending on IT by banks for the US and the UK markets. Revenue guidance for companies such as Infosys and HCL has been revised upwards on evidence of higher spends in the digital space. However, the recovery may not be substantial after adjusting for rupee depreciation.
- **Pharmaceuticals:** Aggregate revenue growth of large formulation players is expected to be healthy at 13-15%, driven by robust growth in the domestic market on a low base of the quarter before rollout of GST. Pricing pressure in the base business in regulated markets, coupled with fewer opportunities in the generic space, continues to restrict growth.
- **Power:** We expect generation revenue to rise 4-5% as an increase in power demand – supported by the air-conditioning and industrial cooling segment – boosts plant load factors. Transmission revenue is projected to rise 12-13% on-year, owing to expected high transmission capacity additions over fiscal 2018.
- **Steel products:** Revenue is projected to increase 35-40% on-year, primarily because of surging steel prices (18-20%) and healthy domestic demand growth of ~7-9% on-year. Domestic flat and long steel prices are estimated to rise ~13% and 18% on-year, respectively, led by a spike in global steel prices and elevated raw material prices.
- **Telecom**: We expect gross revenues to drop 30% amid continued strong competition. Decline in revenues will also partially reflect the reduction in interconnect usage charges from 14 paise/minute to 6 paise/minute effective October 1, 2017, and winding up of the wireless business by Reliance Communications.

While data traffic of most incumbents is expected to more than double on-year in Q1 fiscal 2019, the average revenue per user (ARPU) will continue to fall due to the cut-down in tariffs by operators, impacting realisations. The average realisation per MB plummeted~80% on-year in fiscal 2018 and is expected to decline a further 15-20% in the first quarter. Price wars in the smaller but relatively sticky postpaid segment have just begun and will likely keep pricing pressure on for incumbents.

Revenue growth outlook for Q1FY19



Source: CRISIL Research

Other sectors expected to drive revenue growth are:

- **Airline services:** Aggregate revenue of the sample set will increase 15-17% on-year on the back of strong growth in passenger traffic, primarily in the domestic sector. We expect domestic passenger traffic to expand 18-20% while realisations on domestic routes may increase only marginally, by 1-3%. Passenger traffic for listed carriers in the international space is also seen growing by a healthy 12-14%, mainly due to low-cost carriers. However, competition in this space would keep realisations under check.
- **Cement:** CRISIL Research expects revenue to increase 15% on-year, driven by a rise in sales volume for large players, aided by low-base effect. A large part of volume growth will come from UltraTech, owing to addition of capacity from the acquired plants of Jaypee, which was not part of the set in the corresponding quarter last year. Ramp-up in production of these assets is expected to drive volume for UltraTech.
- **Natural gas:** Revenue is forecast to increase 34-37% on-year on account of higher liquefied natural gas (LNG) sales. LNG spot prices have gone up by over 30% on year. Increase in LNG sales volume is led by increasing demand from industries and on account of regulatory changes, i.e., ban on polluting fuels in a few states.
- **Petrochemicals**: The revenues of petrochemical companies are expected to grow at 35-38%, led by a 20-21% on-year increase in naphtha prices, which follow crude oil. Further, healthy downstream demand has led the volume growth for the sector.
- **Sugar:** A steep 28% fall in sugar prices owing to bumper production in 2017-18 season (October-September) is expected to have pared revenue by over 20%. Revenues of South-based mills will likely decline more sharply, by ~35%, compared with 25% for mills based in Uttar Pradesh.

EBITDA margin

As operating leverage kicks in, profits to hit double-digits, EBITDA margins to stabilise

Operating leverage benefits would provide stability to EBITDA (earnings before interest, tax, depreciation and amortisation) margins, thanks to a sustained healthy revenue growth in the first quarter. India Inc's EBITDA margin may not shrink more than 10-20 basis points (bps) on-year or sequentially. The pace of margin contraction has reduced each quarter. While margin will remain at a 12-quarter low, the absolute rise in profits will help India Inc improve cash flows and debt serviceability.

On an overall basis, EBITDA margin dropped for only eight of the 21 key sectors. Higher commodity and raw material prices may take a toll on the margins of a few large sectors, such as airline services, cement, sugar, and natural gas. Further, rupee depreciation would limit margin erosion for IT companies.

However, competitive pressures would continue to erode pharma margins. Also, the profitability of telecoms will drop by an alarming 490-500 bps despite higher data traffic, as competitive pricing continues.

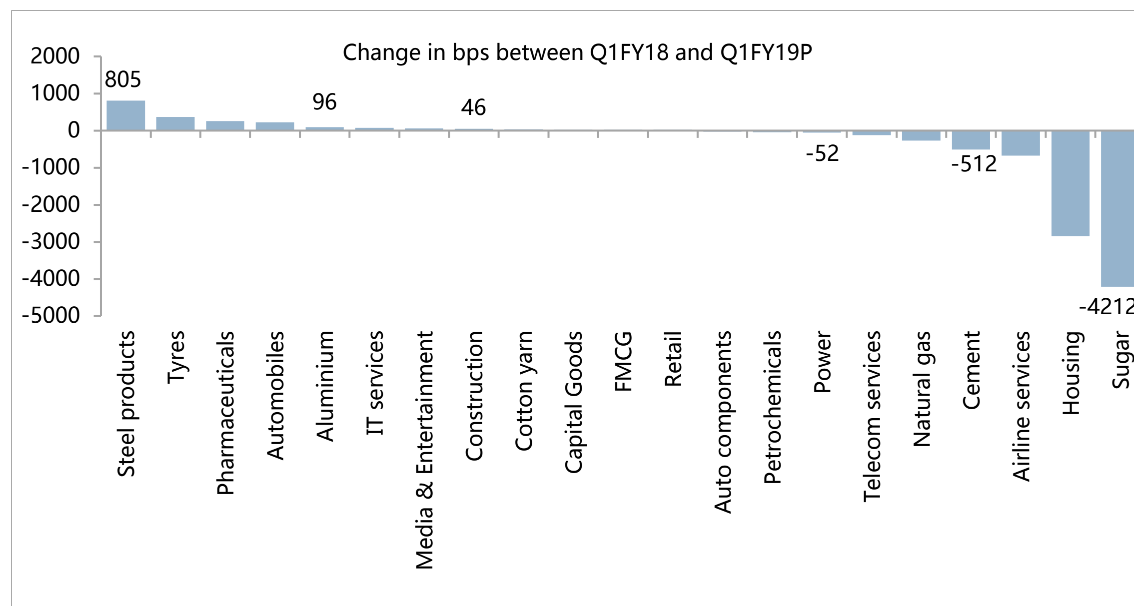
Sectoral EBITDA margins

Sector	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19 P
Key sector	**21.3%**	**20.7%**	**20.3%**	**19.1%**	**19.0%**	**19.7%**	**19.7%**	**19.1%**	**18.9%**
Automobiles	12.7%	13.2%	11.9%	11.1%	10.5%	13.7%	12.9%	12.1%	12.8%
FMCG	23.3%	23.6%	23.8%	24.1%	23.4%	24.4%	25.1%	26.3%	23.6%
IT services	23.1%	23.4%	23.7%	23.4%	22.1%	23.2%	23.0%	23.3%	22.9%
Pharmaceuticals	24.5%	24.4%	24.0%	18.4%	17.4%	21.1%	21.0%	19.8%	20.0%
Power	34.4%	34.2%	34.0%	32.4%	34.3%	35.7%	32.7%	32.5%	33.8%
Steel products	16.6%	12.8%	15.2%	15.1%	13.3%	15.1%	18.5%	21.0%	21.4%
Telecom services	35.9%	35.4%	31.4%	29.8%	27.6%	23.8%	28.1%	27.8%	26.4%

Source: CRISIL Research

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, telecom services, cotton yarn and tyres.

Change in EBITDA margin outlook in Q1FY19



Source: CRISIL Research

- **Automobiles:** We expect EBITDA margins to improve over 100 bps on-year, aided by better capacity utilisation, cost-reduction efforts by companies, and improved product mix, with commercial vehicles being the top gainers. While margins for cars and two-wheelers are expected to remain stable despite raw material pressures, a better product mix and higher utilisation will aid sharp improvement in margin for commercial vehicle units.
- **Aluminium:** EBITDA margin is forecast to improve ~100 bps on-year, largely on account of better realisation and operating efficiency.
- **IT services:** EBITDA margin is expected to improve marginally on-year for the quarter. Dollar depreciation and higher share of digital revenues to aid improvement.
- **Power:** EBITDA margins for generation companies is expected to drop sharply, by 200-300 bps. This is owing to a rise in fuel costs, led by imported-coal prices, which remain elevated on-year. Moreover, constraints with respect to domestic coal availability is likely to lead to higher import of coal, exerting more downward pressure on margins.
- **FMCG:** EBITDA margin is expected to remain flat or marginally dip on-year. The rising prices of raw materials, such as crude oil, copra and liquid paraffin, will extend downward pressure on margins, offset by the benefit from higher operating leverage.
- **Pharmaceuticals:** We project the EBITDA margin to expand 200-250 bps as new product launches and strong domestic growth would offset pricing pressure. Better product mix, compared with the year-ago quarter, would help margins.
- **Steel products:** EBITDA margins will expand by 750-800 basis points on-year in Q1 of fiscal 2019 owing to healthy top line growth. This is despite higher iron ore prices that have risen by ~25% on-year during the first quarter. While supply from Odisha mines resumed in February, prices continued to remain elevated as the mining ban in Goa pushed prices upwards. Conversely, coking coal prices will remain flat for the first quarter providing some respite.
- **Telecom services:** EBITDA margin of the incumbents is estimated to contract by ~120 bps on-year in Q1 fiscal 2019, despite the decline in access charges led by the cut in interconnect usage charges. This is owing to a simultaneous increase in minutes of voice usage (as adoption of unlimited talktime offers increased at subscriber

end), which will increase the absolute quantum of access charges payout by the players. In addition, the continuing de-growth in revenue of the incumbents on account of pressure on ARPUs will lead to the decline in margins.

Results review, January-March 2018

Revenue growth sustains in double-digit lane, broad-based recovery visible

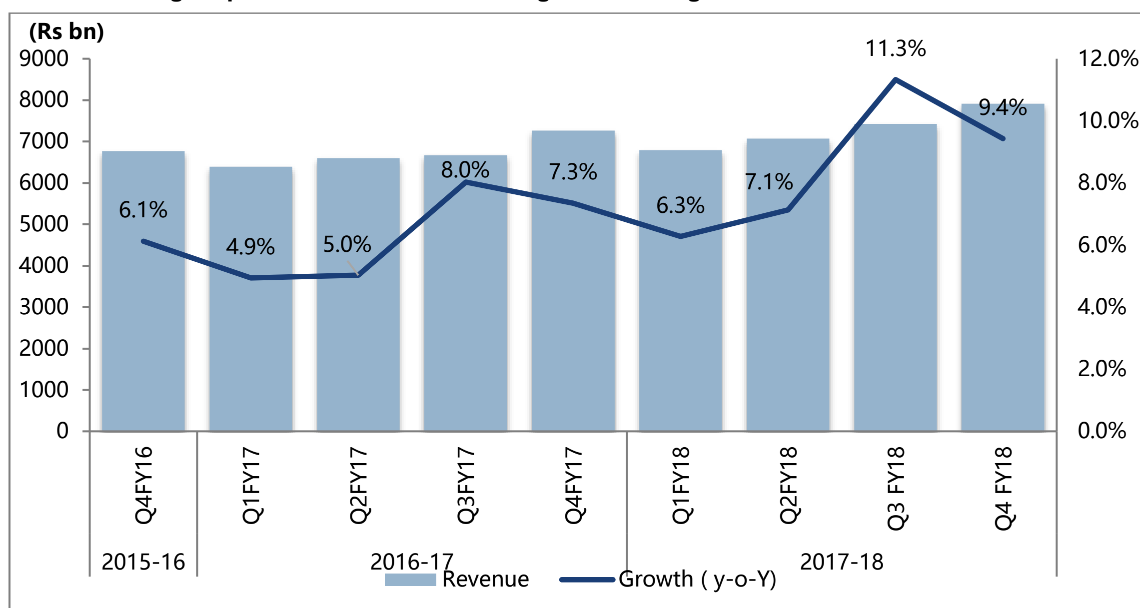
Aggregate top-line growth across 50 sectors hovered near double-digits in the fourth quarter of fiscal 2018. The 21 key sectors witnessed double-digit growth (11%) for the second consecutive quarter after 10 quarters of single-digit growth. This has been a sustained broad-based recovery, given more than 50% of the 21 key sectors showed double-digit growth. Consumption-linked sectors and key commodity-linked sectors such as cement, steel products, aluminium, and natural gas, continued to thrive, registering a healthy ~20% on-year growth in revenue. Metals, both steel products and aluminium, largely benefited from a rise in prices while cement and natural gas grew primarily on strong volume growth.

Further, all consumption-linked sectors, excluding telecom, expanded 18% on-year. Since the demonetisation impact in the same quarter last fiscal and subsequent rollout of GST, a notable recovery is visible in volume growth. This is driving revenue growth from last quarter in the consumer- and investment-linked sectors such as automobiles, cement, FMCG, retail, and natural gas.

Telecom and sugar remained the major laggards. The drop in telecom gross revenue intensified to 30% on-year, because of competitive pressure and price regulation (drop in interconnect charges). Similarly, for sugar, the sharp drop in sugar prices led a 10% drop in revenues.

The analysis is corroborated from the performance of over 450 companies across 50 sectors (excluding financial services and oil)

Second straight quarter of near double-digit revenue growth



Source: CRISIL Research

Sectoral revenue growth

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18
Overall	**6.1%**	**4.9%**	**5.0%**	**8.0%**	**7.3%**	**6.3%**	**7.1%**	**11.3%**	**9.4%**
Key industries	**9.1%**	**7.3%**	**7.4%**	**8.6%**	**7.0%**	**6.2%**	**7.7%**	**11.9%**	**10.9%**
Automobiles	16.1%	9.6%	11.0%	2.7%	6.8%	4.7%	20.3%	24.8%	27.0%
FMCG	1.3%	5.7%	6.5%	1.2%	6.0%	0.8%	6.6%	10.1%	3.3%
IT services	18.3%	14.0%	8.6%	8.3%	5.8%	2.6%	3.6%	4.0%	5.0%
Pharmaceuticals	15.8%	8.8%	8.3%	10.4%	0.6%	-8.3%	0.7%	1.9%	7.4%
Power	12.3%	3.1%	0.6%	4.9%	-0.1%	6.4%	3.4%	5.6%	0.7%
Steel products	-9.4%	-3.0%	10.2%	30.4%	26.7%	23.9%	23.4%	25.2%	21.2%
Telecom services	9.5%	6.7%	6.8%	-2.5%	-14.0%	-15.8%	-22.0%	-29.3%	-26.8%

Source: CRISIL Research
Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media & entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, telecom services, cotton yarn and tyres; Overall industry covers key sectors and other sectors (automotive castings, ceramic tiles, chlor alkalies, coal, coffee, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, ites, material handling, oilfield equipment, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, transmission towers and telecom towers)

Key segments that supported on-year revenue growth in the third quarter

- **Automobiles:** The automobile sector posted a close to 25% on-year growth, mainly because of a sharp rise in CV revenues. CV sales volumes grew 32% on-year. CV realisations rose 7% on-year, due to higher-priced medium and heavy commercial vehicles (MHCVs) which were compliant with BS-IV (Bharat Stage-IV) norms. MHCV volume growth was 24% and light commercial vehicles' (LCVs) volumes showed a 42% rise. Revenue growth in passenger vehicles (15%) and two-wheelers (12%) was aided by higher sales volume and increased realisation. The tractor segment grew at a robust 34% on-year, with domestic sales increasing nearly 50% and export volume rising 4.5%. Average realisation declined 7.6%, because of high discounts provided by manufacturers and unfavourable product mix.
- **FMCG:** The sector recorded a 10% on-year growth in revenue, mainly because of the low base of previous year, coupled with expanding volume. Product prices were reduced, with players passing on the benefits of lower taxes on many FMCG products to consumers.
- **IT services:** The sector witnessed a moderate growth of 5%, mostly due to a weaker rupee. The rupee has gained significantly by ~4% on-year against the dollar, affecting the rupee revenue of players in general. Overall revenue growth in dollar terms has accelerated to over 12% from 6-7% in the past two years, driven mainly by volume growth.

  Billing rates have shown some improvement at an overall level. However, they continued to decline in traditional IT services, because of their increased commoditisation as against an improvement in the digital IT services (contributing 12-15% share in industry revenues). Revenue of mid-tier IT companies increased higher than their Tier-I counter parts, driven by higher volume, thereby giving them an edge.
- **Pharma:** Aggregate revenue in the quarter increased 3% on-year, supported by growth in the domestic business and new launches by major companies. This was even as pricing pressure in the base business in the US market continued to impact realisations. The domestic market grew ~10% on-year during the quarter, led by a growth in new product launches and higher volumes.
- **Telecom**: Aggregate gross revenue of telecom companies in the sample set slipped ~18% on-year in the fourth quarter of fiscal 2018 owing to the steep reduction in IUC and international termination charges (ITC). There was

increased pressure on realisations (both data and voice) on account of continued competition leading to migration of high ARPU consumers to lower tariff packs.

- **Cement**: Aggregate revenue grew a healthy 20% on-year, largely driven by a ~10-12% increase in sales volume, supported by a ~7-8 % rise in realisation. Revenue of UltraTech, the largest contributor to the sample set, registered 34% revenue growth, driven by a ~20% increase in sales volume through inorganic expansion.
- **Steel products:** Aggregate revenue increased by 21% on-year owing to an increase in realisations as well as notable sales growth of the large steel players. Revenues of large players such as Tata, JSW and SAIL (accounting for 77% of the overall set) rose higher at ~20% on-year. Other industry players outperformed the large players in sales volume, posting a higher 24% top-line growth.

  Domestic steel prices increased by 15% on-year during Q4 of fiscal 2018 owing to elevated input prices coupled with healthy demand growth. Flat steel prices averaged at Rs 43,300 per tonne, higher by 12% on-year.
- **Power:** Revenues of power generation companies rose by ~0.9 per cent on year to ~Rs 441 billion in Q4 of fiscal 2018. The transmission and distribution segments grew better than the generation segment.

Other key sectors

- **Airline services:** The aggregate revenue of the three airlines considered in the sample set rose 15% on-year in the fourth quarter of fiscal 2018, on account of a 21% rise in aggregate passenger traffic. At an overall level, despite a rise in costs, the fares have declined, indicating inability to pass on the rise in costs due to severe competition.
- **Aluminium:** The aluminium segment's revenue for companies in the sample set declined by a marginal 0.3% on-year, led by a slight decline in overall saleable ingot volumes. Domestic aluminium prices improved ~10% on-year, in line with elevated London Metal Exchange (LME) prices. Domestic demand for aluminium also on-year significantly in the second half after subdued demand in the first half of fiscal 2018. Overall, domestic aluminium demand grew 9% on-year in 2018.
- **Natural gas:** Revenue in the fourth quarter of fiscal 2018 grew 36% on-year to Rs 86.4 billion, driven by higher sales volume growth of 18.2%, i.e., from 180 trillion British thermal units (tBtu) in Q4 of fiscal 2017 to 213 tbtu in Q4 of fiscal 2018, coupled with an increase in realisation by 19.8% on-year. Revenue increased by 6% on-year on account of higher volume. Transmission volume increased by 12% on-year, i.e., from 125 million metric standard cubic meter per day (mmscmd) in Q4 of fiscal 2017 to 140 mmscmd in Q4 of fiscal 2018, as domestic gas production and LNG usage increased as compared with the corresponding period of the previous year. Revenue increased on the distribution segment at a healthy 18% on-year on account of a rise in sales volume and upward revision of CNG (compressed natural gas) and PNG (piped natural gas) prices, leading to a 7.1% on-year rise in average realisation
- **Petrochemicals:** Revenue of our sample set of petrochemical companies increased ~30% on-year in the fourth quarter of fiscal 2018, led by increase in volume and rise in product prices. A pick-up in downstream demand drove volume growth by ~30% on-year. Stabilisation in the production of refinery off-gas cracker by RIL helped ethylene volume growth. Increase in crude oil prices resulted in higher product prices during the quarter. Prices of key polymers increased by 17% on-year for polypropylene, 14% on-year for polyester yarns and 13% on year for monoethylene glycol.
- **Sugar:** Sugar production during the quarter grew by 50% on-year, while prices fell by 22% on-year owing to bumper production. Revenue of North India-based sugar mills increased a marginal 2% on-year, driven by higher volume of sugar in Uttar Pradesh due to better yields. On the contrary, revenue of South-based mills fell by a sharp over 30%, because of a fall in realisation and lower volume, due to delayed crushing in Karnataka.

EBITDA margin pressure eases on volume growth, and despite higher raw material prices

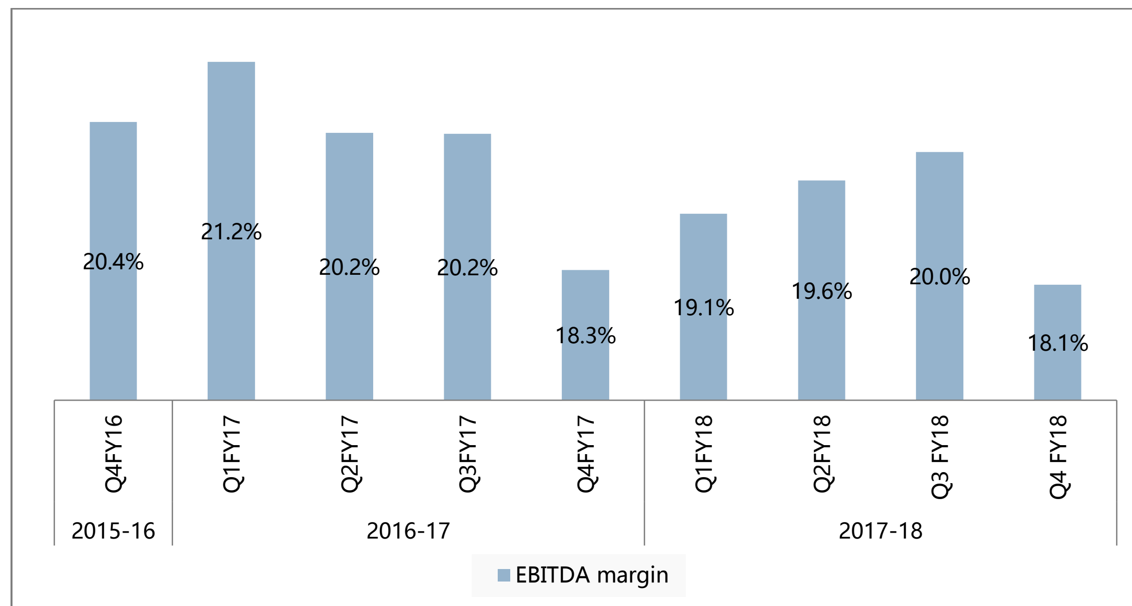
Despite a continued rise in input costs, the adverse impact on profitability has been limited thanks to a sustained recovery in volumes. Realisations improved for commodities, petrochemicals and automobiles due to either higher commodity prices or product mix benefits. Aggregate EBITDA margin contracted to 18.1% in the fourth quarter of fiscal 2018 on an on-year basis. However, the contraction was limited to 20 bps on an on-year basis. Seasonality led to a drop in EBITDA margins sequentially. The operating performance was significantly better than the previous three quarters, as benefits of operating leverage amid high volumes partially offset impact of continued rise in raw material cost. The prices of key inputs – steel and crude oil – rose 18% and 24% on-year, respectively.

Consumer-linked sectors such as airline services and telecom services suffered the sharpest fall in EBITDA margins. While a sharp increase in input cost amid stabilising utilisation impacted airline companies; continued high competitive intensity affected margins for telecom players. Similarly, low sugar prices impacted the margins of sugar companies. Margins in export-linked sectors such as IT services and pharmaceuticals were capped owing to a depreciating rupee and recovery in volumes. The rupee lost a significant ~4% on-year against the dollar.

Among other key sectors, margins for aluminium, housing and construction contracted due to a rise in input –year costs. Iron ore, cement and crude oil prices rose by ~50%, ~2% and 24% on-year in the fourth quarter, respectively.

High revenue growth led to a four-quarter high aggregate EBITDA growth of ~8% one-year. EBITDA grew for the third consecutive quarter, with GST woes settling down and higher commodity prices aiding a recovery.

EBITDA margins fell sequentially, on-year pressure eases



Source: CRISIL Research

Sectoral EBITDA margins

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18
Overall	**20.4%**	**21.2%**	**20.2%**	**20.2%**	**18.3%**	**19.1%**	**19.6%**	**20.0%**	**18.1%**
Key industries	**21.0%**	**21.3%**	**20.7%**	**20.3%**	**19.1%**	**19.0%**	**19.7%**	**19.7%**	**19.1%**
Automobiles	13.7%	12.7%	13.2%	11.9%	11.1%	10.5%	13.7%	12.9%	12.1%
FMCG	23.8%	23.3%	23.6%	23.8%	24.1%	23.4%	24.4%	25.1%	26.3%
IT services	24.8%	23.1%	23.4%	23.7%	23.4%	22.1%	23.2%	23.0%	23.3%
Pharmaceuticals	22.4%	24.5%	24.4%	24.0%	18.4%	17.4%	21.1%	21.0%	19.8%
Power	37.0%	34.4%	34.2%	34.0%	32.4%	34.3%	35.7%	32.7%	32.5%
Steel products	8.9%	16.6%	12.8%	15.2%	15.1%	13.3%	15.1%	18.5%	21.0%
Telecom services	36.4%	35.9%	35.4%	31.4%	29.8%	27.6%	23.8%	28.1%	27.8%

Source: CRISIL Research

EBITDA margin up for consumer and commodity-linked sectors; utilities, exporters struggle

- **Automobiles:** Margins for automobile players expanded driven by better utilisations. EBITDA margins improved 240 bps for CV players and 330 bps for tractor players, mainly on higher operating leverage. They improved by a marginal 150 bps for two-wheelers and 24 bps for passenger vehicle players.
- **FMCG:** Margins improved 220 bps on-year, supported by cost rationalisation and input tax-credit benefits.
- **IT services:** Margins declined 62 bps on-year, mainly due to stagnation in utilisation and rising cost.
- **Airline services:** Most players made operating losses, with the rise in crude oil price and rupee depreciation leading to a surge in fuel cost and non-fuel expenses per available seat kilometre for the carriers. Aviation turbine fuel prices, which constitute 35-40% of operating cost, increased 12% on-year to Rs 62 per litre. Aggregate PLFs

of the three airlines increased 300 bps on-year, led by a 380 bps increase for Jet Airways and 280 bps hike for IndiGo.

- **Petrochemicals:** Margins expanded for Reliance Industries resulting in a 140 bps rise in industry margins. Margin expansion was primarily driven by an increase in the operating profits of RIL as the switch in feedstock to ethane resulted in lower input cost for the company.
- **Pharmaceuticals:** The aggregate EBITDA margin improved ~117 basis points (bps) to 19.9%, driven by Sun Pharma, Cadila and Cipla (accounting for ~47% revenue of the set). Improvement was led by either a better product mix or a better product profile.
- **Telecom services:** EBITDA margin of the sample set compressed ~275 bps on-year in the fourth quarter of fiscal 2018 due to deterioration in ARPU leading to revenue de-growth. This was owing to the deep discounted bundled plans provided by the operators.
- **Sugar:** Margins shrunk over 1,500 bps on-year owing to higher raw material cost and an over 20% decline in sugar realisation amidst high production and hence higher cane cost.

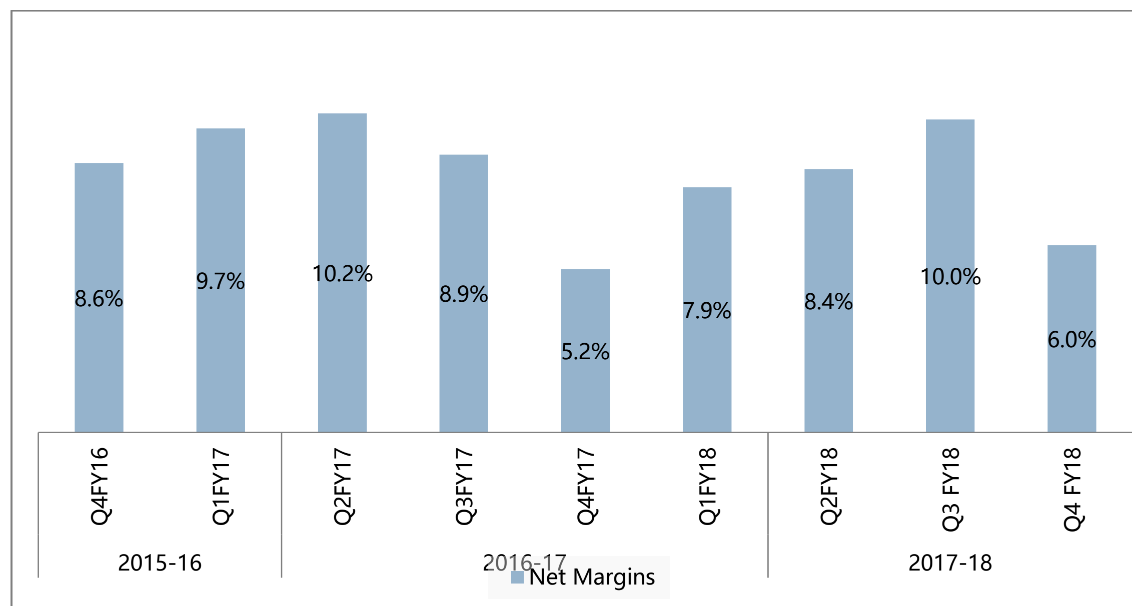
Net margin expansion continued on an on-year basis

Net margin revived, rising ~40 bps on-year to 3.9% on a low base of last year. Only four of 21 key sectors showed a decline in margins at the net level, compared with 11 out of 21 that showed a fall in EBITDA margin.

Net margins improved in line with operating performance for automobiles. They expanded much higher than operating margins in the case of cement, pharma, steel, and sugar due to lower capital and finance costs for certain companies, steel products (skewed by a sharp improvement in net margins of large players).

For India Inc, net profits grew over 10% in the fourth quarter of fiscal 2018. The sequential drop in margins was mainly due to a seasonally weak quarter.

Industry net margin



Source: CRISIL Research

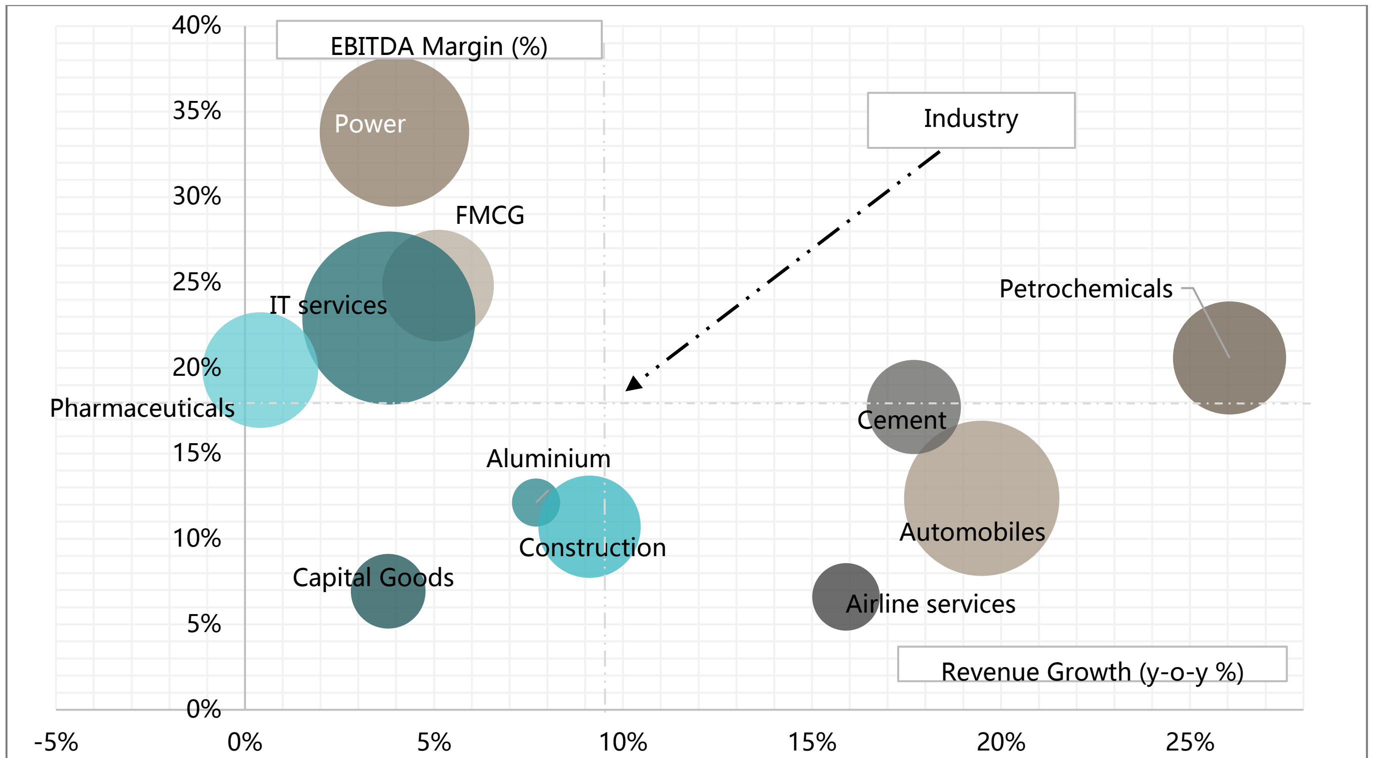
Sectoral net margin

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18
Overall	**8.6%**	**9.7%**	**10.2%**	**8.9%**	**5.2%**	**7.9%**	**8.4%**	**10.0%**	**6.0%**
Key industries	**8.2%**	**9.7%**	**10.4%**	**8.7%**	**4.2%**	**7.6%**	**8.7%**	**9.9%**	**5.7%**
Automobiles	7.0%	8.4%	9.1%	6.6%	5.7%	6.6%	8.5%	7.7%	6.4%
FMCG	15.3%	15.8%	16.5%	17.1%	17.3%	15.8%	17.0%	18.7%	18.5%
IT services	18.8%	18.2%	18.3%	18.8%	18.3%	17.5%	18.3%	19.3%	18.1%
Pharmaceuticals	13.5%	16.1%	15.8%	14.7%	10.8%	5.4%	12.7%	17.3%	8.7%
Power	6.9%	9.1%	9.5%	8.6%	-3.1%	8.8%	10.4%	6.7%	8.9%
Steel products	-5.7%	-0.3%	-2.7%	-0.4%	1.1%	-2.3%	0.5%	3.9%	5.8%
Telecom services	7.2%	5.6%	8.3%	-1.6%	-61.3%	-6.7%	-13.8%	-6.6%	-110.3%

Source: CRISIL Research

Sectoral performance metrics

Revenue growth versus EBITDA margin across key sectors in the past four quarters



Source: CRISIL Research

Note: Data represents aggregate performance of the mentioned sectors for the past four quarters (Q2 FY18 to Q1 FY19); size of the bubble indicates sector's share in overall industry's revenue

Annexure 1

Price indicators

Rs	Unit	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY18E
Steel flat	Rs/tonne	32,296	32,296	36,000	38,667	36,593	38,333	38,500	43,300	44,500
Steel long	Rs/tonne	28,444	27,852	30,667	34,074	34,667	34,500	35,000	40,167	40,700
Aluminium	Rs/tonne	138,600	139,433	142,053	144,463	148,137	145,005	154,081	158,610	172,400
Iron ore	Rs/tonne	1,287	1,209	1,411	1,567	1,639	1,637	1,782	2,350	2,275
Cement	Rs per bag	318	324	324	319	348	333	324	325	324
Sugar (Mumbai S 30)	Rs/quintal	3,706	3,772	3,769	4,045	3,958	3,704	3,416	3,087	2677
Crude oil	$/barrel	46	46	50	54	50	52	62	67	75
Coal	Rs/tonne	1,338	1,351	1,385	1,454	1,330	1,329	1,366	1,573	1,403
Telecom ARPUs	Rs/month	194	196	174	159	158	151	130	123	116
Re/ $ movement	Rs/USD	66.9	67.0	67.5	67.0	64.5	64.3	64.7	64.3	67.04

Note: Exchange rate represents average rate for the quarter
Source: CRISIL Research

Volume indicators

YoY growth	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY18E
Automobiles									
CVs	12%	2%	1%	4%	-12%	14%	29%	29%	47%
Cars	2%	18%	3%	15%	13%	17%	11%	11%	26-28%
2-wheelers	10%	21%	-7%	-5%	2%	10%	12%	24%	14%
Cement (large+mid)	8%	0%	0%	7%	6%	13%	22%	11.0%	15.7%
Cement-large	7%	1%	-1%	6%	8%	14%	23%	11.6%	15.0%
Cement-mid	11%	-3%	4%	9%	-1%	9%	21%	7.2%	21.1%
Steel	1%	11%	16%	18%	10%	5%	5%	5.5%	4.4%
Aluminium	-0.2%	2.6%	1.7%	-0.4%	0.9%	2.4%	0.2%	1.2%	3-4%
Natural gas									
Natural gas - regasification	34.6%	20.7%	34.3%	16.9%	14.0%	16.4%	16.5%	18.2%	13.4%
Natural gas - transmission	9.0%	9.8%	3.8%	4.6%	4.3%	9.3%	12.6%	12.3%	13.1%
Natural gas - distribution	78.4%	75.3%	80%	79%	9%	11%	12%	10%	10%
Telecom data	9.7%	13.7%	-1.7%	25.5%	106.0%	68.6%	37.2%	40.5%	48%

Source: CRISIL Research

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CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

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