Research

CRISIL
An S&P Global Company

Cost pressures weigh on Q2 revenues

Quarterly update of industry performance

September 2018

Industry outlook

Revenue outlook (July-September 2018)

Revenue growth expected to double, led by consumption-driven sectors and key commodities

CRISIL Research expects corporate revenue growth, excluding that of banking, financial services, insurance, and oil companies, to print at ~12% on-year for the quarter ended September 30, 2018. This would mark the fourth consecutive quarter of double-digit growth.

Broad-based recovery across consumption-linked sectors, coupled with higher commodity prices, is helping India Inc grow at a faster clip.

We expect most of the consumption-linked sectors to expand ~10-15%. The growth will be driven by continued positive momentum in consumer sentiment, a low base effect for certain sectors due to the Goods and Services Tax (GST) rollout in the same quarter last fiscal, and growing rural demand.

Commodity-linked sectors, such as steel products, natural gas and petrochemicals, will likely grow sharply due to increasing realisations. High volume-driven growth would continue in cement, led by ramp-up in capacities by several players and greater demand from increased government spending in the urban infrastructure and affordable housing space.

We forecast export-linked sectors to get a boost from the sharp depreciation of the rupee this quarter. Improved spending in the United States (US) market and growth in specific categories will help information technology (IT) services. Growth would be led by improving domestic demand for pharmaceuticals, even though constrained by continued pricing pressure. Textiles, specifically cotton yarn, and the two-wheeler segment are also expected to be buoyed by better demand from key export markets.

Conversely, we expect sugar and telecom services to be negatively affected due to pricing pressures in their respective markets.

Sectoral revenue growth

Sector	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19 P
Key sectors	**7.6%**	**9.1%**	**6.1%**	**5.8%**	**7.7%**	**11.6%**	**11.7%**	**17.2%**	**12.1%**
Automobiles	11.0%	2.7%	6.8%	4.7%	20.3%	24.8%	27.0%	34.2%	10.4%
FMCG	6.5%	1.2%	6.0%	0.8%	6.6%	10.1%	3.2%	9.8%	11.0%
IT Services	8.8%	8.4%	5.8%	2.7%	3.4%	3.8%	4.9%	13.0%	14.0%
Pharmaceuticals	8.2%	10.3%	0.6%	-8.3%	0.7%	1.8%	7.2%	15.5%	8.5%
Power	0.5%	6.2%	0.3%	6.8%	4.0%	5.9%	2.2%	3.5%	6.4%
Steel products	10.2%	30.4%	26.7%	24.6%	24.1%	25.2%	21.7%	35.0%	21.7%
Telecom Services	6.8%	-2.5%	-22.8%	-22.7%	-22.0%	-29.3%	-18.4%	-19.7%	-20.1%

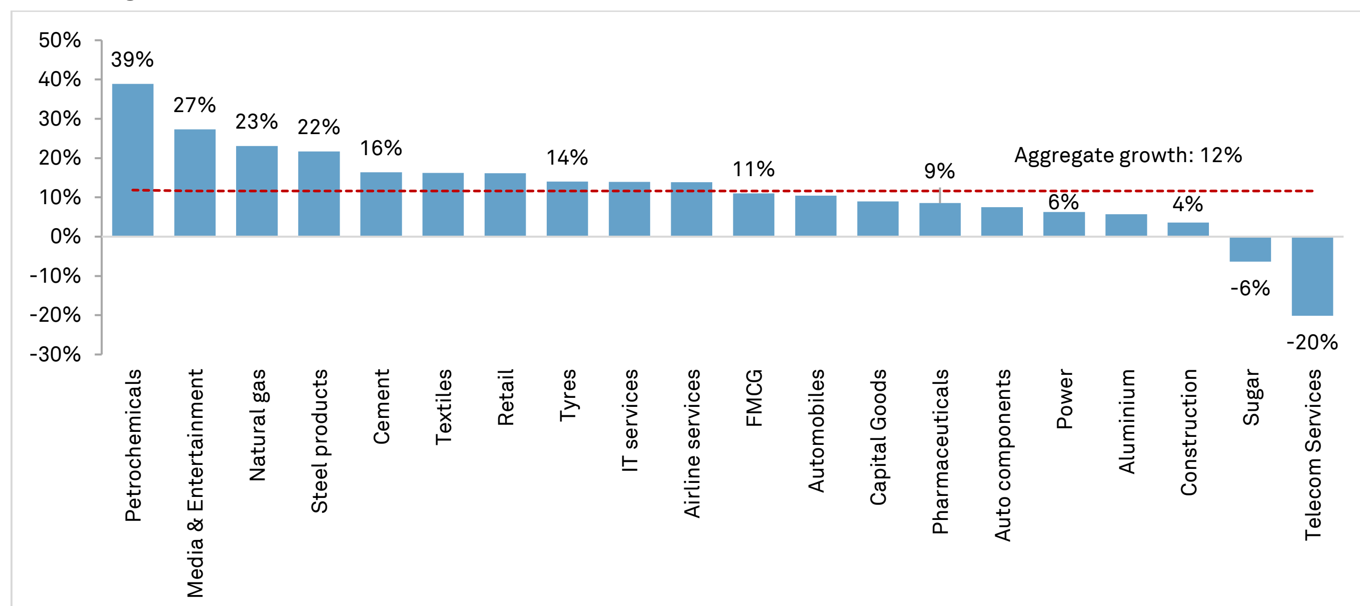
Source: CRISIL Research

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, IT services, media & entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, telecom services, cotton yarn and tyres. Housing has been excluded from the set this quarter as adoption of IND AS has caused figures to be incomparable on an annual basis.

- **Automobiles:** We expect revenue of key auto segments such as commercial vehicles (CVs), passenger vehicles and two-wheelers to grow at a robust pace. This is as volumes improve due to better domestic demand, supported by export growth for cars and two-wheelers. A change in product mix towards higher-priced vehicles is also aiding realisation growth. CV revenue is expected to grow ~17%, followed by cars at ~6-8%. Two-wheelers and tractors revenue should grow comparatively slower at ~5-7% and 3-5%, respectively.
- **Fast-moving consumer goods (FMCG):** We expect aggregate revenue to improve ~11% on-year, riding on a pickup in consumer sentiment and growing rural demand due to a near normal monsoon. Product innovations, such as new product launches and change in packaging/size of units sold by certain companies, would also support.
- **IT services:** Rupee depreciation would likely boost revenues for the sector with sharp depreciation of the currency in the quarter. This is further supported by an expectation of pickup in spending in the US market and robust growth of the digital services segment.
- **Pharmaceuticals** Bulk drug players will likely enjoy robust ~22% on-year growth, led by increased penetration of products and regulatory clearance from the US Food and Drug Administration for the plant of a key player. While we expect large formulation players to grow at a slower ~5-8%, mid-sized players should clock ~3-8% revenue growth. A strong domestic market coupled with rupee depreciation would support revenues for both categories. However, pricing pressure in the base business in regulated markets, coupled with fewer Para-IV product launches this quarter, may offset growth.
- **Power:** We expect generation revenue to rise 3-5% as an increase in generation tariff is supported by increased demand. Transmission revenue is projected to rise 13-15% on-year, owing to improved execution of substation and transmission projects.
- **Steel products:** Revenue is projected to increase 20-22% on-year, primarily because of surging domestic steel prices (15-17%) and healthy domestic demand growth of ~5-6% on-year. Domestic flat and long steel prices are estimated to rise ~17% and 14% on-year, respectively, led by a spike in global steel prices and elevated raw material prices.

- **Telecom services**: We expect gross revenues to drop 20% amid continued strong competition. In addition, the cut in interconnect usage charges (IUC) from 14 paise/min to 6 paise/min (wef October 2017) continues to impact revenues. Further downward revision of tariffs may be a possibility due to the emergence of new merged entity of Vodafone-Idea, weighing down on realisations.

Revenue growth outlook for Q2 FY19



Source: CRISIL Research

Other sectors expected to drive revenue growth are:

- **Airline services:** Aggregate revenue of the sample set will increase 13-15% on-year on the back of strong growth in passenger traffic, primarily in the domestic sector. We expect domestic passenger traffic to expand 19-21% while realisations on domestic routes may decline due to the players' inability to pass on the rise in fuel prices. Passenger traffic for listed carriers in the international space is also seen growing by a healthy 11-13%, mainly due to low-cost carriers. International segment realisations are also expected to rise marginally due to improved demand prospects for players.
- **Cement:** CRISIL Research expects revenue to increase 16% on-year, driven by a rise in sales volume. For large players, volume growth will be led by UltraTech, owing to improved capacity utilisation from the acquired plants of Jaypee, which were low corresponding quarter of last fiscal. We expect other players to also ramp up production in this category. Players in the mid-sized and small-sized segments are also expected to witness growth in volumes led by higher production.
- **Media and Entertainment:** We expect television broadcasting to grow ~16% on-year. Revenue for the multiplex segment revenue would rise 19%. While the former would be driven by higher subscriptions and increased advertisement revenues, the revenue increase of multiplexes would be on account of higher footfall. We also expect revenues for the DTH segment to be buoyed after the Videocon-Dish TV merger in the third quarter of fiscal 2018.
- **Natural gas** Revenue is forecast to increase 22-24% on-year on account of higher liquefied natural gas (LNG) sales. End- prices for the distribution segment are also expected to be higher by 8% 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 38-40%. This would be led by a 19-20% on-year increase in realisations, due to surge in naptha prices which follows crude oil. Further, healthy downstream demand is expected to lead to 15-17% volume growth for the sector.
- **Textiles:** Industry revenues are expected to increase 15-17% on year, driven by exports to South-East Asian countries as well as healthy domestic demand.

EBITDA margin

Firmer commodity prices coupled with a depreciating rupee to put pressure on margins

Even though improved demand will lead to topline growth, CRISIL Research expects higher input costs to constrain margin expansion for India Inc this quarter.

On an overall basis, EBITDA (earnings before interest, taxes, depreciation, and amortisation) margin would likely stay tepid with a marginal ~10 basis points (bps) increase. However, this is greatly supported by margin expansion in commodity-linked sectors such as steel products and petrochemicals. Ex-steel, overall margins are expected to fall of ~70 bps. Of the 20 major sectors, we expect margins to contract in 11 owing to cost pressures.

Higher commodity and raw material prices are expected to take a toll on margins, especially for large sectors such as airline services, aluminium, cement, and natural gas. Domestic prices of coal, steel (long), steel (flat) and aluminium are expected to rise 15%, 14%, 17% and 12%, respectively, on-year. This would be coupled with a further ~9% on year depreciation of the rupee in the quarter. Additionally, the ability to pass on prices may be limited due to competitive pressures for airlines, cement and FMCG, further accentuating pressure on the margins. Conversely, steel products would benefit from significantly improved realisations, with the ability to pass-through any increase in input prices.

However, the rupee depreciation would limit margin erosion for export-linked sectors, especially IT services and pharma.

Sectoral EBITDA margins

Sector	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19 P
Key sector	**20.4%**	**20.1%**	**18.8%**	**18.9%**	**19.5%**	**19.6%**	**18.9%**	**19.4%**	**19.7%**
Automobiles	13.2%	11.9%	11.1%	10.5%	13.7%	12.9%	12.1%	13.0%	13.0%
FMCG	23.7%	23.8%	24.1%	23.4%	24.4%	25.1%	26.3%	25.4%	24.7%
IT services	23.5%	23.8%	23.4%	22.2%	23.2%	23.1%	23.4%	23.1%	23.5%
Pharmaceuticals	24.3%	24.0%	18.3%	17.3%	20.9%	20.9%	19.7%	19.3%	19.1%
Power	34.2%	34.1%	32.6%	34.6%	36.0%	32.8%	33.1%	34.2%	35.9%
Steel products	12.8%	15.2%	15.1%	13.3%	15.0%	18.5%	21.0%	22.0%	22.6%
Telecom services	35.4%	31.4%	30.6%	29.2%	23.8%	28.1%	27.8%	22.7%	25.5%

Source: CRISIL Research

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, IT services, media and entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, telecom services, cotton yarn and tyres. Housing has been excluded from the set this quarter as adoption of IND AS has caused figures to be incomparable on an annual basis.

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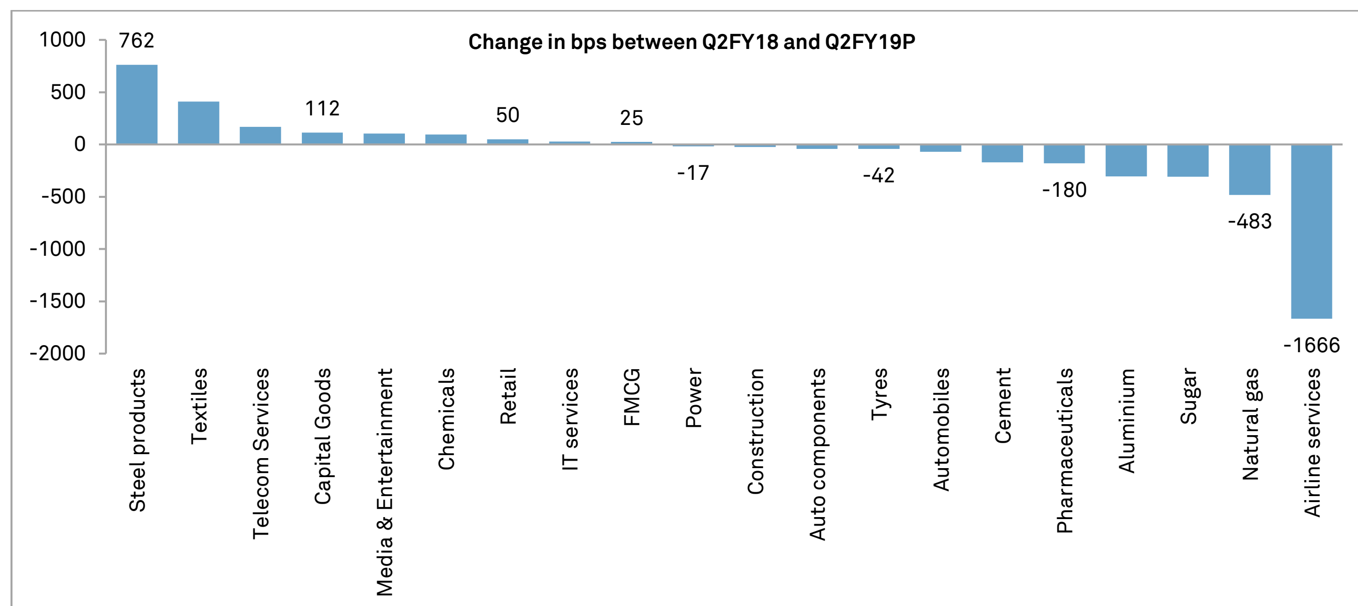
Change in EBITDA margin outlook in Q2FY19



Source: CRISIL Research

- **Airline services:** Players will continue to face pressure on margins. This would be the result of rising crude prices coupled with a steep fall in the rupee and a limited ability to pass through the increase in costs due to stiff competition.
- **Automobiles:** We expect EBITDA margins to contract ~70 bps on-year, largely impacted by rising raw material costs. Margins of commercial vehicle players would expand by ~150 bps owing to improved capacity utilisation. However, the margins of both cars and two-wheelers would likely contract by ~110 bps and ~240 bps, respectively. This is as the impact of an increase in raw material costs outweigh any benefit from operating leverage due to increasing utilisation levels.
- **Aluminium:** EBITDA margin is forecast to contract ~250-350 bps on-year, largely on account of rising raw material prices (alumina).
- **Cement:** EBITDA margin is forecast to deteriorate ~150-200 bps, led by higher power and fuel costs due to increasing prices of petcoke and increased dependence on imported coal. Rising diesel prices would also be impacting freight costs for the sector. Competitive pressures have also reduced pricing flexibility in the sector, making it difficult to an extent for players to pass on impact of higher costs.
- **Natural Gas:** We expect EBITDA margins to contract for the sector owing to higher raw material costs, i.e. rising gas prices, and comparatively higher operating costs for players.
- **FMCG:** EBITDA margin is expected to remain flat or marginally rise on-year. The rising prices of raw materials and increasing competition leading to increased promotional expenses will be offset by the benefit from higher operating leverage.
- **Pharmaceuticals:** We project the EBITDA margin to contract 150-200 bps as pricing pressure continues in the US market and several players may incur added product development-related costs to gear up for future product launches. Bulk drug players would be impacted by rising raw material costs due to shutdown of plants in China. Conversely, a strong domestic market and a depreciating rupee would restrict further margin contraction.

- **Steel products:** EBITDA margins will expand by 750-800 basis points on-year in Q2 of fiscal 2019 owing to healthy top line growth caused by elevated steel prices and healthy demand prospects. This is despite higher iron ore prices that have risen by ~36% on-year during the first quarter of fiscal 2019. However, healthy realisations to offset elevated input costs.

Results review (April-June 2018)

Revenue growth highest in past 10 quarters; demand recovery and low base help

Aggregate top-line growth across 50 sectors was in double digits in first quarter of fiscal 2019 at ~18%. 21 key sectors witnessed double-digit growth (~17%) for third consecutive quarter. This was the highest revenue growth seen over past 10 quarters with more than 50% of the 21 key sectors achieving double-digit growth.

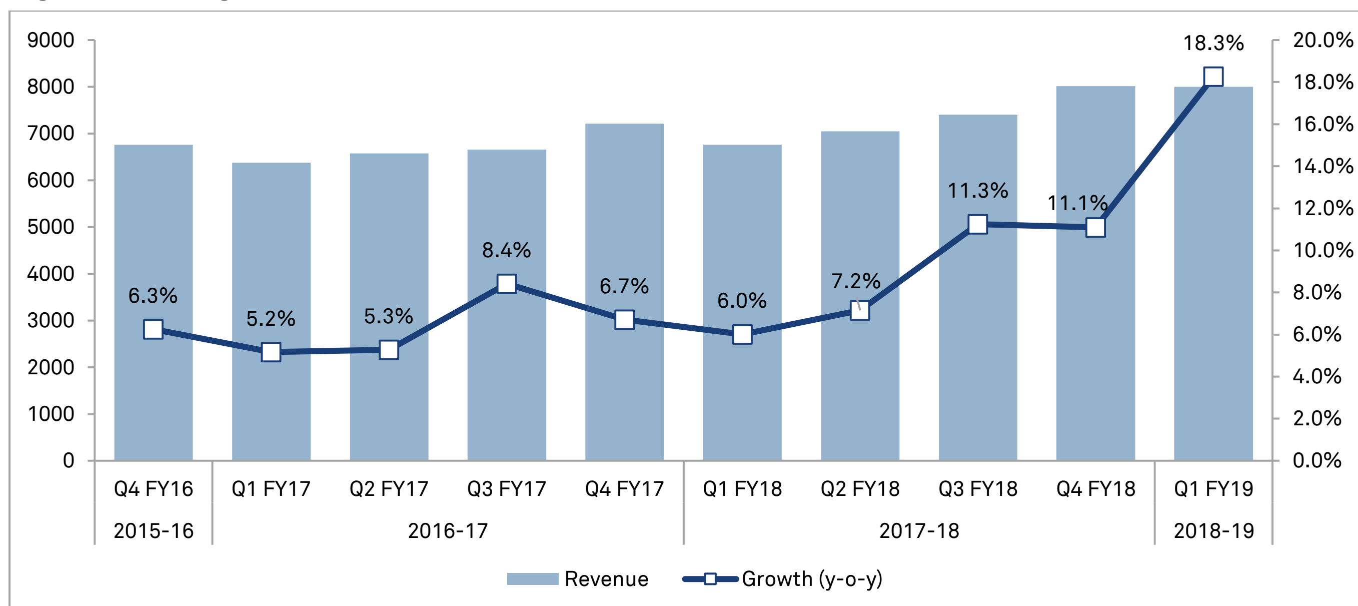
Consumption-linked sectors such as airlines, automobiles, FMCG, and retail grew robustly, due to improvement in domestic demand, especially rural, and a low base effect from the GST roll-out last fiscal. Even export-linked sectors such as IT services and pharmaceuticals registered ~15% growth, aided by a weaker rupee, with pharmaceuticals also riding on new launches by major companies and strong domestic demand.

Key commodity-linked sectors such as cement, steel products, aluminium and natural gas, continued to thrive. Commodities such as steel products, natural gas and aluminium, largely benefited from a rise in prices while cement grew primarily on strong volume growth, led by government spending in infrastructure and housing space.

Telecom and sugar remained the major laggards. Drop in telecom gross revenue came in at ~20% on-year, because of competitive pressure and price regulation (drop in interconnect charges). Similarly, sharp fall in sugar prices caused 11% drop in revenues.

The analysis is corroborated from the performance of over 500 companies across 50 sectors (excluding financial services and oil).

Highest revenue growth over past 10 quarters



Note: Excludes housing sector due to figures being not comparable y-o-y.
Source: CRISIL Research

Sectoral revenue growth

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19
Overall	**5.2%**	**5.3%**	**8.4%**	**6.7%**	**6.0%**	**7.2%**	**11.3%**	**11.1%**	**18.3%**
Key sectors	**7.6%**	**7.6%**	**9.1%**	**6.1%**	**5.8%**	**7.7%**	**11.6%**	**11.7%**	**17.2%**
Automobiles	9.6%	11.0%	2.7%	6.8%	4.7%	20.3%	24.8%	27.0%	34.2%
FMCG	5.7%	6.5%	1.2%	6.0%	0.8%	6.6%	10.1%	3.2%	9.8%
IT services	13.9%	8.8%	8.4%	5.8%	2.7%	3.4%	3.8%	4.9%	13.0%
Pharmaceuticals	8.7%	8.2%	10.3%	0.6%	-8.3%	0.7%	1.8%	7.2%	15.5%
Power	2.4%	0.5%	6.2%	0.3%	6.8%	4.0%	5.9%	2.2%	3.5%
Steel products	-3.0%	10.2%	30.4%	26.7%	24.6%	24.1%	25.2%	21.7%	35.0%
Telecom services	6.7%	6.8%	-2.5%	-22.8%	-22.7%	-22.0%	-29.3%	-18.4%	-19.7%

Source: CRISIL Research
Note: Key sectors include airline services, aluminium, automobiles, auto-components, capital goods, cement, chemicals, construction, FMCG, 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). Excludes housing as figures are not comparable on-year.

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

- **Automobiles:** The automobile sector posted close to 34% on-year growth, with most categories, i.e., commerical vehicels (CV), cars and two-wheelers witnessing robust growth. CV sales' volumes grew 58% on-year while realisations rose 9% on-year, due to higher-priced medium and heavy commercial vehicles (MHCV). MHCV grew 94% in volume and light commercial vehicles' (LCV) volumes rose 48%. This growth comes on a low base of the same quarter previous fiscal. Revenue growth in passenger vehicles (28%) and two-wheelers (21%) was aided by higher sales volume and increased realisations. The tractor segment surged ~18% on-year, with domestic sales increasing nearly 23% and export volume rising 5%. Average realisation declined 4%, owing to a weak product mix
- **FMCG:** The sector recorded 10% on-year growth in revenue, mainly because of low base of previous year, coupled with expanding volume, with rural demand driving growth
- **IT services:** The sector witnessed revenue growth of 13%, mostly due to a weaker rupee, positively affecting revenues of players in general. Billing rates have continued to decline in traditional segments, owing to increased commoditisation. However, a growing share of digital serivces improved blended billing rates. Revenue of mid-tier IT companies increased ~16% which was higher than their Tier-I counterparts (~13%), driven by increasing realisations and rupee depreciation
- **Pharma:** Aggregate revenue in the quarter increased 16% 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. Revenues of large formulation players, mid/small-sized players, and bulk drug players rose 13%, 15% and 32% on-year

- **Telecom**: Aggregate gross revenue of telecom companies in the sample set slipped ~20% on-year in the first quarter of fiscal 2019 owing to steep reduction in interconnection usage charge (IUC) and international termination charges (ITC). There was continued pressure on realisations (both data and voice) on account of high competition, leading to migration of high-ARPU (average rvenue per user) consumers to lower tariff packs
- **Cement**: Aggregate revenue grew a healthy 16% on-year, largely driven by an increase in sales volume, even though marginal decline in realisations offset growth. While large players saw revenues increase 19%, mid-sized companies grew ~8%, and smaller players ~18%. Revenues of UltraTech, the largest contributor to the sample set, registered 28% revenue growth, driven by ~33% increase in sales volume through inorganic expansion
- **Steel products:** Aggregate revenue increased 35% on-year owing to increase in realisations as well as notable sales growth of large steel players. Revenues of large players such as Tata, JSW and SAIL (accounting for 77% of the overall set) rose higher at ~34% on-year. Other industry players outperformed the large players in sales volume, posting a higher 37% top-line growth.

  Domestic steel prices increased 20% on-year during first quarter of fiscal 2019 owing to elevated input prices, coupled with healthy demand growth. Flat steel prices averaged at Rs 45,033 per tonne, higher by 23% on-year
- **Power:** Revenues of power generation companies rose ~1 % on-year to ~Rs 446 billion in first quarter of fiscal 2019. The transmission segment, driven by Power Grid Corporation Of India Limited (PGCIL) saw revenues grow ~14% while aggregate revenue for the distribution segment increased ~6%

Other key sectors

- **Airline services:** Aggregate revenue of the three airlines considered in the sample set rose 11% on-year in first quarter of fiscal 2019, on account of 16% rise in aggregate passenger traffic. At an overall level, despite a rise in costs, the fares have declined, indicating inability to pass on rise in costs due to severe competition
- **Aluminium:** The aluminium segment's revenue for companies in the sample set improved sharply by 15% on-year, led by an increase in realisations and higher sales volumes of Nalco. Domestic aluminium prices improved ~17% on-year, in line with higher London Metal Exchange (LME) prices. Domestic demand for aluminium also went up significantly in the quarter at 10-12%, on account of a lower base
- **Natural gas:** Revenue in the regasification segment grew 42% on-year to Rs 91.7 billion, driven by higher sales volume growth of 14.8%, coupled with an increase in realisation by 19.4% on-year. Revenues for the transmission segment rose 29% on-year on account of higher volumes. Transmission volume increased 13% on-year, as domestic gas production and LNG (liquefid natural gas) usage grew, compared with the corresponding period of the previous year. Revenue increased for the distribution segment at a healthy 21% 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 8.9% on-year uptick in average realisations
- **Petrochemicals:** Revenue of our sample set of petrochemical companies increased ~49% on-year in first quarter of fiscal 2019, led by increase in volume and rise in product prices. A pickup in downstream demand drove volume growth. Stabilisation in production of refinery off-gas cracker by Reliance Industry Limited (RIL) helped ethylene volume growth. This was further supported by increase in crude oil prices which

resulted in higher product prices during the quarter. Prices of key polymers stepped up on-year for polyethlene (by 10%), polypropylene (25%), purified terephthalic acid(29%), and monoethylene glycol (32%)

- **Sugar:** Revenues from sugar plunged ~11% on-year, mainly owing to falling realisations. Revenue of north India-based sugar mills decreased 10% on-year, as higher sugar volume in Uttar Pradesh caused 24% fall on-year in sugar prices. Similarly, revenue of south-based mills declined 13% on-year, because of realisations dropping sharply by 29% on-year, owing to bumper production in both Karnataka and Maharashtra

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

Despite continued rise in input costs, the adverse impact of rising commodity prices on profitability was limited with a recovery in demand. Additionally, realisations improved for commodities, petrochemicals and automobiles due to either higher commodity prices or product mix benefits. Aggregate EBITDA margin improved to 19.8% in first quarter of fiscal 2019 from 19.0% in same quarter of the last fiscal. Operating performance reversed a five-quarter sequential trend of margin contraction, as benefits of operating leverage amid high volumes partially offset impact of continued rise in raw material cost.

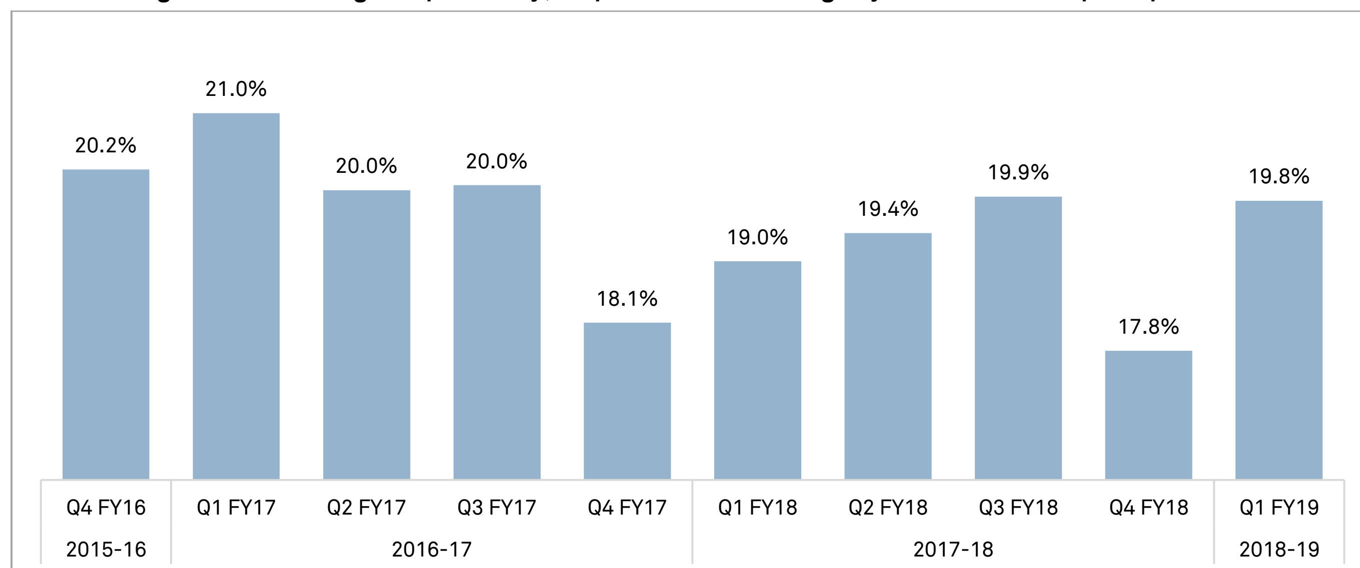
Consumer-linked sectors such as automobiles and FMCG saw margin expansion owing to higher volume growth from improved demand and a low base, constrained however, by increasing raw material costs. Of the key commodities, steel witnessed robust margin expansion led by significant improvement in realisations, with prices of flat steel and long steel rising 23% and 17% on-year respectively. Margins in export-linked sectors such as IT services and pharmaceuticals were benefitted by the depreciating rupee and recovery in specific segments. The rupee lost a significant ~4% on-year against the dollar.

EBITDA margins of consumer-linked sectors such as airline services, sugar and telecom services shrank substantially. While increase in input prices with limited ability to pass on costs to end-consumers impacted airline companies, continued high competitive intensity affected margins of telecom players. Similarly, low sugar prices and a supply glut impacted margins of sugar companies.

Among other key sectors, margins of aluminium, natural gas and cement contracted due to rise in input costs. Iron ore, coal and crude oil prices went up ~36%, ~10% and 48% on-year in first quarter, respectively.

High revenue growth led to four-quarter high aggregate EBITDA growth of ~23% on-year. EBITDA grew for fourth consecutive quarter, with GST woes settling down and higher commodity prices aiding recovery.

EBITDA margins rose to a high sequentially, as pressure eased slightly due to demand pickup



Note: Excludes housing sector as figures are not comparable on-year
Source: CRISIL Research

Sectoral EBITDA margins

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19
Overall	**21.0%**	**20.0%**	**20.0%**	**18.1%**	**19.0%**	**19.4%**	**19.9%**	**17.8%**	**19.8%**
Key sectors	**21.2%**	**20.4%**	**20.1%**	**18.8%**	**18.9%**	**19.5%**	**19.6%**	**18.9%**	**19.4%**
Automobiles	12.7%	13.2%	11.9%	11.1%	10.5%	13.7%	12.9%	12.1%	13.0%
FMCG	23.3%	23.7%	23.8%	24.1%	23.4%	24.4%	25.1%	26.3%	25.4%
IT services	23.2%	23.5%	23.8%	23.4%	22.2%	23.2%	23.1%	23.4%	23.1%
Pharmaceuticals	24.4%	24.3%	24.0%	18.3%	17.3%	20.9%	20.9%	19.7%	19.3%
Power	34.3%	34.2%	34.1%	32.6%	34.6%	36.0%	32.8%	33.1%	34.2%
Steel products	16.6%	12.8%	15.2%	15.1%	13.3%	15.0%	18.5%	21.0%	22.0%
Telecom services	35.9%	35.4%	31.4%	30.6%	29.2%	23.8%	28.1%	27.8%	22.7%

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, 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). Excludes housing as figures are not comparable on-year.
Source: CRISIL Research

EBITDA margin up for consumer and commodity-linked sectors

- **Automobiles:** Margins of automobile players expanded, driven by better utilisations. EBITDA margins improved 730 bps for CV players and 360 bps for tractor players, mainly on higher operating leverage. They improved by 160 bps forpassenger vehicles and remained stable for the two-wheeler segment
- **FMCG:** Margins improved 195 bps on-year, supported by cost rationalisation and improved product mix

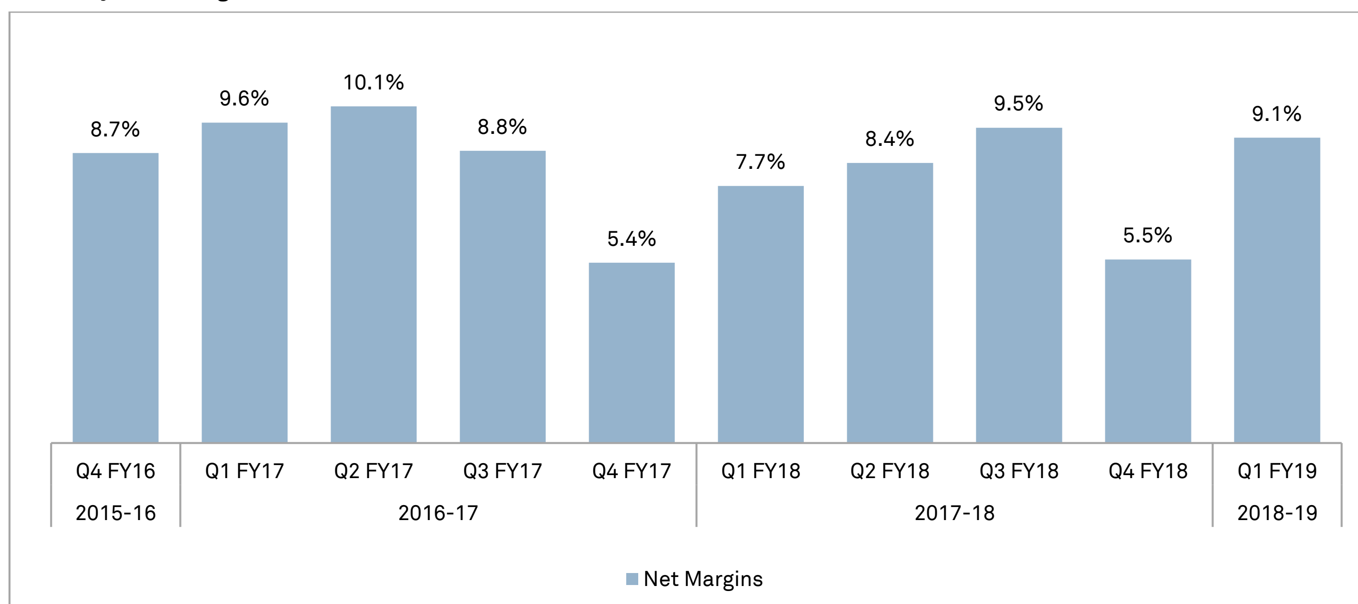
- **IT services:** Margins rose 86 bps on-year, mainly due to the depreciation of the rupee against the dollar
- **Airline services:** Rise in crude oil prices and rupee depreciation led to a surge in fuel cost and non-fuel expenses per available seat kilometre for the carriers. Aviation turbine fuel prices, which constitute 35-40% of operating cost, increased 27% on-year to Rs 67 per litre. Aggregate passenger load factior (PLF) of the three airlines increased 27 bps on-year, led by 130 bps increase for Indigo and 60 bps hike for Spicejet
- **Petrochemicals:** Margins of Reliance Industries and GAIL expanded, resulting in 89 bps rise in industry margins. RIL's margin expansion was primarily driven by switch in feedstock to ethane which resulted in lower input cost for the company
- **Pharmaceuticals:** Aggregate EBITDA margin improved ~200 basis points (bps) to 19.3%, propelled by an increase in margins of Sun Pharma, Cadila, Dr Reddy's and Torrent. Improvement was aided by depreciation of the rupee and better realisations by certain players
- **Telecom services:** EBITDA margin of the sample set compressed by ~647 bps on-year due to deterioration in ARPU and consequent revenue de-growth. This was owing to deep discounted bundled plans, provided by operators
- **Sugar:** Margins shrunk over 700 bps on-year owing to higher raw material cost and an over 20% decline in sugar realisations amidst high production

Net margin expansion continued on an on-year basis

Trend of net margin expansion on a sequential basis continued this quarter as well, rising ~140 bps on-year to 9% albeit on a low base of the first quarter of 2018, which had seen a contraction of 130 bps.

Net profits grew ~40% in the quarter, driven by topline growth followed by EBITDA level expansion and a subdued quarter last fiscal. The margins improved in line with operating performance for most sectors, with only six of 20 key sectors showing a decline in margins at the net level.

Industry net margin



Source: CRISIL Research

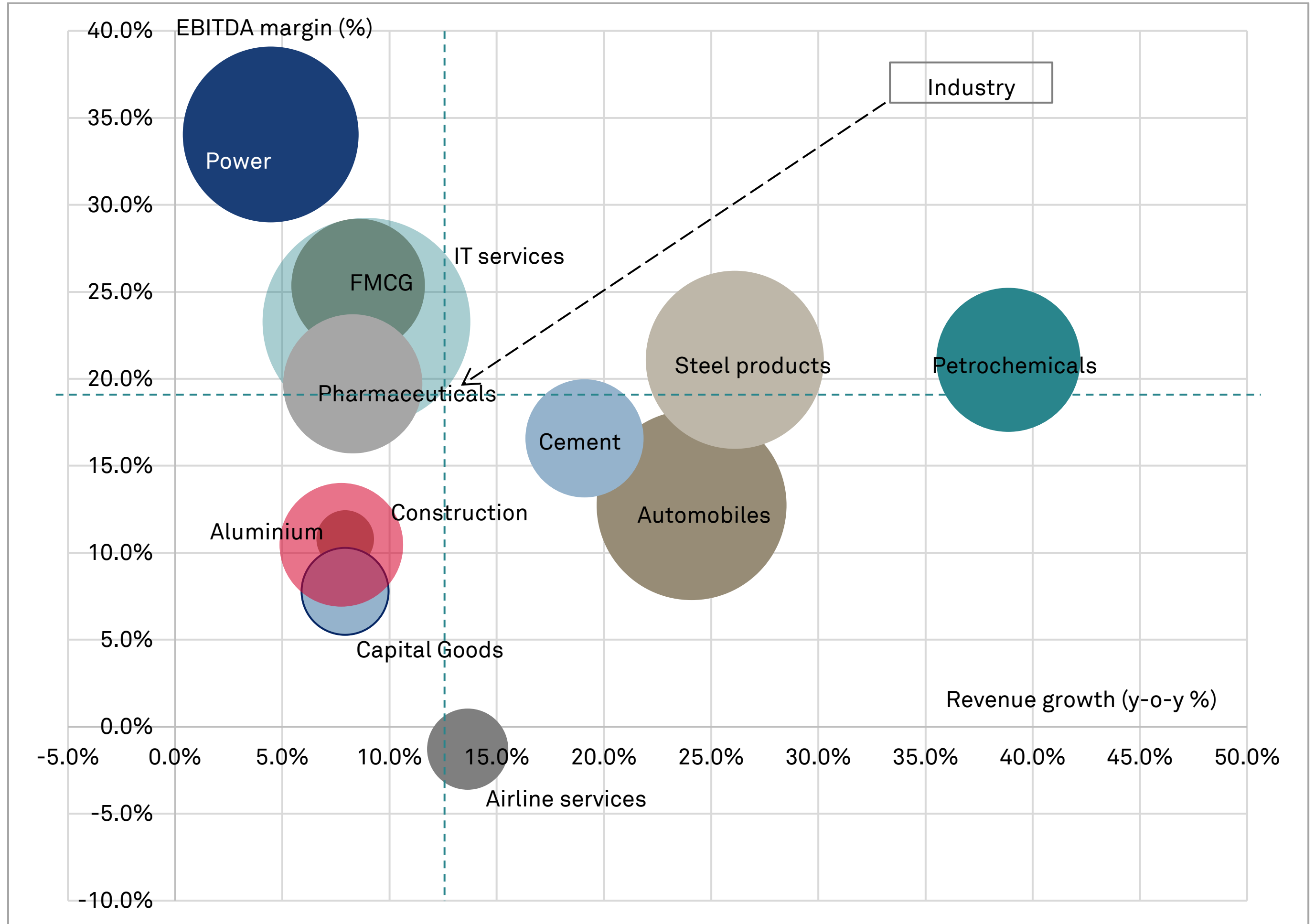
Sectoral net margin

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19
Overall	**9.6%**	**10.1%**	**8.8%**	**5.4%**	**7.7%**	**8.4%**	**9.5%**	**5.5%**	**9.1%**
Key industries	**9.6%**	**10.3%**	**8.6%**	**4.5%**	**7.5%**	**8.6%**	**9.2%**	**5.2%**	**9.1%**
Automobiles	8.4%	9.1%	6.6%	5.7%	6.6%	8.5%	7.7%	6.4%	8.7%
FMCG	15.8%	16.5%	17.1%	17.4%	15.8%	17.0%	18.7%	18.5%	17.3%
IT services	18.3%	18.3%	18.8%	18.4%	17.6%	18.4%	19.4%	18.1%	17.7%
Pharmaceuticals	16.0%	15.7%	14.6%	10.6%	5.3%	12.6%	17.2%	8.6%	11.3%
Power	9.6%	10.1%	8.4%	-2.6%	9.3%	10.7%	7.3%	8.8%	10.9%
Steel products	-0.3%	-2.7%	-0.4%	1.1%	-2.2%	0.5%	3.9%	5.8%	6.8%
Telecom services	5.6%	8.3%	-1.6%	-64.5%	-7.3%	-13.8%	-6.6%	-110.3%	-8.0%

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, 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). Excludes housing as figures are not comparable on-year.
Source: CRISIL Research

Sectoral performance metrics

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



Source: CRISIL Research

Note: Data represents aggregate performance of the mentioned sectors for four quarters (Q3 FY18 to Q2 FY19); size of the bubble indicates sector's share in overall industry's revenue

Annexure 1

Price indicators

Rs	Unit	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19 E
Steel flat	Rs/tonne	32,296	36,000	38,667	36,593	38,333	38,500	43,300	45,033	45000
Steel long	Rs/tonne	27,852	30,667	34,074	34,667	34,500	35,000	40,167	40,633	39500
Aluminium	Rs/tonne	139,433	142,053	144,463	148,137	145,005	154,081	158,610	173,031	162533
Iron ore	Rs/tonne	1,209	1,411	1,567	1,639	1,637	1,782	2,350	2,237	2,450
Cement	Rs per bag	324	324	319	348	333	324	325	324.4	330
Sugar (Mumbai S 30)	Rs/quintal	3,772	3,769	4,045	3,958	3,704	3,416	3,087	2869	2960
Crude oil	$/barrel	46	50	54	50	52	62	67	75	75
Coal	Rs/tonne	1,351	1,385	1,454	1,330	1,329	1,366	1,573	1,457	1530
Telecom ARPUs	Rs/month	196	174	159	158	151	132	123	115	109
Re/ $ movement	Rs/USD	67.0	67.5	67.0	64.5	64.3	64.7	64.3	67.1	69.9

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

Volume indicators

YoY growth	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19 E
Automobiles									
CVs	2%	1%	4%	-12%	14%	29%	29%	50%	22%
Cars	18%	3%	15%	13%	17%	11%	11%	23%	-4%
2-wheelers	21%	-7%	-5%	2%	10%	12%	24%	18%	6%
Cement (large+mid)	0%	0%	7%	6%	13%	22%	11.0%	14.8%	15.8
Cement-large	1%	-1%	6%	8%	14%	23%	11.6%	16.3%	18.20%
Cement-mid	-3%	4%	9%	-1%	9%	21%	7.2%	11.6%	11%
Steel	11%	16%	18%	10%	5%	5%	5.5%	4.4%	5%
Aluminium	2.6%	1.7%	-0.4%	0.9%	2.4%	0.2%	1.2%	3%	0.30%
Natural gas									
Natural gas - regasification	20.7%	34.3%	16.9%	14.0%	16.4%	16.5%	18.2%	14.8%	0.50%
Natural gas - transmission	9.8%	3.8%	4.6%	4.3%	9.3%	12.6%	12.3%	13.2%	5%
Natural gas - distribution	75.3%	80%	79%	9%	11%	12%	10%	11%	6%
Telecom data	13.7%	-1.7%	25.5%	106.0%	68.6%	37.2%	40.5%	34%	28%

Source: CRISIL Research

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