

Press Release

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Revenue growth to halve in Q4 on commodity slump

But fall in input costs to shore up profitability of end-user industries

CRISIL Research expects on-year corporate revenue growth for the current quarter to print at 8-9%, down sharply from the average of ~16.5% in the previous three quarters.

The plunge would be led by key commodities such as steel products, aluminium, natural gas and petrochemicals, which have softened significantly, impacting realisations.

The forecast is based on CRISIL Research's analysis of 354 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, "Sectors linked to commodities and infrastructure had been supporting revenue growth for the past few quarters. However, this trend has reversed in the fiscal fourth quarter. Steel, aluminium, natural gas and petrochemicals are expected to witness lower realisations on-year, and sectors such as construction and capital goods are also likely to grow slower. Additionally, automobiles, one of the key sectors driven by consumption spending, continues to reel under demand slowdown given higher cost of ownership and new axle norms, among other factors."

The decline in revenue growth, though, would be cushioned by other consumer sectors. Among others, retail has support from positive demand sentiment, while airline services stand to benefit from a sharp increase in domestic fares this quarter. Export-linked sectors such as IT services and pharmaceuticals, on their part, stand to gain from a weakening in the rupee on a year-on-year basis, though it has strengthened quarter-on-quarter.

With lower topline growth, India Inc is staring at dampened profitability at the operating level. Growth in operating profit, or earnings before interest, tax, depreciation and amortisation, is expected to print lower, at ~7% on-year compared with the ~13% average in the preceding three quarters.

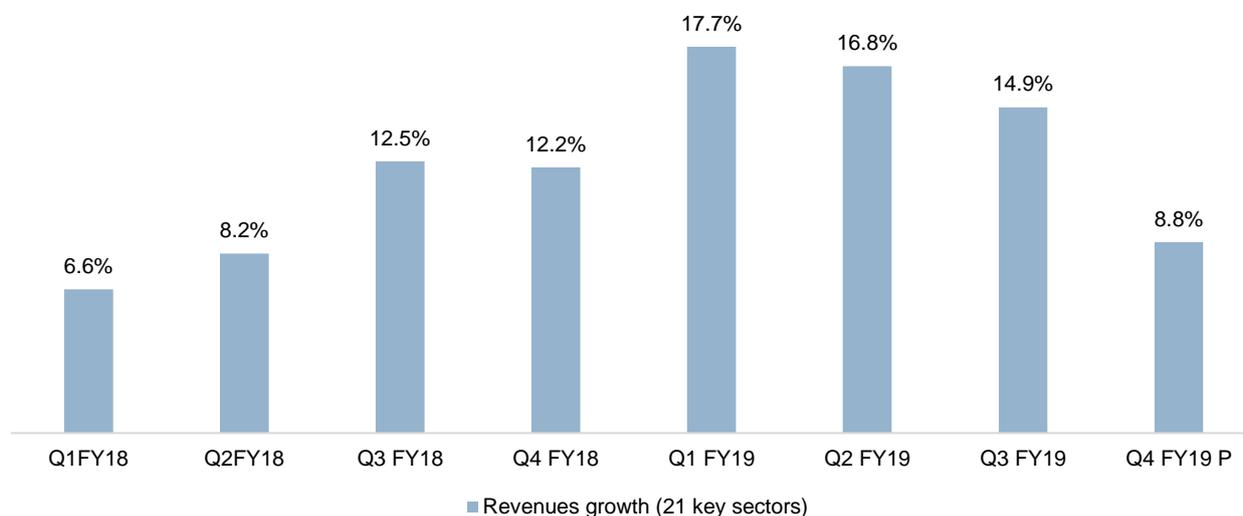
Linked to this, India Inc is expected to report a margin contraction of up to 50 basis points (bps) on-year for the quarter as topline shrinks. On a quarter-on-quarter basis, though, margins will show an improvement of ~70 bps due to lower input costs.

However, the expected softening in prices of most of the common commodities and crude oil on year-on-year basis is expected to limit margin erosion as end-use sectors benefit from lower input prices.

Says Rahul Prithiani, Director, CRISIL Research "Domestic prices of coal, long steel, flat steel, and aluminium are expected to be lower by ~2%, ~1%, 0-0.5% and 4%, respectively, on-year in the fourth quarter. Additionally, oil prices are expected to soften by 5-6%, while the rupee would be ~10% weaker on-year. Thus, while lower realisations for commodities will impact revenue growth this quarter, a fall in commodity prices will lend support to profitability for end-use sectors."

Annexure: key charts

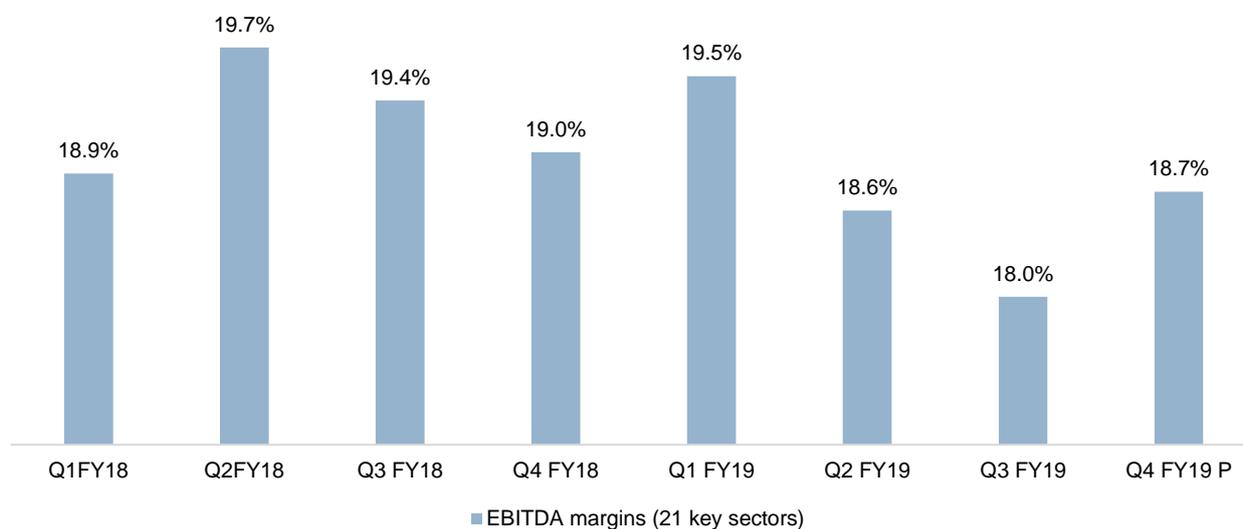
Revenue growth to plunge as commodities lose steam



Note: Graph depicts revenue percentage growth y-o-y of 354 companies for the past 8 quarters; P – Projected

Source: CRISIL Research

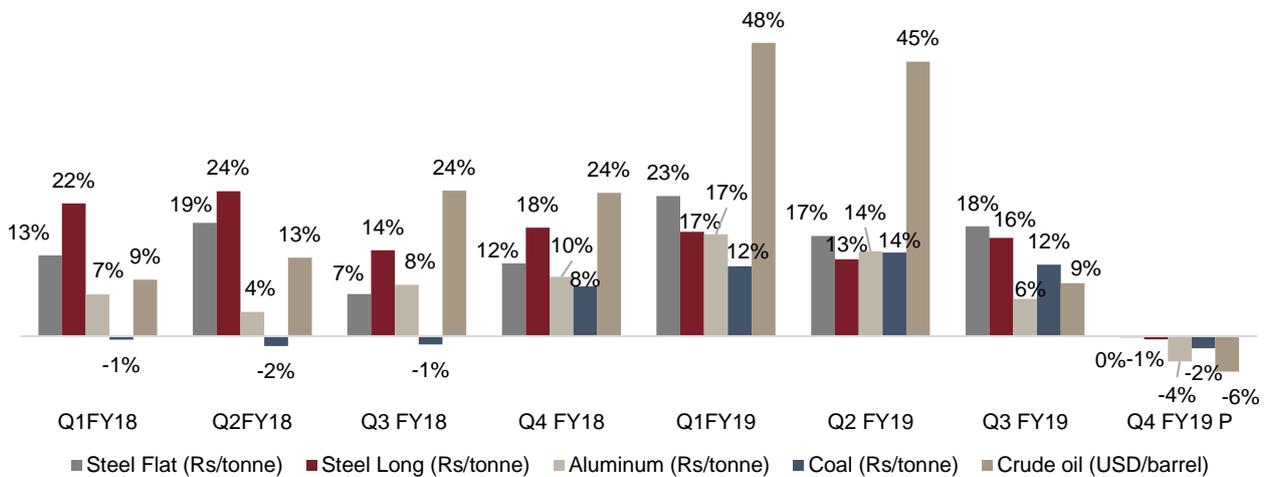
Operating margins to be tepid as topline shrinks



Note: Graph depicts EBITDA margin percentage of 354 companies for past 8 quarters; P - Projected

Source: CRISIL Research

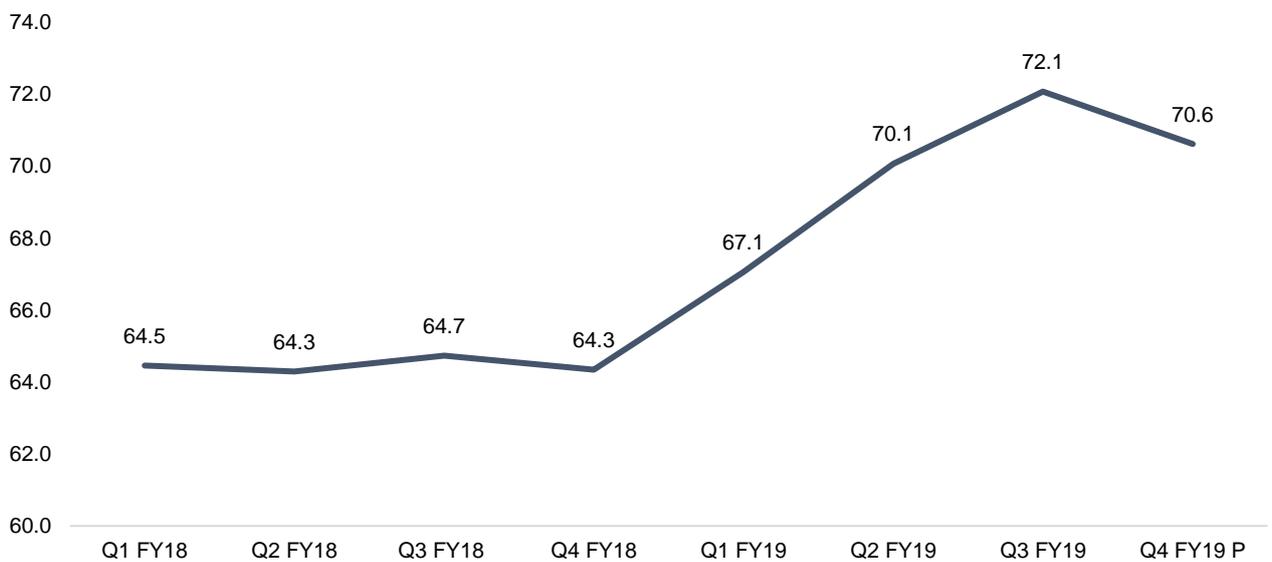
Commodity prices climbing down, in good augury for end-user industries



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

Source: CRISIL Research

Rupee depreciation adds to margin pressure, but beneficial for export-linked sectors



Note: Graph depicts average value of INR against the dollar on a quarterly basis, value for Q4 FY19 P based on actual data till 22nd March 2019; P - Projected

Source: CRISIL Research

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