

April 2015

# CRISIL QUIP



Q4 FY15: Sectoral results forecasts



# CRISIL Quarterly Update on Industry Performance

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**Last updated: August, 2014**

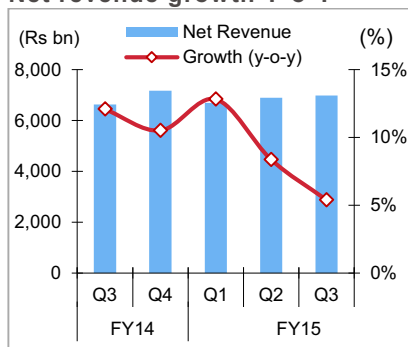
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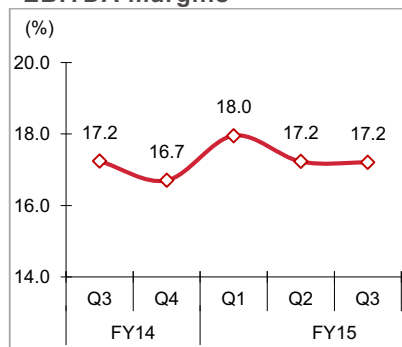
## Corporate profitability: Review and Outlook

### Result review (October- December 2014)

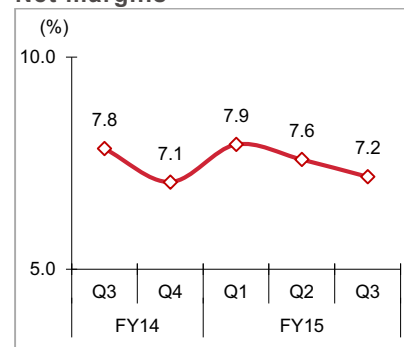
Net revenue growth Y-o-Y



EBITDA margins



Net margins



Note: Aggregate financial performance of 600 companies across ~60 sectors (excludes financial services and oil companies) during the October-December quarter of 2014-15 has been considered for the above analysis

Source: CRISIL Research

- The revenues of the companies in the set grew by a tepid 5.4 per cent y-o-y in Q3 FY15. Growth began to slide from Q2 FY15 prior to which, the revenues had recorded double digit growth in all of the four preceding quarters. The deceleration was mainly attributable to fall in commodity prices and the continued weak performance of investment-linked sectors.
- Export-oriented sectors have been performing extremely well in the preceding quarters, reporting strong y-o-y growth due to a slight rebound in demand in key markets and currency tailwinds. However In the December 2014 quarter, the rupee appreciated marginally by 0.2 per cent against the USD on y-o-y basis; so no gains were reported on the currency front.
  - While the IT services revenues grew by 11.2%, pharmaceuticals sector witnessed an 8.4% growth, much lower than the growth registered over the previous quarters.
  - Overall automobiles sector witnessed a revenue growth of 9% and the other consumer-driven sectors such as FMCG, telecom, media and retail continued to report steady revenue growth led by improved realisations.
  - Investment and capital expenditure-linked sectors such as capital goods and construction witnessed revenue decline of 13.3% and revenue growth of 4%, respectively, due to a continued slowdown in capex cycle.
- EBITDA grew at a slow pace of 5% y-o-y in Q3 FY15 and as a result margins were flat at 17.2%. The improvement in EBITDA margins for telecom (289 bps), power –generation (~90 bps) and aluminium (844 bps), was offset by a decline in margins for cotton yarn (311 bps), tractors (300 bps) and automobiles (90 bps).
  - EBITDA margins rose for **telecom** sector, driven by higher data revenues and cost control with lower interconnection charges and marketing expenses.

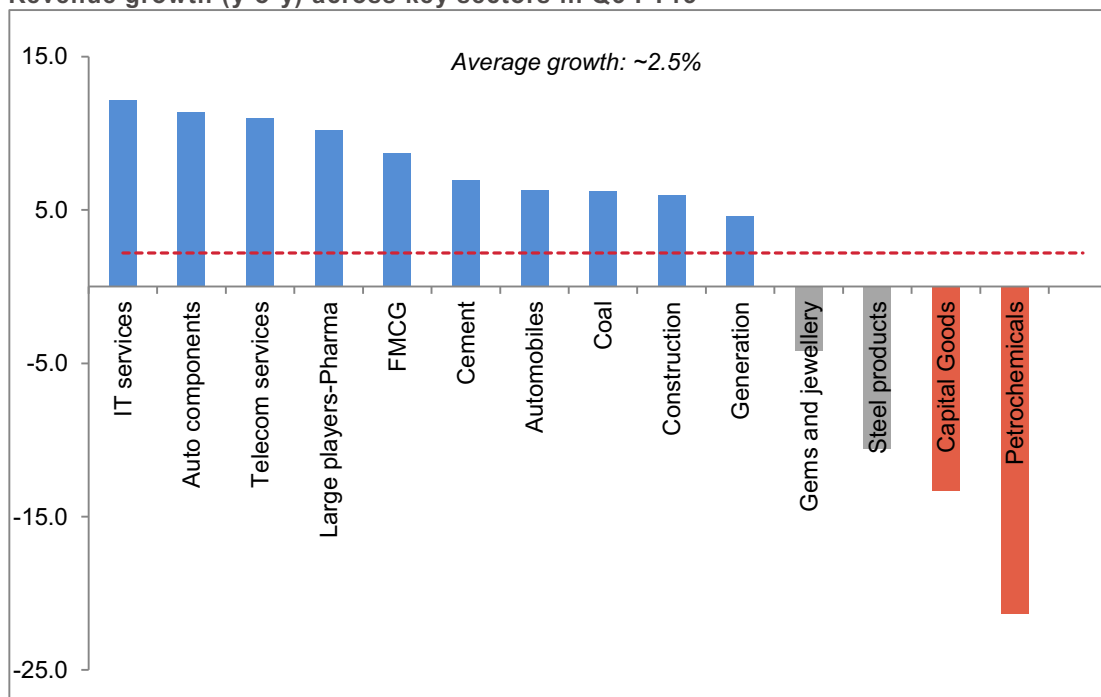


## CRISIL Quarterly update of industry performance

- Increase in realisations led to a sharp increase in margins of **aluminium** players while margins of **power** transmission companies improved due to lower employee expenses.
  - A slowdown in demand and a sharp correction in cotton prices pulled down EBITDA margins of **cotton yarn** players. Mills faced inventory losses during the quarter as they had procured cotton at higher prices during the previous quarters.
  - The absence of benefits arising from rupee depreciation hit the margins of the IT and **pharmaceutical** sectors.
- Net margins increased by 66 bps y-o-y to 7.2%.

## Results Outlook (January – March 2015)

Revenue growth (y-o-y) across key sectors in Q3 FY15



Source: CRISIL Research

### Revenue growth to fall sharply to 2.5% (y-o-y) in Q4 FY15; slower growth in investment and soft commodity prices to blame

- The rapid slide in global commodity prices will hurt topline growth of steel, petrochemicals, and commodity chemical producers during the quarter.
  - Pressure on realisations as well as sales volumes in both India and overseas operations (of Tata Steel Europe) will lead to a 10-11 per cent y-o-y decline in revenues of the Indian **steel** industry during Q4 2014-15.
  - On account of a 28% drop in crude oil prices, revenue growth of the **petrochemicals** industry is expected to decline by 20-22%. Similarly, the revenues of the **commodity chemicals** sector are projected to decline by 18-19%, as realisations of most chemicals are expected to sharply decline, even while sales volumes increase for all chemicals.
- Growth for **construction** and **capital goods** sectors' will continue to remain sluggish due to lower order backlog and slow project execution.
- Stable currency exchange rates is expected to impact the revenue growth of export oriented sectors:
  - Revenue growth of the **IT** sector is expected to be in the range of 11-13% y-o-y, mainly owing to a rise in volumes, as benefits from a weak rupee fade.
  - Revenues of the **pharmaceuticals** industry are expected to increase by a moderate 10% y-o-y
  - In the **textiles** space, cotton spinners are likely to report a 9% revenue decline on the back of



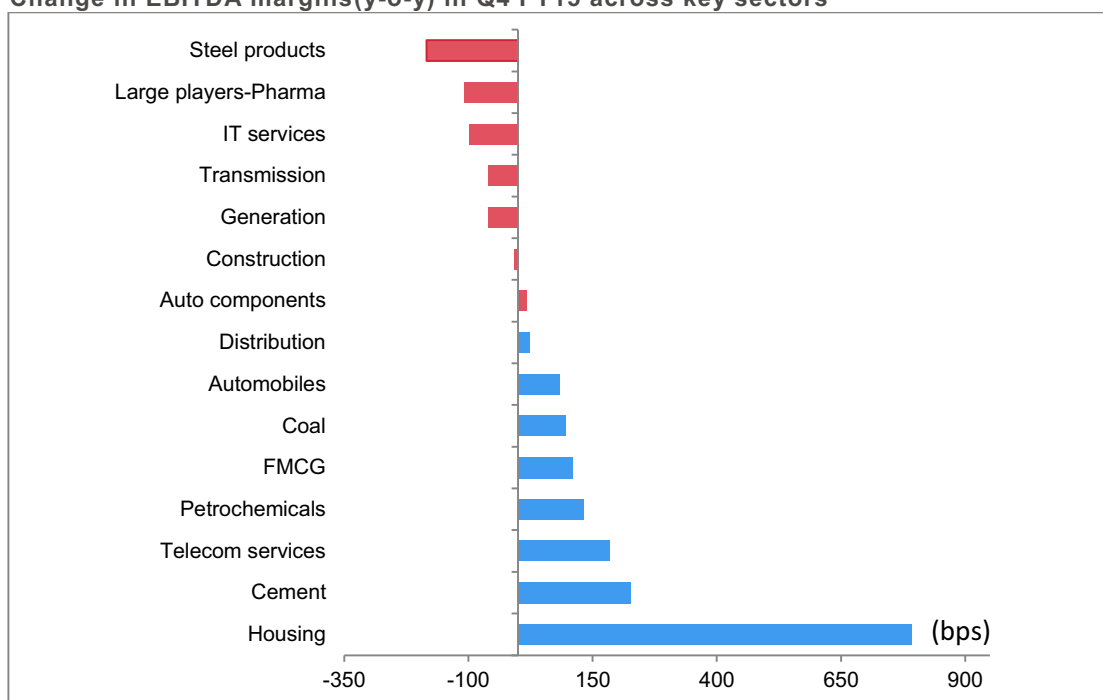
## CRISIL Quarterly update of industry performance

lower export demand from China and pricing pressure. Readymade garment manufacturers are forecast to do better, reporting 4% revenue growth, led by healthy sales growth in both exports and domestic market.

- The revenue growth in the **automobile** sector is forecast to grow at a slower pace of 6%. While sales of cars and medium & heavy commercial vehicles have picked up, muted growth in international businesses and the two wheeler space will impact the topline.
- **Telecom** and **FMCG** sectors are expected to register a revenue growth of 11% and 8-9%, respectively. The operating metrics continue to improve and data services is expected to witness a significant increase in usage in the telecom sector, while in the FMCG sector, the revenue growth will primarily come from higher realisations.
- Revenues of the **power** sector are expected to grow by 4-6% y-o-y led by a rise in generation, and strong capacity additions by players such as Adani Power, Reliance Power and GMR Infrastructure. **Coal** sector revenues are estimated to increase by 5-7% due to 4-5% growth in sales volumes, backed by higher production

## Results Outlook (January – March 2015)

Change in EBITDA margins(y-o-y) in Q4 FY15 across key sectors



Source: CRISIL Research

### EBITDA margins in Q4 FY15 forecast to improve by 50-80 bps y-o-y

- We expect a 50-80 bps y-o-y rise in EBITDA margins in Q4 FY15. Sectors like telecom, cement, and FMCG are likely to outperform. On the other hand, EBITDA margins for steel, capital goods, fertilisers, IT services and pharmaceuticals sectors will decline. Some of the large players in the housing sector will see a jump in their EBITDA margins due to one-time cost provisions made in Q4FY14.
- Despite a marginal rise in costs, EBITDA margins are forecast to improve by over 200 bps y-o-y for the **cement** industry, mainly aided by healthy realisation growth and a low base of the year ago quarter.
- EBITDA margins of the **telecom services** sector are likely to increase by 175-200 bps y-o-y, as subscriber acquisition and marketing costs are expected to stay under control and data revenues continue to surge.
- In case of **petrochemicals**, EBITDA margins are expected to increase by 100-150 bps y-o-y as polyester and polymer (PE and PP) spreads widen
- .Judicious pricing, cost optimisation and passing on rise in input costs to consumers will help **FMCG** companies offset the impact of price rise of raw materials on their margins, to an extent.
- EBITDA margins of the **automobiles** sector are forecast to increase by ~84 bps. An increase in the margins of Tata Motors' JLR division, the CV, two-wheelers and the cars & UVs segments are likely to be partly offset by decline in margins of tractor manufacturers during the quarter.



## CRISIL Quarterly update of industry performance

- EBITDA margins for the **IT services** and **pharmaceuticals** sector are projected to decline by about 100 bps as the benefits provided by the weak rupee fade. Further, margins of pharmaceutical players will be impacted by higher R&D as well as US FDA remediation.
- EBITDA margins of the **power generation** sector are expected to decline by 40-60 bps, post implementation of the new CERC tariff determination guidelines. These guidelines are expected to lower incentives and reduce efficiency gains through tighter operating norms.



## Banking

### Public sector banks

#### Result review (October-December 2014)

##### Key financial indicators

	Q3 FY15	Q3 FY14	Q2 FY15	Y-o-Y change	Q-o-Q change	9M FY15	9M FY14	% change (y-o-y)
Net interest income (Rs. bn)	416	395	411	5.1%	1.2%	1,234	1,147	7.5%
Operating profit before provisions & contingencies (Rs. bn)	285	260	273	9.6%	4.6%	843	785	7.4%
Provisions and contingencies (Rs. bn)	182	161	163	13.3%	12.2%	467	454	3.0%
Net profit (Rs. bn)	61	71	77	-14.3%	-21.4%	247	240	2.9%
Net interest margin (%)	2.8	3.1	2.8	-28	-2	2.9	3.1	-23
Gross NPA (%)	5.0	4.6	4.7	45	31	5.0	4.6	45
Gross Advances (Rs. bn)	45,431	41,585	44,608	9.2%	1.8%	45,431	41,585	9.2%

##### Notes:

1) Aggregates include results of 16 public sector banks, which account for 73% of advances.

2) Change in NIM and GNPA are in bps.

Source: Company reports, CRISIL Research

- Though advances grew by 9%, net interest income (NII) increased by just 5% y-o-y due to a substantial increase in non-interest earning assets [gross non-performing assets (GNPA) as well as restructured loans] and pricing pressure.
- Net profit declined by 14 per cent, largely due to a sharp increase in provisioning owing to deterioration in the asset quality mix (with more NPAs shifting from substandard category to doubtful and loss category).
- Asset quality remained under pressure with GNPA's rising by 45 bps to 5% of advances because of continuing stress across sectors such as infrastructure, construction and iron and steel. Also, restructured assets for public sector banks as a proportion of advances increased by 70-100 bps to around 7-8% as of December 2014.

# CRISIL Quarterly update of industry performance

## Bank-wise financials

Consolidated results	Nil growth Q3 FY15 (y-o-y)	PAT growth Q3 FY15 (y-o-y)	Net interest margin (%)	Net interest margin change in bps (y-o-y)	Gross NPA (%)	Gross NPA change in bps (y-o-y)	Gross NPA change in bps (q-o-q)
Allahabad Bank	20.1	-49.6	3.3	52	5.5	-1	10
Andhra Bank	45.0	342.6	3.4	89	6.0	43	0
Bank of Baroda	7.5	-68.1	2.2	-17	3.9	53	53
Bank of India	2.2	-70.4	2.2	-71	4.1	126	53
Canara Bank	6.9	60.2	2.2	3	3.4	56	43
Central Bank of India	-7.3	123.7	2.6	-43	6.2	-28	6
Corporation Bank	2.7	16.2	2.1	-9	4.9	180	43
Dena Bank	-8.9	12.9	2.2	-43	5.6	265	49
IDBI Bank	-3.9	-1.1	1.9	-33	5.9	50	22
Indian Overseas Bank	-3.0	-787.4	2.1	-18	8.1	285	77
Oriental Bank of Commerce	5.4	-91.3	2.7	0	5.4	156	69
Punjab National Bank	0.3	2.5	3.2	-36	6.0	101	32
State Bank of India	9.0	30.2	3.1	-39	4.9	-83	1
Syndicate Bank	-3.0	-19.7	2.3	-51	3.6	80	17
UCO Bank	-9.3	-3.5	-	-283	6.5	130	130
Union Bank of India	8.0	-13.3	2.6	7	5.1	123	39

Source: Company reports, CRISIL Research

## Result outlook (January-March 2015)

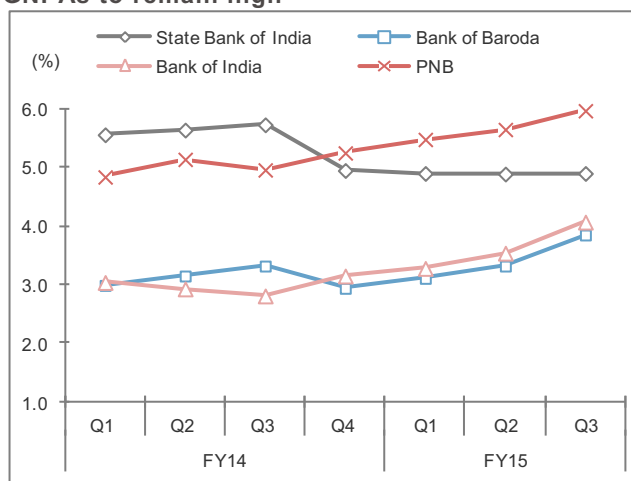
### Key financial indicators

	Q4 FY15E	Q4 FY14	Q3 FY15	Y-o-Y change	Q-o-Q change
Total income (Rs. bn)	1,695	1,527	1,580	11%	7%
Net interest income (Rs. bn)	429	405	416	6%	3%

Source: CRISIL Research

- Overall income is projected to grow by 10-12% y-o-y, which is marginally higher than the growth witnessed in the previous quarter, as credit growth is to rise given the expectations of a pick-up in economic growth.
- High GNPA's will restrict growth in net interest income to 5-7% y-o-y, in spite of lowering of deposit rates by some of the banks.
- CRISIL Research expects gross non-performing assets to remain at the current high levels.

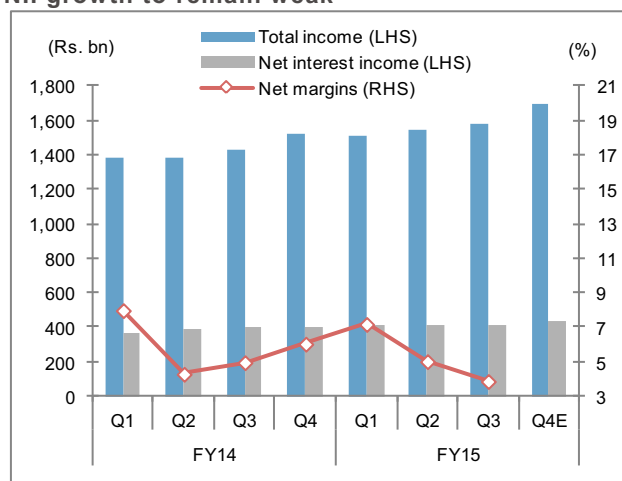
### GNPAs to remain high



GNPA: Gross non-performing asset

Source: Company reports, CRISIL Research

### NII growth to remain weak



E: Estimated; NII: Net interest income

Source: Company reports, CRISIL Research

### Outlook on key industry parameters

Parameter	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15E	FY15E	FY14
Credit growth	14%	10%	9%	11%	11%	15%
Deposit growth	12%	14%	11%	12%	12%	15%
Net Interest Margin	2.9%	2.8%	2.8%	2.8%	2.8%	3.0%
Gross NPA	4.5%	4.7%	5.0%	5.0%	5.0%	4.3%

E: Estimated; F: Forecast

Source: CRISIL Research

## Private sector banks

### Result review (October-December 2014)

#### Key financial indicators

	Q3 FY15	Q3 FY14	Q2 FY15	Y-o-Y change	Q-o-Q change	9M FY15	9M FY14	% change (y-o-y)
Net interest income (Rs. bn)	199	170	195	17.2%	1.9%	579	497	16.5%
Operating profit before provisions & contingencies	174	146	162	19.0%	7.6%	489	426	14.7%
Provisions and contingencies (Rs. bn)	27	15	27	76.5%	-0.6%	78	66	17.7%
Net profit (Rs. bn)	101	88	91	13.8%	9.9%	281	245	14.9%
Net interest margin (%)	4.0	3.9	4.1	10	-6	4.1	4.0	6
Gross NPA (%)	2.0	1.8	1.8	19	16	2.0	1.8	19
Gross Advances (Rs. bn)	14,525	12,477	13,589	16.4%	6.9%	14,525	12,477	16.4%

Notes:

1) Aggregates include results of 12 private sector banks, which account for 21% of advances.

2) Change in NIM and GNPA are in bps.

Source: Company reports, CRISIL Research

- Advances increased by 16% y-o-y, mainly led by growth in the retail portfolio, a segment where banks have become aggressive by offering competitive interest rates. Net interest income (NII) has also grown by 17%, thereby keeping pace with the growth in advances.
- Operating profits have grown at a faster pace due to higher growth in other income (largely due to treasury gains.)
- Net profits increased by just 14% in spite of higher growth in NII due to higher provisioning owing to deterioration in the asset quality mix (with more NPAs shifting from substandard category to doubtful and loss category).
- Asset quality deteriorated slightly with gross non-performing assets at 2% of advances. Despite a challenging economic environment, asset quality remained range-bound at 1.8-2.0% over the last several quarters following the enforcement of stringent credit appraisal mechanisms, improved monitoring and recovery processes, and lower exposure of weak infrastructure assets.

**Bank-wise financials**

Consolidated results	NII growth Q3 FY15 (y-o-y)	PAT growth Q3 FY15 (y-o-y)	Net interest margin (%)	Net interest margin change in bps (y-o-y)	Gross NPA (%)	Gross NPA change in bps (y-o-y)	Gross NPA change in bps (q-o-q)
Axis Bank	20.3	18.4	3.9	22	1.3	9	21
Development Credit Bank	29.7	16.9	3.7	16	1.9	-90	-3
HDFC Bank	23.0	20.2	4.4	20	1.0	0	0
ICICI Bank	13.1	14.1	3.5	14	3.4	35	28
IndusInd Bank	18.0	28.9	3.7	2	1.1	-13	-3
ING Vysya Bank	18.2	-12.9	3.4	2	1.9	18	27
Kotak Mahindra Bank (consolidated)	12.8	20.3	4.7	-20	1.6	-10	-31
The Federal Bank	7.6	15.0	3.2	-4	2.2	-64	9
The Jammu & Kashmir Bank	-1.2	-67.4	0.0	-397	5.8	416	108
The Karnataka Bank	11.3	0.2	2.4	-11	3.4	-21	-9
The South Indian Bank	-8.7	-37.8	2.7	-30	1.8	14	25
Yes Bank	36.6	30.0	3.2	30	0.4	3	6

Source: Company reports, CRISIL Research

## Result outlook (January-March 2015)

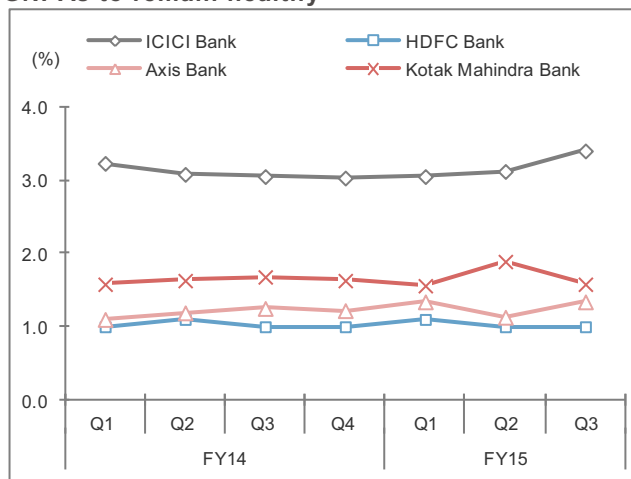
### Key financial indicators

	Q4 FY15E	Q4 FY14	Q3 FY15	Y-o-Y change	Q-o-Q change
Total income (Rs. bn)	664	563	621	18.0%	6.9%
Net interest income (Rs. bn)	210	180	199	17.0%	5.6%

Source: CRISIL Research

- Growth in total income is expected to pick up to 17-19% y-o-y, as credit growth is forecast to accelerate, given that the economy is anticipated to grow at a faster pace.
- We foresee net interest income increasing by around 16-18%. As net interest margins are likely to remain stable, the pace of growth in total income and net interest income will be somewhat similar.
- Gross non-performing assets will remain healthy (although marginally higher), backed by the private banks' strong credit appraisal mechanisms.

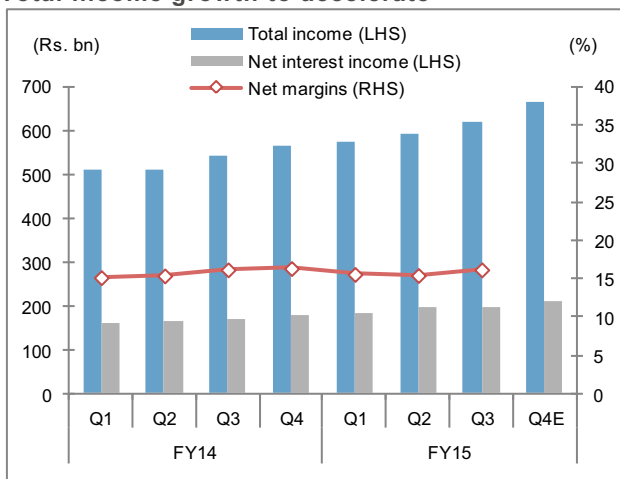
### GNPAs to remain healthy



GNPA: Gross non-performing asset

Source: Company reports, CRISIL Research

### Total income growth to accelerate



E: Estimated

Source: Company reports, CRISIL Research

### Outlook on key industry parameters

Parameter	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15E	FY15E	FY14
Credit growth	14%	22%	16%	17%	17%	17%
Deposit growth	15%	16%	15%	16%	16%	14%
Net Interest Margin	4.0%	4.1%	4.0%	4.0%	4.0%	4.0%
Gross NPA	1.9%	1.8%	2.0%	2.0%	2.0%	1.8%

E: Estimated; F: Forecast

Source: CRISIL Research

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