

India Inc revenue growth in Q1 skids to 11-quarter low of 5.7%

Weak consumer sentiment, subdued expenditure on infrastructure taking a toll: ICRA Ratings

OUR BUREAU

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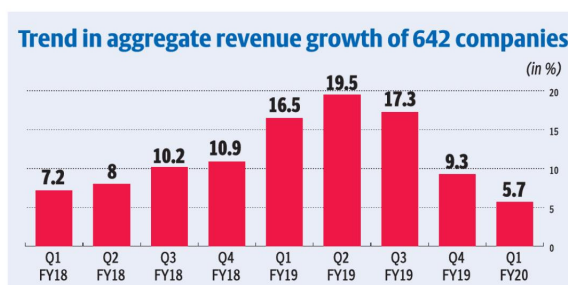
Weak consumer sentiment, along with a slowdown in the infrastructure sector and softening commodity prices have slowed revenue growth for the corporate sector to its slowest pace in 11 quarters.

The cumulative revenue growth of 642 companies in the Indian corporate sector skid to 5.7 per cent in the first quarter of FY 2020, mainly due to weak consumer sentiment and subdued government spending on infrastructure.

ICRA Ratings says the financial results of its sample companies were reflected in sequential contraction of 7.7 per cent in revenue from consumer-oriented sectors.

Additionally, demand from the infrastructure segment was down, with government spending on infrastructure projects reducing in the run-up to the general elections. This was reflected in the sharp slowdown in growth in GFCF (gross fixed capital formation) during the fourth quarter of the last fiscal year and the first quarter of the current fiscal year to 3.6 per cent and 4 per cent, respectively.

The EBITDA margin, however,



Source: Ace Equity, ICRA research

reflects an optical improvement of 136 basis points on a Y-o-Y basis and remained flat sequentially at 17.7 per cent in Q1 FY2020.

Transition to Ind AS 116

"This was largely on account of the transition to Ind AS 116, whereby operating leases have been capitalised by companies, thereby reducing rental costs and increasing depreciation and interest outgo. PBT margins, on the other hand, contracted on a Y-o-Y basis by 114 bps to 7.8 per cent and improved sequentially," ICRA said in a press release.

Shamsher Dewan, Vice-President & Sector Head — Corporate Sector Ratings, ICRA, said: "The weakness in the consumer-linked sectors has been visible in multiple sectors. Automobile sales reported a sharp double-digit decline, which has continued into the current quarter as well, while FMCG companies reported a sequential slowdown in volume growth in both rural

and urban markets. However, bucking the trend, companies in the consumer durables sector reported growth during the quarter on the back of sales of cooling products due to the extended and harsh summer," he added.

Sector-specific trends

In terms of sector-specific trends, consumer-linked sectors such as automobiles and FMCG reported weakening demand. The declining consumption in rural India and the overall slowdown in the economy have led to plummeting year-on-year volume growth for FMCG companies in the first quarter of this financial year.

"The performance (of FMCG companies) has been mixed, as most companies have seen a quarter-on-quarter and year-on-year decline in volume growth.

"Rural demand, which was growing at 1.5x urban growth, has come in line with the urban growth or in some cases is growing below urban growth...

Volume growth has been softening, more so in the past two quarters and the trend is across the board for most companies," Amnish Aggarwal, Head of Research at Prabhudas Lilladher Pvt Ltd had recently told *BusinessLine*.

Cement demand falls

According to Crisil, cement demand this fiscal is set to more than halve to 5.5 per cent from the 12 per cent logged last year, largely due to lower spending by the government which, accounts for about 40 per cent of the demand.

This apart, the real estate sector, which adds up to 5-8 per cent of demand, has been hit by the liquidity crunch, labour shortage, sand and water availability in key states.

All India cement demand fell 2 per cent in the first quarter of this fiscal year with the East and the North logging a fall of 4-5 per cent and 1.5 per cent, respectively.

For the auto sector, the pain continues unabated even in the ongoing quarter, with passenger vehicle sales getting battered in July and August, according to Society of Indian Automobile Manufacturers (SIAM) data.

Overall passenger vehicle sales were at a 19-year low in July. Car sales were the worst hit in August, declining by 41 per cent year-on-year (YoY) to 1,15,957 units against 1,96,847 units in the same month last year.