March 2012

Financial performance preview for Q4 FY12

India Inc set for a tepid Q4 FY12

CRISIL Research expects corporate India to report a 200-250 basis points (bps) decline in aggregate earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins in January-March 2012 (Q4 FY12). Revenue growth for the quarter is projected to be around 15.0 per cent from a far healthier 25.5 per cent in Q4 FY11. The drop in revenue growth is reflective of the slowdown in consumption growth and sluggish investment activity, coupled with an uncertain global environment.

EBITDA margins to drop 200-250 bps compared to Q4 FY11

Based on an analysis of the aggregate financial performance of 227 companies across 26 industries (excluding banks and oil companies), CRISIL Research anticipates a 200-250 basis (bps) decline in EBITDA margins in Q4 FY12 from 22 per cent in Q4 FY11, mainly on account of slower volume growth and high cost of inputs coupled with limited pricing flexibility. At the net profit level, the pressure is expected to be even more acute. Net margins in Q4 FY12 are likely to decline even more sharply from the 12.7 per cent reported in Q4 FY11 due to increased interest costs. On a quarter-on-quarter (q-o-q) basis, however, EBITDA margins will improve marginally due to the usual seasonal effect.

Revenue growth and margin pressure to be broad-based

The pressure on revenue growth and EBITDA margins will be felt across industries, though companies in consumption-linked and interest rate sensitive sectors will be most vulnerable. CRISIL Research expects airlines, auto components, commercial vehicles, metals, real estate, hotels, textiles, organised retail, and paper sectors to experience a particularly steep moderation in revenue growth compared to Q4 FY11. During Q4 FY12, we anticipate a sharp drop of 400-800 bps y-o-y in margins for players in airlines, aluminium, hotels, cotton yarn, and manmade fibres sectors, mainly due to slower volume growth and high raw material and wage costs. EBITDA margins for auto and auto component makers, steel, and paper manufacturers even are likely to decline by 100-300 bps.

Cement, IT, and Telecom sectors to fare relatively better

On the other hand, cement companies, IT, and telecom service providers are expected to outperform. Cement companies are forecast to report around 18 per cent y-o-y revenue growth in Q4 FY12, driven in equal measure by higher volumes and improved realisations, while EBITDA margins are likely to stay stable. IT service providers are expected to report strong revenue growth of around 25 per cent and a 100-150 bps improvement in EBITDA margins, aided by an increase in offshore volumes and the depreciation in the rupee. For telecom service providers, although volume growth would be muted, increased realisations and reducing competitive intensity would support margins.

Sales growth (y-o-y) and EBITDA margin

	Q3 2010-11	Q4 2010-11	Q1 2011-12	Q2 2011-12	Q3 2011-12	Q4 2011-12 P
Aggregate sales growth*	30.1%	25.5%	24.1%	21.0%	18.0%	14.0-15.0%
Aggregate EBITDA margin*	19.9%	21.4%	22.0%	20.8%	18.6%	19.0-21.0%

P: Projected

*Based on the analysis of the aggregate financial performance of 227 companies across 26 sectors (excludes banks and oil cos.)

Source: CRISIL Research

Preview of financial performance of key sectors for Q4 FY12

	Preview: January-March 2012
Interest rate-sensitive sectors	
Automobiles	Two-wheeler and car segments will drive overall revenue growth by 10-12 per cent (y-o-y). EBITDA margins, however, are likely to fall on a y-o-y basis but improve marginally on a q-o-q basis.
Real estate	New sales bookings are expected to be sluggish with slow economic growth and high interest rates. Revenues, therefore, are expected to decline by 20-25% y-o-y. Net margins are also expected to remain depressed.

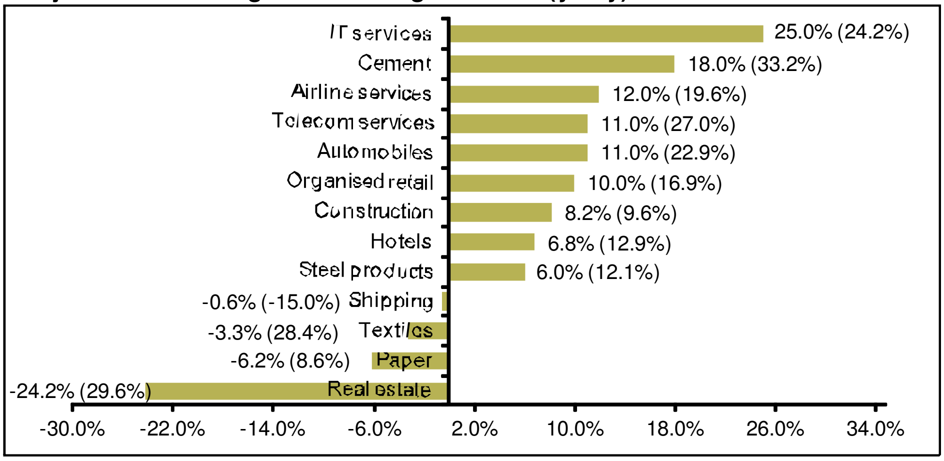
	January-March 2012
Consumption-linked sectors	
Airline services	Revenues to increase by 10-12% y-o-y led by a rise in passenger traffic. However, curbs on oil supply from Iran would further escalate fuel costs. Consequently, profitability would remain under pressure.
Hotels	Unfavourable demand supply situation to pull down RevPARs by 6-8 per cent
Media & Entertainment	Revenue growth would continue to remain muted owing to pressure on ad revenues. Further, digitisation in TV is still gathering pace. Margins are expected to remain flat q-o-q across media verticals, as competitive intensity would continue to remain high.
Organised retailing	Revenue growth to slow sharply to 9-11% from 17% in January-March 2011 due to weak consumer sentiments.
Telecom services	Revenue growth to remain healthy at 11-13% y-o-y. ARPUs and RPMs set to improve as competition wanes and operators hike tariffs.
Textiles	We expect revenue growth to be muted due to sluggish demand and lower prices. Consequently margins will remain subdued.

	January-March 2012
Globally linked sectors	
Aluminium	Aluminium demand will remain steady. However EBIT margins will fall by 600-700 bps y-o-y led by a 30% increase in coal costs, while realisation will remain flat y-o-y.
IT services	Revenue growth to remain strong at around 25 per cent coupled with a 100-150 bps improvement in EBITDA margins, aided by an increase in offshore volumes and the depreciation in the rupee.
Refining & marketing	Overall revenues will increase further by 5-7 per cent q-o-q, with an expected increase in product prices. GRMs will remain in the same range on account of stable product spreads
Steel products	Revenues to grow by 7-9% y-o-y, led by growth in sales volumes; steel prices expected to be stable y-o-y. However, due to higher input costs, EBITDA margins of players with captive mines are likely to fall by 200-300 basis points y-o-y, while that of players without captive mines are expected to decline by 400-500 basis points y-o-y.

	January-March 2012
Investment demand-linked sectors	
Cement	Cement demand to grow by around 8-9 per cent (y-o-y). Rising input costs, especially that of power and fuel, would keep margins under pressure.
Construction	Revenues are expected to increase by 8-10% y-o-y. Margins will drop due to the continued increase in the share of lower-margin segments in the overall business, sustained pressures in contract pricing, especially in road projects and higher prices of inputs like steel and cement.

	January-March 2012
BFSI	
Banking	Total income growth to moderate slightly due to slowing credit demand. Net interest income islikely to to grow only by 17% vis-à-vis by 25% in the same quarter last year, due to a rise in banks' interest expenses.

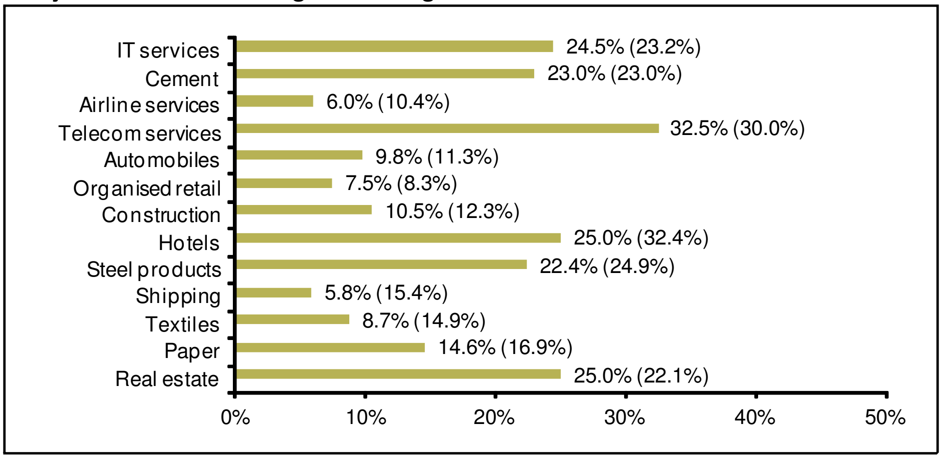
Projected revenue growth during Q4 FY12 (y-o-y)



Note: Figures in the brackets indicate revenue growth in Q4 FY11 (y-o-y)

Source: CRISIL Research

Projected EBITDA margins during Q4 FY12



Note: Figures in the brackets indicate EBITDA margins in Q4 FY11

Source: CRISIL Research

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CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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