Performance of Listed companies

Why in news?

\n\n

Listed companies have recently submitted the results on their performance on the July-September quarter of this year.

\n\n

What does it reveal?

\n\n

\n
- The report shows that though a growth in sales was witnessed, there is an increased pressure on company's margins.
\n
- Both the cost of raw materials and cost of finance is a major factor for drop in the margins.
\n
- Introduction of the goods and services tax (GST) in July 2017 created unusual base effects.
\n
- The Base effect relates to inflation in the corresponding period of the previous year.
\n
- If the inflation rate was too low in the corresponding period of the previous year, even a smaller rise in the Price Index will arithmetically give a high rate of inflation now.
\n
- This paved the way for reporting of rise in net sales by 24% at Rs4.6 trillion over the corresponding quarter of 2017-18 and adjusted profit after tax has risen by 18% to Rs 666 billion.
\n
- Earnings before interest, tax, depreciation and amortization (EBITDA) is a measure of a company's operating performance.
\n
- It's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments and the recent report shows that it risen up by 14%.

\n

- However, the operating margin (that is, EBITDA as a percentage of net sales) has dropped to 29%from 31.5%, the major reason being the interest costs which are up 24%, while total expenditure is up 26%.
\n
- Also, if one removes refining, banks and non-banking financial companies or NBFCs from the sample, the results are less impressive.
\n
- Thus, though the net sales for the company has increased, the corresponding increase in expenditure and a favourable base effect lowers the possibility of higher net profits.
\n
- Also, the major big factor in these results have also shown to be the weakness in the rupee.
\n

\n\n

What are the industry-wise performance?

\n\n

\n

- **Pharmaceutical** - The pharmaceutical industry has been a beneficiary, with sales going up 28%, while adjusted profit after tax (PAT) has grown by 41%and EBITDA margins have risen to 37%from 34%.
\n
- **Software** - The software sector's performance has been less impressive.
\n
- The 26 information technology (IT) companies included in the sample delivered 19%sales growth with 15%growth in profit after tax (PAT).
\n
- The operating profit margin for the IT sector has fallen to 26%from 27 per cent, while TCS and Wipro have both seen a rise in the cost of financing.
\n
- **Textile** - Textiles is another export-oriented industry that faced teething troubles after the GST's introduction.
\n
- However, the sector has seen a 42%bounce in profits coupled with a 19%rise in sales.
\n
- **Automobile** - The automobile sector has been hurt by higher interest rates and higher raw material costs.
\n
- Profits have declined for Maruti, Hero and TVS, which reported their lower operating margins.

\n

- The fast-moving consumer goods (FMCG) segment seems to have done well with Hindustan Unilever reporting 13%sales growth and 22%profit growth.
\n
- **Cement and steel** - Cement is also suffering margin erosion though demand seems fair.
\n
- The steel sector is hard to analyse, yet if the loss-making companies in the sector like Monnet Ispat and Uttam Galva are excluded, the sector has done well.
\n
- But there are many companies, including SAIL and Tata Steel, that are yet to declare their results and hence it gets difficult to predict the exact performance.
\n
- The paints industry has been hit by rising costs as crude oil prices have risen but Hindustan Oil Exploration has seen an enormous expansion in sales and profits for that very reason.
\n
- **Banking** - Banking is a mixed bag with many public sector banks (PSBs) yet to report their numbers.
\n
- While the Credit growth is up by 19%, interest costs are up 22%.
\n
- The NBFC segment has seen a 27%rise in credit disbursal, coupled with a 30%rise in the cost of financing.
\n
- The optic fibre industry has seen strong volume expansion and profit growth.
\n

\n\n

What should be done?

\n\n

\n

- Though the report presents a larger picture, a larger sample is necessary before any definitive statements can be made.
\n
- For companies, even though sales volume has clearly improved, it has not resulted in commensurate increases in their margins.
\n
- Thus, the report of the next quarter might present a clearer picture since the effect of base effect will go away and the companies, on their part, need tweaks to reduce their overall expenditure.

\n

\n\n

\n\n

Source: Business Standard

\n

SHANKAR IAS PARLIAMENT
Information is Empowering