Research

CRISIL
An S&P Global Company

CRISIL Q4 fiscal 2018 Results outlook

Quarterly update of industry performance

April 2018

Industry outlook (January – March 2018)

Revenue outlook

Consumption-linked sectors driving cyclical recovery, last quarter to end at ~ 9% growth

CRISIL Research expects corporate revenue – excluding that of banking, financial services and insurance, and oil companies – to rise ~ 9% on-year in the fourth quarter to March 31, 2018. On-year growth will slightly slow compared with the third quarter, largely on account of higher base for consumption-linked sectors, which had partially recovered from demonetisation in fourth quarter of last year.

Consumption-linked sectors, with the exception of telecom services, is expected to grow in mid-to-high teens for the third consecutive quarter, driven by improving macros, a pick-up in consumer sentiment, and growing rural demand, along with the fade-out of GST-related disruptions. Commodity-linked sectors, such as steel products and petrochemicals, are expected to continue growing amid surging prices. Cement will continue to witness high volume-driven growth, led by significant increase in capacity for a large player and high demand from the affordable-housing segment.

On the other hand, growth in telecom, information technology (IT) and pharma sectors will remain subdued. The rupee's appreciation and pricing pressures will continue to affect export-linked sectors, such as pharma and IT services. While pricing and regulatory pressures from the US will remain, new product launches and improving domestic demand (primarily benefiting mid-sized and small formulation players, such as FDC and Pfizer), will limit the damage. The competitive intensity in telecom industry further intensified since January 2018 after the new entrant started passing on the benefits of cut in interconnect usage charges to customers through lower tariffs.

Sectoral snapshot

Revenue Growth	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18 P
Key Sectors	9.1%	7.1%	6.6%	8.2%	6.9%	6.1%	7.9%	11.6%	8.9%
Automobiles	16.1%	9.6%	11.0%	2.7%	6.8%	4.7%	20.3%	24.8%	21.8%
FMCG	1.3%	5.7%	6.5%	1.2%	5.7%	0.8%	6.6%	10.1%	9.0%
IT services	18.3%	14.0%	8.6%	8.3%	5.8%	2.6%	3.6%	4.0%	3.9%
Pharmaceuticals	15.6%	8.7%	8.2%	10.3%	0.6%	-8.3%	0.7%	1.8%	3.5%
Power	12.3%	3.1%	0.6%	4.9%	-0.1%	6.4%	3.4%	5.6%	4.8%
Steel products	-7.6%	-1.7%	4.7%	31.2%	30.0%	23.4%	27.3%	23.0%	21.7%
Telecom services	9.5%	6.7%	6.8%	-2.5%	-14.0%	-15.8%	-22.0%	-29.3%	-40.3%

Source: CRISIL Research

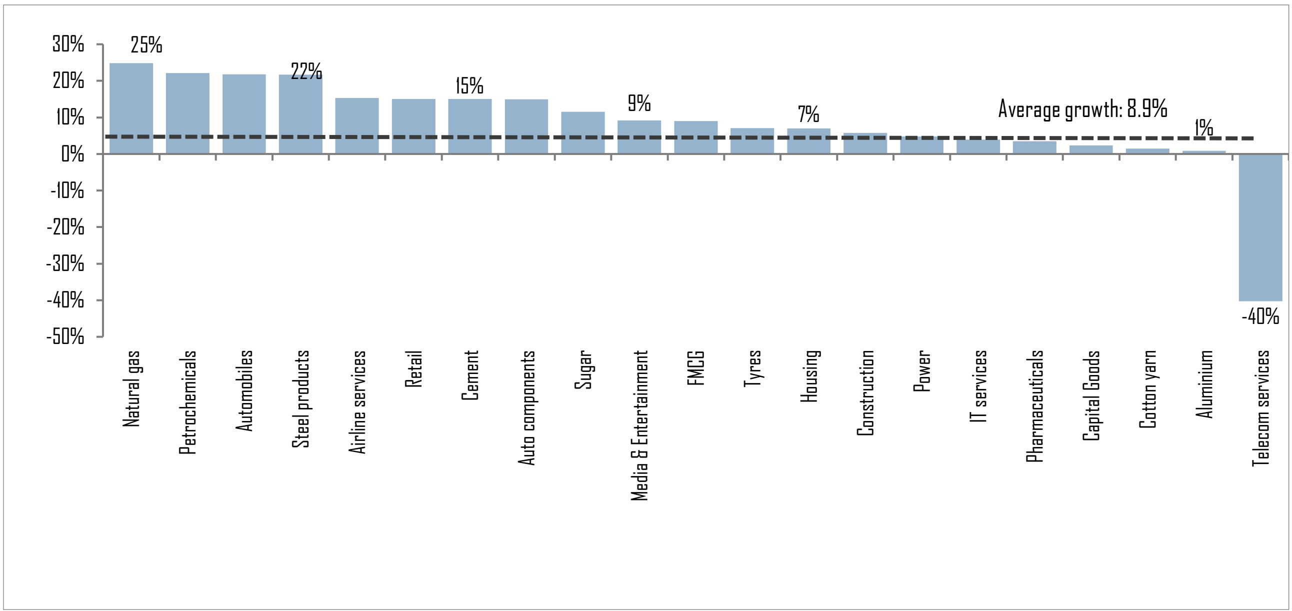
- **Automobiles:** Revenue for the automobile industry is projected to grow at a healthy 21-22% on-year. Revenue of passenger vehicles is expected to increase 15-17% on-year, aided by an increase in the sales volume, as the industry benefits from continued sales traction from popular models and new launches. Revenue from commercial vehicles is expected to rise 37% on-year, because of a ~32% rise in volume (in line with the past few quarters) and a ~4% increase in average realisation. Realisation to mainly benefit with a better product mix. Net revenue of two-wheeler players is expected to rise 16-22% on-year, aided by an increase in export demand for scooters, players' expansion in new geographies and better realisation, because of favourable product mix and increased vehicle prices.
- **Steel products:** Revenue is projected to increase 20-22% on-year, primarily because of surging steel prices and healthy production growth of ~5-6% on-year in the fourth quarter of fiscal 2018. Domestic flat and long-steel prices are estimated to rise ~13% and 18% on-year, respectively, led by a spike in global steel prices and elevated raw material prices.
- **FMCG:** Aggregate revenue is expected to improve ~9% on-year. Growth will spring from improving macros, pick-up in consumer sentiment, and growing rural demand.
- **Power:** Revenue for the power sector is expected to grow at a tepid pace of 4.8%, mainly driven by the transmission segment. Revenues from transmission segment is expected to rise at a healthy pace of 14-16% on-year, led by high transmission capacity addition during fiscal 2018, resulting in higher capitalisation.

The generation segment is expected to grow 3-4% on-year, because of a rise in power generation. During the quarter, the average plant load factor (PLF) is projected to be higher around ~63-64% on-year, because of a healthy pick-up in power demand, owing to onset of the summer season. Moreover, increased dispatch by CIL to central and state government stations on account of linkage distribution and higher rake availability will support PLF growth. Although the coal stock level in many power plants are at critical level (< 10 days of stock), but central and state generation plants are lesser impacted while private players are managing their stock with imported coal.

Revenue from the distribution segment is expected to rise, due to rise in power demand coupled with tariff revision for Reliance infrastructure's distribution business in Delhi.

- **IT services:** Rupee revenue is projected to slow down to 3-4% on-year. This is mainly because of the rupee's ~4% on-year appreciation, and the policy uncertainty surrounding spending from matured markets and political issues.
- **Pharmaceuticals:** Aggregate revenue growth for large formulation players is expected to remain in the range of 3-4% on-year, due to the pricing pressure in the base business in regulated markets, coupled with lower opportunities in the generic space; however, this will be partially offset by 9-11% on-year growth in the domestic segment.
- **Telecom**: The industry's gross revenue is expected to fall ~40% on-year, due to heightened competitive intensity. In an effort to retain high data-using subscribers, incumbents are devising new bundled offers and innovative data plans to counter Reliance Jio, which has led to deterioration in realisation (both data and voice). The launch of VoLTE services by the incumbents will further pressure voice realisation. In addition, the cut in interconnect usage charges (IUC) from 14 paisa/min to 6 paisa/min will impact their revenue, as they were net gainers from the access charges. The winding-off of the 2G business by Reliance Communications will also add to the drastic decline in the revenue growth.

Revenue growth outlook across sectors for the fourth quarter of fiscal 2018



Source: CRISIL Research

Other sectors that are expected to drive revenue growth are:

- **Natural gas:** Aggregate revenue is forecast to increase 23-25% on-year, aided by better realisation, higher transmission volume and higher realisation. Transmission volume is expected to increase about 12-15%, with rising domestic gas production (particularly from ONGC) and higher LNG imports.
- **Petrochemicals**: The aggregate revenue of companies in the petrochemicals segment is slated to rise 21-23% on-year, due to an improvement in petrochemicals realisation, due to a rise in feedstock naphtha price following higher crude oil prices. The expected pick-up in downstream demand should drive volume growth. Also, the projected rise in naphtha prices, following crude oil prices, will result in higher polymer prices during the quarter.
- **Airline services:** Aggregate revenue is projected to increase 14-16% on-year, aided by strong growth in passenger traffic, primarily in the domestic sector. Despite grounding of aircraft by Indigo and GoAir, we expect domestic passenger traffic to increase. Realisation on domestic routes is projected to decline marginally by 0-2% on-year, as we expect a partial transfer of cost because of higher crude oil prices.
- **Cement:** Revenue is projected to rise 15-17% on-year, due to an increase in sales volume. Volume growth is expected to be led by a key player due to an addition of capacity and demand from affordable housing and infra segments.

EBITDA margin outlook

Pace of contraction in EBITDA margins to ease significantly as operating leverage kicks in

Operating leverage benefits would provide some respite to the pressure on margins, thanks to a healthy revenue growth in the fourth quarter. India Inc's EBITDA margin will continue to shrink 50-70 bps on-year, reaching a 12-quarter low at 18.6% in the fourth quarter of this fiscal, but the pace of contraction is expected to ease considerably from over 100-250bps in the previous four quarters.

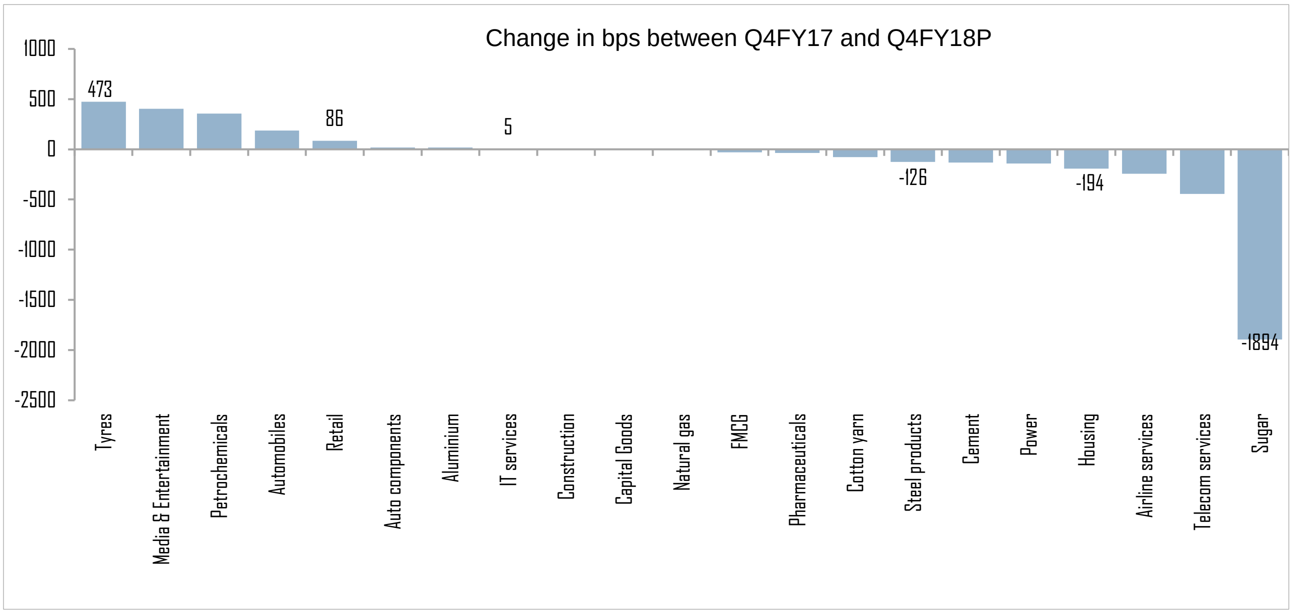
While higher commodity and raw material prices may take a toll on the margins of key sectors, such as power, steel products and consumer companies, such as FMCG and sugar, the rupee's appreciation could add to pricing pressure and high input costs, hurting exporters' earnings, IT services and pharmaceutical industry's profitability. Profitability of telecoms will continue to drop an alarmingly ~450 bps despite higher data traffic, because of competitive pricing among players.

Snapshot of key sectors

EBITDA Margins	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18 P
Key Sectors	21.4%	21.6%	20.9%	20.6%	19.2%	19.1%	19.7%	19.6%	18.6%
Automobiles	13.7%	12.7%	13.2%	11.9%	11.1%	10.5%	13.7%	12.9%	13.0%
FMCG	23.8%	23.3%	23.6%	23.8%	24.1%	23.4%	24.4%	25.2%	23.8%
IT services	24.8%	23.1%	23.4%	23.7%	23.4%	22.1%	23.2%	23.0%	23.4%
Pharmaceuticals	22.2%	24.4%	24.3%	24.0%	18.3%	17.3%	20.9%	20.9%	18.0%
Power	37.0%	34.4%	34.2%	34.0%	32.4%	34.3%	35.7%	32.7%	31.0%
Steel products	14.5%	20.3%	15.9%	19.6%	19.3%	16.5%	17.0%	20.4%	18.1%
Telecom services	36.4%	35.9%	35.4%	31.4%	29.8%	27.6%	23.8%	28.1%	25.4%

Source: CRISIL Research

Change in EBITDA margin outlook in the fourth quarter of fiscal 2018



Source: CRISIL Research

- **Automobiles:** EBITDA margins are expected to improve 180-200 bps on-year, aided by better capacity utilisation, cost-reduction efforts by companies, and improved product mix, with commercial vehicles being top gainers.
- **Aluminium:** EBITDA margin is forecast to improve 20-40 bps on-year, largely on account of better realisation and operating efficiency.
- **IT services:** EBITDA margin is expected to stay flat on-year for the quarter. Revenue and realisations from less resource-intensive digital services is growing (12-15% share in industry revenues), but stagnant utilisation and a marginal uptick in realisation will arrest further margin expansion. Also, while the US dollar has depreciated versus the rupee on-year, the pound has rebounded significantly, which should limit a further decline in margins.
- **Power:** Margins are expected to contract ~140-150 bps on-year, because of higher power-purchase cost, a rise in fuel cost led by higher imported coal prices, which continue to be elevated in contrast to previous year. Moreover, constraints with respect to domestic coal availability are also likely to lead higher imports of coal, thus putting downward pressure on margins.
- **FMCG:** EBITDA margin is expected to remain flat or marginally dip on-year. Rising prices of raw materials, such as crude oil, copra and liquid paraffin, are expected to extend downward pressure on margins offset by the benefit from higher operating leverage.

- **Pharmaceuticals:** EBITDA margin is projected to contract 30-40 bps, because of factors such as price erosion in the base business, a weaker product profile and an increase in research and development (R&D) spending by players. Further, with major players trying to increase their share of the specialty and branded segment (primarily Sun Pharma and Lupin), marketing expenses are set to increase on-year. However, better product mix compared with the year-ago quarter would resist a steep decline in margins.
- **Steel products:** Elevated raw material cost should impact margins by ~120-130 bps on-year in the fourth quarter fiscal 2018. Domestic iron ore prices are estimated to be ~22% higher on-year, during December-February 2018, because of higher global iron ore prices and supply disruptions amid mine shutdowns in Odisha.
- **Telecom services:** EBITDA margin is estimated to contract a sharp ~450 bps on-year, as industry revenue comes under pressure amid flattish operating expenses. However, the fall in margins will be moderate, because of a decline in the access charges (as expense) for incumbents.

Industry summary

Results review (September – December 2017)

Revenue growth hits the double digit mark, sustained recovery visible

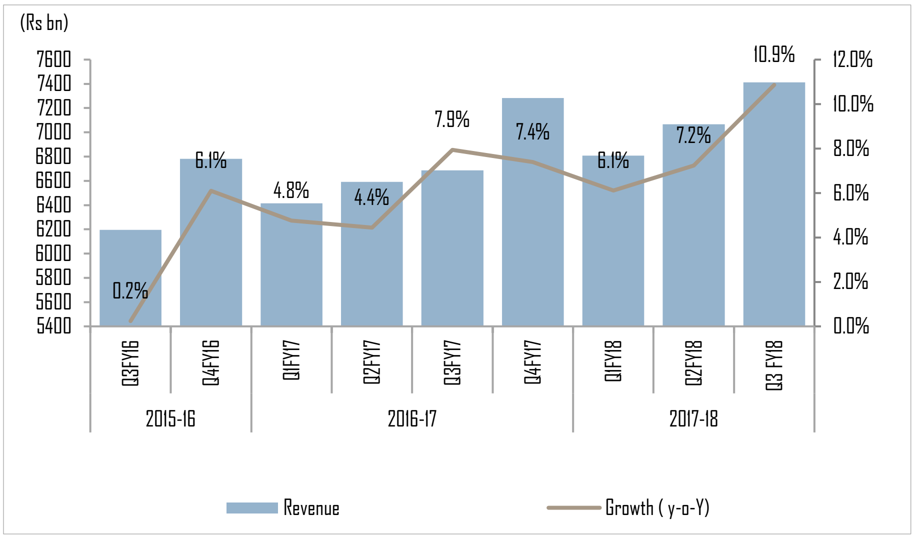
Aggregate top line growth touched a 12-quarter high of 10.9% in the third quarter of fiscal 2018, albeit on a low base on same quarter last year owing to demonetisation impact which impacted most consumer and investment linked sectors. Key commodity-linked sectors such as cement, steel products, aluminium and natural gas, continued to thrive, registering a healthy 22% on-year growth, in revenue. Metals, both steel products and aluminium, largely benefited from a rise in prices while cement and natural gas grew primarily on strong volume growth.

Further, the pain in consumption sectors continued to ease, with all consumption-linked sectors, excluding telecom, registering a growth of 19% on-year. Since the demonetisation impact in the same quarter last fiscal and subsequent rollout of GST, a notable recovery is visible in volume growth which is driving revenue growth from last quarter in consumer and investment linked sectors such as Automobiles, cement, FMCG, retail and natural gas. Automobiles majorly benefitted from a sharp rise in domestic commercial vehicle (CV) manufacturer's revenues as medium and heavy CV sales were spurred by stricter implementation of overloading ban, demand from infrastructure and road construction projects and a push by OEMs and financiers.

Telecom and pharma remained the major laggards. The drop in telecom gross revenue intensified to 29% on-year, because of competitive pressure and price regulation (drop in interconnect charges). Similarly, export-linked sectors such as IT and pharma continued to show subdued growth of 3% amid weak performance in the core regulated markets amid 4% appreciation in the rupee.

The analysis is corroborated from the performance of over 450 companies across 50 sectors (excluding financial services and oil).

Industry revenue growth shows consistent uptrend for 2nd consecutive quarter



Source: CRISIL Research

A snapshot of key sectors

Revenue growth	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Overall	0.2%	6.1%	4.8%	4.4%	7.9%	7.4%	6.1%	7.2%	10.9%
Key Industries	0.8%	9.1%	7.1%	6.6%	8.2%	6.9%	6.1%	7.9%	11.6%
Automobiles	12.5%	16.1%	9.6%	11.0%	2.7%	6.8%	4.7%	20.3%	24.8%
FMCG	-2.0%	1.3%	5.7%	6.5%	1.2%	5.7%	0.8%	6.6%	10.1%
IT services	13.2%	18.3%	14.0%	8.6%	8.3%	5.8%	2.6%	3.6%	4.0%
Pharmaceuticals	7.0%	15.6%	8.7%	8.2%	10.3%	0.6%	-8.3%	0.7%	1.8%
Power	-0.8%	12.3%	3.1%	0.6%	4.9%	-0.1%	6.4%	3.4%	5.6%
Steel products	-20.7%	-7.6%	-1.7%	4.7%	31.2%	30.0%	23.4%	27.3%	23.0%
Telecom services	7.6%	9.5%	6.7%	6.8%	-2.5%	-14.0%	-15.8%	-22.0%	-29.3%

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media & entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, telecom services, cotton yarn and tyres; overall industry covers key sectors and other sectors (automotive castings, ceramic tiles, chlor alkalies, coal, coffee, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, ites, material handling, oilfield equipment, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, transmission towers and telecom towers)

Source: CRISIL Research

Key segments that supported on-year revenue growth in the third quarter

- **Petrochemicals:** Aggregate revenue increased 38% on-year, led by an increase in volume and product prices. The higher crude oil prices drove up product prices. Stabilisation in the production of Reliance Industries Ltd's (RIL) paraxylene (PX) plant and new monoethylene glycol (MEG) capacity supported volume growth.
- **Automobiles:** The automobile sector posted a 25% on-year growth, mainly because of a sharp rise in commercial vehicle (CV) revenues. CV sales volumes grew 32% on-year. CV realisations rose 20% on-year, due to higher volume growth seen in higher-priced medium and heavy commercial vehicles (MHCVs), whose volume growth of 48% outpaced light commercial vehicles' (LCVs) 35% increase. Revenue growth in passenger vehicles (14%) and two-wheelers (20%) was aided by higher sales volume and increased realisation. The tractor segment remained stable on-year with domestic sales increasing 7.5% and export volume rising 9.5%. Average realisation declined 7%, because of high discounts provided by manufacturers due to positive on-ground sentiment.

- **Cement**: Aggregate revenue grew a healthy 24% on-year, largely driven by a ~22% increase in sales volume, supported by a ~2 % rise in realisation. Revenue of UltraTech, the largest contributor to the sample set, registered 34% revenue growth, driven by a 35% increase in sales volume through inorganic expansion.
- **Steel products:** Aggregate revenue increased 23% on-year, because of a sharp increase in realisation and notable sales growth of large steel players. Including SAIL, whose net sales grew a sharp 36% on-year, because of a significant increase in sales volume (14% on-year), revenue growth would be even higher. *(To avoid the skew from SAIL's profitability in the third and fourth quarter, it has been excluded from the set)*. SAIL outperformed the industry in topline and more significantly in operating performance, owing to company specific initiatives - ramping up capacities and restructuring operations.

  Domestic demand grew 6.9% on-year and exports accelerated 41% on-year. Domestic steel prices increased 12% on-year, driven by a 16% on-year rise in long-steel prices. The increase in domestic prices was supported by higher global steel prices.
- **Natural gas:** Aggregate revenue increased 22%, due to strong growth in transmission volume. Transmission volume rose 13% to 143 mmscmd, as domestic gas production and LNG usage increased owing to lower gas and LNG prices compared with the corresponding period last year. Revenue from regasification and distribution segments also rose largely driven by an increase in sales volume owing to higher demand for CNG as well as PNG. Higher demand owing to lower prices, better utilisation of the expanded regasification capacities and ban on fuel oil and petcoke in northern states aided strong volume growth.
- **Airline services:** Aggregate revenue increased 18%, due to a 15% rise in passenger traffic. Industry realisation rose on-year, because of the pass-on of higher fuel prices and a low base (air fares) in the corresponding period last year due to demonetisation.

Other key sectors

- **Aluminium:** Aggregate revenue rose 11% on-year, mainly led by improved realisation. Domestic aluminium prices improved 8.5% on-year, in line with the elevated London Metal Exchange (LME) prices. Domestic demand for aluminium also witnessed a slight uptick in the third quarter of fiscal 2018.
- **Sugar:** Sugar production during the quarter grew by 24% on-year, while prices fell by 9% on-year owing to a bumper production, aiding a revenue growth of 15%. Revenue of north-based sugar mills increased a significant 40% on-year, driven by higher volume of sugar in Uttar Pradesh due to better yields. On the

contrary, revenue of south-based mills fell, because of a fall in realisation and lower volume, due to delayed crushing in Karnataka.

- **FMCG:** The sector recorded a 10% on-year growth in revenue, mainly because of the low base of previous year, coupled with expanding volume. Product prices were reduced, with players passing on the benefits of lower taxes on many FMCG products to consumers.
- **Power:** The sector's growth was subdued. Revenue of the power-generation segment remained at 3% on-year, due to tepid demand. However, the transmission segment witnessed a robust growth of 13% on-year, because of strong asset capitalisation. Thus, the power sector witnessed a 4.8% on-year rise in revenue in the third quarter of fiscal 2018.
- **IT services:** The sector witnessed a moderate growth of 4%, mostly due to a stronger rupee. The rupee has gained significantly by ~4% on-year against the dollar, affecting the rupee revenue of players in general. Overall revenue growth in dollar terms has accelerated to over 8% from 6-7% in the past 2 years driven mainly by volume growth.

  Billing rates have shown some improvement at an overall level, however they continued to decline in traditional IT services, because of their increased commoditisation as against an improvement in the digital IT services (contributing 12-15% share in industry revenues). Revenue of mid-tier IT companies increased, driven by higher volume, thereby giving them an edge over their tier-I peers.
- **Pharma:** The sector recorded a muted revenue growth of 1.8% on-year, as continued pricing pressure weighed on players but new product launches prevented a sharp drop in revenue. Revenue of large formulation players fell 1% on-year, because of lower exclusivity products in the quarter, compared with the previous year. However, higher revenue from bulk-drug players gave the overall business support, offsetting the impact of price erosion in the base business.
- **Telecom**: Gross revenue of the sector slipped 29% on-year, due to continued pressure on realisation, as pricing war continued between the incumbents and new entrant.

Volume recovery eases EBIDTA margin pressure amid higher raw material prices

A rise in the input cost continued to dent the overall profitability of Indian industries. While pricing pressure led to a fall in realisation across key sectors such as telecom, pharma and IT services; realisations improved for commodities, petrochemicals and automobiles. Aggregate EBITDA (earnings before interest, tax, depreciation and amortisation) margin contracted to 19.8% in the third quarter of fiscal 2018. However, the contraction was limited to 55 basis points (bps) on an on-year basis. Operating performance was significantly better than the previous three quarters, as benefits of operating leverage amid high volumes partially offset impact of continued rise in raw material cost. The prices of key inputs – steel and crude oil – rose 14% and 24% on-year, respectively.

Margins for consumer linked sectors such as airline services, auto and auto components, FMCG and retail witnessed healthy expansion in margins on-year in the third quarter, driven by strong volume growth and product mix. However, few consumer sectors such as sugar, textiles and telecom services witnessed a contraction owing to pricing pressure.

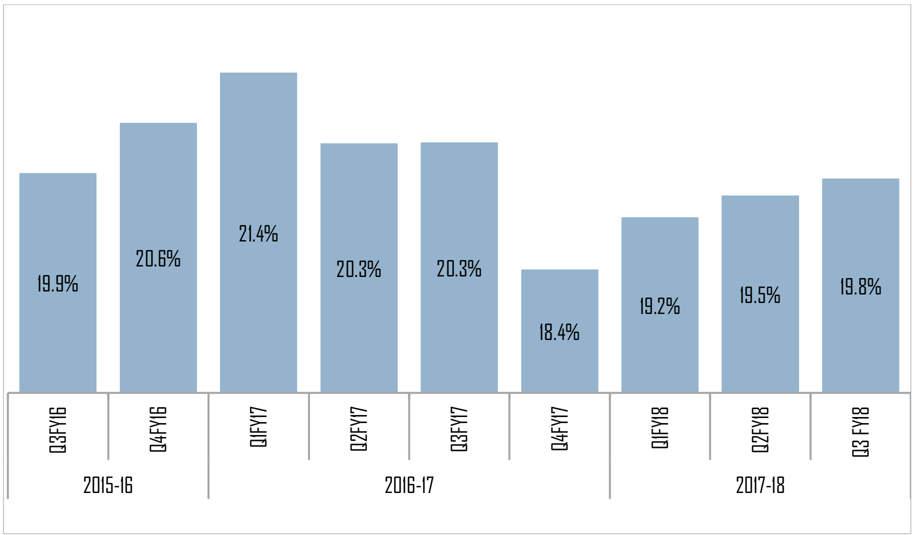
The rupee gained a significant ~4% on-year against the dollar, affecting the rupee revenue of players in export-oriented sectors. While telecom services witnessed pricing pressure due to intense competition in the domestic market and price regulation hurting incumbents (with the TRAI slashing interconnect usage charges); pharmaceuticals and IT services continued to face pricing pressure in the global market.

Among other key sectors, margins for aluminium, housing and construction contracted, due to a rise in input costs.

On a sequential basis, margins improved for the third consecutive quarter to 19.8%. Among the seven key sectors, except for power and automobiles, margins improved sequentially, resulting in a stable EBITDA margin.

High revenue growth led to a four-quarter high aggregate EBITDA growth of ~8% one-year. EBITDA grew for the second consecutive quarter, with GST woes settling down and higher commodity prices aiding a recovery.

Industry's EBITDA margins rise sequentially though on year pressure continues



Source: CRISIL Research

A snapshot of key sectors

EBITDA margin	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18
Overall	19.9%	20.6%	21.4%	20.3%	20.3%	18.4%	19.2%	19.5%	19.8%
Key Industries	20.1%	21.4%	21.6%	20.9%	20.6%	19.2%	19.1%	19.7%	19.6%
Automobiles	12.2%	13.7%	12.7%	13.2%	11.9%	11.1%	10.5%	13.7%	12.9%
FMCG	24.0%	23.8%	23.3%	23.6%	23.8%	24.1%	23.4%	24.4%	25.2%
IT services	24.9%	24.8%	23.1%	23.4%	23.7%	23.4%	22.1%	23.2%	23.0%
Pharmaceuticals	23.6%	22.2%	24.4%	24.3%	24.0%	18.3%	17.3%	20.9%	20.9%
Power	35.2%	37.0%	34.4%	34.2%	34.0%	32.4%	34.3%	35.7%	32.7%
Steel products	10.3%	14.5%	20.3%	15.9%	19.6%	19.3%	16.5%	17.0%	20.4%
Telecom services	35.1%	36.4%	35.9%	35.4%	31.4%	29.8%	27.6%	23.8%	28.1%

Note: Key sectors include airline services, aluminium, automobiles, auto components, capital goods, cement, chemicals, construction, FMCG, housing, IT services, media and entertainment, natural gas, pharmaceuticals, power, retail, steel products, sugar, telecom services, cotton yarn and tyres; overall industry covers key sectors and other sectors (automotive castings, ceramic tiles, chlor alkalies, coal, coffee, distillers and breweries, edible oil, educational services, ferro alloys, fertilisers, gems and jewellery, hotels, hospitals, ites, material handling, oilfield equipment, paper, ports, power cables and conductors, power transformers, roads and highway, shipping, steel intermediates, steel pipes, tea, transmission towers and telecom towers)

Source: CRISIL Research

EBITDA margins improve for several consumer linked and commodity sectors; utilities and export linked sectors struggle

- **Airline Services:** Margins expanded 224 bps on-year, despite an increase in fuel prices, due to a rise in the aggregate passenger load factor (including both international and domestic).
- **Retail:** Margins expanded 159 bps on-year on account of improvement in sales mix and GST related benefits
- **FMCG:** Margins improved 140 bps on-year supported by cost rationalisation and input tax-credit benefits
- **Petrochemicals:** Margin expanded 91 bps on-year as rise in petrochemical prices outpaced increase in feedstock prices.
- **Automobiles:** Margins for automobile players expanded driven by 520bps improvement for commercial vehicle players and 310bps for tractor players mainly on higher operating leverage, and 100 bps for passenger vehicle players owing to increase in localisation and cost reduction efforts. Margins contracted for two wheeler players owing to steep increase in raw material cost.

- **IT services:** Margins declined 71 bps on-year mainly due to stagnation in utilisation and rising cost, appreciating rupee.
- **Pharmaceuticals:** Margins contracted 309 bps on-year primarily because of pricing pressure in the regulated market and slowdown in pace of high margin new product launches.
- **Construction:** Margin contraction of 328 bps was mainly due to limited execution by companies that faced financial constraints even as project execution by majority companies was supported by low margin businesses
- **Telecom services:** Margins compressed 335 bps due to competitive pricing adopted by Reliance Jio and bundled plans provided by the incumbents
- **Cotton yarn:** Margin contracted of 550 bps on-year owing to sharply lower cotton yarn prices compared with cotton prices
- **Sugar:** Margins shrunk 750 bps on-year owing to higher raw material cost and 22% decline in sugar realisation amidst high production

Net margin expanded for the first time in four quarters

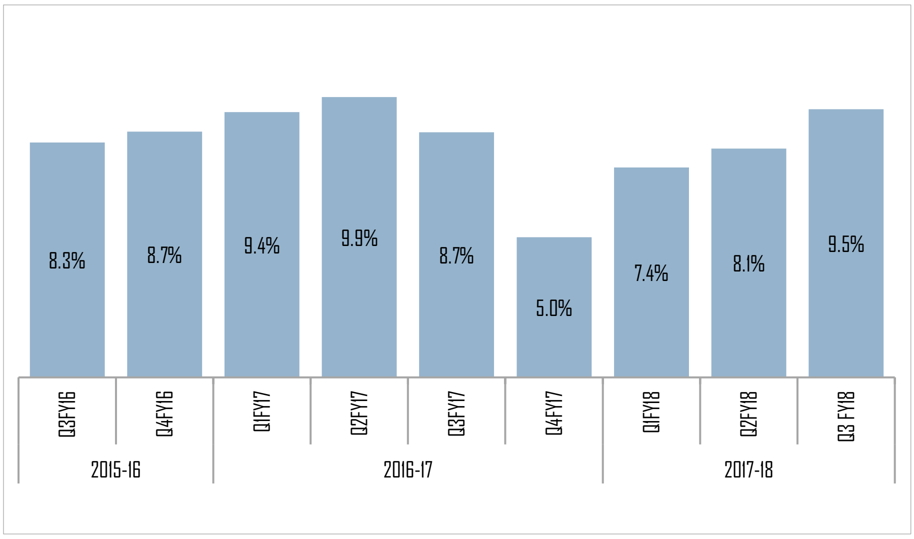
Net margin revived, rising ~80 bps on-year to 9.5% after three consecutive quarters of contraction. Only six of 21 key sectors showed a decline in margins at the net level, compared with 10 out of 21 that showed a fall in EBITDA margin.

Net margins improved in line with operating performance for retail and expanded much higher than operating margins in the case of pharma companies, housing (extraordinary income earned by DLF), media and entertainment (lower capital and finance costs for certain companies), steel products (skewed by a sharp improvement in net margins of large players, such as JSW steel and SAIL), FMCG (higher extraordinary income) and automobiles (lower capital and finance costs).

On the other hand, net margins declined in line with the weak operating performance for sugar, cotton yarn, power and tyres. While construction showed a nearly 200 bps drop in net margin on-year amid stretched balance sheet and restructuring, telecom players showed a 500 bps drop, as rising finance and capital costs added to pricing pressure.

For India Inc, net profits grew over 20 per cent in the third quarter of fiscal 2018, reversing the declining trend in the previous three quarters.

Industry's net margin



Source: CRISIL Research

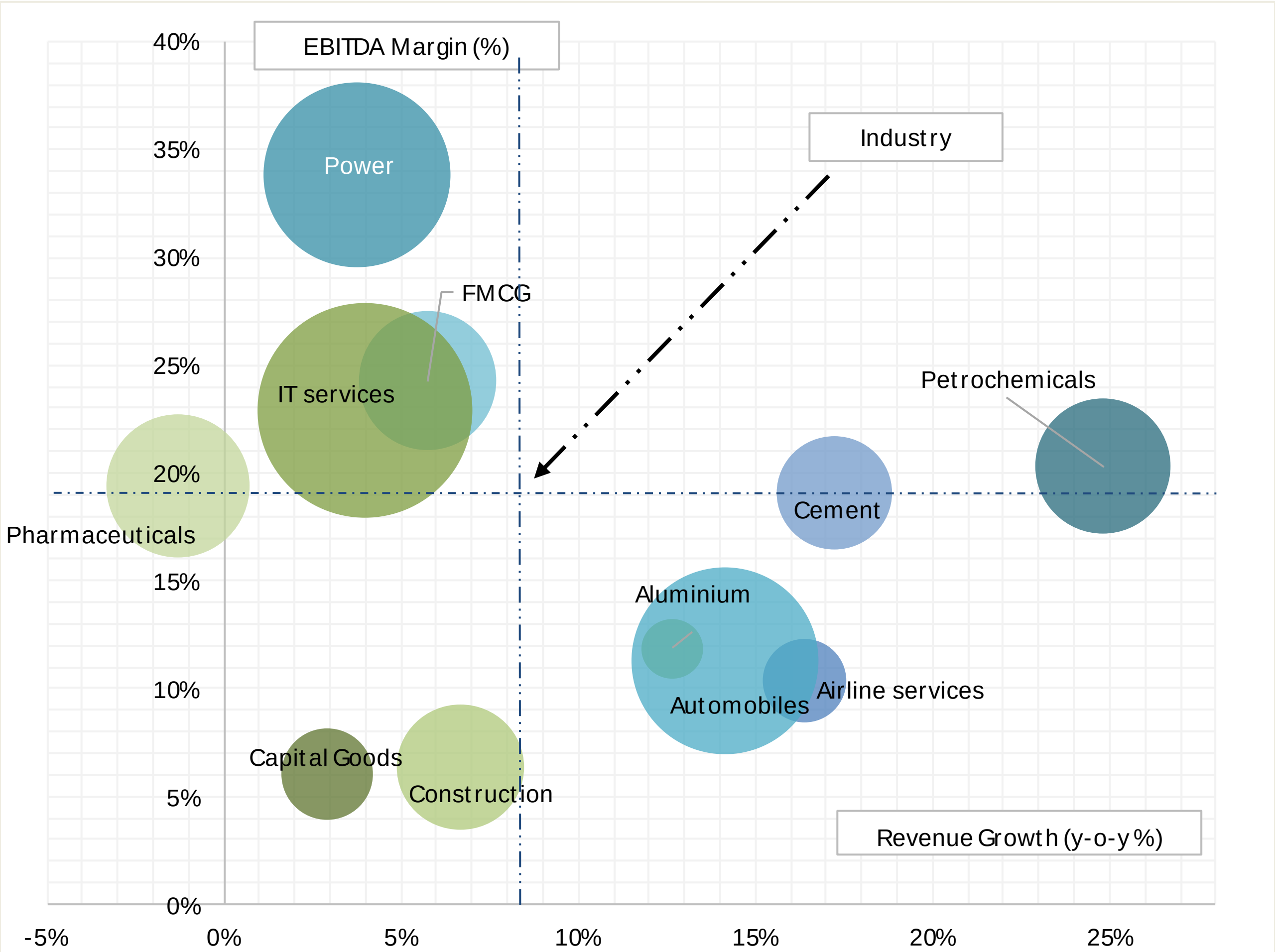
A snapshot of key sectors

Net Margins	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18
Overall	8.3%	8.7%	9.4%	9.9%	8.7%	5.0%	7.4%	8.1%	9.5%
Key Industries	8.6%	8.3%	9.3%	10.1%	8.5%	4.0%	7.1%	8.3%	9.3%
Automobiles	7.1%	7.0%	8.4%	9.1%	6.6%	5.7%	6.6%	8.5%	7.7%
FMCG	16.8%	15.3%	15.8%	16.5%	17.1%	16.8%	15.8%	17.0%	18.7%
IT services	19.0%	18.8%	18.2%	18.3%	18.8%	18.3%	17.5%	18.3%	19.3%
Pharmaceuticals	15.8%	13.3%	16.0%	15.7%	14.6%	10.6%	5.3%	12.6%	17.2%
Power	10.1%	6.9%	9.1%	9.5%	8.6%	-3.1%	8.8%	10.4%	6.7%
Steel products	-11.4%	-6.2%	-3.9%	-5.8%	-2.1%	-0.6%	-5.0%	-0.7%	0.2%
Telecom services	9.3%	7.2%	5.6%	8.3%	-1.6%	-61.3%	-6.7%	-13.8%	-6.6%

Source: CRISIL Research

Performance metrics of major sectors

Revenue growth versus EBITDA margin across key sectors (past four quarters)



Source: CRISIL Research

Note: Data represents aggregate performance of the mentioned sectors for the past four quarters (Q4 FY17 to Q3 FY18); size of the bubble indicates sector's share in overall industry's revenue

Annexure I

Price indicators:

In Rs.	Unit	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18E
Steel Flat	Rs/tonne	30,074	32,296	32,296	36,000	38,667	36,593	38,333	38,500	43,800
Steel Long	Rs/tonne	27,852	28,444	27,852	30,667	34,074	34,667	34,500	35,000	35,000
Aluminum	Rs/tonne	1,34,035	1,38,600	1,39,433	1,42,053	1,44,463	1,48,137	1,45,005	1,54,081	160150
Iron Ore	Rs/tonne	1,401	1,287	1,209	1,411	1,567	1,639	1,637	1,782	2,300
Cement	Rs per bag	313	318	324	324	319	348	333	324	328
Sugar (Mumbai S 30)	Rs/quintal	3,300	3,706	3,772	3,769	4,045	3,958	3,704	3,416	3,150
Crude oil	$/barrel	34	46	46	50	54	50	52	62	67
Coal	Rs/tonne	1,432	1,338	1,351	1,385	1,454	1,330	1,329	1,366	
Telecom ARPU's	Rs/month	192	194	196	174	159	158	151	130	111
Re/ $ movement	Rs/USD	67.5	66.9	67.0	67.5	67.0	64.5	64.3	64.7	64.9

Note: Exchange rate represents average rate for the quarter

Source: CRISIL Research

Volume indicators:

YoY growth	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3 FY18	Q4 FY18E
Automobiles									
' ----CV's	20%	12%	2%	1%	4%	-12%	14%	29%	29%
'-----Cars	5%	5%	18%	4%	15%	13%	17%	11%	15%
'-----TW's	11%	10%	21%	-7%	-5%	2%	10%	12%	18%
Cement (Large+Mid)	14%	8%	0%	0%	7%	6%	13%	22%	16%
Cement-Large	15%	7%	1%	-1%	6%	8%	14%	23%	16%
Cement-Mid	8%	11%	-3%	4%	9%	-1%	9%	21%	14%
Steel	0%	1%	11%	16%	18%	10%	5%	5%	5%
Aluminium	2.9%	-0.2%	2.6%	1.7%	-0.4%	0.9%	2.4%	0.2%	0%
Natural Gas									
Natural Gas- Regasification	67.6%	34.6%	20.7%	34.3%	16.9%	14.0%	16.4%	16.5%	24.2%
Natural Gas- Transmission	9.8%	9.0%	9.8%	3.8%	4.6%	4.3%	9.3%	12.6%	15.5%
Natural Gas- Distribution	-3.4%	-0.2%	-0.3%	1.9%	15.5%	16.6%	16.5%	25.1%	15.9%
Telecom data	6.5%	9.7%	13.7%	-1.7%	25.5%	106.0%	68.6%	37.2%	22.5%

Source: CRISIL Research

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISILL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also 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 the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy Notice

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company) you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit http://www.crisil.com/privacy. You can view the Company's Customer Privacy at https://www.spglobal.com/privacy.

Last updated: April 2016

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited

CRISIL

An S&P Global Company