

March Qtr. Results: What to Expect!

The March Quarter results have started trickling in and we have a long results season ahead of us.

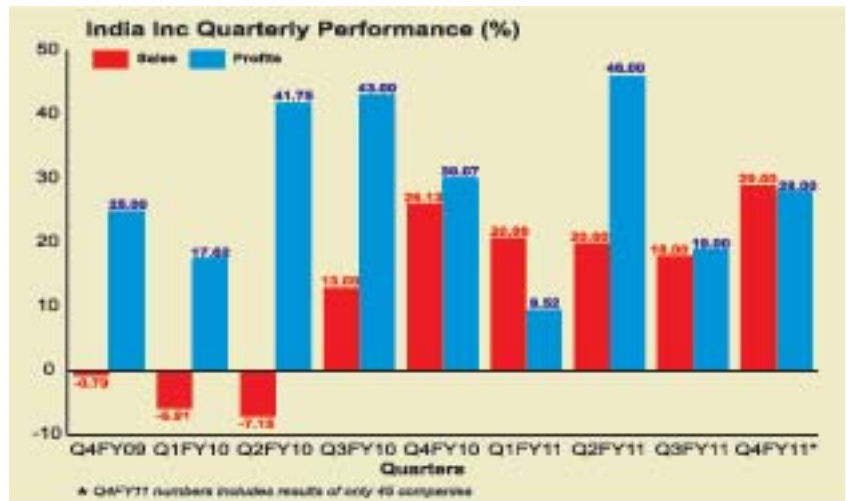
Kaustubh Ghotikar

Presents an analysis of what to expect from the fourth quarter results



An old adage goes thus: “When the going gets tough the tough get going.” This certainly fits India Inc which has been riding through some tough times all through the fiscal. As we look back at the fiscal 2011, one thing is for sure: it hasn’t been a cakewalk for India Inc that has had to face new and bigger sets of challenges and yet again show its strong resilience by swimming against the tide to post growth. While India hasn’t been new to factors such as inflation, rising input costs, rising costs of borrowings, etc, they seemed to have acquired new meaning now as they continue to aggravate with every passing quarter, making life a bit uneasy for India Inc as the market is waiting for India Inc. performance to take cue for the next movement.

Yes, it is that time of the year when corporate India receives the maximum eyeballs as they continue to pour in



Dalal Street Journal's Research Team			
Q4FY11 Results Estimates (%)	Universe	Topline	Bottomline
	India Inc	20	15-16

with their report cards with the investors waiting with curiosity to gauge the performance for the quarter and also take some cues for the way forward. While the results of a handful of companies have already started to trickle in - this being the last quarter of the fiscal - it's going to be a very long results' season and as per the new SEBI rule companies need to declare their results within 60 days from the end of the said financial year. So it would be too early to comment on the trend. Thus, instead of waiting on the sidelines, it makes sense for us to do some stock-

taking about various factors, including the macro ones, to understand as to what we can expect from the March quarter results and through this cover story we intend to do the same.

A Quick Recap

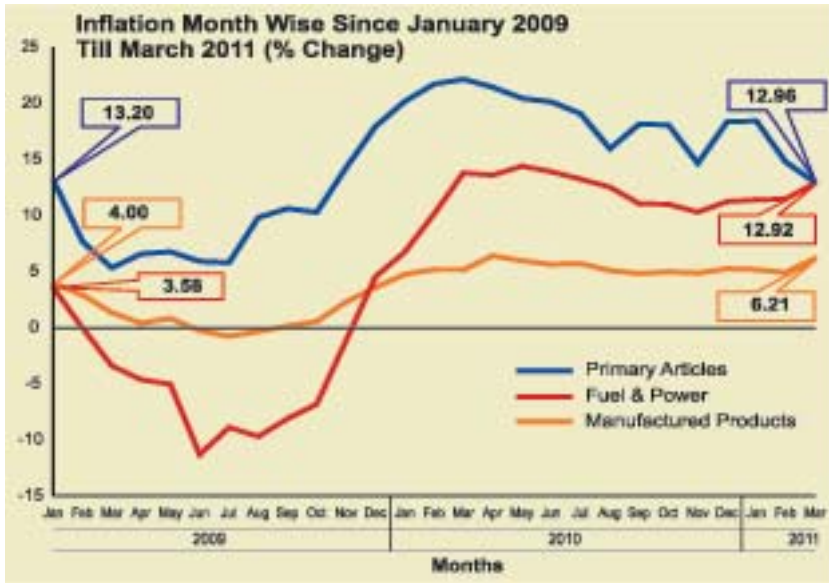
But before we move ahead it makes sense for a short recap of the first nine months of FY11. Sometimes we keep our expectations so high that it becomes difficult to achieve the same and it eventually leads to disappointment. Something similar has happened with the investors and people at large



“ Unless there is a global breakdown in the commodity prices, I don't see how things are going to slow down here. If you have 8-9 per cent growth, the aggregate demand is expected to remain high. Basically you don't have additional capacities and the underlying commodity, whether it is global or local, is in short supply and the supply side response and that of infrastructure is very slow. So the expectation of high growth and low inflation, which everybody is aspiring for, doesn't seem to be happening very easily. So clearly this inflation is going to spread and with the high liquidity levels at global and local levels it's definitely the source of the problem and may not come under control quickly enough. ”

RAAMDEO AGRAWAL
Joint MD, Motilal Oswal Financial Services

Q4FY11 Results Estimates (%)	Universe	Topline	Bottomline
	Sensex	26	19



who, after a strong bottomline performance by India Inc in FY10 (driven mainly by low base, better efficiencies and the government’s fiscal stimulus), expected even better performance in FY11 with the economy well out of the trough. And while the return of the topline growth back to double digits where India Inc posted topline growth of almost 20 per cent in 9MFY11 was indeed in tune with what was expected, the weak quarterly profit growth of just 12 per cent during the same period didn’t go down too well with the investors as they expected even higher numbers.

In fact there are some key takeaways from the last 9MFY11 results. First, India Inc was back to its double digit topline growth, which was a good sign, but this growth was more volume-driven than realisations. Thus it also clearly showed India Inc’s inability to

pass on the increased cost to the end customers. Second, with more or less flat realisations and a steady rise in the input costs, profitability remained stunted in these quarters. Third, factors that had the potential to dent growth started making their presence felt even stronger. Thus while inflation continued to rise steeply, rising interest rates raised the cost of funds and with a rally in the global commodities, the input costs continued to only surge higher, keeping pressures on margins. With no respite for India Inc from the above mentioned factors, things are looking quite difficult and we may see some margin impact as more and more companies come forward with their results.

The Early Birds

Though it is too early to comment on the results’ trend with only 45 companies (as on April 18, 2011) declaring

their numbers so far, there is certainly some curiosity to understand how the early birds have fared as of now. Thus, of the total data of 45 companies we have with us so far, India Inc has posted sales growth of a notable 29 per cent in Q4FY11, while the bottomline grew by more than 28 per cent during the same period. These 45 companies include five Group A companies out of which two are Sensex-based ones. While the aggregate topline growth has certainly been good, a push from other income which grew by more than 43 per cent has also helped India Inc post better bottomline growth.

However, considering these are just 45 companies, this can’t be taken as an indicative performance or trend for the overall India Inc results that are to follow in the coming period. Hence we aren’t going much deeper into the initial numbers. A clearer picture of India Inc will emerge only as the season progresses further.

Revenues to take drivers seat, while profits will take the back

There is a strong consensus that the topline growth should continue even in this quarter. But the nagging



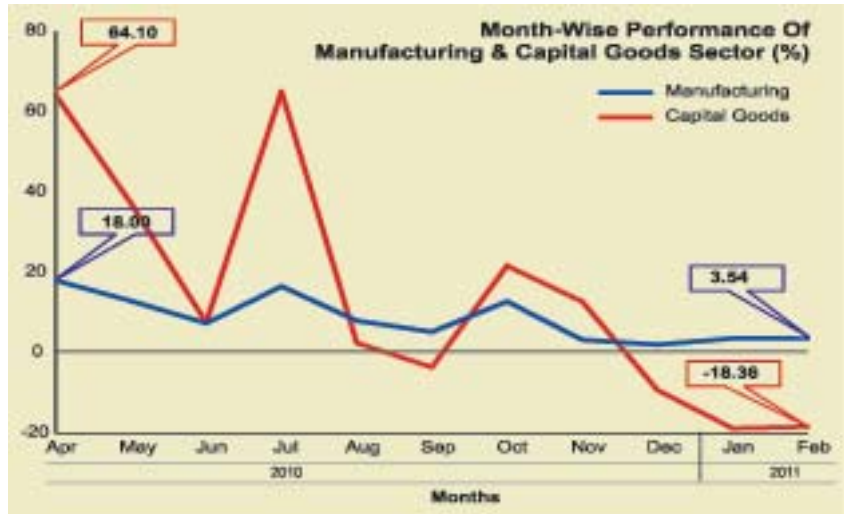
“The best strategy is to hold the guns at this stage so that the economy does not go into a tail-spin of much lower growth due to very high interest rates. Even with higher rates the commodity inflation cannot be done away with. Inflation has now become a global menace and its solution lies in global monetary tightening. Aggressive tightening by the RBI will kill growth but not inflation.”

SANDIP SABHARWAL, CEO-PMS, Prabhudas Lilladber

Q4FY11 Results Estimates (%)	Universe	Topline	Bottomline
	India Inc	>20	20

concerns that are lurking around will definitely create a drag on the bottom-line. While the market is well aware of this situation, what everyone seems to be curious about is the extent of damage that it could bring to the profits. We at Dalal Street Investment Journal feel India Inc could still have the steam to post revenue growth of 20 per cent, while profit growth could be around 15-16 per cent for Q4FY11.

There are reasons why we say this. First and foremost, one has to understand that after a flat topline growth for most part of FY10 due to lack of both good demand and pricing, in first 9MFY11, India Inc has clocked revenue growth of almost 20 per cent. What this reiterates is that there is a strong consumption led demand, which is not only helping India Inc drive growth through strong volumes, but also better realisations by passing on some part of the costs to the end customers. The other benefit of this is that, it will also reassure manufacturers that they can go ahead with their capex plans, if any, which in turn will drive their future growth. Secondly,



while local demand is doing well, the exports markets too have picked up. This could be seen from India's exports in FY11, which increased by a massive 37.5 per cent to USD245.9 billion and this will push India Inc's growth too. Thirdly, capacity utilisations of India Inc has also increased and this will go an additional mile in posting growth. Most of the industries are running at above 80 per cent utilisation levels. The fourth indicator we believe is the advance tax numbers (refer table) that have come prior to the season. These are fairly strong and indicate towards a good fourth quarter. In fact direct tax collections have exceeded its full year target by more than ₹4,000 crore to ₹4.50 lakh crore with 50 per cent of the tax kitty coming in the last quarter itself. Look at the advance tax numbers, Tata Steel at ₹987 crore, up by 92 per cent, HDFC Bank - ₹540 crore up by 80 per cent, UltraTech Cement

- ₹150 crore up by 50 per cent, while Hindalco at ₹160 crore, tax payment up by 45 per cent. While the advance tax is a good indicator of better forthcoming results, it also indicates better days for the sector as well. Thus may it be pharma, banking, auto, metals etc all are certainly seeing a better phase. In fact some of these sectors mentioned above were the top performers in 9MFY11 and there is no reason why they can't come to the party in the fourth quarter.

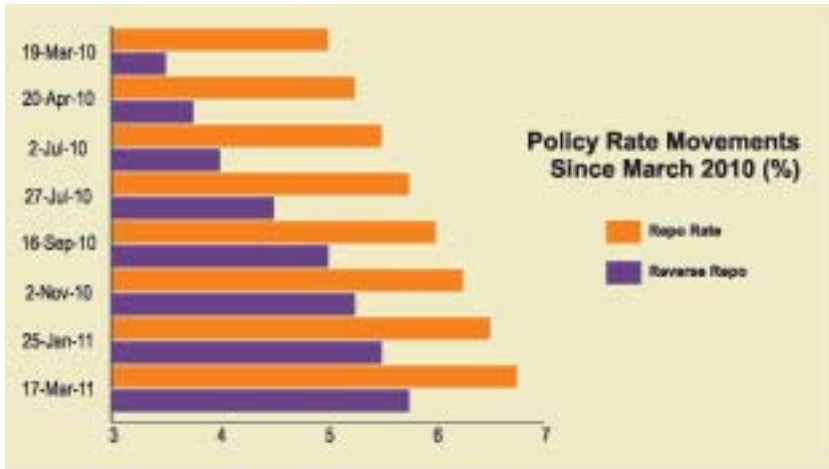
That apart the macro numbers so far have been quite decent. If you look at certain sectors like consumer durables it has grown by over 23 per cent in January and February of 2011. Even the consumer non-durable segment grew at almost 8 per cent and 6 per cent respectively during the same period. Manufacturing data is seen stabilising too. There is therefore no reason to believe that a similar growth



“ There is an expectation of 18-20 per cent bottomline growth and this looks sustainable. However, the problem is the margins which are indicating stress factors. If we remove the impact of foreign subsidiaries, the growth is not as high as it should be. We are looking at margin compression. Though the headline numbers would be in line with expectations, what needs to be seen is where have the companies been able to pass on the inflation to the customers and where have they not been able to. ”

ANAND SHAH, *Chief Investment Officer, BNP Paribas Mutual Fund*

Q4FY11	Universe	Topline	Bottomline
Results Estimates (%)	BSE 200	21.9	20



pace wouldn't be maintained even in the March quarter. However, what could dampen the revenue growth rate is the higher base of March 2010 numbers, wherein sales grew by more than 25 per cent. While for the bottomline, rising commodity prices, fuel costs, rising cost of fund, wage inflation will play the spoilsport. Brent Crude is up by more than 38 per cent since December 2010 and almost 50 per cent since October 2010, while CRB Spot Market Price Index, which measures price movements of 22 sensitive basic commodities is up by more than 17 per cent in the last six months itself. All this will create a downward drag on the profit growth and will surely impact margins, but despite this India Inc can post a 15-16 per cent bottomline growth. In first 9MFY11, India Inc could manage a bottomline growth of 12.8 per cent, so the 15-16 per cent is still a very optimistic estimate.

Amish Munshi, AVP – PMS Equities, Tata Asset Management, too

feels, “For Q4FY11 we expect revenues to grow by about 20-21 per cent while the bottomline should grow by about 15 per cent for India Inc. The sales growth would predominantly be due to volume growth as not many companies have been able to pass on the price hikes to customers. So definitely there will be margin pressures” Sandip Sabharwal CEO-PMS Prabhudas Lilladher is even more optimistic on the profit growth and says, “Bottomline growth should be in the region of 20 per cent looking at the growth in tax payouts by the various corporates. High input prices and interest costs will cast a downward pressure and greater capacity utilisation and higher operating leverage will cast an upward pressure on the earnings. Overall the growth numbers should remain strong.”

Inflation To Impact Q4FY11

Post reaching the peak of 11 per cent in April 2010, the Wholesale Price

Index (WPI) has been seen consolidating in the range of 8 per cent to little below 10 per cent. Though this consolidation may lead to a sigh of relief, the inflation story is far from over. While it was the food-related inflation that started it all, which reached its peak of 21.37 per cent in May 2010, this rate since then has cooled considerably and was at 9.47 per cent for March 2011, almost at its February 2009 levels.

This has resulted in cooling the broader primary article inflation, though this is more of a base effect rather than anything else. The weight of the primary articles in the broader WPI is 20.12 per cent. While the primary articles seem to be showing the base effect and one could easily conclude that the broader inflation number would now come down, what has actually increased our concern is that the inflation from the primary articles has now spread to the much broader manufactured products, which has seen a steady uptrend since September 2010.

Munshi of Tata Asset Management feels, “Particularly after QE2 the commodity prices - may it be copper,

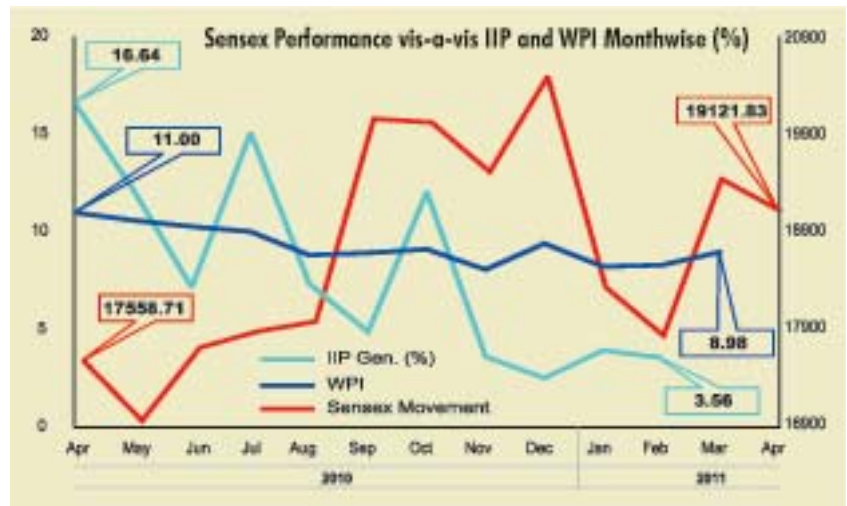


“ I think slowly the investment side of the economy should also start moving. Corporate India too seems to be getting into the capex cycle as a lot of the environmental and land acquisition-related issues are getting sorted out. Secondly, most of the industries are operating at 80-85 per cent which is the maximum you can go and is indeed a good number. And third, being in the last year of the five year plan there would be a lot of execution happening in this year. ”

AMISH MUNSHI, AVP – PMS Equities, Tata Asset Management

Q4FY11 Results Estimates (%)	Universe	Topline	Bottomline
	India Inc	20-21	15

aluminium or steel - have gone up sharply. Thus inflation has now spread to the manufacturing part from food inflation. As for food inflation, it has remained firm as despite a good monsoon and proper harvest season, the food prices aren't coming under control. This is a structural issue that will take its own time." It should be noted that the manufactured products, which have the highest weightage of 64.97 per cent in WPI, include food products, beverages, textiles, wood



material cost is going up because of the global commodity inflation while labour cost is going up because we have food inflation, all of which is increasing the cost of living that will get pushed further. Also, the third important factor is that of the profit margins. Because of inadequate capacity the producers aren't willing to take

speculation is that a large number of these commodities have now reached a state of frenzy. There is a likelihood of a sell-off in the commodity prices going forward as China tightens to control inflation and the extremely easy monetary policy of the West is curtailed to some extent over the next 3-4 months."

“ In our universal coverage, excluding the oil and gas and banks and financial companies, we expect India Inc to post topline growth of around 22-23 per cent, while bottomline growth could be around 20 per cent for the March 2011 quarter with some margin impact due to the higher raw material, interest costs. ”

DIPEN SHAH, Senior VP, PCG - Research, Kotak Securities

Q4FY11 Results Estimates (%)	Universe	Topline	Bottomline
	Kotak Universe	20-22	20

products, paper products, rubber, chemicals, metallic and non-metallic products. And considering the fact that most of these products also form inputs for other products, a steady rise in these numbers will impact the input cost of companies, while at the same time also take inflation to new levels.

With fuel and power carrying the balance 14.91 weightage, a steady rise seen in these numbers is only adding to the woes. We not only expect these numbers to impact the Q4FY11 numbers but also the coming quarters. Says Raamdeo Agrawal, Joint MD, Motilal Oswal Financial Services, "Your raw

a margin cut. So I don't see any let-up unless something terribly goes wrong globally or else inflation is expected to sustain and could go to some crazy levels."

For the coming period, monsoon and global liquidity tightening would be the key factors as good monsoon should help in softening the prices while global liquidity tightening would help soften the global commodity prices. Says Sabharwal: "A large part of the WPI inflation is due to the upward movement in global commodity prices induced by the money printing on part of the US Federal Reserve and the

What's The True Picture?

The IIP numbers have always been controversial and have indeed created shock value for the stock market every month upon their release. While many in the market now have started to believe that it is better to ignore the IIP, we feel that looking at the IIP data for the particular month or year in isolation won't reflect the true picture of the sector and it makes sense to go deep into the historical data for the prior two years to understand what this data is an indication of. For example, the IIP data for the manufacturing sector has been growing in single digits in the range of

2-4 per cent for the last four months. Similar has been the scene in the capital goods sector, which is actually showing a sharp negative growth of 18 per cent for January and February 2011. This is quite in contrast to the numbers posted by India Inc in the prior quarter when the capital goods sector was actually one of the best performing sectors.

While the market immediately reacts to this numbers it is better to go much beyond them. Thus when IIP data for the manufacturing sector is growing in single digits in FY11 over FY10, it makes to sense to understand the FY10 performance over FY09, when the manufacturing sector post the government stimulus performed outstandingly well in FY10 with growth rates of over 21 per cent plus since December 2009 till March 2010. Thus when such a high base gets created, coupled with the fact that the investment cycle hasn't picked up as expected with delays also happening on the project front such as delay in land acquisitions, environmental clearances, etc, the impact is no doubt seen in the end manufacturing numbers.

Says Shah of Kotak Securities: "When we look at the IIP performance, it is more to do with both the high base effect that has come into play and also a slowdown in some of the investment-led sectors and segments." Similarly, for capital goods too, in FY10 the sector showed massive growth of at least 60 per cent-plus for the months December 2009 through April 2010, thus creating a very high base resulting into negative growth for a similar period in FY11. Having said that, this high base effect should move out by July, post which the numbers may look comparable. Besides, with India Inc also going slow on capex, this is only akin to adding oil to fire in the case of the capital goods' performance. Anand Shah CIO, BNP Paribas Mutual Fund, says, "Definitely India Inc is


going slow on the capex front. Various factors like land issues, environmental issues, coupled with global volatility are likely to cause many capex plans to be reviewed. While we do not foresee immediate help, we will have to watch the RBI closely and the measures they undertake to control inflation."

However, we believe that this being the last year of the 11th Five Year Plan, the expectation is that the investment cycle, project allocations and implementation may pick up and this should further push the capital goods sector. As for the consumer durables and consumer non-durables, the rising disposable income, aspirational levels of the customers, credit availability, etc would continue to dictate customer decisions than anything else and hence we expect these sectors to do well. BNP Paribas' Shah explains, "On the consumer durables front there are benefits from the tail winds of rural consumption, pay commission, etc. So the stimulus given by the government has not yet gone and the benefits of the same are still being witnessed. However, given

the IIP may not necessarily have the updated basket of products. There has been a suggestion to move the base to 2004-05, which we believe will not only update the constituents of the IIP but also give a fairer picture of the manufacturing sector. With another year of normal monsoon being on the cards and the service sector expected to perform well not only on the domestic front but also on the exports front due to the better revival of the overseas economies, any shortfall of growth from the manufacturing front could be recouped from the better numbers from its other two counterparts.

Same Challenges, Different Picture

All in all the situation isn't easy for India Inc as while it expects to end the FY11 on a positive note, the existing set of challenges are holding the fort for a new battle in the new fiscal. Thus the current developments on the macro front - may it be inflation, interest rates, limited tools with the RBI to tame inflation, rising commodity prices, higher earnings base and slower capex cycle - have not only created problems for Q4FY11, but more so for the new fiscal 2012. Therefore it remains to be seen as to what kind of earnings' growth will India Inc post. Any slip in the balance of any of these above mentioned factors could hurt India Inc badly.

As for the investors, its time to be extra cautious. At one end, while the markets despite volatility are trying to test higher levels, at the other India Inc results aren't reflecting that confidence. Thus any negative results surprises could shake the market. Remember the Infosys results? Not meeting street expectations, muted guidance and a churn at the top, took its toll on the scrip. Similar experiences during the season cannot be ruled out. Thus the only smart thing one can do is to take advantage of this short rally and keep booking profits at regular interval and ride this phase out. 

Some Advance Tax Numbers Q4 2011 (₹/Cr)				
Company	Q4FY11	Q4FY10	% Change	Industry
Lupin	55	25	120	Pharma
Tata Steel	987	513	92	Steel
HDFC Bank	540	300	80	Banking
Ultratech Cement	150	100	50	Cement
Ambuja Cement	177	120	48	Cement
Hindalco	160	110	45	Metals
Bajaj Auto	250	175	43	Auto
Reliance Industries	1054	770	37	Diversified
M&M	307	226	36	Auto
ICICI Bank	475	350	36	Banking
Bank of Baroda	400	300	33	Banking
Colgate Palmolive	25	19	32	FMCG
HDFC	340	280	21	NBFC
M&M Fin.Services	89	80	11	NBFC
L&T	300	270	11	Engineering
HUL	150	170	-12	FMCG
SBI	1500	1857	-19	Banking
Shoppers Stop	6	8.1	-26	Retail
Tata Power	40	60	-33	Power
Tata Chemicals	20	40	-50	Chemicals
Tata Motors	50	115	-57	Auto

the inflation trend and the rising food prices, we expect consumption-related demand to also take a break and slow down gradually."

Besides, one should also understand that the base for the IIP has been 1993-94 and hence constituents of

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