

INDIAN CORPORATE SECTOR: Q3 FY2021 PERFORMANCE REVIEW AND OUTLOOK

Recovery gains pace

FEBRUARY 2021



Agenda

1 Summary



2 Financial Performance of the Indian Corporate Sector in Q3FY21



3 Key trends in the Indian Corporate Sector





Summary



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Recovery in revenues and earnings of Corporate India gained pace as the year progressed with sequential recovery visible across sectors

While margins are at multi-year highs in Q3 FY2021, these are expected to moderate to lower, more sustainable levels over the medium term



▪ After experiencing major disruption because of the Covid-19 pandemic and two-month long nationwide lockdown imposed to combat the same in Q1 FY2021, India Inc.'s recovery started to pickup from Q2 FY2021 onwards as the lockdown-related restrictions eased.



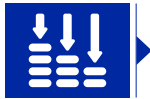
▪ While this continued into Q3 FY2021, it got a further impetus from the seasonal festivities during the quarter, and firming up of commodity prices, which together propelled Corporate India back to growth trajectory. Accordingly, the aggregate revenues of 605 listed companies evaluated by ICRA (excluding financial sector entities) grew by 2.3% and 6.6% YoY and sequentially respectively.



▪ Among consumer-oriented sectors, the demand in several sectors, including passenger vehicles, two-wheelers, consumer durables etc. bounced back significantly in Q3FY2021. These also received an impetus from festive-led demand in the quarter gone by.



▪ Among commodity-oriented sectors, cement, iron & steel and metals & mining sectors reported sequential and YoY recovery, supported by firming up of commodity prices and volume expansion, aided by the pick-up in industrial and construction activity.



▪ Industrial and Infrastructure-oriented sectors, while exhibiting sequential recovery, are yet to report growth on a YoY basis. Sectors like IT, pharmaceuticals, power and telecom also contributed to the YoY revenue growth.



▪ Supported by cost-control initiatives undertaken to weather the challenging first few months of the fiscal, some benefits of which were retained in subsequent months also, as well as demand recovery, meant the margins of India Inc. touched multi-quarter highs during Q3 FY2021.



▪ Going forward, ICRA believes the YoY growth momentum is likely to gain pace over the next couple of quarters, especially as the base effect kicks in. However, margins are expected to gradually revert to lower sustainable levels, given raw material headwinds due to the firming up of commodity prices, and the gradual reversion of costs to pre-pandemic levels.

Revenues and earnings recovered on both YoY and sequential basis as the economy normalised

Revenue Growth in Q3 FY2021

↑ 6.6%

QoQ Revenue Growth

As the lockdown-related restrictions further eased, and the economic activity and consumer demand improved, aggregate revenues grew by 6.6% from Q2 FY2021 levels

↑ 2.3%

YoY Revenue Growth

The revenue growth was positive on a YoY basis as well, supported primarily by consumer-oriented and commodity-linked sectors

Changes in Profitability Margins in Q3 FY2021

↑ 176 bps

Expansion in OPM on QoQ basis

Operating profit margins expanded on a YoY as well as sequential basis supported by demand recovery as well as cost-control initiatives undertaken by India Inc. Overall, the OPM expanded to multi-quarter highs of 20.1%. Similarly, PBT margins were also at multi-quarter highs of 10.1% in Q3 FY2021.

↑ 312 bps

Expansion in OPM on YoY basis



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