

Mid-size cos better rest in revival

Study Shows Group Saw Biggest Turnaround In June Quarter

Ashish Agrawal
ET INTELLIGENCE GROUP

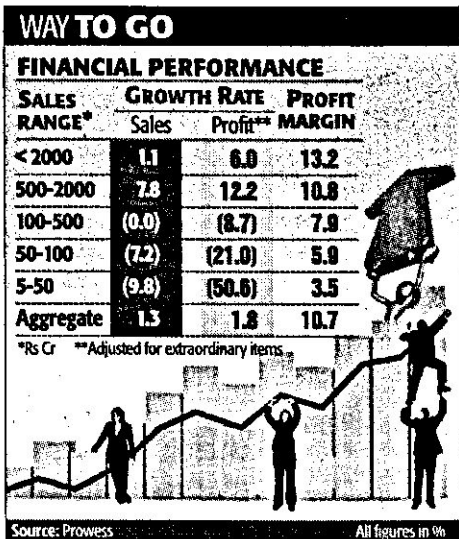
MID-SIZE companies, with revenues between Rs 500 crore and Rs 2,000 crore, outperformed giant corporations and small firms in the fiscal first quarter, helped by a fall in raw material prices and other operating costs.

Combined sales of these 113 mid-size companies grew 8% over the year-ago period while their net profit increased by 12%, according to an ETIG study that analysed financial results of companies for the quarter ended June. They saw the biggest turnaround, reporting double-digit profit growth, in sharp contrast with the previous two quarters when their aggregate profits fell by an average 24%.

The earnings performance of this group was boosted by Shree Cement, Cadila, Century Textiles, Binani Cement and Siemens. Revenue growth in this set was led by IIT Ltd, Lanco Infratech and Bharat Electronics, among others. Shree Cement saw a more than two-fold increase in its net profit at Rs 291.13 crore during the first quarter, driven by high volume growth and reduced operating expenses. It also posted a 50% increase in turnover to Rs 922.95 crore.

The major corporations the mid-size companies outperformed comprised those having quarterly revenues of over Rs 2,000 crore. This group of 40 firms such as Reliance Industries, NTPC, SAIL, Infosys and Bharti Airtel reported a revenue growth of 1.1% and profit growth of 6%.

The performance of giant corporations was weighed down by Reliance Industries. If we exclude RIL, which accounts for a seventh of the total sales of the giants,



growth in the group's revenues and profit improves to about 8%. The country's largest private sector company by standalone revenues saw its revenues and profit shrink due to a fall in refining margins.

Smaller companies, which form the bulk of the sample, dubbed into three sets having quarterly revenues of Rs 100-500 crore, Rs 50-100 crore and Rs 5-50 crore, reported a decline in profits.

► Overall profit up 1.8%, revenue 1.3%; P 14

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LED by automobiles, cement, fertilisers and consumer durables, one-third of the Indian manufacturing sector has reported high to excellent growth of up to 20% in the first quarter of 2009-10 fiscal, the CII Ascon survey said.

The survey, which has a total of 77 manufacturing sectors, revealed that one-tenth of them have registered a robust growth of more than 20%. This includes production of industrial gases such as argon, nitrogen and oxygen, automobiles such as scooters, mopeds and multi-purpose vehicles.

However, more than one-fourth of the sector is still reeling under moderate growth of production of up to 10% in the April-June 2009 quarter.

► FULL REPORT: P 9

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► From Page 1

THE smaller the size of the firms, higher the decline in earnings and sales with the smallest group seeing profits halve compared to same period last year. They also saw a decline in both demand and earnings as the economy is still recovering from a downturn. "The smaller firms seem to have suffered damage to their business model during the third quarter of FY09, leading to significant erosion in profits. It is difficult to foresee a recovery for them for now, which will come only after the economy gains momentum," said Manish Sonhalia, portfolio manager at brokerage outfit Motilal Oswal.

The overall set of 3,700 companies together reported 1.3% revenue increase and 1.8% profit growth over the first quarter of the previous year. The analysis excludes banks and other lending institutions besides public sector oil companies.

All groups of companies reported lower year-on-year sales growth compared with the quarter ended March 2009, showing demand is yet to recover fully, but profitability has improved

for all of them.

The performance for the June quarter had definite positive surprises, but profits may remain at the existing level for a while due to deficit in monsoon, said Anand Rathi Securities CEO, institutional equities, Ratmesh Kumar. "Companies in sectors such as consumer goods, automobiles and cement, which are linked to the rural economy, may be under pressure. Further earnings upgrade may happen only when monsoon deficiency is fully digested in the next 2-3 months," he said.

The smaller firms were hit by a nearly 20% increase in interest burden and 11% rise in provisions for depreciation. These two items take away nearly two-thirds of operating profits for the group, as against less than half in the same quarter a year ago.

The only silver lining is that the percentage of decline in profits is much lower than the previous two quarters. For instance, profits for the smallest set of 1,100 companies with revenues of Rs 5-50 crore, had shrunk by an average of 75% in the previous two quarters as compared with 50% last quarter.