

ASSOCHAM
FINANCIAL
PULSE
STUDY

“Quarterly analysis of core infrastructure companies”

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EXECUTIVE SUMMARY

- A decline in the weighted average net profit of the core infrastructure companies by 6.34 per cent resulting from an increase of 11.54 per cent in weighted average interest cost with production growth rate going down by 3.6 percentage points.
- The infrastructure project companies performed remarkably well with a 97.04 per cent rise in net profit on top of a decline of 6.34 per cent in the weighted average net profit of core infrastructure companies.
- Steel companies witnessed a fall of 52.08 per cent in net profit with a rise in interest to the tune of 24.81 per cent.
- Cement companies registered a dip of 20.56 per cent in net profit while the interest cost rose by 13.18 per cent.
- Power companies were the best performers in the core infrastructure sector with an increase of 8.72 per cent in net profit. However, the interest cost went up by 37.38 per cent.
- Oil exploration and production sector also witnessed a near zero growth scenario though fared better with a positive growth rate of 0.88 per cent in net profit. The interest cost shot up by a whopping 144.81 per cent.
- Petroleum refinery companies, hit by the liquidity crunch as evident from a 200.71 per cent rise in interest cost, registered a staggering downfall of 314.85 per cent in net profit.

INTRODUCTION

TIME PERIOD

The ASSOCHAM Financial Pulse (AFP) Study has taken corporate results announced by the infrastructure companies for the second quarter ending September 2008. The Study includes the companies that have announced their results from 20th October – 10th November 2008.

DATA SOURCE

The Study is based on the quarterly results posted by the infrastructure companies on the Bombay Stock Exchange.

SAMPLE SIZE

The AFP has taken a total of 26 infrastructure companies, including five each in infrastructure projects, power, cement and steel; four in petroleum refinery and two in crude oil exploration and production.

PARAMETERS

The AFP analysis of the infrastructure sector is based on three broad parameters relating to production growth, profitability and cost; including quarterly change in production growth rate, net profit and Interest cost.

METHODOLOGY

Quarterly change in production growth rate of core infrastructure companies is taken to analyze the trend in production activity.

Weighted and Simple average for the two parameters: Net Profit and Interest cost have been taken for the comparative analysis.

Weighted Average:

Weighted average on the two parameters for the overall core infrastructure sector has been calculated using the industries respective weights in the Index of Industrial Production (IIP).

Weights have been assigned in accordance to the sectoral weights of the six core infrastructure industries in the Index of Industrial Production (IIP) and adjusting it to form percentage share for the core infrastructure industries as follows:

SECTOR	Weight in IIP	Weight in six core infrastructure industries
STEEL	5.13	19.23
CEMENT	1.99	7.46
ELECTRICITY	10.17	38.12
CRUDE OIL	4.17	15.63
PETROLEUM REFINERY	2.00	7.50
OVER-ALL	26.68	87.93*

* Since no major coal companies (like Coal India Limited and Singareni Collieries Company) are listed on the Bombay Stock Exchange (BSE), the weight of the Coal sector is not taken into consideration for the analysis.

Simple Average:

Simple average on the two parameters has been taken to show the profitability and cost indicators of steel, cement, power, crude oil, and petroleum refinery companies.

Simple average for the overall core infrastructure sector is also taken to calculate the change in net profit and the interest cost.

With 84 per cent rise in interest cost, the core infrastructure companies performance grim in the second quarter: AFP

Concerned over the dismal performance of the core infrastructure companies in the second quarter, Assocham has urged the government to ensure smooth fund supply to the sector so that the capacity generation process remains intact.

According to an Assocham Financial Pulse (AFP) study, the net profit of the core infrastructure companies on average basis, declined by 75.58 per cent while their interest cost shot up by 84.18 per cent.

At a time when a push to core infrastructure industries is quintessential to ensure and sustain sound economic growth, core infrastructure companies are under tremendous pressure as evident by the steep decline in profitability by 6.34 per cent as their interest cost soared by 11.54 per cent on weighted average basis. The production growth in core sector was down by 3.6 percentage points from 7.5 per cent in Q2, FY 2007-08, as measured by the IIP, to mere 3.9 per cent in the second quarter of current fiscal.

The Study also highlighted that the infrastructure project companies have outperformed the core infrastructure companies by a big margin as evident from a stark difference in the net profits of the two calibrated segments of the infrastructure industry. The infrastructure project companies performed remarkably well with a 97.04 per cent rise in net profit on top of a decline of 6.34 per cent in the weighted average net profit of core infrastructure companies.

A quarterly analysis of core infrastructure industries indicated that sectors like steel, cement and petroleum refining are down with negative growth in net profits while crude oil exploration and production recorded a near zero growth

rate. Only power sector managed to show some resilience though flared moderately with single digit growth rate in net profit.

SECOND QUARTER ANALYSIS OF CORE INFRASTRUCTURE COMPANIES

SECTOR		Decline in Production growth rate in Q2 '08 over Q2 '07	Change in Net Profit	Change in Interest cost
Steel		-6.0	(52.08)	24.81
Cement		-4.3	(20.56)	13.18
Electricity		-3.8	8.72	37.38
Crude oil		-3.7	0.88	144.81
Petroleum refinery		-0.9	(314.85)	200.71
Over-all	Weighted Average	-3.6	(6.34)	11.54
	Simple Average		(75.58)	84.18

Source: BSE and AFP

Among the core infrastructure industries, steel industry feeling the heat of decline in global steel prices, witnessed a fall of 52.08 per cent in net profit in the second quarter of fiscal 2008-09 over the corresponding period in 2007-08 on account of a 6 percentage points dip in production growth rate along with an upsurge of 24.81 per cent in the interest cost. The outlook for the next quarter also remains bleak with steel companies announcing big cuts in their output in view of slowing demand.

The cement industry took a major hit in net profit with a decline of 20.56 per cent resulting from a deceleration of 4.3 percentage points in the production growth rate in Q2, FY 2008-09 over Q2, 2007-08 as a result of slowing demand due to contracting construction activity. The interest cost of the cement companies rose by 13.18 per cent.

Despite the decline of 3.8 percentage points in the production growth rate and a steep rise in interest cost to the tune of 37.38 per cent in the second quarter of this fiscal over the corresponding period last year, the power sector registered the highest increase (among the core infrastructure industries) of 8.72 per cent in the net profit, a positive sign to keep a healthy pace of the economic development going.

During the quarter, the crude oil price fell by 25 per cent while the domestic production declined by 3.7 percentage points in Q2 '09 as compared to Q2 '08. The oil exploration and production companies witnessed a whopping 144.81 per cent rise in interest cost that led to a near zero growth of 0.88 per cent in net profit.

Due to a staggering rise of about 200 per cent in the interest cost and heavy losses on account of then spiraling crude oil prices, the petroleum refinery segment was the worst hit sector with a decline of whopping 314 per cent in net profit. The sector witnessed a negative growth rate of 0.9 per cent in production activity. However, the outlook for the third quarter may improve with crude oil prices shedding close to 38 per cent till date in Q3.

Adding to the grievance of the infrastructure sector, External Commercial Borrowings (ECBs) nearly stagnated in Q2, FY '09 at USD 6.91 billion as against USD 6.52 billion recorded in Q1, FY '09 which registered a negative growth rate of 44.95 per cent over Q1, FY '08. An increase in the interest cost by as high as 200 per cent for the petroleum refinery companies gives a clear indication of the roots of liquidity crunch for the cash strapped sector that prevailed during the second quarter of this fiscal.

With ECBs recording a meek growth rate of 5.98 per cent in Q2, FY'09 over Q1, FY'09, the evident liquidity crunch for the infrastructure companies is expected to continue in the next quarter despite the eased norms for the external funds put in place by the reserve bank due to a volatile, risk averse financial environment internationally.

The impact of financial crisis world over has impacted the domestic money market as well. While the banks have been shying away from lending to the corporate sector, the private equity and venture capital players have also taken exit routes. In October 2008, the number of PE & VC deals has plunged to 12 as against average 30-35 deals on a monthly basis.

With IPO market in doldrums due to the upheaval witnessed in the stock markets and big spreads in the corporate papers and treasury gilt; only adding to the liquidity crisis, the infrastructure sector is looking for revival in terms of liberal credit facilities.

Although RBI has eased the interest rates, the sign of abatement of the liquidity crisis are not visible. With the continuation of the present trends witnessed from the corporate results, the project activity in the infrastructure sector is likely to witness a slowdown. Thereby, government needs to ensure fund supply to the sector remains uninterrupted. Timely continuation of the infrastructure projects is essential to ensure India remain in 8 per cent growth trajectory.

ANNEXURE**COMPANIES ANALYZED:**

STEEL	CEMENT
Steel Authority of India Limited	Ambuja Cement Limited
Tata Steel Limited	The India Cement Limited
JSW Steel Limited	Binani Cement Limited
ISPAT Industries Limited	ACC Limited
Sterlite Industries (India) Limited	UltraTech Cement

POWER	CRUDE OIL
Tata Power	Oil and Natural Gas Corporation Limited
Rural Electrification Corporation Limited	Reliance Industries Limited
Power Grid Corporation of India Ltd	
Bharat Heavy Electricals Limited	
NTPC Limited	

PETROLEUM REFINERY	PROJECTS
Chennai Petroleum Corporation Limited	GMR Infrastructure Limited
Indian Oil Corporation Limited	Punj Lloyd Limited
Hindustan Petroleum Corporation Limited	Gammon Infrastructure Projects Limited
Bharat Petroleum Corporation Limited	Jaiprakash Associates Limited
	Simplex Infrastructures Limited