*Performance of Private Corporate Business Sector: 2016-17 to Q3:2017-18**

Non-government non-financial (NGNF) listed companies posted a turnaround in 2016-17 mainly due to the improved performance of the manufacturing sector, even as losses incurred by the companies in the services sector (other than in information technology (IT)) operated as a drag on aggregate performance. Deleveraging by manufacturing companies led to lower fixed assets formation in the sector.

1. Introduction

Financial statements mandated upon companies in India by listing agreements with stock exchanges serve as a rich source of information on business conditions faced by the corporate sector. Analysis of these quarterly statements yields timely indicators of key performance parameters. From a macro-economic perspective, aggregate corporate sales reflect demand conditions in the economy. The cost of raw materials indicate input cost pressures faced by these companies from movements in domestic and international commodity prices. Likewise, staff costs are a key determinant of business competitiveness and staff cost per unit of production is a reasonably robust indicator of labour productivity. In fact, abridged quarterly earnings results of listed companies are employed by the Central Statistics Office (CSO) to nowcast the quarterly estimates of gross value added (GVA[1]) in the private corporate sector while the non-financial corporate sector's capital expenditure gives vital clues into investment behavior. An important gauge of the pricing power is the profit margin of these corporates, with implications for the inflation outlook. Assessment of risk profiles derived from indicators of liquidity and solvency of financial institutions which have significant exposure juxtaposed with information on corporate leverage and debt serviceability are useful for evaluating financial stability from a systemic perspective.

In the period since the global financial crisis, multilateral agencies like the International Monetary Fund (IMF) have closely integrated analysis of the corporate sector and inter linkages with other sectors into their assessment of global financial stability (IMF, 2017). The recent financial stability report of the Banca d'Italia presents profitability and debt serviceability of the non-financial corporate sector based on the financial reports of a large sample of companies (Banca d'Italia, 2017). The financial statements of listed companies in China has been recently analysed in detail by the Reserve Bank of Australia in which the movements in financial measures match closely with the broader conditions faced in the Chinese economy (Reserve Bank of Australia, 2017). Detailed analysis of corporate performance are also published by various central banks (see for instance, Deutsche Bundesbank, 2017) annually.

The Reserve Bank of India (RBI) has maintained a tradition of private corporate sector analysis since 1950 (RBI, 2011). More recently, corporate sector analysis has assumed importance in the context of the commitment to secure the convergence of Indian accounting standards with globally accepted International Financial Reporting Standards (IFRS) made at the G20 summit in 2009. The new accounting standards were proposed in the Union Budget, 2014-15 and on February 16, 2016 the Ministry of Corporate Affairs (MCA) notified the '*Companies (Indian Accounting Standards) Rules, 2015*' (Ind-AS) which became applicable for corporate financial statement filings for all listed companies from April 1, 2017 (Securities and Exchange Board of India, 2016). Ind-AS seeks a convergence between the Indian Generally Accepted Accounting Principles (GAAP) and the IFRS.

This article reviews the performance of the private (non-financial) corporate sector during 2016-17, based on the earnings results of 3,007 listed

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[1] GVA is the sum of earnings before tax and payment towards interest, depreciation and wages/salaries.

NGNF companies. Unaudited balance sheets of these companies have also been used to study the risk profile and sources and uses of funds by the Indian corporates. The rest of the article is organised in five sections. Section 2 reviews corporate performance in terms of select parameters, analyses the risk profile of these corporates, examines the sources and uses of funds by the manufacturing sector and presents the corporate performance in 2017-18 so far, along with a perspective of the demand scenario on the basis of use-based categorisation. Section 3 analyses the corporate risk profile with a focus on the performance of heavily indebted companies and the intersection of capacity utilisation and debt serviceability in investment patterns. Section 4 gives a detailed insight into the input cost pressures faced by the manufacturing companies in the recent period. Section 5 sets out some concluding observations. The data used in this article are available on the Reserve Bank's website at *https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics#!2_42.*

Table 1: Performance of Listed Non-Government Non-Financial Companies

Indicator	2015-16		2016-17	
	Amount in ₹ billion	Y-o-Y Growth in Per cent	Amount in ₹ billion	Y-o-Y Growth in Per cent
No. of Companies	**2,932**		**3,007**	
Sales	29,898	-1.6	31,316	3.1
Value of Production	29,814	-2.4	31,516	4.0
Expenditure, of which	25,269	-4.4	26,620	3.8
Raw Material	11,726	-12.4	12,300	4.8
Staff Cost	2,905	13.1	3,306	8.7
Power & fuel	1,051	-7.1	977	-1.2
Operating Profits	4,545	10.2	4,896	5.4
Other Income	918	-2.4	1,036	5.9
EBITDA	5,463	7.9	5,932	5.5
Depreciation	1,226	5.0	1,375	6.4
Gross Profits (EBIT)	4,238	8.8	4,557	5.2
Interest	1,310	5.0	1,421	4.8
EBT (before NOP)	2,927	10.5	3,136	5.4
Tax Provision	779	2.2	834	1.5
Net Profits	1,966	9.3	2,048	11.2

Note: EBITDA: Earnings before Interest Tax Depreciation and Amortization. EBT: Earnings before Tax

2. Corporate Performance

Sales growth of the select companies improved during 2016-17, but mainly due to rise in prices rather than a pick up in demand - 'real' sales have remained stagnant over the last four years (Chart 1). The value of production expanded despite the hardening of raw material prices. A sharp increase in overall expenditure compressed/restrained operating profits and nominal (GVA) growth. Eventually, it was other/non-operating income that shored up corporate margins (Table 1 and Table 2).

Chart 1: Trend in Nominal Sales, Real Sales and WPI Inflation

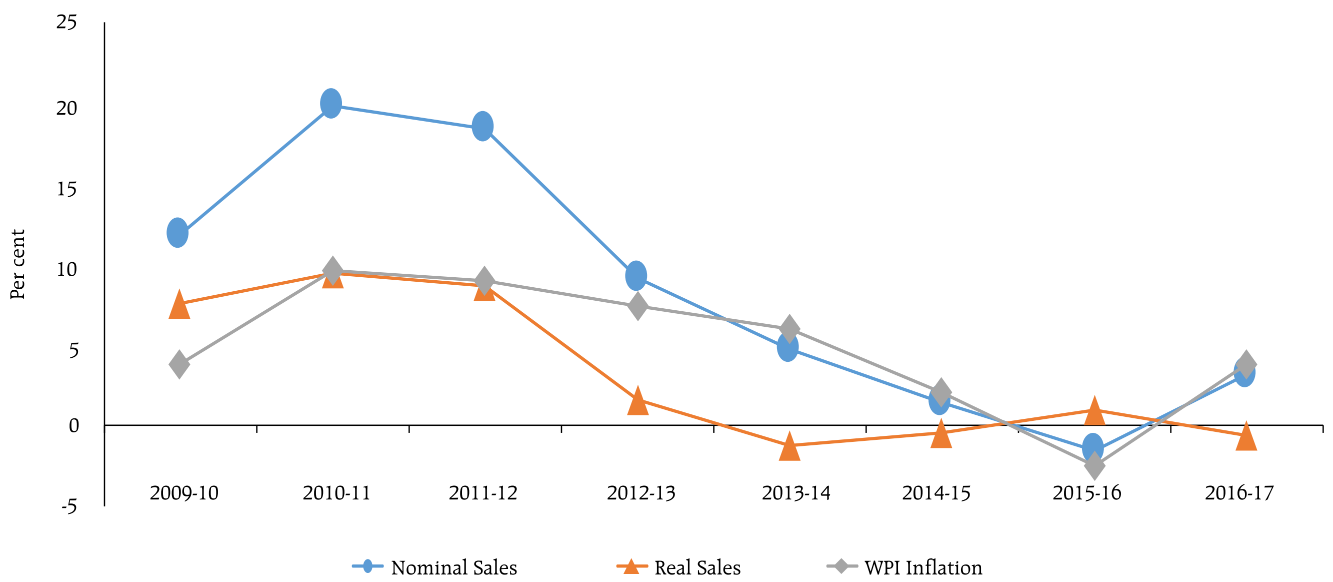


Table 2 : Important Performance Parameters of Listed Non-Government Non-Financial Companies

(Per cent)

Period	No. of Companies	Sales Growth	GVA Growth	Expenditure Growth	Operating Profit Growth	Net Profit Growth	Operating Profit Margin	Net Profit Margin
	1	2	3	4	5	6	7	8
2009-10	2,629	11.7	19.2	9.6	26.6	28.8	16.9	9.4
2010-11	2,763	19.8	13.5	22.1	12.4	15.8	15.6	9.0
2011-12	2,679	18.5	9.1	20.7	1.7	-16.8	13.5	6.4
2012-13	2,931	9.1	8.0	9.6	3.5	-2.0	12.9	5.9
2013-14	2,854	4.7	6.6	4.2	2.3	-5.1	12.8	5.8
2014-15	2,925	1.4	8.0	0.7	5.3	-0.7	13.6	5.9
2015-16	2,932	-1.6	9.7	-4.4	10.2	9.3	15.2	6.6
2016-17	3,007	3.1	6.6	3.8	5.4	11.2	15.6	6.5

Among the major industries, iron and steel, petroleum products and cement and cement products boosted the performance of the manufacturing sector, while sales of pharmaceutical companies and the food products and beverages industries slumped (Chart 2A, Chart 2B and Table 3).

In the case of the latter though, the contraction in sales recorded in 2015-16 bottomed out in 2016-17.

Overall sales of the services (other than IT) sector contracted due to the poor performance of real estate and wholesale and retail trade companies. Shrinking revenue of the telecommunication industry also emerged as a major cause of concern. The operating (and net) profits of the services (other than IT) sector contracted due to significant losses incurred by telecommunication companies. In contrast, transport and storage services and hospital services

Chart 2A: Sales Growth-Improvement

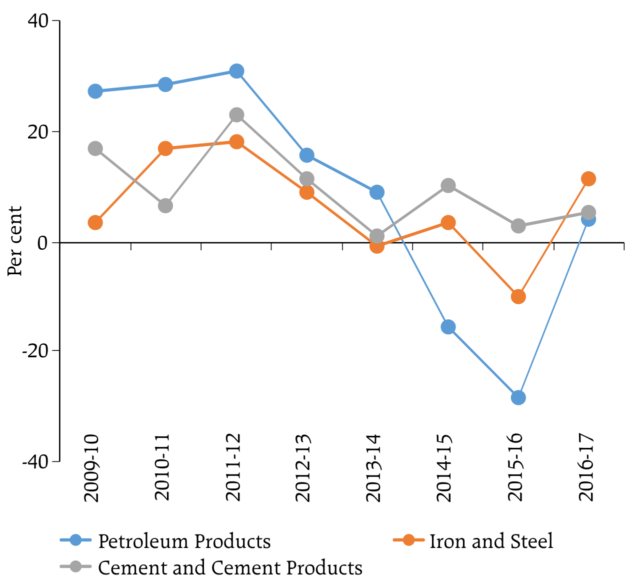


Chart 2B: Sales Growth-Contraction

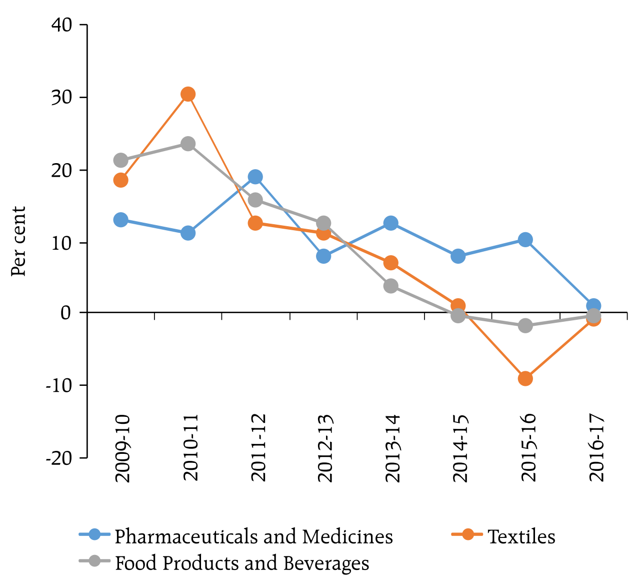
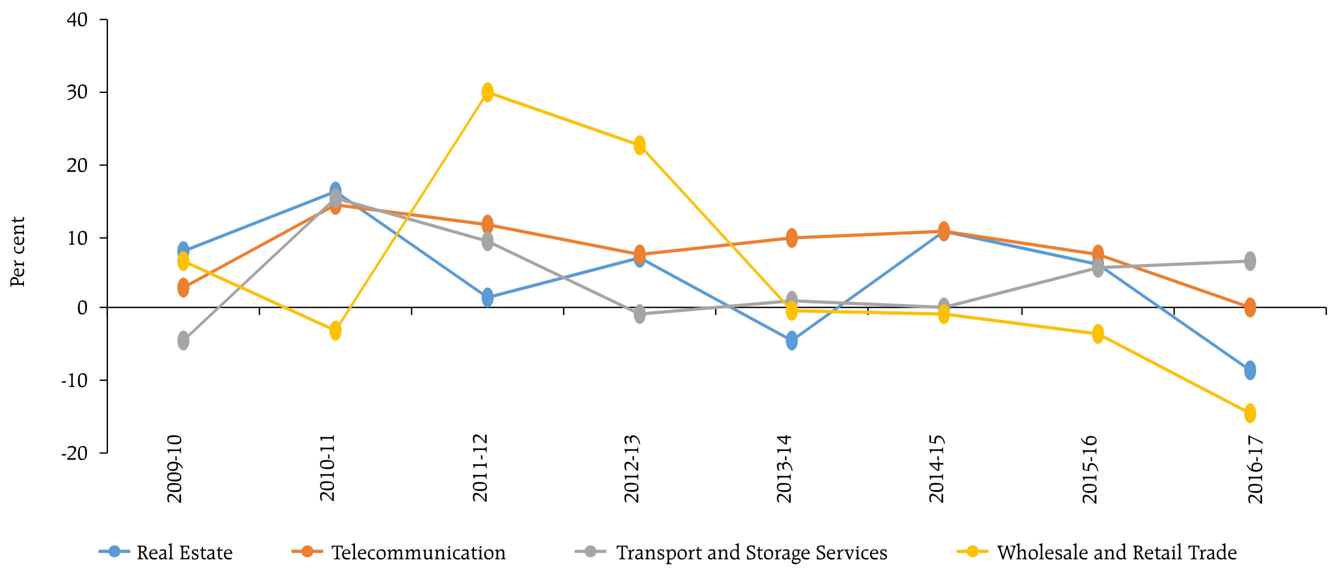


Chart 3: Sales Growth-Services (other than IT)



industries recorded a pick up in sales (Chart 3). The IT sector witnessed moderation in sales growth; the sharp growth in staff costs in 2015-16 was not sustained.

The staff costs to sales ratio rose for the IT sector and reached its highest level since 2009-10, (Chart 4) denting the profitability of the sector. The net profit margin turned negative for the services (other than IT) sector due to the telecommunication industry.

Accretion to reserves and surplus, and recourse to trade payables were the major source of funds for manufacturing companies. In the previous

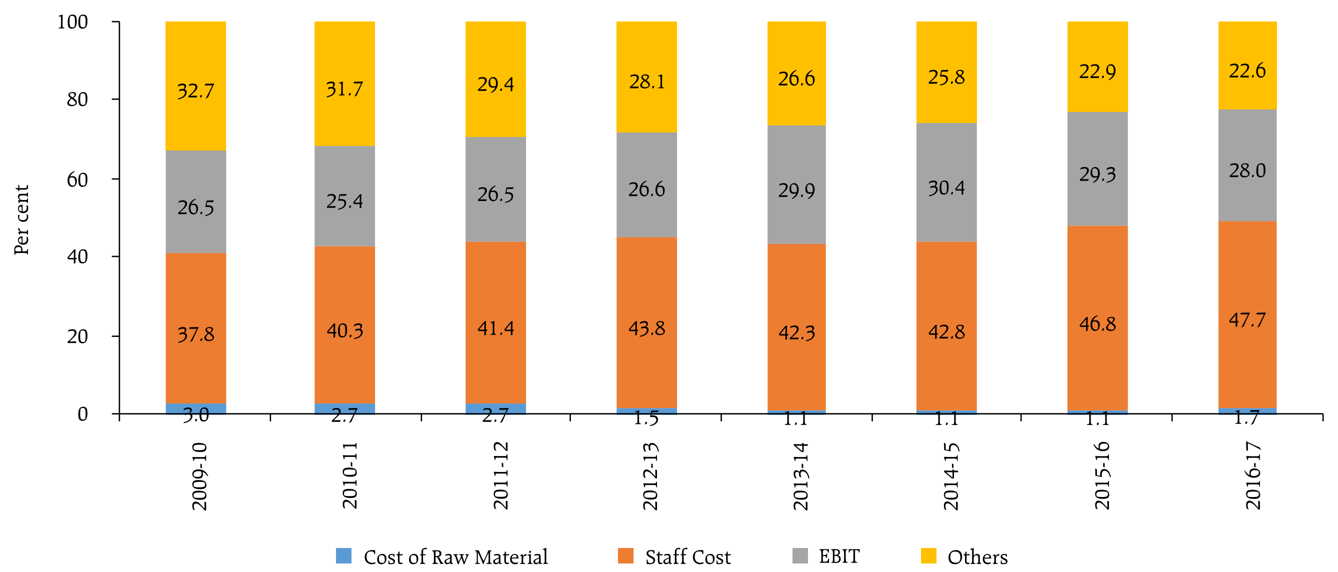
Table 3 : Sector wise Performance Parameters of Listed Non-Government Non-Financial Companies

(Per cent)

Period	Manufacturing						Services (Non-IT)						IT					
	Sales Growth	GVA Growth	Operating Profit Growth	Net Profit Growth	Operating Profit Margin	Net Profit Margin	Sales Growth	GVA Growth	Operating Profit Growth	Net Profit Growth	Operating Profit Margin	Net Profit Margin	Sales Growth	GVA Growth	Operating Profit Growth	Net Profit Growth	Operating Profit Margin	Net Profit Margin
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2009-10	12.9	27.4	33.1	44.2	15.8	8.5	3.6	-9.6	-1.8	-42.5	13.7	4.7	5.6	9.7	18.9	18.0	27.5	21.4
2010-11	22.4	11.9	11.7	20.0	14.3	8.2	8.5	18.2	17.6	25.3	14.3	5.4	16.9	18.1	13.5	14.4	25.8	19.8
2011-12	18.7	5.9	-0.1	-22.1	11.9	5.4	15.3	3.5	-3.9	-48.0	12.4	2.1	21.8	24.9	16.1	23.0	24.7	20.1
2012-13	8.8	6.6	2.7	2.2	11.3	5.3	11.5	10.5	11.0	-36.1	12.8	1.4	14.0	17.5	18.3	8.9	25.4	19.3
2013-14	4.2	4.0	0.0	-7.1	10.9	4.9	2.6	-4.2	-15.4	-71.7	11.6	1.2	20.4	22.5	29.1	25.7	28.2	21.1
2014-15	0.4	5.4	3.3	-7.8	11.5	4.5	3.7	23.4	38.1	$	13.6	2.7	10.7	11.8	6.6	8.1	26.8	21.3
2015-16	-3.7	7.5	9.6	12.6	13.0	5.3	4.9	8.2	21.9	-16.9	21.0	5.0	11.3	16.3	11.9	14.5	26.6	22.5
2016-17	4.2	10.6	12.2	28.0	14.1	6.5	-1.5	-2.0	-7.7	-114.5	19.2	-0.9	9.4	8.7	8.0	8.7	25.5	21.0

Note: The ratio / growth rate for which denominator is negative is not calculated, and is indicated as '$'.

Chart 4: Components of Expenditure and Earnings before Interest and Tax (EBIT) to Sales (IT)



year, a significant portion of funds were sourced by disinvesting from subsidiaries and liquidation of inventory (Table 4).

Manufacturing companies used around 15 per cent of funds raised to reduce their long term debt obligations, indicating significant deleveraging, which also resulted in a sharp decline in fixed assets formation. The remaining funds were invested in financial assets and inventory accumulation, probably to safeguard against rising raw material prices.

2.1. *Corporate Performance in 2017-18 so far*

In Q1:2017-18, moderation in sales growth and a sharp increase in overall expenditure led to contraction in operating profits for the manufacturing sector and for the corporate sector as a whole. In sync, nominal GVA in manufacturing also contracted in the Q1:2017-18. However, due to moderation in input costs and recovery from disruptions owing to the rollout of goods and services tax (GST), a revival in major performance parameters for manufacturing sector was observed in Q2:2017-18. Demand conditions in the manufacturing sector further picked up in Q3:2017-18 as evidenced from the sales growth and this improvement was not attributable to favourable base effects (Table 5).

In spite of the transitory shocks imposed by demonetisation and GST, there was no evidence of de-stocking and liquidation of inventory by the listed manufacturing companies. A demand scenario analysis from a use-based perspective reveals that while GVA growth of the private corporate sector turned negative in the first quarter of 2017-18, that of consumer durables recorded steady growth. Real sales and nominal GVA growth of construction goods decelerated after demonetisation, but more prominent effects were observed in consumer non-durables in which sales and nominal GVA contracted. Lower fixed asset investment by manufacturing companies was reflected in weak demand of capital goods, resulting in continuously deteriorating GVA for companies engaged in the sector. The revival in nominal GVA growth of the manufacturing sector in Q3:2017-18 was supported by steady growth in primary, intermediate, construction goods and consumer durables. The growth in sales as well as nominal GVA of capital goods was in sync with the fixed assets investment of the manufacturing sector in H1:2017-18.

Table 4: Sources and Uses of Funds: Manufacturing Sector (in per cent)

Sources of Funds			Uses of Funds		
Time period	**2015-16**	**2016-17**	**Time period**	**2015-16**	**2016-17**
By Increase in Liabilities			**By Increase in Assets**		
Share Capital	0.5	–	Total Non Current Assets	68.8	53.9
Reserves & Surplus	27.0	47.2	-Fixed Assets (incl. Capital Work in Progress)	42.8	19.8
Money Received Against Share Warrants	–	0.1	-Non Current Investments	11.9	30.5
Share Application Money Pending Allotment	–	0.2	-Deferred Tax Assets	1.5	1.9
Total Non Current Liabilities	6.7	1.6	-Long Term Loans & Advances	–	1.7
-Long Term Borrowings	1.0	–	-Other Non Current Assets	12.6	–
-Deferred Tax Liabilities	2.6	1.0	Total Current Assets	20.5	27.4
-Long Term Provisions	–	0.7	-Current Investments	0.8	12.2
-Other Long Term Liabilities	3.0	–	-Inventories	–	9.8
Total Current Liabilities	27.0	49.1	-Trade Receivables	4.1	2.8
-Short Term Borrowings	8.5	10.0	-Cash & Cash Equivalents	–	1.8
-Trade Payables	–	18.2	-Other Current Assets	15.7	0.7
-Short Term Provisions	–	1.4	Other Assets	0.8	1.6
-Other Current Liabilities	18.4	19.5			
Other-Equity & Liabilities	–	0.6			
TOTAL	**61.2**	**98.8**	**TOTAL**	**90.1**	**82.8**
By Decrease in Assets			**By Decrease in Liabilities**		
Total Non Current Assets	16.3	0.4	Share Capital	–	1.1
-Long Term Loans & Advances	16.3	–	Money received against Share Warrants	0.1	–
-Other Non Current Assets	–	0.4	Share Application Money Pending Allotment	0.4	–
Total Current Assets	22.5	0.8	Total Non Current Liabilities	1.3	16.0
-Inventories	5.0	–	-Long Term Borrowings	–	14.8
-Cash & Cash Equivalents	0.9	–	-Long Term Provisions	1.3	–
-Short Term Loans & Advances	16.6	0.8	-Other Long Term Liabilities	–	1.3
			Total Current Liabilities	8.0	–
			-Trade Payables	0.2	–
			-Short Term Provisions	7.8	–
			Other-Equity & Liabilities	0.1	–
TOTAL	**38.8**	**1.2**	**TOTAL**	**9.9**	**17.2**
Grand total	**100.0**	**100.0**	**Grand Total**	**100.0**	**100.0**

Note: Based on 1,780 common manufacturing companies.
Figures are normalised by total sources and uses of funds. '–'represents nil entry.

3. Corporate Risk Profile

Among companies with a leverage ratio of more than 200 per cent and an ICR (interest coverage ratio) of less than 1 (including companies with negative net worth), the textiles and the telecommunication corporates appeared fragile and debt at risk rose significantly in 2016-17 in these industries. The share of debt held by the 'vulnerable' construction companies also remained elevated (Table 6).

A stark contrast was observed in the performance of heavily indebted companies (*i.e.,* those with debt equity ratios more than 200 per cent and debt to total

Table 5: Performance of Non-Government Non-Financial Companies: Q3:2017-18

(in Per cent)

Item	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
All Companies							
No. of Companies	**2,775**	**2,702**	**2,784**	**2,726**	**2,744**	**2,701**	**2,705**
Y-o-Y Growth							
Sales	0.1	1.9	2.8	7.2	7.6	7.2	11.3
Expenditure	-1.4	1.3	5.0	9.1	11.0	5.9	10.9
Operating Profits	9.6	5.5	7.6	2.1	-10.0	5.0	7.2
GVA	9.3	8.0	7.6	2.3	-2.3	4.4	6.5
Interest	5.8	0.0	11.4	-1.6	-1.5	8.1	-5.8
Net Profits	11.2	16.0	24.6	-6.9	-21.2	-23.1	6.0
Ratios							
Operating Profit to Sales	17.0	16.6	15.9	14.4	14.0	15.7	15.4
Net Profits to Sales	7.5	8.7	6.8	4.6	5.5	5.8	6.7
Manufacturing							
No. of Companies	**1,804**	**1,775**	**1,818**	**1,747**	**1,759**	**1,738**	**1,743**
Y-o-Y Growth							
Sales	-1.0	3.7	4.9	10.2	8.9	9.5	14.0
Expenditure	-2.6	2.9	7.6	11.2	12.4	6.4	12.3
Operating Profits	12.0	10.4	16.2	14.2	-12.0	11.2	14.0
GVA	12.0	11.2	13.8	9.2	-5.4	8.3	10.1
Interest	2.0	-2.3	7.6	-8.0	-3.4	14.3	-1.8
Net Profits	28.8	27.5	57.5	22.2	-33.6	-4.0	-2.4
Ratios							
Operating Profit to Sales	15.2	14.7	14.3	13.2	12.2	14.6	14.4
Net Profits to Sales	7.2	7.9	6.2	6.0	4.4	6.4	5.7
Services (non-IT)							
No. of Companies	**493**	**508**	**514**	**498**	**501**	**494**	**485**
Y-o-Y Growth							
Sales	-0.3	-3.5	-4.6	-2.9	4.1	-2.5	1.6
Expenditure	-1.8	-5.7	-3.2	3.4	10.4	2.6	4.4
Operating Profits	6.1	4.3	-8.9	-25.7	-17.8	-22.7	-11.9
GVA	7.1	5.3	-4.5	-18.7	-10.1	-14.2	-2.3
Interest	32.9	11.5	32.1	3.8	2.7	16.9	-7.6
Net Profits	-38.9	-3.7	-17.5	@	-66.6	@	-27.6
Ratios							
Operating Profit to Sales	21.7	21.0	19.7	17.7	16.4	15.6	16.5
Net Profits to Sales	4.1	6.3	4.5	-18.9	1.7	-10.7	3.4
IT							
No. of Companies	**188**	**177**	**187**	**181**	**180**	**175**	**171**
Y-o-Y Growth							
Sales	11.2	7.2	7.3	4.8	2.9	4.4	5.3
Expenditure	11.8	8.2	7.8	4.7	4.2	4.5	5.7
Operating Profits	10.1	2.2	6.0	4.4	-1.4	4.6	3.9
GVA	9.6	7.4	6.8	4.2	5.3	4.8	6.2
Interest	-11.0	-31.5	2.2	9.0	-12.1	-0.3	-35.0
Net Profits	7.5	4.8	9.8	2.2	9.3	5.8	17.4
Ratios							
Operating Profit to Sales	25.7	25.8	26.0	24.9	24.7	25.8	25.7
Net Profits to Sales	20.8	21.8	21.4	20.2	22.4	22.0	24.1

Note: To compute the growth rates in any period, a common set of companies for the current and previous period is considered.
The ratio for which denominator is negligible is not calculated and is denoted by '@'.

Table 6 : Debt at Risk – Listed NGNF Companies- Industry wise

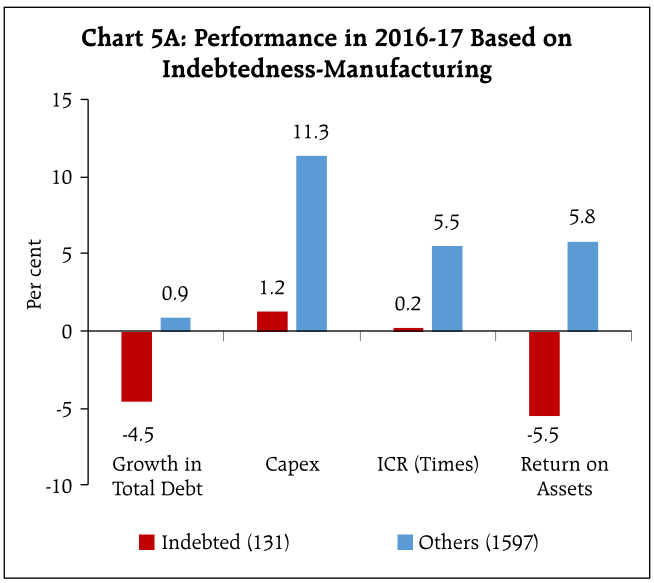
	Total Debt (₹ Billion)	No of vulnerable companies	Debt at risk (₹ Billion)	Share of debt at risk (per cent)	Total Debt (₹ Billion)	No of vulnerable companies	Debt at risk (₹ Billion)	Share of debt at risk (per cent)	Total Debt (₹ Billion)	No of vulnerable companies	Debt at risk (₹ Billion)	Share of debt at risk (per cent)
	Textiles				Telecommunication				Construction			
No. of Companies	256				11				144			
Period	1	2	3	4	5	6	7	8	9	10	11	12
2014-15	728	52	187	25.7	782	4	141	18.0	1007	19	289	28.7
2015-16	824	53	360	43.7	1258	4	174	13.8	1092	25	357	32.7
2016-17	831	54	457	55.0	1566	5	724	46.2	1086	25	404	37.1

Note: Total debt is the sum of long term and short term borrowings.
Debt at risk defined as total debt held by vulnerable companies.

assets ratio greater than 50 per cent in 2015-16) in the manufacturing *vis-a-vis* the rest of the sample. Although the indebted manufacturing companies reduced their debt levels in 2016-17, they performed poorly in terms of fixed assets investment (capex), debt serviceability (ICR) and profitability (return on assets) (Chart 5A).

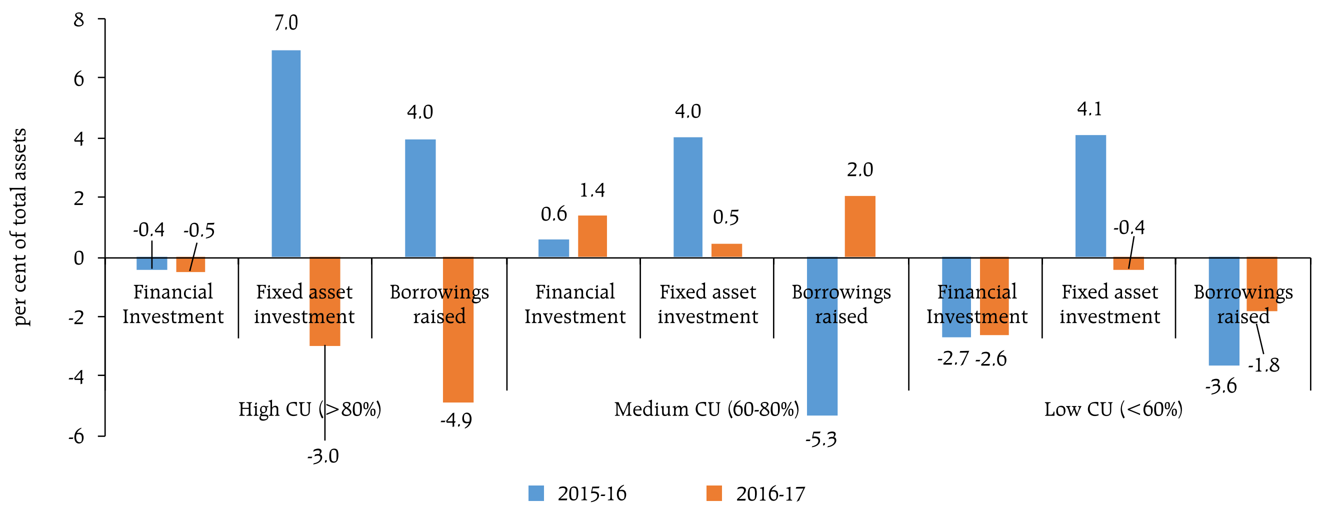
On the other hand, there was an increase in debt levels of indebted infrastructure companies, resulting in worsening of debt serviceability and profitability. The issuance of new debt for the infrastructure companies is mainly determined by the internal rate of return (IRR) of the projects undertaken (Chart 5B).

Listed manufacturing companies tilted their investments towards financial assets and away from fixed assets in view of the persistently low capacity utilisation (CU) and the overall deleveraging witnessed in this sector. In this context, this section presents an analysis of the investment pattern of these companies in 2015-16 and 2016-17 classified according to debt serviceability (ICR) and CU. Thus, the NGNF listed manufacturing companies are classified into



Note: Figures in brackets indicate the number of companies in each group. Total debt is defined as the sum of long term and short term borrowings. Capex is calculated as [net fixed assets (current year) –net fixed assets (previous year) + depreciation (current year)]/ net fixed assets (previous year). Return on assets is calculated as the ratio of net profit to total assets.

Chart 6A: Distressed Companies (ICR<1 in 2014-15)



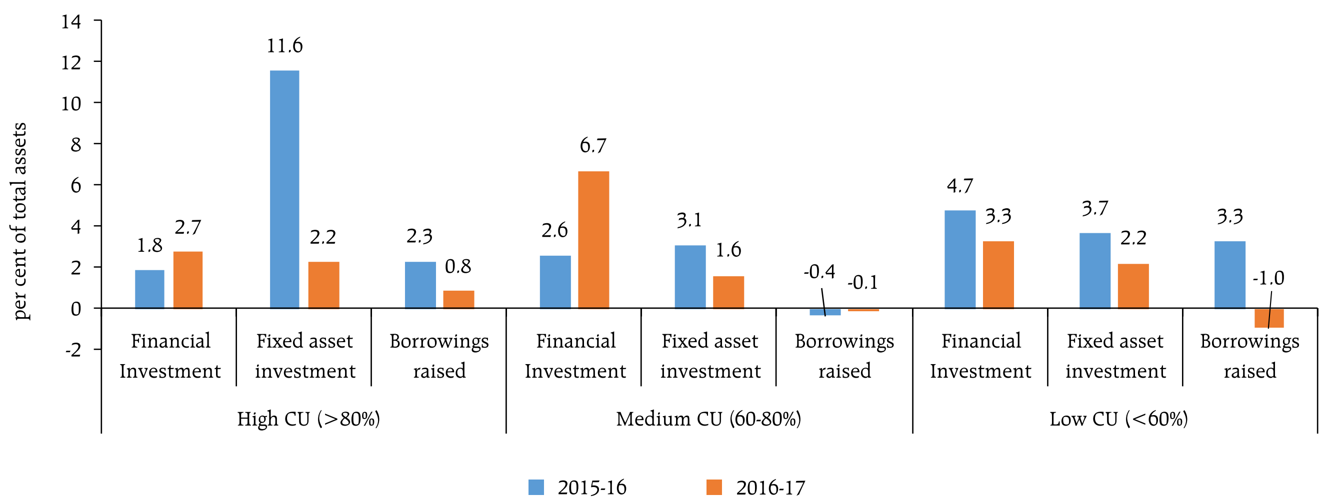
Note: Financial investment, fixed asset investment and total borrowings raised are calculated from the sources and uses of funds of 1,639 common manufacturing companies over the last three years *i.e.*, 2014-15 to 2016-17. The classification of companies into CU categories is based on the Reserve Banks' order books, inventories and capacity utilisation survey (OBICUS) with CU categories used as a proxy to tag the CU of listed NGNF companies within NIC (National Industrial Classification) 2-digit level industries as high, medium or low in the base year 2014-15.

three categories of CU (high/medium/low) and two categories of debt serviceability (ICR<1 or ICR≥1) in the base year 2014-15.

Distressed companies (with ICR<1 in 2014-15) liquidated their investment in both fixed and financial assets in 2016-17; among them, companies with higher CU preferred to liquidate fixed assets whereas companies with low CU liquidated financial assets (Chart 6A).

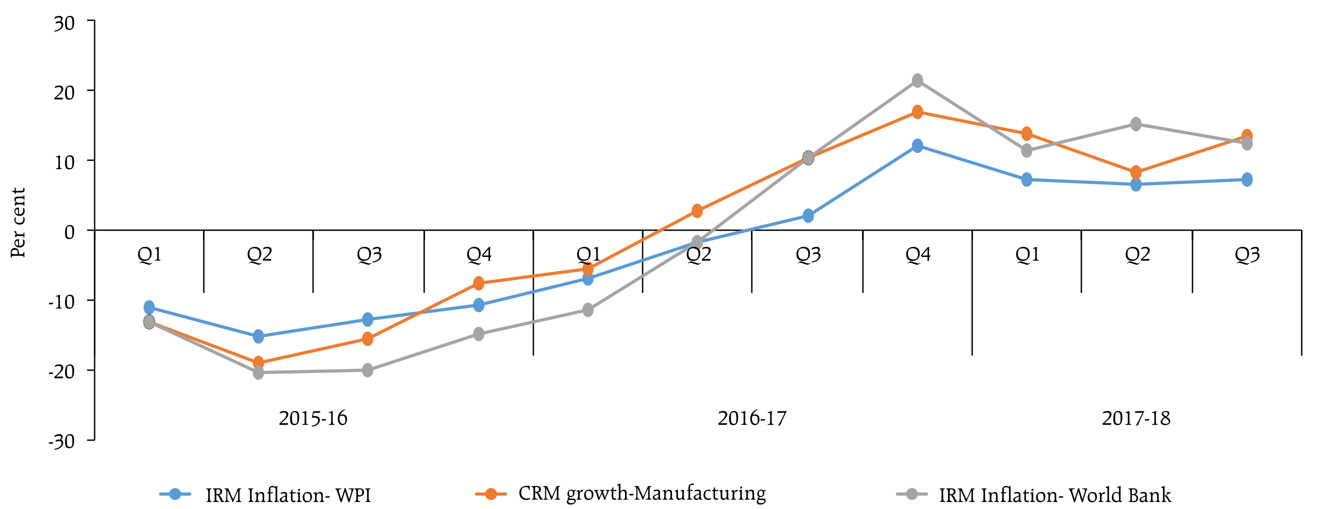
Companies with ICR≥1 in the base year *i.e.*, 2014-15 were found to be investing more in financial assets than in fixed assets in 2016-17 across all CU categories with a stark difference for medium CU companies. Companies in the high CU category also reduced their investment in fixed assets in 2016-17 compared with the previous year (Chart 6B).

Chart 6B: Other Companies (ICR≥1 in 2014-15)



Note: Financial investment, fixed asset investment and total borrowings raised are calculated from the sources and uses of funds of 1,639 common manufacturing companies over the last three years *i.e.*, 2014-15 to 2016-17. The classification of companies into CU categories is based on the Reserve Banks' order books, inventories and capacity utilisation survey (OBICUS) with CU categories used as a proxy to tag the CU of listed NGNF companies within NIC (National Industrial Classification) 2-digit level industries as high, medium or low in the base year 2014-15.

Chart 7: Manufacturing CRM Growth, International and Domestic Industrial Raw Materials Inflation



Note: IRM comprises primary non-food articles (excluding floriculture), minerals, coal, aviation turbine fuel, high speed diesel, naphtha, bitumen, furnace oil, lube oils, bagasse, preparation and spinning of textile fibres and manufacture of basic metals from WPI. IRM-World Bank composite index is derived from indices of agriculture-raw materials and metals & minerals.

4. Movements in the Cost of Raw Materials for Manufacturing Sector

Cost of raw materials (CRM) of the manufacturing sector continued to rise at a fast pace in Q1:2017-18 after peaking in the previous quarter, denting nominal GVA and operating profits of the sector. Input cost faced by the manufacturing companies showed no sign of easing till Q3:2017-18, in sync with the firming up of domestic and international industrial raw materials (IRM) inflation (Chart 7).

A decomposition of CRM growth by industry reveals that a major portion stemmed from motor vehicles, iron and steel, and petroleum products industries in Q3:2017-18.

The CRM growth of industries importing metal and crude petroleum for production moved in tandem

Chart 8A: Petroleum CRM Growth and International Energy Index Inflation

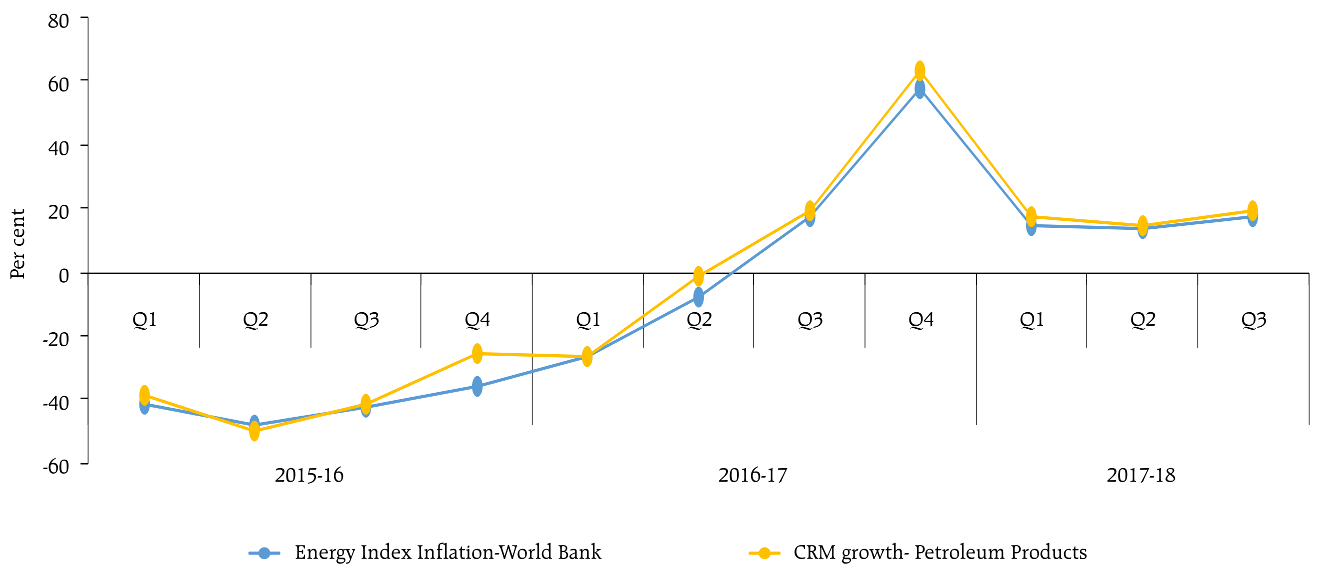
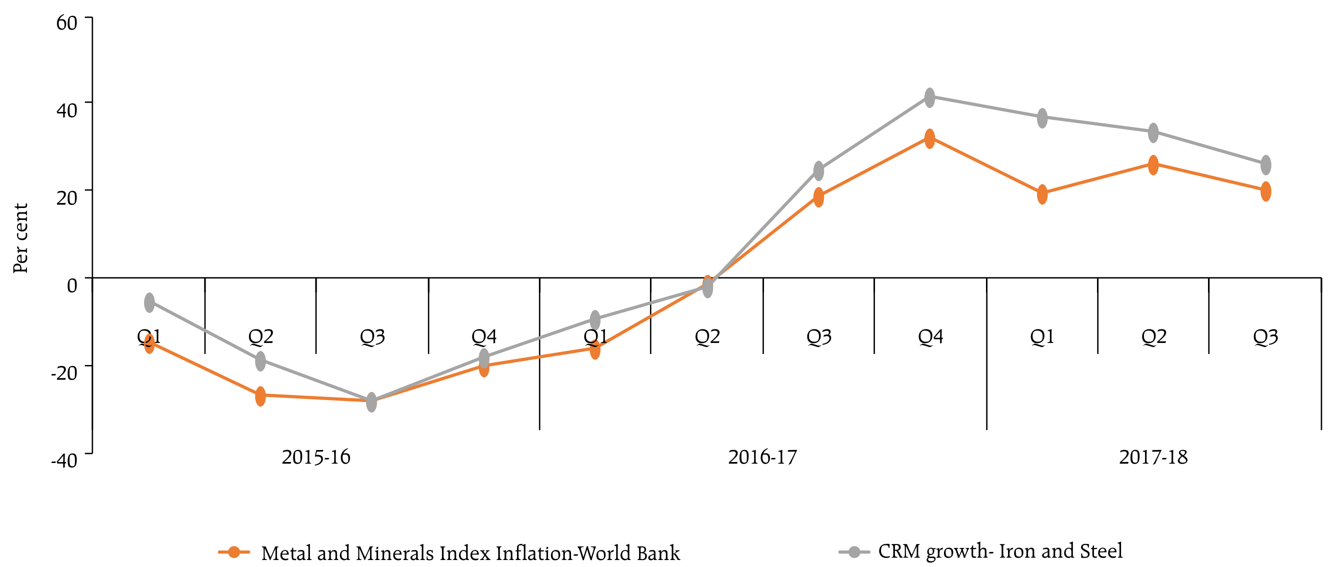


Chart 8B: Iron and Steel CRM Growth and International Metal Index Inflation



with international energy and metal index inflation (Chart 8A and 8B).

5. Conclusion

A turnaround in sales growth of the corporate sector took hold in 2016-17 and has extended into the current year so far. Nominal GVA growth of the manufacturing sector turned negative in the Q1:2017-18 due to input cost pressures and it revived on account of steady growth of output. While the demand for consumer durables and non-durable goods was hit by demonetization, sales of consumer durables revived after a temporary drop and there was no sign of recovery for the consumer non-durables companies. Low capacity utilisation in the manufacturing sector led to significant deleveraging as well as lower investments in fixed assets, with companies preferring investments in financial and liquid assets. Deleveraging undertaken by highly indebted manufacturing companies should translate into better risk profile of this sector in the coming years, however, preference of investment channels other than fixed assets by the healthy corporates probably hints at transaction cost motive and subdued credit demand in the economy. The listed manufacturing companies reduced current assets and increased long term investments in H1:2017-18, possibly hinting towards a revival in capex cycle. Further revival in the demand scenario will be the key for the private corporate sector performance in the coming quarters as there has been no signs of respite from input cost pressures.

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