

## Slowdown hit small firms harder in FY14

Small firms are the first to take a hit as bigger corporates delay payments and cut down orders, say analysts

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Companies with revenue of less than Rs25 crore saw sales contract by 63% in the year ended 31 March, while companies with revenue between Rs25 crore and Rs50 crore saw a 16.5% drop in sales from a year earlier, according to RBI data. Photo: Reuters

**Mumbai:** The slowdown in economic growth last fiscal and the resultant weakness in demand has hit small enterprises harder than their larger counterparts, latest data from the Reserve Bank of India (RBI) shows.

Companies with revenue of less than `25 crore saw sales contract by 63% in the year ended 31 March, while companies with revenue between `25 crore and `50 crore saw a 16.5% drop in sales from a year earlier, according to RBI data released on Tuesday. Overall sales growth, for all companies analyzed, was at 4.7%, the data show.

The analysis is based on the abridged financial results of 2,854 publicly traded, non-government and non-financial companies. For firms with a revenue of anywhere between `50 crore and `100 crore, sales dropped 7.7% from a year ago while for companies with sales between `100 crore and `500 crore, revenue declined 0.5%.

The performance of small companies has been declining since 2011-12 when sales for these companies saw a 28.5% fall, followed by a 29.3% contraction in 2012-13, according to data from the central bank.

"While the sales growth of large companies (sales of more than `1,000 crore) moderated, sales growth of companies with annual sales between `500 crore and `1,000 crore remained near stagnant and sales of smaller companies continued to contract," RBI said in its accompanying press release.

As GDP growth remained below 5% for the second consecutive year in 2013-14, sales growth across most domestic demand-oriented firms took a hit. Small-sized firms, which typically work with large corporates as suppliers or manufacturers, are the first to take a hit as bigger corporates delay payments and cut down orders, analysts said.

"Based on my interactions with smaller companies, the biggest concern for these firms is the non-diversified nature of business. Many are only dependent on one or two customers or markets, so in a slowdown if one of them goes away, the company gets drastically

affected," said Kalpana Jain, senior director at Deloitte Touche Tohmatsu India. "Some industries like automobiles have also seen consolidation with big companies reducing their auto component vendors."

Meanwhile, the same data also shows that the interest-to-sales ratio of such companies rose to 27.4 times compared with 10.5 times in the 2013 fiscal. This implies that interest costs for these companies have increased more than the revenue, and the companies are not generating enough sales to cover interest payments.

Further the credit health, specifically their debt servicing ability, is also deteriorating. The interest coverage ratio, which gauges the ability of a company to pay interest from its operating profit, for these small companies declined to -0.5 times from -0.3 times a year ago.

An interest coverage ratio of less than one, indicates that the firm would struggle to repay the interest.

Experts say that the deterioration is largely because of a drop in profitability rather than an increase in debt taken on by these companies.

"Credit growth to this group has been quiet slow in the past few quarters sequentially, specifically when these companies require very high working capital compared to others," said Deep Mukherjee, senior director, corporate ratings at **India Ratings and Research Pvt. Ltd.**

"If they are not getting the required funds, then it affects the business and many times the profits go to a very low base forcing many to change the nature of their operations, like manufacturers become traders," he said.

The stress being faced by small and medium enterprises has also shown up in the number of companies which have applied to the Board for Industrial and Financial Reconstruction (BIFR). The year 2013 saw the highest number of applications in at least seven years with 92 companies applying for sick status. The number of firms applying in 2014 till now has already reached 34.

BIFR, an agency under the finance ministry, determines whether a company has turned sick and assists in helping rescue viable parts of its business while shutting down or disposing of those that are found to be beyond revival. In order to be determined "sick", a company's accumulated losses should be equal to or more than its net worth, according to the criteria cited on BIFR's website.

To be sure, smaller companies are now seeing a turnaround in business activity. According to the Business Confidence Index (BCI), a survey of 629 companies by the National Council of Applied Economic Research (NCAER), firms with an annual sales of between `100 crore-`500 crore showed the highest percentage increase in confidence over the last round of survey in the June quarter. NCAER is an independent economic think-tank.

"Right now the outlook for smaller companies is far more positive and many are gung-ho about the reviving sentiment in the economy," Deloitte's Jain said.