Q1FY20 Quarterly Results Review: Yet another weak quarter

Corporate performance in the first quarter of FY20 has remained tepid across sectors, as subdued demand environment, production cuts and liquidity crisis in shadow banking sector weighed on Indian corporates. Net sales growth for Q1FY20 for the Nifty 50/Nifty 500 companies, excluding Financials and Energy, came in at a muted 3.6%/5.6% YoY—the lowest in eight quarters, while PAT growth witnessed an YoY decline of 8.1%/4.1%. The weak results can largely be attributed to Consumer Discretionary (weak auto sales), Materials (sharp dip in metal prices) and Energy (weak refining margins amid volatile crude oil prices). On the positive side, Health Care and Utilities reported a strong profit growth.

The Consensus[1] Nifty 50 EPS estimate for 2019 has been downgraded by nearly 12% since the beginning of this year. However, the consensus estimates still point to a 17% earnings growth and is prone to further downgrades, going by historical performance. This is evident in the Earnings Revision Indicator[2] trend for Nifty 50 which has moved further deep into the negative zone, implying a higher number of downgrades than upgrades.

- Moderation in sales growth across sectors: Aggregate net sales growth for Nifty 50/Nifty 500 companies, ex-Financials/Energy, came in at muted 3.6%/5.6% YoY in Q1 FY20. Stress in revenue growth was largely evident in Consumer Discretionary (weak auto sales), Materials (declining metal prices owing to China slowdown) and Consumer Staples (softening rural demand in the wake of late onset of South-west monsoon). Sales growth in export-oriented sectors, particularly Information Technology, has also moderated amid weak global demand.
- Margin tailwinds from lower commodity prices partly offset weak demand: EBITDA growth for the Nifty 50/Nifty 500 companies, ex-Financials/Energy, was a tad better at 4.2%/8.8% YoY in Q1 FY20. This was primarily due to a decline in commodity prices owing to weak global growth outlook, thereby aiding operating profits for non-commodity companies, partly offset by weak domestic and global demand. Sectors that dragged down the EBITDA growth and margins are Consumer Discretionary (lower input costs failed to compensate for weak demand), Energy (refining margins hit by heightened volatility in crude oil prices), and Materials (sharp dip in metal prices). Sectors that drove EBITDA growth are Communication Services, Health Care, and Industrials.
- Financials drive PAT growth: Aggregate PAT growth for the Nifty 50/Nifty 500 companies slowed down sharply to 2.5%/8.2% YoY, partly offset by a strong growth in Financials sector, thanks to a low base due to heavy provisions in the same period last year. Excluding Financials, aggregate PAT growth declined by a huge 12.8%/10.2% YoY. Profitability of the Energy sector also declined by 19.8%/23.5% YoY in the Nifty 50/Nifty 500 universe on account of huge margin compression. Excluding Energy and Financials, PAT growth declined by 8.1%/4.1% YoY for Nifty 50/Nifty 500 companies.
- Downgrades gathering pace: Weak quarterly results have led to a 12% cut in the 2019 Nifty 50 Consensus EPS estimates since the beginning of this year. The current consensus earnings growth estimate of 17% looks quite optimistic and faces significant downside risk given the current macro overhang, historical performance on the back of similar macro conditions and finally, weak global growth outlook translating into lower exports (negative for export-focussed companies) and subdued commodity prices (hurting top-line). The Earnings Revision Indicator has fallen deep into the negative zone, signalling that downgrades have outnumbered upgrades.
- Light at the end of tunnel? On the positive side, domestic liquidity conditions have eased, with nearly 110bps cut in the policy rates in the year thus far, improving monetary transmission, and the Government's push to boost economic growth should provide some fillip to consumption demand. Further, a resurgent South-west monsoon, coupled with a renewed focus on the farm sector, bodes well for rural demand. Banking NPAs also seem to have peaked out, and with provisioning for stressed assets nearly adequate, earnings growth for the banking sector should improve going forward. Key downside risks here include further deterioration in domestic and global economic activity and increase in slippages in the banking sector.

[1] Consensus here implies IBES (Institutional Brokers' Estimate System) estimates from Refinitiv Datastream.

[2] Earnings Revision Indicator over a period is calculated as (no of upgrades – no of downgrades)/(total number of upgrades and downgrades). A value less than zero indicates downgrades outnumbering upgrades.

Nifty 50 Q1FY20 results

Weak consumption and investment demand weigh on sales growth: Aggregate sales growth for the Nifty 50 companies fell sharply in June 2019 to 7.6% YoY—the lowest in 10 quarters, led by a moderation across consumption, investment and export-oriented sectors—a reflection of declining domestic as well as global economic activity. Excluding Energy and Financials, sales growth was even lower at 3.6%—the lowest in eight quarters. Within the Nifty 50 universe, 9/50 companies reported negative YoY sales growth in the June quarter.

Moderation in sales growth was largely on account of a sharp decline in a) Consumer Discretionary—Automobiles' sales growth declined significantly due to overall demand slowdown, liquidity issues since the NBFC crisis and inventory correction at dealers' end. Excluding Automobiles, sales growth for Nifty 50 companies improved to 9.3% YoY, b) Materials—sales for metal companies were hurt due to decline in metal prices owing to a slowdown in China amid rising US-China trade war concerns and c) Consumer Staples—sales growth fell to mid-single digits, largely arising from weak rural demand on account of lower government spending. Sales growth in export-oriented sectors, particularly Information Technology, has also moderated amid weak global demand.

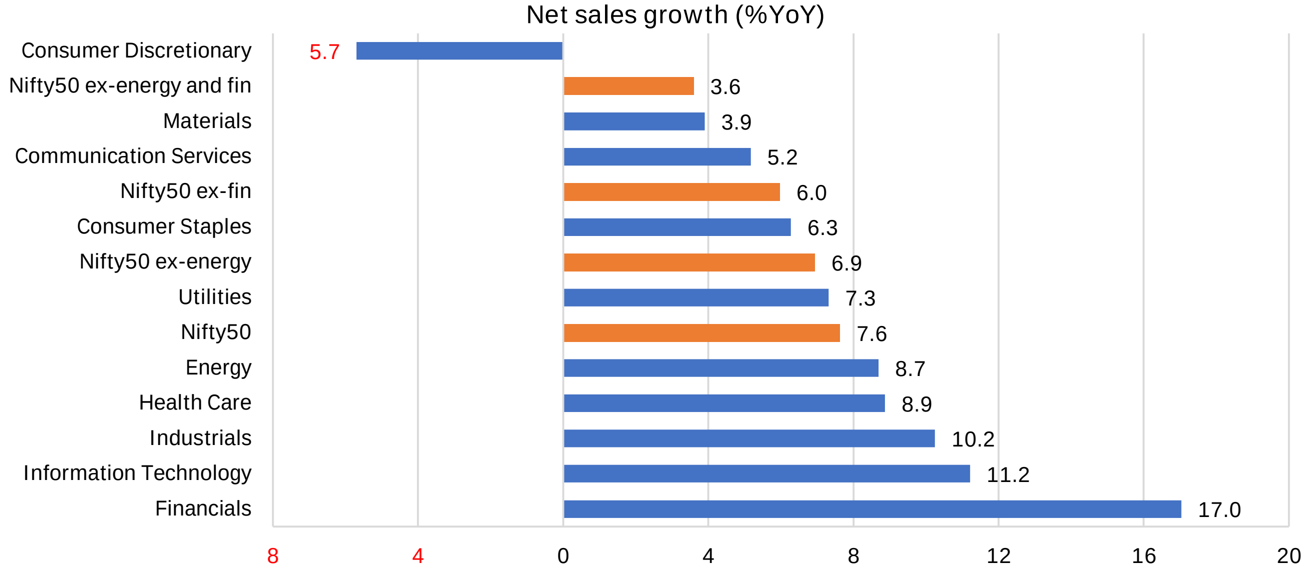
With global growth expected to remain bleak in the near-term, commodity prices are unlikely to rebound in a hurry, thereby putting pressure on the top-line of non-financial companies. On the positive side, a strong revival in South-west monsoon in July-August (deficit of 32% as of June 30, 2019 turned into a modest surplus of 2.4% as of August 19, 2019), coupled with targeted fiscal spending, especially implementation of government's income support scheme to small and marginal farmers, bodes well for farm incomes and rural demand, which in turn should aid the top-line growth of consumption-linked companies.

Figure 1: Net sales growth of Nifty 50 companies in Q1FY20

%Growth	QoQ growth			YoY growth		
Sector	Jun-18	Mar-19	Jun-19	Jun-18	Mar-19	Jun-19
Communication Services	2.1	0.7	0.7	(7.3)	6.6	5.2
Consumer Discretionary	(5.3)	18.5	(17.2)	29.4	7.8	(5.7)
Consumer Staples	8.9	10.9	(1.9)	16.7	18.0	6.3
Energy	28.1	8.2	4.8	57.8	32.9	8.7
Financials	4.8	14.5	(1.3)	19.2	24.3	17.0
Health Care	4.7	(0.1)	4.0	14.0	9.6	8.9
Industrials	(32.9)	20.4	(30.1)	10.8	5.8	10.2
Information Technology	5.4	1.2	0.2	12.5	16.9	11.2
Materials	9.4	26.2	(10.9)	47.7	27.6	3.9
Utilities	7.7	(1.2)	4.0	29.9	11.1	7.3
Nifty50	10.5	11.7	(3.0)	35.6	22.6	7.6
Nifty50 ex-energy	1.4	13.8	(7.5)	24.1	17.2	6.9
Nifty50 ex-fin	11.6	11.2	(3.3)	39.0	22.2	6.0
Nifty50 ex-energy and fin	0.3	13.6	(9.6)	25.9	15.0	3.6

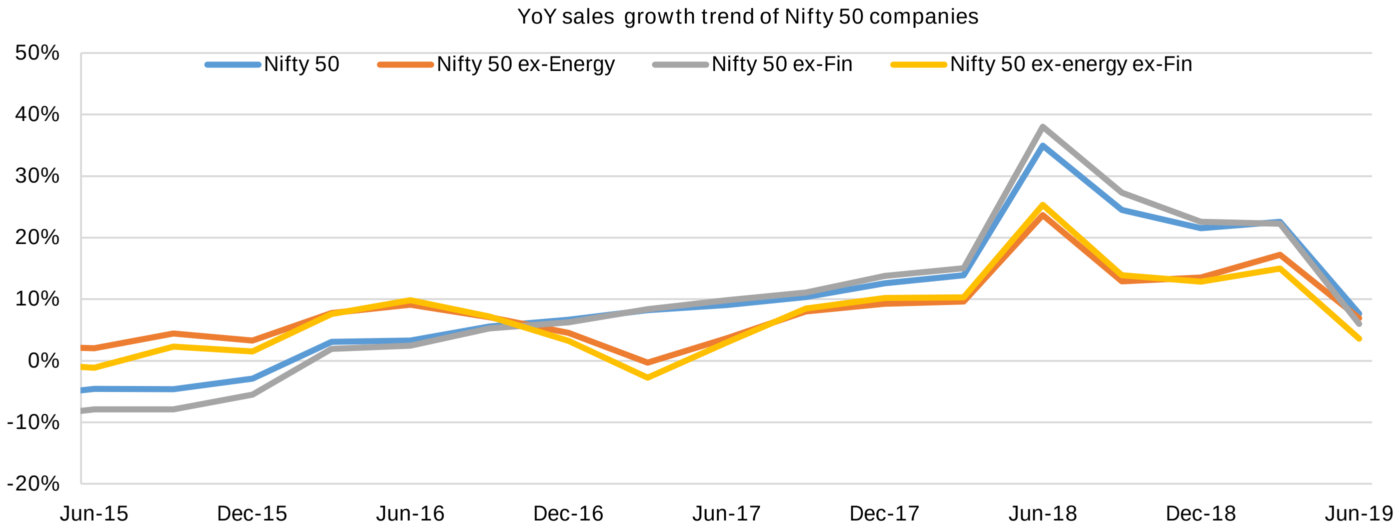
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 2: Sector-wise net sales growth of Nifty 50 companies in Q1FY20



Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 3: Net sales YoY growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

Lower commodity prices provide aid to EBITDA growth and margins for non-commodity sectors: Aggregate EBITDA growth for the Nifty 50 companies was better at 10.1% YoY in the June quarter, thanks to declining commodity prices owing to weak global growth outlook aiding operating profits for non-commodity companies, partly offset by weak domestic and global demand. This translated into a modest EBITDA margin accretion of ~60bps YoY to 26.9%. Energy sector was the biggest culprit, excluding which EBITDA margin expanded by ~300bps YoY. Excluding Energy and Financials, EBITDA growth was much lower at 4.2% YoY, with EBITDA margin at 23.0%. Within the Nifty 50 universe, 16/50 companies reported negative YoY EBITDA growth in the June quarter.

Sectors that dragged down the aggregate EBITDA growth and margins are a) Consumer Discretionary—weak demand more than offset the tailwinds from lower commodity prices, b) Energy—refining margins for downstream oil marketing companies hit by heightened volatility in crude oil prices, and c) Materials—sharp decline in metal prices. Sectors that led EBITDA growth include Communication Services, Health Care, and Industrials.

Weak consumption and investment demand is likely to continue to weigh on margins, even as lower commodity prices are expected to provide some downside support.

Figure 4: EBITDA growth of Nifty 50 companies in Q1FY20

%Growth	QoQ growth			YoY growth		
Sector	Jun-18	Mar-19	Jun-19	Jun-18	Mar-19	Jun-19
Communication Services	(4.4)	(3.3)	26.5	(10.0)	(7.9)	21.9
Consumer Discretionary	(22.3)	25.2	(26.8)	19.9	(13.2)	(18.2)
Consumer Staples	8.3	9.0	4.6	19.9	17.7	13.6
Energy	40.9	37.2	(12.9)	78.0	44.2	(10.9)
Financials	16.8	(3.3)	8.6	1.5	40.5	30.7
Health Care	11.2	(19.6)	33.7	46.3	2.5	23.3
Industrials	(30.0)	12.3	(21.3)	17.1	9.8	23.5
Information Technology	3.2	(0.8)	0.2	12.4	14.5	11.3
Materials	7.7	24.7	(18.2)	49.1	28.3	(2.5)
Utilities	19.0	(69.5)	238.4	28.3	(63.4)	4.0
Nifty50	13.3	4.7	1.5	22.8	22.9	10.1
Nifty50 ex-energy	(100.0)	(2.2)	43.8	11.7	17.7	16.8
Nifty50 ex-fin	11.5	10.8	(3.2)	39.4	13.4	(1.6)
Nifty50 ex-energy and fin	(1.2)	(1.0)	2.8	23.0	0.1	4.2

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 5: EBITDA margin of Nifty 50 companies in Q1FY20

Sectors	EBITDA margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	45.9	934	628
Consumer Discretionary	11.1	(145)	(169)
Consumer Staples	34.7	213	225
Energy	13.2	(269)	(291)
Financials	70.6	647	737
Health Care	26.8	596	313
Industrials	24.6	274	263
Information Technology	26.8	(1)	1
Materials	19.9	(176)	(130)
Utilities	35.7	2474	(112)
Nifty50	26.9	119	60
Nifty50 ex-energy	35.9	453	304
Nifty50 ex-fin	18.3	1	(141)
Nifty50 ex-energy and fin	23.0	278	13

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 6: Sector-wise EBITDA growth of Nifty 50 companies in Q1FY20

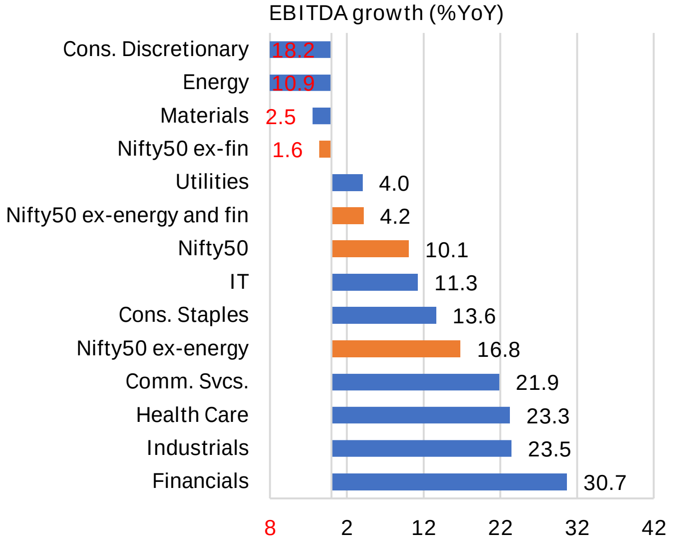
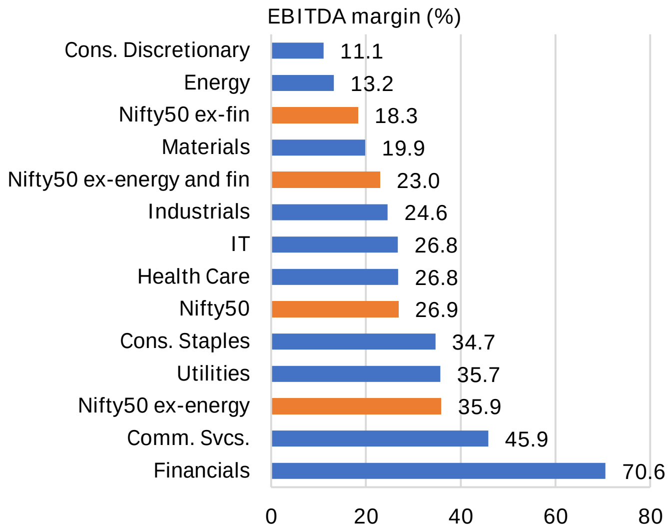
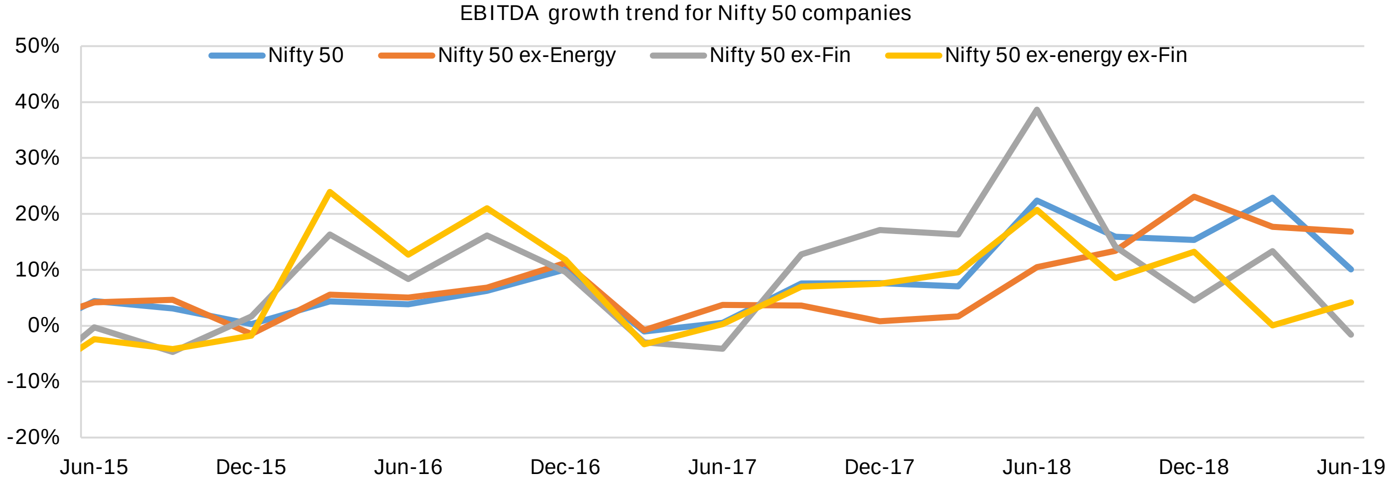


Figure 7: Sector-wise EBITDA margin of Nifty 50 companies in Q1FY20



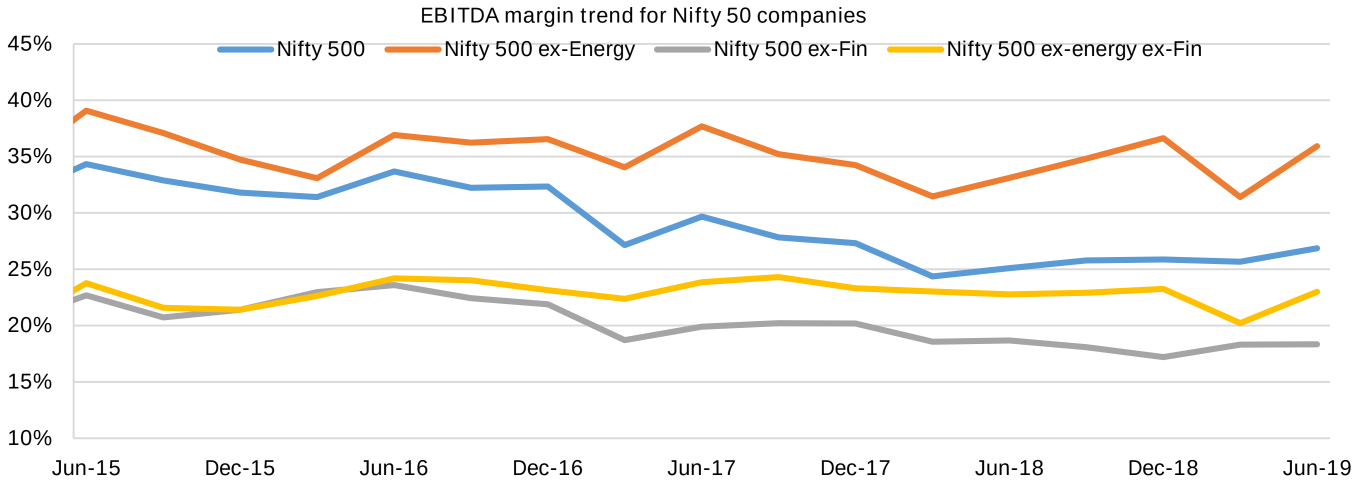
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 8: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 9: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

PAT growth at low-single digits: Aggregate PAT growth for the Nifty 50 companies slowed down sharply to low-single digits of 2.8% in the June quarter, partly offset by a strong growth in Financials sector, thanks to a low base due to heavy provisions in the same period last year. Excluding Financials, aggregate PAT growth declined by a huge 12.8% YoY—the sharpest decline in 15 quarters. Profitability of the Energy sector declined by 19.8% YoY on account of margin compression and high interest costs. Excluding Energy and Financials, PAT growth declined by 8.1% YoY. Within the Nifty 50 universe, 19/50 companies reported negative YoY PAT growth in the June quarter.

Energy apart, sectors that dragged down the aggregate profits of Nifty 50 companies are a) Consumer Discretionary—sharp decline in auto sales amid weak urban/rural demand and tight domestic liquidity, b) Communication Services—high leverage, and c) Materials—lower commodity prices. Sectors that led profit growth in the June quarter apart from Financials include a) Health Care—strong growth in the US business) and b) Industrials—operating leverage.

Figure 10: PAT growth of Nifty 50 companies in Q1FY20

	QoQ growth			YoY growth		
Sector	Jun-18	Mar-19	Jun-19	Jun-18	Mar-19	Jun-19
Communication Services	12.7	(584.5)	NA	17.2	(135.5)	(71.0)
Consumer Discretionary	(53.5)	(1.7)	(87.4)	4.2	(35.0)	(82.4)
Consumer Staples	7.1	10.2	(0.6)	21.8	19.9	11.2
Energy	37.4	35.8	(18.4)	71.2	35.0	(19.8)
Financials	365.3	(17.6)	21.6	(45.2)	779.4	129.7
Health Care	12.5	(34.1)	74.1	81.6	(16.7)	28.9
Industrials	(51.2)	31.4	(42.1)	16.0	16.5	38.1
Information Technology	3.3	(0.7)	(4.7)	13.0	15.9	6.9
Materials	1.6	38.3	(38.5)	51.6	29.9	(21.3)
Utilities	9.8	54.7	(27.7)	14.9	59.8	5.2
Nifty50	14.5	11.8	(14.5)	18.5	37.8	2.8
Nifty50 ex-energy	4.7	4.1	(12.9)	0.9	39.0	15.6
Nifty50 ex-fin	4.8	20.8	(22.1)	38.4	17.2	(12.8)
Nifty50 ex-energy and fin	(9.8)	13.8	(24.1)	22.4	9.2	(8.1)

Source: CMIE Prowess, Refinitiv Datatream, NSE. NA: Not Applicable

Figure 11: PAT margin of Nifty 50 companies in Q1FY20

	PAT margin (%)	QoQ chg (bps)	YoY chg (bps)
Sector	Jun-19	Jun-19	Jun-19
Communication Services	2.1	449	(563)
Consumer Discretionary	0.6	(342)	(268)
Consumer Staples	21.4	26	95
Energy	5.6	(158)	(198)
Financials	11.9	224	582
Health Care	16.2	650	251
Industrials	8.9	(184)	179
Information Technology	17.6	(91)	(70)
Materials	5.9	(263)	(188)
Utilities	12.8	(561)	(26)
Nifty50	7.9	(107)	(37)
Nifty50 ex-energy	9.4	(59)	71
Nifty50 ex-fin	7.1	(172)	(154)
Nifty50 ex-energy and fin	8.5	(163)	(109)

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 12: Sector-wise PAT growth of Nifty 50 companies in Q1FY20

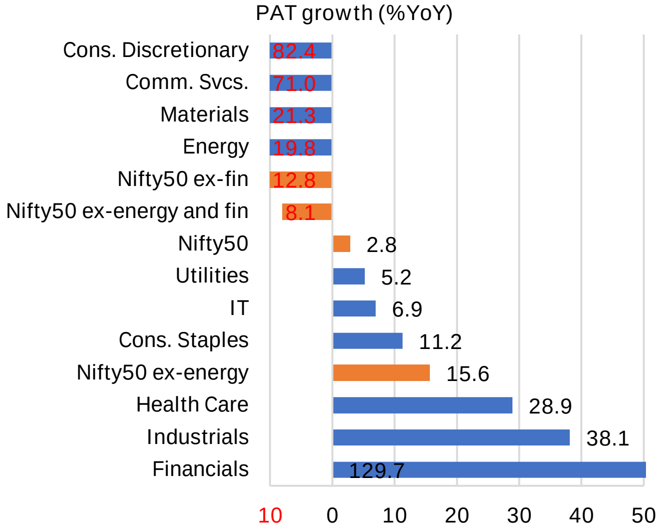
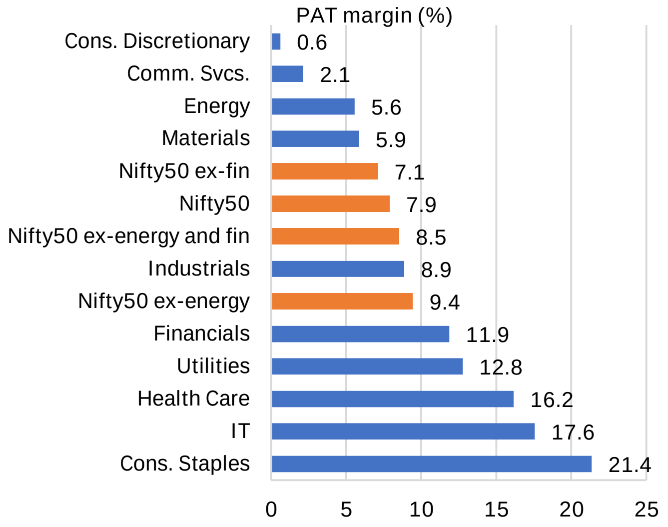
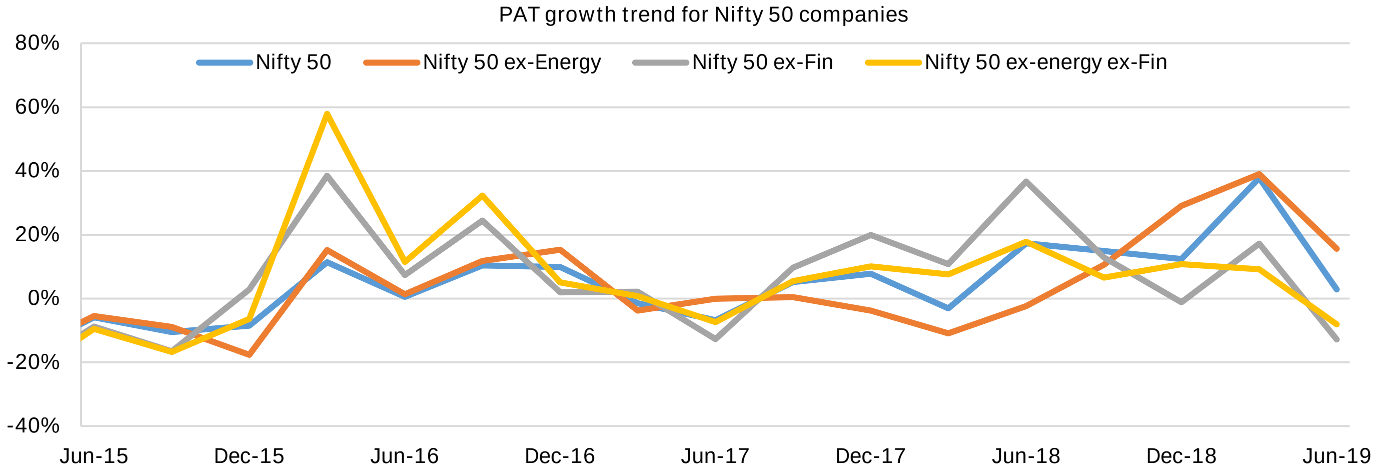


Figure 13: Sector-wise PAT margin of Nifty 50 companies in Q1FY20



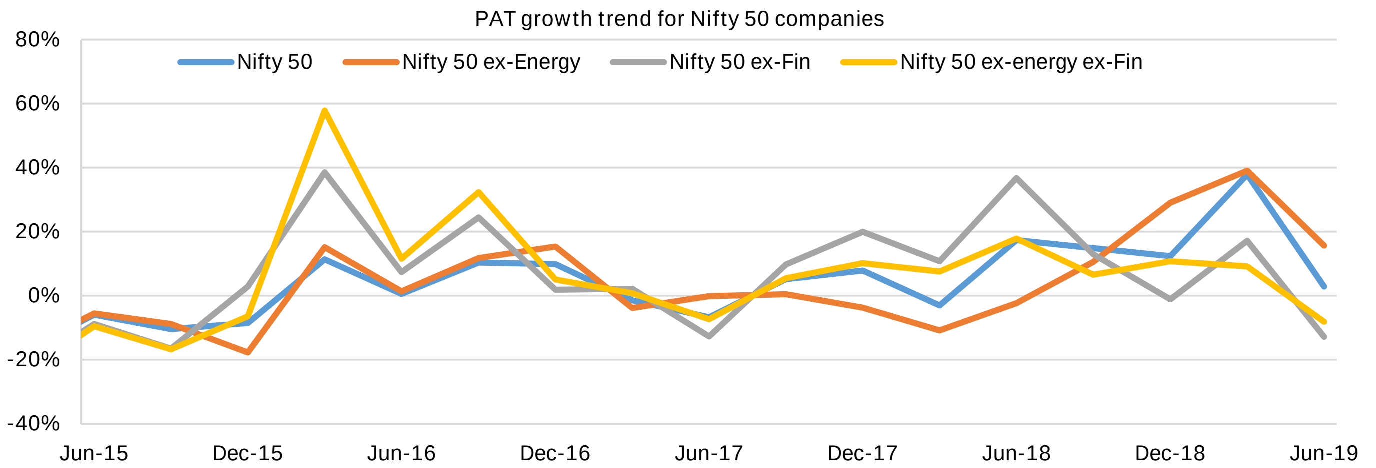
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 14: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 15: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

Nifty 500 Q1FY20 results

Sales growth for Nifty 500 companies falls to seven-quarter lows: Aggregate sales growth for the Nifty 500 companies was in-line with the Nifty 50 universe, and came in at 7.5% YoY—the lowest in seven quarters—led by a slowdown in consumption as well as investment-driven sectors. Excluding Energy and Financials, aggregate sales growth came in at eight-quarter low of 5.6%, nearly 300bps higher than the Nifty 50 companies. Nearly 25% of the Nifty 500 companies reported negative YoY sales growth in the June quarter.

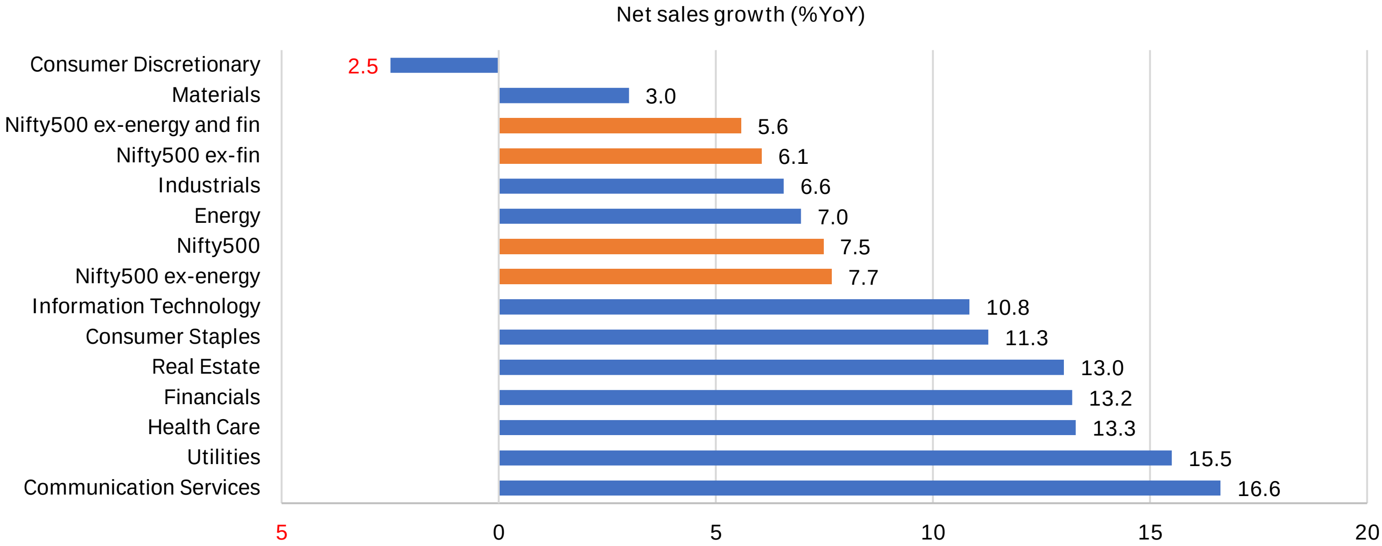
Sectors that were laggards include a) Consumer Discretionary—weak demand and tight liquidity led to a sharp slowdown in automobile sales, b) Materials—while decline in metal prices amid slowdown in China negatively impacted the top-line growth of metal companies, agriculture sector (fertilizers/pesticides) was hit by late onset of South-west monsoon, c) Energy—lower crude oil prices and slowdown in demand for petrochemicals hurt sales growth, partly offset by strong growth reported by Reliance Industries (ex-Reliance, aggregate sales growth for energy sector in the Nifty 500 universe came in at low-single digits), d) Industrials—weak investment demand. Sectors that supported sales growth of Nifty 500 companies include Communication Services, Utilities, Financials and Health Care.

Figure 16: Net sales growth of Nifty 500 companies in June 2019

	QoQ growth		YoY growth	
Sector	Mar-19	Jun-19	Mar-19	Jun-19
Communication Services	(0.7)	(0.6)	24.4	16.6
Consumer Discretionary	8.8	(8.0)	6.7	(2.5)
Consumer Staples	10.3	5.9	20.9	11.3
Energy	5.1	3.4	27.5	7.0
Financials	15.0	(1.3)	24.5	13.2
Health Care	0.9	(0.1)	14.0	13.3
Industrials	19.9	(21.7)	12.8	6.6
Information Technology	1.4	(1.1)	15.7	10.8
Materials	15.8	(9.0)	20.0	3.0
Real Estate	45.1	(25.3)	17.2	13.0
Utilities	1.9	12.2	18.8	15.5
Nifty500	9.7	(3.0)	19.7	7.5
Nifty500 ex-energy	11.4	(5.2)	17.2	7.7
Nifty500 ex-fin	8.5	(3.5)	18.5	6.1
Nifty500 ex-energy and fin	10.1	(6.8)	14.7	5.6

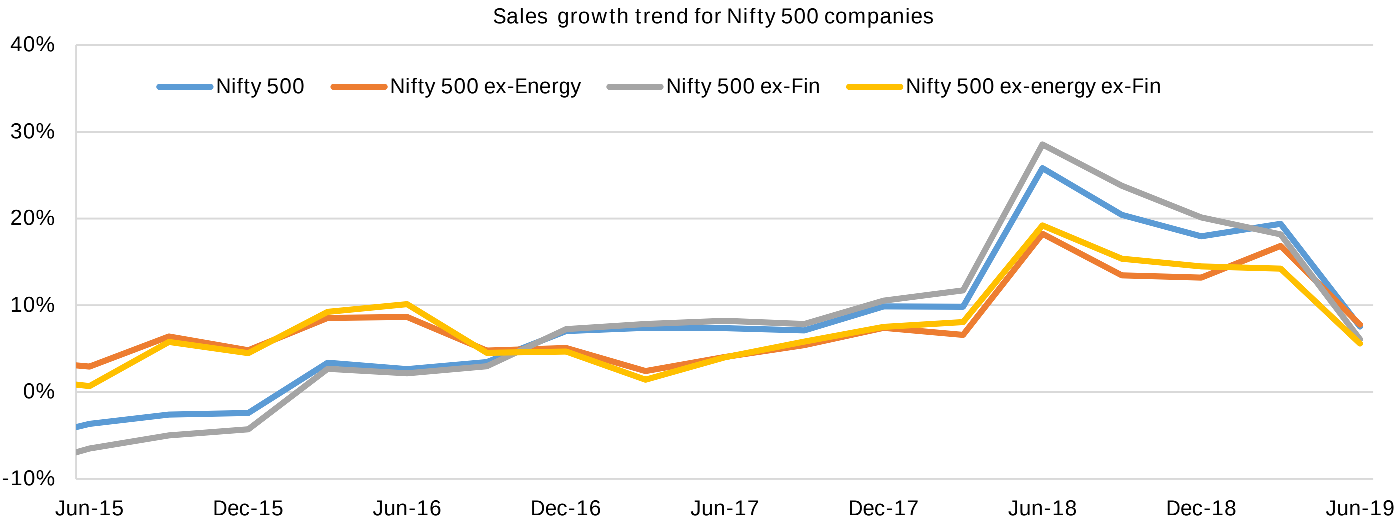
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 17: Sector-wise net sales growth of Nifty 500 companies in Q1FY20



Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 18: Net sales YoY growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

Energy sector drags down aggregate operating profits, partly offset by lower commodity prices: Aggregate EBITDA growth for the Nifty 500 companies came in higher than the Nifty 50 universe at 13.5% YoY in the June quarter, partly supported by lower commodity prices. This translated into an EBITDA margin accretion of ~140bps YoY to 27.0%. However, excluding Energy and Financials, EBITDA growth was lower at 8.8% YoY, with EBITDA margin at 20.5%. Nearly 35% of the Nifty 500 companies reported negative YoY EBITDA growth in the June quarter.

Sectors that dragged down the aggregate EBITDA growth include Consumer Discretionary, Energy and Materials, while sectors leading the EBITDA growth are Communication Services, Health Care, and Industrials.

Figure 19: EBITDA growth of Nifty 500 companies in Q1FY20

Sector	QoQ growth Mar-19	QoQ growth Jun-19	YoY growth Mar-19	YoY growth Jun-19
Communication Services	0.3	35.0	(0.9)	43.3
Consumer Discretionary	17.6	(15.9)	(6.0)	(7.9)
Consumer Staples	11.1	7.7	27.2	14.9
Energy	44.5	(17.9)	43.8	(13.4)
Financials	(7.9)	27.2	72.1	27.4
Health Care	(3.8)	6.8	16.2	23.8
Industrials	26.9	(22.6)	14.4	15.4
Information Technology	0.5	(0.4)	14.6	10.3
Materials	16.6	(11.7)	16.5	(0.3)
Real Estate	23.6	(10.4)	(26.6)	11.3
Utilities	(42.8)	107.3	(35.4)	12.3
Nifty500	3.2	9.6	31.8	13.5
Nifty500 ex-energy	(2.1)	14.7	29.8	18.4
Nifty500 ex-fin	13.1	(3.3)	12.7	2.7
Nifty500 ex-energy and fin	4.5	2.2	4.2	8.8

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 20: EBITDA margin of Nifty 500 companies in Q1FY20

Sector	EBITDA margin (%)	QoQ change (bps)	YoY change(bps)
Communication Services	38.7	1022	719
Consumer Discretionary	10.3	(97)	(60)
Consumer Staples	23.9	40	75
Energy	11.8	(305)	(277)
Financials	63.2	1415	704
Health Care	24.8	160	210
Industrials	17.9	(20)	137
Information Technology	23.6	16	(12)
Materials	19.7	(61)	(65)
Real Estate	37.5	625	(57)
Utilities	34.1	1563	(98)
Nifty500	27.0	311	143
Nifty500 ex-energy	32.7	570	297
Nifty500 ex-fin	17.5	4	(57)
Nifty500 ex-energy and fin	20.5	180	61

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 21: Sector-wise EBITDA growth of Nifty 500 companies in Q1FY20

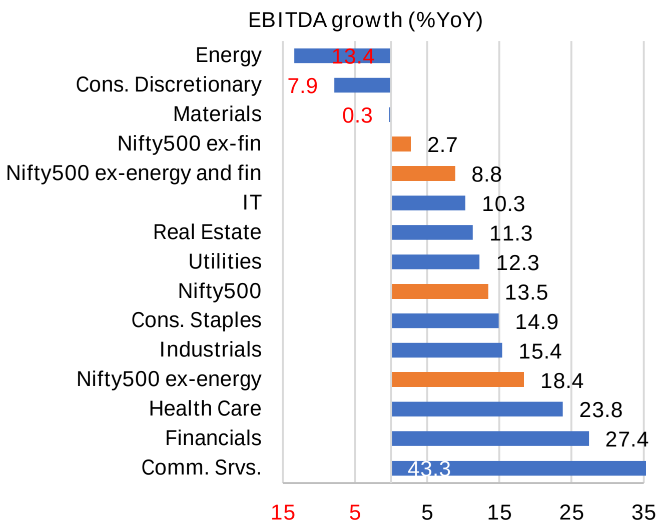
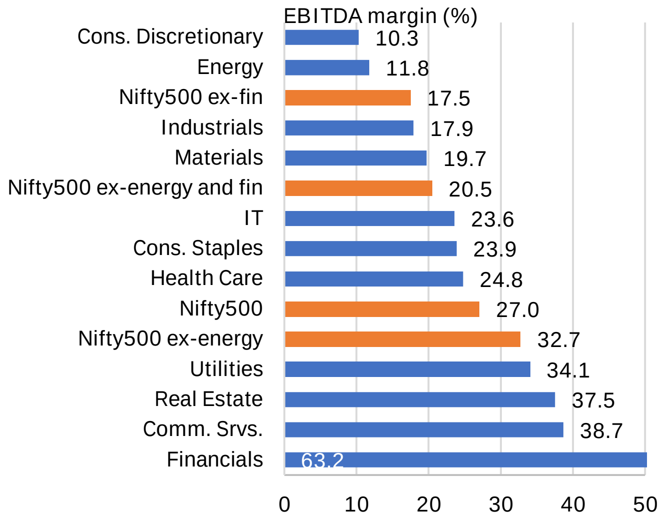
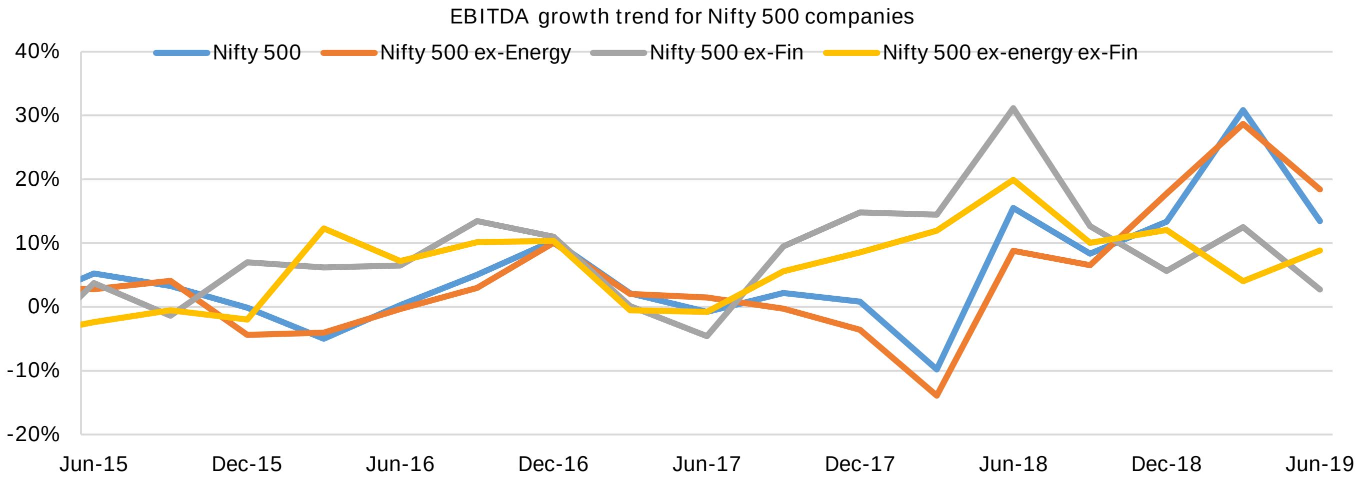


Figure 22: Sector-wise EBITDA margin of Nifty 500 companies in Q1FY20



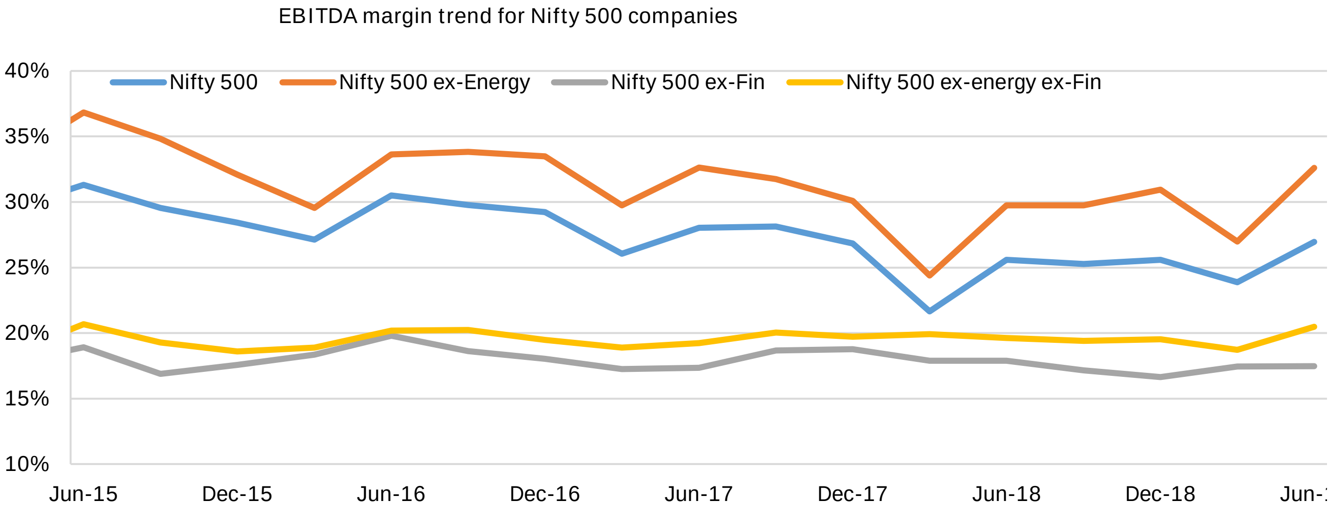
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 23: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowe ss, Refinitiv Datatream, NSE

Figure 24: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

PAT growth at high-single digits, supported by Financials: Aggregate PAT growth for the Nifty 500 companies slowed down to 8.2%, but was higher than that reported by Nifty 50 companies. After reporting huge losses in FY19 on account of rising provisions for stressed assets, the banking sector reported strong profit growth in Q1FY20, supported by recovery in credit growth. Excluding Financials, aggregate PAT growth declined by 10.2% YoY, largely led by the Energy sector led by weak petrochemical demand and lower crude oil prices. Excluding Energy and Financials, aggregate profit growth fell by 4.1% YoY. Nearly 47% of the Nifty 500 companies have reported negative PAT growth in the June quarter.

Other sectors that dragged down the profitability of Nifty 500 companies are Consumer Discretionary, Materials and Real Estate, all of which reported a YoY decline in profits. While weak investment demand hurt Industrials' sector profitability, weak IT services spend on account of slowing global growth negatively impacted IT sector profits. On the positive side, Health Care and Utilities reports strong profit growth.

Figure 25: PAT growth of Nifty 500 companies in Q1FY20

	QoQ growth		YoY growth	
Sector	Mar-19	Jun-19	Mar-19	Jun-19
Communication Services	NA	NA	(463.8)	NA
Consumer Discretionary	5.7	(57.0)	(21.3)	(46.0)
Consumer Staples	23.2	(5.3)	41.6	12.0
Energy	48.7	(26.1)	37.5	(23.5)
Financials	(178.6)	NA	NA	223.7
Health Care	(11.5)	9.5	(34.3)	22.8
Industrials	23.6	(44.9)	3.9	5.2
Information Technology	0.5	(6.4)	15.8	5.1
Materials	17.5	(23.1)	11.6	(13.1)
Real Estate	33.9	(27.8)	(50.5)	(6.9)
Utilities	21.8	28.4	9.4	34.6
Nifty500	(3.7)	13.9	110.4	8.2
Nifty500 ex-energy	(17.1)	32.3	178.3	21.1
Nifty500 ex-fin	19.1	(20.4)	4.8	(10.2)
Nifty500 ex-energy and fin	10.2	(18.1)	(4.4)	(4.1)

Source: CMIE Prowess, Refinitiv Datatream, NSE. NA: Not applicable

Figure 26: PAT margin of Nifty 500 companies in Q1FY20

Sector	EBITDA margin (%)	QoQ change (bps)	YoY change(bps)
Communication Services	6.9	293	501
Consumer Discretionary	2.0	232	163
Consumer Staples	13.9	165	9
Energy	4.8	193	192
Financials	7.3	977	472
Health Care	11.4	100	88
Industrials	5.5	230	7
Information Technology	15.1	85	83
Materials	6.7	123	125
Real Estate	12.1	41	258
Utilities	10.6	134	151
Nifty500	6.4	96	4
Nifty500 ex-energy	7.0	200	78
Nifty500 ex-fin	6.2	132	113
Nifty500 ex-energy and fin	7.0	97	70

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 27: Sector-wise PAT growth of Nifty 500 companies in Q1FY20

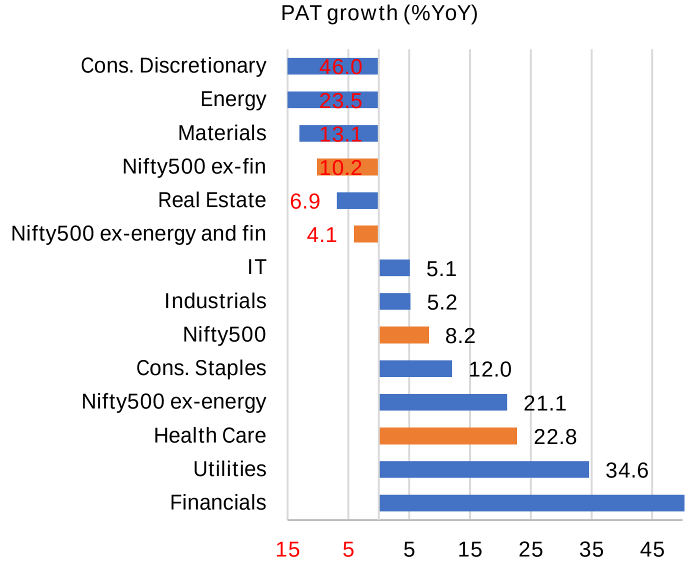
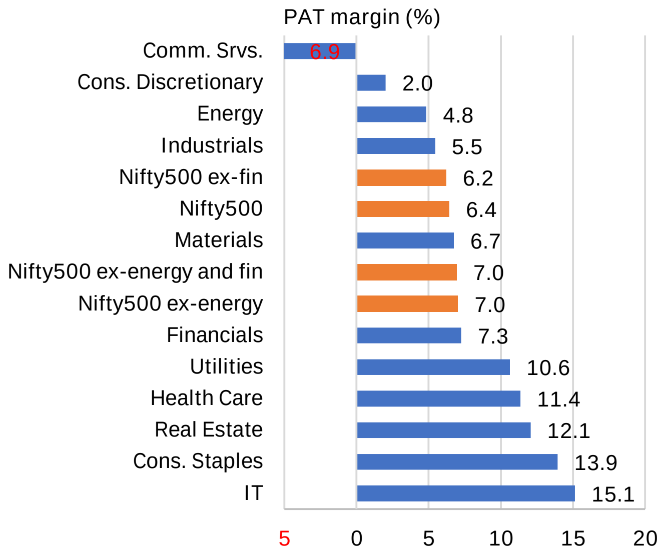
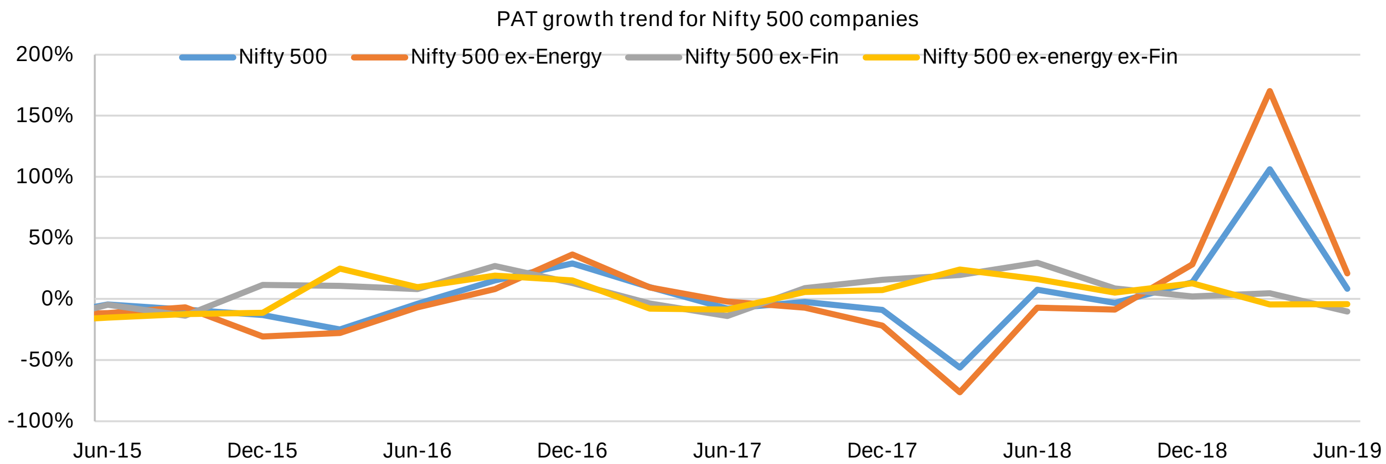


Figure 28: Sector-wise PAT margin of Nifty 500 companies in Q1FY20



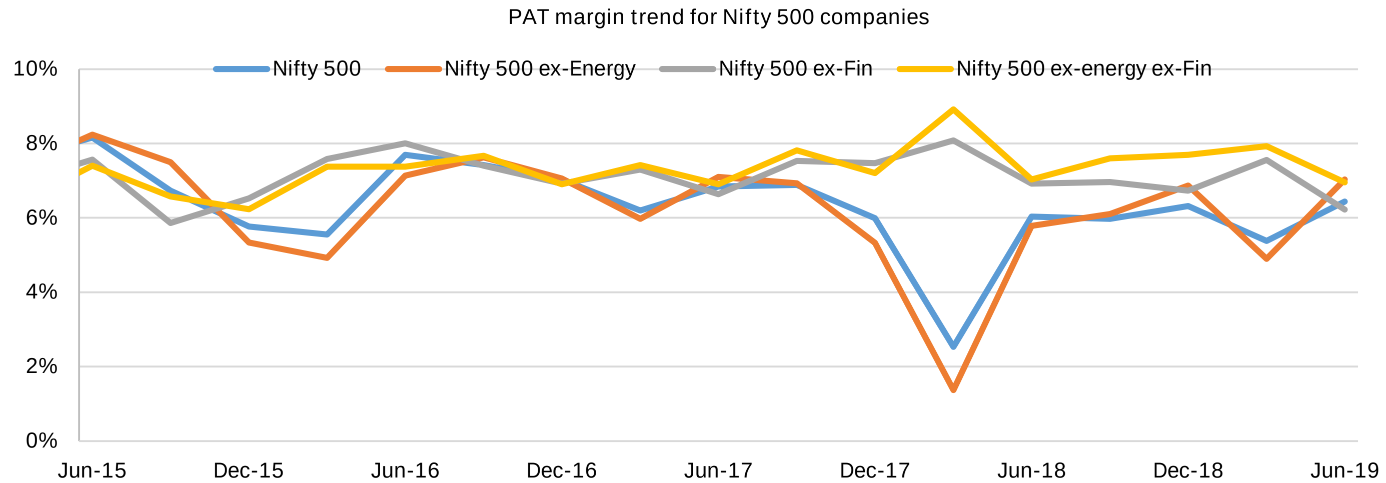
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 29: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 30: PAT margin trend of Nifty 500 companies

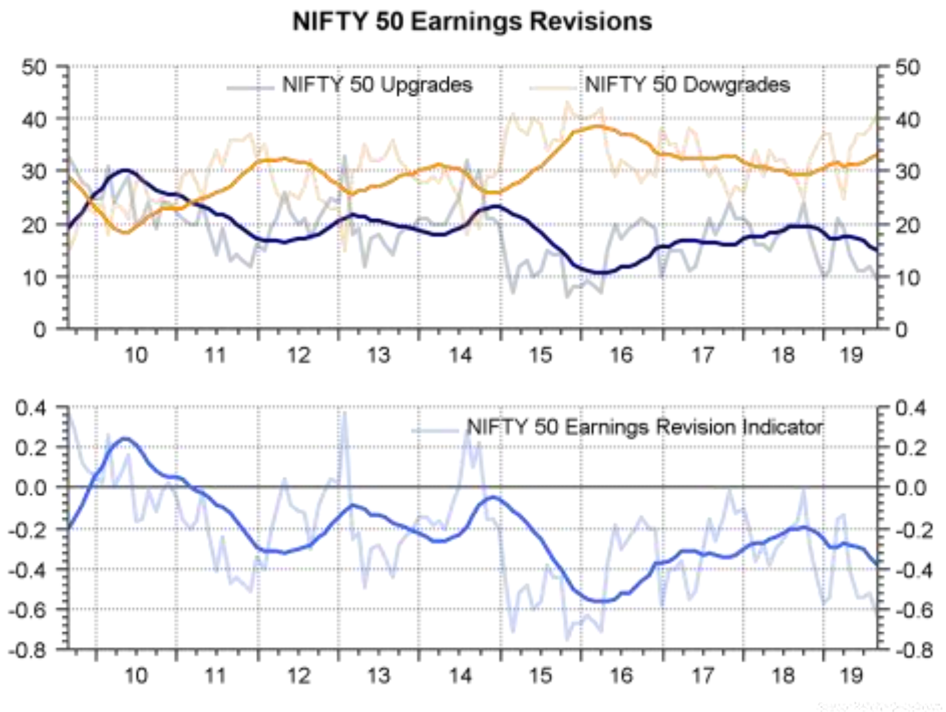


Source: CMIE Prowess, Refinitiv Datatream, NSE

Earnings revision analysis

Nifty 50 Earnings Revision Indicator falling deep in the negative zone: The Earnings Revision Indicator (ERI) for the Nifty 50 universe has remained in the negative zone for over five years now, implying more downgrades of earnings estimates than upgrades. In fact, the 12-month moving average trend points to a negative ERI since 2011. The number of downgrades peaked out in March 2016 and has kept on declining until September 2018. However, the pace of downgrades increased since October 2018, thanks to worsening domestic and global economic activity, declining commodity prices and tightness in domestic liquidity post the IL&FS crisis, leading to ERI falling back deep into the negative zone.

Figure 31: Nifty 50 Earnings Revision Indicator

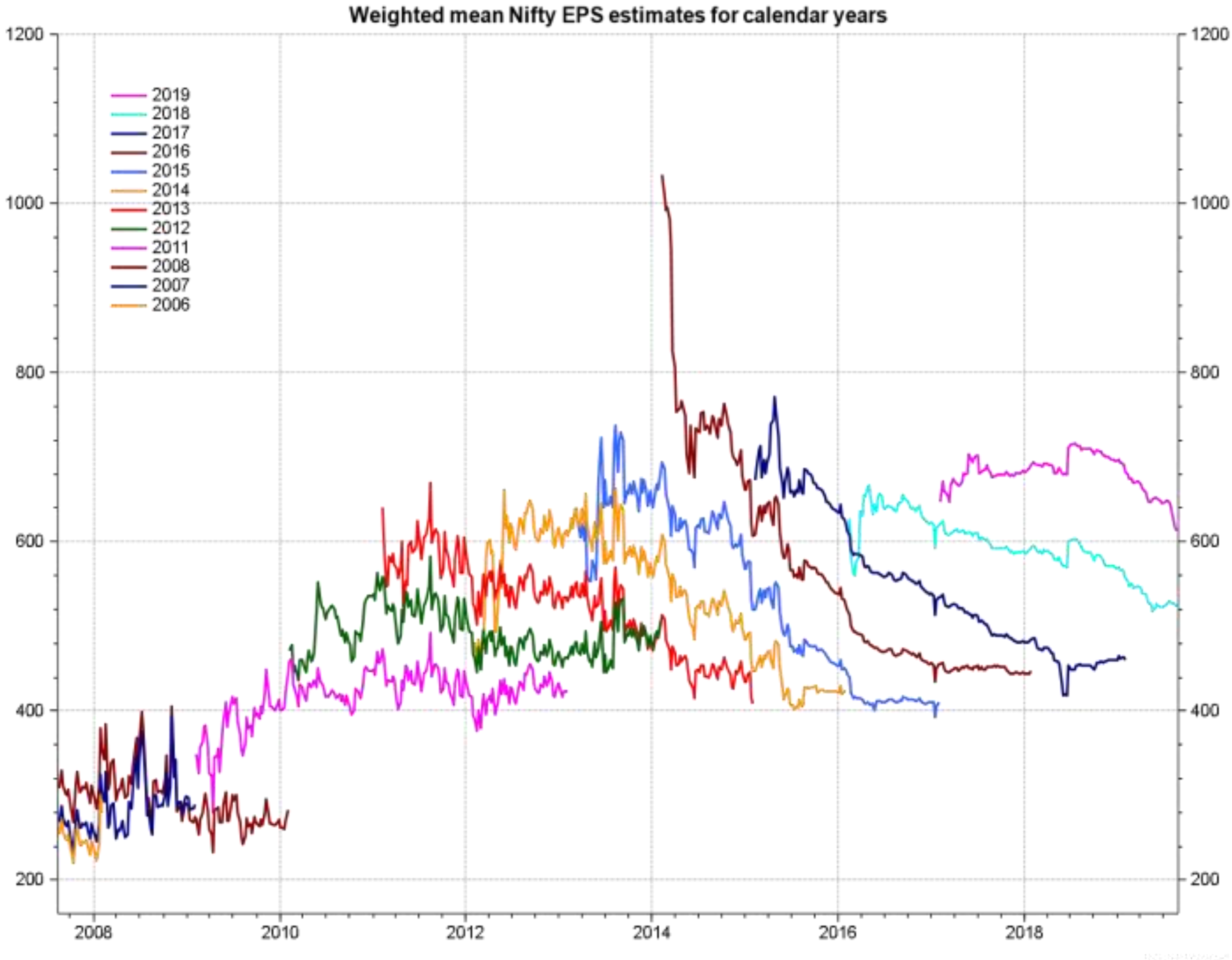


Source: Refinitiv Datatream, NSE

Nifty 50 2019 Consensus EPS downgraded by 12% since the beginning of this year: The chart below shows how Consensus estimates usually begin the year (calendar/fiscal) with a bullish view on earnings, but are then brought back to *terra firma* with downgrades, year after year, as the macro environment overhang prevails over optimism. The Street was most optimistic on corporate performance in 2014, partly explained by increasing hopes of a decisive BJP victory in the 2014 General Elections. While electoral expectations were comfortably met that year, corporate earnings failed to pick up, with 2016 earnings eventually coming in 17% lower than the estimate at the beginning of the year.

While the market believed that corporate performance has hit bottom and is bound to witness a strong recovery, first the Bank AQR (Asset Quality Review) weighed on systemic credit growth, followed by Demonetisation and then the economy's inevitable adjustment to the path-breaking GST reform in 2017 delayed a broad-based recovery. The current ongoing domestic and global slowdown, coupled with tight domestic liquidity (that has only recently opened up thanks to the RBI's unceasing efforts), made matters worse, leading to a ~12% downgrade in the 2019 NIFTY 50 Consensus EPS estimate since the beginning of this year and nearly 6% since the beginning of July.

Figure 32: Yearly trend of NIFTY 50 Consensus EPS estimates



Source: Refinitiv Datatream, NSE

Earnings to see further downgrades…: Consensus earnings, going by their historical performance on the back of an inimical macro environment do not seem to be done with the downgrade cycle yet. Despite a 12% cut in 2019 earnings estimate this year, the Street (consensus estimates) is still factoring in an earnings growth of nearly 17% for the Nifty 50 companies this year. As the chart above illustrates, such estimates are prone to further downgrades amid slowing domestic economy and weak global growth outlook, with the latter translating into lower exports (negative for export-focussed companies) and subdued commodity prices (hurting top-line).

On the positive side, domestic liquidity conditions have eased, with nearly 110bps cut in the policy rates in the year thus far and expected improvement in transmission to bank lending rates to provide some fillip to the consumption demand, ably supported by the Government's support for an economic revival. Further, a resurgent South-west monsoon, coupled with renewed government focus on the farm sector, should provide some relief to the rural demand. Banking system NPAs also seem to have peaked out, and with provisioning for a large part of stressed assets been already done, earnings growth trajectory for the banking sector should improve over coming quarters. Key downside risks to earnings include further deterioration in domestic and global economic activity and increase in slippages in the banking sector.

Economic Policy & Research

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