Q1FY21 Earnings Review: Aggressive cost reduction partly offsets a sharp dip in sales

Aggregate net sales fell by 26.3%/23.1% YoY in the first quarter of FY21 for the Nifty 50/Nifty 500 universe[1]. Aggregate demand—weak before the COVID-19-induced lock-down—was undoubtedly dragged down further, but the first quarter of the new fiscal allows us a quantitative assessment. And it has not been pretty. The contraction in sales was largely led by Consumer Discretionary (a sharp drop in demand aggravated by supply chain disruptions), Materials (weak demand and lower metal prices), Energy (lower realisations and inventory losses) and Industrials (deferment of private capex). Financials, Healthcare and Information Technology reported modest growth in top-line. Profit at the *operating level*, however, declined by a much lower 17.8%/22% YoY for the Nifty 50/Nifty 500 companies (ex-Financials), actually translating into margin gains. This was achieved on the back of lower commodity prices and aggressive cost cutting measures, including curtailment of administrative and marketing expenses, rental lease re-negotiations and deferment of bonus pay-outs/salary hikes. Consequently, aggregate adjusted PAT[2] fell by 24.8%/26.1% YoY for the Nifty 50/Nifty 500 universe.

The Consensus earnings estimate (from Refinitiv) for the top 200 covered companies by market cap has been downgraded by 8.5% in this quarter thus far, on top of a 27.4% cut in Q1 FY21. These companies are now expected to see a contraction in profits vs. growth (Expected) of ~29% at the beginning of the fiscal. Earnings downgrades have been largely led by Consumer Discretionary, Materials, Industrials, Financials and Energy, reflecting expectations of a lacklustre consumption and investment demand, sustenance of benign commodity prices and elevated credit cost and increase in asset quality pressures for Financials. However, downgrades in FY22 earnings have been relatively modest, potentially indicating the impact of COVID-19 to be temporary in nature. The sharp cut in earnings post the COVID-19 outbreak is also evident in the Earnings Revision Indicator[3] (ERI) trend for the Nifty 50 universe. The ERI for Nifty 50 fell deep into the negative zone and touched the lower limit of -1 in mid-May—the first time ever—implying downgrades across the board, but has improved meaningfully since then led by a rising number of upgrades in Healthcare, Information Technology and Consumer Staples. That said, barring Healthcare, downgrades continue to outnumber upgrades across all other sectors.

- Top-line fell sharply in Q1 FY21 amidst a nation-wide lockdown: Aggregate net sales for Nifty 50/500 companies declined by a huge 26.3%/23.1% YoY in Q1 FY21 as non-essential businesses/activities were shut for a large part of the quarter in the wake of a nation-wide lockdown. The contraction in sales was largely led by Consumer Discretionary (further weakening of demand environment and supply chain disruptions), Industrials (lower production and decline in incremental capex demand), Materials (weak demand and decline in global metal prices), Energy: lower crude oil prices and slowdown in demand for petrochemicals/auto fuels owing to travel restrictions), and Real Estate (lower property sales and office leasing in the June quarter as several corporates moved to work-from-home model). Sectors that supported revenue growth include Financials (higher treasury gains), Information Technology (tailwinds from rupee depreciation and higher offshore demand for specific IT services) and Healthcare (demand uptick in some export markets and double-digit growth in active pharmaceutical ingredients).

Aggregate net sales for the Nifty 50/500 universe contracted by 26.3%/ 23.1% YoY in Q1 FY21 as economic activities remained shut for most part of the quarter on account of the COVID-19 led lockdown.

- Cost rationalisation partly offset the impact of lacklustre revenues: : EBITDA for the Nifty 50/Nifty 500 companies (ex-Financials) contracted by a relatively lower 17.8%/22% YoY (22.8%/21.0% YoY contraction in March quarter) in the June quarter. This was primarily on the back of lower commodity prices and aggressive cost cutting measures taken by companies including curtailment of administrative

EBITDA margin expanded in Q1FY21 thanks to an aggressive cost rationalization.

[1] 45/50 companies in the Nifty 50 Index and 400/500 companies in the Nifty 500 Index reported earnings data for Q1FY21 as on August 20th, 2020.
[2] Refers to *'PAT net of P&E'* as calculated by Prowess after adjusting for all prior period and extraordinary transactions. It is derived by deducting all prior period and extraordinary (P&E) income from PAT and adding all P&E expenses to PAT.
[3] *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.

and marketing expenses, rental lease re-negotiations and deferment of bonus pay-outs and salary hikes. The work-from-home model adopted by most companies in Q1 in the wake of lockdown have also helped save costs (rental/power costs etc.) to some extent. Consequently, operating margins for the Nifty 50/Nifty 500 universes (ex-Financials) expanded by 447 bps/304 bps YoY in Q1 FY21. Sectors that witnessed an improvement in operating profits in the June quarter are Communication services, Healthcare, Utilities and Information technology.

- Aggregate PAT declined by 24%+ in Q1FY21: Aggregate adj. PAT growth for the Nifty 50/Nifty 500 universe fell by 24.8%/26.1% YoY in Q1 FY21. This was largely on account of huge losses reported by Consumer Discretionary sector and a sharp drop in profitability in Materials, Industrials and Energy sectors. A sharp decline in costs this quarter has partly offset the revenue loss, thereby limiting the decline in profits to some extent. The contraction in aggregate PAT in Q1 was largely on account of a) large losses in the Consumer Discretionary sector worsened by a nation-wide lockdown and supply chain disruptions from China, b) lower commodity prices including crude oil and metals, hurting realisations of commodity-driven sectors such as Materials and Energy, c) lower demand for petrochemicals/auto fuels due to travel restrictions as well as heavy inventory losses impacting profits for downstream oil companies, and d) decline in capex as companies deferred investments due to weak demand recovery. Within the Nifty 500 universe, Financials and Healthcare were the only sectors to report profit growth in Q1 FY21.

Aggregate adj. PAT growth for the Nifty 50/Nifty 500 universe fell by 24.8%/26.1% YoY.

- Consensus FY21 PAT estimates slashed sharply this year: The COVID-19 outbreak and attendant control measures including lockdown and complete shutdown of non-essential activities have accentuated the downgrade cycle. The Consensus earnings estimate (from Refinitiv) for the top 200 covered companies by market cap has been downgraded by 8.5% in the second quarter of the fiscal thus far (as on August 21st) on top of a 27.4% cut in the first quarter, translating into an total cut of 33.5% in aggregate earnings in this fiscal thus far. With this, the aggregate earnings of top 200 companies are now expected to contract by a modest 0.2% YoY in FY21 vs. 29% growth in the beginning of the fiscal. Consumer cyclicals have witnessed the sharpest downgrades this fiscal, followed by Materials, Industrials, Financials and Energy, reflecting expectations of a lacklustre consumption and investment demand, sustenance of benign commodity prices and elevated credit cost and increase in asset quality pressures for Financials. However, downgrades in FY22 earnings have been relatively modest, potentially indicating the impact of COVID-19 to be temporary in nature. Consequently, FY22 profit growth is estimated at a strong 45% YoY which appears quite optimistic and therefore faces significant downside risks.

Consensus aggregate FY21 PAT estimate for top 200 companies by market cap has been downgraded by 8.5% in the second quarter of fiscal thus far on top of a 27.4% cut in the first quarter.

- ERI has slightly improved from its lows in May 2020: The ERI fell deep into the negative zone to the lowest level since the data is available (2007) as corporate earnings outlook got adversely impacted due to massive supply and demand disruptions caused by mass-scale COVID-19-induced lockdowns worldwide. In fact, except for one or two companies, rest all the Nifty 50 companies witnessed significant earnings downgrades until May 2020, taking ERI to its lower limit of -1 in mid-May, implying downgrades across the board. The ERI has since improved led by a higher number of upgrades in Healthcare, Information Technology and Consumer Staples.

Nifty 50 Q1FY21 results

Top-line fell sharply in Q1 amidst a nation-wide lockdown: Aggregate net sales for Nifty 50 companies declined by a steep 26.3% YoY in Q1 FY21. Excluding Financials, the drop was even higher at 34.4% YoY as non-essential businesses/activities were shut for a large part of the quarter in the wake of a nation-wide lockdown that came into effect in the last week of the March quarter to contain the COVID-19 outbreak. This not only led to a sharp slump in an already weak consumption demand, but restrictions in movement of goods led to supply chain bottlenecks, thereby hurting production levels. Within the Nifty 50 universe, 26 of the 45 companies that have reported Q1 results (as on August 20th) posted an YoY decline in sales.

Sectors that contributed to the sharp decline in aggregate sales in Q1FY21 included: a) Consumer Discretionary: Overall weak demand as businesses and retail outlets remained closed during the lock-down period, with supply chain bottlenecks from China further adding to the woes, c) Energy: A sharp drop in consumption of petroleum products (-26% YoY in Q1) and auto fuels (-33-36% YoY) owing to domestic and global travel restrictions impacted sales of downstream oil companies (refiners), while lower crude oil prices compared to the same period last year impacted realisations of upstream companies (exploration and production companies), c) Materials: Reduced demand owing to lockdown-induced stalling of construction activities and lower metal prices impacted sales, and d) Industrials: A sharp drop in capacity utilisation in Q1 and deferred capex spending by corporates in response to a sustained weak consumption demand. Extent of contraction in Utilities and Consumer Staples was much lower. While utility companies got hurt from reduced power demand from industrial and commercial establishments, partly offset by strong household demand, FMCG companies suffered due to supply chain disruptions.

Notably, sectors such as, Financials, Healthcare, Communication Services and Utilities fared relatively better due to limited impact to their business activities from the lockdown, while Information Technology benefited from rupee depreciation and higher offshore demand for specific technologies including cloud, cyber security, amongst others.

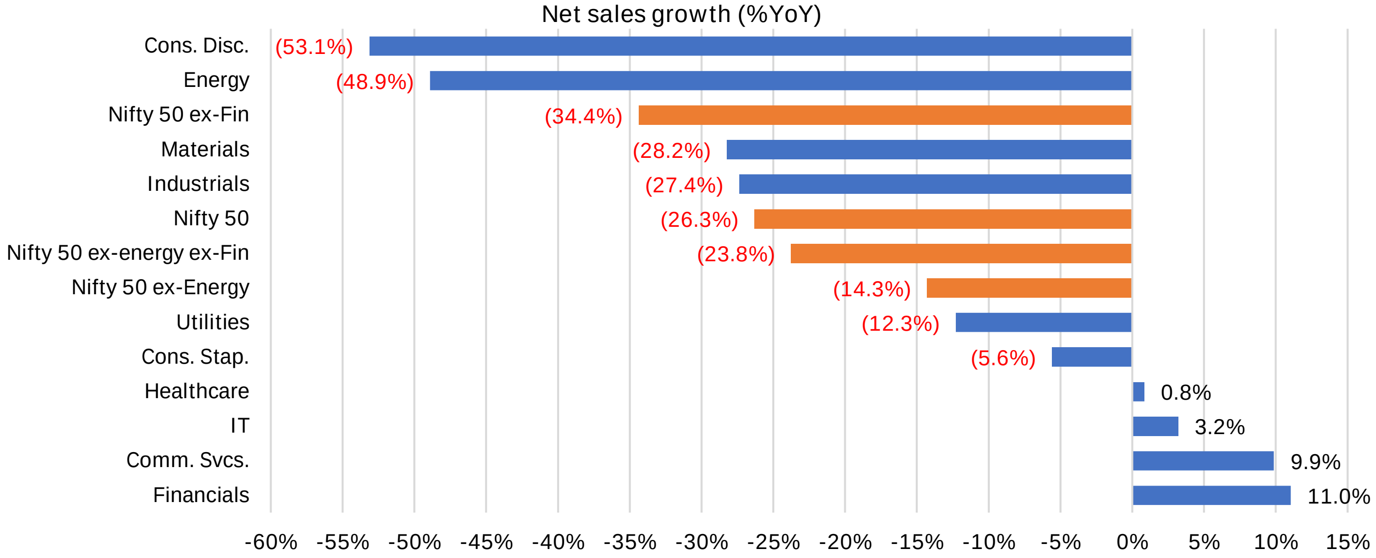
Demand recovery in the second quarter is expected to remain muted as rising COVID-19 cases have led to states resorting to localised lockdowns. Companies are expected to continue to undertake cost cutting initiatives and delay capex spending until there is a sustainable recovery in demand. Rural demand, however, is expected to fare better than urban, thanks to a favourable monsoon and expectations of a bumper *Kharif* harvest.

Figure 1: Net sales growth of Nifty 50 companies in Q1FY21

Sector	QoQ growth (%)			YoY growth (%)		
	Jun-19	Mar-20	Jun-20	Jun-19	Mar-20	Jun-20
Communication Services	0.7	6.6	(1.7)	5.2	12.6	9.9
Consumer Discretionary	(17.2)	(14.2)	(49.4)	(5.7)	(23.4)	(53.1)
Consumer Staples	(1.6)	(6.7)	0.3	5.4	(5.6)	(5.6)
Energy	4.0	(6.0)	(42.3)	11.6	(5.3)	(48.9)
Financials	(1.2)	(1.8)	2.7	17.6	6.9	11.0
Health Care	4.0	0.5	(3.8)	8.9	9.1	0.8
Industrials	(30.1)	20.5	(50.1)	10.2	1.7	(27.4)
Information Technology	0.2	0.7	(2.7)	11.1	7.4	3.2
Materials	(10.9)	(0.4)	(26.7)	5.7	(13.4)	(28.2)
Utilities	4.1	8.3	(17.9)	9.3	11.2	(12.3)
Nifty 50	(3.2)	(3.2)	(25.3)	9.1	(4.4)	(26.3)
Nifty 50 ex-Energy	(7.5)	(1.5)	(17.7)	7.4	(3.8)	(14.3)
Nifty 50 ex-Financials	(3.5)	(3.5)	(32.1)	7.7	(6.4)	(34.4)
Nifty 50 ex-energy ex-fin	(9.6)	(1.3)	(25.7)	4.2	(7.2)	(23.8)
Nifty 50 ex-Comm Svcs.	(3.3)	(3.4)	(26.0)	9.1	(4.7)	(27.2)

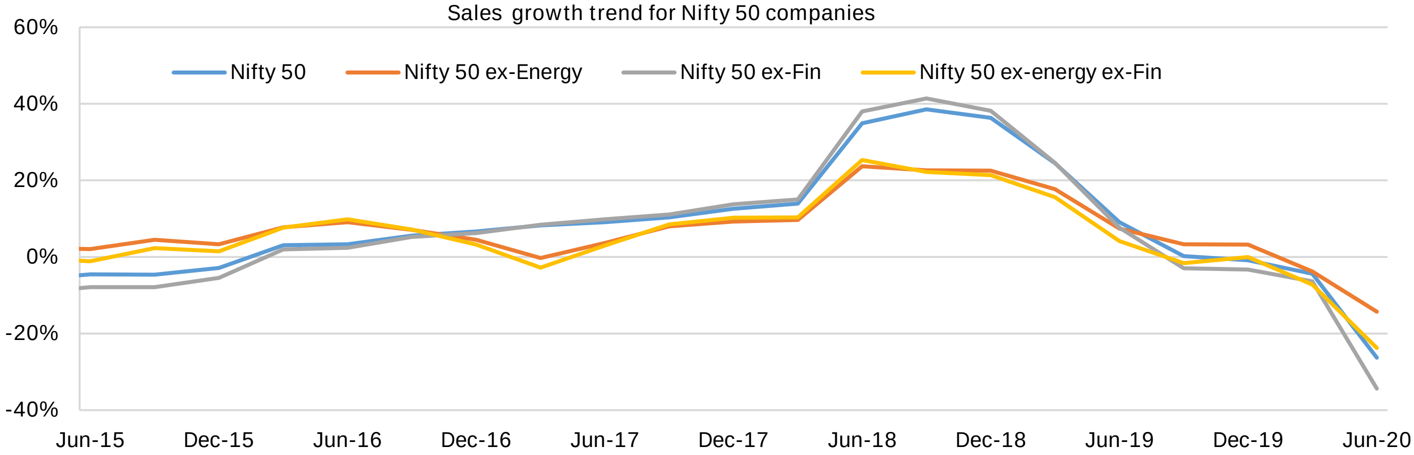
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 2: Sector-wise net sales growth of Nifty 50 companies in Q1FY21



Source: CMIE Prowess, Refinitiv Datastream, NSE.

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

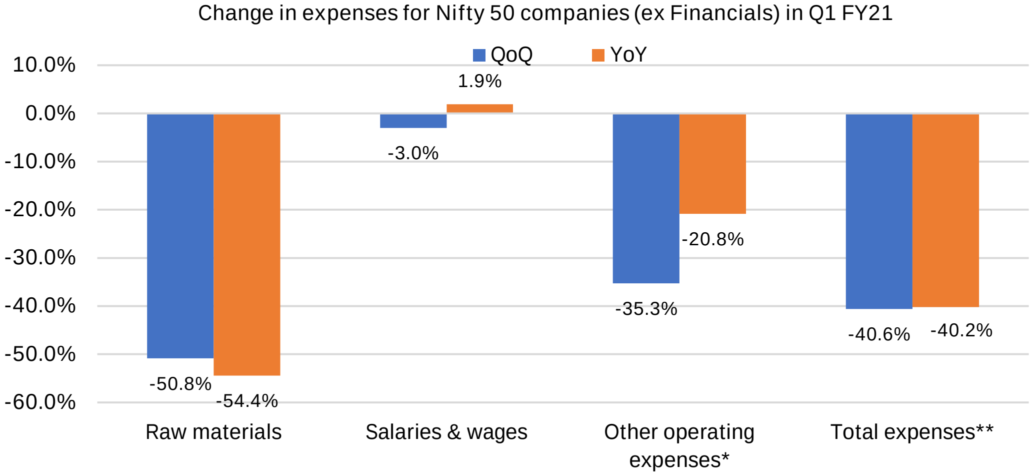


Source: CMIE Prowess, Refinitiv Datastream, NSE.

Cost cutting measures and lower commodity prices aided to rein in the decline in operating profits: EBITDA for the Nifty 50 universe excluding Financials contracted by a much lower 17.8% YoY in Q1 FY21 (-20.1% YoY in the March quarter). The savings in operating costs were due to lower commodity prices and aggressive cost cutting measures taken by companies including curtailment of administrative and marketing expenses and rental lease re-negotiations. While the raw material costs fell by a huge 54% YoY for the Nifty 50 companies (ex-Financials), other operating expenses declined by 20.8% YoY, leading to total expenses (excluding interest and depreciation) falling by 40% YoY. Consequently, EBITDA margin for the same universe improved by 447bps YoY and 680bps QoQ to 22.1% in Q1 FY21—the highest in last 15 quarters. Within the Nifty 50 universe, 29/45 companies reported negative YoY sales growth in the June quarter.

Except for Communication Services and Utilities, all other sectors reported a contraction in operating profits, led by Consumer Discretionary, Materials and Industrials. The margin gains this quarter were led by Utilities, Energy, Industrials and Communication Services.

Figure 4: Change in expenses for Nifty 50 companies (ex-Financials) in Q1 FY21



Source: CMIE Prowess, NSE. * Other operating expenses include selling, general & administrative expenses, rental expenses and other operating costs. ** Total expenses exclude interest expenses and depreciation.

Figure 5: EBITDA growth of Nifty 50 companies in Q1FY21

	QoQ growth			YoY growth		
Sector	Jun-19	Mar-20	Jun-20	Jun-19	Mar-20	Jun-20
Communication Services	25.0	1.6	3.3	17.1	37.8	13.8
Consumer Discretionary	(26.1)	(53.2)	(50.4)	(18.2)	(53.1)	(68.5)
Consumer Staples	3.4	(6.9)	(6.7)	13.0	(4.8)	(15.5)
Energy	(13.1)	(52.1)	144.1	(10.9)	(59.7)	(11.4)
Financials	8.0	(14.1)	5.3	34.5	2.3	(0.2)
Health Care	33.4	(21.2)	26.3	23.3	(6.1)	(11.1)
Industrials	(22.3)	(2.7)	(30.8)	22.0	(11.0)	(20.8)
Information Technology	0.3	(1.6)	(2.5)	11.2	6.4	(0.8)
Materials	(11.8)	5.5	(43.0)	0.4	(18.9)	(46.5)
Utilities	213.9	13.5	(18.0)	7.6	306.7	6.2
Nifty 50	1.8	(17.9)	1.6	11.0	(11.4)	(9.7)
Nifty 50 ex-Energy	6.4	(10.2)	(6.6)	18.3	3.5	(9.4)
Nifty 50 ex-Financials	(2.1)	(20.7)	(1.9)	(1.0)	(20.1)	(17.8)
Nifty 50 ex-energy ex-fin	4.7	(6.0)	(19.5)	5.0	4.6	(19.8)
Nifty 50 ex-Comm Svcs.	1.1	(18.6)	1.6	10.8	(12.8)	(10.6)

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 6: EBITDA margin of Nifty 50 companies in Q1FY21

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	45.7	222	160
Consumer Discretionary	7.4	(15)	(362)
Consumer Staples	31.5	(236)	(368)
Energy	18.0	1373	761
Financials	62.9	157	(711)
Health Care	23.7	565	(316)
Industrials	26.5	739	222
Information Technology	26.5	7	(107)
Materials	14.3	(409)	(487)
Utilities	43.9	(5)	767
Nifty 50	33.0	876	608
Nifty 50 ex-Energy	37.8	450	205
Nifty 50 ex-Financials	22.1	680	447
Nifty 50 ex-energy ex-fin	24.1	186	118
Nifty 50 ex-Comm Svcs.	32.6	883	604

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 7: Sector-wise EBITDA growth of Nifty 50 companies in Q1FY21

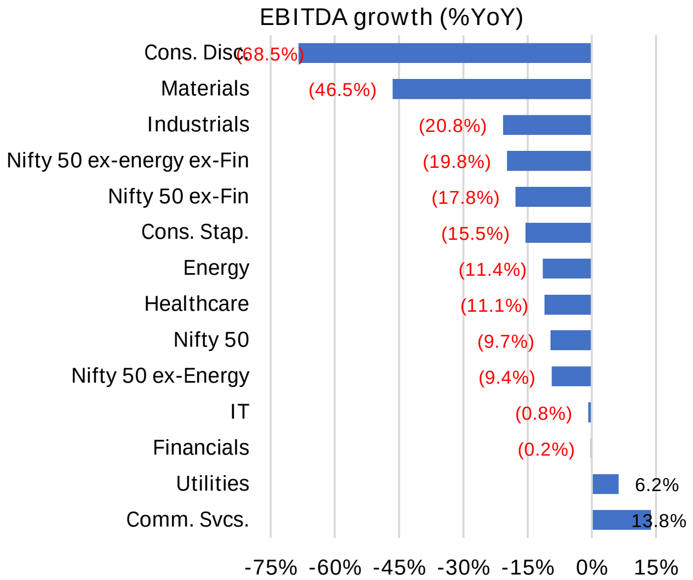
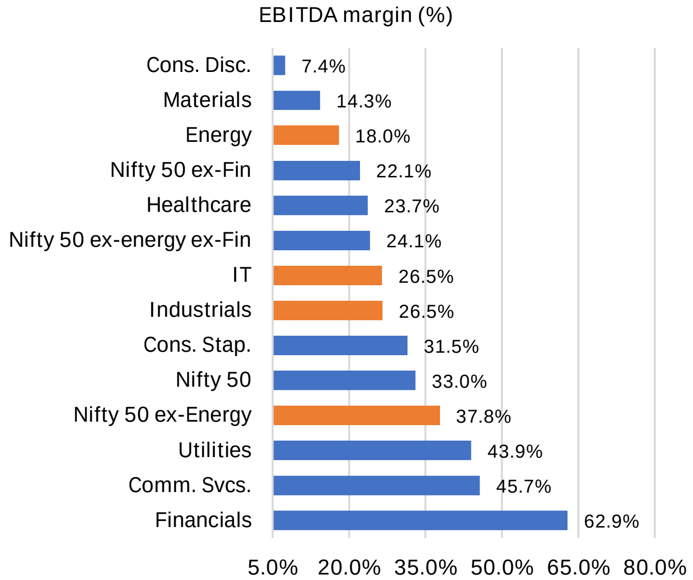
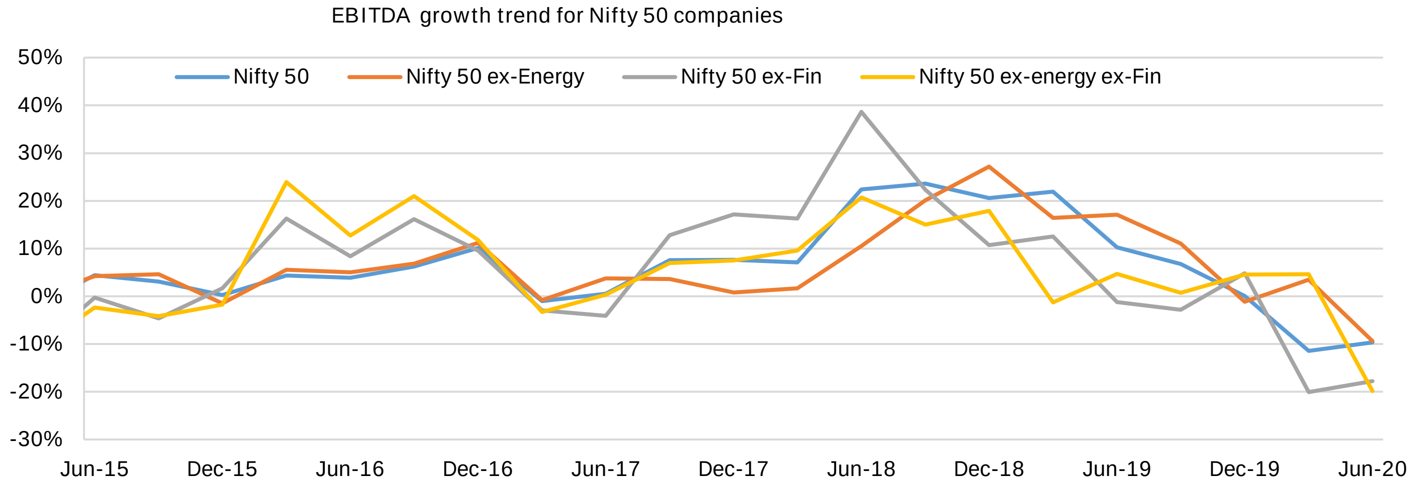


Figure 8: Sector-wise EBITDA margin of Nifty 50 companies in Q1FY21



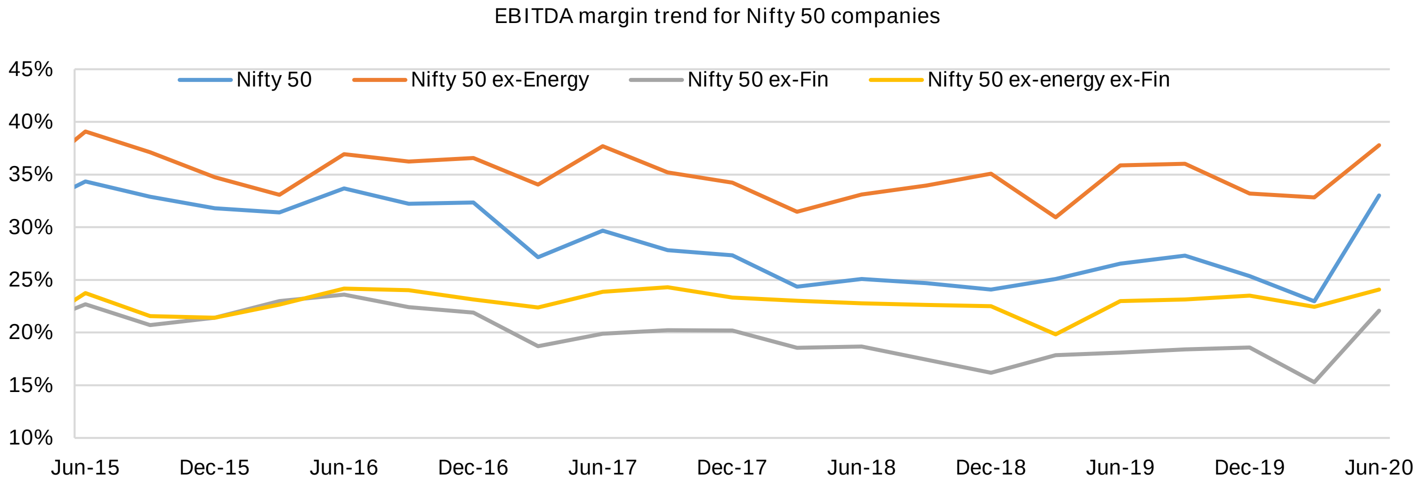
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 9: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 10: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

PAT growth supported by higher operating margins: Aggregate adjusted PAT growth for the Nifty 50 companies declined by 24.8% YoY in the June quarter (42.8% YoY in March quarter) as an aggressive cost rationalisation undertaken by companies partly offset a sharp drop in top-line. The contraction in aggregate PAT in Q1 was largely on account of a) large losses in the Consumer Discretionary sector worsened by a nation-wide lockdown and supply chain disruptions from China, b) lower commodity prices including crude oil and metals, hurting realisations of commodity-driven sectors such as Materials and Energy, c) lower demand for petrochemicals/auto fuels due to travel restrictions as well as heavy inventory losses impacting profits for downstream oil companies, and d) decline in capex as companies deferred investments due to weak demand recovery.

Within the Nifty 50 universe, 29/45 companies reported negative YoY PAT growth in the June quarter. Excluding Consumer Discretionary and Materials, aggregate adjusted PAT of the Nifty 50 universe remained broadly steady on an YoY basis but grew by a strong 34.6% on a sequential basis.

Sectors that aided profit growth of Nifty 50 companies include: a) Financials: Higher treasury income supported by a drop in interest rates, b) Communication Services: Increased demand for data as companies adopted work-from-home model, and c) Utilities: savings in operating costs.

Figure 11: PAT growth of Nifty 50 companies in Q1FY21

	QoQ growth (%)			YoY growth (%)		
Sector	Jun-19	Mar-20	Jun-20	Jun-19	Mar-20	Jun-20
Communication Services	NA	16.2	102.4	(73.6)	NA	758.2
Consumer Discretionary	(87.1)	(158.6)	NA	(82.4)	(166.7)	(1263.3)
Consumer Staples	(1.3)	(5.6)	(7.5)	10.8	1.2	(6.5)
Energy	(19.3)	(92.6)	NA	(19.8)	(94.4)	(16.7)
Financials	14.9	(45.4)	25.0	185.3	0.6	9.4
Health Care	73.2	(24.4)	18.3	28.9	6.9	(27.0)
Industrials	(44.0)	(5.5)	(71.1)	33.6	(25.5)	(61.6)
Information Technology	(4.6)	(1.4)	(6.2)	6.8	2.5	(3.9)
Materials	(24.9)	(17.0)	(132.2)	(17.7)	(59.0)	(134.2)
Utilities	(26.8)	11.4	(16.6)	9.9	(7.4)	5.6
Nifty 50	(13.9)	(45.1)	5.1	5.0	(42.8)	(24.8)
Nifty 50 ex-Energy	(11.6)	(31.8)	(22.5)	19.4	(20.8)	(26.7)
Nifty 50 ex-Financials	(20.1)	(45.0)	(5.5)	(12.1)	(52.1)	(38.4)
Nifty 50 ex-energy ex-fin	(20.6)	(22.7)	(45.4)	(6.9)	(28.0)	(46.3)
Nifty 50 ex-Comm Svcs.	(14.8)	(46.1)	1.5	6.6	(44.9)	(29.5)

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

Figure 12: PAT margin of Nifty 50 companies in Q1FY21

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	15.3	785	1331
Consumer Discretionary	(15.2)	(1181)	(1584)
Consumer Staples	21.4	(180)	(21)
Energy	6.9	806	265
Financials	11.9	213	(18)
Health Care	11.7	218	(446)
Industrials	4.5	(330)	(404)
Information Technology	17.1	(63)	(127)
Materials	(2.6)	(866)	(820)
Utilities	15.8	25	267
Nifty 50	7.8	225	15
Nifty 50 ex-Energy	8.0	(50)	(137)
Nifty 50 ex-Financials	6.2	175	(40)
Nifty 50 ex-energy ex-fin	5.9	(213)	(248)
Nifty 50 ex-Comm Svcs.	7.5	203	(25)

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 13: Sector-wise PAT growth of Nifty 50 companies in Q1FY21

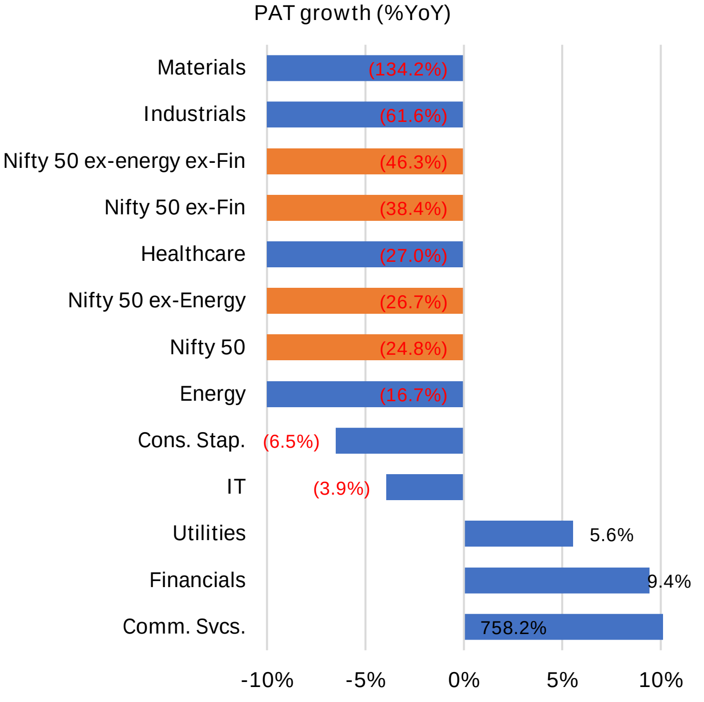
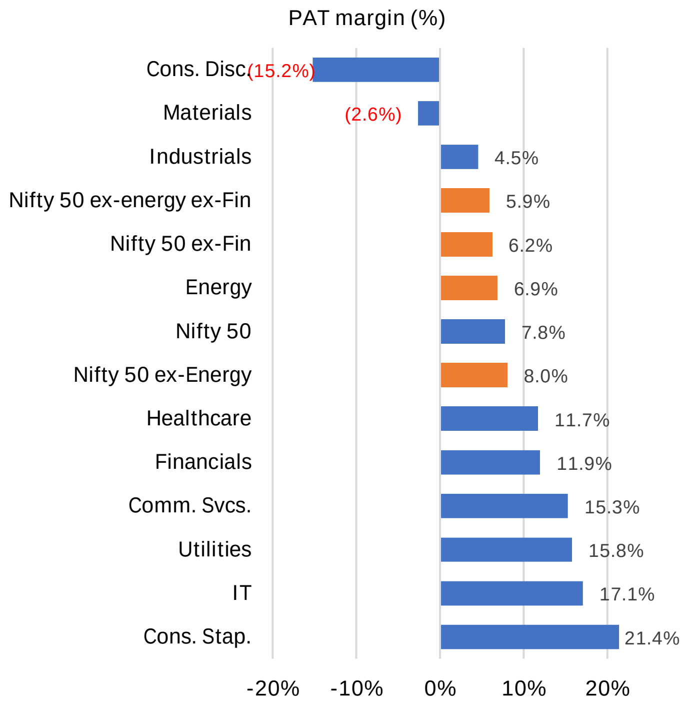
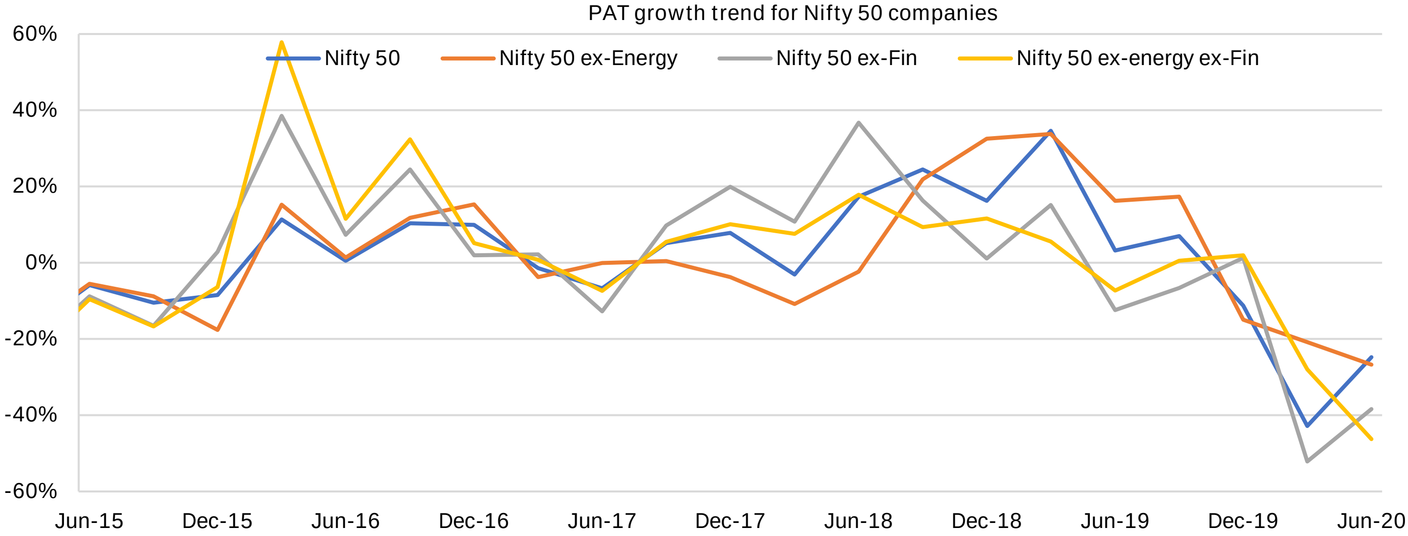


Figure 14: Sector-wise PAT margin of Nifty 50 companies in Q1FY21



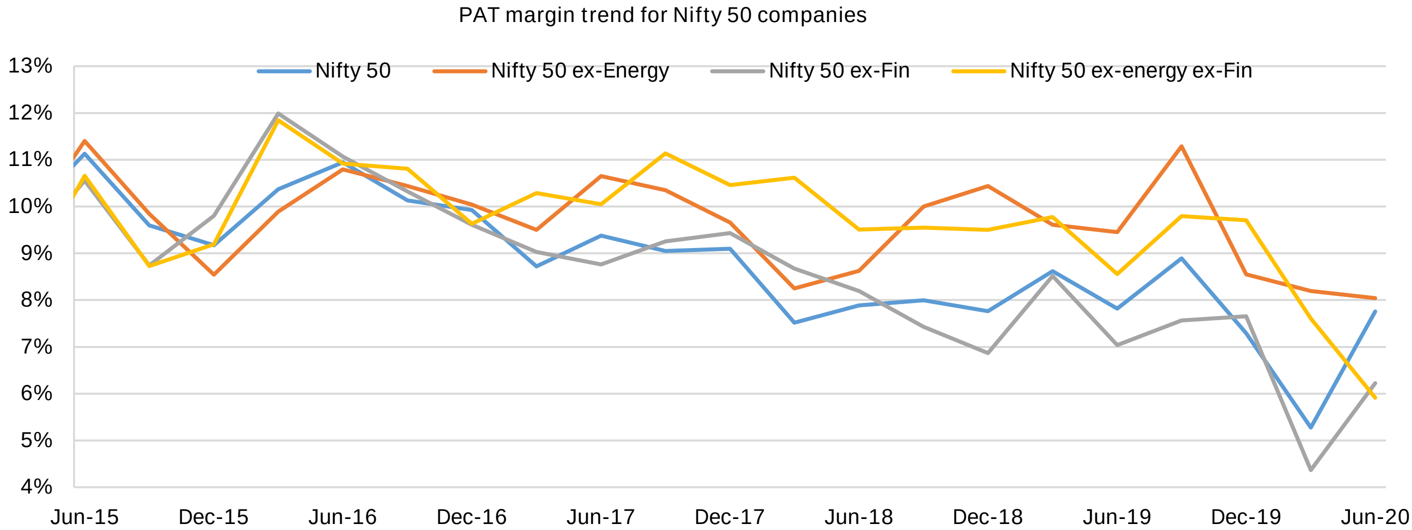
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 15: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 16: PAT margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Nifty 500 Q1FY21 results

Net sales for Nifty 500 companies contracted sharply: Aggregate sales growth for the Nifty 500 companies was in-line with the Nifty 50 universe and stood at -23.1 YoY in Q1 FY21. This sharp drop was led by a meaningful slowdown in discretionary spending by households, deferment in investment activities by corporates and fall in global metal and energy prices. Within the Nifty 500 universe, 273 of the 400 companies that have reported Q1 results thus far (as of August 20th) have witnessed an YoY contraction in sales in the June quarter.

Sectors that were laggards included a) Consumer Discretionary: further weakening of demand environment due to the lockdown situation, b) Industrials: lower production and decline in incremental capex demand, c) Materials: weak demand and decline in global commodity prices, d) Energy: lower crude oil prices and slowdown in demand for petrochemicals/auto fuels owing to travel restrictions, and e) Real Estate: lower property sales and office leasing in the June quarter as several corporates moved to work-from-home model.

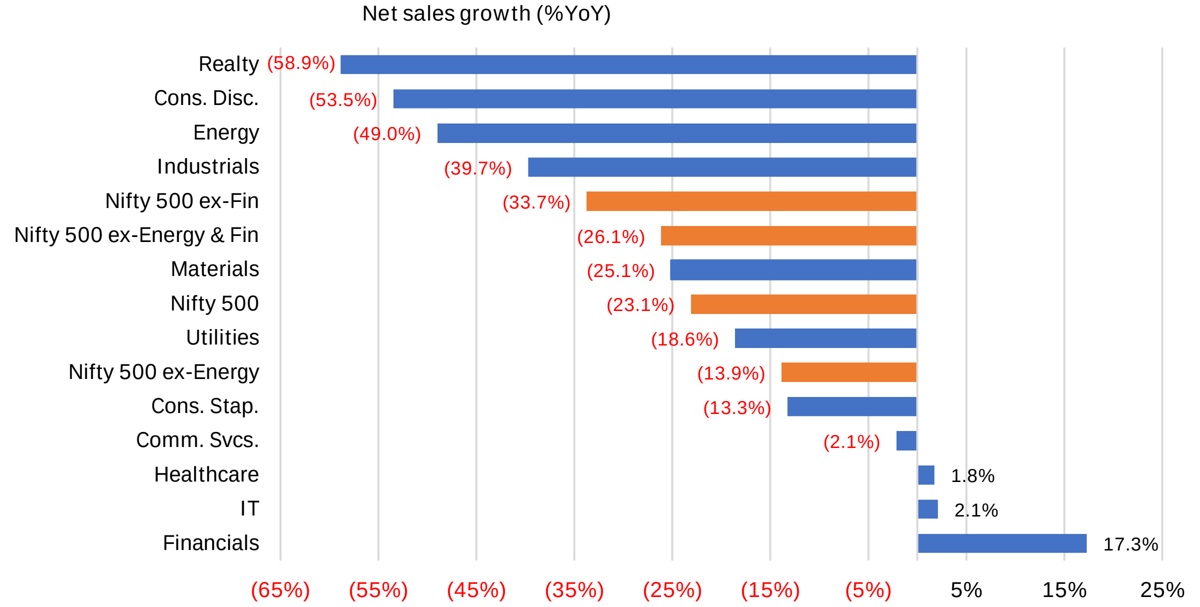
Sectors that supported sales growth of Nifty 500 companies included a) Financials: higher treasury income, b) Information Technology: tailwinds from INR depreciation and higher demand for specific services including cloud and cyber security, and c) Healthcare: demand uptick in some export markets, double-digit growth in active pharmaceutical ingredients (APIs). This was partly offset by lower revenues of hospitals/diagnostic businesses due to reduced occupancies and footfalls during the lockdown period.

Figure 17: Net sales growth of Nifty 500 companies in Q1FY21

	QoQ growth			YoY growth		
Sector	Jun-19	Mar-20	Jun-20	Jun-19	Mar-20	Jun-20
Communication Services	(0.3)	3.2	(6.9)	16.6	3.7	(2.1)
Consumer Discretionary	(8.5)	(8.0)	(48.1)	(2.3)	(14.1)	(53.5)
Consumer Staples	6.8	(6.9)	(5.3)	11.3	(0.7)	(13.3)
Energy	2.7	(6.1)	(43.6)	9.4	(5.3)	(49.0)
Financials	(1.7)	(10.5)	19.0	15.8	(4.3)	17.3
Health Care	1.1	(0.9)	(3.5)	13.0	6.0	1.8
Industrials	(23.0)	8.1	(47.4)	7.9	(9.9)	(39.7)
Information Technology	(1.1)	(1.0)	(4.2)	10.9	6.6	2.1
Materials	(9.1)	(3.5)	(22.1)	4.1	(12.1)	(25.1)
Real Estate	(25.3)	(6.9)	(62.1)	13.1	(29.7)	(58.9)
Utilities	10.7	4.5	(17.3)	18.2	8.6	(18.6)
Nifty 500	**(3.5)**	**(4.7)**	**(20.6)**	**8.9**	**(5.8)**	**(23.1)**
Nifty 500 ex-Energy	**(5.7)**	**(4.2)**	**(13.1)**	**8.8**	**(6.0)**	**(13.9)**
Nifty 500 ex-Financials	**(4.0)**	**(3.2)**	**(31.2)**	**7.4**	**(6.2)**	**(33.7)**
Nifty 500 ex-energy ex-fin	**(7.2)**	**(1.7)**	**(25.6)**	**6.3**	**(6.6)**	**(26.1)**
Nifty 500 ex-Comm Svcs.	**(3.6)**	**(4.9)**	**(21.0)**	**8.8**	**(6.0)**	**(23.7)**

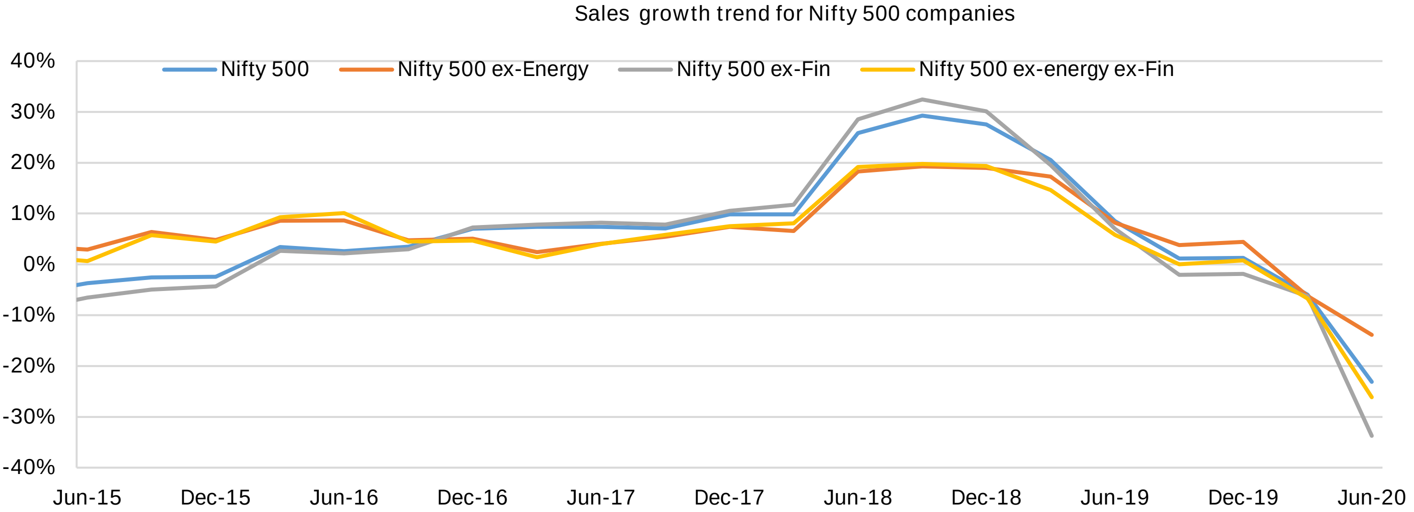
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 18: Sector-wise net sales growth of Nifty 500 companies in Q1FY21



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 19: Net sales YoY growth trend of Nifty 500 companies

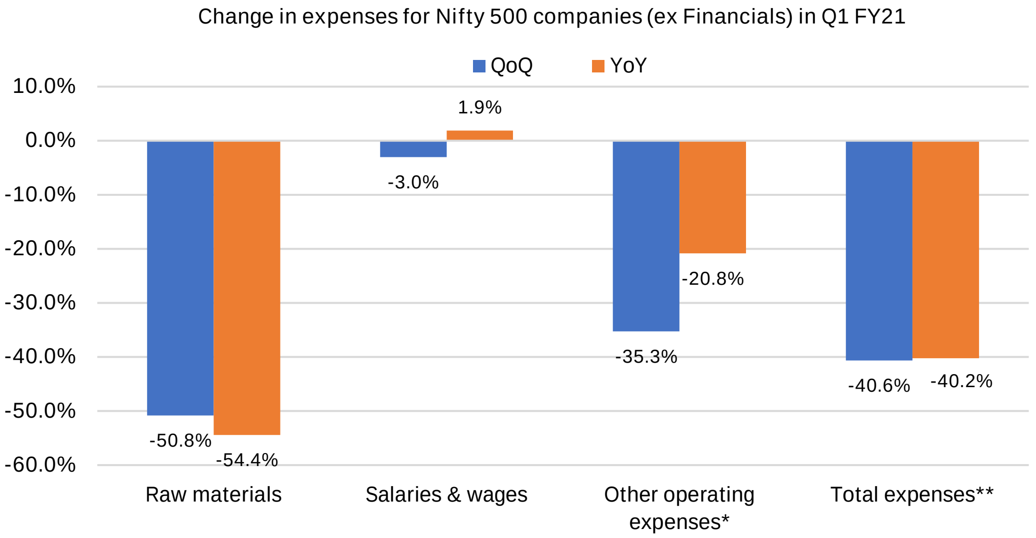


Source: CMIE Prowess, Refinitiv Datastream, NSE.

Aggressive cost rationalisation partly offsets decline in revenues: Aggregate EBITDA for the Nifty 500 universe excluding Financials contracted by 22.0% YoY (21.5% YoY in the March quarter) despite a 33.7% YoY contraction in revenues. This was primarily on the back of lower commodity prices and aggressive cost cutting initiatives undertaken by companies. While the raw material costs fell by a huge 50% YoY for the Nifty 500 companies (ex-Financials), other operating expenses declined by 27.2% YoY, leading to total expenses (excluding interest and depreciation) falling by 37.6% YoY. Consequently, EBITDA margin expanded by 304bps YoY to 20.2%in the June quarter.

Within the Nifty 500 universe, 271/400 companies reported negative YoY EBITDA growth in the June quarter. Sectors that dragged down aggregate EBITDA of the Nifty 500 universe include Consumer Discretionary, Real Estate, Industrials, Materials and Consumer Staples. Other sectors viz. Communication Services, Healthcare, Utilities and IT have reported modest growth in operating profits. The margin gains this quarter were led by Energy, Utilities, Real Estate, Communication Services and Healthcare.

Figure 20: Change in expenses for Nifty 500 companies (ex-Financials) in Q1 FY21



Source: CMIE Prowess, NSE. * Other operating expenses include selling, general & administrative expenses, rental expenses and other operating costs. ** Total expenses exclude interest expenses and depreciation.

Figure 21: EBITDA growth of Nifty 500 companies in Q1FY21

	QoQ growth			YoY growth		
Sector	Jun-19	Mar-20	Jun-20	Jun-19	Mar-20	Jun-20
Communication Services	35.6	1.2	(0.1)	41.4	42.7	5.4
Consumer Discretionary	(16.5)	(41.0)	(72.7)	(7.0)	(43.2)	(81.1)
Consumer Staples	9.1	(13.5)	2.3	15.4	(11.5)	(18.0)
Energy	(18.0)	(62.6)	346.2	(13.4)	(69.7)	(3.8)
Financials	20.1	(17.1)	18.3	29.1	4.1	5.1
Health Care	7.2	(21.0)	29.3	24.0	(11.4)	4.5
Industrials	(21.3)	(7.0)	(48.7)	20.5	(27.5)	(53.1)
Information Technology	(0.4)	(1.4)	(2.5)	10.2	6.6	0.4
Materials	(7.5)	12.0	(31.0)	0.6	(9.3)	(36.0)
Real Estate	(9.0)	(9.5)	(53.0)	13.1	(27.3)	(54.9)
Utilities	70.3	7.2	(11.8)	11.8	90.7	0.8
Nifty 500	**6.1**	**(17.8)**	**7.6**	**14.0**	**(11.0)**	**(8.7)**
Nifty 500 ex-Energy	**10.6**	**(11.7)**	**(0.1)**	**19.3**	**0.2**	**(9.1)**
Nifty 500 ex-Financials	**(3.8)**	**(18.5)**	**(3.8)**	**3.3**	**(21.5)**	**(22.0)**
Nifty 500 ex-energy ex-fin	**1.5**	**(5.4)**	**(20.5)**	**9.7**	**(3.6)**	**(25.8)**
Nifty 500 ex-Comm Svcs.	**5.3**	**(18.5)**	**7.9**	**13.2**	**(12.4)**	**(9.2)**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 22: EBITDA margin of Nifty 500 companies in Q1FY21

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	40.9	280	290
Consumer Discretionary	4.9	(441)	(717)
Consumer Staples	23.8	178	(138)
Energy	16.7	1458	784
Financials	56.4	(31)	(652)
Health Care	26.4	670	69
Industrials	15.0	(37)	(426)
Information Technology	23.2	41	(40)
Materials	16.8	(215)	(285)
Real Estate	43.1	835	381
Utilities	39.4	244	758
Nifty 500	**31.7**	**830**	**501**
Nifty 500 ex-Energy	**34.9**	**453**	**181**
Nifty 500 ex-Financials	**20.2**	**577**	**304**
Nifty 500 ex-energy ex-fin	**21.4**	**138**	**11**
Nifty 500 ex-Comm Svcs.	**31.4**	**841**	**500**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 23: Sector-wise EBITDA growth of Nifty 500 companies in Q1FY21

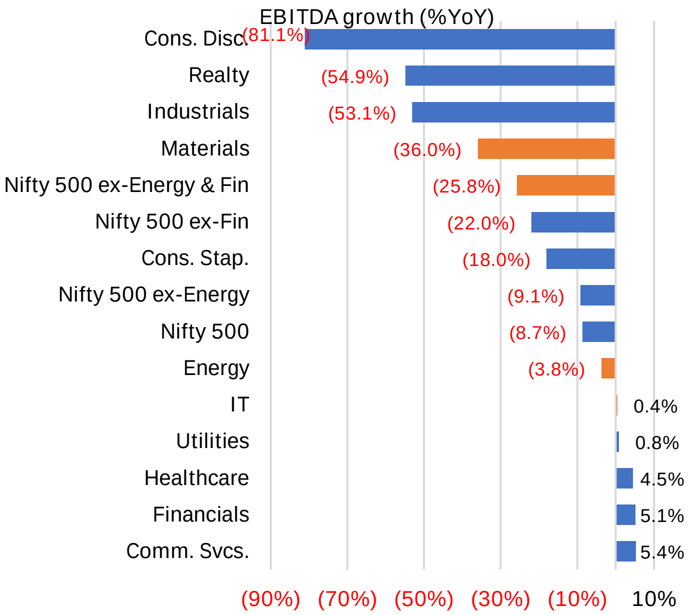
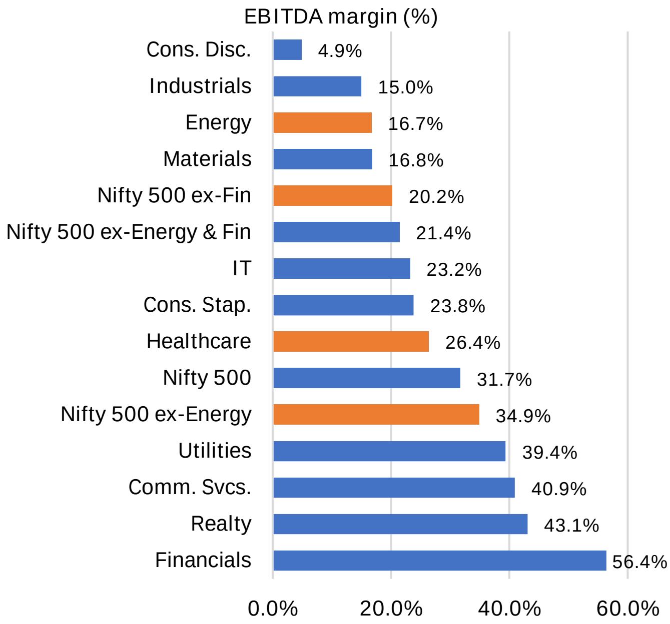
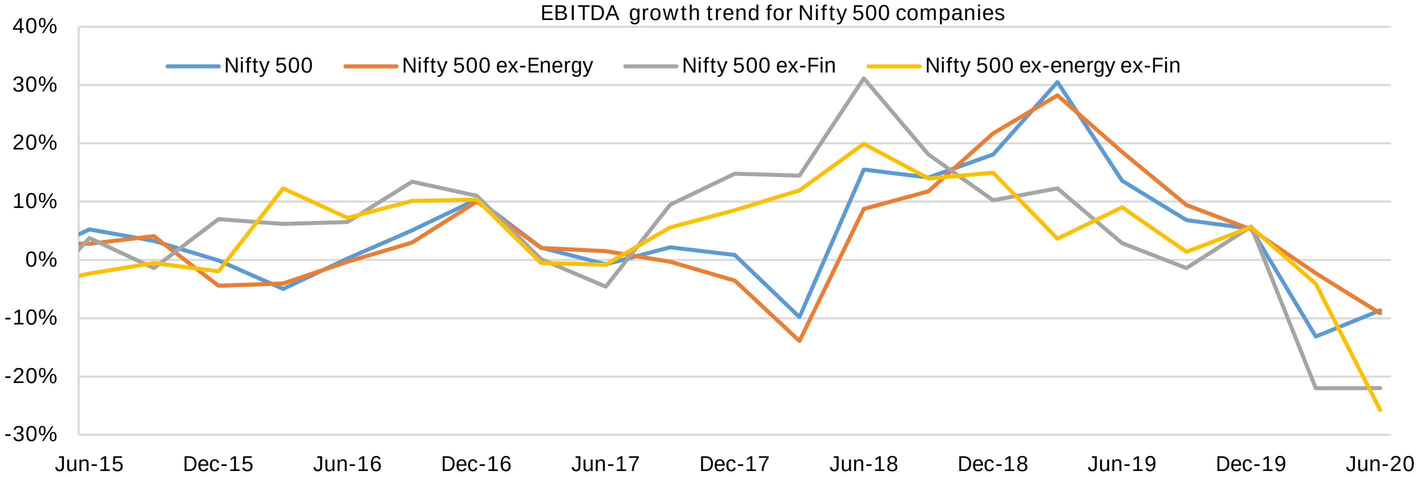


Figure 24: Sector-wise EBITDA margin of Nifty 500 companies in Q1FY21



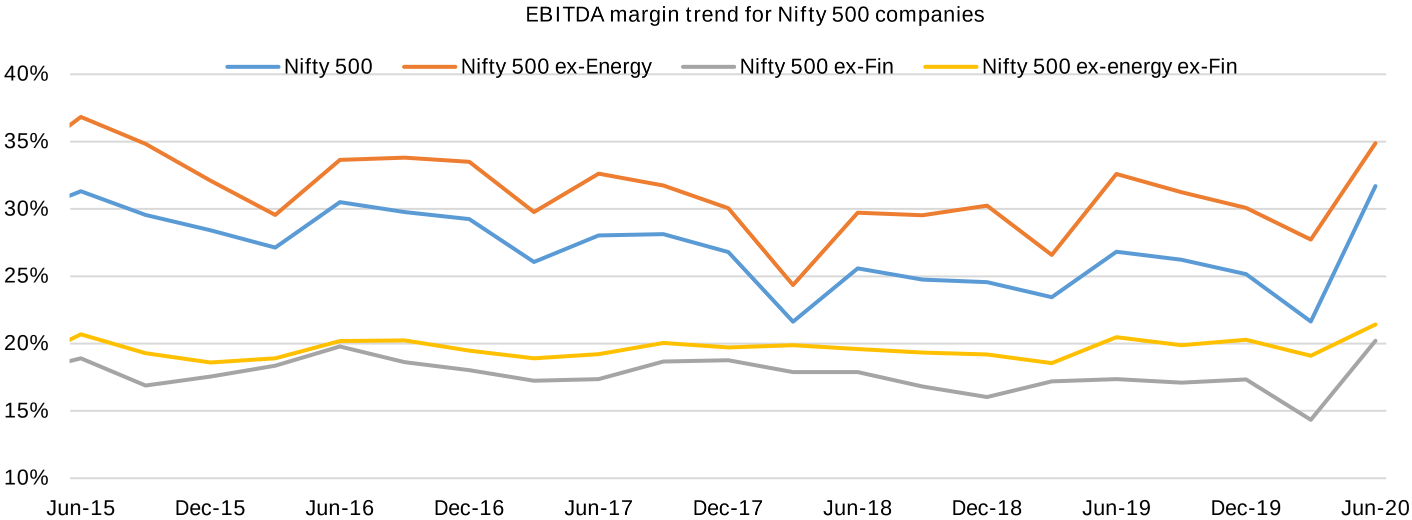
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 25: EBITDA growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 26: EBITDA margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Contraction in Nifty 500 profitability was broad-based: Aggregate adjusted PAT growth for Nifty 500 companies came in at -26.1% YoY in the June quarter. This was largely led by huge losses reported by Consumer Discretionary, Real Estate, Industrials and Materials sectors. While the upstream companies in the Energy sector got hit from a significant drop in realisations in the wake of lower crude oil prices as compared to the same period last year, the oil marketing companies suffered owing to weak demand for auto fuels amid travel restrictions as well as significant inventory losses.

Accentuated weakness in demand environment induced by the lockdown and supply chain bottlenecks were the key factors for the sharp decline in profitability of Consumer Discretionary companies. Financials and Healthcare reported modest growth in profits on account of robust revenue growth. While the operating margins for the Nifty 500 universe improved, PAT margins declined on account of higher interest cost and depreciation charge. Within the Nifty 500 universe, 264/400 companies reported negative YoY growth in profits in the June quarter.

Figure 27: PAT growth of Nifty 500 companies in Q1FY21

	QoQ growth			YoY growth		
Sector	Jun-19	Mar-20	Jun-20	Jun-19	Mar-20	Jun-20
Communication Services	NA	NA	NA	NA	NA	NA
Consumer Discretionary	(56.6)	(113.3)	NA	(42.7)	(112.1)	(377.2)
Consumer Staples	(3.4)	(15.6)	4.9	12.4	(19.1)	(12.9)
Energy	(26.8)	(111.7)	NA	(23.5)	(108.4)	(3.0)
Financials	451.5	(81.8)	207.4	147.2	53.0	35.1
Health Care	9.0	(25.5)	50.5	24.6	(20.0)	6.5
Industrials	(40.7)	(30.0)	(112.0)	13.6	(59.9)	(110.2)
Information Technology	(6.4)	(1.7)	(6.1)	4.9	2.0	(2.2)
Materials	(12.2)	11.1	(80.6)	(8.0)	(26.8)	(81.3)
Real Estate	(30.4)	(26.5)	(110.9)	(10.3)	(52.7)	(112.8)
Utilities	(16.8)	2.2	(14.7)	23.2	(8.0)	(3.5)
Nifty 500	**(1.4)**	**(54.9)**	**37.4**	**7.3**	**(51.2)**	**(26.1)**
Nifty 500 ex-Energy	**7.9**	**(42.4)**	**(2.4)**	**19.3**	**(30.0)**	**(29.8)**
Nifty 500 ex-Financials	**(21.9)**	**(44.1)**	**(10.9)**	**(9.1)**	**(55.2)**	**(48.8)**
Nifty 500 ex-energy ex-fin	**(19.9)**	**(21.5)**	**(52.1)**	**(2.5)**	**(34.4)**	**(59.4)**
Nifty 500 ex-Comm Svcs.	**(1.6)**	**(53.9)**	**31.7**	**9.2**	**(50.3)**	**(27.2)**

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

Figure 28: PAT margin of Nifty 500 companies in Q1FY21

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	(2.1)	500	448
Consumer Discretionary	(13.8)	(1292)	(1611)
Consumer Staples	15.1	147	6
Energy	6.5	886	310
Financials	9.9	609	131
Health Care	12.9	463	58
Industrials	(1.3)	(704)	(904)
Information Technology	14.7	(30)	(65)
Materials	1.7	(501)	(501)
Real Estate	(3.7)	(1644)	(1556)
Utilities	11.2	34	176
Nifty 500	**6.4**	**269**	**(26)**
Nifty 500 ex-Energy	**6.3**	**69**	**(143)**
Nifty 500 ex-Financials	**4.7**	**107**	**(139)**
Nifty 500 ex-energy ex-fin	**4.1**	**(226)**	**(334)**
Nifty 500 ex-Comm Svcs.	**6.7**	**266**	**(32)**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 29: Sector-wise PAT growth of Nifty 500 companies in Q1FY21

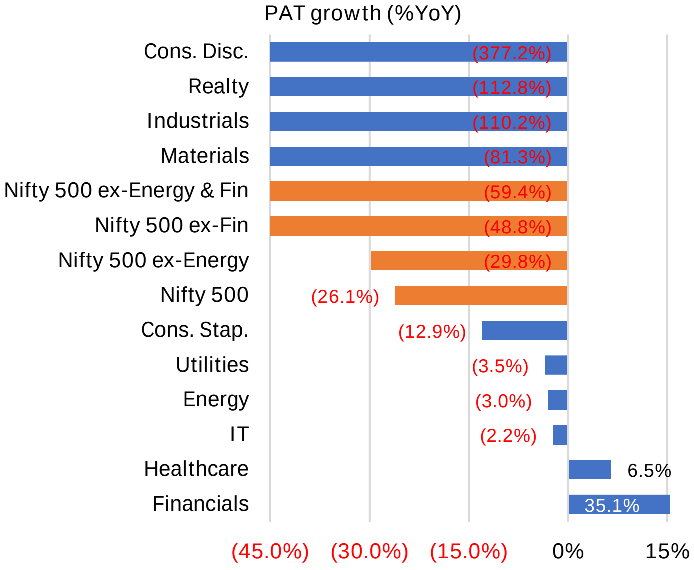
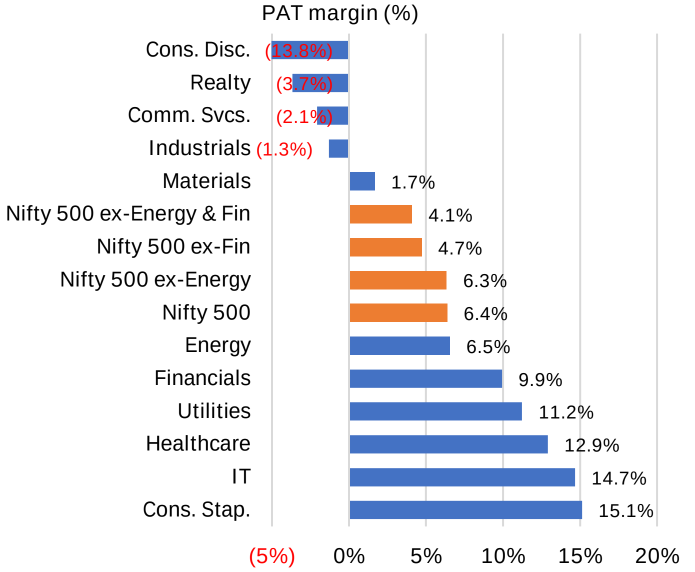
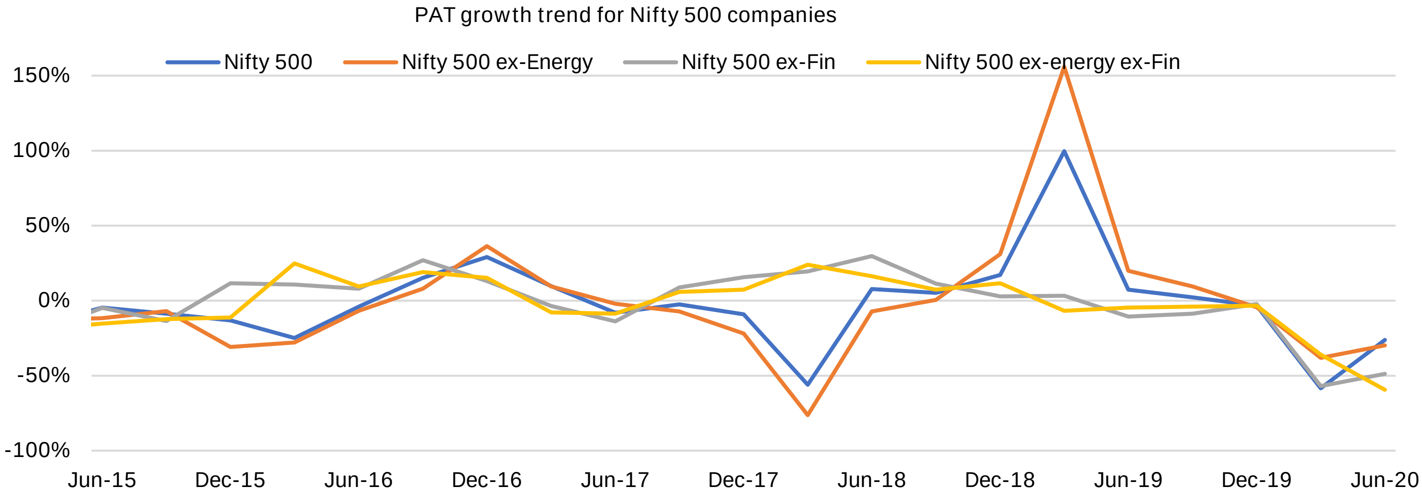


Figure 30: Sector-wise PAT margin of Nifty 500 companies in Q1FY21



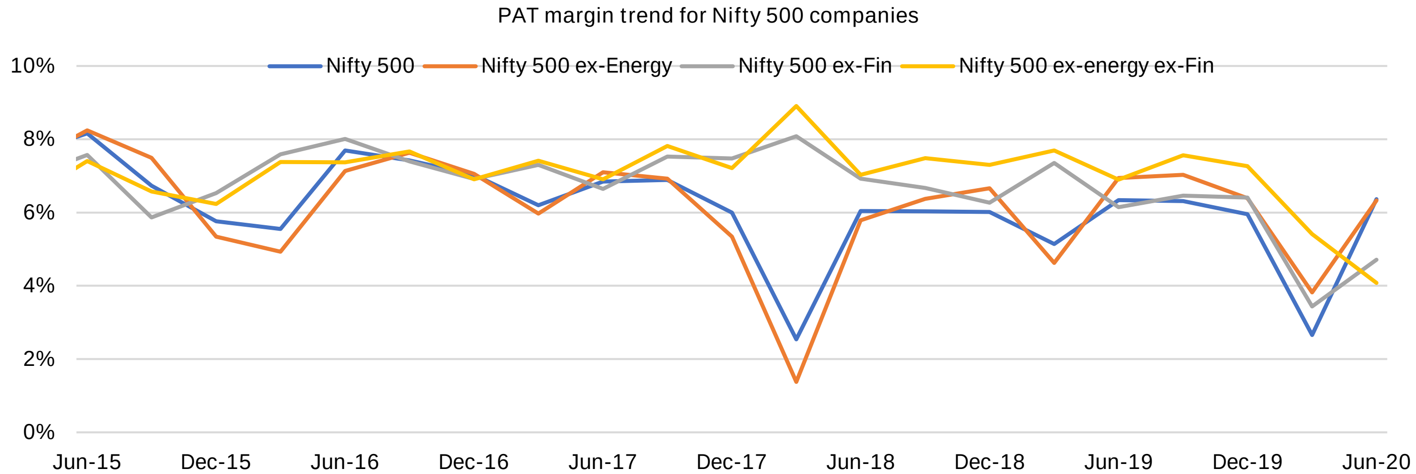
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 31: PAT growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 32: PAT margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Earnings revision analysis

Consensus FY21 PAT estimates slashed by 33.5% in this fiscal year thus far: We have analysed earnings revisions for top 200 companies by one-year average market cap ending June 30th, 2020 covered by at least five or more analysts during the previous 12 months using IBES estimates from Refinitiv Datastream. Our analysis shows that consensus profit estimate for these companies for FY21 have been downgraded by 8.5% in the second quarter of the fiscal thus far (as on August 21st) on top of a 27.4% cut in the first quarter, translating into an total cut of 33.5% in aggregate earnings in this fiscal thus far. With this, the aggregate earnings of top 200 companies are now expected to contract by a modest 0.2% YoY in FY21 vs. 29% growth in the beginning of the fiscal.

Consumer cyclicals have witnessed the sharpest downgrades this fiscal, followed by Materials, Industrials, Financials and Energy, reflecting expectations of a lacklustre consumption and investment demand, sustenance of benign commodity prices and elevated credit cost and increase in asset quality pressures for Financials. Aggregate profit growth for Financials, however, is still estimated at a strong 39.5% for FY21, solely supporting aggregate earnings this fiscal. The restructuring scheme announced by the in the recent policy review may help banks in managing a spike in stressed assets this fiscal. Excluding Financials, aggregate earnings are expected to contract by 10% in FY21. is Besides Financials, Healthcare, Consumer Non-Cyclicals and Utilities are the only sectors expected to post a modest profit growth this year.

Despite significant cut in FY21 earnings estimates, risks remain to the downside, as localised lockdowns implemented by states in the wake of rising COVID-19 cases is expected to further delay the recovery process.

Aggregate earnings estimate for FY22 for the top 200 companies, however, has been downgraded by a much lower 19% in this fiscal thus far, potentially indicating the impact of COVID-19 to be temporary in nature. Consequently, consensus profit growth estimate for FY22 currently stands at ~45% (as of August 21st, 2020), albeit off a low base. This appears quite optimistic given our expectations of a slow and gradual recovery ahead and is therefore prone to significant downward revisions.

Figure 33: Aggregate consensus profit growth estimate for top 200 covered companies (% YoY)

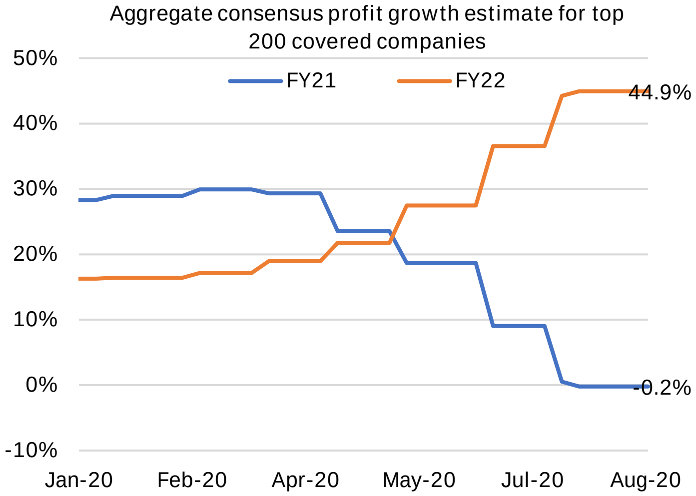
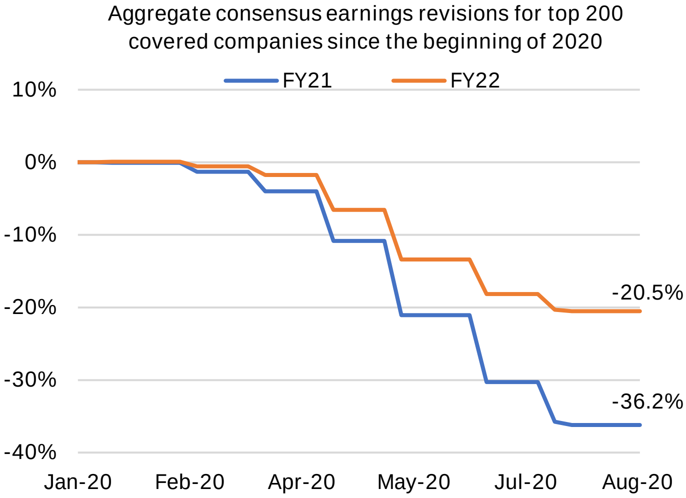


Figure 34: Aggregate consensus earnings revisions in 2020 till date for top 200 covered companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year.

Figure 49: Monthly trend of sector-wise FY21 consensus earnings growth estimate (% YoY)

Sectors	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20*
Basic Materials	21.9	26.9	25.9	8.9	(11.0)	(35.3)	(46.6)	(46.6)
Consumer Cyclicals	23.1	23.6	23.5	16.8	(0.9)	0.4	(17.0)	(17.0)
Consumer Non-Cyclicals	16.3	15.2	15.2	14.0	10.0	8.7	4.4	4.4
Energy	17.8	20.7	17.4	12.0	8.1	(0.0)	(13.5)	(13.5)
Financials	45.9	46.0	48.1	44.1	49.2	51.3	39.5	39.5
Healthcare	17.9	18.5	18.4	16.2	18.0	11. 5	9.1	9.1
Industrials	22.2	20.5	16.1	9.8	12.4	(14.1)	(20.7)	(20.7)
Technology	10.0	9.9	9.6	4.2	(2.4)	(3.4)	(1.2)	(1.2)
Utilities	10.6	10.4	10.0	9.3	9.4	4.8	0.8	0.8
Total	28.9	29.9	29.3	23.5	18.7	9.1	(0.2)	(0.2)

Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. * As of August 21st, 2020.

Figure 49: Monthly trend of sector-wise FY22 consensus earnings growth estimate (% YoY)

FY22 PAT growth	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Basic Materials	15.2	16.6	18.8	29.3	51.4	75.4	85.7	85.7
Consumer Cyclicals	20.2	22.0	22.6	27.9	44.5	76.8	103.8	103.8
Consumer Non-Cyclicals	14.7	13.5	13.5	13.7	15.3	16.4	19.5	19.5
Energy	8.1	10.0	14.7	17.3	22.6	29.7	43.0	43.0
Financials	23.1	22.8	23.7	25.6	31.9	38.6	47.2	47.2
Healthcare	13.8	16.2	16.2	16.6	17.1	20.0	22.0	22.0
Industrials	16.8	17.6	20.0	24.0	18.7	68.3	76.0	76.0
Technology	9.3	9.6	9.6	10.1	12.6	13.3	13.4	13.4
Utilities	9.5	10.7	10.9	10.7	11.1	14.9	18.7	18.7
Total	16.4	17.2	18.9	21.7	27.5	36.6	44.9	44.9

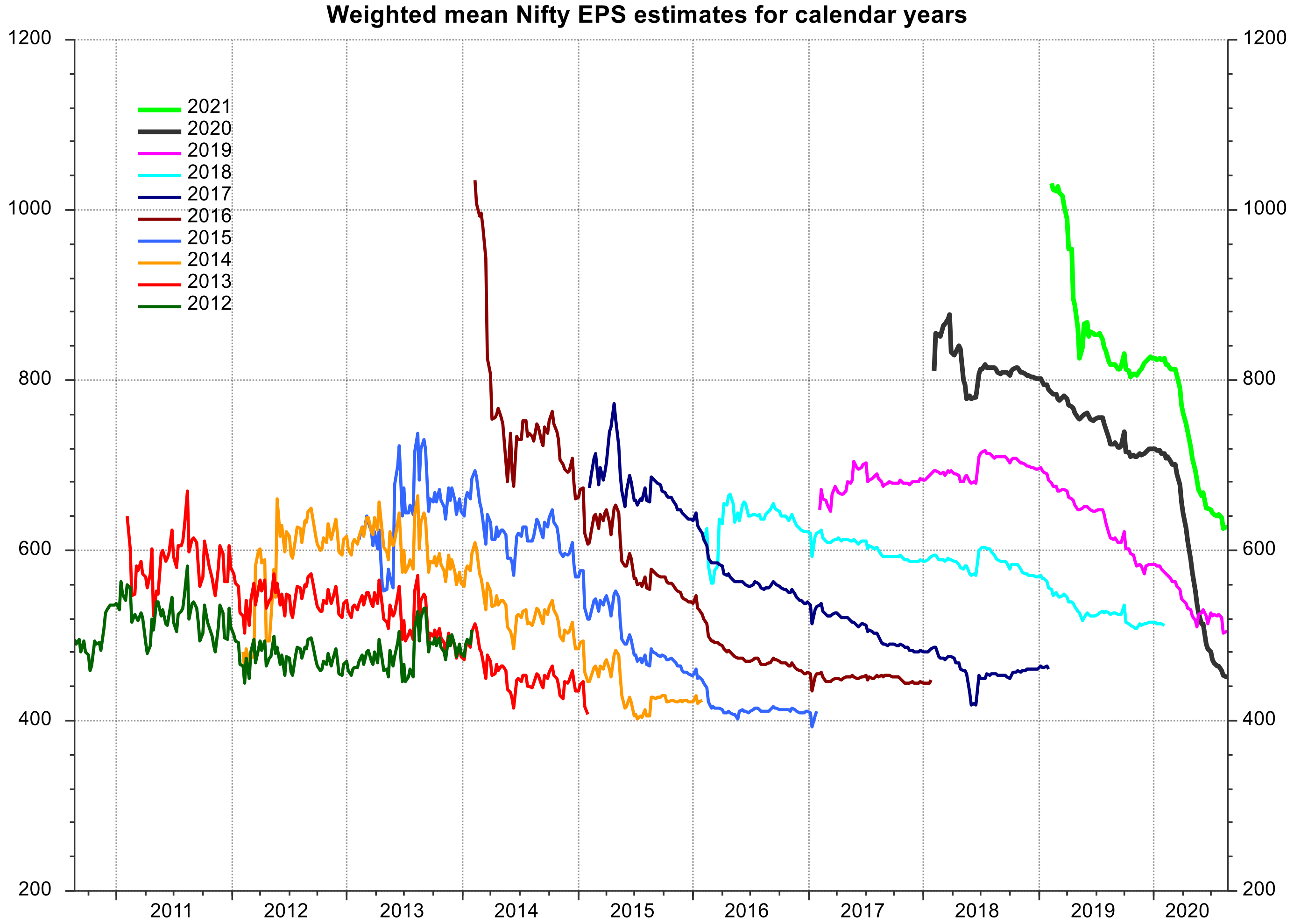
Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. * As of August 21st, 2020

Nifty 50 2020 Consensus EPS downgraded by 37% YTD: The chart below shows how Consensus estimates usually begin the year (calendar) 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 market 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.

An already weak domestic and global slowdown has now got accentuated by the COVID-19 outbreak and attendant containment measures undertaken to control the spread of the virus including large-scale and stringent lockdowns across the globe. This has resulted in a 37% downgrade in 2020 (calendar year) Nifty 50 consensus EPS estimate since the beginning of the year and 31% since March 2020 (-27% in Q2 2020 and -5.8% in Q3 2020 thus far).

Figure 35: Yearly trend of NIFTY 50 Consensus EPS estimates



Source: Refinitiv Datastream, NSE.

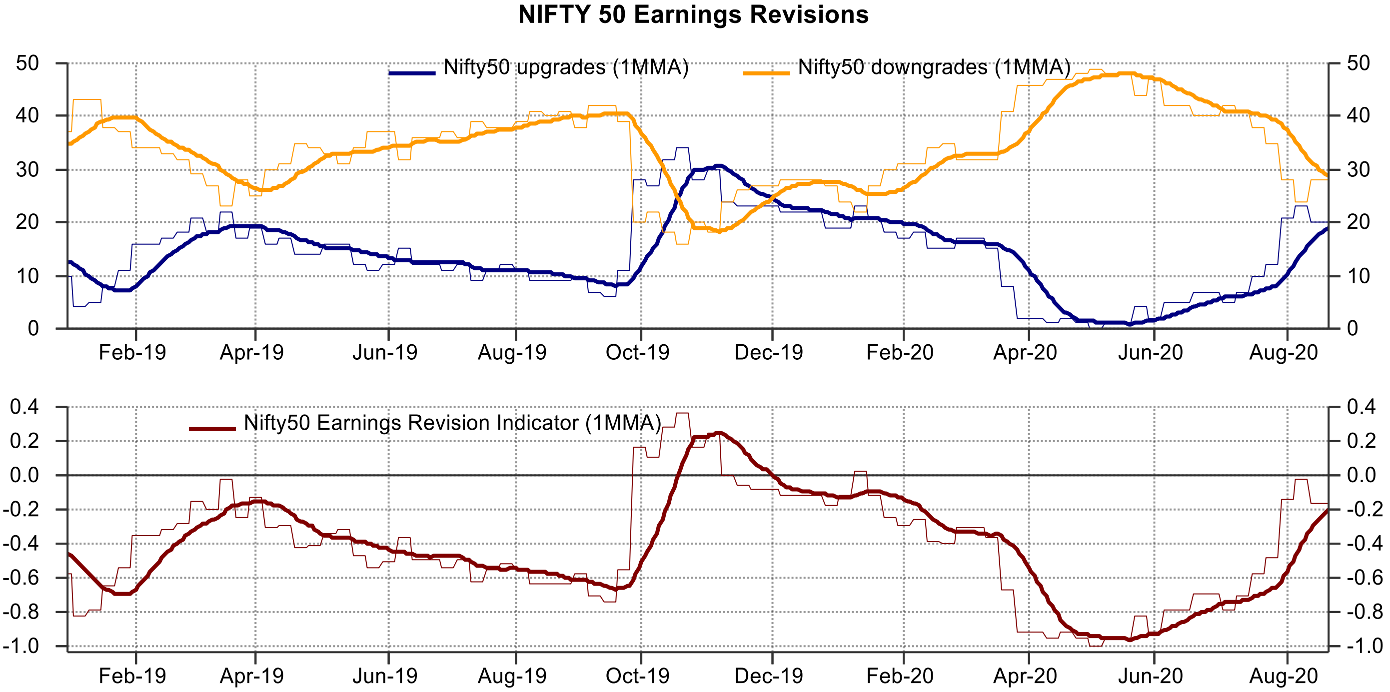
Nifty 50 Earnings Revision Indicator falls deep into the negative zone: The Earnings Revision Indicator (ERI)[4] for the Nifty 50 universe has remained in the negative zone for more than five years now, implying more downgrades of earnings estimates than upgrades. In fact, the 12-month moving average trend points to a negative ERI since 2011. The number of downgrades peaked out in March 2016 and 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. The ERI moved back into the positive territory for the first time in five years following the corporate tax cut announcement in September 2019, albeit for a brief period, only to fall back into the negative zone owing to sustained weakness in reported earnings.

The COVID-19 outbreak and attendant control measures including lockdown and complete shutdown of non-essential activities have accentuated the downgrade cycle. The ERI fell deep into the negative zone to the lowest level since the data is available (2007) as corporate earnings outlook got adversely impacted due to massive supply and demand disruptions caused by mass-scale COVID-19-induced lockdowns worldwide. In

[4] The ERI is calculated as "(number of upgrades – number of downgrades)/total number of upgrades and downgrades". It can range between -1 to 1.

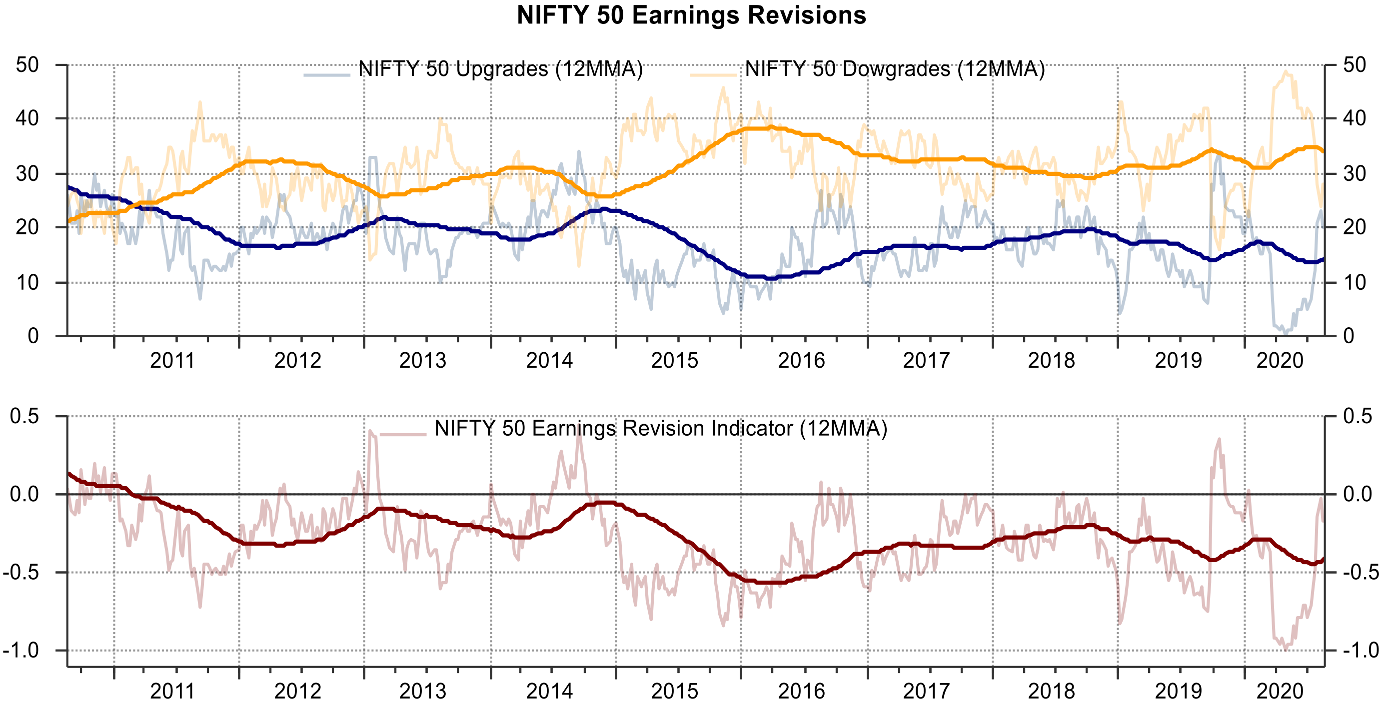
fact, except for one or two companies, rest all the Nifty 50 companies witnessed significant earnings downgrades until May 2020, taking ERI to its lower limit of -1 in mid-May, implying downgrades across the board. The ERI has since improved led by a higher number of upgrades in Healthcare, Information Technology and Consumer Staples.

Figure 36: Nifty 50 Earnings Revision Indicator (since January 2019)



Source: Refinitiv Datastream, NSE

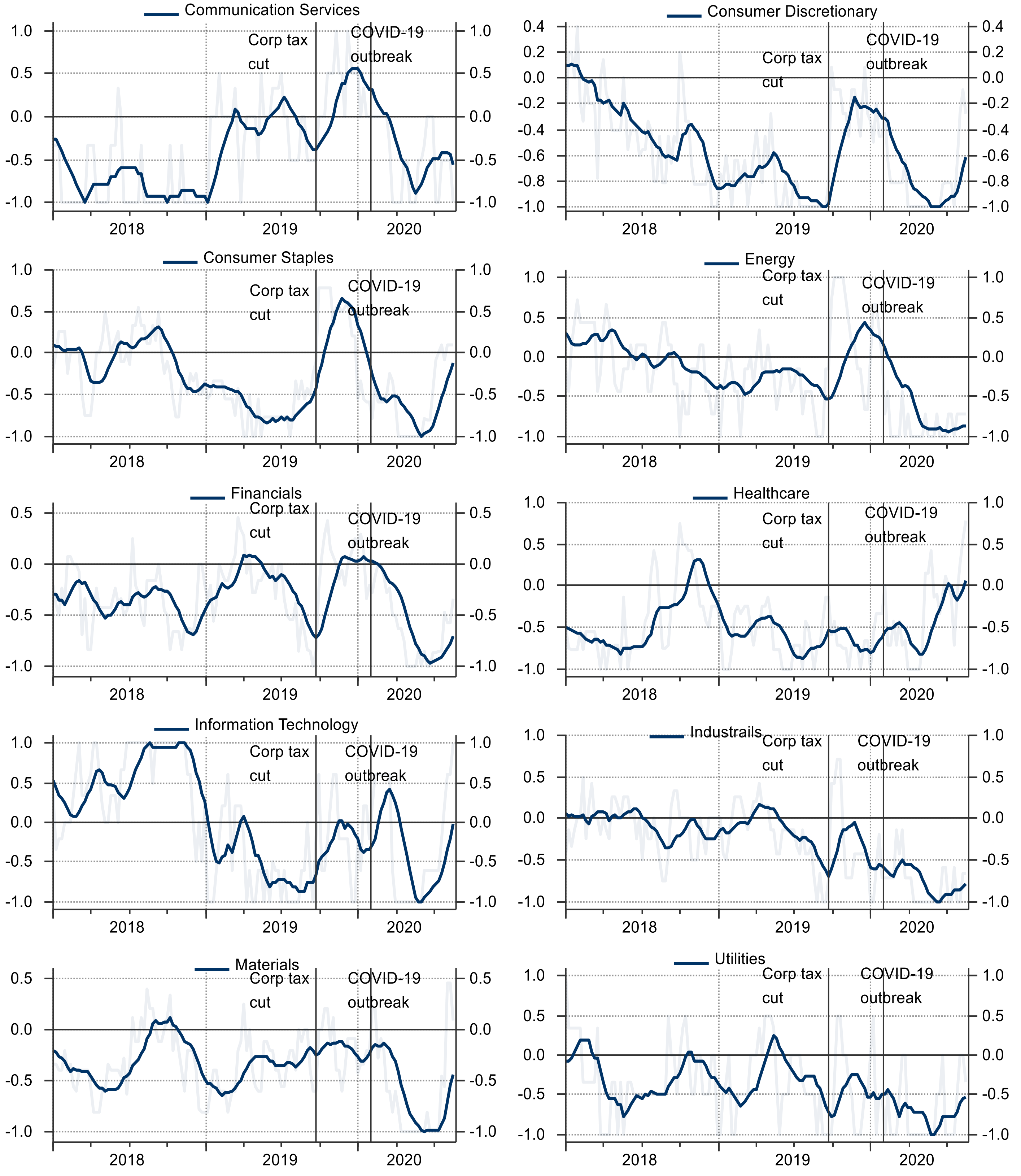
Figure 37: Nifty 50 Earnings Revision Indicator (10-year trend)



Source: Refinitiv Datastream, NSE.

Figure 38: Short-term trend of Earnings Revision Indicator across MSCI sectors

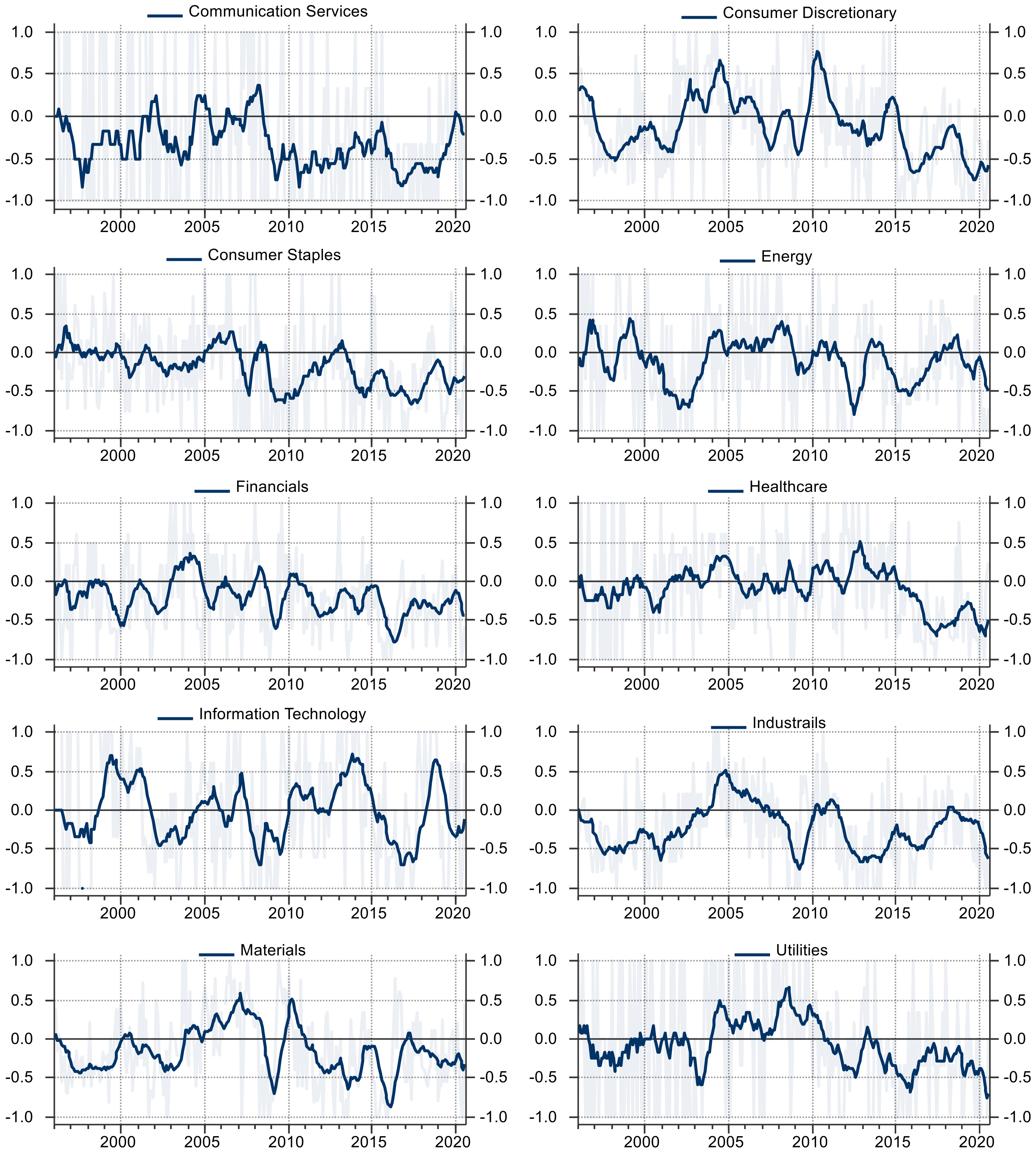
India Earnings Revision Indicator across sectors: Short-term (2MMA)



Source: Refinitiv Datastream, NSE.

Figure 39: Long-term trend of Earnings Revision Indicator across MSCI sectors

India Earnings Revision Indicator (ERI) across sectors: Long-term (12MMA)



Source: Refinitiv Datastream, NSE.

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