Q1FY22 Earnings Review: In-line quarter aided by a low base; estimates kept steady

Corporate performance witnessed a strong YoY rebound in Q1FY22, albeit off a very depressed base, despite a deadlier and virulent second wave. Localised and targeted restrictions implemented during the second wave ensured limited economic disruptions in Q1FY22 as opposed to seen in the same period last year when business activities were brought to a standstill by a strict nation-wide lockdown. Aggregate net sales grew by a record 41.7%/41.8% YoY in the June quarter for the Nifty 50/Nifty 500 universe[1]. On a sequential (QoQ) basis, however, aggregate net sales fell by 6.6%/7.9% with consumption as well as investment-oriented sectors getting hit by renewed lockdown restrictions amidst a deadlier second wave. The modest improvement in discretionary demand that was witnessed in the previous quarter, aided by easing supply-side bottlenecks, was stalled in the June quarter as a result of economic disruptions caused by the second wave. Profit at the *operating level* also reported a sequential drop of 8.9%/9.3%, weighed down by elevated commodity prices, higher advertising and marketing spend, and negative operating leverage, thereby resulting in operating margins contracting to five-quarter lows.

Net adjusted PAT shot up by 104.3%/118.1% YoY but fell by 14.2%/15.1% QoQ for Nifty 50/Nifty 500 universe due to weak sales and cost pressures in the June quarter, partly offset by savings in borrowing costs. Earnings growth in Q1FY22 was primarily led by improved demand environment for export sectors such as Information Technology (improved traction in offshore deals for automation, cloud migration and next generation technologies) and Health Care (robust demand in domestic and international markets and higher occupancy in hospitals).

Following an expected corporate performance in Q1FY22, the Consensus earnings estimates (from Refinitiv) for FY22 and FY23 for the top 200 covered companies by market cap have remained broadly steady since June-end, even as they are up 6% and 5% respectively in FY22 thus far. Aggregate profit growth for these companies for FY22/23 is now pegged at 39%/19%, implying a CAGR of 29% during FY21-23. Upgrades over the last six months, however, were primarily led by Materials and to some extent Energy, excluding which profit estimates were curtailed by ~5% for the current fiscal year. This is also reflected in the Earnings Revision Indicator[2] (ERI) trend for the Nifty 50 universe, which has been on a steady downward trajectory since the onset of the deadlier second wave in February 2021 and is hovering at sub-zero levels, implying higher number of downgrades than upgrades. This is primarily led by Financials, Consumer Discretionary and Communication Services, partly offset by large upgrades in Materials, with the latter consistently seeing a positive ERI (upgrades outnumbering downgrades) for almost a year now. Our sentiment analysis of management commentary of Nifty50 companies using post-earnings call transcripts reveal that there was a mild deterioration in sentiments in Q1FY22 as compared to Q4FY21, even as they remained in the positive territory. Additionally, sentiments were more clustered in Q4FY21 but were relatively scattered in Q1FY22, possibly reflecting the impact of the deadlier second wave on companies.

- **Net sales surged YoY in Q1 off a depressed base:** Aggregate net sales for Nifty 50/Nifty 500 companies surged by a record-high 41.7%/41.8% YoY in Q1FY22, thanks to an extremely low base of last year, but fell by contracted by 6.6%/7.9% QoQ. The modest improvement in discretionary demand that was witnessed in the previous quarter thanks to abating COVID fears, vaccination rollouts and easing supply-side bottlenecks, got stalled in the June quarter as a result of disruptions in economic activities caused by the second wave of COVID-19 infections.

  While the sequential drop in net sales was broad-based due to COVID resurgence, the sectors that were impacted significantly in the June quarter included Real Estate (weak demand due to second-wave-led lockdowns), Industrials (continued weakness in capex demand) and Consumer Discretionary (weak rural demand). Export sectors such as Information Technology (improved traction in offshore

The modest improvement in discretionary demand that was witnessed in the previous quarter got stalled in the June quarter as a result of disruptions in economic activities caused by the second wave of COVID-19 infections.

[1] 498 companies in the Nifty 500 Index reported earnings data for Q4FY21 as on September 9th, 2021.
[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 and *vice versa*.

deals) and Health Care (robust demand in domestic and international markets and higher occupancy in hospitals) reported growth on a sequential basis.

- **Rising commodity prices and negative operating leverage weighed on operating margins:** While EBITDA for Nifty 50/Nifty 500 companies (ex-Financials) grew by a strong 52%/58.1% YoY, albeit off an ultra-low base of Q1FY21, operating margins fell by 68/37bps YoY and 34/19bps QoQ to 21%/28% due to higher input prices and negative operative leverage. Aggressive cost cutting efforts undertaken by companies in FY21 post the onset of COVID-19 were reversed to a large extent in the June quarter, largely on account of input cost pressures, higher salries and higher marketing expenses. While raw material (RM) costs rose by 110%/88.7% on a YoY basis, it fell by 7.3%/9.2% QoQ because of muted economic activity in the June quarter. As a percentage of net sales, RM costs rose by 1278bps/759bps YoY from 38%/44.4% last year to 50.8%/52% in the current quarter.

  While YoY expansion in operating profit was broad-based, sectors that witnessed a drop on a QoQ include Consumer Discretionary (weak demand and rising input cost), Industrials (rising input costs and supply-side bottlenecks), Energy (low operating leverage) and Real Estate (weak demand coupled with high operating costs). Sectors that posted growth on a sequential basis included Health Care (improved demand and cost rationalisation), Utilities (improved power demand), Materials (pass-through of higher costs) and Information Technology.

Operating margins for Nifty 50/Nifty 500 companies (ex-Financials) contracted by 68/37bps YoY and 34/19bps QoQ due to higher commodity prices and negative operative leverage.

- **Topline contraction and surge in input costs hit aggregate net profits:** Aggregate adjusted PAT for the Nifty 50/Nifty 500 surged by 104.3%/118.1% YoY but fell by 14.2%/15.1% QoQ, marking the first sequential contraction in last four quarters. This was primarily due to weak sales and cost pressures in the June quarter, partly offset by savings in interest costs. As such, PAT margins fell by 91bps/75bps QoQ but expanded by 315bps/312bps YoY to a four-quarter low of 10.3%/8.9%. Except for Healthcare, Information Technology and Financials, all sectors reported a sequential contraction. While rise in domestic and external demand for critical care supported profits of the Healthcare sector, Information Technology sector benefited from sustained demand for digital, automation and security services. Aggregate profit of Financials sector was aided by lower credit costs.

Aggregate adjusted PAT for the Nifty 50/Nifty 500 surged by 104.3%/118.1% YoY but fell by 14.2%/ 15.1% QoQ, marking the first sequential contraction in last four quarters.

- **Earnings estimates kept broadly steady:** Our analysis of earnings performance of top 200 covered companies by market capitalisation show that while aggregate profit estimate for FY22 has been broadly retained at Rs7.8trn as compared to estimates at the end of June 2021, FY23 profit estimate has seen a meagre 1.2% upgrade. This follows nearly 6% and 4% increase in FY22 and FY23 profit estimate in the first quarter of FY22. With this, the aggregate earnings of top 200 companies are now expected to grow at a strong 39.2%/19.2% in FY22 and FY23 respectively following a 23.8% PAT growth in FY21, implying an earnings CAGR of 29% during FY21-23. This is primarily led by Consumer Discretionary, Industrials, Financials, Materials and Real Estate, comprising of nearly 40% of the aggregate corporate earnings of top 200 covered companies. Expectations of a normal monsoon, renewed festive demand, accelerating pace of vaccinations and healthy external demand bode well for corporate earnings.

Consensus earnings estimates for FY22/23 for the top 200 covered companies remained broadly steady since June-end, translating into a earnings CAGR of 29% during FY21-23.

- **ERI hovering at sub-zero levels since the onset of second wave:** Following a meaningful improvement between September 2020 and January 2021, the ERI has been on a downward trajectory since the onset of the second wave of COVID-19 in February 2021, implying higher number of downgrades than upgrades. This is primarily led by Financials, Consumer Discretionary and Communication Services, partly offset by large upgrades in Materials, with the latter consistently seeing a positive ERI (upgrades outnumbering downgrades) for almost a year now.

- **Management sentiments marginally deteriorated in Q1FY22:** Our analysis of quarterly performance of the listed universe now extends beyond financial performance to include management commentary and reactions as well. We have used earnings conference call transcripts of 44 NIFTY50 companies to capture sentiments of their management for the last two quarters. Our analysis shows a marginal deterioration in mean sentiment score of this sample set in Q1FY22 as compared to Q1FY21, even as the difference is not found to be statistically significant. Sector-wise, barring Communications and Utilities, sentiments were relatively muted across all other sectors in the NIFTY universe in 1QFY22. Lastly, our company-wise analysis indicates that sentiments were more clustered in 4QFY21 while they were relatively scattered in 1QFY22, possibly reflecting adverse impact of the deadlier second wave on companies.

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Nifty 50 Q1FY22 results

Favourable base aided a strong YoY rebound in corporate revenues: Corporates registered a strong 41.7% YoY growth in net sales in Q1FY22, largely aided by an extremely depressed base of Q1FY21. However, aggregate net sales fell by 6.6% on a sequential basis—the first QoQ contraction in last four quarters. The recovery in revenue growth that had gained traction in last three quarters of FY21 was derailed due to re-imposition of lockdowns thanks to a deadlier second wave of COVID infections. While the restrictions were less stringent compared to the first wave, it weighed down on consumption demand as economic activities in certain sectors, especially contact-based services, came to a standstill. While 43 companies in the Nifty 50 universe posted an YoY growth in Q1FY22, only 21 companies posted growth sequentially.

While the sequential decline in June quarter revenue was largely broad-based, sectors that posted a QoQ expansion included: a) Health Care: Higher domestic and external demand for critical-care and COVID-related drugs; b) Information Technology: Persistent global demand for digital- and cloud-based platforms in a post-COVID remote-working environment; and c) Communication Services: Robust demand for data and other telecom services with limited impact by second wave lockdowns.

Sectors that were impacted significantly by the second wave were: a) Industrials: Delay in capex expansion due to a sharp drop in capacity utilisation and looming concerns of an impending third wave; and b) Consumer Discretionary: Weak auto demand due to covid-led lockdowns and global chip shortage. Other sectors that posted a sequential decline, albeit in single digits, were a) Energy: Muted demand due to economic disruptions led by reimposition of lockdowns; b) Materials: Higher realisations from pass-through of higher commodity prices, partly offset by subdued demand environment; c) Financials: Weak loan recovery from retail and SME sector; and d) Utilities: Unfavourable base.

Corporates recorded a record YoY performance in Q1 FY22 as economic activities improved significantly compared to the same quarter last year when the economy was impacted by a stringent nation-wide lockdown. The sequential performance, however, was impacted by deterioration in rural demand owing to a virulent second wave which was far more prominent in hinterlands this time. Rural demand was relatively less affected during the first wave, thanks to fewer infections and strong policy support.

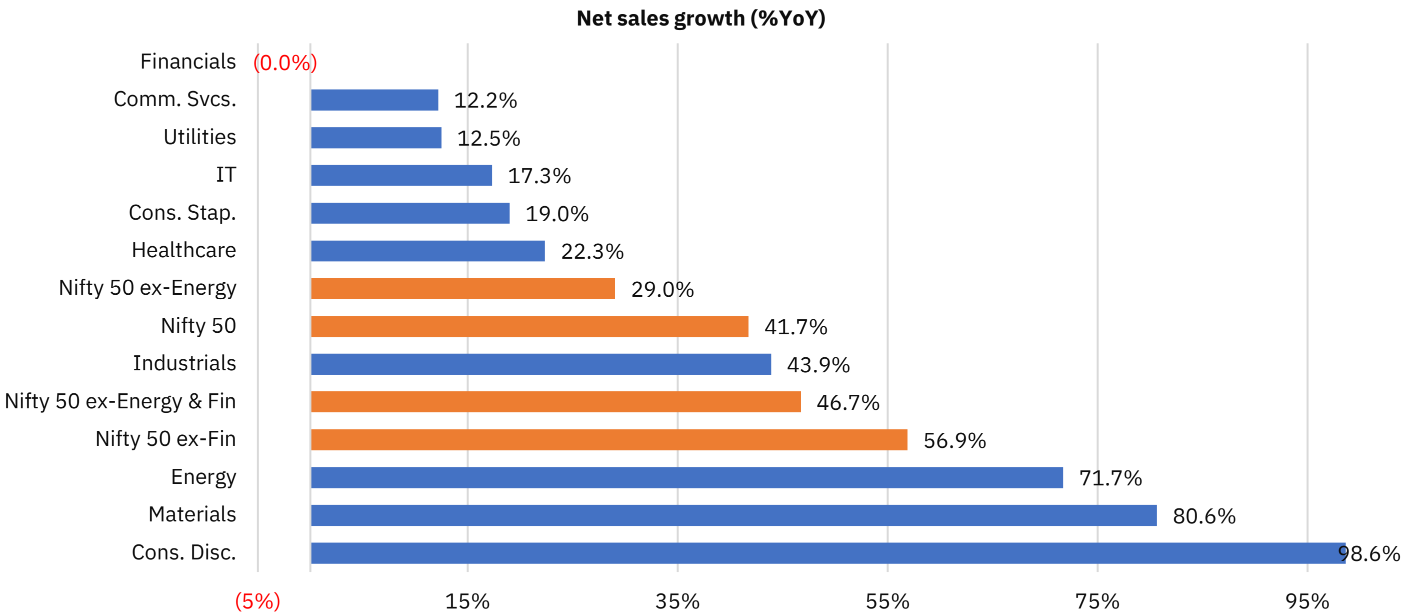
While there are signs of an improvement in consumption demand environment, particularly for essentials, the outlook is marred by imminent concerns of a third wave that may weaken business and consumer sentiments further. Additionally, continuation of surge in delta-variant cases globally may weigh on export growth momentum, thereby hurting the overall economic recovery. Effective curb on the potential third wave and steady progress in vaccinations are crucial for the nascent economic recovery to gain ground and in turn drive corporate earnings.

Table 1: Net sales growth of Nifty 50 companies in Q1FY22

Sector	QoQ growth			YoY growth		
	Jun-20	Mar-21	Jun-21	Jun-20	Mar-21	Jun-21
Communication Services	4.0	(2.9)	4.3	15.4	11.9	12.2
Consumer Discretionary	(47.7)	7.9	(24.8)	(53.1)	38.2	98.6
Consumer Staples	0.3	4.7	(3.3)	(3.4)	23.5	19.0
Energy	(41.1)	18.8	(5.6)	(46.5)	7.0	71.7
Financials	14.7	(7.5)	(2.7)	16.1	17.9	(0.0)
Health Care	(1.7)	(4.7)	12.4	4.0	7.0	22.3
Industrials	(50.1)	31.4	(34.4)	(27.4)	9.6	43.9
Information Technology	(2.9)	2.7	5.4	4.1	8.1	17.3
Materials	(27.7)	18.8	(3.8)	(28.3)	35.6	80.6
Utilities	(12.1)	7.8	(1.3)	(1.1)	0.2	12.5
Nifty 50	**(23.8)**	**9.3**	**(6.6)**	**(25.6)**	**15.7**	**41.7**
Nifty 50 ex-Energy	**(12.8)**	**4.6**	**(7.2)**	**(10.8)**	**21.2**	**29.0**
Nifty 50 ex-Financials	**(32.0)**	**13.8**	**(7.5)**	**(34.1)**	**15.3**	**56.9**
Nifty 50 ex-energy ex-fin	**(24.0)**	**10.2**	**(9.0)**	**(21.8)**	**22.6**	**46.7**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 1: Sector-wise net sales growth of Nifty 50 companies in Q1FY22



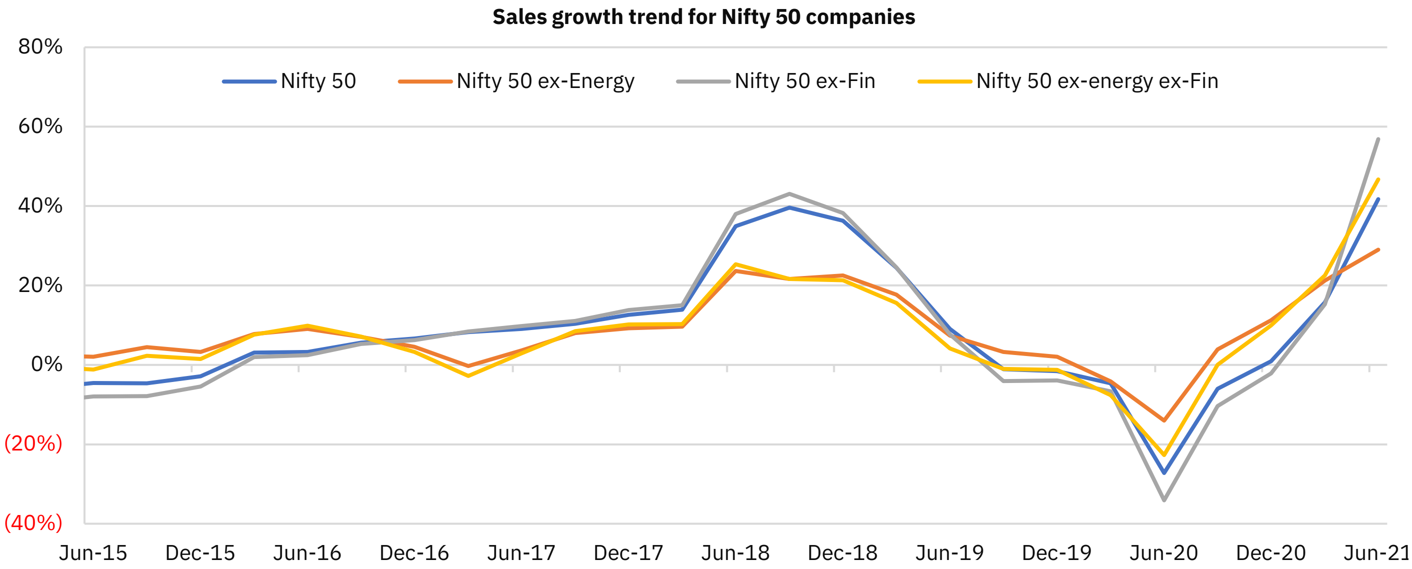
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Table 2: Sector-wise contribution of Nifty 50 companies to net sales growth in Q1FY22

Sector	Net sales (Rsbn)	Contribution to net sales growth	
		% QoQ	% YoY
Communication Services	269	0.1	0.3
Consumer Discretionary	1,217	(2.9)	6.7
Consumer Staples	353	(0.1)	0.6
Energy	4,598	(2.0)	21.4
Financials	2,387	(0.5)	(0.0)
Health Care	221	0.2	0.4
Industrials	339	(1.3)	1.2
Information Technology	1,218	0.5	2.0
Materials	1,731	(0.5)	8.6
Utilities	401	(0.0)	0.5
Nifty 50	**12,735**	**(6.6)**	**41.7**
Nifty 50 ex-Energy	**8,137**	**29.3**	**20.4**
Nifty 50 ex-Financials	**10,348**	**38.7**	**41.8**
Nifty 50 ex-energy ex-fin	**5,749**	**26.2**	**20.4**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 2: Net sales YoY growth trend of Nifty 50 companies in last five years



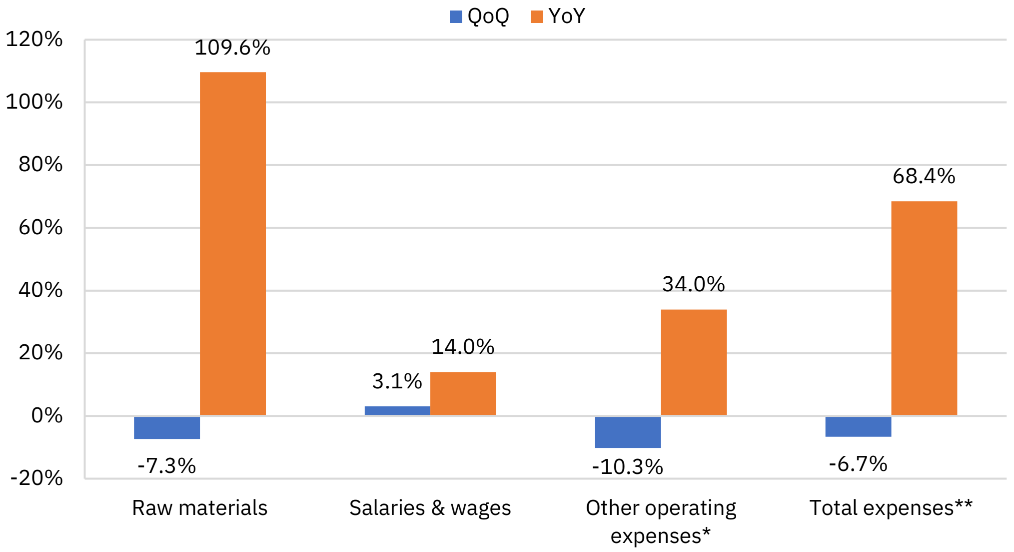
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Higher commodity prices and operating costs squeeze EBITDA margins in Q1: While EBITDA for the Nifty 50 universe excluding Financials grew by a robust 52% YoY, it declined by 8.9% on a QoQ basis in Q1FY22. High global commodity inflation and increase in operating expenses weighed on operating margins, that fell by 68bps YoY and 34bps QoQ to five-quarter low of 21%. This has led to reversal in aggressive cost rationalisation efforts undertaken in FY21 that had led to 9.4% YoY growth in EBITDA despite revenue contraction (-3.7% YoY).

Notably, raw material (RM) costs and salaries & wages of Nifty 50 non-financial companies have increased on a YoY as well as QoQ in the June quarter. The input costs for the Nifty 50 companies (excl. financials) rose by 110% YoY (-7.3% QoQ), thanks to pass through of elevated commodity prices. While RM cost has fallen sequentially in the backdrop of slowdown in manufacturing activity during the deadlier second wave, its ratio as a percentage of net sales rose by 1,278bps YoY/8bps QoQ. Total expenses (excluding interest and depreciation) increased by 68.4% YoY—higher than 56.9% YoY jump in net sales) and declined by 6.7% QoQ (vs 7.5% QoQ decline in net sales) indicating a negative operating leverage.

While all sectors reported an expansion in EBITDA on a YoY basis, Consumer Discretionary, Industrials, Energy and Consumer Staples declined on a sequential basis. Within the Nifty 50 universe, 32 and 16 of the 39 non-financial companies posted an YoY and QoQ growth respectively in EBITDA.

Figure 3: Change in expenses for Nifty 50 companies (ex-Financials) in Q1FY22



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.

Table 3: EBITDA growth of Nifty 50 companies in Q1FY22

	QoQ growth			YoY growth		
Sector	**Jun-20**	**Mar-21**	**Jun-21**	**Jun-20**	**Mar-21**	**Jun-21**
Communication Services	7.2	8.9	5.7	28.2	25.5	23.8
Consumer Discretionary	(52.0)	1.1	(55.4)	(68.5)	168.5	149.5
Consumer Staples	(4.1)	2.0	(6.5)	(12.8)	13.7	10.9
Energy	65.0	26.8	(12.4)	(27.4)	175.7	46.3
Financials	3.9	(0.6)	(1.3)	(2.1)	9.2	3.8
Health Care	28.0	(27.6)	35.0	(3.8)	20.4	27.0
Industrials	(31.1)	18.0	(34.2)	(21.1)	34.8	28.8
Information Technology	(1.9)	(2.2)	2.5	4.2	15.9	21.1
Materials	(43.7)	25.1	5.9	(46.5)	81.6	241.7
Utilities	(7.4)	(8.9)	8.7	15.9	(13.2)	1.9
Nifty 50	**1.5**	**6.8**	**(6.2)**	**(12.5)**	**39.7**	**29.1**
Nifty 50 ex-Energy	**(6.0)**	**2.5**	**(4.5)**	**(8.7)**	**23.7**	**25.6**
Nifty 50 ex-Financials	**(0.5)**	**11.4**	**(8.9)**	**(20.2)**	**66.1**	**52.0**
Nifty 50 ex-energy ex-fin	**(16.6)**	**5.3**	**(7.3)**	**(16.2)**	**39.2**	**54.7**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Table 4: EBITDA margin of Nifty 50 companies in Q1FY22

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	51.0	69	478
Consumer Discretionary	9.3	(641)	191
Consumer Staples	27.6	(92)	(200)
Energy	14.9	(117)	(258)
Financials	56.2	83	207
Health Care	26.3	440	97
Industrials	23.6	10	(277)
Information Technology	27.7	(77)	86
Materials	27.0	247	1274
Utilities	50.1	459	(520)
Nifty 50	**27.6**	**14**	**(270)**
Nifty 50 ex-Energy	**34.8**	**99**	**(96)**
Nifty 50 ex-Financials	**21.0**	**(34)**	**(68)**
Nifty 50 ex-energy ex-fin	**26.0**	**48**	**134**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 4: Sector-wise EBITDA growth of Nifty 50 companies in Q1FY22

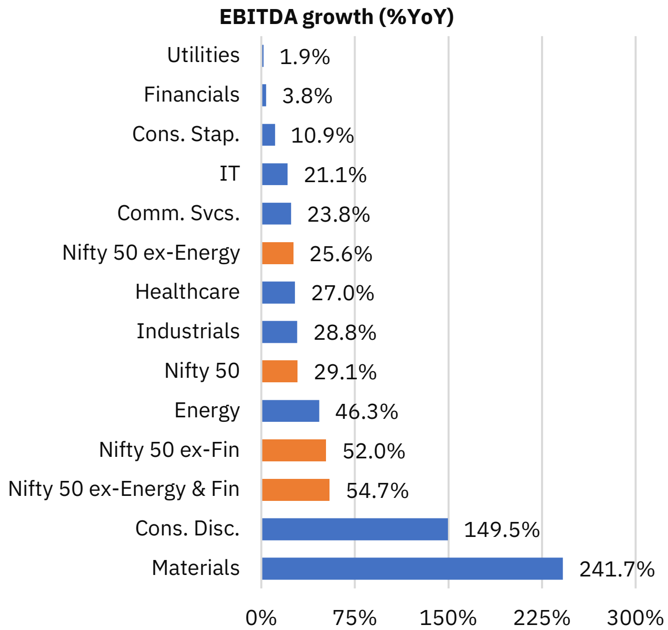
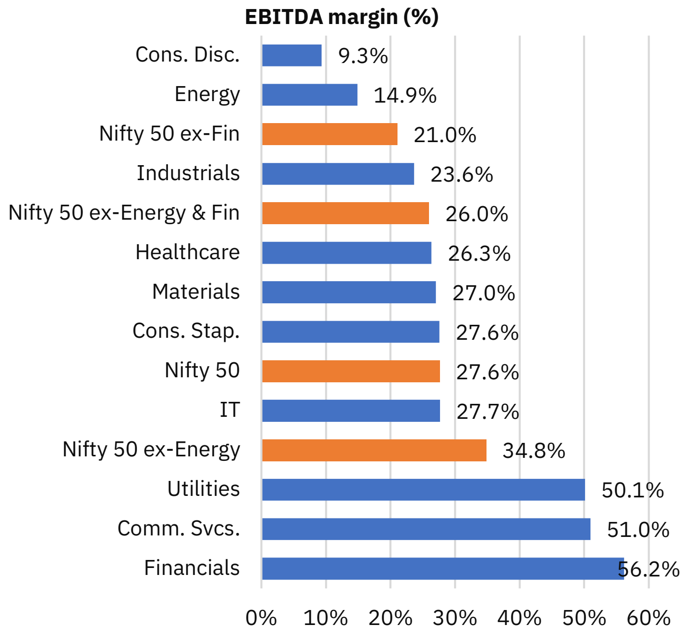


Figure 5: Sector-wise EBITDA margin of Nifty 50 companies in Q1FY22



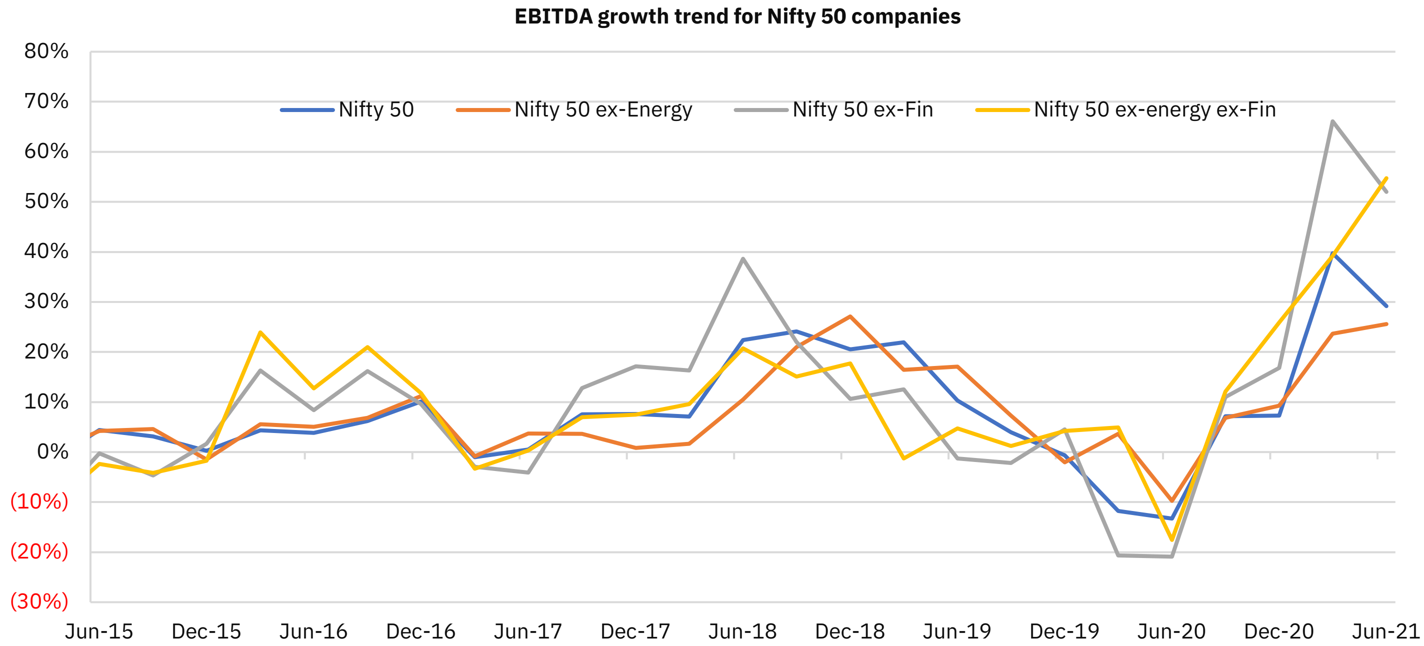
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Table 5: Sector-wise contribution of Nifty 50 companies to EBITDA growth in Q1FY22

Sector	EBITDA (Rsbn)	Contribution to EBITDA growth	
		% QoQ	% YoY
Communication Services	137	0.2	1.0
Consumer Discretionary	114	(3.8)	2.5
Consumer Staples	97	(0.2)	0.4
Energy	684	(2.6)	8.0
Financials	1,341	(0.5)	1.8
Health Care	58	0.4	0.5
Industrials	80	(1.1)	0.7
Information Technology	337	0.2	2.2
Materials	468	0.7	12.2
Utilities	201	0.4	0.1
Nifty 50	**3,518**	**(6.2)**	**29.1**
Nifty 50 ex-Energy	**2,834**	**(3.6)**	**21.2**
Nifty 50 ex-Financials	**2,177**	**(5.7)**	**27.3**
Nifty 50 ex-energy ex-fin	**1,492**	**(3.1)**	**19.4**

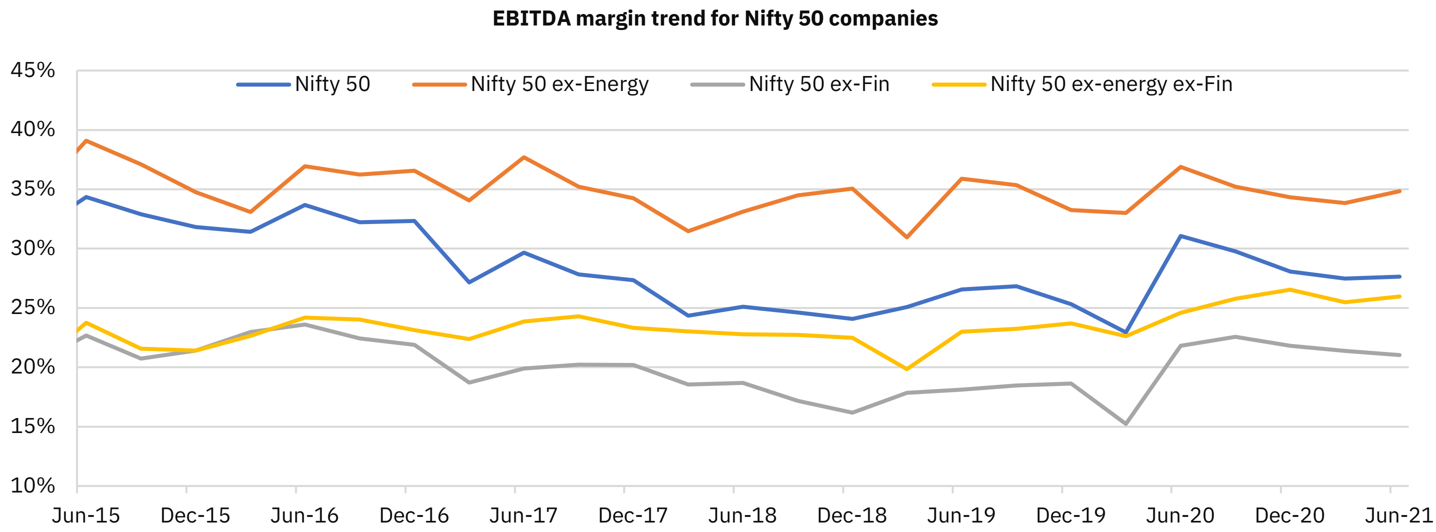
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 6: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 7: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Rising cost pressures and weak demand impact profitability: While aggregate adjusted PAT for the Nifty 50 companies grew by a strong 104% YoY in Q1FY22, albeit off a very depressed base (-30.9% YoY decline in Q1FY21), it fell by 14.2% on a QoQ basis, thanks to a weak demand scenario in the first quarter as states reimposed lockdowns to contain the spread of the second wave of pandemic. Savings in interest costs (-7.1% YoY; -0.7% QoQ) were offset by rising cost pressures. While PAT margin for the aggregate Nifty50 universe improved 315bps YoY, it fell by 91bps QoQ to a four-quarter low of 10.3%.

Sectors that drove the sequential contraction in aggregate PAT in Q1 included a) Consumer Discretionary: COVID-induced deterioration in discretionary demand and rising input price pressures; b) Industrials: Increasing raw material costs accentuated by supply-side hurdles; c) Energy: Weak demand scenario due to sequential slowdown in manufacturing activity during the second wave; d) Financials: Higher base effect further impacted by muted loan growth and weak recoveries; and e) Communication Services: Muted rise in average revenue per user (ARPU).

Sectors that reported a sequential expansion in operating profit included a) Health Care: Savings in borrowing costs coupled with improved demand; b) Materials: Higher commodity prices leading to higher realisations; and c) Information Technology: Improved traction in demand for IT services. While 32 of the 50 Nifty50 companies posted an YoY growth in PAT, only 17 companies reported growth on a sequential basis.

Table 6: PAT growth of Nifty 50 companies in Q1FY22

Sector	QoQ growth			YoY growth		
	Jun-20	Mar-21	Jun-21	Jun-20	Mar-21	Jun-21
Communication Services	124.4	NA	(2.1)	NA	(36.1)	(72.1)
Consumer Discretionary	NA	20.7	(121.2)	(1263.3)	NA	NA
Consumer Staples	(4.5)	5.4	(7.2)	(3.7)	15.0	11.8
Energy	NA	46.6	(21.1)	(41.1)	NA	104.5
Financials	10.4	3.2	(6.3)	(2.7)	75.5	48.9
Health Care	21.9	(39.3)	53.7	(16.9)	15.8	46.0
Industrials	(71.1)	21.7	(44.1)	(61.6)	38.9	168.5
Information Technology	(6.4)	(12.3)	13.2	0.6	3.3	24.9
Materials	(131.7)	42.9	13.9	(133.9)	172.7	NA
Utilities	36.1	(13.2)	2.2	22.3	24.2	(6.7)
Nifty 50	**2.9**	**15.0**	**(14.2)**	**(30.9)**	**145.1**	**104.3**
Nifty 50 ex-Energy	**(22.8)**	**6.5**	**(11.7)**	**(26.7)**	**78.5**	**104.2**
Nifty 50 ex-Financials	**(0.8)**	**19.3**	**(16.7)**	**(40.5)**	**179.7**	**135.0**
Nifty 50 ex-energy ex-fin	**(39.3)**	**8.2**	**(14.2)**	**(40.1)**	**80.0**	**154.2**

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

Table 7: PAT margin of Nifty 50 companies in Q1FY22

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	3.4	(22)	(1026)
Consumer Discretionary	(2.1)	(969)	1310
Consumer Staples	18.6	(77)	(120)
Energy	7.1	(140)	114
Financials	14.3	(55)	469
Health Care	15.9	427	257
Industrials	8.5	(147)	394
Information Technology	18.1	125	110
Materials	14.2	220	1684
Utilities	16.0	54	(331)
Nifty 50	**10.3**	**(91)**	**315**
Nifty 50 ex-Energy	**12.1**	**(61)**	**445**
Nifty 50 ex-Financials	**9.4**	**(103)**	**312**
Nifty 50 ex-energy ex-fin	**11.2**	**(69)**	**473**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 8: Sector-wise PAT growth of Nifty 50 companies in Q1FY22

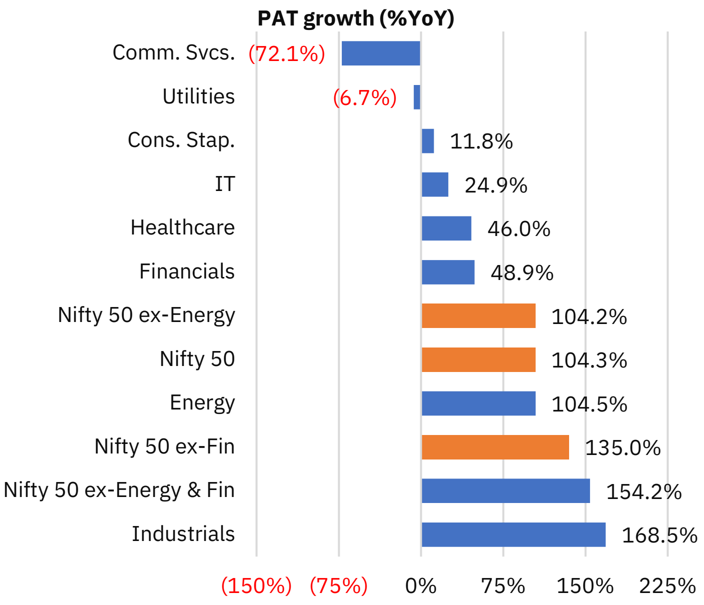
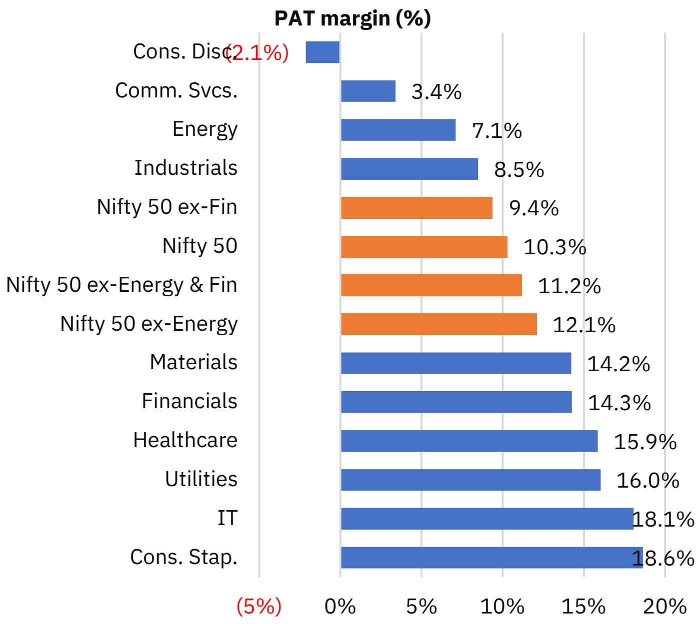


Figure 9: Sector-wise PAT margin of Nifty 50 companies in Q1FY22



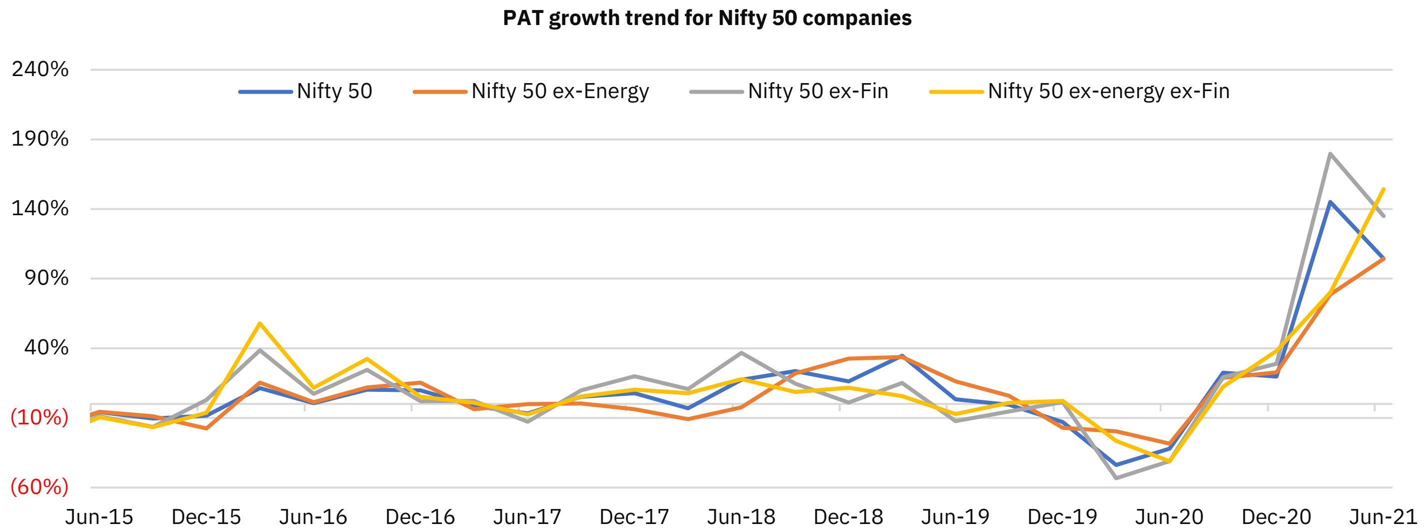
Source: CMIE Prowess, Refinitiv Datastream, NSE

Table 8: Sector-wise contribution of Nifty 50 companies to PAT growth in Q1FY22

Sector	PAT (Rsbn)	Contribution to PAT growth	
		% QoQ	% YoY
Communication Services	9	(0.0)	(3.7)
Consumer Discretionary	-26	(9.7)	10.5
Consumer Staples	66	(0.3)	1.1
Energy	327	(5.7)	26.0
Financials	341	(1.5)	17.4
Health Care	35	0.8	1.7
Industrials	29	(1.5)	2.8
Information Technology	220	1.7	6.9
Materials	246	2.0	42.3
Utilities	64	0.1	(0.7)
Nifty 50	**1,311**	**(14.2)**	**104.3**
Nifty 50 ex-Energy	**984**	**(8.5)**	**78.3**
Nifty 50 ex-Financials	**971**	**(12.7)**	**86.9**
Nifty 50 ex-energy ex-fin	**644**	**(7.0)**	**60.8**

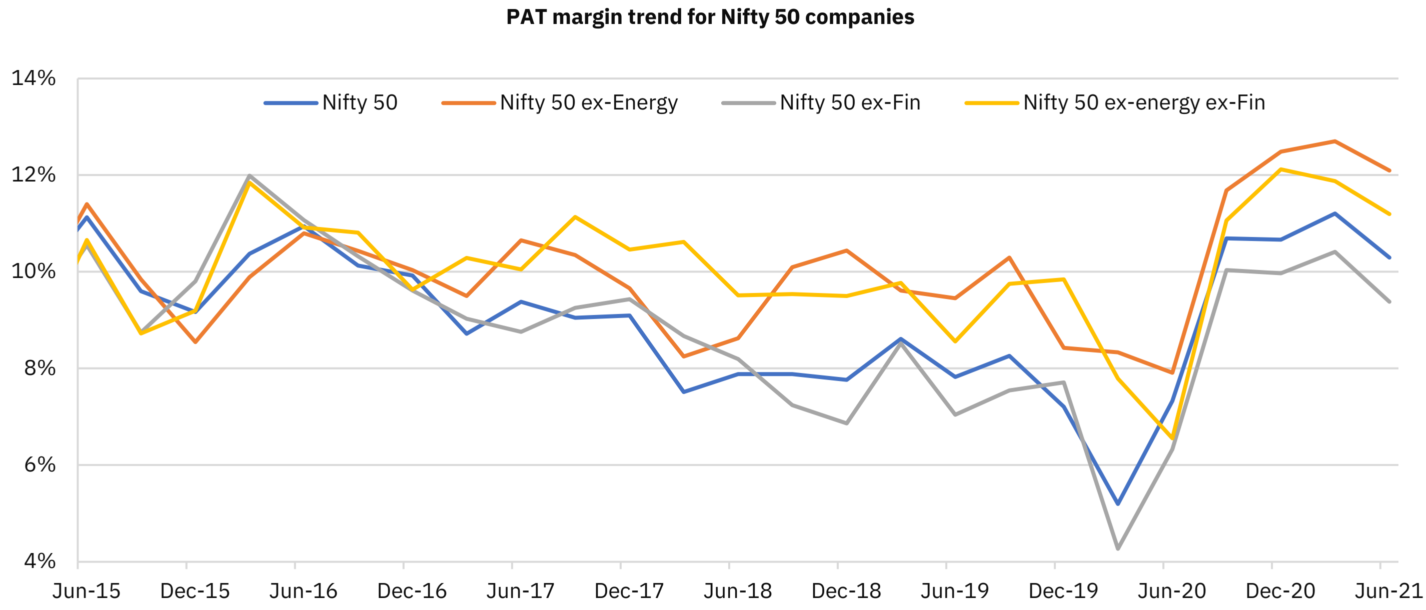
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 10: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 11: PAT margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Nifty 500 Q1FY22 results

Net sales for Nifty 500 companies improved YoY; offset by the second wave: Aggregate top-line for the Nifty 500 companies also grew by a robust 41.8% on a YoY basis in Q1FY22 but off a low base of last year when the strict nation-wide lockdown had led to a steep 24.9% YoY drop in revenues. Their QoQ performance in the June quarter, however, suffered from COVID resurgence, which affected the demand environment and business activities, albeit lesser than the first wave. Within the Nifty 500 universe, 432 companies have recorded an YoY expansion in sales, however, only 198 companies reported growth on a QoQ basis in the June quarter.

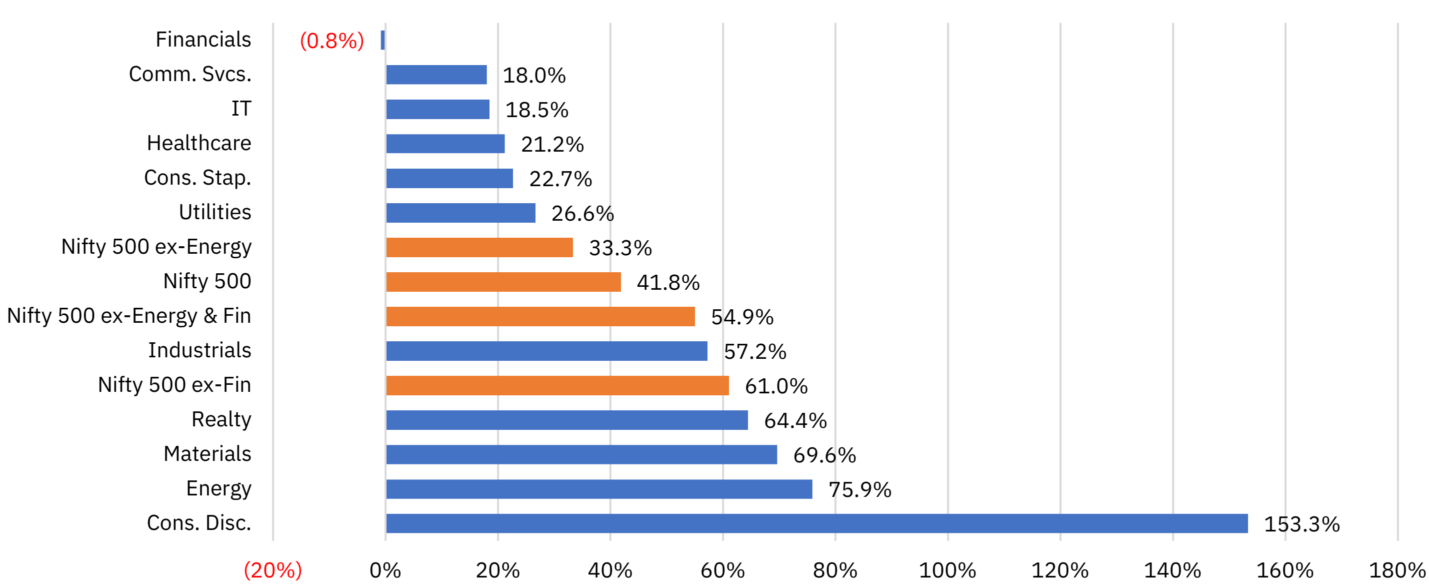
Sectors that were impacted negatively in the June quarter on a QoQ basis included a) Real Estate: Decline in sales and leasing contracts during the second wave; b) Industrials: Delays in capex spend by corporates due to concerns over impending third wave; and c) Consumer Discretionary: Weak demand for automobiles and consumer durables as a result of second round of lockdowns. Other sectors that posted single digit decline in net sales growth were Energy, Materials and Financials. While Energy and Materials were impacted by muted manufacturing demand due to second wave, Financials were impacted by weak loan growth and slippages in loan recoveries due to muted economic activity.

Table 9: Net sales growth of Nifty 500 companies in Q1FY22

Sector	QoQ growth			YoY growth		
	Jun-20	Mar-21	Jun-21	Jun-20	Mar-21	Jun-21
Communication Services	(6.8)	(0.9)	0.1	(3.2)	9.9	18.0
Consumer Discretionary	(58.9)	34.6	(22.9)	(62.0)	35.1	153.3
Consumer Staples	(6.5)	2.7	(3.3)	(13.6)	18.6	22.7
Energy	(42.2)	17.7	(5.3)	(46.5)	7.4	75.9
Financials	20.4	(6.5)	(2.5)	18.5	22.5	(0.8)
Health Care	(4.1)	(2.0)	8.6	1.8	7.2	21.2
Industrials	(51.5)	27.4	(32.5)	(42.9)	12.4	57.2
Information Technology	(4.6)	1.8	2.9	2.8	9.8	18.5
Materials	(24.3)	15.1	(4.2)	(26.8)	34.2	69.6
Real Estate	(62.1)	11.8	(40.6)	(62.8)	4.8	64.4
Utilities	(17.7)	8.9	1.5	(16.0)	2.6	26.6
Nifty 500	**(23.5)**	**10.9**	**(7.9)**	**(24.9)**	**17.9**	**41.8**
Nifty 500 ex-Energy	**(16.8)**	**8.9**	**(8.7)**	**(16.5)**	**21.7**	**33.3**
Nifty 500 ex-Financials	**(34.3)**	**16.4**	**(9.3)**	**(35.5)**	**16.8**	**61.0**
Nifty 500 ex-energy ex-fin	**(30.4)**	**15.9**	**(11.0)**	**(29.6)**	**21.4**	**54.9**

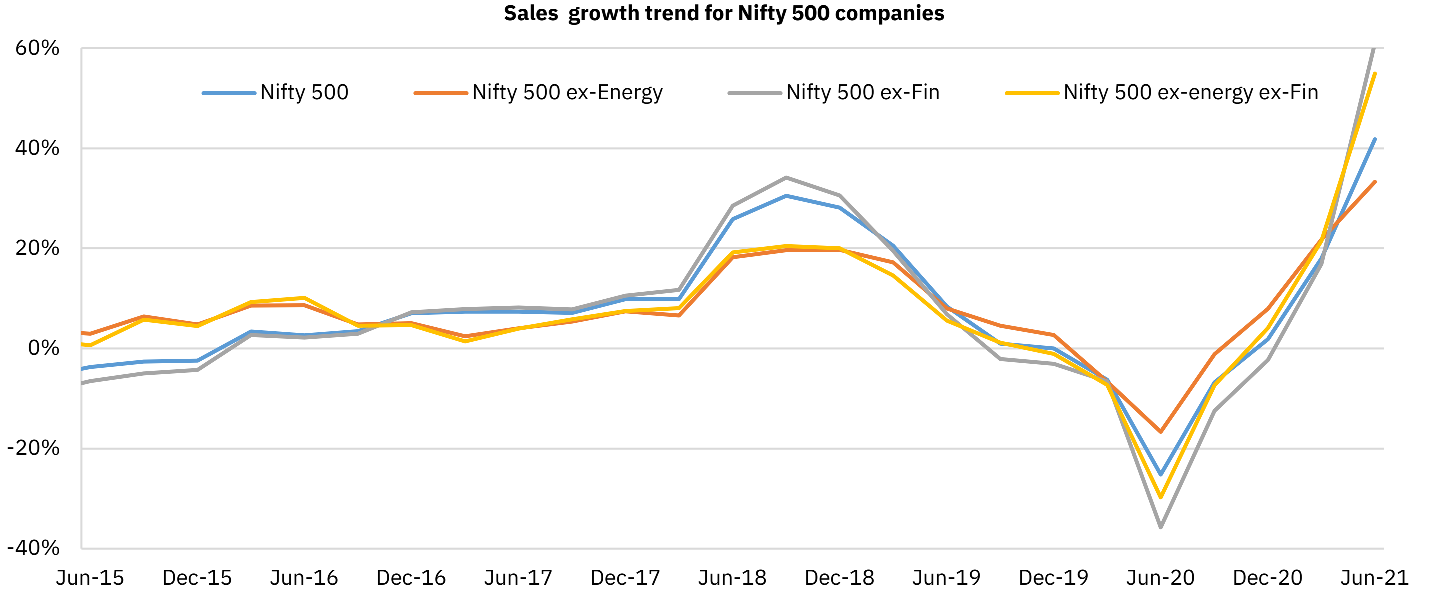
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 12: Sector-wise net sales growth of Nifty 500 companies in Q1FY22



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 13: Net sales YoY growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Table 10: Sector-wise contribution of Nifty 500 companies to net sales growth in Q1FY22

Sector	Net sales (Rsbn)	Contribution to net sales growth % QoQ	% YoY
Communication Services	549	0.0	0.5
Consumer Discretionary	2,457	(3.0)	9.3
Consumer Staples	743	(0.1)	0.9
Energy	5,598	(1.3)	15.2
Financials	4,901	(0.5)	(0.3)
Health Care	782	0.3	0.9
Industrials	1,394	(2.8)	3.2
Information Technology	1,590	0.2	1.6
Materials	3,576	(0.6)	9.2
Real Estate	47	(0.1)	0.1
Utilities	944	0.1	1.2
Nifty 500	**22,581**	**(7.9)**	**41.8**
Nifty 500 ex-Energy	**16,983**	**35.0**	**26.7**
Nifty 500 ex-Financials	**17,680**	**39.1**	**42.1**
Nifty 500 ex-energy ex-fin	**12,082**	**32.3**	**26.9**

Source: CMIE Prowess, Refinitiv Datastream, NSE

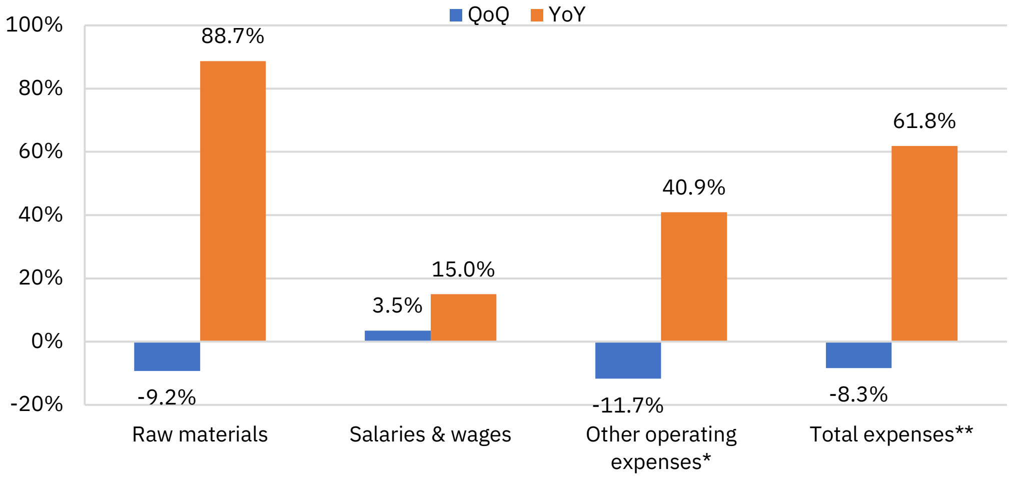
Rising cost pressures hit EBITDA margins: Aggregate EBITDA for the Nifty 500 universe excluding Financials grew by an optically higher rate of 58.1%YoY as compared to 25.5% YoY decline in the same quarter last year. Notwithstanding a strong favourable base-led YoY rebound, rising raw materials and operating cost pressures, couples with a sequential drop in sales amidst a deadlier second wave, has subsequently led to a sequential decline in operating profits.

Aggressive efforts undertaken by corporates to curtail operating costs during the last fiscal year (2020-21) were reversed to a large extent, thanks to surge in input costs in the wake of rising global commodity prices, rising spend on wages and increase in other operating expenses compared to the same period last year.

Total RM costs for the Nifty 500 universe excluding Financials rose by 88.7% YoY (-15.6% QoQ) leading to RM to sales ratio expanding by 759bps YoY even as it remained broadly steady on a sequential basis. Salaries and wage bill also rose by 15% YoY and 3.5% QoQ. Total expenses (excluding depreciation and interest) in the June quarter rose 61.8% YoY (-8.3% QoQ) resulting in margin compression by 37bps YoY (19bps QoQ) to a five-quarter low of 19.9%.

While 288 of 498 non-financial companies reported an YoY growth in EBITDA in the June quarter, only 152 of these companies reported a growth on a QoQ basis. Except Health Care, Utilities, Materials and Information Technology, all other sectors reported a sequential contraction in operating profit, with Consumer Discretionary and Industrials leading the pack.

Figure 14: Change in expenses for Nifty 500 companies (ex-Financials) in Q1FY22



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.

Table 11: EBITDA growth of Nifty 500 companies in Q1FY22

	QoQ growth			YoY growth		
Sector	Jun-20	Mar-21	Jun-21	Jun-20	Mar-21	Jun-21
Communication Services	4.9	(0.1)	(1.7)	7.6	34.0	25.5
Consumer Discretionary	(71.6)	1.8	(50.9)	(80.7)	115.0	273.7
Consumer Staples	(0.1)	(0.4)	(6.3)	(17.2)	20.8	13.3
Energy	98.0	28.3	(13.7)	(24.0)	231.4	44.4
Financials	26.6	(3.8)	0.2	6.5	23.7	(2.1)
Health Care	22.7	(15.8)	18.0	3.4	26.9	21.4
Industrials	(55.9)	12.9	(41.3)	(59.4)	24.4	66.4
Information Technology	(2.3)	(1.3)	1.9	4.3	17.4	22.5
Materials	(35.3)	17.9	2.2	(35.4)	68.3	165.6
Real Estate	(48.6)	3.9	(33.2)	(59.4)	14.9	49.4
Utilities	(12.2)	(1.9)	6.8	2.5	(6.6)	13.6
Nifty 500	**7.6**	**3.6**	**(5.8)**	**(10.4)**	**42.0**	**24.2**
Nifty 500 ex-Energy	**2.2**	**0.6**	**(4.6)**	**(8.5)**	**30.6**	**21.9**
Nifty 500 ex-Financials	**(9.8)**	**9.6**	**(10.2)**	**(25.5)**	**58.7**	**58.1**
Nifty 500 ex-energy ex-fin	**(23.0)**	**5.1**	**(9.1)**	**(26.0)**	**37.7**	**62.3**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Table 12: EBITDA margin of Nifty 500 companies in Q1FY22

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	43.7	(81)	262
Consumer Discretionary	7.9	(449)	254
Consumer Staples	21.6	(70)	(179)
Energy	13.7	(133)	(298)
Financials	57.1	154	(73)
Health Care	25.6	203	5
Industrials	13.7	(205)	76
Information Technology	24.7	(22)	81
Materials	27.5	172	994
Real Estate	38.4	424	(387)
Utilities	39.4	194	(452)
Nifty 500	**28.0**	**61**	**(396)**
Nifty 500 ex-Energy	**32.7**	**140**	**(306)**
Nifty 500 ex-Financials	**19.9**	**(19)**	**(37)**
Nifty 500 ex-energy ex-fin	**22.8**	**47**	**104**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 15: Sector-wise EBITDA growth of Nifty 500 companies in Q1FY22

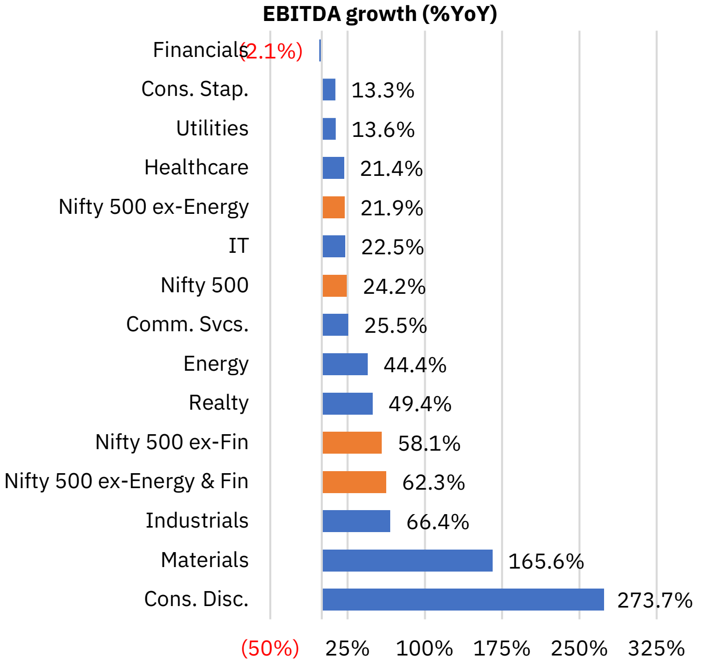
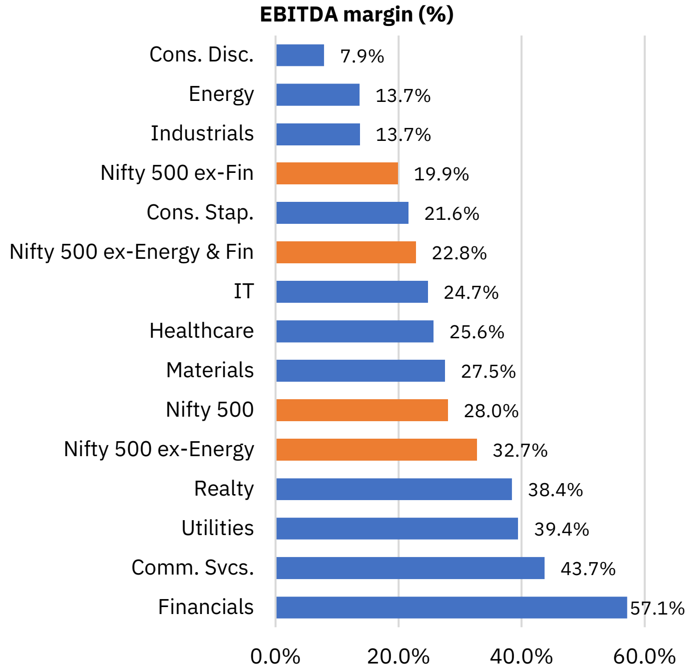


Figure 16: Sector-wise EBITDA margin of Nifty 500 companies in Q1FY22



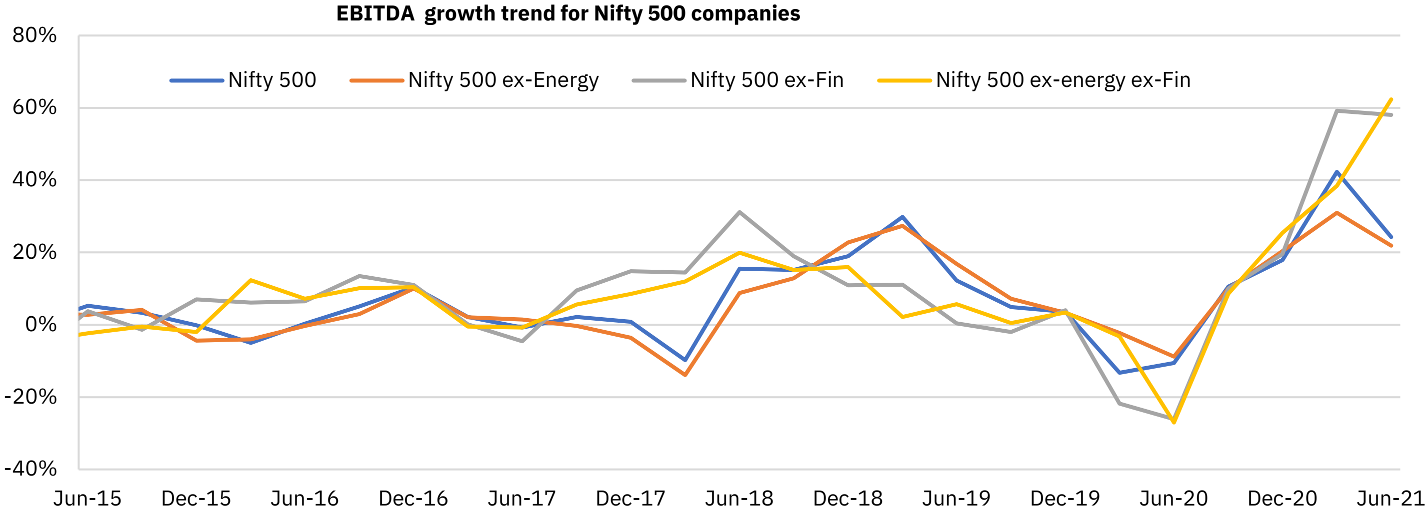
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Table 13: Sector-wise contribution of Nifty 500 companies to EBITDA growth in Q1FY22

Sector	EBITDA (Rsbn)	Contribution to EBITDA growth	
		% QoQ	% YoY
Communication Services	240	(0.1)	1.0
Consumer Discretionary	194	(3.0)	2.8
Consumer Staples	160	(0.2)	0.4
Energy	765	(1.8)	4.6
Financials	2,799	0.1	(1.2)
Health Care	201	0.5	0.7
Industrials	191	(2.0)	1.5
Information Technology	393	0.1	1.4
Materials	984	0.3	12.1
Real Estate	18	(0.1)	0.1
Utilities	372	0.4	0.9
Nifty 500	**6,318**	**(5.8)**	**24.2**
Nifty 500 ex-Energy	**5,552**	**(4.0)**	**19.6**
Nifty 500 ex-Financials	**3,518**	**(5.9)**	**25.4**
Nifty 500 ex-energy ex-fin	**2,753**	**(4.1)**	**20.8**

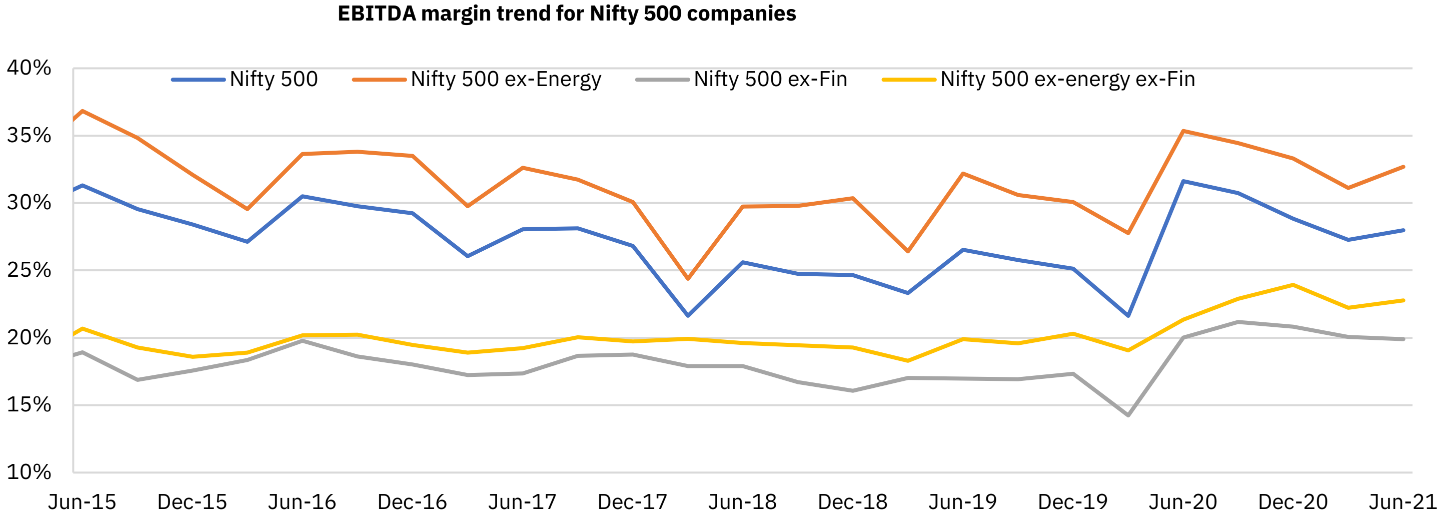
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 17: EBITDA growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 18: EBITDA margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Adjusted PAT recorded a sharp rebound in the June quarter over a low base: Aggregate adjusted PAT for Nifty 500 companies grew by an optically robust 118% YoY in the June quarter, albeit off an extremely low base (-36.5% YoY in the same quarter last year). This, however, was accompanied with a sequential decline of 15.1%—a result of poor aggregate demand and high operating costs, partly offset by savings in borrowing costs. While interest expenses of the Nifty 500 universe (excluding Financials) declined by 14.6% YoY thanks to deleveraging exercise by corporates and drop in market interest rates owing to massive liquidity injection and rate cuts by the RBI, savings on a QoQ basis were marginal. Consequently, PAT margin improved by 312bps YoY but compressed by 75bps QoQ to a four-quarter low of 8.9% in the quarter ending June 2021.

Within the Nifty 500 universe, 213 and 102 companies reported growth in net profits on a YoY and QoQ basis in the June quarter respectively. All sectors except Health Care, Information Technology and Financials reported a sequential decline in net profit.

Table 14: PAT growth of Nifty 500 companies in Q1FY22

	QoQ growth			YoY growth		
Sector	**Jun-20**	**Mar-21**	**Jun-21**	**Jun-20**	**Mar-21**	**Jun-21**
Communication Services	NA	NA	NA	NA	NA	NA
Consumer Discretionary	NA	16.2	(113.1)	(386.1)	NA	NA
Consumer Staples	1.3	1.1	(6.7)	(12.1)	26.3	16.3
Energy	NA	46.1	(22.1)	(35.6)	NA	95.9
Financials	1125.2	(13.5)	7.6	17.5	1392.8	31.1
Health Care	35.8	(21.5)	22.6	4.2	55.4	38.7
Industrials	(148.5)	28.2	(79.9)	(136.5)	78.2	NA
Information Technology	(6.3)	(9.5)	10.2	1.4	8.1	27.2
Materials	(72.7)	36.5	(2.1)	(76.1)	210.3	1010.7
Real Estate	(132.3)	(25.6)	(36.5)	(129.4)	23.0	NA
Utilities	(15.4)	0.9	(0.3)	3.1	6.3	25.3
Nifty 500	**32.4**	**9.6**	**(15.1)**	**(36.5)**	**239.6**	**118.1**
Nifty 500 ex-Energy	**0.8**	**3.3**	**(13.3)**	**(36.7)**	**160.0**	**123.7**
Nifty 500 ex-Financials	**(23.4)**	**18.2**	**(21.2)**	**(53.8)**	**180.8**	**188.7**
Nifty 500 ex-energy ex-fin	**(53.9)**	**11.1**	**(20.9)**	**(60.4)**	**100.3**	**242.0**

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

Table 15: PAT margin of Nifty 500 companies in Q1FY22

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	9.0	366	494
Consumer Discretionary	7.0	37	761
Consumer Staples	14.4	(23)	88
Energy	7.9	154	853
Financials	10.1	(87)	923
Health Care	12.2	(303)	380
Industrials	6.7	10	206
Information Technology	14.9	(187)	(24)
Materials	14.8	245	861
Real Estate	9.8	(492)	145
Utilities	15.3	(122)	53
Nifty 500	**10.4**	**26**	**662**
Nifty 500 ex-Energy	**11.2**	**(3)**	**579**
Nifty 500 ex-Financials	**10.4**	**61**	**596**
Nifty 500 ex-energy ex-fin	**11.6**	**28**	**448**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 19: Sector-wise PAT growth of Nifty 500 companies in Q1FY22

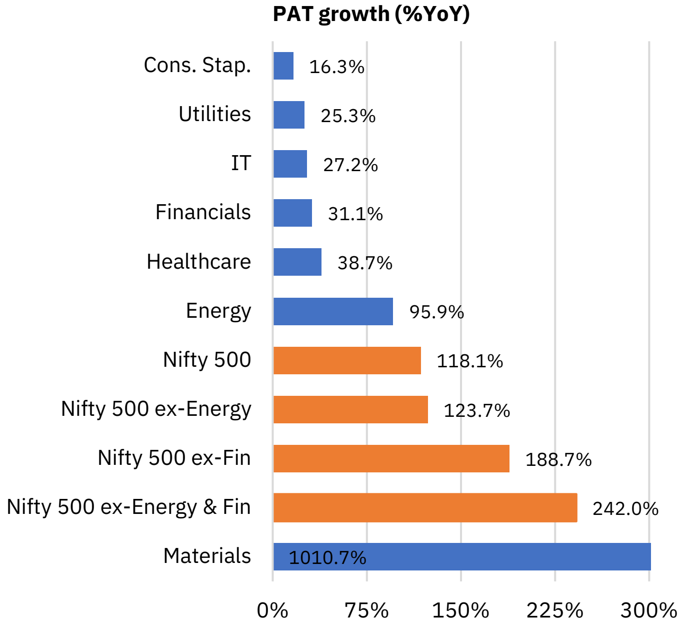
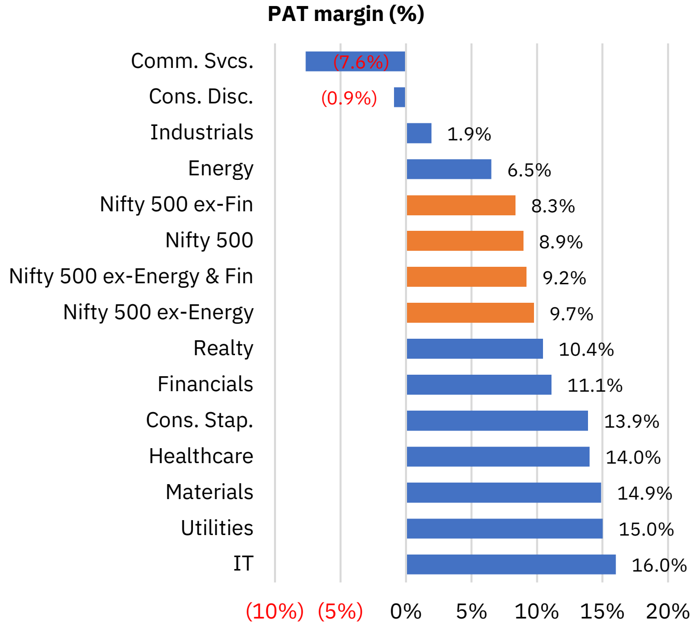


Figure 20: Sector-wise PAT margin of Nifty 500 companies in Q1FY22



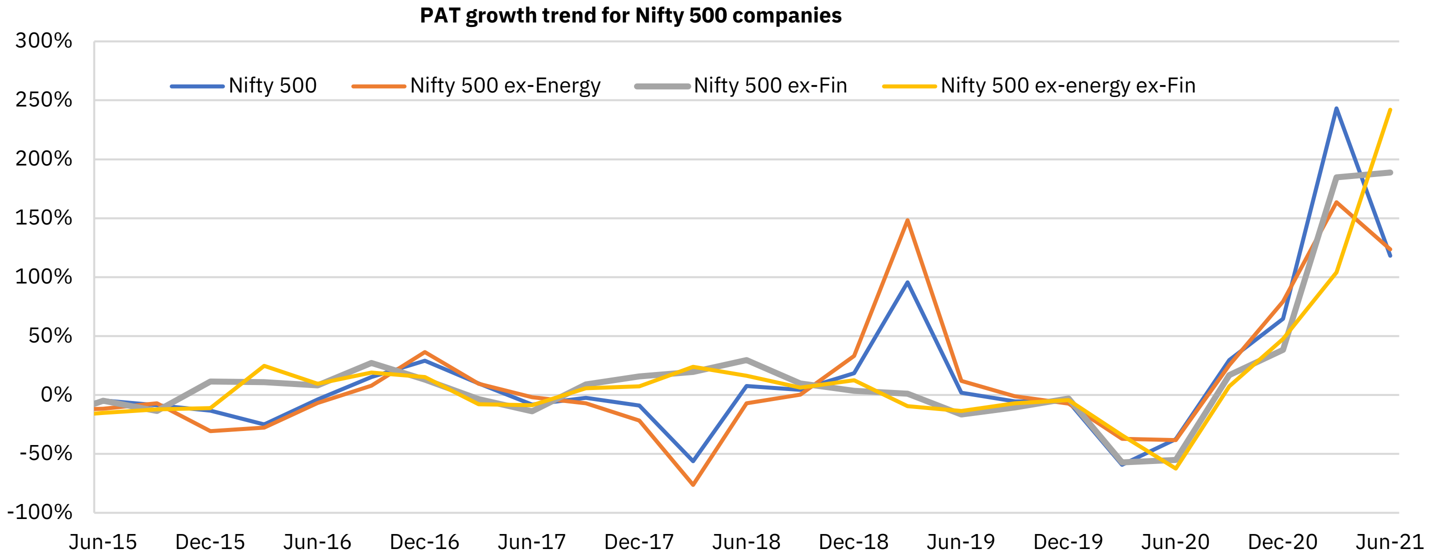
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Table 16: Sector-wise contribution of Nifty 500 companies to PAT growth in Q1FY22

Sector	PAT (Rsbn)	Contribution to PAT growth	
		% QoQ	% YoY
Communication Services	-42	(0.5)	(3.3)
Consumer Discretionary	-23	(8.3)	14.5
Consumer Staples	103	(0.3)	1.6
Energy	364	(4.4)	19.3
Financials	544	1.6	14.0
Health Care	110	1.0	3.3
Industrials	27	(4.5)	6.6
Information Technology	254	1.0	5.9
Materials	533	(0.5)	52.4
Real Estate	5	(0.1)	0.7
Utilities	142	(0.0)	3.1
Nifty 500	**2,018**	**(15.1)**	**118.1**
Nifty 500 ex-Energy	**1,653**	**(10.7)**	**98.8**
Nifty 500 ex-Financials	**1,474**	**(16.7)**	**104.1**
Nifty 500 ex-energy ex-fin	**1,109**	**(12.3)**	**84.8**

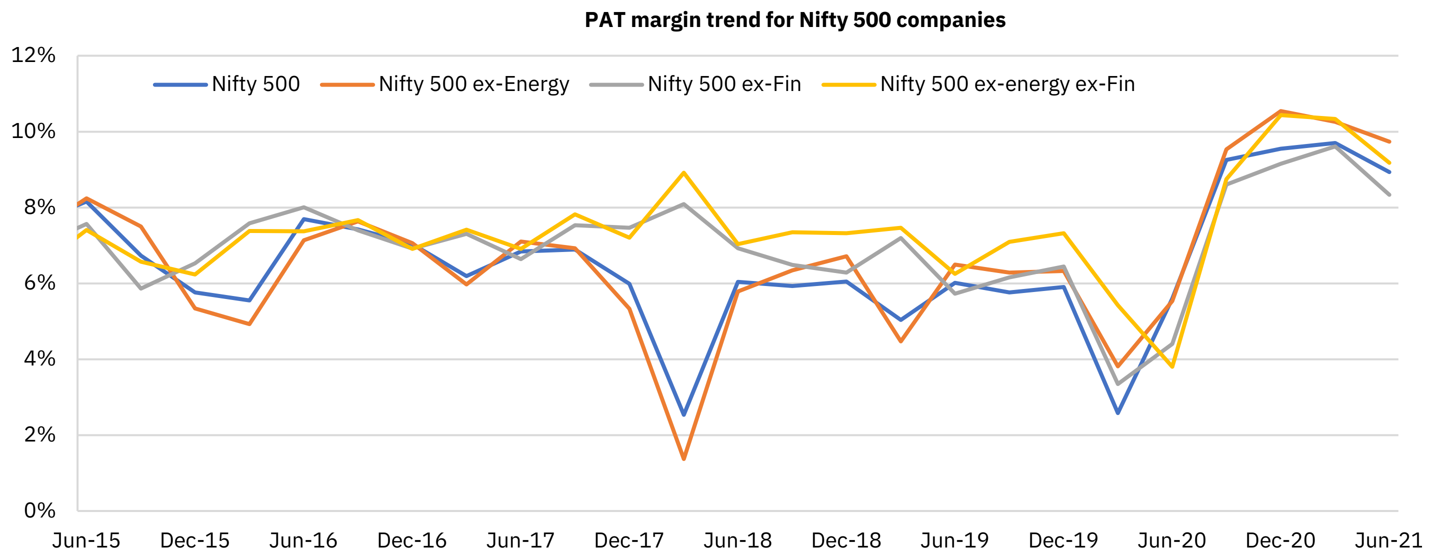
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 21: PAT growth trend of Nifty 500 companies



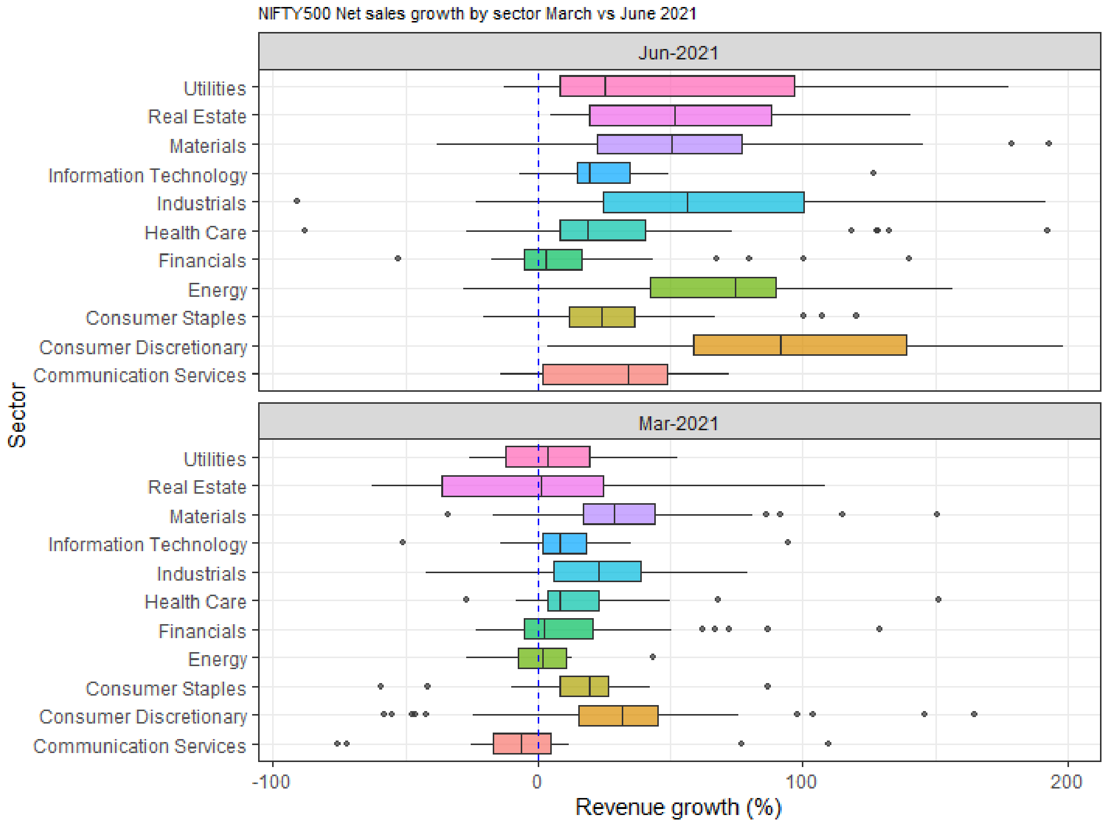
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 22: PAT margin trend of Nifty 500 companies



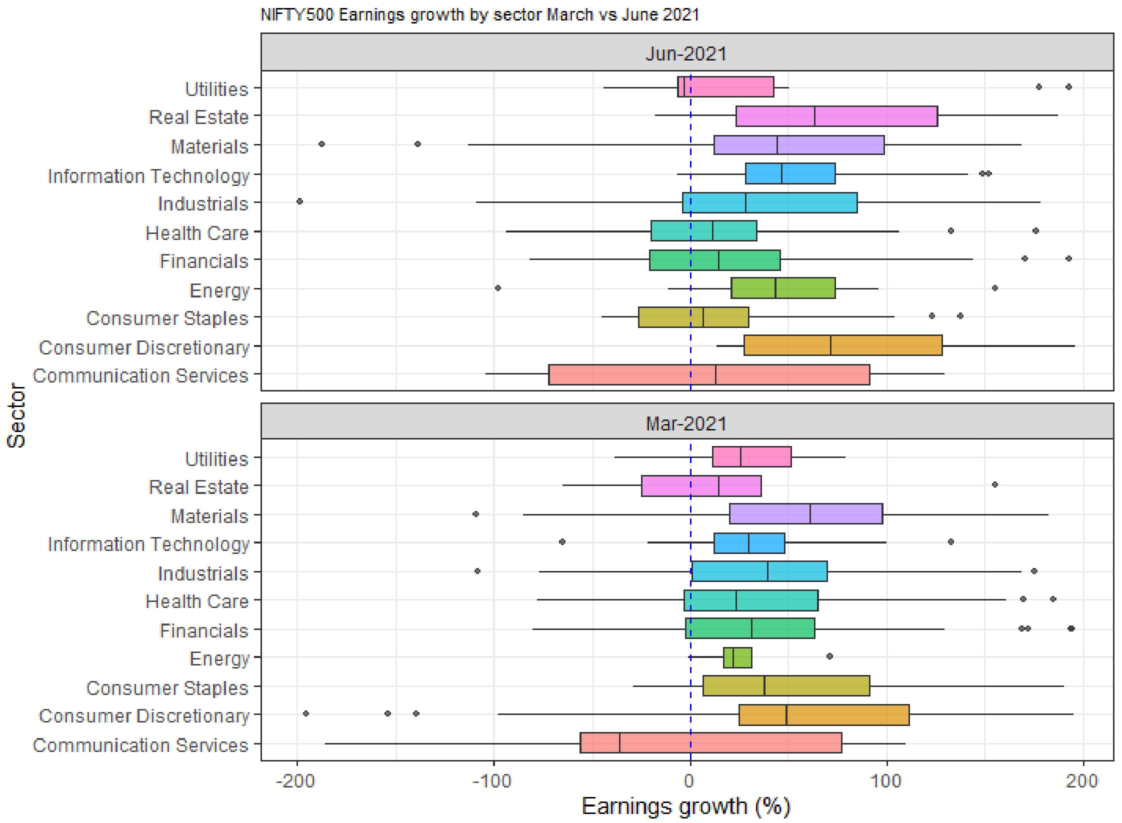
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 23: Distribution of NIFTY500 Sales growth by sector (March vs. June 2021)



Source: NSE

Figure 24: Distribution of NIFTY500 Earnings growth by sector (March vs. June 2021)



Source: NSE

Earnings revision analysis

Consensus FY22/FY23 aggregate PAT estimates kept broadly unchanged despite an expected sequentially weak quarter…: Corporate earnings in the first quarter of FY22 have been broadly in-line with market expectations, aided by a favourable base and implementation of relatively less stringent restrictions during the second wave. As such, aggregate consensus estimates for FY22 and FY23 have remained broadly unchanged. Our analysis of earnings performance of top 200 covered companies by market capitalisation[3] show that while aggregate profit estimate for FY22 has been broadly retained at Rs7.8trn as compared to estimates at the end of June 2021, FY23 profit estimate has seen a meagre 1.2% upgrade. This follows nearly 6% and 4% increase in FY22 and FY23 profit estimate in the first quarter of FY22.

With this, the aggregate earnings of top 200 companies are now expected to grow at a strong 39.2%/19.2% in FY22 and FY23 respectively following a 23.8% PAT growth in FY21, implying an earnings CAGR of 29% during FY21-23. This is primarily led by Consumer Discretionary, Industrials, Financials, Materials and Real Estate, comprising of nearly 40% of the aggregate corporate earnings of top 200 covered companies.

Implementation of localised and targeted lockdown restrictions during the second wave of COVID-19, which otherwise was far more virulent in terms of infection as well as mortality rates, ensured limited repercussions on business activities. This is not only reflected in corporate performance of the listed universe in the June quarter, but also in the overall economic performance as seen from several high-frequency indicators such as manufacturing PMI, e-way Bills, GST collections, mobility indicators, core imports among others. Expectations of a normal monsoon, renewed festive demand aided by further easing of COVID restrictions, accelerating pace of vaccinations and healthy external demand bode well for corporate earnings.

Figure 25: Aggregate consensus profit growth estimate for top 200 covered companies (% YoY)

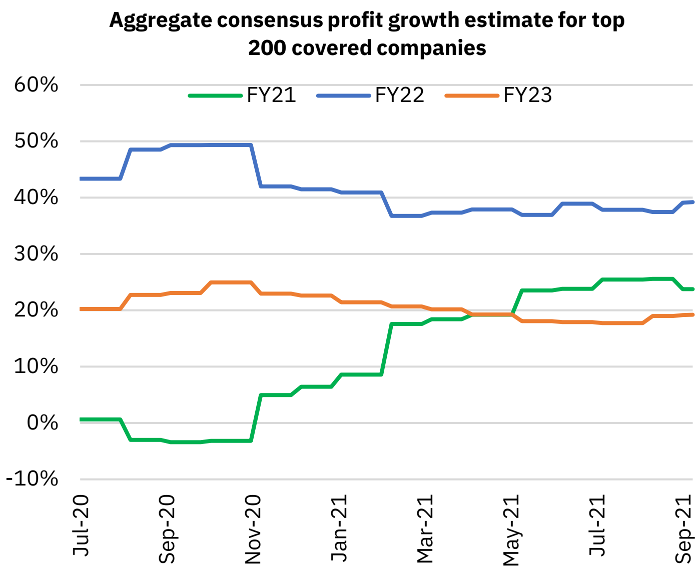
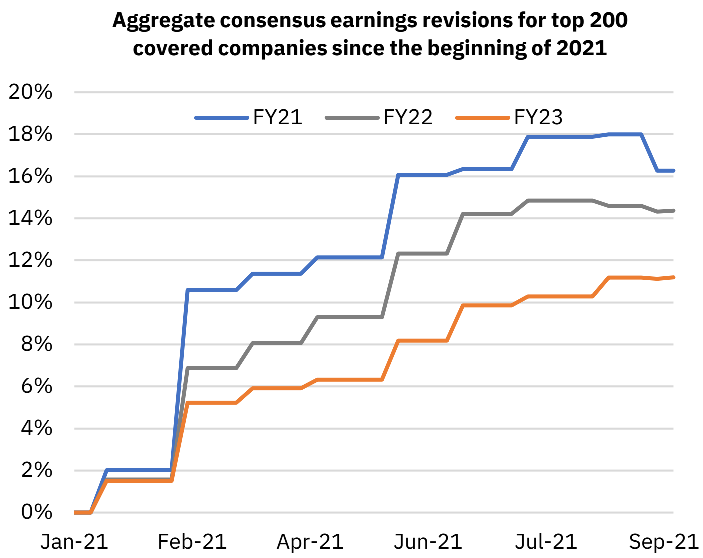


Figure 26: Aggregate consensus earnings revisions in 2021 till date for top 200 covered companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

[3] The sample set consists of top 200 companies by one-year average market cap ending June 30th, 2021 covered by at least five or more analysts during the previous 12 months using IBES estimates from Refinitiv Datastream.

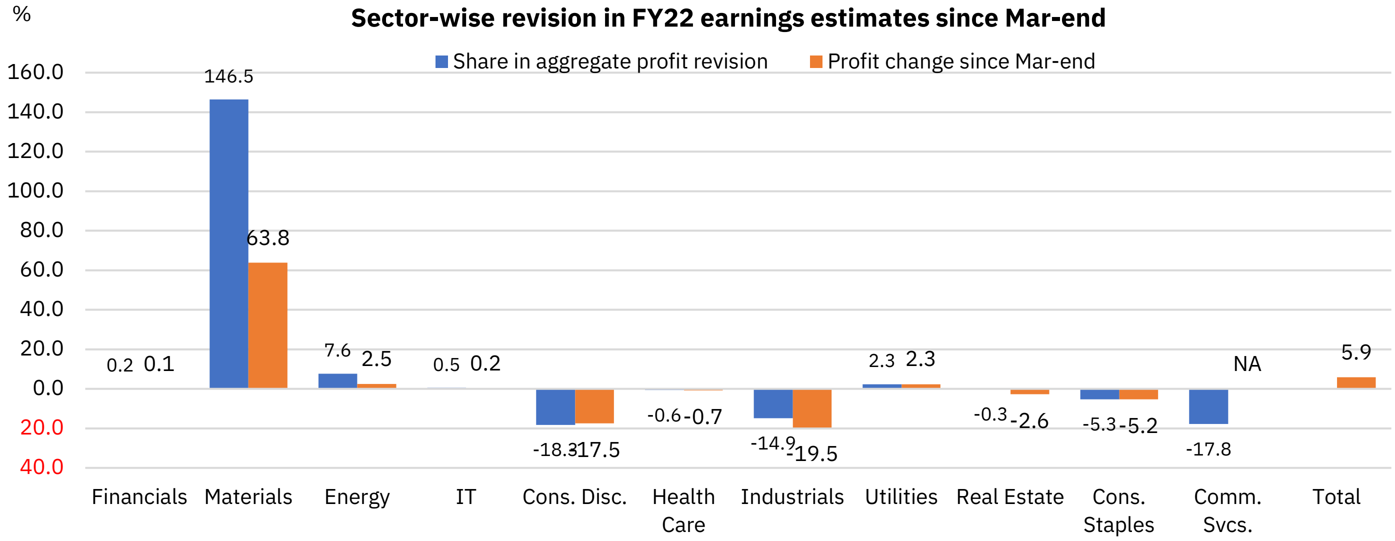
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of September 17th, 2020.

Table 17: Monthly trend of sector-wise FY22 consensus earnings growth estimate (% YoY)

Sectors	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	162.0	122.8	124.2	122.6	90.0	85.6	78.8	59.8	57.6
Consumer Staples	22.2	22.0	21.9	21.9	19.9	18.8	18.4	16.8	16.7
Energy	38.4	27.0	27.0	26.5	15.4	12.6	13.0	13.3	13.4
Financials	41.4	40.5	40.8	40.7	42.9	44.9	44.6	40.8	40.6
Health Care	17.7	14.0	13.8	13.4	14.0	13.2	12.8	11.2	11.4
Industrials	91.7	94.1	95.4	97.2	29.4	26.8	24.5	12.5	73.5
IT	15.0	15.0	14.5	15.9	19.4	19.3	18.3	18.7	18.8
Materials	33.1	24.5	24.7	28.2	43.7	61.7	67.8	80.8	82.3
Real Estate	26.9	32.4	32.6	30.3	65.3	97.0	95.5	94.7	94.3
Utilities	19.2	18.3	18.7	18.8	18.7	15.2	9.8	10.5	10.3
Total	**40.9**	**36.8**	**37.3**	**37.9**	**36.9**	**38.9**	**37.9**	**37.4**	**39.2**

Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. * Data is as of September 17th, 2021.

Figure 27: Sector-wise revision in FY22 earnings estimates since March-end



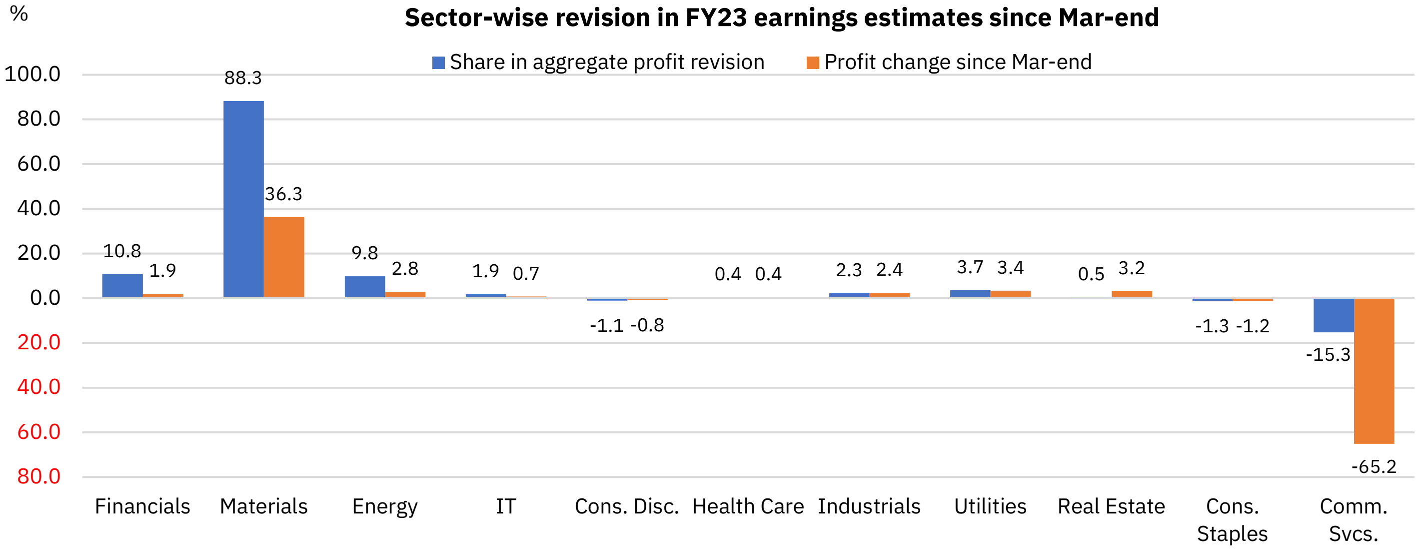
Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of September 17th, 2021.

Table 18: Monthly trend of sector-wise FY23 consensus earnings growth estimate (% YoY)

Sectors	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	26.4	29.1	29.9	29.6	32.0	34.6	39.4	54.6	56.4
Consumer Staples	13.5	13.3	13.4	13.5	14.9	16.4	16.7	18.3	18.2
Energy	18.9	19.8	18.4	17.4	18.8	20.2	19.4	18.9	18.9
Financials	30.0	27.2	26.4	26.0	25.5	25.7	26.0	28.6	28.7
Health Care	19.0	18.9	18.9	19.0	19.0	19.7	19.8	20.6	20.2
Industrials	23.3	25.8	26.2	26.2	28.6	45.6	47.9	60.9	60.6
IT	12.1	11.9	12.2	11.9	11.1	11.2	12.4	12.7	12.6
Materials	12.7	8.5	8.4	4.9	(2.2)	(7.4)	(9.5)	(9.8)	(9.8)
Real Estate	20.9	23.5	24.3	26.7	26.0	30.1	30.2	31.2	31.8
Utilities	10.2	9.2	9.1	9.1	9.4	9.2	9.7	10.3	10.3
Total	**21.5**	**20.7**	**20.2**	**19.3**	**18.1**	**17.9**	**17.7**	**19.0**	**19.2**

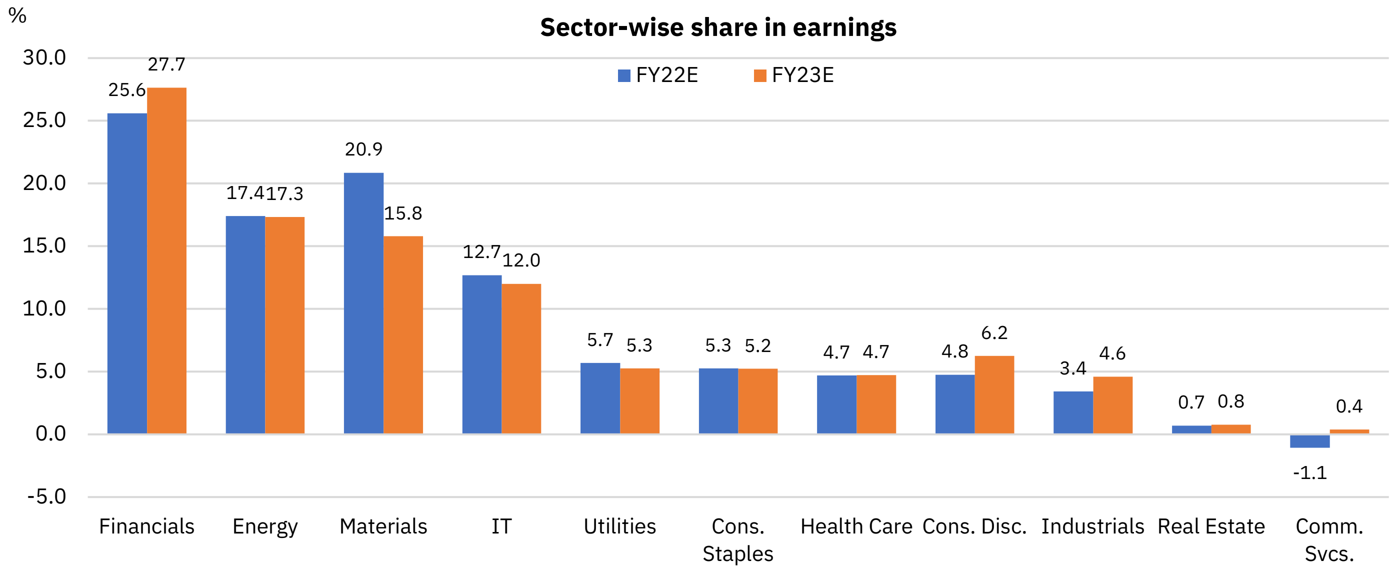
Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of September 19th, 2021.

Figure 28: Sector-wise revision FY23 earnings estimates since March-end



Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of September 17th, 2021.

Figure 29: Sector-wise share in earnings (As of September 17th, 2021)

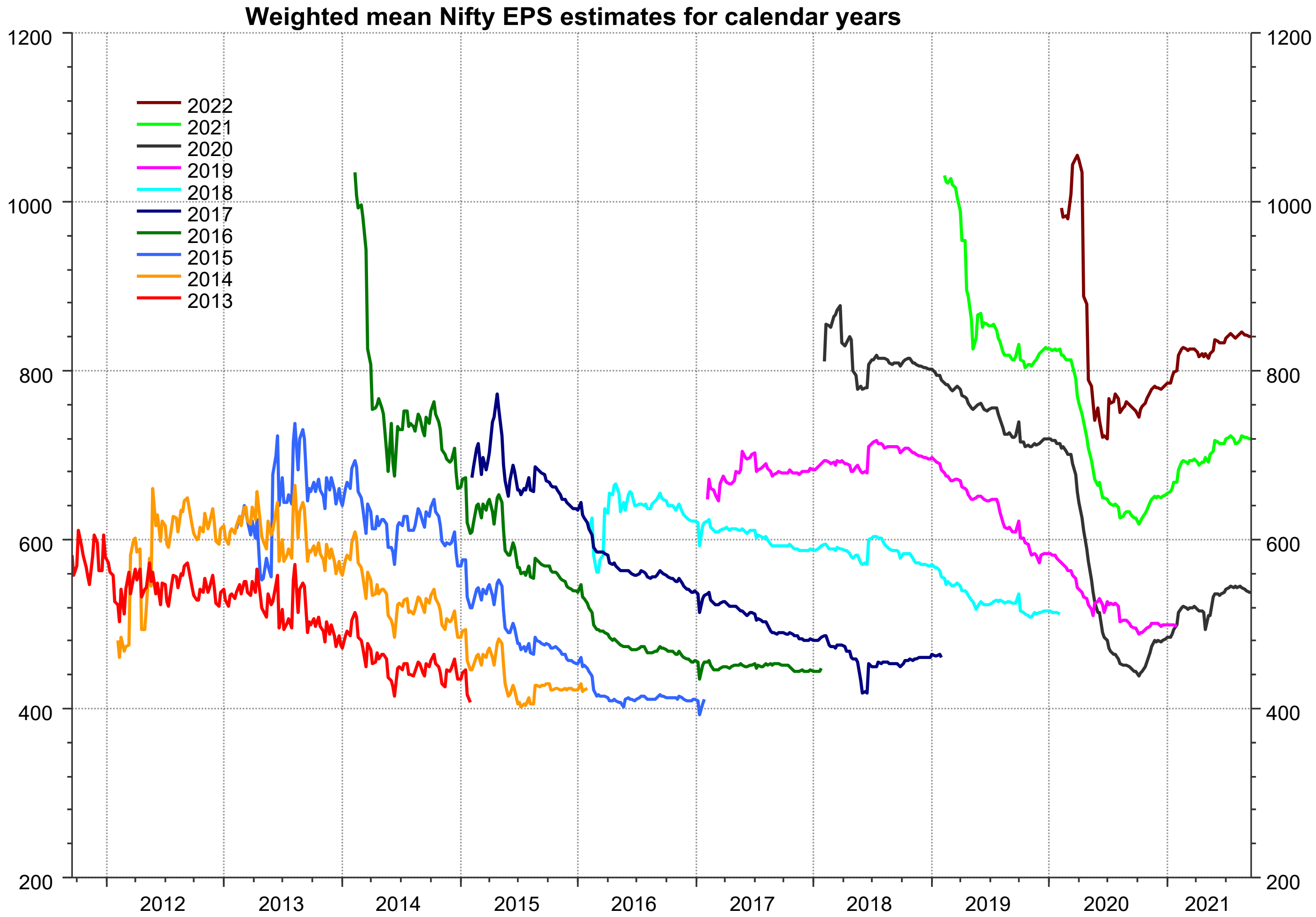


Source: CMIE Prowess, Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of September 17th, 2021.

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.

A different story has played out in the post-pandemic era with earnings for the Nifty 50 universe, following a steep cut initially after the onset of COVID-19 pandemic, witnessing meaningful upgrades over the last few quarters. Aggressive cost cutting initiatives by companies, ramping up of business activities, rising commodity prices and improvement in consumption demand bolstered earnings outlook, leading to ~7% and 10% increase in Nifty 50 EPS estimates for 2021 and 2022 respectively since the beginning of 2021.

Figure 30: Yearly trend of NIFTY 50 Consensus EPS estimates

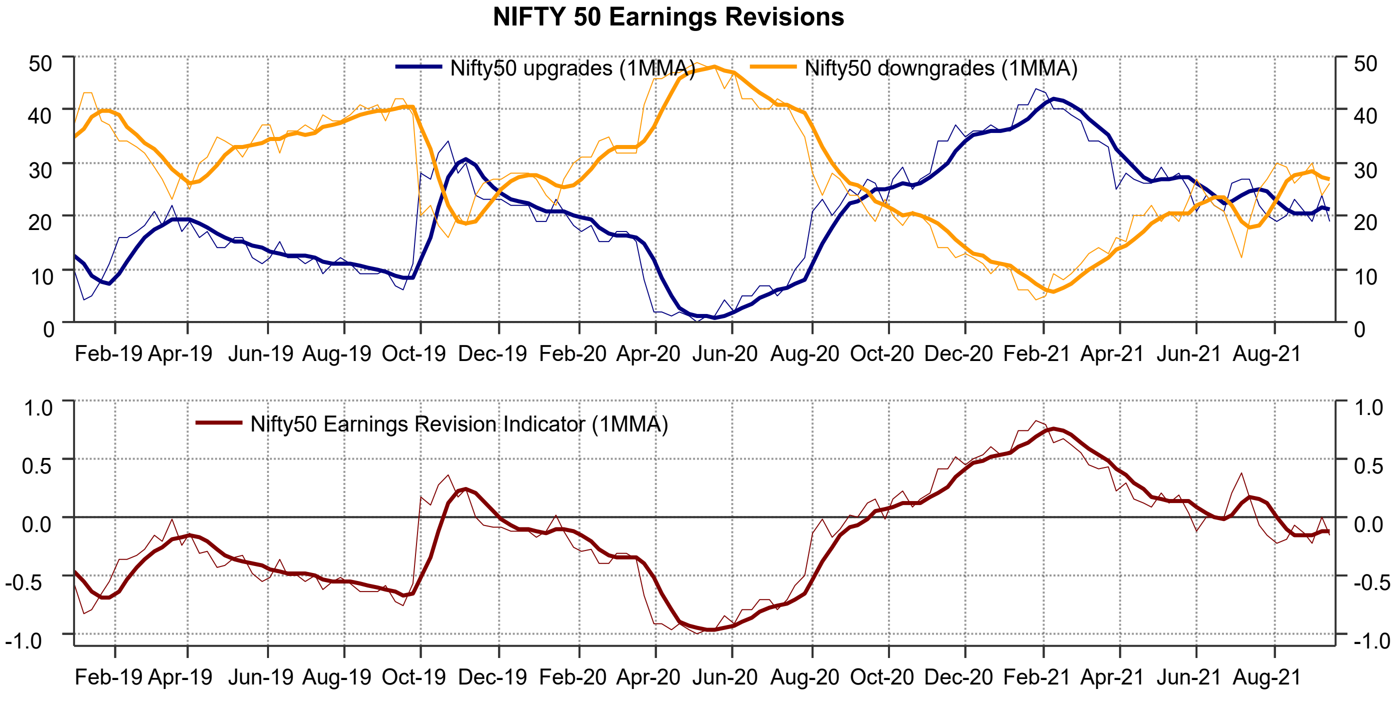


Source: Refinitiv Datastream, NSE.

Nifty 50 Earnings Revision Indicator dropped to near-zero levels: The Earnings Revision Indicator (ERI)[4] for the Nifty 50 universe had remained in the negative zone between 2015 and mid-2020, implying downgrades outnumbering upgrades, albeit for a brief period in late 2019 when profit estimates got upgraded post the cut in corporate tax rate. In fact, the ERI fell even deeper into the negative zone during May-June 2020 to the lowest level since the data is available (2007) as corporate earnings outlook got severely impacted due to massive supply and demand disruptions caused by mass-scale COVID-19-induced lockdowns worldwide.

The ERI, however, improved meaningfully beginning September 2020, as better-than-expected corporate earnings over the last few quarters and a stronger-than-anticipated post-lockdown recovery in business and consumption activities led to upgrades across the board. That said, the ERI has been on a downward trajectory since the onset of the second wave of COVID-19 in February 2021. This has been primarily led by Consumer Discretionary, Financials, and Communication Services where ERI has been hovering at sub-zero levels for some time now, indicating higher number downgrades than upgrades. Upgrades have been largely led by Materials sector, thanks to a sharp surge in metal prices and improvement in global demand. In fact, Materials sector has been consistently seeing a positive ERI (upgrades outnumbering downgrades) for almost a year now.

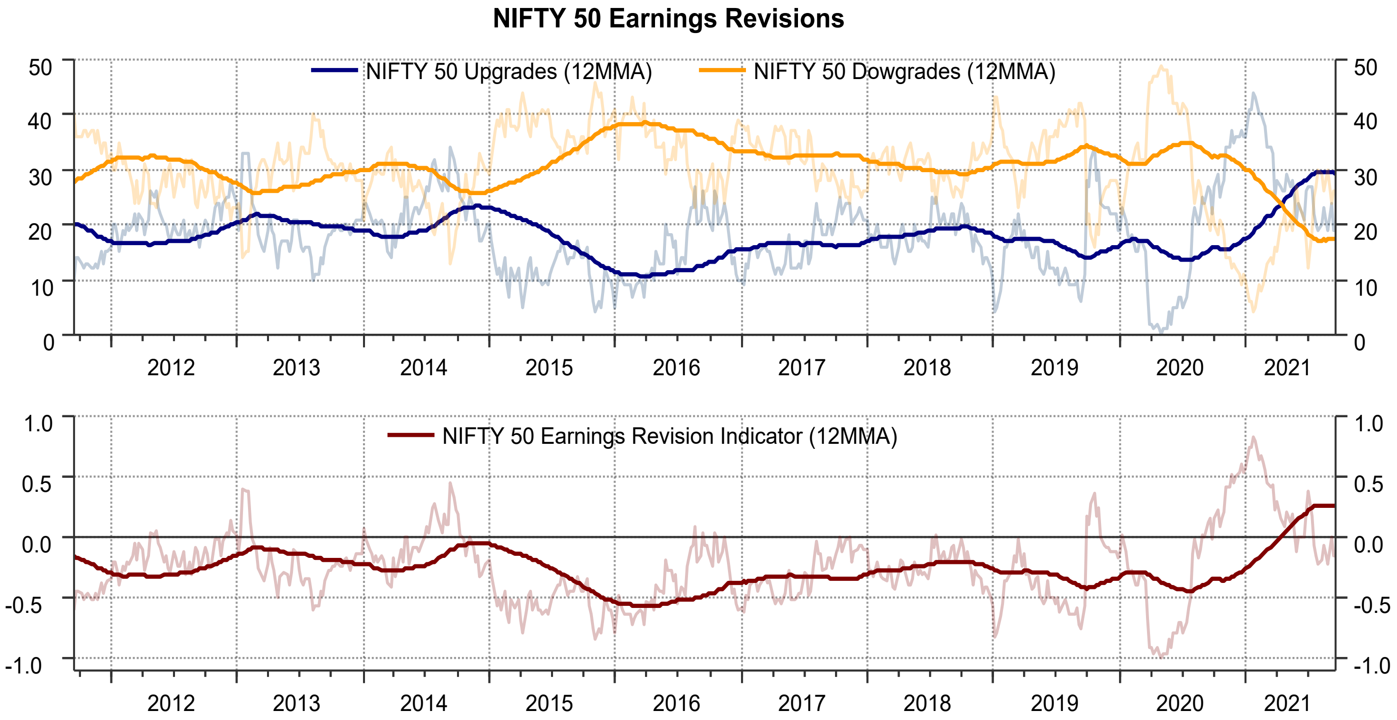
Figure 31: Nifty 50 Earnings Revision Indicator (since January 2019)



Source: Refinitiv Datastream, NSE

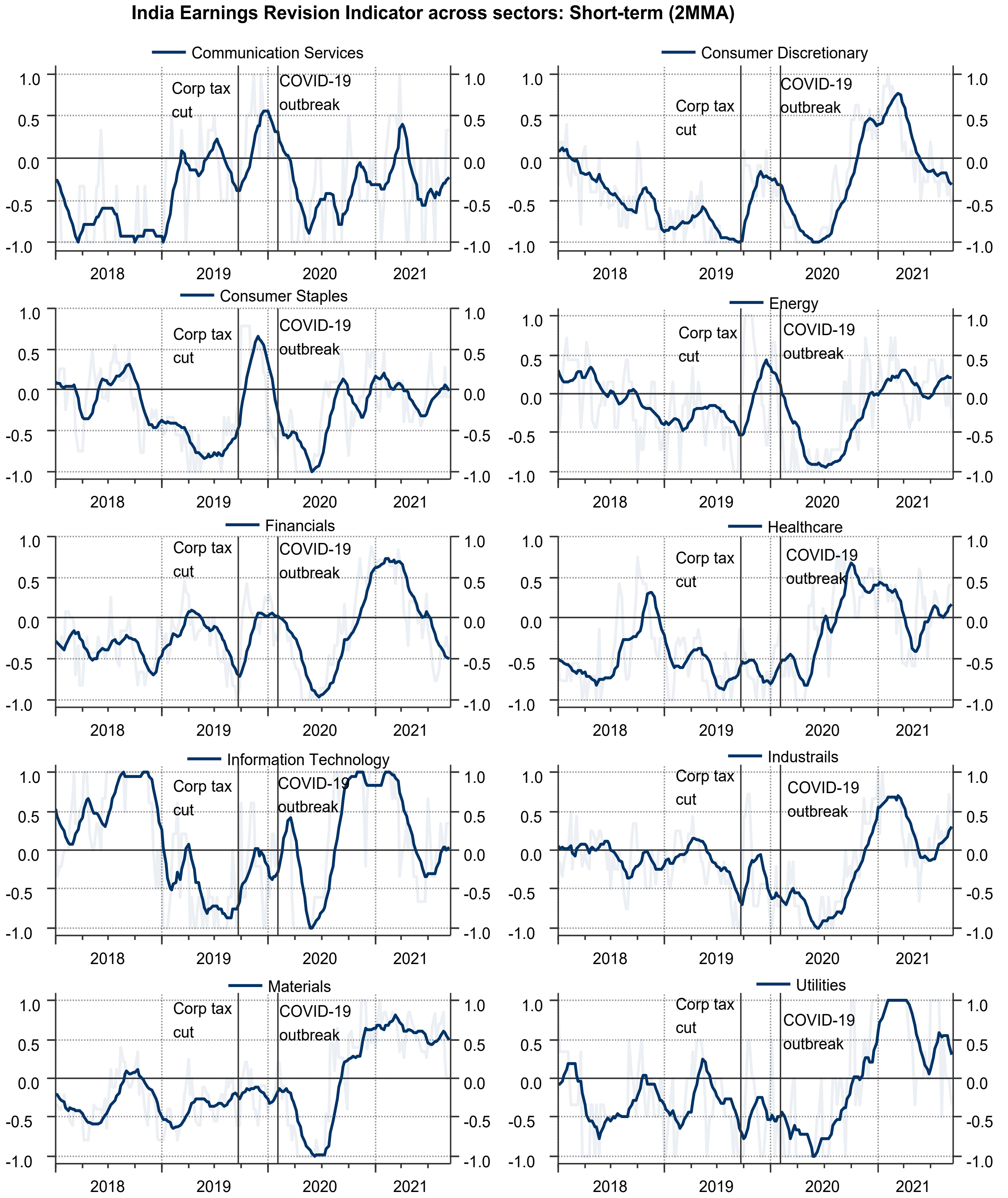
[4] The ERI is calculated as "(number of upgrades – number of downgrades)/total number of upgrades and downgrades". It can range between -1 to 1.

Figure 32: Nifty 50 Earnings Revision Indicator (10-year trend)



Source: Refinitiv Datastream, NSE.

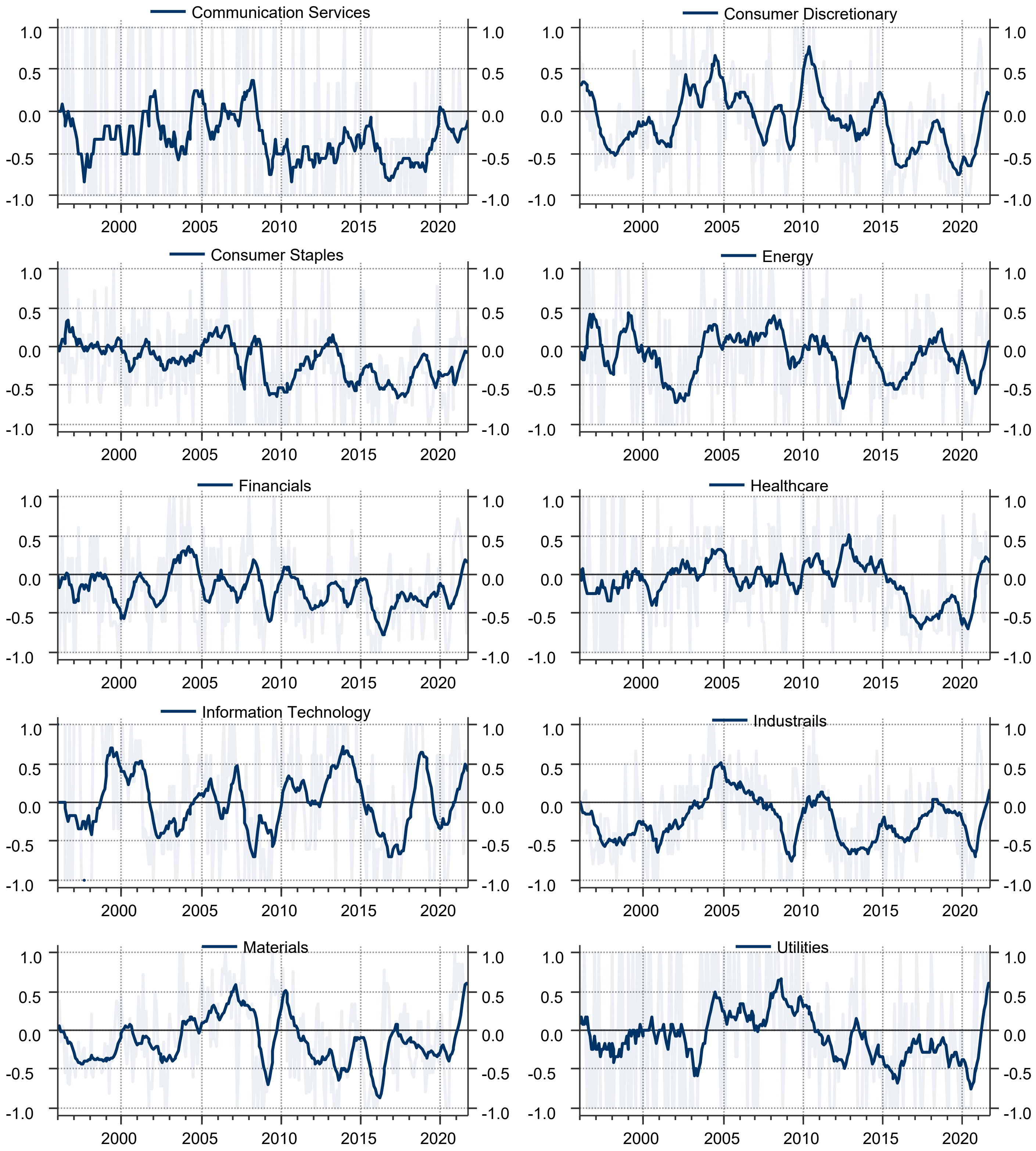
Figure 33: Short-term trend of Earnings Revision Indicator across MSCI sectors



Source: Refinitiv Datastream, NSE.

Figure 34: Long-term trend of Earnings Revision Indicator across MSCI sectors

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



Source: Refinitiv Datastream, NSE.

Sentiment analysis of Nifty 50 companies

Overview: Our analysis of quarterly performance and outlook of the listed universe now extends beyond financial performance and analysts' expectations to include management commentary and reactions as well. While these are rudimentary steps that would be expanded in due course, we believe such an approach allows insights that can be juxtaposed with financial metrics. Earnings conference call transcripts of 44 NIFTY50[5] companies (Source: Refinitiv Datastream; transcripts of six companies were not available for one or both quarters) have been considered to capture sentiments of their management for the last two quarters. We have tried to examine the change in the sentiments of the management from 4QFY21 to 1QFY22, during which a lethal second wave of the covid-19 virus also hit India. Call transcripts were assessed because they remain one of the most important disclosures through which companies communicate significant information about the performance of the company to the investors. Such transcripts have two parts, viz., a report on the quarter gone by with some forward guidance about the prospective quarters, followed by a Q&A from the analysts and other investors present on the call.

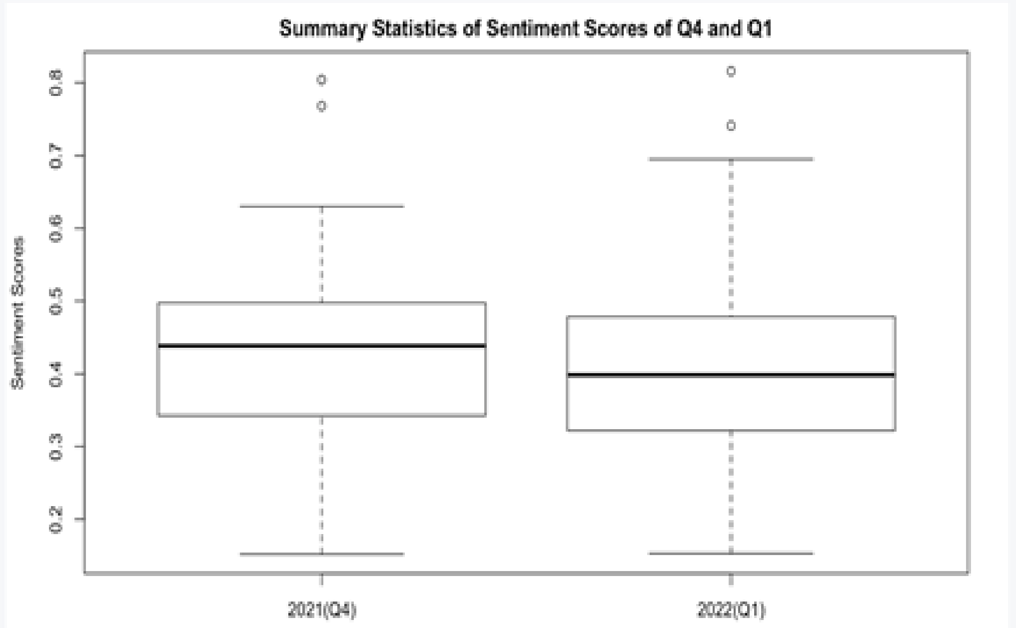
Management commentary almost invariably tends to lean on the optimistic side. Depending on performance in the quarter gone by, management reactions generally range from cautious optimism about the future to extolling virtues of current plans in place that would generate future cashflows. Such commentary also differs across managements, sectors, and time. What is more interesting therefore is the shift in commentary across time (4QFY21 to 1QFY22), particularly if there is a macro (pandemic) overlay.

Calculation of sentiment scores: Sentiment scores of each transcript were calculated using the package syuzhet[6], a sentiment extraction tool developed in the NLP (Natural Language Processing) group at Stanford University. Such tools are nowhere close to perfect, despite significant improvements over a decade of breakneck development. Our results need to be considered keeping these limitations in mind and would ideally need to have a longer period of study. Nevertheless, as explained above, they constitute steps towards gleaning non-financial information from public interactions with listed corporate entities. Functions in the library analyse each sentence of the transcript, rating them in the range [-1,1]. Sentiments above zero are construed as positive and below as negative. Values close to zero on either side would be considered as evoking neutral sentiments. In order to understand the mean emotional valence, text files were parsed into a vector of sentences, from which the mean sentiment score was calculated for each transcript and compiled in the following charts.

Sentiments remained positive in Q4FY21 as well as Q1FY22: The boxplot below summarises the distribution of sentiment scores in our dataset for Q4 and Q1. The median sentiment score for Q4 of NIFTY50 companies is higher than that for Q1. The small circles indicate the presence of two outliers in the dataset. Sentiments in both Q4 and Q1 have been positive, with similar ranges. While there does seem to be marginal drop in sentiment in Q1, there difference is not found to be statistically significant.

[5] Certain companies were excluded given their financial performance. Further details ahead.
[6] https://cran.r-project.org/web/packages/syuzhet/index.html. Jockers ML (2015). *Syuzhet: Extract Sentiment and Plot Arcs from Text*. https://github.com/mjockers/syuzhet.

Figure 35: Sentiment scores of NIFTY50 Companies during 4QFY21 and 1QFY22



Source: Refinitiv Datastream, NSE.

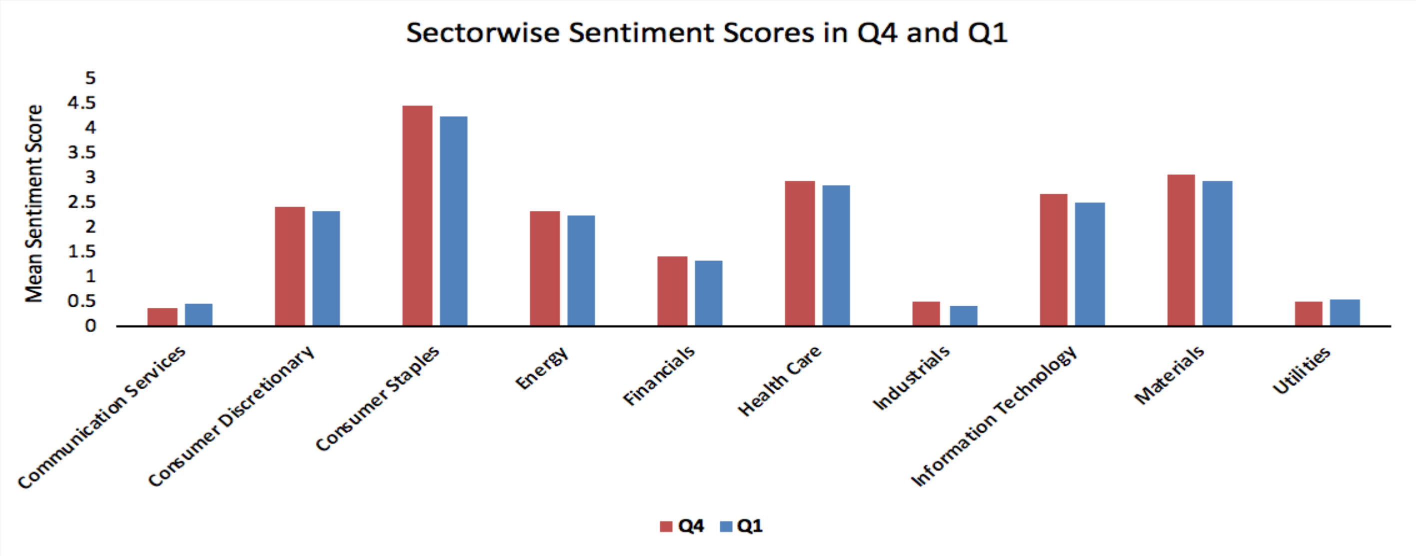
Table 19: Summary statistics of sentiments of call transcripts of NIFTY50 companies in 4QFY21 and 1QFY22

Summary Statistics		
Statistic	**4QFY21**	**1QFY22**
Mean	0.43	0.41
Standard Error	0.02	0.02
Median	0.44	0.40
Minimum	0.15	0.15
Maximum	0.80	0.82
Count	42	42

Source: NSE

Sector-wise, sentiments were relatively muted in Q1FY22: The set of companies in the NIFTY50 universe is broken down, to see if there is meaningful difference across sectors. Barring sectors like Communication Services (Telecom), Industrials and Utilities, managements across the NIFTY universe have been generally optimistic in their commentary on past and prospective performance. However, it is also clear that barring Communications and Utilities, sentiments were relatively muted across all other sectors in the NIFTY universe in 1QFY22.

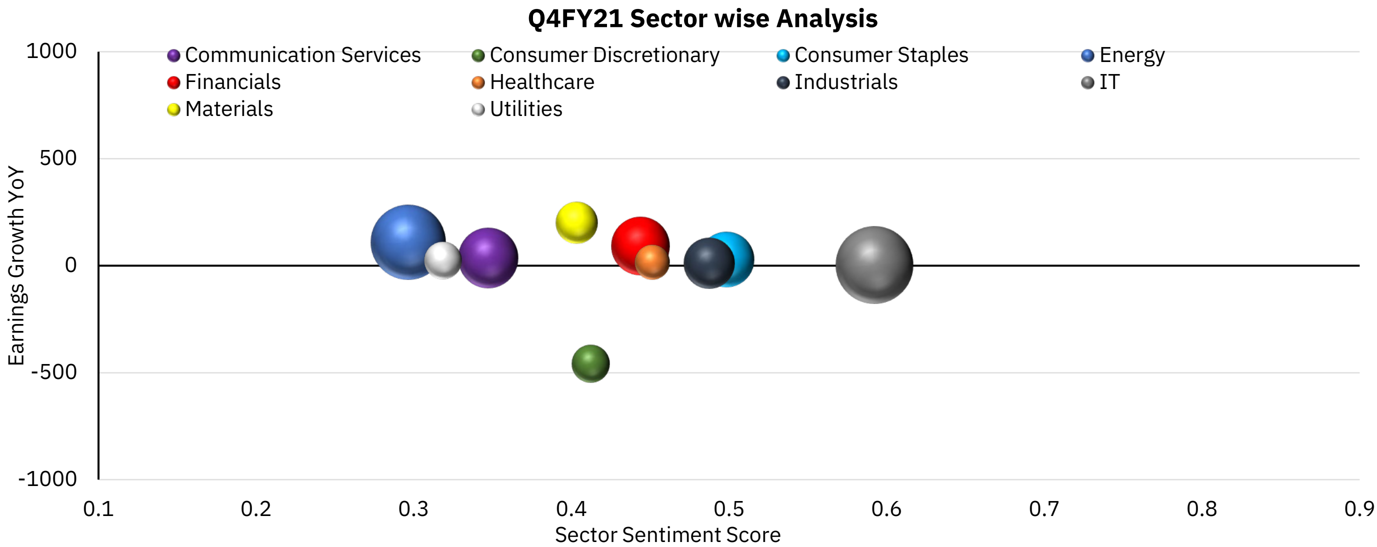
Figure 36: Sentiment scores of earnings call transcripts of NIFTY50 Companies in 4QFY21 and 1QFY22



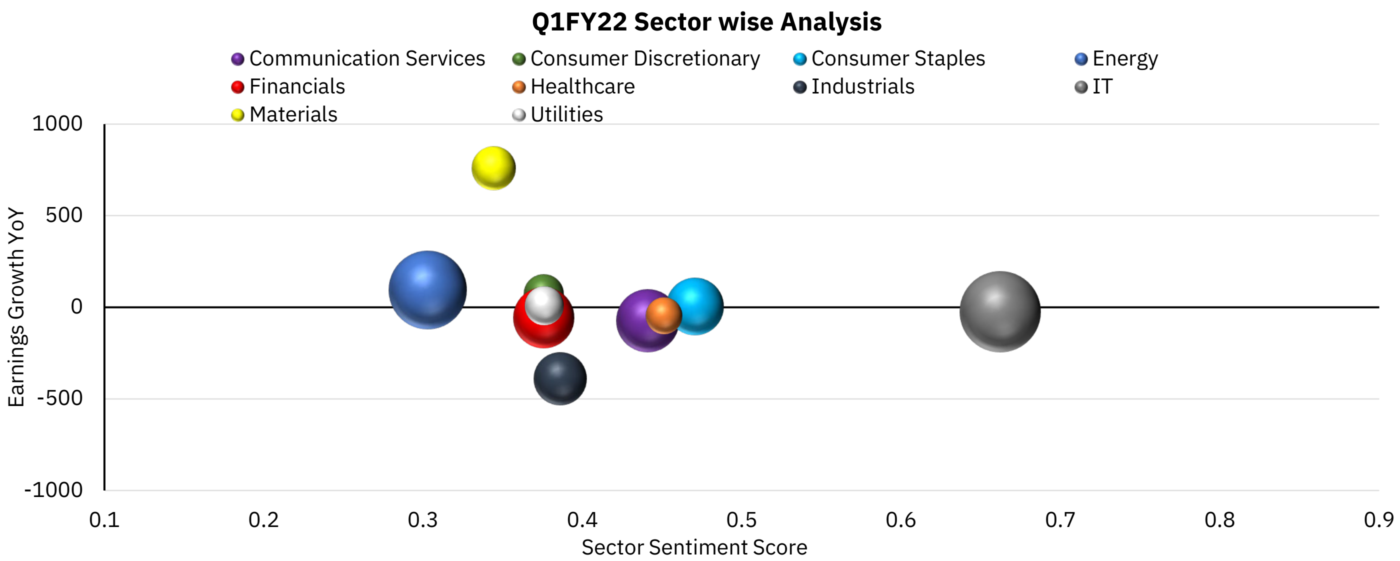
Source: Refinitiv Datastream, NSE.

Sentiment analysis vs. earnings performance: To provide greater colour to the sentiment analysis, we consider how such analysis relates to earnings performance. The following charts compare Q4 and Q1 sentiment scores with YoY earnings growth across sectors of NIFTY50 companies. The size of the sector bubbles in the charts indicates the market capitalization of the companies in the sector. Materials sector has shown robust growth in 1QFY22 while management sentiments have remained largely unchanged. In both the quarters, mean sentiment scores of the majority of the sectors are clustered in the range of 0.4-0.5 despite significant divergence in their earnings growth. IT Services have exhibited the most buoyant sentiments across all the sectors, a clear reflection of the underlying broader trends of digitisation, an increasing reliance on technology-based services, and importantly, a general growth revival in the developed markets. The Energy sector on the other hand, maintained earnings growth, but was also comparatively the least ebullient across all major sectors, with sentiments hovering around the 0.3 mark.

Figure 37: Sector-wise sentiment analysis vs. earnings growth of NIFTY50 companies in 4QFY21 and 1QFY22



Source: Refinitiv Datastream, NSE.



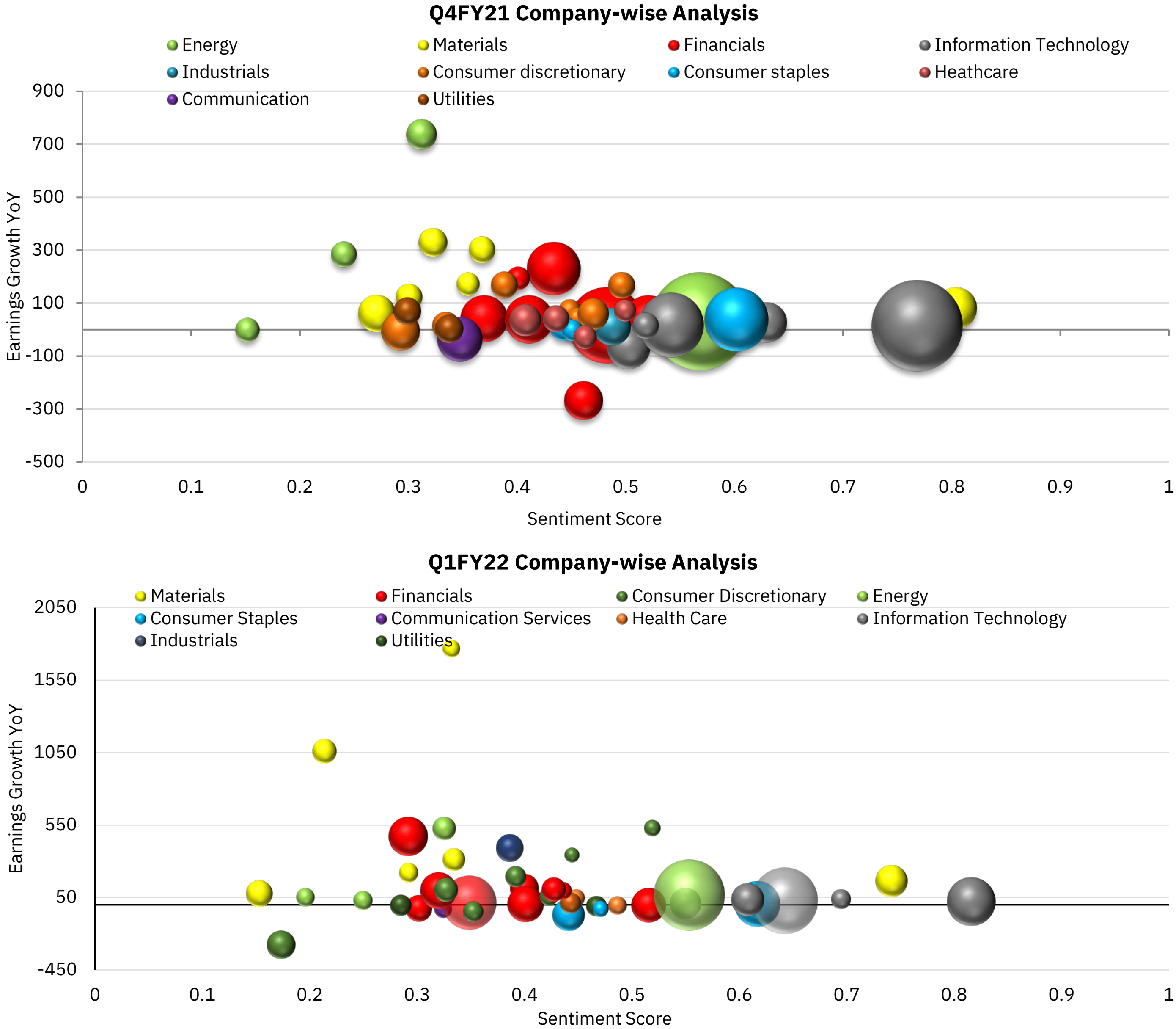
Source: Refinitiv Datastream, NSE.

Divergence in company-wise sentiments widen in Q1FY22: Combining companies in sectors does provide a broad idea of the sector, but glosses over company-specific features. The chart below plots YoY earnings growth of the 43 NIFTY50[7] companies for the two quarters against their sentiment scores. The size of the bubble indicates the market capitalisation of the stock.

Sentiment scores of the companies are clustered around 0.5 in the fourth quarter of FY21 and this cluster disappears in the next quarter indicating that the sentiments are more varied in Q1FY22. Companies in the Healthcare, Consumer Discretionary and Financial sectors showed the least variance in their sentiment score during the fourth quarter of last fiscal, but this trend was not observed in the first quarter. The Healthcare sector which comprises major pharmaceuticals performed extremely well in Q1FY22 as compared to Q4FY21, but sentiments deteriorated a little. Companies in the Financial sector had a sentiment score around 0.4 in Q4 which was more varied in Q1 ranging from as low as 0.2 to beyond 0.5. Some companies in the Energy sector have seen an increase in earnings but not quite in sentiments. In the Industrials sector, earnings growth has plummeted, and so have the sentiments of the management. IT Services have performed well in both quarters and the sentiment score is above average because of a large cap outlier company. The Materials sector performed well in either quarter, with most of the companies having mildly positive sentiment scores

[7] IOCL has been dropped given negative earnings in Q4 2020. Another six companies have not been considered due to the lack of data availability.

Figure 38: Company-wise sentiment analysis vs. earnings growth of NIFTY50 companies in 4QFY21 and 1QFY22



Source: Refinitiv Datastream, NSE.

Overall, a mild deterioration of sentiments can be observed across these two quarters. And within each quarter, sentiments were more clustered in 4QFY21 while they were relatively scattered in 1QFY22 which could be a result of the impact that the second wave had on companies.

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