NSE

Corporate Performance Review

August 2022 | Vol. 4, Issue 1

Q1FY23 Earnings Review: Revenues holding up, input costs hit profitability

The first quarter of the current fiscal (Q1FY23) saw aggregate top-lines improving, reflecting improved discretionary consumption and recovery in investment demand. Overall net sales for Nifty 50/Nifty 500 companies[1] grew by 31.7%/35.5% YoY—a four-quarter high—even as sequential momentum abated, thanks to weakening external demand and recent fall in commodity prices. Profit of non-financial Nifty 50/Nifty 500 companies at the *operating level* (EBITDA) grew by a much lower 11.4%/10.4% YoY, reflecting incomplete pass-through of higher input costs. In turn, this led to operating margins contracting by nearly 450bps on a YoY basis. Aggregate adjusted PAT growth at 15.4%/19% YoY in Q1FY23 for the Nifty 50/Nifty 500 companies was the lowest in eight quarters, and led by Financials thanks to improved asset quality, less provisioning and higher lending rates, partly offset by mark-to-market losses due to rising yields. Excluding Financials, net adjusted PAT grew by a much lower 8.5%/8.3% YoY for Nifty 50/Nifty 500 companies.

Export-oriented (IT, Pharma) and commodity companies have been feeling the heat of a slowing global economy, while domestic sectors have benefited from recovering consumption and investment demand. This is also reflected in downward earnings revisions this year that have been dominant in these sectors. Consensus earnings estimates (from Refinitiv) for FY23/24 for the top 200 covered companies by market cap have seen a cut of 6.8%/4.7% since March-end (As on August 22nd, 2022), following a spree of upgrades during the whole of last fiscal year. This translates into an expected aggregate profit growth of 11.5%/18.1% in FY23/FY24 (vs. +41% in FY22), implying a CAGR of ~15% during FY22-24. Excluding Materials, where downgrades have been the steepest, expected profit CAGR for the top 200 companies during FY22-24 is pegged at a strong 20.6%. Downgrades in earnings estimates is also reflected in the Earnings Revision Indicator[2] (ERI) trend for the Nifty 50 universe, which has remained in the negative territory since early this year, implying downgrades outnumbering upgrades.

Earnings trajectory over the next two years hinges on persistence of consumption and investment demand, as evident from a visible increase in share of Financials, Consumer Discretionary and Industrials to aggregate expected corporate earnings during this period. On the positive side, falling commodity prices should ease input cost pressures and provide fillip to earnings.

Aggregate net sales of Nifty50/Nifty 500 companies grew by 31.7%/35.5% YoY in Q1FY23, aided by a favourable base, improved demand and higher price recovery.

- **Favourable base, improved demand and higher realisations drove revenue growth in Q1FY23:** After a moderation in YoY growth momentum over the previous three quarters, aggregate top-line growth for Nifty 50 and Nifty 500 companies rebounded and grew by a strong four-quarter high of 31.7% YoY and 35.5% YoY respectively in Q1 of the current fiscal. The sequential growth momentum, however, came off, weighed down by weakening global demand and recent fall in commodity prices. The YoY expansion in revenues was largely driven by Energy (higher realisations due to price hikes), Materials (increase in demand and price hikes), Industrials (pick up in capex demand), Consumer Discretionary (demand revival and low-base effect), Utilities (robust power demand) and Information Technology (resilient global demand for cloud and digital services). Energy sector contributed to more than 50% of the absolute jump in aggregate revenues of the Nifty 500 universe, excluding which revenue growth grew by a much lower 18.9% YoY and 22.9% YoY for Nifty 50 and Nifty 500 companies respectively.
- **Margins contracted sharply in Q1FY23:** EBITDA for Nifty 50/Nifty 500 companies (ex-Financials) grew by 11.4%/10.4% YoY in Q1FY23. This was much lower than the top-line growth for respective universes, leading to a steep margin contraction of 446bps/472 bps YoY and 222/257bps QoQ to 17.9%/14.8%, as the impact of

[1]493 companies in the Nifty 500 Index reported earnings data for Q1FY23 as on August 23rd, 2022.
[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*.

surge in input costs, including raw materials, fuel and wage costs, outweighed an improved demand environment. Notably, total operating expenses rose by 48.1%/ 55.4% YoY and 8.6%/10.2% QoQ for non-financial Nifty 50/Nifty 500 companies. Sector-wise, all sectors barring Materials and Health Care, recorded an expansion in operating profit. Operating margins, however, expanded for Real Estate, Consumer Discretionary and Industrials sectors only, while Utilities and Materials recorded the steepest contraction.

- **Financials drove net profit growth in Q1FY23:** Aggregate adjusted PAT growth for the Nifty 50/Nifty 500 companies at 15.4%/19% YoY in Q1FY23 was the lowest in eight quarters. On a sequential basis, profits declined by 17.2%%/19.2% QoQ in the quarter gone by for the same universes. Companies in the Financial sector drove the aggregate profitability due to improved asset quality, less provisioning and higher lending rates, partly offset by mark-to-market losses due to rising yields. Materials, on the other hand, was a laggard in the June quarter, posting the lowest profit growth in the last eight quarters due to rising logistics and fuel costs that significantly ate into the sector's margins. Profits of Consumer Discretionary companies registered growth on an YoY basis due to low base but declined on a sequential basis due to increasing input costs, partly offsetting the revival in demand conditions. While Energy companies contributed significantly to top-line performance, profit margins were stressed due to subdued marketing margins of downstream oil companies.

Aggregate adjusted PAT growth for the Nifty 50/Nifty 500 companies at 15.4%/19% YoY in Q1FY23 was the lowest in eight quarters.

- **Earnings estimates downgraded further:** Our analysis of earnings performance of top 200 covered companies by market capitalisation show that aggregate profit estimates for FY23/FY24 have been curtailed by 6.8%/4.7% since March-end (As on August 22nd, 2022), following a spree of upgrades during the whole of last fiscal year. The downgrades were primarily led by export-oriented (IT, Pharma) and commodity companies (Materials), excluding which cut in profit estimates for FY23/FY24 was relatively muted at 3.8%/1.2%. With this, the aggregate earnings of top 200 companies are now expected to increase by 11.5%/18.1% in FY23/FY24, following a ~41% PAT growth in FY22, implying a CAGR of ~15% during FY22-24. Notably, Materials and Utilities are the only sectors for which aggregate earnings are expected to drop during FY22-24, excluding which expected profit CAGR for the top 200 companies during FY22-24 is pegged at a strong 22.8%. This is led by Financials and Consumer Discretionary, together accounting for ~61% the absolute change in aggregate profits of top 200 covered companies during FY22-24.

Consensus earnings estimates for FY23/24 for the top 200 covered companies have been slashed by 6.8%/4.7% in since Mar-end, translating into an earnings CAGR of 15.0% during FY22-24.

- **ERI remained in the contraction zone:** The ERI has been on a downward trajectory since the onset of the second wave of COVID-19 in March 2021 and hovered near-zero levels until early this year. Russia's invasion of Ukraine in late Feb'22, inflation woes, China slowdown and slowing global demand have led to a deterioration in earnings outlook since then, leading to ERI falling deep into the negative territory this year. All sectors, barring Utilities, have ERI hovering in the negative zone, with Information Technology and Materials leading the pack. Earnings trajectory over the next two years hinges on persistence of consumption and investment demand, as evident from a visible increase in share of Financials, Consumer Discretionary and Industrials to aggregate corporate earnings estimates during this period.

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Nifty 50 Q1FY23 results

Aggregate YoY revenue growth came in at a four-quarter high in Q1FY23: Aggregate net sales of Nifty 50 companies grew by 31.7% YoY/0.9% QoQ to Rs15trn in Q1FY23 as compared to 21.7% YoY/9% QoQ in the previous quarter and 38.3% YoY/-6.8% QoQ in the corresponding quarter last year when the economy was hit by the second wave of COVID infections. While the YoY growth was the highest in four quarters, sequential growth moderated, reflecting the impact of weakening global demand and recent fall in commodity prices. Sector-wise, Energy was the biggest contributor to YoY revenue growth in Q1FY23, accounting for nearly 50% of the absolute YoY increase in Nifty 50 earnings, reflecting the impact of higher realisations by upstream oil and gas companies amid elevated international crude oil prices. Excluding Energy, revenue growth came in at a much lower 18.9% on an YoY basis and declined by 4.5% on n sequential (QoQ) basis.

Besides energy, sectors that witnessed strong YoY growth in net sales include: a) Materials: Higher commodity prices as opposed to year-ago period; b) Consumer discretionary: Revival in discretionary demand thanks to continued unlocking; c) Information technology: Resilient global demand for digitisation and cloud services; and d) Utilities: Robust power demand as economic activities gained traction during the quarter; and e) Consumer staples: Favourable base and pass-through of price hikes.

Sectors that were laggards on a relative basis in the June quarter include: a) Financials: Expansion in interest income for banks offset by losses on investments by insurance companies; and b) Health Care: Higher export earnings offset by slower pace of recovery in non-covid business, contraction in covid-led business and price erosion for generic due to stiff competition. Within the Nifty 50 universe, 46 and 25 companies recorded top line growth on a YoY and QoQ basis respectively in the June quarter.

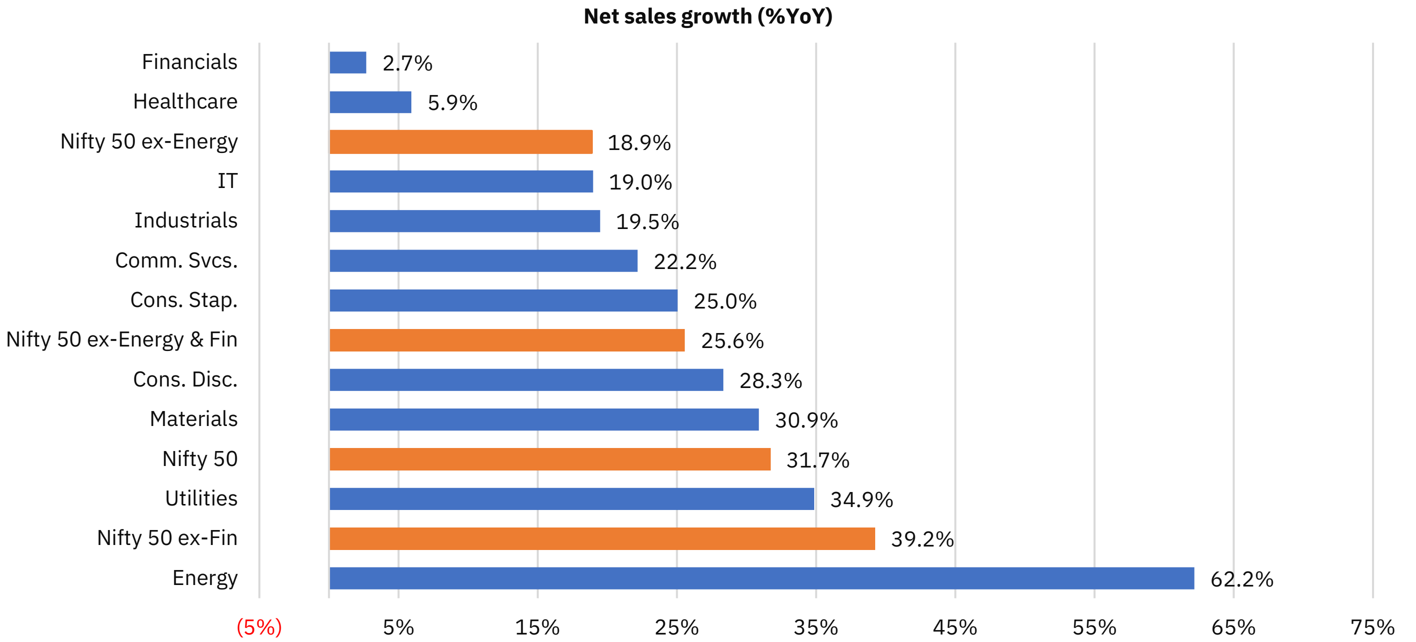
Notwithstanding unfavourable global backdrop, corporate earnings over the next few quarters should find support from easing input cost pressures in the light of falling crude oil and commodity prices and resilient consumption demand. Further, strong capex push by the Government and healthier corporate balance sheets should provide a conducive environment for a durable recovery in the private investment cycle.

Table 1: Net sales growth of Nifty 50 companies

	QoQ growth			YoY growth		
Sector	Jun-21	Mar-22	Jun-22	Jun-21	Mar-22	Jun-22
Communication Services	4.3	5.5	4.1	12.2	22.3	22.2
Consumer Discretionary	(24.8)	5.7	(0.9)	98.6	(2.6)	28.3
Consumer Staples	(3.3)	(0.1)	7.7	19.0	12.2	25.0
Energy	(6.2)	10.0	11.7	66.1	36.2	62.2
Financials	(2.7)	5.4	(10.3)	(0.0)	11.3	2.7
Health Care	14.8	(2.1)	4.5	27.8	16.4	5.9
Industrials	(34.4)	30.8	(28.6)	43.9	9.7	19.5
Information Technology	5.4	2.7	4.7	17.3	19.7	19.0
Materials	(3.8)	16.5	(7.4)	80.6	36.0	30.9
Utilities	(1.3)	9.2	13.2	12.5	17.6	34.9
Nifty 50	**(6.8)**	**9.0**	**0.9**	**38.3**	**21.7**	**31.7**
Nifty 50 ex-Energy	**(7.1)**	**8.4**	**(4.5)**	**29.2**	**15.6**	**18.9**
Nifty 50 ex-Financials	**(7.8)**	**9.8**	**3.3**	**53.5**	**24.2**	**39.2**
Nifty 50 ex-energy ex-fin	**(8.8)**	**9.6**	**(2.3)**	**46.9**	**17.2**	**25.6**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 50 index as on end of June 2022.

Figure 1: Sector-wise net sales growth of Nifty 50 companies in Q1FY23



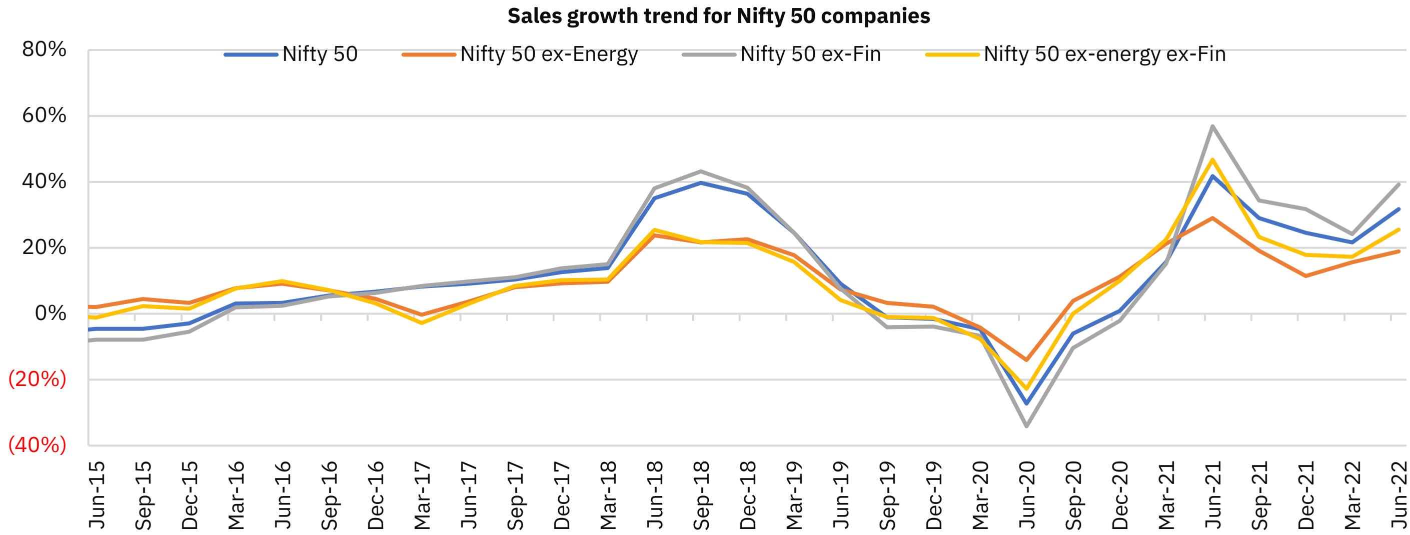
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart provides data for companies in the Nifty 50 index as on end of June 2022.

Table 2: Sector-wise contribution of Nifty 50 companies to net sales growth in Q1FY23

Sector	Net sales (Rsbn)	Contribution to net sales growth % QoQ	Contribution to net sales growth % YoY
Communication Services	328	0.1	0.5
Consumer Discretionary	1,562	(0.1)	3.0
Consumer Staples	442	0.2	0.8
Energy	5,584	3.8	18.4
Financials	2,451	(1.8)	0.6
Health Care	274	0.1	0.1
Industrials	405	(1.1)	0.6
Information Technology	1,449	0.4	2.0
Materials	2,266	(1.2)	4.6
Utilities	541	0.4	1.2
Nifty 50	**15,301**	**0.9**	**31.7**
Nifty 50 ex-Energy	**9,718**	**(111.0)**	**13.3**
Nifty 50 ex-Financials	**12,850**	**100.4**	**31.2**
Nifty 50 ex-energy ex-fin	**7,266**	**(42.3)**	**12.7**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 50 index as on end of June 2022.

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

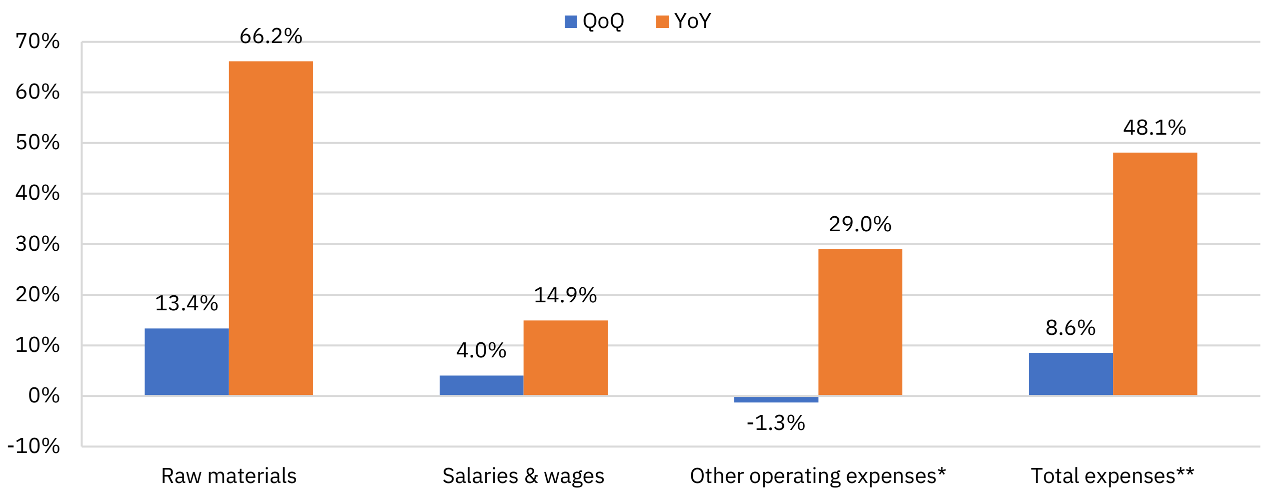


Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 50 index as on end of respective quarters.

Raw material and fuel costs continued to weigh on operating margins: EBITDA for the Nifty 50 universe excluding Financials grew by 11.4% YoY/-8.1% QoQ in the June quarter—the lowest growth rate in seven quarters (*vs* 12.2% YoY/4.9% QoQ in June quarter). Operating margins also contracted by 446bps YoY/222bps QoQ to 17.9%, weighed down by global commodity price inflation and increase in salary and wage bill.

RM costs for the Nifty 50 companies (excl. financials) rose by 66.2% YoY (13.4% QoQ) *vs* 34.2% YoY (12.1% QoQ) in the previous quarter. Total expenses (excluding interest and depreciation) rose by 48.1% YoY (*vs* 39.2% YoY increase in net sales) and 8.6% QoQ (*vs* 3.3% QoQ increase in net sales) indicating a negative operating leverage, where increase in total operating cost has outpaced increase in revenues persistently, thereby leading to margin contraction. Sector-wise, barring Health Care, Consumer Discretionary, Communication Services and Industrials, all others witnessed contraction in operating margins. Within the Nifty 50 universe, 29 and 26 of 39 non-financial companies registered an EBITDA expansion in Q1FY23 on an YoY and QoQ basis.

Figure 3: Change in expenses for Nifty 50 companies (ex-Financials) in Q1FY23



Source: CMIE Prowess, NSE EPR.
Note: 1. The above chart provides data for companies in the Nifty 50 index as on end of June 2022.
2. *Other operating expenses include selling, general & administrative expenses, rental expenses, and other operating costs.
3. ** Total expenses exclude interest expenses and depreciation.

Table 3: EBITDA growth of Nifty 50 companies

Sector	QoQ growth Jun-21	QoQ growth Mar-22	QoQ growth Jun-22	YoY growth Jun-21	YoY growth Mar-22	YoY growth Jun-22
Communication Services	5.7	6.0	2.6	23.8	27.1	23.4
Consumer Discretionary	(55.4)	8.8	(26.5)	149.5	(15.0)	40.1
Consumer Staples	(6.5)	0.2	3.2	10.9	10.1	21.6
Energy	(8.4)	9.8	(11.4)	41.9	27.7	23.5
Financials	(1.3)	4.1	(1.0)	3.8	18.4	18.7
Health Care	37.6	(15.4)	18.1	38.2	34.7	15.6
Industrials	(34.2)	15.1	(13.4)	28.8	(8.6)	20.3
Information Technology	2.5	(1.2)	(3.4)	21.1	8.6	2.3
Materials	5.9	3.7	(9.2)	241.7	6.6	(8.5)
Utilities	8.7	2.4	(2.2)	1.9	16.8	5.1
Nifty 50	**(5.1)**	**4.6**	**(5.3)**	**28.2**	**14.5**	**14.3**
Nifty 50 ex-Energy	**(4.4)**	**3.5**	**(3.9)**	**25.8**	**11.8**	**12.4**
Nifty 50 ex-Financials	**(7.5)**	**4.9**	**(8.1)**	**51.4**	**12.2**	**11.4**
Nifty 50 ex-energy ex-fin	**(7.1)**	**2.9**	**(6.6)**	**55.3**	**6.3**	**6.9**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 50 index as on end of June 2022.

Table 4: EBITDA margin of Nifty 50 companies in Q1FY23

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	51.5	(75)	51
Consumer Discretionary	10.2	(355)	86
Consumer Staples	26.8	(115)	(76)
Energy	12.4	(325)	(390)
Financials	64.9	606	874
Health Care	26.9	310	226
Industrials	23.8	418	16
Information Technology	23.8	(200)	(388)
Materials	18.9	(37)	(814)
Utilities	39.0	(615)	(1107)
Nifty 50	**25.4**	**(166)**	**(388)**
Nifty 50 ex-Energy	**32.8**	**19**	**(188)**
Nifty 50 ex-Financials	**17.9**	**(222)**	**(446)**
Nifty 50 ex-energy ex-fin	**22.0**	**(101)**	**(386)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 50 index as on end of June 2022.

Figure 4: Sector-wise EBITDA growth of Nifty 50 companies in Q1FY23

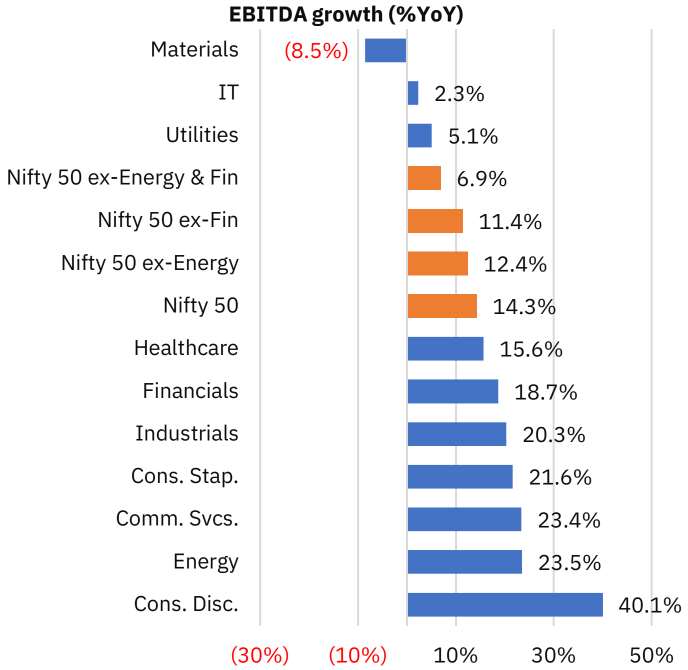
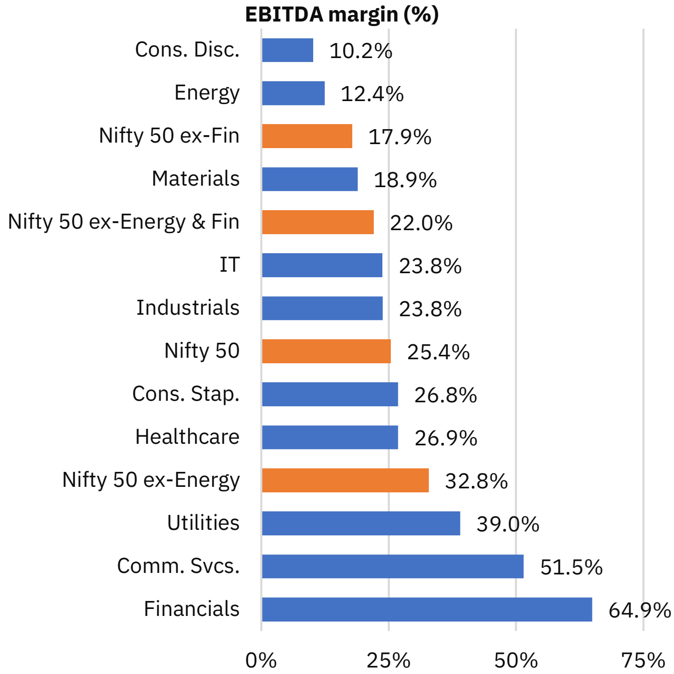


Figure 5: Sector-wise EBITDA margin of Nifty 50 companies in Q1FY23



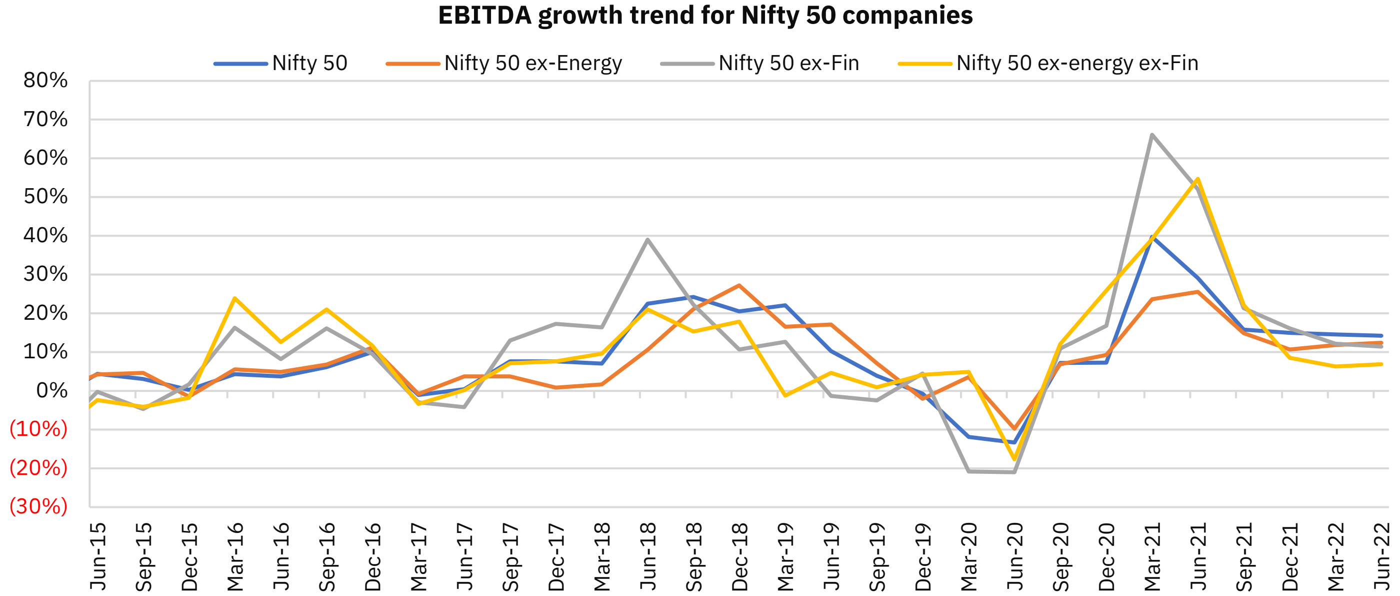
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above charts provide data for companies in the Nifty 50 index as on end of June 2022

Table 5: Sector-wise contribution of Nifty 50 companies to EBITDA growth in Q1FY23

Sector	EBITDA (Rsbn)	Contribution to EBITDA growth	
		% QoQ	% YoY
Communication Services	169	0.1	0.9
Consumer Discretionary	159	(1.4)	1.3
Consumer Staples	118	0.1	0.6
Energy	694	(2.2)	3.9
Financials	1,592	(0.4)	7.4
Health Care	74	0.3	0.3
Industrials	96	(0.4)	0.5
Information Technology	345	(0.3)	0.2
Materials	428	(1.1)	(1.2)
Utilities	211	(0.1)	0.3
Nifty 50	**3,886**	**(5.3)**	**14.3**
Nifty 50 ex-Energy	**3,192**	**(3.2)**	**10.4**
Nifty 50 ex-Financials	**2,295**	**(4.9)**	**6.9**
Nifty 50 ex-energy ex-fin	**1,600**	**(2.8)**	**3.0**

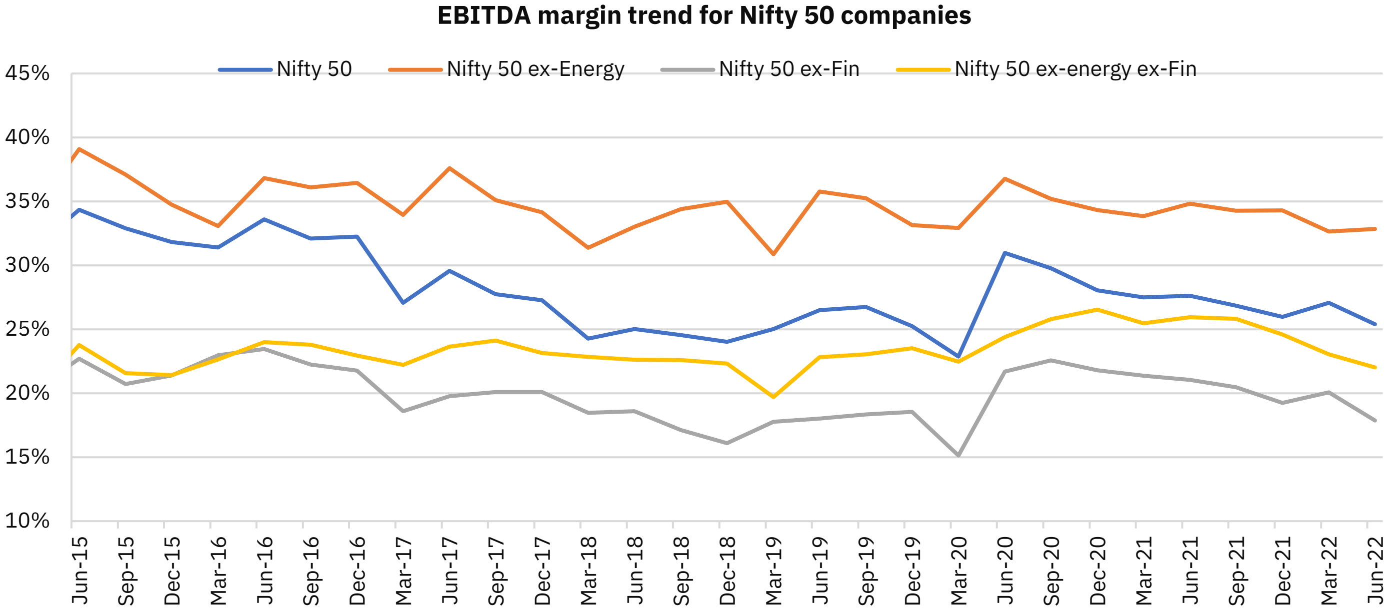
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 50 index as on end of June 2022

Figure 6: EBITDA growth trend of Nifty 50 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 50 index as on end of respective quarters.

Figure 7: EBITDA margin trend of Nifty 50 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 50 index as on end of respective quarters.

Financials sector drove profit growth in Q1FY23: Aggregate adjusted PAT growth for the Nifty 50 companies came in at an eight-quarter low of 15.4% YoY in Q1FY23 and declined by a huge 17.2% on a QoQ basis. Higher input cost pressures outweighed resilient consumption demand in the quarter gone by. Financials contributed significantly, thanks to higher lending rate, improving asset quality and lower provisioning, accounting for ~60% of the absolute profit increase on a YoY basis. Energy sector accounted for another 25% as gains in gross refining margins of upstream oil and gas companies more than made up for weak earnings by downstream oil marketing companies. Excluding Financials and Energy, aggregate net profit of Nifty 50 universe grew by a much lower rate of 4.6% YoY and -21.4% QoQ.

While most sectors reported profit growth on an YoY basis, Health Care (strong export earnings due to weak rupee) and Consumer Staples (pass-through of price inflation) were the only sectors that posted sequential growth in the June quarter. Within Nifty 50 universe, 37 and 19 companies posted expansion in net profit on a YoY and QoQ basis respectively. Sectors that posted YoY contraction in profits include: a) Materials: High operating costs; and b) Technology: High employee costs.

Table 6: PAT growth of Nifty 50 companies

	QoQ growth			YoY growth		
Sector	**Jun-21**	**Mar-22**	**Jun-22**	**Jun-21**	**Mar-22**	**Jun-22**
Communication Services	(2.1)	54.4	(0.7)	(72.1)	167.2	171.0
Consumer Discretionary	(121.2)	25.6	(98.8)	NA	(44.7)	NA
Consumer Staples	(7.2)	(0.4)	3.8	11.8	9.1	22.1
Energy	(14.4)	3.1	(16.7)	95.8	21.2	17.9
Financials	(6.3)	8.3	(10.5)	48.9	40.1	33.8
Health Care	53.1	(18.0)	17.6	70.6	60.3	23.2
Industrials	(44.1)	29.4	(36.0)	168.5	0.6	15.3
Information Technology	13.2	2.0	(8.4)	24.9	22.7	(0.7)
Materials	13.9	9.8	(28.1)	NA	25.0	(21.1)
Utilities	2.2	13.8	(13.7)	(6.7)	43.2	21.0
Nifty 50	**(12.2)**	**7.1**	**(17.2)**	**103.5**	**22.4**	**15.4**
Nifty 50 ex-Energy	**(11.6)**	**8.2**	**(17.4)**	**105.6**	**22.7**	**14.7**
Nifty 50 ex-Financials	**(14.2)**	**6.6**	**(20.0)**	**135.7**	**16.3**	**8.5**
Nifty 50 ex-energy ex-fin	**(14.1)**	**8.2**	**(21.4)**	**157.4**	**14.3**	**4.6**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: 1. The above table provides data for companies in the Nifty 50 index as on end of June 2022.
2. NA: Not Applicable.

Table 7: PAT margin of Nifty 50 companies in Q1FY23

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	7.5	(37)	413
Consumer Discretionary	0.1	(424)	218
Consumer Staples	18.2	(67)	(44)
Energy	5.6	(192)	(212)
Financials	18.6	(6)	433
Health Care	16.7	187	234
Industrials	8.2	(94)	(30)
Information Technology	15.1	(215)	(299)
Materials	8.6	(247)	(564)
Utilities	14.4	(448)	(164)
Nifty 50	**9.5**	**(206)**	**(134)**
Nifty 50 ex-Energy	**11.6**	**(182)**	**(42)**
Nifty 50 ex-Financials	**7.7**	**(224)**	**(218)**
Nifty 50 ex-energy ex-fin	**9.3**	**(226)**	**(186)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 50 index as on end of June 2022.

Figure 8: Sector-wise PAT growth of Nifty 50 companies in Q1FY23

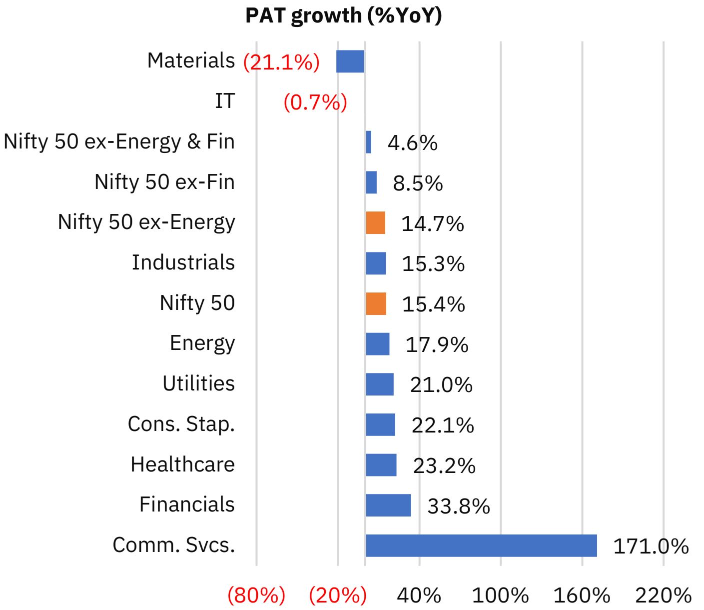
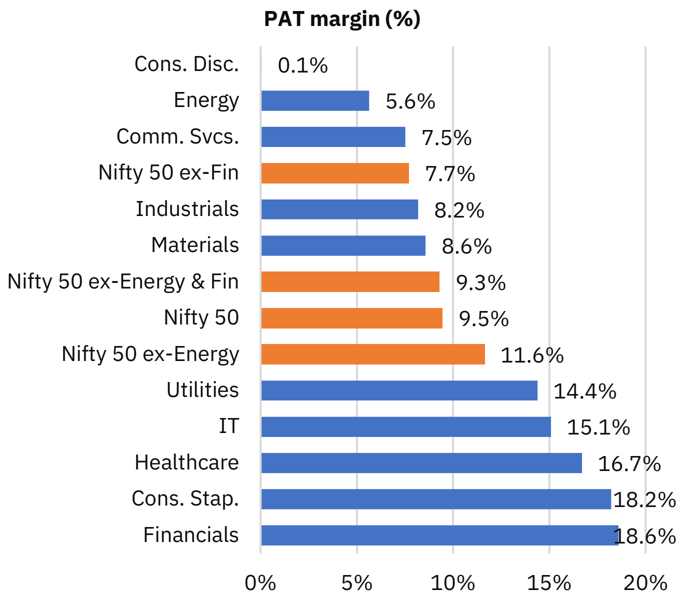


Figure 9: Sector-wise PAT margin of Nifty 50 companies in Q1FY23



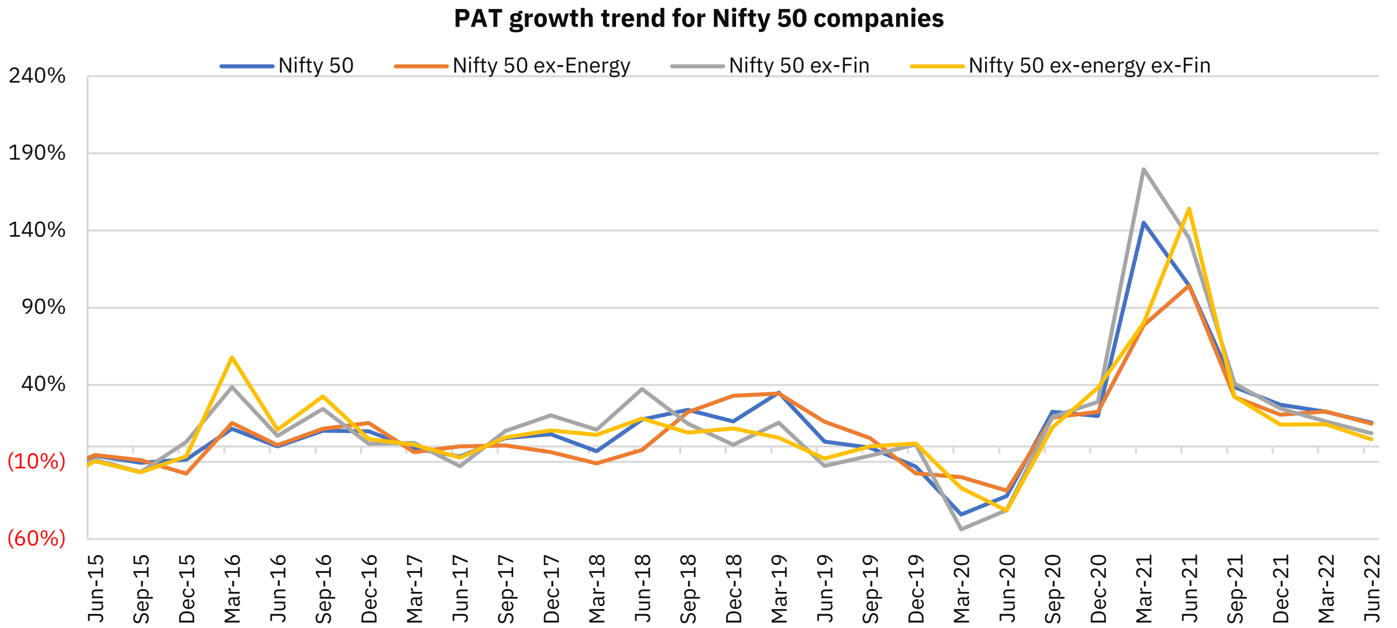
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above charts provide data for companies in the Nifty 50 index as on end of June 2022.

Table 8: Sector-wise contribution of Nifty 50 companies to PAT growth in Q1FY23

Sector	PAT (Rsbn)	Contribution to PAT growth	
		% QoQ	% YoY
Communication Services	25	(0.0)	1.2
Consumer Discretionary	1	(3.8)	2.1
Consumer Staples	80	0.2	1.2
Energy	315	(3.6)	3.8
Financials	456	(3.1)	9.2
Health Care	46	0.4	0.7
Industrials	33	(1.1)	0.3
Information Technology	219	(1.1)	(0.1)
Materials	194	(4.3)	(4.1)
Utilities	78	(0.7)	1.1
Nifty 50	**1,446**	**(17.2)**	**15.4**
Nifty 50 ex-Energy	**1,131**	**(13.6)**	**11.6**
Nifty 50 ex-Financials	**990**	**(14.1)**	**6.2**
Nifty 50 ex-energy ex-fin	**676**	**(10.5)**	**2.4**

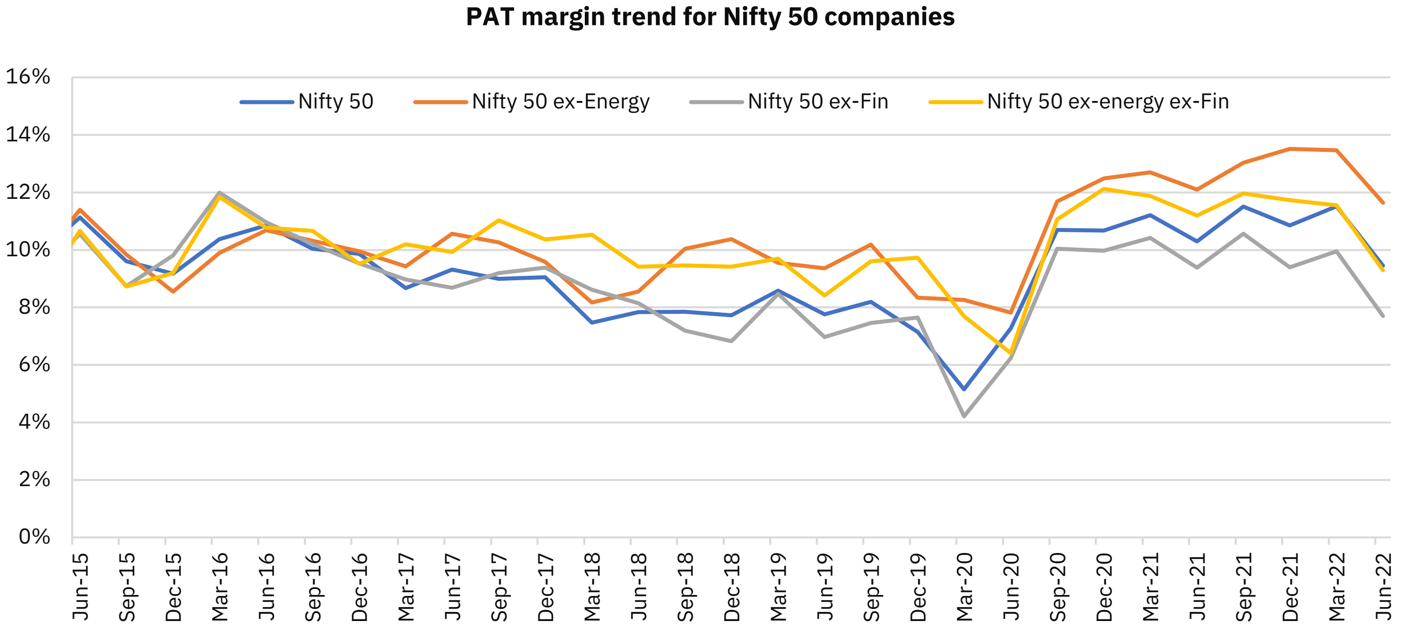
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 50 index as on end of June 2022.

Figure 10: PAT growth trend of Nifty 50 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 50 index as on end of respective quarters.

Figure 11: PAT margin trend of Nifty 50 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 50 index as on end of respective quarters.

Nifty 500 Q1FY23 results

Higher realisations drove revenue growth: Aggregate top-line for the Nifty 500 companies grew by a strong 35.5% YoY in Q1FY23, higher than the 21.6% YoY growth in the previous quarter. On a sequential basis, aggregate revenues of the Nifty 500 universe grew by 2.7% on top of an 8.5% QoQ growth in the previous quarter for the same composition. Improvement in demand vis-à-vis corresponding quarter in the previous year, as restrictions on economic activities were eased significantly with waning concerns about the COVID pandemic, as well as pass-through of higher input prices to final goods provided some relief to corporates reeling with inflationary pressures. Within the Nifty 500 universe, 440 and 223 companies recorded expansion in revenues on an YoY and QoQ basis respectively in the June quarter.

All sectors in the Nifty 500 universe registered an YoY expansion in net sales in the June quarter led by: a) Energy: higher refining margins for upstream oil and gas companies due to elevated crude oil prices, partly offsetting weaker marketing margins for oil marketing companies; b) Materials: Higher realisations for metal companies on rising input prices; c) Industrials: Robust demand for infrastructure projects and capital goods; d) Consumer discretionary: Improvement in demand for auto, retail and consumer services e) Utilities: Increase in power demand; f) Information Technology: Sustained strong demand for cloud migration and other digital services; and f) Consumer Staples: Pass-through of higher input costs to final products.

Sectors that recorded modest YoY growth include: a) Financials: Higher interest income and improving asset quality; and b) Health Care: Higher export earnings offset by slow pace of recovery in non-covid business and contraction in covid-led business

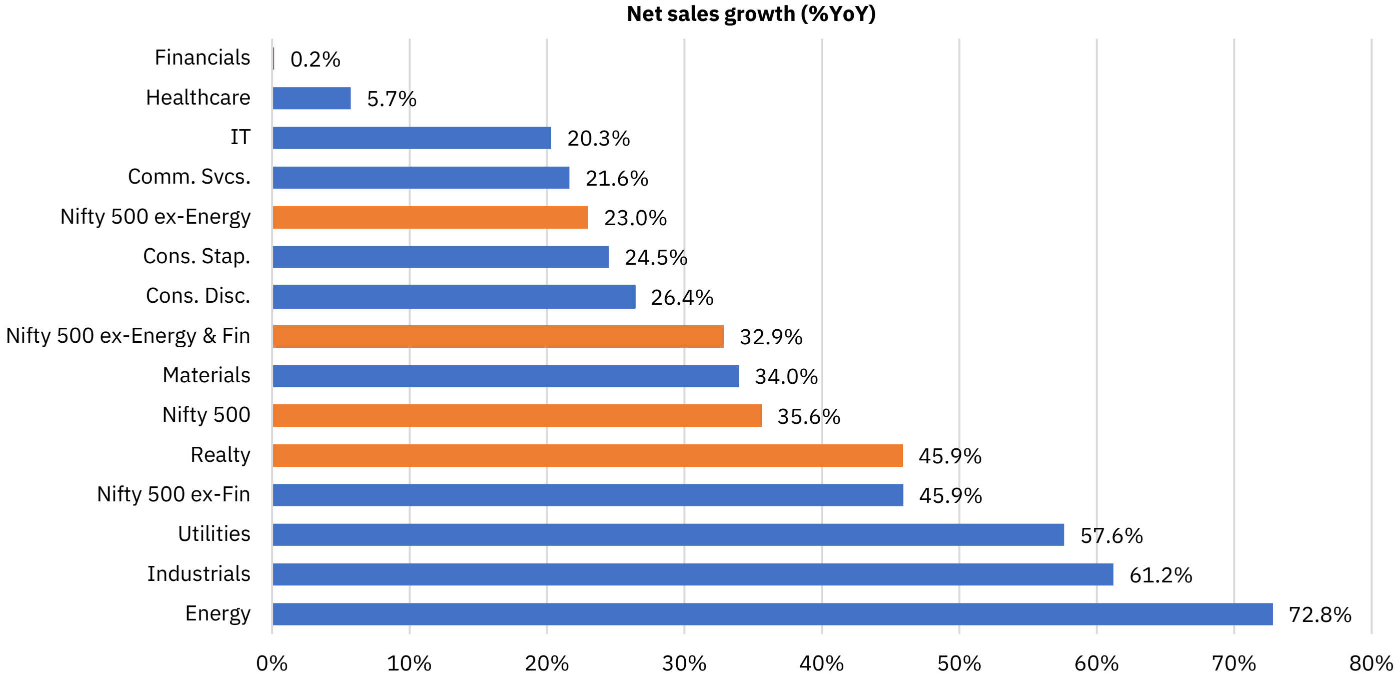
On a QoQ basis, sectors within the Nifty 500 universe that led the rebound included Utilities, Energy and Consumer Staples, while Real Estate, Consumer Discretionary, Financials and Industrials saw their revenues contracting.

Table 9: Net sales growth of Nifty 500 companies

	QoQ growth			YoY growth		
Sector	Jun-21	Mar-22	Jun-22	Jun-21	Mar-22	Jun-22
Communication Services	0.1	3.5	3.2	17.4	15.6	19.1
Consumer Discretionary	(22.1)	9.9	(8.9)	149.1	8.2	26.5
Consumer Staples	(3.2)	(4.6)	12.0	22.4	7.7	24.5
Energy	(5.3)	8.9	17.2	76.9	39.6	72.8
Financials	(1.8)	4.0	(8.1)	(1.4)	7.0	0.1
Health Care	8.1	0.3	2.3	19.8	11.7	5.7
Industrials	(32.4)	23.7	(8.2)	57.7	18.7	61.2
Information Technology	2.9	3.3	3.7	18.4	19.4	20.3
Materials	(4.5)	12.9	(3.1)	69.0	31.8	33.9
Real Estate	(40.5)	38.8	(21.5)	63.4	10.6	45.9
Utilities	1.5	5.4	24.2	26.6	29.0	57.9
Nifty 500	**(7.8)**	**8.5**	**2.7**	**41.1**	**21.6**	**35.5**
Nifty 500 ex-Energy	**(8.6)**	**8.4**	**(2.9)**	**32.1**	**15.8**	**22.9**
Nifty 500 ex-Financials	**(9.4)**	**9.6**	**5.2**	**61.1**	**25.5**	**45.7**
Nifty 500 ex-energy ex-fin	**(11.2)**	**10.0**	**(1.2)**	**54.5**	**19.2**	**32.7**

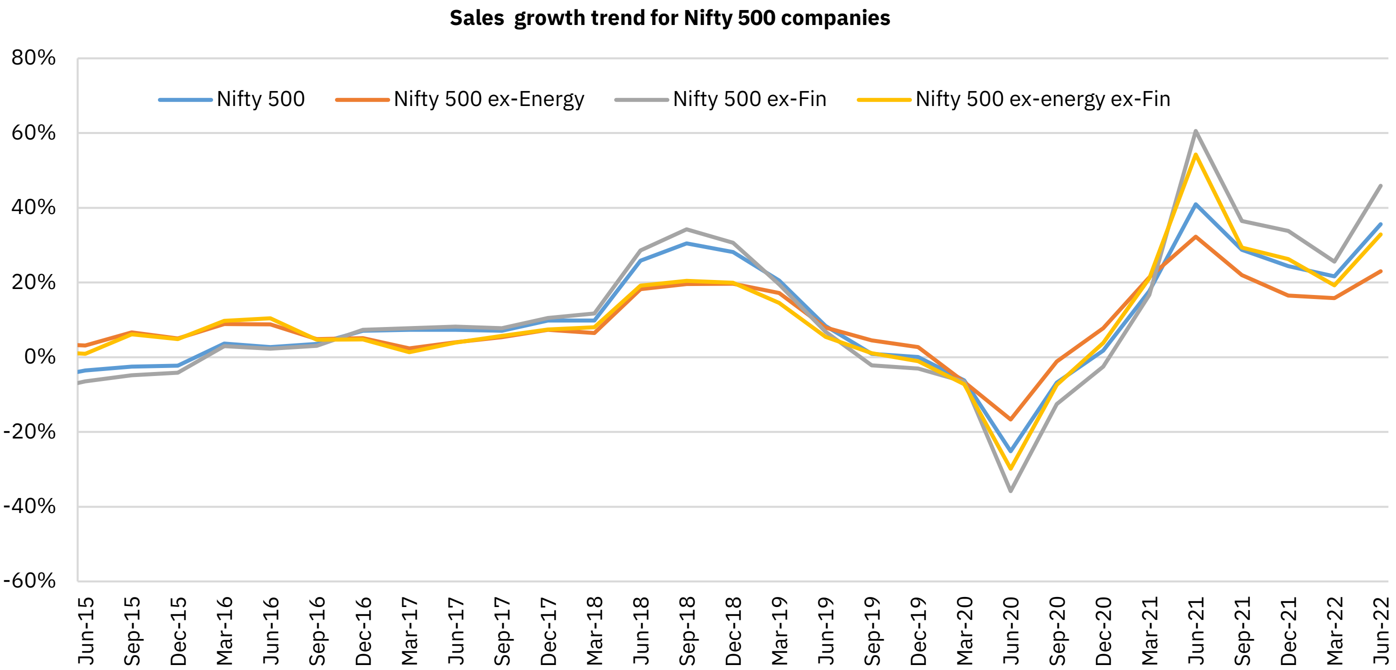
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 500 index as on end of June 2022.

Figure 12: Sector-wise net sales growth of Nifty 500 companies in Q1FY23



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart provides data for companies in the Nifty 500 index as on end of June 2022.

Figure 13: Net sales YoY growth trend of Nifty 500 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 500 index as on end of respective quarters.

Table 10: Sector-wise contribution of Nifty 500 companies to net sales growth in Q1FY23

Sector	Net sales (Rsbn)	Contribution to net sales growth	
		% QoQ	% YoY
Communication Services	654	0.1	0.5
Consumer Discretionary	3,181	(1.0)	3.0
Consumer Staples	923	0.3	0.8
Energy	9,823	4.8	18.3
Financials	5,074	(1.5)	0.0
Health Care	799	0.1	0.2
Industrials	2,284	(0.7)	3.8
Information Technology	1,889	0.2	1.4
Materials	4,412	(0.5)	4.9
Real Estate	72	(0.1)	0.1
Utilities	1,491	1.0	2.4
Nifty 500	**30,602**	**2.7**	**35.5**
Nifty 500 ex-Energy	**20,778**	**(2.1)**	**17.2**
Nifty 500 ex-Financials	**25,527**	**4.2**	**35.5**
Nifty 500 ex-energy ex-fin	**15,704**	**(0.6)**	**17.1**

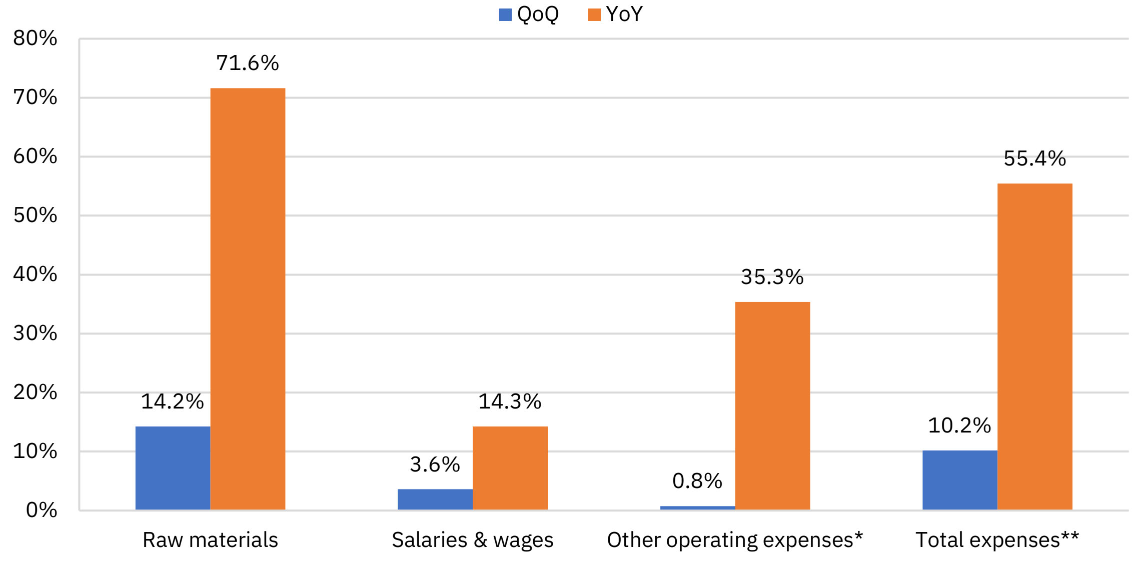
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 500 index as on end of June 2022.

Input cost pressures dragged operating margins to nine-quarter lows: Aggregate EBITDA for the Nifty 500 universe excluding Financials grew by 10.4% YoY/-10.4% QoQ, much lower than revenue expansion witnessed in the June quarter. This is owing to partial passthrough of surge in raw material, fuel and operating costs to final products, thereby leading to operating margins compressing by 472bps YoY and 257bps QoQ to a nine-quarter low of 14.8% in the June quarter.

Total RM costs for the Nifty 500 universe excluding Financials rose sharply by 71.6% YoY and 14.2% QoQ in the June quarter, which has led to RM to sales ratio expanding by 943bps YoY and 493 bps QoQ. Salaries and wage bill also inched up by 14.3% YoY and 3.6% QoQ, a tad lower than the previous quarter. Total expenses (excluding depreciation and interest) rose by 55.4% YoY and 10.2% QoQ, significantly higher than the revenue growth of 45.7% YoY and 5.2% QoQ.

Within the Nifty 500 universe, 251 and 244 of the non-financial companies reported an expansion in EBITDA in the June quarter on a YoY and QoQ basis respectively. Compression in operating margins was broad-based, with all sectors, except Real Estate, Consumer Discretionary and Industrials, reporting a YoY contraction.

Figure 14: Change in expenses for Nifty 500 companies (ex-Financials) in Q1FY23



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: 1. The above chart provides data for companies in the Nifty 500 index as on end of June 2022.
2. *Other operating expenses include selling, general & administrative expenses, rental expenses, and other operating costs.
3. ** Total expenses exclude interest expenses and depreciation.

Table 11: EBITDA growth of Nifty 500 companies

	QoQ growth			YoY growth		
Sector	**Jun-21**	**Mar-22**	**Jun-22**	**Jun-21**	**Mar-22**	**Jun-22**
Communication Services	(1.9)	(8.9)	(4.7)	24.5	20.5	17.1
Consumer Discretionary	(50.7)	3.5	(15.4)	325.8	(12.3)	48.6
Consumer Staples	(6.3)	(2.6)	9.1	12.6	4.5	21.2
Energy	(13.9)	14.7	(23.7)	43.2	20.7	6.9
Financials	(1.2)	2.8	(0.6)	(2.6)	15.8	16.5
Health Care	17.4	(10.8)	5.5	19.7	6.8	(4.2)
Industrials	(41.4)	20.3	(15.7)	68.8	15.1	62.8
Information Technology	1.9	1.1	(4.3)	22.1	10.3	3.7
Materials	1.7	8.9	(8.9)	174.3	4.3	(6.5)
Real Estate	(32.2)	2.5	(1.1)	56.3	7.0	55.9
Utilities	6.8	7.2	4.2	13.6	15.4	12.7
Nifty 500	**(6.7)**	**5.0**	**(6.1)**	**23.0**	**12.5**	**13.1**
Nifty 500 ex-Energy	**(5.6)**	**3.5**	**(3.1)**	**20.6**	**11.3**	**14.0**
Nifty 500 ex-Financials	**(10.8)**	**6.7**	**(10.4)**	**57.0**	**10.1**	**10.4**
Nifty 500 ex-energy ex-fin	**(9.8)**	**4.2**	**(5.8)**	**61.5**	**6.9**	**11.4**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 500 index as on end of June 2022.

Table 12: EBITDA margin of Nifty 500 companies in Q1FY23

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	43.1	(356)	(76)
Consumer Discretionary	9.3	(71)	138
Consumer Staples	21.0	(54)	(57)
Energy	8.4	(449)	(516)
Financials	64.5	486	904
Health Care	23.0	71	(237)
Industrials	13.9	(125)	14
Information Technology	21.3	(176)	(342)
Materials	18.6	(117)	(805)
Real Estate	39.8	821	256
Utilities	28.1	(541)	(1129)
Nifty 500	**23.0**	**(216)**	**(455)**
Nifty 500 ex-Energy	**29.9**	**(6)**	**(235)**
Nifty 500 ex-Financials	**14.8**	**(257)**	**(472)**
Nifty 500 ex-energy ex-fin	**18.7**	**(93)**	**(359)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 500 index as on end of June 2022.

Figure 15: Sector-wise EBITDA growth of Nifty 500 companies in Q1FY23

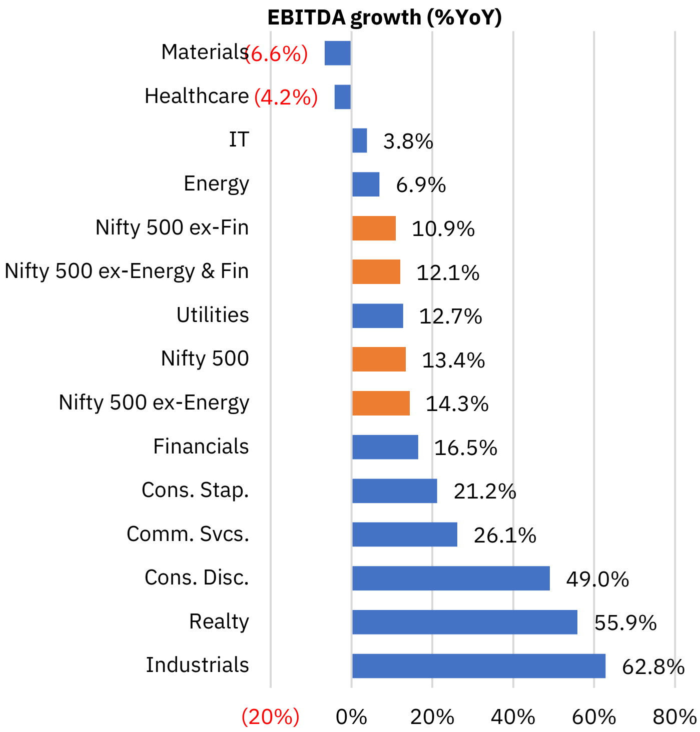
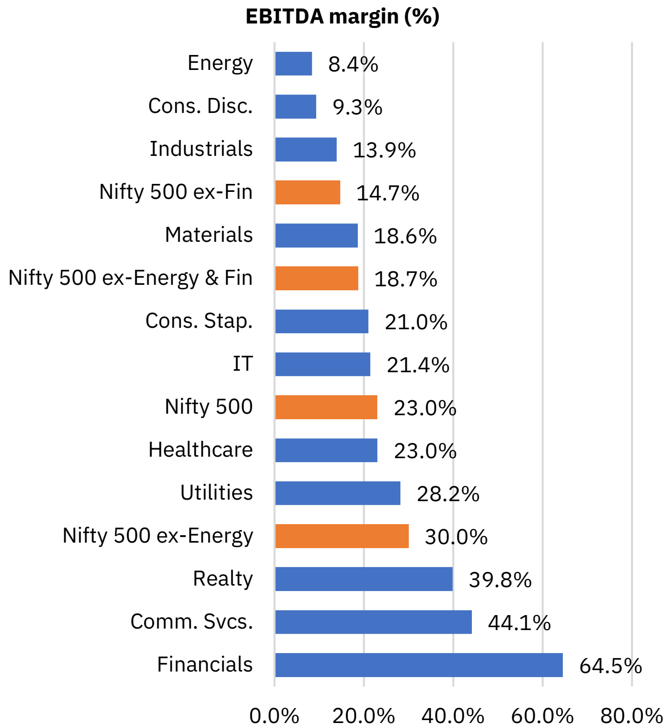


Figure 16: Sector-wise EBITDA margin of Nifty 500 companies in Q1FY23



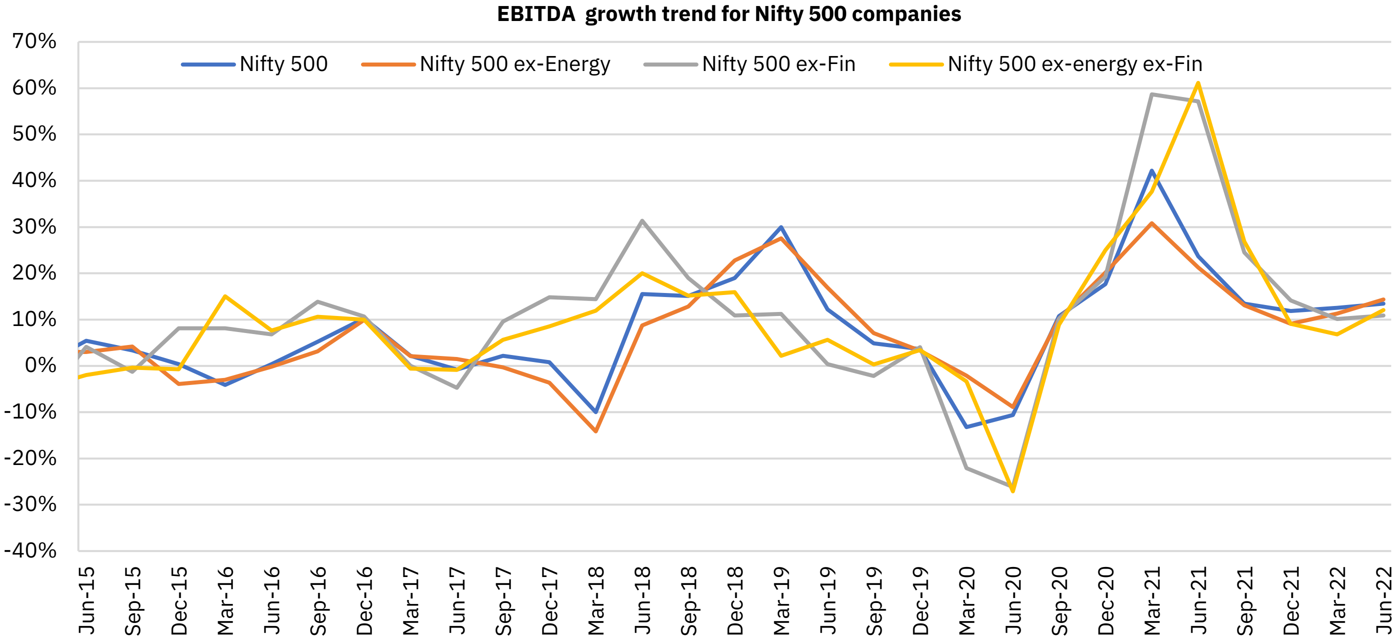
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above charts provide data for companies in the Nifty 500 index as on end of June 2022.

Table 13: Sector-wise contribution of Nifty 500 companies to EBITDA growth in Q1FY23

Sector	EBITDA (Rsbn)	Contribution to EBITDA growth	
		% QoQ	% YoY
Communication Services	282	(0.2)	0.7
Consumer Discretionary	295	(0.7)	1.6
Consumer Staples	194	0.2	0.5
Energy	822	(3.4)	0.9
Financials	3,273	(0.3)	7.4
Health Care	184	0.1	(0.1)
Industrials	318	(0.8)	2.0
Information Technology	402	(0.2)	0.2
Materials	821	(1.1)	(0.9)
Real Estate	29	(0.0)	0.2
Utilities	419	0.2	0.8
Nifty 500	**7,039**	**(6.1)**	**13.1**
Nifty 500 ex-Energy	**6,217**	**(2.7)**	**12.3**
Nifty 500 ex-Financials	**3,766**	**(5.8)**	**5.7**
Nifty 500 ex-energy ex-fin	**2,944**	**(2.4)**	**4.8**

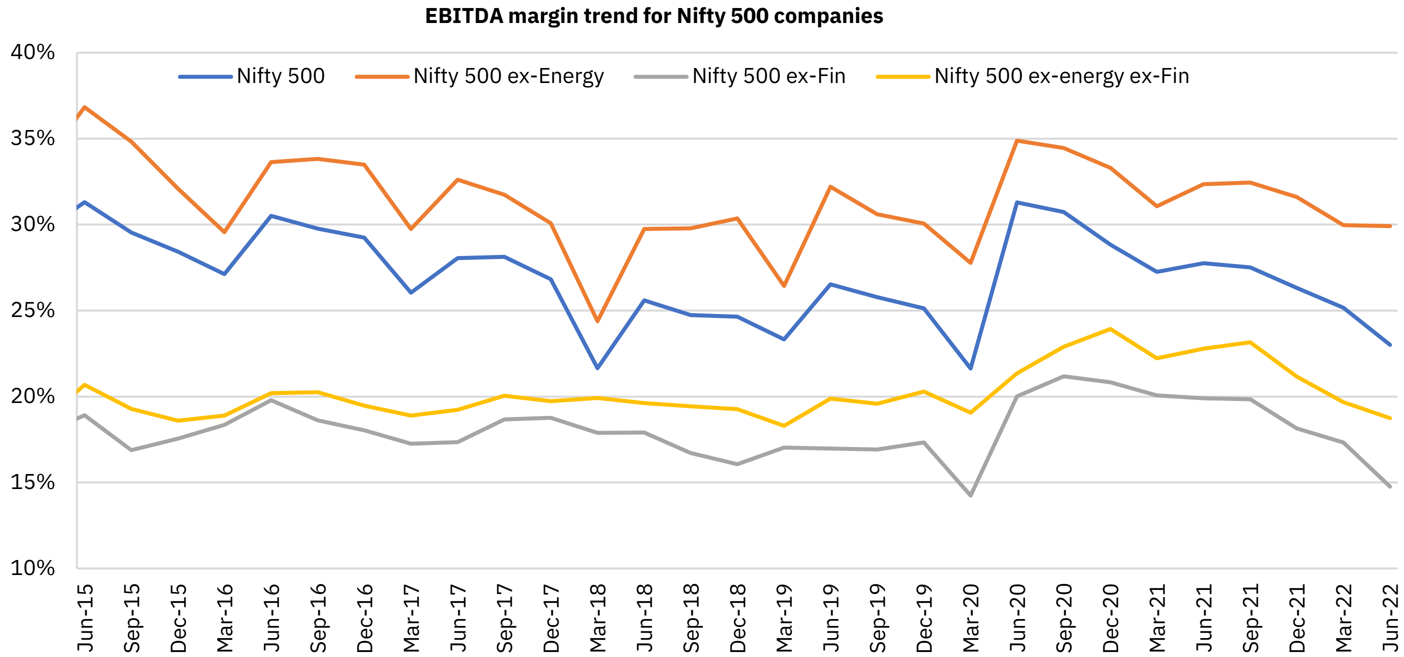
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 500 index as on end of June 2022.

Figure 17: EBITDA growth trend of Nifty 500 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 500 index as on end of respective quarters.

Figure 18: EBITDA margin trend of Nifty 500 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 500 index as on end of respective quarters.

Financials, Industrials and Consumer Discretionary sectors posted healthy profit growth: Aggregate adjusted PAT for the Nifty 500 companies grew by an eight-quarter low of 19.7% YoY but dipped by 18.8% on a sequential basis in Q1FY23. This was much lower than the top-line growth, weighed down by higher input and interest costs, thereby resulting in profit margins contracting by 101bps YoY and 203bps QoQ. Materials sector endured maximum contraction in margins in the June quarter, as rising costs weighed on earnings and demand. Earnings of OMCs suffered due to shrinking of marketing margins. While demand in Utilities sectors was robust, profit margins got hit by rising energy costs.

Sector that drove the YoY profit growth in the quarter gone by include: a) Financials: Higher interest income due to higher lending rates; b) Industrials: Favourable base and improvement in order inflows; and c) Consumer discretionary: Pent up demand and low base due to lacklustre discretionary spending in the year-ago period.

Within the Nifty 500 universe, 326 companies and 199 companies reported an expansion in profits on a YoY and QoQ basis respectively in the June quarter.

Table 14: PAT growth of Nifty 500 companies

Sector	QoQ growth			YoY growth		
	Jun-21	Mar-22	Jun-22	Jun-21	Mar-22	Jun-22
Communication Services	NA	(98.7)	(7766.4)	NA	NA	NA
Consumer Discretionary	(114.1)	7.1	(55.5)	NA	(37.3)	NA
Consumer Staples	(6.6)	(2.2)	10.8	15.4	5.4	24.4
Energy	(22.6)	14.2	(38.0)	93.4	15.6	(7.4)
Financials	2.7	7.5	(9.3)	29.6	67.5	48.0
Health Care	21.5	(22.7)	8.0	36.4	1.6	(9.9)
Industrials	(80.1)	31.4	(37.8)	NA	21.1	203.5
Information Technology	10.3	4.4	(9.2)	26.9	22.7	1.0
Materials	3.8	15.7	(20.4)	1392.4	12.7	(13.6)
Real Estate	(38.6)	(13.3)	11.2	NA	47.4	166.6
Utilities	(0.3)	12.2	(1.9)	25.3	24.9	23.0
Nifty 500	**(15.7)**	**8.4**	**(19.2)**	**117.0**	**24.6**	**19.0**
Nifty 500 ex-Energy	**(14.0)**	**7.1**	**(14.8)**	**123.4**	**26.9**	**25.1**
Nifty 500 ex-Financials	**(21.1)**	**8.8**	**(23.4)**	**191.1**	**12.3**	**8.3**
Nifty 500 ex-energy ex-fin	**(20.5)**	**6.9**	**(18.0)**	**253.6**	**11.1**	**13.6**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: 1. The above table provides data for companies in the Nifty 500 index as on end of June 2022.
2. NA: Not Applicable

Table 15: PAT margin of Nifty 500 companies in Q1FY23

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	(3.7)	(372)	411
Consumer Discretionary	1.6	(168)	212
Consumer Staples	13.9	(15)	(1)
Energy	3.4	(306)	(298)
Financials	15.5	(21)	501
Health Care	11.7	62	(204)
Industrials	4.5	(217)	213
Information Technology	13.4	(190)	(257)
Materials	9.4	(204)	(516)
Real Estate	18.0	528	813
Utilities	11.7	(311)	(332)
Nifty 500	**7.6**	**(207)**	**(105)**
Nifty 500 ex-Energy	**9.6**	**(134)**	**17**
Nifty 500 ex-Financials	**6.1**	**(226)**	**(210)**
Nifty 500 ex-energy ex-fin	**7.7**	**(158)**	**(129)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 500 index as on end of June 2022.

Figure 19: Sector-wise PAT growth of Nifty 500 companies in Q1FY23

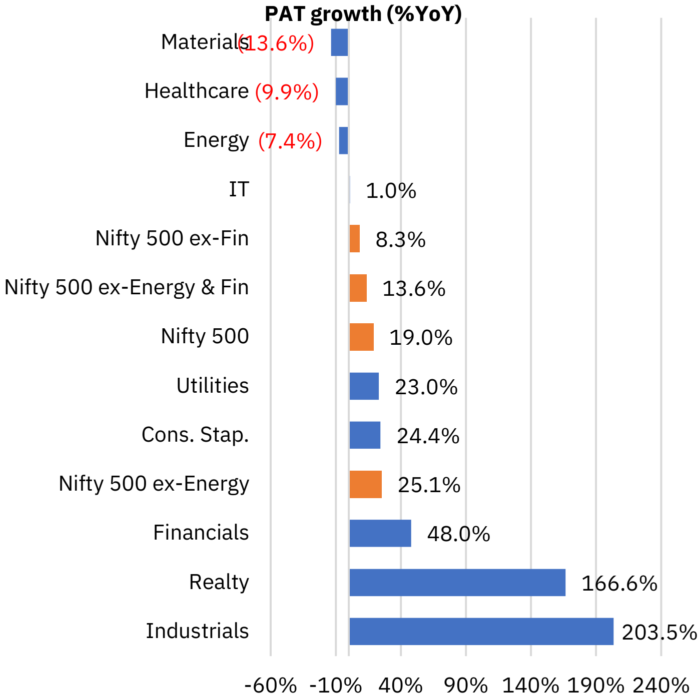
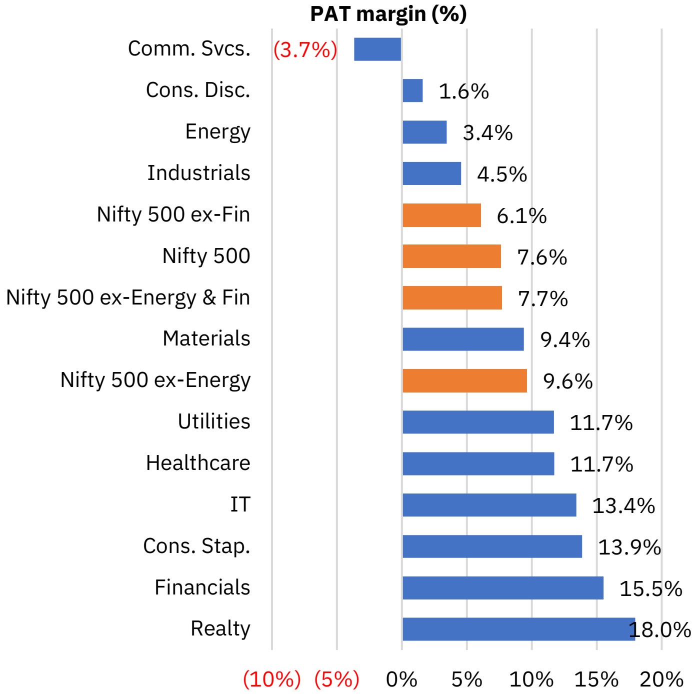


Figure 20: Sector-wise PAT margin of Nifty 500 companies in Q1FY23



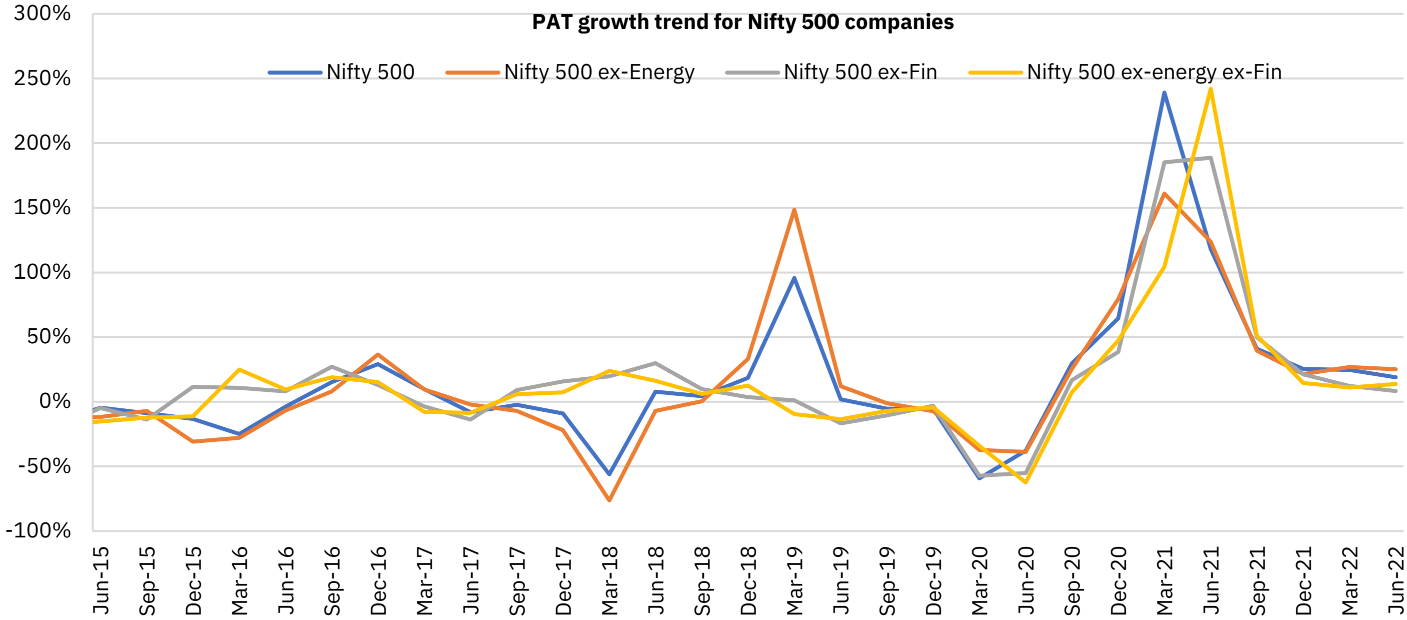
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above charts provide data for companies in the Nifty 500 index as on end of June 2022.

Table 16: Sector-wise contribution of Nifty 500 companies to PAT growth in Q1FY23

Sector	PAT (Rsbn)	Contribution to PAT growth	
		% QoQ	% YoY
Communication Services	-24	(0.8)	1.0
Consumer Discretionary	51	(2.2)	3.3
Consumer Staples	128	0.4	1.3
Energy	338	(7.2)	(1.4)
Financials	787	(2.8)	13.0
Health Care	94	0.2	(0.5)
Industrials	104	(2.2)	3.6
Information Technology	253	(0.9)	0.1
Materials	414	(3.7)	(3.3)
Real Estate	13	0.0	0.4
Utilities	174	(0.1)	1.7
Nifty 500	**2,334**	**(19.2)**	**19.0**
Nifty 500 ex-Energy	**1,995**	**(12.0)**	**20.4**
Nifty 500 ex-Financials	**1,546**	**(16.4)**	**6.0**
Nifty 500 ex-energy ex-fin	**1,208**	**(9.2)**	**7.4**

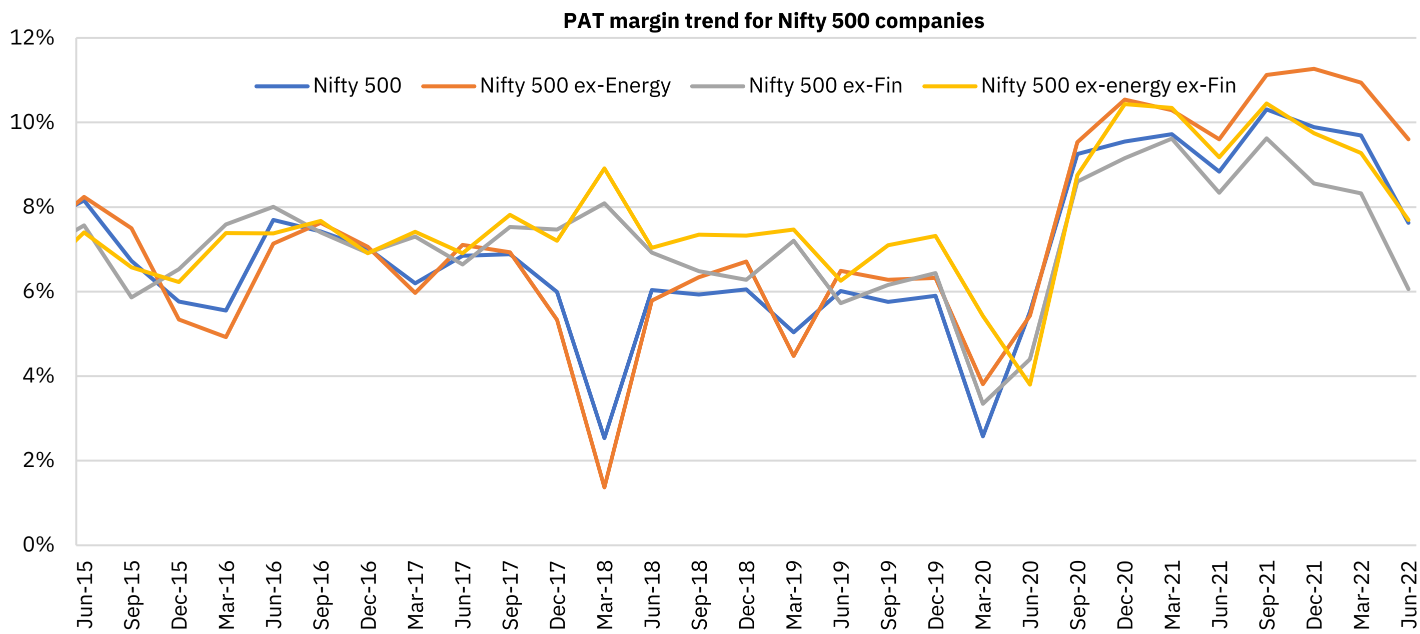
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above table provides data for companies in the Nifty 500 index as on end of June 2022.

Figure 21: PAT growth trend of Nifty 500 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 500 index as on end of respective quarters.

Figure 22: PAT margin trend of Nifty 500 companies in last seven years



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: The above chart includes companies in the Nifty 500 index as on end of respective quarters.

Earnings revision analysis

Consensus FY23/FY24 aggregate PAT estimates downgraded further: Rising cost pressures have outweighed resilient demand environment, leading to profitability taking a hit even as top line growth has retained momentum thanks to steady volumes and higher realisations. Accordingly, aggregate consensus estimates for FY23 and FY24 have seen 3-6% downgrades this year. Our analysis of earnings performance of top 200 covered companies by market capitalisation[3] show that aggregate profit estimates for FY23 and FY24 have been curtailed by 6.8% and 4.7% respectively since March-end (As on August 22nd, 2022). This followed nearly 9.7% increase in FY23 profit estimate during the whole of last fiscal year (Apr'21-Mar'22). The downgrades were primarily led by export-oriented (Information Technology, and Pharmaceuticals) and commodity companies (Materials) Excluding these sectors, cut in profit estimates for FY23 and FY24 was relatively muted at 3.8% and 1.2% respectively.

With this, the aggregate earnings of top 200 companies are now expected to increase by 11.5% and 18.1% in FY23 and FY24 respectively, following a ~41% PAT growth in FY22, implying an earnings CAGR of ~15% during FY22-24. Excluding Materials, which has seen the steepest drop in earnings estimates over the last several months, PAT growth in FY23 is estimated at ~22%. Notably, Materials and Utilities are the only sectors for which aggregate profits are expected to drop during FY22-24, excluding which expected profit CAGR for the top 200 companies during FY22-24 is pegged at a strong 22.4%, led by Financials and Consumer Discretionary. Notwithstanding downgrades, Financials sector is expected to contribute 41% of the profit change over FY22-24, followed by Consumer Discretionary at 20%. Energy, Industrials, Communication Services and Information Technology are all expected to contribute around 10-11% each to the profit change during this period.

The sharp drop in commodity prices seen over the last few months should ease input cost pressures for non-financial sectors. This, along with resiliency in consumption demand, should improve profitability, notwithstanding headwinds from slowing external demand and weak INR.

Figure 23: Aggregate consensus profit growth estimate for top 200 covered companies (% YoY)

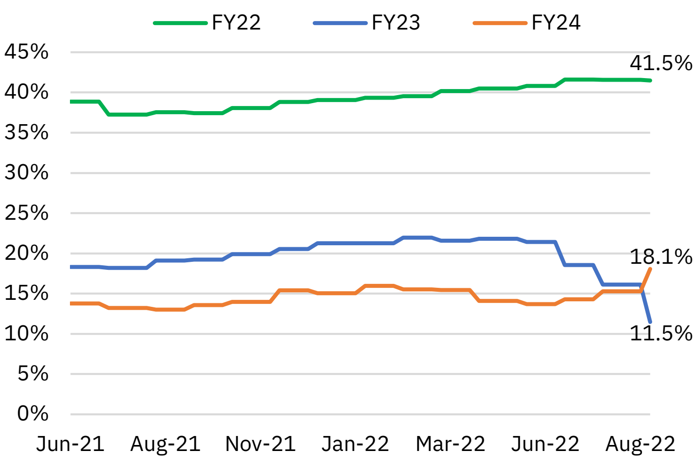
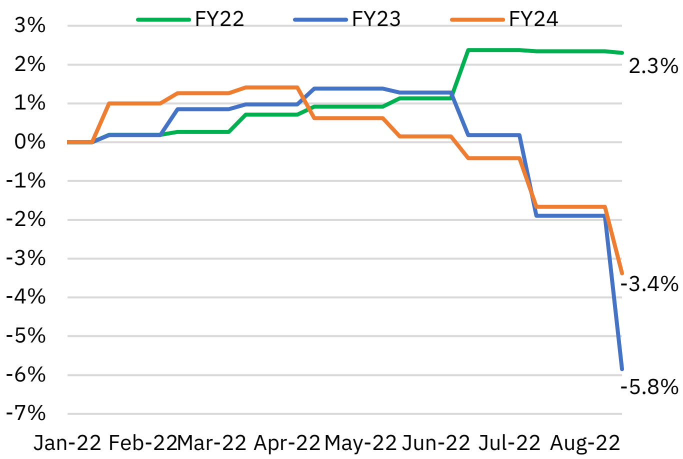


Figure 24: Aggregate consensus earnings revisions in CY22 TD (Jan'22-) for top 200 covered companies



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2022, covered by at least five analysts at any given point of time over the last one year. Data is as of August 22nd, 2022.

[3] The sample set consists of top 200 companies by one-year average market cap ending June 30th, 2022 covered by at least five or more analysts during the previous 12 months using IBES estimates from Refinitiv Datastream.

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

Sectors	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	51.9	48.0	22.4	11.2	7.9	(10.9)	(12.6)	(15.4)	(28.5)	(28.6)	(28.6)	(28.0)
Consumer Staples	17.3	17.3	16.4	16.4	16.2	14.1	14.0	13.4	13.5	13.8	13.8	14.0
Energy	13.0	15.8	22.5	24.8	27.0	32.6	34.7	36.5	37.7	42.9	42.9	42.9
Financials	41.0	41.0	40.6	40.9	41.0	42.1	43.0	43.2	46.6	43.0	42.9	42.9
Health Care	14.3	14.7	10.4	10.3	9.7	9.9	9.7	9.5	2.5	8.4	8.4	8.3
Industrials	13.2	13.6	13.5	13.4	13.6	5.6	5.3	3.3	0.4	(4.0)	(4.1)	(3.9)
IT	18.8	19.0	18.8	18.9	18.2	18.0	18.0	17.5	17.8	17.8	17.8	17.8
Materials	82.2	83.5	89.7	90.1	90.6	89.8	89.9	90.0	93.4	93.2	93.0	92.5
Real Estate	94.1	93.0	93.6	92.1	91.3	87.3	88.0	87.0	84.7	80.2	80.2	80.2
Utilities	9.9	9.7	11.6	12.1	12.9	16.1	16.6	16.9	19.4	32.8	32.8	32.8
Total	**37.4**	**38.0**	**38.8**	**39.0**	**39.3**	**39.5**	**40.2**	**40.5**	**40.8**	**41.6**	**41.6**	**41.5**

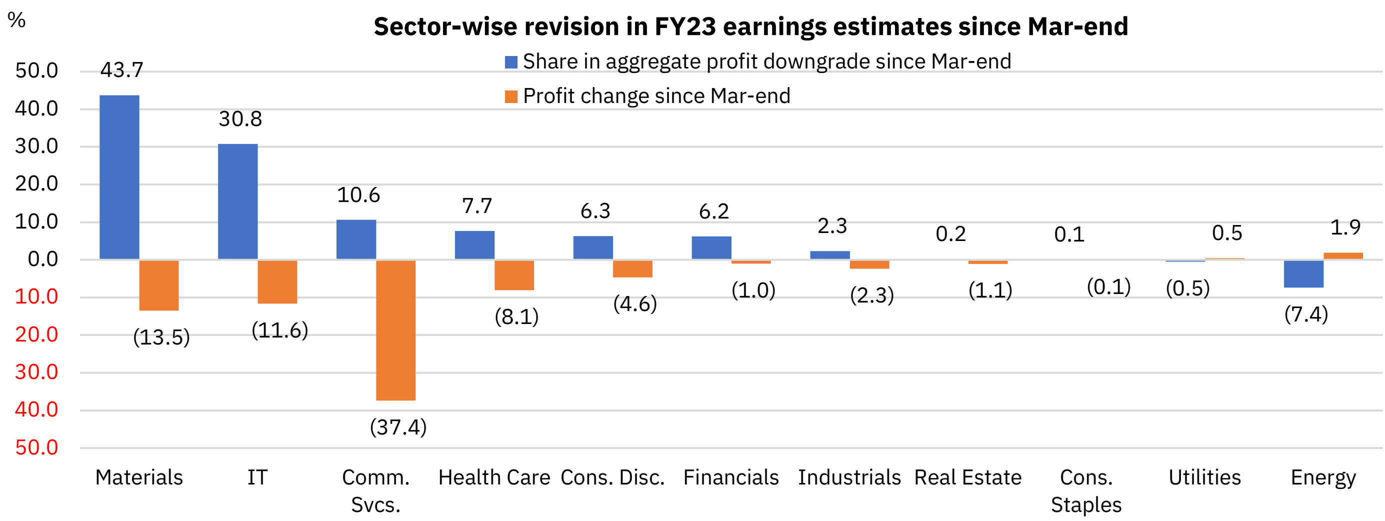
Source: Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2022, covered by at least five analysts at any given point of time over the last one year. * Data is as of August 22nd, 2022.

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

Sectors	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	61.1	68.0	103.4	124.3	129.6	171.1	169.9	179.5	213.6	213.7	210.2	199.4
Consumer Staples	17.6	17.6	17.5	17.7	17.8	18.7	18.4	18.0	15.9	15.2	15.3	16.2
Energy	19.0	19.3	16.2	17.4	16.9	16.8	16.4	17.7	19.1	18.4	14.5	7.3
Financials	28.9	29.1	30.0	29.9	30.0	30.7	30.5	30.1	26.1	24.9	24.2	23.7
Health Care	20.6	20.4	23.7	23.5	23.7	20.7	20.7	20.3	26.2	14.6	14.2	8.4
Industrials	61.6	61.9	64.0	65.2	64.7	70.2	70.0	72.3	81.3	87.1	85.4	74.9
IT	12.7	14.1	14.8	14.7	15.7	15.9	15.8	14.8	12.5	12.1	10.0	7.7
Materials	-9.9	-9.4	-8.9	-8.9	-9.7	-8.2	-8.6	-7.4	-6.0	-13.2	-17.8	-25.5
Real Estate	31.6	34.4	36.0	35.7	38.7	41.6	40.6	40.9	41.3	44.7	44.0	48.8
Utilities	10.3	10.5	8.2	7.5	7.1	3.3	3.0	2.9	2.0	-7.2	-7.3	-7.0
Total	**19.2**	**19.9**	**20.6**	**21.3**	**21.2**	**22.0**	**21.6**	**21.8**	**21.4**	**18.6**	**16.1**	**11.5**

Source: Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2022, covered by at least five analysts at any given point of time over the last one year. * Data is as of August 22nd, 2022.

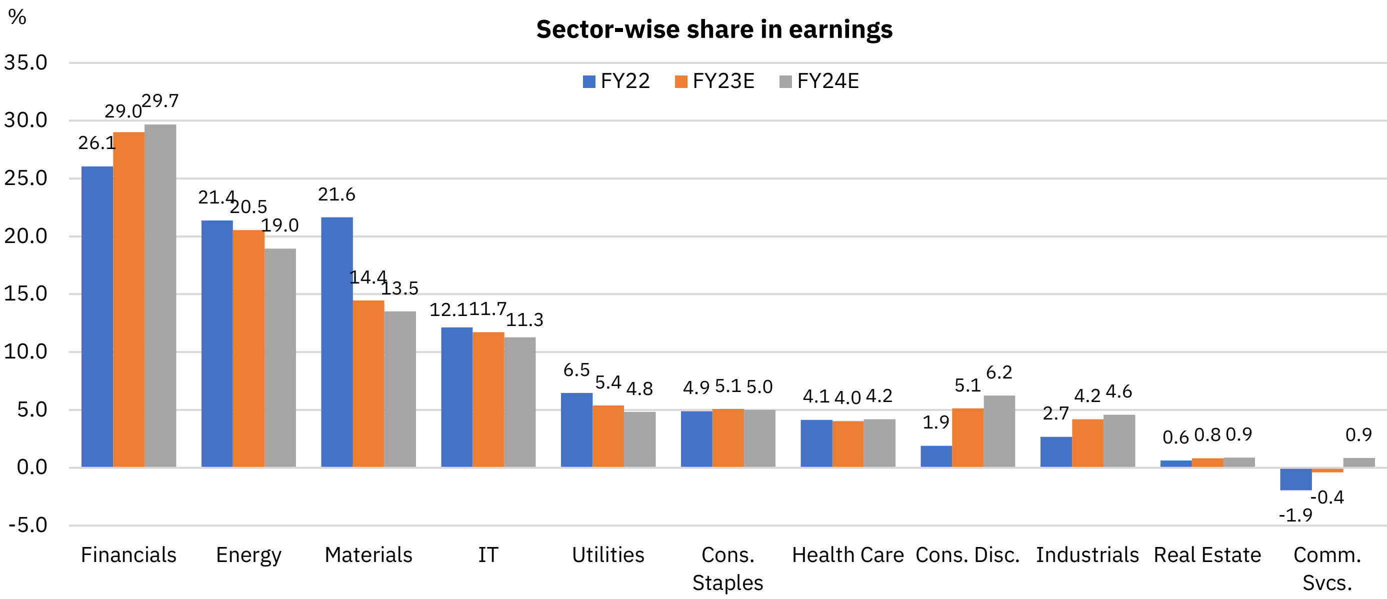
Figure 25: Sector-wise revision in FY23 earnings estimates since March-end



Source: Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2022, covered by at least five analysts at any given point of time over the last one year. Data is as August 22nd, 2022.

Share of Financials, Consumer Discretionary, and Industrials to aggregate corporate earnings to rise over the next two years: Strengthening recession worries, coupled with slowdown in China, is likely to keep a check on crude oil and commodity prices. This is already reflected in a sharp dip in commodity prices over the last few months. Consequently, there has been a meaningful dip in the share of Materials and Energy to aggregate corporate earnings estimates of top 200 companies over the next two years. For instance, Materials accounted for ~22% of the aggregate earnings for top 200 companies in FY22, which is expected to drop to 14.4% in FY23 and further to 13.5% in FY24. Utility companies are also expected to see a drop in their share in overall corporate earnings of these 200 companies. The reduced share of these sectors to aggregate corporate earnings during this period is expected to be taken over by Financials, Consumer Discretionary, and Industrials. Clearly, the earnings trajectory over the next two years hinges on persistence of consumption and investment demand.

Figure 26: Sector-wise share in earnings

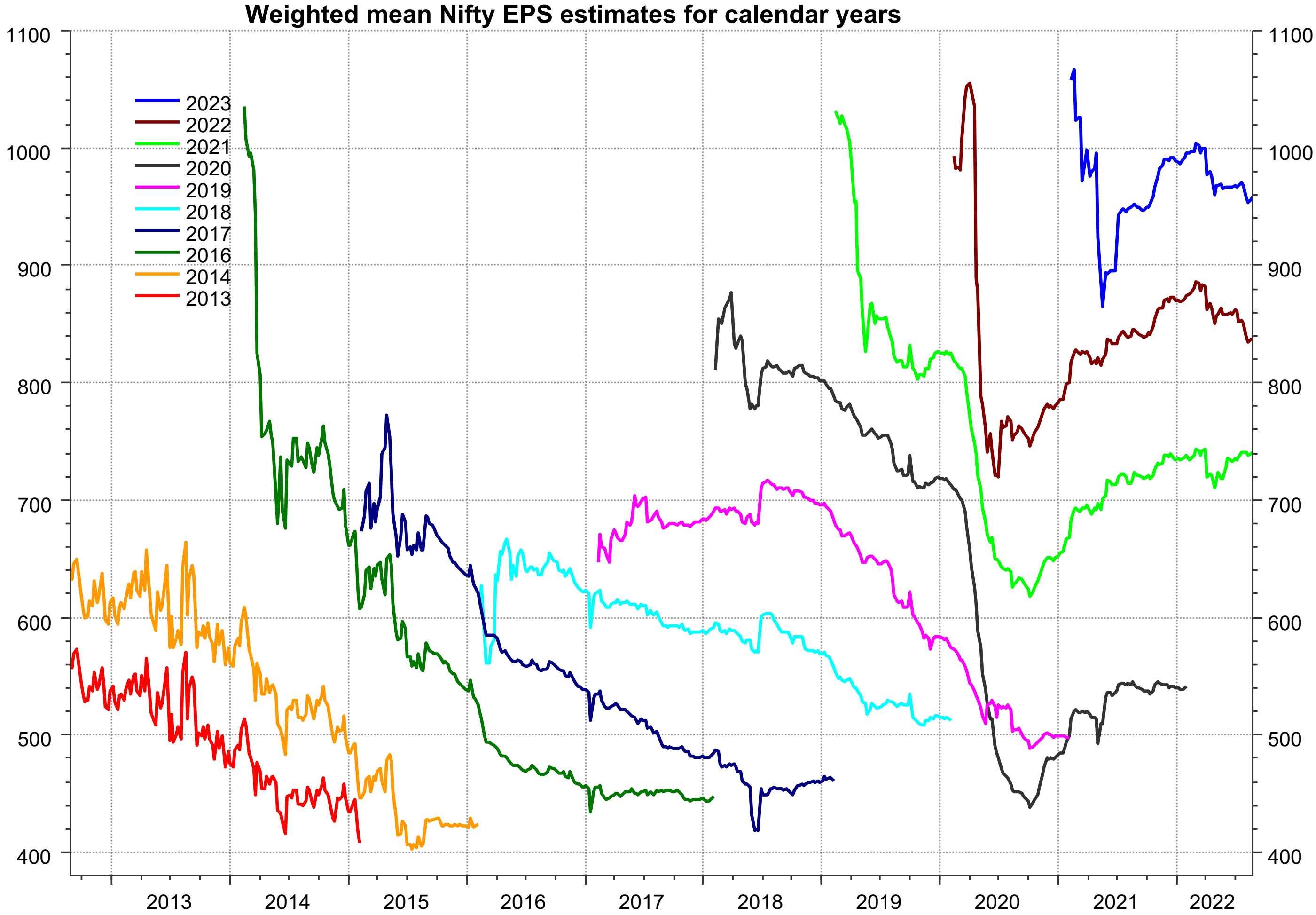


Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2022, covered by at least five analysts at any given point of time over the last one year. Data is as of August 22nd, 2022.

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 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 subsequent quarters. In fact, earnings growth in FY22 was the highest in at least last 10 years. Strengthening stagflationary concerns globally and weakening external demand have weighed on domestic earnings outlook. Breaking the trend seen over FY21-22, earnings estimates have seen downgrades this year, with Nifty 50 EPS estimates for both 2022 and 2023 getting curtailed by 5.4% and 4.4%, respectively, from the peak level seen in early March just around Russia's invasion of Ukraine.

Figure 27: Yearly trend of NIFTY 50 Consensus EPS estimates



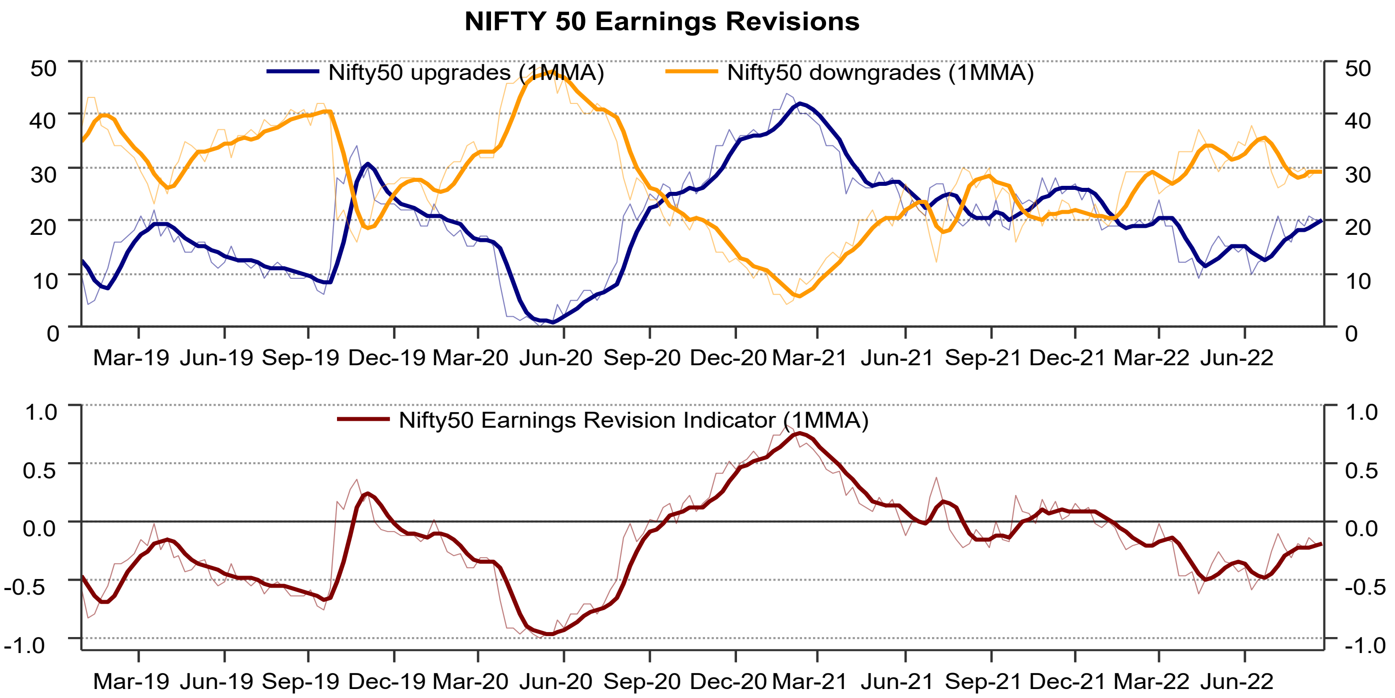
Source: Refinitiv Datastream, NSE EPR.

Nifty 50 Earnings Revision Indicator remained in the contraction zone: 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 implemented worldwide.

The ERI, however, improved meaningfully beginning September 2020, as better-than-expected corporate earnings over the previous quarter, a stronger-than-anticipated post-lockdown recovery in business and consumption activities and a spike in commodity prices 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 March 2021 and hovered near-zero levels until early this year.

Russia's invasion of Ukraine in late February 2022, intensifying inflationary pressures, China slowdown and weakening external demand environment have led to a deterioration in earnings outlook since then, leading to ERI falling deep into the negative territory this year. All sectors, barring Utilities, have ERI hovering in the negative zone, with Information Technology and Materials leading the pack.

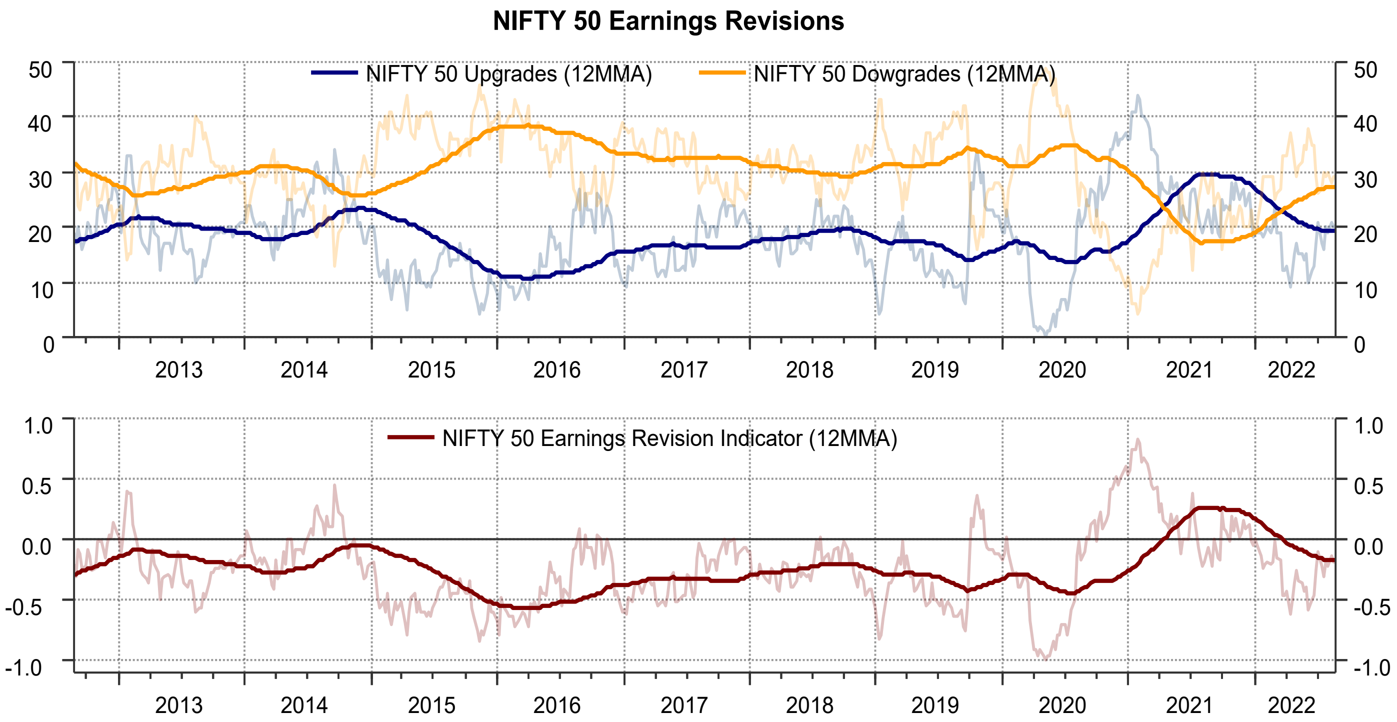
Figure 28: Nifty 50 Earnings Revision Indicator (since January 2019)



Source: Refinitiv Datastream, NSE EPR.

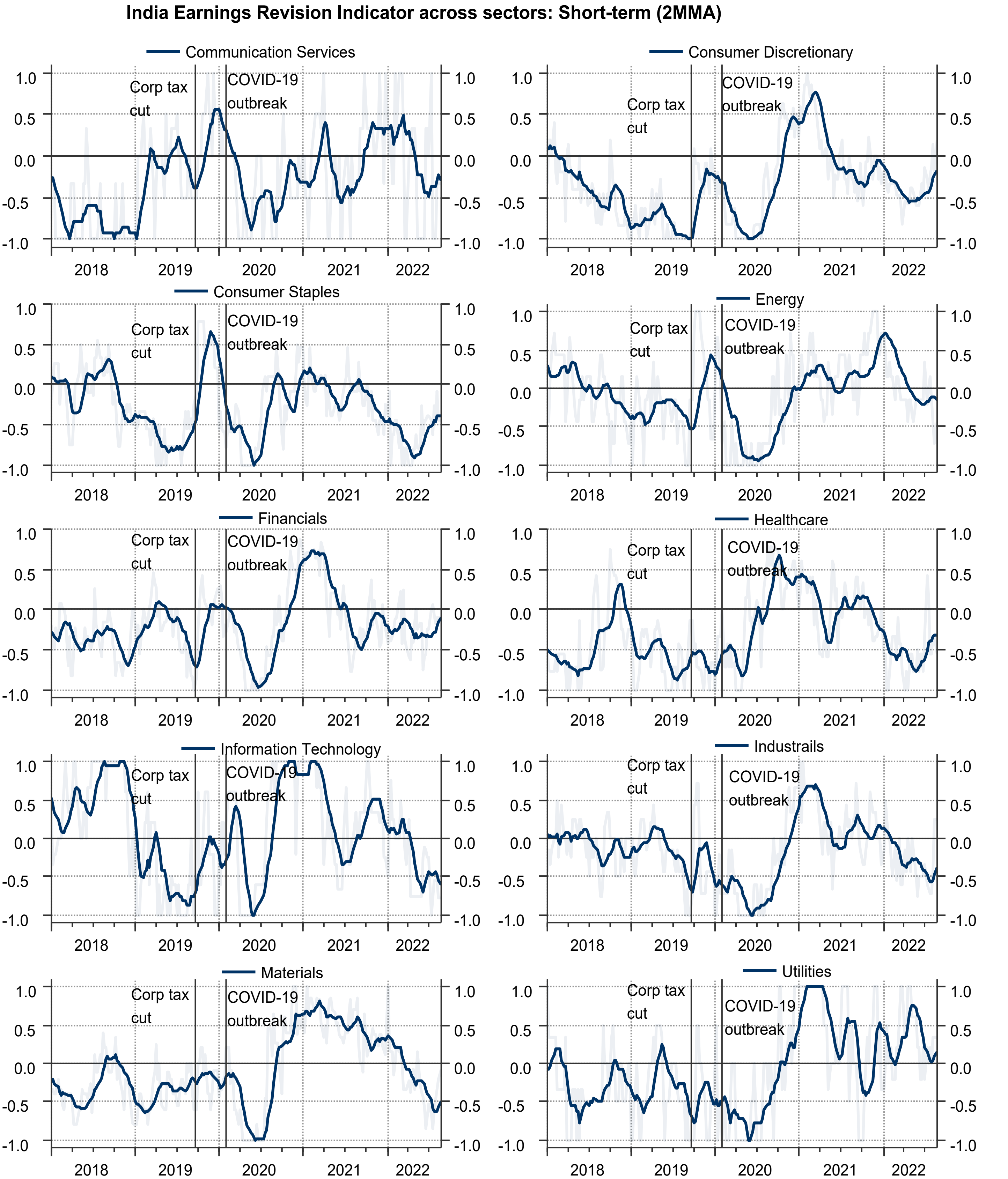
[4] The ERI is calculated as "(number of upgrades – number of downgrades)/total number of upgrades and downgrades". It can range between -1 to 1.

Figure 29: Nifty 50 Earnings Revision Indicator (10-year trend)



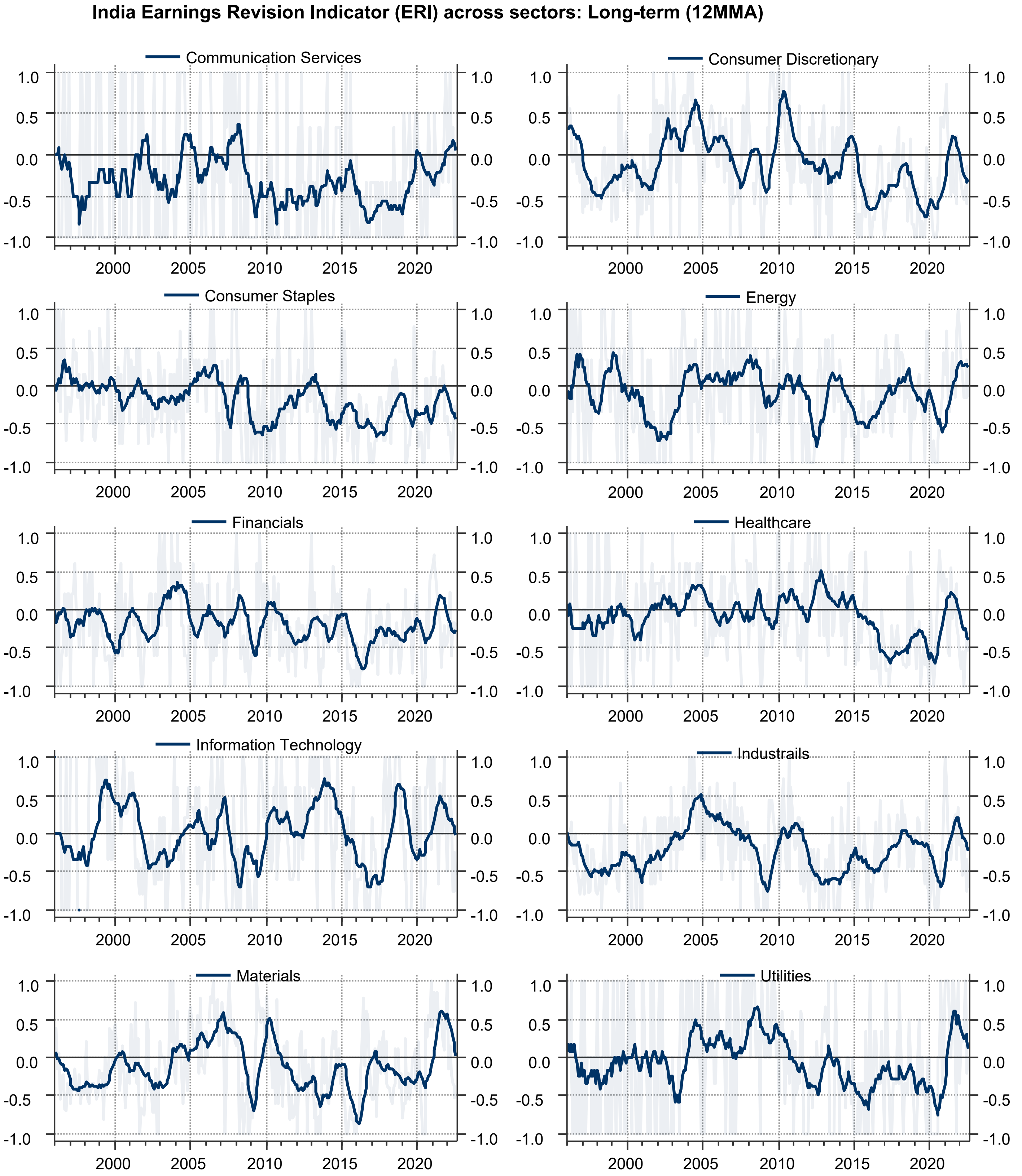
Source: Refinitiv Datastream, NSE EPR.

Figure 30: Short-term trend of Earnings Revision Indicator across MSCI sectors



Source: Refinitiv Datastream, NSE EPR.

Figure 31: Long-term trend of Earnings Revision Indicator across MSCI sectors



Source: Refinitiv Datastream, NSE EPR.

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Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Prerna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Sparsh Chhabra	schhabra@nse.co.in	+91-22-26598163
Smriti Mehra	smehra@nse.co.in	
Anshul Tayal	stayal@nse.co.in	
Tanika Luthra	consultant_tluthra@nse.co.in	

We gratefully acknowledge the valuable contribution of our interns Deepa Bhan, Maanika Kumar, Naman Govil, Ranu Jain, Saptorshi Pahari and Simran Mehta to this publication.