

Q2FY20 Quarterly Results Review: Tax cuts support PAT; downgrades continue

Corporate profitability in the second quarter of FY20 looks good optically, helped by the cut in corporate tax, even as operational performance has weakened further—a reflection of an adverse demand environment. Aggregate net sales for the Nifty 50/Nifty 500 companies declined by 1.1%/2.6% YoY in Q2FY20—the first decline in 15 quarters, led by Consumer Discretionary (weak auto sales) and Commodity sectors (lower realisations). However, adjusted PAT¹ grew at a strong 20.8%/18.8%, thanks to tax cuts, favourable base for Financials and post accounting for the exceptional loss for Bharti Airtel. Excluding Financials and Communication Services, adjusted PAT growth fell to 0.7%/-1.5% YoY for Nifty 50/500 companies.

The Consensus Nifty 50 EPS estimate (from Bloomberg) for FY20 has been downgraded by nearly 16% since the beginning of this year and 3% since October 1st. However, the consensus still points to a 22% earnings growth in FY20 and is prone to further downgrades, going by historical performance. This is also evident in the Earnings Revision Indicator² trend for Nifty 50 which has moved back into the negative zone, implying downgrades outnumbering upgrades, after a fleeting stay in the positive zone following the tax cut announcement. Having said that, a confluence of fiscal/external measures and an easy monetary policy are likely to provide some respite to the ailing economy, even as a sharp recovery looks quite unlikely, until tight financial conditions remain.

- **Sales decline for the first time in 15 quarters:** Aggregate net sales for Nifty 50/Nifty 500 companies declined for the first time in 15 quarters, coming in at -1.1%/2.6% YoY, reflecting worsening demand conditions in the economy. Stress in revenue growth was largely evident in Consumer Discretionary (weak auto sales), Materials (decline in metal prices and lower demand) and Energy (lower crude oil prices).
- **Lower commodity prices support margins for non-commodity sectors:** EBITDA growth for the Nifty 50/Nifty 500 companies, ex-Financials/Energy, was a tad better at 2.0%/3.2% YoY in Q2FY20. This was primarily on account of benign commodity prices, weighed down by global uncertainty, thereby aiding operating profits for non-commodity sectors, partly offset by weak domestic and global demand. However, operating profits for commodity sectors, viz. Energy and Materials, got impacted due to lower realisations.
- **Tax cuts and Financials drive PAT growth:** Aggregate adj. PAT growth for the Nifty 50/Nifty 500 came in at a strong, albeit superficial, 20.8%/18.8% in Q2FY20. This was largely on account of a) lower tax expenses, thanks to cut in corporate tax rates, b) strong PAT growth for Financials, supported by a favourable base and higher treasury income, and c) adjustment for a huge exceptional loss for Bharti Airtel. This was partly offset by Energy sector where profitability got hit owing to lower realisations and muted refining margins. Excluding Communication Services and Financials, adj. PAT growth fell to 0.7%/-1.5% YoY for Nifty 50/500 companies.
- **Downgrades continue:** The Consensus Nifty 50 EPS estimates for FY20 have been cut by ~16% since 2019 beginning and 3% since October 1st despite cut in corporate tax rates. However, the consensus earnings growth estimate at 22% for FY20, translating into H2FY20 earnings growth ask of more than 25%, looks quite optimistic and faces significant downside risk given the current macro overhang and weak global growth translating into lower exports and subdued commodity prices (hurting top-line for commodity sectors). The Earnings Revision Indicator has fallen back into the negative zone, signalling that downgrades have outnumbered upgrades, after remaining in the positive zone for a brief period following the tax cut announcement.
- **Easy liquidity and Government intervention bode well for earnings:** Operational challenges, largely arising from weak domestic consumption and investment demand and unfavourable global environment, are likely to continue to weigh on earnings for now, even as corporate tax cuts are expected to provide some aid. Having said that, domestic liquidity conditions have eased, thanks to 135bps cut in the policy rates in 2019 thus far, even as transmission has remained a concern. This, if picks up, should provide some fillip to the consumption demand, further supported by recent measures taken by the Government. Moreover, with Bank NPAs peaking out and provisions largely in place, Banking sector profitability should continue to improve. Key downside risks include further deterioration in domestic and global economic activity and increase in slippages in the banking sector.

¹ Refers to 'PAT net of P&E' as calculated by Prowess after adjusting for all prior period and extraordinary transactions. It is derived by deducting all prior period and extraordinary (P&E) income from PAT and adding all P&E expenses to PAT.

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

Nifty 50 Q2FY20 results

Weak consumption demand weighs on sales growth for yet another quarter: Aggregate sales for the Nifty 50 companies declined by 0.6% YoY—the first YoY decline in 15 quarters, led by a significant fall in consumption demand and sustained lacklustre investment activity in the economy. Within the Nifty 50 universe, 16/50 companies reported negative YoY sales growth in the September quarter.

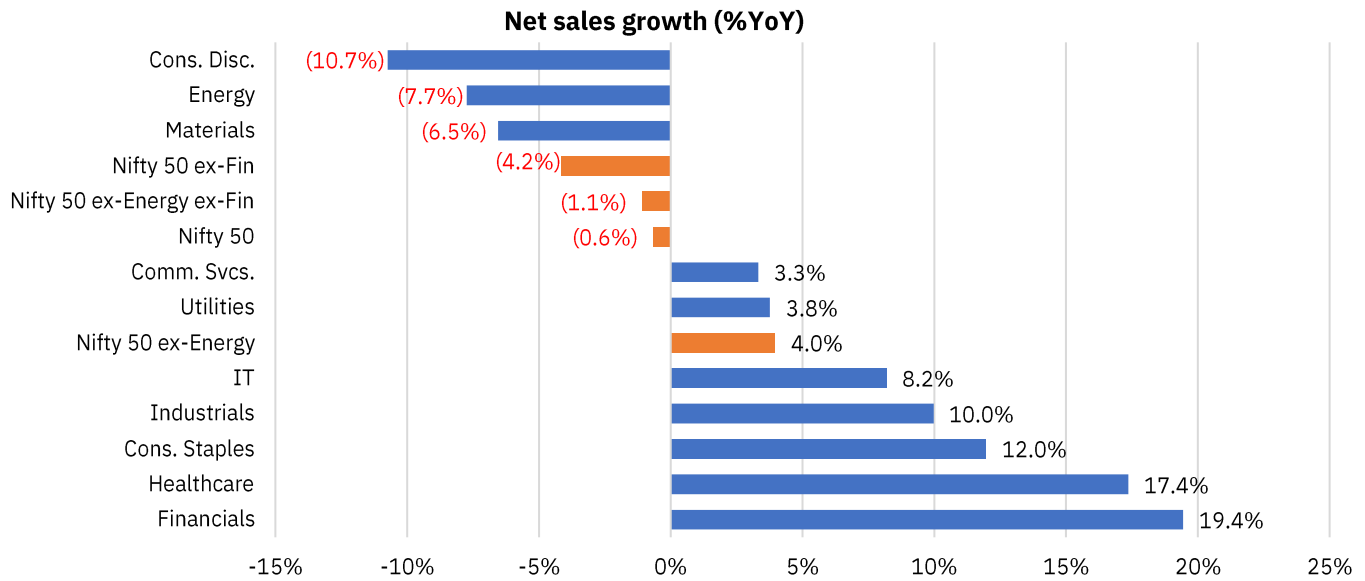
Sectors that contributed to the sharp decline in aggregate sales this quarter included a) Consumer Discretionary—Aggregate sales growth of Automobile companies declined for yet another quarter, weighed down by weak demand across segments, partly offset by festive-led demand towards the end of the quarter. Excluding Automobiles, sales growth for Nifty 50 companies improved to a modest 0.7% YoY, b) Energy—Lower crude oil prices (-8.7% QoQ/26.5% YoY as of September quarter-end) led to lower sales growth for energy companies, c) Materials—Sales for metal companies were hit owing to weak domestic demand, resulting in muted volume growth, and lower prices amid global uncertainty, leading to lower realisations.

Domestic growth is expected to remain weak as also reflected in several high frequency indicators including industrial production, auto sales, manufacturing PMI, amongst others, even as the recent steps taken by the Government and RBI may take a while to show results. Weak global demand is also expected to continue to weigh on commodity prices. This, in turn, is likely to keep top-line growth muted over the next few quarters. On the positive side, extended monsoon has led to an increase in soil moisture and reservoir levels, thereby improving the prospects of *Rabi* season which in turn bodes well for rural demand.

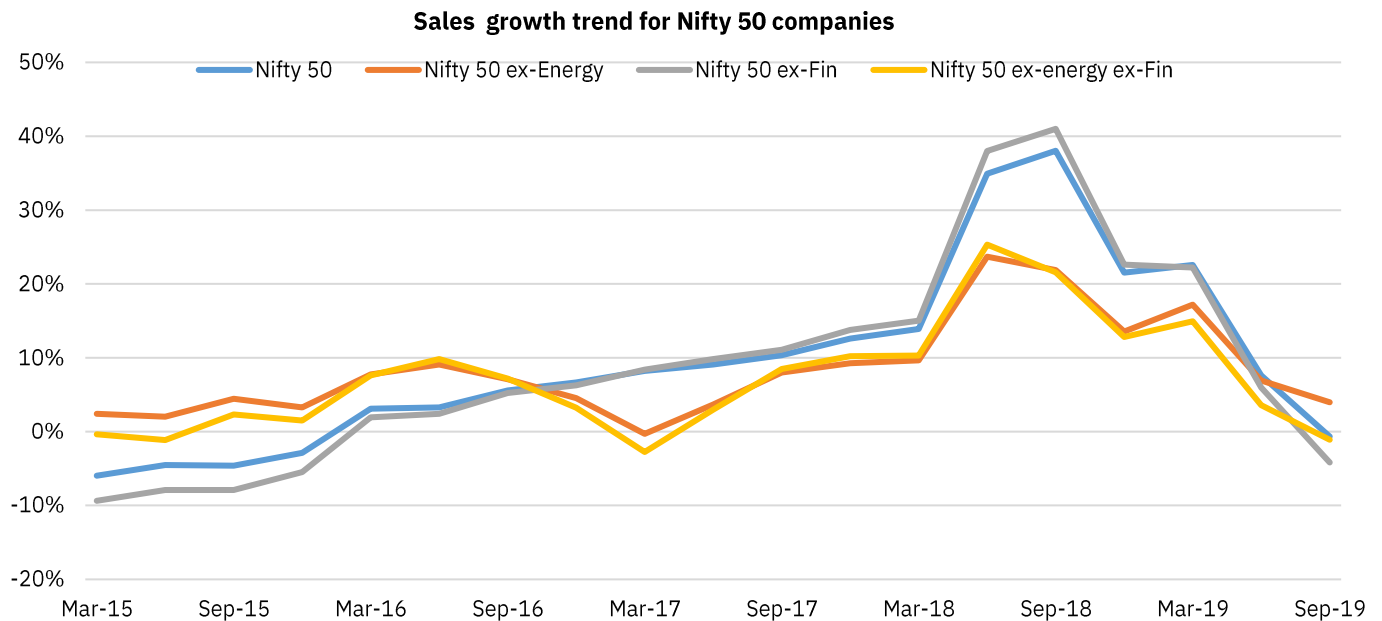
Figure 1: Net sales growth of Nifty 50 companies in Q2FY20

%Growth Sector	QoQ growth			YoY growth		
	Sep-18	Mar-19	Sep-19	Sep-18	Mar-19	Sep-19
Communication Services	3.7	0.7	1.8	(3.6)	6.6	3.3
Consumer Discretionary	3.9	18.5	(1.6)	15.7	7.8	(10.7)
Consumer Staples	(2.9)	10.1	1.8	12.9	17.0	12.0
Energy	4.5	8.2	(11.3)	72.4	32.9	(7.7)
Financials	6.8	14.9	8.5	22.6	24.9	19.4
Health Care	(0.9)	(0.1)	6.8	3.3	9.6	17.4
Industrials	17.9	20.4	17.6	19.0	5.8	10.0
Information Technology	6.4	1.2	3.5	17.1	16.9	8.2
Materials	7.5	26.2	(3.3)	40.2	27.6	(6.5)
Utilities	(0.1)	(1.2)	(3.4)	26.2	11.1	3.8
Nifty 50	5.2	11.7	(3.0)	37.7	22.6	(0.6)
Nifty 50 ex-Energy	5.6	13.9	2.6	21.8	17.3	4.0
Nifty 50 ex-Financials	4.9	11.1	(5.2)	40.7	22.2	(4.2)
Nifty 50 ex-energy ex-fin	5.2	13.5	0.4	21.5	14.9	(1.1)
Nifty 50 ex-Comm Svcs.	5.2	12.0	(3.1)	38.9	23.0	(0.7)

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 2: Sector-wise net sales growth of Nifty 50 companies in Q2FY20


Source: CMIE Prowess, Refinitiv Datatream, NSE

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


Source: CMIE Prowess, Refinitiv Datatream, NSE

Lower commodity prices aid EBITDA growth and margins for non-commodity sectors: Aggregate EBITDA growth for the Nifty 50 companies was better than the top-line growth at 8.2% YoY in the September quarter, explained by lower commodity prices, partly offset by weak domestic and global demand. Excluding Energy and Financials, EBITDA growth fell to a modest 2.0% YoY, translating into an EBITDA margin accretion of 71bps YoY. Within the Nifty 50 universe, 16/50 companies reported negative YoY EBITDA growth in the September quarter.

Sectors that dragged down the aggregate EBITDA growth and margins are a) Energy: refining margins for downstream oil marketing companies hit by heightened volatility in crude oil prices (drone attack on Saudi Aramco’s oil facilities in mid-September), b) Consumer Discretionary—weak demand largely offset the impact of decline in operating costs and lower commodity prices, and b) Energy—refining margins for downstream oil marketing companies hit by heightened volatility in crude oil prices, and c) Materials—sharp decline in metal prices. Sectors that led EBITDA growth include Communication Services, Industrials, Healthcare and Utilities.

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

Figure 4: EBITDA growth of Nifty 50 companies in Q2FY20

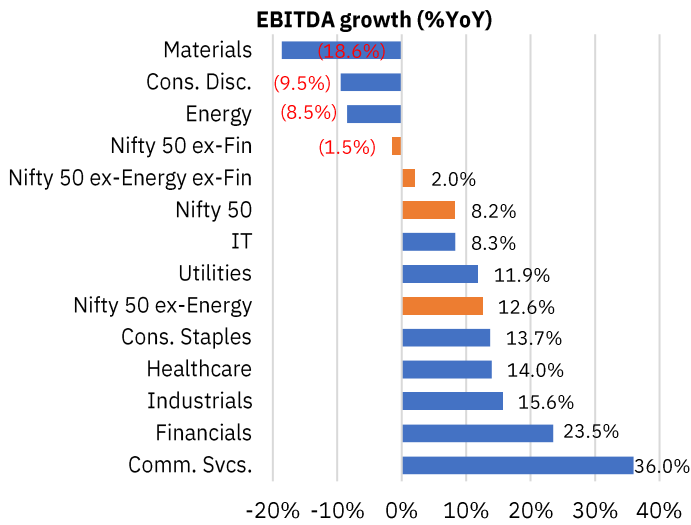
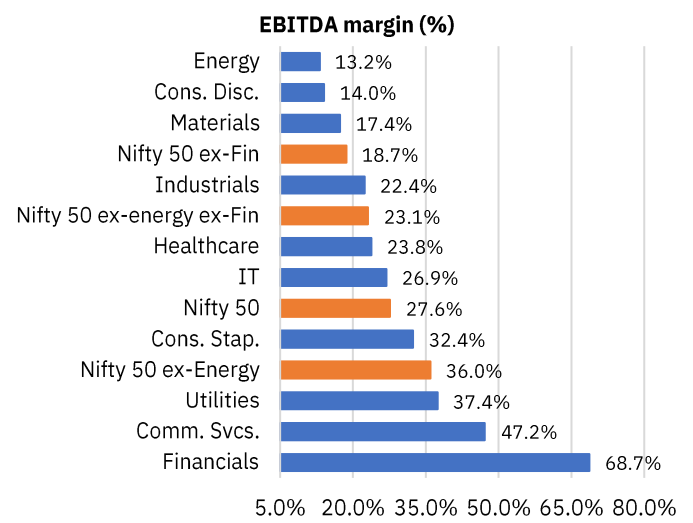
Sector	QoQ growth			YoY growth		
	Sep-18	Mar-19	Sep-19	Sep-18	Mar-19	Sep-19
Communication Services	(6.1)	(3.3)	4.8	(16.8)	(7.9)	36.0
Consumer Discretionary	12.8	25.2	24.9	(1.1)	(13.2)	(9.5)
Consumer Staples	(2.7)	10.5	(2.3)	24.3	16.7	13.7
Energy	(14.2)	37.2	(11.8)	42.0	44.2	(8.5)
Financials	13.6	(3.3)	6.2	23.8	41.5	23.5
Health Care	2.4	(19.6)	(5.3)	11.0	2.5	14.0
Industrials	14.3	12.3	7.0	9.6	9.8	15.6
Information Technology	6.8	(0.8)	3.9	13.6	14.5	8.3
Materials	1.3	24.7	(15.5)	36.5	28.3	(18.6)
Utilities	(5.8)	(69.5)	1.2	15.4	(63.4)	11.9
Nifty 50	2.4	4.8	0.6	22.4	23.0	8.2
Nifty 50 ex-Energy	7.9	(2.1)	3.6	18.2	17.7	12.6
Nifty 50 ex-Financials	(3.6)	10.9	(3.6)	21.6	13.3	(1.5)
Nifty 50 ex-energy ex-fin	2.9	(0.9)	0.7	13.3	0.1	2.0
Nifty 50 ex-Comm Svcs.	2.7	5.1	0.4	24.2	24.1	7.4

Source: CMIE Prowess, Refinitiv Datatream, NSE

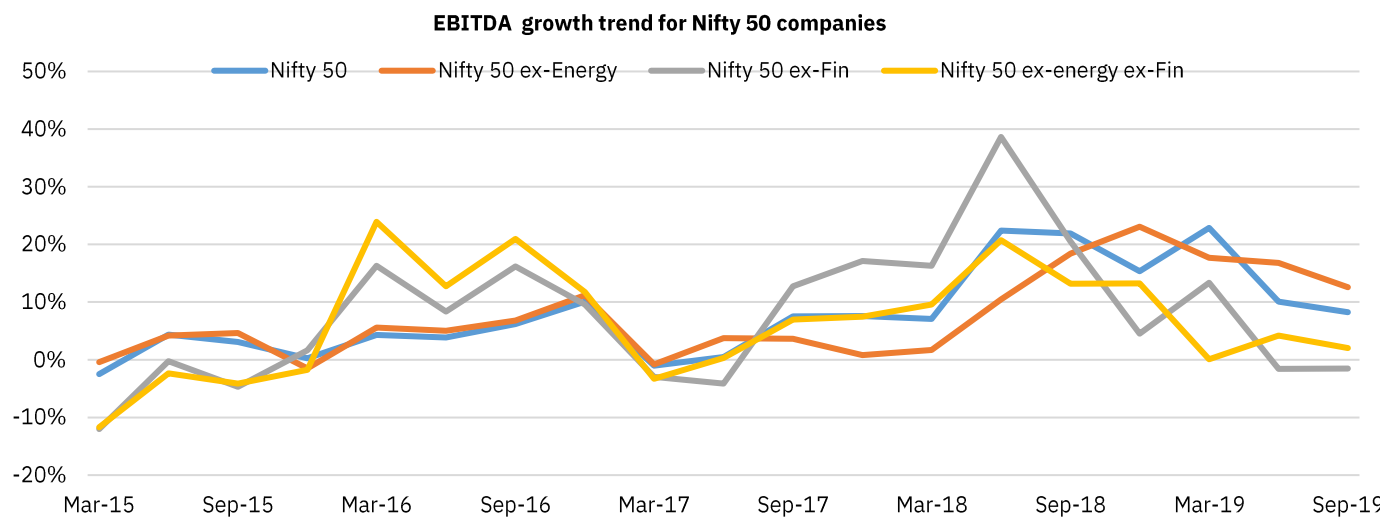
Figure 5: EBITDA margin of Nifty 50 companies in Q2FY20

Sector	EBITDA Margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	47.2	131	1132
Consumer Discretionary	14.0	298	20
Consumer Staples	32.4	(136)	50
Energy	13.2	(8)	(10)
Financials	68.7	(146)	225
Health Care	23.8	(305)	(71)
Industrials	22.4	(222)	110
Information Technology	26.9	10	3
Materials	17.4	(250)	(258)
Utilities	37.4	171	271
Nifty 50	27.6	97	227
Nifty 50 ex-Energy	36.0	36	276
Nifty 50 ex-Financials	18.7	31	50
Nifty 50 ex-energy ex-fin	23.1	7	71
Nifty 50 ex-Comm Svcs.	27.2	94	207

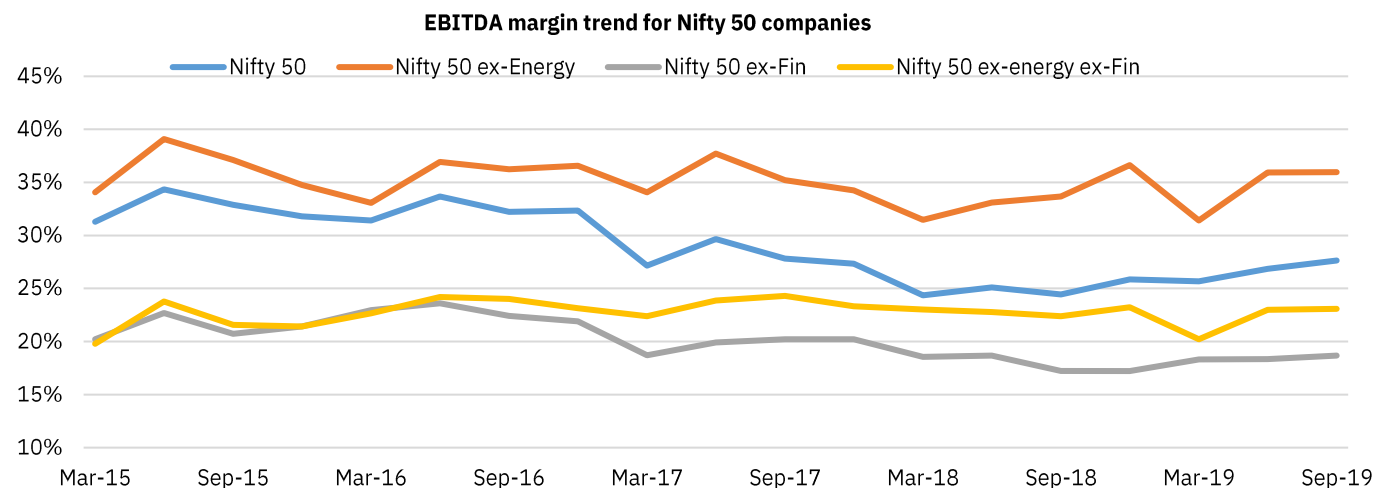
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 6: Sector-wise EBITDA growth of Nifty 50 companies in Q2FY20

Figure 7: Sector-wise EBITDA margin of Nifty 50 companies in Q2FY20


Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 8: EBITDA growth trend of Nifty 50 companies


Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 9: EBITDA margin trend of Nifty 50 companies


Source: CMIE Prowess, Refinitiv Datatream, NSE

Tax cut drives profit growth: Aggregate adjusted PAT growth for the Nifty 50 companies improved from low single digits in the June quarter to 20.8% in the September quarter. This was largely on account of a) lower tax expenses in the wake of recent cut in corporate tax rates, b) strong PAT growth for Financials thanks to a favourable base and higher treasury income, partly offset by lower credit growth, and c) adjustment for huge exceptional loss for Bharti Airtel arising from provisions for license fees and spectrum usage charges following the Supreme Court's ruling in respect of the definition of Adjusted Gross Revenues (AGR). Excluding Communication Services and Financials, aggregate PAT growth for Nifty 50 companies fell to a mere 0.7% YoY.

Sectors that dragged down aggregate profits of Nifty 50 companies are: a) Energy: Lower commodity prices and compression in refining margins weighed on profitability, b) Consumer Discretionary: sharp decline in auto sales amid weak domestic and global demand. Excluding Energy, Financials and Communication Services, PAT growth came in at 11.3% YoY. Within the Nifty 50 universe, 13/50 companies reported negative YoY PAT growth in the September quarter.

Figure 10: PAT growth of Nifty 50 companies in Q2FY20

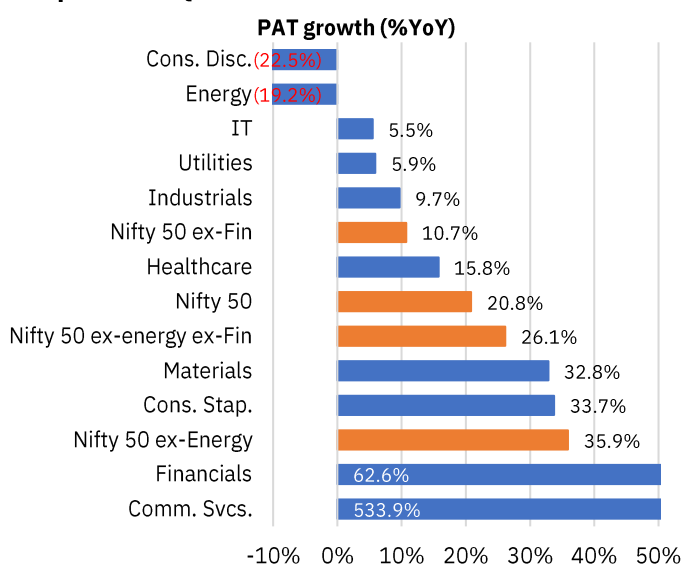
Sector	QoQ growth			YoY growth		
	Sep-18	Mar-19	Sep-19	Sep-18	Mar-19	Sep-19
Communication Services	(17.8)	(584.5)	1697.7	(22.7)	(135.5)	533.9
Consumer Discretionary	34.9	(1.7)	494.9	(30.0)	(35.0)	(22.5)
Consumer Staples	(1.4)	11.7	18.7	32.0	19.0	33.7
Energy	(20.1)	35.8	(19.5)	36.1	35.0	(19.2)
Financials	108.1	(18.4)	36.8	70.0	1534.9	62.6
Health Care	(4.6)	(34.1)	(14.3)	11.4	(16.7)	15.8
Industrials	39.8	31.4	11.0	1.3	16.5	9.7
Information Technology	6.8	(0.7)	5.4	13.4	15.9	5.5
Materials	(6.4)	38.3	58.1	45.2	29.9	32.8
Utilities	3.9	54.7	4.6	14.1	59.8	5.9
Nifty 50	6.2	12.0	24.4	24.9	38.3	20.8
Nifty 50 ex-Energy	21.3	4.3	41.7	21.1	39.7	35.9
Nifty 50 ex-Financials	(5.0)	20.8	20.5	17.4	17.1	10.7
Nifty 50 ex-energy ex-fin	5.2	13.9	44.2	9.6	9.2	26.1
Nifty 50 ex-Comm Svcs.	6.7	12.7	15.2	26.1	41.8	13.0

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

Figure 11: PAT margin of Nifty 50 companies in Q2FY20

Sector	PAT Margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	37.8	3569	3166
Consumer Discretionary	3.7	309	(56)
Consumer Staples	24.1	343	392
Energy	5.0	(51)	(72)
Financials	14.8	305	391
Health Care	13.0	(320)	(18)
Industrials	8.4	(50)	(2)
Information Technology	17.9	32	(45)
Materials	9.6	372	284
Utilities	13.8	106	28
Nifty 50	10.1	222	179
Nifty 50 ex-Energy	13.0	359	305
Nifty 50 ex-Financials	9.1	193	122
Nifty 50 ex-energy ex-fin	12.3	373	266
Nifty 50 ex-Comm Svcs.	9.5	150	115

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 12: Sector-wise PAT growth of Nifty 50 companies in Q2FY20


Source: CMIE Prowess, Refinitiv Datatream, NSE

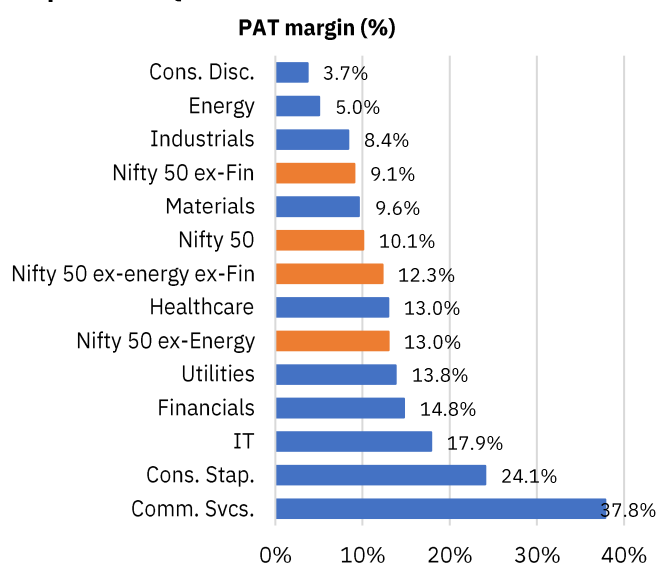
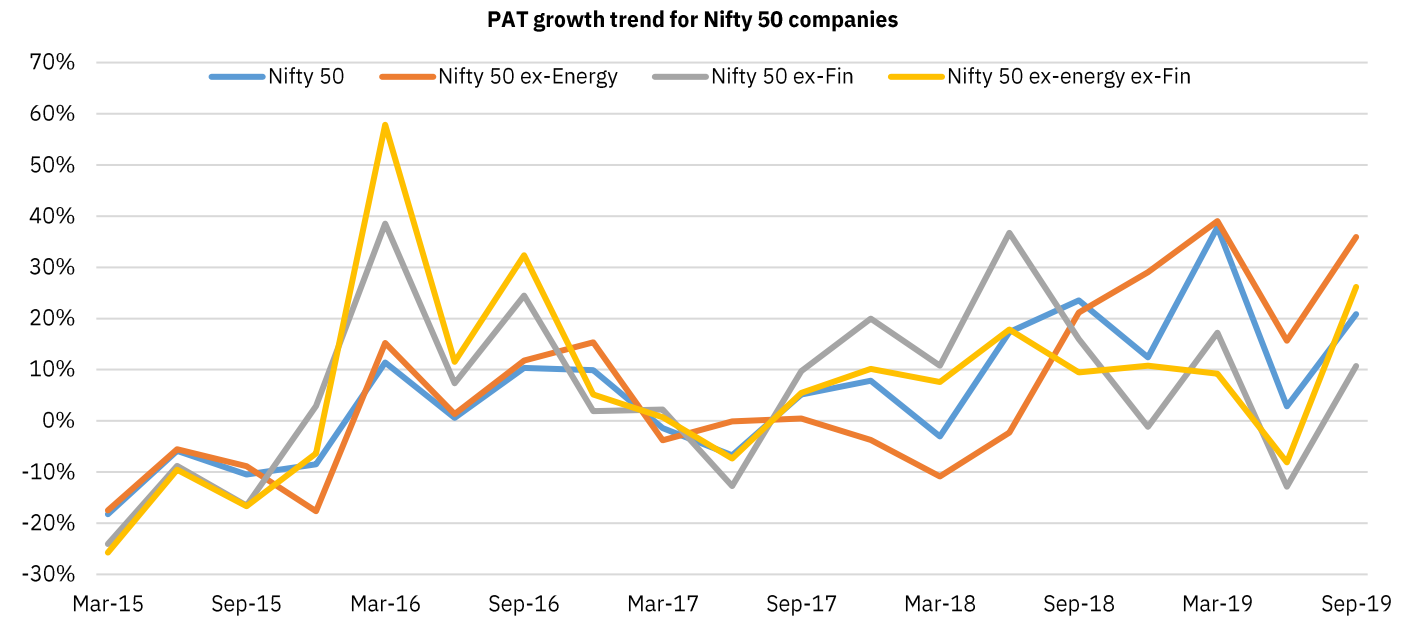
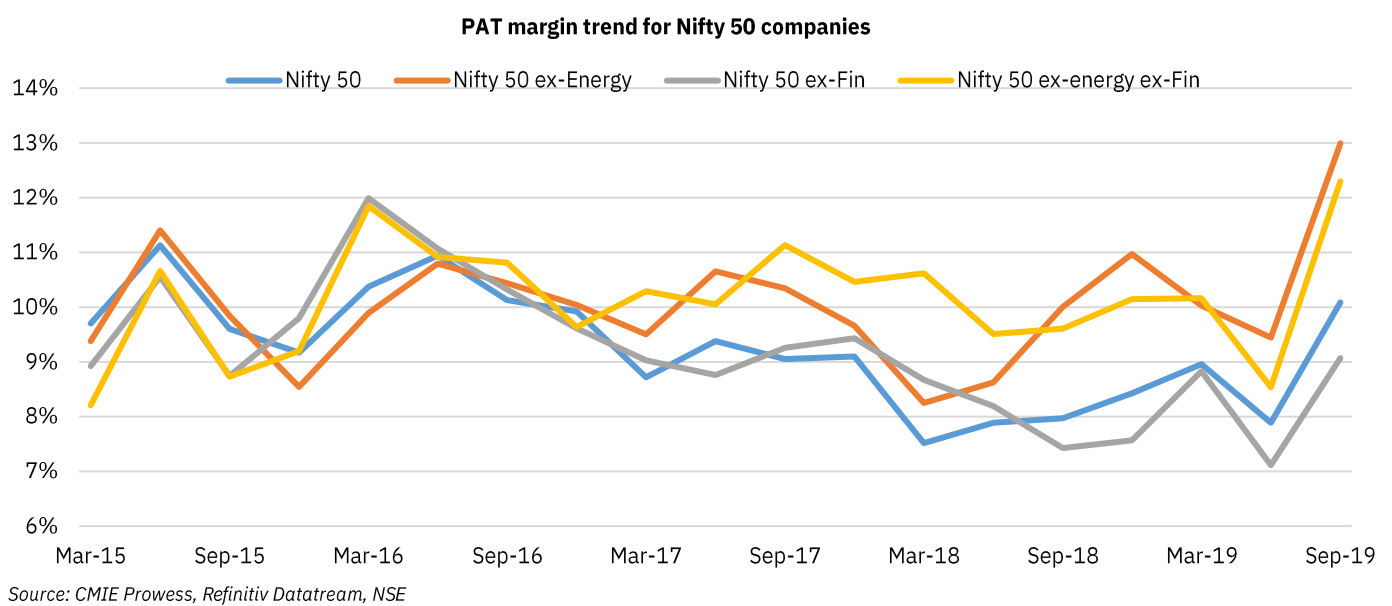
Figure 13: Sector-wise PAT margin of Nifty 50 companies in Q2FY20


Figure 14: PAT growth trend of Nifty 50 companies

Figure 15: PAT margin trend of Nifty 50 companies


Nifty 500 Q2FY20 results

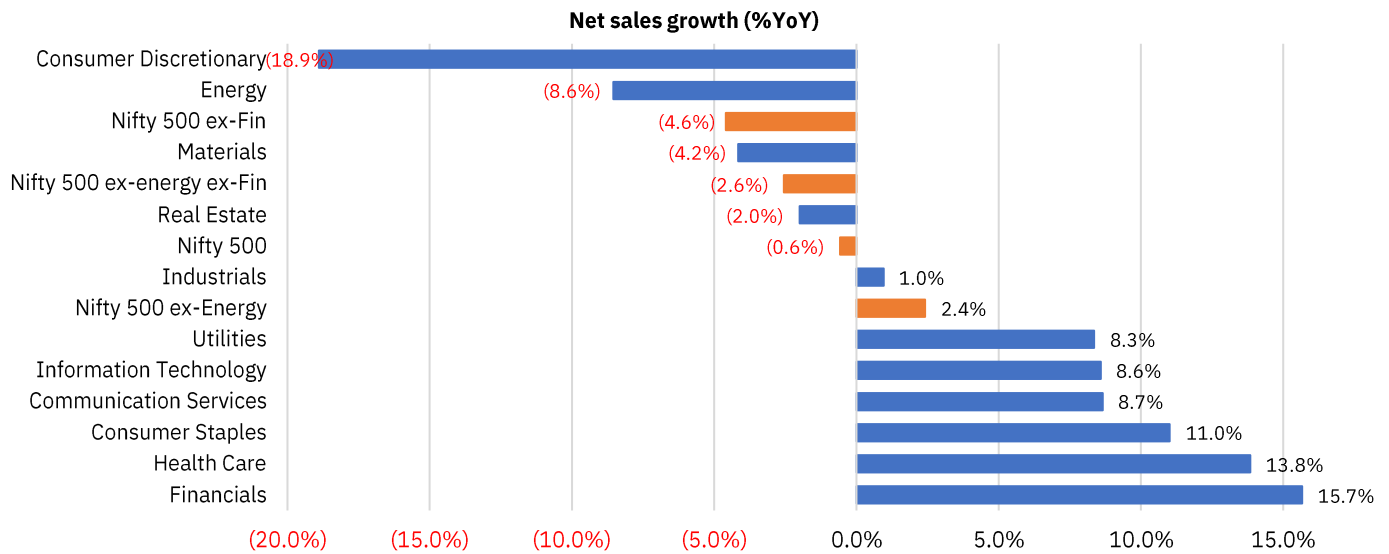
Sales growth for Nifty 500 companies also moderates sharply: Aggregate sales growth for the Nifty 500 companies was in-line with the Nifty 50 universe and came in at -0.6% YoY—the first decline in 15 quarters—led by a slowdown in consumption as well as investment-driven sectors. Excluding Energy and Financials, aggregate sales growth came even lower at -4.6%—the steepest decline in 16 quarters and nearly 350bps lower than the Nifty 50 companies. Nearly 35% of the Nifty 500 companies reported negative YoY sales growth in the September quarter.

Sectors that were laggards include a) Consumer Discretionary—weak demand environment and tight liquidity continued to weigh on automobile sales, b) Energy— lower crude oil prices and slowdown in demand for petrochemicals hurt sales growth, partly offset by modest growth reported by Reliance Industries (ex-Reliance, aggregate sales growth for energy sector in the Nifty 500 universe came in at -12.5% YoY), c) Materials—weak demand and decline in metal prices amid slowdown in China negatively impacted the top-line growth of metal companies, d) Real Estate—falling demand for residential real estate, and e) Industrials—weak investment demand. Sectors that supported sales growth of Nifty 500 companies include Financials, Healthcare, Communication Services, Information Technology and Health Care.

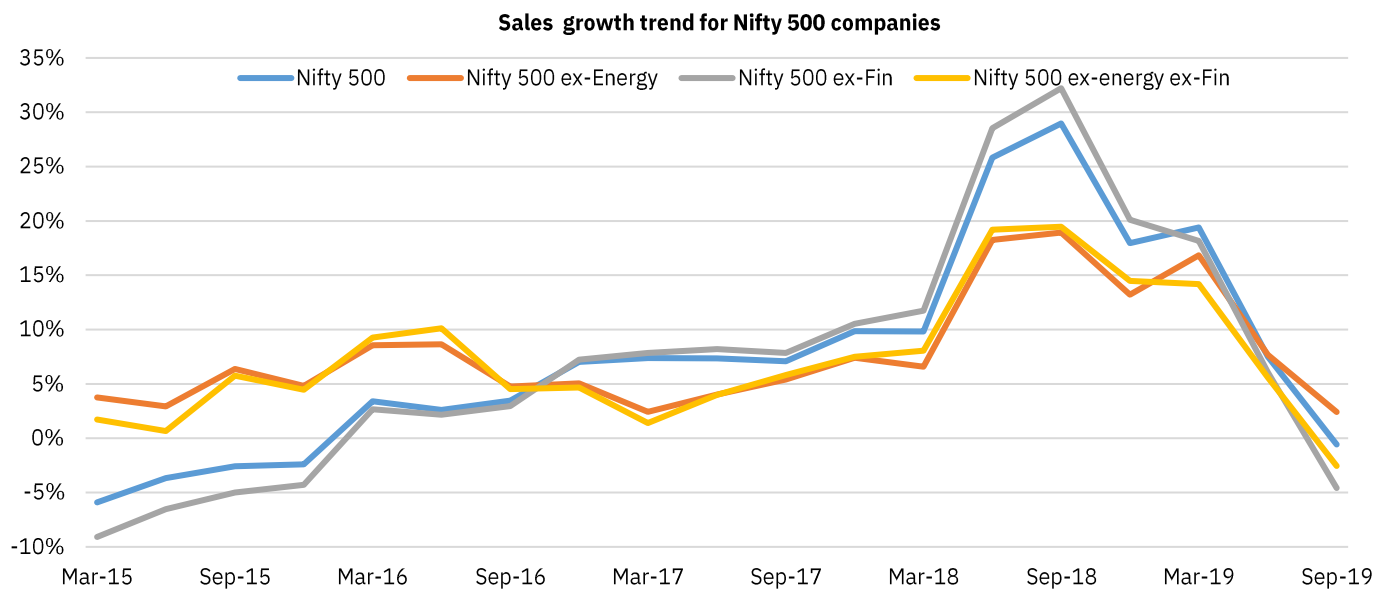
Figure 16: Net sales growth of Nifty 500 companies in Q2FY20

Sector	QoQ growth			YoY growth		
	Sep-18	Mar-19	Sep-19	Sep-18	Mar-19	Sep-19
Communication Services	5.8	(0.5)	(1.9)	8.4	24.7	8.7
Consumer Discretionary	4.8	9.5	(12.9)	15.1	7.4	(18.9)
Consumer Staples	(1.8)	10.0	(2.0)	18.0	20.7	11.0
Energy	4.7	5.1	(10.5)	66.7	27.5	(8.6)
Financials	4.1	14.5	6.1	16.9	23.8	15.7
Health Care	6.2	3.5	6.7	9.8	14.1	13.8
Industrials	7.9	19.1	(0.3)	27.8	13.4	1.0
Information Technology	5.8	1.8	3.6	15.3	15.9	8.6
Materials	6.2	16.1	(1.6)	30.7	20.6	(4.2)
Real Estate	8.8	45.1	(5.6)	28.7	17.2	(2.0)
Utilities	3.2	1.9	(3.2)	18.0	18.8	8.3
Nifty 500	4.9	9.8	(3.3)	29.4	19.8	(0.6)
Nifty 500 ex-Energy	4.9	11.5	(0.6)	19.3	17.4	2.4
Nifty 500 ex-Financials	5.1	8.6	(5.8)	32.9	18.8	(4.6)
Nifty 500 ex-energy ex-fin	5.2	10.4	(3.3)	20.3	15.1	(2.6)
Nifty 500 ex-Comm Svcs.	4.8	10.0	(3.3)	29.9	19.7	(0.8)

Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 17: Sector-wise net sales growth of Nifty 500 companies in Q2FY20


Source: CMIE Prowess, Refinitiv Datatream, NSE

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


Source: CMIE Prowess, Refinitiv Datatream, NSE

Commodity sectors drag down aggregate operating profits for Nifty 500 companies: Aggregate EBITDA growth for the Nifty 500 companies came in higher than the Nifty 50 universe at 11.0% YoY in the September quarter, partly offset by lower commodity prices hurting operating profits and margins of Energy and Materials sectors, even as it acted as a tail-wind for consumption sectors. This translated into an EBITDA margin accretion of 285bps YoY to 27.4%. However, excluding Energy and Financials, EBITDA growth was much lower at 3.2 % YoY, with EBITDA margin at 20.6%. Nearly 41% of the Nifty 500 companies reported negative YoY EBITDA growth in the September quarter.

Figure 19: EBITDA growth of Nifty 500 companies in Q2FY20

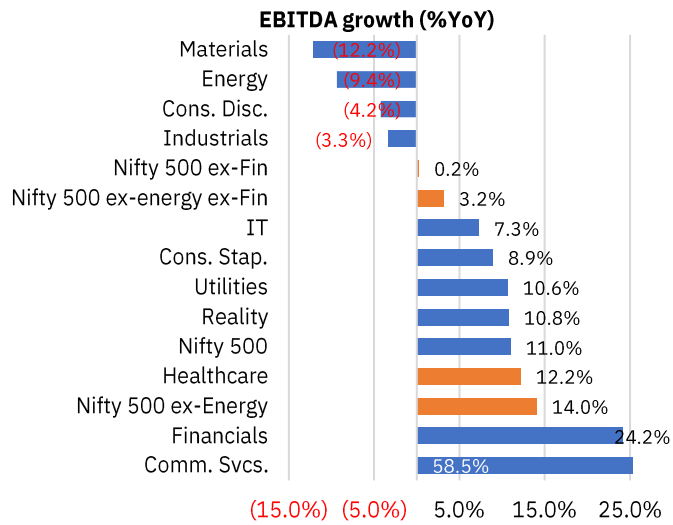
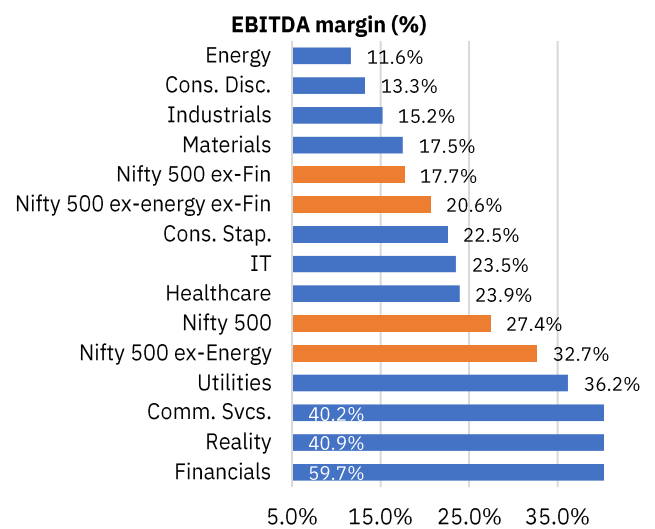
Sector	QoQ growth			YoY growth		
	Sep-18	Mar-19	Sep-19	Sep-18	Mar-19	Sep-19
Communication Services	(8.3)	0.4	0.6	(16.8)	(0.8)	58.5
Consumer Discretionary	7.1	19.1	11.2	7.0	(5.3)	(4.2)
Consumer Staples	(2.7)	11.5	(7.7)	22.5	25.8	8.9
Energy	(15.5)	44.5	(11.5)	31.7	43.8	(9.4)
Financials	5.1	(9.7)	2.3	9.0	68.4	24.2
Health Care	13.9	2.1	3.0	9.2	16.4	12.2
Industrials	2.9	25.6	(14.8)	24.0	12.6	(3.3)
Information Technology	6.7	0.7	3.9	13.9	14.5	7.3
Materials	(1.6)	16.8	(12.9)	26.4	16.7	(12.2)
Real Estate	3.5	23.6	2.9	14.0	(26.6)	10.8
Utilities	4.3	(42.8)	2.8	13.8	(35.4)	10.6
Nifty 500	1.0	2.5	(1.3)	13.9	30.7	11.0
Nifty 500 ex-Energy	4.0	(2.9)	0.1	11.6	28.5	14.0
Nifty 500 ex-Financials	(2.3)	13.5	(4.7)	18.2	12.6	0.2
Nifty 500 ex-energy ex-fin	2.7	5.0	(2.7)	14.6	4.0	3.2
Nifty 500 ex-Comm Svcs.	1.2	2.5	(1.4)	14.8	31.7	9.9

Source: CMIE Prowess, Refinitiv Datatream, NSE

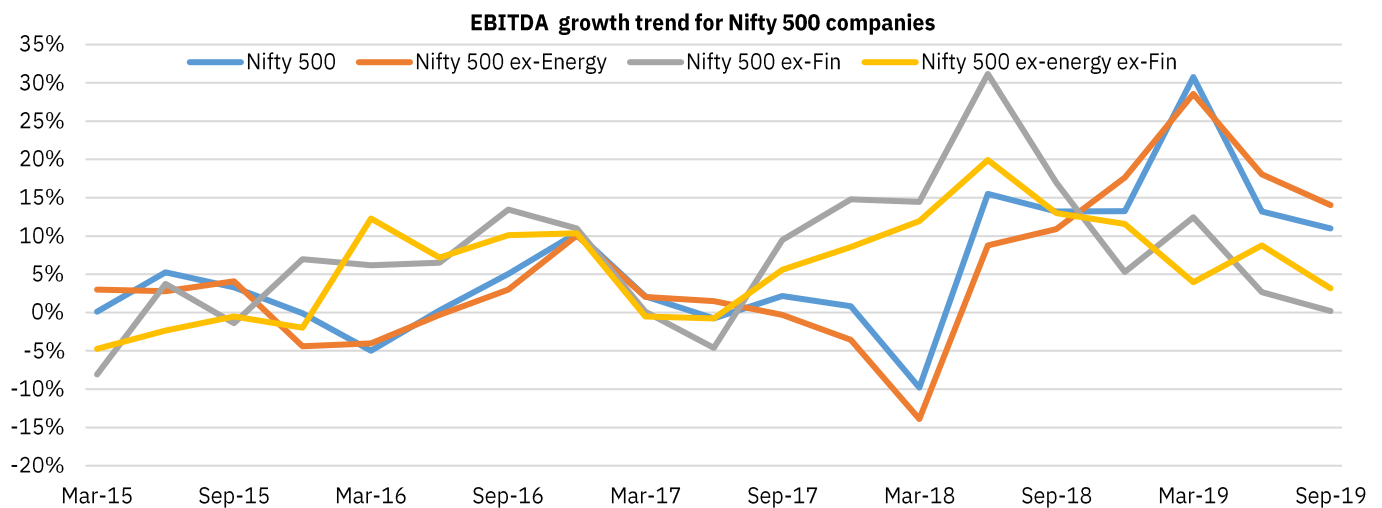
Figure 20: EBITDA margin of Nifty 500 companies in Q2FY20

Sector	EBITDA Margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	40.2	103	1266
Consumer Discretionary	13.3	287	203
Consumer Staples	22.5	(138)	(44)
Energy	11.6	(13)	(10)
Financials	59.7	(225)	410
Health Care	23.9	(84)	(36)
Industrials	15.2	(285)	(68)
Information Technology	23.6	6	(29)
Materials	17.5	(224)	(160)
Real Estate	40.9	341	471
Utilities	36.2	210	74
Nifty 500	27.4	48	285
Nifty 500 ex-Energy	32.7	8	333
Nifty 500 ex-Financials	17.7	17	85
Nifty 500 ex-energy ex-fin	20.6	7	115
Nifty 500 ex-Comm Svcs.	27.1	46	264

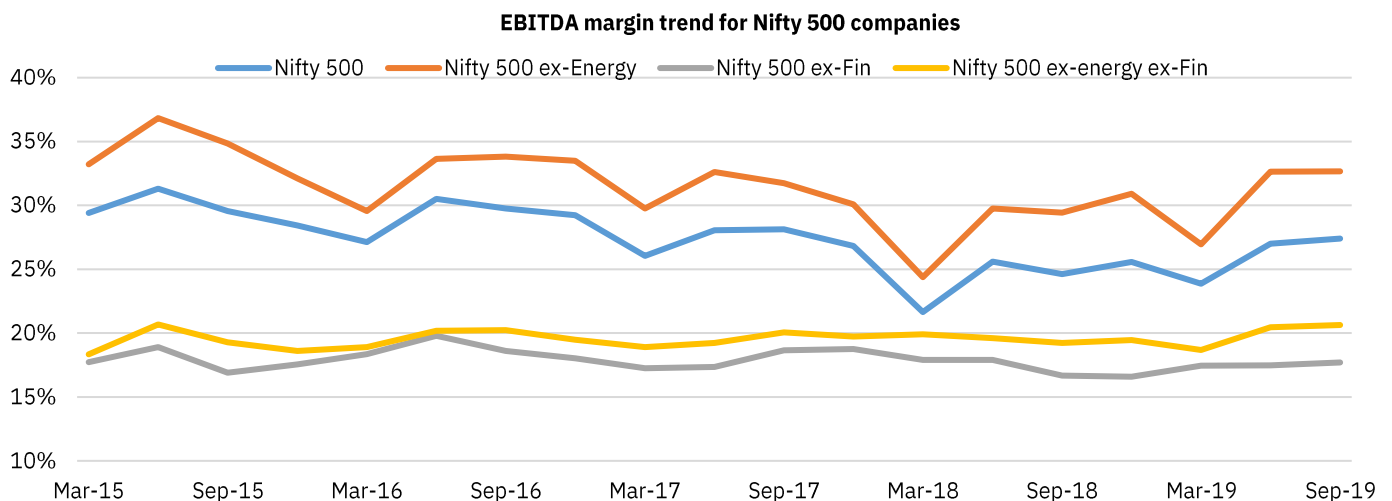
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 21: Sector-wise EBITDA growth of Nifty 500 companies in Q2FY20

Figure 22: Sector-wise EBITDA margin of Nifty 500 companies in Q2FY20


Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 23: EBITDA growth trend of Nifty 50 companies


Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 24: EBITDA margin trend of Nifty 50 companies


Source: CMIE Prowess, Refinitiv Datatream, NSE

PAT growth at high-double digits, supported by Financials and Communication Services: Aggregate adjusted PAT growth for Nifty 500 companies came in at 18.8%, a tad higher than that reported by Nifty 50 companies. This was largely led by a) recent cut in corporate tax rates, c) Financials where profit growth in the September quarter was huge on account of heavy provisioning for stressed assets in the same quarter last year, b) Communication Services—huge exceptional loss for Bharti Airtel. Excluding Financials and Communication Services, aggregate adjusted PAT declined by 1.5% YoY. Nearly 40% of the Nifty 500 companies have reported negative PAT growth in the September quarter.

Sectors that dragged down the profitability of Nifty 500 companies include Consumer Discretionary (weak auto sales), Energy (lower crude oil prices and refining margins) and Industrials (muted investment demand), all of which reported huge YoY decline in profits.

Figure 25: PAT growth of Nifty 500 companies in Q2FY20

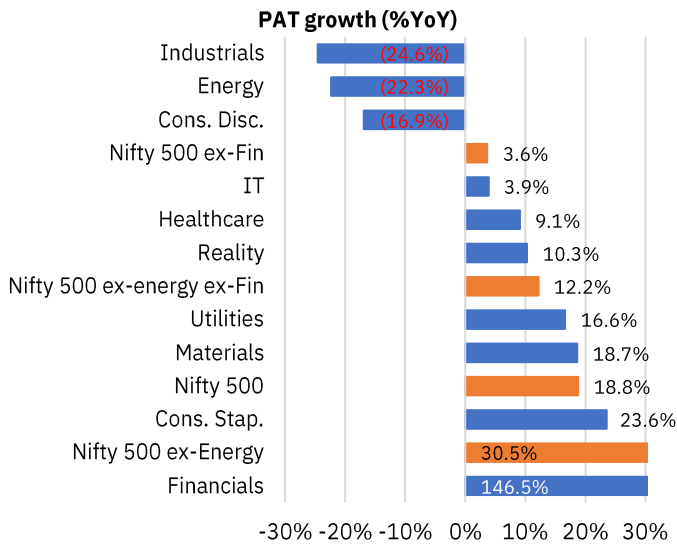
Sector	QoQ growth			YoY growth		
	Sep-18	Mar-19	Sep-19	Sep-18	Mar-19	Sep-19
Communication Services	NA	NA	NA	(257.4)	(328.8)	NA
Consumer Discretionary	16.6	8.3	78.0	(11.3)	(19.9)	(16.9)
Consumer Staples	(3.3)	23.5	7.0	27.7	40.1	23.6
Energy	(21.8)	48.7	(20.7)	23.2	37.5	(22.3)
Financials	34.6	(194.1)	3.6	(22.8)	NA	146.5
Health Care	18.7	(2.7)	5.3	4.2	(33.8)	9.1
Industrials	17.4	27.4	(20.4)	29.6	7.3	(24.6)
Information Technology	6.9	0.8	5.9	13.9	15.7	3.9
Materials	(8.2)	17.3	26.3	30.6	11.7	18.7
Real Estate	(2.4)	33.9	15.7	97.3	(50.5)	10.3
Utilities	40.1	21.8	20.9	16.9	9.4	16.6
Nifty 500	0.7	(3.6)	10.2	8.1	109.7	18.8
Nifty 500 ex-Energy	9.7	(17.1)	18.1	4.4	177.1	30.5
Nifty 500 ex-Financials	(2.3)	21.8	12.2	13.7	6.4	3.6
Nifty 500 ex-energy ex-fin	6.5	13.7	24.1	10.8	(2.3)	12.2
Nifty 500 ex-Comm Svcs.	1.9	(3.6)	5.3	11.1	119.9	14.0

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

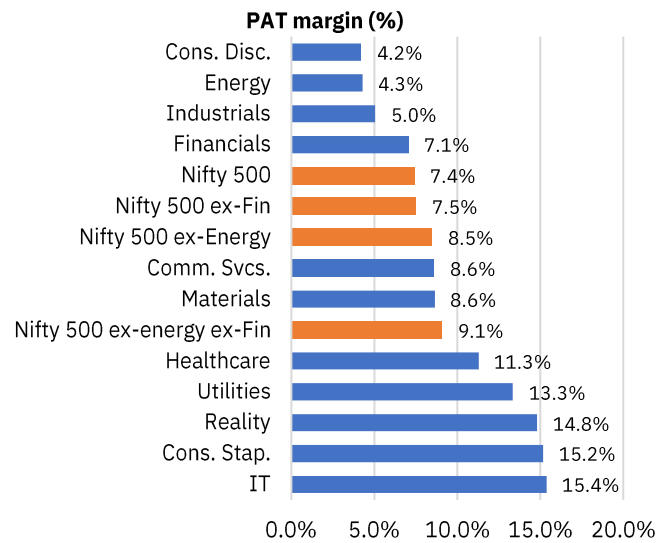
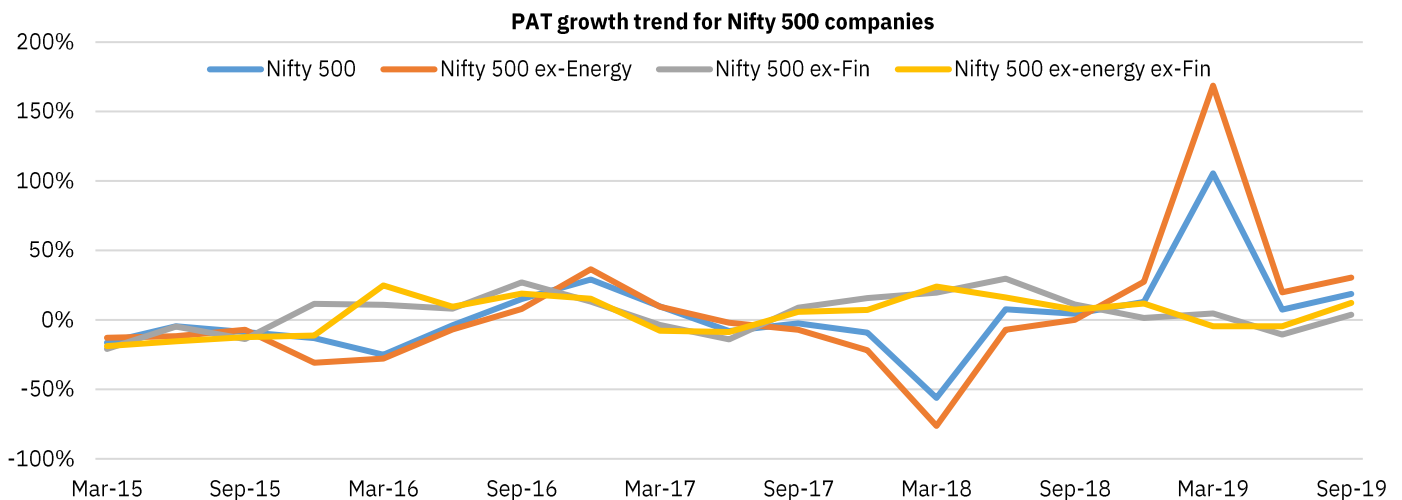
Figure 26: PAT margin of Nifty 500 companies in Q2FY20

Sector	PAT Margin (%)	QoQ change	YoY change
Communication Services	8.6	1512	1394
Consumer Discretionary	4.2	212	10
Consumer Staples	15.2	128	154
Energy	4.3	(55)	(76)
Financials	7.1	(15)	376
Health Care	11.3	(12)	(49)
Industrials	5.0	(110)	(171)
Information Technology	15.4	33	(69)
Materials	8.6	187	166
Real Estate	14.8	273	165
Utilities	13.3	270	95
Nifty 500	7.4	91	121
Nifty 500 ex-Energy	8.5	133	182
Nifty 500 ex-Financials	7.5	120	60
Nifty 500 ex-energy ex-fin	9.1	198	120
Nifty 500 ex-Comm Svcs.	7.4	60	96

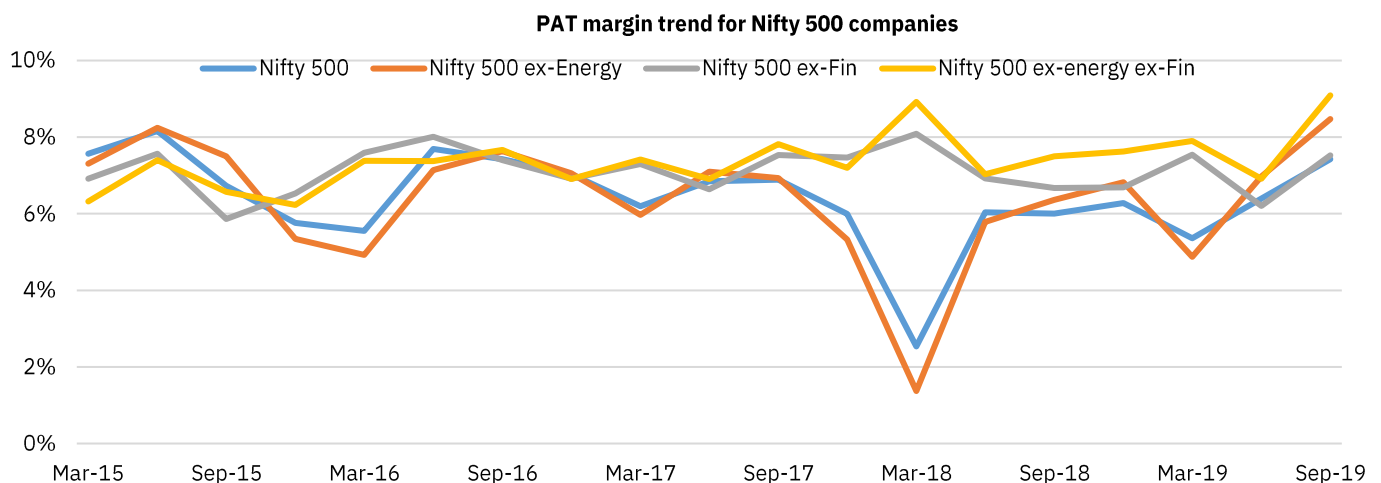
Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 27: Sector-wise PAT growth of Nifty 500 companies in Q2FY20


Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 28: Sector-wise PAT margin of Nifty 500 companies in Q2FY20

Figure 29: PAT growth trend of Nifty 50 companies


Source: CMIE Prowess, Refinitiv Datatream, NSE

Figure 30: PAT margin trend of Nifty 500 companies


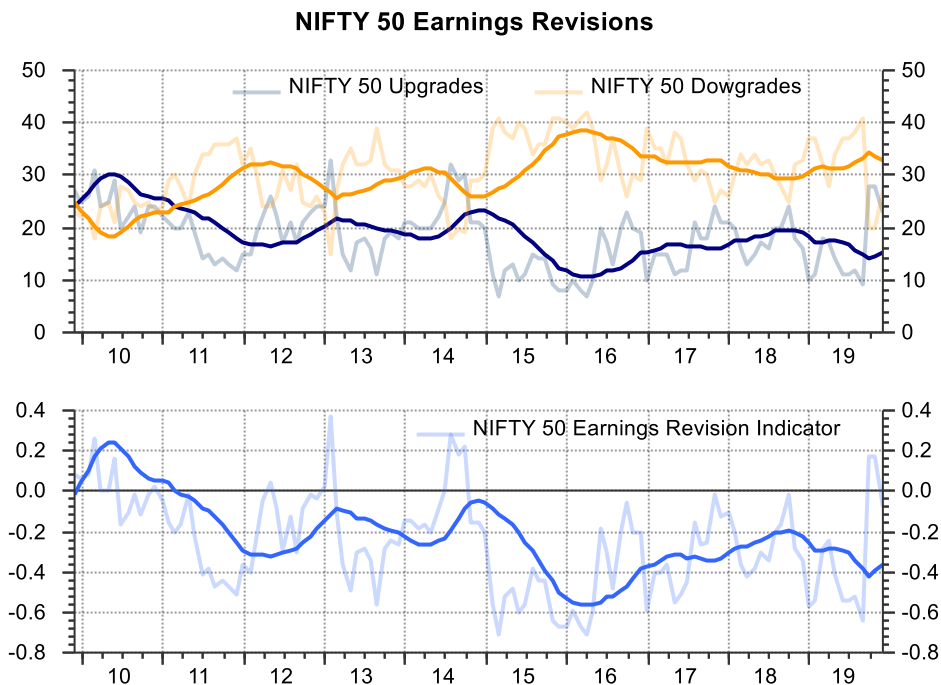
Source: CMIE Prowess, Refinitiv Datatream, NSE

Earnings revision analysis

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

Recent cut in corporate tax rates in September 2019 did translate into upgrades outnumbering downgrades and effectively a positive ERI for the first time in five years, albeit for a brief period, only to fall back into the negative zone following weak operational results in the September quarter.

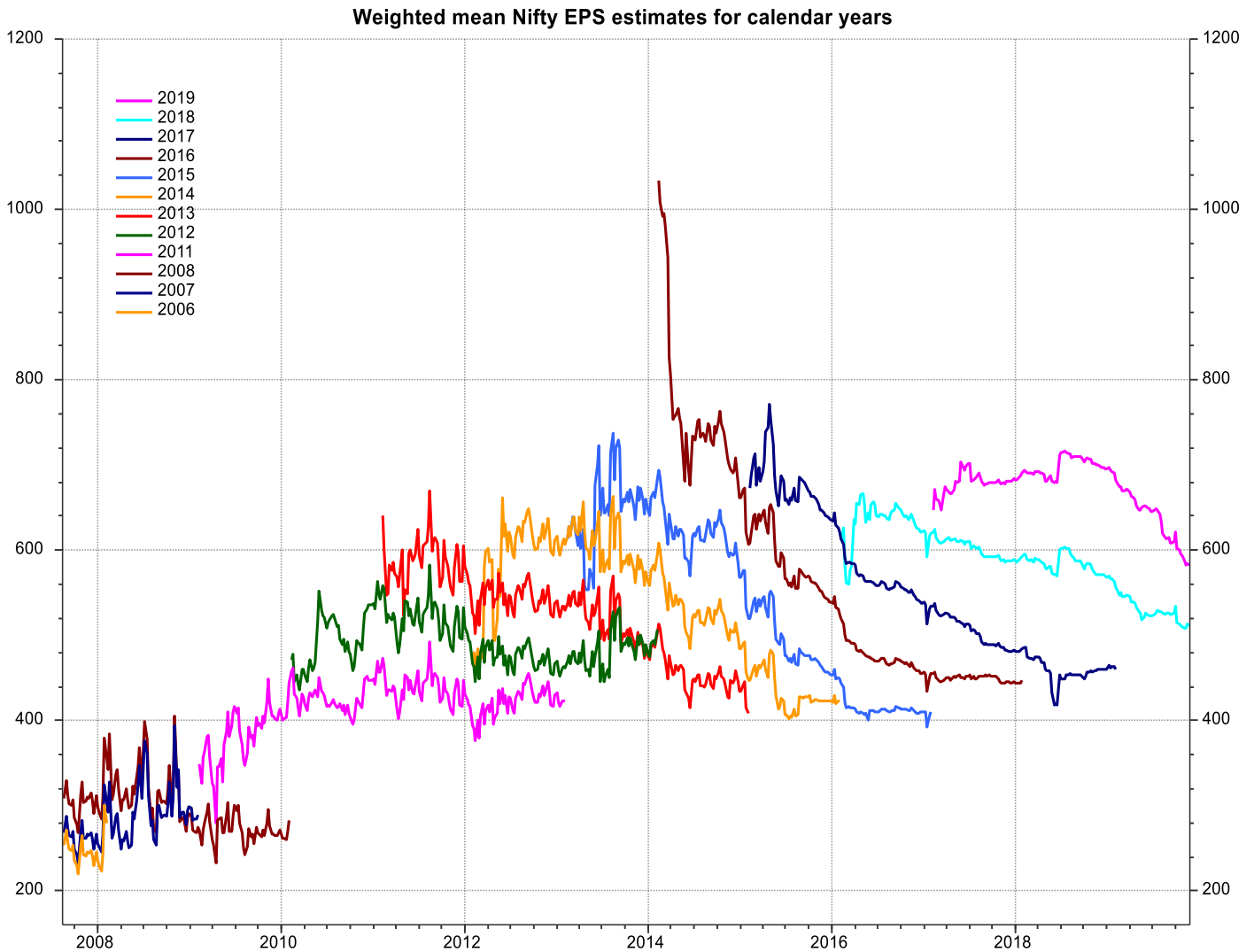
Figure 31: Nifty 50 Earnings Revision Indicator



Source: Refinitiv Datastream, NSE

Nifty 50 2019 Consensus EPS downgraded by 3% since the October 31st, 2019: The chart below shows how Consensus estimates usually begin the year (calendar/fiscal) with a bullish view on earnings, but are then brought back to *terra firma* with downgrades, year after year, as the macro environment overhang prevails over optimism. The Street was most optimistic on corporate performance in 2014, partly explained by increasing hopes of a decisive BJP victory in the 2014 General Elections. While electoral expectations were comfortably met that year, corporate earnings failed to pick up, with 2016 earnings eventually coming in 17% lower than the estimate at the beginning of the year.

While the market believed that corporate performance has hit bottom and is bound to witness a strong recovery, first the Bank AQR (Asset Quality Review) weighed on systemic credit growth, followed by Demonetisation and then the economy's inevitable adjustment to the path-breaking GST reform in 2017 delayed a broad-based recovery. The current ongoing domestic and global slowdown, coupled with tight domestic liquidity, made matters worse, leading to a ~16% downgrade in the 2019 NIFTY 50 Consensus EPS estimate since the beginning of this year and nearly 3% since the beginning of October.

Figure 32: Yearly trend of NIFTY 50 Consensus EPS estimates


Source: Refinitiv Datastream, NSE

Earnings to see further downgrades...: Consensus earnings, going by their historical performance on the back of an inimical macro environment do not seem to be done with the downgrade cycle yet. Despite a 16% cut in 2019 earnings estimate this year, the Consensus estimates still point to an earnings growth of nearly 22% for the Nifty 50 companies in FY20. As the chart above illustrates, such estimates are prone to further downgrades amid slowing domestic economy and fading tailwinds from lower commodity prices as well as weak global growth outlook hurting export-oriented sectors.

On the positive side, domestic liquidity conditions have eased, with nearly 135bps cut in the policy rates in the year thus far and expected improvement in transmission to bank lending rates to provide some fillip to the consumption demand, ably supported by the Government's support for an economic revival. Further, extended rains and consequent improvement in prospects for *Rabi* season should provide some relief to the rural demand. Moreover, corporate tax cuts should continue to aid earnings growth. Banking system NPAs also seem to have peaked out, and with provisioning for a large part of stressed assets been already done, earnings growth trajectory for the banking sector should continue to improve over the next few quarters, further supported by faster resolution of insolvent cases by the IBBI (Insolvency and Bankruptcy Board of India). Key downside risks to earnings include further deterioration in domestic and global economic activity and increase in slippages in the banking sector.

Economic Policy & Research

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