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Corporate Performance Review

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Q2FY21 Earnings Review: Unlock drives a rebound in earnings; estimates upgraded

Aggregate net sales fell by 6.5%/7% YoY in the second quarter of this fiscal for the Nifty 50/Nifty 500 universe[1], a significant improvement from a 25%+ contraction in the previous quarter. This was primarily led by a phased reopening of the economy post a stringent COVID-19-induced lockdown in Q1 FY21. Profit at the *operating level*, however, grew by a decent 10.2%/10% YoY for the Nifty 50/ Nifty 500 companies (ex-Financials), reflecting lower raw material expenses and aggressive cost rationalisation. Higher operating margins, coupled with lower tax rates and savings in borrowing costs, led to a robust 20.7%/29.1% growth in post-tax profitability in Q2 FY21 for the Nifty 50/Nifty 500 universe.

Sector-wise, the sequential recovery in sales was primarily led by Consumer Discretionary, Industrials, Materials and Energy. While activity in the first three sectors was practically shut during the lockdown period, Energy sector got hit in Q1 due to inventory losses. That said, sans Materials which benefited from a sharp uptick in metal prices, these sectors yet again reported a double-digit YoY contraction in sales in Q2. The robust bottom-line performance in Q2 was led by Financials (lower credit costs, higher treasury income), Energy (huge inventory gains), Materials (higher realisations, operating leverage) and healthcare (cost savings, strong domestic growth). Excluding Financials and Energy, Q2FY21 profit growth was much lower at 8.7%/6.4% for the Nifty 50/ Nifty 500 companies.

Following a strong Q2, the Consensus earnings estimate (from Refinitiv) for the top 200 covered companies by market cap has been revised upwards by ~8% in this quarter thus far, reversing a part of the downgrades seen in H1FY21 (-36%). Aggregate profit for these companies is now expected to grow at a modest 3.9% in FY21 vs. a contraction of 4% in October-beginning. Except for Consumer Staples, Communication Services and Real Estate, all other sectors have seen upward revisions in earnings estimates, led by Financials, Materials and Energy. FY22 profit growth estimate is pegged at 42.6%, thanks to a favourable base, translating into earnings CAGR of ~22% for FY20-22. The upward revisions in earnings are also reflected in the Earnings Revision Indicator[2] (ERI) trend for the Nifty 50 universe. After touching the lower limit of -1 in mid-May—the first time ever—implying downgrades across the board, the ERI has improved meaningfully over the last few months. In fact, the ERI has moved back into the positive territory after more than a year, indicating upgrades outnumbering downgrades, led by IT, Healthcare, Consumer Discretionary, Materials and Financials. Increase in COVID-19 infections and consequent re-imposition of lockdown restrictions, surge in NPA recognition by banks leading to higher provisioning requirements and a deterioration in global growth outlook are key downside risks to earnings estimates.

- Restocking and easing of lockdown restrictions drive top-line improvement in Q2FY21: Aggregate net sales for Nifty 50/Nifty 500 ompanies declined by 6.5%/7% YoY in Q2 FY21 as compared to a sharp YoY decline of 25.9%/25.2% in the previous quarter. The demand outlook improved across all sectors in Q2FY21 as the economy unlocked gradually following a stringent lockdown in the previous quarter, leading to an improvement in business activities.

Aggregate net sales for the Nifty 50/500 universe contracted by moderate 6.5%/7% YoY in Q2 FY21 as compared to a sharp decline in the previous quarter. Gradual unlocking of the economy has improved the demand environment vis-à-vis the June quarter.

Sector-wise, the sequential recovery in sales was largely led by Consumer Discretionary, Industrials, Materials, Energy and Real Estate. This is primarily off a very low base as activity in most of these sectors was practically shut during the lockdown period, while Energy sector got hit in Q1 due to lower realisations and inventory losses. That said, sans Materials which benefited from a strong rebound in metal prices, these sectors continued to report a double-digit YoY contraction in sales in Q2, signalling a still weak demand environment as compared to pre-COVID levels. On a YoY basis, sectors reporting a growth in top line include Financials (lower credit costs), Healthcare (strong domestic growth), Materials (higher realisations), IT (increased demand for digitisation and internet-based services),

[1] 499 companies in the Nifty 500 Index reported earnings data for Q2FY21 as on November 21st, 2020.

[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*.

Communication Services (higher demand for telecom services amidst lockdown), and Consumer Staples (steady demand).

- Sustained cost-cutting initiatives helped improve operating margins: EBITDA for the Nifty 50/Nifty 500 companies (ex-Financials) grew by a decent 10.2%/10% YoY in the September quarter vs. 21%/26.3% YoY contraction in the previous quarter. This was primarily due to lower raw material costs and continued cost cutting measures, including administration and marketing costs, and cost savings due to work-from-home initiatives by businesses, that have led to an expansion in operating margins of Nifty 50/Nifty 500 companies by 402bps/426bps YoY (218bps/130bps QoQ). Barring Consumer Discretionary and Real Estate, all other sectors have reported a YoY expansion in operating profits, led by Materials, Energy, Healthcare and Communication Services.

EBITDA margin expanded in Q2FY21 thanks to lower raw material costs and sustained cost-cutting efforts by corporates.

- Interest cost savings and lower taxes improved post-tax profitability in Q2: Aggregate adj. PAT growth for the Nifty 50/Nifty 500 universe increased by a strong 20.7%/29.1% YoY in Q2FY21. A decline in borrowing costs and benefits from lower tax-rate regime introduced last year have helped improve post-tax profitability for most companies this quarter. PAT margins also witnessed an expansion by 237bps/259bps YoY (346bps/363bps QoQ). Sector-wise, PAT growth was led by a) Energy: high inventory gains, b) Financials: relatively lower provisioning for NPAs by banks, thanks to the Moratorium period till August'20 and the Supreme Court's order that prevented banks from classifying defaults as NPAs during the COVID period, c) Healthcare: cost rationalisation, windfall from API exports, normalisation in occupancy levels in hospitals and recovery in revenues of diagnostic centres to pre-COVID levels, and d) Materials: higher realisations and improvement in domestic volumes. Real Estate, Consumer Discretionary and Utilities were the only sectors within the Nifty 50 universe to report a YoY profit contraction in Q2 FY21.

Aggregate adj. PAT growth for the Nifty 50/Nifty 500 universe increased 20.2%/29.1% YoY, thanks to savings in interest and corporate taxes.

- Earnings estimates see upward revisions: Strong Q2 earnings and a faster-than-expected normalisation in business activities have translated into upward revisions in earnings estimates across the board. The FY21 Consensus earnings estimate (from Refinitiv) for the top 200 covered companies by market cap has been upgraded by 8.2% since October-beginning (as on November 20th, 2020), even as the YTD profit cut remains steep at 32.9%. Aggregate profit for these companies is now expected to grow at a modest 3.9% in FY21 vs. a contraction of 4% in October-beginning, but the growth remains way below the 29% estimated in the beginning of the fiscal. Except for Consumer Staples, Communication Services and Real Estate, all other sectors have seen upward revisions in earnings estimates, led by Financials, Materials and Energy. FY22 profit growth estimate is pegged at 42.6%, thanks to a favourable base, translating into earnings CAGR of ~22% for FY20-22. Increase in COVID-19 cases and consequent re-imposition of restrictions, surge in NPA recognition by banks leading to higher provisioning requirements and worsening of global growth outlook are key downside risks to earnings estimates.

Consensus aggregate FY21 PAT estimate for top 200 companies by market cap has been upgraded by 8.2% since October-beginning, translating into FY21 profit growth of 3.9%.

- ERI moves into the positive territory: The upward revisions in earnings are also reflected in the ERI trend for the Nifty 50 universe. After touching the lower limit of -1 in mid-May—the first time ever—implying downgrades across the board, the ERI has improved meaningfully over the last few months. In fact, the ERI has moved back into the positive territory after more than a year, indicating upgrades outnumbering downgrades, led by IT, Healthcare, Consumer Discretionary, Materials and Financials.

Nifty 50 Q2FY21 results

Recovery in Q2 helped slow down the pace of top-line contraction: Aggregate net sales for Nifty 50 companies declined by 6.5% YoY in Q2 FY21 as compared to a sharp contraction (-25.9% YoY) in the June quarter. The recovery in Q2 was largely due to the phased reopening of business activities as lockdown restrictions eased considerably during the quarter. Consumption also improved, especially in Tier 2 & Tier 3 cities, supported by a higher pre-festive demand. Within the Nifty 50 universe, 34 of the 50 companies posted a YoY growth in net sales.

Sectors that led aggregate sales growth in Q2FY21 included: a) Communication Services: An increase in average revenue per user (ARPU) as a result of tariff hikes in December last year and addition to subscriber-base for Bharti Airtel, b) Banks: Recovery in collections post the ending of moratorium period on August 31st, 2020, an increase in other fee-based incomes and a drop in borrowing costs, c) Health Care: Increase in export demand for active pharmaceutical ingredients (APIs) and increased prescriptions as visits to clinics increased post lockdown, d) Materials: Recovery in metal prices aided by higher demand from businesses as manufacturing and construction activities resumed post unlocking of the economy, e) Consumer Staples: Increased demand for essentials and personal care products as supply disruptions eased substantially during the unlock phase and f) Information Technology: Increased demand for digital transformation services (cloud services, automation, data migration and security etc.) by companies to strengthen their IT infrastructure in a post-COVID remote-working environment.

Notably, Consumer Discretionary (increased demand from rural areas prior to festive season), Energy (higher sales by city gas distribution companies) and Industrials (moderate pick-up in investment demand) saw a significant jump in sales on a sequential basis in Q2FY21. That said, they continued to report a huge YoY contraction, indicating a much weaker demand environment as compared to the pre-COVID era.

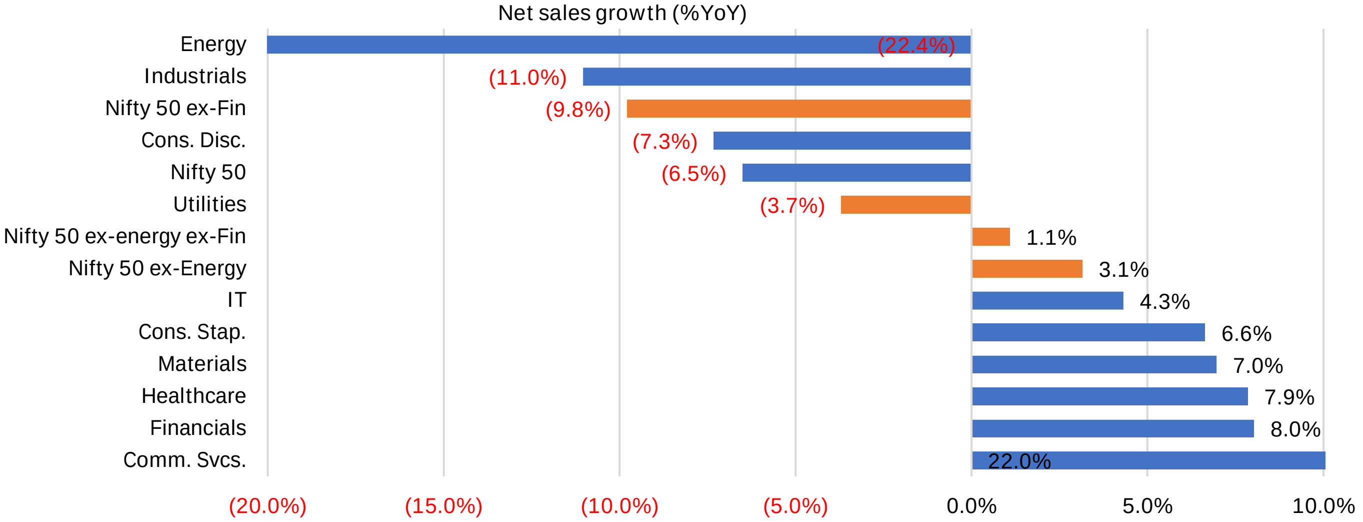
Easing lockdown restrictions and execution of pent-up demand prior to the festive season supported the top line recovery, even as the strength of this recovery depends on the evolving infection situations in different regions and progress on the COVID-19 vaccine development. Companies are expected to continue cost-cutting measures until there is a sustainable recovery in demand. Rural demand, however, is expected to fare better than urban, thanks to a favourable monsoon, bumper *Kharif* harvest and expectations of a good *Rabi* season, thanks to strong reservoir levels.

Figure 1: Net sales growth of Nifty 50 companies in Q2FY21

Sector	QoQ growth (%)			YoY growth (%)		
	Sep-19	Jun-20	Sep-20	Sep-19	Jun-20	Sep-20
Communication Services	1.9	0.9	7.7	3.5	15.4	22.0
Consumer Discretionary	(1.6)	(49.4)	94.5	(10.8)	(53.1)	(7.3)
Consumer Staples	1.6	(0.8)	13.9	4.8	(4.8)	6.6
Energy	(10.6)	(41.2)	29.6	(4.5)	(46.5)	(22.4)
Financials	6.0	14.7	(1.3)	15.2	16.1	8.0
Health Care	8.0	(1.7)	12.0	17.0	4.0	7.9
Industrials	17.6	(50.1)	44.1	10.0	(27.4)	(11.0)
Information Technology	3.6	(2.9)	3.8	8.2	4.1	4.3
Materials	(6.2)	(26.7)	39.8	(6.7)	(28.3)	7.0
Utilities	(2.8)	(17.9)	6.7	3.4	(12.3)	(3.7)
Nifty 50	(3.3)	(24.2)	21.8	0.1	(25.8)	(6.5)
Nifty 50 ex-Energy	1.7	(13.7)	18.5	3.1	(11.5)	3.1
Nifty 50 ex-Financials	(5.2)	(32.4)	30.0	(2.8)	(34.2)	(9.8)
Nifty 50 ex-energy ex-fin	(0.1)	(24.8)	30.2	(1.3)	(22.4)	1.1
Nifty 50 ex-Comm Svcs.	(3.4)	(24.7)	22.1	0.0	(26.5)	(7.0)

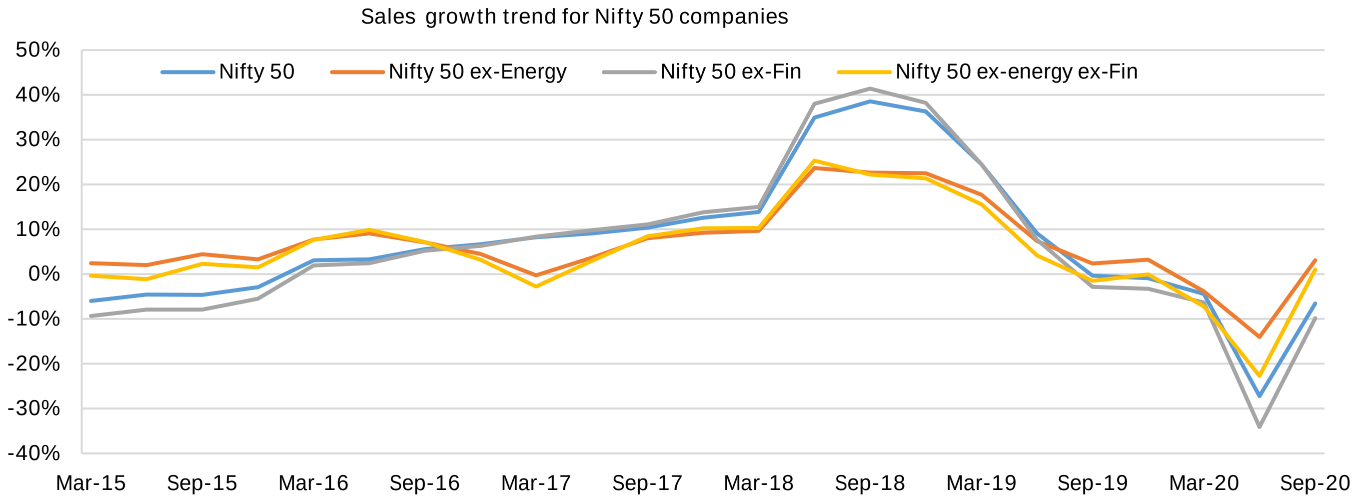
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 2: Sector-wise net sales growth of Nifty 50 companies in Q2FY21



Source: CMIE Prowess, Refinitiv Datastream, NSE.

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

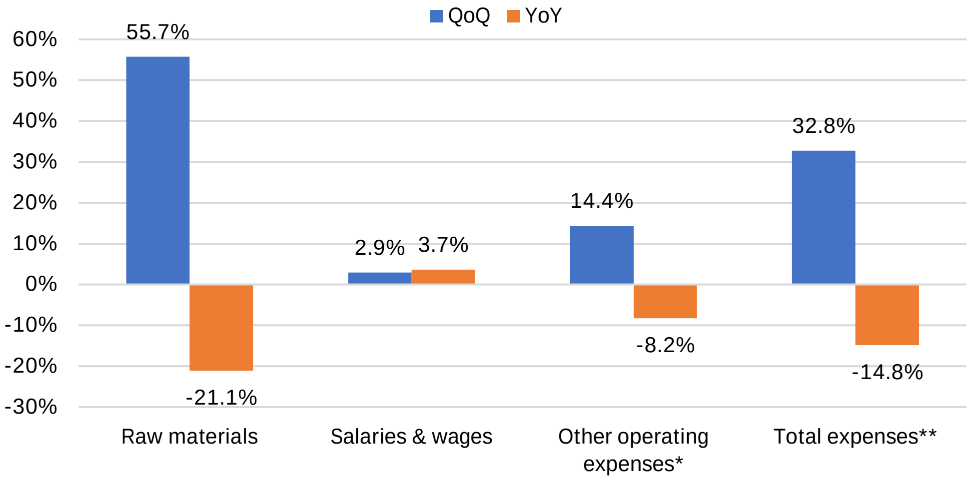


Source: CMIE Prowess, Refinitiv Datastream, NSE.

Sustained cost cutting measures improved operating profits in Q2: EBITDA for the Nifty 50 universe excluding Financials grew by 10.2% YoY in Q2 FY21 (-20.8% YoY in the June quarter). The savings in operating costs were due to lower input costs and aggressive cost-cutting measures by companies including curtailment of administrative and marketing expenses and rental lease re-negotiations. The raw material (RM) costs of Nifty 50 non-financial companies increased by 55.7% QoQ because of a rebound in manufacturing and construction activities in the second quarter, but fell by 21.1% on an YoY basis, leading to RM to sales ratio declining by 670bps YoY from 53.3% to 46.6%. Other operating expenses declined by 8.2% YoY, leading to total expenses (excluding interest and depreciation) falling by 14.8% YoY, much higher than the revenue decline of 9.8%. Consequently, EBITDA margin for the same universe improved by 363 bps YoY and 75bps QoQ to 29.8% in Q2 FY21. Within the Nifty 50 universe, 31 companies reported YoY EBITDA growth in the September quarter.

Except for Communication Discretionary, all other sectors reported a growth in operating profits, led by Materials, Communication Services and Energy.

Figure 4: Change in expenses for Nifty 50 companies (ex-Financials) in Q2FY21



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

Figure 5: EBITDA growth of Nifty 50 companies in Q2FY21

	QoQ growth			YoY growth		
Sector	Sep-19	Jun-20	Sep-20	Sep-19	Jun-20	Sep-20
Communication Services	10.2	(1.1)	6.3	39.8	28.2	23.7
Consumer Discretionary	24.4	(50.4)	288.9	(10.0)	(68.5)	(1.5)
Consumer Staples	(2.0)	(6.7)	16.3	11.5	(14.1)	1.9
Energy	(11.9)	56.6	31.7	(9.8)	(27.4)	8.5
Financials	0.6	3.6	5.0	16.7	(2.3)	2.0
Health Care	5.1	28.0	24.6	19.1	(3.8)	14.1
Industrials	8.3	(31.1)	37.8	15.6	(21.1)	0.4
Information Technology	3.9	(1.9)	7.8	8.3	4.2	8.0
Materials	(19.9)	(43.0)	103.6	(20.0)	(46.5)	36.0
Utilities	2.2	(18.0)	(0.9)	6.4	6.2	3.1
Nifty 50	(1.7)	(0.4)	20.6	5.0	(13.1)	6.7
Nifty 50 ex-Energy	0.9	(7.4)	18.3	9.0	(9.3)	6.3
Nifty 50 ex-Financials	(3.4)	(3.8)	34.5	(2.4)	(20.8)	10.2
Nifty 50 ex-energy ex-fin	1.3	(18.9)	35.8	1.6	(17.2)	11.0
Nifty 50 ex-Comm Svcs.	(2.1)	(0.4)	21.2	4.2	(14.2)	6.2

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 6: EBITDA margin of Nifty 50 companies in Q2FY21

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	45.6	(62)	61
Consumer Discretionary	14.9	743	88
Consumer Staples	31.5	64	(146)
Energy	17.7	28	505
Financials	57.5	348	(338)
Health Care	28.2	287	154
Industrials	25.3	(115)	287
Information Technology	27.8	103	95
Materials	20.8	652	445
Utilities	40.8	(311)	269
Nifty 50	29.8	(29)	368
Nifty 50 ex-Energy	35.3	(5)	104
Nifty 50 ex-Financials	22.3	75	404
Nifty 50 ex-energy ex-fin	25.3	104	227
Nifty 50 ex-Comm Svcs.	29.4	(23)	365

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 7: Sector-wise EBITDA growth of Nifty 50 companies in Q2FY21

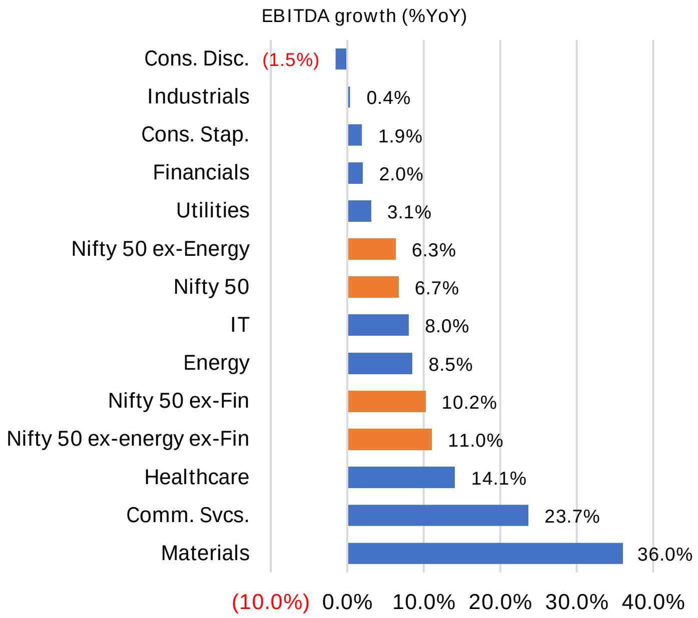
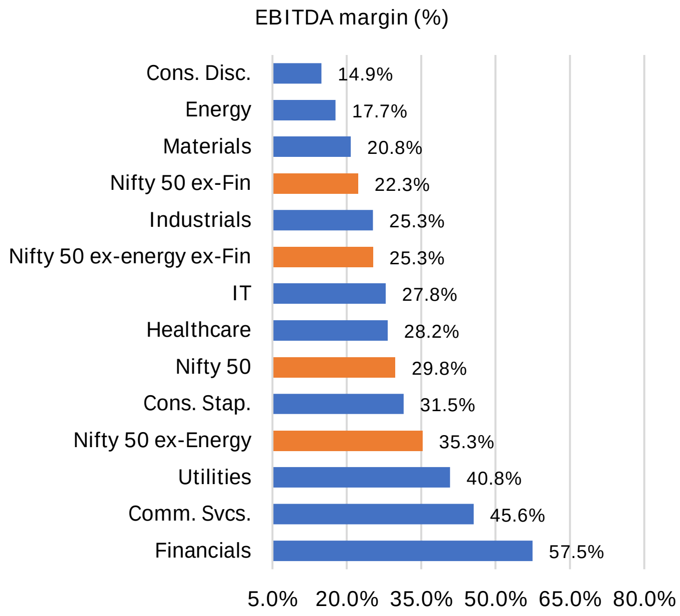
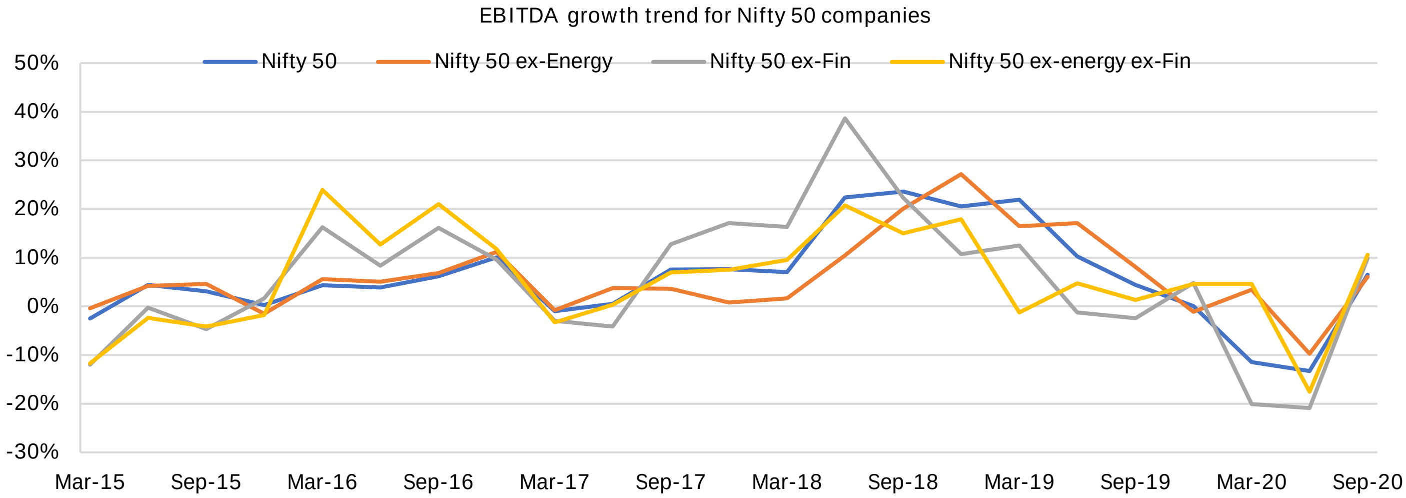


Figure 8: Sector-wise EBITDA margin of Nifty 50 companies in Q2FY21



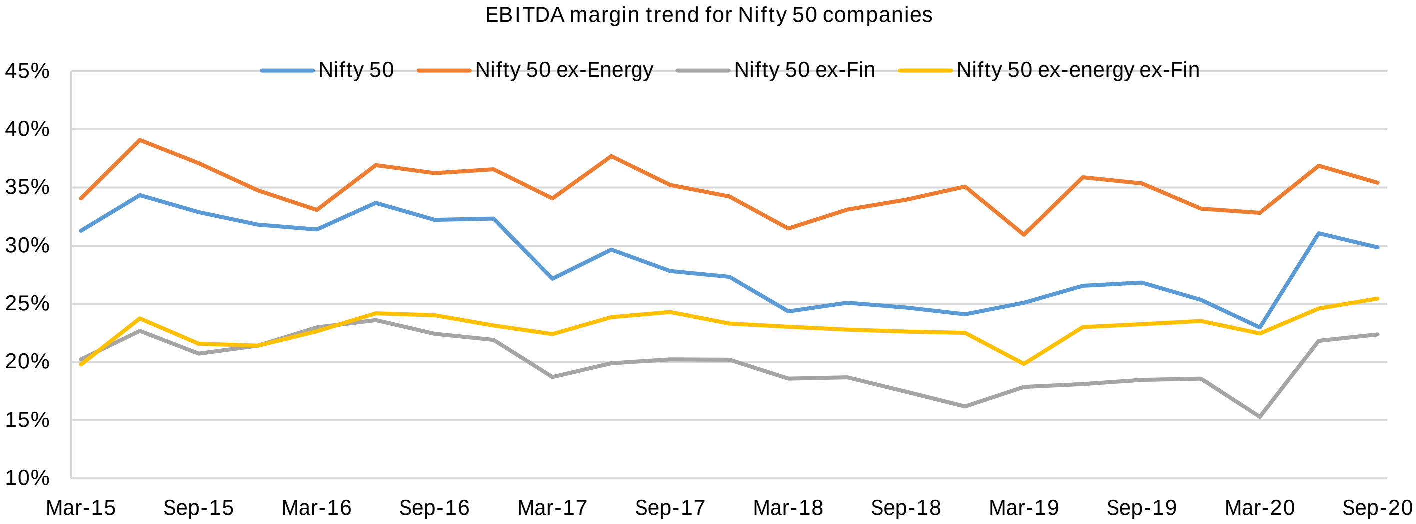
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 9: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 10: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

PAT growth surged aided by lower costs and tax benefits: Aggregate adjusted PAT for the Nifty 50 companies grew at a six-quarter high of 20.7% YoY in the September quarter (-32% YoY in June quarter), primarily led by benefits from aggressive cost rationalisation undertaken by companies, lower tax rate regime introduced by the government in December 2019 and decline in interest cost by 8% YoY. Consequently, PAT margin improved by 239bps YoY and 345bps QoQ to 10.6%—the highest in 17 quarters.

Sector-wise, PAT growth was led by a) Energy: high inventory gains, b) Financials: relatively lower provisioning for NPAs by banks, thanks to the Moratorium period till August'20 and the Supreme Court's order that prevented banks from classifying defaults as NPAs during the COVID period, c) Healthcare: cost rationalisation, windfall from API exports, normalisation in occupancy levels in hospitals and recovery in revenues of diagnostic centres to pre-COVID levels, and d) Materials: higher realisations and improvement in domestic volumes.

Within the Nifty 50 universe, 30 companies reported a YoY expansion in net profit in the September quarter. Excluding Energy and Financials, PAT growth of the Nifty 50 universe was much lower at 8.7% YoY.

Figure 11: PAT growth of Nifty 50 companies in Q2FY21

	QoQ growth (%)			YoY growth (%)		
Sector	Sep-19	Jun-20	Sep-20	Sep-19	Jun-20	Sep-20
Communication Services	NA	61.2	(99.6)	(186.9)	NA	NA
Consumer Discretionary	464.5	NA	NA	(27.0)	(1263.3)	3.8
Consumer Staples	13.1	(7.5)	16.8	25.8	(5.2)	(2.0)
Energy	(19.2)	748.5	84.3	(20.1)	(40.9)	34.8
Financials	3.3	12.0	39.3	25.9	(1.3)	33.1
Health Care	2.3	21.9	61.0	26.6	(16.9)	30.8
Industrials	4.1	(71.1)	179.5	(0.5)	(61.6)	3.1
Information Technology	4.4	(6.4)	8.1	4.4	0.6	4.2
Materials	14.3	(131.9)	NA	(5.1)	(133.9)	16.6
Utilities	5.4	(16.6)	10.0	13.8	5.6	10.1
Nifty 50	3.1	(4.6)	80.6	0.1	(31.1)	20.7
Nifty 50 ex-Energy	12.1	(26.1)	79.4	8.0	(27.1)	16.6
Nifty 50 ex-Financials	3.1	(11.8)	103.6	(6.3)	(41.0)	16.5
Nifty 50 ex-energy ex-fin	16.9	(43.4)	115.6	1.2	(41.1)	8.7
Nifty 50 ex-Comm Svcs.	2.6	(6.6)	90.1	1.1	(35.2)	20.1

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

Figure 12: PAT margin of Nifty 50 companies in Q2FY21

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	0.1	(1360)	211
Consumer Discretionary	3.9	1916	42
Consumer Staples	21.3	54	(189)
Energy	8.5	252	360
Financials	13.7	400	259
Health Care	19.1	582	336
Industrials	8.8	427	121
Information Technology	17.7	71	(2)
Materials	7.4	1000	61
Utilities	16.2	48	204
Nifty 50	10.6	345	239
Nifty 50 ex-Energy	11.6	393	133
Nifty 50 ex-Financials	9.8	352	220
Nifty 50 ex-energy ex-fin	10.6	419	74
Nifty 50 ex-Comm Svcs.	10.8	388	245

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 13: Sector-wise PAT growth of Nifty 50 companies in Q2FY21

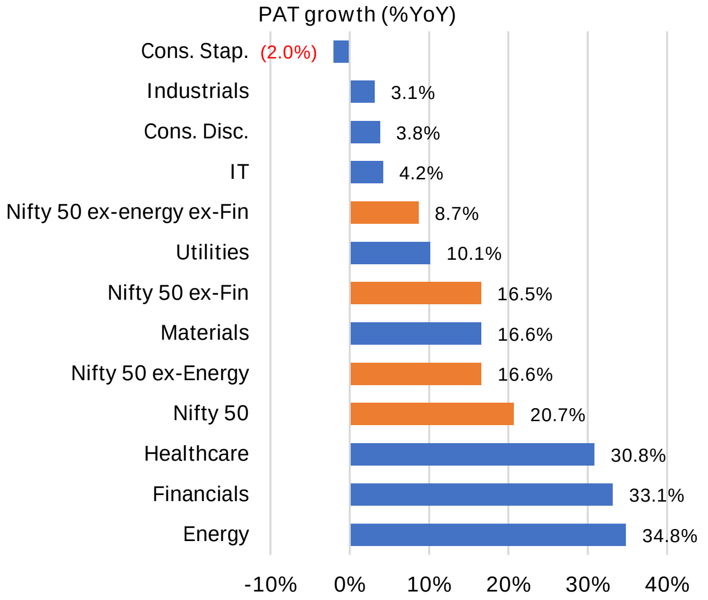
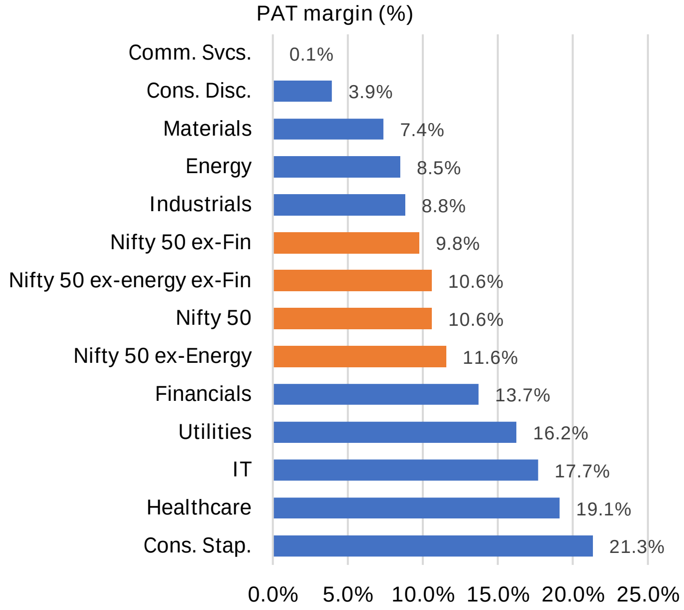
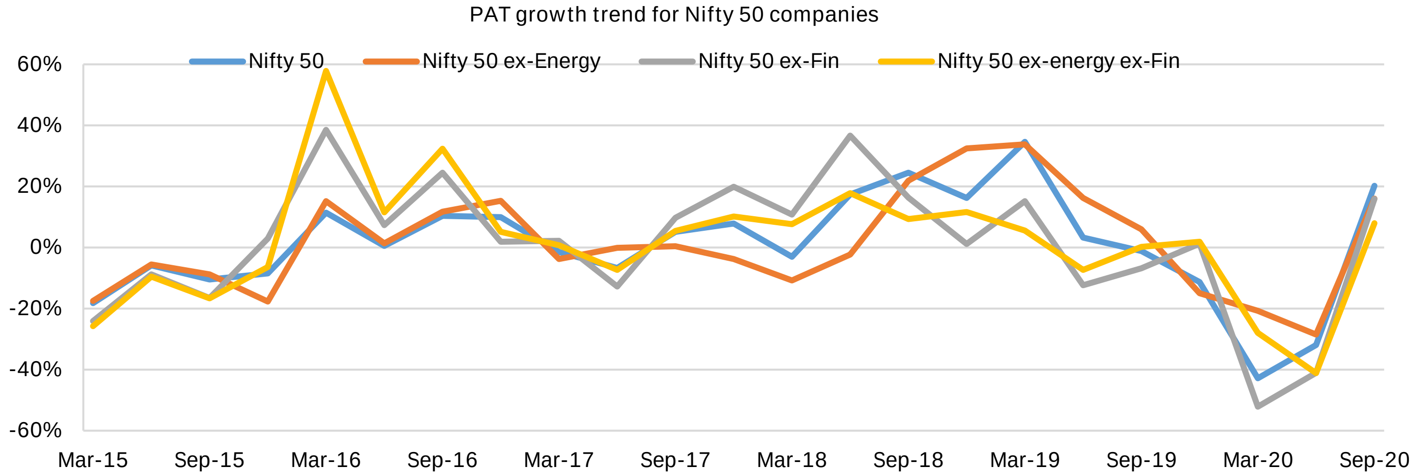


Figure 14: Sector-wise PAT margin of Nifty 50 companies in Q2FY21



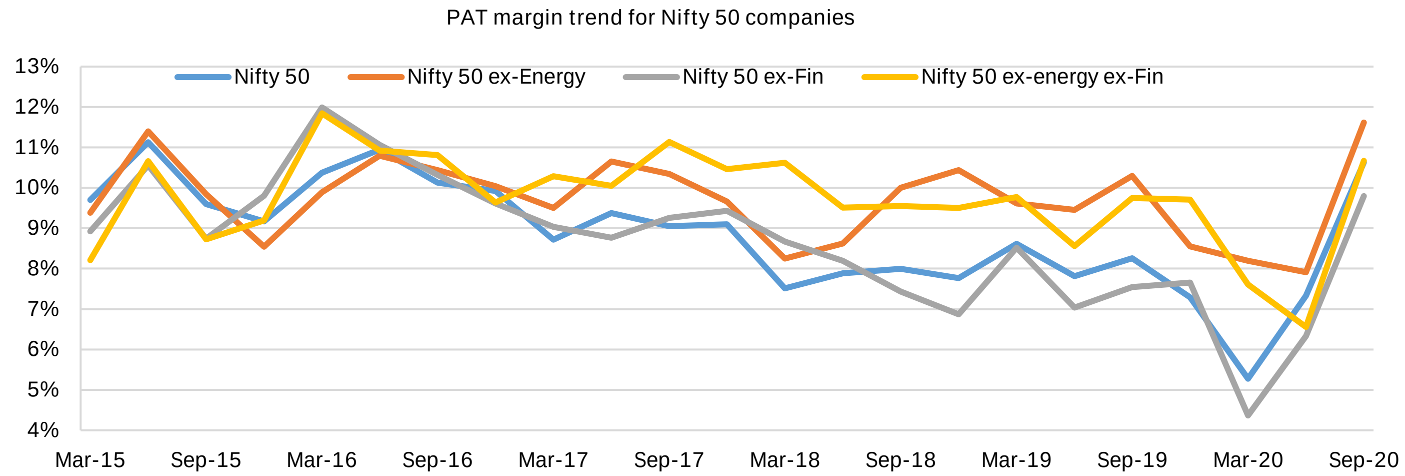
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 15: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 16: PAT margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Nifty 500 Q2FY21 results

Net sales for Nifty 500 companies improved sequentially but remained lower than last year: Aggregate sales growth for the Nifty 500 companies was in-line with the Nifty 50 universe and stood at -7% YoY in Q2 FY21 as compared to a sharp decline of 25.2% YoY in the June quarter. Gradual normalisation of economic activity post the COVID-19-induced lockdown and an uptick in rural demand prior to the festive season, supported by a good monsoon helped slow down the pace of contraction witnessed in the previous quarter. Within the Nifty 500 universe, 254 of the 499 companies that have reported Q2 results thus far (as of November 21st) have recorded an YoY expansion in sales in the September quarter.

Sectors that reported revenue growth in the second quarter included: a) Financials: Improvement in net interest income as a result of lower borrowing costs and better collection efficiency post-moratorium period, b) Health Care: Windfall from API exports and higher revenues of hospitals/diagnostic businesses as footfalls increased post-unlock, c) Materials: A recovery in metal prices due to higher demand as a result of easing restrictions on business activities improved realisations, and d) Information Technology: Increase in demand for digital transformation services globally as companies moved to work-from-home mode.

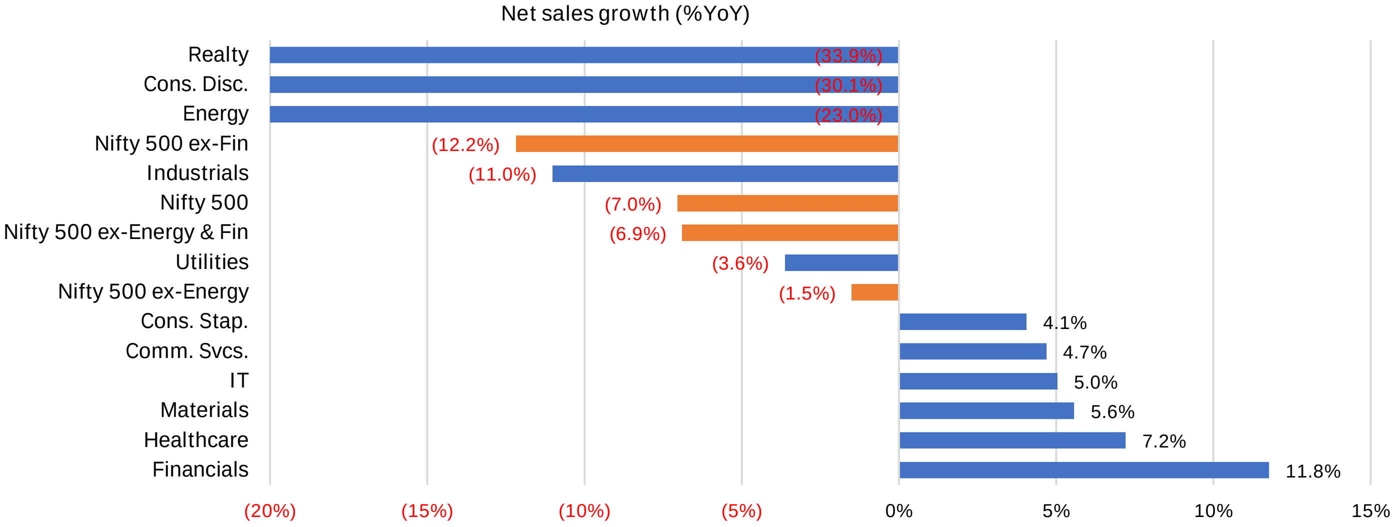
Despite a recovery in rural demand, urban demand continued to languish in the second quarter amid remnant COVID-19-related challenges. Revenues of sectors such as Consumer Discretionary, Energy and Real Estate continued to suffer in terms of YoY performance, even as gradual unlocking of the economy translated into a significant improvement on a sequential basis.

Figure 17: Net sales growth of Nifty 500 companies in Q2FY21

	QoQ growth			YoY growth		
Sector	Sep-19	Jun-20	Sep-20	Sep-19	Jun-20	Sep-20
Communication Services	(2.6)	(8.1)	7.3	8.4	(5.0)	4.7
Consumer Discretionary	6.9	(58.7)	93.3	(0.6)	(61.4)	(30.1)
Consumer Staples	(3.5)	(6.6)	16.2	7.4	(13.5)	4.1
Energy	(9.9)	(42.4)	30.7	(5.9)	(46.9)	(23.0)
Financials	3.5	20.7	0.0	14.3	18.3	11.8
Health Care	5.8	(4.5)	12.6	12.6	0.7	7.2
Industrials	2.8	(50.2)	55.7	3.5	(41.9)	(11.0)
Information Technology	3.6	(4.6)	5.8	8.5	2.8	5.0
Materials	(3.4)	(25.2)	40.4	(5.3)	(27.5)	5.6
Real Estate	(6.2)	(62.5)	75.2	(2.6)	(64.6)	(33.9)
Utilities	(1.2)	(15.7)	13.3	12.1	(15.9)	(3.6)
Nifty 500	**(1.3)**	**(23.5)**	**22.9**	**2.3**	**(25.2)**	**(7.0)**
Nifty 500 ex-Energy	**2.0**	**(16.5)**	**21.0**	**5.5**	**(16.6)**	**(1.5)**
Nifty 500 ex-Financials	**(2.5)**	**(34.4)**	**33.3**	**(0.6)**	**(35.9)**	**(12.2)**
Nifty 500 ex-energy ex-fin	**1.5**	**(30.3)**	**34.4**	**2.3**	**(29.9)**	**(6.9)**
Nifty 500 ex-Comm Svcs.	**(1.3)**	**(23.9)**	**23.4**	**2.1**	**(25.7)**	**(7.3)**

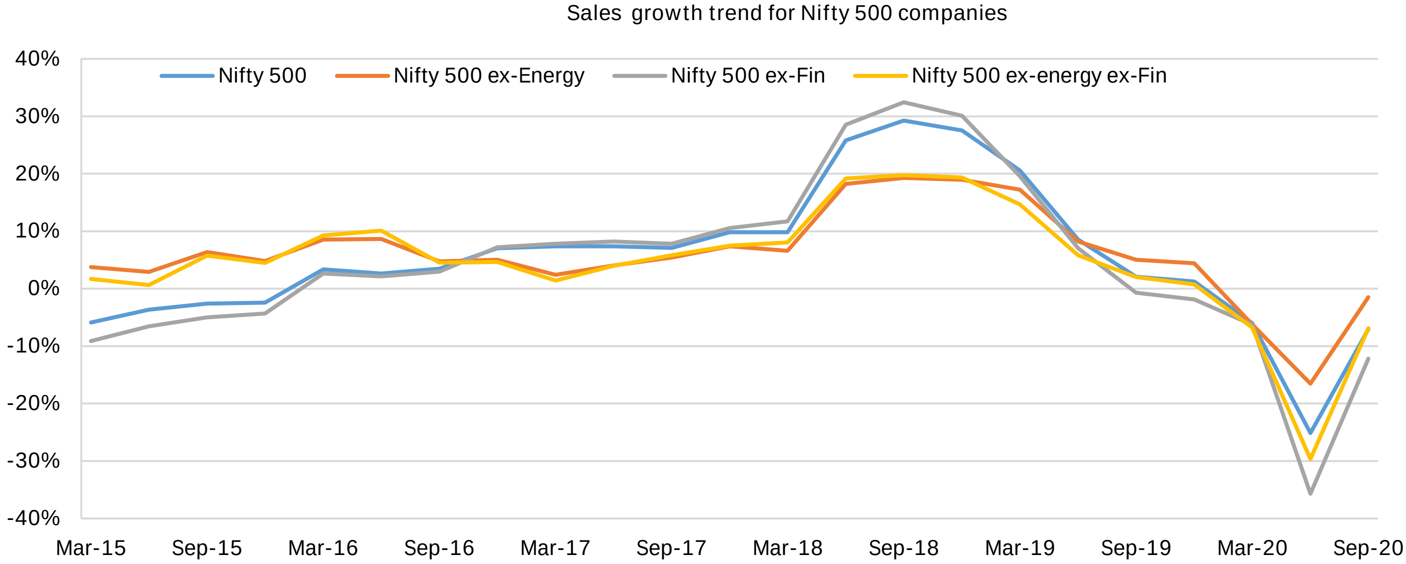
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 18: Sector-wise net sales growth of Nifty 500 companies in Q2FY21



Source: CMIE Prowess, Refinitiv Datastream, NSE

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

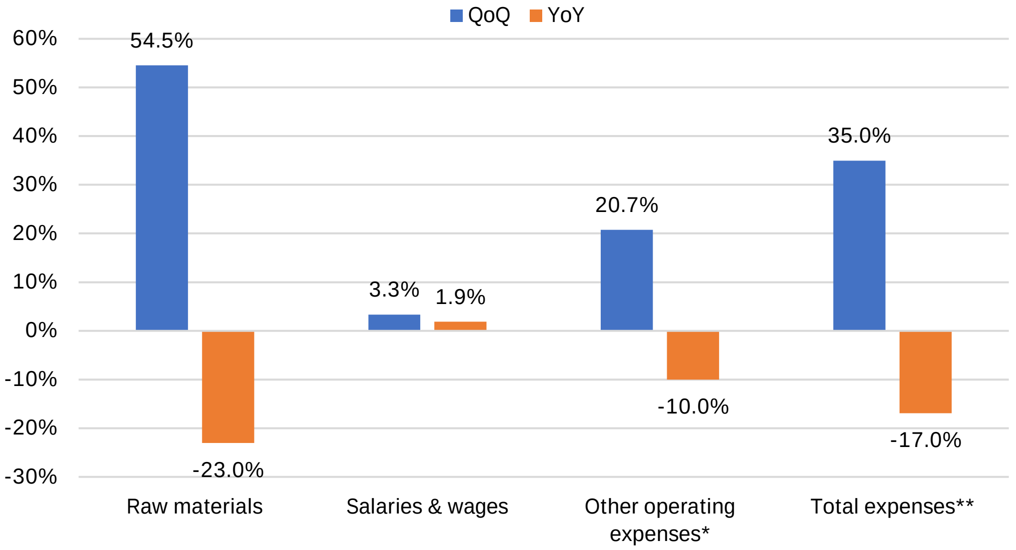


Source: CMIE Prowess, Refinitiv Datastream, NSE.

Aggressive cost rationalisation improved operating profits: Aggregate EBITDA for the Nifty 500 universe excluding Financials grew by 10% YoY (-26.3% YoY in the June quarter) despite a 12.2% YoY contraction in revenues. This was primarily on the back of aggressive cost cutting initiatives undertaken by companies and savings in raw material costs. While expenses have increased on a sequential basis, and understandably so as a large part of the economy was shut during the lockdown period in Q1, they are still much lower on an YoY basis, falling by 17% YoY. While aggregate raw material (RM) costs for Nifty 500 companies (Ex-Financials) fell by a huge 23% YoY, leading to RM to sales ratio falling by ~670bps YoY to 41.7% in Q2FY21, other operating expenses also declined by 10% YoY in Q2FY21. Consequently, EBITDA margin expanded by 426bps YoY and 130bps QoQ to 21.1% in the September quarter.

Within the Nifty 500 universe, 286/499 companies reported positive YoY EBITDA growth in the September quarter. Except Consumer Discretionary and Real Estate, all other sectors reported a YoY expansion in operating profit, led by Materials, Energy, Health Care, and Information Technology.

Figure 20: Change in expenses for Nifty 500 companies (ex-Financials) in Q2FY21



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

Figure 21: EBITDA growth of Nifty 500 companies in Q2FY21

	QoQ growth			YoY growth		
Sector	Sep-19	Jun-20	Sep-20	Sep-19	Jun-20	Sep-20
Communication Services	1.4	0.0	6.8	56.4	4.3	9.8
Consumer Discretionary	10.5	(74.3)	503.2	(4.2)	(83.2)	(8.4)
Consumer Staples	(7.8)	2.0	17.2	7.5	(16.6)	6.1
Energy	(11.5)	108.0	32.3	(10.5)	(23.0)	15.1
Financials	(0.9)	24.3	3.6	20.2	6.3	11.2
Health Care	7.5	21.9	17.0	16.5	2.1	11.5
Industrials	(12.3)	(56.6)	118.7	4.3	(59.3)	2.7
Information Technology	3.9	(2.3)	8.0	7.4	4.1	8.3
Materials	(15.6)	(39.4)	81.9	(14.2)	(39.4)	31.4
Real Estate	1.4	(54.7)	58.4	10.9	(63.8)	(43.5)
Utilities	5.6	(12.3)	4.9	14.4	3.0	2.3
Nifty 500	**(2.9)**	**6.7**	**20.1**	**9.4**	**(10.7)**	**10.6**
Nifty 500 ex-Energy	**(1.6)**	**0.8**	**18.7**	**12.6**	**(8.9)**	**10.0**
Nifty 500 ex-Financials	**(4.6)**	**(10.1)**	**42.1**	**0.8**	**(26.3)**	**10.0**
Nifty 500 ex-energy ex-fin	**(2.5)**	**(24.3)**	**45.3**	**4.5**	**(27.4)**	**8.6**
Nifty 500 ex-Comm Svcs.	**(3.0)**	**7.0**	**20.6**	**8.3**	**(11.2)**	**10.6**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 22: EBITDA margin of Nifty 500 companies in Q2FY21

Sector	EBITDA Margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	41.1	(21)	193
Consumer Discretionary	14.1	956	334
Consumer Staples	23.5	21	45
Energy	16.9	21	561
Financials	58.9	93	(32)
Health Care	26.4	99	101
Industrials	17.4	500	231
Information Technology	24.4	48	75
Materials	21.1	481	415
Real Estate	35.2	(373)	(599)
Utilities	38.8	(310)	225
Nifty 500	**30.8**	**(88)**	**492**
Nifty 500 ex-Energy	**34.6**	**(89)**	**362**
Nifty 500 ex-Financials	**21.1**	**130**	**426**
Nifty 500 ex-energy ex-fin	**22.8**	**170**	**325**
Nifty 500 ex-Comm Svcs.	**30.6**	**(85)**	**495**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 23: Sector-wise EBITDA growth of Nifty 500 companies in Q2FY21

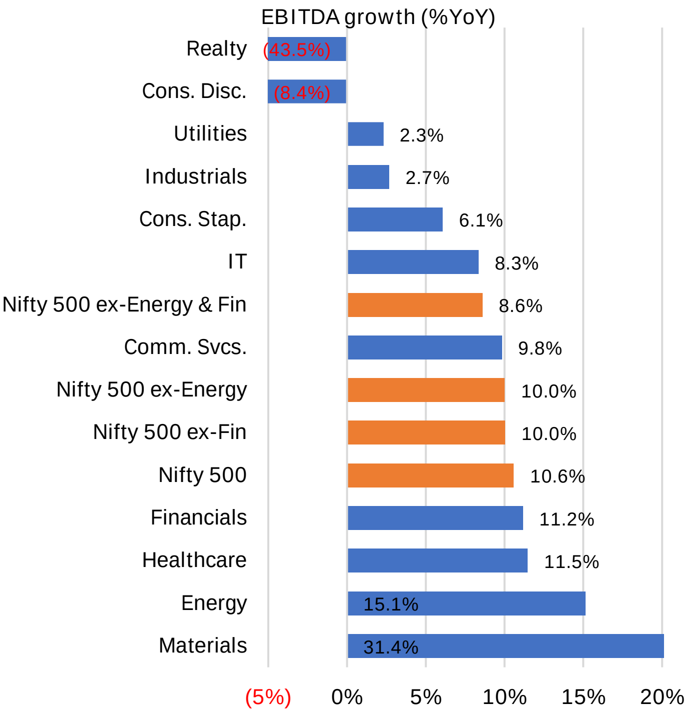
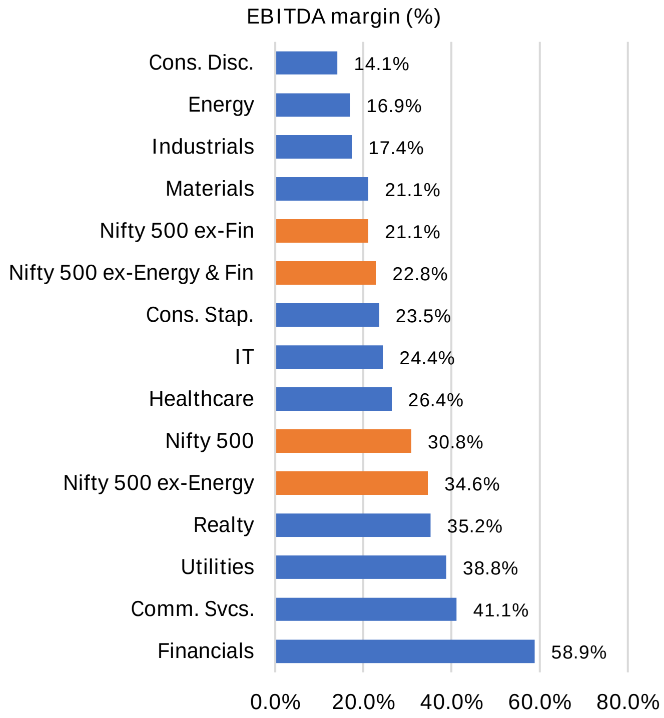
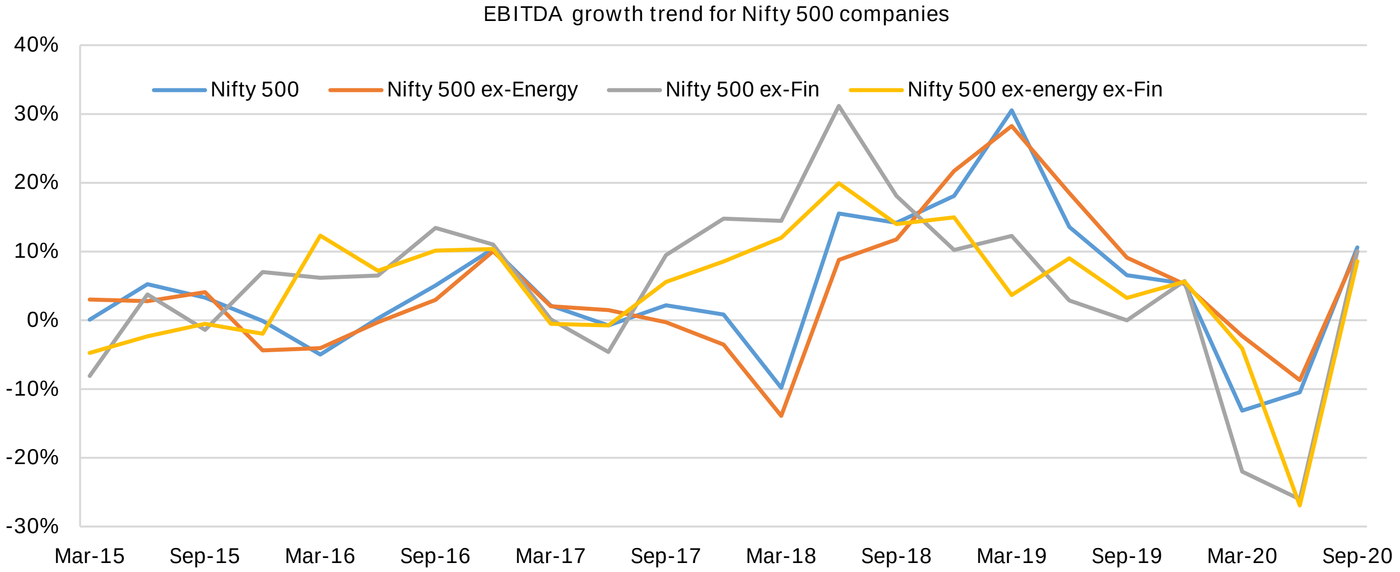


Figure 24: Sector-wise EBITDA margin of Nifty 500 companies in Q2FY21



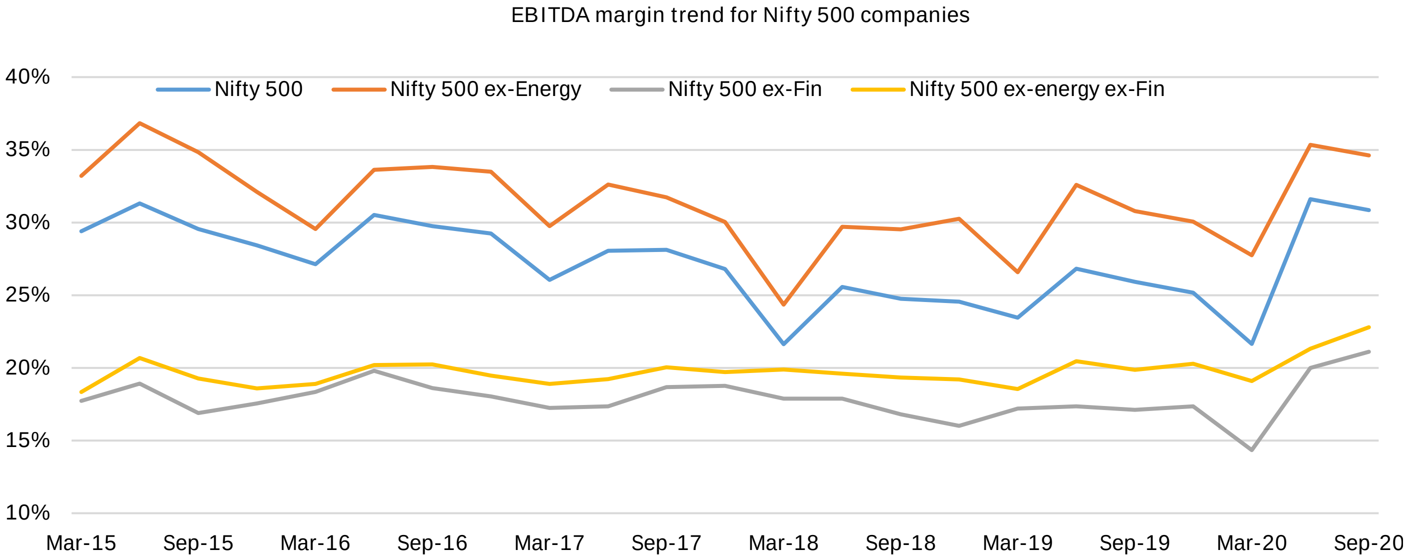
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 25: EBITDA growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 26: EBITDA margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

PAT growth surges to six-quarter high despite contraction in revenue: Aggregate adjusted PAT for Nifty 500 companies grew by 29.1% YoY in the September quarter as compared to a contraction of 36.5% YoY in the previous quarter. A pick-up in aggregate demand, coupled with cost rationalisation and benefits from lower interest and tax rates, led to a strong rebound in corporate profitability in Q2. Consequently, PAT margin improved by 363bps QoQ/259bps YoY to 9.2% in Q2—the highest in six years.

Sector-wise, profit growth was primarily led by Financials (lower provisioning for NPAs, lower credit costs), Energy (inventory gains) and Materials (higher realisations). Excluding Energy and Financials, PAT growth of the Nifty 500 universe was much lower at 6.4%.

On the negative side, profitability of Consumer Discretionary companies declined despite a recovery in rural demand as urban demand remained weak. Real Estate sector was affected by lower rental incomes as most corporate offices in metros continued to work from home in the second quarter.

Figure 27: PAT growth of Nifty 500 companies in Q2FY21

Sector	QoQ growth			YoY growth		
	Sep-19	Jun-20	Sep-20	Sep-19	Jun-20	Sep-20
Communication Services	NA	NA	NA	NA	NA	NA
Consumer Discretionary	73.0	NA	NA	(8.3)	(405.0)	(30.5)
Consumer Staples	3.3	4.3	18.5	18.0	(11.4)	1.6
Energy	(20.4)	NA	82.4	(22.8)	(34.1)	51.0
Financials	(4.7)	409.9	37.9	82.6	18.8	71.3
Health Care	15.4	34.6	37.1	21.2	2.5	22.9
Industrials	(28.7)	(151.9)	NA	(26.0)	(136.9)	7.3
Information Technology	5.2	(6.8)	8.9	3.2	1.2	4.9
Materials	(0.8)	(88.8)	842.1	(6.0)	(87.5)	34.3
Real Estate	19.9	(143.4)	NA	10.1	(129.5)	(76.6)
Utilities	28.6	(13.9)	20.1	33.4	5.2	(1.8)
Nifty 500	**(1.4)**	**20.4**	**103.1**	**6.9**	**(37.6)**	**29.1**
Nifty 500 ex-Energy	**3.3**	**(8.6)**	**108.5**	**15.5**	**(38.5)**	**24.9**
Nifty 500 ex-Financials	**(0.3)**	**(26.8)**	**160.1**	**(5.4)**	**(56.1)**	**15.9**
Nifty 500 ex-energy ex-fin	**6.9**	**(57.0)**	**210.7**	**0.8**	**(64.1)**	**6.4**
Nifty 500 ex-Comm Svcs.	**(0.6)**	**17.0**	**105.8**	**8.4**	**(38.2)**	**28.6**

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

Figure 28: PAT margin of Nifty 500 companies in Q2FY21

Sector	PAT Margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	(9.4)	(703)	(45)
Consumer Discretionary	3.3	1940	(2)
Consumer Staples	15.0	30	(36)
Energy	8.2	233	403
Financials	11.4	300	396
Health Care	14.7	263	189
Industrials	5.2	922	89
Information Technology	15.3	43	(1)
Materials	8.7	741	186
Real Estate	5.3	1496	(960)
Utilities	15.3	87	28
Nifty 500	**9.2**	**363**	**259**
Nifty 500 ex-Energy	**9.5**	**397**	**201**
Nifty 500 ex-Financials	**8.5**	**414**	**206**
Nifty 500 ex-energy ex-fin	**8.6**	**489**	**107**
Nifty 500 ex-Comm Svcs.	**9.7**	**387**	**272**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 29: Sector-wise PAT growth of Nifty 500 companies in Q2FY21

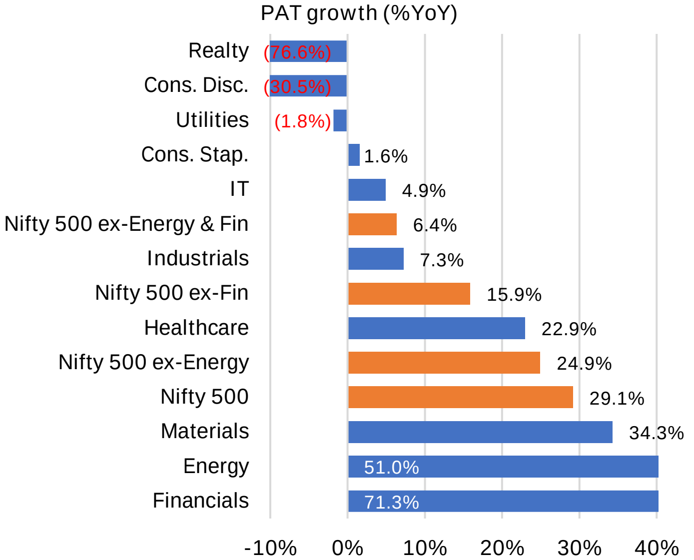
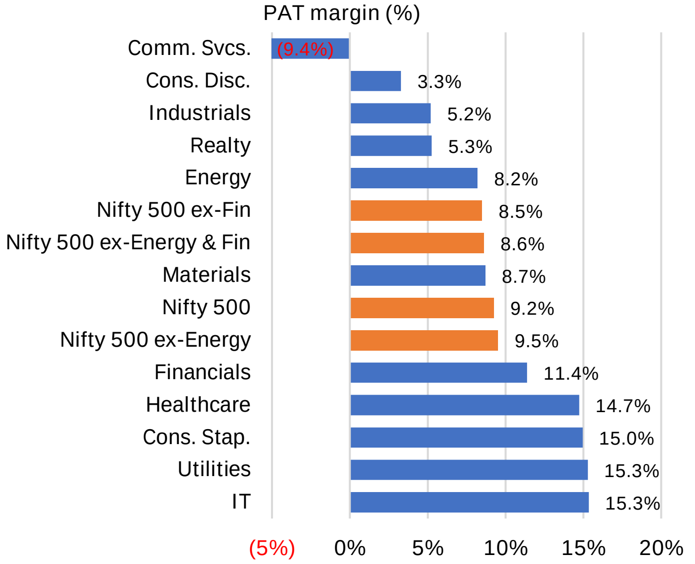
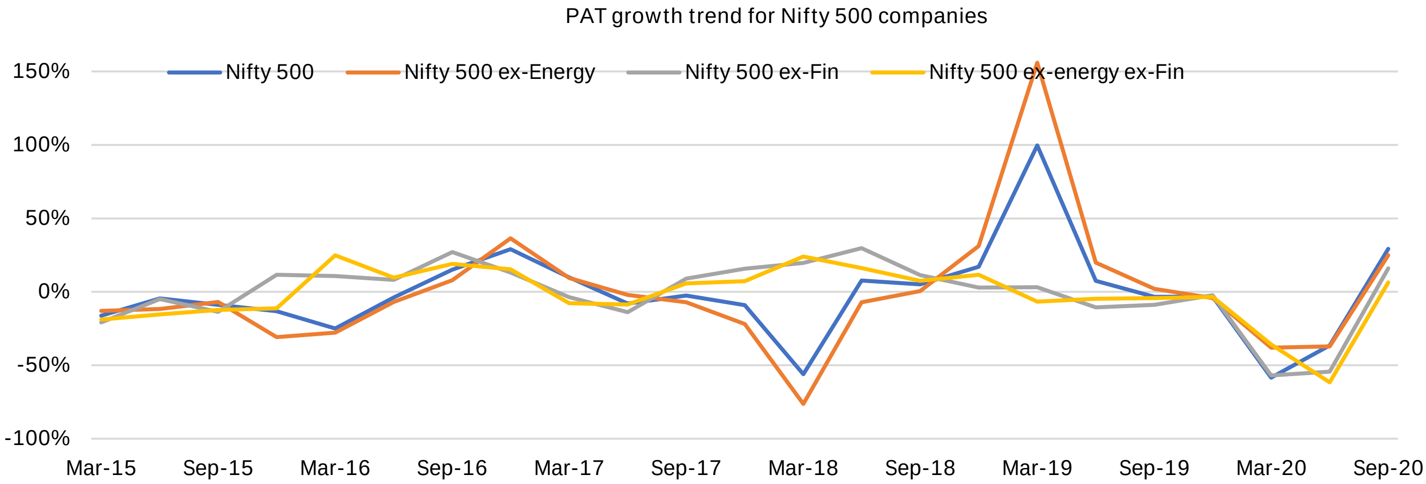


Figure 30: Sector-wise PAT margin of Nifty 500 companies in Q2FY21



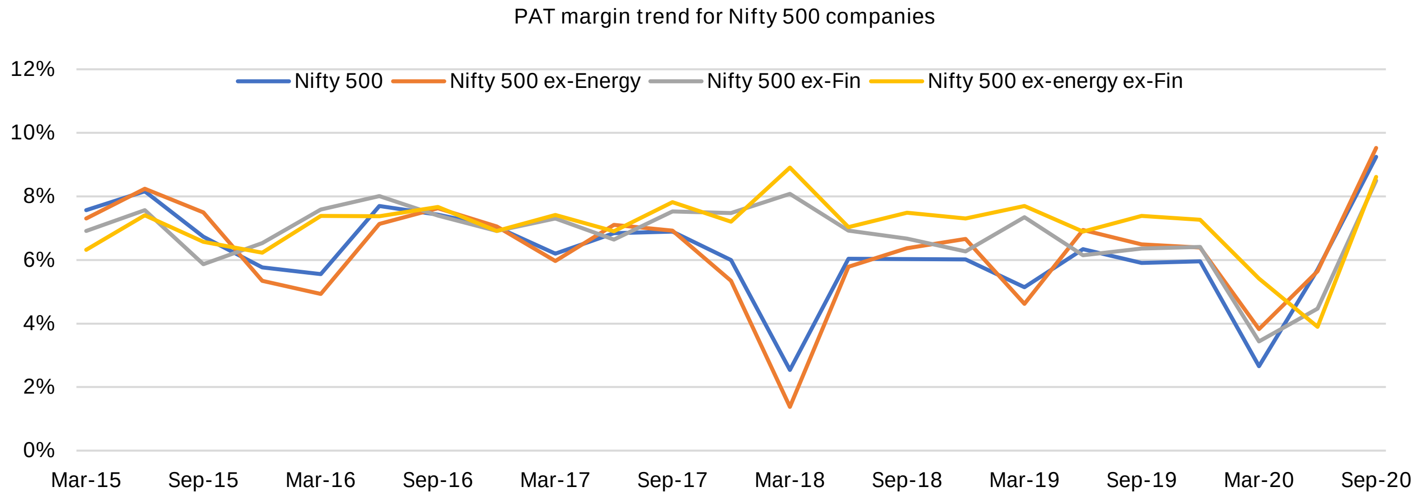
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 31: PAT growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 32: PAT margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Earnings revision analysis

Consensus FY21 PAT estimates upgraded by ~8% since October-beginning...: Corporate earnings in Q2FY21 have surprised on the upside, thanks to a faster-than-expected normalisation of business activities during the unlock period and a gradual pick-up in consumption demand ahead of the festive season. This, in turn, has translated into upward revisions in earnings estimates across the board. Our analysis of earnings estimates of top 200 covered companies by market capitalisation[3] shows an upward revision of 8.2% in FY21 aggregate consensus profit estimate since October-beginning (as on November 20th, 2020), even as the YTD profit cut remains steep at 32.9%. With this, the aggregate earnings of top 200 companies are now expected to grow at a modest 3.9% in FY21 vs. a contraction of 4% expected at the beginning of this quarter, albeit much lower than ~29% growth estimated in the beginning of the fiscal. Except Financials, Healthcare and IT, all other sectors are expected to report a profit contraction in FY21. Excluding Financials and Healthcare—accounting for nearly one-third of the aggregate profit—FY21 consensus profit is expected to decline by 8%.

Aggregate earnings estimate for FY22 for the top 200 companies, however, has been upgraded by a much lower 3.4% since Sep-end, partly because FY22 estimates were factoring in a normalised business/economic environment. Consequently, consensus profit growth estimate for FY22 currently stands at 42.6% (as of November 20th, 2020), thanks to a favourable base, translating into earnings CAGR of ~22% during FY20-22.

Resurgence of COVID-19 infections and consequent re-imposition of lockdown restrictions, higher-than-expected recognition of non-performing assets by banks leading to increased provisioning requirements and a deterioration in global growth outlook are the key downside risks to earnings estimates.

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

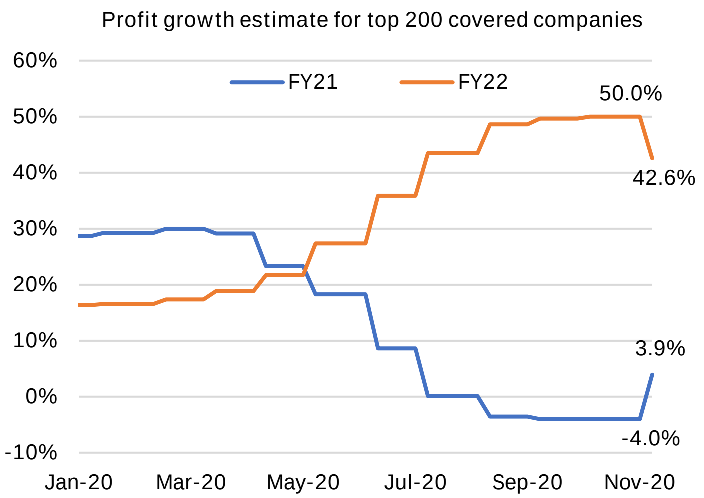
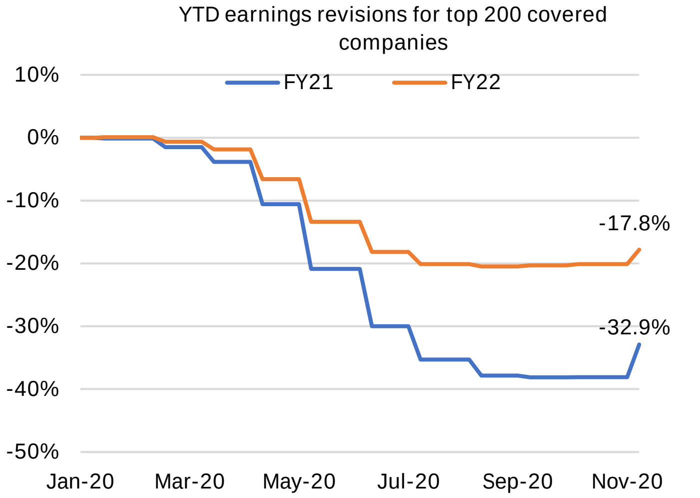


Figure 34: Aggregate consensus earnings revisions in 2020 till date for top 200 covered companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. Data is as of November 20th, 2020.

[3] The sample set consists of top 200 companies by one-year average market cap ending June 30th, 2020 covered by at least five or more analysts during the previous 12 months using IBES estimates from Refinitiv Datastream.

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

Sectors	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20*
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	25.0	25.7	25.7	18.5	(1.2)	2.8	(15.7)	(27.3)	(34.5)	(33.4)	(23.9)
Consumer Staples	16.4	15.4	15.4	13.5	8.4	6.9	2.4	1.8	2.4	1.7	0.0
Energy	18.3	21.0	17.2	12.0	8.2	0.7	(12.7)	(16.4)	(16.1)	(16.5)	(11.6)
Financials	47.7	47.9	49.5	45.4	50.7	49.5	40.2	30.0	28.6	28.4	46.4
Health Care	17.6	18.2	18.2	16.2	18.0	11.5	8.8	13.4	13.6	14.1	18.7
Industrials	21.7	21.1	16.9	10.4	11.0	(15.2)	(22.9)	(33.2)	(34.8)	(34.3)	(30.3)
IT	9.8	9.8	9.5	4.0	(2.7)	(3.6)	(2.5)	(0.5)	0.2	3.6	4.9
Materials	22.8	25.3	23.2	6.9	(11.6)	(34.3)	(45.2)	(38.4)	(36.5)	(35.1)	(16.4)
Real Estate	23.2	32.7	32.6	25.4	19.7	159.8	153.5	114.2	112.9	109.8	104.9
Utilities	10.7	10.4	10.0	9.3	9.3	4.6	0.5	(1.3)	(1.3)	(1.6)	0.1
Total	29.3	30.0	29.2	23.3	18.3	8.6	0.1	(3.6)	(4.0)	(4.0)	3.9

Source: Refinitiv Datastream, NSE.

Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. * Data is as of November 20th, 2020.

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

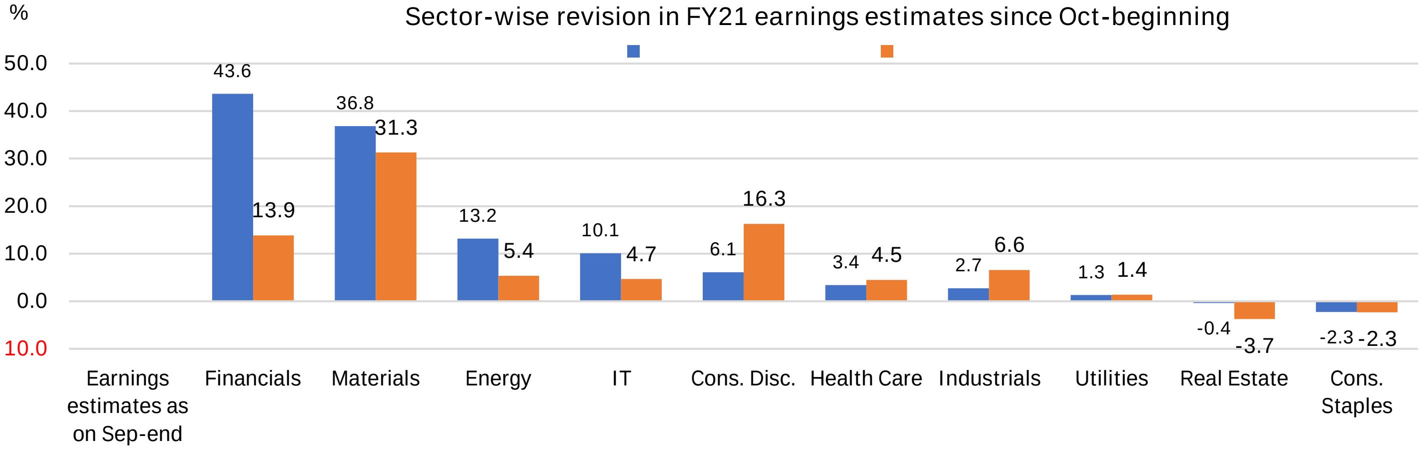
Sectors	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20*
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	21.1	23.3	23.8	29.8	48.8	88.2	116.8	154.8	181.4	178.0	161.1
Consumer Staples	15.4	13.8	13.6	14.1	15.8	17.0	19.6	21.2	20.9	21.6	22.9
Energy	8.5	11.4	15.3	17.1	23.7	29.1	39.8	44.1	45.3	45.7	37.3
Financials	23.5	23.0	24.1	26.2	32.1	38.9	47.9	53.4	54.6	52.6	42.4
Health Care	13.9	16.2	16.0	16.3	17.0	20.2	22.2	21.7	21.9	21.7	18.8
Industrials	17.2	19.0	21.2	25.2	20.7	66.2	76.9	99.8	104.5	105.5	96.7
IT	9.2	9.5	9.5	10.0	12.5	13.2	13.8	12.9	12.9	14.1	14.0
Materials	15.7	16.1	16.8	27.6	46.4	65.8	75.1	68.6	66.2	64.1	39.6
Real Estate	9.7	5.7	7.0	5.8	7.7	10.2	17.1	28.0	27.3	29.4	29.4
Utilities	9.7	10.4	10.8	10.8	11.2	15.0	18.0	20.2	20.1	21.1	18.8
Total	16.6	17.3	18.9	21.7	27.3	35.9	43.5	48.6	49.7	50.0	42.6

Source: Refinitiv Datastream, NSE.

Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. * Data is as of November 20th, 2020.

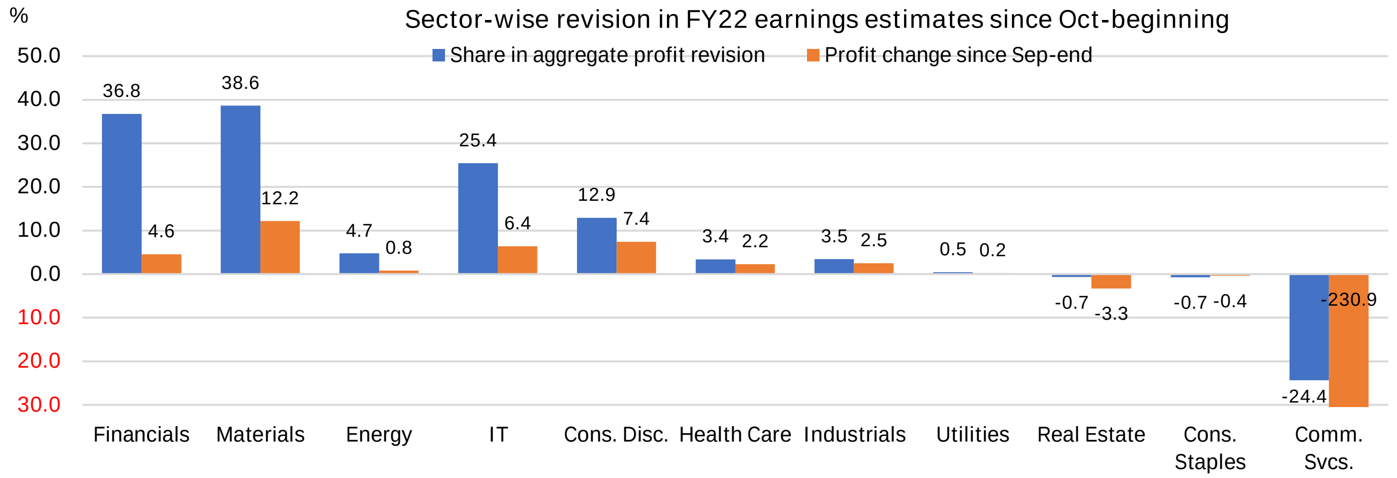
…Let by Financials, Materials and Energy: Except for Consumer Staples, Communication services and Real Estate, all other sectors have seen upward revisions in FY21 earnings estimates over the last couple of months. The upgrades were led by Financials following a significant positive surprise from Q2 earnings, supported by expectations of a decline in credit costs amidst an easy liquidity environment and regulatory forbearance. Aggregate profits of the 40 financial companies in our sample set saw an upward revision of 13.9% since the beginning of October. Other sectors that drove profit upgrades at the aggregate level include Materials, Energy and Information Technology. Materials, particularly, saw FY21 earnings estimate at the aggregate level rising at the steepest pace, even as FY21 PAT growth for the sector is pegged at -16.4%. Consumer Discretionary also saw a partial roll-back of sharp downward revisions seen in the first quarter of the fiscal, with aggregate FY21 PAT estimate for the sector rising by ~16% since October-beginning, even as it is still expected to report a profit contraction of ~24% in FY21.

Figure 49: Sector-wise revision FY21 earnings estimates since the beginning of October



Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. Data is as of November 20th, 2020.

Figure 49: Sector-wise revision FY22 earnings estimates since the beginning of October



Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. Data is as of November 20th, 2020.

Figure 35: Sector-wise share in FY21 earnings est.

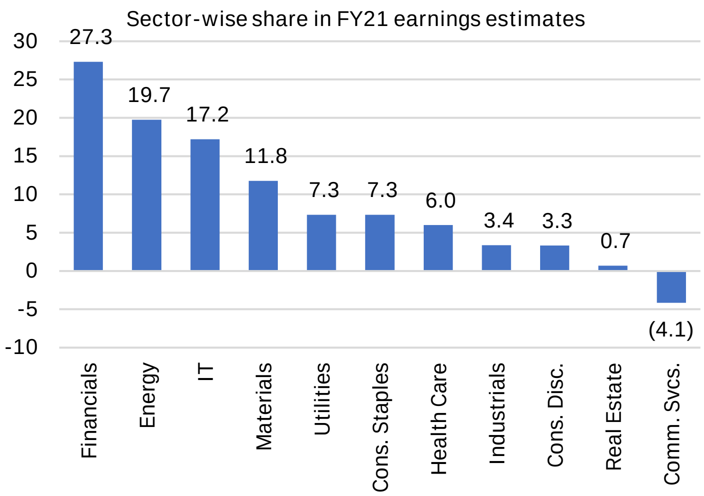
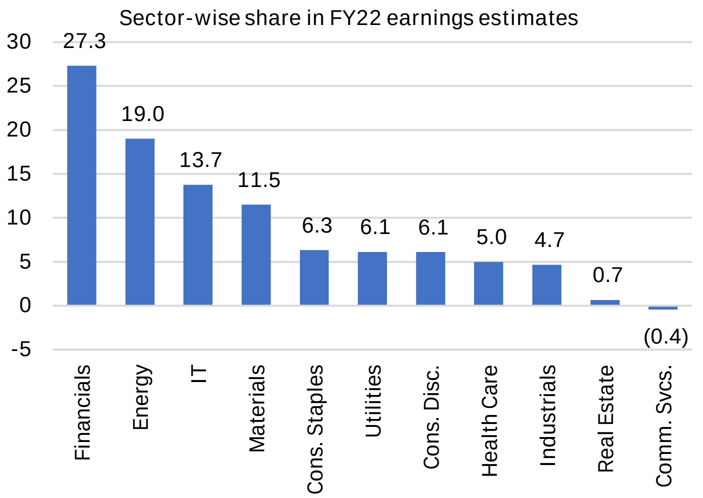


Figure 36: Sector-wise share in FY22 earnings est.

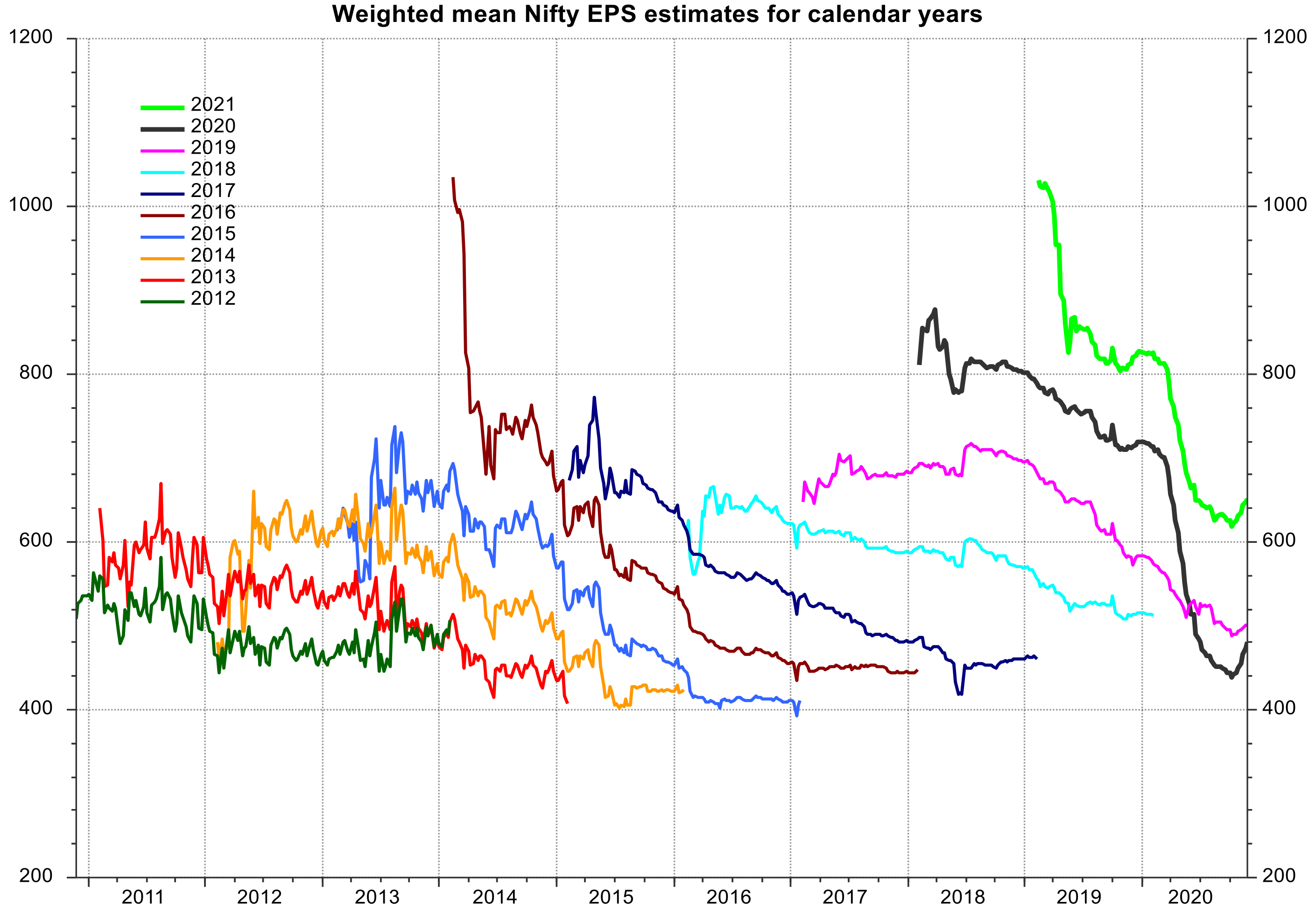


Source: CMIE Prowess, Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. Data is as of November 20th, 2020.

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 similar story played out this year as well with earnings for the Nifty 50 universe witnessing sharp downgrades, but the pace of downgrades got accentuated by the COVID-19 outbreak. However, a faster-than-anticipated recovery in business activities with gradual unlocking of the economy led to Nifty 50 EPS seeing modest upgrades following a robust second quarter earnings season. That said, Nifty 50 consensus EPS estimate is still down ~33% since the beginning of this year.

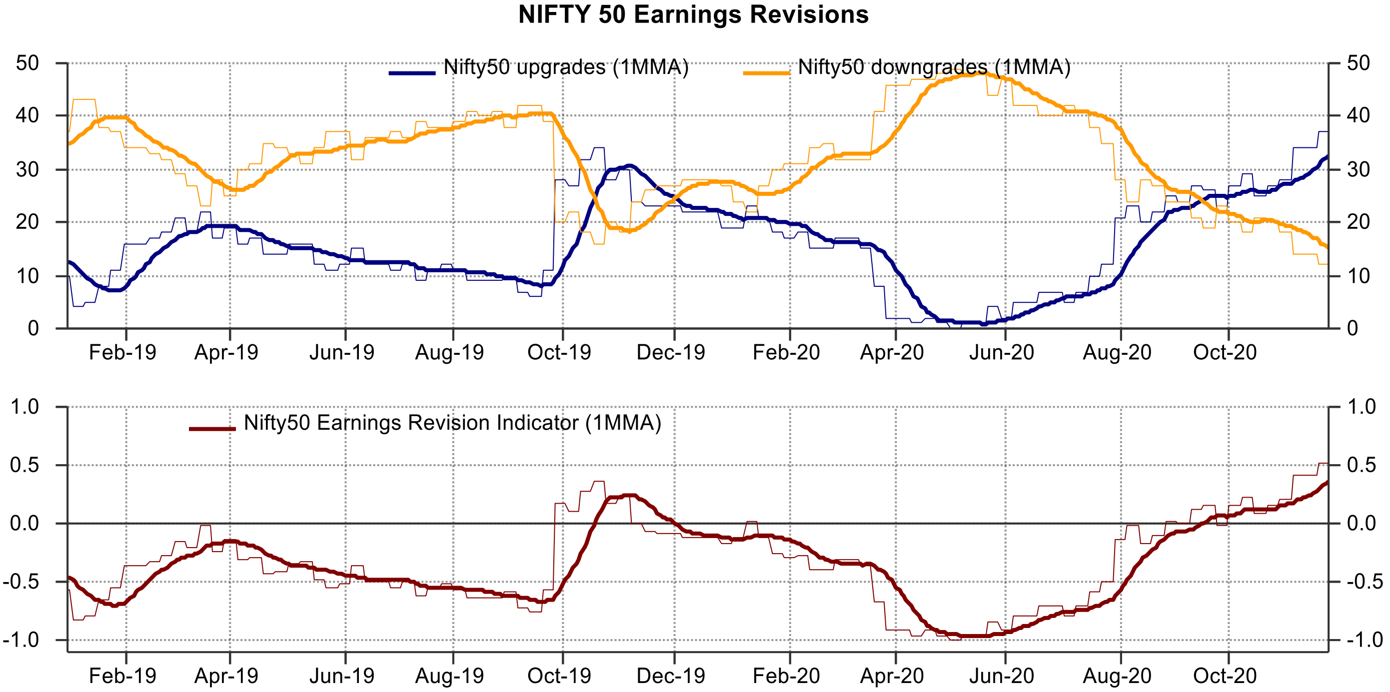
Figure 37: Yearly trend of NIFTY 50 Consensus EPS estimates



Source: Refinitiv Datastream, NSE.

Nifty 50 Earnings Revision Indicator moves into the positive 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 worldwide. The ERI, however, has improved meaningfully over the last few months, and has actually moved back into the positive zone, thanks to a better-than-expected Q2FY21 earnings season and a stronger-than-anticipated post-lockdown recovery in business activities. Sector-wise. the improvement in ERI has been led by Information Technology, Healthcare, Consumer Discretionary, Materials, Financials and Utilities.

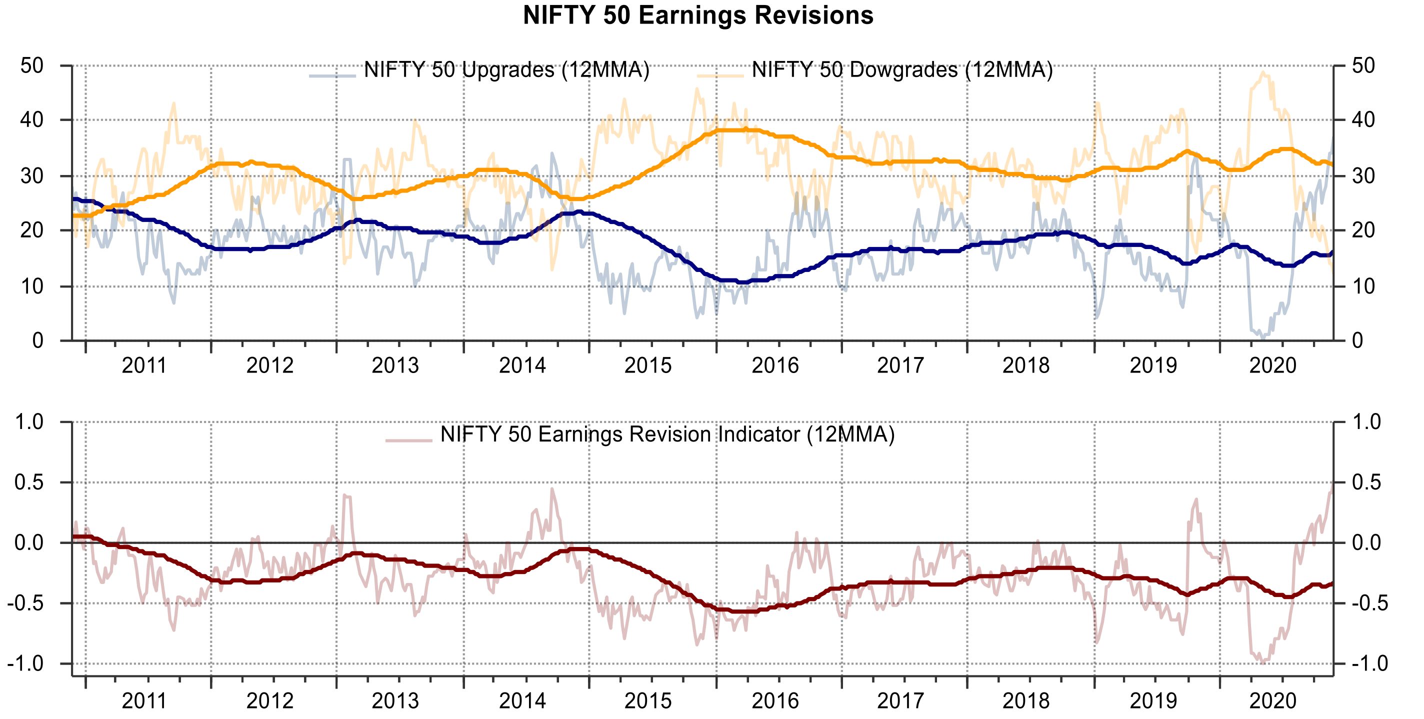
Figure 38: Nifty 50 Earnings Revision Indicator (since January 2019)



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.

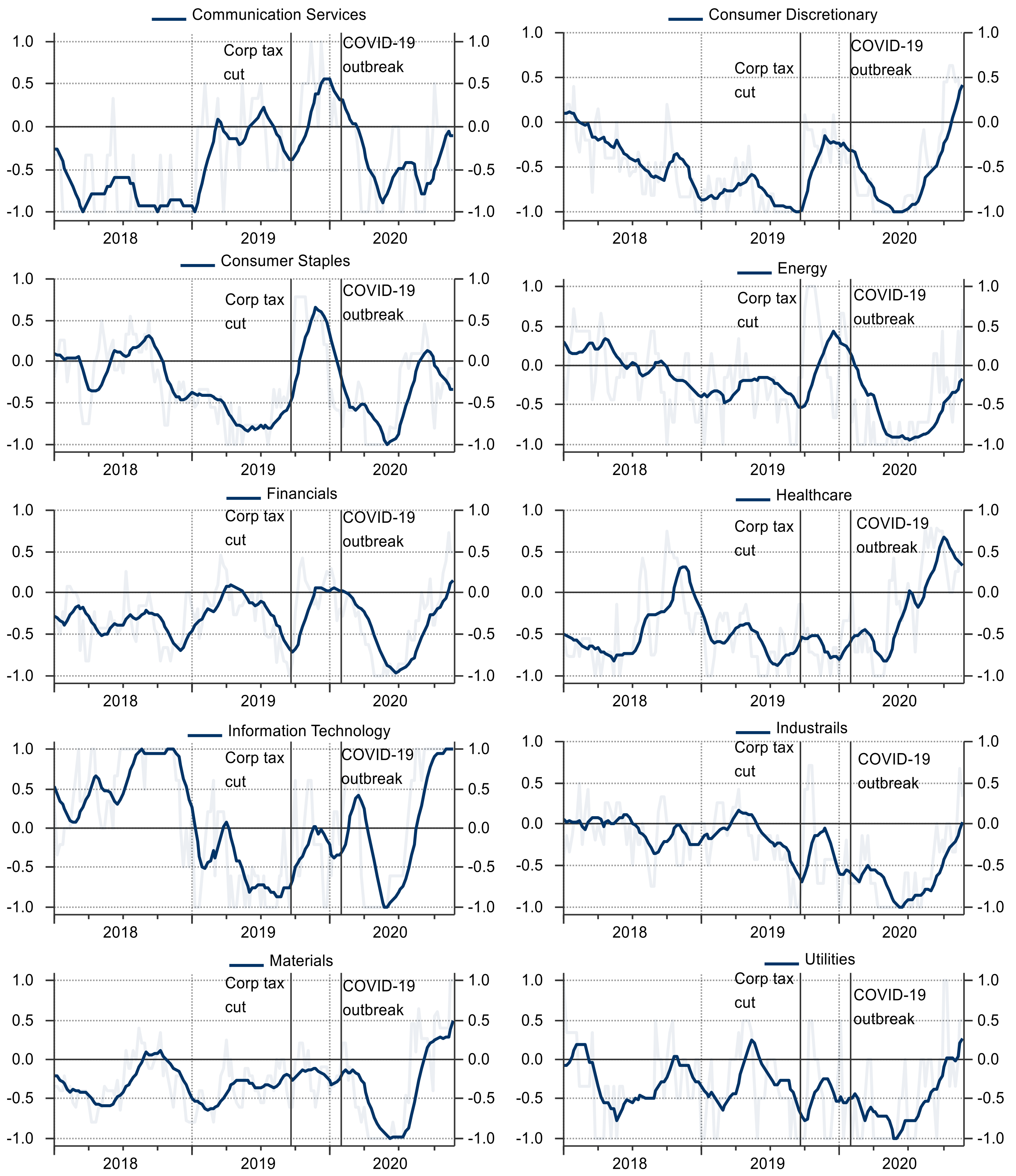
Figure 39: Nifty 50 Earnings Revision Indicator (10-year trend)



Source: Refinitiv Datastream, NSE.

Figure 40: Short-term trend of Earnings Revision Indicator across MSCI sectors

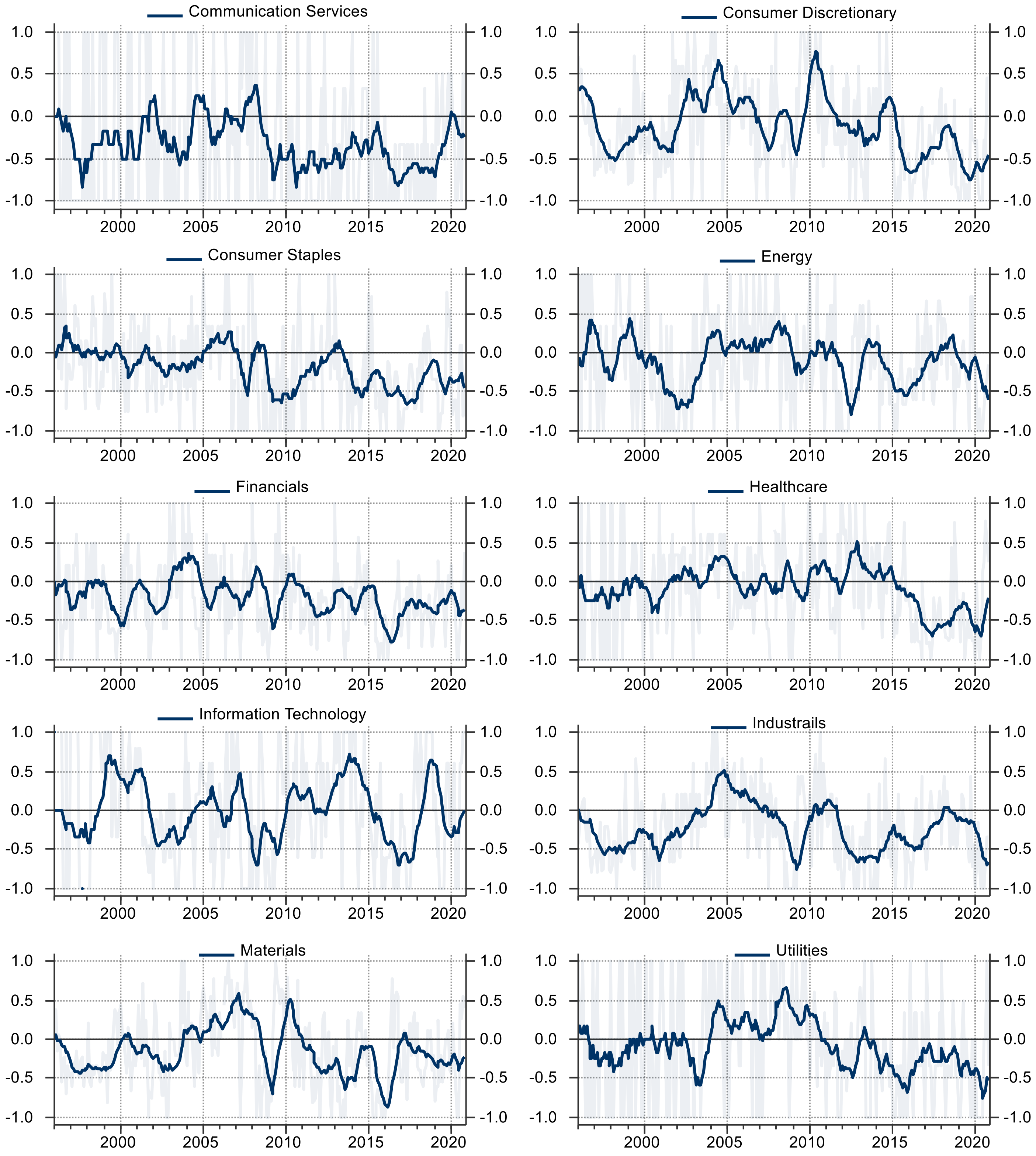
India Earnings Revision Indicator across sectors: Short-term (2MMA)



Source: Refinitiv Datastream, NSE.

Figure 41: Long-term trend of Earnings Revision Indicator across MSCI sectors

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



Source: Refinitiv Datastream, NSE.

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