Corporate Performance Review
March 2021 | Vol. 2, Issue. 3

Q3FY21 Earnings Review: Another strong quarter; estimates upgraded further

Corporate net sales registered the first YoY expansion in the post-pandemic period, clocking a 0.1%/0.5% YoY growth in the December quarter for the Nifty 50/Nifty 500 universe.[1] This is primarily attributed to a) A strong economic revival following gradual easing of lockdown restrictions; b) Diminishing supply-side constraints with ease in movement of goods, and c) An improvement in aggregate consumption demand during the festive season. Profit at the *operating level*, however, grew by a much higher 17.1%/19.2% YoY for the Nifty 50/Nifty 500 companies (ex-Financials)—a consequence of aggressive cost-control measures, partly offset by higher wage expenses. Adjusted PAT surged by an even higher 19.1%/62.8% YoY for the Nifty 50/Nifty 500 universe, benefiting from lower taxes and interest costs in addition to higher operating margins, particularly in Materials sector. Excluding Financials and Materials, adjusted PAT grew by 23.2%/19% YoY for the Nifty 50/Nifty 500 companies.

Sector-wise, the recovery in sales was primarily led by Financials (lower credit costs, higher retail credit offtake), Materials (higher realisations), Communication Services (tariff hikes in Dec**'19**, higher demand for data services), Healthcare (strong domestic growth) and Information Technology (robust demand). Sectors that remained laggards were Energy (slower demand recovery amidst continued travel restrictions) and Consumer Discretionary (sluggish demand in hospitality, travel and retail sectors) and Real Estate (weak demand for office leasing). Except for Communication Services which continued to report huge losses, all other sectors saw an YoY expansion in aggregate profits, led by Financials, Materials and Healthcare.

Following a strong Q3, Consensus earnings estimates (from Refinitiv) for the top 200 covered companies by market cap have been revised upwards by ~10%/7% for FY21/FY22 in this quarter thus far. All sectors saw upwards revisions in earnings, led by Financials, Consumer Discretionary and Materials. Aggregate profit growth for these top 200 companies is now pegged at a strong 17.4%/37.8%/20.9% for FY21/22/23, translating into a CAGR of 29% during FY21-23. The upward revisions in earnings are also reflected in the Earnings Revision Indicator[2] (ERI) trend for the Nifty 50 universe, which has moved deeper into the positive zone—implying far higher number of upgrades than downgrades. Continued surge in COVID-19 cases seen lately, slowdown in consumption demand, slower vaccination drives and deterioration in global growth outlook are key downside risks to earnings estimates.

- Net sales growth steps into positive zone: Aggregate net sales for Nifty 50/Nifty 500 companies registered a modest 0.1%/+0.5% YoY growth in Q3 FY21, following a contraction over the previous two quarters (-5.6%/-6.6% YoY in Q2FY21). The improvement is in-line with other high frequency economic indicators as well as the recently released Q3FY21 National Accounts data. A stronger-than-expected improvement in business activities facilitated by gradual easing of restrictions and receding COVID fear, coupled with a robust festive/pent-up demand (auto sales) as well as surge in commodity prices in the wake of improving domestic/global growth outlook, has supported the recovery in top-line in the December quarter.

  Sector-wise, the sequential recovery in sales was largely led by Financials (increase in net interest income due to lower credit costs), Communications services (higher average revenue per user owing to tariff hikes implemented in December 2019 as well as increased demand for data services), Materials (strong demand from housing/infrastructure, higher realisations), Health care (increased demand for testing and critical care treatment with easing of lockdown restrictions), and Information technology (rise in demand for digital and cloud services). Energy sector continued to witness contraction for the sixth quarter in a tow as demand slowdown persisted even before the pandemic and the recovery since then has been sub-optimal owing to continued travel restrictions.

Aggregate net sales for Nifty 50/Nifty 500 companies grew by 0.1%/ 0.5% YoY for the Nifty 50/ Nifty 500 universes—the first YoY expansion in the post-lockdown period.

Please read our Corporate Performance Review reports for previous quarters [here](#).

[1] 492 companies in the Nifty 500 Index had reported earnings data for Q3FY21 as on February 26th, 2021.
[2] *Earnings Revision Indicator* over a period is calculated as (no of upgrades – no of downgrades)/(total number of upgrades and downgrades). A value less than zero indicates downgrades outnumbering upgrades and *vice versa*.

- Sustained cost-cutting initiatives drive margins higher: EBITDA (operating profit) for the Nifty 50/Nifty 500 companies (ex-Financials) grew by a much higher 17.1%/19.2% YoY in the December quarter vs. 10.2%/10.0% YoY growth in the previous quarter. This was primarily due to sustenance of aggressive cost-cutting measures undertaken by companies post the pandemic particularly on administration, marketing, rental and leasing, leading to a 3% and 3.6% YoY decline in total operating expenses in Q3 FY21 for the Nifty 50 and Nifty 500 companies respectively. This was partly offset by higher staff costs, up 7.3%/6% YoY for Nifty 50/Nifty 500 and building input-cost pressures. This led to an expansion in operating margins of Nifty 50/Nifty 500 companies by 377bps/ 411bps YoY to touch 22%/21.2% in Q3 FY21. Barring Real Estate and Energy, all other sectors have reported a YoY expansion in operating profits, led by Materials, Communication Services, Consumer Discretionary and Healthcare.

EBITDA margin expanded in Q3FY21, thanks to sustained cost-cutting efforts by corporates.

- Strong profit growth led by lower borrowing costs and tax burden: Aggregate adjusted PAT growth for the Nifty 50/Nifty 500 universe came in at a strong 19.1%/62.8% YoY in Q3FY21. A decline in borrowing costs, thanks to a slew of measures taken by the RBI to support the economy including rate cuts and liquidity injection, as well as benefits arising from the lower tax-rate regime introduced last year have helped further improve post-tax profitability for most companies this quarter as well. PAT margins also widened by 172bps/372bps YoY (32bps/49bps QoQ). The expansion in net profit was largely broad-based with most sectors, except Communication services (that continue to report huge losses), registering a growth in profitability. Sector-wise, profit growth was primarily led by Financials and Materials, contributing 47% and 30% respectively to YoY profit expansion of Nifty 500 companies in Q3. Excluding Financials and Materials, adjusted PAT growth works out to 23%/19% YoY for Nifty 50/Nifty 500 companies.

Aggregate adj. PAT growth for the Nifty 50/Nifty 500 universe came in at 19.1%/ 62.8% YoY, thanks to savings in interest and corporate taxes as well as higher operating margins.

- Upward revisions in earnings estimates continue: Corporate earnings have surprised on the upside for yet another quarter, thanks to a faster-than-expected normalisation of business activities, strong festive/pent-up demand and better realisations. This, in turn, has translated into upward revisions in earnings estimates across the board, primarily driven by Financials, Consumer Discretionary and Materials. Our analysis of earnings estimates of top 200 covered companies by market capitalisation shows an upward revision of 10.5%, 7.1% and 5.2% in FY21, FY22 and FY23 aggregate consensus profit estimate in this calendar year thus far (as on February 25th, 2021). With this, aggregate profit growth for this sample set is now pegged at a strong 17.4%/37.8%/20.9% for FY21/22/23, translating into a CAGR of 29% during FY21-23. Continued surge in COVID-19 cases seen lately, slowdown in consumption demand, slower vaccination drives and deterioration in global growth outlook are key downside risks to earnings estimates

Consensus aggregate PAT estimates for top 200 companies by market cap have been upgraded by 10.5%/7.1%/5.2% in FY21/22/23 in 2021 thus far.

- ERI moves deeper 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 six months. The ERI moved back into the positive territory in September 2020 after more than a year, and has since improved meaningfully, indicating significantly higher number of upgrades than downgrades. This has been primarily on account of better-than-expected Q2 and Q3FY21 earnings seasons, development and initiation of vaccination drives and expectations of sustenance of ongoing economic recovery.

Nifty 50 Q3FY21 results

Top-line growth turns positive on easing lockdown restrictions and strong pent-up/ festive demand: The recovery in revenue growth that started in the second quarter of FY21, following a sharp pandemic-induced contraction in the June quarter, continued through the third quarter of the fiscal. Aggregate net sales growth for Nifty 50 companies entered positive zone and came in at 0.1% YoY in the quarter ending December 2020—a significant improvement from a 5.6% YoY decline in the previous quarter and a much deeper contraction of 27.2% YoY in the June quarter.

Recovery in sales in the quarter gone by was due to business activities gaining traction with considerable easing of lockdown restrictions in the second and third quarters and a drop in COVID caseload across most states in India. Discretionary spending improved supported by a higher festive and pent-up demand. Within the Nifty 50 universe, 37 companies posted a YoY growth in net sales.

Sectors that drove top-line growth in Q3FY21 included: a) <u>Communication Services</u>: A rise in demand for data services during the lockdown, increase in average revenue per user (ARPU) as a result of tariff hikes in December 2019 and addition to subscriber-base for Bharti Airtel, b) <u>Materials</u>: Continued surge in metal prices and higher demand as manufacturing and construction activities resumed post unlocking of the economy, c) <u>Banks</u>: Higher retail credit offtake due to improved consumer demand for discretionary goods and affordable housing, and lower credit costs, d) <u>Health Care</u>: Strong domestic growth, new product launches, and increased hospital occupancies and footfalls at clinics for testing and treatments post lockdown, e) Automobiles: Uptick in auto sales driven by pent-up demand, and b) <u>Information Technology</u>: Increased demand for digital transformation services (cloud services, automation, data migration and security amongst others) by companies to strengthen their IT infrastructure as they continued to adopt remote-working in the post-COVID environment.

Notably, Energy sector weighed on the overall revenue growth of Nifty 50 companies due to weak gross refining margins and subdued demand for fuel from transportation sector–the largest consumer for Energy sector–thanks to restricted travel in the aftermath of the pandemic. Excluding Energy, net sales growth of Nifty 50 companies grew at a healthy pace of 9.8% YoY. Revenue growth in Industrials remained flat due to weak private investments.

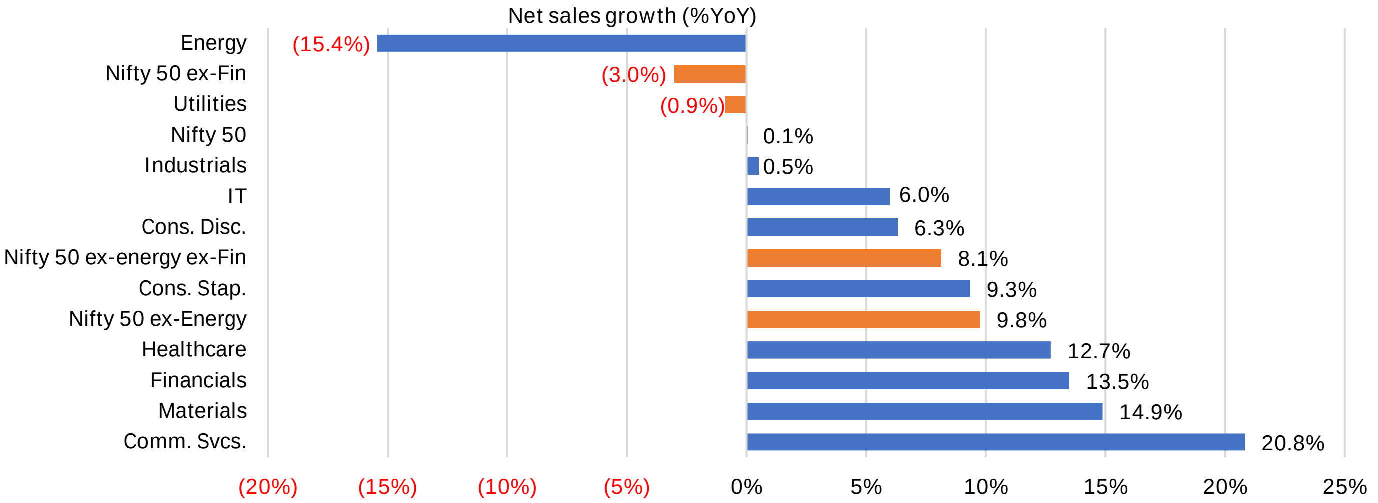
While momentum in economic activities post easing of lockdown restrictions and festive spending in the third quarter nudged the top line growth in positive zone, the strength of this recovery would depend on the evolving COVID-19 situations in major global and domestic consumption centres. Even as vaccination drive kicked-off in most countries around the world beginning this year, the emergence of new and more infectious variants of the Virus has given rise to possibilities of imposition of fresh lockdowns as witnessed in Europe. Companies are expected to continue cost-cutting measures and delay investment in fresh capacities until there is a sustainable recovery in demand and the pandemic situation is brought under control. The strength of rural demand, which has been better than urban demand thus far thanks to a favourable monsoon, bumper *Kharif* harvest and expectations of a good *Rabi* season, would henceforth depend on the impact of the recent fall in food prices on farm incomes, the progress of vaccination drive and curtailment of infection spread in the hinterlands.

Figure 1: Net sales growth of Nifty 50 companies in Q3FY21

%Growth	QoQ growth			YoY growth		
Sector	Dec-19	Sep-20	Dec-20	Dec-19	Sep-20	Dec-20
Communication Services	3.9	7.7	2.8	8.5	22.0	20.8
Consumer Discretionary	9.7	94.5	25.8	(3.6)	(7.3)	6.3
Consumer Staples	1.1	13.9	3.7	3.5	6.6	9.3
Energy	8.4	29.6	18.1	(6.8)	(22.4)	(15.4)
Financials	7.2	3.3	7.6	16.2	13.1	13.5
Health Care	(2.4)	12.0	2.0	7.9	7.9	12.7
Industrials	2.6	44.1	15.9	5.6	(11.0)	0.5
Information Technology	2.8	3.8	4.4	7.9	4.3	6.0
Materials	3.6	39.8	11.3	(4.3)	7.0	14.9
Utilities	1.5	6.7	4.5	(0.7)	(3.7)	(0.9)
Nifty 50	6.4	23.0	12.7	(0.0)	(5.6)	0.1
Nifty 50 ex-Energy	5.2	20.2	10.3	4.7	4.7	9.8
Nifty 50 ex-Financials	6.2	30.0	14.2	(3.1)	(9.8)	(3.0)
Nifty 50 ex-energy ex-fin	4.3	30.2	11.6	0.4	1.1	8.1

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 2: Sector-wise net sales growth of Nifty 50 companies in Q3FY21



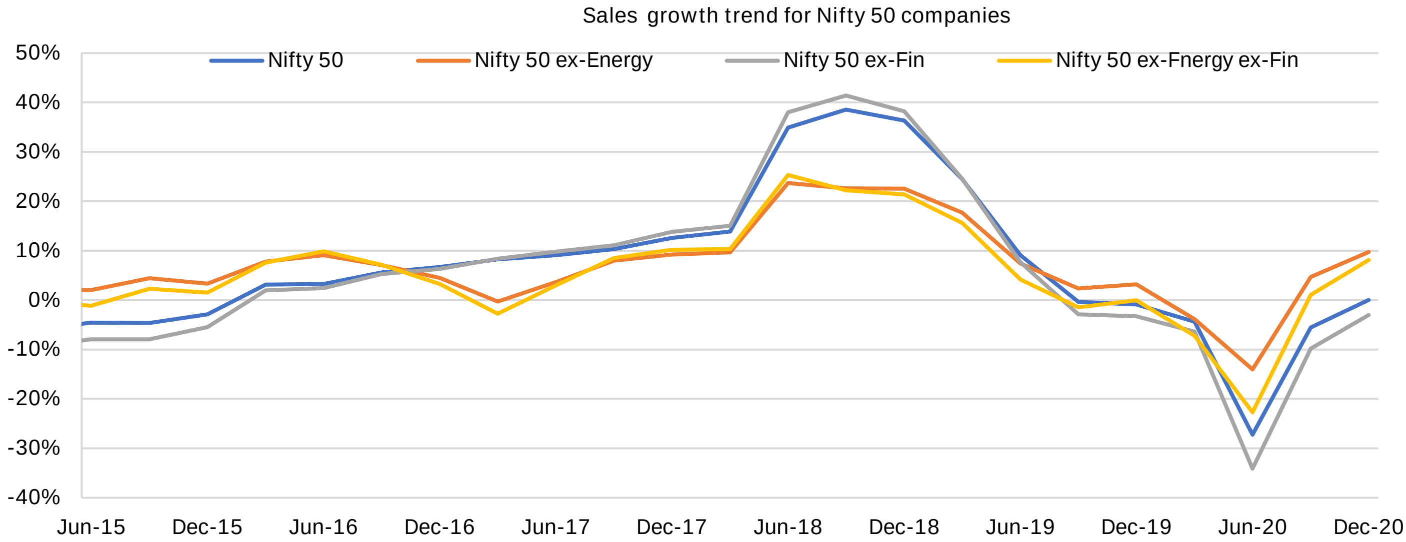
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 3: Sector-wise contribution to net sales growth of Nifty 50 companies in Q3FY21

	Q3FY21	Contribution to net sales growth	
Sector	Net sales (Rs bn)	% QoQ	% YoY
Communication Services	265	0.1	0.4
Consumer Discretionary	1,499	2.8	0.7
Consumer Staples	319	0.1	0.2
Energy	4,099	5.6	(5.9)
Financials	2,653	1.7	2.5
Health Care	206	0.0	0.2
Industrials	393	0.5	0.0
Information Technology	1,126	0.4	0.5
Materials	1,491	1.4	1.5
Utilities	533	0.2	(0.0)
Nifty 50	12,585	12.7	0.1
Nifty 50 ex-Energy	8,486	7.1	6.0
Nifty 50 ex-Financials	9,932	11.1	(2.5)
Nifty 50 ex-energy ex-fin	5,833	5.4	3.5

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 4: Net sales YoY growth trend of Nifty 50 companies in last five years

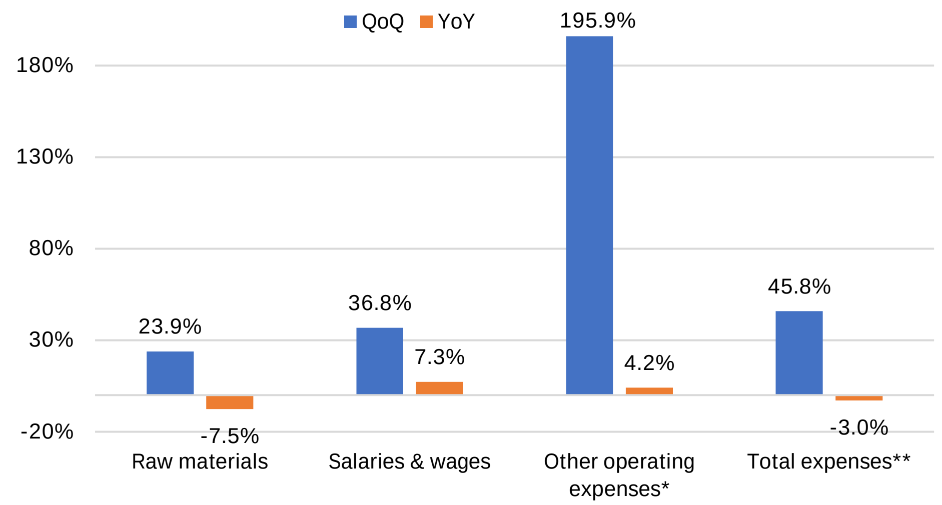


Source: CMIE Prowess, Refinitiv Datastream, NSE.

Continued cost-cutting measures improved operating profits in Q3: EBITDA for the Nifty 50 universe excluding Financials grew by 17.1% YoY in Q3 FY21—an improvement from 10.2% YoY growth in the previous quarter. The savings in operating costs, despite a rise in metal prices, were largely driven by aggressive cost-cutting measures by companies including curtailment of administrative and marketing expenses and savings in rentals and rationalisation of raw material (RM) costs. The RM costs of Nifty 50 non-financial companies, despite an increase by 45.8% on a QoQ basis because of a surge in input costs as demand from manufacturing and construction sectors returned to normalcy, fell by 7.5% on a YoY basis. This resulted in RM to sales ratio declining by 225bps YoY from 52% to 49.7%.

Total operating expenses (excluding interest and depreciation) fell by 3% YoY, despite a marginal rise in revenues. Consequently, EBITDA margin for the same universe improved by 376 bps YoY to 28.2% in Q3 FY21. Within the Nifty 50 universe, 35 non-financial companies reported YoY EBITDA growth in the December quarter. Except for Energy, all other sectors reported a growth in operating profits, led by largely led by Materials sector.

Figure 5: Change in expenses for Nifty 50 companies (ex-Financials) in Q3FY21



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 6: EBITDA growth of Nifty 50 companies in Q3FY21

	QoQ growth			YoY growth		
Sector	Dec-19	Sep-20	Dec-20	Dec-19	Sep-20	Dec-20
Communication Services	2.8	6.3	1.1	37.7	23.7	21.6
Consumer Discretionary	9.0	288.9	42.4	6.4	(1.5)	28.7
Consumer Staples	0.9	16.3	1.7	12.5	1.9	2.7
Energy	9.8	31.7	(0.1)	5.2	8.5	(1.2)
Financials	9.8	4.9	0.8	14.5	2.2	(6.2)
Health Care	(11.7)	24.6	4.3	(4.1)	14.1	34.8
Industrials	8.7	37.8	20.4	5.7	0.4	11.2
Information Technology	3.7	7.8	12.1	7.1	8.0	16.7
Materials	(2.4)	103.6	31.0	(18.7)	36.0	82.5
Utilities	11.8	(0.9)	11.5	17.4	3.1	2.9
Nifty 50	7.6	20.5	7.8	9.0	6.8	6.9
Nifty 50 ex-Energy	7.2	18.2	9.6	9.9	6.4	8.7
Nifty 50 ex-Financials	6.0	34.5	12.6	5.1	10.2	17.1
Nifty 50 ex-energy ex-fin	4.3	35.8	18.5	5.0	11.0	26.2

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 7: EBITDA margin of Nifty 50 companies in Q3FY21

Sector	EBITDA Margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	44.8	(76)	29
Consumer Discretionary	16.8	196	292
Consumer Staples	30.9	(60)	(198)
Energy	15.0	(273)	216
Financials	51.5	(345)	(1081)
Health Care	28.9	66	474
Industrials	26.2	97	252
Information Technology	29.9	204	274
Materials	24.5	369	908
Utilities	43.6	274	159
Nifty 50	28.2	(130)	179
Nifty 50 ex-Energy	34.6	(24)	(33)
Nifty 50 ex-Financials	22.0	(31)	377
Nifty 50 ex-energy ex-fin	26.9	157	385

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 8: Sector-wise EBITDA growth of Nifty 50 companies in Q3FY21

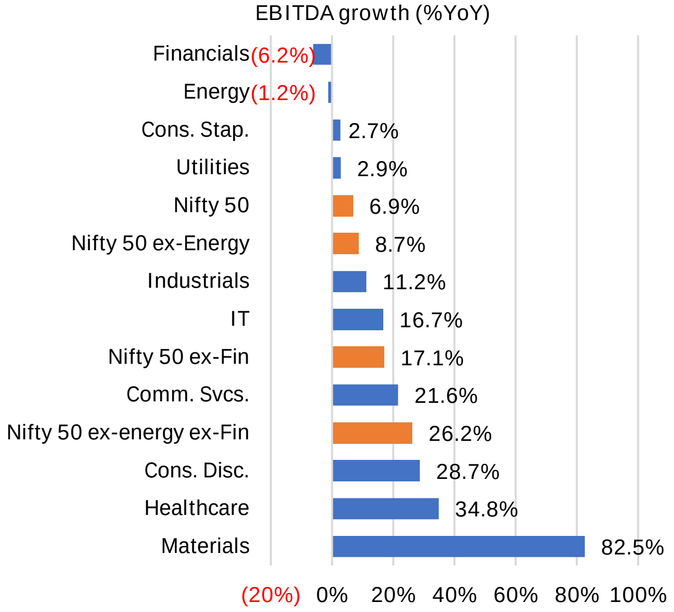
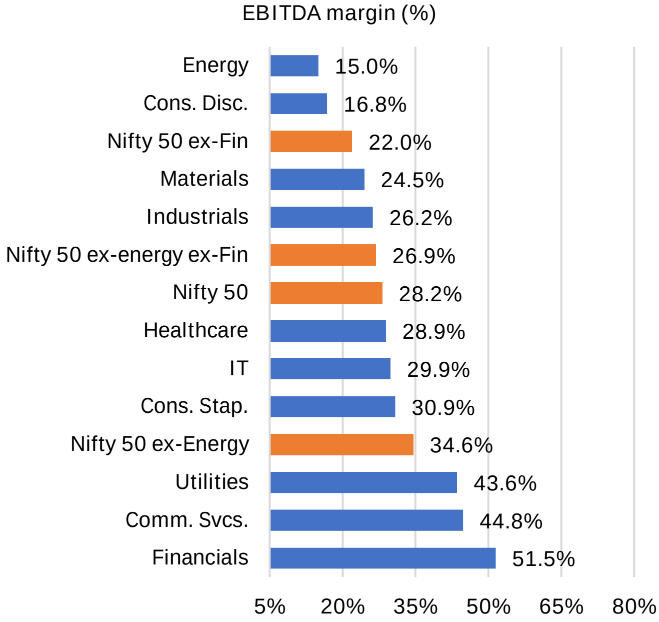


Figure 9: Sector-wise EBITDA margin of Nifty 50 companies in Q3FY21



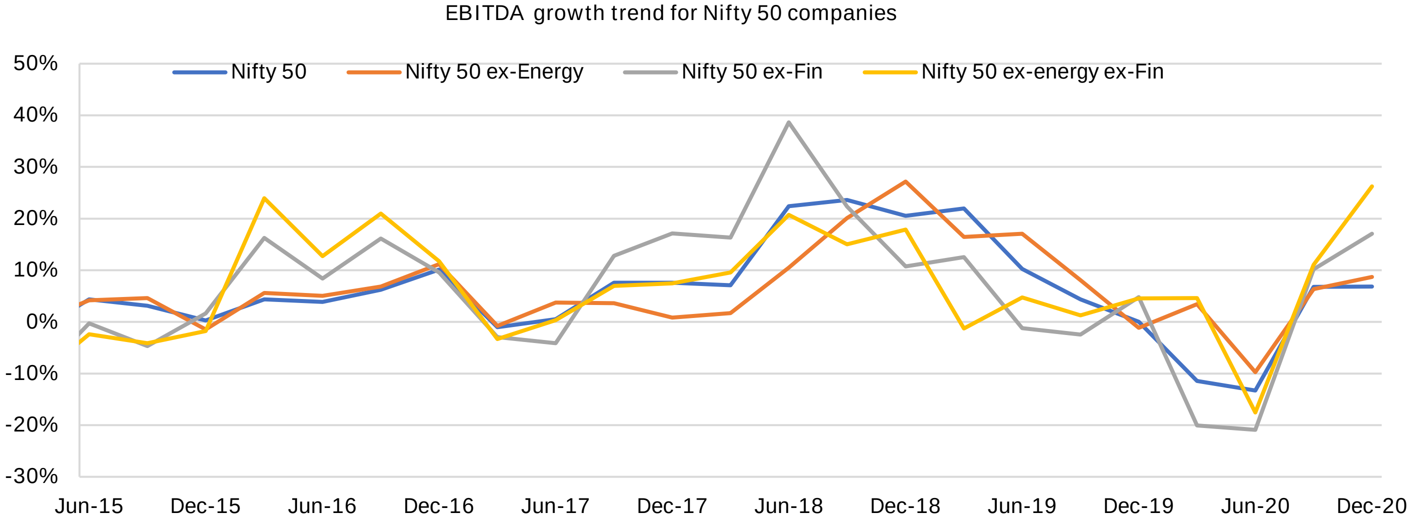
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 10: Sector-wise contribution of Nifty 50 companies to EBITDA growth in Q3FY21

Sector	Q3FY21 EBITDA (Rsbn)	Contribution to EBITDA growth % QoQ	% YoY
Communication Services	119	0.0	0.6
Consumer Discretionary	252	2.3	1.7
Consumer Staples	98	0.1	0.1
Energy	616	(0.0)	(0.2)
Financials	1,366	0.3	(2.7)
Health Care	60	0.1	0.5
Industrials	103	0.5	0.3
Information Technology	336	1.1	1.4
Materials	365	2.6	5.0
Utilities	232	0.7	0.2
Nifty 50	3,548	7.8	6.9
Nifty 50 ex-Energy	2,933	7.8	7.1
Nifty 50 ex-Financials	2,182	7.4	9.6
Nifty 50 ex-energy ex-fin	1,566	7.4	9.8

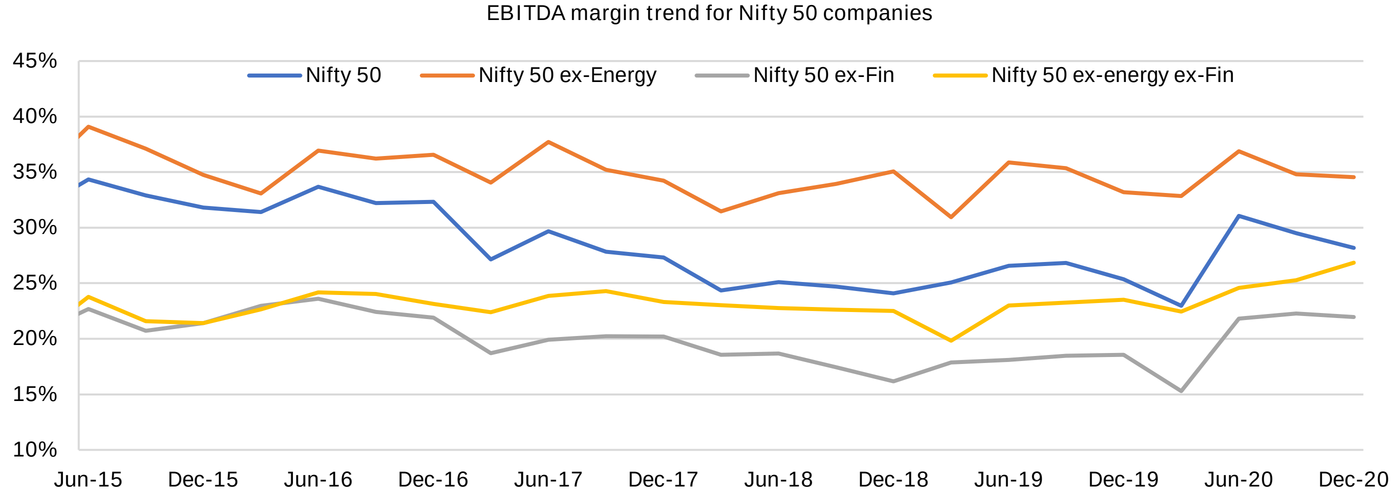
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 11: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 12: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Nifty 50 companies report a strong profit growth for yet another quarter: Aggregate adjusted PAT for the Nifty 50 companies grew for the second quarter in a row following a sharp drop in the first quarter of the fiscal, clocking 19.1% YoY growth in the December quarter—a tad lower than +20.4% YoY in the previous quarter. The sequential positive growth in profits, even as net sales growth remained flat, is primarily attributed to aggressive cost rationalisation undertaken by companies in the wake of the pandemic, lower tax rate regime introduced by the Government in December 2019 and decline in interest costs by 9.5% YoY. Consequently, PAT margin improved by 172bps YoY and 32bps QoQ to 10.8%—the highest in 18 quarters.

Sector-wise, PAT growth was led by a) Materials: Higher realisations from rising metals prices and nearly 14x jump in consolidated PAT of JSW Steel due to strong demand from the auto sector—contributing nearly 2 percentage points to the 19.1% YoY PAT growth of the Nifty 50 universe, b) Healthcare: Increased demand for testing and critical care treatment post unlock, and c) Consumer Discretionary: Strong rebound in auto and durables sales and cost rationalisation efforts by corporates.

Sectors that reported negative growth include: a) Telecommunications: Loss reported by Bharti Airtel in the third quarter (after adjusting for one-time gain from merger of its tower arm), b) Financials: A sharp YoY contraction in SBI's profit owing to higher provisions, excluding which Financials actually reported a profit growth of 7.1% YoY, and c) Energy: Pressure on refining margins. Excluding Energy and Financials, PAT growth of the Nifty 50 universe in December quarter was much higher at 40% YoY, with 36/50 companies reporting an YoY profit expansion in the December quarter vs. 30 companies in the previous quarter.

Figure 13: PAT growth of Nifty 50 companies in Q3FY21

	QoQ growth			YoY growth		
Sector	Dec-19	Sep-20	Dec-20	Dec-19	Sep-20	Dec-20
Communication Services	NA	(99.6)	(344.7)	NA	NA	(105.6)
Consumer Discretionary	55.9	NA	115.7	(0.6)	3.8	43.6
Consumer Staples	(4.0)	16.8	(0.9)	21.3	(2.0)	1.1
Energy	17.2	84.3	(4.3)	(0.2)	34.8	10.1
Financials	52.7	40.1	10.0	56.1	32.0	(4.9)
Health Care	(15.5)	61.0	(2.8)	(6.5)	30.8	50.5
Industrials	35.1	179.5	41.3	7.7	3.1	7.9
Information Technology	4.4	8.1	16.4	3.8	4.2	16.2
Materials	(57.4)	NA	66.0	(55.0)	16.6	354.4
Utilities	7.7	10.0	9.8	25.5	10.1	12.2
Nifty 50	17.4	81.1	16.1	14.0	20.4	19.1
Nifty 50 ex-Energy	17.5	80.0	23.0	18.9	16.2	21.7
Nifty 50 ex-Financials	5.7	103.6	18.5	0.9	16.5	30.6
Nifty 50 ex-energy ex-fin	0.7	115.6	30.6	1.4	8.7	40.9

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

Figure 14: PAT margin of Nifty 50 companies in Q3FY21

Sector	PAT Margin (%)	QoQ change (bps)	YoY change (bps)
Communication Services	(0.1)	(17)	(279)
Consumer Discretionary	6.8	282	176
Consumer Staples	20.4	(95)	(165)
Energy	6.9	(161)	160
Financials	13.3	30	(257)
Health Care	18.2	(90)	457
Industrials	10.7	193	73
Information Technology	19.7	203	173
Materials	11.0	362	822
Utilities	17.1	83	200
Nifty 50	10.8	32	172
Nifty 50 ex-Energy	12.7	131	124
Nifty 50 ex-Financials	10.1	36	261
Nifty 50 ex-energy ex-fin	12.4	180	288

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 15: Sector-wise PAT growth of Nifty 50 companies in Q3FY21

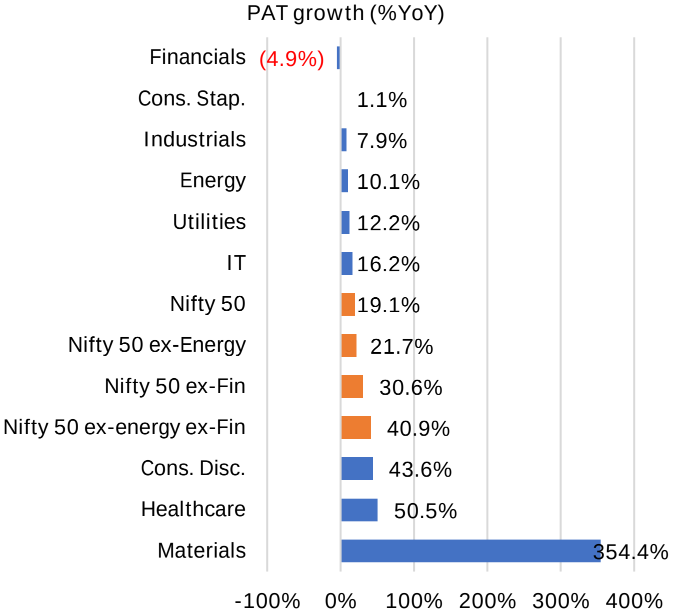
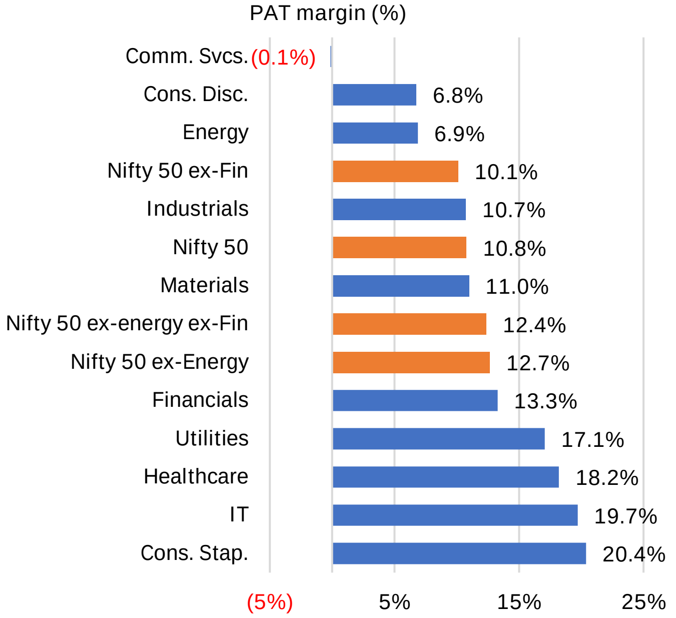


Figure 16: Sector-wise PAT margin of Nifty 50 companies in Q3FY21



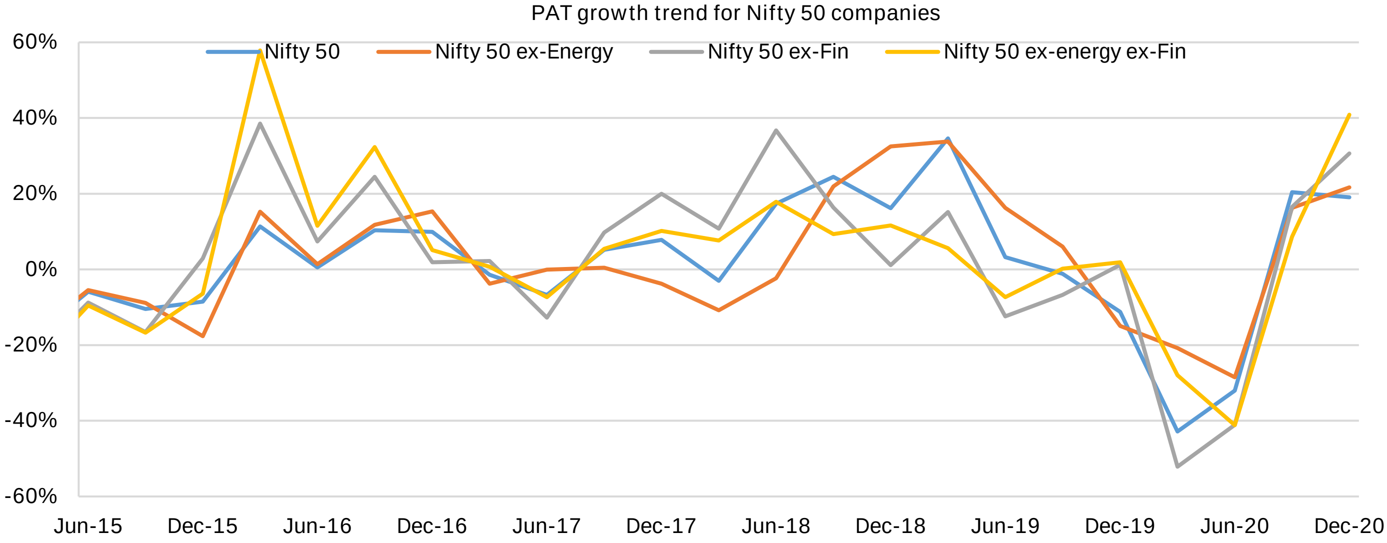
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 17: Sector-wise contribution of Nifty 50 companies to PAT growth in Q3FY21

Sector	Q3FY21 PAT (Rsbn)	Contribution to PAT growth % QoQ	% YoY
Communication Services	(0)	(0.0)	(0.5)
Consumer Discretionary	101	4.7	2.7
Consumer Staples	65	(0.1)	0.1
Energy	282	(1.1)	2.3
Financials	352	2.7	(1.6)
Health Care	38	(0.1)	1.1
Industrials	42	1.1	0.3
Information Technology	222	2.7	2.7
Materials	164	5.6	11.2
Utilities	91	0.7	0.9
Nifty 50	1,357	16.1	19.1
Nifty 50 ex-Energy	1,075	17.2	16.8
Nifty 50 ex-Financials	1,005	13.4	20.7
Nifty 50 ex-energy ex-fin	723	14.5	18.4

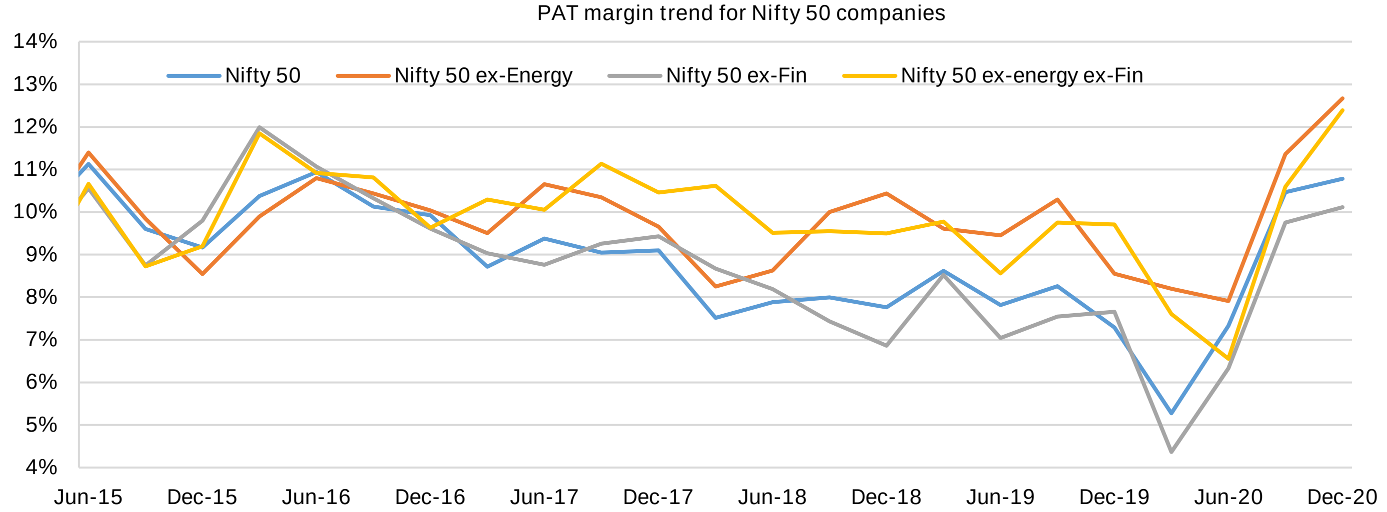
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 18: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 19: PAT margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Nifty 500 Q3FY21 results

Aggregate net sales for Nifty 500 companies improved for the second quarter in a row: Top-line growth for Nifty 500 companies stood at +0.5% YoY, broadly in line with India's GDP growth for the third quarter. A gradual momentum in economic activity post lifting of the COVID-19-induced lockdown and an uptick in discretionary demand during the festive season helped sales recover from the sharp contraction witnessed in the June quarter. Within the Nifty 500 universe, 310 out of the 492 companies that have reported Q3 results (as of February 26th) have recorded a YoY expansion in sales in the December quarter. This is much higher than 254 such companies in the previous quarter, highlighting a broadened economic recovery.

Sectors that reported double-digit revenue growth in the third quarter included: a) Financials: An improvement in net interest income as a result of lower borrowing costs and an increase in retail credit as consumption demand in urban areas improved during the festive season, b) Communication Services: An increased average revenue per user (ARPU) post December 2019 tariff hike and demand for data services, c) Materials: A rise in metal prices due to demand from industrial units as economic activities gathered pace in the September and December quarter. Export sectors such as Health Care and Information Technology also registered single-digit growth in revenues due to a favourable demand environment.

Sectors that languished in the third quarter include: a) Real Estate: While demand for residential real estate especially affordable housing has picked up partially due to cheaper housing loans, demand for leasing of office spaces remained weak due to the remote-working system adopted by most companies in the post-pandemic environment. b) Energy: Slow pace of demand recovery for petroleum products as travel continued to remain limited and manufacturing units, while registering growth in activity, continue to operate below optimal capacity, and c) Consumer discretionary: While demand for automobiles and durables has improved, demand in hospitality, travel and retail sectors continued to remain sluggish.

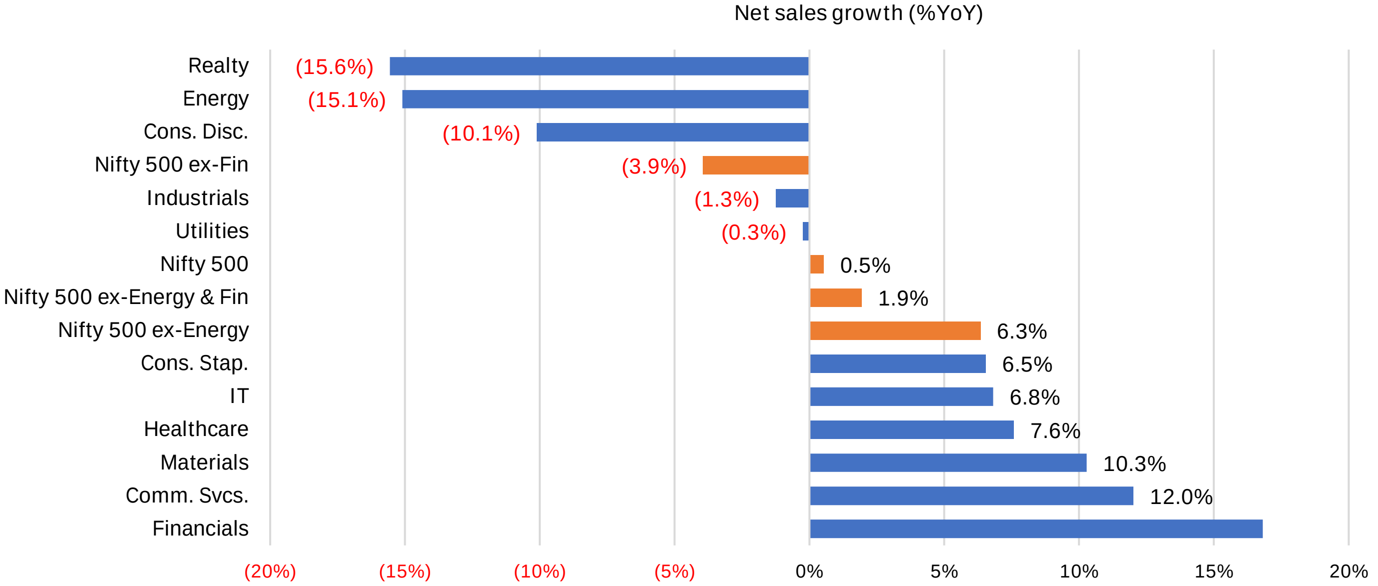
While rural demand has remained strong, urban demand gained some strength during the festive season of the third quarter. Despite the recovery, sectors such as Energy, Travel and Tourism and Industrials continued to suffer amid remnant COVID-19-related challenges. The progress and pace of vaccination drives across the country and effective handling of new infections will determine the sustainability of demand momentum in the near-term.

Figure 20: Net sales growth of Nifty 500 companies in Q3FY21

Sector	QoQ growth			YoY growth		
	Dec-19	Sep-20	Dec-20	Dec-19	Sep-20	Dec-20
Communication Services	3.0	7.7	10.6	0.2	4.3	12.0
Consumer Discretionary	(4.4)	93.6	22.7	(4.2)	(30.0)	(10.1)
Consumer Staples	3.6	16.2	6.1	13.4	4.1	6.5
Energy	8.9	30.7	20.1	(6.6)	(23.0)	(15.1)
Financials	4.2	2.3	6.5	15.3	14.2	16.8
Health Care	0.1	12.6	0.4	10.5	7.2	7.6
Industrials	5.8	58.3	18.0	0.4	(11.5)	(1.3)
Information Technology	5.1	5.8	6.9	9.2	5.0	6.8
Materials	3.4	40.4	7.9	(1.1)	5.6	10.3
Real Estate	7.9	75.2	37.9	10.1	(33.9)	(15.6)
Utilities	(4.2)	13.3	(0.9)	1.0	(3.6)	(0.3)
Nifty 500	3.8	23.8	11.7	1.6	(6.6)	0.5
Nifty 500 ex-Energy	2.1	22.1	9.4	5.0	(0.9)	6.3
Nifty 500 ex-Financials	3.7	33.6	13.5	(1.6)	(12.2)	(3.9)
Nifty 500 ex-energy ex-fin	1.2	34.8	10.8	1.3	(7.0)	1.9

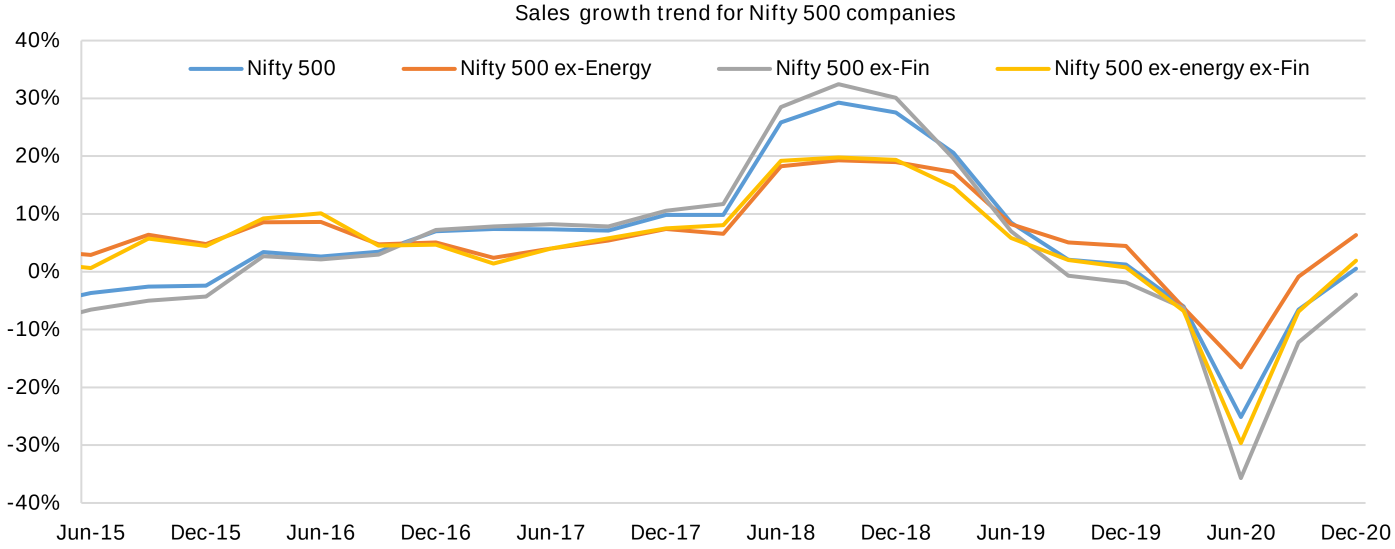
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 21: Sector-wise net sales growth of Nifty 500 companies in Q3FY21



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 22: Net sales YoY growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 23: Sector-wise contribution of Nifty 500 companies to net sales growth in Q3FY21

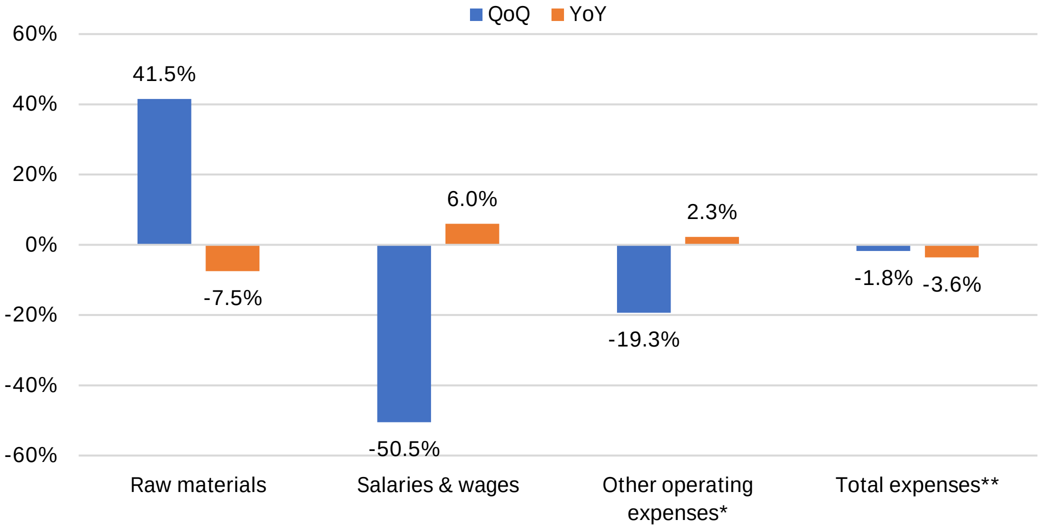
	Q3FY21	Contribution to net sales growth	
Sector	Net sales (Rsbn)	% QoQ	% YoY
Communication Services	566	0.3	0.3
Consumer Discretionary	2,428	2.4	(1.2)
Consumer Staples	754	0.2	0.2
Energy	5,045	4.5	(4.1)
Financials	5,533	1.8	3.6
Health Care	716	0.0	0.2
Industrials	1,604	0.9	(0.1)
Information Technology	1,499	0.5	0.4
Materials	2,948	0.9	1.3
Real Estate	73	0.1	(0.1)
Utilities	890	(0.0)	(0.0)
Nifty 500	22,056	11.7	0.5
Nifty 500 ex-Energy	17,011	0.3	4.6
Nifty 500 ex-Financials	16,523	0.5	(3.1)
Nifty 500 ex-energy ex-fin	11,478	0.2	1.0

Source: CMIE Prowess, Refinitiv Datastream, NSE

Aggressive cost rationalisation led to continued improvement in operating profits: Aggregate EBITDA for the Nifty 500 universe excluding Financials grew by 19.2% YoY (as compared to +10% YoY in September quarter and -26% YoY in the June quarter) despite a flat top line growth in the December quarter. This was primarily on the back of continued aggressive cost-cutting initiatives undertaken by companies and savings in raw material costs, leading to total operating expenses declining 3.6% YoY and 1.8% QoQ. The drop in operating costs was because of decline in aggregate raw material (RM) costs for Nifty 500 companies (Ex-Financials) by 7.5% YoY, leading to RM to sales ratio falling by ~157bps YoY to 50.5% in Q3FY21. Other operating expenses also declined by 10% YoY in Q3FY21. Consequently, EBITDA margin expanded by 411bps YoY to 21.2% in the December quarter. Within the Nifty 500 universe, 330/492 companies reported positive YoY EBITDA growth in the December quarter. Except Real Estate and Energy, all other sectors reported a YoY expansion in operating profit.

While RM costs remained low on a YoY basis, the rise in RM to sales ratio by 1032bps QoQ compared to the September quarter (40% of net sales) reflects the build-up of cost pressures on companies—also reflected in an uptick in wholesale inflation. This, coupled with further increase in staff costs, may restrict further margin expansion from these levels, notwithstanding continued cost rationalisation.

Figure 24: Change in expenses for Nifty 500 companies (ex-Financials) in Q3FY21



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 25: EBITDA growth of Nifty 500 companies in Q3FY21

	QoQ growth			YoY growth		
Sector	Dec-19	Sep-20	Dec-20	Dec-19	Sep-20	Dec-20
Communication Services	2.4	7.5	21.4	39.8	10.2	30.6
Consumer Discretionary	5.9	522.5	40.8	5.1	(8.3)	21.9
Consumer Staples	2.7	17.2	3.0	15.2	6.1	6.4
Energy	11.7	32.3	(3.8)	6.0	15.1	(0.9)
Financials	(4.8)	3.5	(1.8)	6.0	11.2	14.9
Health Care	(2.3)	17.0	4.8	18.4	11.5	19.6
Industrials	14.4	123.0	14.3	0.4	2.6	2.9
Information Technology	4.5	8.0	12.7	8.5	8.3	16.9
Materials	(1.5)	81.9	29.4	(12.7)	31.4	73.0
Real Estate	(13.0)	58.4	38.3	(0.7)	(43.5)	(10.2)
Utilities	0.2	4.9	4.0	15.7	2.3	6.3
Nifty 500	0.1	20.2	5.9	6.0	10.6	17.2
Nifty 500 ex-Energy	(1.4)	18.8	7.2	6.0	10.0	19.7
Nifty 500 ex-Financials	4.8	42.5	13.4	6.0	10.0	19.2
Nifty 500 ex-energy ex-fin	2.8	45.8	18.6	6.0	8.6	25.3

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 26: EBITDA margin of Nifty 500 companies in Q3FY21

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	44.6	396	635
Consumer Discretionary	16.1	206	423
Consumer Staples	22.8	(68)	(3)
Energy	13.6	(337)	195
Financials	53.1	(450)	(90)
Health Care	27.5	116	277
Industrials	17.8	(58)	73
Information Technology	25.8	133	222
Materials	25.3	421	918
Real Estate	35.3	10	210
Utilities	40.7	190	249
Nifty 500	29.2	(158)	415
Nifty 500 ex-Energy	33.9	(68)	379
Nifty 500 ex-Financials	21.2	(1)	411
Nifty 500 ex-energy ex-fin	24.6	161	458

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 27: Sector-wise EBITDA growth of Nifty 500 companies in Q3FY21

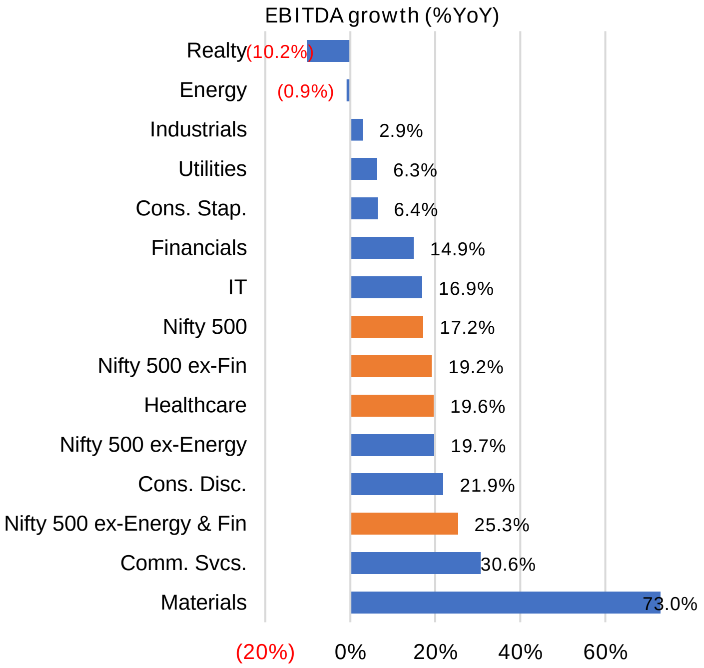
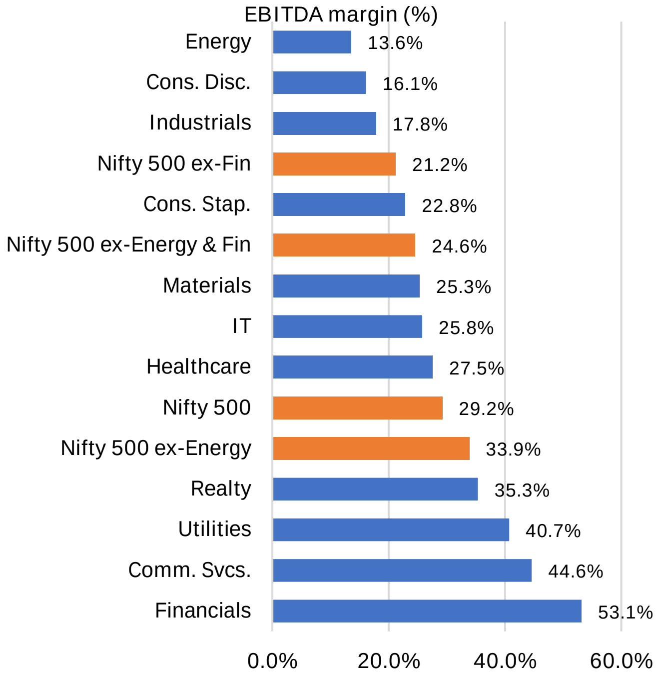


Figure 28: Sector-wise EBITDA margin of Nifty 500 companies in Q3FY21



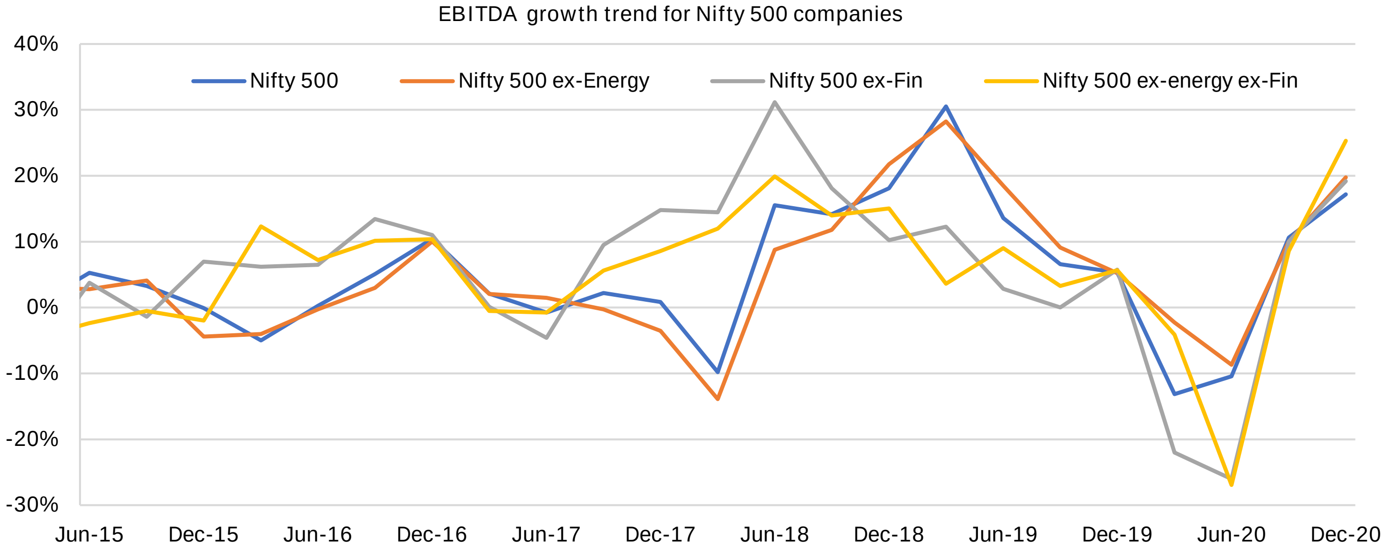
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 29: Sector-wise contribution of Nifty 500 companies to EBITDA growth in Q3FY21

Sector	Q3FY21 EBITDA (Rsbn)	Contribution to EBITDA growth	
		% QoQ	% YoY
Communication Services	252	0.8	1.1
Consumer Discretionary	391	1.9	1.3
Consumer Staples	172	0.1	0.2
Energy	684	(0.5)	(0.1)
Financials	2,940	(1.0)	6.9
Health Care	197	0.2	0.6
Industrials	286	0.6	0.1
Information Technology	386	0.7	1.0
Materials	747	2.7	5.7
Real Estate	26	0.1	(0.1)
Utilities	362	0.2	0.4
Nifty 500	6,444	5.9	17.2
Nifty 500 ex-Energy	5,760	6.4	17.3
Nifty 500 ex-Financials	3,503	6.9	10.2
Nifty 500 ex-energy ex-fin	2,820	7.3	10.4

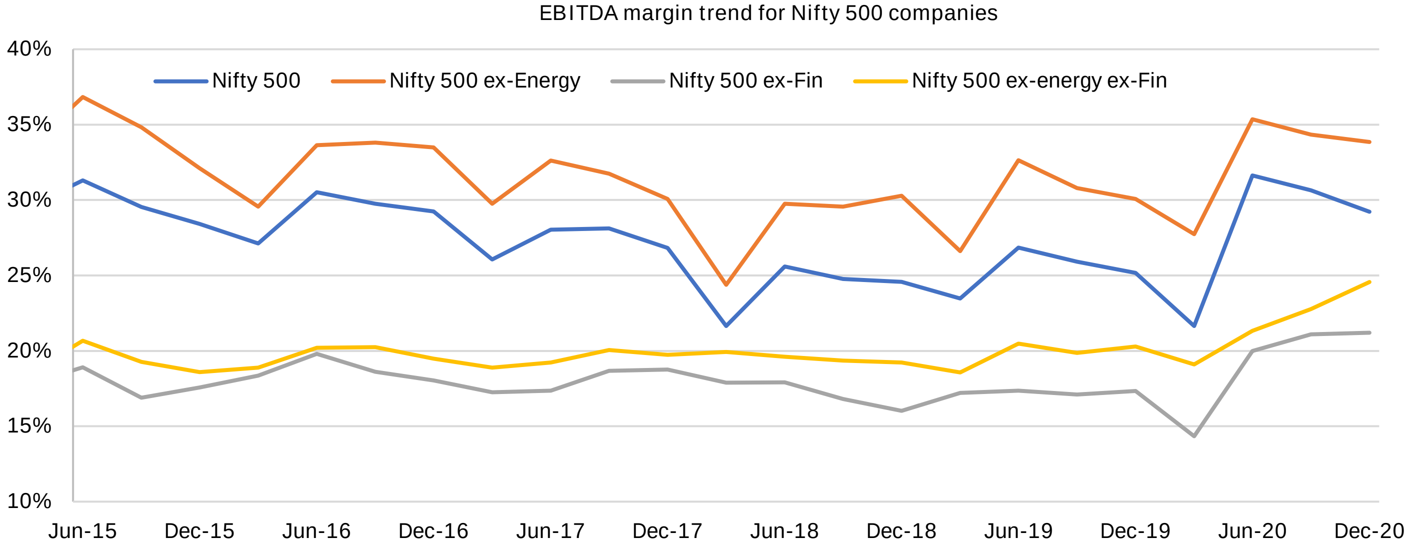
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 30: EBITDA growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 31: EBITDA margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

PAT growth surged to seven-quarter high because of cost-cutting efforts and low base effect: Aggregate adjusted PAT for Nifty 500 companies grew by 62.8% YoY in the December quarter, albeit off a low base (-2.8% YoY in the same quarter last year). An uptick in aggregate demand, coupled with cost rationalisation and benefits from lower interest and tax rates, led to a strong rebound in corporate profitability in Q3, even as top line growth for the same universe remained flat. Interest costs declined 10.8% YoY due to multi-year low interest rates thanks to monetary easing by the Central Bank and deleveraging exercise by corporates. Consequently, PAT margin improved by 372bps YoY to 9.7% in Q3—the highest in six years.

The expansion in net profit was largely broad-based with most sectors, except Communication services, registering a growth in profitability. Sector-wise, profit growth was primarily led by Financials (lower credit costs) and Materials (higher realisation), as these sectors contributed nearly 30% and 19% respectively to the overall surge in profits in Q3. Excluding Financials and Materials, the YoY profit growth of the Nifty 500 universe stood at 19%, broadly in line with the Nifty 50 pack.

Figure 32: PAT growth of Nifty 500 companies in Q3FY21

Sector	QoQ growth			YoY growth		
	Dec-19	Sep-20	Dec-20	Dec-19	Sep-20	Dec-20
Communication Services	NA	NA	NA	NA	NA	NA
Consumer Discretionary	24.7	NA	133.7	4.6	(30.1)	30.9
Consumer Staples	(2.5)	18.5	3.2	22.5	1.6	7.5
Energy	23.5	82.4	(10.9)	1.1	51.0	9.0
Financials	(39.8)	38.3	2.9	(10.8)	70.6	193.3
Health Care	(14.1)	37.1	6.2	13.8	22.9	52.0
Industrials	43.3	NA	33.2	(18.5)	7.5	1.4
Information Technology	5.6	8.9	17.2	4.9	4.9	16.5
Materials	(30.7)	842.1	55.9	(33.2)	34.3	197.7
Real Estate	(22.9)	NA	242.8	(13.9)	(76.6)	4.0
Utilities	(12.9)	20.1	5.9	32.4	(1.8)	19.3
Nifty 500	(6.8)	104.5	17.6	(2.7)	29.0	62.8
Nifty 500 ex-Energy	(12.6)	110.4	24.2	(3.7)	24.8	77.4
Nifty 500 ex-Financials	3.6	162.2	24.4	(1.1)	16.0	39.1
Nifty 500 ex-energy ex-fin	(1.8)	214.6	37.9	(1.8)	6.5	49.2

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

Figure 33: PAT margin of Nifty 500 companies in Q3FY21

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	(2.3)	673	422
Consumer Discretionary	6.3	297	196
Consumer Staples	14.5	(41)	13
Energy	6.1	(212)	135
Financials	10.7	(37)	646
Health Care	15.6	85	455
Industrials	6.4	73	17
Information Technology	16.8	149	140
Materials	12.6	389	795
Real Estate	13.1	782	246
Utilities	16.3	104	268
Nifty 500	9.7	49	372
Nifty 500 ex-Energy	10.8	129	432
Nifty 500 ex-Financials	9.4	82	290
Nifty 500 ex-energy ex-fin	10.8	212	343

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 34: Sector-wise PAT growth of Nifty 500 companies in Q3FY21

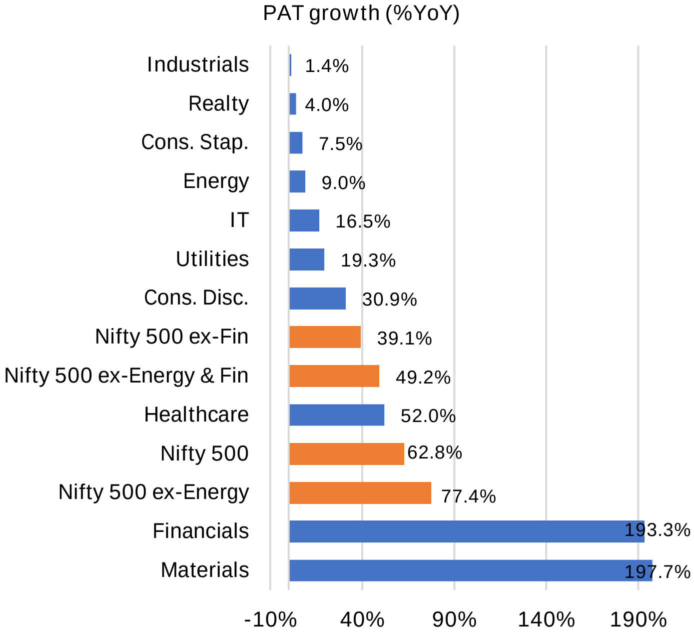
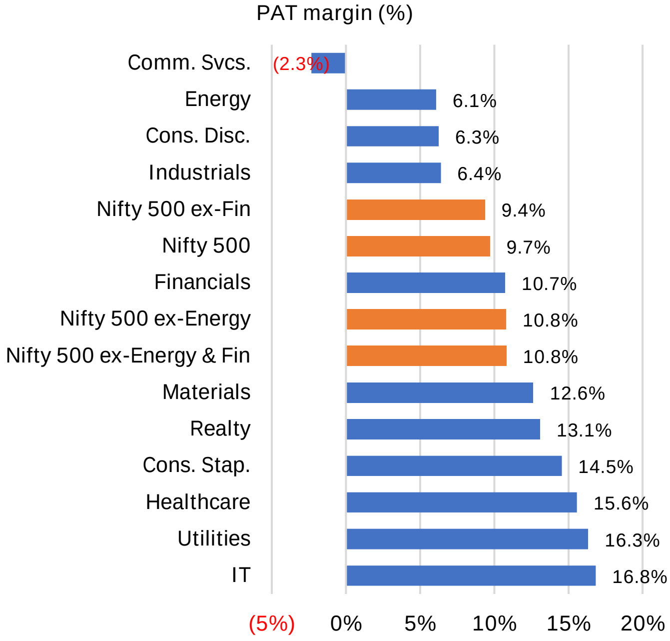


Figure 35: Sector-wise PAT margin of Nifty 500 companies in Q3FY21



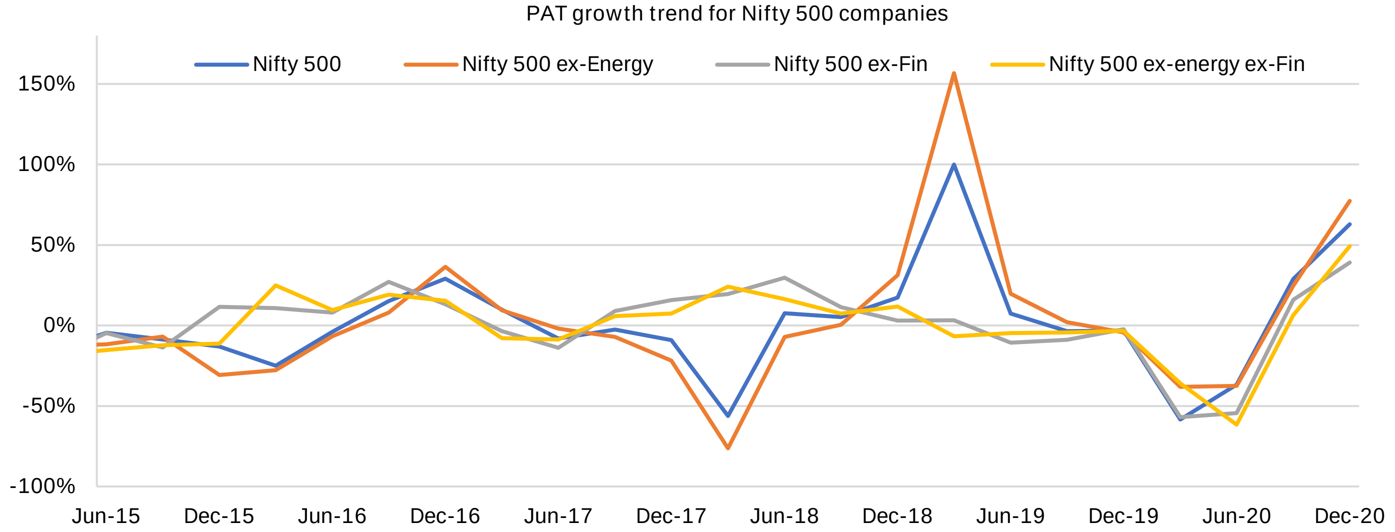
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 36: Sector-wise contribution of Nifty 500 companies to PAT growth in Q3FY21

Sector	PAT (Rsbn)	Contribution to PAT growth	
		% QoQ	% YoY
Consumer Discretionary	152	4.8	2.7
Consumer Staples	110	0.2	0.6
Energy	307	(2.1)	1.9
Financials	594	0.9	29.7
Health Care	111	0.4	2.9
Industrials	103	1.4	0.1
Information Technology	252	2.1	2.7
Materials	372	7.2	18.8
Real Estate	10	0.4	0.0
Utilities	145	0.4	1.8
Nifty 500 ex-Comm Svcs.	2,157	15.8	61.3

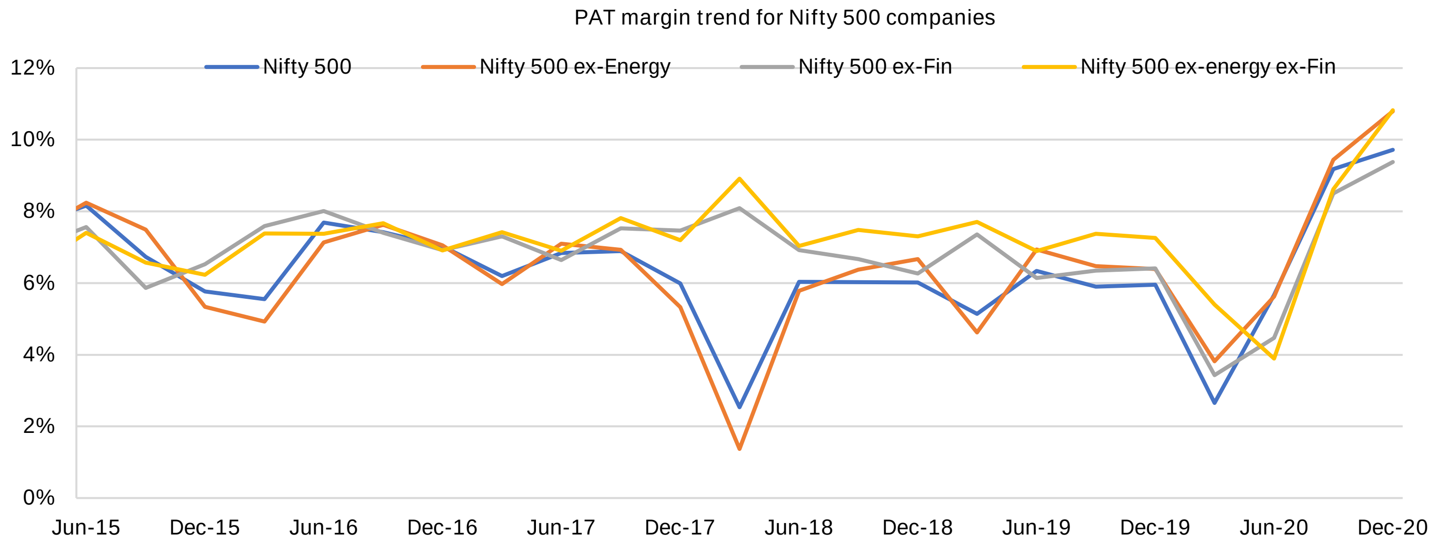
Source: CMIE Prowess, Refinitiv Datastream, NSE. * Communication Services is excluding from the analysis above because of huge losses reported by the sector in December quarter of last as well as previous fiscal year.

Figure 37: PAT growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 38: PAT margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Earnings revision analysis

Consensus FY21/FY22 PAT estimates upgraded by 10%/7% in 2021 thus far…: Corporate earnings have surprised on the upside for yet another quarter, thanks to a faster-than-expected normalisation of business activities, strong festive/pent-up demand and better realisations. This, in turn, has translated into upward revisions in earnings estimates across the board, primarily driven by Financials, Consumer Discretionary and Materials. Our analysis of earnings estimates of top 200 covered companies by market capitalisation[3] shows an upward revision of 10.5%, 7.1% and 5.2% in FY21, FY22 and FY23 aggregate consensus profit estimate in this calendar year thus far (as on February 25th, 2021), even as the FYTD (since the beginning of April 2020) profit cut for the current and the next fiscal year still remains steep at 22% and 9.6% respectively. With this, the aggregate earnings of top 200 companies are now expected to grow at a strong 17.4% in FY21 vs. -3.2%/+6.5% expected in September/December-end.

Consensus estimates also point to a robust 37.8% and 20.9% aggregate PAT growth for top 200 companies in FY22 and FY23 respectively, factoring in a strong recovery and translating into earnings CAGR of ~29% during FY21-23. Except for Industrials, Energy and Communication Services, all other sectors are expected to report a profit expansion in FY21 led by Financials, excluding which FY21 consensus profit is expected to grow by a much lower 5.9%.

A 25% earnings CAGR over FY20-23 clearly factors in a strong recovery post the temporary derailment caused by the pandemic. While a strong festive and pent-up demand and higher realisations translated into strong corporate performance over the last two quarters, it is still premature to ascertain if the current demand environment would sustain in the foreseeable future. Any significant deterioration in consumption demand may weigh on corporate earnings. Additionally, continued surge in COVID-19 infections seen lately and a deterioration in global growth outlook also remain the key downside risks to earnings estimates.

Figure 39: Aggregate consensus profit growth estimate for top 200 covered companies (% YoY)

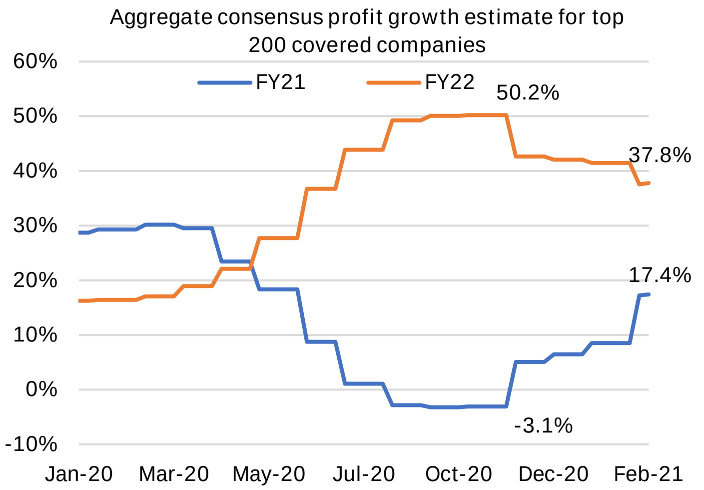
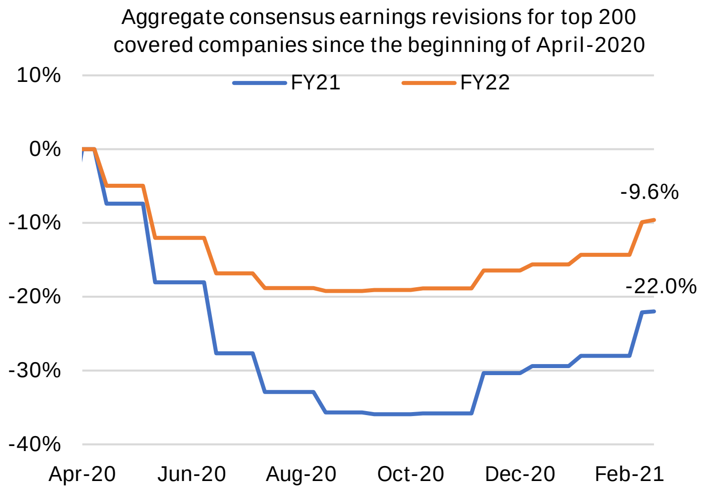


Figure 40: Aggregate consensus earnings revisions in 2020 till date for top 200 covered companies



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	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	25.6	18.4	(1.9)	2.2	(16.6)	(28.6)	(35.6)	(34.1)	(23.8)	(23.0)	(21.5)	1.3
Consumer Staples	15.2	13.9	10.0	8.6	4.3	3.5	4.1	3.5	1.8	1.7	1.7	1.9
Energy	17.7	11.9	7.6	0.9	(10.4)	(14.3)	(14.4)	(14.5)	(10.3)	(9.8)	(9.4)	(1.2)
Financials	49.1	45.1	50.2	48.8	40.1	29.8	28.4	28.2	46.2	47.9	50.7	64.8
Health Care	18.5	16.4	18.3	11.5	8.8	13.5	14.0	14.6	19.0	19.7	20.1	24.8
Industrials	16.5	10.3	11.3	(13.6)	(21.2)	(31.0)	(32.6)	(32.0)	(28.2)	(27.6)	(26.8)	(27.0)
IT	9.5	4.0	(2.7)	(3.6)	(2.5)	(0.5)	0.2	3.6	4.9	5.2	7.8	10.1
Materials	25.0	7.1	(11.5)	(35.5)	(44.9)	(38.7)	(35.6)	(34.0)	(14.1)	(8.3)	(2.0)	19.6
Real Estate	32.6	25.4	19.7	159.8	153.5	114.2	112.9	109.8	104.7	106.4	106.2	114.6
Utilities	10.0	9.3	9.3	4.6	0.5	(1.3)	(1.3)	(1.6)	0.0	0.2	0.8	4.7
Total	29.5	23.4	18.3	8.8	1.1	(2.9)	(3.2)	(3.1)	5.0	6.5	8.5	17.4

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 February 26th, 2020.

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

Sectors	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	23.7	29.9	49.8	89.4	118.8	159.1	185.9	180.9	160.7	160.6	155.9	118.1
Consumer Staples	13.7	13.9	15.5	16.5	19.0	20.4	20.1	20.5	21.7	22.0	22.2	22.0
Energy	14.3	17.6	22.5	28.8	39.1	44.5	46.1	45.8	39.0	37.6	37.7	26.0
Financials	24.2	26.4	32.5	39.3	47.8	53.3	54.6	52.6	42.4	42.8	41.4	41.3
Health Care	16.3	16.7	17.2	20.1	22.3	21.8	21.8	21.6	19.2	18.8	18.7	14.6
Industrials	20.5	24.1	19.9	64.6	74.4	95.7	100.2	100.9	93.1	92.7	91.9	95.0
IT	9.5	10.0	12.5	13.2	13.8	12.9	12.9	14.1	13.9	13.9	15.0	15.0
Materials	18.6	29.6	51.4	75.0	79.9	72.2	66.9	64.3	37.5	34.8	32.7	23.6
Real Estate	7.0	5.8	7.7	10.2	17.1	28.0	27.3	29.4	29.5	29.3	29.2	35.9
Utilities	10.8	10.8	11.2	15.0	18.0	20.2	20.1	21.1	18.8	18.7	18.4	18.0
Total	18.9	22.1	27.7	36.7	43.9	49.3	50.1	50.2	42.6	42.1	41.5	37.8

Source: Refinitiv Datastream, NSE.

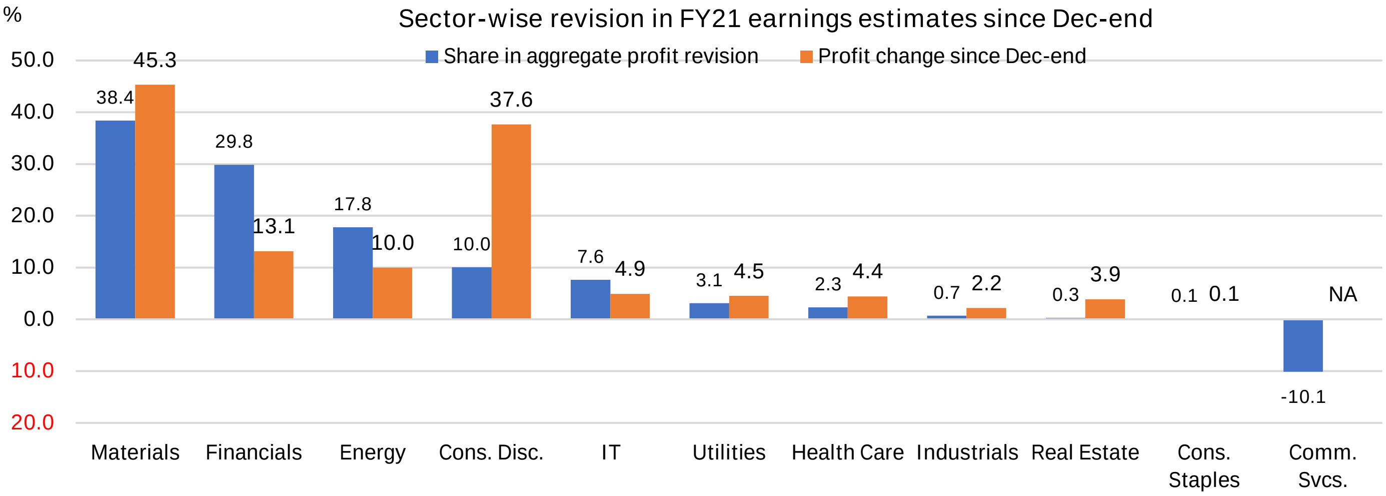
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year. * Data is as of February 26th, 2020.

…Let by Financials, Consumer Discretionary and Materials: Earnings revisions over the last two months have been upgraded across sectors, with most notable revisions being in Financials, Consumer Discretionary and Materials. Corporate earnings for Financials surprised on the upside for the second quarter in a row owing to much lower credit costs than factored by consensus estimates. This led to a 11.4%/10.3% upgrade in aggregate consensus earnings of 40 financial companies in our sample set for FY21/FY22 over the last two months, translating into a profit growth of 64.8%/41.3%.

Strong auto sales, thanks to festive/pent-up demand, coupled with improvement in operating leverage, translated into higher-than-expected profits for Consumer Discretionary companies in the quarter gone by. Consequently, consensus earnings estimates for the sector (comprising of 26 companies in our sample set) got revised upwards by a huge 31.4% and 10.0% for FY21 and FY22 respectively since January-beginning, with profit growth now pegged at a modest 1.3% in FY21 and a strong 118.1% thanks to a low base.

Materials sector also saw a robust 31.5% and 20.6% increase in absolute aggregate earnings estimates for FY21 and FY22 respectively, leading to a robust 19.6% and 23.6% profit growth for the respective years. All other sectors saw earnings upgrades in low-to-mid single digits.

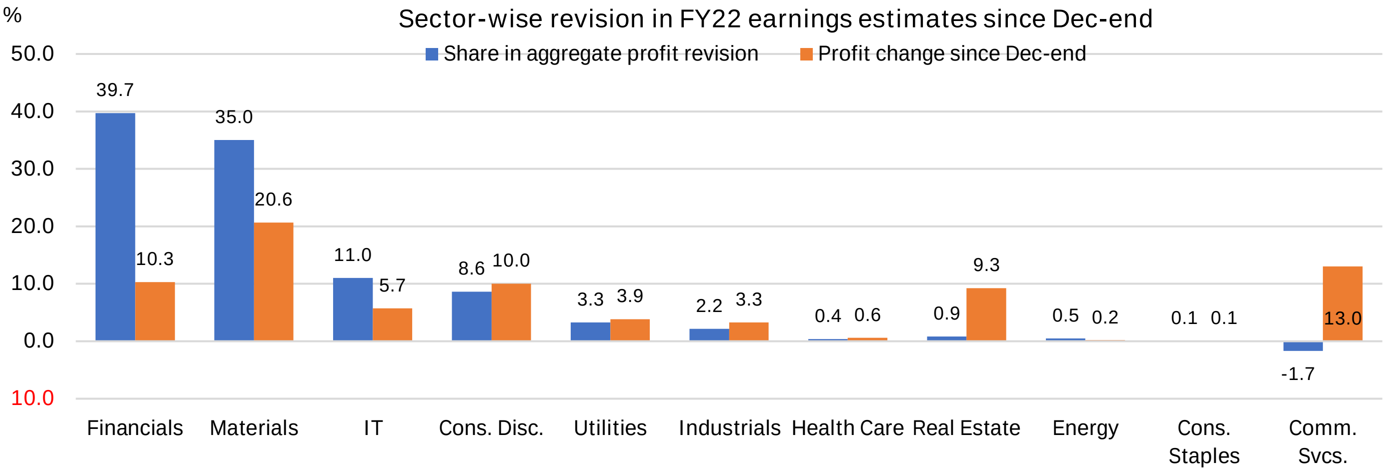
Figure 49: Sector-wise revision FY21 earnings estimates in 2021 thus far



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 February 26th, 2020.

Figure 49: Sector-wise revision FY22 earnings estimates in 2021 thus far



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 February 26th, 2020.

Figure 41: Sector-wise share in FY21 earnings est.

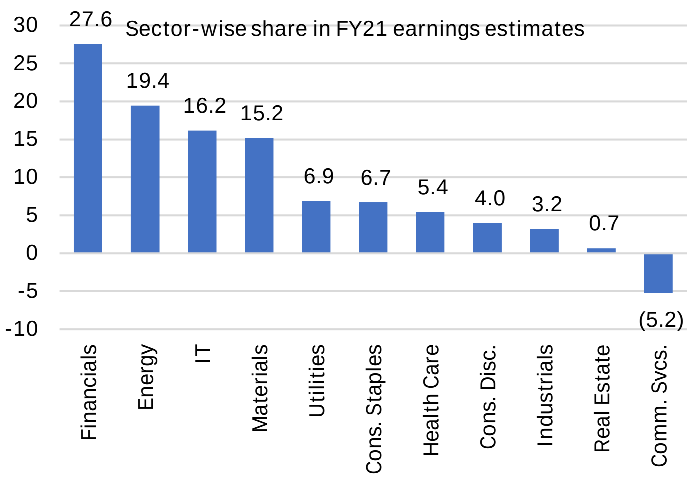
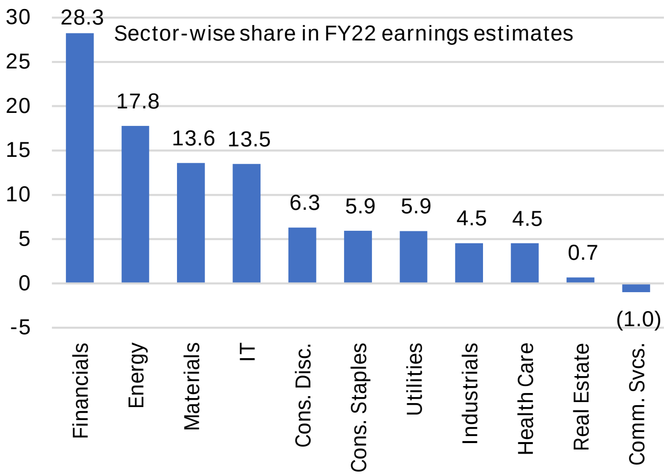


Figure 42: Sector-wise share in FY22 earnings est.



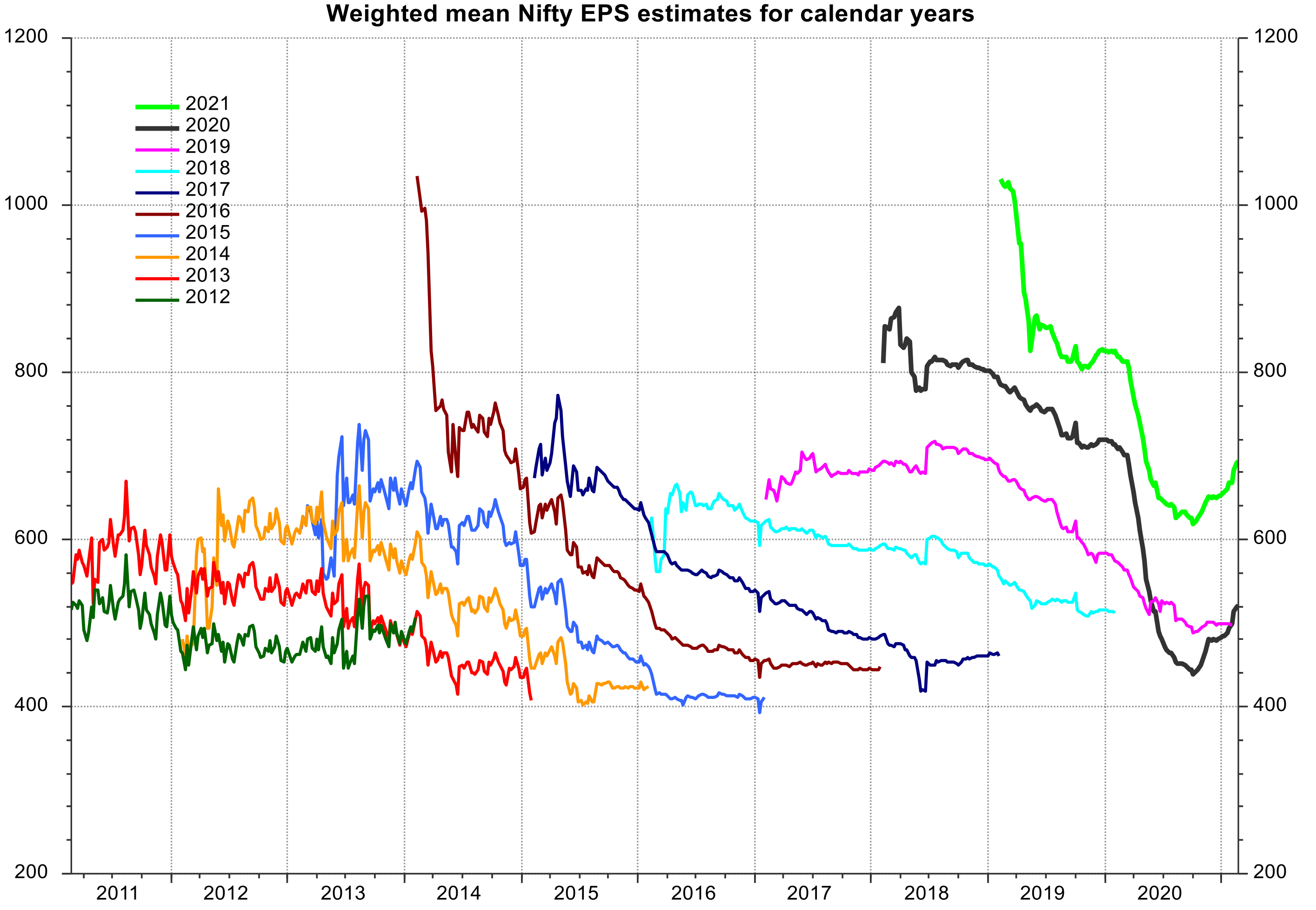
Source: CMIE Prowess, Refinitiv Datastream, NSE.

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 February 26th, 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.

This year has been different though. After a free fall in earnings estimates for the current as well as next financial year post the onset of COVID-19 pandemic, corporate earnings saw upward revisions across the board following a strong positive surprise in Q2 and Q3 of FY21. That said, Nifty 50 consensus EPS estimates for 2020 and 2021 are still down ~27% and 16% since the beginning of last year.

Figure 43: Yearly trend of NIFTY 50 Consensus EPS estimates

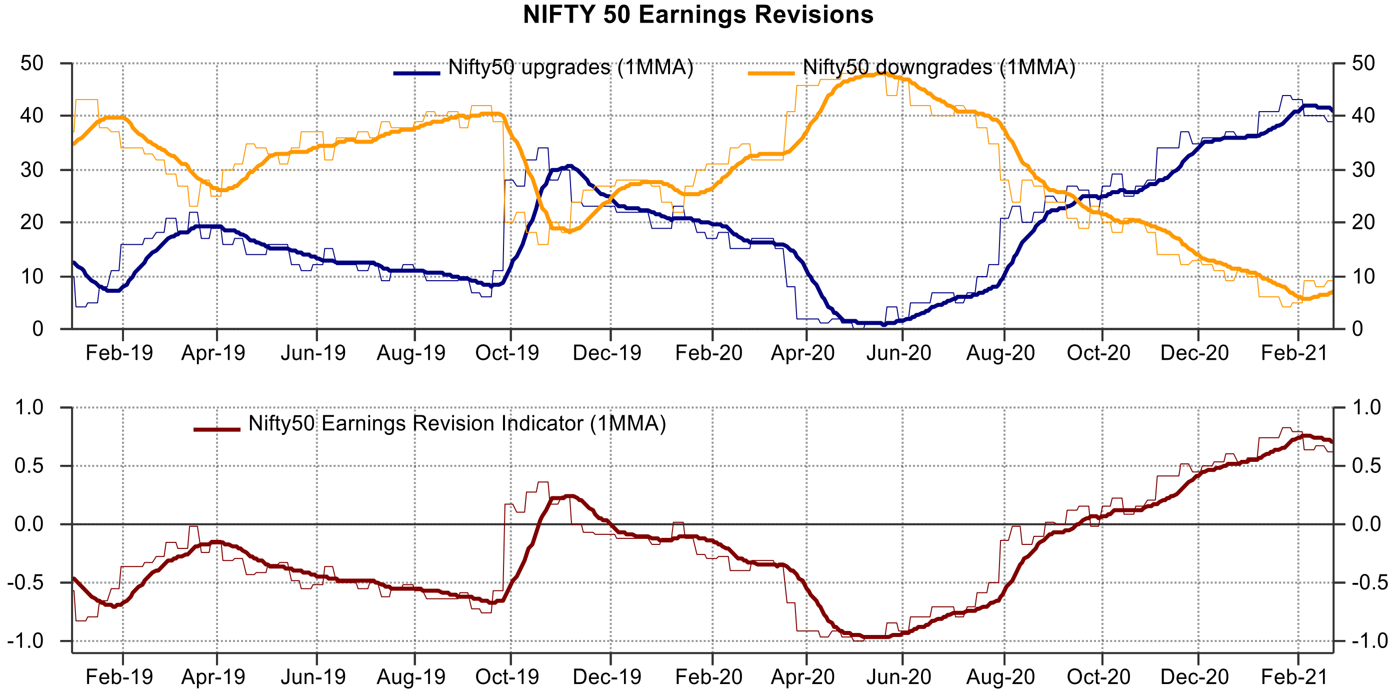


Source: Refinitiv Datastream, NSE.

Nifty 50 Earnings Revision Indicator moves deep 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 remained well within the positive over the last few months, implying significantly higher number of upgrades than downgrades. This has been primarily on account of better-than-expected Q2 and Q3FY21 earnings seasons, development and initiation of vaccination drives and expectations of sustenance of ongoing economic recovery.

Sector-wise, except for Communication Services, all other sectors have ERI hovering in the positive territory, implying upgrades outnumbering downgrades. Sector-wise, a sharp improvement in Nifty 50 ERI has been primarily led by Consumer Discretionary, Financials, Materials, Information Technology, Industrials and Utilities.

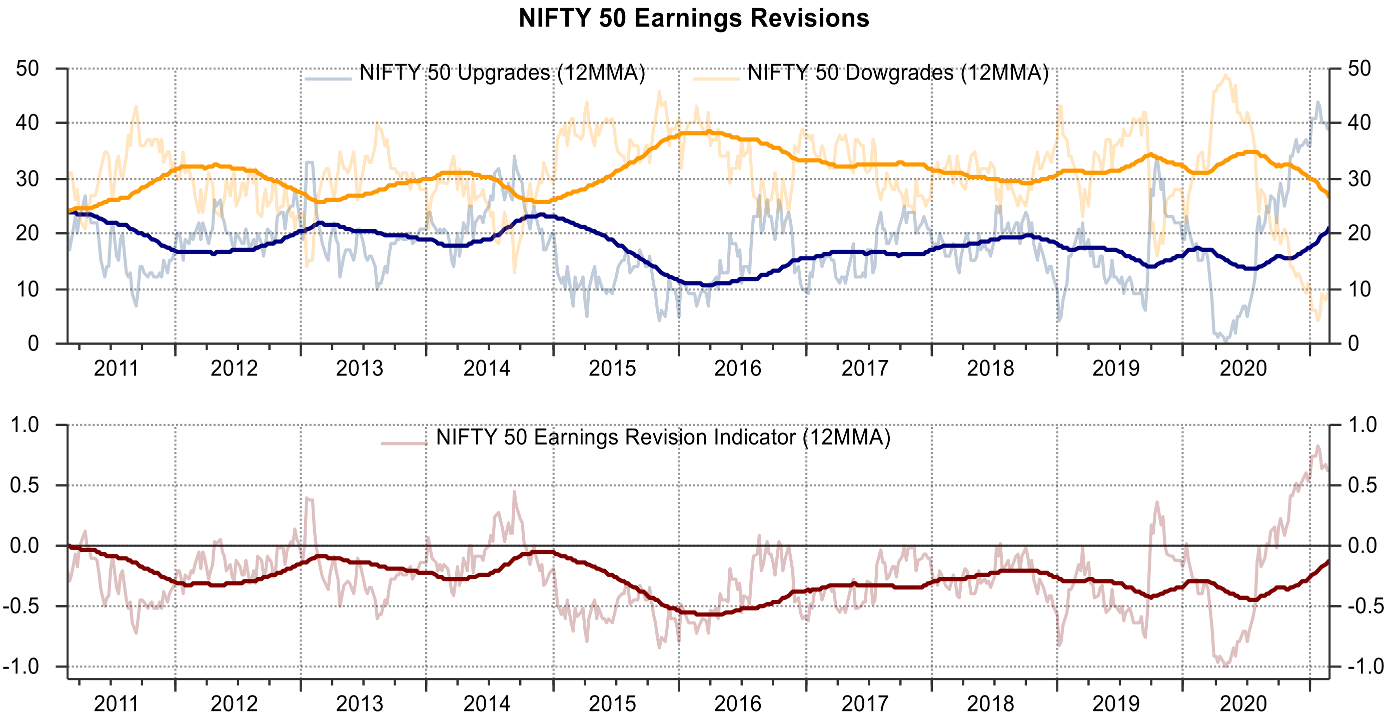
Figure 44: Nifty 50 Earnings Revision Indicator (since January 2019)



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.

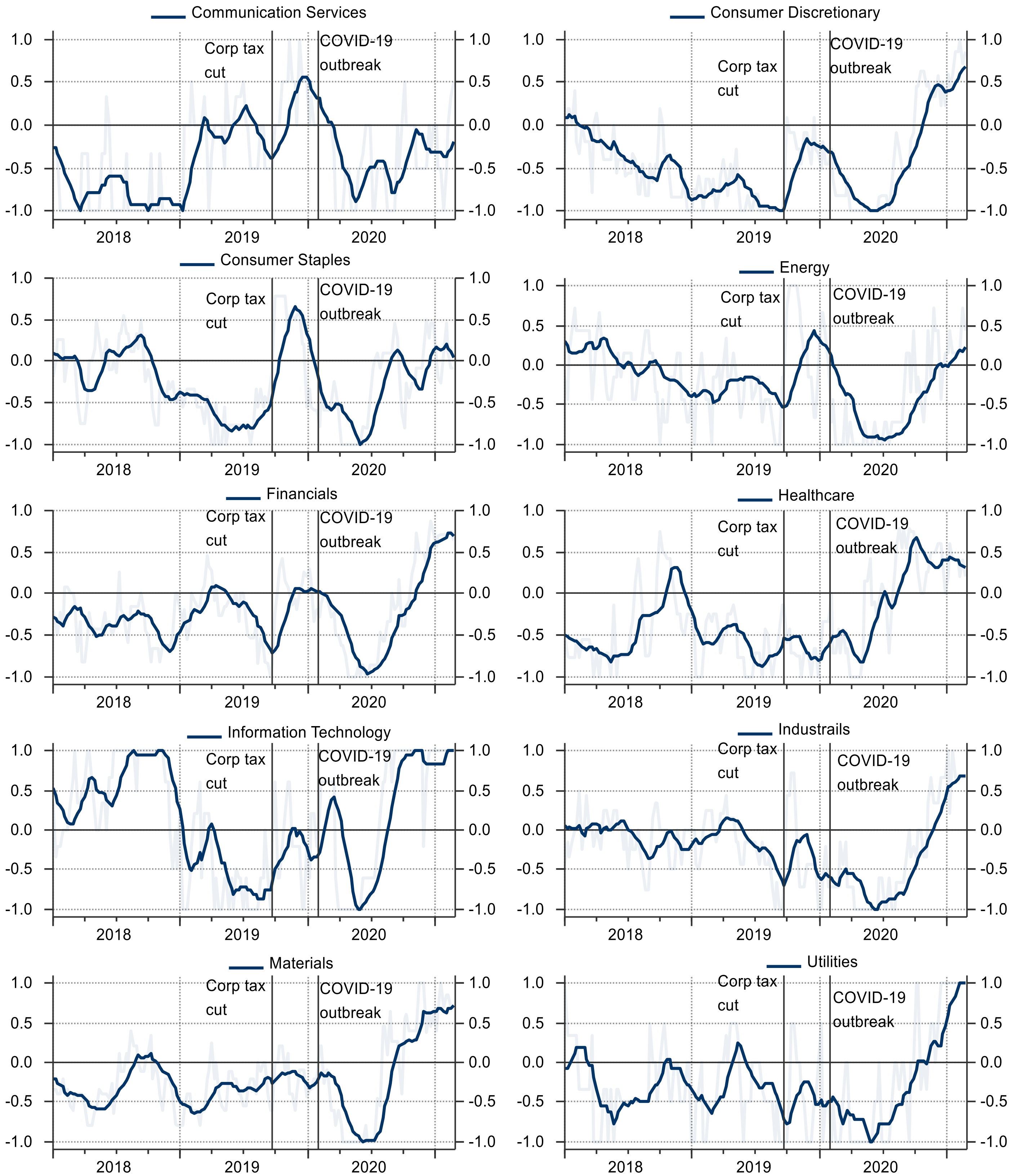
Figure 45: Nifty 50 Earnings Revision Indicator (10-year trend)



Source: Refinitiv Datastream, NSE.

Figure 46: Short-term trend of Earnings Revision Indicator across MSCI sectors

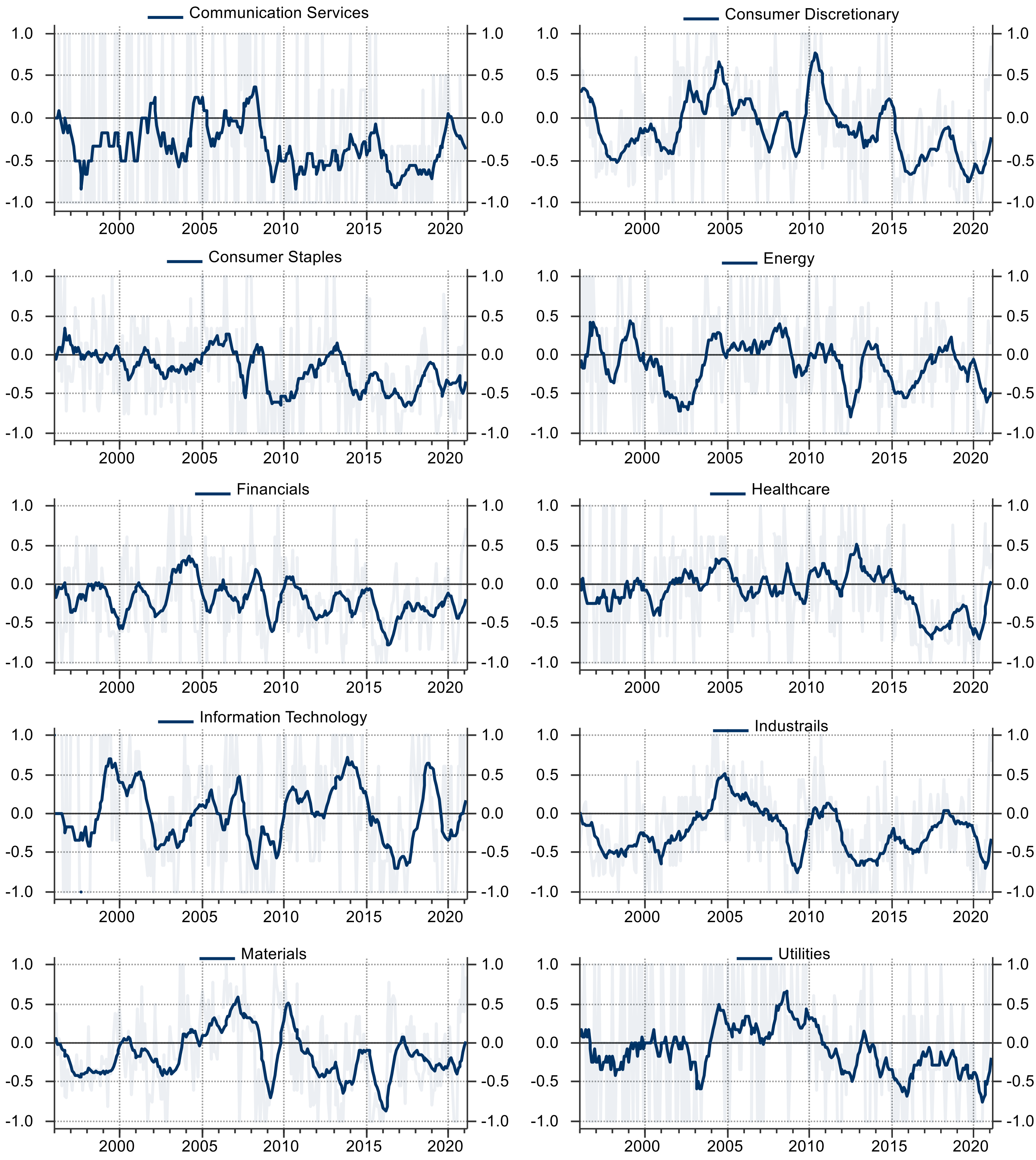
India Earnings Revision Indicator across sectors: Short-term (2MMA)



Source: Refinitiv Datastream, NSE.

Figure 47: Long-term trend of Earnings Revision Indicator across MSCI sectors

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



Source: Refinitiv Datastream, NSE.

Economic Policy & Research

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
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163
Simran Keswani	skeswani@nse.co.in	+91-22-26598163
Aanchal Dusija	consultant_adusija@nse.co.in	+91-22-26598163

Disclaimer

This report is intended solely for information purposes. This report is under no circumstances intended to be used or considered as financial or investment advice, a recommendation or an offer to sell, or a solicitation of any offer to buy any securities or other form of financial asset. The Report has been prepared on best effort basis, relying upon information obtained from various sources. NSE does not guarantee the completeness, accuracy and/or timeliness of this report neither does NSE guarantee the accuracy or projections of future conditions from the use of this report or any information therein. In no event, NSE, or any of its officers, directors, employees, affiliates or other agents are responsible for any loss or damage arising out of this report. All investments are subject to risks, which should be considered prior to making any investments.