NSE
Corporate Performance Review
February 2022 | Vol. 3, Issue. 3

Q3FY22 Earnings Review: Momentum drops, downside risks increase

Momentum in corporate earnings recovery slowed down in Q3FY22, reflecting weak domestic demand in the face of recurring COVID-19 waves, continued supply chain disruptions and intensifying input cost pressures. Aggregate net sales for Nifty 50/Nifty 500 companies[1] grew by ~25% YoY in Q3FY22 vs 28-29% in the previous quarter and ~41% in the June quarter, aided by improved realisations, partly offset by sluggish domestic demand. Profit of non-financial companies at the *operating level* grew by 16.2%/14.3%—the lowest in last eight quarters, reflecting margin pressures owing to incomplete pass-through of spike in input costs, and higher salary and other operating expenses. Net adjusted PAT rose by 27%/25.7 YoY for Nifty 50/Nifty 500 companies, led by commodity sectors (Materials and Energy) and Financials, excluding which PAT growth came in at a modest 0.6%/9.2% YoY.

The Consensus earnings estimates (from Refinitiv) for FY22/23 for the top 200 covered companies by market cap have remained broadly steady since Dec'21, even as they are up ~8-9% since Apr'21. Aggregate profit growth for these companies for FY22/23 is now pegged at 41%/22%, implying a 31% CAGR during FY21-23. Upgrades over the last six months have been primarily led by commodity sectors, viz. Energy and Materials, excluding which profit estimates were curtailed by ~4% for the current fiscal year. This is also reflected in the Earnings Revision Indicator[2] (ERI) trend for the Nifty 50 universe, which has been hovering at near-zero or sub-zero levels for more than six months now, implying downgrades outnumbering upgrades. This has been primarily led by Consumer Discretionary, Consumer Staples, Healthcare and Financials, partly offset by continued upgrades in Materials and Energy, even as the number of companies seeing upgrades in the Materials space has been steadily coming off.

Earnings trajectory over the next two years hinges on a credible improvement in consumption and investment demand, as evident from a visible increase in share of Financials, Consumer Discretionary and Industrials to aggregate corporate earnings. As such, we see downside risks to earnings estimates emerging from a lower-than-anticipated demand revival, persistent supply-side bottlenecks, and intensification of cost-push pressures.

- **Revenue growth momentum slowed down in Q3FY22:** Aggregate top-line growth for Nifty50 and Nifty500 companies moderated to ~25% YoY/9% QoQ in Q3FY22 from 29% YoY/12% QoQ in the previous quarter. Revenue expansion in the quarter gone by was primarily led by higher realisations, thanks to higher commodity prices and partial pass-through of input cost pressures, partly offset by weak domestic demand for autos/durables and persistent supply-side bottlenecks. Demand for consumer services, however, has seen a meaningful pick-up amid continued unlocking. Sector-wise, top-line growth was led by commodity sectors viz. Materials and Energy, accounting for ~88%/68% of YoY sales growth for Nifty50/Nifty500 companies in the December quarter, excluding which growth came in at a modest 5.5%/12.5% YoY. Sectors that reported a YoY contraction in aggregate sales included Financials (decline in investment income of insurance players) and Real Estate (delayed launches leading to lower new bookings).

Revenue expansion in he December quarter was primarily led by higher realisations, thanks to higher commodity prices and partial pass-through of input cost pressures, partly offset by weak domestic demand and persistent supply-side bottlenecks

- **Rising raw material prices and wage bill weighed on operating margins:** EBITDA for Nifty 50/Nifty 500 companies (ex-Financials) grew at an eight-quarter low of 16.2%/14.3% YoY in Q3FY22, thanks to a broad-based slowdown. This is primarily attributed to incomplete pass-through of higher input prices to final goods owing to a weak demand environment, thereby squeezing margins. EBITDA margins fell by 258/313bps YoY and 123/165bps QoQ to a seven-quarter low of 19.2%/18.2%. Aggressive cost rationalisation efforts undertaken by companies in FY21 were reversed to a large extent in the current fiscal. Raw material (RM) costs rose by

[1]487 companies in the Nifty 500 Index reported earnings data for Q3FY22 as on February 20th, 2022.
[2] *Earnings Revision Indicator* over a period is calculated as (no of upgrades – no of downgrades)/(total number of upgrades and downgrades). A value less than zero indicates downgrades outnumbering upgrades and *vice versa*.

43% and 18% on a YoY and QoQ basis for Nifty 500 companies in the quarter gone by, leading to their share in overall top-line rising by more than 4 percentage points to 56%. Salaries and wages also registered an increase of 15% YoY and 4% QoQ for Nifty 50 as well as Nifty 500 companies.

Even as operating profit across sectors, barring Consumer Discretionary, reported an expansion, all sectors, except Communication Services and Real Estate, witnessed contraction in operating margins. Sectors that were impacted the most were Utilities (high coal prices) and Automobiles (high input prices, chip shortage).

- **Commodities and Financials drove corporate profitability in Q3FY22:** Aggregate adjusted PAT for the Nifty 50/Nifty 500 companies rose by a sequentially moderate pace of 27%/25.7% YoY and 3.3%/4.6% QoQ. Companies in the Materials and Energy sector led the PAT growth as higher commodity prices improved realisation, even as the growth momentum has moderated in the Materials sector. Financials also reported a significant growth in PAT due to improvement in credit growth, better asset quality and higher recoveries. Excluding these sectors, aggregate PAT growth came in at a modest 0.6%/9.2% YoY for Nifty50/Nifty 500 companies, reflecting weak demand and margin pressures for non-commodity sectors, partly offset by savings in credit costs (-4%/-2.5% YoY).

  Unlike operating margin performance, PAT margins remained broadly steady at 10.9%/9.9% for the Nifty 50/Nifty 500 universe. However, after excluding Materials, Energy and Financials, PAT margins contracted by 113/116 bps YoY.

Companies in the Materials, Energy and Financials sector led the PAT growth as higher prices improved realizations. Excluding these sectors, PAT growth remained modest on a YoY basis.

- **Earnings estimates kept broadly steady:** Our analysis of earnings performance of top 200 covered companies by market capitalisation show that while aggregate profit estimate for FY22 has been broadly retained at Rs7.9trn as compared to estimates at the end of December 2021, FY23 profit estimate has seen a meagre 1% upgrade. This follows nearly 7.3% and 8% increase in FY22 and FY23 profit estimate respectively in the first three quarters of FY22. With this, the aggregate earnings of top 200 companies are now expected to grow at a strong 40.9%/21.8% in FY22 and FY23 respectively following a 24.2% PAT growth in FY21, implying an earnings CAGR of 31% during FY21-23. This is primarily led by Communication Services, Consumer Discretionary, Industrials, Financials, and Materials, together accounting for nearly 68% of the absolute change in aggregate corporate earnings of top 200 covered companies during FY21-23.

Consensus earnings estimates for FY22/23 for the top 200 covered companies remained broadly steady since December-end, translating into an earnings CAGR of 31% during FY21-23.

- **ERI hovering in the contraction zone:** The ERI has been on a downward trajectory since the onset of the second wave of COVID-19 in Feb'21 and has been hovering at near-zero or sub-zero levels for more than six months now, implying downgrades outnumbering upgrades. This has been primarily led by Consumer Discretionary, Consumer Staples, Healthcare and Financials, partly offset by continued upgrades in Materials and Energy, even as the number of companies seeing upgrades in the Materials space has been consistently coming off. Earnings trajectory over the next two years hinges on a credible improvement in consumption and investment demand, as evident from a visible increase in share of Financials, Consumer Discretionary and Industrials to aggregate corporate earnings. As such, we see downside risks to earnings estimates emerging from a lower-than-anticipated demand revival, persistent supply-side bottlenecks, and intensification of cost-push pressures

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Nifty 50 Q3FY22 results

Aggregate revenue growth moderated amid weak demand and elevated prices: While Nifty 50 companies registered a 24.5% YoY growth in aggregate net sales in Q3FY22, the growth momentum has come off over the last few quarters, weighed down by weak demand amid recurring waves and supply-side bottlenecks. On the positive side, realisations improved because of partial pass-through of higher input costs to consumers. Commodities sectors such as Energy and Materials registered a robust revenue growth of 51.2% and 38.7% YoY respectively, thanks to a higher commodity prices leading to better realisations, even as the sequential expansion for the latter saw some moderation. These sectors together accounting for 88% of the aggregate revenue growth reported by Nifty 50 companies in the quarter gone by. Excluding Energy and Materials, revenue growth for Nifty 50 companies came in at a modest 5.5% YoY. Forty-four (44) or 88% of the companies in Nifty 50 index registered YoY growth in revenues in Q3FY22.

Besides Materials, sectors that recorded revenue expansion but witnessed diminishing momentum on QoQ basis include a) Utilities: Favourable base offset by rise in international coal prices; b) Industrials: Expansion in government capex weighed down by muted private investment; and c) Healthcare: Increase in non-COVID-related treatments/surgeries offset by decline in COVID related hospitalisation.

Sectors that registered a sequential pick-up in QoQ sales growth besides Energy despite a weak demand environment include a) Consumer Discretionary: Low base effect and revival in demand for consumer services offset by weak demand for automobiles and consumer durables; b) Information Technology: Sustained high demand for IT services and large deal wins by Indian IT companies; c) Communication Services: Increase in tariffs resulting in improved average revenue per user (ARPU); d) Consumer Staples: Steady demand for processed food and beverages, household and personal products further supported by price hike.

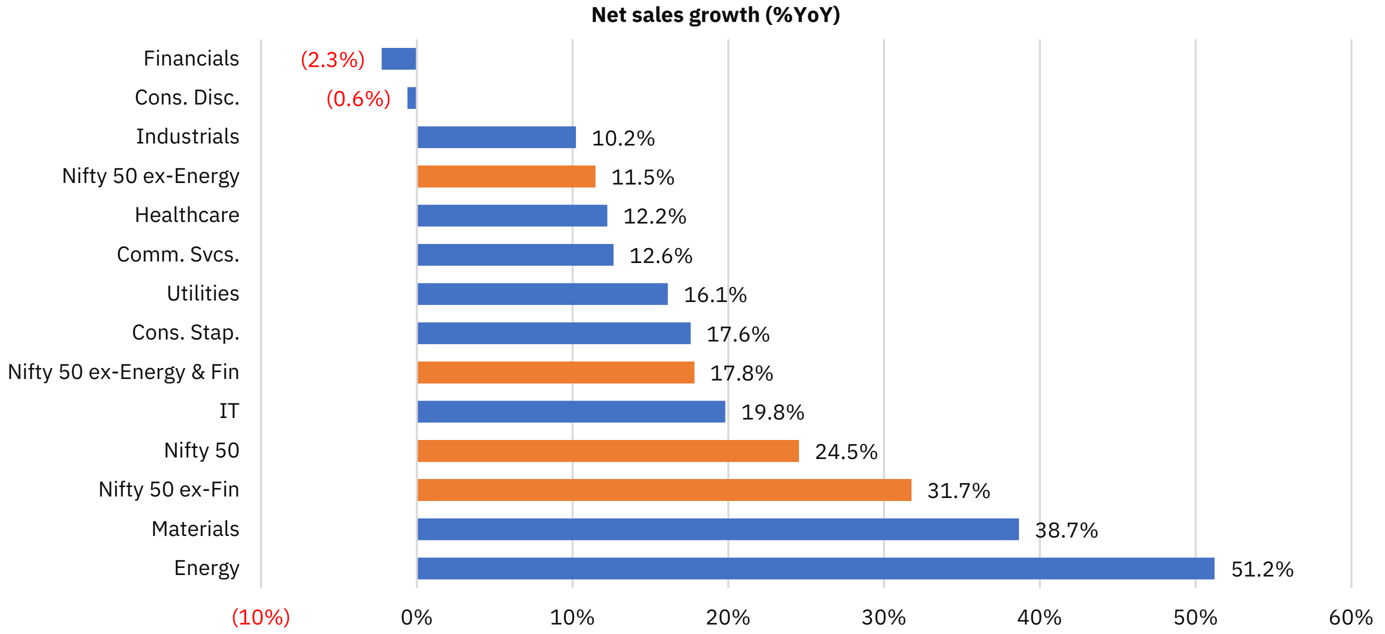
Consumption demand continued to remain subdued amid recurring COVID-19 waves, elevated commodity prices, and supply-side bottlenecks. This in turn has led to slowdown in growth momentum. While commodity sectors have posted strong top-line growth, non-commodity sectors have had to face the brunt of intensifying input-cost pressures in a subdued demand environment, which provides limited capacity to fully pass the increase in input costs. While government capex is expected to be strong this year, uncertainty over demand revival is a deterrent to private sector spending. The uneven post-pandemic economic recovery and high inflation do not bode well for an expected recovery in consumption demand. This may weigh on future earnings trajectory that remains heavily dependent on a credible recovery in the domestic demand environment, notwithstanding incrementally unfavourable global cues.

Table 1: Net sales growth of Nifty 50 companies

Sector	QoQ growth			YoY growth		
	Dec-20	Sep-21	Dec-21	Dec-20	Sep-21	Dec-21
Communication Services	5.8	5.5	5.4	24.2	13.0	12.6
Consumer Discretionary	30.6	7.1	14.4	10.7	13.5	(0.6)
Consumer Staples	4.3	5.7	10.0	10.4	11.4	17.6
Energy	18.1	13.6	18.6	(15.5)	50.5	51.2
Financials	7.5	14.4	(5.1)	14.3	10.7	(2.3)
Health Care	2.0	3.6	1.1	12.7	13.2	12.2
Industrials	15.9	13.3	12.9	0.5	13.1	10.2
Information Technology	4.4	4.8	5.6	6.0	18.5	19.8
Materials	13.4	13.3	7.0	17.1	46.9	38.7
Utilities	1.2	6.4	2.5	5.1	14.6	16.1
Nifty 50	**13.5**	**11.5**	**9.5**	**1.1**	**29.1**	**24.5**
Nifty 50 ex-Energy	**11.3**	**10.2**	**4.2**	**11.9**	**19.1**	**11.5**
Nifty 50 ex-Financials	**15.2**	**10.8**	**13.0**	**(1.9)**	**34.4**	**31.7**
Nifty 50 ex-energy ex-fin	**13.2**	**8.5**	**8.2**	**10.8**	**23.2**	**17.8**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 1: Sector-wise net sales growth of Nifty 50 companies in Q3FY22



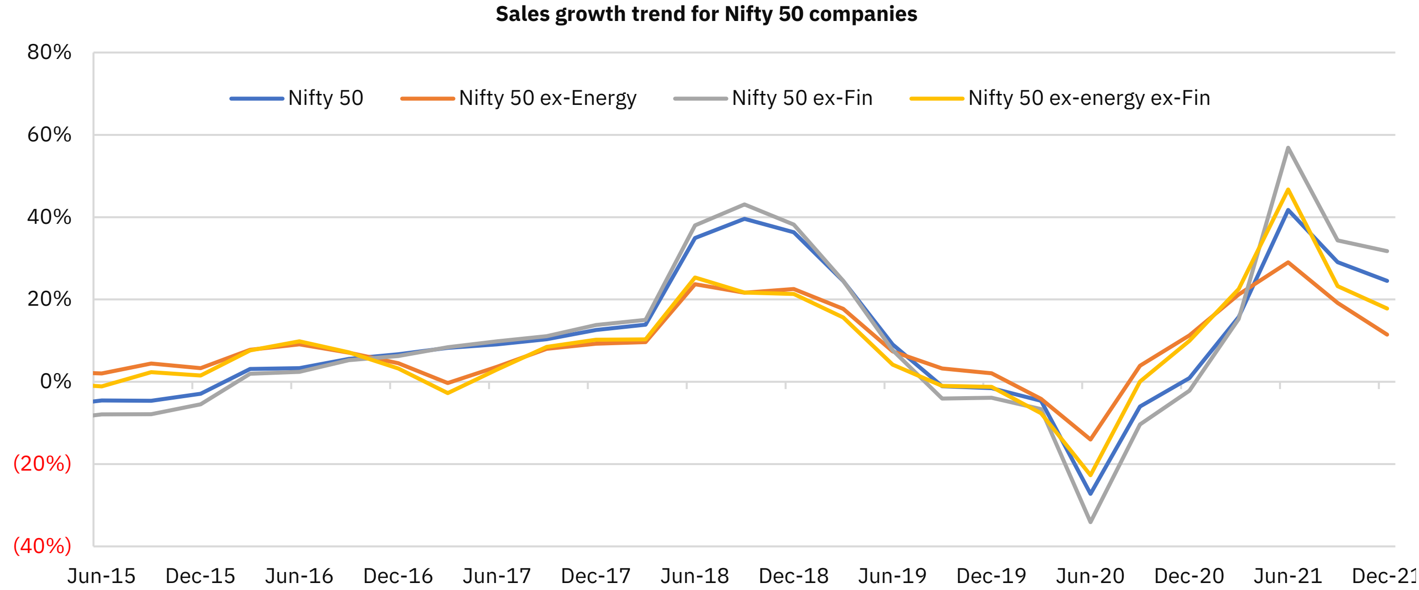
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Table 2: Sector-wise contribution of Nifty 50 companies to net sales growth in Q3FY22

Sector	Net sales (Rsbn)	Contribution to net sales growth % QoQ	Contribution to net sales growth % YoY
Communication Services	299	0.1	0.3
Consumer Discretionary	1,490	1.3	(0.1)
Consumer Staples	411	0.3	0.5
Energy	6,198	6.9	16.8
Financials	2,592	(1.0)	(0.5)
Health Care	232	0.0	0.2
Industrials	434	0.3	0.3
Information Technology	1,348	0.5	1.8
Materials	2,100	1.0	4.7
Utilities	437	0.1	0.5
Nifty 50	**15,541**	**9.5**	**24.5**
Nifty 50 ex-Energy	**9,342**	**6.8**	**7.7**
Nifty 50 ex-Financials	**12,949**	**27.1**	**25.0**
Nifty 50 ex-energy ex-fin	**6,751**	**9.3**	**8.2**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

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



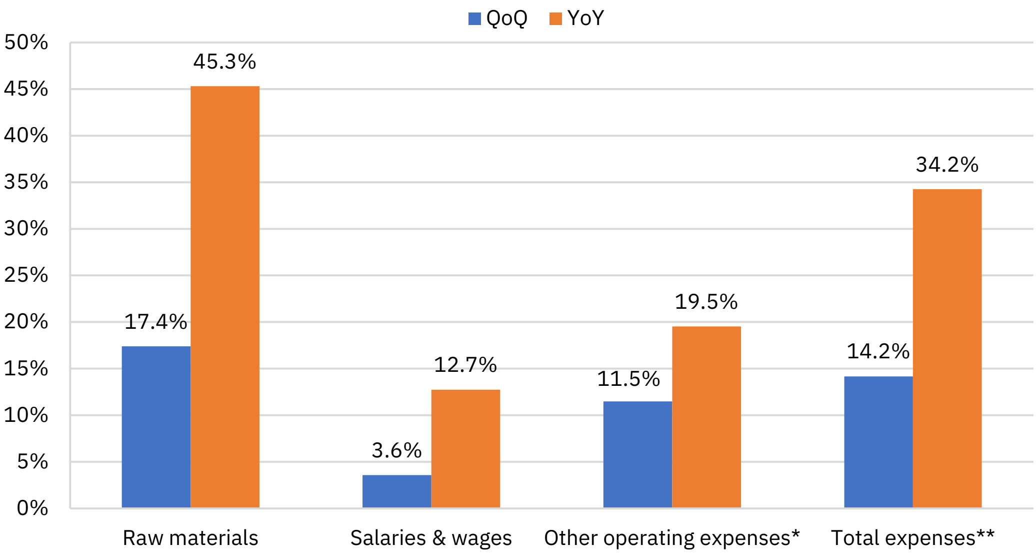
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Inflated commodity prices weighed on operating margins: While EBITDA for the Nifty 50 universe excluding Financials grew by 16.2% YoY and 6.1% QoQ in Q3FY22, operating margins contracted by 258 bps YoY and 123 bps QoQ to touch an eight-quarter low of. High global commodity inflation and increase in operating expenses significantly weighed on operating margins. This has led to a reversal in aggressive cost rationalisation efforts by companies in the previous fiscal to tide over the pandemic.

Raw material (RM) costs and salaries & wages of Nifty 50 non-financial companies in the quarter gone by have increased on a YoY as well as QoQ basis. Input costs for the Nifty 50 companies (excl. financials) rose by 45.3% YoY (+17.4% QoQ), thanks to rising commodity prices. Total expenses (excluding interest and depreciation) rose by 34.2% YoY (*vs* 24.5% YoY increase in net sales) and 14.2% QoQ (*vs* 8.9% QoQ increase in net sales) indicating a negative operating leverage, where increase in total operating cost has outpaced increase in revenues. This in turn led to operating margins contracting to seven-quarter lows.

Sector-wise, all sectors, except Communication Services and Health Care, witnessed contraction in operating margins reflecting limited capacit of corporates to pass on elevated input costs to final products in the light of a weak demand environment. Within the Nifty 50 universe, 24 of 39 or 62% of the non-financial companies registered an EBITDA expasnion in Q3FY22.

Figure 3: Change in expenses for Nifty 50 companies (ex-Financials) in Q3FY22



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

Table 3: EBITDA growth of Nifty 50 companies

	QoQ growth			YoY growth		
Sector	**Dec-20**	**Sep-21**	**Dec-21**	**Dec-20**	**Sep-21**	**Dec-21**
Communication Services	9.2	6.1	6.9	34.7	33.4	30.6
Consumer Discretionary	40.1	48.0	18.4	27.7	(6.6)	(21.1)
Consumer Staples	0.8	11.2	5.7	3.0	7.0	12.2
Energy	(0.1)	7.8	12.8	(1.1)	19.6	35.0
Financials	0.8	9.1	5.5	(5.0)	7.9	13.0
Health Care	4.3	10.8	4.8	34.8	12.9	13.4
Industrials	20.4	11.7	8.0	11.3	4.4	(6.3)
Information Technology	7.7	3.3	3.8	16.7	11.5	7.4
Materials	24.1	4.9	(7.4)	74.1	72.4	28.6
Utilities	7.8	(2.7)	7.9	6.1	3.8	3.9
Nifty 50	**6.7**	**8.3**	**5.9**	**7.5**	**15.8**	**14.9**
Nifty 50 ex-Energy	**8.3**	**8.5**	**4.2**	**9.5**	**14.9**	**10.7**
Nifty 50 ex-Financials	**10.8**	**7.9**	**6.1**	**17.4**	**21.3**	**16.2**
Nifty 50 ex-energy ex-fin	**16.0**	**7.9**	**3.1**	**26.9**	**22.1**	**8.6**

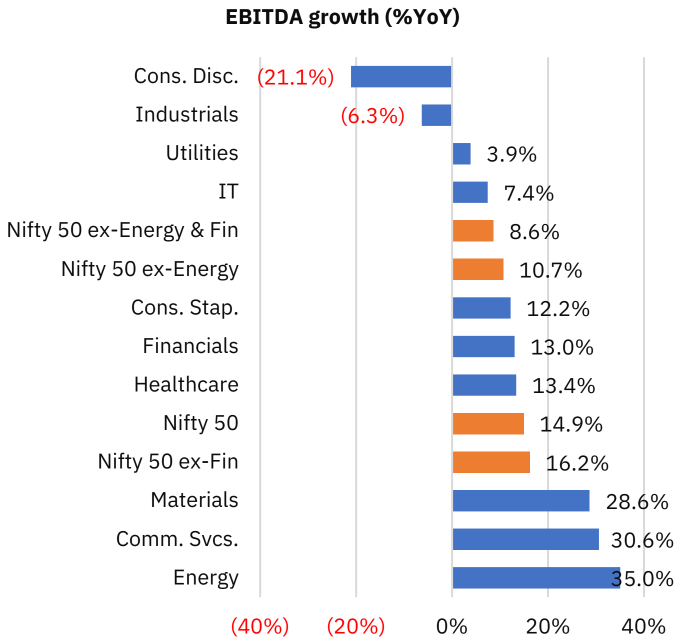
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Table 4: EBITDA margin of Nifty 50 companies in Q3FY22

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	52.0	70	714
Consumer Discretionary	13.4	45	(346)
Consumer Staples	27.9	(114)	(134)
Energy	13.4	(69)	(161)
Financials	59.6	601	805
Health Care	29.2	102	29
Industrials	22.3	(101)	(393)
Information Technology	26.8	(48)	(309)
Materials	21.7	(337)	(169)
Utilities	48.2	239	(569)
Nifty 50	**26.0**	**(87)**	**(216)**
Nifty 50 ex-Energy	**34.3**	**3**	**(24)**
Nifty 50 ex-Financials	**19.2**	**(123)**	**(258)**
Nifty 50 ex-energy ex-fin	**24.6**	**(123)**	**(209)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 4: Sector-wise EBITDA growth of Nifty 50 companies in Q3FY22



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 5: Sector-wise EBITDA margin of Nifty 50 companies in Q3FY22

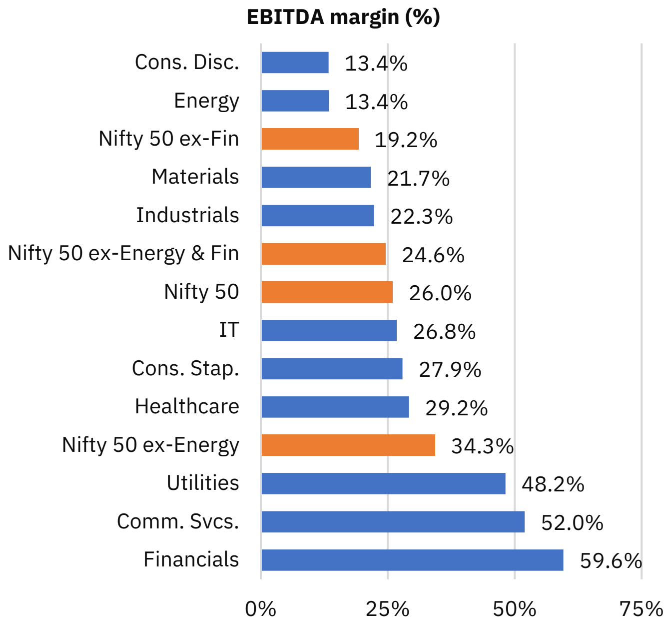
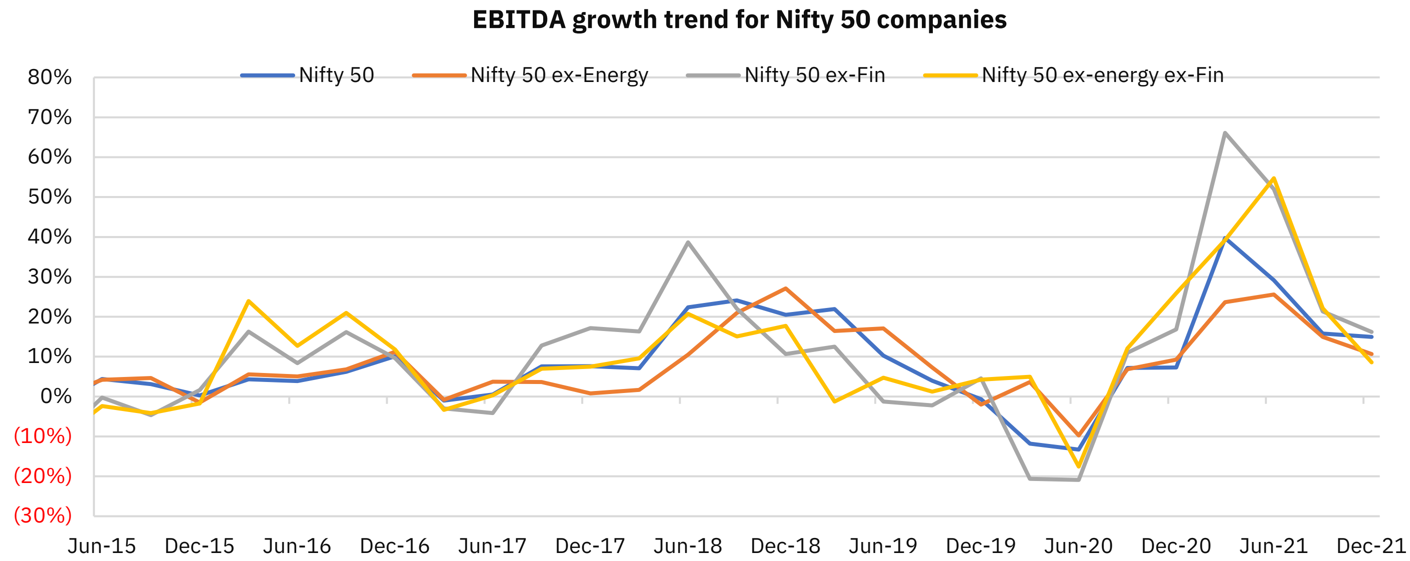


Table 5: Sector-wise contribution of Nifty 50 companies to EBITDA growth in Q3FY22

Sector	EBITDA (Rsbn)	Contribution to EBITDA growth % QoQ	Contribution to EBITDA growth % YoY
Communication Services	155	0.3	1.0
Consumer Discretionary	199	0.8	(1.5)
Consumer Staples	115	0.2	0.4
Energy	832	2.5	6.1
Financials	1,544	2.1	5.1
Health Care	68	0.1	0.2
Industrials	97	0.2	(0.2)
Information Technology	361	0.3	0.7
Materials	455	(1.0)	2.9
Utilities	211	0.4	0.2
Nifty 50	**4,036**	**5.9**	**14.9**
Nifty 50 ex-Energy	**3,204**	**3.4**	**8.8**
Nifty 50 ex-Financials	**2,492**	**3.8**	**9.9**
Nifty 50 ex-energy ex-fin	**1,660**	**1.3**	**3.7**

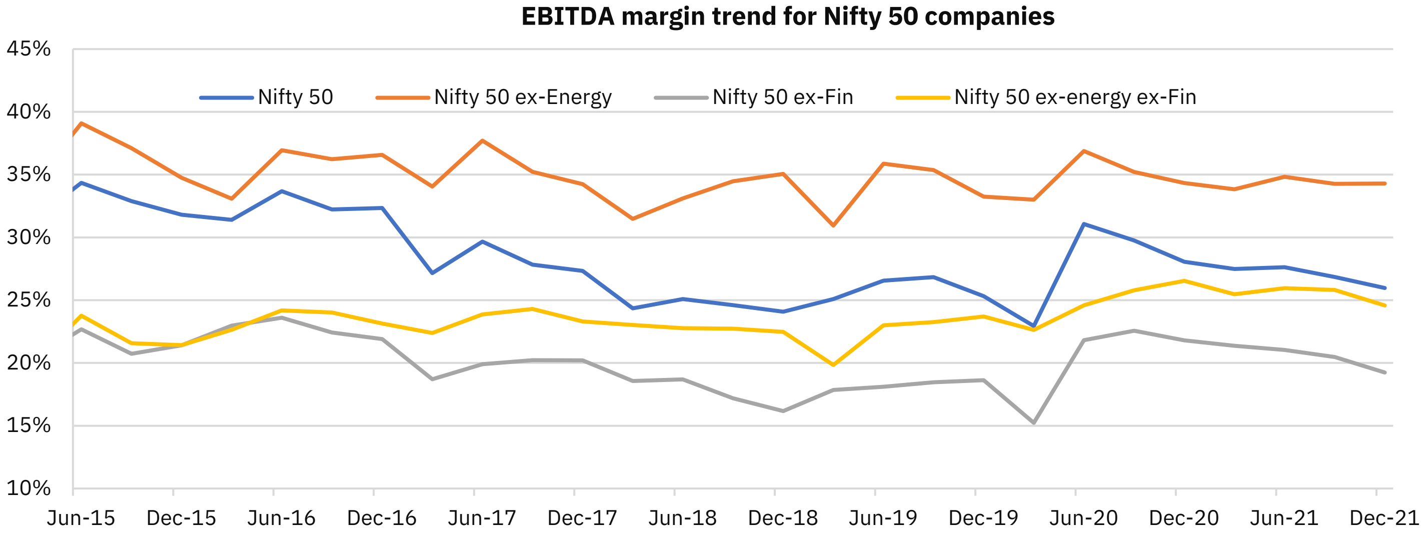
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 6: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 7: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Weak demand and margin pressures impacted profitability: While aggregate adjusted PAT for the Nifty 50 companies grew by a decent 27% YoY in Q3FY22, the growth was largely led by Commodity sectors viz. Energy and Materials, and Financials. Excluding these sectors, the Nifty 50 companies posted a marginal 0.6% YoY growth and margin contraction by 113bps YoY, thanks to a weak demand scenario and rising operating costs. Savings (drop) in interest costs for non-financial companies by 4% YoY (+2.4% QoQ) were offset by rising cost pressures. PAT margin for the aggregate Nifty50 universe improved marginally by 21ps YoY to touch 10.9%. Thirty-six (36) or 72% of the Nifty 50 companies posted a YoY expansion in net profit in the quarter gone by.

Sectors that were laggards in terms of profit margins include: a) Consumer Discretionary: Weak auto sales, higher input costs and supply shortages; b) Information Technology: High employee cost; and c) Industrials: Subdued private capex. On the other hand, sectors that witnessed an expansion in margins include: a) Financials: Improved loan growth, better asset quality and higher collections; b) Energy: Improved revenues for upstream companies due to higher crude prices; and c) Materials: Improved revenues for commodity sectors due to higher realisations.

Table 6: PAT growth of Nifty 50 companies

	QoQ growth			YoY growth		
Sector	**Dec-20**	**Sep-21**	**Dec-21**	**Dec-20**	**Sep-21**	**Dec-21**
Communication Services	NA	40.1	26.2	NA	NA	NA
Consumer Discretionary	89.8	NA	183.9	32.6	(64.5)	(46.8)
Consumer Staples	(1.7)	10.1	7.2	2.0	5.9	15.4
Energy	(4.3)	41.9	(8.5)	10.3	57.1	50.2
Financials	10.0	24.0	11.4	(0.0)	31.9	33.5
Health Care	(2.8)	22.3	4.8	50.5	10.9	19.6
Industrials	41.3	22.2	13.8	7.9	17.4	(5.4)
Information Technology	9.4	2.7	3.5	16.2	11.6	5.5
Materials	44.0	8.5	(7.9)	285.4	154.5	62.7
Utilities	0.4	9.9	12.1	20.3	(2.1)	9.3
Nifty 50	**12.6**	**24.5**	**3.3**	**20.3**	**38.4**	**27.0**
Nifty 50 ex-Energy	**18.3**	**18.8**	**8.0**	**23.3**	**32.1**	**20.7**
Nifty 50 ex-Financials	**13.6**	**24.7**	**0.5**	**29.8**	**40.8**	**24.6**
Nifty 50 ex-energy ex-fin	**22.9**	**16.0**	**6.1**	**39.9**	**32.3**	**14.2**

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

Table 7: PAT margin of Nifty 50 companies in Q3FY22

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	5.4	89	552
Consumer Discretionary	3.6	216	(314)
Consumer Staples	18.9	(51)	(35)
Energy	6.8	(203)	(5)
Financials	18.2	269	486
Health Care	19.4	69	120
Industrials	9.2	7	(152)
Information Technology	17.4	(36)	(235)
Materials	11.7	(190)	173
Utilities	18.1	154	(113)
Nifty 50	**10.9**	**(65)**	**21**
Nifty 50 ex-Energy	**13.5**	**48**	**103**
Nifty 50 ex-Financials	**9.4**	**(116)**	**(54)**
Nifty 50 ex-energy ex-fin	**11.7**	**(23)**	**(37)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 8: Sector-wise PAT growth of Nifty 50 companies in Q3FY22

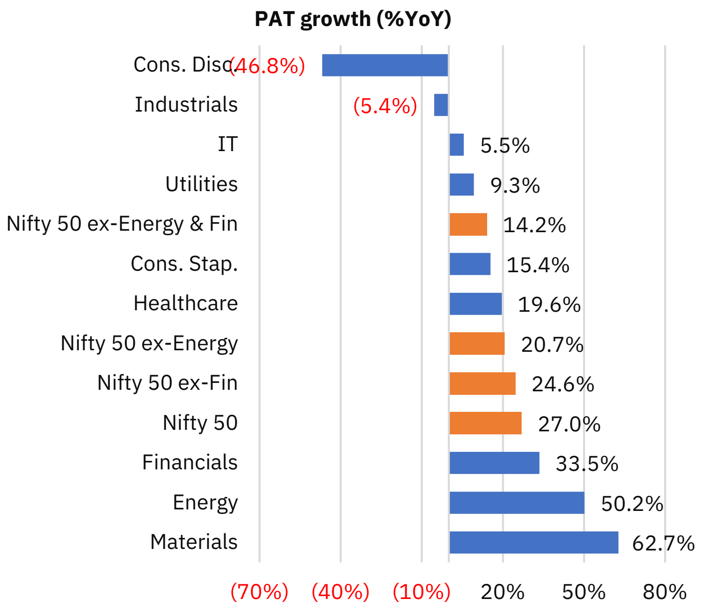
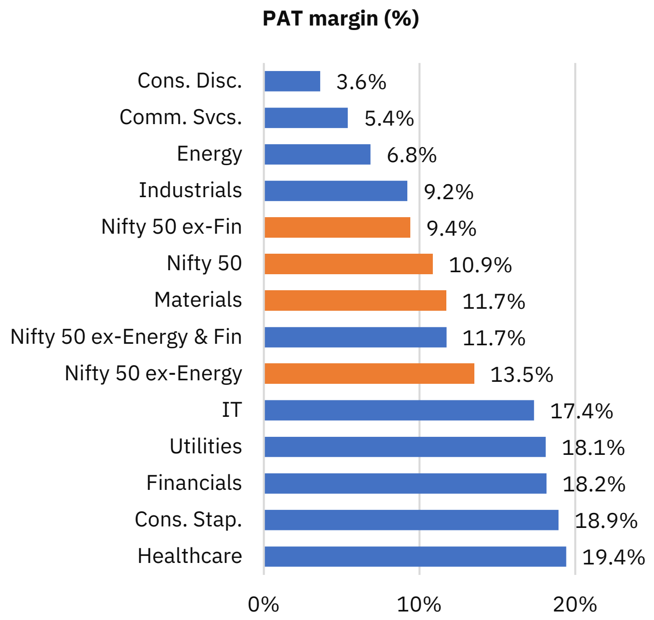


Figure 9: Sector-wise PAT margin of Nifty 50 companies in Q3FY22



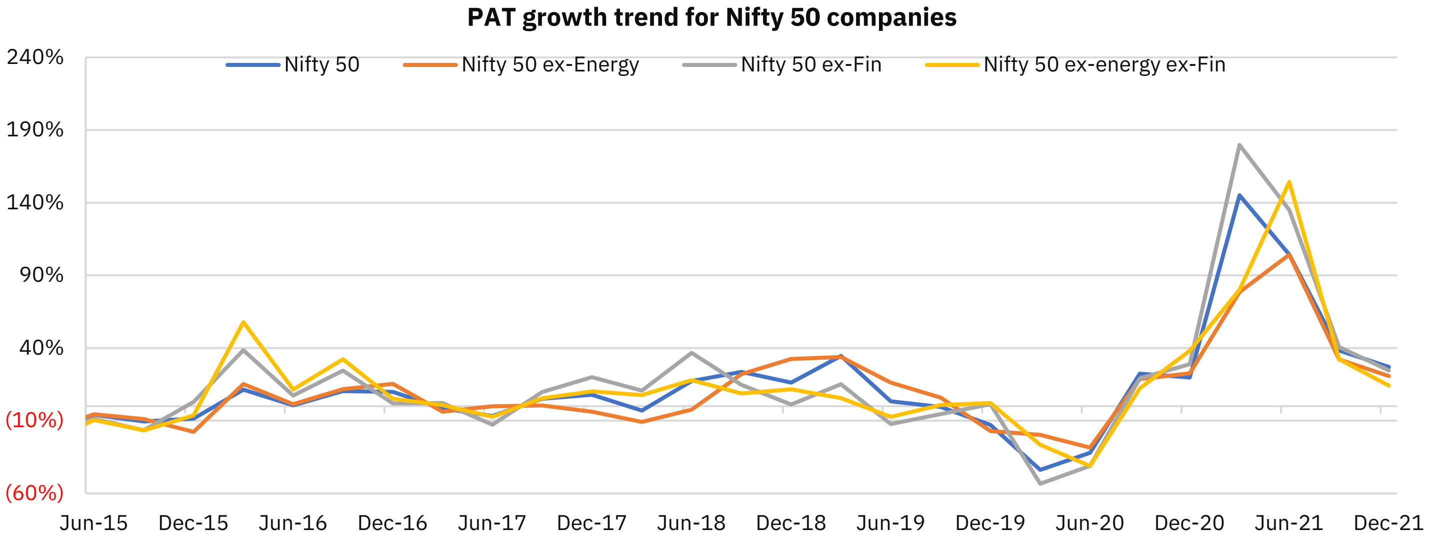
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Table 8: Sector-wise contribution of Nifty 50 companies to PAT growth in Q3FY22

Sector	PAT (Rsbn)	Contribution to PAT growth	
		% QoQ	% YoY
Communication Services	16	0.2	1.2
Consumer Discretionary	54	2.1	(3.6)
Consumer Staples	78	0.3	0.8
Energy	425	(2.4)	10.7
Financials	471	2.9	8.9
Health Care	45	0.1	0.6
Industrials	40	0.3	(0.2)
Information Technology	234	0.5	0.9
Materials	246	(1.3)	7.1
Utilities	79	0.5	0.5
Nifty 50	**1,687**	**3.3**	**27.0**
Nifty 50 ex-Energy	**1,262**	**5.7**	**16.3**
Nifty 50 ex-Financials	**1,216**	**0.4**	**18.1**
Nifty 50 ex-energy ex-fin	**792**	**2.8**	**7.4**

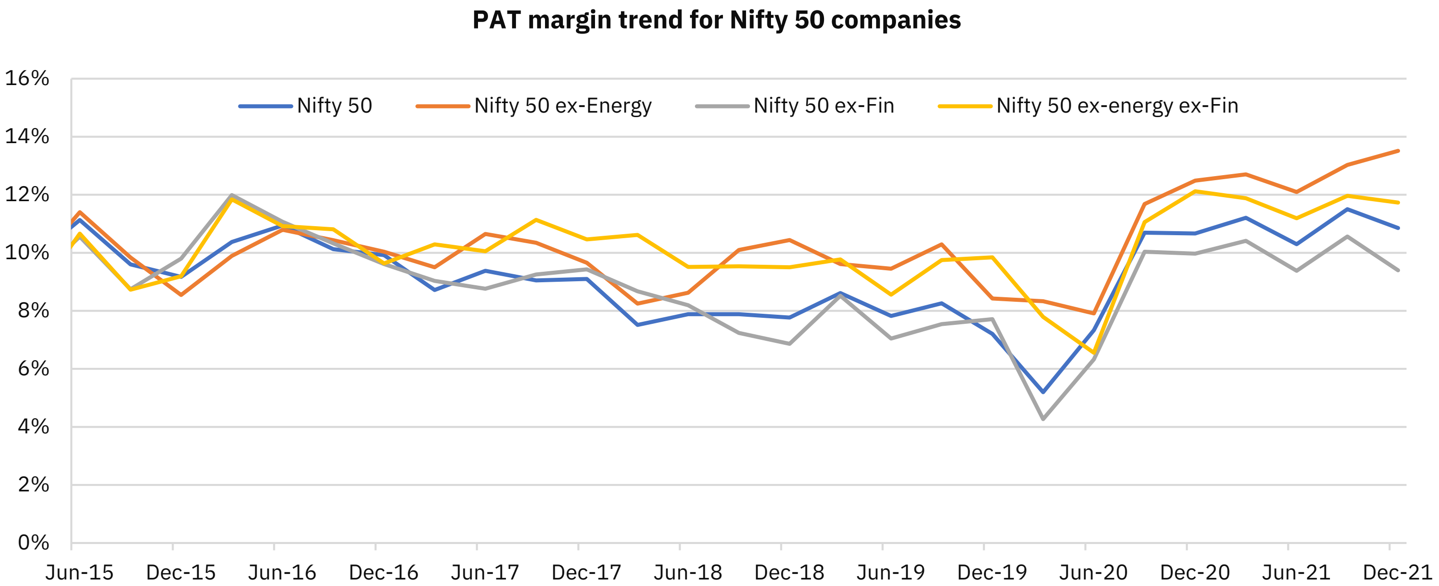
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 10: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 11: PAT margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE

Nifty 500 Q3FY22 results

Momentum in net sales growth came off meaningfully: Aggregate top-line for the Nifty 500 companies grew by 24.6% on a YoY basis in Q3FY22 *vs.* a higher 28.3% YoY growth in the previous quarter and 41.4% in the June quarter. During the December quarter, the economy was hit by resurgence in COVID infection caused by a highly virulent virus named 'Omicron', which affected the demand environment and business activities, albeit to a much lesser extent given limited restrictions imposed this time unlike the previous two waves. Within the Nifty 500 universe, 406 of 487 or 83% of the companies have recorded an YoY expansion in in the December quarter.

Sectors that registered an expansion in net sales on a YoY basis in the December quarter include: a) Energy: Higher revenues for upstream companies due to rally in international crude prices; b) Materials: Improved realisation due to high metal prices; c) Utilities: Favourable base effect; d) Industrials: Improvement in government capex; d) Information Technology: Increase in demand for digital services in an post-pandemic remote working environment; e) Consumer Staples: Sustained demand for essential products supported by improved prices; f) Consumer Discretionary: Strong revival in demand for consumer services and apparel more than made up for contraction in auto sales; g) Communication Services: Higher ARPUs due to tariff hike; and h) Health Care: Increased demand for non-Covid related treatments.

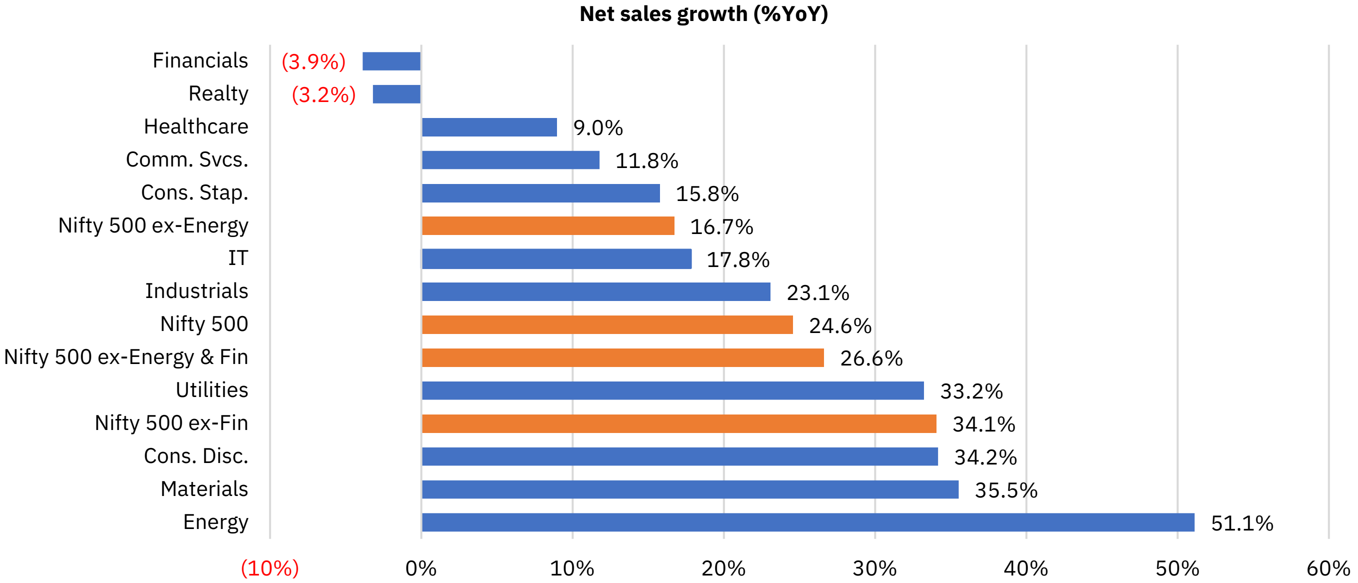
Sectors that posted a YoY contraction in net sales include a) Financials: Decline in net investment income for Insurance companies partly offset by increase in premiums earned; and b) Real Estate: Lower new bookings owing to fewer launches even as pre-sales remained strong.

Table 9: Net sales growth of Nifty 500 companies

	QoQ growth			YoY growth		
Sector	**Dec-20**	**Sep-21**	**Dec-21**	**Dec-20**	**Sep-21**	**Dec-21**
Communication Services	12.3	5.4	6.8	15.2	16.5	11.8
Consumer Discretionary	29.0	7.7	19.3	(7.9)	43.3	34.2
Consumer Staples	6.3	9.1	7.1	8.0	14.9	15.8
Energy	21.1	14.1	18.9	(14.1)	53.9	51.1
Financials	6.5	9.9	(4.5)	17.4	4.8	(3.9)
Health Care	1.0	2.0	0.7	10.1	9.3	9.0
Industrials	20.8	25.8	13.7	0.8	27.1	23.1
Information Technology	6.4	5.3	6.3	6.5	17.9	17.8
Materials	11.3	14.9	6.7	14.0	40.7	35.5
Real Estate	67.8	31.6	0.2	(16.1)	37.8	(3.2)
Utilities	2.0	11.5	8.1	0.2	25.7	33.2
Nifty 500	**13.2**	**11.8**	**8.9**	**2.3**	**28.3**	**24.6**
Nifty 500 ex-Energy	**11.2**	**11.1**	**5.5**	**8.3**	**21.5**	**16.7**
Nifty 500 ex-Financials	**15.7**	**12.4**	**12.7**	**(1.9)**	**36.7**	**34.1**
Nifty 500 ex-energy ex-fin	**13.5**	**11.6**	**9.7**	**4.4**	**29.8**	**26.6**

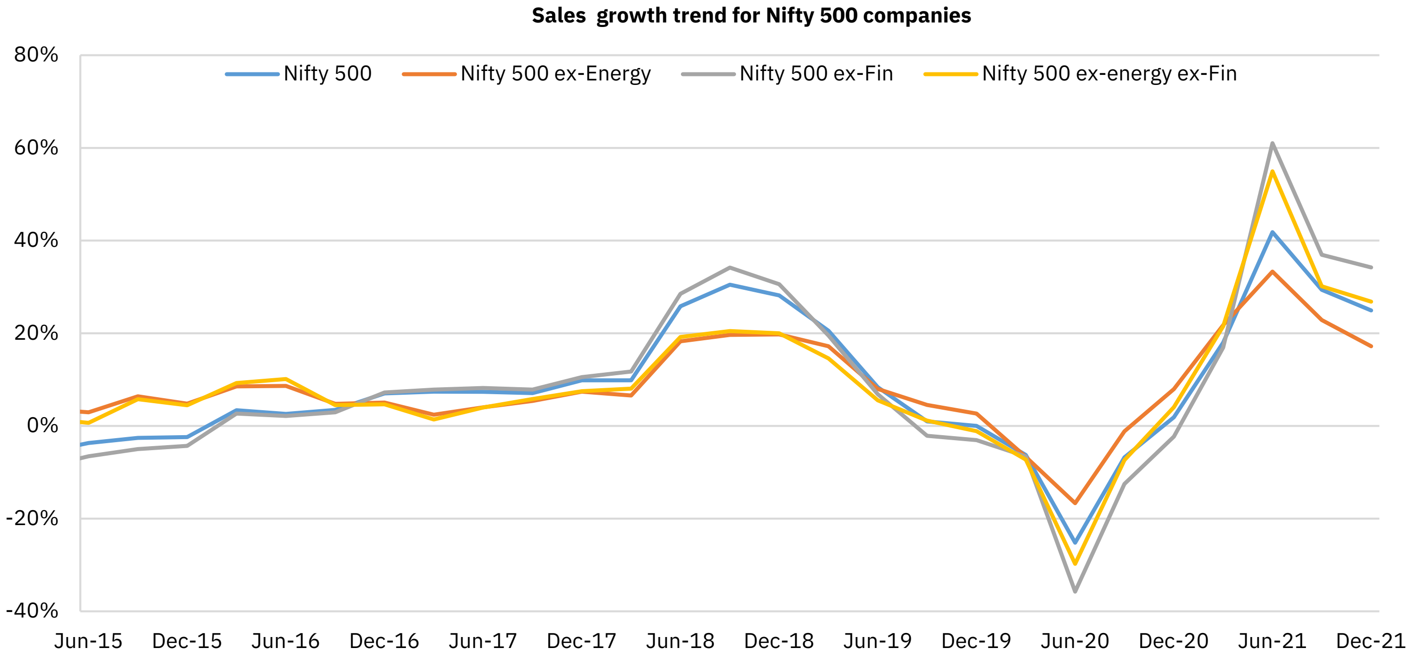
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 12: Sector-wise net sales growth of Nifty 500 companies in Q3FY22



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

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



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Table 10: Sector-wise contribution of Nifty 500 companies to net sales growth in Q3FY22

Sector	Net sales (Rsbn)	Contribution to net sales growth % QoQ	Contribution to net sales growth % YoY
Communication Services	614	0.2	0.3
Consumer Discretionary	3,078	2.0	3.5
Consumer Staples	861	0.2	0.5
Energy	7,593	4.8	11.6
Financials	5,317	(1.0)	(1.0)
Health Care	810	0.0	0.3
Industrials	1,950	0.9	1.7
Information Technology	1,804	0.4	1.2
Materials	4,256	1.1	5.1
Real Estate	83	0.0	(0.0)
Utilities	1,138	0.3	1.3
Nifty 500	**27,504**	**8.9**	**24.6**
Nifty 500 ex-Energy	**19,911**	**4.1**	**12.9**
Nifty 500 ex-Financials	**22,188**	**9.9**	**25.5**
Nifty 500 ex-energy ex-fin	**14,595**	**5.1**	**13.9**

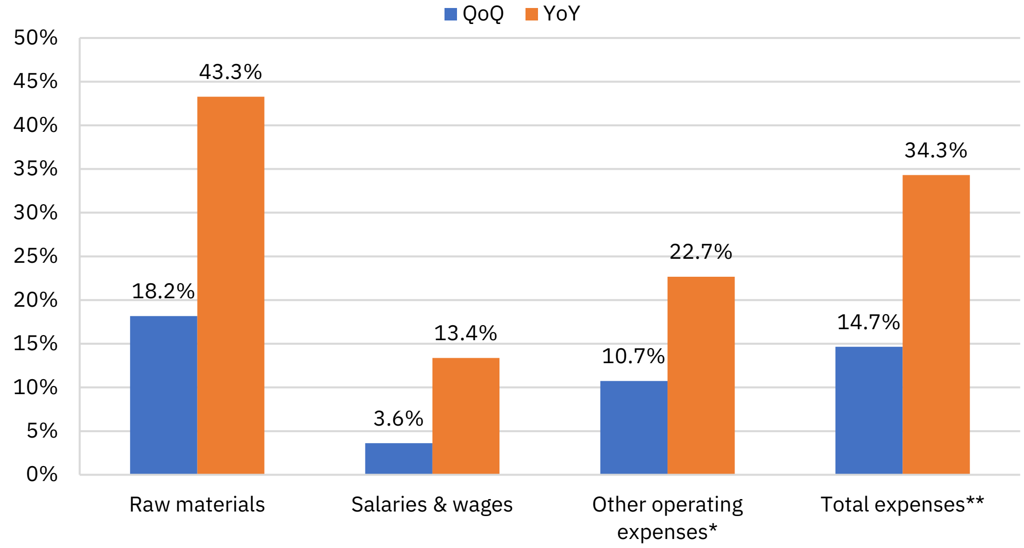
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Rising cost pressures dragged EBITDA margins to seven-quarter lows: Aggregate EBITDA for the Nifty 500 universe excluding Financials grew by 14.3%YoY and 3.3% QoQ in Q3FY22, much lower than revenue expansion. This has led to operating margins compressing by 313 bps YoY and 166bps QoQ to a seven-quarter low of 18.2% in the December quarter. This is primarily attributed to rising raw material costs due to rally in global commodity prices as well as operating cost pressures, coupled with slower growth in sales and inability to completely pass on the elevated prices to consumers. As a result, aggressive efforts undertaken by corporates to curtail operating costs during the last fiscal year (2020-21) were reversed to a large extent.

Total RM costs for the Nifty 500 universe excluding Financials rose by 43.3% YoY and 18.2% QoQ, which has led to RM to sales ratio expanding by 424bps YoY and 298 bps QoQ. Salaries and wage bill also inched up by 15.1% YoY and 3.9% QoQ. Total expenses (excluding depreciation and interest) in the December quarter rose by 34.3% YoY and 14.7% QoQ, much higher than a 24.6% YoY and 8.9% QoQ revenue growth.

Within the Nifty 500 universe, 275 of 405 or 68% of the non-financial companies reported an YoY growth in EBITDA in the December quarter. Except Real Estate and Communication Services, all other sectors reported a contraction in operating margins led by Consumer Discretionary and Utilities.

Figure 14: Change in expenses for Nifty 500 companies (ex-Financials) in Q3FY22



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

Table 11: EBITDA growth of Nifty 500 companies

	QoQ growth			YoY growth		
Sector	**Dec-20**	**Sep-21**	**Dec-21**	**Dec-20**	**Sep-21**	**Dec-21**
Communication Services	27.4	42.5	(4.5)	40.9	77.4	33.3
Consumer Discretionary	39.4	51.5	13.6	22.5	7.2	(12.8)
Consumer Staples	3.0	13.5	1.3	7.3	8.5	6.7
Energy	(1.6)	6.9	14.0	0.7	16.4	34.8
Financials	(1.4)	6.9	5.4	16.2	1.9	9.1
Health Care	4.4	0.5	0.4	21.8	4.2	0.0
Industrials	10.2	41.1	16.9	(2.4)	10.5	17.3
Information Technology	8.3	3.2	3.4	16.7	13.2	8.0
Materials	26.1	3.0	(7.2)	62.4	56.6	15.3
Real Estate	49.6	28.4	16.2	(9.0)	39.1	8.1
Utilities	3.6	2.4	(1.4)	5.8	11.1	5.7
Nifty 500	**6.0**	**9.5**	**4.2**	**17.9**	**13.8**	**12.0**
Nifty 500 ex-Energy	**6.9**	**9.9**	**2.9**	**20.3**	**13.5**	**9.2**
Nifty 500 ex-Financials	**13.0**	**11.6**	**3.3**	**19.3**	**25.2**	**14.3**
Nifty 500 ex-energy ex-fin	**17.2**	**12.9**	**0.4**	**25.0**	**27.7**	**9.3**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Table 12: EBITDA margin of Nifty 500 companies in Q3FY22

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	52.3	(617)	844
Consumer Discretionary	10.7	(53)	(576)
Consumer Staples	21.3	(122)	(181)
Energy	12.3	(53)	(149)
Financials	60.7	577	724
Health Care	25.1	(8)	(225)
Industrials	15.6	42	(77)
Information Technology	23.5	(65)	(212)
Materials	21.7	(323)	(381)
Real Estate	41.1	568	430
Utilities	33.0	(321)	(859)
Nifty 500	**26.4**	**(118)**	**(297)**
Nifty 500 ex-Energy	**31.8**	**(79)**	**(218)**
Nifty 500 ex-Financials	**18.2**	**(166)**	**(313)**
Nifty 500 ex-energy ex-fin	**21.2**	**(196)**	**(335)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 15: Sector-wise EBITDA growth of Nifty 500 companies in Q3FY22

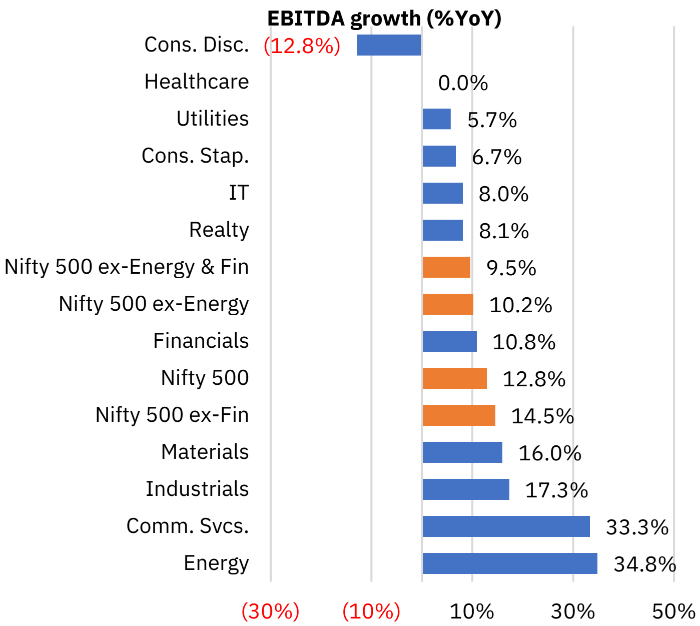
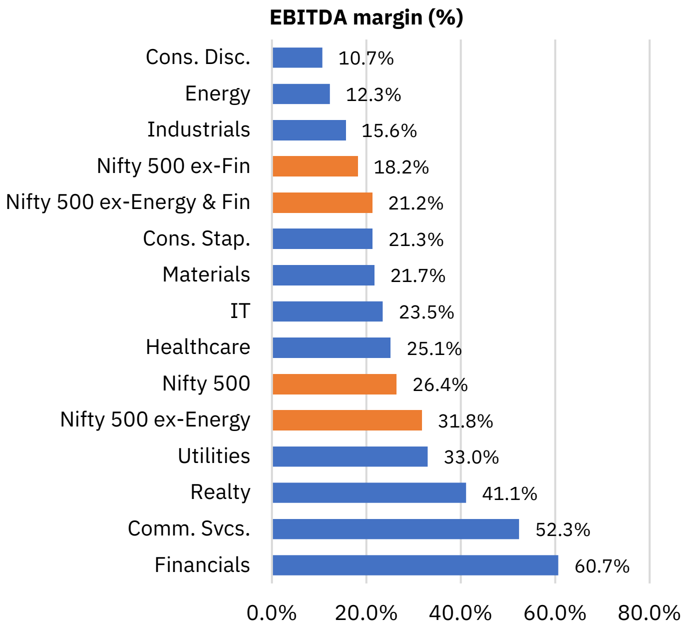


Figure 16: Sector-wise EBITDA margin of Nifty 500 companies in Q3FY22



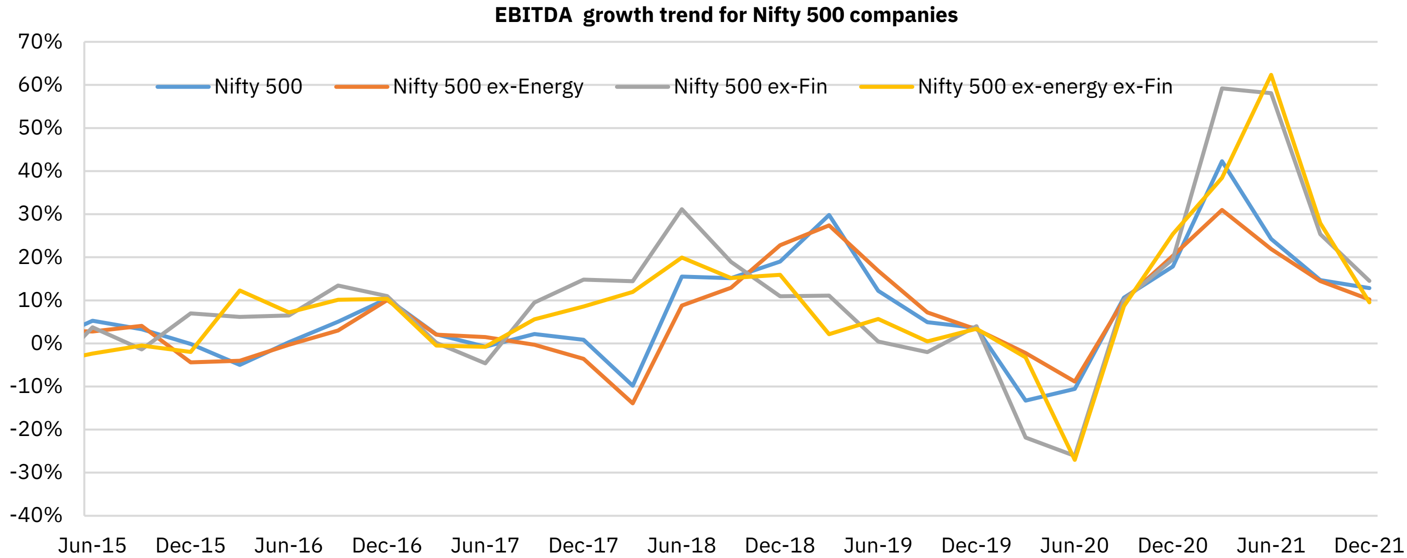
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Table 13: Sector-wise contribution of Nifty 500 companies to EBITDA growth in Q3FY22

Sector	EBITDA (Rsbn)	Contribution to EBITDA growth	
		% QoQ	% YoY
Communication Services	322	(0.2)	1.2
Consumer Discretionary	329	0.6	(0.7)
Consumer Staples	183	0.0	0.2
Energy	932	1.6	3.7
Financials	3,229	2.4	4.2
Health Care	203	0.0	0.0
Industrials	304	0.6	0.7
Information Technology	424	0.2	0.5
Materials	923	(1.0)	1.9
Real Estate	34	0.1	0.0
Utilities	376	(0.1)	0.3
Nifty 500	**7,259**	**4.2**	**12.0**
Nifty 500 ex-Energy	**6,326**	**2.6**	**8.3**
Nifty 500 ex-Financials	**4,030**	**1.8**	**7.8**
Nifty 500 ex-energy ex-fin	**3,097**	**0.2**	**4.1**

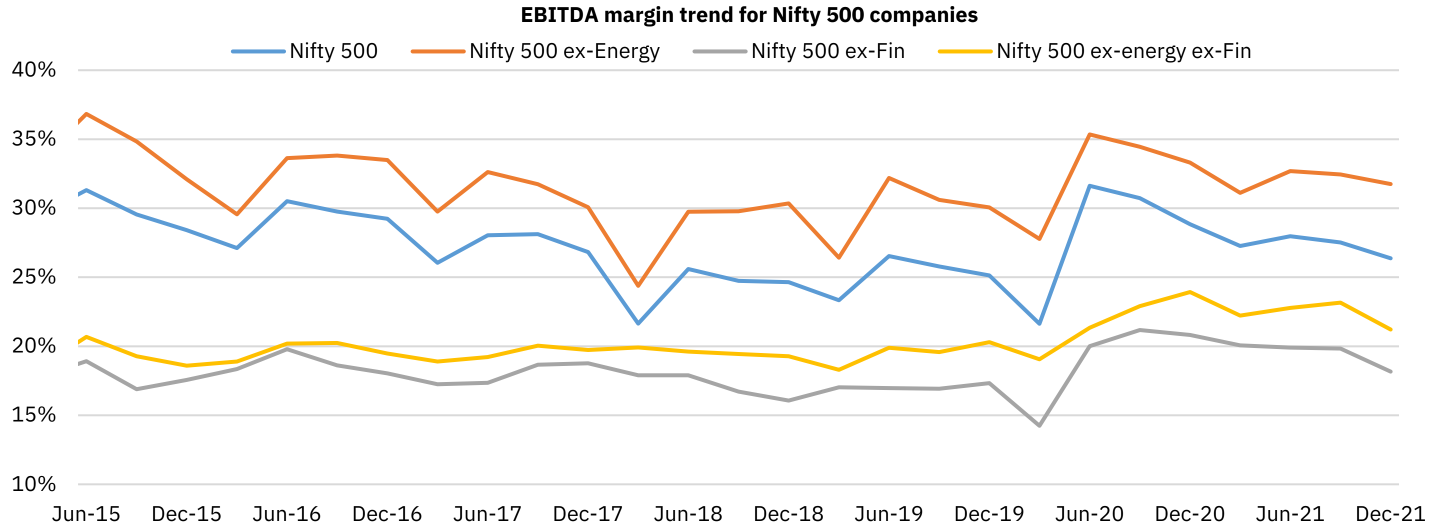
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 17: EBITDA growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 18: EBITDA margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Commodity and Financial companies drove profitability in Q3FY22: Aggregate adjusted PAT for the Nifty 500 companies grew by 25.7% YoY and 4.6% QoQ. Companies in the Materials and Energy sector led the PAT growth as higher commodity prices improved realisation, even as the growth momentum has moderated in the Materials sector. Financials also reported a significant growth in PAT due to a pick-up in credit growth, improved asset quality and higher recoveries. Excluding these sectors, aggregate PAT growth stood at a modest 9.2% YoY. Weak sales and cost pressures in the December quarter were partly offset by marginal savings in credit costs (-2.5% YoY).

While operating margins contracted significantly, PAT margins remained broadly steady at 9.9%, up 9bps YoY. Excluding Materials, Energy and Financials, PAT margins contracted by 116 bps YoY, reflecting weak demand and margin pressures for non-commodity sectors. Within the Nifty 500 universe, 269 of 487 or 55% of the companies reported growth in net profits on a YoY basis in the December quarter respectively.

Table 14: PAT growth of Nifty 500 companies

	QoQ growth			YoY growth		
Sector	**Dec-20**	**Sep-21**	**Dec-21**	**Dec-20**	**Sep-21**	**Dec-21**
Communication Services	NA	NA	(45.0)	NA	NA	NA
Consumer Discretionary	98.2	NA	72.3	23.5	(18.7)	(30.4)
Consumer Staples	3.1	14.1	1.4	8.7	10.2	8.4
Energy	(6.5)	38.1	(5.8)	13.8	46.9	48.1
Financials	3.5	24.4	16.1	213.3	21.1	36.3
Health Care	5.1	(2.8)	8.7	53.8	(1.4)	2.7
Industrials	23.4	184.5	38.7	(9.5)	19.9	34.7
Information Technology	10.4	3.0	3.2	16.8	14.2	6.7
Materials	55.0	5.3	(9.5)	159.8	117.8	27.0
Real Estate	166.7	80.9	40.7	11.9	146.9	30.3
Utilities	4.3	8.2	3.2	16.7	13.5	12.3
Nifty 500	**16.9**	**27.3**	**4.6**	**63.5**	**40.4**	**25.7**
Nifty 500 ex-Energy	**22.2**	**24.9**	**7.1**	**76.8**	**38.9**	**21.9**
Nifty 500 ex-Financials	**23.0**	**28.3**	**0.3**	**38.0**	**49.2**	**21.6**
Nifty 500 ex-energy ex-fin	**33.8**	**25.2**	**2.5**	**46.0**	**50.1**	**14.8**

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

Table 15: PAT margin of Nifty 500 companies in Q3FY22

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	3.6	(337)	696
Consumer Discretionary	3.3	101	(305)
Consumer Staples	13.8	(77)	(94)
Energy	6.2	(164)	(13)
Financials	15.5	279	458
Health Care	14.5	106	(89)
Industrials	6.3	114	54
Information Technology	15.1	(46)	(158)
Materials	11.7	(209)	(79)
Real Estate	20.0	577	515
Utilities	13.9	(66)	(260)
Nifty 500	**9.9**	**(40)**	**9**
Nifty 500 ex-Energy	**11.3**	**18**	**48**
Nifty 500 ex-Financials	**8.6**	**(106)**	**(88)**
Nifty 500 ex-energy ex-fin	**9.8**	**(69)**	**(101)**

Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 19: Sector-wise PAT growth of Nifty 500 companies in Q3FY22

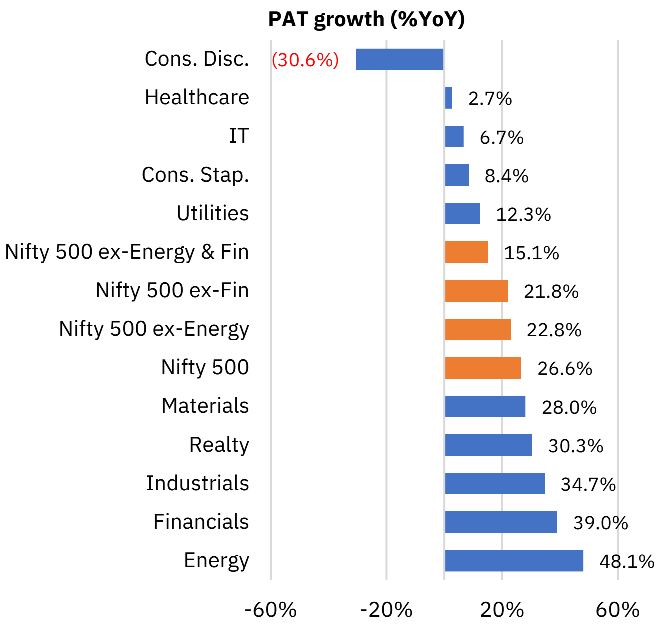
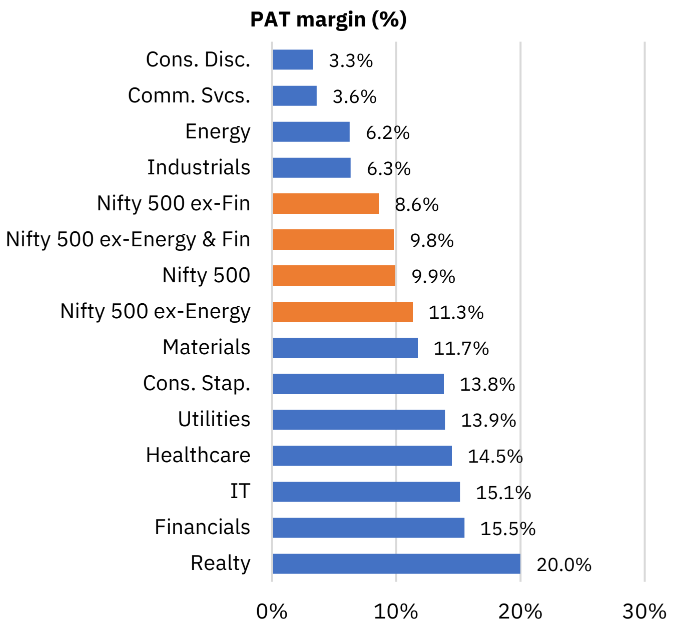


Figure 20: Sector-wise PAT margin of Nifty 500 companies in Q3FY22



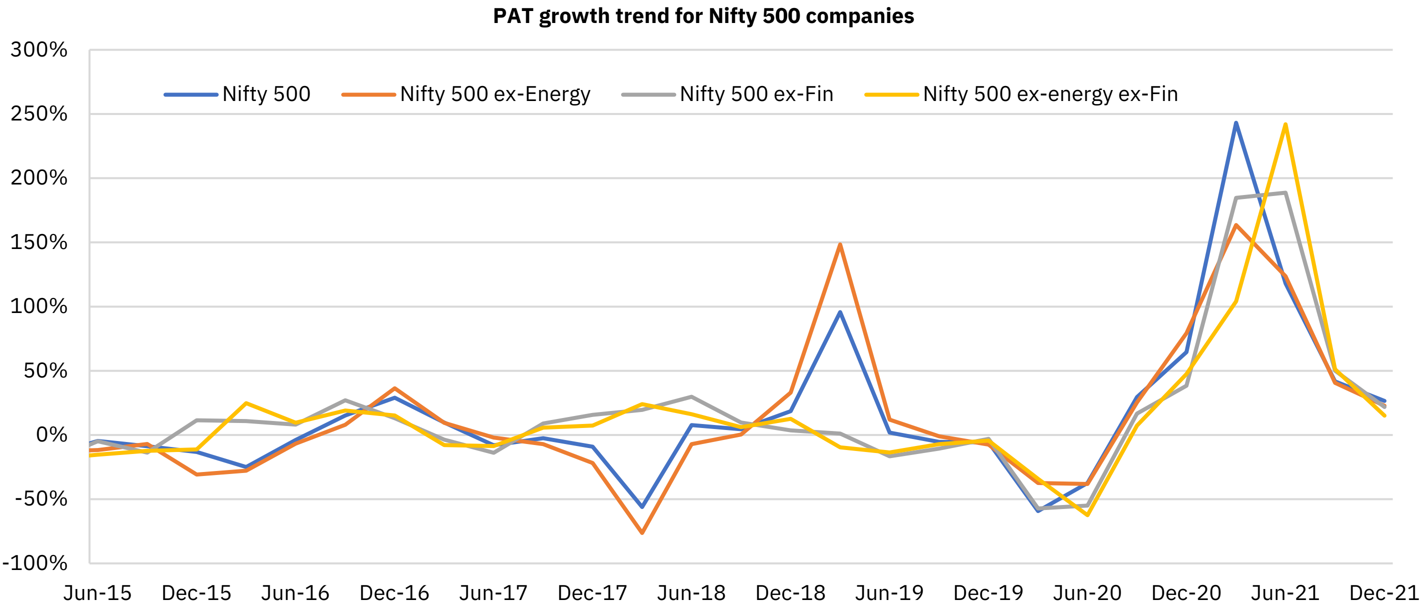
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Table 16: Sector-wise contribution of Nifty 500 companies to PAT growth in Q3FY22

Sector	PAT (Rsbn)	Contribution to PAT growth	
		% QoQ	% YoY
Communication Services	22	(0.7)	1.9
Consumer Discretionary	101	1.6	(2.0)
Consumer Staples	119	0.1	0.4
Energy	474	(1.1)	7.1
Financials	826	4.4	10.1
Health Care	117	0.4	0.1
Industrials	123	1.3	1.5
Information Technology	273	0.3	0.8
Materials	499	(2.0)	4.9
Real Estate	17	0.2	0.2
Utilities	158	0.2	0.8
Nifty 500	**2,730**	**4.6**	**25.7**
Nifty 500 ex-Energy	**2,256**	**5.7**	**18.6**
Nifty 500 ex-Financials	**1,904**	**0.2**	**15.6**
Nifty 500 ex-energy ex-fin	**1,430**	**1.4**	**8.5**

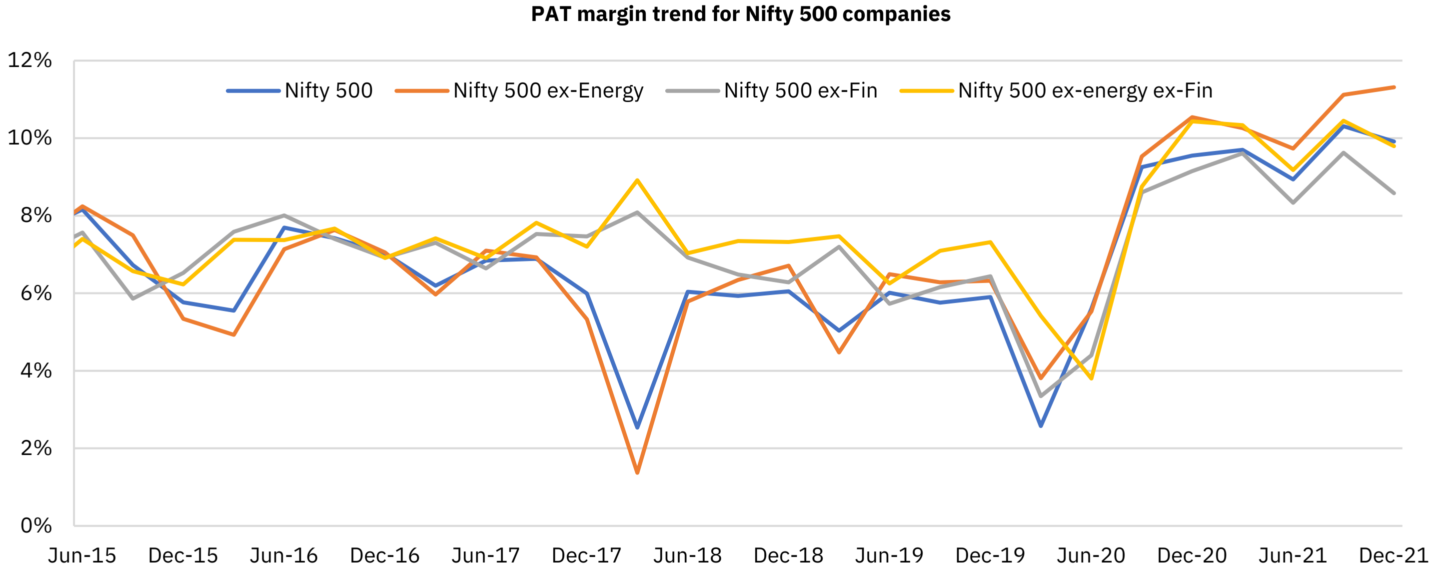
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 21: PAT growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Figure 22: PAT margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.

Earnings revision analysis

Consensus FY22/FY23 aggregate PAT estimates kept broadly unchanged: Momentum in corporate earnings recovery had slowed down in Q3FY22, reflecting weak domestic demand in the face of recurring COVID-19 waves, continued supply chain disruptions and intensifying input cost pressures. Accordingly, aggregate consensus estimates for FY22 and FY23 have remained broadly unchanged in 2022 thus far. Our analysis of earnings performance of top 200 covered companies by market capitalisation[3] show that while aggregate profit estimate for FY22 has been broadly retained at Rs7.9trn as compared to estimates at the end of December 2021, FY23 profit estimate has seen a meagre 1% upgrade. This follows nearly 7.3% and 8% increase in FY22 and FY23 profit estimate respectively in the first three quarter of FY22.

With this, the aggregate earnings of top 200 companies are now expected to grow at a strong 41%/21.8% in FY22 and FY23 respectively following a 24% PAT growth in FY21, implying an earnings CAGR of ~31% during FY21-23. This is primarily led by Communication Services, Consumer Discretionary, Industrials, Financials, and Materials, together accounting for nearly 68% of the absolute change in aggregate corporate earnings of top 200 covered companies during FY21-23. Profit growth in FY24 is currently estimated at 15.6%, translating into an earnings CAGR of 18.4% during FY22-24.

Weakening of domestic demand that got further hit by the onset of third wave, along with rising input prices and persistent supply-side bottlenecks, weighed on profit growth for non-commodity sectors in the quarter gone by, even as commodities and financials performed well. With earnings remaining broadly intact over the last couple of quarters following huge upgrades over the previous six quarters, downside risks to earnings trajectory from here on are mounting large, particularly if demand fails to revive, supply shortages continue, and cost-push pressures intensify.

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

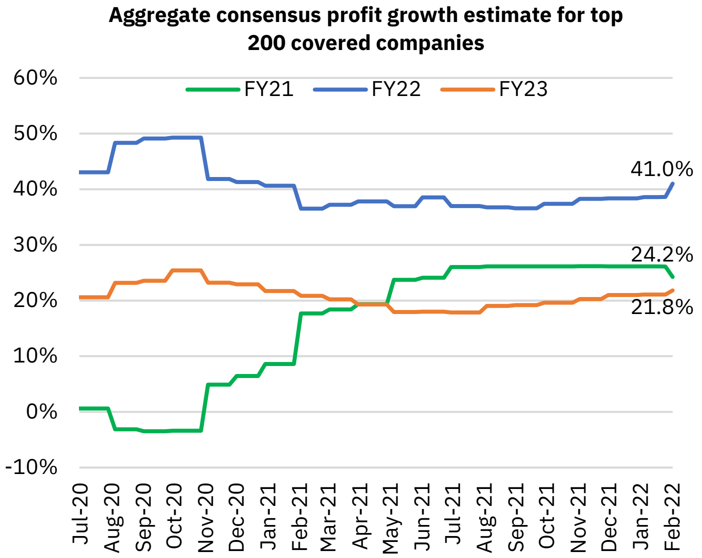
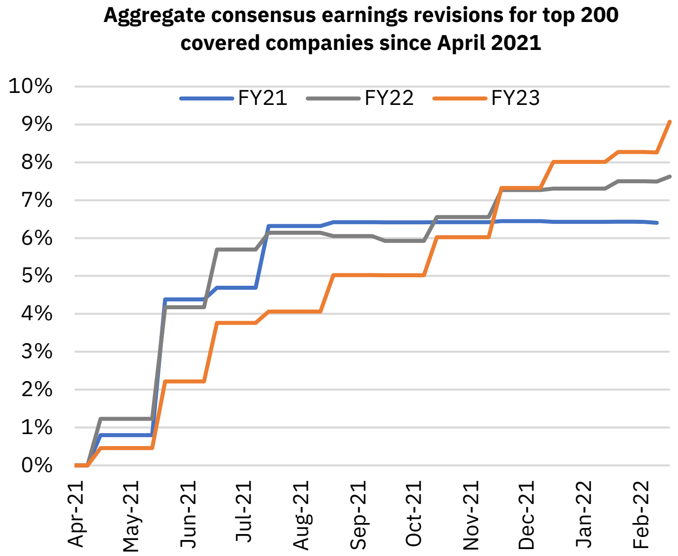


Figure 24: Aggregate consensus earnings revisions in FY22 TD (Apr'21-) for top 200 covered companies



Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of February 18h, 2022.

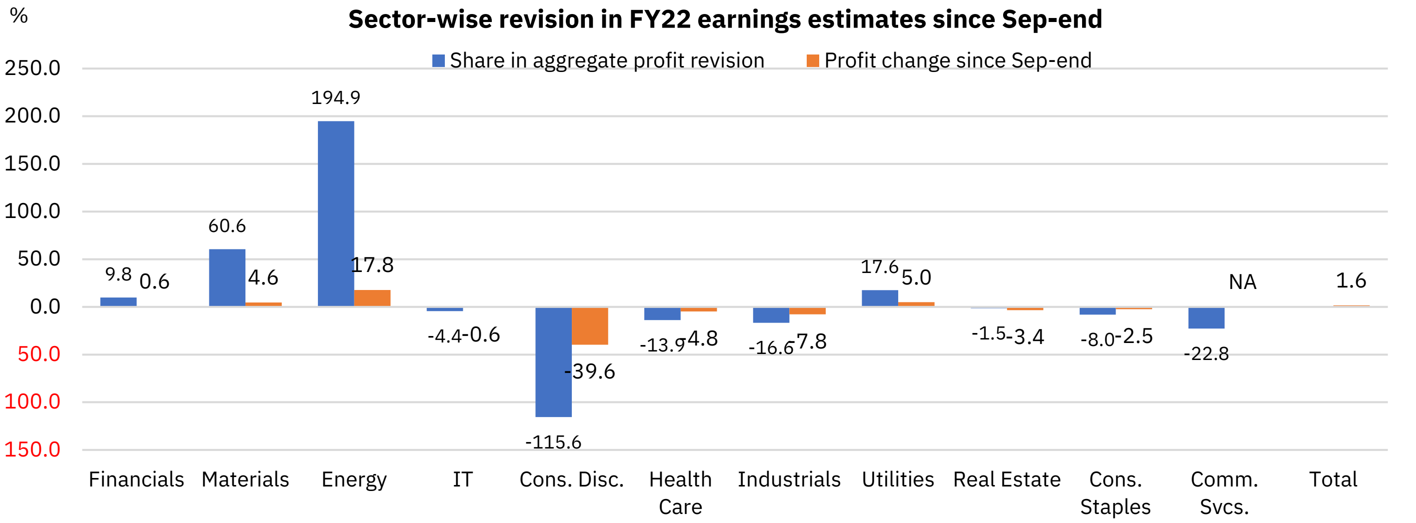
[3] The sample set consists of top 200 companies by one-year average market cap ending June 30th, 2021 covered by at least five or more analysts during the previous 12 months using IBES estimates from Refinitiv Datastream.

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

Sectors	Jan'21	Feb'21	Mar'21	Apr'21	May'21	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	162.0	122.8	124.2	122.6	90.0	83.7	77.1	57.5	55.4	51.4	28.4	16.9	13.4	-6.2
Consumer Staples	22.2	22.0	21.9	21.9	19.9	18.8	18.4	16.7	16.7	16.7	15.8	15.8	15.6	13.9
Energy	38.6	26.7	27.5	27.0	15.6	11.2	10.5	10.9	11.3	14.3	20.7	22.7	24.3	31.1
Financials	41.4	40.5	40.8	40.7	42.9	44.9	44.6	40.8	40.5	40.4	40.0	40.3	40.4	41.4
Health Care	17.7	14.0	13.8	13.4	14.0	13.3	13.0	11.6	11.6	11.9	7.8	7.5	6.9	6.3
Industrials	91.9	94.6	95.7	97.5	29.5	26.9	24.4	12.4	12.7	13.1	12.5	12.2	12.3	62.0
IT	15.0	15.0	14.5	15.9	19.4	19.3	18.3	18.7	18.8	19.0	18.8	19.0	18.2	18.1
Materials	33.1	24.6	24.7	28.3	45.0	62.8	67.7	81.6	83.4	85.8	92.4	92.4	93.6	94.7
Real Estate	26.9	32.4	32.6	30.3	65.3	97.0	95.5	94.6	94.1	93.0	92.1	90.6	89.6	87.5
Utilities	15.4	15.8	16.2	15.9	16.1	13.9	8.4	9.5	9.5	9.5	11.9	12.4	12.7	14.9
Total	**40.6**	**36.5**	**37.2**	**37.8**	**36.9**	**38.5**	**37.0**	**36.7**	**36.6**	**37.4**	**38.3**	**38.4**	**38.6**	**41.0**

Source: Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. * Data is as of February 18th, 2022.

Figure 25: Sector-wise revision in FY22 earnings estimates since September-end



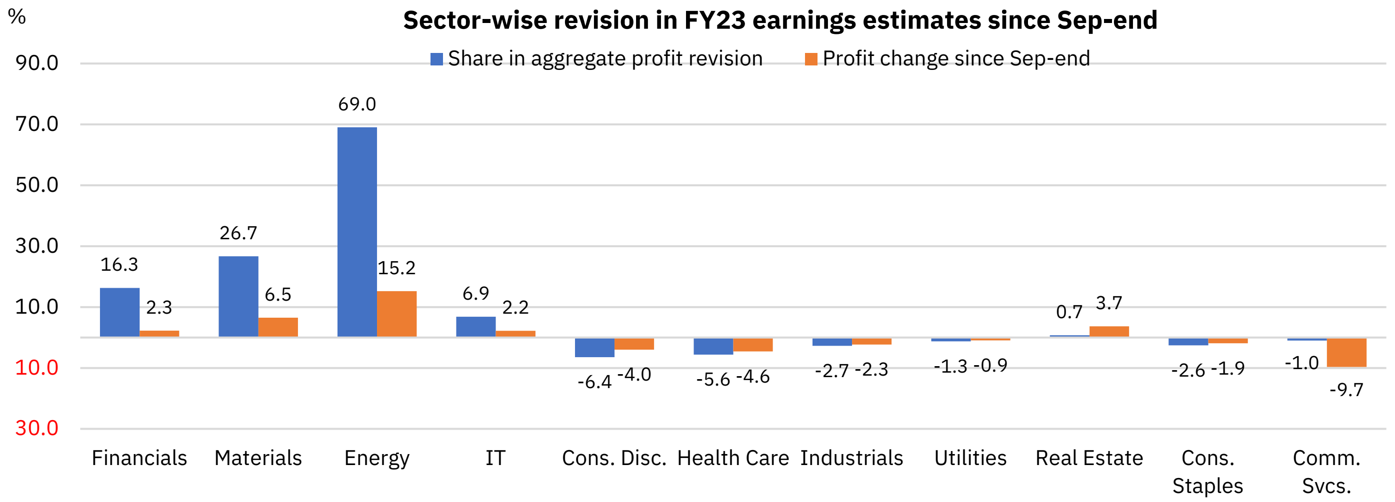
Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of February 18th, 2022.

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

Sectors	Jan'21	Feb'21	Mar'21	Apr'21	May'21	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22
Comm. Svcs.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Disc.	26.4	29.1	29.9	29.6	32.0	36.0	40.7	56.9	58.6	65.1	93.1	110.7	115.1	152.3
Consumer Staples	13.5	13.3	13.4	13.5	14.9	16.4	16.7	18.3	18.2	18.2	18.1	18.3	18.4	18.9
Energy	19.1	20.2	18.5	17.2	18.3	20.3	19.6	19.0	18.8	18.9	15.9	17.1	17.0	16.2
Financials	30.0	27.2	26.4	26.0	25.5	25.7	26.0	28.6	28.8	28.9	30.1	30.1	30.2	30.9
Health Care	19.0	18.9	18.9	19.0	19.0	19.7	19.8	20.3	20.2	20.0	23.1	23.2	23.4	20.4
Industrials	23.5	25.9	26.3	26.3	28.8	45.8	48.1	60.8	60.6	61.0	63.5	64.8	64.5	70.3
IT	12.1	11.9	12.2	11.9	11.1	11.2	12.4	12.7	12.6	14.1	14.7	14.6	15.7	15.8
Materials	14.9	8.8	8.3	5.0	-2.7	-7.5	-9.4	-9.7	-10.0	-10.2	-9.4	-9.4	-10.1	-8.4
Real Estate	20.9	23.5	24.3	26.7	26.0	30.1	30.2	31.0	31.6	34.4	35.6	35.4	38.7	41.2
Utilities	9.6	9.6	9.9	9.9	10.2	9.8	9.8	10.4	10.4	10.5	7.6	6.9	6.5	4.2
Total	**21.7**	**20.9**	**20.2**	**19.3**	**18.0**	**18.0**	**17.9**	**19.0**	**19.2**	**19.6**	**20.3**	**21.0**	**21.1**	**21.8**

Source: Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of February 18th, 2022.

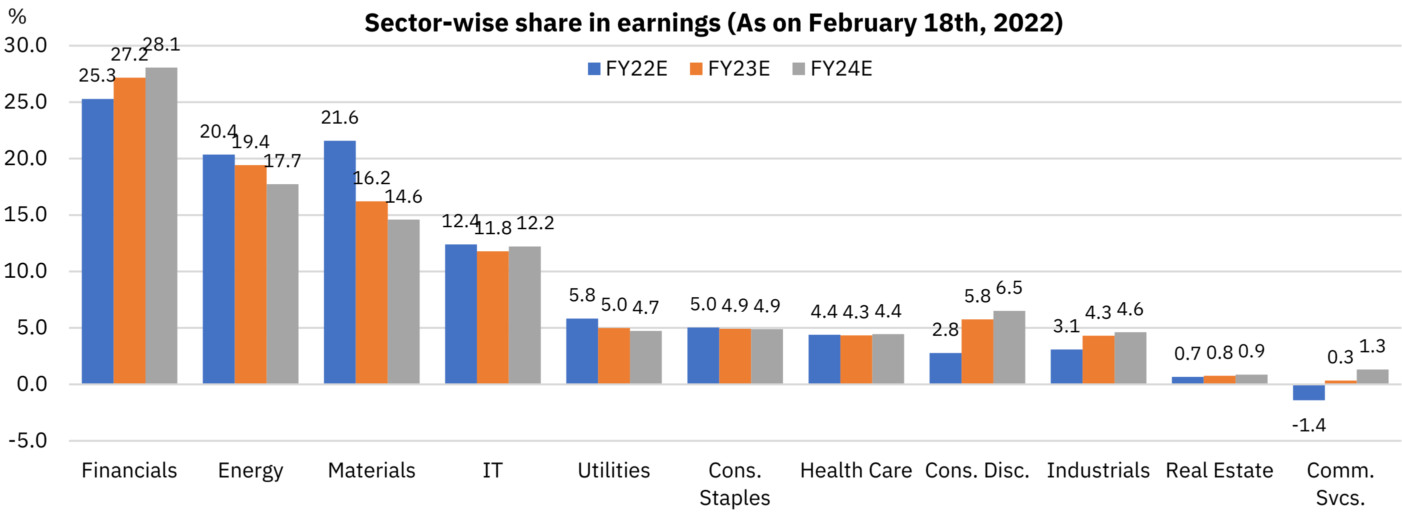
Figure 26: Sector-wise revision FY23 earnings estimates since September-end



Source: Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as February 18th, 2022.

Reduced share of Materials, Energy and Utilities to aggregate corporate earnings to be taken over by Financials, Consumer Discretionary and Industrials: A sharp rise in metal prices over the last 18 months had led to strong earnings upgrades in the Materials sector for the current financial year. The sector's share to aggregate corporate earnings of top 200 companies by market cap is estimated at ~20% in FY22 as compared to 15.6% in FY21, beating the Energy sector to become the second highest. Materials, however, is expected to normalise over the next two years, dropping to 16% in FY23 and further to 14.6% in FY24, even as share of Energy sector is also expected to drop, albeit at a slower pace. Besides Energy and Materials, Utility companies are also expected to see a drop in the share of their aggregate earnings to overall corporate earnings of these 200 companies. The reduced share of Materials, Energy and Utilities to aggregate corporate earnings during this period is expected to be taken over by Financials, Consumer Discretionary and Industrials. Clearly, the earnings trajectory over the next two years hinges on a credible improvement in consumption and investment demand, the absence of which may result in earnings downgrades.

Figure 27: Sector-wise share in earnings



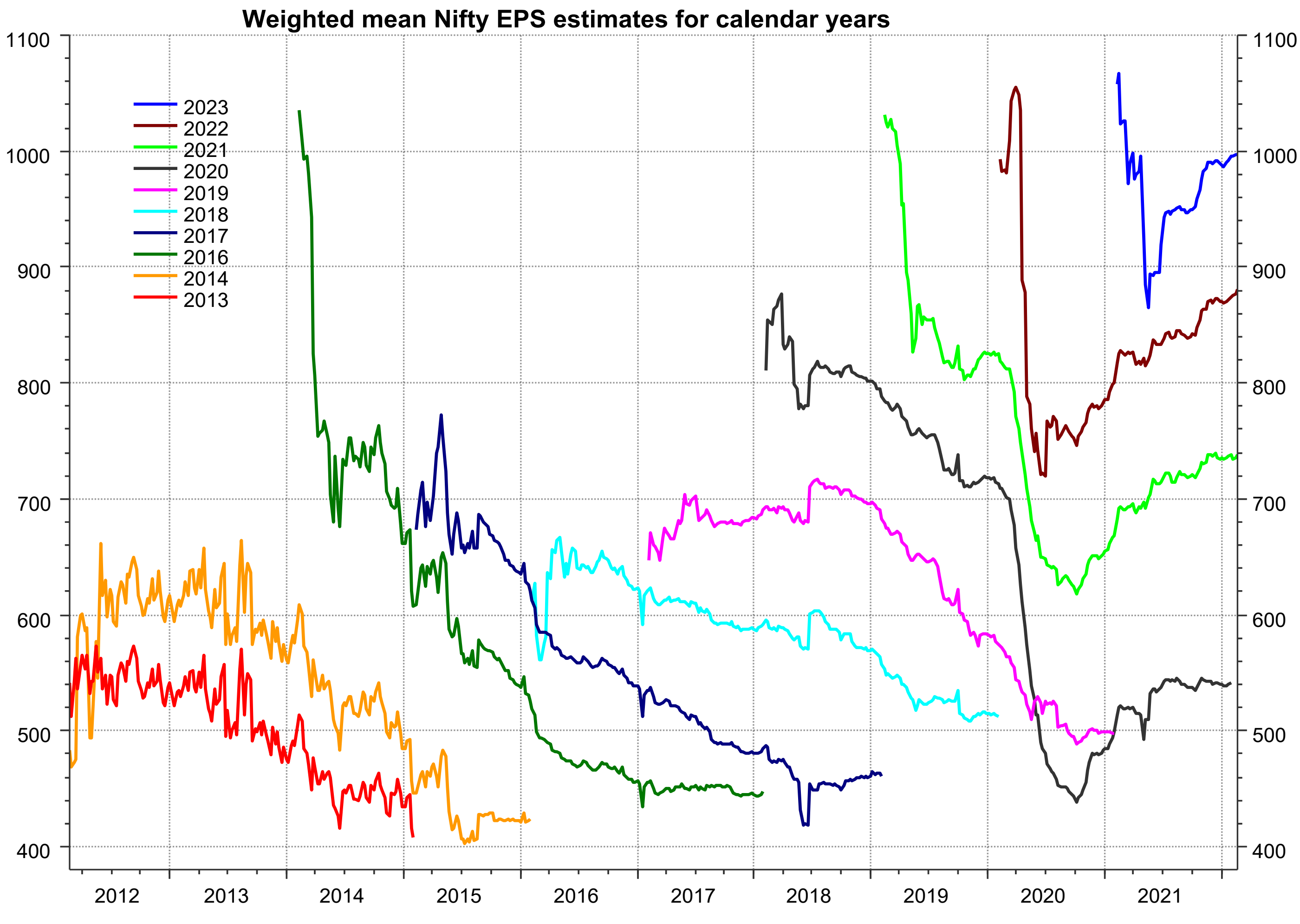
Source: CMIE Prowess, Refinitiv Datastream, NSE EPR.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2021, covered by at least five analysts at any given point of time over the last one year. Data is as of February 18th, 2022.

The chart below shows how Consensus estimates usually begin the year (calendar) with a bullish view on earnings, but are then brought back to *terra firma* with downgrades, year after year, as the macro environment overhang prevails over optimism.

A different story has played out in the post-pandemic era with earnings for the Nifty 50 universe, following a steep cut initially after the onset of COVID-19 pandemic, witnessing meaningful upgrades over the last several quarters. In fact, earnings growth this year is expected to be the highest in at least last 10 years. Aggressive cost cutting initiatives by companies, ramping up of business activities, rising commodity prices and improvement in consumption demand from the pandemic-induced slump bolstered earnings outlook, leading to ~12-13% increase in Nifty 50 EPS estimates for both 2021 and 2022 since the beginning of 2021.

Earning estimates, however, seem to have plateaued over the last couple of months, with Nifty 50 EPS estimates seeing an upgrade of just under 1% for both 2022 and 2023.

Figure 28: Yearly trend of NIFTY 50 Consensus EPS estimates

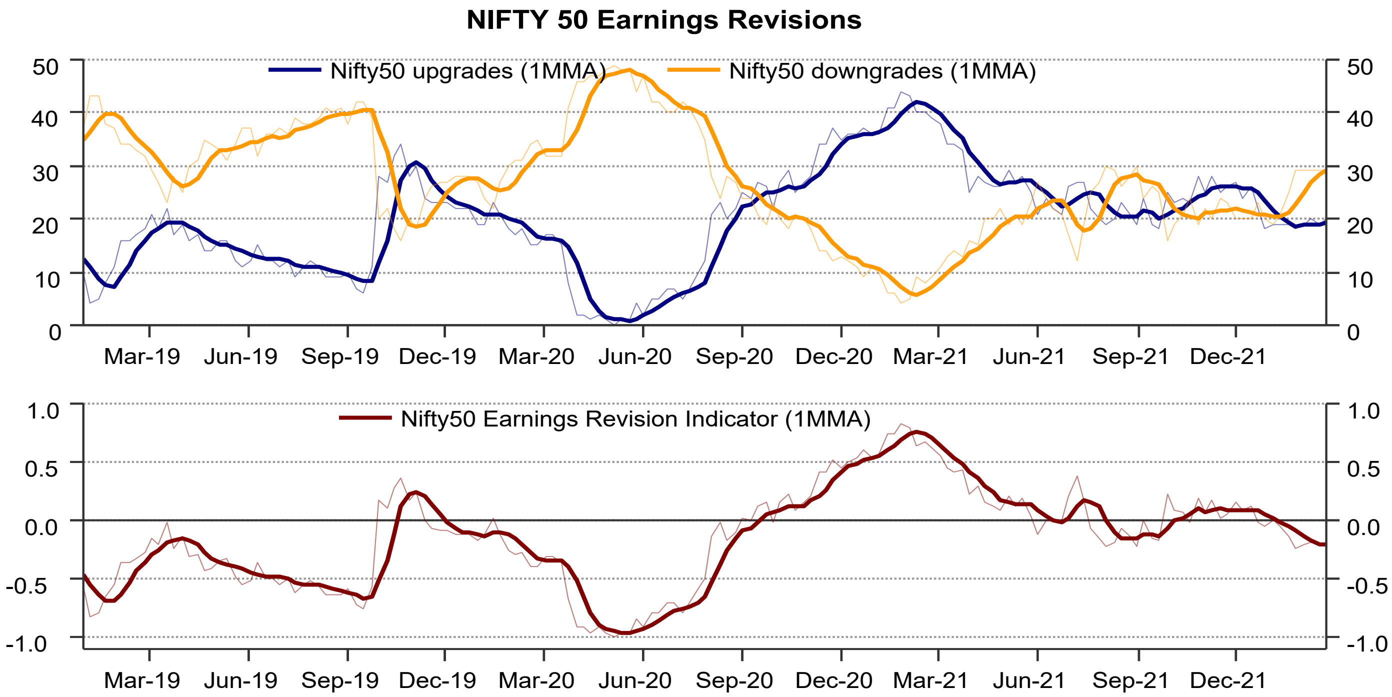


Source: Refinitiv Datastream, NSE EPR.

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

The ERI, however, improved meaningfully beginning September 2020, as better-than-expected corporate earnings over the last several quarters, a stronger-than-anticipated post-lockdown recovery in business and consumption activities and a spike in commodity prices led to upgrades across the board. That said, the ERI has been on a downward trajectory since the onset of the second wave of COVID-19 in February 2021 and has been hovering near-zero or at sub-zero levels for more than six months now. This has been primarily led by Consumer Discretionary, Consumer Staples, Healthcare and Financials where ERI has been hovering at sub-zero levels for some time now, indicating higher number downgrades than upgrades. Upgrades over the last few months have been largely led by Materials, and Energy, thanks to a sharp surge in metal and crude oil prices. In fact, Materials sector has been consistently seeing a positive ERI (upgrades outnumbering downgrades) for nearly one-and-a-half year now, even as it has been on a downward trajectory since March 2021, implying reducing share of companies witnessing upgrades in the sector.

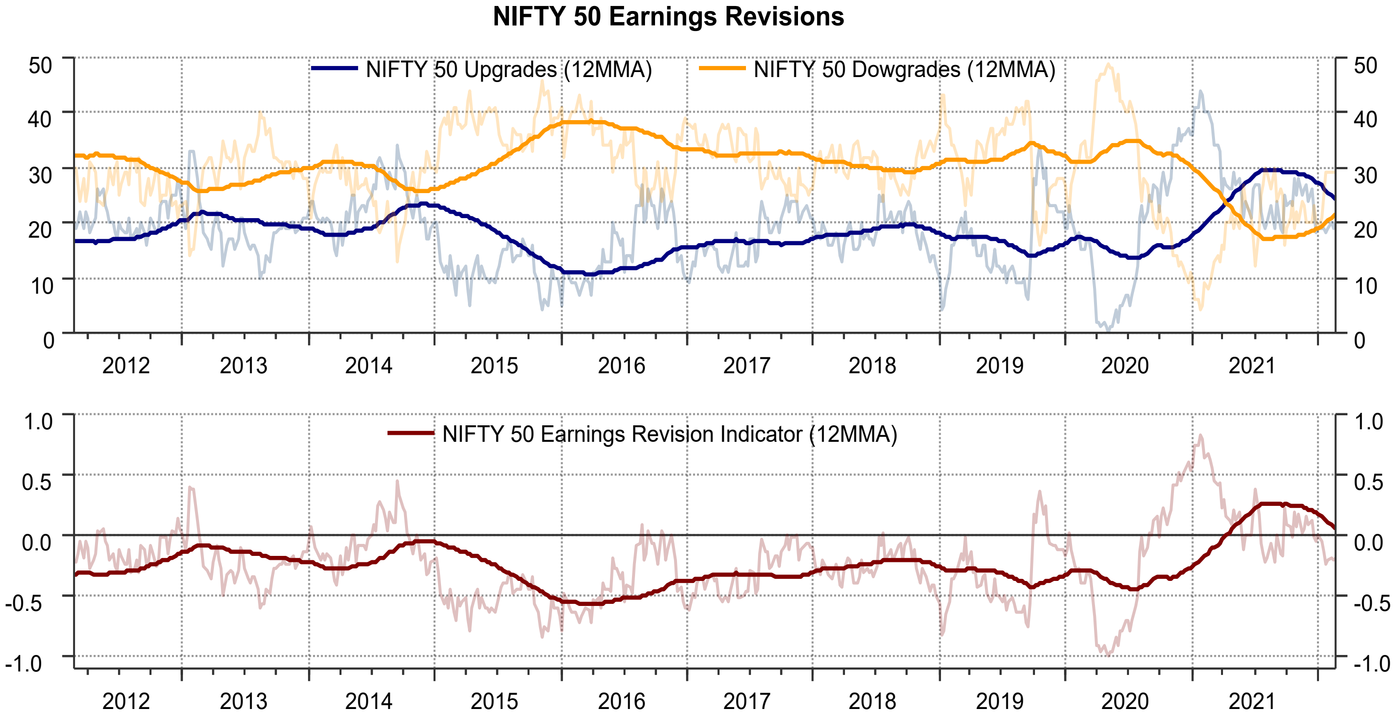
Figure 29: Nifty 50 Earnings Revision Indicator (since January 2019)



Source: Refinitiv Datastream, NSE EPR.

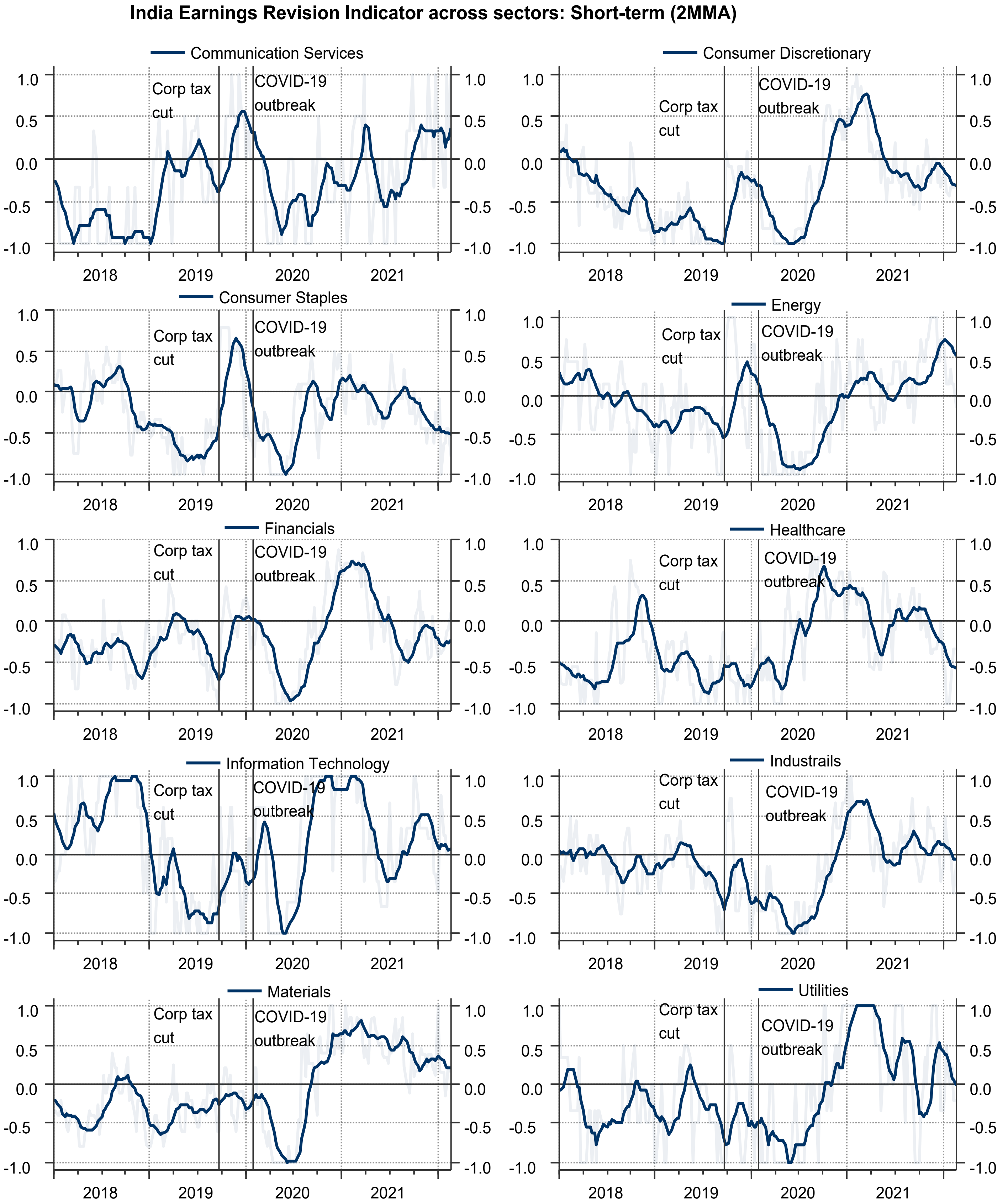
[4] The ERI is calculated as "(number of upgrades – number of downgrades)/total number of upgrades and downgrades". It can range between -1 to 1.

Figure 30: Nifty 50 Earnings Revision Indicator (10-year trend)



Source: Refinitiv Datastream, NSE EPR.

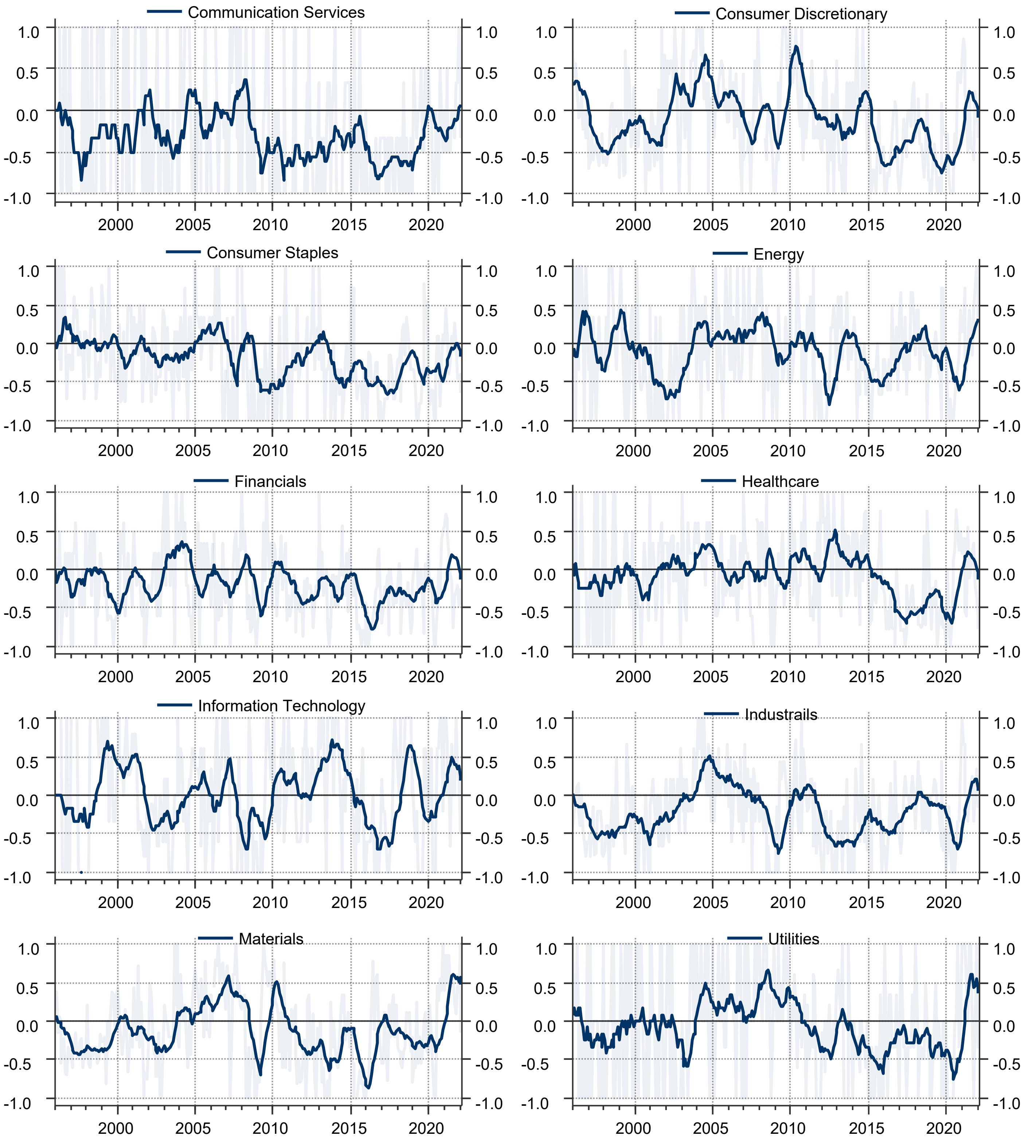
Figure 31: Short-term trend of Earnings Revision Indicator across MSCI sectors



Source: Refinitiv Datastream, NSE EPR.

Figure 32: Long-term trend of Earnings Revision Indicator across MSCI sectors

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



Source: Refinitiv Datastream, NSE EPR.

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