NSE

Corporate Performance Review

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Q4FY20 Earnings Review: Lock-down hits corporate earnings; estimates cut sharply

Aggregate net sales fell by 4.4%/5.9% YoY in Q4 FY20 for the Nifty 50/Nifty 500 universe[1], marking the second consecutive quarter of contraction. An already weak consumption and investment demand was accentuated by the COVID-19 outbreak and attendant containment measures, including a strict nation-wide lock-down. The contraction was largely led by Consumer Discretionary (continued demand weakness aggravated by supply chain disruptions from China), Materials (weak demand), Energy (lower realisations and inventory losses), Industrials (sustained weakness in private capex) and Real Estate. Notably, essential sectors such as Consumer Staples, Healthcare, Communication Services and Utilities fared relatively better. Operating profit also witnessed a contraction despite tailwinds from lower input costs and cost rationalisation by companies. Consequently, aggregate adjusted PAT[2] fell by 42%/57% YoY for the Nifty 50/Nifty 500 universe in Q4 FY20.

The Consensus earnings estimate (from Refinitiv) for the top 200 covered companies by market cap has been downgraded by nearly 36% since the beginning of 2020 and 35% in this fiscal year thus far. This has translated into an expected YoY contraction in FY21 profits of 0.2% vs. +19% growth in mid-June. The downgrades have been largely led by Consumer Discretionary, Materials, Industrials, Financials and Energy, reflecting expectations of a lacklustre consumption and investment demand, sustenance of benign commodity prices and elevated credit cost for financials. However, downgrades in FY22 earnings have been relatively modest, potentially indicating the impact of COVID-19 to be temporary in nature. The sharp cut in earnings post the COVID-19 outbreak is also evident in the Earnings Revision Indicator[3] trend for Nifty 50 which fell deep into the negative zone and touched the lower limit of -1 in mid-May, implying downgrades across the board.

Earnings are expected to see a meaningful contraction this year, in-line with an expected drop in nominal GDP growth. That said, a confluence of fiscal and monetary measures taken thus far should provide some respite to the ailing economy in the medium-term, even as a meaningful recovery looks quite hazy and far-fetched at this point.

- Top-line contraction in Q4FY20 the weakest since the GFC: Aggregate net sales for Nifty 50 companies declined by 4.4% YoY—the steepest contraction in the last 18 quarters, as a persistent weakness in consumption demand was further impacted by the imposition of a strict nation-wide lockdown towards the end of the quarter to contain the COVID-19 outbreak, leading to supply chain bottlenecks and disruptions in economic activities. Sales growth for Nifty 500 companies also declined by 5.9% YoY—the first in the last four years. The contraction in sales was largely led by Consumer Discretionary (continued demand weakness aggravated by supply chain disruptions from China), Materials (weak demand), Energy (lower realisations and inventory losses), Industrials (sustained weakness in private capex) and Real Estate.

  Sectors that supported revenue growth in the March quarter amid a weak economic environment included Utilities (robust pre-lockdown power demand), Healthcare (increased demand) and Communication Services (higher tariffs and limited impact of lockdown). Baring Insurance companies, Financials witnessed a decent revenue growth of 7% YoY, despite muted credit growth. Consumer staples companies engaged in the manufacturing of food and beverages fared better compared to household and personal items.

Aggregate net sales for the Nifty 50 universe contracted by 4.4% YoY—the steepest since September 2015.

The contraction was led by non-essential sectors including Consumer Discretionary, Materials, Industrials and Real Estate, while essential sectors fared somewhat better.

- Operating profits declined despite cost rationalisation: EBITDA for the Nifty 50/Nifty 500, ex-Financials and Communication Services, contracted in the March

[1] 49/50 companies in the Nifty 50 Index and 478/500 companies in the Nifty 500 Index reported earnings data for Q4FY20 as on July 21st, 2020.

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

[3] *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.

quarter by 22.8%/21.0% YoY respectively. Operating margins for the same universe witnessed a decline by 281 bps/267 bps YoY, thanks to lower revenue realisation partly offset by cost cutting initiatives undertaken by the companies.

EBITDA growth in Communication Services (55.3%/58.2% YoY) and Utilities (306%/87.4% YoY) was optically high due to low base; barring these sectors the negative growth in operating profits and margin compression was broad-based.

- PAT growth plunged on weak consumption and commodity prices: Aggregate adj. PAT growth for the Nifty 50/Nifty 500 universe nosedived -42.1%/-56.8% YoY. This was largely owing to a sharp drop in profits reported by Energy, Consumer Discretionary, Financials and Industrials. While the upstream companies in the Energy sector got hit from lower realisations in the wake of a sharp drop in crude oil prices, the oil marketing companies suffered owing to weak demand amid travel restrictions and a complete lockdown towards March-end as well as significant inventory losses. Significant increase in provisioning on account of COVID-19 impacted profitability for the Financials sector. Continued demand weakness, supply chain bottlenecks from China and domestic supply issues were the key factors hurting profitability of Consumer Discretionary companies. Decline in order flows and deferred private corporate capex adversely impacted Industrials sector. Within the Nifty 500 universe, Information Technology was the only sector to report a modest growth in profits, partly attributed to a weak currency, while the Healthcare sector benefited from a strong domestic demand.

Aggregate adj. PAT growth plunged, partly attributed to huge decline in profits reported by Energy (low crude oil prices), Financials (high COVID-19 related provisions) and Consumer Discretionary (lackluster demand) sectors.

- Consensus FY21 PAT estimates slashed sharply this year: The COVID-19 outbreak and attendant control measures including lockdown and complete shutdown of non-essential activities have accentuated the downgrade cycle. The Consensus earnings estimate (from Refinitiv) for the top 200 covered companies by market cap has been downgraded by nearly 36% since the beginning of the year and 35% in this fiscal year thus far. This has translated into expected YoY contraction in FY21 profits of 0.2% vs. an estimated growth of 19% in mid-June. The downgrades have been largely led by Consumer Discretionary, Materials, Industrials, Financials and Energy, reflecting expectations of a lacklustre consumption and investment demand, sustenance of benign commodity prices and elevated credit cost for financials. However, downgrades in FY22 earnings have been relatively modest, potentially indicating the impact of COVID-19 to be temporary in nature. Consequently, FY22 profit growth is estimated at a strong 45% YoY which appears optimistic and is therefore susceptible to downside risks.

Consensus aggregate FY21 PAT estimate for top 200 companies by market cap has been downgraded by ~35% in this fiscal year thus far.

- ERI fell deep into the contraction zone: The ERI fell deep into the negative zone to the lowest level since the data is available (2007) as corporate earnings outlook got adversely impacted due to massive supply and demand disruptions caused by mass-scale COVID-19-induced lockdowns worldwide. In fact, except for one or two companies, rest all the Nifty 50 companies witnessed significant earnings downgrades until May 2020, taking ERI to its lower limit of -1 in mid-May, implying downgrades across the board. The ERI has since improved led by upward revisions in Healthcare and Information Technology.

Nifty 50 Q4FY20 results

Top-line contracted sharply on weak consumption demand and lower commodity prices: Aggregate net sales for Nifty 50 companies declined by 4.4% YoY—the steepest contraction in the last 18 quarters, as a persistent weakness in consumption demand was further impacted by the imposition of a strict nation-wide lockdown towards the end of the quarter to contain the COVID-19 outbreak, leading to supply chain bottlenecks and disruptions in economic activities. Within the Nifty 50 universe, 26/49 companies reported negative YoY sales growth in the March quarter.

Sectors that contributed to the sharp decline in aggregate sales in Q4FY20 included: a) Consumer Discretionary: Sustained weak demand in auto sales was aggravated by a nation-wide lockdown announced by the Government in late-March, with supply chain bottlenecks from China further adding to the woes. Excluding Automobiles, net sales for Nifty 50 companies contracted by a much lower 1.7% YoY. b) Materials: lockdown-induced demand contraction. c) Energy: The highest quarterly decline in crude oil prices (-65.9% QoQ/-67% YoY) impacted realisations of upstream oil companies, while weak demand owing to travel restrictions and lockdown as well as inventory losses impacted profitability of downstream oil marketing companies. d) Consumer Staples: Excluding companies engaged in food and beverages, revenues were impacted due to weak demand and logistical constraints owing to the lockdown. Notably, essential sectors such as Consumer Staples, Healthcare, Communication Services and Utilities fared relatively better, while Information Technology benefited from rupee depreciation.

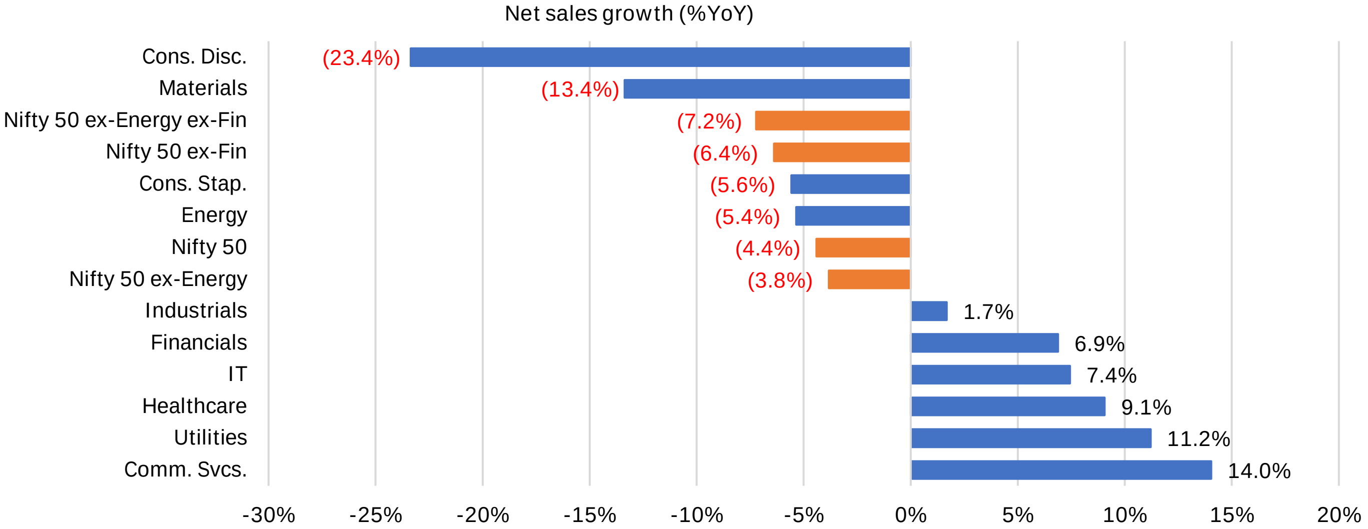
Net sales in the first quarter of FY21 are expected to see a much sharper contraction in the wake of a stringent and extended lockdown that lasted for more than two months in some areas. Rural demand, however, is expected to fare better than urban, thanks to a favourable monsoon and expectations of a bumper *Kharif* harvest. An impending recovery in private investment cycle has also got de-railed meaningfully as companies delay capex spending amid uncertainty around domestic and global economic recovery.

Figure 1: Net sales growth of Nifty 50 companies in Q4FY20

	QoQ growth (%)			YoY growth (%)		
Sector	Mar-19	Dec-19	Mar-20	Mar-19	Dec-19	Mar-20
Communication Services	0.7	3.0	7.6	6.6	6.3	14.0
Consumer Discretionary	7.8	9.7	(14.2)	7.8	(3.6)	(23.4)
Consumer Staples	2.2	(0.3)	(6.7)	15.3	3.5	(5.6)
Energy	(7.5)	8.5	(6.1)	37.6	(6.8)	(5.4)
Financials	5.5	1.0	(1.8)	24.5	14.8	6.9
Health Care	(0.1)	(2.4)	0.5	9.6	8.4	9.1
Industrials	25.2	2.6	20.5	5.8	5.6	1.7
Information Technology	1.2	2.8	0.7	16.9	7.9	7.4
Materials	9.1	2.7	(0.4)	29.7	(5.1)	(13.4)
Utilities	(3.3)	4.0	8.3	13.1	(0.7)	11.2
Nifty 50	0.5	5.3	(3.2)	24.5	(0.7)	(4.4)
Nifty 50 ex-Energy	6.1	3.3	(1.4)	17.6	3.6	(3.8)
Nifty 50 ex-Financials	(0.3)	6.1	(3.5)	24.5	(3.3)	(6.4)
Nifty 50 ex-energy ex-fin	6.3	4.2	(1.3)	15.6	(0.0)	(7.2)
Nifty 50 ex-Comm Svcs.	0.5	5.3	(3.4)	24.9	(0.8)	(4.7)

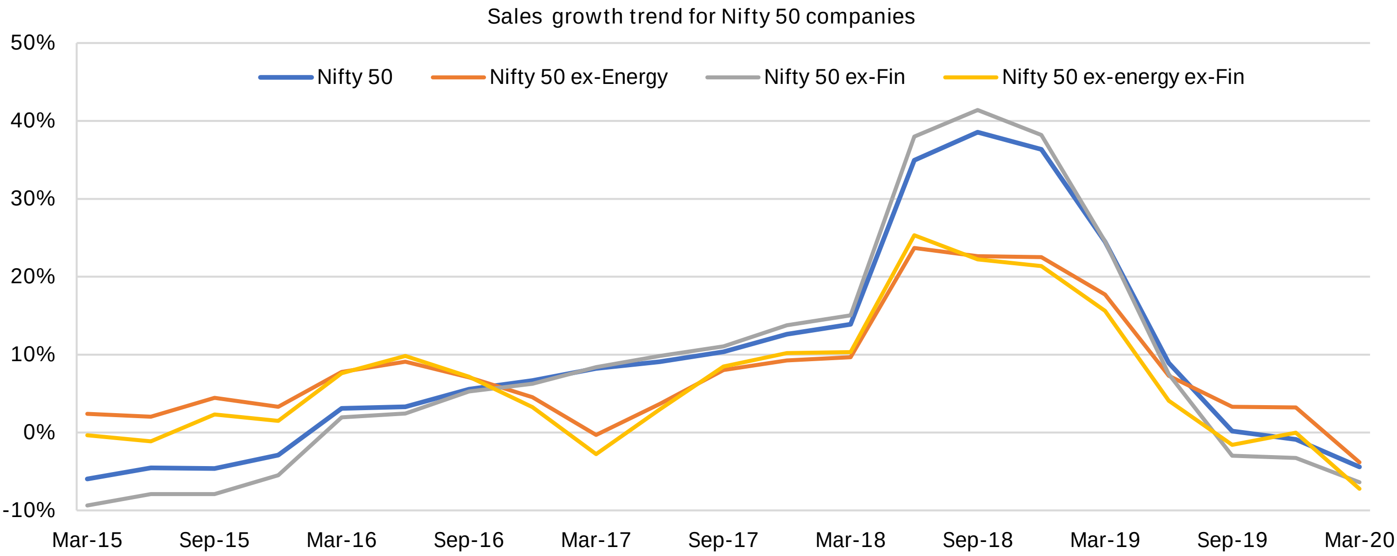
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 2: Sector-wise net sales growth of Nifty 50 companies in Q4FY20



Source: CMIE Prowess, Refinitiv Datastream, NSE.

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



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Lower revenues offset cost savings from lower input prices and cost rationalisation: EBITDA for the Nifty 50 universe, excluding Financials and Communication Services, contracted in the March quarter by 22.8% YoY. Operating margins for the same universe witnessed a decline by 281 bps YoY, thanks to lower revenue realisation partly offset by cost cutting initiatives undertaken by the companies. Within the Nifty 50 universe, 25/49 companies reported negative YoY sales growth in the March quarter.

Sectors that dragged down the aggregate EBITDA growth and margins are: a) Energy: lower refining margins for the oil marketing companies, and weak realisations for the upstream oil companies, b) Consumer Discretionary—sustained weak demand in auto sector was further impacted by the nation-wide lockdown due to the COVID-19 situation, c) Materials: weak demand and lower metal prices, and d) Industrials: decline in orders owing to the lockdown and deferred capex spending amid an imminent gloom in the economy.

EBITDA growth in Communication Services and Utilities looked optically high due to a favourable base. Information Technology reported a modest growth in operating profits, as the sector benefited from a~6% rupee depreciation in the March quarter.

Figure 4: EBITDA growth of Nifty 50 companies in Q4FY20

	QoQ growth			YoY growth		
Sector	Mar-19	Dec-19	Mar-20	Mar-19	Dec-19	Mar-20
Communication Services	(6.0)	(0.5)	11.8	(10.5)	27.5	55.3
Consumer Discretionary	6.2	9.0	(53.2)	(13.9)	6.4	(53.1)
Consumer Staples	10.0	1.1	(6.9)	16.9	12.5	(4.8)
Energy	25.2	9.8	(52.1)	44.5	5.2	(59.7)
Financials	(4.0)	3.3	(14.1)	45.8	14.4	2.3
Health Care	(19.4)	(13.1)	(21.2)	2.7	(3.9)	(6.1)
Industrials	15.6	8.7	(2.7)	9.8	5.7	(11.0)
Information Technology	(0.9)	3.7	(1.6)	14.4	7.1	6.4
Materials	11.6	4.5	5.5	22.0	(14.2)	(18.9)
Utilities	(67.3)	16.7	13.5	(59.2)	17.4	306.7
Nifty 50	0.8	5.4	(17.6)	23.4	8.7	(11.1)
Nifty 50 ex-Energy	(5.0)	4.5	(9.8)	18.1	9.5	3.9
Nifty 50 ex-Financials	4.0	7.0	(20.2)	12.6	4.8	(19.5)
Nifty 50 ex-energy ex-fin	(5.9)	5.8	(5.1)	(1.0)	4.6	5.6
Nifty 50 ex-Comm Svcs.	1.0	5.6	(18.6)	24.7	8.1	(12.8)

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 5: EBITDA margin of Nifty 50 companies in Q4FY20

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	48.9	182	1298
Consumer Discretionary	7.6	(632)	(481)
Consumer Staples	32.8	(8)	25
Energy	6.6	(630)	(886)
Financials	61.3	(885)	(273)
Health Care	18.0	(497)	(290)
Industrials	19.2	(456)	(272)
Information Technology	26.5	(62)	(25)
Materials	19.0	106	(129)
Utilities	44.0	201	3197
Nifty 50	23.1	(402)	(173)
Nifty 50 ex-Energy	33.0	(307)	247
Nifty 50 ex-Financials	15.4	(321)	(251)
Nifty 50 ex-energy ex-fin	22.6	(91)	275
Nifty 50 ex-Comm Svcs.	22.5	(419)	(209)

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 6: Sector-wise EBITDA growth of Nifty 50 companies in Q4FY20

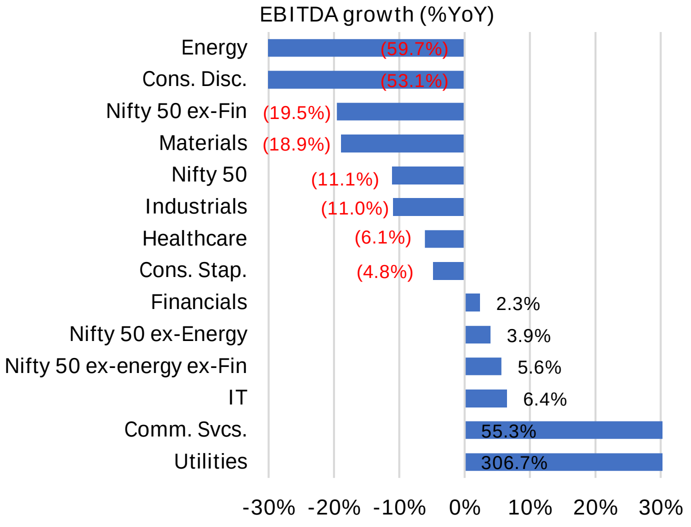
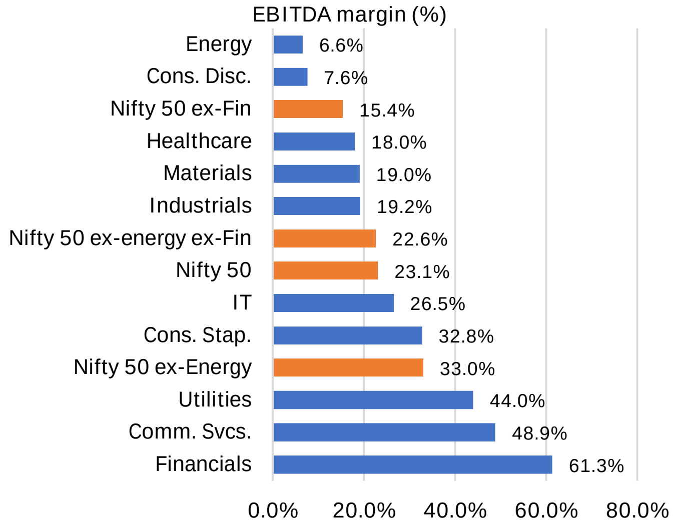
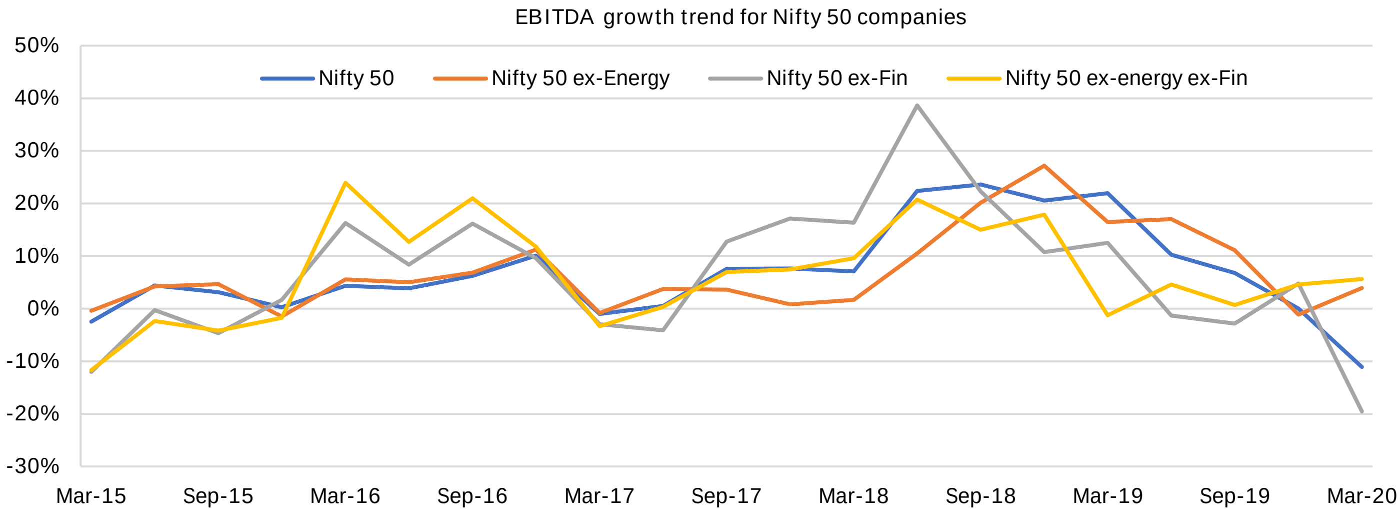


Figure 7: Sector-wise EBITDA margin of Nifty 50 companies in Q4FY20



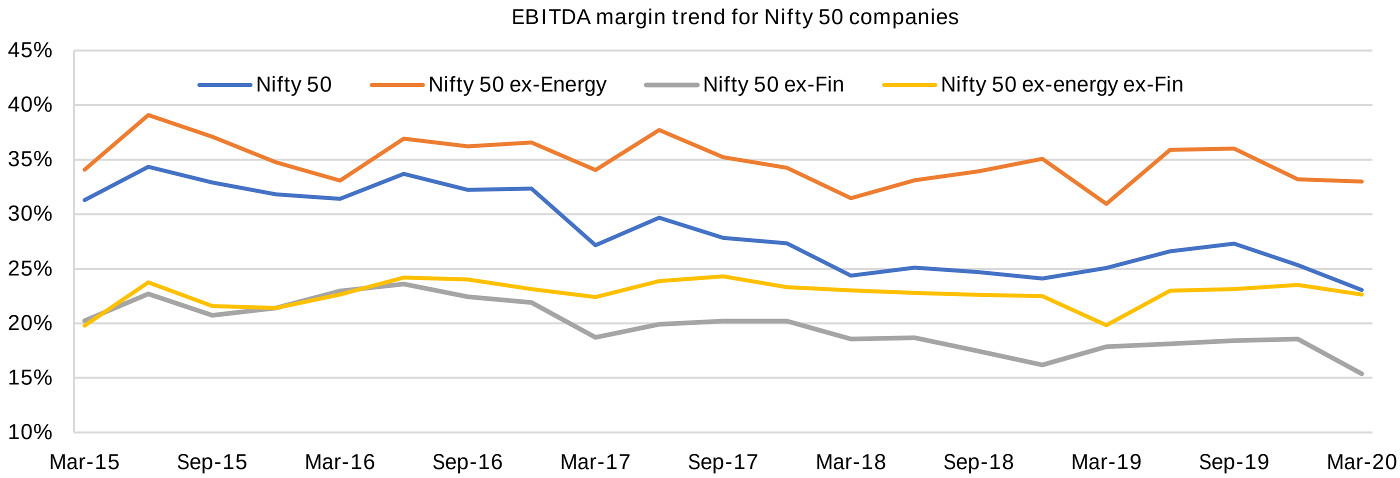
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 8: EBITDA growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 9: EBITDA margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

PAT growth plunged due to further deterioration in consumption demand and lower commodity prices: Aggregate adjusted PAT growth for the Nifty 50 companies declined 42.1% YoY in the March quarter. This was largely on account of a) an extant slowdown in auto sales worsened by a nation-wide lockdown and supply chain disruptions from China, leading to the sector reporting losses in Q4 FY20, b) highest quarterly decline in global crude oil prices, c) weak commodity prices including metals, and d) decline in order intake in industrials sector as private capex got deferred due to lockdown and rising economic uncertainty. Within the Nifty 50 universe, 33/50 companies reported negative YoY PAT decline in the March quarter.

Sectors that aided profit growth of Nifty 50 companies are: a) Health care: Increased demand in the wake of COVID-19 outbreak, b) Information Technology: Tailwinds from rupee depreciation and limited impact in business activities due to the lockdown

Figure 10: PAT growth of Nifty 50 companies in Q4FY20

	QoQ growth (%)			YoY growth (%)		
Sector	Mar-19	Dec-19	Mar-20	Mar-19	Dec-19	Mar-20
Communication Services	(589.6)	57.0	93.4	(135.9)	1382.2	NA
Consumer Discretionary	(12.7)	55.9	(158.6)	(36.8)	(0.6)	(166.7)
Consumer Staples	13.2	(3.0)	(5.6)	19.0	21.3	1.2
Energy	30.7	17.6	(92.6)	36.5	(0.2)	(94.4)
Financials	(15.0)	14.4	(45.4)	NA	56.7	0.6
Health Care	(33.7)	(17.7)	(24.4)	(16.3)	(6.3)	6.9
Industrials	36.6	22.6	(5.5)	16.5	7.7	(25.5)
Information Technology	(0.2)	4.4	(1.4)	15.7	3.8	2.5
Materials	20.4	(35.0)	(17.0)	10.0	(40.5)	(59.0)
Utilities	50.9	13.5	11.4	64.9	25.5	(7.4)
Nifty 50	9.2	9.5	(44.4)	39.7	13.8	(42.1)
Nifty 50 ex-Energy	2.0	7.4	(30.8)	41.1	18.4	(19.7)
Nifty 50 ex-Financials	16.3	7.4	(43.9)	15.0	1.2	(51.3)
Nifty 50 ex-energy ex-fin	9.4	3.2	(21.0)	5.5	1.9	(26.6)
Nifty 50 ex-Comm Svcs.	9.9	9.0	(46.1)	43.3	12.2	(44.9)

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

Figure 11: PAT margin of Nifty 50 companies in Q4FY20

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	10.5	468	1430
Consumer Discretionary	(3.4)	(842)	(734)
Consumer Staples	22.3	27	149
Energy	0.4	(487)	(656)
Financials	9.8	(785)	(61)
Health Care	9.5	(314)	(19)
Industrials	7.8	(216)	(287)
Information Technology	17.6	(39)	(85)
Materials	3.4	(68)	(377)
Utilities	15.5	43	(311)
Nifty 50	5.3	(395)	(348)
Nifty 50 ex-Energy	8.3	(352)	(164)
Nifty 50 ex-Financials	4.4	(320)	(409)
Nifty 50 ex-energy ex-fin	7.8	(193)	(204)
Nifty 50 ex-Comm Svcs.	5.2	(413)	(381)

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 12: Sector-wise PAT growth of Nifty 50 companies in Q4FY20

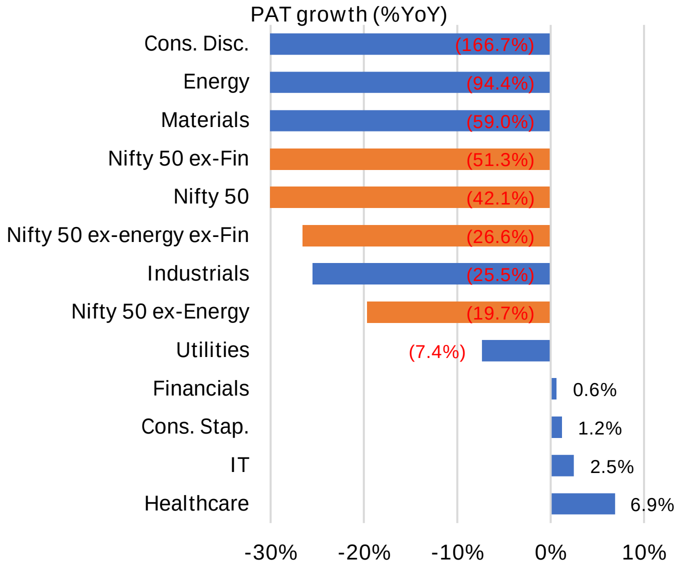
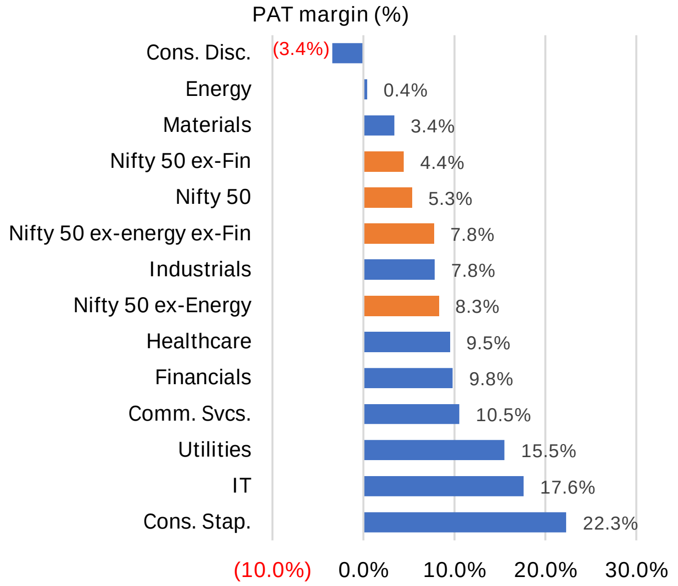
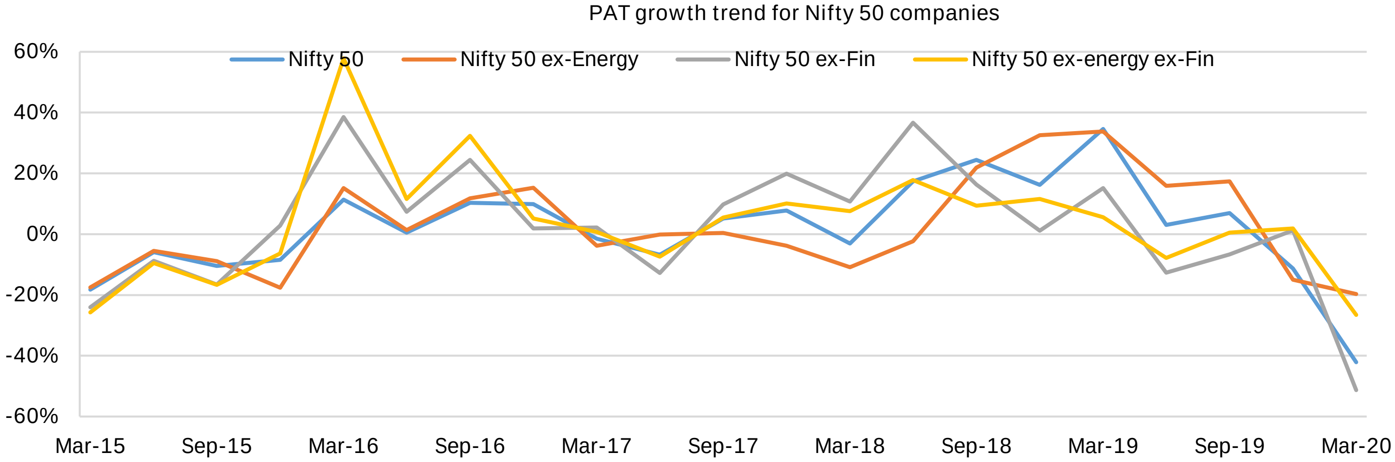


Figure 13: Sector-wise PAT margin of Nifty 50 companies in Q4FY20



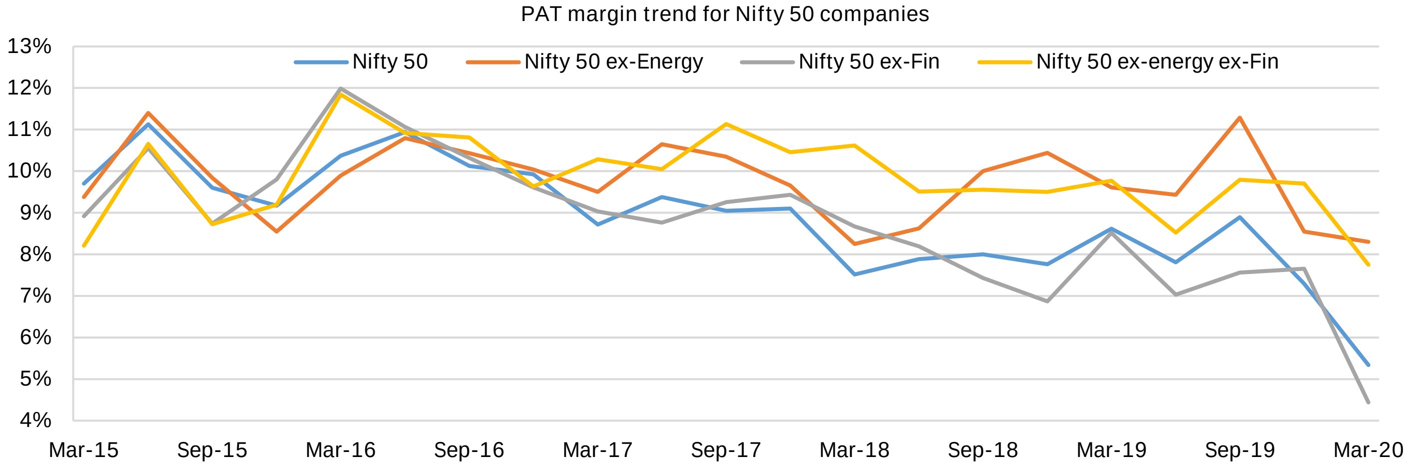
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 14: PAT growth trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 15: PAT margin trend of Nifty 50 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Nifty 500 Q4FY20 results

Net sales for Nifty 500 companies contracted sharply: Aggregate sales growth for the Nifty 500 companies was in-line with the Nifty 50 universe and came in at -5.9% YoY—marking the first YoY contraction in the last 17 quarters—led by a sharp slowdown in discretionary spending by households, deferment in investment activities by corporates and fall in global metal and energy prices. Within the Nifty 500 companies 277/478 companies reported negative YoY sales growth in the March quarter.

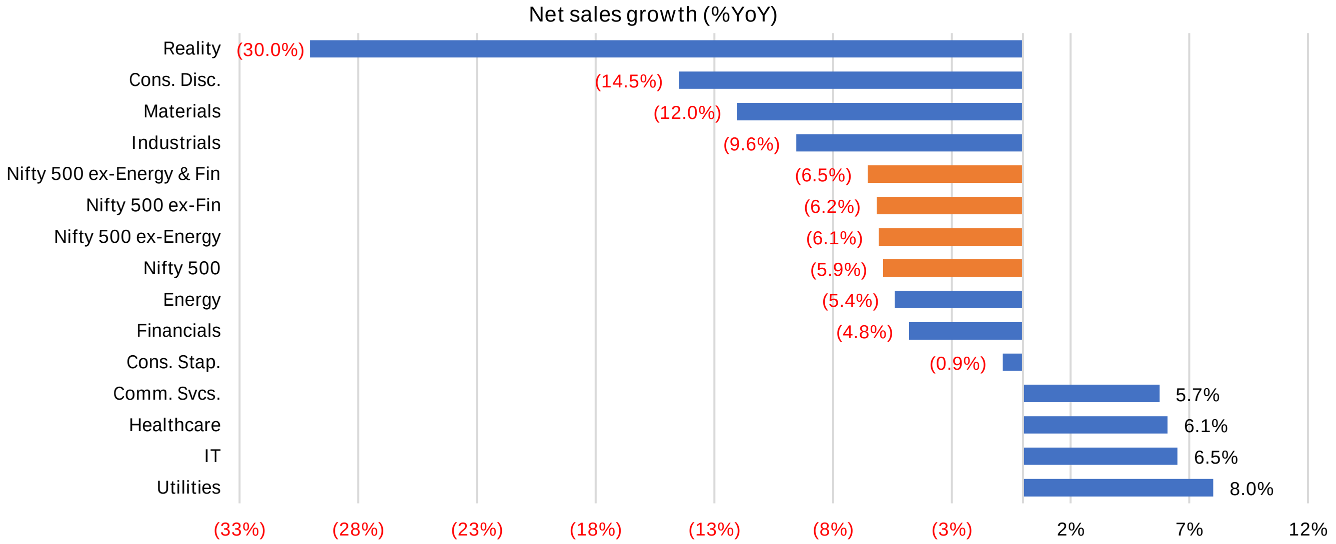
Sectors that were laggards included Consumer Discretionary (an extant demand slowdown accentuated by the lockdown situation), Materials (weak demand and decline in global commodity prices), Energy (lower crude oil prices and slowdown in demand for petrochemicals) and Real Estate (lower property sales and office leasing in the month of March due to lockdown). Sectors that supported sales growth of Nifty 500 companies include Information Technology, Healthcare, Communication Services.

Figure 16: Net sales growth of Nifty 500 companies in Q4FY20

	QoQ growth			YoY growth		
Sector	Mar-19	Dec-19	Mar-20	Mar-19	Dec-19	Mar-20
Communication Services	(1.0)	3.6	3.5	24.6	(0.4)	5.7
Consumer Discretionary	2.5	(4.0)	(8.3)	7.5	(4.2)	(14.5)
Consumer Staples	6.0	8.4	(7.0)	19.6	13.4	(0.9)
Energy	(7.3)	9.0	(6.1)	31.2	(6.6)	(5.4)
Financials	8.9	3.7	(10.4)	25.6	15.4	(4.8)
Health Care	2.9	8.1	(0.9)	12.5	10.1	6.1
Industrials	19.3	5.0	13.2	13.6	(1.2)	(9.6)
Information Technology	1.8	5.6	(1.0)	15.9	9.6	6.5
Materials	8.1	5.4	(3.2)	22.0	(1.7)	(12.0)
Real Estate	45.7	30.0	(8.2)	17.2	10.1	(30.0)
Utilities	(3.0)	(0.8)	4.1	19.9	0.6	8.0
Nifty 500	2.7	4.6	(4.6)	21.2	1.4	(5.9)
Nifty 500 ex-Energy	6.8	3.1	(4.0)	18.0	4.6	(6.1)
Nifty 500 ex-Financials	1.3	4.8	(3.0)	20.2	(1.8)	(6.2)
Nifty 500 ex-energy ex-fin	6.1	2.8	(1.3)	15.5	0.8	(6.5)
Nifty 500 ex-Comm Svcs.	2.8	4.6	(4.7)	21.1	1.4	(6.1)

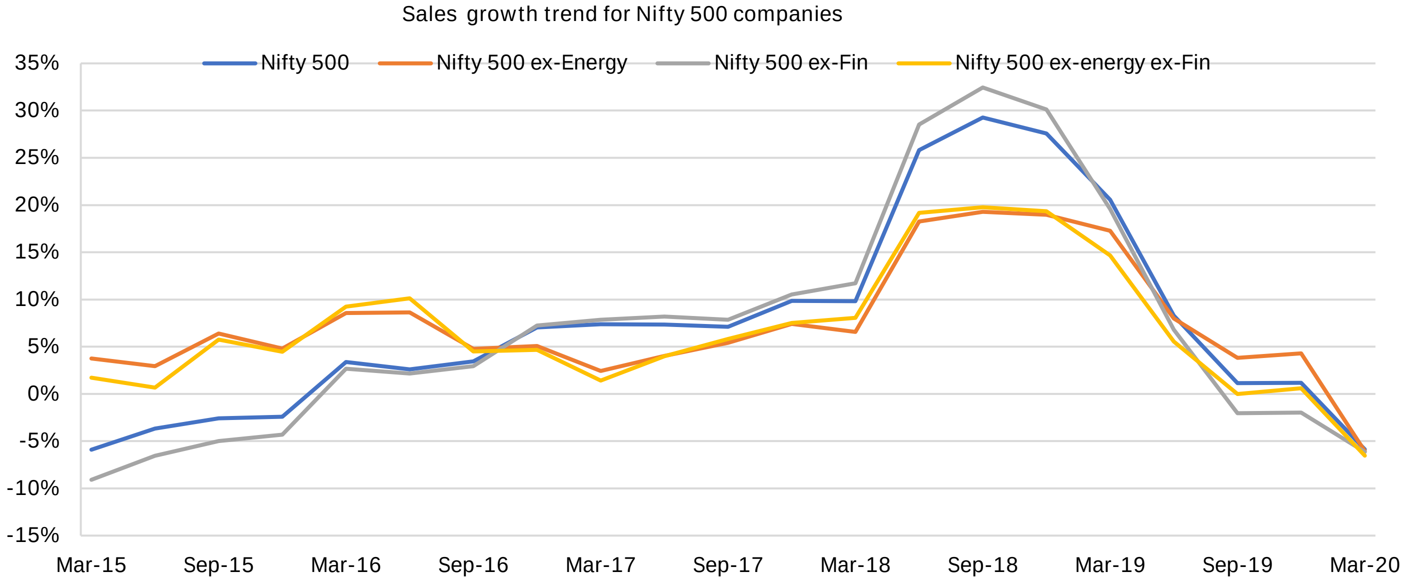
Source: CMIE Prowess, Refinitiv Datastream, NSE

Figure 17: Sector-wise net sales growth of Nifty 500 companies in Q4FY20



Source: CMIE Prowess, Refinitiv Datastream, NSE

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



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Slowdown in revenue realisation drag down aggregate operating profits for Nifty 500 companies: Contraction in revenues compressed operating margins for the Nifty 500 companies, partly offset by lower commodity prices and cost cutting initiatives. EBITDA for the Nifty 500 universe, excluding Financials and Communication Services, contracted by 21.0% YoY, translating into a decline in EBITDA margin of 267bps YoY. Within the Nifty 500 universe, 276/478 companies reported negative YOY EBITDA growth in the March quarter. The contraction in EBITDA was broad-based, with all sectors except Information Technology (thanks to rupee depreciation) reporting a decline.

Figure 19: EBITDA growth of Nifty 500 companies in Q4FY20

	QoQ growth			YoY growth		
Sector	Mar-19	Dec-19	Mar-20	Mar-19	Dec-19	Mar-20
Communication Services	0.2	3.2	8.4	(1.9)	42.4	58.2
Consumer Discretionary	4.9	5.8	(40.6)	(6.6)	5.0	(41.7)
Consumer Staples	10.7	8.1	(13.4)	25.9	13.8	(11.4)
Energy	30.9	11.7	(62.6)	44.1	6.0	(69.7)
Financials	(8.1)	6.5	(21.9)	70.5	16.3	(0.4)
Health Care	4.5	0.3	(21.2)	15.9	17.5	(11.4)
Industrials	26.0	13.7	(2.1)	15.3	(4.4)	(27.4)
Information Technology	0.6	4.6	(1.4)	14.4	8.8	6.6
Materials	9.9	5.7	13.0	13.2	(10.9)	(7.9)
Real Estate	23.6	(36.8)	(10.0)	(26.6)	(0.7)	(27.0)
Utilities	(42.8)	3.8	(6.8)	(31.4)	15.1	87.4
Nifty 500	**0.7**	**6.4**	**(20.5)**	**30.9**	**10.4**	**(12.7)**
Nifty 500 ex-Energy	**(3.5)**	**5.7**	**(14.8)**	**28.6**	**11.0**	**(1.7)**
Nifty 500 ex-Financials	**8.0**	**6.3**	**(19.3)**	**12.4**	**5.5**	**(21.4)**
Nifty 500 ex-energy ex-fin	**1.4**	**4.8**	**(6.5)**	**3.8**	**5.3**	**(3.0)**
Nifty 500 ex-Comm Svcs.	**0.7**	**6.5**	**(21.4)**	**32.0**	**9.6**	**(14.4)**

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 20: EBITDA margin of Nifty 500 companies in Q4FY20

Sector	EBITDA Margin	QoQ change (bps)	YoY change (bps)
Communication Services	42.2	192	1400
Consumer Discretionary	7.7	(420)	(361)
Consumer Staples	21.1	(156)	(251)
Energy	4.6	(698)	(981)
Financials	51.0	(747)	227
Health Care	19.5	(504)	(385)
Industrials	15.1	(235)	(369)
Information Technology	23.3	(9)	2
Materials	20.5	295	92
Real Estate	33.0	(68)	137
Utilities	33.9	(397)	1436
Nifty 500	21.8	(439)	(171)
Nifty 500 ex-Energy	28.0	(357)	125
Nifty 500 ex-Financials	14.5	(294)	(281)
Nifty 500 ex-energy ex-fin	19.4	(106)	71
Nifty 500 ex-Comm Svcs.	21.4	(455)	(206)

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 21: Sector-wise EBITDA growth of Nifty 500 companies in Q4FY20

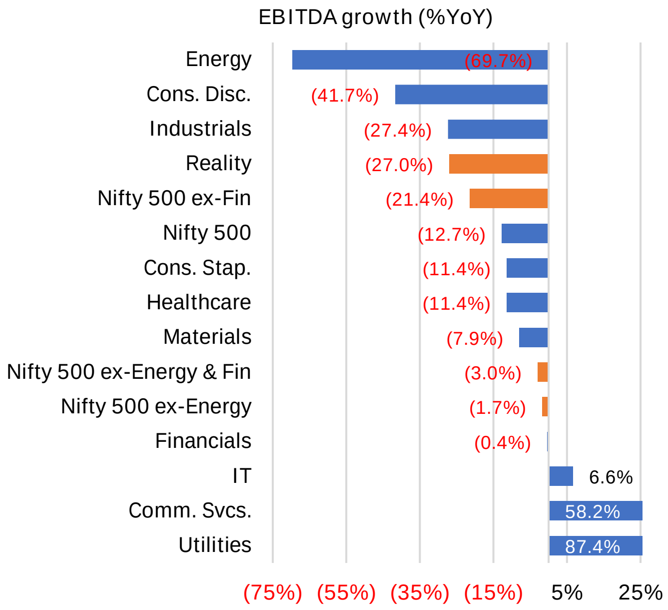
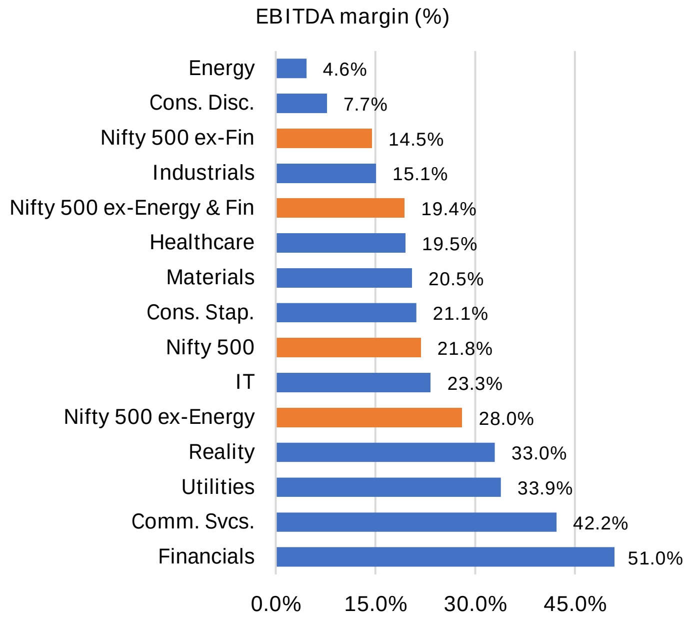
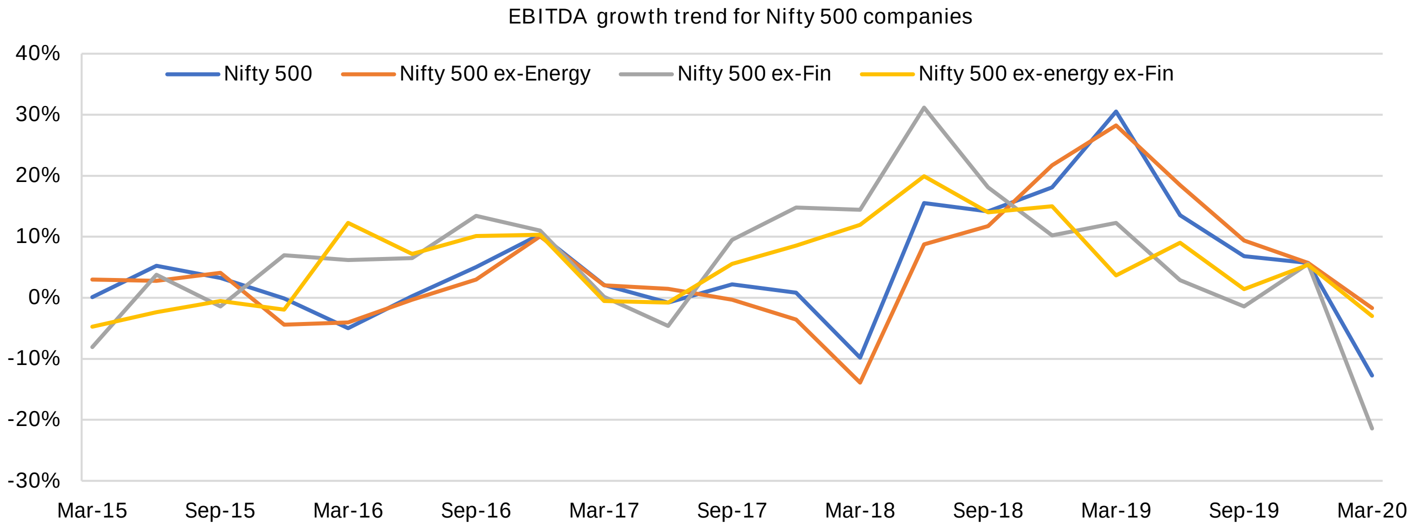


Figure 22: Sector-wise EBITDA margin of Nifty 500 companies in Q4FY20



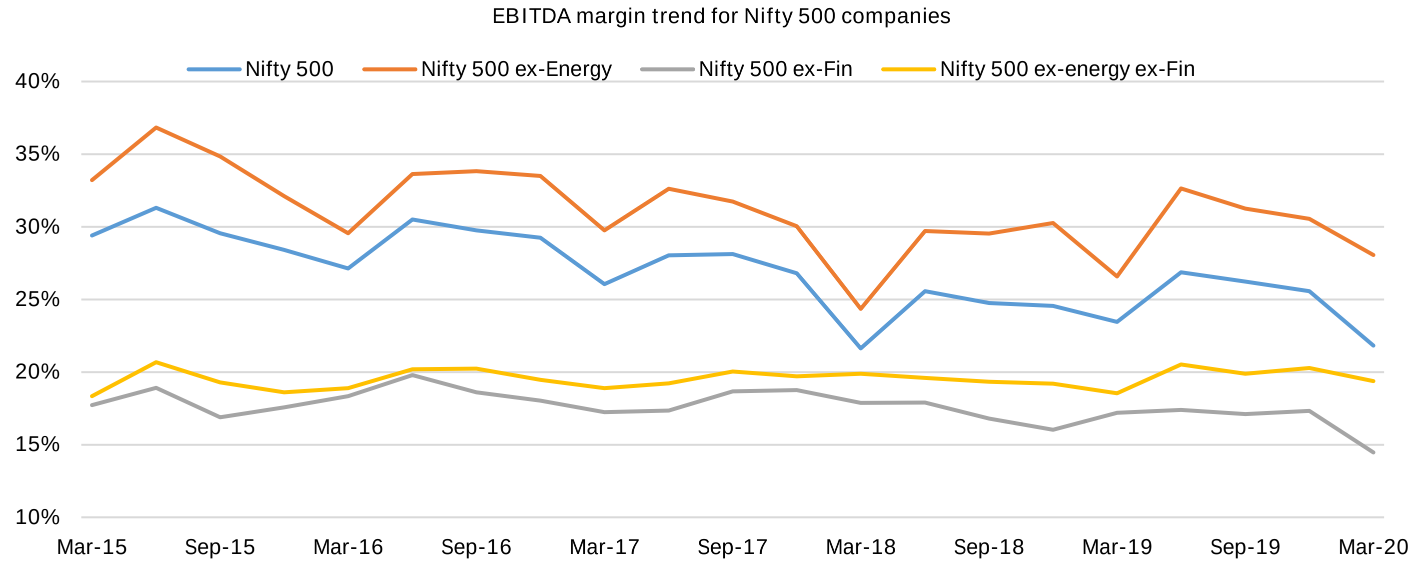
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 23: EBITDA growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 24: EBITDA margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Contraction in Nifty 500 profitability was broad-based: Aggregate adjusted PAT growth for Nifty 500 companies came in at -56.8% YoY–the lowest in 21 quarters. This was largely led by huge losses reported by Energy, Consumer Discretionary and Financials. While the upstream companies in the Energy sector got hit from lower realisations in the wake of a sharp drop in crude oil prices, the oil marketing companies suffered owing to weak demand amid travel restrictions and a complete lockdown towards March-end as well as significant inventory losses. Significant increase in provisioning on account of COVID-19 impacted profitability for the Financials sector. Continued demand weakness, supply chain bottlenecks from China and domestic supply issues were the key factors hurting profitability of Consumer Discretionary companies. Within the Nifty 500 universe, Information Technology was the only sector to report a modest growth in profits, partly attributed to a weak currency, while the Healthcare sector benefited from a strong domestic demand.

Figure 25: PAT growth of Nifty 500 companies in Q4Y20

Sector	QoQ growth			YoY growth		
	Mar-19	Dec-19	Mar-20	Mar-19	Dec-19	Mar-20
Communication Services	NA	NA	NA	(375.1)	NA	NA
Consumer Discretionary	(1.6)	23.9	(113.4)	(22.6)	(6.0)	(112.8)
Consumer Staples	23.4	4.4	(15.5)	39.2	19.3	(19.0)
Energy	40.5	23.9	(111.7)	38.9	1.1	(108.4)
Financials	(94.7)	50.8	(104.5)	NA	111.3	(2344.3)
Health Care	3.7	(13.3)	(25.6)	(32.9)	11.8	(19.8)
Industrials	34.6	26.5	(16.3)	12.9	(28.4)	(53.5)
Information Technology	1.2	5.6	(1.8)	15.5	5.0	1.9
Materials	8.5	(17.7)	14.6	(6.9)	(28.5)	(23.8)
Real Estate	34.0	(68.1)	(8.6)	(50.5)	(13.9)	(40.3)
Utilities	11.7	(12.4)	(38.5)	10.3	45.1	(20.0)
Nifty 500	(0.2)	14.2	(63.0)	78.2	15.4	(56.8)
Nifty 500 ex-Energy	(10.6)	12.3	(52.3)	101.7	19.0	(35.5)
Nifty 500 ex-Financials	17.5	4.0	(46.3)	3.2	(2.6)	(55.3)
Nifty 500 ex-energy ex-fin	10.1	(1.4)	(24.3)	(6.7)	(3.8)	(33.4)
Nifty 500 ex-Comm Svcs.	0.3	13.1	(62.2)	86.7	15.2	(56.2)

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

Figure 26: PAT margin of Nifty 500 companies in Q4FY20

Sector	PAT Margin	QoQ change (bps)	YoY change (bps)
Communication Services	(5.9)	277	439
Consumer Discretionary	(0.6)	(501)	(491)
Consumer Staples	12.7	(129)	(286)
Energy	(0.6)	(533)	(723)
Financials	(0.5)	(998)	(49)
Health Care	8.1	(269)	(261)
Industrials	4.7	(165)	(445)
Information Technology	15.2	(12)	(69)
Materials	6.0	94	(93)
Real Estate	10.6	(5)	(181)
Utilities	6.9	(480)	(243)
Nifty 500	2.8	(436)	(326)
Nifty 500 ex-Energy	4.0	(403)	(182)
Nifty 500 ex-Financials	3.6	(289)	(393)
Nifty 500 ex-energy ex-fin	5.7	(172)	(228)
Nifty 500 ex-Comm Svcs.	3.0	(449)	(338)

Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 27: Sector-wise PAT growth of Nifty 500 companies in Q4FY20

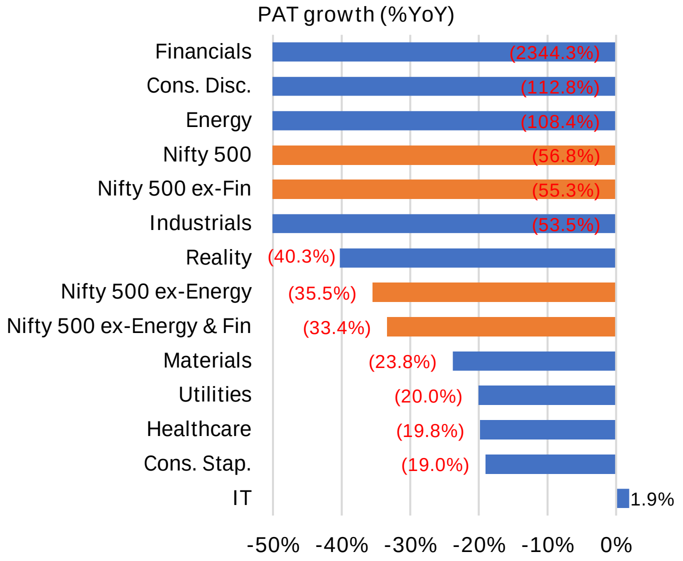
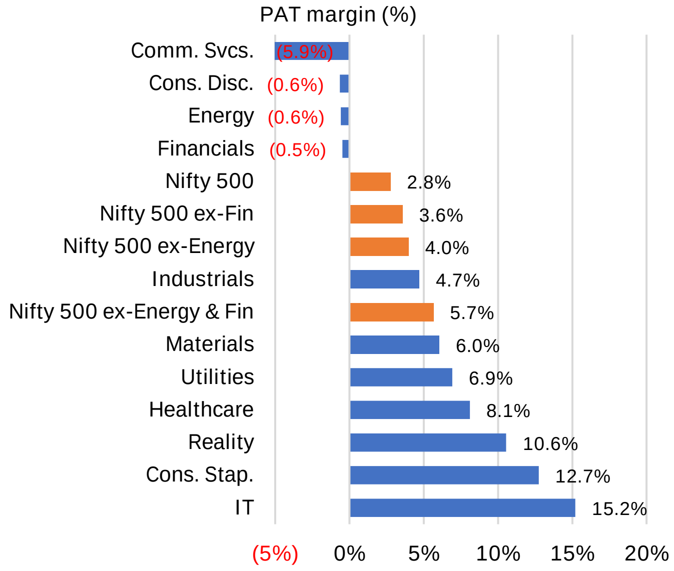
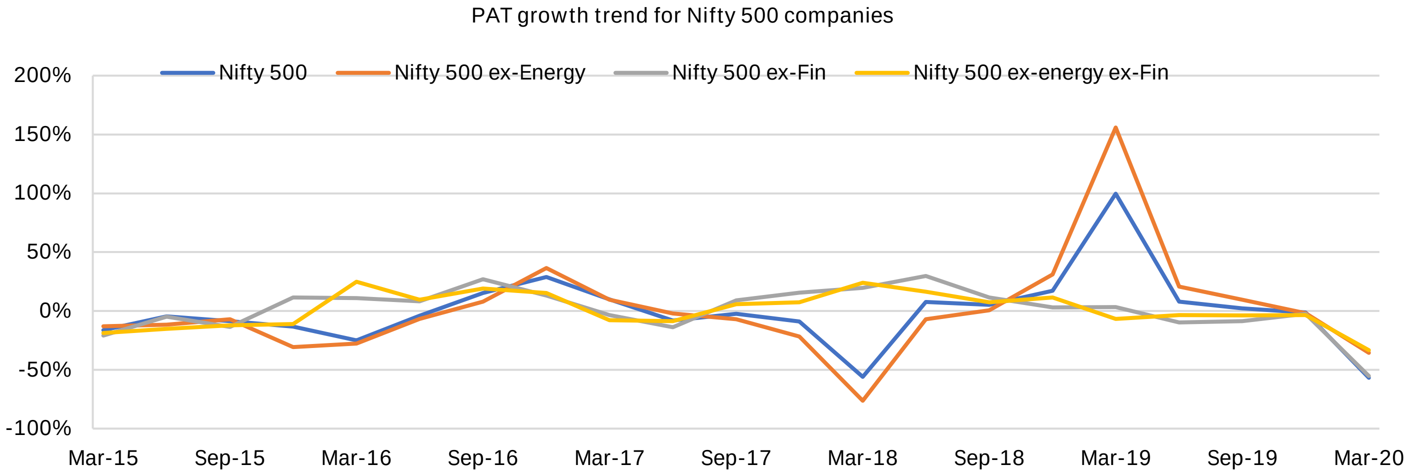


Figure 28: Sector-wise PAT margin of Nifty 500 companies in Q4FY20



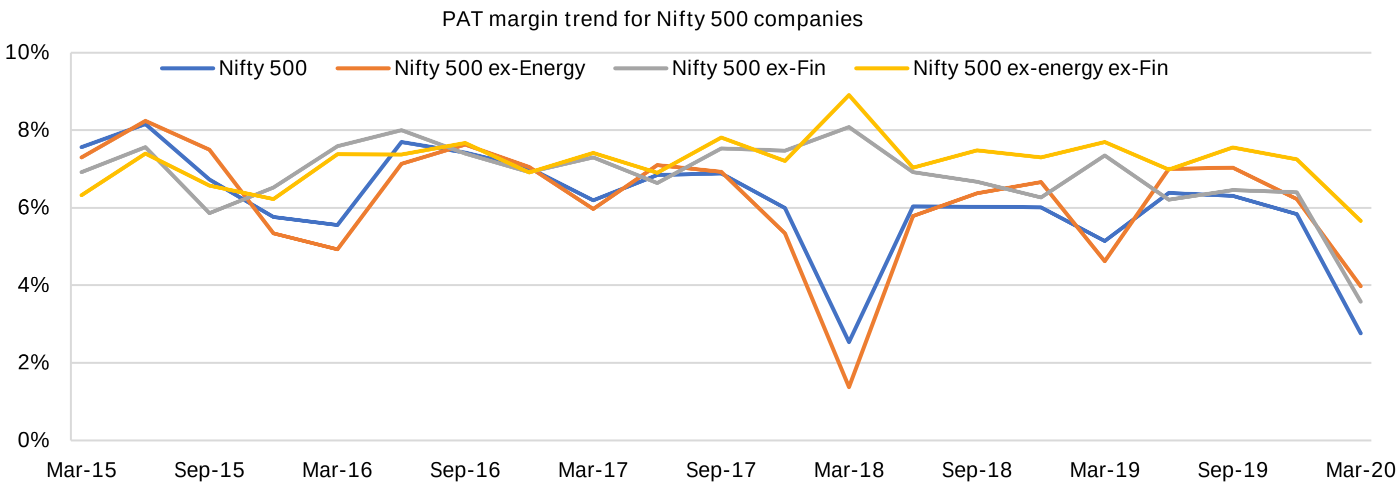
Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 29: PAT growth trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Figure 30: PAT margin trend of Nifty 500 companies



Source: CMIE Prowess, Refinitiv Datastream, NSE.

Earnings revision analysis

Consensus FY21 PAT estimates slashed by 33%+ in this fiscal year thus far: We have analysed earnings revisions for top 200 companies by one-year average market cap ending June 30th, 2020 covered by at least five or more analysts during the last one year using IBES estimates from Refinitiv Datastream. Our analysis shows that consensus profit estimate for these companies for FY21 have been downgraded by 33.5% since the beginning of the fiscal and 36.2% since January 2020 (as of July 24th), translating into an expected YoY contraction in aggregate profits of 0.2% for the full year vs. an estimated profit growth of +19% in mid-June. Consumer cyclicals have witnessed the sharpest downgrades, followed by Materials, Industrials, Financials and Energy, reflecting expectations of a lacklustre consumption and investment demand, sustenance of benign commodity prices and elevated credit cost for Financials. Aggregate profit growth for Financials, however, is still estimated at a strong 39.5% for FY21, and is therefore susceptible to earnings downgrades, particularly if asset quality pressures intensify once the moratorium expires. Besides Financials, Healthcare, Consumer Non-Cyclicals and Utilities are the only sectors expected to post a modest profit growth this year.

Despite significant cut in FY21 earnings estimates, risks remain to the downside, as Q1 profits are expected to see a significant contraction—reflected in several high frequency indicators including industrial production, PMI, merchandise trade, amongst others.

Aggregate earnings estimate for FY22 for the top 200 companies, however, has been downgraded by a much lower 19%, potentially indicating the impact of COVID-19 to be temporary in nature. Consequently, consensus profit growth estimate for FY22 currently stands at ~45% (as of July 24th, 2020), albeit off a low base. This appears quite optimistic given our expectations of a slow and gradual recovery ahead and is therefore prone to significant downward revisions. That said, a confluence of monetary and fiscal measures that have been already taken and are in the offing, coupled with expectations of a faster recovery in global demand, should provide some support to the ailing economy and consequently corporate earnings.

Figure 31: Aggregate consensus profit growth estimate for top 200 covered companies (% YoY)

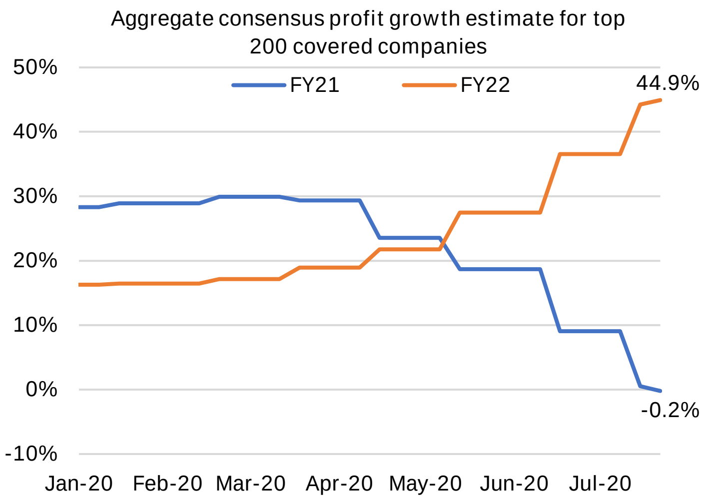
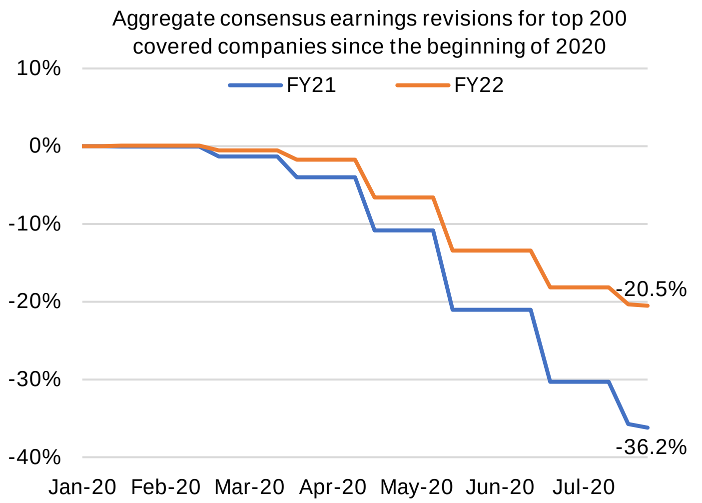


Figure 32: Aggregate consensus earnings revisions in 2020 till date for top 200 covered companies



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.

Figure 33: Monthly trend of sector-wise FY21 consensus earnings growth estimate (% YoY)

Sectors	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Basic Materials	21.9	26.9	25.9	8.9	(11.0)	(35.3)	(46.6)
Consumer Cyclicals	23.1	23.6	23.5	16.8	(0.9)	0.4	(17.0)
Consumer Non-Cyclicals	16.3	15.2	15.2	14.0	10.0	8.7	4.4
Energy	17.8	20.7	17.4	12.0	8.1	(0.0)	(13.5)
Financials	45.9	46.0	48.1	44.1	49.2	51.3	39.5
Healthcare	17.9	18.5	18.4	16.2	18.0	11.5	9.1
Industrials	22.2	20.5	16.1	9.8	12.4	(14.1)	(20.7)
Technology	10.0	9.9	9.6	4.2	(2.4)	(3.4)	(1.2)
Utilities	10.6	10.4	10.0	9.3	9.4	4.8	0.8
Total	28.9	29.9	29.3	23.5	18.7	9.1	(0.2)

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.

Figure 34: Monthly trend of sector-wise FY22 consensus earnings growth estimate (% YoY)

Sectors	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Basic Materials	15.2	16.6	18.8	29.3	51.4	75.4	85.7
Consumer Cyclicals	20.2	22.0	22.6	27.9	44.5	76.8	103.8
Consumer Non-Cyclicals	14.7	13.5	13.5	13.7	15.3	16.4	19.5
Energy	8.1	10.0	14.7	17.3	22.6	29.7	43.0
Financials	23.1	22.8	23.7	25.6	31.9	38.6	47.2
Healthcare	13.8	16.2	16.2	16.6	17.1	20.0	22.0
Industrials	16.8	17.6	20.0	24.0	18.7	68.3	76.0
Technology	9.3	9.6	9.6	10.1	12.6	13.3	13.4
Utilities	9.5	10.7	10.9	10.7	11.1	14.9	18.7
Total	16.4	17.2	18.9	21.7	27.5	36.6	44.9

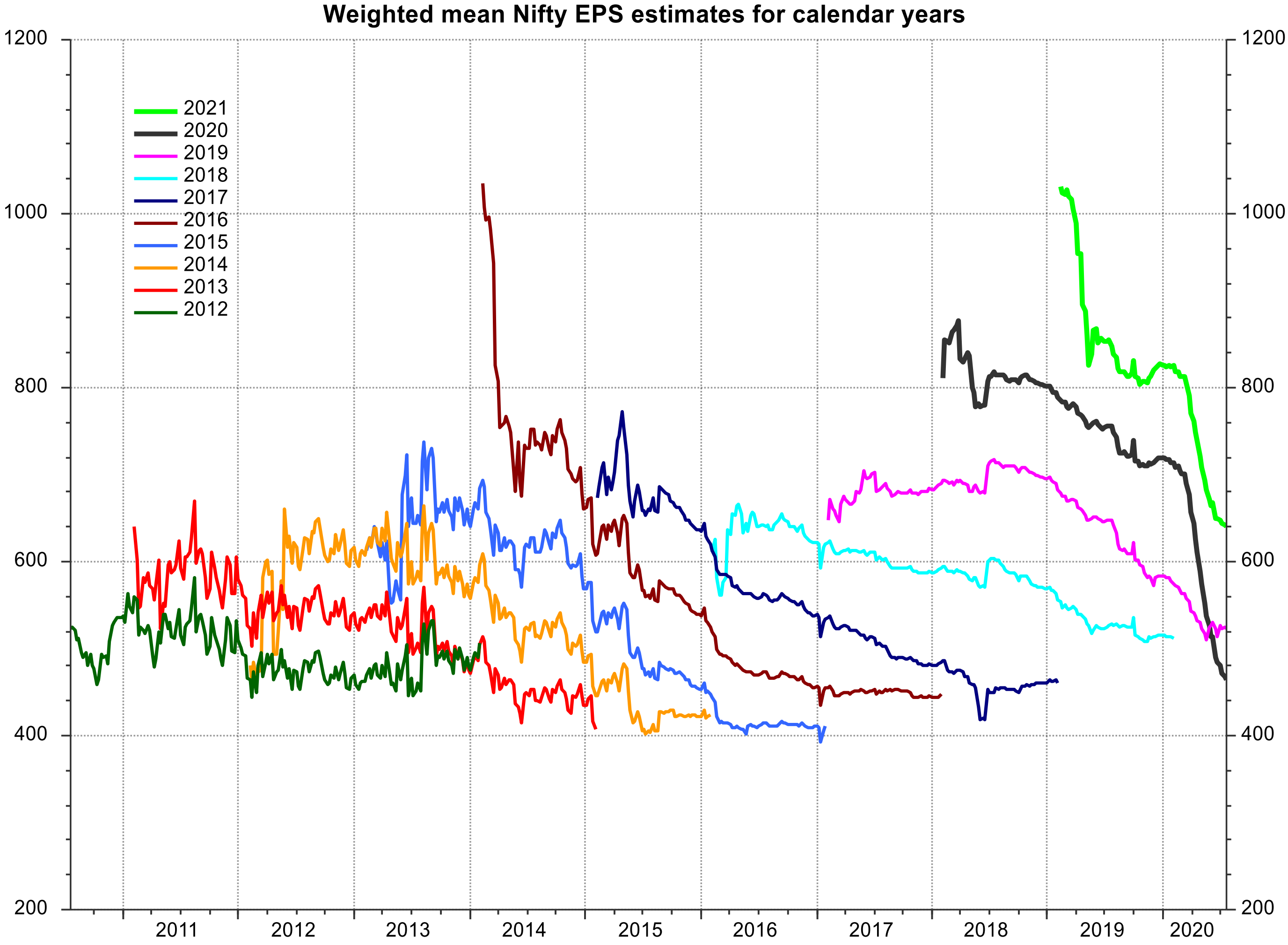
Source: Refinitiv Datastream, NSE.
Note: Based on IBES earnings estimates of top 200 companies by one-year average market cap ending June 30th, 2020, covered by at least five analysts at any given point of time over the last one year.

Nifty 50 2020 Consensus EPS downgraded by 35% YTD: 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. The market was most optimistic on corporate performance in 2014, partly explained by increasing hopes of a decisive BJP victory in the 2014 General Elections. While electoral expectations were comfortably met that year, corporate earnings failed to pick up, with 2016 earnings eventually coming in 17% lower than the estimate at the beginning of the year.

While the market believed that corporate performance has hit bottom and is bound to witness a strong recovery, first the Bank AQR (Asset Quality Review) weighed on systemic credit growth, followed by Demonetisation and then the economy's inevitable adjustment to the path-breaking GST reform in 2017 delayed a broad-based recovery.

An already weak domestic and global slowdown has now got accentuated by the COVID-19 outbreak and attendant containment measures undertaken to control the spread of the virus including large-scale and stringent lockdowns across the globe. This has resulted in a 35% downgrade in 2020 (calendar year) Nifty 50 consensus EPS estimate since the beginning of the year and 29% since March 2020.

Figure 35: Yearly trend of NIFTY 50 Consensus EPS estimates



Source: Refinitiv Datastream, NSE.

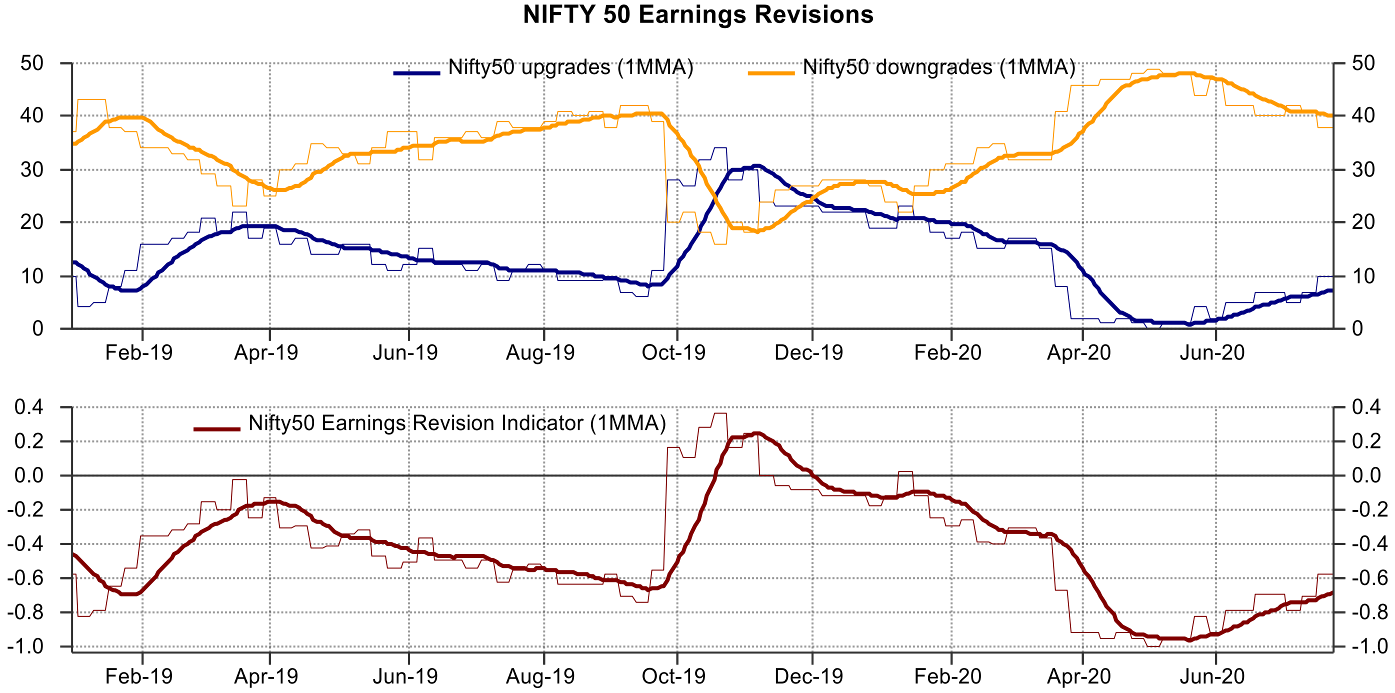
Nifty 50 Earnings Revision Indicator falls deep into the negative zone: The Earnings Revision Indicator (ERI)[4] for the Nifty 50 universe has remained in the negative zone for more than five years now, implying more downgrades of earnings estimates than upgrades. In fact, the 12-month moving average trend points to a negative ERI since 2011. The number of downgrades peaked out in March 2016 and kept on declining until September 2018. However, the pace of downgrades increased since October 2018, thanks to worsening domestic and global economic activity, declining commodity prices and tightness in domestic liquidity post the IL&FS crisis, leading to ERI falling back deep into the negative zone. The ERI moved back into the positive territory for the first time in five years following the corporate tax cut announcement in September 2019, albeit for a brief period, only to fall back into the negative zone owing to sustained weakness in reported earnings.

The COVID-19 outbreak and attendant control measures including lockdown and complete shutdown of non-essential activities have accentuated the downgrade cycle. The ERI fell deep into the negative zone to the lowest level since the data is available (2007) as corporate earnings outlook got adversely impacted due to massive supply and

[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.

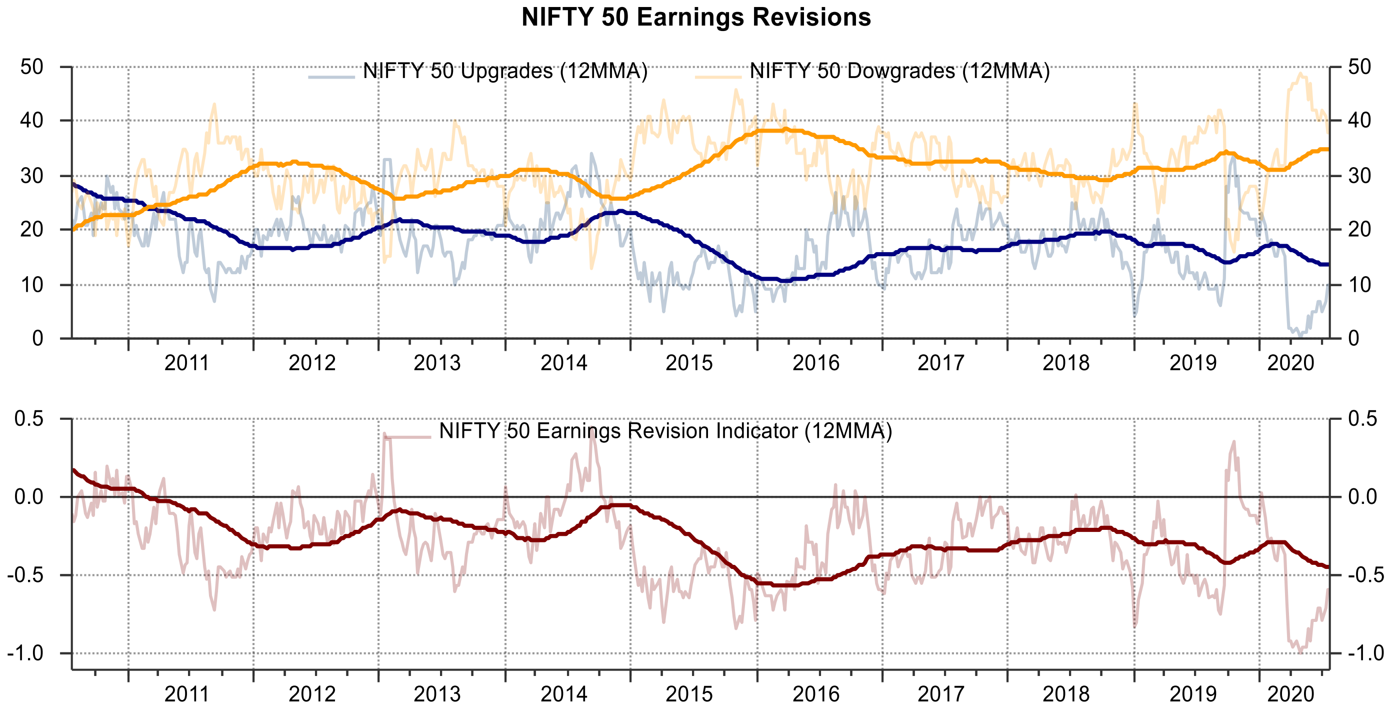
demand disruptions caused by mass-scale COVID-19-induced lockdowns worldwide. In fact, except for one or two companies, rest all the Nifty 50 companies witnessed significant earnings downgrades until May 2020, taking ERI to its lower limit of -1 in mid-May, implying downgrades across the board. The ERI has since improved led by upward revisions in Healthcare and Information Technology.

Figure 36: Nifty 50 Earnings Revision Indicator (since January 2019)



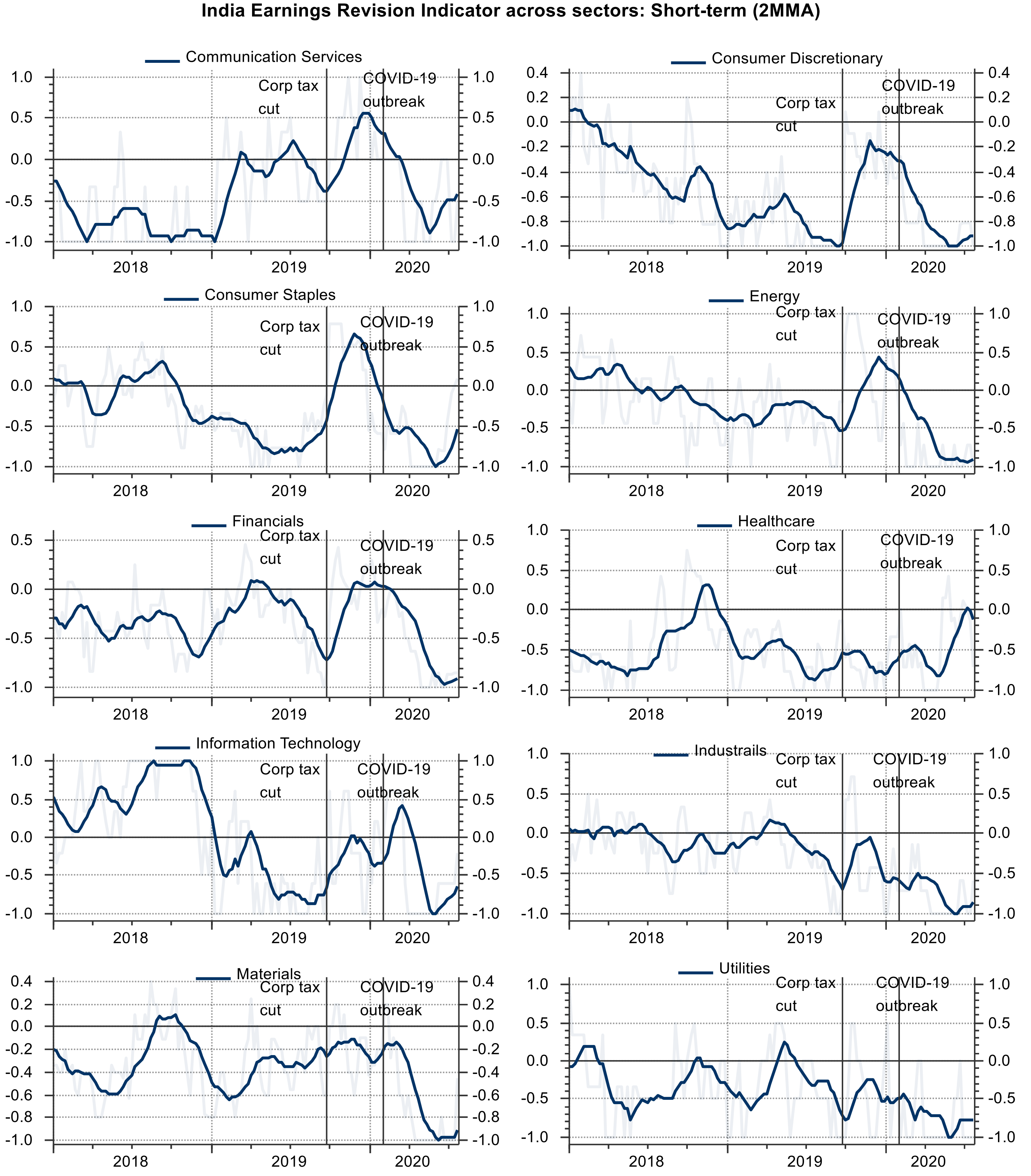
Source: Refinitiv Datastream, NSE

Figure 37: Nifty 50 Earnings Revision Indicator (10-year trend)



Source: Refinitiv Datastream, NSE.

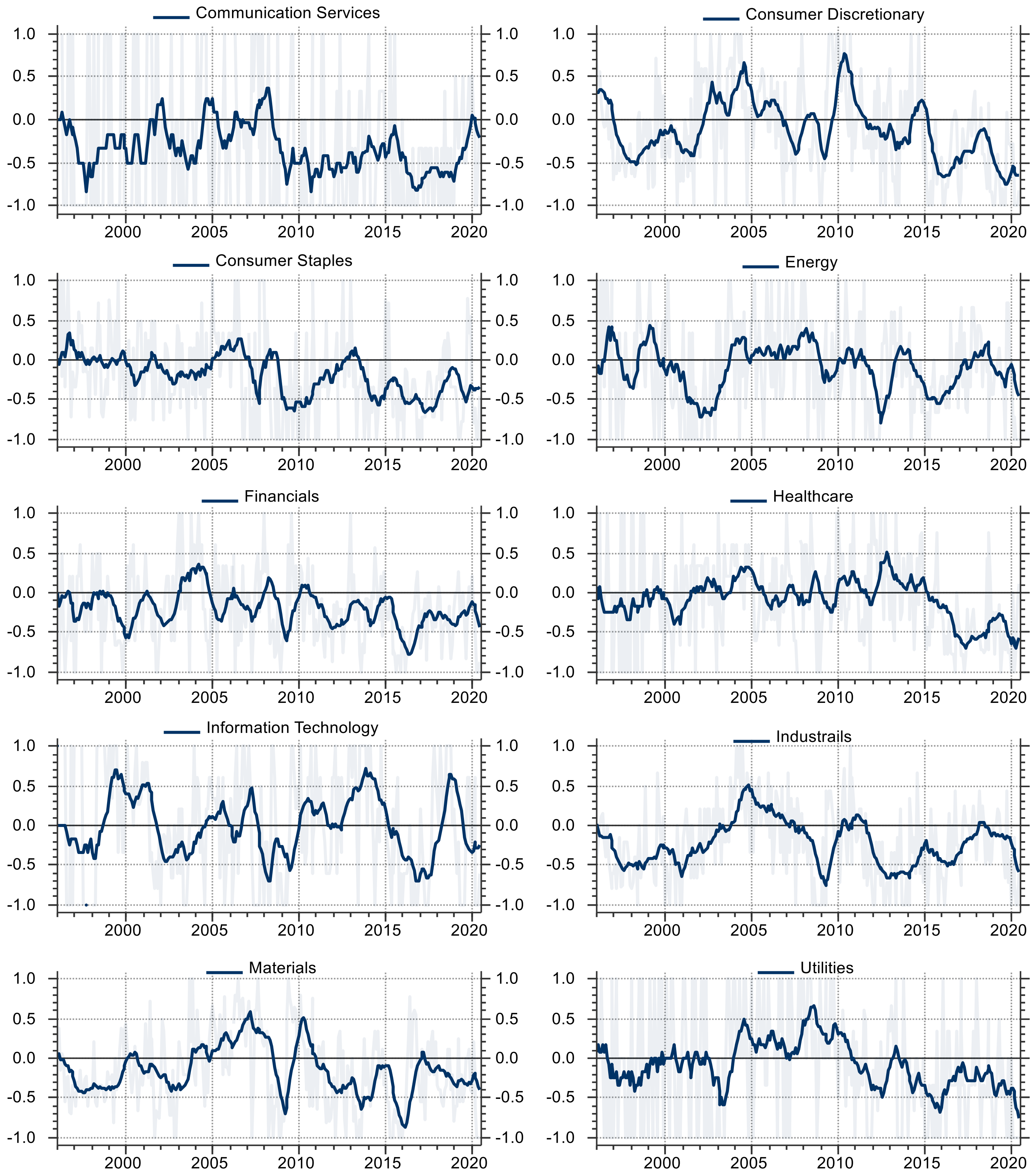
Figure 38: Short-term trend of Earnings Revision Indicator across MSCI sectors



Source: Refinitiv Datastream, NSE.

Figure 39: Long-term trend of Earnings Revision Indicator across MSCI sectors

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



Source: Refinitiv Datastream, NSE.

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