7 June 2023

# India Strategy

**BSE Sensex: 63,143** **Nifty-50: 18,726**



## Corporate profits to GDP – FY23 marks a slight moderation!

### Global cyclicals offset the momentum in BFSI and Auto

### Interpreting the corporate profit to GDP ratio during the last two decades

- In 2023, the corporate profit to GDP ratio for the Nifty-500 Universe and listed India Inc. contracted marginally to 4.1% and 4.3% after rebounding in 2022 to reach a decade high of 4.3% and 4.5%, respectively. The YoY decline was led by global commodities, which contributed adversely to the ratio, while BFSI contributed positively. The 0.2% reduction in the 2023 profit to GDP ratio for Nifty-500 was led by Metals (0.4% decline) and Oil & Gas (0.3% decline). Notably, BFSI improved 0.4%. The corporate profit for Nifty-500 Universe grew at a slower pace of 8.7% YoY in FY23 after surging 49% YoY in FY22 and 50% YoY in FY21. We note that FY23 Nominal GDP jumped 16.1% YoY – faster than FY23 Corporate profit growth – preceded by 18.4% YoY GDP growth in FY22 and a contraction in GDP recorded in 2021.
- India's corporate profit (Listed + Unlisted) to GDP ratio dropped to 2.0% from 7.8% over 2008-20. For the Nifty-500 Universe, the ratio declined to 2.3% (at a two-decade low) from 5.1% over the same period.
- Notably, the corporate profit to GDP ratio had been contracting since 2010, barring 2017 when profits of global cyclicals (such as Metals and O&G) had bounced back and losses of PSU Banks had reduced over the preceding year.
- In this report, we analyze 'corporate earnings as a percentage of GDP' in greater detail. We use Nifty-500 as a proxy for corporate earnings since the index contributes 92% to India's market cap and carry out a detailed analysis of the sectors and companies.
- In our analysis, we segregate the 2003–23 period into three phases: 1) 2003–08, 2) 2008–20, and 3) 2020–23.

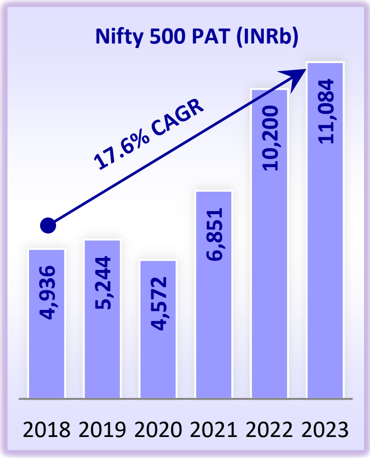
### Phase 1) 2003–08: The Shining Phase…

- The corporate profit to GDP ratio almost doubled to 5.1% from 2.7% over 2003–08, with Nifty-500 profits reporting 30% growth – at 2x the pace of underlying GDP growth (CAGR of 14.5%) during the same period.
- This surge was propelled by the export-, investment-, and capex-oriented sectors. During 2003–08, the global economy was growing at a faster rate, supporting the export-oriented players. Capacity investments across sectors were also significant as the investment cycle took off steadily.
- Of the 2.4% improvement in the corporate profit to GDP ratio over this period, 1.6% was contributed by Metals, Technology, BFSI, Capital Goods, Real Estate, and Cement.

### Phase 2) 2008–20: …that faded away

- During 2008–20, the distress in domestic corporate earnings had led to a compression in the Nifty-500 profit to GDP ratio to 2.3% from 5.1% earlier.
- Similar to Phase 1, the movement in the ratio over Phase 2 was led by certain sectors – 88% of the decline was attributed to Oil & Gas (28%), Metals (23%), PSU Banks (15%), Telecom (15%), and Capital Goods (7%).

**Profits have grown at a faster pace**



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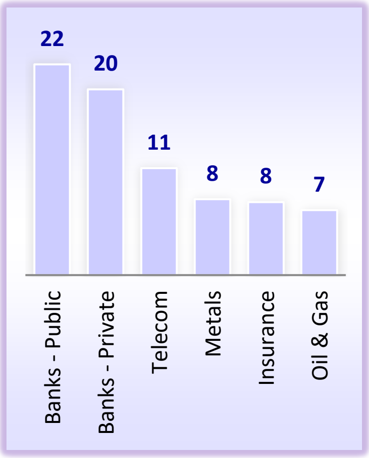
- NBFC, Technology, Chemicals, and Retail were the only sectors that have seen an improvement in the profit to GDP ratio during Phase 2.

### Phase 3) 2020-23: Reversion to the mean

- Notwithstanding the pandemic-induced gloom and weak economic recovery, corporate profits have recovered smartly from the lows.
- Consequently, the corporate profit to GDP ratio rebounded to a ten-year high of 4.3% (long-period average of 3.7%) in 2022 as profits grew at a faster pace (49% YoY). However, the ratio dropped to 4.1% in 2023 as profits rose at a slower pace (9% YoY).
- During Phase 3, the ratio improved for 20 of 25 sectors, of which 76% was driven by PSU Banks (22%), Private Banks (20%), Telecom (11%), Metals (8%), Insurance (8%), and Oil & Gas (7%).
- Cement, Media, and Consumer Durables were the only sectors to witness a compression in the ratio.

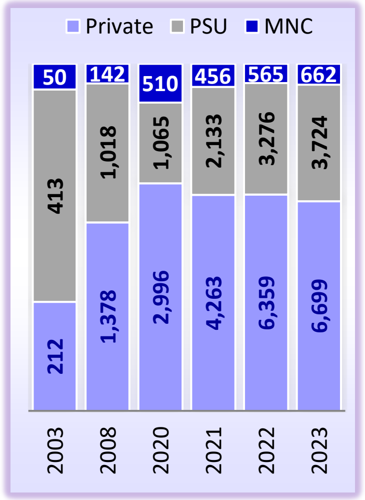
**Top-5 contributors to rise in Phase 3 (%)**




### PSU revival: Profits triple over Phase 3 after a flat Phase 2

- We analyze India's corporate profit to GDP distribution over the last two decades under three categories: a) PSU Corporate, b) MNCs, and c) Private Corporate.
- PSU Corporate's profit to GDP ratio was down to 0.5% in 2020 from 2.0% in 2008, given the significant value migration from public to private in sectors such as Banking, Telecom, and Airlines. This happened even as PSU-heavy sectors such as Oil & Gas and Utilities underperformed on profit growth than the underlying GDP growth. However, the sectors recovered to 1.4% in 2023.
- Private Corporate sector's profit to GDP ratio improved to 2.8% in 2008 from a meager 0.8% in 2003. However, the ratio contracted to 1.5% in 2020 before rebounding to 2.5% in 2023.
- Indian PSU's have made a successful comeback fueled by a sharp 3.5x jump in PSU profits that reached INR3.7t from INR1.1t over FY20-23. More than 40% of these incremental profits came from PSU Banks alone while Oil & Gas contributed 16%. Profits of PSU Banks crossed milestone of INR one trillion mark and reached INR1.1t in FY23.

**Profit pool of PSU corporates grew at a faster pace over Phase 3 (INRb)**




### Expect the corporate profit to GDP ratio to sustain

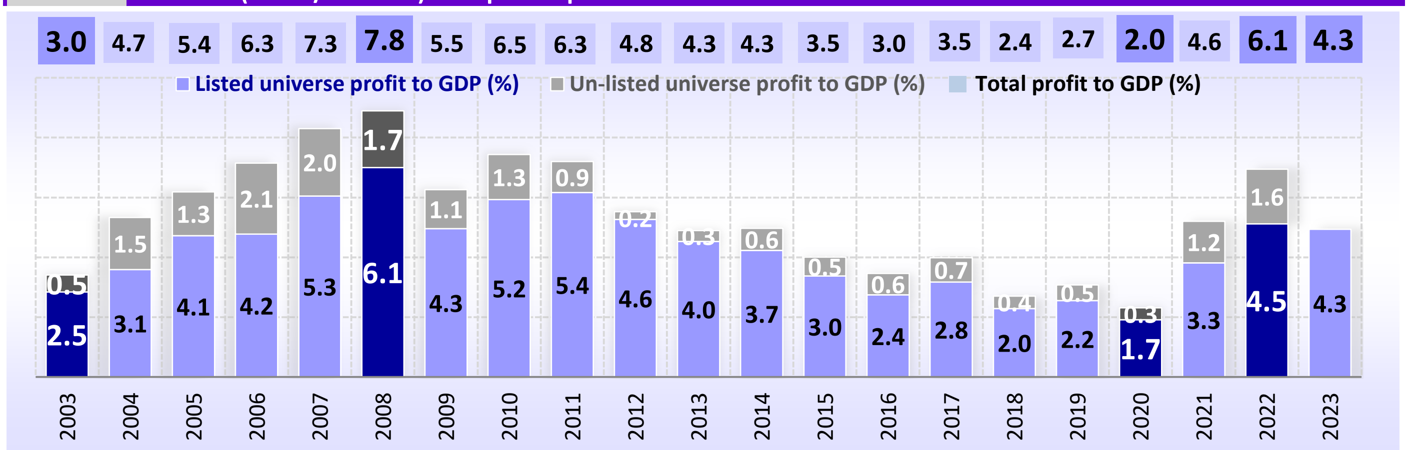
- We expect the ratio to sustain going ahead. India's earnings cycle has seen a smart turnaround after almost a decade. Nifty exited FY23 with an 11% EPS growth on a high base of 34% growth in FY22. Earnings though remained lopsided with BFSI driving almost the entire incremental earnings in FY23. With healthy macros, range-bound oil prices, robust fiscal balance sheet and moderating inflation, the market outlook is quite optimistic.
- For Nifty-50, we are modeling 20% YoY profit growth for FY24E. We forecast FY24 earnings growth to be driven by BFSI, Oil & Gas, Metals and Automobiles – that are likely to contribute 82% to the incremental earnings of Nifty-50.

**Exhibit data are sourced from Capitaline, the RBI, companies, and MOFSL database based on current Nifty-500 constituents.**

## Corporate profit to GDP moderates in 2023

- In 2023, the corporate profit to GDP ratio for the Nifty-500 Universe and listed India Inc. contracted marginally to 4.1% and 4.3% after rebounding in 2022 to reach a decade high of 4.3% and 4.5%, respectively. The YoY decline was led by global commodities, which contributed adversely to the ratio, while BFSI contributed positively. The 0.2% reduction in the 2023 profit to GDP ratio for Nifty-500 was led by Metals (0.4% decline) and Oil & Gas (0.3% decline). Notably, BFSI improved 0.4%.
- The corporate profit for Nifty-500 Universe grew at a slower pace of 8.7% YoY in FY23 after surging 49% YoY in FY22 and 50% YoY in FY21. We note that FY23 GDP jumped 16.1% YoY – faster than FY23 profit growth – preceded by 18.4% YoY GDP growth in FY22 and a contraction in GDP recorded in 2021.
- India's corporate profit (Listed + Unlisted) to GDP ratio dropped to 2% from 7.8% over 2008-20. For the Nifty-500 Universe, the ratio declined to 2.3% (at a two-decade low) from 5.1% over the same period.
- Nifty-500 profits, which have remained range-bound at INR4–5t over 2014-20, jumped markedly to INR10.2t in 2022 and further to INR11.1t in 2023. Notably, the corporate profit CAGR of 17.6% was much higher than the GDP CAGR of 9.8% over 2018–23. During 2020–23 too, corporate profit CAGR at 34.3% was significantly higher than the GDP CAGR at 10.7%.
- The ratio had consistently declined since 2010 (barring 2017) and came in lower than the long-period average. The 2017 aberration was attributable to: a) a revival in the profits of global cyclicals such as Metals and O&G and b) a reduction in losses for PSU Banks over the preceding year.
- We expect the ratio to sustain going ahead. India's earnings cycle has seen a smart turnaround after almost a decade. Nifty exited FY23 with an 11% EPS growth on a high base of 34% growth in FY22. Earnings though remained lopsided with BFSI driving almost the entire incremental earnings in FY23. With healthy macros, range-bound oil prices, robust fiscal balance sheet and moderating inflation, the market outlook is quite optimistic.

**EXHIBIT 1: India Inc. (Listed/Unlisted) – corporate profit to GDP ratio trend**




Note: Corporate profit compiled from Capitaline for available listed and unlisted companies; FY23 earnings from unlisted companies are yet to be available.

**EXHIBIT 2: Nifty-500 – corporate profit to GDP ratio moderates in 2023**

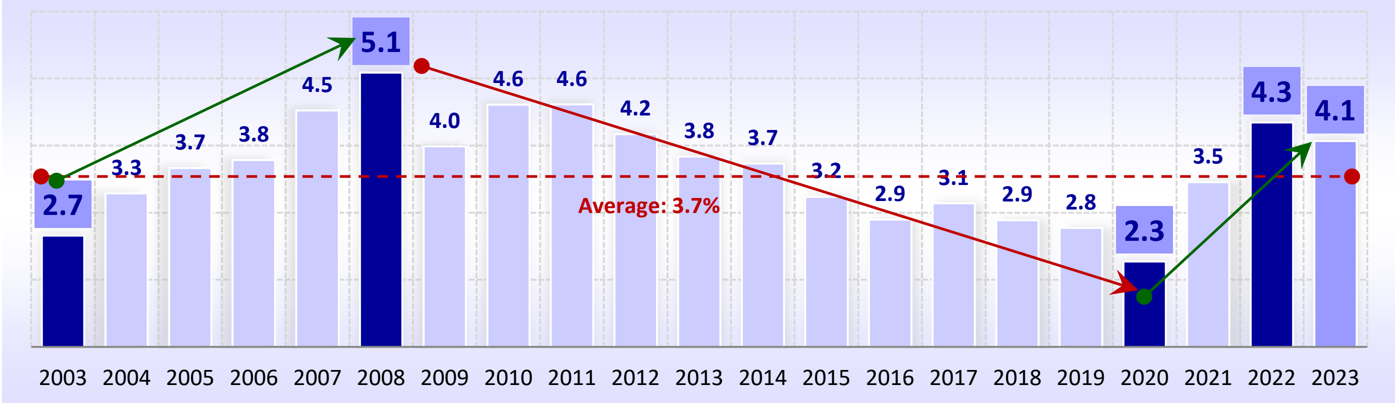



**EXHIBIT 3: Sectoral corporate profit to GDP ratio for Nifty-500 (%) – Private Banks and NBFCs at all-time high levels**

| | Profit to GDP (%) | | | | | | Change (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sector** | **2003** | **2008** | **2020** | **2021** | **2022** | **2023** | **2003-2008** | **2008-2020** | **2020-2023** | **2022-2023** |
| BFSI | 0.68 | 0.87 | 0.56 | 1.07 | 1.23 | **1.57** | 1.3 | 0.6 | 2.8 | 1.3 |
| Banks - Private | 0.11 | 0.18 | 0.13 | 0.39 | 0.44 | **0.48** | 1.6 | 0.7 | 3.6 | 1.1 |
| Banks - Public | 0.38 | 0.43 | 0.01 | 0.19 | 0.30 | **0.41** | 1.1 | 0.0 | 40.7 | 1.4 |
| Insurance | 0.02 | 0.05 | 0.05 | 0.05 | 0.04 | **0.18** | 2.5 | 0.9 | 4.0 | 4.1 |
| NBFCs | 0.16 | 0.20 | 0.36 | 0.42 | 0.43 | **0.48** | 1.3 | 1.8 | 1.3 | 1.1 |
| NBFCs - AMC | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | **0.01** | 11.9 | 1.3 | 1.0 | 0.8 |
| Oil & Gas | 1.04 | 1.15 | 0.37 | 0.66 | 0.77 | **0.49** | 1.1 | 0.3 | 1.3 | 0.6 |
| Technology | 0.10 | 0.33 | 0.41 | 0.45 | 0.48 | **0.43** | 3.3 | 1.3 | 1.0 | 0.9 |
| Utilities | 0.26 | 0.39 | 0.24 | 0.27 | 0.29 | **0.32** | 1.5 | 0.6 | 1.4 | 1.1 |
| Metals | 0.09 | 0.74 | 0.08 | 0.29 | 0.59 | **0.22** | 8.5 | 0.1 | 2.8 | 0.4 |
| Consumer | 0.17 | 0.19 | 0.20 | 0.21 | 0.19 | **0.20** | 1.2 | 1.0 | 1.0 | 1.0 |
| Automobiles | 0.07 | 0.21 | 0.08 | 0.06 | 0.11 | **0.18** | 2.8 | 0.4 | 2.3 | 1.7 |
| Healthcare | 0.08 | 0.15 | 0.13 | 0.19 | 0.17 | **0.18** | 1.9 | 0.9 | 1.4 | 1.1 |
| Capital Goods | 0.08 | 0.27 | 0.08 | 0.11 | 0.12 | **0.13** | 3.3 | 0.3 | 1.6 | 1.1 |
| Chemicals | 0.01 | 0.08 | 0.12 | 0.10 | 0.13 | **0.12** | 9.3 | 1.4 | 1.0 | 0.9 |
| Misc | 0.04 | 0.12 | 0.13 | 0.09 | 0.10 | **0.11** | 3.2 | 1.0 | 0.9 | 1.1 |
| Cement | 0.02 | 0.20 | 0.09 | 0.10 | 0.11 | **0.07** | 10.9 | 0.4 | 0.8 | 0.6 |
| Retail | 0.00 | 0.00 | 0.02 | 0.01 | 0.02 | **0.03** | 1.5 | 5.9 | 1.6 | 1.4 |
| Real Estate | 0.00 | 0.19 | 0.02 | 0.03 | 0.03 | **0.03** | 40.6 | 0.1 | 2.1 | 1.1 |
| Textiles | 0.01 | 0.01 | 0.02 | 0.01 | 0.02 | **0.02** | 1.7 | 1.3 | 1.1 | 0.7 |
| Infrastructure | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | **0.01** | 7.4 | 1.8 | 1.1 | 1.1 |
| Consumer Durables | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | **0.01** | -77.0 | 1.0 | 0.7 | 0.7 |
| Media | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | **0.01** | 1.3 | 0.8 | 0.6 | 0.6 |
| Logistics | 0.01 | 0.01 | 0.00 | -0.03 | -0.02 | **0.01** | 1.0 | 0.3 | 1.9 | -0.3 |
| E-Commerce | 0.00 | 0.00 | -0.03 | 0.00 | 0.04 | **-0.01** | 68.1 | -20.3 | 0.3 | -0.2 |
| Telecom | -0.01 | 0.14 | -0.27 | -0.18 | -0.07 | **-0.07** | -21.6 | -1.9 | 0.3 | 0.9 |
| **Nifty-500** | **2.7** | **5.1** | **2.3** | **3.5** | **4.3** | **4.1** | **1.9** | **0.4** | **1.8** | **0.9** |

**EXHIBIT 4: Contributors to change in the corporate profit to GDP ratio (FY22–23)**

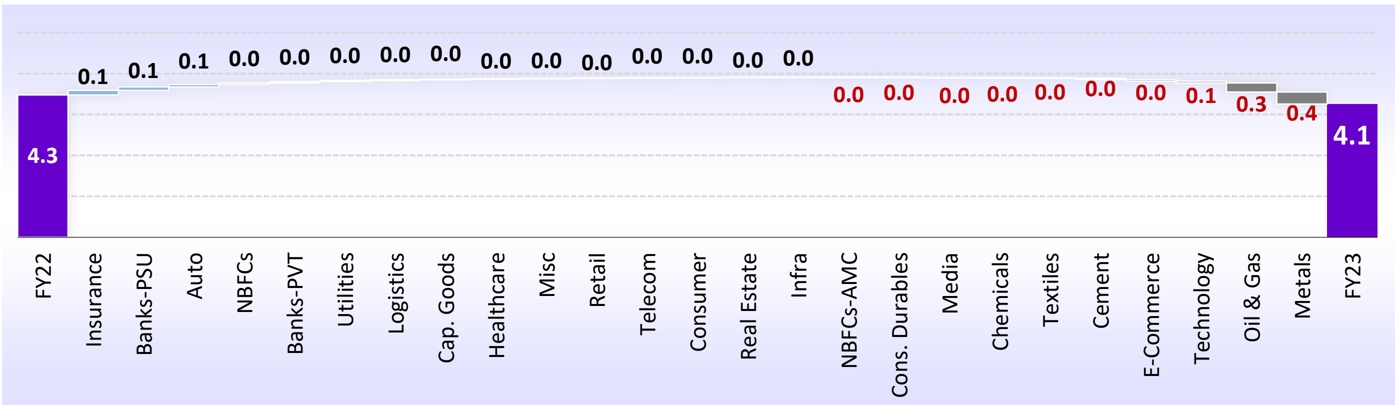


**EXHIBIT 5: Stocks with positive contribution to change**

| | | Contributors to change (FY22-23) | |
|---|---|---|---|
| Company | Sector | pp | % |
| LIC | Insurance | 0.11 | 41.4 |
| Tata Motors | Automobiles | 0.16 | 8.1 |
| SBI | Banks - Public | 0.14 | 6.9 |
| Coal India | Utilities | 0.11 | 5.6 |
| Piramal Enterp. | Healthcare | 0.11 | 5.5 |
| Interglobe Aviat | Logistics | 0.09 | 4.3 |
| BOB | Banks - Public | 0.07 | 3.7 |
| Adani Power | Utilities | 0.07 | 3.3 |
| ICICI Bank | Banks - Private | 0.06 | 3.0 |
| Sun Pharma | Healthcare | 0.06 | 2.9 |
| IDFC | NBFCs | 0.06 | 2.7 |
| Canara Bank | Banks - Public | 0.05 | 2.5 |
| GIC | Insurance | 0.05 | 2.5 |
| Maruti Suzuki | Automobiles | 0.04 | 2.0 |
| Vodafone Idea | Telecom | 0.04 | 2.0 |

**EXHIBIT 6: Stocks with negative contribution to change**

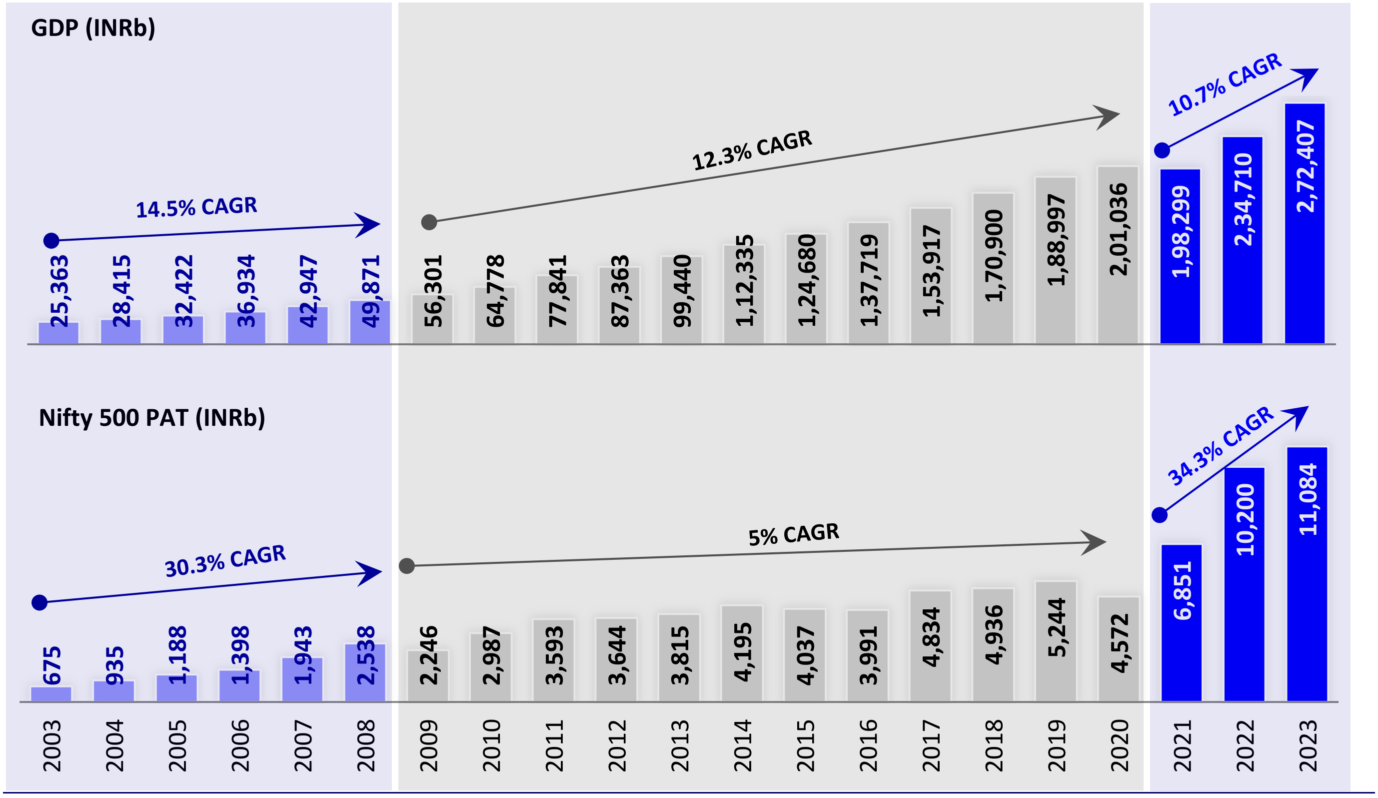
| | | Contributors to change (FY22-23) | |
|---|---|---|---|
| Company | Sector | pp | % |
| Tata Steel | Metals | -0.14 | -50.2 |
| JSW Steel | Metals | -0.07 | -26.3 |
| IOCL | Oil & Gas | -0.07 | -25.7 |
| ONGC | Oil & Gas | -0.06 | -23.1 |
| HPCL | Oil & Gas | -0.06 | -20.5 |
| Info Edge | E-Commerce | -0.05 | -19.8 |
| SAIL | Metals | -0.04 | -16.0 |
| BPCL | Oil & Gas | -0.04 | -15.2 |
| Vedanta | Metals | -0.04 | -14.9 |
| GAIL | Oil & Gas | -0.03 | -11.4 |
| Hinduja Global | Technology | -0.02 | -8.9 |
| Hindalco Inds. | Metals | -0.02 | -7.7 |
| Axis Bank | Banks - Private | -0.02 | -7.4 |
| Indus Towers | Telecom | -0.02 | -7.1 |
| NMDC | Metals | -0.02 | -7.0 |

**EXHIBIT 7: Nifty-500 profits expanded 9% YoY and clocked 34% three-year CAGR in 2023**

| | PAT (INR b) | | Change | | Profit to GDP (%) | |
|---|---|---|---|---|---|---|
| Sector | 2022 | 2023 | (x) | YoY (%) | 2022 | 2023 |
| Automobiles | 256 | 499 | 2.0 | 95 | 0.1 | 0.2 |
| BFSI | 2,897 | 4,270 | 1.5 | 47 | 1.2 | 1.6 |
| Banks - Private | 1,040 | 1,320 | 1.3 | 27 | 0.4 | 0.5 |
| Banks - Public | 710 | 1,113 | 1.6 | 57 | 0.3 | 0.4 |
| Insurance | 105 | 502 | 4.8 | 377 | 0.0 | 0.2 |
| NBFCs | 1,015 | 1,309 | 1.3 | 29 | 0.4 | 0.5 |
| NBFCs - AMC | 27 | 26 | 1.0 | -3 | 0.0 | 0.0 |
| Capital Goods | 279 | 368 | 1.3 | 32 | 0.1 | 0.1 |
| Cement | 256 | 186 | 0.7 | -28 | 0.1 | 0.1 |
| Chemicals | 294 | 324 | 1.1 | 10 | 0.1 | 0.1 |
| Consumer | 449 | 537 | 1.2 | 19 | 0.2 | 0.2 |
| Consumer Durables | 23 | 20 | 0.9 | -14 | 0.0 | 0.0 |
| E-Commerce | 96 | -24 | -0.2 | PL | 0.0 | 0.0 |
| Healthcare | 390 | 490 | 1.3 | 26 | 0.2 | 0.2 |
| Infrastructure | 30 | 39 | 1.3 | 29 | 0.0 | 0.0 |
| Logistics | -46 | 17 | -0.4 | LP | 0.0 | 0.0 |
| Media | 28 | 18 | 0.6 | -35 | 0.0 | 0.0 |
| Metals | 1,386 | 611 | 0.4 | -56 | 0.6 | 0.2 |
| Oil & Gas | 1,801 | 1,336 | 0.7 | -26 | 0.8 | 0.5 |
| Real Estate | 69 | 90 | 1.3 | 29 | 0.0 | 0.0 |
| Retail | 58 | 93 | 1.6 | 59 | 0.0 | 0.0 |
| Technology | 1,124 | 1,158 | 1.0 | 3 | 0.5 | 0.4 |
| Telecom | -175 | -187 | 1.1 | Loss | -0.1 | -0.1 |
| Textiles | 56 | 46 | 0.8 | -18 | 0.0 | 0.0 |
| Utilities | 689 | 881 | 1.3 | 28 | 0.3 | 0.3 |
| Others | 238 | 313 | 1.3 | 31 | 0.1 | 0.1 |
| **Nifty-500** | **10,200** | **11,084** | **1.1** | **9** | **4.3** | **4.1** |

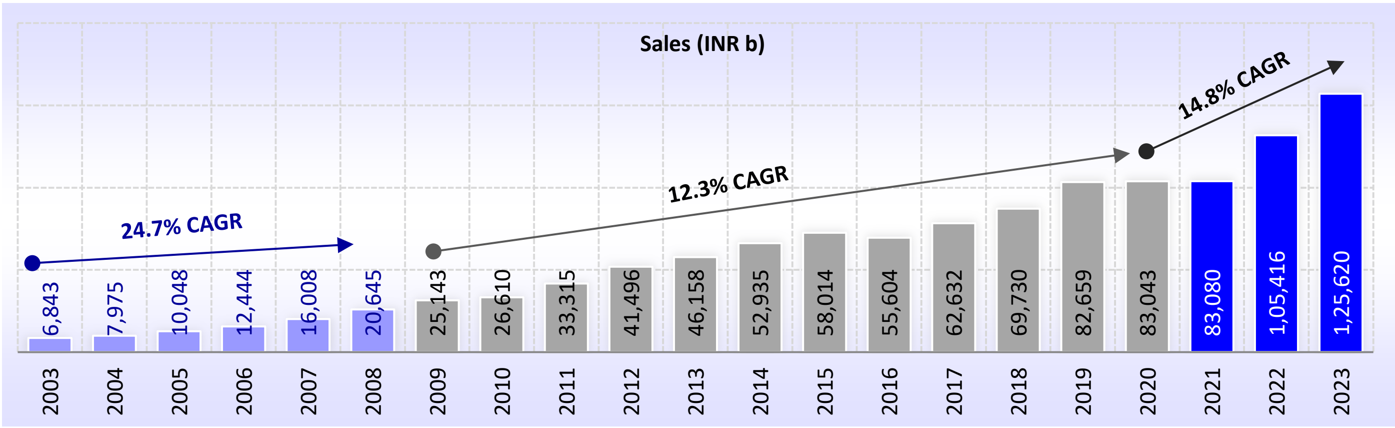
- As we can infer from Exhibit 8, Nifty-500 profits that have remained range-bound at INR4–5t over FY14-20, jumped markedly to INR10.2t in 2022 and further to INR11.1t in 2023.
- Notably, the corporate profit CAGR of 17.6% was much higher than the GDP CAGR of 9.8% over 2018–23. During 2020–23 too, corporate profit CAGR at 34.3% was significantly higher than the GDP CAGR at 10.7%.

**EXHIBIT 8: Contrast between GDP growth and corporate earnings growth**




- The revenue CAGR of Nifty-500 over 2020-23 stood at 14.8%, primarily contributed by global commodities and Automobiles.
- However, revenue CAGR was moderate at 12.5% over 2018-2023, which is attributable to the combination of a correction in commodity prices and some softening in revenue growth in the consumer-oriented sectors.

**EXHIBIT 9: Trend in Nifty-500 sales (INR b)**




- Corporate margins have seen acute volatility since the onset of the pandemic. Post-clocking multi-year highs in FY22, both operating and profit margins in FY23 contracted 310bp and 220bp YoY, respectively, for Nifty-500 Universe. The deterioration was led by a spike in commodity prices because of global macro headwinds.
- Sectors reliant on global commodities have witnessed maximum pain due to major price volatility that had a cascading effect on corporate India's margins.

- As depicted in Exhibits 6 and 7, the operating margin of the Nifty-500 Universe inched up over 2017–22 after being range bound during 2012–16. This reflects a moderation in commodity prices and operating leverage in some sectors. However, the PAT margin has not shown similar improvements over 2017–22 due to higher provisioning costs at corporate banks. In fact, the profit margin has contracted since 2017 and is still well below the peak of 10.8% achieved in 2008.
- The operating margin of the Nifty-500 (ex-Financials) broadly hovered around 13–14% over 2012–16, before breaking into the +15% band led by commodity price correction over 2015–16. Notably, the operating margin climbed to 16.6% in 2022, breaking the peak of 16.4% clocked in 2005. Similarly, the PAT margin collapsed to 5.7% in 2015, down from the peak of 10.8% achieved in 2008. Thereafter, it steadily climbed to 7.6%, largely as a flow-through of the improvement in operating margin.

**EXHIBIT 10: Nifty-500 EBITDA margin, ex-Financials (%)**

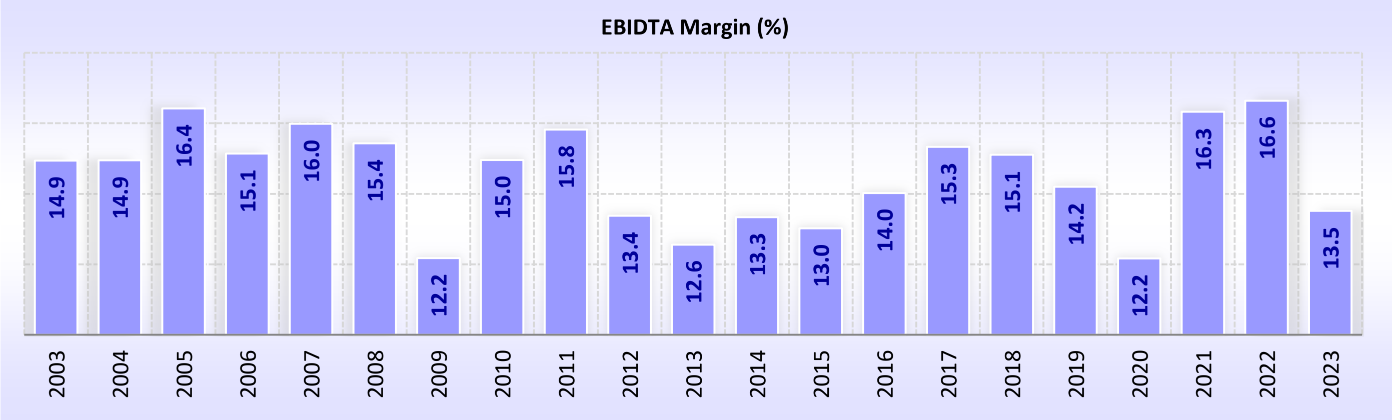
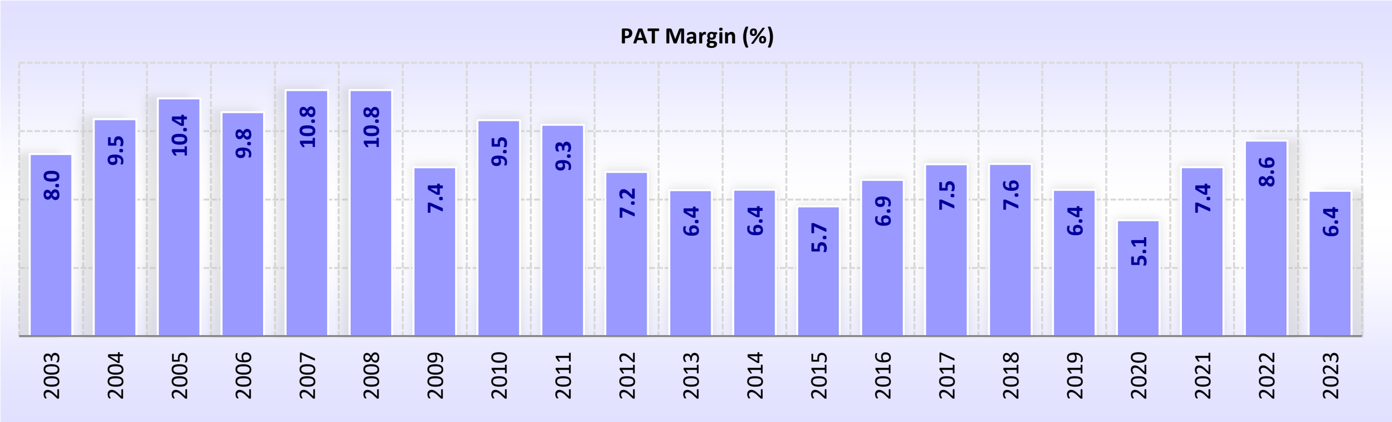



**EXHIBIT 11: Nifty-500 PAT margin, ex-Financials (%)**



## Global cyclicals and Financials lead the surge in corporate profit to GDP ratio in Phase 3

- During Phase 3, the ratio improved for 20 of 25 sectors, of which 76% was driven by PSU Banks (22%), Private Banks (20%), Telecom (11%), Metals (8%), Insurance (8%), and Oil & Gas (7%).
- Cement, Media, and Consumer Durables were the only sectors to witness a compression in the ratio.

**EXHIBIT 12: Nifty-500 earnings expanded 9% YoY and clocked 34% three-year CAGR in 2023**

| | PAT (INR b) | | Change | | Profit to GDP (%) | |
|---|---|---|---|---|---|---|
| Sector | 2020 | 2023 | (x) | CAGR (%) | 2020 | 2023 |
| Automobiles | 162 | 499 | 3.1 | 76 | 0.1 | 0.2 |
| BFSI | 1,127 | 4,270 | 3.8 | 95 | 0.6 | 1.6 |
| Banks - Private | 268 | 1,320 | 4.9 | 122 | 0.1 | 0.5 |
| Banks - Public | 20 | 1,113 | 55.2 | 643 | 0.0 | 0.4 |
| Insurance | 92 | 502 | 5.4 | 133 | 0.0 | 0.2 |
| NBFCs | 728 | 1,309 | 1.8 | 34 | 0.4 | 0.5 |
| NBFCs - AMC | 19 | 26 | 1.3 | 15 | 0.0 | 0.0 |
| Capital Goods | 166 | 368 | 2.2 | 49 | 0.1 | 0.1 |
| Cement | 176 | 186 | 1.1 | 3 | 0.1 | 0.1 |
| Chemicals | 234 | 324 | 1.4 | 18 | 0.1 | 0.1 |
| Consumer | 395 | 537 | 1.4 | 17 | 0.2 | 0.2 |
| Consumer Durables | 22 | 20 | 0.9 | -6 | 0.0 | 0.0 |
| E-Commerce | -50 | -24 | Loss | Loss | 0.0 | 0.0 |
| Healthcare | 259 | 490 | 1.9 | 38 | 0.1 | 0.2 |
| Infrastructure | 26 | 39 | 1.5 | 21 | 0.0 | 0.0 |
| Logistics | 7 | 17 | 2.6 | 62 | 0.0 | 0.0 |
| Media | 24 | 18 | 0.8 | -13 | 0.0 | 0.0 |
| Metals | 162 | 611 | 3.8 | 94 | 0.1 | 0.2 |
| Oil & Gas | 738 | 1,336 | 1.8 | 34 | 0.4 | 0.5 |
| Real Estate | 32 | 90 | 2.8 | 69 | 0.0 | 0.0 |
| Retail | 43 | 93 | 2.2 | 47 | 0.0 | 0.0 |
| Technology | 826 | 1,158 | 1.4 | 18 | 0.4 | 0.4 |
| Telecom | -545 | -187 | Loss | Loss | -0.3 | -0.1 |
| Textiles | 31 | 46 | 1.5 | 23 | 0.0 | 0.0 |
| Utilities | 481 | 881 | 1.8 | 35 | 0.2 | 0.3 |
| Others | 257 | 313 | 1.2 | 10 | 0.1 | 0.1 |
| **Nifty-500** | **4,572** | **11,084** | **2.4** | **56** | **2.3** | **4.1** |

**EXHIBIT 13: Contributors to the rise in corporate profit to GDP ratio (Phase 3)**

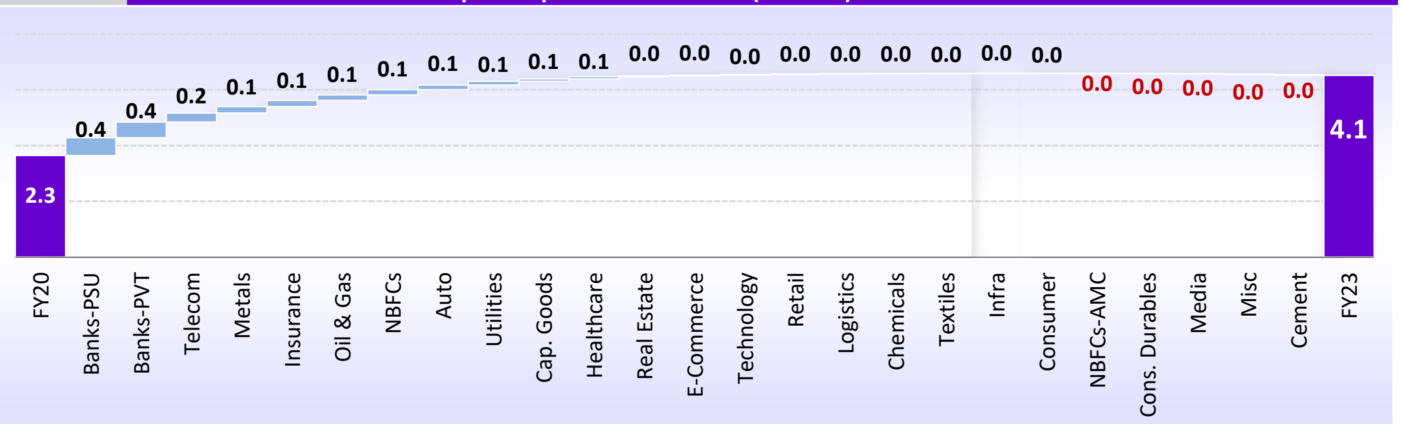


**EXHIBIT 14: Stocks with positive contribution to change**

| | | Contributors to change (FY20-23) | |
|---|---|---|---|
| **Company** | **Sector** | **pp** | **%** |
| Bharti Airtel | Telecom | 0.19 | 10.6 |
| LIC | Insurance | 0.16 | 8.1 |
| SBI | Banks - Public | 0.14 | 6.9 |
| Yes Bank | Banks - Private | 0.11 | 5.6 |
| IDBI Bank | Banks - Private | 0.11 | 5.5 |
| ICICI Bank | Banks - Private | 0.09 | 4.3 |
| ONGC | Oil & Gas | 0.07 | 3.7 |
| Vedanta | Metals | 0.07 | 3.3 |
| Tata Motors | Automobiles | 0.06 | 3.0 |
| Canara Bank | Banks - Public | 0.06 | 2.9 |
| Adani Power | Utilities | 0.06 | 2.7 |
| IOB | Banks - Public | 0.05 | 2.5 |
| BOB | Banks - Public | 0.05 | 2.5 |
| Reliance Inds | Oil & Gas | 0.04 | 2.0 |
| Union Bank | Banks - Public | 0.04 | 2.0 |

**EXHIBIT 15: Stocks with negative contribution to change**

| | | Contributors to change (FY20-23) | |
|---|---|---|---|
| **Company** | **Sector** | **pp** | **%** |
| HPCL | Oil & Gas | -0.04 | -2.2 |
| Patanjali Foods | Others | -0.03 | -1.9 |
| Tata Chemicals | Chemicals | -0.03 | -1.5 |
| GAIL | Oil & Gas | -0.03 | -1.5 |
| Sh.Renuka Sugar | Others | -0.01 | -0.6 |
| HDFC | NBFCs | -0.01 | -0.6 |
| UltraTech Cem | Cement | -0.01 | -0.6 |
| Bombay Burmah | Others | -0.01 | -0.5 |
| L&T | Capital Goods | -0.01 | -0.5 |
| Indus Towers | Telecom | -0.01 | -0.5 |
| Hero Motocorp | Automobiles | -0.01 | -0.4 |
| BPCL | Oil & Gas | -0.01 | -0.4 |
| Aurobindo | Healthcare | -0.01 | -0.4 |
| Bandhan Bank | Banks - Private | -0.01 | -0.4 |
| Indiabulls Hsg. | NBFCs | -0.01 | -0.4 |

## Corporate profit to GDP almost doubles over Phase 1…

- The corporate profit to GDP ratio almost doubled to 5.1% from 2.7% over 2003–08, with Nifty-500 profits reporting 30% growth – at 2x the pace of underlying GDP growth (CAGR of 14.5%) during the same period.
- This surge was propelled by the export-, investment-, and capex-oriented sectors. During 2003–08, the global economy was growing at a faster rate, supporting the export-oriented players. Capacity investments across sectors were also significant as the investment cycle took off steadily.
- Of the 2.4% improvement in the corporate profit to GDP ratio over this period, 1.6% was contributed by Metals, Technology, BFSI, Capital Goods, Real Estate, and Cement.
- The Technology sector benefited from global growth and the inflection point in Indian IT, when it built scale and took rapid strides.
- The Top 5 contributors to profit delta during this phase were RIL, Tata Steel, SAIL, DLF, and Bharti Airtel.

**EXHIBIT 16: Contributors to the rise in corporate profit to GDP (Phase 1)**

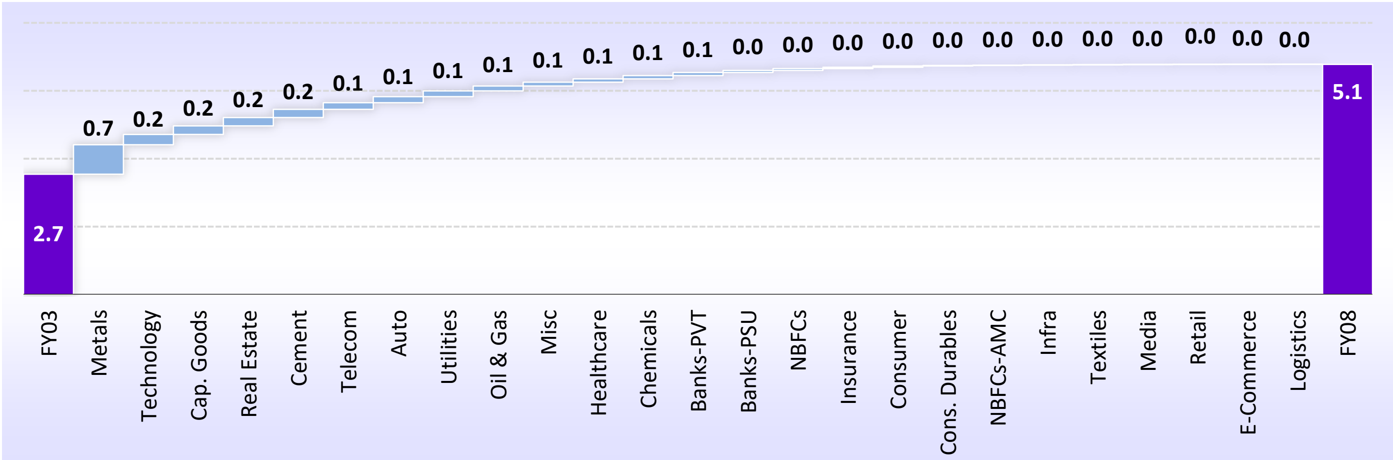



**EXHIBIT 17: Stocks with positive contribution to change**

| | | Contributors to change (FY03-08) | |
|---|---|---|---|
| **Company** | **Sector** | **pp** | **%** |
| Reliance Inds | Oil & Gas | 0.23 | 9.6 |
| Tata Steel | Metals | 0.21 | 8.5 |
| SAIL | Metals | 0.17 | 7.0 |
| DLF | Real Estate | 0.15 | 6.3 |
| Bharti Airtel | Telecom | 0.14 | 5.6 |
| TCS | Technology | 0.10 | 4.1 |
| Coal India | Utilities | 0.10 | 3.9 |
| Hindustan Zinc | Metals | 0.08 | 3.4 |
| Infosys | Technology | 0.06 | 2.3 |
| NMDC | Metals | 0.05 | 2.2 |
| Grasim Inds | Cement | 0.05 | 1.9 |
| MRPL | Oil & Gas | 0.04 | 1.7 |
| BHEL | Capital Goods | 0.04 | 1.6 |
| JSW Steel | Metals | 0.04 | 1.5 |
| Wipro | Technology | 0.03 | 1.4 |

**EXHIBIT 18: Stocks with negative contribution to change**

| | | Contributors to change (FY03-08) | |
|---|---|---|---|
| **Company** | **Sector** | **pp** | **%** |
| IOCL | Oil & Gas | -0.10 | -4.1 |
| Tata Comm | Telecom | -0.03 | -1.3 |
| HPCL | Oil & Gas | -0.03 | -1.3 |
| HUL | Consumer | -0.03 | -1.2 |
| BPCL | Oil & Gas | -0.03 | -1.1 |
| NLC India | Utilities | -0.02 | -1.0 |
| Power Fin.Corp. | NBFCs | -0.02 | -0.9 |
| ONGC | Oil & Gas | -0.01 | -0.6 |
| Bajaj Holdings | NBFCs | -0.01 | -0.4 |
| GAIL | Oil & Gas | -0.01 | -0.4 |
| TVS Motor | Automobiles | -0.01 | -0.2 |
| Dr Reddy's Labs | Healthcare | -0.01 | -0.2 |
| REC | NBFCs | -0.01 | -0.2 |
| Vaibhav Global | Retail | -0.01 | -0.2 |
| IDBI Bank | Banks - Private | -0.01 | -0.2 |

## Export-, investment-, and capex-oriented sectors drove the ratio in Phase 1

**EXHIBIT 19:** Nifty-500 earnings expanded at 30% CAGR over 2003–08

| | PAT (INR b) | | Change | | Profit to GDP (%) | |
|---|---|---|---|---|---|---|
| Sector | 2003 | 2008 | (x) | CAGR (%) | 2003 | 2008 |
| Automobiles | 19 | 104 | 5.5 | 41 | 0.1 | 0.2 |
| BFSI | 172 | 434 | 2.5 | 20 | 0.7 | 0.9 |
| Banks - Private | 28 | 89 | 3.2 | 26 | 0.1 | 0.2 |
| Banks - Public | 98 | 214 | 2.2 | 17 | 0.4 | 0.4 |
| Insurance | 5 | 25 | 4.8 | 37 | 0.0 | 0.1 |
| NBFCs | 41 | 102 | 2.5 | 20 | 0.2 | 0.2 |
| NBFCs - AMC | 0 | 4 | 23.4 | 88 | 0.0 | 0.0 |
| Capital Goods | 21 | 135 | 6.5 | 46 | 0.1 | 0.3 |
| Cement | 5 | 100 | 21.4 | 84 | 0.0 | 0.2 |
| Chemicals | 2 | 40 | 18.3 | 79 | 0.0 | 0.1 |
| Consumer | 42 | 96 | 2.3 | 18 | 0.2 | 0.2 |
| Consumer Durables | 0 | 5 | LP | LP | 0.0 | 0.0 |
| E-Commerce | 0 | 1 | 134.0 | 166 | 0.0 | 0.0 |
| Healthcare | 20 | 75 | 3.8 | 31 | 0.1 | 0.2 |
| Infrastructure | 0 | 4 | 14.5 | 71 | 0.0 | 0.0 |
| Logistics | 3 | 6 | 2.1 | 16 | 0.0 | 0.0 |
| Media | 3 | 7 | 2.6 | 21 | 0.0 | 0.0 |
| Metals | 22 | 368 | 16.7 | 76 | 0.1 | 0.7 |
| Oil & Gas | 263 | 572 | 2.2 | 17 | 1.0 | 1.1 |
| Real Estate | 1 | 94 | 79.8 | 140 | 0.0 | 0.2 |
| Retail | 1 | 2 | 3.0 | 24 | 0.0 | 0.0 |
| Technology | 25 | 164 | 6.4 | 45 | 0.1 | 0.3 |
| Telecom | -2 | 70 | LP | LP | 0.0 | 0.1 |
| Textiles | 2 | 6 | 3.3 | 27 | 0.0 | 0.0 |
| Utilities | 66 | 193 | 2.9 | 24 | 0.3 | 0.4 |
| Others | 10 | 61 | 6.3 | 45 | 0.0 | 0.1 |
| **Nifty-500** | **675** | **2,538** | **3.8** | **30** | **2.7** | **5.1** |

## ...and more than halved over Phase 2

- During 2008–20, the distress in domestic corporate earnings had led to a compression in the Nifty-500 profit to GDP ratio to 2.3% from 5.1% earlier.
- Similar to Phase 1, the movement in the ratio over Phase 2 was led by certain sectors – **88% of the decline was attributed to Oil & Gas (28%), Metals (23%), PSU Banks (15%), Telecom (15%), and Capital Goods (7%).**
- NBFC, Technology, Chemicals, and Retail were the only sectors that have seen an improvement in the profit to GDP ratio during Phase 2.
- **PSU Banks** had been hit by rising NPAs (especially in corporate-oriented banks), higher provisions, higher slippages, and lower loan growth that led to a meaningful deterioration in profitability and return ratios.
- **Metals sector** had seen significant swings in profitability since 2008. It went down to 0.2% in 2013 from 0.7% in 2008, and bottomed out in 2016. The fortunes of sectoral profitability are inextricably linked to underlying commodity prices and have swung in line with the prices. During 2016–19, the sector had seen a massive profitability jump owing to rising commodity prices along with the phase of de-leveraging in some big companies. However, earnings of Nifty-500 Metals Universe declined 65% to INR162b in 2020 from INR467b in 2019.
- **Telecom's** profitability plummeted due to elevated competitive intensity after the entry of Reliance Jio. This, coupled with rising capex intensity and lower operating margin, pushed the sector towards losses.
- NBFCs, meanwhile, had delivered a solid performance over the last decade, with consistent market share gains and rising penetration in several segments (Home Finance / Vehicle Finance, etc.) due to the underlying stress in PSU Banks. The profit to GDP ratio for NBFCs expanded consistently over the last decade. In fact, the Nifty-500 NBFC Universe PAT clocked an 18% CAGR over 2008–20.
- Key stocks contributing to the decline in the ratio over Phase 2 were ONGC (-12%), Bharti Airtel (-10%), Tata Steel (-9%), RIL (-7%), and IOCL (-6%).

**EXHIBIT 20:** Contributors to decline in corporate profit to GDP ratio (Phase 2; pp)

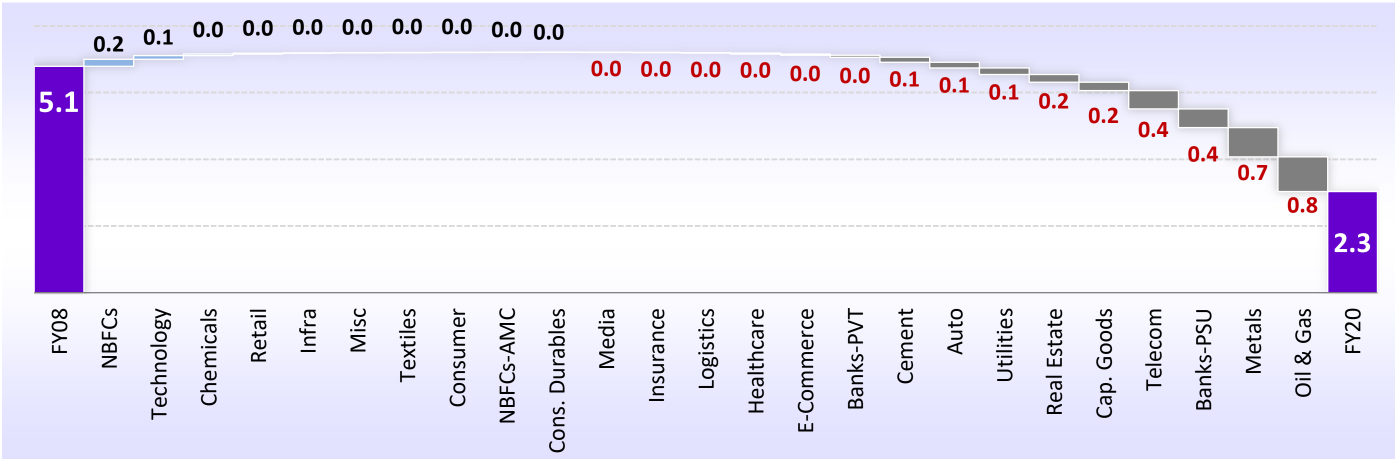


**EXHIBIT 21: Stocks with positive contribution to change**

| | | Contributors to change (FY08-20) | |
|---|---|---|---|
| Company | Sector | pp | % |
| HDFC Bank | Banks - Private | 0.10 | 3.7 |
| TCS | Technology | 0.06 | 2.1 |
| HDFC | NBFCs | 0.05 | 1.8 |
| Patanjali Foods | Others | 0.03 | 1.2 |
| HCL Tech. | Technology | 0.03 | 0.9 |
| Power Grid Corp | Utilities | 0.03 | 0.9 |
| Bajaj Finance | NBFCs | 0.02 | 0.8 |
| Kotak Mah. Bank | Banks - Private | 0.02 | 0.7 |
| IndusInd Bank | Banks - Private | 0.02 | 0.6 |
| Bajaj Finserv | NBFCs | 0.02 | 0.5 |
| Indus Towers | Telecom | 0.02 | 0.5 |
| Tata Chemicals | Chemicals | 0.02 | 0.5 |
| Bandhan Bank | Banks - Private | 0.01 | 0.5 |
| Adani Ports | Others | 0.01 | 0.5 |
| Muthoot Finance | NBFCs | 0.01 | 0.5 |

**EXHIBIT 22: Stocks with negative contribution to change**

| | | Contributors to change (FY08-20) | |
|---|---|---|---|
| Company | Sector | pp | % |
| ONGC | Oil & Gas | -0.34 | -12.2 |
| Bharti Airtel | Telecom | -0.29 | -10.2 |
| Tata Steel | Metals | -0.24 | -8.5 |
| Reliance Inds. | Oil & Gas | -0.20 | -7.0 |
| IOCL | Oil & Gas | -0.16 | -5.8 |
| DLF | Real Estate | -0.16 | -5.7 |
| SAIL | Metals | -0.14 | -5.0 |
| Vodafone Idea | Telecom | -0.13 | -4.6 |
| Tata Motors | Automobiles | -0.10 | -3.7 |
| NTPC | Utilities | -0.09 | -3.3 |
| Yes Bank | Banks - Private | -0.09 | -3.0 |
| SBI | Banks - Public | -0.08 | -2.9 |
| IDBI Bank | Banks - Private | -0.08 | -2.8 |
| IOB | Banks - Public | -0.07 | -2.4 |
| BHEL | Capital Goods | -0.06 | -2.3 |

## Corporate profit to GDP over Phase 2 declines to 2.3% from 5.1% in 2008 led by just five sectors

**EXHIBIT 23: A meager 5% CAGR in profits over Phase 2**

| | PAT (INR b) | | Change | | Profit to GDP (%) | |
|---|---|---|---|---|---|---|
| Sector | 2008 | 2020 | (x) | CAGR (%) | 2008 | 2020 |
| Automobiles | 104 | 162 | 1.6 | 4 | 0.2 | 0.1 |
| BFSI | 434 | 1,127 | 2.6 | 8 | 0.9 | 0.6 |
| Banks - Private | 89 | 268 | 3.0 | 10 | 0.2 | 0.1 |
| Banks - Public | 214 | 20 | 0.1 | -18 | 0.4 | 0.0 |
| Insurance | 25 | 92 | 3.7 | 11 | 0.1 | 0.0 |
| NBFCs | 102 | 728 | 7.1 | 18 | 0.2 | 0.4 |
| NBFCs - AMC | 4 | 19 | 5.3 | 15 | 0.0 | 0.0 |
| Capital Goods | 135 | 166 | 1.2 | 2 | 0.3 | 0.1 |
| Cement | 100 | 176 | 1.8 | 5 | 0.2 | 0.1 |
| Chemicals | 40 | 234 | 5.8 | 16 | 0.1 | 0.1 |
| Consumer | 96 | 395 | 4.1 | 12 | 0.2 | 0.2 |
| Consumer Durables | 5 | 22 | 4.1 | 13 | 0.0 | 0.0 |
| E-Commerce | 1 | -50 | PL | PL | 0.0 | 0.0 |
| Healthcare | 75 | 259 | 3.4 | 11 | 0.2 | 0.1 |
| Infrastructure | 4 | 26 | 7.2 | 18 | 0.0 | 0.0 |
| Logistics | 6 | 7 | 1.1 | 0 | 0.0 | 0.0 |
| Media | 7 | 24 | 3.3 | 10 | 0.0 | 0.0 |
| Metals | 368 | 162 | 0.4 | -7 | 0.7 | 0.1 |
| Oil & Gas | 572 | 738 | 1.3 | 2 | 1.1 | 0.4 |
| Real Estate | 94 | 32 | 0.3 | -9 | 0.2 | 0.0 |
| Retail | 2 | 43 | 23.9 | 30 | 0.0 | 0.0 |
| Technology | 164 | 826 | 5.1 | 14 | 0.3 | 0.4 |
| Telecom | 70 | -545 | PL | PL | 0.1 | -0.3 |
| Textiles | 6 | 31 | 5.2 | 15 | 0.0 | 0.0 |
| Utilities | 193 | 481 | 2.5 | 8 | 0.4 | 0.2 |
| Others | 61 | 257 | 4.2 | 13 | 0.1 | 0.1 |
| **Nifty-500** | **2,538** | **4,572** | **1.8** | **5** | **5.1** | **2.3** |

## PSU revival: Profits triple over Phase 3 after a flat Phase 2

- We analyze India's corporate profit to GDP distribution over the last two decades under three categories: a) PSU Corporate, b) MNCs, and c) Private Corporate.
- PSU Corporate's profit to GDP ratio was down to 0.5% in 2020 from 2.0% in 2008, given the significant value migration from public to private in sectors such as Banking, Telecom, and Airlines. This happened even as PSU-heavy sectors such as Oil & Gas and Utilities underperformed on profit growth than the underlying GDP growth. However, the sectors recovered to 1.4% in 2023.
- Indian Private Corporate sector's profit to GDP ratio improved to 2.8% in 2008 from a meager 0.8% in 2003. However, the ratio dipped to 1.5% in 2020 before rebounding to 2.5% in 2023. MNCs' contributions have remained stable over the years.
- Indian PSU's have made a successful comeback fueled by a sharp 3.5x jump in PSU profits that reached INR3.7t from INR1.1t over FY20-23. More than 40% of these incremental profits came from PSU Banks alone while Oil & Gas contributed 16%. Profits of PSU Banks crossed the INR one trillion mark and reached INR1.1t in FY23.

**EXHIBIT 24: Corporate profit to GDP (%) – by business group**

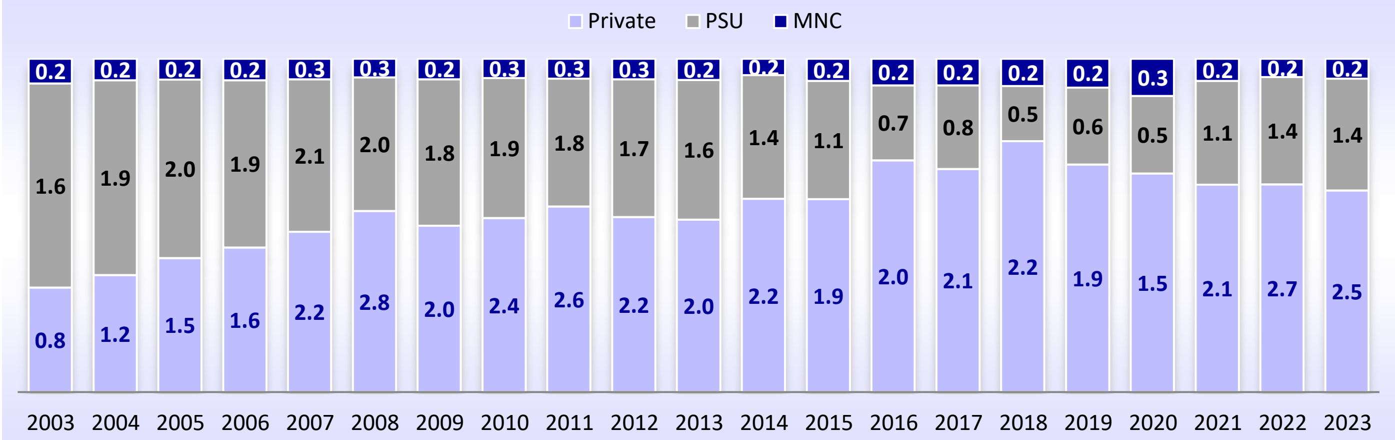
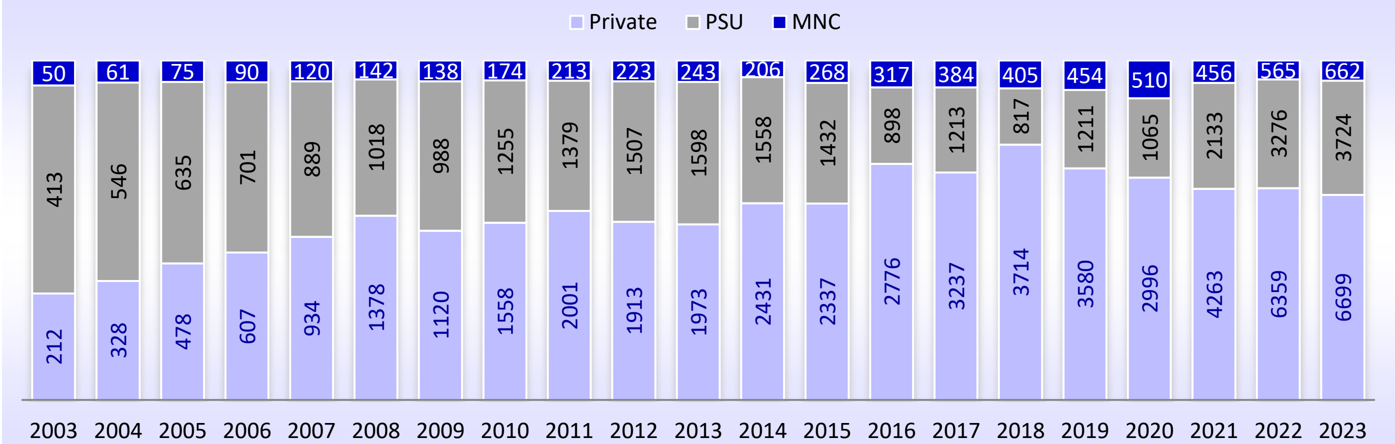



**EXHIBIT 25: Profit pool of PSU corporates grew at a faster pace over FY20-23**



## Momentum to continue

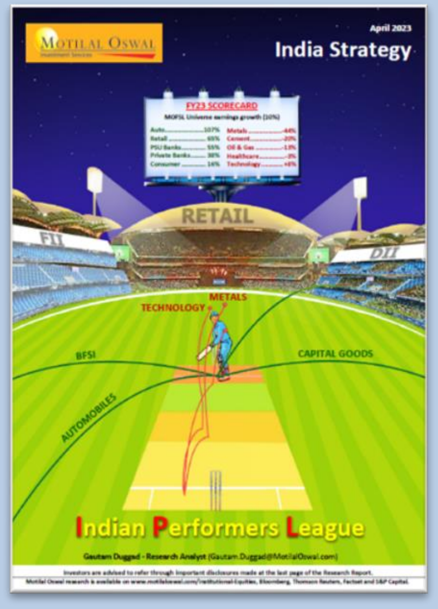
- We expect the ratio to sustain going ahead. India's earnings cycle has seen a smart turnaround after almost a decade. Nifty exited FY23 with an 11% EPS growth on a high base of 34% growth in FY22. Earnings though remained lopsided with BFSI driving almost the entire incremental earnings in FY23. With healthy macros, range-bound oil prices, robust fiscal balance sheet and moderating inflation, the market outlook is quite optimistic.
- For Nifty-50, we are modeling 20% YoY profit growth for FY24E. We forecast FY24 earnings growth to be driven by BFSI, Oil & Gas, Metals and Automobiles – that are likely to contribute 82% to the incremental earnings of Nifty-50.
- For the MOFSL Universe, we expect earnings to grow 27% YoY in FY24, yet again propelled by the abovementioned sectors.

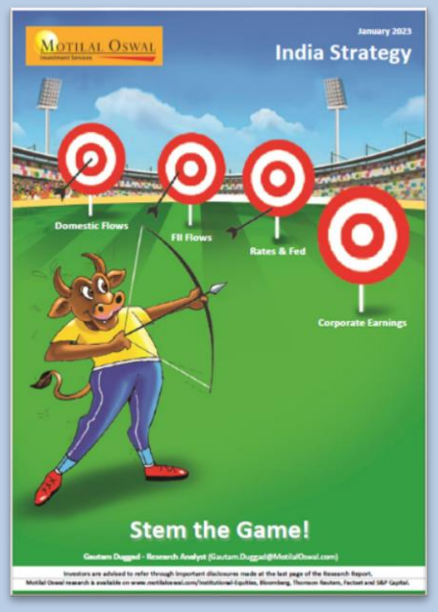
**EXHIBIT 26: MOFSL Universe profit pool (INR b)**

| | PAT (INR b) | | | | | Growth YoY (%) | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Sector** | **FY21** | **FY22** | **FY23** | **FY24E** | **FY25E** | **FY22** | **FY23** | **FY24E** | **FY25E** |
| Automobiles | 277 | 194 | 439 | 688 | 800 | -30 | 127 | 57 | 16 |
| Cement | 190 | 222 | 177 | 214 | 250 | 17 | -20 | 21 | 17 |
| Chemicals-Specialty | 29 | 34 | 38 | 43 | 50 | 16 | 12 | 12 | 16 |
| Consumer | 387 | 432 | 505 | 600 | 693 | 12 | 17 | 19 | 16 |
| Financials | 1,464 | 2,019 | 2,908 | 3,568 | 4,234 | 38 | 44 | 23 | 19 |
| Banks-Private | 744 | 956 | 1,336 | 1,614 | 1,929 | 28 | 40 | 21 | 20 |
| Banks-PSU | 337 | 610 | 966 | 1,233 | 1,450 | 81 | 58 | 28 | 18 |
| Insurance | 47 | 41 | 67 | 81 | 97 | -13 | 65 | 20 | 20 |
| NBFC - Lending | 312 | 379 | 506 | 601 | 714 | 22 | 33 | 19 | 19 |
| NBFC - Non Lending | 23 | 33 | 33 | 39 | 45 | 41 | 3 | 16 | 15 |
| Healthcare | 303 | 336 | 317 | 376 | 447 | 11 | -6 | 19 | 19 |
| Infrastructure | 12 | 15 | 20 | 22 | 25 | 29 | 34 | 9 | 15 |
| Logistics | 10 | 19 | 20 | 23 | 30 | 90 | 6 | 16 | 28 |
| Media | 20 | 23 | 20 | 30 | 36 | 18 | -14 | 49 | 20 |
| Metals | 738 | 1,559 | 837 | 1,059 | 1,110 | 111 | -46 | 26 | 5 |
| Oil & Gas | 1,239 | 1,695 | 1,364 | 1,848 | 1,945 | 37 | -20 | 35 | 5 |
| Excl. OMCs | 783 | 1,256 | 1,297 | 1,529 | 1,627 | 60 | 3 | 18 | 6 |
| Real Estate | 34 | 53 | 79 | 95 | 122 | 59 | 49 | 20 | 28 |
| Retail | 9 | 52 | 82 | 108 | 142 | 479 | 58 | 33 | 31 |
| Staffing | 5 | 7 | 6 | 9 | 13 | 34 | -5 | 40 | 45 |
| Technology | 871 | 1,005 | 1,076 | 1,211 | 1,401 | 15 | 7 | 13 | 16 |
| Telecom | -187 | -170 | -175 | -87 | 10 | Loss | Loss | Loss | LP |
| Others | 23 | 67 | 160 | 224 | 261 | 191 | 138 | 40 | 16 |
| **MOFSL Universe** | **5,423** | **7,562** | **7,873** | **10,031** | **11,568** | **39** | **4** | **27** | **15** |
| **Nifty-50** | **4,164** | **5,745** | **6,345** | **7,629** | **8,707** | **38** | **10** | **20** | **14** |

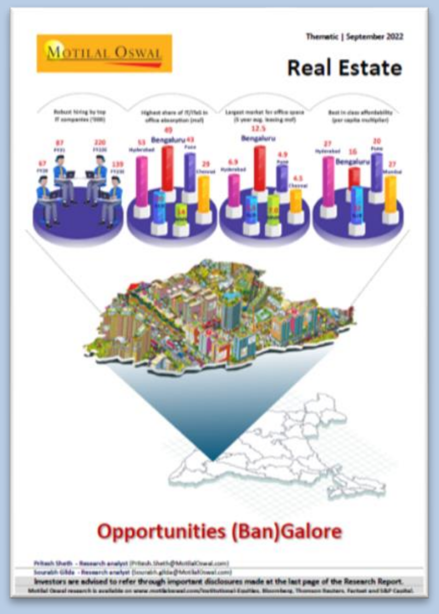
# REPORT GALLERY

## RECENT STRATEGY/THEMATIC REPORTS

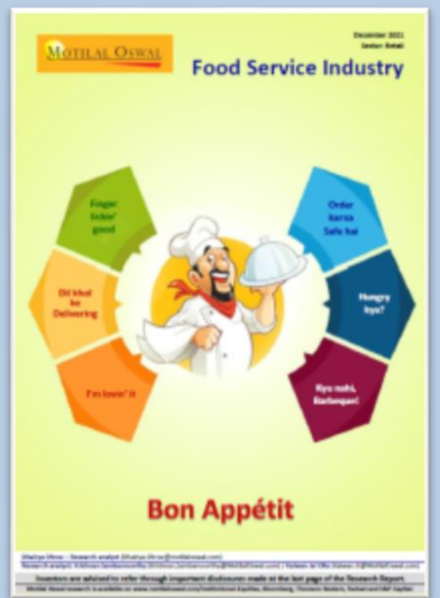


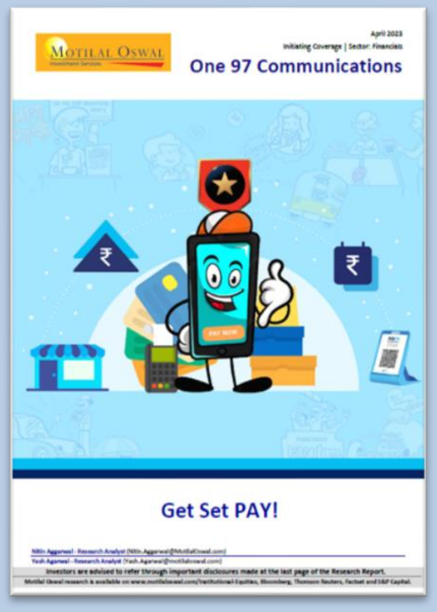










| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | > - 10 % to 15% |
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