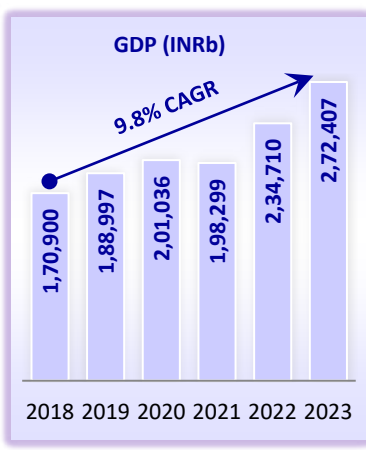
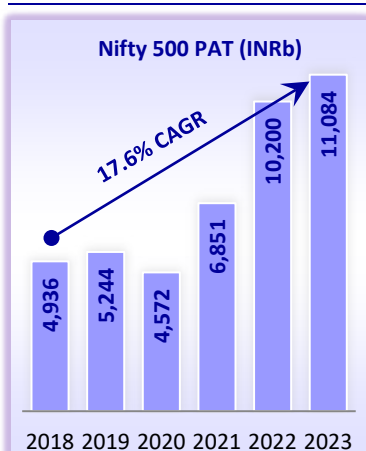


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## Profits have grown at a faster pace



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

### Global cyclical 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 cyclical (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.

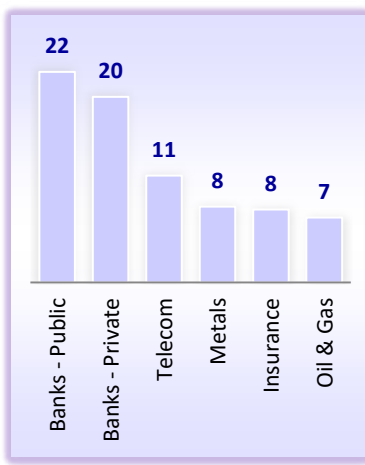
#### Phase 1) 2003–08: The Shining Phase...

- 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.

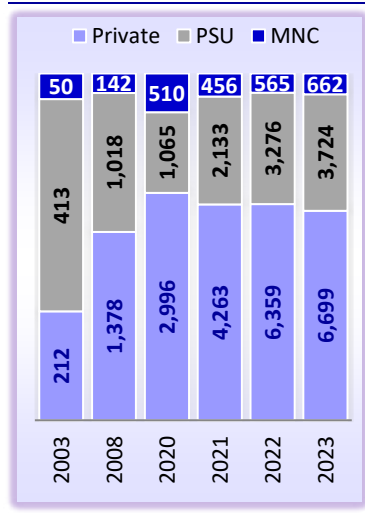
#### Phase 2) 2008–20: ...that faded away

- 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%).

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



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



- 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.

### 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.

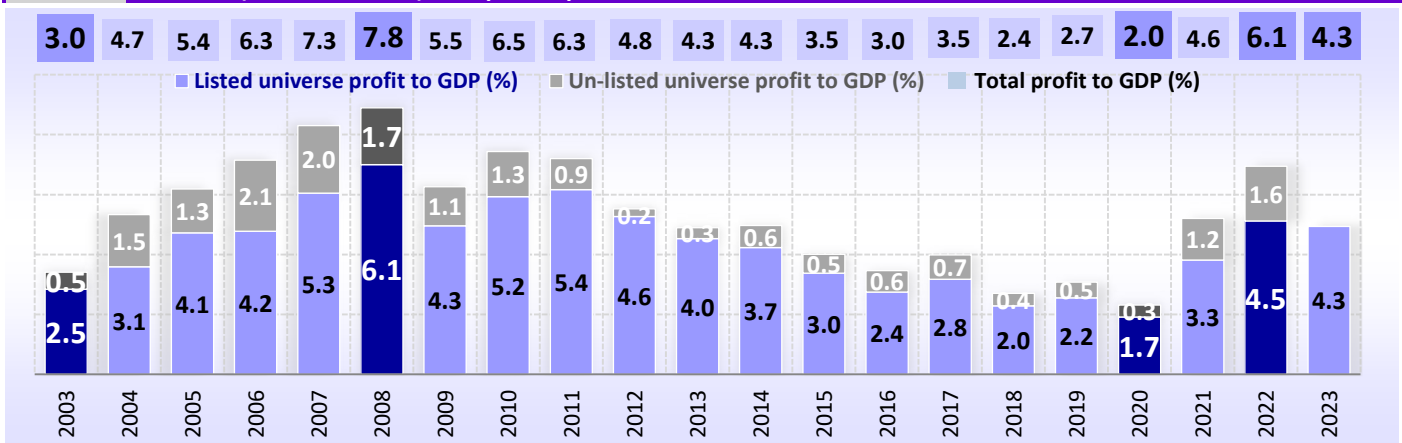
### Expect the corporate profit to GDP ratio to sustain

- 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.

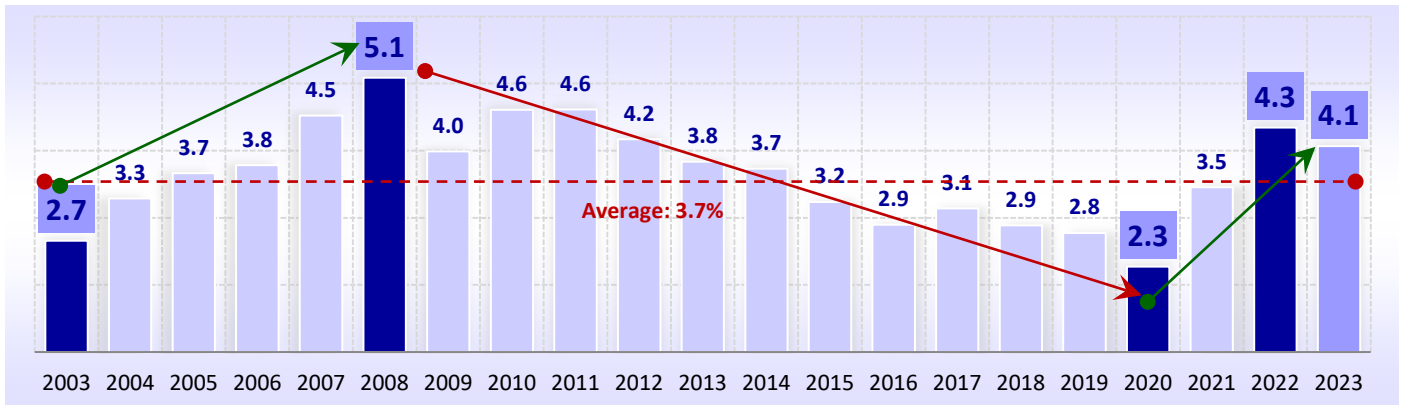
### Corporate profit to GDP moderates in 2023

- 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 cyclical 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.

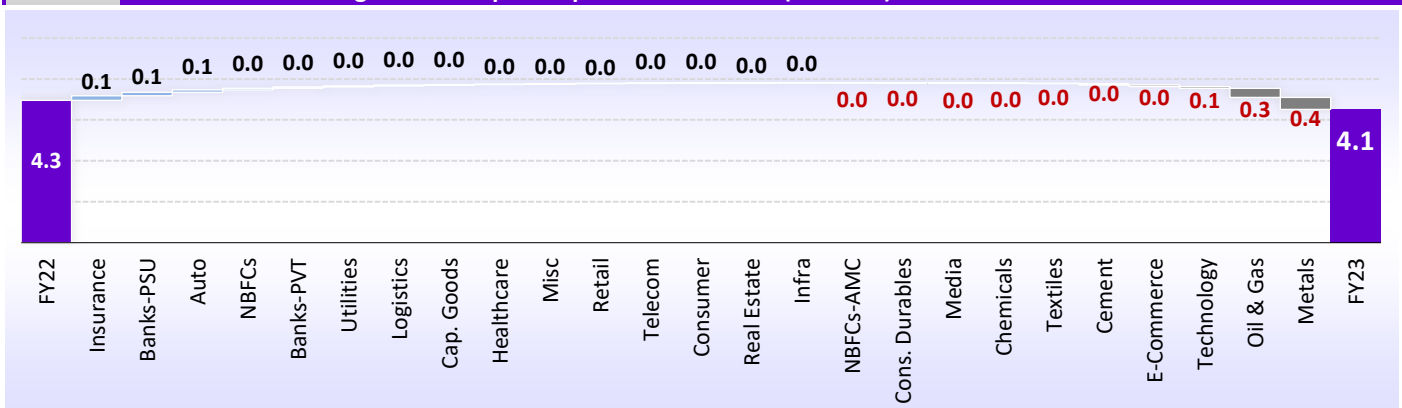
**EXHIBIT 1: India Inc. (Listed/Unlisted) – corporate profit to GDP ratio trend**



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**

Sector	Profit to GDP (%)						Change (x)			
	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
<b>Nifty-500</b>	<b>2.7</b>	<b>5.1</b>	<b>2.3</b>	<b>3.5</b>	<b>4.3</b>	<b>4.1</b>	<b>1.9</b>	<b>0.4</b>	<b>1.8</b>	<b>0.9</b>

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

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

Company	Sector	Contributors to change (FY22-23)	
		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

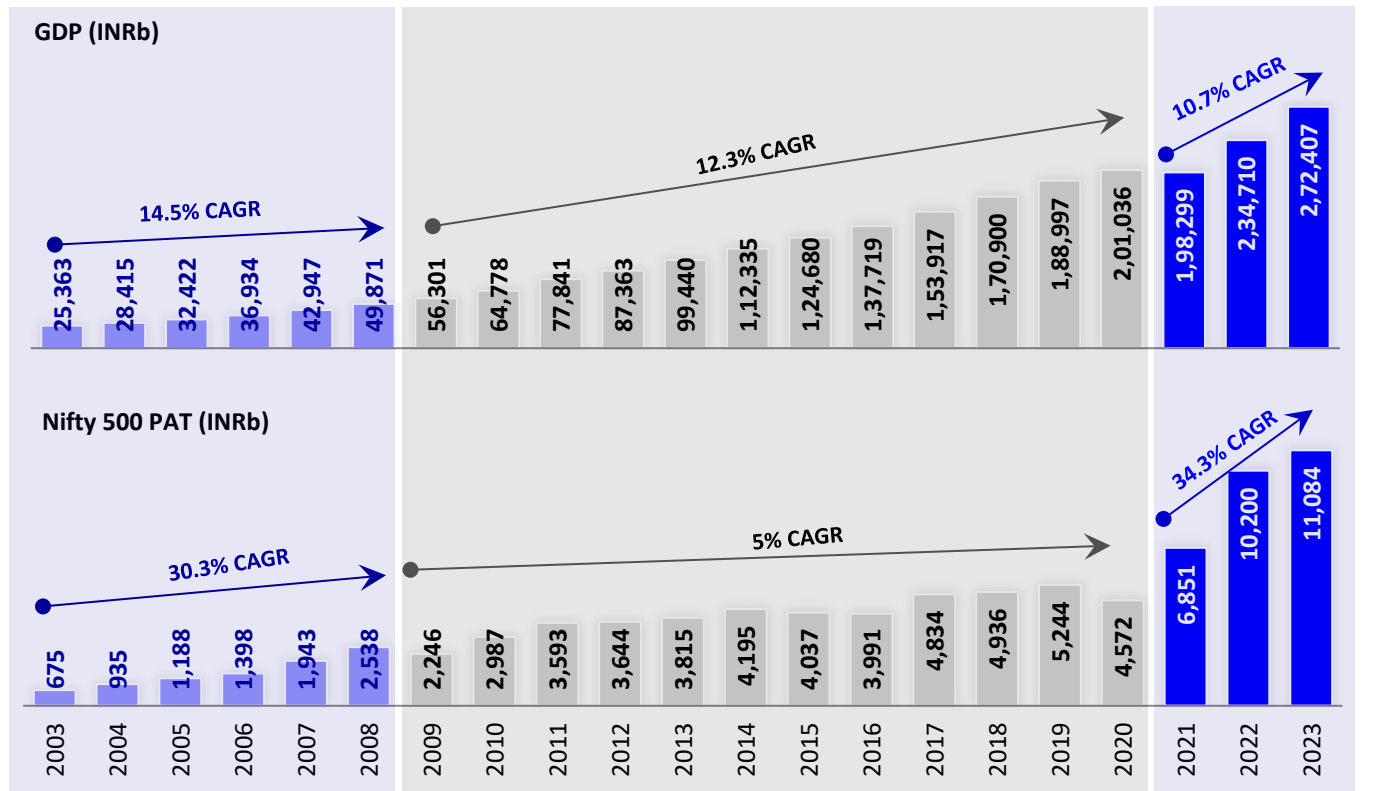
**EXHIBIT 6: Stocks with negative contribution to change**

Company	Sector	Contributors to change (FY22-23)	
		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

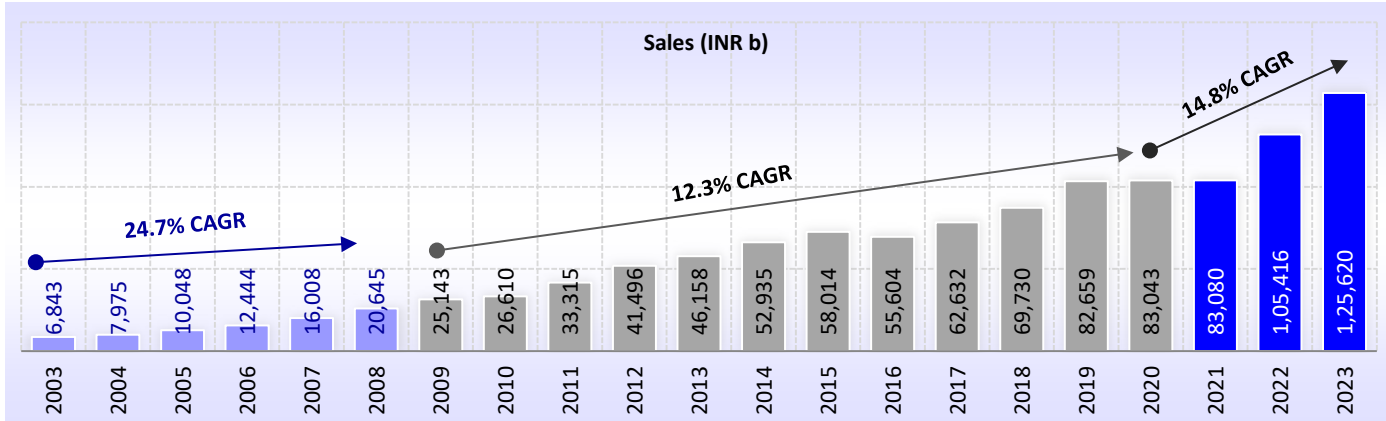
**EXHIBIT 7: Nifty-500 profits expanded 9% YoY and clocked 34% three-year CAGR in 2023**

Sector	PAT (INR b)		Change		Profit to GDP (%)	
	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
<b>Nifty-500</b>	<b>10,200</b>	<b>11,084</b>	<b>1.1</b>	<b>9</b>	<b>4.3</b>	<b>4.1</b>

- 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**

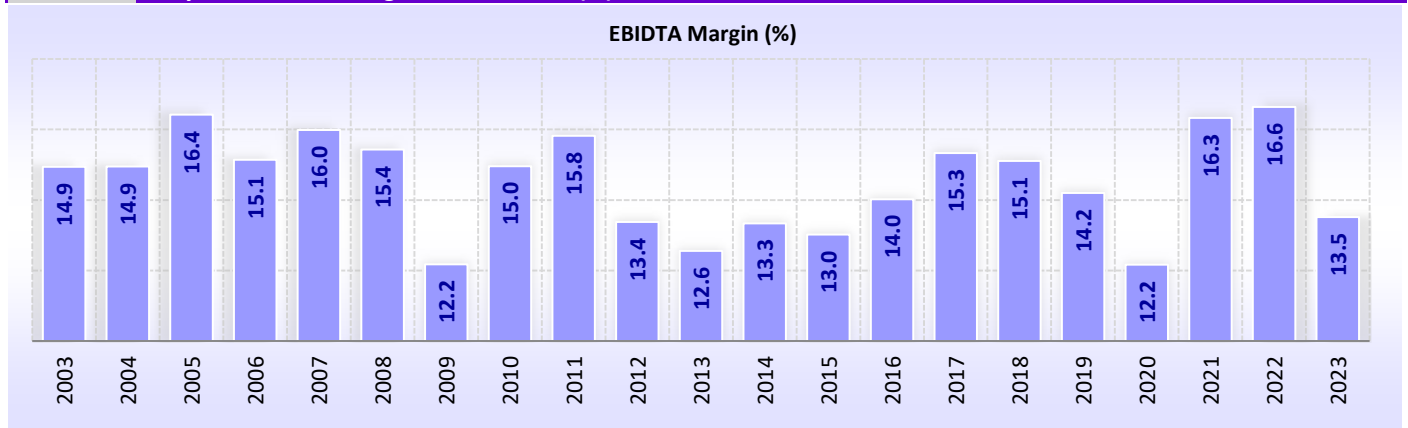
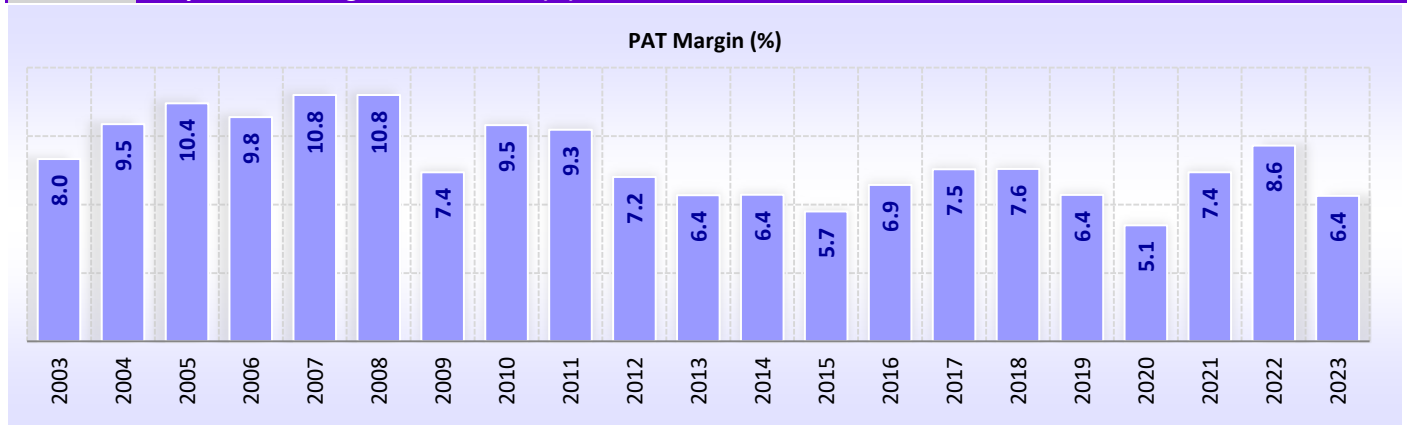
- The revenue CAGR of Nifty-500 over 2020-23 stood at 14.8%, primarily contributed by global commodities and Automobiles.
- However, revenue CAGR was moderate at 12.5% over 2018-2023, which is attributable to the combination of a correction in commodity prices and some softening in revenue growth in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

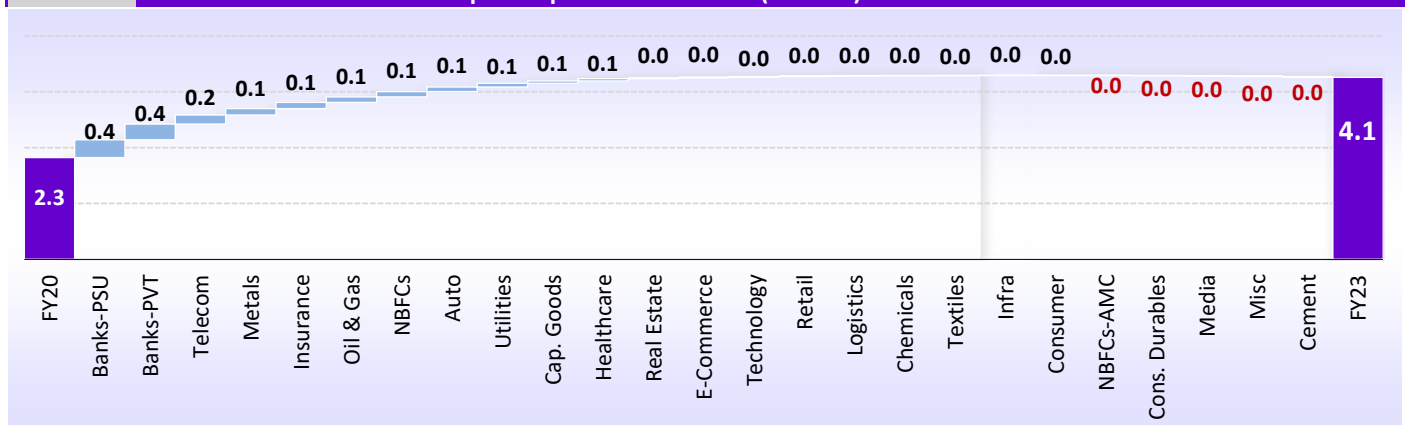
### Global cyclical and Financials lead the surge in corporate profit to GDP ratio in Phase 3

- 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

Sector	PAT (INR b)		Change		Profit to GDP (%)	
	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
<b>Nifty-500</b>	<b>4,572</b>	<b>11,084</b>	<b>2.4</b>	<b>56</b>	<b>2.3</b>	<b>4.1</b>

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





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

Company	Sector	Contributors to change (FY20-23)	
		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

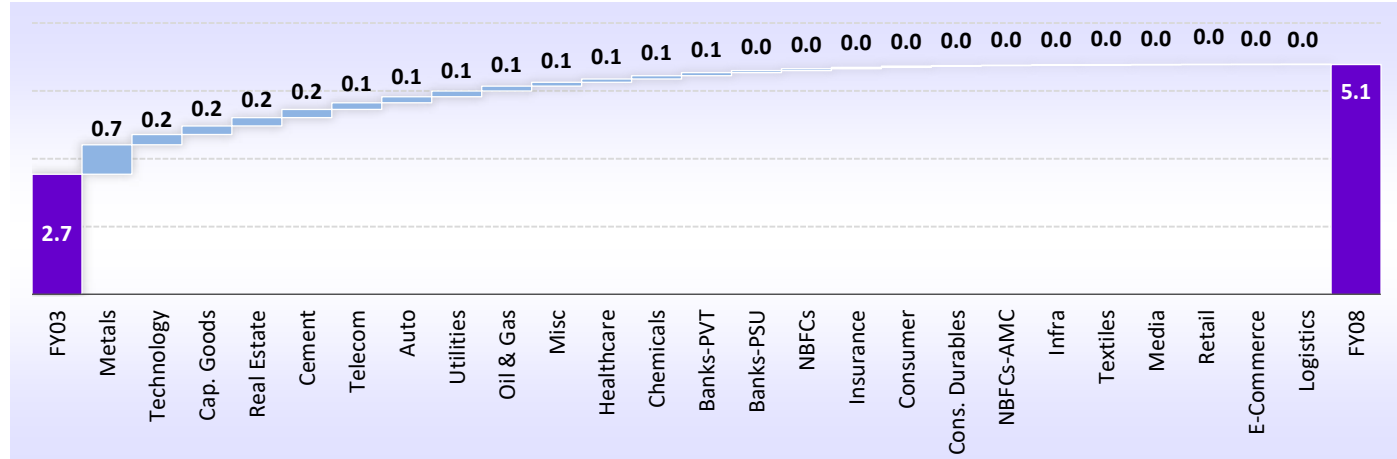
**EXHIBIT 15: Stocks with negative contribution to change**

Company	Sector	Contributors to change (FY20-23)	
		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**

Company	Sector	Contributors to change (FY03-08)	
		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**

Company	Sector	Contributors to change (FY03-08)	
		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

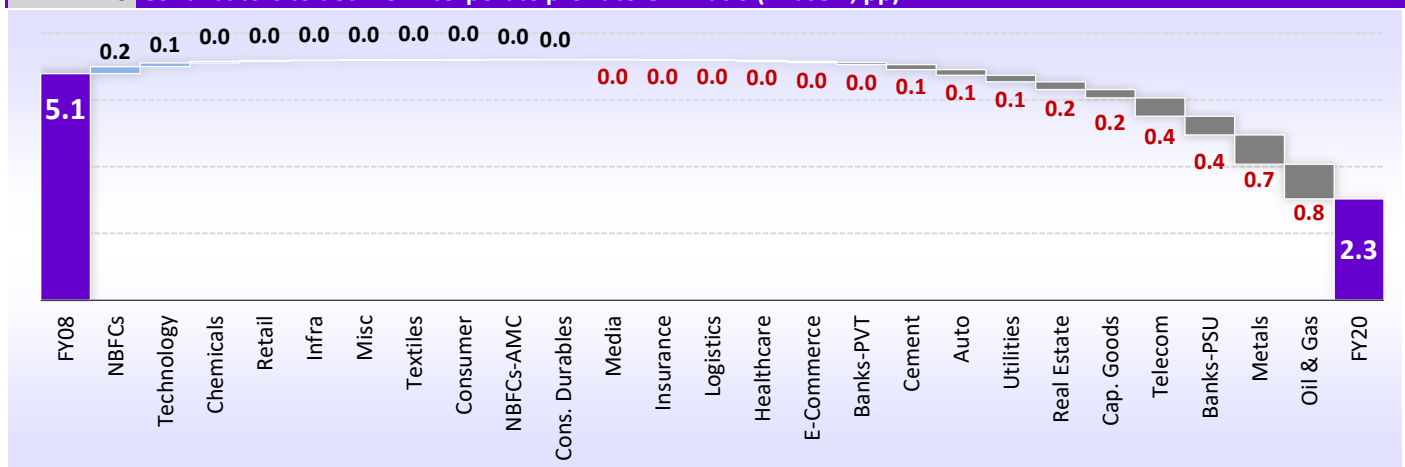
**EXHIBIT 19: Nifty-500 earnings expanded at 30% CAGR over 2003–08**

Sector	PAT (INR b)		Change		Profit to GDP (%)	
	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
<b>Nifty-500</b>	<b>675</b>	<b>2,538</b>	<b>3.8</b>	<b>30</b>	<b>2.7</b>	<b>5.1</b>

### ...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**

Company	Sector	Contributors to change (FY08-20)	
		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**

Company	Sector	Contributors to change (FY08-20)	
		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**

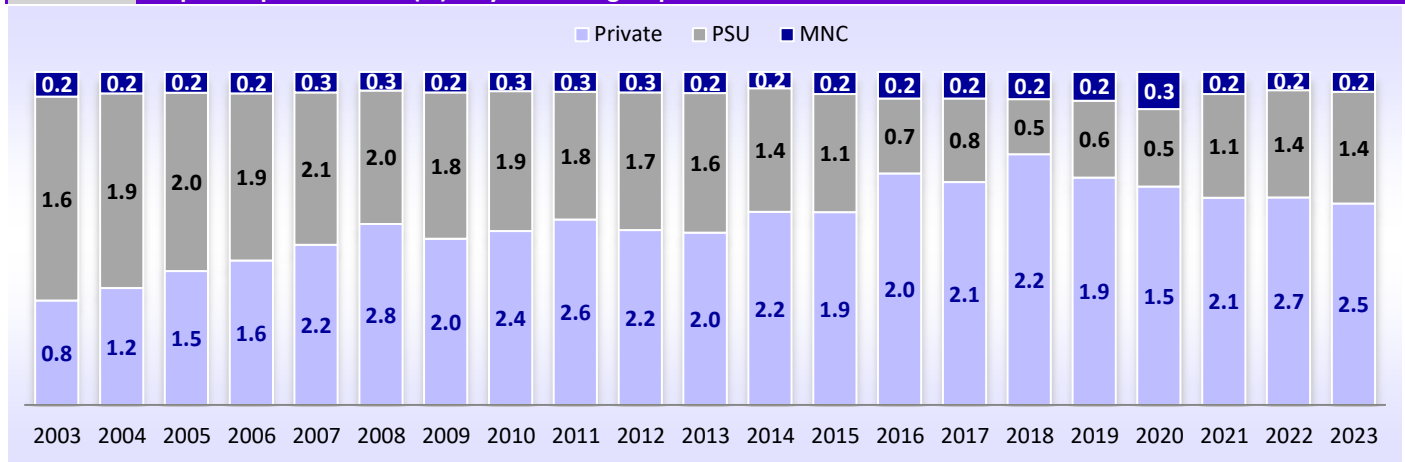
**EXHIBIT 23: A meager 5% CAGR in profits over Phase 2**

Sector	PAT (INR b)		Change		Profit to GDP (%)	
	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
<b>Nifty-500</b>	<b>2,538</b>	<b>4,572</b>	<b>1.8</b>	<b>5</b>	<b>5.1</b>	<b>2.3</b>

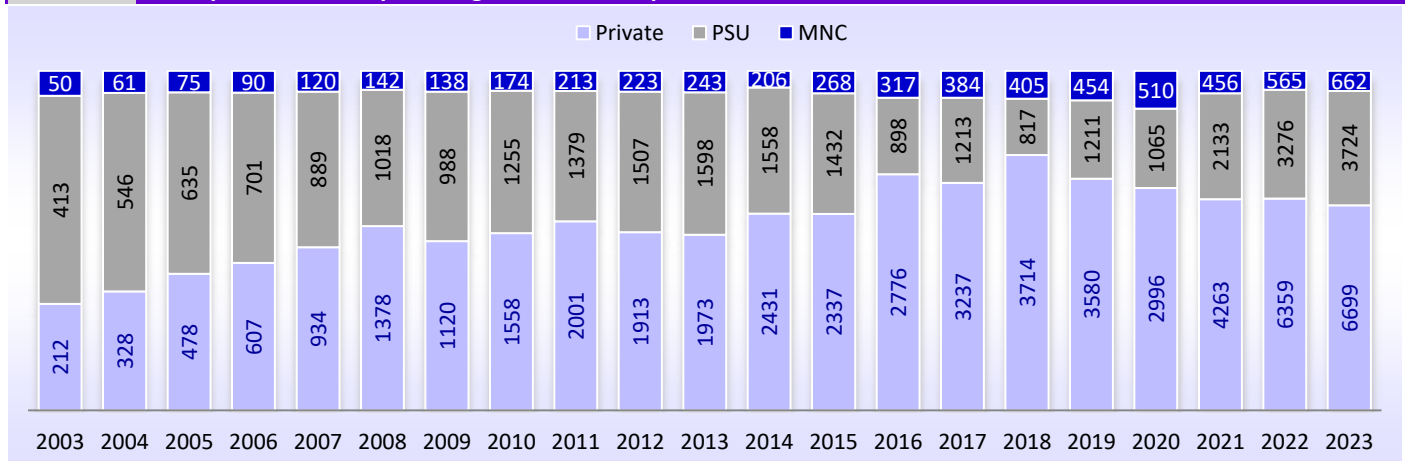
### PSU revival: Profits triple over Phase 3 after a flat Phase 2

- 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.

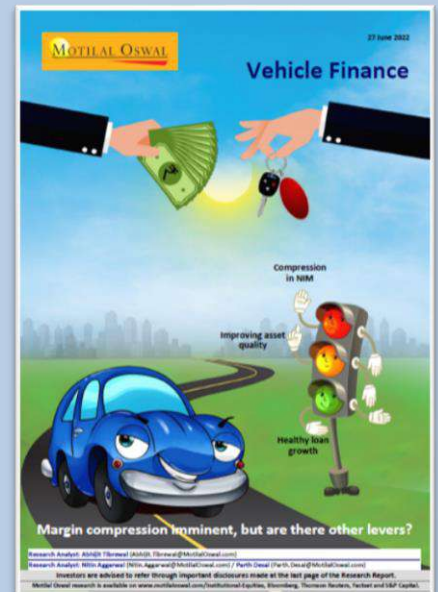
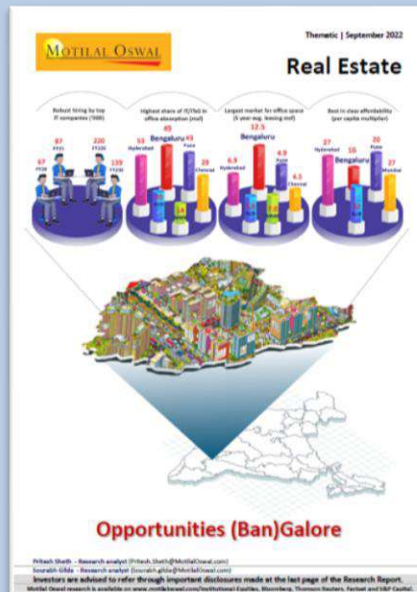
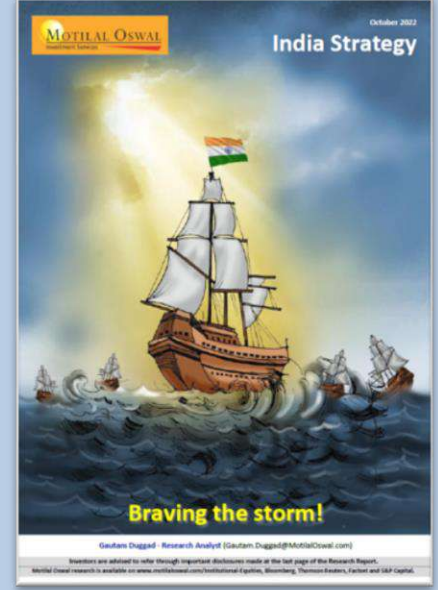
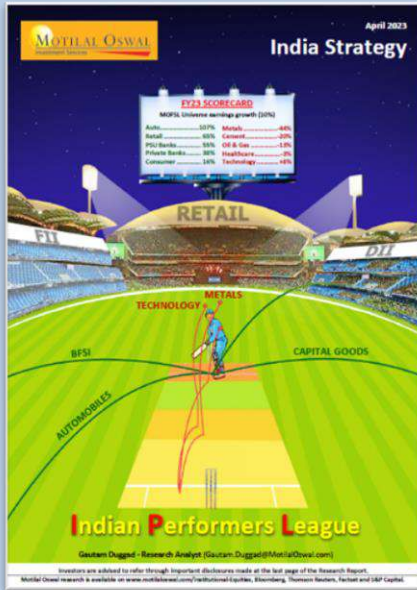
#### EXHIBIT 26: MOFSL Universe profit pool (INR b)

Sector	PAT (INR b)					Growth YoY (%)			
	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
<b>MOFSL Universe</b>	<b>5,423</b>	<b>7,562</b>	<b>7,873</b>	<b>10,031</b>	<b>11,568</b>	<b>39</b>	<b>4</b>	<b>27</b>	<b>15</b>
<b>Nifty-50</b>	<b>4,164</b>	<b>5,745</b>	<b>6,345</b>	<b>7,629</b>	<b>8,707</b>	<b>38</b>	<b>10</b>	<b>20</b>	<b>14</b>

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