Impact of the pandemic on Indian corporate results

November 2020

Building a better working world

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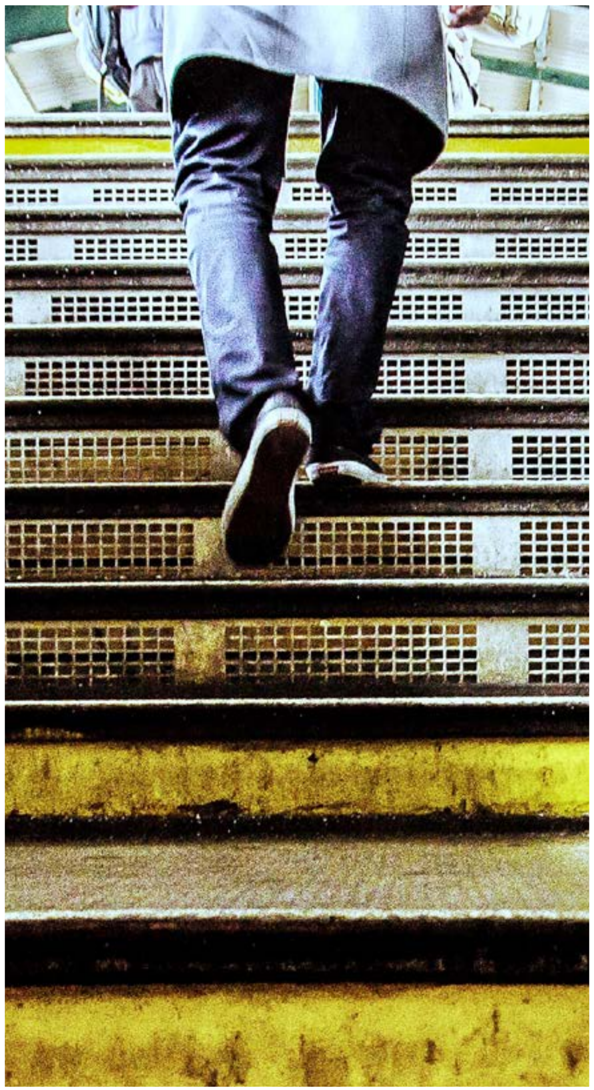

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Foreword

As corporates around the world continue to ride along with this unexpected wave of COVID-19, resulting into remote and fragmented working, it is encouraging that the world is opening and trying to regain the momentum it had before the pandemic. Albeit, the world has changed in many ways and financial reporting is not an exception. Due to the pandemic, the involuntary positive impact of the environment is also driving a shift and larger focus towards sustainable organizations and reporting around the same.

The EY India's Financial Accounting Advisory Services (FAAS) team researched top BSE 200 companies, spanning over 13 sectors, to evaluate comparative impact of COVID-19 disruptions on their reporting calendars, profitability, disclosures and other key parameters for the June 2020 quarter. The results were compared with the March 2020 quarter. This publication intends to provide a summary of the impact across different corporate sectors due to lockdown, muted demand, disrupted supply chain and immense pressure on cash flows.

It is notable that most of the companies have implemented cost conservation measures, wherever possible, to commensurate revenue loss to successfully navigate towards profitability. The sectors having more variable and agile cost structures could successfully implement these measures well, while those with more fixed cost bases have continued to struggle to maintain their profitability.

We also observed significant shift in investor communication strategies that the companies adopted to provide non-financial disclosures. The disclosures were around demand and supply situation, and likely impact, liquidity status and ability to raise funds, ability to restart or continue operations and also potential future impact of COVID-19 disruptions on businesses and response, thereof.

It is pertinent to note that EY's analysis solely depends, and is limited by the depth and width, of transparency. The analysis relies on the impact of the pandemic as presented by companies in their results or any public document pertaining to quarterly reporting.

This publication aims to showcase a high-level analysis of the overall sectoral level and does not attempt to provide an in-depth exhaustive analysis or conclusive views on the impacts of the pandemic. Our analysis is based solely on publicly available information. We are not responsible for the completeness or accuracy of any such information or for confirming any of it. The impacts stated here cannot be directly applied to any specific company in any particular sector without performing company-specific detailed analysis as most of the impacts are generalized on overall performance. They should not be concluded same for all companies across the sectors.

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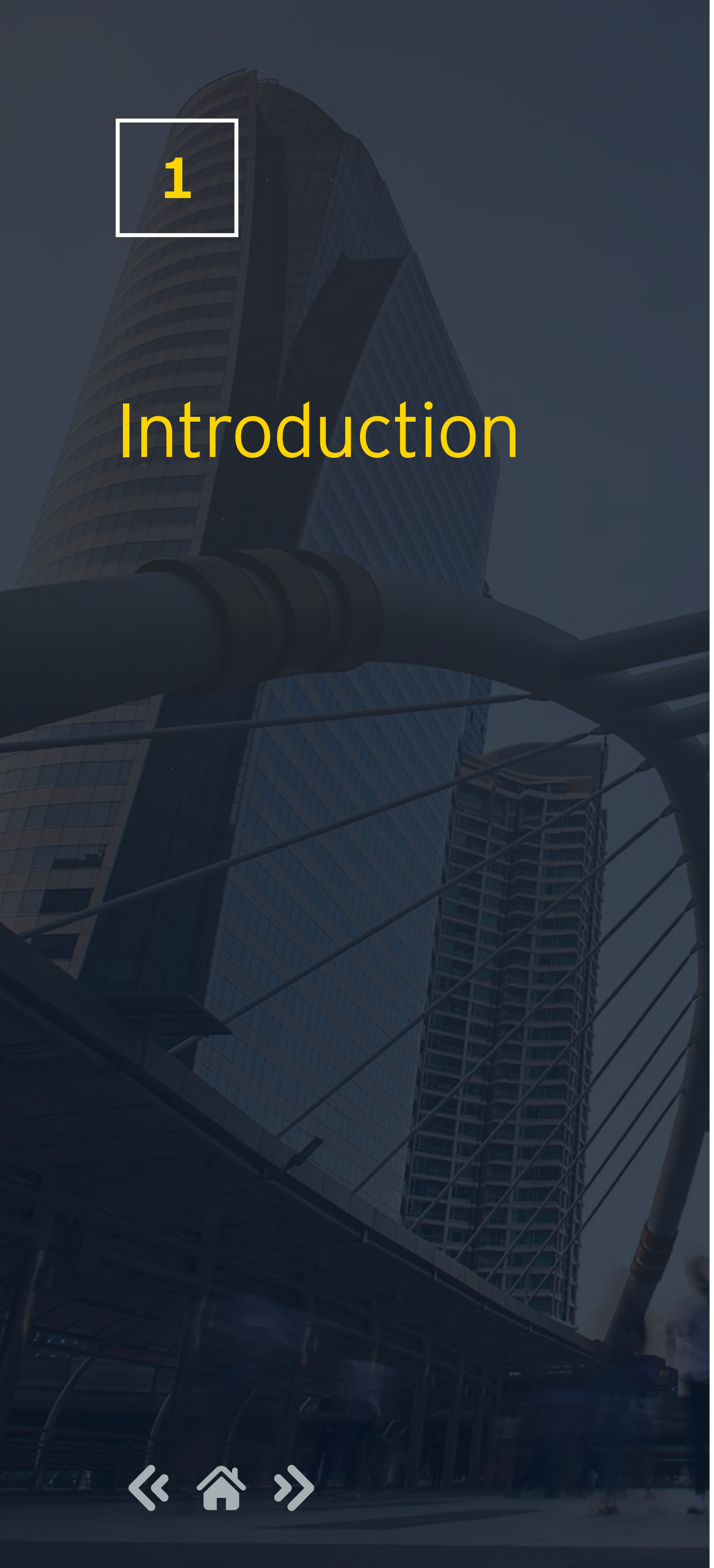


1 Introduction

Amidst the disruption caused by COVID-19, adjacent to the March 2020 quarter reporting timelines, most companies sailed through this storm one way or the other. In August 2020, EY Financial Accounting Advisory Services (FAAS) published "Early impacts of the COVID-19 pandemic on Indian corporate reporting". The report carried analysis of 159 listed Indian companies, who declared their results by 5 June 2020 and 115 global companies spanning across 13 sectors. It also evaluated early signs of the impact of the pandemic on their economic performance based on their financial results for the quarter ended March 2020.

This edition, however, comprises research around the June 2020 quarterly results of top 200 companies listed at the BSE Limited (referred as "BSE 200 Companies" or "Companies" hereinafter), based on their size and liquidity across sectors. A significant period of the June 2020 quarter was standstill due to nationwide and regional lockdown which led to significant profitability issues and turnover impact for most companies compared to the March 2020 quarter.

The pandemic continued to hit the reporting calendars as the Securities and Exchange Board of India (SEBI) extended the reporting timelines for the June 2020 quarter by one month to 15 September 2020. This publication analyzes the impact of COVID-19 disruptions and other consequential changes in macro-economic factors on profit and loss (P&L), disclosures, judgements and estimates of BSE 200 companies.

Sector-wise categorization of analysis

For the purpose of analysis, BSE 200 companies have been categorized into 13 broad sectors based on the nature of the business companies are engaged in. In case a company is operating in multi-sector, we have categorized it based on its principal sector of operation.

Following is the sector-wise categorization of companies:

Table: 1

S. no.	Sectors	Categories of companies included	No. of companies
1	Advanced manufacturing and mobility (AM&M)	Engineering, chemicals, paints, pesticides and electrical equipment	27
2	Automotive	Automobile and auto components	15
3	Aviation	Air transport	1
4	Banks, financial services and insurance (BFSI)	Banking, non-banking financial companies (NBFC), insurance and asset management companies (AMC)	45
5	Consumer products and retail (CPR)	Fast Moving Consumer Goods (FMCG), retail, consumer durables, footwear, food processing	28

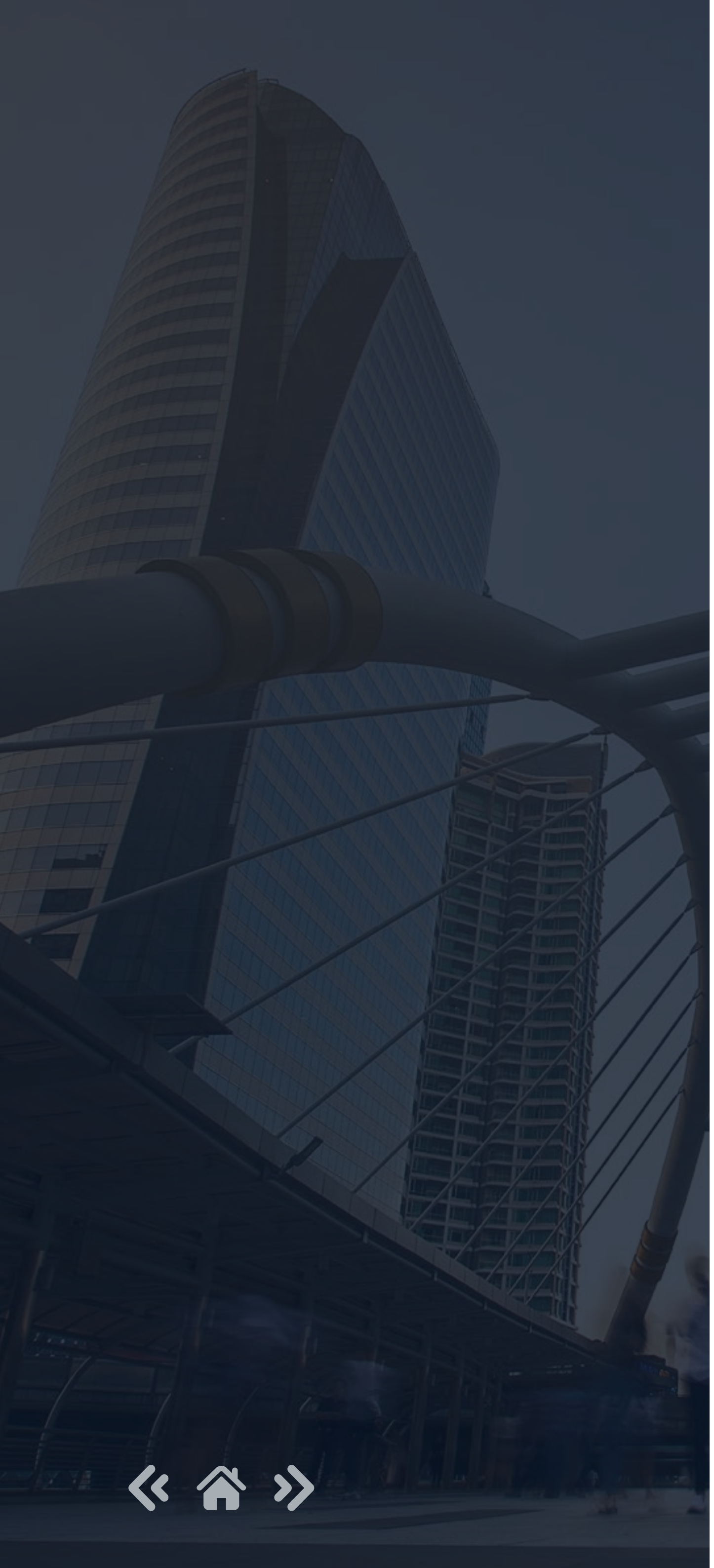


Table: 1

S. no.	Sectors	Categories of companies included	No. of companies
6	Life sciences (LS)	Pharmaceuticals and health services	22
7	Metal and mining	Steel and other non-ferrous metals	10
8	Oil and gas	Crude oil and natural gas	11
9	Power	Electricity generation and distribution	9
10	Real estate and infrastructure (RE and infra)	Real estate, infrastructure, cement and shipping	14
11	Services	Courier, trading, credit rating agencies and security services	5
12	Technology and media	Computer software and media	11
13	Telecom	Telecom services	2
	Total		**200**

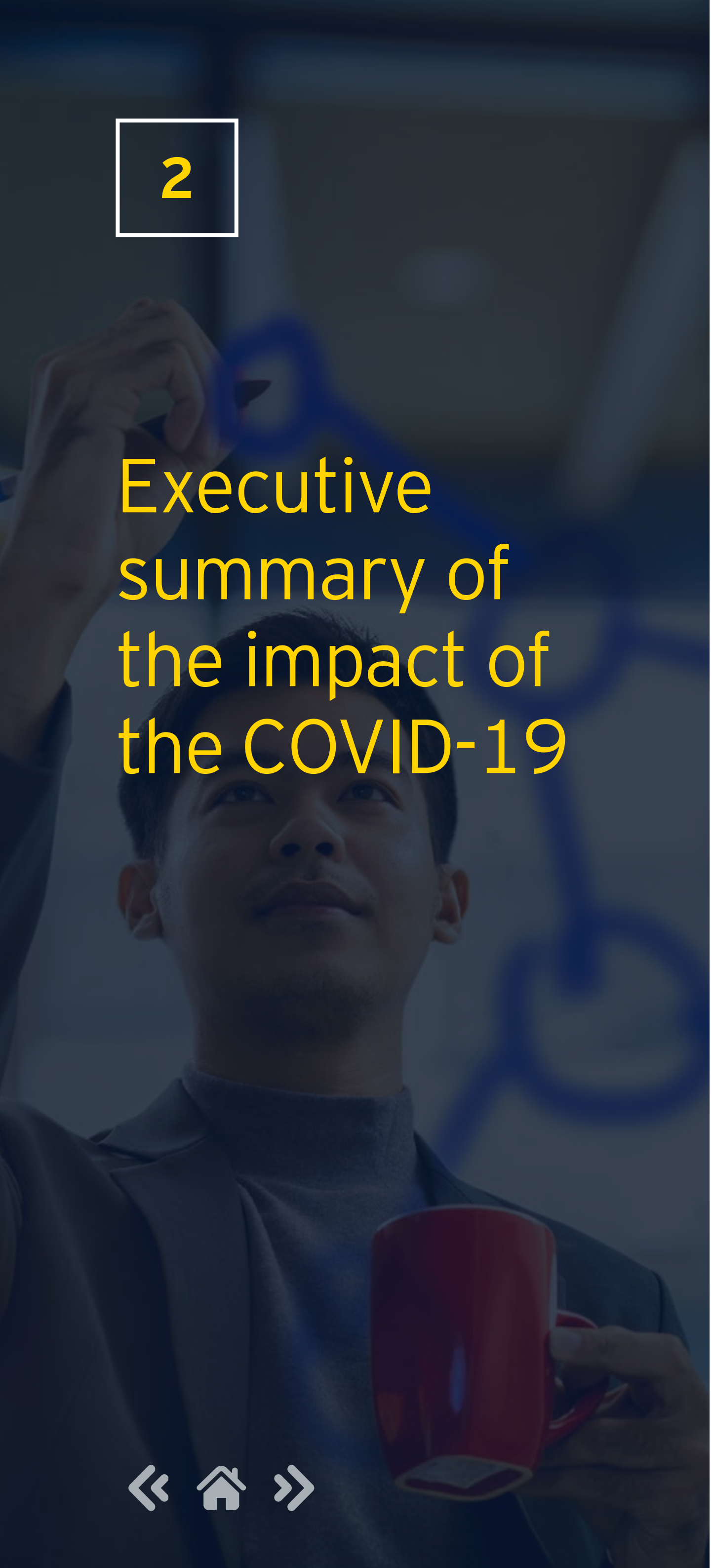
Assumptions and limitations of the analysis:

All amounts are presented in INR crores unless otherwise stated.

In some companies, share of profit/(loss) from associates/joint ventures was presented after profit before tax (PBT). We have added the same in profit before tax to make it comparable with other companies.

The analysis contained in the publication runs the inherent limitation of insights emerging from the disclosures made by the companies in their results and/or investor communications.

We have used simple average to define the overall and sector impact for various ratios.



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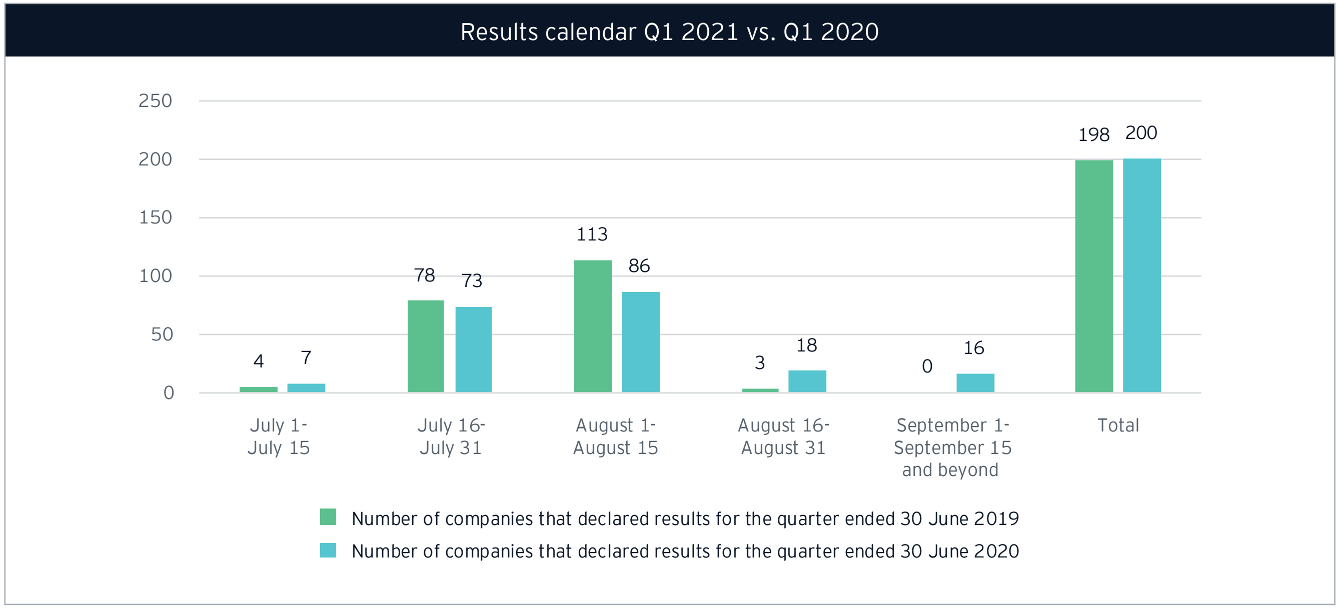
Executive summary of the impact of the COVID-19

Impact on result calendar (deferral in reporting)

The SEBI continued to provide relaxation by extending the timeline for submission of results for the quarter ended June 2020. However, unlike the March 2020 quarter, where more than 80% of the companies were delayed in reporting their results and the delay ranged from 1 to 70 days, for the June 2020 quarter, more than 80% of the companies have submitted their results around the same time as they did during the June 2019 quarter. This suggests that most of the companies could have adopted the new normal of financial closing.

The following chart indicates that only 17% of the companies have opted for relaxation provided by the SEBI in declaring their results for the quarter ended June 2020

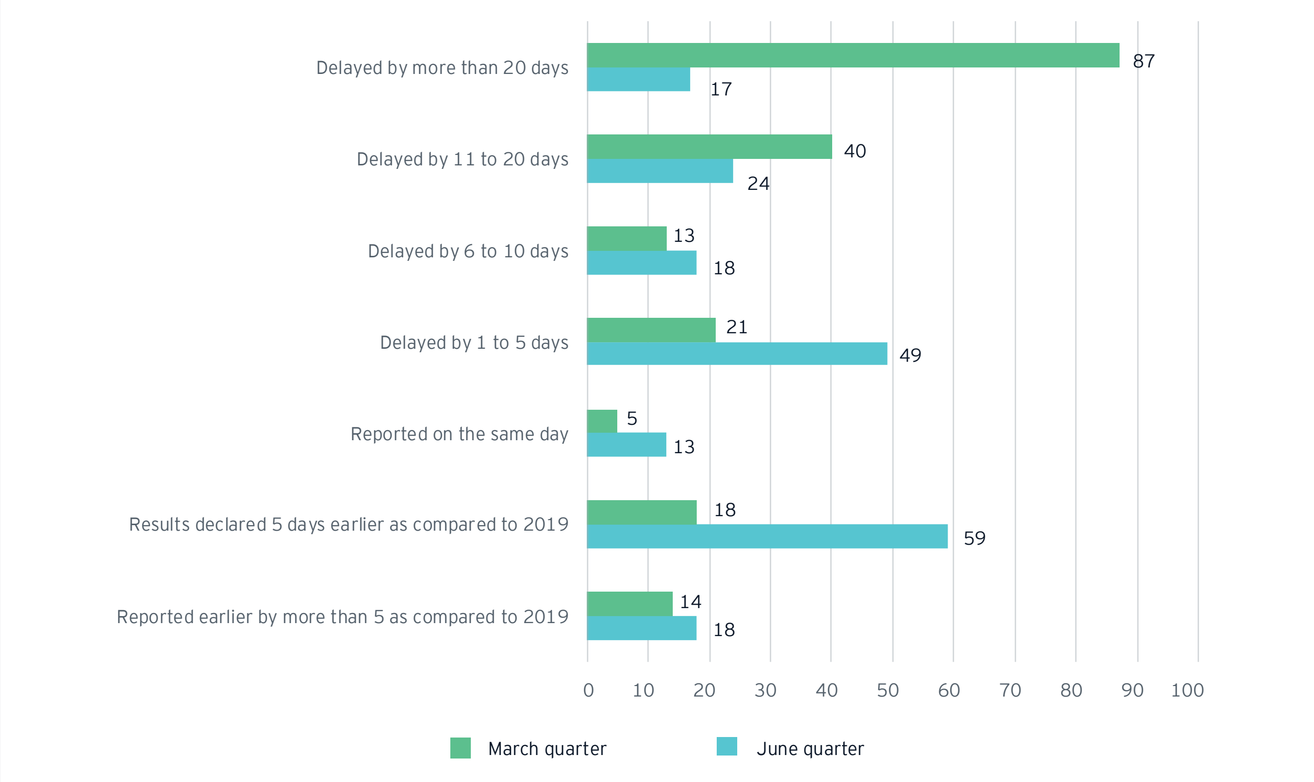


Source : *Results declared by companies on (https://www.bseindia.com/corporates/Comp_Resultsnew.aspx?expandable=0)*

**For the purpose of the June 2019 quarter, 198 companies are compared as two companies were added after June 2019 in the BSE 200 composition. Indian Railway Catering and Tourism Corporation Ltd. listed on 14 October 2019 while SBI Cards and Payments Services Ltd. listed on 16 March 2020.*

In the following chart, we have analyzed the average deferral (number of days) in declaring results for the quarter ended 30 June 2020 as compared to the quarter ended 30 June 2019. Further, the chart also reflects the comparison of delays for the quarter ended 30 June 2020 compared to the quarter ended 31 March 2020, showing significant improvement and adoption of the new normal by most of the companies.

Results calendar delay in the June quarter as compared to the March quarter



Source : *Results declared by companies on (https://www.bseindia.com/corporates/Comp_Resultsnew.aspx?expandable=0)*

** We compared the dates on which results were declared in the June 2020 quarter with that of the June 2019 quarter. Likewise, we compared the dates in the March 2020 quarter with that of the March 2019 quarter.*

** 198 companies were compared as two companies were added in the BSE 200 composition after June 2019. These are, the Indian Railway Catering and Tourism Corporation. Ltd. listed on 14 October 2019, and SBI Cards and Payments Services Ltd. listed on 16 March 2020.*

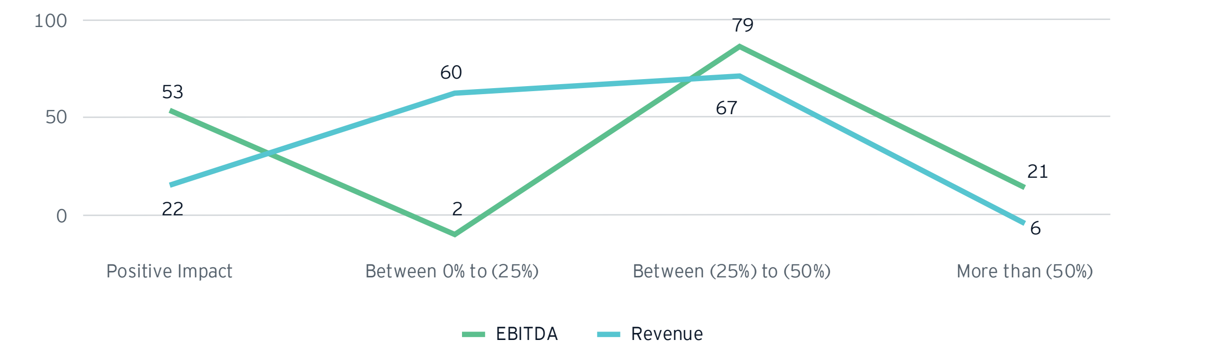
Overall impact on revenue and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)

Based on quarterly results published by companies (excluding BFSI sector), on average, there is a decline of approximately 30% in revenue during the quarter ended 30 June 2020 in comparison to the quarter ended 31 March 2020.

Table: 2

S. no.	Sectors	Number of companies	% change for revenue (June 2020 vs. March 2020)	% change for EBITDA (June 2020 vs. March 2020)
1	AM&M	27	-32.79%	-41.35%
2	Automotive	15	-48.02%	-66.10%
3	Aviation	1	-90.76%	-704.43%
4	CPR	28	-24.64%	-47.17%
5	LS	22	6.33%	34.30%
6	Metal and mining	10	-24.31%	-39.54%
7	Oil and gas	11	-39.40%	838.09%
8	Power	9	-5.97%	61.83%
9	RE and infra	14	-39.63%	-26.10%
10	Services	5	-50.06%	-100.19%
11	Technology and media	11	-6.67%	13.13%
12	Telecom	2	-4.20%	-5.21%
	Total	**155**		

Impact on revenue and EBITDA



Note : *The diagram is based on the figures mentioned in Table 2.*

Insights on sector impacts

Advanced manufacturing and mobility

The sector reported approximately -33% impact on revenue in the June 2020 quarter compared to the March 2020 quarter. This was primarily due to a complete lockdown for a majority of period during the June 2020 quarter compared to only eight days of lockdown in the March 2020 quarter. The impact on EBITDA was more than revenue due to increase in operating cost viz.-à-viz. the revenue earned during the quarter.

Automotive

The automotive sector has reported a reduction in 48% revenue and 66% EBITDA in the June 2020 quarter compared to the March 2020 quarter. The impact on revenue was predominantly contributed by lockdown while higher operating cost for the sector coupled with revenue loss led to significant decrease in EBITDA.

Aviation

Aviation is among the severely-impacted sectors not only due to lockdown but also due to slow recovery of operations after the unlock period commenced.

Revenue of this sector was negatively impacted by 90.76% in the June 2020 quarter. Regular operations of the airlines remained shut between 25 March 2020 to 24 May 2020 on account of the nationwide lockdown. Further the government allowed partial (one-third) capacity resumption of domestic commercial passengers while international operations, which were suspended from 22 March 2020, remain grounded till 31 July 2020. Companies in the aviation sector have reported significant impact on their EBITDA due to almost 90% revenue loss coupled with high operating costs during the June 2020 quarter.

Life sciences

The impact of COVID-19 on the life sciences sector has been less pronounced than observed in the other sectors. Revenue for the life sciences sector companies has gone up by 6% in June 2020 as compared to the March 2020 quarter. EBITDA for the quarter ended June 2020, on the other hand, has shown a significant positive impact by 34%, predominantly due to launch and higher sales proportion of higher margins products.

Consumer products and retail

Primarily, the CPR sector consists of companies in the FMCG, retail and consumer durable sectors. Companies in the CPR sector witnessed approximately 25% decrease in revenue and 47% decrease in EBITDA in the June 2020 quarter compared to the March 2020 quarter.

Retail and consumer durable are amongst significantly impacted sectors due to extended national and regional lockdowns and change in customer sentiments to restrict spend on fashion, clothing and durable goods. Retail in the overall CPR domain observed 53% revenue loss and 127% decrease in EBITDA, while consumer durable industry observed 31% decrease in revenue coupled with 44% decrease in EBITDA, in the June 2020 quarter as compared to the March 2020 quarter, despite implementing cost control measures.

The impact on FMCG companies in the CPR sector was, however, not so significant due to continuation of their businesses even during the lockdown for essential items, albeit at reduced capacity, due to labor shortage and other restrictions. FMCG in the overall CPR domain observed only 10% decrease in revenue and EBITDA in the June 2020 quarter compared to the March 2020 quarter.

Metal and mining

Revenue for the metal and mining companies reduced by approximate 25% as the sector was hit by lockdown measures. Weakened demand due to the COVID-19 pandemic further impacted the global economy. The pandemic has affected the entire value chain as organizations and companies have limited their access to offices, mine sites and manufacturing facilities while continuing to exercise restrictions on transportation and shipping.

EBITDA for the companies in this sector for the quarter ended June 2020 reduced by 40% as compared to the March 2020 quarter, despite cost control measures being undertaken by most of the companies.

Power

The sector's revenue was mainly affected by low power demand due to the COVID-19 lockdown. The revenue went down by 6% in the June 2020 quarter as compared to the March 2020 quarter. However, the sector has shown significant upside in EBITDA due to huge operation cost rationalization, notable for a few companies. This could be due to the sector's variable and agile cost structures which allowed the companies to implement cost rationalization strategies most effectively.

Oil and gas

Lockdown led to lower demand for crude oil, natural gas and refined petroleum products globally and it had consequential impact on the prices of these products, thereby refining margins. Since petroleum products are covered under essential services, the refining/production and marketing operations of the companies in the oil and gas sector continued during the lockdown.

Revenue for the sector went down by 39% which was mainly due to lower demand. However, most of the oil companies which had to record significant write down of inventories in the March 2020 quarter (as exceptional item post EBITDA) due to significant reduction in oil prices have reversed this impact in the June 2020 quarter (as change in inventory before EBITDA), resulting into significant upside observed in EBITDA, which is not representative of the real impact on EBITDA faced by the sector. If we exclude this outlier impact, EBITDA for the sector is -28%.

Real estate and infrastructure

The real estate and infrastructure sector as a whole has suffered an impact of -40% on the revenue in the June 2020 quarter as compared to the March 2020 quarter with a corresponding reduction in EBITDA to the extent of -26%.

Services

After aviation and retail, the services sector has been highly-impacted. This sector comprises companies in logistic, hospitality and other services. As could be observed, this sector couldn't match cost savings during the June 2020 quarter to commensurate with the revenue loss, leading to higher negative impact on EBITDA compared to the revenue. The sector has witnessed a 50% decrease in revenue while almost 100% decrease in EBITDA. This suggests significant fixed cost base for the sector which didn't help it to implement cost rationalization strategies soon enough to maintain profitability in the June 2020 quarter.

Telecom

Considering the telecom sector is a part of in the essential category, revenue and EBITDA for the sector has not been much impacted. However, it could not record any growth during the June 2020 quarter either. On the overall sector basis, revenue and EBITDA both are marginally affected by approximately -5%.

Technology and media

Technology and media is also one of the few sectors which did not report significant negative impact on its revenue and profitability in the June 2020 quarter over the March 2020 quarter. At the same time, the sector has not shown any growth but remains quite neutral in the June 2020 quarter compared to the previous quarter.

The sector has suffered revenue losses of 7% while observed increase in EBITDA to the tune of 13%.

3

Impact on auditors' review reports

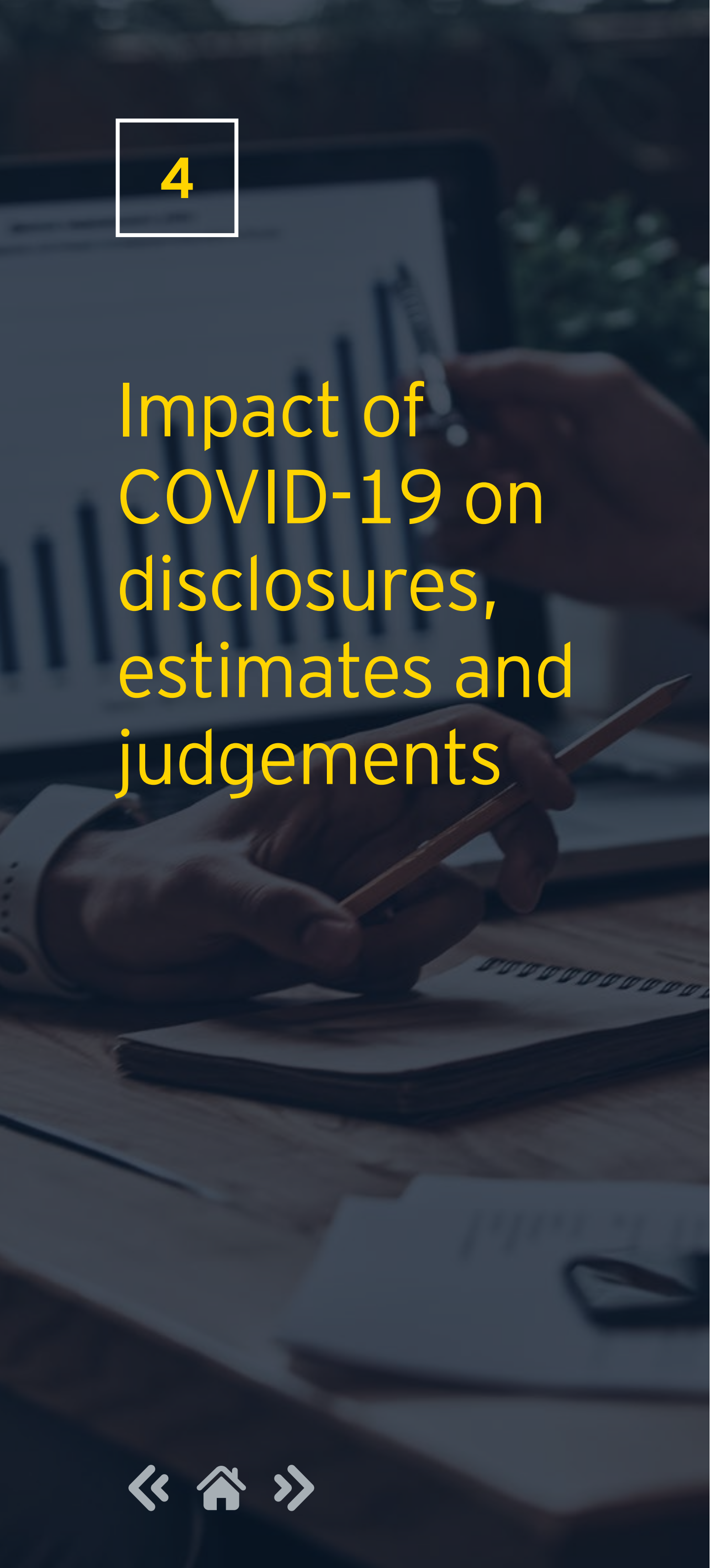
During the pandemic, companies have faced a lot of difficulties in applying judgements and estimates for drawing their financial results as future prediction about macro and micro economic factors became truly challenging. Equally, auditors have faced challenges to ratify these management judgements to issue their review reports.

The following table represents the impact on Emphasis of Matter (EOM) and qualifications in auditors' review report along with the description of the matter reported:

Table: 3

S. no.	Description	EOM (without modification of opinion)	Qualified conclusions
1	Uncertainty around estimates and judgements to draw financial results on account of COVID-19	49	
2	Going concern matters	1	2
3	Impairment provision	1	
4	Company's specific litigation matters	12	2
5	Company's specific accounting matters	8	2
6	Matters around balance confirmation and reconciliations		1
7	Review of subsidiaries financial statements		1
	Total	**71**	**8**

It is notable that 17 out of 18 banks considered in the population had witnessed EOM regarding COVID-19 uncertainties and their estimation of business impact.



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Impact of COVID-19 on disclosures, estimates and judgements

On 20 May 2020, the SEBI issued an advisory circular on disclosure of material impact of the COVID-19 pandemic on listed companies. According to the circular, companies are encouraged to evaluate the impact of the pandemic on their businesses, performance and financials, both qualitatively and quantitatively, to the extent possible and disseminate the same.

On analysis, we have observed that companies have been making separate disclosures similar to the SEBI's advisory to inform stakeholders on various qualitative matters around the impact of the pandemic on business, operations sustainability, supply, demand and other relevant details.

The following table represents the disclosure made by BSE 200 companies, subsequent to the SEBI circular dated 20 May 2020, based on its set parameter. It also demonstrates the increase in the number of companies having these disclosures in their results for the June 2020 quarter compared to the March 2020 quarter.

Table: 4

Nature of disclosures	June 2020 quarter	March 2020 quarter	Increase (in %)
1. Impact of the COVID-19 pandemic on the business	192	155	18.50%
2. Ability to maintain operations including factories/units/office spaces functioning and closed down	108	82	13.00%
3. Schedule for restarting the operations	51	30	10.50%
4. Steps taken to ensure smooth functioning of operations	89	68	10.50%
5. Estimation of the future impact of COVID-19 on operations	46	29	8.50%
6. Details of impact of COVID-19 on listed entities:			
a. Capital and financial resources	51	38	6.50%
b. Profitability	91	60	15.50%
c. Liquidity position	82	66	8.00%
d. Ability to service debt and other financing arrangements	64	46	9.00%
e. Assets	61	53	4.00%

Table: 4

Nature of disclosures	June 2020 quarter	March 2020 quarter	Increase (in %)
f. Internal financial reporting and control	31	34	-1.50%
g. Supply chain	48	31	8.50%
h. Demand for its products/services	57	35	11.00%
i. Existing contracts/agreements where non-fulfilment of obligations by any party will have significant impact on the listed entities' business	32	14	9.00%
j. Other relevant material updates about the listed entities' business	36	18	9.00%

5

Impact on key performance indicators (KPIs)

Following is the analysis of interest coverage ratio for the June 2020 quarter compared to the March 2020 quarter for the covered companies.

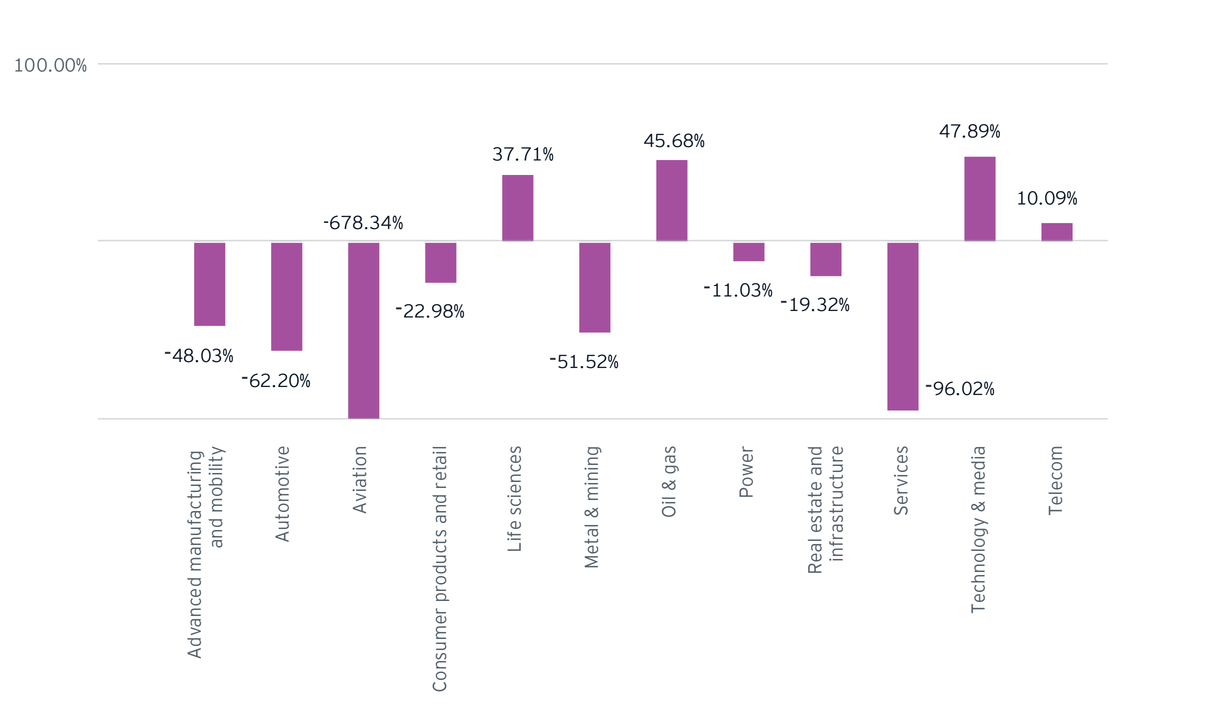
Impact on interest coverage ratio

Interest coverage ratio (ICR) = EBITDA/finance cost

Table: 5

S. no.	Sector	Number of companies	Quarter ending June 2020	Quarter ending March 2020	% change
1	AM&M	27	3.78	7.28	-48.03%
2	Automotive	15	1.21	3.19	-62.20%
3	Aviation	1	-2.43	0.42	-678.34%
4	CPR	28	11.29	14.66	-22.98%
5	Life sciences	22	17.87	12.97	37.71%
6	Metal and mining	10	2.11	4.36	-51.52%
7	Oil and gas	11	4.62	3.17	45.68%
8	Power	9	3.43	3.86	-11.03%
9	RE & infra	14	2.19	2.72	-19.32%
10	Services	5	0.48	12.06	-96.02%
11	Technology and media	11	54.77	37.04	47.89%
12	Telecom	2	2.07	1.88	10.09%
	Total	**155**			

Movement of ICR: Q1 2021 vs. Q4 2020



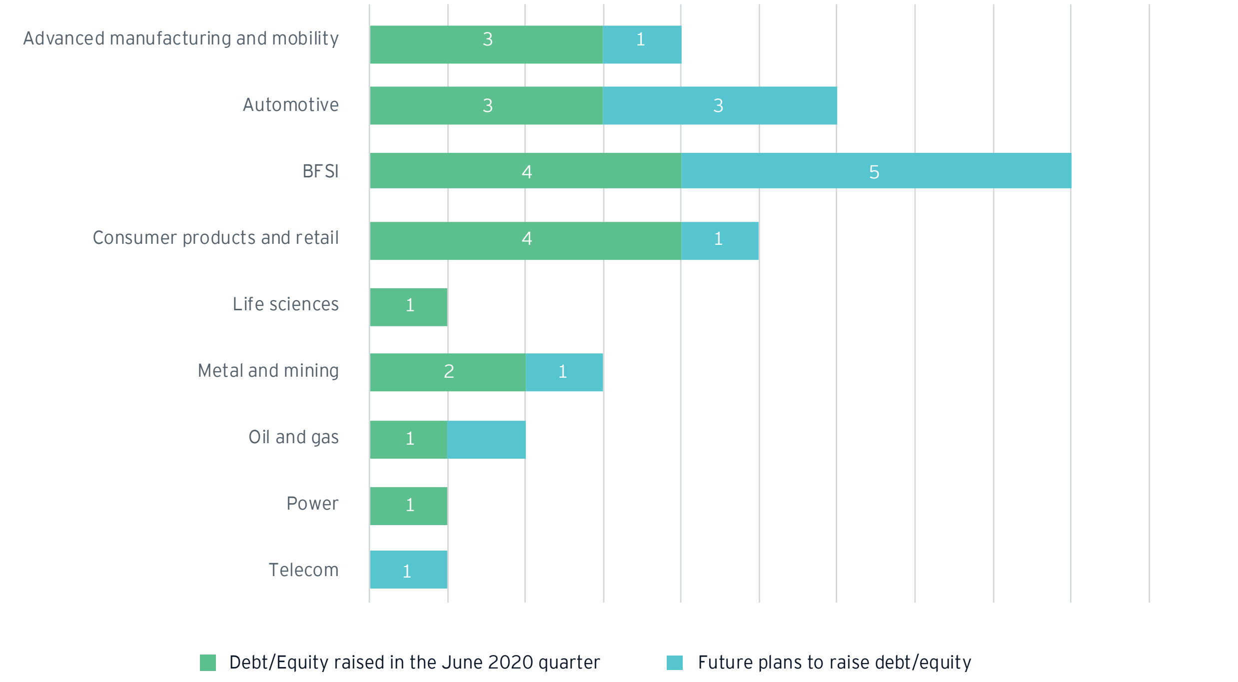
Note : *The diagram is based on the figures mentioned in Table 5.*

Life sciences, oil and gas, technology and media and telecom have shown growth in interest coverage ratios (ICR). Life sciences and oil and gas sectors have shown growth mainly due to increased EBITDA with some reduction in finance cost, while technology and media and telecom could significantly reduce debt cost while continuing to maintain their EBITDA.

Apart from aviation and services, automotive and metal and mining are the worst-hit sectors due to significant reduction in their EBITDA with no change in their finance costs that they continue to bear.

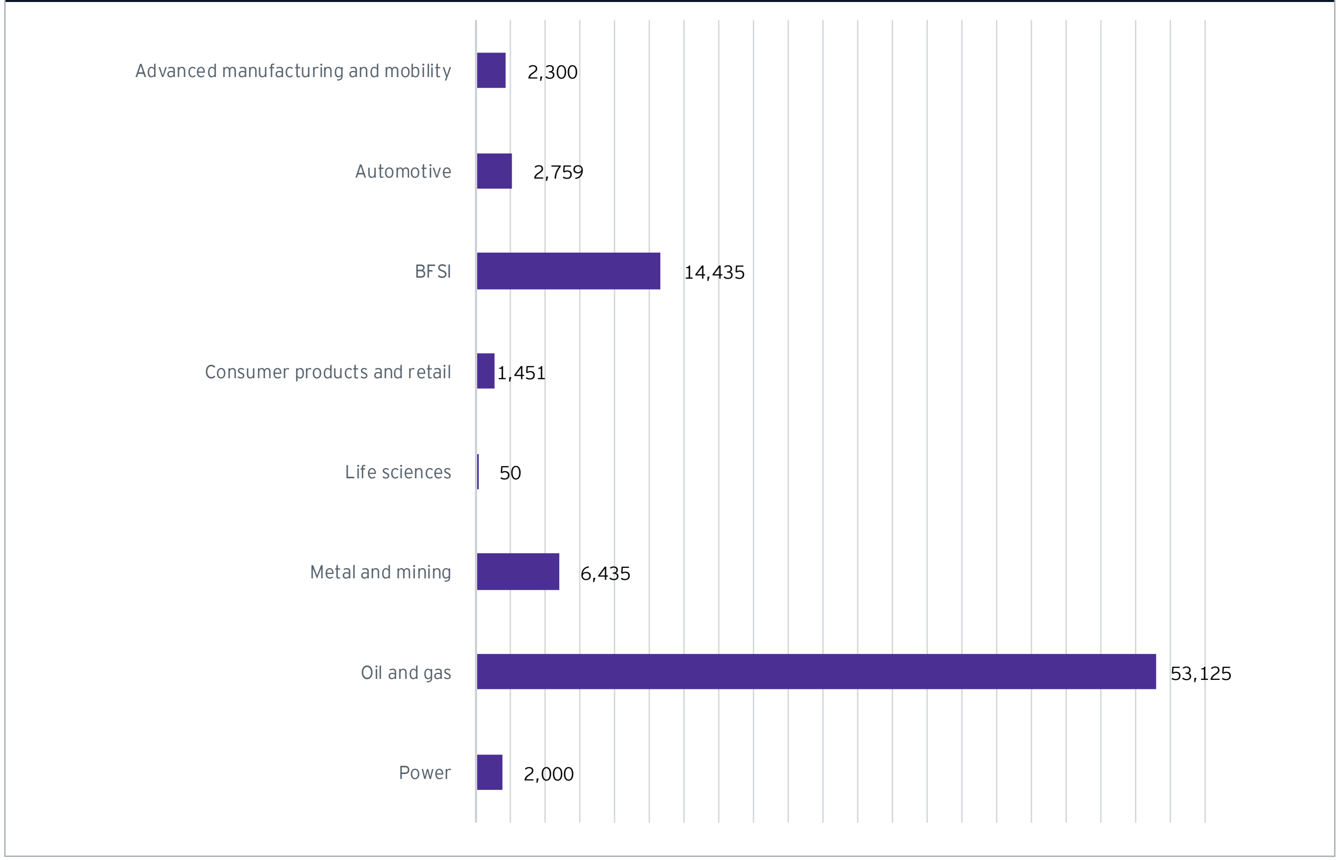
Fund raised in the June 2020 quarter along with plans to raise funds

Fund raised during the June 2020 quarter and plan to raise in future (Number of companies)



Note : *Based on notes to results, investor presentation and press release published by the companies for the June 2020 quarter.*

Funds raised in the June 2020 quarter (in crores)



Note : *Based on notes to results, investor presentation and press release published by the companies for the June 2020 quarter.*

To combat liquidity crunch that most of the sectors would face due to muted demands and stagnated supply chain, the SEBI has provided multiple relaxations to allow companies to raise funds.

It has amended the takeover code to allow promoters to acquire up to 10% in a financial year (compared to the previous threshold of 5%) without triggering an open offer, provided such acquisitions are through preferential issue of equity shares only and not from the secondary market. Further, the regulator has also relaxed the norms for qualified institutional placements (QIPs), a popular route to raise fresh capital from institutional investors. It has eased the mandatory six-month cooling-off period between two QIPs to just two weeks. These relaxations helped companies to raise in aggregate INR 82,555 crores in the June 2020 quarter.

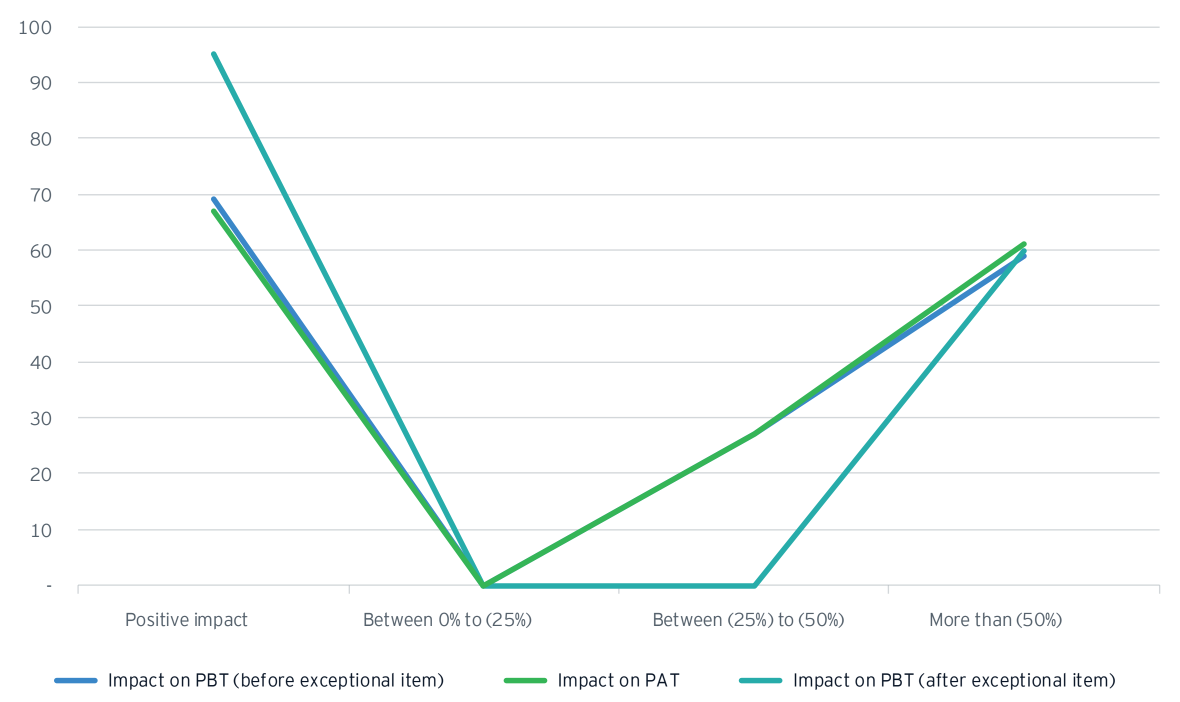
Impact on Profit before tax (PBT), profit after tax (PAT) and earning per share (EPS)

Following is the summary of impact on profitability and EPS for the quarter ended 30 June 2020 compared to the quarter ended 31 March 2020.

Table: 6

S. no.	Sectors	Number of companies	% change in PBT before exceptional item (June 2020 vs. March 2020)	% change in PBT post considering exceptional item (June 2020 vs. March 2020)	% change in PAT (June 2020 vs. March 2020)	% change in EPS (June 2020 vs. March 2020)
1	AM&M	27	-50.1%	-51.19%	-50.04%	-46.64%
2	Automotive	15	-429.4%	-187.15%	-215.81%	-297.10%
3	Aviation	1	-120.4%	-120.39%	-226.63%	-226.65%
4	CPR	28	-70.5%	25.59%	-252.40%	-86.65%
5	LS	22	41.6%	56.79%	27.62%	32.68%
6	Metal and mining	10	-86.3%	-108.33%	-93.68 %	-93.35%
7	Oil and gas	11	60.1%	36.87%	771.15%	775.48%
8	Power	9	42.7%	30.61%	159.23%	246.34%
9	RE & infra	14	4.5%	13.15%	28.74%	26.46%
10	Services	5	-150.6%	-169.15%	-179.96%	-173.84%
11	Technology and media	11	16.9%	16.76%	16.19%	15.21%
12	Telecom	2	2912.1%	-89.53%	-161.95%	-160.16%
	Total	**155**				

Impact on PBT and PAT



***Note :** The diagram is based on the figures mentioned in Table 6.*

Insights on sector impacts

Advanced manufacturing and mobility

With revenue reduction by approximately 33% and EBITDA reduction by approximately 40%, the reduction of PBT and PAT for the sector observed to be approximate 50%, due to fixed finance cost and depreciation charge. We did not note any significant charge on account of exceptional items or COVID-19 provisions for the sector.

Aviation

Revenue of this sector was negatively impacted by 91% in the June 2020 quarter compared to the March 2020 quarter. Revenue loss combined with depreciation, higher operating cost and foreign currency lease liabilities led to -120% impact on PBT.

Consumer products and retail (CPR)

The CPR sector witnessed a reduction of 71% in PBT without considering exceptional item impacts. However, even post considering exceptional items, the reduction is around 56% in PBT excluding outliers. PAT is impacted by -46% excluding outlier impact of increased deferred tax charge for one company.

Automotive

There was a 66% reduction in EBITDA that led to approximately 429% reduction in PBT for the sector in the June 2020 quarter compared to the March 2020 quarter. This was due to significant depreciation and finance cost element. A huge gain recorded by a company on account of sale of certain non-current assets led to reduction of PBT for the sector post exceptional items to 187%. We did not observe any significant provisioning on account of COVID-19 for this sector.

Life sciences

The life sciences sector witnessed a positive growth in EBITDA to the tune of 34%. This resulted into approximately 42% upside in PBT before considering exceptional items and 6% (excluding outlier impact) after considering exceptional items, i.e., additional cost on account of legal suites. With outlier, PBT post exceptional items showed positive growth for the sector to the tune of 57%.

PAT growth was almost half of PBT growth, i.e., 28% in the June 2020 quarter compared to the March 2020 quarter due to outlier impacts witnessed by two companies, 1) on account reversal of deferred tax assets (DTA) due to impairment of intangible assets and additional current tax provision on divestiture and 2) on account of DTA impact due to relief announced by the US government under the Coronavirus Aids, Relief and Economic Security Act (CARES Act). Excluding these outlier impact, the average growth in PAT would be similar to PBT.

Metal and mining

As compared to revenue and EBITDA impact, the PBT impact was higher mainly on account of fixed finance cost and depreciation charge. Aggregate exceptional cost for this sector has significantly reduced in the June 2020 quarter (INR-361 crores) compared to aggregate exceptional cost of (INR-22,320 crores) in the March 2020 quarter leading to increased percentage impact reflected on PBT, post considering exceptional items for this quarter. PBT impact has shown a similar downward trend for PAT and EPS.

Power

The significant upside in EBITDA has yielded similar result for the power sector for PBT before considering exceptional items, albeit lower upside, due to fixed finance cost and depreciation.

Companies in this sector have recorded an exceptional cost under the Atmanirbhar Bharat special economic and comprehensive package. Under the package, companies in the electricity generation and distribution had allowed a rebate of between 20%-25% on the capacity charge during the lockdown period subject to approval of respective boards. This has led to further reduction in upside, which the sector recorded in PBT after considering exceptional items.

Oil and gas

PBT before considering exceptional items shows significant growth for the sector to the tune of 60%. However, most of the oil companies which had to record significant write down of inventories in the March 2020 quarter as exceptional items due to significant reduction in oil prices, seem to have reversed these impact in the June 2020 quarter as change in inventory before PBT, resulting into significant upside observed in the PBT, which is not representative of the real impact on the PBT faced by the sector. If we exclude this impact (on presumption that inventory write downs taken in the March 2020 quarter have been fully reversed) then PBT before considering exceptional items is significantly reduced to the tune of -89%.

Excluding the above inventory write down impact in PBT post exceptional items too, the decline is approximate 56%. Aggregate exceptional cost for this sector has significantly reduced in June 2020 to positive INR4,873 crores compared to aggregate INR-26,913 crores in March 2020 quarter.

Real estate and infrastructure

Despite negative impact in EBITDA to the tune of 26%, the sector could witness marginal positive growth in PBT due to reduction in finance cost. The sector showed respectable profit growth in PAT by approximate 29%, despite the challenging times for the sector in terms of demand.

Services

The negative impact for the service sector shows a widening trend at every level. The sector has witnessed a 50% decrease in revenue while almost a -100% decrease in EBITDA. This gap has further widened to witness approximately 150% reduction is PBT before considering exceptional items and -169% reduction in PBT after considering exceptional items. PAT and EPS have further declined to show the impact of -180% and -174%, respectively.

Technology and media

The technology sector has actually been neutral in all parameters of profitability compared to the previous quarter. Probably, the adverse impact was limited to hamper the growth of the sector.

Telecom

Comparted to marginal impact on EBITDA to the tune of -5%, outlier growth on PAT is reflected of reduction in finance cost which is not fairly represented in terms of percentage. The sector has reduced the finance cost to INR 7,260 crores in the June 2020 quarter compared to INR 8,307 crores in the March 2020 quarter.

However, adjusted gross revenue (AGR) dues provisions have more than doubled in the June 2020 quarter compared to the March 2020 quarter, and reflected as exceptional items, resulting in a decline of 90% in PBT post considering exceptional items.

6

Impact on BFSI-specific key performance indicators (KPIs)

Impact on Banks

Table: 7

Q1 2021 vs Q4 2020						
	Without outlier impact			With outlier impact		
Number of companies	15			18		
Parameters	Q1 2021	Q4 2020	% change	Q1 2021	Q4 2020	% change
Impact on revenue	2,06,885	2,01,996	2.42%	2,64,309	2,37,612	11.24%
Impact on PBT	28,554	13,782	107.18%	30,321	6,137	394.04%
Impact on PAT	21,121	12,532	68.54%	22,459	5,765	289.59%
Impact on PPOP*	70,862	67,312	5.27%	84,785	76,142	11.35%
Impact on EPS	62	33	88.80%	66	-8	932.70%

**Pre-Provision Operating Profit*

There has been muted growth in interest earned by the banks due to lower disbursements of loans as a result of subdued economic activity. The quarter-on-quarter (QoQ) growth in PBT is mainly attributed to fall in the operating expenses of the June 2020 quarter and higher provisions in the March 2020 quarter resulting in lower PBT. However, for some banks the increase in PBT also attributed to the treasury income due to sale of equity stakes in their insurance subsidiaries. This has also resulted in the improvement of EPS. However, EY observed that there is a marginal increase in the pre provision operating profits (PPOP) for the banks in our dataset.

Table: 8

S. no.	Specific KPI	Number of companies	Q1 2021	Q4 2020	% change
1	Aggregate Net Interest Income (NII)	15	85,883	81,687	5.14%
2	Net Interest Margin (NIM)	15	4.05%	4.17%	-2.88%
3	Capital Adequacy Ratio (CAR)	15	16.88%	16.65%	1.38%
4	Provision Coverage Ratio (PCR)	13*	74.91%	70.71%	5.94%
5	Current Account and Savings Account (CASA) ratio	15	37.55%	37.54%	0.02%
6	Net non-performing assets (NPA)	15	1.53%	1.76%	-12.90%
7	Aggregate credit loss provisions	15	40,082	53,132	-24.56%

**For two banks, PCR data was not available in investor presentation and financial results.*

Net interest income (NII)

On an average, the increase in the net interest income is mainly on account of rate cuts done for savings and other deposits accounts by public and private sector banks. The resultant fall in the cost of deposits has positively benefited the banks with large deposit base. Though overall the demand for loans has been low, we also observed that some of the leading private sector and public sector banks have extended the emergency lines of credit particularly to eligible borrowers in the micro, small and medium enterprises (MSME) sector.

Net interest margin (NIM)

On an average we observed fall in NIM which is largely attributed to fewer loan disbursements. For instance, in case of one of the private banks, disbursements across home and vehicle loans decreased by about 65% in the June 2020 quarter compared to the March 2020 quarter. A similar slack was observed for commercial and personal loans. However, muted incremental sourcing of loans is primarily done through existing customers of the bank having deposit accounts.

Capital Adequacy Ratio (CAR)

We observed that for all the 15 banks in our dataset, the CAR is well above the regulatory prescribed limit of 9% for scheduled commercial banks. However, banks at lower end of the spectrum may have to explore the possibilities of raising the capital as a measure to safeguard against the rise in non-performing assets (NPAs) due to delinquencies as a result of possible slowdown in the economic activities. One of the private sector bank and a few other public sector banks are expected to raise equity in the coming quarters.

Provision Coverage Ratio (PCR)

We have observed that banks' provision coverage ratio ranges from 58% to 94% in our data set. The increase in PCR in the June 2020 quarter compared to the March 2020 quarter is largely attributed to higher impairment provisions due to the pandemic making an entry in India from the March 2020 quarter, and lower loan originations and disbursements.

Current and Saving Account (CASA)

CASA ratio for all the banks in our data set is in the range of 16%-56 %. We observed that there is a marginal increase in the ratio in the June 2020 quarter compared to the March 2020 quarter as majority of the public and private sector banks have cut their savings and fixed deposit rates mainly on account of the REPO rate cut done by the RBI. However, this also indicates general public's confidence on the safety of funds provided by the banks.

Net non-performing assets (NPA)

The fall in net NPA is mainly attributed to moratorium granted on the loans and hence to certain extent, reflects asset classification standstill benefits on such loans. One of the banks in our data set has mentioned that the moratorium percentage is higher for commercial vehicles and real estate builder loans.

Aggregate credit loss provisions

The fall in the aggregate credit loss provision in the June 2020 quarter compared to the March 2020 quarter is mainly attributed to additional COVID provisions made by five banks in our data set in the March 2020 quarter. These additional provisions were introduced where the moratorium was granted, and asset classification benefit was availed. However, we also observed that one of the private sector banks in our dataset has made additional COVID provision in Q1 2021 for the loans provided to lower rated corporates and SME borrowers. These provisions are based on the assessment of factors such as nature of product, quality of collateral and underlying business activity in the borrowers' industry segments.

Impact on non-banking financial companies (NBFCs)

Table: 9

	Q1 2021 vs Q4 2020 (No. of companies - 17)											
	Impact on Revenue			Impact on PBT			Impact on PAT			Impact on PPOP*		
	Q1 2021	Q4 2020	% Change	Q1 2021	Q4 2020	% Change	Q1 2021	Q4 2020	% Change	Q1 2021	Q4 2020	% Change
Without outlier impact	4,516	4,532	-2.36%	1,057	369	101.77%	819	136	107.65%	14.15	-4.08	127.94%
With outlier Impact	29,954	16,600	80.44%	582	57	916.74%	431	42	916.02%	5.26	0.53	892.45%

**Pre-Provision Operating Profit*

There has been a fall in the interest earned by NBFC companies as a result of degrowth in loan disbursements during the Q1 2021. However, there has been a steep rise in PBT and PAT during the same quarter. This is mainly on account of higher impairment provisions through expected credit loss model in the March 2020 quarter and such higher provisions are not there in Q1 2021 mainly on account of the moratorium. This has also, to certain extent, improved the EPS. We have observed that companies in our dataset have raised long term debt funds in Q1 2021.

Table: 10

S. no.	Specific KPIs	No. of companies	Q1 2021	Q4 2020	% change
1	Aggregate Net Interest Income (NII)	16	28,820	29,440	-2.10%
2	Net Interest Margin (NIM)	10	7.01%	6.96%	0.78%
3	Capital Adequacy Ratio (CAR)	14	24.43%	25.07%	-2.55%
4	Provision Coverage Ratio	11	54.50%	49.27%	10.60%
5	Assets under management (AUM)	11	2,00,142	2,01,362	-0.61%
6	Net non-performing assets (NPA)	6	2.00%	2.18%	-8.27%

Aggregate Net Interest Income (NII)

Due to limited business activities, the NII is sluggish in the June 2020 quarter. This is largely due to limited opportunities for origination of loans and disbursement. The regulatory measures such as long-term repo operations were initiated by the banks in March 2020 to offer cheaper borrowings to small and mid-sized NBFCs. But it is yet to show desired results. However, NBFCs may explore opportunities pertaining to co-origination with banks for retail loans.

Net Interest Margin (NIM)

We observed a narrow movement in the net interest margin for Q1 2021 largely due to weak credit demand amid the ongoing pandemic. There may be further pressures on the NIM due to intense competition for lending among the NBFCs and to certain extent banks as well. Further, there may be pressure on NIM due to increase in cost of funds (COF) as a result of risk aversion in the market and possible redemption pressures on mutual funds. Mutual funds are one of the key providers of funds to NBFCs by investing and subscribing the securities issued by NBFCs.

Capital Adequacy Ratio (CAR)

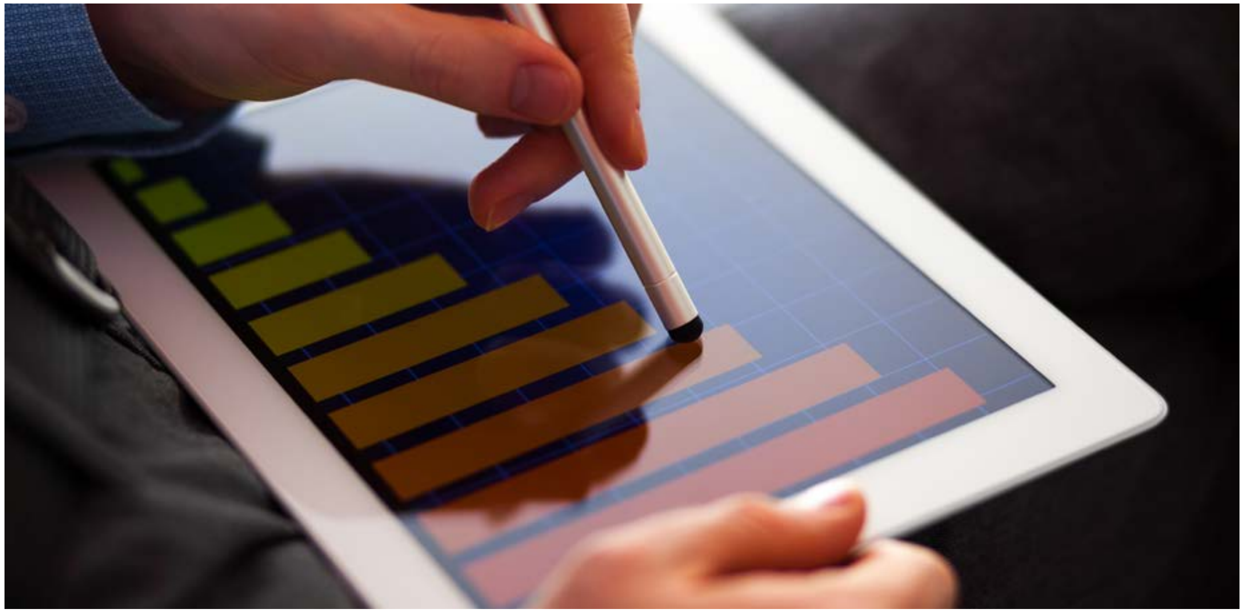
We observed that the capital adequacy ratio (CAR) for NBFCs in our data set is in the range of 17%-43%. Further, it is pertinent to note here that as a part of Atmanirbhar Bharat Abhiyan relief package, the Special Liquidity Scheme (SLS) is formed to purchase short-term papers such as commercial papers (CP) and non-convertible debentures (NCD) from eligible NBFCs and housing finance companies (HFCs) and provide liquidity support to them. However, one of the conditions for availing this facility is to ensure that the CAR should not fall below the minimum regulatory.

Provision Coverage Ratio (PCR)

We observed that the provision coverage ratio (PCR) for companies in our dataset is in the range of 38%-87%. This is mainly on account of expected credit loss provisions made by companies which also takes into consideration the impact of macroeconomic factors on the assets under management.

Assets under management (AUM)

We observed that there has not been significant additions of loans to the asset under management for NBFCs as the loan origination and disbursement process was severely impacted due to lack of economic activity.



Impact on Asset management companies (AMC)

Table: 11

Q1 2021 vs Q4 2020 (No. of companies - 2)								
Impact on revenue			Impact on PAT			Impact on EPS		
Q1 2021	Q4 2020	% change	Q1 2021	Q4 2020	% change	Q1 2021	Q4 2020	EPS calculated
414	300	38.10%	229	127	80.90%	8	6	41.77%

Table: 12

S. No.	Specific KPI	No.of Companies	Q1 2021	Q4 2020	% change
1	Average Closing Asset Under Management (AUM)	2	3,15,619	2,87,045	9.95%
2	Equity-oriented assets of as a proportion of total AUM	2	38.50%	40.00%	-3.75%

We observed growth in asset under management and PAT mainly on account of growth in digital subscriptions and higher subscriptions for gold fund. However, for one company in our dataset, there has been an addition to its institutional investors portfolio after it took over the management of funds from another company which exited the operations. There is a marginal drop in equity-oriented funds. However, it is pertinent to note that we only have two listed asset management companies in our data set.

Impact on Insurance companies

Table: 13

S. no.	Sector	Number of companies	Impact on PAT			Impact on EPS		
			Q1 2021	Q4 2020	% change	Q1 2021	Q4 2020	% change
1	General insurance	3	53.56	551.74	-90.29%	2.61	4.79	-45.44%
2	Life insurance	4	327.46	256.93	27.45%	3.25	1.69	92.16%

We observed increase in PAT for two out of three general insurance companies in our dataset as a result of increase in net written premium. This was mainly due to increase in premium for health, fire and crop segment. There is a decline in premium income for motor segment as new vehicle sales are much slower due to slack in economic activity. The overall fall in PAT is mainly on account of loss reported by state-owned general insurance companies compared to the huge profit reported in the March 2020 quarter. As far as life insurance companies are concerned, the growth in profit is largely attributed to positive renewal premiums. However, new business premiums have been impacted, except in case of protection products.

Table: 14

S. no.	Specific KPIs	General insurance companies			
		Number of companies	Q1 2021	Q4 2020	% change
1	Net premium written (Average)	3	7,902	5,729	37.93%
2	Net claims incurred (Average)	3	6,192	4,688	32.07%
3	Solvency ratio	3	204.33%	193.67%	5.51%
4	Loss ratio	3	76.86%	83.34%	-7.77%
5	Combined ratio	3	104.79%	107.96%	-2.94%

We observed increase in net claims in Q1 2021 primarily on account of claims from health insurance business. Further all the three companies in our dataset have solvency ratios above 150% as specified by the insurance regulator.
The loss ratio has improved in Q1 2021. This is due to reduced motor claims. Further the combined ratio being the most important profitability ratio for a general insurance company, has also improved marginally in Q1 2021 for the companies that are part of our dataset.

Table: 15

S. no.	Specific KPIs	Life Insurance companies			
		No. of companies	Q1 2021	Q4 2020	% change
1	Net premium written (Average)	4	5,385	9,655	-44.22%
2	Net claims incurred (Average)	4	2,293	4,278	-46.41%
3	Solvency ratio	4	211.53%	200.53%	5.49%
4	Loss ratio	4	41.91%	42.83%	-2.15%

We also observed a fall in net premium written mainly on account of slowdown in acquisition of new business. However, companies have reported a traction in the sale of individual protection plans and this has resulted in increased margin for new businesses. Further solvency ratio for all the life insurance companies in our dataset is way beyond the regulatory norm prescribed by the Insurance Regulatory and Development Authority (IRDA).

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