Strip out oil, and the June quarter's earnings story inverts: JM Financial

Despite a beat of this size, we have cut FY27 Nifty EPS by 0.4 per cent and raised FY28 by 0.3 per cent. A quarter this good produced no upgrade cycle.

Venkatesh Balasubramaniam, MD & head of research, JM Financial

Venkatesh Balasubramaniam | Mumbai

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Q1FY27 produced the cleanest earnings beat India has seen in three years. Nifty50 EPS grew 12.9 per cent year-on-year against an expectation of 4.5 per cent. Excluding financials, EPS still rose 11.5 per cent versus a 1.9 per cent forecast; excluding oil & gas as well, 7.6 per cent against 3.2 per cent. On every cut, the index delivered roughly three times what the street had pencilled in.

Widen the lens and the beat looks remarkably even. Profits grew 12 per cent across the NSE100, 10.4 per cent across the NSE200 and 12.4 per cent across the NSE500, a band so narrow it suggests nothing much distinguished large caps from the rest of the market.

That reading is wrong, and the reason is a single sector.

One sector is doing all the distortion

Across the NSE500, oil & gas revenue rose 29 per cent but profits fell 51 per cent, as refining and marketing spreads compressed. The Nifty's energy constituents grew profits 28 per cent over the same quarter. Same sector, opposite outcomes, and because the loss-making end of the complex sits largely outside the top 50, the drag lands disproportionately on the broader indices.

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Remove oil & gas and the ranking does not merely shift. It inverts, and does so monotonically. Nifty profits grew 11.1 per cent; the NSE100 17.5 per cent; the NSE200 19.8 per cent; the NSE500 20.7 per cent; the Nifty Next 50 28.7 per cent; the midcap index 35.7 per cent; and small caps 41.9 per cent. The further down the capitalisation curve you go, the faster profits grew.

The headline numbers say the opposite. The midcap index reported a 1 per cent profit decline for the quarter and the Nifty Next 50 was flat at 0.3 per cent, figures that would ordinarily read as a broad-market stall. Both are almost entirely an energy artefact.

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Operating leverage worked - outside the Nifty

The margin picture tells the same story from a different angle.

At the index level, Nifty revenue grew about 19 per cent while EBITDA rose only 7 per cent. Even after stripping out both financials, where an EBITDA construct means little, and oil & gas, the gap persists: revenue up 18 per cent, EBITDA up 12 per cent, profit up just 7.6 per cent. The Nifty sold considerably more without converting it into proportionate operating profit.

Below the top 50, the relationship is the reverse. On the same clean cut, NSE500

revenue grew 18.5 per cent and EBITDA 17 per cent; the midcap index grew revenue 19.8 per cent and EBITDA 24.2 per cent; small caps 20.5 per cent and 27.1 per cent. Margins expanded. Profit growth of 35 per cent and 38 per cent respectively followed from c

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leverage, not from accounting.

India's margin problem in Q1FY27 was a large-cap problem.

Growth and beats are not the same thing

None of which means midcaps deserve a blank cheque, and here the data cuts the other way. Of 349 companies under our coverage, 46 per cent beat estimates and 29 per cent missed, against a 5 per cent variance threshold. Split by market capitalisation, large caps led with a 50.6 per cent beat ratio; small caps managed 42.4 per cent and midcaps just 40.6 per cent, the weakest cohort.

Midcaps grew fastest and disappointed most often. That combination has one explanation: expectations were already there. Growth was delivered; surprise was not. Investors buying the mid-cap earnings acceleration are buying something the market has largely priced.

Sector leadership across the NSE500 was where the cyclical recovery has been building: telecom profits up 85 per cent, non-ferrous metals 60 per cent, construction 58 per cent, textiles 57 per cent, ferrous metals 51 per cent, chemicals 42 per cent, organised retail 37 per cent and banks 22 per cent. The misses clustered in oil & gas, plastics and pipes, general insurance, fertilisers, FMCG, cement, pharmaceuticals and, worst of all, aviation, which swung to a loss.

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The ask for the next nine months

Despite a beat of this size, we have cut FY27 Nifty EPS by 0.4 per cent and raised FY28 by 0.3 per cent. A quarter this good produced no upgrade cycle.

That leaves FY27E Nifty EPS growth at 15.2 per cent and FY28E at 17.6 per cent. Having banked 12.9 per cent in the first quarter, the remaining nine months must deliver 16.7 per cent. It is also a concentrated ask: metals & mining (+29 per cent growth on a 5.7 per cent weight in Nifty profits), automobiles (+24 per cent on 5.7 per cent), NBFCs (+36 per cent on 4.5 per cent) and telecom (+44 per cent on 3.2 per cent). A fifth of index profits must grow at two to three times the index rate, with metals dependent on global prices, autos on a recovery invisible in Q1, where Nifty auto profits fell 14 per cent, and telecom on tariff discipline holding.

At 19.7 times FY27 and 16.8 times FY28 earnings, the Nifty sits above its long-run mean of 17.4 times but below the plus-one-standard-deviation band of 22 times. Fairly priced, on a forecast with visible single points of failure.

The uncomfortable conclusion is that the earnings growth is not in the index, and the estimate discipline is not outside it.

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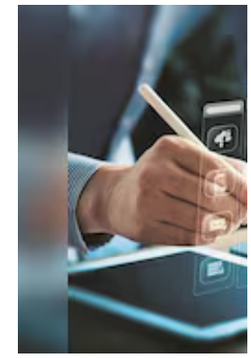

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Q1 outliers: 26 Nifty 500 stocks post over 50% PAT, revenue growth

Favourable base, stronger domestic activity, government capex and operating leverage were seen aiding the SMIDs' Q1 FY27 results.

Analysts believe the earnings downgrade cycle has bottomed out. Illustration: Ajay Mohanty

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While India's Q1 FY27 earnings season broadly signalled a recovery in corporate profitability, a select group of companies delivered a far more striking performance. As many as 26 Nifty 500 stocks reported over 50 per cent year-on-year (Y-o-Y) growth in both profit after tax (PAT) and revenue, emerging as clear top performers in the June quarter.

According to the Capitaline data compiled by BS Research Bureau, only two large-cap names — Eternal and Jio Financial —

featured on the list, suggesting sharp outperformance by mid- and small-cap (SMID) companies.

Meanwhile, several names from the midcap and smallcap space, such as MCX, Bharat Dynamics, OFSS, Groww, Oil India, BSE, Netweb Technologies, and Hindustan Copper, among others, made the cut.

Robust Q1 Earnings

Company Name	Sales (%)	PAT (%)	Company Name	Sales (%)	PAT (%)
Neuland Laboratories Ltd	119.2	962.4	R R Kabel Ltd	53.9	128.8
Bharat Dynamics Ltd	130.8	547.4	Hitachi Energy India Ltd	68.6	123.5
PTC Industries Ltd	97.4	465.7	Oracle Financial Services Software Ltd	68.7	120.5
Poonawalla Fincorp Ltd	77.3	391.5	Multi Commodity Exchange of India Ltd	88.1	103.5
Aditya Infotech Ltd	89.5	332.5	Emmvee Photovoltaic Power Ltd	51.3	102.6
Sobha Ltd	50.0	273.3	Capri Global Capital Ltd	57.1	102.0
Eternal Ltd	182.0	268.0	Syrma SGS Technology Ltd	68.3	101.2
Netweb Technologies India Ltd	172.1	179.9	Billionbrains Garage Ventures Ltd	66.0	94.3
Lloyds Metals & Energy Ltd	208.6	169.1	Solar Industries India Ltd	70.3	92.7
Hindustan Copper Ltd	81.4	162.5	Oil India Ltd	57.7	91.4
Great Eastern Shipping Company Ltd	66.9	159.4	ACME Solar Holdings Ltd	67.8	89.9
Jio Financial Services Ltd	227.3	155.7	Acutaas Chemicals Ltd	59.1	[illegible]
Hindustan Zinc Ltd	76.9	144.8	BSE Ltd	63.5	[illegible]

Data Source: BS Research Bureau; Sales (%), PAT (%) Q1FY27 vs. Q1FY26.

Top Q1 performers

BSE Ltd

NSE

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₹ 3,374.60 22.60 (0.67%) today

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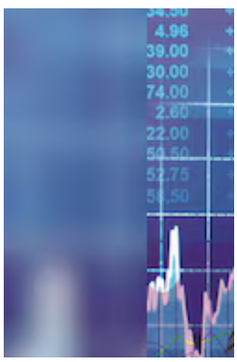

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Motilal Oswal Financial Services' analysis showed that while all segments delivered higher-than-estimated earnings growth, large-caps in its coverage posted earnings growth of 21 per cent YoY, the mid-cap universe of 23 per cent YoY, marking an 11-quarter high, and the small-cap universe of 31 per cent YoY.

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What drove SMID outperformance?

Favourable base, stronger domestic activity, government capex and operating leverage were seen aiding the SMIDs' Q1 FY27 results.

Harshal Dasani, business head at INVasset PMS, said that two structural reasons explain why smaller companies dominate this list: The base effect, where a company doing ₹250 crore of revenue can double while a ₹50,000 crore business cannot, and thematic purity, where a small-cap is often a single-theme bet while large-caps dilute the same tailwind across many divisions.

Improving utilisation, project execution and domestic demand are creating genuine operating leverage, although the sustainability of 50 per cent+ growth rates will vary sharply across companies, cautioned Vinit Bolinjkar, head of research at Ventura.

He further believes this performance by 26 companies should be viewed selectively, as part of the acceleration reflects weak comparables and company-specific factors rather than a uniform broad-based recovery.

The share price performance of these companies has been promising, with only one stock, Great Eastern Shipping Corporation, shedding 8 per cent in the ongoing financial year (as of August 18 close). Oil India, meanwhile, remains unchanged. Barring these two, other stocks have risen between 10-115 per cent, with RR Kabel emerging as the top performer, followed by Syrma SGS Technology (up 93 per cent), Aditya Infotech (up 86 per cent), Nueland Laboratories (up 85.5 per cent) and OFSS (up 73 per cent).

Bolinkar further added that evidence increasingly suggests that the earnings downgrade cycle has bottomed out, though he would stop short of calling an outright broad-based earnings boom. "The next phase will be driven more by revenue-led earnings upgrades than by margin expansion or favorable base effects," he noted.

Going ahead, analysts believe stock selection should increasingly favour businesses capable of delivering sustainable 15–25 per cent revenue growth, earnings upgrades and improving return ratios.

Dasani said that investors should check: Whether the growth is volume-led or price-led; what is the base, because 500 per cent growth on a tiny base tells you less than 60 per cent growth on a substantial one; visibility of the order book; and critically, how much is already in the price, because most of these names have re-rated hard already.

"Within our constructive framework, the durable themes here are defence with demonstrated execution visibility, electrification and grid infrastructure, pharma CDMO, and financialisation platforms," he said.

Among stock-specific names, Bolinjkar prefers Adani Energy Solutions, BSE and Neuland Laboratories. "The key for Adani is visibility, with transmission projects under construction of about ₹71,779 crore and smart-metering projects carrying revenue potential of roughly ₹29,519 crore. BSE benefits from increasing participation in Indian capital markets, although regulatory and derivatives-volume risks need to be monitored," he said.

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