Resilient earnings, limited impact of second Covid wave

ICICI direct Research

Q1FY22

August 20, 2021

- Corporate earnings were resilient in April-June 2021 (Q1FY22) amid Covid resurgence pan-India. It was primarily driven by limited impact on economic activity wherein Corporate India largely operated unabated during the second Covid wave. This is in comparison to the central government led pan-India total lockdowns in April-June 2020 (Q1FY21). At the Nifty index level, excluding financials, net sales decline was limited to 7.5% on a sequential basis (QoQ) with Covid impacted low base in Q1FY21 making YoY comparison rather redundant. On the operating profit front, the decline was limited to 6.7% amid ~15 bps expansion in EBITDA margins to 19.2%. Savings were realised in other expenses, which declined ~160 bps QoQ amid ~145 bps increase in employee costs with RM costs remaining at similar levels (46.5% of sales). At the PAT level, net earnings declined 14.5% QoQ led by a double digit QoQ decline in other income. With state specific unlocking under way, the management commentary was optimistic and hopeful of a strong rebound in rest of the year (9MFY22E)
- On the sectoral front, in the BFSI space, for Q1FY22, slippages came in at elevated levels, which for most large banks remained in the range of 2-2.5% while GNPA increased ~15-35 bps QoQ. PSU banks, on overall basis, outperformed private counterparts on asset quality and profitability but lost market share in terms of business. In the IT space, companies continued to report robust growth with Tier-2 companies growing at almost double the rate of Tier-1 companies on organic basis. In the metals space, the sector reported a strong Q1FY22 performance primarily on account of healthy realisations. In the pharma domain, the key highlight was substantial growth in the domestic branded formulations segment driven by Covid portfolio and spike in patient footfall at hospitals. In the auto space, earnings were muted due to ~34% decline in volumes and twin impact of negative operating leverage and substantial rise in key commodity price on margin profile
- Going forward, keeping our index earnings estimates intact, we expect Nifty EPS to grow at 24.2% CAGR in FY21-23E. We retain our Nifty target of 17,500 with corresponding Sensex target at 58,300

Exhibit 1: Nifty aggregate P&L (ex-financials) (₹ crore)

Nifty P&L (ex-BFSI space)	Jun-21	Jun-20	Mar-21	YoY (%) change	QoQ (%) change
Sales	**10,34,971**	**6,56,655**	**11,18,542**	**57.6**	**-7.5**
Total Expenses	8,36,130	5,37,472	9,05,369	55.6	-7.6
Raw material	4,81,132	2,49,305	5,19,915	93.0	-7.5
Employee	1,28,991	1,11,386	1,23,158	15.8	4.7
Other expenses	2,26,008	1,76,781	2,62,295	27.8	-13.8
Expenses (% of sales)					
Total Expenses	80.8	81.8	80.9	-106 bps	-15 bps
Raw material	46.5	38.0	46.5	852 bps	1 bps
Employee	12.5	17.0	11.0	-450 bps	145 bps
Other expenses	21.8	26.9	23.4	-508 bps	-161 bps
Operating Profit	**1,98,841**	**1,19,183**	**2,13,174**	**66.8**	**-6.7**
OPM%	19.2	18.2	19.1	106 bps	15 bps
Other Income	25,091	26,555	27,971	-5.5	-10.3
Interest	28,887	33,205	28,576	-13.0	1.1
Depreciation	55,996	51,774	57,997	8.2	-3.5
PBT	**1,39,049**	**60,760**	**1,54,572**	**128.9**	**-10.0**
Tax	40,457	25,772	39,287	57.0	3.0
Tax Rate	**29.1**	**42.4**	**25.4**	**-1332 bps**	**368 bps**
PAT	**98,591**	**34,987**	**1,15,285**	**181.8**	**-14.5**

*Source: Capitaline, ICICI Direct Research; *Data for 39 index companies' excl Banks & NBFC's*

Nifty earnings summary (ex-financials)

₹ crore	Jun-21	Jun-20	YoY (%)	Mar-21	QoQ (%)
Sales	10,34,971	6,56,655	57.6%	11,18,542	-7.5%
EBITDA	1,98,841	1,19,183	66.8%	2,13,174	-6.7%
Net Profit	98,591	34,987	181.8%	1,15,285	-14.5%

Nifty Earnings Summary (ex-financials)

Positive surprises & Buys

- Divi's Laboratories
- JSW Steel
- KPR Mill
- Mahindra & Mahindra
- Matrimony.com
- State Bank of India

Nifty EPS estimates & Nifty target

Sensex & Nifty Target

Earnings Estimates	FY20	FY21	FY22E	FY23E
Nifty EPS (₹/share)	440	515	675	795
Growth (%)	-6.2%	17.1%	30.9%	17.9%
Earnings CAGR over FY21-23E				24.2%
Target Multiple				22.0x
Nifty Target (at 22x PE FY23E EPS)				17,500
Corresponding Sensex Target				58,300

Research Analyst

Pankaj Pandey

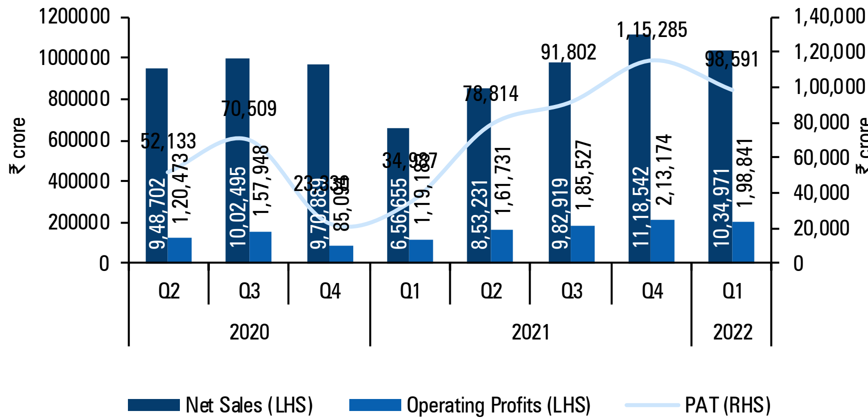
Head Research

pankaj.pandey@icicisecurities.com

Earnings Wrap

ICICI Securities – Retail Equity Research

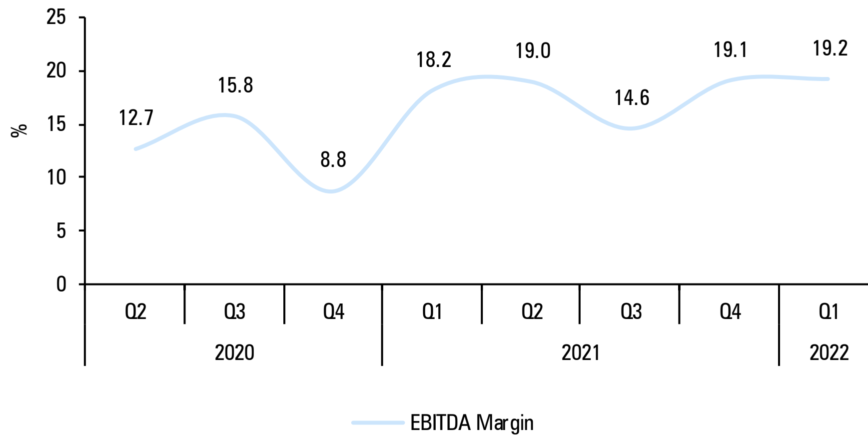
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, for Q1FY22, topline was down 7.5% QoQ to ₹ 10.35 lakh crore. EBITDA was down 6.7% QoQ to ~₹ 2 lakh crore, tracking marginal sequential expansion in EBITDA margins to 19.2% for Q1FY22. Ensuing PAT in Q1FY22 was down 14.5% QoQ to ~₹ 1 lakh crore. YoY comparison is rather redundant for this quarter given Q1FY21 was severely impacted by Covid induced nationwide lockdowns and muted economic activity. Tax rate for the quarter came in at ~29%

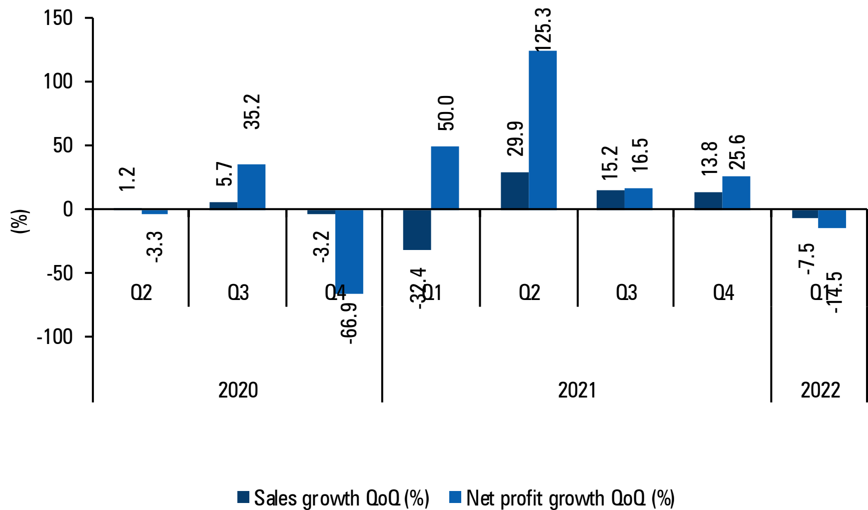
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q1FY22, EBITDA margins at the index level (ex-financials) expanded 15 bps QoQ to 19.2%. Savings were realised in other expenses, which declined ~160 bps QoQ amid ~145 bps increase in employee costs with RM costs remaining at similar levels (46.5% of sales)

Exhibit 4: Nifty aggregate quarterly revenue & profitability growth trend (%)



Source: Capitaline, ICICI Direct Research

With QoQ comparison making more sense to evaluate Q1FY22 performance; topline, on a QoQ basis, was down 7.5% while bottomline in the aforesaid period was down double digits i.e. 14.5% QoQ. It was primarily tracking a limited decline in operating profit with a healthy decline in other income and nearly flat depreciation and interest charge on QoQ basis

Industry wise revenue & profit movement

- In Q1FY22, topline growth on a QoQ basis was led by the pharma space, primarily the domestic branded formulations segment. It was well supported by the resilient IT sector (increasing digital spends) and resurgent metals space (firm product realisations). The laggards this time was the automobile space amid ~34% QoQ decline in auto sales volume due to limited dealership activity and capital goods domain due to seasonality with Q4 being a seasonally heavy quarter.

Exhibit 5: Industry wise aggregate revenue (Nifty companies) (₹ crore)

	Jun-21	Jun-20	Mar-21	YoY change (%)	QoQ change (%)
Auto	1,18,218	54,929	1,54,345	115.2	-23.4
Capital goods	29,335	21,260	48,088	38.0	-39.0
FMCG	35,330	30,395	36,554	16.2	-3.3
IT	1,22,040	1,03,858	1,15,632	17.5	5.5
Metals	1,48,914	81,026	1,44,119	83.8	3.3
Oil & Gas	4,34,534	2,49,279	4,60,170	74.3	-5.6
Pharma	22,129	18,088	19,686	22.3	12.4
Power	40,105	35,652	40,613	12.5	-1.3
Others	84,368	62,167	99,336	35.7	-15.1
Aggregate	**10,34,971**	**6,56,655**	**11,18,542**	**57.6**	**-7.5**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index topline (%)

Sector	Jun-21	Jun-20	Mar-21
Auto	11.4	8.4	13.8
Capital goods	2.8	3.2	4.3
FMCG	3.4	4.6	3.3
IT	11.8	15.8	10.3
Metals	14.4	12.3	12.9
Oil & Gas	42.0	38.0	41.1
Pharma	2.1	2.8	1.8
Power	3.9	5.4	3.6
Others	8.2	9.5	8.9

Source: Capitaline, ICICI Direct Research

- In the quarter, in the IT space, Tier-I companies grew 5.2% QoQ (3% on organic basis) while Tier-II companies grew 8.2% QoQ (6% on organic basis). In addition, one of the key themes that was observed in Q1 results was that there was much higher visibility of revenues based on strong deal wins and hiring trends. The acceleration in order book and deal pipeline continues to be strong amid increase in spending by enterprises on cloud migration and digital technologies

- On the bottomline front, sequential growth at the index level was driven by metals domain amid record profitability at key ferrous players as well as power space. There was steady double digit sequential growth in the pharma as well as IT space. The auto and capital goods space were again laggards amid dual perils of negative operating leverage and high raw material costs. The auto sector, in particular, reported muted numbers due to subdued performance at Tata Motors especially at JLR on account of production constraint amid global chip shortage

Exhibit 6: Industry wise aggregate net profit (Nifty companies) (₹ crore)

	Jun-21	Jun-20	Mar-21	YoY change (%)	QoQ change (%)
Auto	1,556	-6,403	12,613	LP	-87.7
Capital goods	1,174	303	3,293	287.4	-64.3
FMCG	6,487	5,769	6,962	12.4	-6.8
IT	22,004	17,535	19,478	25.5	13.0
Metals	20,768	-3,048	17,357	LP	19.7
Oil & Gas	27,241	17,611	35,884	54.7	-24.1
Pharma	3,096	2,811	2,816	10.2	10.0
Power	9,410	4,939	8,068	90.5	16.6
Others	6,856	-4,529	8,815	LP	-22.2
Aggregate	**98,591**	**34,987**	**1,15,285**	**181.8**	**-14.5**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index PAT (%)

Sector	Jun-21	Jun-20	Mar-21
Auto	1.6	-18.3	10.9
Capital goods	1.2	0.9	2.9
FMCG	6.6	16.5	6.0
IT	22.3	50.1	16.9
Metals	21.1	-8.7	15.1
Oil & Gas	27.6	50.3	31.1
Pharma	3.1	8.0	2.4
Power	9.5	14.1	7.0
Others	7.0	-12.9	7.6

Source: Capitaline, ICICI Direct Research

- In the oil & gas domain, companies reported a decent set of numbers on the profitability front during Q1FY22. Profits for most oil marketing companies (OMC) were better than expectations driven by higher profits from marketing segment and inventory gains. City gas distribution (CGD) companies' results were mostly better than estimates. Operational profitability of upstream companies improved due to high oil prices

- In the telecom domain, for Airtel, Indian wireless revenues were up 1.6% QoQ, with slightly better ARPU, which came in at ₹ 146, up 0.6% QoQ. On the other hand, for VIL, reported revenues were down 4.7% QoQ with ARPU decline of ~2.8% QoQ to ₹ 104 due to extension of validity for low cost customers during the second wave and subscriber decline

Key notable surprises and stock calls

This section of Earnings Wrap includes key surprises witnessed in the earnings of coverage companies and our take post analysis of results.

Exhibit 7: Key surprises and stock calls (Q1FY22)

Company	Q1FY22 Result	Quarterly Performance & Outlook	CMP (₹)	Target Price	Last Rating	Potential Upside
Divi's Laboratories	Positive	Divi's Laboratories reported a strong Q1FY22 performance. Despite higher base, revenues grew 13.3% YoY to ₹ 1960 crore while EBITDA margins expanded 300 bps YoY to 43.5% due to significantly better gross margin performance (up 422 bps YoY to 67.2%) and lower raw material expenditure. PAT grew 13.2% YoY to ₹ 557 crore in line with strong operational performance. More than strong quarterly performance, the important narrative for Divi's is its unprecedented capex plans to further augment capacities besides preparing for growing opportunities arising due to China plus one factor. Divi's remains a quintessential play on the Indian API/CRAMs segment with its product offerings and execution prowess. We value Divis at ₹ 5815 i.e. 50x P/E on FY23E EPS	4820	5815	Buy	21
JSW Steel	Positive	JSW Steel reported a healthy performance during Q1FY22 wherein its standalone operations EBITDA/tonne increased sharply from ₹19756/tonne in Q4FY21 to ₹26291/tonne in Q1FY22. During Q1FY22, value added and special products (VASP) segment registered highest ever share of 61% (59% in Q4FY21, 38% in Q1FY21), which aided JSW Steel's overall operational performance. During the quarter, share of VASP was higher on the back of increased domestic sales to automotive, solar and appliance segments. VASP's share was also boosted by robust export demand for coated products on the back of a global economic recovery. Going forward, the 5 million tonnes per annum (MTPA) Dolvi expansion of JSW Steel is expected to commence operations by September 2021, which will provide healthy revenue visibility to company. We value JSW Steel at ₹ 850, based on SoTP valuation	700	850	Buy	21
KPR Mills	Positive	Despite pandemic related challenges (factories shut for ~15 days), KPR Mills reported yet another solid operational performance in Q1FY22. EBITDA margins continued to be resilient at ~25% (fifth consecutive quarter wherein the company has maintained 20%+ EBITDA margins). On the back of a healthy order book, garmenting division continued to operate at optimum utilisation levels. Volumes came in at 28 million pieces (up 81% YoY, flattish QoQ). Demand for yarn exports continued to remain robust but demand in the domestic markets was impacted. KPR has two major capex projects in the pipeline worth ₹ 750 crore towards garmenting facility (₹ 250 crore) and ethanol facility (₹ 500 crore). We model revenue, earnings CAGR of 18%, 21%, respectively, in FY21-23E with higher RoCE of 26%. We value KPR at ₹ 2310 i.e. 21x FY23E EPS	1765	2310	Buy	31
Mahindra & Mahindra	Positive	Mahindra & Mahindra (M&M) posted a healthier than expected margin and profitability performance in Q1FY22, with sequential increase in blended EBITDA margins (up 60 bps to 13.9%) coming as a significant positive surprise. We like M&M given its leadership in tractor space, post Covid rebound in the automotive domain amid continued LCV momentum. We build 12.7%, 14.8% total volume, sales CAGR, respectively, in FY21-23E. We build in operating leverage benefits with FY23E margins seen at 13.5%. M&M's focus on prudent capital allocation (18% RoE vision), EV thrust (six fully electric PV, LCV launches by 2026) remain structural positives. We assign SOTP-based target of ₹ 1,000 for M&M (10x EV/EBITDA to standalone business; 35% holdco discount to investments)	780	1000	Buy	28
Matrimony	Positive	Matrimony reported robust Q1FY22 results. The company's matchmaking revenues increased 4.2% QoQ to ₹ 104.9 crore. In addition, its marriage service increased 19.1% QoQ to ₹ 0.6 crore. EBITDA margins increased 399 bps QoQ to 21.1%, which came in as a positive surprise. We like Matrimony due to market leadership in an underpenetrated online matchmaking segment. In addition, transition to online from offline, healthy subscriber addition, increased penetration in north, introduction of new products and inorganic opportunity are expected to be key revenue drivers (17% CAGR over FY21-23E). Further, expectation of stable advertising expenses and operating leverage benefit will lead to healthy margins (up 608 bps to 24% over FY21-23E). We value Matrimony at ₹ 1,350 i.e. 36x P/E FY23E EPS	1100	1350	Buy	23
SBI	Positive	SBI posted a steady operational performance in Q1FY22 with better-than-expected NIMs of 2.9% vs. estimates of 2.7%. NII, however, was in line with estimates due to flattish growth impacted by lockdown. Other income was up 24% YoY to ₹ 11803 crore and ahead of our estimates of ₹ 9900 crore. Opex declined sequentially due to low business activity. Thus, operating profit (PPP) came in at ₹ 18975 crore vs. estimate of ₹ 15702 crore. Credit cost was higher due to elevated slippages while net profit was at ₹ 6504 crore (up 55% YoY). Slippage rate was largely in line with private peers and guidance, 2-2.5% range, which is a positive considering current environment. We believe considering recovery gaining momentum from July 2021 onwards, the bank, by virtue of its strong liability franchisee, decent provisioning and levers to aid margins, should see improvement in overall operational performance. We value the bank at ~1.25x FY23E ABV and subsidiaries at ~₹ 180 per share to arrive at a revised TP of ₹ 540 per share	410	540	Buy	32

Source: ICICI Direct Research

The above companies posted a strong set of earnings in Q1FY22, which we believe are more fundamental and sustainable in nature.

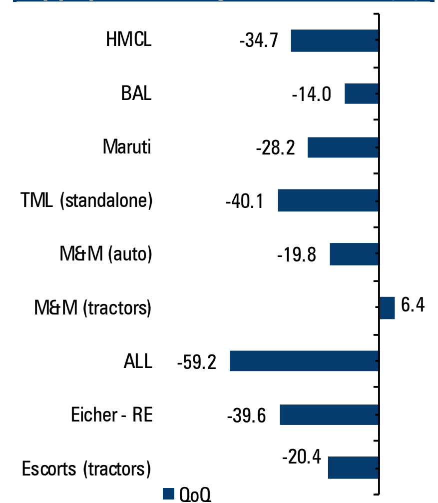
Sector specific takeaways from quarter

Auto & auto ancillary

Ex-Tata Motors, I-direct auto and ancillary coverage universe revenues were in line with estimates (down 21% QoQ) while margins were slightly below expectations (down ~260 bps sequentially to 9.9% vs. estimate of 10.4%). PAT declined more than anticipated, by 38.6% QoQ.

- Covid resurgence impacted the Q1FY22 performance of the auto sector via production cuts at the OEM level as well as curtailment of distribution activities amid state-level lockdowns. May, in particular, was a near washout month for the industry. Price hikes across the system (to pass on some of the runaway input cost inflation) led to better revenue readings vis-à-vis volumes, with margins impacted by the twin impact of higher raw material prices and negative operating leverage
- For Q4FY21, total industry sales were at 46 lakh units (down ~34% QoQ), with domestic dispatches down ~43% QoQ to ~32 lakh units & exports up ~4.4% QoQ to 14.2 lakh units. Domestic PV volumes fell 31% QoQ to ~6.5 lakh units (UV down 25.4% QoQ); 2-W volumes declined 45% QoQ to 24 lakh units (motorcycles down 38%, scooters down 57%). Domestic CV segment declined 50% QoQ to 1.05 lakh units (M&HCV down 64%, LCV down 41%) while 3-W volumes dropped 72% to 24,376 units
- Among OEMs, PV bellwether Maruti Suzuki disappointed across operational parameters amid miss on ASPs and higher-than-expected employee costs leading to subdued margin print of 4.6% (down 367 bps QoQ). In the 2-W space, market leader Hero MotoCorp posted muted numbers with sequential 3.3% ASP decline exacerbating topline drop (down 36.8% QoQ). A silver lining, however, was controlled other expenses (flattish QoQ at ~10% of sales). Bajaj Auto posted steady results that were broadly in line with estimates. Volume decline was limited to 14% (domestic down 33%, exports up 2%). Blended realisations were flattish while margins were at 15.2% (down 257 bps QoQ). Eicher Motors reported a better-than-expected performance led by 7% Royal Enfield ASP increase and ~130 bps gross margin expansion (vs. estimated ~70 bps decline; EBITDA margins at 18.4%)

Key player's volume growth – Q1FY22 (%)



Source: Company, SIAM, ICICI Direct Research

- M&M outperformed in the OEM pack by reporting sequential margin uptick of 63 bps to 13.9% (riding on ~210 bps higher gross margins). This was despite miss on automotive revenues due to 6% ASP decline. Escorts' results were ahead of estimates with 2% sequential tractor ASP increase being accompanied by flattish gross margins. Ashok Leyland delivered 3.3% ASP increase despite adverse product mix (M&HCV:LCV at 50:50 vs. 60:40 in Q4FY21). However, it disappointed on the margins and profitability front with loss at the EBITDA level tracking sharp negative operating leverage (volumes down 59% QoQ to 17,987 units)

Negative operating leverage also resulted in margin miss for JLR and Tata Motors' consolidated operations (down 631 bps to 9%, down 550 bps to 11% respectively). Revenues were down 25% QoQ (India down 40.6%, JLR down 24%) with consolidated loss after tax at ₹ 4,450 crore, which includes an exceptional tax charge

- Bharat Forge was the standout ancillary performer, with standalone revenues up 4.9% QoQ despite 4.2% tonnage decline amid 25.3% growth in exports revenues. Margins expanded 105 bps to 28.5% due to gross margin improvement. Balkrishna Industries delivered a healthy performance yet again, recording ~1% volume and 3.8% revenue increase with margin decline at 276 bps to 28.3%. Minda Industries' results were subdued and below estimates. Topline declined 28% with margins falling 432 bps to 9.2% despite ~140 bps gross margin expansion. Apollo Tyres posted revenue beat across operations but a steep ~440 bps standalone gross margin decline came as a negative surprise. Motherson Sumi's results were muted, characterised by margin miss at overseas subsidiaries (down 160 bps to 11.3% for SMR, down 140 bps to 7.3% for SMP)
- Q2FY22E started off on a positive note as state-specific unlocking gathered pace. In the event of limited further Covid-induced impact, the run up to the festive period should witness healthy demand traction across segments. However, impact on production due to semiconductor shortages and evolution of commodity costs (steel, aluminium, precious metals, rubber, etc) could impact the financial performance.

Banking sector

- Q1FY22 turned out to be broadly in line with estimates with slippages staying elevated, thus resulting into higher credit costs. Restructuring increased sequentially while management commentary suggests some more can come in the September quarter. Business growth was muted QoQ impacted by seasonality and lockdowns. PSU banks on overall basis outperformed private counterparts on asset quality, profitability but lost market share in terms of business (loans + deposits)
- With the second wave of the pandemic forcing yet another round of lockdown, asset quality in the banking space deteriorated especially in non-corporate segment. Slippages during the quarter for most large banks stayed in the 2-2.5% range while GNPA increased ~15-35 bps QoQ. Mid-sized MSME, MFI focused banks like Bandhan Bank, DCB Bank, IDFC First saw increased stress levels with GNPA rising ~50 –200 bps and restructuring book up ~1% QoQ. On an absolute basis, PSU banks saw marginal decline in GNPA while private banks saw ~5% QoQ rise

Bank of Baroda and Indian Bank witnessed stable asset quality among PSU peers in coverage while SBI saw ~34 bps QoQ rise

- As per latest management commentary, collections saw a decline in April and May 2021. However, from June 2021 onwards there has been meaningful improvement. Further, collections in July 2021 have reached ~95% for most lenders. Recent check bounce data for July 2021 suggest a decline from 36.5% to 33% MoM, indicating easing of stress, which is in consonance with the commentary of bankers
- Business growth remained muted with Q1 being a soft quarter seasonally while lockdowns due to pandemic further added to sluggishness. Sequential loan growth for most banks was flattish to mild negative (0 to -2%) while YoY overall growth was at the ~6% mark. Private banks continue to capture credit market share, up 190 bps YoY to 36.6%
- As per RBI data for June 2021, retail segment remained a healthy growth driver, in general, and saw uptick of 11.9% YoY. Within retail segment, secured loans – housing & auto loans remained in focus while gold loans witnessed a sharp rise. With government's focus to provide credit support to MSME segment and extension of ECLGS scheme, credit offtake has been strong at 54.6% in medium industries. Deposit growth on a yearly basis was at 9.8% YoY to ₹ 154.5 lakh crore, with continued improvement in CASA YoY but sequentially CASA ratio was flat

Margins were stable on overall basis with PSU banks in coverage witnessing flat to marginal rise

- On the operational front, NII growth was flat. NIMs were steady on an overall basis but microscopic view suggests some divergence from the average. PSU banks saw a flat to marginal improvement in NIMs while private players saw NIM change from -20 to +20 bps, barring few banks like Bandhan Bank, which saw a sharp rise on account of excessively weak margins in the previous quarter. Other income declined 17% QoQ due to lower fee income and recoveries
- Provisions were higher at ₹ 54621 crore (~2.2% of loans) owing to elevated stress accretion. Several banks have utilised Covid-19 provisions made earlier towards loan loss but large banks like HDFC Bank, IndusInd, SBI have added to provision buffer. Overall PAT was up 25.8% QoQ at ₹ 31329 crore, with PSU banks outperforming private banks on profitability front posting 44.9% QoQ growth to ₹ 14289 crore
- Overall, the quarter was marked by a slump in business activity in the first two months while June onwards improvement in general was seen. Asset quality decline was largely anticipated but healthy commentary on the recovery in collection efficiency is a positive. We believe asset quality should see an improvement as recoveries rise while there could be a marginal rise in restructuring. Overall, we believe profitability should improve with lower credit costs and increased business growth in H2FY22E

Exhibit 8: Financial summary of banking industry (private + public)

(₹ crore)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21
NII	1,22,837	1,16,593	1,23,255	1,20,370	1,22,012
Growth YoY	**0.7**	**3.6**	**12.4**	**18.3**	**28.6**
Other income	56,086	67,562	52,808	45,551	44,323
Growth YoY	26.5	15.8	2.6	-7.1	12.2
Total operating exp.	81,547	88,673	82,233	77,191	73,457
Staff cost	43,003	42,350	42,477	40,206	42,355
Operating profit	97,376	95,482	93,830	88,730	92,878
Growth YoY	4.8	14.7	10.3	10.7	34.6
Provision	54,621	61,563	58,073	51,721	62,308
PBT	42,756	33,920	35,757	37,010	30,570
PAT	31,329	24,909	26,296	26,810	21,492
Growth YoY	**45.8**	**NM**	**NM**	**191.0**	**89.0**
GNPA	7,87,771	7,85,467	7,17,790	7,70,186	7,86,344
NNPA	2,45,727	2,41,576	1,67,641	2,05,823	2,41,870
Advances (Lakh crore)	99.2	103.2	98.4	93.9	93.7
Deposits (Lakh crore)	142	142	136	133	129

Source: Capitaline, ICICI Direct Research

Higher stress and muted loan growth kept NII growth muted

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21
NII	71,141	66,421	72,972	72,030	70,571
Growth YoY (%)	**0.8**	**-0.5**	**9.1**	**20.3**	**30.1**
Other income	34,375	43,389	29,666	25,680	25,580
Growth YoY (%)	**34.4**	**18.0**	**-1.5**	**-11.8**	**22.6**
Total operating exp.	50,642	55,872	51,488	49,489	47,422
Staff cost	31,370	31,582	31,662	29,946	29,720
Operating profit	54,874	53,937	51,150	48,221	48,729
Growth YoY (%)	**12.6**	**25.0**	**1.5**	**6.1**	**38.1**
Provision	34,581	39,630	39,868	34,363	38,303
PBT	20,293	14,308	11,282	13,858	10,427
PAT	14,289	9,859	7,599	9,301	6,676
Growth YoY	**114.0**	**NM**	**NM**	**NM**	**NM**
GNPA	6,32,026	6,36,504	5,97,945	6,32,735	6,65,587
NNPA	1,95,845	1,94,393	1,43,120	1,73,043	2,04,870
Advances (Lakh crore)	63	67	64	61	62
Deposits (Lakh crore)	99	99	96	94	93

Source: Capitaline, ICICI Direct Research

Opex declined sequentially due to low business activity

Exhibit 10: Financial summary of banking industry (private)

(₹ Crore)	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21
NII	51,696	50,172	50,283	48,340	51,441
Growth YoY	**0**	**9**	**18**	**15**	**27**
Other income	21,711	24,173	23,143	19,872	18,743
Growth YoY	**15.8**	**12.1**	**8.3**	**-0.2**	**0.6**
Total operating exp.	30,905	32,801	30,746	27,702	26,035
Staff cost	11,633	10,768	10,815	10,260	12,634
Operating profit	42,502	41,545	42,680	40,510	44,149
Growth YoY	**-3.7**	**3.7**	**23.2**	**16.7**	**31.0**
Provision	20,039	21,933	18,205	17,358	24,005
PBT	22,463	19,611	24,475	23,152	20,144
PAT	17,040	15,049	18,697	17,509	14,816
Growth YoY	**15.0**	**166.9**	**NM**	**80.0**	**19.7**
GNPA	1,55,745	1,48,962	1,19,845	1,37,451	1,20,757
NNPA	49,882	47,183	24,520	32,780	36,999
Advances (Lakh crore)	36	36	34	33	32
Deposits (Lakh crore)	43	43	40	39	36

Source: Capitaline, ICICI Direct Research

Provisions remained elevated in Q1FY22

Capital Goods

- Overall, our capital goods coverage companies delivered a reasonable performance aided by regained operating activities and execution pick-up amid low base and pandemic challenges. Revenue of our coverage universe grew 43.9% YoY on a low base while EBITDA grew 61.5% YoY amid low base led by comparatively better favourable product mix, stages of execution and operating cost control measures. Adjusted PAT grew 114.1%, YoY partly aided by positive operating leverage, other income and base effect. While the operations were partly impacted by supply chain disruptions, limited labour availability, travel restrictions owing to second wave of pandemic, the companies saw input cost pressure due higher commodity prices
- L&T reported muted order inflows led by infrastructure orders while executions gradually regaining ground. Adjusted standalone revenue grew 60.8% to ₹ 13109 crore while standalone EBITDA margin improved 70 bps to 7.8% mainly owing to job mix and execution pick-up amid low base. However, L&T's consolidated revenue grew 38% YoY aided by a better performance from subsidiaries
- Power T&D companies like KEC, Kalpataru Power (KPTL) delivered a decent performance amid stable execution and controlled interest cost on a decent base leading to revenue, EBITDA, PAT growth of 12.6%, -8.3% and -12.6%, respectively, as margins were impacted by higher commodity prices. Product companies (AIA, Greaves, Thermax, Elgi, NRB, SKF, Timken) reported a further recovery despite pandemic impact led by continued rebound in demand coupled with positive operating leverage and cost restructuring initiatives significantly improving profitability. The consolidated revenue, EBITDA, PAT of these product companies grew 75.2%, 414%, 347.2%, respectively
- On the order inflow in front, L&T registered muted order inflows worth ₹ 26557 crore, up 13% YoY, led by EPC orders won in infrastructure segment. Bharat Electronics' order inflows came in at ~₹ 2619 crore. In the T&D space, KEC international and KPTL received orders worth ₹ 4401 crore and ₹ 865 crore for Q1FY22, respectively. Thermax' consolidated order inflow came in at ₹ 1696 crore (up 179% YoY) owing to broad based recovery of orders in several key sectors
- Thermax reported a steady Q1 performance on the back of decent execution, operating leverage while margins were impacted amid higher input costs. Consolidated revenue was up 58.3% with EBITDA margins up 6%. Broad based recovery in order inflows in key industrial/ manufacturing sectors likely to provide medium term revenue visibility
- In the bearing space, companies posted robust topline growth YoY amid low base. Further, margins were largely stable despite commodity inflation. This was largely led by multiple price hikes. Overall, revenue, EBIDTA & PAT for our bearings coverage (NRG, SKF, Timken) declined 14%, 17% & 21%, respectively, on a QoQ basis
- Other product companies like Elgi reported a healthy performance (consolidated revenue, EBITDA grew 71.1%, 270%, respectively) led by growth in international markets and improved performance in domestic business. AIA Engineering also reported a steady performance with revenue, EBITDA growth of 27.5%, 39.2% YoY, respectively, supported by rebound seen in non-mining volumes during Q1FY22
- As companies were resilient in withstanding the second wave impact on operational activities, we expect Q2FY22E to see a gradual improvement amid lockdown relaxations and supply chain normalising, though higher commodity price impact likely to continue. Order tendering momentum is expected to have some impact due order deferrals or delay in finalisation but are likely to be strong and lumpy in H2FY22E as bunched up orders in key sectors like power T&D, green energy corridor, railways, MRTS, renewables, water, infrastructure, etc, are likely to be awarded

In the shipping space, Cochin Shipyard posted a dismal set of numbers as it was operating on reduced time scale for large part of the quarter amid pandemic. CSL posted a revenue decline of 69.5% QoQ to ₹ 329.4 crore. EBITDA declined 91.9% QoQ to ₹ 20.9 crore. Ensuing PAT came in at ₹ 28.7 crore, cushioned by other income of ₹ 45.8 crore

On the defence front, Bharat Electronics reported muted numbers with revenue, EBITDA, PAT growth of -2.2%, -57.1%, -79.4% YoY, respectively, owing to disrupted supply chain impacting execution amid pandemic

Greaves Cotton's performance was aided by non-auto business as auto segment continues to face challenges amid sluggishness in 3-W engine volumes, BS VI transition and pandemic. Consequently, revenue grew 45.8% while it reported EBITDA loss of ₹ 6 crore amid lessor revenue booking and commodity price impact

On the working capital front, though capital goods companies have fairly managed their working capital situation despite challenges, they may still be focused on normalising working capital and customer collections to improve cash flow situation

Cement: Volume impacted due to curbs; realisations stay firm!

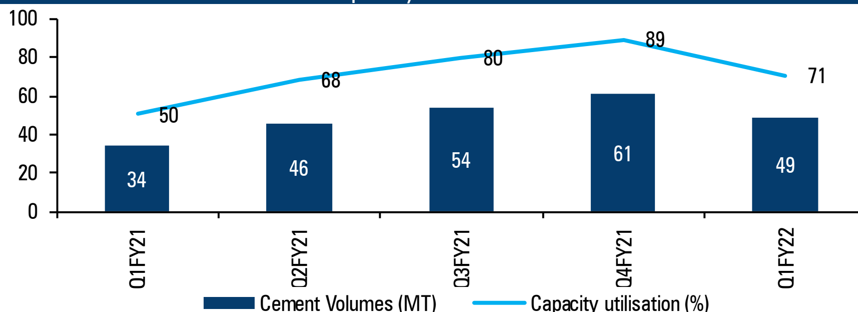
- The localised curbs in majority of the states impacted sales volumes in Q1FY22 that were down 19.6% QoQ with south based companies reporting the steepest decline of over 28% on a QoQ basis. However, sales volumes continued to remain at ~3.2% above pre-Covid levels indicating strong support from infra and housing demand. Key energy commodities like pet coke, imported coal and diesel, which together account for more than 55% of costs, rose sharply. This led to total cost increase of 3.1% QoQ. However, strong realisations (up 4.4% YoY, 5.6% QoQ) helped cement companies to keep the margins healthy at 26.7% (up 119 bps YoY, 178 bps QoQ). This clearly demonstrates player's capability to pass on the cost increase on to the consumer. Overall, the operational performance remained broadly better than our estimates

In terms of regions, the southern region saw steepest decline in the volumes (down 28.5% QoQ) as stringent curbs were in place compared to the rest of India with utilisation levels coming down to 53.6% vs 70% in Q4FY21. Remaining all other regions witnessed capacity utilisation over 76% vs. 94% reported in the previous quarter

- In terms of costs, sharp increase in petcoke prices (23% QoQ) led to the company switching to coal for their fuel requirement during Q1FY22. This, along with exhaustion of low cost petcoke inventories led to 3.1% QoQ jump in the cost of production to ₹ 3,962/t. While utilisation levels in the south remained lower than other regions, realisation growth remained far better (up 11% QoQ to ₹ 5,611/t) to offset against the volume loss and the cost pressure. Rest of the regions witnessed average realisation growth of 4.3% QoQ to ₹ 5,258/t. This helped the sector to sustain their margins above 26% for Q1FY22
- I-direct universe reported sales volume de-growth of 19.6% QoQ to 49.1 MT with reported capacity utilisation of 72.3% (vs. 91% in Q4FY21 and 51% in Q1FY21). Sharpest volume de-growth was posted by Ramco Cement (down 33% QoQ) followed by Ultratech (down 22.7%) and JK Cement (down 22.4% YoY). I-direct cement universe reported 5.6% QoQ growth in realisations (up 4.4% YoY) with companies operating in the south regions reported 11% QoQ increase in the realisations. In contrast, companies having higher share in the north reported average hike of 3.5% QoQ. Pan-India players like UltraTech, ACC, Ambuja reported average realisation growth of 5.6% sequentially
- Going forward, with easing of localised curbs and post end of monsoon, we expect a sharp rebound in demand. Overall, for FY22E, with favourable macro factors such as lower interest rates, higher budgetary allocation (up 26% to ₹ 5.5 lakh crore) for infra and normal monsoon, we expect cement demand to remain buoyant in FY22E

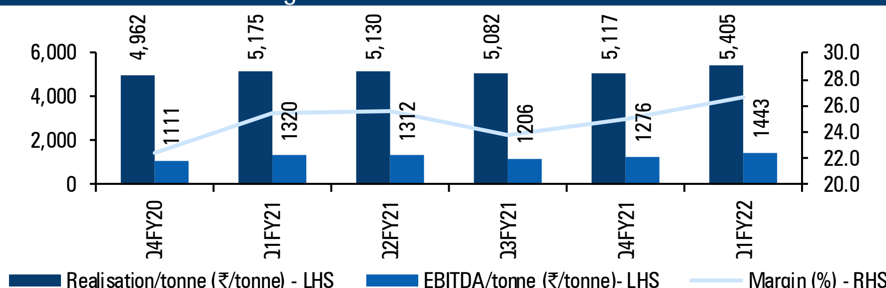
Revenues for I-direct coverage universe declined 15.2% QoQ to ₹ 26,521 crore with highest revenue de-growth reported by Ramco Cement (down 24.6%), JK Cement (down 20.4%) and JK Lakshmi Cement (down 18.1%). Average EBITDA/tonne of all south based companies (like Ramco Cement, Sagar cement) were up 20% QoQ ₹ 1,459/t led by sharp increase in the cement prices whereas north based JK Lakshmi reported 10% QoQ drop in the EBITDA/t. Shree reported average low single digit growth of 3% QoQ in EBITDA/t. **This quarter, Ramco Cement reported highest EBITDA/t of ₹ 1,700/t followed by UltraTech Cements EBITDA/t of ₹ 1,545/t and Ambuja Cement's EBITDA/t of ₹ 1,495/t.** Overall, on absolute basis, I-direct universe reported a 9% QoQ de-growth in EBITDA to ~₹ 7080 crore (up 58% YoY).

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Chemicals

- With rise in the oil prices during H1CY21, we have witnessed majority of our coverage companies experienced an improvement in the realisation primarily on the back of passing on input cost inflation. Further, better volume growth owing to encouraging demand environment across end user industries supported strong double digit top line growth for most of our coverage universe companies. Our chemical coverage universe reported topline growth of 26.8% YoY to ₹ 8283 crore. OPM for our coverage universe expanded by 153bps YoY to 20.4% leading to EBITDA growth of 37.1% YoY to ₹ 1694 crore. PAT grew by 82.5% YoY to ₹ 998.4 crore with NPM remained at 12.1% (+368bps YoY).

Key trends (company Specific):

- **Navin Fluorine:** The revenue growth from CRAMS business (up 97% YoY) remained healthy over the last few quarters largely on the back of better utilisation of cGMP3 capacity, while the same from speciality chemical was up 37% YoY to ₹ 133 crore. Both these lifted overall topline growth, which grew 52% YoY to ₹ 326.5 crore. EBITDA & PAT increased 45% YoY to ₹ 77.8 crore & 45% YoY, respectively, to ₹ 55.9 crore
- **Sumitomo Chemical:** Strong growth from herbicide (+67.2% YoY) owing to better pricing of glyphosate along with higher volumes led topline to grow at 20.7% YoY to ₹ 782 crore. Better product mix along with favourably pricing environment led to gross margin improvement of 140 bps, which assisted better operational performance for the quarter. OPM improved 90 bps YoY to 19.2%, resulting in EBITDA growth of 26% YoY to ₹ 149.8 crore. PAT was up 33% YoY to ₹ 105.7 crore owing to higher other income (+134% YoY)
- **Neogen Chemical:** Better utilisation of inorganic chemical (+55% YoY) led overall topline growth of 11% YoY to ₹ 84.6 crore. The revenue from organic chemical was up 3% YoY to ₹ 68 crore. OPM for the quarter expanded 80 bps YoY to 18.5% leading to EBITDA growth of 15% YoY to ₹ 15.6 crore. In terms of unit 1 at Dahej, all reactors installed and commenced production of initial commercial batches. It will start contributing to revenues from Q2FY22
- **Rallis India:** Strong growth in the domestic business (+32% YoY) owing to building up channel inventory led overall topline to grow at 11.7% YoY to ₹ 740.5 crore. The revenue from seed business was impacted during the quarter due to higher sales of HT cotton seed, which, in turn, impacted gross margins of the business. Gross margins declined 90 bps YoY to 38.8%, due to a change in the product mix while OPM contracted 300 bps YoY to 16.4% due to higher opex such as employee and other cost. EBITDA was down 5.3% YoY to ₹ 121.5 crore while PAT fell 10% YoY to ₹ 82.3 crore
- **Tata Chemical:** Better pricing environment owing to revival in the flat glass demand led topline to grow at 26.8% YoY to ₹ 2977.2 crore. Basic chemical revenues grew 30% YoY to ₹ 2172.8 crore led by strong growth across four business units. The India business reported a surge of 24.7% YoY to ₹ 794.8 crore while the same from North America, UK and Magadi was up 35.2% YoY, 28.8% YoY & 34% YoY to ₹ 837 crore, ₹ 407 crore & ₹ 134 crore, respectively. EBITDA margins improved 490 bps to 20.2% mainly due to operational leverage. Ensuing EBITDA increased 67% YoY to ₹ 601.2 crore. PAT was at ₹ 288 crore against ₹ 13.3 crore in Q1FY21
- **Aarti Industries:** Strong growth from speciality chemicals (+50% YoY) owing to better realisation and volumes led overall revenues to grow at 40.5% YoY to ₹ 1316.8 crore. The revenue from pharma business was up by 24% YoY to ₹ 240.2 crore. EBITDA margins improved 440 bps YoY to 23.8% owing to better gross margins (+140bps YoY) and operating leverage. EBITDA grew 72% YoY to ₹ 313.8 crore while PAT was up 101.3% YoY to ₹ 164.9 crore

PI Industries: Strong growth from CSM vertical owing to decent order backlog negated poor performance from the domestic formulation business. This, in turn, helped the company to report overall topline growth of 13% YoY to ₹ 1194 crore. The revenue from CSM was up 31% YoY to ₹ 807 crore while the same from domestic formulation remained lower by 13% YoY to ₹ 387 crore. In terms of domestic revenue break up, branded formulation was down 15% YoY to ₹ 293 crore owing to high base and delayed monsoon while Isagro reported a fall of 5% YoY to ₹ 94 crore. Higher employee and other cost dragged OPM by 80 bps YoY to 20.8%, resulting in EBITDA growth of 9% YoY to ₹ 248.9 crore. PAT was up 29% YoY to ₹ 187.2 crore owing to higher other income

Sudarshan Chemical: Strong growth from speciality (+32% YoY) and non-speciality (+33% YoY) pigments led topline to grow 34.5% YoY to ₹ 473.9 crore. Despite improvement in gross margins (+234bps YoY) owing to better export mix, EBITDA margins contracted 190 bps YoY to 13.1% due to higher other operating cost (+74% YoY) such as freight and power cost. EBITDA was up 28% YoY to ₹ 63.5 crore while PAT increased 44% YoY to ₹ 26.2 crore owing to lower taxes (29.2% vs. 34.5% in Q1FY21)

Vinati Organics: Strong growth from ATBS owing to higher volumes led overall topline to grow at 67% YoY to ₹ 386.4 crore. High cost inventories such as phenol, acrylonitrile impacted gross margins (-1880 bps YoY) and thereby operational performance (-1570 bps YoY). EBITDA was up mere 4% YoY to ₹ 101.5 crore while PAT remained higher by 12% YoY to ₹ 80.9 crore

Consumer Durables

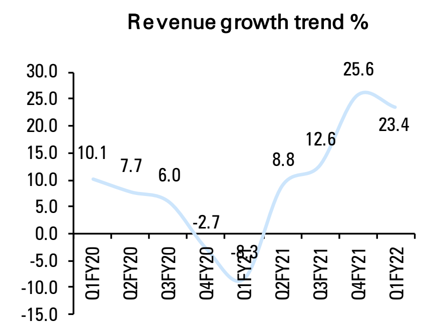
- The consumer discretionary (CD) universe in Q1FY22, reported a strong performance on the revenue front. The CD universe reported revenue growth of 73% YoY much ahead of our estimate of 51% largely on a favourable base. The CD universe recovered ~89% to its pre-Covid level sales. The paints & adhesive packs have led overall revenue recovery in the range of 87-109%. However, revenue recovery of fast moving electrical goods (FMEG) products was in the range of 55-80%
- The cooling product companies have faced peak season sales losses in May 2021 amid lockdown, which dragged the overall FMEG recovery. Under our coverage, Havells India reported one of the best revenue recovery of 97% to pre-Covid level sales followed by Crompton Greaves Consumer & Bajaj Electricals at 80% each. AC major Voltas could reach ~55% of its pre-Covid sales
- On the piping front, during Q1FY22, volatility in PVC prices restricted fresh inventory build-up at the dealer level. Among piping companies, Astral reported one of the best performance in the industry with volume growth of 13% YoY. We believe the lean inventory position would help in a faster recovery of piping volumes for the rest of FY22, further aided by easing of lockdown restrictions in the southern region

On the margin front, paint companies witnessed a sharp gross margin contraction in Q1FY22 due to steep rise in input prices. Within the coverage universe, improved operating leverage and cost optimisation measures helped drive EBITDA margin of Berger and Kansai Nerolac by 337 bps YoY and 92 bps YoY, respectively. On the FMEG front, Bajaj Electrical witnessed a delay in margin recovery in its consumer products segments due to low gross margins and various one off expenditures (such VRS, logistics costs etc). However, the management has maintained its segment margin guidance of 9%+, going forward. The coverage EBITDA margin at 13.8% was lower than our estimate of 15%

FMCG

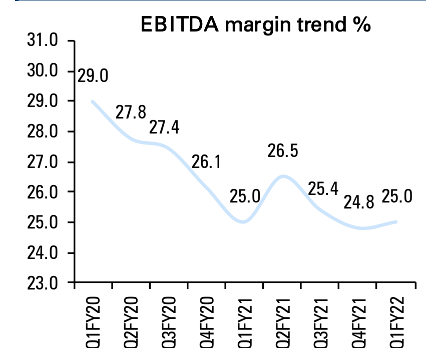
- Our FMCG coverage universe witnessed 23.4% revenue growth on a low base given sales was adversely impacted during national lockdown in corresponding quarter. On a sequential basis, revenues were down 1.8% with some impact of second Covid-19 wave on discretionary categories. However, high pricing growth on the back of rising raw material prices offset the impact of sub-par volumes. In our coverage universe, Dabur witnessed very strong growth across categories surpassing pre-Covid level sales. Some of the essential categories like edible oil, staples, noodles, salt, oral care saw strong volume growth during the quarter. Tea, soaps, hair oils witnessed higher pricing growth given the companies have partially passed on steep increase in commodity costs. Marico also saw strong 31.2% revenue growth with sustainable growth in edible oil & food categories whereas hair oils segment saw complete volume recovery
- Discretionary categories like skin care, cosmetics, detergent witnessed strong sales growth but continued to remain below pre-Covid levels. Similarly, 'out of home' & 'on-the-go' categories like carbonated drinks, juices, cigarettes saw sharp recovery from extremely low base quarter. However, volumes still remained below pre-Covid levels. The second Covid-19 wave had adversely impacted rural growth but recovery in June & subsequent months was also steep. E-commerce channel continued to see high growth (50-100%) with acceleration of online shopping trend. The channel now contributes 6-9% of FMCG companies' sales compared to ~2-3% in pre-Covid scenario. The companies continued to focus on new products, which have been launched in the last one year. FMCG companies are making efforts to increase the direct distribution network to increase the penetration of some of the under-penetrated categories through smaller SKUs
- Q1FY22 continued to see steep increase in raw material prices like palm oil, rice bran, copra, milk and tea. The raw material prices were up 30-50% on a YoY basis. Though copra & tea prices started coming off from the peak, it still remained much higher compared to the base quarter. This adversely impacted the gross margins by 200 bps for our FMCG coverage universe. The sharpest contraction in gross margins was 783 bps for Marico, 395 bps for Tata Consumer, 674 bps for VST Industries & 311 bps for ITC

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



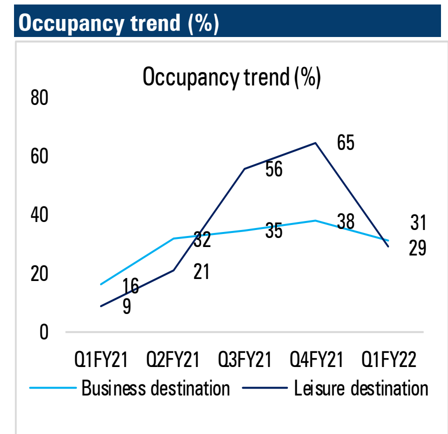
Source: Company, ICICI Direct Research

- On the other hand, Colgate saw a 231 bps improvement in gross margins given favourable sorbitol prices. Moreover, Nestlé & Zydus were able to maintain their gross margins with the strategy of procuring skimmed milk powder (SMP) in the off-season. Our FMCG universe saw flattish operating margins with continued savings programme and tweaking of media spends
- The impact of the second wave was limited to the extent of few discretionary categories. Moreover, supply chain & manufacturing remained largely unhindered during the quarter. We believe demand recovery for discretionary products would be steep in H2FY22. The biggest concern for FMCG companies is elevated commodity prices, which have adversely impacted gross margins in Q1FY22 and would continue to impact margins in coming quarters. Given demand is still below optimum levels, the companies may not fully pass on the commodity price increase immediately. Further, the scope for cost cutting measures remains limited given companies have already cut down costs in last one year. We believe sales would recover across categories in H2FY22 while gross margins & subsequently operating margins would continue to remain under pressure for the rest of FY22

Hotels: Severely hit by Covid again

- The second wave of Coronavirus has had a severe impact on hotel bookings in India on a QoQ basis. However, the extent of the impact was somewhat lower compared to that seen in Q1FY21. A complete travel ban from foreign countries and corporates adopting a work from home policy has continued impact on the business destinations with reported occupancy levels of 31% vs. 39% reported in Q4FY21. While severe travel restrictions imposed from March 2021 led to occupancy levels of leisure destination coming down to 29% vs. 65% in Q4FY21. Overall, the average revenue of I-direct universe declined 48% QoQ to ₹ 466 crore for the quarter while it improved 119% YoY on a very low base
- A majority of the costs of the hotel industry is fixed (~70% of total costs), with power/lighting and employee costs taking the major share. As a result, our I-direct coverage universe reported EBITDA loss of ₹ 246 crore. However, stringent cost controls taken during the last one year helped companies (I-direct coverage) to save operational costs of ₹ 141 crore on a YoY basis
- While Q1FY22 remained a washout quarter for the sector, the sector saw a sharp pick-up in the business with settling down of Corona cases from July 2021 onwards. Going forward, we expect a better demand recovery mainly in tourist destinations than in business destinations. Corporate travel will take a couple of quarters to recover as major companies are continuing with their work from home policy at least till H1FY22 while curbs on visa and progression of Covid-19 in India will impact influx of foreign travellers. However, this will majorly be offset by an influx of revenge travel in the domestic segment along with the demand emanating from wedding season from H2FY22 onwards. From a longer term perspective, opening of new supply would also be delayed or cancelled, which bodes well for the strong established players. Further, hotel players are now leaner in terms of costs that are sustainable in nature. This, coupled with reduced room supplies, would make strong players even stronger in the long run

Occupancy trend (%)

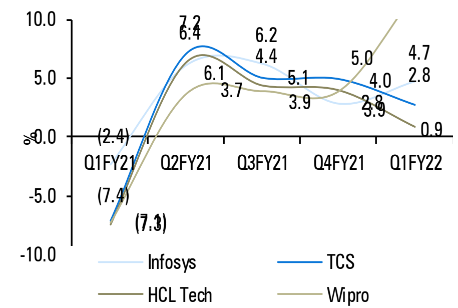


Source: Crisil, ICICI Direct Research

Information Technology

- IT companies continued to report robust growth with Tier-2 companies growing at almost double the rate of Tier-1 companies on organic basis. In the quarter, Tier-I companies grew 5.2% QoQ (3% on organic basis) and Tier-II companies grew 8.2% QoQ (6% on organic basis). Wipro and Coforge reported robust numbers up 12.2%, 15.8%, respectively, led by acquisition. Even on organic basis Wipro, Coforge grew ~4.9%, 7.6% QoQ, respectively. In addition, one of the key themes that was observed in Q1 results was that there was much higher visibility of revenues based on strong deal wins and hiring trends (net hiring of Tier 1 & Tier 2 IT companies has increased by 38% QoQ). The acceleration in order book and deal pipeline (for tier 1 & tier 2 companies) continues to be strong led by traction in large deals, increase in deal sizes and increase in spending by enterprises on cloud migration & digital technologies. This has given companies confidence of achieving double digit growth in FY22E. It has also encouraged many companies to revise guidance upwards. Large caps like Infosys are revising revenue guidance upwards from 12-14% to 14-16% while midcaps like Coforge are revising organic growth guidance upwards from 17% YoY to 19% YoY
- In the current quarter growth was led by BFSI, retail, hi-tech, communication & healthcare. Even verticals that were laggards like travel and energy & utilities are seeing healthy traction. Going forward, we expect BFSI, retail, communication and manufacturing to witness improved traction due to cloud migration and customer experience. We believe travel & hospitality vertical would continue to witness improved traction. In terms of geographies, growth was led by North America and European region. We believe increased outsourcing trend in European region will be key driver of revenues for IT companies
- We expect digital to be a key theme across verticals but most IT companies have stopped reporting digital revenues saying that most deals are now digital. We believe digital, on an average, now accounts for more than 45% of IT companies' overall revenues and will be a key driver of revenues
- Tier-1 & Tier-2 companies have witnessed a decline in margins (down 40-50 bps QoQ) mainly due to wage hike, Covid related expenses and higher attrition. The only aberration to this trend was HCL Tech which reported 230 bps increase in margins due to one offs. Adjusting for the one off HCL Tech's margins declined 80 bps QoQ
- IT companies are witnessing improved traction in digital technologies (key driver of IT company's revenue growth). We believe we are in the first phase of a multi-year technology transformation phase driven by digital technologies. In the current phase, enterprises are building a cloud-based foundation that will serve as a resilient, secure, scalable digital core. In subsequent phases, enterprises will see new age technologies developed around cloud to lead to new business models and differentiated customer experiences. Hence, we believe IT companies are poised to see multi-year revenue growth in coming years
- Apart from traction in digital technologies, the European region has seen improved traction in the current quarter. Going forward, we expect IT companies to witness improved revenues from this region due to increase in outsourcing trends (visible in large lift and shift deals like Daimler Infosys, Metro AG Wipro and Postbank TCS) and focus of IT companies to expand in the geographies. This, coupled with vendor consolidation opportunities and offshoring & automation (for cost take out deals) are other key revenue drivers for IT companies. In addition, one of the key trends that we witnessed was growing acceptance of offshoring among IT clients. This coupled with robust revenue growth bodes well for margin growth in coming years and could also help in countering wage hike, attrition & other retention expenses

Dollar revenue growth trend



Source: Company, ICICI Direct Research

In this quarter Firstsource (a BPO company) reported subdued revenue growth. However, with recovery in healthcare & improvement in communication, media & technology FSL has guided revenue growth of 15%-18% YoY in FY22E (includes inorganic growth of ~1.5%)

IT companies are witnessing increase in attrition, which has led to many companies announcing increase in variable pay and higher retention expenses. We believe retention of talent will be key to cater to demand. We believe that robust revenue growth, offshoring, increase in fresher hiring (Tier-1 expected to hire 1.2 lakh fresher in FY22E) and other operating efficiencies will enable companies to mitigate the headwinds due to retention expenses

Infrastructure and real estate

Infrastructure

- **Strong revenue growth on benign base; QoQ impact on second wave**: On a YoY basis, EPC players have reported strong growth with comparatively better labour availabilities and smoothening of raw material supply chain. Execution pace, however, was briefly disrupted due to lower labour efficiencies steered by lockdown-like situation across key states with second-wave. Overall revenue of our roads & construction universe improved 74.7% YoY to ₹ 7,194 crore (down 30% QoQ). Additionally, overall EBITDA margin got normalised to 11.1% (up 74 bps YoY; down 10 bps QoQ). Key outperformers were **a) HG Infra Engineering -** reported revenues growth of 206% YoY largely aided by its comfortable order book position and pick-up in execution with receipts of appointed date in most projects. **b) KNR Constructions -** delivered 54.4% YoY growth in topline, best-in-industry 19.4% EBITDA margin, and **c) PNC Infratech -** posted 38.2% YoY revenue growth, normalised 14% EBITDA margin, backed by execution pick-up
- **Strong order books positions; healthy inflows likely with strong pipeline:** Despite muted inflows in Q1, order book (OB) position for majority of infrastructure companies under coverage remains healthy (overall OB/TTM revenue at ~5x). Among key companies, a) HG Infra Engineering: OB comfortable at ₹ 6,144 crore (2x OB/TTM bill); targeting incremental order inflows of ₹ 5,000-6,000 crore during rest-FY22 (excluding already won project of worth ₹ 1,393 crore secured post June 2021), b) KNR Constructions: OB was robust at ₹ 11,679 crore (3.9x OB/TTM revenue), with ₹ 1,042 crore of inflows secured in Q1FY22. It is targeting order inflows worth ₹ 2,000-3,000 crore in rest-FY22 mainly from roads segment, c) PNC Infratech: OB healthy at ₹ 15,522 crore (2.9x OB/TTM revenues). The company has guided for order inflows of ₹ 8,000-9,000 crore during rest of FY22, which is likely to further strengthen its OB position, and d) Ashoka Buildcon: OB as on June-end was at ₹ 9,472 crore (1.7x OB/ TTM revenues), with ₹ 2,078 crore of inflows secured in Q1FY22. Additionally, the company has won order worth ₹ 1,031 post Q1. Going forward, the management has guided for incremental order inflow of ₹ 4,000 crore in the rest of FY22

Additionally, players have guided for decent order inflows during rest of FY22E with strong order pipeline from NHAI (for roads segment) and various state government (for water and railway/metro projects)

Real Estate

- **Sales Volume:** Q1 witnessed weak sequential sales volume owing to second wave. Brigade Enterprises reported sales volume of 0.77 mn sq feet, strong growth of ~91% YoY and decline of 54% QoQ. Pre-sales (sales value) were up ~92% YoY (down 53% QoQ) at ₹ 480 crore, with realisations up 5% YoY at ₹ 6275/square feet (led by project mix and price hikes). Oberoi Realty (ORL) reported sales volume of 0.9 lakh sq ft (up 6.5x YoY on washout base of Q1FY21 but down 91% QoQ) largely due to second wave impact and high base of Q4FY21. It had a couple of launches including a big launch at Goregaon
- **Commercial segment stable; Mall closure due to second wave impacts rental: Brigade's** overall lease rental had rental revenues at ₹ 112 crore, down 8% YoY, owing to mall closure impact. With lockdown led closure in Q1FY22 owing to second wave, BEL indicated that with the reopening of malls in July 2021, consumption improved to 90% of pre-Covid levels currently. The management expects retail business to normalise by Q3FY22. For **Oberoi Realty**, operations of Oberoi Mall were severely impacted during Q1FY22 in view of the lockdown enforced due to the second wave of Covid19 pandemic. The company has not recognised the revenue from the non-operational stores in the mall. Commercial segment was stable. For **Phoenix Mills**, retail revenues grew ~12% YoY but were down ~57% QoQ at ₹ 115.3 crore due to mall closure while hospitality revenues were up 57% YoY but declined ~49% QoQ at ₹ 15.1 crore. Commercial remained a resilient segment, which witnessed revenue growth of ~61% YoY at ₹ 36.2 crore

On the financial front, revenues of our real estate universe grew 91% YoY (down 56% QoQ) to ₹ 871 crore while EBITDA was up 78% YoY (down 58% QoQ).

Logistics

- Logistics universe witnessed a decline in revenue on a sequential basis due to a broad based decline in production and demand among key customer industries amid the second wave of the pandemic. Logistics coverage universe saw a subdued QoQ performance during the quarter, which is also visible in the lower generation of E-Way bills (April-June 2021 decline of ~10%). For our Logistics coverage universe (ex-Concor), revenue, EBITDA, PAT declined 17%, 20%, 25% QoQ, respectively. TCI was the outperformer with 90 bps QoQ expansion in EBITDA margin to all time high margin of 11.6%. TCI Express, however, registered a decline of 500 bps YoY in EBITDA margin to 14.4% in Q1FY22.

Among other key developments in the sector, the management of Concor alleviated concerns over the LLF issues by stating that it is in discussion with the Indian Railways (IR) to lease 24 terminals on IR land for 35 years, with a one-time payment ranging in ₹ 6000-7000 crore. Concor is expected to raise debt in the range of ₹ 3500-4000 crore for covering the said transaction

Key trends (company Specific):

- **TCI Express:** Truck utilisation dipped to 83.5% during Q1FY22 vs. 86.5% in Q4FY21 but utilisation levels have rebounded in July. Pune sorting centre (1.5 lakh sq ft) has been operationalised in Q1FY22. Further, the management expects to commercialise the Gurgaon facility from Q3FY22 (automated). TCIEL has begun providing offerings such as cold chain express (for catering to pharma sector and would be asset light), air express division, customer to customer (C2C) express logistics (earned ₹ 50 crore revenues in FY21). The company expects a meaningful ramp-up in these divisions in 12-18 months while continuously investing in building capabilities (IT, infra, etc) for each of the divisions
- **Mahindra Logistics (MLL):** Focus on customer retention, new account acquisition and cost reduction offset the impact of regional lockdown, high commodity and fuel cost. Freight forwarding business saw higher volumes on exim front. Warehouse space under management was at 18.1 mn sq ft (17.7 mn sq ft in Q1FY21). Warehousing revenues (20% of SCM revenues) dipped mere 4% QoQ vs. transportation dip of 12% (80%). Mahindra SCM revenues (52% of SCM revenues) de-grew 12% QoQ while non-Mahindra SCM revenues de-grew 9%

Transport Corporation of India: The TCI management indicated that inventory build-up has begun in July due to the upcoming festive season. Movement in July is back to last year's levels and 75% of March 2021 levels. On the shipping segment, the management expects dry dock of ships to start from Q2FY22 onwards (one ship per month). Also, TCI is receiving queries from automotive customers regarding 4PL opportunity; and 3PL from chemical, FMCG companies.

Container Corporation of India: It was the best ever Q1 achieved by the company. Concor saw strong YoY volume growth (35%) in spite of the realisation hike taken by the company at its Tughlakabad terminal in Q3FY21. The company has paid land licence fees (LLF) charges to the tune of ₹ 113 crore and expects the year to end with ₹ 375 crore payable to Indian Railways as LLF (against ₹ 450 crore). Strong volume and realisation growth along with lower LLF charges & cost control measure led to a EBITDA margin of 24% vs. expectation of 21.5% margins

Media

- Media sector saw weakness as second wave impacted both broadcasters (lower ad revenues QoQ) & multiplexes. Broadcasters, while growing strongly on washout base, witnessed sharp decline QoQ. Multiplexes which were shut from third week of April, had a washout quarter
- **Broadcasters:** Zee's ad revenues grew 120% YoY to ₹ 927 crore, on depressed base of Q1FY21 (declined ~65%). The QoQ decline in ad revenues is ~17.5% and is ~22% lower than pre-Covid levels (Q1FY20), owing to second wave impact. Overall subscription revenues grew 2% YoY to ₹ 813 crore, largely driven by digital business. EBITDA came in at ₹ 344 crore, up 56% YoY basis on depressed base with margins at 19.4% (down 813 bps QoQ). Sun TV's revenues (ex- IPL) at ₹ 686 crore were up ~13% YoY, down ~12% QoQ, with ad revenues up ~94% YoY to ₹ 244 crore, on a depressed base of Q1FY21 but down 23% QoQ (still ~34% below pre-Covid levels). Subscription revenues declined 6% YoY to ₹ 415 crore EBITDA was at ₹ 495 crore, up 19% YoY on a depressed base with margins at 61.1% (down 762 bps YoY, 882 bps QoQ), due to higher operating costs

TV Today's topline at ₹ 203.9 crore was up 21.6% YoY on a benign base (decline of 32%). TV broadcasting revenues came in ₹ 162.8 crore (up 18% YoY). Radio revenues were at ₹ 3 crore, witnessing 10x YoY growth on washout base. The key growth driver was digital segment, which continued its growth momentum with 38% growth YoY to ₹ 38.1 crore. EBITDA came in at ₹ 52.3 crore, up 74% with margins of 25.7% (up 776 bps YoY on depressed base and up 246 bps QoQ) on operating leverage.

- **Multiplexes:** The business of multiplexes was affected due to closure of malls from third week of April, 2021 on account of second wave. PVR's reported revenue came in at ₹ 59.3 crore, (67.3% QoQ de-growth). EBITDA loss (without impact of Ind-AS116) was at ₹ 121.5 crore against EBITDA loss of ₹ 127.7 crore in Q4 as it has provided for lower rental expenses given they are under negotiation with landlords for waivers. Inox' reported revenue was ₹ 22.3 crore (75% QoQ de-growth). The company reported box office revenue of ₹ 12 crore while F&B revenue was ₹ 6 crore.EBITDA loss (without impact of Ind-AS116) came in at ~₹ 107 crore. On a reported basis, EBITDA loss was ₹ 51.6 crore.

Metals & Mining

- The metal and mining sector reported a strong Q1FY22 performance primarily on account of healthy realisations. During the quarter, the aggregate topline of our coverage universe increased 87% YoY and 2% QoQ while the aggregate EBITDA increased 316% YoY and 7% QoQ. For Q1FY22, aggregate EBITDA margin of coverage universe was at 28.6% compared to 12.8% in Q1FY21 and 27.3% in Q4FY21
- For Q1FY22, Tata Steel reported consolidated topline of ₹ 53372 crore (up 110% YoY, 7% QoQ), while consolidated EBITDA for Q1FY22 was at ₹ 16111 crore (up 14% QoQ). For the quarter, Tata Steel's standalone operations reported EBITDA/tonne of ₹ 35558/tonne, compared to EBITDA/tonne of ₹ 27775/tonne in Q4FY21 & ₹ 5920/tonne in Q1FY21. For Q1FY22, Tata Steel European operations reported EBITDA/tonne of US$89/tonne vs. US$66/tonne in Q4FY21. For Q1FY22, ensuing consolidated net profit of Tata Steel was at ₹ 9768 crore, up 36% QoQ
- JSW Steel reported a healthy performance in Q1FY22. JSW Steel's consolidated topline for Q1FY22 was at ₹ 28902 crore, up 145% YoY, 7% QoQ, while consolidated EBITDA was at ₹ 10274 crore, up 666% YoY, 22% QoQ. Consolidated EBITDA margin were at 35.5% in Q1FY22, up 420 bps QoQ. For Q1FY22, on a standalone basis, JSW Steel reported sales volume of 3.6 MT (down 3% YoY), while standalone EBITDA/tonne stood ₹ 26291/tonne compared to ₹ 8703/tonne in Q1FY21 & ₹ 19756/tonne in Q4FY21. For Q1FY22, ensuing consolidated net profit of JSW Steel was at ₹ 5900 crore, up 41% QoQ
- For Q1FY22, both Hindalco's India business & Novelis reported a healthy performance. For Q1FY22, Hindalco's India business reported topline of ₹ 13349 crore (up 75% YoY, down 8% QoQ), while EBITDA was at ₹ 2614 crore (up 151% YoY, 22% QoQ). For Q1FY22, Hindalco's wholly owned subsidiary Novelis' total flat rolled product shipments was at 973 kilotonnes (KT), up 26% YoY while adjusted EBITDA/tonne was at US$522/tonne vs. EBITDA/tonne of US$514/tonne in Q4FY21

During Q1FY22, base metal prices improved both QoQ and YoY. During the quarter, average zinc prices on the LME were at US$2916/tonne, up 48% YoY, 6% YoY, while average lead prices were at US$2129/tonne, up 27% YoY, 6% QoQ. Similarly, during the quarter, average aluminium prices on LME were at US$2401/tonne, up 60% YoY, 15% QoQ while average copper prices on the LME were at US$9696/tonne, up 81% YoY, 14% QoQ..

Overall for Q1FY22, Hindalco reported consolidated topline of ₹41358 crore (up 64% YoY & 2% QoQ), while Hindalco's consolidated EBITDA was at ₹ 6697 crore (up 126% YoY and 14% QoQ). For Q1FY22, Hindalco's consolidated net profit from continuing operations was at ₹ 3254 crore (up 67% QoQ)

Oil & Gas

- Oil & gas sector companies reported decent set of numbers on the profitability front during Q1FY22. Profits for most of the oil marketing companies (OMC) were better than expectations driven by higher profits from marketing segment and inventory gains. City gas distribution (CGD) companies' results were mostly better than estimates except one company where profitability was below estimates. Upstream companies' operational profitability improved on account of high oil prices
- On the OMCs front, better profitability from the marketing segment negated the poor performance from the refining segment. The refining throughput was lower QoQ and marginally below estimates on account of Covid second wave. Core GRMs continued to disappoint as global product cracks (mainly diesel) were at lower levels. The reported GRMs was lower QoQ as there were lower inventory gains compared to Q4FY21. In the marketing segment, marketing margins improved QoQ as higher crude oil costs were passed on to customers
- Sales volumes of CGD companies were largely in line with our estimates except one CGD company that reported sales below our estimates. The industrial and domestic PNG segment continued to do better as CNG volumes were impacted QoQ due to Covid second wave. On the margins front, all CGD companies showed improved performance on increase in realisations and lower gas costs

Key parameters in Q4FY21

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Singapore GRMs ($/bbl)	-1.0	0.1	1.2	1.8	2.1
Crude Oil ($/bbl)	31.4	42.8	44.6	60.7	68.6
APM Gas (NCV) (US$/mmbtu)	2.6	2.6	2.0	2.0	2.0

Source: Bloomberg, ICICI Direct Research

Domestic oil & gas production witnessed a decline QoQ on account of ageing oil fields and impact of a vivid second wave. Realisation of upstream companies sharply increased by ~12% QoQ leading to higher revenues QoQ. Gas realisation was stable QoQ. Subsequently, operating profits improved on a QoQ basis. On the PAT front, one upstream company's profits declined QoQ as base quarter was aided by exceptional income

Pharma

- I-Direct Healthcare universe (12 coverage stocks) revenues grew 17.2% YoY to ₹ 46,673 crore. Substantial growth in the domestic branded formulations was driven by Covid portfolio and spike in patient footfall at the hospitals being offset by decline in the US amid lack of meaningful launches and logistics disruptions. Similarly, API was under pressure for the whole quarter due to higher base on a relative basis and disruption in supply for KSMs despite 'China+One' factor
- Indian formulations grew 44.9% YoY to ₹ 12,258 crore on the back of 1) traction from Covid product sales, 2) traction from chronic sales and 3) recovery in acute segment. Adjusted US business (select pack Ex-Natrol from Aurobindo) de-grew 1% YoY to ₹ 11,678 crore due to 1) increased competition 2) logistics disruption and 3) lack of meaningful launches. As per the common thread from various management comments, US base business price erosion seems to have stabilised but not eliminated
- On the other hand, API segment witnessed a substantial decline with overall sales de-growth (select pack) at 6.2% YoY to ₹ 4,300 crore, amid higher base and opportunities stemming from Chinese vacuum that seem to be normalising besides the impact of excessive stocking in H1FY21. Europe sales growth was at 13.1% YoY to ₹ 2,673 crore. Hospitals witnessed surge in patient's footfall due to a second Covid wave, which boosted the revenue growth sequentially
- Out of 12 selected covered companies, only four reported above 15% YoY revenue growth. Company specific growth, Sun Pharma – 28.1% (strong growth across formulations), Lupin – 21% (one-off revenues, revival in domestic business) and Cipla – 26.6% (driven by core therapy portfolio & Covid)
- On the margins front, EBITDA margins improved merely by 46 bps YoY to 23.7% for I-direct universe (select pack) due to lower margins in Covid portfolio and pricing pressure in US. Lower employee expenses and promotional activities along with cost rationalisation efforts kept the margins steady this quarter. Subsequently, EBITDA grew 19.5% YoY to ₹ 11,062.1 crore. Going ahead, costs related to promotional/marketing activities are likely to return to pre-Covid levels as the pandemic situation continues to ease out and MR activity normalises. Net profit grew 33.6% YoY to ₹ 6,726.6 crore mainly due to a strong operational performance and lower interest cost

Sales from India, US and Europe

India					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Alembic	481	306	57.2	358	34.4
Cadila	1,357	829	63.6	1,023	32.6
Ipca	613	489	25.2	434	41.4
Lupin	1,636	1,285	27.3	1,287	27.2
Cipla	2,710	1,608	68.5	1,807	50.0
Dr Reddy's	1,060	626	69.3	845	25.5
Sun Pharm	3,308	2,388	38.5	2,671	23.9
Torrent	1,093	925	18.2	922	18.5
Total	12,258	8,457	44.9	9,346	31.2
US					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Alembic	369	596	-38.1	475	-22.3
Aurobindo	2,681	3,107	-13.7	2,856	-6.1
Cadila	1,451	1,623	-10.6	1,509	-3.8
Cipla	1,038	1,021	1.7	1,002	3.6
Lupin	1,333	1,216	9.6	1,495	-10.8
Dr Reddy's	1,739	1,728	0.6	1,749	-0.6
Sun Pharm	2,800	2,136	31.1	2,695	3.9
Torrent	266	373	-28.7	269	-1.1
Total	11,678	11,801	-1.0	12,050	-3.1
API					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Aurobindo	812	780	4.1	794	2.2
Alembic	279	264	5.7	214	30.4
Cadila	136	131	3.5	140	-2.9
Divi's Lab	842	894	-5.8	917	-8.1
Ipca Labs	414	513	-19.3	260	59.4
Lupin	246	409	-39.9	256	-3.8
Cipla	302	184	64.1	224	34.8
Dr Reddy's	754	855	-11.8	792	-4.7
Natco	62	144	-57.2	71	-13.0
Sun Pharm	515	554	-7.0	436	18.2
Total	4,300	4,584	-6.2	4,031	6.7
Europe					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Aurobindo	1,583	1,322	19.7	1,553	2.0
Cadila	60	49	22.5	63	-4.3
Cipla	252	240	5.0	249	1.2
Dr Reddy's	399	355	12.5	396	1.0
Lupin	119	150	-21.1	165	-28.0
Torrent	260	246	5.7	267	-2.6
Total	2,673	2,363	13.1	2,692	-0.7

Source: Company, ICICI Direct Research

Retail

- For Q1FY22, retail sector witnessed another challenging quarter with sales declining 55-60% QoQ. Revenue recovery rate, which had reached 85-90% for majority of the apparel retailers in Q4FY21, plummeted to ~35-40% in Q1FY22. Covid induced lockdowns due to second wave put the brakes on growth momentum as store operational days dropped to <50% in Q1FY22. However, on the positive side, post relaxations in lockdowns, companies are witnessing a swift recovery in footfalls. Revenue recovery rate in July is hovering in the range of 75-80%, post relaxation from June. The current recovery appears to be faster in comparison to the previous year as companies had taken several months after re-opening (post the first wave) to reach 75-80% of pre-Covid levels. The key positive during the quarter was higher than anticipated gross margins, despite inflationary pressure on raw material prices

Key trends (company specific):

- **Titan Company:** The jewellery division (excluding gold bullion sale) reported 115% YoY revenue growth (~63% recovery rate on base of Q1FY20). With a gradual lifting of restrictions on stores, sales have bounced back sharply towards Q1 end with good momentum till date. Cash position continues to be at healthy levels (₹ 2000+ crore)

- **Trent:** Fashion business (Westside, Zudio) operated for 46% of the trading days vs. 26% in Q1FY21. However, by the close of the quarter, operational days had reached ~80%. Gross margins remained at healthy levels at 53.6% owing to lower EOSS days. Post lockdown relaxations, revenue recovery has been encouraging with July sales tracking 80% of pre-Covid levels
- **ABFRL:** On the base of Q1FY20, recovery rate was at ~40% of pre-Covid levels. Green-shoots are visible with ~75% recovery rate in July. Net debt was higher at ₹ 1200 crore owing to losses in Q1FY22 and increase in working capital by ₹ 200 crore. However, with higher cash flows from July onwards and with last tranche of right issues to be received (~₹ 250 crore), the net debt figure is expected to reduce in Q2FY22
- **Avenue Supermarts:** Revenue recovery rate for stores older than two years was 91% in the second half of June 2021 compared to the second half of June 2019. In states where restrictions were relaxed earlier, stores older than two years have recorded more revenues in the last 15 days of June 2021 compared to the last 15 days of June 2019. ASL is planning to add ~ 35-40 new stores in FY22 (added 20 stores in FY21)

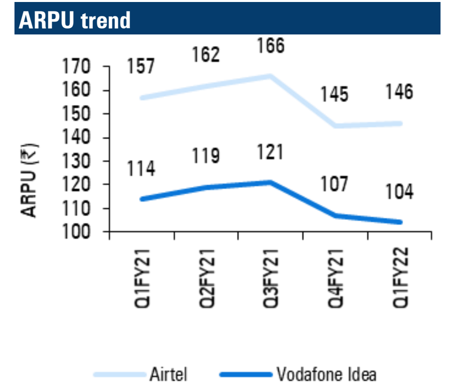
TTK Prestige: Despite significant increase in RM prices (aluminium), the company has been able to expand gross margin on a YoY basis due to a combination of judicious price hikes, better channel and product mix (increased sales of premium products). Post relaxations in lockdown, the company has been recovering well in July 2021 with all channels operational in all states. It continues to carry substantial free cash worth ₹ 490 crore

V-Mart: Owing to Covid induced lockdowns and weak demand, footfalls declined ~57% QoQ to 31 lakh footfalls (up 2x YoY). The company has passed on the increase in RM prices (cotton prices), which has resulted in stable margins. Recovery started gradually from June and July has seen good pent up demand. However, key states of Uttar Pradesh and Bihar are still facing restrictions on trade, which is impacting the pace of revenue recovery for V-mart.

Telecom

- **Jio leads subscriber addition; Airtel base flattish while VIL witnesses decline:** Jio added 14.4 mn wireless subs QoQ to reach 440.6 million. Airtel's overall subscriber (sub) base was largely flattish QoQ at 321.1 mn while Vodafone Idea (VIL) overall subscriber base declined by 12.4 million to 255.4 mn, clearly showing the impact of overall stress and second wave. In terms of 4G subs additions, Airtel witnessed strong 4G net adds of ~5.1 mn during the quarter, with 4G data sub base at 184.4 mn. VIL saw 4G sub decline of 1 mn QoQ to 112.9 mn
- **ARPU, revenue growth for Airtel; VIL continues to underperform:** For Airtel, consolidated topline at ₹ 26,854 crore was up 4.3% QoQ, driven by superior Africa revenues (up 7.6% QoQ at ₹ 8177 crore). Indian wireless revenues were up 1.6% QoQ at ₹ 14,306 crore, with slightly better ARPU, which came in at ₹ 146, up 0.6% QoQ. Jio's ARPU was at ₹ 138 for the quarter, flattish QoQ. On the other hand, for VIL, reported revenues were down 4.7% QoQ to ₹ 9,152 crore with ARPU decline of ~2.8% QoQ to ₹ 104 due to extension of validity for low cost customers during the second wave and subscriber decline
- **EBITDA margins trends also mixed:** For Airtel, EBITDA at ₹ 12,980 crore was up 5.3% QoQ with margin of 48.3%, up 44 bps QoQ, driven by India wireless margins, at 49.2%, were up 165 bps QoQ. For VIL, reported EBITDA declined 15.9% QoQ on negative leverage and base quarter had one-off benefits
- **Others:** In the tower space, Indus Towers (erstwhile Bharti Infratel) reported net addition of 2917 co-locations (~3123 on gross basis). Revenues came in at ₹ 6797 crore, up 4.7% QoQ. It was driven by energy revenues, which were up 10% QoQ, due to higher diesel prices. Rental revenues were at ₹ 4211 crore, up 1.7% QoQ. EBITDA came in at ₹ 3517 crore, up 3% QoQ, with EBITDA margins at 51.7% (down 83 bps QoQ) due to negative energy margins
- **Tata Communication** Q1FY22 performance was weak due to Covid related weakness in deal conversion and tapering down UCC traffic, impacting data revenues growth. Topline came in at ₹ 4103 crore, down 6.8% YoY & up 0.7% QoQ with data revenues (comprising ~76% of revenues) declining 2.2% YoY (up 0.6% QoQ). Consolidated EBITDA came in at ₹ 986 crore, down 5.3% YoY and 2.9%QoQ

ARPU trend



Source: Company, ICICI Direct Research

Pankaj Pandey | **Head – Research**
pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Pankaj Pandey, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.