Sequential rise in RM costs dents margins, PAT

ICICI direct Research

Q1FY23

Earnings Wrap

ICICI Securities – Retail Equity Research

August 22, 2022

- Corporate earnings for April-June 2022 (Q1FY23) came in muted, primarily tracking pressure on gross margins during the quarter amid ongoing geopolitical conflicts and improving supply chain dynamics. Topline growth at the Nifty level (ex-financials) was at 3.3% QoQ. Operating profit, however, was down 7.2% QoQ factoring in pressure on margins, which for the quarter was at 16.2%, down 184 bps QoQ. Gross margin decline came in sharp at 280 bps QoQ. PAT in Q1FY23 was down 16.8% QoQ, primarily tracking a decline in margins as well as lower other income (as most companies reported MTM loss on investment book due to rise in yields), further aggravated by higher effective tax rate (29.5% in Q1FY23 vs. 26.1% in Q4FY22). On a YoY basis, topline, bottomline growth at the index level was healthy at 39% & 11%, respectively, tracking commodity prices led gains in the metals and oil & gas domain as well as impact of Covid second wave in the base quarter (April-June 2921). Management commentary across businesses was positive on demand outlook and with recent cool off in key commodity prices was hopeful of margin recovery, going forward
- At the Nifty level (including financials), broader sequential trend continued with 1.4% QoQ growth in topline while PAT was down 13% QoQ, a tad lower than ex-financials subset (16.8% QoQ) on account of outperformance by the BFSI domain wherein asset quality trend continued to improve led by healthy recoveries and steady incremental slippages. GNPA ratio for banks in our coverage declined in the range of 6-35 bps with average drop being at ~10 bps. Even on absolute basis, GNPA declined ~1% QoQ, 12.1% YoY for the banking sector
- Incorporating revised PAT estimates post Q1FY23, our forward earnings estimates witnessed a decline of ~2%. Over FY22-24E, albeit on a high base, Nifty earnings are seen growing at a CAGR of 13.3%. We now value the Nifty at 19,425 i.e. 21x PE on FY24E EPS of ₹ 925 wherein we marginally increase our PE multiple to 21x vs. 20x earlier tracking cool-off in commodity prices and consequent positive impact on inflation and resultant modest rate hike velocity by central banks vs. the aggressive stance depicted earlier

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

Nifty P&L (ex-BFSI space)	Jun-22	Jun-21	Mar-22	YoY (%)	QoQ (%)
Sales	**12,85,010**	**9,23,294**	**12,44,029**	**39.2**	**3.3**
Total Expenses	10,76,675	7,40,447	10,19,475	45.4	5.6
Raw material	6,35,115	3,90,959	5,79,977	62.5	9.5
Employee	1,45,813	1,26,865	1,40,205	14.9	4.0
Other expenses	2,95,747	2,22,623	2,99,293	32.8	-1.2
Expenses (% of sales)					
Total Expenses	83.8	80.2	81.9	359 bps	184 bps
Raw material	49.4	42.3	46.6	708 bps	280 bps
Employee	11.3	13.7	11.3	-239 bps	8 bps
Other expenses	23.0	24.1	24.1	-110 bps	-104 bps
Operating Profit	**2,08,336**	**1,82,847**	**2,24,554**	**13.9**	**-7.2**
OPM%	16.2	19.8	18.1	-359 bps	-184 bps
Other Income	18,119	24,565	22,673	-26.2	-20.1
Interest	26,981	26,032	26,402	3.6	2.2
Depreciation	58,813	53,205	59,463	10.5	-1.1
PBT	**1,40,660**	**1,28,175**	**1,61,363**	**9.7**	**-12.8**
Tax	41,526	38,649	42,189	7.4	-1.6
Tax Rate	**29.5**	**30.2**	**26.1**	**-63 bps**	**338 bps**
PAT	**99,134**	**89,526**	**1,19,173**	**10.7**	**-16.8**

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

Nifty earnings summary (ex-financials)

Nifty Earnings Summary (ex-financials)					
₹ crore	Jun-22	Jun-21	YoY (%)	Mar-22	QoQ (%)
Sales	12,85,010	9,23,294	39.2%	12,44,029	3.3%
EBITDA	2,08,336	1,82,847	13.9%	2,24,554	-7.2%
PAT	99,134	89,526	10.7%	1,19,173	-16.8%

Other indices broader earnings summary

	YoY growth (%)		QoQ growth (%)	
	Sales	Net profit	Sales	Net profit
Nifty 50	**33.6**	**16.3**	**1.4**	**-13.0**
BSE Midcap	21.9	91.0	-7.8	-17.0
BSE Smallcap	39.4	86.3	3.6	2.3
All Co's (3903 cos)	**42.4**	**-16.1**	**4.0**	**-26.1**

Positive surprises & Buys

- Bajaj Finance
- KSB Pumps
- Laurus Labs
- PCBL Ltd
- Tata Chemicals

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target (Rolling 12 Months')				
Earning Estimates	FY21	FY22	FY23E	FY24E
Nifty EPS (₹/share)	515	720	785	925
Growth (% YoY)	17.1%	39.8%	9.0%	17.8%
Earnings CAGR over FY21-24E				21.5%
Earnings CAGR over FY22-24E				13.3%
Target P/E Multiple on FY24E EPS				21.0
Nifty Target (using FY24E EPS)				19,425
Corresponding Sensex Target				64,700

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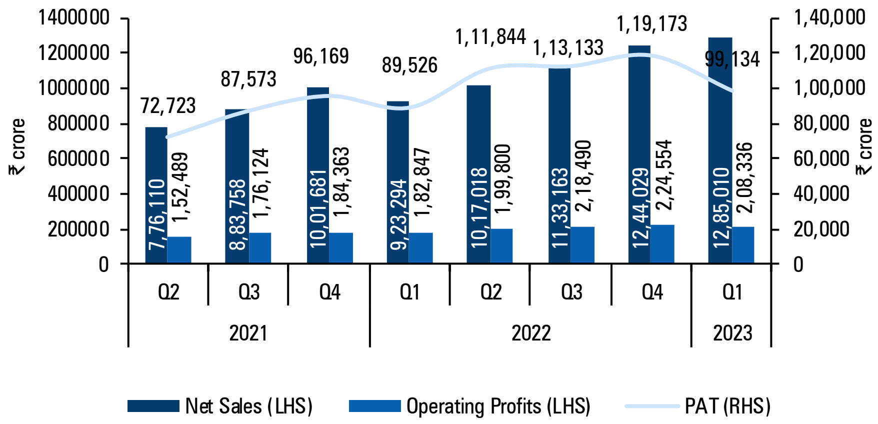
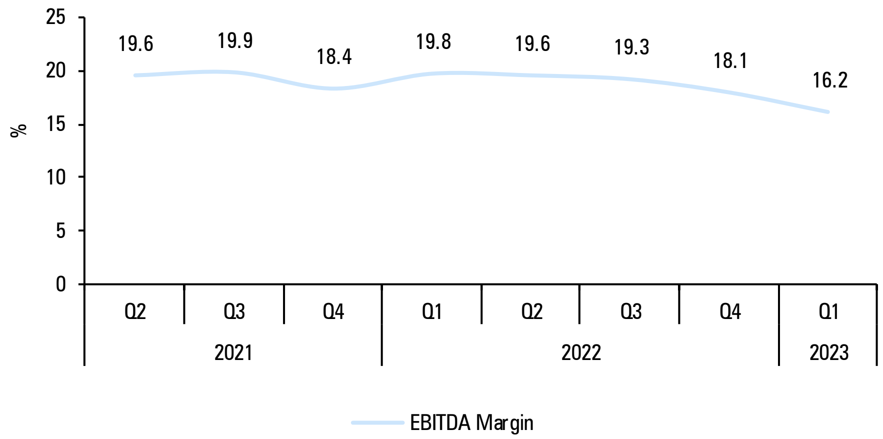
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, for Q1FY23, topline was up 3.3% QoQ to ₹ 12.85 lakh crore. EBITDA was down 7.2% QoQ to ₹ 2.1 lakh crore, tracking 184 bps sequential contraction in EBITDA margins to 16.2%. Ensuing PAT in Q1FY23 was at ~₹ 1 lakh crore, down 16.8% QoQ, a tad higher primarily tracking sequential decline in margins, other income and higher effective tax rate at 29.5%

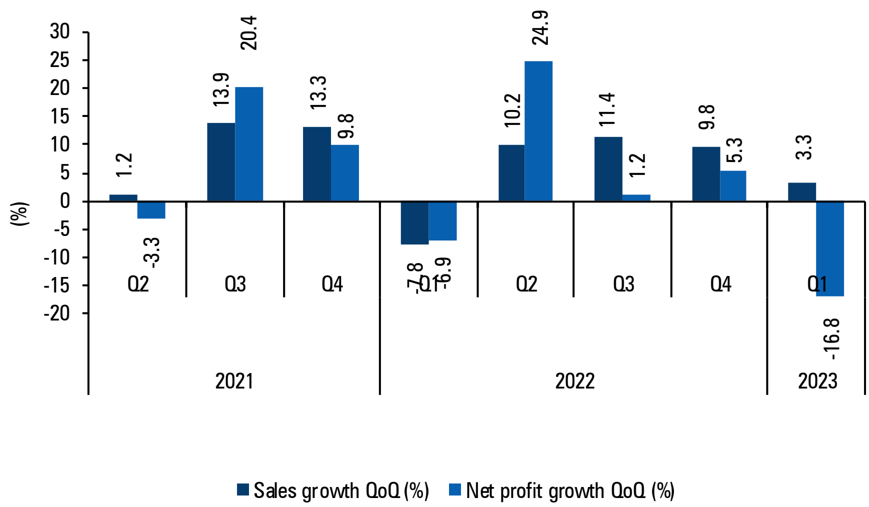
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q1FY23, EBITDA margins at the index level (ex-financials) were down 184 bps QoQ to 16.2%. Gross margin decline was sharp at 280 bps QoQ. Savings were realised in other expenses, which were down ~100 bps QoQ at 23% of sales while employee costs came in flat at 11.3% of sales

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



Source: Capitaline, ICICI Direct Research

Sequential topline growth moderated for the quarter and was at 3.3% vs. near double digit growth history in the recent past. Bottomline growth also moderated and witnessed a decline vs. an uptick (low single digit) witnessed in last two quarters

Industry wise revenue & profit movement

- In Q1FY23, topline growth on a QoQ basis was led by the oil & gas space primarily tracking outperformance by upstream companies amid robust crude led commodity prices as well as FMCG and IT domain. Sequential topline growth witnessed a high decline in the capital goods space given the seasonality factor with Q4 being high on the execution front

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

	Jun-22	Jun-21	Mar-22	YoY change (%)	QoQ change (%)
Auto	1,46,709	1,18,218	1,49,787	24.1	-2.1
Capital goods	35,853	29,335	52,851	22.2	-32.2
FMCG	44,178	35,330	41,029	25.0	7.7
IT	1,44,929	1,22,040	1,38,441	18.8	4.7
Metals	1,94,626	1,49,008	2,04,689	30.6	-4.9
Oil & Gas	5,23,280	3,19,000	4,67,375	64.0	12.0
Pharma	27,420	25,889	26,247	5.9	4.5
Power	54,082	40,107	47,772	34.8	13.2
Others	1,13,934	84,368	1,15,838	35.0	-1.6
Aggregate	**12,85,010**	**9,23,294**	**12,44,029**	**39.2**	**3.3**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index topline (%)

Sector	Jun-22	Jun-21	Mar-22
Auto	11.4	12.8	12.0
Capital goods	2.8	3.2	4.2
FMCG	3.4	3.8	3.3
IT	11.3	13.2	11.1
Metals	15.1	16.1	16.5
Oil & Gas	40.7	34.6	37.6
Pharma	2.1	2.8	2.1
Power	4.2	4.3	3.8
Others	8.9	9.1	9.3

Source: Capitaline, ICICI Direct Research

- In the IT space, Q1FY23 saw execution pick up as it was the first full quarter of execution after full/partial impact of furlough. Tier I companies reported average constant currency growth of 18.1% YoY while Tier II companies posted CC growth at an average of 24.0% YoY
- FMCG companies witnessed robust sales growth in Q1FY23 led by splendid growth in ITC and Varun Beverages (VBL). Cigarettes and carbonated drinks categories not only saw a full recovery but also surpassed its pre-Covid volumes significantly. Our coverage universe revenue grew 27.9% led by 10-15% price hikes by most FMCG companies and strong volume growth by ITC & VBL. HUL & Nestlé saw 6-7% volume growth, mainly on account of low base quarter last year
- In the auto space, total industry volumes in Q1FY23 were up 6% QoQ led by healthy 11% QoQ growth in the 2-W space. Topline performance for our universe came in ahead of estimates tracking commodity led calibrated price hikes taken by OEMs and ancillary players. Margin performance, however, came in muted tracking lower than anticipated margin recovery in the OEM space (10.4%) while ancillaries performed on expected lines (margins at 14.3%)
- On the bottomline front, sequential growth at the index level was primarily driven by the pharma space and supported by the FMCG domain. The performance was muted in the auto space, given the muted performance at Tata Motors (primarily JLR operations) and oil & gas domain amid marketing segment losses at key OMCs

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

	Jun-22	Jun-21	Mar-22	YoY change (%)	QoQ change (%)
Auto	589	-1,889	5,828	-131.2	-89.9
Capital goods	1,702	1,174	3,621	44.9	-53.0
FMCG	7,879	6,487	7,692	21.5	2.4
IT	21,816	22,004	23,798	-0.9	-8.3
Metals	21,555	20,768	24,275	3.8	-11.2
Oil & Gas	23,744	21,131	29,556	12.4	-19.7
Pharma	4,955	3,586	3,255	38.2	52.2
Power	7,738	9,410	9,323	-17.8	-17.0
Others	9,155	6,856	11,826	33.5	-22.6
Aggregate	**99,134**	**89,526**	**1,19,173**	**10.7**	**-16.8**

Source: Capitaline, ICICI Direct Research

Key sectoral share in index PAT (%)

Sector	Jun-22	Jun-21	Mar-22
Auto	0.6	-2.1	4.9
Capital goods	1.7	1.3	3.0
FMCG	7.9	7.2	6.5
IT	22.0	24.6	20.0
Metals	21.7	23.2	20.4
Oil & Gas	24.0	23.6	24.8
Pharma	5.0	4.0	2.7
Power	7.8	10.5	7.8
Others	9.2	7.7	9.9

Source: Capitaline, ICICI Direct Research

- In the pharma space, our coverage revenues grew 9% YoY, driven mainly by currency tailwinds & CRAMs even as consolidated Indian formulation print was flat on account of high Covid base. Ex-Covid, however, domestic branded formulations reported decent traction on the back of 1) annual price hike, 2) expansion of field force and market penetration and 3) improvement in patient footfalls at clinics.

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 (Q1FY23)

Company	Q1FY23 Result	Quarterly Performance & Outlook	CMP (₹)	Target Price	Last Rating	Potential Upside
Bajaj Finance	Positive	Bajaj Finance's continued strong business momentum (31% YoY) propelled NII growth at 48% YoY to ₹ 6636 crore. GNPA, NNPA ratio declined to 1.25%, 0.51%, respectively, in Q1FY23. Thus, business growth coupled with steady asset quality led to 2.6x YoY jump in earnings at ₹ 2596 crore. Digital transformation & robust client addition to enable targeted AUM growth of 25-27% CAGR. Strong liabilities franchise and steady asset quality to boost earnings trajectory. RoE at >18-19% and RoA at >4% with guidance over 4.5% remains positive. The core business has got potential and is well on track to get transformed into an adaptable new age fintech. Since the fintech story is embedded in this business, valuations should stay at premium. The digital web platform, similar to app is the new strategy in FY23. We value Bajaj Finance at ₹ 8500 i.e. 7.5x FY24E ABV	7300	8500	Buy	16
Laurus Labs	Positive	Laurus Labs's revenues grew 20% YoY to ₹ 1539 crore in Q1FY23 on the back of 196% YoY growth in CRAMS to ₹ 577 crore led by solid demand from new and existing clients. EBITDA margins declined 141 bps YoY to 29.5%, mainly due to higher other expenses amid adverse operating leverage being partly offset by higher gross margins (up 89 bps YoY to 57.6%). EBITDA grew 15% YoY to ₹ 454 crore while adjusted PAT grew 4% YoY at ₹ 251 crore for the quarter. This quarter witnessed significant revenue mix change as, CRAMS (Synthesis+Bio) contributed 39% to the topline vs. 28%, 16% in Q4FY22, Q1FY22, respectively. Positive outlook backed by new project delivery, pipeline expansion and favourable market tailwinds in CRAMS has led to Laurus targeting US$1 billion revenues in FY23. We continue to remain positive amid incremental contribution from custom synthesis and value Laurus at ₹ 675 i.e. 25x P/E on FY24E EPS of ₹ 27	580	675	Buy	16
KSB Ltd	Positive	KSB Ltd (formerly KSB Pumps), the Indian subsidiary of Klein Schanzlin & Becker (KSB) Germany, is one of the largest manufacturers and sellers of pumps & valves in India. KSB manufactures a range of standard industrial end suction and high-pressure multistage pumps, submersible motor pumps and monoblock pumps and other value-added parts. Its client portfolio includes Bhel, Thermax, Isgec, Patil Engineering, L&T, NTPC, ThyssenKrupp among others. Revenue for the quarter came in at ₹ 448.4 crore, up 48% YoY & 7.7% QoQ. Absolute EBIDTA came in at ₹ 61.1 crore, up 11.8% QoQ and up 55.7% YoY, with margins at 13.6%. PAT came in at ₹ 47.4 crore vs. ₹ 40.3 crore in Q1CY22 & ₹ 28.3 crore in Q2CY21. As on Q2CY22, 17% of KSB's revenue comes from exports, which has improved from 14% in CY18. The management is aiming to increase the proportion to 20% over coming years. KSB continues to tread on its growth path. The company has a healthy order book and received order of ₹ 500 crore from NPCIL. We value KSB at ₹ 2180 i.e. 35x PE (FY24E)	1775	2180	Buy	23
PCBL Ltd	Positive	PCBL reported a robust performance in Q1FY23. Net sales in Q1FY23 were at ₹1,409 crore, up 16% QoQ, with carbon black sales volumes at 109 KT (down 3% QoQ) and realisation at ₹126/kg (up 18% QoQ). EBITDA in Q1FY23 came in at ₹196 crore with margins at 13.9% (up 270 bps QoQ). Consequent PAT for Q1FY23 was at ₹126 crore, up 39% QoQ. EBITDA/tonne for Q1FY23 was at ~₹ 18,000, highest ever in PCBL's history, primarily driven by lucrative spot sales. With greenfield expansion (~150 KT) under execution and successful strides made in the speciality carbon black domain, long term growth prospects are robust at PCBL amid limited competition in overseas markets. We maintain our positive view and retain BUY rating on the stock. PCBL with organic growth prospects, much heathier b/s and return ratios is a good proxy to play upon recovery in volumes in the tyre and broader auto space. We value PCBL at ₹ 160 i.e. 12x P/E on FY24E EPS	125	160	Buy	28
Tata Chemicals	Positive	Tata Chemicals reported a strong set of numbers largely led by stellar realisation growth across all units. The company reported topline growth of 34.2% YoY to ₹ 3995 crore. Basic chemical segment grew 41% YoY to ₹ 3060 crore while speciality products grew 17% YoY to ₹ 934 crore. EBITDA margins for the quarter rose 520 bps to 25.4% (highest in the history) owing to lower power & fuel and freight cost. Absolute EBITDA increased 69% YoY to ₹ 1015 crore while adjusted PAT increased 106% YoY to ₹ 593 crore. Going ahead, rise in gas prices due to geopolitical tension affected cost profile of European soda ash manufactures, in turn, offering an opportunity to other players like Tata Chemical having a presence across different geographies to gain market share. Europe holds 20% share in soda ash industry. Going forward, capacity closure at China along with no major capacity addition of soda ash across the globe, we expect soda ash market can remain buoyant. We value Tata Chemicals on an SOTP basis. We assign BUY rating	1125	1370	Buy	22

Source: ICICI Direct Research

The above companies posted a strong set of numbers in Q1FY23, which we believe are more fundamental and sustainable in nature.

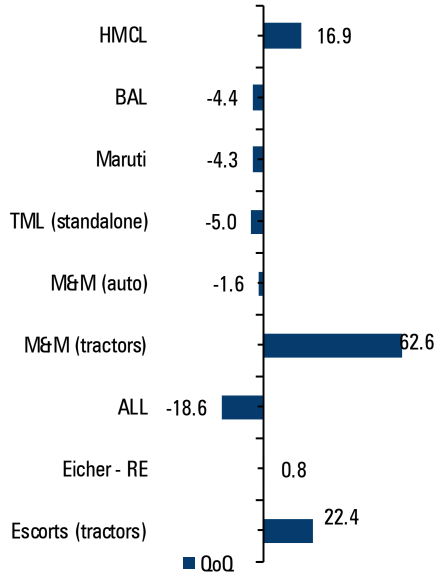
Sector specific takeaways from the quarter

Auto & auto ancillary

- Q1FY23 turned out to be a steady quarter for the automobile space with price action preceding the improvement in financials given the correction in key commodity prices viz. metals, crude and crude derivatives during the fag end of the quarter. With a revival in economic activity domestically, easing supply chain issues and marriage season during the quarter, total industry volumes in Q1FY23 were up 6% QoQ led by healthy 11% QoQ growth in the 2-W space. Topline performance for our universe came in ahead of estimates tracking commodity led calibrated price hikes taken by OEMs and ancillary players. Margin performance, however, came in muted tracking lower than anticipated margin recovery in the OEM space (10.4% vs. our estimates of 11.8%) while ancillaries performed on the expected lines (margins at 14.3% in Q1FY23 vs. estimates of 14.4%). Ex-Tata Motors, I-direct auto and ancillary coverage universe revenues were up 5% QoQ vs. our estimates of ~1.5% QoQ growth with EBITDA margins on a blended basis at 11% vs. our estimates of 12.2%. PAT growth again came in lower than estimates at 23.9% QoQ decline vs. estimated de-growth of 9.7% on account of lower-than-expected margins on the OEM front & MTM loss on investment book due to rise in yields
- In the auto OEM space, MSIL surprised negatively on the margins front wherein gross margins declined 105 bps QoQ, further aggravated by negative operating leverage with consequent margins at 7.2% vs. our estimates of 9.2%. The management guided for strong order book & healthy response towards new launches in the UV space. Tata Motors' Q1FY23 results were also muted, especially on the margin front driven by subdued performance at JLR with only silver lining being healthy performance in Indian operations. The management, however, remained optimistic on future performance with healthy wholesales guidance for coming quarter amid strong order book. For M&M, Q1FY23 results were steady with company witnessing QoQ expansion in margins both on automotive and farm equipment front but the key takeaway was large pending order book and >1 lakh booking for its newly launched Scorpio N. In the recent past, M&M also unveiled its five Concept EVs ready to be launched from 2024 onwards. OEMs are witnessing gradual improvement in supply chain and are optimistic about demand scenario
- In the 2-W space, volume recovery and margins came in healthy. Eicher Motors led the 2-W OEM pack with key positive surprise being 24.5% margin up 75 bps QoQ. Hero MotoCorp, on the other hand, led the 2-W space with QoQ double-digit volume growth, with 2-W sales volume for the quarter at 13.9 lakh units, up 16.9% QoQ. The key negative was 3.3% sequential decline in ASPs at ₹ 60,370/units largely due to lower spares (~12% of total revenue). Bajaj Auto reported a steady performance in Q1FY23 with EBITDA margins coming in at 16.2% (down 92 bps QoQ). Surprise was in rise in ASP, which were up 5.2% QoQ at ₹ 83,210 amid higher share of export & improved product mix
- In the tyre space, Apollo Tyres outperformed its peers in terms of stable gross margin QoQ with EBITDA margins at 11.6% up 40 bps QoQ. EBITDA margins on a standalone basis were at 9.7% (up 30 bps QoQ). Management commentary about capex remained confined amid present focus on sweating assets to achieve double-digit return ratio. Balkrishna Industries reported muted numbers for the quarter with lowest ever EBITDA margins at 17.2%, down 380 bps QoQ amid gross margin decline by 150 bps QoQ, further aggravated by higher other expenses which was up 206 bps QoQ. Key positive was management commentary with respect to annual tonnage guidance which remained unchanged and long term EBITDA margin guidance of 28-30%

For Q1FY23, total industry sales were at ~63.6 lakh units (up 6% QoQ), with both domestic dispatches rising ~7.2% QoQ to 49.4 lakh units and exports up 2% QoQ at ~14.3 lakh units. Domestic PV volumes were nearly flat QoQ at 9.1 lakh units (UV up 3% QoQ; Passenger cars down 6% QoQ); 2-W volumes rose 11% QoQ to 37.2 lakh units (motorcycles up 10%, scooters up 15%). Domestic CV volumes fell 10% QoQ to 2.2 lakh units (M&HCV down 19%, LCV down 4%) while 3-W volumes de-grew by 8% to 0.76 lakh units

Key player's volume growth – Q1FY23 (%)



Source: Company, SIAM, ICICI Direct Research

Ashok Leyland reported a muted performance in Q1FY23 with EBITDA margins at 4.4%, down 444 bps QoQ; wherein gross margin decline was at ~105 bps QoQ while negative operating leverage aggravated the margin decline. Escorts performance came in muted and was impacted by normalisation of product mix towards <40 hp tractors. The management remained committed about mid-term plan to be announced in H2FY23 to capitalise upon its alliance with Kubota (co-promoter), going forward

Uno Minda's (erstwhile Minda Industries) Q1FY23 results were ahead from our estimates on the topline front. Consolidated revenues were up 5.8% QoQ. EBITDA margins for the quarter came in at 10.4%, down 100 bps QoQ. Consolidated PAT in Q1FY23 was at ₹ 139 crore, down 4% QoQ. The company continues to witness strong uptick in the EV space order book with ~50% order book won in Q1FY23 constituted by EV specific components

Bharat Forge reported stable numbers. Topline came in ahead of our estimates with margins at 24.7%, down 100 bps QoQ amid gross margin expansion of 200 bps QoQ. For Q1FY23, the Indian operations secured new business worth ~ ₹ 350 crore across automotive & industrial application

Banking sector

- **The banking sector witnessed a continued revival in earnings in Q1FY23. While credit growth continued to remain buoyant and asset quality remained steady, rising yields on treasury impacted operating profit, though lower provision led to jump in bottomline. Lag in passing rate hike led to steady margin vs. our expectation of a sequential increase**
- Asset quality trend continued to improve led by healthy recoveries and steady incremental slippages. GNPA ratio for banks in our coverage declined in the range of 6-35 bps with average drop (all banks) at ~10 bps. Even on an absolute basis, GNPA declined ~1% QoQ, 12.1% YoY for banking sector. Restructured book also declined by an average of 20 bps QoQ, thus indicating overall reduction in stress
- In the PSU space, SBI reported 8 bps QoQ decline in GNPA and 7 bps decline in restructured book. Bank of Baroda continued to maintain its healthy run on the asset quality front as GNPA was down 35 bps while restructuring also declined ~7 bps QoQ. We believe asset quality trend should continue to improve as well and management commentaries have also indicated incremental stress will be lower
- The business momentum was healthy in Q1FY23, attributable to robust demand in retail and MSME segment. Lower base of previous year (last year business activities was impacted by pandemic) also enabled higher growth trajectory. Loan growth for the quarter came in at 15.4% YoY and 2.2% QoQ at ₹ 114.9 lakh crore. Among peers, private banks continued outperformance with 18% YoY growth, PSU banks also put up a good show.

Bandhan Bank witnessed deterioration in asset quality as GNPA increased 79 bps QoQ to 7.25%

- Sectoral data shows that retail segment was up 18.1% YoY and agri credit jumped 13% YoY. Large corporate credit, which had been a drag on overall banking credit growth has started to enter the positive territory and now was up 3.3% YoY. Management commentaries and data has indicated that improving capex, WC limits have seen better utilisation, thus aiding credit-offtake in this segment
- NII grew at a healthy pace of 13.5% YoY and 2.5% QoQ, mainly due to healthy loan growth. Lag in transmission of rate hike led steady to marginal dip in margins against our expectation of a sequential rise in NIMs. Kotak, Axis & Federal Bank saw NIM expansion while other banks in our coverage universe witnessed a decline in NIMs. Other income was down 24.3% YoY led by treasury loss attributable to hardening yields. However, core fee based income has shown healthy growth

IndusInd bank's credit growth ahead of peers at ~4% QoQ

- C/I ratio inched up by 177 bps QoQ from 49.0% to 50.8%, mainly on account of increased business activities, higher tech, marketing and employee cost coupled with lower topline owing to treasury loss
- Credit cost (provisions) for the quarter declined both QoQ and YoY due to better asset quality performance and lower slippages. Thus, growth trajectory in earnings remain abated. However, earnings growth pace moderated sequentially due to weaker topline. Net profit grew 32.4% YoY but de grew 10% QoQ at ₹ 41242 crore
- Overall, Q1FY23 witnessed healthy business momentum continuing from last quarter (despite Q1 is seasonally weak for banks) and also improvement in asset quality. Kotak Bank outperformed its comparable peers on growth front (with 28.8% YoY) while other banks in our coverage universe posted healthy loan growth trajectory (average 20% YoY)
- **Momentum in credit growth and operational performance is expected to continue ahead. In FY23E, credit growth is likely to witness expansion. Firing up unsecured book to aid in initial quarters of FY23E; recovery in corporate credit offtake to revive credit growth from H2FY23. Gradual transmission of rate hike to offset rising competitive intensity on deposits. Deposit mobilisation and thus trend in CD ratio to be watched**

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

(₹ crore)	Q1FY23	Q4FY22	Q3FY22	Q2FY22	Q1FY22
NII	138736	135379	134454	127332	122258
Growth YoY	**13.5**	**16.6**	**9.6**	**6.3**	**0.6**
Other income	42137	54440	50257	52771	55689
Growth YoY	-24.3	-19.0	-4.4	16.2	26.1
Total operating exp.	91896	93069	91564	94774	81029
Staff cost	316052	41972	44064	43802	42665
Operating profit	88977	96750	93147	85328	96918
Growth YoY	-8.2	1.5	-0.6	-3.5	4.6
Provision	34056	36157	33553	34379	54495
PBT	54921	60592	59595	50949	42423
PAT	41242	45837	43698	43462	31154
Growth YoY	32.4	85.2	52.4	61.4	44.2
GNPA	684108	688913	711406	741765	778716
Growth YoY	**-12.1**	**-11.2**	**0.3**	**-2.6**	**0.2**
NNPA	186365	190612	207756	225217	243520
Growth YoY	**-23.5**	**-20.3**	**25.2**	**11.8**	**2.5**
Advances (Lakh crore)	114.9	112.4	106.6	99.9	99.5
Deposits (Lakh crore)	144.7	155.1	147.5	144.3	141.2

Source: Capitaline, ICICI Direct Research

Sequentially NII growth moderated mainly due to fall in margins

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q1FY23	Q4FY22	Q3FY22	Q2FY22	Q1FY22
NII	77,687	76,653	77,383	73,584	70,562
Growth YoY (%)	**10.1**	**16.3**	**6.9**	**2.9**	**0.8**
Other income	21,313	30,553	26,508	29,803	34,026
Growth YoY (%)	**-37.4**	**-29.0**	**-10.0**	**16.8**	**33.8**
Total operating exp.	52,666	54,932	54,387	60,363	50,124
Staff cost	3,02,236	29,194	31,290	31,546	31,032
Operating profit	46,334	52,273	49,504	43,025	54,463
Growth YoY (%)	**-14.9**	**-2.8**	**-3.0**	**-10.4**	**12.3**
Provision	26,292	27,962	23,439	21,104	34,504
PBT	20,490	24,617	26,372	22,018	20,293
PAT	15,321	18,455	18,777	21,846	14,289
Growth YoY	**7.2**	**87.2**	**147.1**	**134.9**	**114.0**
GNPA	5,56,804	5,62,214	5,78,060	6,01,278	6,32,026
Growth YoY	**-11.9**	**-11.7**	**-3.3**	**-5.0**	**-5.0**
NNPA	1,50,910	1,53,664	1,66,849	1,81,475	1,95,845
Growth YoY	**-22.9**	**-21.0**	**16.6**	**4.9**	**-4.4**
Advances (Lakh crore)	72.8	71.1	67.8	63.2	63.9
Deposits (Lakh crore)	106.7	106.8	101.9	100.2	99.0

Source: Capitaline, ICICI Direct Research

Credit cost continued to decline as banks witnessed overall reduction in stress

Exhibit 10: Financial summary of banking industry (private)

(₹ Crore)	Q1FY23	Q4FY22	Q3FY22	Q2FY22	Q1FY22
NII	61,050	58,727	57,072	53,747	51,696
Growth YoY	**18**	**17**	**14**	**11**	**0**
Other income	20,823	23,887	23,749	22,968	21,663
Growth YoY	**-3.9**	**-1.2**	**2.6**	**15.6**	**15.6**
Total operating exp.	39,230	38,137	37,177	34,412	30,905
Staff cost	13,816	12,778	12,774	12,256	11,633
Operating profit	42,643	44,477	43,643	42,303	42,455
Growth YoY	**0.4**	**7.1**	**2.3**	**4.5**	**-3.8**
Provision	7,763	8,195	10,114	13,275	19,991
PBT	34,879	36,281	33,529	29,029	22,463
PAT	26,268	27,683	25,221	21,834	17,039
Growth YoY	**54.2**	**83.9**	**34.9**	**24.7**	**15.0**
GNPA	1,35,869	1,36,334	1,42,983	1,50,310	1,55,745
Growth YoY	**-12.8**	**-8.5**	**19.3**	**9.4**	**29.0**
NNPA	37,197	38,721	42,681	46,029	49,882
Growth YoY	**-25.4**	**-17.9**	**74.1**	**40.4**	**34.8**
Advances (Lakh crore)	42.8	41.9	39.4	37.3	36.3
Deposits (Lakh crore)	39.0	49.3	46.6	45.1	43.2

Source: Capitaline, ICICI Direct Research

Treasury loss impacted earnings trajectory

Capital Goods

Consolidated order inflows pick up in Q1FY23

- On the order inflow front, consolidated order inflow grew 44.9% YoY, L&T registered decent order inflows worth ₹ 41805 crore, up 57% YoY, led by EPC orders won in infrastructure segment. Bharat Electronics order inflows came in at ~₹ 876 crore. In T&D space, KEC International received orders worth ₹ 3472 crore. Thermax's consolidated order inflow came in at ₹ 2310 crore (up 36% YoY) owing to broad based recovery of orders in several key sectors. Siemens order inflows wins were decent at ₹ 4992 crore, growing 20% YoY led by all business segments. Similarly, ABB's order inflows came pretty strong at ₹ 2767 crore, up 64% YoY, registering healthy growth in all business segment

Commentary on order inflow across segment & geographies

- The domestic ordering environment in Q1FY23 was also significantly better compared to Q1FY22. At a macro level, there was an improvement in domestic tendering and awarding activity. Secondly, expect public capex spends comprising centre, states, public sector units in the current year to be better than that of the previous year. Hopefully, private capex would also witness improvement in the second half of the current year. L&T's order Inflows in the projects and manufacturing portfolio are mainly from infrastructure, hydrocarbon and defence businesses. Total 91% of L&T's total orderbook is from infrastructure and energy. Prospects of orders have improved from steel, chemical and refinery and petrochemical sector for Thermax.

Execution commentary, margin picture in Q1FY23

- Across companies, revenues came in quite strong on account of improved execution momentum. However, at the same time, EBITDA margins were impacted primarily by elevated commodity prices & logistics cost. The recent commodity price correction brings in much needed relief for companies, going forward. Among product based capital goods, bearing sector companies stood out as they delivered all-round performance across revenue growth (mid teen growth) coupled with intact margins. KSB also needs a special mention as revenues grew 48% YoY while margins expanded QoQ whereas PAT grew 60.4% YoY, while Elgi reported mixed numbers wherein revenues were ahead of expectations but on account of normalisation of expenses (employee and other overheads) margins disappointed. AIA Engineering was in line with estimates but commentary on growth outlook and volume guidance of double-digit in medium terms also sets the stage for strong performance, going ahead.

Performance of defence companies needs special mention on Q1FY23

- Aggregate revenue of defence companies under coverage, grew significantly by 112% YoY in Q1FY23 driven by better execution during the quarter. Growth was led by Bharat Dynamics – BDL (revenue was up 5.4x YoY) followed by Hindustan Aeronautics –HAL (+124% YoY), Bharat Electronics – BEL (+90% YoY) and Data Patterns – DPIL (+84% YoY). EBITDA margin (aggregate average of coverage companies) also improved significantly by 980 bps YoY to ~18% in Q1FY23 led by BDL (EBITDA profit from loss in Q1FY22) followed by BEL (+1265 bps) and HAL (+781 bps). Consequently, aggregate EBITDA and PAT jumped 4.6x YoY and 5.1x YoY respectively. Order inflows have also been better (~₹ 3600 crore for BDL, ₹ 870 crore for BEL, ₹ 46 crore for DPIL). Current order backlog of HAL, BEL and BDL was strong at 3-4x TTM revenues.

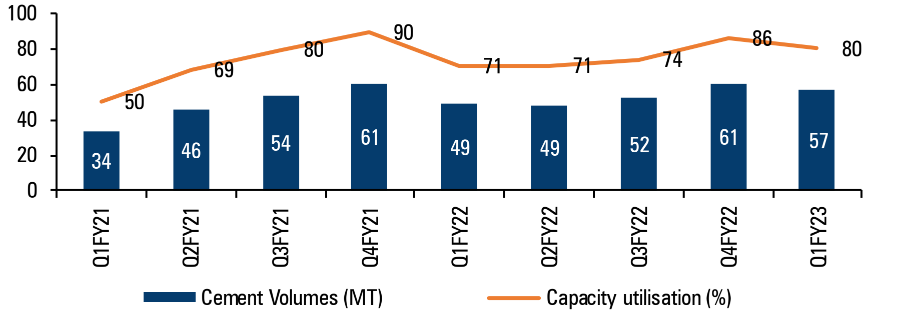
Cement: High cost fuel inventory weigh on margins; Demand moderates sequentially!

- With the utilisation of high cost fuel inventory, margins moved downwards during the Q1FY23 performance. However, the impact of the margin pressure was not as severe as it was expected earlier. It fell only 120 bps QoQ to 17.5% for our coverage universe, supported by average price hikes of 5.6% at the pan-India level during Q1. While higher cement prices helped partially offset the cost pressure, it also led to some moderation in demand. The cement volume for our coverage universe dropped 5.8% QoQ to 57.4 MT though on a YoY basis, favourable low base effect led to sales volume growth of 17.2%. The industry capacity utilisation levels declined to 80% vs. 86% in Q4 though it was better than last year (~71%) amid Covid induced restrictions
- In our universe, sharpest volume growth was posted by Ramco Cement (up 54.6% YoY) & Sagar Cement (up 34.9% YoY) led by capacity expansion as well as low base effect. Average sales volume of pan India players like UltraTech, ACC were up by 14-15% YoY while players like Shree cement, JK Cement & JK Lakshmi reported average volume growth 10-11% YoY. I-direct cement universe reported realisation growth of 7% YoY, 5.6% QoQ, respectively. Most companies mentioned high cost pressure as the main reason to go for such price hikes
- Average cement prices in July 2022 declined 1% MoM due to seasonality although it was up 3% YoY. In terms of cost, international petcoke prices declined 11% in July 2022 and continued to trend downwards till date. Domestic petcoke prices also declined 10% in July and 7% in August 2022. Going by this trend, we expect power & fuel costs to peak out in Q2FY23 while cement prices would inch upwards post monsoon season on expected sustained demand. As per media reports, cement companies have added Venezuela as a new source for cheaper petcoke apart from Russia. Given this developments, the impact of softening of fuel prices are expected to reflect from Q3FY23 onwards. We expect healthy demand outlook for the cement sector, going ahead, along with declining coal/pet coke prices being a key tailwind for improving operational profitability. However, Q2FY2023 is likely to be a challenging quarter due to seasonality and peaking of power & fuel costs

In terms of regions, demand in the Eastern and south region especially in AP/Telangana improved sharply due to low base effect while demand in all other regions like North, Central and West saw weakness on sequential basis

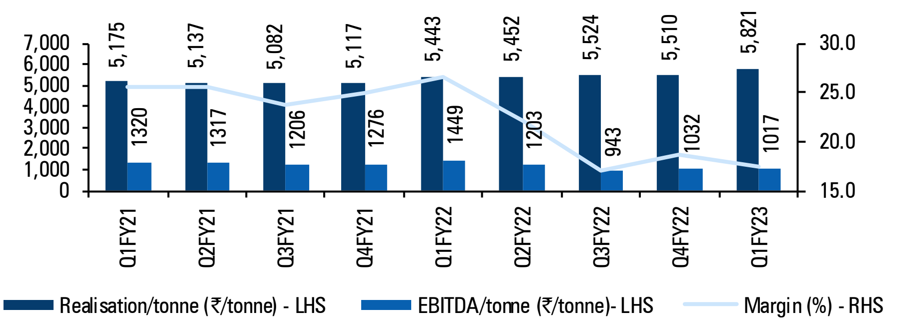
Revenues for I-direct coverage universe increased by 25.4% YoY to ₹ 33,435 crore with highest revenue growth reported by Sagar Cement (up 20.1% YoY) led by capacity addition. While average realisations increased 7.7% YoY, total cost increased sharply by 20.2% YoY on per tonne basis due to sharp spike in the international fuel prices. This led to 29.8% YoY drop in the EBITDA/tonne to ₹ 1017/tonne for our coverage universe. It also declined sequentially by 1.5% as impact of high fuel cost was getting reflected in the current performance

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Chemicals

- Q1FY23 saw an increase in crude prices to high single digits over Q4FY22, which, we believe, may have assisted most chemical companies to maintain the momentum of higher realisations growth. Despite all the above disquiet, our coverage universe reported a strong set of numbers with revenues growing 35% YoY to ₹ 15001 crore while EBITDA and PAT jumped 40% YoY & 42.8% YoY to ₹ 3346.6 crore & ₹ 2009.3 crore, respectively. Topline growth was largely led by better realisations while operational performance was driven on the back of better product mix and operating leverage.

Key trends (company specific):

- **SRF:** The company started FY23 with strong topline growth of 44% YoY to ₹ 3894.7 crore. Growth was led by chemical segment, which was up 55% YoY to 1722.4 crore driven by robust demand for flagships product. Technical textile segment reported decent revenue of ₹ 571 crore (up 15%). Packaging film segment reported strong revenue growth of 44% YoY to ₹ 1496 crore
- **Navin Fluorine:** Decent growth in quarter was led by both high value and legacy business. Topline was up 21.6% YoY to ₹ 409 crore. Revenue from speciality chemicals was up 21%YoY to ₹ 159 crore while the same from CRAMS was up 16% YoY to ₹ 88 crore. In speciality chemicals there was a robust pipeline of growth opportunity, especially in agrochemicals
- **PI Industries:** CSM (exports) revenues led the overall topline growth for the quarter. Revenue was up 29% YoY to ₹ 1543.2 crore while CSM was up 42% to ₹ 1142.1 crore. Total 13 enquiries were reported of which more than 15% is non-agchem. The company plans to commercialise five new molecules in FY23. The trend of elevated input cost continued during the quarter due to which there was a dip in gross margins by 20 bps QoQ to 43.8%
- **Sumitomo Chemical:** The company reported a mixed performance with revenue reported up 26% YoY to ₹ 985.5 crore, led by 44% YoY growth in fungicide along with 34% YoY growth in insecticides. Revenue growth was led by volume growth and price hikes. Gross margins were down 100 bps YoY to 35.1% while EBITDA margin contracted 20 bps YoY to 19%. Revenue from the bulk business was up 91% YoY to ₹ 134 crore while the same from branded rose by 100% YoY to ₹ 63.1 crore
- **Neogen Chemical:** Topline was driven by decent growth from both organic and inorganic segment. Revenues from organic chemicals grew 32% YoY to ₹ 90 crore while revenues from inorganic chemicals grew 241% to ₹ 58 crore. EBITDA margins were at 16.7% in Q1FY23. EBITDA was at ₹ 34.7 crore, up 58% in Q1FY23. The company reported strong double digit growth in PAT at ₹ 11.1 crore, up 50% YoY bolstered by a strong operating performance
- **Rallis India:** A slow start to monsoons and higher input prices led reported PAT to decline 19% YoY to ₹ 67 crore. Domestic business was up 9% to ₹ 664 crore driven by decent sales from domestic crop care. International business grew 51% YoY to ₹ 198.9 crore led by strong volumes and realisation. The company launched new products in paddy and tomato to boost market share and growth
- **Tata Chemical:** Tata Chemicals reported a strong set of numbers across all segments. Historic EBITDA margins of 25.4% were reported in Q1FY23. Growth was broad based. Topline reported growth of 34.2% YoY to ₹ 3995 crore. Basic chemical revenues were up 37% to ₹ 2901.8 crore. Growth for the quarter was largely led by higher soda ash realisations. Moreover, the management expects soda ash prices to remain firm in the next 18-24 months. Demand for soda ash was robust from the detergent and glass industry

Aarti Industries

Strong realisation growth amid passing on input price inflation led robust topline growth. However, rise in crude and thereby benzene impacted COGS. Moreover, shortage in nitric acid affected speciality chemical segmental growth, to some extent. Revenue grew 45% YoY to ₹ 1755.6 crore. GPM fell 631bps YoY to 47.5%. OPM contracted 220bps YoY to 19.3%

Sudarshan Chemical

Sudarshan's revenue grew 16.9% YoY to ₹ 554.2 crore led by higher growth from engineering and pigments. Higher raw material cost, energy, logistics cost and tax affected PAT for the quarter, which was down by 72.9% YoY to ₹7.1 crore. Gross margins contracted 600 bps. Challenges in logistics area led to freight cost escalations by double in Q1FY23. Further, softer demand in international geographies put additional pricing pressure to pass on full increases in indirect costs

Vinati Organics

Since key RMAT prices are ruling at higher levels, passing on input inflation led to better realisation growth for key segments. Apart from this, better volume growth owing to gaining market share in the segment such as butyl phenols along with higher demand of ATBS supported growth for the segment. Moreover, a revival in demand for IBB also drove growth, to some extent, for the quarter. ATBS revenue growth was up ~25-30% YoY while the same from IBB increased around 30% YoY. This led to overall revenue growth of 31% YoY to ₹ 506.3 crore. GPM rose 90 bps YoY to 45.5%

Astec Lifesciences

Increase in inventory cost and fixed overheads related to herbicide plant led adjusted PAT down 12% YoY to ₹184.3 crore. Topline grew 43.2% YoY to ₹ 184.3 crore. Revenue from exports market (~49% of overall revenue) was up 219% YoY to ₹ 90.3 crore while the same from the domestic market was down 6% YoY to ₹ 94 crore. GPM was down 550 bps YoY while EBITDA margins contracted 540 bps

Consumer Durables

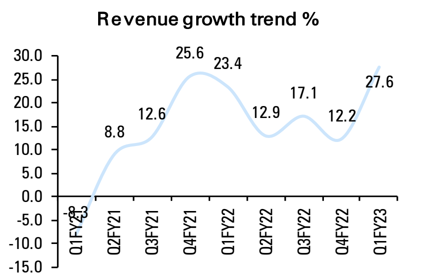
- The consumer discretionary (CD) universe in Q1FY23 reported a strong performance on the revenue front. The CD universe reported revenue growth of 59% YoY, much ahead of our estimate of 42%, largely on a favourable base. On a three-year basis, the coverage universe reported revenue CAGR of ~14% led by strong revenue growth in paint companies. The decorative paint major Asian Paints recorded strong volume CAGR of 20% led by dealer additions and launch of new products. Industrial paint major, Kansai Nerolac also saw robust sales recovery (up 49% YoY in Q1) supported by strong automotive paint demand. On the fast moving electrical goods (FMEG) front, companies witnessed notable growth in Q1, led by robust demand for cooling products. Voltas and Havells reported air conditioner revenue growth of 125% and 119% YoY, respectively, led by market share gains. Small appliances players such as Bajaj Electricals and Crompton Greaves consumer also reported revenue growth of 58% and 53% YoY, respectively, led by strong growth in their core businesses
- On the margin front, pipe companies witnessed sharp gross margin contraction in Q1FY23 led by inventory loss amid fall in PVC prices. That led to EBITDA margin contraction by ~430 bps YoY each for Supreme Industries and Astral Poly. Leading FMEG companies such as Havells and Voltas also faced EBITDA margin pressure due to inventory losses and high raw material cost pressure. In contrast, margins of small appliances companies remained resilient through improved operating leverage. On the paint front, leading decorative paint companies such as Asian Paints and Berger Paints reported EBITDA margin expansion in the range of 140-170 bps YoY supported by price hikes and improved operating leverage. Coverage EBITDA margin at 13.3% was lower than our estimate of ~14%

On the piping front, Astral and Supreme Industries faced slow inventory build-up by dealers amid volatility in PVC prices, resulting a muted volume CAGR in the last three years. PVC prices fell 19% towards the end of the quarter

FMCG

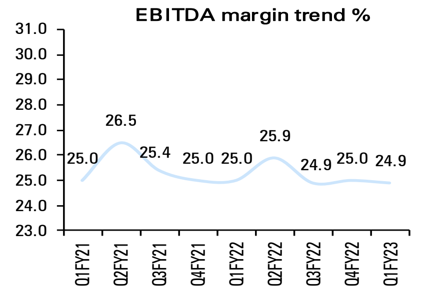
- FMCG companies witnessed robust sales growth in Q1FY23 led by splendid growth in ITC and Varun Beverages (VBL). Cigarettes and carbonated drinks categories not only saw full recovery but also surpassed its pre-Covid volumes significantly. Our coverage universe revenue grew 27.9% led by 10-15% price hikes by most FMCG companies and strong volume growth by ITC and VBL. HUL and Nestlé saw 6-7% volume growth, mainly on account of low base quarter last year impacted by second Covid wave. However, on a three year CAGR basis, HUL's volumes were flat while Nestlé volumes were growing at mid-single digits. Similarly, Zydus Wellness also reported 10% volume growth on a low base and three-year volume CAGR was merely 3%
- On the one hand, discretionary and out of home categories fully recovered & saw strong growth, essential & immunity boosting health care products de-grew from a high base. With benign copra & tea prices, Marico & TCPL have taken price cuts in coconut hair oil & tea brands, respectively. However, most other commodities remain at elevated levels leading to aggressive price hikes. Dabur witnessed 5% volume growth despite high base of health supplement. The company witnessed robust growth in the beverage category. Colgate continued to witness dismal sales growth on the back of volume de-growth. Oral care category stagnated over the last five year while the consumer trend is gradually shifting towards naturals & herbal products (30% of category sales). We believe strong growth in beverage category (VBL & Dabur) has been driven by extreme summer, low base quarter sales & foray in larger addressable categories (energy & milk beverages by VBL, Fruit drinks by Dabur). ITC specifically witnessed strong growth across segments (paperboard, agri, hotels) on low base, strong agri exports & higher paperboard prices

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



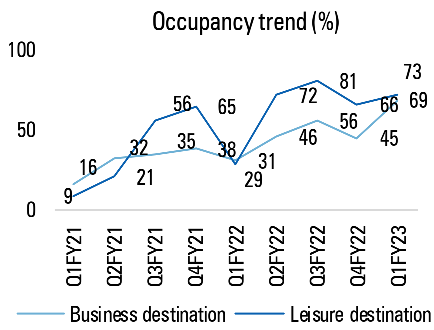
Source: Company, ICICI Direct Research

- FMCG companies are increasing their addressable market by foraying into categories with a large opportunity and presence of local or regional players. Some such examples are (1) pulses, spices, dry fruits, nutrition based products by TCPL, (2) Fruit drinks, dry fruits, edible oil by Dabur, (3) energy & milk based beverages by VBL, (4) oats, honey, healthy noodles, soya chunks by Marico, (4) chocolate, milk products by ITC. Moreover, the industry continues to focus on expansion of direct distribution network & ecommerce channel
- Commodity inflation remain at an elevated level for most of Q1FY23. Crude, caustic soda, edible oils, fuel prices were up 40-50% YoY during the quarter. Similarly, milk, wheat & other agri commodities have seen inflation specifically after the Russia-Ukraine war. However, copra & tea prices were benign during the quarter after 15-20% fall in last one year. Our coverage universe gross margins were down 146 bps. HUL, Nestlé, Colgate & Varun Beverages saw 300 bps contraction whereas Dabur, ITC & Zydus witnessed 100-200 bps contraction. Due to favourable tea & copra prices, Marico & TCPL saw 400 bps & 190 gross margin expansion, respectively. Most companies cut their advertisement spends to safeguard operating margins. Our coverage universe saw small 17 bps operating margin dip & 25.6% growth in net profit
- In the last few quarters, volume growth was adversely impacted due to slower demand conditions specifically in rural regions considering consumer started shifting towards economy brands & lower SKUs. Grammage reduction in smaller packs also impacted volume growth. Given inflation in palm oil & crude started cooling off in last two months, FMCG companies would be able to re-store grammges and prices. We believe volume growth as well as gross margins would recover from Q3 onwards. Moreover, companies foraying into large opportunity size categories would be able to grow at a sustainable pace in the long run

Hotels: Year begins on strong note; Reports best ever margin, so far, in Q1FY23…

- After passing through a long challenging phase of two years, FY23 began on a strong note in terms of growth and healthy margin expansion as per the recent Q1 performance. The average revenue of I-direct universe improved sharply by 286% YoY to ₹ 1800 crore for the quarter. It also surpassed pre-Covid levels by 24% compared to Q1FY20
- Pat two years have been very challenging for the sector due to pandemic related setbacks. However, gradual re-opening of economy in FY22 led to a rise of revenge tourism across domestic leisure destinations while corporate demand segment remained lukewarm. Now with full resumption of the economy from Q1FY23, the corporate demand and MICE segment also joined the growth bandwagon. This, in turn, helped hotel players to raise room tariffs without disturbing demand. In Q1FY23, average room rates was reported to be even higher by 20-25% vs. pre-Covid levels. This led to sharp revenue growth of over 24% vs. pre-Covid levels while it was up 280% YoY on a lower base
- Hence, the change in the strategy from occupancy led growth during pre-Covid era to ARR led growth was clearly visible in the current quarter. Further, major hotel players utilised long 18-24 months of pandemic phase to structurally realign their cost base and become leaner in terms of costs. The reported EBITDA margin of 30.3% for Q1FY23 is one of highest ever margin reported so far in the past 10 years
- In term of seasonality of the hotel business Q2 and Q1 (April-September) are the weak seasons for the hotel sector while Q3 and Q4 combined together (October-March) generate over 60% of total revenue. However, looking at the strong performance in the seasonally weak quarter, H2FY23 (i.e. peak season) is now looking more promising

Occupancy trend (%)



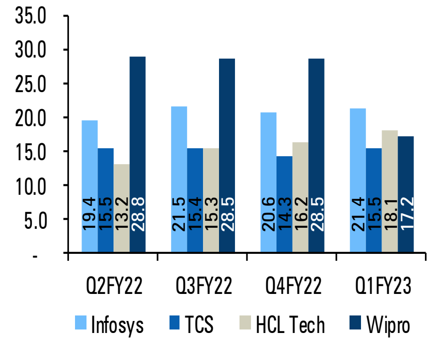
Source: Crisil, ICICI Direct Research

This season will also have an advantage of influx of foreign tourists who generally visit India for long haul vacation. They so far have not participated meaningfully in the current business performance. Hence, given this strong tailwind, we expect room tariffs to inch-up further and support strong occupancy as well. Overall, we expect "Occupancy+ARR led" growth during H2 that would also support further margin expansion in our view

Information Technology

- Q1FY23 saw execution pick up for IT companies as it is a first full quarter of execution (barring company specific seasonality) after full/partial impact of furlough in Q3 and Q4. The demand environment continues to be strong, which reflects in healthy order book growth. However, companies did mention about weakness in a few pockets as far as tech spending is concerned due to some impact of macro headwinds. The weakness largely pertains to BFSI and retail verticals. It is also heartening to see no downward revision in revenue growth guidance in FY23 by any of the companies. On a reported basis, there was weakness in Europe region revenues, which can be largely explained by sharp GBP and Euro depreciation against US$ while CC growth remained stable there. Rupee depreciation against US$ help in strong revenue growth in rupee terms for the quarter. Tier I companies reported average constant currency growth of 18.1% YoY while Tier II companies posted CC growth at an average of 24.0% YoY. Operating margins were under pressure for both Tier I & Tier II companies due to implementation of wage hikes in few while increase in sub-contractor cost, uptick in travel related expenses & persistence of supply side challenges in others. Tier I companies reported margin swing of -150 to -200 bps QoQ. Tier II companies reported EBIT margin swing of +30 to -300 bps QoQ. LTM attrition remains elevated for most companies while hiring trend was a mixed bag
- **CC growth a mixed bag**: TCS reported 1.3% QoQ, 10.2% YoY dollar revenue growth while in CC terms, it grew 3.5% QoQ, 15.5% YoY. The growth was driven by North America (53% of mix) growing 19.1% YoY in CC terms while vertical wise the growth was driven by BFSI, retail & healthcare reporting growth of 13.9%, 25.1% & 11.9% YoY in CC terms. Infosys's revenues increased 5.5% QoQ, 21.4% YoY in CC terms while dollar revenues increased 3.8% QoQ & 17.5% YoY. Geography wise North America (62% of mix) led the growth with 4.5% QoQ growth while vertical wise it was driven by retail/communications/energy & manufacturing. ***Infosys increased its revenue growth guidance to 14-16% in CC terms for FY23 from earlier 13-15% due to the strong order pipeline.*** Wipro's IT services revenues increased by 2.1% QoQ & 17.2% YoY in CC terms while dollar revenues were up 0.5% QoQ & 13.3% YoY. The growth was driven by BFSI/communication/consumer verticals. HCL Tech (IT services) reported revenue growth of 2% QoQ & 18.1% YoY in CC term while in dollar terms it reported growth of 0.1% QoQ. Geography wise America region (64% of mix) grew 2.8% QoQ in CC terms while vertical wise growth was driven by technology & services, telecommunications, manufacturing & life science. **HCL Tech maintained its guidance of 12-14% revenue growth in CC terms for FY23.** Tech M's revenues increased 3.5% QoQ & 21.2% YoY in CC terms while it was up 1.5% QoQ & 18% YoY in dollar terms. The growth was aided by manufacturing, retail & technology, which grew by 4.2%, 5.5% & 5.9% QoQ, respectively. LTI reported constant currency growth of 2.9% QoQ & 26.6% YoY while dollar revenue increased 1.7% QoQ. The revenue growth was driven by BFSI vertical. Mindtree reported a sixth consecutive quarter of 5%+ constant currency QoQ growth at 5.5% while dollar revenue grew 4% QoQ. The growth was driven by Travel & hospitality, BFSI & technology while geography wise North America (77% of mix) reported growth of 8.5% QoQ. Coforge's dollar revenue grew 2.7% QoQ & 19.5% YoY while in CC terms it reported growth of 4.7% QoQ. America region reported a growth of 5.6% QoQ while vertical wise the revenue growth was led by BFS vertical with 9.4% QoQ growth. ***The company increased its revenue growth guidance in CC terms to at least 20% growth from earlier 20% growth in FY23***

Dollar revenue growth trend



Source: Company, ICICI Direct Research

- **Margins impacted by wage hike for few while supply side challenges for others:** Operating margins were impacted due to wage hikes rolled out in the quarter for few companies while for others, it was on account of supply side challenges, increase in sub-contractor expenses as well as in travel & visa related expenses. TCS EBIT margin declined 185 bps QoQ to 23.1% due to annual wage hike, increase in sub-contractor cost & travel expenses. Infosys EBIT margin declined 150 bps QoQ to 20.1% due to wage hike, lower utilisations & higher sub-contractor cost mitigated by currency depreciation & reversal of certain contractual provisions. **Infosys maintained its EBIT margin guidance band of 21-23% but it indicated that margins will be in lower end of band.** Wipro reported 200 bps QoQ EBIT margin decline to 15.0% due to drop in utilisations, high sub-contractor cost & internal investment. **Wipro indicated that its margins have bottomed out and margins will recover from Q2 onwards.** HCL Tech's IT services EBIT declined 180 bps QoQ to 15.7% due to high sub-contractor cost, retention cost & travel related expenses. HCL Tech's overall EBIT margin declined 90 bps QoQ to 17%. **HCL Tech maintained it EBIT margin guidance in the range of 18-20% in FY23 but it has indicated that margins could be at the lower end of band.** Tech M's EBIT declined 220 bps QoQ to 11% due to higher employee cost, higher sub-contractor cost, increase in travel expenses & normalisation of SGA expenses. EBIT margin of LTI declined 130 bps QoQ to 16% due to increase in employee cost & travel related expenses while Mindtree's EBIT margins increased ~20 bps QoQ to 19.2% due to currency tailwinds and operational efficiency. Coforge's EBIT margin declined ~300 bps to 12.5% due to wage hike & increase in SGA expenses
- **Net hiring mixed:** LTM attrition remained at an elevated level as supply side challenges persisted but some moderation was visible for a few. All companies reported increase in LTM attrition except Wipro & TechM. Hiring trend was mixed as some reported seasonal weakness in hiring while for other hiring continue to be strong. Hiring for Mindtree (fourth consecutive quarter of 1500 fresher additions) as well as for Infosys, Wipro remained strong (net additions of 21,000, 15,000, respectively, for them) while that of TechM, LTI, Coforge, HCL Tech & TCS reported relatively muted net additions. Most IT companies, however, indicated that it will continue with its fresher hiring programme for pyramid optimisation

Infrastructure and real estate

Infrastructure

- **Strong revenue growth; momentum to continue:** Overall revenue for our roads and construction coverage universe witnessed strong growth, rising 32.9% YoY (to ₹ 10,974 crore) driven by their comfortable order book (OB) positions and healthy pick-up in execution. Additionally, operating performance during Q1FY23 was buoyant (up 97 bps QoQ; down 13 bps YoY) aided by softening of raw material prices, and receipt of early completion bonus (for some companies). Among key companies, a) PNC Infratech- reported 40.5% YoY revenue growth, margin were elevated at 14.7% with receipt of bonus; b) KNR Constructions- delivered 20.4% YoY growth in topline; margin moderated to 18.5% (still best-in-industry) due to change in project mix; c) HG Infra- revenue improved 16.6%; EBITDA margin stood at 15.2%; d) GR Infraprojects: revenue improved 16.1% YoY; margin improved to 19.6% with bonus receipt, and e) NCC: delivered 56.3% YoY growth in revenue; margin moderated to 9.5%. Going forward, EPC players have guided for healthy topline growth with picked up execution pace on elevated level of executed OB position. Also, margins in most of the companies are likely to move northwards with moderation in raw material prices & better o/p leverage. However, in some cases, reported margin likely to come under pressure with change in project mix towards lower-margin projects, and higher share of fixed price contracts.

Awarding activity benign in Q1; inflows expected ahead: *The construction activities during April-July'22 were affected largely due to elevated level of input prices, labour shortages, and early onset of monsoon. Due to these, MoRTH's construction pace has reduced to 2,493 km during April-July 2022 (vs 2,927 km in April-July 2021). Also, awarding activities were benign with tendering figure at 1,975 km during April-July'22 (vs 2,434 km during same period in previous year). Developers expect construction, awarding activities to improve during balance-FY23 with softening in input costs, normalized operations and strong order pipeline. Currently, the order book (OB) position for majority of infrastructure companies under coverage remains healthy (overall OB/TTM revenue at 2.9x). Among key companies, a) PNC Infratech: OB stood at ₹ 20,446 crore (3x TTM revenues), guidance at ~₹ 8,000-10,000 crore for FY23; b) HG Infra Engineering: OB healthy at ₹ 11,508 crore (3.1x book to TTM revenues), guidance of elevated level of inflows (~₹ 10,000 crore during FY23), c) GR Infraprojects: comfortable OB position at ₹ 17,597 crore (2.2x TTM revenues), targeting order inflows of ~₹ 15,000 crore in FY23; d) KNR Constructions: OB strong at ₹ 9,351 crore (2.7x book to bill), aiming minimum inflows of ₹ 3,000 crore during FY23; d); and e) NCC: OB robust at ₹ 37,838 crore (3.4x book to TTM bill).*

Real Estate

- **Sales Volume:** The real estate industry witnessed a strong performance with robust sales volume YoY on a benign base. While QoQ volumes dipped for most; sustenance sales remained healthy. Prices of flat/units have seen uptick on QoQ basis and likely to continue with robust underlying demand and input cost inflation. Further, commentary suggest that the industry has not witnessed any major impact of recent interest rate hike on housing demand. **Brigade Enterprises** achieved sales volume of 1.24 mn sq feet (msf), up 61% YoY. Modest launch of ~0.5 msf vs. 1.9 msf in Q4 led to QoQ volume dip by 20%. The sales value at ₹ 814 crore was up ~70% YoY. Realisations were up ~5% YoY at ₹ 6589/sq ft. led by better project mix. Going ahead, the company has ~9.5 mn sq ft in upcoming projects

Oberoi Realty sold *~ 4.01 lakh sq ft area during Q1FY23, up 3.6x YoY (with total booking value of ₹ 761 crore). On a QoQ basis, sales volume has declined 23% with Worli project volumes not taking off and sequential softness in Borivali/Mulund volumes. The company is looking to launch a new project in Thane during festive season (Q2FY23 end). Additionally, the management is planning to launch subsequent phase of Borivali/Goregaon in H2FY23, given the lower available inventory now in these locations. On the financial front, revenues of our real estate universe grew 174% YoY to ₹ 2,390 crore while EBITDA was up 236% YoY at ₹ 1048 crore*

- **Mall, hospitality segment reflects strong consumption recovery**: **Brigade:** Retailer' sales consumption witnessed growth of 35% YoY over pre-Covid levels. has leased out 0.4 mn sq ft during Q1FY23 (vs. 0.5 mn sq ft in Q4FY22) taking occupancy at two-years high. Rental revenues at ₹ 175.4 crore, up 57% YoY, saw robust recovery with new leasing of 0.41 msf. As of now, the company have an active pipeline of ~1 mn sq ft. Hospitality revenue improved 33% (to ₹ 90.7 crore) as compared with Q1FY20. Going forward, the management expects majority of hard option area (0.4 mn sq ft) and yet to transacted area (1.7 mn sq ft) to get leased by FY23- end. **For Oberoi Realty**, Westin Mumbai Garden City project revenue jumped 4.5x YoY (52.6% QoQ) to ₹ 34.8 crore backed by improvement in occupancy level (to 91.3%in Q1FY23 vs. 38.7% in Q1FY22 & 54.7% in Q4FY22) and rise in average room rates (to ₹ 9,116 in Q1FY23 vs ₹ 4,685 in Q1FY22). Commerz-I revenues improved 8.6% YoY to ₹ 7.8 crore aided by stable occupancy level (at 53.5%). For Commerz-II, revenue dropped 15.1% YoY (to ₹ 27.2 crore) primarily due to decline in occupancy level (to 80.9%). For Oberoi Mall, the company has booked revenue of ₹ 37.6 crore during Q1FY23 (vs. ₹ 3.2 crore reported in Q1FY22 and ₹ 30.2 crore reported in Q4FY22) with normalisation in mall operations.

For Phoenix Mills*: Retail revenues grew by ~2.5x YoY at ₹ 408.6 crore while hospitality revenues were up by 5.4x YoY at ₹ 95.9 crore. Retail rental reached ₹ 322.4 crore, at ~124% of Q1FY20 (pre-Covid level) and ~113% on a like-to-like basis. Consumption in Q1FY23 was ~123% of Q1FY20 (pre-Covid) and ~111% on a like to like basis). Most importantly, the momentum in consumption has remained healthy across malls during July 2022 (at 133% of July 2019 and at 121% on like to like basis).*

Logistics

Strong growth in the Exim cargo segment (especially commodities like coal, petroleum products), express segment and rebound in the auto 3PL division led to higher topline (up 11% QoQ) and bottomline growth (up 7% QoQ). Adani Ports grew 21% QoQ led by 16% ports cargo volume growth (however, container volumes grew mere 6% QoQ). The management expects thermal and coking coal volumes to grow strongly in FY23 in spite of comfortable thermal coal inventory levels in power plants. Strong momentum of E-Way bill generation continued in Q1 (7.4 crore average), which along with rebound in auto logistics led to strong growth and margin expansion in 3PL players such Mahindra Logistics, while TCI saw positive product mix. Rail players saw a positive quarter, with the dominant player Concor increasing its profitability by 14%, largely due to higher growth and realisation in the domestic segment & lower LLF charges. Air freight player BlueDart reported a strong performance on the topline (up 11% YoY), led by continued traction in the utilisation levels & growth in E-Commerce vertical

Semiconductor scenario is getting better, with increased volumes across players. However, waiting times in case of compact SUVs and large SUV remains lengthy. Strong booking for newer launches, indicates a better H2 season

Among other key developments in sector:

- Gangavaram NCLT approval is expected to be completed by the current quarter, post which the numbers would be consolidated with APSEZ, retrospectively from 1st April, 2021
- Concor management highlighted that the domestic business was witnessing strong traction. However, the Exim segment was softer due to various macro & global geopolitical issues. With easing of logistics bottlenecks & likelihood of stability in geopolitical scenario the company is hopeful of pick up in the EXIM segment over the next few quarters
- On Mahindra Logistics front, auto sector has been strong in Q1. The volumes have risen over pre-Covid levels. However, high cost of borrowing and ownership (in rural areas) have kept 2W volumes in check

TCI Express had launched three new services Pharma Cold Chain Express, C2C Express and Rail Express in FY22, which are seeing good acceptance among customers. The company expects to take a price hike of 3-4% in FY23 whereas last year it took a hike in the range of 2.5%

Gateway Distriparks expects growth only in the rail segment, while CFS is expected to remain flat to negative. Similarly, the company has upgraded its capex guidance (to be utilised mainly in the rail segment). The company plans to build 2 new ICDs in North and also in medium to long term, purchase 9 train sets (with upgraded axle load)

APSEZ management would soon come out with its strategy around last mile logistics and acquisition of own fleet of trucks

Media

Media sector saw mixed performance among segments. Multiplexes had a relatively robust quarter with strong box office collection. Broadcasters, had a mixed ad performance with FMCG companies cutting ad spends and Sun TV posting superior numbers on the back local retail exposure.

- **Broadcasters:** Zee reported domestic ad growth of ~6% YoY as it faced dual pressure of viewership softness due to Zee Anmol exit from free to air (FTA) and lower time spent per viewers) and input price pressure restricting the FMCG ad spend. Overall subscription revenues declined 5% YoY largely owing to ~7% decline in domestic subscription owing to pricing embargo impacting TV subscription growth along with some impact by timing of some B2B deals and renewals EBITDA margins at 12.8% was down 661 bps QoQ, due to lower revenues and higher marketing cost on a YoY basis, on account of new launches in linear business and continued investments in ZEE5. Advertisement revenues came in at ₹ 343 crore (up 40.8% YoY) aided by superior exposure to local retail which saw strong recovery. The company also reported IPL revenues of ₹ 243 crore. We believe subscription revenue was muted YoY. EBITDA came in at ₹ 764 crore, up 54.3% YoY while EBITDA margins came in at 64%, up 288 bps YoY, largely owing o/p leverage

TV Today reported a weak set of numbers. Topline came in at ₹ 218.2 crore, up 7% with TV and other media (clubbed segment of broadcasting and digital) revenues at ₹ 214.6 crore (up 7 % YoY). Reported EBITDA came in at ₹ 47.3 crore, down 9.6% YoY with EBITDA margins at 21.7% (down 399 bps YoY, impacted by higher employee costs (up 27% YoY) which was front ended cost of digital initiatives.

- **Multiplexes:** Multiplexes' business saw a robust performance led by strong box office collection. Inox box office revenue was at ₹ 353 crore (up 75% QoQ) and ad revenues of ₹ 30 crore (at 64% of pre Covid level). The company reported ₹ 164 crore of F&B revenues, up 89% QoQ, with SPH at ₹ 96 was up 11.6% QoQ. The footfalls were up ~67% QoQ at 18.4 million and ATP at ₹ 229 was up ~5% QoQ owing to slate mix. EBITDA (ex- Ind AS116) was at ₹ 123 crore with margins of 21.3% (better than pre Covid levels of 20%) given the strong box office performance.

PVR reported strong performance with box office revenue of ₹ 530.2 crore (up 80% QoQ; 16% higher than precovid). The company reported ₹ 323.8 crore of F&B revenues, up 90% QoQ, with SPH at ₹ 134 was up 10% QoQ. The ad revenues of ₹ 62.7 crore (68% of precovid). The footfalls were up ~75% QoQ at 25 million and ATP at ₹ 250 was up ~3% QoQ owing to slate mix. EBITDA (ex- Ind AS116) was at ₹ 189 crore with margins of 19.3% (better than pre Covid levels of 18%) given the strong box office performance

Metals & Mining

- On aggregate basis, during Q1FY23, the topline our metal sector coverage universe was at ₹ 195908 crore, up 26% YoY, but down 10% QoQ, higher than our estimate of ₹ 186979 crore. EBITDA for our coverage universe for the quarter was at ₹ 40224 crore, down 12% YoY and 15% QoQ, higher than our estimate of ₹ 33005 crore. For Q1FY23, aggregate EBITDA margin of coverage universe was at 20.5% compared to our estimate 17.7%. Ensuing PAT of the coverage universe for the quarter was at ₹ 22242 crore higher than our estimates of ₹ 17743 crore
- During Q1FY23, Tata Steel reported a healthy performance, primarily aided by robust performance from European operations, which reported a strong beat on the EBITDA front aided by long term contracts and product mix. For the quarter, Tata Steel European operations reported EBITDA/tonne of US$365/tonne significantly higher than our estimate of US$250/tonne. For Q1FY23, Tata Steel standalone operations also reported steady operational performance for Q1FY23. Tata Steel standalone operations reported adjusted EBITDA/tonne of ₹ 21326/tonne, higher than our estimate of ₹ 20500/tonne.
- Hindalco reported healthy performance. For Q1FY23, Hindalco's Indian Aluminium Business EBITDA stood at ₹ 3430 crore higher than our estimate of ₹2494 crore. For the quarter, Aluminium India Business EBITDA/tonne (after adjusting for Intersegment profit/loss elimination and metal price lag) stood at US$1291/tonne, notably higher than our estimate of US$950. During the quarter, Hindalco's Indian aluminium business was supported by utilisation of lower costs inventories which resulted in lower costs for the quarter. The healthy performance from Novelis also augured well for Hindalco's consolidated operations. For Q1FY23, Novelis reported Adj EBITDA/tonne of US$583/tonne as compared to US$437/tonne in Q1FY22 and US$522/tonne in Q4FY22

In Q1FY23E, majority of base metal prices (except zinc) witnessed a declining trend on a QoQ basis. During the quarter, average zinc prices on LME were at US$3904/tonne, up 34% YoY, 4% QoQ. During the quarter, average lead prices were at US$2192/tonne, up 3% YoY, but down 6% QoQ. In the quarter, average aluminium prices on LME were at US$2872/tonne, up 20% YoY, but down 12% QoQ. Average copper prices for the quarter on LME were at US$9508/tonne, down 2% YoY, 5% QoQ.

Coal India (CIL) reported a healthy performance in Q1FY23. For the quarter, topline, EBITDA and PAT, all came in higher than our estimates. Better-than-expected E-auction realisation aided CIL's performance for the quarter. For Q1FY23, Coal India's E-auction realisation for the quarter was at ₹ 4340/tonne, up 177% YoY and 78% QoQ (significantly higher than our estimate of ₹ 2800/tonne). Aided by better than expected E-auction realisations, consolidated EBITDA and EBITDA/tonne came in notably higher than our estimate. Consolidated EBITDA for the quarter was at ₹ 12251 crore, significantly higher than our estimate of ₹ 8436 crore. EBITDA/tonne for the quarter was at ₹ 690/tonne as compared to our estimate of ₹ 475/tonne.

Oil & Gas

- Oil & gas companies reported a mixed set of numbers in Q1FY23. Oil marketing companies' (OMCs) reported sharp losses owing to weaker marketing margins. City gas distribution (CGD) companies earnings were in-line/better than estimates while upstream companies' profitability increased on the back of higher oil & gas realisation
- On OMCs front, IOC and HPCL's crude throughput increased ~4% and ~3% QoQ whereas BPCL 19.3% QoQ growth as it reported numbers on consolidated basis post the merger with its subsidiary. On a YoY basis, IOC's crude throughput increased 13.3%. BPCL and HPCL reported sharp growth of 41.7% & 91.6% owing to reporting of consolidated numbers & lower base effect due to shutdown, respectively. Refining margins saw mixed trend with reported GRMs in range of US$16.7- 31.8/bbl. IOC's GRM was above estimates at US$ 31.8/bbl. BPCL's GRM was in line with estimates at US$ 27.5/bbl while HPCL's GRM was below expectations. GRMs were sharply up on both QoQ & YoY basis amid increase in product cracks during the quarter. Marketing sales increased in the range of 22-24% YoY on a favourable base. OMCs did not pass on increased crude oil costs to retail customers which resulted in significant losses on marketing front. Subsequently, all three companies reported net losses.
- ONGC's oil & gas production increased 1.9% and 1.4% YoY, respectively. Oil realisation improved ~65% YoY while APM gas realisation (revised upwards from April 1) also increased 208% YoY leading to higher revenues. Profitability was sharply up YoY and QoQ driven by revenues
- Reliance Industries' results were below estimates on the profitability front on account of weaker-than-expected oil-to-chemicals (O2C) earnings. On YoY basis, operational profitability was higher mainly driven by O2C (up ~63% YoY) and digital service (up ~26% YoY) segments on account of better GRMs in O2C coupled with higher ARPU driven by tariff hike

Key parameters in Q1FY23

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Singapore GRMs ($/bbl)	2.1	3.8	6.1	8.1	21.5
Crude Oil ($/bbl)	68.6	73.0	79.4	99.5	112.8
APM Gas (NCV) (US$/mmbtu)	2.0	2.0	3.2	3.2	6.7

Source: Bloomberg, ICICI Direct Research

On the CGD front, IGL and MGL reported volume growth of ~48% and 44% YoY, respectively due to lower base effect. Due to reduced offtake in industrial segment, Gujarat Gas reported ~3% YoY volume de-growth. The companies hiked prices to pass on increase in gas procurement costs. IGL and Gujarat Gas reported higher than expected gross margin while MGL reported lower than expected gross margin. Subsequently, PAT was in-line/better than expected for all CGD companies. IGL reported ~72% YoY increase in earnings while MGL and Gujarat Gas reported PAT decline of 9% and 20% YoY., respectively. Gail India reported better earnings YoY as well as QoQ on account of higher trading gains

Pharmaceuticals & hospitals

- I-Direct Pharmaceutical universe (13 coverage stocks) revenues grew 9% YoY to ₹ 47501 crore driven mainly by currency tailwinds and CRAMs even as consolidated Indian formulation print was flat on account of high Covid base. Indian formulations (select pack) was flat YoY to ₹ 12510 crore. Ex-Covid, however, domestic branded formulations reported decent traction on the back of 1) annual price hike, 2) expansion of field force and market penetration and 3) improvement in patient footfalls at clinics.
- US business (select pack) expanded 7% YoY to ₹ 12610 crore. The growth was supported by 1) currency and 2) Outliers such as Sun (Specialty traction), Cipla (respiratory traction) and Biocon (Biosimilars traction). But for these tail-winds (1 and 2) the underlying growth was anaemic. As per various management comments, US base business price erosion is specific but still very much present. US heavy companies have started to restructure US portfolio with goal to have more complex and margin accretive launches in future. US growth theme continues to revolve around complex models such as injectables, respiratory, specialty and biosimilars.
- CRAMs segment on the other hand continued to report significant traction with outsourcing momentum for players like Laurus Labs (custom synthesis) continued during the quarter. CRAMS businesses (select coverage) grew 37% YoY to ₹ 2446 crore due to execution of order book and business expansion
- Generic API remained under pressure across the board due to 1) raw material inflation and availability, 2) pricing pressure in generic APIs and 3) high Covid base of Q1FY22. API segment (select pack) overall sales contracted 1% YoY to ₹ 4791 crore. Generic APIs challenges have not improved substantially from last quarter as rise in cost of key starting materials, power and freight along with inability to pass on the cost due to 1) nature of contracts and 2) pricing pressure for formulators continue to affect overall business
- Europe sales growth was at 1% YoY to ₹ 2709 crore. Company specific growth, Ajanta Pharma – 27% (traction for branded business in India and low base in exports), Biocon – 21% (strong performance in Biosimilars on back of glargine in US and low base in US generics along with steady momentum in contract research) and Laurus labs – 20% (driven traction in CRAMS amid demand from new and existing clients)
- On the margins front, EBITDA margins declined 425 bps YoY to 20.7% for I-direct universe (select pack) due to 1) YoY increase in pricing erosion in US and 2) rise in input, logistic and power cost. In value terms it contracted 9% YoY to ₹ 9820 crore. Going ahead, margin pressure is likely to remain for another quarter amid gradual softening of raw material prices and some gradual respite on logistics front. Net Profit de-grew 10% YoY to ₹ 6017 crore.
- **Hospitals:** I-Direct Hospitals universe (five coverage stocks) revenues grew 5% QoQ to ₹ 8101 crore. Hospital business is now trending at pre-Covid level in-terms of higher footfalls and increase in surgeries count along with better cost optimisation practices. Trend for better occupancy levels and higher demand for elective surgeries has continued from Q2FY22, Q3FY22 after a Covid led blip in last quarter
- On the company specific QoQ growth, Apollo Hospital – 7% (strong growth in hospitals and pharmacy partly offset by AHLL), Narayana Hrudayalaya – 10% (strong traction for flagship hospitals while Cayman island was impacted by Covid), Aster DM – de-grew 2% (growth in India was offset by GCC operations), Healthcare Global – 12% (strong traction for both new and mature HCG centres) and Shalby - 24% (return of in-patient volume and surgeries in Q1FY23)

Sales from India, US and Europe

India					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Alembic	480	481	-0.2	449	6.9
Ajanta	279	229	21.8	245	13.9
Zydus Li	1,125	1,357	-17.1	1,164	-3.3
Ipca	685	613	11.7	552	24.1
Lupin	1,492	1,636	-8.8	1,351	10.4
Cipla	2,483	2,710	-8.4	2,183	13.7
Dr Reddy	1,334	1,060	25.8	969	37.7
Sun Pha	3,387	3,308	2.4	3,097	9.4
Torrent	1,245	1,093	13.9	1,034	20.4
Total	12510	12487	0.2	11043	13.3
US					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Alembic	367	369	-0.5	557	-34.1
Ajanta	179	168	6.5	168	6.5
Aurobind	2,971	2,681	10.8	2,728	8.9
Zydus Li	1,559	1,428	9.2	1,423	9.5
Cipla	1,199	1,038	15.5	1,209	-0.8
Lupin	1,010	1,333	-24.2	1,416	-28.7
Dr Reddy	1,782	1,739	2.4	1,997	-10.8
Sun Pha	3,244	2,800	15.8	2,925	10.9
Torrent	299	266	12.4	282	6.0
Total	12610	11822	6.7	12705	-0.7
API					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Aurobind	907	812	11.6	913	-0.7
Alembic	233	279	-16.5	222	5.0
Laurus L	583	549	6.1	539	8.2
Zydus Li	122	136	-9.7	136	-10.2
Divi's La	874	842	3.7	747	17.0
Ipca Lab	375	414	-9.5	258	45.5
Lupin	255	246	3.7	220	15.8
Cipla	135	302	-55.3	137	-1.5
Dr Reddy	709	754	-6.0	756	-6.2
Sun Pha	599	515	16.3	414	44.8
Total	4791	4849	-1.2	4341	10.4
Europe					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Aurobind	1,548	1,583	-2.2	1,541	0.5
Zydus Li	61	60	2.5	63	-3.0
Cipla	277	252	10.0	286	-3.2
Dr Reddy	414	399	3.7	444	-6.8
Lupin	194	119	63.4	197	-1.4
Torrent	214	260	-17.7	218	-1.8
Total	2709	2673	1.3	2750	-1.5

Source: Company, ICICI Direct Research

In the hospitals space, on the margins front, EBITDA margins contracted 193 bps QoQ to 13.4% for I-direct universe (select pack) mainly due to softer margins for Aster DM on back of 1) loss of Covid PCR testing in GCC and 2) seasonality in Q1FY23 hospitals due to festivities in GCC. Going ahead, margins are likely to improve on back of better operating leverage emanating from higher occupancy levels, maturing profile of newer hospitals, increase in international patient mix and focus on better case mix. Subsequently, EBITDA de-grew 8.5% QoQ to ₹ 1087 crore and Net Profit grew 30% QoQ to ₹ 522 crore.

Retail

- Buoyed by strong festive/wedding season and a normalised quarter after a gap of two years, lifestyle retailers displayed a strong show with robust topline growth. Revenue recovery rate for most apparel players was the highest in Q1FY23 (115-140%). On a favourable base, our retail coverage universe reported revenue growth of 146% YoY with impressive three-year CAGR of 17%. Trent continues to be the outperformer with sales more than doubling vs. pre-Covid levels (three-year CAGR 29%). Most of the companies undertook price hike in the range of 12-15% (YoY) to offset spike in RM inflation. While price hikes did have an impact on price sensitive audience (ASP<₹ 400, V-Mart & Relaxo witnessed volume de-growth), mid-premium to premium segments (ABFRL, Shoppers Stop) were more or less insulated. Companies postponed EOSS period and reduced discounting days as demand continued to be strong throughout Q1FY23. Despite inflationary pressures, our retail coverage universe maintained EBITDA margins at pre-Covid levels of 14%. Store addition trajectory was decent in Q1FY23 (store addition: 10 D-Mart stores, four Westside, 11 V-Mart, four Pantaloons, 10 Zudio), with expectation of trajectory to accelerate from Q2 onwards.

Key trends (company Specific):

- **Titan Company:** The jewellery division reported robust sales growth of 204% YoY (impressive three year CAGR: 24%). Share of studded ratio surpassed pre-Covid levels with contribution increasing by 400 bps YoY to 26.0%. Wedding segment too registered healthy growth of 178% YoY, however contribution to overall sales declined marginally. Capital employed for jewellery division has reduced sharply by 27% QoQ to ₹ 3891 crore, which is expected to result in strong FCF generation in Q1FY23 (It had significantly ramped its jewellery inventory in Q4FY22)
- **Trent:** Trent's Q1FY23 revenue print was a strong beat on our/consensus estimates. Sales on a favourable base grew 405% YoY. On a three-year CAGR basis, revenue growth was at 29%, which is the highest among other lifestyle retailers. The industry leading revenue growth is mainly owing to sustained robust trajectory of store addition pace (2x stores vs. pre-Covid levels) and is also supported by healthy SSSG for Westside format (24% over pre-Covid levels)
- **ABFRL:** Overall revenue recovery rate in Q1FY23 reached 139% of pre-Covid levels (I-direct estimate: 131%). The accelerated trajectory was on the back of robust growth in Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with revenues increasing 249% YoY (three year CAGR: 15%). Pantaloons reported its highest Q1 revenues with revenue recovery rate reaching 115% of pre-Covid levels. Owing to better product mix, price increases and delay in EOSS, gross margins improved ~510 bps YoY to 55.8%
- **Avenue Supermarts:** Reported strong revenue growth of 93.7% YoY crore (three-year CAGR: 20%). Over the last three years, the company expanded its square feet addition by an impressive three-year CAGR of 24% with average size of new stores being bigger (~50000+ vs. average 39000 sq ft). The new larger stores have never got an opportunity to function in normal circumstances over the last two years. Hence, the revenue throughput per sq ft remained below pre-Covid levels (Q1FY20: ₹ 9200, Q1FY22: ₹ 3405, Q1FY23: ₹ 8300). Recorded 12-quarter high gross, EBITDA margins (10.0%) owing to improvement in product mix (general merchandise & apparel which yields better margins)
- **Shopper Stop:** Owing to strong wedding season and wardrobe refresh, revenue recovery rate surpassed pre-Covid levels for first time in Q1FY23 (113% of pre-Covid levels). Customer footfalls have now reached near pre-Covid levels with average basket value higher by ~31% to ₹ 4344. The company has embarked on a healthy store addition plans with opening of 10 new departmental stores and 11 beauty stores in 9MFY23

V-Mart Retail: *As anticipated, revenue recovery for V-Mart is sluggish compared to other apparel players as higher RM costs and subsequent price hikes (17-20%) have materially impacted demand since the target audience is price sensitive. Also inflationary demand scenario has had a higher impact in Tier II-IV cites (V-MART has ~60% stores in Tier III-IV regions) as compared to urban region. Excluding the Unlimited format, revenue recovery stood at ~104% of pre-Covid levels.*

Page Industries: *On a favourable base, revenue for the quarter grew 167% YoY (three-year CAGR: 17%). Volumes grew 150% YoY to 64 million pieces (three-year CAGR: 9%), while average realisations improved 9% YoY to ₹ 210/piece. The company continued to enhance its distribution touchpoints, wherein it added 3167 taking the total count to 113715 touchpoints (~2x vs. pre-Covid levels). The growth was broad based with healthy recovery witnessed across all segments (men's, women athleisure and kids). Management continues to monitor the ongoing inflation concerns and expects to maintain EBITDA margin of around 21-22% on a sustainable basis.*

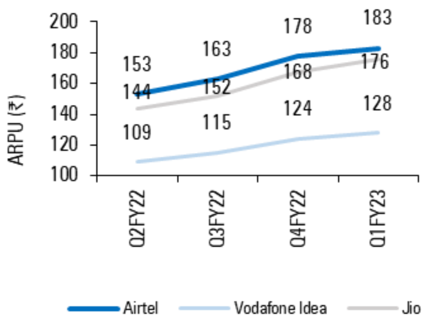
Bata India: *Revenue recovery rate was at 107% of pre-Covid levels vs. our expectation of 110% of pre-Covid levels. The management in the previous quarter had indicated that sales were tracking 11% ahead of pre-Covid levels (in April-May 2022) but it seems that trajectory may have slowed down in June 2022. Bata has maintained its gross margins sequentially at 57.0% (I-direct estimate: 57%) on the back of calibrated price hikes and improvement in product mix. It has enhanced its casual footwear portfolio and renewed sneaker category by rolling out new Sneaker Studios, which has led the growth recovery*

Relaxo Footwear: *In FY22, the company had undertaken one of the steepest price hikes (~25%) to combat significantly higher RM prices. This led to downward pressure on volumes. Overall revenue grew 34% YoY on a favourable base (104% of pre-Covid levels) with back of the envelope calculations suggesting flattish to early single digit volume de-growth. On account of price hikes and low cost RM inventory, Relaxo has been able to maintain gross margins in Q1FY23 at 54.1% (flattish QoQ and YoY). However, owing to higher other expenses (up 6% QoQ, 43% YoY) and negative operating leverage, company recorded multi-year low EBITDA margin to the tune of 12.9%*

Telecom

- **Jio leads subscriber addition:** Post SIM consolidation led three consecutive quarter of net subscriber decline, Jio added 9.7 million (mn) subs leading the overall subscriber addition in the industry. Airtel added 1.3 mn subscriber during the quarter, while VIL lost 3.4 mn subscribers. Airtel witnessed 4G net adds of ~4.5 mn during the quarter while VIL saw addition of merely 1 mn 4G subscribers
- **Residual benefits of tariff hike drive revenues growth**: For Airtel, India wireless revenues were up 3.4% QoQ (up 27.4% YoY) at ₹ 18220 crore, led by residual pass through of tariff hike driving ARPU, which came in at ₹ 183, up 2.8% QoQ. Jio's ARPU saw growth of 4.8% QoQ at ₹ 175.7, driven by residual pass through of tariff hike and subscriber mix with revenues at ₹ 21783 crore, up 4.7% QoQ. On the other hand, for VIL, revenues were up 1.7% QoQ to ₹ 10,410 crore, as ARPU grew ~3.2% QoQ to ₹ 128
- **Airtel only telco to witness margin expansion (India business)**: For Airtel, margins were at 50.4%, down 53 bps QoQ mainly owing to lower Africa margins, which were at 48.8%, down 110 bps QoQ. India wireless margins were at 51.2% (up 55 bps QoQ). Overall India margin was up 13 bps QoQ at 51%. It was the only telco to witness sequential margin expansion. Adjusted margins were at 43.9%. Jio's margins were at 50.1%, down 16 bps QoQ. For VIL, Reported EBITDA margins were down 529 bps QoQ to 40.1%. On adjusted basis, margins were down 380 bps owing to high marketing costs and one off post settlement with tower company
- **Others:** In the tower space, Indus Towers reported net addition of 591 co-locations vs. 685 co-location addition in Q4. Revenues came in at ₹ 6895 crore, down 3.1% QoQ with rental revenues at ₹ 4223 crore, down 11% QoQ. On an adjusted basis, like to like core rental revenues were up 0.6% QoQ EBITDA was at ₹ 2262 crore, down 44% QoQ, with margins at 32.8% (down 24 percentage points QoQ) owing to provision for doubtful debts of ₹ 1233 crore, against dues from Vodafone Idea. On adjusted basis, EBITDA was at ₹ 3495 crore, down 0.6% QoQ and margins of 50.7%, down 284 bps QoQ. Tata Communication marked by positive surprise on margins front and strong cash flow generation. The topline at ₹ 4311 crore, up 5.1% YoY & up 1.1% QoQ, with data revenues up ~7.6% YoY (up 1.2% QoQ) at ₹ 3340 crore. EBITDA margin was at 25% (up 95 bps YoY and up 47 bps QoQ), possibly owing to some benefit of US$ appreciation. Data EBITDA margin was at 29%, down 30 bps QoQ

ARPU trend



Source: Company, ICICI Direct Research

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