BFSI space (banks) lifts aggregate earnings…

ICICI direct Research

Q2FY23

Earnings Wrap

ICICI Securities – Retail Equity Research

November 21, 2022

- Ex-financials, aggregate Nifty earnings posted a muted show in Q2FY23. Topline growth at the Nifty level (ex-financials) was at 1.1% QoQ. However, operating profit was down 6.7% QoQ amid pressure on margins, which for the quarter was at 14.6%, down 123 bps QoQ. Gross margin decline was limited to 19 bps QoQ while employee costs & other expenses rose 28 bps & 76 bps, respectively. PAT, in Q2FY23, was down 6.7% QoQ, primarily tracking a decline in margins, but was supported by higher other income as well as lower effective tax rate (27.4% in Q2FY23 vs. 29.5% in Q1FY23). On a YoY basis, topline, bottomline growth at the index level was at 30%, -12%, respectively. Management commentary across businesses was positive on demand outlook (more so on domestic prospects) and with recent cool off in key commodity prices was hopeful of margin recovery in H2FY23
- Including financials (BFSI), at the Nifty level, mid-single digit sequential growth was witnessed across topline and PAT, indicating outperformance (~11-12%) of earnings by financials amid 6.7% earnings decline for the ex-financials domain
- Key positive for banks within the BFSI space was business growth (~17-18% YoY), margin improvement (~5-25 bps QoQ) and declining NPA ratio with healthy PCR. GNPA ratio for banks in our coverage declined in the range of 5-95 bps with average drop (all banks) being at ~33 bps. Even on an absolute basis, GNPA declined 8.4% QoQ, 15.5% YoY for the banking sector. Strong credit growth, absence of treasury losses seen in Q1FY23 and improvement in margins boosted earnings (70% jump YoY and 41% QoQ in coverage universe) though banks continue to invest in building of distribution capabilities
- Incorporating revised PAT numbers for index constituents post Q2FY23, our forward estimates witnessed an upgrade of ~1.3%, largely for FY24E. Over FY22-24E, Nifty earnings are seen growing at 14.9% CAGR. Keeping the same PE multiple, we now value Nifty at 20,000 i.e. 21x PE on FY24E EPS of ₹ 950. On forward earnings front, BFSI space witnessed healthy earnings upgrade (led by corporate banks) while marginal upgrades were witnessed in the FMCG, IT & oil & gas space

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

Nifty P&L (ex-BFSI space)	Sep-22	Sep-21	Jun-22	YoY (%)	QoQ (%)
Sales	**13,37,019**	**10,27,201**	**13,21,860**	**30.2**	**1.1**
Total Expenses	11,41,483	8,35,037	11,12,298	36.7	2.6
Raw material	6,78,178	4,65,077	6,67,995	45.8	1.5
Employee	1,51,562	1,29,123	1,46,127	17.4	3.7
Other expenses	3,11,743	2,40,836	2,98,176	29.4	4.5
Expenses (% of sales)					
Total Expenses	85.4	81.3	84.1	408 bps	123 bps
Raw material	50.7	45.3	50.5	545 bps	19 bps
Employee	11.3	12.6	11.1	-123 bps	28 bps
Other expenses	23.3	23.4	22.6	-13 bps	76 bps
Operating Profit	**1,95,536**	**1,92,164**	**2,09,562**	**1.8**	**-6.7**
OPM%	14.6	18.7	15.9	-408 bps	-123 bps
Other Income	22,243	24,172	18,280	-8.0	21.7
Interest	31,280	25,726	27,853	21.6	12.3
Depreciation	58,676	54,532	58,998	7.6	-0.5
PBT	**1,27,823**	**1,36,078**	**1,40,992**	**-6.1**	**-9.3**
Tax	35,069	30,866	41,582	13.6	-15.7
Tax Rate	**27.4**	**22.7**	**29.5**	**475 bps**	**-206 bps**
PAT	**92,754**	**1,05,212**	**99,410**	**-11.8**	**-6.7**

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

Nifty earnings summary (ex-financials)

₹ crore	Sep-22	Sep-21	YoY (%)	Jun-22	QoQ (%)
Sales	13,37,019	10,27,201	30.2%	13,21,860	1.1%
EBITDA	1,95,536	1,92,164	1.8%	2,09,562	-6.7%
PAT	92,754	1,05,212	-11.8%	99,410	-6.7%

Other indices broader earnings summary

	YoY growth (%) Sales	YoY growth (%) Net profit	QoQ growth (%) Sales	QoQ growth (%) Net profit
Nifty 50	**27.8**	**2.8**	**4.3**	**4.9**
BSE Midcap	17.6	-11.3	1.7	5.3
BSE Smallcap	23.0	16.3	1.0	-17.0
All Co's (4277 cos)	**26.3**	**-0.9**	**3.7**	**-0.9**

Positive surprises & Buys

- AIA Engineering
- Axis Bank
- ITC Ltd
- Maruti Suzuki
- State Bank of India

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target (Rolling 12 Months')

Earning Estimates	FY21	FY22	FY23E	FY24E
Nifty EPS (₹/share)	515	720	785	950
Growth (% YoY)	17.1%	39.7%	9.0%	21.1%
Earnings CAGR over FY21-24E				22.6%
Earnings CAGR over FY22-24E				14.9%
Target P/E Multiple on FY24E EPS				21.0
Nifty Target (using FY24E EPS)				20,000
Corresponding Sensex Target				66,600

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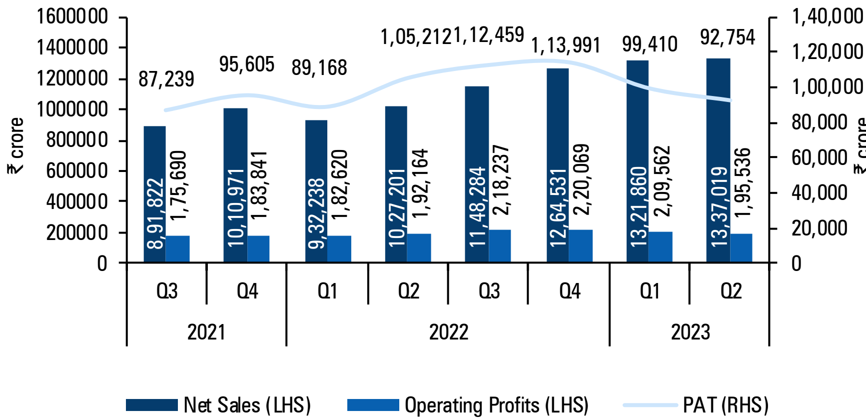
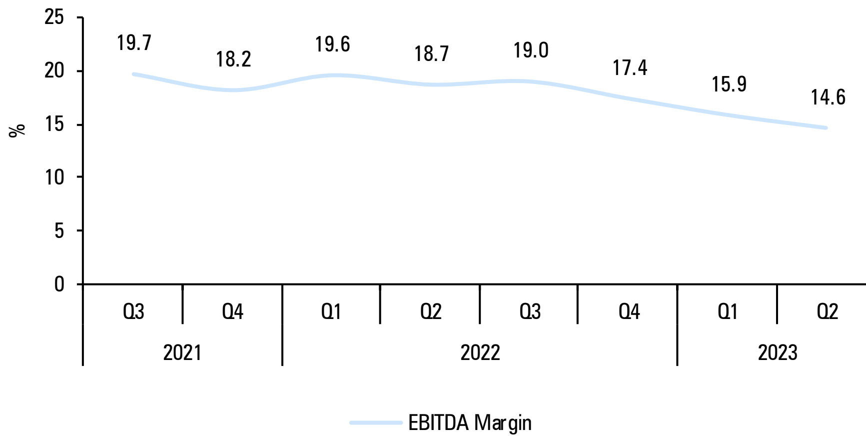
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, for Q2FY23, topline was up 1.1% QoQ to ₹ 13.37 lakh crore. EBITDA was down 6.7% QoQ to ₹ 1.95 lakh crore, tracking 123 bps sequential contraction in EBITDA margins to 14.6%. Ensuing PAT in Q2FY23 was at ~₹ 0.9 lakh crore, down 6.7% QoQ, supported by higher other income and lower effective tax rate

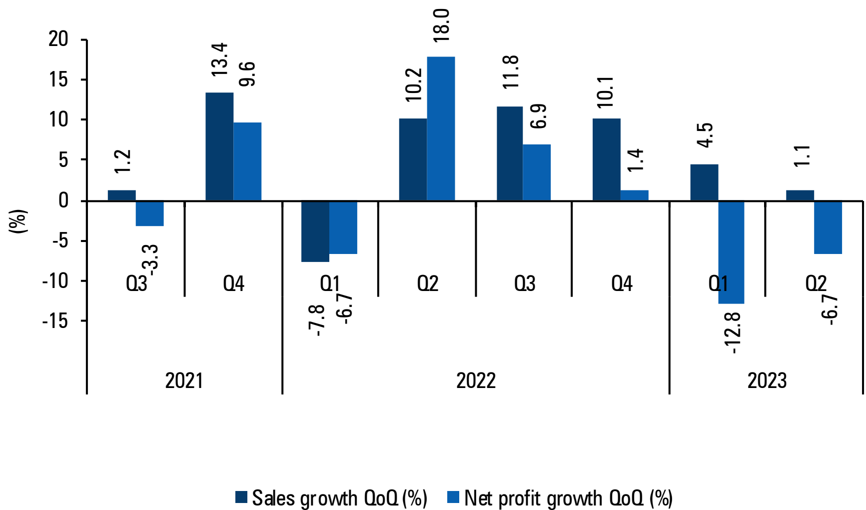
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q2FY23, EBITDA margins at the index level (ex-financials) were down 123 bps QoQ to 14.6%. Gross margin decline was limited to 19 bps QoQ while employee costs and other expenses rose 28 bps & 76 bps, respectively

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



Source: Capitaline, ICICI Direct Research

On a high base, sequential topline growth is tapering with current reading for Q2FY23 coming in at 1.1%, primarily due to inflation led rise in ASPs. Given the decline in quantum of margin compression, the QoQ de-growth in PAT for the quarter was limited to 6.7% vs. 12.8% in Q1FY23

Industry wise revenue & profit movement

- In Q2FY23, topline growth on a QoQ basis was led by the auto and capital goods domain. For Q2FY23, in the auto space, sequential topline growth was a blend of commodity led rise in ASPs and healthy volume growth amid festive cheer. Total industry sales in Q2FY23 were at 73.1 lakh units (up 15% QoQ), with domestic dispatches rising 22.6% QoQ to 60.5 lakh units whereas exports were down 12% QoQ at 12.5 lakh units

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

	Sep-22	Sep-21	Jun-22	YoY change (%)	QoQ change (%)
Auto	1,62,305	1,22,950	1,46,709	32.0	10.6
Capital goods	42,763	34,773	35,853	23.0	19.3
FMCG	44,586	37,326	44,178	19.4	0.9
IT	1,52,202	1,27,674	1,44,929	19.2	5.0
Metals	1,87,670	1,63,846	1,94,626	14.5	-3.6
Oil & Gas	5,13,532	3,66,116	5,23,280	40.3	-1.9
Pharma	29,218	26,637	27,420	9.7	6.6
Power	55,326	42,671	54,082	29.7	2.3
Others	1,49,419	1,05,208	1,50,783	42.0	-0.9
Aggregate	**13,37,019**	**10,27,201**	**13,21,860**	**30.2**	**1.1**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index topline (%)

Sector	Sep-22	Sep-21	Jun-22
Auto	12.1	12.0	11.1
Capital goods	3.2	3.4	2.7
FMCG	3.3	3.6	3.3
IT	11.4	12.4	11.0
Metals	14.0	16.0	14.7
Oil & Gas	38.4	35.6	39.6
Pharma	2.2	2.6	2.1
Power	4.1	4.2	4.1
Others	11.2	10.2	11.4
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In the IT space, Tier I companies reported average constant currency growth of 16.3% on a YoY basis while Tier II companies posted CC growth at an average of 18.8% on a YoY basis. With wage hike for most companies already in place, operating margins of all IT companies, barring one, improved due to the tailwinds of moderating sub-contractor cost, operational efficiency & currency depreciation benefit. Tier I companies reported a margin swing of +10 to +140 bps QoQ and Tier II companies reported EBIT margin swing of -60 to + 200 bps QoQ. LTM attrition for most companies have either started moderating or have peaked out with most companies expecting a further moderation in H2
- In Q2FY23, FMCG companies witnessed high revenue growth largely driven by pricing. The sector volume growth has been negative for a fourth consecutive quarter. Rural demand has been sluggish with 3.6% volume dip in rural India (according to NielsenIQ) vs. positive but muted growth of 1.2% in Urban India in Q2FY23. Most FMCG companies have taken grammage reduction in smaller Stock Keeping Units (SKUs)
- On the bottomline front, sequential growth at the index level was driven by the auto (decline in loss at Tata Motors, JLR), capital goods, FMCG and IT space. The performance was muted in the metals space, given the sharp correction in metal prices amid high raw material inventory.

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

	Sep-22	Sep-21	Jun-22	YoY change (%)	QoQ change (%)
Auto	7,005	3,788	589	84.9	1088.4
Capital goods	2,229	1,819	1,702	22.5	31.0
FMCG	8,774	7,164	7,879	22.5	11.4
IT	23,885	22,573	21,816	5.8	9.5
Metals	8,915	25,442	21,555	-65.0	-58.6
Oil & Gas	21,617	25,957	23,744	-16.7	-9.0
Pharma	4,863	4,608	4,955	5.5	-1.9
Power	6,989	6,976	7,738	0.2	-9.7
Others	8,476	6,883	9,431	23.1	-10.1
Aggregate	**92,754**	**1,05,212**	**99,410**	**-11.8**	**-6.7**

Source: Capitaline, ICICI Direct Research

Key sectoral share in index PAT (%)

Sector	Sep-22	Sep-21	Jun-22
Auto	7.6	3.6	0.6
Capital goods	2.4	1.7	1.7
FMCG	9.5	6.8	7.9
IT	25.8	21.5	21.9
Metals	9.6	24.2	21.7
Oil & Gas	23.3	24.7	23.9
Pharma	5.2	4.4	5.0
Power	7.5	6.6	7.8
Others	9.1	6.5	9.5
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- I-Direct Pharmaceutical universe revenues grew ~8% YoY, driven mainly by complex launches in the US by large players, India formulations and CRAMs. The underlying growth was much higher after adjusting for Covid sales. Indian formulations (select pack) revenues grew ~7% YoY compared to ex-Covid. However, YoY growth was ~10%. The growth was driven by new launches and traction across chronic therapy areas

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 (Q2FY23)

Company	Q2FY23 Result	Quarterly Performance & Outlook	CMP (₹)	Target	Last Rating	Potential Upside
AIA Engineering	Positive	AIA Engineering (AIA) is India's largest manufacturer and supplier of high chrome wear, corrosion and abrasion resistance castings used in cement, mining and thermal power plants. AIA reported a strong set of Q2FY23 numbers. Revenue was at ₹ 1228.7 crore, up 50% YoY. EBITDA was at ₹ 311.4 crore, up 92.3% YoY with margins at 23.4% expanding 515 bps YoY. PAT came in at ₹ 244.3 crore, up 77% YoY. Its sales volumes were at 78,500 tonnes in Q2FY23, up 13.7% YoY with net realisation per tonne increasing 32.5% to ₹ 167 per kg YoY, owing to product mix and price increases to pass through higher input cost. New mining customer acquisition is expected to pick up as the travel situation has started to normalise and will allow AIA to gain incremental volume growth in coming years despite likely base volume impact. We expect revenue, EBITDA at AIA to grow at a CAGR of ~14.2%, 20.5%, respectively, in FY22-24E aided by sustained margins in the range of 20-22%. We value AIA at ₹ 3240 i.e. 35x P/E on FY24E EPS	2700	3240	Buy	20
Axis Bank	Positive	Axis Bank posted robust business and operational performance while asset quality continued to improve during the quarter. Credit growth remained strong at 17.6% YoY to ₹ 7.30 lakh crore, driven by 49% uptick in mid-corporate, 28% in SME and 22% in retail segment. Healthy traction in advances coupled with surge of 36 bps QoQ in margins led to strong jump of 31.1% YoY and 10.4% QoQ in NII to ₹ 10360 crore. Further, controlled opex with C/I ratio at ~46% and lower credit cost at 38 bps, led to 70% YoY, 29% QoQ jump in earnings. Slippages remain steady while GNPA ratio declined 26 bps QoQ to 2.5%. Focus on risk adjusted business growth, improving margin trajectory and cost to asset at 2-2.5% to aid return ratios and sustainability of performance to drive valuation ahead. We value the bank at 2.3x FY24E ABV assigning target price at ₹ 1000	865	1000	Buy	16
ITC ltd	Positive	ITC continued its growth momentum across categories in Q2FY23. The cigarettes category has benefited (20% volume growth) from stable taxation, market share gains with aggressive trade promotions and newly launched premium brands in last one year. FMCG business is witnessing strong growth specifically in underpenetrated foods category & strong traction from education & stationary business (fully functional education institutions have propelled growth after two years). Further, paperboard business not only benefited from pricing growth but is also gaining volumes across user industries. Hotels business has benefited from pent-up demand conditions after two years of Covid impacted occupancies. We believe ITC would continue to grow in its core business of cigarettes and FMCG with stable taxation & softening of raw material prices. We remain positive on ITC from a long term growth perspective. We maintain our BUY recommendation on the stock with a target price of ₹ 405 / share using SoTP valuation methodology. Sales, PAT are seen growing at a CAGR of 13%, 16%, respectively, over FY22-24E	335	405	Buy	21
Maruti Suzuki	Positive	Maruti Suzuki (MSIL) posted a robust performance in Q2FY23. Total operating income for the quarter came in at ₹ 29,931 crore, up 12.9% QoQ amid 10.6% QoQ growth in volumes at 5.2 lakh units. Margins surprised positively this time and were up 204 bps QoQ to 9.3%. Gross margins expanded 150 bps QoQ. Consequent PAT in Q2FY23 came in at ₹ 2,062 crore ~2x QoQ, driven by higher operating margins as well as higher other income. We retain our BUY rating on MSIL tracking industry tailwinds of underpenetrated PV segment domestically, benign RM price outlook and robust order book (4 lakh+ units). Building in the positives, we expect sales, PAT to grow at a CAGR of 25%, 68%, respectively, over FY22-24E, wherein we build in volume CAGR of 16.6% in the same period to 22.5 lakh units by FY24E. Going forward, we expect outperformance from UV portfolio. We value MSIL at ₹ 11,200 i.e. 32x P/E on FY24E EPS of ₹ 350/share	8860	11200	Buy	26
State Bank of India	Positive	SBI reported a strong operational performance with NII growth at 12.8% YoY to ₹ 35183 crore, led by 30 bps QoQ improvement in NIMs (domestic) and high loan growth. Other income increased 8.1% YoY and jumped meaningfully QoQ as Q1FY23 was impacted by treasury losses. The bank reported gross credit growth at 20.8% YoY to ₹ 29.5 lakh crore (above estimates), led by corporate loans, which were up 21.18% YoY, 18.8% YoY growth in retail segment. Provisions declined 30.8% QoQ, 60.0% YoY to ₹ 3039 crore. Led by lower provisions and healthy topline, PAT grew 73.9% YoY and up ~2x QoQ at ₹ 13263 crore, highest ever quarterly profit. On the asset quality, fresh slippages declined from 1.38% to 0.33% while GNPA ratio fell 39 bps QoQ to 3.5%. Consistently upbeat performance with healthy credit growth, steady margins at ~3% and lower slippages with adequate provision buffer to earnings trajectory and thereby valuations. We value the bank at ~1.3x FY24E ABV and subsidiaries at ~₹ 192/share and arrive at a target price of ₹ 700	600	700	Buy	17

Source: ICICI Direct Research

The above companies posted a strong set of numbers in Q2FY23, which, we believe, are more fundamental and sustainable in nature.

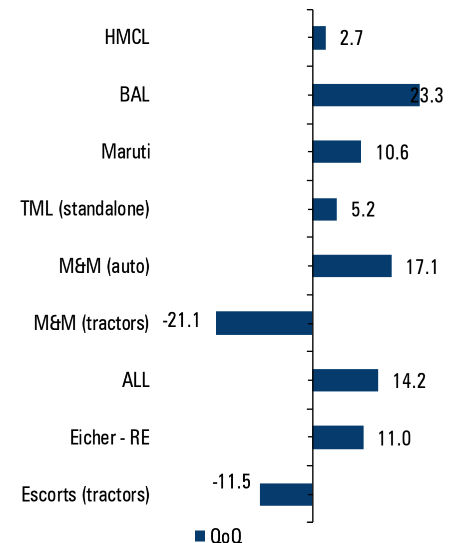
Sector specific takeaways from the quarter

Auto & auto ancillary

- Q2FY23 turned out to be steady quarter for the auto sector with OEMs leading the charge in terms of a margin recovery. Revival of demand led by festive cheer, improving supply chain situation, cooling of input prices from their peak and muted export show amid macro uncertainty were key highlights for the quarter. For Q2FY23, the topline performance on the OEM front came in line with our estimates whereas for the ancillary space it surpassed our estimates. Margin performance, however, was on expected lines in the OEM space (at ~11.4%). The ancillary space, however, reported lower than anticipated margins (at ~14.4%). Most companies witnessed green shoots of margin expansion amid benign commodity prices with management guiding for further margin recovery in H2FY23. Ex-Tata Motors, for I-direct auto OEM & ancillary universe, revenues were up 10% QoQ, largely in line with our estimates of ~9.8% QoQ growth with EBITDA margins on a blended basis at 11.8%, in line with our estimates. PAT growth, however, was higher than estimates at 40.6% QoQ vs. estimated growth of 33.2% on account of margin recovery on the OEM front and higher other income
- In the auto OEM space, Maruti Suzuki outperformed its peerset with a robust margin performance aided by commodity benefit and INR/JPY appreciation. At MSIL, surprise came in on the margins front wherein gross margins expanded 150 bps QoQ with consequent operating margin at 9.3% vs. our estimate of 8.3%. Management guided for strong order book & healthy response towards newly launched models in UV space with present orderbook at >4 lakhs units. For M&M, Q2FY23 results were steady with the company seeing QoQ margin expansion both on automotive and farm equipment front. However, key takeaway was increase in orderbook to 2.6+ lakh units & consequent capacity expansion plans to support volume growth. Tata Motors' Q2FY23 results came in muted on the profitability front, primarily led by muted wholesales at JLR. The key positive was healthy underlying demand on the domestic front whereas foreign operations (JLR) continued to suffer due to chip shortage. The management, however, trimmed down their guidance on JLR front from £1 billion to just breakeven FCF for FY23E
- The 2-W space saw festive cheers & demand recovery QoQ especially from the rural space whereas premiumisation play continued to do well. Eicher Motors is leading in premiumisation play domestically within the 2-W pack. EML's performance in Q2FY23 was steady with key positive being management commentary suggesting Hunter 350 bringing in additional volumes and not cannibalising its existing product line-up. Post normalisation of chip supplies, Bajaj Auto leads 2-W space with QoQ double-digit volume growth, with 2-W sales volume for the quarter coming in at 10.2 lakh units, up 20.3% QoQ. The key negative from the results was, however, 120 bps sequential decline in gross margin. Going forward, focus on >125+cc would be the key monitorable at the company. Hero MotoCorp reported a healthy Q2FY23 performance with EBITDA margins coming in at 11.4% (up 20 bps QoQ). The key positive surprise from results was ASPs, which were up 5.3% QoQ at ₹ 63,545
- In the tyre space, Apollo Tyres outperformed peers in terms of stable gross margin QoQ with EBITDA margins at 12%, up 34 bps QoQ. EBITDA margins on a standalone basis were at 10.3% (up 62 bps QoQ). Management commentary on the demand outlook was healthy amid strong PV demand and ongoing CV cyclical upswing with EBITDA margins expected to improve in coming quarters amid RM price fall and steady product pricing. Balkrishna Industries reported muted numbers for the quarter with lowest ever EBITDA margins at 16.4% down 77 bps QoQ amid gross margin decline by 266 bps QoQ (highest among peers) but was offset by lower other expense (down 162 bps QoQ)

For Q2FY23, total industry sales were at ~73.1 lakh units (up ~15% QoQ), with domestic dispatches rising ~22.6% QoQ to 60.5 lakh units whereas exports were down 12% QoQ at ~12.5 lakh units. Domestic PV volumes were up 13% QoQ to ~10.3 lakh units (UV up 11% QoQ; passenger cars up 14% QoQ); 2-W volumes rose 25% QoQ to 46.7 lakh units (motorcycles up 25%, scooters up 29%). Domestic CV volumes rose 3% QoQ to 2.3 lakh units (M&HCV up 5%, LCV up 2%) while 3-W volumes grew 58% to 1.2 lakh units (albeit on a low base)

Key player's volume growth – Q2FY23 (%)



Source: Company, SIAM, ICICI Direct Research

Ashok Leyland reported a steady performance in Q2FY23 with EBITDA margins at 6.5%, up 210 bps QoQ; wherein gross margin expanded ~131 bps QoQ and was further supported by lower other expense. ASPs for the quarter came in at ₹ 18.2 lakh/unit, flat QoQ amid margin decline in share of M&HCV volumes in the total sales volume mix. Escorts' performance was below our estimates primarily tracking inflationary cost cycle. EBITDA margins for the quarter came in at 8.1%, down 190 bps QoQ. PAT declined 40.5% QoQ to ₹ 87.7 crore. It includes one-time exceptional loss of ₹ 72.8 crore on account of impairment of investment in the JV i.e. Tadano Escorts India Pvt Ltd

Uno Minda's (erstwhile Minda Industries) Q2FY23 results was ahead of our estimates. Consolidated revenues were up 12.6% QoQ. EBITDA margins for the quarter came in at 11.1%, up 66 bps QoQ. Consolidated PAT in Q2FY23 was at ₹ 170 crore, up 22.6% QoQ. The company continues to work upon increasing content per vehicle in the EV space and developing import substitution products

Bharat Forge reported healthy numbers on a standalone basis whereas its foreign subsidiaries dragged the overall performance. On a standalone basis, topline came in ahead of our estimates with margins at 24.3% down 40 bps QoQ primarily due to gross margin contraction by 310 bps QoQ. The management guided about new order winds in the quarter amounting to ₹850 crore across automotive & industrial application in domestic operations & US$155.5 million (~₹ 1,250 crore) order win to supply artillery gun system over a three-year period

Banking sector

- **In Q2FY23, the banking sector seems to be on a strong footing led by revival in business growth, improvement in margins and continued declining trend in NPA ratio, which has propelled earnings and thereby return ratios. Strong credit demand from retail & MSME coupled with a gradual revival in the corporate segment led to a continued uptick in credit growth. Faster transmission of rate hikes on assets compared to liabilities and healthy proportion of low cost deposits resulted in an uptick in margins across lenders. A declining trend in slippages led to lower credit cost and further improvement in NPA numbers**
- Faster transmission of rate hikes on assets compared to liabilities and healthy proportion of low cost deposits led to strong sequential improvement in margins (10-40 bps QoQ). Management commentary suggest margins will remain steady at current levels in H2FY23

BoB witnessed a significant improvement in asset quality as GNPA fell 95 bps QoQ to 5.31%

- The asset quality trend continued to improve further led by controlled slippages and healthy recoveries during the quarter. GNPA ratio for banks in our coverage declined in the range of 5-95 bps with average drop (all banks) at ~33 bps. Even on an absolute basis, GNPA declined 8.4% QoQ, 15.5% YoY for the banking sector. The restructured book also declined by an average of 25 bps QoQ without any substantial slippages compared to that anticipated earlier
- In the PSU space, SBI reported a 39 bps QoQ decline in GNPA and 9 bps decline in restructured (R/s) book. Bank of Baroda continued to maintain its healthy run on the asset quality front as GNPA was down 95 bps while restructuring pool also declined 30 bps QoQ. We believe the asset quality trend should continue to improve as well while management commentaries have also indicated incremental stress will be lower
- Business momentum was healthy in Q2FY23, attributable to robust demand in the retail & MSME segment. Loan growth for the quarter came in at 20.4% YoY and 4.8% QoQ at ₹ 120.4 lakh crore. Among peers, private banks continued their outperformance with ~21% YoY growth. PSU banks also put up a good show with ~20% YoY growth

Kotak Bank's credit growth ahead of peers at 25% YoY

- Credit growth continues to remain strong at 17.9% YoY (as of October 21, 2022) mainly driven by retail and MSME segment. Retail and NBFCs (on-lending to retail & MSME) contributed higher proportion at 53.3% in incremental growth. Management commentaries and data have indicated that festive led demand in retail segment, improving utilisation of WC limits have seen better trajectory and, ,hence aid credit offtake
- Strong credit growth, absence of treasury losses seen in Q1FY23 and improvement in margins boosted earnings (70% jump YoY and 41% QoQ in coverage universe) though banks continue to invest in building distribution capabilities
- NII grew at a healthy pace of 21.7% YoY and 12% QoQ, mainly driven by margin expansion and healthy loan growth. Almost all banks in our coverage universe have reported a margin expansion QoQ. Other income was flat YoY with minimal impact of treasury losses in Q2FY23. C/I ratio moderated by 351 bps QoQ from 50.8% to 47.3% and 52.6% in Q2FY22 mainly on account of a strong topline
- Credit cost for the quarter declined both QoQ and YoY due to a better asset quality performance and controlled slippages. Thus, the growth trajectory in earnings remains strong. Led by a strong topline and lower credit cost, net profit grew 30% YoY and 37% QoQ at ₹ 56482 crore
- **Management commentaries suggest that the momentum in credit growth is expected to continue ahead. Expect a faster hike in deposit rates amid growing competitive intensity and, thus, increasing dependence on borrowings. Overall, we expect continued traction in valuation with preference for lenders with healthy CASA base, higher floating rate asset, adequate PCR and capital. Deposit mobilisation and, thus, trend in CD ratio need to be watched**

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

(₹ crore)	Q2FY23	Q1FY23	Q4FY22	Q3FY22	Q2FY22
NII	154996	138736	135379	134454	127332
Growth YoY	**21.7**	**13.5**	**16.6**	**9.6**	**6.3**
Other income	52934	42137	54440	50257	52771
Growth YoY	0.3	-24.3	-19.0	-4.4	16.2
Total operating exp.	98344	91896	93069	91564	94774
Staff cost	46625	43689	41972	44064	43802
Operating profit	109586	88977	96750	93147	85328
Growth YoY	28.4	-8.2	1.5	-0.6	-3.5
Provision	32895	34056	36157	33553	34379
PBT	76691	54921	60592	59595	50949
PAT	56482	41242	45837	43698	43462
Growth YoY	30.0	32.4	85.2	52.4	61.4
GNPA	626563	684108	688913	711406	741765
Growth YoY	**-15.5**	**-12.1**	**-11.2**	**0.3**	**-2.6**
NNPA	157118	186365	190612	207756	225217
Growth YoY	**-30.2**	**-23.5**	**-20.3**	**25.2**	**11.8**
Advances (Lakh crore)	120.4	114.9	112.4	106.6	99.9
Deposits (Lakh crore)	159.7	144.7	155.1	147.5	144.3

Source: Capitaline, ICICI Direct Research

Sequentially NII growth was driven by margin expansion and strong credit growth

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q2FY23	Q1FY23	Q4FY22	Q3FY22	Q2FY22
NII	88,277	77,687	76,653	77,383	73,584
Growth YoY (%)	**20.0**	**10.1**	**16.3**	**6.9**	**2.9**
Other income	28,174	21,313	30,553	26,508	29,803
Growth YoY (%)	**-5.5**	**-37.4**	**-29.0**	**-10.0**	**16.8**
Total operating exp.	56,640	52,666	54,932	54,387	60,363
Staff cost	32,160	29,873	29,194	31,290	31,546
Operating profit	59,811	46,334	52,273	49,504	43,025
Growth YoY (%)	**39.0**	**-14.9**	**-2.8**	**-3.0**	**-10.4**
Provision	24,137	26,292	27,962	23,439	21,104
PBT	35,867	20,490	24,617	26,372	22,018
PAT	26,012	15,321	18,455	18,777	21,846
Growth YoY	**19.1**	**7.2**	**87.2**	**147.1**	**134.9**
GNPA	5,01,370	5,56,804	5,62,214	5,78,060	6,01,278
Growth YoY	**-16.6**	**-11.9**	**-11.7**	**-3.3**	**-5.0**
NNPA	1,26,391	1,50,910	1,53,664	1,66,849	1,81,475
Growth YoY	**-30.4**	**-22.9**	**-21.0**	**16.6**	**4.9**
Advances (Lakh crore)	75.9	72.8	71.1	67.8	63.2
Deposits (Lakh crore)	109.4	106.7	106.8	101.9	100.2

Source: Capitaline, ICICI Direct Research

Credit cost continues to decline as banks witness overall reduction in stress

Exhibit 10: Financial summary of banking industry (private)

(₹ Crore)	Q2FY23	Q1FY23	Q4FY22	Q3FY22	Q2FY22
NII	66,719	61,050	58,727	57,072	53,747
Growth YoY	**24**	**18**	**17**	**14**	**11**
Other income	24,760	20,823	23,887	23,749	22,968
Growth YoY	**7.8**	**-3.9**	**-1.2**	**2.6**	**15.6**
Total operating exp.	41,704	39,230	38,137	37,177	34,412
Staff cost	14,465	13,816	12,778	12,774	12,256
Operating profit	49,774	42,643	44,477	43,643	42,303
Growth YoY	**17.7**	**0.4**	**7.1**	**2.3**	**4.5**
Provision	8,757	7,763	8,195	10,114	13,275
PBT	41,017	34,879	36,281	33,529	29,029
PAT	30,748	26,268	27,683	25,221	21,834
Growth YoY	**40.8**	**54.2**	**83.9**	**34.9**	**24.7**
GNPA	1,32,321	1,35,869	1,36,334	1,42,983	1,50,310
Growth YoY	**-12.0**	**-12.8**	**-8.5**	**19.3**	**9.4**
NNPA	32,256	37,197	38,721	42,681	46,029
Growth YoY	**-29.9**	**-25.4**	**-17.9**	**74.1**	**40.4**
Advances (Lakh crore)	45.1	42.8	41.9	39.4	37.3
Deposits (Lakh crore)	51.4	39.0	49.3	46.6	45.1

Source: Capitaline, ICICI Direct Research

Most of the coverage banks reported treasury gains during the quarter vs. treasury losses in Q1FY23

Capital Goods

- Overall, our capital goods coverage companies delivered a decent performance aided by decent operating activities and execution pick-up despite challenges. While supply chain disruptions, higher freight cost & higher commodity prices continue to impact margins, the favourable impact of recent commodity price correction brings in the much needed relief for companies, going forward. Revenue for our universe grew 15.7% YoY while EBITDA grew 15.6% YoY despite higher commodity prices. Consequently, adjusted PAT grew 12.2%, YoY partly aided by positive operating leverage, other income and base effect
- L&T posted strong execution pick up in infrastructure segment. Adjusted standalone revenue (including hydrocarbon business) was up 21% YoY to ₹ 25770 crore while standalone EBITDA grew 12% YoY to ₹ 1908 crore with margin down 60 bps YoY to 7.4%. However, consolidated revenue was up 23% YoY aided by better performance at subsidiaries
- Companies under our defence coverage (except Data Patterns) witnessed muted revenue growth during Q2FY23, primarily due to considerably higher base (as Q2FY22 saw some revenue spillover from Q1FY22 that was impacted by lockdown). Aggregate revenue of defence companies under coverage, grew 0.5% YoY in Q2FY23. However, aggregate growth in revenue for H1FY23 has been strong at 31% on lower base and better execution. Data Patterns (DPIL) saw revenue growth of 49% YoY in Q2FY23 while Bharat Electronics (BEL), Bharat Dynamics (BDL) and Mazagon Dock (MDL) witnessed revenue growth of 6-8% YoY. Hindustan Aeronautics (HAL) and Cochin Shipyard (CSL) reported a decline in revenues by 7.3% YoY and 1.9% YoY, respectively. H1FY23 growth was mainly led by BDL (+94.4% YoY) followed by DPIL (+62.3% YoY), MDL (+41.2% YoY), BEL (+33.3% YoY) and HAL (+22.3% YoY). Aggregate EBITDA for defence companies saw growth of 17.3% YoY as average EBITDA margin improved 339 bps YoY to 23.6% in Q2FY23. The margin improvement was led by HAL (+919 bps), BDL (+442 bps) and MDL (+149 bps). CSL's margin contracted by 382 bps while BEL & DPIL witnessed 130-170 bps margin contraction
- On order inflow front, L&T posted strong order inflow worth ₹ 51914 crore, up 23.2% YoY, led by EPC orders won in infrastructure segment. In T&D space, KEC International received orders worth ₹ 6993 crore. Thermax' consolidated order inflow was at ₹ 2015 crore (up 8.6% YoY) due to broad based recovery of orders in several key sectors. Order inflows for HAL were at ~₹ 10251 crore in H1FY23 while inflows for BEL, BDL were at ₹ 2284 crore, ₹ 2608 crore, respectively, during the period. DPIL received orders of ₹ 517 crore in H1FY23. Domestic ordering environment in Q2FY23 was also significantly better vs. Q2FY22
- In MNC segment, ABB reported a strong performance in Q3CY22. Revenue came in at ₹ 2120 crore, up 19.2% YoY amid strong execution, EBITDA came in at ₹ 211 crore, up 25% YoY, with margins of 10%. Strong execution helped to improve margins. Consequently, PAT came in at ₹ 202.5 crore, up 68.8% YoY owing to better capacity utilisation and revenue mix provided a major step-up in profitability. ABB's order inflows for Q3CY22 came in strong at ~₹ 2634 crore, up 38% YoY registering healthy growth in all business segments
- As companies almost resumed to pre-pandemic levels amid demand and execution coming back to normal, we expect Q3FY23E to see a normalised topline performance. Order tendering momentum is expected to be strong and lumpy in FY23E 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. 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

Power T&D company KEC reported a weak performance impacted by the continued headwinds on account of elevated raw material costs. Revenue grew 13% YoY to ₹ 4064 crore owing to healthy growth in non T&D segment. EBITDA de-grew 29.7% YoY to ₹ 178 crore, while PAT de-grew 31.2%

Thermax reported a decent performance on the back of better execution by both segments. Consolidated revenue was up 41.2% while EBITDA margins came in at 6.8%, impacted by higher commodity and freight cost. Broad based recovery in order inflows in key industrial/manufacturing sectors is likely to provide medium term revenue visibility

In the bearing space, companies posted a muted sequential performance, due to subdued demand from industrial segment & muted exports. Further, margins were largely impacted by a change in product portfolio and limited exports opportunities due to uncertain economic outlook. Overall, revenue, for our bearings coverage (NRB, SKF, Timken) grew 10.8% & 36% YoY while EBITDA & PAT grew 5.5% & 10% YoY, respectively, and de-grew 35.1% and 42.5% QoQ, respectively

Other product companies like Elgi reported a decent performance (consolidated revenue and EBITDA up 13.3% and 40.5%, respectively) led by a better demand revival in domestic market and robust exports. AIA Engineering reported strong numbers with revenue, EBITDA growth of 50.1%, 92.3% YoY, respectively, with strong expansion in margins of 515 bps YoY to 23.4%. Greaves Cotton reported a decent Q2FY23 amid supply disruptions and higher commodity prices. It sees strong growth in e-mobility business, going forward. Consequently, standalone revenue grew 31.7% and standalone EBITDA came in at ₹ 33.3 crore vs. ₹ 4.5 crore in Q2FY22

At a macro level, there was an improvement in domestic tendering and awarding activity. Secondly, we expect public capex spends comprising of centre, states, public sector units in the current year to be better than that of the previous year. Hopefully, the private capex would also witness improvement in the second half of the current year.

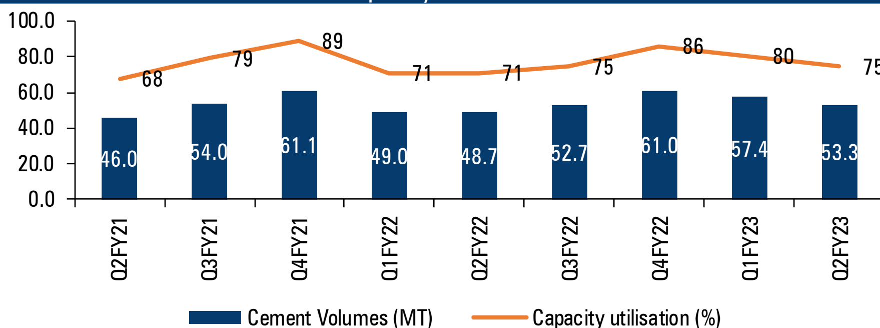
Cement: Cost pressure at peak; margins bottom out in Q2FY23

I-direct cement universe reported realisation growth of ~5% YoY to ₹ 5,721/t. Most companies mentioned about high cost pressure being the main reason to go for price hikes. However, on a sequential basis, it declined 1.7% due to seasonality

Revenues for I-direct coverage universe increased 14.8% YoY to ₹ 30,498 crore with highest revenue growth reported by Sagar Cement (up 28.6% YoY) led by higher sales volume. While average realisations increased ~5% YoY, total cost increased sharply by 20.5% YoY on per tonne basis due to sharp spike in the international fuel prices. This led to 50.1% YoY drop in the EBITDA/tonne to ₹ 601/tonne for our coverage universe. It also declined sequentially by 41% as impact of high fuel cost got fully reflected in the Q2 performance

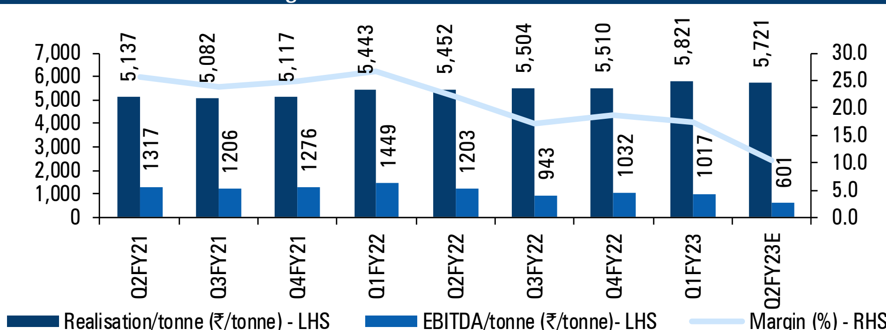
- Given the seasonality impact, this quarter saw a double whammy impact on the operating margin. The impact of higher international petcoke/coal was fully visible. Cost of production increased further by 7.4% QoQ (i.e. ₹ 351/t) to ₹ 5097/t. It was also up ~20% YoY mainly due to higher power and fuel expenses. In addition, a moderate pricing environment on account of monsoon led to companies reporting margins at multi quarter low levels at ~10% vs. 21% last year and 17% last quarter
- In terms of companies, ACC reported lowest EBITDA margin of 0.4% followed by Sagar Cement (1.2%) while JK Cements & Shree Cement's EBITDA margins stayed over ~13%. UltraTech reported an EBITDA margin of close to 13%. The average EBITDA/t for Q2FY23 came in at ~₹ 601/t (dip of ~₹ 416/tonne QoQ). It declined 50.1% YoY, 41% QoQ
- On the positive side, sales volume growth broadly remained in line with our estimates. It grew 9.4% YoY to 53.3 MT. Region wise, performance of north & west based companies remained relatively better in terms of pricing while cement demand in central & eastern region was impacted by heavy monsoons and sand mining ban in Chhattisgarh and Odisha
- The I-direct universe reported capacity utilisation of 75% (vs. 72% in Q2FY22 and 81% in Q1FY23). Sharpest volume growth was posted by Sagar Cement (up 21.3% YoY) and Shree Cement (up 18.4% YoY) led by capacity expansion as well as low base effect. Average sales volume of pan India players like ACC, Ambuja and UltraTech were up 7-8% YoY while players like JK Cement and Ramco Cements reported average volume growth of 12-13% YoY
- Although the margin profile and profitability for Q2 has remained at a multi quarter low, we expect margins to recover from Q3 onwards on softening in international fuel prices, pick-up in construction activities (post monsoon). The domestic and international (US & Saudi Arabia) petcoke prices have fallen by ~30% & 40%, respectively, from its peak in June 2022/May 2022. Also, cement companies have now started sourcing cheaper petcoke from Russia and Venezuela against expensive South African/Australian coal/petcoke. Diesel prices are also currently 6% lower than the average price in Q1FY23. Hence, overall, we expect a cost reduction of ₹ 250-300/tonne over the next two quarters

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Chemicals

- Q2FY23 numbers of the I-direct chemicals universe reflects strong positioning of most players in their respective sub-segments such as agrochemicals, fluorochemicals and other specialty chemicals. Most players (barring few) were able to pass on the increase in raw material costs and energy costs (to some extent) with better product mix (higher CRAMs and value-added sales)
- On the flip side, subdued demand from end user industries like dyes and pigments, paints, textiles, etc, have impacted topline growth for some companies. The universe reported a decent set of numbers with revenues growing 33% YoY to ₹ 13,671 crore while EBITDA, PAT jumped 39% YoY & 58% YoY to ₹ 2860 crore & ₹ 1923 crore, respectively

Key trends (company specific):

- Fluorine chemistry business (select pack) revenue expanded 30% YoY to ₹ 4147 crore. The growth in SRF was driven by the chemical segment, which was up 62% YoY to ₹ 1830.2crore led by strong traction for new products and downstream derivatives. In Navin, revenues from speciality chemicals were up 45%YoY to ₹ 177 crore. Management commentary remains bullish on the fluorine business, going ahead
- Agrochemicals business (select pack) revenue expanded 31% YoY to ₹ 4042.4 crore amid erratic monsoons across India. PI Industries reported a stellar performance (YoY sales growth of 31% to ₹ 1770 crore) largely driven by CSM (CRAMs) business led by better volume growth of ~25% and currency by ~4%. For Rallis, the domestic business operated in a challenging environment. Herbicide performed well in North India while sales of fungicide and insecticide performance was subdued. Sumitomo reported a decent performance for the quarter and despite negative vibes for glyphosate usage and its future, the management provided decent future assurance. Astec's sales were up 95% YoY to ₹ 199.7 crore, led by better realisations across key molecules along with higher volumes in the CMO (CRAMs)
- Commodity business (Tata Chemicals) revenue expanded 40% YoY to ₹ 4239 crore. Soda ash demand remains soft in the Indian market due to subdued demand from the detergent market while in North America a planned shutdown impacted soda ash volume. Kenya remains a low cost benefitting unit for the company. Hence, it recorded strong margins for the quarter
- Other chemistry (select pack) revenue expanded 26% YoY to ₹ 1242.8 crore. Sudarshan's chemicals growth was impacted due to weak demand from plastics and dyes & pigments segment. Also, elevated raw material cost impacted gross margins of the company. Neogen Chemicals reported a decent performance. H2FY23 will be driven by demand for lithium based chemicals in Q4 from HVAC segment, strong demand from agrochemicals segment for organic chemicals and demand from Europe market. Owing to gaining market share in the segment such as butyl phenols along with higher demand of ATBS supported growth for Vinati Organics
- On the margins front, EBITDA margins increased 98 bps YoY to ~21% for the I-direct universe (select pack) against expectations of ~22%. The deviation was not significant as most cost headwinds were addressed by a better product mix with higher proportion of CRAMs execution and value added products

Topline Movenemt (₹ crore)

Fluorine Chemistry Business					
Company	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
SRF	3,727.8	2,839.0	31%	3,894.7	-4%
Navin Fluorine	419.2	339.0	24%	397.5	5%
Total	**4,147.0**	**3,177.9**	**30%**	**4,292.2**	**-3%**

Agrochemicals Business					
Company	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
PI Industrie	1,770.0	1,354.2	31%	1,543.2	15%
Sumitomo Chemical	1,121.7	910.4	23%	985.5	14%
Rallis India	951.0	727.8	31%	862.8	10%
Astec Life	199.7	102.6	95%	184.3	8%
Total	**4,042.4**	**3,094.9**	**31%**	**3,575.8**	**13%**

Commodity Business					
Company	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Tata Chemical	4,239.0	3,022.6	40%	3,995.0	6%
Total	**4,239.0**	**3,022.6**	**40%**	**3,995.0**	**6%**

Other Specialty Business					
Company	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Vinati Organics	566.3	374.1	51%	506.3	12%
Sudarshan Chemical	528.4	498.0	6%	554.2	-5%
Neogen Chemicals	148.1	113.2	31%	147.9	0%
Total	**1,242.8**	**985.3**	**26%**	**1,208.4**	**3%**

Source: Company, ICICI Direct Research

Consumer Durables

- The consumer discretionary (CD) universe in Q2FY23 reported revenue growth of 13% (lower than I-direct estimate of ~15%) led by paint companies. Paint companies reported revenue growth of ~20% led by mix of both volume and price hikes. Decorative paint major Asian Paints recorded volume growth of 10% led by consistent demand from Tier 3 and 4 cities along with a rise in demand for waterproofing products and wood finishes. Industrial paint major, Kansai Nerolac, also saw robust sales recovery (up ~20% YoY in Q2) led by its industrial paint segment. Kansai's industrial paint volumes were up ~33% YoY supported by strong demand from the automotive sector
- However, our fast moving electrical goods (FMEG) universe witnessed muted demand due to a higher base, lower rural demand and inventory de-stocking due to transition into new BEE norms. Crompton Greaves Consumer and Bajaj Electricals reported revenue decline of 3% each while Havells ECD segment revenue grew albeit at a slow pace of 6%

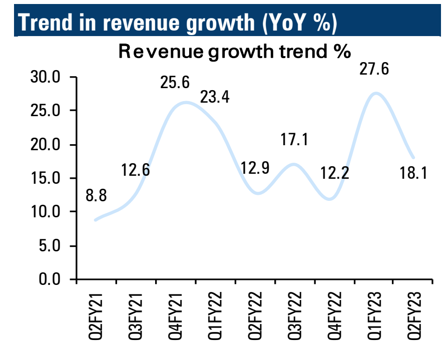
On the plastic piping front, Astral Ltd surprised the street negatively with piping volume de-growth and one off impacts on the EBITDA margins. However, Supreme Industries reported strong volume growth of 9% supported by a revival in demand amid softening PVC prices

- On the margin front, pipe companies continued to witness EBITDA margin pressure due to inventory losses amid a sharp fall in PVC prices (PVC prices by fell by ₹ 61 from ₹ 140 in April 2022 to ₹ 79 in October 2022). The leading FMEG companies such as Havells and Voltas also faced margin pressure due to usage of high cost inventory and delay in taking price hikes. As a result, the reported EBITDA margin of the coverage at 11.8% was lower than our estimate of ~14%. We believe easing raw material prices and improved operating leverage will help drive margin recovery from H2FY23 onwards for the coverage universe

FMCG

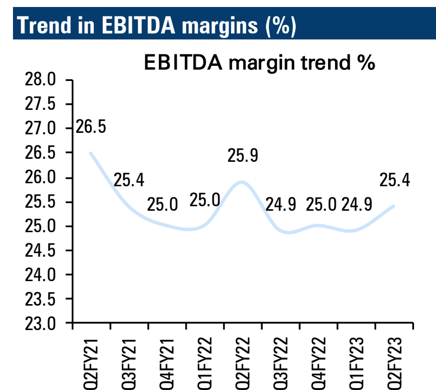
- FMCG companies witnessed high revenue growth largely driven by pricing growth. The sector's volume growth has been negative for a fourth consecutive quarter. Rural demand has been sluggish with 3.6% volume dip in rural India (according to NielsenIQ) vs. positive but muted growth of 1.2% in Urban India in Q2FY23. Most FMCG companies have taken a grammage reduction in smaller Stock Keeping Units (SKUs)
- With a significant increase in mobility, categories such as carbonated drinks, juices, chocolates, detergent & cigarettes witnessed strong volume growth. The cigarette category is continuing volume growth momentum with stable taxation and curb on illicit & contraband cigarettes. ITC has benefited from the strong traction in ₹ 10 price point sub-category (Gold-flake) & market share gains. We believe cigarette volumes are up 15-16% from pre-Covid levels for ITC during the quarter
- Our coverage universe sales growth was 18.2% led by 10-15% price hikes & low-mid single digit volume growth. HUL, Dabur saw slower 4% & 1% volume growth, respectively, with muted volumes in personal care category. However, strong double digit volume growth in detergent reflects that complete opening up of schools & offices is positively impacting category growth. HUL and Jyothy Lab both saw double digit volume growth with focus on premium & mid-priced sub-segment. Nestlé saw mid-single digit volume growth with continued strong growth in Maggi, chocolates. Moreover, Milkmaid grew strongly on a low base
- Hair oil category growth remained dismal given it is a higher penetrated category. Dabur & Marico are focusing on reducing the dependence of the hair oil category by aggressively foraying into multiple new categories. Tata Consumer saw muted volumes in tea on the back of high base and flat volumes in salt due to sharp pricing growth. Marico has taken large price cuts (despite holding high cost inventory) in Saffola to perk up volume growth. Colgate continued to see lacklustre growth on the back of concentrated sales from the saturated oral care category

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



Source: Company, ICICI Direct Research

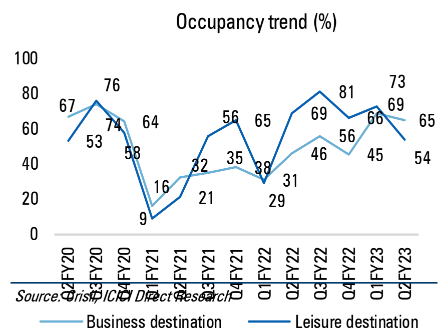
- Palm oil prices have corrected by 50% in the last six months. Similarly, crude is down ~25% from its peak in June 2022. However, the currency has depreciated by ~10%. Most FMCG companies were holding high cost of inventory during the quarter, which continued the gross margin contraction (210 bps down in Q2FY23). Some companies have taken price cuts even before RM costs dip reflected in inventory valuation. HUL, Nestlé, Dabur, Colgate & Zydus Wellness saw 300-600 bps gross margin decline. However, Marico saw a 70 bps expansion in gross margins due to benign copra prices while Varun Beverage witnessed 90 bps expansion due to high operating leverage. The tweaking of advertisement & overhead spends continued during the quarter resulting in 56 bps operating margin expansion for our universe
- We believe volume growth would recover for most FMCG companies on the back of a recovery in rural demand on the back of high agri sector growth with normal monsoon in most regions. Moreover, price cuts, grammage restoration & festive season offers would be reflected in higher volume growth in urban India. With the softening of some commodity prices, gross margins would improve sequentially. However, crude, soda ash, milk, wheat and some of the other commodity prices still remains at elevated levels. The recovery in margin is expected to be slow given most FMCG companies would be looking to increase promotional offers & spend behind brands to focus on volume growth

We believe the foods category would continue to grow at a faster pace with many FMCG companies foraying into newer food categories like fruit drinks, dry fruits, soya products, protein based products and nutrition products. These categories have been dominated by the unorganised sector and unbranded products, which creates high opportunity for growth. E-commerce channels sales growing continuously with growth of quick commerce & click & mortar

Hotels: Lean cost, firm room rates drive healthy performance in seasonally weak quarter…

- Although Q2FY23 is seasonally weak for the tourism sector due to monsoon, revenues for the sector were higher by 23% from pre-Covid levels vs. expected growth of ~17%. Consistently strong leisure demand, a sharp rebound in corporate travel along with much needed reset of room rates (as seen in Q1FY23) have acted as a key driving force for revenue growth. However, there was a marginal dip in revenues sequentially (down 0.9%) due to monsoons
- As per latest DGCA data, domestic air passenger traffic declined 7.7% QoQ to 2.99 crore (~85% of pre-Covid levels). Foreign inbound travel has so far remained subdued till now but is expected to pick up from H2FY23. Also, a higher base of Q1 (that benefited from wedding season, vacations and IPL matches) led to lower revenues sequentially but the performance was still far better than expected in Q2FY23
- In terms of occupancy levels, it has still remained lower than pre-Covid levels. It was down ~100 bps to 60% from pre-Covid while average room rates continued to stay firm. It was up 31% from pre-Covid levels for the premium segment while for the mid-scale segment, room rates were up 20% vs. pre-Covid levels
- A majority of costs of the hotel industry are fixed (i.e. ~70% of total costs), with power/lighting and employee costs taking the major share. Due to 18-month long pandemic phase, hotel players structurally realigned their cost base to become leaner in terms of costs. This has led to a 955 bps expansion in margins to 26.1% vs. Q2FY20
- While Q2 remained a little softer, we expect next 12 months to stay strong for the sector supported by full resumption of the economy. Further, revival in foreign tourist arrivals, wedding season, G20 summit 2023 are expected to provide a further fillip to leisure and business hotel room demand, going forward. In terms of rooms supply, we expect the launch of new hotel projects to get delayed due to higher land and input costs, auguring well for existing branded players. Further, hotel players are now leaner in terms of costs that are sustainable in nature. This would aid in healthy margin expansion

Occupancy trend (%)

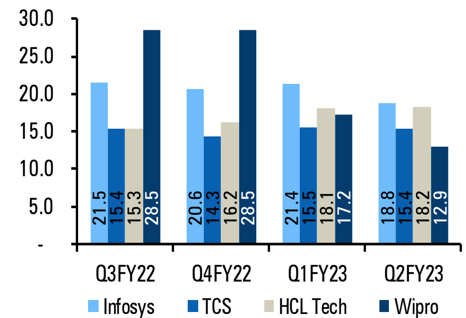


Source: Crisil, ICICI Direct Research

Information Technology

- Q2FY23 saw continued growth momentum of IT companies due to strong execution based on healthy order wins in earlier quarters. The demand environment remains robust with stable TCV reported by most companies in Q2. Project ramp-ups proceeded as scheduled and companies are not seeing any delays or cancellations. Clients have become more cautious when committing long term investments wherein some of the larger transformation programmes are seeing prioritisation in spending. The companies maintained their revenue guidance for FY23 which takes into consideration, furloughs in Q3 and some impact of slower decision making on the client side in the whole H2. Clients are looking to spend on both revenue maximisation as well as cost optimisation programmes with IT companies looking to capture both legs of growth. Clients are of the opinion that technology will be the last area to be impacted due to weak macros

Dollar revenue growth (CC terms on YoY basis)



Source: Company, ICICI Direct Research

- The growth in Q2 was broad based across geographies & verticals barring a few pockets where macro related impact started witnessing i.e. mortgage in BFSI and sub segments in the retail space. The companies have reported steady growth both in US and Europe but due to Euro/GBP depreciation against dollar, reported Europe region growth appeared to be weak. Rupee revenue growth was largely aided by rupee depreciation against US$. Tier I companies reported average constant currency growth of 16.3% on a YoY basis while Tier II companies posted CC growth at an average of 18.8% on a YoY basis. With a wage hike for most companies already in place, operating margins of all IT companies, barring Mindtree, improved due to the tailwinds of moderating sub-contractor cost, operational efficiency & currency depreciation benefit. Tier I companies reported a margin swing of +10 to +140 bps QoQ & Tier II companies reported an EBIT margin swing of -60 to + 200 bps QoQ. LTM attrition for most companies have either started moderating or peaked out with most companies expecting a further moderation in attrition in H2

The merger of Mindtree with LTI was approved by the regulatory authorities and the merged entities have started working as a one entity effective from November 14

- **Strong growth**: TCS reported 1.4% QoQ, 8.6% YoY dollar revenue growth while in CC terms, it grew 4% QoQ, 15.4% YoY. The growth was driven by North America (54% of mix) growing 17.6% YoY in CC terms while vertical wise the growth was driven by Retail, Media & Communications & Healthcare reporting growth of 22.9%, 18.7% & 14.5% YoY in CC terms, respectively. Infosys' revenues increased 4% QoQ, 18.8% YoY in CC terms while dollar revenues increased 2.5% QoQ & 13.9% YoY. Geography wise in CC terms Europe reported strong growth of 28.5% YoY while North America (63% of mix) reported growth of 15.6% YoY. Vertical wise, growth was broad based with all verticals except Hi-Tech reporting double digit growth in CC terms. ***Infosys due to its strong order pipeline increased its lower end of the revenue growth guidance to 15%, making guidance of 15-16% CC growth in FY23 from earlier 14-16%.*** HCL Tech (IT services) reported revenue growth of 5.3% QoQ & 18.2% YoY in CC term while in dollar terms it reported growth of 3.1% QoQ. In CC terms, geography wise Europe led the revenue growth with 6.9% QoQ growth while America region (63% of mix) grew 4.7% QoQ. Vertical wise, growth was driven by manufacturing, public services & life science vertical. **In CC terms, HCL Tech revised its revenue guidance upwards to 13.5-14.5% from 12-14% earlier shared for FY23 and introduced IT services growth for first time with guidance of 16-17% revenue growth for FY23 in CC terms.** LTI reported constant currency growth of 4.6% QoQ & 21.6% YoY while dollar revenue increased 3.6% QoQ. In CC terms, revenue growth was broad based except Hi-Tech vertical, which declined 4.7% QoQ. Mindtree continued strong CC growth with seventh consecutive quarter of 5%+ constant currency QoQ growth at 7.2% while dollar revenue grew 5.7% QoQ. Vertical wise, growth was driven by BFSI, travel & hospitality and technology

Wipro's IT services revenues increased 4.1% QoQ & 12.9% YoY in CC terms while dollar revenues were up 2.3% QoQ & 8.4% YoY. The growth in CC terms was broad based & driven by energy/manufacturing & consumer verticals

TechM's revenues increased 2.9% QoQ & 16.8% YoY in CC terms while it was up 0.3% QoQ & 11.2% YoY in dollar terms. The revenue growth was impacted as the company exited some low margin projects. The growth was aided by manufacturing & technology, which grew 4.9% & 4.5% QoQ, respectively while communications & BFSI were laggards declining by 1.4% & 2.1% QoQ

Coforge's dollar revenue grew 3.4% QoQ & 16% YoY while in CC terms it reported growth of 6.2% QoQ. Vertical wise BFS led the growth with 14% QoQ CC growth while geography wise Europe led the growth with 12.9% QoQ CC growth. The company has maintained its growth guidance of at least 20% CC growth in FY23

- **Margins improve on already factored in wage hike, moderating of sub-contractor cost:** Operating margins of most companies improved as they focused on improving margins by reducing sub-contractor cost and improving operational efficiency with currency depreciation also providing some marginal tailwinds. TCS' EBIT margin improved ~90 bps QoQ to 24% due to the tailwinds of currency depreciation & improved utilisation mitigated by the headwinds of normalisation of travel expenses, facility expenses & elevated back filing costs due to increase in attrition. TCS maintained its exit margin guidance of 25% by Q4FY23. Infosys' EBIT margin increased 150 bps QoQ to 21.5% due to the tailwinds of currency benefits, cost optimisation & lower sub-contractor cost. **Infosys revised its EBIT margin guidance band by reducing the upper band of guidance by 100 bps and is now guiding an EBIT margin of 21-22% for FY23.** Wipro's margin improved marginally by 10 bps QoQ to 15.1% despite wage hike in the quarter while it was also restricted due to consolidation of low margin business of Rizing. **Wipro indicated that 15% is the floor cap for EBIT margin. It expects the margins to improve in H2.** HCL Tech's IT services EBIT increased 100 bps QoQ to 16.7% due to improved utilisations, operating leverage & currency benefits while the company's overall EBIT margin improved 90 bps QoQ to 17.9%. **HCL Tech lowered its upper end of margin guidance by 100 bps and is now guiding for EBIT margin of 18-19% for FY23.** TechM's EBIT margin improved 40 bps QoQ to 11.4% despite implementation of wage hike due to headwinds of improved utilisation, discontinuing of low margin business, lower SG&A exp. & better pricing. EBIT margin of LTI improved ~10 bps aided by currency benefits while Mindtree's EBIT margins declined ~60 bps QoQ to 18.6% mainly due to implementation of wage hike. Coforge's EBIT margin increased ~200 bps to 14.5% led by headwinds of improved efficiency, higher contribution of high margin business & currency benefit
- **Net hiring being realigned as per growth normalisation in H2:** LTM attrition for all companies except TCS & LTI moderated in Q2 while all companies have indicated attrition will moderate further in H2. Infosys reported the highest attrition at 27.1% while Coforge reported lowest attrition among peers i.e. 16.4%. Hiring trend for most companies is being aligned on normalising growth in H2 and also to focus on improving utilisations. The companies indicated that it will continue with the fresher hiring for pyramid optimisation but it will be at a relatively lower scale in H2 compared to H1. HCL Tech's hiring was robust with ~8,000 net adds while net hiring for most companies remained relatively muted

Infrastructure and real estate

Infrastructure

- **Revenue growth decent; momentum to pick up:** Overall revenue for our roads and construction coverage universe witnessed decent growth, rising 15% YoY (to ₹ 9,578 crore). The performance was a mixed bag as road operators witnessed muted quarters. The exception was Ashoka Buildcon, which saw strong growth on a depressed base. NCC also reported strong growth led by execution across segments. Going forward, most EPC players guided for healthy topline growth to be driven by a) their robust order book position, b) receipt of appointed date in most of its projects and c) no major hindrances from external factors like rains, etc. Also, margins in most companies are likely to move northwards with softening in input prices and better operating efficiencies
- **Muted inflows in Q2; healthy traction in inflows expected:** Construction activity during April-October 2022 was affected largely by elevated input prices, labour shortages along with heavy and prolonged monsoon period. Due to these, MoRTH's construction pace has reduced to 4,060 km during April-October 2022 (vs. 4,450 km in April-October 2021). Also, awarding activities were at a benign level with tendering figure at 5,007 km during April-October 2022 (vs. 4,913 km during the same period in the previous year). Developers expect construction, awarding activities to improve during remaining FY23 with softening in input costs, normalised operations and strong order pipeline. Overall, MoRTH is aiming to award, construct ~12,000 km, ~12,000 km of road projects, respectively, during FY23

Currently, the order book (OB) position for majority of infrastructure companies under coverage remains healthy (overall OB/TTM revenue at 2.8x). Among key companies, a) PNC Infratech: OB was at ₹ 19,261 crore (2.8x TTM revenues), guidance at ~₹ 8,000-10,000 crore for FY23; b) HG Infra Engineering: OB healthy at ₹ 10,852 crore (2.9x book to TTM revenues), guidance of elevated level of inflows (~₹ 9,000-10,000 crore during FY23), c) GR Infraprojects: comfortable OB position at ₹ 16,222 crore (1.9x TTM revenues), targeting order inflows of ~₹ 15,000 crore in FY23; d) KNR Constructions: OB strong at ₹ 8,807 crore (2.5x book to bill), aiming minimum inflows of ₹ 3,000-4,000 crore during FY23; and e) NCC: OB robust at ₹ 40,020 crore (3.4x book to TTM bill)

Real Estate

- The real estate industry witnessed a steady performance on the residential sales momentum. While QoQ volumes dipped for most, sustenance sales remained healthy. Prices of flat/units have seen an uptick on a QoQ basis and are likely to continue with robust underlying demand and input cost inflation. Further, commentary suggests that the industry has not witnessed any major impact of recent interest rate hike on housing demand. The rental portfolio remained steady on office front while malls saw strong growth driven by festive season led consumption
- **Residential remains steady: Brigade Enterprises** has achieved sales value at ₹ 795 crore that was stable (down 4% YoY) despite a high base, indicating sustainable demand. Realisations were up ~5.7% YoY at ₹ 6680/sq ft. It reported sales volume of 11.9 lakh sq ft, down 9% YoY, which was on expected lines. Going ahead, the company has ~11.3 mn sq ft in upcoming projects. **Oberoi Realty** sales value was at ₹ 1156 crore, up ~39% YoY, 52% QoQ, largely led by Worli Project (sold eight units worth ₹ 610 crore). In terms of overall sales volume, the company managed to sell 3.7 lakh sq ft area during Q2FY23, down 16% YoY
- **Office, retail & hospitality remain robust: Phoenix Mills** reported strong operating performance with growth driven by retail portfolio. Retail revenues grew ~95.4% YoY at ₹ 456.3 crore while hospitality revenues were up 171% YoY at ₹ 93.4 crore. Retail rental at ₹ 313 crore, was at ~121% of Q2FY20 (pre-Covid level) and ~110% on like to like basis. Consumption in Q2FY23 at ₹ 2198.6 crore, was ~130% of Q2FY20 (pre-Covid), and ~118% on like to like basis. Phoenix' office portfolio remained robust with revenues during Q2FY23 improving to ₹ 43.5 crore (vs. 42.1 crore during Q2FY22). For **Oberoi Realty**, Westin Mumbai Garden City project doubled during Q2FY23 on a YoY basis to ₹ 34.1 crore largely backed by marked improvement witnessed in average room rates (to ₹ 7,891 in Q2FY23 vs. ₹ 3,637 in Q2FY22). Also, the occupancy remained elevated at 82.7% (vs. 83.7% in Q2FY22). Office segment saw high single to low double digit growth. Oberoi mall saw strong consumption led growth

***Brigade** leased out 0.55 mn sq ft during Q2FY23 (~50% BEL's share) taking occupancy to a two-year high. The hospitality portfolio also remained robust with revenues from hospitality (up ~122% YoY) were at ₹ 91.5 crore*

Logistics

Higher growth in express segment and rebound in the auto 3PL division led to continued strong topline (up 4%). However, margins were impacted due to unfavourable product mix in BlueDart, TCI, Adani Ports and Mahindra Logistics. Adani Ports' performance remained flattish QoQ led by lower (-4%) ports cargo volumes (container volumes remained flattish QoQ). The management expects bulk to perform strongly in FY23. Strong momentum of E-Way bill generation continued in Q2 (7.9 crore average), which along with a rebound in auto logistics led to strong topline growth in 3PL players such as Mahindra Logistics (however, rise in auto volumes negatively impacted margins) while TCI suffered due to lower shipping revenues led by ocean freight charges, dry docking of three ships. Rail players saw a positive quarter, with the dominant player Concor increasing its profitability by 6%, largely due to higher growth and realisation in the domestic segment and lower LLF charges. Air freight player BlueDart continue to report strong performance on the topline (up 3% QoQ), led by continued traction in utilisation levels and growth in the e-commerce vertical (however, margins were impacted by higher growth in surface volumes).

Among other key developments in sector:

- APSEZ has adopted a mix of active hedging ($1.1 billion portion) and designated foreign bonds ($2.8 billion portion). The move will lower forex loss/gain volatility in P&L (designated bonds will bypass P&L and reported in OC part)
- Total 80% of ALL's revenues were led by the Exim movement and 20% via domestic. The management expects domestic to see higher traction, going forward (led by rail solutions for bulk commodities)
- Mahindra Logistics' medium term margin are expected to stay impacted due to higher auto growth and Rivigo losses
- The company aims to reach ₹ 10,000 crore in the medium to long term, with a PAT margin of 2%

As per Concor management, the new LLF policy is seeing a stickhy situation, which includes a fixed 1.5% charge on market price of land and also a variable TAC charge (Traffic Access Charges) which IR fixes and is uncertain

First mile, last mile logistics have been added to Concor Exim volumes (mainly via road) and have lower margins (but provide customer stickiness)

Media

The media sector saw a weak performance across segments. Multiplexes witnessed a relatively weak quarter with major Hindi movies failing at the box office. Broadcasters saw a weak ad performance with FMCG companies cutting ad spends.

- **Broadcasters:** Zee reported domestic ad decline of 7.7% YoY owing to exit from FTA and a challenging macro environment impacting ad spends. Overall subscription revenues grew 4.2% YoY to ₹ 821.9 crore, largely owing to 20% YoY growth in international subscription (Zee5 led), while pricing embargo continued to impact TV subscription growth. EBITDA margins at 14.7% (down 617 bps YoY, up 108 bps QoQ), due to higher marketing cost YoY on account of movies and continued investments in ZEE5. For Sun TV, advertisement revenues came in muted (up 0.2% YoY) as key advertisers continued to restrict volumes amid raw material pressure. Subscription revenues were also muted YoY (down ~2.7% YoY) amid NTO 2 implementation driven price hike restrictions. EBITDA margins came in at 65.9%, up 308 bps YoY largely owing to revenue mix (there was lower margin IPL revenues in the base)
- **Multiplexes:** Q2 was a weak quarter with major big budget/starrer films such as *Lal Singh Chaddha, Raksha Bandhan, Shamshera, Liger*, etc., turning flops. Given the weak movies collection, only two films (*Brahmastra*, *Thor*) crossed the ₹ 100 crore mark during the quarter. Consequently, the footfalls were down ~30-37% QoQ for multiplexes. Average ticket prices were also down by 6-10% QoQ. The ad recovery was also muted (currently at 62-65% of pre-pandemic – similar to last quarter). Consequently, both PVR and Inox reported losses of ₹ 9 crore and ₹ 3 crore, respectively, at the EBITDA level

TV Today reported a weak set of numbers. TV and other media (clubbed segment of broadcasting and digital) revenues at ₹ 209 crore (down 6.1% YoY). Reported margins at 12.5%, down ~14 percentage points YoY, impacted by negative operating leverage. Most broadcasters expect a gradual recovery in ad growth from H2FY23, which would also drive a margin recovery

The weakness in Bollywood content was owing to a) pre-pandemic conceptualised films, not in sync with current consumer taste, b) negative social media against some Bollywood movies/stars and c) quality of content driving performance compared to super-star presence. The content pipeline in Q3 is strong with releases like Avatar, Drishyam 2, Cirkus, Kisi ka Bhai Kisi ki Jaan, etc slated to release. A good response will pave the way for a footfall recovery. H2FY23 ad growth should be better led by festival season and strong content line up. Thus, near term monitorable is content performance

Metals & Mining

- On an aggregate basis, during Q2FY23, the reported topline of our metal sector coverage universe was at ₹ 191287 crore, up 8% YoY but down 2% QoQ. Reported EBITDA for our coverage universe for the quarter was at ₹ 19698 crore, down 57% YoY and 52% QoQ. For Q2FY23, aggregate EBITDA margin of the coverage universe was at 10.3% compared to our estimate 12.8%. Ensuing reported PAT of the coverage universe for the quarter was at ₹ 8653 crore, lower than our expectation of ₹ 10812 crore
- Tata Steel reported an operationally steady set of Q2FY23 numbers wherein reported EBITDA/tonne of standalone operations came in broadly in line with our estimate at ₹ 10177/tonne while EBITDA/tonne of European operations came in higher than our estimate at US$120/tonne
- Hindalco reported a steady consolidated performance for Q2FY23. For Q2FY23, Hindalco's India business reported topline of ₹ 18963 crore. For Q2FY23, Hindalco's Indian Business EBITDA (business segment EBITDA) was at ₹ 2091. Hindalco's Indian aluminum business EBITDA was at ₹ 1547 crore. Hindalco's Indian copper business EBITDA was at ₹ 544 crore, up 54% YoY. Ensuing PAT of Hindalco's India business for Q2FY23 was at ₹ 921 crore. For Q2FY23, Novelis' shipments were at 984 KT, up 2% YoY, broadly in line with our estimate of 985 KT. Adjusted EBITDA/tonne for the quarter was at US$514/tonne. EBITDA for the quarter was at US$506 million (our estimate of US$517 million)

During Q2FY23, majority of base metal prices witnessed a declining trend both on a QoQ as well as YoY basis, except zinc, which was up YoY. During the quarter, average zinc prices on LME were at US$3275/tonne, up 10% YoY but down 16% QoQ. During the quarter, average lead prices were at US$1976/tonne, down 15% YoY, 10% QoQ. In the quarter, average aluminum prices on LME were at US$2354/tonne, down 11% YoY, 18% QoQ. Average copper prices for the quarter on the LME were at US$7761/tonne, down 17% YoY, 18% QoQ

Coal India (CIL) reported a mixed bag performance in Q2FY23. It reported offtake volume of 155 million tonne (MT), up 5% YoY. FSA sales volume for the quarter was at 142 MT, up 20% YoY, while FSA realisation for the quarter was at ₹ 1414/tonne, up 2% YoY. E-auction volume for the quarter was at 10 MT while E-auction realisation for the quarter was at ₹ 6062/tonne, up 281% YoY, 40% QoQ. For Q2FY23, Coal India reported consolidated topline of ₹ 29838 crore, up 28% YoY. Consolidated EBITDA for the quarter was at ₹ 7280 crore. Consolidated EBITDA came in lower than our estimate due to higher than expected operating costs (especially employee expenses). Employee expenses for the quarter was at ₹ 10829 crore, up 13% YoY, 8% QoQ, higher than our estimate of ₹ 10078 crore. Ensuing consolidated PAT for the quarter was at ₹ 6044 crore

Oil & Gas

- Oil & gas companies reported a mixed set of numbers in Q2FY23. Oil marketing companies' (OMCs) continued to report losses although they had narrowed owing to the one-time LPG grant provided by the government. City gas distribution (CGD) companies' earnings were in-line/lower than estimates while upstream companies' profitability remained capped on the back of windfall taxes
- On the OMCs front, HPCL and BPCL's crude throughput declined ~7% and 9% QoQ whereas IOC's crude throughput declined 15% QoQ. On a YoY basis, IOC's crude throughput increased 5.3%. BPCL and HPCL reported growth of 23.2% & 77.5% owing to reporting of consolidated numbers by BPCL & lower base effect. Reported refining margins were higher than our estimates. IOC's GRM was US$18.5/bbl, BPCL's GRM was at US$16.8/bbl while HPCL's GRM was at US$8.4/bbl. GRMs declined QoQ amid fall in product cracks during the quarter. Marketing sales increased in the range of 12-15% YoY but declined 3-6% QoQ due to seasonality. OMCs did not pass on increased crude oil costs to retail customers, which resulted in losses on the marketing front. These marketing losses were higher than our estimates as per our understanding. All three companies received one-time grants by the Government of India for losses incurred on sale of domestic LPG. Subsequently, all three companies continued to report net losses
- ONGC's oil production declined 2% YoY and 2.4% QoQ. Gas production declined 2% YoY and 0.6% QoQ. Gross oil realisation declined ~12% QoQ due to a decline in crude oil prices while APM gas realisation remained unchanged QoQ at US$6.1/mmbtu. The company's statutory levies increased on account of windfall taxes levied on domestically produced crude oil. Profitability declined 30% YoY and 15.7% QoQ
- Reliance Industries' results were below estimates on the profitability front. On a YoY basis, operational profitability was up 20% mainly driven by retail (up 51% YoY) and digital service (up 28.6% YoY) segments. On a quarterly basis, EBITDA margins were down ~18%, mainly on account of decline in O2C margins by 40% QoQ and ~6% YoY due to imposition of windfall tax on export of fuel

Key parameters in Q2FY23

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Singapore GRMs ($/bbl)	3.8	6.1	8.1	21.5	7.1
Crude Oil ($/bbl)	73.0	79.4	99.5	112.8	99.0
APM Gas (NCV) (US$/mmbtu)	2.0	3.2	3.2	6.7	6.7

Source: Bloomberg, ICICI Direct Research

On the CGD front, MGL and IGL reported volume growth of ~10.7% and 11.8% YoY, respectively. Due to reduced offtake in industrial segment owing to customer plant shutdown, Gujarat Gas' volume declined 33% YoY. On QoQ basis, IGL's volume increased 2.5% QoQ while MGL's volumes remained flat QoQ. Gujarat Gas reported 22% QoQ decline in volumes. MGL had hiked CNG and domestic PNG prices, while IGL had hiked domestic PNG prices to pass on increase in gas procurement cost. IGL and MGL reported lower than expected gross margin and declined 9-11%QoQ on account of higher sourcing cost. Gujarat Gas' gross margin improved 31.7% QoQ as its gas sourcing cost had fallen amid decline in industrial volumes. Subsequently, IGL and Gujarat Gas' PAT was broadly in line with estimates while MGL's PAT was lower than expected. IGL and Gujarat Gas reported ~4% and 62% YoY increase in earnings while MGL reported PAT decline of ~20% YoY, respectively. On a quarterly basis, IGL's PAT remained flattish, MGL's PAT declined 11.5% while Gujarat Gas' PAT improved 6%. Gail India earnings declined 46% YoY and 47% QoQ on account of weak petchem and trading segment margins. Petronet LNG's total volume declined 20% YoY and 7.7% QoQ. PAT declined ~10% YoY (up 6% QoQ)

Pharmaceuticals & hospitals

- The I-direct Pharmaceutical universe (13 coverage stocks) revenues grew ~8% YoY to ₹ 49189 crore driven mainly by complex launches in the US by large players, India formulations and CRAMs. The underlying growth was much higher after adjusting for Covid sales
- Indian formulations (select pack) revenues grew ~7% YoY to ₹ 12865 crore. Ex-Covid, however, YoY growth was ~10%. The growth was driven by new launches and traction across chronic therapy areas like cardiac, respiratory and acute segments such as anti-infectives
- US business (select pack) expanded ~13% YoY to ₹ 14101 crore. The growth was supported by 1) Outliers such as Sun (Specialty traction), Cipla (respiratory traction & gRevlimid launch), Dr Reddy's (launch of gRevlimid). On the other hand, oral solids (OSDs) continued to face significant price erosion ranging between mid-single digit to high-teens
- CRAMs players (except Divi's) continued to report significant traction due to execution of order book and business expansion for players like Laurus Labs (custom synthesis segment) as well as Syngene. However, Divi's Labs reported a muted set of numbers on the custom synthesis front due to reducing contribution from the Covid opportunity. CRAMS businesses (select coverage) grew 19% YoY to ₹ 2285 crore
- Generic API had mixed fortunes as some players faced raw material inflation and availability, pricing pressure in generic APIs while others such as Divi's Labs reported renewed traction in select APIs. API segment (select pack) overall sales grew ~8% YoY to ₹ 4846 crore
- Europe sales de-grew 5% YoY to ₹ 2427 crore mainly due to the currency headwinds
- Regarding company specific sales YoY growth, we had certain stand-out performances such as Laurus Labs – ~31% (significant growth in custom synthesis), Biocon – 26% (strong performance in biosimilars along with robust momentum in contract research) and Sun Pharma– 14% (speciality traction and new launches)
- On the margins front, EBITDA margins declined 148 bps YoY to ~23% 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 grew 1.1% YoY to ₹ 11107 crore. Going ahead, margin pressure is likely to soften amid softening of raw material prices and some gradual respite on logistics front (logistic cost has only softened for normal containers, for refrigerated ones it still remains elevated). Net profit grew 1.33% YoY to ₹ 6724 crore
- **Hospitals:** I-Direct Hospitals universe (five coverage stocks) revenues grew 9% QoQ to ₹ 8831 crore. Hospitals are now trending at pre-Covid levels in terms of higher occupancy and increase in surgeries count along with better cost optimisation practices. In case of payer mix while the international patients' mix is still at 90-95% of the pre-Covid level, the insurance mix (private) is now above pre-Covid level
- On the company specific QoQ growth, Apollo Hospitals – 12% (strong growth in Hospitals, pharmacy as well as diagnostic centres), Narayana Hrudayalaya – 10.5% (strong traction for flagship hospitals as well as robust performance by HCCI Cayman due to Q1 low base), Aster DM – ~6% (growth in India), Healthcare Global – ~3% (steady growth for both new and mature HCG centres) and Shalby - Flat quarter amid high base
- On the margins front, EBITDA margins contracted 19 bps QoQ to ~13% for I-direct universe (select pack) mainly due margin dent at Aster DM due to loss of Covid PCR testing in GCC and 2) incremental 24x7 related costs at Apollo. Subsequently, EBITDA grew 7.5% QoQ to ₹ 1168 crore and net profit de-grew 14.29% QoQ to ₹ 448 crore

Sales from India, US and Europe

		India			
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Alembic	539	509	7.9	480	14.4
Ajanta	314	248	26.6	279	12.5
Zydus Lifesciences	1,265	1,213	4.3	1,125	12.4
Ipca	766	698	9.7	685	11.8
Lupin	1,584	1,544	2.6	1,492	6.2
Cipla	2,563	2,416	6.1	2,483	3.2
Dr Reddy's	1,150	1,140	0.9	1,334	-13.8
Sun Pharma	3,460	3,188	8.5	3,387	2.2
Torrent	1,224	1,087	12.6	1,245	-1.7
Total	12865	12042	6.8%	12510	2.8%
		US			
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Alembic	418	348	20.1	557	-34.1
Ajanta	185	194	-4.6	179	3.4
Aurobindo	2,638	3,123	-11.1	2,971	-11.2
Zydus Lifesciences	1,708	1,498	14.0	1,560	9.6
Cipla	1,432	1,060	35.1	1,199	19.4
Lupin	1,330	1,429	-7.0	1,010	31.6
Dr Reddy's	2,800	1,891	48.1	1,782	57.2
Sun Pharma	3,291	2,677	22.9	3,244	1.5
Torrent	299	284	5.3	299	0.0
Total	14101	12504	12.8%	12801	10.2%
		API			
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Aurobindo	969	781	24.1	907	6.9
Alembic	294	239	23.0	233	26.2
Laurus Labs	680	527	29.0	583	16.6
Zydus Lifesciences	112	134	-16.6	122	-8.7
Divi's Lab	895	668	34.0	874	2.4
Ipca Labs	307	360	-14.6	375	-18.1
Lupin	250	268	-6.7	255	-2.0
Cipla	153	172	-11.0	135	13.3
Dr Reddy's	643	837	-23.1	709	-9.3
Sun Pharma	543	499	9.0	654	-16.9
Total	4846	4485	8.1%	4848	0.000
		Europe			
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Aurobindo	1,516	1,662	-8.8	1,548	0.5
Zydus Lifesciences	54	61	-11.3	61	-11.9
Dr Reddy's	420	414	1.5	414	1.4
Lupin	217	168	29.0	194	11.0
Torrent	220	251	-12.4	214	2.8
Total	2427	2556	-5.0%	2432	-0.2%

Source: Company, ICICI Direct Research

Retail

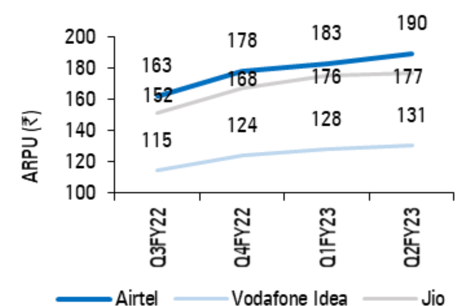
- Retail players continued to witness a healthy growth momentum in Q2FY23 owing to pre-festive demand and consumers refreshing their wardrobes. Fashion/apparel players such as Shoppers Stop, Bata ABFRL and KKCL witnessed revenue recovery rate of 120-135% over pre-Covid levels, driven by double digit SSSG and price hikes undertaken (12-15%)
- Trent continues to be the outperformer with sales more than doubling (223% recovery rate) vs. pre-Covid levels (three-year CAGR 30%)
- Other discretionary categories such as luggage (VIP Industries) and Jewellery (Titan) also witnessed robust traction
- Despite inflationary pressure and price hikes, discretionary consumption stayed strong at premium-end (ABFRL, Shoppers Stop, Titan were insulated). Inflationary stress was more acute at lower price point categories as seen in Relaxo's Q2FY23 performance (volume declined 15%) and Dmart's GM & apparel segment struggling to reach pre-Covid levels (25% vs. pre-Covid levels of 29%)
- On a favourable base, our retail coverage universe reported revenue growth of 32% YoY with impressive three-year CAGR of 19%
- We note that while apparel players maintained gross margins (owing to lower discounting days, calibrated price hikes), EBITDA margins were under pressure owing to increased marketing spends & higher opex cost. Overall EBITDA margins declined 55 bps YoY to 12.2%(pre-Covid: 12.6%)

On the balance sheet front, capex more than doubled YoY (except for D-Mart) in H1FY23 as companies accelerated store addition pace in Q2FY23 (store addition: eight D-Mart stores, 21 Pantaloons, 14 V-Mart, 40 Zudio, five Westside, 25 Titan's Jewellery stores). We note that most companies funded capex requirements through internal accruals as operating cashflows were healthy in H1FY23

Telecom

- **Jio leads subscriber addition:** Jio added 7.7 million (mn) subs leading the overall subscriber addition in the industry. Airtel saw modest addition of 0.5 mn subscriber during the quarter, while VIL lost 6 mn subscribers. Airtel witnessed healthy 4G net adds of ~5 mn during the quarter while VIL saw addition of merely 1.5 mn 4G subs
- **Airtel leads ARPU growth**: For Airtel, India wireless revenues were up 4% QoQ (up 24.8% YoY) at ₹ 18958 crore, led by ARPU, which came in at ₹ 190, up 3.6% QoQ, driven by higher number of days and subscriber mix improvement. Jio's ARPU saw only a modest improvement of 0.9% QoQ with revenues at ₹ 22521 crore, up 3% QoQ driven by subscriber addition. On the other hand, for VIL, revenues were up 2% QoQ to ₹ 10,615 crore as ARPU grew ~2% QoQ to ₹ 131
- **Margins expand for top two telcos:** For Airtel, consolidated margins at 51%, were up 57 bps QoQ led by India wireless margins, which were at 52.4% (up 116 bps QoQ), driven by lower SUC charges after new spectrum purchase. Jio's margins were at 51%, up 90 bps QoQ, led by flow through of lower spectrum usage charges. For VIL, reported EBITDA margins were down 529 bps QoQ to 40.1%. On an adjusted basis, margins were down 380 bps owing to high marketing costs and one off post settlement with a tower company
- **Others:** In the tower space, Indus Towers reported net addition of 1746 co-locations in Q2. Lean towers (not reflected in tenancy count) saw a strong addition of 1535, during Q2 vs. 1021 in Q1. Revenues came in at ₹ 7967 crore, up 15.5% QoQ as it included one-time provision reversal of ₹ 1100 crore in Q2. The reported rental revenues came in at ₹ 4785 crore, up 13.2% QoQ, aided by one-time provision reversal of ₹ 550 crore. Like to like core rental revenues were up 0.3% QoQ. EBITDA was at ₹ 2811 crore, up 24.3% QoQ, with margins at 35.8% (up 249 bps points QoQ) as the company provided for doubtful debts of ₹ 1771 crore (vs. ₹ 1233 crore in Q1) against dues from Vodafone Idea

ARPU trend



Source: Company, ICICI Direct Research

Tata Communication reported a steady quarter. The topline at ₹ 4431 crore, was up 6.2% YoY & 2.8% QoQ, driven by data revenues up ~11.2% YoY & 4.6% QoQ) at ₹ 3493 crore. EBITDA came in at ₹ 1130 crore, up 1.5% YoY, 4.9% QoQ. The consequent margin was at 25.5% (down 117 bps YoY, up 51 bps QoQ) led by voice margins, which were at 19.3%, up 890 bps due to India market shift (short term in nature). Core consolidated margins were 24%

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