Growth momentum continues unabated in Q3FY22

ICICI direct Research

Q3FY22

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- Corporate performance (ex-financials) for October-December 2021 (Q3FY22) came in encouraging with topline growing 13% QoQ. On the operating profit front, sequential growth was at 12% amid ~20 bps decline in operating margins to 17.6% on the back of higher RM costs (up 220 bps QoQ) partially mitigated by operating leverage benefits (employee costs and other expenses down ~100 bps each). On the PAT front, earnings were up 7.3% QoQ, constrained by lower other income and higher effective tax rate (27.5% in Q3FY22 vs. 23.2% in Q2FY22). On a YoY basis, topline, bottomline growth at the index level was healthy at ~30%+ tracking commodity prices led outperformance in the metals and oil & gas space as well as healthy high double digit growth witnessed in the IT & FMCG domain. With governmental thrust on infrastructure (capex outlay for FY23E up 35% YoY), private capex cycle revival and healthy job creation, the management commentary was optimistic of a strong rebound in FY23E
- At the Nifty level (including financials), broader trend continued i.e. lower double digit QoQ growth in sales & high single digit growth in PAT. PAT was a tad higher (at 8.8% QoQ) than ex-financials data shared above (7.3% QoQ) due to better performance by corporate banks
- On the sectoral front, in the BFSI space, asset quality improved sequentially as lower slippages and better recoveries helped overall performance. GNPA ratio for banks in our coverage declined in the range of 30-150 bps with overall decline of 45 bps QoQ to ~5%. Restructured book also declined by an average of 25 bps QoQ, thus indicating overall reduction in stress. IT companies continued their growth momentum in Q3 where the company reported strong growth in revenues in CC terms. Tier I companies reported average constant currency growth of 20.2% on a YoY basis. For Tier II companies, the growth was even stronger at an average of 26.6% on a YoY basis
- Going forward, revisiting our index earnings estimates, we expect Nifty EPS to grow at 21.5% CAGR in FY21-24E. Hence, we value Nifty at 20,000 i.e. 23x P/E on FY23E-24E average EPS of ₹ 870/share. Corresponding Sensex target is at 66,600, offering healthy double digit upside

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

Nifty P&L (ex-BFSI space)					
	Dec-21	Dec-20	Sep-21	YoY (%)	QoQ (%)
Sales	**12,94,873**	**9,82,834**	**11,46,503**	**31.7**	**12.9**
Total Expenses	10,66,554	7,97,315	9,42,464	33.8	13.2
Raw material	6,62,932	4,47,422	5,62,347	48.2	17.9
Employee	1,36,073	1,19,591	1,31,415	13.8	3.5
Other expenses	2,67,549	2,30,302	2,48,703	16.2	7.6
Expenses (% of sales)					
Total Expenses	82.4	81.1	82.2	124 bps	16 bps
Raw material	51.2	45.5	49.0	567 bps	215 bps
Employee	10.5	12.2	11.5	-166 bps	-95 bps
Other expenses	20.7	23.4	21.7	-277 bps	-103 bps
Operating Profit	**2,28,319**	**1,85,519**	**2,04,038**	**23.1**	**11.9**
OPM%	17.6	18.9	17.8	-124 bps	-16 bps
Other Income	24,290	32,749	25,283	-25.8	-3.9
Interest	28,558	29,271	27,537	-2.4	3.7
Depreciation	59,745	55,187	57,280	8.3	4.3
PBT	**1,64,306**	**1,33,811**	**1,44,505**	**22.8**	**13.7**
Tax	45,258	42,778	33,568	5.8	34.8
Tax Rate	**27.5**	**32.0**	**23.2**	**-442 bps**	**432 bps**
PAT	**1,19,048**	**91,033**	**1,10,937**	**30.8**	**7.3**

*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	Dec-21	Dec-20	YoY (%)	Sep-21	QoQ (%)
Sales	12,94,873	9,82,834	31.7%	11,46,503	12.9%
EBITDA	2,28,319	1,85,519	23.1%	2,04,038	11.9%
PAT	1,19,048	91,033	30.8%	1,10,937	7.3%

Other indices broader earnings summary

	YoY growth (%)		QoQ growth (%)	
	Sales	Net profit	Sales	Net profit
Nifty 50	**26.7**	**32.0**	**10.7**	**8.8**
BSE Midcap	14.7	22.4	6.9	-15.3
BSE Smallcap	22.2	85.7	7.5	24.3
All Co's (3702 cos)	**24.6**	**-2.0**	**9.7**	**2.1**

Positive surprises & Buys

- Bharti Airtel
- HG Infra Engineering
- Hindalco Industries
- Larsen & Toubro
- Tata Motors
- Titan Company Ltd

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target				
Earning Estimates	FY21	FY22E	FY23E	FY24E
Nifty EPS (₹/share)	515	720	815	925
Growth (% YoY)	17.1%	39.6%	13.3%	13.5%
Earnings CAGR over FY21-23E				25.7%
Earnings CAGR over FY21-24E				21.5%
FY23-24E average Nifty EPS (₹/share)				870
Target P/E Multiple				23.0
Nifty Target (using FY23E-24E average EPS)				20,000
Corresponding Sensex Target				66,600

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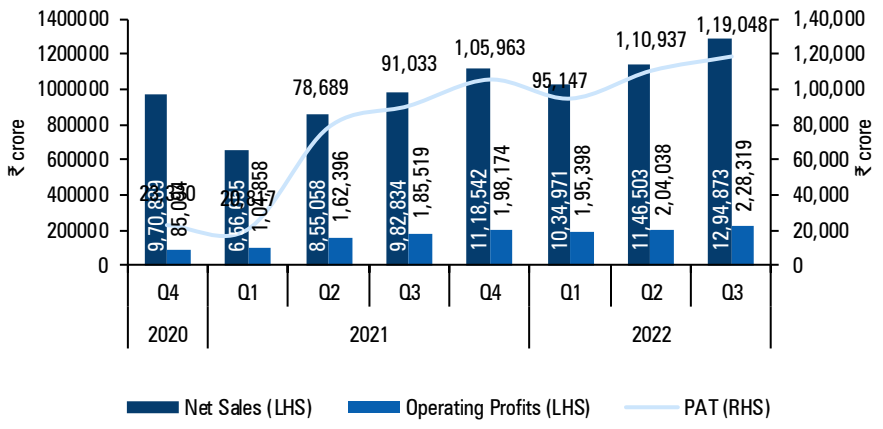
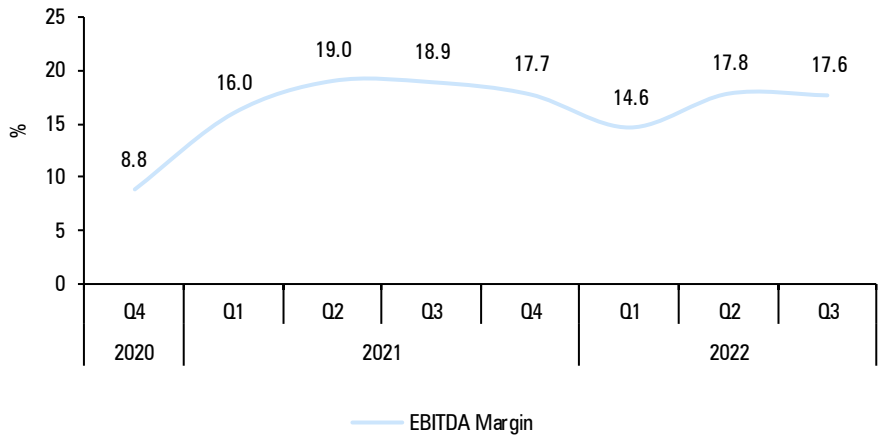
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, for Q3FY22, topline was up 13% QoQ to ₹ 12.95 lakh crore. EBITDA was up 12% QoQ to ₹ 2.3 lakh crore, tracking ~20 bps sequential contraction in EBITDA margins to 17.6%. Ensuing PAT in Q3FY22 was at ₹ 1.2 lakh crore, up 7.3% QoQ, limited by decline in other income and higher effective tax rate, which for the quarter was at 27.5%

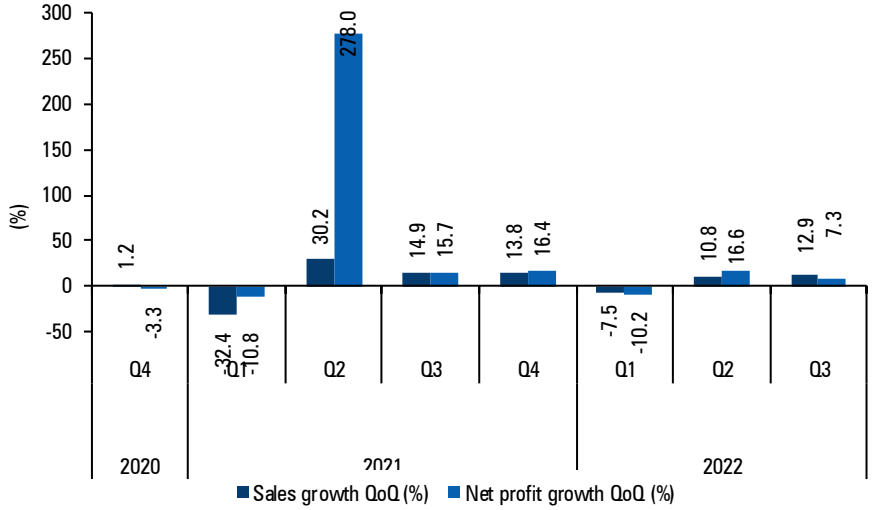
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q3FY22, EBITDA margins at the index level (ex-financials) were down ~20 bps QoQ to 17.6%. Gross margin decline was sharp at ~220 bps QoQ amid steep rise in key input costs. The decline, however, was arrested by operating leverage benefits wherein employee costs and other expenses were down ~100 bps each on QoQ basis

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



Source: Capitaline, ICICI Direct Research

Sequential growth in topline and bottomline was encouraging. On a YoY basis, the growth looks rather robust and is primarily driven by higher realisations in the commodity space viz. oil & gas and metals

Industry wise revenue & profit movement

- In Q3FY22, topline growth on a QoQ basis was led by the oil & gas space supported by higher fuel prices, followed by capital goods domain amid greater capex spends domestically. Sequential topline growth was also in healthy double digits in the auto, FMCG space, largely supported by commodity inflation led price hikes while it was in steady single digits in the metals & IT domain. YoY jump is led by commodity pack i.e. metals and oil & gas space amid an upswing in global commodity prices.

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

	Dec-21	Dec-20	Sep-21	YoY change (%)	QoQ change (%)
Auto	1,38,992	1,42,316	1,22,950	-2.3	13.0
Capital goods	39,563	35,596	34,773	11.1	13.8
FMCG	41,070	34,928	37,326	17.6	10.0
IT	1,34,849	1,12,561	1,27,674	19.8	5.6
Metals	1,77,560	1,22,438	1,63,846	45.0	8.4
Oil & Gas	5,91,378	3,86,059	4,99,282	53.2	18.4
Pharma	23,173	20,649	22,920	12.2	1.1
Power	43,739	37,669	42,671	16.1	2.5
Others	1,04,549	90,617	95,061	15.4	10.0
Aggregate	**12,94,873**	**9,82,834**	**11,46,503**	**31.7**	**12.9**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index topline (%)

Sector	Dec-21	Dec-20	Sep-21
Auto	10.7	14.5	10.7
Capital goods	3.1	3.6	3.0
FMCG	3.2	3.6	3.3
IT	10.4	11.5	11.1
Metals	13.7	12.5	14.3
Oil & Gas	45.7	39.3	43.5
Pharma	1.8	2.1	2.0
Power	3.4	3.8	3.7
Others	8.1	9.2	8.3
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In the FMCG space, ex-ITC, coverage universe saw 10.2% revenue growth led by prices for most companies. HUL, Dabur, Marico reported slower 0-2% volumes growth whereas Nestlé, Tata Consumer, Jyothy Lab saw mid-single digit volume growth during the quarter. Varun Beverages & cigarettes companies saw high double digit volume growth due to strong recovery from the low base. In the auto space, muted festive sales in the 2-W space, supply side issues (chip availability) limiting the PV production & cyclical recovery underway in CV domain resulted in 7.3% sequential drop in total industry volumes for Q3FY22
- On the bottomline front, sequential growth at index level was driven by oil & gas (largely Reliance Industries) and capital goods domain. While pressure on profitability/margins resulted in decline in PAT on a QoQ basis in the metals space amid unabated growth in topline. It was in steady single digit in the auto, FMCG and IT space. In the cement space, industry witnessed a difficult quarter with further cost escalations coupled with a weak demand scenario on account of unseasonal rains

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

	Dec-21	Dec-20	Sep-21	YoY change (%)	QoQ change (%)
Auto	4,103	8,876	3,788	-53.8	8.3
Capital goods	2,055	2,467	1,819	-16.7	12.9
FMCG	7,557	6,621	7,164	14.1	5.5
IT	23,358	22,145	22,573	5.5	3.5
Metals	22,163	11,341	25,442	95.4	-12.9
Oil & Gas	38,429	21,543	32,161	78.4	19.5
Pharma	4,399	3,099	4,361	41.9	0.9
Power	7,792	7,134	6,976	9.2	11.7
Others	9,193	7,808	6,652	17.7	38.2
Aggregate	**1,19,048**	**91,033**	**1,10,937**	**30.8**	**7.3**

Source: Capitaline, ICICI Direct Research

Key sectoral share in index PAT (%)

Sector	Dec-21	Dec-20	Sep-21
Auto	3.4	9.7	3.4
Capital goods	1.7	2.7	1.6
FMCG	6.3	7.3	6.5
IT	19.6	24.3	20.3
Metals	18.6	12.5	22.9
Oil & Gas	32.3	23.7	29.0
Pharma	3.7	3.4	3.9
Power	6.5	7.8	6.3
Others	7.7	8.6	6.0
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In the pharma space, domestic branded formulations continued to drive overall growth due to 1) rebound in non-Covid products (both acute & chronic), 2) normalisation in patient footfalls and 3) MR activity back to pre-Covid levels. Domestic momentum was partially offset by decline in the US generics amid 1) continued price erosion albeit with lower intensity, 2) lack of meaningful launches, 3) logistics disruptions and 4) regulatory challenges. In the retail space, healthy recovery was witnessed with revenue recovery rate for most of the apparel & footwear retailers surpassing pre-Covid levels (100%+) vs. 80-90% in Q2FY22. Strong festive demand and easing of trade restrictions perked up the demand in Q3FY22. Store operational days were also close to normalcy levels (95%+) after nearly eight quarters of Covid-led disruptions

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 (Q3FY22)

Company	Q3FY22 Result	Quarterly Performance & Outlook	CMP (₹)	Target	Last Rating	Potential Upside
Bharti Airtel	Positive	Airtel saw partial benefits of tariff hikes during the quarter, driving the ARPU higher to ₹ 163, up 5.9% QoQ (a tad better than ~5.5% growth seen for peers). Key highlight was relative stickiness of customer base for Airtel vs. its peers. We highlight that its subscriber decline of 0.6 mn was much lower in contrast to its peers Jio, VIL, which lost 8.5 mn, 8.2 mn subs, respectively. The non-wireless business momentum along with Africa performance, continue to be robust. Favourable industry structure of three players (two being strong), government relief, tariff hike and fund raise puts Airtel in sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering. We remain constructive on Airtel and maintain our BUY rating on the stock with an SOTP based target price of ₹ 860/share	713	860	Buy	21
HG Infra Engineering	Positive	HG Infra reported a healthy performance with revenue up 24.7% YoY to ₹ 915.6 crore and EBITDA at ₹ 145.2 crore, up 22.9% YoY, with margin at 15.9%. PAT was at ₹ 88.9 crore (up 35.6% YoY). Considering its healthy executable order book position and robust execution skill, we expect execution momentum to continue in the near-to-medium term. Additionally, elevated operating margins, strong return ratios and lean balance sheet position remains key positive. We maintain BUY rating with a TP of ₹ 885/share (based on SoTP based valuation)	607	885	Buy	46
Hindalco Industries	Positive	Hindalco reported a healthy performance for Q3FY22. For the quarter, Hindalco reported consolidated topline of ₹ 50272 crore, up 44% YoY, 5% QoQ, while consolidated EBITDA was at ₹ 7624 crore, up 38% YoY but down 5% QoQ. Ensuing consolidated PAT for Q3FY22 was at ₹ 3675 crore, up 96% YoY, 8% QoQ. For the quarter, Hindalco's wholly owned overseas subsidiary Novelis reported adjusted EBITDA/tonne of US$544/tonne and shipments of 930 KT. Going forward, Hindalco plans to continue with its focus on downstream capacity expansion at both Novelis and India business, which augurs well. We have a BUY rating on the stock, valuing it using SOTP valuation methodology	530	650	Buy	23
Larsen & Tourbo (L&T)	Positive	L&T reported steady Q3FY22 results. Adjusted standalone revenue was up 9.8% YoY to ₹ 21552 crore on a low base. Consequently, standalone adjusted PAT at ₹ 1671 crore (down 2% YoY). Order inflows for the quarter came in at ₹ 50359 crore. L&T is India's largest engineering & construction (E&C) company with interest in EPC projects, hi-tech manufacturing and services. It primarily operates in infrastructure, heavy engineering, defence engineering, power, hydrocarbon, services business segments. L&T's strong order book of ₹ 340365 crore suggest good revenue visibility in coming years. Low to mid teen revenue and order inflow growth in FY22E amid challenges, Net working capital to sale expected to remain stable at ~22.3% for FY22E. L&T's focus on asset monetisation to further strengthen the balance sheet and restructuring of Hyderabad Metro to enhance return ratios of consolidated business. We retain BUY rating on L&T and value it at ₹ 2270 on SOTP basis	1884	2270	Buy	20
Tata Motors (TML)	Positive	Tata Motors reported healthy Q3FY22 results. Sequential jump in EBITDA margins to the tune of ~250 bps was a key positive surprise primarily driven by outperformance at JLR. TML is leading the charge among domestic auto OEMs in regards to the upcoming mega industry transformation i.e. electrification. Domestically, its Nexon EV is the best-selling electric PV with market share pegged at ~71% in FY21. Its overseas subsidiary Jaguar Land Rover (JLR) is set to embrace the global EV trend under the 'Reimagine' strategy with Jaguar set to be an all-electric brand by 2025 and Land Rover set to introduce six new electric models in the next five years. We build 17.2% consolidated sales CAGR for TML over FY21-24E (on the back of 17.6% volume CAGR) along with improvement in margins to 14.0% levels by that time and a return to profitability at the PAT level. We retain our BUY rating on TML valuing it at ₹ 625 on SoTP basis	493	625	Buy	27
Titan Company Ltd	Positive	Titan's jewellery division continued to gain market share amid robust topline growth of 39% YoY and the company delivering an all-time high EBITDA margins of 14.4% in Q3FY22. Watches division also witnessed healthy recovery with revenue growth of 29% YoY. Titan crossed the ₹ 1000 crore quarterly net profit for the first time and reported its highest ever quarterly net profit. Robust performance in challenging times reaffirms our thesis of long term market share gains for Titan. We believe Titan is a structural growth story and appears to be a key beneficiary of the unorganised to organised shift in the Indian jewellery market. Robust business model (30%+ RoCE) and strong earnings visibility will enable Titan to sustain its premium valuations going forward. We value Titan at ₹ 2960 i.e. 68x FY24E EPS and retain BUY rating on the stock	2488	2960	Buy	19

Source: ICICI Direct Research

The above companies posted a strong set of earnings in Q3FY22, which we believe are more fundamental and sustainable in nature.

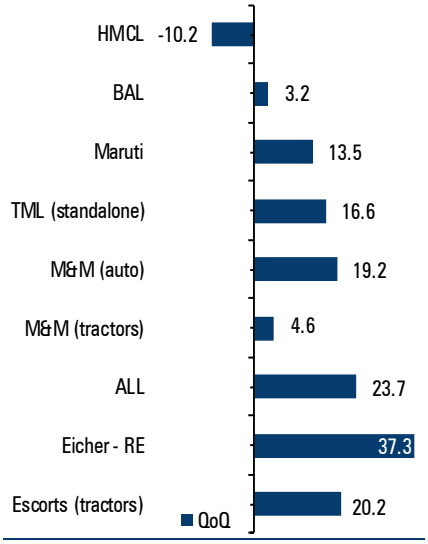
Sector specific takeaways from quarter

Auto & auto ancillary

- Muted festive sales in the 2-W space, supply side issues (chip availability) limiting the PV production & cyclical recovery underway in the CV domain resulted in 7.3% sequential drop in total industry volumes for Q3FY22. Topline of our coverage came in lower than anticipated due to miss in volumes at JLR as well as QoQ variation in ASPs, which for some OEMs came in lower than anticipated (due to adverse product mix) while for some it was higher than anticipated with pace of price increase certainly lower than before. On the margins front, it came in higher than our estimates due to outperformance at Maruti Suzuki (EBITDA margins stood at 6.7%) and Tata Motors. Most OEMs witnessed an increase in RM costs but was partially mitigated by operating leverage benefits. PAT for our coverage came in line with our estimates tracking higher than anticipated losses at Tata Motors partially mitigated by higher other income at M&M. Management commentary on demand outlook was encouraging. However, most players guided for under recoveries of input costs and a tad lower margins in Q4FY22. I-Direct auto & ancillary coverage universe revenues were up 15.7% QoQ with EBITDA margins at 11.3% vs. our estimates of 10.7%

For Q3FY22, total industry sales were at ~60.3 lakh units (down 7.3% QoQ), with domestic dispatches declining ~9% QoQ to 46.4 lakh units while exports declined 1.5% QoQ at 13.9 lakh units. Domestic PV volumes rose 2.7% QoQ to ~7.6 lakh units (UV up 4% QoQ); 2-W volumes declined 12.5% QoQ to 36 lakh units (motorcycles down 6%, scooters down 23%). Domestic CV volumes increased 17.1% QoQ to 1.95 lakh units (M&HCV up 19.6%, LCV up 15.9%) while 3-W volumes grew 16.2% to 0.8 lakh units (witnessing recovery of volumes on the passenger side)

Key player's volume growth – Q3FY22 (%)



Source: Company, SIAM, ICICI Direct Research

- In the auto OEM space, this time the PV space compressively outperformed the rest of the pack with Maruti Suzuki (MSIL) leading from the font. At MSIL, surprise came in on the margins front wherein savings were realised across all items largely due to better capacity utilisation. EBITDA margins came in at 6.7%, up 250 bps QoQ vs. estimate of 4.5%. The management guided for increase in production volumes for Q4FY22 vs. Q3FY22. Tata Motors' Q3FY22 results were also a handsome beat on our estimates. The key positive surprise was 250 bps sequential jump in EBITDA margins at 12.5%, largely attributable to savings on account of raw material costs & outperformance by JLR. For M&M, Q3FY22 results were healthy. However, the key takeaway was large pending order book of ~1.55 lakhs units as of December 2021 with ~ 50% of it being constituted by its flagship product i.e. XUV 700

- In the 2-W space, demand prospects remain muted, particularly in the entry level segment amid rising material prices along with erratic rainfall thereby restraining rural cash flows. Eicher Motors reported a muted performance in Q3FY22 with key negative surprise being 5.7% QoQ decline in ASPs to ₹ 1.65 lakh/unit, largely attributable to adverse product mix. EBITDA margins in Q3FY22 were at 20.2%, down 70 bps QoQ. For Hero MotoCorp, total 2-W sales volume for the quarter were at 12.9 lakh units, down 10.2% QoQ. The positive was, however, on 3.8% sequential rise in ASPs at ₹ 61,010/units, backed by commodity led price hikes and increased share of spare parts (~15% of total revenue). The company remains committed towards its launch of its own electric vehicle by March 2022. Bajaj Auto reported a steady performance in Q3FY22 with EBITDA margins coming in at 15.2% (down 80 bps QoQ)

Ashok Leyland reported a muted performance in Q3FY22 with EBITDA margins at 4.0%; wherein gross margin declined 120 bps QoQ but operating leverage benefits limited the blended margin decline. Surprise came in lower-than-expected topline with ASPs remaining largely flat QoQ at ₹ 16.2 lakh/unit despite higher share of M&HCV in sales mix. Escorts reported broadly in line performance with key monitorable for company being integration benefits from on boarded Kubota Corporation

- On the ancillary front, JK & Apollo Tyres outperformed their peers in terms of margin profile. Apollo reported healthy numbers for the quarter with EBITDA margins at 13%, up 44 bps QoQ despite gross margin declining 150 bps QoQ. For JK Tyre, the performance was resilient with EBITDA margins at 8.9%, down 90 bps QoQ. Balkrishna Industries reported a muted performance with sharp EBITDA margins decline at 352 bps QoQ to 21.8%. However, it remains committed towards its long term sustainable margin target of 28-30% with expansion on track for commissioning by FY23E (resultant capacity at 3.6 lakh tonne)

Minda Industries' Q3FY22 results were at par with our estimates. Consolidated revenues were up 3.2% QoQ. EBITDA margins for the quarter came in at 10.8%, flat QoQ. Consolidated PAT in Q2FY22 was at ₹ 101.3 crore up 6.9% QoQ

Bharat Forge reported mixed numbers wherein topline came in higher than our expectation but margins came in lower than expectation due to pressure on gross margins, which were down 200 bps QoQ

Motherson Sumi reported muted results in Q3FY22 wherein delay in profitability recovery at its key overseas subsidiaries dragged down the overall performance

- Recently concluded quarter was muted for the industry at the retail level. However, with gradual easing of supply side issues, upcoming healthy Rabi crop season, greater infra spends as well as pick-up in economic activity we expect sales volume to improve, going forward

Banking sector

- The Q3FY22 performance of the banking space was largely in line with expectations as loan growth continued to pick up, helped by pent-up and festive demand. While the operational performance improved due to growth, lower credit costs propelled earnings trajectory

State Bank of India saw 40 bps QoQ decline in GNPA at 4.5%

- Asset quality improved sequentially as lower slippages and better recoveries helped the overall performance. GNPA ratio for banks in our coverage declined in the range of 30-150 bps with overall decline of 45 bps QoQ to ~5%. Restructured book also declined by an average of 25 bps QoQ, thus indicating overall reduction in stress. DCB Bank was exception with as overall stress (GNPA + r/s), increasing 6 bps QoQ
- Among PSU banks, SBI posted a healthy asset quality performance with multi quarter low slippages and reduction in watchlist as well. On an overall basis, banks saw 0.5-2% annualised slippage with majority being skewed towards lower end of the range. Also, on an absolute basis, GNPA declined ~4% QoQ. Some NBFCs saw increased GNPA levels with new RBI norms kicking in. However, recently the RBI extended the timeline for such implementation to September 2022
- Though there are concerns on impact of the third wave of the pandemic that gathered pace in late December, management commentaries and other data suggest minimal impact with outlook for growth improving
- Business growth picked up as restrictions due to pandemic were eased. Retail segment has been torch bearer in credit growth in the past few years now while MSME has been peddled by ECLGS. However, this quarter also saw some green shoots in corporate credit, especially for working capital requirements
- December fortnightly data from RBI showed credit growth in the banking segment reached 9.3% YoY at ₹ 116.8 lakh crore, indicating better credit offtake. Sectoral data shows that retail segment was up 14.3% YoY and agri credit jumped 14.5% YoY. Large industries (corporate) credit that had been in negative territory in the recent past was up 1.3% in December 2021 and the bank have indicated that WC limits have still not been fully utilised, thus leaving further scope of improvement.

Kotak Mahindra Bank continued its good show with 7.6% QoQ credit growth

- NII grew 9.7% YoY led by advance growth, while margins improved average 10-12 bps. Mid private sector players like IDFC First, CSB and Federal Bank saw improvement by 7-24 bps due to lower interest reversals. Other income was down 4.5% YoY as treasury income was impacted due to hardening of yield (especially for PSU banks). Also, fee income sequentially saw modest growth despite pick up in loans, which was on account of waivers and discounts given during festive period
- C/I ratio declined from 52.7% to 49.6% QoQ, mainly on account of better growth in topline and control over opex; especially non-employee related operational cost
- Provisions declined sharply by 42% YoY and 2.8% QoQ to ₹ 33579 crore, as fresh slippages declined. Large banks like HDFC Bank, Axis Bank, SBI have maintained/added to their provision buffers while Kotak Mahindra Bank marginally utilised its Covid provision. Thus, decline in provision led to 67.3% YoY jump in earnings to ₹ 43999 crore
- Overall, the quarter saw improvement in broad business parameters and management commentaries have been positive suggesting better performance in Q4. Banks like Kotak and Axis have posted better growth amongst peers while HDFC Bank's growth was slower than industry on a sequential basis. We believe profitability should see a boost in coming quarters with better topline growth. Credit growth should also improve as the government's thrust on capex in recent budget would drive corporate credit demand. However, asset quality performance in coming quarter warrants slight watchfulness in few marred segment like micro-finance and restructured portfolio

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

(₹ crore)	Q3FY22	Q2FY22	Q1FY22	Q4FY21	Q3FY21
NII	135212	127949	122837	116593	123255
Growth YoY	**9.7**	**6.3**	**0.7**	**3.6**	**12.4**
Other income	50428	52975	56086	67562	52808
Growth YoY	-4.5	16.3	26.5	15.8	2.6
Total operating exp.	92160	95347	81588	88673	82233
Staff cost	44454	44168	43003	42350	42477
Operating profit	93479	85577	97335	95482	93830
Growth YoY	-0.4	-3.5	4.8	14.7	10.3
Provision	33579	34530	54621	61563	58073
PBT	59901	51047	42756	33920	35757
PAT	43999	43681	31329	24909	26296
Growth YoY	67.3	62.9	45.8	**NM**	**NM**
GNPA	721042	751588	787771	785467	717790
Growth YoY	**0.5**	**-2.4**	**0.2**	**-3.8**	**-18.1**
NNPA	209529	227505	245727	241576	167641
Growth YoY	**25.0**	**10.5**	**1.6**	**-8.6**	**-48.4**
Advances (Lakh crore)	107.2	100.5	99.2	103.2	98.0
Deposits (Lakh crore)	148	145	142	142	136

Source: Capitaline, ICICI Direct Research

NII growth jumped due to better loan growth and margin expansion

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q3FY22	Q2FY22	Q1FY22	Q4FY21	Q3FY21
NII	78,140	74,202	71,141	66,421	72,972
Growth YoY (%)	**7.1**	**3.0**	**0.8**	**-0.5**	**9.1**
Other income	26,679	30,007	34,375	43,389	29,666
Growth YoY (%)	**-10.1**	**16.9**	**34.4**	**18.0**	**-1.5**
Total operating exp.	54,983	60,935	50,642	55,872	51,488
Staff cost	31,679	31,912	31,370	31,582	31,662
Operating profit	49,837	43,273	54,874	53,937	51,150
Growth YoY (%)	**-2.6**	**-10.3**	**12.6**	**25.0**	**1.5**
Provision	23,465	21,255	34,581	39,630	39,868
PBT	26,372	22,018	20,293	14,308	11,282
PAT	18,777	21,846	14,289	9,859	7,599
Growth YoY	**147.1**	**134.9**	**114.0**	**NM**	**NM**
GNPA	5,78,060	6,01,278	6,32,026	6,36,504	5,97,945
Growth YoY	**-3.3**	**-5.0**	**-5.0**	**-4.8**	**-19.5**
NNPA	1,66,849	1,81,475	1,95,845	1,94,393	1,43,120
Growth YoY	**16.6**	**4.9**	**-4.4**	**-11.1**	**-47.6**
Advances (Lakh crore)	67.8	63.2	63.0	66.9	63.4
Deposits (Lakh crore)	101.9	100.2	99.0	98.9	95.6

Source: Capitaline, ICICI Direct Research

Credit cost decline as banks witness overall reduction in stress

Exhibit 10: Financial summary of banking industry (private)

(₹ Crore)	Q3FY22	Q2FY22	Q1FY22	Q4FY21	Q3FY21
NII	57,072	53,747	51,696	50,172	50,283
Growth YoY	**14**	**11**	**0**	**9**	**18**
Other income	23,749	22,968	21,711	24,173	23,143
Growth YoY	**2.6**	**15.6**	**15.8**	**12.1**	**8.3**
Total operating exp.	37,177	34,412	30,947	32,801	30,746
Staff cost	12,774	12,256	11,633	10,768	10,815
Operating profit	43,643	42,303	42,461	41,545	42,680
Growth YoY	**2.3**	**4.5**	**-3.8**	**3.7**	**23.2**
Provision	10,114	13,275	20,039	21,933	18,205
PBT	33,529	29,029	22,463	19,611	24,475
PAT	25,221	21,834	17,040	15,049	18,697
Growth YoY	**34.9**	**24.7**	**15.0**	**166.9**	**NM**
GNPA	1,42,983	1,50,310	1,55,745	1,48,962	1,19,845
Growth YoY	**19.3**	**9.4**	**29.0**	**0.6**	**-10.8**
NNPA	42,681	46,029	49,882	47,183	24,520
Growth YoY	**74.1**	**40.4**	**34.8**	**3.2**	**-53.1**
Advances (Lakh crore)	39.4	37.3	36.3	36.3	34.7
Deposits (Lakh crore)	46.6	45.1	43.2	43.0	40.4

Source: Capitaline, ICICI Direct Research

Earnings boosted by healthy topline and lower provisions

Capital Goods

- Overall, our capital goods coverage companies delivered a mixed performance aided by regained operating activities and execution pick-up despite pandemic challenges. While supply chain disruptions, higher freight cost and higher commodity prices continued to impact margins. revenue of our coverage universe grew 13.7% YoY while EBITDA de-grew 2.5%, YoY on account of higher input and freight costs. Consequently, adjusted PAT grew marginally by 2.4%, YoY partly aided by positive operating leverage, other income and base effect

On the order inflow in front, L&T registered decent order inflows worth ₹ 50359 crore, de-growing 31% YoY, led by EPC orders won in infrastructure segment. Bharat Electronics order inflows came in at ~₹ 5600 crore. In the T&D space, KEC International YTD received highest ever orders worth ₹ 14121 crore. Thermax' consolidated order inflow came in at ₹ 2462 crore (up 57% YoY) owing to broad based recovery of orders in several key sectors

- L&T reported a strong execution pick up in the infrastructure segment. Adjusted standalone revenue increased 9.8% YoY to ₹ 21552 crore on a low base while standalone EBITDA declined 7.7% YoY to ₹ 1720.6 crore with margins dipping 152 bps to 8% on a YoY basis owing to higher other expense, employee cost. However, L&T's consolidated revenue grew 11% YoY aided by better performance of subsidiaries. In the defence space, Bharat Electronics reported a robust set of numbers. Revenue, EBITDA, PAT grew 60%, 86.7%, 122.8% YoY, respectively

- Power T&D company KEC reported a weak set of numbers, impacted by the continued headwinds on account of elevated raw material costs and slower execution leading to revenue, EBITDA, PAT growth of 1.5%, -20%, & -35.5%, respectively. Thermax reported a decent Q3 performance on the back of better execution led by environment segment. With consolidated revenue grew by 14.5% while EBITDA margins of 7% impacted by higher commodity and freight cost. Broad based recovery in order inflows in key industrial/ manufacturing sectors likely to provide medium term revenue visibility

- In the MNC space Siemens reported a strong order inflow in Q1FY22 (*September ending) at ₹ 5300 crore, registering growth of 65.3% YoY, led by all business segments. On revenue and EBITDA front Siemens reported consolidated revenue at ₹ 3550 crore, up 21.4% YoY, and EBITDA at ₹ 365 down marginally 0.8% YoY, with 10.3% margins owing to cost pressures & higher commodity prices. PAT came in at ₹ 251 crore down 6.3% YoY. At the same time ABB reported strong performance in Q4CY2021. Revenue came in at ₹ 2101.5 crore, up 23.6% YoY amid strong execution, EBITDA came in at ₹ 185.2 crore up 80% YoY, with margins of 8.8%, product mix aligned with growth market segments that helped to improve margins. Consequently, PAT came in at ₹ 193.6 crore, up 236.3% YoY owing to better capacity utilisation and revenue mix provided a major step-up in profitability. ABB's order inflows for Q4CY21 came in strong at ~₹ 2243 crore, up 53% YoY

- In the bearing space, companies posted a subdued performance both QoQ and YoY, due to laggard performance in auto and industrial segment. Further, margins were largely under pressure due to rising commodity prices. Overall, revenue, EBIDTA & PAT for our bearings coverage (NRB, SKF, Timken) de-grew 4.1%, 19.4% & 20.6%, respectively, QoQ. On the whole, the space saw revenue growth of 18%, whereas EBITDA, PAT de-grew 8.3%, 6.9% on a YoY basis, respectively

Other product companies like Elgi reported decent performance (consolidated revenue and EBITDA grew by 19.8 and 20.2% respectively) led by better demand revival in domestic market and robust exports despite challenges. AIA Engineering reported disappointed volumes with revenue, EBITDA growth of 21.4%, -6.4% YoY, while margins impacted significantly owing to higher commodity cost, freight costs. While Greaves Cottons reported a mixed Q3 amid supply disruptions, higher commodity prices, sees strong growth in e-mobility business going forward. Consequently, revenue and EBITDA de-grew by 31.2% and 68% respectively.

- As companies almost resumed to pre-pandemic levels amid demand and execution coming back to normal, we expect Q4FY22E to see normalised topline performance, though higher commodity price impact likely to continue. Order tendering momentum expected to be strong and lumpy in FY22E as bunched up orders in key sectors like power T&D, green energy corridor, railways, MRTS, renewables, water, infrastructure etc. 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. Overall, companies with a strong balance sheet, asset light business model, tight control on working capital and strong cash balance are likely to gain as the economy gradually move towards normalcy

Cement: High fuel cost, muted demand impacts profitability

- The industry witnessed a difficult quarter with further cost escalations coupled with a weak demand scenario on account of unseasonal rains. Petcoke/international coal and diesel prices (~55% of costs) saw a sharp uptick during Q3FY22 with 92%, 211% and 18% increase YoY, respectively. QoQ also, prices of petcoke, international coal were higher by 25-30%. This led to increase in cost of production by another ₹ 302/t QoQ to ₹ 4,552/t (up 17.4% YoY, 7.1% QoQ)

In terms of regions, demand in the eastern region remained weak compared to our estimates due to rains in some parts as well as sand availability issues on account of restrictions on mining. In south region especially in AP/Telangana, retail demand also remained soft due to unseasonal rains. Demand in all other regions though remained muted performance but were relatively better than east and south region

- Further unseasonal rains during October-November, sand mining ban in east, along with labour scarcity issues due to festive season have affected retail demand. Hence, price hikes taken in October 2021 were rolled back partially. Overall, cement prices were up only 1.1% QoQ. As the price increase was not enough to pass on the cost pressure, average EBITDA/t saw a meaningful drop of 20.3% YoY, 20.1% QoQ

- I-direct universe reported sales volume de-growth of 2.6% YoY to 52.6 MT (up 8% QoQ) with reported capacity utilisation of 76.1% (vs 81.2% in Q3FY21 and 71.9% in Q2FY22). Sharpest volume de-growth was reported by Sagar Cement (down 13.6% YoY). Average sales volume of pan-India players like UltraTech and ACC were down 3-4% YoY. Shree Cement reported volume de-growth of 8.6% YoY due to weak demand in east while by players like Ramco Cements reported volume growth of 17.6% YoY due to low base effect

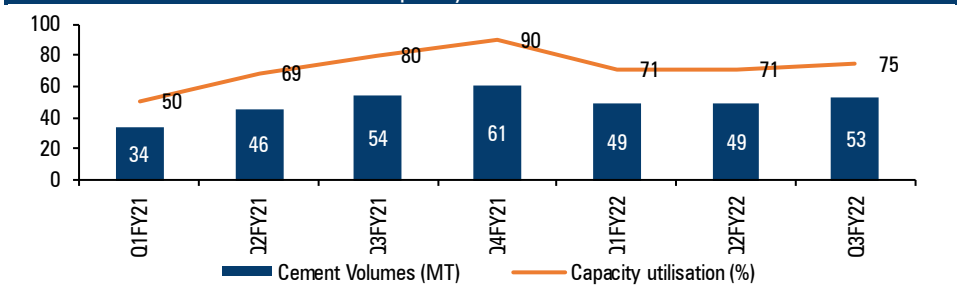
I-direct cement universe reported 8.5% YoY growth in realisations (1.1% QoQ) with companies operating in north region reporting average increase of 10.5% YoY. In contrast, companies having higher share in south reported average price hike of 2-2.5% YoY. Pan-India players like UltraTech, ACC, Ambuja reported average realisation growth of 6.7% on YoY basis

- Revenues of our coverage universe increased 5.6% YoY to ₹ 29,009 crore with highest revenue growth reported by Ramco Cement (up 15.3%), JK Cement (up 10.2%) & Shree Cement (up 7.3%). Except ACC, average EBITDA/t of all companies were down by 20% YoY with south based companies (like Ramco Cement & Sagar Cement) reported de-growth of 50% YoY whereas north based companies reported 16% YoY drop in the EBITDA/t to ₹ 930/t. On absolute basis, our universe reported 22% YoY de-growth in EBITDA to ~₹ 5059 crore (down 13.7% QoQ)

- Although current prices of imported coal and petcoke prices have softened from their peak, cost of production for Q4FY22E is expected to inch-up further by 2.5-3% (i.e. ₹ 120-140/t). However, some respite from the central government via excise cut on fuel (₹ 10/litre on diesel, ₹ 5/litre on petrol) along with the likely cement price hikes of ₹ 25-40/bag (average hike of 4-5%) in Q4FY22 should help cement companies mitigate the incremental cost pressure and recoup margins

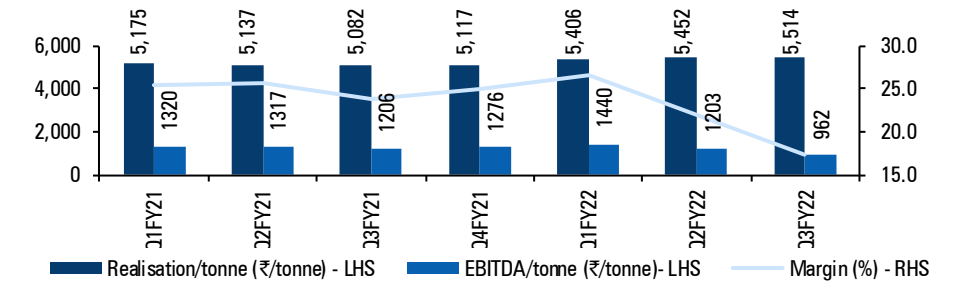
Also, strong gross budgetary support for infra in the recent budget, pick-up in the urban real estate and healthy rural demand backed by good rabi-crop season, we expect demand environment to stay healthy in Q4FY22. This should help sustain the price hikes taken recently (i.e. ₹ 5-15/bag) and also provide more headroom for further price hikes. Sector is comfortably placed on the balance sheet front

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Chemicals

- Increase in volatility of crude prices and thereby upsurge in the intermediate prices along with higher power & freight cost wedged operational performance for most of the coverage universe specialty chemical companies this quarter amid lag in passing on cost inflation. Further, erratic rains along with higher intermediate prices had impacted the performance of agrochemical players during the quarter. Our chemical universe companies reported revenue growth of 26% YoY to ₹ 9233.6 crore, largely driven by the better realisations. OPM of our coverage universe contracted by 91 bps YoY to 18.7% leading to EBITDA growth of 20.2% YoY to ₹ 1723.5 crore. PAT grew 39.1% YoY to ₹ 1105.1 crore with NPM remaining at 12% (up 112 bps YoY)

Key trends (company Specific):

- **Navin Fluorine:** Growth for the quarter was outlined by decent performance from speciality chemical, refrigerants and inorganic fluoride while YoY growth for CRAMS remained lower, largely on the back of a deferral in shipment of orders. The company has been able to take price increase across its key business verticals, which led it to an improvement in gross margins by 170 bps YoY to 55.6%
- **PI Industries:** Since majority of the recently launched CSM molecules are in the growing stage, the company has maintained the growth momentum in the vertical (+19% YoY). The order book for the segment was at US$1.4 billion. The performance from domestic formulation business was up 8% YoY on the back of higher realisations. Gross margins fell 50 bps YoY to 46.4% for the quarter
- **Sumitomo Chemical:** Higher glyphosate prices assisted growth for the herbicide segment. Moreover, better sales from LatAm owing to favourable demand outlook of few commercialised molecules heightened overall topline performance (up 26% YoY) for the company. Gross margins remained flat at 37.6% while OPM expanded 400 bps YoY to 17.9% due to absorption of fixed overheads
- **Neogen Chemical:** Strong growth from both segments such as organic chemical and inorganic chemical led the performance for Neogen last quarter. The growth from organic chemical was led by phase 1 unit at Dahej coming on stream while inorganic chemical was largely led by improvement in utilisation from recently commissioned facility. Changes in the product mix along with higher realisations improved gross margins by 260 bps YoY to 44.1%. OPM fell 180 bps YoY to 18% due to higher other & employee cost
- **Rallis India:** Better sales from the international market arrested poor performance from domestic formulation. The revenue from international business was up 19% YoY to ₹ 255 crore while domestic business witnessed growth of 5% YoY to ₹ 373 crore, driven by crop care business (up 9.6% YoY). The seed business recorded a decline of 32% YoY. In terms of OPM, changes in the product mix drove gross margins increase by 170 bps YoY while OPM improved 20 bps YoY to 10.7%
- **Tata Chemical:** Despite plant maintenance shutdown at India, North America and Magadi, the company sustained to post a decent performance on the back of better realisations growth. The company increased soda ash prices by US$30-40/tonne in both North America and Europe, which aided overall growth during the quarter. Gross margins expanded 153 bps YoY to 81.1% while OPM fell 76 bps YoY to 17.4% due to higher power & fuel cost (up 25% YoY)
- **Astec Lifesciences:** Commencement of herbicide plant along with spillover sales impact to the tune of ₹ 20-30 crore led strong growth for the quarter. Topline grew 49% YoY to ₹ 173 crore. Favourable product mix along with better realisations expanded gross margins by 1110 bps YoY to 46.5%, which led an increase in OPM by 1130bps YoY to 24.7%

Aarti Industries: *Strong growth from both speciality chemicals (up 55.9% YoY) and pharma (up 40.3% YoY) owing to better realisation led overall revenues to grow at 47% YoY. The company has operated at around 85% utilisation levels for speciality chemicals. The share of revenue from value added products was 71% during the quarter. There had been margins pressure in both speciality chemical & pharma businesses owing to lag in pass on input price inflation, which impacted group operational performance. Group OPM contracted 361bps YoY to 20.4%*

Sudarshan Chemical: *Better sales from both domestic and exports pigment managed to report decent topline performance, which was up 18.8% YoY to ₹ 601.8 crore. There was input price inflation across all commodity chemicals owing to spike in crude, which impacted gross margins for Sudarshan Chemical due to time lag of passing on entire input inflation. Moreover, higher power & fuel and freight cost impacted operational growth. Gross margins declined 230 bps YoY to 40.5%, while OPM contracted 340 bps YoY to 12.3%*

Vinati Organics: *ATBS demand normally remains weak during Q3 due to low offtake in November & December to maintain little inventories at the end of CY by most of its overseas customers. This had affected topline growth along with lower IBB sales that remained a dampener on the overall performance. Topline grew 65% YoY to ₹ 369 crore. GPM was down 600b ps YoY to 48.9%, which dragged OPM by 720 bps YoY to 25.1%*

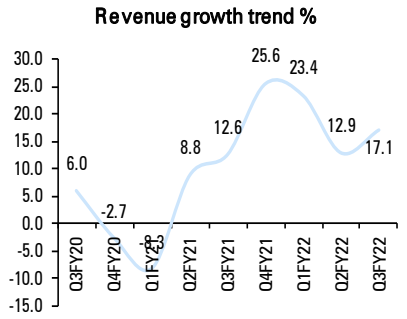
Consumer Durables

- The consumer discretionary universe reported better-than-expected revenue growth of 15% in Q3FY22 even on a higher base of 27% during Q3FY21. The leading paint and adhesive companies reported revenue growth of 25% YoY led by volume growth of 10-18%. The strong volume growth is attributable to the inventory build-up at dealer's level amid fear of price hikes during the quarter. On the FMEG front, coverage universe' revenue growth was mainly driven by price hikes in the range of 10-15% YoY. However, volume growth was impacted by high base of last year and slow inventory build-up by channel partners amid fear of lockdown
- Under our FMEG coverage companies, Havells reported strong topline growth of 15% YoY in the electrical consumer durable segment. On the piping front, Astral reported a strong piping segment revenue growth of 25% YoY led by price hikes. However, the volume offtake was impacted (down ~4% YoY) due to volatile PVC prices and unseasonal rains in most of the country
- On the margin front, the EBITDA margin of coverage companies witnessed a sharp decline of ~500 bps YoY, mainly due to higher raw material costs and restoration of advertisement expenses. The companies have taken aggressive price hikes in Q3FY22 and guided for further price hikes to offset raw material cost pressure. We believe the positive impact of price hikes in the EBITDA margins will be visible from coming quarters

FMCG

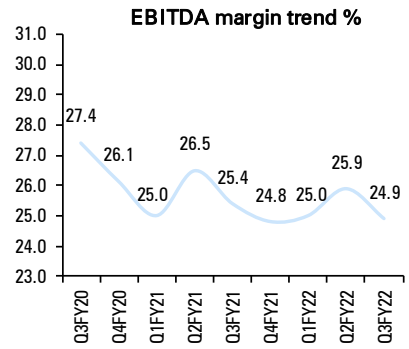
- Our FMCG coverage universe witnessed revenue growth of 17.1%, which was led by very strong growth in ITC sales due to doubling of agriculture business sales (non-recurring export opportunity). However, ex-ITC FMCG coverage universe saw 10.2% revenue growth led by prices for most of the companies. HUL, Dabur, Marico reported slower 0-2% volume growth whereas Nestlé, Tata Consumer, Jyothy Lab saw mid-single digit volume growth during the quarter. Varun Beverages & cigarettes companies saw high double digit volume growth due to strong recovery from the low base. We believe sharp price increase in highly penetrated categories like detergent, soaps, hair oil have adversely impacted volume growth. Moreover, health supplements, essential packaged foods & sanitisers witnessed sales decline due to high base of last year. Discretionary categories like cosmetics, skin care witnessed swift recovery with sales touching pre-Covid levels. Cigarettes category also reported higher than pre-Covid level sales (value sales). Though urban regions saw sharp growth due to recovery from the low base, rural region sales slowed down considerably due to price hikes resulting in down-trading towards regional brands or smaller SKUs
- Most companies continue to focus on increasing direct distribution, e-commerce presence & digital media spends for advertisement. Within cigarettes category, ITC saw ~13% volume growth whereas VST Industries witnessed 11% volume growth in Q3FY22. We believe cigarette volumes would continue to grow at 6-8% given stable taxation and curbs on illicit cigarettes
- Further, Varun Beverages is also witnessing full impact of its acquisition of south & east territories in 2019. Sales for the company have been adversely impacted by Covid-19 disruption from last two summers. We believe carbonated drinks, ice creams, glucose categories are likely to witness strong growth in the next two quarters on expectation of a normalised summer in 2022. With continuous new product launches and foray in newer categories, Dabur remains an outlier with aggressive approach towards expansion of opportunity size or addressable market of existing categories

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



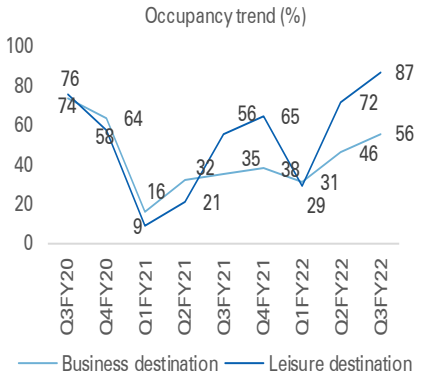
Source: Company, ICICI Direct Research

- The incessant increase in raw material prices continues to play havoc with gross margins of most FMCG companies. Palm oil, crude, milk, rice bran oil, PET chip prices were 20-60% higher in the last one year. Our FMCG coverage universe saw 304 bps gross margin contraction. Jyothy Labs, Zydus Wellness, Varun Beverages & Colgate saw gross margins contraction of 730 bps, 636 bps, 476 bps & 385 bps, respectively. Marico also saw 317 bps contraction in gross margins despite copra prices cooling-off from highs. HUL and Nestlé witnessed relatively lower~200 bps gross margin contraction due to aggressive price hikes and product mix enhancement. Gross margin contraction for ITC was largely due to doubling of low margin agri business sales with non-recurring large opportunity to export agri commodities in Q3FY22. Tata Consumer remains an exception with 590 bps gross margin expansion due to significant decline in tea prices in last six months. FMCG companies were able to partially offset RM pressure through cut in marketing spends & cost rationalisation measures. Our coverage universe operating margin saw 87 bps contraction in Q3FY22 resulted in 8.6% growth in net profit
- We believe commodity inflation has not only impacted margins but started adversely impacting volume growth with rural consumers switching to inferior brands/lower SKUs. There was no sign of a dip in major imported commodity prices (crude based commodities, palm oil etc) that would continue to impact growth & margins in the medium term (two to three quarters). We believe companies with lower proportion of imported raw material in their RM basket may benefit. Moreover, FMCG companies would continue to witness mid-high single digit volume growth in the longer run driven by penetration and premiumisation. We remain cautious on medium term growth outlook. It is important to note that FMCG company's valuation multiples have started to contract with peak out of operating margins amid slowing sales growth

Hotels: Leisure demand resilient; corporate demand picking up

- Hotel demand, especially in the leisure segment, remained resilient with volumes surpassing pre-Covid levels in many tourist locations amid strong vaccination drive. Corporate segment, which remained a laggard due to work from home culture, has also seen further traction during Q3. However, it still remained ~30-45% below pre-Covid levels based on hotel category. While travel ban on tourists from foreign countries and ongoing work from home policy had an impact on the business destinations, occupancy levels of business segment have also seen a decent recovery with average occupancy levels inching up to 59% in Q3FY22 vs. 46% in Q2 and 35% in Q3FY21. Overall, the average revenue of I-direct universe improved 57% YoY, 19.8% QoQ to ₹ 1231 crore for the quarter while it still remained 38% below pre-Covid levels
- The hotel industry has majority of its costs fixed (i.e. ~70% of total costs), with power/lighting and employee costs taking the major share. As a result, our I-direct coverage universe reported EBITDA of ₹ 220 crore with strong traction in the revenues vs. EBITDA loss of ₹ 24 crore last year and EBITDA of ₹ 94.4 crore last quarter
- While there was a significant rebound in overall demand in Q3, the third wave of infections in the country has had an impact on travel and tourism in Q4FY22. However, given the vaccination drives and improving economic indicators, we anticipate a faster recovery in the demand environment and are hopeful that consumption will reach normalised Pre-Covid levels in H1FY23. This would be led by revenge travel in the domestic tourism segment along with the demand emanating from wedding season and likely reopening of doors for foreign tourists from Q1FY23 onwards. In terms of supply of rooms, opening of new supply would also be delayed or cancelled, which bodes well for strong established players. Further, hotel players are now leaner in terms of costs that are sustainable in nature. This, coupled with reduced room supplies would make strong players even stronger in the long run

Occupancy trend (%)



Source: Crisil, ICICI Direct Research

Information Technology

- IT companies continued their growth momentum in Q3 where the company reported strong growth in revenues in CC terms. Tier I companies reported average constant currency growth of 20.2% on a YoY basis. While for Tier II companies, growth was even stronger at an average of 26.6% YoY. Margins, however, were under pressure for Tier I companies amid supply side challenges while Tier II companies have put up a relatively better performance. Tier I companies reported margin swing of -10 to -190bps QoQ while Tier II companies reported EBITDA margin expansion. LTM attrition continue to be high but the companies mentioned that quarterly annual attrition is lower in Q3. This suggests that attrition is expected to start tapering down from Q4 onwards. The hiring trend continues to be strong amid high demand scenario

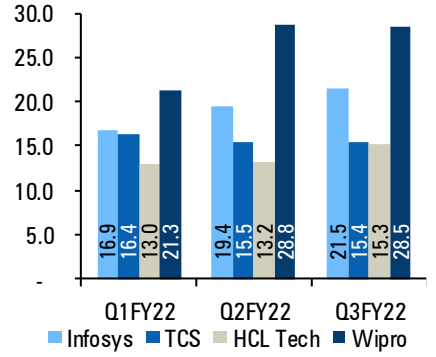
- **Strong revenue growth; Infosys, Coforge increase revenue guidance:** TCS reported 3% QoQ, 14.4% YoY dollar revenue growth while in CC terms, it grew 15.4% YoY. Growth was driven by North America geography while vertical wise growth was driven by BFSI, retail & healthcare. Infosys' revenues increased 7% QoQ, 21.5% YoY in CC terms while dollar revenues increased 6.3% QoQ. Geographically, it was driven by Europe while vertical wise it was driven by BFSI, retail, communications, etc. **Revenue guidance increased to 19.5-20% in CC terms for FY22E (from 16.5-17.5% given in Q2 and14-16% in Q1).** Wipro's IT services revenues increased 3% QoQ/28.5% YoY in constant currency (CC) while dollar revenues were up 2.3% QoQ. Growth was driven by BFSI, communication, consumer verticals

- HCL Tech (IT services) reported revenue growth of 4.7%, 15.3% YoY. The revenue growth was driven by financial services, manufacturing, technology & services, etc. TechM's revenues increased 4.7% QoQ, 17.5% YoY in constant currency terms, while it was up 4.1%QoQ in dollar terms. The growth was aided by communication vertical, which grew 6.2% QoQ. LTI's constant currency revenues increased 9.2% QoQ, 30.1% YoY while dollar revenue increased 8.6% QoQ. Revenue was driven by BFSI and manufacturing. Mindtree's constant currency growth was 5.2% QoQ, 33.7% YoY while dollar revenue grew 4.7% QoQ. The growth was aided by technology, media & services & BFSI. Coforge's dollar revenue grew 4.2% QoQ, 25.2% YoY. Most of the growth was aided by organic route since SLK global grew only 0.9% QoQ. **The company revised upward organic CC revenue growth guidance to 24% for FY22 (from 22% given in Q2) and 37% CC revenue growth guidance for FY22 on overall basis (organic+ inorganic)**

- **Margins under pressure due to supply side challenges:** TCS reported EBIT margin contraction by 60 bps QoQ to 25.0% due to wage hike impact, higher SG&A while it was mitigated by pyramid optimisation and currency tailwind. Infosys reported a 10 bps EBIT margin decline to 23.6% due to wage hike, higher sub-contractor costs, mitigated by cost optimisation, SG&A savings and currency benefit. Wipro reported a decline of 60 bps QoQ EBIT margin decline to 17.1% due to higher employee expenses. HCL Tech's services EBIT declined 190 bps, impacted by salary hikes, furlough impact, employee retention costs, etc. TechM's EBITDA declined 40 bps QoQ to 14.8%. On the other hand, LTI, Mindtree and Coforge's EBITDA margin improved 74 bps, 107 bps, 117 bps QoQ, respectively, due to better cost control vs. Tier I players

- **Net hiring for 9MFY22 higher than FY21:** Tier I companies' net hiring for 9MFY22 is even higher than FY21. TCS, Infosys, Wipro and HCL net addition for 9MFY22 was at 68,000, 32,000, 33,000, 28,000, respectively, which is higher than their net adds for FY21. Similar trend is visible for Tier II companies wherein LTI, Mindtree, Coforge added 8,000-9,000 net adds in 9MFY22. LTM Attrition for all companies has moved significantly during the quarter

Dollar revenue growth trend



Source: Company, ICICI Direct Research

Infrastructure and real estate

Infrastructure

- **Healthy revenue growth; momentum to continue:** Overall revenue of our roads & construction universe improved 23.4% YoY to ₹ 6924 crore (up 11.6% QoQ) driven by their robust order book positions and healthy pick-up in execution. NCC reported ~40% YoY growth in revenues owing to benign base of 9% decline. All other EPC players' topline growth ranged from 12-18%, with HG Infra reporting 18% YoY revenue growth despite high base. Overall EBITDA margin was at 12.6% (down 120 bps YoY), given the higher input prices. Going forward, while most EPC players have guided for healthy topline growth, margins could remain muted given higher input prices

- **Robust order books positions; healthy inflows likely with strong pipeline:** MoRTH constructed 6,684 km of highways in April 2021-January 2022 (vs. 9,132 km constructed during the same period a year ago). The award figure was at 6,883 km during the same period compared to 7,696 km in the previous year. The management expects construction/awarding activities to improve in Q4FY22, FY23 with higher focus and budgetary allocation on roads sector. The order book (OB) position for majority of infrastructure companies under coverage remains healthy (overall OB/TTM revenue at ~3.4x). Among key companies, a) HG Infra Engineering: OB comfortable ₹ 7,950.2 crore (2.2x book to TTM revenues). Additionally, it has secured Neelmangala-Tumkur road project in Karnataka amounting to ₹ 844.1 crore on an EPC basis post Q3FY22, which has strengthened its order book further. Going forward, the management has guided for overall order inflows of ~₹ 6,000 crore during FY22 (already secured ₹ 4,325.8 crore worth of projects during YTDFY22), b) KNR Constructions: OB was robust at ₹ 10,774 crore (3.4x book to TTM revenues). It is targeting order inflows worth ₹ 2,000-3,000 crore in rest-FY22, c) Ashoka Buildcon: OB as on date at ₹ 14,470 crore, 3.3x book to TTM bill. Going forward, the management has guided for order inflows of ~₹ 1,500, 10,000+ crore in the rest of FY22, FY23, respectively (secured ₹ 8,526 crore at YTD FY22 level) with ~75-80% order inflows likely from roads segments

NCC Ltd: OB at elevated level of ₹ 40,210 crore (book to TTM bill ratio: 4.3x), mainly driven by healthy inflows of ₹ 4,027 crore secured in Q3FY22. Overall, the management has guided for ~₹ 14,000 crore of order inflows during FY22 (₹ 9,638 crore worth of orders already secured in 9MFY22)

Real Estate

- **Sales Volume:** Q3 witnessed mixed bag sales volume performance. The ones with new launches saw higher growth in sales volume. strong sales volume recovery post second wave. Brigade Enterprises (BEL) reported sales volume of ~1.1 mn sq ft, reporting a decline of ~29% YoY, mainly due to delays in approvals for planned projects in Bengaluru. Presales were down ~26% YoY at ₹ 684 crore, with realisations up ~4% YoY at ₹ 6,281/sq ft. Oberoi Realty's (ORL) sold ~1.04 msf, up 104% YoY, with sales value of ₹ 1965 crore, up 102% YoY driven by newly launched Elysian Tower B in Goregaon in the last week of October 2021

On the financial front, revenues of our real estate universe grew 20% YoY to ₹ 2178 crore while EBITDA was up 19% YoY at ₹ 820 crore

- **Commercial segment shows signs of recovery with increased enquiry; Mall consumption aided by festive boost:** Brigade's overall lease rental at ₹ 167.4 crore, up 22.6% YoY. Commercial leasing remained stable for BEL during Q2FY22 and achieved ~99% collections. Additionally, BEL leased out ~0.4 mn sq ft during Q3FY22. As of now, the company has an active pipeline of ~0.8 mn sq ft. Going forward, the management expects ~90% of yet to transacted area (~2.45 mn sq ft) to get leased over the next three quarters. The overall consumption at malls has recovered to pre-Covid level. For **Oberoi Realty,** the management expects the occupancy in Commerz-I to improve in the medium term with uptick in demand for office space arising during normalised period. For Oberoi Mall, the company has booked revenue of booked revenue of ₹ 24.7 crore during Q3FY22 (vs ₹ 49.9 crore reported in Q3FY21). We highlight that base quarter had cumulative revenues recorded for previous quarters during first wave

For Phoenix Mills, retail revenues grew ~24.8% YoY at ₹ 278.2 crore while hospitality revenues were up ~136% YoY at ₹ 65.6 crore. We note that retail rental was at ~96% of Q3FY20 (pre-Covid level). Consumption in Q3FY22 (including Phoenix Palassio) was ~100% of Q3FY20. Commercial saw revenue growth of ~16.2% YoY at ₹ 36.6 crore

Logistics

- Logistics universe largely saw a flattish topline, bottomline YoY. However, ex-Adani Ports, logistics universe grew 10% at topline and 20% at PAT level. Adani Ports was largely impacted due to higher international commodity prices (especially coal) that led to lower offtake by power plants (however, the management expects the situation to reverse in the near to medium term). Higher generation of E-Way bill in Q3 (11% YoY) correlated well with the revenue performance seen with the surface logistics players i.e. TCI Express (up 9%), TCI (up 6%), Mahindra Logistics (up 7%). Rail players saw a positive quarter, with dominant player Concor increasing its topline by 10% and PAT by 20.4%, largely due to higher growth and realisation in the domestic segment

Gateway Distriparks, on the other hand, continued to post strong performance on the Exim front with EBITDA per TeU again clocking ₹ 9000+

Air freight player BlueDart reported strong performance on the topline (up 21% YoY) and PAT front (up 30%), led by continued traction in the utilisation levels and growth in the e-commerce vertical

Among other key developments in sector:

- Concor management expects to add 3 MMLPs in FY22E (Dahej, Baroda & Paradip) while six more are expected to be commissioned in FY23E
- TCI Express would again embark on ₹ 500 crore capex (five-year horizon), which would be mainly utilised in automating sorting centres (₹ 300 crore) and expansion of several centres
- TCI indicated that the competitive intensity in the SCM business segment was high and many players were working at very low margins. However, the company was doing business, which was reasonably profitable and not working on contracts with sub optimal margins
- GDL expects the DFC (NCR up to Mundra, Pipavav) to normalise by CY22 year-end, which would enable to run higher share of time-tabled trains

Adani Ports management expects the current coal situation (lower offtake) to reverse from mid-February onward

Mahindra Logistics expects auto semiconductor issue (lower availability impacting auto volumes) to continue for few more quarters from now. Several factors such as OEM price hikes, crude oil hike added to the issue of chip shortages

Media

- Media sector saw improvement across segment aided by festive season. Multiplexes had a relatively better quarter with November/December collections getting closer to pre-Covid levels. Broadcasters, had a mixed ad performance with Sun TV posting superior numbers
- **Broadcasters:** Sun TV's revenue at ₹ 1033 crore, grew 6.2% YoY, led by advertisement revenues at ₹ 378 crore (grew 22.5% YoY), better than key peer, which saw ad revenues decline owing to market share loss. EBITDA came in at ₹ 721.9 crore while EBITDA margins came in at 69.9%, up 123 bps YoY largely owing to operating leverage benefits. TV Today's topline came in at ₹ 258 crore, up 15.4% YoY. TV broadcasting revenues came in ₹ 197.8 crore (up ~6% YoY). We note that its growth was lower than its key peers - TV18's news business, Zee Media, which reported ~13%, 32% YoY growth, respectively. The digital segment continued to be a key growth driver with 53% growth YoY to ₹ 54.4 crore. Radio revenues were at ₹ 5.8 crore, up 174% YoY on a washout base. Reported EBITDA came in at ₹ 85.7 crore, up 10.6% YoY while EBITDA margins came in at 33.2% (down 144 bps YoY)
- **Multiplexes:** Multiplexes' business saw a strong recovery led by healthy content slate. Inox' reported revenue was ₹ 296.5 crore (up by ~5x QoQ). The box office revenue was ₹ 177 crore while F&B revenue was ₹ 84 crore with ad revenues at ₹ 20 crore. In Q3FY22, ATP was at ₹ 226, up ~27% QoQ, while SPH was at ₹ 97, up ~5.4% QoQ. Footfall was at 9.4 million (mn) (4x QoQ). EBITDA (ex- Ind AS116) came in at ~₹ 49.6 crore (margin of 16.7%). On reported basis, EBITDA was ₹ 84 crore. PVR's revenue came in at ₹ 614.2 crore, (up ~4x QoQ) with box office revenue of ₹ 300.2 crore, ad revenues of ₹ 40.9 crore and ₹ 180.5 crore of F&B revenues. Footfalls were up 3.5x QoQ at 14.5 million and ATP at ₹ 239 was up 18% QoQ owing to slate mix. SPH at ₹ 129 was flattish QoQ. EBITDA (ex- Ind AS116) was at ₹ 38 crore (margin 6.2%) against EBITDA loss of ₹ 115.1 crore in Q2. On reported basis, EBITDA was at ₹ 164.9 crore

Metals & Mining

- The metal and mining sector reported a mixed bag performance for Q3FY22 wherein while aggregate topline increased both QoQ and YoY, aggregate EBITDA declined QoQ on account of higher operating costs. During the quarter, the aggregate topline of our coverage universe increased 49% YoY, 6% QoQ while the aggregate EBITDA increased 49% YoY but was down 6% QoQ. For Q3FY22, aggregate EBITDA margin of coverage universe was at 22.9% vs. 26.0% in Q2FY22

In Q3FY22, base metal prices (except lead) improved both QoQ, YoY. During the quarter, average zinc prices on LME were at US$3356/tonne, up 28% YoY, 12% QoQ, while average lead prices were at US$2326/tonne, up 22% YoY but down 0.3% QoQ. In the quarter, average aluminium prices on LME were at US$2754/tonne, up 44% YoY, 4% QoQ while average copper prices on LME were at US$9704/tonne, up 35% YoY, 3% QoQ.

- JSW Steel reported a mixed set of numbers for Q3FY22. On a standalone basis, for Q3FY22 it reported sales volume of 4.0 million tonnes (MT), up 2.6% YoY, 5.7% YoY. During the quarter, consolidated operating income was at ₹ 38071 crore, up 74% YoY, 17% QoQ. Standalone EBITDA/tonne was at ₹ 16993/tonne as compared to ₹ 22884/tonne in Q2FY22 and ₹ 14444/tonne in Q3FY21. Consolidated EBITDA was at ₹ 9132 crore, up 54% YoY but down 12% QoQ. Ensuing consolidated PAT for Q3FY21 was at ₹ 4516 crore, up 69% YoY but down 37% QoQ

Jindal Stainless (JSL) reported healthy performance for Q3FY22. During Q3FY22, JSL reported a consolidated topline of ₹ 5670 crore, up 58% YoY and 13% QoQ. Consolidated EBITDA was at ₹ 797 crore, up 68% YoY and 7% QoQ. Consolidated PAT was at ₹ 442 crore, up 160% YoY and 7% QoQ.

- Hindalco reported a healthy performance in Q3FY22. For Q3FY22, Hindalco reported consolidated topline of ₹ 50272 crore, up 44% YoY, 5% QoQ while consolidated EBITDA was at ₹ 7624 crore, up 38% YoY but down 5% QoQ. Ensuing consolidated PAT for Q3FY22 was at ₹ 3675 crore, up 96% YoY, 8% QoQ. For Q3FY22, Hindalco's India business reported a topline of ₹ 18485 crore, up 62% YoY and 6% QoQ. EBITDA of Hindalco's India business was at ₹ 3769 crore, up 147% YoY and 5% QoQ. Ensuing PAT of Hindalco's India business was at ₹ 1734 crore, up 250% YoY but down 4% QoQ. For Q3FY22, Hindalco's wholly owned overseas subsidiary Novelis reported shipments of 930 KT and adjusted EBITDA/tonne of US$544/tonne.

Oil & Gas

- Oil & gas companies reported a mixed set of numbers in Q3FY22. Oil marketing companies' (OMCs) earnings were lower than estimated as marketing inventory loss impacted earnings. Sales volume growth of city gas distribution (CGD) companies with higher share of CNG in sales mix was a positive. However, higher gas sourcing costs led to decline in earnings for all CGD companies. Upstream companies' profitability improved owing to higher oil and gas prices

Key parameters in Q3FY22

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Singapore GRMs ($/bbl)	1.2	1.8	2.1	3.8	6.1
Crude Oil ($/bbl)	44.6	60.7	68.6	73.0	79.4
APM Gas (NCV) (US$/mmbtu)	2.0	2.0	2.0	2.0	3.2

Source: Bloomberg, ICICI Direct Research

- On the OMCs front, while crude throughput for two companies was up in range of 6-10% YoY, one company reported ~3% YoY decline. On a QoQ basis, crude throughput increased in the range of 11-68%. All companies reported better than expected refining margins amid increase in product cracks during the quarter. Market sales for one OMC were marginally up YoY while other two OMCs reported decline of 1-2% YoY with Diesel demand being relatively weaker. Marketing inventory loss post reduction in excise duty on petrol & diesel impacted marketing profitability. Overall, OMCs' earnings were lower than estimated

On the CGD front, companies with higher CNG contribution in sales mix reported stronger growth (19-22% YoY). Due to reduced offtake in industrial segment, the company with high industrial segment share in sales mix did not see volume growth and volume was flat YoY. While realisation was higher owing to price hikes, surge in spot LNG prices led to fall in gross margin for all companies. Subsequently, all companies reported lower than expected gross margin. For two CGD companies, PAT was below estimates and PAT decline was in range of 69-74% YoY. One company reported better-than-expected earnings owing to lower expenses. A large gas utility company reported better performance due to increase in realisation amid favourable global gas prices

- For a PSU upstream company, oil & gas production declined YoY and was in line with estimate. Oil realisation improved ~75% YoY and ~9% QoQ while domestic gas realisation also increased 62% leading to higher revenues. Profitability was sharply up YoY driven by revenues and supported by lower DD&A costs. On a QoQ basis, earnings saw a decline as the company reported negative tax outgo in the previous quarter

- For a large business conglomerate with diversified business segments, operational profitability was higher YoY mainly driven by O2C (up 38.7% YoY) and oil & gas (up 508x YoY) segments on account of better downstream demand & margins in O2C and growth in gas output as well as realisation. Earnings for the company were better than estimate on account of exceptional gains during the quarter

Pharmaceuticals & hospitals

- I-Direct pharmaceutical universe (12 coverage stocks) revenues grew 6.3% YoY to ₹ 44,814 crore. Domestic branded formulations continued to drive overall growth due to 1) rebound in non-Covid products (both acute & chronic), 2) Normalisation in patient footfalls and 3) MR activity back to pre-Covid levels. Domestic momentum was partially offset by decline in the US generics amid 1) continued price erosion albeit with lower intensity 2) lack of meaningful launches 3) logistics disruptions & 4) regulatory challenges. Similarly, generic API remained subdued due to 1) disruption in supply chain leading to higher cost and delays, 2) continued inflation in input cost and 3) prolonged channel destocking in some APIs
- Indian formulations grew 11.7% YoY to ₹ 11730 crore while adjusted US business (select pack Ex-Natrol from Aurobindo) de-grew 1.1% YoY to ₹ 12581 crore. As per the common thread from various management comments, US base business price erosion seems to be ongoing but at a lesser scale than before. US base business appears to have bottomed out for most players but pending regulatory clearances makes US generics a challenging market in the short to medium term. There was a visible differentiation in traction for complex vs. generic portfolio-mix in US with complex products performing relatively better
- API segment (select pack) overall sales grew 3% YoY to ₹ 4070 crore. CRAMS businesses continued steady growth due to new client additions and business expansion with visible order book while APIs remained muted on back of channel destocking in specific APIs & lower demand from developed markets. Europe sales grew 1.6% YoY to ₹ 2882 crore
- Out of 12 selected covered companies, only four reported above 10% YoY revenue growth. Company specific growth, Ajanta Pharma– 11.9% (traction for branded business in India, Africa & Emerging markets), Biocon– 17.5% (strong performance across Generics, Biosimilars & Contract Research), Divi's– 46.5% (driven by custom synthesis with better margins) & Sun Pharma– 11.6%(traction for all business segments)
- On the margins front, EBITDA margins declined 67 bps YoY to 22.6% for I-direct universe (select pack) due to 1) continued pricing pressure in the US and 2) rise in input and logistic cost being partially offset by cost rationalisation/efficiency efforts. Subsequently, EBITDA grew 3.2% YoY to ₹ 10119 crore. Going ahead, margin pressure is likely to remain in the short to medium term while companies work actively on alternatives for their raw material dependency and better margin profiles for formulations. Net profit grew 3.4% YoY to ₹ 7006 crore mainly due to lower interest and tax rate
- **Hospitals:** I-direct hospitals universe (three coverage stocks) revenues grew 26.3% YoY to ₹ 7248.1 crore. Hospital business is trending at pre-Covid level with higher footfalls. Trend for better occupancy levels and higher demand for elective surgeries has continued sequentially
- On the company specific YoY growth, Apollo Hospital – 31.9% (strong growth in hospitals, pharmacy and AHLL), Narayana Hrudayalaya – 27.9% (strong traction for flagship hospitals and continued momentum in Cayman island) and Aster DM – 18.9% (normalisation in India and GCC operations)
- On the margins front, EBITDA margins improved 165 bps YoY to 16% for I-direct universe (select pack) due to 1) higher ARPOB amid change in case mix for elective procedures, 2) rise in medical tourism (domestic and international) mix and 3) cost rationalisation measures. Going ahead, margins are likely to sustain on back of maturing profile of newer hospitals and further increase in international travel leading to higher international patient mix. Subsequently, EBITDA grew 40.8% YoY to ₹ 1159.1 crore and net profit grew 79.8% YoY to ₹ 474.2

Sales from India, US and Europe

India					
(₹ cr)	Q3FY22	Q3FY21	%	Q2FY22	%
Alembic	488	418	16.7	509	-4.1
Ajanta	260	220	18.2	248	4.8
Cadila	1,079	1,104	-2.2	1,213	-11.0
Ipca	645	523	23.3	698	-7.6
Lupin	1,473	1,367	7.8	1,544	-4.5
Cipla	2,518	2,231	12.9	2,416	4.2
Dr Reddy's	1,027	959	7.0	1,140	-10.0
Sun Pharma	3,168	2,753	15.1	3,188	-0.6
Torrent	1,072	930	15.3	1,087	-1.4
Total	11730	10504	11.7	12043	-2.6

US					
(₹ cr)	Q3FY22	Q3FY21	%	Q2FY22	%
Alembic	393	512	-23.2	348	12.9
Ajanta	166	161	3.1	194	-14.4
Aurobindo	2,745	3,172	-13.4	2,968	-7.5
Cadila	1,504	1,603	-6.2	1,498	0.4
Cipla	1,124	1,033	8.8	1,060	6.0
Lupin	1,578	1,442	9.4	1,429	10.4
Dr Reddy's	1,865	1,739	7.2	1,891	-1.4
Sun Pharma	2,972	2,763	7.6	2,677	11.0
Torrent	235	292	-19.5	284	-17.3
Total	12581	12718	-1.1	12349	1.9

API					
(₹ cr)	Q3FY22	Q3FY21	%	Q2FY22	%
Aurobindo	1,010	683	48.0	781	29.4
Alembic	198	214	-7.5	239	-17.2
Cadila	165	132	25.0	134	23.1
Divi's Lab	783	876	-10.6	668	17.2
Ipca Labs	309	352	-12.1	360	-14.0
Lupin	256	344	-25.4	268	-4.3
Cipla	150	201	-25.4	172	-12.8
Dr Reddy's	727	701	3.7	837	-13.2
Sun Pharma	471	450	4.6	436	8.1
Total	4070	3953	3.0	3894	4.5

Europe					
(₹ cr)	Q3FY22	Q3FY21	%	Q2FY22	%
Aurobindo	1,694	1,671	1.4	1,662	1.9
Cadila	68	61	10.7	61	11.5
Cipla	290	252	15.0	284	2.0
Dr Reddy's	406	414	-2.1	414	-1.9
Lupin	187	174	7.7	168	11.8
Torrent	237	265	-10.6	251	-5.6
Total	2882	2838	1.6	2839	1.5

Source: Company, ICICI Direct Research

Retail

- For Q3FY22, the retail sector witnessed a healthy recovery with revenue recovery rate for most apparel and footwear retailers surpassing pre-Covid levels (100%+) vs. 80-90% in Q2FY22. Strong festive demand and ease in trade restrictions perked up the demand in Q3FY22. Store operational days were also close to normalcy levels (95%+) after nearly eight quarters of Covid-led disruption. Among categories, apparel, jewellery and formal footwear companies witnessed robust YoY growth of ~35-50% (on a favourable base). However, categories such as kitchen appliances and open footwear did witness gradual slowdown in revenue trajectory (5-8% YoY) owing to significantly higher base
- Among apparel players, Trent continued to be the standout performer with growth of 55%+ on the base of Q3FY20 (two-year CAGR: 24%). On account of positive operating leverage and judicious price hikes (5-10%), companies were able to maintain EBITDA margins in Q3FY22. Store addition trajectory enhanced significantly in Q3FY22 and companies have healthy store addition pipeline for FY23E. January did witness a slowdown in revenue momentum. However, retailers expect minimal impact on the same due to improvement in demand scenario post lifting of the restrictions by most of the states

Key trends (company Specific):

- **Titan Company:** The jewellery division continued to gain market share amid robust topline growth of 39% YoY and the company delivering all-time high EBITDA margins (14%). Titan crossed the ₹ 1000 crore quarterly net profit for the first time and reported its highest ever quarterly net profit. Titan believes there is good pent up demand for the wedding jewellery and it should do well over the next two quarters
- **Trent:** Trent continued to report industry best topline growth, with sales increasing 55% compared to pre-Covid levels (two-year CAGR: 24%). Emerging categories like beauty and personal care, innerwear and home witnessed healthy traction. Westside format (74% of sales) reported 9% SSSG vs. pre-Covid levels
- **ABFRL:** On the base of Q3FY20, recovery rate was at ~116% of pre-Covid levels. The accelerated trajectory was visible for Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe & Peter England) with revenues reaching 123% of pre-Covid levels. Revenue recovery rate for Pantaloons was slower at ~98% owing to larger share of mall stores. Strong earnings & cash flows led to company achieving negative net debt level (cash surplus) during the quarter
- **Bata India:** On the back of strong festive demand and easing of trade restrictions, revenues for Bata surpassed pre-Covid levels in Q3FY22 (101%). Bata continued its retail expansion drive in tier III-V cities through franchisee route (added ~35+ stores taking the total store count to 285+ franchisee stores). E-commerce contributed ~11% of sales, which was more than double of pre-Covid levels
- **Avenue Supermarts:** Store addition trajectory accelerated materially in Q3FY22 as it added 17 new stores taking total store count to 263 spread across 10.3 million sq ft. Reported revenue growth of 22% YoY (two-year CAGR: 16%). Revenue/sq ft was at ₹ 8949 vs. ₹ 9231 in Q3FY21. Recovery in GM & apparel categories (which yields higher margins) continued to lag that of the FMCG segment. Hence, gross margins for the quarter remained flattish YoY at 15.4%
- **Page Industries:** Sales momentum picked up pace in Q3FY22 owing to healthy festive demand & significant increase in distribution touchpoints. Revenue grew 28% YoY, mainly led by volume growth of 25% to 59.3 million pieces. Page has taken a price hike of 5% in Q2FY22 and further took a price hike of ~ 8% in January 2022. Page expects to maintain EBITDA margin of ~20-21% on a sustainable basis

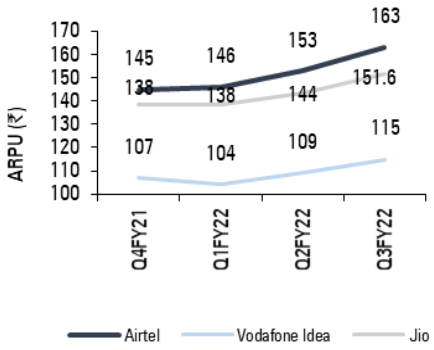
Relaxo Footwear: *The company during the quarter undertook one of the steepest price hikes (~22% YoY) to combat significantly higher RM prices. This translated into volumes declining by 10% YoY to 4.5 crore pairs. As customers get accustomed to the recent price hikes, we expect volumes to stabilise in the near term. Relaxo has increased its production capacity by 33% to 10 lakh pairs per day*

TTK Prestige: *Revenue growth for the quarter moderated in Q3FY22 (5.9% YoY) owing to higher base of previous year and certain festive primary sales shifting in Q2FY22. The management indicated that the demand is decent but buoyancy which was witnessed in some earlier quarters, is missing owing to lower pent up demand. The company took price hikes in the range of 5-7% in Q2FY22 and at the start of Q3FY22. Despite lower revenue growth and higher cost inflation, TTK maintained healthy EBITDA margins (17.5%)*

Telecom

- **Airtel shows maximum stability in subscriber amid tariff hike:** Subscriber base saw a decline of ~0.56 mn QoQ at 322.9 mn, due to impact of SIM consolidation amid tariff hike seen across all operators. However, we highlight that subscriber decline is much lower in contrast to its peers Jio, VIL, which lost 8.5 mn, 8.2 mn subs, respectively, in Q3FY22. In terms of 4G subs additions, Airtel witnessed modest 4G Net adds of ~3 mn during the quarter, with 4G data sub base at 195.5 mn. VIL saw addition of merely 0.8 mn QoQ to 117 million
- **Airtel leads revenues growth too:** For Airtel, topline came in at ₹ 29,867 crore, up 5.4% QoQ with Africa revenues up 6% QoQ at ₹ 9105 crore while Indian wireless revenues were up 5.9% QoQ at ₹ 16,092 crore, led by partial pass through of tariff hike driven higher ARPU, which came in at ₹ 163, up 5.9% QoQ. On the other hand, for VIL, Reported revenues were up 3.3% QoQ to ₹ 9,717 crore, as ARPU grew~5.5% QoQ to ₹ 115, led by partial pass through of tariff hike. Jio's ARPU saw growth of 5.6% QoQ at ₹ 151.6 with revenues at ₹ 19347 crore, up 3.3%
- **EBITDA margins see improvement for all telcos:** For Airtel, at ₹ 14,703, up 6.5% QoQ, Overall margins at 49.2%, up 47 bps QoQ, driven by Africa margins at 49.6%, up 100 bps QoQ. India wireless margins was at 49.4% (up 20 bps QoQ). For VIL, Reported EBITDA margins were down 179 bps QoQ to 39.3%. EBITDA excluding Ind-AS 116 impact was ₹ 1620 crore, compared to ₹ 1410 crore in Q2FY22 (on adjusted basis), given tariff hike pass through, as per the management. Jio's margins were at 49.2%, up 120 bps QoQ
- **Others:** In the tower space, Indus Towers (erstwhile Bharti Infratel) reported net addition of 2555 co-locations vs. 3566 colocation addition in Q2. Revenues came in at ₹ 6927 crore, up 0.7% QoQ with core rental revenues at ₹ 4397 crore, up 3.4% QoQ. EBITDA was at ₹ 3699 crore, up 2.1% QoQ, with margins at 53.4% (up 70 bps QoQ). Tata Communication's Q3FY22 performance was stable with topline at ₹ 4185 crore, down 0.9% YoY & up 0.3% QoQ, led by data revenues (forming ~77% of revenues) up 3.4% YoY & 3% QoQ at ₹ 3233 crore, due to pick up in business and improvement across all segments. Consolidated EBITDA was at ₹ 1082 crore, up 3.5% YoY and down 2.7% QoQ. The consequent margin was at 25.9% (up 109 bps YoY, 20 bps QoQ on adjusted basis)

ARPU trend



Source: Company, ICICI Direct Research

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