# Resilient earnings, margin expansion lead to healthy double digit QoQ growth…

ICICI direct Research

Q3FY23

February 20, 2023

- Margin recovery was the key highlight for Q3FY23. Nifty operating margins (ex-financials) rose 230 bps QoQ to 17%, primarily led by savings realised from lower raw material costs as gross margin expanded 230 bps QoQ. This is post a low of 14.7% margin recorded in the last quarter i.e. Q2FY23. On an aggregate basis (ex-financials), the Nifty topline for Q3FY23 was largely flat QoQ at ₹ 13.4 lakh crore with EBITDA up 16% QoQ at ₹ 2.3 lakh crore and PAT by 16.6% QoQ at ₹ 1.1 lakh crore. On a YoY basis, Nifty topline was up 16.9% YoY while PAT was down 3.9% YoY primarily tracking muted profitability in the commodity space viz. metals and oil & gas domain. Management commentary across businesses was positive on demand outlook, especially on domestic front amid progressive Union budget FY24E wherein government proposes to spend ₹ 10 lakh crore (up 33% YoY) as capex with tangible multiplier effect that could potentially drive broad based economic growth domestically. Encouragingly, growth capex was bundled with path of fiscal consolidation
- Including financials (BFSI), at the Nifty level, the trend was similar with 1.6% QoQ growth in topline & 13.8% QoQ growth in PAT. On YoY basis however it outperformed the ex-financials subset due to healthy double digit credit growth & further improved asset quality in banking space
- In the banking space, business momentum continues to remain healthy in Q3FY23, attributable to robust demand in retail & MSME segment. Loan growth remained healthy at 15.3% YoY at ₹ 132 lakh crore (as per RBI). Asset quality trend continued to improve with GNPA ratio at industry level declined ~60 bps QoQ at ~4.6%. Even on an absolute basis, GNPA declined 9.1% QoQ, 19.9% YoY. Restructured book also declined ~10-40 bps QoQ for most banks
- Post Q3FY23 earnings, our Nifty EPS does not undergo any major change. We still expect Nifty earnings to grow at a CAGR of 15% over FY22-25 with our fair value for Nifty at 21,500 i.e. 21x PE on FY24-25E average Nifty EPS of ₹ 1020. The corresponding Sensex target is at 71,600. These are our 12 month's rolling index targets

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

| Nifty P&L (ex-BFSI space) | Dec-22 | Dec-21 | Sep-22 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| **Sales** | **13,42,200** | **11,48,360** | **13,37,030** | **16.9** | **0.4** |
| Total Expenses | 11,14,249 | 9,30,001 | 11,40,454 | 19.8 | -2.3 |
| Raw material | 6,50,065 | 5,38,544 | 6,78,405 | 20.7 | -4.2 |
| Employee | 1,57,296 | 1,33,793 | 1,51,552 | 17.6 | 3.8 |
| Other expenses | 3,06,888 | 2,57,664 | 3,10,498 | 19.1 | -1.2 |
| Expenses (% of sales) | | | | | |
| Total Expenses | 83.0 | 81.0 | 85.3 | 203 bps | -228 bps |
| Raw material | 48.4 | 46.9 | 50.7 | 154 bps | -231 bps |
| Employee | 11.7 | 11.7 | 11.3 | 7 bps | 38 bps |
| Other expenses | 22.9 | 22.4 | 23.2 | 43 bps | -36 bps |
| **Operating Profit** | **2,27,951** | **2,18,359** | **1,96,576** | **4.4** | **16.0** |
| OPM% | 17.0 | 19.0 | 14.7 | -203 bps | 228 bps |
| Other Income | 24,064 | 22,956 | 22,243 | 4.8 | 8.2 |
| Interest | 35,924 | 28,194 | 32,332 | 27.4 | 11.1 |
| Depreciation | 63,066 | 57,003 | 58,676 | 10.6 | 7.5 |
| **PBT** | **1,53,025** | **1,56,117** | **1,27,810** | **-2.0** | **19.7** |
| Tax | 44,921 | 43,616 | 35,064 | 3.0 | 28.1 |
| **Tax Rate** | **29.4** | **27.9** | **27.4** | **142 bps** | **192 bps** |
| **PAT** | **1,08,105** | **1,12,500** | **92,747** | **-3.9** | **16.6** |

*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-22 | Dec-21 | YoY (%) | Sep-22 | QoQ (%) |
| Sales | 13,42,200 | 11,48,360 | 16.9% | 13,37,030 | 0.4% |
| EBITDA | 2,27,951 | 2,18,359 | 4.4% | 1,96,576 | 16.0% |
| PAT | 1,08,105 | 1,12,500 | -3.9% | 92,747 | 16.6% |

**Other indices broader earnings summary**

| | YoY growth (%) | | QoQ growth (%) | |
|---|---|---|---|---|
| | Sales | Net profit | Sales | Net profit |
| **Nifty 50** | **18.5** | **7.7** | **1.6** | **13.8** |
| BSE Midcap | 18.9 | 18.2 | 4.3 | 25.0 |
| BSE Smallcap | 16.8 | -15.1 | 2.7 | -18.9 |
| **All Co's (3819 cos)** | **17.4** | **4.7** | **1.3** | **11.8** |

**Positive surprises & Buys**

- ABB India
- Bank of Baroda
- Dr Reddy Laboratories
- Larsen & Toubro
- Tata Motors

**Nifty EPS estimates & Nifty target**

| Revised Sensex & Nifty Target (Rolling 12 Months') | | | | |
|---|---|---|---|---|
| Earning Estimates | FY22 | FY23E | FY24E | FY25E |
| Nifty EPS (₹/share) | 720 | 800 | 950 | 1090 |
| Growth (% YoY) | 39.7% | 11.1% | 18.7% | 14.7% |
| Earnings CAGR over FY22-25E | | | | 14.8% |
| Average FY24-25E EPS | | | | 1,020 |
| PE Multiple | | | | 21x |
| Nifty Target (using FY24-25E average EPS) | | | | 21,500 |
| Corresponding Sensex Target | | | | 71,600 |


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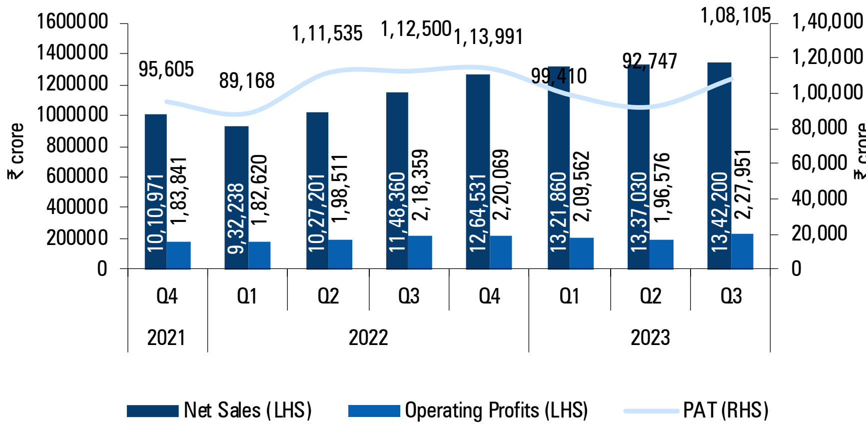
Earnings Wrap

ICICI Securities – Retail Equity Research

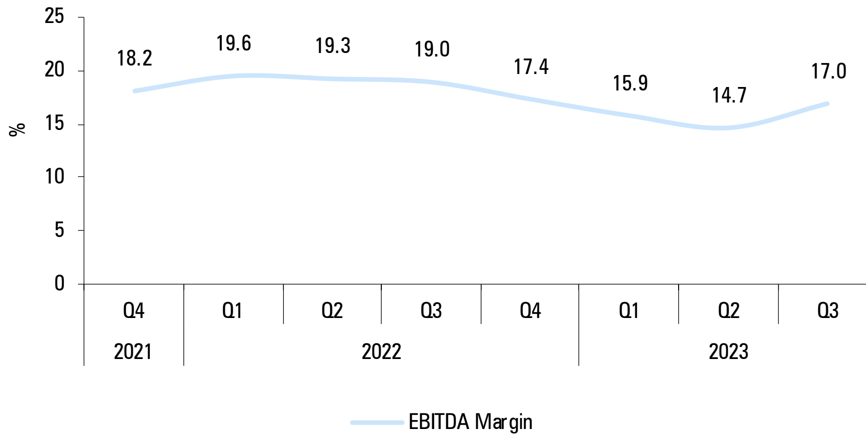
## Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)




Source: Capitaline, ICICI Direct Research

*Ex-financials, at the Nifty index level, for Q3FY23, topline was up 0.4% QoQ to ₹ 13.42 lakh crore. EBITDA was up 16% QoQ to ₹ 2.28 lakh crore tracking 230 bps sequential improvement in EBITDA margins to 17.0%. Ensuing PAT in Q3FY23 was at ₹ 1.1 lakh crore, up 16.6% QoQ, primarily tracking growth in EBITDA with benefits partially limited by sequential rise in tax rate to 29.4%*

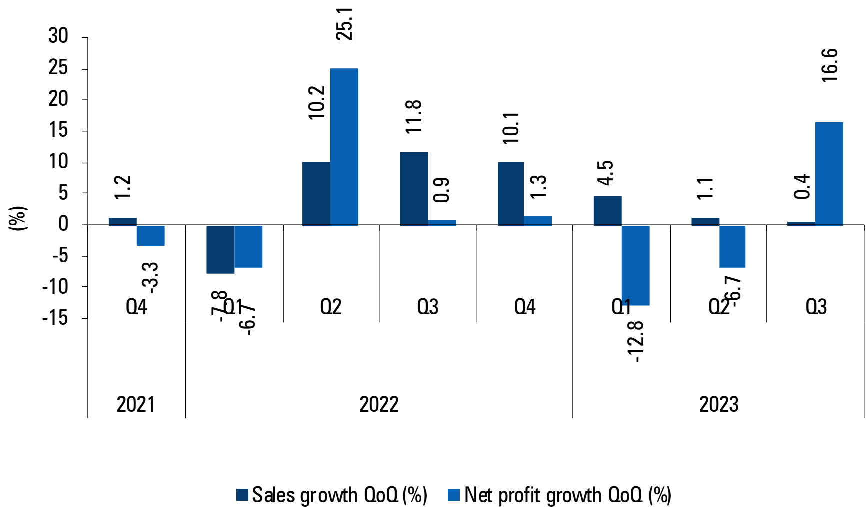
## Exhibit 3: Nifty aggregate quarterly EBITDA margin trend




Source: Capitaline, ICICI Direct Research

*In Q3FY23, EBITDA margins at the index level (ex-financials) were up 230 bps QoQ to 17% primarily led by expansion in gross margins to the tune of 230 bps. Employee costs rose 40 bps QoQ and were negated by 40 bps QoQ savings realised in other expenses*

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




Source: Capitaline, ICICI Direct Research

*On a high base, sequential topline growth further tapered with current reading for Q3FY23 coming in at 0.4%. Given the expansion in gross and consequent EBITDA margins, PAT witnessed a healthy sequential uptick bucking the previous two quarter's trend of sequential decline*

## Industry wise revenue & profit movement

- In Q3FY23, topline growth on a QoQ basis was led by capital goods (better execution), auto (rise in ASPs, better volumes at JLR) and IT (steady CC growth, currency benefits) space. Laggards were metals and oil & gas space due to benign commodity prices. In auto space, due to seasonally effect (calendar year end), total industry volumes in Q3FY23 were down 14% QoQ at 63 lakh units (domestic down 15% QoQ)

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

| | Dec-22 | Dec-21 | Sep-22 | YoY change (%) | QoQ change (%) |
|---|---|---|---|---|---|
| Auto | 1,69,324 | 1,38,992 | 1,62,305 | 21.8 | 4.3 |
| Capital goods | 46,390 | 39,563 | 42,763 | 17.3 | 8.5 |
| FMCG | 45,230 | 41,079 | 44,596 | 10.1 | 1.4 |
| IT | 1,60,211 | 1,34,849 | 1,52,202 | 18.8 | 5.3 |
| Metals | 1,84,538 | 1,77,560 | 1,87,670 | 3.9 | -1.7 |
| Oil & Gas | 5,05,546 | 4,25,821 | 5,13,532 | 18.7 | -1.6 |
| Pharma | 29,812 | 26,812 | 29,218 | 11.2 | 2.0 |
| Power | 55,864 | 43,739 | 55,326 | 27.7 | 1.0 |
| Others | 1,45,286 | 1,19,945 | 1,49,419 | 21.1 | -2.8 |
| **Aggregate** | **13,42,200** | **11,48,360** | **13,37,030** | **16.9** | **0.4** |

*Source: Capitaline, ICICI Direct Research*

**Key Sectoral share in Index topline (%)**

| Sector | Dec-22 | Dec-21 | Sep-22 |
|---|---|---|---|
| Auto | 12.6 | 12.1 | 12.1 |
| Capital goods | 3.5 | 3.4 | 3.2 |
| FMCG | 3.4 | 3.6 | 3.3 |
| IT | 11.9 | 11.7 | 11.4 |
| Metals | 13.7 | 15.5 | 14.0 |
| Oil & Gas | 37.7 | 37.1 | 38.4 |
| Pharma | 2.2 | 2.3 | 2.2 |
| Power | 4.2 | 3.8 | 4.1 |
| Others | 10.8 | 10.4 | 11.2 |
| Total | 100.0 | 100.0 | 100.0 |

*Source: Capitaline, ICICI Direct Research*

- In the IT space, Tier I IT companies reported an average CC YoY revenue growth of 13.2% compared to 16.3% in Q2FY23 & 20.2% in Q3FY22 as it witnessed higher furloughs this quarter; Tier II IT companies reported an average 12.1% YoY growth in dollar terms compared to 15.4% in the last quarter. All IT companies baring LTIMindtree either improved or maintained the margins due to easing of supply side pressure, utilisation improvement, pyramid optimisation and some moderation in attrition. Tier I IT companies, except Infosys (that reported flat margins), reported an improvement of +10 to +120 bps in EBIT margins while in Tier II companies LTIMindtree's margin was impacted by merger related costs. Attrition of all companies continued to moderate but supply side challenges for certain niche skills still persist
- FMCG industry continues to see sales growth led by pricing intervention. The FMCG market volume growth was negative for a third consecutive quarter. However, the intensity of decline was less in Q3 compared to H1FY23. The volume decline trend was much more prominent (at ~7%) in rural regions whereas urban volumes were down ~2%
- On the bottomline front, sequential growth at the index level was driven by oil & gas, auto (gross margins under way due to benign RM prices), power and capital goods domain while pharma and metals lagged

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

| | Dec-22 | Dec-21 | Sep-22 | YoY change (%) | QoQ change (%) |
|---|---|---|---|---|---|
| Auto | 10,965 | 4,103 | 7,005 | 167.3 | 56.5 |
| Capital goods | 2,553 | 2,055 | 2,229 | 24.2 | 14.5 |
| FMCG | 9,393 | 7,369 | 8,767 | 27.5 | 7.1 |
| IT | 25,878 | 23,358 | 23,885 | 10.8 | 8.3 |
| Metals | 7,384 | 22,163 | 8,915 | -66.7 | -17.2 |
| Oil & Gas | 29,028 | 32,240 | 21,617 | -10.0 | 34.3 |
| Pharma | 4,671 | 4,627 | 4,863 | 0.9 | -3.9 |
| Power | 8,422 | 7,792 | 6,989 | 8.1 | 20.5 |
| Others | 9,811 | 8,795 | 8,476 | 11.6 | 15.8 |
| **Aggregate** | **1,08,105** | **1,12,500** | **92,747** | **-3.9** | **16.6** |

*Source: Capitaline, ICICI Direct Research*

**Key sectoral share in index PAT (%)**

| Sector | Dec-22 | Dec-21 | Sep-22 |
|---|---|---|---|
| Auto | 10.1 | 3.6 | 7.6 |
| Capital goods | 2.4 | 1.8 | 2.4 |
| FMCG | 8.7 | 6.6 | 9.5 |
| IT | 23.9 | 20.8 | 25.8 |
| Metals | 6.8 | 19.7 | 9.6 |
| Oil & Gas | 26.9 | 28.7 | 23.3 |
| Pharma | 4.3 | 4.1 | 5.2 |
| Power | 7.8 | 6.9 | 7.5 |
| Others | 9.1 | 7.8 | 9.1 |
| Total | 100.0 | 100.0 | 100.0 |

*Source: Capitaline, ICICI Direct Research*

- In the pharma space, Indian formulations (select pack) revenues grew 7.1% YoY. Adjusting for Covid impact, 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 23.1% YoY in Q3FY23. The growth was supported by outliers such as Sun Pharmaceuticals, Cipla and Dr Reddy's. On the other hand, oral solids (OSDs) continued to face significant price erosion ranging from mid-single digit to low-teens

# 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 (Q3FY23)

| Company | Q3FY23 Result | Quarterly Performance & Outlook | CMP (₹) | Target Price | Last Rating | Potential Upside |
|---|---|---|---|---|---|---|
| ABB India | Positive | ABB reported a strong performance in Q4CY22 with revenue at ₹ 2426.9 crore, up 15.5% YoY, owing to better execution and value added volume mix. EBITDA was at ₹ 364.3 crore with margins of 15%. Strong margin growth was led by revenue mix, operational efficiencies coupled with cost optimisation and favourable forex fluctuation. Hence, PAT was at ₹ 305.9 crore, up 58% YoY. ABB reported order inflows for Q4CY22 at ~₹ 2335 crore, up 4% YoY. For CY22, it came in at ₹ 10028 crore vs. ₹ 7666 crore in CY21 with order backlog of ₹ 6468 crore, up 32% YoY. Going Forward, ABB will continue to focus on recovery of growth industries like electronics, railways & metros, datacentre, warehousing and other large core industries amid revival of long due capex cycle. We expect revenue, EBITDA to grow at CAGR of ~18.5%, 26.7%, respectively, in CY21-24E due to strong traction in short cycle products and services and value ABB at ₹ 3735 (65x on CY24E EPS) | 3165 | 3735 | Buy | 18 |
| Bank of Baroda (BoB) | Positive | BoB reported a robust performance with highest quarterly profit at ₹ 3853 crore, up 75.4% YoY, led by robust credit growth at 19.7% YoY and elevated margins at 3.4%. Healthy treasury income and recovery from written off accounts coupled with a decline in NPA provisioning (0.37% vs. 0.79% in Q2FY23) enabled an improvement in earnings. Moderation in slippages (<1%) led to further improvement in GNPA and NNPA to 4.53% and 0.99%, respectively. We retain our BUY rating on BoB given anticipated recovery in credit momentum coupled with lower credit cost ahead. The management is confident of in line industry growth with growth in retail segment targeted at 1.5x pace of overall book. Continued benefit of faster repricing of assets in Q4FY23 coupled with steady opex and credit cost is seen keeping RoA at 1% in FY24-25E with an upward bias. Factoring credit growth at ~13% CAGR in FY24-25E, we expect PAT to grow at 32.9% CAGR to ₹ 17062 crore and RoA at 1% in FY25E. Thus, we value BoB at ₹ 200 per share, valuing the bank at 0.9x FY25E ABV | 164 | 200 | Buy | 22 |
| Dr Reddy Laboratories | Positive | The company put up a strong performance during Q3FY23. Revenues grew 27.2% YoY to ₹ 6790 crore, mainly due to the surprise in the US business, which grew a massive 64% YoY due to the new launches besides continued traction from gRevlimid. This was followed by the upbeat performance from Russia & CIS markets. Europe grew 6% YoY to ₹ 430 crore, driven by new product launches, increase in volumes that was partly offset by price erosion and adverse forex rates. India business grew in double digits. If adjusted for Covid growth. pharmaceutical services and active ingredients witnessed growth due to favourable currency movements. On the operational front, EBITDA showed robust growth of 60.6% YoY to ₹ 1951.9 crore whereas margins grew 597 bps YoY to 28.7%, supported by a better product mix. Adjusted PAT increased 81.1% YoY to ₹ 1251 crore. We remain positive on the company's growth story based on simultaneous launches across major geographies. We value Dr Reddy's at ₹ 5210 i.e. 21x FY25E EPS of ₹ 241.8+ NPV of ₹ 131 for gRevlimid | 4466 | 5210 | Buy | 17 |
| Larsen & Toubro (L&T) | Positive | L&T reported a decent Q3FY23, standalone revenue grew 8.3% to ₹ 27785.4 crore, standalpone EBITDA grew 10.3% YoY to ₹ 2316.9 crore with margins staying flat YoY at 8.3%. Standalone adjusted PAT at ₹ 1825.4 crore stayed flat YoY. Order inflows were strong at ₹ 60,710 crore, up 21% YoY. L&T has become more selective in choosing business opportunities coupled with a strong backlog allowing the company to use discretion in winning relatively profitable orders. The prospect pipeline is quite robust given Q4FY23 opportunity pie of ₹487000 crore is still 50% of opportunity pie at the beginning of FY23E. The management is confident of achieving and exceeding its revenue, order inflow growth guidance of 15% for FY23E. With a strong order inflow of ₹ 154429 crore for 9MFY23E with order backlog of ₹ 386588 and improving margins, we expect L&T to achieve revenue, EBITDA CAGR of 15.1%, 16.6%, respectively, in FY22-25E. Also, we upgrade EPS for FY23E to 54.2, FY24E to 74.5 and for FY25E to 90.1. We value L&T at ₹ 2795 on SoTP basis | 2225 | 2795 | Buy | 26 |
| Tata Motors | Positive | Tata Motors posted a robust performance in Q3FY23. JLR reported EBITDA margins of 11.9%, up 160 bps QoQ while CV business reported EBITDA margins of 8.4% (up ~340 bps QoQ) & PV business reported margins at 6.9% (up ~150 bps QoQ). Consolidated PAT was at ₹ 2,958 crore. The company reported a positive PAT figure after seven quarters. Going forward, management commentary on future demand prospect was positive with focus on delivering market-beating growth, improved profitability and consequent free cashflows. We expect healthy 18.2% revenue CAGR over FY22-25E driven by 13.8% total volume CAGR and healthy ~20% RoCE profile by FY25E. We upgrade the stock to BUY wherein we arrive at ₹ 530 as the target price on SOTP basis (10x, 2.5x FY24E EV/EBITDA on India, JLR; ₹ 158 value to Indian EV business). Incrementally, positives are further fund raise and valuation pegging in the E-PV domain and board approval for partial stake sale of the company's holding (74.4% stake) in Tata Technologies through IPO route | 440 | 530 | Buy | 20 |

*Source: ICICI Direct Research*

The above companies posted a strong set of numbers in Q3FY23, which, we believe, are more fundamental and sustainable in nature.

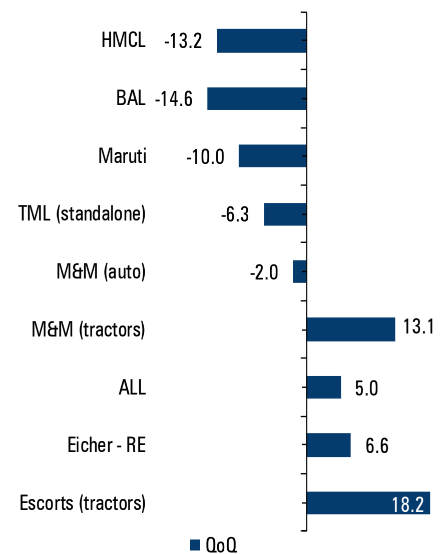
# Sector specific takeaways from the quarter

## Auto & auto ancillary

- Quarterly results in the auto space were largely ahead of our estimates and healthy with margin recovery taking centre stage as most players benefitted from raw material price decline. Our coverage companies reported a gross margin expansion broadly in the range of 50-300 bps on a QoQ basis with auto OEMs largely outperforming the auto ancillary space due to better economies of scale. Ex-Tata Motors, I-direct auto and ancillary coverage universe revenues were down 1% QoQ vs. our estimates of ~2.8% QoQ decline with EBITDA margins on a blended basis at 12.7%, largely in line with our estimates. PAT de-growth was lower at 2% QoQ vs. estimated de-growth of 4.1%. Tata Motors outperformed big time with the company reporting positive PAT after seven quarters at ~₹ 3000 crore, much ahead of our estimates of loss of ~₹ 1000 crore, thereby lifting the overall sectoral earnings for Q3FY23
- In the auto OEM space, M&HCV space outperformed the rest of the pack with QoQ volume recovery while on the margins front Bajaj Auto led the pack with robust margin uptick aided by commodity benefits, strategic premiumisation initiatives and price hikes & healthy US$ realisation
- At MSIL, margins were largely on expected lines (at 9.8%) with PAT beat due to higher ASPs and higher other income. During the quarter, gross margins expanded 44 bps QoQ while other expense was down ~42 bps. The management guided for strong demand for newly launched models in UV space with order book at 3.6 lakhs units. For M&M, Q3FY23 results were steady with the company seeing QoQ expansion in margins both on automotive & farm equipment front. However, key takeaway was its intent to reduce pending order book via production ramp-up
- Tata Motors' Q3FY23 results surprised the Street by turning profitable for the first time during the year. The key positive was sequential margin uptick in all key segments. CV business reported EBITDA margins of 8.4% (up 340 bps QoQ) while the same in PV business was at 6.9% (up 150 bps QoQ). JLR margins for the quarter were at 11.9% (up 160 bps QoQ). The management guided for gradual volume ramp up at JLR amid robust order book (2.15 lakh units) with chip supply situation still fluid
- The 2-W space reported muted QoQ volumes especially in entry level segment whereas premiumisation trend played well. Eicher Motors reported 6.6% QoQ growth in volume to 2.2 lakh units. EML's performance in Q3FY23 was steady with key notable being rising share of Hunter 350 in overall sales portfolio amid start of exports with Hunter not seen cannibalising existing line-up. Bajaj Auto surprised the Street with better than expected gross margins, which expanded 280 bps QoQ. 2-W sales volume for the quarter was at 9.8 lakh units, down 14.6% QoQ. Going forward, focus on >125+cc would be key monitorable
- In the tyre space, Apollo Tyres outperformed its peers in terms of gross margin expansion, which was up ~300 bps QoQ on a standalone basis. EBITDA margins at the consolidated level came in at 14.2%, up 227 bps QoQ. Management commentary about demand from replacement segment and European region remained cautiously optimistic
- Uno Minda reported a healthy performance in Q3FY23. Consolidated revenues were up 1.3% QoQ despite double digit volume decline in target segments. EBITDA margins for the quarter came in at 11.6%, up 54 bps QoQ. The company continues to work upon increasing its content per vehicle with incremental opportunity in the EV space. Bharat Forge reported healthy numbers on a standalone basis whereas its foreign subsidiaries dragged overall performance. Standalone margins were at 27.4%, up 310 bps QoQ. The management guided about new order wins of ₹ 265 crore in Q3FY23 across automotive & industrial application in domestic operations, ~₹ 1,950 crore export order book in defence space

*For Q3FY23, total industry sales were at ~62.9 lakh units (down ~14% QoQ), with domestic dispatches declining ~15% QoQ to 51.6 lakh units whereas exports were down 10.1% QoQ at ~11.3 lakh units. Domestic PV volumes were down 9% QoQ to ~9.3 lakh units (UV down 6% QoQ; Passenger cars down 10% QoQ); 2-W volumes de-grew 17% QoQ to 38.6 lakh units (motorcycles down 16%, scooters down 22%). Domestic CV volumes de-grew 2% QoQ to 2.3 lakh units (M&HCV up 8%, LCV down 7%) while 3-W volumes grew 15% to 1.4 lakh units*

**Key player's volume growth – Q3FY23 (%)**




*Source: Company, SIAM, ICICI Direct Research*

*Ashok Leyland reported a healthy performance in Q3FY23 with EBITDA margins at 8.8%, up 233 bps QoQ wherein gross margin expansion was ~173 bps QoQ, further supported by positive operating leverage*

*Escorts' performance fell short of our expectations with margins being real dampener at 8.4% with gross margins declining 210 bps QoQ (only exception to the general gross margin expansion trend). Management remained cautious about margin recovery in immediate quarter with marginal benefits seen from FY24E onwards amid steady growth outlook*

*Hero MotoCorp reported a mixed performance in Q3FY23 with EBITDA margins coming in at 11.5% (up 10 bps QoQ). Surprise was in rise in ASP, which was up 1.9% QoQ at ₹ 64,782 vs. expectations of decline*

*Balkrishna Industries reported a subdued performance in Q3FY23 with lowest ever EBITDA margin at 12%, down 443 bps QoQ amid gross margin decline by 250 bps QoQ, aggravated by negative operating leverage. The management said high channel inventory in key foreign market impacted margins and expects destocking to continue in Q4FY23E, with meaningful margin recovery to be seen in FY24E incorporating RM benefits*

## Banking sector

- **In Q3FY23, the banking sector continued its strong performance on earnings led by both - sustained momentum in business growth and further improvement in margins. Continued improvement in asset quality further aided profitability and return ratios. Strong credit demand has been witnessed from retail (within retail, unsecured book witnessed robust traction) and MSME segment coupled with improvement in corporate demand**
- Business momentum continued to stay healthy in Q3FY23, attributable to robust demand in retail & MSME segment. Loan growth remained healthy at 15.3% YoY at ₹ 132 lakh crore (as per RBI); though the same has come down compared to previous two months (17.6% YoY in November 2022 and 18.3% YoY in October 2022) due to base effect
- Banks' focus on high yielding unsecured retail segment (personal loans + credit cards + MFI) is on the rise with proportion of the same increasing ~100 bps in the last four quarters. Various measures announced during the Union Budget FY24 like capital investment outlay increased 33% YoY while revamped credit guarantee scheme for MSMEs is likely to boost credit offtake
- Deposit growth lagged behind asset growth but incremental accretion on an absolute basis was better driven by term deposits (due to higher interest rates). Deposit mobilisation (especially CASA deposits) and trend in CD ratio would need to be watched
- NII grew at a strong pace of 26.1% YoY and 9.4% QoQ, mainly driven by healthy business momentum and margin expansion. Most banks in our coverage universe reported a margin expansion QoQ. Other income grew 10.7% QoQ, 16.5% YoY partly aided by treasury gains and healthy recovery from written off accounts. C/I ratio moderated by 98 bps QoQ to 46.3% vs. 49.6% in Q3FY22 mainly on account of a strong topline
- Faster transmission of rate hikes on assets compared to liabilities and steady proportion of low-cost deposits led to strong sequential improvement in margins. We expect further ~5-7 bps improvement in NIMs in Q4FY23 while focus on high yielding asset is expected to aid margins trajectory in FY24E
- Credit cost for the quarter was largely steady on a sequential basis due to better asset quality performance and controlled slippages. Thus, growth trajectory in earnings remains strong. Led by a strong topline and controlled credit cost, net profit grew 40.8% YoY and 8.9% QoQ at ₹ 61509 crore. PSU banks continued to put up a relatively superior performance in Q3FY23 when compared to private peers
- Asset quality trend continued to improve with GNPA ratio at industry level declining ~60 bps QoQ at ~4.6%. Even on an absolute basis, GNPA declined 9.1% QoQ, 19.9% YoY. Restructured book also declined ~10-40 bps QoQ for most banks
- **Management commentaries suggest the momentum in credit growth is expected to continue ahead (~13-15% YoY). On valuations, we expect a selective approach with preference for lenders with healthy liabilities franchise, higher floating rate asset, adequate PCR and capital. Deposit mobilisation (especially CASA deposits) and thus trend in CD ratio would need to be watched**

*SBI reported a stellar performance and reported highest quarterly profit, RoA at 1.08%*

*Bank of Baroda and HDFC Bank's credit growth was ahead of peers at ~20% YoY*

*GNPA ratio of SBI, BoB declined 38 bps, 78 bps, respectively, while restructured book was down 7 bps and 22 bps, respectively*

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

| (₹ crore) | Q3FY23 | Q2FY23 | Q1FY23 | Q4FY22 | Q3FY22 |
|---|---|---|---|---|---|
| NII | 1,69,514 | 1,54,996 | 1,38,736 | 1,35,379 | 1,34,454 |
| **Growth YoY** | **26** | **22** | **13** | **17** | **10** |
| Other income | 58,573 | 52,934 | 42,137 | 54,440 | 50,257 |
| Growth YoY | 17 | 0 | -24 | -19 | -4 |
| Total operating exp. | 1,05,649 | 98,344 | 91,896 | 93,069 | 91,564 |
| Staff cost | 52,258 | 46,625 | 43,689 | 41,972 | 44,064 |
| Operating profit | 1,22,438 | 1,09,586 | 88,977 | 96,750 | 93,147 |
| Growth YoY | 31 | 28 | -8 | 2 | -1 |
| Provision | 36,341 | 32,895 | 34,056 | 36,157 | 33,553 |
| PBT | 86,096 | 76,691 | 54,921 | 60,592 | 59,595 |
| PAT | 61,509 | 56,482 | 41,242 | 45,837 | 43,698 |
| **Growth YoY** | 41 | 30 | 32 | 85 | 52 |
| GNPA | 5,69,683 | 6,26,563 | 6,84,108 | 6,88,913 | 7,11,406 |
| **Growth YoY** | **-20** | **-16** | **-12** | **-11** | **0** |
| NNPA | 1,39,250 | 1,57,118 | 1,86,365 | 1,90,612 | 2,07,756 |
| **Growth YoY** | **-33** | **-30** | **-23** | **-20** | **25** |
| Advances (Lakh crore) | 124.6 | 120.4 | 114.9 | 112.4 | 106.6 |
| Deposits (Lakh crore) | 163.6 | 159.7 | 144.7 | 155.1 | 147.5 |

*Source: Capitaline, ICICI Direct Research*

*NII growth driven by healthy credit traction and NIM expansion*

Exhibit 9: Financial summary of banking industry (Public)

| (₹ Crore) | Q3FY23 | Q2FY23 | Q1FY23 | Q4FY22 | Q3FY22 |
|---|---|---|---|---|---|
| NII | 96,530 | 88,277 | 77,687 | 76,653 | 77,383 |
| **Growth YoY (%)** | **25** | **20** | **10** | **16** | **7** |
| Other income | 32,003 | 28,174 | 21,313 | 30,553 | 26,508 |
| **Growth YoY (%)** | **21** | **-5** | **-37** | **-29** | **-10** |
| Total operating exp. | 61,289 | 56,640 | 52,666 | 54,932 | 54,387 |
| Staff cost | 36,752 | 32,160 | 29,873 | 29,194 | 31,290 |
| Operating profit | 67,244 | 59,811 | 46,334 | 52,273 | 49,504 |
| **Growth YoY (%)** | **36** | **39** | **-15** | **-3** | **-3** |
| Provision | 26,124 | 24,137 | 26,292 | 27,962 | 23,439 |
| PBT | 41,672 | 35,867 | 20,490 | 24,617 | 26,372 |
| PAT | 27,955 | 26,012 | 15,321 | 18,455 | 18,777 |
| **Growth YoY** | **49** | **19** | **7** | **87** | **147** |
| GNPA | 4,67,712 | 5,01,370 | 5,56,804 | 5,62,214 | 5,78,060 |
| **Growth YoY** | **-19** | **-17** | **-12** | **-12** | **-3** |
| NNPA | 1,13,028 | 1,26,391 | 1,50,910 | 1,53,664 | 1,66,849 |
| **Growth YoY** | **-32** | **-30** | **-23** | **-21** | **17** |
| Advances (Lakh crore) | 79.2 | 75.9 | 72.8 | 71.1 | 67.8 |
| Deposits (Lakh crore) | 111.8 | 109.4 | 106.7 | 106.8 | 101.9 |

*Source: Capitaline, ICICI Direct Research*

*Credit cost largely steady on QoQ, YoY basis, but absolute provisions inched up a bit*

Exhibit 10: Financial summary of banking industry (private)

| (₹ Crore) | Q3FY23 | Q2FY23 | Q1FY23 | Q4FY22 | Q3FY22 |
|---|---|---|---|---|---|
| NII | 72,984 | 66,719 | 61,050 | 58,727 | 57,072 |
| **Growth YoY** | **28** | **24** | **18** | **17** | **14** |
| Other income | 26,570 | 24,760 | 20,823 | 23,887 | 23,749 |
| **Growth YoY** | **11.9** | **7.8** | **-3.9** | **-1.2** | **2.6** |
| Total operating exp. | 44,360 | 41,704 | 39,230 | 38,137 | 37,177 |
| Staff cost | 15,506 | 14,465 | 13,816 | 12,778 | 12,774 |
| Operating profit | 55,193 | 49,774 | 42,643 | 44,477 | 43,643 |
| **Growth YoY** | **26.5** | **17.7** | **0.4** | **7.1** | **2.3** |
| Provision | 10,218 | 8,757 | 7,763 | 8,195 | 10,114 |
| PBT | 44,976 | 41,017 | 34,879 | 36,281 | 33,529 |
| PAT | 33,927 | 30,748 | 26,268 | 27,683 | 25,221 |
| **Growth YoY** | **34.5** | **40.8** | **54.2** | **83.9** | **34.9** |
| GNPA | 1,08,470 | 1,32,321 | 1,35,869 | 1,36,334 | 1,42,983 |
| **Growth YoY** | **-24.1** | **-12.0** | **-12.8** | **-8.5** | **19.3** |
| NNPA | 27,691 | 32,256 | 37,197 | 38,721 | 42,681 |
| **Growth YoY** | **-35.1** | **-29.9** | **-25.4** | **-17.9** | **74.1** |
| Advances (Lakh crore) | 46.1 | 45.1 | 42.8 | 41.9 | 39.4 |
| Deposits (Lakh crore) | 52.8 | 51.4 | 39.0 | 49.3 | 46.6 |

*Source: Capitaline, ICICI Direct Research*

*Improvement in margins, steady opex & credit cost enable delivery of continued uptick in RoA*

## Capital Goods

- Our capital goods coverage companies delivered a healthy performance aided by strong execution with strong order inflows. While supply chain disruptions, higher freight cost and higher commodity prices continued to impact margins, the favourable impact of recent commodity price correction brings in the much-needed relief, going forward. Revenue for coverage our universe grew 8.7% on a YoY basis while EBITDA marginally de-grew 0.7% YoY. Consequently, adjusted PAT grew 8.8%, YoY partly aided by positive operating leverage, other income
- L&T reported a strong execution pick-up in infrastructure segment, adjusted standalone revenue (including hydrocarbon business) increased 8.3% YoY, while standalone EBITDA grew 10.3% YoY with margins slightly improving 20 bps to 8.3% YoY. However, L&T's consolidated revenue grew 17% YoY aided by better performance of subsidiaries
- Aggregate revenue growth of our coverage companies under defence remained lower marginally by ~1% YoY as some companies like Data Patterns (DPIL), Bharat Electronics (BEL) & Mazagon Dock (MDL) witnessed healthy execution and reported better YoY growth while other companies like Hindustan Aeronautics (HAL), Bharat Dynamics (BDL) and Cochin Shipyard (CSL) showed a YoY decline in revenues on muted execution. DPIL outperformed with 155.3% YoY revenue growth led by execution of strong order book followed by 17% YoY and 11.8% YoY revenue growth reported by MDL and BEL, respectively. HAL reported 3.8% YoY decline in revenues while BDL, CSL reported significant de-growth of 42.6%, 32.7% YoY, respectively, on account of possible delays in execution despite having healthy order backlogs. Aggregate EBITDA of the defence coverage companies de-grew 16.5% YoY as the average EBITDA margin contracted considerably by 353 bps YoY to 18.9% in Q3FY23. EBITDA margin contraction was led by BDL, HAL & BEL that saw YoY decline of 1674 bps, 682 bps and 160 bps, respectively, mainly led by a sharp rise in others cost as gross margin for all three improved considerably YoY. The companies that saw an improvement in EBITDA margin were CSL (+835 bps YoY led by better performance in margin accretive ship-repair segment), MDL (+328 bps YoY on lower RM) and DPIL (+631 bps YoY, positive operating leverage). Though aggregate EBITDA was down 16.5% YoY, aggregate PAT was up 12.0% YoY led by DPIL (+269.2% led by overall strong performance), MDL (+64.6%) & HAL (+23.8%) led by higher other income. BDL and CSL reported YoY decline in PAT by 61.1% and 14.7% YoY. Current order backlog was at 3-4x of TTM revenues for HAL, BEL & BDL while defence shipyards (MDL, CSL & GRSE) have an order backlog at 6-9x TTM revenues
- On order inflow front, L&T registered strong order inflows worth ₹ 60710 crore, which grew 21% YoY, led by EPC orders won in infrastructure segment. In T&D space, KEC International received orders worth ₹ 5035 crore. Domestic ordering environment in Q3FY23 was significantly better YoY. At the macro level, there was an improvement in domestic tendering & awarding activity. Also, larger outlay by government in FY24BE on capex is positive for sector along with private capex revival
- As companies almost resumed to pre-pandemic levels amid demand and execution coming back to normal, we expect Q4FY23E to see a normalised topline performance. Order tendering momentum 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, likely to be awarded. On 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

*Power T&D company KEC reported a mixed performance, given the margin miss. Revenue grew 31% YoY owing to strong growth in T&D segment, EBITDA de-grew 16.4% YoY while PAT de-grew 81.2%. On the margins front, Q4FY23E is expected to see 200 bps improvement compared to Q2FY23. The recovery in margins is expected from Q1YF24E onwards as losses in SAE Towers will be over by then*

*Thermax reported a decent performance on the back of better execution by both segments. Consolidated revenue was up 26.9% while EBITDA margins came in at 7.9% as commodity prices were stable. Thermax has become selective in terms of order picking and prefers high margins business. Demand coming from energy transition, steel companies' capex, sugar & ethanol distillery, cement sector and from chemical segment is seeing robust momentum*

*In bearing space, Timken reported 19.5% YoY growth in revenues with 9% YoY decline in EBITDA as margins contracted sharply by 660 bps on significant increase in cost of traded goods. SKF reported revenue growth of 11.4% YoY and 589 bps improvement in EBITDA margin (led by correction in raw material prices) leading to 50% YoY increase in absolute EBITDA. NRB Bearings also reported 9% YoY increase in revenue with 200 bps improvement in EBITDA margin leading to 18% YoY increase in absolute EBITDA. Net profit for SKF India, NRB Bearings increased 31.4% YoY, 38.2% YoY, respectively, led by better operational performance while Timken's PAT remained flat as lower margin negated the impact of better revenue growth*

*Other product companies like Elgi reported a decent performance on consolidated revenue and EBITDA grew 17.8% and 55.1%, respectively, led by better demand revival in domestic market and robust exports. AIA Engineering reported strong set of numbers with revenue, EBITDA growth of 44.7%, 126.5% YoY, with strong expansion in margins of 1075bps YoY to 29.8%. Greaves Cotton reported a mixed Q3FY23 as the industry goes from transition phase of AIS phase-1, also impacted e-mobility volumes owing to AIS phase-1. Consequently, standalone revenue grew 21.5% and standalone EBITDA came in at ₹ 38.9 crore vs. ₹ 17.2 crore in Q3FY22*

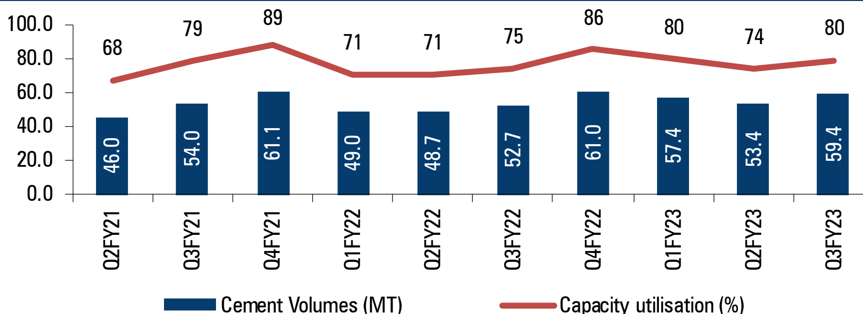
*In MNC segment, both ABB & Siemens showed strong growth in order inflows and margins. Siemens' order inflows wins were decent at ₹ 5446 crore, reporting growth of 6% YoY led by all business segments. On revenue and EBITDA front Siemens in Q1FY23 (September ending) reported consolidated revenue at ₹ 4015 crore, up 13.1% YoY, EBITDA at ₹ 599 grew by 64.3% YoY, with 14.9% amid strong volumes, price hikes, lower input costs and forex gain. PAT came in at ₹ 463 crore, up 84.5% YoY. At the same time ABB reported a strong performance in Q4CY22 (*December ending) Revenue came in at ₹ 2427 crore, up 15.5% YoY amid strong execution, EBITDA came in at ₹ 364.3 crore, up 96.7% YoY, with more than expected margins of 15%, strong margin growth led by revenue mix, operational efficiencies coupled with cost optimisation and favourable forex fluctuation. Consequently, PAT came in at ₹ 305.9 crore, up 58% YoY. ABB's order inflows for Q4CY22 came in strong at ~₹ 2335 crore, up 4% YoY*

## Cement: Margin curve on upward trend; anticipated price hikes to propel profitability further!

- Cement players in Q3FY23 started witnessing an improvement in the margin curve (on a sequential basis) as power and fuel prices took a breather post the sharp rise during Russian-Ukraine crisis in H1FY23. The pricing environment remained steady as realisations were flattish QoQ to ₹ 5737/t (up 4% YoY). With healthy volumes, coupled with declining cost of production (down 3% QoQ), EBITDA/ton improved 29% QoQ to ₹ 764/t (but still down 19% YoY)
- On account of healthy underlying demand, cement players witnessed strong volume offtake. Capacity utilisation improved 460 bps YoY to 80%+. Volumes grew 13% YoY to 59.4 MT. Eastern region saw the highest price increase during Q3FY23 while prices in north remained muted. Demand in both regions grew double digit YoY (low base effect)
- On the cost front, pet coke prices on a per Kcal basis declined 20% QoQ to ₹ 2.3/Kcal. International coal prices had also softened by ~ 26% QoQ to US$235/ton during Q3FY23. Subsequently, power and fuel expense per ton for our coverage universe declined 7% QoQ to ₹ 1680/t (as companies still had high-cost inventory)
- UltraTech Cement registered highest EBITDA/t in our coverage universe, to the tune of ₹ 869/t (up 12% QoQ). For Ambuja Cement, synergies with Adani Group helped significantly to contain costs (especially fuel and freight) which propelled profitability (EBITDA/t: ₹ 813 vs. estimate: ₹ 678/t). Shree Cement continued to be one of the lowest cement producers (CoP: ₹ 4270/t) and registered EBITDA/t of ₹ 796/t. On the negatives, JK Cement reported weak profitability (EBITD/t declining 18% QoQ to ₹ 669/t) owing to lower white cement sales (down 9% QoQ)
- Underlying cement demand is expected to remain healthy in the medium term (8-9% growth) owing to a boost in government spending on infra projects and upcoming general elections in 2024. Fuel prices have further softened with international coal prices declining 31% to US$140/t (flattish YoY). Hence, overall, we expect cost reduction of ₹ 200-250/ton over the next two quarters. Also, companies are expected to undertake price hike to the tune of ₹ 10-15/ bag from mid-February onwards. Hence, we expect EBITDA/t to surpass ₹ 1000 levels from Q4FY23 onwards

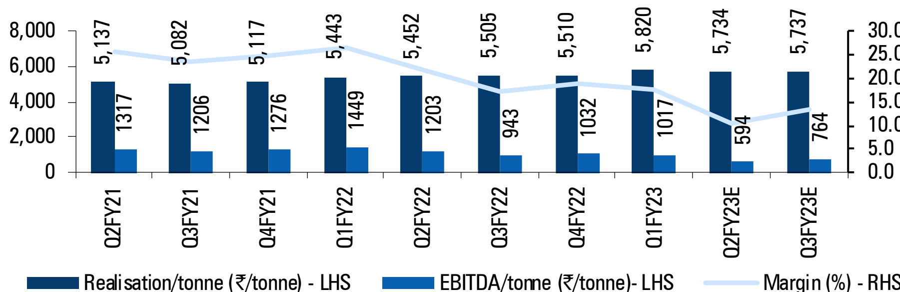
*Over a longer term perspective, owing to certain inherent structural changes (such as no new pet coke capacities coming up globally and sustained increase in fly ash prices) CoP is expected to stay elevated compared to historical averages. Hence, we do not anticipate a material price correction from current levels*

Exhibit 11: Cement volumes and capacity trend




*Source: Company, ICICI Direct Research*

Exhibit 12: Realisation & margin trend




*Source: Company, ICICI Direct Research*

## Chemicals

- The bright spots in Q3FY23 numbers of the I-direct Chemicals universe were Fluorochemicals (SRF, Navin) other specialty chemicals (Vinati, Neogen), agrochem CSM (PI Industries, Sumitomo) besides Tata Chemicals, which continued to ride on tighter global soda ash demand economics. On the flip side, subdued demand from end user industries like dyes, pigments, paints, textiles, etc, impacted topline growth for some companies while a delayed monsoon and higher inventory with customer impacted domestic agrochemicals players
- Overall, the universe reported a decent set of numbers with revenues growing 15% YoY to ₹ 12,418 crore while EBITDA and PAT jumped 22% YoY & 14% YoY to ₹ 2,747.6 crore and ₹ 1,573.4 crore, respectively

**Key trends (company specific):**

- Among fluorochemical players, growth in SRF was driven by chemical segment, which was up 23% YoY to ₹ 1756.6 crore led by strong traction in new, key products and downstream derivatives. However, its packaging business faced several headwinds on the back of rising energy costs, global demand slowdown and fall in commodity prices while textile business was low due to subdued demand from end user industry. For Navin Fluorine, revenues were up 48.7% YoY to ₹ 563.6 crore. Management commentary for both these companies remains bullish on fluorine business, going ahead
- PI Industries reported a decent performance (YoY sales growth of 19% to ₹ 1613.2 crore) largely driven by CSM (CRAMs) business led by better volume growth of ~9%, ~14% coming from price, currency, favourable product mix, respectively. Neogen reported strong financial performance during the quarter, with revenue up 40% YoY to ₹ 186.3 crore on the back of favourable demand trajectory for bromine and lithium derivatives
- Vinati Organics reported a decent performance led by stable demand for Isobutylene products and demand rising in Iso Butyl Benzene products. Revenue for Vinati Organics was up 38% to ₹ 508.7 crore. Tata Chemicals' revenue expanded 32% YoY to ₹ 4148 crore. Overall demand and pricing scenario of soda ash remained resilient
- For Rallis, the domestic business operated in a challenging environment and the company witnessed a decline in volume in the international market. Astec's sales were down 32.4% YoY to ₹ 117.2 crore, led by volume headwinds in domestic market and international market along with lower realisations for major key products, particularly fungicides
- Sudarshan Chemicals' growth was impacted by weak demand from plastics and dyes & pigments segment
- On the margins front, EBITDA margins increased 137 bps YoY to ~22% for 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 Movement (₹ crore)**

| Fluorine Chemistry Business | | | | | |
|---|---|---|---|---|---|
| Company | Q3FY23 | Q3FY22 | YoY % | Q2FY23 | QoQ % |
| SRF | 3,369.3 | 3,345.9 | 1% | 3,651.0 | -8% |
| Navin Fluorine | 563.6 | 379.0 | 49% | 419.2 | 34% |
| **Total** | **3,932.9** | **3,724.8** | **6%** | **4,070.2** | **-3%** |

| Agrochemicals Business | | | | | |
|---|---|---|---|---|---|
| Company | Q3FY23 | Q3FY22 | YoY % | Q2FY23 | QoQ % |
| PI Industrie | 1,613.2 | 1,356.3 | 19% | 1,770.0 | -9% |
| Sumitomo Chemical | 753.7 | 707.2 | 7% | 1,121.7 | -33% |
| Rallis India | 630.4 | 628.1 | 0% | 951.2 | -34% |
| Astec Life | 117.2 | 173.4 | -32% | 199.7 | -41% |
| **Total** | **3,114.4** | **2,864.9** | **9%** | **4,042.6** | **-23%** |

| Commodity Business | | | | | |
|---|---|---|---|---|---|
| Company | Q3FY23 | Q3FY22 | YoY % | Q2FY23 | QoQ % |
| Tata Chemical | 4,148.0 | 3,141.6 | 32% | 4,239.0 | -2% |
| **Total** | **4,148.0** | **3,141.6** | **32%** | **4,239.0** | **-2%** |

| Other Specialty Business | | | | | |
|---|---|---|---|---|---|
| Company | Q3FY23 | Q3FY22 | YoY % | Q2FY23 | QoQ % |
| Vinati Organics | 508.7 | 369.0 | 38% | 566.3 | -10% |
| Sudarshan Chemical | 528.0 | 601.8 | -12% | 528.4 | 0% |
| Neogen Chemicals | 186.3 | 132.6 | 40% | 148.1 | 26% |
| **Total** | **1,222.9** | **1,103.4** | **11%** | **1,242.8** | **-2%** |

*Source: Company, ICICI Direct Research*

## Consumer Discretionary

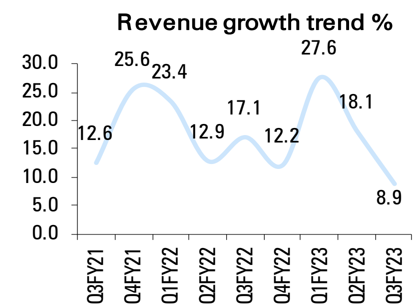
- The I-direct Consumer discretionary (CD) universe witnessed demand headwinds in Q3FY23 amid high inflation, inventory de-stocking and unfavourable base of last year. The leading paint and adhesive companies witnessed muted revenue growth (in the range of 1-7% YoY) supported by higher realisations, whereas volumes offtake was flat YoY. The muted volume offtake was attributable to high base of last year and extended monsoon in some regions. On the FMEG front, coverage companies witnessed weak rural demand amid high inflations, slow inventory build-up of winter related home appliances. V-Guard, Bajaj Electricals and Crompton Greaves Consumer reported a muted revenue growth ranging at 1-7% YoY, respectively. However, Havells' revenue growth at ~13% was higher than its peers mainly due to strong growth in its Lloyd and wire & cable business
- On the cost front, key raw materials like PVC, TiO2, VAM prices have corrected at 12-20% from Q2FY23 level. As a result, the EBITDA margin of coverage companies witnessed a recovery to the tune of 120 bps QoQ. However, on a YoY basis, EBITDA margin was down ~215 bps YoY due to low operating leverage and restoration of advertisement expenses. Going forward, we believe the EBITDA margin will see further recovery from Q4 onwards supported by improved operating leverage and easing inflationary pressure on RM prices

*On the piping front, coverage companies Supreme and Astral reported a strong volume growth in their piping segment by 82% and 30% YoY, respectively, supported by inventory re-stocking by dealers amid stabilisation in PVC prices. However, lower realisations due to passing on of benefit of lower PVC prices have restricted segment revenue growth at ~31% and ~11% YoY, respectively, for Supreme Industries and Astral during Q3*

## FMCG

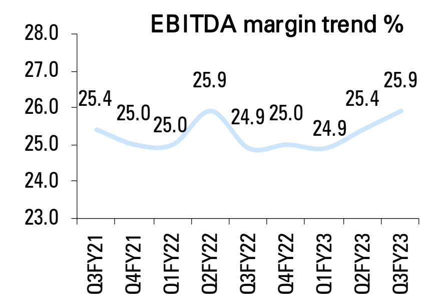
- The FMCG industry continues to see sales growth led by pricing intervention in the last one year. The FMCG market volume growth was negative for a third consecutive quarter. However, intensity of decline was less in Q3 compared to H1FY23. The volume decline trend was much more prominent (to the extent of ~7%) in rural regions whereas urban volumes were down ~2%. FMCG companies have taken steep price hikes in the last one year (10-15%) mainly due to unprecedented raw material price inflation. Though selective price cuts have started after correction in palm oil & crude based raw material, sticky inflation in most other commodities have been preventing companies to take large price cuts. However, categories like cigarettes, detergent & carbonated drinks bucked the trend and witnessed high volume growth in Q3 (similar to H1FY23). These categories were severally impacted in the last two years due to lack of mobility during pandemic. ITC witnessed 15% volume growth in cigarettes with increase in mobility, stable taxation from last three years & crackdown on illicit cigarettes. We believe ₹ 10 and above price point cigarettes are getting strong traction (growing at ~25%) in the last few quarters. Similarly, carbonated drinks, juices & water categories also continuing strong volume growth momentum
- Varun beverage witnessed 15% CAGR organic volume growth in last three years. Our coverage universe sales growth was 8.9% largely led by pricing growth. HUL, Marico, Tata consumer foods business & Jyothy lab saw 2-5% volume growth. However, Dabur, Colgate, Tata consumer 'packaged beverage' witnessed low single digit volume decline (3-5%) during the quarter. Nestle and Zydus wellness saw flat volumes with entire sales growth was led by pricing growth for both these companies. ITC FMCG business saw strong 8% volume growth with juices, snacks, atta, biscuits & stationary business contributing to the growth
- One of the important vectors for future growth of FMCG companies is innovation, foray in newer categories. In an inflationary scenario, investment in new launches has come down with limited resources. Companies have resorted to cutting down ad spends to protect operating margins. In a post Covid world, e-commerce channels sales growth is also stabilising after two years of exponential growth. There are clear category growth trends with saturation of hair oil, oral care,

**Trend in revenue growth (YoY %)**




Source: Company, ICICI Direct Research

**Trend in EBITDA margins (%)**




Source: Company, ICICI Direct Research

soaps, tea & salt categories & emergence of packaged foods, nutrition, health foods, beverage, pulses, spices & other staples categories

- Despite a sharp decline in palm oil & crude prices, most other commodities have remained at an elevated level. Even crude & related commodities remained higher compared to their historic averages. Prices of agri commodities like wheat, rice & milk further inched up during the quarter. Wheat, rice & milk prices are up 20-30% in last one year. With price hikes & some stability in palm & crude prices, gross margins for most companies improved sequentially but still contracted YoY. Gross margins for HUL, Zydus Wellness, Tata Consumer, Dabur, Colgate, Nestle India contracted by 200-500 bps YoY
- We believe rural demand conditions still remain muted considering inability of FMCG companies to take large price cuts or restoration of grammages. Though commodities prices are slowly coming down, these still remain high compared to historic averages. We believe a sharp correction in commodity prices is warranted to bring back volume growth to high single digit. Most companies are shifting gears by focusing much more on high growth categories like packaged foods, beverages, health foods to compensate the saturated of growth in highly penetrated categories like soaps, hair oils, oral care

*Given copra prices were benign in the last one year, Marico saw 123 bps uptick in gross margins. ITC saw strong margin expansion of 730 bps due to high operating leverage in cigarettes, hotels, paper & FMCG business. Moreover, absence of low margin wheat & rice exports (due to export restriction) also helped it gaining margins.*

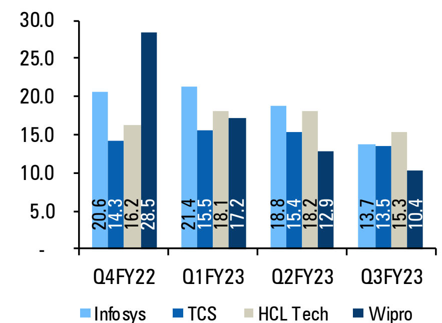
*Varun Beverages also saw 91 bps gross margin expansion due to operating leverage. Our coverage universe operating margins were up by 107 bps mainly due to sharp margin expansion for ITC. Excluding ITC, operating margin for coverage universe contracted by 106 bps*

*We also believe lack of investment behind brands (advertisement spends) is one of the reasons for dismal volumes. We expect a gradual recovery in volumes as well as margin in next few quarters*

## Information Technology

- The growth momentum of IT companies was impacted in Q3FY23 by higher-than-expected furloughs, part reversal of the same is expected in Q4. In Q3, macro related impact on growth was visible across few pockets in BFSI, retail, technology, etc, as well as some geographies like US. The macro related impact is likely to stay for the next few quarters, growth for IT companies is expected to be normalised compared to high growth visible in the last two years. The deal pipeline continues to be healthy due to continuance of critical cloud transformation programs (which are multiyear in nature) as well as incremental opportunity in terms of cost take out deals, conversion of pipeline to TCV has not seen any material stress so far. Hence, companies continue to report TCV numbers in the guided range. Continuance of slower decision making is likely to impact future quarter TCV numbers. Another trend, which was echoed by major players has been cost optimisation deals taking majority share in new deals on account of high inflationary environment across major geographies. The companies are looking at vendor consolidation opportunities now where large cap companies are likely to be key beneficiaries. Europe region growth for the quarter was positive surprise despite all challenges and could be attributed to some large deal execution and stable growth in Nordic countries. CC revenue growth for the quarter was muted while currency tailwind helped strong dollar revenue growth. Continued rupee depreciation vs. US dollar helped in further strong rupee growth for the quarter
- Tier I IT companies reported an average CC YoY revenue growth of 13.2% compared to 16.3% in Q2FY23 & 20.2% in Q3FY22 as it witnessed higher furloughs this quarter; Tier II IT companies reported an average 12.1% YoY growth in dollar terms compared to 15.4% in last quarter. All IT companies baring LTIMindtree either improved or maintained the margins due to easing of supply side pressure, utilisation improvement, pyramid optimisation and some moderation in attrition. Tier I IT companies except Infosys (which reported flat margin expansion), reported an improvement of +10 to +120 bps in EBIT margins, while in Tier II companies LTIMindtree's margin was impacted due to merger relation costs. Attrition of all companies continued to moderate but supply side challenges for certain niche skills still persist
- **Stable revenue growth despite furlough:** TCS reported a CC growth of 2.2% QoQ & 13.5% YoY. In CC terms, vertical wise growth was driven by retail & CPG, which grew 18.7% YoY while BFSI (32% of mix) grew

Dollar revenue growth (CC terms on YoY basis)




Source: Company, ICICI Direct Research

11.1% YoY and geography wise North America & UK (together 69% of revenue mix) grew 15.4% each. Infosys revenues grew 2.3% QoQ & 9.6% YoY in dollar terms while in CC terms it reported growth of 2.4% QoQ & 13.7% YoY. Vertical wise growth was broad based with Manufacturing & Energy reporting robust growth of 36.8% & 25.9% YoY, respectively, in CC terms while financial services (29.3% of revenue mix) were impacted by furloughs & certain contract closure. Geography wise Europe continued its growth momentum reporting a growth of 25.3% YoY in CC terms while North America (62% of mix) reported growth of 10.5% YoY. **Infosys on the back of strong TCV wins in the last few quarters & robust pipeline increased its revenue guidance for FY23 to 16-16.5% from 15-16%.** Wipro's IT services reported muted growth of 0.6% QoQ in CC terms & 0.2% QoQ in dollar terms due to higher furloughs & lower discretionary spends. Vertical wise growth was aided by health, energy & consumer while BFSI, communications & technology were laggards reporting a decline in revenue. Wipro for FY23 guided for revenue growth of 11.5-12% in IT services. HCL Tech (IT services) revenue grew 2.6% QoQ in CC terms while in dollar terms it reported growth of 5.3% QoQ & 15.4% YoY. Geography wise in CC terms Europe grew by 7.2% QoQ and US reported a muted growth of 0.5% QoQ. Vertical wise (CC terms QoQ basis) Financial services & retail declined while growth was led by manufacturing, TMPE & Lifesciences. **The company mentioned the furlough impact on its business was higher than anticipated. Due to this, it has reduced the upper end of its guidance by 50 bps and now is guiding for revenue growth of 13.5-14% in CC terms & services growth of 16-16.5% in CC terms for FY23.** TechM revenue grew by 1.8% QoQ in dollar terms while in CC terms it reported growth of 0.2% QoQ. Geography wise RoW led the growth while vertical wise the growth was led by Retail segment. The company's revenue growth during the quarter was impacted by slowdown in decision making & budget cuts from clients. LTIMindtree's reported its first result post-merger of erstwhile Mindtree with LTI. Its revenue in Q3 was impacted by furloughs. Its revenue grew 1.9% QoQ in CC terms while in dollar terms it reported growth of 2.4% QoQ. Vertical wise manufacturing led the growth with 10.6% QoQ growth and geography wise Europe & RoW reported strong growth of 4.5% & 4.9% QoQ, respectively; North America (72.3% of mix) reported muted growth of 1.6% QoQ

*Coforge's dollar revenue grew 1.9% QoQ & 13.6% YoY while in CC terms it reported growth of 3.7% QoQ. Vertical wise BFS led the growth with 39.3% YoY growth in CC terms while geography wise EMEA grew 6.7% QoQ. Coforge, on the back of strong wins in recent quarters & strong pipeline has increased the guidance for FY23 to 22%. For FY24, the company indicated that growth would be ~15%*

- **Ease of supply aid margins; LTIMindtree margins impacted by merger related costs:** Despite the impact of higher furloughs all companies except LTIMindtree either improved/sustained the margins on a sequential basis due to currency benefits, lower sub-contractor cost, lower attrition & increase in operational efficiency. TCS EBIT margin improved 50 bps QoQ to 24.5% due to the tailwinds of currency benefits, improved utilisation, lower sub-contractor cost mitigated by increase in travel cost & third party cost for hardware & software. TCS maintained its exit margin guidance of 25% by Q4FY23. **Infosys EBIT margin was flat sequentially at 21.5%.** The company's benefits of lower sub-contractor cost & currency benefit were negated by higher SG&A expenses & furlough impact. Infosys maintained its EBIT margin guidance of 21-22% for FY23

- **Hiring aligned to demand:** The net hiring of most IT companies either remained muted or declined during the quarter as the companies focused on improving utilisation after strong hirings in last few quarters. LTM attrition of the companies declined 20-280 bps sequentially while further moderation is expected but supply side challenges for certain niche skills still persist. Infosys still reported elevated attrition of 24.3% while Coforge reported the lowest attrition of 15.8%. During the quarter Infosys & HCL Tech reported muted net hiring of 1,150 & 2,615, respectively, while other companies reported a net decline in hirings

*Wipro's EBIT margin improved 120 bps QoQ to 16.3% on account of lower attrition, automation led efficiency and also shifting of some expenses from fixed pricing to T&M. HCL Tech's IT services EBIT margin increased by 10 bps QoQ to 17.7%. The company's tailwinds of pyramid optimisation, improved realisations & currency benefits were mitigated by the wage hikes & furlough impact. HCL Tech cut the upper end of guidance of EBIT margin by 50 bps & it is now guiding for margin of 18-18.5% for FY23. TechM's EBIT margin continue to improve & it grew 60 bps QoQ to 12% with the tailwinds of currency benefits & operational efficiency mitigated by increased SG&A expenses. LTIMindtree's margin in the quarter was impacted due to headwinds of furloughs, merger integration cost & increase in employee cost. LTIMindtree's EBIT margin declined 360 bps QoQ to 13.9%. However, it has indicated it is expecting margin expansion of 200-300 bps over next four to five years from merger synergy benefits. Coforge's EBIT margin was flat sequentially at 14.5% as the increase in SG&A expenses & forex loss during the quarter nullified all the gains from increase in offshore mix, improved utilization & fresher billings*

## 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 13% YoY (to ₹ 9,297 crore). The performance was a mixed bag as road operators had a muted quarter. Exception was HG Infra, which saw strong revenue growth of 22.7% YoY, led by robust executable order book. NCC also reported strong revenue growth of 20.5% YoY led by execution across segments. Going forward, most EPC players guided for healthy topline growth to be driven by a) receipt of appointed date in most of its projects and b) expectation of strong inflows in the next few months. Also, margins in most companies are likely to move northwards with softening in input prices and better operating efficiencies
- **Muted road segment inflows in Q3; healthy traction in inflows expected as strong order pipeline is due for bidding:** Construction activities during 9MFY23 were affected largely by elevated level of input prices, labour shortages along with heavy and prolonged monsoon period. Due to these, MoRTH's construction pace has tapered to 5774 km of National Highway during 9MFY23 vs. target of 12000 km in FY23 mainly impacted by a prolonged monsoon period. Further, the award figure was at 7263 km. Overall, the authority is aiming to award ~12,000 km of road projects during FY23. The company informed that NHAI has lined up over 100 projects of ₹ 1.1 lakh crore for ordering over the next couple of months. Currently, the order book (OB) position for majority of infrastructure companies under coverage remains decent (overall OB/TTM revenue at ~2.5x). Exception to order inflows trend were diversified players like NCC and PSP Projects

*PSP has secured ₹ 2000+ crore of order inflows in last couple of months and PSP has now raised its order inflow guidance to ₹ 3800-4000 crore in FY23 vs. ₹ 2500-3000 crore, guided earlier. NCC has received ₹ 5000+ crore order inflows in Q3 and another ₹ 1700 crore+ in January, thus increasing revenues visibility*

### Real Estate

- Real estate industry witnessed a steady performance on the residential sales momentum. While QoQ volumes dipped for Mumbai players like Oberoi, Bengaluru players like Sobha and Brigade showed strong sales volume traction with former benefitting from NCC subsequent phase launch. Further, commentary suggests the industry has not witnessed any major impact of recent interest rate hike on housing demand. The rental portfolio remained steady on the office front while hospitality segment benefitted from strong ARRs and healthy occupancy
- **Residential remains steady: Brigade Enterprises** has achieved sales value at ₹ 1010 crore, up 47.6% YoY driven by strong demand momentum. The company reported sales volume of 15.3 lakh square feet, up 40.6% YoY. Going ahead, the company has ~11 mn sq ft over the next four quarters. **Sobha Ltd.** Sales booking value was robust at ₹ 1425 crore (up ~36% YoY) with sales volume of 1.48 mn sq ft (up ~12% YoY) led by Gurugram. **Oberoi Realty** sales value was at ₹ 631 crore, down ~68% YoY, ~45% QoQ, with one new tower of Borivali launched while Worli sales were suspended amid deal

*In terms of overall sales volume, Oberoi Realty managed to sell 3.6 lakh sq ft area in Q3FY23, down ~66% YoY. Going ahead, it has two major launches in Thane over the next two quarters, which will be key for volume growth*

- **Office, retail & hospitality remain robust: Phoenix Mills** reported a healthy performance. Retail revenues grew ~59% YoY while hospitality revenues were up 123% YoY. Retail rental at ₹ 336 crore (up 59% YoY), was at ~121% of Q3FY20 (pre-Covid level) and ~109% on a like-to-like basis. Consumption in Q3FY23 at ₹ 2647 crore, was ~128% of Q3FY20 (pre-Covid) and ~114% on a like-to-like basis. Phoenix' office portfolio remained robust with revenues during Q2FY23 improving 15.6% YoY at ₹ 42.3 crore. **Brigade** achieved gross leasing of 1 mn sq ft in 9MFY23 (0.43 mn sq feet in Q3). It has an active pipeline of ~1 mn sq ft as of now with demand largely coming out from IT/ITeS, BFSI & automotive sectors. The hospitality portfolio also remained robust with revenues from hospitality up ~61% YoY led by improvement in room rates by 8% QoQ to ₹ 6,081/day while occupancy rates were sustained at 68%

*For **Oberoi Realty**, Westin Mumbai Garden City project revenues came in at ₹ 41.9 crore (up 68% YoY, ~23% QoQ), ARR was at ₹ 12,344 (up ~78% YoY, ~29% QoQ), and RevPAR was at ₹ 9,961 (up ~99% YoY, ~26% QoQ); with occupancies at 80% (83% in Q2FY23). Office segment saw remained muted (lower occupancy) while mall was strong YoY*

## Logistics: Forgettable quarter for logistics companies

Although Q3 represents a festive led season, on an overall basis, logistics companies saw subdued movement (single digit topline growth), leading to contraction in margins for TCI Express, BlueDart on a YoY basis. Transport Corporation also saw a margin contraction but largely due to higher base (one-off international sailing to Myanmar). Mahindra Logistics, on the other hand, saw sub-5% margins largely due to acquisition of loss making Rivigo B2B business and expects at least two quarters to breakeven. TCI Express also expects the rebound in margins in Q4 itself. Exim players like Concor saw its market share deteriorate to 58% from earlier 62-63% led by higher competitive intensity especially in the shorter lead distance cargo while the longer lead distance cargo was impacted by container unavailability. Exim container volume drop was also evident in Gateway Distriparks. However, it maintained its profitability at ₹ 9000 per TeU at the EBITDA level. Adani Ports also saw weakness in overall container, bulk and liquid volumes. However, it continued to maintain its EBITDA guidance for FY23 and volume guidance of 500 MMT by FY25. Gujarat Pipavav bucked the trend in Q3 and saw 21% growth in container volumes and doubling of PAT.

**Among other key developments in sector:**

- APSEZ management has prioritised loan repayment and prepayment over other immediate inorganic growth initiatives (debt/EBITDA to be maintained at 2.5x in the near term). However, strategic initiatives may be evaluated as time comes. Also, 22% of gross debt, which amounts to ~₹ 8500 crore, is secured and APSEZ has pledged 1.25x of its assets. The company intends to repay ₹ 1600 crore of this secured debt. In FY24, pledging is expected to reach nil
- Concor's share at Mundra port has dropped sharply from 45% to 38% currently. It has also seen a squeeze at Pipavav

*TCI management expects FY24 to be a subdued year due to normalisation of base year and an election year. However, higher infra spends could have a trickle-down effect on the economy*

*TCI Express has lowered revenue growth guidance to 17% from earlier 18- 20% and expects EBITDA margin of 17% in FY23 and 18+ in FY24*

*Gateway Distriparks Kashipur ICD volumes (3000 TeU monthly) would be added from Q4 onwards and would help the company to cross 28-29000 TeU monthly mark*

## Media

The media sector saw a mixed performance across segments. Multiplexes saw a strong recovery led by performance of *Avatar 2, Drishyam 2* and regional content like *Kantara* and *PS-1.* Broadcasters had a weak ad performance with FMCG companies cutting ad spends and sports heavy quarter diverting ad spends from other segments.

- **Broadcasters:** Zee reported a domestic ad decline of 15.6% YoY to ₹ 1064 crore, owing to weak ad spending by key segment (FMCG), sports heavy quarter and impact of exit from free to air. Overall subscription revenues grew 13.2% YoY to ₹ 894.4 crore led by 30.7% YoY growth in international subscription (Zee5 driven) and catch-up revenues recognition from Siti (₹ 59 crore). EBITDA margins were at 16% (down 482 bps YoY, up 243 bps QoQ) with YoY decline on high content spend and lower ad revenues. For Sun TV, advertisement revenue was muted at ₹ 380 crore (up 0.5% YoY) amid weak FMCG ad spends and sports heavy quarter, partially offset by resilient regional retail ads. Subscription revenues were also muted YoY (down ~3% YoY), amid New Tariff Order (NTO) 2 implementation driven price hike restrictions. EBITDA margins came in at 66.8%, down 300 bps YoY, owing to revenue mix and negative operating leverage
- **Multiplexes:** Q3 saw a strong recovery led by performance of movies such *Avatar 2*, *Drishyam 2* and regional content like *Kantara* and *PS-1*. Consequently, footfalls were up ~22-32% QoQ and average ticket price (ATP) was also up ~6-9% QoQ owing to content performance and movie slate mix. The ad recovery was also muted (currently at 60-65% of pre-pandemic – similar to last quarter). Consequently, both PVR and Inox reported ₹ 81.2 crore, 15.8% and ₹ 128.3 crore, 13.6% on EBITDA levels/margins, respectively. Near term monitorable is big ticket content performance, which has seen inconsistency in performance, post Covid.

*TV Today reported a weak set of numbers. TV and other media (clubbed segment of broadcasting and digital) revenues at ₹ 228.9 crore (down 9% YoY). The performance was impacted by weak TV ad spends and lower ad inventory. Reported margins at 15.6%, down ~17 percentage points YoY, impacted by negative operating leverage. Most broadcasters expect gradual recovery in ad growth from FY24 which would also drive margins recovery.*

*Pathaan has started well with ₹ 500 crore+ of net box office collection in India. The pipeline of other big movies in Q4 includes Bhola, Jon Wick 4, Maidan, Tu Jhoothi Main Makkaar, Selfie, Ant Man, Creed 3, Babylon. Thus, a good response could drive recovery*

## Metals & Mining

- For metal companies, Q3FY23 was marred by muted realisations. However, over the last few months, there was an uptick in prices, which would aid metal companies to report an improved performance during Q4FY23. On the global front, over the last three months, Chinese steel prices have seen an uptick of ~16% and is currently hovering at ~US$660/tonne. Domestic HRC price have also seen an uptick of ~7% in the above mentioned period and is currently hovering at ~₹ 59500/tonne. Also, seasonally, Q4 is traditionally the strongest in terms of sales volumes for domestic steel companies. An uptick in prices, during this period, augurs well for domestic steel players
- For Q3FY23, Tata Steel's standalone operations reported EBITDA/tonne of ₹ 11350/tonne. For Q3FY23, Tata Steel's European operations reported negative EBITDA/tonne of US$95/tonne. The company is expected to report a better performance in Q4FY23 amid a rise in spreads (realisations – input costs) across its Indian & European operations
- For Q3FY23, Novelis (Hindalco's subsidiary) reported adjusted EBITDA/tonne for the quarter at US$376/tonne. Going forward, Novelis' performance is progressively set to improve as inflationary costs ease off, higher prices in revised contracts materialise and destocking cycle in beverage can segment gets over. For Q3FY23, Hindalco's Indian business EBITDA (business segment EBITDA) was at ₹ 2294 crore

*For Q3FY23, Coal India reported offtake volume of 176 MT, up 1% YoY. FSA sales volume for the quarter was at 158 MT, up 9% YoY, while FSA realisation for the quarter was at ₹ 1482/tonne, up 8% YoY, 5% QoQ. E-auction volume for the quarter was at 15 MT while E-auction realisation for the quarter was at ₹ 5046/tonne, up 159% YoY but down 17% QoQ. For Q3FY23, Coal India reported consolidated topline of ₹ 35169 crore, up 24% YoY. Consolidated EBITDA for the quarter was at ₹ 10389 crore (up 52% YoY, 43% QoQ). Ensuing consolidated PAT for the quarter was at ₹ 7719 crore, up 69% YoY, 28% QoQ, broadly in line with our estimate of ₹ 7651 crore*

## Oil & Gas

- Oil & gas companies reported mixed set of numbers in Q3FY23. All three OMCs turned profitable during the quarter as marketing losses seemed to have narrowed down with decline in crude prices. On the city gas distribution (CGD) companies' front, only MGL was able to maintain its margins while IGL and Gujarat Gas' margins declined due to high sourcing costs and decline in volumes. Upstream companies' operating profitability increased due to higher gas realisation
- On OMCs front, BPCL, HPCL's crude throughput increased ~7%, 8% QoQ, respectively, whereas IOC's crude throughput improved 15% QoQ as it restarted its Paradip refinery after a planned maintenance shutdown. On YoY basis, HPCL, BPCL reported growth of 14%, 18%, respectively, while IOC's throughput grew 5%. BPCL's refining margins were higher than our estimates with GRMs at ~US$16/bbl. IOC's GRM was at ~US$13/bbl, in line with our estimates. However, HPCL's GRM came in lower at ~US$9/bbl. Marketing sales increased in the range of 8-12% QoQ, and 10-15% YoY. IOC and BPCL marketing losses came in higher than our estimates while HPCL's marketing margins were higher as per our understanding. Overall OMCs reported a mixed set of earnings with IOC and BPCL's refining earnings coming in higher than our estimates and HPCL's marketing margins improving significantly. Going ahead, we expect GRMs to remain rangebound & marketing losses to narrow down
- ONGC's oil and gas production remained flat YoY and QoQ. Gross oil realisation declined ~9% QoQ due to decline in crude oil prices, although net realisation continued to be capped at US$75-76/bbl. Gas realisation grew 40% QoQ post revision in APM gas prices. EBITDA increased ~28% YoY and 8.5% QoQ. PAT grew 26% YoY but declined 14% QoQ as other income declined QoQ. Growth in production from KG basin would be a key monitorable, going forward
- Reliance Industries' operational profitability was up 19% YoY and 13% QoQ. YoY the growth was driven by oil and gas segment (up 91% YoY) and digital service (up 26% YoY). The near term monitorable would be when and how much the next tariff hike is undertaken in Jio. Reliance Retail's widespread physical store network would further enhance its omni-channel capabilities. On the O2C front, polymer margins are likely to improve with a revival in demand

**Key parameters in Q3FY23**

| | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 |
|---|---|---|---|---|---|
| Singapore GRMs ($/bbl) | 6.1 | 8.1 | 21.5 | 7.1 | 6.4 |
| Crude Oil ($/bbl) | 79.4 | 99.5 | 112.8 | 99.0 | 88.3 |
| APM Gas (NCV) (US$/mmbtu) | 3.2 | 3.2 | 6.7 | 6.7 | 9.4 |

*Source: Bloomberg, ICICI Direct Research*

*On the CGD front, IGL and MGL's sales volume remained flat QoQ and grew ~3-6% YoY. Due to reduced offtake from industrial segment as customers switched to alternate fuels, Gujarat Gas' volume declined 36% YoY and 4% QoQ. Gujarat Gas reported 22% QoQ decline in volumes. On account of price hikes taken during the quarter IGL and MGL were able to report higher realisation QoQ. Operating profit of MGL remained flat QoQ while that of Gujarat Gas and IGL declined 10% and 19% QoQ. On the PAT front, MGL's profit improved 5% QoQ while Gujarat Gas and IGL's PAT de-grew 8% and 33% QoQ, respectively. Going ahead, with LNG prices declining and APM prices likely getting capped at US$6.5/mmbtu, sourcing cost of CGDs will decline substantially and improve their margins going ahead. Gail India earnings declined 93% YoY and 84% QoQ as margins declined across all segments and on account of inventory loss of ₹1100 crore due to decline in LNG prices. Petronet LNG's total volume declined 20% YoY and 13% QoQ as regasification volumes declined. However, PAT grew 3% YoY and 59% QoQ*

## Pharmaceuticals & hospitals

- I-Direct Pharmaceutical universe (13 coverage stocks) revenues grew 12.7% YoY to ₹ 51644 crore driven mainly by complex launches in the US by large players, India formulations and APIs
- On the sales front, some notable companies with growth and growth drivers- 1) Dr Reddy's (27.2% YoY; continued traction from the launch of gRevlimid and other complex launches), 2) Sun Pharma (14.0% YoY ; continued traction from speciality and domestic formulation) 3) Torrent Pharma (18.3% YoY; continued traction from branded generics), 4) Biocon (35.3% YoY; incremental contribution from Viatris integration and contract research i.e. Syngene), 5) Zydus Life Sciences (19.8% YoY; growth driven by new launches as well as volume growth in the US and India and 6) Laurus Labs (50.2% YoY; continued traction from Covid opportunity in custom synthesis and volume growth in API)
- Indian formulations (select pack) revenues grew 7.1% YoY to ₹ 11411 crore and the below-estimate growth print was due to Covid component in the base business. Adjusting for Covid impact, 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 23.1% YoY to ₹ 13640 crore. The growth was supported by 1) outliers such as Sun (continued specialty traction), Cipla (respiratory traction as well as gRevlimid traction), Dr Reddy's (continued traction from gRevlimid). On the other hand, oral solids (OSDs) continued to face significant price erosion ranging between mid-single digit and low-teens
- CRAMs players continued to see a mixed set of prints with Laurus and Syngene reporting good growth (210% and 23% YoY, respectively) on the back of pending order executions but sector leader Divi's Labs reported significant down fall (56% YoY) due to declining contribution from the Covid opportunity. Overall, CRAMS segment (select coverage) de-grew 12% YoY to ₹ 2111 crore
- Generic API players witnessed price erosion but growth was mainly driven by volumes in select APIs. API segment (select pack) overall sales grew 11.6% YoY to ₹ 4833 crore
- Europe sales grew 2% YoY to ₹ 2892 crore overcoming the currency headwinds (rupee appreciation) mainly due to new launches
- On the margins front, EBITDA margins declined 20 bps YoY to 22.5% for I-direct universe (select pack) due to 1) YoY increase in pricing erosion in the US and 2) rise in input, logistic and power cost. In value terms, it grew 11.7% YoY to ₹ 11604 crore. PAT de-grew 7.9% YoY to ₹ 6590 crore due to higher interest and depreciation and higher tax provision by some big players
- **Hospitals:** I-direct Hospitals universe (five coverage stocks) revenues grew 4.3% QoQ to ₹ 9211.1 crore. The performance was better than our expectation of flattish growth QoQ on account of increased elective surgeries despite festival season. Hospitals are now trending at pre-Covid levels in terms of higher occupancy and increase in surgeries count along with better cost optimisation practices. The hospitals enjoyed a better payer mix and case mix QoQ with improvement in international operations. The brownfield expansion as a growth strategy in India remains on track for most of our coverage universe companies
- On the company specific QoQ growth, Aster DM 13.3% (strong rebound in GCC business), Healthcare Global 1.1% (growth in volumes and patient count across modalities), Shalby 0.3% (flat quarter amid high base), Apollo Hospitals 0.3% (stable healthcare business and improved pharmacy revenues), Narayana Hrudayalaya (1.2)% (driven by flattish growth in owned and operated hospitals)

**Sales from India, US and Europe**

| India | | | | | |
|---|---|---|---|---|---|
| (₹ cr) | Q3FY23 | Q3FY22 | % | Q2FY23 | % |
| Ajanta | 272.2 | 235.3 | 15.7 | 242.8 | 12.1 |
| Alembic | 545.0 | 488.0 | 11.7 | 549.0 | -0.7 |
| Ajanta | 300.6 | 260.0 | 15.6 | 314.0 | -4.3 |
| Zydus Lifesciences | 1231.6 | 1078.5 | 14.2 | 1264.8 | -2.6 |
| Glenmark | 1074.5 | 1006.9 | 6.7 | 1091.6 | -1.6 |
| Ipca | 702.3 | 645.3 | 8.8 | 765.7 | -8.3 |
| Lupin | 1521.3 | 1473.3 | 3.3 | 1584.1 | -4.0 |
| Cipla | 2563.0 | 2518.0 | 1.8 | 2563.0 | 0.0 |
| Dr Reddy's | 1127.4 | 1026.6 | 9.8 | 1150.0 | -2.0 |
| Sun Pharma | 3391.9 | 3167.6 | 7.1 | 3460.0 | -2.0 |
| Torrent | 1259.0 | 1072.0 | 17.4 | 1224.0 | 2.9 |
| Total | 11410.5 | 10650.7 | 7.1 | 11609.8 | -1.7 |
| US | | | | | |
| (₹ cr) | Q3FY23 | Q3FY22 | % | Q2FY23 | % |
| Alembic | 432 | 393.0 | 9.9 | 418.0 | 3.3 |
| Ajanta | 266 | 166.0 | 60.2 | 185.0 | 43.8 |
| Aurobindo | 3001.2 | 2745.2 | 9.3 | 2638.0 | 13.8 |
| Zydus Lifesciences | 1925 | 1489.2 | 29.3 | 1708.4 | 12.7 |
| Cipla | 1600 | 1124.0 | 42.3 | 1432.0 | 11.7 |
| Glenmark | 837.3 | 756.7 | 10.7 | 753.3 | 11.2 |
| Lupin | 1527.1 | 1577.5 | -3.2 | 1329.5 | 14.9 |
| Dr Reddy's | 3056.7 | 1864.5 | 63.9 | 2800.1 | 9.2 |
| Sun Pharma | 3466 | 2971.8 | 16.6 | 3291.3 | 5.3 |
| Torrent | 291 | 235.0 | 23.8 | 292.0 | -0.3 |
| Total | 13640 | 11076.97 | 23.138 | 12385.86 | 10.13 |
| API | | | | | |
| (₹ cr) | Q3FY23 | Q3FY22 | % | Q2FY23 | % |
| Aurobindo | 954.6 | 1010.0 | -5.5 | 969.0 | -1.5 |
| Alembic | 326.0 | 198.0 | 64.6 | 294.0 | 10.9 |
| Laurus Labs | 632.0 | 424.0 | 49.1 | 680.0 | -7.1 |
| Zydus Lifesciences | 188.1 | 164.5 | 14.3 | 111.7 | 68.4 |
| Divi's Lab | 874.0 | 782.6 | 11.7 | 895.0 | -2.3 |
| Ipca Labs | 322.2 | 309.4 | 4.2 | 307.2 | 4.9 |
| Lupin | 281.5 | 256.4 | 9.8 | 249.9 | 12.6 |
| Cipla | 147.0 | 150.0 | -2.0 | 153.0 | -3.9 |
| Dr Reddy's | 780.0 | 727.1 | 7.3 | 643.4 | 21.2 |
| Sun Pharma | 515.4 | 471.0 | 9.4 | 473.0 | 9.0 |
| Total | 4832.7 | 4328.6 | 11.6 | 4664.5 | 3.6 |
| Europe | | | | | |
| (₹ cr) | Q3FY23 | Q3FY22 | % | Q2FY23 | % |
| Aurobindo | 1,701 | 1,694 | 0.4 | 1,516 | 12.2 |
| Cipla | 319 | 290 | 10.0 | 312 | 2.0 |
| Dr Reddy's | 430 | 406 | 6.0 | 420 | 2.5 |
| Lupin | 201 | 187 | 7.0 | 216 | -7.2 |
| Torrent | 241 | 237 | 1.7 | 220 | 9.5 |
| Total | 2892 | 2814 | 2.8 | 2685 | 7.7 |

*Source: Company, ICICI Direct Research*

*On operational front EBITDA grew 6.31% QoQ to ₹ 1318 crore whereas EBITDA margins improved 27 bps QoQ to 14.3% for I-direct universe (select pack) mainly supported by Aster DM (Improvement in ARPOB both for GCC as well as India), Narayana Hrudayalaya (better payer mix) and Healthcare global (flat amid good operational leverage). Subsequently, Net profit grew 5.41% QoQ to ₹ 469.6 crore.*

## Retail

- Retail players witnessed healthy revenue growth momentum in October 2022 driven by festive season. However, the momentum waned post the festive season. Companies witnessed deceleration in revenue growth in November and December. Some companies resorted to preponing of the end of season sales (EoSS) to boost revenues. The industry witnessed heightened competitive activity with increased discounting in certain categories like innerwear and kitchen appliances. Further, mass category products sales were negatively impacted due to higher price points owing to price increases taken by companies in earlier quarters and higher inflation, which impacted the purchasing power of mass category consumers. To boost the revenue growth some companies have made price corrections in Q3FY23 with easing of raw material costs
- Trent continues to be the outperformer with sales increasing 61% YoY to ₹ 2171 crore. On a three-year CAGR basis, revenue growth was at an impressive 36%, the highest among lifestyle retailers
- Other discretionary categories such as luggage (VIP Industries) and Jewellery (Titan) also reported steady traction
- On a favourable base, our retail coverage universe reported revenue growth of 18% YoY with impressive three-year CAGR of 17%
- We note that while apparel players saw pressure on gross margins (owing to higher competitive intensity and increased discounting), EBITDA margins were under pressure owing to increased marketing spends and higher opex cost. Overall EBITDA margins declined 274 bps YoY to 11.6% (pre-Covid level: 13.4%)

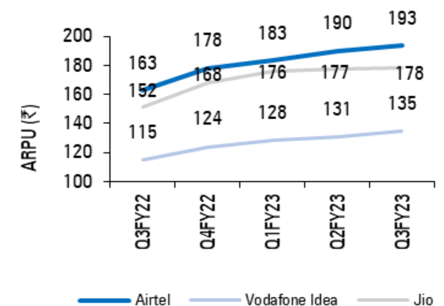
*Despite inflationary pressure and price hikes, discretionary consumption stayed strong at premium-end (ABFRL, Shoppers Stop, Titan continued to be insulated). Inflationary stress was more acute at lower price point categories as seen in Relaxo's Q3FY23 performance (volume de-growth of 9%) and D-Mart's GM & apparel segment struggling to reach pre-Covid levels*

*Store addition pace remained steady in Q3FY23 after accelerated store addition in Q2FY23 (store addition: four D-Mart stores, 21 Pantaloons, 15 V-Mart, 40 Zudio, eight Tanishq & 14 Mia Jewellery stores)*

## Telecom

- **Jio/Airtel report healthy subscriber addition:** Jio added 5.3 million (mn) subs leading the overall subscriber addition in the industry. Airtel saw healthy addition of 4.4 mn subscriber during the quarter while VIL lost 5.8 mn subscribers. Airtel witnessed strong 4G net adds of ~6.4 mn during the quarter while VIL saw addition of merely 1 mn 4G subs
- **Airtel led the revenue growth**: For Airtel, India wireless revenues were up 2.5% QoQ (up 20.3% YoY) at ₹ 19353 crore, and Average Revenue per User (ARPU) at ₹ 193.4, up 1.9% QoQ, driven by subscriber mix improvement. Jio's ARPU saw only a modest improvement of 0.6% QoQ to ₹ 178.2 with revenues at ₹ 22998 crore, up 1.1% QoQ driven by subscriber addition. On the other hand, for VIL, revenues were up flat QoQ to ₹ 10,621 crore. ARPU grew ~3% QoQ to ₹ 135
- **Lower SUV aid margin:** For Airtel, consolidated margins at 51.5%, were up 58 bps QoQ, led by India wireless margins which was at 53.8% (up 150 bps QoQ), driven by lower SUC (Spectrum Usage Charges). Jio's margins were at were at 52.2%, up 120 bps QoQ, led by flow through of lower SUC. For VIL, Reported EBITDA margins were up 76 bps QoQ to 39.4%, albeit below expectation of 40.5%, with QoQ margins improvement led by lower SUC
- **Others:** In the tower space, Indus Towers reported net addition of 1307 co-locations were seen, aided by some pickup on account of network rollout. The tower addition was healthy at 1466. Lean towers (not reflected in tenancy and tower counts) saw a strong addition of 1408 during Q3 vs. 1535 in Q2. Revenues came in at ₹ 6765 crore, down 15% QoQ. Like to like core rental revenues were down 1.4% QoQ. EBITDA was at ₹ 1163 crore, down 68.6%YoY, with margins at 17.2% (down 36 percentage points YoY). The company provided against doubtful debts of ₹ 2298 crore against dues from Vodafone Idea (VIL). Adjusted margin was 51.2%

**ARPU trend**




Source: Company, ICICI Direct Research

*Tata Communication reported a weak quarter on the margins front. The topline at ₹ 4528 crore, was up 8.2% YoY, 2.2% QoQ, driven by data revenues (forming ~79% of revenues), which was up ~11.1% YoY (up 2.9% QoQ) at ₹ 3593 crore. EBITDA came in at ₹ 1077 crore, down 0.5% YoY, 4.6% QoQ. Consequent margin was at 23.8% (down 207 bps YoY, 170 bps QoQ), owing to lower data EBITDA margin, which was at 26.4%, down 246 bps QoQ*

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