Sequential growth trend continues in Q4FY22…

ICICI direct Research

Q4FY22

Earnings Wrap

ICICI Securities – Retail Equity Research

June 6, 2022

- Corporate earnings for January-March 2022 (Q4FY22) were satisfactory in the backdrop of extended geopolitical conflict, supply chain disruptions, especially on the logistics front and rise in key commodity prices viz. crude, metals & agri-commodities. Topline growth at the Nifty level (ex-financials) was at 9.8% QoQ. Operating profit, however, was up 3.4% QoQ factoring in the pressure on margins, which for the quarter was at 18.2%, down 110 bps QoQ. PAT for the quarter was up 5.3% QoQ, primarily tracking a decline in margins and other income, partially aided by lower effective tax rate (26.1% in Q4FY22 vs. 27.9% in Q3FY22). On a YoY basis, topline, bottomline growth at the index level was healthy at 24% & 14%, respectively, tracking commodity prices led outperformance in the metals and oil & gas domain as well as healthy high double digit growth witnessed in the IT & power space. The management commentary across businesses was positive on the demand outlook amid a pick-up in economic activity, revival in public as well as private capex cycle but was wary of further input costs inflation resulting in broader price hikes and a tad soft margin trajectory
- At the Nifty level (including financials), broader sequential growth trend continued with 8.8% QoQ growth in topline. PAT growth, however, was a tad higher (6.1% QoQ) than ex-financials (5.3% QoQ) on account of outperformance by BFSI domain, tracking better-than-expected credit growth & improving asset quality. On absolute basis, GNPA declined ~3% QoQ, 11% YoY for banking sector. Restructured book also declined ~25 bps QoQ, thus indicating overall reduction in stress
- IT companies saw some moderation in revenues in Q4 in CC terms after witnessing strong growth in Q3. Tier I companies reported average constant currency growth of 19.9% on YoY basis. Tier II companies posted even stronger CC growth at an average of 30.0% YoY
- Incorporating revised earnings post Q4FY22, our forward estimates do not undergo major changes. Over a three-year horizon i.e. FY21-24E Nifty earnings are seen growing at 20%+ CAGR. Rolling over our valuations to FY24E & trimming our forward PE multiples amid rising rate hike scenario we now value Nifty at 18,700 i.e. 20x PE on FY24E

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

Nifty P&L (ex-BFSI space)	Mar-22	Mar-21	Dec-21	YoY (%)	QoQ (%)
Sales	**12,44,029**	**10,01,681**	**11,33,163**	**24.2**	**9.8**
Total Expenses	10,18,034	8,02,636	9,14,673	26.8	11.3
Raw material	5,79,977	4,30,328	5,23,914	34.8	10.7
Employee	1,40,205	1,20,130	1,33,686	16.7	4.9
Other expenses	2,97,851	2,52,177	2,57,073	18.1	15.9
Expenses (% of sales)					
Total Expenses	81.8	80.1	80.7	170 bps	112 bps
Raw material	46.6	43.0	46.2	366 bps	39 bps
Employee	11.3	12.0	11.8	-72 bps	-53 bps
Other expenses	23.9	25.2	22.7	-123 bps	126 bps
Operating Profit	**2,25,995**	**1,99,045**	**2,18,490**	**13.5**	**3.4**
OPM%	18.2	19.9	19.3	-170 bps	-112 bps
Other Income	22,674	33,171	22,839	-31.6	-0.7
Interest	27,844	27,469	27,540	1.4	1.1
Depreciation	59,463	55,196	56,782	7.7	4.7
PBT	**1,61,363**	**1,49,551**	**1,57,007**	**7.9**	**2.8**
Tax	42,189	44,735	43,874	-5.7	-3.8
Tax Rate	**26.1**	**29.9**	**27.9**	**-377 bps**	**-180 bps**
PAT	**1,19,173**	**1,04,816**	**1,13,133**	**13.7**	**5.3**

*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	Mar-22	Mar-21	YoY (%)	Dec-21	QoQ (%)
Sales	12,44,029	10,01,681	24.2%	11,33,163	9.8%
EBITDA	2,25,995	1,99,045	13.5%	2,18,490	3.4%
PAT	1,19,173	1,04,816	13.7%	1,13,133	5.3%

Other indices broader earnings summary

	YoY growth (%)		QoQ growth (%)	
	Sales	Net profit	Sales	Net profit
Nifty 50	**21.5**	**21.0**	**8.8**	**6.1**
BSE Midcap	15.3	52.1	10.9	25.7
BSE Smallcap	20.2	41.4	7.8	35.9
All Co's (3295 cos)	**23.4**	**3.1**	**8.2**	**13.1**

Positive surprises & Buys

- Automotive Axles
- Bandhan Bank
- Bharat Electronics
- Kotak Mahindra Bank
- Tata Motors

Nifty EPS estimates & Nifty target

Revised Sensex & Nifty Target (Rolling 12 Months')				
Earning Estimates	FY21	FY22E	FY23E	FY24E
Nifty EPS (₹/share)	515	720	820	935
Growth (% YoY)	17.1%	39.8%	13.8%	14.0%
Earnings CAGR over FY21-24E				22.0%
Earnings CAGR over FY22-24E				13.9%
Target P/E Multiple on FY24E EPS				20.0
Nifty Target (using FY24E EPS)				18,700
Corresponding Sensex Target				62,300

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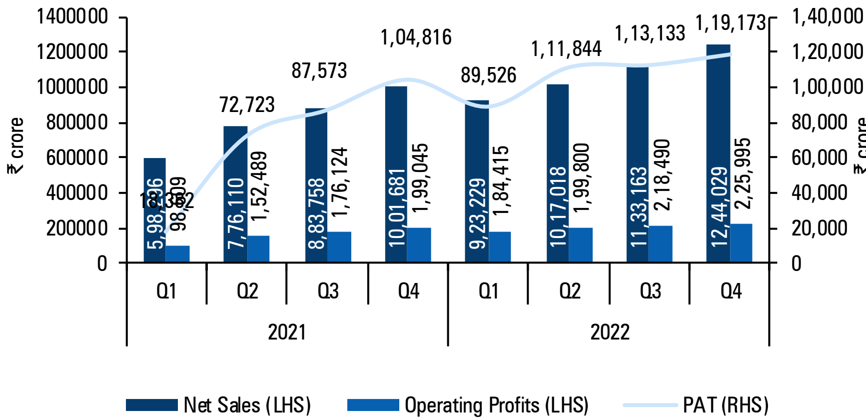
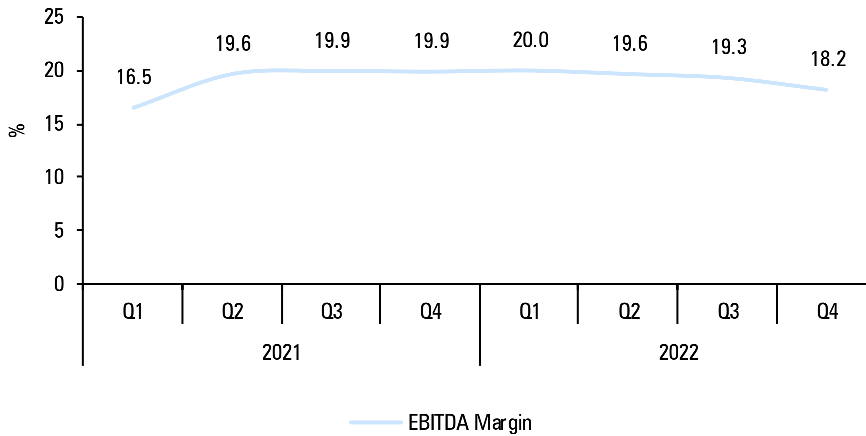
Exhibit 2: Nifty aggregate quarterly revenue, operating profit & net profit trend)



Source: Capitaline, ICICI Direct Research

Ex-financials, at the Nifty index level, for Q4FY22, topline was up 9.8% QoQ to ₹ 12.4 lakh crore. EBITDA was up 3.4% QoQ to ₹ 2.3 lakh crore, tracking ~110 bps sequential contraction in EBITDA margins to 18.2%. Ensuing PAT in Q4FY22 was at ₹ 1.2 lakh crore, up 5.3% QoQ, limited by decline in other income and partially supported by lower effective tax rate, which for the quarter was at 26.1% vs. 27.9% in Q3FY22

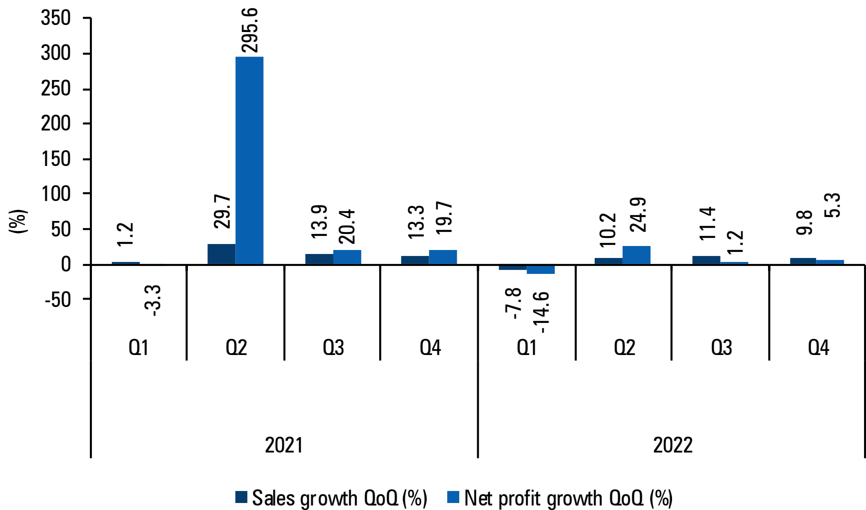
Exhibit 3: Nifty aggregate quarterly EBITDA margin trend



Source: Capitaline, ICICI Direct Research

In Q4FY22, EBITDA margins at the index level (ex-financials) were down ~110 bps QoQ to 18.2%. Gross margin decline was at ~40 bps QoQ. Surprisingly, other expenses as a percentage of sales rose 120 bps QoQ to 23.9% signalling higher overhead costs including higher freight and logistics costs. Employee costs was the only saviour and was down 50 bps QoQ to 11.3% of sales

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



Source: Capitaline, ICICI Direct Research

Q4FY22 marks the third consecutive quarter of near double digit topline growth at ~10%. Bottomline growth, on the other hand, has been a function of margins & scale of operations (operating leverage). For Q4FY22, sequential PAT growth was at 5.3%

Industry wise revenue & profit movement

- In Q4FY22, topline growth on a QoQ basis was led by the capital goods space amid seasonally higher execution period, followed by the metals domain amid firm metal demand and realisations. QoQ topline growth was also healthy across oil & gas space (led by higher fuel prices) as well as auto domain (commodity inflation led rise in APSs as well as improvement in volumes across certain segments, namely PV & CV)

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

	Mar-22	Mar-21	Dec-21	YoY change (%)	QoQ change (%)
Auto	1,49,787	1,54,345	1,38,992	-3.0	7.8
Capital goods	52,851	48,088	39,563	9.9	33.6
FMCG	41,029	36,554	41,070	12.2	-0.1
IT	1,38,441	1,15,632	1,34,849	19.7	2.7
Metals	2,04,689	1,44,170	1,77,560	42.0	15.3
Oil & Gas	4,67,375	3,40,387	4,26,028	37.3	9.7
Pharma	26,247	22,554	26,812	16.4	-2.1
Power	47,771	40,613	43,739	17.6	9.2
Others	1,15,838	99,339	1,04,549	16.6	10.8
Aggregate	**12,44,029**	**10,01,681**	**11,33,163**	**24.2**	**9.8**

Source: Capitaline, ICICI Direct Research

Key Sectoral share in Index topline (%)

Sector	Mar-22	Mar-21	Dec-21
Auto	12.0	15.4	12.3
Capital goods	4.2	4.8	3.5
FMCG	3.3	3.6	3.6
IT	11.1	11.5	11.9
Metals	16.5	14.4	15.7
Oil & Gas	37.6	34.0	37.6
Pharma	2.1	2.3	2.4
Power	3.8	4.1	3.9
Others	9.3	9.9	9.2
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- FMCG industry saw 6% growth (according to NilsenIQ) in Q4FY22 led by double digit pricing growth & volume decline. Our coverage universe witnessed revenue growth of 12.2% almost entirely led by pricing growth. Volume growth was only strong for Varun Beverage & ITC cigarettes business. The volume de-growth for FMCG companies was adversely impacted by muted volumes in rural regions given high inflation has negatively impacted real income levels, which, in turn, resulted in down-trading or shift towards regional/mass brands
- In the cement space, against the backdrop of higher fuel cost environment and freight charges, the industry witnessed sequential margin expansion of 161 bps to 18.7% during Q4FY22. This was aided by controlled other costs and usage of low cost fuel inventory backed by improved sales volumes during the quarter. The industry utilisation levels improved to 86% vs. 75% in Q3 that aided in the fixed cost rationalisation leading to improvement in the margins. However, pricing environment remained muted due to increased competition intensity
- On the bottomline front, sequential growth at the index level was driven by capital goods domain (operating leverage benefits amid increase in sales), autos space (most OEMs surprised on gross margin front with successful price hikes undertaken to counter RM costs inflation) and power sector. The performance was muted in the pharmaceuticals space primarily driven by pricing pressure in international markets and higher raw material as well as freight costs.

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

	Mar-22	Mar-21	Dec-21	YoY change (%)	QoQ change (%)
Auto	5,828	10,907	4,103	-46.6	42.1
Capital goods	3,621	3,293	2,055	10.0	76.2
FMCG	7,692	6,962	7,557	10.5	1.8
IT	23,798	19,478	23,358	22.2	1.9
Metals	24,275	17,357	22,163	39.9	9.5
Oil & Gas	29,556	26,953	32,286	9.7	-8.5
Pharma	3,255	2,984	4,627	9.1	-29.7
Power	9,323	8,068	7,792	15.6	19.7
Others	11,826	8,815	9,193	34.2	28.6
Aggregate	**1,19,173**	**1,04,816**	**1,13,133**	**13.7**	**5.3**

Source: Capitaline, ICICI Direct Research

Key sectoral share in index PAT (%)

Sector	Mar-22	Mar-21	Dec-21
Auto	4.9	10.4	3.6
Capital goods	3.0	3.1	1.8
FMCG	6.5	6.6	6.7
IT	20.0	18.6	20.6
Metals	20.4	16.6	19.6
Oil & Gas	24.8	25.7	28.5
Pharma	2.7	2.8	4.1
Power	7.8	7.7	6.9
Others	9.9	8.4	8.1
Total	100.0	100.0	100.0

Source: Capitaline, ICICI Direct Research

- In pharma space, domestic branded formulations continued to drive overall growth due to 1) traction in Covid related sales during omicron wave, 2) normalisation in non-Covid sales in March, 3) MR activity back to pre-Covid levels. The domestic momentum, however, was neutralised by US business that continued to face unprecedented pricing pressure.

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 (Q4FY22)

Company	Q4FY22 Result	Quarterly Performance & Outlook	CMP (₹)	Target	Last Rating	Potential Upside
Automotive Axles	Positive	Automotive Axles is the largest independent manufacturer of rear axle drive assemblies in India (primarily for CVs; M&HCV). Its prominent clients include Ashok Leyland, VECV, M&M among others. It is a pure play beneficiary of the current cyclical recovery in the domestic CV space, especially in the M&HCV domain. Its recent quarterly results were encouraging, with total revenues for Q4FY22 coming in at ₹ 552 crore, up 48% QoQ. EBITDA in Q4FY22 was at ₹ 62 crore with margins at 11.2%, up 190 bps QoQ. PAT for the quarter was at ₹ 39 crore, nearly 2x on QoQ basis. Notably, it expects domestic M&HCV segment to witness volume growth of ~30% in FY23E. Building in the positives, we expect sales, PAT to grow at a CAGR of 25%, 48%., respectively, in FY22-24E with RoCE seen at ~25% in FY24E. We assign BUY rating to the stock valuing it at ₹ 2,140 i.e. 20x P/E on FY24E	1665	2140	Buy	29
Bandhan Bank	Positive	Bandhan Bank posted a sharp improvement in asset quality with 435 bps QoQ decline in GNPA to 6.5%. Strong show on asset quality reflected positively on other parameters like NIMs, credit cost and ultimately the bottom-line. Advance growth, along with asset quality, remained healthy at 14.1% YoY. NII was up 44.6% YoY helped by 90 bps QoQ uptick in NIMs to 8.7% and, with credit cost at mere ₹4.7 crore helped improve PAT by 103% YoY to ₹1902 crore. Guidance on loan growth with increasing focus on secured book and recovery from stressed accounts is encouraging in next fiscal. Thus, we believe NPA issues have bottomed out and remain positive on the stock with a target price of ₹ 365, valuing the stock at ~2.6x FY24E ABV for an expected RoA of ~2% in FY24E	318	365	Buy	15
Bharat Electronics	Positive	BEL reported a better-than-expected operational performance in Q4FY22 (on lower-than-expected others cost). Revenue declined 8.4% YoY (+71% QoQ) to ₹ 6324.9 crore. EBITDA declined 20.4% YoY (+90.7% QoQ) to ₹ 1567.8 crore, better than estimate as EBITDA margin of 24.8% (-374 bps YoY) was about 235 bps higher than estimate. Subsequently, PAT was at ₹ 1141.8 crore (-15.6% YoY, +95.7% QoQ). FY22 revenue & PAT grew 8.9%, 13.7% to ₹ 15,313.7 crore & ₹ 2,348.9 crore, respectively. Going forward, we expect healthy order inflows, pick-up in execution of large order backlog, sustained margins to drive EBITDA, PAT at ~14%, ~12% CAGR (FY22-24E), respectively. Strategy to diversify into non-defence areas, focus on increasing exports and services share would aid long term growth and help de-risk its business. We remain long term positive on BEL and maintain BUY with a TP of ₹ 290 (based on 24x P/E on FY24E EPS)	242	290	Buy	20
Kotak Mahindra Bank	Positive	Kotak Mahindra Bank reported a healthy performance in Q4FY22 led by 21.3% YoY growth in advances and margin expansion. Credit cost reversal led 64.5% YoY surge in PAT at ₹ 2767 crore. Asset quality continued to remain buoyant as GNPA, NNPA declined 37 bps, 15 bps QoQ to 2.34%, 0.64%, respectively. R/s book fell 10 bps to 0.44%. Reversal of cautious stance and pedalling credit growth with risk adjusted return in focus remain positive for business momentum ahead. Expect ~21% CAGR in advances in FY22-24E. Increased proportion of unsecured portfolio to help yields though mobilisation of liabilities at a faster pace to safeguard margins need to seen. Overall, we remain positive thereby valuing standalone bank at ~3.6x FY24E ABV & subsidiaries at ~₹ 485 post holding company discount giving SOTP target of ₹ 2150 with a BUY rating on the stock	1860	2150	Buy	16
Tata Motors	Positive	Tata Motors' Q4FY22 results were a beat on our estimates. The key positive surprise was 220 bps sequential jump in EBITDA margins at 14.7%, largely attributable to operational outperformance at all the key divisions namely India CV, PV as well as overseas JLR. Notably, it also guided for reducing net automotive debt (~₹48,700 crore) to near zero levels by FY24E through internal FCF generation & sale of non core assets. We like Tata Motors for its continued EV alertness in India through concepts & real launches (PV market leader with Nexon; plans to introduce 10 models by 2025) and JLR (Jaguar all-electric by 2025; 6 BEVs in Land Rover in next five years). Going forward, on the back of healthy demand prospects and strong order book, we expect healthy 13.2% revenue CAGR over FY22-24E backed by 15.8% total volume CAGR. Margins are seen at 14.3% in FY24E along with RoCE at ~13.7%. We retain BUY rating with an SoTP based revised target price of ₹ 500/share	432	500	Buy	16

Source: ICICI Direct Research

The above companies posted a strong set of earnings in Q4FY22, which we believe are more fundamental and sustainable in nature.

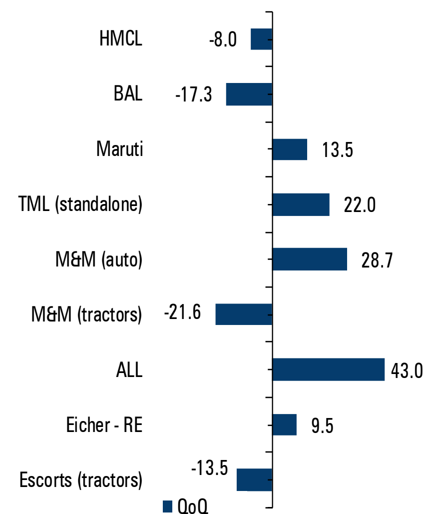
Sector specific takeaways from the quarter

Auto & auto ancillary

- Q4FY22 marked the resurgence of margin profile and earnings for the auto space led by double digit QoQ volume growth in the CV & PV space, gross margin expansion for most OEMs amid calibrated price hikes undertaken to pass on the raw material costs inflation and operating leverage gains amid increase in volumes and consequent topline. Margin performance was particularly strong at Maruti Suzuki (9.1%, up 240 bps QoQ) and Ashok Leyland (8.9%, up 490 bps QoQ), which clearly outperformed the OEM pack. On aggregate basis, I-direct auto and ancillary coverage universe revenues were up 9.4% QoQ vs. our estimates of 7.2% with EBITDA margins on blended basis at ~13.2% vs. our estimates of ~11%. PAT growth, however, was much ahead of estimates at 54% QoQ vs. estimated growth of 3.6% primarily tacking margin expansion (both gross margins & o/p leverage benefits)
- In auto OEM space, 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 9.1% vs estimate of 7.4%. Management guided for strong order book as on FY22 end and exciting new launches in UV space to recapture lost market share. Tata Motors' Q4FY22 results were also a handsome beat on our estimates especially on the margins front. The key positive surprise was 220 bps QoQ jump in EBITDA margins at 14.7%, largely attributable to operational outperformance at all the key divisions namely India CV, PV as well as JLR. Notably, it guided for reducing net automotive debt (~₹ 48,700 crore) to near zero levels by FY24E through internal FCF generation & sale of non core assets. For M&M, Q4FY22 results were healthy, with key takeaway being large pending order book of ~1.78 lakhs units (March 2022) with ~50% of it being constituted by its flagship new launch i.e. XUV 700. The management increased capex guidance and further strengthening of portfolio via new launches, including EV
- Ashok Leyland reported healthy performance in Q4FY22 with EBITDA margins at 8.9% wherein gross margin decline was limited to 30 bps QoQ but significant operating leverage benefits supported the margin increase. ASPs for the quarter came in ahead of estimates amid increased share of M&HCV volumes in the total sales volume mix. Further, the management remained focused on gaining market share through its new range of CNG portfolio and EV's (through subsidiary)
- In 2-W space, demand prospects continued to remain muted (volumes down on QoQ basis) amid steep rise in ASPs (regulatory driven + RM costs inflation pass through), which was further aggravated by sharp rise in fuel prices. Eicher Motors led the 2-W pack with only OEM reporting QoQ volume increase whereas peers reported a sequential decline. For Hero MotoCorp, total 2-W sales volume for the quarter was at 11.9 lakh units, down 8% QoQ. The positive was, however, on 2.3% sequential rise in ASPs at ₹ 62,426/units backed by commodity led price hikes and increased share of spare parts (~15% of total revenue). Bajaj Auto reported robust performance in Q4FY22 with EBITDA margins coming in at 17.1% (up 190 bps QoQ). Surprise was in rise in ASP, which were up 6.2% QoQ at ₹ 79,129 primarily led by higher exports share in sales mix
- Going forward, with gradual easing of supply side issue, revival in private as well public capex cycle and expectation of normal monsoons 2022, we expect sales volume to improve across categories going forward. Commentary on raw materials was a mixed bag but is expected to be a tad soft in the near term led by the recent action by the government to ban export of steel and consequently increase domestic supply. Retail volumes as tracked by Vahan database also point to smart recovery at ~94% of pre-Covid levels for May 2022. Total retail volumes for May 2022 totalled 16.5 lakh units, highest in the past six months

For Q4FY22, total industry sales were at ~60 lakh units (flat QoQ), with domestic dispatches declining 1% QoQ to 46 lakh units and exports being largely flat QoQ at 14 lakh units. Domestic PV volumes rose 21% QoQ to 9.2 lakh units (UV up 19% QoQ. Passenger cars up 25% QoQ); 2-W volumes declined 7% QoQ to 33.5 lakh units (motorcycles down 10%, scooters up 3%). Domestic CV volumes increased 28.3% QoQ to 2.5 lakh units (M&HCV up 47%, LCV up 19.2%) while 3-W volumes grew 1% to 0.83 lakh units (seeng recovery of volumes on goods carrier side)

Key player's volume growth – Q4FY22 (%)



Source: Company, SIAM, ICICI Direct Research

Escorts' performance was ahead of our estimates. Management indicated that mid-term growth plan will be announced in Q2FY23 with combined efforts from Escorts as well as Kubota team

In tyre space, Balkrishna Industries reported a mixed performance with sales volume coming much ahead of our expectations while EBITDA margins came in muted at 21% down 80 bps QoQ, primarily tracking higher freight charges

Apollo Tyres reported muted numbers for the quarter with EBITDA margins at 11.2% down 180 bps QoQ amid gross margin decline by 20 bps QoQ. Consolidated performance was muted largely due to European operations. On a standalone basis gross margin expanded 40 bps QoQ, outperforming its listed Indian peers (which reported QoQ decline)

Minda Industries reported healthy Q4FY22 results. Consolidated revenues were up 10.7% QoQ. EBITDA margins for the quarter came in at 11.4%, up 60 bps QoQ. Consolidated PAT in Q4FY22 was at ₹ 144.4 crore up 42.5% QoQ.

Bharat Forge reported stable numbers. EBITDA margins for the quarter were at 25.8%, up 30 bps QoQ amid gross margin decline of 150 bps QoQ. Management guided about new order wins of ~₹ 1000 crore of which ~50% is for EV related components

Banking sector

- The banking sector witnessed an improved performance in Q4FY22 on various parameters like credit growth, asset quality and profitability. Though initial few weeks of the quarter were influenced by the third wave of the pandemic since intensity this time was less, business activities including recoveries, disbursement witnessed marginal impact
- On an overall basis, asset quality saw improvement as healthy recoveries and less slippages helped. GNPA ratio for banks in our coverage declined in the range of 10-70 bps with average drop being at ~40 bps. Even on absolute basis, GNPA fell ~3% QoQ, 11% YoY for banking sector. Provision coverage ratio (cover against NPA) has inched up 150 bps QoQ to ~72%. Restructured book also declined by an average of 25 bps QoQ thus indicating overall reduction in stress. Kotak Mahindra Bank saw highest reduction in GNPA at 37 bps QoQ among private peers in our coverage

Bandhan Bank witnessed significant improvement in asset quality as GNPA declines 435 bps QoQ to 6.46%

- In the PSU space, SBI continued to maintain its healthy run on the asset quality front as GNPA was down 42 bps while restructuring also declined 10 bps QoQ. We believe general asset quality should improve from here on. Also, anagement commentaries have indicated at lower credit cost guidance, which points to lesser stress formation
- Despite few weeks of hiccups due to pandemic, rest of the quarter saw upsurge in business activities and loan growth for the quarter came in at 8.7% YoY & 4.6% QoQ to ₹ 111 lakh crore. Private banks have clearly outperformed their PSU counterparts growing by 15% YoY & 6% QoQ
- Sectoral data shows that retail segment was up 12.4% YoY and agri credit jumped 10% YoY. Large corporate credit, which had been a drag on overall banking credit growth has started to enter positive territory from previous quarter and now it was up 1% YoY. Management commentaries and data have indicated that working capital limits have seen better utilisation and thus aid credit-offtake in this segment

HDFC bank's credit growth was ahead of peers at 8.6% QoQ

- NII grew at a healthy pace of 17% YoY but only 1% QoQ due to relatively higher pace of deposit accretion and increasing competitive intensity in secured lending segment. Overall margins remain steady with some deviations among peers. Kotak, IDFC First and Indusind saw NIM expansion while HDFC Bank and Axis Bank witnessed slight contraction. Other income was down 19% YoY as treasury income was impacted due to hardening of yield (especially for PSU banks), but sequentially due to better loan growth fee income saw some spike
- C/I ratio declined 60 bps QoQ from 49.6% to 49% QoQ mainly on account of better growth in topline and control over opex
- Credit cost (provisions) for the quarter declined YoY due to better asset quality performance but sequentially it was slightly up by ~8% as few large banks took additional provisions to strengthen balance sheet while some opted to write-off bad loans. Large banks like HDFC Bank, Axis Bank, SBI have maintained/added to their provision buffers. Thus, on yearly basis net profit was up 85% to ₹ 45837 crore helped by better NII growth and lower credit costs
- Overall this quarter saw healthy business momentum continuing from last quarter and also improvement in asset quality especially in MFI segment. HDFC Bank outperformed its comparable peers on growth front, while Kotak and IDFC First also posted a strong loan trajectory
- We believe next fiscal i.e. FY23 will be a year of normalisation, especially when it comes to credit cost that swings profitability to extremes. Credit growth should also improve as government's thrust on capex in recent budget would drive corporate credit demand, though impact of rising interest rates is to be watched. We also opine that most asset quality issues are behind us, unless pandemic resurges in a big way

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

(₹ crore)	Q4FY22	Q3FY22	Q2FY22	Q1FY22	Q4FY21
NII	135379	134454	127332	122258	116098
Growth YoY	**16.6**	**9.6**	**6.3**	**0.6**	**3.7**
Other income	54439	50257	52771	55737	67232
Growth YoY	-19.0	-4.4	16.2	26.2	16.0
Total operating exp.	93068	91564	94774	81071	88022
Staff cost	41972	44064	43802	42665	41919
Operating profit	96750	93147	85328	96924	95309
Growth YoY	1.5	-0.6	-3.5	4.6	15.1
Provision	36158	33553	34379	54543	61559
PBT	60593	59595	50949	42422	33751
PAT	45837	43698	43462	31155	24748
Growth YoY	85.2	52.4	61.4	44.2	NM
GNPA	688913	711406	741765	778716	776133
Growth YoY	**-11.2**	**0.3**	**-2.6**	**0.2**	**-3.9**
NNPA	190612	207756	225217	243520	239114
Growth YoY	**-20.3**	**25.2**	**11.8**	**2.5**	**-7.9**
Advances (Lakh crore)	111.4	106.6	99.9	98.6	102.5
Deposits (Lakh crore)	155.1	147.5	144.3	141.2	141.0

Source: Capitaline, ICICI Direct Research

Multi quarter high NII growth due to improved loan traction

Exhibit 9: Financial summary of banking industry (Public)

(₹ Crore)	Q4FY22	Q3FY22	Q2FY22	Q1FY22	Q4FY21
NII	76,653	77,383	73,584	70,562	65,926
Growth YoY (%)	**16.3**	**6.9**	**2.9**	**0.8**	**-0.3**
Other income	30,553	26,508	29,803	34,026	43,059
Growth YoY (%)	**-29.0**	**-10.0**	**16.8**	**33.8**	**18.3**
Total operating exp.	54,932	54,387	60,363	50,124	55,221
Staff cost	29,194	31,290	31,546	31,032	31,151
Operating profit	52,273	49,504	43,025	54,463	53,764
Growth YoY (%)	**-2.8**	**-3.0**	**-10.4**	**12.3**	**25.9**
Provision	27,962	23,439	21,104	34,504	39,626
PBT	24,617	26,372	22,018	20,293	14,308
PAT	18,455	18,777	21,846	14,289	9,859
Growth YoY	**87.2**	**147.1**	**134.9**	**114.0**	**NM**
GNPA	5,62,214	5,78,060	6,01,278	6,32,026	6,36,504
Growth YoY	**-11.7**	**-3.3**	**-5.0**	**-5.0**	**-4.8**
NNPA	1,53,664	1,66,849	1,81,475	1,95,845	1,94,393
Growth YoY	**-21.0**	**16.6**	**4.9**	**-4.4**	**-11.1**
Advances (Lakh crore)	70.2	67.8	63.2	63.0	66.9
Deposits (Lakh crore)	106.8	101.9	100.2	99.0	98.9

Source: Capitaline, ICICI Direct Research

Credit cost decline on YoY basis as banks witness overall reduction in stress

Exhibit 10: Financial summary of banking industry (private)

(₹ Crore)	Q4FY22	Q3FY22	Q2FY22	Q1FY22	Q4FY21
NII	58,726	57,072	53,747	51,696	50,172
Growth YoY	**17**	**14**	**11**	**0**	**9**
Other income	23,886	23,749	22,968	21,711	24,173
Growth YoY	**-1.2**	**2.6**	**15.6**	**15.8**	**12.1**
Total operating exp.	38,135	37,177	34,412	30,947	32,801
Staff cost	12,778	12,774	12,256	11,633	10,768
Operating profit	44,477	43,643	42,303	42,461	41,545
Growth YoY	**7.1**	**2.3**	**4.5**	**-3.8**	**3.7**
Provision	8,196	10,114	13,275	20,039	21,933
PBT	36,281	33,529	29,029	22,463	19,611
PAT	27,683	25,221	21,834	17,040	15,049
Growth YoY	**83.9**	**34.9**	**24.7**	**15.0**	**166.9**
GNPA	1,36,334	1,42,983	1,50,310	1,55,745	1,48,962
Growth YoY	**-8.5**	**19.3**	**9.4**	**29.0**	**0.6**
NNPA	38,721	42,681	46,029	49,882	47,183
Growth YoY	**-17.9**	**74.1**	**40.4**	**34.8**	**3.2**
Advances (Lakh crore)	41.8	39.4	37.3	36.3	36.3
Deposits (Lakh crore)	49.3	46.6	45.1	43.2	43.0

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 challenges. While supply chain disruptions, higher freight cost and higher commodity prices continues to impact margins. Revenue for coverage our universe grew 17.4% YoY while EBITDA de-grew marginally by 0.4%, YoY on account of higher input and freight costs. Consequently adjusted PAT grew 6.7%, YoY partly aided by positive operating leverage, other income and base effect
- L&T reported strong execution pick up in infrastructure segment, adjusted standalone revenue [including hydrocarbon business (merged from now on in standalone)] increased 25.8% YoY to ₹ 37439 crore, while standalone EBITDA grew 7.8% YoY to ₹ 3870 crore with margins dipping 170 bps to 10.3% on a YoY basis owing to higher other expense, employee cost. However, L&T's consolidated revenue grew 10% YoY aided by better performance of subsidiaries. On the defence front, Bharat Electronics reported in line numbers. Revenue, EBITDA, PAT de-grew 8.4%, 20.4%, 15.6% YoY, respectively
- On the order inflow front, L&T registered decent order inflows worth ₹ 73900 crore, up 46% YoY, led by EPC orders won in infra segment. Bharat Electronics order inflows came in at ~₹ 7200 crore. In T&D space, KEC international YTD received highest ever orders worth ₹ 17203 crore. Thermax' consolidated order inflow came in at ₹ 3396 crore (up 127% YoY) owing to broad based recovery of orders in key sectors

Power T&D company KEC reported a weak performance impacted by the continued headwinds on account of elevated raw material costs and slower execution leading to revenue, EBITDA, PAT de-grew 2%, 29%, and 42.3%, respectively. Thermax reported a mixed Q4 performance on the back of better execution led by environment segment. With consolidated revenue up 26.5% while EBITDA margins of 6.8% 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 MNC space, Siemens reported a strong order inflow in Q2FY22 (*September ending) at ₹ 5339 crore, registering growth of 61.3% YoY, led by all business segments. On revenue and EBITDA front Siemens reported consolidated revenue at ₹ 3955 crore, up 13.5% YoY, and EBITDA at ₹ 485 grew 5.9% YoY, with 12.3% margins owing to cost pressures and higher commodity prices. PAT came in at ₹ 340 crore, up 5.6% YoY. At the same time ABB reported strong performance in Q1CY2022 (*December ending). Revenue came in at ₹ 1968 crore, up 20.8% YoY amid strong execution, EBITDA came in at ₹ 188 crore up 42% YoY, with margins of 9.5%, product mix aligned with growth market segments that helped to improve margins. Consequently, PAT came in at ₹ 370 crore, up 161.8% on YoY basis owing to better capacity utilisation and revenue mix provided a major step-up in profitability. ABB's order inflows for Q1CY22 came in strong at ~₹ 2291 crore, up 26% YoY

Other product companies like Elgi reported strong performance (consolidated revenue and EBITDA grew by 19.2 and 34.1%, respectively) led by better demand revival in domestic market and robust exports despite challenges. AIA Engineering reported strong volumes with revenue, EBITDA growth of 27.1%, -33.2% YoY, while margins improved with the help of gross margins. While Greaves Cottons reported a decent Q4 amid supply disruptions, higher commodity prices, sees strong growth in e-mobility business going forward. Consequently, revenue and EBITDA de-grew by 17.1% and 38.5% respectively

- In the bearing space, companies posted a good set of numbers both QoQ and YoY, due to decent performance in auto (CV & PV) and industrial segment. Further, margins were in-line due to passing on rising commodity costs onto customers. Overall, revenue, EBIDTA & PAT for our bearings coverage (NRB, SKF, Timken) grew 14.9%, 43.4% & 41.4% on a QoQ basis, respectively. On the whole, the bearings space witnessed revenue growth of 24.2%, whereas EBITDA & PAT grew 35.6% & 29.1% on YoY basis, respectively
- As companies almost resumed to pre-pandemic levels amid demand and execution coming back to normal, we expect Q1FY23E to see normalised topline performance, though higher commodity price impact likely to continue. 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 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

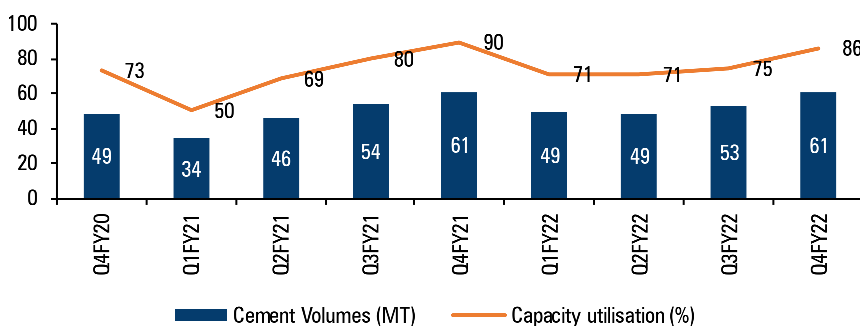
Cement: Controlled costs along with usage of low cost fuel inventory leads to sequential uptick in margins!

- In the backdrop of higher fuel cost environment and freight charges, the industry witnessed sequential margin expansion of 161 bps to 18.7% during Q4FY22. This was aided by controlled other costs and usage of low cost fuel inventory backed by improved sales volumes during the quarter. The industry utilisation levels improved to 86% vs. 75% in Q3 that aided in the fixed cost rationalisation leading to improvement in the margins. However, the pricing environment remained muted due to increased competition intensity
- I-direct universe reported sales volume growth of 15.7% QoQ to ~61 MT (flat YoY on high base) with reported capacity utilisation of 86% (vs. 90% in Q4FY21 and 75% in Q3FY22). Sharpest volume growth was posted by Sagar Cement (up 51.7% QoQ) led by capacity expansion. Average sales volume of pan India players like Ultratech and ACC were up 13.7% QoQ while players like Shree Cement, JK Cement and JK Lakshmi reporting average volume growth 22% QoQ. Ramco Cements remained a laggard with the company reporting volume growth of 4% sequentially
- I-direct cement universe reported broadly flat realisations QoQ. Most companies mentioned pressure on realisation on account of increased competitive intensity. The industry did take price hikes in March-April 2022 but has also seen substantial rollbacks in prices thereafter
- The international fuel prices still remain at elevated levels. Now, with exhaustion of low cost fuel inventories by majority of players, the cost of production for Q1FY22E is expected to inch-up sharply by ~7-8% (i.e. ₹ 350-380/t). However, some respite from central government via excise cut on diesel along with the further cement price hikes of ₹ 25-30/bag (average hike of 2-3%) in Q1FY23 should help cement companies mitigate incremental cost pressure partially. Overall, we believe the next two quarters will remain challenging for industry as it will battle both weak demand (owing to monsoon) & heightened costs. Key trigger to watch would be quantum of price hikes & its durability, going forward

In terms of regions, demand in the eastern and southern region especially in AP/Telangana improved sharply due to low base of Q3FY22 as it witnessed softer demand due to unseasonal rains while demand in all other regions like northern, central and western continued to stay healthy

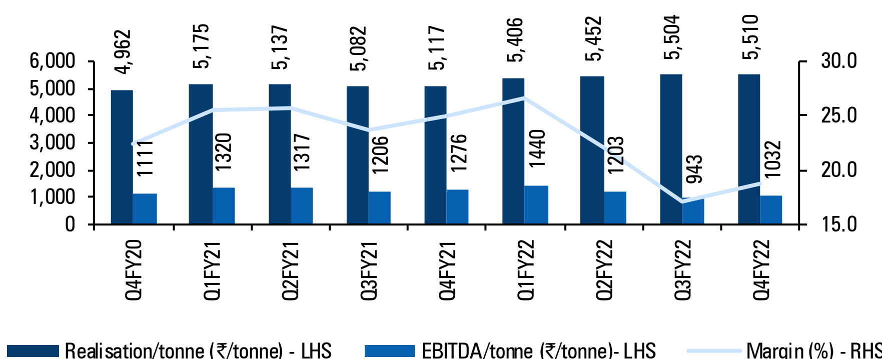
Revenues for I-direct coverage universe increased by 7.5% YoY to ₹ 33,595 crore with highest revenue growth reported by Sagar Cement (up 20.1% YoY) led by capacity addition. While average realisations increased 7.7% YoY, total cost increased sharply by 16.6% YoY on per tonne basis due to sharp spike in the international fuel prices. ***This led to 19.1% YoY drop in the EBITDA/tonne to ₹ 1032/tonne*** *for our coverage universe. However, it improved sequentially due to controlled other costs along with usage of low cost inventories*

Exhibit 11: Cement volumes and capacity trend



Source: Company, ICICI Direct Research

Exhibit 12: Realisation & margin trend



Source: Company, ICICI Direct Research

Chemicals

- There was a surge in the crude prices by more than ~40% during Q4FY22 leading to upsurge in the most input costs. This, along with higher power & logistic cost led to persistence of key apprehensions on the operational performance of most of chemical companies. Despite all the above disquiet, our coverage universe reported s strong set of numbers with revenues growing 31.6% YoY to ₹ 13305 crore, while EBITDA and PAT jumped by 51.2% YoY & 77% YoY to ₹ 2767 crore and ₹ 1746 crore respectively. Topline growth was largely led by better realisations, while operational performance was driven on the back of better product mix and operating leverage

Key trends (company Specific):

- **SRF:** Strong growth in the chemical segment led stellar performance for the quarter. The chemical business performance was aided by better ref gas prices along with continued robust growth in the speciality chemical. Topline grew 36% YoY to ₹ 3549.4 crore. Better product mix led improvement in the OPM by 200 bps YoY to 26.7%
- **Navin Fluorine:** The growth for the quarter was outlined by decent performance from all segments such as speciality chemical, CRAMS, refrigerants and inorganic fluoride. The revenue grew 21.6% YoY to ₹ 409 crore. Higher other cost mainly logistic impacted operational performance for the quarter, which was down 200 bps YoY to 23%
- **PI Industries:** Domestic formulation business rebounded during the quarter on the back of strong growth in the wheat herbicide (Awikra). The CSM maintained its growth momentum on the back of strong order backlog of US$1.4 billion. Topline registered growth of ₹ 1395.2 crore. Better product mix led GPM improvement of 200bps YoY to 44.1%, which led OPM expansion of 290 bps YoY to 21.9%
- **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 (+24% YoY) to ₹ 665.1 crore. Gross margins were up 196 bps YoY to 38.1%, while OPM expanded by 300 bps YoY to 16.4% due to absorption of fixed overheads
- **Neogen Chemical:** Strong growth from both segments such as organic chemical and inorganic chemical led performance for Neogen last quarter. The growth from organic chemical was led due to phase 1 unit at Dahej came into stream, while inorganic chemical was largely led by mix of both volumes and realisations growth. Revenue grew 69.2% YoY to ₹ 156.8 crore. Lag in passing on lithium carbonate cost impacted GPM by 100 bps YoY to 42.5%, while OPM declined 300 bps YoY to 17% owing to higher other operating cost
- **Rallis India:** Better sales from domestic market arrested poor performance from international market. The revenue from domestic business was up 23% YoY to ₹ 294 crore while international business witnessed a decline of 8% YoY to ₹ 213 crore owing to shortage of RM for one molecule leading to poor sales. In terms of OPM, higher RMAT cost and lag in passing affected GPM by 663 bps YoY to 34.8%, leading operational performance to remain in a loss
- **Tata Chemical:** Higher soda ash realisation led strong growth for the basic chemical segment. Moreover, rebound in the export volume for TCNA led strong performance for North America unit. Topline growth was at 32% YoY to ₹ 3481 crore. Gross margins improved 80 bps YoY to 79.8% while OPM expanded 816 bps YoY to 18.9% due to operating leverage.

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

Sudarshan Chemical: *Poor volume growth due to slower demand offtake in the end user industry affected topline growth. The revenue growth was 8.8% YoY to ₹ 627.2 crore. Moreover, higher input cost and lag in passing affected GPM for the quarter, which was down 120 bps YoY to 40.8%. OPM contracted 150 bps YoY to 13.7%*

Vinati Organics: *Since key RMAT prices are ruling at higher levels, passing on input inflation led to better realisation growth for key segments. Apart from this, better volume growth owing to gaining market share in the segment such as butyl phenols along with higher demand of ATBS supported growth for the segment. Moreover, a revival in demand for IBB also drove growth, to some extent, for the quarter. ATBS revenue growth was higher by ~25-30% YoY while the same from IBB increased around 30% YoY. This led overall revenue growth of 74% YoY to ₹ 486.1 crore. GPM fell by 287 bps QoQ to 46.1%, while OPM remained higher by 341 bps QoQ to 28.6%*

Astec Lifesciences: *Commencement of herbicide plant led strong growth for the quarter. Topline grew 58% YoY to ₹ 272 crore. Favourable product mix along with better realisations improved gross margins by 81 bps YoY to 39.6%, which led an improvement in the operational performance by 190 bps YoY to 24.1%*

Consumer Durables

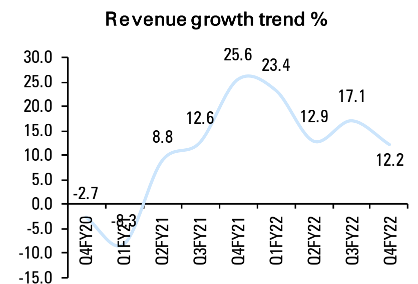
- I-direct consumer discretionary universe reported better-than-expected growth in revenues at ~15% YoY in Q4FY22, despite being on a higher base (+41% YoY in Q4FY21) and pandemic led supply disruptions
- On the electrical goods front, Havells and V-Guard outperformed with revenue growth of ~33% and 24% YoY, respectively, led by strong growth in cooling products and launch of new products. Among paint companies, market leader Asian Paints continued its market share gains with volume growth of 8% YoY in Q4FY22. On the other hand, Kansai Nerolac and Berger Paints reported volume decline of ~4-5%
- Within the pipe coverage, both- Supreme Industries and Astral reported a strong revenue growth of ~23% each in Q4FY22 on a mix of volume growth and higher realisations. The I-direct coverage universe has reported three-year revenue CAGR of 16% led by fast moving electrical goods (FMEGs), paint and pipes companies. We believe price hike and revival in the real estate industry were key revenue growth drivers
- On the margin front, companies reported ~323 bps YoY EBITDA margin contraction in Q4FY22, dragged by higher raw material prices and delay in price hikes. In order to offset, higher RM cost inflation, companies are planning further price hike of ~5% in Q1FY23 (of which paint companies have taken hike of ~2-3% already). We believe sharp price hikes (~5% in Q1FY23 in addition to 21% price hike in FY22) can lead to a risk of down-trading, which can slow-down gross margin recovery

Going forward we believe, robust real estate sales, increased government capex and better monsoon will be the key demand drivers for our coverage universe.

FMCG

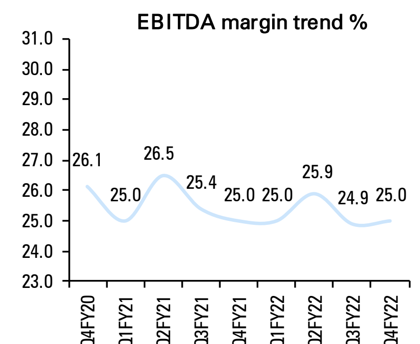
- FMCG Industry saw 6% growth (according to NilsenIQ) in Q4FY22 led by double digit pricing growth & volume decline. Our coverage universe witnessed revenue growth of 12.2% almost entirely led by pricing growth. Volume growth was only strong for Varun Beverage & ITC cigarettes business. HUL, Dabur, Marico, Tata Consumer, Nestlé & Jyothy Lab saw flattish volume growth (0-4%) during the quarter on account of dismal demand conditions. Colgate saw volume de-growth of 3-4%. The volume de-growth for FMCG companies was adversely impacted by muted volumes in rural regions given high inflation has negatively impacted real income levels, which, in turn, resulted in down-trading or shift towards regional/mass brands. Moreover, grammage reduction & introduction of bridge packs have also been adversely impacting volumes. FMCG companies have taken 5-15% price hike in last one year to pass on the huge commodity inflation. Some of the essential categories saw tapering down of the growth from high base of last year
- Similarly, discretionary & out of home categories saw strong growth with normalisation of mobility. Carbonated drinks, juices & nectars witnessed strong growth on account of early onset of monsoons & low base last year. This has been reflected in 18.7% volume growth for Varun beverages & 35% growth in Juices for Dabur. Cigarette category volumes have surpassed pre-Covid levels (our estimate 105% of pre Covid levels). ITC saw 9% volume growth in cigarettes in Q4. Moreover, it has gained market share during the quarter with aggressive promotions & launch of newer brands & variants. On the other hand, VST saw 5% volume decline and loss of market share. The new product launch slowed down in last six months given FMCG companies have cut down advertisement spends to support/maintain operating margins. FMCG companies continue to focus on expansion of direct distribution network, ecommerce channel & rural reach for long term growth
- Commodity inflation continues to remain at an elevated level in Q4 as well despite FMCG companies having taken aggressive price increase in last six to eight months. Crude, palm oil, wheat prices have inched up even on QoQ basis specially after the Russia-Ukraine war broke out in February 2022. Milk, rice bran oil, prices have remained elevated

Trend in revenue growth (YoY %)



Source: Company, ICICI Direct Research

Trend in EBITDA margins (%)



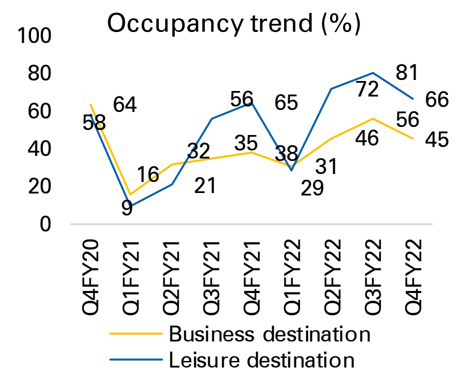
Source: Company, ICICI Direct Research

- However, copra & tea prices have cooled off, to a certain extent. Our coverage universe FMCG companies saw 130 bps contraction in gross margins. The biggest dip in gross margins were seen for Jyothy Lab (501 bps), Varun Beverages (427 bps), HUL (301 bps) & Nestlé (313 bps)
- ITC saw a small (56 bps) gross margin contraction given increase in sales of high margins stationary business offset margin pressure in other categories. Marico's gross margins remained stable (33 bps up) during the quarter given copra prices have cooled off and the company has taken aggressive price hike in last one year. Tata Consumer witnessed a 539 bps expansion in gross margins given tea prices have cooled off from a very high base of last year. Most FMCG companies resort to cut in advertisement & overhead spends to protect operating margins. Our coverage universe operating margins inched up by 16 bps aided by margin expansion for ITC, Tata Consumer & Varun Beverages
- High commodity inflation has adversely impacted volume growth given most of the rural consumers have been resorting to down trading to low unit packs (LUP) and economy brands. Further, grammage reduction by companies has also adversely impacted volumes
- Inflation in crude based derivatives, edible oils, milk remained high. This would continue to pressurise gross margins as well as volumes at least in near term. We believe revenue growth in the near term (two quarters) would be contributed by pricing growth only. Though agri commodities have also started witnessing inflation, companies with high proportion of imported commodities in raw material basket would continue to see pressure on gross margins. We remain cautious on FMCG volume growth in next few quarters

Hotels: Omicron leads to demand disruption in Q4; outlook stays strong…

- After passing through initial hiccups in the first 20 days of Q4 due to the omicron fuelled third wave, the industry witnessed a sharp recovery in demand aided by leisure/transient travel, wedding season as well as pick-up in the business travel. As per the DGCA data, domestic air traffic declined ~27% sequentially in the first two months due to restrictions. However, it improved significantly by 46% MoM in the March 2022 with full resumption of economy. Overall, the average revenue of I-direct universe declined 19.9% QoQ to ₹ 1257 crore for the quarter while it improved 40% on YoY basis (i.e. at 70% of pre-Covid levels)
- A majority of the hotel industry's costs are 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 sharp EBITDA contraction of 55% QoQ to ₹ 202 crore due to fall in revenues. Reported margins came in at 16% vs 28.9% in Q3 and 8.1% reported last year
- The forward hotel booking data now suggests strong buoyancy in the demand with hotel booking for April-May period crossing the pre-pandemic levels led by wedding season, vacations, and IPL matches. Also opening of international borders for foreign tourists from March 27, 2022 onwards would further fuel the growth from H1FY23E onwards. In terms of rooms supply, we expect launch of new hotel projects to get delayed due to higher land and input costs that would augur well for the existing branded players. Further, hotel players are now leaner in terms of costs that are sustainable in nature

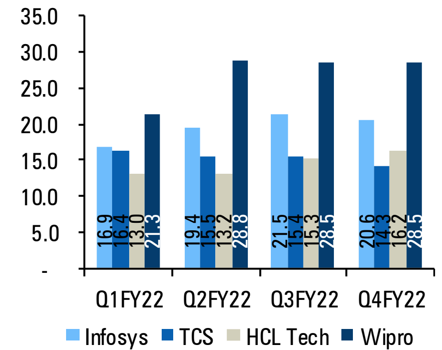
Occupancy trend (%)



Information Technology

- IT companies saw some moderation in revenues in Q4 in CC terms after witnessing strong growth in Q3. Tier I companies reported average constant currency growth of 19.9% on YoY basis. Tier II companies posted even stronger CC growth at an average of 30.0% on YoY basis. The margins continue to be under pressure for both Tier I & Tier II companies amid supply side challenges. Tier I companies reported margin swing of -10 to -189 bps QoQ. Tier II companies reported EBIT margin contraction of 33 to 160 bps QoQ barring Coforge. LTM attrition continued to be high. The hiring trend continues to be strong amid high attrition with higher fresher hirings by all companies
- **Strong revenue growth:** TCS reported 2.6% QoQ, 11.8% YoY dollar revenue growth while in CC terms, it grew 14.3% YoY. Growth was driven by North America geography while vertical wise growth was driven by BFSI, retail & healthcare. Infosys' revenues increased 1.2% QoQ, 20.6% YoY in CC terms while dollar revenues increased 0.7% QoQ. Geographically it was driven by Europe while vertical wise it was driven by BFSI, Retail, Communications, etc. **Infosys is guiding 13-15% revenue growth in CC terms for FY23.** Wipro's IT services revenues increased 3.1% QoQ, 28.5% YoY in constant currency (CC) while dollar revenues were up 3.1% QoQ. The growth was driven by BFSI, communication, consumer verticals
- HCL Tech (IT services) reported revenue growth of 5.2% QoQ, 16.2% YoY in CC terms. The revenue growth was driven by financial services, manufacturing, technology & services, etc. Tech M's revenues increased by 5.4% QoQ, 22.6% YoY in constant currency terms, while it was up 4.9% QoQ in dollar terms. The growth was aided by communication vertical which grew by 5.0% QoQ
- LTI's constant currency revenues increased 3.6% QoQ, 29.0% YoY while dollar revenue increased 3.1% QoQ. The revenue was driven by BFSI and manufacturing. Mindtree's constant currency growth was 5.2% QoQ while dollar revenue grew 4.8% QoQ. The growth was aided by Technology, Media & Services & BFSI. Coforge's dollar revenue grew 4.9% QoQ, 35.0% YoY. **The company provided a revenue guidance of 20% CC growth for FY23**
- **Margins under pressure due to supply side challenges:** TCS reported flat EBIT margin of 25.0% due to supply side challenges that were mitigated by operating efficiency and currency tailwind. Infosys reported a decline of 189 bps EBIT margin to 23.6% due to lower utilisations & contractual provisions. Wipro reported 60 bps QoQ EBIT margin decline to 17.0% due to higher employee expenses. HCL Tech's services EBIT increased 80 bps due to some recovery of furlough related impact in Q3. HCL Tech's overall EBIT margin declined 103 bps QoQ to 18%. Tech M's EBIT declined 160 bps QoQ to 13.2% due to higher employee cost & higher amortisation (recent acquisitions increased this cost). LTI & Mindtree EBIT margins declined 65 bps, 33 bpss QoQ, respectively. Coforge's EBIT margin increased 70 bps to 15.5% due to better cost control
- **Net hiring for FY22 higher than FY21:** Tier I companies' net hiring for FY22 is even higher than FY21. TCS, Infosys, Wipro and HCL net addition for FY22 was at 103,000, 53,000, 45,000, 39,000, respectively, which is higher than their net adds for FY21. Similar trend is visible for Tier II companies, wherein LTI, Mindtree, Coforge added employees net adds in FY22. LTM attrition for all the companies have moved significantly during the quarter

Dollar revenue growth trend



Source: Company, ICICI Direct Research

Infrastructure and real estate

Infrastructure

- **Decent revenue growth on higher base; momentum to continue:** Overall revenue for our roads & construction coverage universe has improved at decent pace (6.6% YoY, 23.5% QoQ to ₹ 10,916 crore), albeit on higher base, driven by their comfortable order book positions & healthy pick-up in execution. EBITDA margin, however, moderated to 13% in Q4FY22 (down 152 bps YoY) as developers faced several headwinds including rising prices of key raw material & input cost, higher crude expenses, and third wave of Covid-19 disrupting operations. Among key companies, a) PNC Infratech-posted 16.6% YoY revenue growth, adjusted margin normalised to 13%; b) KNR Constructions-delivered 8% YoY growth in topline complemented by best-in-industry 20.6% EBITDA margins

c) HG Infra – revenue declined 0.5% YoY on higher base, EBITDA margin stood at an elevated level of 15.3% despite input cost pressure.

d) GR Infraprojects: revenue declined 13.7% YoY to ₹ 2,268.1 crore on the relatively higher base, margin was at 17.8% with receipts of claims and bonuses.

Going forward, while most EPC players have guided for healthy topline growth, margins is likely to remain under pressure in the near term given higher input prices, and expected change in project mix (in some cases)

- **Comfortable order book positions; healthy traction in inflows expected:** The awarding activity in the roads segment was subdued till February 2022. However, it picked-up considerably during March 2022. With these, awarding by MoRTH, NHAI improved to 12,731 km, 6,300 km, respectively, during FY22 (vs. 10,946 km, 4,818 km in FY21). However, construction activities were affected due to several waves of Covid-19, prolonged monsoon, labour shortage, and sharp increase in input prices. Due to these, MoRTH's construction pace has reduced to 10,457 km in FY22 (vs 13,327 km FY21). The management expects construction, awarding activities to improve in FY23 with normalised operations, and higher focus/budgetary allocation to the roads sector. Currently, the order book (OB) position for majority of infrastructure companies under coverage remains healthy (overall OB/TTM revenue at 3.1x). Among key companies, a) PNC Infratech: OB was at ~₹ 23,100 crore (one of the best among industry with OB, revenue at 3.7x). Guidance at ~₹ 8,000-10,000 crore for FY23. b) GR Infraprojects: comfortable OB position at ~₹ 20,210 crore (2.6x FY22 revenues). Targeting order inflows of ~₹ 15,000 crore in FY23 with continued traction in roads and railways sector

(c) KNR Constructions: OB strong at ₹ 9,765.8 crore (3x book to bill). Aiming inflows of ₹ 4,000-5,000 crore during FY23 with diversification to other infra-related sectors such as railways, metro and mining on cards; d) HG Infra Engineering: OB healthy at ₹ 7,972.9 crore (2.2x book to TTM revenues). Guidance of elevated level of inflows (~₹ 10,000 crore during FY23); and e) NCC: OB robust at ₹ 36,303 crore (3.7x order book to FY22 bill). Aiming for ~₹ 15,000 of order inflows during FY23 with its strong emphasis on buildings, water, roads, mining, metro and railways.

Real Estate

- **Sales Volume:** The real estate industry witnessed a mixed performance as sales volume optical growth were lower due to higher base for few companies, albeit sustenance sales remained healthy. Prices of flat/units have seen uptick on QoQ basis and likely to continue with robust underlying demand and input cost inflation. Further, commentary suggest that the industry has not witnessed any major impact of recent interest rate hike on housing demand. Performance wise, sales volume remained mixed bag with companies announcing new launches attracted higher growth. Brigade Enterprises has achieved pre-sales of 1.5 mn sq ft (up 42% QoQ; down 8% YoY on higher base) aided by launches of five new projects during Q4 FY22 in Bengaluru and Hyderabad locations. Sales value at ₹ 1,028 crore was up 1% YoY while realisations improved 8.4% YoY to ₹ 6,644/sq ft led by better project mix

Oberoi Realty sold 5.24 lakh sq ft area (down ~51% YoY) during Q4FY22. However, volumes were higher in the base quarter due to launch of Elysian Tower which had seen strong uptake. Ex-new launches, the sales volumes were similar to sustenance sales. Total booking value was at ₹ 922 crore. On the financial front, revenues of our real estate universe grew 17% YoY to ₹ 2,497 crore while EBITDA was up 6.9% YoY at ₹ 761 crore.

- **Commercial segment shows signs of recovery; mall, hospitality segments achieve higher level of occupancies:** Brigade: Commercial leasing segment remained stable and has achieved 99% collections (amount: ₹ 108 crore in Q4FY22). Additionally, the company has leased out ~0.5 mn sq ft during Q4FY22. Going forward, the management expects majority of yet to transacted area (2.1 mn sq ft) to get leased by FY23-end. The retail vertical achieved higher retailer sales consumption over O4FY20 by >100% for like-to-like brands. For Oberoi Realty, performance for the Westin Mumbai Garden City project has improved considerably during with an elevated occupancy level and increase in average room rates. Commerz-I occupancy level has increased to 53.5% and likely to expand in the medium term with uptick in demand for office space. For Oberoi Mall, the company booked revenue of ₹ 80.3 crore in Q4FY22 (vs. ₹ 30.2 crore reported in Q4FY21) as company recoded cumulative revenues for past few quarters, post discussion with tenants

Further, multiplexes across its malls have achieved higher level of occupancies due to relaxation in Covid-19 guidelines and new movie releases.

For Phoenix Mills: Retail income grew 25.9% YoY at ₹ 336.9 crore while revenues in the Hospitality business improved 104% YoY to ₹ 49.5 crore with uptick in social events and revival in corporate travels. We note that the retail rental was at ~100% of Q4FY19 (pre-Covid level). Consumption in Q4FY22 (including Phoenix Palassio) was ~103% of Q4FY19 (pre-Covid).

Logistics

Logistics universe revenues grew 8% YoY while bottomline was up 5% YoY. Ex-Adani Ports, logistics universe revenues grew 8% YoY while bottomline grew 107% owing to significantly lower profit for Container Corporation in the base quarter. Adani Ports' revenue growth of 7% YoY was mainly driven by growth in volumes. Higher generation of E-Way bill in Q4FY22 (9% YoY growth) correlated well with the revenue performance seen with the surface logistics players i.e. TCI Express (revenue up 7%YoY) and Mahindra Logistics (revenue up 10% YoY). Rail players saw a positive quarter with market leader Concor increasing its topline by 5% & PAT being significantly higher owing to low base (₹ 257 crore vs ₹ 16 crore in Q4FY21).

Among other rail players, Gateway Distriparks continued to post strong performance on Exim front with EBITDA/TeU again clocking ₹ 9000+

Air freight player BlueDart reported strong performance on topline (up 21% YoY) & PAT front (up 52%). Blue Dart management continues to maintain a strong outlook on volumes and pricing. It indicated that the fuel surcharge mechanism which the company follows will continue to offset higher fuel prices with a time lag of around one month.

Concor's management expects to add four to five terminals in FY23E. On the bulk side, itexpects to double its domestic volumes to 22 MMT from current 10-12 MMT. Incremental volumes are mainly expected from cement sector (due to using its flexi bag technology that will lower bagging-debagging logistics dependence of cement companies)

TCI Express management indicated that capacity utilisation was ~85% for Q4FY22, which was impacted to an extent due to regional lockdowns. During FY22, it took a price hike of around 2.5%. In Q4FY22, volumes were lower by 2% for January, while February volumes remained flattish and it recovered in March2022 with double-digit growth

On the TCI Concor JV front, the management continues to see revenue traction due to efficient movement on the DFC. The company has ordered procurement of more containers in Q1FY23. TCI is also witnessing higher demand for movement of renewables. On the SCM business front, revenues de-grew in Q4FY22 due to continued issues related to semi-conductor unavailability. However, the management expects resolution on the same, in the medium term

Farm & agro segment were impacted in Q4FY22 due to slowdown in rural areas, inconsistency in product launches, which led to lower outbound logistics in tractor for Mahindra Logistics. On the e-commerce front, smaller players continued to show higher D2C segment growth.

Among other key developments in sector:

- Concor's capex for FY23E is expected at ₹ 670 crore. It expects to further incur a capex in the range of ₹ 8000-10000 crore in three to four years. The capex would be primarily utilised in developing infrastructure, purchasing containers, rolling stocks and electrical equipment. The capex is expected to be funded through internal accruals
- Adani Port's management expects thermal coal volumes to stay flat in FY23. However, coking coal is expected to grow 10-12%. The company is expected to focus on the logistics segment as half of the capex lined up for FY23 (overall capex of ₹ 8600 crore) is for the logistics segment (majority for warehousing). The management expects to complete 9 million square feet of warehousing by Q1FY23 (at capex of ₹ 2500 crore)
- TCI's management indicated that it was witnessing improvement across all business segments. On the freight segment front, the management is aiming to increase the share of less than truck load to ~ 40% by FY25 from current level of ~35%. On the shipping front, the management expects the current sailing to Myanmar to continue in FY23. TCI has also enhanced its budget to procure a ship in FY23 from ₹ 60-70 crore to ₹ 80-90 crore and expects to complete the transaction in FY23
- Gateway Distriparks' management expects to revert back to a normalised ₹ 9000 per TeU levels in the medium term, as IR would withdraw 25%, 5% rebates on the haulage charges for transport of empty, laden containers, respectively, from May 1 2022, and July end

Media

- Media sector saw a mixed performance among segments. Multiplexes had a relatively better quarter with strong March collection. Broadcasters had a mixed ad performance with FMCG companies cutting ad spends & Sun TV posting superior numbers on the back local retail exposure
- **Broadcasters:** Zee's ad revenues were muted (down 0.3% YoY), as FMCG segment (key advertiser) had cut back on ad spends amid input price pressure. Subscription revenues were up 6.4% YoY, driven by Zee5. EBITDA was down 10% YoY, with margins at 20.9% (up 656 bps YoY), due to content cost (up 49%) and marketing costs (up 42% YoY). TV Today's Topline was up 13% YoY with TV and other media (clubbed segment of broadcasting and digital) revenues at ₹ 236.1 crore (up 11.5 % YoY). Reported EBITDA was down 1.9% YoY while EBITDA margins came in at 20.1% (down 307 bps YoY), impacted by higher programming costs (up 34% YoY) and other expenses. We highlight that costs were higher by ~₹ 15 crore due to UP election & war coverage. Adjusted for the same, margins were healthy at 26.3%, up 300 bps YoY
- **Multiplexes:** Multiplexes' business saw decent performance led by strong March 2022. Inox' revenues were at ₹ 317.7 crore (up ~7.2 QoQ). The box office revenue was ₹ 202 crore (up 14% QoQ) led by footfalls at 11 mn, up 17% QoQ while F&B revenue was ₹ 87 crore and ad revenues at ₹ 13 crore. EBITDA (ex- Ind AS 116) was at ~₹ 14 crore, with margins of 4.5%, as expenses went up on business resumption towards normalcy

Sun TV's advertisement revenue was up 7% YoY, while subscription revenues remained muted (down 2.8% YoY), amid NTO 2 implementation driven price hike restrictions. EBITDA was flattish YoY with margins at 66.4%, down 350 bps YoY, largely owing to higher content costs on fresh programming. We note that Sun TV's ad growth of 7% YoY was higher than Zee's flattish ad revenues. In our view, Sun superior ad growth was due to a) different mix of advertisers (Sun has lower proportion of FMCG (~55% vs. 60% for Zee), which struggled and more proportion of local retail, which saw better recovery) and b) Zee had lost viewership market share.

PVR's revenue was at ₹ 537.1 crore, (down 12.5% QoQ) with decline largely due to lower movies distribution (down 79% QoQ) & ad revenues (down 48% QoQ). PVR reported box office revenue of ₹ 293.9 crore (down 2% QoQ), ₹ 180.2 crore of F&B revenues, ₹ 11.4 crore of movie distribution revenues. Footfalls were down 1% QoQ at 14.3 million and ATP at ₹ 242 was up 1.3% QoQ owing to slate mix. SPH at ₹ 122 was down 5% QoQ. EBITDA loss (without impact of Ind AS116) was at ₹ 29.7 crore. Adjusted for ₹ 8.7 crore forex loss for Sri Lanka operation, EBITDA loss at ₹ 21 crore was in line.

Metals & Mining

- The metal and mining sector reported a mixed bag performance for Q4FY22 wherein while aggregate topline increased both QoQ and YoY basis but aggregate EBITDA margins declined both QoQ as well as YoY on account of higher operating costs. During the quarter, the aggregate topline of our coverage universe increased 39% YoY and 16% QoQ while the aggregate EBITDA margins decreased by 543 bps YoY and 151 bps QoQ to 19.8%. Consequently, despite healthy growth in aggregate topline, aggregate EBITDA of our coverage universe increased by merely 9% YoY and 7% QoQ
- JSW Steel reported a steady operational performance for Q4FY22. For Q4FY22, JSW Steel reported quarterly saleable steel sales volumes of 5.11 million tonnes (MT), up 26% YoY, 28% QoQ. For the quarter, JSW Steel's standalone operations reported EBITDA/tonne of ₹ 13517/tonne, down 32% YoY, 20% QoQ. For Q4FY22, JSW Steel reported consolidated topline of ₹ 46895 crore, up 74% YoY and 23% QoQ. Standalone EBITDA for the quarter was at ₹ 6907 core, up 2% QoQ but down 14% YoY. However, performance of subsidiaries came in better than our estimate. Consolidated EBITDA for the quarter was at ₹ 9184 crore (up 9% YoY). During Q4FY22 JSW Steel's consolidated operations reported an exception expense to the tune of ₹ 741 crore. Ensuing consolidated PAT was at ₹ 3343 crore, down 20% YoY, 26% QoQ
- For Q4FY22, SAIL reported a standalone revenue of ₹ 30578 crore, up 32% YoY and 22% QoQ. For the quarter, SAIL reported sales volume of 4.71 MT, up 9% YoY and 23% QoQ. Standalone EBITDA for the quarter was at ₹ 4331 crore, up 27% QoQ but down 30% YoY. Standalone operations EBITDA/tonne for the quarter was at ₹ 9196/tonne (₹ 8881/tonne for Q3FY22 and ₹ 14177/tonne in Q4FY21). EBITDA margin for the quarter was at 14.1% compared to 13.5% in Q3FY22 and 26.4% in Q4FY21. Ensuing standalone PAT for quarter was at ₹ 2418 crore, up 68% QoQ but down 30%

In Q4FY22E, base metal prices (except lead) improved both QoQ, YoY. During the quarter, average zinc prices on LME were at US$3738/tonne, up 36% YoY, 11% QoQ, while average lead prices were at US$2325/tonne, up 16% YoY and flattish QoQ. In the quarter, average aluminum prices on LME were at US$3262/tonne, up 56% YoY, 18% QoQ while average copper prices on LME were at US$9997/tonne, up 18% YoY, 3% QoQ.

For Q4FY22, Jindal Stainless (JSL) reported standalone EBITDA/tonne of ₹ 28278/tonne. During the quarter, Jindal Stainless (JSL) reported a consolidated topline of ₹ 6564 crore, up 68% YoY and 16% QoQ. Consolidated EBITDA for the quarter was at ₹ 842 crore, up 55% YoY and 6% QoQ. During the quarter, on a consolidated basis, JSL reported a net tax credit of ~₹ 31 crore compared to our estimate of tax expense of ~₹ 219 crore. Hence, ensuing consolidated PAT for Q4FY22 was at ₹ 750 crore, up 156% YoY and 70% QoQ.

Oil & Gas

- Oil & gas companies reported a mixed set of numbers in Q4FY22. Oil marketing companies' (OMCs) reported GRMs were lower than expected (mainly due to lower crude inventory gains) leading to weaker than expected EBITDA. City gas distribution (CGD) companies reported better than expected earnings driven by higher gross margins. Upstream companies' revenue increased on the back of higher oil & gas realisation
- On OMCs front, while crude throughput for two companies was up in range of 4-7% YoY, one company reported ~3% YoY decline. On QoQ basis, crude throughput increased in range of 2-11%. All companies reported lower than expected refining margins. However, GRMs were sharply up on both QoQ & YoY basis amid increase in product cracks during Q4FY22. Market sales increased in range of 3-6% YoY for OMCs. While marketing margins were weaker, inventory gains supported overall profitability. Overall, two OMCs reported lower than estimated PAT while one OMC reported better than estimates PAT due to higher other income
- For a PSU upstream company, oil & gas production declined YoY. Oil realisation improved ~64% YoY (and ~25% QoQ) while domestic gas realisation also increased YoY leading to higher revenues. Profitability was sharply up YoY driven by revenues. On QoQ basis, earnings were flattish as company witnessed higher expenses and DD&A costs
- For a large business conglomerate with diversified business segments, results were below estimates on the profitability front on account of weaker-than-expected oil-to-chemicals (O2C) earnings. On YoY basis, operational profitability was higher mainly driven by O2C (up ~25% YoY) and digital service (up ~25% YoY) segments on account of better GRMs in O2C coupled with tariff hike undertaken in December 2021

Key parameters in Q4FY22

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Singapore GRMs ($/bbl)	1.8	2.1	3.8	6.1	8.1
Crude Oil ($/bbl)	60.7	68.6	73.0	79.4	99.5
APM Gas (NCV) (US$/mmbtu)	2.0	2.0	2.0	3.2	3.2

Source: Bloomberg, ICICI Direct Research

On the CGD front, companies with higher CNG contribution in sales mix reported relatively stronger growth (10-13% YoY). Due to reduced offtake in industrial segment, the company with high industrial segment share in sales mix reported ~18% YoY volume de-growth. The companies hiked prices to pass on higher gas sourcing costs. All companies reported in-line/higher than expected gross margin. Subsequently, PAT was in-line/better than expected for all CGD companies. One company reported 38% YoY decline in earnings while other two companies reported PAT growth in range of 9-27% YoY. A large gas utility company reported better performance YoY due to increase in realisation amid favourable oil & gas prices.

Pharmaceuticals & hospitals

- I-Direct Pharmaceutical universe revenues grew 14.3% YoY to ₹ 45796 crore. Domestic branded formulations continued to drive overall growth due to 1) traction for Covid related sales during omicron wave, 2) Normalisation in non-Covid sales in March and 3) MR activity back to pre-Covid levels. The domestic momentum, however was neutralised by US business, which continued to face unprecedented pricing pressure. Thus, tailwinds from new launches, one-off opportunities & momentum in complex portfolio (injectables /biosimilars) could do little to offset pricing headwinds. Generic API remained under pressure across the board due to 1) raw material inflation and availability, 2) poor demand scenario globally and 3) disruption in supply chain leading to higher cost & delays. CRAMs segment on the other hand reported decent traction with continued outsourcing momentum during Q4FY22
- Indian formulations (select pack) grew 15.5% YoY to ₹ 11043 crore while US business (select pack) expanded 4.1% YoY to ₹ 12705 crore. As per the various management comments, US base business price erosion seems to be ongoing with increased intensity sequentially. With declining Covid and restarting of USFDA inspections, pending regulatory outcomes weighs on US business. Better momentum for complex (injectable, respiratory, specialty and biosimilar) as continuous deterioration in generic OSD portfolio-mix remains as a theme for US
- API segment (select pack) overall sales contracted 10.1% YoY to ₹ 4341 crore. Generic APIs seems to be facing double whammy with rise in cost of key starting materials, power and freight along with inability to pass on the cost due to 1) nature of contracts and 2) pricing pressure for formulators. CRAMS businesses (select coverage) grew by 71.3% YoY to ₹ 3078.3 crore due to new client additions and business expansion. Europe sales growth was at 2.2% YoY to ₹ 2750 crore
- Company specific growth, Ajanta Pharma – 15% (traction for branded business in India & Emerging markets), Biocon – 30.8% (strong performance across Generics, Biosimilars and Contract Research), Cipla – 14.2% (driven traction in India and US), Divi's Lab – 40.8% (driven by custom synthesis), Dr Reddy's – 14.8% (driven by market share gains, new launches and divestment of brands) and Ipca Lab – 15.7% (driven by strong domestic franchisee)
- On margins front, EBITDA margins declined 449 bps YoY to 19% for I-direct universe (select pack) due to 1) increase in pricing erosion in US, 2) rise in input, logistic & power cost and 3) lower operating leverage panning out at most manufacturing facilities. In value terms it contracted 6.2% YoY to ₹ 8,700 crore. Going ahead, margin pressure is likely to remain in H1FY23 along with higher expenses while companies work actively on alternatives for raw material dependency & new launches with better margin profiles. Net profit grew 13.7% YoY to ₹ 5195 crore
- **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 & AHLL), Narayana Hrudayalaya – 27.9% (strong traction for flagship hospitals & continued momentum in Cayman island) and Aster DM – 18.9% (normalisation in India & 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

Sales from India, US and Europe

India

(₹ cr)	Q4FY22	Q4FY21	%	Q3FY22	%
Alembic	449	358	25.4	488	-8.0
Ajanta	245	218	12.4	260	-5.8
Zydus Lifesciences	1,164	1,023	13.8	1,079	7.9
Ipca	552	434	27.3	645	-14.5
Lupin	1,351	1,287	5.0	1,473	-8.3
Cipla	2,183	1,807	20.8	2,518	-13.3
Dr Reddy's	969	845	14.7	1,027	-5.6
Sun Pharma	3,097	2,671	15.9	3,168	-2.2
Torrent	1,034	922	12.1	1,072	-3.5
Total	11043	9564	15.5	11729	-5.8

US

(₹ cr)	Q4FY22	Q4FY21	%	Q3FY22	%
Alembic	557	475	17.3	393	41.7
Ajanta	168	173	-2.9	166	1.2
Aurobindo	2,728	2,856	-4.5	2,745	-0.6
Zydus Lifesciences	1,423	1,488	-4.3	1,489	-4.4
Cipla	1,209	1,002	20.7	1,124	7.6
Lupin	1,416	1,495	-5.3	1,578	-10.2
Dr Reddy's	1,997	1,749	14.2	1,865	7.1
Sun Pharma	2,925	2,699	8.4	2,972	-1.6
Torrent	282	269	4.8	235	20.0
Total	12705	12206	4.1	12566	1.1

API

(₹ cr)	Q4FY22	Q4FY21	%	Q3FY22	%
Aurobindo	913	794	14.9	1,010	-9.6
Alembic	222	214	3.7	198	12.1
Laurus Labs	539	797	-32.4	424	27.1
Zydus Lifesciences	136	140	-2.3	165	-17.1
Divi's Lab	747	917	-18.6	783	-4.6
Ipca Labs	258	260	-0.8	309	-16.7
Lupin	220	256	-13.8	256	-14.1
Cipla	137	224	-38.8	150	-8.7
Dr Reddy's	756	792	-4.5	727	3.9
Sun Pharma	414	436	-5.1	471	-12.2
Total	4341	4828	-10.1	4493	-3.4

Europe

(₹ cr)	Q4FY22	Q4FY21	%	Q3FY22	%
Aurobindo	1,541	1,553	-0.7	1,694	-9.0
Zydus Lifesciences	63	63	1.1	68	-6.9
Cipla	286	249	15.0	290	-1.2
Dr Reddy's	444	396	12.3	406	9.5
Lupin	197	165	19.4	187	4.9
Torrent	218	267	-18.4	237	-8.0
Total	2750	2692	2.2	2882	-4.6

Source: Company, ICICI Direct Research

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.

Retail

- Despite omicron induced slowdown in January-February, retailers displayed resilient performance with demand picking up pace in the latter part of Q4FY22. Revenue recovery rate for most apparel and footwear players continued to be above pre-Covid levels (100-105%), with Trent continuing to be the outperformer. Our retail coverage universe reported revenue growth of ~15% YoY in Q4FY22 which was tad better than anticipated. Store addition trajectory enhanced significantly in Q4FY22 and companies have healthy store addition pipeline for FY23E. On account of rising RM inflation, apparel players on an average undertook price hike in the range of 8-15%
- Relaxo Footwears took one of its steepest hikes in a decade to the tune of ~25%. Furthermore, majority of the fixed overheads returned to normalcy levels (rental, employee expenses). Hence, EBITDA margins for our retail coverage universe remained flattish YoY at ~12% (absolute EBITDA grew 14% YoY). Page Industries & ABFRL surprised positively on the profitability front. On the balance sheet front, inventory for most retailers have spiked significantly (by 50-100% YoY) for March ending 2022, as we believe inventory stocking is on anticipation of healthy Q1FY23 (after two successive years in which Q1 has been a washout)

Key trends (company Specific):

- **Titan Company:** Revenue momentum for Titan's jewellery division decelerated in Q4FY22 (revenue de-growth: 4% YoY) owing to Covid led disruptions and sharp rise in gold prices in March leading to deferment of purchase by customers. Despite the same, the company outperformed other jewellery players and continued to gain market share. The management indicated that demand trends in April have been encouraging and are in line with the company's targets
- **Trent:** Trent continued to report industry best topline growth, with sales increasing 53% YoY (two-year CAGR: 28%). Store addition trajectory continued to be robust in Q4FY22 with opening of 59 stores in Zudio format. Lower rental waivers despite disruptions & higher opex resulted in EBITDA margins declining by 480 bps YoY to 12.9%. Westside is now trading at an annual revenue run rate of over ₹ 5000 crore, whereas Zudio revenues have crossed ₹ 1000 crore for the first time in FY22
- **ABFRL:** On the base of Q3FY20, recovery rate was at ~119% of pre-Covid levels The accelerated trajectory was on the back of strong growth in Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with revenues increasing 34% YoY. Pantaloons division reported moderated sales growth of 13% YoY as the segment was the most impacted owing to Covid disruptions. To meet the long term capital needs, ABFRL announced a fund raise to the tune of ₹ 2195 crore by way of preferential issue of equity & warrants to an affiliate of GIC wealth fund
- **Bata India:** Reported a mixed operational performance wherein higher gross margins saved the day for Bata. Revenue recovery rate was at ~98% in Q4FY22 vs. 101% in Q3FY22. While omicron disrupted demand in January-February, consumer sentiments improved in the latter part of the quarter. Sneakers category (~20% of sales) led the growth recovery in the quarter while formal & fashion also recovered significantly. It has announced special dividend of ₹ 54.5/share (~3% dividend yield)
- **Relaxo Footwear:** Steep price hike (~25% YoY) and a very strong base resulted in volumes declining by ~26% YoY to 4.2 crore pairs in Q4FY22. Significant rise in prices of crude based polymers, coupled with normalisation of selling and admin expenses, led to EBITDA margins declining by 587 bps YoY to 15.9%. The company indicated that the consumer sentiment is a bit subdued due to high inflation, which is particularly impacting the lower priced products

Avenue Supermarts: *Store addition trajectory accelerated materially in Q4FY22 as it added 21 new stores taking total store count to 284 spread (FY22: 50) across 11.5 million sq. ft. Reported revenue growth of 18.5% YoY (two-year CAGR: 19%). Revenue/sq. ft. was at ₹ 7640 vs. ₹ 8400 in Q4FY21. We believe the metric appears to be lower on account of store additions skewed more towards the fag end of the quarter. 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 15.0%. The company believes it would be able to provide better value to its customers by managing its cost better and providing value for money in an inflationary environment.*

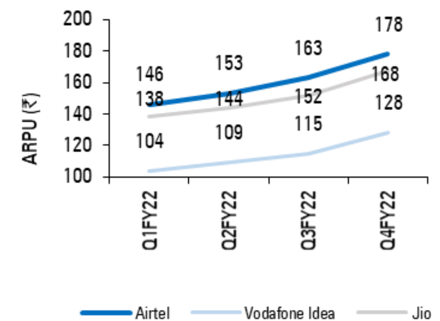
Page Industries: *On a high base, revenue for the quarter grew 26% YoY to ₹ 1111.1 crore (three-year CAGR: 22%). Volumes grew 8.7% YoY to 50.2 million. The company continued to enhance its distribution touchpoints wherein it added 5500 points in Q4FY22 taking the total count to 110548 touchpoints. The management highlighted that inflationary pressure was visible across items such as cotton, packaging and logistics. However, enhanced operating efficiencies and positive operating leverage resulted in EBITDA margins improving 476 bps YoY to 24.1%.*

TTK Prestige: *Revenue grew 17% YoY with cooker segment (34% of sales) reporting 26% growth. TTK had taken a price hike of 6-7% on its cooker/cookware portfolio while the price hike for appliances was around 8-9% in FY22. Further the company has taken a price hike in April 2022 which should enable it to shore up its margins going ahead.*

Telecom

- **Airtel shows maximum stickiness in subscriber amid tariff hike:** Airtel sub base saw addition of 3.1 mn QoQ at 326.0 mn. However, we highlight that in contrast, its peers Jio, VIL, lost 10.9 mn, 3.4 mn subs, at 421 mn and 243.8 mn, respectively. In terms of 4G subs additions, Airtel witnessed net adds of ~5.2 mn to 200.8 mn during the quarter while VIL saw addition of merely 1.1 mn QoQ to 118.1 million
- **Airtel leads revenues growth also:** For Airtel, topline was at ₹ 31,500 crore, up 5.5% QoQ. India wireless revenues were up 9.5% QoQ at ₹ 16,617 crore, led by pass through of tariff hike driving ARPU at ₹ 178, up 9.7% QoQ. On the other hand, for VIL, revenues were up 6.6% QoQ to ₹ 10,240 crore, as ARPU grew ~7.8% QoQ to ₹ 128. Jio's ARPU grew 10.6% QoQ at ₹ 167.6 with revenues at ₹ 20901 crore, up 8% QoQ
- **EBITDA margins saw improvement for all telcos:** For Airtel, Overall margins were at 50.9%, up 169 bps QoQ with India wireless margins at 50.6% (up 128 bps QoQ). Overall Indian margin was up 106 bps QoQ at 50.8%. For VIL, reported EBITDA margins were up 613 bps QoQ to 45.4% owing to lower than-expected network opex (that was down 20% QoQ and had ₹ 150 crore of one-off benefits). Adjusted margins were at 43.9%. Jio's margins were at 50.3%, up 110 bps QoQ
- **Others:** In the tower space, Indus Towers (erstwhile Bharti Infratel) reported net addition of net addition of 685 co-locations vs. 2555 co-location addition in Q2, and much lower than last four quarters. Rental revenues came in at ₹ 4745 crore, up 7.9% QoQ. On adjusted basis, rental revenues were down 1% QoQ. EBITDA was up 3% QoQ and margins of 53.5%, flattish QoQ. Tata Communication's Q4FY22 performance was weak with decline in margins. The topline at ₹ 4263 crore, was up 4.7% YoY & up 1.9% QoQ, largely in line with expectations with data revenues (forming ~77% of revenues) up ~7% YoY (up 2.1% QoQ) at ₹ 3301 crore. Consolidated EBITDA margin was at 24.5% (down 40 bps YoY and down 135 bps QoQ). The company attributed the decline in EBITDA to higher expenses which are back ended in nature

ARPU trend



Source: Company, ICICI Direct Research

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