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Research Blog

Nov 2022

Strong Q2FY23 Results for Portfolio Companies Amidst Global Volatility

Strong Revenue Growth Across Sectors. Stable Commodity Prices to Augur Well for Margins Going Forward

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Nifty Inc had been grappling with margin pressures as commodity prices remained volatile and Q2FY23 Quarterly results was expected to bring margins back to the normal. However, the pain that the volatile commodities brought to companies couldn't be easily relieved during the quarter. Many companies (especially into the manufacturing) were struck with working capital management issues. Though the broadline numbers have by and large fallen up to the expectations, hearing management commentaries makes it evident that given unclear macro environment, matching demand/ supply keeping margins intact was not an easy game. Top line growth in the current quarter was robust both YoY and QoQ which helped the margins to remain consolidated and not dampen further. On an aggregate, companies have reported numbers in line with expectations with Banks and Auto companies reporting numbers ahead of expectations.

Q2FY23 Quarterly Results-Industry Wise

Industry	Revenues			Net Profit			Net Profit Margins		
	2QFY23	YoY%	QoQ%	2QFY23	YoY%	QoQ%	2QFY22	1QFY23	2QFY23
Energy	916,840	45%	-4%	19,488	-61%	-9%	7.8%	2.3%	2.1%
Private Banks	135,640	22%	9%	502	57%	16%	19.8%	23.9%	25.4%
Public Sector Banks	204,647	17%	10%	26,443	45%	61%	10.4%	8.8%	12.9%
Financials	372,204	13%	26%	53,187	56%	67%	10.4%	10.8%	14.3%
IT	189,176	20%	5%	28,570	8%	10%	16.8%	14.4%	15.1%
Consumer Staples	99,403	15%	-1%	11,978	11%	3%	12.5%	11.5%	12.0%
Automobiles	180,997	34%	11%	7,890	291%	521%	1.5%	0.8%	4.4%
Auto Components	69,886	23%	3%	3,717	8%	27%	6.1%	4.3%	5.3%
Media	6,710	16%	1%	576	-43%	-33%	17.6%	12.8%	8.6%
Real Estate	9,904	-2%	-13%	304	-72%	-85%	10.6%	18.2%	3.1%
Consumer Disc.	116,346	23%	0%	6,265	-53%	-23%	14.2%	7.0%	5.4%
Chemicals	91,781	34%	10%	7,894	28%	-7%	9.0%	10.1%	8.6%
Materials	326,742	14%	-1%	20,827	-54%	-47%	15.9%	11.9%	6.4%
Cons. Materials	53,410	16%	-7%	1,433	-70%	-69%	10.5%	8.0%	2.7%
Health Care	82,745	8%	6%	10,294	-12%	4%	15.2%	12.7%	12.4%
Utilities	113,259	32%	-2%	15,349	13%	-9%	15.8%	14.5%	13.6%
Industrials	155,056	39%	0%	7,563	27%	-12%	5.4%	5.5%	4.9%
Const. & Engg.	71,902	20%	9%	3,677	38%	-12%	4.5%	6.3%	5.1%
Telecom	57,805	18%	6%	(3,513)	1%	-15%	-7.1%	-7.5%	-6.1%

As regards Nifty 500, on weightage average basis, the revenues grew 29.1% YoY and 7.3% QoQ. The Net Profit margins remained stable vis a vis last quarter at 11.5% still down from 13.3% in Q2FY22. The companies in portfolios have outshined in term of their earnings vis a vis the broader market.

NS Industry Leaders theme portfolio witnessed 26.8% YoY growth in top line and Net Profit margins of companies improved from 12.7% last quarter to 13.5% this quarter. We had added weights in Banking sector by adding weights to SBI, HDFCBANK and adding AXIS Bank which helped in keeping the profitability of the portfolio maintained.

NS Mid and Small Model portfolio reported 34.2% weighted average top line growth Vs 20% growth in Nifty Mid Small 400 Index. The QoQ revenue growth was also robust at 11% vs 4% for the Benchmark. The net Profit margin was maintained at 10.6% Vs 6.7% for the Benchmark. Weights were added to ACE, CumminsInd and Canara Bank which all reported strong growth this quarter. Intellect reported poor quarterly results, however the weights allocated to the portfolio was very low.

NS Multi Cap portfolio topline growth was at 26.7% YoY with 12.9% Net profit Margin while NS 5TX5T Theme portfolio reported 15.8% Topline growth with 18.7% Net Profit Margin. The low topline growth of NS5TX5T theme portfolio can be attributed to lower growth from digitization theme and lower margins can be attributed more towards the Industrial revival theme as the companies struggled from Inventory Volume and Price management leading to Working capital woes. We assume, strong come back on the margins as stability in the macro environment arises. The digitization theme companies' valuations are at lower end of the band. We do not smell any large cuts in spending in IT budgets for companies in our portfolio.

Model Portfolio	Top Line growth		Net Profit Margin%		
	YoY%	QoQ%	2QFY22	1QFY23	2QFY23
NS Industry Leaders Theme Portfolio	26.8%	7.6%	13.6%	12.7%	13.5%
Nifty 100	29.3%	7.3%	13.5%	12.0%	11.6%
NS Mid and Small Model Portfolio	34.2%	11.0%	11.0%	10.5%	10.6%
Nifty Mid Small 400	19.9%	4.0%	9.3%	6.2%	6.7%
NS Multi Cap Theme Portfolio	26.7%	7.6%	13.2%	12.1%	12.9%
Nifty 500	29.1%	7.3%	13.3%	11.9%	11.5%
NS 5TX5T Thematic Advisory	15.8%	8.3%	16.0%	14.7%	18.7%
Nifty 500	29.1%	7.3%	13.3%	11.9%	11.5%

Brief Insights from Management for Companies Post Q1FY23:

Information Technology

Order book and deal pipeline is strong but delay in decision making for new deals is visible from clients' end. Despite the macro tension there is no change in spending from clients, but clients are being cautious on long term projects. Attrition in IT services has peaked out on LTM basis in 2QFY23 and stood at 21.5% and now it will start showing downward trend.

AUTO

Volumes were strong and Realisation improved QoQ due to improved mix and price increases. Key issue in Q2 was downtrends in several overseas market. There was double digit fall in retails on YoY basis due to sharp appreciation of US dollar which caused to severe double-digit impact in currencies and poor availability of US dollar for trade which led to downfall in exports.

BANKS

Strong Advances growth, both Corporate and Retail led to high NII growth. As credit costs remained under control, Banks reported high profitability growth. Strong growth in Digital presence expected. Operating Costs including technology costs may remain elevated.

Capital Market

Moderation in industry was visible as opening of new demat account declined. Finance cost which is linked with the MTF business, employee cost related and some technology costs, all remained high

Cement

Delayed exit of monsoons has been causing some amount of pressure on cement consumption and construction activities along with costs which continued to remain high due to rising prices of fuels. Prices of pet coke remain volatile. Maintenance costs have been higher due to high inflationary costs. Increase in inventories days led to increase in Working capital

Consumers

Inflation pain sustains margins to be under stress. Nestle Ind mentioned that it is witnessing early signs of stability in prices of a few commodities such as edible oils and packaging materials. However, fresh milk, fuels, grains and green coffee costs are expected to remain firm with continued increase in demand and volatility. MC dowell management pointed that double digit inflation pressure to continue in near term on account of sequential surge in input prices that's is glass and ENA and ongoing scotch pricing discussion led supply constraints adversely impacted the margin.

Metals

High-cost raw material inventory used in Q2FY23 which affected margins.

Industrials

LT- Expects public capex spends comprises of central, states and PSUs to be better in FY23. It has been significantly higher driven by central and PSUs and states capex is yet to pick up. PrajInd- Working capital increases mainly due to inventories. From last two quarter company kept high inventories due to commodities price fluctuations. Margin is impacted despite falling in raw material prices and one of the reasons is not having that much of growth in export business as it is in domestic.

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