The Report Card

FY23: JUNE 2023

DSP

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FY23: Revenue Surge, Margin Decline, and Shifting Profit Pools

- Nifty-500 ex-financials: 24% inflation driven revenue growth in FY23, 12% CAGR FY19-23.
- EBITDA margins have declined from FY22 peaks, returning to pre-pandemic levels.
- Net profits declined by 9% in FY23 compared to FY22 but have grown in-line with revenue at 11% CAGR from FY19 to FY23.
- Balance sheet leverage slightly worsened, ROE down from FY22 peak but still >15% excluding commodities (+300 bps vs. FY19).

	Revenue		EBITDA Margins			Net Debt to Equity			ROE		
	CAGR FY19-23	YoY (%)	FY23	Δ vs FY22	Δ vs FY19	FY23	Δ vs FY22	Δ vs FY19	FY23	Δ vs FY22	Δ vs FY19
IT	13%	20%	20%	-2%	-1%	-25%	4%	12%	27%	0%	2%
Energy	12%	27%	8%	-2%	-2%	38%	0%	-14%	9%	-4%	-3%
Energy (ex RIL)	12%	28%	6%	-3%	-3%	68%	1%	14%	9%	-10%	-5%
Staples	11%	16%	17%	0%	-1%	-10%	-3%	-5%	21%	2%	-5%
Staples ex ITC	11%	15%	13%	-1%	0%	-2%	-3%	-19%	18%	1%	-12%
Comm Services	11%	15%	41%	-2%	16%	586%	89%	458%	-13%	-14%	-9%
Materials	14%	14%	15%	-8%	-4%	43%	11%	-20%	13%	-10%	2%
Material ex Metals	15%	25%	15%	-3%	-1%	31%	3%	-32%	13%	-2%	3%
Con Disc	8%	28%	9%	0%	-1%	48%	1%	16%	13%	6%	9%
Cons Disc ex -TTMT	10%	29%	9%	-1%	-1%	33%	4%	13%	14%	3%	-2%
Industrials	10%	30%	13%	0%	-1%	46%	-4%	-7%	15%	4%	0%
Utilities	15%	36%	25%	-7%	-5%	147%	-15%	-20%	16%	-2%	0%
HealthCare	9%	10%	20%	0%	0%	2%	4%	-12%	12%	2%	1%
Real Estate	-2%	19%	26%	-1%	0%	25%	1%	-25%	6%	2%	1%
Overall	**12%**	**24%**	**14%**	**-3%**	**-1%**	**49%**	**3%**	**-3%**	**13%**	**-2%**	**1%**
Ex Energy and Metals	11%	21%	17%	-3%	0%	58%	5%	6%	15%	-2%	3%

The analysis has been done of NSE-500 constituents as on May 31,2023 ex financials universe, data is sourced from Capitaline.

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Operating Margins: Reverted to pre-pandemic levels

EBITDA margins are lower on year-on-year basis and vis a vis pre-pandemic levels across most sectors

EBITDA MARGIN (%) now below pre-covid levels

	FY19	FY20	FY21	1Q22	2Q22	3Q22	4Q22	FY22	1Q23	2Q23	3Q23	4Q23	FY23	FY23 vs FY22	FY23 vs FY19
IT	21%	21%	23%	22%	22%	22%	21%	22%	20%	20%	20%	20%	20%	-2%	-1%
Energy	10%	8%	11%	10%	10%	9%	10%	10%	6%	5%	8%	11%	8%	-2%	-2%
Energy (ex RIL)	8%	5%	9%	8%	8%	7%	9%	8%	2%	3%	6%	9%	6%	-3%	-3%
Staples	18%	18%	18%	17%	17%	17%	17%	17%	16%	16%	17%	17%	17%	0%	-1%
Staples ex ITC	13%	13%	14%	13%	14%	14%	14%	14%	13%	12%	13%	13%	13%	-1%	0%
Comm Services	25%	34%	40%	42%	43%	43%	45%	43%	41%	41%	39%	43%	41%	-2%	16%
Materials	19%	18%	22%	27%	24%	22%	20%	23%	19%	12%	13%	16%	15%	-8%	-4%
Material ex Metals	17%	18%	21%	21%	18%	18%	18%	18%	18%	14%	15%	16%	15%	-3%	-1%
Con Disc	10%	9%	9%	7%	10%	10%	9%	9%	8%	9%	9%	10%	9%	0%	-1%
Cons Disc ex -TTMT	11%	10%	8%	6%	11%	10%	9%	10%	10%	9%	9%	9%	9%	-1%	-1%
Industrials	14%	13%	13%	11%	13%	14%	13%	13%	10%	11%	13%	15%	13%	0%	-1%
Utilities	30%	32%	35%	34%	32%	31%	32%	32%	27%	24%	25%	25%	25%	-7%	-5%
HealthCare	20%	20%	23%	24%	20%	22%	18%	21%	20%	22%	22%	21%	20%	0%	0%
Real Estate	26%	27%	26%	26%	30%	29%	24%	27%	30%	29%	29%	22%	26%	-1%	0%
Overall	14%	14%	17%	17%	17%	16%	16%	16%	13%	12%	13%	15%	14%	-3%	-1%
Ex Energy % Metals	17%	18%	20%	21%	21%	20%	19%	20%	17%	16%	16%	17%	17%	-3%	0%

The analysis has been done of NSE-500 constituents as on May 31,2023 ex financials universe, data is sourced from Capitaline.

Colour coding horizontal

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Sectoral Profit Pools: Ex commodity profit pool recovering

Sector profit/Nifty 500 ex financial profits

	FY19	FY20	FY21	FY22	FY23
IT	20%	33%	21%	15%	18%
Energy	26%	22%	30%	25%	20%
ex RIL	*16%*	*6%*	*18%*	*15%*	*8%*
Staples	8%	17%	9%	6%	8%
ex ITC	*5%*	*11%*	*5%*	*4%*	*5%*
Comm Services	-2%	-41%	-14%	0%	-2%
Materials	18%	23%	26%	30%	19%
Ex Metals	*7%*	*16%*	*11%*	*9%*	*9%*
Consumer Disc	3%	9%	3%	4%	9%
ex Tata Motors	*11%*	*14%*	*6%*	*6%*	*9%*
Industrials	10%	11%	5%	6%	10%
Utilities	11%	16%	11%	10%	11%
Health Care	5%	9%	7%	4%	6%
Real Estate	1%	0%	1%	1%	1%
Overall	**100%**	**100%**	**100%**	**100%**	**100%**
Ex Energy, Metals	68%	62%	59%	66%	70%

Colour coding horizontal

In FY23, there has been a shift in the profit pool from the energy and metals sectors towards industrials and discretionary sectors, compared to FY22.

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The analysis has been done of NSE-500 constituents as on May 31,2023 ex financials universe, data is sourced from Capitaline.

Balance Sheet: ROE declines from FY22 high

- Return on equity (ROE) decline on year-on-year basis. Ex-commodity ROE is above 15%
- Net debt to equity deteriorates marginally. Leverage for Energy, Communications Services, and Consumer discretionary has increased.

RETURN ON EQUITY ABOVE PRE-PANDEMIC LEVELS

	FY19	FY20	FY21	FY22	FY23	vs FY22	vs FY19
IT	25%	25%	25%	27%	27%	0%	2%
Energy	12%	6%	11%	13%	9%	-4%	-3%
ex RIL	14%	3%	16%	19%	9%	-10%	-5%
Staples	26%	27%	18%	19%	21%	2%	-5%
ex ITC	30%	30%	16%	17%	18%	1%	-12%
Comm Services	-4%	-82%	-81%	2%	-13%	-14%	-9%
Materials	12%	8%	14%	23%	13%	-10%	2%
Ex Metals	10%	14%	14%	15%	13%	-2%	3%
Cons Disc	4%	7%	4%	7%	13%	6%	9%
ex TAMO	16%	12%	8%	11%	14%	3%	-2%
Industrials	14%	9%	7%	11%	15%	4%	0%
Utilities	17%	13%	15%	18%	16%	-2%	0%
Health Care	11%	11%	13%	11%	12%	2%	1%
Real Estate	6%	1%	5%	4%	6%	2%	1%
Total	13%	7%	11%	16%	13%	-2%	1%
Ex Energy, Metals	13%	7%	10%	17%	15%	-2%	3%

NET DEBT TO EQUITY (%) DETERIORATES

	FY19	FY20	FY21	FY22	FY23	vs FY22	vs FY19
IT	-37%	-28%	-32%	-29%	-25%	4%	12%
Energy	52%	60%	37%	38%	38%	0%	-14%
ex RIL	54%	80%	73%	67%	68%	1%	14%
Staples	-5%	-13%	-10%	-7%	-10%	-3%	-5%
ex ITC	18%	6%	-1%	1%	-2%	-3%	-19%
Comm Services	129%	188%	531%	498%	586%	89%	458%
Materials	62%	60%	47%	32%	43%	11%	-20%
Ex Metals	64%	51%	32%	28%	31%	3%	-32%
Consumer Disc	31%	40%	41%	47%	48%	1%	16%
ex TAMO	20%	27%	24%	30%	33%	4%	13%
Industrials	52%	64%	55%	50%	46%	-4%	-7%
Utilities	167%	182%	180%	162%	147%	-15%	-20%
Health Care	14%	6%	3%	-2%	2%	4%	-12%
Real Estate	50%	35%	27%	23%	25%	1%	-25%
Total	53%	58%	50%	46%	49%	3%	-3%
Ex Energy, Metals	52%	58%	59%	53%	58%	5%	6%

The analysis has been done of NSE-500 constituents as on May 31,2023 ex financials universe, data is sourced from Capitaline.

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Balance Sheet: Working capital cycle remains healthy

- Debt servicing ability, as measured by net debt to EBITDA, deteriorates from FY22, but remains below pre-pandemic levels.
- The working capital cycle deteriorates marginally in a few sectors, overall working capital cycle has improved

NET DEBT TO EBITDA (%)

	FY19	FY20	FY21	FY22	FY23	vs FY22	vs FY19
IT	-114%	-79%	-87%	-77%	-65%	12%	50%
Energy	187%	294%	199%	174%	188%	13%	1%
ex RIL	165%	375%	250%	205%	285%	80%	120%
Staples	-14%	-40%	-39%	-25%	-37%	-12%	-23%
ex ITC	40%	18%	-2%	5%	-7%	-12%	-47%
Comm Services	513%	357%	463%	387%	436%	49%	-77%
Materials	201%	225%	145%	80%	145%	65%	-56%
Ex Metals	241%	183%	113%	105%	124%	19%	-117%
Cons Disc	99%	152%	160%	184%	158%	-26%	59%
ex Tata Motors	68%	106%	117%	136%	129%	-7%	60%
Industrials	174%	239%	244%	203%	168%	-35%	-6%
Utilities	438%	435%	438%	394%	388%	-6%	-51%
Health Care	64%	29%	12%	-10%	10%	20%	-55%
Real Estate	367%	287%	358%	278%	267%	-11%	-100%
Total	176%	209%	180%	149%	169%	20%	-7%
Ex Energy, Metals	166%	189%	182%	146%	169%	23%	3%

The analysis has been done of NSE-500 as on May 31, 2023 universe. Source Capitaline

WORKING CAPITAL DAYS*

	FY19	FY20	FY21	FY22	FY23	Vs FY22	Vs FY19
IT	49	48	44	43	47	3	-2
Energy	13	16	24	17	18	1	4
ex RIL	20	22	33	27	20	-6	1
Staples	34	32	34	35	35	0	1
ex ITC	15	13	13	12	11	0	-3
Comm Services	-42	-25	-36	-22	-20	2	22
Materials	49	50	39	39	36	-3	-13
Ex Metals	66	60	43	51	45	-6	-21
Cons Disc	9	8	5	13	13	0	5
ex Tata Motors	17	18	16	23	22	0	5
Industrials	52	51	46	36	27	-9	-25
Utilities	38	51	68	51	49	-2	11
Health Care	115	114	115	118	114	-4	0
Real Estate	717	737	983	900	928	28	211
Total	36	38	38	35	33	-2	-2
Ex Energy, Metals	47	49	45	44	42	-2	-5

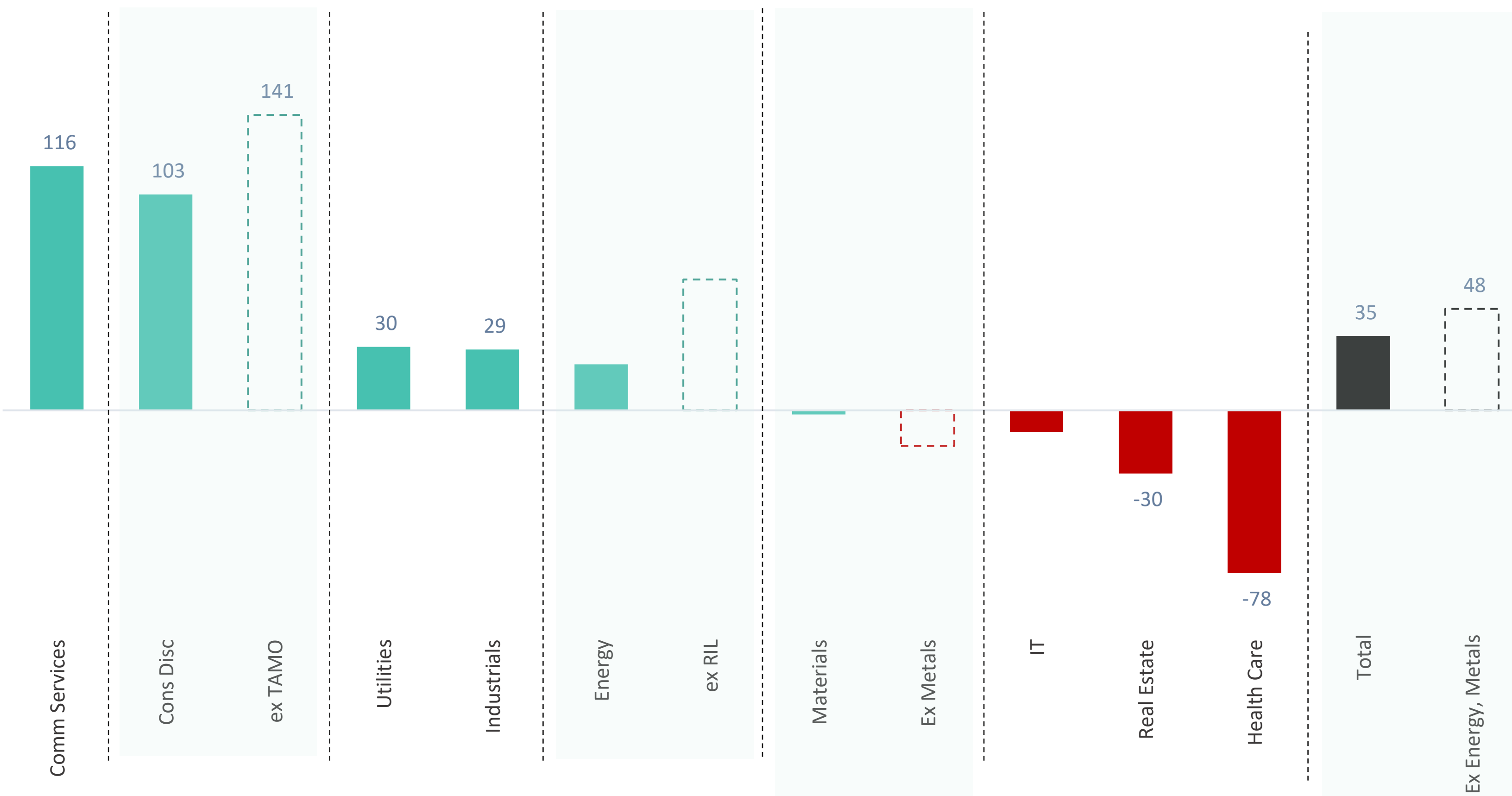
** Working Capital Days = (Debtors + Inventory – Payables)/Revenue x 365*

Colour coding horizontal

Net Debt: Aggregate net Debt increases by 35% vs FY19

Sharp increases in net debt in Comm Services, Consumer discretionary and Utilities

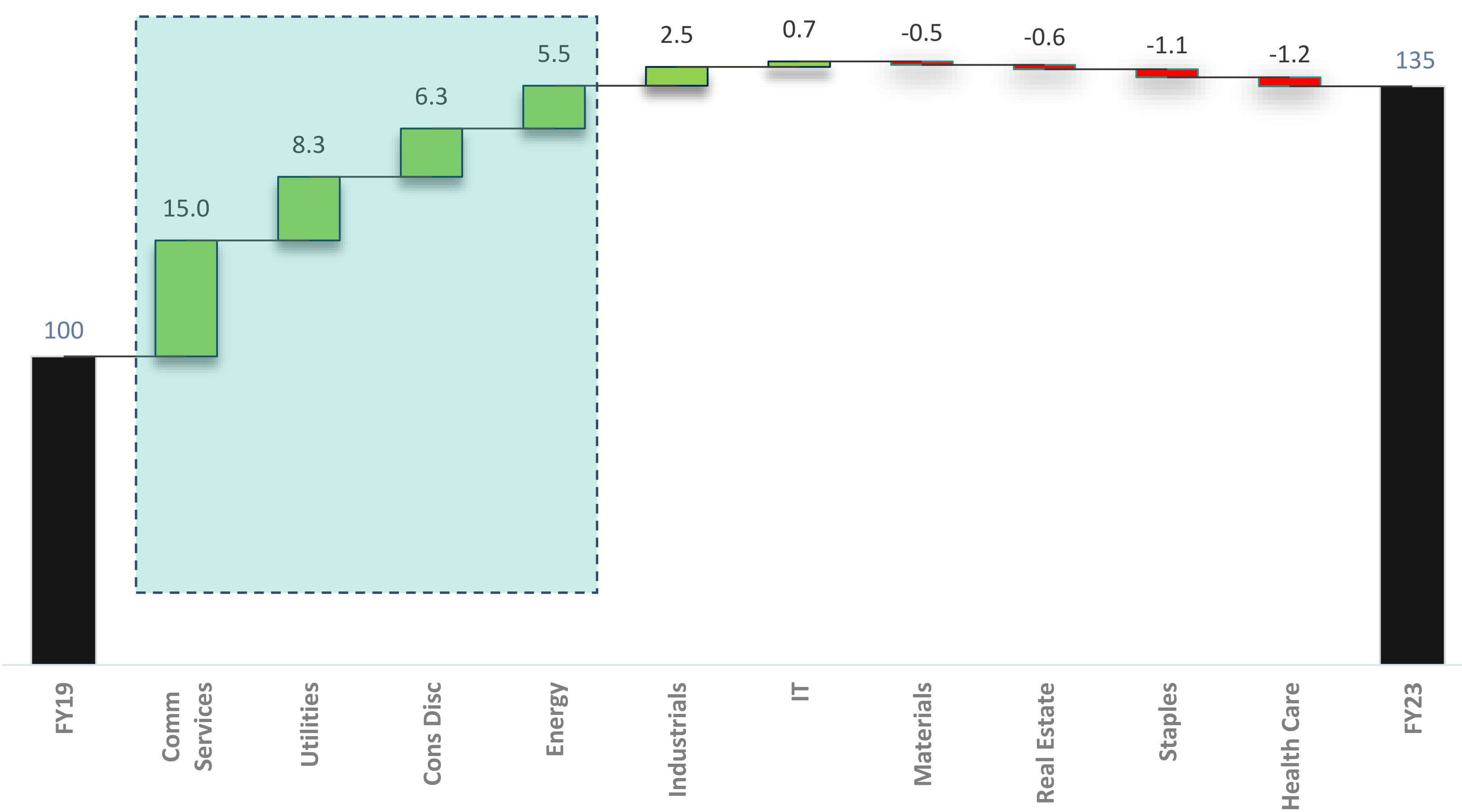
NET DEBT UP 35% in FY23 FROM FY19



The analysis has been done of NSE-500 constituents as on May 31,2023 ex financials universe, data is sourced from Capitaline.

Net Debt: Four sectors account for bulk of the net debt increase

Comm services, Utilities, Cons Disc and Energy accounting for bulk of the increase



The analysis has been done of NSE-500 constituents as on May 31,2023 ex financials universe, data is sourced from Capitaline.

Cashflows: Deterioration in cash conversion ratios

- Operating cashflows after working capital deteriorates vs FY22 given subdued operating profits
- Cash conversion (CFO/EBITDA) deteriorates for every sector in FY23 vs FY22 however still it still higher than pre-pandemic levels

OCF after W-Cap / OCF before W-Cap (%)

		Change	
	FY23	vs FY22	vs FY19
Real Estate	21%	-104%	-54%
Utilities	88%	-12%	8%
Energy	95%	-8%	19%
ex RIL	*101%*	*-3%*	*21%*
IT	85%	-8%	-10%
Comm Services	88%	-5%	4%
Materials	80%	-4%	-9%
excluding Metals	*60%*	*-10%*	*-6%*
Industrials	91%	-4%	58%
Health Care	86%	-3%	9%
Staples	94%	4%	-3%
excluding ITC	*92%*	*7%*	*-4%*
Cons Disc	74%	7%	7%
excluding Tata Motors	*66%*	*-4%*	*2%*

CFO/EBITDA (%)

		Change	
	FY23	vs FY22	vs FY19
Real Estate	2%	-125%	-61%
IT	68%	-36%	-6%
Utilities	83%	-23%	7%
Staples	70%	-21%	2%
ex ITC	67%	-19%	1%
Materials	67%	-20%	-6%
ex Metals	49%	-22%	2%
Energy	91%	-19%	29%
ex RIL	100%	-13%	32%
Industrials	80%	-17%	71%
Health Care	74%	-13%	15%
Comm Services	88%	-6%	12%
Cons Disc	62%	-5%	15%
ex Tata Motors	46%	-21%	9%

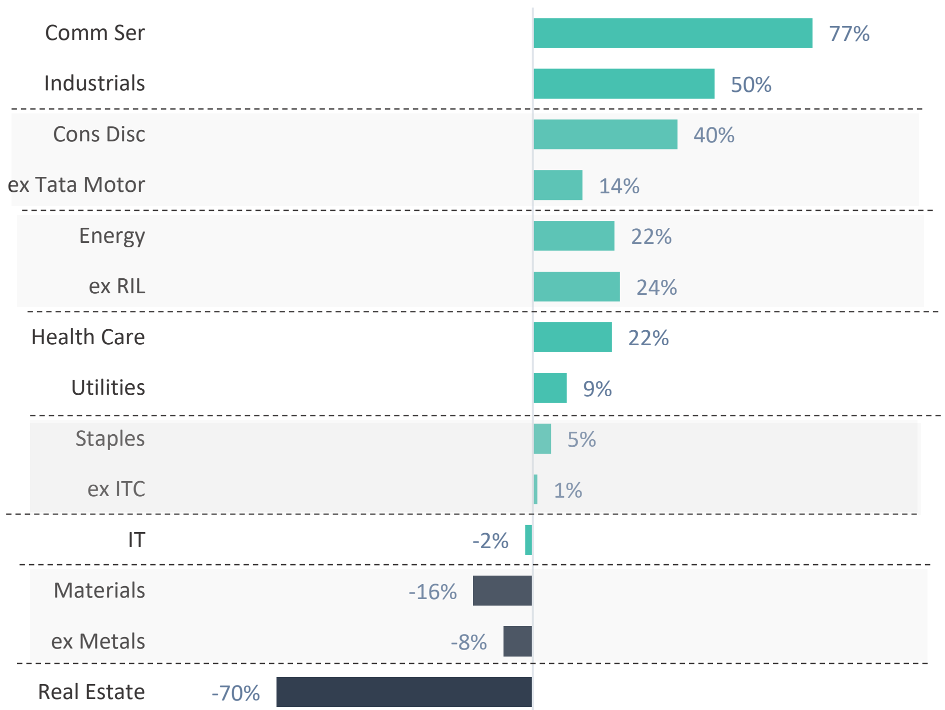
OCF: Operating cashflow; CFO: Cashflow from operations

Cashflow analysis based on sample set of 320 companies for which cashflow statements are available. Source Capitaline

Cashflows: Free cashflow generation above pre-pandemic levels

- Free cash flow to EBITDA higher vs pre-pandemic levels for most sectors except materials and real estate
- Highest capex acceleration seen in industrials, materials and utilities

Free Cash Flow/EBITDA (%) change vs FY19



CFO and Capex CAGR FY19-23

	Capex	CFO
Cons Disc	-4%	11%
ex Tata Motors	4%	6%
Comm Services	-2%	7%
IT	3%	-35%
Energy	8%	2%
ex RIL	4%	-9%
Real Estate	5%	-4%
Staples	6%	-26%
ex ITC	10%	-24%
Health Care	7%	-8%
Utilities	10%	-1%
Materials	15%	-15%
ex Metals	19%	-3%
Industrials	25%	26%

Cashflow analysis based on sample set of 319 companies out of NSE-500 for which cashflow statements are available.

Source Capitaline

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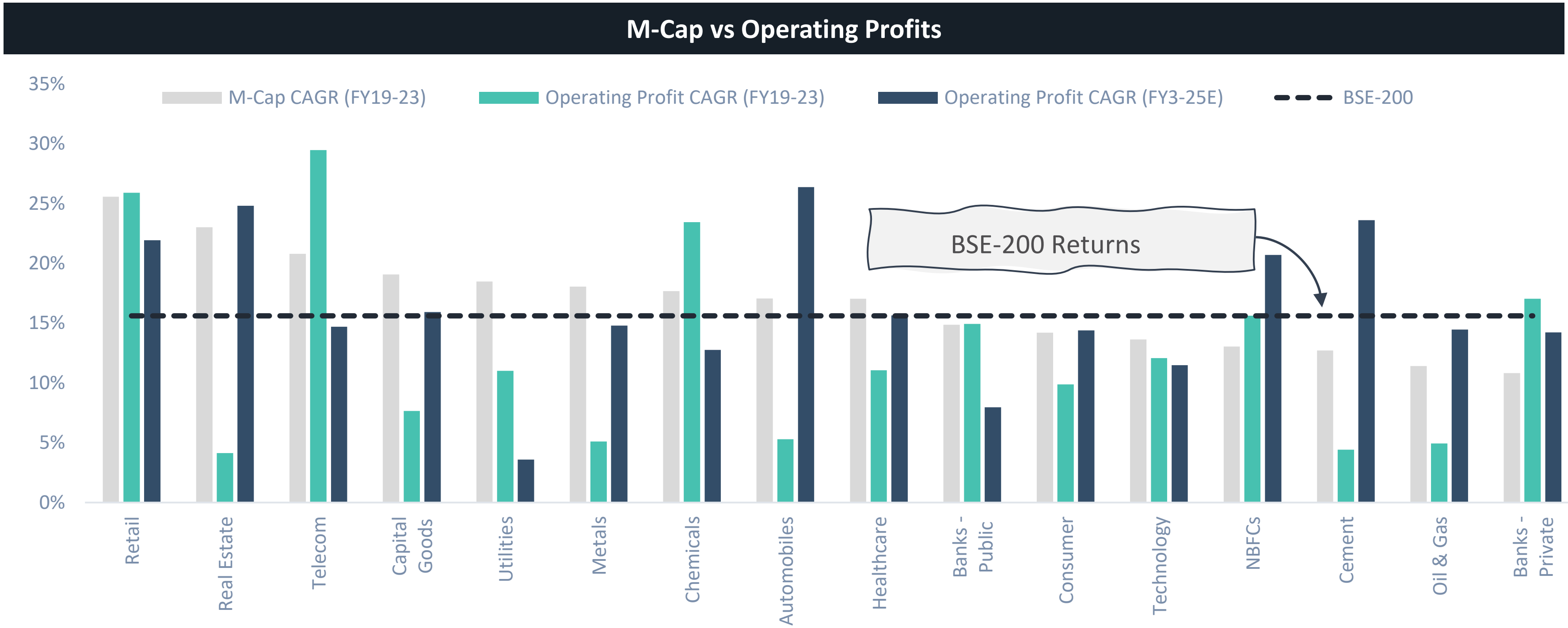
Market Capitalization vs Operating Profit growth

Market Cap CAGR > Operating profits CAGR : Capital Goods, Utilities, Healthcare, Metals and Technology



1. *The exercise is based on BSE-200 companies due to lack of availability of reliable estimates beyond BSE-200*
2. *For Banks and NBFC's the operating profits is pre-provisioning operating profits (PPOP).*
3. *M-cap CAGR is May 19 to May 23*
4. *Operating profits CAGR is FY19-23 actuals and FY24 based on Bloomberg consensus estimates*
5. *Source: Capitaline and Bloomberg*

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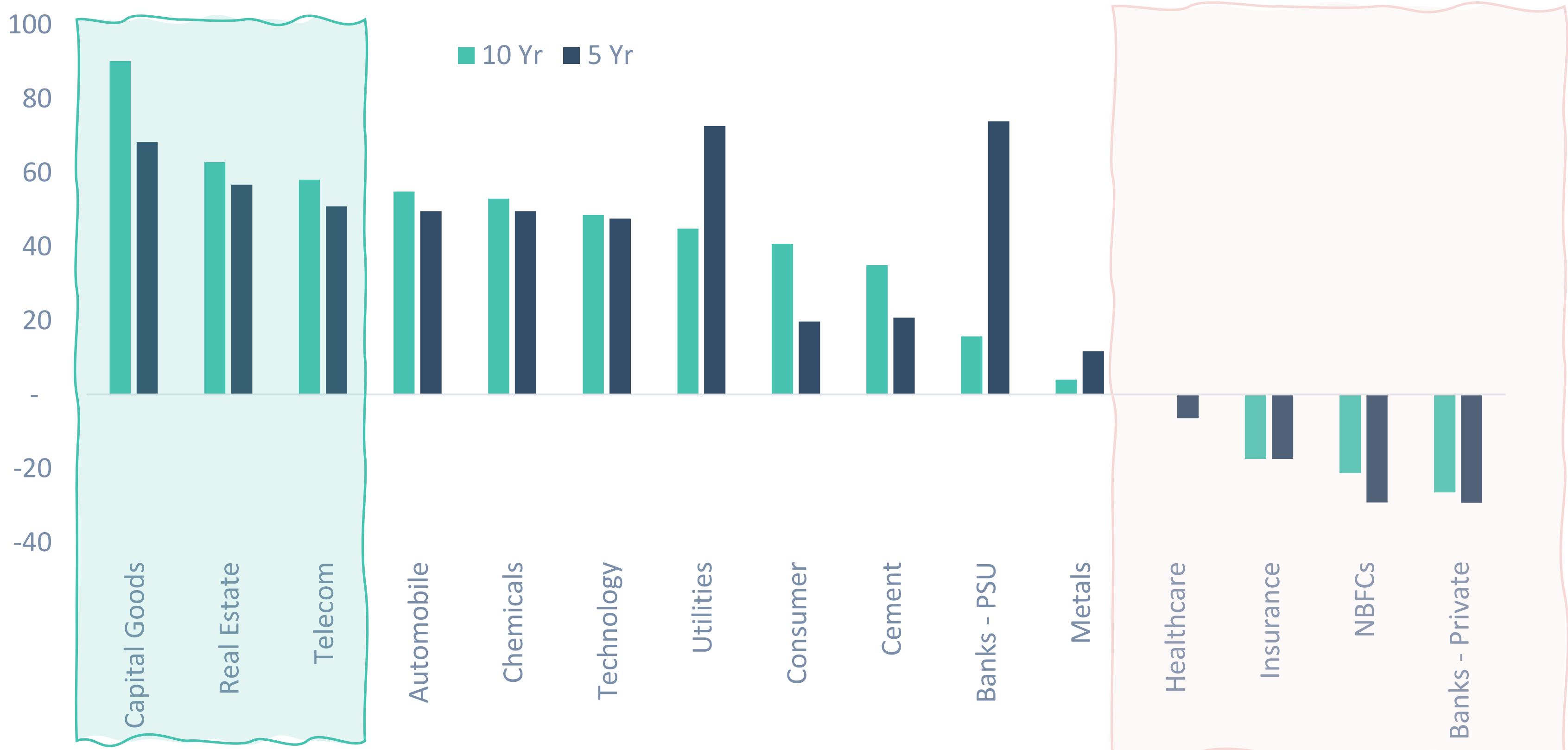
Valuation: Premium or Discount to pre-pandemic averages

Healthcare, Insurance, NBFC and Pvt Banks are at discount to pre-covid averages

Premium/Discount to pre –covid 5/10-year average multiples

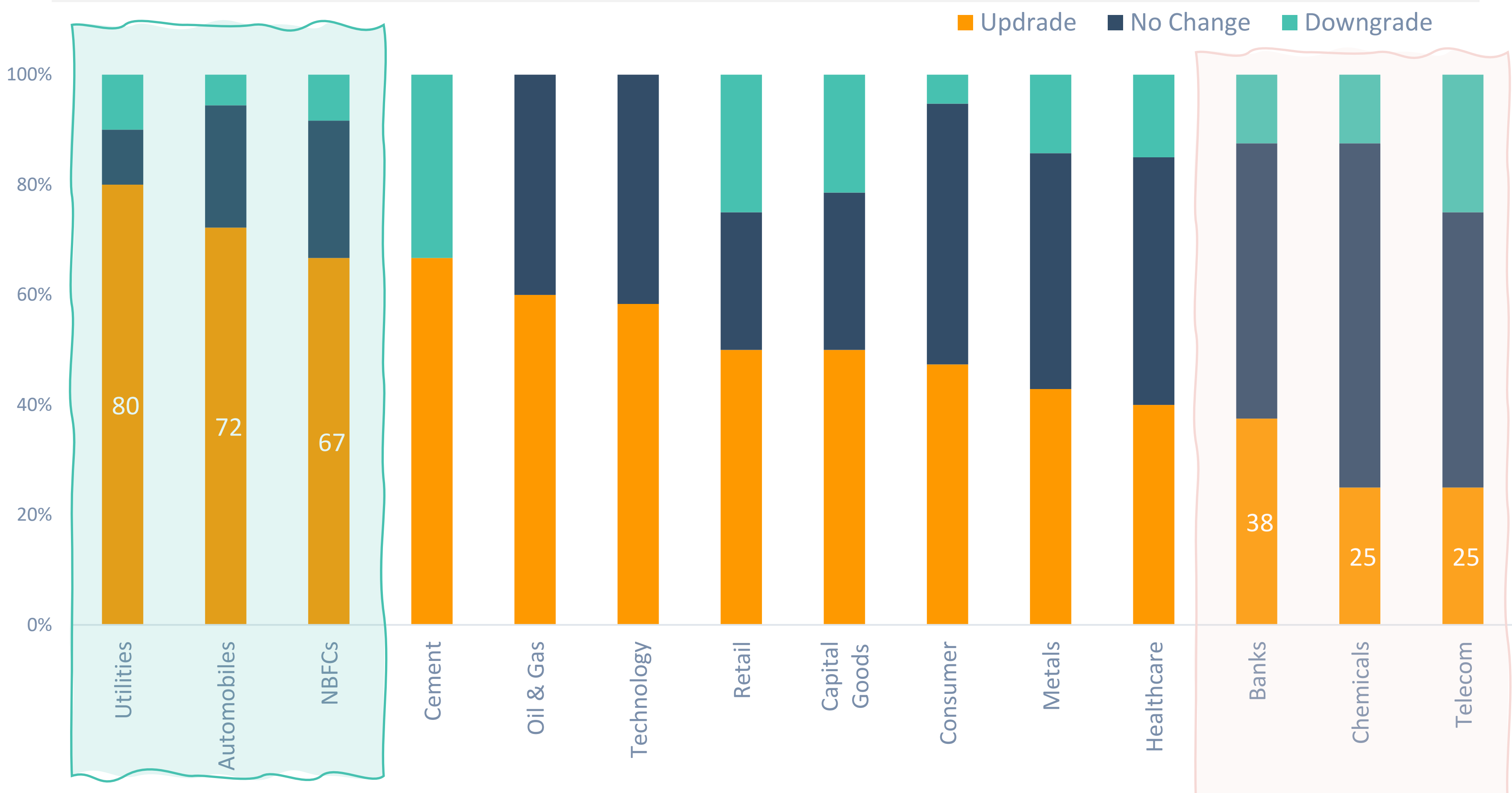


1. *5 yr and 10 yr Pre covid multiples are from Jan-15 to Jan-20 and Jan-10 to Jan-20 respectively*
2. *Price to book multiples are used for NBFC, Banks, Metals, Oil and Gas, Real Estate and utilities*
3. *Price to Earnings is used for Technology*
4. *EV/EBITDA is used for Auto, Capital goods, Cement, Chemicals, Consumer, Healthcare, Telecom*
5. *Source: Bloomberg. The universe is BSE-200*

Earnings Momentum: Revision to FY24 Earnings

Utilities, Autos and NBFCs have highest number of upgrades in the past 6 months

% of companies reporting upgrades and downgrades



Source: Bloomberg. Based on the BSE-200 sample set for which estimates are available

Downgrades > 5%, No Change -5% to +5%, Upgrades <5% over the past 6 months. Calculated on 31st May 2023

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Sectoral Updates

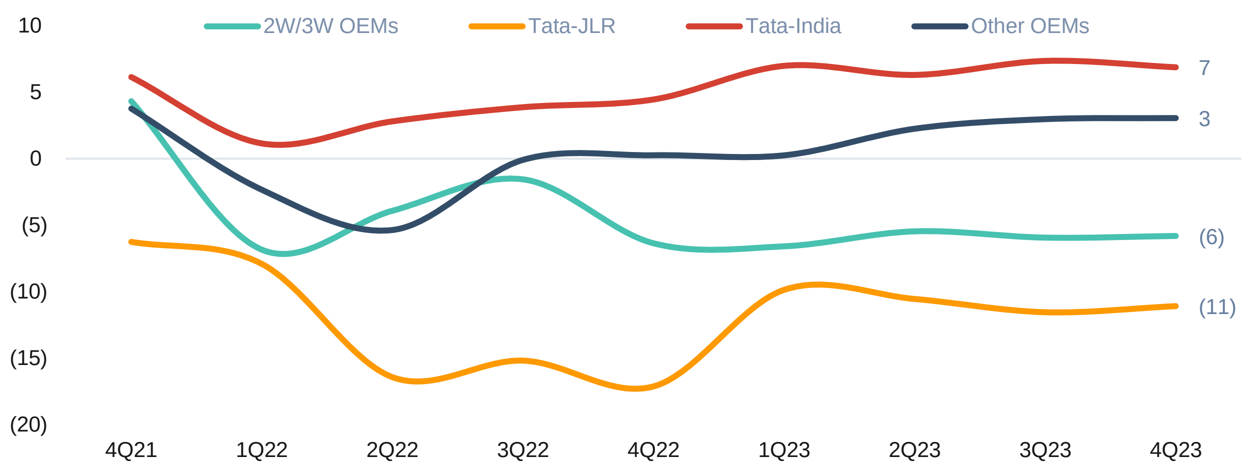
- Auto
- Auto Ancillary
- Banks
- Cement
- Consumer Durables
- Energy
- Gas Utilities
- Industrials
- IT Services
- Life Insurance
- Metals
- NBFC
- Pharma
- Staples

The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and may or may not have any future position in these sector(s)/stock(s)/issuer(s).

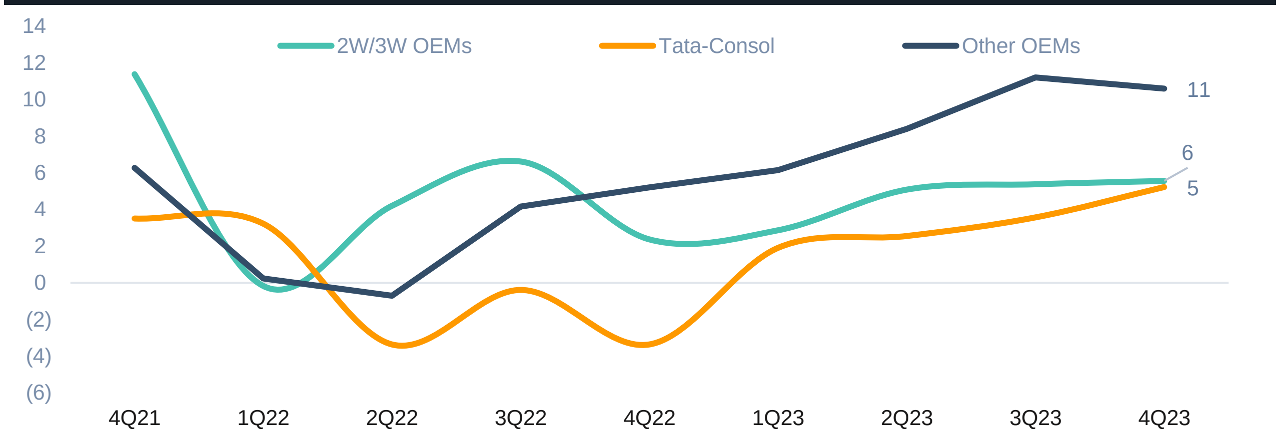
Auto: Improvement seen across segments except 2W/3W

4-YR CAGR: 2W/3W OEMs and TATA (JLR) still below previous peak, while PV/CV/Tractor OEMs at new peak (%)

Volume Growth, 4-Yr CAGR



Revenue Growth, 4-Yr CAGR

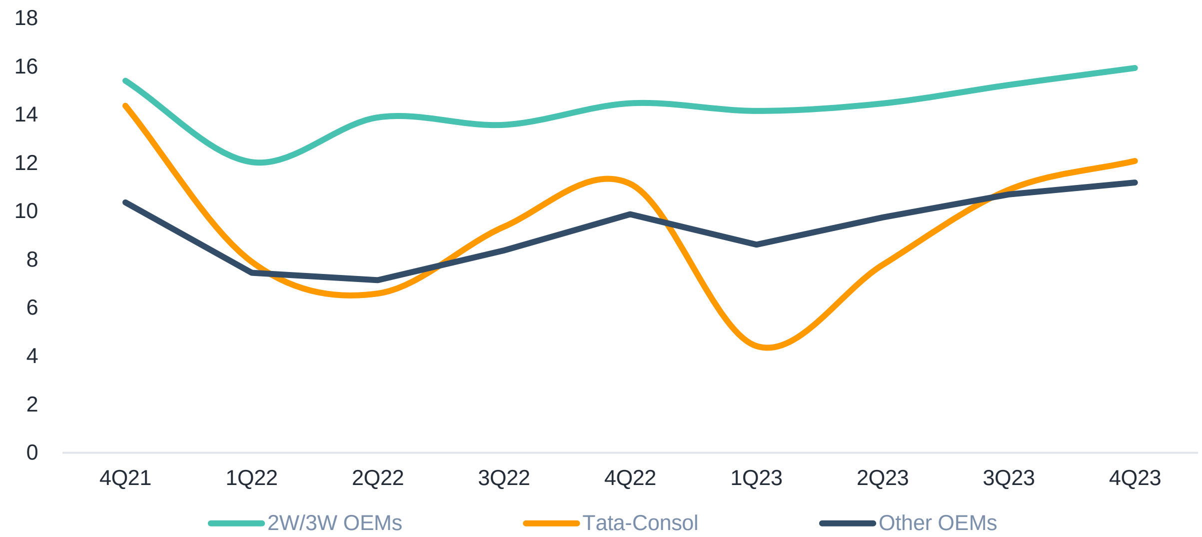


4-YR CAGR: Positive revenue growth across OEMs aided by rising scale, premiumization, regulatory costs pass-through to consumers

Based on representative sample of 29 companies

Auto: Free cashflows and margins improve

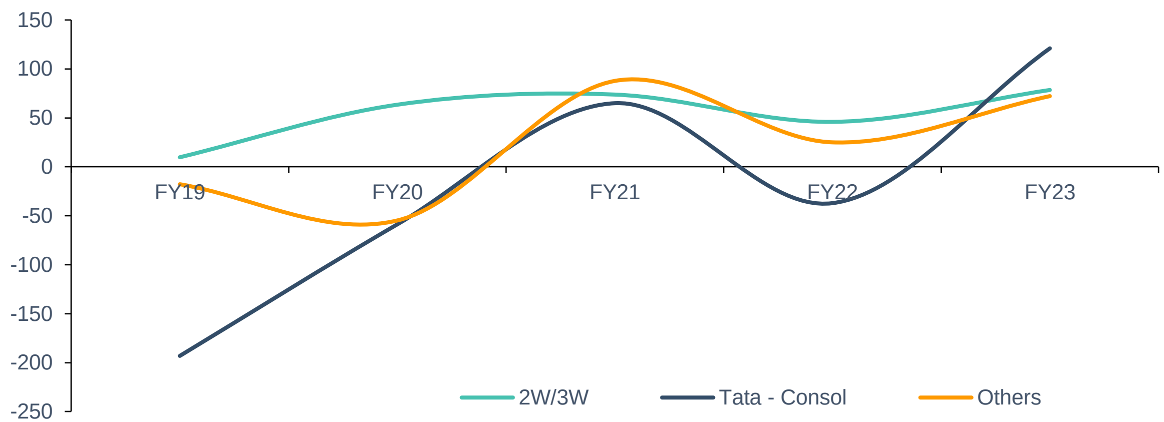
EBITDA Margins (%)



EBITDA margin rises QoQ on commodity deflation, better scale (%)

Free cash flows improve on better revenue and margins

Free Cash flows improve



Based on representative sample of 29 companies

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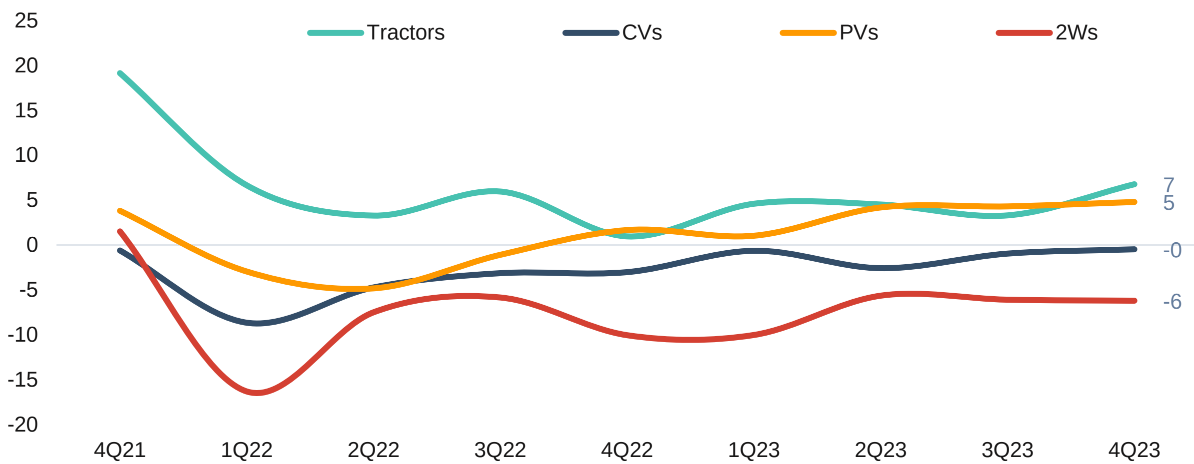
Auto Ancillary: Outpacing Original Equipment Manufacturers (OEMs)

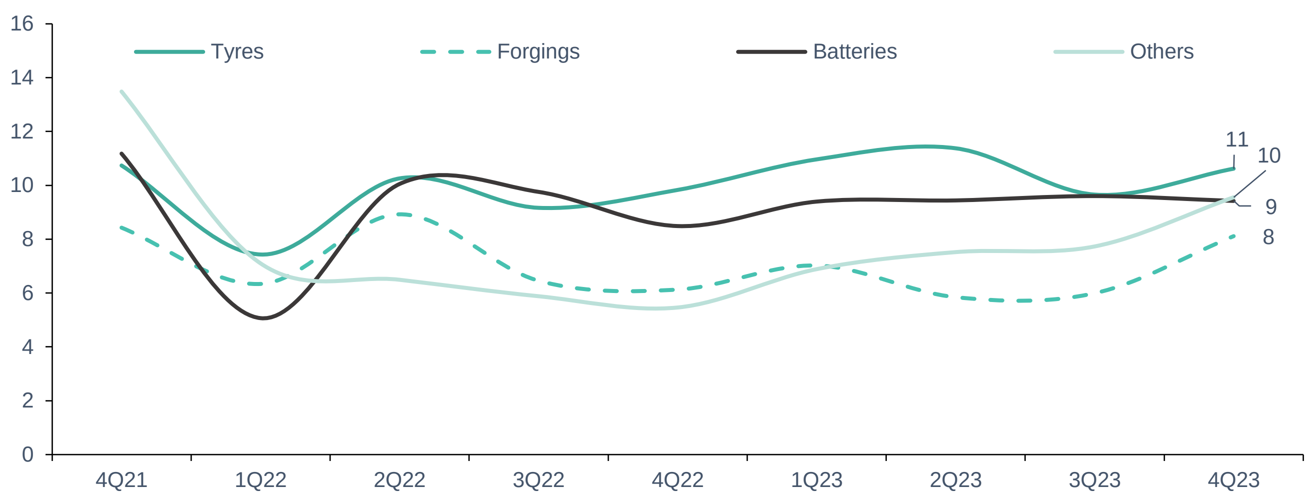
OEM's volumes (4-Yr CAGR)



4-YR CAGR: 2W/3W industry still below previous peak, while PV/Tractor industry at new peak (%)

4-YR CAGR: Outpacing OEMs due to premiumization and input cost pass-through

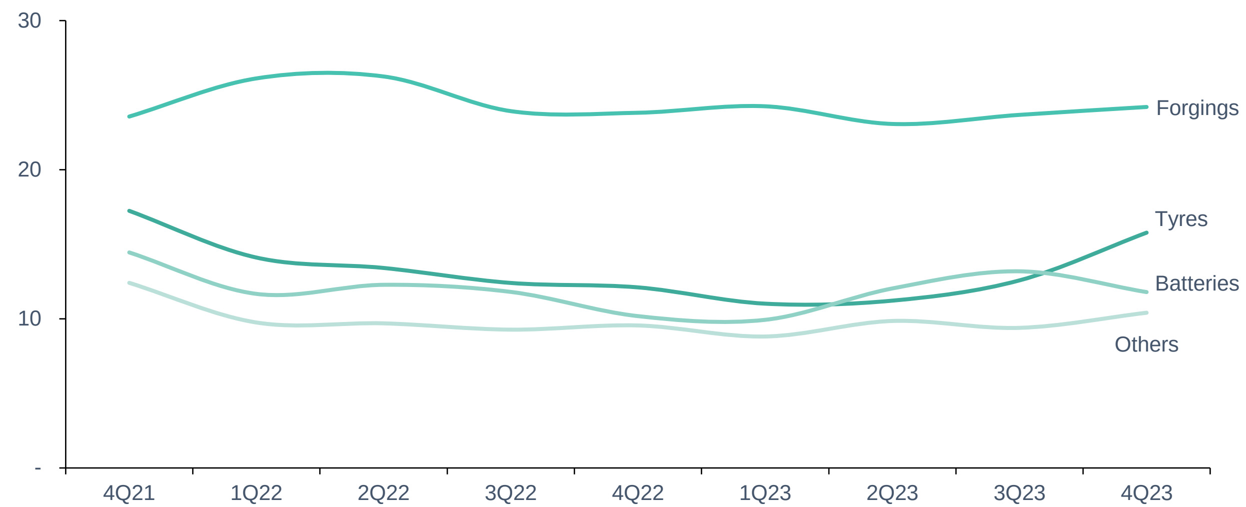
Auto Ancillary Revenues (4-Yr CAGR)



Based on representative sample of 29 companies

Auto Ancillary: Broad-based margin improvement

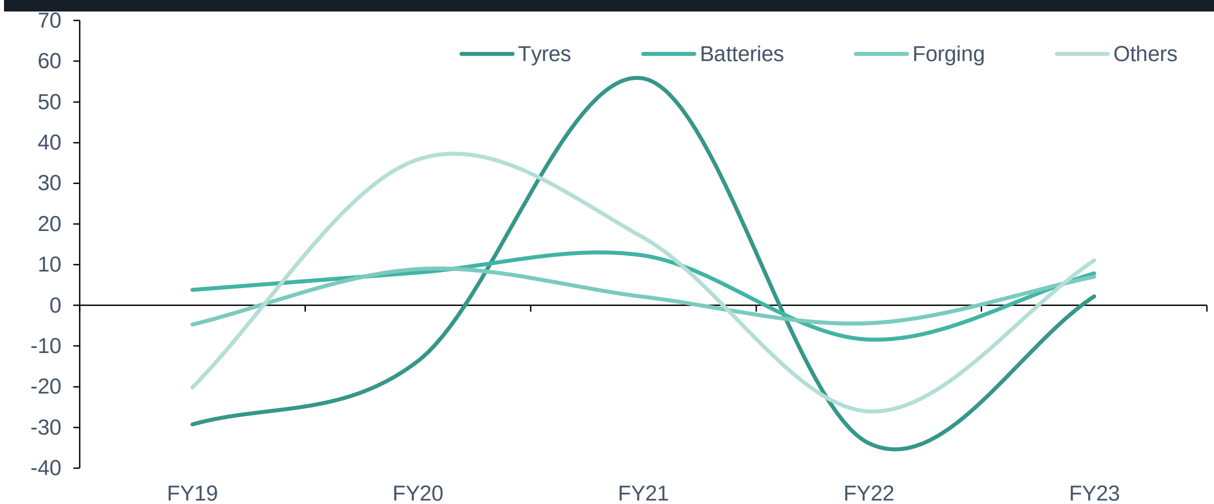
EBITDA Margins



EBITDA margin rises QoQ on commodity deflation and better scale. Batteries margin under pressure on higher lead prices (%)

Free cash flows improve across most auto ancillary buckets

Free Cashflows



Based on representative sample of 29 companies

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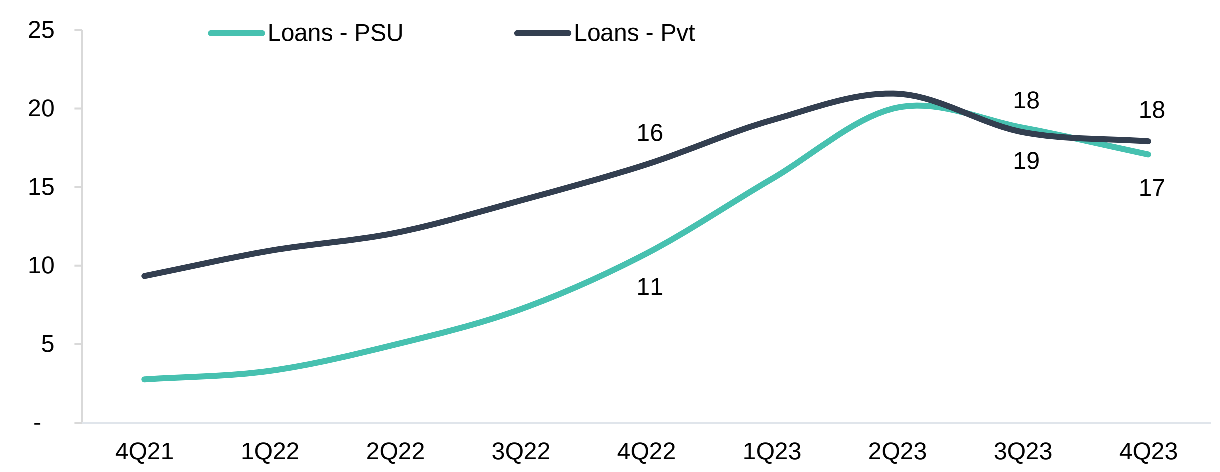
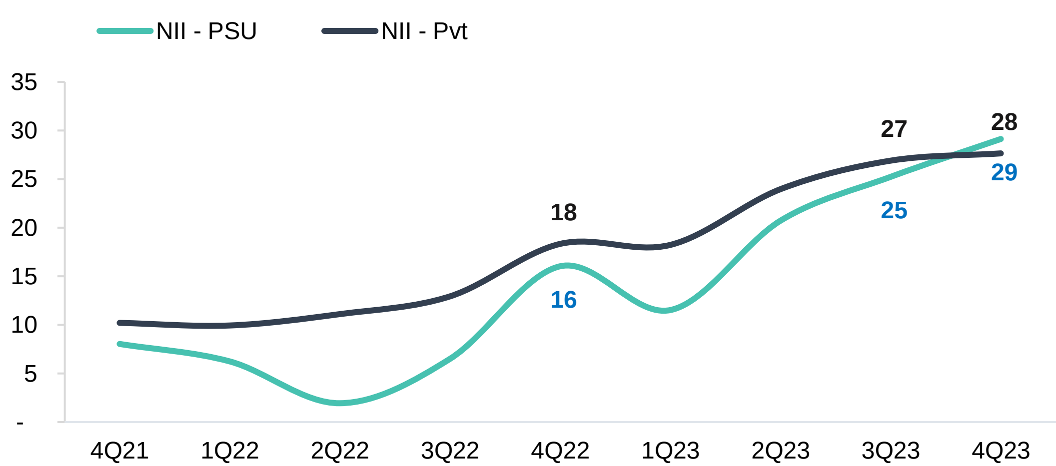
Banks: Healthy double-digit Loan and NII growth

While YoY growth looks similar; 4 Year CAGR for Private banks (~13.5%) is higher than PSU banks (~9%).

Loan Growth, YoY Change



NII Growth, YoY Change



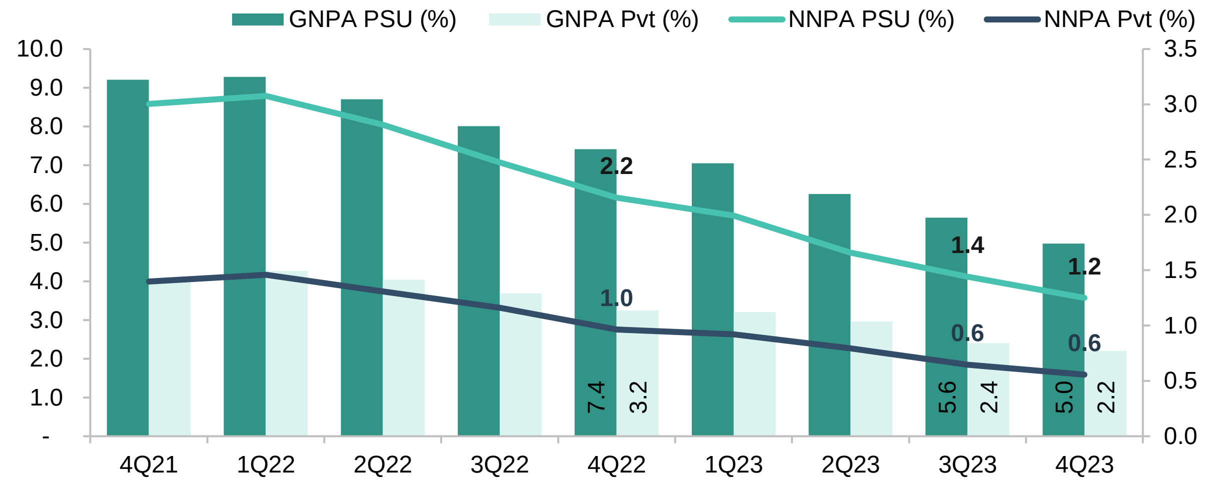
Net Interest Income (NII) growth YoY is also similar for both set of banks and runs much ahead of loan growth. 4-year NII growth stands at ~13.6% for PSUs and 17.8% for Private banks.

Data pertains to 28 banks aggregating >90% of the banking system (ex-Foreign banks).

Banks: Asset quality remains benign, ROA above pre-covid levels

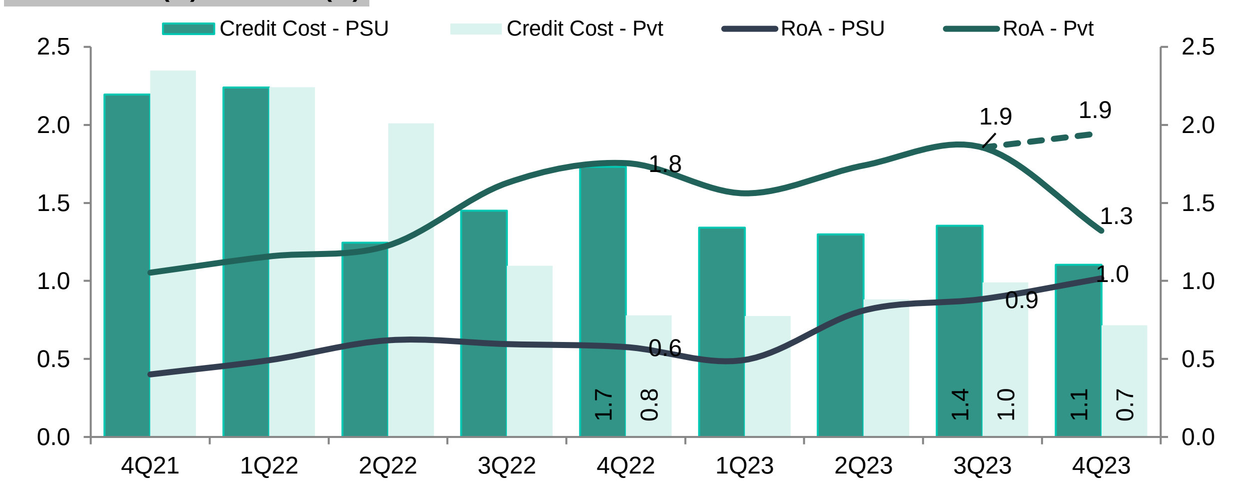
Asset quality remains benign for both PSU and Private banks with continued improvement in Gross and Net NPAs for both set of banks.

Asset Quality



Provisioning (Credit cost) and Return on Assets (ROA)

Credit Costs (%) and RoAs (%)



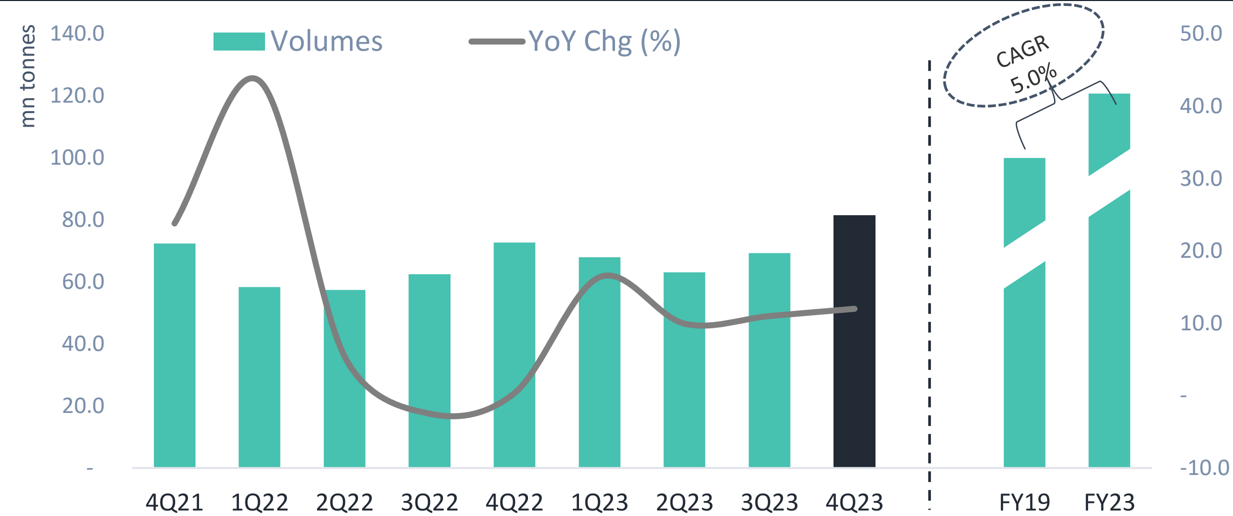
ROA for PSU banks are multi-years high on NIMs expansion and benign credit costs. Adjusted for exceptional loss on Citi acquisition, Pvt banks RoAs were up marginally QoQ at 1.9%

Credit costs is defined as Total Provisions (annualized) divided by average loans.
Data pertains to 28 banks aggregating >90% of the banking system (ex Foreign banks).

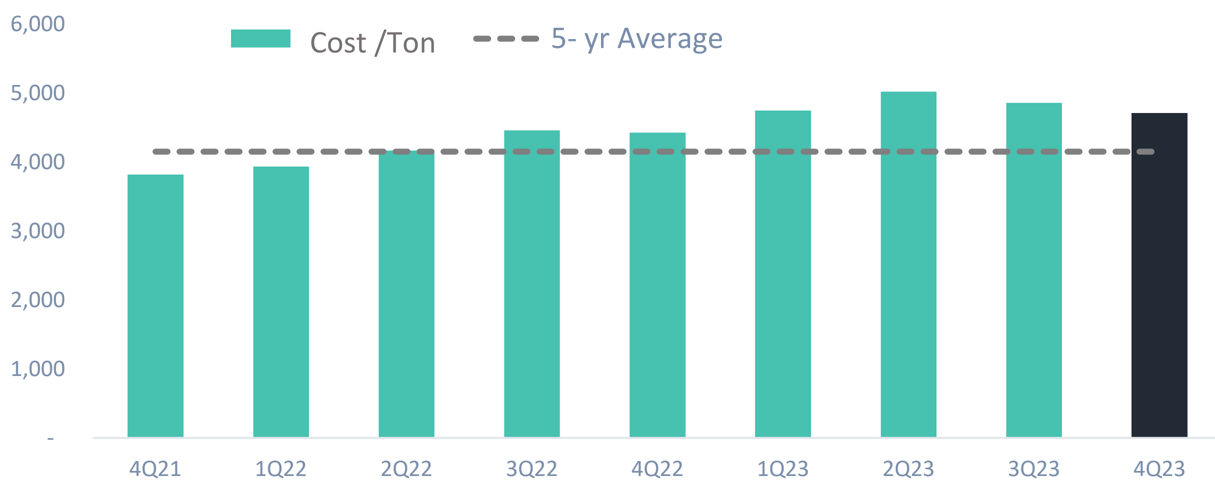
Cement: Volume growth recovers; cost deflation to support margins

Volume growth accelerated in FY23 to 12% after growing at mid-single digits in FY19-22

Volume growth CAGR FY19-23 of 5%



Cost savings of >Rs300/ton to kick-in H1FY24 assuming spot fuel prices sustain



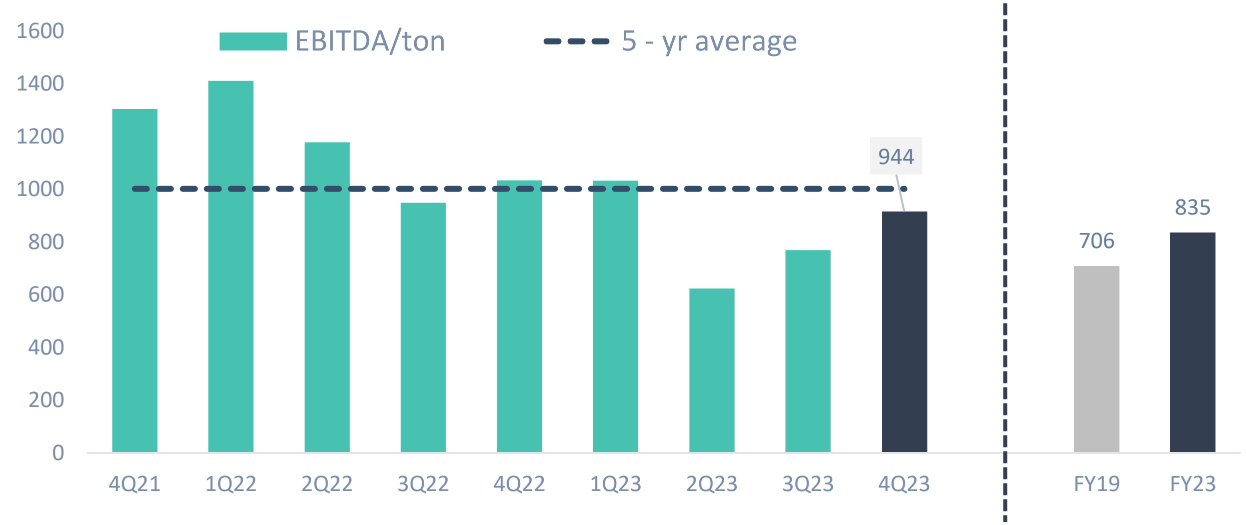
Spot petcoke prices declined >50% YoY to US$120/ton; assuming spot prices sustain; cost savings of >Rs300/ton to kick-in H1FY24

DSP Representative set of 8 cement companies

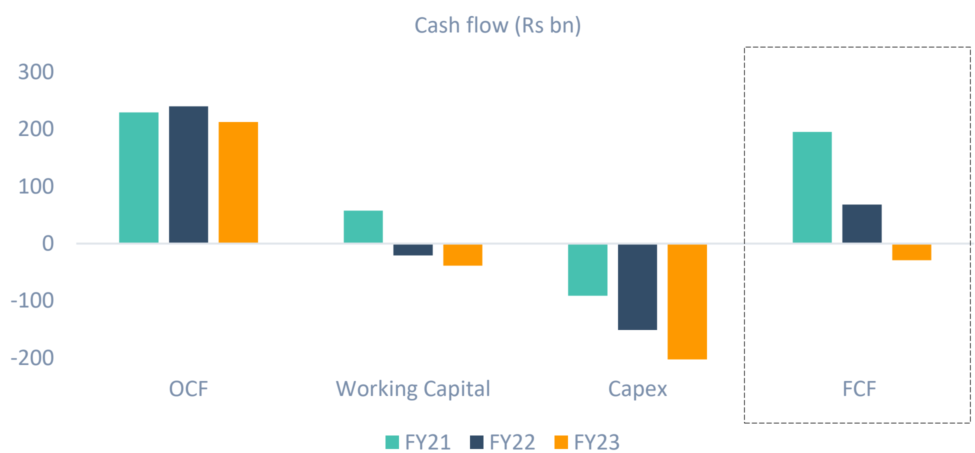
Cement: Profitability below FY22 peak, capex intensity picks-up

Industry average EBITDA/ton declined 12% YoY in 4Q23 and increased 19% QoQ to Rs900+; still 35% below the peak EBITDA/ton seen in Q1FY22

Industry avg. EBITDA/ton still >30% below from peak level in Q1FY22



FCF generation stood at negative Rs29bn in FY23 vs +Rs68bn in FY22



FCF generation stood at negative Rs29bn in FY23 (vs +Rs68bn in FY22) as capacity capex increased and input cost volatility lead to higher working capital needs

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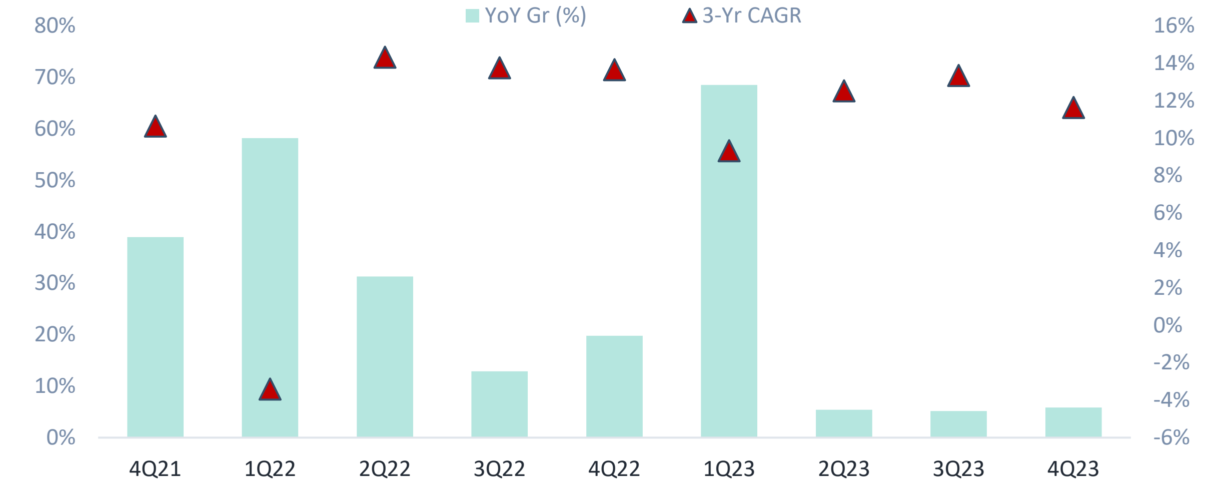
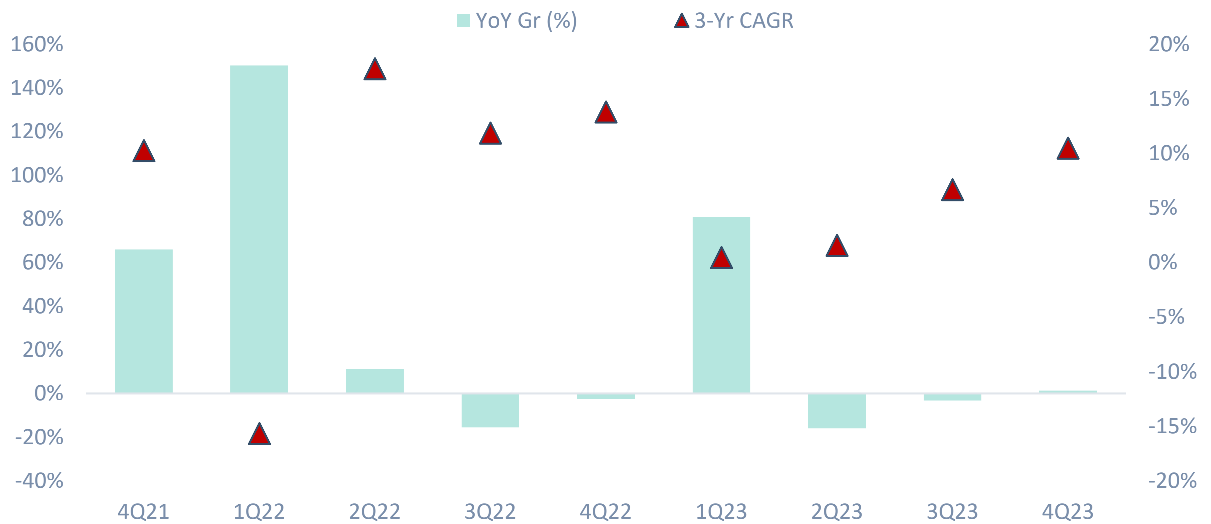
Consumer Durable (CD): Weak summer season

CD revenue 4-year CAGR was at 12% in 4Q23, similar trend witnessed in the previous quarters. Reported YoY growth has seen deceleration due to mean reversion.

Revenue sustaining double digit CAGR despite several headwinds



Operating profit: RM inflation impact operating margin



Steep inflation in copper and rising competition had a toll on operating profit across categories. Besides, companies are reinvesting on R&D and marketing.

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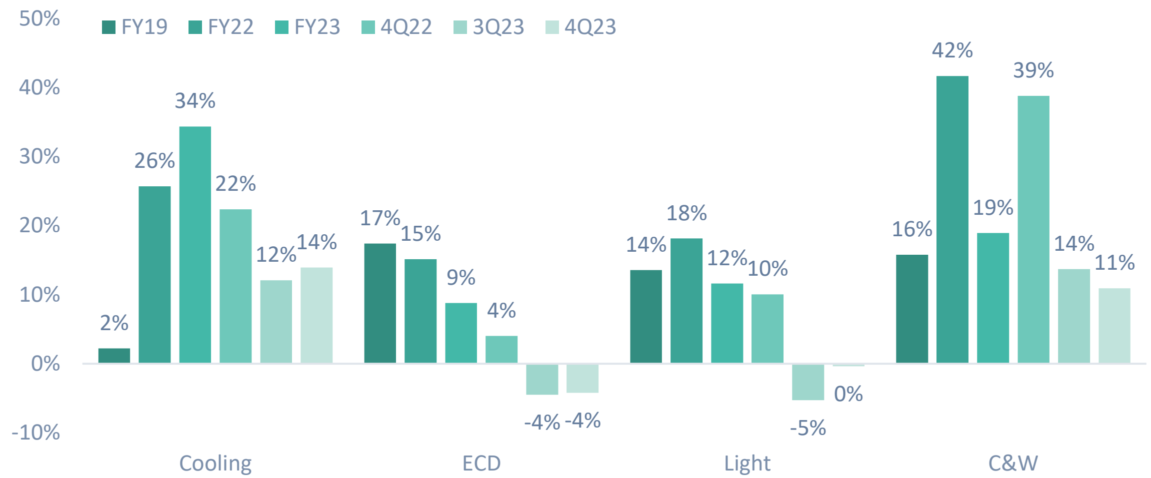
Note: 4Q23 is 4 Yr CAGR

Based on representative set of 24 companies

Consumer Durable: Cable & Wires segment was an outlier

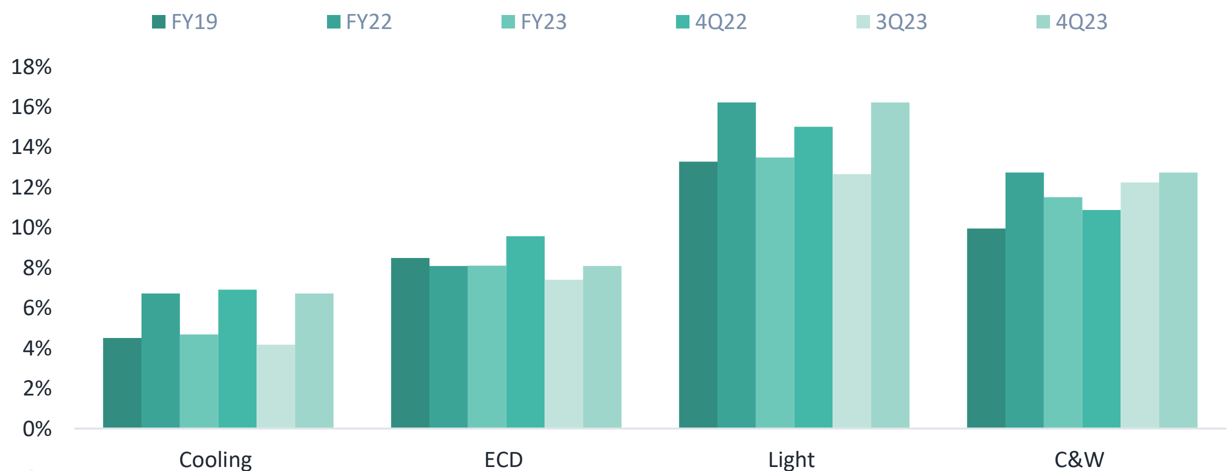
Rating change in fan, weak summer season and rising competition in white goods impacting ECD & Cooling categories. Lighting CAGR remained soft. Cable & Wire (C&W) remained strong due to high demand from both B-B and B-C

Category revenue growth: Lighting & ECD seeing deceleration



Note: Data labels are 3 Yr CAGR (FY23 and Q4FY23 is 4 Yr CAGR)

Category EBIT margin: across categories margins are flat vs. FY19



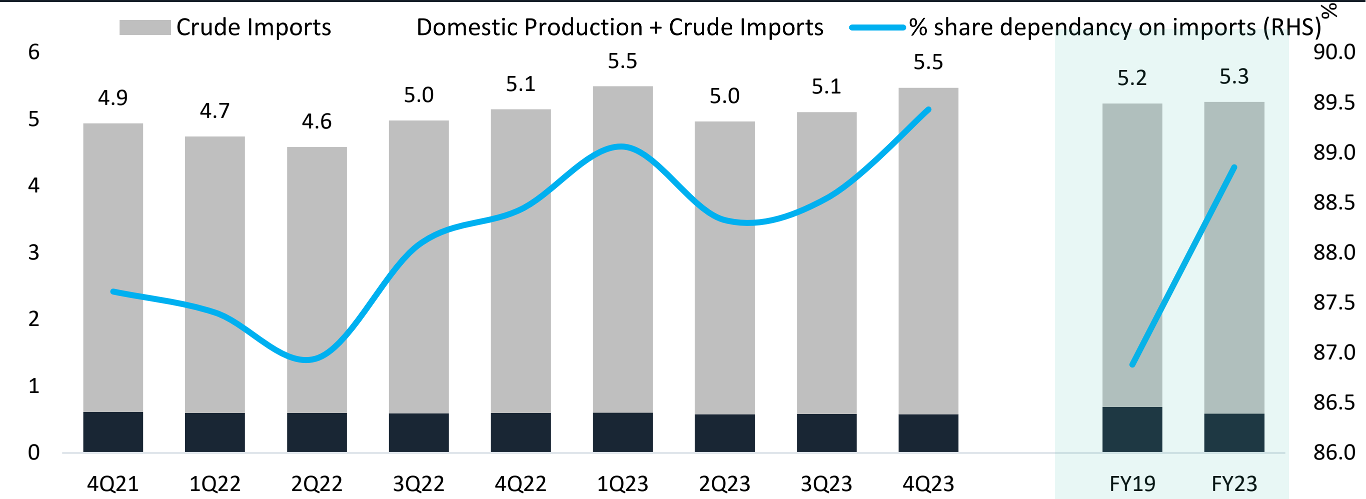
Commodity inflation, insufficient price hike, competitive intensity and growth deceleration had an adverse impact on margin. FY21 and FY22 margin expansion has reversed in FY23.

Based on representative set of 24 companies

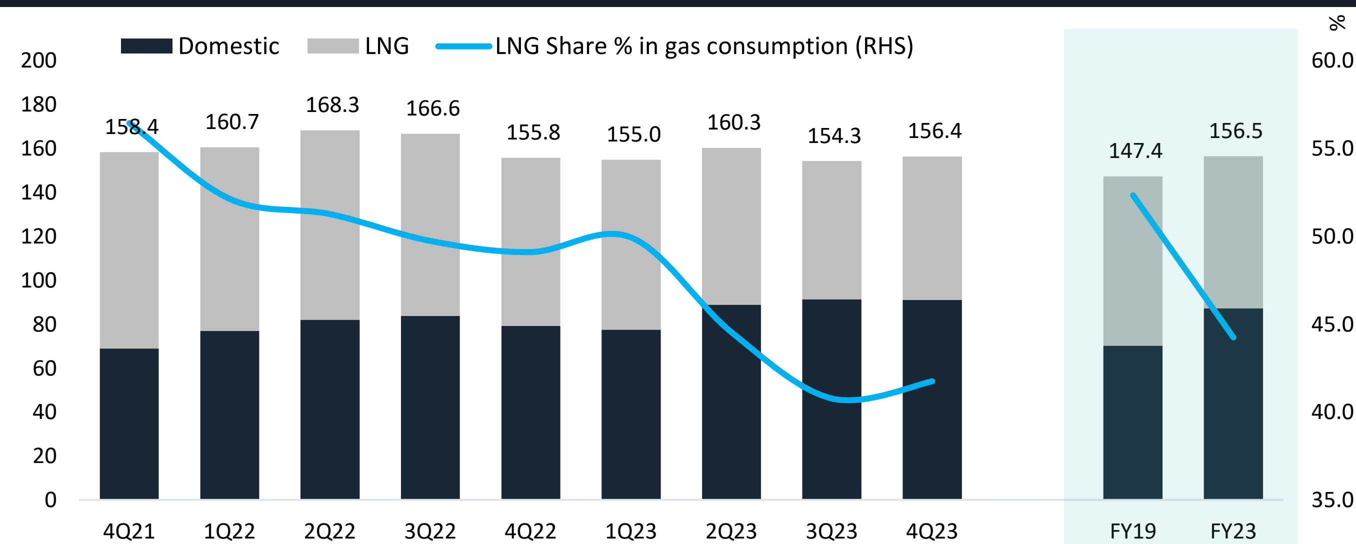
Energy: Oil dependency rises whereas it falls for gas

Import dependency of crude continues to rise, Russian discounted sourcing reaches ~34%

Oil consumption trends (mb/d)



Gas consumption trends (in mmscm/d)



Overall gas consumption has grown at 4-yr CAGR of 1.5%, the dependence on imported LNG has come down with rising domestic production

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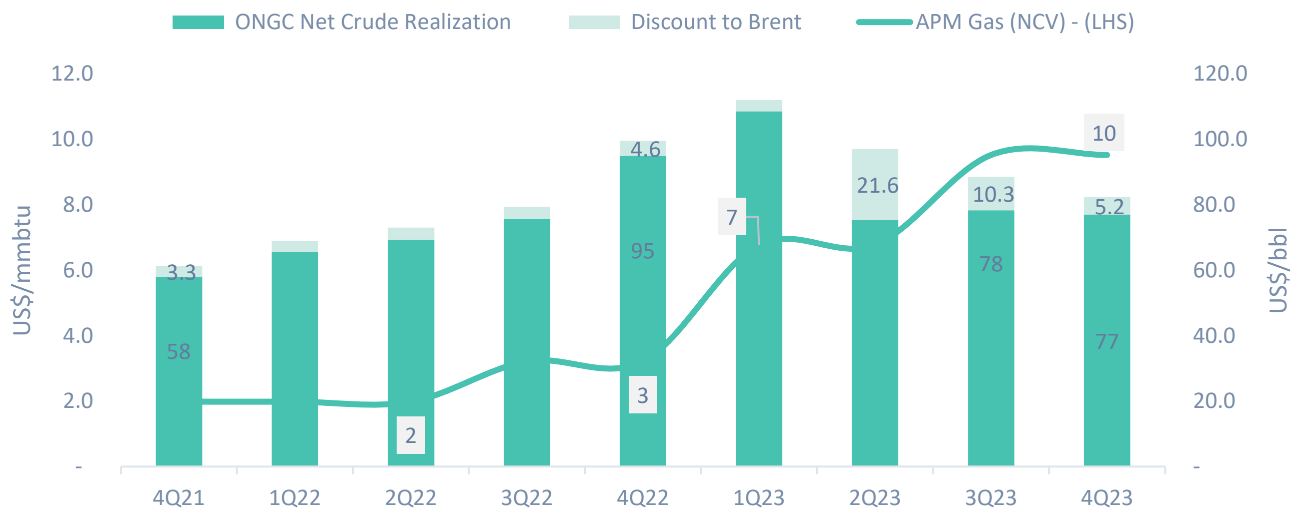
Source: Company disclosure

Based representative set of 3 Oil marketing companies

Energy: Domestic gas realisations peak, marketing margins improve

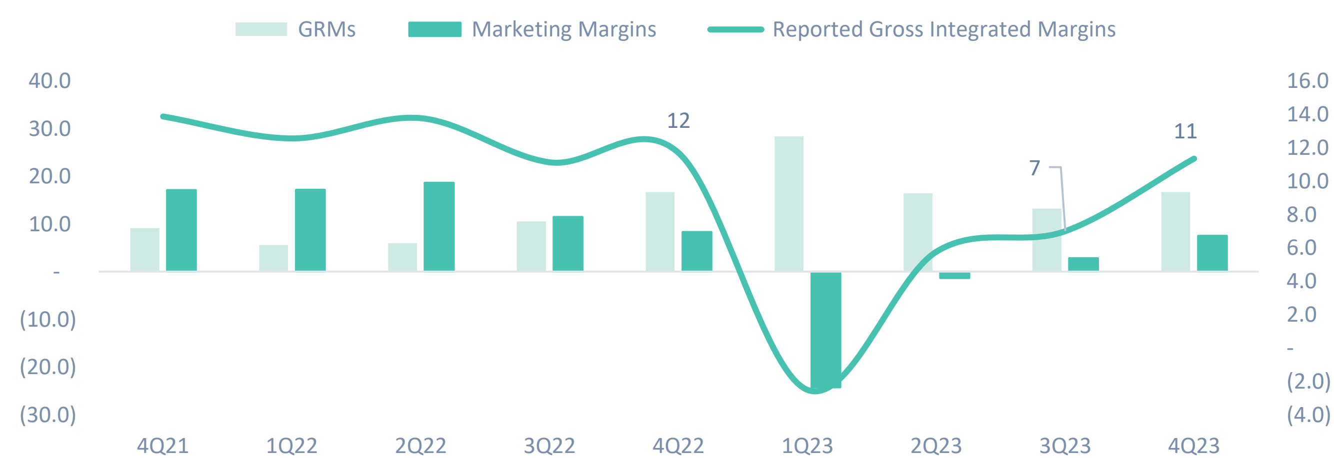
Oil and Gas realization trends



Brent and APM Gas prices peaked in 4Q, Kirit Parikh recommendations approval will lead to fall of APM prices providing stability wef. Apr-23

Integrated Margins (Refining + marketing - US$/bbl), refining cracks coming off with marketing margins improving

Integrated marketing margins improve for Oil marketing companies



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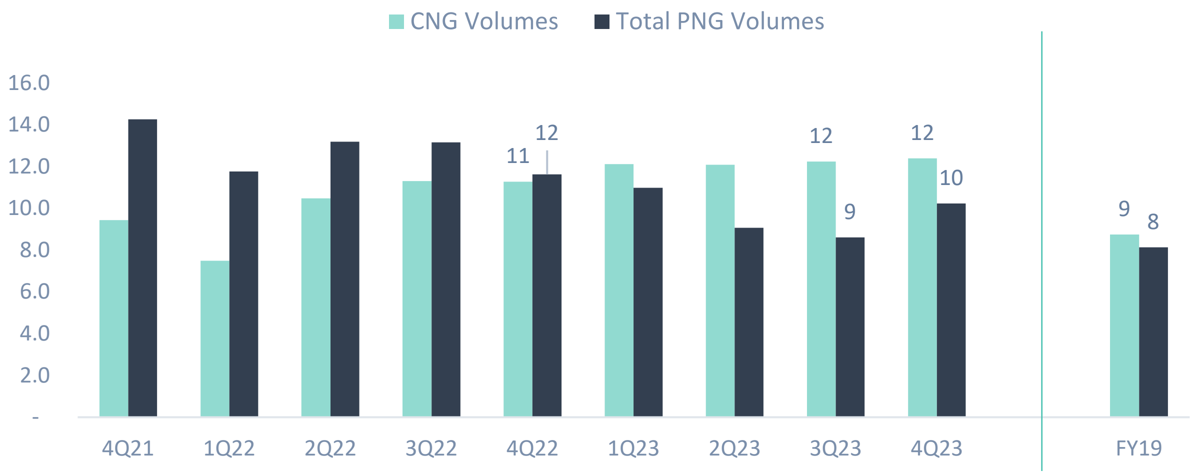
Source: Company disclosure

Based representative set of 3 Oil marketing companies

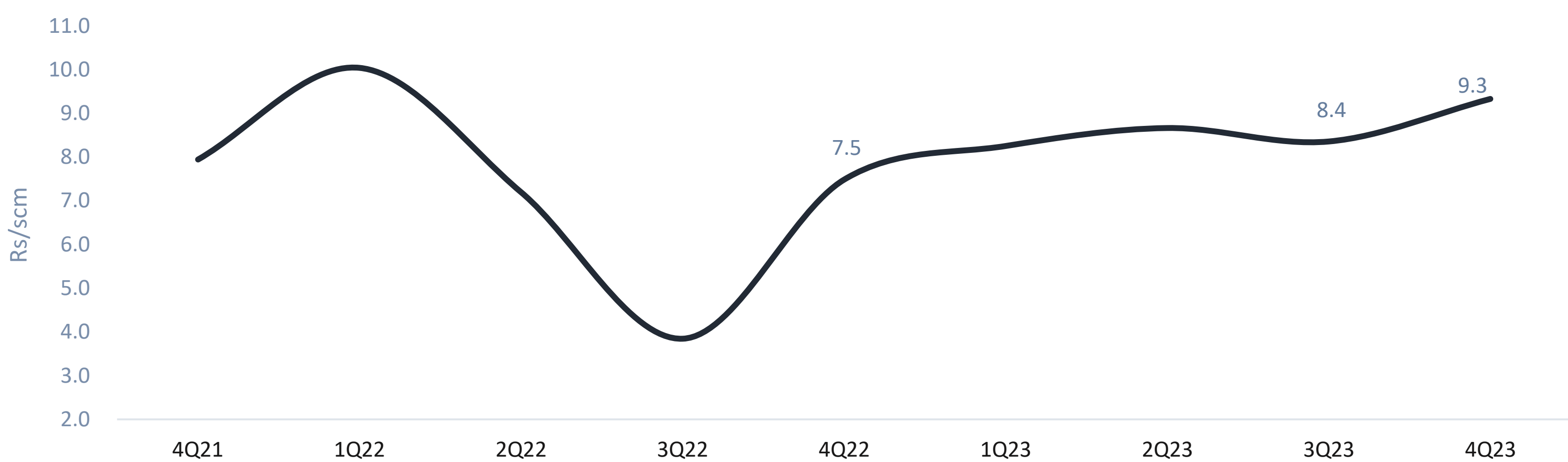
Gas Utility: Volumes and margins recover

Volumes: CNG volumes peak; despite lower differentials vs alternate fuels



Despite lower discounts compared to alternative fuels, the market for CNG-fueled vehicles continues to grow rapidly while the industrial volumes have started to pickup on falling gas prices

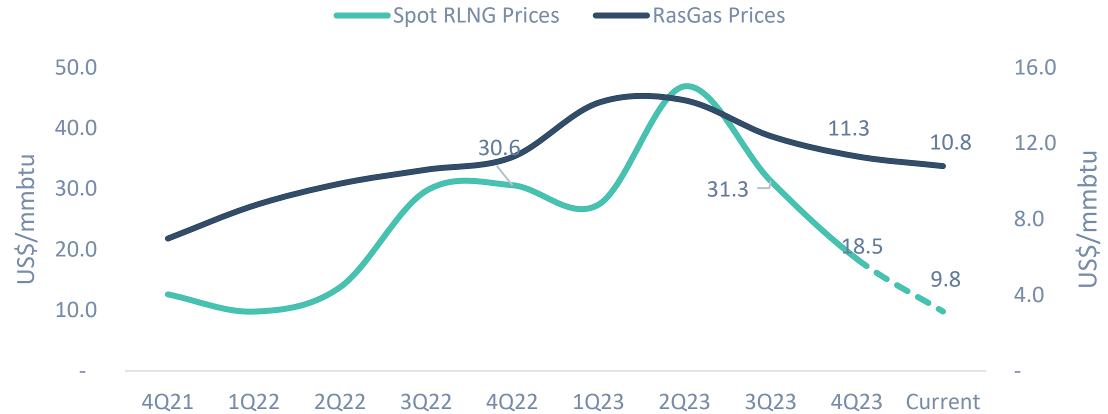
Aggregate margins improve with falling LNG



Based representative set of 4 CGD companies

Gas Utility: CNG differentials narrow

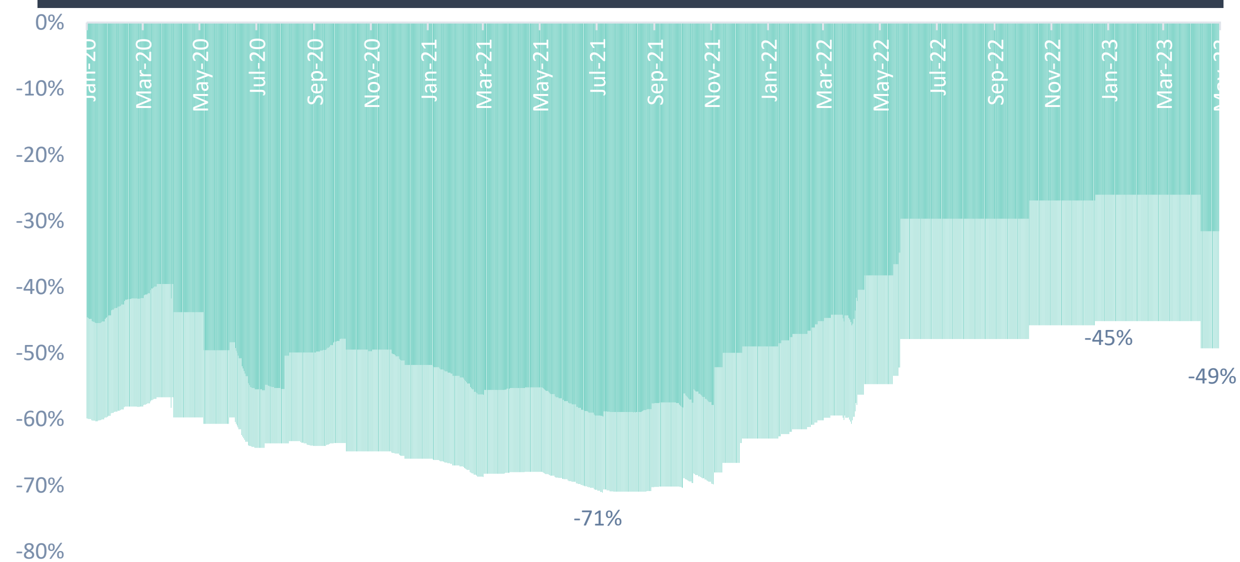
LNG prices cool off



The spot LNG prices have been falling given an oversupply in the market, curtailed Chinese demand, and lower EU regasification capacity

Differential of CNG prices vs petrol and diesel reduce in 4Q. Kirit Parikh recommendation induced price cuts should result in differentials increasing vs petrol

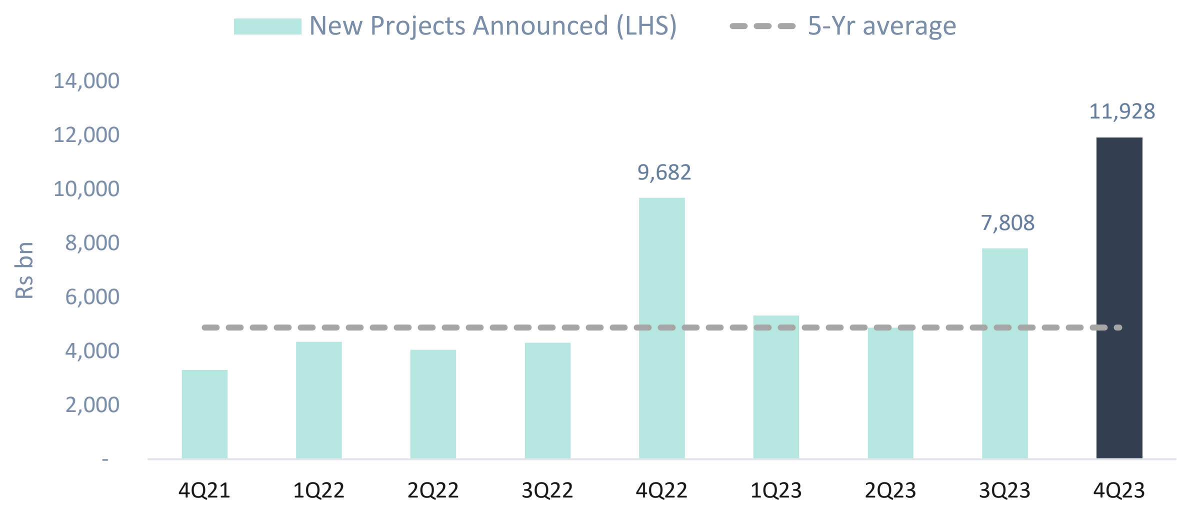
Volumes: CNG differentials vs Petrol narrow



Based representative set of 4 CGD companies

Industrials: All time high quarterly project announcements

New project announcements

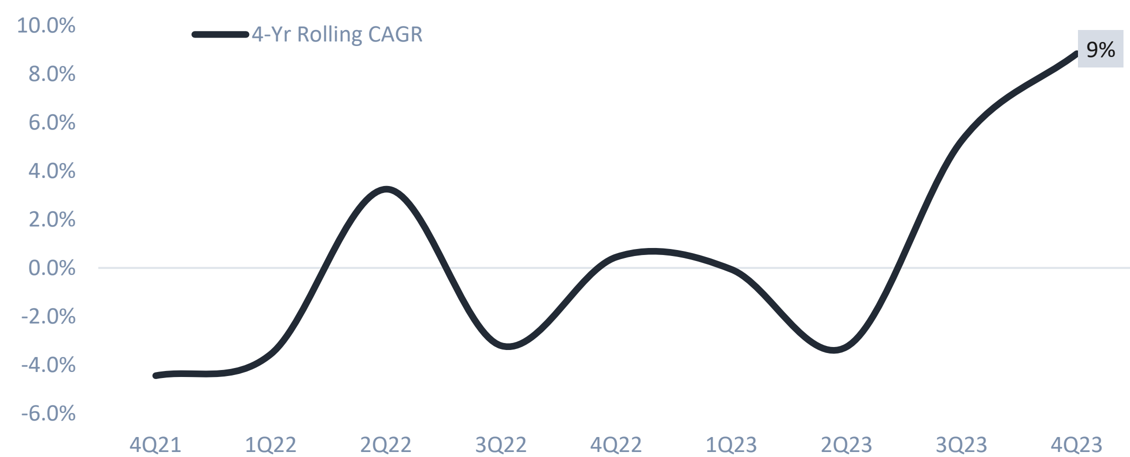


Source: CMIE

New projects worth Rs 11.9 trillion mark the highest investment proposals recorded in any quarter to date, almost double the average of the preceding four quarters.

Robust order inflow growth in 4Q23 driven by 9000 HP locomotives and government's defense indigenization push. Total order inflow reached Rs 1.13 trillion, a 22% YoY growth, highlighting government's continued capital expenditure focus.

Order inflow growth

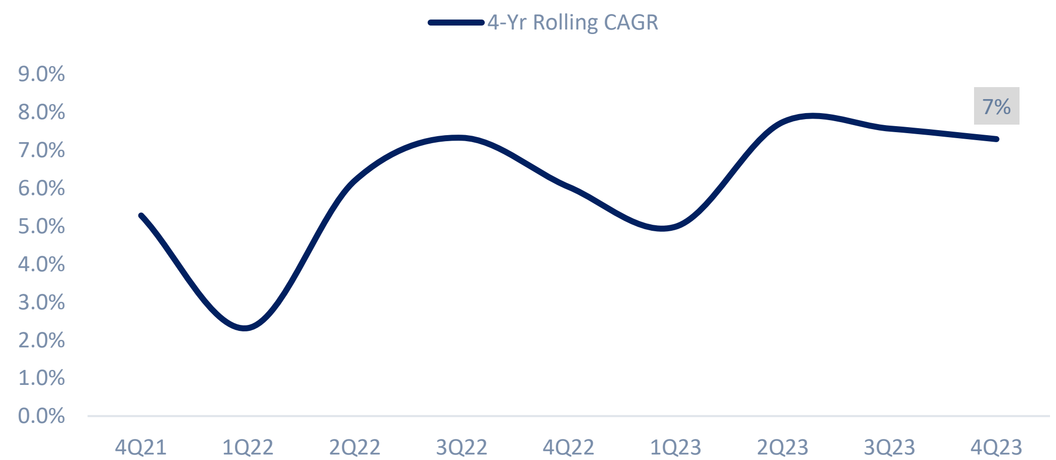


Orderbook and Order inflow based on 12 companies

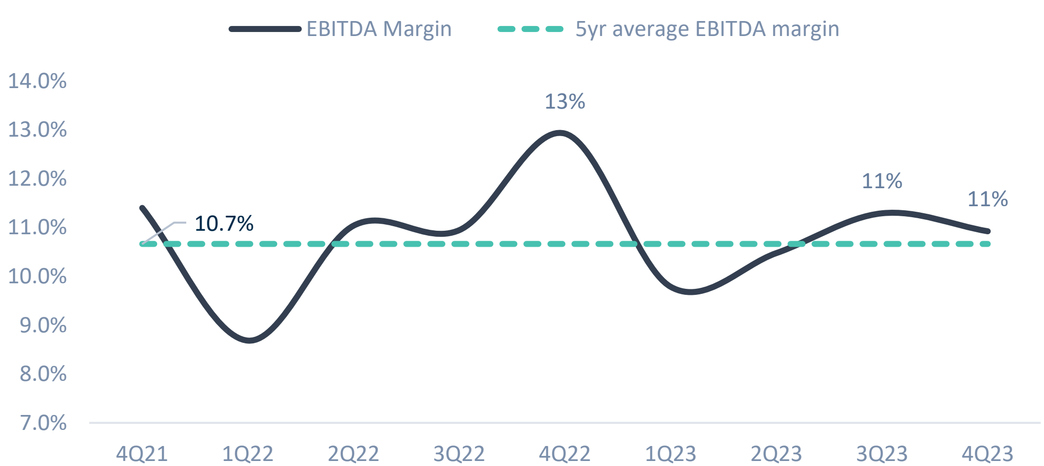
Industrials: Sales growth robust but margins remain under pressure

Revenue for the quarter grew by 12% YoY to ~Rs 1 trn on back of healthy growth in product companies

Revenue growth trajectory



EBITDA margins



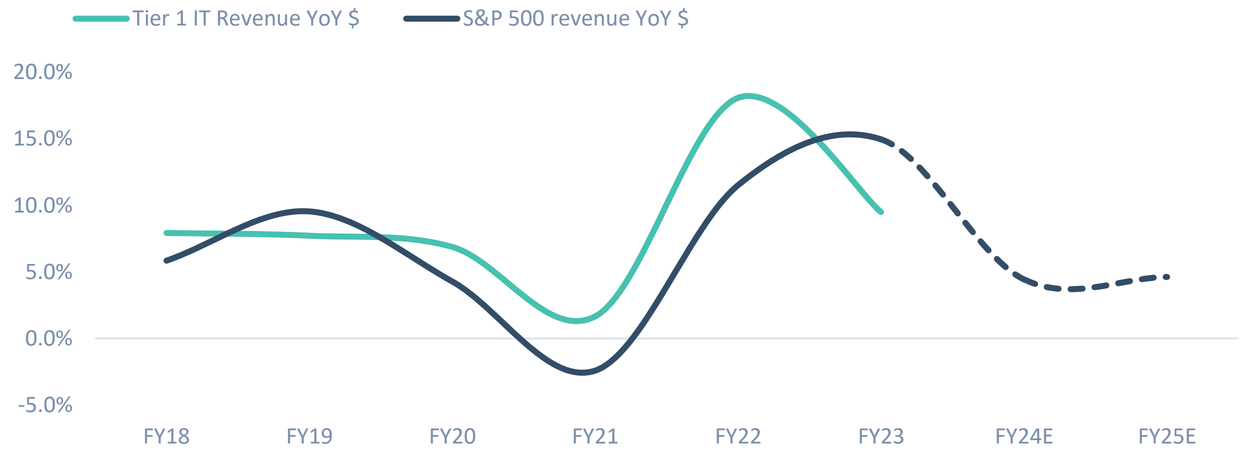
Although the EBITDA margin remained above its 5-year average level, it experienced a decline both year-on-year and sequentially. This decline can be attributed to various factors such as heightened competition, challenges in execution, rising costs, and a resurgence of imports from China.

Sales and EBITDA margins is based on 22 companies

IT Services: Moderation is visible across all key parameters

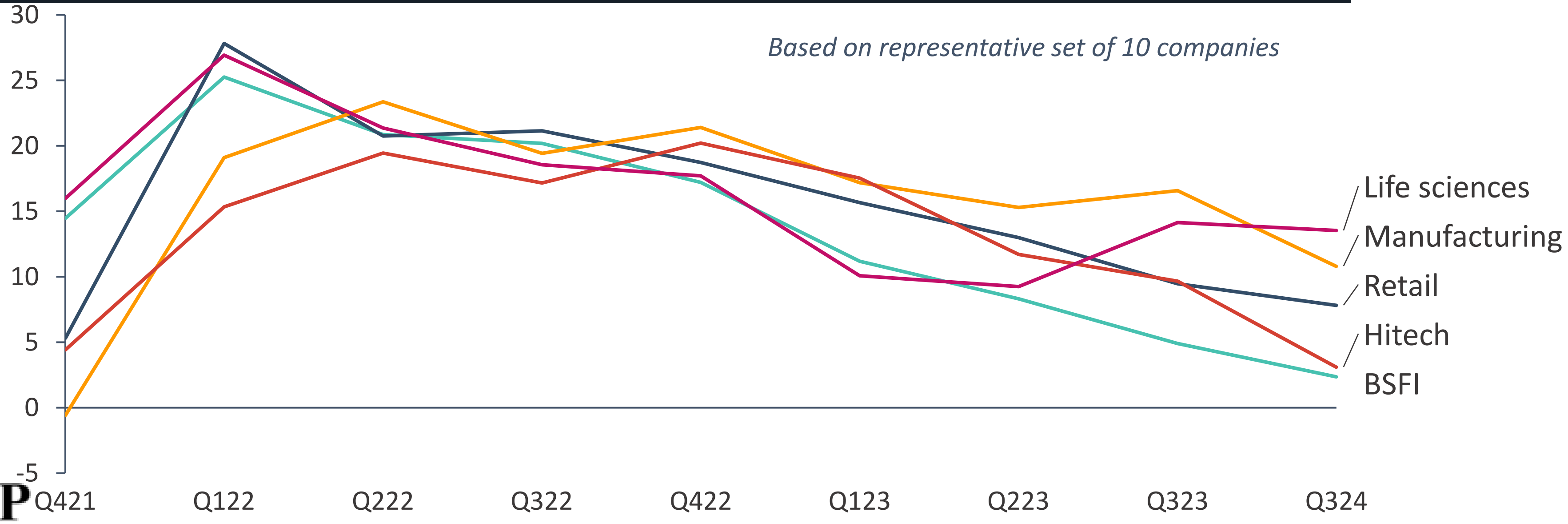
Tier-1 Revenue and S&P revenue are highly correlated. Consensus expectations indicative of deceleration of S&P 500 revenues

Revenue growth trajectory



Tier-1: Representative set of top-5 IT cos and S&P 500 revenues is based on Bloomberg Consensus

Deceleration across all key verticals



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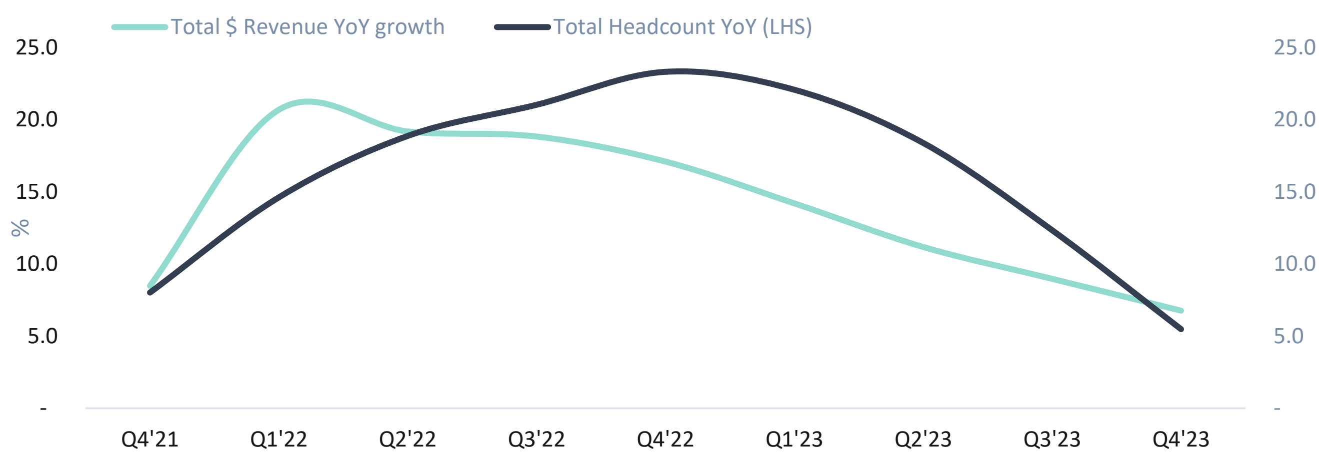
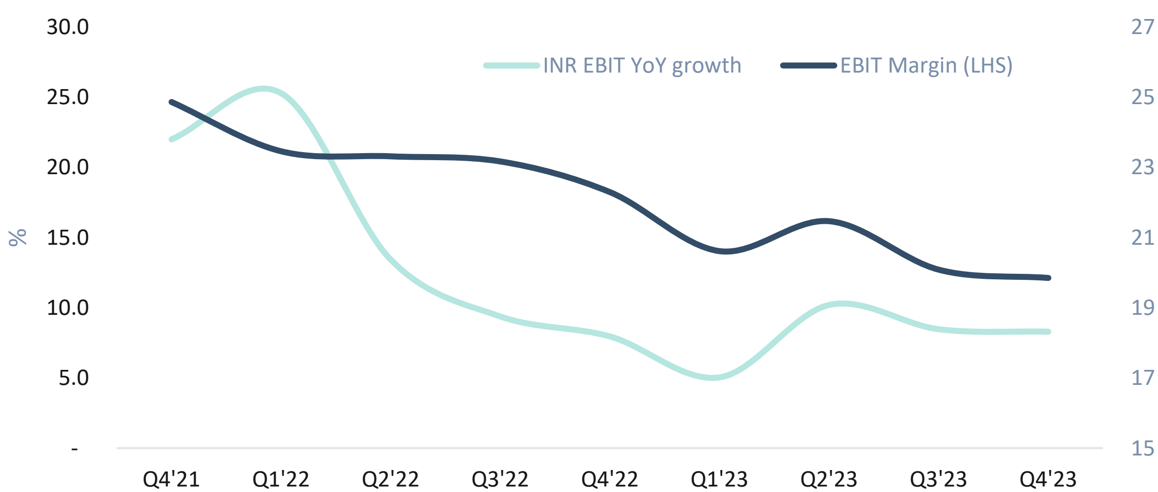
IT Services: Margin pressure is visible

Net hiring has been slowing down with weakening macro trends

Employee additions moderating



Margin pressure is visible



Margin down by 500 bps from FY21 exit rate

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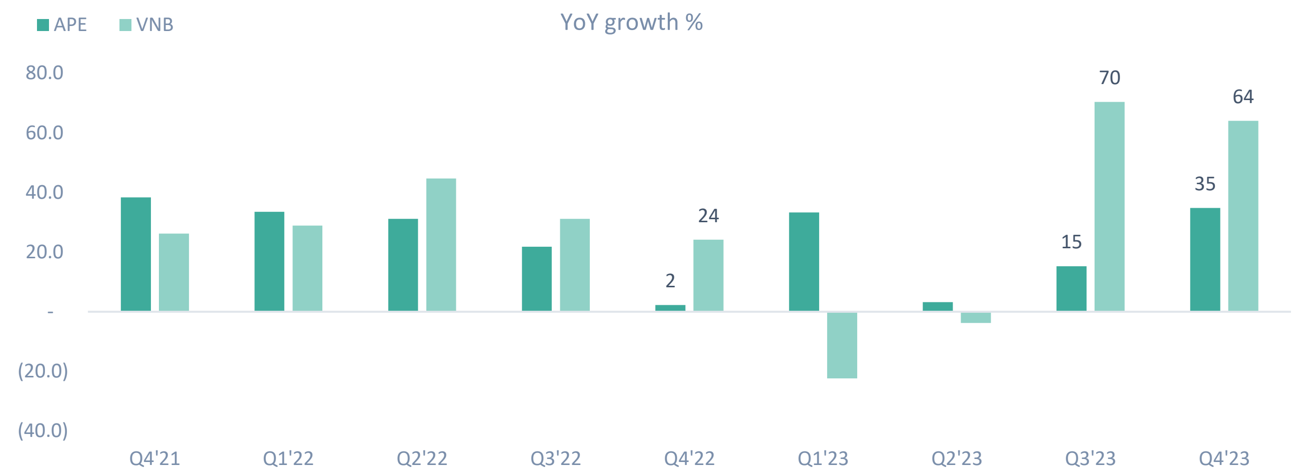
Based on representative set of 10 companies

Life Insurance: Non-par segments drives Value of new business(VNB)

Strong quarter driven by taxation-change-led higher-ticket non-par product sales, however, creates high base for FY24 (excl. SBI Life)

YoY (%) APE and VNB growth



Key parameters – 4 yr CAGRs

Parameters	FY23	
	FY19-23 CAGR	YoY
APE	12.7	20.7
VNB	29.0	30.6
Embedded Value	17.6	15.9
Retail Protection	12.7	4.9
Non par (Individual)	87.6	107.5
ULIP	(2.0)	(6.3)

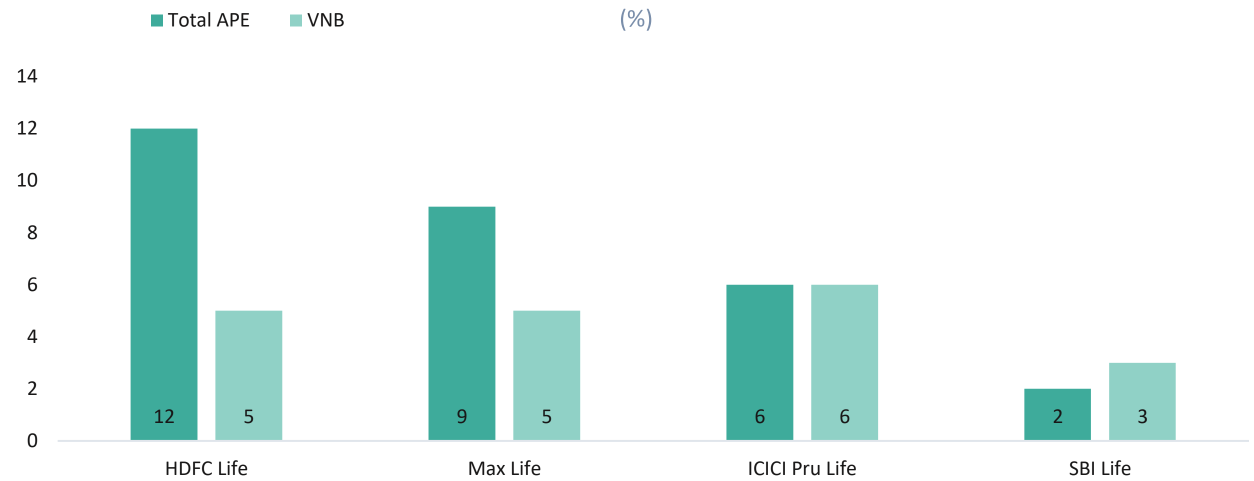
Focus on high margin non par segments results in VNB growth outpacing Annualised premium equivalent (APE) growth

Based on IPRU Life, SBI Life, Max and HDFC Life.

Life Insurance: Implied APE growth expectations are low

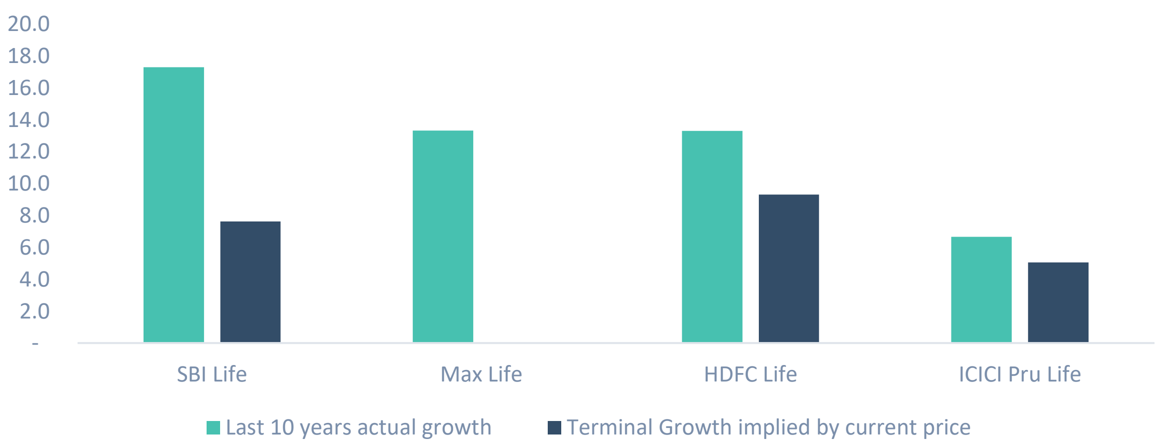
Average impact of large ticket product on APE and VNB is <8% and <5% respectively

Share of large ticket size products in APE and VNB



Based on IPRU Life, SBI Life, Max and HDFC Life. For Max Life and SBI Life, impact on VNB are estimates.

Implied APE growth expectation*



The stocks are factoring in sharp deceleration in APE growth

** Terminal growth expected based on price May 31,2023 assuming current VNB margin*

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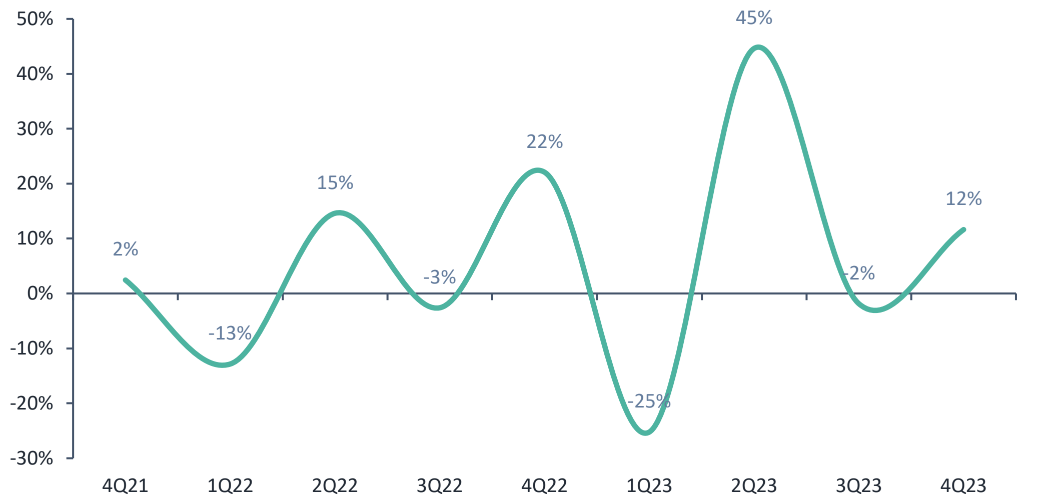
Metals (Steel): Moderating input costs

Volume growth

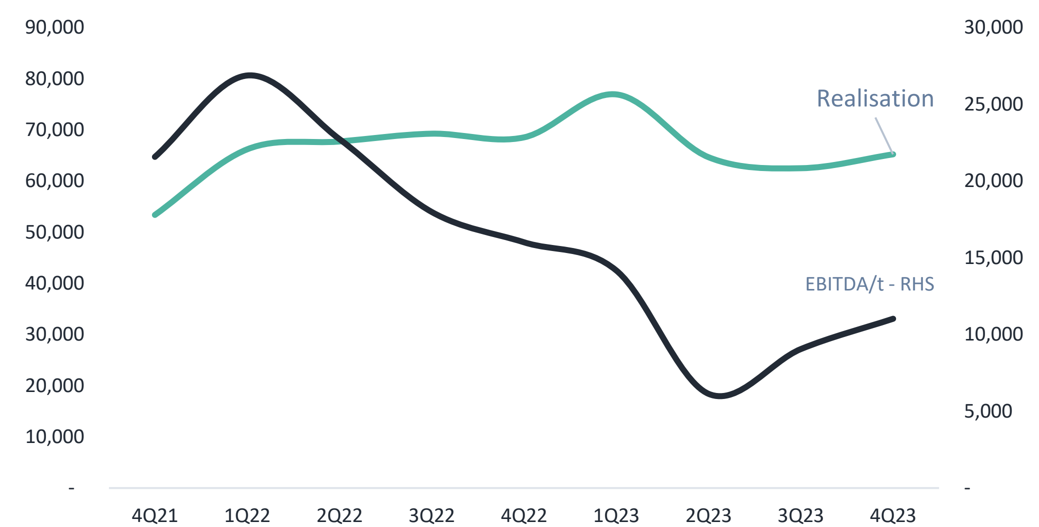


Average volumes grew by 12% qoq and 18% yoy. 4Q is traditionally a strong quarter

4Q23 blended realisations improved 4% largely driven by improvement in flats. Further aided by operating leverage overall EBITDA/t jumped 22% sequentially.

Spot steel realisations fell 4% over 4Q average. However, iron ore/coking coal moderated 13%/40% implying EBITDA/t on spot basis is better than 4Q avg which will reflect with a lag

Realisation and EBITDA (Rs/ton)



Based representative set of 4 steel companies

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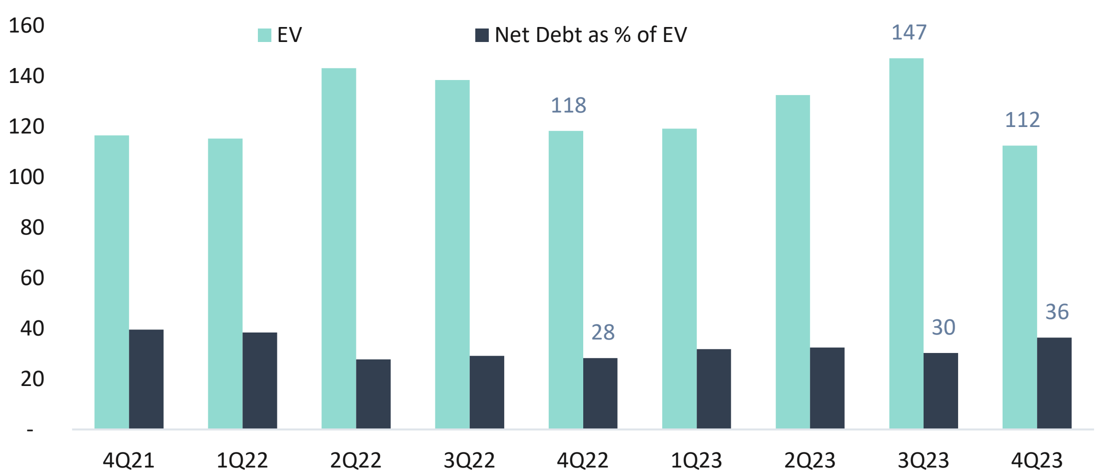
Metals (Steel): Leverage remains manageable

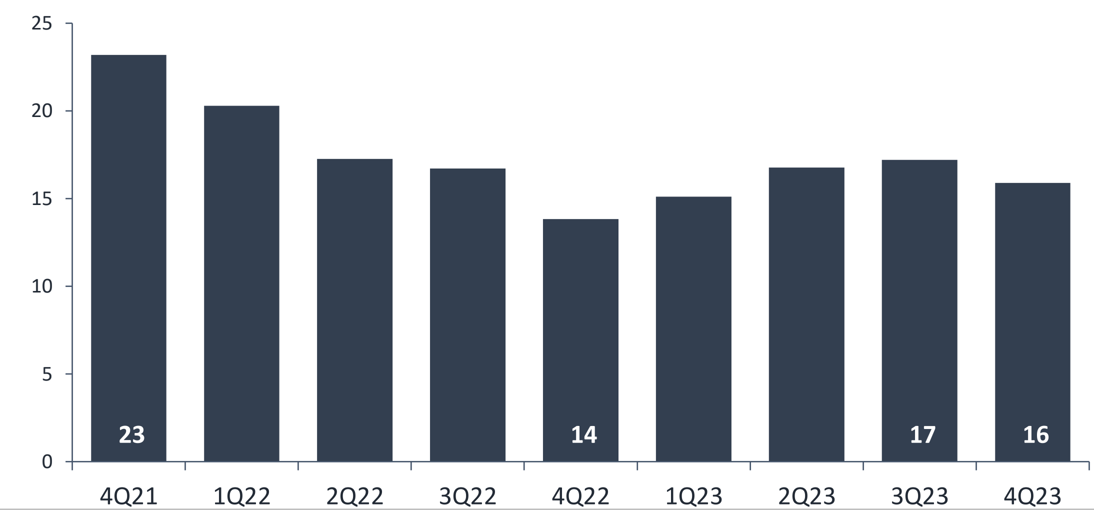
Enterprise value and Net debt



While the cumulative debt of top 4 Cos fell 8% sequentially; Fall in market cap was sharper due to demand concerns in China and deteriorating macro environment, leading to higher Net Debt to EV ratio

Industry average for Net Debt/tonne of capacity has declined sequentially (YoY most of steel mills suffered working capital increase) as well as on longer term; an indication that future expansion are largely sustained through internal cash flow

Debt/tonne of capacity (Rs Bn)



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Based representative set of 4 steel companies

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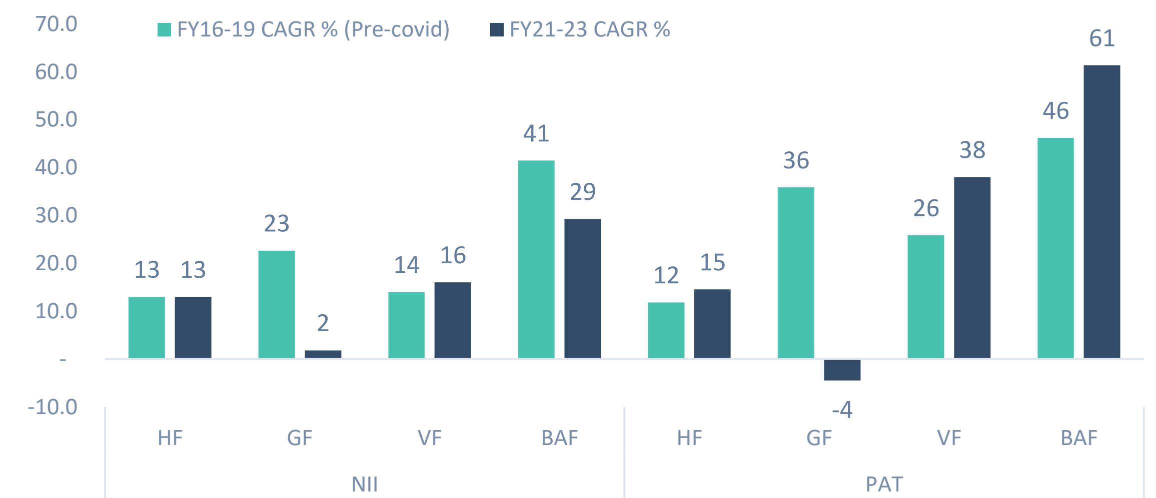
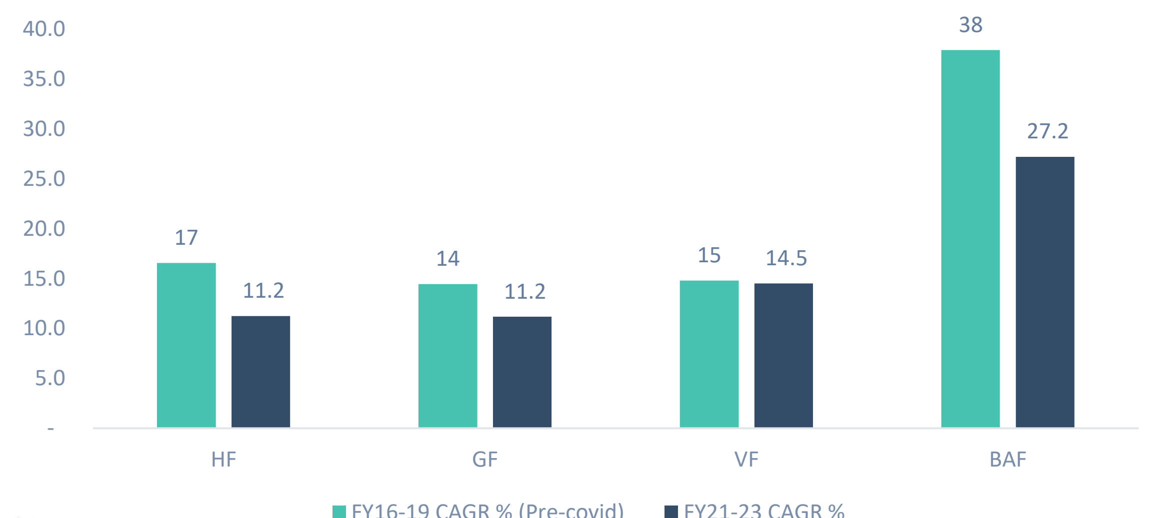
NBFC: Steady operating performance

Benign credit cost in FY23 results in higher PAT CAGR vs Pre-Covid (except for Gold Fin where yields have come down)

NII/PAT trajectory



Asset under management



Double digit AUM growth continues

Representative set of 15 NBFCs, HFs: Housing finance companies, VF Vehicle Finance, GF: Gold Finance and BAF Bajaj Finance Source Company Disclosures

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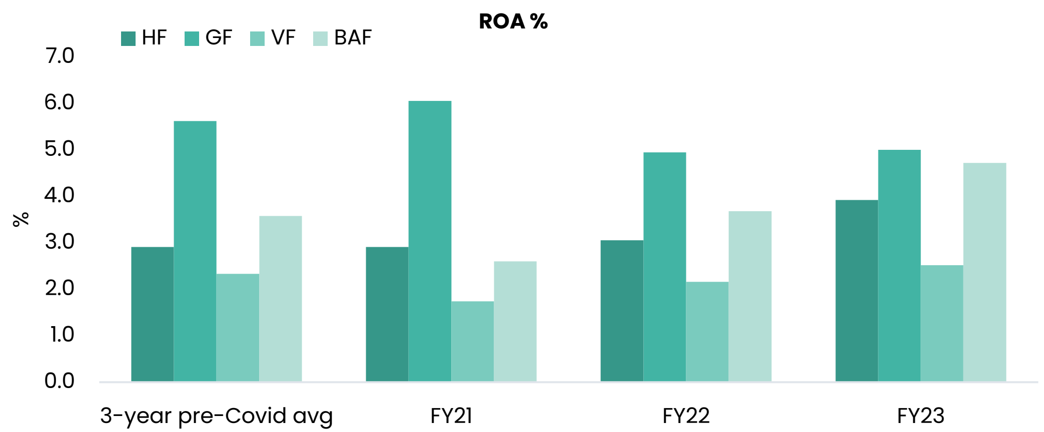
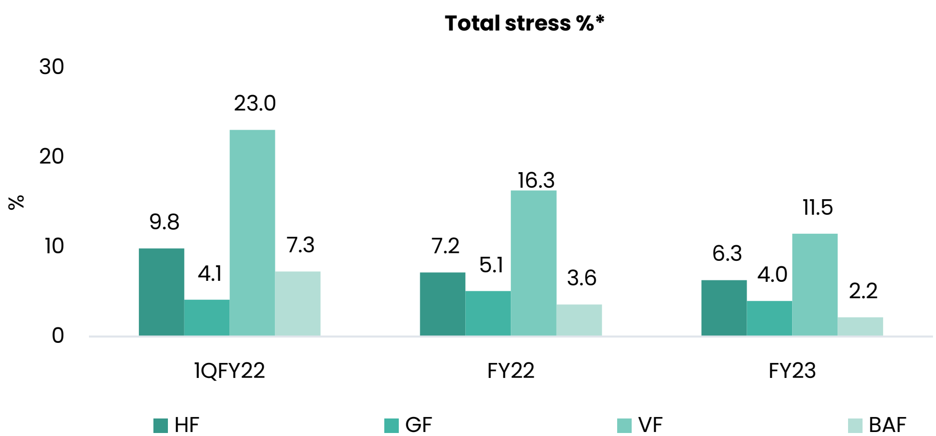
NBFC: Overall stress is moderating

FY23 ROA above pre-covid (except for Gold), mainly on the back of below normalized credit cost

Return on Assets



Total stress



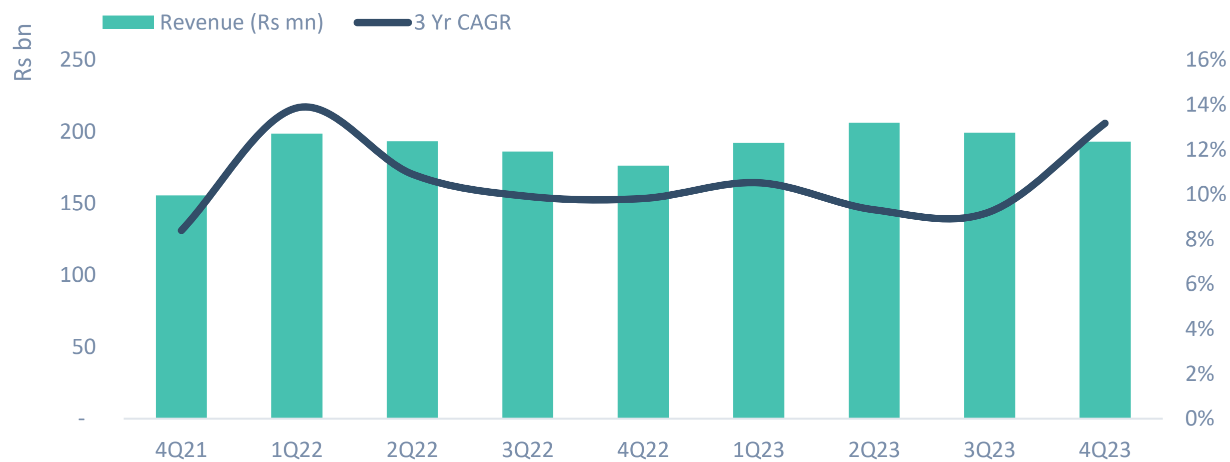
Overall stress has depleted meaningfully from the peak and now at pre-covid levels in most segments

* Total Stress = Stage 2 + Stage 3

Representative set of 15 NBFCs, HFs: Housing finance companies, VF Vehicle Finance, GF: Gold Finance and BAF Bajaj Finance

Pharma: India growth steady, exclusivities drive traction in US

Domestic Pharma Market



Steady growth in domestic pharma market

Revlimid has driven growth across the US portfolio for last couple of quarters

US Generic Market

*Representative set of 18 Pharma companies

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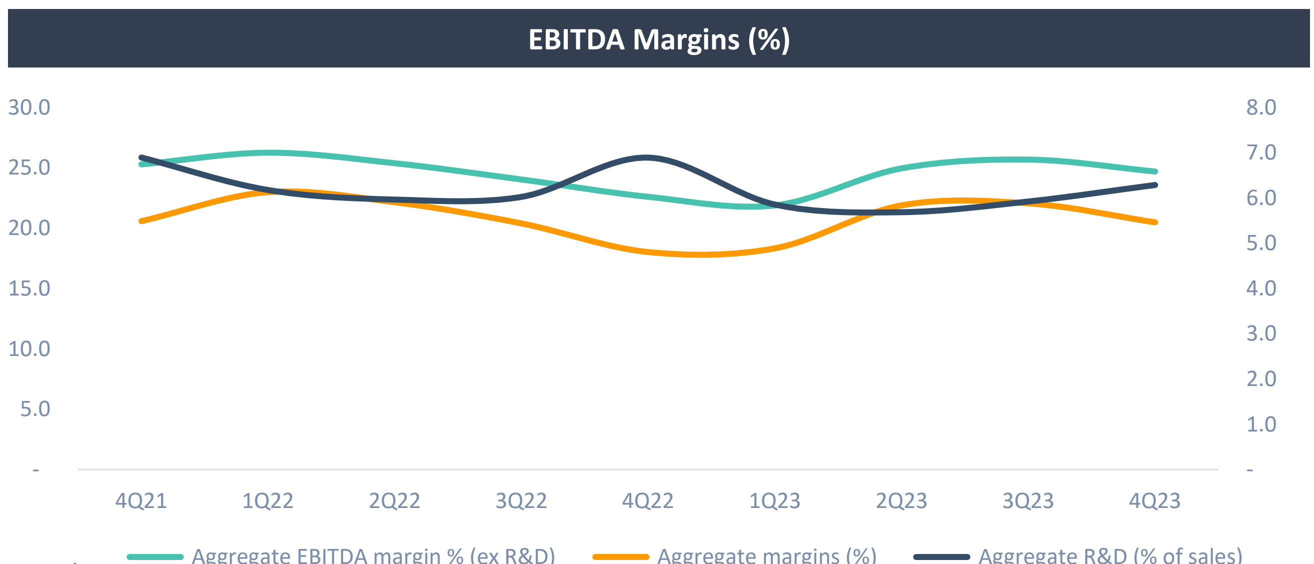
Pharma: Margins set to improve

Better pricing in India and US, INR depreciation is helping to ease out pressure from higher raw material prices

Pharma companies are rationalizing R&D spends in a bid to improve margin profile

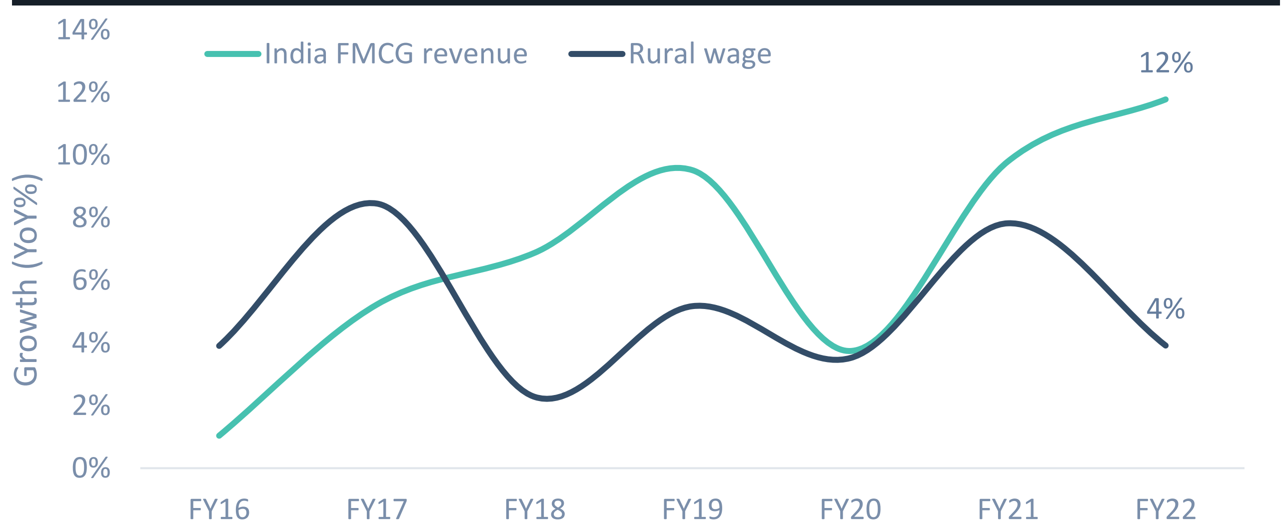


*Representative set of 18 Pharma companies

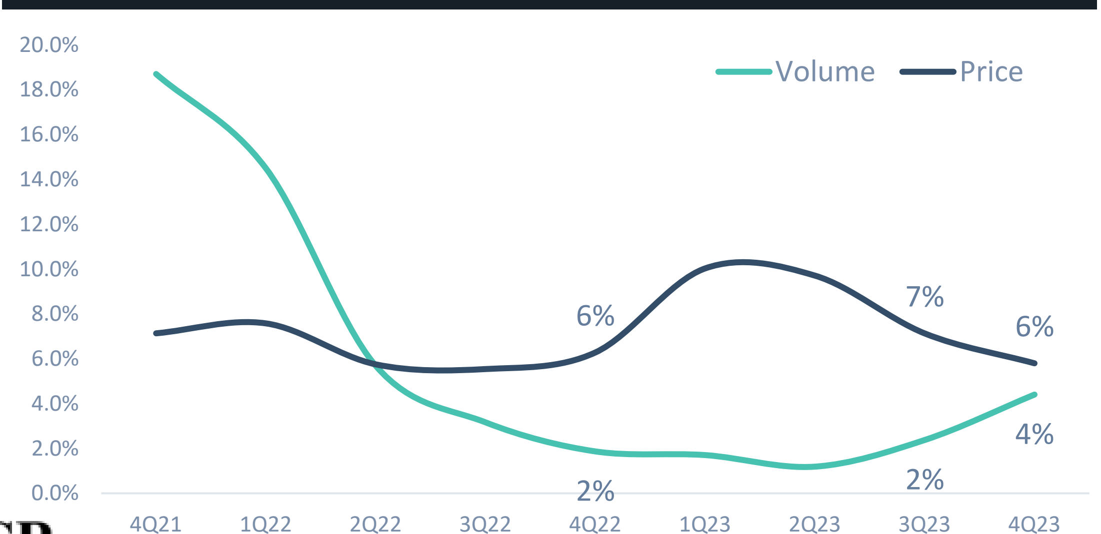
Staples: Volumes and pricing growth is converging

FMCG growth and rural wage which are generally correlated are showing divergent trends

Divergence seen in FMCG growth and Rural wage growth



Converging price and volume growth



The aggregate volume growth for FMCG sector continued its trend of gradual improvement, with 4Q23 aggregate volumes growing +4% compared to +2% in 3Q23.

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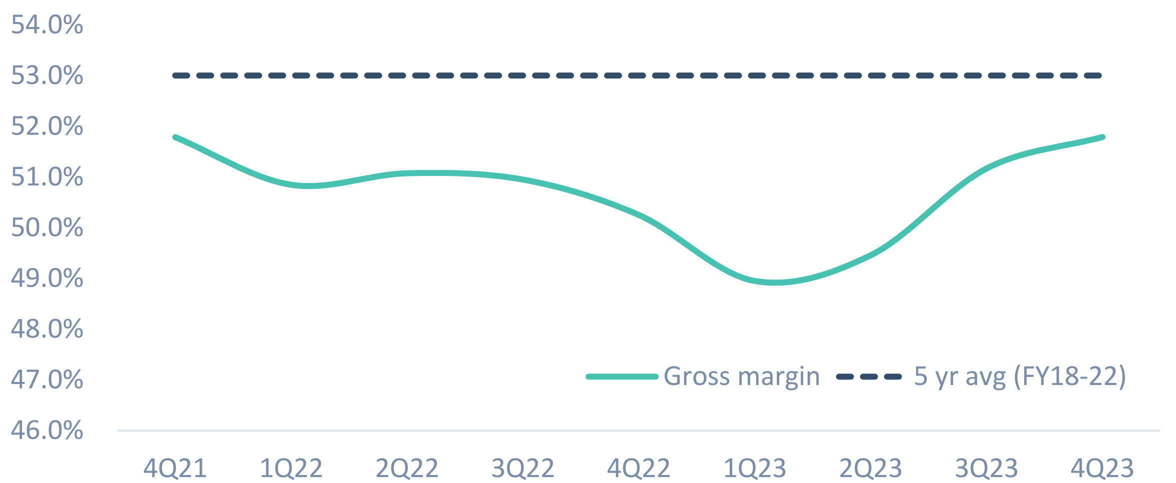
Based on a representative set of 11 FMCG companies

Staples: Gross margins improving with easing commodity pricing

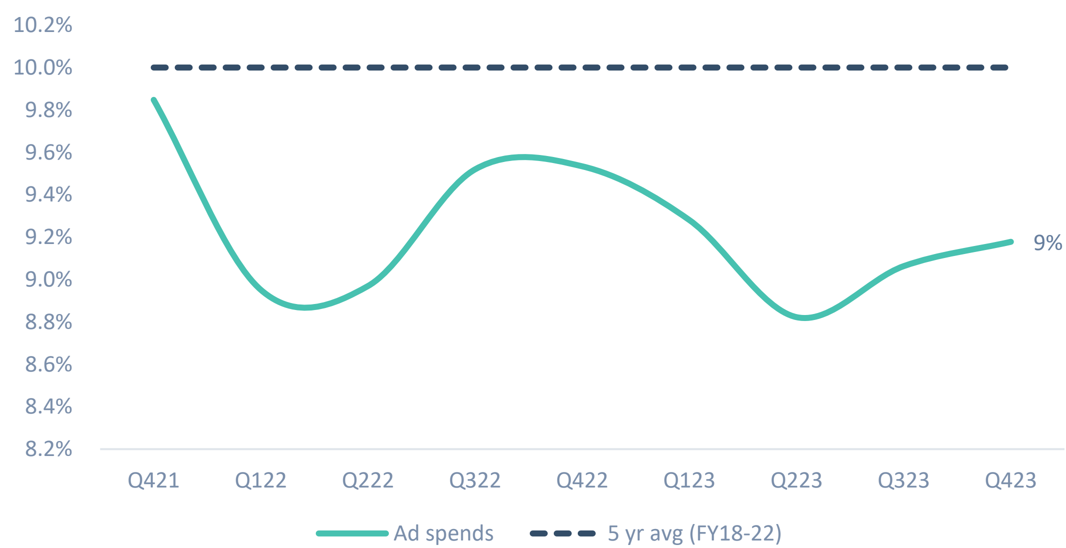
Gross margins improvement visible



With commodity prices (crude, PFAD, Palm, Wheat) easing across key raw materials, margin profile is improving however it is still trending below 5-yr averages

Advertisement spends are still steady however remain below the 5-year averages

Ad spends steady



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Based on a representative set of 11 FMCG companies

SUMMING UP…

KEY HIGHLIGHTS

- ROE and operating margins are deteriorating at the margin. Ex commodity ROE remain healthy at +15%
- Balance sheet weakens marginally with rising debt
- Free cashflow generation has improved for most sectors.
- Working capital cycle remains under control
- Corporate capex revives
- Profit pools shifting away from commodities to Industrial and Consumer discretionary

SECTORAL TRENDS

- Financials deliver robust earnings with an improving yield and benign credit costs.
- Capital goods witnessed record order inflows, but earnings growth expectation & valuation appear lofty.
- IT companies are witnessing deceleration in operating trends.
- The valuations overall appear extended, with only a few sectors like Insurance, NBFC, healthcare, and banks trading at or below pre-covid averages.

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