The Report Card

H123: September 2022

DSP

Disclaimer Regarding Forward-Looking Statements

This content contains forecasts, projections, goals, plans, and other forward-looking statements regarding Company's financial results and other data provided from time to time through AGM/ conference calls transcript, webcasts, presentations, investor conferences, newsletters and similar events and communications. Such forward-looking statements are based on the Company's assumptions, estimates, outlook, and other judgments made in light of information available at the time of preparation of such statements and involve both known and unknown risks and uncertainties.

Accordingly, plans, goals, and other statements may not be realized as described, and actual financial results, success/failure or progress of development, and other projections may differ materially from those presented herein.
Even when subsequent changes in conditions or other circumstances make it preferable to update or revise forecasts, plans, or other forward-looking statements, the Company disclaims any obligation to update or revise this content.

H123: OPERATING METRICS DETERIORATING

- The Return on Equity (ROE) is currently lower than its peak in FY22. Except for metals and healthcare, the return on equity (ROE) in most industries is lower than it was prior to the pandemic.
- EBITDA margins are currently trending below FY19 levels for most sectors.
- The overall net debt increased by >40% from FY19, and the net debt-to-equity ratio also deteriorated. Overall debt servicing capacity, represented by net debt to EBITDA, remained healthy.
- Working capital cycles have been extended and capex has increased sharply impacting the free cashflow generation.

Sector	Revenue CAGR (FY19-23)	EBITDA Margins			Net Debt to Equity			ROE		
		FY19	FY23*	Chg	FY19	FY23*	Chg	FY19	FY23*	Chg
IT	11%	21%	20%	-1%	-37	-26	11	25%	26%	1%
Energy	10%	11%	8%	-3%	47	42	-4	14%	11%	-3%
Energy (ex RIL)	10%	10%	6%	-4%	45	64	20	18%	15%	-3%
Staples	14%	20%	16%	-3%	-10	-8	2	24%	20%	-4%
Staple (ex ITC)	16%	18%	16%	-2%	6	-2	-8	30%	20%	-9%
Comm Services	10%	23%	41%	19%	137	871	734	-5%	-11%	-6%
Materials	14%	17%	17%	-1%	65	45	-19	11%	17%	6%
Cons Dis	5%	8%	10%	2%	44	60	16	5%	11%	6%
Cons Dis (ex TTMT)	7%	14%	12%	-2%	34	38	4	19%	15%	-4%
Industrials	9%	14%	11%	-2%	58	51	-8	14%	12%	-2%
Utilities	13%	26%	25%	-1%	125	119	-5	12%	14%	2%
Health Care	9%	18%	17%	-1%	16	-0	-16	11%	11%	0%
Real Estate	3%	26%	21%	-5%	50	29	-21	7%	7%	0%
Overall	10%	14%	14%	-1%	51	51	-0	13%	14%	1%

*The analysis has been done of NSE-500 universe and data is sourced from Capitaline. *FY23 is Trailing twelve months*

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).

OPERATING MARGINS: BACK TO BELOW PRE-PANDEMIC LEVELS

Except for communication services and consumer discretionary, operating margins were below pre-covid levels for most sectors.

EBITDA MARGIN (%) now below pre-covid levels

	FY19	FY20	FY21	Q321	Q421	Q122	Q222	FY22	Q322	Q422	Q123	Q223	FY23	Q223 VS FY19	FY23 vs FY19
IT	21%	21%	22%	23%	23%	22%	22%	22%	21%	20%	19%	20%	20%	-1%	-1%
Energy	11%	8%	13%	12%	13%	12%	11%	12%	11%	11%	7%	6%	8%	-5%	-3%
Energy (ex RIL)	10%	5%	11%	10%	12%	10%	10%	10%	9%	10%	4%	4%	6%	-6%	-4%
Staples	20%	20%	19%	19%	18%	17%	17%	18%	17%	17%	16%	16%	16%	-3%	-3%
Staple (ex ITC)	18%	19%	19%	18%	17%	17%	17%	17%	16%	16%	16%	15%	16%	-3%	-2%
Comm Services	23%	-9%	20%	31%	41%	41%	42%	39%	42%	44%	41%	40%	41%	17%	19%
Materials	17%	14%	21%	23%	24%	25%	23%	24%	21%	19%	19%	12%	17%	-6%	-1%
Cons Dis	8%	10%	9%	14%	8%	8%	11%	10%	12%	11%	10%	10%	10%	2%	2%
Cons Dis (ex TTMT)	14%	13%	12%	21%	13%	9%	14%	14%	14%	13%	12%	12%	12%	-2%	-2%
Industrials	14%	12%	12%	14%	12%	10%	11%	12%	13%	12%	10%	11%	11%	-3%	-2%
Utilities	26%	32%	34%	35%	31%	35%	32%	33%	29%	28%	25%	24%	25%	-2%	-1%
Health Care	18%	19%	20%	23%	20%	22%	20%	21%	21%	12%	19%	21%	17%	3%	-1%
Real Estate	26%	23%	23%	27%	25%	23%	26%	25%	24%	24%	25%	13%	21%	-13%	-5%
Overall	14%	12%	17%	18%	17%	18%	17%	17%	16%	16%	13%	12%	14%	-2%	-1%

The analysis has been done of NSE-500 universe and data is sourced from Capitaline
FY22 and FY23 are TTM numbers

DSP

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).

BALANCE SHEET: ROE's DECLINE FROM FY22 HIGH

- Return on equity (ROE) is now below the peak of FY22. Most sectors except metals and healthcare are now below pre-pandemic levels.
- Net debt to equity is back to pre-pandemic levels. The net debt of Energy, Communications Services, and Metals has increased sharply

RETURN ON EQUITY ABOVE PRE-COVID LEVELS

	FY19	FY20	FY21	FY22	FY23*	FY23 vs FY19
IT	25%	25%	23%	26%	26%	1%
Energy	14%	8%	11%	13%	11%	-3%
Energy (ex RIL)	18%	8%	17%	20%	15%	-3%
Staples	24%	24%	18%	18%	20%	-4%
Staples (ex ITC)	30%	37%	19%	19%	20%	-9%
Comm Services	-5%	-96%	-93%	0%	-11%	-6%
Materials	11%	9%	13%	21%	17%	6%
Cons Dis	5%	7%	1%	8%	11%	6%
Cons Disc (ex TAMO)	19%	12%	6%	13%	15%	-4%
Industrials	14%	9%	9%	10%	12%	-2%
Utilities	12%	13%	13%	15%	14%	2%
Health Care	11%	12%	14%	13%	11%	0%
Real Estate	7%	2%	5%	6%	7%	0%
Overall	13%	8%	11%	15%	14%	1%

NET DEBT TO EQUITY (%) IMPROVING

h	FY19	FY20	FY21	FY22	FY23*	FY23 vs FY19
IT	-37	-27	-32	-30	-26	11
Energy	47	55	36	34	42	-4
Energy (ex RIL)	45	69	67	57	64	20
Staples	-10	-14	-9	-6	-8	2
Staples (ex ITC)	6	4	0	1	-2	-8
Comm Services	137	222	709	607	871	734
Materials	65	62	49	33	45	-19
Cons Dis	44	54	49	53	60	16
Cons Disc (ex TAMO)	34	43	33	36	38	4
Industrials	58	65	56	44	51	-8
Utilities	125	129	128	123	119	-5
Health Care	16	9	4	-3	-0	-16
Real Estate	50	33	45	31	29	-21
Overall	51	56	49	43	51	0

The analysis has been done of NSE-500 universe and data is sourced from Capitaline
FY23 numbers are for Trailing twelve months

DSP

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).

BALANCE SHEET: WORKING CAPITAL CYCLE WORSENS

- Debt servicing ability, as measured by net debt to EBITDA, deteriorates from FY22, but remains below pre-pandemic levels.
- The working capital cycle deteriorates in several sectors, including energy, communications, consumer discretionary, utilities, and healthcare

NET DEBT TO EBITDA (%) HAS IMPROVED

	FY19	FY20	FY21	FY22	FY23	FY23 vs FY19
IT	-114	-79	-91	-83	-73	40
Energy	158	291	184	152	198	39
Energy (ex RIL)	125	356	222	167	233	108
Staples	-29	-42	-35	-23	-29	0
Staples (ex ITC)	13	9	1	5	-6	-19
Comm Services	536	-1449	942	403	456	-80
Materials	216	277	156	85	132	-84
Cons Dis	185	215	262	209	202	17
Cons Disc (ex TAMO)	102	155	154	155	141	39
Industrials	203	253	280	199	217	14
Utilities	502	427	452	407	403	-99
Health Care	78	43	17	-14	0	-78
Real Estate	370	303	583	344	347	-23
Overall	183	243	198	147	177	-5

The analysis has been done of NSE-500 universe. Source Capitaline
FY23 numbers are for Trailing twelve months

WORKING CAPITAL DAYS*

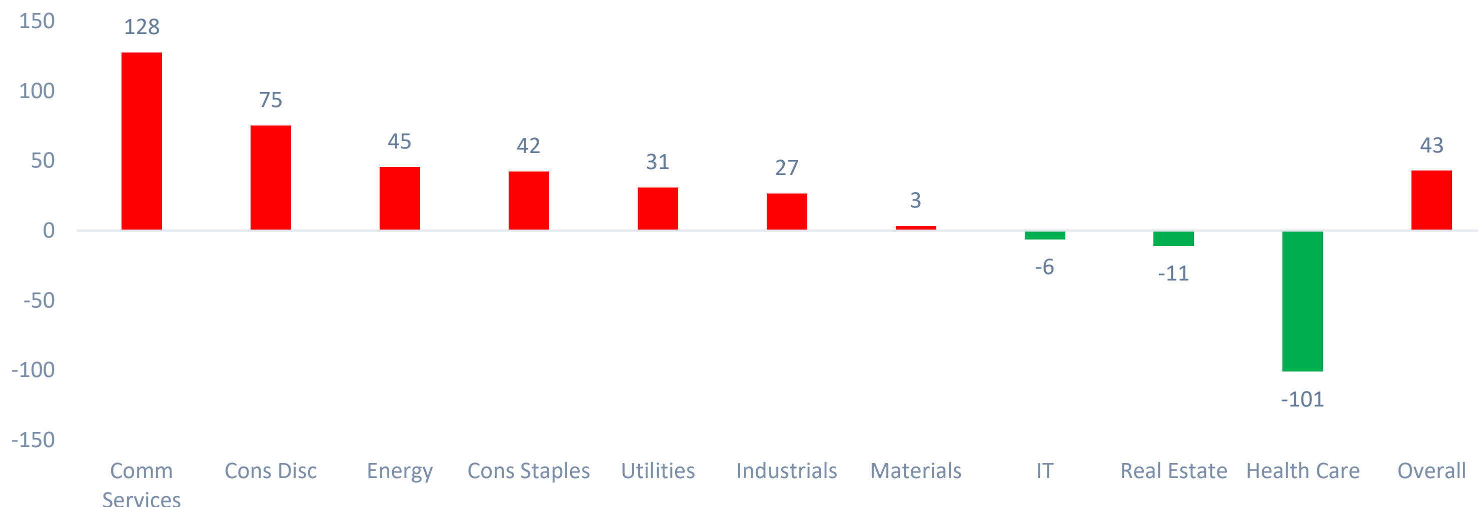
	FY19	FY20	FY21	FY22	FY23	FY23 vs FY19
IT	55	57	52	53	56	1
Energy	14	19	31	19	21	7
Energy (ex RIL)	21	26	43	30	27	6
Staples	40	35	36	34	37	-3
Staples (ex ITC)	34	30	30	30	33	-1
Comm Services	-47	-31	-39	-19	-26	21
Materials	52	51	41	39	46	-6
Cons Dis	16	20	15	24	26	10
Cons Disc (ex TAMO)	24	30	22	29	29	5
Industrials	50	49	44	37	35	-15
Utilities	38	51	65	49	57	19
Health Care	110	110	109	110	113	3
Real Estate	714	960	1146	939	900	185
Overall	35	40	42	36	38	4

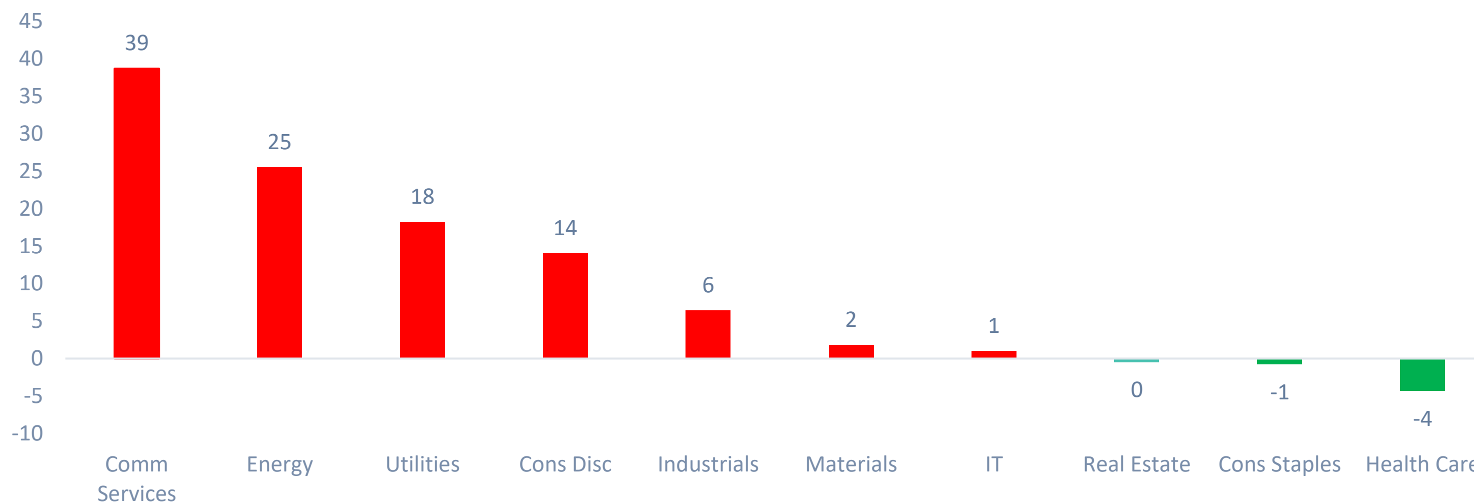
** Working Capital Days = (Debtors + Inventory – Payables)/Revenue x 365*

DSP

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).

NET DEBT: AGGREGATE NET DEBT INCREASES BY >40%





DSP

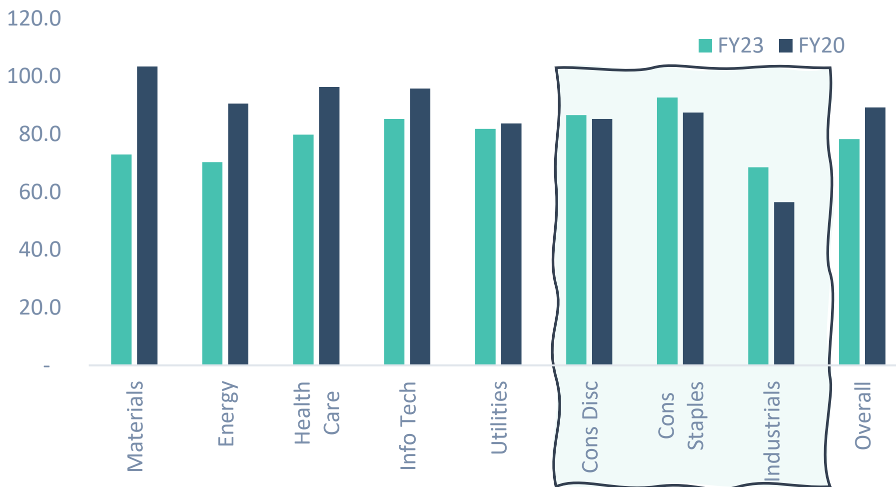
The analysis has been done of NSE-500 universe and data is sourced from Capitaline

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).

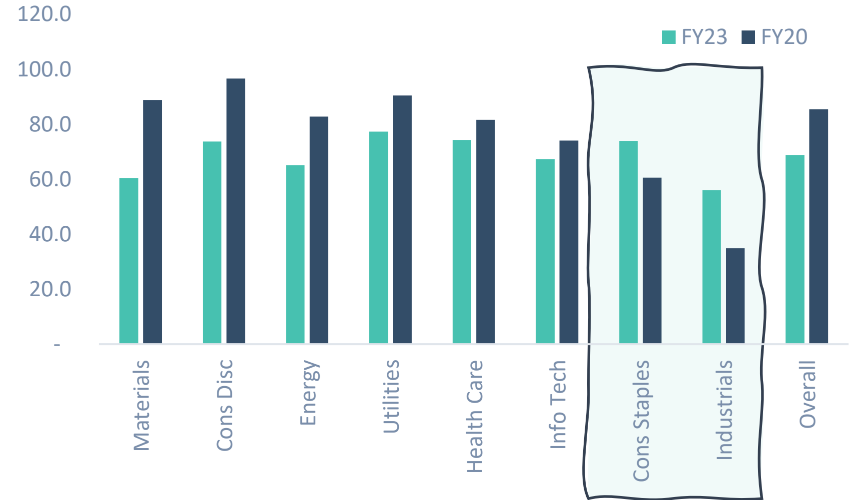
CASHFLOWS: OVERALL CASH CONVERSION DETERIORATES

- Higher working capital results in a deterioration of cash flows
- The cash conversion ratio reflected by the CFO to EBITDA deteriorates except for staples and industrials.

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



CFO/EBITDA (%)



OCF: Operating cashflow; CFO: Cashflow from operations
FY23 and FY20 are TTM numbers

Lower working capital lock up

Improvement in cash conversion

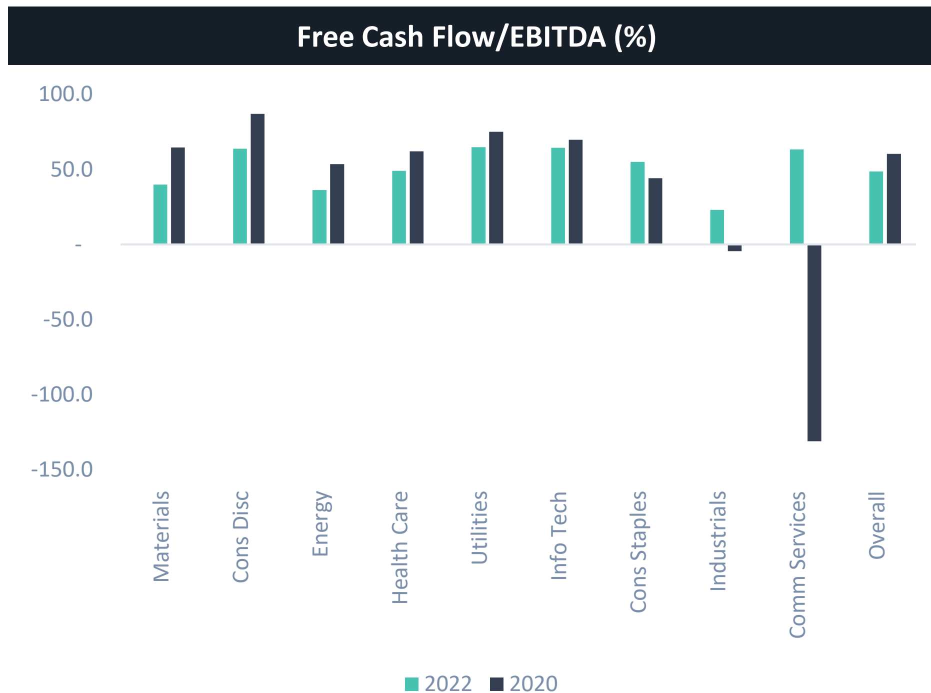
DSP

Cashflow analysis based on sample set of 319 companies for which cashflow statements are available. Source Capitaline

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).

CASHFLOWS: CAPEX INTENSITY PICKS UP

- Free cash flow to EBITDA for FY23 is below pre-covid.
- Double-digit growth in capex in FY23 (TTM) is impacting free cashflow generation.



CFO and Capex Change FY23 vs FY20

	CFO	Capex
ENERGY	-1.6	23.0
HEALTH CARE	5.7	49.6
MATERIALS	17.0	46.0
UTILITIES	26.2	19.0
CONS DISC	26.5	73.1
INFO TECH	28.6	-10.1
CONS STAPLES	55.7	46.6
INDUSTRIALS	77.0	-7.4
COMM SER	126.7	15.8
	25.1	**24.4**

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

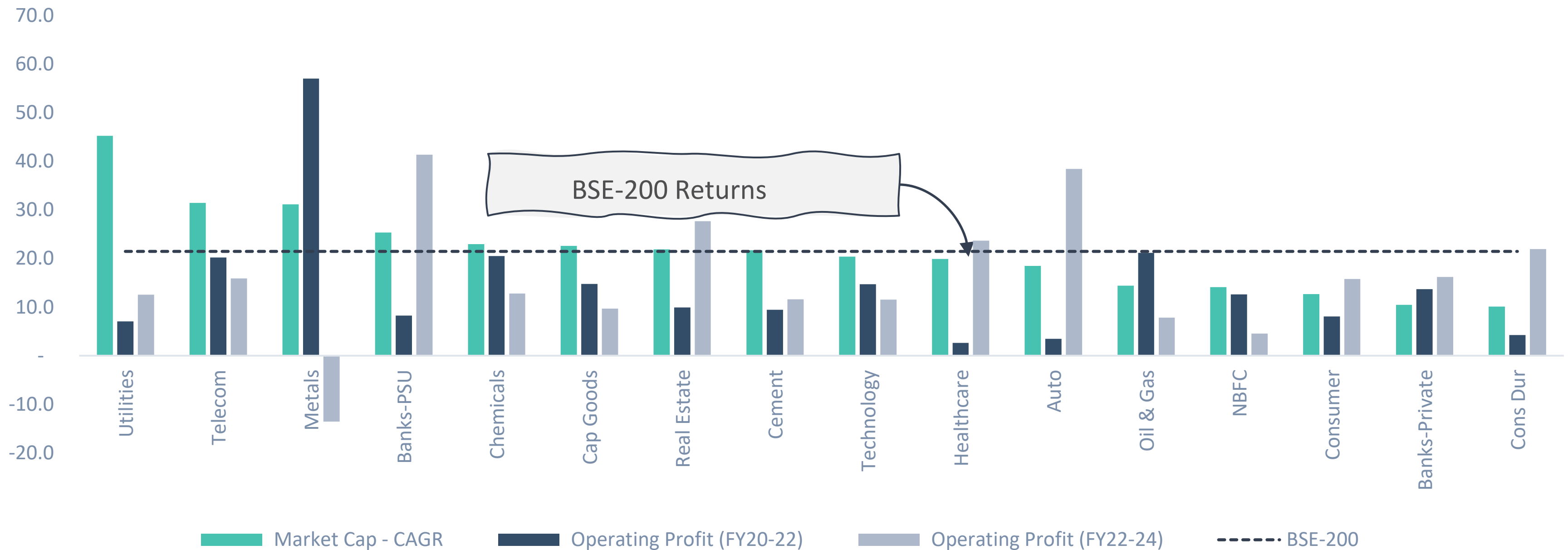
Source Capitaline

FY23 and FY20 are TTM numbers

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).

MARKET CAPS vs OPERATING PROFITS

Market Cap CAGR < Operating profits CAGR : Healthcare, Consumer, Real Estate, Oil and Gas, Banks, Metal, Auto and Cons Durable

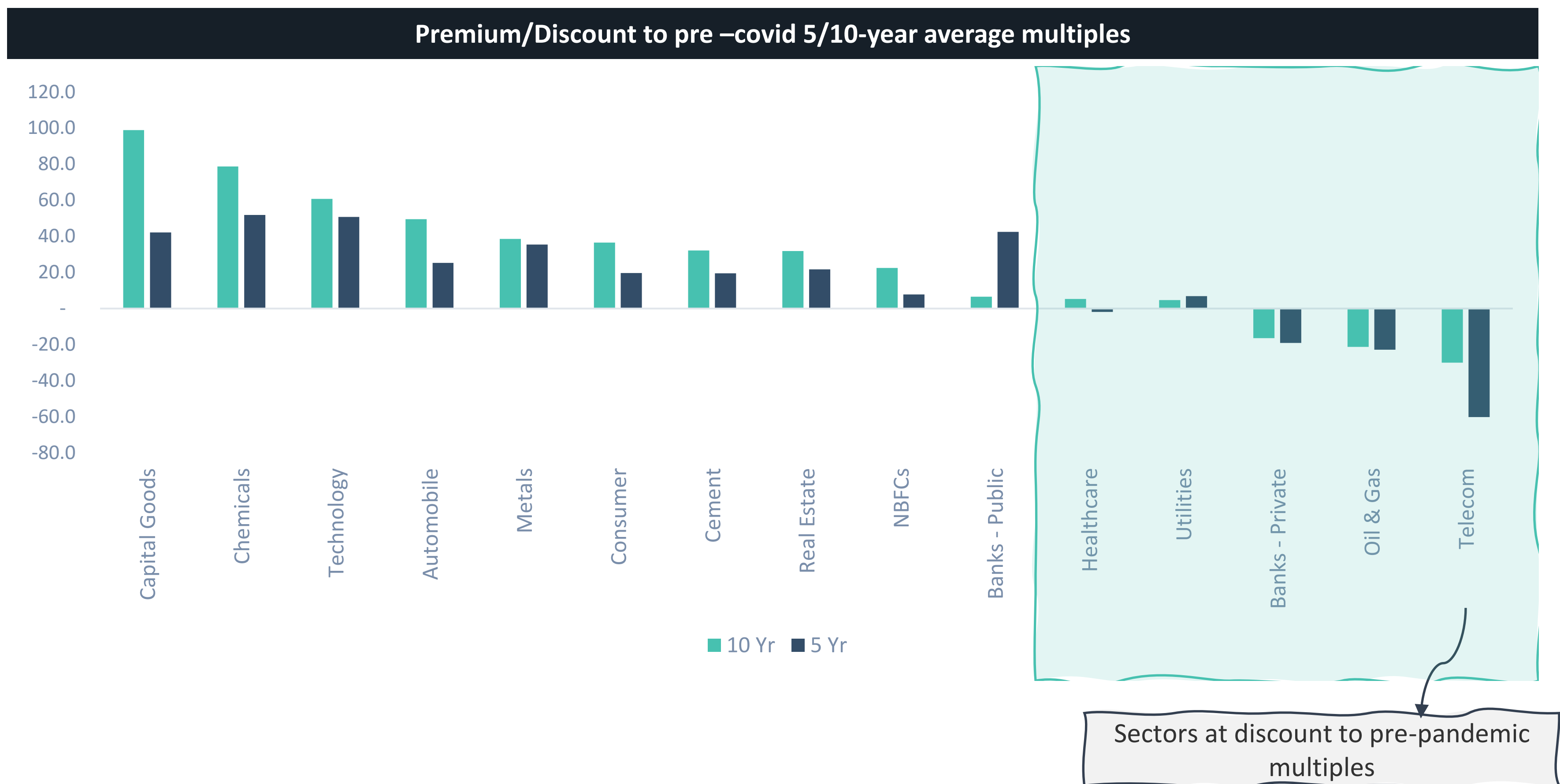


1. *The exercise is based on BSE-200 companies*
2. *For Banks and NBFC's the operating profits is pre-provisioning operating profits (PPOP).*
3. *M-cap CAGR is Nov 19 to Nov 22*
4. *Operating profits CAGR is FY20-22 actuals and FY24 based on Bloomberg consensus estimates*
5. *Source: Capitaline and Bloomberg*

Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. These figures pertain to performance of the index/Model and do not in any manner indicate the returns/performance of the Scheme. It is not possible to invest directly in an index.

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).

PRE COVID AND POST COVID VALUATIONS

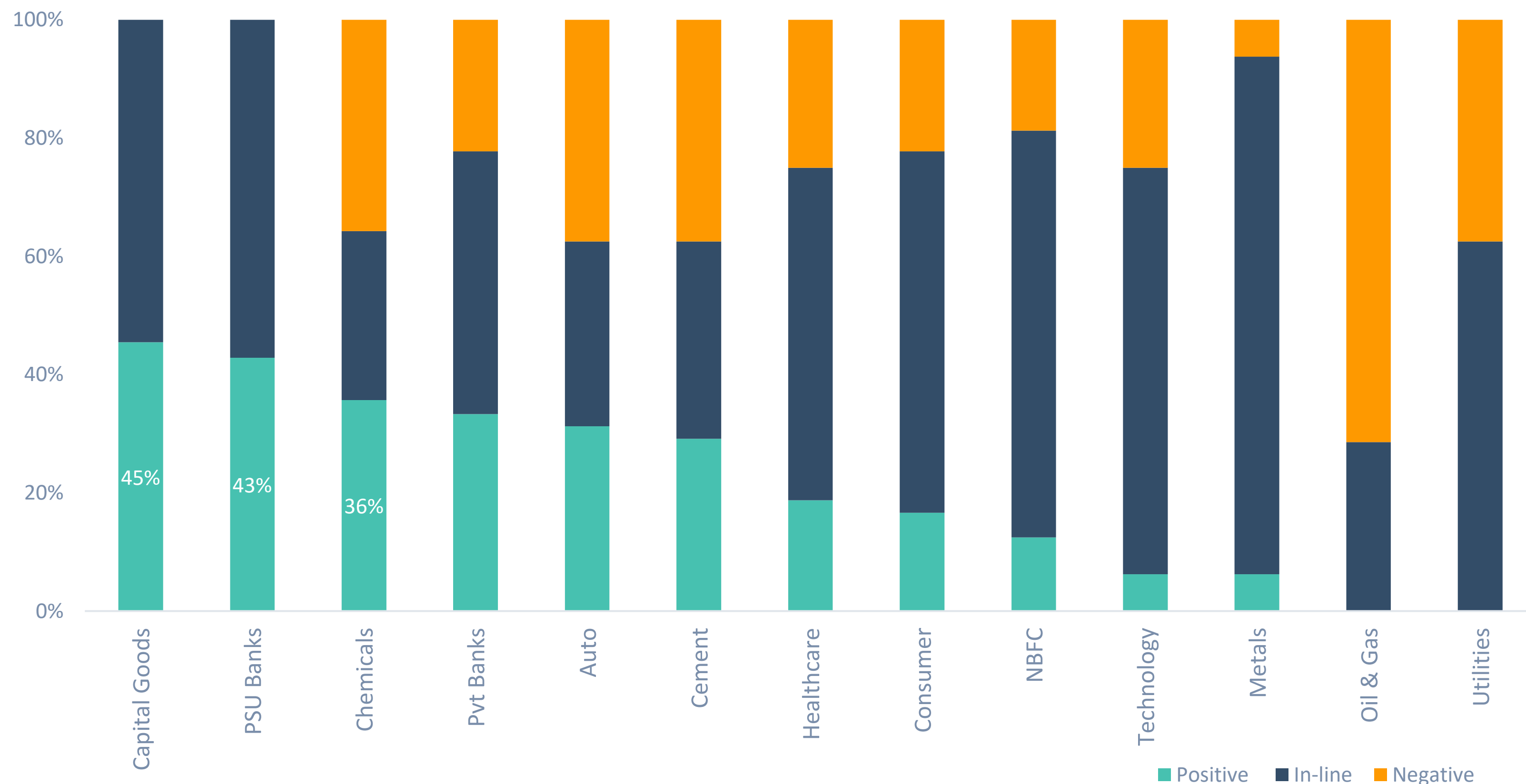


1. *5 yr and 10 yr Pre covid multiples are from Jan-15 to Jan-20 and Jan-10 to Jan-20 respectively*
2. *Price to book multiples are used for NBFC, Banks, Metals, Oil and Gas, Real Estate, Telecom and utilities*
3. *Price to Earnings is used for Technology*
4. *EV/EBITDA is used for Auto, Capital goods,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

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).

HITS and MISSES: 2Q23 EARNINGS SURPRISES

Capital goods, Banks (both PSU and Pvt) and Chemicals had the highest number of positive surprises



Source : Bloomberg,

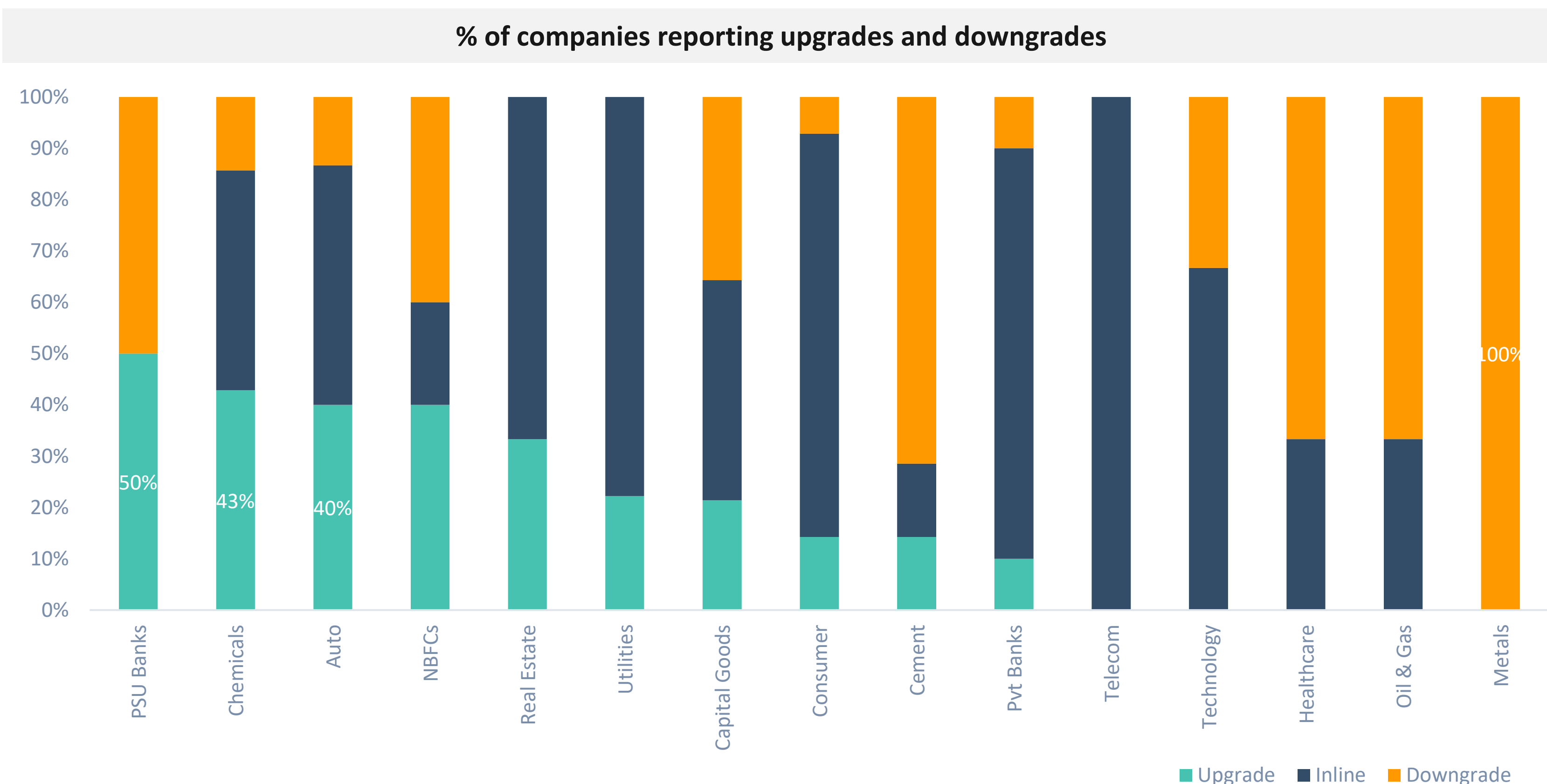
Variance at calculated at operating profit levels
Positive Variation > 5%, In-line -5% to +5%, Negative Variation <5%

DSP

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).

EARNINGS MOMENTUM: REVISION TO FY23 ESTIMATES

PSU banks, chemical and Autos had highest number of upgrades and Metals and Oil and gas had highest 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

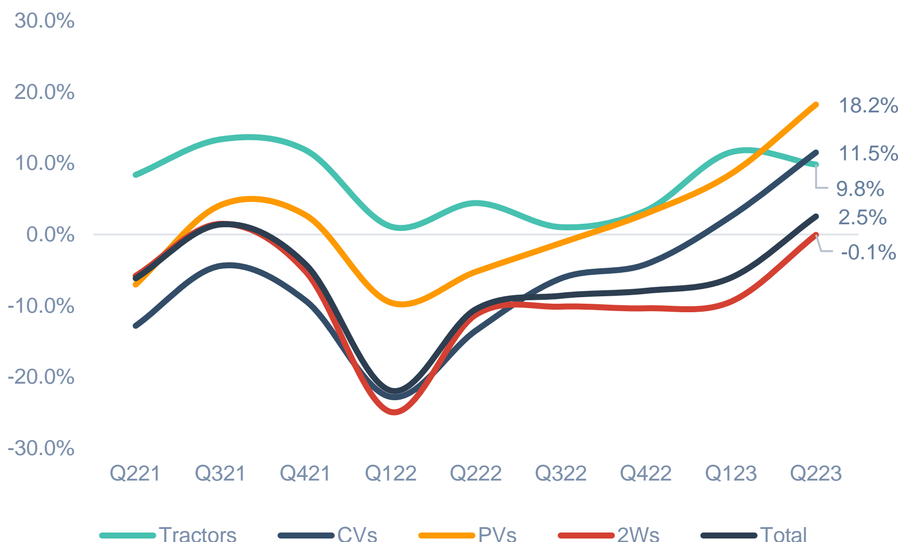
DSP

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).

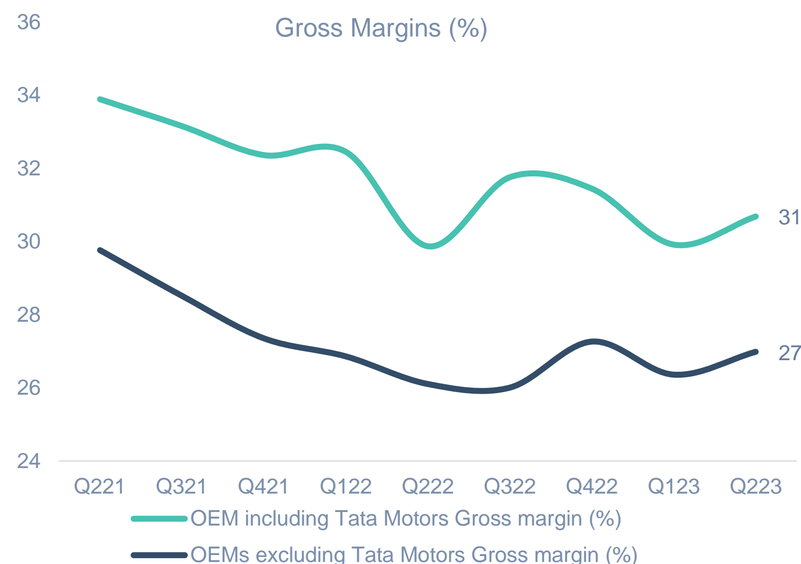
AUTOMOBILES: CYCICAL RECOVERY IN PV AND CV

- Volume Trends (3-Year CAGR): CVs grew at 12% on a low base due to improving freight availability, government infrastructure spending, and replacement demand. PVs grew by 18% due to a high order book and production ramp-up. Strong urban demand, an early start to the festive season, and increased credit availability resulted in an increase in 2W volumes, but they have remained flat over the last three years. The early festive season increased tractor sales by 10%.
- Margins: Original Equipment Manufacturers (excluding Tata motors) gross margin expanded 90bps on yoy basis due to premiumization, price increases and softening of commodity prices. EBITDA margins for OEM (excluding Tata Motors) improved by 220bps on yoy basis supported by better gross margin and scale.

3-YR CAGR Volumes: CV and PV report double digit growth



Margins improve with easing commodity pressures



DSP

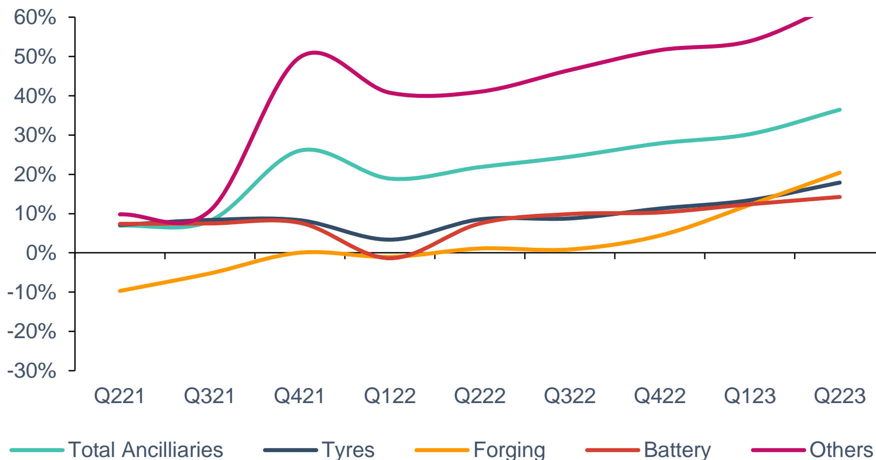
PV: Passenger vehicles. CV: Commercial vehicles and 2W: Two Wheelers

Based on representative sample of 29 companies

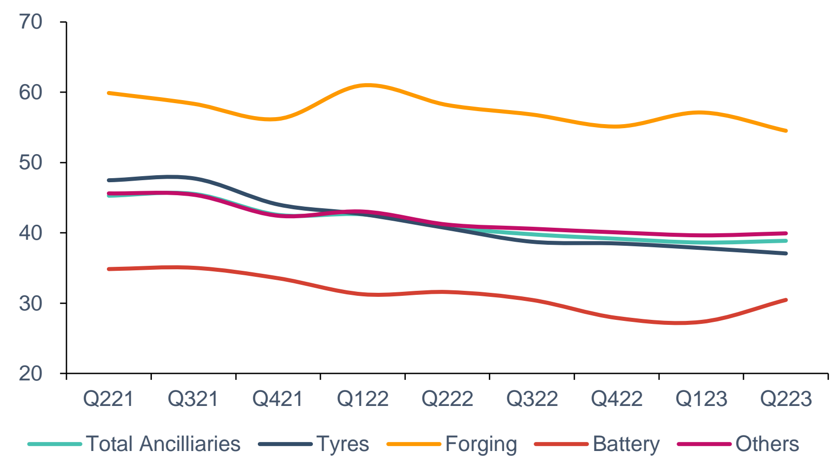
AUTO ANCILIARIES: OUTPACING AUTO OEMs

- Revenue Trends (3-Year CAGR): Ancillaries revenue increased by 36%; 1) tyre companies increased by 18% due to higher volume growth in OEM and aftermarket segments, as well as price increases. 2) Battery companies' growth of 14% was due to growth in the auto and industrial segments. 3) Forging companies' growth at 20% was led by growth in the underlying industry, price hikes, and new orders.
- Gross margins of the ancillary companies contracted by 110-370 bps due to a lag in the pass through of the commodity price inflation.

3-YR CAGR Revenues: Strong double digit growth



Gross Margins decline by 110-370 bps

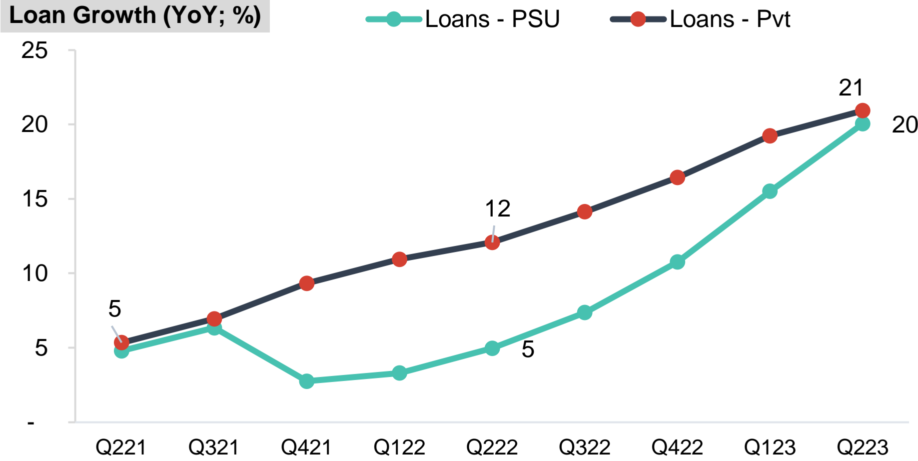


Based on representative sample of 29 companies

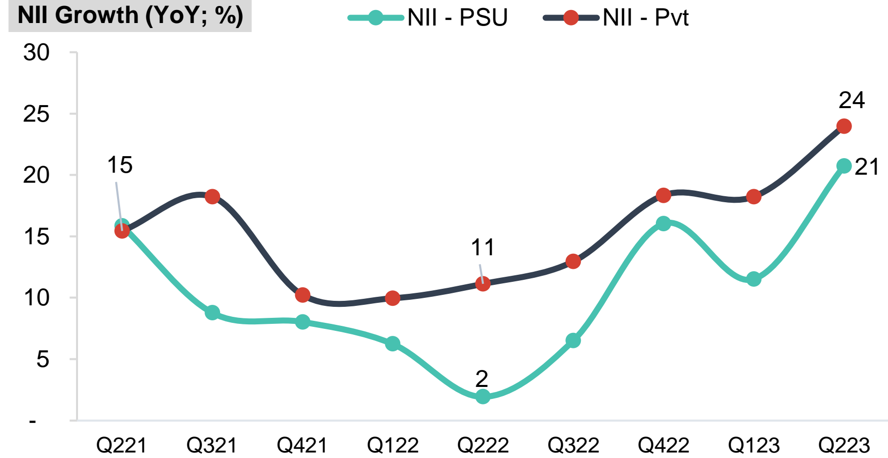
BANKS: ASSET QUALITY CONTINUES TO IMPROVE

- Q223, NII/PPOP 3 Year CAGR is ~15/11% resp. The same is ~13/9% resp. for PSBs and 17/13% resp. for Pvt Banks

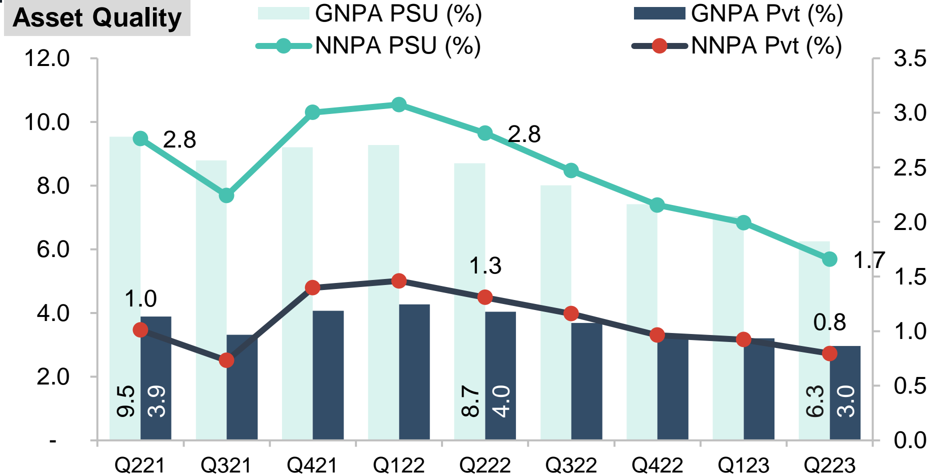
Loan Growth (YoY (%) : Is accelerating



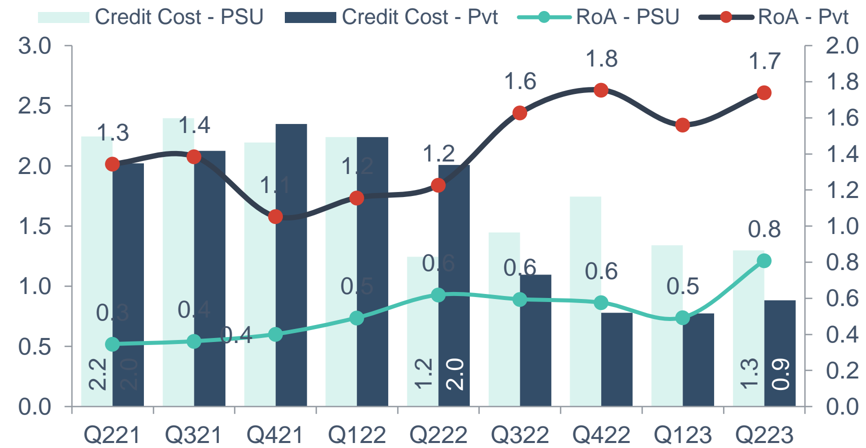
Net Interest Income (NII) growth (%) :



Asset quality: remains above pre-covid levels



Cost Income (%) and ROAs (%)



DSP

GNPA Gross Non-Performing Asset, NNPA Net Non-performing asset, NII: Net Interest Income, PPOP: Pre-provisioning operating profits . ROA Return on Assets

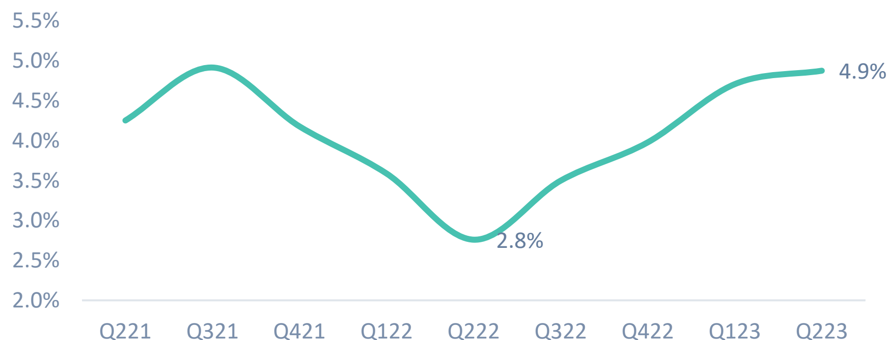
Source Company Disclosures based on a representative set of 28 banks.

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).

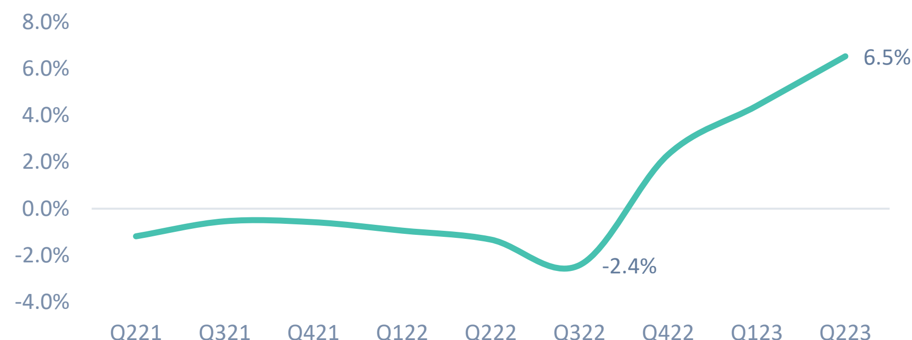
CAPITAL GOODS: ORDER INFLOW IS ACCELRATING

- Order inflow was up 25% YoY for Q223. Orderbook's three-year CAGR was 5%. Public spending was significantly higher YTD than the previous year, led by the center and PSUs. State capex is still lagging. Private orders were 29% vs. 22% last year, showing increased capex activity. L&T commented that the award-to-tender ratio for 1H23 increased to 49% from 40% in 1H22 and 51% in FY22. The short-cycle order continues to be solid, suggesting a strong undercurrent in demand.
- Key industries performing well: data center, electronics, warehousing & logistics, automotive, food & beverages, pharma & health care, railroads & metro, renewables, water & wastewater, metals & steel, chemicals, refinery & petrochemicals.

Order book growth remains healthy (3- Year CAGR)

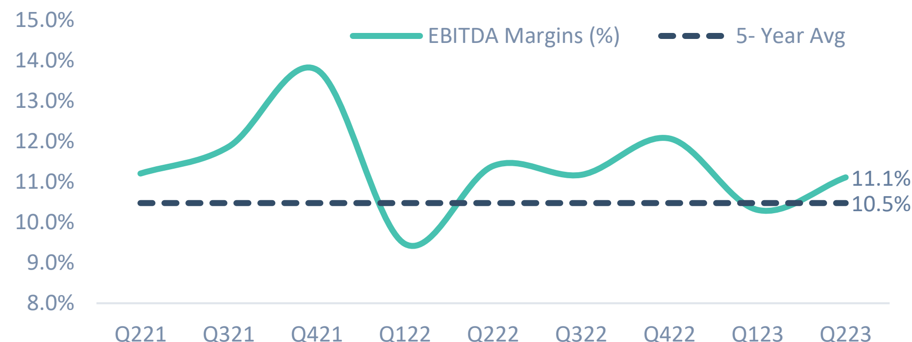


Inflection in the order inflow momentum (TTM) – 3- Year CAGR



Revenue growth (3-Yr CAGR)

EBITDA Margins above 5 year averages

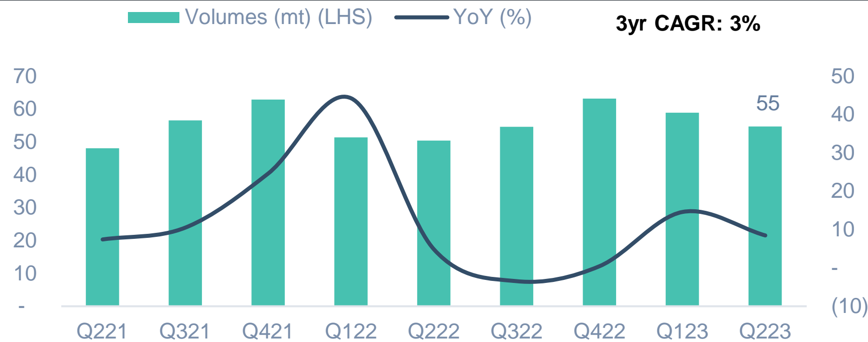


* Orderbook and Order inflow based on 12 companies and Sales and EBITDA margins is based on 22 companies

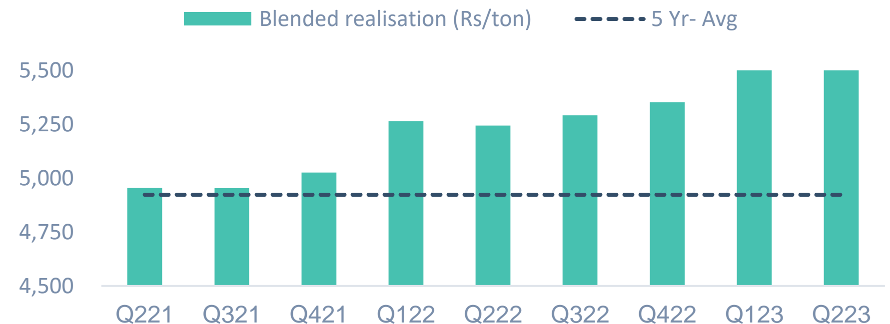
CEMENT: MULTI YEAR LOW PROFITABILITY

- EBITDA has declined 45% YoY and QoQ owing to a double whammy of high-cost fuel inventory and monsoon-led seasonality. As a result, blended EBITDA/ton fell 50% year on year and 41% quarter on quarter to a multi-quarter low of Rs 600. Vols. have been strong, with growth of 8.5% YoY (3-yr CAGR: 7%). In H123, FCF is at negative Rs40bn post w/cap blockage (Rs53bn) and 40% YoY increase in capex of Rs56bn.
- Profitability is expected to recover from Q3 due to a peaking of costs, a higher exit cement prices, and an increase in construction activity. The 35% drop in fuel prices since the peak on April 22 is expected to save ~Rs 200 per tonne. Pan-India spot cement prices are ~1-1.5% higher than average prices in 2Q23.

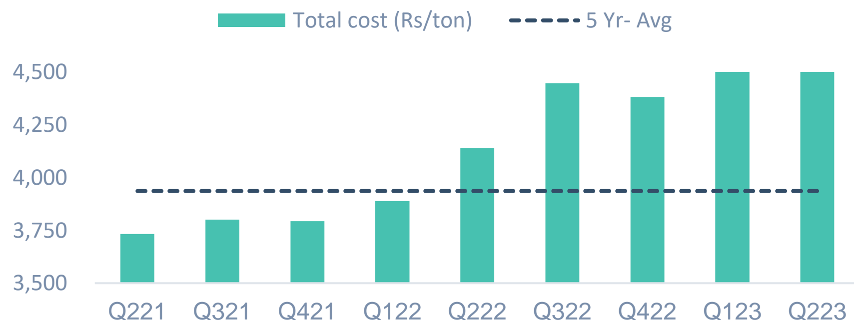
Volumes: increased ~9% YoY; declined 7% QoQ led by seasonality



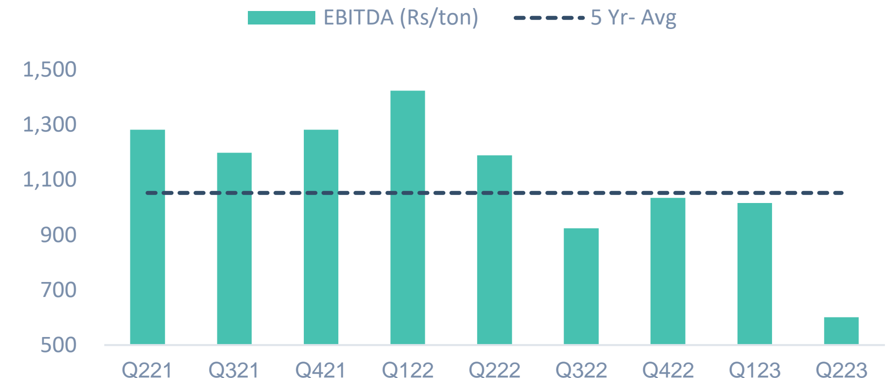
Realisation/ton: declined 3% QoQ owing to 4-7%



Cost/ton: Impact of high input prices and –ve operating leverage



EBITDA/ton: Likely to bottom-out in 2Q and expected to recover



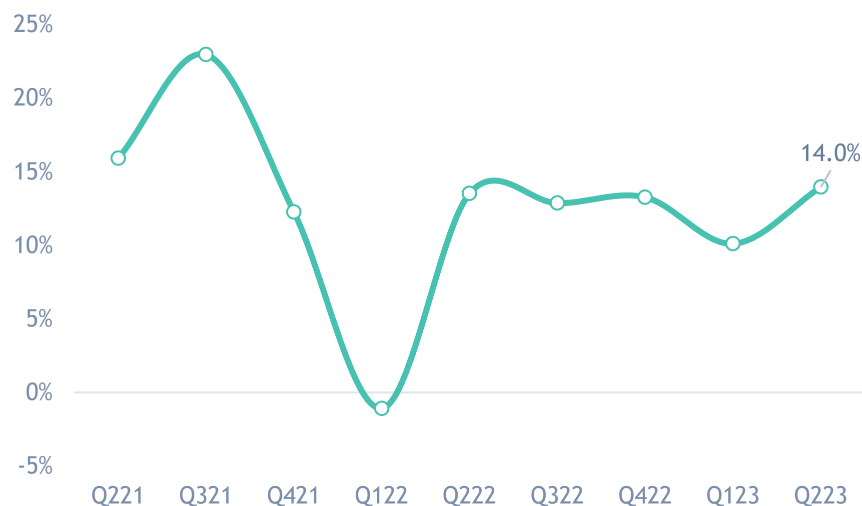
DSP

* Representative set of eight cement companies

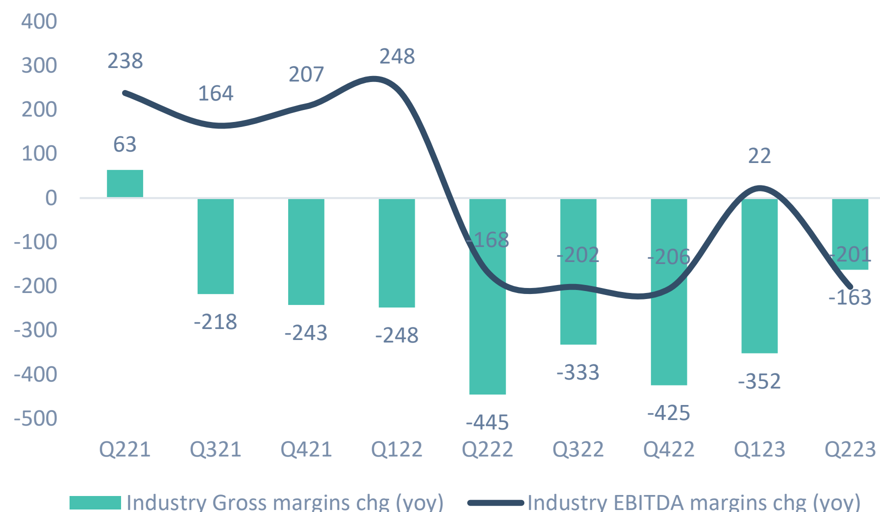
CONSUMER DURABLES: INFLATION OF INPUT COST DENTS MARGINS

- Despite volatility in quarterly growth, industry has witnessed double-digit growth (3-year CAGR) in the last 5-6 quarters, except Q122, wherein industry got impacted due to the pandemic.
- Gross margin continues to see pressure, mainly because of raw material (RM) volatility (industry was not able to pass on the RM price increase). However, at the operating level, the industry managed to maintain margins through cost rationalization, lower ad spends, etc. However, over the last 2 quarters, some of these costs have normalized, which has impacted the margins by 100-200 bps.

Revenue Growth (%): 3 Yr CAGR



Gross and EBITDA Margins change (%)



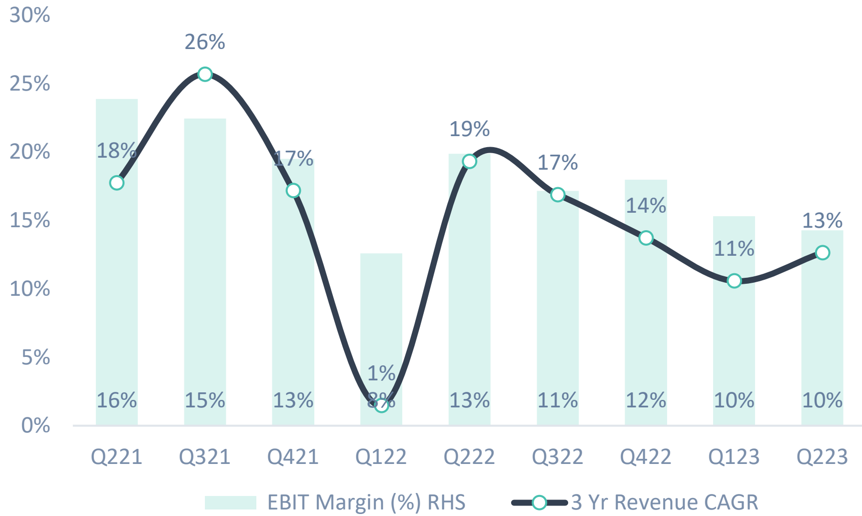
DSP

Based on representative sample of 15 companies

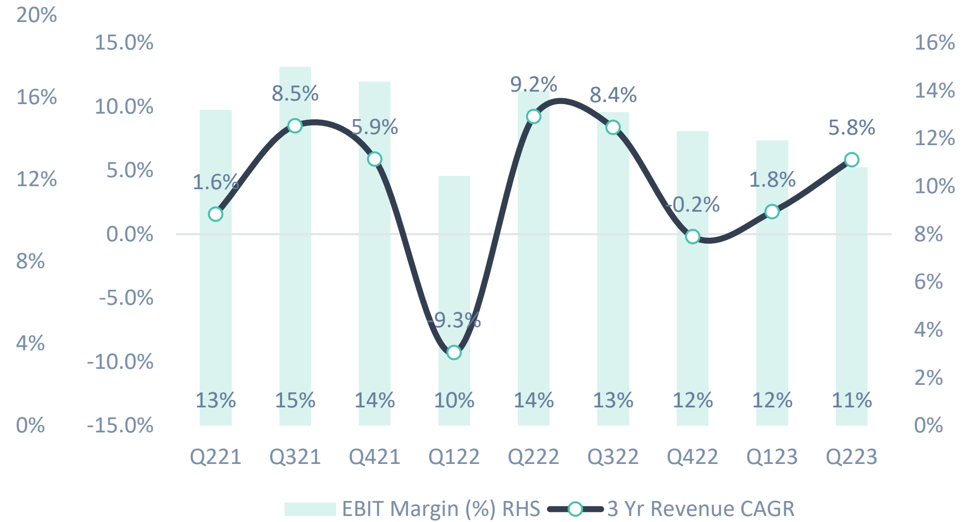
The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and may or may not have any future position in these sector(s)/stock(s)/issuer(s).

CONSUMER DURABLE: REVENUE AND MARGINS BY SEGMENT

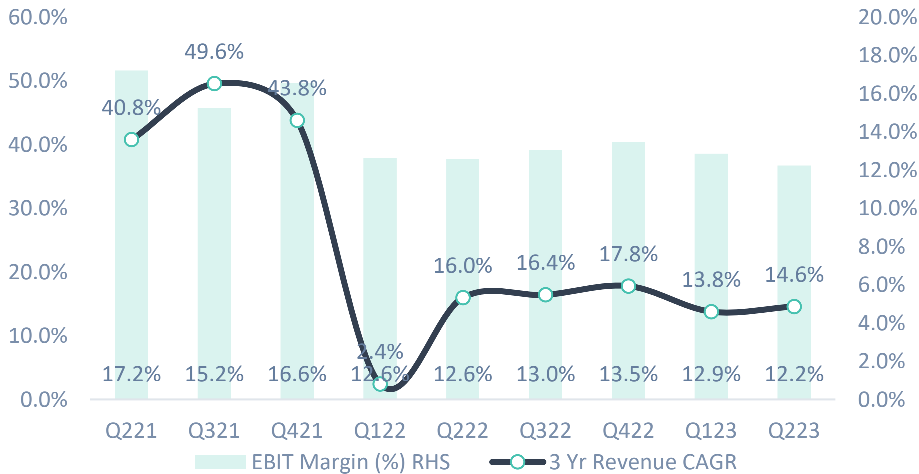
Fans and Appliances: Double digit revenue growth



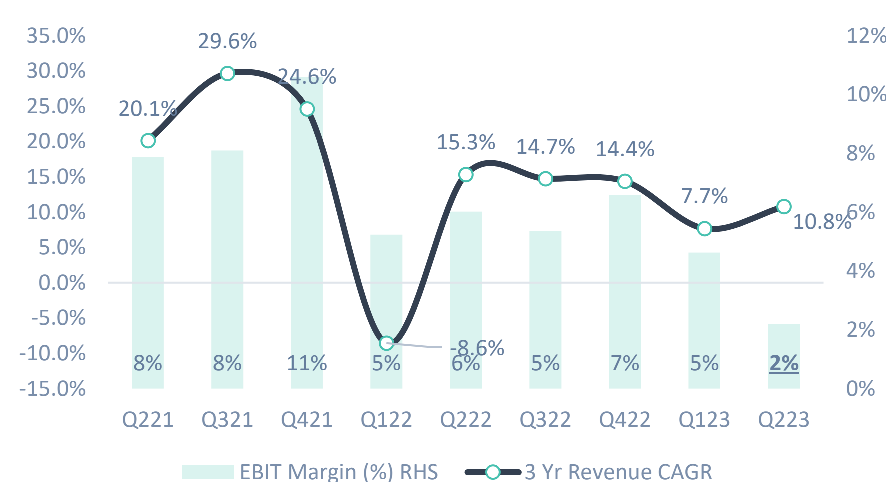
Lighting : Single digit revenue growth



Wires and Cables: Commodity pass through driving revenues



Durables : Highest competitive intensity



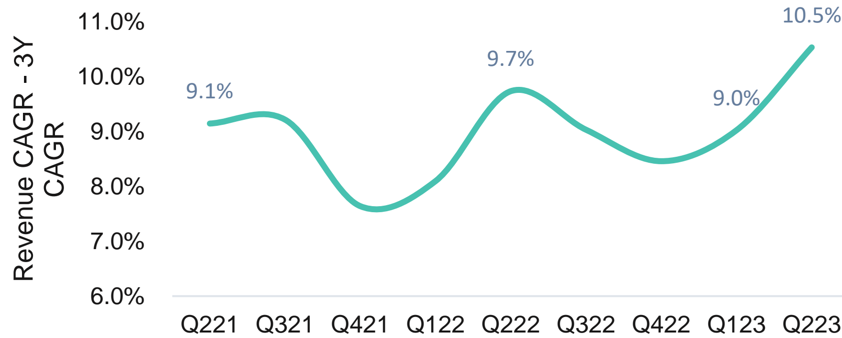
DSP

Based on representative sample of 15 companies

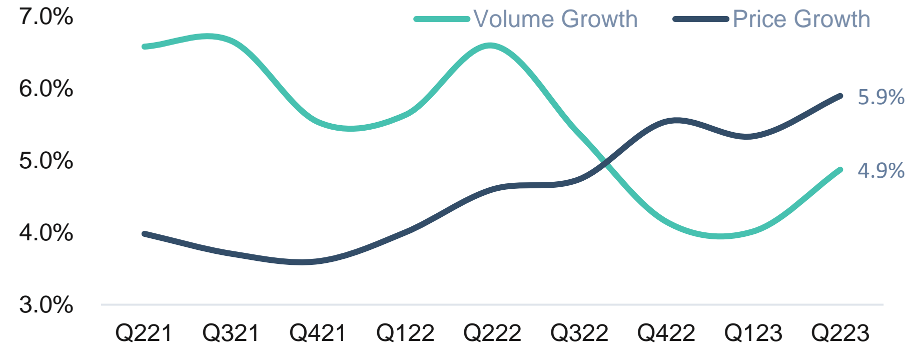
CONSUMER STAPLES: SUBDUED VOLUME GROWTH

- FMCG companies' three-year revenue and volume growth rates increased by 100-150 basis points (bps) compared to Q123, as volume growth rates increased marginally, and further price increases were implemented.
- Rural trends continue to be weak; recovery is likely to be pushed out by a couple of quarters.
- Gross margin decline is reducing given the base effect but remains at life lows (average 48.4%) .
- 3 Yr EBITDA CAGR of 6.9% has been ahead of Q1 levels but remains weak despite ad spend cuts and cost rationalisation

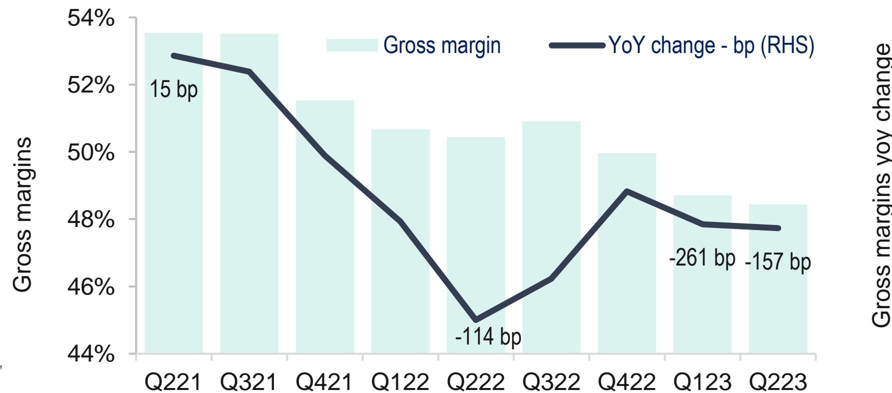
3-Yr Revenue CAGR of 8.5% driven by price growth



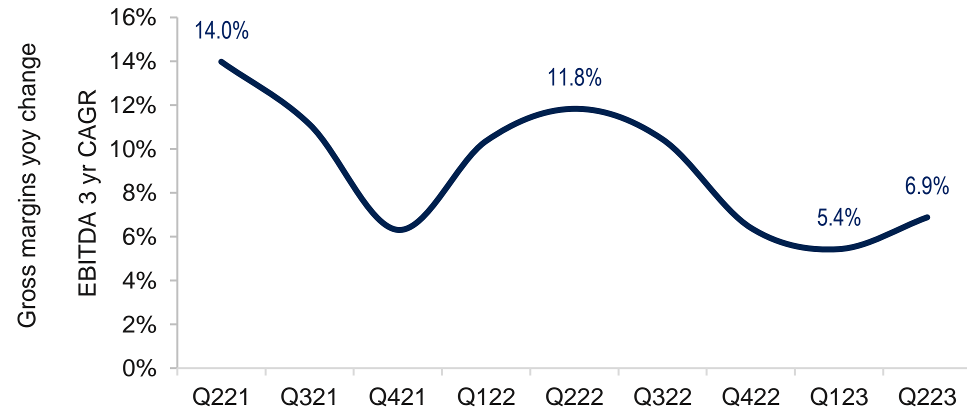
3 year vol CAGR low at 5%



Gross margin contraction has moderated



3 year EBITDA CAGR reduced to 7% led by margin pressure



Based representative set of 11 consumer staple companies

Source: Company Disclosures

ENERGY: WINDFALL TAXES IMPACTS CRUDE REALISATION

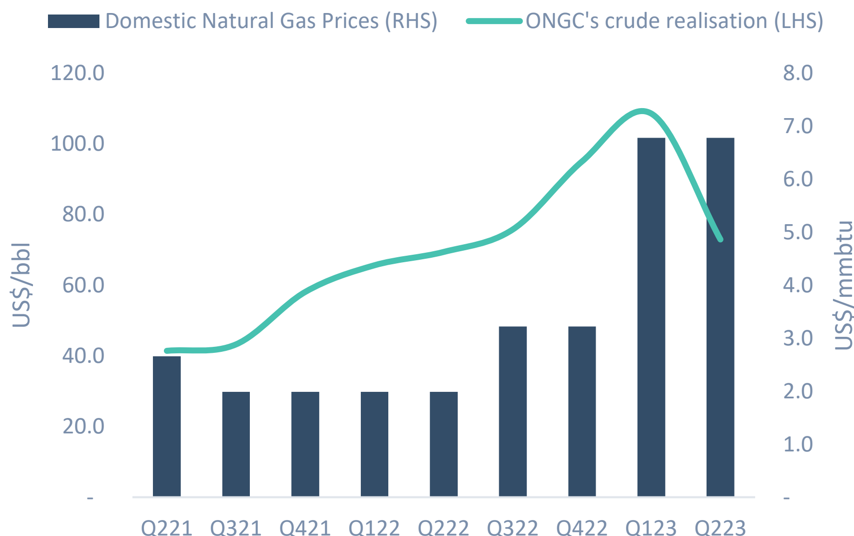
Upstream:

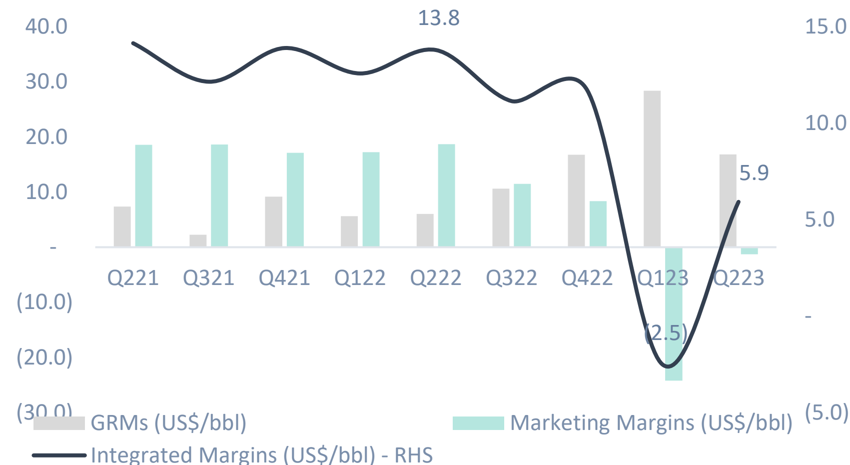
Brent crude is higher than the 5-yr average of US$70/barrel, and the net realisation for upstream producers has fallen from a peak of US$110/barrel to US$75/barrel with the introduction of an export duty (windfall tax).

The domestic gas realization (APM gas) at US$ 9.5/mmbtu (effective 1 Oct 2022) has been highest since introduction of new formula in 2014. A new committee has been formed to review gas pricing formula and the outcome is expected by end Nov-22 which could reduce the gas prices benefiting the end consumers.

Refining and Marketing

Refining margins have been strong, exceeding the 5-year average of US$ 5/barrel, while marketing margins have been impacted because pump prices have not increased. The refining gains has been more than offset by weakness in the marketing segment.





Source: Company disclosure

Based representative set of 3 Oil marketing companies

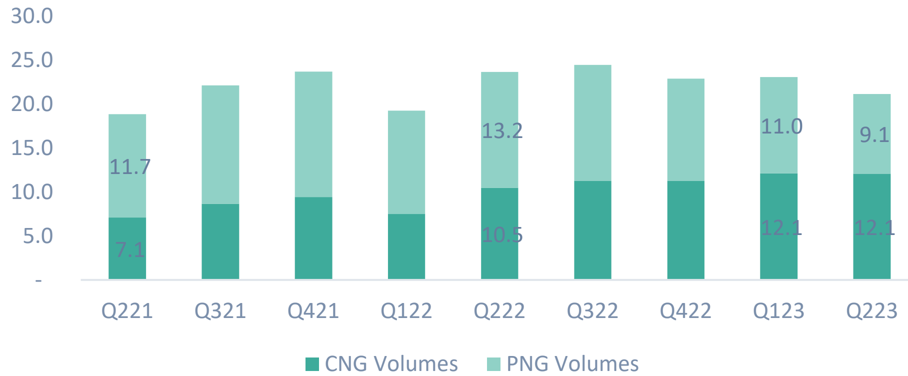
The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and may or may not have any future position in these sector(s)/stock(s)/issuer(s).

GAS UTILITY: LNG PRICES MODERATE

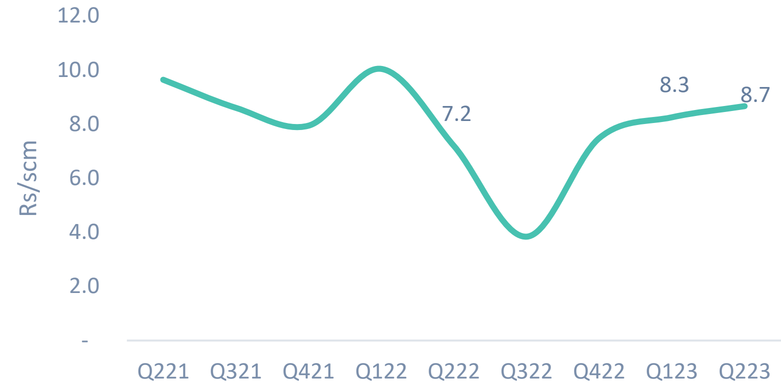
Despite lower discounts compared to alternative fuels, the market for CNG-fueled vehicles continues to grow rapidly. However, the industrial volumes have been impacted by higher LNG prices.

Spot LNG prices have peaked and started to fall given an oversupply in the market, curtailed Chinese demand, and lower EU regasification capacity.

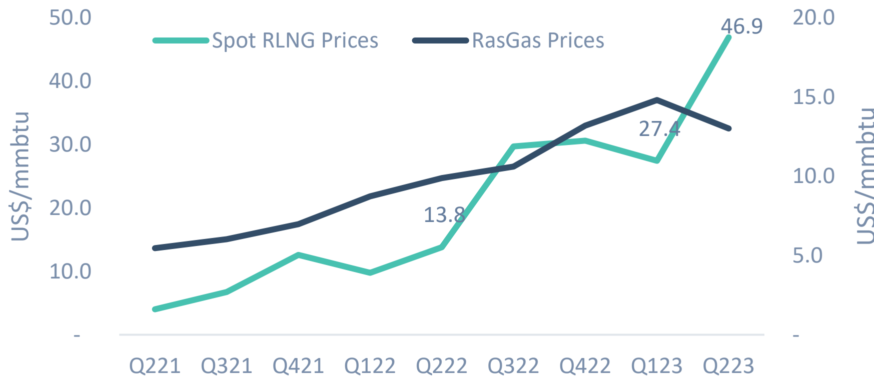
Volumes: Industrial volumes declines



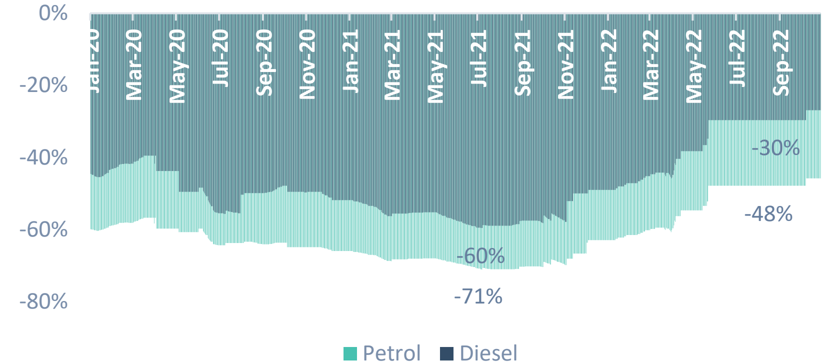
EBITDA/SCM: Margin holding up



LNG: LNG prices starting to cool off



CNG vs Petrol: Differential vs alternate fuel reduces



Based representative set of 4 CGD companies

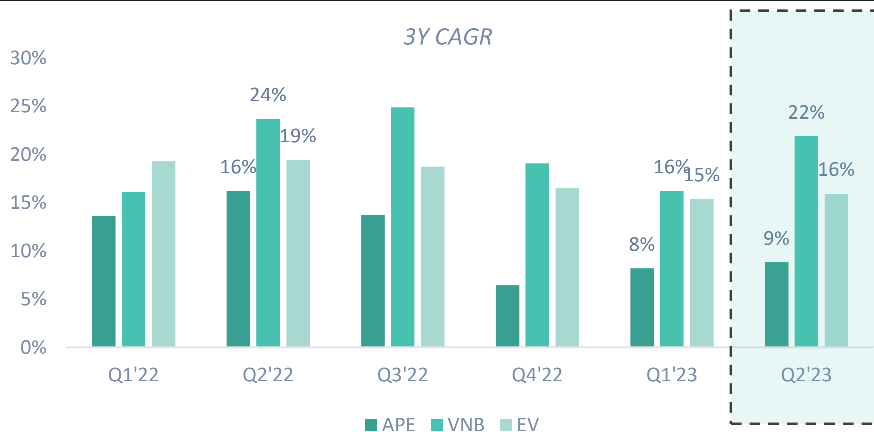
Source: *Company disclosures*

SCM: Standard Cubic Meter, RSP: Retail Selling price

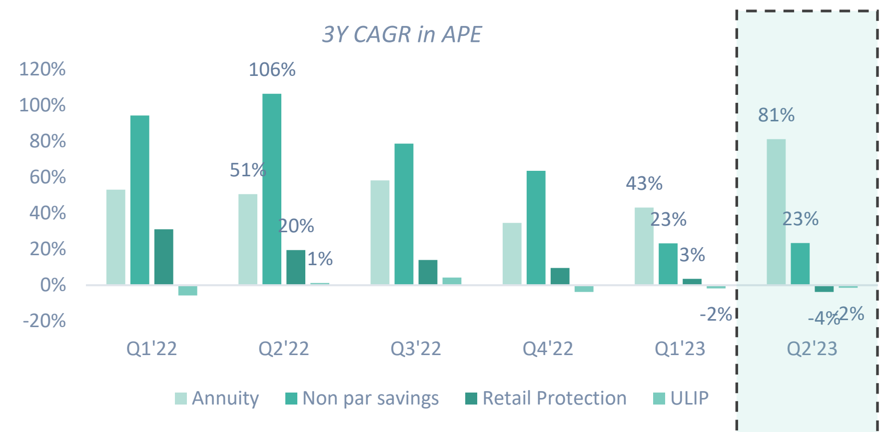
LIFE INSURANCE: HEALTHY VALUE OF NEW BUSINESS (VNB) GROWTH

- Annualized Premium Equivalent (APE) growth for listed players during the quarter was modest impacted by ULIPs.
- Non-par savings, annuities, and group protection continue to have robust growth. These high-margin products contributed to VNB's 30% YoY growth in H123 and 22% 3Y CAGR, significantly outpacing overall APE growth.
- While retail protection offtake has remained tepid in recent quarters due to higher base and supply side constraints, it is expected to turn-around in H223. However, insurers have significantly diversified their VNB mix over the last two years, resulting in continued strong VNB growth even in the absence of retail protection contribution.
- The Embedded Value (EV) growth of the listed players continues to be in the high teens, which is supported by the continued growth of VNB.

VNB and EV continue to maintain robust momentum...



... driven by higher margin products - non-par savings/annuities



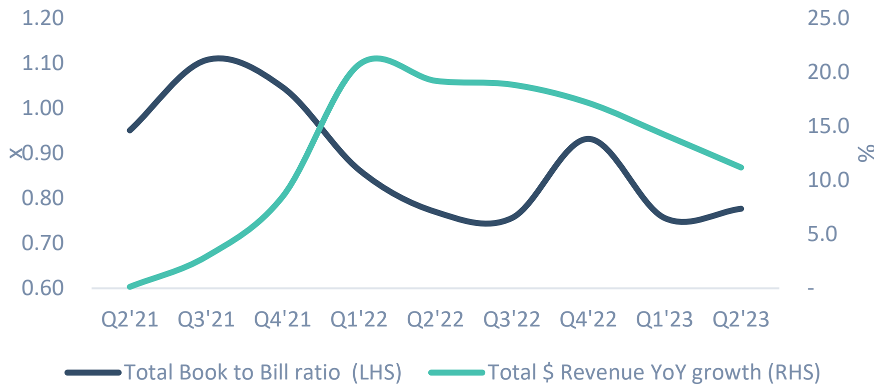
Based on IPRU Life, SBI Life, Max Life and HDFC Life

DSP

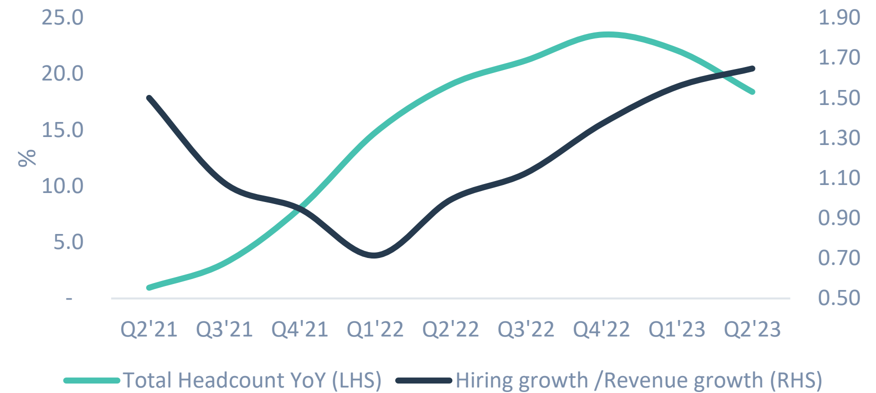
IT: NO SIGNS OF SLOW DOWN YET

- Despite the tough environment, the Top 10 IT companies reported better-than-expected growth with resilient order intake.
- Hiring continued to remain high which indicates near/medium term growth visibility.
- With lower attrition, the EBIT margin started bottoming out. Troubled sectors, like, Manufacturing, Hi-tech, Retail are still reporting better growth. Adjusting for the currency impact, Europe's growth was also strong in Q223

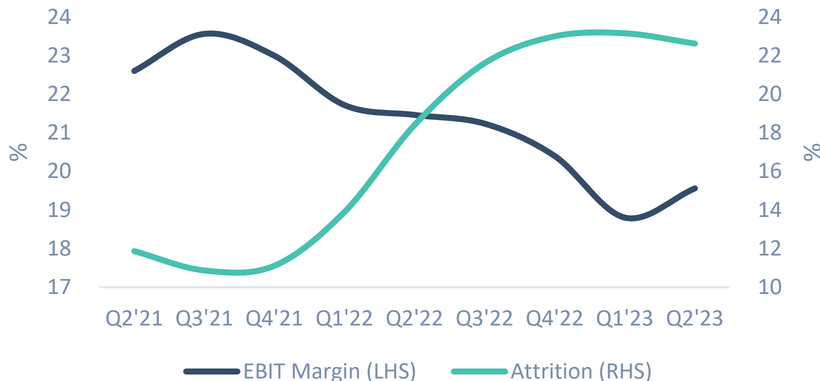
Cross Currency headwinds impacts reported growth



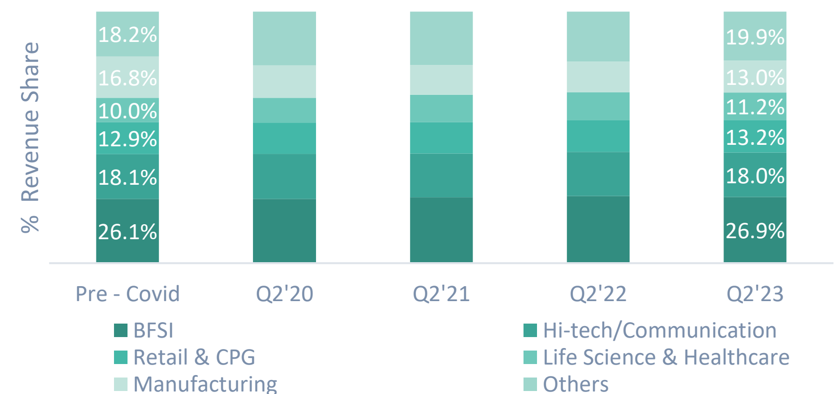
Net hiring > Revenue growth



Margins bottoming out



No signs of stress in vulnerable sectors yet



DSP

Source: Company disclosures

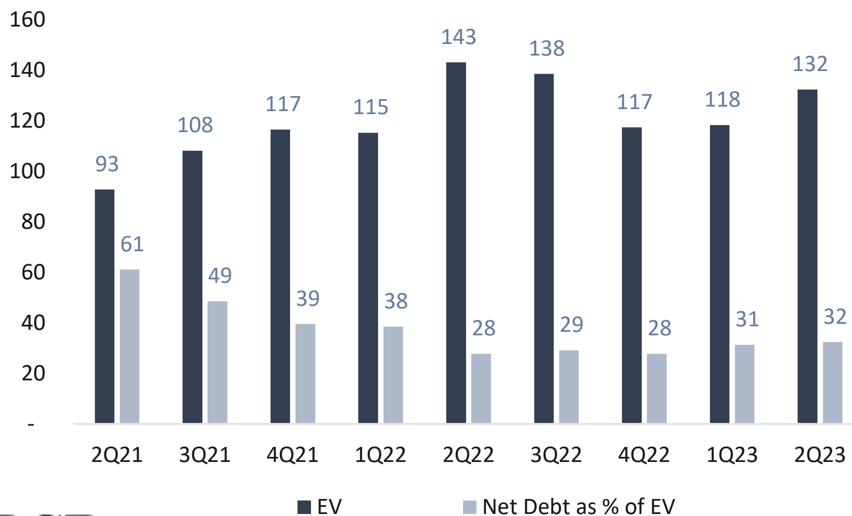
Based on representative sample of Top-10 IT companies

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).

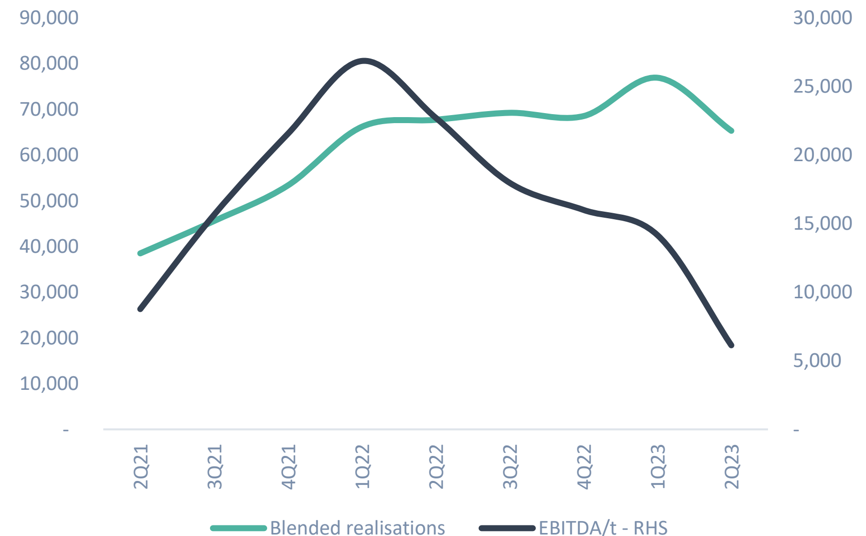
METALS: REALISATIONS DECLINE SHARPLY

- Average realisations (Industry) fell sharply by 15% qoq and 4% yoy. While production costs peaked (coking coal and energy costs), EBITDA/t contracted by more than 50% year over year and quarter over quarter.The only silver lining was the average volume growth of c.25% qoq for top players. The strain on cash flows, combined with increases in capex and WC, has resulted in an increase in debt for most of the companies (except JSPL).
- Despite some increase in net debt across companies, Enterprise Value/debt were sequentially flattish at 32% in 2QFY22 but deteriorated on yoy basis (28% in 2QFY22), implying equity value is now lower than last year.
- In 3QFY23, EBITDA/t is likely to improve sharply, aided by lower coking coal and iron ore costs, while realisation falls will be moderate at 2-3%. Non-integrated companies, such as JSW and JSPL, benefit more than Tata and SAIL.

Enterprise value (indexed to 2Q21) and Net debt



Realisation and EBITDA (Rs/ton)



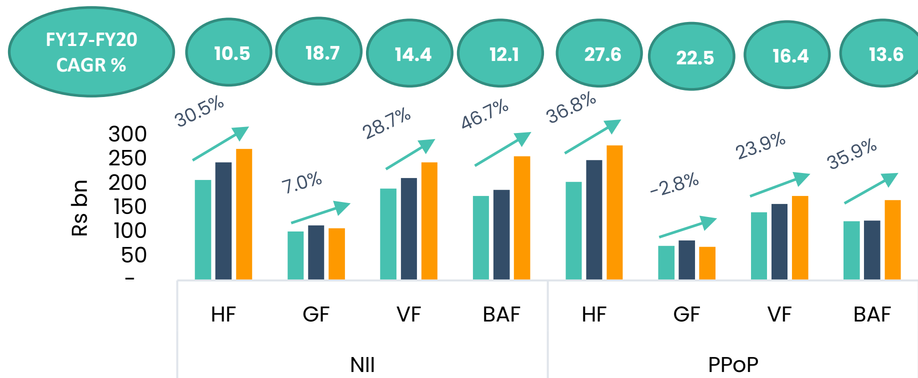
DSP

Enterprise value = Market Cap + Net debt

Based representative set of 4 steel companies

NBFC: IMPROVING OPERATING PERFORMANCE

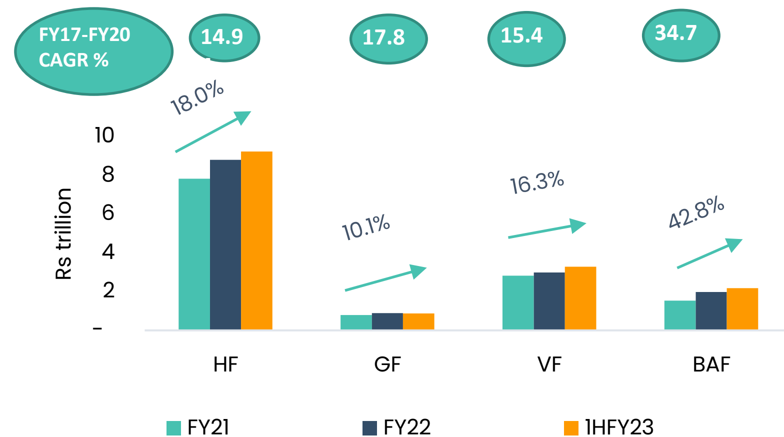
Steady operating performance (except Gold Finance (GF))



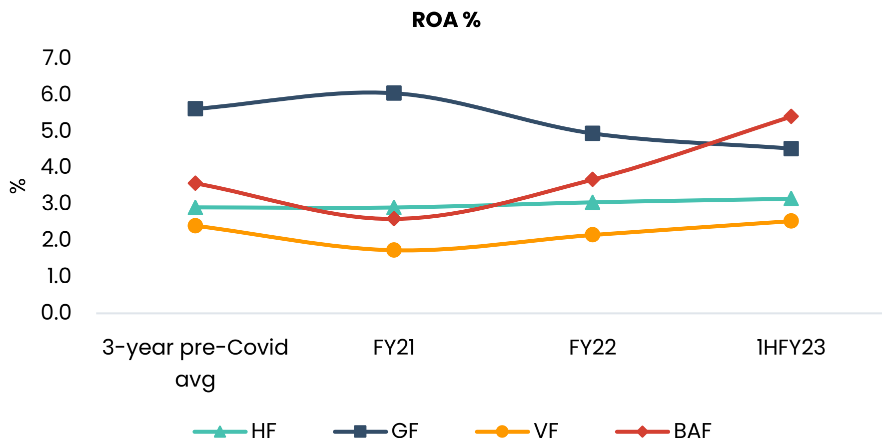
Considered TTM numbers

1HFY21 1HFY22 1HFY23

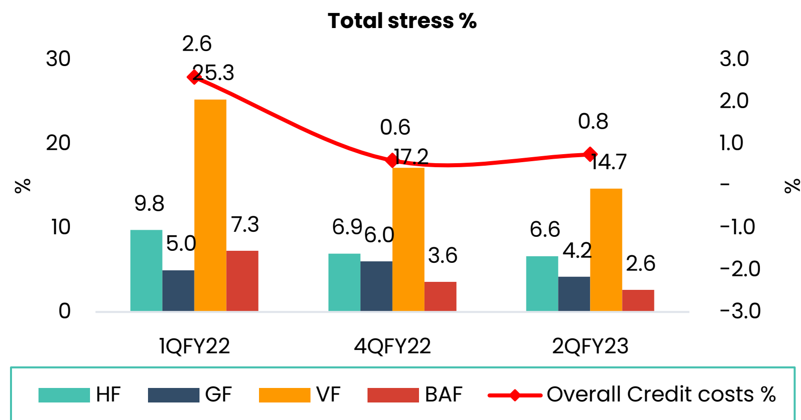
AUM growth above pre-covid



GF witnessed moderation in ROA



Continued improvement in stress pool (Stage 2+3)



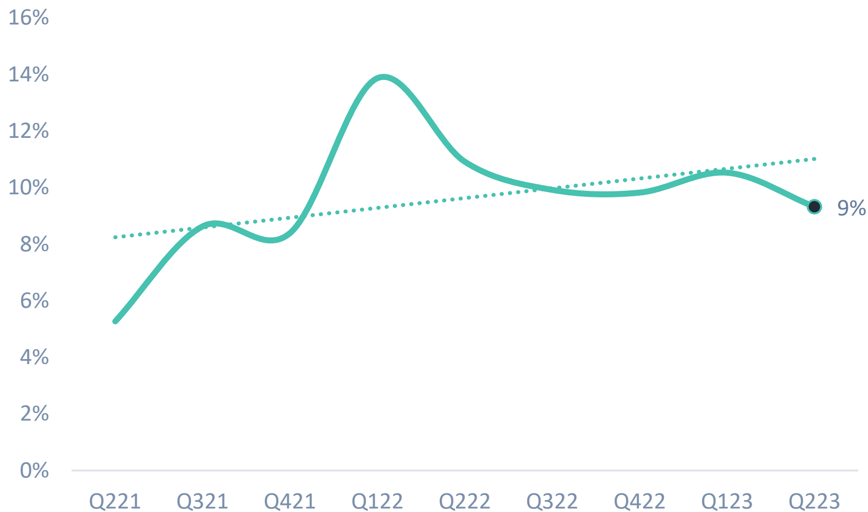
Representative set of 15 NBFCs, HFs: Housing finance companies, VF Vehicle Finance, GF: Gold Finance and BAF Bajaj Finance Source Company Disclosures

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).

PHARMACEUTICALS: GROSS MARGINS IMPROVE

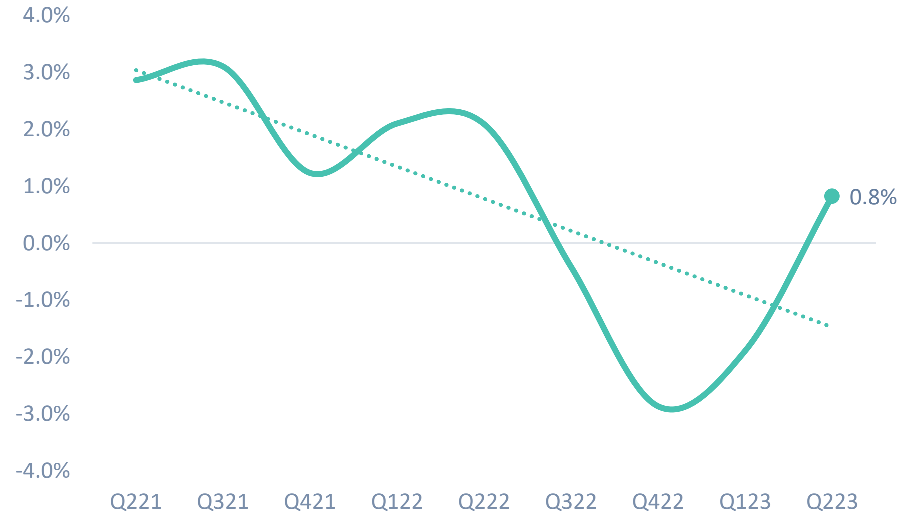
- The formulations market in India expanded at a healthy rate. Sustained traction across therapies in both chronic and acute segments as well as price increases of 5-7% supported the overall growth. H223 could be softer vs H123 due to seasonality and heightened competition as most industry leaders have augmented their medical representative base by 5-10%.
- The generics market in the United States increased after several quarters of decline.The price erosion moderated to low single digits in Q2 vs early teens in Q1. The recovery was fueled by strong Revlimid sales, while the US generic base business remained subpar.
- The gross margins improved due to softening input costs, INR depreciation and price increases in the domestic formulation market

3 year revenue CAGR (%) : India Business*



*Representative set of 18 Pharma companies

3 year revenue CAGR (%): US Generic Business**



**Representative set of 13 Pharma companies

DSP

Source Company Disclosures

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).

SUMMING UP…

KEY HIGHLIGHTS

- ROE and operating margins are deteriorating at the margin
- Balance sheet weakens marginally with rising debt
- Free cashflow generation is impacted with higher capex.
- Working capital cycle is getting extended

SECTORAL TRENDS

- Financials deliver robust earnings with an improving yield and benign credit costs.
- Capital goods witnessed record order inflows, but the earnings growth expectation and valuation appear lofty.
- IT delivered better than expected earnings, and the downgrade cycle seems to be ebbing.
- Metals, healthcare, and energy continue to see downgrades.
- Consumption led sectors deliver revenue growth, but the delayed pass through of commodity inflation is hurting margins.
- The valuations overall appear extended, with only a few sectors like energy, telecom, healthcare, and banks trading at or below pre-covid averages.

Disclaimer

This document is for information purposes only. In this document DSP Investment Managers Private Limited (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this document is believed to be from reliable sources. While utmost care has been exercised while preparing this document, the AMC nor any person connected does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. The statements contained herein may include statements of future expectations and other forward looking statements that are based on prevailing market conditions / various other factors and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

The recipient(s) before acting on any information herein should make his/their own investigation and seek appropriate professional advice. Past performance may or may not be sustained in the future and should not be used as a basis for comparison with other investments. The sector(s)/stock(s)/issuer(s) mentioned in this Document do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). All opinions, figures, charts/graphs and data included in this Document are as on date and are subject to change without notice.

This Document is generic in nature and doesn’t solicit to invest in any Scheme of DSP Mutual Fund or construe as investment advice.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.