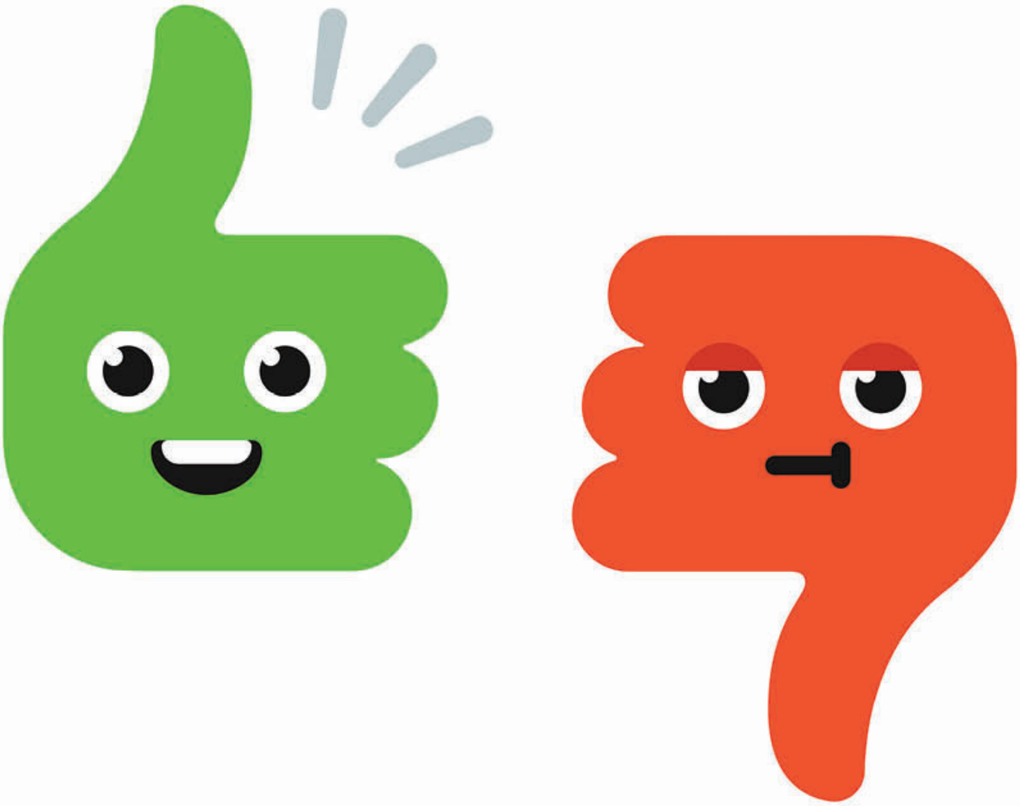
Q1FY23 Results Winners & Losers



With several factors lending volatility to the equity markets and creating a downturn, it is time now to study the corporate results to check whether there are signs of a healthy uptrend for the coming quarter as well as get some insights on the sectors that have fared well. **Armaan Madhani** takes stock of Q1FY23 earnings, highlighting the hits and misses

The quarter ended June 30, 2022 witnessed a tempestuous and volatile operating environment in the equity markets on account of raging inflation levels, aggressive monetary policy tightening by central banks of major world economies, wild swings in crude oil prices, unprecedented rise in commodity prices, prolonged geopolitical tensions amidst Russia and Ukraine as well as price hikes by companies across the board to safeguard margins. Key monitorable trends that will impact the June quarter earnings comprise margin pressure, management commentary on inflation and future demand outlook. Let us decode the Q1FY23 earnings of early bird companies that have declared their results and discern the preview of companies expected to announce earnings in the coming weeks.

Sensex Constituents' Performance

India's largest IT services company, Tata Consultancy Services (TCS) kicked off the earnings season on a sombre note by missing analyst estimates. Margins were seen under pressure due to elevated employee-related expenses while travelling expenses gravitated towards the pre-pandemic levels. TCS's consolidated revenue for Q1FY23 stood at ₹52,758 crore, up by 16.2 per cent from ₹45,411 crore recorded in Q1FY22. Constant currency revenue growth stood at 15.5 per cent on a YoY basis. The company reported a 5.21 per cent rise in net profit in the June quarter relative to the same quarter last year.

However, profit was down by 4.5 per cent on a QoQ basis. Operating margins for the quarter came in at 23.1 per cent, down from 25.5 per cent registered a year ago and 25 per cent in the March quarter. The IT giants' order book stood at USD 8.2 billion, 1.2 per cent higher from a year ago. Over the last 12 months, the company's attrition rate inched higher to 19.7 per cent. The management is confident in the resilience of technology spending and secular tailwinds driving growth. TCS CEO Rajesh Gopinath said that deal pipeline and closures continue to be strong, but the company remains vigilant given global uncertainties.

India's third-largest IT exporter, HCL Technologies also disappointed analysts by posting a consolidated net profit of ₹3,283 crore, up 2.4 per cent on an annual basis but down by 8.6 per cent on a sequential basis. Revenues surged 17 per cent on a YoY basis on the back of new deal wins, healthy pipeline and strong growth across all verticals. Constant currency revenue for the June quarter grew 15.6 per cent on a YoY basis. The management team is optimistic on future demand outlook and has retained their FY23 earnings guidance for constant currency revenue and EBIT.

Wipro, the country's fourth-largest software services firm reported consolidated profit after tax of ₹2,563.6 crore for Q1FY23, thus showing a decline of 20.93 per cent on a YoY basis due to higher base in the corresponding period last year because of a one-time settlement, higher investment as well as employee expenses. The company's consolidated revenue jumped 15.51 per cent to ₹22,001 crore relative to ₹19,045 crore registered in the year-ago quarter. However, on a sequential basis, revenue growth was flat at 2.98 per cent. Attrition rate stood at 23.3 per cent during the quarter, marginally lower than 23.8 per cent in the March quarter. FMCG major Hindustan Unilever impressed investors and analysts by reporting an 11 per cent growth in standalone net profit at ₹2,289 crore for the June quarter as against ₹2,061 crore in the year-ago quarter.

The company's total income climbed 20 per cent to ₹14,409 crore in Q1FY23 as against ₹11,982 crore in Q1FY22. During the quarter, their turnover grew 19 per cent with underlying volume growth of 6 per cent. The company persisted to grow significantly ahead of the market, gaining value and volume market shares. EBITDA margin at 23.2 per cent remained healthy despite unprecedented inflationary headwinds. On a standalone basis, India's largest private lender HDFC Bank's net profit for Q1FY23 rose by 19 per cent to ₹9,196 crore from ₹7,729.64 crore a year ago on the back of higher asset growth and lower provisions.

Net interest income (NII) for the June quarter grew by 14.5 per cent to ₹19,481.4 crore from ₹17,009 crore for the same quarter last year. It was driven by advances growth of 22.5 per cent, deposits growth of 19.2 per cent and total balance-sheet growth of 20.3 per cent. Corporate loan growth recouped to healthy levels with double-digit credit growth. The bank's asset quality deteriorated during the quarter with gross non-performing assets (GNPAs) ratio rising to 1.28 per cent, up 11 basis points from the previous quarter. Its net NPA came in at 0.35 per cent of net advances.

India's leading cement manufacturer, UltraTech Cement furnished investors a reason to cheer by reporting a healthy 28.2 per cent growth in consolidated revenue for Q1FY23 to ₹15,164 crore from ₹11,830 crore in the year-ago period. There

INTERVIEW

Satish Ramanathan,

CIO (Equity), JM Financial Asset Management

"High Inflation In Raw Materials Will Impact Almost All Companies"

How has the earnings' season been so far? Which sectors appear vulnerable to you?

The markets tend to look beyond the immediate news and so we expect the surprises in results would be well-absorbed. High inflation in raw materials will impact almost all companies other than pure service sector companies. In the next two quarters, the earnings may not pan out along expected lines but should normalise in H2FY23 as companies optimise their raw materials and increase prices. We expect there could be some disappointment in steel stocks as the export ban has curbed their profitability as also some of the FMCG stocks due to higher input costs. We expect this quarter to be a period of several cross-currents which need not be extrapolated.

In your view, what are the pertinent risks facing the equity markets in H2FY23?

The equity markets will continue to face the key risk of heightened inflation and rising interest rates. The last few years have been bumpy as GST, the pandemic and inflation played their role one after another in impacting corporate performance. We have noticed that companies have used this volatility to their advantage by improving their financial health and rationalising costs. Earnings in H1FY23 may be impacted due to the spill-over effect of inflation in raw materials but going ahead, we expect some normalcy in demand, stable prices and increased exports playing their role in improving corporate profits. Energy prices will continue to be a wild card as it influences discretionary spending power and the governments' deficit due to higher subsidies. To sum up, we are generally more sanguine regarding H2FY23.

Which three major emerging investment trends do you expect to dominate over the next decade?

Many big projects, which experienced delays due to various issues over the past few years, are now getting back on track. We see infrastructure and allied services becoming a sustainable theme in the future as government finances improve. We also see tremendous scope in services such as online delivery, quick service restaurants (QSRs), etc. as discretionary incomes move up. This area is evolving very fast and could throw up winners for the next decade. The third area where we see scope is in financial technology. Obviously, this is not very big now but has the scope to disrupt and surprise positively.

IT Companies Performance

Company Name	Market Cap (₹ Cr)*	Q1FY23 (₹Crore)			Q1FY22 (₹ Crore)			Change (%)		
		Net Sales	PBIDT (Excl OI)	PAT	Net Sales	PBIDT (Excl OI)	PAT	Net Sales	PBIDT (Excl OI)	PAT
Tata Consultancy Services Ltd.	1160285.19	52758.00	13416.00	9519.00	45411.00	12663.00	9031.00	16.18	5.95	5.40
HCL Technologies Ltd.	249657.19	23464.00	4975.00	3281.00	20068.00	5062.00	3213.00	16.92	-1.72	2.12
Wipro Ltd.	225215.94	21528.60	3859.40	2560.40	18467.40	4195.00	3247.30	16.58	-8.00	-21.15
Larsen & Toubro Infotech Ltd.	78976.06	4522.80	830.80	634.40	3462.50	647.70	496.80	30.62	28.27	27.70
Mindtree Ltd.	52485.00	3121.10	658.10	471.60	2291.70	464.50	343.40	36.19	41.68	37.33
Tata Elxsi Ltd.	52207.59	725.89	238.15	184.72	558.32	149.99	113.38	30.01	58.78	62.92
Mphasis Ltd.	42850.96	3411.24	600.00	401.88	2690.83	489.33	339.69	26.77	22.62	18.31
L&T Technology Services Ltd.	36112.19	1873.70	401.00	275.00	1518.40	317.70	217.00	23.40	26.22	26.73
Oracle Financial Services Software Ltd.	27937.83	1402.46	647.43	491.76	1397.37	732.59	524.19	0.36	-11.62	-6.19
Persistent Systems Ltd.	27752.21	1878.11	333.29	211.61	1229.93	201.52	151.25	52.70	65.39	39.91
Coforge Ltd.	22740.64	1829.40	288.60	171.90	1461.60	211.40	131.20	25.16	36.52	31.02
Happiest Minds Technologies Ltd.	14657.72	328.92	83.93	56.34	244.61	56.89	35.73	34.47	47.53	57.68
Mastek Ltd.	6108.46	570.25	109.22	84.36	516.47	112.78	80.21	10.41	-3.16	5.17

* As on July 22, 2022

INTERVIEW

Roop Bhootra

CEO (Investment Services)

Anand Rathi Shares and Stock Brokers

"The Markets Should Consolidate From Here Onwards"

What's your outlook on the domestic equity markets in the short to medium term?

The markets are starting to show signs of stabilisation and also some buying has emerged in some pockets. With the recent decline in broader commodity prices that may aid a potential decline in inflation, there may be positive sentiments in the latter half of the year. The worst is behind us for the moment and now it's up to the corporate results which should decide the further course of the markets. Investors could start looking at adding some positions in companies reporting better results.

How has the earnings' season been so far?

It is too early to tell as we are just into the initial days of the results' season and if you consider Nifty 50 results, only seven companies comprising about 20 per cent in weight have declared results so far. Having said that, so far the results have been fairly on expected lines and there are no major negative surprises. The top-line growth is decent while margin pressure continues to remain, particularly so for manufacturing companies.

What is your outlook on the markets for FY23 and the key risks facing them?

The markets should stabilise and consolidate from here onwards. As inflation concerns ease going into the second half of the current year, we should see some improvement in corporate earnings which could set the stage for the next leg of movement heading into the next year.

Which three sectors would you bet on for the long term?

Banks and financials, manufacturing and capital goods, specialty chemicals and IT are attractive at current valuations. ■

was a 6.8 per cent decline in the net profit on a YoY basis, which stood at ₹1,584 crore. The company witnessed strong traction in volumes over the low base of last year. The price hikes taken by the company augured improvement in realisations, boosting revenue growth. IndusInd Bank significantly beat street estimates by reporting a whopping 60.5 per cent jump in net profit at ₹1,631.02 crore for the June quarter.

Net interest income (NII) for Q1FY23 grew by 16 per cent to ₹4,125 crore. The private sector lenders' vehicle and microfinance segments recorded the best Q1 disbursements. The bank witnessed an improvement in its gross non-performing assets (GNPAs) for the quarter at 2.35 per cent of the gross advances as against 2.88 per cent recorded in the year-ago period. Net NPAs declined on an annual basis to 0.67 per cent from 0.84 per cent. So far, only a few of the 30 Sensex companies have reported earnings for Q1FY23 and it has been a mixed bag. Investors should watch out for quarterly results of the remaining Sensex companies in the forthcoming weeks.

Win Some, Lose Some

Avenue Supermarts, the owner and operator of D-Mart retail stores, reported an almost two-fold rise in its Q1FY23 standalone revenue to ₹9,806.89 crore from ₹5,031.75 crore in Q1FY22. This was helped by a comparatively low base due to the pandemic's impact in the corresponding quarter. On a sequential basis, revenue surged by 13.95 per cent from ₹8,606.09 crore in Q4FY22. The company registered standalone net profit of ₹679.64 crore in Q1FY23, up by 5.9 times compared to the same quarter last year. The company's online delivery portal — D-Mart Ready, continues to make inroads across 12 Indian cities.

Neville Noronha, CEO and Managing Director, Avenue Supermarts, said, "General merchandise and apparel categories saw relatively better traction than the previous quarter but still has some overhang of the pandemic-led disruptions and acute inflationary impact. High inflation over the last two years hides the possible stress in volume growth for discretionary categories of mass consumption." Larsen and Toubro Infotech reported strong earnings for the June quarter. Revenue and net profit rose by 30.6 per cent and 27.7 per cent on a YoY basis to ₹4,522.80 crore and ₹634.40 crore respectively. The company announced four large deal wins during the quarter with net new total contract value (TCV) of USD 79 million.

Mindtree Limited posted a healthy start to FY23 with robust revenue growth, solid margins and a record order book. With revenues of USD 399.3 million, up 5.5 per cent sequentially in constant currency on the back of a healthy demand, this was the company's sixth consecutive quarter of more than 5 per cent revenue growth in constant currency. Tata Elxsi also impressed investors by reporting a 63 per cent rise in net profit to ₹184.72 crore for the quarter ended June, relative to ₹113.38 crore in the corresponding quarter of the previous fiscal. Larsen and Toubro Technology Services (LTTS) reported net profit of ₹274 crore for Q1FY23, up 27 per cent year-on-year.

Revenue of the engineering services provider grew at 23 per cent to ₹1,873 crore on an annual basis. Operating margins were better managed despite a higher attrition rate. During the quarter, LTTS won a USD 50 million plus deal, four USD 15 million deals and two deals with TCV of USD 10 million. The company also reaffirmed the FY23 revenue growth guidance of 13.5-15.5 per cent. India's leading fast moving electrical goods (FMEG) company, Havells India reported a flat 3.47 per cent YoY increase in net profit at ₹242.43 crore for the quarter ended June 30, 2022.

Anil Rai Gupta, Chairman and Managing Director, Havells India, said, "Margins were adversely impacted due to commodity cost fluctuation. We expect benefits from the recent cost moderation to reflect in a couple of quarters. The demand outlook remains stable in consumer and residential segments." Meanwhile, wires and cables major Polycab India reported its best-ever Q1 revenue and profit despite headwinds such as seasonal pressures. The company's net profit almost tripled to ₹222.54 crore as compared to the same period a year ago. EBITDA margin improved 420 bps YoY to 11.3 per cent, led by calibrated price hikes and better operating leverage. Ambuja Cements posted a 45 per cent YoY jump in standalone Q1FY23 net profit despite inflationary impacts such as elevated fuel prices and logistics costs.

Net sales for the quarter surged 18.43 per cent to ₹3,958 crore on a yearly basis. Also, cement major ACC declared a 60 per cent YoY decrease in consolidated net profit of ₹227 crore for the June quarter. On a sequential basis, net profit declined by 42.6 per cent on account of moderation in demand and surge in overall cost of production. Tata Communications regained its mojo by reporting strong earnings for Q1FY23 results. The company's profit after tax (PAT) zoomed 83.6 per cent YoY to ₹544 crore from ₹296 crore in Q1FY22. Consolidated EBITDA stood at ₹1,077 crore, surging 9.2 per cent from the same period last year.

The company reported consolidated revenue of ₹4,311 crore in Q1FY23, rising 5.1 per cent on a YoY basis. Bharat Electronics' net profit saw a stunning 1,401 per cent YoY growth at ₹366.63 crore for Q1FY23. The Navratana PSU achieved a turnover of ₹3,063.58 crore during the quarter as against ₹1,564.34 crore recorded in the same quarter the previous year. Total revenue from operations jumped 90.5 per cent on a yearly basis to ₹3,140.61 crore. Other large-cap stocks that impressed investors and analysts include HDFC Life Insurance, ICICI Prudential Life Insurance, Jindal Steel and Power, Oberoi Realty, SRF, Tata Communications, Federal Bank, IDBI Bank and AU Small Finance Bank.

Some large-cap companies that failed to deliver impressive results include ICICI Lombard General Insurance, Gland Pharma, Syngene International and Oracle Financial Services Software. Century Plyboards impressed Dalal Street by reporting a consolidated net profit of ₹92.3 crore against ₹31.4 crore. Its consolidated revenue jumped 94.3 per cent to ₹889 crore against ₹457.5 crore on a YoY basis. EBITDA stood at ₹143.1 crore against ₹60.2 crore on a YoY basis whereas the EBITDA margin expanded to 16.1 per cent against 13.2 per cent.

Angel One has reported a healthy 46.5 per cent year-on-year growth in consolidated profit at ₹181.50 crore for Q1FY23, supported by a strong top-line. Its revenue zoomed 45 per cent on a YoY basis to ₹669.8 crore in Q1FY23 with robust growth in fees and commission income along with interest income. The mid-cap winners this earnings season are Kajaria Ceramics, DCM Shriram, Indiamart Intermesh, Bank of Maharashtra, PVR, Meghmani Finechem, Cyient, Lloyds Metals and Energy, RBL Bank and CEAT.

While mid-cap losers this season are Hatsun Agro Product, Hitachi Energy India, National Standard (India), Alok Industries, Network 18 Media and Investments, TV 18 Broadcast, Mastek and Sterling and Wilson Renewable Energy. Butterfly Gandhimathi Appliances hit a home run, gratifying investors. The company's net profit stood at ₹13.2 crore against ₹0.9 crore on a YoY basis whereas revenue was up 85.7 per cent at ₹253.5 crore as compared to ₹136.5 crore on a YoY basis. EBITDA came in at ₹25.8 crore in comparison with ₹7.3 crore and the EBITDA margin improved to 10.2 per cent against 5.4 per cent. The shares of the company hit a fresh 52-week high of ₹1,700 per share on the bourses.

Some small-cap companies that brought a smile on investors' faces are CSB Bank, Phillips Carbon Black, Rajratan Global Wire, Ramkrishna Forgings, Share India Securities, Sagar Cements, Lloyds Steels Industries, Stylam Industries, Rane Engine Valve, Spandana Sphoorty Financial, NELCO, Delta Corp, Rallis India, Kirloskar Pneumatic, Anand Rathi Wealth, G M Breweries, Shakti Pumps (India), Control Print, Tanfac Industries and Aditya Birla Money. The small-cap companies that disappointed investors are Sasken Technologies, Elecon Engineering, Agro Tech Foods, Newgen Software Technologies, Steel Strips Wheels, Ganesh Housing Corporation, Tata Metaliks, Bhansali Engineering Polymers, GTPL Hathaway, Den Networks, Kesoram Industries, Moschip Technologies, Rajnandini Metal, Onward Technologies, Goa Carbon, Tata Steel Long Products, Vakrangee, Just Dial and Heidelberg Cement India.

Micro-cap companies with outstanding Q1FY23 Results		
Company Name	Sector	Market Cap (₹ Cr)*
Seshasayee Paper and Boards Ltd.	Paper	1362.27
Ugro Capital Ltd.	Finance	1102.14
Orient Bell Ltd.	Construction Materials	966.2
Moschip Technologies Ltd.	IT	880.14
Mishtann Foods Ltd.	Trading	819
Imagicaaworld Entertainment Ltd.	Hospitality	790.72
Som Distilleries & Breweries Ltd.	Alcohol	571.44
KSolves India Ltd.	IT	469.5
Vikas EcoTech Ltd.	Chemicals	354.43
Swiss Military Consumer Goods Ltd.	Consumer Durables	315.53
20 Microns Ltd.	Mining	289.35
Benares Hotels Ltd.	Hospitality	278.05
International Travel House Ltd.	Hospitality	108.77
* As on July 22, 2022		

Conclusion

With a great deal of companies yet to release their quarterly results, investors should bear in mind that cost pressures are likely to be ubiquitous, leading to margin decline. It is possible that earnings' outlook for FY23 for some companies may get revised marginally lower owing to the macro challenges. Hence, management outlook for the upcoming quarters will play a pivotal role in driving stock-specific action. Unprecedented high levels of inflation persisted over the June quarter. Ergo, sectors such as banking, metal, energy, real estate and defence which are not likely to see much of an impact on their earnings due to inflation could declare stellar earnings for Q1FY23. The Reserve Bank of India (RBI) has set the stage for further interest rate hikes in the coming months.

This augurs well for well-capitalised financial institutions with robust credit portfolios as a rise in benchmark policy rates leads to increase in loan rates which furnish a fillip to interest margins. With lower credit costs, strong traction in advances and ameliorating margins, Indian banks are expected to post healthy earnings' growth in the June quarter. However, rising yields could result in marked-to-market losses impacting earnings momentum to some extent. Upstream energy and nonferrous metal companies are expected to reap the benefits of high commodity prices over the June quarter. Retailers engaged in non-essential items such as apparel and jewellery are expected to report strong results for Q1FY23 on account of improved consumer sentiments and increased consumer spend on discretionary purchases.

FMCG companies are expected to report weak performance with margins and volumes continuing their downtrend as a consequence of high raw material costs, inflation-triggered demand slowdown, frequent price hikes and down-trading. Softening of input costs, easing of supply side issues, price hikes and demand recovery are expected to benefit the automotive sector earnings. During times of challenging business environment as posed in Q1FY23, investors should focus on companies that are delivering robust top-line and bottom-line performance coupled with better operating leverage. The correction in equity markets over the last few months furnishes an optimal opportunity for investors to accumulate quality stocks at reasonable valuations with strong balance-sheet, healthy cash flows and high visibility in terms of demand recovery.