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NS Portfolio Companies Shines Amid Gloomy Q1FY23 Results

Comparison of Results of Portfolio Companies with Benchmark alongwith Summary of Industry wise-Companies' Management Insights Post Results

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India Inc faced multiple headwinds in the past 2 quarters and Q1FY23 results saw the maximum brunt of it. Supply led issues due to heightened Russia- Ukraine concerns had serious impacts on bottom line this quarter. While the Nifty 500 companies on aggregate weightage basis declared a top line growth of 34.4% on YoY basis and 2.1% on QoQ basis, damage was most felt in the margins of companies. The Net Profit Margin of Nifty 500 companies were at mere 9.5% for the quarter Vs 12.8% last quarter. The net margin compressed mainly due to EBDITA Margin compression basis surge in Raw material prices, high freight and power costs, uncertainty on global budget spends, higher outsourcing, chip shortage, currency issue, high interest rate led issues etc. Most of the issues that had surged in the last 2 quarters are now in cooling off phase and we are likely to see it in performance of India Inc in the next quarter. On an aggregate basis, Q1FY23 results were mostly on expected lines. Out of 100 top companies, 26 companies have given results better than estimates, 15 companies have declared results lower than expected while rest 59 companies results have been in line with the expectations.

Our Portfolios reported growths better than respective benchmark Indices. Even the net profit margin deterioration was contained at the portfolio level.

NS Industry Champ Thematic model portfolio reported weighted aggregate revenue growth of 39.5% YoY Vs The Benchmark – Nifty 100 revenue growth of 34.6% YoY. The Net Profit Margin of the portfolio was reported at 12.4% at par with last quarter whereas the Nifty 100 Net margin slipped to 9.6% in this Quarter vs 12.8% last Quarter.

NS Mid and Small Cap Theme Model Portfolio reported topline growth of 29.4% YoY and 2.8% QoQ. Compared to This the benchmark, Nifty Mid Small 400 reported topline growth of 26.1% YoY and a decline of 6.1% QoQ. Also on the Net Profit Margin basis, The portfolio Net Margin was maintained at 13% while the benchmark Net profit margin fell from 10.9% to even worse at 7% in Q1FY23.

The NS Multi Cap theme portfolio reported topline growth of 38.9% YoY and 13.3% Net Profit margin while the Benchmark Nifty 500 reported topline growth of 34.4% YoY and Net Profit Margin of 9.5%. Our NS 5T X 5T thematic portfolio which is also benchmarked against Nifty 500 also reported revenue growth at par with Benchmark and Margins better than benchmark

Nifty 500. The revenue growth was reported at 32.2% while the Net margin was reported at 20.4%. Though the portfolio is reportedly having the highest net profit margin amongst all other NS portfolios, the damage to the margin was also highest. The net Margin fell from 23.5% last quarter to 20.4% this quarter mainly on account of exposure to the digital theme where the Industry has witnessed huge margin compression. We expect Indian IT industry to keep facing margin pressure while manufacturing should report a turnaround in margins in the upcoming quarter.

Q1FY23 Quarterly Results of NS Model Vs Respective Benchmarks

Portfolio Vs Benchmark	Top Line Growth		Net Profit Margin	
	YoY%	QoQ%	4QFY22	1QFY23
NS Industry Champ Model Portfolio	39.3%	0.3%	12.3%	12.4%
Benchmark- Nifty 100	34.6%	2.3%	12.8%	9.6%
NS Mid and Small Model Portfolio	29.4%	2.8%	13.3%	13.0%
Benchmark- Nifty Mid Small 400	26.1%	-6.1%	10.9%	7.0%
NS Multi Cap Theme Model Portfolio	38.9%	-0.8%	13.7%	13.3%
Benchmark- Nifty 500	34.4%	2.1%	12.8%	9.5%
NS 5TX5T Thematic Fund	32.2%	2.0%	23.5%	20.4%
Benchmark- Nifty 500	34.4%	2.1%	12.8%	9.5%

Following is Summary of Industry Wise Management Insights for Companies Post Q1FY23:

Information Technology

» Management guided for strong order book and deal pipeline for next few months and is seeing no budget cut from clients' end. However, there are points where management is experiencing difficulty in Price hikes. LTI management guided that there has been No visible impact of macro situation in terms of project cancellation or deferment, but slight level of caution is visible in client environment due to supply chain issue, rising input cost and geo political situation.

» The phrase of "highest ever TCVs" did not sound in this quarter and this is a word of caution.

» For IT companies Ebit margins contracted by 30-300 bps for most of the companies on account of headwinds like wage hike due to increments, increase in travel cost and administrative expenses, higher usage of external consultant.

» Fresh hirings have been initiated by companies at a bigger level. TCS expects to add around 40000 employees in FY23. HCL Management guided of hiring 10,000 plus freshers in 2QFY23 and 30-35 thousand freshers in FY23. Mindtree on-boarded 4700+ people in 1QFY23 and plans to add 7500-8000 freshers in FY23 and so on. Similar guidance from LTI at 6500 and LTTS 3000 in FY23. Addtion of workforce should mitigate the outsourcing and travel costs going forward.

Banks

» Credit growth has started picking up during 1QFY23 after many years despite of the historic trend of sluggish nature in the Q1. Companies are expecting upwards of 15% growth in loan book for FY23.

» For banking companies, Trading and MTM losses have eaten a part of profits primarily owing to spike in benchmark bond yield during the quarter. MTM losses have come from AFS, HFT, Government securities, corporate bonds and pass through certificate.

» Asset quality for most continues to be strong and is no more being seen as a problem area. Lower slippages and higher recoveries being seen in most companies giving confidence on companies' books and loan profile

» Developing digital business for the Banking companies is top priority. HDFC Bank has guided Technology spends as % of overall expense in range of 8-9%. Even small banks like AUBANK is trying to develop digital business through differentiated approach by taking deposit from urban market and lending to core market, i.e, semi-urban & rural areas.

Financials (Excl Banks)

» Strong AUM growth statements have come from management. Bajaj Finance said that in Q1FY23 company booked 7.42 Mn new loans, as against 4.63 Mn in Q1FY22 and 6.28 Mn in 4QFY22. Management increased the FY23 guidance of new customer addition to 9-10 Mn from 8-9 Mn earlier. Chola Finance reported highest quarterly disbursement Rs.13329Crs and expect Business AUM growth at 23%.

» Most companies are focusing on digital to improve their reach. LT&FH said they are working hard towards Digital transformation both on sales & service side. Bajaj Finance says it is on track to go fully digital across all products and services on app (January 2023) and web (March 2023).

» Companies are aiming to bring down Cost to Income ratios in next 2-3 years.

» Industry is facing higher attrition ratio than before.

» Insurance companies topline grew on a steady note. Starhealth gave guidance on 20%+ growth going forward.

Automobiles

- Electronic shortage component continued. Maruti could not produce 51000 vehicles due to shortage. Bajaj Auto witnessed 7% decline in volume largely due to the semiconductor issues.
- Tatamotors Land Rover revenues got impacted due to supply issues including semiconductor shortages, slower ramp-up of the New Range Rover and New Range Rover Sport production and China lockdowns
- The companies have witnessed Input cost rise led by the commodity inflation, which is partially being offset by price increases across companies. Maruti expects a 2% hike in prices.
- There is a ramp up in commercial vehicles segment.
- International market was impacted due to steep depreciation in local currency and hike in fuel prices
- Capacity addition by companies to the tune of 10-20% is being witnessed.

Auto Components

- Increase in raw material prices impacted but there is no slowdown in demand. Order book still remains robust across all segments. At present focusing to achieve targets of being localised more.
- Expects exports to improve from H2FY23. Demand in US is down due to inflation however with metal price coming down and inventory level improving, company is seeing traction. Companies like Balkrishna Industries spoke of destocking by distributors.
- 30-40% new Capex is being announced by most Auto components
- Good Monsoon to boost rural sentiments which were under little pressure on the farm equipment segment.

Consumer Staples

- Staples will continue to suffer on Margin front. AS HUL guided that the Net Inflation of raw materials was 20% while Price growth was limited to 12%. The company is trying to optimize other costs to catch up on margins. For Sept quarter, costs will still be higher as there is a lag and spot prices do not necessarily reflect in books. Rupee depreciation is also hitting raw material cost.
- The companies continue to be impacted by overall rural slowdown and inflationary pressures. T1 and T2 cities are seen to be growing faster against T3 & T4 cities. Price increase taken is leading to down trading towards economy products.

- Companies with international subsidiaries are witnessing Revenue challenges. Asian Paint Management said that their key markets like Sri Lanka, Bangladesh, Euthopia and Egypt were facing some headwinds due to geopolitical issues.
- As Glass has seen higher inflationary pressures than PET, companies like Bajaj Consumer is experimenting to reduce the use of glass.
- Concerns were felt when Mold Tek Packaging company (catering to lubricants and FMCG sector) said FMCG companies had stopped developing new product packaging but is slowly coming back to track. Wipro which has committed 25-30 lac pieces p.m. but is taking 7-8 lac p.m due to postponement of its plans.

Pharmaceuticals

- Continuing Geopolitical conflicts and supply chain constraints hampered growth in International market. Currency fluctuations also had mixed impact on revenues and margins of the companies.
- The growth lever is increasing the market share in therapy areas and improving overall productivity.
- Stability in Growth in India business is acting as a cushion. Most companies are focusing on expansion for the field force in India through which growth is targeted driven by new product launch, market share gain and price increase.

Industrials

- Order inflow and revenue growth is steadily growing. LT expects the public capex to get better in FY23 while sites huge opportunity on private capex. There are reasonable upticks in IT real estate, data centres and e-commerce space.
- The companies' margins have dropped owing to raw material price escalations.
- There is a stress on the working capital management for companies owing to supply chain glitches, raw material price escalations and external trades owing to currency and interest rates movement.
- Some companies like BEL faced chip shortage due to which revenues were impacted. However, sales are getting liquidated in recent and upcoming quarters as supply chain improves.