

Q3FY24 earnings were strong and largely in line with estimates. Topline growth remains weak, and margins—though stable sequentially—benefited from a weak base last year. Consensus Nifty earnings estimates remained resilient and unchanged through the earnings season. Industrials stood out on topline and margins, while consumer discretionary was aided by operating leverage. Financials reported steady growth, although the base effect is dwindling and growth rates are tapering. We remain constructive on the markets, and expect most of the CY24 returns to be bunched in the Apr-Sep period.

- The BSE-500 aggregate earnings were, once again, strong and resilient. For non-financials, topline growth saw sequential acceleration, from -1% YoY (in Q2FY24) to 4% YoY (in Q3FY24). Margins though have started to peak and EBITDA margins were down by ~50bps QoQ to 18.2%. The trough created by the commodity price-spike in FY23 has been unwound, and margins seem to be largely normalized. Overall, PAT growth was strong at 26% – still healthy, but sequentially down (58% in 2QFY24), as the positive base effect is now dwindling.
- The Nifty PAT growth of 16% YoY was significantly below that of the BSE 500 (26% YoY), reinforcing our thesis of democratization of profits and reinforcing our positive view on SMIDs. One wrinkle is the convergence in revenue growth across both indices: if this continues, profit growth is also likely to converge over time (the margin differential is narrowing). This would make the SMID story even more bottom-up and the broad outperformance may dwindle. We will watch this trend in Q4FY24.
- Industrials stood out as a top performer, on growth and margins. Consumer discretionary delivered strong operating leverage on weak sales growth, while Materials showed margin and PAT resilience amid a weak topline. Financials continued their steady delivery, but the PAT growth trajectory is now weakening because of the base effect and the upward normalization of credit costs. (Exhibit 3).
- The share of negative surprises rose across both, the Nifty (vs consensus) and the Emkay coverage, by 8-10ppts (Exhibits 6 & 7). Despite this, Nifty estimates have remained resilient through this earnings season, with FY24/FY25 EPS estimates both staying flat. The implied growth for Q4FY24 is moderate at 3% (adjusted for Axis Bank's Q4FY23 one-off), suggesting negligible downside risk and some possible upside. This is an additional positive in the post-Covid era: the trend of through-the-year downgrades of consensus earnings has been arrested, barring a blip in FY23.

Our market view remains unchanged. Our year-end Nifty target of 24,000 implies a 9% upside, with SMIDs expected to outperform. We are Underweight on Financials, Staples, and IT; and Overweight on Consumer Discretionary (including autos) and Materials.

Adjusted PAT Growth *	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
BSE500	26.9%	22.5%	-2.6%	7.4%	18.1%	49.0%	40.2%	25.5%
Nifty	21.8%	19.3%	-5.0%	9.7%	17.7%	46.1%	32.2%	16.3%
Emkay Coverage companies	24.5%	19.8%	8.6%	22.3%	39.8%	99.4%	48.3%	25.1%

Source: Bloomberg, Emkay Research; Note: *Adjusted PAT growth is including BFSI

Seshadri Sen

seshadri.sen@emkayglobal.com
+91 22 6612 1226

Chinmay Kabra

chinmay.kabra@emkayglobal.com
+91 22 6624 2453

Meenal Bhagwat

meenal.bhagwat@emkayglobal.com
+91 22 66121332

Emkay Model Portfolio (EMP) Weights

Bloomberg code	Weight in EMP
BHARTI IN Equity	5%
HMCL IN Equity	6%
TTMT IN Equity	4%
MSUMI IN Equity	3%
ZOMATO IN Equity	5%
DABUR IN Equity	3%
ITC IN Equity	7%
RELIANCE IN Equity	10%
ICICIB IN Equity	9%
HDFCB IN Equity	7%
IIB IN Equity	6%
SHFL IN Equity	5%
MAXF IN Equity	3%
CYL IN Equity	4%
INFO IN Equity	7%
ACEM IN Equity	5%
UTCEM IN Equity	8%
DELHIVER IN Equity	3%

Top Small Cap Picks

Stock	Reco
Aditya Vision	Buy
Fusion Microfinance	Buy
Saregama India	Buy
Senco Gold	Buy
Emami	Buy
JK Tyre	Buy

Top Sells

Stock	Reco
Britannia Industries	Reduce
Cholamandalam Investment	Reduce
Colgate-Palmolive	Sell
Jubilant FoodWorks	Sell
LTIMindtree	Reduce

Story in Charts

Exhibit 1: Sector-wise summary

Sector	Adj PAT growth	
	Q2FY24	Q3FY24
Industrials	43.8%	29.1%
Consumer Discretionary	70.5%	49.8%
Communication Services	17.4%	-39.2%
Consumer Staples	11.1%	10.0%
Materials	11.0%	19.8%
Information Technology	3.1%	0.7%
Energy	170.5%	29.3%
Financials	20.3%	21.2%

Source: Company, Bloomberg, Emkay Research

Exhibit 2: Earnings, ex-Financials

BSE500	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Net Sales growth	26.4%	45.8%	30.9%	17.9%	11.8%	2.7%	-0.6%	3.2%
EBITDA growth	15.9%	10.5%	-9.4%	-0.8%	3.9%	24.5%	40.9%	18.6%
EBITDA margin	15.8%	13.5%	11.9%	13.5%	14.5%	16.4%	16.8%	15.7%
Adjusted PAT growth	17.6%	14.4%	-23.8%	-9.5%	4.0%	40.6%	57.8%	25.6%
PAT QoQ growth	13.4%	-23.1%	-13.2%	16.8%	33.0%	6.3%	-5.8%	-3.5%
NIFTY	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Net Sales growth	24.2%	39.3%	30.3%	16.9%	10.7%	3.7%	1.7%	4.6%
EBITDA growth	20.0%	13.9%	-1.5%	4.2%	7.8%	26.4%	28.2%	11.6%
EBITDA margin	17.9%	16.3%	14.7%	17.1%	17.2%	19.3%	18.7%	18.2%
Adjusted PAT growth	15.1%	14.7%	-17.0%	-0.9%	8.9%	39.7%	35.6%	15.6%
PAT QoQ growth	7.0%	-15.8%	-7.4%	19.2%	17.5%	0.5%	-3.7%	1.5%
Emkay Coverage companies	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Net Sales growth	21.8%	43.8%	30.5%	17.2%	12.1%	0.8%	-0.3%	3.6%
EBITDA growth	9.0%	2.0%	-1.2%	3.4%	6.4%	26.7%	24.9%	10.7%
EBITDA margin	25.8%	21.2%	21.6%	23.3%	24.5%	26.6%	27.0%	24.9%
Adjusted PAT growth	1.6%	0.0%	-5.9%	0.4%	8.5%	26.7%	20.5%	9.5%
PAT QoQ growth	1.7%	-11.0%	2.7%	8.0%	10.0%	3.9%	-2.3%	-1.9%

Source: Bloomberg, Emkay Research

Exhibit 3: Industrials, the standout performer

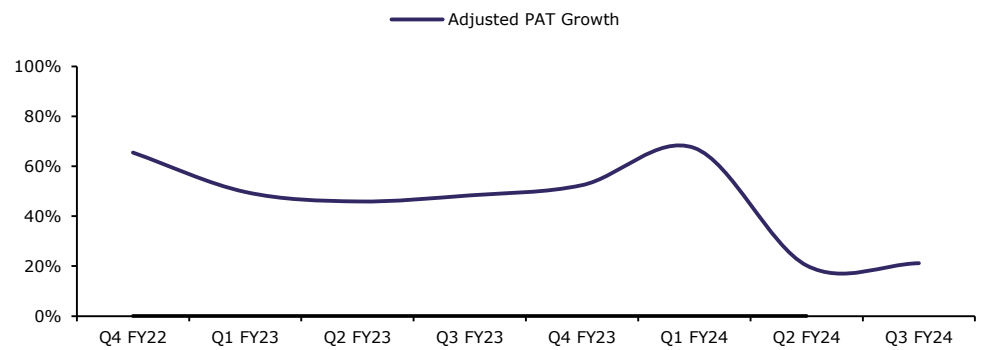
Sector	Q3FY24			
	Q3FY23	Sales growth (YoY)	EBITDA margin	Change in EBITDA margin vs Q2FY24
Industrials	19.0%	11.7%	15.5%	15.5%
Consumer Discretionary	24.0%	7.8%	12.2%	12.2%
Communication Services	12.8%	6.1%	41.7%	41.7%
Consumer Staples	10.9%	3.7%	17.2%	17.2%
Materials	9.6%	-2.7%	16.0%	16.0%
Information Technology	22.8%	3.5%	19.5%	19.5%
Energy	20.2%	-0.6%	11.5%	11.5%

Source: Bloomberg, Emkay Research

Exhibit 4: Sector-wise details for non-Financials

Q3FY24				
Sector	Net Sales growth	EBITDA growth	EBITDA margin	Adjusted PAT growth
Industrials	11.7%	26.1%	15.5%	29.1%
Consumer Discretionary	7.8%	34.5%	12.2%	49.8%
Communication Services	6.1%	22.4%	41.7%	-39.2%
Consumer Staples	3.7%	6.6%	17.2%	10.0%
Materials	-2.7%	18.5%	16.0%	19.8%
Information Technology	3.5%	-1.1%	19.5%	0.7%
Energy	-0.6%	23.4%	11.5%	29.3%

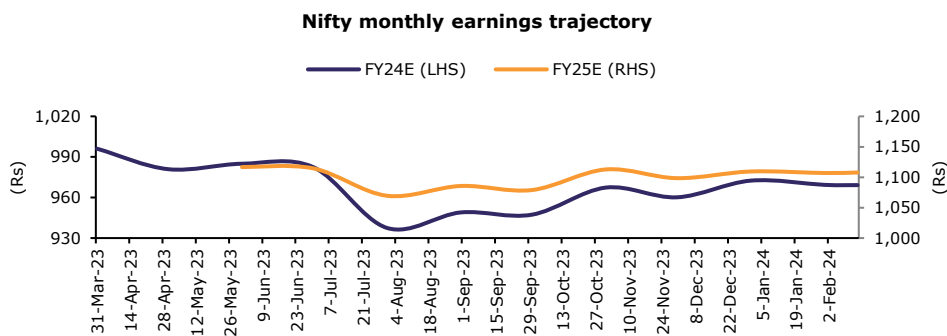
Source: Bloomberg, Emkay Research

Exhibit 5: Financials – Earnings growth normalizing

Source: Company, Bloomberg, Emkay Research

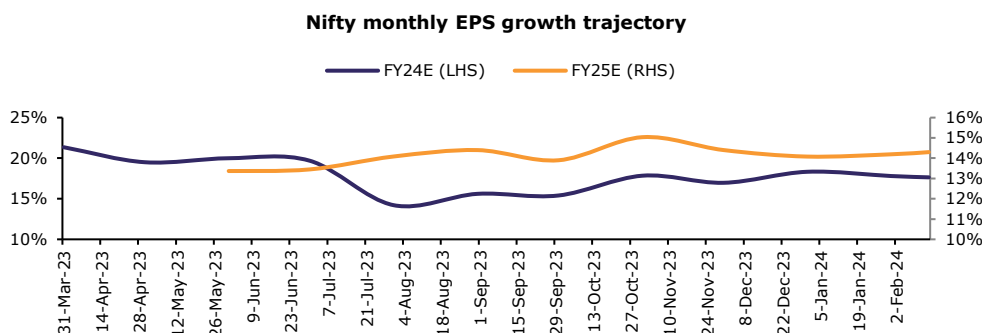
Nifty Earnings Trajectory

Exhibit 6: Nifty earnings recovering



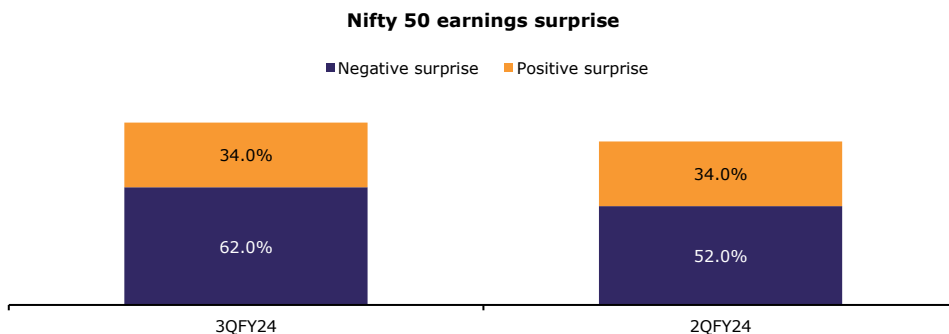
Source: Bloomberg, Emkay Research

Exhibit 7: Mid-teen EPS growth expected in FY25E



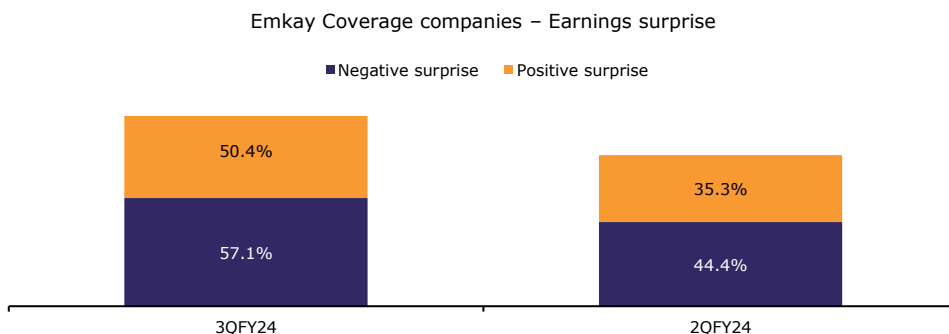
Source: Bloomberg, Emkay Research

Exhibit 8: Nifty earnings surprise in Q3FY24 vs Q2FY24



Source: Bloomberg, Emkay Research

Exhibit 9: Emkay Coverage companies – Earnings surprise in Q3FY24 vs Q2FY24



Source: Bloomberg, Emkay Research

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BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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