

India Strategy

Strong earnings season; little to worry about

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Strategy Report

November 20, 2023

NIFTY 50: 19,732

The 2QFY24 earnings season closed in a positive undertone. The margin loss of FY23 is recovering incrementally, aided by lower commodity prices. Nifty earnings forecasts held up during this period, with a 2% upward revision for FY24. Going forward, Consensus EPS for the Nifty looks resilient, though there seem to be some worries at the individual stock level. We are constructive on the market for the medium term; near-term worries are also steadily dissipating.

Headline earnings strong, but energy-heavy

The impressive headline earnings (BSE 500 PAT: +41% YoY) are distorted by 171% growth from Energy, with a large swing from oil PSUs. Adjusted for this, Non-financials delivered 58% YoY growth, while Financials saw PAT growth at 21%. Much of the profit growth was driven by margin improvement, as topline for Non-financials was tepid, at (0.6%). One idiosyncratic feature was that the delayed festival season hurt topline growth for consumer companies (refer to Exhibits 1-3 for details).

Sectoral analysis

Consumer Discretionary (+72% YoY) and Financials (+21% YoY) were the other movers of the BSE500 profits. The CD sector was propped by the Tata Motors turnaround, but there was widespread participation too – a third of the companies reported 20% PAT growth. IT, Consumer and Materials delivered soft numbers, with 3-10% growth. Industrials and Real Estate also logged strong growth, though their contribution to the aggregate is negligible.

Forecasts remain resilient

The results were in-line. 46% of Nifty companies surprised positively against Consensus (vs 56% in 1QFY23), while the ratio of positive-to-negative surprises was strong at 1.44, marginally down QoQ. For the Emkay universe, the share of positive surprises was almost flat at ~38%. The Nifty EPS estimates saw a small 2% uptick from 30-Sep-2023, though they are still down 3% from 31-Mar-2023 levels. The Nifty forecasts look reasonable, with the implied growth for 2H at 19%. The forecasts for the broader universe are more challenging, with Consensus building-in faster YoY growth in 2HFY24 (vs 1HFY24 YoY growth) in ~50% of the companies (for a 278-stock universe with coverage by more than 10 analysts). The FY23 downgrade trend is unlikely to recur, but there are granular risks.

Strong cash flows

BSE500 cash flows continued to strengthen. At an aggregate level, OCF growth was at 135% YoY, while FCF also saw growth, at 78% YoY. The OCF/EBITDA ratio has bounced from the abysmal 38% in 1HFY23 to 88% (FY23: 77%), probably implying that the worst of working-capital pressures are now over. The improvement was across the board – Energy, Industrials, Consumer Discretionary, Healthcare, and Utilities all delivered better outcomes. Our read-through is that the volatility in input prices was probably the cause of stress in 1HFY23 and cash flows are now normalizing.

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Story in Charts

Exhibit 1: BSE500 vs NIFTY (all sectors)

BSE500	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net Sales Growth	22.7%	37.7%	27.6%	18%	13.3%	6.9%	5.0%
Adjusted PAT Growth	26.9%	22.5%	-2.6%	7.4%	18.1%	49.0%	41.0%

NIFTY	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net Sales Growth	21.5%	33.6%	27.8%	19%	14.1%	9.0%	7.3%
Adjusted PAT Growth	21.8%	19.3%	-5.0%	9.7%	17.7%	46.1%	32.4%

Source: Bloomberg, Emkay Research

Exhibit 2: BSE500 vs NIFTY (all sectors, ex-BFSI)

BSE500	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net Sales Growth	26.4%	45.8%	30.9%	18%	11.8%	2.7%	-0.6%
EBITDA Growth	15.9%	10.5%	-9.4%	-1%	3.9%	24.5%	40.9%
EBITDA Margins	15.8%	13.5%	11.9%	14%	14.5%	16.4%	16.8%
Adjusted PAT Growth	17.6%	14.4%	-23.8%	-9.5%	4.0%	40.6%	57.8%
PAT QoQ Growth	13.4%	-23.1%	-13.2%	16.8%	33.0%	6.3%	-5.8%

NIFTY	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net Sales Growth	24.2%	39.3%	30.3%	17%	10.7%	3.7%	1.7%
EBITDA Growth	20.0%	13.9%	-1.5%	4%	7.8%	26.4%	28.2%
EBITDA Margins	17.9%	16.3%	14.7%	17%	17.2%	19.3%	18.7%
Adjusted PAT Growth	15.1%	14.7%	-17.0%	-0.9%	8.9%	39.7%	35.6%
PAT Growth - QoQ	7.0%	-15.8%	-7.4%	19.2%	17.5%	0.5%	-3.7%

Source: Bloomberg, Emkay Research

Exhibit 3: BSE500 vs NIFTY (all sectors, ex-O&G and BFSI)

BSE500	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net Sales Growth	20.4%	32.8%	24.4%	17%	13.2%	9.9%	4.3%
EBITDA Growth	14.1%	15.4%	-5%	0%	3.9%	6.6%	21.9%
EBITDA Margins	18.3%	17.9%	15.3%	16%	16.5%	17.3%	17.8%
Adjusted PAT Growth	18.1%	25.4%	-11.9%	-5.3%	1.0%	16.9%	29.6%
PAT Growth - QoQ	14.0%	-15.2%	-12.4%	8.3%	25.1%	1.2%	-6.9%

NIFTY	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net Sales Growth	17.4%	26.2%	24.7%	16%	13.6%	8.6%	6.5%
EBITDA Growth	16.3%	12.9%	0%	2%	9.9%	7.7%	12.7%
EBITDA Margins	21.1%	21.0%	18.4%	20%	19.9%	20.1%	19.6%
Adjusted PAT Growth	13.3%	12.9%	-7.5%	0.0%	5.3%	18.0%	21.3%
PAT Growth - QoQ	8.7%	-13.6%	-6.5%	14.4%	14.4%	-3.8%	-3.7%

Source: Bloomberg, Emkay Research

This is the best representation of core growth in non-financials

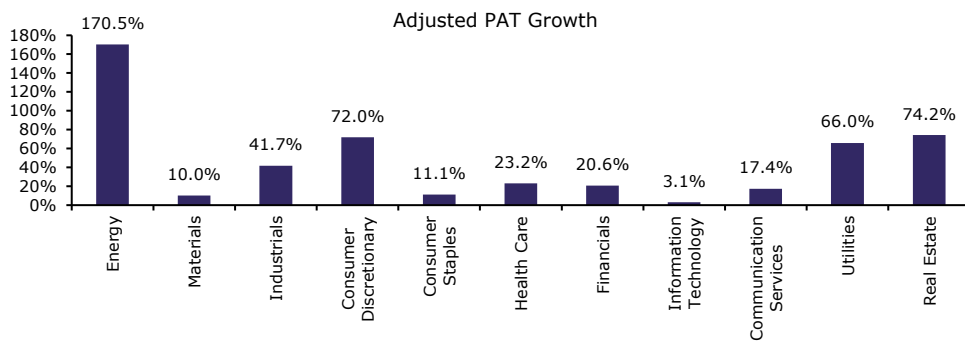
Sequential EBITDA margin improvement was muted, though the YoY jump is substantial

Topline growth remains subdued

BSE-500 growth is outstripping Nifty numbers on most parameters. Interestingly, revenue growth is stronger for Nifty

Some off-the-charts sectors were driven by one-offs. At a core level, Healthcare, Financials and Industrials were standout performers

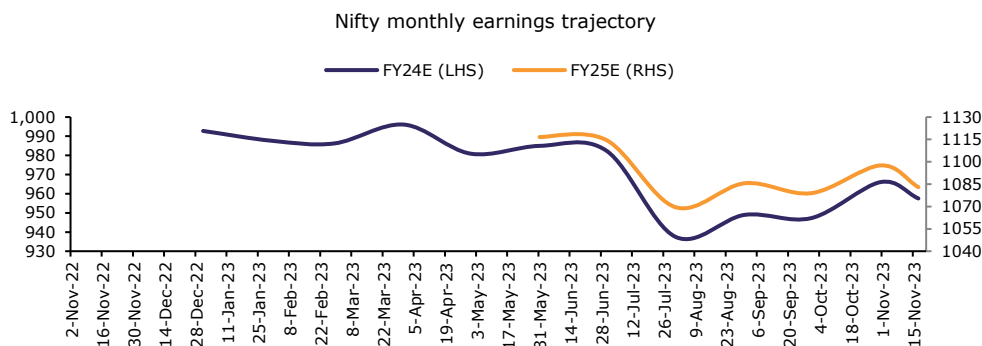
Exhibit 4: Energy, Real estate and Consumer discretionary lead the growth



Source: Bloomberg, Emkay Research

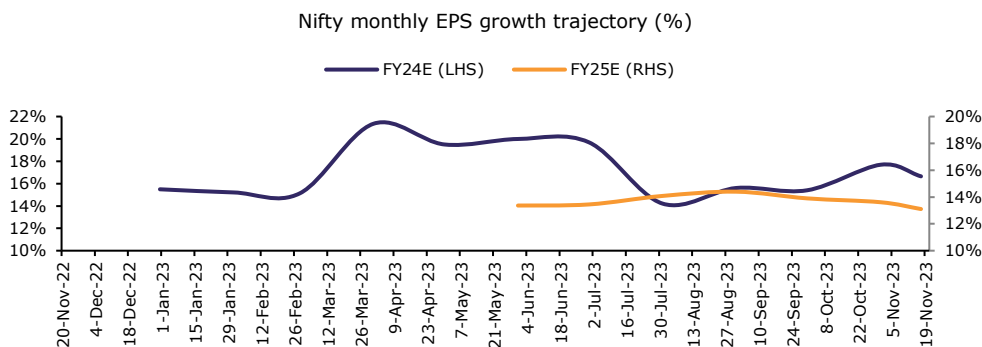
FY24 Nifty earnings forecasts sharply corrected over Jun-Oct '23. Since then, they have partially recovered. We see little risk from hereon, as implied 2H growth is still reasonable, at 19%. This remains a key monitorable

Exhibit 5: Nifty earnings recovering



Source: Bloomberg, Emkay Research

Exhibit 6: Mid-teen EPS growth expected in FY24E

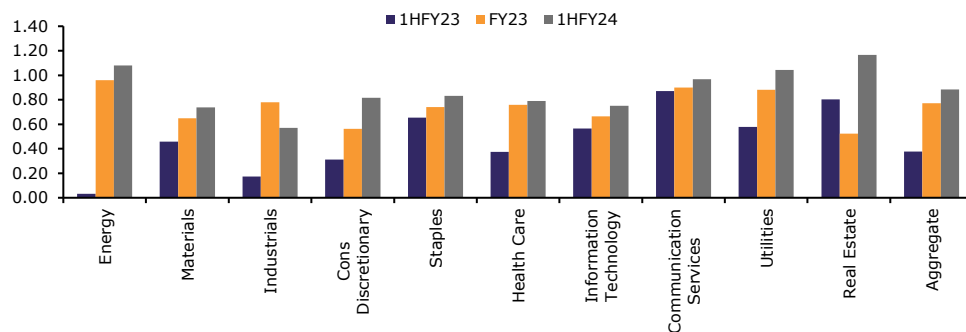


Source: Bloomberg, Emkay Research

Almost every sector has seen rising cash-flow conversion. We believe this is a normalization trend

FY23 numbers were depressed because of: i) the commodity price shock and ii) supply-chain disruptions

Exhibit 7: Sectoral-wise OCF/EBITDA ratio



Source: Bloomberg, Emkay Research

Exhibit 8: H1FY24 Sectoral FCF and OCF YoY growth

Sectors	FCF growth	OCF growth
Energy	287%	3332%
Materials	-20%	61%
Industrials	55%	228%
Consumer Discretionary	131%	161%
Consumer Staples	30%	27%
Health Care	95%	111%
Information Technology	33%	33%
Communication Services	10%	11%
Utilities	76%	81%
Real Estate	46%	45%
Aggregate	78%	135%

Source: Bloomberg, Emkay Research

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