

High Growth alongwith Margin revival witnessed in Portfolio companies for Q4FY23 Quarterly Results

Sustained growth in Sales, improvement in Margins and Diminishing woes of Working Capital issues

Research Analyst: Vineeta Sharma, Deepak Kumar and Sandip Jabuani
Source : Narnolia Financial Services Ltd | SEBI Registration No. - INH300006500

June 2023

Nifty 500 reported a weightage average aggregate of 13% YoY growth in Sales and 15% YoY growth in Net Profits for 4QFY23. The net margins expanded sequentially as well as on YoY basis to 13.5%. Our model portfolios have delivered high growth and improved margins for the quarter. Also, management commentary regarding future growth has been promising.

Following are the quarterly results comparison of our model portfolios Vs benchmarks.

	Sales	Pat	PAT M%		
	YoY	YoY%	4QFY22	3QFY23	4QFY23
NS Industry Leaders theme	12.30%	30.10%	15.20%	15.90%	17.60%
NS Multi Cap Theme	11.30%	30.80%	14.50%	15.40%	17.00%
NS Mid and Small Theme	22.00%	61.10%	14.90%	17.70%	19.60%
NS 5TX5T Thematic	21.40%	43.40%	23.30%	26.70%	27.50%
Nifty 500	13.00%	15.00%	13.20%	12.90%	13.50%
Nifty 100	12.90%	14.90%	13.30%	13.00%	13.60%
Nifty MidSmall 400	16.40%	14.40%	8.90%	9.20%	8.70%

Business Growth was wide spread across sectors and caps. Automobiles, Real Estate, Banks, NBFC, Healthcare, Industrials, Construction materials and utilities performed better than average. IT, Energy, Metals, Chemicals, Consumer Staples Media and Telecom however reported moderate growth.

Automobiles that were suffering from Supply chain issues, higher raw material prices are seeing reversal in problems. New premium launches are paving way for growth. M&M says that total bookings stood at around 292k and monthly fresh bookings are around 57k where company is seeing demand coming from

New Thar. Company is looking to launch 5 new electric SUVs & it is on track and expects to scale up the international revenues by 2.5x in FY26. The company expects the RoE will be in range of 18% across the portfolio going ahead. We own the company in some of our portfolios. TVS Motors expects the growth momentum will be strong due to premium products, material cost reduction & confident of delivering better margins in FY24 against the FY23 levels. For Auto Components, the margin recovery has been a bit slower than expectations. The inventory built up in earlier quarters is expected to normalize going forward.

In the consumer staple space, degrowth in margin was witnessed on aggregate level. For Britannia, EBITDA margin has improved from 15.6% in FY22 to 17.6% in FY23, on account of softening of material prices in 2HFY23 & stepped-up cost efficiencies during the year, However, management guided that the margin will be moderated in the coming quarters as compared to 4QFY23. We have already reduced exposure in Britannia in the last quarter.

Banking companies witnessed better than expected results. One short term concern for most Banks is reduction in NIM going forward. ICICI Bank management hinted that the cost of deposit would continue to increase in future quarters and that the NIM is at its peak and is likely to moderate from hereon. SBI on the other hand said that the NIM was at 3.84% in 4QFY23 and guided of sustaining the NIM. Equitas bank guided of growth in advance at 25-30% for FY24 and For next 2-3 quarters NIM are expected to be at 9% level. We recently added Kotak bank to the portfolio. Management guided of maintaining the NIM at 5% plus. Management's focus on any acquisition is based on customer franchise which will add long term sustainable value at appropriate valuation.

Healthcare sector witnessed strong growth particularly in hospitals. Pharma businesses are going through margin cuts and lackluster growth. NH reported 4QFY23 performed robust supported by growth in business across flagship unit. ARPOB grew of 10% YoY in 4QFY23 due to change in patient profile, case mix, improving the through put and reducing the occupancy. International patient volume has been increasing gradually and it is focusing on core market of Bangladesh. In Indian business margin, it will maintain same growth by through put, efficiency improvement and cost rationalisation.

Industrials reported strong growth. Cummins, BEL, ABB, all posted healthy growth and optimistic demand environment alongwith guidance of increased margins. LT results were a bit lower than expectations. Management said that the H2 will be more profitable in FY24 due to good project pipeline. Expects the subsequent 2 quarters will see some cost pressures and softer margins & margins will normalize from 4QFY24.

IT reported lower than expected results. TCS Management mentioned that demand in North America market was expected to come back strongly in New Year but it didn't happen but the pipeline is very strong. EBIT margins Headwinds included annual wage increase, supply side issues and increased travel expenses. Infy 4QFY23 witnessed unplanned project ramp-down in some of the clients and delay in decision making which resulted in lower volumes. The company lowered its guidance in terms of revenues and margins. We expect that Indian IT services companies valuations are still stretched if we factor in average growth of 10-12%. We had added CYIENT in our portfolio which delivered strong results. Management maintained the \$1 Bn revenue run rate guidance for FY24. In FY24, management expects Consolidated Services revenue growth to be in the range of 15-20% YoY in CC terms.

Industry Wise Growth of Nifty 500 companies

Sector/ Industry	Nifty 500 Wt%	Sales YoY	Pat YoY	Pat Margin 4QFY22	Pat Margin 3QFY23	Pat Margin 4QFY23
Energy	8.92	9%	3%	6.40%	4.10%	6.10%
Consumer Discretionary						
> Auto Components	1.81	16%	53%	4.70%	3.70%	6.20%
> Automobiles	4.17	28%	131%	4.10%	6.40%	7.40%
> Consumer Disc.- Others	5.69	25%	-22%	4.60%	3.10%	2.90%
> Real Estate	0.88	9%	13%	17.50%	16.40%	18.20%
> Media	0.32	2%	-72%	16.10%	8.20%	4.40%
Consumer Staples	8.31	9%	1%	12.40%	13.20%	11.50%
Financials						
> Private banks	17.94	33%	-11%	26.80%	24.80%	18.00%
> Public Sector banks	2.73	32%	94%	10.50%	13.70%	15.50%
> Financials- Others	11.25	6%	58%	8.60%	10.70%	12.80%
Health Care	5.1	11%	84%	5.70%	15.50%	9.40%
Industrials						
> Const. & Engg.	3.19	11%	13%	7.20%	6.60%	7.30%
> Industrials Others	4.26	19%	28%	7.80%	8.50%	8.40%
IT	10.37	17%	-11%	18.50%	14.10%	14.00%
Metals, Mining & Materials						
> Materials	4	-1%	-41%	13.10%	5.40%	7.80%
> Cons. Materials	2	13%	-26%	11.20%	4.50%	7.30%
> Chemicals	3.94	8%	-14%	11.00%	9.00%	8.80%
Telecom	2.04	9%	25%	-1.30%	-9.60%	-0.90%
Utilities	2.98	18%	12%	18.70%	12.00%	17.70%
Aggregate Total		13.00%	9.90%	9.60%	8.20%	9.40%
Weighted Aggregate Total		13.00%	15.00%	13.20%	12.90%	13.50%

NARNOLIA INVESTMENT ADVISORS PRIVATE LTD. is a SEBI Registered Investment Advisor, SEBI Registration No. INA300005439, Validity: Permanent, Type : Non-Individual and BASL Membership no. 1020, ROC CIN- U67120WB2007PTC259515, Registered office: Marble Arch, 236B AJC Bose Road, 2nd Floor, Room No. 201, Kolkata – 700020, Corporate Office: 803, A wing, Kanakia Wall Street, Chakala, Andheri East, Mumbai - 400093, Maharashtra; Principal Officer: **Sanjeev Damani**, Contact No. **022 6270 1200**, email id **compliance@narnolia.com**. Compliance Officer: **Anchal Narnolia**, Contact No. **022 6270 1200**, email id **iap@narnolia.com**. SEBI Regional office address: 16 Camac Street, L&T Chambers 3rd Floor, Kolkata- 700 017

Investment in Securities Market is subject to Market risks, read all the related documents carefully before investing. Past performance may not be indicative of future results and no promise or guarantee can be given for the same. Registration granted by SEBI, membership of BASL and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. Performance related information is not verified by SEBI. For detailed disclosures & disclaimers please refer to our website at www.narnolia.com. Grievance Officer: **Rana Debnath**, for grievances kindly mail us at **ig@narnolia.com** or call us at 022-6270 1200.

Conflict of interest

Narnolia Financial Services Ltd., a company registered under the Companies Act, 1956, is a SEBI registered intermediary and offers services as Merchant Banker, Portfolio Manager, Research Analyst and also AMFI registered Mutual Fund distributor and is one of the affiliates/Associate Company of NARNOLIA. However, appropriate Chinese walls is maintained as required under SEBI Investment Advisor Regulation.

Disclaimer

This report is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of the Company. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alterations to this statement as may be required from time to time. The Company or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any action taken based on the above information or inadvertent error in the information contained in this report/message.