

Q3FY22 REVIEW

14 February 2022

Growth blunts cost inflation

- 84% of Nifty 200 stocks either beat or met Q3 consensus revenue estimates but less than 60% did so at the net income level
- BFSI, IT, industrials and metal sectors led the earnings beat while other sectors had an almost equal split between beats and misses
- We note visible improvement in business environment across the board though raw material inflation remains a headwind

Kumar Manish | Aseem Madan
 researchreport@bobcaps.in

Beat on revenue but mixed result at net income level: To date, 97% of Nifty 200 stocks (by market cap) have reported Q3FY22 numbers. Our analysis of beats and misses against consensus estimates for these companies indicates that 41% of companies beat revenue estimates while 43% largely met expectations. Further, 43% of companies exceeded forecasts at the net income level while ~17% had inline earnings. Reported revenue during the quarter was 8% higher than consensus and net income was 6% higher.

BFSI, IT and energy sectors led the beat: The Q3FY22 revenue beat was driven by energy, financials and materials, while the earnings beat was led by IT, energy and financials. The banking sector saw visible improvement in both credit quality and overall profitability. Asset growth at ~11.2% YoY was robust. The IT sector performed well despite significant headwinds from salary hikes and attrition.

Robust growth: Our analysis of a wider set of Nifty 500 companies indicates that overall revenue increased 25% YoY and 10% QoQ in Q3FY22 while net income grew 32% YoY and just 3% QoQ. Revenue grew across the board, barring the financials, real estate and healthcare sectors. Net sales was 28% higher than the pre-pandemic quarter of Q3FY20 while net income was 113% higher.

Raw material cost inflation a clear headwind: Further analysis of Nifty 500 companies indicates that raw material costs posed a clear headwind, though companies were largely able to pass on the higher cost to end users.

Investment view: While we believe the private capex cycle is still ~1.5 years away (see our strategy note [Macro & Micro: India at takeoff point](#) of 11 Jan), we remain constructive on export-oriented sectors such as IT and chemicals. We also expect moderation in metals margin.

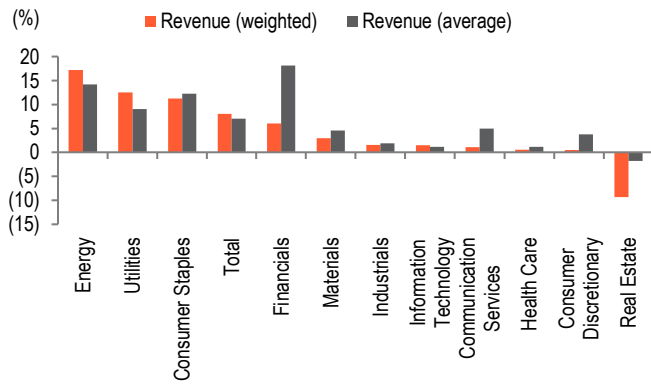
Reporting season trends

Nifty 500: Q3FY22	QoQ (%)	YoY (%)
Net sales	9.6	24.5
Raw materials	16.8	43.7
Salaries and wages	3.2	11.9
Interest expenses	1.7	-1.0
Net Profit	3.1	32.4
Nifty 200: Q3FY22	Revenue (%)	Income (%)
Beat	8.0	6.1

Source: Bloomberg, BOBCAPS Research



Fig 1 – Revenue beat



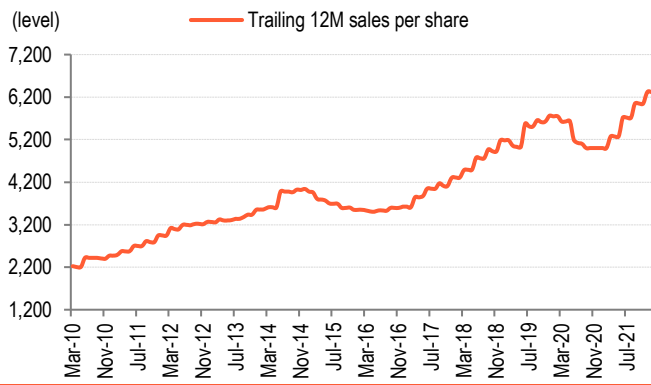
Source: Bloomberg, BOBCAPS Research

Fig 2 – Earnings beat



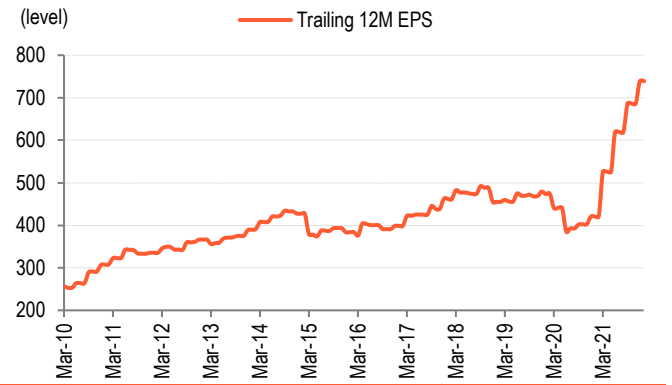
Source: Bloomberg, BOBCAPS Research

Fig 3 – Nifty 50: Sales per share



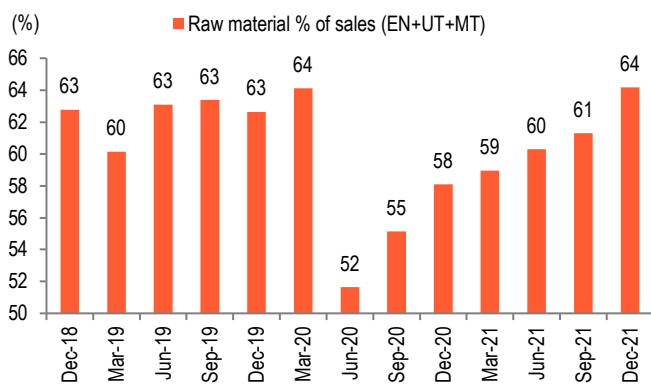
Source: Bloomberg, BOBCAPS Research

Fig 4 – Nifty 50: Earnings per share



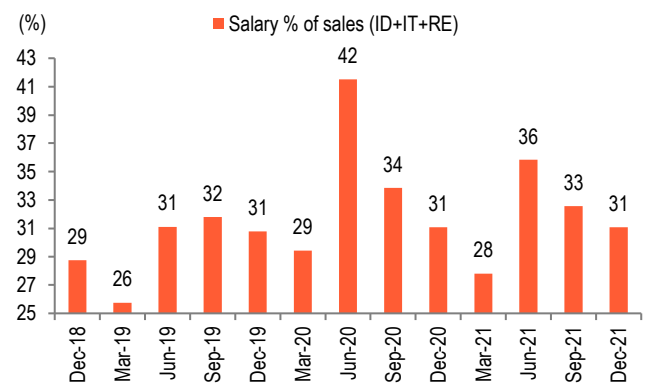
Source: Bloomberg, BOBCAPS Research

Fig 5 – Raw material cost continues to rise...



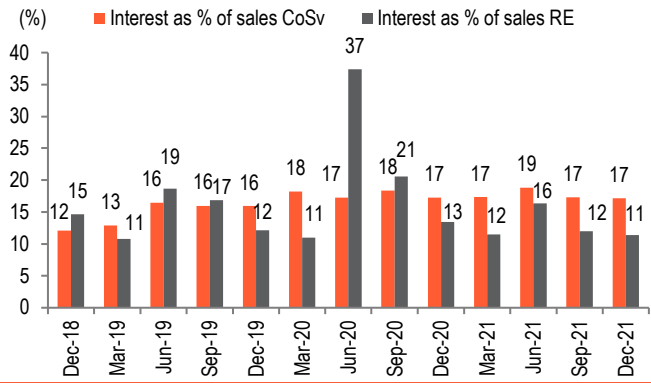
Source: BOBCAPS Research, CMIE | EN = Energy, UT= Utilities, MT=Materials

Fig 6 – ...salary cost is reducing



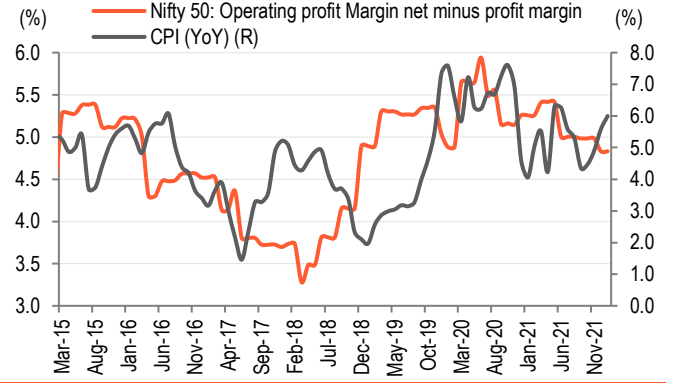
Source: BOBCAPS Research, CMIE | ID=Industrials, IT= Information Technology, RE= Real Estate

Fig 7 – Interest cost has dropped for real estate (RE) sector but remains elevated for communication services (CoSV)



Source: BOBCAPS Research, CMIE

Fig 8 – CPI vs. Spread of operating profit margin and net profit margin of Nifty 50 stocks



Source: BOBCAPS Research, Bloomberg

Fig 9 – Beats and misses – Aggregates

Sector	# Cos	Mkt Cap (Rs bn)	Reported	% Mcap reported	Reported (Rs bn)		Estimate (Rs bn)		Weighted		Average	
					Revenue	Income	Revenue	Income	Revenue	Income	Revenue	Income
Financials	45	51,314	39	95.3	2,623	586	2,473	563	6.1	4.0	18.1	11.7
Information Technology	10	32,027	10	100.0	1,471	251	1,450	253	1.5	(0.7)	1.2	1.1
Energy	8	22,114	8	100.0	6,500	358	5,546	293	17.2	22.2	14.2	25.6
Materials	29	22,717	28	96.7	3,073	384	2,985	382	3.0	0.4	4.5	5.3
Consumer Discretionary	25	15,541	23	92.6	1,666	57	1,657	57	0.5	1.6	3.7	(1.0)
Consumer Staples	15	19,097	14	90.9	679	100	610	99	11.3	0.8	12.3	(4.6)
Industrials	21	13,749	21	100.0	965	78	950	74	1.6	4.9	1.9	0.2
Health Care	23	10,742	20	94.5	579	87	576	80	0.6	8.7	1.2	5.2
Communication Services	7	6,509	7	100.0	543	(36)	537	(31)	1.0	(14.5)	5.0	(2.9)
Utilities	13	13,083	13	100.0	889	101	790	83	12.5	20.9	9.1	0.0
Real Estate	4	1,914	4	100.0	40	11	45	11	(9.3)	0.1	(1.8)	(12.5)
Total	200	2,08,808	183	96.8	18,988	1,965	17,574	1,852	8.0	6.1	7.0	4.2

Source: Bloomberg, BOBCAPS Research

Fig 10 – Beats and misses – Numbers

Sector	Reported	% Mcap reported	Revenue				Income			
			Beat	Miss	Inline	No Data	Beat	Miss	Inline	No Data
Financials	39	95.3	17	5	9	8	14	9	9	8
Information Technology	10	100.0	2	0	8	0	3	1	6	0
Energy	8	100.0	6	1	0	1	5	2	0	1
Materials	28	96.7	11	3	12	2	11	13	1	2
Consumer Discretionary	23	92.6	6	4	10	3	10	9	1	3
Consumer Staples	14	90.9	5	0	9	0	3	6	5	0
Industrials	21	100.0	8	4	7	2	9	6	4	2
Health Care	20	94.5	5	3	12	0	10	8	2	0
Communication Services	7	100.0	2	1	4	0	3	3	1	0
Utilities	13	100.0	6	0	3	4	5	4	0	4
Real Estate	4	100.0	2	2	0	0	1	3	0	0
Total	183	96.8	70	23	74	20	74	64	29	20

Source: BOBCAPS Research, CMIE

Fig 11 – Reporting season trends

NSE 500 - Q3FY22	Net sales		Raw materials			Salaries and wages			Interest expenses			Net Profit		
	QoQ (%)	YoY (%)	QoQ (%)	YoY (%)	% of Net sales	QoQ (%)	YoY (%)	% of Net sales	QoQ (%)	YoY (%)	% of Net sales	QoQ (%)	YoY (%)	% of Net sales
Financials	0.4	1.9	4.3	22.1	0.1	1.6	8.2	12.7	1.2	(1.2)	45.6	8.0	35.8	17.4
Information Technology	6.3	17.4	12.1	(1.9)	9.8	4.2	20.3	48.2	16.9	2.5	0.5	3.2	6.7	15.1
Energy	18.9	51.1	20.6	59.9	75.5	1.1	(0.1)	2.8	1.1	9.8	1.1	0.1	56.4	6.7
Materials	6.2	36.0	16.7	60.0	45.2	3.6	12.3	6.3	5.6	(14.6)	2.2	(11.9)	36.1	12.1
Consumer Discretionary	11.7	5.7	9.7	6.7	63.9	4.9	2.4	8.5	1.1	(1.0)	2.3	51.4	(24.2)	4.6
Consumer Staples	8.7	16.9	8.8	20.1	55.6	2.2	7.4	6.1	8.3	(10.5)	0.4	3.9	10.2	14.3
Industrials	13.2	23.1	19.6	34.4	46.1	5.1	17.1	14.9	2.3	2.0	3.9	43.8	9.6	7.0
Health Care	(0.6)	8.3	0.9	5.9	32.6	(0.9)	6.8	17.9	(3.1)	(9.1)	1.1	29.2	(11.3)	13.9
Communication Services	6.7	11.1	17.5	(9.8)	1.5	3.1	4.4	6.4	6.0	10.6	17.2	(50.7)	127.7	4.3
Utilities	8.6	33.3	10.7	53.5	56.7	5.8	14.9	4.5	2.9	(2.2)	6.6	4.8	17.3	14.3
Real Estate	0.2	(3.2)	53.2	(10.8)	10.7	(2.8)	11.9	6.1	(4.9)	(18.2)	11.4	23.7	11.6	17.3
Total	9.6	24.5	16.8	43.7	45.0	3.2	11.9	10.4	1.7	(1.0)	9.9	3.1	32.4	10.6

Source: BOBCAPS Research, CMIE | Data for the companies reported till 14 February 2022

Fig 12 – 3M change in earnings estimates

(%)	FY22	FY23	FY24
Nifty 50	0.82	1.52	2.84
Nifty 200	0.80	1.61	2.24
Nifty 500	0.37	1.47	2.51
NIFTY Midcap 100	(0.20)	1.49	(0.65)
NIFTY Smallcap 100	(7.38)	1.36	2.04
Nifty Bank	(3.40)	(1.06)	(3.35)
Nifty IT	0.17	1.50	2.72
Nifty Auto	(17.60)	(2.88)	(2.74)
Nifty Pharma	(2.79)	(3.79)	(1.74)
Nifty Metal	5.54	5.80	4.43
Nifty FMCG	(3.93)	0.23	(0.16)
Nifty PSU Bank	11.44	11.23	9.21
Nifty Realty	0.63	3.18	3.40
Nifty Financial Services	(0.47)	(1.66)	0.47
Nifty Infrastructure	3.96	2.58	1.03
Nifty Energy	11.36	9.13	7.94
Nifty CPSE	12.92	12.61	9.60
Nifty India Consumption	(2.72)	0.83	3.31
Nifty Media	(0.45)	4.82	4.13
Nifty PSE	7.20	4.65	2.13
Nifty Commodities	5.92	8.88	2.33
Nifty Services Sector	0.24	0.73	3.58

Source: BOBCAPS Research, Bloomberg

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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