



The Earnings Card

September 2022

A brief update on quarterly earnings and our fund positioning



Strong recovery across sectors



Q1FY23 was the first completely normalised quarter

Q1FY23 was the first completely normalised quarter since covid disruptions. Consumer companies in the discretionary space delivered robust revenue growth. FMCG companies delivered decent revenue growth, which was largely led by price hikes. Credit growth picked up materially to 14%yoy in June, with Pvt Banks leading the pack. This was coupled with declining non-performing and restructured assets.

Key highlights



Top-line growth is holding up, led by price hikes and unlocked economy



Margin pressure remains elevated, but could ebb as commodity prices ease

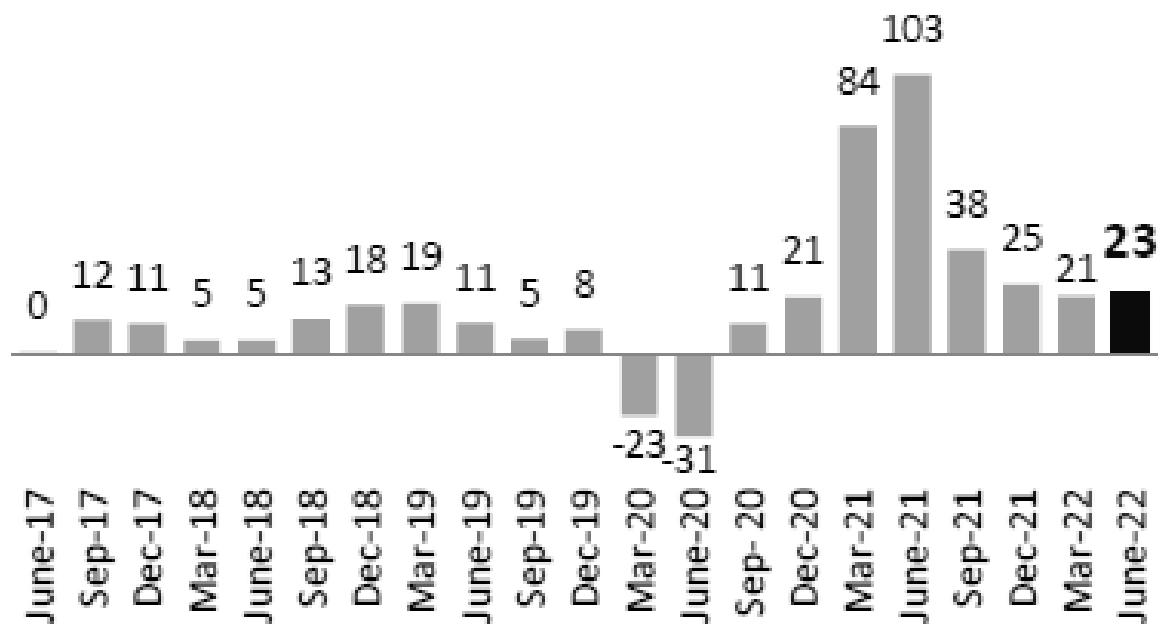


FY23 E Nifty EPS cut of marginally 3–4% mainly stems IT, pharma and commodities. Domestic sectors' earnings continue to remain strong

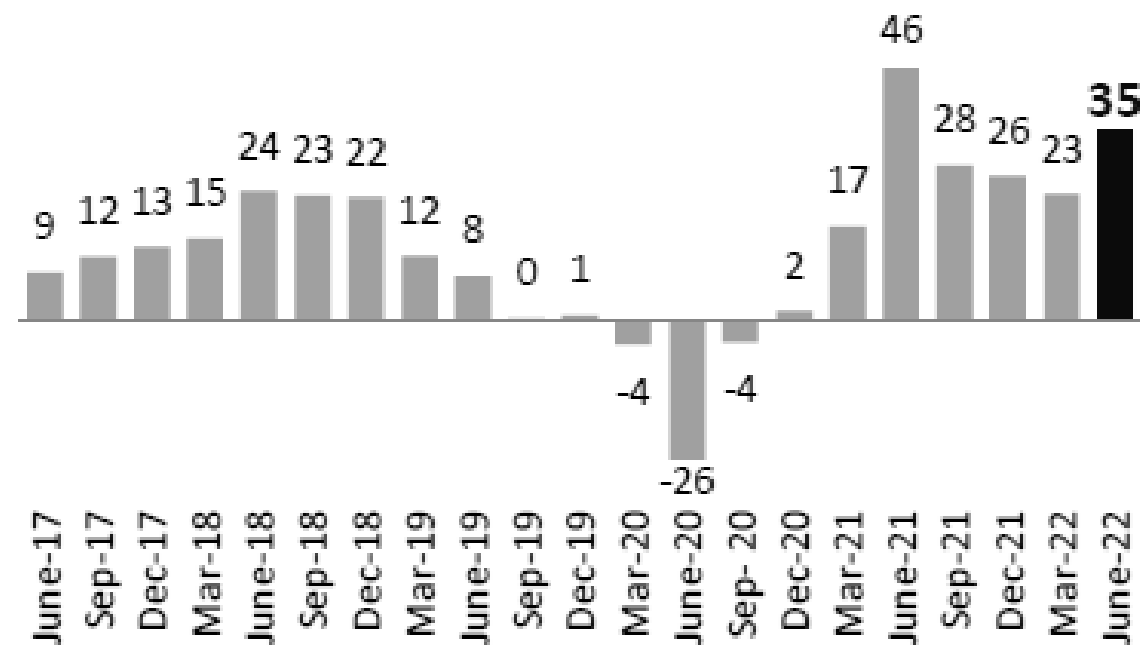
Strong PAT and Sales growth



Nifty 50 PAT up 23% YoY in June Quarter



Nifty 50 sales up 35% YoY in June Quarter



Sectoral earnings trend and share



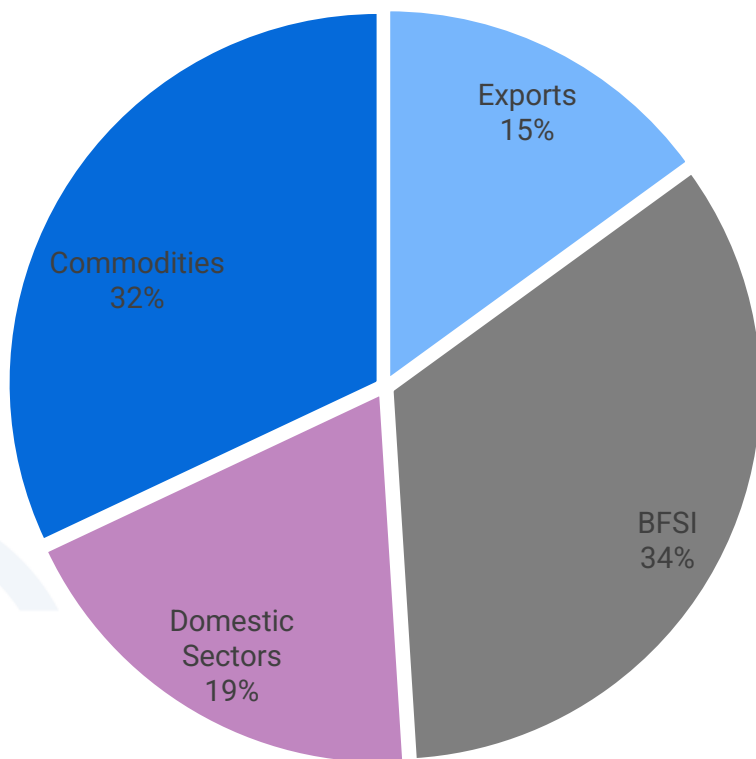
		EPS Growth %			
Sector	Share in Nifty 50 FY23 EPS	FY 21	FY22	FY 23	FY 24
BFSI	37%	29	33	25	19
Banks	30%	38	38	25	18
NBFC	6%	4	17	22	19
Insurance	1%	4	(4)	32	23
Exports	16%	10	23	27	22
IT	12%	12	16	6	15
Pharma	3%	42	29	10	20
Export Auto	1%	72	(7)	(142)	166
Commodities	26%	34	92	(6)	4
OMC	1%	235	5	(36)	28
Energy	15%	25	45	24	9
Metals & Mining	10%	28	206	(30)	(7)

		EPS Growth %			
Sector	Share in Nifty FY23 EPS	FY 21	FY22	FY 23	FY 24
Domestic Consumption	11%	3	10	34	24
Domestic Auto	4%	(0)	(9)	45	27
Consumer Staples	5%	(7)	13	12	14
Telecom	1%	(111)	716	198	60
Consumer Discretionary	1%	(2)	32	37	22
Domestic Investment	9%	2	12	15	16
Utilities	4%	3	4	8	8
Agro Chemicals	1%	26	26	34	18
Industrials	3%	(14)	19	32	21
Cement	1%	41	22	(15)	34
Nifty	100%	19	40	15	16

Commodities and banks key contributors



Nifty Earnings Breakup – EPS FY22



- * Contribution of global and domestic sectors in earnings is largely same.
- * Rising commodity prices, though a bane for the economy, are a boon for Nifty earnings. Accordingly, a slowdown in commodity prices may pose risks to Nifty earnings going forward.
- * On the domestic front, banks are the critical driver of Nifty earnings. Excluding them, the share of domestic sectors is the same as that of exporters such as IT and pharma.
- * Owing to global reflation Nifty earnings grew by ~20% in the last three years, despite domestic real GDP growth of just 2%.

Sectoral trends



Domestic consumption: Demand remains strong with lagging segments such as domestic auto and consumer services now playing catch-up to durables and FMCG. On the margins front, pressure could ease hereon, although demand risks loom.



Domestic investment: Cement companies surprised positively with EBITDA/t holding stable in a seasonally weak quarter. With regard to industrial companies, order inflows remained strong, although margins are under pressure.



Global exporters: IT companies reported strong topline, but margins moderated. Export auto disappointed on margins, while pharma was a mixed bag. Chemical companies posted strong growth. Hereafter, the market participants anticipate broad-based demand risks.

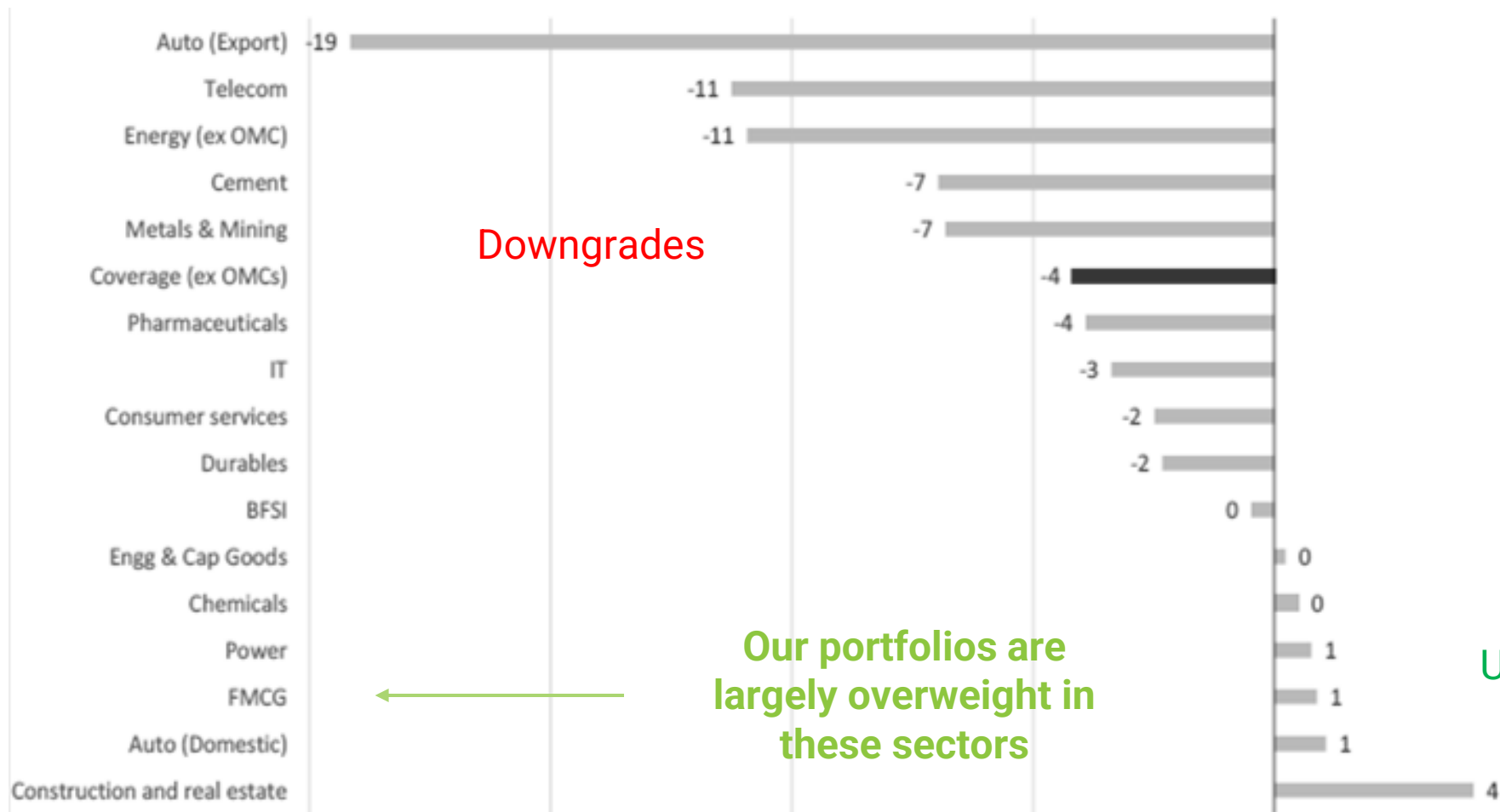


Commodities: OMCs disappointed on marketing margins (inventory loss), whereas upstream energy companies posted strong results. Metal companies' profits moderated significantly. Unwinding global reflation is likely to weigh on commodity profits ahead.

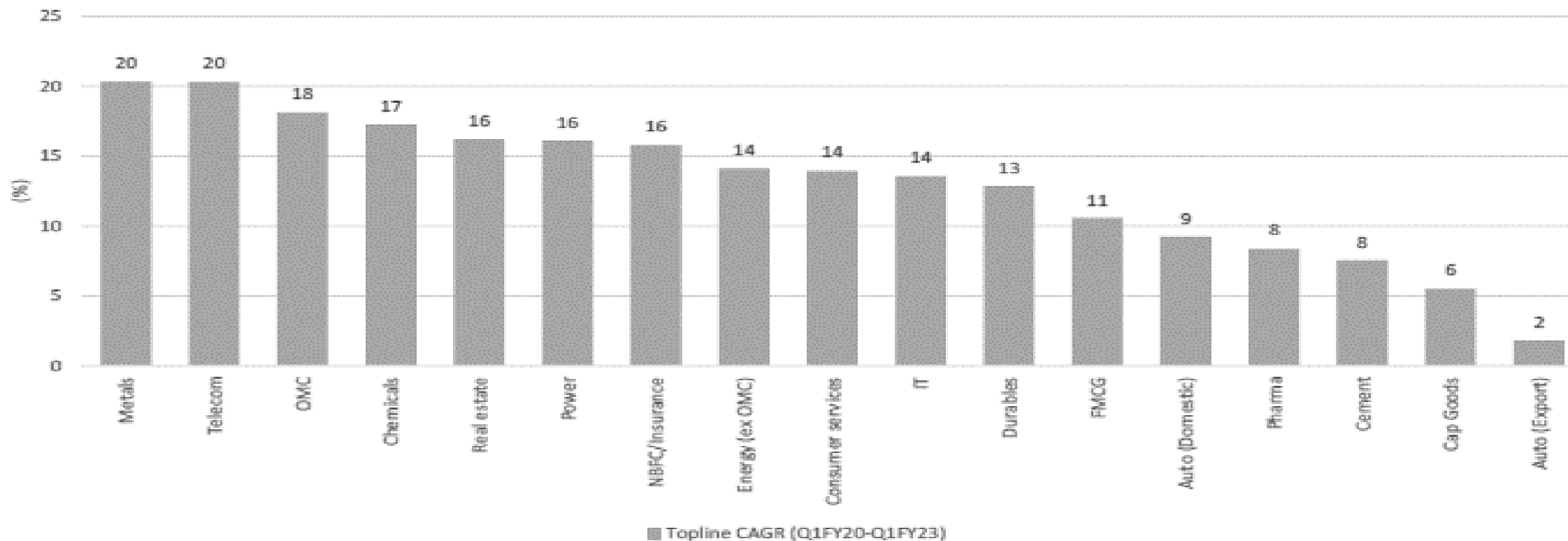


Financials: Slippages and credit costs continue to ease. On the operational front, loan growth and NII improved. Meanwhile, high MTM losses weighed on operating profit growth.

FY23 earnings upgrade and downgrades



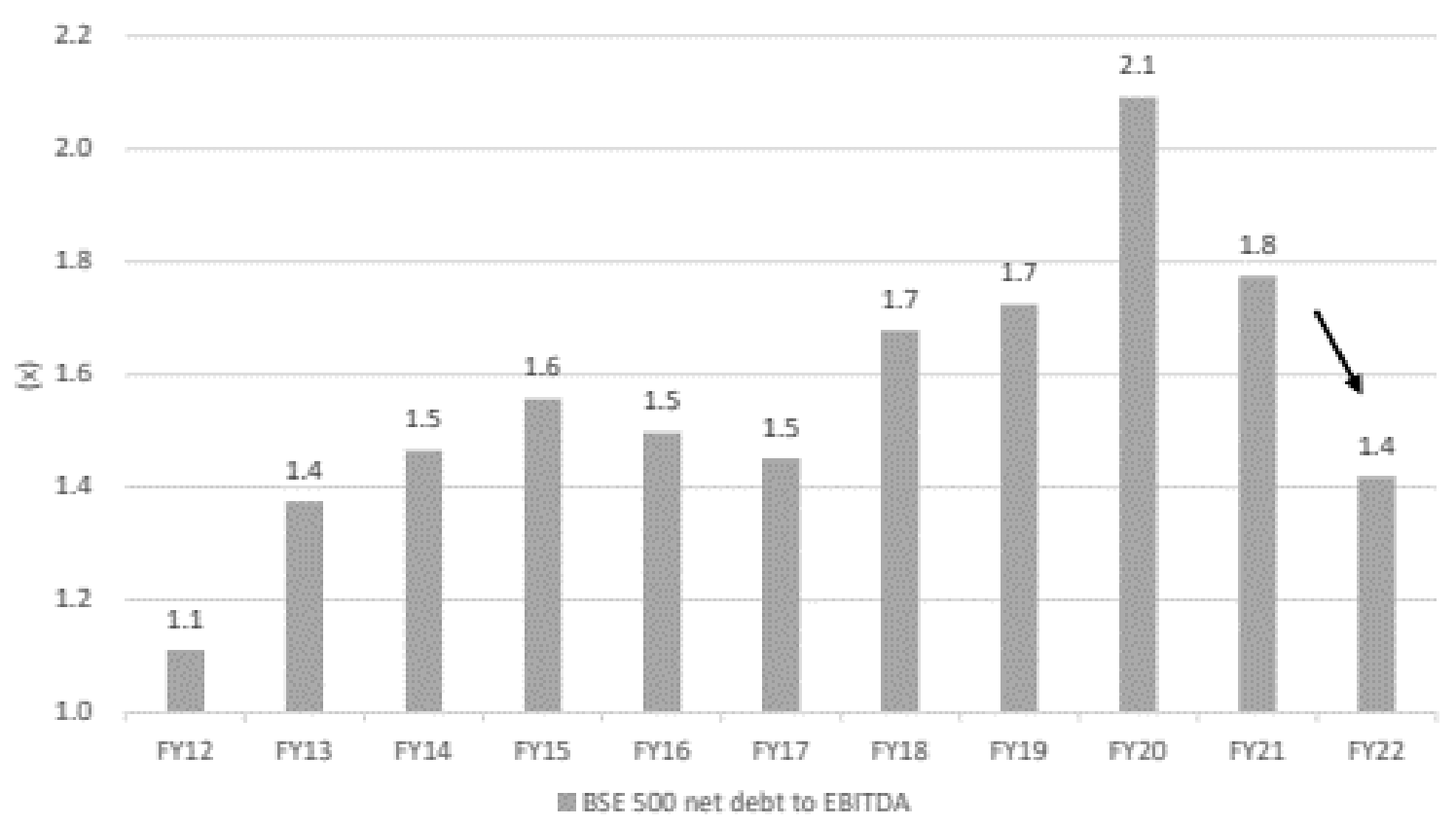
Consumer sectors see strong revival



- * Top-line revival seen in domestic consumption sectors such as domestic auto and consumer services.
- * On a 3Y CAGR basis, growth looks strong in commodities and exporters, owing to very strong growth in the past. However, incrementally, growth seems to be slowing in these segments.

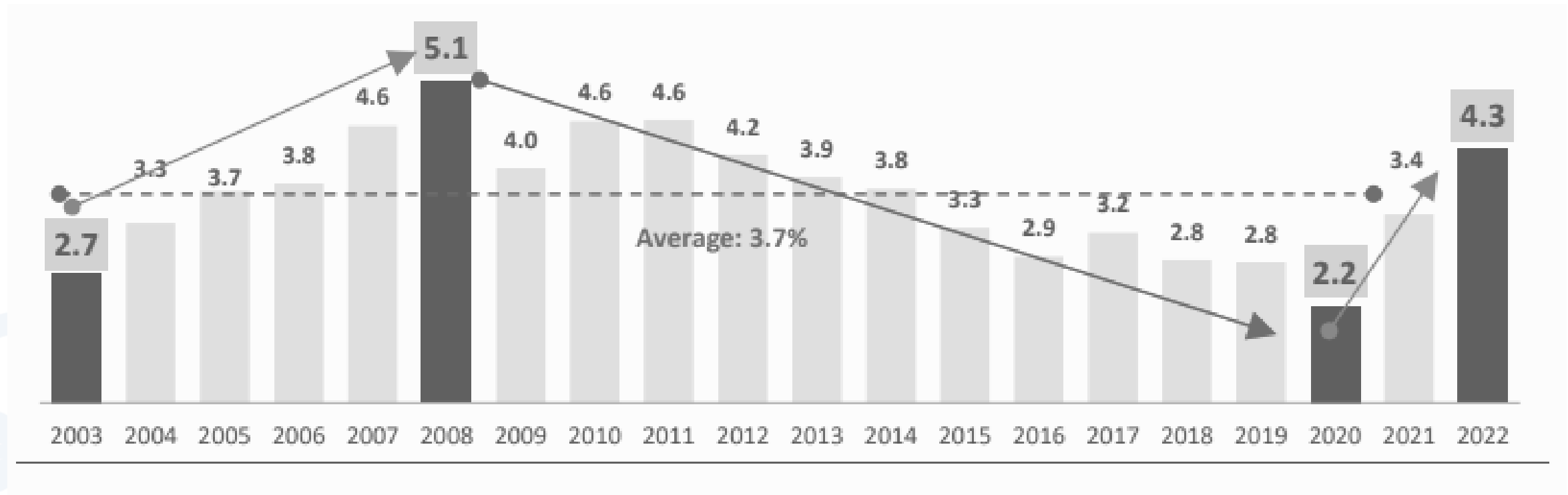
Corporate balance sheet has improved

- * Corporate leverage position has improved significantly in FY22
- * The combination of strong operating cash flows and low capex has resulted in significantly improved corporate balance sheets.



Corporate profit to GDP ratio at a decade high

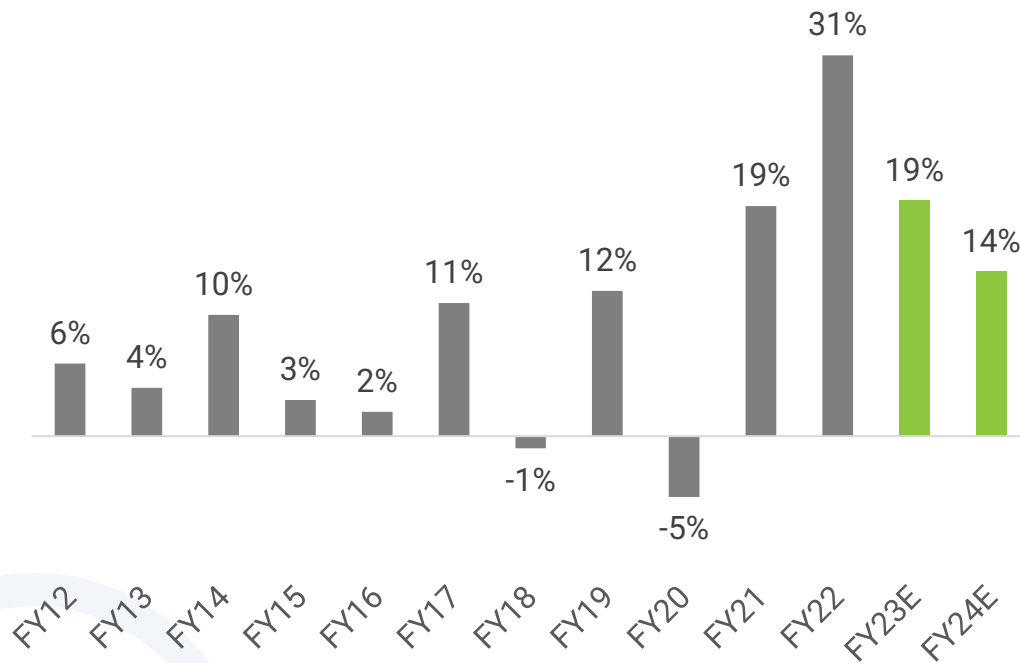
- * The corporate profit to GDP ratio rebounded to a decade high of 4.3% and 4.5% for the Nifty-500 Universe.
- * The recovery was driven by the expansion in the economy, as the denominator i.e. GDP grew 19.5% YoY in FY22, while corporate profit rose at a faster rate of 48% YoY (for the Nifty-500 Universe)



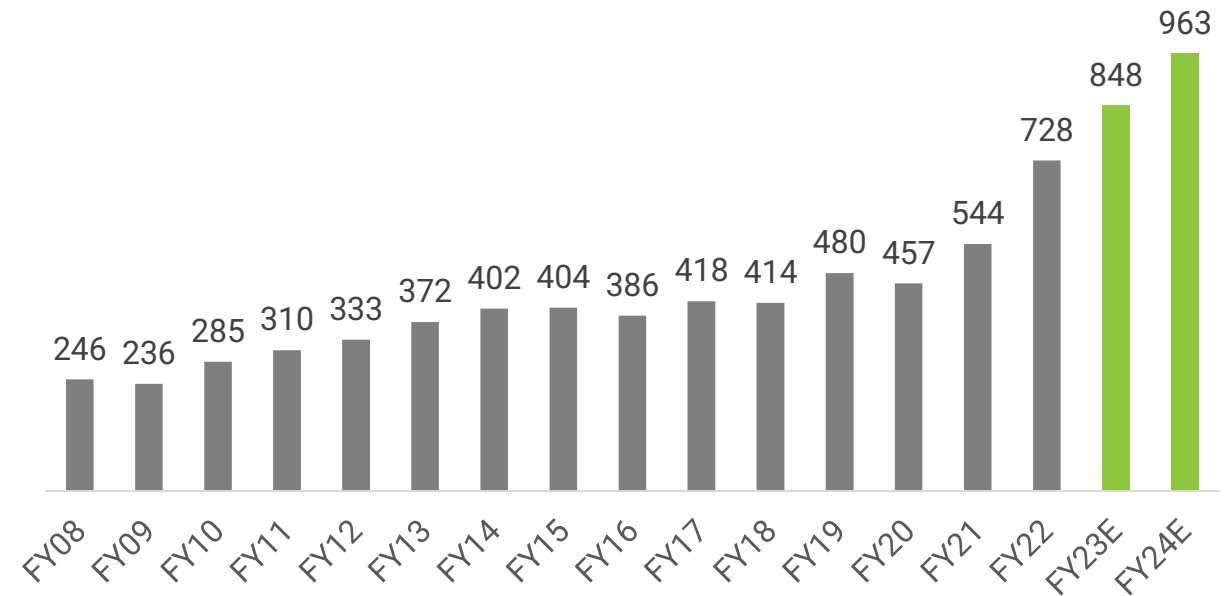
Earnings growth expectations remain strong



EPS Growth



Nifty 50 EPS



- * With regards to Nifty earnings, FY22 has posted a very strong growth on a high base of 19% in FY21 – leading to the best phase of profitability in the last decade.
- * Going ahead, while market participants are building in moderation in earnings, the earnings growth may still grow at a strong double digit.

How are our portfolios positioned?



Earnings growth estimates for our portfolios remain strong



	Edelweiss Large & Mid Cap Fund	Edelweiss Mid Cap Fund	Edelweiss Flexi-Cap Fund	Edelweiss Small Cap Fund	Edelweiss Long Term Equity Fund
FY23E EPS growth (%)	19.7	27.5	29.9	27.7	26.2
FY24E EPS growth (%)	29.1	22.8	28.1	22.7	29.3
PEG (x)	1.3	1.0	0.8	0.9	0.9
FY23E ROE (%)	18.0	18.9	17.9	19.1	18.3
FY24E ROE (%)	19.6	20.5	19.4	20.2	19.9
PER FY23E (x)	25.8	28.1	24.9	24.4	23.8
PER FY24E (x)	20.7	22.6	20.0	19.9	19.2

Sector OW/US positions



Scheme Name	Sector	% Over wt	Sector	% Under wt
Edelweiss Mid Cap Fund	BFSI	5.30	Oil & Gas	-7.94
	Industrial/Infra	3.92	Technology	-2.78
	Chemicals & Fertilisers	3.52	Textiles	-1.87
Edelweiss Flexi-Cap Fund	Industrial/Infra	9.63	Oil & Gas	-5.01
	BFSI	4.74	Consumer	-4.06
	Auto & Auto Ancillaries	4.11	Technology	-3.40
Edelweiss Large & Mid Cap Fund	Industrial/Infra	4.54	Oil & Gas	-5.59
	BFSI	1.72	Technology	-3.18
	Chemicals & Fertilisers	1.07	Power	-1.30
Edelweiss Small Cap Fund	Industrial/Infra	9.63	BFSI	-5.12
	Auto & Auto Ancillaries	2.45	Technology	-3.37
	Transportation	2.02	Media & Entertainment	-2.70
Edelweiss Long Term Equity Fund	Industrial/Infra	7.52	Oil & Gas	-5.18
	BFSI	4.23	Consumer	-3.89
	Auto & Auto Ancillaries	3.40	Power	-3.75
Edelweiss Focused Equity Fund	Industrial/Infra	9.05	Oil & Gas	-5.53
	BFSI	5.43	Metals & Mining	-3.85
	Telecom Services & Equipmnt	0.98	Power	-3.75

% OW/UW is in comparison to respective benchmark

How are we navigating high inflation and rising rates



Our funds have active exposure to these 3 sectors that are beneficiaries or show resilience during rate hike cycles and high inflationary environment

Consumers

- Consumer companies that have pricing power continue to do well during high inflation-interest rate regime
- Margins are stable as demand for such goods is inelastic to inflationary pressures.
- Positive on businesses that have pricing power and have better brand acceptance.

Industrials

- When interest rates rise the economy is usually on a stronger footing and industrial activity tend to remain strong and resilient.
- Industrial manufacturing can pass on the higher cost without impacting demand
- Positive on industrial manufacturers who have pricing power and demand is picking up for their products.

Lending Financials

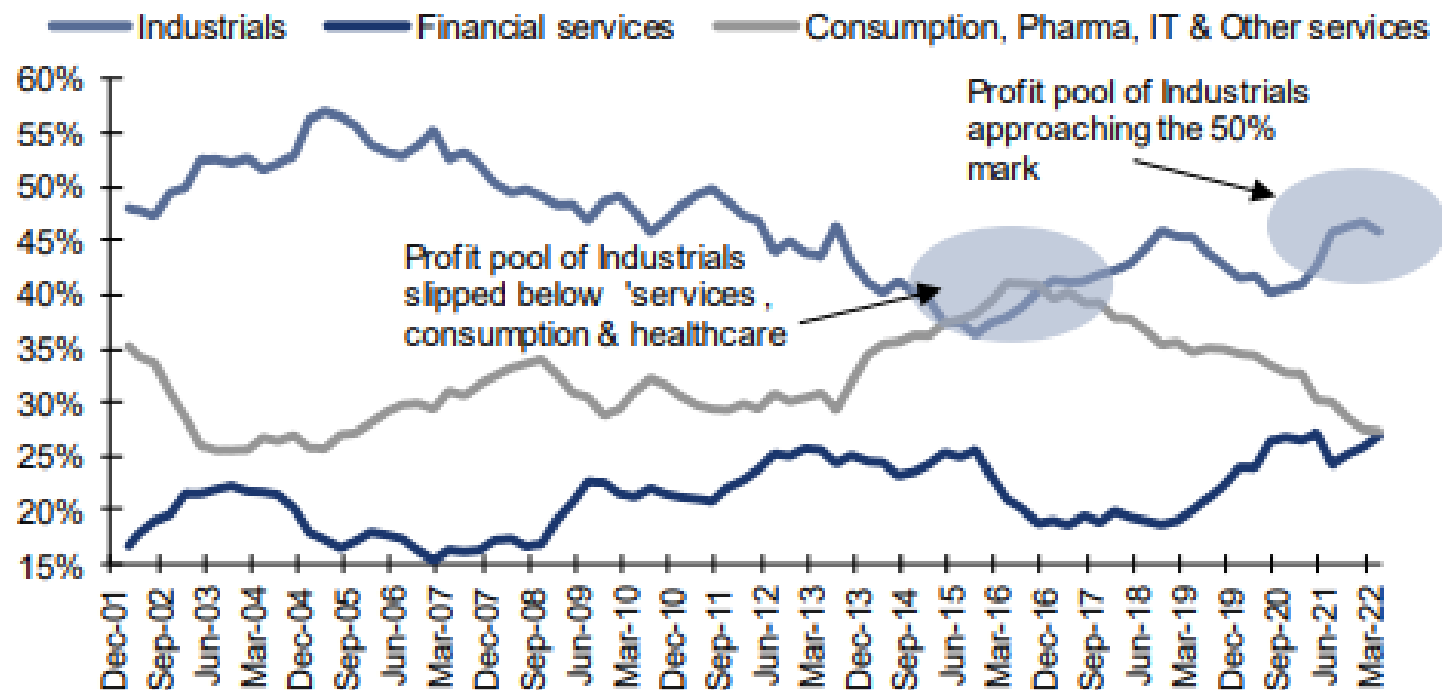
- Financial sector has historically been among the most sensitive to changes in interest rates.
- Profit margins that expand as rates climb, entities like private banks and lending financials benefit from higher interest rates.
- We have active exposures to select private sector lenders and some dominant lending franchise

Why we own; What we own – Industrials



- Government's thrust on capital expenditure to boost economy and high spends on infra bodes well for industrials
- When interest rates rise the economy is usually on a stronger footing to withhold this regime change and hence, industrial activity tend to remain strong and resilient.
- Industrial manufacturing businesses are also mostly beneficially of high commodity prices since they can pass on the higher cost without impacting demand to a large extent.
- Read details note [here](#)

Rising share of industrials in aggregate profits amongst top 1000 companies



Stocks we own in portfolios

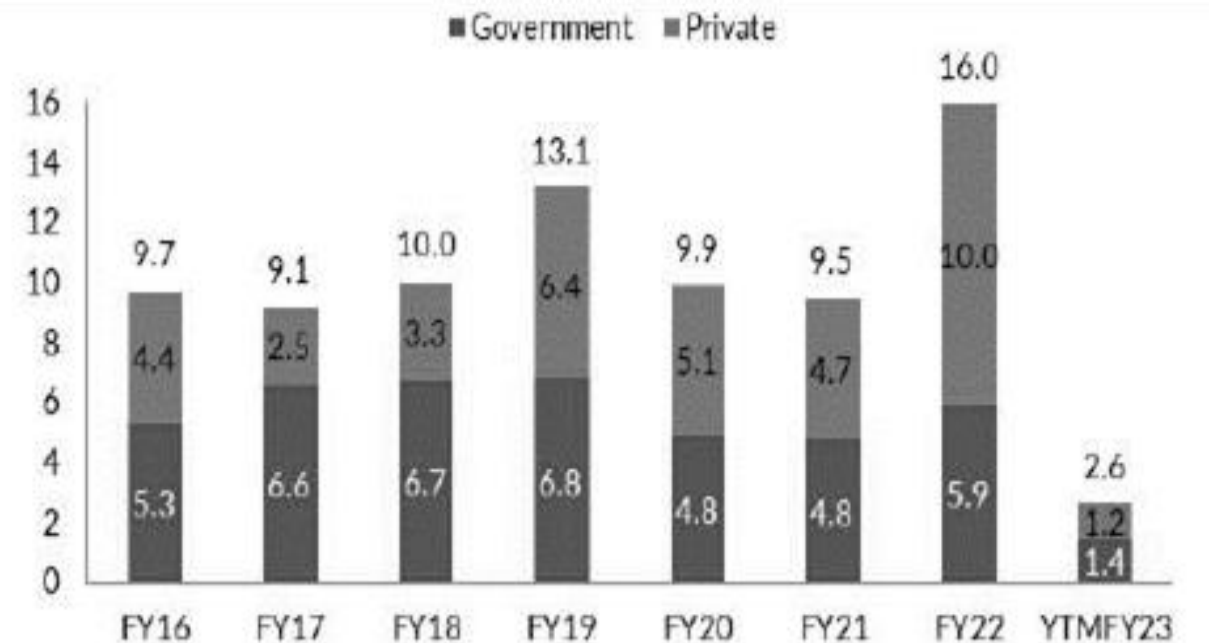
ABB India Ltd.

Cummins India Ltd.

Industrials - Corporate India well geared to step up capex

- * Order inflows for large, listed capital goods companies at Rs 258 bn is the highest in the last 15 quarters and recorded a 52% growth vs. Dec-20 and 35% QoQ.
- * Similarly, order backlog at Rs 925 bn as of Dec-21 is at record levels since FY15 and witnessed growth of 16% vs. Mar-21 and 7% vs. Sep-21.
- * Data Centre proliferation:-India's data centre capacity is 650 MW. Europe is more than 10x the size at 8,500 MW, although India's internet user base stands at 700 mn vs Europe's 400 mn. USD 13.9bn spends are committed with 1,000 MW capacity, while another 1,350 MW is in advance stages of discussion.

New investments announcement by private sector is improving



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