EDELWEISS MUTUAL FUND

The Earnings Card

December 2022

A brief update on quarterly earnings and our fund positioning

Earnings momentum continues

Q2FY23 good performance amidst tough environment

Amid a volatile global macro backdrop, Indian corporates delivered better-than-expected performance across most sectors. BFSI led from the front, yet again, while commodities drag. Global Cyclicals played a spoilsport once again.

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Key highlights

Top-line growth holding up, margins remain under pressure

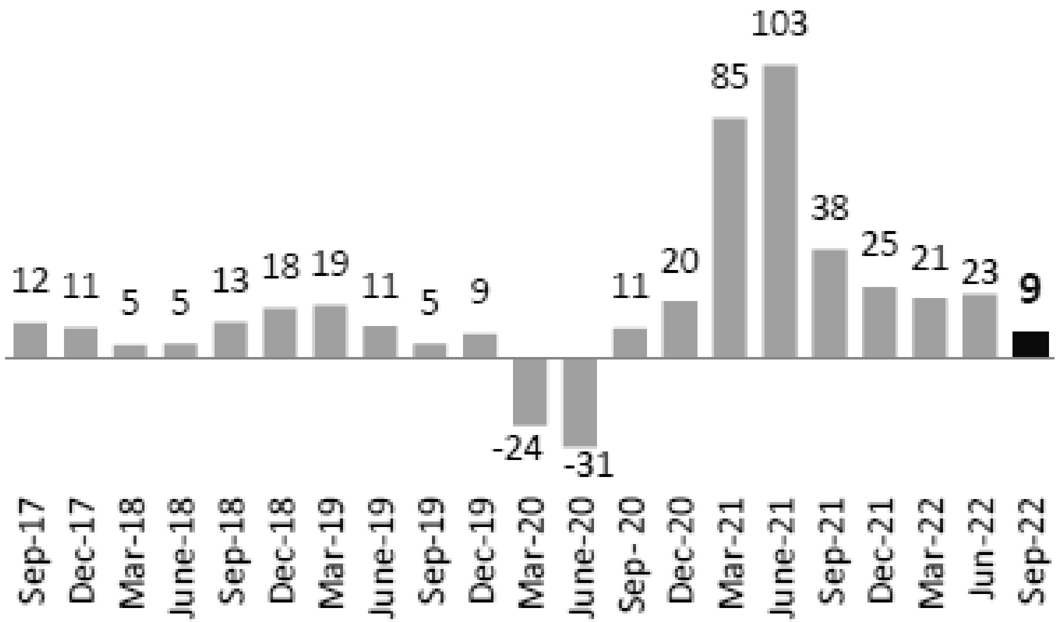
Strong performance from Financials. Global cyclical disappoints.

FY23EEPS has seen 1-2% cut with large downgrades in commodities offset by upgrades in banks

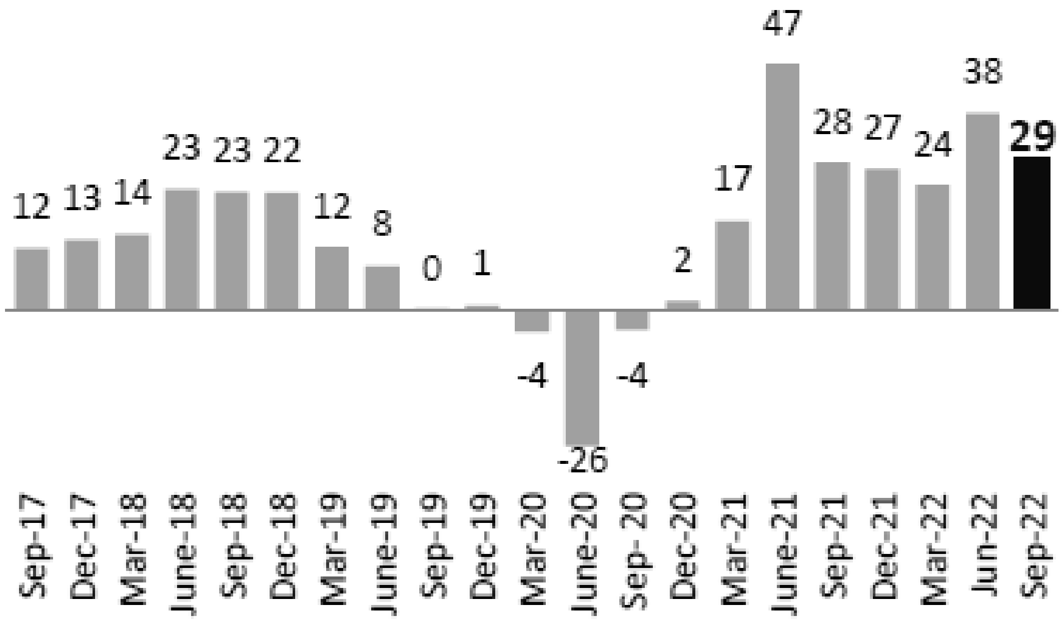
Source: Edelweiss Research

Strong PAT and Sales growth

Nifty 50 PAT up 9% YoY in Sep Quarter

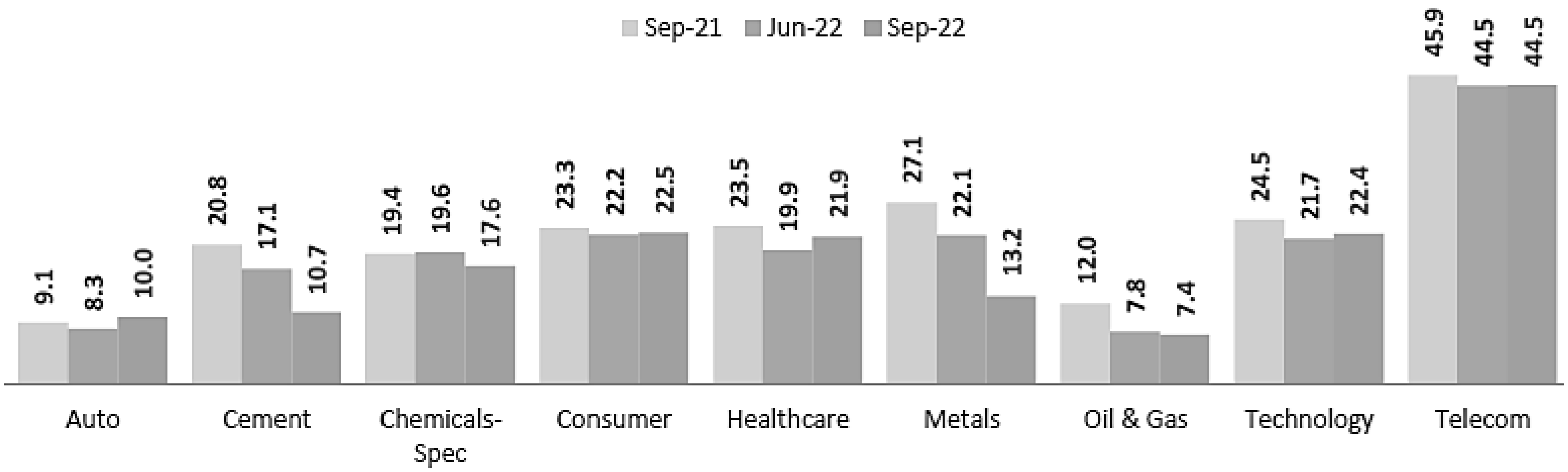


Nifty 50 sales up 29% YoY in June Quarter



Source: Bloomberg

Many sectors recorded a drop in YoY operating margins



Source: Motilal Oswal Research

Sectoral earnings trend and share

		EPS Growth %			
Sector	**Share in Nifty 50 FY23 EPS**	**FY 21**	**FY22**	**FY 23E**	**FY 24E**
BFSI	**39%**	**16**	**32**	**27**	**15**
Banks	32%	37	37	28	15
NBFC	6%	(29)	17	24	18
Insurance	1%	4	(4)	33	17
Exports	**16%**	**11**	**25**	**29**	**25**
IT	13%	11	16	7	15
Pharma	3%	4	31	47	19
Export Auto	0%	6	(19)	(115)	678
Commodities	**25%**	**46**	**86**	**(12)**	**9**
OMC	1%	427	(33)	(45)	56
Energy	15%	26	46	18	11
Metals & Mining	10%	38	233	(36)	1

		EPS Growth %			
Sector	**Share in Nifty FY23 EPS**	**FY 21**	**FY22**	**FY 23**	**FY 24**
Domestic Consumption	**11%**	**53**	**80**	**34**	**25**
Domestic Auto	4%	(20)	41	41	28
Consumer Staples	5%	(5)	12	18	13
Telecom	1%	(56)	(128)	127	66
Consumer Discretionary	1%	(2)	27	45	22
Domestic Investment	**9%**	**20**	**12**	**6**	**17**
Utilities	4%	23	30	(7)	9
Agro Chemicals	1%	62	26	31	21
Industrials	3%	22	(23)	33	25
Cement	1%	(11)	73	(17)	24
Nifty	**100%**	**24**	**46**	**14**	**16**

Source: Edelweiss Research

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.

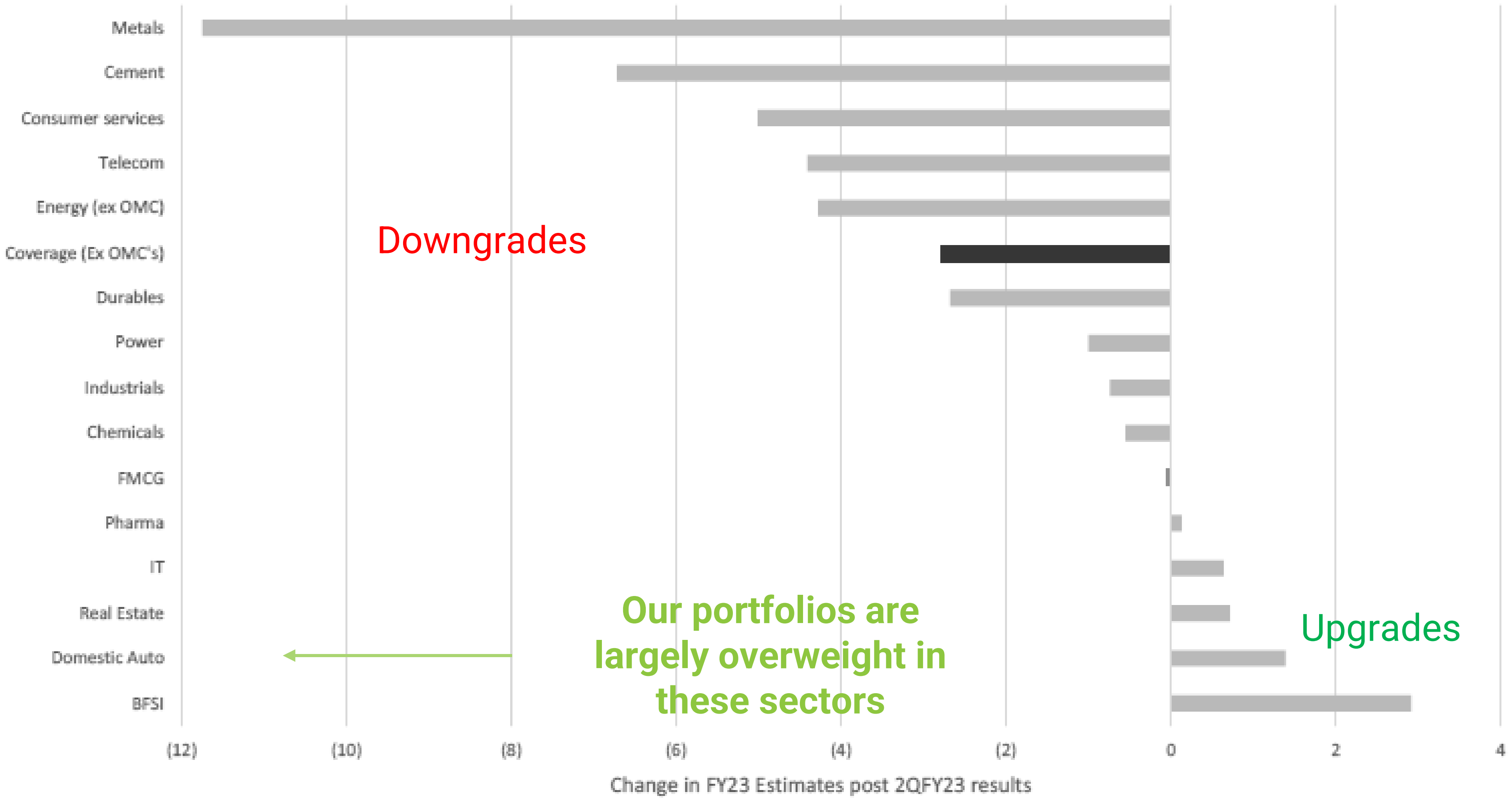
Domestic investment: Cement companies reported a decadal low EBITDA/ton, while industrial companies had strong order inflows.

Global exporters: IT companies' margins seems to be stabilising, while that of pharma are deteriorating. Export auto disappointed on margins, while chemicals was a mixed bag. Hereon, the market participants anticipate broad-based demand risks.

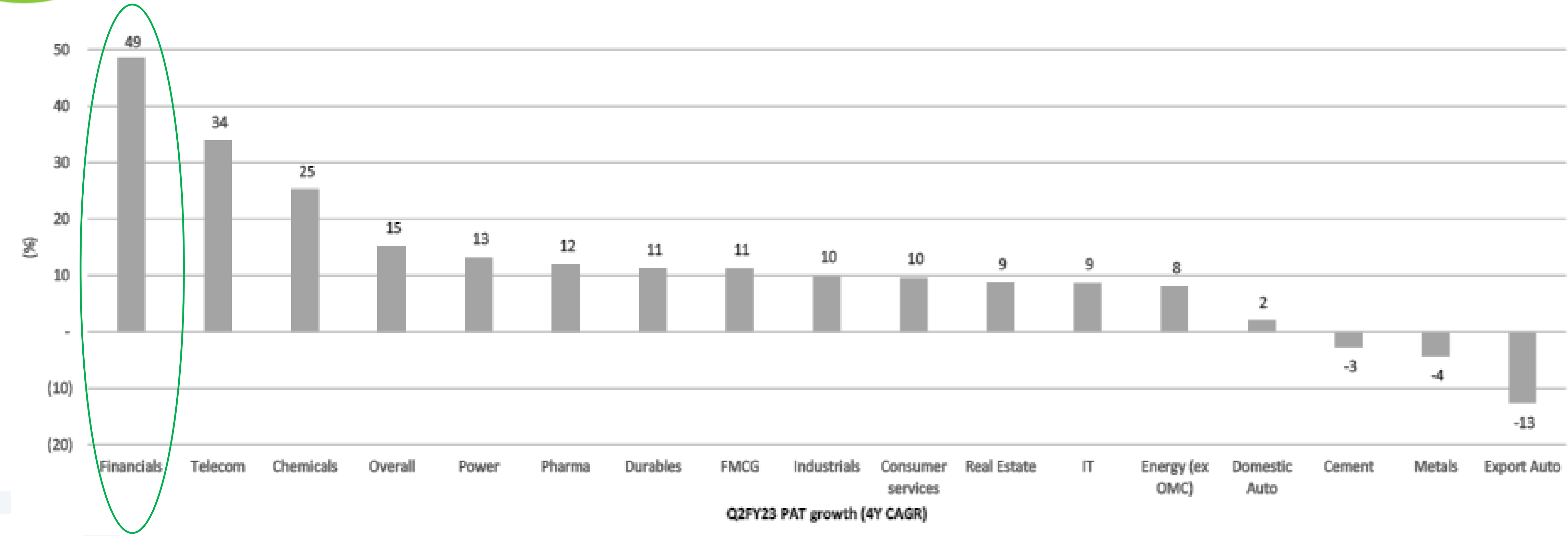
Commodities: OMCs disappointed on marketing margins (inventory loss), whereas upstream energy companies posted strong results. Metal companies' profits moderated significantly.

Financials: Banks reported an excellent quarter with improving margins, strong loan growth and benign credit costs after a decade. NBFCs however faced some margin issues.

FY23 earnings upgrade and downgrades



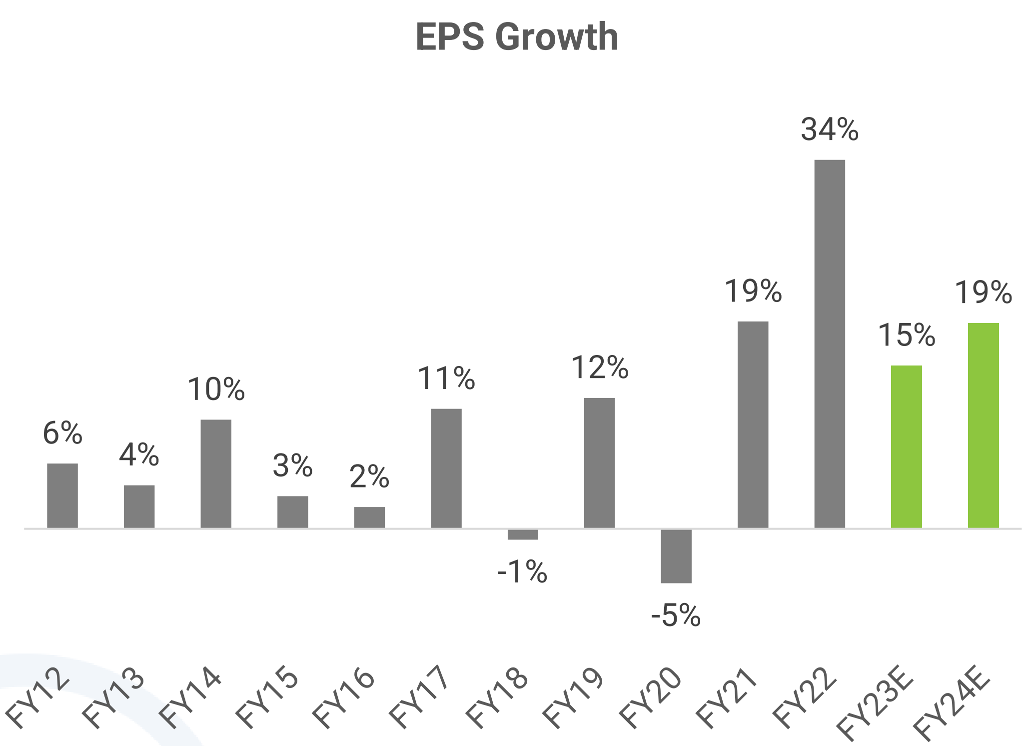
Financials have led the recovery post covid

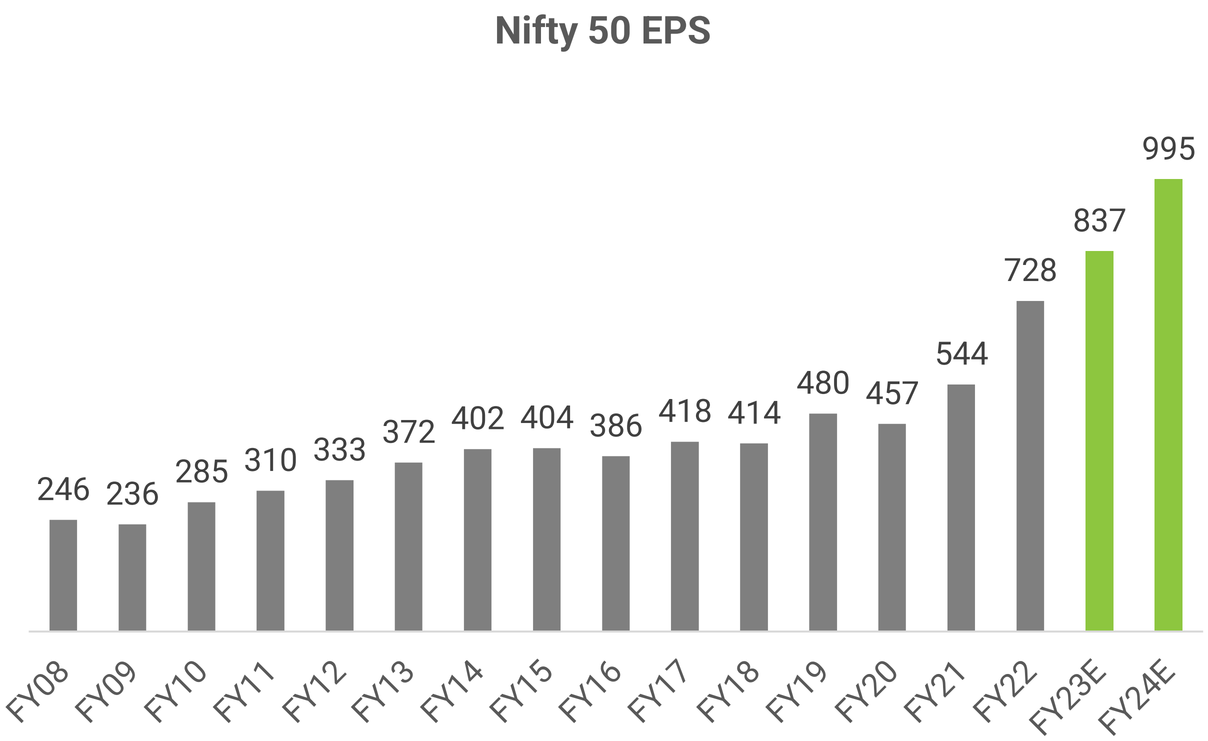


- Financials have led the recovery post covid owing to falling credit cost
- Recovery is weakest in Cement, Metals and Export Auto

Source: Edelweiss Research

Earnings growth expectations remain strong





FY 23E earnings growth is on its way to clock double-digit growth.

Third consecutive year of double-digit growth in earnings.

Source: Bloomberg estimates

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	Edelweiss Focused Equity Fund
FY23E EPS growth (%)	19.4	27.7	25.7	29.2	27.7	27.7
FY24E EPS growth (%)	20.3	23.6	19.8	17.8	19.5	20.5
PEG (x)	1.3	1.0	1.0	0.8	0.9	0.9
FY23E ROE (%)	18.6	19.3	18.0	19.0	18.2	18.2
FY24E ROE (%)	20.0	20.9	19.4	20.2	19.7	19.7
PER FY23E (x)	24.6	28.7	24.8	24.4	25.1	26.0
PER FY24E (x)	20.2	23.0	20.2	20.1	20.5	20.9

Source: Internal Estimates, The above table does not indicate any guarantee returns in the schemes. Data as on Nov 30, 2022. For risk-o-meters click here

Sector OW/US positions

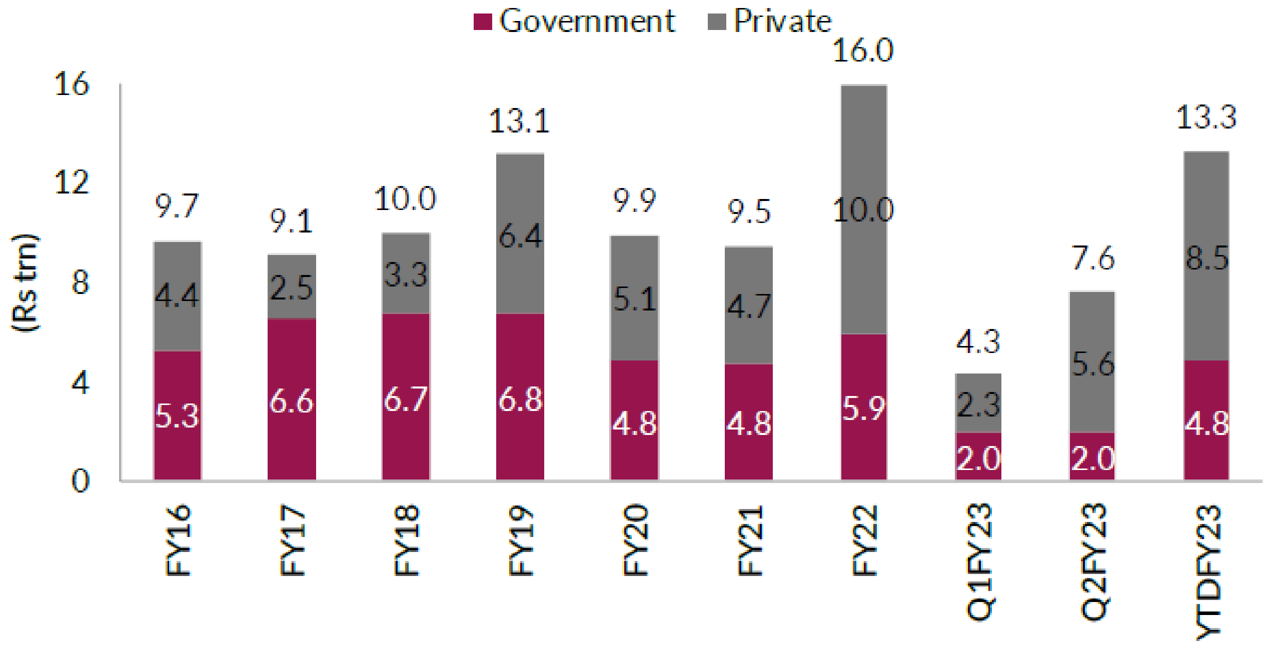
Scheme Name	Sector	% Over wt	Sector	% Under wt
Edelweiss Mid Cap Fund	Industrial/Infra	8.27	Oil & Gas	-2.60
	Chemicals & Fertilisers	2.95	Metals & Mining	-2.49
	BFSI	2.50	Healthcare	-2.15
Edelweiss Flexi-Cap Fund	Industrial/Infra	8.91	Oil & Gas	-4.58
	BFSI	4.95	Consumer	-4.05
	Auto & Auto Ancillaries	1.30	Metals & Mining	-2.64
Edelweiss Large & Mid Cap Fund	BFSI	2.53	Oil & Gas	-3.10
	Industrial/Infra	2.41	Technology	-2.75
	Cement & Cement Products	0.82	Power	-1.87
Edelweiss Small Cap Fund	Industrial/Infra	9.15	BFSI	-4.89
	Transportation	2.00	Technology	0.00
	Cement & Cement Products	1.35	Media & Entertainment	-2.33
Edelweiss Long Term Equity Fund	Industrial/Infra	9.51	Oil & Gas	-4.81
	BFSI	4.00	Consumer	-3.93
	Auto & Auto Ancillaries	2.15	Metals & Mining	-2.64
Edelweiss Focused Equity Fund	Industrial/Infra	12.45	Oil & Gas	-5.29
	BFSI	5.63	Metals & Mining	-3.98
	Telecom Services & Equipments	1.16	Power	-3.28

% OW/UW is in comparison to respective benchmark

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.

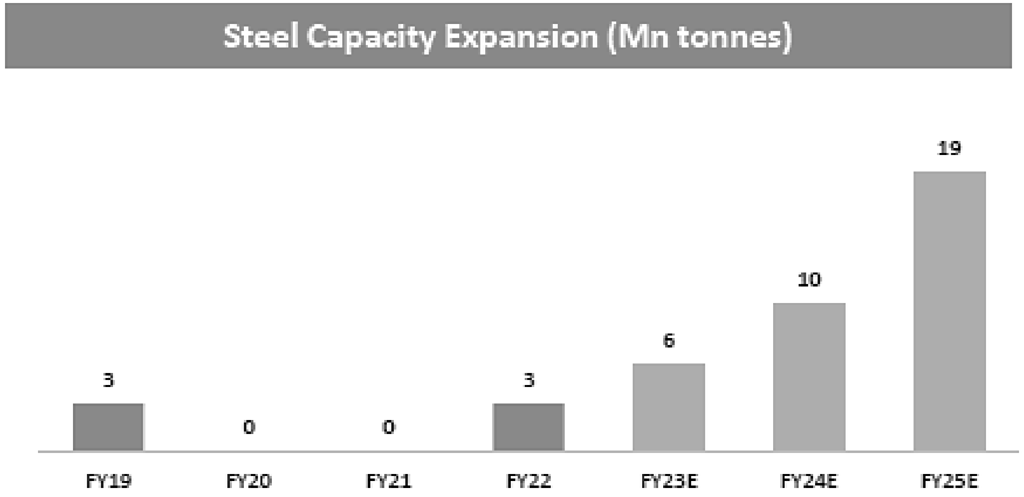
New investments announced has seen a sharp rise

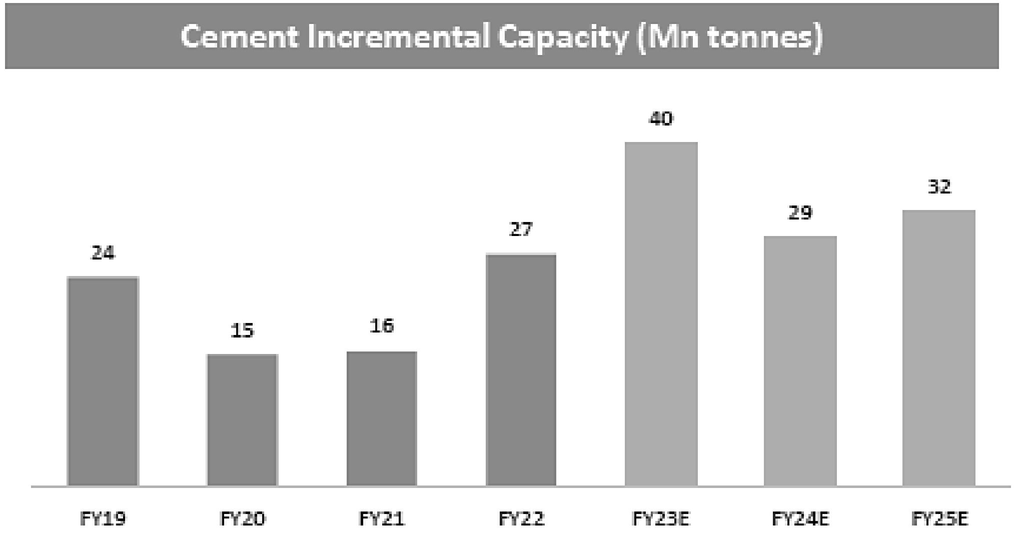


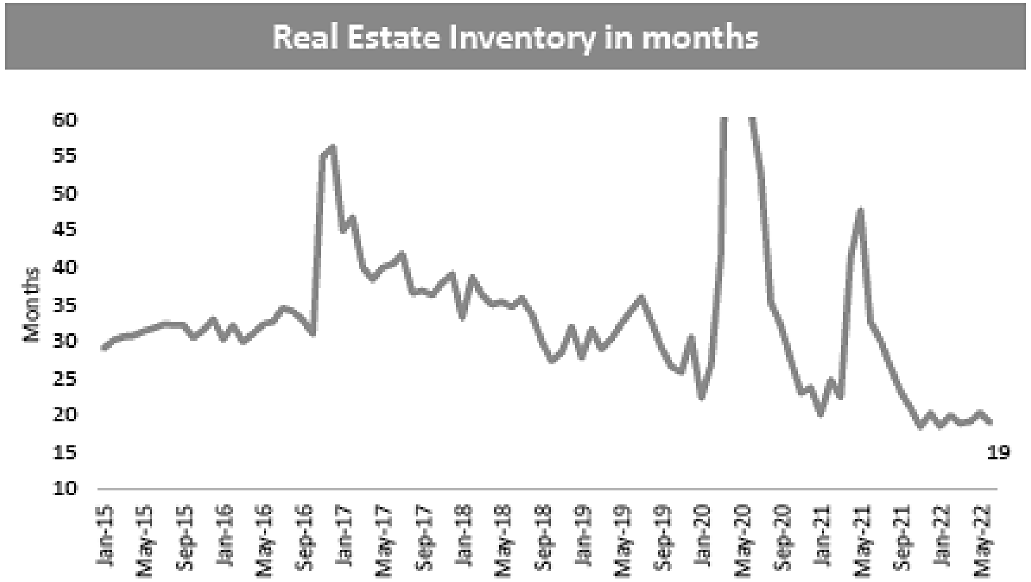
We are overweight in many industrial companies across our equity funds for this reason

Data Source: Axis Capital.

Aggressive Capex to help industrials





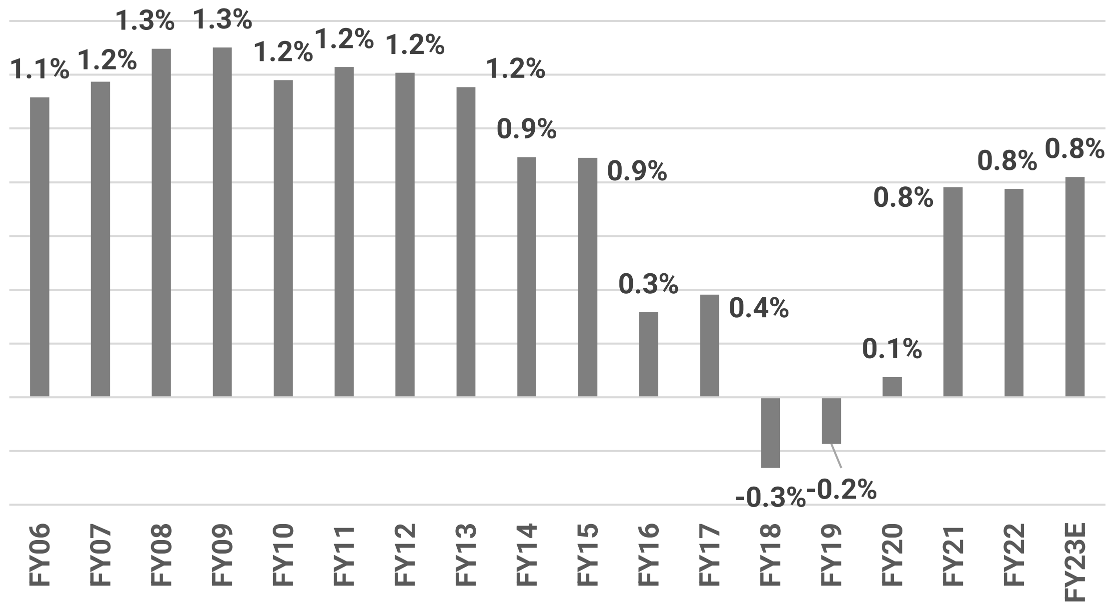


- Capacity expansion is expected in key sectors like steel and cement which shall help industrial and capital goods companies
- Real Estate sector is also clocking improved sales which will help overall capex from private sector

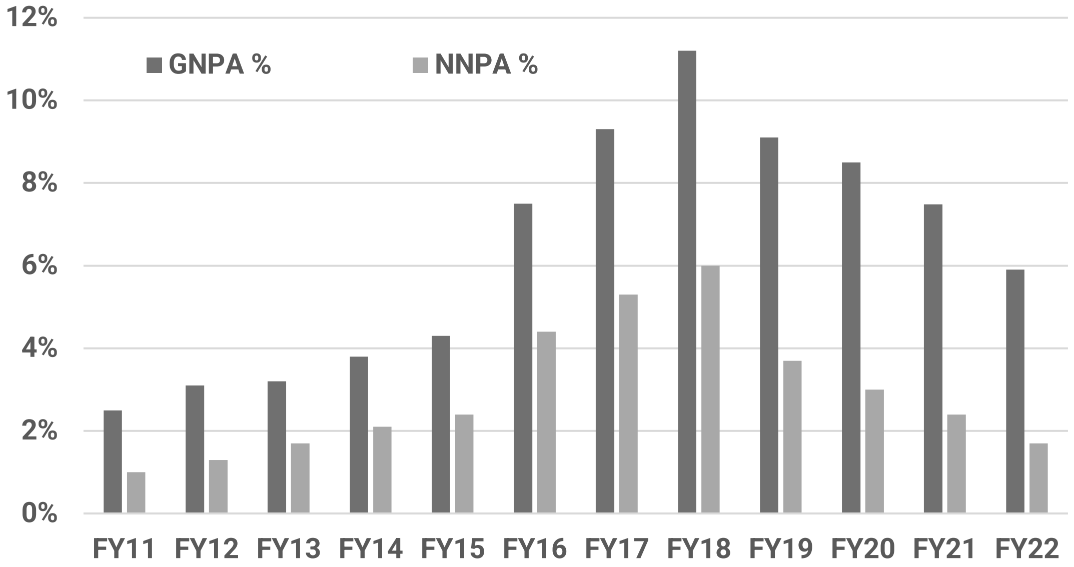
Source: Edelweiss Research

Why we own; What we own – Financials

Banking System ROA improving (credit+investments)



Asset Quality has improved significantly



- Banking sector credit growth was in a down-cycle since 2012 and is now seeing improvement.
- Asset quality stress has bottomed out and return ratios are improving.
- Within financials we like lenders as they are better placed than the capital market, insurance, or other players as earnings growth will be better.
- **We are overweight in many lenders within BFSI across our equity funds to play this opportunity**

Data Source: Edelweiss Research

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