FIRST LIGHT

16 November 2022

RESEARCH

INDIA STRATEGY | Q2FY23 REVIEW

Raw material costs cool off

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

INR takes a breather

Daily macro indicators

Indicator	11-Nov	14-Nov	Chg (%)
US 10Y yield (%)	3.81	3.85	4bps
India 10Y yield (%)	7.31	7.29	(2bps)
USD/INR	80.82	81.26	(0.5)
Brent Crude (US$/bbl)	96.0	93.1	(3.0)
Dow	33,748	33,537	(0.6)
Hang Seng	17,326	17,620	1.7
Sensex	61,795	61,624	(0.3)
India FII (US$ mn)	**10-Nov**	**11-Nov**	**Chg ($ mn)**
FII-D	(24.5)	39.9	64.4
FII-E	(47.4)	857.6	905.0

Source: Bank of Baroda Economics Research

SUMMARY

INDIA STRATEGY: Q2FY23 REVIEW

- Nifty 200 earnings came in moderately ahead of consensus in Q2FY23, but only ~40% of companies delivered a beat, similar to Q1
- Raw material cost/sales ratio declined as anticipated; higher other costs kept net profit margin flat at 7.5% of sales
- Moderating global inflation may lend a short-term boost to cyclicals, but we continue to favour a conservative investment approach

Click here for the full report.

INDIA ECONOMICS: CURRENCY OUTLOOK

Buoyed by hopes of a likely Fed pivot, global currencies appreciated against the dollar in Nov'22. A softer-than expected US inflation report have led to expectations that the Fed may taper its rate hikes going forward. As a result, the dollar index retreated. In line with its other global peers, INR too appreciated against the dollar and rose by 1.9% in the last fortnight. Lower oil prices and buoyant equity flows also lent support to the INR. A mix of both global and domestic factors will determine the INR trajectory going forward. We expect INR to trade in the range of 80-82/$ till Dec'22.

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Q2FY23 REVIEW

15 November 2022

Raw material costs cool off

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- **Raw material cost/sales ratio declined as anticipated; higher other costs kept net profit margin flat at 7.5% of sales**
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Financials sector leads Q2 earnings beat: Nifty 200 companies beat consensus revenue and net profit expectations by 4.8% and 6.3% respectively in Q2FY23. In all, 38% of the companies reported revenue above consensus expectations (vs. 42% in Q1FY23), while 41% were ahead of consensus at the PAT level (40% in Q1). On the flip side, 44% of companies missed estimates (42% in Q1).

Energy and steel weigh on NSE-listed universe: Aggregate revenue for the NSE-listed universe grew 26.7% YoY but net profit dipped 2% YoY (-4.8% QoQ). The fall in profit was led by the materials (-64% YoY) and energy (-40%) sectors, mainly due to global margin correction. Financials posted net profit growth of 36% YoY, industrials 30%, and consumer discretionary and staples 76% and 30% respectively. As indicated in **our last earnings review**, operating cost pressures declined this quarter as raw material cost, finished goods cost and freight charges all moderated. Interest expense rose but remained modest by historical standards. Salary, wages and power cost stayed elevated.

Sector summary: **Life insurance** premium growth continued in Q2FY23 albeit at a slower pace than Q1 while VNB margins expanded in H1FY23. **Credit card** spends continued to grow, crossing Rs 1tn per month in H1FY23 for the first time. **Consumer durables** saw a softer operating performance. For **pharma**, challenges persisted in the US market whereas India remained a steady growth driver with stable margins. **Energy** had a mixed performance with export duty adversely impacting earnings despite high global margins. Demand was weak across **building products** as inflation led to a slowdown in construction activity and higher product prices continued to hurt consumer affordability.

Investment view: A slowing Europe and moderating China will continue to pose near-term challenges to the Indian stock market, in our view. However, easing global inflation should offer a short-term boost to cyclicals. We expect the Nifty 50 to be largely range-bound near term, but remain bullish over the longer term given several extant growth levers in the Indian economy. We continue to favour a conservative investment approach (see our report of 31 October: **Global headwinds plateauing**).

India reporting season trends

Q2FY23	QoQ (%)	YoY (%)
Net Sales	2.4	26.7
Raw materials	(3.4)	43.6
Salaries and wages	3.9	14.8
Interest expenses	7.4	16.3
Net Profit (after tax)	(4.8)	(2.0)
Q2FY23 Surprise	**Revenue (%)**	**Income (%)**
Weighted	4.8	6.3
Average	4.9	(3.2)

Source: Bloomberg, BOBCAPS Research

CURRENCY OUTLOOK

15 November 2022

INR takes a breather

Aditi Gupta
Economist

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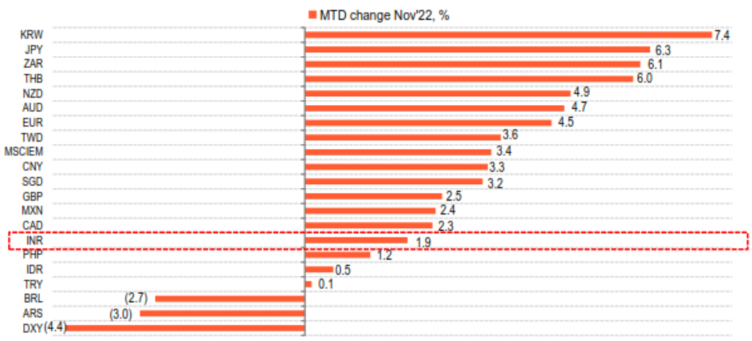
Currency movement in the last fortnight

In Nov'22 so far, global currencies have registered sharp gains against the dollar. The dollar has been under pressure after the US inflation report showed that US CPI inched down more than expected to 7.7% from 8.2% in Sep'22. This raised hopes that US inflation has likely peaked and hence led to expectations that the Fed may slowdown the pace of future rate hikes. In the immediate aftermath of the CPI report, DXY fell by 2.1%, registering its largest single-day fall since Dec'15. As per the CME FedWatch Tool, probability of a 50bps rate hike by Fed jumped to 85% compared with only 52% before the CPI report. In the last session, DXY has recovered marginally supported by comments from Fed Governor, but it is still down 4.4% in the fortnight.

Easing dollar supported gains in other global currencies. Korean Won (KRW) and Japanese Yen (JPY) were amongst the biggest gainers. Amongst other major currencies, the Euro (EUR) appreciated by 4.5% to a near 4-month high against the dollar. Gains in the pound (GBP) were more modest at 2.5% as investors await the budget announcement. EM currencies gained 3.3%.

Figure 2: Global currencies



Source: Bloomberg, Bank of Baroda | Data as of 14 Nov 2022 | Note: Figures in bracket denote depreciation against USD

Currency volatility:

The last fortnight has also been associated with heightened volatility in the foreign currency markets, when compared with the previous month i.e. Oct'22. While the median volatility in the sample of 19 currencies was 10.1% in Oct'22, it increased to 13.4% in the first fortnight of Nov'22.

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

BUY – Expected return >+15%

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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