

Strategy

Loss pool/GDP approaching decadal low level; GDP revival, fiscal push, lower interest and tax rates to further augment PAT/GDP!

- ▶ Loss pool /GDP in listed corporate India ballooned to a two-decade high of ~1.8% in FY18 largely driven by cyclicals such as corporate banks, Telecom, Metals and NCLT cases. **However, the loss pool has been receding since FY18 and extending into FY21 so far has reached ~0.7% of GDP which is the lowest since FY12** and will help in improving the overall PAT/GDP.
- ▶ **Aggregate consensus PAT of ~360 stocks is expected to rise from 4.6 trn in FY20 to 9.6 trn (~5% of GDP) in FY23 which is a CAGR of 27 %.** Biggest swing in profits over FY20-23 is expected to be delivered by Banks, Energy, Auto and Telecom which is largely a function of normalization of depressed earnings. Sales CAGR over FY20-23 for the above set of stocks at 6.8% is marginally below nominal GDP growth rate and does not imply strong demand expectations for the corporate sector.
- ▶ Sustainable trajectory of PAT/GDP will depend on how the demand environment pans out. Encouragingly, aggregate demand will get a boost from a classical 'countercyclical fiscal policy' unveiled in **Union Budget 2022, with a focus on capital outlay which has a higher multiplier effect (3.6x) on demand and a longer impact (4-5 years).** Progressive reforms done in the recent past and in the budget will create an enabling environment for growth.
- ▶ **Private investments and Private consumption key to sustained growth:** Desired effect of crowding-in of private sector investments due to pick up in government spending yet to be seen while the jury is still out on a sustained pick-up in household consumption given the effects of pent-up demand, higher propensity to save and low current consumer confidence.
- ▶ **Liquidity and interest rates expected to remain sanguine:** RBI's latest monetary policy continues with an accommodative stance while promising to manage the Rs 12 tn government borrowing program in a non-disruptive manner and providing ample liquidity (despite the CRR restoration to 4% by May'21). The autonomous drivers of liquidity (Government spending and foreign inflows) are largely supportive although growth in 'Cash in circulation' remains a drag. CPI (4.6% in Dec'20) has trended lower due to food prices but core inflation remains sticky at 5.65%.
- ▶ **Base corporate tax cut in 2019 from 30% to 22% will also boost PAT/GDP** in an improving growth environment.
- ▶ **Equity valuations are stretched at ~ 22x one year rolled forward basis but earnings upgrade cycle and low discount rate will remain supportive** of the high valuations.
- ▶ **Q3FY21 is the third consecutive quarter of earnings beat:** To date, Q3FY21 is turning out to be the third quarter in a row to show more beats than misses (beat/miss ratio of 4.6 within the NIFTY200 index) indicating corporate profitability continues to be ahead of expectations, which should lead to further upgrades.
- ▶ **Economic recovery continued in Jan'21**
 - PMI manufacturing and services continued to expand MoM at 57.7 and 52.8. Manufacturers indicated employment levels continued to be weak while input prices continued to rise.
 - GST collections improved to Rs1.2trn and credit growth improved to 6.1% in Dec'20. Preliminary trade data indicates imports grew by 5.37%, while imports rose by 2%.
 - Auto wholesale dispatches: Post the wholesale push to capture year-end sales before sticker prices increase, Jan'21 dispatches softened due to a combination of demand slack and supply-chain issues.

Top picks: SBI, Axis Bank, ICICI Lombard, SBI Life insurance, NTPC, CESC, Gujarat Gas, Ultratech Cement, Prince Pipes, Motherson Sumi, TVS Motors, Bajaj Consumer, Jyothy Labs, Bharti Airtel, Infosys, Alkem Labs and Abbott India.

Research Analysts:

Vinod Karki

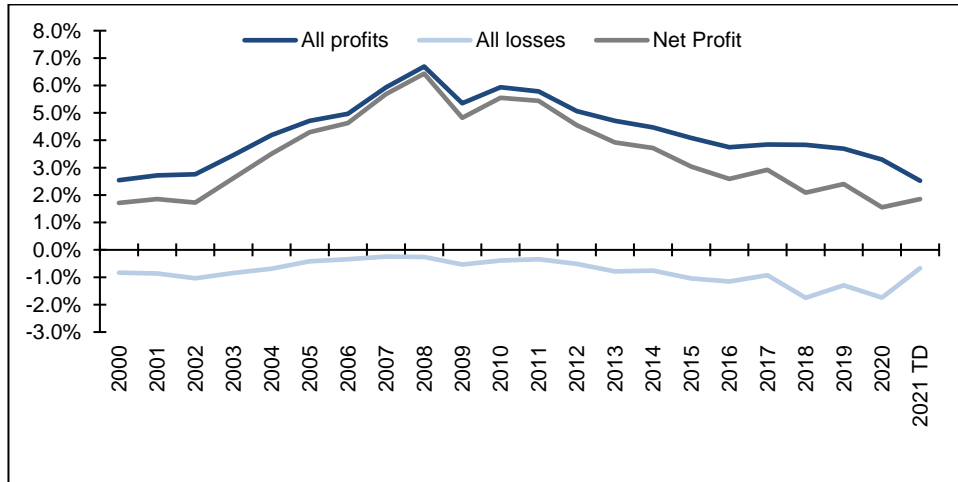
vinod.karki@icicisecurities.com
+91 22 6637 7586

Siddharth Gupta, CFA

siddharth.gupta@icicisecurities.com
+91 22 2277 7607

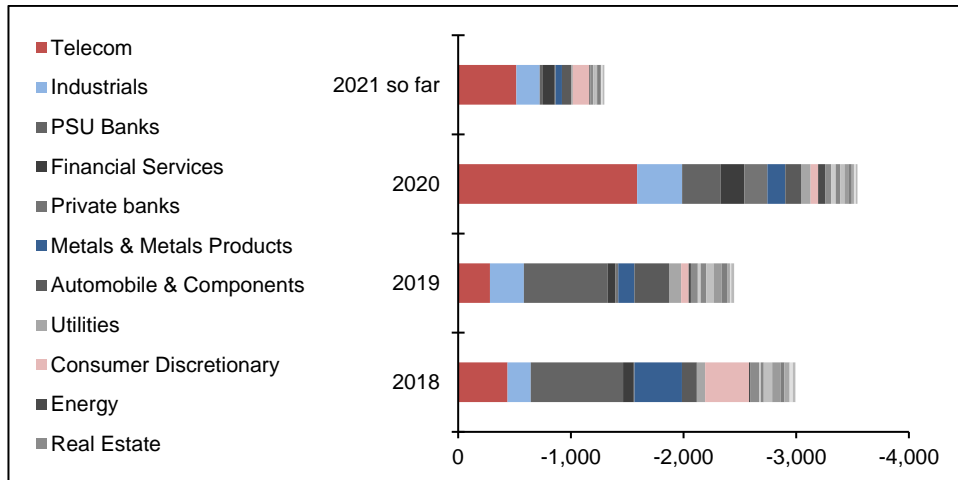
- Loss pool /GDP ballooned to a two-decade high level of ~1.8% in FY18 largely driven by cyclicals such as corporate banks, Telecom, Metals and NCLT cases. However, the loss pool has been receding since FY18 and extending into FY21 so far has reached ~0.7% of GDP which is the lowest since FY12 and will help in improving the overall PAT/GDP

Chart 1: Loss pool/GDP reducing



Source: Capitaline, I-Sec Research

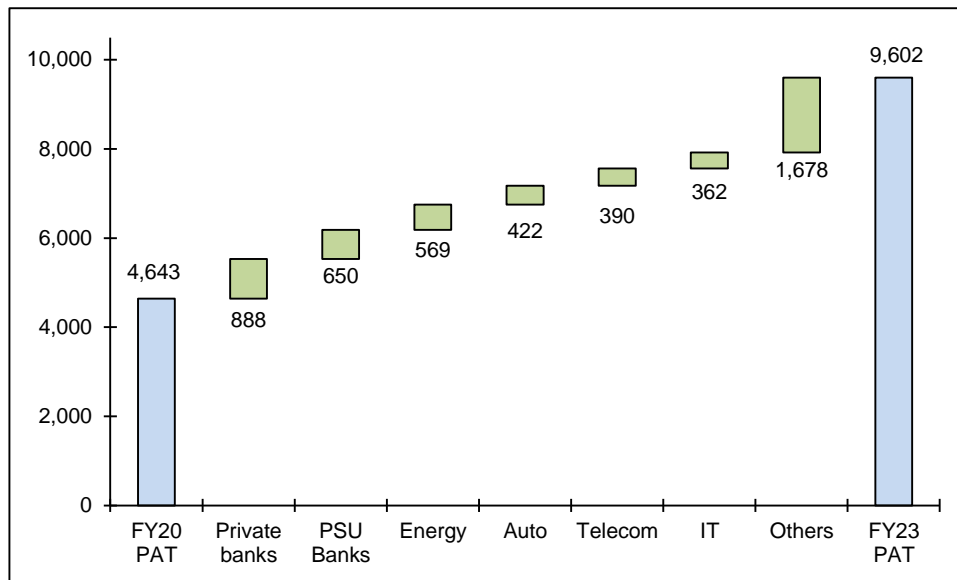
Chart 2: Sectors contributing to reduction in loss pool



Note: Q3FY21 / Dec'20 data uses data from ~1000 companies representing 78% of the total market cap
Source: Bloomberg, Capitaline, I-Sec Research

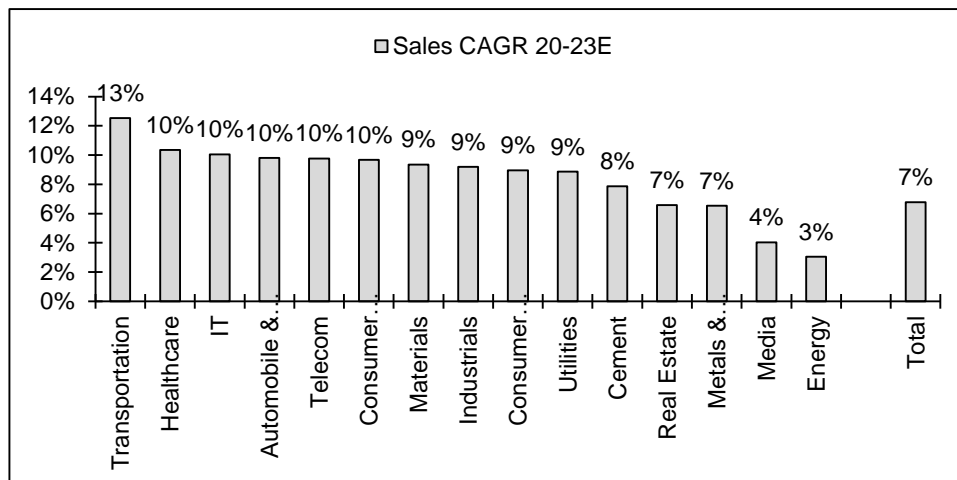
- Aggregate consensus PAT of ~360 stocks is expected to rise from 4.6 trn in FY20 to 9.6 trn (~5% of GDP) in FY23 which is a CAGR of 27 %.** Biggest swing in profits over FY20-23 is expected to be delivered by Banks, Energy, Auto and Telecom which is largely a function of normalization of depressed earnings. Sales CAGR over FY20-23 for the above set of stocks at 6.8% is marginally below nominal GDP growth rate and does not imply strong demand expectations for the corporate sector.

Chart 3: Top 360 companies' earnings growth contribution over FY20-23 (Rs bn)



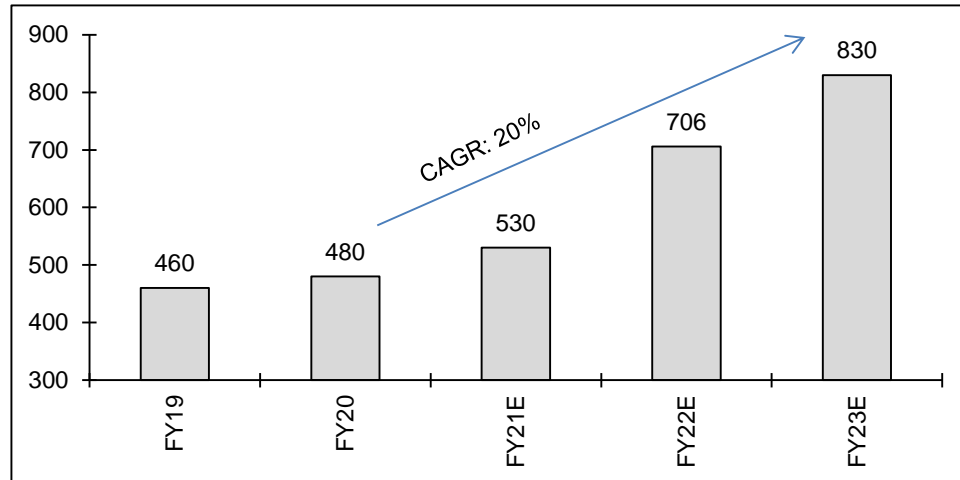
Source: Bloomberg, Capitaline, I-Sec Research

Chart 4: Sales growth expectation over 20-23E



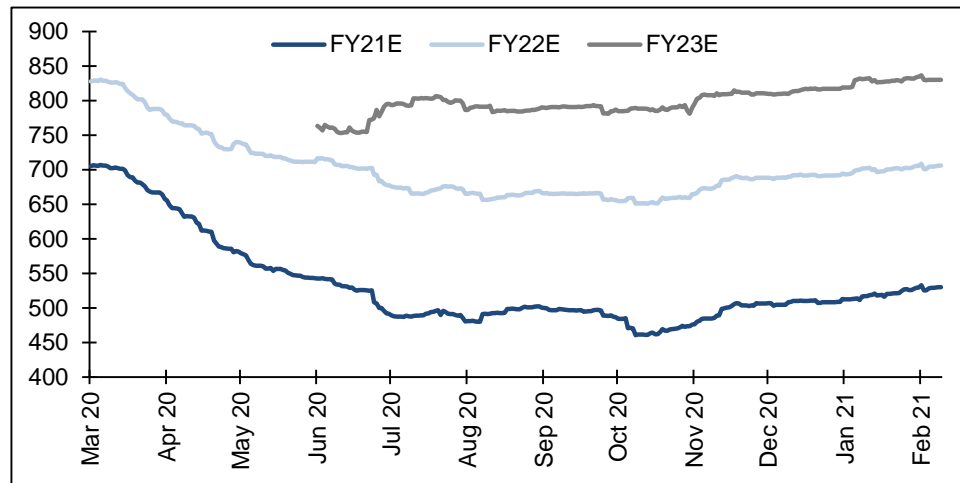
Source: Bloomberg, I-Sec Research

Chart 5: NIFTY50 EPS growth expectations and CAGR



Source: Bloomberg, I-Sec Research

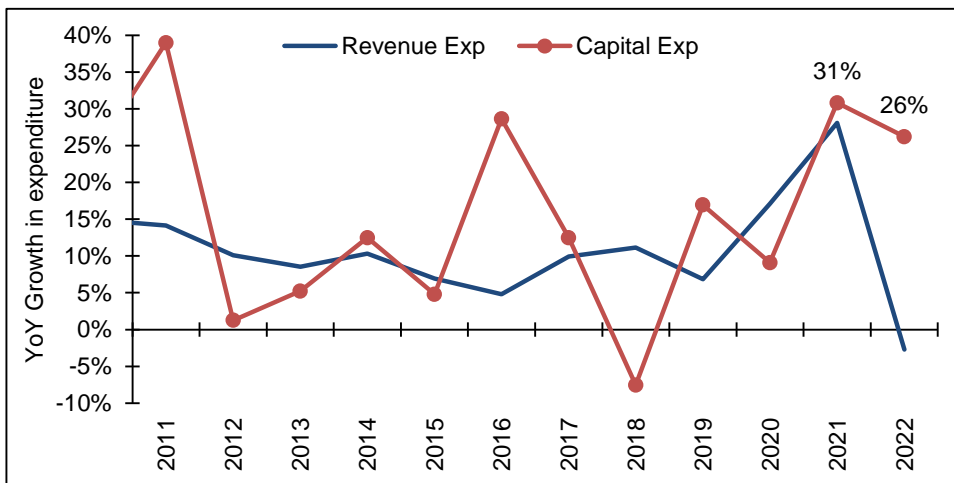
Chart 6: EPS estimates being upgraded since Oct-Nov'20



Source: Bloomberg, I-Sec Research

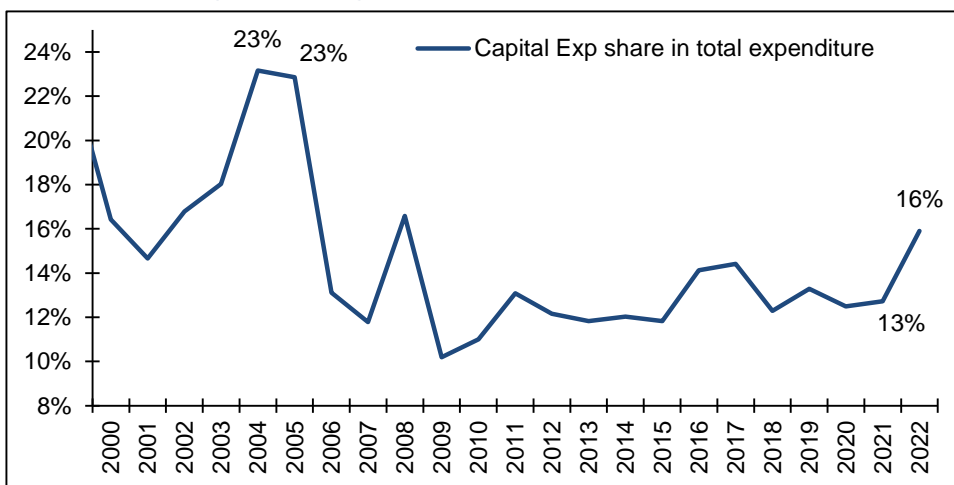
- Sustainable trajectory of PAT/GDP will depend on how the demand environment pans out. Encouragingly, aggregate demand will get a boost from a classical ‘countercyclical fiscal policy’ unveiled in **Union Budget 2022, with a focus on capital outlay which has a higher multiplier effect (3.6x) on demand and a longer impact (4-5 years)**. Progressive reforms done in the recent past and in the budget will create an enabling environment for growth.

Chart 7: Strong growth in government capex spend in FY21 and 22



Source: CEIC, I-Sec Research

Chart 8: Leading to a rising share of capex within total expenditure



Source: CEIC, I-Sec Research

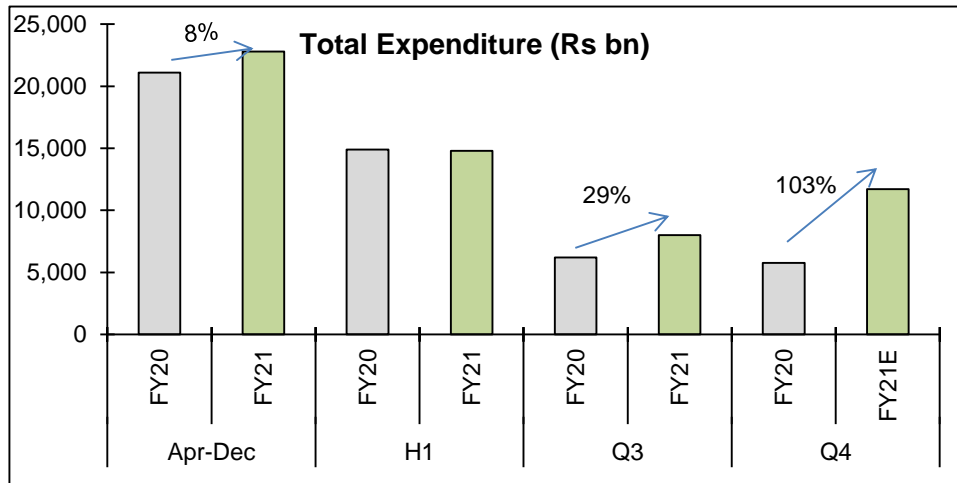
Table 1: Capital outlay has the highest multiplier

	Impact multiplier	Peak multiplier	Peak year
Centre			
Aggregate Expenditure (CAE)	0.40	0.40	1
Revenue Expenditure (CRE)	0.19	0.09	1
Capital Outlay (CCO)	0.39	0.85	4
Non-defence capital outlay (CNDCO)	2.10	3.84	3
Development Expenditure (CDE)	0.17	0.22	3
States			
Aggregate Expenditure (SAE)	1.07	1.07	1
Revenue Expenditure (SRE)	0.60	0.60	1
Capital Outlay (SCO)	2.13	7.61	3
Development Expenditure (SDE)	2.35	4.06	>5

Source: RBI Working paper: Estimating size of Government multipliers, September 2013

- **Recent spike in government spending seen in Q3FY21 will sustain** as till Dec 2020, the government has spent Rs22.8trn, implying it will spend a significantly higher Rs11.7trn in Q4FY21

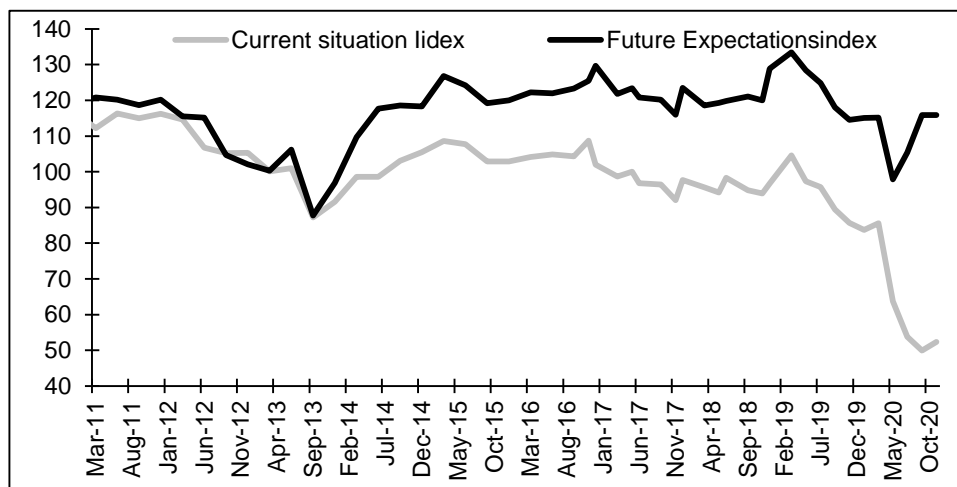
Chart 9: Q4FY21 to see continuation of higher government spends



Source: CEIC, Budget docs, I-Sec Research

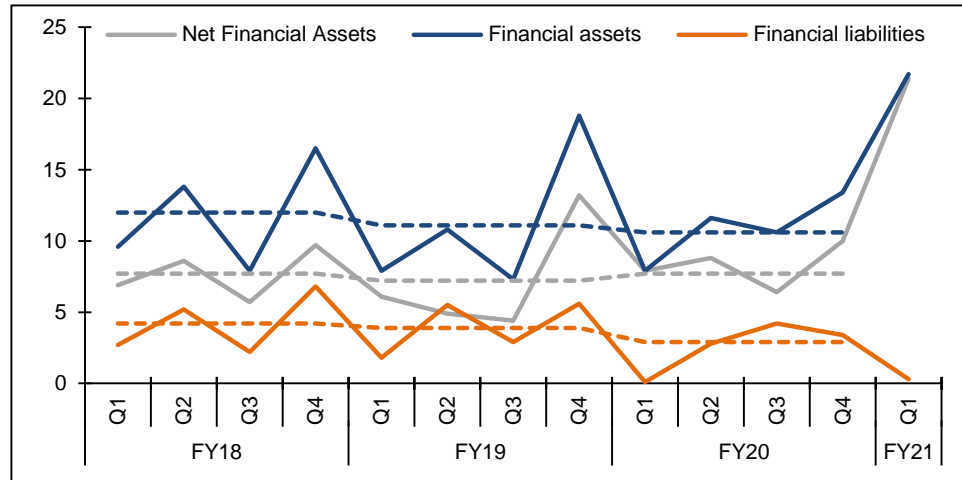
- **Private investments and Private consumption are key for revival in aggregate demand:** Desired effect of crowding-in of private sector investments due to pick up in government spending and sustained pick-up in household consumption yet to be seen.

Chart 10: Consumer confidence index



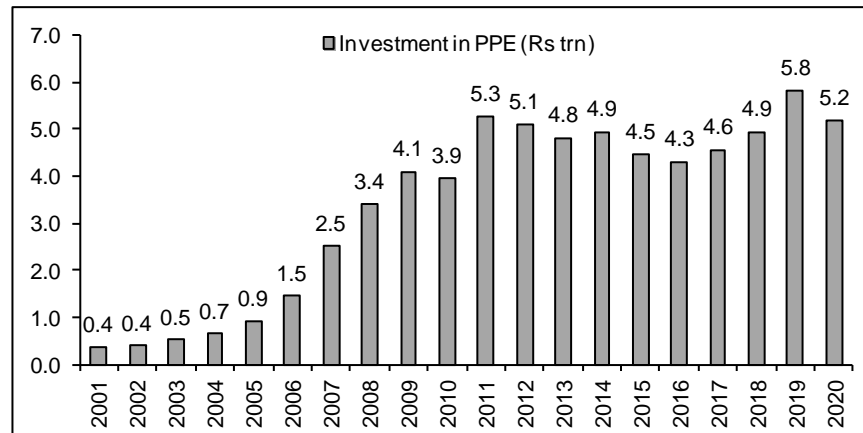
Source: CEIC, I-Sec Research

Chart 11: Households preferred savings over consumption



Source: RBI, I-Sec Research

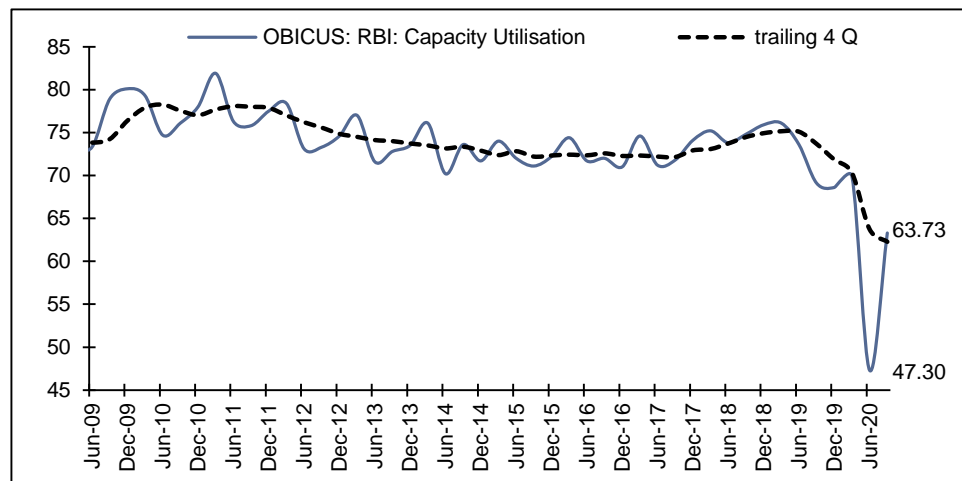
Chart 12: Private capex is stagnating



Note: For more details on capex, please refer to [our note dated 30-Sep'20](#)

Source: Capitaline, I-Sec Research

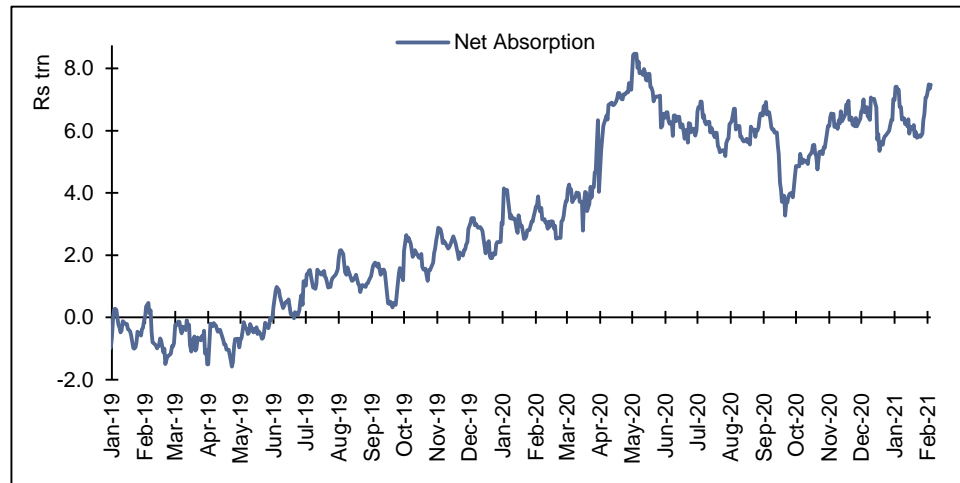
Chart 13: Capacity utilisation



Source: CEIC, I-Sec Research

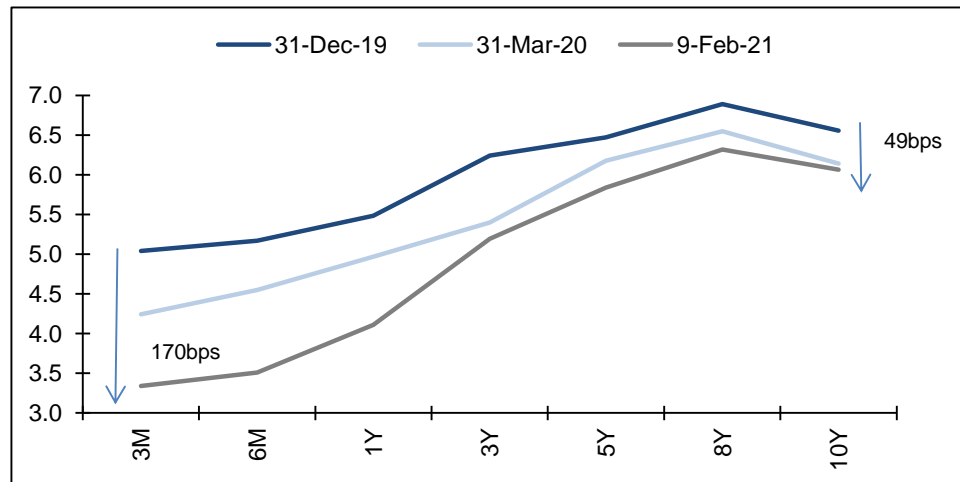
- Liquidity and interest rates expected to remain sanguine:** RBI's latest monetary policy continues with an accommodative stance while promising to manage the Rs12trn government borrowing program in a non-disruptive manner and providing ample liquidity (despite the CRR restoration to 4% by May'21). The autonomous drivers of liquidity (Government spending and foreign inflows) are largely supportive although growth in 'Cash in circulation' remains a drag. CPI (4.6% in Dec'20) has trended lower due to food prices but core inflation remains sticky at 5.65%.

Chart 14: Banking system liquidity



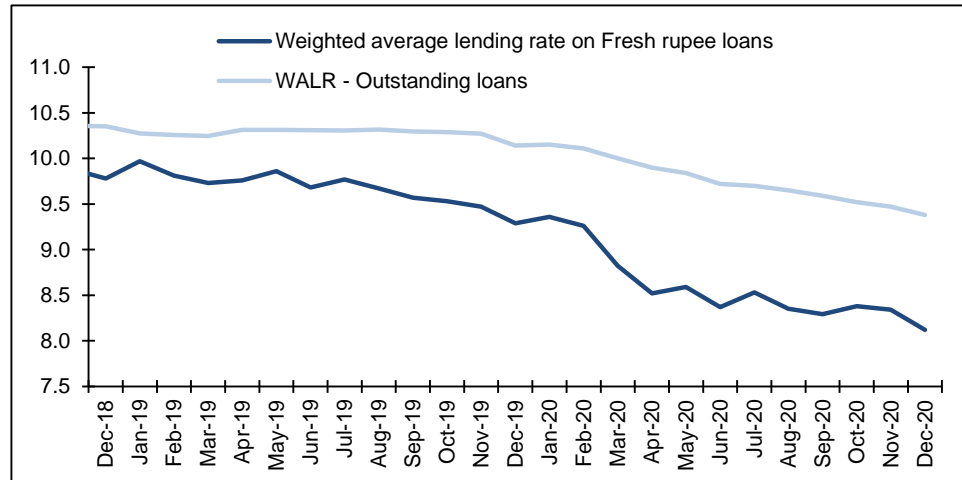
Source: CEIC, I-Sec Research

Chart 15: Lower interest rates across the yield curve, while term premia still remains steep



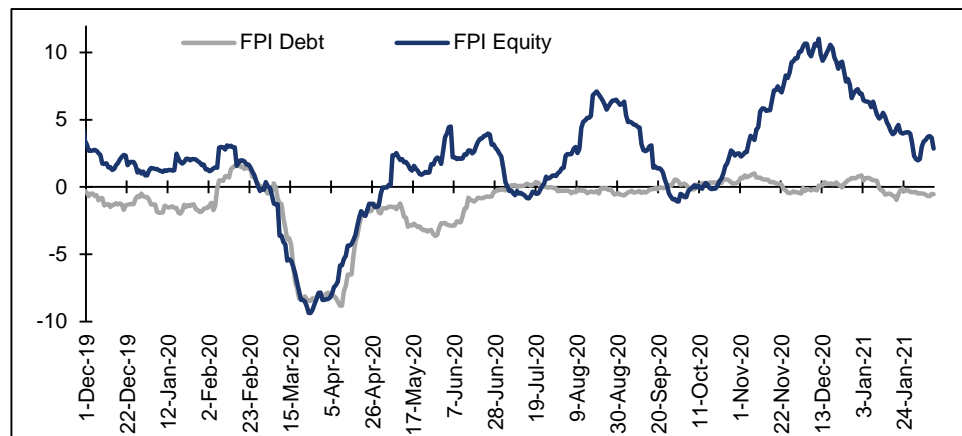
Source: Bloomberg, I-Sec Research

Chart 16: Lending rates continue to fall



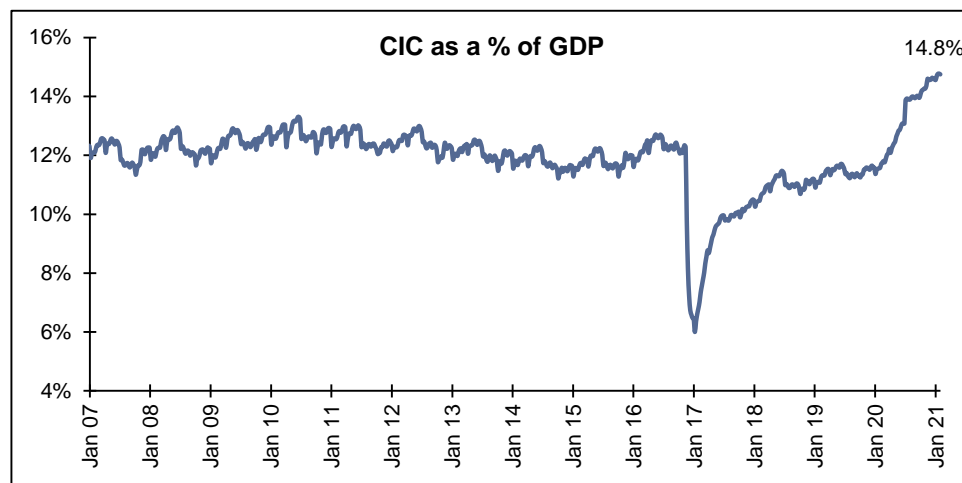
Source: RBI, I-Sec Research

Chart 17: Foreign flows and FDI have been robust



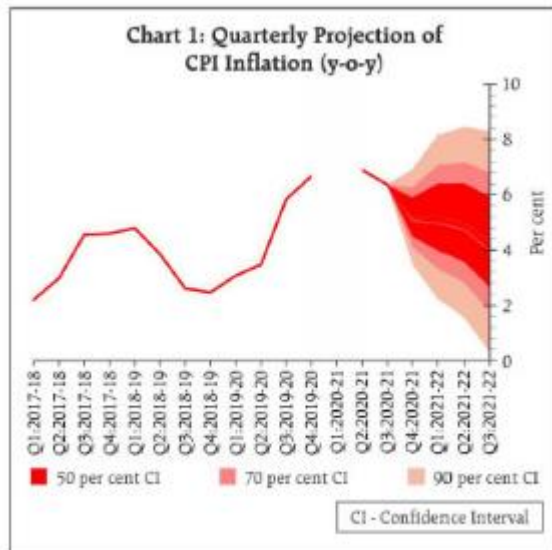
Source: Bloomberg, I-Sec Research

Chart 18: Growth in CIC is a drag on liquidity



Source: CEIC, I-Sec Research

Chart 19: RBI inflation outlook has downward trajectory



Source: RBI

- Base corporate tax cut in 2019 from 30% to 22% will also boost PAT/GDP in an improving growth environment.

Valuations

- Equity valuations are stretched at ~ 22x one year rolled forward basis but earnings upgrade cycle and low discount rate will remain supportive of the high valuations.

Chart 20: Nifty at +1SD on forward PE

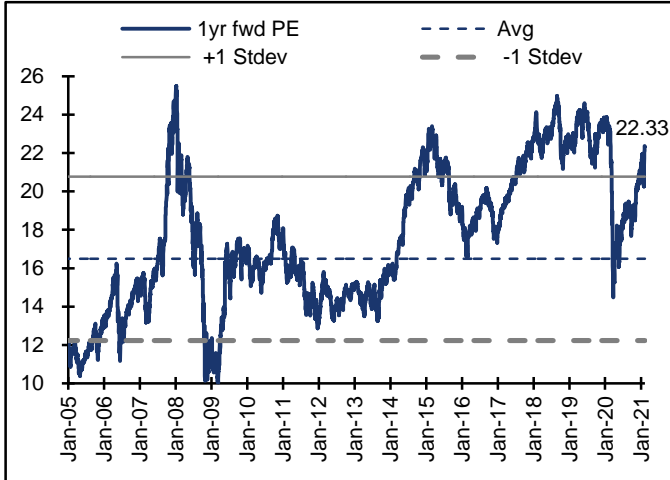


Chart 21: CAPE moved to above +1SD

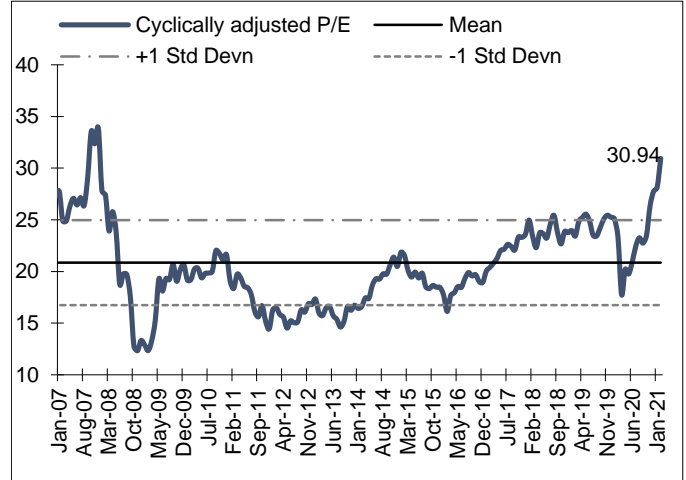


Chart 22: Nifty forward PE (ex-ante)

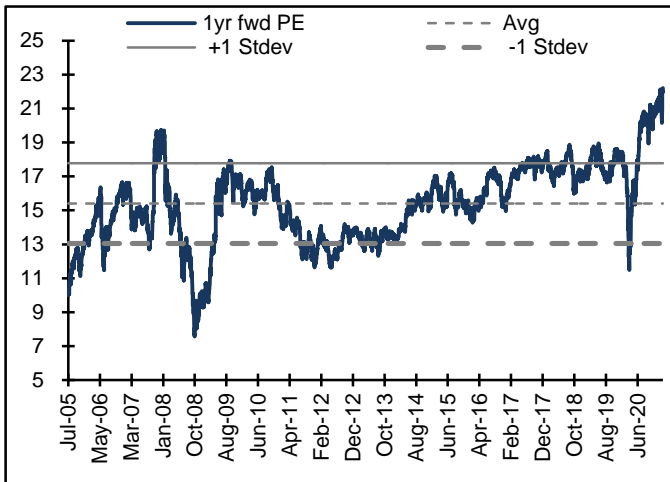


Chart 23: Nifty PB above LTA

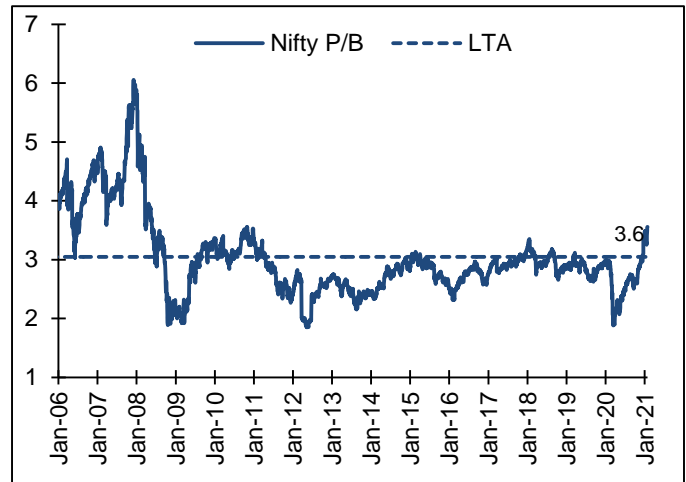
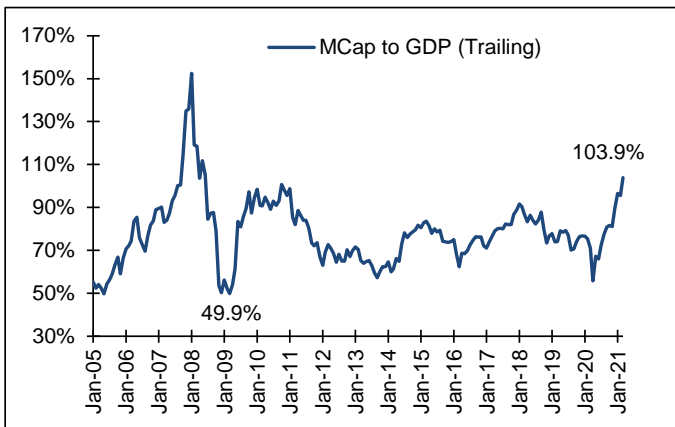
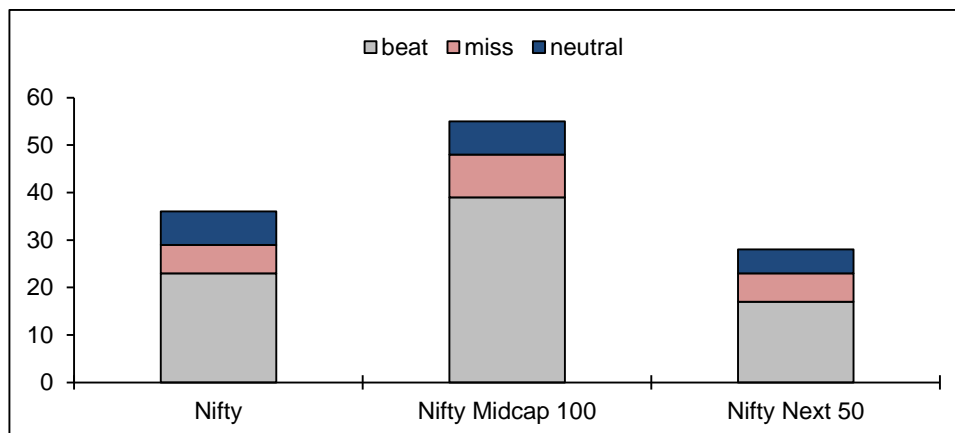


Chart 24: Market cap to GDP above LTA



Source: Bloomberg, Capitaline, I-Sec research

- **Q3FY21 is the third consecutive quarter of earnings beat:** To date, Q3FY21 is turning out to be the third quarter in a row to show more beats than misses (beat/miss ratio of 4.6 within the NIFTY200 index) indicating corporate profitability continues to be ahead of expectations, which should lead to further upgrades

Chart 25: Higher beats than misses

Source: Bloomberg, Capitaline, I-Sec Research

Table 2: Summary of results so far

	Sales	EBITDA	PAT	PAT (incl, financials)
Nifty	0%	28%	35%	8%
Next50	2%	38%	83%	100%
Midcap100	10%	37%	65%	54%
Nifty 200	1%	30%	42%	17%

Source: Bloomberg, Capitaline, I-Sec Research

Table 3: Sectoral performance in Q3 results so far

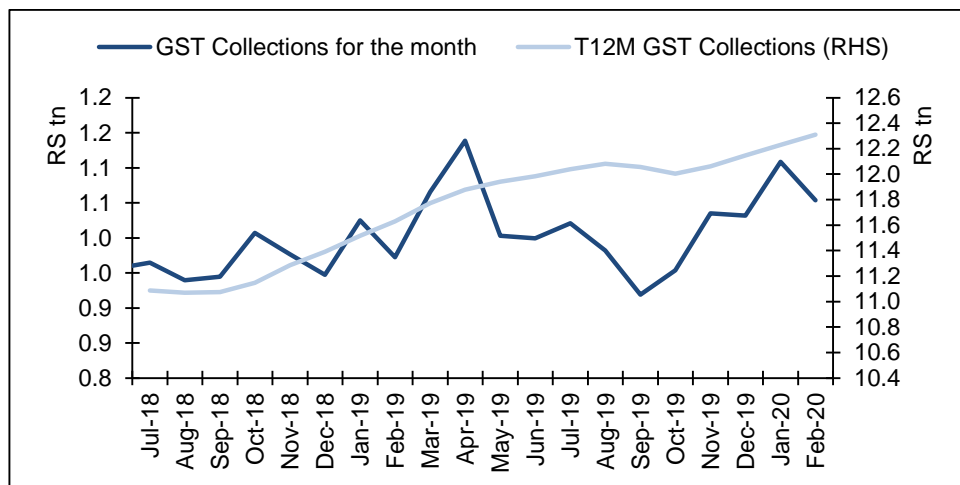
Sector	Sales	EBITDA	PAT
Agriculture	4.7%	12.3%	12.8%
Auto Ancillaries	17.4%	66.7%	95.6%
Automotives	11.7%	39.2%	39.7%
Aviation	-50.6%	-48.2%	-225.0%
Building Material	19.3%	31.4%	29.3%
Capital Goods	-3.0%	-0.5%	-2.3%
Cement	16.0%	51.9%	129.9%
Defense	4.0%	23.0%	24.9%
Discretionary	3.8%	6.1%	4.2%
FMCG	15.6%	15.8%	19.1%
Logistics	14.4%	2.2%	29.5%
Media	31.7%	21.2%	14.8%
Metals	21.2%	153.7%	629.8%
Oil & Gas	-12.0%	10.9%	32.3%
Paints	25.2%	50.3%	62.3%
Pharma	10.6%	62.2%	655.0%
Power/Mining	7.1%	12.2%	33.1%
Real Estate	10.9%	54.3%	30.8%
Speciality Chemicals	6.4%	15.7%	6.5%
Technology	7.3%	21.7%	16.2%
Telecom	27.8%	101.7%	1253.2%
NBFCs			-58.9%
Financial Services			4.5%
Banking			16.6%
Ex-financials	0.9%	30.2%	42.2%
Total	0.9%	30.2%	17.1%

Source: Bloomberg, Capitaline, I-Sec Research

- **Economic recovery continued in Jan'21**

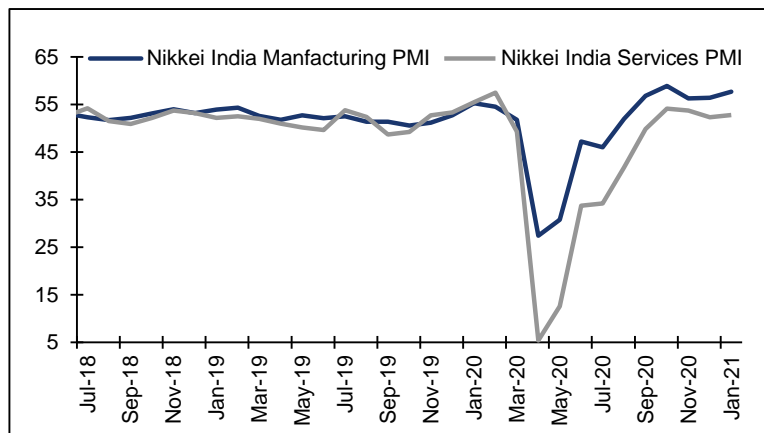
- PMI manufacturing and services continued to expand MoM at 57.7 and 52.8. Manufacturers indicated employment levels continued to be weak while input prices continued to rise.
- GST collections improved to Rs1.2trn and credit growth improved to 6.1% in Dec'20.
- Preliminary trade data indicates imports expanded by 5.37%, while exports rose by 2%.
- Auto wholesale dispatches: Post the wholesale push to capture year-end sales before sticker prices increase, Jan'21 dispatches softened due to a combination of demand slack and supply-chain issues.

Chart 26: GST Collection



Source: CEIC, I-Sec Research

Chart 27: PMI manufacturing and services continued to expand MoM



Source: CEIC, I-Sec Research

Table 4: High frequency consumption indicators

Consumption Indicator	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Personal Loan growth	12%	11%	10%	11%	11%	9%	9%	10%	9%	NA
4W growth	NA	-85.2%	-49.6%	-3.9%	14.2%	26.5%	14.2%	4.6%	13.6%	NA
2W growth	NA	-83.8%	-38.6%	-15.2%	3.0%	11.6%	16.9%	13.4%	7.4%	NA
IIP - Primary Goods	-26.6%	-19.6%	-14.5%	-10.8%	-10.7%	-1.5%	-3.2%	-2.6%	NA	NA
IIP Consumer Goods Durables	-95.7%	-70.3%	-34.8%	-23.7%	-10.2%	3.4%	18.0%	-0.7%	NA	NA
IIP Consumer Goods Non Durables	-48.1%	-9.7%	6.9%	1.8%	-3.0%	2.4%	7.1%	-0.7%	NA	NA
Petrol Consumption	-60.4%	-35.3%	-13.5%	-10.3%	-11.7%	-4.5%	4.5%	5.1%	9.3%	NA
Nikkei India Services PMI	5.40	12.60	33.70	34.20	41.80	49.80	54.10	53.70	52.30	52.80
CPI	7.22%	6.27%	6.23%	6.73%	6.69%	7.27%	7.61%	6.93%	4.59%	NA
Passenger - all airports	-99.8%	-97.5%	-85.3%	-84.1%	-78.6%	-69.5%	-62.2%	-56.5%	-50.4%	NA
Foreign tourist arrivals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer confidence index	NA	63.70	NA	53.80	NA	49.90	NA	52.30	NA	NA
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Private final consumption exp real	8.79%	7.04%	6.19%	5.50%	6.39%	6.64%	2.72%	-26.68%	-11.32%	NA

Source: CEIC, Bloomberg, I-Sec Research

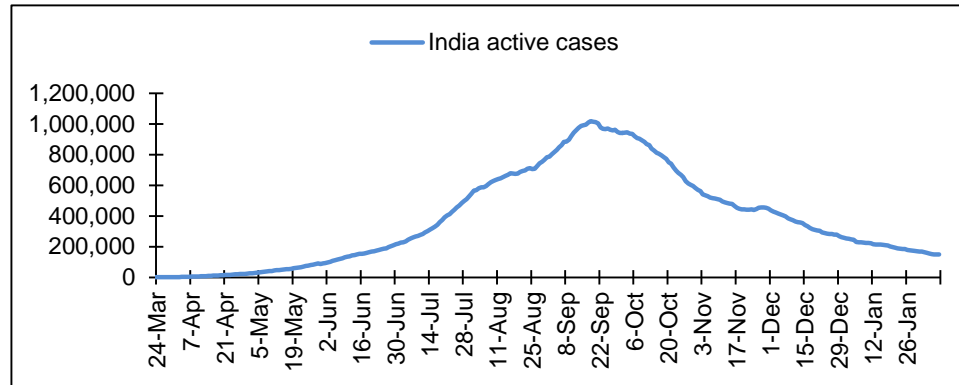
Table 5: High frequency industrial indicators

Industrial Indicator	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Overall credit growth (fortnightly)	6.8%	6.2%	6.2%	5.8%	5.5%	5.1%	5.1%	5.8%	6.0%	6.4%
Industry loan growth	1.73%	1.69%	2.25%	0.82%	0.49%	0.00%	-1.68%	-0.68%	-1.22%	NA
CV growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Thermal plant Load factor	42.17	48.00	49.88	53.09	49.13	55.45	55.54	52.93	57.02	NA
IIP growth	-57.3%	-33.4%	-16.6%	-10.5%	-7.1%	0.5%	4.2%	-1.9%	NA	NA
Core sector growth (%)	-37.86	-21.42	-12.44	-7.60	-6.90	0.56	-0.93	-1.39	NA	NA
Diesel Consumption	-55.52%	-29.40%	-15.45%	-19.45%	-20.70%	-5.87%	7.49%	-6.92%	-2.76%	NA
Power demand	-22.5%	-14.9%	-11.0%	-4.2%	-2.4%	3.8%	11.1%	3.2%	4.9%	NA
IIP Capital Goods	-92.7%	-65.9%	-37.4%	-22.8%	-14.4%	-1.3%	3.5%	-7.1%	NA	NA
Nikkei India manufacturing PMI	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7
WPI Commodity price index	-1.57%	-3.37%	-1.81%	-0.25%	0.41%	1.32%	1.31%	1.55%	1.22%	NA
Cargo - Air	-82.85%	-67.68%	-40.56%	-34.59%	-29.44%	-16.23%	-13.86%	-12.92%	-8.92%	NA
Cargo - all ports	-21.1%	-23.3%	-14.5%	-13.2%	-10.4%	-1.9%	-1.2%	2.8%	4.4%	NA
Freight traffic - railways	-40.15%	-28.13%	-11.60%	-7.68%	1.35%	17.86%	11.05%	8.41%	13.51%	NA
Import Growth (%)	-59.70%	-51.04%	-48.04%	-29.56%	-26.04%	-19.60%	-11.46%	-13.31%	7.56%	2.04%
Export growth (%)	-60.98%	-35.70%	-12.21%	-9.54%	-12.23%	5.98%	-4.68%	-8.64%	0.14%	5.38%
Trade Deficit (USD bn)	-6.92	-3.66	0.65	-4.75	-6.66	-2.74	-8.65	-9.88	-15.44	-14.75
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Capacity utilisation	74.80	75.90	76.10	73.60	69.10	68.60	69.90	47.30	NA	NA
GFCF	11.45%	11.43%	4.40%	4.57%	-3.92%	-5.16%	-6.48%	-47.08%	-7.35%	NA

Source: CEIC, Bloomberg, I-Sec Research

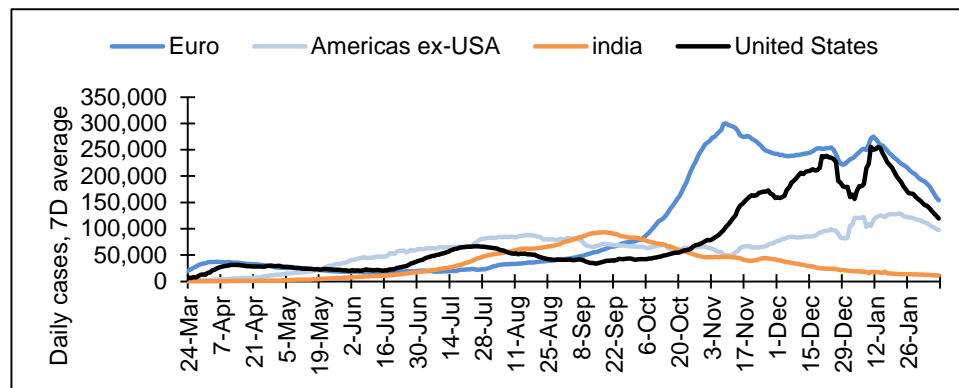
Covid-19 situation update

Chart 28: India Active cases continue to drop



Source: CEIC, MOHFW, I-Sec Research

Chart 29: Daily new cases decline globally as well

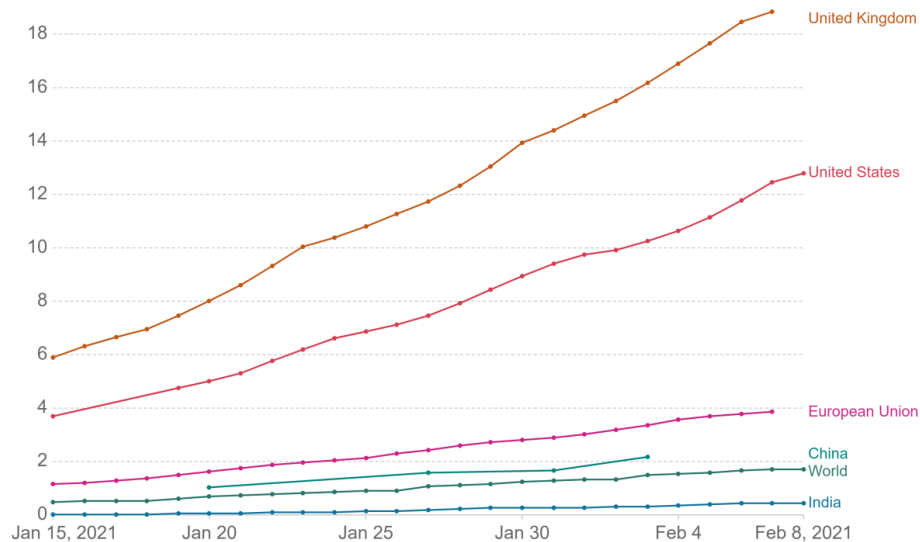


Source: CEIC, WHO, I-Sec Research

Chart 30: Vaccinations start reaching critical mass in parts of the globe

Cumulative COVID-19 vaccination doses administered per 100 people

This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).



Source: Official data collated by Our World in Data – Last updated 9 February, 09:55 (London time)

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Source: Our World in Data, I-Sec Research

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