

Strategy

'In-line' Q4 earnings so far result in EPS base expansion; valuations improve as market consolidates!

- ▶ **Q4FY21 result season is largely in-line so far with 26 neutrals, 18 beats and 23 misses. Sales, EBITDA and PAT yoy growth of 15%, 16% and 18% (53% including financials), respectively for NSE 200 universe on a free-float basis.**
- ▶ **Macro cues from Q4 so far – exports (IT, auto), GFCF (cement, metals) and PFCE (staples) are resilient, while PFCE (discretionary consumption) is lagging.**
- ▶ **Health crisis has not spilled over into a wide-spread financial crisis yet as indicated by low spreads in bond markets, absence of large GNPA shocks in financial system and improving government finances.**
- ▶ **Cost pressures rising across the board (WPI inflation at 7.4% in Mar'21) but the ability to mitigate by cost rationalisation, product mix and to pass on the cost is visible.**
- ▶ **Second wave covid impact so far:** High frequency indicators in April'21 were mixed with exports sector, PMI-manufacturing and GST collections being robust, but weak mobility data and auto sales.

Outlook: Expanding earnings base and consolidating index is improving the 'time value of money' ([Link to earlier note](#)) as valuations scale down from record levels. Trajectory of covid cases will be a key trigger for the market as India has underperformed global equities since March'21.

Macro cues from Q4: exports and GFCF are positive while consumption is mixed:

- Exports growth is positive and ranges from stable growth for software (2-3% QoQ, CC) to strong revival for auto as global demand improves. Extending the trend from Q4 results, merchandise exports for April rose sharply to US\$30bn.
- GFCF (gross fixed capital formation) is less impacted as cement and metal volumes are strong (>15-20% YoY), indicating construction and manufacturing activities are robust, which is further corroborated by robust core sector growth for March'21 (6.8% yoy) driven largely by steel (23% YoY), cement (32.5% YoY) and electricity production (21.6%).
- PMI-manufacturing (55.5) and GST collections (Rs1.41tn) continued to be robust even in covid impacted month of April'21.
- PFCE (private final consumption expenditure) is subdued as discretionary consumption (PVs, leisure, retail, travel & entertainment) continues to be impacted severely by the second wave although demand for staples remain robust.
- Digital channels and formal sector continue to gain market share as unorganised sector has been impacted the most.

Health crisis has not spilled over into a financial crisis yet as indicated by low spreads, absence of large GNPA shocks in banking system and improving government finances.

- No major sign of stress within large banks and NBFCs so far which is reflected in record low spread of corporate bonds over government bond yield which is also being helped by the accommodative stance of RBI.
- Government fiscal deficit position continues to surprise positively **with GST collections showing sustained improvement**

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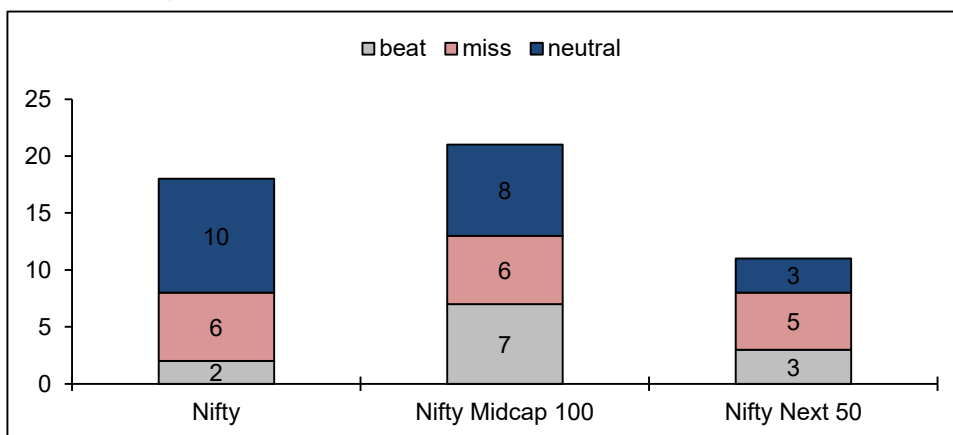
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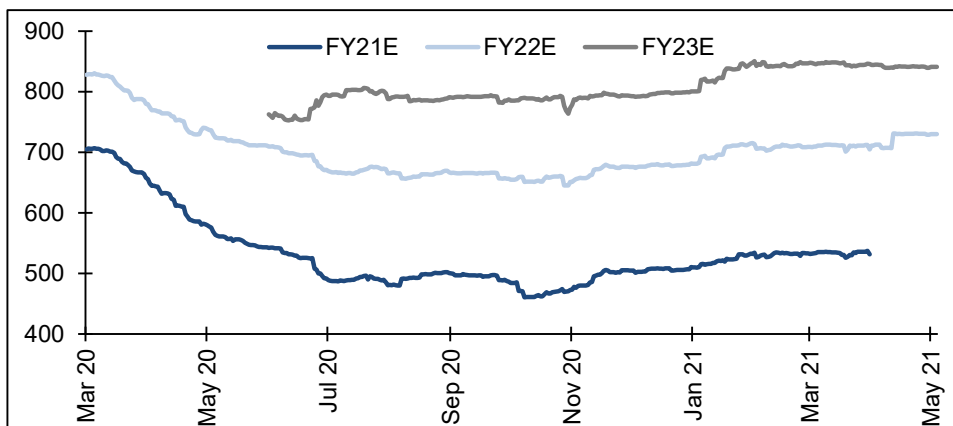
In-line Q4 earnings so far result in EPS base expansion

Chart 1: Nifty200 beats / misses so far



Source: Capitaline, Bloomberg, I-Sec research

Chart 2: Nifty EPS continues to see upgrades



Source: Capitaline, Bloomberg, I-Sec research

Table 1: NSE 200 summary results so far

(Free float, Rs bn)

	Sales			EBITDA			PAT			PAT (incl. financials)		
	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY
Nifty	1,399	1,582	13%	258	292	13%	163	184	13%	227	333	47%
Next50	75	88	18%	19	25	35%	8	13	59%	-6	0	-106%
Midcap100	100	124	24%	18	25	40%	8	14	73%	13	24	77%
Nifty 200	1,574	1,794	14%	294	342	16%	179	211	18%	234	357	53%

Source: Capitaline, I-Sec Research

Table 2: Macro cues from Q4 so far – exports (IT, auto), GFCF (cement, metals) and PFCE (staples) are positive, while PFCE (discretionary consumption) is lagging. No signs of a financial crisis

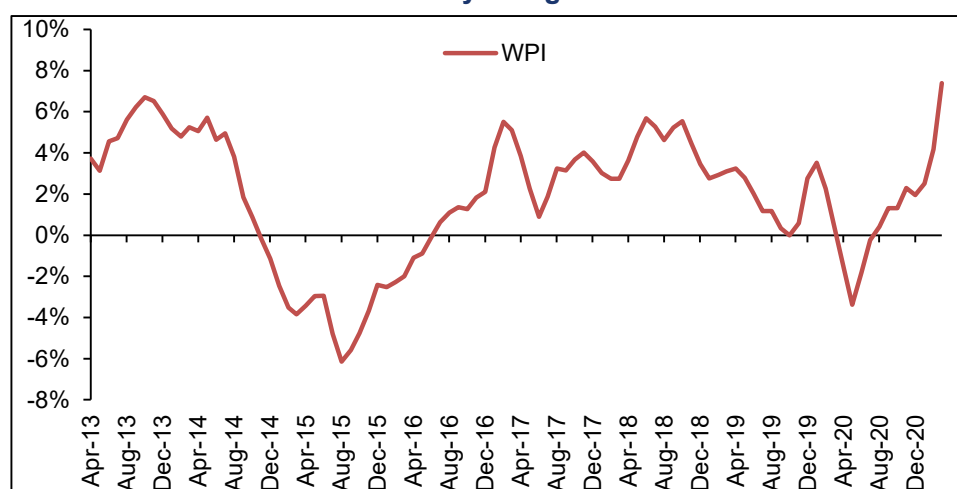
(Free float, Rs bn)

Sector	Sales			EBITDA			PAT			Earnings vs consensus		
	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	beat	neutral	Miss
Agriculture	12	12	-0.5%	2	1	-31.3%	1	1	-33.5%	0	0	1
Auto Ancillaries	19	25	31.3%	2	3	52.4%	1	2	29.5%	1	0	0
Automotives	128	170	32.9%	15	19	29.0%	12	12	2.4%	1	1	1
Cement	49	62	25.5%	9	14	51.2%	4	9	142.9%	3	0	0
Discretionary	43	56	31.1%	7	8	20.1%	3	4	35.9%	0	3	3
FMCG	67	83	24.5%	14	19	29.7%	10	13	27.3%	1	2	1
Metals	3	4	58.2%	1	2	97.3%	1	1	85.3%	0	1	0
Oil & Gas	715	793	11.0%	113	120	6.0%	54	64	17.1%	0	0	1
Pharma	19	24	28.1%	5	8	66.4%	2	4	81.6%	3	2	0
Technology	502	547	8.9%	118	138	17.2%	87	97	11.4%	0	5	2
Telecom	19	19	2.9%	9	10	19.6%	3	4	38.3%	1	0	0
NBFCs	21	23	11.0%	16	18	11.5%	3	6	132.3%	0	1	1
Financial Services	116	125	8.3%	28	25	-13.1%	11	19	74.9%	1	3	5
Banking	302	343	13.3%	251	295	17.4%	41	120	191.2%	1	3	3
Ex-financials	1,574	1,794	14.0%	294	342	16.4%	179	211	18.2%	10	14	9
Total	2,013	2,286	13.6%	590	680	15.3%	234	357	52.7%	12	21	18

Source: Capitaline, Bloomberg, I-Sec Research

Cost pressures are rising across the board but the ability to mitigate by cost rationalisation and to pass on the cost is visible

Chart 3: WPI has been consistently rising

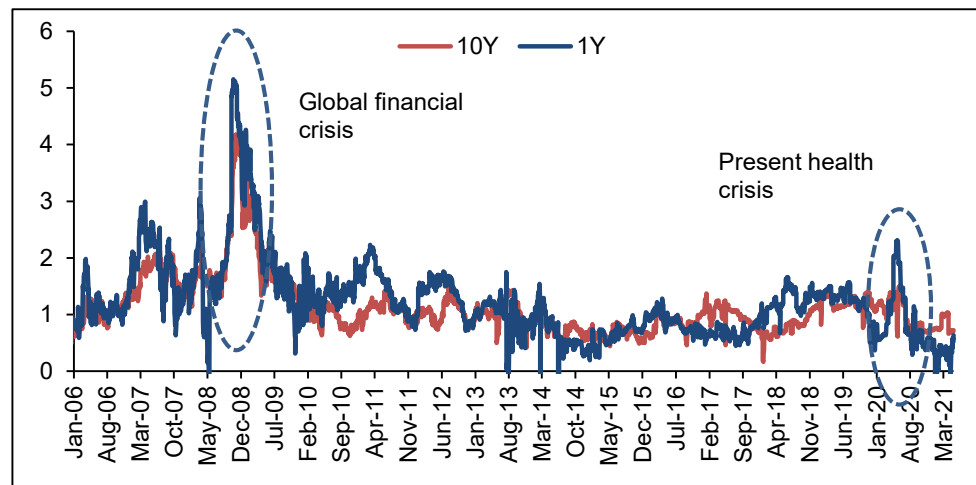


Source: CEIC, I-Sec research

Health crisis has not spilled over into a financial crisis yet as indicated by low spreads, absence of large GNPA shocks in banking system and improving government finances

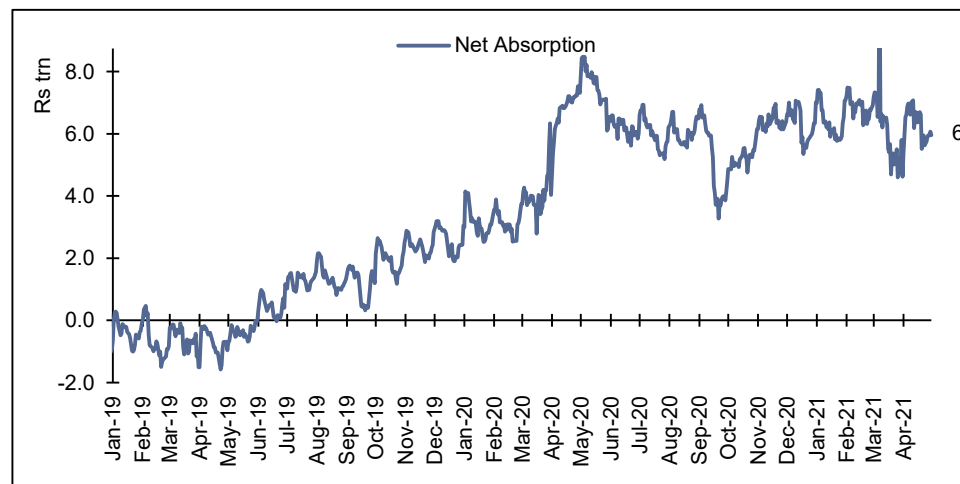
No major sign of stress within large banks and NBFCs so far which is reflected in record low spread of corporate bonds over government bond yield which is also being helped by the accommodative stance of RBI.

Chart 4: AAA Corporate bond yield spread over government bonds



Source: FIMMDA, Bloomberg, I-Sec research

Chart 5: Banking system liquidity stays high at Rs6trn



Source: CEIC, I-Sec research

Government fiscal deficit position continues to surprise positively with GST collections showing sustained improvement

Second wave covid impact so far

High frequency indicators in April'21 were mixed with Exports sector, PMI-manufacturing and GST collections being robust, but weak mobility data and auto sales

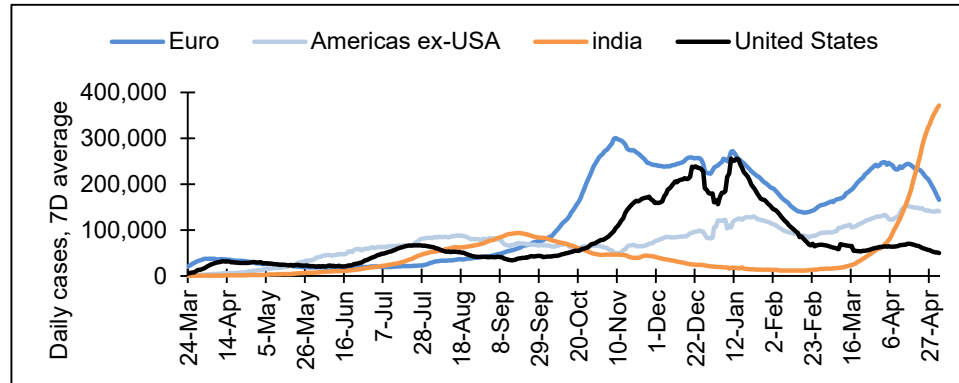
Table 3: India high frequency data robust for Mar-Apr'21

Consumption Indicator	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Personal Loan growth	9%	10%	9%	9%	10%	10%	NA
4W growth	14.2%	4.6%	13.6%	11.1%	17.9%	115.2%	NA
2W growth	16.9%	13.4%	7.4%	6.6%	10.2%	72.7%	NA
IIP - Primary Goods.	-3.1%	-1.8%	-0.1%	0.7%	-5.1%	NA	NA
IIP Consumer Goods Durables	18.1%	-3.2%	5.7%	-0.2%	6.3%	NA	NA
IIP Consumer Goods Non Durables	7.3%	-0.7%	0.5%	-5.4%	-3.8%	NA	NA
Petrol Consumption	4.5%	5.1%	9.4%	6.3%	-1.9%	27.1%	NA
Nikkei India Services PMI	54.10	53.70	52.30	52.80	55.30	54.60	NA
CPI	7.61%	6.93%	4.59%	4.06%	5.03%	5.52%	NA
Passenger - all airports	-62.2%	-56.5%	-50.4%	-46.6%	-42.9%	NA	NA
Foreign tourist arrivals	NA	NA	NA	NA	NA	NA	NA
GST Collections	10.2%	1.4%	11.6%	8.1%	7.4%	27.0%	NA
Consumer confidence index	NA	52.30	NA	55.50	NA	53.10	NA
	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Private final consumption exp real	7.55%	6.50%	6.42%	1.98%	-26.34%	-11.31%	-2.37%
Industrial Indicator	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Overall credit growth (fortnightly)	5.1%	5.8%	6.0%	7.0%	6.6%	5.6%	6.0%
Industry loan growth	-1.68%	-0.68%	-1.22%	-1.28%	-0.24%	0.44%	NA
CV growth	NA	NA	NA	NA	NA	NA	NA
Thermal plant Load factor	55.54	52.93	57.02	61.10	63.32	66.52	NA
IIP growth	4.5%	-1.6%	1.6%	-0.9%	-3.6%	NA	NA
Core sector growth (%)	-0.52	-1.13	0.24	0.94	-4.60	NA	NA
Diesel Consumption	7.47%	-6.94%	-2.70%	-1.88%	-8.38%	27.82%	NA
Power demand	11.1%	3.2%	4.5%	4.5%	-0.4%	22.8%	NA
IIP Capital Goods	3.2%	-7.5%	1.5%	-9.0%	-4.2%	NA	NA
Nikkei India manufacturing PMI	58.9	56.3	56.4	57.7	57.5	55.4	55.5
WPI Commodity price index	1.31%	2.29%	1.95%	2.51%	4.17%	7.39%	NA
Cargo - Air	-13.86%	-12.92%	-8.92%	-11.00%	-8.55%	NA	NA
Cargo - all ports	-1.2%	2.8%	4.4%	4.0%	1.9%	NA	NA
Freight traffic - railways	11.05%	8.41%	13.51%	11.09%	7.77%	33.04%	NA
Import Growth (%)	-10.46%	-12.31%	8.33%	2.04%	6.96%	53.73%	165.94%
Export growth (%)	-4.90%	-8.45%	0.46%	6.17%	0.67%	60.31%	197.05%
Trade Deficit (USD bn)	-9.09	-10.21	-15.67	-14.54	-12.62	-13.93	-15.24
GST Collections (Rs bn)	1,052	1,050	1,152	1,198	1,131	1,239	1,414
Industrial Indicator	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Capacity utilisation	73.60	69.10	68.60	69.90	47.30	63.30	66.60
GFCF	13.26%	3.90%	2.43%	2.54%	-46.44%	-6.77%	2.56%

Source: CEIC, Bloomberg, I-sec Research

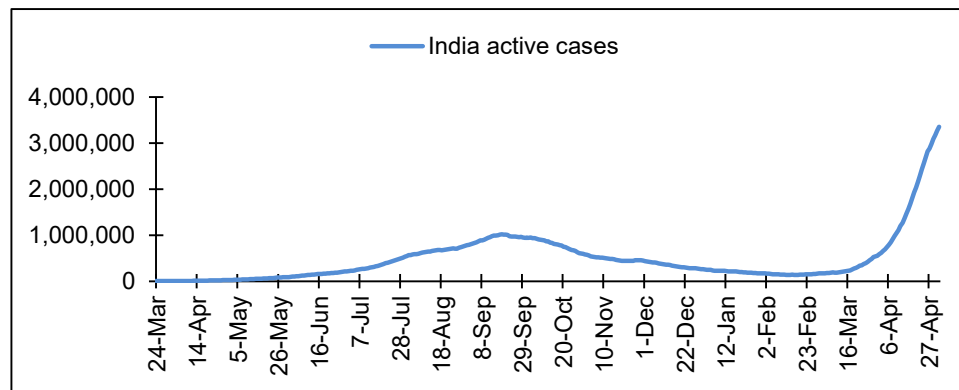
Rising Covid cases

Chart 6: New cases continue to show an uptrend in India



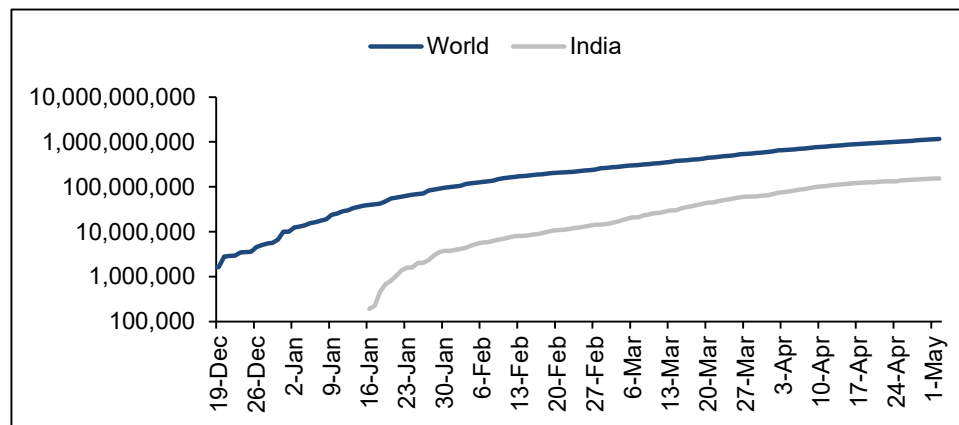
Source: CEIC, WHO, I-Sec research

Chart 7: India active cases now exceeds the previous peak



Source: CEIC, WHO, I-Sec research

Chart 8: Availability and improving pace of vaccination provides confidence



Source: Our World in data, I-Sec research

Outlook

Expanding earnings base and consolidating index is improving the 'time value of money' as valuations scale down from record levels. Flattening of covid cases will be a key trigger for the market as India has underperformed global equities since March'21.

Chart 9: Nifty at +1SD on forward PE

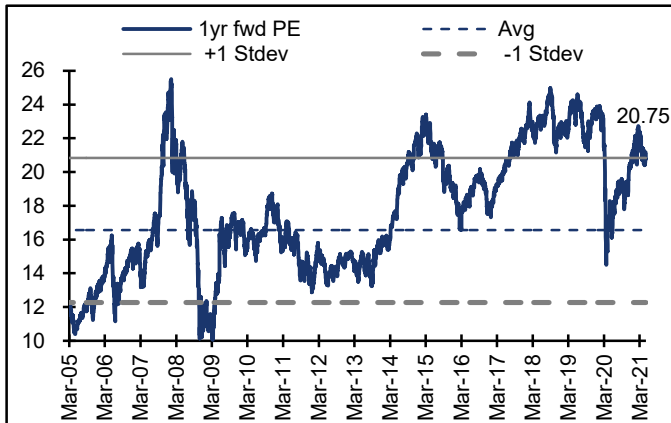


Chart 10: CAPE moved to above +2SD

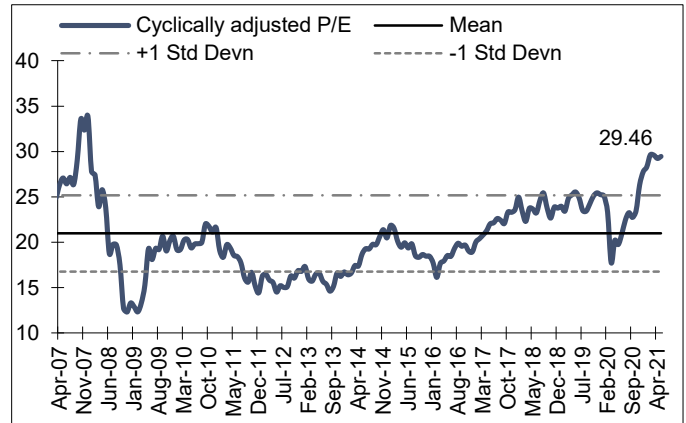


Chart 11: Nifty forward PE (ex-ante)

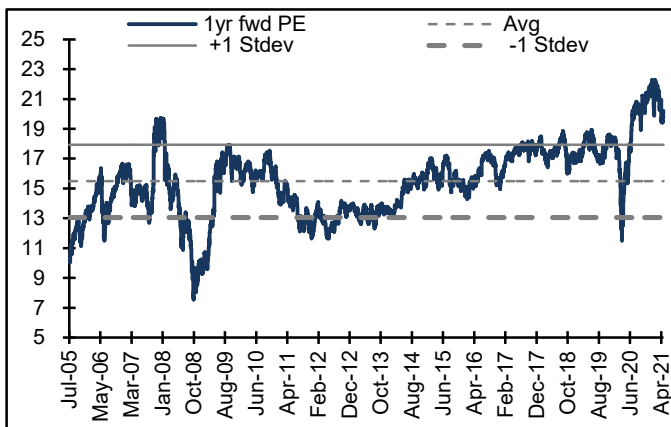


Chart 12: Nifty PB above LTA

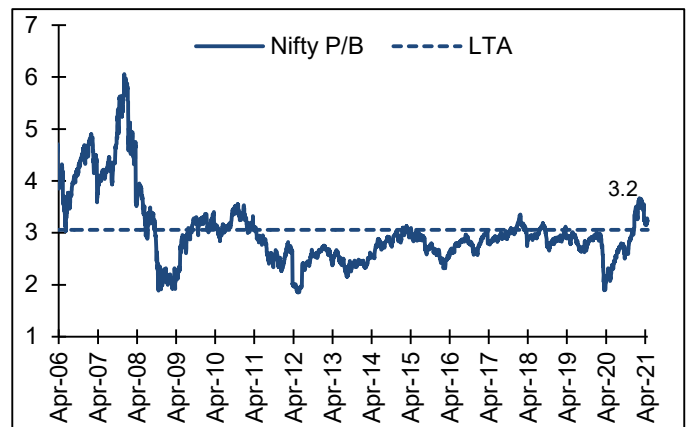


Chart 13: Market cap to GDP above LTA, reflects low trailing GDP

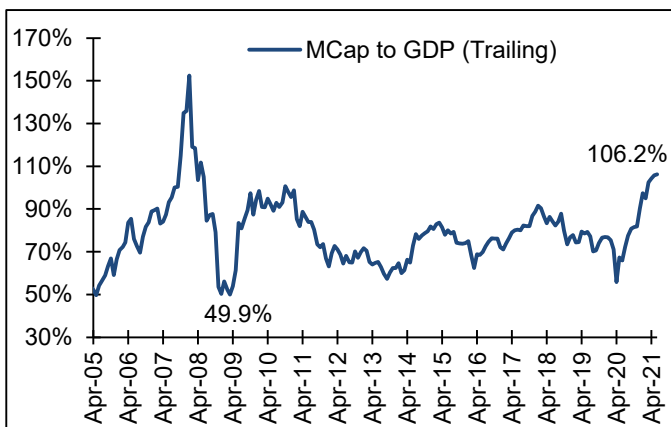
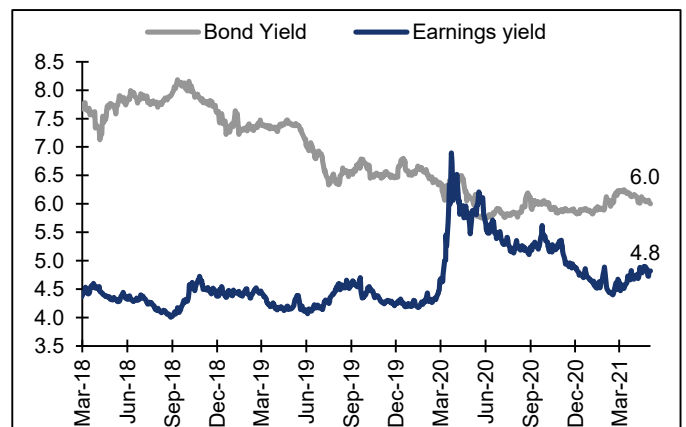


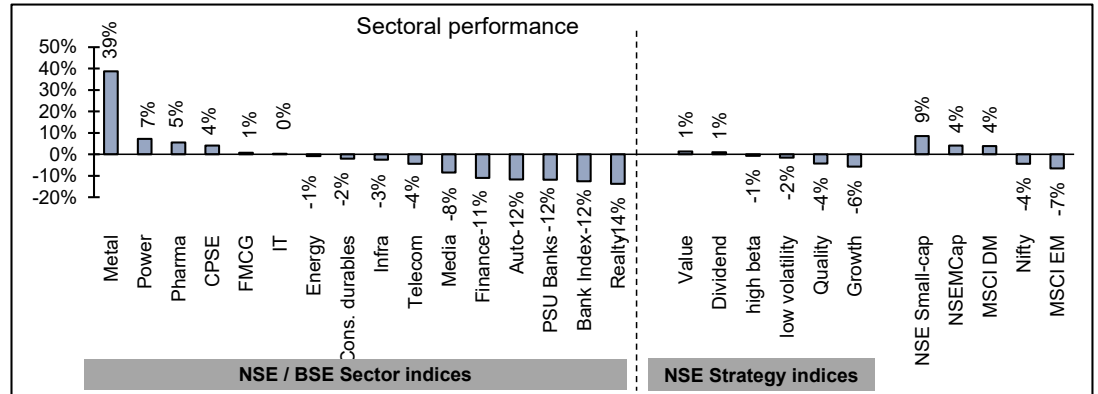
Chart 14: Bond and earnings yield start converging; at 120bps



Source: Bloomberg, Capitaline, I-Sec research

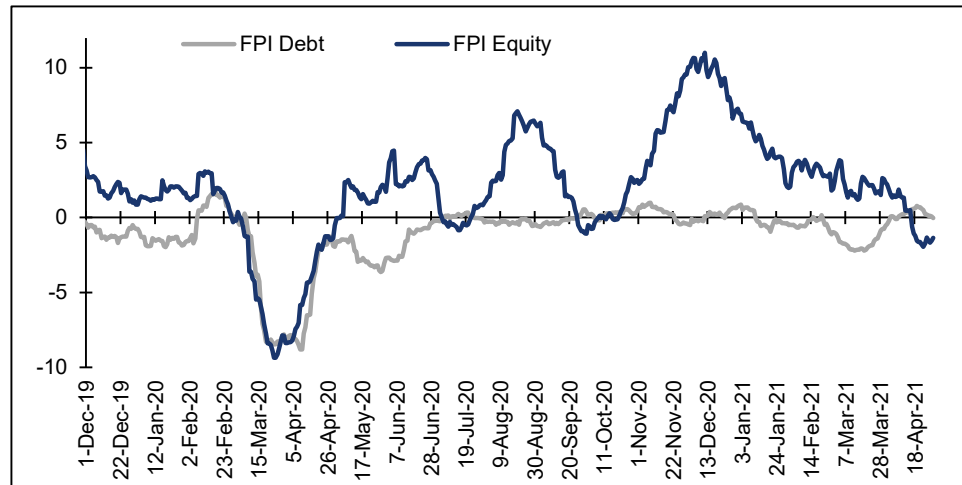
Chart 15: Nifty Value 20 index outperformed other style indices in this consolidation phase

Sectoral performance since 16-Feb'21



Source: Bloomberg, I-Sec research

Chart 16: Foreign equity trailing 30D flows dip below US\$1bn



Source: Bloomberg, I-Sec research

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