

## Strategy

**FY21 listed space PAT/GDP rises to four year high of 2.6% driven by cyclicals and strong Q4FY21 earnings so far!**

- ▶ **‘Look through earnings’ of NSE 200 index portfolio more than doubled (107% yoy) in Q4FY21 so far largely driven by cyclicals.** Our earlier note ([Link](#)) articulated that this trend will continue over FY21-23 as bulk of the look through earnings contribution for NIFTY50 portfolio would be from cyclicals.
- ▶ **PAT to GDP for listed space rises to four year high of 2.6% largely driven by reduction in loss pool and depressed earnings.** Significant contribution to earnings pool trajectory by cyclicals will boost ‘PAT to GDP’ further over FY21-23 as NIFTY50 earnings growth will outpace nominal GDP growth.
- ▶ **Earnings outlook resilient:** Despite the severe health impact of second covid wave, NIFTY50 FY22 EPS outlook has remained resilient at ~730 so far indicating expectations of limited impact to headline benchmark index earnings. This is in contrast to FY22 GDP downgrades seen so far by various agencies. Q4FY21 results are largely in-line so far with mostly neutral results and beats/misses evenly balanced.
- ▶ **Micros to macros:** We believe the key reason for resilient headline index earnings outlook compared to GDP is that much of the economic impact has been in the unorganised sector and largely limited to economic activities like leisure, travel and retail which have relatively lower earnings weight in the headline NIFTY50 index. ‘Spillover effect’ of the above mentioned impacted sectors via GNPA’s is also limited to ex-NIFTY50 financial intermediaries while large financials in the index have managed to insulate themselves and have reported robust performance. Impact on investment and manufacturing side of the economy is limited to the shortage of migrant labourers and supply chain disruptions which have been much lower than during the first wave. Across the board, input cost pressure has not dented earnings outlook indicating the ability to rationalize and pass on cost which is corroborated by elevated WPI at 7.6% over Feb-Apr’21 (indicator of pricing power for manufacturers).
- ▶ Earnings downgrade for FY22 in our coverage universe corroborates the above with **downgrades primarily from;**
  - Discretionary consumption (NIFTY50: Maruti, Titan, RIL- retail; Ex- NIFTY50: Avenue Supermarts, Pidilite, Trent, Westlife, INOX Leisure)
  - Ex-NIFTY50 financials (Yes Bank, Bandhan Bank, M&M Financial services)
  - Key industrial stocks witnessing downgrades include Larsen & Toubro, Voltas, KEC International.
  - **FY22 earnings upgrades:** Capex related (cement, steel, building material and partly paints), large private banks and exports stocks (auto, IT) have contributed to earnings upgrades so far.
- ▶ **High frequency indicators showing impact on consumption demand; some of which could lead to pent-up demand later in the year:** Impact of the second covid wave is showing up on high frequency indicators such as mobility, E-way bills and Auto sales. On the flip side, positive surprise includes robust PMI for both services and manufacturing, strong exports data and high GST collections.
- ▶ **Covid status:** Currently, the second wave in India appears to have peaked out at a daily infection rate of 0.4mn and is now showing signs of slowing down. While vaccine coverage has reached 143mn (at least one dose), we believe, natural immunity through infections could be much higher than the official recovery cases of 21mn. However, even if we assume actual infections and recovery are 10x of the official tests, the total number of vaccinated people and those with natural immunity due to infections are nowhere close to the herd-immunity (353mn = 143 + 21x10) with the assumption that the above two sets are mutually exclusive.
- ▶ **Forward P/E valuations climb down from +1 s.d. levels due to ‘time value of money’ from rolling forward earnings base and market consolidation since Feb’21.** Credibility of rolled forward earnings has improved significantly over the past one year given the consistent beats / in-line results. P/B is closer to LTA.
- ▶ **Institutional flows** on a 30-day cumulative rolling basis indicate FPI selling is stagnating at US\$1.9bn while DII inflows are showing improving trend to reach US\$1.7bn

### Research Analysts:

**Vinod Karki**

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

**Siddharth Gupta, CFA**

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

## 'Look through earnings' of NSE 200 index portfolio more than doubled (107% yoy) in Q4FY21 so far driven by cyclicals

Our earlier note (Link) articulated that this trend will continue over FY21-23 as bulk of the look through earnings contribution for NIFTY50 portfolio would be from cyclicals.

**Table 1: 'Look through earnings' of NSE 200 index portfolio increased by ~107% in Q4FY21 so far**

(Free float, Rs bn)

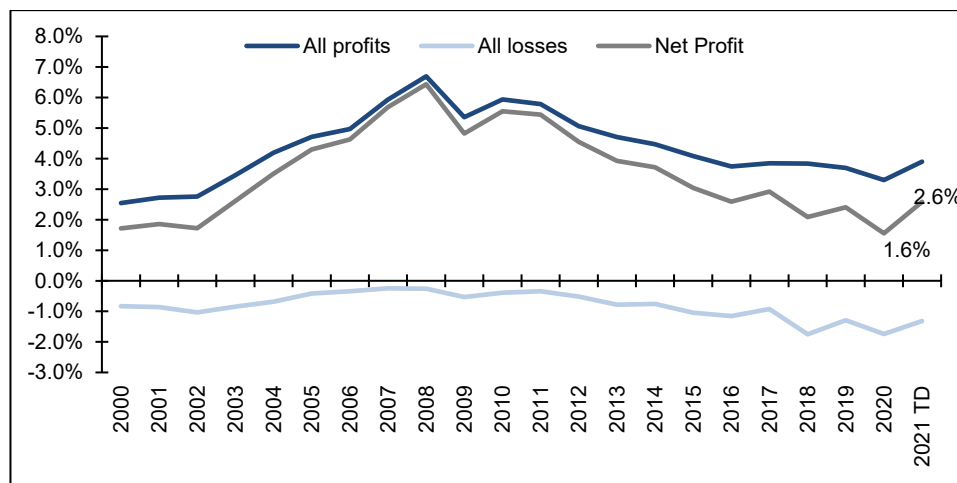
	Sales			EBITDA			PAT			PAT (incl. financials)		
	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY
Nifty	3,068	3,206	5%	430	629	46%	170	337	98%	268	531	99%
Next50	306	369	21%	-11	102	-1010%	28	56	104%	15	45	187%
Midcap100	308	394	28%	103	89	-14%	27	45	69%	27	66	148%
<b>Nifty 200</b>	<b>3,682</b>	<b>3,970</b>	<b>8%</b>	<b>522</b>	<b>820</b>	<b>57%</b>	<b>224</b>	<b>439</b>	<b>96%</b>	<b>310</b>	<b>642</b>	<b>107%</b>

Source: Capitaline, I-Sec Research

## PAT to GDP for listed space rises to four year high of 2.6% largely driven by reduction in loss pool and depressed earnings

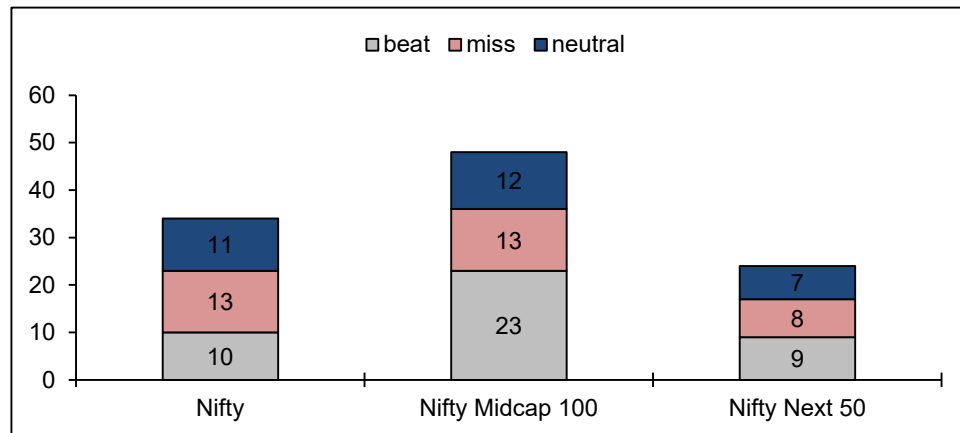
Significant contribution to earnings pool trajectory by cyclicals will boost 'PAT to GDP' further over FY21-23 going by the consensus NIFTY50 earnings growth outpacing nominal GDP growth.

**Chart 1: Listed PAT to GDP**



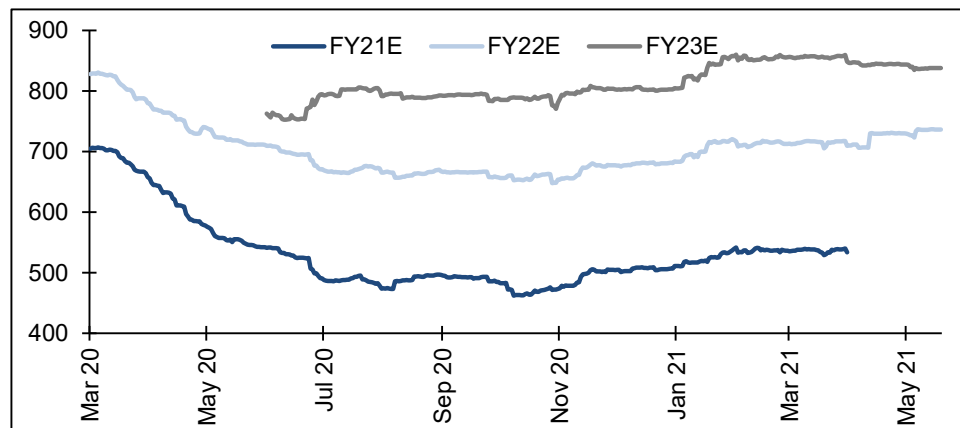
Source: Capitaline, Bloomberg, I-Sec research

**Chart 2: Q4FY21 results are largely in-line so far with largely neutral results and beats/misses evenly balanced. Midcaps have much higher beats than misses**



Source: Capitaline, Bloomberg, I-Sec research

**Chart 3: Despite the severe health impact of second wave of COVID-19, NIFTY50 FY22 EPS outlook has remained resilient at ~730 so far**



Source: Capitaline, Bloomberg, I-Sec research

## Micros to macros

We believe the key reason for resilient headline index earnings outlook compared to GDP is that much of the economic impact has been in the unorganised sector and largely limited to economic activities like leisure, travel & retail which have relatively lower earnings weight in the headline NIFTY50 index. 'Spillover effect' of the above mentioned impacted sectors via GNPA's is also limited to ex-NIFTY50 financial intermediaries while large financials in the index have managed to insulate themselves and have reported robust performance. Impact on investment and manufacturing side of the economy is limited to the shortage of migrant labourers and supply chain disruptions which have been much lower than during the first wave. Across the board, input cost pressure has not dented earnings outlook indicating the ability to rationalize and pass on cost which is corroborated by elevated WPI at 7.6% over Feb-Apr'21 (indicator of pricing power for manufacturers).

Earnings downgrade for FY22 in our coverage universe corroborates the above with **downgrades primarily from;**

- Discretionary consumption (NIFTY50: Maruti, Titan, RIL- retail; Ex- NIFTY50: Avenue Supermarts, Pidilite, Trent, Westlife, INOX Leisure)
- Ex-NIFTY50 financials (Yes Bank, Bandhan Bank, M&M Financial services)
- Key industrial stocks witnessing downgrades include Larsen & Toubro, Voltas, KEC International.
- **FY22 earnings upgrades:** Capex related (cement, steel, building material and partly paints), large private banks and exports stocks (auto, IT) have contributed to earnings upgrades so far.

**Table 2: Sector performance during Q4FY21**

(Free float, Rs bn)

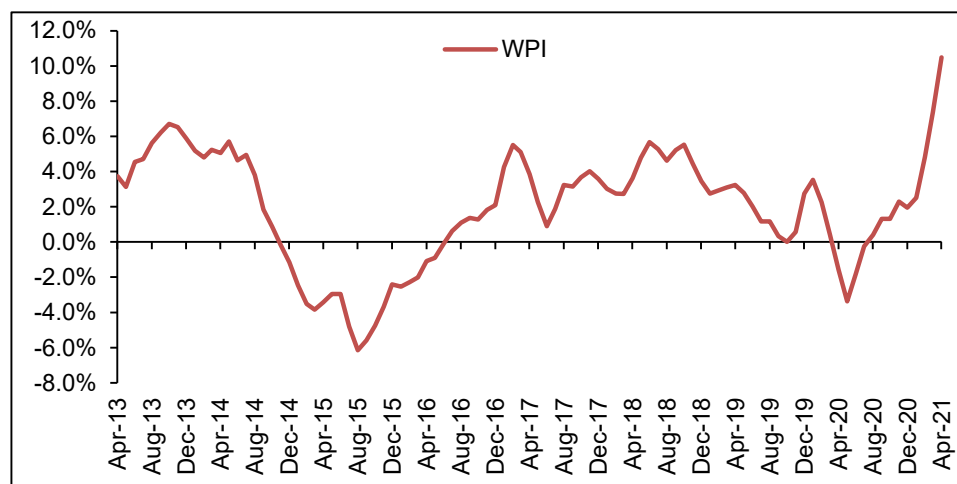
Sector	Sales			EBITDA			PAT			Earnings vs consensus		
	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	Q4FY20	Q4FY21	YoY	beat	neutral	Miss
Agriculture	99	113	13.5%	18	23	23.4%	10	13	24.9%	2	1	1
Auto Ancillaries	43	58	34.2%	6	10	61.2%	3	5	69.7%	3	0	0
Automotives	493	688	39.6%	32	93	191.2%	-19	49	LtoP	3	2	1
Building Material	5	7	44.7%	1	1	53.1%	1	1	62.6%	0	1	0
Capital Goods	387	422	9.0%	45	56	25.7%	27	30	12.7%	1	1	0
Cement	92	118	29.1%	19	29	51.1%	8	16	97.1%	4	0	0
Discretionary	111	133	20.1%	13	17	25.8%	6	8	45.5%	3	3	3
FMCG	116	143	23.9%	20	27	37.4%	15	19	28.1%	3	3	3
Logistics	11	13	23.5%	4	10	157.7%	1	5	285.1%	0	0	1
Metals	344	500	45.3%	-13	156	LtoP	36	98	169.8%	4	1	0
Oil & Gas	1,097	793	-27.7%	105	120	13.5%	53	64	20.4%	0	0	2
Paints	22	31	43.5%	4	6	53.4%	2	4	87.1%	0	1	0
Pharma	128	138	7.3%	27	38	40.7%	3	13	259.9%	6	3	3
Power/Mining	46	64	40.2%	16	15	-4.0%	1	4	172.1%	1	0	0
Real Estate	7	4	-36.6%	2	1	-68.9%	1	0	-70.3%	1	0	1
Speciality Chemicals	31	38	20.8%	45	8	-83.0%	5	3	-39.6%	2	0	2
Technology	528	575	8.8%	123	144	16.9%	90	101	11.1%	1	7	3
Telecom	124	133	7.3%	54	64	20.1%	-20	7	LtoP	2	0	0
NBFCs	61	70	14.2%	58	68	16.4%	25	39	55.7%	1	1	2
Financial Services	162	186	14.8%	31	26	-15.9%	13	22	65.6%	1	3	7
Banking	373	424	13.7%	301	363	20.4%	47	142	203.2%	4	3	6
Ex-financials	3,682	3,970	7.8%	522	820	56.9%	224	439	95.6%	36	23	20
Total	4,278	4,650	8.7%	913	1,277	39.8%	310	642	107.3%	42	30	35

Source: Capitaline, Bloomberg, I-Sec Research

**Table 3: Upgrades / downgrades to EPS estimates in Nifty companies within our coverage**

Company	Bloomberg	Sector	FY22	FY23	Market cap (rs bn)
Tata Motors	TTMT IN	Automobile & Components	7.7	22.4	1,100
Bajaj Auto	BJAUT IN	Automobile & Components	5	8.6	1,052
Hero Motocorp	HMCL IN	Automobile & Components	-0.4	-0.2	578
Maruti Suzuki	MSIL IN	Automobile & Components	-11.4	-7	2,008
UltraTech Cement	UTCEM IN	Cement	-0.1	0.1	1,938
Asian Paints	APNT IN	Consumer Discretionary	3.7	2.1	2,555
Titan Company	TTAN IN	Consumer Discretionary	-9.4	-1.3	1,375
Hind. Unilever	HUVR IN	Consumer Staples	5.5	5.3	5,777
Britannia Inds.	BRIT IN	Consumer Staples	0.2	0.6	890
Tata Consumer	TATACONS IN	Consumer Staples	-4.4	-3.7	619
I O C L	IOCL IN	Energy	4		849
Reliance Industries	RIL IN	Energy	-6.4	1.2	12,494
H D F C	HDFC IN	Financial Services	1	2	4,643
Larsen & Toubro	LT IN	Industrials	-13.9	-6.1	1,909
Infosys	INFO IN	IT	9.3	1	5,768
TCS	TCS IN	IT	4.9	-0.7	11,819
Wipro	WPRO IN	IT	4.5	5.4	2,571
Tech Mahindra	TECHM IN	IT	3.5	-1.1	978
HCL Technologies	HCLT IN	IT	-4	-4	2,748
UPL	UPLL IN	Materials	7.3	4.4	467
Tata Steel	TATA IN	Metals	8.6	19.9	1,065
HDFC Bank	HDFCB IN	Private banks	4.7	7.9	7,876
Kotak Mah. Bank	KMB IN	Private banks	3	3	3,496
Axis Bank	AXSB IN	Private banks	1	2	2,050
IndusInd Bank	IIB IN	Private banks	1	1	667
Bharti Airtel	BHARTI IN	Telecom	-45.2	-26.1	2,970

Source: Bloomberg, I-Sec Research

**Chart 4: Cost pressure not impacting earnings outlook due to the ability to rationalize and pass on costs – rising WPI indicates pricing power of manufacturers**

Source: CEIC, I-Sec Research

## High frequency indicators showing impact on demand; some of which could lead to pent-up demand later in the year

Impact of the second covid wave is showing up on high frequency indicators such as mobility, E-way bills and Auto sales. On the flip side, positive surprise includes robust PMI for both services and manufacturing, strong exports data and high GST collections.

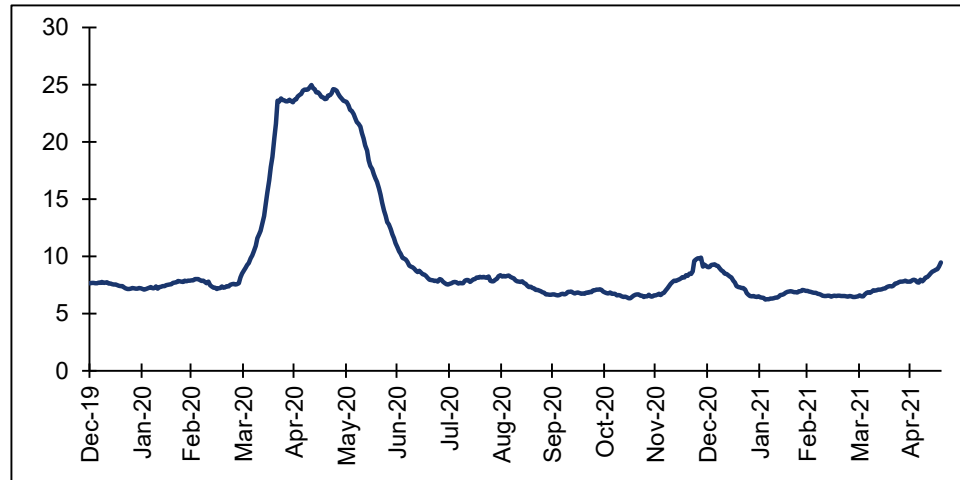
High frequency indicators in April'21 were mixed with Exports sector, PMI-manufacturing and GST collections being robust, but weak mobility data and auto sales

**Table 4: 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%	NM
2W growth	16.9%	13.4%	7.4%	6.6%	10.2%	72.7%	NM
IIP - Primary Goods.	-3.1%	-1.8%	0.4%	0.7%	-4.7%	7.7%	NA
IIP Consumer Goods Durables	18.1%	-3.2%	6.5%	-0.2%	6.6%	54.9%	NA
IIP Consumer Goods Non Durables	7.3%	-0.7%	1.9%	-5.4%	-4.5%	27.5%	NA
Petrol Consumption	4.5%	5.1%	9.4%	6.3%	-1.9%	27.1%	145.2%
Nikkei India Services PMI	54.10	53.70	52.30	52.80	55.30	54.60	54.00
CPI	7.61%	6.93%	4.59%	4.06%	5.03%	5.52%	4.29%
Passenger - all airports	-62.2%	-56.5%	-50.4%	-46.6%	-42.9%	-3.4%	NA
Foreign tourist arrivals	NA	NA	NA	NA	NA	NA	NA
GST Collections (Rs bn)	1,052	1,050	1,152	1,198	1,131	1,239	1,414
Consumer confidence index	NA	52.30	NA	55.50	NA	53.10	NA
	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>
Private final consumption exp real	7.55%	6.50%	6.42%	1.98%	-26.34%	-11.31%	-2.37%
<b>Industrial Indicator</b>	<b>Oct-20</b>	<b>Nov-20</b>	<b>Dec-20</b>	<b>Jan-21</b>	<b>Feb-21</b>	<b>Mar-21</b>	<b>Apr-21</b>
<b>Overall credit growth (fortnightly)</b>	5.1%	5.8%	6.0%	7.0%	6.6%	5.6%	5.7%
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	66.64	66.69
IIP growth	4.5%	-1.6%	2.2%	-0.9%	-3.4%	22.4%	NA
Core sector growth (%)	-0.52	-1.13	0.42	0.94	-3.85	6.85	NA
Diesel Consumption	7.47%	-6.94%	-2.70%	-1.88%	-8.38%	27.82%	105.33%
Power demand	11.1%	3.2%	4.5%	4.5%	-0.4%	22.0%	39.3%
IIP Capital Goods	3.2%	-7.5%	2.2%	-9.0%	-3.8%	41.9%	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%	4.83%	7.39%	10.49%
Cargo - Air	-13.86%	-12.92%	-8.92%	-11.00%	-8.55%	34.20%	NA
Cargo - all ports	-1.2%	2.8%	4.4%	4.0%	1.9%	16.4%	NA
Freight traffic - railways	11.05%	8.41%	13.51%	11.09%	7.77%	33.04%	86.88%
Import Growth (%)	-10.62%	-12.41%	8.19%	1.95%	6.96%	53.74%	167.06%
Export growth (%)	-4.96%	-8.52%	0.39%	6.59%	-0.81%	60.29%	195.66%
Trade Deficit (USD bn)	-9.04	-10.19	-15.64	-14.39	-13.03	-13.93	-15.10
<b>Industrial Indicator</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>
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%

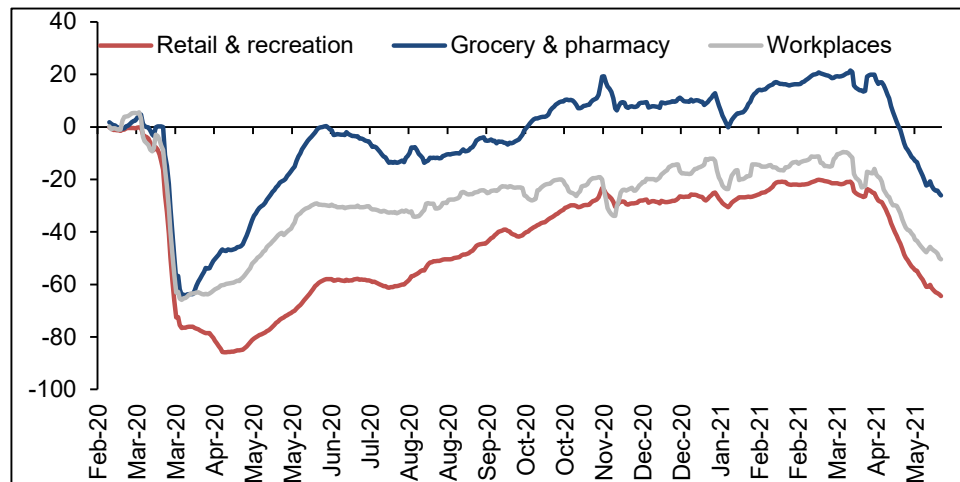
Source: CEIC, Bloomberg, I-sec Research

**Chart 5: Unemployment numbers inching up**



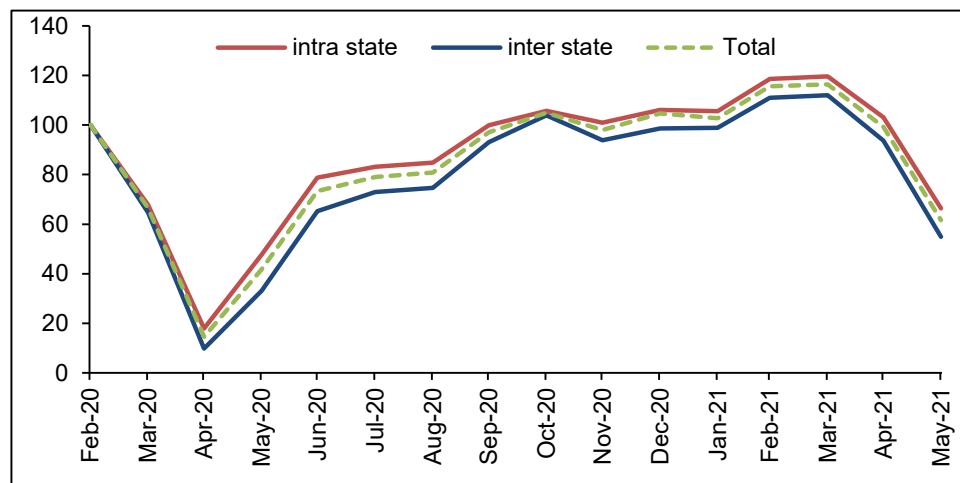
Source: CMIE

**Chart 6: India level mobility impacted by the string of lockdown across the country**



Source: Google mobility reports, I-sec research

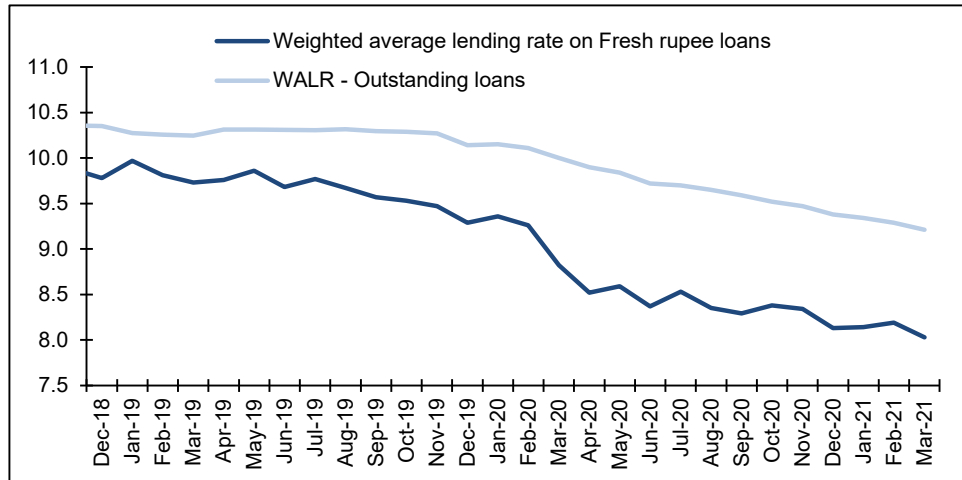
**Chart 7: GST E-way bills generated show lower volumes in Apr-May'21**



Note: Data for May available till 16<sup>th</sup> may. Above numbers are indexed to Feb'20 daily average.

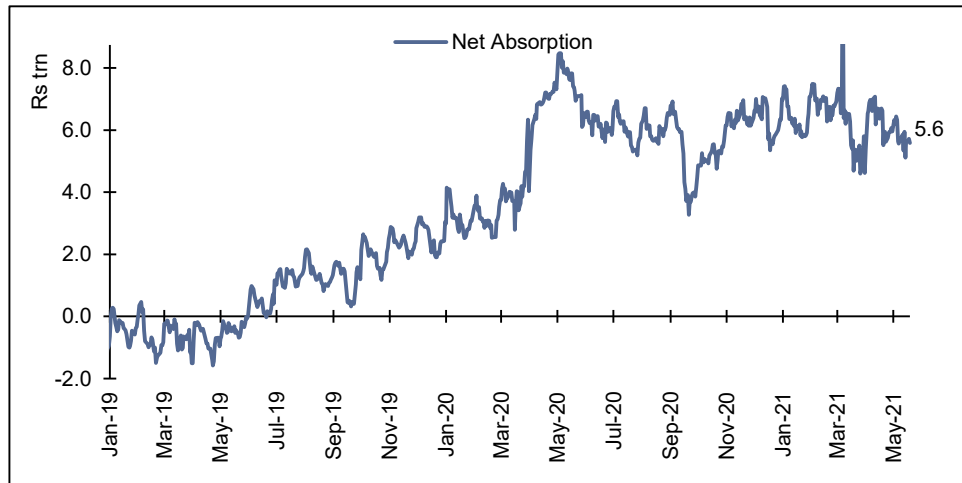
Source: GSTN, I-sec research

**Chart 8: Lending rates continue to dip**



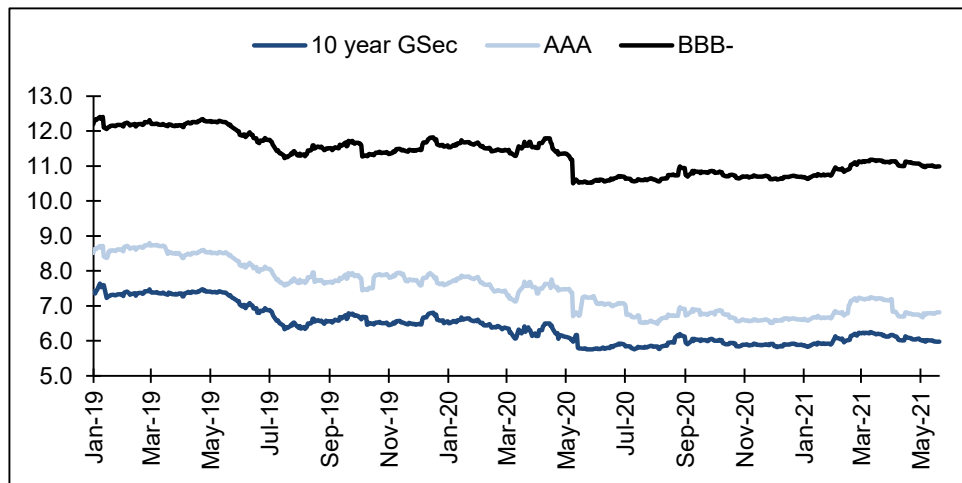
Source: RBI, I-sec research

**Chart 9: Banking system liquidity remains high**



Source: RBI, CEIC, I-sec research

**Chart 10: Trend in GSec and Corporate bond yields**

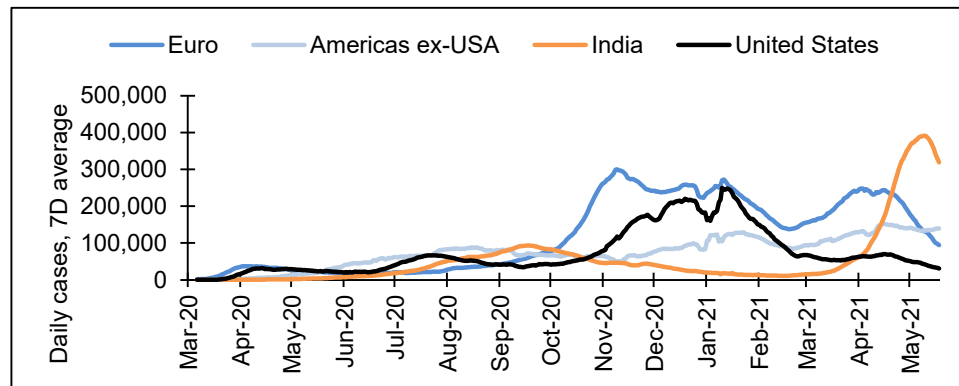


Source: FIMMDA, Bloomberg, I-sec research



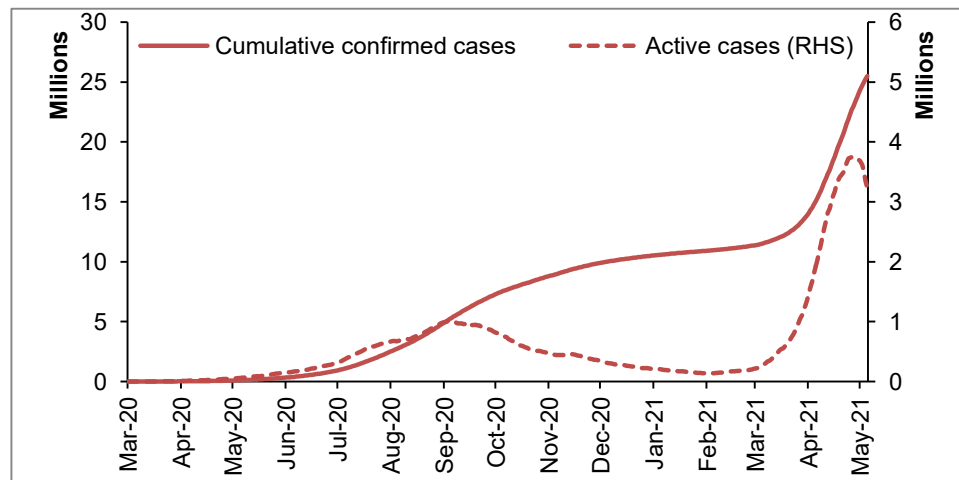
## COVID immunity – natural via infections and vaccination

**Chart 11: Meaningful dip seen in daily new cases**



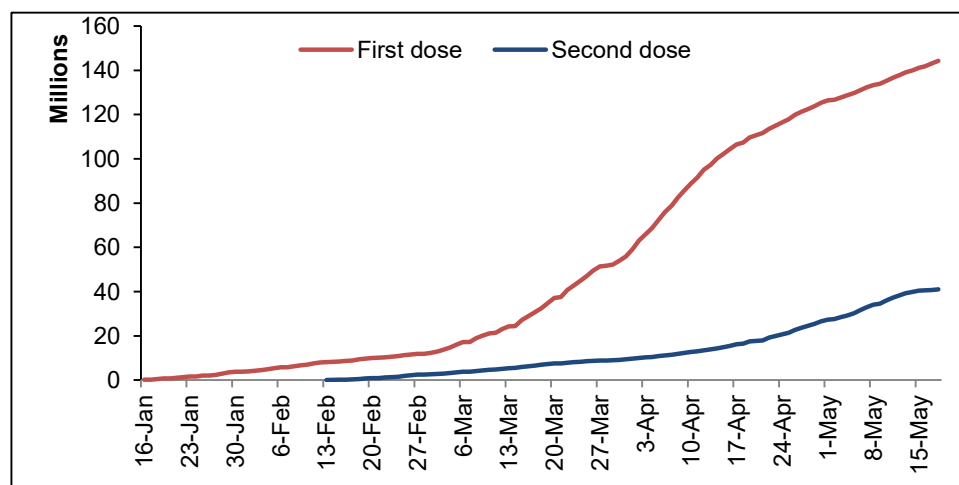
Source: WHO, CEIC, I-Sec research

**Chart 12: Total confirmed cases for India stand at 25.5mn, while active cases continue to dip, currently at 3.2mn**



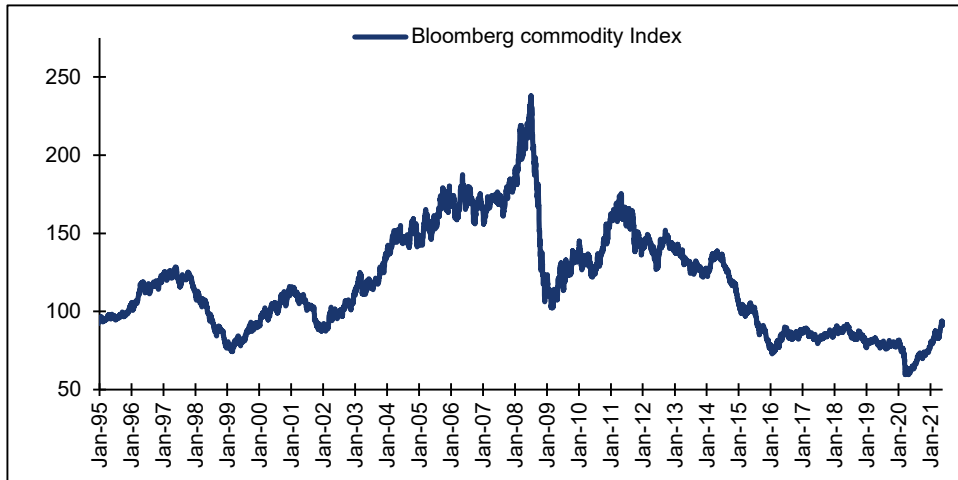
Source: MoHFW, CEIC, I-Sec research

**Chart 13: 144mn Indians have received their first dose of the vaccine**



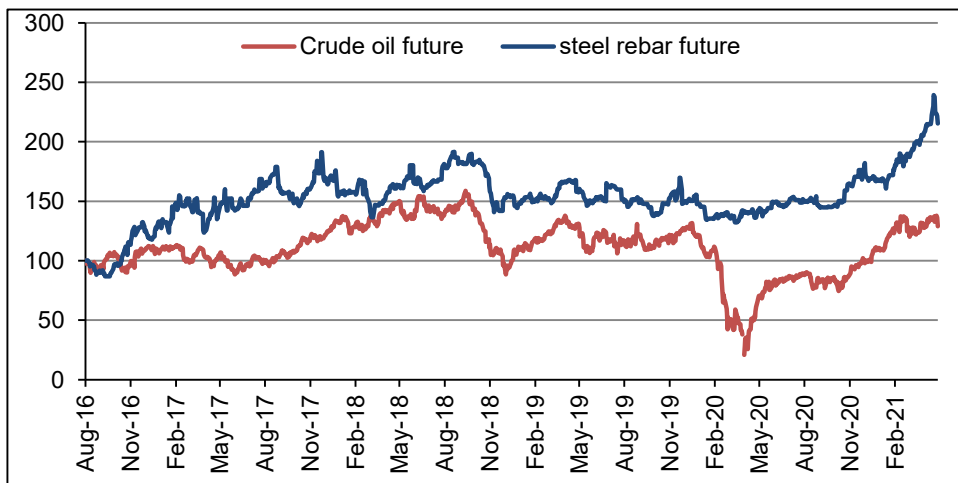
Source: Our World in data, I-Sec research

**Chart 14: Commodities rising from depressed levels**



Source: Bloomberg, I-Sec research

**Chart 15: Metals and Oil price trends**



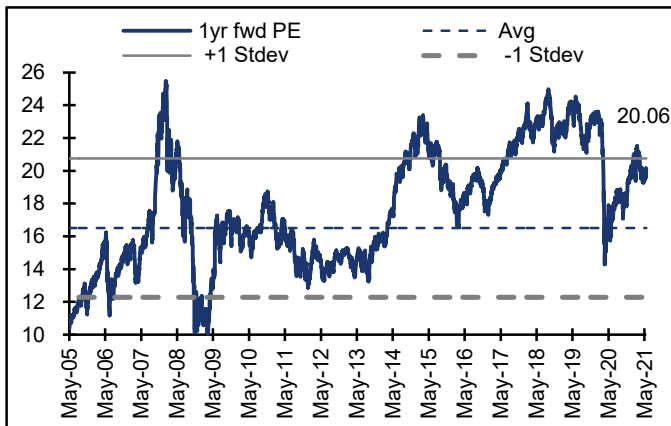
Note: Crude oil refers to WTI futures

Source: Bloomberg, I-Sec research

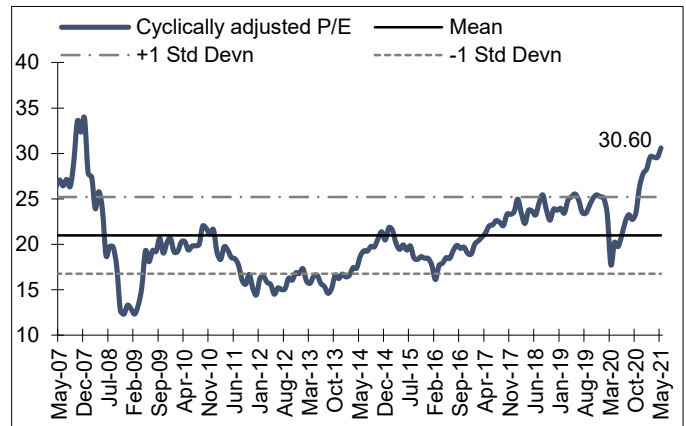
## Forward P/E valuations climb down from +1 s.d. levels due to 'time value of money' from rolling forward earnings base and market consolidation since Feb'21

Credibility of rolled forward earnings has improved significantly over the past one year given the consistent beats / in-line results. P/B closer to LTA.

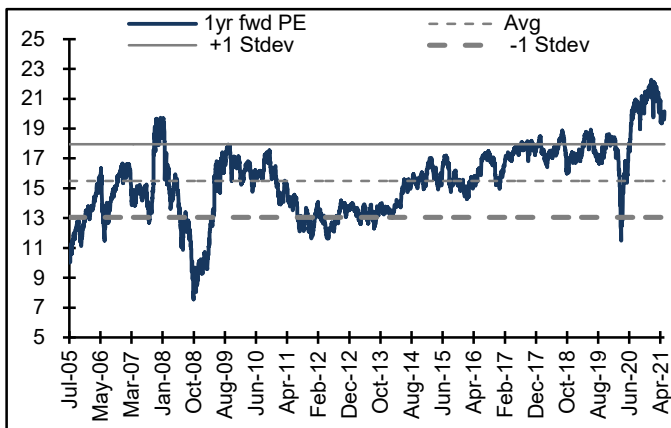
**Chart 16: Nifty below +1SD on forward PE**



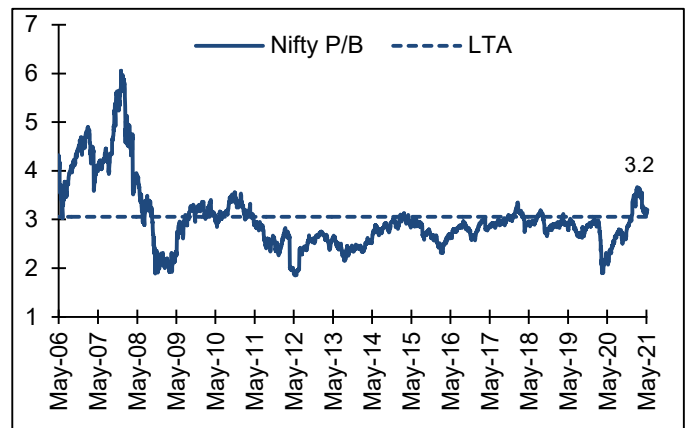
**Chart 17: CAPE remains above +2SD**



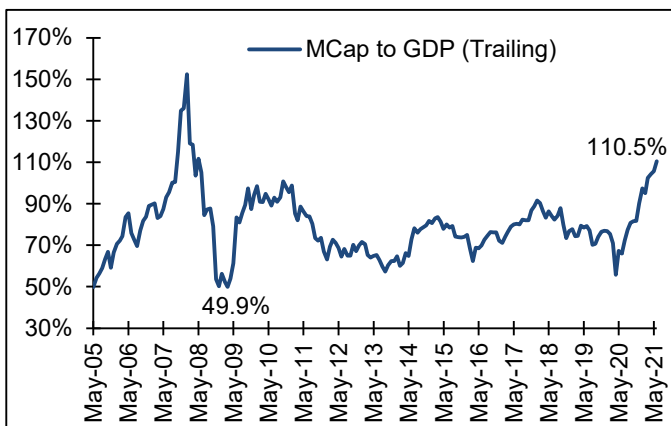
**Chart 18: Nifty forward PE (ex-ante)**



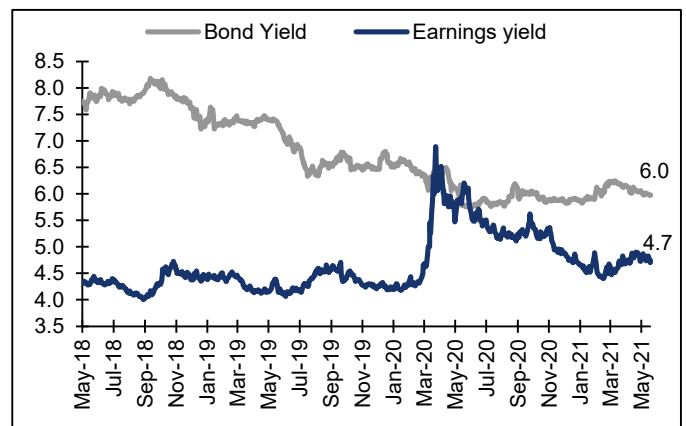
**Chart 19: Nifty PB marginally above LTA**



**Chart 20: Market cap to GDP above LTA, reflects low trailing GDP**



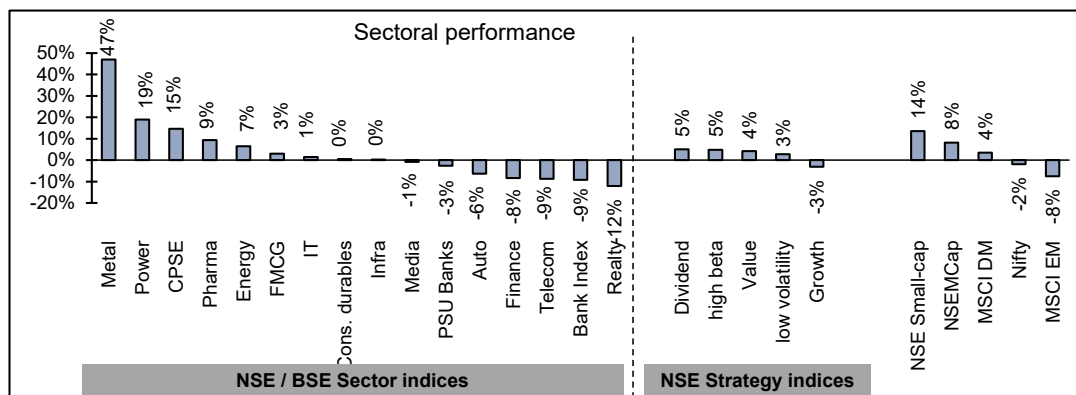
**Chart 21: Bond and earnings yield both drop; spread at 125bps**



Source: Bloomberg, Capitaline, I-Sec research

**Chart 22: Nifty Value 20 index outperformed other style indices in this consolidation phase**

Sectoral performance since 16-Feb'21



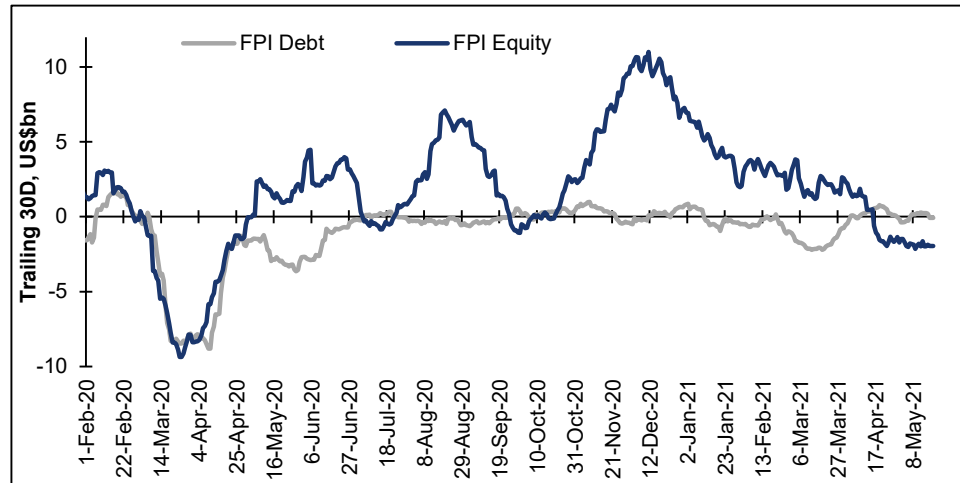
Source: Bloomberg, I-Sec research

**Table 5: Global markets update**

Country	Bond Yield (Change in bps)				Currency (% change)				Index (% change)			
	Current 10yr bond yield	CYTD	Since recent top (16-Feb)	Weekly	Spot rate	CYTD	Since recent top (16-Feb)	Weekly	Current index	CYTD	Since recent top (16-Feb)	Weekly
<b>Developed Market</b>												
France	0.30	63.5	41.3	3.6	1.2	-0.1%	0.8%	1.1%	6,292	13.3%	8.7%	0.2%
Spain	0.62	57.1	32.4	5.6	1.2	-0.1%	0.8%	1.1%	9,147	13.3%	12.2%	1.5%
Canada	1.57	88.8	44.2	(3.4)	1.2	5.3%	5.1%	0.5%	19,507	11.9%	5.5%	2.1%
Italy	1.03	59.7	56.9	8.3	1.2	-0.1%	0.8%	1.1%	24,661	10.9%	5.2%	0.9%
Germany	(0.10)	47.3	25.2	2.7	1.2	-0.1%	0.8%	1.1%	15,185	10.7%	8.0%	0.2%
USA	1.66	74.3	34.2	(3.6)	89.9	0.0%	-0.6%	-0.9%	4,128	9.9%	5.0%	1.6%
Taiwan	0.42	10.5	8.0	2.4	28.0	0.4%	0.1%	-0.2%	16,133	9.5%	2.1%	1.4%
Singapore	1.07	22.4	-	-	1.3	-0.7%	-0.4%	0.1%	3,104	9.2%	5.8%	-0.6%
United Kingdom	0.88	68.5	26.1	(0.4)	1.4	3.5%	1.8%	0.8%	6,963	7.8%	3.2%	-0.6%
Australia	1.77	80.1	45.0	(0.3)	0.8	-0.7%	0.1%	-0.3%	6,932	5.2%	0.2%	-1.6%
Japan	0.08	6.1	(0.3)	(0.2)	109.2	-5.4%	-2.9%	0.4%	28,044	2.2%	-8.0%	-0.4%
<b>Median</b>		<b>59.7</b>	<b>32.4</b>	<b>-</b>		<b>-0.1%</b>	<b>0.8%</b>	<b>0.5%</b>		<b>9.9%</b>	<b>5.2%</b>	<b>0.2%</b>
<b>Emerging Market</b>												
Russia	2.39	-	-	-	73.7	0.4%	-0.1%	1.3%				
Mexico	6.87	132.3	115.3	(12.9)	19.9	0.1%	1.3%	1.4%	49,789	13.0%	11.4%	2.1%
<b>India</b>	<b>5.98</b>	<b>11.0</b>	<b>(4.5)</b>	<b>(3.4)</b>	<b>73.2</b>	<b>-0.1%</b>	<b>-0.6%</b>	<b>0.4%</b>	<b>15,030</b>	<b>7.5%</b>	<b>-1.9%</b>	<b>2.3%</b>
Thailand	1.76	43.6	31.5	(1.4)	31.5	-4.8%	-4.8%	-0.7%	943	3.6%	-0.7%	-1.0%
Brazil	9.47	255.7	161.9	6.5	5.3	-1.3%	2.2%	0.9%	122,980	3.3%	3.0%	2.7%
China	3.12	(2.8)	(12.5)	(1.9)	6.4	1.4%	0.3%	0.3%	5,172	-0.7%	-10.9%	2.5%
Malaysia	3.21	56.1	25.4	6.7	4.1	-2.9%	-2.7%	-0.4%	11,184	-2.8%	-2.3%	-0.4%
Indonesia	6.48	59.7	19.8	5.2	14,290.0	-1.7%	-2.5%	-0.6%	855	-8.6%	-11.0%	-3.2%
<b>Median</b>		<b>49.9</b>	<b>22.6</b>	<b>(0.7)</b>		<b>-0.7%</b>	<b>-0.4%</b>	<b>0.3%</b>		<b>3%</b>	<b>-2%</b>	<b>2.1%</b>

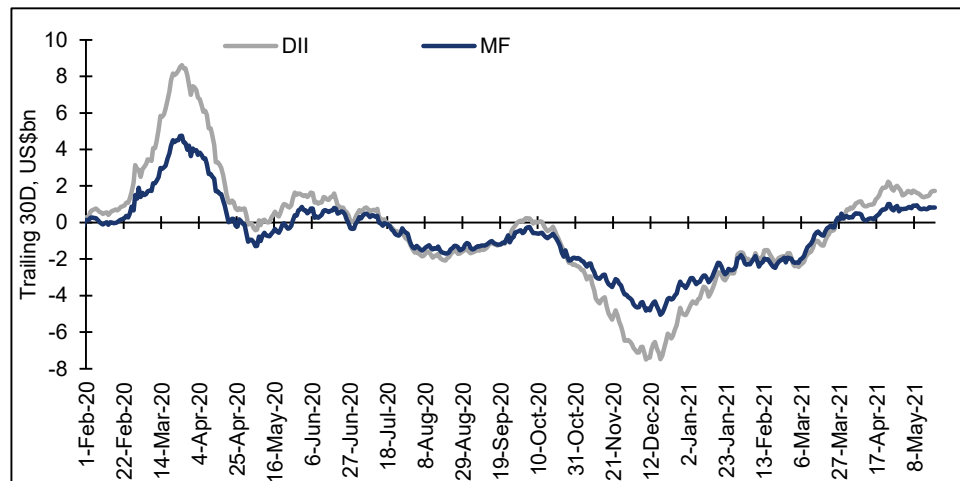
Source: Bloomberg, I-Sec research

**Chart 23: Foreign equity trailing 30D flows remain weak but outflows have stagnated**



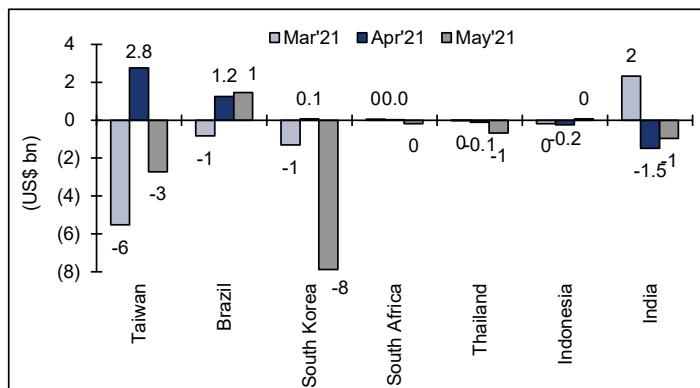
Source: Bloomberg, I-Sec research

**Chart 24: DII inflows show improving trend at US\$1.7bn**



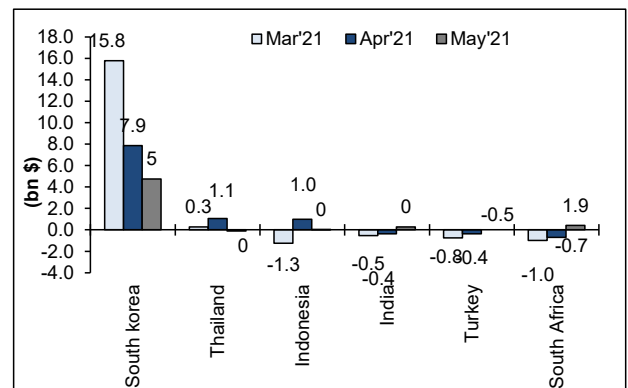
Source: Bloomberg, I-Sec research

**Chart 25: EM Equity flows**



Source: Bloomberg, I-Sec research

**Chart 26: EM Debt flows**



Source: Bloomberg, I-Sec research

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