

June 1, 2022

Earnings trajectory unchanged, trimming multiples amid rising interest rates, positive stance retained

Global equity markets witnessed a sharp correction since our last report with Indian markets being no exception. It was primarily driven by the elongated geopolitical conflict, consequent rise in key commodity prices namely crude, metals, agri commodities and resultant central banks action to tame unprecedented inflation. Corporate earnings, a true barometer of economic health, on the other hand, have been quite resilient with Nifty EPS for Q4FY22 coming in on broadly expected lines at ₹ 207/share, up 10% QoQ and YoY. The margin pressure for the manufacturing businesses as well as wage inflation for IT domain was successfully made good by the earnings outperformance in the BFSI domain on the back of better-than-expected credit growth and improving asset quality. The management commentary across businesses was positive on the demand outlook amid a pick-up in economic activity, aggressive infrastructure spend outlay by the central government, revival in private capex cycle but was wary of further input costs inflation resulting in broader price hikes and a tad soft margin trajectory. We believe the present market volatility offers an attractive opportunity to build a long term portfolio of quality companies, which have lean balance sheets, are capital efficient and have growth longevity.

Exhibit 1: Nifty and Sensex targets

Revised Sensex & Nifty Target (Rolling 12 Months')				
Earning Estimates	FY21	FY22E	FY23E	FY24E
Nifty EPS (₹/share)	515	720	820	935
Growth (% YoY)	17.1%	39.8%	13.8%	14.0%
Earnings CAGR over FY21-24E				22.0%
Earnings CAGR over FY22-24E				13.9%
Target P/E Multiple on FY24E EPS				20.0
Nifty Target (using FY24E EPS)				18,700
Corresponding Sensex Target				62,300

Source: ICICI Direct Research

Incorporating revised PAT estimates post Q4FY22, our forward estimates do not undergo major change. Over a three-year horizon (FY21-24E) Nifty earnings are seen growing in excess of 20% CAGR while in FY22-24E, albeit on high base, earnings CAGR is at ~14%. Rolling over our valuations to FY24E and trimming our forward PE valuation multiples amid rising rate hike scenario we now value the Nifty at 18,700 i.e. 20x PE on FY24E EPS of ₹ 935.

Sectoral Earnings

Going forward, single digit downgrades were visible across most sectors but it was made good by the upgrades in the index heavy BFSI domain.

Exhibit 2: Sectoral EPS (₹/share)

₹/share	Sectoral Weight (%)	Old EPS			New EPS			Avg Change (%)
		FY22E	FY23E	FY24E	FY22	FY23E	FY24E	
BFSI	35.7%	229	277	325	236	288	346	4.5%
IT	15.8%	98	112	126	95	109	123	-2.8%
Oil and Gas	14.0%	123	132	140	107	137	138	-3.7%
FMCG	8.4%	38	43	48	37	42	46	-3.2%
Capital Goods	2.7%	18	24	28	17	22	27	-6.9%
Auto	5.5%	22	45	59	29	36	52	-1.0%
Metals and Mining	3.2%	108	75	79	110	84	80	4.9%
Power	2.0%	29	32	35	36	34	37	12.4%
Telecom	2.3%	4	15	20	4	15	21	2.9%
Pharma	3.9%	20	21	24	19	22	26	3.3%
Others	6.5%	29	39	41	29	32	38	-7.2%
Aggregate	100%	720	815	925	720	820	935	0.6%

Source: ICICI Direct Research

Nifty Sectoral Weights*

Sectors	Weight (Feb 2022)	Weight (May 2022)	Change (bps)
BFSI	35.6%	35.7%	9
IT	17.7%	15.8%	-190
Oil and Gas	13.2%	14.0%	86
FMCG	7.3%	8.4%	103
Capital Goods	3.0%	2.7%	-27
Auto	5.3%	5.5%	16
Metals and Mining	3.6%	3.2%	-46
Power	1.7%	2.0%	31
Telecom	2.2%	2.3%	4
Pharma	3.2%	3.9%	68
Others	7.1%	6.5%	-55
Total	100%	100%	

*Index weights are dynamic in nature consequent to market price movement & susceptible to change. Incorporates one index change wherein Indian Oil Corporation (IOCL) gets replaced by Apollo Hospitals

Highlights

- Global and domestic markets undergo a sharp correction in the recent past amid higher than anticipated interest rate hike trajectory. RBI increases the repo rate by 40 bps, out of turn in May 2022, ahead of the scheduled meet
- On the economic parameters front, data points are encouraging in terms of GST collection, vehicle registrations as well as e-way bill generation
- Monthly GST collection has consistently been over ₹ 1.3 lakh crore since October 2021 with April 2022 reading at a high of ₹ 1.7 lakh crore
- Daily Vahan registrations have averaged at ~90% of pre-Covid levels consistently over past three months. On the CV space, cyclical recovery is reaffirmed with Domestic CV sales up 26% YoY in FY22 at 7.2 lakh units
- Incorporating the revised estimates, rolling over our valuation to FY24E and at the same time trimming our valuation multiples, we now value Nifty at 18,700 i.e. 20x PE on FY24E EPS of ₹ 935/share. Corresponding target for Sensex is at 62,300. These are our rolling 12 months' index target
- As structural bets, we like capex linked capital goods, commercial vehicle space and PLI oriented domestic manufacturing play

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