

Resilient corporate earnings, robust capex outlay to propel markets higher...

Global, domestic markets have recovered meaningfully post the interim low in September 2022 end primarily driven by easing inflation & consequent moderation in pace of interest hikes by central banks. Growth oriented Union Budget 2023-24 amid no major tweaks in the capital gain tax regime also kept domestic markets buoyant. The government proposes to spend a record ₹ 10 lakh crore (3.3% of GDP) as capex in FY24E (up 33% YoY) with tangible multiplier effect, which could potentially drive broad based economic growth. Encouragingly, the government ensured that growth capex was bundled with path of fiscal consolidation. On the earnings side, Nifty EPS for the quarter came in at ₹ 205/share, an outperformance of ~5% vs. our expectations. It was up 11% QoQ, 8% YoY. Outperformance was witnessed across the auto, capital goods, FMCG and pharmaceuticals space while the metals and oil & gas space underperformed. Management commentary was more upbeat on domestic demand vs. exports given the global macroeconomic uncertainty. With progressive Union Budget, capex cycle revival and healthy credit growth & asset quality in banking space, we retain our positive stance on domestic markets. We believe any dips should be used to build a long term portfolio of quality companies that have lean balance sheets, are capital efficient in nature and possess growth longevity.

Exhibit 1: Nifty and Sensex targets

Revised Sensex & Nifty Target (Rolling 12 Months')					
Earning Estimates	FY21	FY22	FY23E	FY24E	FY25E
Nifty EPS (₹/share)	515	720	800	950	1090
Growth (% YoY)	17.1%	39.7%	11.1%	18.7%	14.7%
Earnings CAGR over FY22-25E					14.8%
Average FY24-25E EPS					1,020
PE Multiple					21x
Nifty Target (using FY24-25E average EPS)					21,500
Corresponding Sensex Target					71,600

Source: ICICI Direct Research

Incorporating revised PAT numbers for index constituents post Q3FY23, our forward estimates do not undergo any major change. Over FY22-25E, Nifty earnings are seen growing at a CAGR of ~15%. We retain our Nifty target at 21,500 valuing the index at 21x PE on FY24-25 average Nifty EPS of ₹ 1020.

Sectoral earnings

Incorporating Q3FY23 results, most sectors like BFSI, auto, IT, etc witnessed a marginal upgrade while the metals, telecom & pharma space witnessed a downgrade with aggregate Nifty earnings remaining broadly unchanged.

Exhibit 2: Sectoral EPS (₹/share)

₹/share	Sectoral Weight (%)	Old EPS			New EPS			Avg Change (%)
		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
BFSI	37.1%	307	359	422	320	372	439	3.9%
IT	15.2%	105	120	130	108	124	133	2.9%
Oil and Gas	11.0%	107	140	152	115	138	145	0.6%
FMCG	9.5%	42	49	56	44	49	53	0.5%
Capital Goods	3.5%	22	27	33	22	27	33	1.3%
Auto	5.7%	33	54	64	39	51	61	3.0%
Metals and Mining	3.4%	71	78	96	59	72	84	-11.9%
Power	2.0%	34	37	38	33	38	40	2.9%
Telecom	2.4%	10	20	25	8	16	23	-13.4%
Pharma	3.8%	23	26	30	24	25	29	-2.2%
Others	6.5%	32	41	45	28	38	48	-4.5%
Aggregate	100%	785	950	1090	800	950	1090	0.7%

Source: ICICI Direct Research

Nifty Sectoral Weights*

Sectors	Weight (Nov 2022)	Weight (Feb 2023)	Change (bps)
BFSI	36.6%	37.1%	51
IT	14.5%	15.2%	68
Oil and Gas	12.5%	11.0%	-151
FMCG	8.6%	9.5%	91
Capital Goods	3.0%	3.5%	48
Auto	5.6%	5.7%	11
Metals and Mining	3.4%	3.4%	-1
Power	1.9%	2.0%	6
Telecom	2.5%	2.4%	-7
Pharma	3.8%	3.8%	-3
Others	7.6%	6.5%	-113
Total	100%	100%	

*Index weights are dynamic in nature consequent to market price movement & susceptible to change.

Highlights

- Union Budget 2023-24 was progressive with robust outlay for capital expenditure at ₹ 10 lakh crore for FY24E, growth of 33% YoY. On the fiscal front, the glide path on reducing fiscal deficit has been complied with, as fiscal deficit is likely to go down to 5.9% in FY24E vs. 6.4% in FY23. Medium term target of 4.5% fiscal deficit by FY26 was also retained
- RBI increased the repo rate in February 2023 albeit by a reduce quantum of 25 bps to 6.5% with total rate hike pegged at ~250 bps in the current upcycle
- On the economic parameters front, data points are encouraging in terms of GST collection (₹ 1.56 lakh crore, up 24% YoY), PV segment order-book and e-way bill generation (8.4 crore in December 2022)
- Auto OEMs reported healthy volume prints for January 2023 especially in the PV space with most players reporting all-time high volumes in the SUV sub segment
- Incorporating the revised estimates, our Nifty earnings do not undergo any major change. We continue to value the Nifty at 21,500 i.e. 21x PE on FY24-24E average EPS of ₹ 1020/share. Corresponding target for the Sensex is placed at 71,600. These are our rolling 12 months' index target
- As structural bets, we continue to like the banking space, capex linked capital goods, domestic consumption plays including autos

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