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### Market at all-time high, broader participation to follow

Indian markets witnessed a spectacular run recently, with markets surpassing pre-Covid peaks primarily tracking near normal economic activity domestically, robust FII flows (~US\$4 billion in MTD November 2020), incrementally positive news flow on Covid vaccine development. Part of market optimism was also fuelled by a better-than-expected Q2FY21 wherein maximum companies benefitted from low raw material cost and realised operating leverage benefits with management commentary positive on demand prospects and retaining some part of operating leverage gains in the post Covid world. On the macroeconomic front, GST collection for October 2020 was in excess of ₹ 1 lakh core (up ~10% MoM) while present E-way bill generation, fuel consumption and power demand surpassed pre-Covid levels. Given the sharp up move in the present month (up ~10% MTD), we expect broader market participation to follow. Stock specific action is expected to continue wherein we continue to like IT, pharma, private banks and rural economy linked business models.

#### Exhibit 1: Nifty and Sensex targets

| Revised Sensex & Nifty Target                           |      |      |       |       |       |        |
|---|------|------|-------|-------|-------|--------|
| Revised Earnings Estimates                              | FY18 | FY19 | FY20  | FY21E | FY22E | FY23E  |
| Nifty EPS (₹/share)                                     | 455  | 471  | 442   | 478   | 615   | 720    |
| Growth (%)  |      | 3.4% | -6.2% | 8.2%  | 28.6% | 17.2%  |
| Earnings CAGR over FY20-23E                             |      |      |       |       |       | 17.5%  |
| Earnings CAGR over FY21E-23E                            |      |      |       |       |       | 22.7%  |
| Target Multiple (~1.1x PEG)                             |      |      |       |       |       | 20.0x  |
| Nifty Target (using FY22E-23E average EPS; ₹ 668/share) |      |      |       |       |       | 13,350 |
| Corresponding Sensex Target                             |      |      |       |       |       | 45,500 |
| Potential Upside (@Nifty 12,800)                        |      |      |       |       |       | 4%     |

Source: ICICI Direct Research, we have incorporate index changes (Divi Lab's, SBI Life) for EPS calculation over FY21E-23E

Post Q2FY21, we marginally revise our FY21E-22E estimates (FY21E upgraded by ~5% while FY22E downgraded by ~2.5%) and introduce FY23E numbers. Going forward, we expect Nifty earnings to grow at 17.5% CAGR in FY20-23E. From the low base of FY21E, Nifty earnings CAGR is at 22.7% in FY21E-23E. We now value the Nifty at 13,350 i.e. 20x P/E on FY22E-23E average EPS of ₹ 668 with corresponding Sensex target at 45,500.

### Sectoral earnings

Going forward, post blip over FY19-21E, earnings recovery in FY20-23E period will be led by automobile sector, oil & gas space and index heavy BFSI space (~38% weight) that now also includes the insurance sector.

#### Exhibit 2: Sectoral EPS (₹/share)

| Sectors           | Sectoral EPS (₹) |            |            |            | YoY Growth (%) |            |            | CAGR (%)   |
|-------------------|------------------|------------|------------|------------|----------------|------------|------------|------------|
|                   | FY20             | FY21E      | FY22E      | FY23E      | FY21E          | FY22E      | FY23E      | FY20-23E   |
| BFSI              | 137              | 158        | 207        | 248        | 16%            | 31%        | 19%        | 22%        |
| IT                | 78               | 84         | 94         | 108        | 7%             | 12%        | 14%        | 11%        |
| Oil and Gas       | 69               | 83         | 104        | 119        | 21%            | 25%        | 14%        | 20%        |
| FMCG              | 35               | 33         | 37         | 41         | -5%            | 10%        | 11%        | 5%         |
| Capital Goods     | 19               | 12         | 18         | 21         | -39%           | 51%        | 19%        | 3%         |
| Auto              | 19               | 18         | 34         | 45         | -3%            | 87%        | 32%        | 34%        |
| Metals and Mining | 32               | 27         | 40         | 46         | -14%           | 48%        | 14%        | 13%        |
| Power             | 24               | 27         | 31         | 33         | 12%            | 16%        | 5%         | 11%        |
| Telecom           | -4               | 0          | 6          | 12         | LP             | NM         | 90%        | LP         |
| Pharma            | 14               | 16         | 17         | 20         | 19%            | 6%         | 16%        | 13%        |
| Others            | 19               | 20         | 26         | 29         | 1%             | 31%        | 13%        | 14%        |
| <b>Total</b>      | <b>442</b>       | <b>478</b> | <b>615</b> | <b>720</b> | <b>8%</b>      | <b>29%</b> | <b>17%</b> | <b>17%</b> |

Source: ICICI Direct Research, we have incorporate index changes (Divi Lab's, SBI Life) for EPS calculation over FY21E-23E

#### Nifty Sectoral Weights\*

| Sectors           | Weight (Aug2020) | Weight (Nov 2020) | Change (bps) |
|-------------------|------------------|-------------------|--------------|
| BFSI              | 32.7%            | 37.8%             | 512.0        |
| IT                | 16.1%            | 16.4%             | 32.3         |
| Oil and Gas       | 16.0%            | 14.1%             | -190.2       |
| FMCG              | 10.2%            | 8.5%              | -167.8       |
| Capital Goods     | 2.5%             | 2.3%              | -15.7        |
| Auto              | 5.7%             | 5.3%              | -42.9        |
| Metals and Mining | 2.4%             | 2.3%              | -6.1         |
| Power             | 1.8%             | 1.7%              | -14.2        |
| Telecom           | 3.0%             | 2.1%              | -93.7        |
| Pharma            | 3.2%             | 3.5%              | 32.1         |
| Others            | 6.3%             | 5.9%              | -35.7        |
| <b>Total</b>      | <b>100%</b>      | <b>100%</b>       |              |

\*Index weights are dynamic in nature resultant to market price movement & susceptible to change going forward

#### Highlights

- Index recovery encouraging in recent past amid near normal economic activity domestically, robust FII flows (~US\$4 billion - MTD)
- With index regaining new peaks, we expect broader markets to participate, going forward, with small cap, midcap space to relatively outperform their large cap counter parts
- We continue to be positive on rural economy (farm equipment, farm inputs, selective FMCG, consumer durable names) and resilient sectors like IT, pharma, private banks
- We now expect Nifty earnings to grow at a CAGR of 17.5% in FY20-23E, albeit on a low base (FY20)
- We now value Nifty at 13,350 i.e. 20x P/E (~1.1x PEG) on FY22E-23E average EPS of ₹ 668. Corresponding target level for Sensex is at 45,500

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