Index Outlook

ICICI direct Research

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Special Report

ICICI Securities – Retail Equity Research

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Positivity remains, stock specific action to prevail…

Indian markets are scaling new highs primarily driven by swift economic recovery post abating of second Covid wave and increasing pace of vaccination domestically. Corporate earnings were also resilient in Q1FY22 (April-June 2021). At the Nifty index level, excluding financials, net sales decline was limited to 7.5% on a QoQ basis with PAT decline at 14.5% QoQ. The management commentary, however, was optimistic and hopeful of a strong rebound in rest of the year (FY22E). Other macroeconomic indicators in terms of GST collection, e-way bill generation, peak power demand also point to better-than-anticipated economic rebound. With growth capex on the anvil both by the public as well as private enterprises, we expect a broad based economic recovery, going forward. We expect the present market up move to continue, with small caps, midcaps leading the gains going forward. As a structural bet in the market, sectorally, our preference would be towards IT (driven by increasing digital spends), capital goods (capex-linked) and CRAMs oriented pharmaceuticals/chemical space.

Exhibit 1: Nifty and Sensex targets

	Revised Sensex & Nifty Target				
Earnings Estimates	FY19	FY20	FY21	FY22E	FY23E
Nifty EPS (₹/share)	470	440	515	685	815
Growth (%)	3.2%	-6.2%	17.1%	32.9%	19.0%
Earnings CAGR over FY21-23E					25.7%
Target Multiple					22.0x
Nifty Target (at 22x FY23E EPS)					17,930
Corresponding Sensex Target					59,800

Source: ICICI Direct Research

Going forward, incorporating the revised earnings post Q1FY22, our aggregate index earnings gets upgraded by ~2%. We now expect index earnings to grow at a CAGR of 25.7% vs. 24.2% earlier over FY21-23E. Retaining the same PE multiples, we now value Nifty at 17,930 i.e. 22x PE on FY23E EPS of ₹ 815/share. **We look forward to more meaningful upgrades in Q2FY22E.** Present PE multiples are justified given the changing composition of the Nifty in favour of new economy/consumption stocks.

Sectoral Earnings

Going forward, double digit earnings growth (25.7% CAGR) for the index over FY21-23E will be led by the auto space (low base), capital goods domain, metals space (firm product realisations and healthy profitability) and index heavy BFSI space, which also includes the insurance sector.

Exhibit 2: Sectoral EPS (₹/share)

Sectors	Sectoral EPS (₹)			YoY Growth (%)			CAGR (%)
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21-23E
BFSI	176	226	276	29%	29%	22%	25.3%
IT	84	100	118	7%	20%	18%	18.8%
Oil and Gas	103	105	124	50%	2%	19%	10.0%
FMCG	33	38	43	0%	13%	12%	12.8%
Capital Goods	14	19	23	-26%	38%	25%	31.5%
Auto	5	24	53	-75%	410%	119%	234.3%
Metals and Mining	38	89	75	20%	136%	-16%	40.7%
Power	28	30	32	18%	5%	8%	6.4%
Telecom	-1	6	14	-65%	LP	137%	LP
Pharma	16	17	19	17%	7%	14%	10.6%
Others	21	32	38	3%	53%	19%	34.8%
Total	515	685	815	17%	33%	19%	25.7%

Source: ICICI Direct Research

Nifty Sectoral Weights*

Sectors	Weight (Jun2021)	Weight (Sep 2021)	Change (bps)
BFSI	37.4%	36.2%	-118.8
IT	16.3%	18.2%	190.9
Oil and Gas	12.6%	12.5%	-10.5
FMCG	8.2%	8.2%	0.8
Capital Goods	2.7%	2.7%	3.9
Auto	5.3%	4.5%	-80.0
Metals and Mining	3.5%	3.6%	6.8
Power	1.6%	1.5%	-8.7
Telecom	1.9%	2.1%	17.4
Pharma	3.5%	3.4%	-11.1
Others	7.1%	7.1%	-0.7
Total	100%	100%	

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

Highlights

- Domestic markets scale new highs amid swift economic recovery and increase pace of vaccination
- GST collection, e-way bill generation, peak power demand point to better than anticipated economic rebound
- FPIs remain net buyers in August 2021 and September MTD 2021 vs. selling activity observed in July 2021
- We expect present up move in markets to continue with mid & small caps leading the gains
- Our earnings estimates get upgraded by ~2%. We now expect Nifty earnings to grow at a CAGR of 25.7% vs. 24.2% earlier over FY21-23E
- Our revised Nifty target is at 17,930 i.e. 22x P/E on FY23E EPS of ₹ 815. Corresponding target level for Sensex is placed at 59,800

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