

BFSI outperformance in Q2FY23 lifts overall Nifty EPS

Global markets have found comfort in recently released lower than expected inflation readings with growing expectations of a decline in pace of interest rate hikes by global central banks amid already existing growth concerns. Domestic markets have been outperforming their global counterparts and hit a 52-week high in the current week amid healthy growth prospects domestically. On the earnings side, quarterly earnings in Q2FY23 were at 9%, ahead of estimates wherein Nifty EPS came in at ₹ 185/share vs. our estimate of ₹ 170/share. It was up 4.5% QoQ, 2.8% YoY. The key outperformance was driven by index heavy BFSI space, especially corporate banks as well as oil & gas, pharma and capital goods domain. In the banking space, key positives were a revival in business growth (~17-18% YoY), improvement in margin (~5-25 bps QoQ) and declining NPA ratio with healthy PCR. The management commentary was upbeat across sectors more so on domestic demand prospects and recovery in margin profile amid a benign commodity price outlook and operating leverage at play. With capex cycle revival under way domestically and increasing acceptance of India as a credible, quality driven manufacturing hub (export opportunity), we stay constructive on overall 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

Earning Estimates	Revised Sensex & Nifty Target (Rolling 12 Months')			
	FY21	FY22	FY23E	FY24E
Nifty EPS (₹/share)	515	720	785	950
Growth (% YoY)	17.1%	39.7%	9.0%	21.1%
Earnings CAGR over FY21-24E				22.6%
Earnings CAGR over FY22-24E				14.9%
Target P/E Multiple on FY24E EPS				21.0
Nifty Target (using FY24E EPS)				20,000
Corresponding Sensex Target				66,600

Source: ICICI Direct Research

Incorporating revised PAT numbers for index constituents post Q2FY23, our forward estimates witness an upgrade of ~1.3%, largely for FY24E. Over FY22-24E, earnings are seen growing at a CAGR of 14.9%. Keeping the same PE multiple, we now value Nifty at 20,000 i.e. 21x PE on FY24E EPS of ₹ 950.

Sectoral earnings

Incorporating Q2FY23 results, the BFSI space witnessed healthy earnings upgrade (led by corporate banks) while marginal upgrades were witnessed in the FMCG, IT & oil & gas space.

Exhibit 2: Sectoral EPS (₹/share)

₹/share	Sectoral Weight (%)	Old EPS			New EPS			Avg Change (%)
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	
BFSI	36.6%	236	283	338	236	307	359	7.3%
IT	14.5%	95	104	119	95	105	120	0.7%
Oil and Gas	12.5%	107	112	132	107	107	140	0.8%
FMCG	8.6%	37	42	48	37	42	49	1.4%
Capital Goods	3.0%	17	22	27	17	22	27	-2.0%
Auto	5.6%	29	46	56	29	33	54	-15.7%
Metals and Mining	3.4%	110	78	80	110	71	78	-6.2%
Power	1.9%	36	34	37	36	34	37	-0.4%
Telecom	2.5%	4	11	20	4	10	20	-6.5%
Pharma	3.8%	19	23	26	19	23	26	0.1%
Others	7.6%	29	30	40	29	32	41	4.9%
Aggregate	100%	720	785	925	720	785	950	1.3%

Source: ICICI Direct Research

Nifty Sectoral Weights*

Sectors	Weight (Aug 2022)	Weight (Nov 2022)	Weight Change (bps)
BFSI	36.0%	36.6%	59
IT	15.2%	14.5%	-72
Oil and Gas	13.3%	12.5%	-76
FMCG	8.7%	8.6%	-10
Capital Goods	2.9%	3.0%	9
Auto	5.8%	5.6%	-22
Metals and Mining	3.3%	3.4%	9
Power	2.0%	1.9%	-10
Telecom	2.2%	2.5%	28
Pharma	3.8%	3.8%	2
Others	6.8%	7.6%	83
Total	100%	100%	

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

Highlights

- Global & domestic markets rebounded in the recent past amid lower inflation prints and consequent expectations of tapering of interest rate hike cycle by central banks
- RBI increased the repo rate by another 50 bps to 5.9% in September 2022 with total rate hike pegged at 190 bps in the current upcycle
- On the economic parameters front, data points are encouraging in terms of GST collection, auto retails, PV segment order-book and e-way bill generation (7.7 crore in October 2022)
- Vahan registrations for festive driven October 2022 totalled 22.6 lakh units, up 47% MoM and averaged at ~129% of pre-Covid levels vs. 87% clocked in September 2022
- Monthly gross GST revenue came in at a six month high of ₹ 1.52 lakh crore for October 2022 vs. ₹ 1.48 lakh crore in September 2022
- Incorporating the revised estimates, our Nifty earnings undergo an upgrade of ~1.3%. We now value the Nifty at 20,000 i.e. 21x PE on FY24E EPS of ₹ 950/share, keeping the PE multiples intact. Corresponding target for the Sensex is at 66,600. These are our rolling 12 months' index target
- As structural bets, we like the banking space, capex linked capital goods, domestic consumption plays including autos

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