MARKET STRATEGY

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Domestic Themes to hog the limelight in CY23...

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India fared well both relatively and in absolute terms with respect to economic and stock market performance. Going ahead, we believe H1CY23 may turn out to be volatile as investors around the globe would seek answers to key puzzles such as: 1) How fast interest rate hikes come to a halt globally, 2) Damage to economic growth, more so in developed economies, 3) Lag effect of a rise in interest rates on demand cycle & corporate EPS in India, etc. **However, we believe such volatility will throw up attractive opportunities in domestic oriented sectors like banks, capital goods, infrastructure, logistics,** which will continue to be the beneficiaries of massive capex spend by the government/private sector and recovery in margins/profitability. **Apart from these, domestic sectors like retail, real estate, auto ancillaries (domestic focused) will also provide good opportunities for the medium to long term.**

We also highlight the key risks for CY23 that may get manifested in the form of a) Any negative surprise from Covid erupting once again and b) Continued hawkish stance of central banks, which may derail growth prospects.

Some of the themes to stand out in CY23 are:

- Electrification trend accelerating across categories in auto space
- Banks poised for next round of re-rating cycle…
- Capex: Government to the fore with all guns blazing…
- FMCG: Gross margins bottom out; volume recovery in sight…
- Retail sector: Organised players to gain more prominence
- Hotels: Structurally well placed to gain further traction…
- Hospitals structurally well poised for rounded growth
- Defence: Is the shift structural?
- Textile: Exporters to overcome near term headwinds, expand global share
- NLP, Gati Shakti to help logistics sector fire on all cylinders…
- 5G: Huge opportunity for telecom sector…

Nifty fair value pegged at 21,500

Post rebasing in FY22 and surpassing the stagnant earnings seen over FY18-21 at ~₹ 450-500 levels, Nifty earnings are seen growing at ~15% CAGR in FY22-25E.

This is primarily driven by improved asset quality and credit growth revival in the index heavy BFSI space, pick-up in capex activity and consequent execution in capital goods domain, margins & profit recovery in auto, FMCG, metals, pharma and oil & gas space.

Introducing FY25E and rolling over our valuations, we now value the Nifty at 21,500 i.e. 21x P/E on FY24-25E average EPS of ₹ 1020 with corresponding Sensex target at 71,600; offering a healthy potential upside of ~19%.

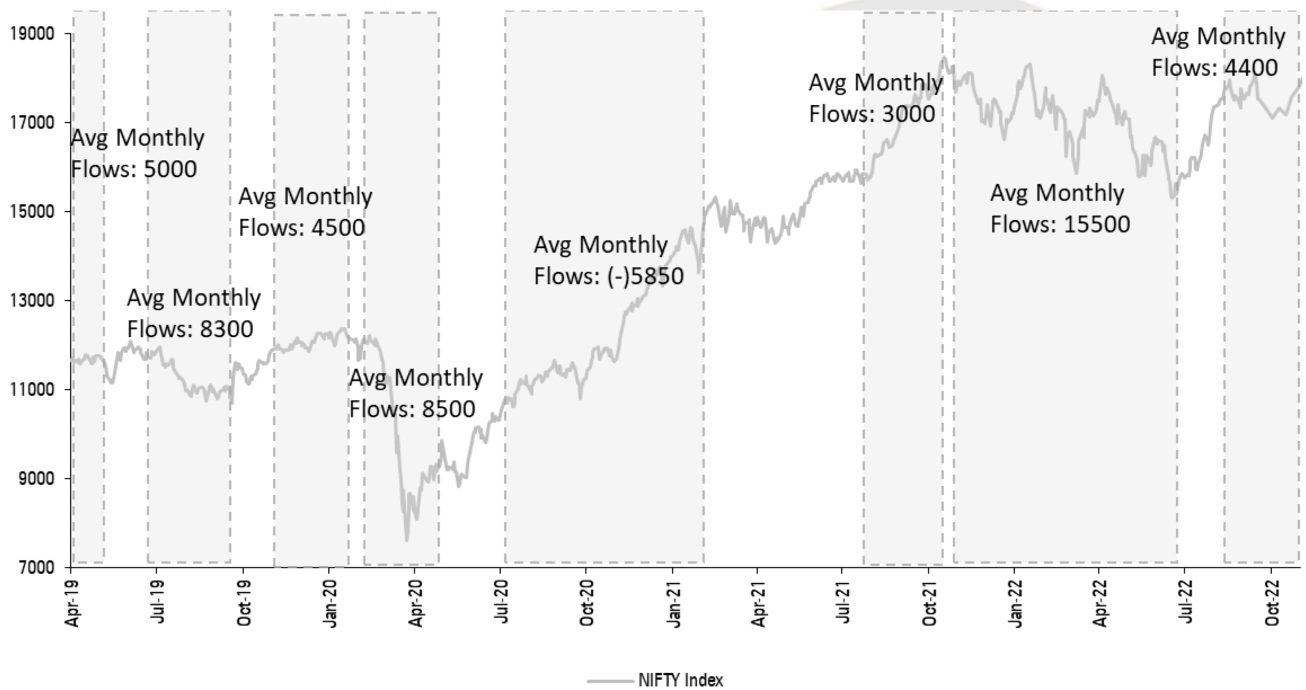
Revised Sensex & Nifty Target (Rolling 12 Months')					
Earning Estimates	FY21	FY22	FY23E	FY24E	FY25E
Nifty EPS (₹/share)	515	720	785	950	1090
Growth (% YoY)	17.1%	39.7%	9.0%	21.1%	14.7%
Earnings CAGR over FY22-25E					14.8%
Average FY24-25E EPS					1,020
PE Multiple					21x
Nifty Target (using FY24-25E average EPS)					21,500
Corresponding Sensex Target					71,600

Stock Picks for 2023			
Company	CMP (₹)	Target Price (₹)	Upside (%)
Kajaria Ceramics	1101	1340	22
Sterlite Technologies	172	220	28
Maruti Suzuki	8305	11200	35
Mahindra CIE	326	410	26
IndusInd Bank	1202	1450	21
HDFC AMC	2164	2600	20
Nesco Ltd	601	800	33
V Guard Industries	261	310	19
Reliance Industries	2545	3050	20

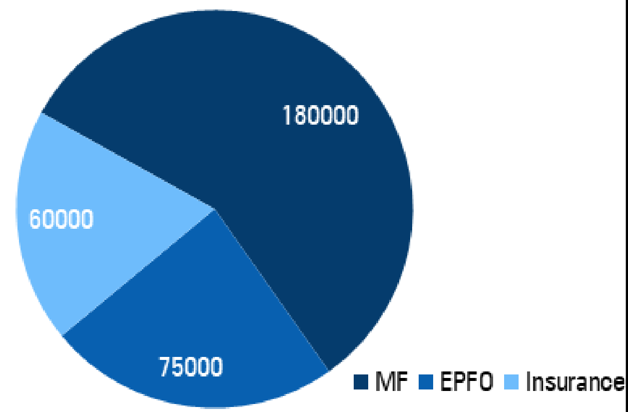
Market Outlook

Domestic investors: Getting smarter and stronger

At every market fall, average monthly investment by domestic mutual fund investors is higher compared to preceding months. Similarly, when markets recover or rally, investors put in a lower amount.



Domestic institutional investors (MF + EPFO + insurance) are likely to be a dominant force, going forward as well. In the last 12 months, DIIs have bought equities worth ₹ 3.1 lakh crore.



Since October 2021 when the Nifty made all-time highs, FPIs have been net sellers to the extent of around ₹ 1.6 lakh crore. Despite such significant selling, headline indices breached all-time highs. The resurgence of domestic investors has been the highlight of Indian capital markets in the last few years. The year 2023 is likely to see domestic institutions and retail investors becoming the mainstay of the Indian equity markets in terms of structural liquidity support during any sharp market fall.

Source: Bloomberg, AMFI

FIIs' change in stance in H2CY23 sustainable or not?...
...continued outperformance to entice fresh flows in India

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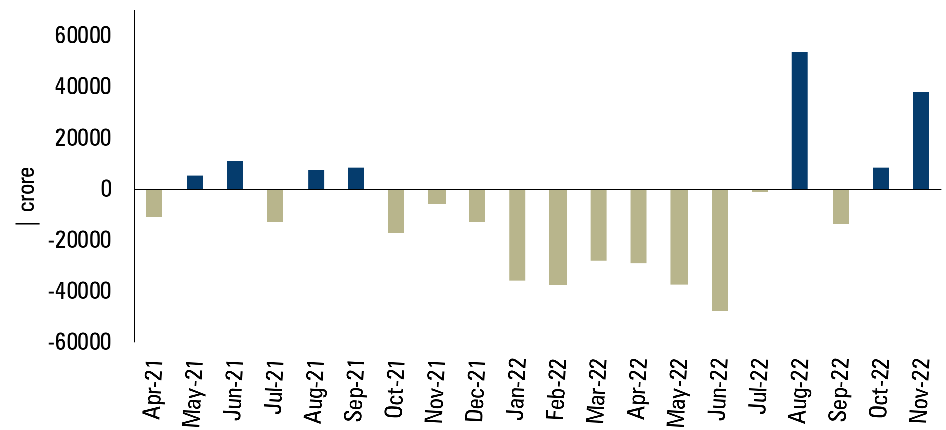
Rest of the world far behind India...

Countries	Post-Covid Highs	26-Dec	Change
India	18604	18132	-2.5%
UK*	7687	7473	-2.8%
Singapore*	3466	3266	-5.8%
Indonesia	7377	6923	-6.2%
Australia	7633	7108	-6.9%
France	7385	6566	-11.1%
Canada	22213	19507	-12.2%
Malaysia*	1696	1475	-13.0%
German*	16290	14038	-13.8%
Japan	30796	26448	-14.1%
Brazil*	131190	109698	-16.4%
US(S&P)	4819	3845	-20.2%
Taiwan	18620	14328	-23.0%
Korea	3316	2333	-29.7%
China*	5931	3888	-34.4%
Hong Kong*	31183	19593	-37.2%

*** Countries trading below their pre Covid levels**

Recovery in markets supported by FII inflows in H2



Despite outflows, India remains outperformer

In US$ Billions

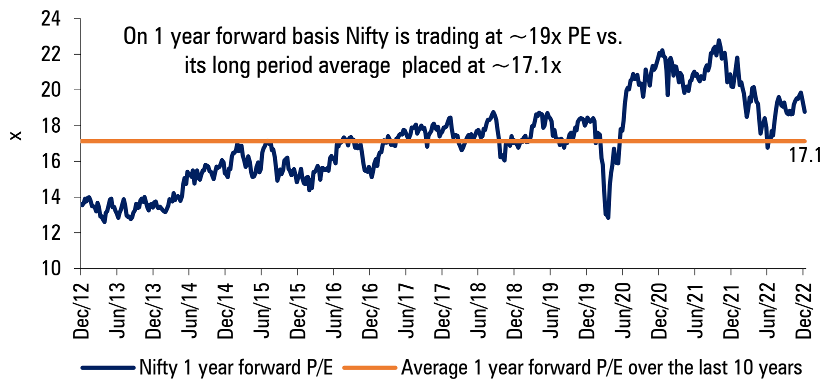
	India	Brazil	Indonesia	Malaysia	Phillipines	South Korea	Taiwan
CY 2020	23.4	-8.1	-3.2	-5.8	-2.5	-20.1	-15.3
CY2021	3.8	13.2	2.7	-0.8	0.0	-23.0	-15.3
CY2022*	-16.6	18.1	4.5	1.1	-1.2	-9.0	-43.7

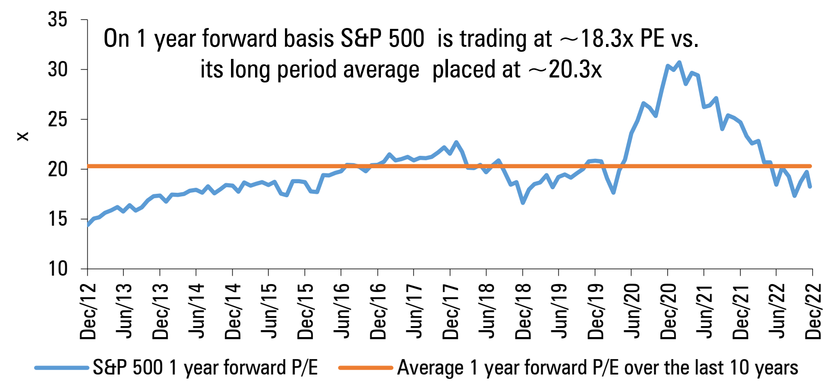
Despite outflows of over $16 billion during the year so far, domestic flows have helped India to outperform the rest of the world. While we believe the resilience of the Indian markets may continue due to domestic funds, inflows from FPIs should provide sharp momentum as seen since July 2022. Moreover, considering continued outperformance, India's share in FPI money is likely to increase further in CY23.

Source: Bloomberg, Seediff.com, ICICI Direct Research

Superior GDP growth, corporate earnings outlook warrant premium PE multiple for Indian equities!

One of the most debated topics is relative premium valuation trajectory of Indian equities vs. global counterparts. On one year forward basis, Nifty trades at ~19x P/E that seems expensive (i.e. at ~11% premium) vs. its past 10 year's average of ~17.1x. Notably, S&P 500 trades at ~18.3x one year forward PE vs. its 10 year forward PE average of 20.3x (i.e. at ~10% discount)





Therefore, the key question is what drives the disconnect

Metric	India	US
GDP Growth Outlook	6.8%, 6.1% for 2022 & 2023, respectively	1.6%, 1% for 2022 & 2023, respectively
Corporate Earnings Trajectory	Reported ~28% CAGR over FY20-22 and is likely to grow at 15% CAGR ahead	Reported ~12% CAGR over CY19-21 and is likely to grow at 10% CAGR ahead
Inflation	Last print (5.9%) was above targeted levels of 4% but well within upper tolerance levels of 6%	Last print (7.1%) was much above targeted levels of 2% and upper tolerance levels of 3%

Thus, the contextual growth visibility both on the economic and corporate front, along with inflation trajectory rightly explain the premium valuations trajectory. Nonetheless, the P/E trajectory for Indian equities, considering the last five-year period, has remained at average levels amid relatively superior earnings visibility in the global construct.

Source: Bloomberg, NSE India, ICICI Direct Research

Will small cap, midcap outperform in CY23?

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Index Level Perspective

CY end	Nifty 50 Index Value	Nifty 50 YoY (%)	Nifty 50 Index Ratio: High to low	Nifty MidCap 100 Index Value	Nifty MidCap 100 YoY (%)	Nifty MidCap 100 Index Ratio: High to low	Nifty Small Cap 100 Index Value	Nifty Small Cap 100 YoY (%)	Nifty Small Cap 100 Index Ratio: High to low
2,022	18,130	4.5	1.7	31,285	2.8	1.8	9,645	(14.6)	1.5
2,021	17,354	24.1		30,443	46.1		11,289	59.3	
2,020	13,982	14.9		20,843	21.9		7,088	21.5	
2,019	12,168	12.0		17,103	(4.3)		5,835	(9.5)	
2,018	10,863	3.2		17,876	(15.4)		6,449	(29.1)	
2,017	10,531	28.6	1.3	21,134	47.3	1.6	9,093	57.3	1.6
2,016	8,186	3.0		14,351	7.1		5,781	2.3	
2,015	7,946	(4.1)		13,397	6.5		5,653	7.2	
2,014	8,283	31.4	1.8	12,584	55.9	2.1	5,273	55.0	1.9
2,013	6,304	6.8		8,071	(5.1)		3,403	(8.3)	
2,012	5,905	27.7		8,505	39.2		3,710	36.8	
2,011	4,624	(24.6)		6,112	(31.0)		2,712	(33.9)	
2,010	6,135	17.9	2.1	8,857	19.2	2.4	4,101	17.6	2.4
2,009	5,201	75.8		7,433	99.0		3,486	107.0	
2,008	2,959	(51.8)		3,736	(59.4)		1,684	(71.0)	
2,007	6,139	54.8	3.0	9,200	76.9	3.1	5,801	87.3	4.3
2,006	3,966	39.8		5,200	29.0		3,098	41.6	
2,005	2,837	36.3		4,030	35.0		2,188	62.2	
2,004	2,081			2,985			1,349		
Average Index Ratio ----------------			2.0			2.3			2.6

Analysing market cycles across the last two decades, we observe that markets usually run up in a block of two to four years before hitting an interim low or witnessing a correction.

Interestingly, a trend is also evident in index value ratio (CY end) i.e. from high to low of index value in a block period.

Its average reading in last four market upcycles depict it being greater for small cap domain at 2.6x i.e. from interim low Nifty SmallCap 100 index multiples at 2.6x in next two to four years. Similar reading is pegged at 2.3x for Nifty Midcap100 & 2x for Nifty 50. Thus, in an upcycle, return in small caps is greater than midcaps that is still ahead of large caps (Nifty Index).

Current reading in this parlance is at **1.7x for Nifty, 1.8x for Nifty Midcap 100, 1.5x for Nifty SmallCap 100** thereby implying upside potential of ~20% for Nifty 50, ~30% for Nifty Midcap 100 and ~50%+ for Nifty SmallCap100 in the next two to three years. Thus, **we expect Small cap & midcaps to outperform Nifty Index over next two to three years, starting CY23E.**

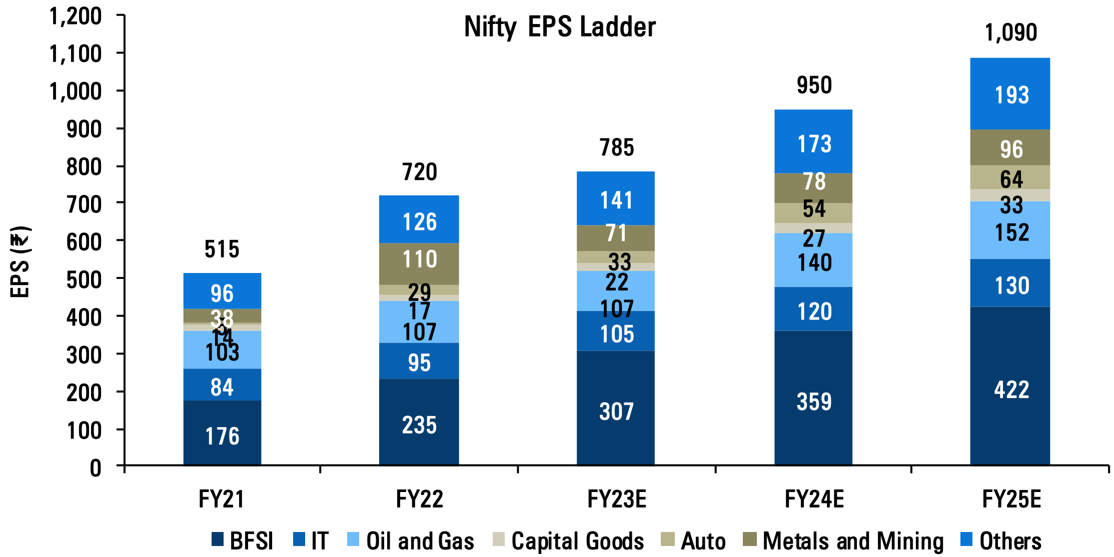
On the earnings front, tracking consensus readings from Bloomberg and taking FY19 as the base year given Covid & supply chain led disruptions in FY20-22, earnings are expected to compound better in small caps (FY19-25 CAGR: 28.5%) & midcaps (26% CAGR) vs. large caps (15% CAGR). This adds thrust to our view that **with earnings support, wealth creation could be far bigger in small caps, midcaps vs. large caps**

Earnings Perspective

Index EPS	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	EPS CAGR (FY19-25E)
Nifty	470	440	515	720	785	950	1,090	15.0%
Nifty MidCap 100	405	586	564	1,207	1,263	1,155	1,621	26.0%
Nifty SmallCap 100	146	127	232	459	567	526	654	28.5%

Source: Bloomberg, ICICI Direct Research

With healthy double digit earnings growth on the anvil, Nifty seen scaling new highs of 21,500 in CY23E



Sectoral earnings growth over FY22-25E

	Sectoral	New EPS				Earnings CAGR (%)	
₹/share	Weight (%)	FY22	FY23E	FY24E	FY25E	FY22-24E	FY22-25E
BFSI	36.6%	235	307	359	422	23.5%	21.5%
IT	14.5%	95	105	120	130	12.1%	11.0%
Oil and Gas	12.5%	107	107	140	152	14.4%	12.3%
FMCG	8.6%	37	42	49	56	14.9%	14.4%
Capital Goods	3.0%	17	22	27	33	25.4%	24.9%
Auto	5.6%	29	33	54	64	37.0%	30.1%
Metals and Mining	3.4%	110	71	78	96	-16.0%	-4.6%
Power	1.9%	36	34	37	38	1.5%	1.9%
Telecom	2.5%	4	10	20	25	110.2%	77.4%
Pharma	3.8%	20	23	26	30	14.9%	15.6%
Others	7.6%	29	32	41	45	19.5%	15.5%
Aggregate	100%	720	785	950	1090	14.9%	14.8%

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This is primarily driven by

- improved asset quality and credit growth revival in index heavy BFSI space,
- pick-up in capex activity and consequent execution in capital goods domain,
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Introducing FY25E and rolling over our valuations, we now value the Nifty at 21,500 i.e. 21x P/E on FY24-25E average EPS of ₹ 1020 with corresponding Sensex target at 71,600; offering a healthy potential upside of ~19%.

These are our December 2023 targets.

Nifty & Sensex Targets for December 2023

Revised Sensex & Nifty Target (Rolling 12 Months')					
Earning Estimates	FY21	FY22	FY23E	FY24E	FY25E
Nifty EPS (₹/share)	515	720	785	950	1090
Growth (% YoY)	17.1%	39.7%	9.0%	21.1%	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: Bloomberg, ICICI Direct Research

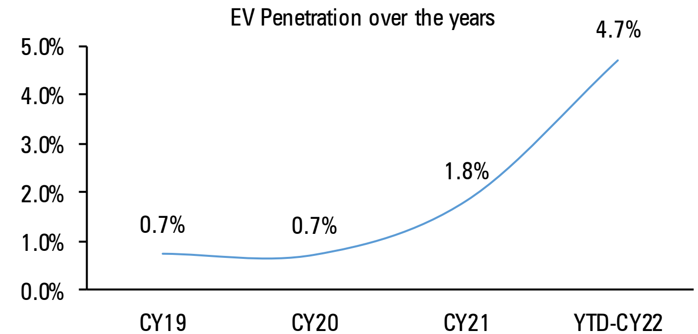
Themes for CY23

Electrification trend accelerating across categories in auto space

Electrification, as a trend, is picking up pace more swiftly than expected with domestic aggregate penetration now pegged at ~5% in YTDCY22 vs. sub 1% in CY19. Among vehicle categories, this transition is led by the 3-W domain with penetration increasing to >50% in YTD-CY22 (3.3 lakh units amid total sales of 6.3 lakh units) largely dominated by e-rickshaws. In the 2-W domain, it has increased from <1% in CY19 to 4% in YTD-CY22 (6.1 lakh units amid total sales of 1.5 crore units) with the electric PV space slowly picking up pace with penetration still below the 1% level (32,200 units amid total sales of 39.6 lakh units). In absolute terms, the **growth is exponential** in the 2-W and PV space with retail sales figures growing ~21x, 39x, respectively, over the years (CY19-YTD CY22).

EV Penetration across vehicle categories over last 3 years

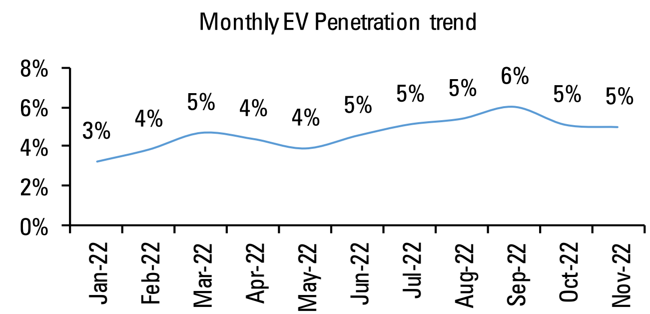
Year	2W			3W			PV		
	Electric-2W	Total 2W	EV Penetration (in %)	Electric-3W	Total 3W	EV Penetration (in %)	Electric-PV	Total PV	EV Penetration (in %)
CY19	29,044	1,73,44,621	0.2	1,31,361	7,12,367	18.4	832	32,08,256	0.0
CY20	28,020	1,32,08,697	0.2	88,211	3,73,904	23.6	3,161	28,64,299	0.1
CY21	1,49,643	1,29,42,845	1.2	1,53,647	3,71,712	41.3	12,018	34,59,208	0.3
YTD-CY22	6,09,378	1,51,30,519	4.0	3,31,541	6,28,775	52.7	32,187	39,59,460	0.8



Category wise monthly EV sales & penetration level

Particular	Electric-2W	Electric-3W	Electric-PV	Total EV sales	EV-2W (as% of total 2W sales)	EV-3W (as% of total 3W sales)	EV-PV (as % of total PV sales)
Jan-22	28,756	18,948	1,323	49,386	2.7%	46.1%	0.4%
Feb-22	34,048	19,084	2,275	55,717	3.3%	48.0%	0.8%
Mar-22	51,918	23,900	3,606	79,624	4.3%	48.7%	1.1%
Apr-22	51,205	21,088	1,762	74,711	4.1%	48.9%	0.6%
May-22	40,775	23,333	2,232	67,239	3.2%	55.3%	0.7%
Jun-22	42,835	26,931	2,886	73,154	3.7%	57.5%	0.9%
Jul-22	44,942	29,488	2,902	78,030	4.2%	57.6%	0.9%
Aug-22	51,401	32,035	2,862	87,012	4.5%	56.3%	0.9%
Sep-22	53,024	36,140	3,199	92,911	5.0%	56.3%	1.0%
Oct-22	76,955	34,799	3,266	1,15,896	4.5%	52.0%	0.8%
Nov-22	76,401	38,728	3,476	1,19,161	4.1%	52.0%	1.0%

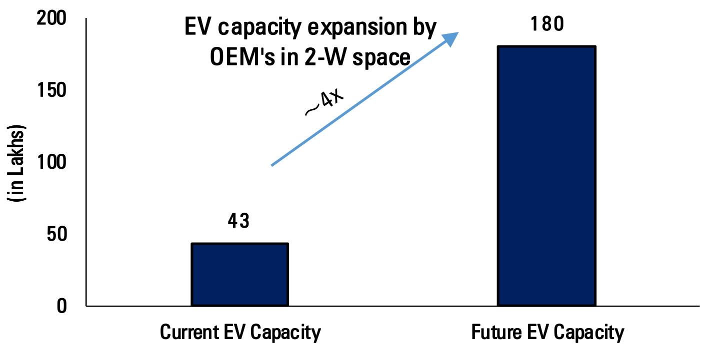
Source: Vahan, ICICI Direct Research

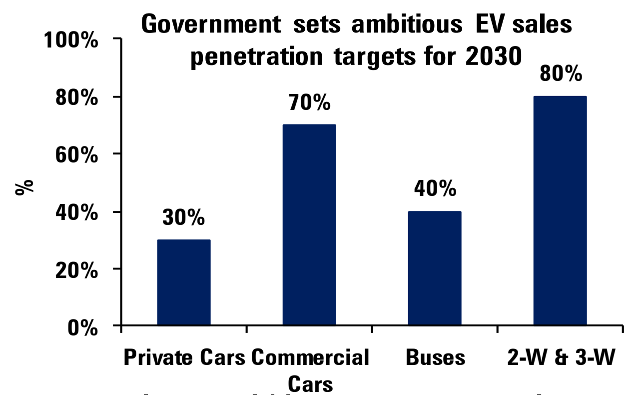


On YTD-CY22 basis, the trend is even more positive with total EV monthly retail sales climbing up to 1.2 lakh units in Nov'22. It is primarily driven by healthy Electric-2W monthly retail sales which has sustained above the 75,000 unit mark over the past two months

Electrification to further gain traction as players commit ~US$15+ billion capex spend amid supportive government policy framework

- Sensing greater adoption of EVs amid supportive government policy framework in terms of PLI Schemes, players across the value chain have committed domestic capex in excess of US$15 billion (₹ 1.2 lakh crore) over the next five to seven years. Global capex committed in this space (including battery) is pegged at US$500 billion by 2030
- Capex in this field is led by both listed (Tata Motors, M&M, TVS Motors, etc) as well as new age OEMs with prominent names being Ola Electric, Ather Energy, Hero Electric among others
- Interestingly, new age OEMs are expanding their existing capacities by ~4x vs. existing capacity base with total capacity in electric 2-W domain in the next five years seen at massive ~1.8 crore units. This is substantial in comparison to existing system wide conventional ICE powered vehicles capacities pegged at ~3 crore units
- Key enablers to drive electrification are government schemes like PLI scheme for Automobile & auto components (₹ 25,938 crore) and PLI for Advance Cell Chemistry (₹ 18,100 crore) largely promoting capex spend in this new field along with FAME-2 Scheme (₹ 10,000 crore)

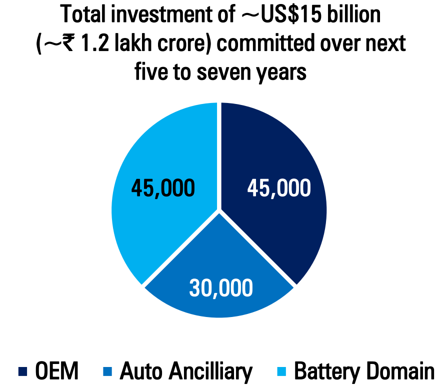




We expect the exponential growth in the domestic EV space to continue amid large capex commitment and execution underway by industry players (both existing players as well as new age start-ups).

Minor hiccups along the journey could be adherence to stringent battery safety norms, localisation content benchmark for availing FAME subsidies and the timeline of FAME subsidies itself (helps reduce initial cost of vehicle ownership by ~20%+), which is in force till FY24 end.

Source: Company, Various web sources, ICICI Direct Research

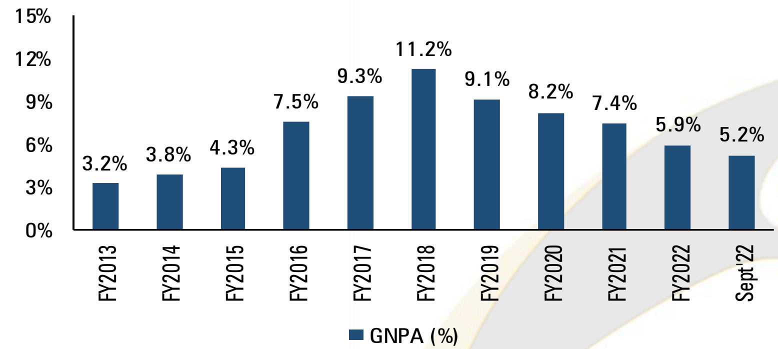


Core capex commitment at OEM level for EVs

Company	Investment amount (in ₹crores)
Tata Motors - PV	16,000
Suzuki Motor Gujarat	10,400
Mahindra & Mahindra	10,000
Ola Electric	3,500
Simple Energy	2,500
Hero Electric	1,200
Okinawa	1,000
TVS Motors	1,000
Tube Investments	1,000
Bajaj Auto	1,000
Ampere Electric	700
Ather Energy	330
Total	**48,630**

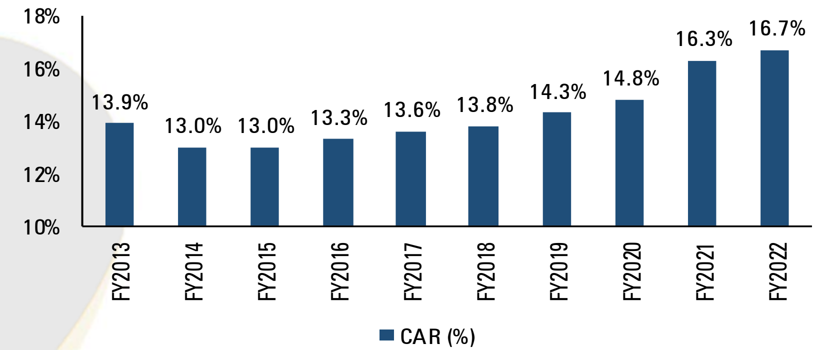
Banks poised for next round of re-rating cycle…

NPAs peaked in FY18; concerns on asset quality receding



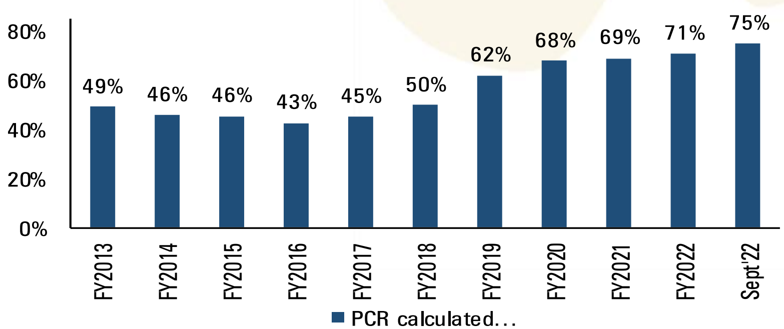
Post attaining their peak in FY18, banks witnessed a moderation in NPA, primarily driven by a reduction in corporate NPA. Repayment from retail segment remained steady despite Covid. Slippage from restructured pool has not been substantial. Thus, receding NPA tailwind led to outperformance of banks in the recent past

Historically higher CAR depicting stronger balance sheet

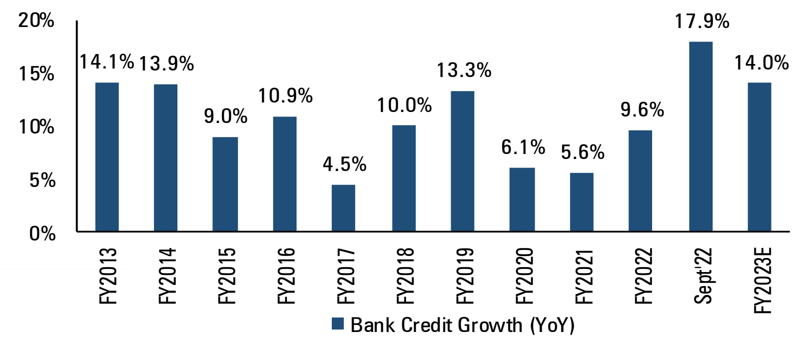


Historically, high capital adequacy (CAR) and strong coverage ratio to result in lower risk aversion from lenders. Retail/MSME segment has been a key driver of credit offtake and will continue to remain so. Expect corporate credit to pick up gradually

Elevated provision coverage cushion lender's risk aversion



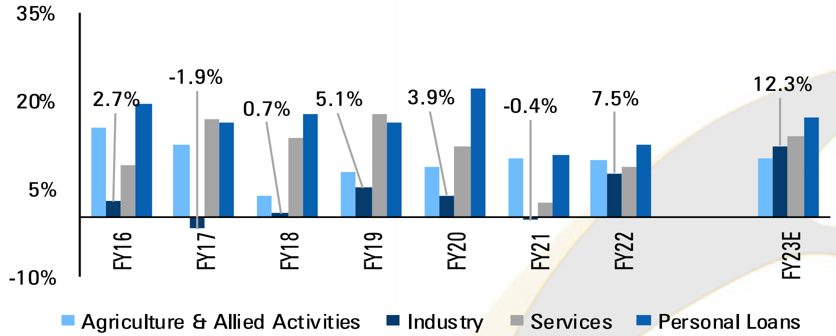
Bank credit growth resilience to sustain at ~14-15% in FY23



Source:: RBI, company reports, media sources, ICICI Direct Research

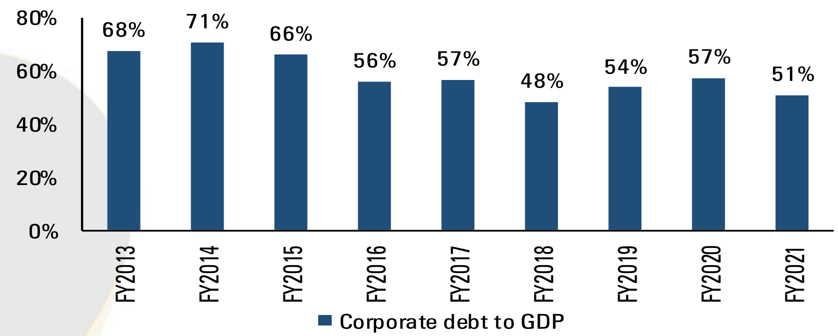
Growth in retail to sustain; pick-up in corporate remains catalyst…

Revival seen in corporate credit anticipated to sustain



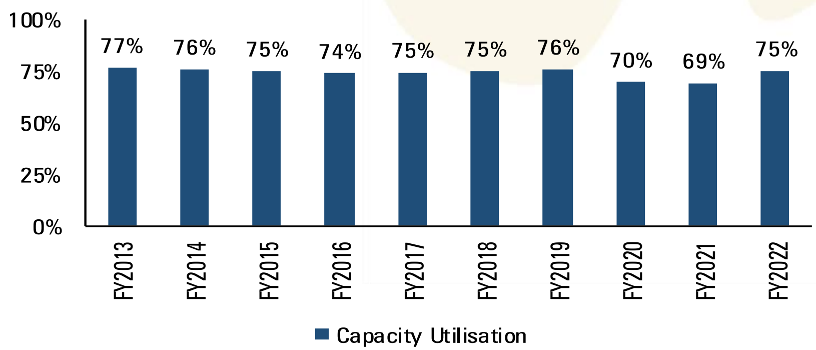
Corporate segment remained a dragger in the past five years led by NPA and muted capex. Improvement in demand conditions aligning with supply factors to drive corporate capex. Normalising capacity utilisation, government's capex push and lower level of corporate leverage hint at a gradual pick-up in credit demand from corporates.

Corporate debt to GDP remains lower

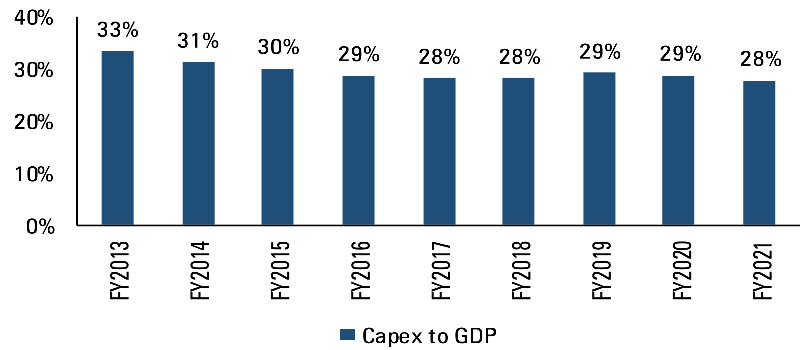


Historically elevated affordability to keep momentum in retail segment - "Housing, Auto and unsecured loans" unabated. Continued healthy momentum seen in agri/MSME segment while corporate credit demand to pick up supporting overall growth.

Capacity utilisation signals beginning of capex activity



Capex to GDP to shore up…



Source:: RBI, company reports, media sources, ICICI Direct Research

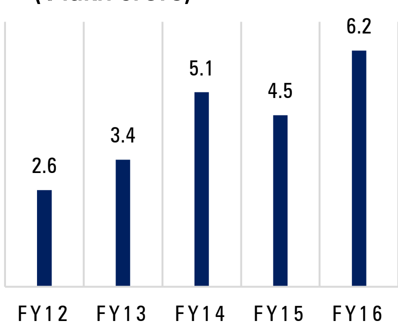
Capex: Government to the fore with all guns blazing…

ICICI direct Research

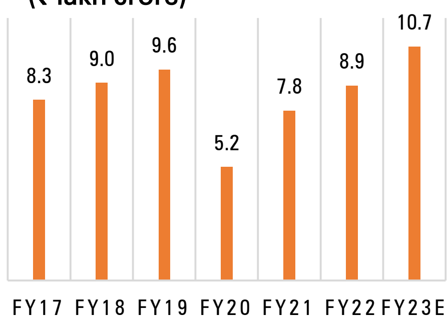
We expect central government allocation to capex to grow 18% YoY in CY23 led by sectors like railways, defence, housing and roads, thereby exhibiting 23.5% CAGR in capex allocation over FY19-24E. Activity in broad system wide indicators like projects under planning and tendering/awarding activity are at all-time highs and clearly indicate the resumption of the capex cycle has multifold legs in the offing. For CY23 and beyond, coupled with traditional segment, we expect power T&D, renewables, digital automation, data centres, process industries to see robust capex from state governments, private players and PSUs.

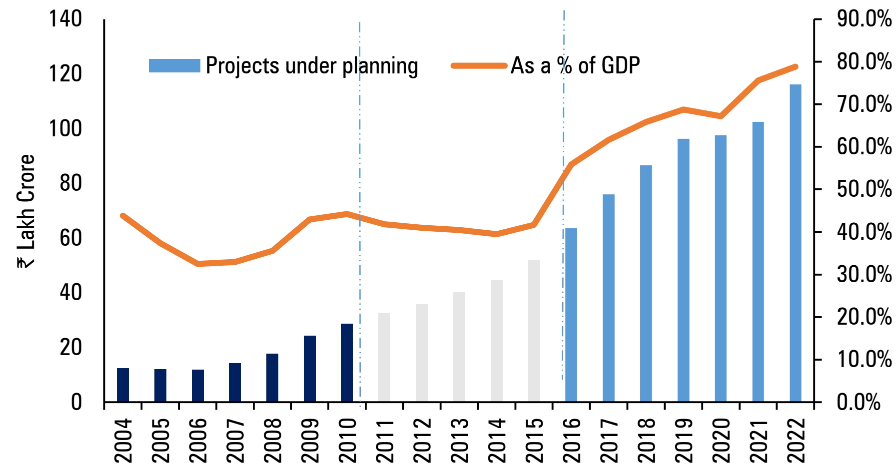
Projects under execution in the 2004-10 capex cycle were at an average of ₹ 16.5 lakh crore (~40% of GDP), whereas the same as of FY22 was at ₹ 116 lakh crore (78% of GDP), which means percolation of ordering will witness strong momentum across FY24-25. Similarly, average tendering during FY12-16 averaged at ₹ 3.9 lakh crore per annum whereas the same is expected to exhibit an exit rate of ~₹ 11 lakh crore as of FY23E.

Trend in tendering (FY12-16) (₹ lakh crore)

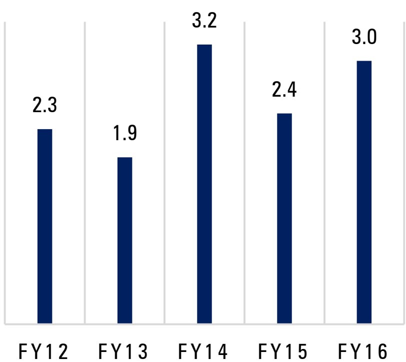


Trend in tendering (FY17-23E) (₹ lakh crore)

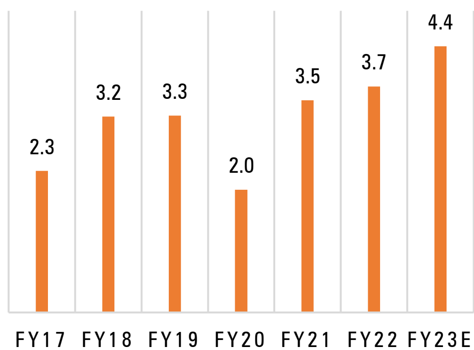




Trend in ordering (FY12-16) (₹ lakh crore)



Trend in ordering (FY17-23E) (₹ lakh crore)



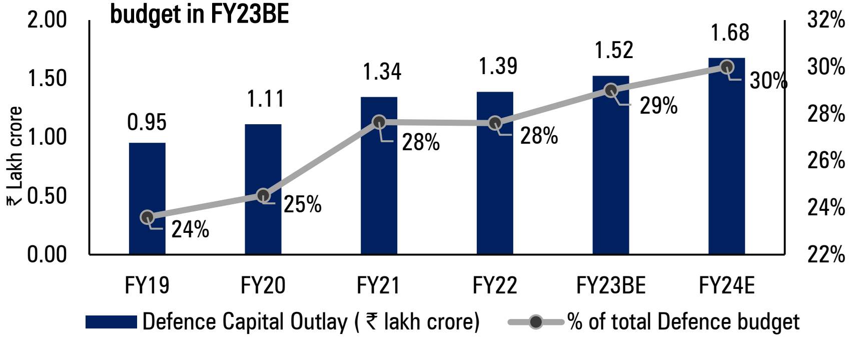
Strong budgetary allocation to all major segments for capex (₹ crore)

	FY19	FY20RE	FY21RE	FY22RE	FY23BE	FY24E	CAGR
MoRTH	67646	72059	92053	121251	187744	210273	25.5%
Railway	52837	65837	108398	117100	137100	164520	25.5%
Defence	95231	110394	135510	138351	152370	182844	13.9%
Housing & Urban Affairs	15773	19197	10162	25957	27341	32809	15.8%
Other	72258	78908	91870	146597	245078	294094	32.4%
Total	**307714**	**348908**	**439085**	**550740**	**750246**	**885214**	**23.5%**

Source:: RBI, Projects today, ICICI Direct Research

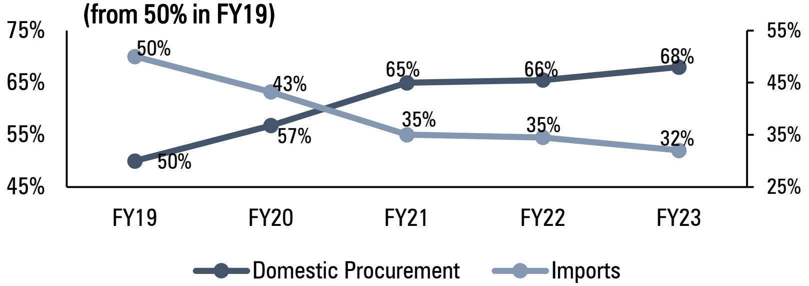
Defence Sector: Is the shift structural?

Capital outlay increasing at ~11% CAGR; ~29% of total defence budget in FY23BE

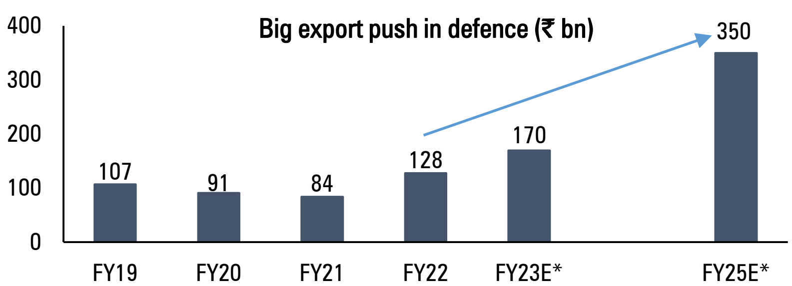


Source: Budget documents, ICICI Direct Research.

Rising indigenisation; imports at 32% of total defence procurement (from 50% in FY19)



Source: Budget documents, ICICI Direct Research.



Source: Company , ICICI Direct Research. ** Govt estimates*

- The government has already notified four positive indigenisation lists till now in complex systems, which will be procured from domestic companies only. These consist of total 411 platforms include aircraft, helicopters, submarines, warships, missiles, unmanned aerial vehicles, radars, sensors, etc
- Total 3739 items (including components or sub-systems) were notified by government that will be procured by PSUs from domestic private players, MSMEs and start-ups
- Private sector participation to play key role in increasing indigenisation levels. For example, indigenisation level of under developed major platforms expected to increase to 80-85% in aircraft (vs. 60-65% at present)
- The cumulative order backlog of defence PSUs is ~ ₹ 2.2 lakh crore, implying book to bill ratio of ~3.8x on TTM basis, with healthy pipeline of orders for many platforms
- DRDO is playing major role in developing new generation/modernised platforms that will eventually be manufactured in India and gives strong visibility for longer term

Total opportunity size for domestic defence players is estimated at over **₹ 5 lakh crore in the next five years (FY23-27E)** driven by focus on procurement of modernised indigenous platforms and arising export opportunities from friendly countries

Major Indigenous platforms under development or in process of procurement

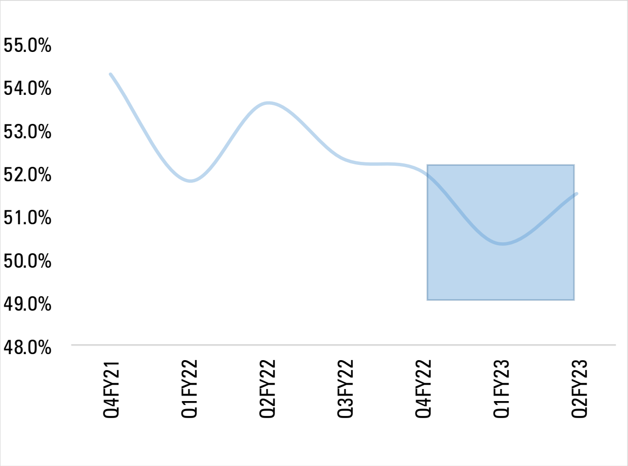
Platform	Type	Beneficiaries	Platform	Type	Beneficiaries
Tejas MK2	Combat Aircraft	Hindustan Aeronautics, Bharat Electronics, Data Patterns, Bharat Dynamics	IAC-2	Warship	Cochin Shipyard
AMCA			Landing Platform Dock		Cochin Shipyard, Mazagon Dock
TEDBF			Conventional Submarines		Mazagon Dock, L&T
Sukhoi-30 upgrades			Next Gen Destroyers		Mazagon Dock
HTT-40	Trainer Aircraft		Next Gen Frigates		Mazagon Dock, Garden Reach
HJT-36			Next Gen Corvettes		Cochin Shipyard, Mazagon Dock, Garden Reach
HLFT-42			Patrol Vessels		
LUH	Helicopter		Akash SAM	Missiles	Bharat Dynamics, Bharat Electronics
LCH			QRSAM		
ALH			MRSAM		
IMRH			Astra ATA		
Archer	UAV		ATGMs		
Tapas			Rudram ARM		
CATS			Nirbhay STS		

Source: ICICI Direct Research.

FMCG: Gross margins bottom out; volume recovery in sight...

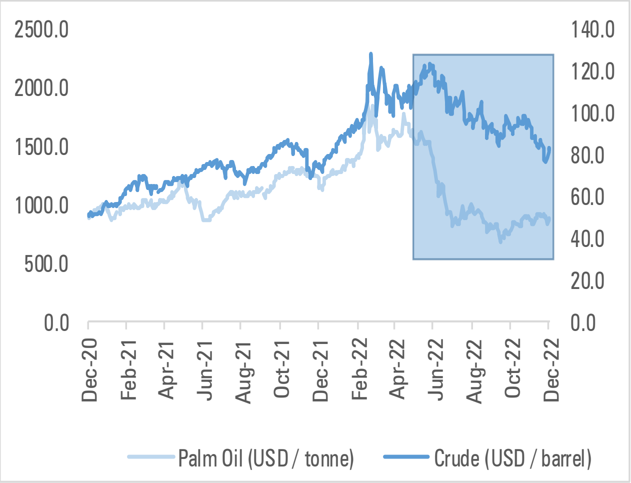
ICICI direct Research

Gross margins bottoming out



* Our FMCG Coverage universe

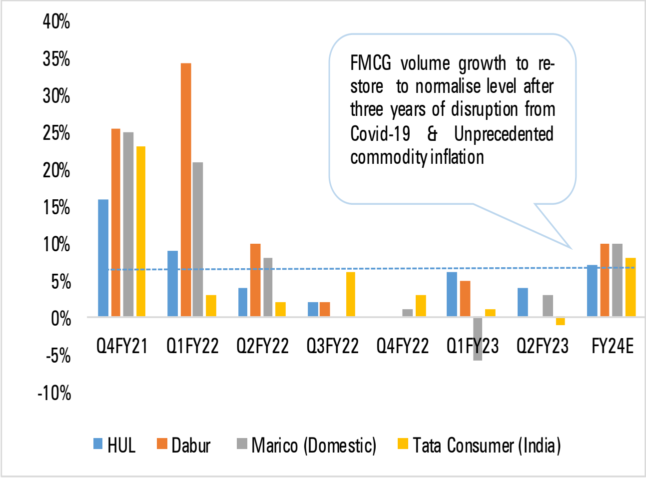
Crude, palm oil prices dip sharply



- Major commodity prices witnessed unprecedented upward movement in 2021 and H1FY22. Palm oil & crude moved up 2-3x from pre-Covid levels until May 2022
- This steep inflation not only resulted in gross margin contraction of 200-600 bps in H1FY23 but also adversely impacted volume growth for FMCG companies
- Subsequently, crude & palm oil have dipped 30-50%. We believe gross margins of FMCG companies have bottomed out in Q2FY23 while a sequential improvement is imminent
- We believe FMCG companies would increase consumer promotions & advertisement spends to perk up volume growth

- FMCG companies are expected to increase grammages for low unit packs (LUPs) to pass on the benefit of a commodity dip, which would help restore rural volume growth in FY24
- Agri commodity prices have also witnessed significant upward movement in the last one year on account of global shortage and higher exports of wheat and rice from India
- Higher than minimum support prices (MSP) would aid rural income levels and, in turn, demand for FMCG products. We believe rural income would get a boost of ₹ 2.5 lakh crore due to higher prices of major agri commodities

Volumes to recover after three years of disruption



Additional farmer income aids higher agri commodity prices

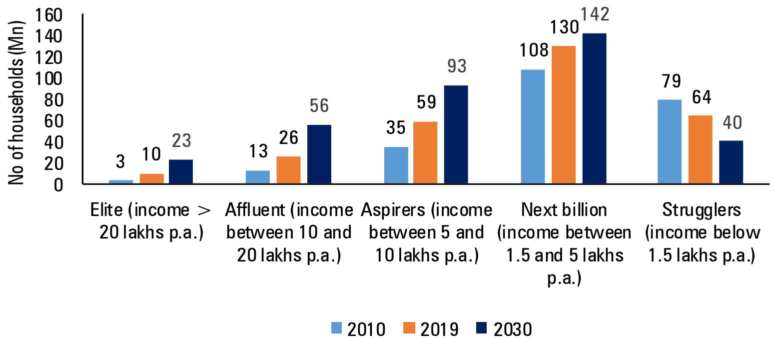
	MSP (in ₹ / kg)	Average Market Price (₹/kg)	Increase in last one year (in kg)	Production 2021-22 (in million tonne)	Additional Income (₹ crore)
Wheat Production	20.2	27.2	7.1	106	74730
Rice Production	20.4	26.0	5.6	120	67200
Milk Prices	-	40	3	210	63000
Cotton	60.8	240	50	6	29000
Sugarcane	3.5	3.5	0.3	450	11250
Maize	19.6	22.5	2.9	23	6653
					251833

Source: FMCG Companies, ICICI Direct Research, Ministry of Agriculture, Bloomberg

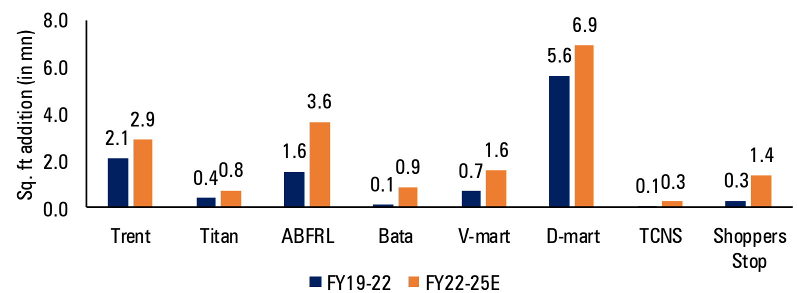
Retail sector: Post pandemic pain, organised players to gain more prominence

Post pandemic disruptions, organised retail players have gained more prominence owing to their healthy balance sheets and pan-India distribution reach. Retailers in our coverage universe displayed a robust performance in H1FY23 (normalised after a gap of two years), with the revenue recovery rate comfortably surpassing pre-Covid levels (120-140%). Normalisation of the business scenario has led retail companies to witness healthy growth in H1FY23 driven by consumers refreshing their wardrobes and pent up demand. From a longer horizon, structural changes in consumer behaviour and enhanced penetration of organised retail places, the sector is at an inflection point. It appears to be on the cusp of delivering sustained strong revenue growth. We expect the share of organised retail to increase from 18% in FY22 (US$155 billion) to 26% in FY25 (US$286 billion).

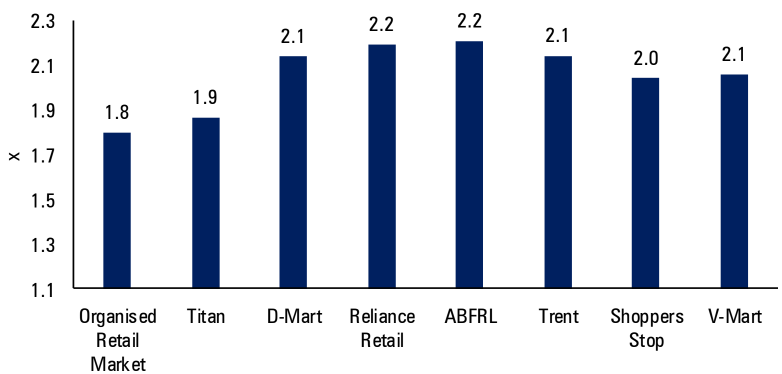
1.8x increase in Number of households (2019-2030) with income above 5 lakh p.a. to aid higher retail spending



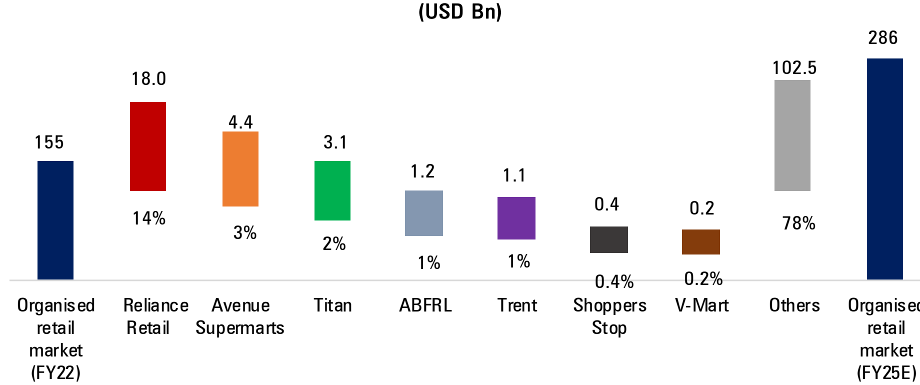
18.0 mn space addition expected in FY22-25E (ex. Reliance Retail) vs. 11.0 mn added in FY19-22 (~1.6x). Enhanced penetration would enable capturing demand from new set of customers



Organised Retail market size to grow 1.8x over FY22-FY25; Large organized players to outpace industry growth and double their revenues over the same period



We believe top retailers in our coverage could contribute more than 22% of the incremental market size growth of organised retail. Reliance to contribute 14% of incremental revenues given its presence across all major consumption baskets. (USD Bn)

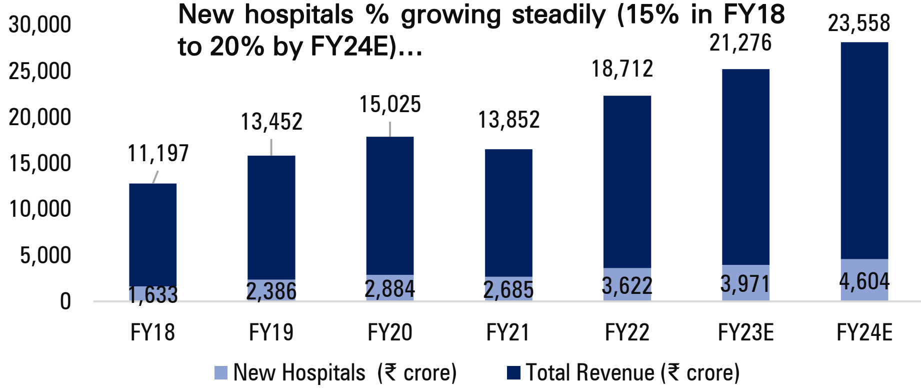


Source: Wazir Advisors RAI, BCG, ICICI Direct Research

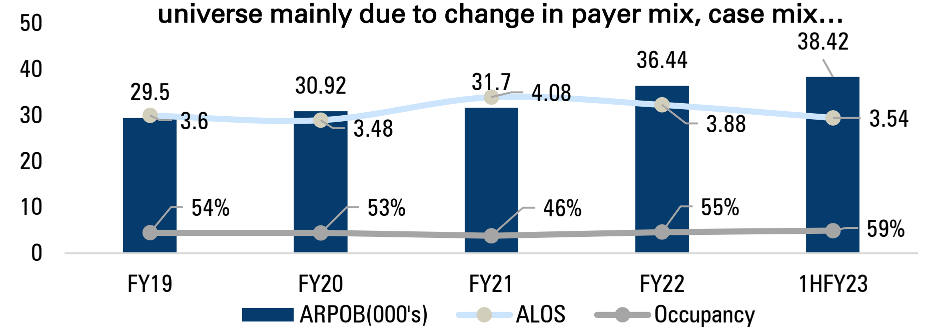
Hospitals structurally well poised for rounded growth as industry-specific parameters continue to improve…

- **Post Covid, the approach** is more nimble-footed with more focus **on remunerative payer mix and case mix, higher emphasis on tele-medicine**, digital app based drives for treating patients at remote locations and incremental home-care treatments. Pent up demand for **elective surgeries** and **"Long-Covid induced'** changed disease pattern would be key drivers
- We expect a **significant improvement** in key parameters such as **average revenue per operating bed (ARPOB)** on the back of **improved occupancy levels, Improved payer mix** (higher insurance patients and lower government scheme patients), **lower average length of stay (ALOS)** and **better operational efficiency.** We expect a change in case mix with **more complex procedures** such as targeted **oncology, transplants, cardiovascular and neurological procedures** to have higher contribution
- We note that **substantial bed addition** in **FY15-19 took place in Tier II/III cities.** As these beds attain **break-even level**, the same could have **positive implications for financials. New hospitals continue to influence overall numbers due to better earnings potential and reach** as they try to plug the efficiency gap with matured hospitals

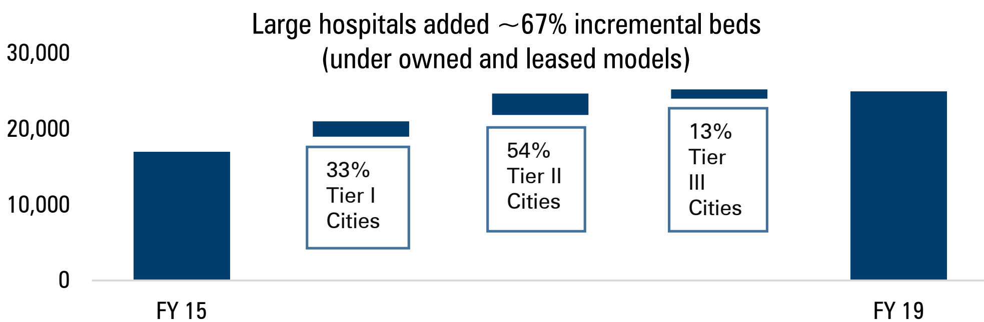
New hospitals % growing steadily (15% in FY18 to 20% by FY24E)…



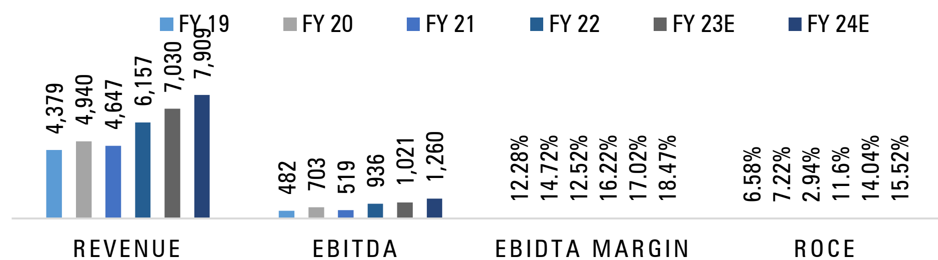
Improvement in ARPOB, occupancy rate, ALOS for coverage universe mainly due to change in payer mix, case mix…



Increasing penetration of hospital chains in tier II, III locations…



We expect these improved hospital-specific parameters to drive performances for universe in FY23E, FY24E as well…

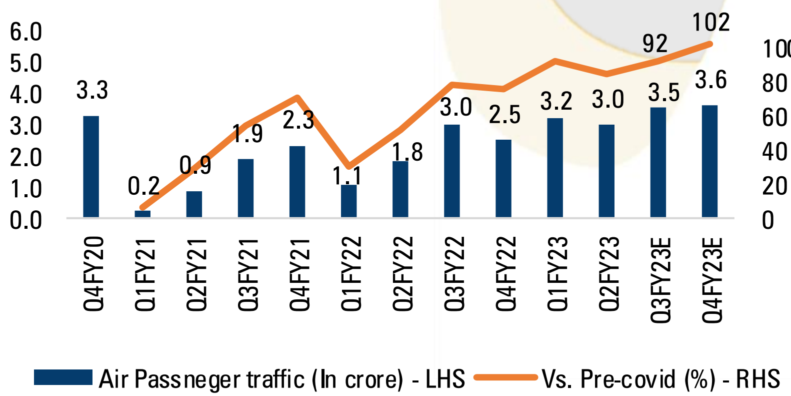


Source: Medanta RHP, ICICI Direct Research

Hotels: Structurally well placed to gain further traction…

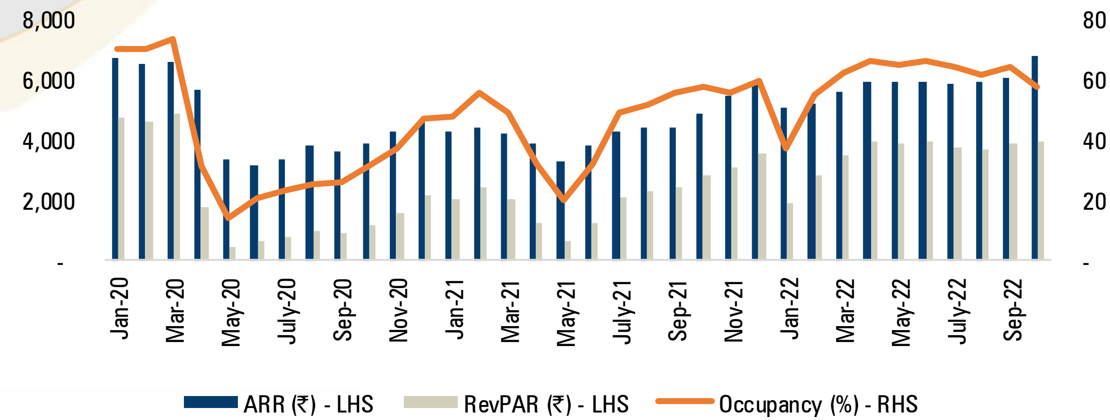
- Post a sharp rebound in CY22, we expect the performance of the Indian hotel industry to continue to stay healthy in CY23 as well
- Domestic air traffic is now inching towards pre-Covid levels. Hotel booking data also suggests continuance of strong buoyancy in demand led by the wedding & holiday season along with healthy corporate demand. Further, India's G20 presidency in 2023, ICC world cup and easing of e-visa rules are expected to lead to a sharp rebound in foreign tourist arrivals in CY23
- The government is also aiming to make India one of the top five tourism destinations in the world by 2030 under the new tourism policy. This would provide growth visibility from a long-term perspective
- The current inventory growth is significantly lower than the growth witnessed during FY09-13 post the global financial crisis. The hotel supply pipeline is expected to grow only at a five year CAGR of 3.5-4%, adding ~18,400 rooms to the current pan-India premium inventory of 90,974 rooms across 10 key cities
- This will facilitate the earnings up-cycle as demand improves over the medium term while supply will lag demand with cautious expansion approach by hoteliers. The significant part of the recent inventory is coming mainly through management contracts and operating leases

Domestic air passenger traffic now reaching pre-Covid levels…



Source: DGCA, ICICI Direct Research

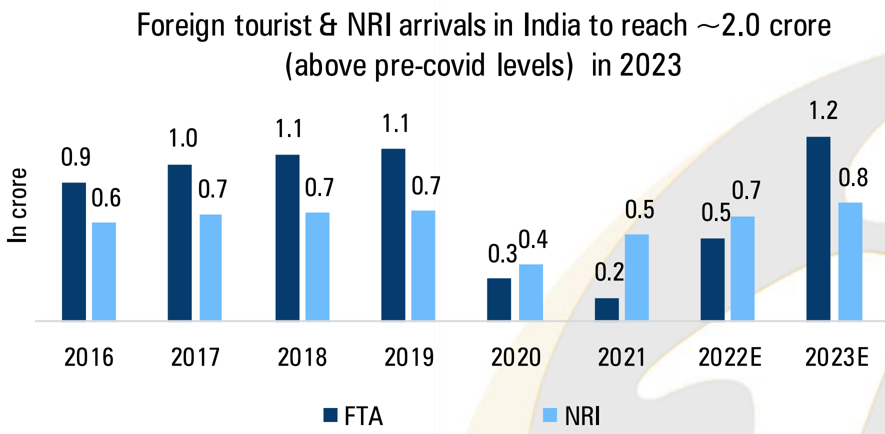
Room rates at all India levels trending higher by ~10-12% from pre-Covid levels on stronger demand…



Source: HCS-Anarock report, ICICI Direct Research

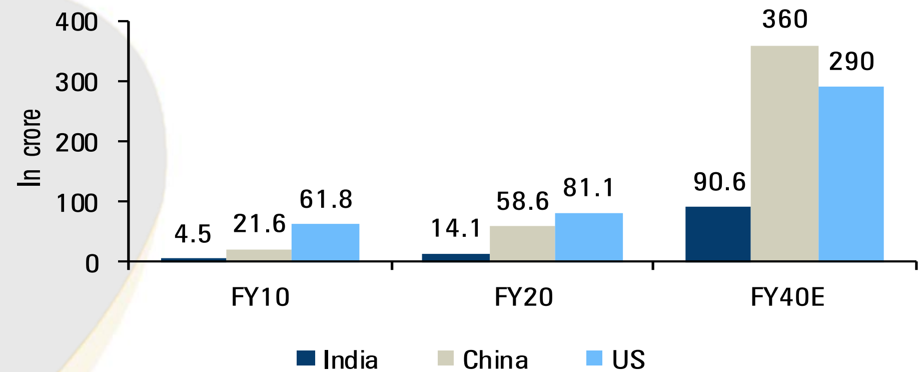
Hotels: Room supply growth to lag demand growth…

Easing visa restrictions, G20 summit, ICC World Cup to spur growth in FTA during 2023…



Source: Ministry of tourism, ICICI Direct Research

Domestic air passenger traffic growth to stay healthy, projected to grow at ~9% CAGR to reach ~91 crore (0.6x per capita) by 2040



Source: DGCA, Ministry of tourism, ICICI Direct Research

Room supply projected to grow at 3.8% CAGR over next five years based on current inventory pipeline…

Branded hotel room supply projections								
Cities	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2027E**	**5 Year CAGR(%)**
Delhi	14296	14450	14952	15027	15024	15082	16,675	2.0
Bengaluru	11995	12594	13366	13691	13647	14022	18,579	5.8
Mumbai	12565	12595	12639	13070	13245	13217	17,923	6.3
Chennai	8332	9061	9099	9657	9625	9763	10,007	0.5
Goa	6400	6386	5979	6772	7448	8244	10,464	4.9
Hyderabad	6254	6846	6672	7393	7381	7450	7,778	0.9
Pune	6445	6353	6212	6712	6615	6689	6,993	0.9
Gurugram	5263	5890	5538	5589	5873	6151	8,009	5.4
Jaipur	5058	5352	5285	5553	5471	5478	7,504	6.5
Kolkata	3199	3652	3712	4579	4841	4878	5,432	2.2
Total of top 10 cities	**79807**	**83179**	**83454**	**88043**	**89170**	**90974**	**109364**	**3.8**

Source: Hotelivate, ICICI Direct Research

Domestic formulations: Steady growth engine, saviour in tough times…

ICICI direct Research

- **Domestic branded formulations** of the I-direct Universe continued to track the Indian pharma market (IPM) trend that is poised to maintain normalised growth trajectory of ~10% for FY24E on the back of **incremental chronic disease prevalence, new products introduction, MR and geographical expansion and growing patient awareness campaigns by pharma companies**
- **Despite volatility in volumes, companies are able to initiate price hikes on a consistent basis, a trend which is in stark contrast to US generics**
- **We are witnessing growing quest for brands acquisition to fill up the portfolio gaps in important therapies (recent Torrent Curatio deal)**
- **Growing influence of domestic formulations** in the overall financials of companies bodes well from a stability point of view with secular growth, lower cash burn, better return ratios and a controlled working capital cycle

Pricing power remains consistent for IPM despite volatility…

MAT NOV'20				MAT NOV'21				MAT NOV'22			
Value Growth	Vol Growth	Price Growth	New Introduction	Value Growth	Vol Growth	Price Growth	New Introduction	Value Growth	Vol Growth	Price Growth	New Introduction
5%	-3%	5%	3%	19%	9%	5%	5%	6%	-1%	5%	2%

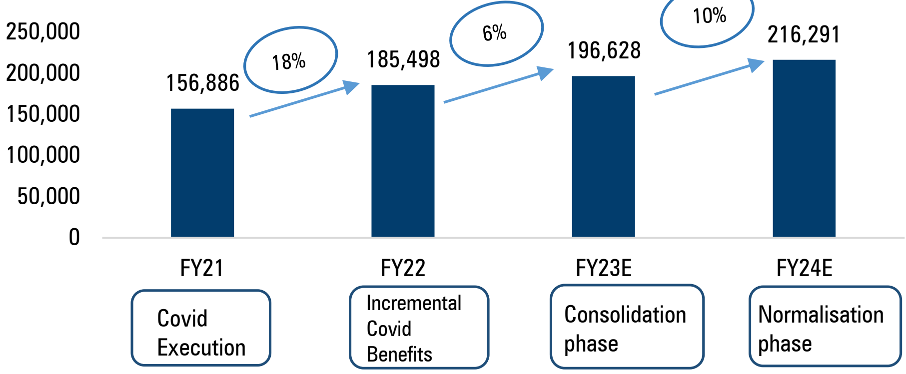
Field force expansion underway for market and brand penetration…

Company	Field Force Outlook
Cipla	Expansion in pockets of geographies Tier-2 onwards
Ipca	Adding four marketing divisions and ~1200 MRs
Sun Pharma	A ~10% expansion for brand focus and geographical expansion
Torrent Pharma	Added 300 MRs in Q1FY23 and Q4FY22 each

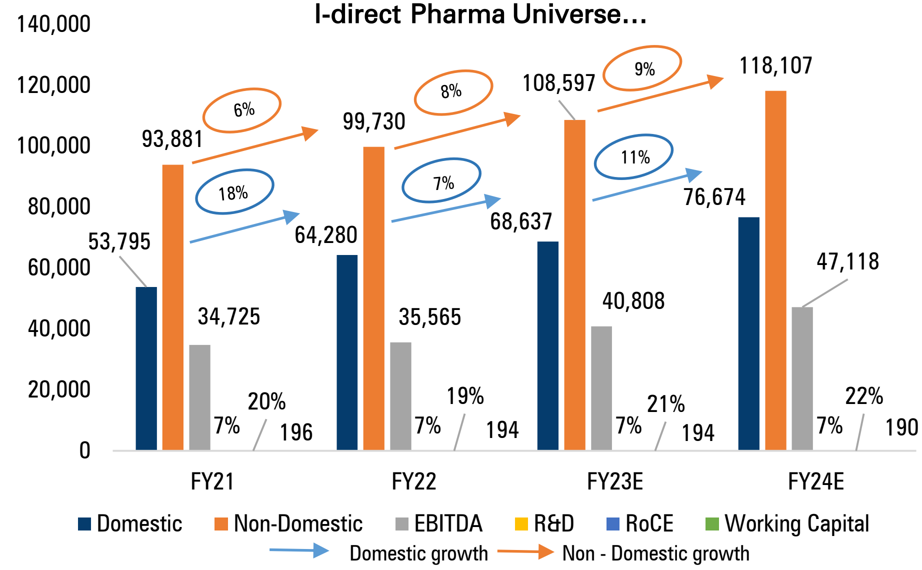
Notable M&A in 2022 in Indian Pharmaceutical Market (IPM)…

Acquirer	Target	EV/Sales (x)
Mankind	Panacea Bio	8.5
Torrent	Curatio	8.4
BSV	TTK Health	5
JB Chemicals	Sanzyme	3.9
Dr Reddy's	Novartis (Cidmus Brand)	3.6
Lupin	Anglo French	3.4

Indian Pharmaceutical Market (in ₹ crore)



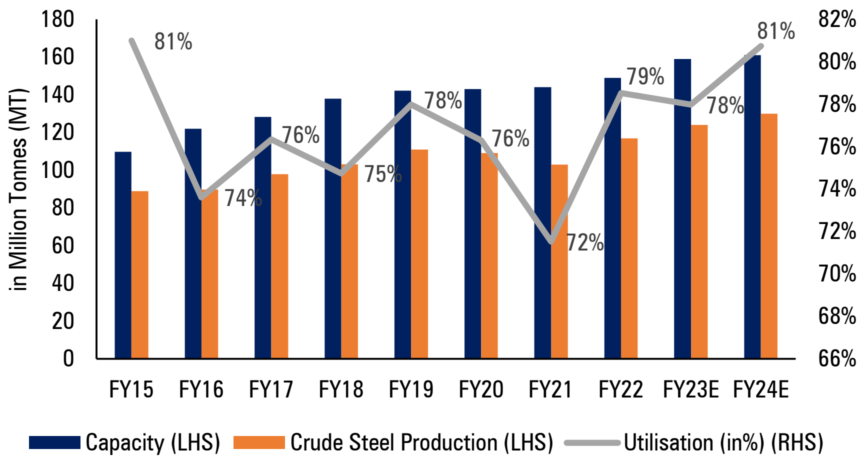
Domestic sales % growing in blended company models in I-direct Pharma Universe…



Source: IQVIA database, ICICI Direct Research

Modest recovery expected in Chinese steel demand in CY23E; India remains bright spot globally…

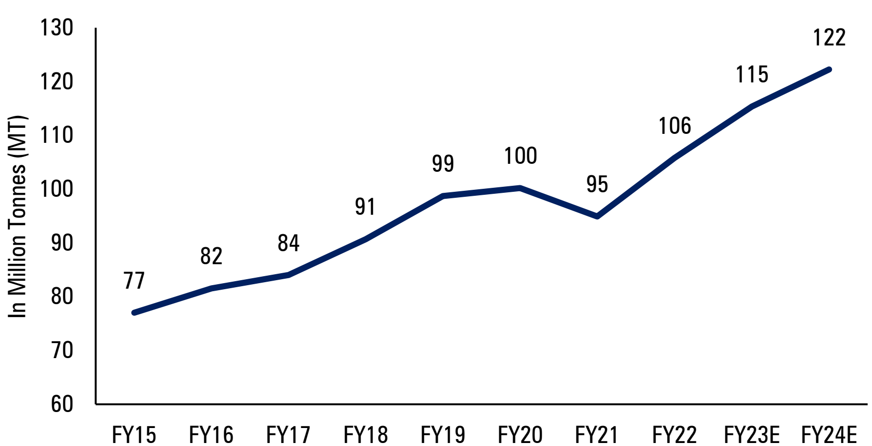
Indian steel installed capacity, Production and capacity utilisation



Source: Bloomberg, ICICI Direct Research.

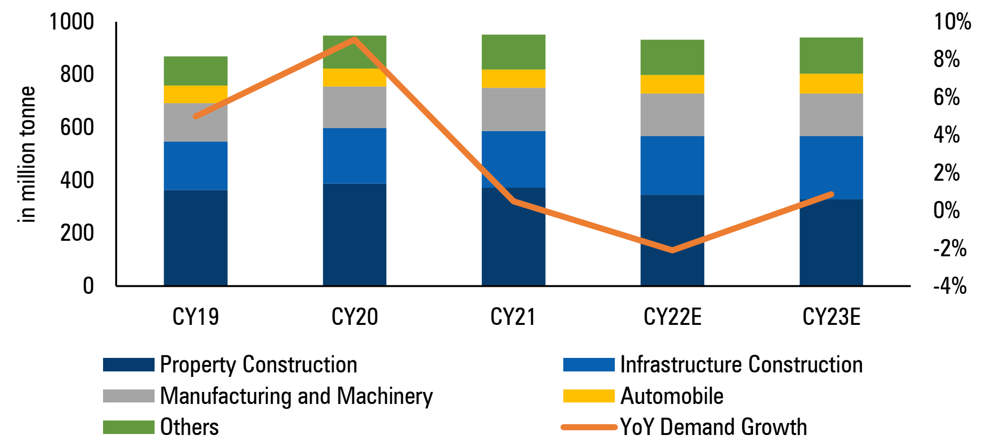
- In CY23E, while a recovery in world steel demand, in general, is likely to be moderate and volatile in nature, India remains a bright spot globally. Global steel demand is likely to contract by ~2.3% to ~1797 MT in CY22E and then see a marginal recovery of ~1% to ~1815 MT in CY23E. On the other hand, Indian steel demand is likely to increase by ~9% to ~115 MT in FY23E and further increase by ~6% in FY24E to ~122 MT
- As the global steel demand recovery is likely to be uneven, prices are likely to remain volatile. In such a scenario, healthy domestic demand growth augurs well for Indian steel players
- Post subdued GDP growth in CY22E, there are expectations of a modest recovery in China's economic growth in CY23E. Improved GDP growth coupled with the recent steps taken by authorities to relax Covid related restrictions, is also likely to aid a moderate recovery in Chinese steel demand in CY23E

Domestic finished steel demand (in MT)



Source: Bloomberg, ICICI Direct Research.

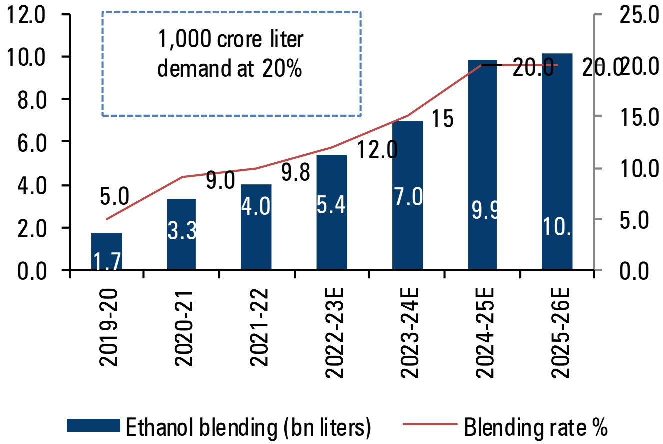
Chinese steel demand likely to decline ~2% YoY in CY22E, modestly recover by ~1% in CY23E



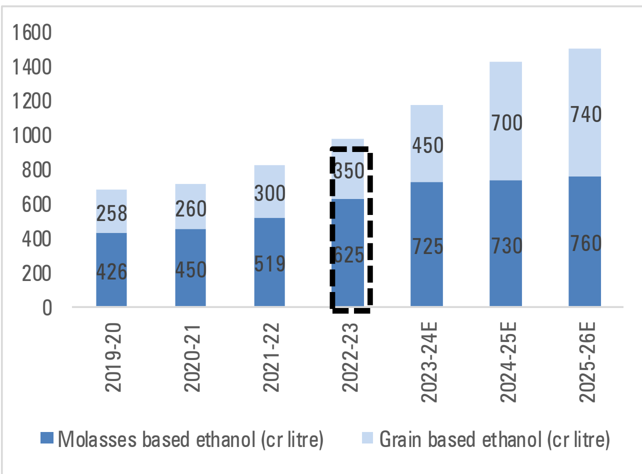
Source: Bloomberg, ICICI Direct Research.

Sugar: 20% ethanol blending goal on track; sugar exports to aid profit

Ethanol demand for blending with petrol

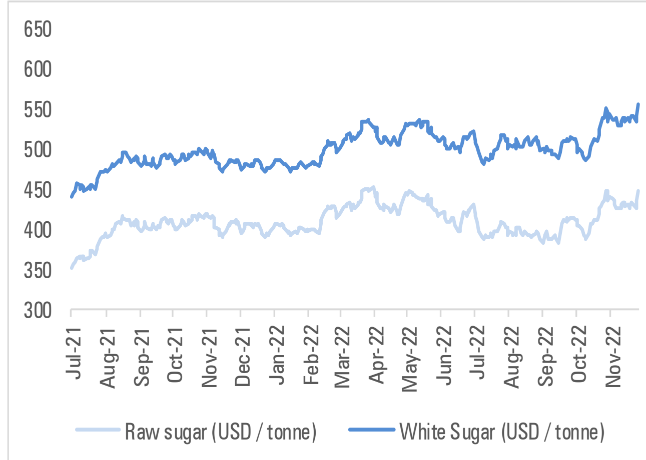


Sugarcane & grain based distillery capacity



- Ethanol blending touched 10% level in 2022 with OMCs procuring 400 crore litre of ethanol largely from sugar companies
- India's total distillery (ethanol + ENA) capacities have reached 923 crore litre levels in 2022. The government's target of 20% blending by 2025-26 is on track with expected addition of 500 crore litre of new molasses and grain based capacity in the next three years
- Sugar companies are likely to see strong ethanol volume growth given major companies have completed their distillery capex in last one year
- With the introduction of flex fuel vehicles, ethanol blending beyond 20% would be possible and sugar companies would be encouraged to take further capacity addition in future
- Despite record sugar production, sugar inventory at 5.7 million tonnes (MT) is at lowest levels in last five years mainly on account of sugarcane diversion towards ethanol and favourable sugar exports. **Sufficient sugarcane availability to divert more than 6 MT of sugar towards ethanol**
- Global refined white sugar prices touched multi-year highs making exports highly profitable. We believe companies with good refined white sugar capacities would benefit in the medium term
- Sugar recovery and crushing is expected to improve in 2022-23 season in UP. This is likely to reduce cost of production & boost profitability

Surge in refined white sugar prices driving exports



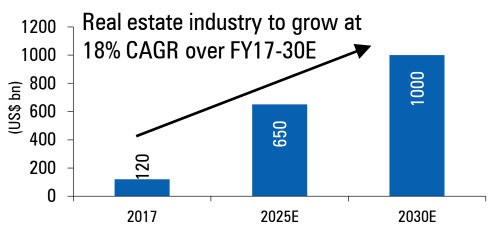
Sufficient sugar to raise ethanol

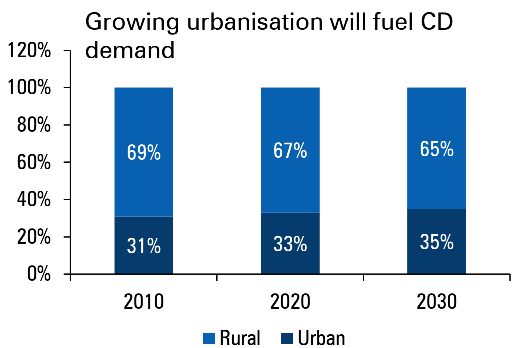
In mn tonnes	2019-20	2020-21	2021-22	2022-23E	2023-24E
Gross Sugar Production	28.0	33.4	39.2	39.3	39.0
Ethanol Diversion	0.8	2.2	3.4	4.8	6.0
Sugar production	27.2	31.2	35.8	34.5	33.0
Sugar consumption	25.3	26.6	27.4	28.0	28.5
Sugar Inventory	10.7	8.3	5.7	5.7	5.7
Exports	5.8	7.1	11.0	6.5	4.5
Imports	0.0	0.0	0.0	0.0	0.0
Inventory for days Consumption	155	114	76	74	73

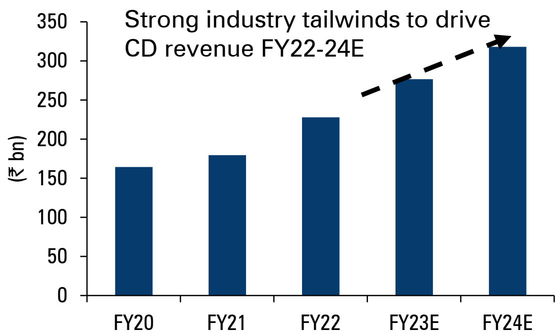
Source: Niti Aayog , ICICI Direct Research, ISMA , Bloomberg , Sugar companies

Consumer Durables: Structural growth themes intact; easing input costs to propel earnings…

The muted price performance of consumer durable (CD) companies in the last one year was largely due to a sharp decline in the margin profile of companies amid raw material inflationary pressure. Key input costs have now fallen in the range of 20-50% since the start of FY23. This, coupled with structural growth themes like real estate upcycle and growing urbanisation are expected to drive earnings growth for consumer durable companies.



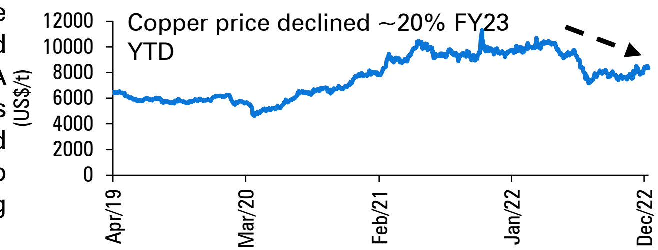


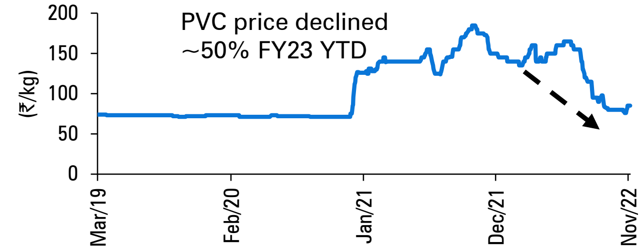


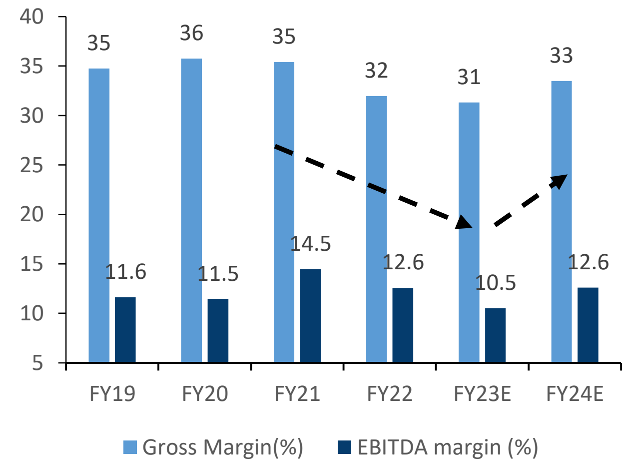
- CD companies were underperformers in the last one year mainly due to slowing rural demand and pressure on EBITDA margins (H1FY23 EBITDA margins were down in the range of ~200-400 bps YoY) amid high inflation, adverse sales mix and unfavourable base. The one year forward P/E also dropped ~30% from its peak in FY23, discounting near term earning pressure

Way ahead…

- Key raw materials (polymers & copper) have witnessed a price correction in the range of 20-52% in FY23 YTD. With raw material prices returning to their pre-Covid levels, we see margin expansion kicking in from FY24E onwards. We believe EBITDA margins will expand by ~200 bps YoY to ~13% in FY24E (which is better than its pre-Covid margin) supported by easing raw material costs and improving sales mix
- On the demand front, we believe long term structural growth themes such as real estate upcycle and growing urbanisation have remained intact. Strong growth in the real estate industry (18% CAGR over FY17-30E) and growing urbanisation will be key demand drivers for small and large home appliances in India. Therefore, we believe CD companies will post strong revenue CAGR of ~18% over FY22-24E





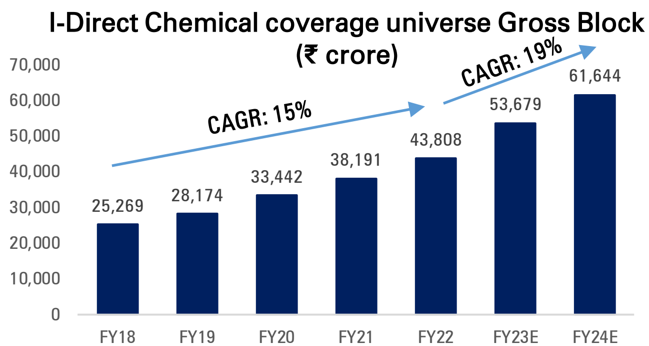


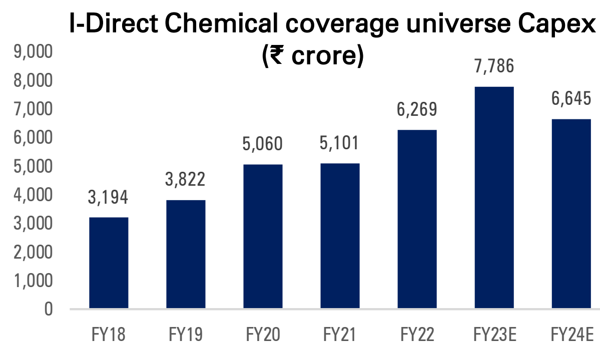
Source: Crisil, ibef.org, Bloomberg ICICI Direct Research,

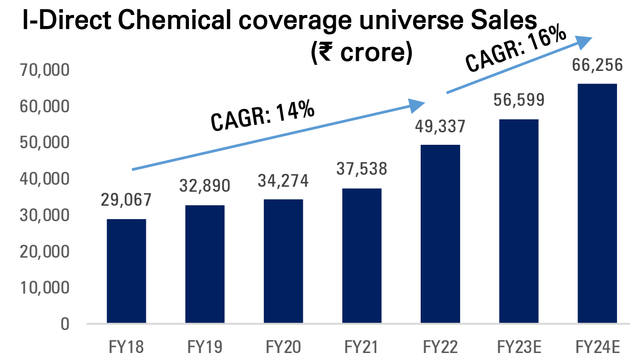
Note: Numbers mentioned are summation for pure consumer durable companies such as Havells, V-Guards, Crompton Greaves Consumer Electrical; companies with EPC business have been excluded due to non availability of their standalone consumer segment data

Chemicals to maintain growth tempo with focused capex, foray into new segments, opportunities from global upheaval…

- Persistent growth capex to **1) cash in on China plus one opportunities in exports, 2) tap import substitution theme in the domestic market and 3) optical shift towards specialty chemicals from commodity chemicals** have culminated into consistent sales traction for chemical players
- Our coverage universe capex has grown significantly during FY18-22 causing the gross block to grow at a CAGR of 15% during the same period. During this period, sales have grown at 14% CAGR. We expect the momentum to persist. **Going ahead, we expect gross block addition to grow at 19% CAGR during FY22-24E as companies continue to spend on capex with high intensity. Based on this, we expect sales CAGR of 16% during FY22-24E**
- Calculated shift **towards 1) new untapped areas besides value added options for existing products, 2) backward integration with focus on n - 1, n - 2, n - 3 processes and cashing on the same and 3) opportunistic approach with specific targets emanating from the global upheaval, be it China tightening or the European crisis**
- Companies continue **to cash in on expertise developed over the years in chemistries such as fluorination, bromination, lithium ion, etc,** and continue to move into niche applications in agrochem, pharma intermediates, EV batteries with added traction from CMO/CDMO deals







Companies entering into new segments

No.	Companies	New Segments / new deals
1	SRF	1. Maiden foray into PTFE segment
		2. Aluminium Foil project
2	Vinati	1. MEHQ & Guaiacol
		2. Isoamylene
3	Neogen	1. Lithium Electrolyte salt & additives

Recent European deal wins by Indian companies

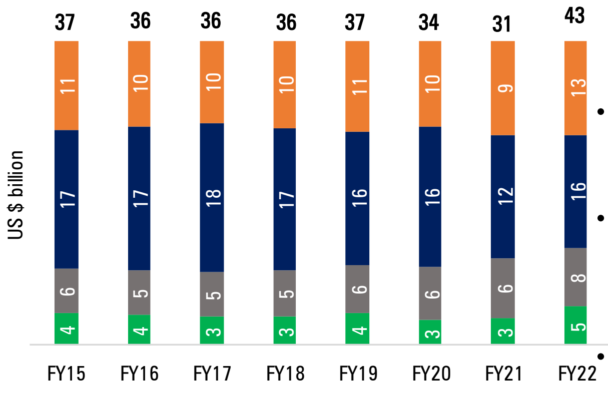
No.	Companies	New Business from Europe
1	Ami Organics	10 year Euro Agreement with Fermion
2	Anupam Rasayan	₹144 cr. LOI signed with European Multinational co.
3	Aether Industries	₹121.5cr. MSA signed with Polaroid

I-Direct Chemical Coverage Key Ratios

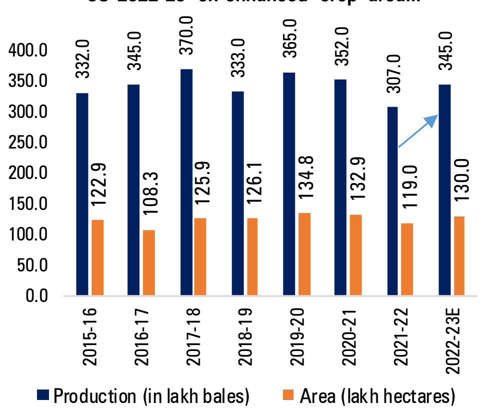
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin	19%	20%	21%	21%	20%	21%
ROCE	20%	19%	17%	17%	17%	19%
Asset Turnover	2.4x	2.1x	2.0x	1.9x	1.8x	1.7x
FCFE (₹ crore)	131	1352	1645	-220	768	4687

Textile exporters to overcome near term headwinds, expand global share…

Textile & Apparel exports surged to an all-time high of US $ 42.9 billion in FY22…

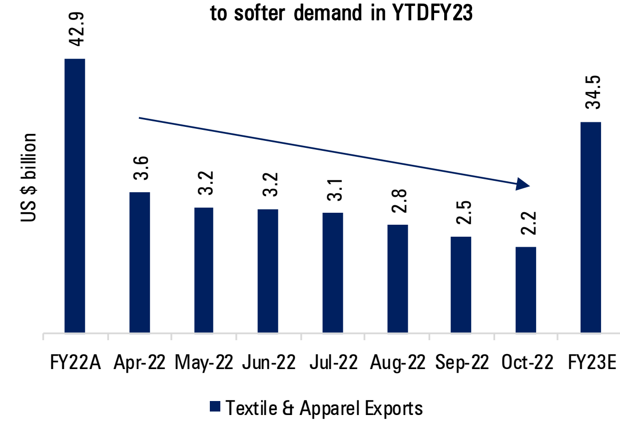


Indian cotton output expected to rise 12% for CS 2022-23 on enhanced crop area…

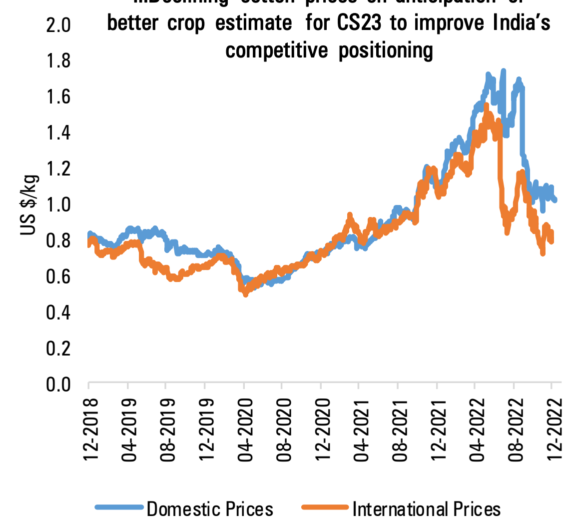


- Reduced dependency on China (China+1) by global retailers has enabled India's textile exports to report an all-time high T&A exports of US$42.9 billion (bn) in FY22 (26%, 16% growth in FY20, FY19, respectively). The value growth in T&A exports has been largely led by significantly higher yarn realisations
- However, H1FY23 has been a turbulent period for Indian textile value chain owing to spiralling domestic cotton prices and global retailers being saddled with excess inventory
- We believe that higher inventory levels of global retailers compared to earlier quarters is likely to subdue the order book momentum for Indian exporters during the holiday season (Q3FY23) and spring summer 2023 (Q4FY23/Q1FY24)
- Expectation of higher cotton production in next cotton season (CS23) has led domestic cotton prices on a declining trend (down ~35% from peak). Reduction in premium of Indian cotton prices vs international cotton prices (from peak of 40% to 12-15%) is enabling India's competitive strength to inch up
- **FTA with Australia, UAE and potential FTA with UK/Europe would act as export volume enhancers.** The government is targeting exports of T&A to Australia to increase from US$392 million to US$1.1 billion in next three years. EU/UK contributes ~40% to total apparel global trade (US$200+ billion) with India's share being at a nascent stage (<4%). We believe there lies robust opportunities for Indian apparel exporters to enhance their market share in the region. For home textiles, the export opportunity size in EU is close to US$30 billion and India's share is ~6-10%, providing ample scope for growth
- Also, GoI has approved 61 applicants under Production Linked Incentive (PLI) scheme with proposed investment of ₹ 19,077 crore and is evaluating launching PLI 2.0 to improve India's global competitiveness. The PLI scheme is expected to increase investments in MMF and help India garner a larger pie of global trade in the segment

…however several macroeconomic challenges have led to softer demand in YTDFY23



…Declining cotton prices on anticipation of better crop estimate for CS23 to improve India's competitive positioning



Source: Ministry of Commerce, CAI, ICICI Direct Research

Cement - Incremental capacity additions to remain broadly in line with demand growth…

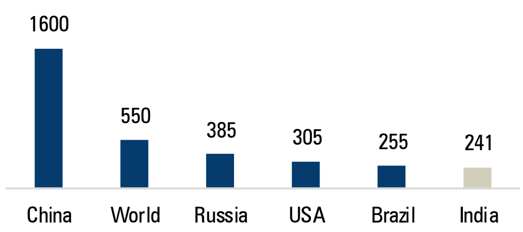
While there is a concern regarding the demand supply scenario, we expect capacity utilisation to stay over ~72% in FY23E-25E despite higher capacity addition…

All India capacity utilisation to stay over 72% during FY23E-25E

In MT	FY21	FY22	FY23E	FY24E	FY25E
Installed Capacity	**521**	**561**	**591**	**625**	**665**
YoY Change (%)	2.1	7.7	5.3	5.8	6.4
Effective Capacity	**470**	**523**	**548**	**580**	**623**
YoY Change (%)	-1.1	11.3	4.8	5.8	7.4
Production	**337**	**362**	**398**	**425**	**451**
YoY Change (%)	-1.5	7.4	9.9	6.8	6.1
Utilisation (%)	71.7	69.2	72.6	73.3	72.4

Source: ICICI Direct Research

Current lower per capita consumption offers healthy growth potential…



Source: Statista, ICICI Direct Research

Key triggers going ahead…

Government capex to stay higher - To achieve target capex of ₹ 111.3 trillion laid down in NIP in FY20-25E. Expect capital expenditure allocation to increase 18% YoY to ₹ 8.9 lakh crore in Budget 2023.

Urban housing - Having low decadal unsold inventory would see ramp up in construction activities

PMAY scheme & higher rural income – To keep rural cement demand healthy…

Capacity additions to pick up pace…

- Historically the industry has witnessed capacity CAGR of 4.8% in the past 10 years (i.e. from ~351 MT in FY12 to over ~561 MT in FY22)
- Taking into account the expansion plans of large existing players, we expect net industry capacity to grow at ~6% CAGR in next three to four years.
- We expect potential M&A opportunity of ~40-50 MT due to limited availability of limestone reserves
- **This, in turn, would facilitate consolidation and drive more efficiency and discipline in the sector in our view**

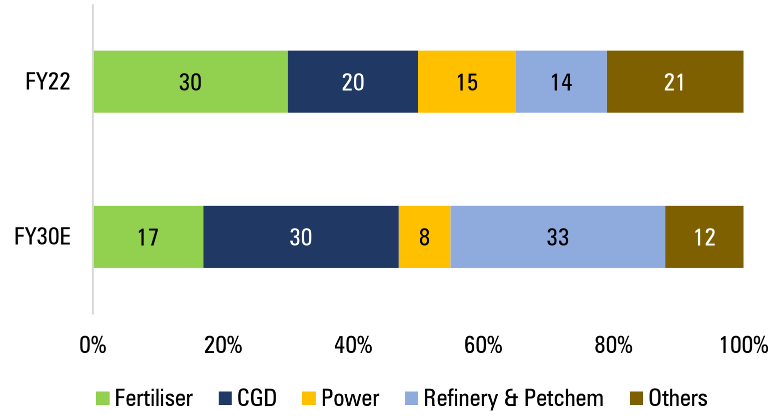
Demand environment to stay healthy…

- Given the sector's healthy growth potential, which is being reflected in the low per capita consumption (i.e. at ~241 kg vs. global average of ~550 kg per capita), we expect demand CAGR of 7-7.5% CAGR over the next four to five years
- This is expected to be driven by higher farm realisations, the government's pro-infra led growth approach with key focus on affordable housing, road & rail network, etc, and healthy real estate demand

Becoming a gas dependent economy…

- Refinery & petchem and CGD sector, which currently accounts for 34% of the country's natural gas consumption, are expected to account for more than 60% by FY30E. Innovations in fertilisers (use of biofertilisers, nano urea, etc) would improve their efficiency and divert natural gas to other sectors
- Unlike other fossil fuels, to become a gas dependent economy, significant investment is to be made in infrastructure (first mile, mid mile and last mile), to convert LNG, store, transmit gas over wider distances. However, once the investment has been made, it is expected to provide manifold benefits to the Indian economy, such as lower costs, lower emissions, higher domestic output, etc
- According to media sources, by 2026, India will invest ₹ 3 lakh crore to expand its gas infrastructure- pipelines, LNG terminals, CGD networks and gas exploration projects. This would help with the government's aim to raise the share of natural gas in its energy mix to 15% from the current 6.7%

Current and expected end user gas consumption proportion



Natural gas infrastructure

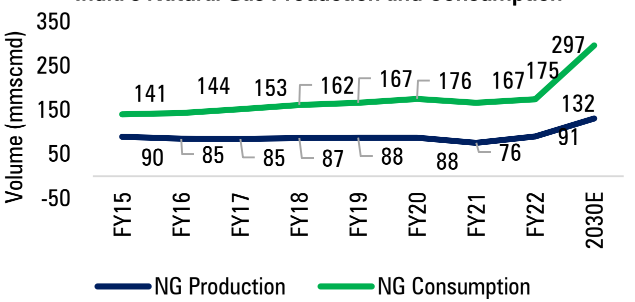
Nature of Pipeline	Length (Km)
Operational	14,449
Partially Commissioned	6,381
Under Construction	13,186
Total Length	**34,016**

CGD Sector	FY22	FY30E
CNG stations	4,531	17,700
PNG connections (million)	9.5	120.0

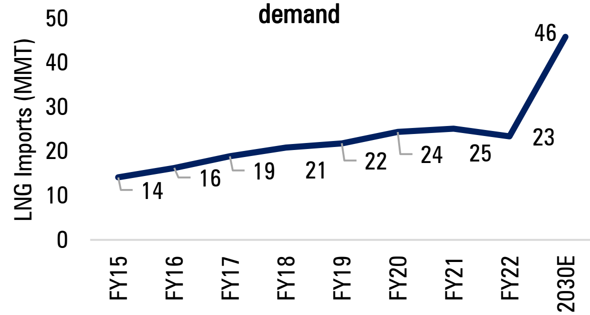
Upcoming LNG terminal capacity expected to nearly double existing capacity

EXISTING TERMINALS			NEW/EXTENDED TERMINALS		
Location	Promoters	MMTPA	Location	Promoter	MMTPA
Dahej	Petronet LNG	17.5	Dahej	Petronet LNG	5
Hazira	Shell Energy India Pvt.	5.2	Gopalpur	Petronet LNG	4
Dabhol	Konkan LNG Limited	5.0	Chhara	HPCL 50%, Shapoorji Pallonji 50%	5
Kochi	Petronet LNG	5.0	Jaigarh	H-Energy	6
Ennore	Indian Oil LNG Pvt Ltd	5.0	Jafrabad	Swan Energy	5
Mundra	GSPC LNG Limited	5.0	Dhamra	Adani Group	5
Total Existing Capacity		**42.7**	Karaikal	AG&P	1
			Total New Capacity		**31**

India's Natural Gas Production and Consumption



Long term oil-linked LNG contracts are expected to take care of rising gas demand

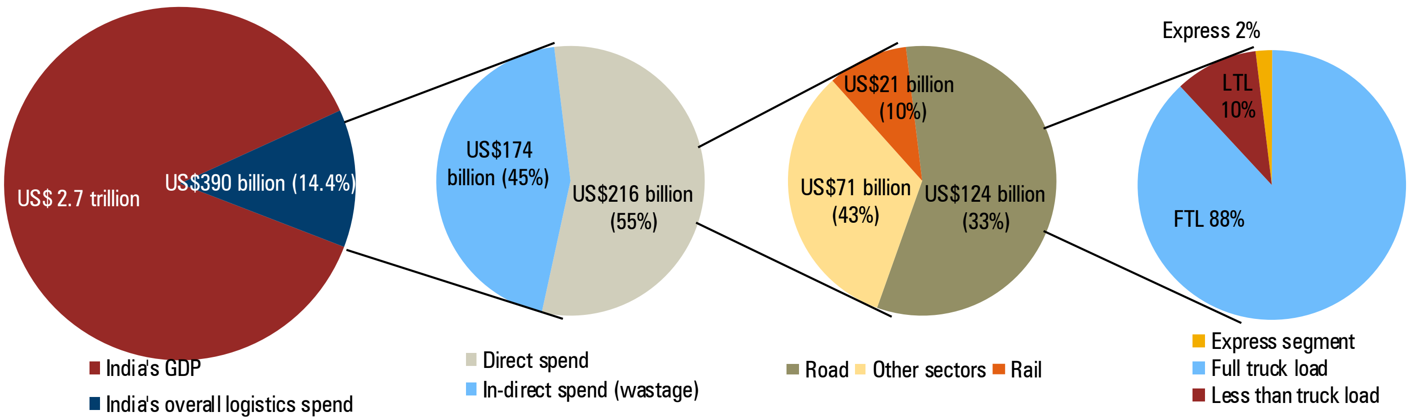


- Also, the proposed new gas pricing mechanism by the Kirit Parikh committee will benefit CGDs and likely bring down CNG and domestic PNG prices making them the preferred choice to other fuels. In the long run, upstream companies would benefit from market linked pricing and ensure investments continue in E&P
- Also, the recent amendments made to the pipeline tariff structure are likely to improve the overall gas infrastructure of the country and increase investments in the sector

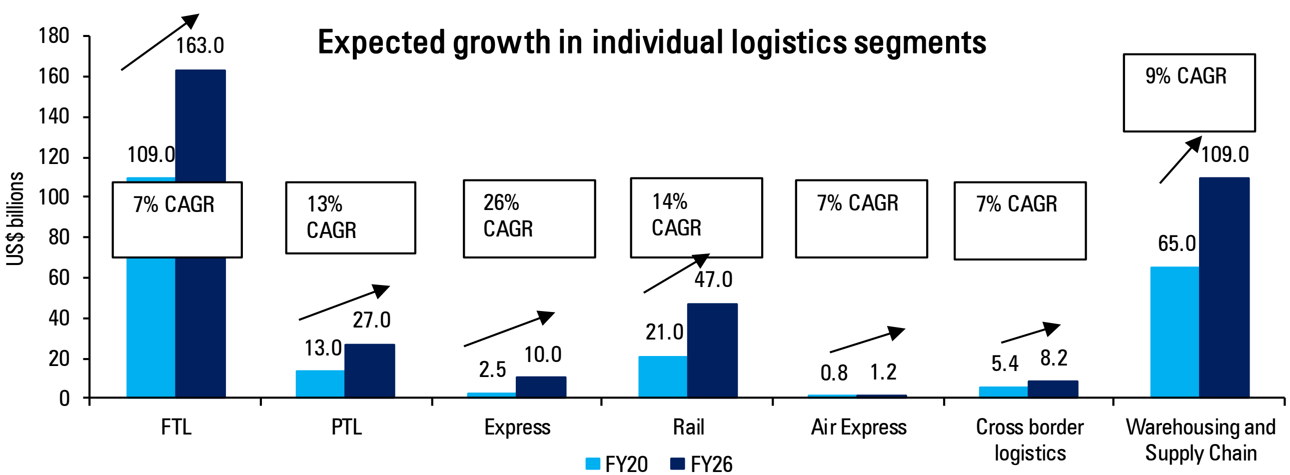
Source: IEA,BP,PPAC, Media Reports, ICICI Direct Research

NLP, Gati Shakti to help logistics sector fire on all cylinders…

Structure of overall logistics market in India (FY20)



Expected growth in individual logistics segments



Source: Industry reports, Delhivery RHP, ICICI Direct Research

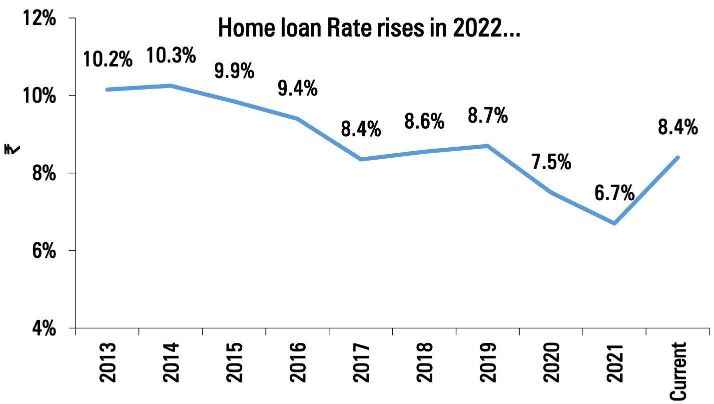
- The World Bank's Logistics Performance Index ranks India in 44th place while the country wants to raise it to 25. India also expects to lower its logistics costs from 14% to sub 10% of GDP
- The efficiency in logistics would be mainly led via lowering of indirect spends (45% of logistics spend pie) by building more warehouses, cold chain networks, processing centres near agri fields, etc)
- The road sector captures highest market share in direct logistics spends & is expected to grow highest in short to medium distance travel with long distance freight travel to be captured by rail and coastal ships
- Express market expected to grow fastest on the back of higher e-com, D2C, omni-channel segment growth, better customer connect via apps
- Larger consolidated warehouses, changing customer expectations are increasingly placing quick and reliable longer distance travel via PTL segment
- Better turnaround times, DFC rollout to fuel higher volume growth for rail sector

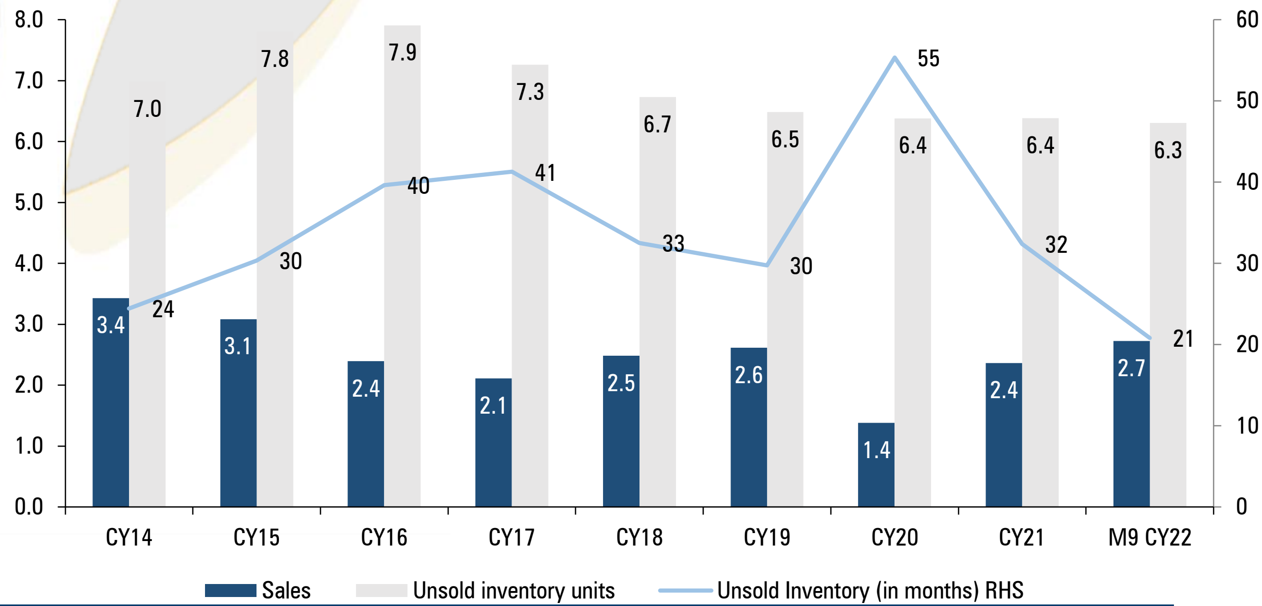
Real Estate: Sales remain robust despite increased interest rates; inventory at lifetime lows…

- The repo rate hike of 225 bps in FY23 till date, has translated into a sharp increase in home loan rate but **real estate sales have remained robust** with **H1FY23 witnessing ~13% YoY sales in real estate units in the top seven markets** driven by a) post pandemic inherent **demand of big units**, b) relatively **strong track record of big developers in terms of execution/delivery**, c) s**alary hikes in last two years driving housing demand in IT hubs (like Bengaluru/Chennai/Pune, etc**) and d) **wealth effect** driving luxury housing demand

- **Real estate sales in CY22 for top seven markets is on course to hit eight-year high absorption (achieved sales of 2.7 lakh unit in 9MCY22). The inventory overhang (month needed to clear the inventory) is also now at 21 months (lowest levels in last eight years)**

- Most importantly, **funding crunch, weak environment in the last couple of years, has meant exit of small/marginal unorganised players**, which has resulted in a sharp market share expansion for top players. **With less competition and well placed balance sheets, we expect top developers to remain the key beneficiaries of this upcycle.**

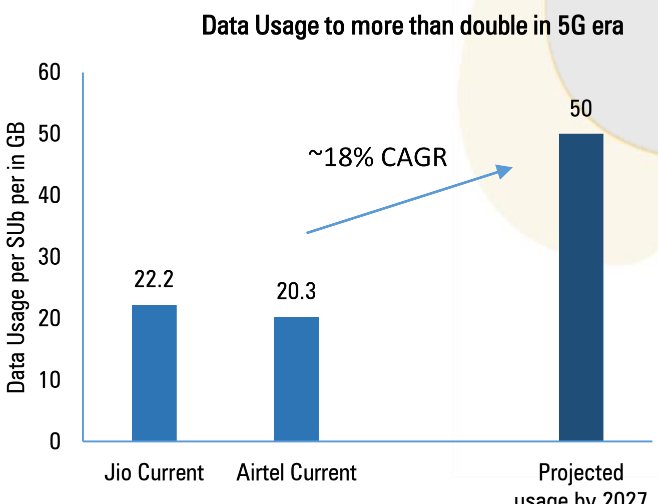


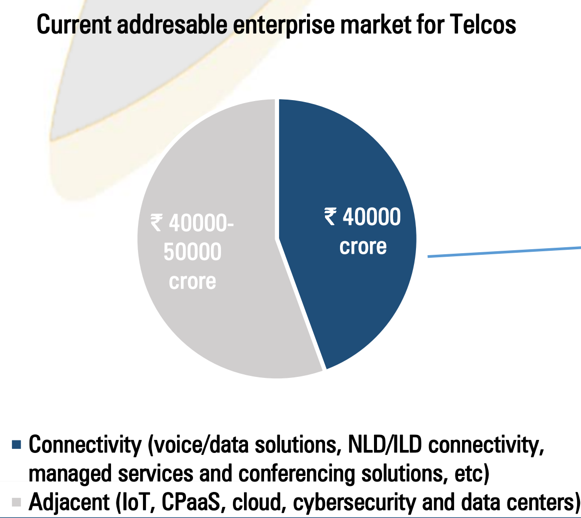


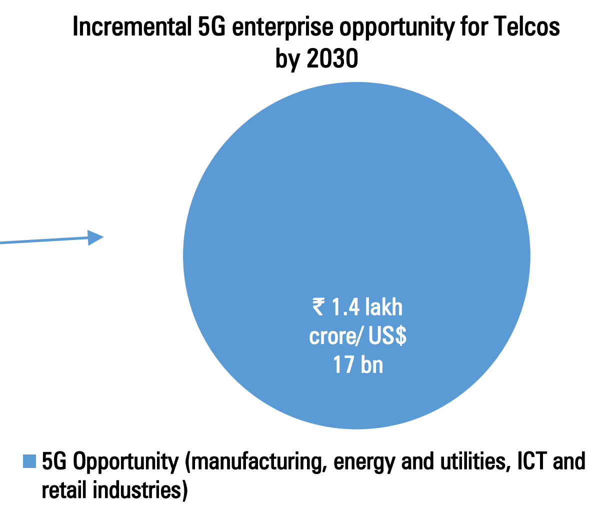
Source: Anarock, HDFC, ICICI Direct Research

5G: Huge opportunity for telcos…

- The opportunity in the 5G wireless segment will be led by **a) higher data usage (Ericsson expects data usage per sub to more than double from current ~21-22 GB/month to 50 GB by 2027) and b) tariff hike.** We highlight that currently as telcos are launching 5G, they are offering the existing 4G customers to upgrade (wherever available) to 5G without any incremental ARPU. **However, given the huge 5G capex lined up, we do expect a tariff hike in the medium term by telcos**
- **One segment which, we believe, will drive the major upsides from 5G will be Enterprise.** To put it into perspective, currently the enterprise segment served by telcos has two broad categories a) Connectivity (which includes traditional enterprise business like voice/data solutions, NLD/ILD connectivity, managed services and conferencing solutions, etc) and b) adjacent ((IoT, CPaaS, cloud, cybersecurity and data centres), the size of which is ₹ 40000 crore and ₹ 40000-50000 crore, respectively. **Ericsson-Arthur D Little study says that 5G will enable Indian service providers to generate $17 billion in incremental revenue from enterprises by 2030, which is clearly 1.5x of the current addressable market**
- **Thus, we see telcos treading a robust growth trajectory in the medium term with overall industry structure being favourable (two strong player market), along with a chunk of capex cycle, already done and under process currently. We continue to remain constructive on top two telcos, given their relatively strong competitive position**





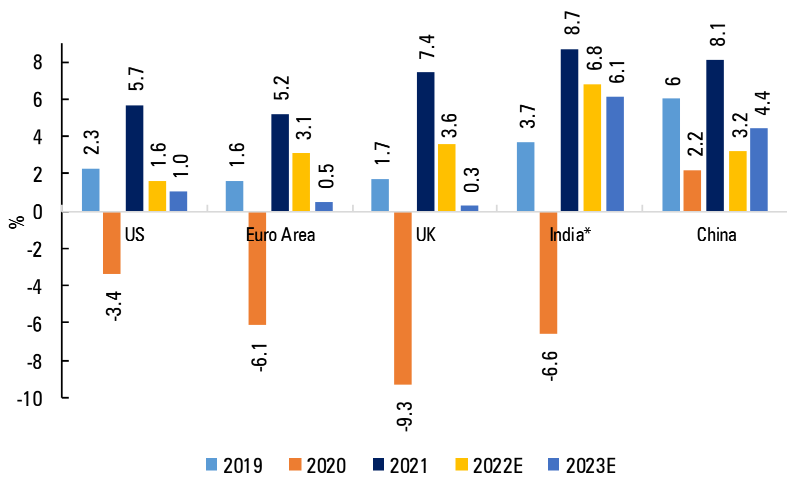


Source: Ericsson, Companies, ICICI Direct Research

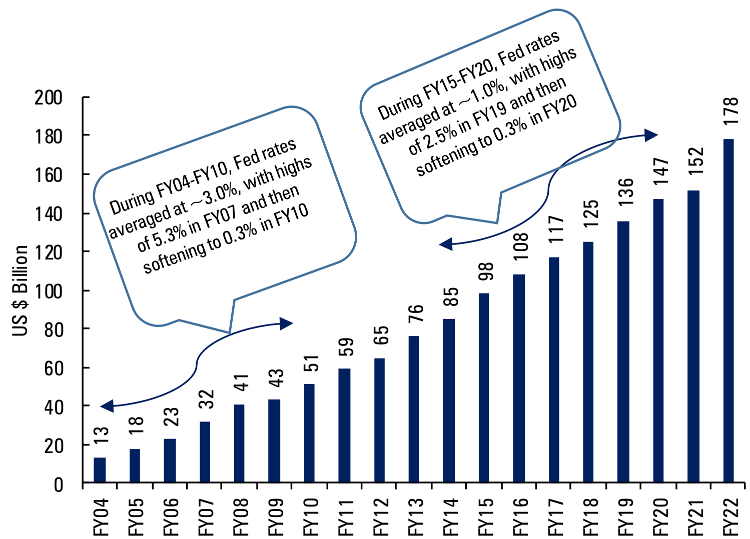
Risks

IT, pharma, chemical exports remained resilient amid global slowdown in past….

IMF has lowered its global growth forecast for 2022/23E

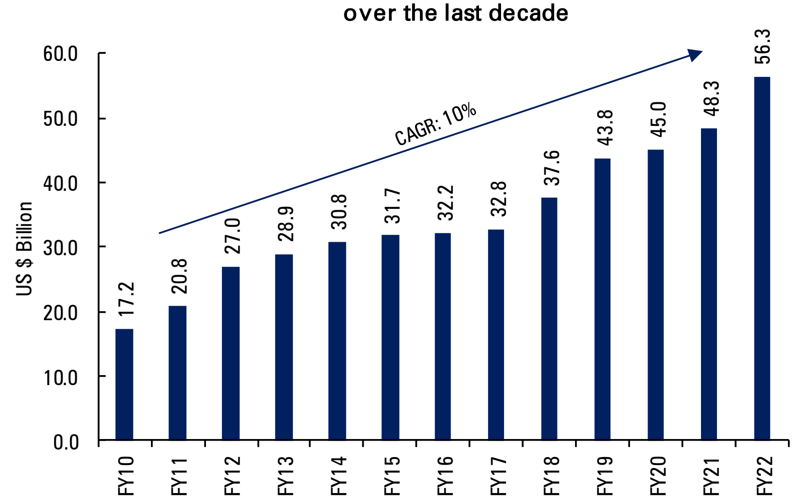


IT exports have been resilient even during the global crises as it has consistently grown at 15% CAGR



- IMF has projected GDP for major economies to considerably slow down in 2023E, with India exhibiting outperformance. While resilient domestic demand, a reinvigorated capex cycle are expected to provide thrust to India's growth story, prolonged recession like environment in global economies may be an impediment to India's export aspirations
- In the backdrop of weak global demand, **IT (services) and pharma/chemical & chemical exports could be India's stalwarts and provide a silver lining**
- Historical data indicates that during elevated interest rate cycles of FY04-10 and FY15-20, IT exports grew at a CAGR of 22% and 9%, respectively
- A shift in global chemical sourcing pattern and accentuation of China+1 trend (especially from FY18 onwards) coupled with higher focus on maintaining global standards in pharma exports are expected to sustain the momentum in Indian chemicals and pharma exports

Similarly Pharma and Chemical exports have been resilient over the last decade



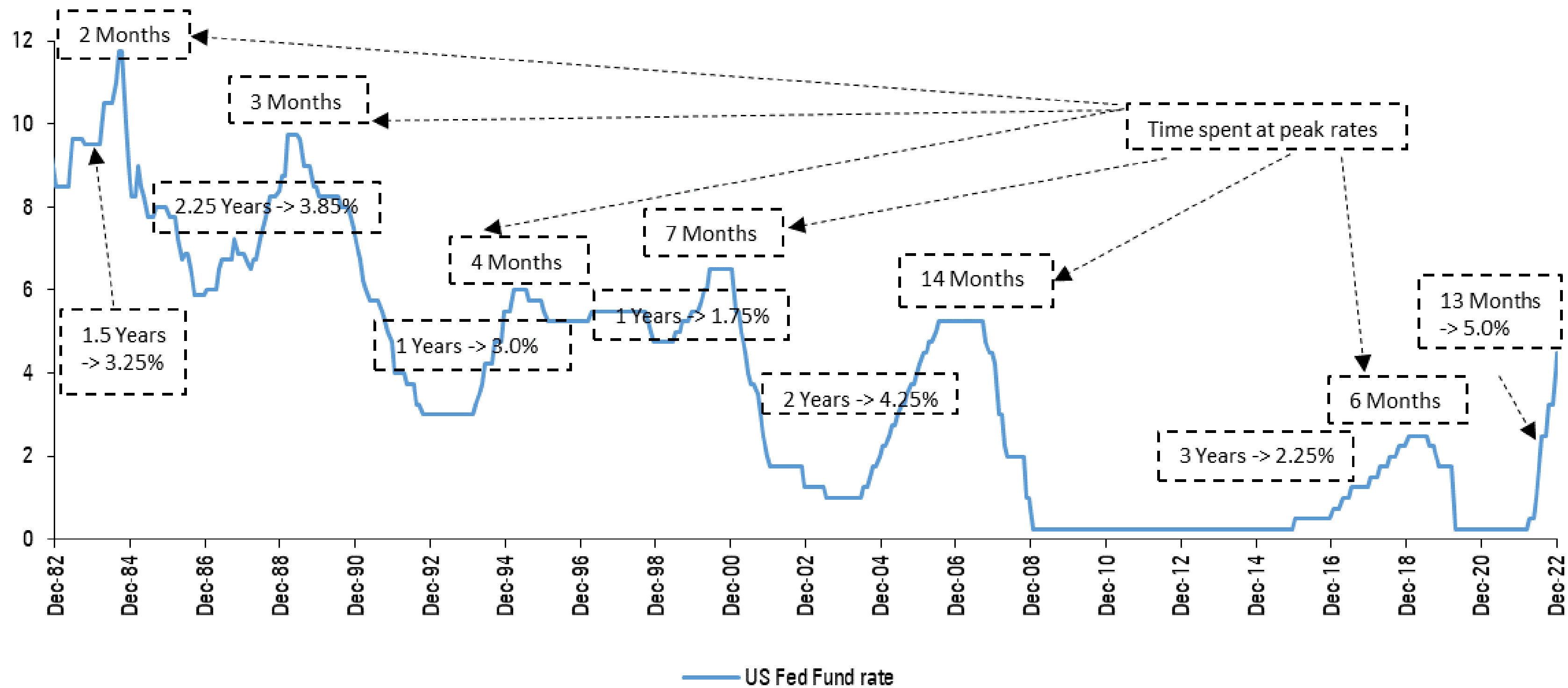
Source: IMF, Ministry of Commerce

US: Sharp slowdown inevitable as is rate cuts

In the US, every rate hike cycle is followed by an immediate period of slowdown/recession. US GDP growth has already slowed down to 2.9% from 3.7% in January 2022 and is expected to slow down significantly to less than 1% in 2023.

History suggests the US Federal Reserve has never been able to keep rates higher for longer during any interest rate cycle. The current rate hike cycle is the steepest and the highest (cumulative rate hike) since 1980. The first rate cut by the US Fed could be as early as H2CY23.

Since 1980, the period of rate hike ranges from one year to three years with cumulative rate hike of 1.75% to 4.25%. Current rate hike period is likely to last just 13 months with total rate hike of 500 bps.



Source: Bloomberg, ICICI Direct Research

Top Picks

Kajaria Ceramics (KAJCER) — Target Price: ₹ 1340 (22% upside)

- Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 84.5 mn sq metre (MSM). Apart from completed capex of ₹ 250 crore, it is adding 3 MSM brownfield capex in Sikandrabad (~₹ 81 crore capex) and setting up a plant of 8 MSM in Nepal in JV with investment of ~₹ 125 crore
- The company has faced margins challenges in the last three to four quarters with a sharp rise in gas prices. Kajaria has started using LPG partly as an alternate to gas from November 2022 at its plants. The company's average fuel price is likely to come down to ₹ 55/SCM in Q3FY23 (vs. ₹ 62/SCM in Q2FY23) with softening in gas prices and use of LPG as an alternate fuel
- The management guidance for ~15% volume growth in FY23, implies ~11% growth in H2FY23 with October, 2022 being relatively soft amid festivities. Also, the company expects ~200+ bps improvement in margin (to 14%+) during H2FY23 with relaxation in gas prices, use of alternate fuel and softening in raw material costs. We believe while Q3 could witness modest volume growth, double digit growth is likely from Q4FY22 with underlying real estate demand remaining robust. We expect ~12% CAGR in tiles volume and realisations CAGR of 3.4%, resulting in tiles revenues CAGR of ~16% over FY22-25 to ₹ 5237 crore. Margins are also reverting to historical average of 16% in FY24, with softening gas prices
- Kajaria with a net cash balance sheet and superior brand, is a solid play on the tiles sector with expanding reach to tier II, III cities. We have a BUY with a target price of ₹ 1340/share. **Key risks:** Gas price volatility, demand moderation

(₹ crore)	FY22	FY23E	FY24E	FY25E
Net Sales	3,705.2	4,544.0	5,264.9	5,816.7
EBITDA	610.8	635.1	842.3	931.8
PAT	377.1	377.5	532.6	591.1
EPS (₹)	23.7	23.7	33.5	37.2
P/E (x)	46.4	46.4	32.9	29.6
EV/EBITDA (x)	28.2	27.5	20.6	18.4
RoCE (%)	21.5	20.3	25.1	25.0
RoE	17.8	16.3	20.5	20.1

Sterlite Technologies (STETEC) — Target Price: ₹ 220 (28% upside)

- Sterlite Technologies (STL) is a leading telecommunication infrastructure player with offerings in in optical fibre and cables, hyper-scale network design, and deployment and network software. It has current annual capacity of 50 mn fibre kilometre (Fkm) for optical fibre (OF) and 42 mn Fkm for optical fibre cable (OFC)
- The company in Q2 secured new orders of ~₹ 3199 crore, the highest order intake in the last three and a half years. It has also short closed an order book of ₹ 941 crore, mainly in the services and wireless business, in line with its focus of executing projects at desired level of profitability. Driven by continued robust capacity utilisation in the product segment as well as improved traction in services business, H2FY22 revenues are likely to remain healthy with overall revenues CAGR of ~21.4% in FY22-24E
- With improved margins in services (led by project mix), stable optical products margins and reduced losses led by exit from wireless software business, margins are likely to recover sharply to 15% in FY24 vs. sub 10% currently
- STL is uniquely positioned to benefit from 5G/FTTH deployment cycle both domestically and globally. We believe that with renewed focus on ramping down/exiting loss making segment and focusing on improving services segment profitability, STL will likely see improvement earnings momentum ahead. We have a BUY with a TP of ₹ 220/share. **Key risks:** Volatility in margin, continued leverage

(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	4,825.2	5,754.3	7,171.7	8,476.1
EBITDA	810.7	534.8	784.7	1,271.4
PAT	275.5	62.0	161.0	480.3
EPS (₹)	6.9	1.6	4.0	12.1
PE (x)	24.6	109.6	42.2	14.1
P/BV (x)	3.4	3.5	3.2	2.8
RoNW (%)	14.0	2.0	7.6	19.7
RoCE (%)	12.9	5.7	9.4	17.1

Source: Company, ICICI Direct Research

ICICI direct Research

Maruti Suzuki India (MARUTI) — Target Price: ₹ 11,200 (35% upside)

- Maruti Suzuki (MSIL) is the market leader in the Indian passenger vehicle space, commanding ~43% market share as of FY22. It has a host of popular models in its portfolio such as Alto, Swift, Wagon R, Dzire and Baleno in passenger car (PC) segment and Ertiga, New Brezza and Grand Vitara in Utility Vehicle (SUV) space
- MSIL is steadily moving up the technology ladder with interesting new age offerings in the form of new Baleno as well as new Ertiga, XL6 and New Brezza. It is approaching the alternate fuel scheme though push towards CNG vehicles, hybrids (including strong hybrids) and just unveiled flex fuel prototype vehicle
- MSIL sold >2.3 lakh units of CNG powered vehicles in FY22, highest ever, with present penetration pegged at ~15% that is expected to inch up, going forward. On the EV front, its first captive EV is slated to be launched by 2025 with Suzuki Motors committing a capex spend of ~₹ 10,400 crore in this domain. To address the competition in SUV space, MSIL has in the recent past launched new Brezza in compact SUV space & Grand Vitara in mid SUV domain that is witnessing healthy demand traction. With exciting product launches in the offing it is traversing well on its path to regain 50% market share in domestic PV space, going forward
- MSIL is well placed to play upon the underpenetrated PV segment domestically. We build 16.6% volume CAGR, 24.7% revenue CAGR and 67.6% PAT CAGR for MSIL over FY22-24E. On the b/s front, MSIL is net debt free with surplus cash amounting to ~₹ 42,000 crore (FY22). It is capital efficient with RoIC>25%. At CMP, MSIL trades at ~24x P/E on FY25E EPS. **Key risks:** Covid led slowdown in demand, adverse currency move i.e. unexpected appreciation of Yen vs. rupee

(₹ Crore)	FY21	FY22	FY23E	FY24E
Total Operating Income	70,332.5	88,295.6	1,17,034.2	1,37,370.2
EBITDA	5,345.3	5,701.2	10,474.7	14,459.2
PAT	4,229.7	3,766.3	7,096.2	10,578.3
EPS (₹)	140.0	124.7	234.9	350.2
PE (x)	59.3	66.6	35.4	23.7
P/BV (x)	4.9	4.6	4.3	3.8
RoNW (%)	8.2	7.0	12.0	16.0
RoCE (%)	4.3	5.1	12.5	16.7

Mahindra CIE Automotive (MAHCIE) — Target Price: ₹ 410 (26% upside)

- Mahindra CIE (MCI) is part of the Spain-based CIE Automotive Group. It is a multi-technology, multi-product automotive component supplier. As of CY21, the company derived 49% of consolidated sales from Europe and rest 51% from India. In terms of technology, forging forms 59% of consolidated sales (86% in Europe). India mix is more diversified, and includes 22% from aluminium, 21% from stampings and 12% from castings. Segment-wise contribution is skewed towards PV and 2-W in India and PV and M&HCV in Europe
- With large part of supply side disruptions behind us, we expect MCI to continue to outperform its base user industries both in India as well as Europe. At a structural level, MCI is focusing on higher diversification and growth opportunities in its India business (increasing contribution from clients other than M&M; increased share of 2-W post Aurangabad Electricals acquisition) and right-sizing European operations. Its recent announcement of putting German forging business on the block for sale is a step in the same direction
- Improving order win momentum (including EV programmes), thrust on exports and shift in global automotive supply chain away from China are seen as being some of the tailwinds for MCI in coming years. At the margin level, the company is poised to benefit from past restructuring actions and reduced breakeven points
- Going forward, at MCI, we build 14.7% sales CAGR over CY21-24E along with an uptick in margins to 12.8% by CY24E. At the current market price, it trades at ~13x P/E on CY24E EPS with RoCE inching towards the ~14% mark. **Key risks:** Slowdown in global economy and slower than anticipated margin recovery profile

(₹ Crore)	CY21	CY22	CY23E	CY24E
Total Operating Income	8,386.7	10,863.7	11,773.7	12,671.0
EBITDA	1,017.3	1,256.9	1,463.5	1,616.8
PAT	392.9	687.2	813.9	918.6
EPS (₹)	10.4	18.2	21.5	24.3
P/E (x)	31.3	17.9	15.1	13.4
EV/EBITDA (x)	12.8	10.2	8.5	7.4
RoNW (%)	7.7	12.0	12.8	13.0
RoCE (%)	9.4	11.6	13.4	14.2

Source: Company, ICICI Direct Research

IndusInd Bank (INDBA) — Target Price: ₹ 1450 (21% upside)

- IndusInd Bank is a Hinduja group promoted newer age private sector bank and is fifth largest private bank in India. Vehicle finance forms ~26% of overall loans. It has a strong pan-India presence with 6103 touch points as on September 2022
- Bank's operating performance remains on steady track led by healthy business growth. With focus on new growth engines, investment in retail franchise and gradual retaliation of liabilities, the bank is poised to pedal growth and report a healthy margin trajectory. Revival in corporate lending and steady disbursement in retail portfolio to aid business growth at ~18-20%
- NPAs continue to improve led by lower slippages. Healthy provision buffer of 3.4% and focus on collections are expected to keep credit cost at normalised levels, thereby leading to improvement in RoA ahead. The management expects credit cost at 1.2-1.5% for FY23E
- Continued investment in physical & digital capabilities to aid healthy business growth while gradual improvement in efficiency to aid earnings. We expect robust growth in earnings at ₹ 9652 crore and RoE at ~15% in FY25E, though, focus on distribution capabilities and tech spends to keep opex elevated in the near term. At the CMP, the bank is trading at 1.4x FY25E ABV.
- **Key risks:** Slower pace of liabilities accretion could impact NIM; moderation in earnings momentum led by elevated opex

₹ Crore	FY22	FY23E	FY24E	FY25E
NII	15,001	16,932	19,753	23,346
PPP	12,839	14,340	16,575	19,360
PAT	4,611	7,070	8,287	9,652
ABV (₹)	592	671	763	871
P/E	19.8	12.9	11.0	9.5
P/ABV	2.0	1.8	1.5	1.4
RoA	1.2	1.6	1.7	1.7
RoE	10.1	13.9	14.4	14.8

HDFC AMC (HDFAMC) — Target Price: ₹ 2600 (20% upside)

- HDFC AMC is among the largest and profitable mutual funds with a QAAUM of ~₹ 4.2 lakh crore as on September 2022. Market share as on Q2FY23 was at ~11%. HDFC AMC has a strong distribution network with 228 branches and more than 80,000 empanelled distribution partners. It has 61 lakh unique investor base and ~1 crore live accounts as of September 2022
- Increasing awareness, digital adoption, increasing retail participation in capital markets and new product launches to drive shift towards financial assets and equity as an asset class. The company is well placed to benefit given its strong distribution, brand name and superior fundamentals
- HDFC AMC's healthy performance in equity schemes from Q2FY22 onwards was expected to drive inflows with a lag. In H1FY23, erosion in market share was reversed. We believe the market share gain should be visible from Q3FY23 onwards
- Tech investments, business promotion activities, new launches to keep opex elevated in the near term but should reflect in business growth. Likely improvement in market share on the back of healthy scheme performance and superior earnings trajectory makes us positive on the stock. At the CMP, the stock is trading at ~26.7x FY25E EPS
- **Key risks:** Elevated redemption in non-SIP AUM and increase in competitive intensity impacting yields

₹ crore	FY22	FY23E	FY24E	FY25E
Revenue from operation (₹ crore)	2115	2238	2462	2708
PBT (₹ crore)	1855	1839	2084	2286
Net Profit (₹ crore)	1393	1388	1563	1714
EPS (₹)	66.4	66.2	74.6	81.8
P/E (x)	32.8	32.9	29.2	26.7
AUM /share (₹)	19444	21257	23849	26765
P/AUM (%)	11.2	10.3	9.1	8.1
RoE (%)	25.2	23.0	23.6	25.9

Source: Company, ICICI Direct Research

Nesco (NESCO) — Target Price: ₹ 800 (33% upside)

- Nesco Ltd (Nesco) is in the business of development and management of commercial/IT-ITeS real estate, exhibition centre and foods business. It manages two commercial with leasable area of 1.75 msf (mn sq ft) and BEC spread over 0.6 msf. As part of its future plans, the company has outlined a capex plan of ~₹ 2400 crore to (i) build ~2.6 msf sq leasable area commercial tower along with a 350 keys four-star hotel and ii) refurbish and expand the BEC. It has a strong balance sheet with net cash of ₹ 1000 crore
- Q2FY22 signalled an improved outlook with pick-up in exhibition business. The company saw a strong traction Q2FY23 revenues (up 77% YoY). The exhibition order book is robust for the next couple of quarters and pre-Covid run rate of exhibition business is likely ahead. For H2FY23, earnings expected to be robust with ~128% growth. For FY22-24, we bake in revenues and PAT CAGR of 34.4%, 32.6%, respectively, driven by exhibition pickup and steady commercial segment
- We like Nesco, given the prudent management pedigree, steady & planned expansion across verticals funded largely through internal accruals and niche profitable business model including foods/own events etc. Post a washout 2.5 years for the exhibition business, we expect H2FY23 to witness full recovery to pre-Covid levels in the exhibition business. The IT Park business is also expected to be boosted as occupancies have improved and further improvement over next couple of quarters. We have a BUY on the stock with an SoTP target price of ₹ 800/share. **Key Risks:** a) Any further Covid wave; b) Any exit and failure to release in commercial business

(₹ Crore)	FY21	FY22	FY23	FY24
Net Sales	291.1	337.9	514.5	610.7
EBITDA	185.7	219.6	333.9	402.8
PAT	172.5	189.2	298.3	332.8
EPS (₹)	24.5	26.9	42.3	47.2
P/E (x)	24.4	22.2	14.1	12.6
EV/EBITDA (x)	21.9	18.2	11.3	9.2
RoCE (%)	13.3	12.5	16.5	17.4
RoE (%)	11.3	11.1	15.1	14.6

V-Guard Industries (VGUARD) — Target Price: ₹ 310 (19% upside)

- V-Guard is a well-known FMEG brand in the electrical and electronics space especially in South India, with a presence of over four decades. It is the market leader in stabilisers with about 42-45% market share in the organised segment and a strong player in other product categories such as water heater, pumps, etc
- To diversify its geographical risk, V-Guard is expanding operations into non south regions. The contribution of non-south region to its overall revenue has increased to 42% in FY22 (vs. 23% in FY12) supported by capacity addition, new product launches and dealer additions. Revenue contribution from non south region is further likely to increase to 45% in next two years led by new product launches
- To scale up its kitchen appliances portfolio, V-Guard recently acquired Sunflame Enterprises for a consideration of ₹ 660 crore. Sunflame derives ~80% of its revenue from non-south regions. As a result, we believe V-Guard will derive synergy benefits from this acquisition in terms of geographical expansion, diverse product portfolio and strong distribution channel
- V-Guard's revenue is likely to grow at a CAGR of ~17% over FY22-25E led by new product launches (post Sunflame acquisition) and dealer expansion. On the margin front, EBITDA margin is likely to expand by ~130 bps over FY22-25E led by improved sales mix and cooling of raw material prices from its peak. As a result, PAT is likely to grow at a CAGR of 18% over FY22-25E. V-Guard is likely to have a debt burden on its books in the near term but we believe the same would start easing from FY25 onwards supported by its strong operating cash flow and no major capex over the next two years. **Key Risks:** Slow rural demand and reversal in commodity prices may delay margin recovery

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	3,498	4,186	5,008	5,644
EBITDA	338	352	504	618
PAT	228	229	290	377
EPS (₹)	5.3	5.3	6.7	8.7
PE (x)	49.7	49.9	39.4	30.4
P/BV (x)	8.1	8.8	8.0	6.9
RoNW (%)	16.2	17.7	20.3	22.8
RoCE (%)	21.2	23.4	22.7	26.3

Source: Company, ICICI Direct Research

Reliance Industries (RELIND) **Target Price: ₹ 3050 (20% upside)**

- Reliance Retail has been one of the fastest, largest growing retailers in recent times. In FY18-22, it recorded a staggering 30% revenue CAGR with sales worth nearly ₹ 2 lakh crore in FY22.The company bolstered its offering and continued to fill white spaces through acquisitions and spent nearly ₹ 10000 crore in FY22. Its recent acquisition of Metro Wholesale business (B2B) for a consideration of ₹ 2850 crore (0.4x EV/sales) would further strengthen its backend supply chain with accelerated growth in JioMart Kirana orders (up 4x YoY) and on-boarding of new HoReCA clients. We bake in revenue and earnings CAGR of 25% and 36%, respectively, in FY22-25E
- The 5G launch has begun for Jio in the last couple of months and is likely to reach pan-India by December, 2023. Superior spectrum portfolio along with superior digital ecosystem offering lends Jio a competitive advantage even in 5G (as seen in 4G foray). We expect Jio (long with Airtel) to gain subscriber market share as third telco VIL has not laid out 5G plans as yet. We expect ARPU and EBITDA of Jio to grow at ~12%, ~22%, respectively, over FY22-25E
- On the O2C front, Singapore GRMs, which had declined during the start of Q3 have started improving amid rise in product cracks and are at ~US$9/bbl. This would likely improve Reliance's GRMs and its refining segment earnings. The company, in its AGM announced capex plans worth ₹ 75000 crore over five years across its petrochemical chain. **Key Risks:** Lower discretionary spends owing to higher inflation can subdue sales, lower-than-expected refining margins

Key Financials	FY22	FY23E	FY24E	FY25E
Net Sales (₹ crore)	7,92,756.0	9,59,482.3	9,86,233.9	10,84,852.9
EBITDA (₹ crore)	1,10,460.0	1,35,818.9	1,57,940.2	1,78,732.0
PAT (₹ crore)	60,705.0	64,220.3	79,848.4	91,109.0
EPS (₹)	89.7	94.9	118.0	134.7
P/E (x)	28.7	27.1	21.8	19.1
P/BV (x)	2.2	2.1	1.9	1.7
RoCE (%)	7.1	8.7	10.3	11.4
RoE (%)	7.8	7.6	8.7	9.1

Source: Company, ICICI Direct Research

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