

Earnings Vs Multiples

PE re-rating far outweighs earning upgrades

After a meteoric rise of benchmark indices in FY24, the bull run continues unabated in FY25, notwithstanding general election-led market volatilities. So far in FY25, the benchmark indices Nifty 50, Nifty midcap 100 and Nifty Small cap 100 have delivered remarkable returns of 9%, 18% and 23% respectively. These performances follow massive returns of 29%, 60% and 70% respectively generated by these indices in FY24. Against the backdrop of these unprecedented returns, it becomes imperative to analyse if these are driven by earnings upgrades of companies or simply valuation expansion.

We have analysed the top 500 stocks by market cap listed on Indian bourses and studied their consensus earnings upgrades/downgrades for the past six months. This was juxtaposed with the returns generated by these stocks in the same period. Based upon our analysis, we highlight a list of stocks where returns are much higher vis-à-vis earnings upgrades, implying that valuations have re-rated significantly in the recent past. These stocks run the risk of multiples contraction in case of any significant earnings disappointment.

Overall, we advise caution and staying selective as risk-reward is increasingly getting unattractive, given stretched valuations across sectors and market caps. While macroeconomic fundamentals remain healthy, we expect a moderation in earnings growth trajectory over FY24-26 (~12% CAGR) compared to the FY20-24 period (~20% CAGR) as the high base catches up across most sectors.

Key highlights:

- 32%, 47% and 39% stocks of Nifty 50, Nifty midcap 100 and Nifty Small cap 100 respectively have re-rated in excess of 20%, adjusted for earning upgrades in the past six months. On the other hand, only 2%, 4% and 9% stocks of these indices respectively have got de-rated more than 10% in this mentioned period, adjusting for earning revisions.
- It is worth noting that despite no significant upgrades in earnings of any of these indices at an aggregate level, mid and small-cap indices stocks have delivered ~25% returns (adjusted for earnings revisions) in the past six months. Considering 15% earnings growth for the year (or 7% for half the year), it can be concluded that the remaining 18% returns (i.e. 70% contribution) came from PE re-rating. Surprisingly, as per our analysis even stocks with earnings downgrades have seen an average re-rating of 20-40% in the last 6 months. PE re-rating was the sharpest in Industrials and Consumer clusters followed by IT while BFSI, in particular, has seen modest re-rating.
- It can be inferred that the majority of the underlying stocks of these benchmark indices have moved ahead of their fundamentals. Hence, they run the risk of multiples contraction in case of any earnings growth deceleration or flow of money slowing down. This analysis is a reaffirmation of prevailing overvaluation concerns in key benchmark indices, more pronounced in mid and small-cap indices, as highlighted in our previous report [Valuation of Indices](#).
- Furthermore, sectors such as **upstream oil & gas, capital goods & construction, defence, and consumer durables** witnessed sharper rerating than others, adjusted for earnings revisions, whereas in the **private banks, NBFCs, footwear, life insurance and media** sectors, the re-ratings adjusted for earning revisions were among the lowest.

Large caps with significant re-rating:

Stocks	6M earning revision (%)	6M return (%)	P/E (FY25)
Bharti Airtel	2%	38%	40
SBI	8%	38%	11
Hindustan Aeronautics	21%	86%	50
Hindustan Zinc	5%	116%	27
Siemens	18%	85%	105
Zomato	-7%	56%	163
ABB India	21%	73%	106
JSW Energy	4%	54%	44
Havells India	-1%	36%	72
BHEL	-23%	65%	93
Cummins India	18%	96%	63
Oil India	9%	106%	12
Dixon Tech	15%	97%	109

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Exhibit 1: Re-rated stocks (Large caps)

Stocks	Mktcap (INR Bn)	6M earnings revision (%) (A)	6M returns (%) (B)	Excess returns (%) (B-A)	P/E (FY25E)	5Yr Avg P/E (1 Yr fwd)
Bharti Airtel	8,590	1.6%	38.0%	36.1%	40	21
State Bank of India	7652	8.4%	38.0%	29.7%	11	8
ONGC	3764	1.3%	41.0%	39.8%	7	5
Hindustan Aeronautics	3760	21.1%	86.3%	65.2%	50	23
Mahindra & Mahindra	3,545	10.0%	74.6%	64.7%	27	17
Avenue Supermarts	3157	0.0%	26.9%	26.9%	91	69
Power Grid Corp of India	3156	-0.9%	41.9%	42.8%	20	12
Hindustan Zinc	2899	4.8%	116.3%	111.5%	27	14
Siemens	2,757	18.1%	85.2%	67.0%	105	57
Bharat Electronics	2,445	8.7%	80.3%	71.5%	56	21
Zomato	1874	-7.4%	56%	63.0%	163	698
Grasim Industries	1841	-24.4%	35.1%	59.5%	27	13
ABB India	1,813	21.4%	73.4%	52.0%	106	69
Tech Mahindra	1426	-16.4%	16.9%	33.4%	30	14
GAIL India	1515	2.3%	44.1%	41.7%	16	8
Samvardhana Motherson	1365	7.6%	84.6%	76.9%	32	22
JSW Energy	1297	3.9%	53.9%	50.0%	44	30
Havells India	1,182	-0.7%	35.7%	36.4%	72	37
BHEL	1,143	-23.3%	64.5%	87.7%	93	41
Cummins India	1109	17.9%	95.5%	77.7%	63	37
Canara Bank	1057	0.4%	29.7%	29.3%	7	12
Indus Towers	1039	13.0%	79.6%	66.6%	16	10
ICICI Lombard	913	0.5%	33.2%	32.7%	38	27
Oil India	813	9.0%	105.6%	96.6%	12	5
Dixon Technologies	747	15.1%	97.4%	82.3%	109	45

*Yellow highlighted rows indicate stocks with relatively very high past six months returns adjusted for earnings upgrade and high valuations indicating unsustainable price levels.

Further, we highlight the below names where stock returns in the past six months have been much lower than the earnings revisions in the same period which has resulted in the de-rating of these stocks.

Exhibit 2: De-rated stocks

Stocks	Mktcap (INR Bn)	6M earnings revision (%) (A)	6M returns (%) (B)	Excess returns (%) (B-A)	P/E (FY25E)	5Yr Avg P/E (1 Yr fwd)
IndusInd Bank	1116	-2.9%	-12.6%	-9.6%	11	9
Poonawala	330	-1.5%	-11.4%	-9.9%	24	22
CreditAccess Grameen	209	1.1%	-25.2%	-26.2%	12	13
Cyient	199	-5.9%	-16.4%	-10.5%	23	16
Zee Entertainment	145	-30.6%	-42.0%	-11.4%	19	14

Cluster wise list of stocks which witnessed sharp re/de-rating in the last six months

Exhibit 3: BFSI

Stock	Market cap (INR Bn)	6M earnings revision (%) (A)	6M returns (%) (B)	Excess returns (%) (B-A)	FY25E P/E	5 yr avg P/E (1 Yr Fwd)
State Bank of India	7652	8%	38%	30%	11	8
IndusInd Bank	1116	-3%	-13%	-10%	11	9
Canara Bank	1057	0%	30%	29%	7	12
ICICI Prudential Life Insurance Co	921	-8%	18%	26%	81	56
ICICI Lombard General Insurance Co	913	0%	33%	33%	39	27
Yes Bank	819	-25%	2%	27%	39	NA
Aditya Birla Capital	603	-3%	33%	36%	17	12
Sundaram finance	508	4%	25%	21%	31	20
Federal Bank	458	-2%	24%	25%	8	7
LIC Housing Finance	431	10%	38%	27%	9	6
Nippon Life India Asset Management	422	13%	38%	25%	36	22
360 ONE WAM	355	4%	43%	39%	39	22
Poonawala	330	-1%	-11%	-10%	24	22
CreditAccess Grameen	209	1%	-25%	-26%	12	13
Aditya Birla Sun Life Asset Management	188	16%	38%	22%	23	16
Manappuram Finance	176	3%	23%	20%	8	5

Exhibit 4: Technology

Stock	Market cap (INR Bn)	6M earnings revision (%) (A)	6M returns (%) (B)	Excess returns (%) (B-A)	FY25E P/E	5 yr avg P/E (1 Yr Fwd)
Bharti Airtel	8590	2%	38%	36%	40	21
Wipro	2815	-1%	20%	21%	23	18
Tech Mahindra	1426	-16%	17%	33%	30	14
Vodafone Idea	1134	21%	45%	24%	NA	NA
Indus Towers	1039	13%	80%	67%	16	10
Info Edge India	905	5%	35%	31%	91	59
Persistent Systems	712	-5%	25%	30%	53	29
PB Fintech	648	20%	73%	52%	151	167
Cyient	199	-6%	-16%	-10%	23	16
Computer Age Management Services	191	6%	39%	33%	49	31
Firstsource Solutions	180	-3%	36%	39%	27	15
Zensar Technologies	166	6%	30%	24%	25	16

Exhibit 5: Consumers

Stock	Market cap (INR Bn)	6M earnings revision (%) (A)	6M returns (%) (B)	Excess returns (%) (B-A)	FY25E P/E	5 yr avg P/E (1 Yr Fwd)
Mahindra & Mahindra	3358	10%	75%	65%	27	17
Avenue Supermarts	3131	0%	27%	27%	91	69
Bajaj Auto	2658	8%	33%	26%	30	17
Varun Beverages	2079	4%	26%	21%	79	46
Trent	1972	45%	76%	31%	125	79
Zomato	1875	-7%	56%	63%	163	698
Macrotech	1521	0%	40%	39%	64	31
Godrej Consumer Products	1461	-2%	25%	27%	61	38
Eicher Motors	1331	4%	24%	20%	30	22
Divi's Laboratories	1223	-8%	14%	23%	60	37
Havells India	1204	-1%	36%	36%	72	37
Zydus Lifesciences	1169	26%	63%	37%	28	19
Dabur India	1121	-6%	14%	20%	53	38
Hero MotoCorp	1105	9%	33%	24%	23	16
Polycab India	961	6%	33%	28%	47	29
Torrent Pharmaceuticals	990	-1%	23%	24%	49	28
Max Healthcare Institute	882	2%	26%	25%	57	39
Indian Hotels Co	865	6%	33%	27%	52	38
Marico	838	-2%	21%	22%	51	39
Dixon Technologies India	742	15%	97%	82%	109	45
Prestige estates	703	4%	30%	26%	70	31
Phoenix	698	1%	46%	46%	54	23
Ashok Leyland	663	3%	29%	26%	28	22
Astral	625	-8%	29%	37%	85	55
United Breweries	554	-13%	16%	30%	83	50
Voltas	489	6%	44%	38%	62	37
Escorts Kubota	450	-6%	45%	51%	38	23
Biocon	432	-22%	30%	53%	45	23
Page Industries	437	-16%	6%	22%	41	44
KEI Industries	407	1%	46%	45%	56	31
Glenmark Pharmaceuticals	379	5%	54%	49%	29	10
Jubilant Foodworks	378	-27%	10%	37%	99	51
Blue Star	362	9%	71%	61%	64	31
Emami	338	-3%	36%	39%	39	23
Aditya Birla Fashion and Retail	325		52%	52%		
Carborundum Universal	320	-4%	48%	52%	55	32
Brigade	309	8%	38%	30%	56	29
Crompton Greaves Consumer Electricals Lt	270	-7%	31%	38%	46	28
Laurus Labs	255	-44%	13%	57%	63	26
Whirlpool of India	257	-10%	48%	58%	69	40
Natco Pharma	212	18%	42%	24%	13	13
V-Guard Industries	197	0%	60%	60%	57	35
Devyani International	198	-45%	-12%	33%	121	61
Finolex Industries	196	3%	34%	31%	33	19
Alembic Pharmaceuticals	193	2%	23%	21%	28	19
Sobha Ltd	190	-16%	55%	71%	54	18
Chalet hotels	185	-5%	22%	27%	47	31
Krishna Institute of Medical Sciences Lt	172	-19%	4%	23%	47	31
Amber Enterprises India	152	-19%	28%	47%	62	30
Zee Entertainment Enterprises	142	-31%	-42%	-11%	18	14
PVRInox	142	-48%	-6%	42%	45	19
Eris Lifesciences	140	-15%	13%	28%	34	21
Westlife Foodworld	132	-42%	2%	44%	131	62
Bajaj Electricals	127	-31%	5%	36%	47	32
TTK Prestige	121	-4%	16%	20%	42	30
Cera Sanitaryware	116	-13%	16%	29%	44	31
Metropolis Healthcare	105	-6%	27%	33%	59	37

Exhibit 6: Industrials

Stock	Market cap (INR Bn)	6M earnings revision (%) (A)	6M returns (%) (B)	Excess returns (%) (B-A)	FY25E P/E	5 yr avg P/E (1 Yr Fwd)
Reliance Industries	21379	-3%	21%	24%	26	15
Oil & Natural Gas Corp	3712	1%	41%	40%	7	5
Hindustan Aeronautics	3669	21%	86%	65%	50	23
UltraTech Cement	3344	-4%	18%	23%	39	20
Power Grid Corp of India	3194	-1%	42%	43%	20	12
Hind zinc	2808	5%	116%	111%	27	14
Siemens	2760	18%	85%	67%	105	57
Bharat Electronics	2440	9%	80%	72%	56	21
Indian Oil Corp	2409	-2%	30%	32%	9	7
JSW steel	2266	-12%	13%	25%	16	12
Tata steel	2110	-11%	30%	42%	16	10
Grasim Industries	1873	-24%	35%	60%	27	13
ABB India	1802	21%	73%	52%	107	69
Vedanta	1701	38%	74%	36%	11	8
Ambuja Cements	1638	4%	27%	23%	37	29
GAIL India	1492	2%	44%	42%	16	8
Tata Power Co /The	1392	5%	25%	20%	31	20
Samvardhana Motherson International	1353	8%	85%	77%	32	22
JSW Energy	1241	4%	54%	50%	44	30
Bharat Heavy Electricals	1138	-23%	64%	88%	93	41
Cummins India	1107	18%	96%	78%	63	37
Jindal steel & power	1022	0%	40%	40%	16	9
Oil India	822	9%	106%	97%	12	5
Bharat Forge	769	-3%	30%	33%	47	23
Supreme Industries	756	1%	37%	35%	58	30
Torrent Power	738	-17%	44%	61%	32	16
SRF	708	-21%	3%	24%	42	26
Schaeffler India	656	-5%	37%	42%	63	42
Thermax	646	1%	78%	77%	83	41
Jindal stainless	647	-8%	33%	41%	18	9
SAIL	621	-9%	36%	45%	17	10
UNO Minda	613	2%	58%	57%	56	32
Bharat Dynamics	597	16%	96%	80%	64	29
Balkrishna Industries	611	-2%	19%	21%	35	26
Petronet LNG	495	7%	44%	37%	13	11
Exide Industries	481	1%	74%	73%	37	18
Coromandel International	469	-9%	39%	48%	24	14
Gujarat Gas	444	-6%	27%	33%	32	19
UPL	419	-60%	2%	61%	27	11
Endurance Technologies	376	0%	33%	33%	42	23
Indraprastha Gas	370	-4%	26%	29%	19	15
Deepak Nitrite	369	-13%	11%	24%	38	23
Timken India	320	-4%	33%	37%	68	NA
SKF India	297	-6%	37%	43%	45	34
Amara Raja Batteries	300	7%	122%	115%	28	13
Sumitomo Chemical India	244	-6%	22%	28%	48	35
KEC International	226	-19%	48%	66%	31	15
CESC	243	4%	26%	22%	15	7
NCC /India	208	9%	74%	65%	21	14
Kalpataru Power Transmission	216	2%	72%	70%	25	10
Blue Dart Express	198	-14%	15%	29%	52	35
Vinati Organics	197	-16%	13%	29%	45	31
Data Patterns India	180	-6%	69%	75%	77	45

Stock	Market cap (INR Bn)	6M earnings revision (%) (A)	6M returns (%) (B)	Excess returns (%) (B-A)	FY25E P/E	5 yr avg P/E (1 Yr Fwd)
Navin fluorine	181	-33%	5%	38%	53	34
G R Infraprojects	167	-14%	55%	70%	14	12
Mahanagar Gas	167	5%	41%	37%	15	10
Engineers India	146	-3%	38%	41%	32	16
Craftsman Automation	129	-19%	30%	49%	30	17
PNC Infratech	135	8%	37%	29%	20	13
Nuvoco	127	-26%	2%	29%	44	26
HG Infra Engineering	111	0%	95%	95%	10	9
Gujarat Pipavav Port	106	5%	42%	36%	24	16
KNR Constructions	103	-12%	38%	49%	21	14

Disclosure:

We, **Varun Lohchab, PGDM & Amit Kumar, CFA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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