Index Outlook

ICICI direct Research

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Earnings a tad below estimate; favourable risk-reward

As against the expectations of low double digit PAT growth at Nifty level, for Q3FY25, PAT growth at Nifty stood at steady 8% YoY. On the topline front, at the Nifty level, growth remained single digit at 6.5% YoY. Earnings for the quarter was supported by the financials pack (Banks & NBFC's) amidst muted show by the manufacturing sub-segment. Ex-banks & NBFC's, topline and PAT growth at Nifty is pegged at 5% & 2% respectively. For manufacturing segment, encouraging thing was operating margins coming in at a six-quarter high at 18.9% (up 100 bps QoQ), primarily driven by benign commodity prices. In Mid-cap domain, earnings growth outperformed at ~15% YoY given the turnaround at a leading global agrochemical players and Oil Marketing Company. In Small caps space, excluding the MFI & Small banking finance companies, earnings growth came in at 5.4% on YoY basis, however this domain underperformed. For the listed universe, PAT growth came in broadly steady at 9% on YoY basis.

With election led uncertainty behind us and growth-oriented Union Budget in place we expect corporate earnings to resort to double digit earnings trajectory starting FY26E. With Nifty down ~12% from life time highs and mid & small caps down ~15-20%, we believe valuations have become more reasonable and present market provides extremely lucrative opportunities for long term wealth generation. Encouragingly, global and domestic interest rate cycle has started its downward trajectory & should support equity valuations going forward. We believe any dips should be used to build a long-term portfolio of quality stocks.

Exhibit 1: Nifty and Sensex targets – Rolling 12 Months

Earning Estimates	FY23	FY24	FY25E	FY26E	FY27E
Nifty EPS (₹/share)	795	960	1000	1130	1300
Growth (% YoY)	10.5%	20.7%	4.1%	13.1%	15.1%
Earnings CAGR over FY25E-27E					14.1%
FY27E EPS					1,300
PE Multiple Assigned					~21
Nifty Target (using FY27E EPS)					27,000
Corresponding Sensex Target					90,000

Source: ICICI Direct Research

On the Nifty EPS front, post Q3FY25, incorporating revised PAT estimates for Nifty constituents, we are seeing ~4% earnings downgrade. **Keeping the PE multiple intact, our index target gets revised to 27,000 levels i.e. ~21x PE on FY27E EPS of ₹ 1,300.** Corresponding Sensex target is pegged at ~90,000 levels, offering healthy high teens upside potential over next 12 months.

Sectoral earnings

Incorporating Q3FY25 results, key sectors like Capital Goods and Pharma witnessed an upgrade while Metals & Mining and FMCG space witnessed a downgrade with aggregate forward Nifty earnings declining low single digit.

Exhibit 2: Sectoral EPS (₹/share)

₹/share	Sectoral Weight	Old EPS FY25E	Old EPS FY26E	Old EPS FY27E	New EPS FY25E	New EPS FY26E	New EPS FY27E	Avg Change (%)
BFSI	34.7%	430	481	547	423	468	541	-1.8%
IT	14.2%	112	129	145	111	126	142	-1.7%
Oil and Gas	9.2%	123	143	159	116	135	150	-5.7%
FMCG	7.7%	53	59	65	48	52	58	-10.8%
Capital Goods	3.6%	20	23	26	20	23	27	1.9%
Auto	7.8%	85	100	114	85	94	107	-4.1%
Metals & Mining	3.7%	67	93	107	59	75	87	-16.1%
Power	2.5%	41	46	50	40	45	50	-2.2%
Telecom	4.6%	18	25	34	18	25	33	-1.8%
Pharma	3.9%	30	33	32	31	33	34	2.5%
Others	8.1%	46	59	71	49	55	71	0.1%
Aggregate	**100%**	**1,025**	**1,190**	**1,350**	**1,000**	**1,130**	**1,300**	**-3.7%**

Source: ICICI Direct Research

Nifty Sectoral Weights*

Sectors	Weight (Aug'24)	Weight (Feb'25)	Change (bps)
BFSI	31.6%	34.7%	312
IT	14.3%	14.2%	-8
Oil and Gas	10.9%	9.2%	-168
FMCG	8.8%	7.7%	-110
Auto	8.1%	7.8%	-31
Metals & Mining	3.9%	3.7%	-24
Capital Goods	3.8%	3.6%	-19
Power	3.1%	2.5%	-56
Telecom	3.8%	4.6%	79
Pharma	4.4%	3.9%	-54
Others	7.3%	8.1%	77
Total	**100%**	**100%**	

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

Highlights

- Budget 2025-26 has aptly tried to balance the 3 C's (consumption, capex and consolidation-fiscal) with key takeaway being; a) Income Tax relief to public at large; giving an annual consumption boost of ~₹ 1 lakh crore, b) maintaining fiscal discipline with fiscal deficit pegged at 4.8% of GDP for FY25E and 4.4% for FY26E; and c) healthy allocation to capex at ₹11.2 lakh crore, up 10% YoY. This we believe bodes well for the domestic economy and markets.
- RBI in its recent monetary policy meeting reduced Repo rate by 25 bps to 6.25%, first cut since May 2020.
- Inflation after being stubbornly high during post covid period, is gradually drifting down since last 3 years. Average inflation was 6.7% in FY23, 5.4% in FY24, 4.9% in FY25 & is now projected at 4.2% in FY26. The latest print for January 2025 was 4.3% as against market expectation of 4.5%.
- Incorporating revised PAT estimates for Nifty constituent's post Q3FY25, our Nifty earnings gets revised downward by ~4%. Our Nifty target is now pegged at 27,000 valuing it at ~21x PE on FY27E EPS of ₹1,300. Corresponding target for the Sensex is at ~90,000. These are our rolling 12 months' index target.

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Special Report

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Q3FY25 Earnings Summary -key tables

Exhibit 3: Nifty topline and PAT performance

₹ crore (Nifty 50)	Dec-24	Dec-23	Sep-24	YoY (%)	QoQ (%)
Sales	18,81,213	17,65,676	18,00,884	6.5	4.5
Net profit	2,04,463	1,89,424	1,94,661	7.9	5.0
ex-Oil & Gas Space	Dec-24	Dec-23	Sep-24	YoY (%)	QoQ (%)
Sales	16,01,950	14,82,820	15,39,770	8.0	4.0
Net profit	1,92,036	1,75,540	1,82,092	9.4	5.5
Ex-BPCL, ONGC, Reliance	Dec-24	Dec-23	Sep-24	YoY (%)	QoQ (%)
Sales	13,61,964	12,57,734	13,08,235	8.3	4.1
Net Profit	1,73,496	1,58,275	1,65,529	9.6	4.8

Source: ICICI Direct Research

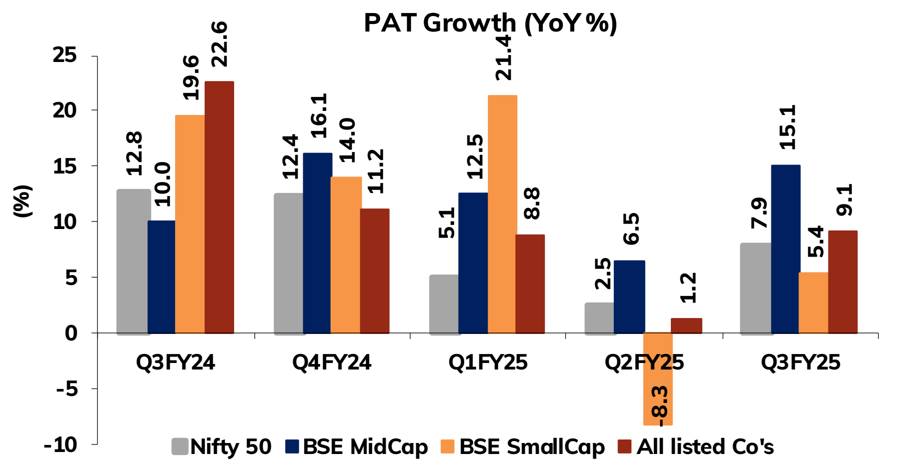
For Q3FY25, PAT growth at Nifty stood at steady 8% YoY.

PAT growth of 8% YoY at Nifty is adjusting for one-time accounting gains at Bharti Airtel.

On topline front, at Nifty level, growth remained single digit at 6.5% YoY.

Earnings for the quarter was supported by the financials pack (Banks and NBFC's)

Exhibit 4: PAT across MCap categories across quarters (YoY Growth)



Source: ICICI Direct Research

For Q3FY25, in the large Cap domain, represented by Nifty 50, PAT growth stood at 8%.

In the Mid-cap domain, earnings growth outperformed at 15% YoY given the turnaround at a leading global agrochemical players and Oil Marketing Company.

In the Small caps space, excluding the MFI & Small banking finance companies, earnings growth came in at 5.4% on YoY basis, however this domain underperformed.

For the listed universe altogether, PAT came in broadly steady at 9% on YoY basis (aggregating for ~3,000 Co's).

Exhibit 5: Nifty (ex- financials) topline performance

₹ crore	Dec-24	Dec-23	Sep-24	YoY change	QoQ change
Auto	2,22,211	2,05,521	2,04,816	8.1	8.5
Capital goods	64,668	55,128	61,555	17.3	5.1
FMCG	48,424	45,423	49,902	6.6	-3.0
IT	1,71,231	1,63,156	1,69,722	4.9	0.9
Metals	1,89,196	1,86,214	1,82,465	1.6	3.7
Oil & Gas	5,19,249	5,07,942	4,92,649	2.2	5.4
Pharma	34,657	31,072	33,970	11.5	2.0
Power	56,286	54,370	55,974	3.5	0.6
Aggregate	14,70,566	13,98,297	14,02,722	5.2	4.8

Source: ICICI Direct Research

On the sectoral topline front, Capital goods and Pharma outperformed with double-digit growth in sales, while it came in muted at Metals and Power domains.

Exhibit 6: Nifty (ex-financials) PAT performance

₹ crore	Dec-24	Dec-23	Sep-24	YoY change	QoQ change
Auto	16,746	17,022	13,785	-1.6	21.5
Capital goods	3,359	2,947	3,395	14.0	-1.1
FMCG	9,467	9,335	9,379	1.4	0.9
IT	28,114	24,719	27,109	13.7	3.7
Metals	13,284	15,513	11,471	-14.4	15.8
Oil & Gas	30,968	31,150	29,133	-0.6	6.3
Pharma	6,260	5,206	5,977	20.2	4.7
Power	8,924	9,184	9,068	-2.8	-1.6
Aggregate	1,31,528	1,28,640	1,21,136	2.2	8.6

Source: ICICI Direct Research

On the sectoral PAT front, Pharma continued to outperform the pack with healthy ~20% YoY earnings growth followed by IT and Capital goods space. While metals underperformed amid pressure on steel prices. Sequential rebound in auto space is courtesy rebound in wholesale sales volume at Tata Motors-JLR

Sectoral Snippets and Top Pick

- **Banking industry** delivered mixed performance with divergence at its peak. Lenders with exposure to secured retail & corporate segment continued to deliver steady performance, players with substantial exposure to unsecured retail segment (microfinance, credit card and personal loans) bear the brunt of elevated slippages impacting profitability. Caution among lenders led to moderation in credit off-take while liabilities accretion continued to remain a challenge impacting margin trajectory. Large private banks, PSB and NBFC with secured portfolio fared well, while mid-sized private banks and NBFCs with unsecured exposure witnessed volatility in terms of asset quality and thus earnings. **Top Pick: Bank of Baroda (BANBAR)**

- **In IT space,** most of the large cap IT companies saw mid-single digit revenues growth YoY in constant currency terms. The margins, however, witnessed an average expansion of ~50 bps sequentially (aided by currency tailwinds and better utilisation), which led to healthy PAT growth YoY. We highlight that Tier 1 IT players have indicated a better FY26 vs. FY25, led by some discretionary demand pick up. Nonetheless, we remain selectively positive in Tier 2/3 names which offers higher growth prospects. **Top Pick: Persistent System (PERSYS)**

- **In the Oil & Gas space**, earnings recovered amidst healthy core GRM's and marketing margins partially impacted by under recoveries in the LPG segment. Singapore GRMs improved by $1.2/bbl., QoQ, standing at $4.9/bbl. in Q3FY25. Blended retail fuel margin improved by ₹ 2.6/ltr, while LPG under recovery for the quarter stood at ~ ₹ 11,700 crores

- **FMCG space** registered a yet another quarter of muted performance in Q3FY25 with mid-single digit revenue growth driven affected by lower volume growth of 2-4%. This was on back of urban volume growth moderating for third consecutive quarter as against gradual recovery in rural demand. Higher raw material inflation and competitive pressure resulted in decline in the EBIDTA margins in the range of 50-350 bps YoY for most consumer goods companies. This resulted in flat to lower PAT on YoY basis for Q3FY25. **Top Pick: Tata Consumer Products (TATGLO)**

- **Auto Industry** reported steady results for Q3FY25, amid domestic volume growth of 3% YoY, while total exports saw a growth of ~25% YoY led by demand uptick in LATAM and African markets. Margins were broadly stable across OEMs amidst benign RM prices and cost optimization efforts. During the quarter, rise in EV sales at Bajaj auto, gain in tractor market share for M&M while JLR turnaround at Tata motors were some key highlights. **Top Pick: Lumax Auto Technologies (LUMAAU)**

- **In metals space,** PAT was down double digit on YoY basis amidst pressure on profitability at the ferrous players driven by muted steel realisations (at 4 year low). However, EBITDA/ton is expected to bottom out from Q4FY25 onwards, driven by gradual recovery in steel prices, along with an anticipated decline in iron ore and coking coal costs, by ~₹350/ton and ~$10/ton. Moreover, likely imposition of higher import duties/tariffs would benefit domestic steel players. **Top Pick: Jindal Steel and Power (JINSP)**

- Overall **Capital goods** reported steady set of Q3FY25 results on the back of strong order-backlog and pick up in execution. The EPC companies under coverage reported revenue growth of 13-18% with improved /stable margins. Order inflows were strong for players having geographical & segmental diversification. Segments like Power T&D, renewables, urban infra, water saw good ordering activity despite the impact of slow H1FY25 (long election cycle and prolonged monsoon). Balance sheets have been further improved on back of strong cash flow generation and discipline on working capital management. **Top Pick: VaTech Wabag (VATWAB)**

- **Pharma coverage** universe Revenues grew ~10% YoY to ₹ 76571 crore, driven by CRDMO segment which registered ~16% growth. Growth was also supported by US and India region which registered 9% and 12% growth, respectively. EBITDA for the universe grew ~18% to ₹ 18955 crore driven by benign raw material pricing scenario, better product mix and better operating leverage. **Top Pick: Piramal Pharma (PIRPHA)**

- **In Cement Space**, sales volume picked up during the quarter (aggregate volume growth of our coverage universe stood at ~10% YoY and ~11% QoQ) after a muted H1FY25. Though profitability remained lower on YoY basis (due to lower realizations), average EBITDA/ton improved by ~12% QoQ, led by little improvement in realizations and benign cost structure (led by continuous focus on operational efficiencies and positive operating leverage). Absolute EBITDA of our cement coverage universe was up ~24% QoQ. **Top Pick: JK Cement (JKCEME)**

- **Consumer Discretionary** companies registered relative better performance in Q3 with festive and wedding season providing some cheers after lull Q2. Like-for-like growth for apparel companies stood in high-single digit to low double digit. This coupled with strong addition and scale-up in value fashion segment aided some of the apparel/retail companies to post double digit revenue growth and sequential improvement in the profitability. Jewellery companies registered mix performance with double digit revenue growth while margins remaining lower on YoY basis due to unfavourable mix and higher gold prices. **Top Pick: Titan Company Ltd. (TITIND)**

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Sell: <-15%

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