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Earnings growth moderates, macro positives persist

For Q1FY25, topline growth at Nifty (ex-financials) came in tepid at 5.7% YoY with EBITDA margins moderating 20 bps QoQ & 90 bps YoY to 18.5%, resulting in flattish PAT on YoY basis. The moderation of earnings growth for the quarter was on expected lines; albeit on a high base. Oil & gas space especially OMCs impacted earnings, amidst muted GRM margins on the refining side. Interestingly, broader markets earnings outperformance trend continued with mid & small caps reporting better earnings growth than headline Nifty index. For Q1FY25, Nifty PAT growth (including financials) came in at 5% YoY while the same for mid-cap universe stood at 12.5% and small-cap universe stood at 21.4%. For listed companies all-together, PAT growth stood at 8.8% YoY.

On macro-economic front positives persist, GDP growth surprised positively and came in at 7.8% for Q4FY24 and 8.2% for FY24. Globally, interest rate cycle is about to get reversed with some major central banks already announcing rate cuts. Domestic inflation is also contained with recent CPI print at 3.5% for July'24. Government too talked the talk on its path of fiscal consolidation, with pragmatic Budget 2024-25 and fiscal deficit pegged at 5.6% for FY24 and 4.9% for FY25E. With underlying positive macros, stable commodity prices & resilient corporate earnings, we retain our positive stance on domestic markets. We believe any dips should be used to build a long-term portfolio of quality stocks.

Exhibit 1: Nifty and Sensex targets

Sensex & Nifty Target (Rolling 12 months)						
Earning Estimates	FY21	FY22	FY23	FY24	FY25E	FY26E
Nifty EPS (₹/share)	515	720	795	960	1075	1250
Growth (% YoY)	17.1%	39.7%	10.5%	20.7%	11.9%	16.3%
Earnings CAGR over FY24-26E						14.1%
FY26E EPS						1,250
PE Multiple Assigned						22x
Nifty Target (using FY25E EPS)						27,500
Corresponding Sensex Target						91,600

Source: ICICI Direct Research

Incorporating revised earnings, our estimates don't undergo any major change. We value Nifty at 27,500 i.e. 22x PE on FY26E, offering healthy 12% potential upside. This is our 12 months rolling target. We are upgrading our PE valuation multiples to 22x vs. 20x earlier amid greater macro-economic stability, firm political mandate, thrust on policy continuity & further attractiveness of equity as an investment class vs. peers. Decline in interest rates will be further positive

Sectoral earnings

Incorporating Q1FY25 results, key sectors like Auto, IT, Pharma and Telecom witnessed an upgrade while BFSI and Metals & Mining space witnessed a downgrade with aggregate Nifty earnings remaining broadly unchanged.

Exhibit 2: Sectoral EPS (₹/share)

₹/share	Sectoral Weight	Old EPS			New EPS			Avg Change (%)
		FY24	FY25E	FY26E	FY24	FY25E	FY26E	
BFSI	31.6%	405	444	520	405	444	504	-1.5%
IT	14.3%	108	114	132	108	117	138	3.7%
Oil and Gas	10.9%	132	135	150	132	134	152	0.1%
FMCG	8.8%	49	54	61	49	55	62	2.0%
Capital Goods	3.8%	18	23	27	17	21	23	-11.5%
Auto	8.1%	74	82	96	74	86	101	5.0%
Metals & Mining	3.9%	57	80	101	57	78	101	-1.2%
Power	3.1%	40	45	50	40	45	51	2.3%
Telecom	3.8%	12	19	28	12	22	32	16.9%
Pharma	4.4%	28	28	33	28	29	34	5.0%
Others	7.3%	38	46	54	39	43	53	-5.0%
Aggregate	100%	960	1070	1250	960	1075	1250	0.2%

Source: ICICI Direct Research

Nifty Sectoral Weights*

Sectors	Weight (Jun'24)	Weight (Aug'24)	Change (bps)
BFSI	32.5%	31.6%	-89
IT	12.7%	14.3%	166
Oil and Gas	11.2%	10.9%	-29
FMCG	8.3%	8.8%	49
Capital Goods	4.3%	3.8%	-58
Auto	8.1%	8.1%	-2
Metals and Mining	4.5%	3.9%	-54
Power	3.1%	3.1%	1
Telecom	3.8%	3.8%	5
Pharma	4.2%	4.4%	22
Others	7.4%	7.3%	-11
Total	100%	100%	

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

Highlights

- New government represented Union Budget 2024-25 in July'24 which was anchored on pillars of a) Youth skilling and job creation, b) Tax simplification, c) Consistent capex momentum & d) Smooth and Efficient accessibility of credit to MSME.
- Domestic auto sales grew healthy 16.4% in Q1FY25 at 64 lakh units wherein CV space volume was up 3.5% YoY, PV volumes grew 3% YoY while 2-W volumes grew 20% YoY.
- Incorporating the revised estimates, our Nifty earnings remain broadly unchanged. Our Nifty target is now pegged at 27,500 valuing it at 22x PE on FY26E. Corresponding target for the Sensex is at 91,600. These are our rolling 12 months' index target

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