Strategy

Financing, capex and discretionary consumption related activities drive Q1FY24 earnings while commodity deflation drags; mixed picture on export front

Around 62% weight within the NSE 200 universe has reported Q1FY24 earnings so far and the YoY aggregate free float PAT growth stands at 41%. Overall the number of beats are outpacing misses so far (62 beats, 39 misses, 18 neutral). Our thesis that bulk of the demand in the economy is being driven by the cyclical recovery in capex, credit growth and discretionary consumption (*refer capex and wage bill report*) is getting incremental validation in the results so far. Capex revival is further corroborated by strong domestic demand for commodities, although deflation in commodity prices has hurt commodity producers and is the single-biggest factor dragging down aggregate earnings growth. The export front presents a mixed picture with weak outlook for IT services, but pharma surprising positively. We expect the PAT/GDP ratio to resume its upward trend and reach 4.8% in FY24E after the marginal dip in FY23.

Vinod Karki
vinod.karki@icicisecurities.com
+91 22 6807 7586
Niraj Karnani
niraj.karnani@icicisecurities.com

Domestic cyclical demand is strong and expected to remain so going forward

Bellwether of the capex cycle in India (L&T) has provided a resounding beat on earnings along with a robust outlook. Other stocks related to capex cycle have also delivered robust earnings (Ashok Leyland, Polycab, etc.). Strong double-digit domestic volume growth in steel and cement companies (Tata Steel, UltraTech) further corroborate the robust capex story although profitability of commodity stocks has been impacted negatively due to weak realisations. Financing activity appears robust in terms of the better-than-expected results of most financial stocks. Also, discretionary consumption (auto, spirits, internet, real estate, leisure, etc.) have provided in-line or better-than-expected results.

Staples demand was mixed as indicated by HUL's soft result, which implies broad-based consumption patterns are weak.

Commodity deflation is a big drag on Q1FY24 earnings. The biggest drag on aggregate earnings base so far in Q1FY24 results is the commodity pack (metals, RIL, chemicals etc), which has been impacted by lower realisations. However, volume growth for commodities such as steel and cement has been in strong double-digit territory given the revival in capex and real estate cycles. OMCs are showing significant jump in their profit pool on a YoY basis. Global commodities within metals and energy space have an adverse YoY base, which should start fading going ahead. As per consensus estimates, they will be the biggest contributors to FY24 YoY growth in aggregate profits for corporate India (**Exhibit 6**).

Export outlook mixed

Most large IT stocks missed earnings estimates, but the bigger disappointment was in terms of an uncertain demand outlook. Even outside IT services, demand for global discretionary spend in general could be an issue due to slowing demand in the developed markets. However, pharma stocks delivered better than expected results as US demand was higher than envisaged, driven by lower price erosion and supply disruptions in the US.

Exhibit 1: Q1FY24 earnings so far shows robust free float PAT growth for key indices

Free float (INR bn)	Sales			EBITDA			PAT (ex-financials)			PAT (Incl-financials)		
	Q1FY24	YoY	QoQ	Q1FY24	YoY	QoQ	Q1FY24	YoY	QoQ	Q1FY24	YoY	QoQ
Nifty	4,274	6%	-4%	692	24%	-3%	355	36%	-12%	666	37%	10%
Next50	828	-8%	-4%	118	75%	7%	63	145%	3%	80	118%	4%
Midcap100	310	11%	-5%	49	10%	-3%	25	11%	-13%	81	26%	0%
Smallcap100	173	12%	-6%	20	1%	-14%	12	10%	-10%	27	27%	-3%
NSE200	5,412	4%	-5%	859	28%	-1%	443	43%	-10%	828	41%	8%

Source: Bloomberg, Capitaline, I-Sec research

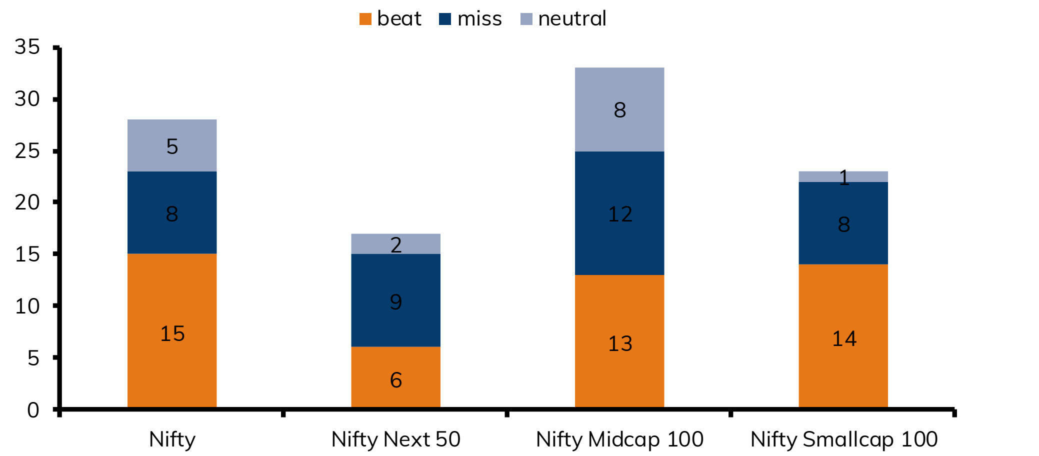
Exhibit 2: NSE200 sectoral free float earnings indicate strong growth from domestic cyclicals and pharma

Free float, INR bn	NSE 200 Index	Sales			EBITDA			PAT			Actual vs consensus expectations		
Sector	Weights	Q1FY24	YoY(%)	QoQ (%)	Q1FY24	YoY(%)	QoQ (%)	Q1FY24	YoY(%)	QoQ (%)	beat	neutral	Miss
Consumption													
Automotives	1.9%	618	37.5%	-4.1%	80	216.4%	-0.5%	28	LtoP	-26.7%	3	1	0
FMCG	3.9%	132	10.9%	3.0%	25	12.9%	2.3%	17	13.1%	4.7%	2	1	2
Paints	1.3%	43	6.7%	4.5%	10	36.3%	13.8%	7	48.9%	22.5%	1	0	0
Discretionary	1.3%	80	13.6%	-2.8%	10	17.3%	-12.0%	6	16.6%	-14.3%	2	0	4
Auto Ancillaries	0.2%	5	24.3%	-1.6%	1	42.7%	1.0%	1	50.7%	-6.8%	0	1	0
Real Estate	0.3%	4	-1.3%	-2.3%	1	-4.2%	-0.6%	1	5.3%	-4.5%	0	0	1
Internet	0.2%	8	39.4%	0.3%	0	LtoP	-64.3%	-1	loss maker	loss maker	0	0	1
Exports													
Technology	10.7%	828	10.0%	-0.1%	154	9.7%	-4.7%	120	7.9%	-6.6%	1	3	8
Pharma*	1.3%	105	19.7%	7.0%	27	60.4%	30.5%	18	80.5%	51.8%	3	0	1
Financials													
Banking	19.1%	NM	NM	NM	NM	NM	NM	328	39.9%	50.4%	9	3	1
Financial Services	3.0%	NM	NM	NM	NM	NM	NM	29	26.1%	-4.5%	2	1	3
NBFCs	2.2%	NM	NM	NM	NM	NM	NM	28	30.1%	15.5%	1	1	1
Industrials and capex													
Oil & Gas	0.7%	1,043	-9.6%	-3.9%	129	LtoP	38.8%	83	LtoP	34.2%	2	1	0
Reliance Ind	7.5%	1,038	-5.4%	-2.5%	190	0.2%	-0.9%	80	-10.9%	-17.0%	0	0	1
Capital Goods & Infra	2.6%	412	33.6%	-17.9%	42	23.9%	-28.3%	22	48.5%	-36.6%	1	0	0
Power/Mining	0.9%	199	-2.3%	-4.8%	57	12.9%	0.6%	21	6.5%	-27.5%	1	0	1
Metals	1.8%	664	-4.0%	-7.5%	83	-44.7%	-21.5%	19	-73.7%	-47.1%	1	1	2
Cement	1.4%	127	16.2%	-1.5%	22	9.2%	4.1%	11	23.3%	-11.0%	2	0	2
Telecom	0.3%	42	6.3%	4.6%	15	30.4%	0.6%	5	67.9%	0.1%	1	1	0
Chemicals	0.4%	39	-6.8%	-3.2%	6	-18.2%	1.9%	4	-24.9%	-0.2%	1	0	1
Defense	0.4%	17	12.2%	-45.4%	3	28.7%	-63.3%	3	47.3%	-61.0%	1	0	0
Industrials	0.2%	8	14.1%	-1.5%	1	42.4%	-3.6%	1	58.7%	-19.0%	0	1	0
Total	**61.5%**	**5,412**	**4.1%**	**-4.5%**	**859**	**28.1%**	**-1.3%**	**828**	**40.7%**	**8.1%**	**34**	**15**	**29**
Ex-financials	37.2%	5,412	4.1%	-4.5%	859	28.1%	-1.3%	443	43.2%	-10.2%	22	10	24
Ex-Commodity	59.0%	3,704	10.4%	-4.1%	646	20.0%	-3.6%	726	32.4%	8.6%	31	13	27
Ex-Financials & Ex-commodity	34.7%	3,704	10.4%	-4.1%	646	20.0%	-3.6%	342	26.6%	-13.8%	19	8	22

Source: Bloomberg, Capitaline, I-Sec research

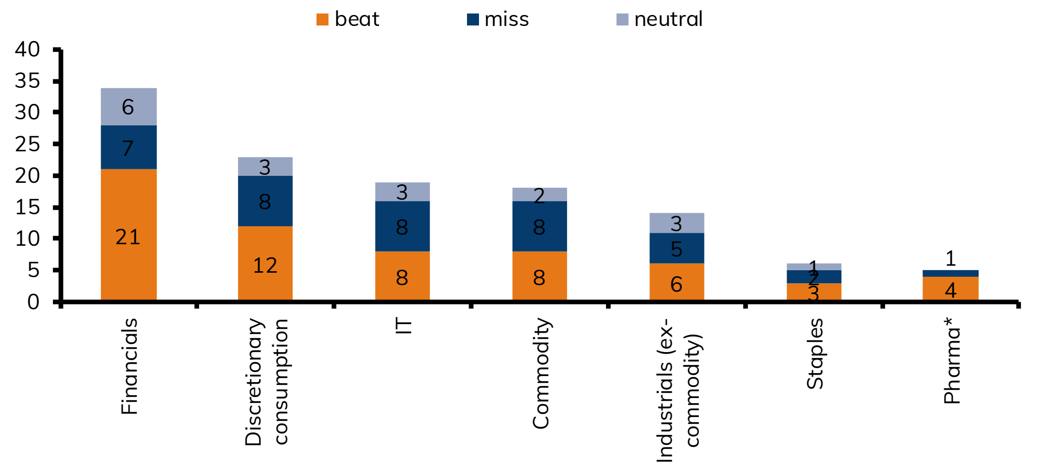
Note: Earnings result of 84 companies has been considered. *Pharma includes healthcare services companies.

Exhibit 3: Beats exceed misses collectively for key indices



Source: Bloomberg, Capitaline, I-Sec research

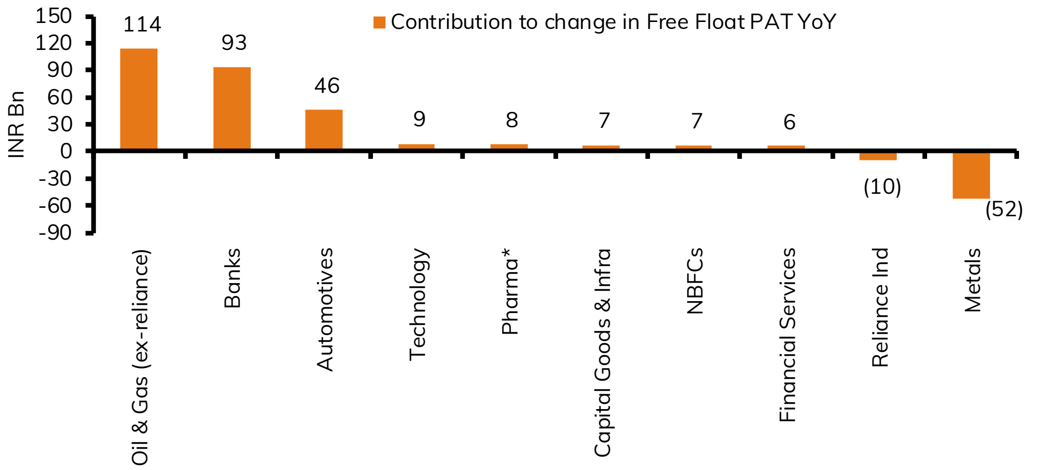
Exhibit 4: Financials, discretionary consumption, pharma and industrials are dominating with higher beats so far for a broader universe of stocks



Source: Bloomberg, Capitaline, I-Sec research

Note: Above charts represents overall beat/miss/neutral of 119 companies considered (NSE200 plus I-Sec coverage) whose earnings result has been declared. *Pharma includes healthcare services companies.

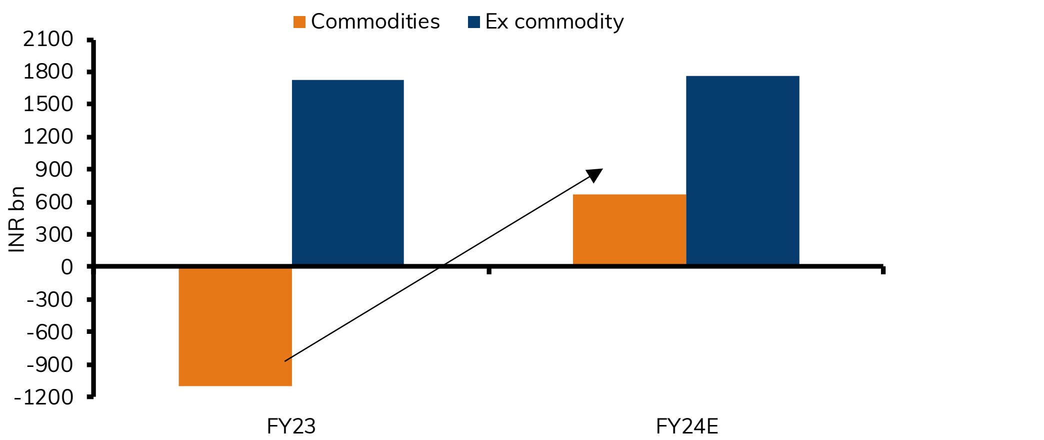
Exhibit 5: Domestic cyclicals contribute the maximum to the YoY growth in free float earnings of the NSE 200 index during Q1FY24 so far



Source: Bloomberg, Capitaline, I-Sec research

Note: Earnings result of 84 companies has been considered out of NSE200 Index. *Pharma includes healthcare services companies.

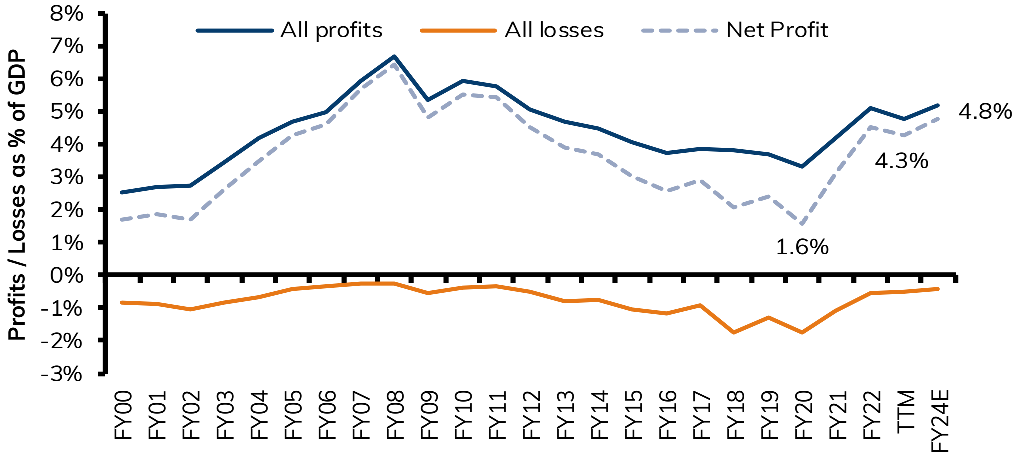
Exhibit 6: Profit pool of commodities to swing from YoY contraction of ~INR 1.1trn in FY23 to ~INR 700bn expansion in FY24E



Source: Bloomberg, Capitaline, I-Sec research

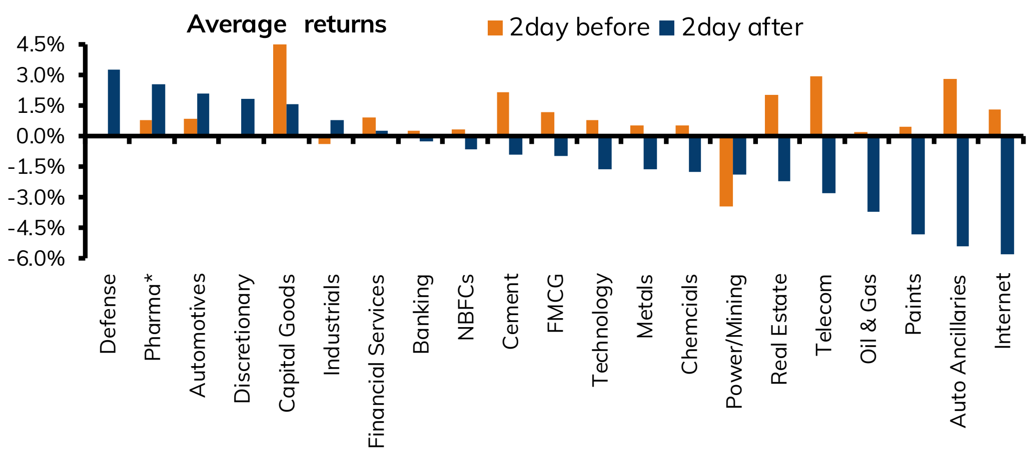
Note: based on a universe of ~600 stocks where FY24 consensus estimates are available. Commodities includes metals, Oil& Gas and cement companies.

Exhibit 7: PAT / GDP ratio to resume upward trend and reach 4.8% in FY24E after the marginal dip in FY23 due to commodities.



Source: Bloomberg, Capitaline, I-Sec research

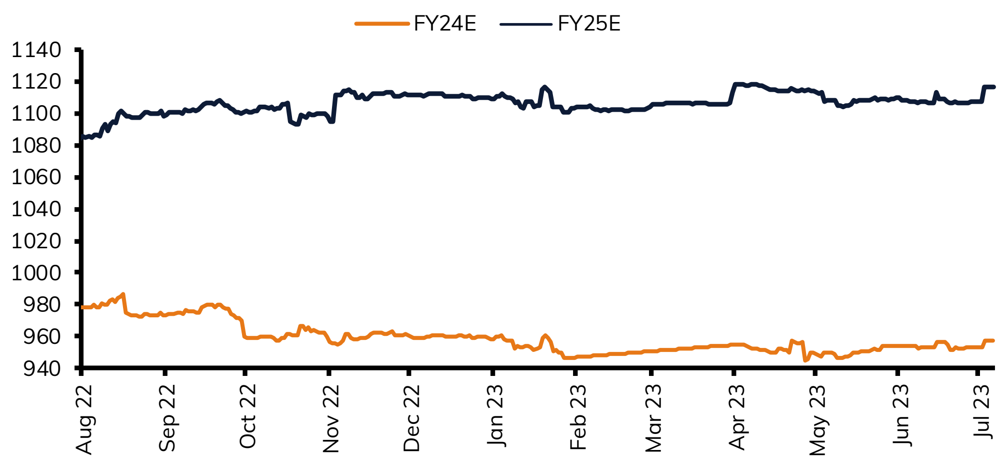
Exhibit 8: Sectoral distribution of returns pre and post Q1FY24 results so far



Source: Bloomberg, Capitaline, I-Sec research

Note: Earnings result of 84 companies has been considered out of NSE200 Index. *Pharma includes healthcare services companies.

Exhibit 9: Consensus NIFTY EPS trend for FY24E and FY25E



Source: Bloomberg, I-Sec research

In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company."

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Vinod Karki, MMS (Finance); Niraj Karnani, CA; 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. 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. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.