

Compared to the muted 1H, corporate earnings expected to recover in 2HFY25: Motilal Oswal Financial Services

- *Corporate earnings moderate YoY after a solid 21% CAGR over FY20-24*
- *Indian stock markets corrected 11-12% from the top over Sep-Nov'24*
- *Recent correction and consequent moderation in valuations provide an opportunity to add select bottom-up ideas*

November 28, 2024: According to **Motilal Oswal Financial Services Limited (MOFSL)** 'India Strategy – The Winners and Laggards' report, compared to the muted 1H, corporate earnings are expected to recover in 2HFY25 (9% YoY growth for MOFSL Universe in 2HFY25 vs. flat YoY performance in 1H), aided by a rise in rural spending, a buoyant wedding season in 2HFY25 (30% higher weddings YoY), and a pick-up in government spending.

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After a healthy 21% CAGR over FY20-24, corporate earnings have moderated in 1HFY25. Earnings growth for MOFSL Universe (-1% YoY) and Nifty-50 (+4% YoY) in 2QFY25 was the lowest in 8 and 17 quarters, respectively. However, excluding global commodities, it remained strong at 12%/11% YoY for MOFSL/Nifty-50 Universe. Since Aug'24, MOFSL have reduced FY25 estimates for Nifty EPS by 5%, and now expect a modest 5% growth for Nifty earnings in FY25, the first year of single-digit growth in five years.

Indian stock markets have corrected by 11-12% from the top over Sep-Nov'24, due to a variety of factors, viz. earnings moderation and elevated valuations in mid-caps and small caps, along with global factors, such as a fragile geopolitical backdrop in the Middle East and a strengthening dollar index after the Trump victory. **The correction has cooled off the valuations in large-caps, even as mid/small-caps trade at expensive multiples** – Nifty-50 is now trading at 19.6x FY26E EPS, **while mid-cap/small-cap indices are trading at 30x/23x one-year forward P/E multiples, off from the Sep'24 highs but still rich vs. their own history as well as relative to Nifty-50.**

The recent correction and the consequent moderation in valuations provide an opportunity to add select bottom-up ideas. MOFSL notices that even in a muted quarter, several companies delivered resilient performance. **MOFSL has cited 10 WINNERS and 5 LAGGARDS based on the 2Q earnings print.** Apart from strong earnings performance, the shortlisted winning ideas are the ones for which MOFSL Research Team has high conviction and/or are part of MOFSL Model Portfolio.

Winners: SBI, L&T, M&M, Sun Pharma, Indian Hotels, Page Industries, Ipca Labs, Angel One, Amber Enterprises, Atul

Laggards: TATA Motors, Asian Paints, Avenue Supermarts, ABB India, IndusInd Bank

The BJP's decisive victory in the recent Maharashtra and Haryana assembly elections will boost overall sentiment, strengthen policy momentum, expedite the key infra projects, and increase focus on overall govt. spending going ahead (govt. spending remained flat YoY, while capex was down 17% YoY in 1HFY25), in our view. This poll result will also bolster the perception around the political capital of PM Narendra Modi, especially given the minor setback NDA suffered in 2024 Lok Sabha polls.