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The Eagle Eye

October 2022

GLOBAL MARKETS

- ❖ India outperformed key global markets in Sep'22
- ❖ The outperformance of the MSCI India index over MSCI China is at a record high

MARKETS

- ❖ Healthcare and Consumer were the only gainers, while Oil, Real Estate, and Technology were the top losers in Sep'22
- ❖ The majority of Nifty constituents (72%) fell in Sep'22

FLows AND VOLUMES

- ❖ FIIs withdrew USD1.6b in Sep'22 after clocking the highest inflows in Aug'22 (since Dec'20)
- ❖ DIIs turn buyers at USD1.7b in Sep'22 after recording an outflow in Aug'22
- ❖ Average daily cash volumes jumped 38% from the Jun'22 low

MACROS

- ❖ The INR remains resilient as compared to most global currencies in CY22
- ❖ Bond yields continue to see a steep rise across global economies
- ❖ Loan growth has hit a record high. The growth in retail credit remains strong

COMMODITY

- ❖ Commodity inflation cools off from its recent highs, but remains volatile
- ❖ Crude oil prices have fallen significantly from their recent peak, and are trading 10% below its one-year average
- ❖ Palm oil prices have softened after touching a high in Mar'22. It is trading nearly 50% below its one-year average

VALUATIONS

- ❖ The Nifty's 12-month forward P/E, at 18.8x, is at a 2% premium to its LPA of 18.5x
- ❖ The 12-month trailing P/E for the Nifty stood at 21.8x, 9% higher than its LPA
- ❖ Market capitalization-to-GDP ratio fell from its FY22 highs, but is above the 100% level

CONTENTS

A global correction instigated by the fear of monetary policy tightening

World equity indices (MoM) in USD terms (%)

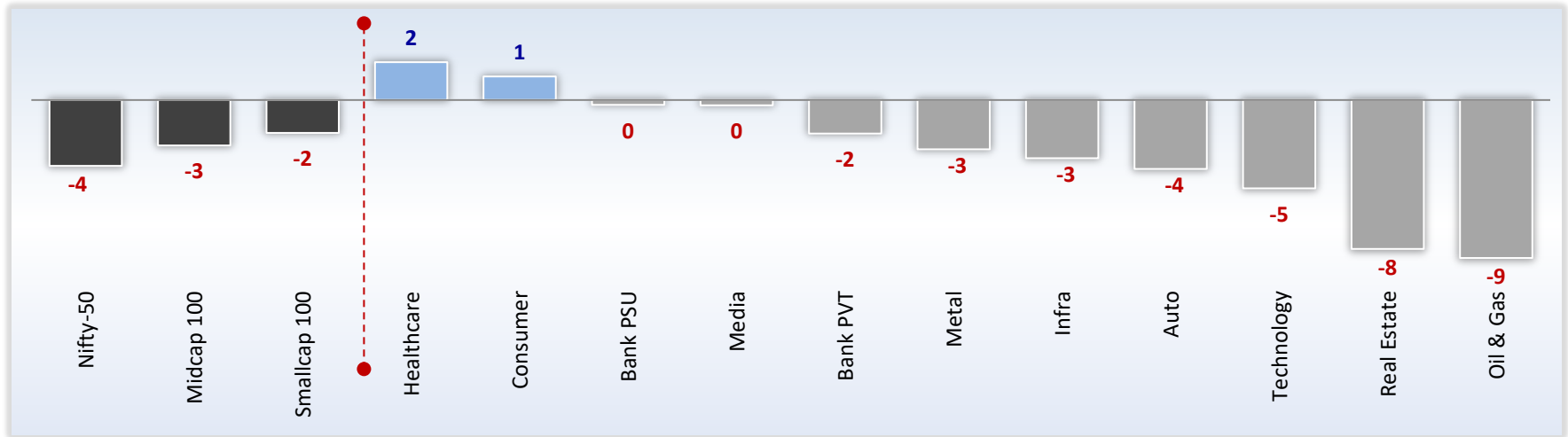


YTD performance of global equity indices in USD terms (%)

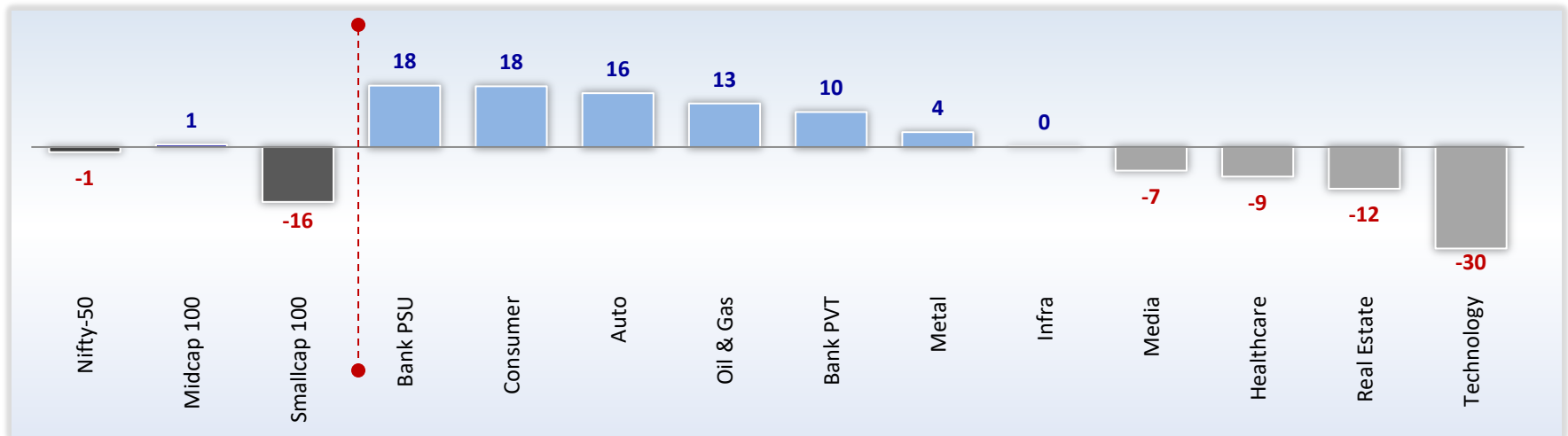


Healthcare and Consumer gain, while Oil, Real Estate, and Technology lose big in Sep'22

Sectoral performance MoM (%)



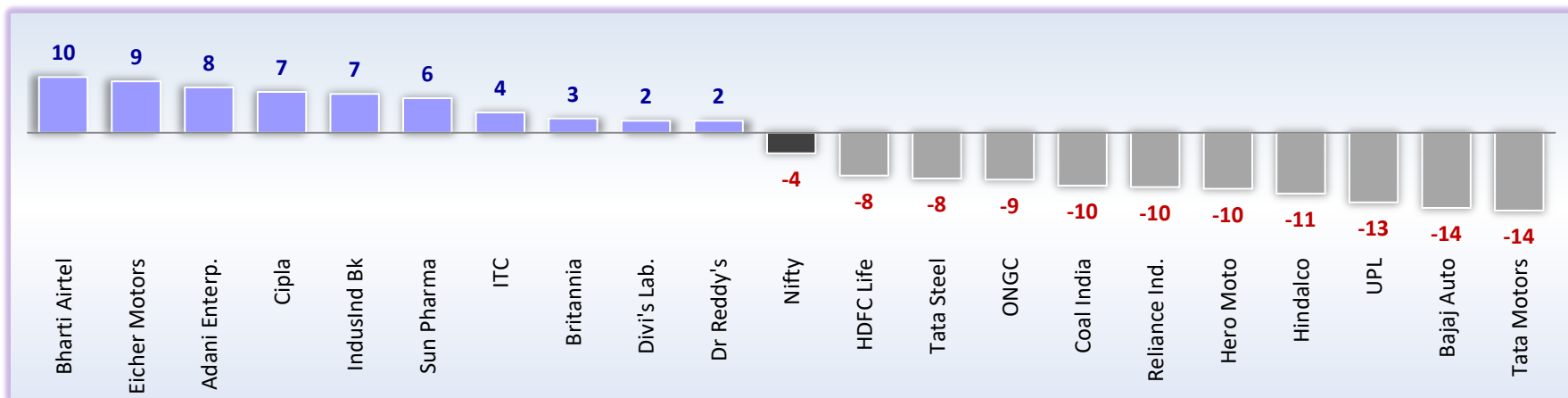
Sectoral performance YTD (%): IT remains the worst performer YTD; Consumer and PSU Banks take top slots



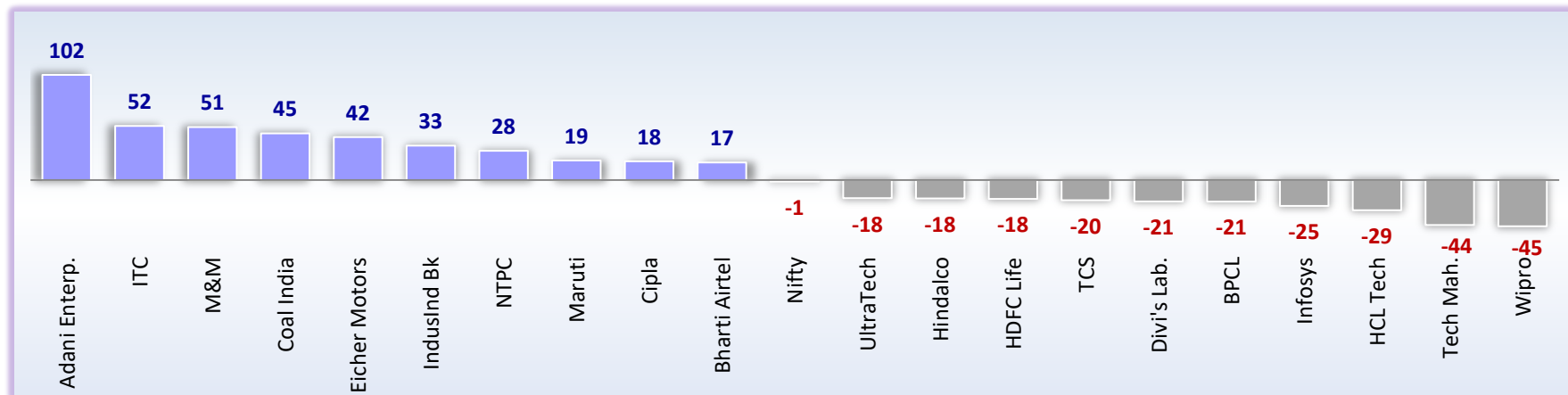
Most Nifty constituents (72%) fell in Sep'22

- ❖ Among Nifty constituents, 14 closed higher in Sep'22. Around 50% constituents outperformed the benchmark
- ❖ Among Nifty constituents, 56% traded higher YTD. Adani Enterprises, ITC, M&M, Coal India, and Eicher Motors led the gainers pack

Best and worst Nifty performers (MoM) in Sep'22 (%) – Bharti Airtel, Eicher Motors, and Adani Enterprises are among the top gainers



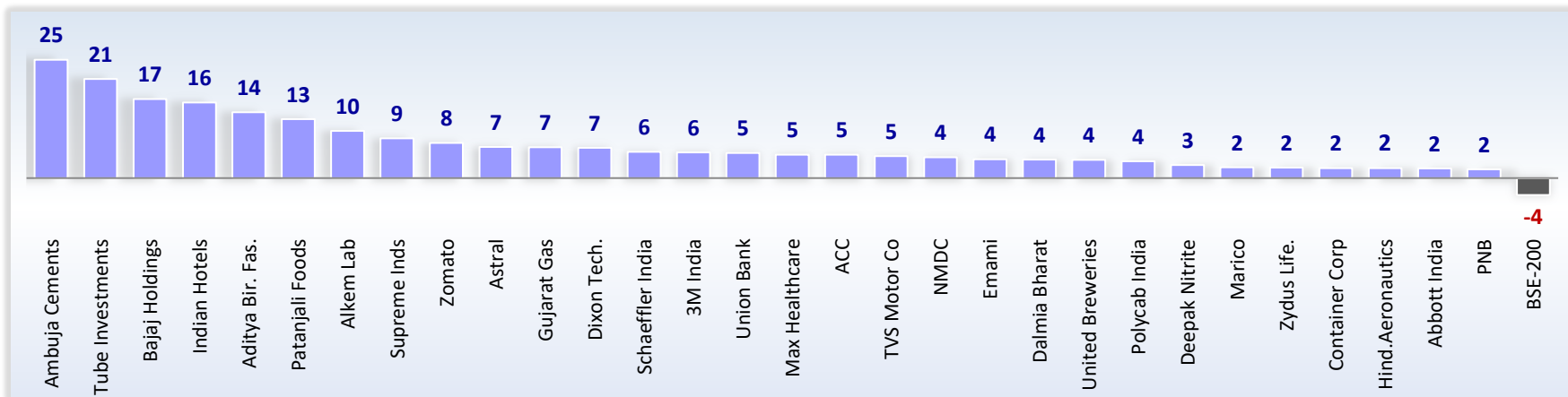
Best and worst Nifty performers YTD (%) – Adani Enterprises, ITC, M&M, and Coal India gained the most, while Technology stocks continue to underperform



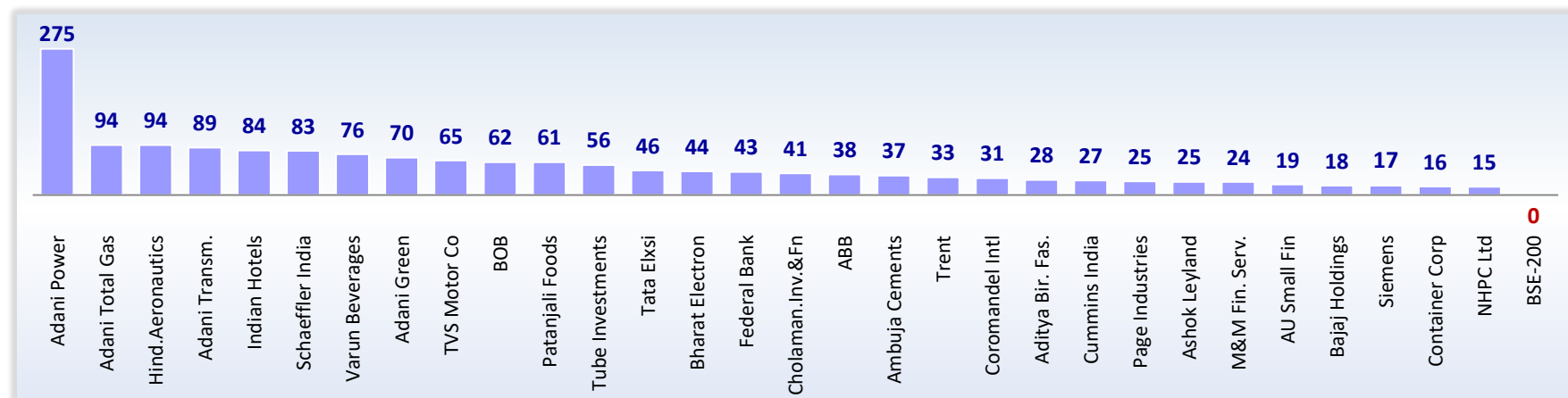
Around 31% of BSE 200 constituents close higher in Sep'22

- ❖ Around 31% of BSE 200 constituents closed higher in Sep'22. Eight companies gained over 10% in Jun'22
- ❖ Around 62% of the BSE 200 constituents traded higher YTD, with several Adani group companies leading the gainers pack

Top gainers from the BSE 200 pack on a MoM basis (%)*



Top gainers from the BSE 200 pack YTD (%)*

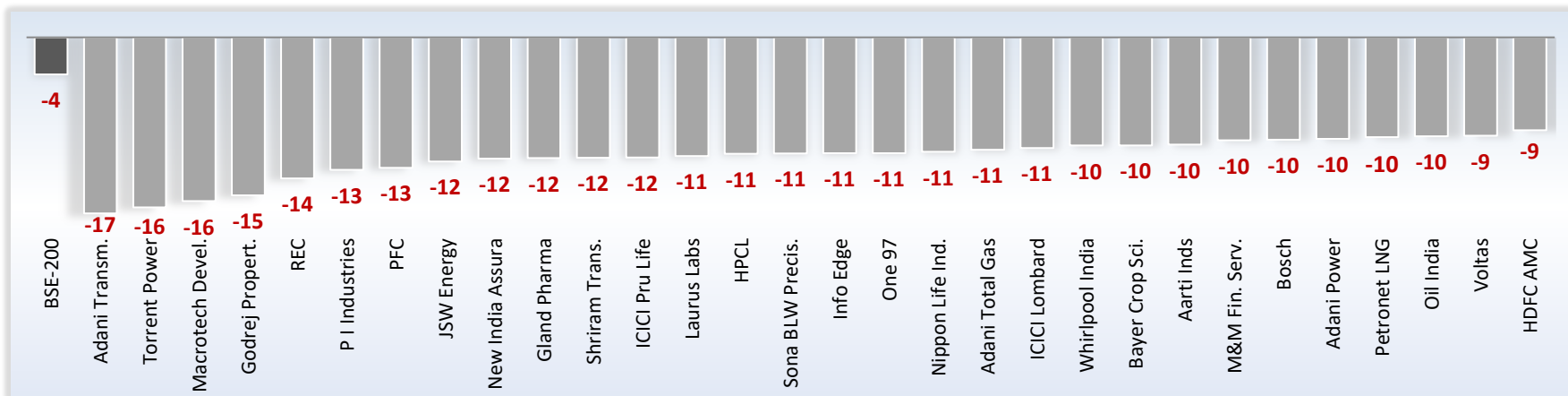


*List excludes Nifty constituents

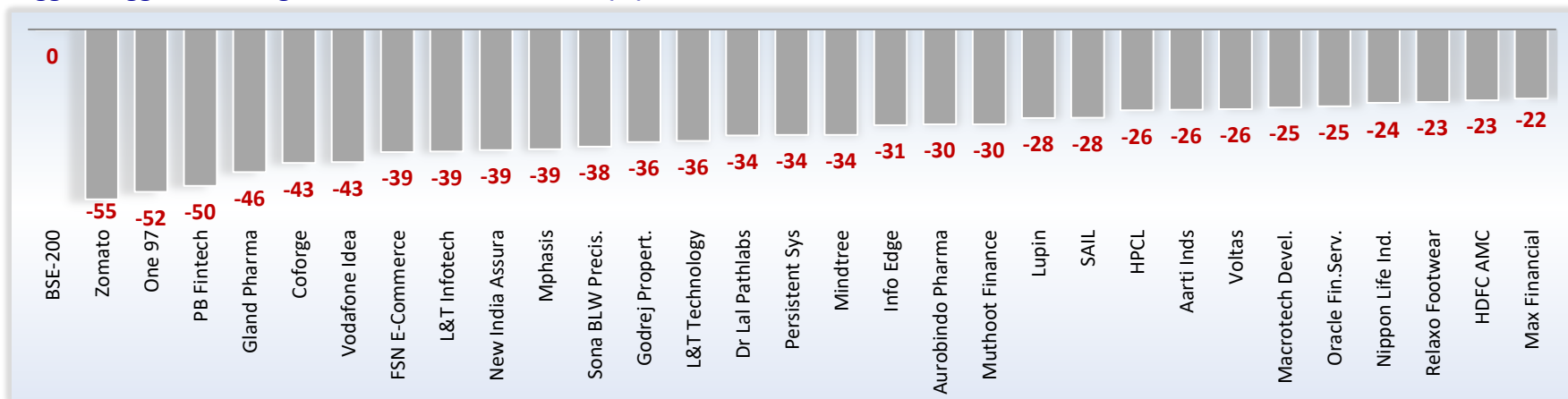
A majority of BSE 200 constituents (69%) fell in Sep'22

- ❖ About 69% of BSE 200 constituents declined in Sep'22. Adani Transmission, Torrent Power, Macrotech Developers, and Godrej Properties dipped more than 15% MoM
- ❖ Around 62% of BSE 200 companies are still trading lower YTD, of which six companies are trading 40% lower and below

A few key laggards among BSE 200 constituents on a MoM basis (%)*



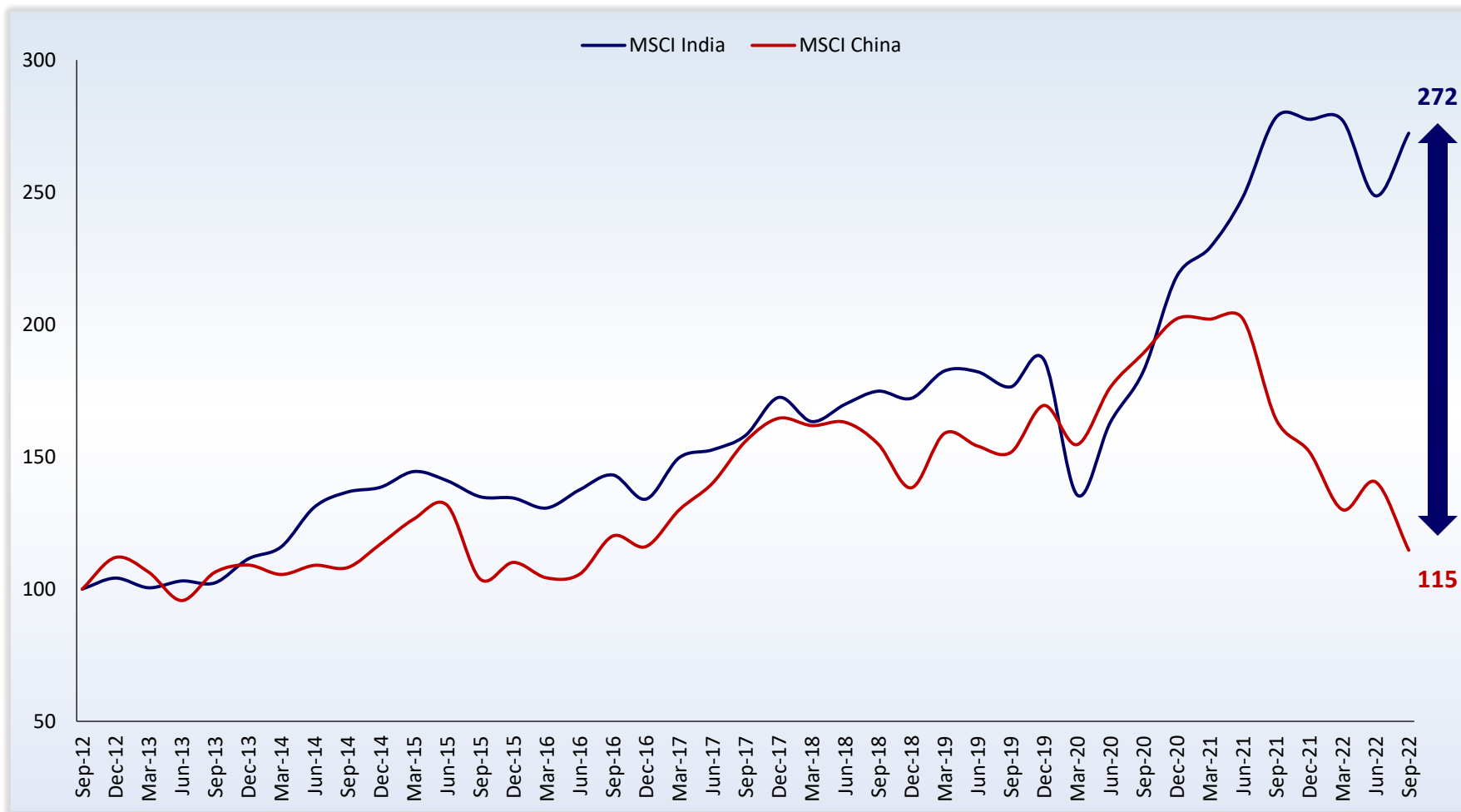
Biggest laggards among BSE 200 constituents YTD (%)*



*List excludes Nifty constituents

MSCI INDIA Vs. MSCI CHINA: Gap widens in CY22

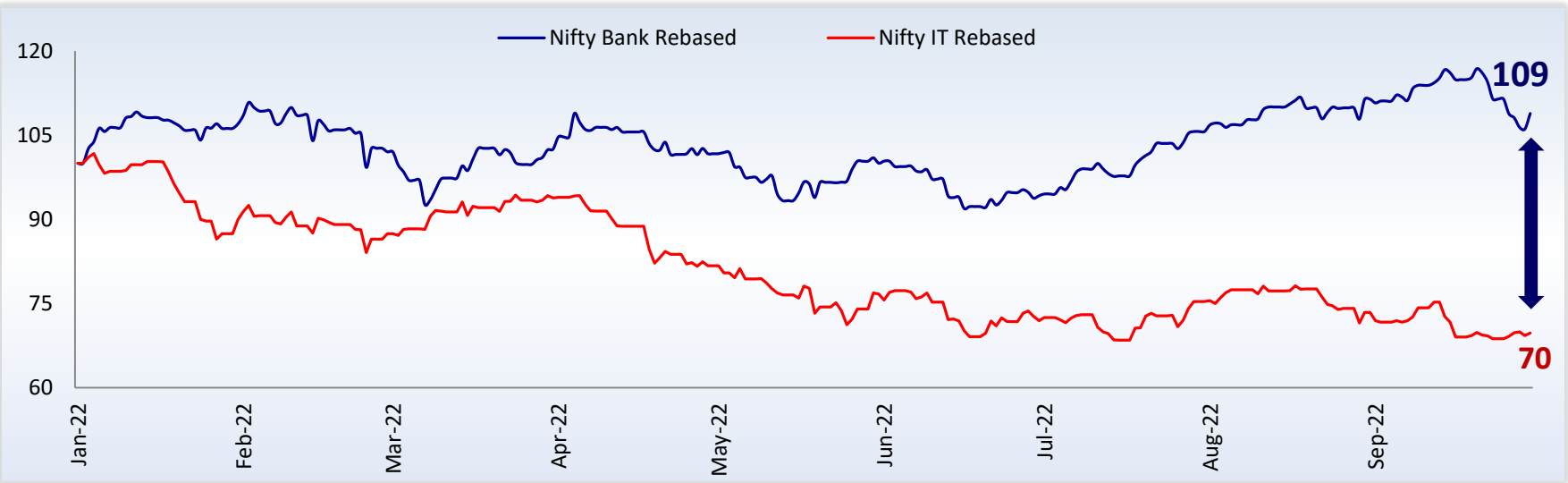
MSCI India and MSCI China were closely following each other till Sep'20. In last two years, the gap widened and became a gulf.



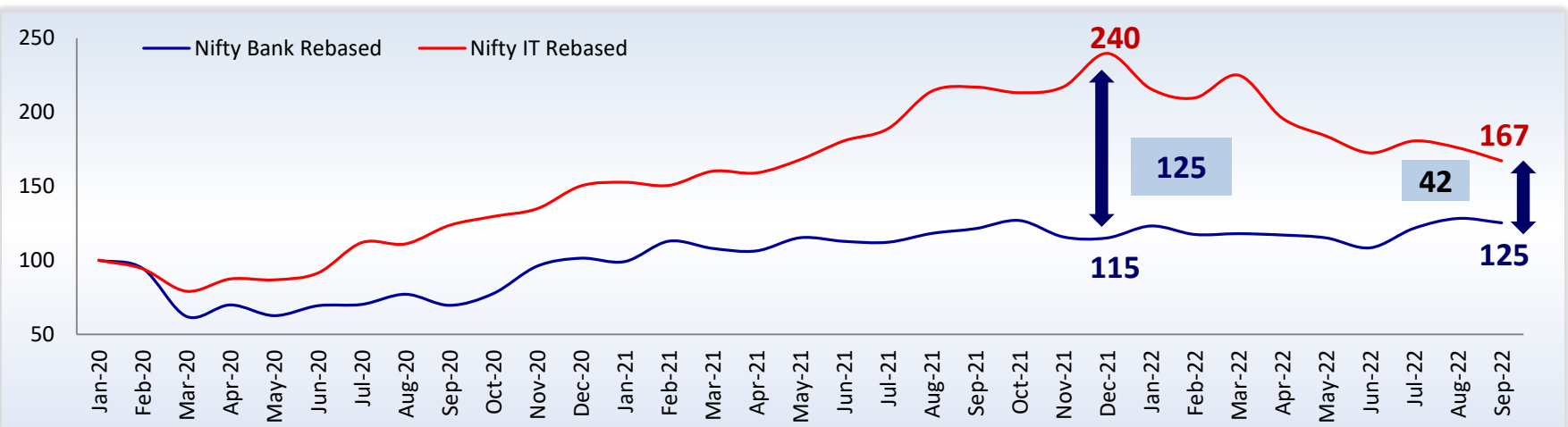
Source: Bloomberg, MOFSL

Banks vs. Tech: Banks recouping the relative U-PF vs. Tech since Jan'20

❖ Nifty Bank has outperformed Nifty IT by 40% YTD'CY22 and substantially bridged the gap of last three years.

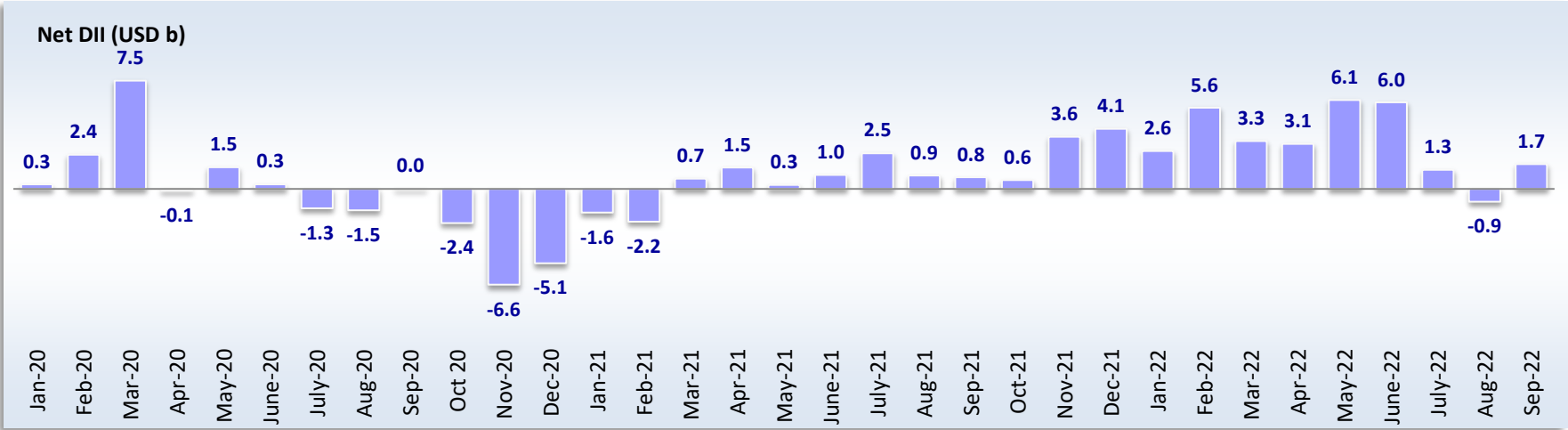
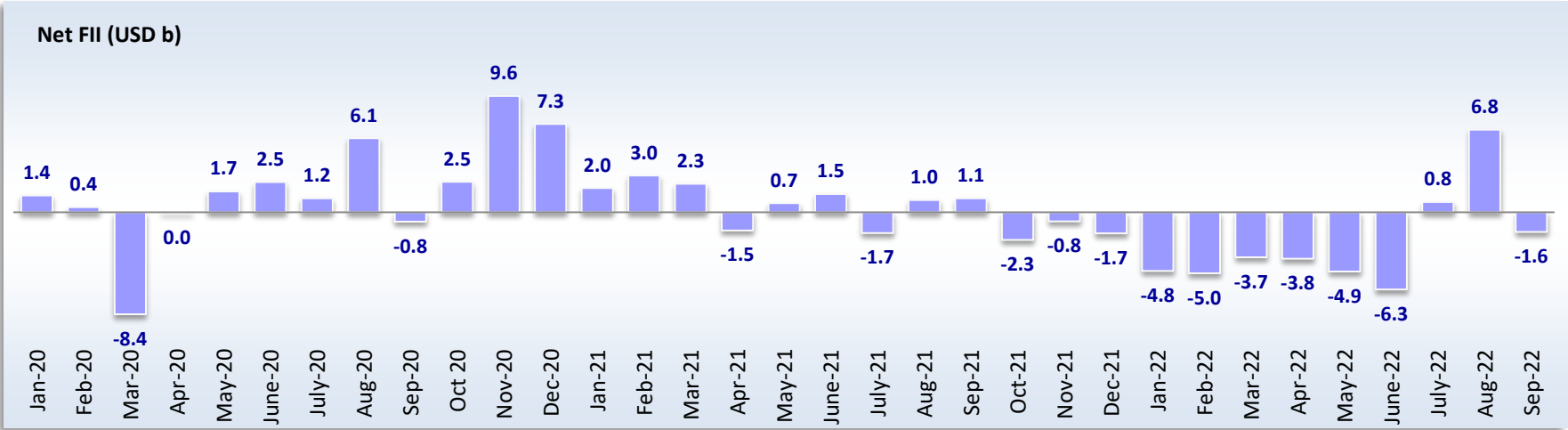


❖ The Nifty IT index outperformed the Bank Nifty from Jan'20 to Dec'21. However, the divergence has narrowed and fallen significantly

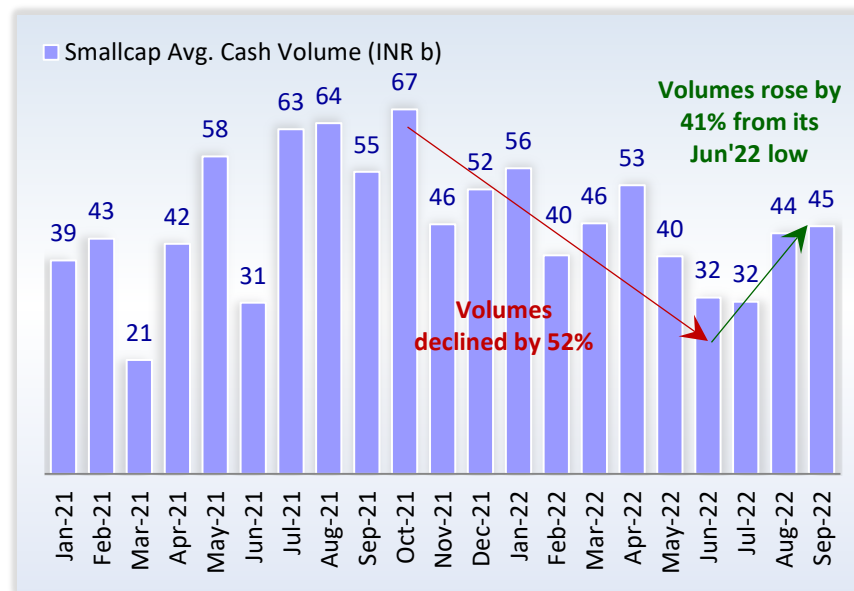
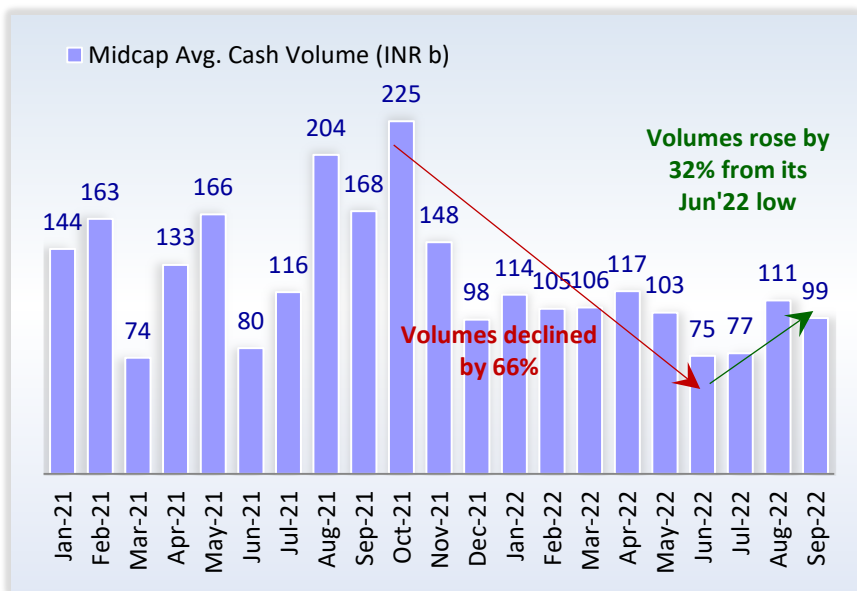
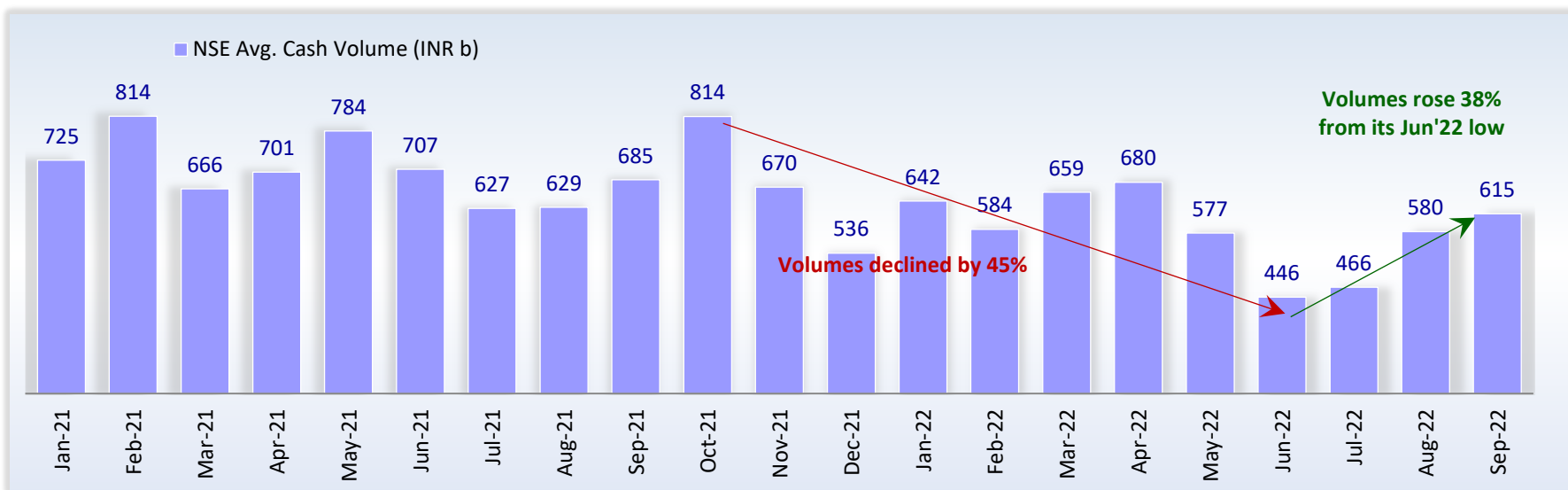


FII's turn sellers after two months of buying

- ❖ FIIs withdrew USD1.6b in Sep'22 after clocking the highest inflows in Aug'22 (since Dec'20). Outflows YTD stood at USD22.6b
- ❖ DIIs turned net buyers at USD1.7b in Sep'22 after recording outflows in Aug'22. Inflows YTD stood at USD28.9b

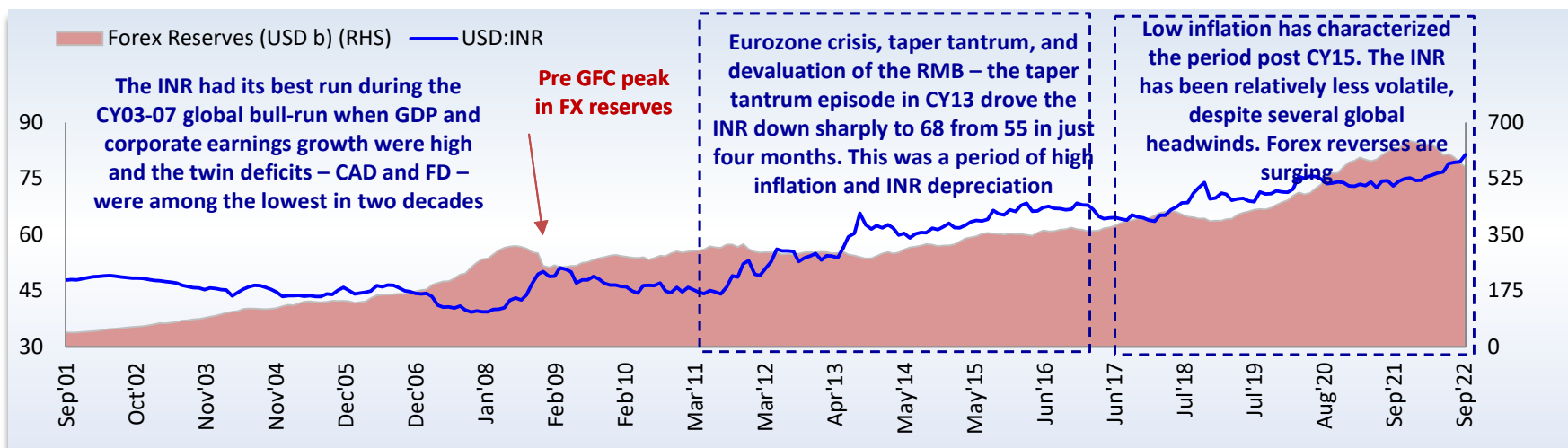
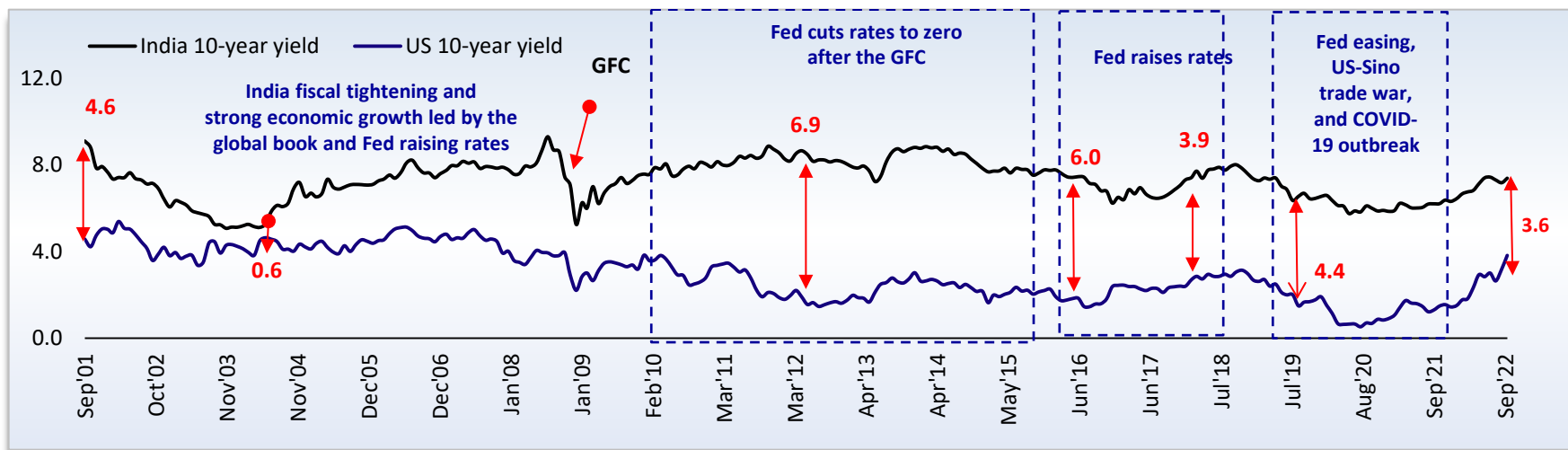


Average daily cash volumes jump 38% from its Jun'22 low



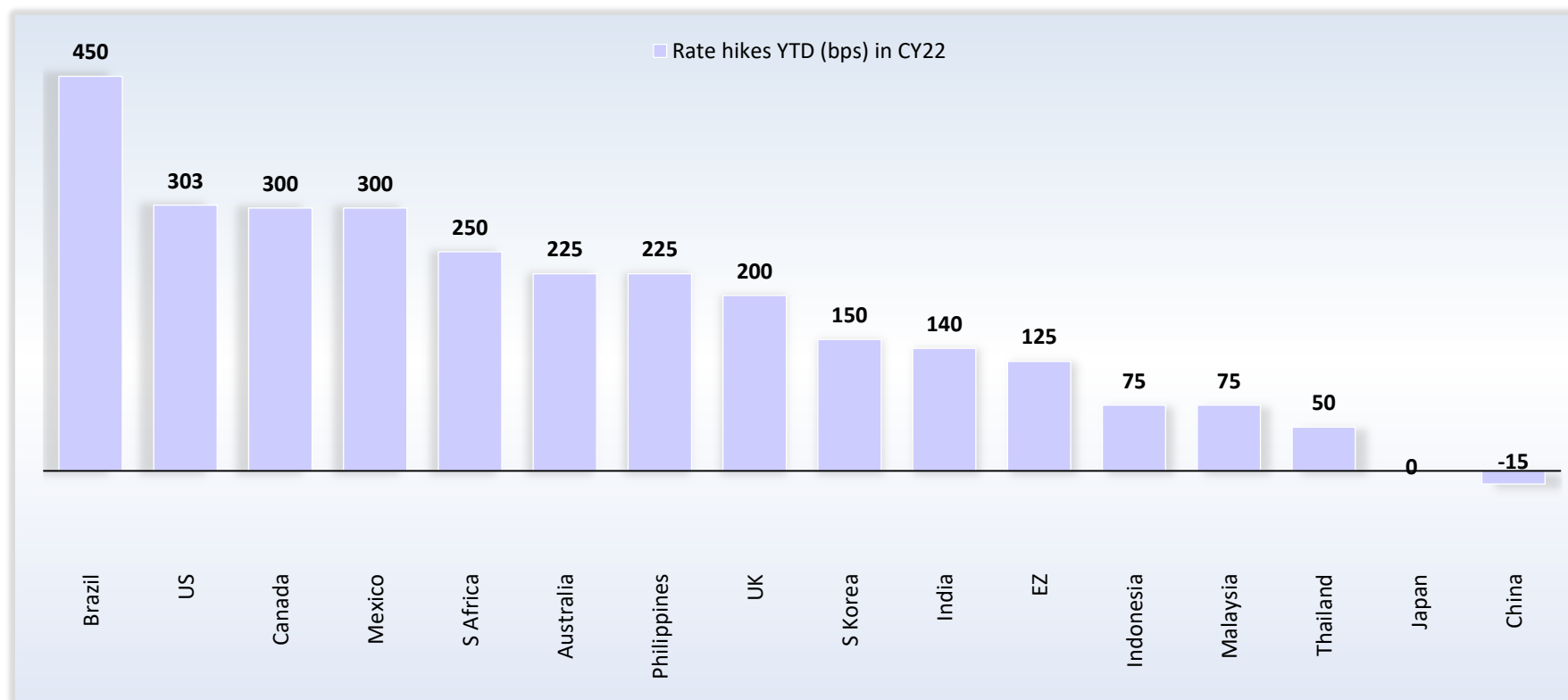
10Y yield spread between India and US at the lowest since Jun'09

- ❖ The Indian bond yield climbed to 7.4% even as the spreads vs the US bond yield stood at 3.6% – the lowest since Jun'09
- ❖ On the currency front, the USD:INR fell 2.3% MoM. India's forex reserves fell USD105b from its peak of Oct'21 to USD538b. Reserves were at their lowest levels since Aug'20



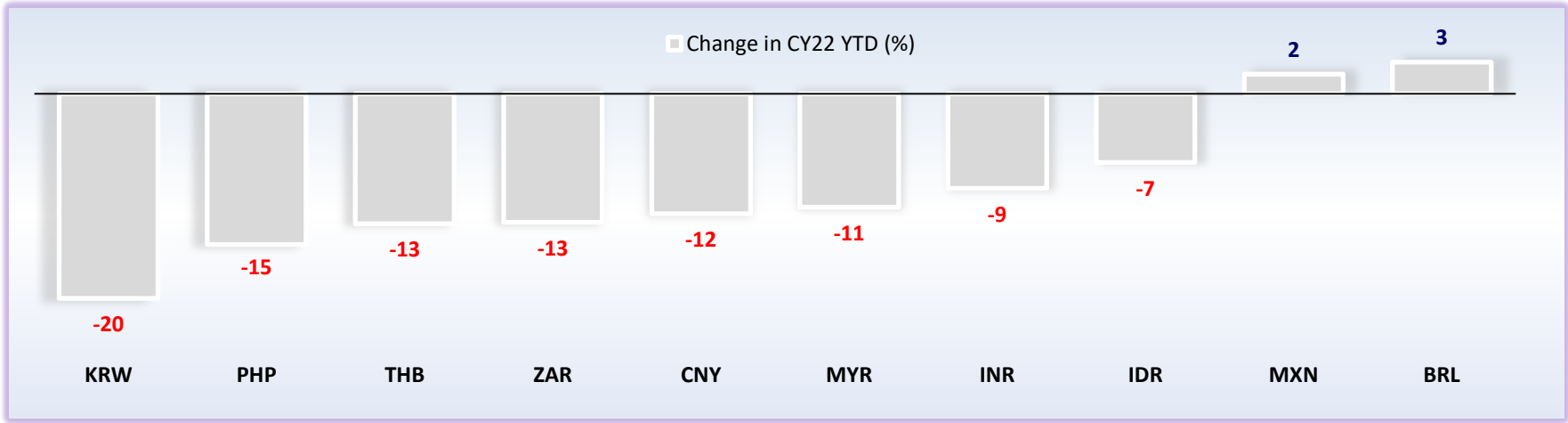
Steep rate hikes by central banks across the globe

- ❖ Ongoing inflationary pressures have led to global banks raising rates by over 100bp in CY22
- ❖ Brazil has raised rates by 450bp – the highest among emerging economies, which was 3x that of India
- ❖ US, Canada, and Mexico have raised rates by 300bp each, whereas China has taken a marginal rate cut of 15bp in CY22

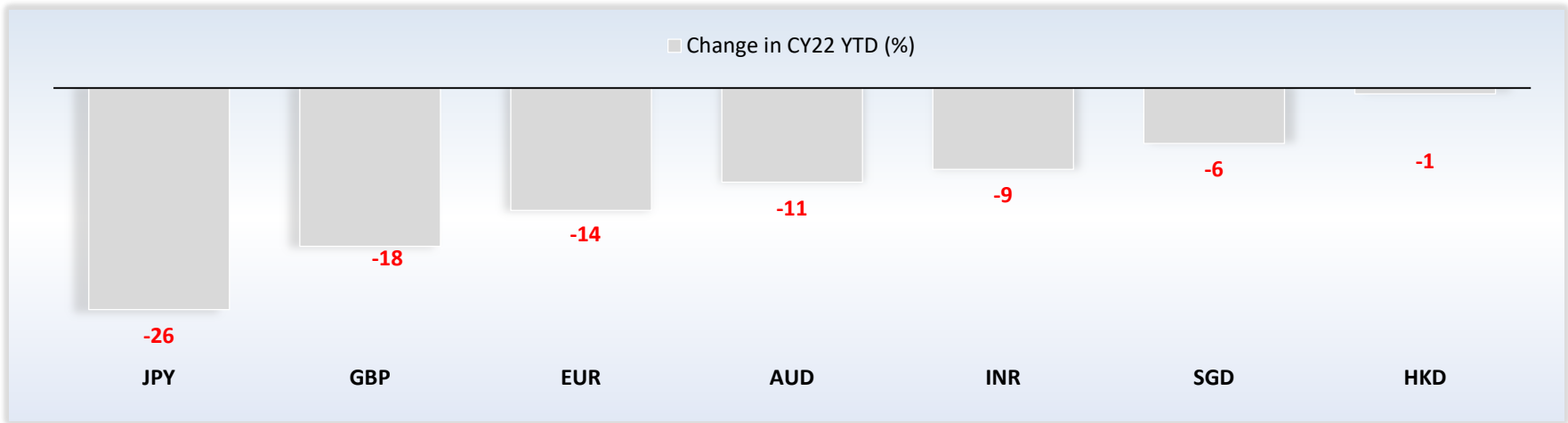


INR outperforms most of the global currencies in CY22

India v/s emerging markets: INR depreciates by ~9% YTD, but outperforms EM currencies



India v/s developed markets: JPY, GBP, and EUR saw the steepest fall among most developed market currencies in CY22

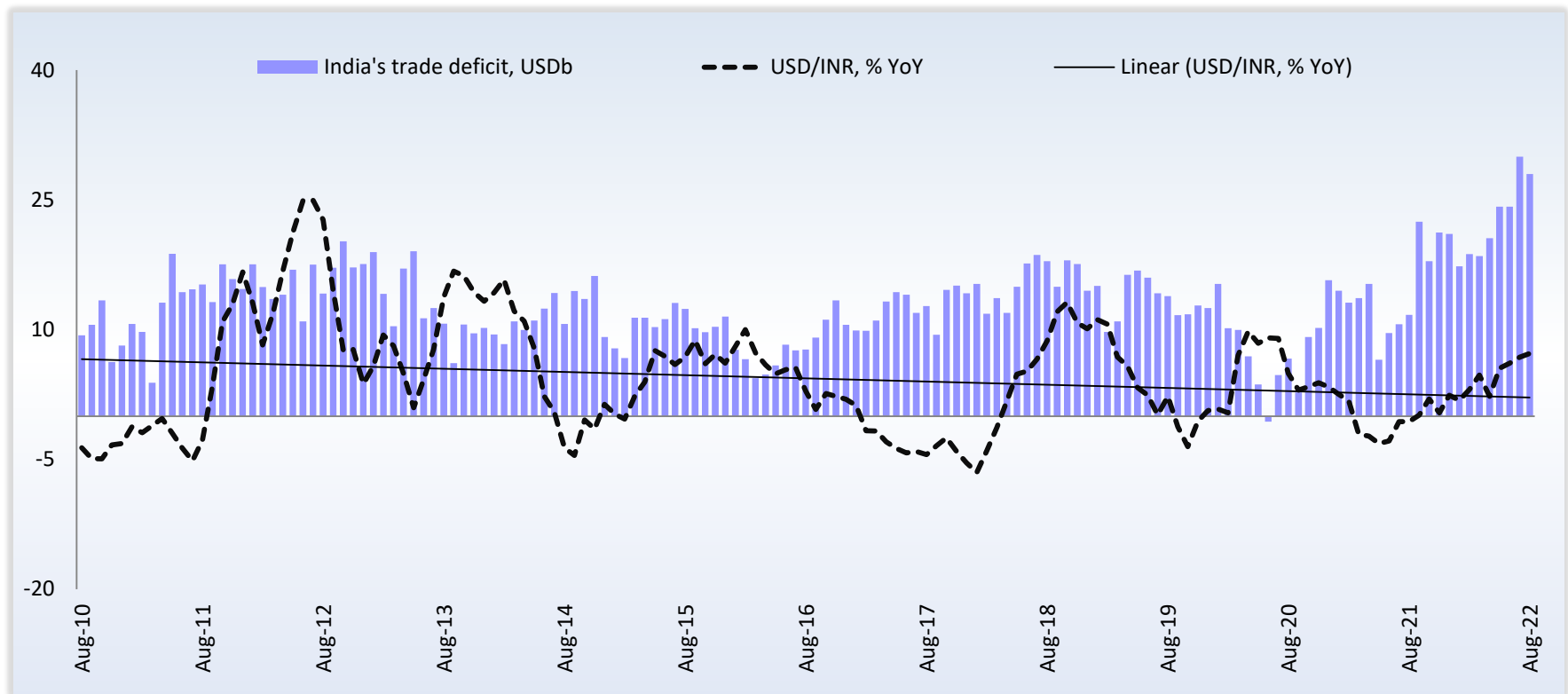


Relative performance v/s the USD

Source: Bloomberg, MOFSL

A depreciating INR has no positive impact on exports

Historically, depreciation in the USD:INR does not seem to have boosted India's exports



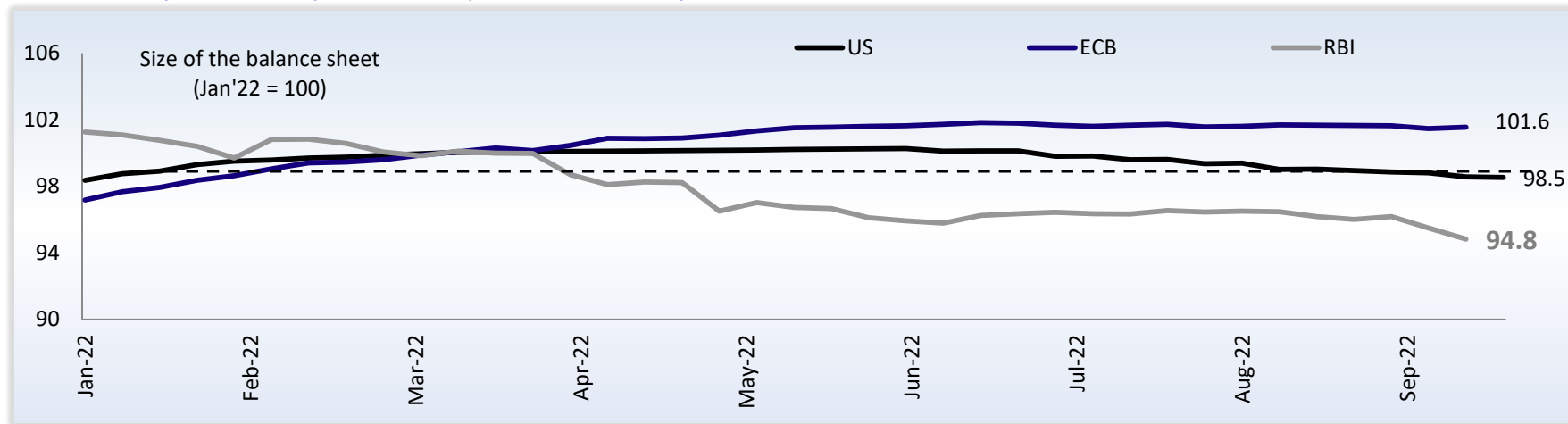
Source: RBI, MOFSL

RBI better placed than central banks in the West

RBI's Balance Sheet has reduced sharply in the past one-year...



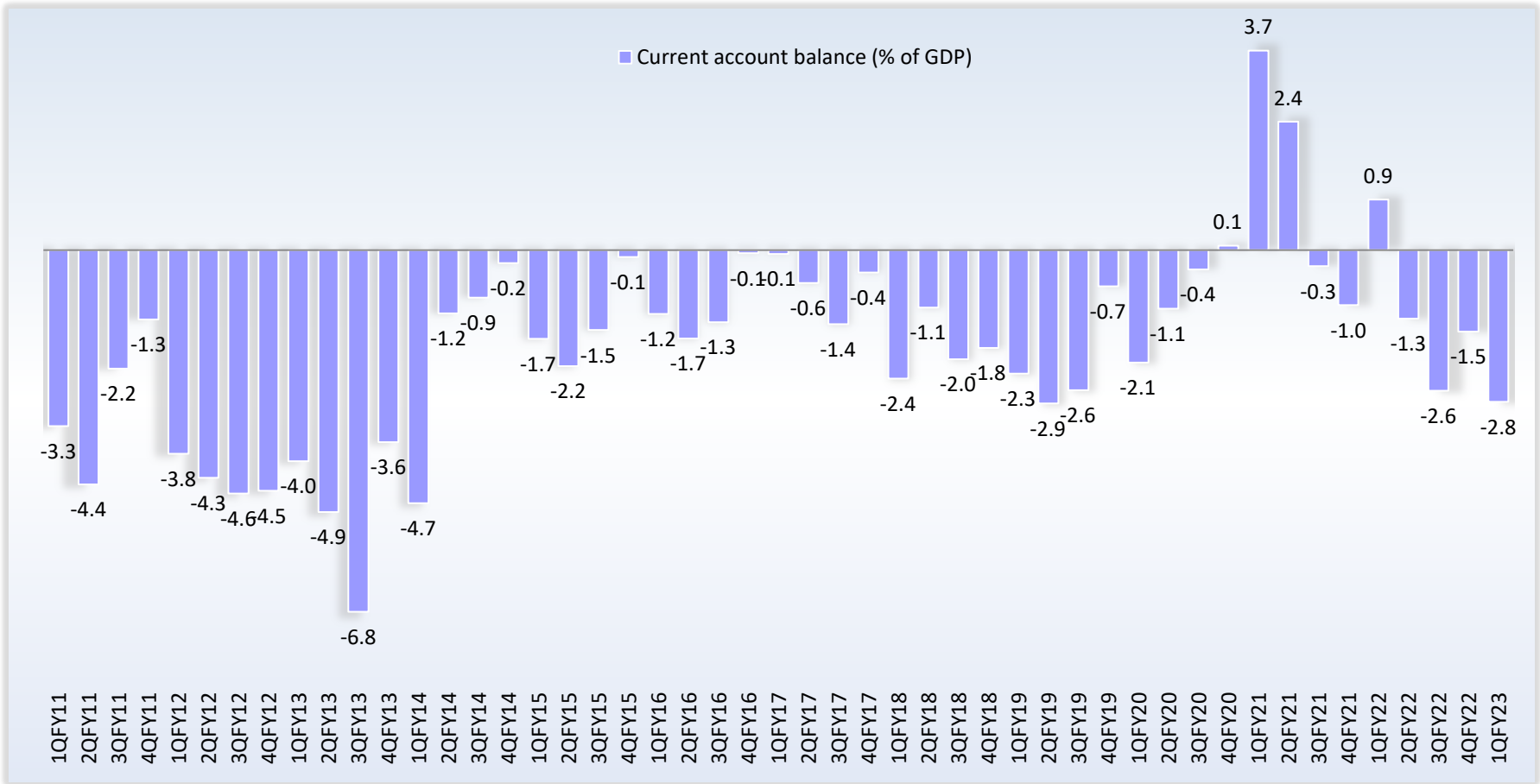
...which is way more as compared to its major Western counterparts



Source: RBI, MOFSL

Current account deficit at a three-year high

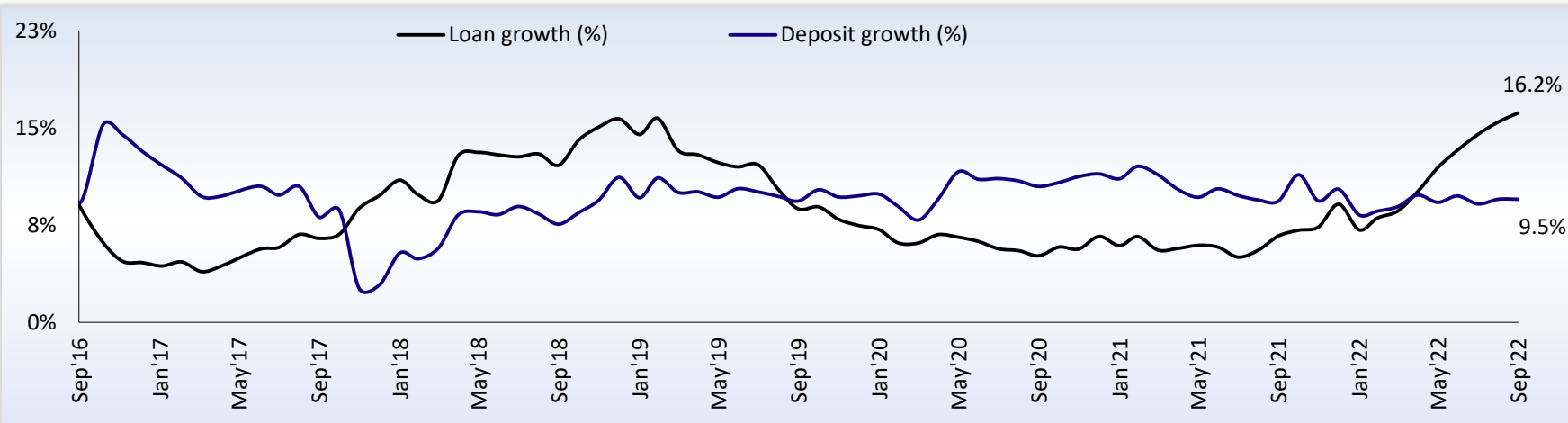
India's current account balance at 2.8% – the highest since 2QFY19



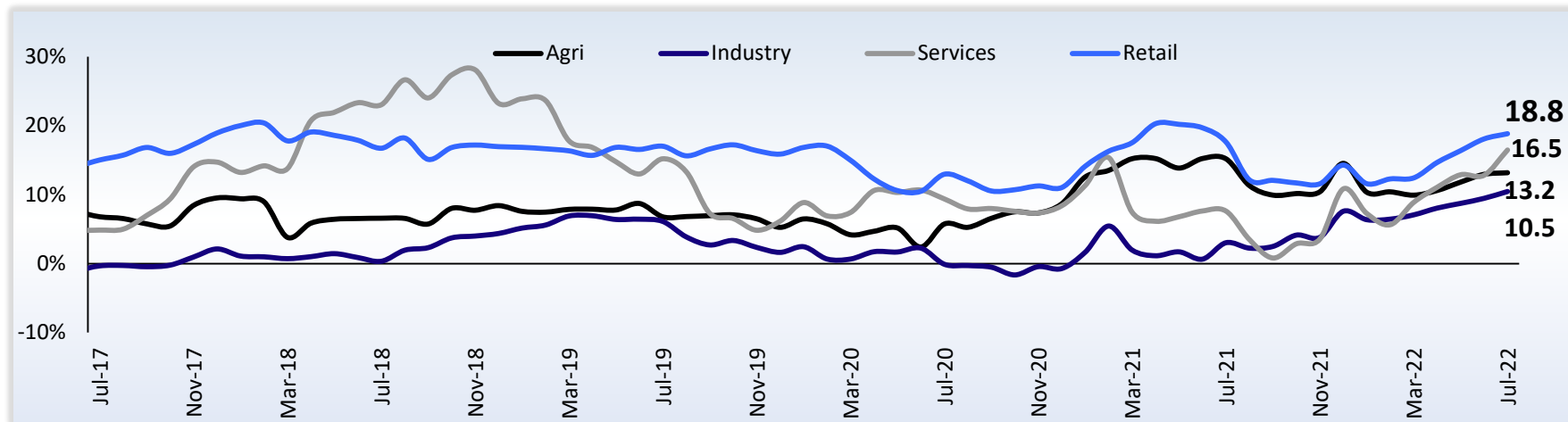
Source: RBI, MOFSL

Credit growth at a 9 year high, share of Retail in credit rising

Loan growth hits a fresh high, at 16.2% YoY, in Sept'22, while deposit growth was modest at 9.5%



System credit growth remains strong YoY



Source: RBI, MOFSL

Commodity costs correct steeply from 1QFY23 highs, remain volatile

Crude oil prices are significantly down from their recent peak and are trading 10% below their one-year average



Palm oil prices remain soft after touching a high in Mar'22. It is trading nearly 50% below its one-year average



As of 30th Sep'22

Source: Bloomberg, MOFSL

Nifty composition: Consumer and Private Banks lead the gainers pack YTD

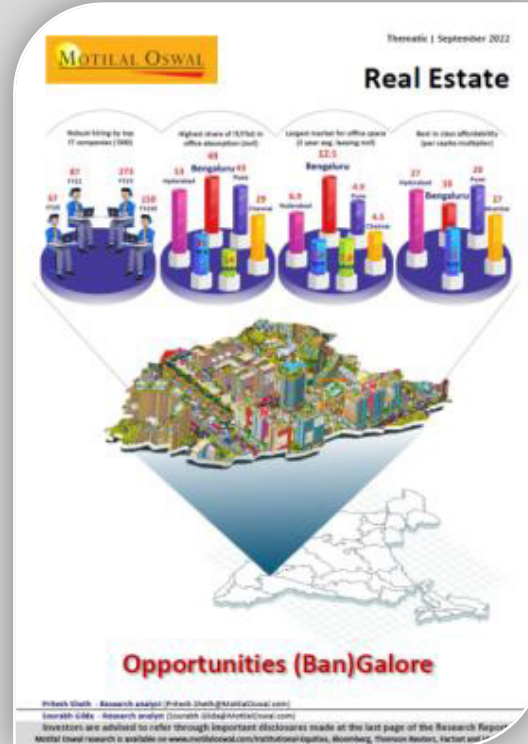
- ❖ The year saw some interesting relative changes in sector weight composition of Nifty. While The weightage of the Technology sector fell 530bp YTD to 13.8%, weightage of the Consumer sector rose 180bp to 11.2% from Dec'21 levels – the highest since Dec'14 levels. The weightage of Private Banks grew 140bp YTD to 23.3%

Sector	Weightage in the Nifty (%)						
	Dec'04	Dec'08	Dec'12	Dec'20	Dec'21	Aug'22	Sep'22
Automobiles	6.7	2.5	8.8	5.4	5	6.0	5.8
Banks – Private	4.7	5	16.9	24.7	21.9	23.4	23.3
Banks – Public	5.8	5.4	4.7	1.8	2.3	2.6	2.7
NBFC + Insurance	2.1	2.3	7.9	12.3	11.4	11.0	10.8
Capital Goods	4	7.7	5.9	2.6	3	3.0	3.0
Cement	2.8	1.7	4.2	2.2	2.4	2.2	1.8
Consumer	7.8	6.5	12.3	10.4	9.4	10.7	11.2
Healthcare	6.3	2.6	5	3.6	3.4	3.8	4.1
Metals	8.2	4.8	3.8	2	2.9	2.8	2.6
Oil and Gas	27.1	24.5	12.3	12.5	12.3	12.8	11.9
Reliance Ind.	8.3	10.6	7.4	10.7	10.8	11.7	10.8
Telecom	6.3	11.6	2	2	2.1	2.3	2.6
Technology	14.5	9	11.4	16.3	19.1	14.2	13.8
Utilities	1.9	13.3	4.5	2.1	2.1	2.6	2.5
Miscellaneous	2	3.3	0.5	2.1	2.6	2.7	3.9
Nifty	100	100	100	100	100	100	100

Weightage of the Consumer sector rises 180bp to 11.2% from Dec'21 levels

Weightage of the Technology sector falls 530bp YTD

KEY REPORTS FROM MOFSL'S RESEARCH DESK

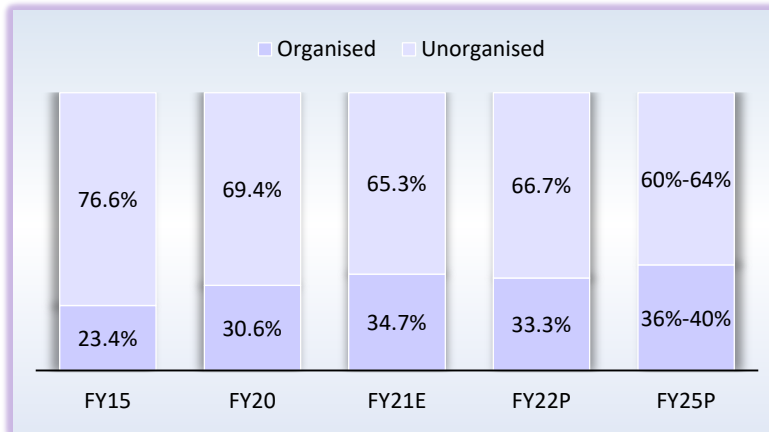
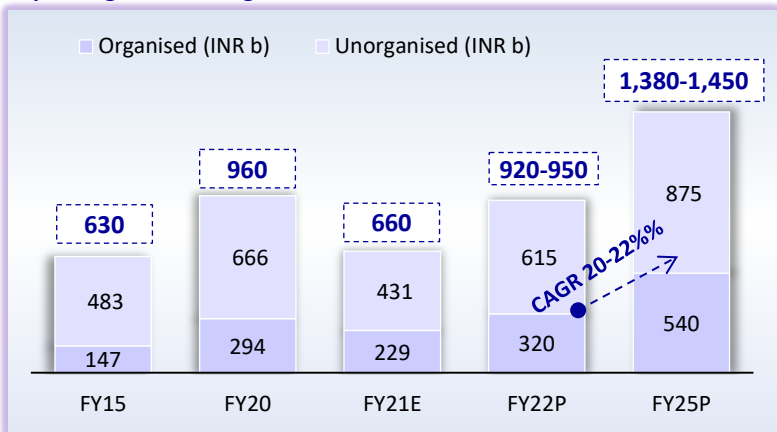


RETAIL – FOOTWEAR (THEMATIC) : Putting the best FOOT forward ([link](#))

Huge headroom for growth for organized players

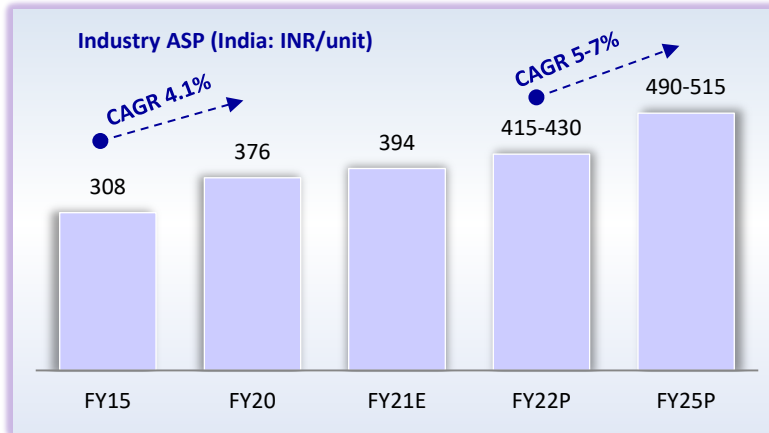
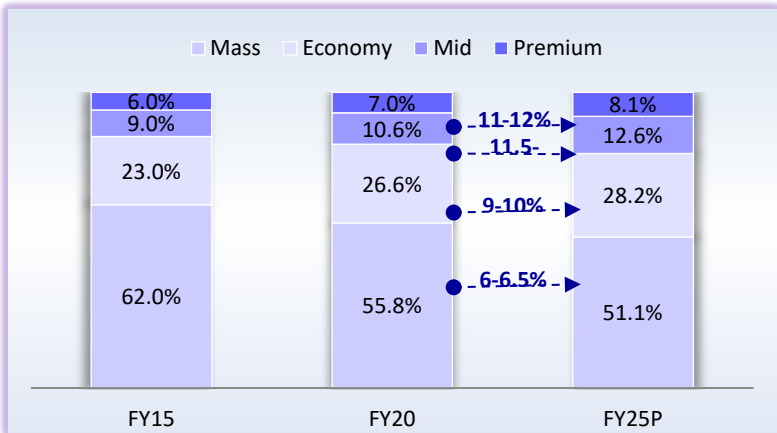
- ❖ The INR960b Indian Footwear market (FY20) has been witnessing a unique transformation over the last few years. India's young populace, with high aspirations and an improved fashion quotient, is driving demand, especially for Casual, Athleisure, Sneakers, and Women's footwear.
- ❖ Over one-third of the market is composed of high-ASP products, primarily catered to by organized and branded players, where investments in EBO are key. The resulting heavy investment and execution challenge creates an entry barrier, as is evident from a handful of large Footwear brands in the industry.

Improving share of organized Footwear – Retail



Organized players to benefit from improved brand acceptance and rising urbanization

Shift towards premiumization leading to increased ASP

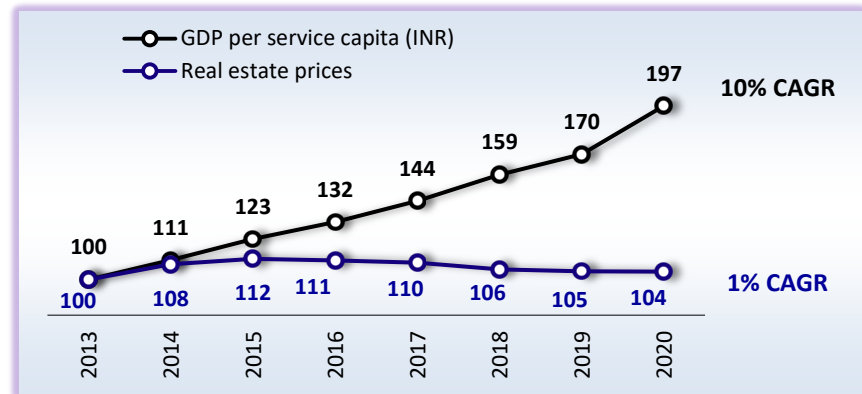


REAL ESTATE (Bengaluru) – THEMATIC: Opportunities (Ban)'Galore ([link](#))

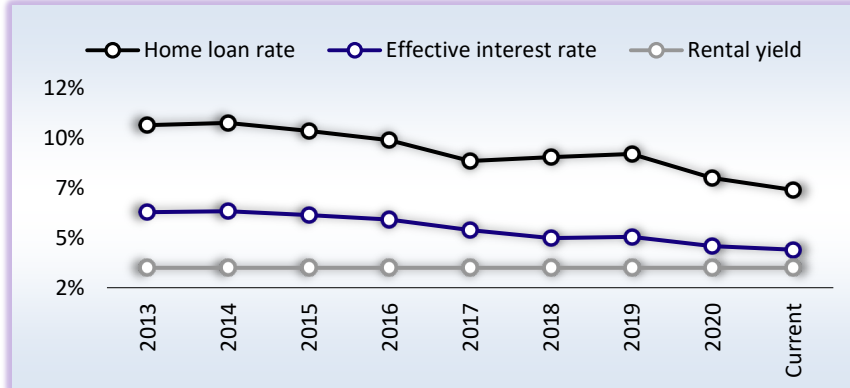
Bengaluru is our most favored Residential market; prefer Prestige Estates and Brigade Enterprises

- ❖ Bengaluru is the second largest Residential market in India. Demand has been stagnating at 45,000-60,000 units over the last seven-to-eight years. It is also the largest Commercial market by annual absorption (12msf) and office stock (186msf).
- ❖ The Bengaluru Residential Real Estate market is on the cusp of a strong demand cycle, led by: a) strong hiring in the IT sector and rising count of global captives, b) salary increments for IT employees, and c) best-in-class affordability.

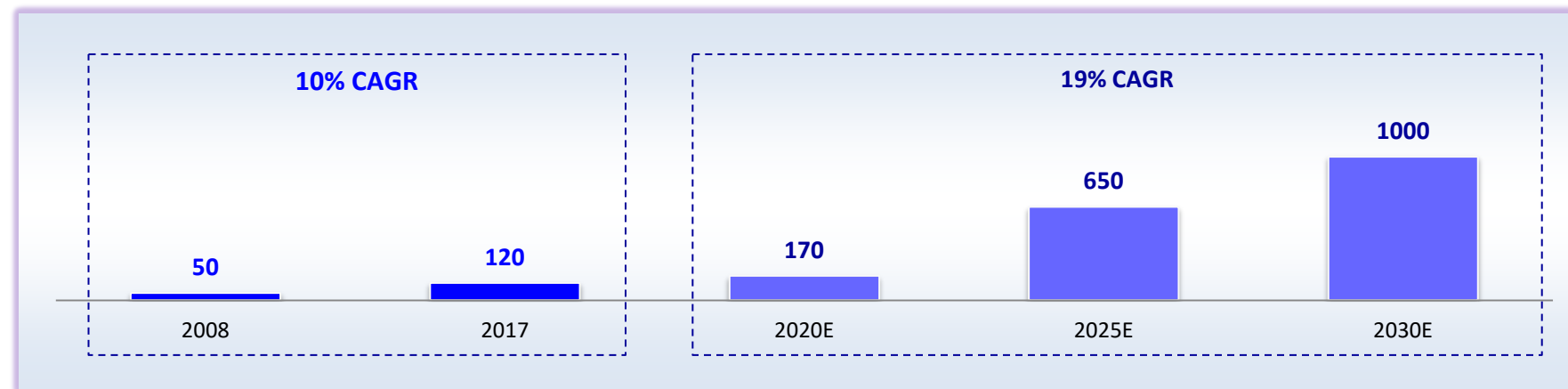
Prices have remained stable in the last seven years, while income saw a 7-10% CAGR



Decade low interest rates provide a further boost to affordability



IBEF expects the market size of the Real Estate sector to clock 19% CAGR and sees its contribution to GDP doubling to 13% from 7% in 2025

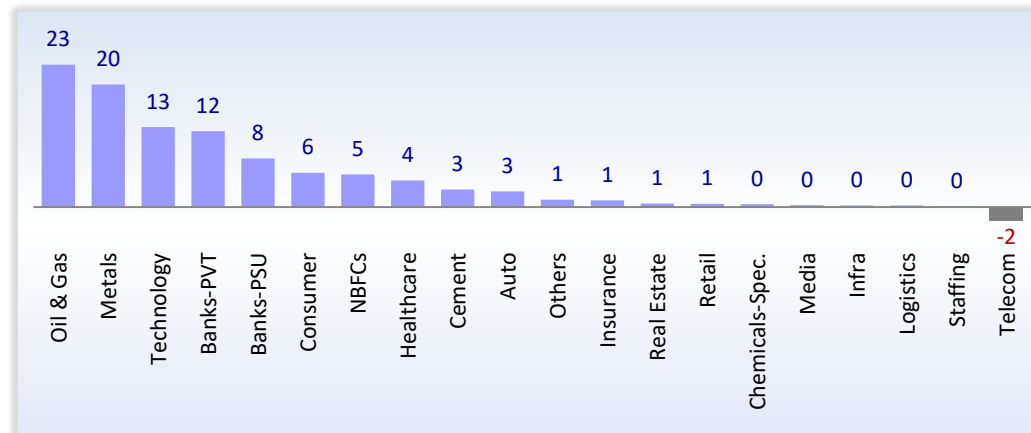


INDIA STRATEGY: India Inc's profit pool – decadal analysis: A PAT on the back! ([link](#))

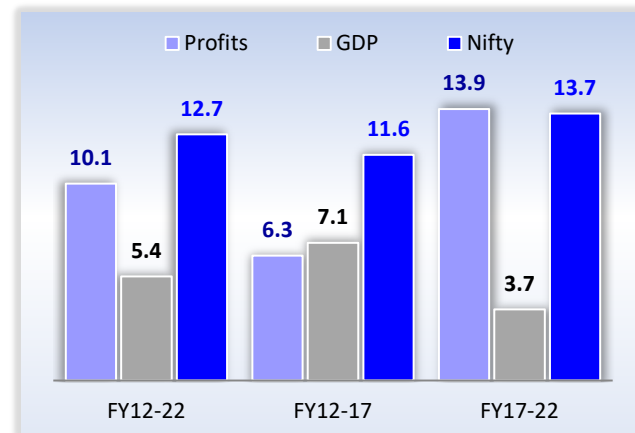
Profitable journey through the decade – A radical shift

- ❖ **A giant leap in the last 10 years:** During FY12-22, India Inc's earnings multiplied by 2.6x and reported a CAGR of ~10%. There were two distinct growth phases: a) **Phase I (FY12-17)** saw a muted PAT CAGR of 6.3%, underpinned by a GDP CAGR of 7.1%; and b) **Phase II (FY17-22)** saw a higher PAT CAGR of 13.9%, though GDP growth slipped to 3.7%. The Nifty clocked 11.6%/13.7% CAGR under Phase I/II. This translated into a **full cycle (FY12-22)** CAGR of 12.7%, in line with the PAT CAGR of 10.1%.

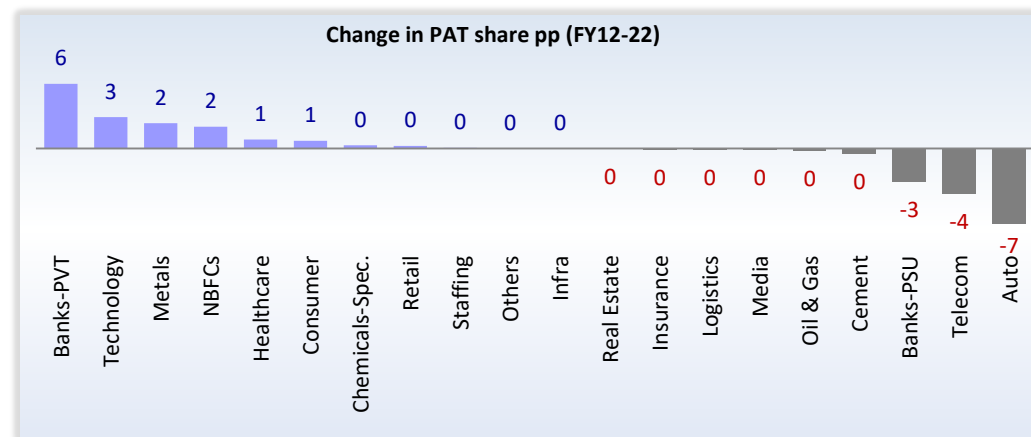
Top five sectors contribute 77% to the FY22 profit pool (%)



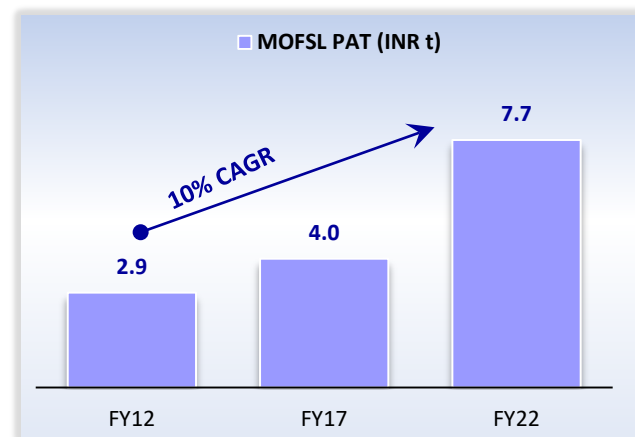
CAGR (%) over different phases



Share of Private Financials, Technology, and Metals rises in the full cycle



India Inc's earnings multiplied by 2.6x

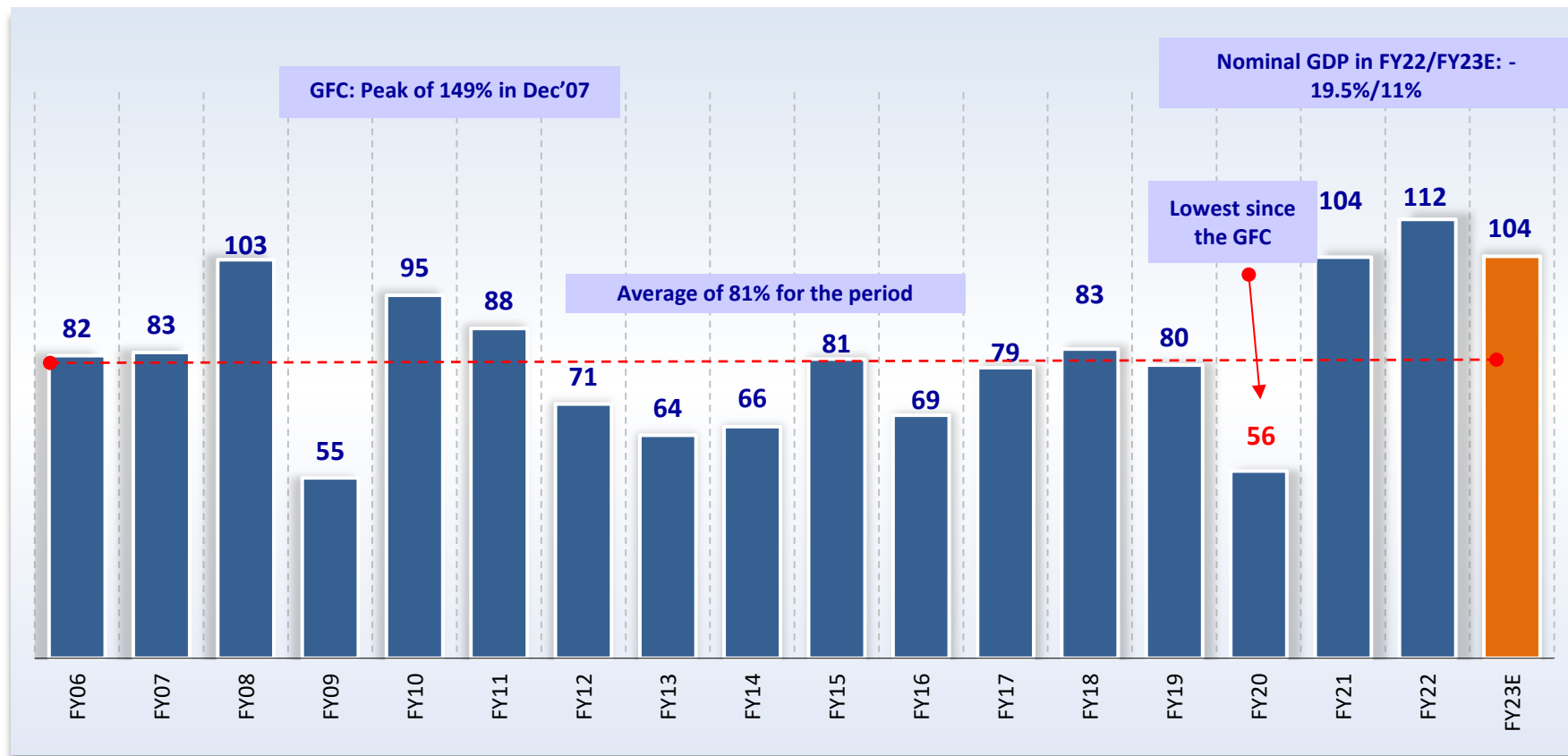


Valuations: Key observations

Market capitalization-to-GDP ratio declines from its FY22 highs, but above the 100% level

- ❖ India's market capitalization-to-GDP ratio has been volatile, at 56% (of FY20 GDP) in Mar'20 from 80% in FY19, but bounces back sharply to 112% in FY22
- ❖ The ratio now stands at 104% (of FY23E GDP), above its long-term average of ~81%

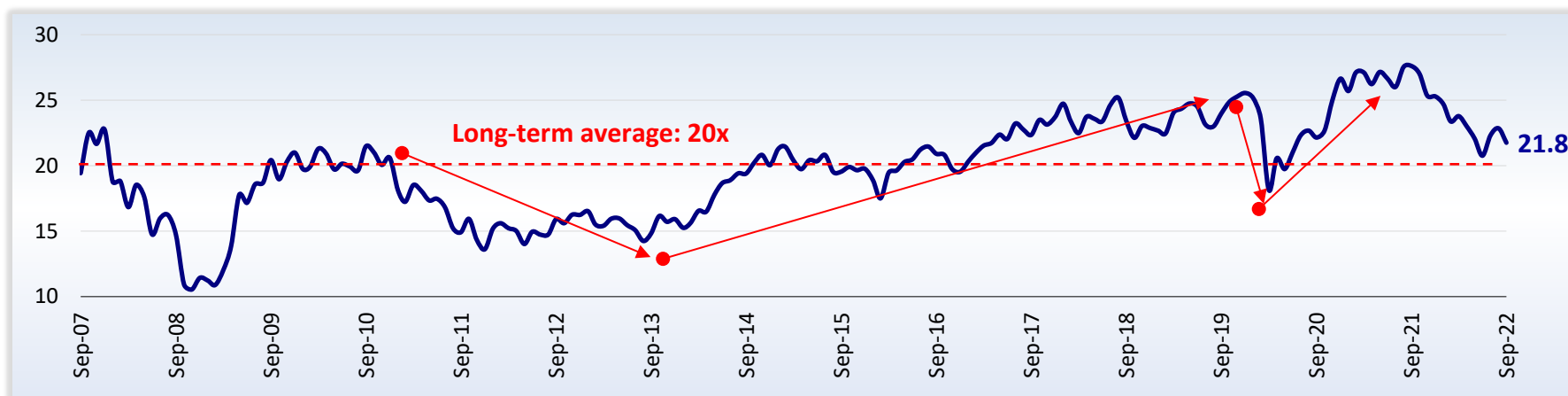
Market capitalization-to-GDP ratio (%)



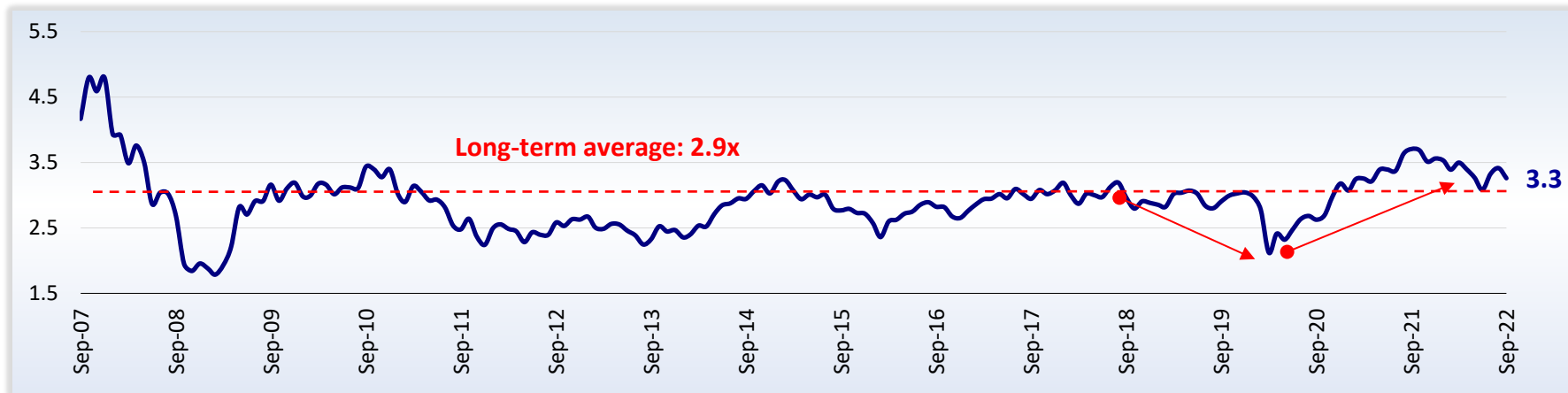
Valuations: Nifty's trailing P/E is at a 9% premium to its LPA

- ❖ The 12-month trailing P/E for the Nifty stood at 21.8x, 9% higher than its LPA
- ❖ At 3.3x, the 12-month trailing P/B stood 12% above its historical average of 2.9x

12-month trailing Nifty P/E (x)



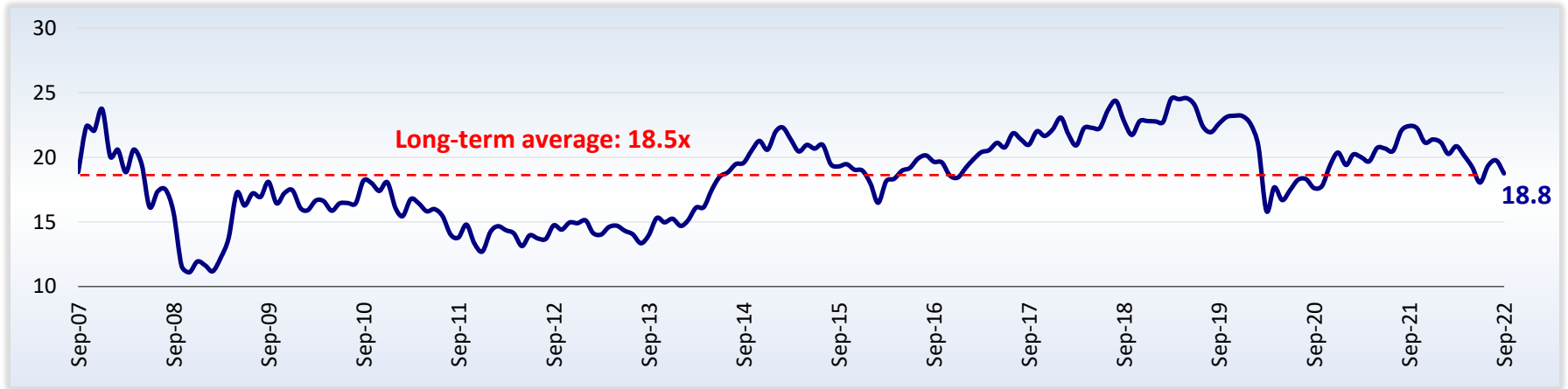
12-month trailing Nifty P/B (x)



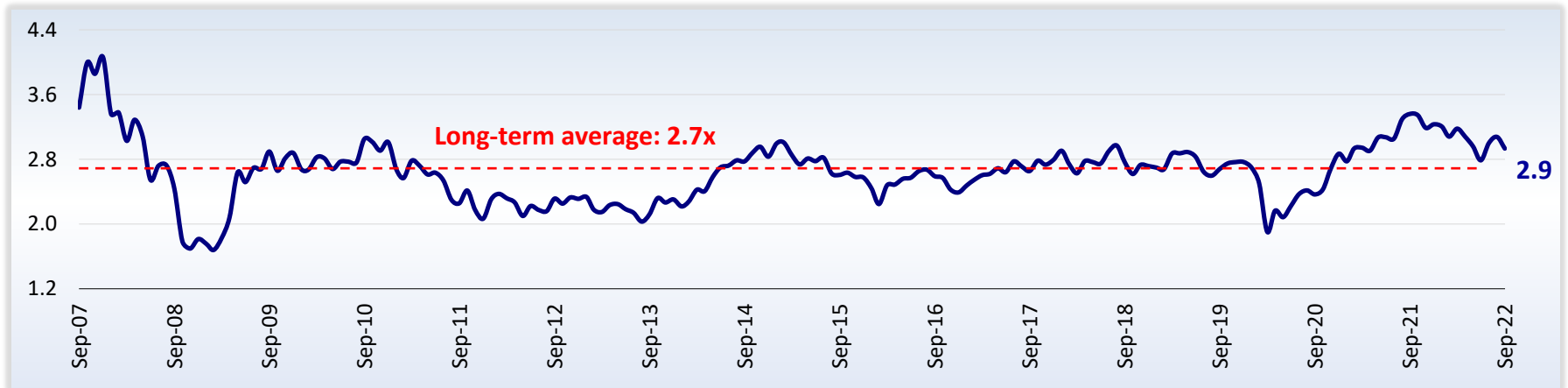
Valuations: Nifty 12-month forward P/E is at a 2% premium to its LPA

- ❖ Nifty 12-month forward P/E, at 18.8x, is at a 2% premium to its LPA of 18.5x
- ❖ At 2.9x, the 12-month forward P/B stood at a premium of 11% to the Nifty's historical average of 2.7x

12-month forward Nifty P/E (x)

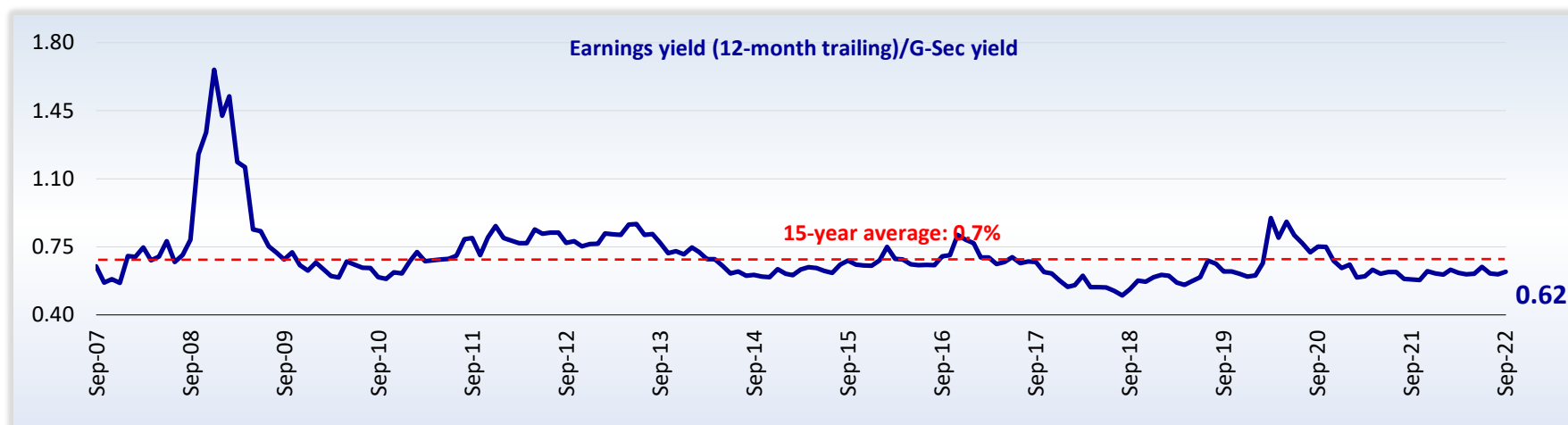
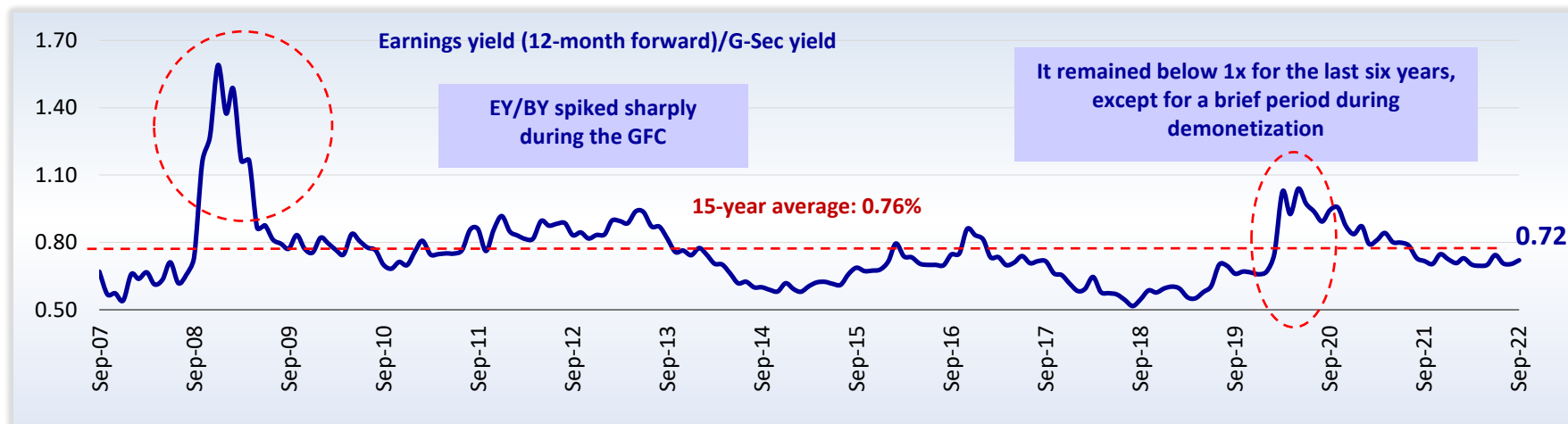


12-month forward Nifty P/B (x)



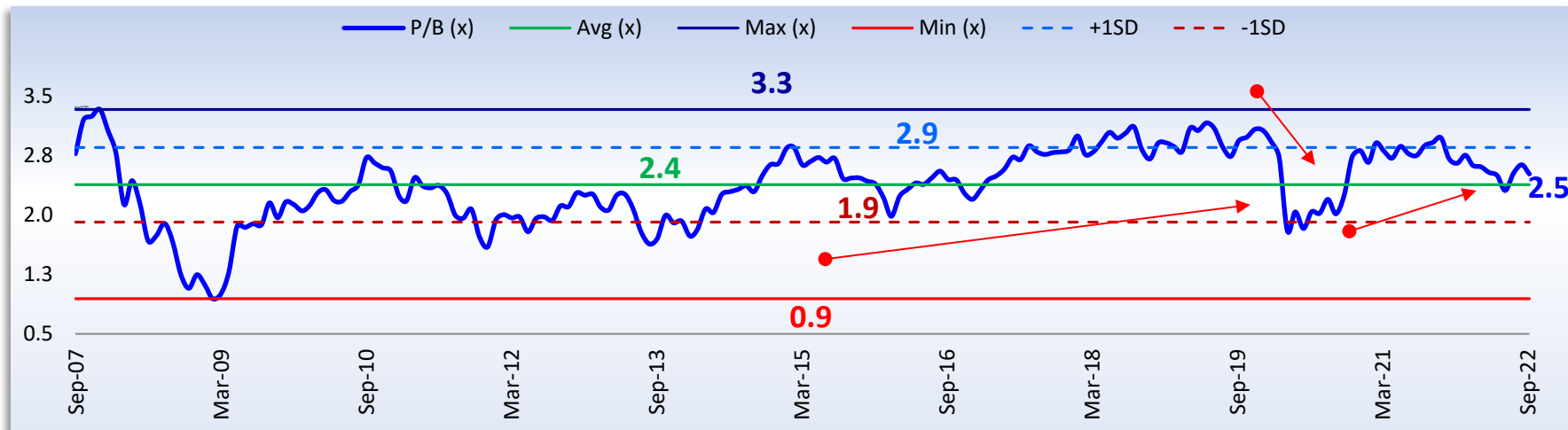
10-year G-Sec yield ~7.4%; EY/BY below its long-term mean

- ❖ India's 10-year bond yield climbed to 7.4%, resulting in the EY/BY trading below its 15-year average of 0.76%
- ❖ On a trailing basis, EY/BY remains lower than its LPA

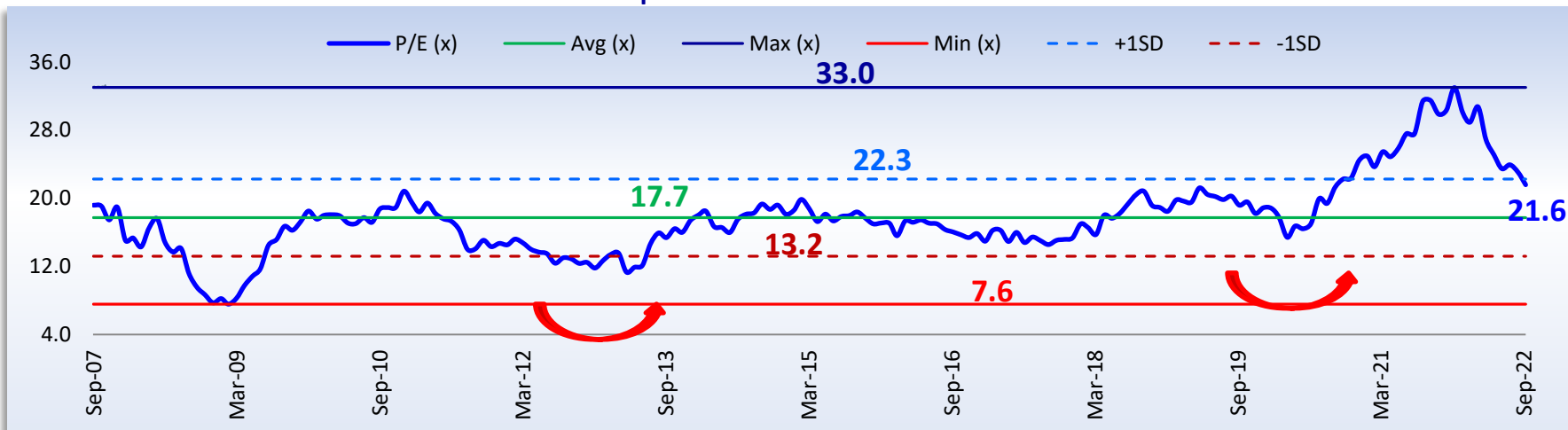


Sectoral valuations: Private Banks trade near LPA; IT 35% off from its Dec'21 peak

Private Banks trade at a 6% premium to its LPA

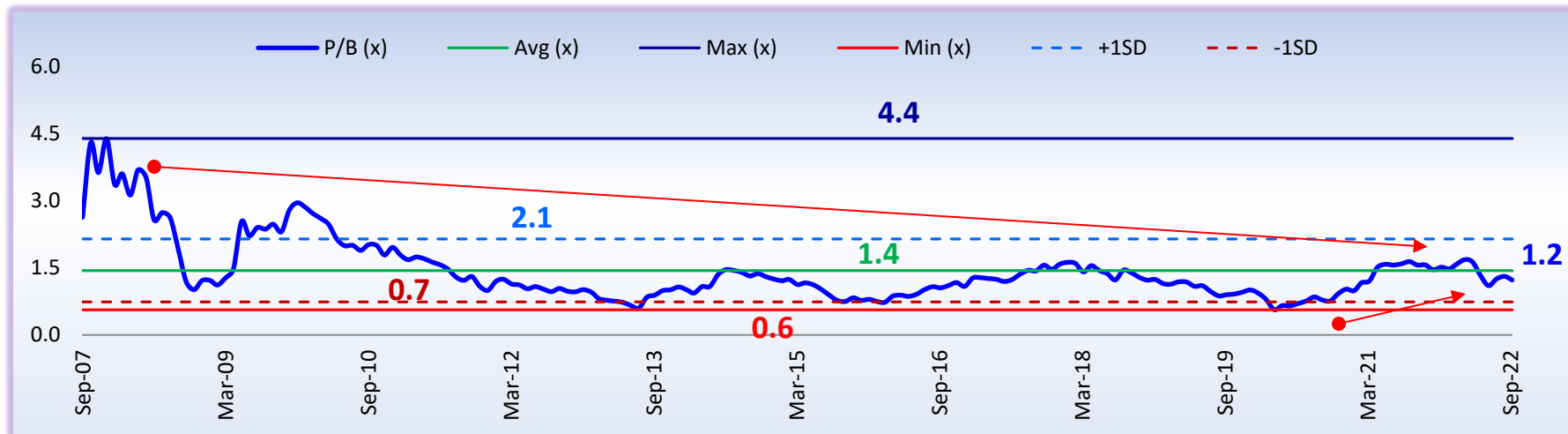


Valuations for the IT sector is 35% off from its Dec'21 peak after the recent correction

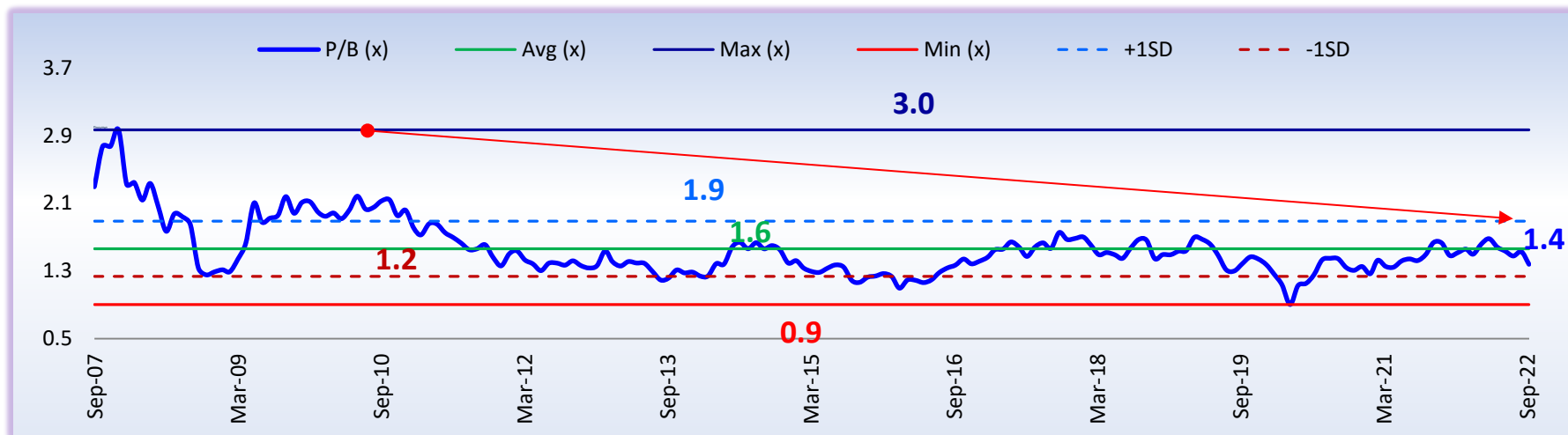


Sectoral valuations: Metals/O&G trade at a 15%/12% discount to its LPA

Metals: Valuations at a 15% discount to its LPA after the recent easing of commodity prices

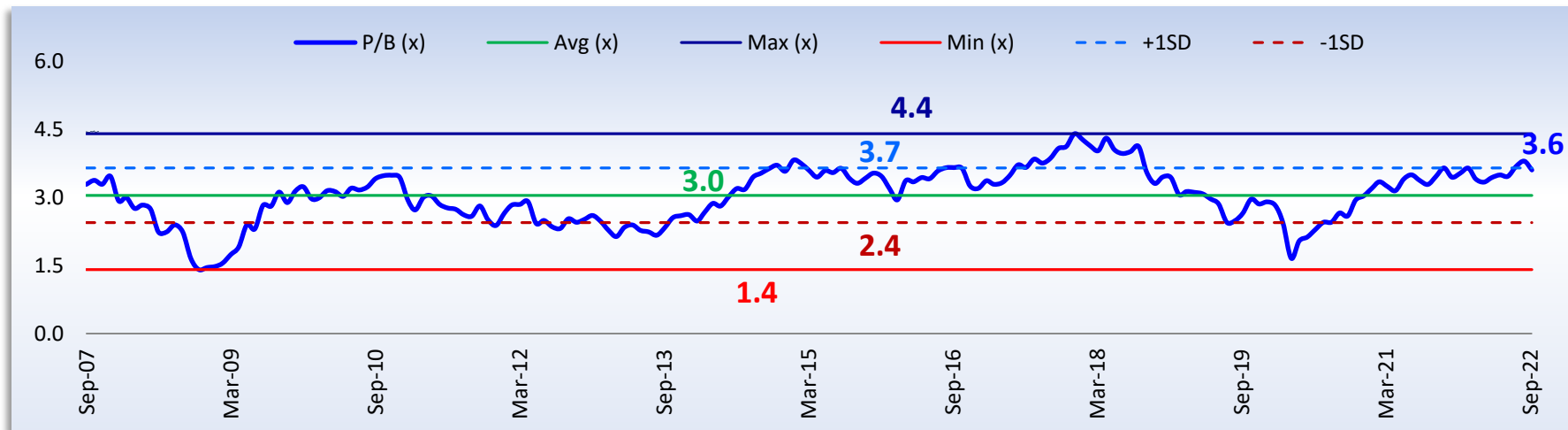


O&G: Valuations below its LPA

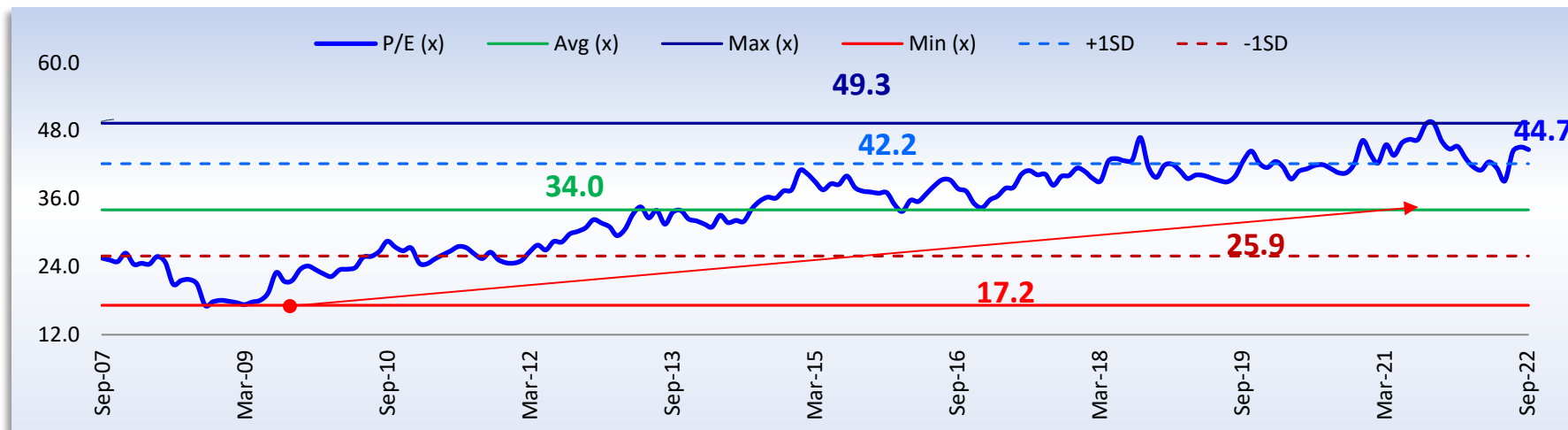


Sectoral valuations: Autos bounce back after a weak period

Auto valuations are at a premium of 18% to its LPA. The sector has been among the top performers YTD



Consumer sector P/E is 9% off from its Sep'21 peak



Top ideas

Company	M-cap (USD b)	CMP (INR)	52-week high	Corr. from 52W (%)	EPS (INR)			EPS CAGR (%)	P/E (x)			P/B (x)			RoE (%)		
					FY22	FY23E	FY24E	FY22-24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Preferred largecap stocks																	
Reliance Ind.	185.3	2,378	2,855	-17	86.4	117.1	119.3	17.5	27.5	20.3	19.9	2.0	1.8	1.7	7.9	9.7	9.1
Infosys	79.4	1,413	1,954	-28	52.4	57.2	65.7	12.0	27.0	24.7	21.5	7.9	7.6	7.2	29.2	31.3	34.5
ICICI Bank	73.8	863	936	-8	33.7	43.8	52.0	24.3	25.6	19.7	16.6	3.6	3.0	2.6	15.0	16.8	17.0
State Bank of India	58.3	531	579	-8	39.6	51.7	66.5	29.6	13.4	10.3	8.0	1.6	1.4	1.2	13.0	15.0	16.7
Bharti Airtel	57.8	800	809	-1	5.6	12.2	18.2	80.4	143.1	65.8	43.9	6.7	5.0	4.5	5.0	8.7	10.8
ITC	50.0	332	350	-5	12.2	14.8	16.7	16.8	27.2	22.5	19.9	6.7	6.4	5.9	25.0	28.9	30.7
Maruti Suzuki	32.8	8,824	9,450	-7	128.4	223.8	381.2	72.3	68.7	39.4	23.1	4.9	4.5	4.0	7.0	11.3	17.1
Titan Company	28.4	2,607	2,768	-6	26.2	34.9	41.9	26.5	99.4	74.6	62.2	24.8	20.9	17.2	27.7	30.5	30.4
UltraTech Cement	22.1	6,250	8,267	-24	196.3	209.3	251.7	13.2	31.8	29.9	24.8	3.6	3.3	2.9	12.0	11.4	12.4
IndusInd Bank	11.0	1,186	1,275	-7	62.1	99.8	122.2	40.3	19.1	11.9	9.7	1.9	1.7	1.4	10.6	15.1	16.1
Hindalco Ind.	10.8	391	636	-39	61.3	49.7	53.8	-6.3	6.4	7.9	7.3	1.6	1.4	1.2	28.0	18.8	17.5
Apollo Hospitals	7.5	4,383	5,931	-26	68.1	62.1	88.9	14.3	64.4	70.6	49.3	10.8	9.2	7.8	19.1	14.6	17.7
Macrotech Developers	5.5	925	1,539	-40	25.0	29.8	45.2	34.6	37.1	31.0	20.4	3.7	3.3	2.9	14.4	11.2	15.1
Preferred midcap/smallcap stocks																	
Varun Beverages	8.3	1,044	1,195	-13	10.7	20.3	23.7	49.0	97.7	51.4	44.0	16.6	13.0	10.3	18.3	28.3	26.0
Ashok Leyland	5.5	153	169	-10	0.1	3.2	7.3	729.9	NM	47.7	21.0	6.1	5.8	4.8	0.4	12.5	25.2
Jubilant FoodWorks	5.1	623	915	-32	6.6	7.9	10.1	23.6	94.3	78.9	61.8	21.1	19.9	16.8	22.4	25.2	27.3
Metro Brands	3.1	915	949	-4	7.8	13.9	16.6	45.8	117.5	66.0	55.2	19.2	15.1	12.1	20.0	26.2	24.9
Vinati Organics	2.6	2,086	2,373	-12	33.7	43.1	57.6	30.7	61.8	48.4	36.2	11.7	9.8	8.0	20.6	22.1	24.4
CAMS Services	1.5	2,524	3,250	-22	58.7	63.3	75.7	13.6	43.0	39.9	33.3	19.1	16.3	13.9	49.3	44.1	45.1
Angel One	1.4	1,368	2,022	-32	75.4	89.5	102.1	16.3	18.1	15.3	13.4	7.2	5.5	4.3	46.0	40.6	36.1
Lemon Tree Hotel	0.8	87	88	-2	-1.0	1.1	1.6	LP	NA	82.5	53.1	8.2	7.4	6.5	-8.7	9.4	13.1
VRL Logistics	0.5	609	719	-15	7.7	10.2	10.2	14.8	78.9	59.5	59.9	10.3	9.3	8.5	13.4	16.3	14.8

Note: Stock prices as of 30th Sep'22; LP: Loss to profit; Large Cap, Mid Cap and Small Cap Stocks listed above are as per SEBI Categorization.

CHART BOOK | October 2022

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MEDIAL OCEAN

12 October 2014

India Strategic

PR: Strategic 360ART

Compounding GDP growth at 7.5% – underlying growth in the capital goods sector

The value of the Indian rupee has fallen by 10% against the US dollar since the start of the year.

Compounding that rupee value has fallen – underlying growth in the capital goods sector

India's economic growth – estimated GDP value fell to 7.5% from 7.8% in Q3 2013. For the first time, the growth rate has fallen below 8% since 2007. The growth rate has fallen below 8% since 2007. The growth rate has fallen below 8% since 2007.

The value of the Indian rupee has fallen by 10% against the US dollar since the start of the year.

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Year	GDP Growth Rate (%)
2007	9.3
2008	6.7
2009	6.3
2010	7.9
2011	9.3
2012	7.9
2013	7.8
2014	7.5

The value of the Indian rupee has fallen by 10% against the US dollar since the start of the year.

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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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