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The Eagle Eye

July 2023

GLOBAL MARKETS

- ❖ Most of the global markets are up in CY23YTD
- ❖ MSCI India recovers sharply from Mar'23 lows but remains flat since Jan'22; China continues to underperform in CY23YTD
- ❖ Indian markets at all-time highs, Nifty-50 hits its highest teen

MARKETS

- ❖ Real estate and healthcare lead gainers in Jun'23; weakness in media continues
- ❖ ~86% of Nifty constituents end higher in Jun'23; Dr. Reddy's and Tata Motors gain the most
- ❖ Around 56% of BSE-200 constituents end higher and 19% of BSE-200 constituents close lower in Jun'23

FLows AND VOLUMES

- ❖ FIIs flows positive for four months in a row and strengthening MoM; DIIs remain net buyers
- ❖ Average daily cash volumes up 6% MoM in Jun'23
- ❖ Non-institutional participation marginally down to 47% of total cash volumes in Jun'23

INTERESTING STRATEGY REPORTS

- ❖ Nifty and its Virtuous Circle of Peaks and Troughs
- ❖ Corporate profits to GDP – FY23 marks a slight moderation!
- ❖ Bank vs. IT: Taking stock of the relative Alpha!

NIFTY COMPOSITION AND BOND YIELDS

- ❖ Nifty composition: Consumer and Auto's weights increase; Technology contracts significantly in CY23YTD
- ❖ The 10-year yield spread between India and the US widens in Jun'23 from its lows in May'23
- ❖ Sharp drop in commodity costs to benefit corporate margins

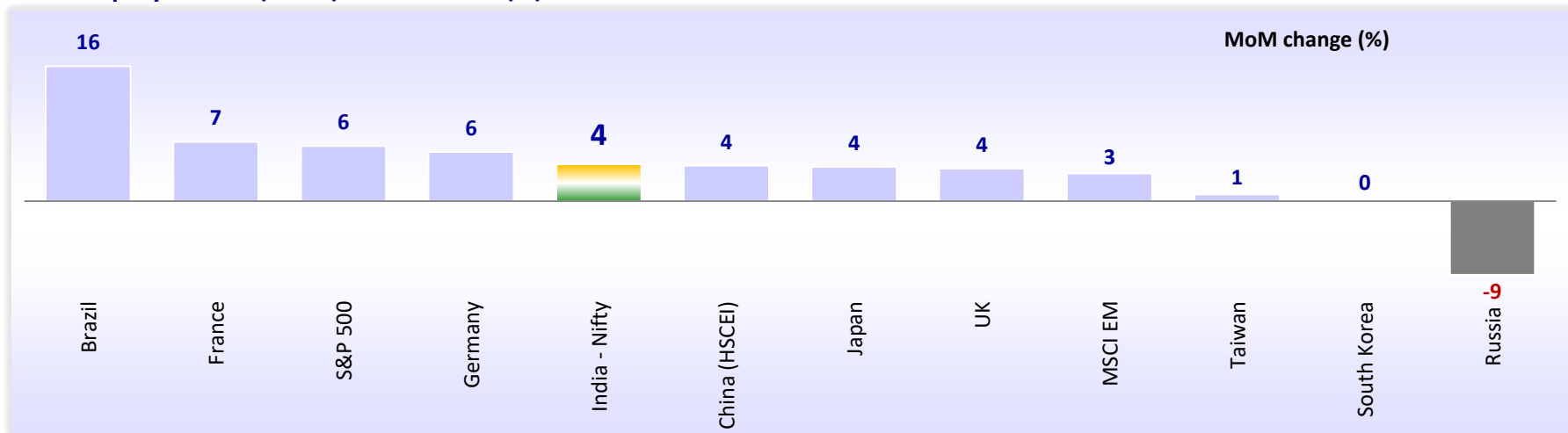
VALUATIONS

- ❖ Nifty's 12-month forward P/E near its LPA and is trading at 18.8x
- ❖ At 3.0x, the 12-month forward P/B is at a premium of 14% to the Nifty's historical average of 2.6x
- ❖ The 10-year G-Sec yield stands at 7.1%; EY/BY below its long-term mean

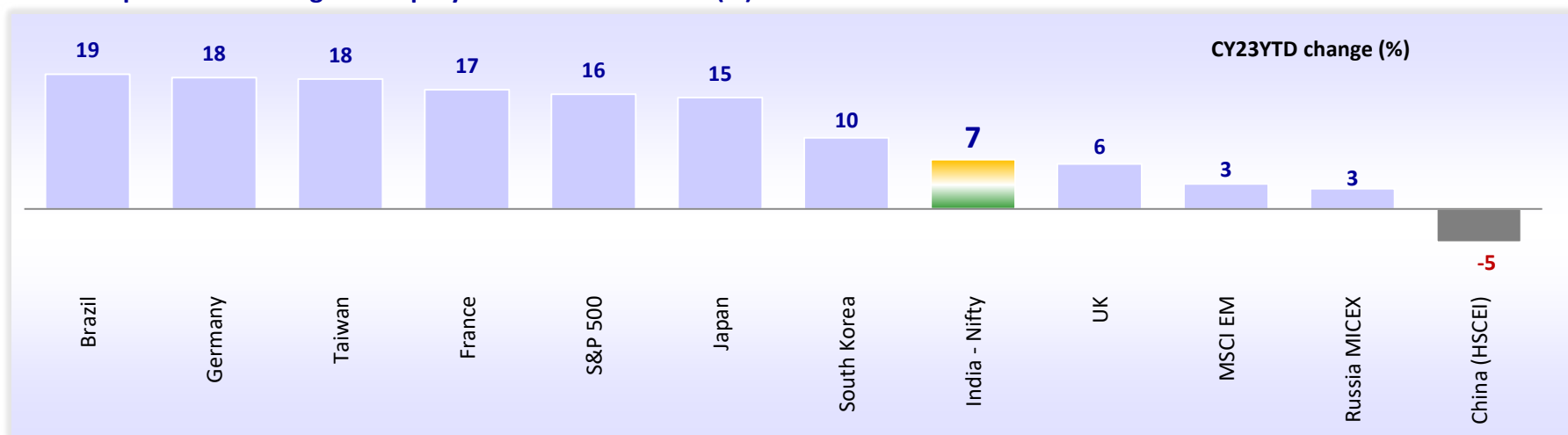
CONTENTS

Most of the global markets rise in CY23YTD; China trading lower for the last six months

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

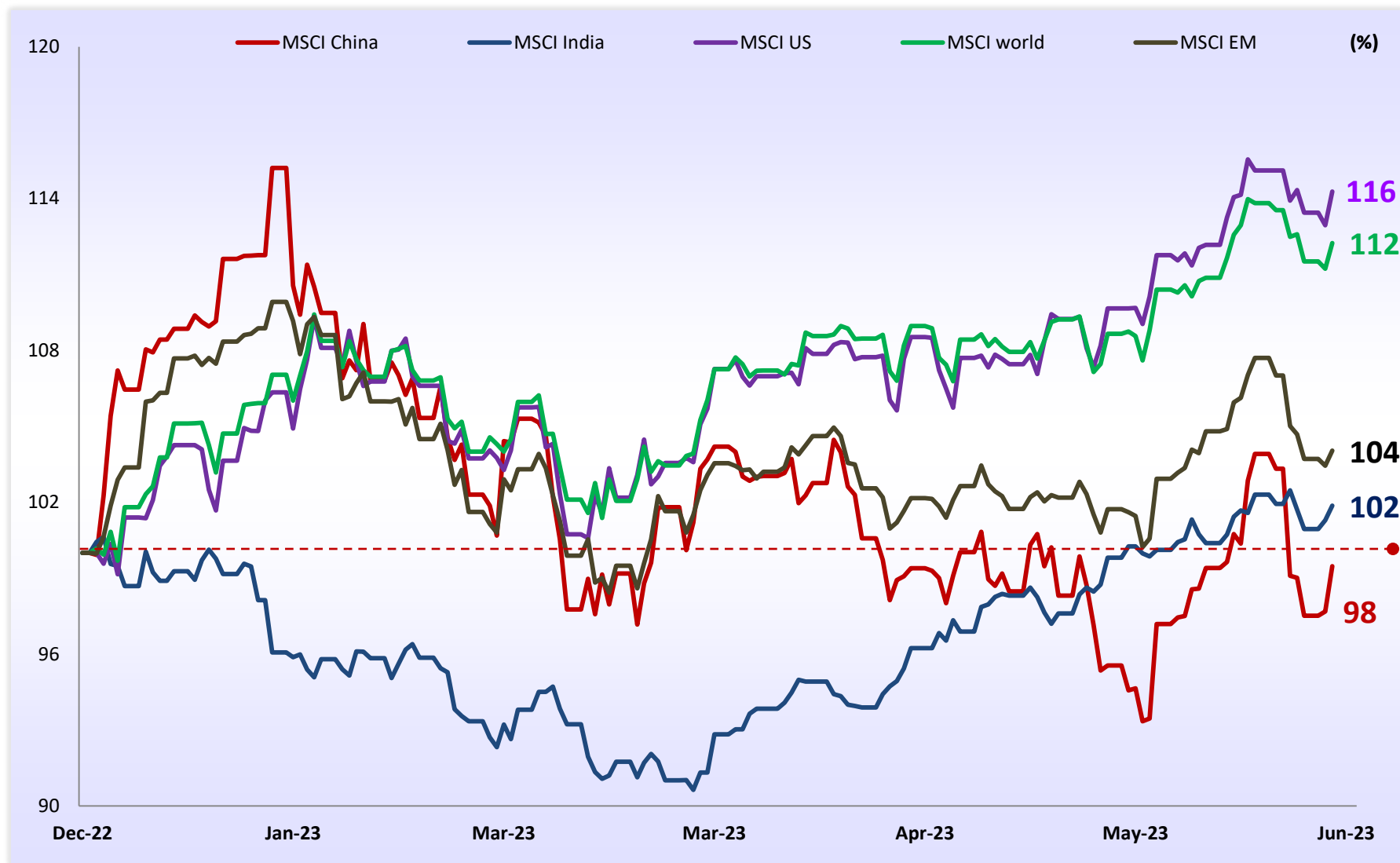


CY23YTD performance of global equity indices in USD terms (%)



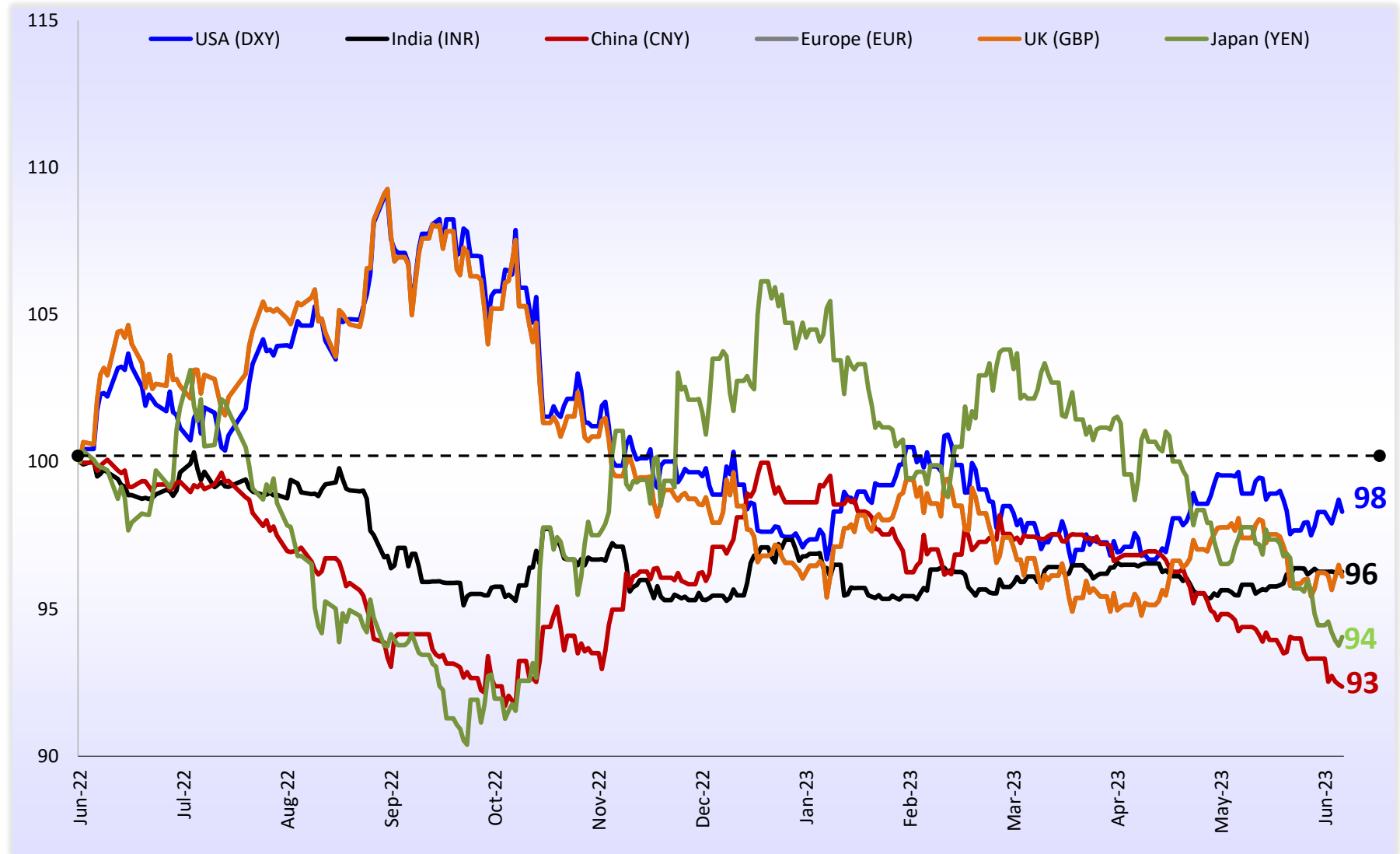
MSCI India recovers sharply from Mar'23 lows but remains flat since Jan'22; China continues to underperform in CY23YTD

Performance of the MSCI India index vs. MSCI US, MSCI World, MSCI Emerging Market, and MSCI China Indices (rebased to 100)



Dollar index is off the CY22 highs amid worldwide slowdown/volatility, INR stable in CY23YTD

CNY/INR/EUR/GBP/YEN depreciated 8%/4%/4%/4%/6% YoY (Rebased to 100)

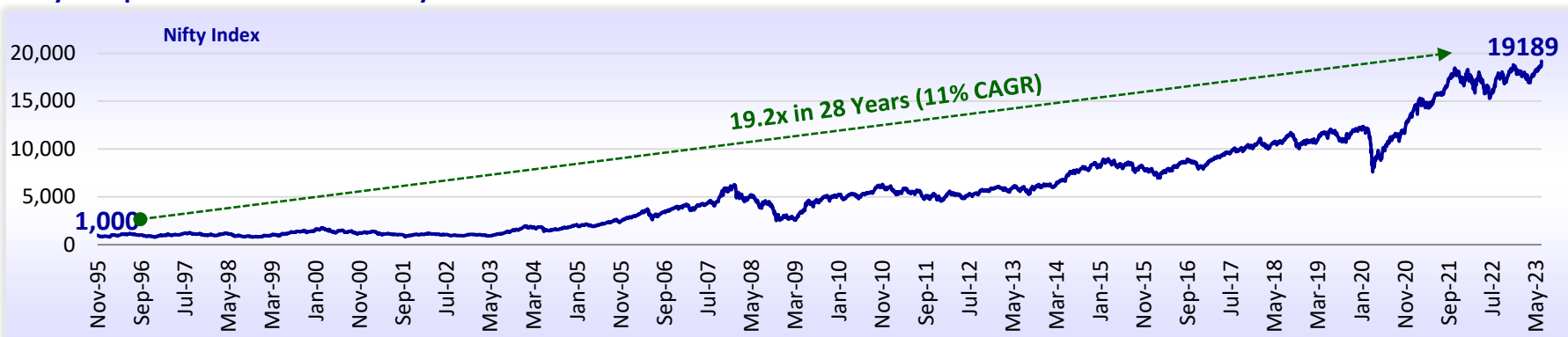


*Currency indices rebased at 100

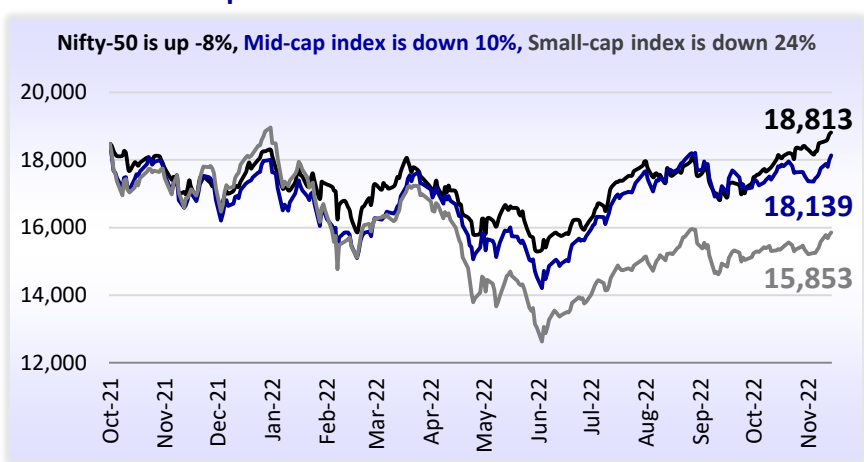
Indian markets at all-time highs, Nifty-50 hits its highest teen

- ❖ After a roller-coaster ride of 18 months, Nifty-50 finally surpassed its all-time high and touched 19K mark in Jun'23.
- ❖ The recent rally has been led by a strong combination of healthy macro and micro, complemented by a sharp recovery in FII flows.
- ❖ As the peak of rate-hike cycle appears behind, mid- and smallcaps are back in favor. This has been clearly evident in the recent market rally of Dec'22-Jun'23, when both mid- and smallcaps outperformed Nifty-50 by 9% and 6%, respectively
- ❖ While Nifty-50 is at a new high, the fact remains that on a two-year basis, it stands nearly flat (just up 4% from Oct'21 high); whereas its aggregate FY22/FY23 earnings are up ~38%/10% and that for MOFSL Universe are up 39%/10% over the same period.

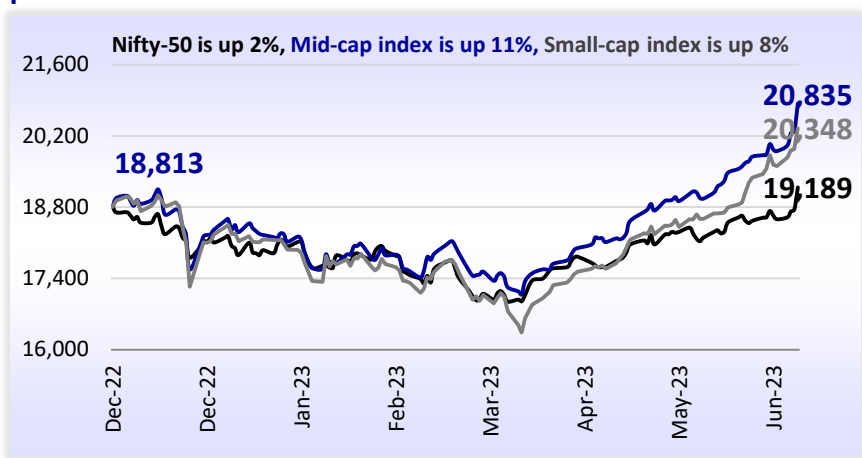
Nifty-50 up 19.2x over the last ~28 years



Midcaps outperform largecaps; smallcaps reasonably down from the Oct'21 peak



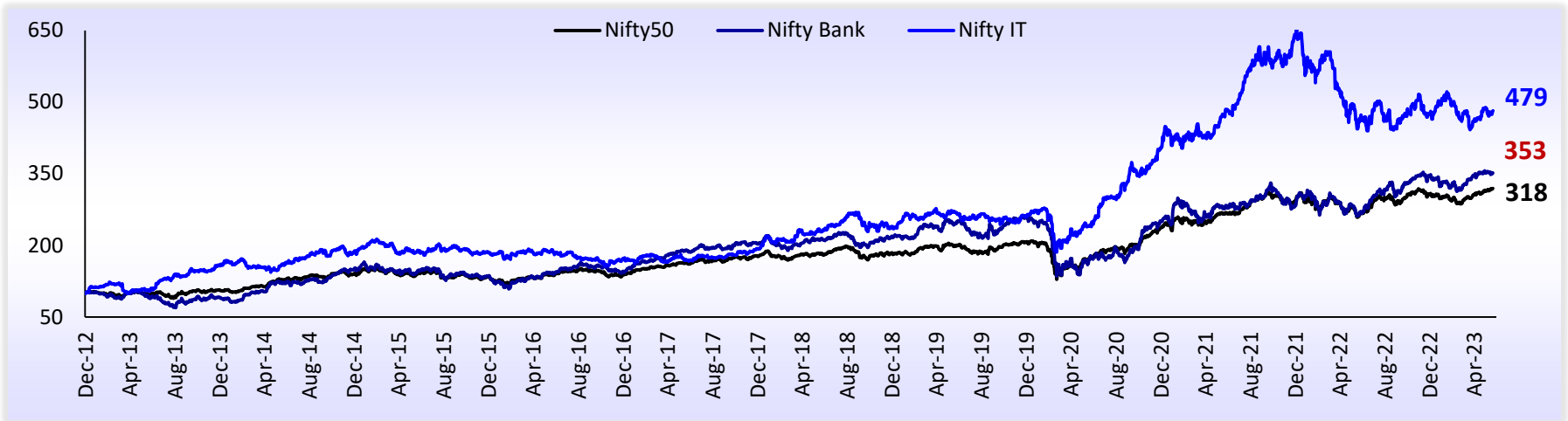
Mid and smallcaps outperform Nifty-50 from its Dec'22 peak



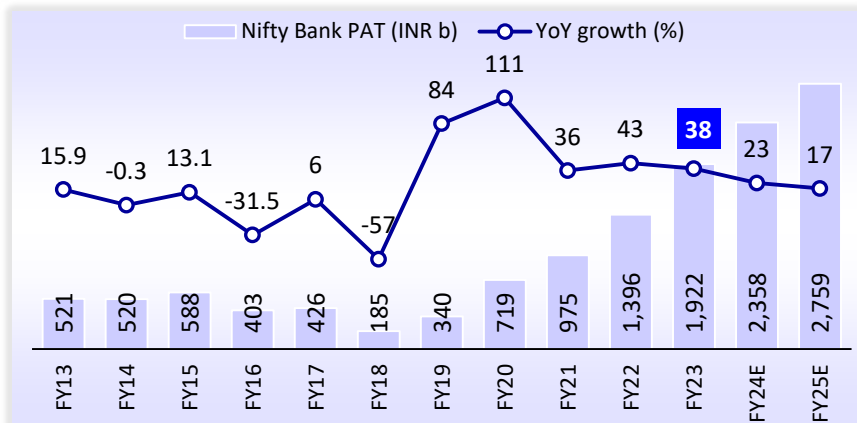
Interesting saga of two key sectors: Banks and IT

❖ While the Nifty Bank and Nifty IT indices grew 13% and 17%, during CY12-22; the aggregate profits of Nifty Bank and Nifty IT constituents reported a CAGR ~14% and 11% over FY13-23, respectively.

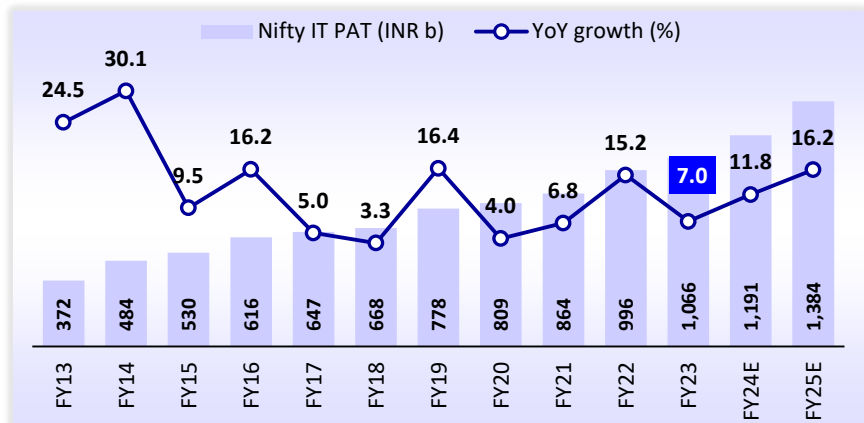
Nifty Bank and IT remained volatile during the decade, while remaining flat in CY23YTD; Nifty IT corrected notably from the highs of CY21



Yearly institutional flows (USD b)

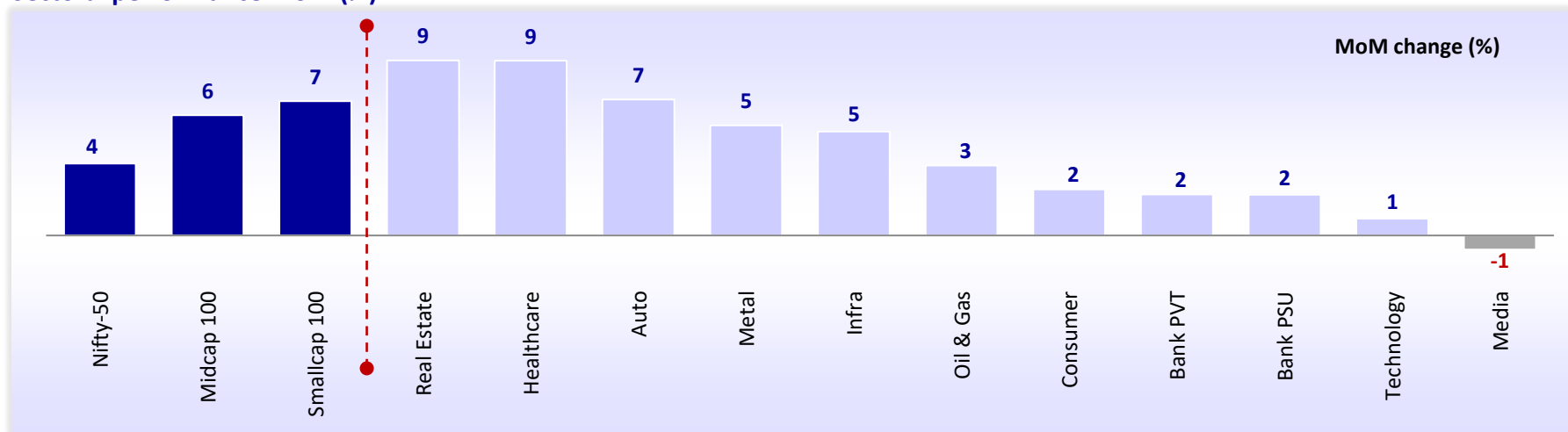


Nifty IT constituents' earnings performances during the first and second halves of FY13-23

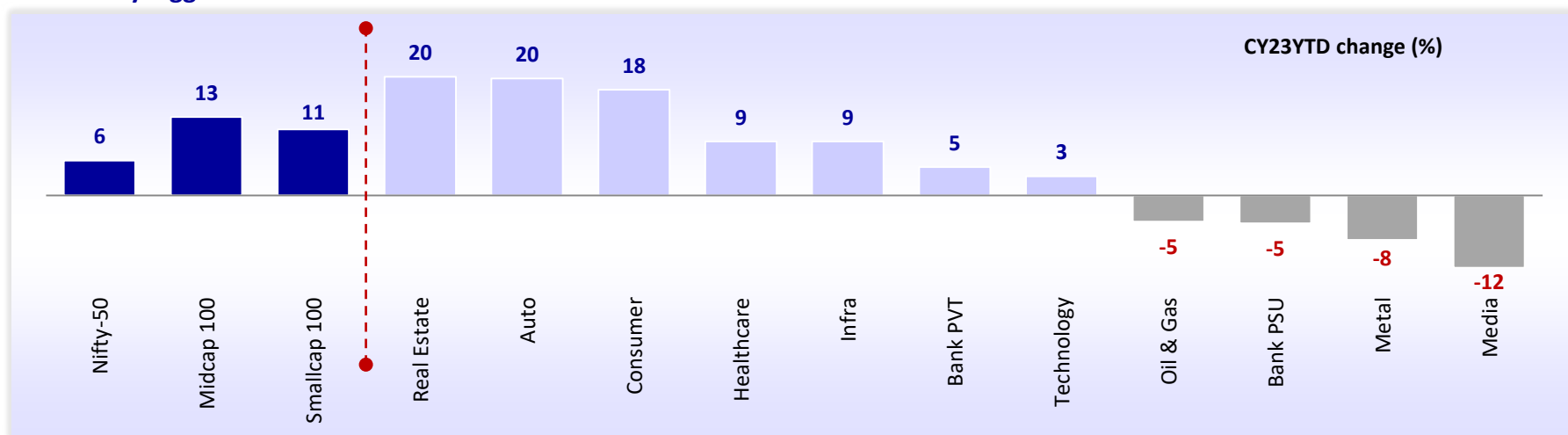


Real estate and healthcare lead gainers in Jun'23; weakness in media continues

Sectoral performance MoM (%)



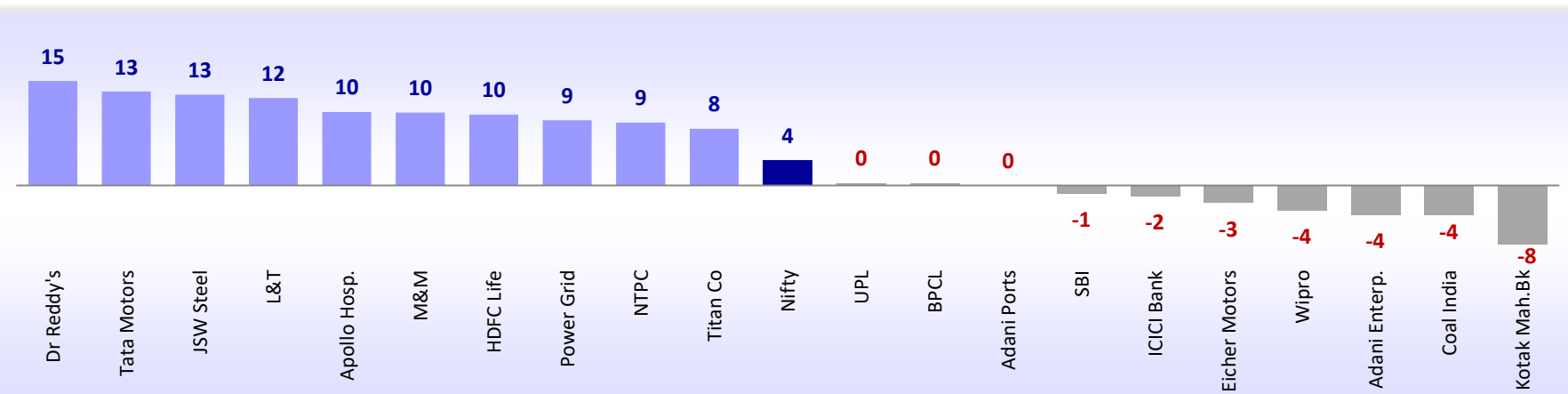
Sectoral performance CY23 YTD (%): Real estate, auto and consumer are the top gainers; Global commodities, PSBs and Media are the key laggards



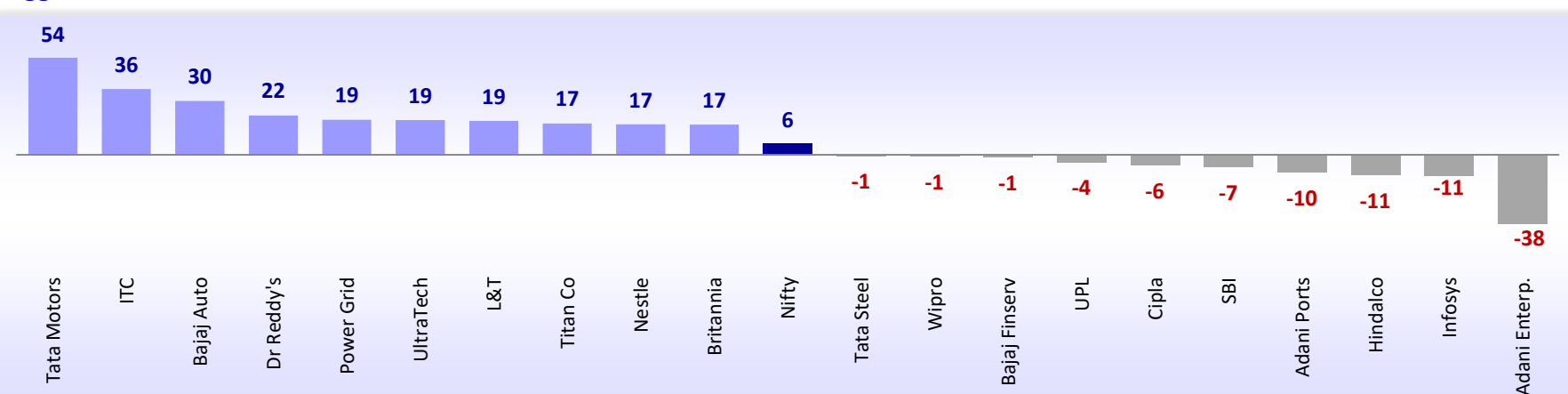
86% of Nifty constituents end higher in Jun'23; Dr. Reddy and Tata Motors gain the most

- ❖ Among Nifty constituents, 43 closed higher in Jun'23 and around 58% of constituents outperformed the benchmark.
- ❖ About 80% of Nifty constituents are trading higher in CY23YTD. Tata Motors, ITC, and Bajaj Auto are the top gainers, while Adani Enterprises and Infosys are the key laggards.

Best and worst Nifty performers (MoM) in Jun'23 (%) – Dr. Reddy's and Tata Motors were the top gainers; Kotak Mah Bank and Coal India were the key laggards



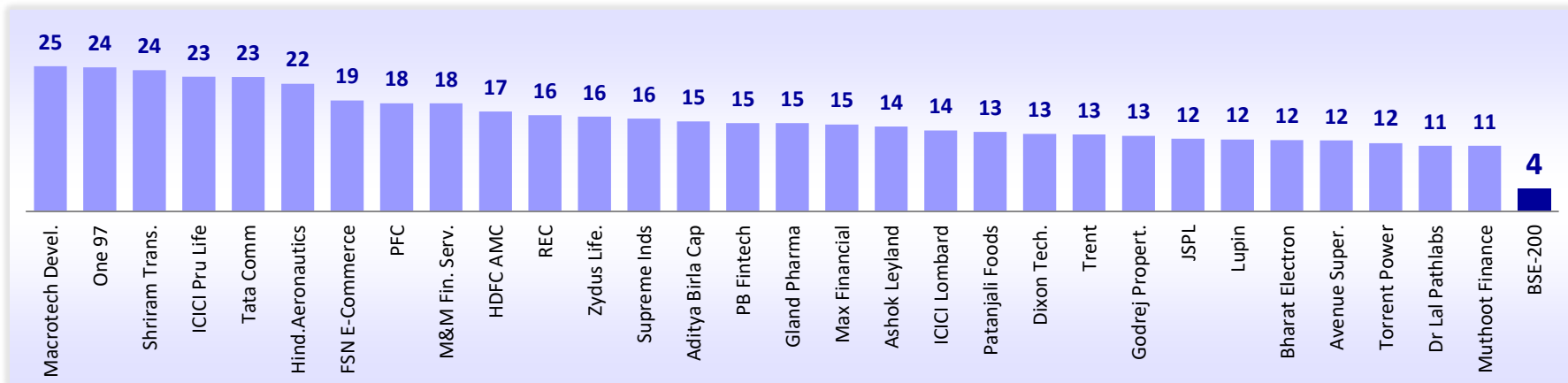
Best and worst Nifty performers CY23YTD (%) –Tata Motors and ITC gain the most, while Adani Enterprises and Infosys are the key laggards



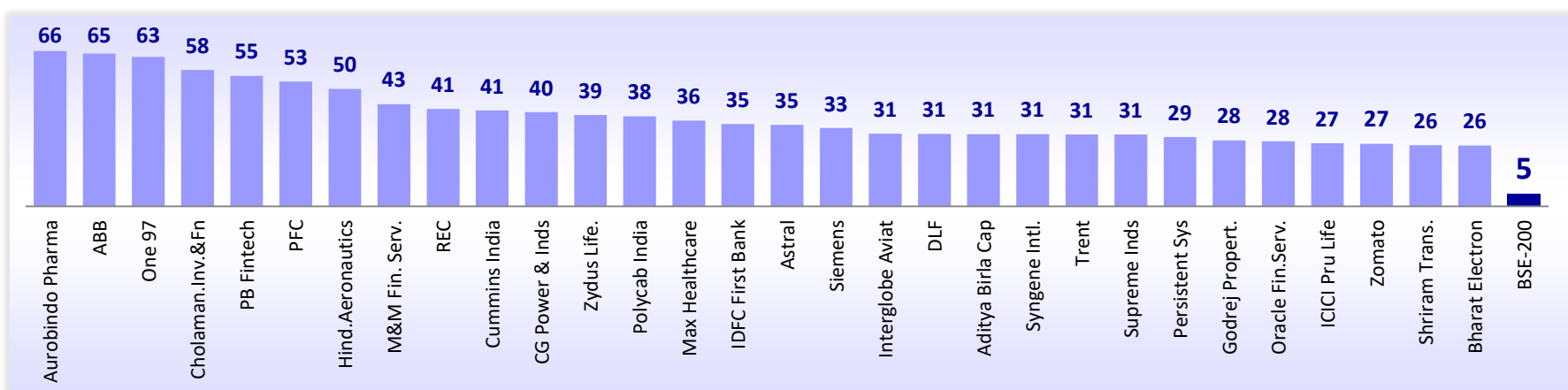
Around 56% of BSE-200 constituents end higher in Jun'23

- ❖ Around 41% of BSE-200 constituents closed higher than the benchmark in Jun'23. Macrotech, One97 and Shriram Transp. were the top gainers.
- ❖ Around 50% of BSE-200 constituents are trading higher in CY23YTD. Aurobindo Pharma, ABB and One97 are the top gainers.

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



Top gainers from the BSE-200 pack in CY23YTD(%)*

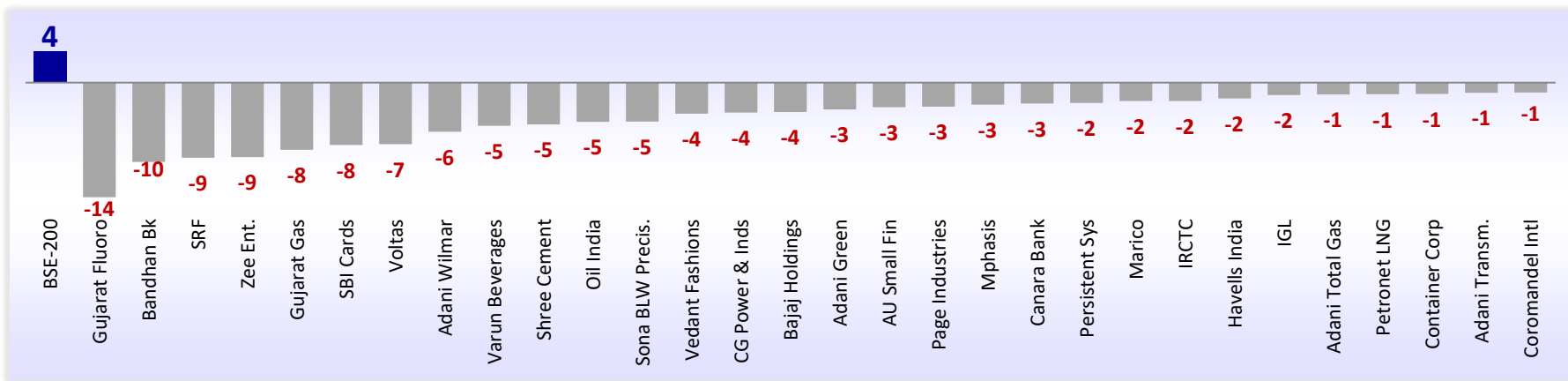


*List excludes Nifty constituents

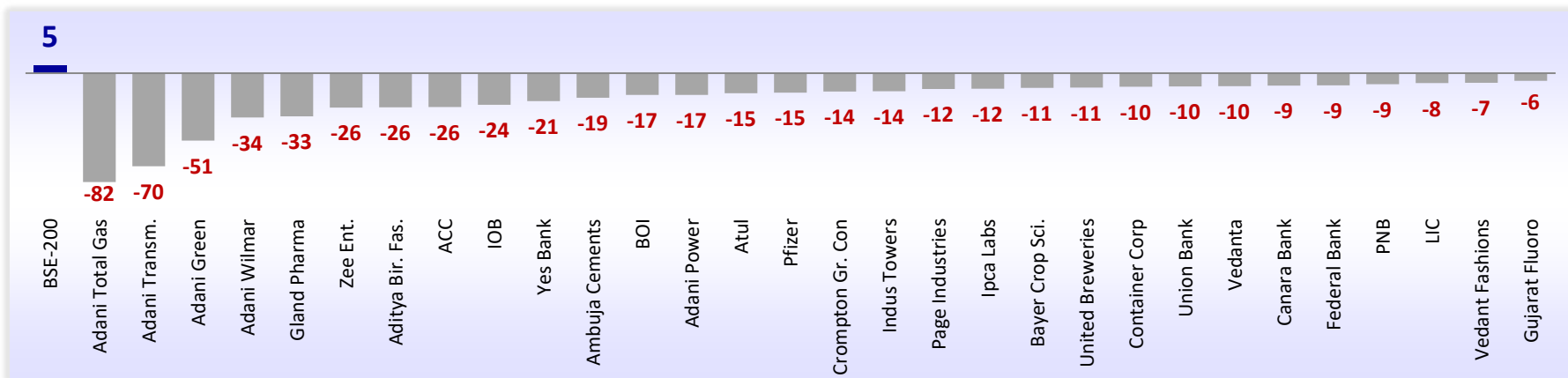
About 19% of the BSE-200 constituents close lower in Jun'23

- ❖ About 35% of BSE-200 constituents ended lower than the benchmark in Jun'23.
- ❖ About 25% of BSE-200 companies are trading lower in CY23YTD, of which, 23 companies are trading more than 10% lower.

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



Biggest laggards among BSE-200 constituents in CY23YTD (%)*



*List excludes Nifty constituents

Nifty Indices: Valuation comparison at a glance

- ❖ Nifty50/Midcap/small-cap indices grew ~6%/14/11% YTD. Mid- and Small-cap outperformed Nifty50 in CY23YTD compared to CY22.
- ❖ Nifty Auto/FMCG were the top performing indices, up 20%/18% in CY23YTD. Global cyclicals remained weak.
- ❖ Nifty-50 and Nifty Mid-cap index were trading at a premium, while the small-cap 100 index was trading at a discount to its LPA on a 12-month forward P/E basis.

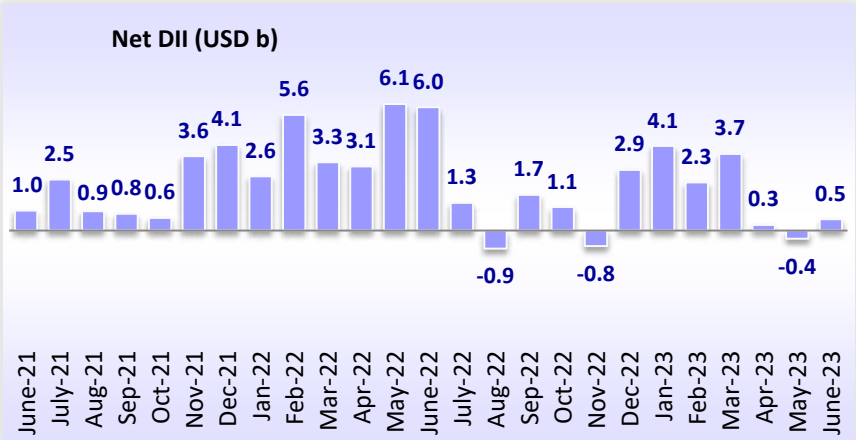
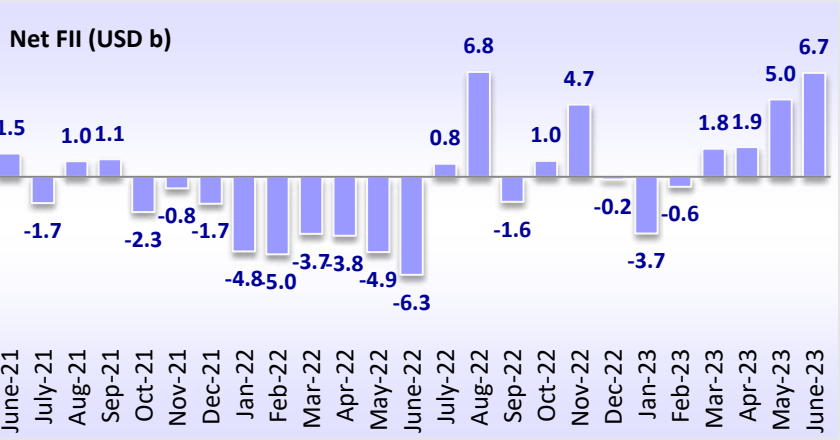
Indices	Nifty	Nifty Midcap 100	Nifty Smallcap 100	Nifty 500	Nifty Auto	Nifty BANK	Nifty FMCG	Nifty IT	Nifty Metal	Nifty Energy
June'23 closing	19,189	35,754	10,837	16,430	15,148	44,747	52,195	29,563	6,209	24,697
CY23YTD change (%)	6.0	13.5	11.4	6.4	20.1	4.1	18.2	3.3	-7.6	-4.5
Net Margin (%)	10.4	7.7	8.4	9.1	4.6	15.1	17.4	14.1	6.3	6.0
P/E (12 month trail)	23.0	25.2	20.8	24.3	41.8	17.2	48.5	25.6	12.8	11.2
P/E (12 month fwd)	20.3	25.9	16.9	21.6	25.3	14.6	42.0	22.8	11.9	11.2
P/B (12 month trail)	3.5	3.0	3.0	3.5	5.1	2.3	11.9	6.5	1.9	1.7
P/B (12 month fwd)	3.1	3.2	2.4	3.2	3.9	2.2	10.5	6.0	1.5	1.5
Price / cash flow	20.8	242.9	57.0	24.5	38.4	-	44.8	23.9	8.4	7.0
Price /Sales	2.4	1.9	1.6	2.2	1.7	2.6	8.3	3.6	0.8	0.8
RoE (%)	15.2	12.7	14.1	14.6	16.0	16.2	25.1	26.0	10.2	13.0
RoA (%)	3.9	-0.3	2.5	3.1	6.6	-	24.7	18.2	6.3	6.2
Dividend Yield (%)	1.4	1.3	1.2	1.4	0.8	0.8	1.8	2.6	3.8	3.4

Source: Bloomberg, MOFSL; * Data as on 31st Jun'23

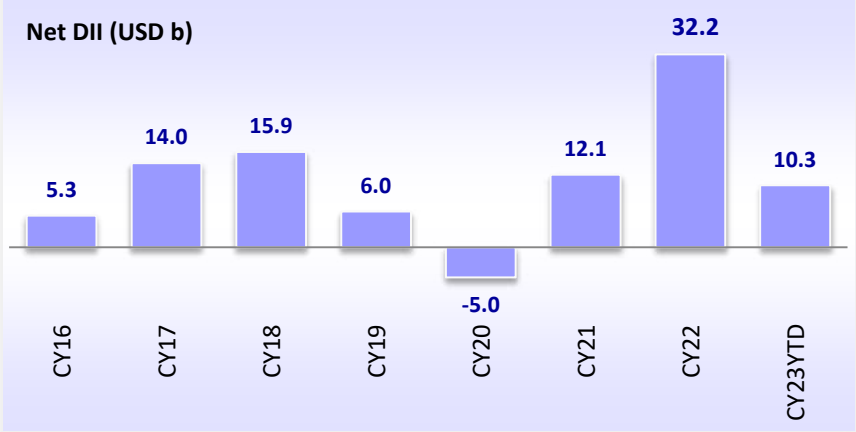
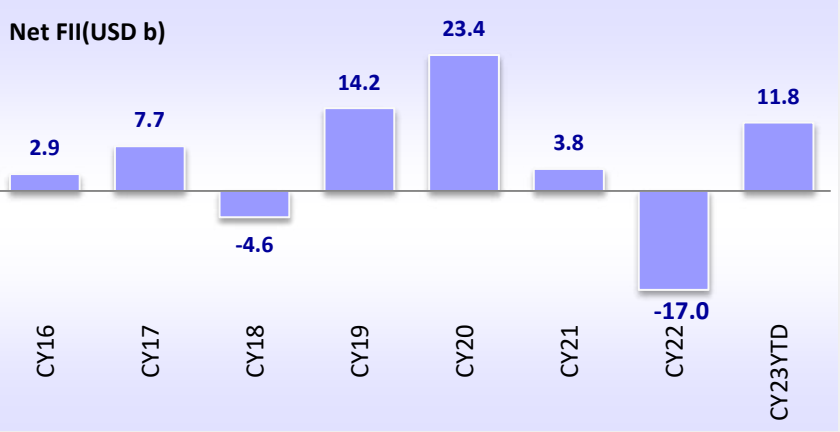
FII flows positive for four months in a row and strengthening MoM; DII remain net buyers

- ❖ FII flows continue to strengthen, with net inflow of USD11.8b in CY23YTD. FII inflows in Jun’23 stood at USD6.7b.
- ❖ DIIs remained net buyers with an inflow of INR0.5b in Jun’23. DII inflows stood at USD10.3b in CY23YTD.
- ❖ DII flows into equities in CY22 were the highest ever at USD32.2b, while FII outflows stood at USD17b.

Monthly institutional flows (USD b)

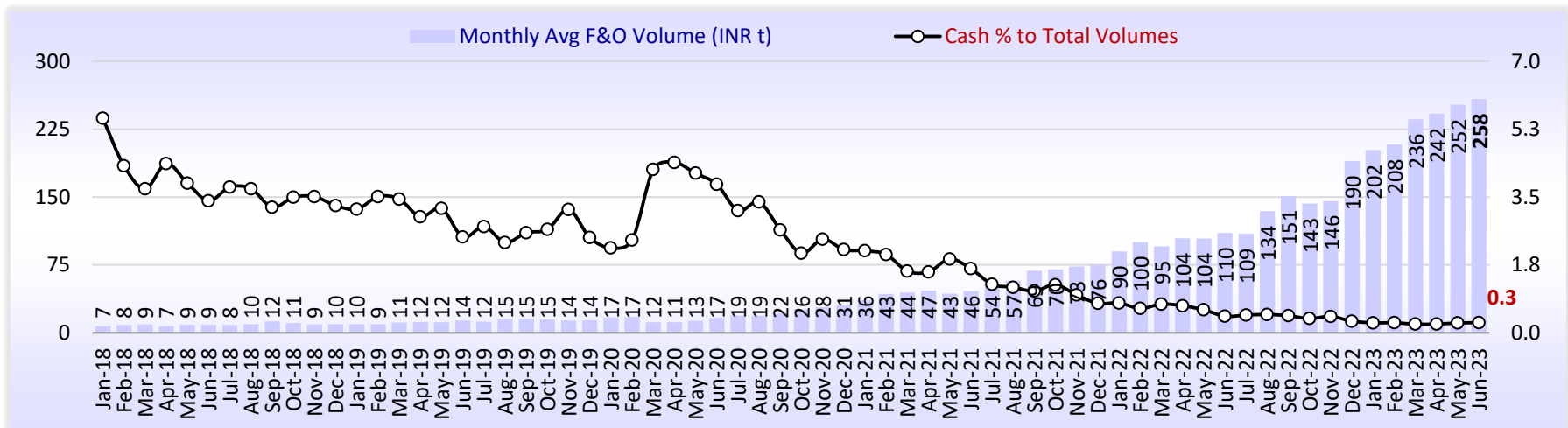
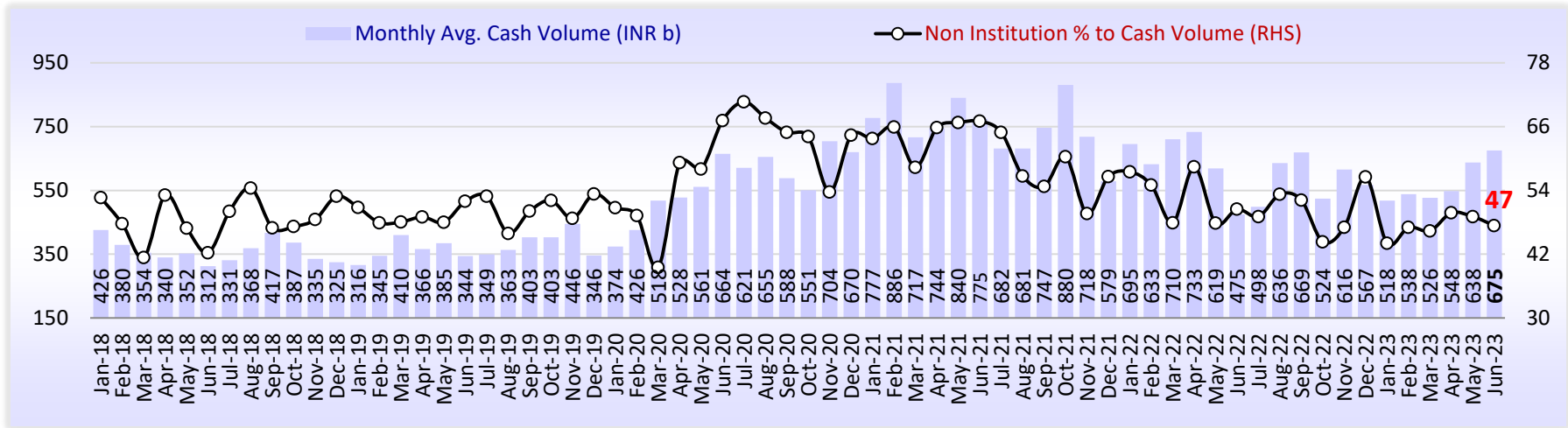


Yearly institutional flows (USD b)



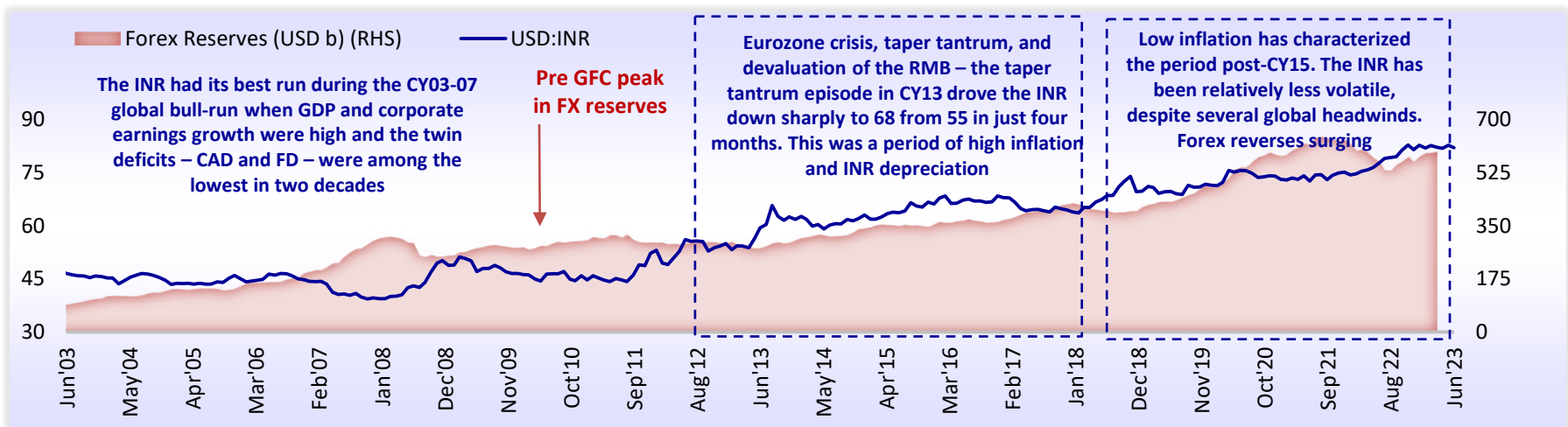
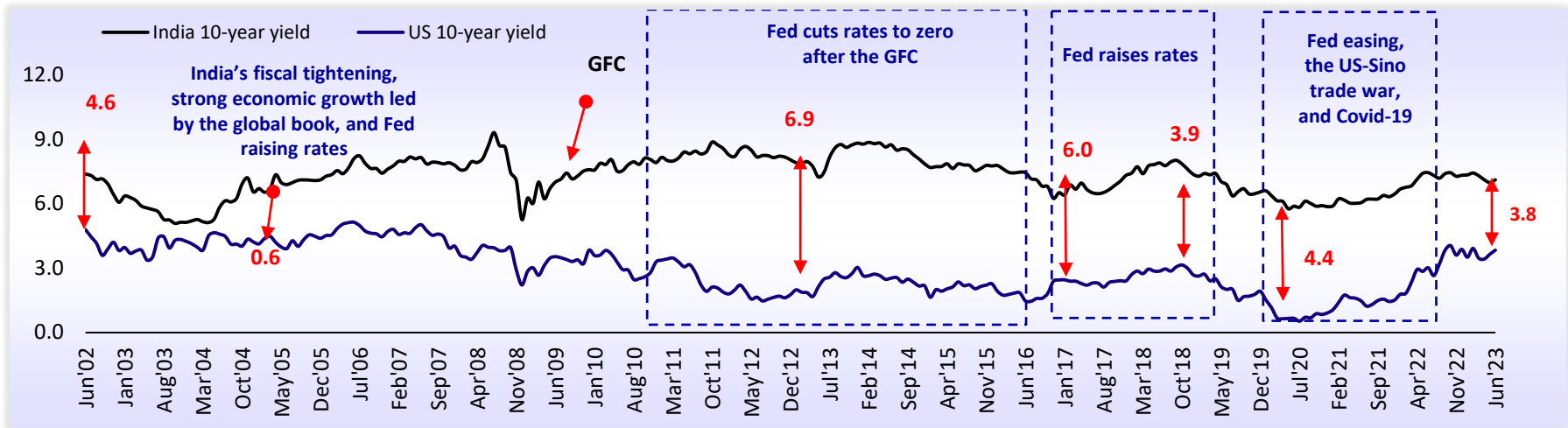
Average daily cash volumes increased 6% MoM in Jun'23

- ❖ Average daily cash volumes increased 6% MoM in Jun'23 to INR675b, still 23% below its Oct'21 high.
- ❖ Non-institutional participation marginally down to 47% of total cash volumes in Jun'23.



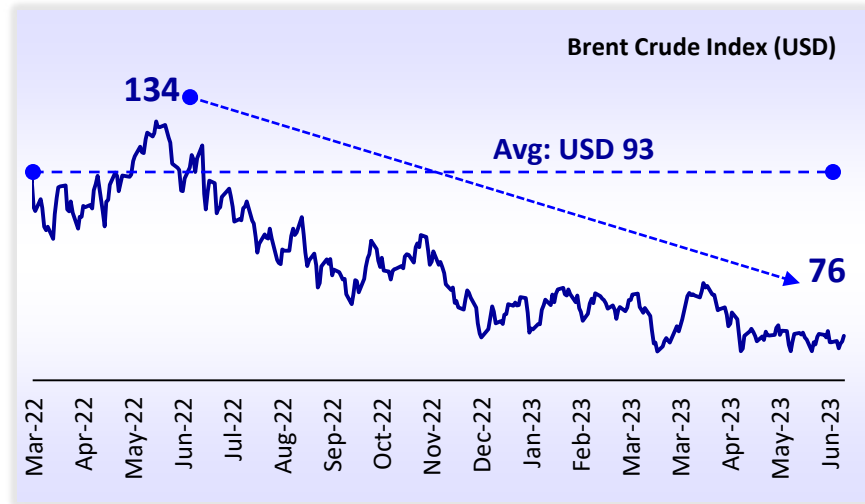
The 10-year yield spread between India and the US widens in Jun'23 from its lows in May'23

- ❖ The Indian bond yield closed at 7.1% vs. the US bond yield of 3.8% in Jun'23 . The yield spread has been at its lowest in May'23 vs. its previous lows in Jun'09 .
- ❖ On the currency front, INR appreciated marginally by 0.8% MoM against USD. India's forex reserves also jumped USD5b to USD593b; however, it was down USD49b from its peak in Oct'21.

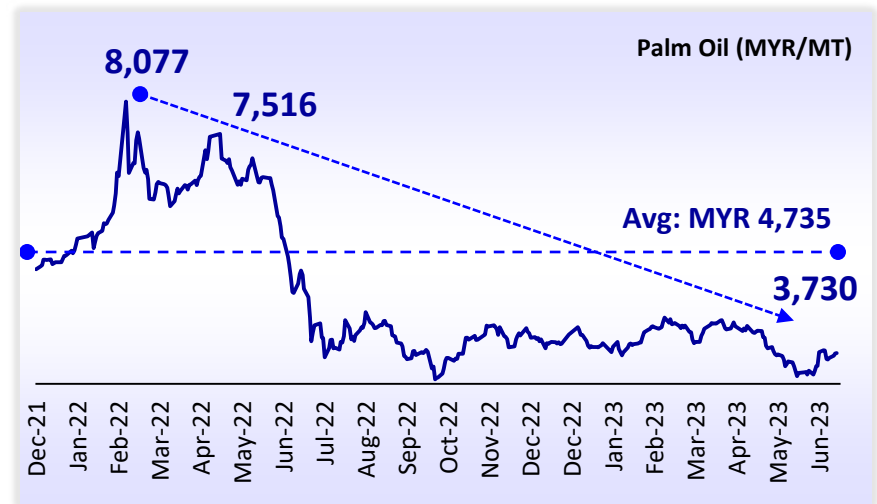


Sharp fall in commodity costs to benefit corporate margins

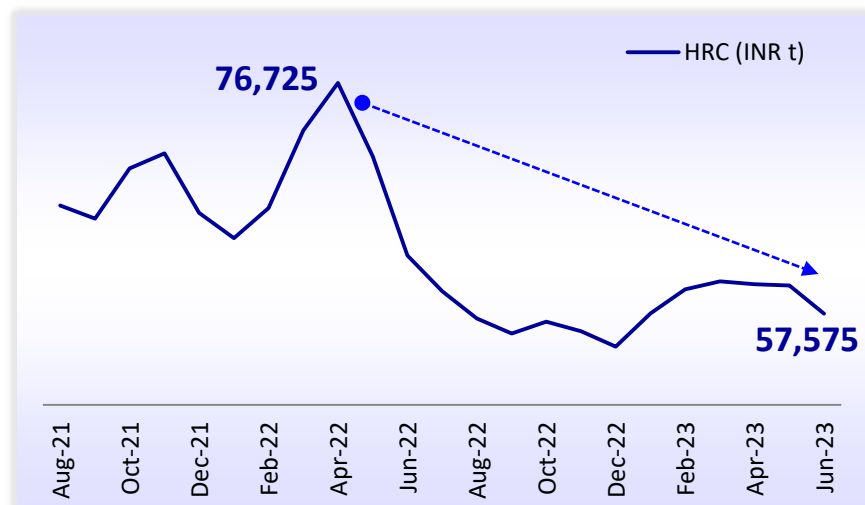
Crude prices down 34%YoY and down 42% from Mar'22 highs



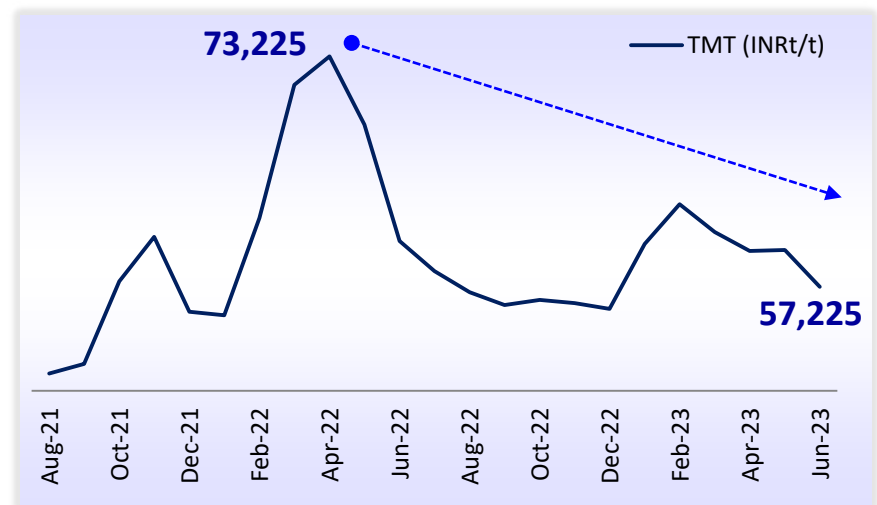
Palm oil prices down 27% YoY and down 39% from the Mar'22 highs



Average monthly HRC prices have corrected 8% YoY and down 25% from April'22 highs



Also, Average monthly TMT prices have fallen 5%YoY and down 22% from April'22 highs



Nifty composition: Consumers and Auto see jump in weights; Technology contracts significantly in CY23YTD

- ❖ While the weightage of the Auto, Consumers, Capital goods and Utilities sectors increased in CY23YTD, the weightage of Technology, Banks and global commodities declined in CY23YTD.

Sector	Weightage in the Nifty (%)						
	Dec'04	Dec'08	Dec'12	Dec'20	Dec'21	Dec'22	June'23
Automobiles	6.7	2.5	8.8	5.4	5	5.3	6.0
Banks – Private	4.7	5	16.9	24.7	21.9	24.2	24.1
Banks – Public	5.8	5.4	4.7	1.8	2.3	2.9	2.6
NBFC + Insurance	2.1	2.3	7.9	12.3	11.4	10.6	10.9
Capital Goods	4	7.7	5.9	2.6	3	3.1	3.5
Cement	2.8	1.7	4.2	2.2	2.4	1.8	1.9
Consumer	7.8	6.5	12.3	10.4	9.4	10.3	11.6
Healthcare	6.3	2.6	5	3.6	3.4	3.8	3.9
Metals	8.2	4.8	3.8	2	2.9	2.9	2.7
Oil and Gas	27.1	24.5	12.3	12.5	12.3	12.1	11.4
Reliance	8.3	10.6	7.4	10.7	10.8	11.0	10.2
Telecom	6.3	11.6	2	2	2.1	2.5	2.6
Technology	14.5	9	11.4	16.3	19.1	14.0	12.7
Utilities	1.9	13.3	4.5	2.1	2.1	2.5	2.7
Miscellaneous	2	3.3	0.5	2.1	2.6	3.9	3.5
Nifty	100	100	100	100	100	100	100

Weightage of the Technology declined by 130bp in 2023YTD

Weightage of the Auto, Consumers, Capital goods and Utilities gained in 2023

Weightage of Global commodities, O&G and metals, contracted 70bp and 25bp, respectively, in CY23YTD

KEY REPORTS FROM MOFSL'S RESEARCH DESK



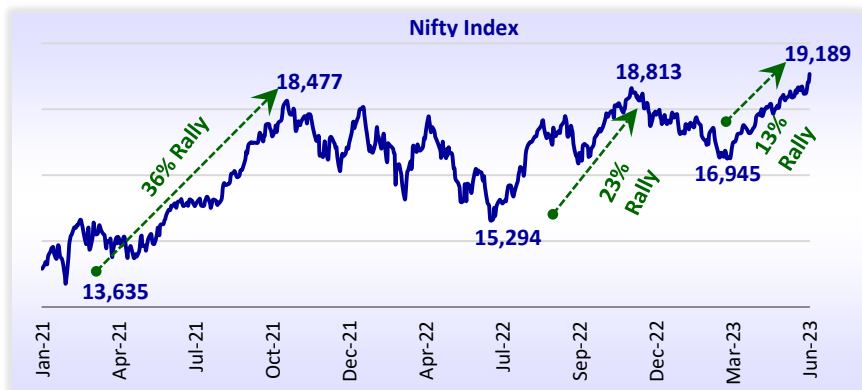
INDIA STRATEGY: Nifty and its Virtuous Circle of Peaks and Troughs

- ❖ The Nifty-50 has turned full circle in the last 20 months. While the benchmark index has reclaimed the summit again, the midcap and smallcap universes have outperformed the benchmark as compared with the Dec'22 peaks. Nifty-50 valuations on both one-year forward earnings and trailing earnings are rich but still off the highs achieved in Oct'21 and Dec'22.
- ❖ **Jun'23 vs. Dec'22 peak: Stark divergence in performance:** While the Nifty is approaching its all-time high level attained in Dec'22, Nifty Midcap-100 and Smallcap-100 are up by 8% and 6%, respectively, from Dec'22 peaks. **Sectors:** Compared to the peak of Dec'22, Capital Goods (+16%), Consumer (+15%), Real Estate (+13%), Automobiles (+11%), Infrastructure (+4%), and Private Banks (+1%) have outperformed the benchmark. FIIs have recorded inflows of USD5.4b, while DIIs have pumped in USD13.4b.
- ❖ **Jun'23 vs. Oct'21 peak: Domestic cyclical lead the show:** Nifty is up 1% from the peak of Oct'21, while midcaps are up 6% and smallcaps are down 9%. **Sectors:** Capital Goods (+44%), PSU Banks (+41%), Consumer (+25%), Automobiles (+24%), Utilities (+11%), Private Banks (+8%) are the top performers. FIIs have witnessed sharp outflows of USD16.2b during Oct'21-Jun'23 and DIIs have infused USD51b so far since Oct'21.

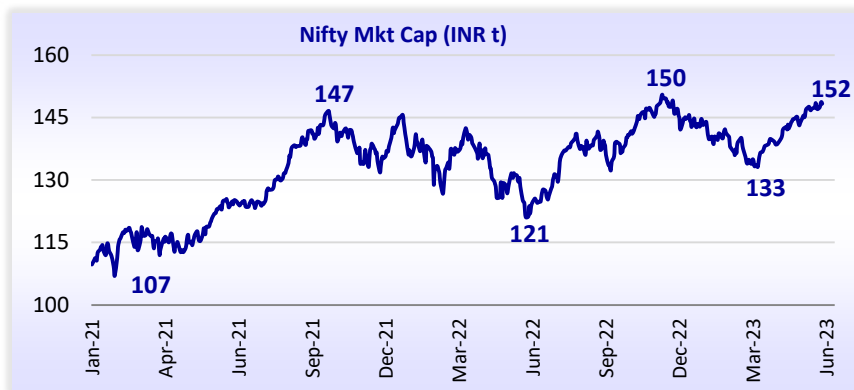
Comparison of the key parameters in various Nifty-50 peaks

	Oct'21	Dec'22	Jun'23
Nifty-50 Index	18,477	18,813	18,688
Projected/Actual EPS FY23 (INR)	874	820	807
Projected/Actual PE FY23 (x)	21.1	22.9	23.2
10 years G-sec yield (%)	6.4	7.2	7.0
DII flows (USD b) *	7.5	37.0	13.4
FII flows (USD b) *	-1.1	-19.3	5.4
Indian Market Cap - BSE (INR t)	276.8	290.8	290.2
Nifty-50 Market Cap (INR t)	146.6	150.5	148.4
Nifty Midcap 100 Mkt Cap (INR t)	35.0	34.4	37.5
Nifty Smallcap 100 Mkt Cap (INR t)	11.0	10.7	13.0

Nifty-50 up 25% from its bottom of Jun'22



Nifty's market cap up ~30% from Jun'22 bottom

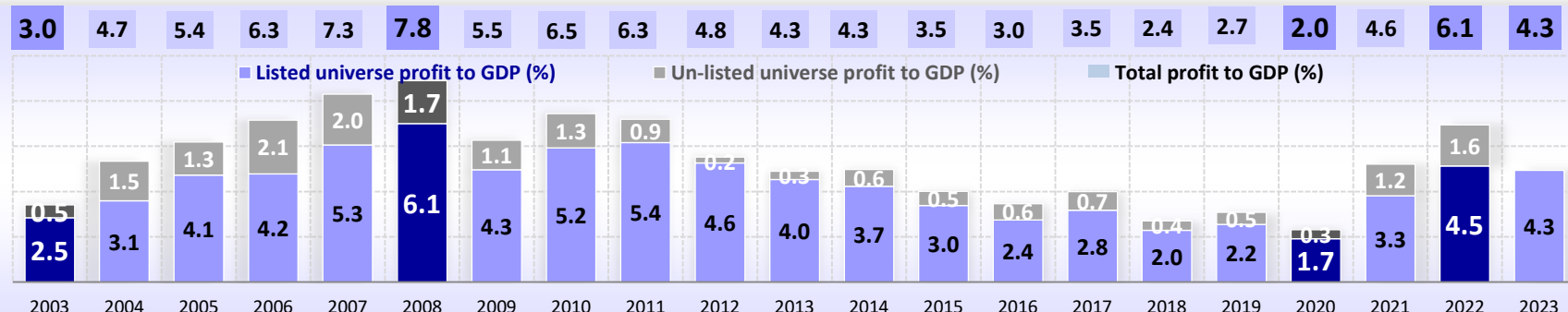


INDIA STRATEGY: Corporate profits to GDP – FY23 marks a slight moderation!

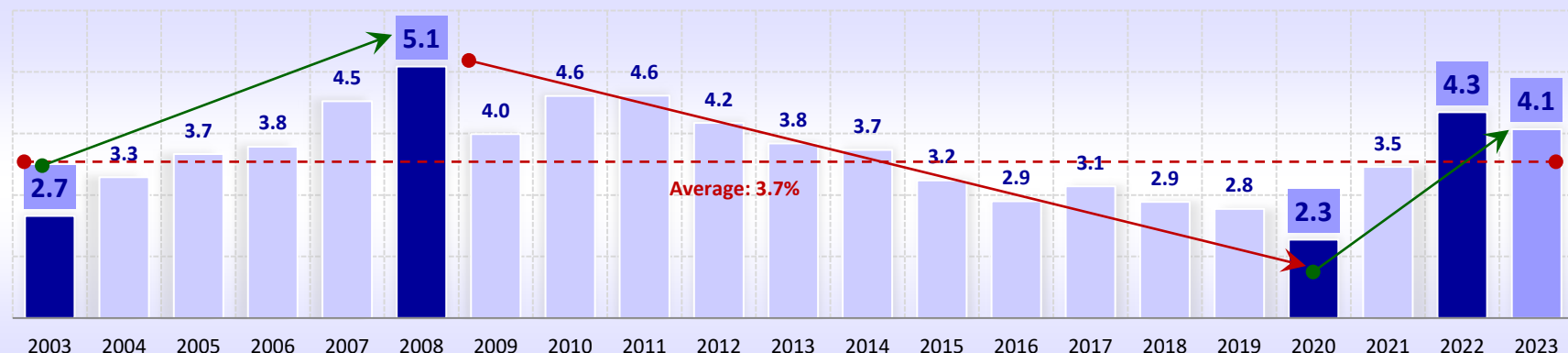
Global cyclicals offset the momentum in BFSI and Auto

- ❖ In 2023, the corporate profit to GDP ratio for the Nifty-500 Universe and listed India Inc. contracted marginally to 4.1% and 4.3% after rebounding in 2022 to reach a decade high of 4.3% and 4.5%, respectively. The YoY decline was led by global commodities, which contributed adversely to the ratio, while BFSI contributed positively. Notably, BFSI improved 0.4%.
- ❖ The corporate profit for Nifty-500 Universe grew at a slower pace of 8.7% YoY in FY23 after surging 49% YoY in FY22 and 50% YoY in FY21. We note that FY23 Nominal GDP jumped 16.1% YoY – faster than FY23 Corporate profit growth – preceded by 18.4% YoY GDP growth in FY22 and a contraction in GDP recorded in 2021.
- ❖ India's corporate profit (Listed + Unlisted) to GDP ratio dropped to 2.0% from 7.8% over 2008-20. For the Nifty-500 Universe, the ratio declined to 2.3% (at a two-decade low) from 5.1% over the same period.

India Inc. (Listed/Unlisted) – corporate profit to GDP ratio trend



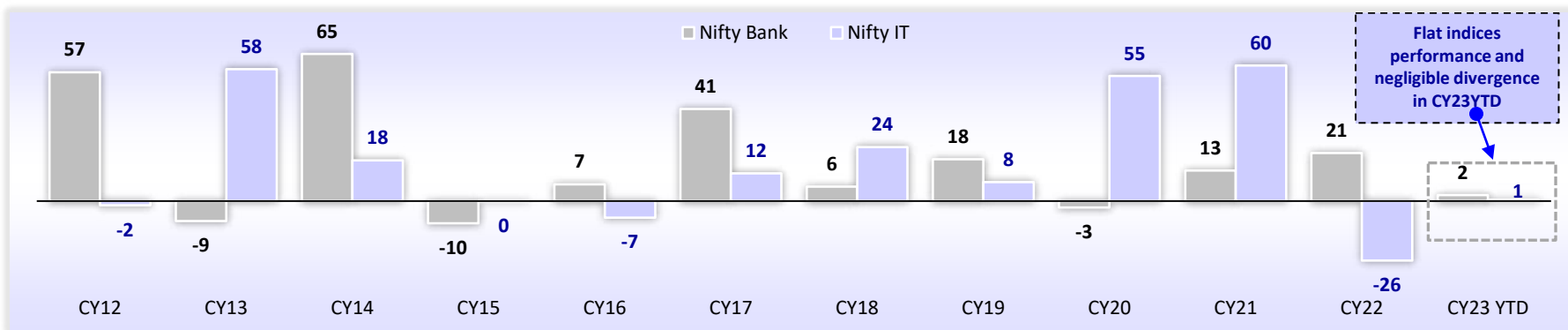
Nifty-500 – corporate profit to GDP ratio moderates in 2023



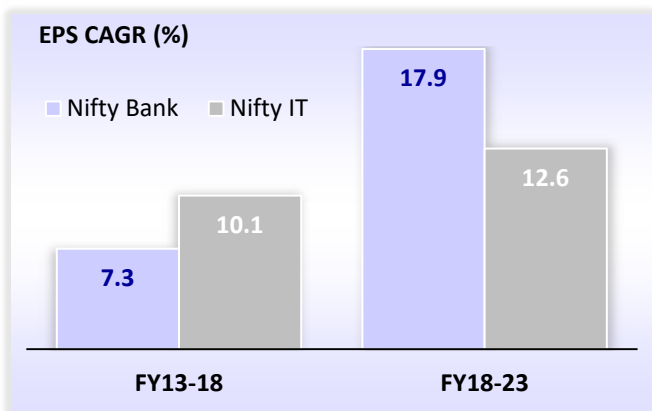
INDIA STRATEGY: Bank vs. IT: Taking stock of the relative Alpha!

- ❖ After a sharp outperformance of Banks over IT, the divergence between Nifty Bank and Nifty IT indices stood at 47% in CY22; however, the divergence has not played out so far in CY23.
- ❖ Strong earnings momentum in banks was driven by healthy loan growth, stable margins, and asset quality improvements, with a sharp revival in PSBs profits in the second half of the decade that continued in FY23 as well. Amid wide-ranging concerns on near-term IT demand, tier-1 IT firms delivered muted revenue growth and modest margins in FY23, underperforming the tier-2 companies notably.
- ❖ We expect earnings of Nifty Bank and Nifty IT constituents to see a CAGR of 20%/14% over FY23-25. Valuations for the banking sector are also quite reasonable in the context of broader markets. Thus, banks repeating the outperformance over IT appears quite probable in 2023.

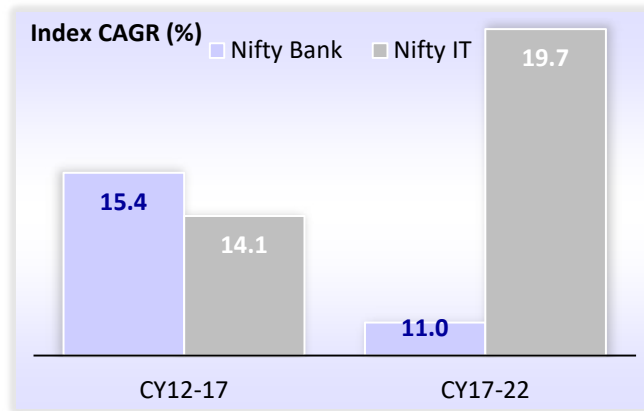
Nifty Bank and IT remained volatile during the decade, with combined return divergence ranging between ~10% and 60%



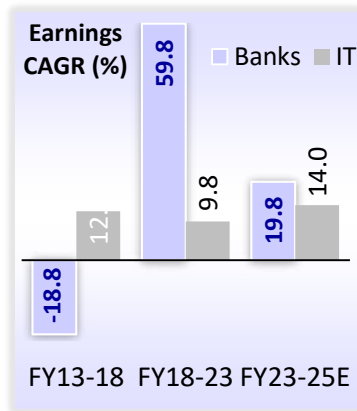
EPS of Nifty Bank constituents grew more than IT (FY13-23)



Whereas, Nifty IT index grew faster than Nifty Bank index in FY13-23



Aggregate PAT growth of indices constituents in the last decade

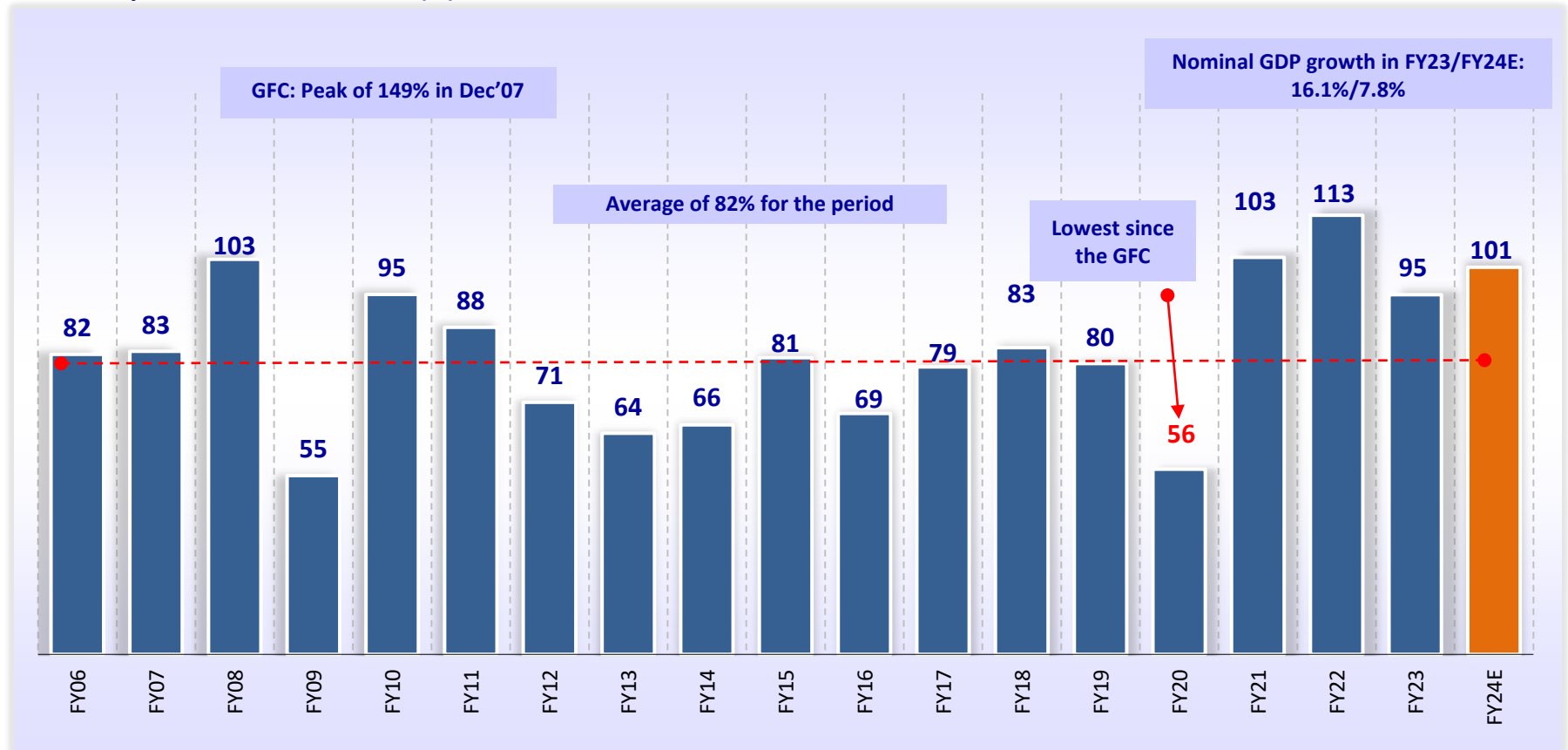


Valuations: Key observations

Market capitalization-to-GDP ratio remains above long-term average

- ❖ The ratio now stands at 95% of FY23 GDP, much above its long-term average of ~82%.
- ❖ India's market capitalization-to-GDP ratio has been volatile; it stood at 56% (of FY20 GDP) in Mar'20, down from 80% in FY19, but recovered sharply to 113% in FY22.

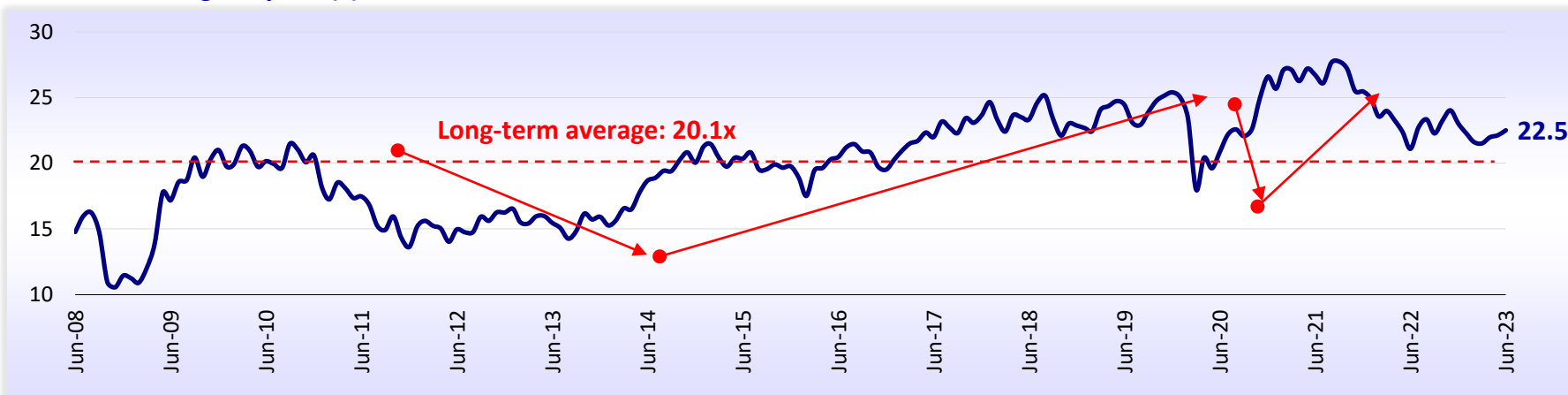
Market capitalization-to-GDP ratio (%)



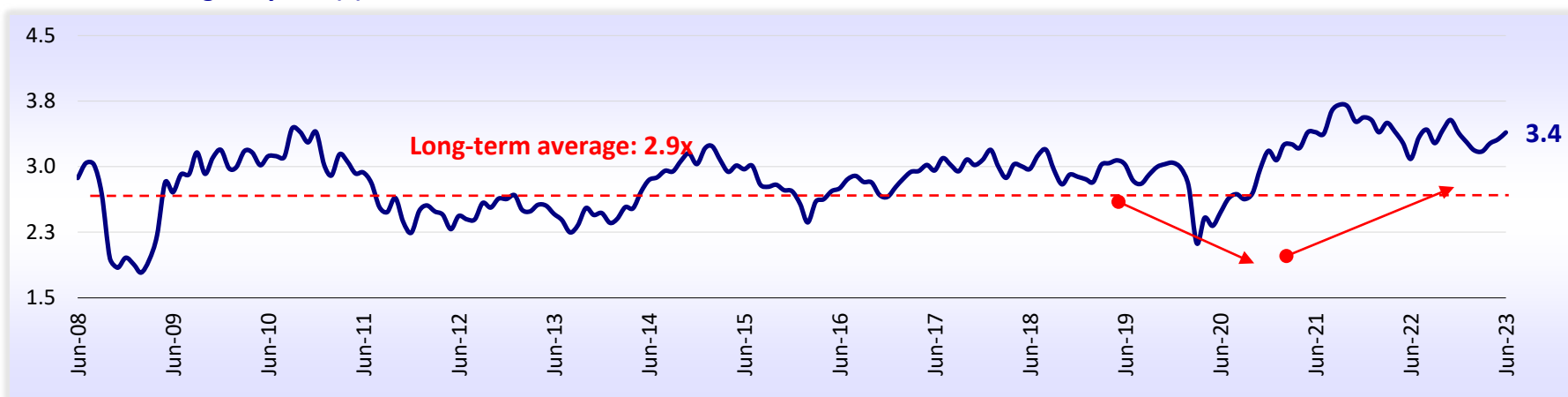
Valuations: Nifty's 12-month trailing P/E above its LPA

- ❖ The 12-month trailing P/E for the Nifty stood at 22.5x, at 12% premium to its LPA historic average of 20.1x.
- ❖ At 3.4x, the 12-month trailing P/B was 18% above its historical average of 2.9x.

12-month trailing Nifty P/E (x)



12-month trailing Nifty P/B (x)

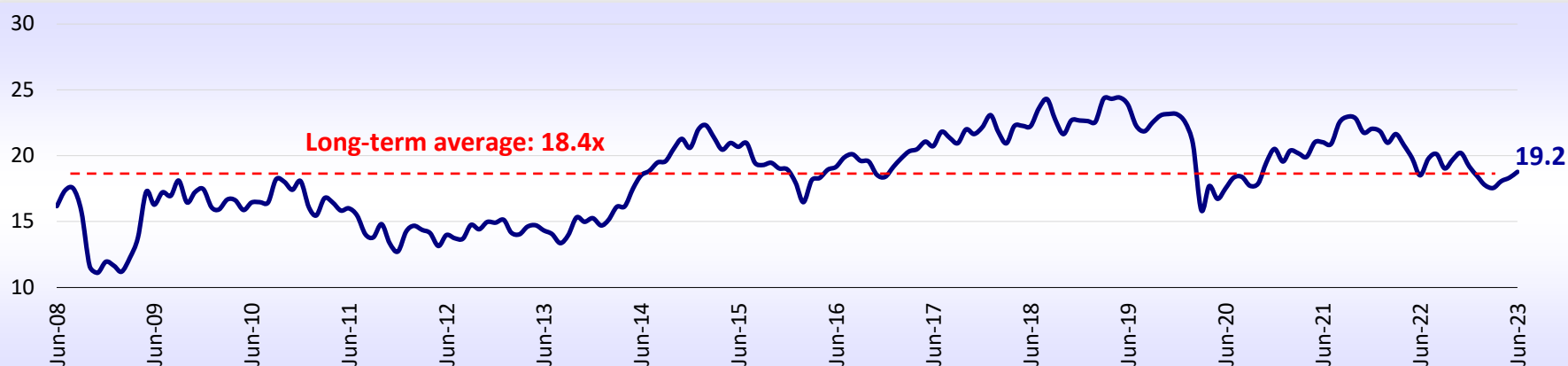


Source: MOFSL

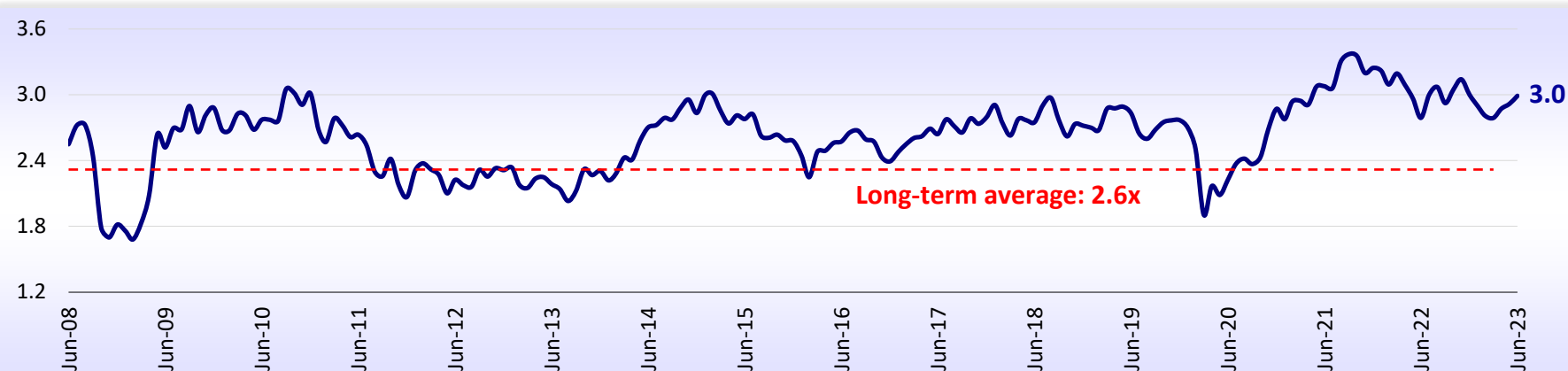
Valuations: Nifty's 12-month forward P/E below its LPA

- ❖ Nifty's 12-month forward P/E is near its LPA and is trading at 19.2x.
- ❖ At 3.0x, the 12-month forward P/B is at a premium of 14% to the Nifty's historical average of 2.6x.

12-month forward Nifty P/E (x)



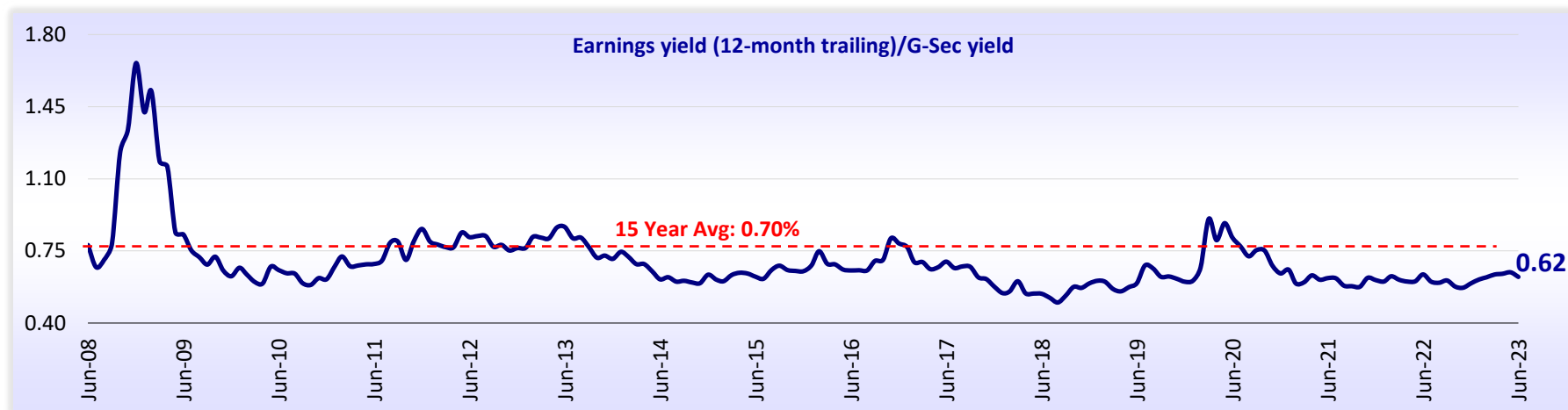
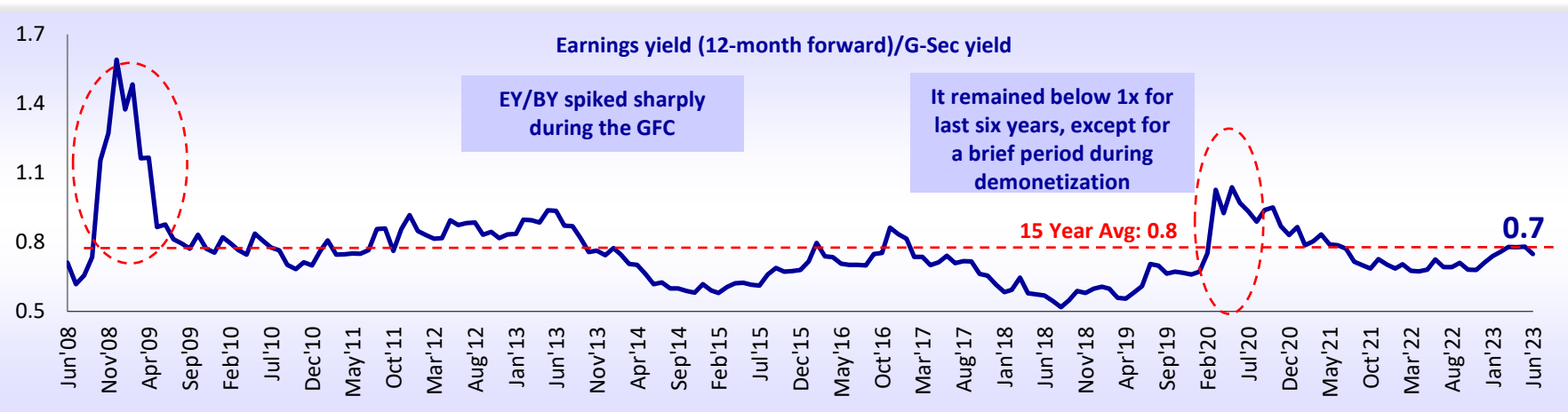
12-month forward Nifty P/B (x)



Source: MOFSL

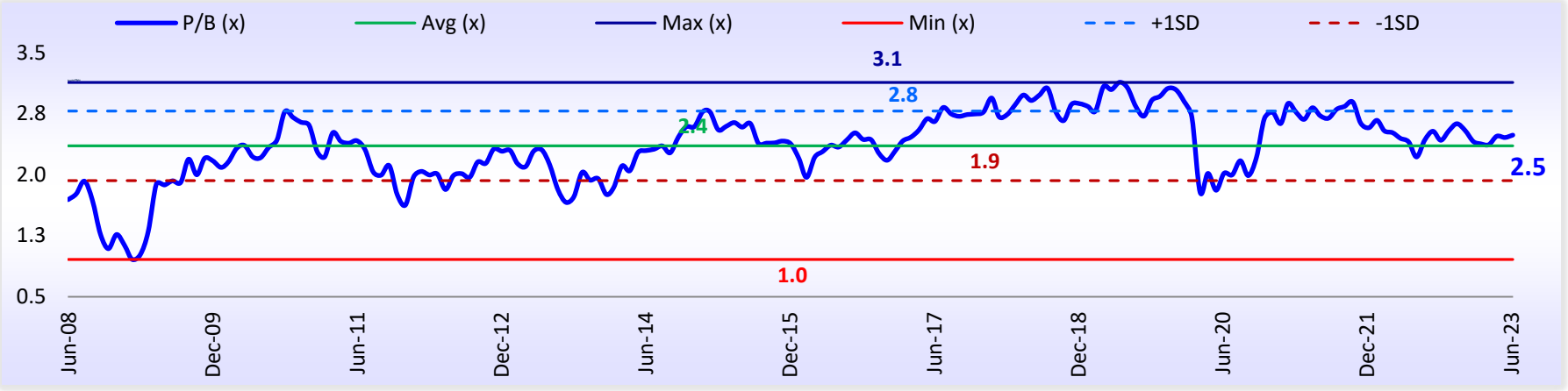
The 10-year G-Sec yield stands at 7.1%; EY/BY below its long-term mean

- ❖ India's 10-year bond yield stood at 7.1%, resulting in the EY/BY trading near its 15-year average of 0.7%.
- ❖ On a trailing basis, EY/BY is below its LPA.

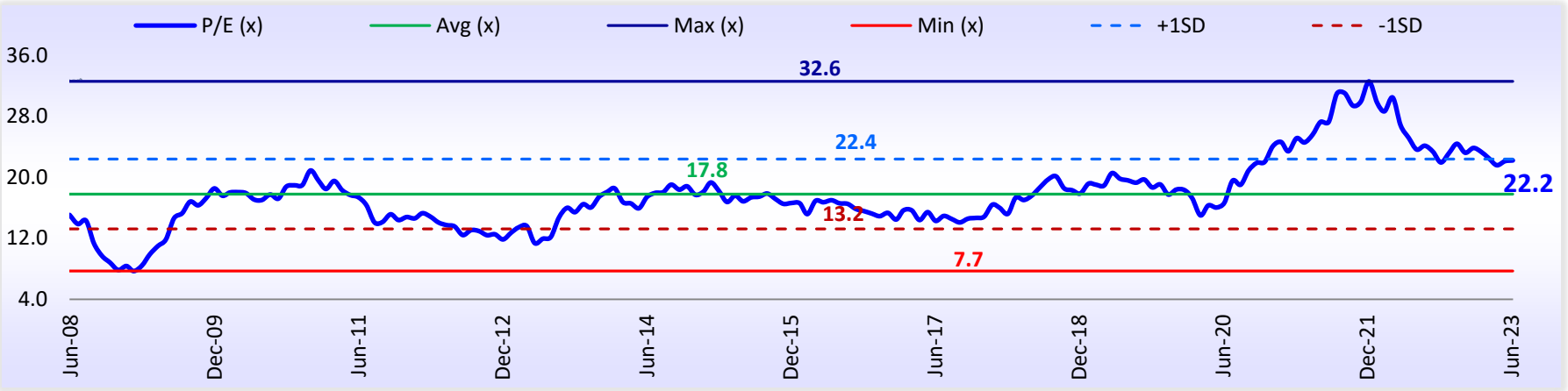


Sectoral valuations: Private Banks trading at 6% premium to its LPA; IT 32% off from its Dec'21 peak

Private Banks sector trades at 6% premium to its LPA

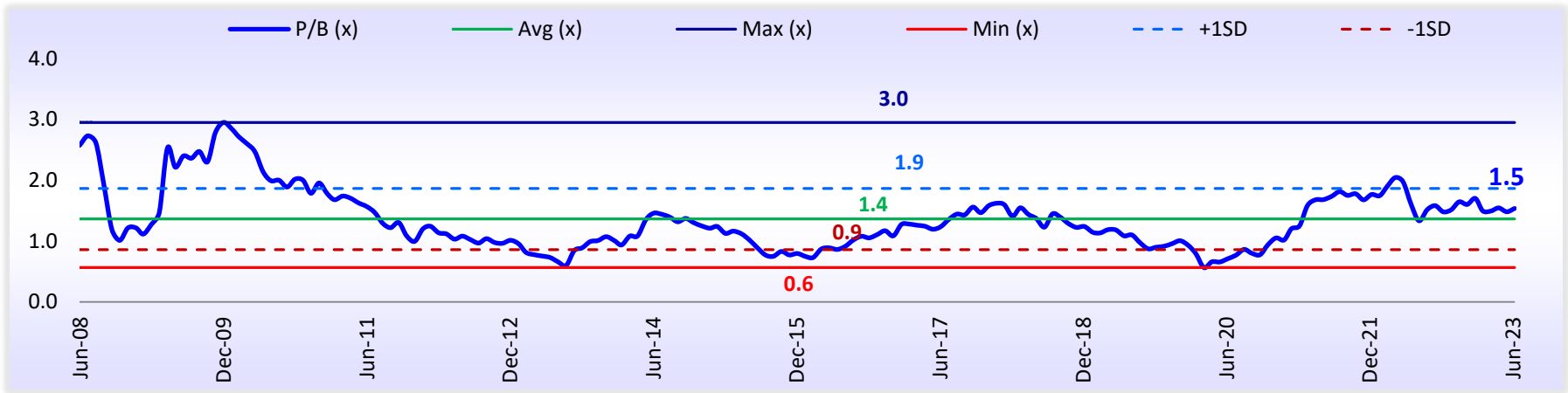


Valuation for the IT sector is at 25% premium to its LPA, but at 28% discount to its Sept'21 high

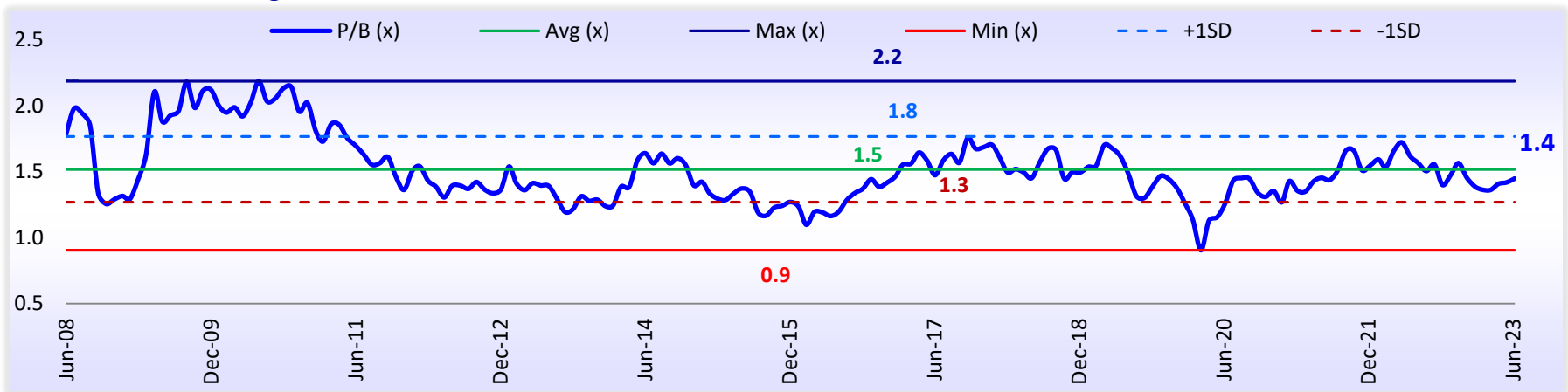


Sectoral valuations: Metals trading at 13% premium; O&G at 5% discount to its LPA

Metals: Valuation trades at 13% premium to its LPA

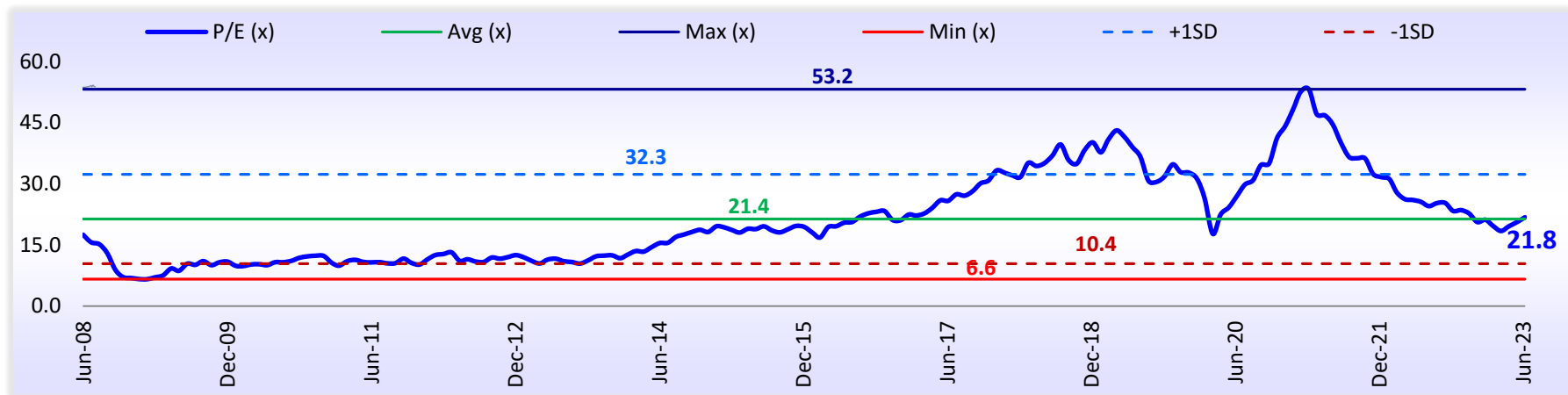


O&G: Valuation trading at 5% discount to its LPA

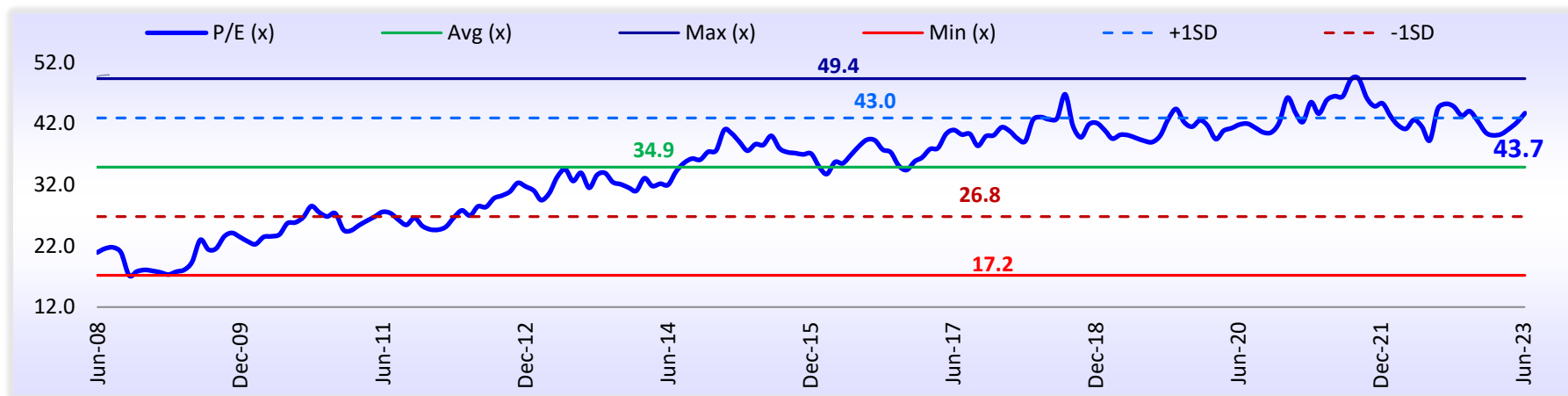


Sectoral valuations: Autos near LPA, while Consumer at premium to its LPA

Auto valuation near to its LPA



Consumer sector P/E at 25% premium to its LPA



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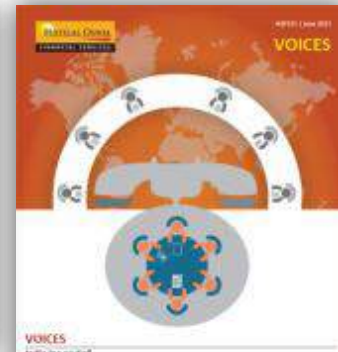
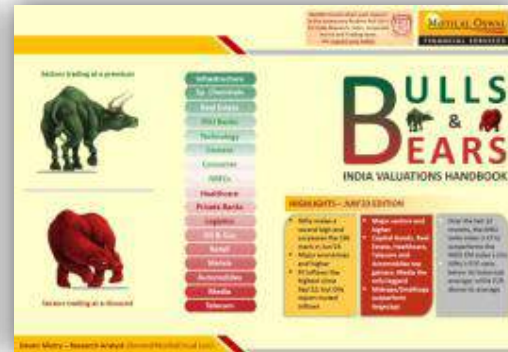
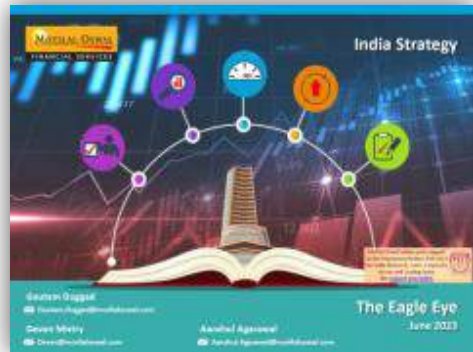
Top ideas: OW on Financials, Consumption, and Autos; UW on Metals, Energy and Utilities and Neutral on Healthcare and Telecom

Company	Mkt Cap (USDb)	CMP (INR)	EPS (INR)			EPS CAGR (%) FY23-25	PE (x)			PB (x)			ROE (%)		
			FY23	FY24E	FY25E		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Preferred large cap stocks															
ICICI Bank	81.7	959	45.8	55.1	63.2	17.5	19.2	17.4	15.2	3.1	2.9	2.5	17.5	18.0	17.8
Infosys	74.9	1,344	57.6	62.2	70.6	10.8	24.8	21.6	19.0	7.9	7.4	7.4	32.0	34.2	39.2
ITC	70.8	474	15.1	17.4	19.9	14.8	25.4	27.2	23.8	7.1	8.3	7.8	29.0	31.2	33.7
Titan Company	33.6	3,106	36.8	44.8	55.3	22.6	68.4	69.3	56.2	18.8	18.9	15.5	30.8	30.1	30.4
Avenue Supermarts	30.2	3,819	36.7	45.3	61.3	29.2	92.7	84.3	62.3	13.2	12.5	10.4	16.0	16.7	18.9
UltraTech Cement	29.5	8,406	175.4	250.4	293.8	29.4	43.4	33.6	28.6	4.0	4.0	3.6	9.7	12.6	13.2
Mahindra & Mahindra	22.6	1,549	64.9	78.9	88.5	16.8	17.9	19.6	17.5	3.2	3.6	3.1	19.1	20.0	19.2
Zomato	7.9	75	-1.2	-0.3	0.3	LP	-42.8	-236.4	251.8	2.1	3.4	3.3	-5.4	-1.4	1.3
Preferred midcap/smallcap stocks															
Indian Hotels	6.7	385	7.0	8.7	10.3	20.7	46.1	44.5	37.5	5.8	6.0	5.2	13.3	14.4	14.9
Ashok Leyland	5.9	165	4.5	8.6	10.5	52.8	30.8	19.3	15.7	4.8	4.7	3.8	16.8	26.7	26.7
Godrej Properties	5.4	1,599	22.4	32.7	43.9	40.1	46.1	48.9	36.4	3.1	4.4	3.8	6.9	9.4	12.7
M & M Financial	5.1	341	16.1	17.9	22.8	19.0	14.4	19.0	15.0	1.7	2.4	2.1	12.6	13.0	15.1
Metro Brands	3.3	998	13.3	14.0	19.3	20.3	59.7	71.3	51.8	13.6	14.8	12.5	25.7	22.8	26.8
Piramal Enterprises	2.7	941	74.9	103.3	83.5	5.6	9.0	9.1	11.3	0.5	0.7	0.7	5.3	7.7	6.0
Kajaria Ceramics	2.4	1,242	22.1	30.0	37.4	30.0	47.6	41.4	33.2	7.2	7.7	7.0	15.8	19.5	21.9
Craftsman Auto	1.0	3,971	117.6	174.6	225.0	38.3	27.6	22.7	17.7	5.0	4.9	3.9	19.7	23.8	24.6

Note: LP = Loss to profit; Large Cap, Mid Cap and Small Cap Stocks listed above are as per SEBI Categorization

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Quant Research and India Strategy gallery



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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