

BSE Sensex: 72,240

Nifty-50: 21,731

Nifty-50: Eight years of positive returns



FED continues to pause its rate hike spree. This dovish stance brings cheer to the global markets

FII flows turn positive with inflows of USD21.2b in CY23 (vs. outflows of USD17b in CY22)

DII post the second highest inflow of USD22.3b in CY23 (vs. USD32.2b inflows in CY22)

Getting in the Groove!!!!

Eighth consecutive year of positive returns for Nifty-50

- **India's ascent....:** In CY23, the Indian markets remained resilient and strong amid weak global macros, rising interest rates, and geopolitical uncertainties that kept global markets volatile and jittery. The Nifty-50 clocked eight successive years of positive returns. The benchmark index hit an all-time high in Dec'23 and surged 20% YoY in CY23 (vs. only 4% growth in CY22).
- **...navigating the murky waters | multiple levers at play:** While multi-year high interest rates, geopolitical tensions, volatility in crude oil prices, slowing growth, and recessionary environment in developed markets remained the key concerns during the year, India's strong economic growth, healthy corporate earnings, moderate inflation, waning crude oil prices, reinforced FII and DII inflows, and strong retail participation propelled the Indian markets to greater heights.

As good as it gets!

The uptrend in the Indian equity market was driven by robust macro and micro factors, alleviating concerns on political continuity, and expectation of improving liquidity going ahead.

- **Strong macros:** Indian economic indicators remain strong as real GDP has grown faster than expected in the last three quarters, registering 7.7% YoY growth in 1HFY24. Moreover, inflation is in a comfortable range and the RBI has raised its GDP growth projections for FY25, underpinning the continued momentum in the economy.
- **Federal Reserve (FED) interest rates near its peak:** As the US inflation continues to ebb and the FED maintains the benchmark rates for the third consecutive time, the likelihood of a rate cut remains high in 1HCY24. This could drive liquidity towards global markets, as evidenced by the rally in global equity markets during Nov-Dec'23.
- **FII flows rebound while DII flows remain strong:** Resilient domestic inflows of USD22.3b in CY23, with monthly SIP inflows of ~USD2b/month (hitting new highs), easily cushioned the major shocks caused by global volatility and uncertainties in the past two years. FII flows bounced back during the year. FIIs turned buyers with inflows of USD21.2b in CY23 vs. outflows of USD17b in CY22.
- **Solid corporate earnings:** The Nifty-50 delivered a 30% earnings growth in 1HFY24. High-frequency data (GST collections, auto monthly numbers, power demand, PMI data, et al.) indicates that earnings momentum will continue to remain intact in 2HFY24. The sectors that underperformed on the earnings front for the past several years, such as Automobiles, Real Estate, Capital Goods, Infrastructure, Industrials, Utilities, Hotels, and PSUs have also made a strong comeback. The pick-up in government capex and the growth in order books provided a fresh boost to the sectors such as Railways, Defense, Capital Goods and Utilities.

India's contribution to the world market cap at an all-time high of 3.8%

India remains the best performing market in 5/10/15/20 years (in local currency terms)

A healthy year for Fund raising with India Inc. raising INR1.2t

- **Expectations of a political continuity:** The recent outcome of the state elections in four states, which overwhelmingly favored the incumbent BJP government, has increased market confidence in the current administration and political continuity after the 2024 general elections.

CY23 in retrospect

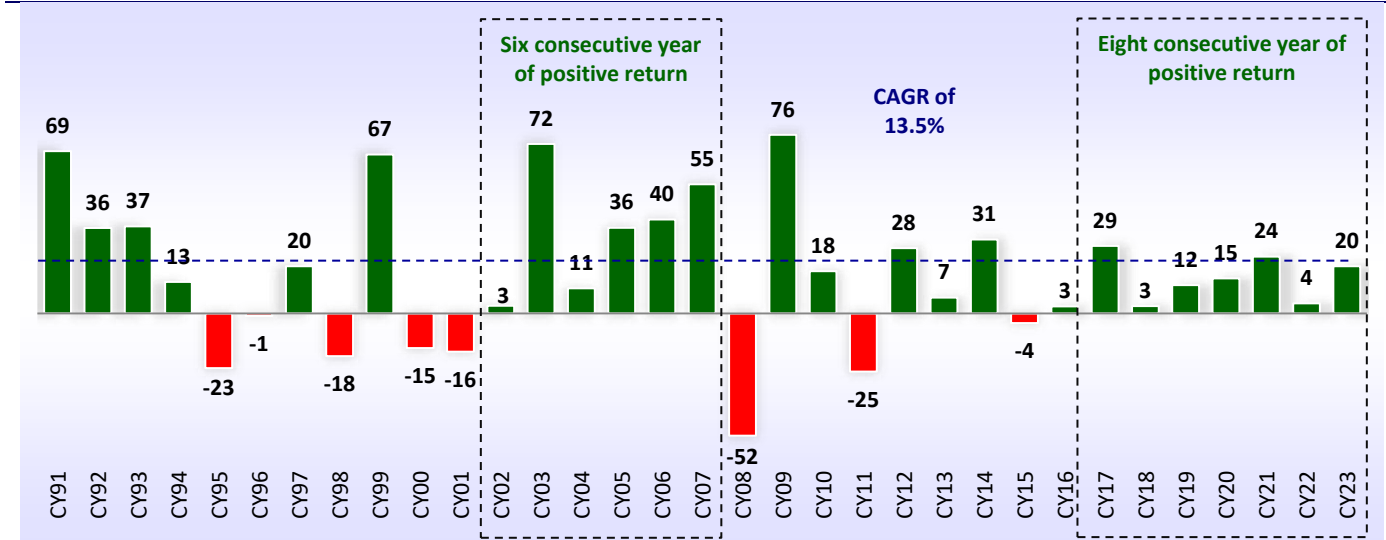
- **Most global economies end higher in CY23:** Barring China (-14%), most of the key global markets such as Brazil (+33%), Taiwan (+27%), Germany (+24%), US S&P500 (+24%), France (+20%), Russia (+20%), Japan (+19%), **India (+19%)**, Korea (+16%), UK (+9%) and MSCI EM (+7%) gained in CY23 in USD terms. MSCI India (+19%) outperformed MSCI EM (+7%) in CY23 as well.
- **Top performers:** India's outperformance moderated vs. global peers in CY23 as global markets recover from the CY22 lows. Despite moderation, India remains the top performer in local currency terms and one of the top three performers in USD terms in the last 20 years. The Nifty-50 posted a CAGR of 16%/15%/13%/14%/13% (in local currency terms) and CAGR of 11%/11%/10%/10%/10% (in USD terms) in the 3-yr/5-yr/10-yr/15-yr/20-yr periods.
- **A year of all-round gains!:** The year witnessed broad-based growth with all indices and sectors delivering positive returns. Both Nifty Midcap 100 (+47% YoY) and Nifty Smallcap 100 (+56% YoY) outperformed the benchmark by a wide margin of 27% and 36%, respectively. The recovery of underperforming sectors from the past decade (such as Real Estate, Capital Goods, PSUs, Industrials, Defense, etc.), despite not being a major contributor to the large-cap indices, led the rally in the broader markets. This propelled the mid- and small-cap indices to new highs. The top gainers in the sectoral space were: Real Estate (+81%), Capital Goods (+67%), Autos (+48%), Infra (+39%), Healthcare (+34%), Utilities (+33%), PSU Bank (+32%), Energy (+29%), FMCG (+29%), Technology (+24%), Metals (+19%), and Private Bank (+14%).
- **Performance scorecard:** The breadth was majorly positive in CY23, with 48 of the Nifty-50 stocks closing higher. Tata Motors (+101%), Bajaj Auto (+88%), NTPC (+87%), L&T (+69%), and Coal India (+67%) were the top performers. Conversely, Adani Enterprises (-26%), and UPL (-18%) were the only laggards.
- **Domestic fundraising buoyant:** Primary market activity picked up in CY23 with a total equity fund raise of INR1.2t (vs. INR885b in CY22). However, fundraising through IPOs moderated to INR571b (vs. INR613b in CY22). Stake sales accounted for the entire incremental funds raised during the year, as funds raised through QIPs amounted to INR483b (vs. INR117b in CY22).

"Are the valuations high?" – The never-ending dilemma!

- **Resilience personified:** India remains the fastest-growing country among the top 10 global economies. The strong post-pandemic recovery and resilient performance amid global headwinds demonstrate the inherent strength of the economy.
- **Ample growth drivers in place:** Strong growth, prudent policy reforms, government's focus on infrastructure and capex, healthy corporate books, comfortable forex reserves, and lower commodity cost inflation could protect India from any external shocks and position it to outpace other countries in the coming decade.

- **Buoyant corporate earnings:** Nifty-50's EPS CAGR of 16% over FY19-24E (to INR996 in FY24E) was in line with index CAGR of 15% during the last five years (ending Dec'23).
- **Valuations and view:** After the sharp rebound, the Nifty now trades at a 12-month forward P/E of 19.6x, near its LPA of 20.2x (3% discount); however, it is at 15% discount to the Sep'21 high. Further, the market capitalization-to-GDP ratio is at 124% (we expect nominal GDP to increase 8.2%/10.1% YoY in FY24/FY25). As CY23 was marked by multi-year high interest rates, concerns about banking crises in the US and Europe, and geopolitical uncertainties, CY24 is likely to bring some moderation in these issues, especially on the interest rate front. With global liquidity tightening nearing its end, a healthy domestic macro and micro environment, strong domestic and retail participation, and expected political continuity post- 2024 General Elections, bode well for policy momentum in India. Further, the country is currently experiencing the highest growth among major economies. Hence, despite fair valuations, the above factors augur well with potential for further upside. We anticipate continued optimism in the market and maintain a positive outlook and overweight stance on sectors such as BFSI, Industrials, Real Estate, Auto and Consumer Discretionary.
- **TOP IDEAS:** Among large-caps, we like Coal India, ITC, SBI, L&T, HCL Tech, Titan, Ultratech Cement and M&M. Among mid-caps, we are bullish on Ashok Leyland, Godrej Properties, Angel One, Metro Brand, Global Health, PNB Housing, Kirloskar Oil Engine, and Lemon Tree.

Exhibit 1: Eight consecutive years of positive returns for the first time in history!



Source: Exhibit data is sourced from Bloomberg, NDSL, SEBI, Capitaline, and MOFSL database

Exhibit 2: The journey of the past eight years

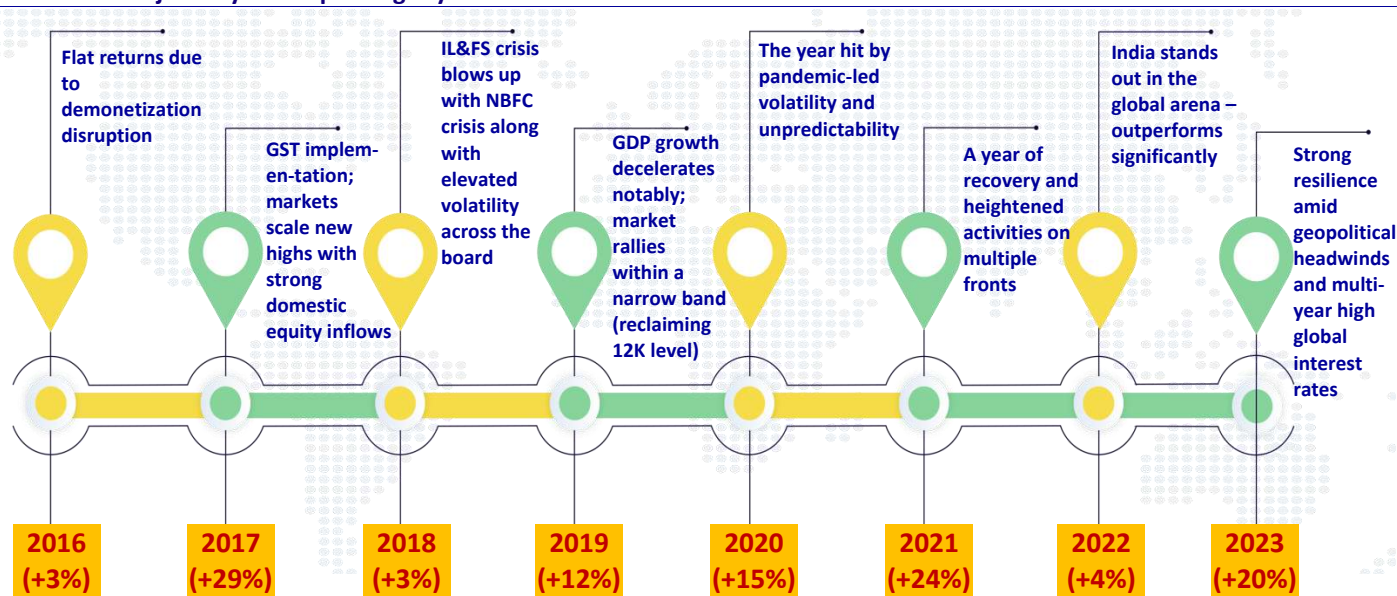


Exhibit 3: India's outperformance moderates in CY23 (in USD)...

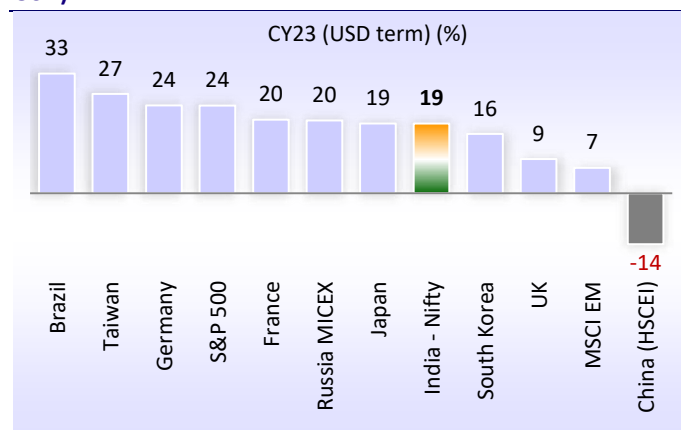


Exhibit 4: ...while it performs relatively better in local currency terms during the year

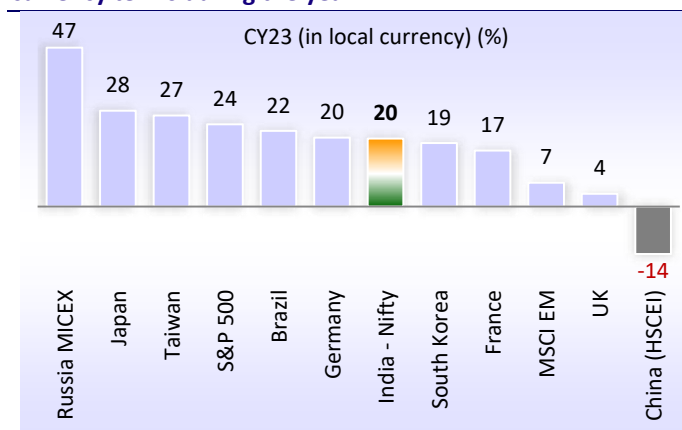


Exhibit 5: India remains the second-best performer in the last 10 years (%)...

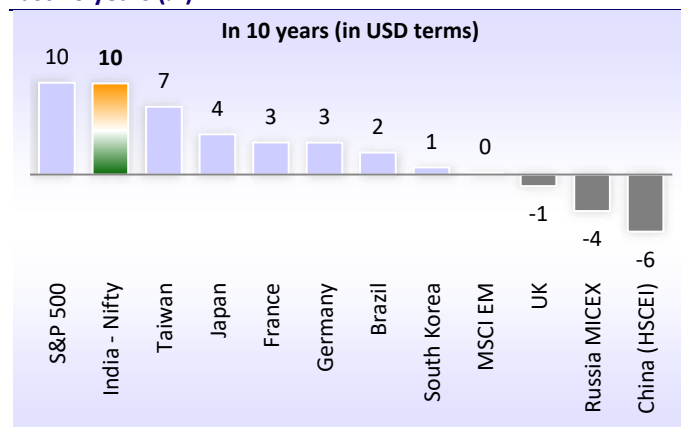


Exhibit 6: ...while it is the best performer in local currency terms in the previous decade (%)

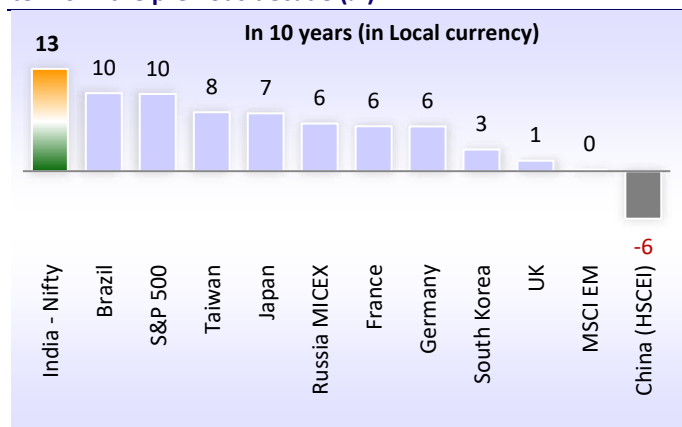


Exhibit 7: India's share in world Mcap at an all-time high of 3.8%

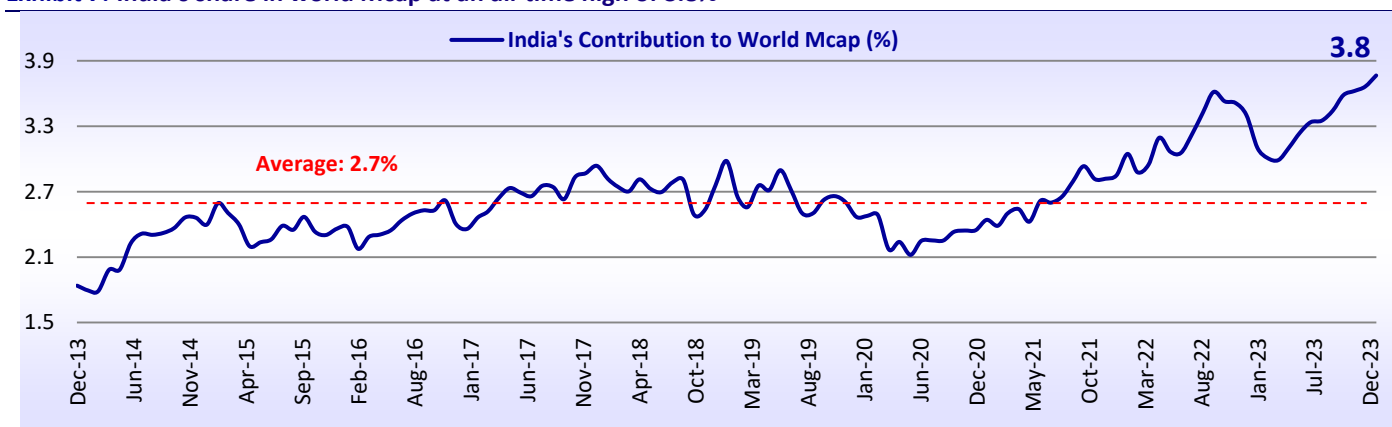


Exhibit 8: Global ranking based on Mcap – India vs. others: India's global ranking improves seven places in the last decade

Country	Mcap Rank											Mcap (USD t)	CY23 Chg (%)	CAGR (%)		Change in Rank
	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23			5 Year	10 Year	
United States	1	1	1	1	1	1	1	1	1	1	1	50.7	23	14	9	0
China	5	2	2	2	2	3	2	2	2	2	2	9.5	-6	12	11	3
Japan	2	3	3	3	3	2	3	3	3	3	3	6.2	14	3	3	-1
Hong Kong	4	4	4	4	4	4	4	4	4	4	4	4.7	-9	0	3	0
India	12	10	10	9	8	7	9	8	7	5	5	4.2	26	15	14	7
France	6	7	6	7	6	6	6	6	6	7	6	3.3	12	8	4	0
United Kingdom	3	5	5	5	5	5	5	5	5	6	7	3.1	5	0	-3	-4
Canada	7	6	8	6	9	9	7	7	8	8	8	2.9	7	9	3	-1
Germany	8	8	7	8	7	8	8	9	9	9	9	2.4	12	4	2	-1
Switzerland	9	9	9	10	10	10	10	11	10	10	10	2.1	10	7	3	-1
Taiwan	14	13	13	13	13	13	13	12	11	12	11	2.1	29	14	8	3
South Korea	11	12	11	11	11	11	11	10	12	13	12	1.9	19	7	5	-1
Australia	10	11	12	12	12	12	12	13	13	11	13	1.7	4	7	2	-3
Sweden	16	16	14	15	16	15	15	14	14	14	14	1.0	11	9	4	2
Netherlands	17	18	17	17	17	18	16	15	15	15	15	1.0	9	16	10	2
United Arab Emirates	20	20	20	20	20	20	20	20	20	16	16	1.0	14	33	18	4
Brazil	13	14	16	14	14	14	14	16	17	17	17	0.9	24	1	-1	-4
Denmark	19	19	18	19	19	19	19	18	16	18	18	0.8	21	17	10	1
Indonesia	18	17	19	18	18	17	18	19	19	20	19	0.8	24	9	8	-1
Spain	15	15	15	16	15	16	17	17	18	19	20	0.7	20	3	0	-5

Exhibit 9: Trends in Nifty indices' performance (%) — Sharp reversions to the mean clearly visible in their annual performance

Year	Nifty50 Closing	CAGR (%)					Nifty Midcap 100 Closing	CAGR (%)					Nifty Small cap 100 Closing	CAGR (%)				
		1yr	2yrs	3yrs	5yrs	10yrs		1yr	2yrs	3yrs	5yrs	10yrs		1yr	2yrs	3yrs	5yrs	10yrs
Dec-13	6,304	7	17	1	16	13	8,071	-5	15	-3	17	13	3,403	-8	12	-6	15	-
Dec-14	8,283	31	18	21	10	15	12,584	56	22	27	11	15	5,273	55	19	25	9	15
Dec-15	7,946	-4	12	10	5	11	13,397	6	29	16	9	13	5,653	7	29	15	7	10
Dec-16	8,186	3	-1	9	12	8	14,351	7	7	21	19	11	5,781	2	5	19	16	6
Dec-17	10,531	29	15	8	12	6	21,134	47	26	19	20	9	9,093	57	27	20	20	5
Dec-18	10,863	3	15	11	11	14	17,876	-15	12	10	17	17	6,449	-29	6	4	14	14
Dec-19	12,168	12	7	14	8	9	17,103	-4	-10	6	6	9	5,835	-10	-20	0	2	5
Dec-20	13,982	15	13	10	12	9	20,843	22	8	0	9	9	7,088	21	5	-8	5	6
Dec-21	17,354	24	19	17	16	14	30,443	46	33	19	16	17	11,289	59	39	21	14	15
Dec-22	18,105	4	14	14	11	12	31,509	4	23	23	8	14	9,731	-14	17	19	1	10
Dec-23	21,731	20	12	16	15	13	46,182	47	23	30	21	19	15,144	56	16	29	19	16

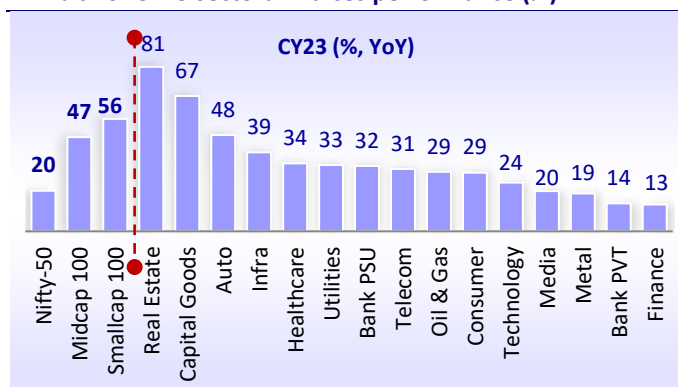
Exhibit 10: CY23 sectoral indices performance (%)

Exhibit 11: Number of years of positive returns over the last eight years

Exhibit 12: Trends in sectoral performance (%) — Oil & Gas and Financials only sectors to deliver eight consecutive years of positive returns

Sector	Index	Return YoY (%)								CAGR (%)
		CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY18-CY23
Nifty-50	Nifty	3	29	3	12	15	24	4	20	15
Midcap 100	Nifty Midcap 100	7	47	-15	-4	22	46	4	47	18
Smallcap 100	Nifty Smallcap 100	2	57	-29	-10	21	59	-14	56	15
Real Estate	Nifty Realty	-4	110	-33	28	5	54	-11	81	25
Capital Goods	S&P BSE Capital Goods	-3	40	-2	-10	11	53	16	67	22
Auto	Nifty Auto	11	31	-23	-11	11	19	15	48	11
Infra	Nifty Infra	-2	34	-13	3	12	36	6	39	15
Healthcare	Nifty Pharma	-14	-6	-8	-9	61	10	-11	34	7
Utilities	S&P BSE Power	2	20	-16	-4	7	69	26	33	17
Bank PSU	Nifty PSU Bank	4	24	-17	-18	-31	44	71	32	10
Telecom	S&P BSE Telecom	-21	49	-41	13	14	43	-4	31	11
Oil & Gas	Nifty Energy	20	39	1	11	6	34	14	29	18
Consumer	Nifty FMCG	3	29	14	-1	13	10	18	29	16
Technology	Nifty IT	-7	12	24	8	55	60	-26	24	19
Media	Nifty Media	-1	33	-26	-30	-9	35	-10	20	-1
Metal	Nifty Metal	45	49	-20	-11	16	70	22	19	17
Bank PVT	Nifty Pvt. Bank	7	41	8	16	-3	5	21	14	14
Finance	Nifty Financial Services	5	41	11	26	4	14	10	13	16

Note: NSE Indices are used for the above sector performance, except Utilities, Capital Goods, and Telecom which are from BSE. NSE Metal index includes Adani Enterprises.

Exhibit 13: Over the last eight years, mid-caps have delivered six and small-caps have reported five years of positive returns

Mid-caps outperform Nifty-50 in five out of eight years, whereas small-caps outperform in only four years

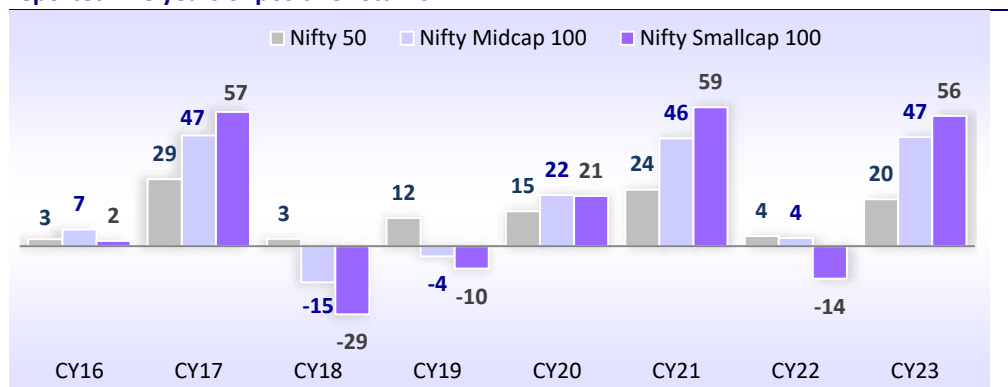


Exhibit 14: 96% of the stocks deliver positive returns in CY23, the highest in last eight years

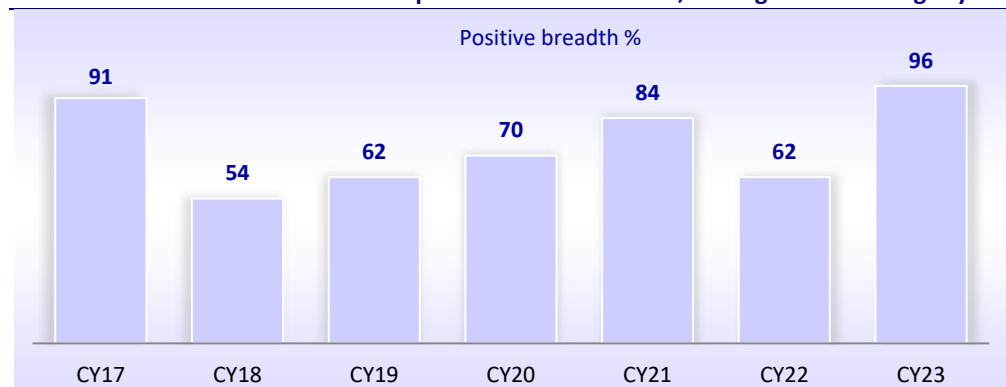


Exhibit 15: 48 of the Nifty-50 constituents deliver positive returns in CY23 (vs. 31 in CY22)

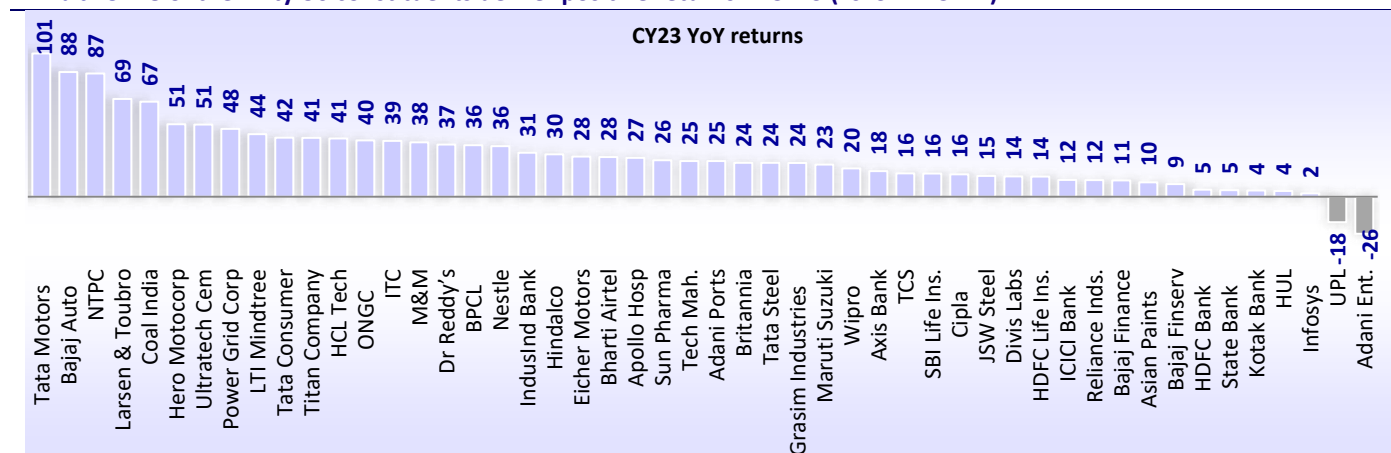


Exhibit 16: 24 of the Nifty-50 companies have delivered positive returns in six out of eight years

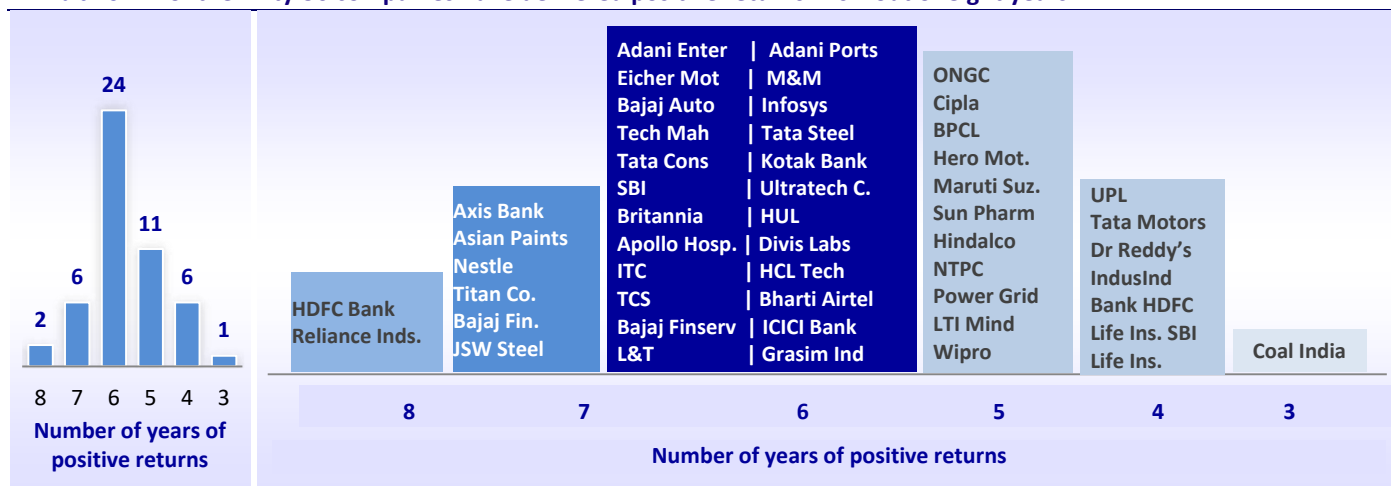


Exhibit 17: Only two stocks in Nifty-50 have generated positive returns in all eight years

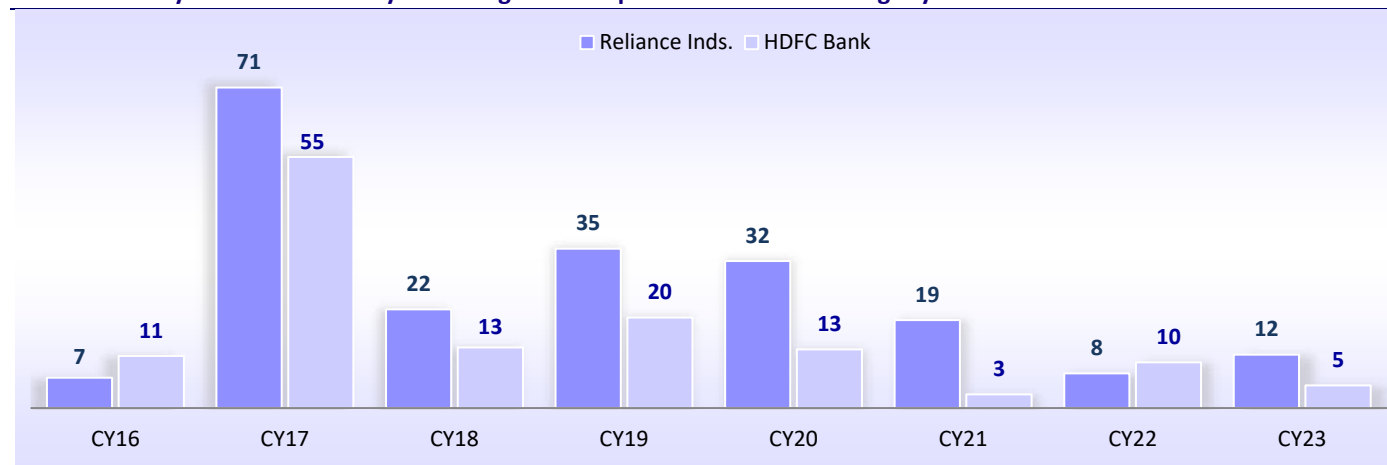


Exhibit 18: Relative performance (%) – Eight stocks have outperformed the benchmark in six out of eight years

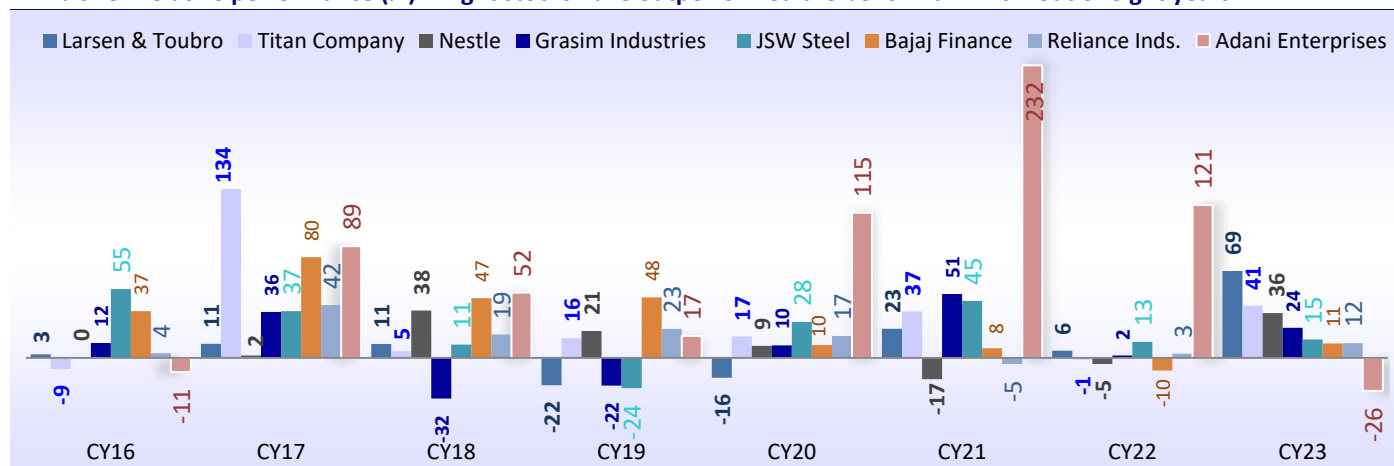


Exhibit 19: Relative performance (%) – Coal India and Cipla has underperformed six times in the last eight years

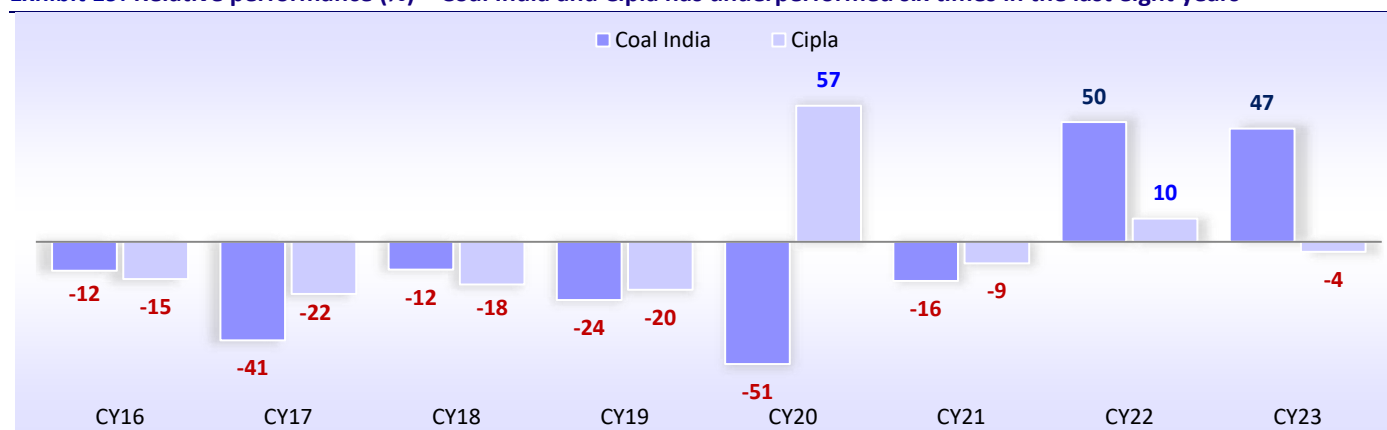
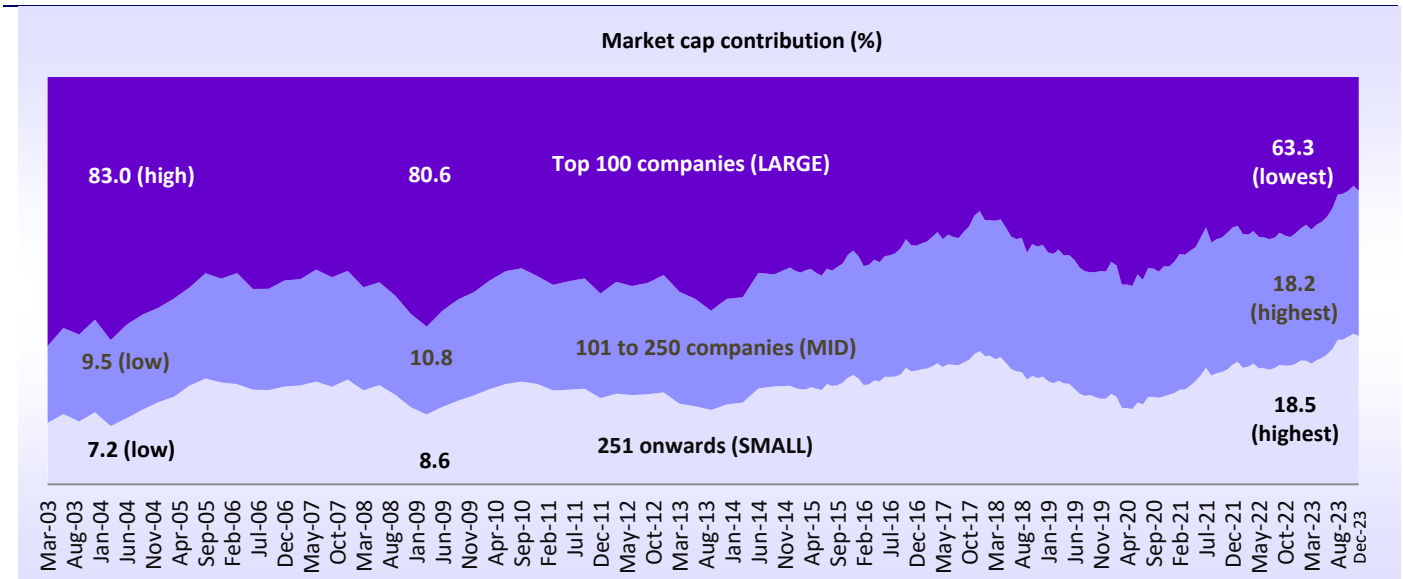
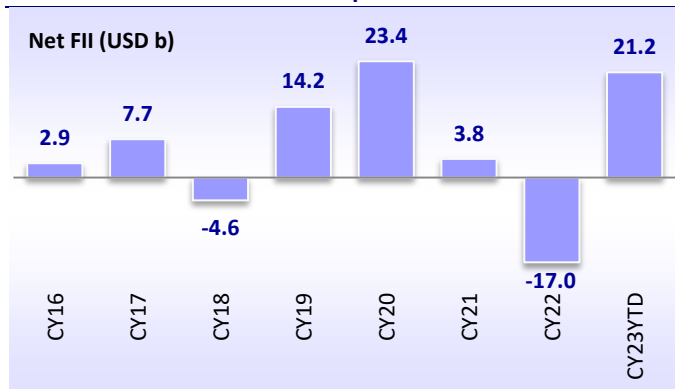


Exhibit 20: Sharp broad basing seen in CY23 with mid- and small-cap contribution to total market cap rising to an all-time high in Nov'23



Note: Dec'23 market cap contribution for Large/Mid/Small stood at 63.9%/17.8%/18.3% respectively

Exhibit 21: Net FII inflows turn positive in CY23



Source: FII flows in CY23YTD is as of 28th Dec'23

Exhibit 22: DII flows continue to remain strong

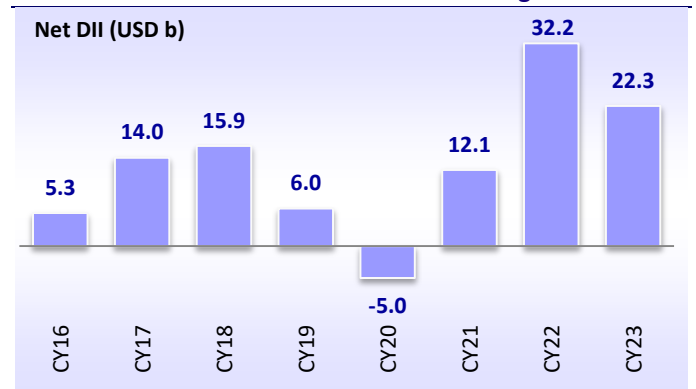


Exhibit 23: Trends in trailing 12-month cumulative FII and DII flows

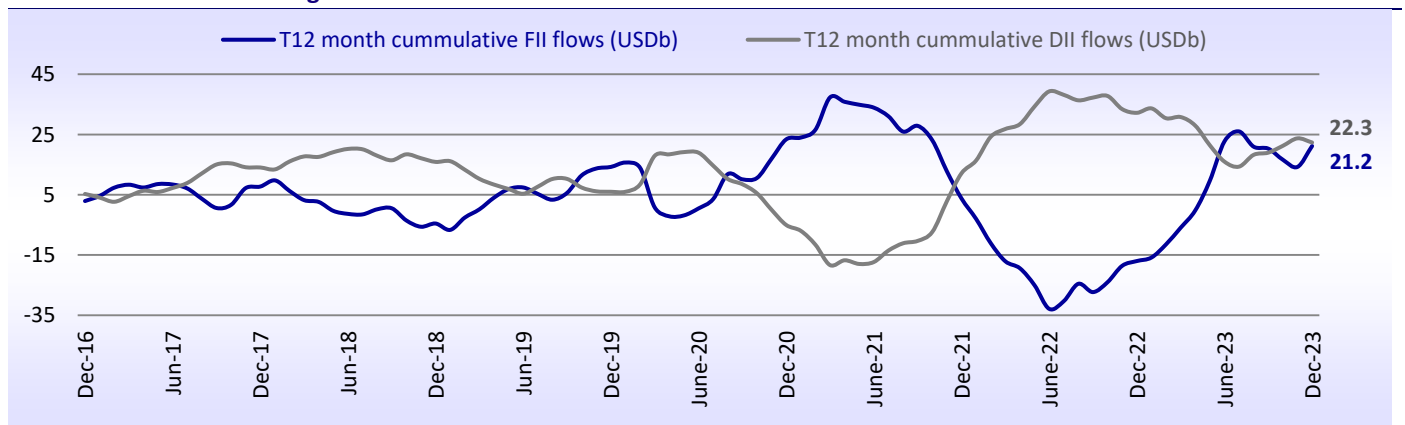


Exhibit 24: Equity contribution to total inflows moderates in CY23*

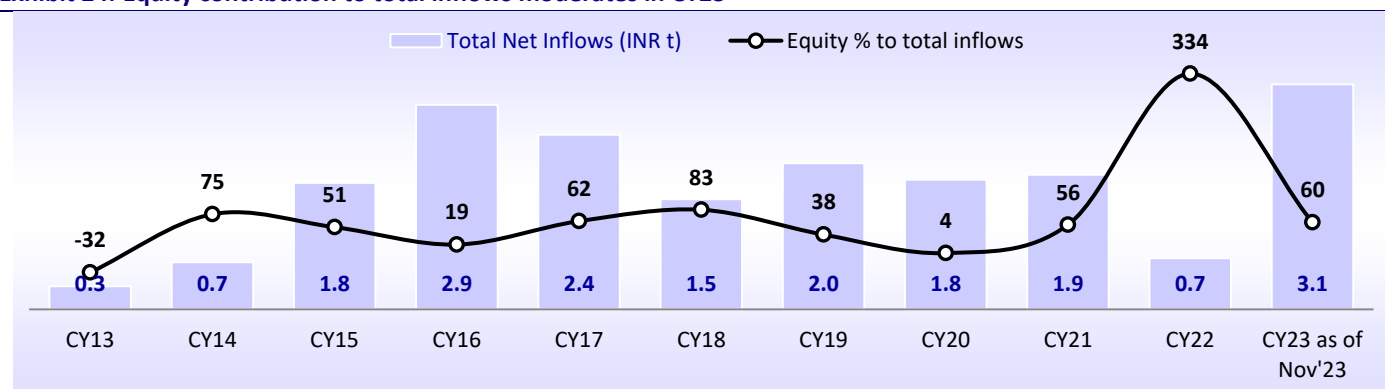
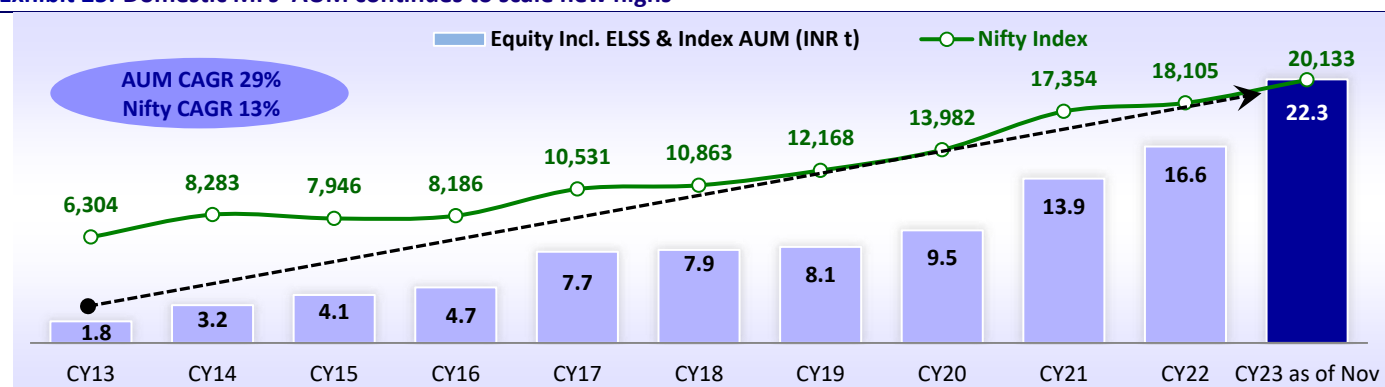


Exhibit 25: Domestic MFs' AUM continues to scale new highs



Note: CY23 AUM is as of Nov'23

Exhibit 26: Fund mobilization in public markets (INR b)

Year	IPOs	FPOs	OFS	QIPs	Total Equity
CY11	61	81		35	176
CY12	70		221	52	343
CY13	16	70	220	84	391
CY14	15	5	47	321	388
CY15	139		355	189	683
CY16	270	0	125	48	443
CY17	760	0	207	598	1,565
CY18	335		131	165	631
CY19	178	0	263	352	793
CY20	313	150	214	805	1,483
CY21	1,314	0	239	420	1,974
CY22	613	43	111	117	885
CY23	571		188	483	1,242

Exhibit 27: Domestic fundraising turns buoyant, up 40% YoY

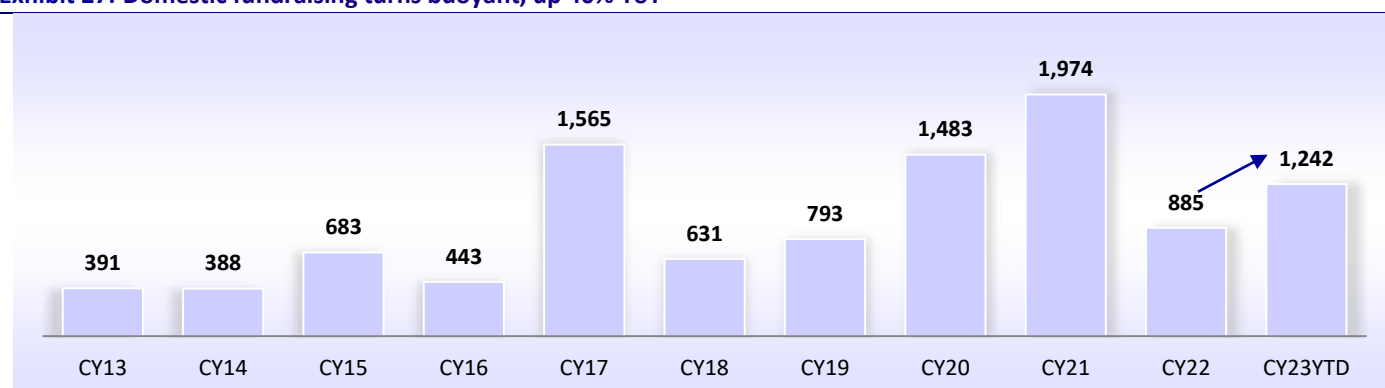
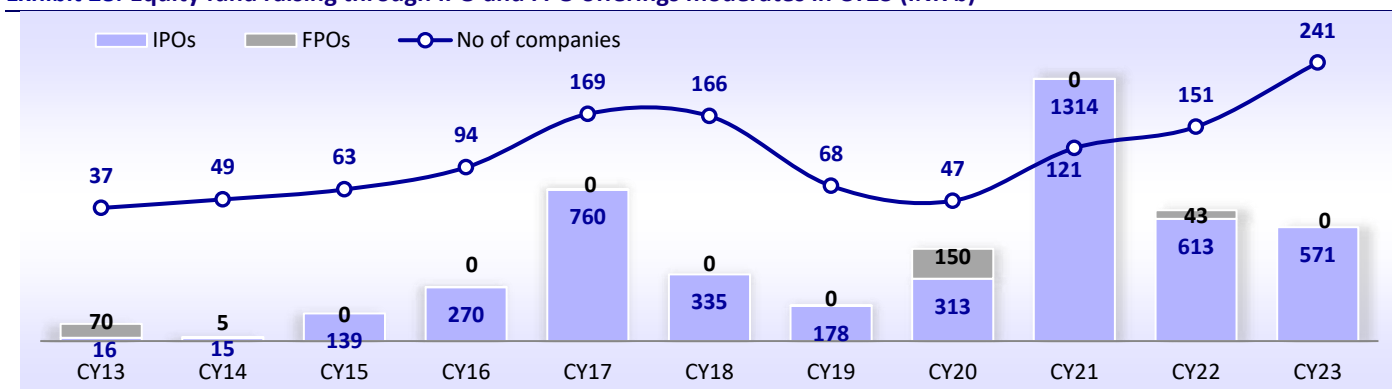
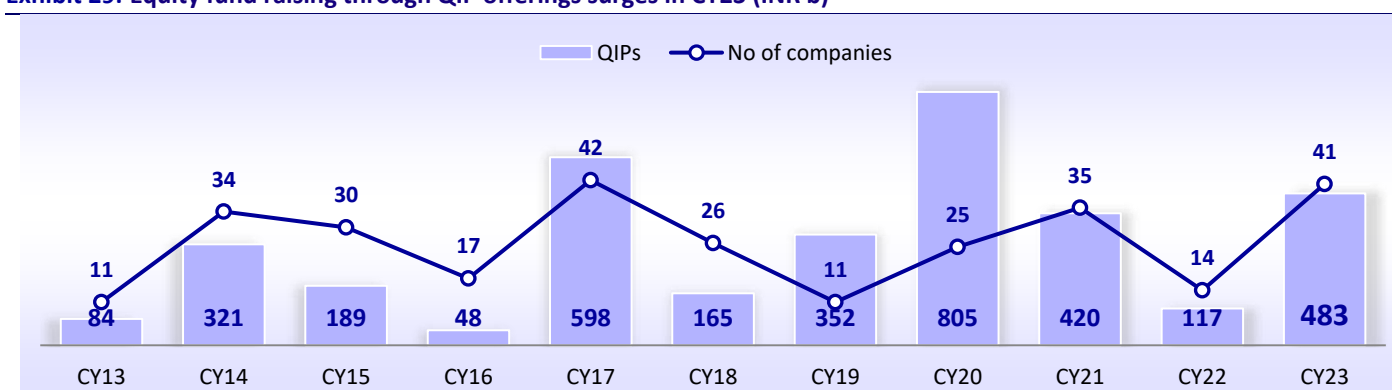


Exhibit 28: Equity fund raising through IPO and FPO offerings moderates in CY23 (INR b)

Exhibit 29: Equity fund raising through QIP offerings surges in CY23 (INR b)


Mid- and small-caps trade at a premium to large-caps

- Both mid-caps and small-caps made a strong comeback in 2HCY23 and outperformed large-caps by a wide margin. A healthy, broad-based earnings recovery following pandemic-related disruptions, along with decreasing commodity costs and active retail participation, propelled mid-caps and small-caps to all-time highs.
- The recovery of underperforming sectors from the past decade (such as Real Estate, Capital Goods, PSUs, Industrials, Defense, etc.), despite not being a major contributor to the large-cap indices, led the rally in the broader markets.
- Strong momentum in the economy, a pickup in government-led capex and infrastructure spending, healthy order books, and a better earnings growth outlook have led to these sectors recovering from their lows and providing robust growth visibility.
- The top gainers in the sectoral space were: Real Estate (+81%), Capital Goods (+67%), Autos (+48%), Infra (+39%), Healthcare (+34%), Utilities (+33%), PSU Bank (+32%), Energy (+29%), FMCG (+29%), Technology (+24%), Metals (+19%) and Pvt. Bank (+14%).
- The 12-month forward P/E for mid-caps is trading at 27.2x, at a 39% premium to its LPA. Conversely, the 12-month forward P/E for small-caps is trading at 20.9x, at a 7% premium to its LPA.
- Given the positive growth outlook in these sectors, we believe that the optimism in the broader market will continue.

Exhibit 30: Mid-caps vs. Nifty-50: 12-month forward (P/E)

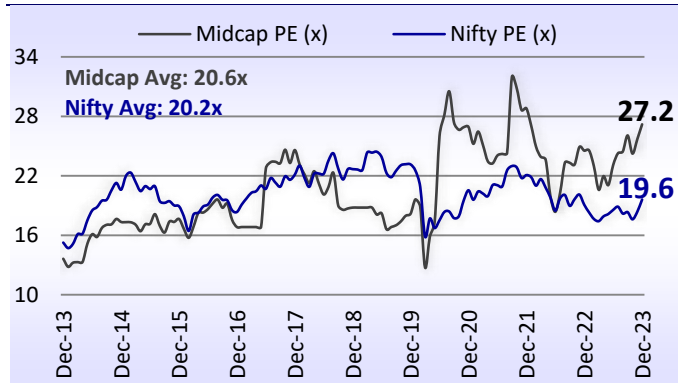


Exhibit 31: Small-caps vs. Nifty-50: 12-month forward (P/E)

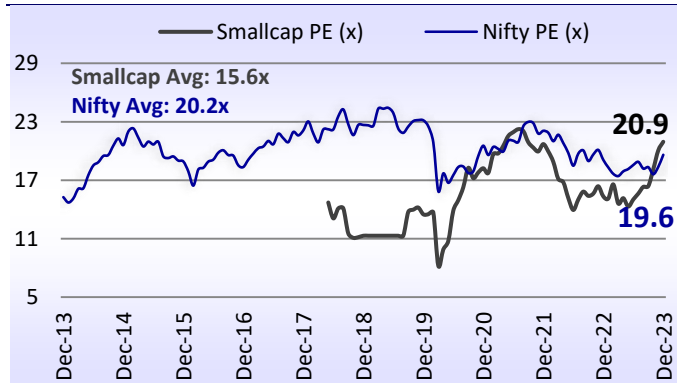


Exhibit 32: Mid-caps vs. Nifty-50: 12-month forward (P/B)

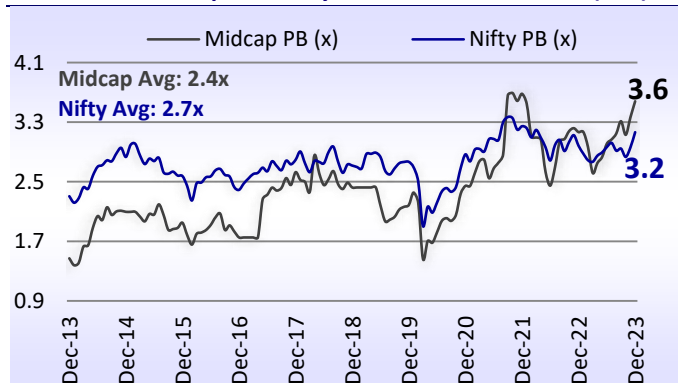
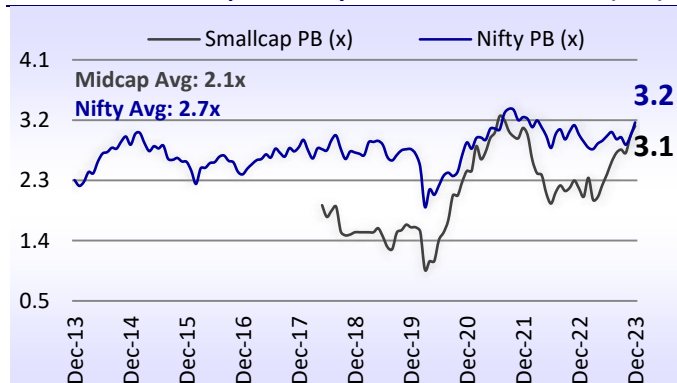


Exhibit 33: Small-caps vs. Nifty-50: 12-month forward (P/B)



Valuations fair and trading near LPA

- The valuation of the Nifty-50 has remained at a premium since the beginning of CY16 until CY21, with the exception of CY20. Additionally, MSCI India continues to trade at a premium with respect to other emerging markets.
- While India continues to perform well in terms of corporate earnings, other emerging markets continue to struggle. This, along with the factors mentioned above, continues to foster optimism about the Indian markets. Strong domestic tailwinds, combined with ongoing record-high retail participation, mitigate the potential downside risks from external shocks and reinforce the potential for further upside.
- Nifty's 12-month forward P/E is trading at 19.6x, close to its LPA of 20.2x. This represents a 3% discount to Nifty's historical average of 20.2x. Its 12-month forward P/B stands at 3.2x, representing a 15% premium to the average of 2.7x. Further upside from hereon will be a function of FED's stance on interest rates and continued earnings delivery vs. expectations in the near term.

Exhibit 34: 12-months Forward P/E (x)

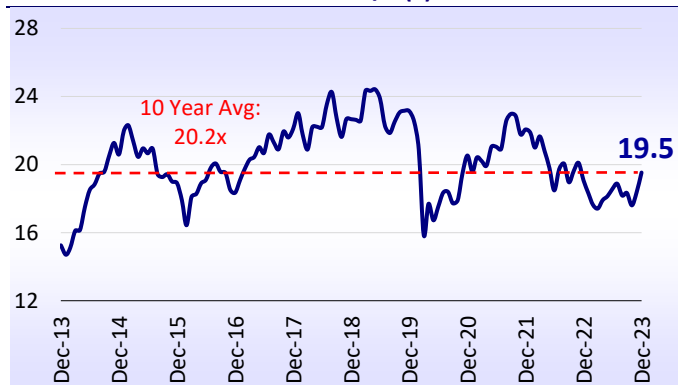


Exhibit 35: 12-months Forward P/B (x)

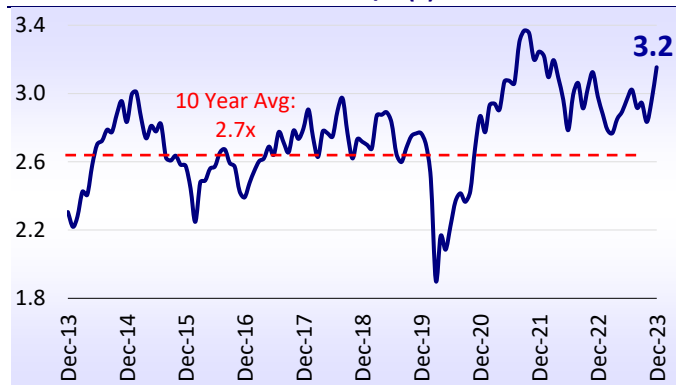
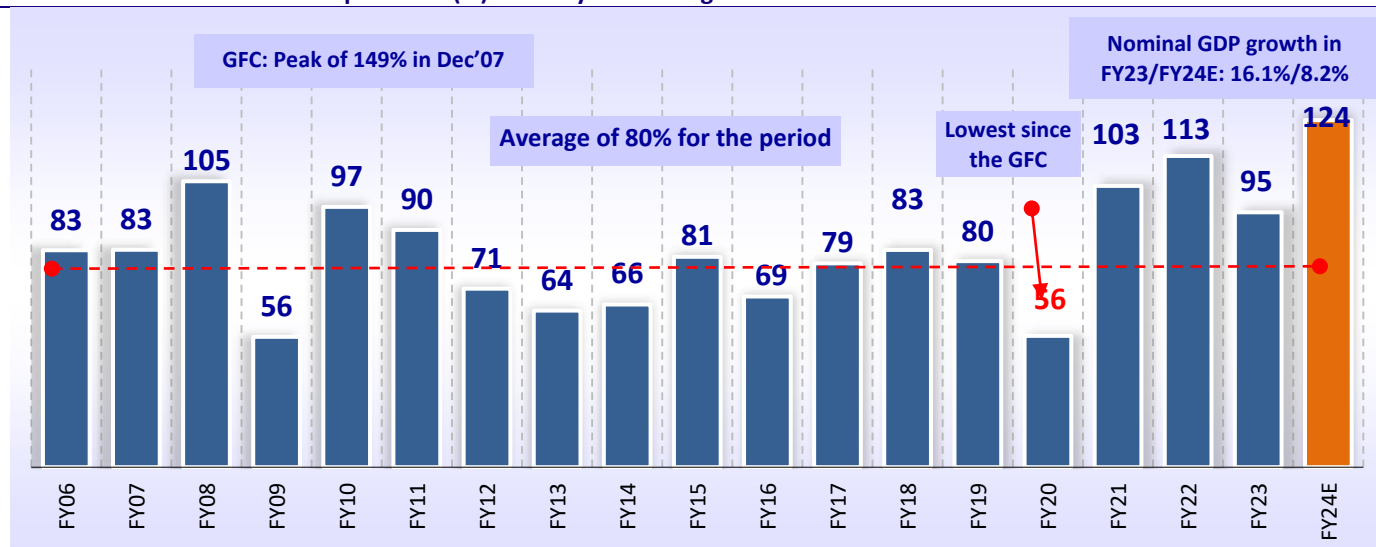


Exhibit 36: Trend in India's Mcap-to-GDP (%) – at its year-end high



NOTES

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
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