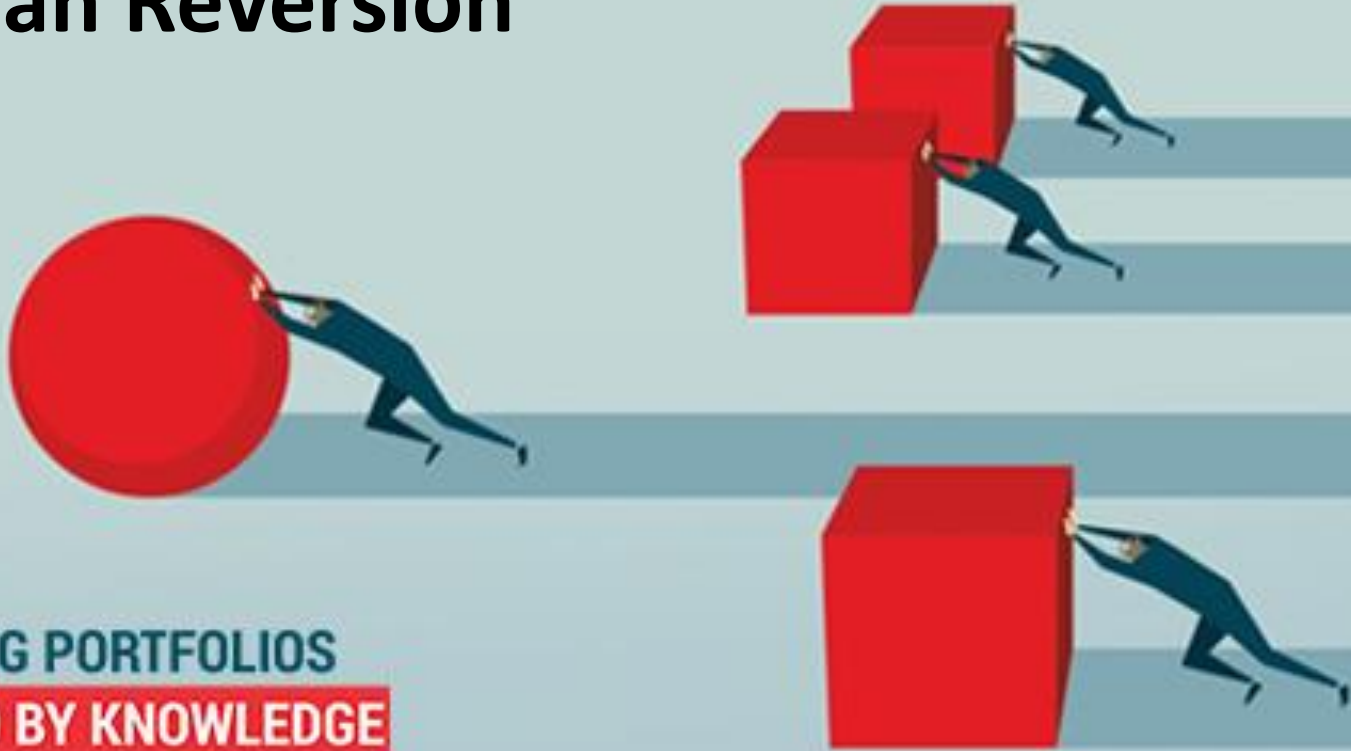


# ALPHA STRATEGIST

## “Mean Reversion”

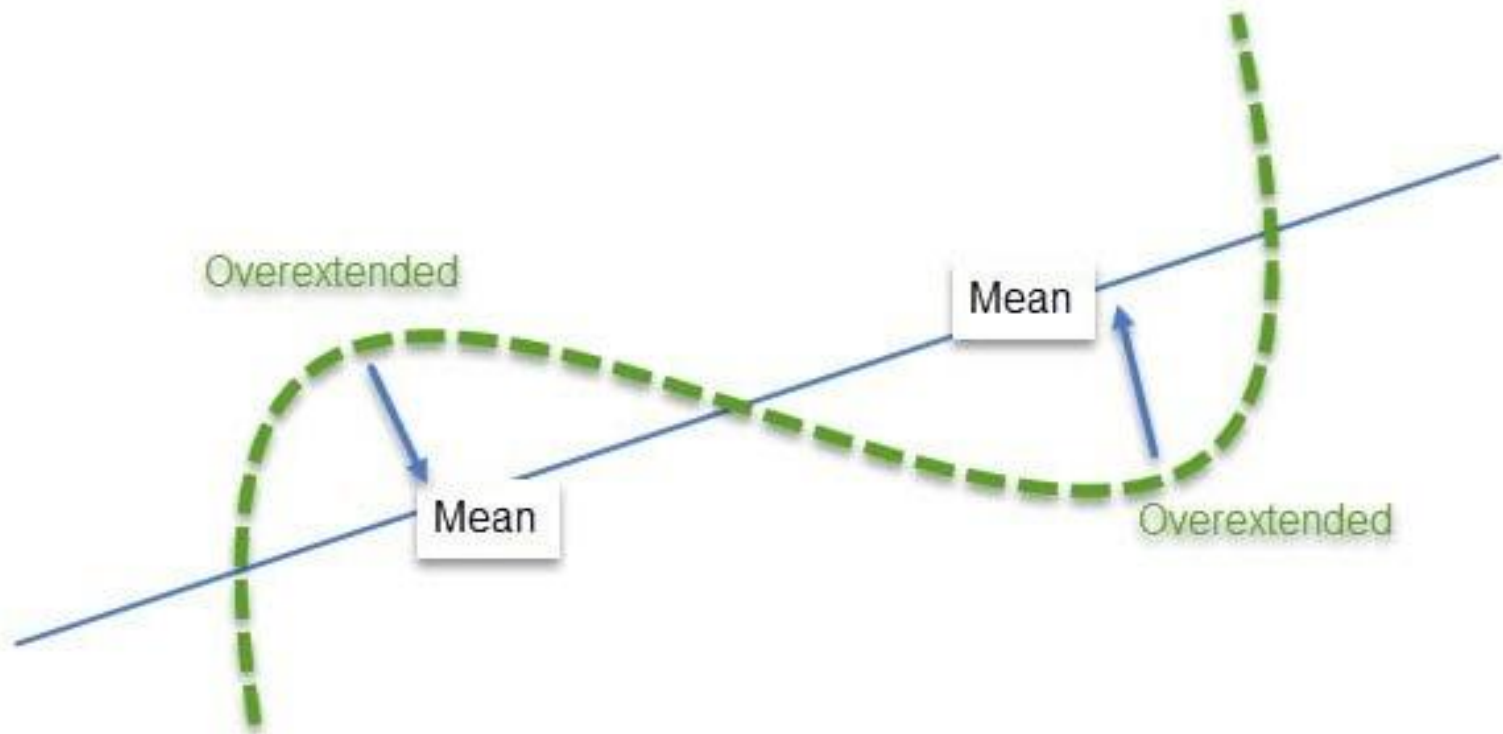


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March 2024 | Issue No. 135

- Mean Reversion is based on historical evidence that asset prices tend to gravitate towards a long-term average over time. The greater the deviation from this mean, the higher the probability that the asset's price will move closer to it in the future.
- Within the domestic equity market, Mid & Small cap indices are trading at significant premium to their 10-year average valuations (PE), and are expected to mean revert.
- For the broader market, the margin tailwind from 4QFY24 onwards will be receding and facing a high base, necessitating a recovery in revenue growth to drive earnings ahead.
- Equity market outlook continues to remain positive based on deleveraging of Corporate Balance Sheets, uptick in Capex cycle and an expected steady trend in profit growth over the next few years.
- For incremental equity allocation, we suggest 100% lumpsum in Large Cap & Multicap strategies.







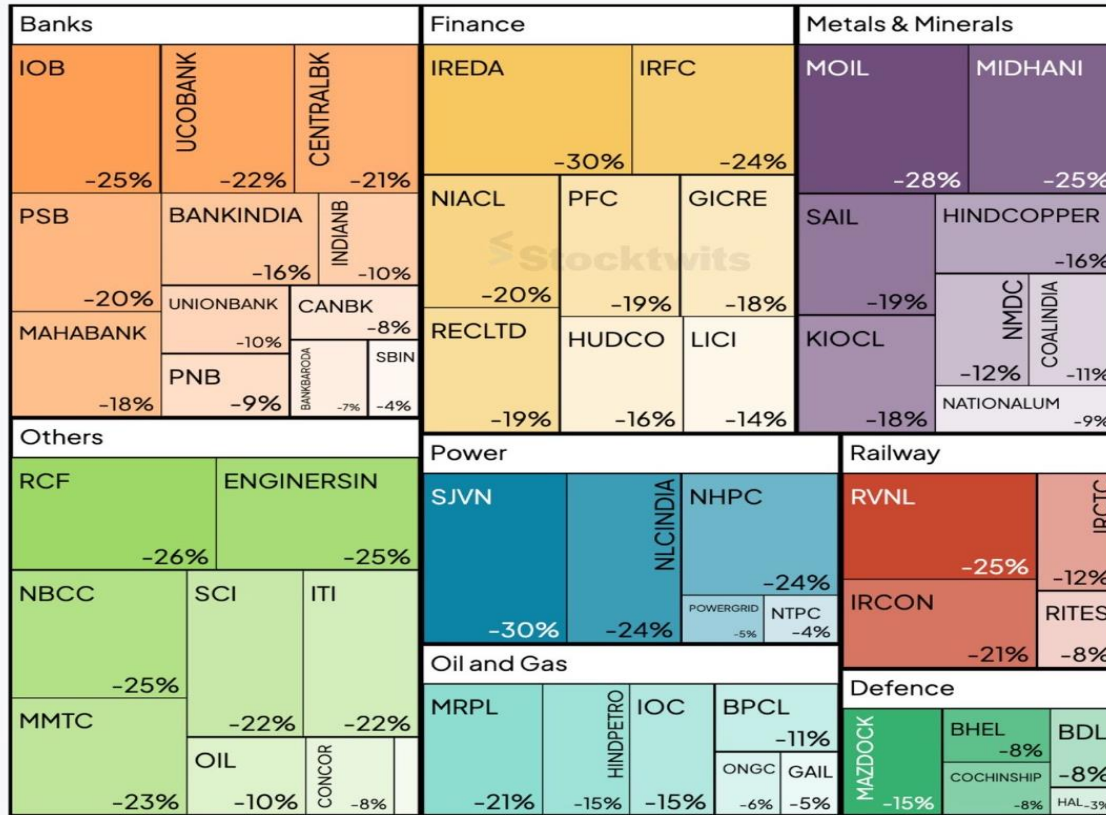
1. [Highlights](#)

2. [Equity](#)

3. [Fixed Income](#)

4. [Gold](#)

## PSU Stocks down from 52w highs



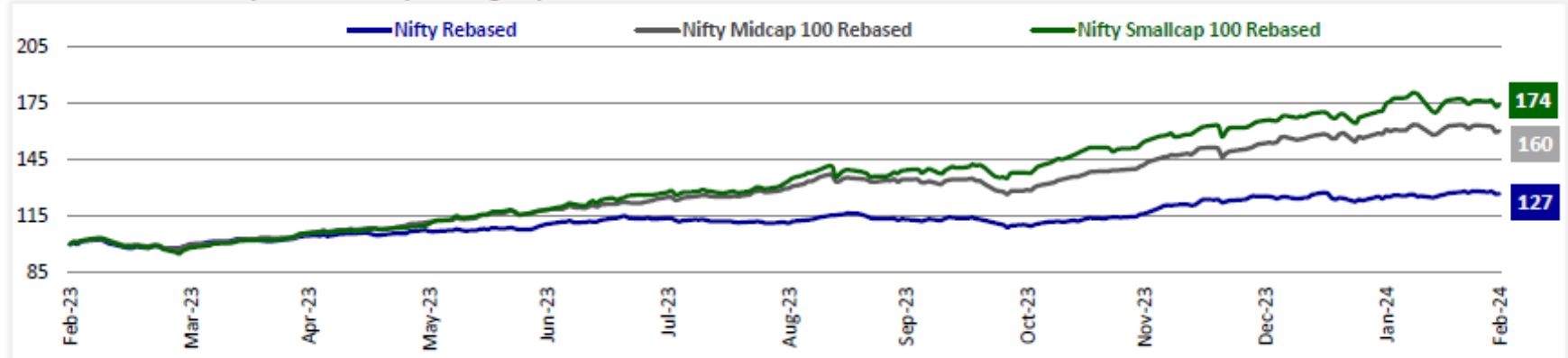
Data as on 28<sup>th</sup> February 2024

- The PSU stocks across different sectors have witnessed high volatility

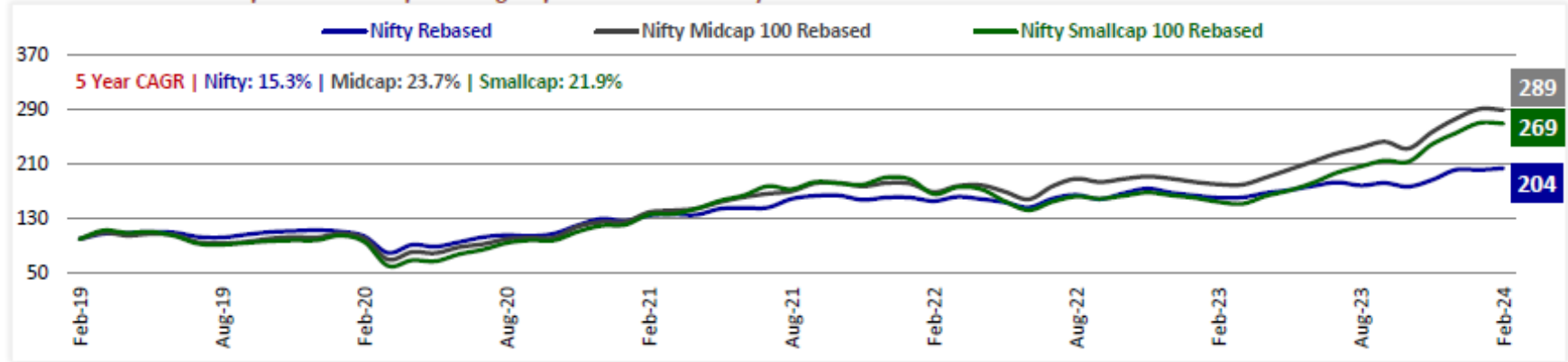


# Market Cap Indices Performance

Performances of midcaps and smallcaps vs largecaps over the last 12 months



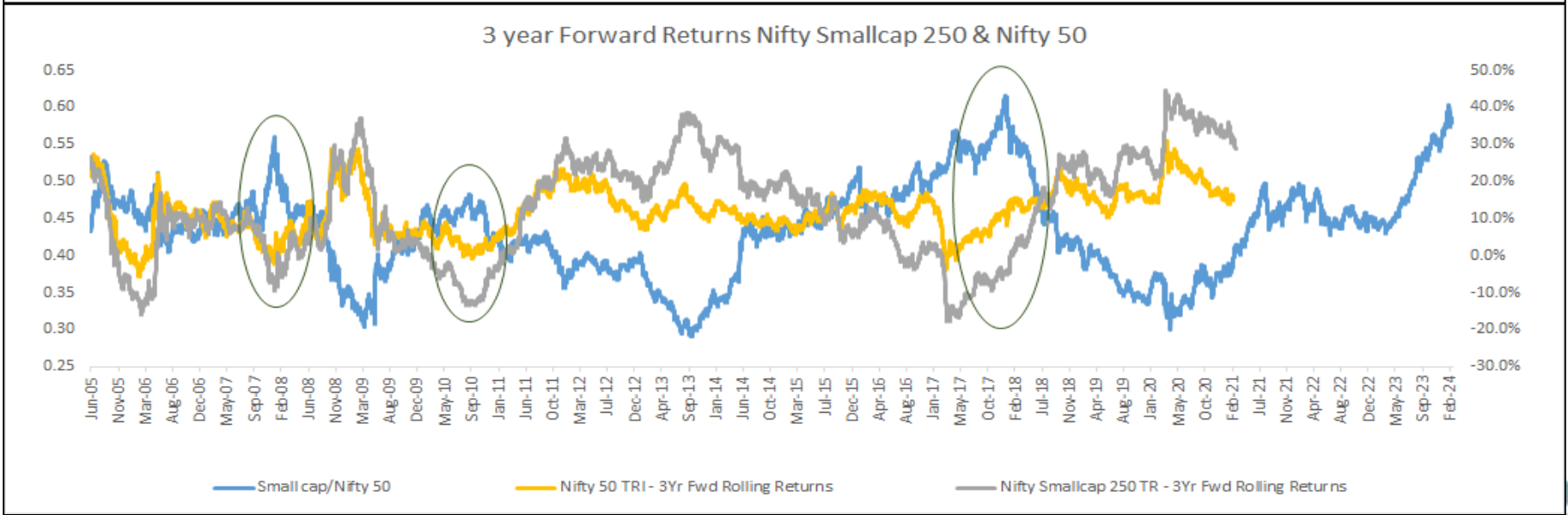
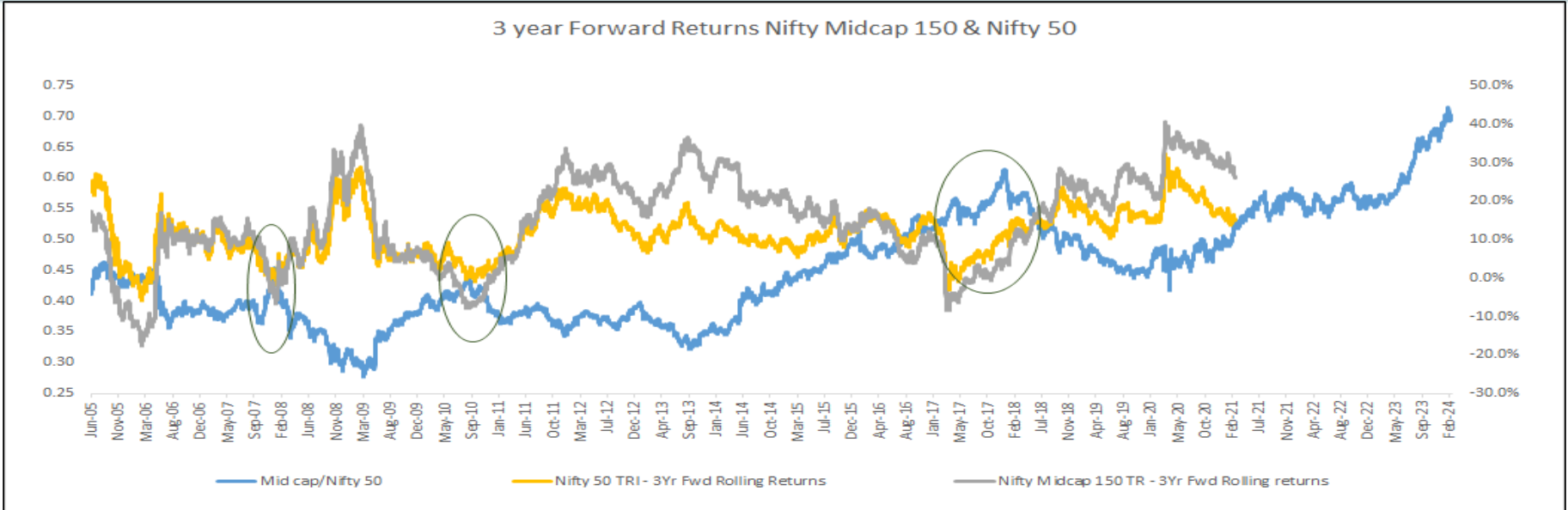
Performances of midcaps and smallcaps vs. largecaps over the last five years



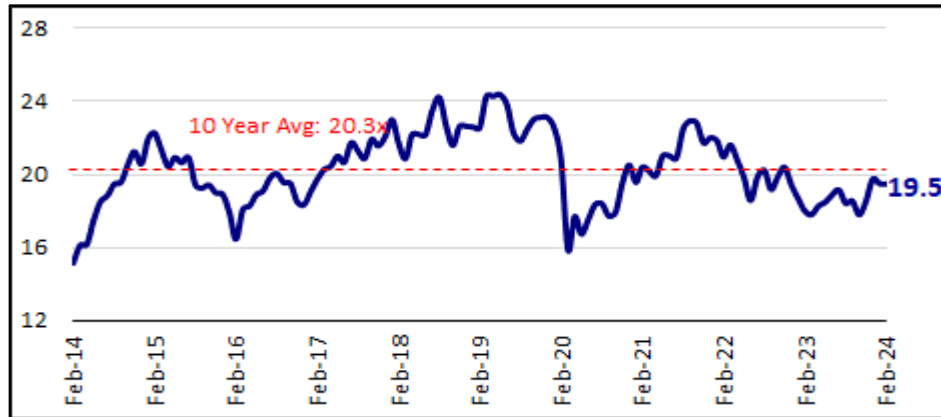
- The last 12 months have witnessed a wide dispersion in performance of Mid & Small Cap indices vs Large Cap



# Market Cap Ratio & Forward Returns

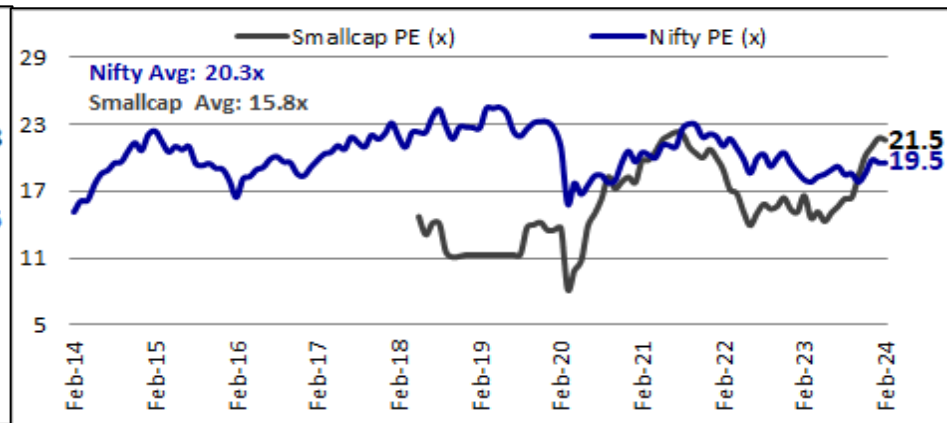
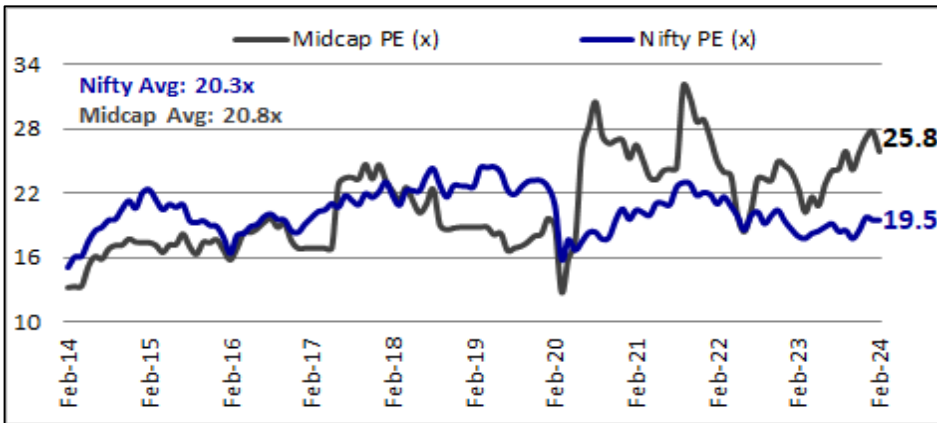


Nifty 50 PE 1 Year Forward - (10 Year Period)



Nifty Midcap 100 PE 1 Year Forward - (10 Year Period)

Nifty Smallcap 100 PE 1 Year Forward - (10 Year Period)



- Nifty Midcap forward PE & Nifty Smallcap forward PE are trading significantly higher compared to their respective long term average.





# Nifty 50 – Earnings Projections

Sector	PAT (INR b)						Growth YoY (%)					
	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY21	FY22	FY23	FY24E	FY25E	FY26E
Automobiles	179	76	287	597	663	748	74	-57	275	108	11	13
BFSI	1,009	1,395	1,971	2,419	2,953	3,516	26	38	41	23	22	19
Capital Goods	68	84	104	129	166	206	-23	24	24	23	29	24
Cement	100	130	115	132	151	175	0	31	-11	14	15	16
Consumer	292	319	386	439	466	507	1	9	21	14	6	9
Healthcare	129	172	181	217	249	289	38	33	6	19	15	16
Logistics	45	59	76	91	104	127	-10	30	28	20	14	22
Metals	344	926	504	565	699	785	45	169	-46	12	24	12
Oil & Gas	776	1,107	1,076	1,461	1,540	1,720	20	43	-3	36	5	12
Retail	10	23	33	37	47	57	-35	138	40	13	28	21
Technology	836	958	1,022	1,060	1,221	1,432	7	15	7	4	15	17
Telecom	-7	35	82	106	182	227	Loss	Loss	LP	29	73	24
Utilities	277	306	323	352	388	415	13	10	6	9	10	7
Others	46	56	72	38	58	79	26	23	27	-47	52	35
<b>Nifty-50</b>	<b>4,103</b>	<b>5,648</b>	<b>6,232</b>	<b>7,643</b>	<b>8,887</b>	<b>10,282</b>	<b>19</b>	<b>38</b>	<b>10</b>	<b>23</b>	<b>16</b>	<b>16</b>

- The 3QFY24 corporate earnings have exceeded market expectations, with the BFSI and Automobile sectors driving the overall performance.
- The Metals and O&G sectors reported healthy earnings growth, providing further support to the overall earnings.
- Double digit earnings growth expected in FY26



# Broad Market Earnings Growth vs Market Cap Growth

<b>Nifty 500</b>	<b>Mar-20</b>	<b>Dec-23</b>	<b>CAGR (%)</b>
Earnings (A)	3.6	10.3	32.3%
Market Capitalization (X)	107.2	332.9	35.2%
<b>Nifty 50</b>	<b>Mar-20</b>	<b>Dec-23</b>	<b>CAGR (%)</b>
Earnings (B)	3.0	5.5	17.4%
Market Capitalization (Y)	70.3	184.0	29.2%
<b>450 Companies</b>	<b>Mar-20</b>	<b>Dec-23</b>	<b>CAGR (%)</b>
Earnings (A-B)	0.6	4.8	74.3%
Market Capitalization (X-Y)	36.9	148.9	45.0%

Rs in Trillion

- The earnings of Nifty 500 (ex Nifty 50) has increased significantly over last 4 years
- The margin tailwind from 4QFY24 onwards will be receding and facing a high base, necessitating a recovery in revenue growth to drive earnings ahead.



# Sector Performance across market phases

		2003	2007	2019	2023
Financials		19.4	15.3	37.5	28.6
<hr style="border-top: 1px dashed green;"/>					
Cyclicals		40.7	66.6	30.9	38.0
	Materials	13.7	15.2	10.0	11.8
	Industrials	8.6	11.8	6.2	10.3
	Energy	11.8	17.6	8.7	7.0
	Utilities	3.5	7.2	3.1	4.6
	Communications	3.1	8.9	2.4	3.0
	Real Estate	0.0	5.9	0.6	1.2
<hr style="border-top: 1px dashed green;"/>					
Consumer		19.6	7.7	17.5	18.1
	Discretionary	10.4	3.7	8.1	10.0
	Staples	9.2	3.9	9.3	8.1
<hr style="border-top: 1px dashed green;"/>					
Other Defensives		20.3	10.5	14.1	15.3
	IT	11.0	7.7	9.7	9.9
	Health Care	9.4	2.8	4.4	5.4
<hr style="border-top: 1px dashed green;"/>					
Total		100.0	100.0	100.0	100.0

Numbers represent the % share of the sector and how it has moved across different time periods

- Cyclical sectors dominated other sectors during the period of sustained bull market





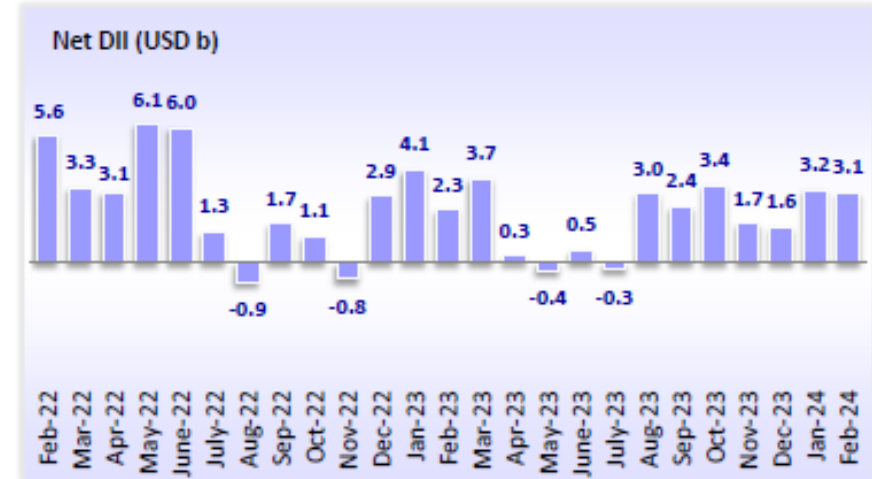
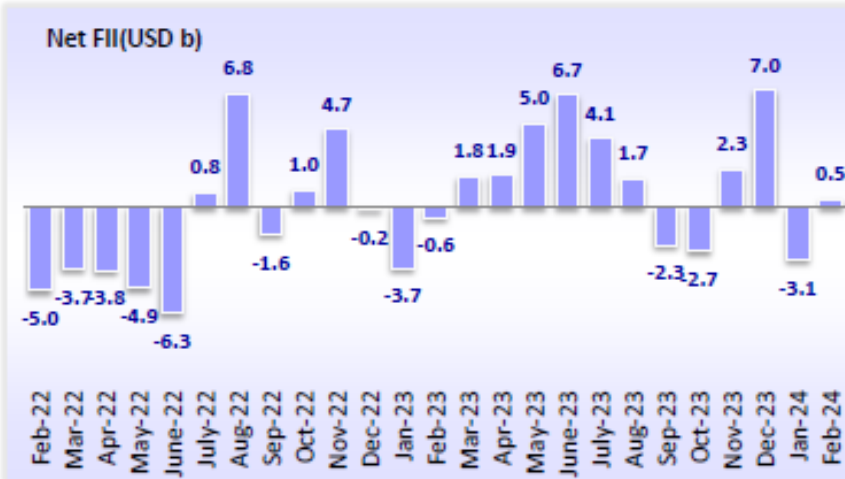
1. [Highlights](#)

2. [Equity](#)

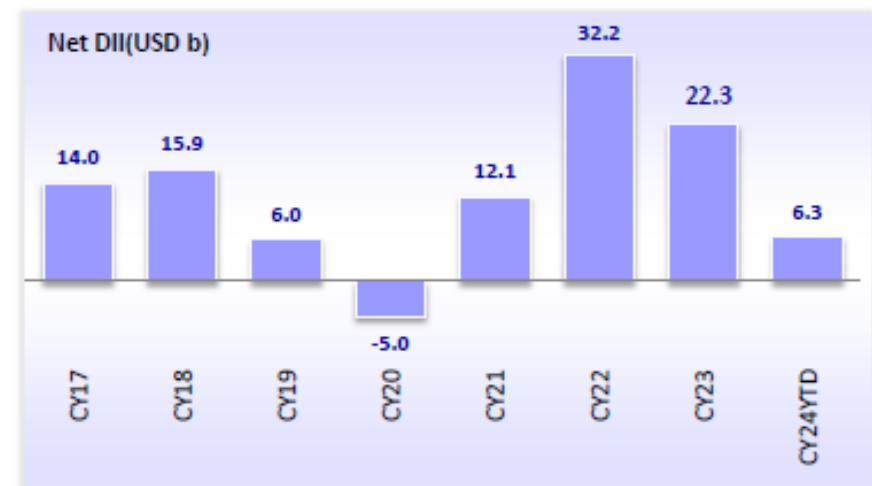
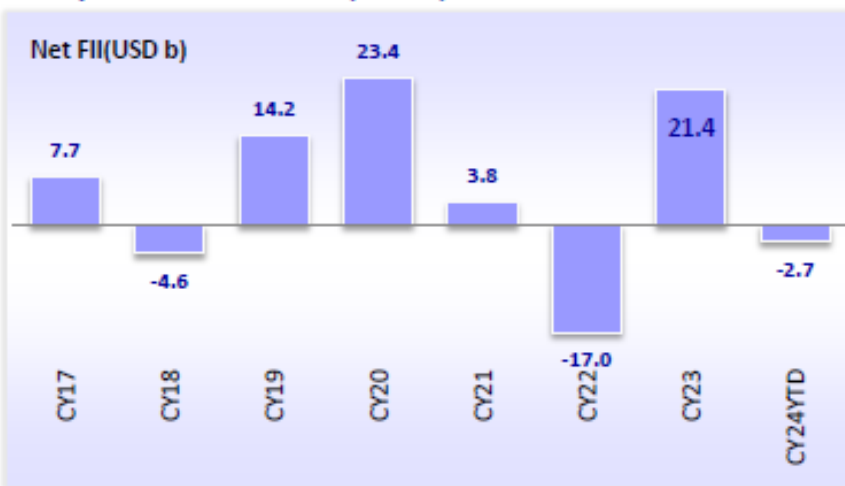
3. [Fixed Income](#)

4. [Gold](#)

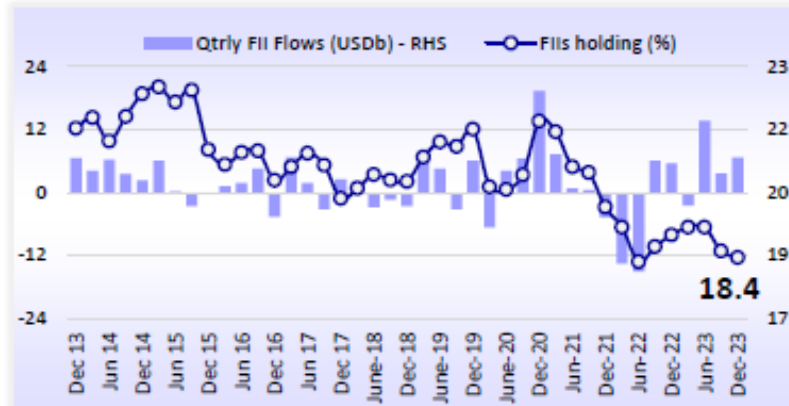
## Monthly institutional flows (USD b)



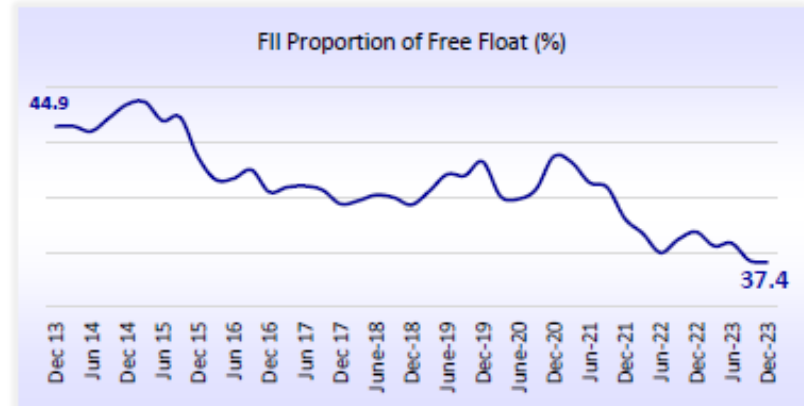
## Yearly institutional flows (USD b)



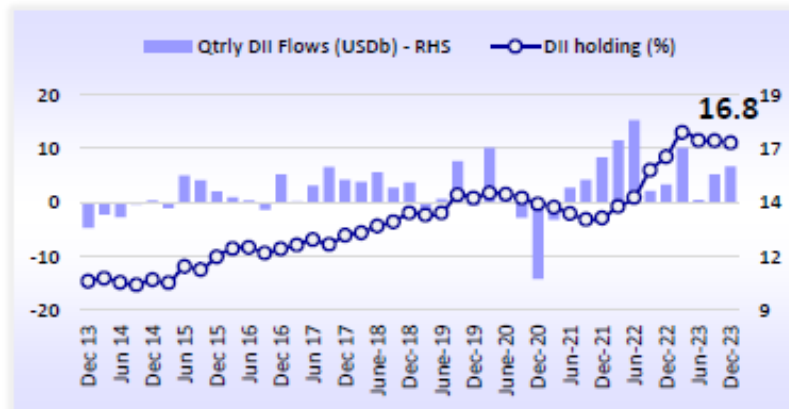
### FII Flows in Indian markets vs. FII Holdings



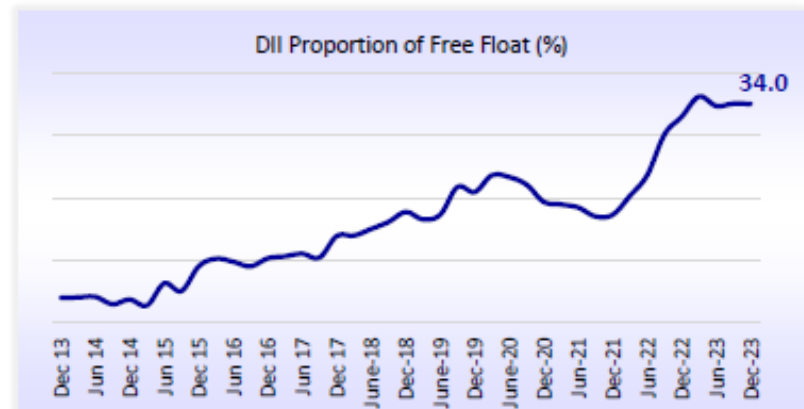
### FII Proportion to free float (%)



### DII Flows in Indian markets vs. DII Holdings



### DII Proportion to free float (%)

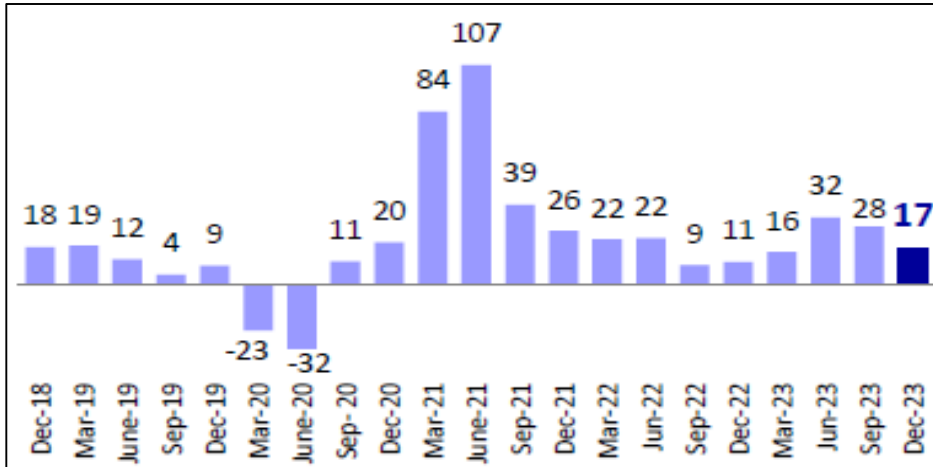


- The proportion of FII holdings as a percentage of the free float continues to decline, while it strengthens for DIIs.

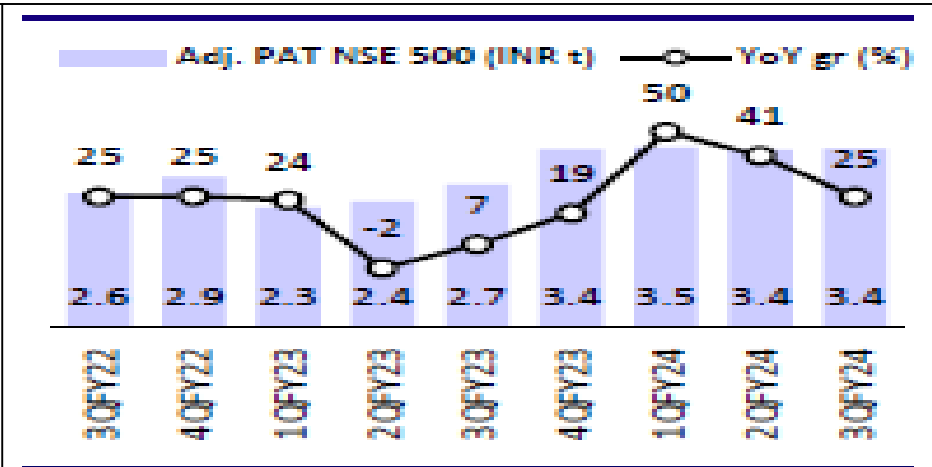


# Nifty Indices – Earnings Growth

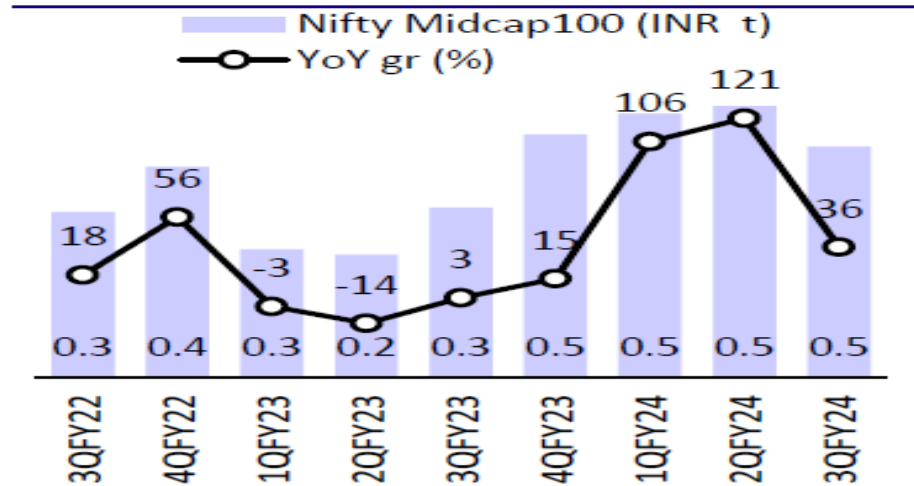
## Nifty 50 Earnings Growth



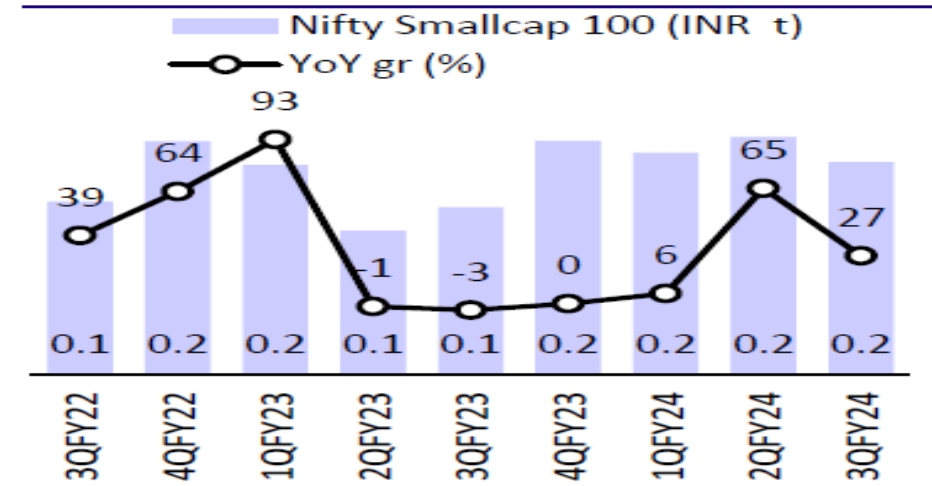
## Nifty 500 Earnings Growth



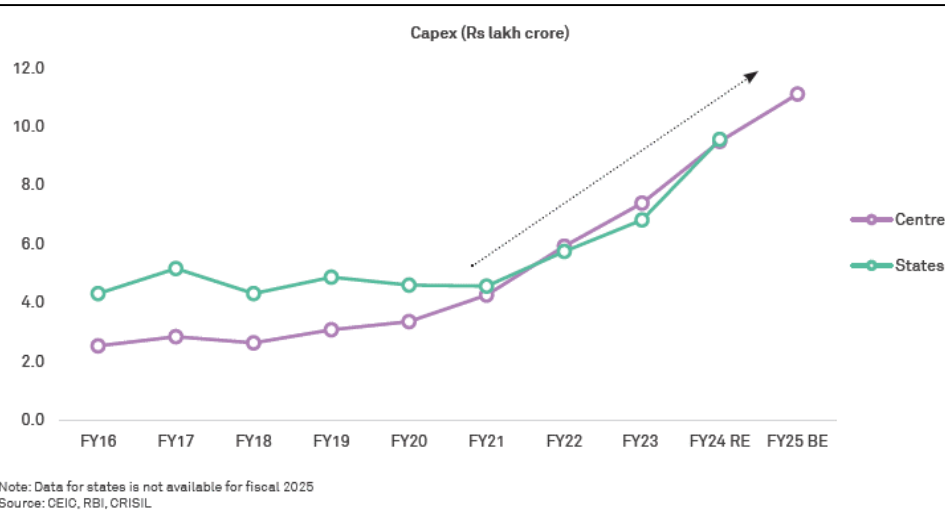
## Nifty Midcap 100 Earnings Growth



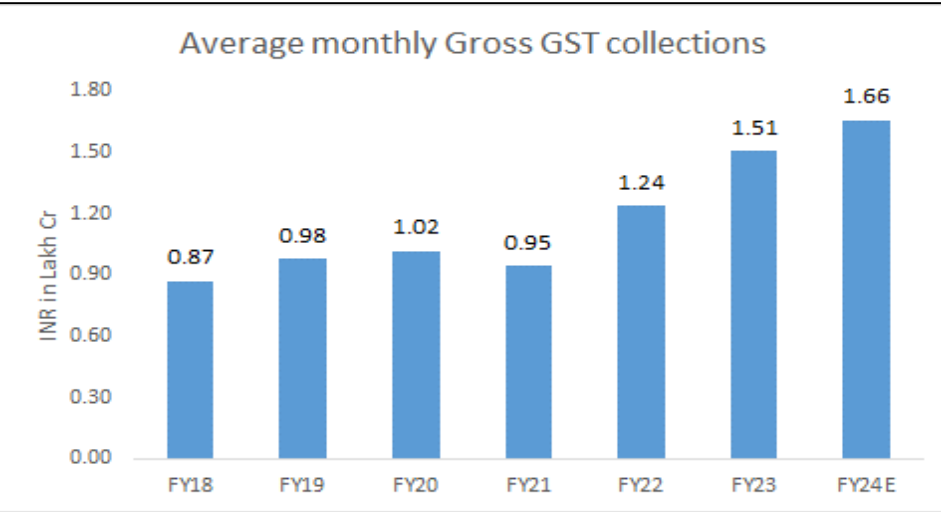
## Nifty Smallcap 100 Earnings Growth



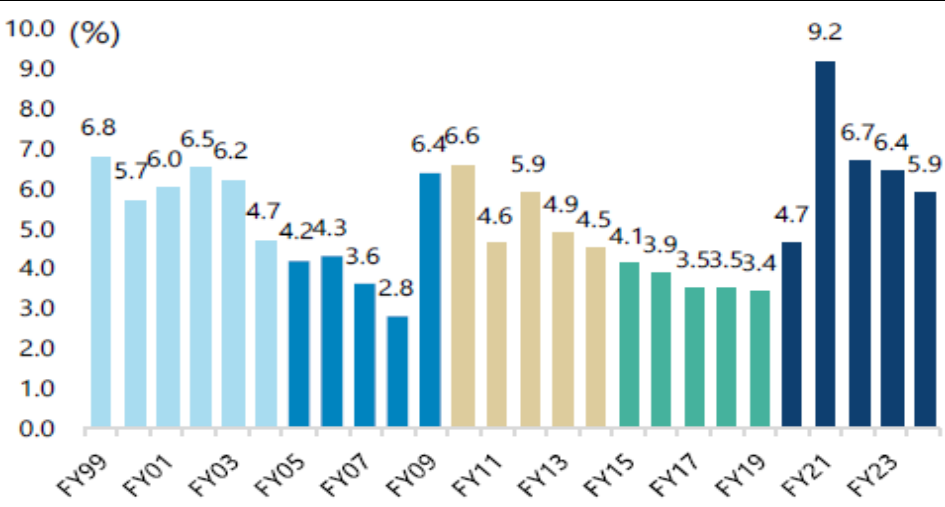
## Government Capex on the rise



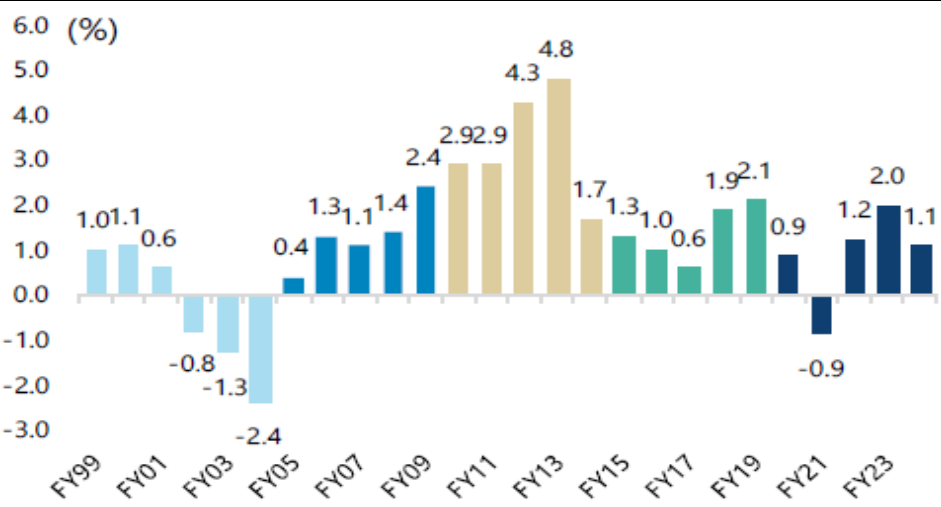
## Rising trend for Gross GST collections (Rs. in Cr)



## Gradual decline in Fiscal Deficit as a % of GDP



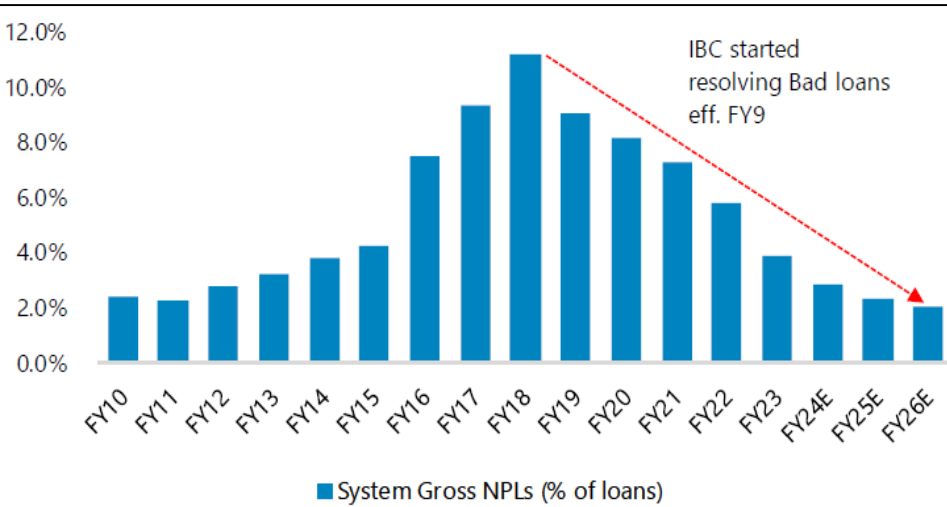
## CAD (as % of GDP) is under control and below threshold



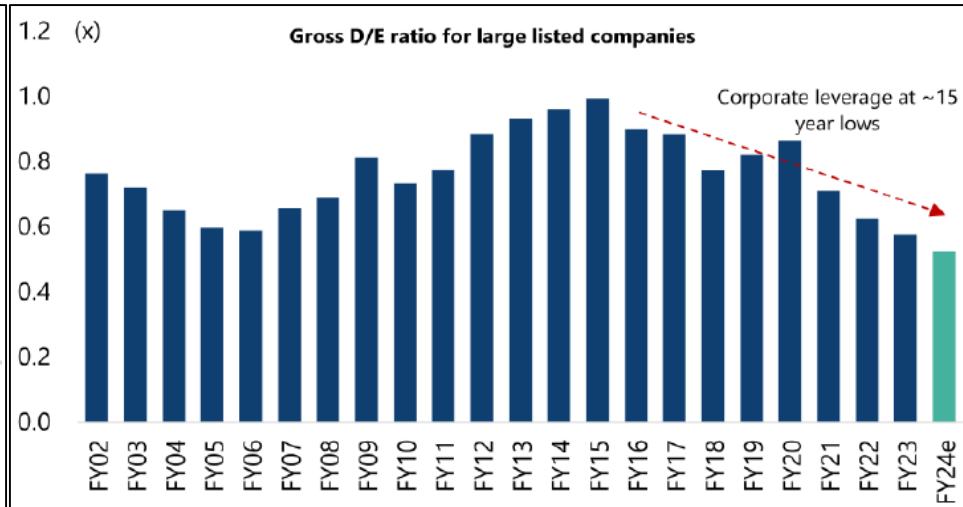


# India Inc. – Strong Fundamentals

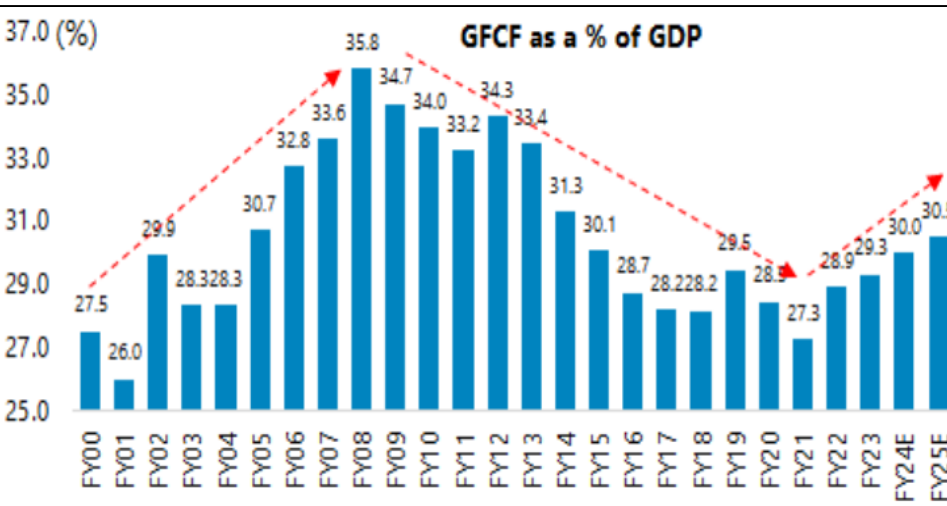
## Decline in Gross NPLs



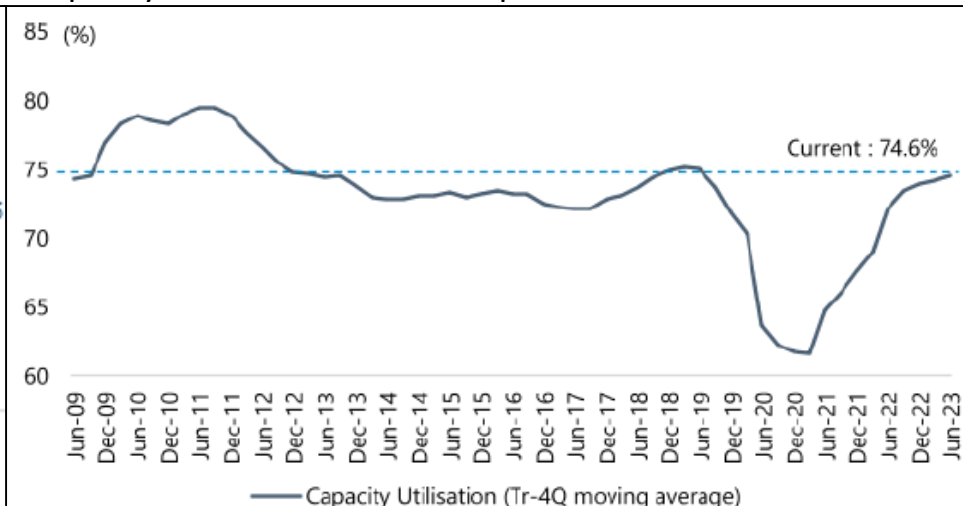
## Corporate Leverage at 15 year low



## Trending Upwards, but still a long way from previous peak

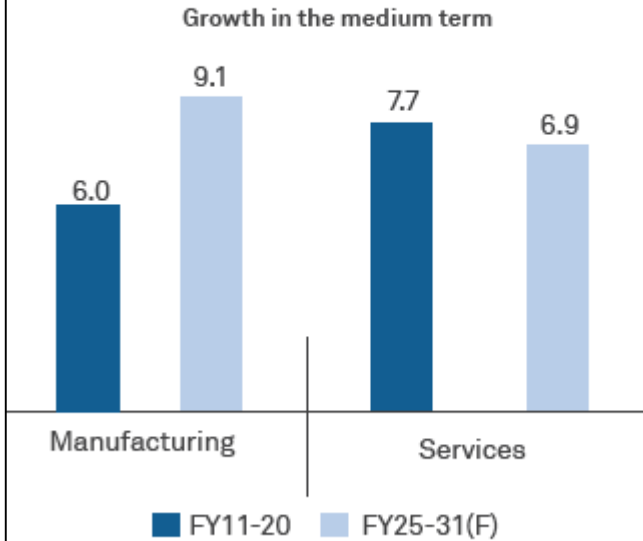


## Capacity Utilization at its 2019 peak

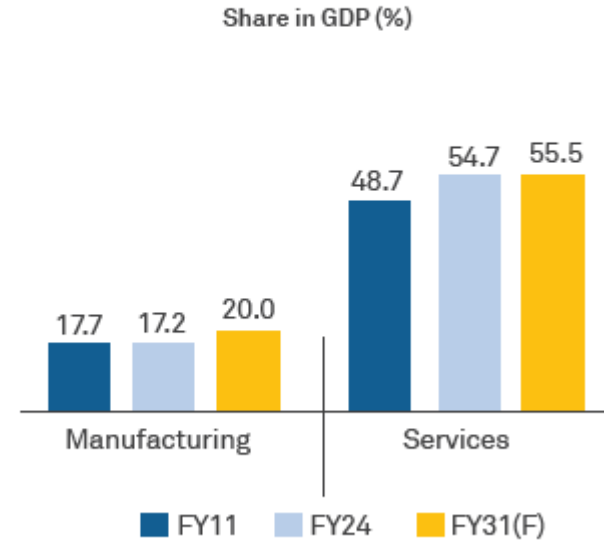


# Manufacturing to add impetus to GDP growth

Manufacturing growth to outpace historical trend and services growth



But services to remain the largest growth driver



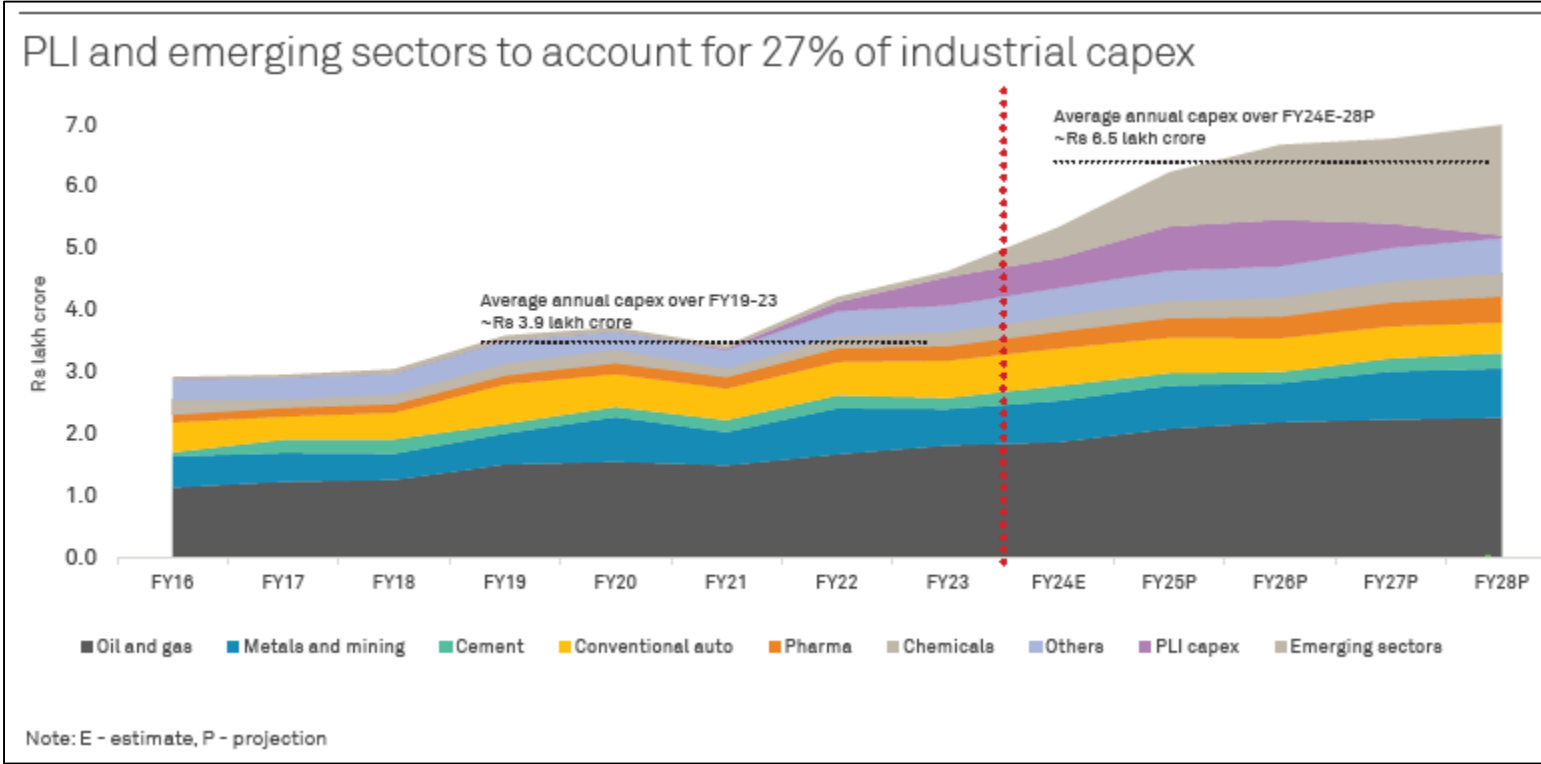
Source: NSO, CEIC, CRISIL forecasts

- The boundaries between manufacturing and services are getting blurred due to the gradual 'servicification' of manufacturing
- With global growth being relatively tepid, domestic demand will play an important role in supporting manufacturing activity



# Emerging sectors likely to propel industrial capex

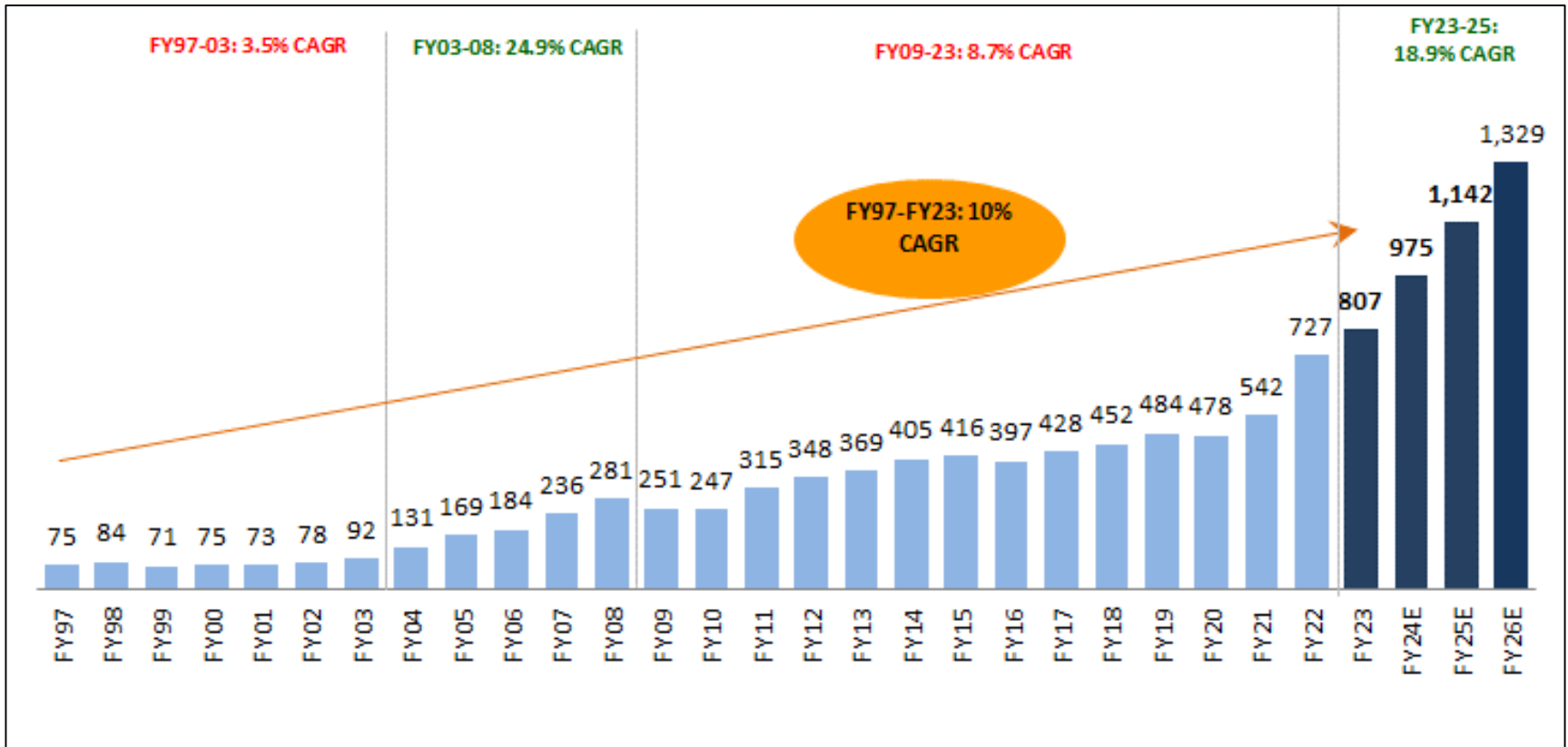
Emerging sectors include – Semiconductors & Electronics, EV Capex, battery manufacturing and solar modules



- EVs, semiconductors & electronics are expected to draw as much as 85%-90% of the non-PLI emerging sector



# Nifty 50 - Earnings Growth Outlook

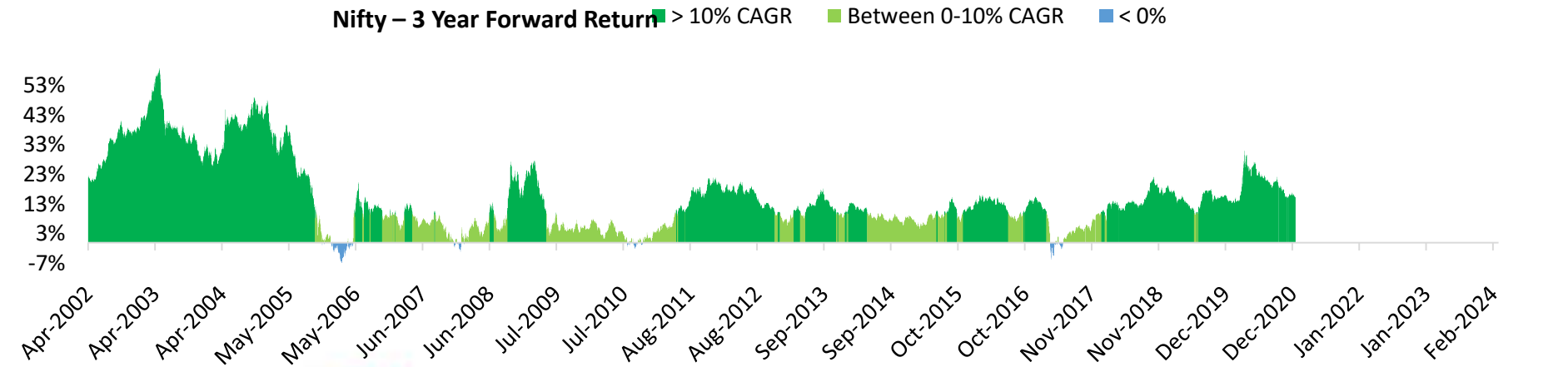
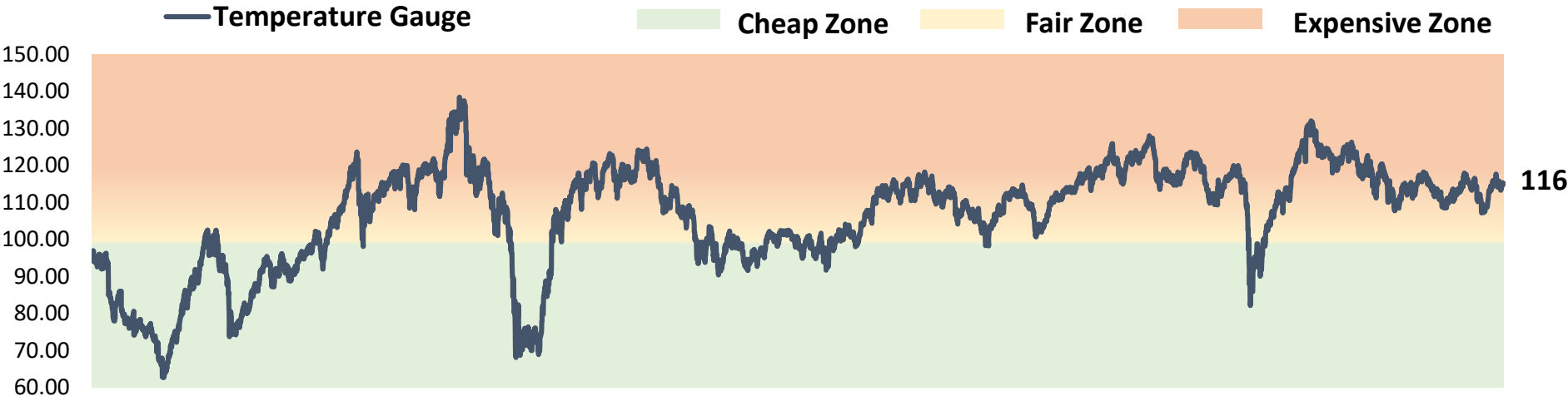


➤ For three consecutive years now, Nifty 50 earnings have grown by double digits and it is expected to have double digit growth for FY24



# Temperature Gauge Index

- Temperature Gauge Index is an equally weighted index of EY-BY and MOVI Index
- It incorporates PE Ratio, PB Ratio, Div. Yield and G-sec Yield, and hence is a useful valuation metric.



[Index](#)

# Temperature Gauge Index – Sensitivity Analysis

Temperature Gauge Index - Sensitivity Analysis					
10 yr Gsec/ Nifty50	6.65%	6.85%	7.05%	7.25%	7.45%
21250	112	113	114	115	116
21500	112	113	114	115	116
21750	113	114	115	116	117
22000	113	114	115	116	117
22250	113	114	116	117	118
22500	114	115	<b>116</b>	117	118
22750	114	115	116	117	118
23000	115	116	117	118	119
23250	115	116	117	118	119
23500	115	116	118	119	120
23750	116	117	118	119	120
24000	116	117	118	119	121
24250	117	118	119	120	121



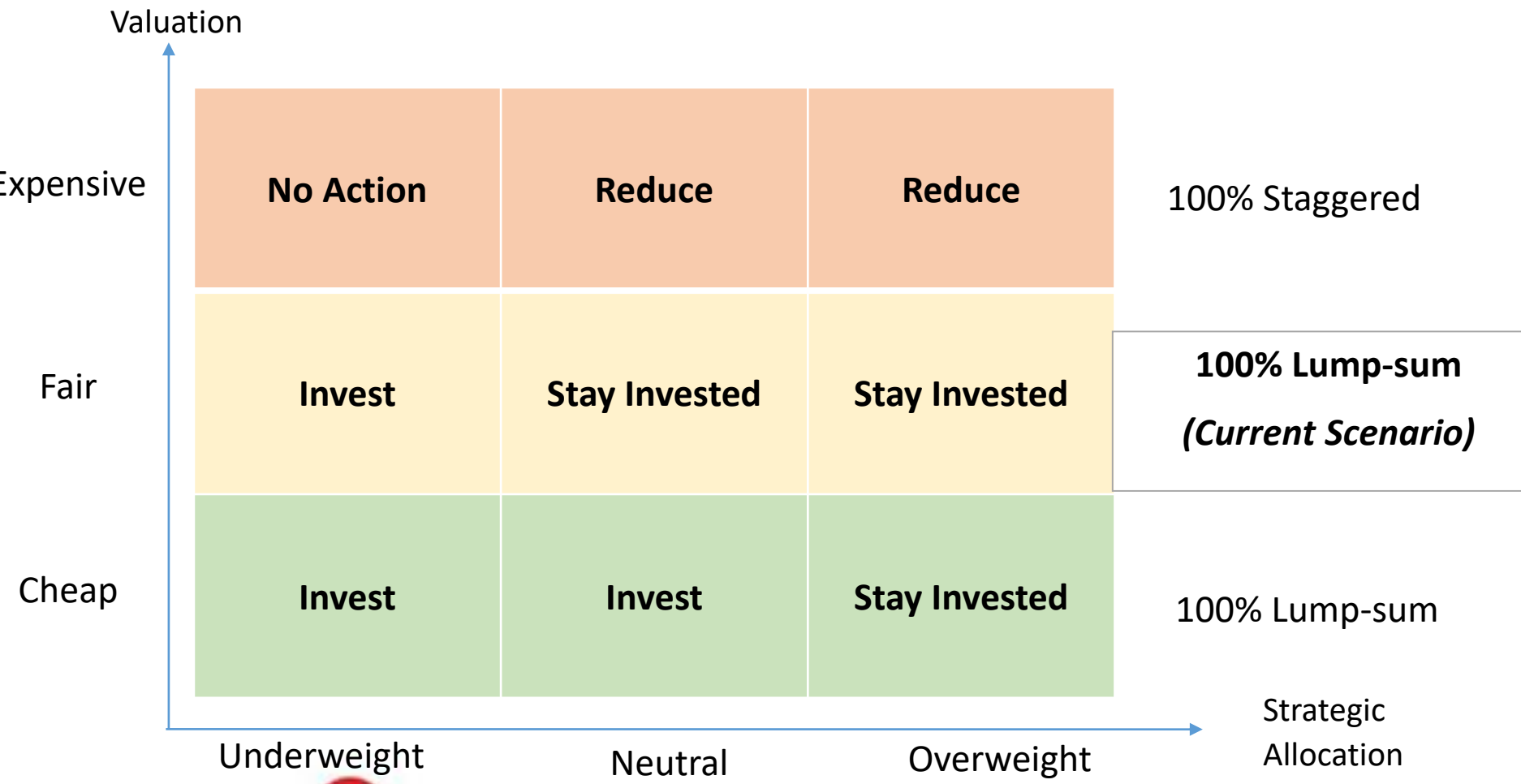
# 3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

Nifty 50				3 Yr Return CAGR			% Times in CAGR range		
Index in Range	No. of Observations	% of Observations	Min	Max	Average	% Times Positive	6% to 10%	>=10%	
65	70	60	1%	24%	57%	43%	100.0%	0%	100%
70	75	202	3%	15%	51%	32%	100.0%	0%	100%
75	80	285	4%	14%	45%	37%	100.0%	0%	100%
80	85	168	2%	15%	43%	34%	100.0%	0%	100%
85	90	207	3%	12%	49%	33%	100.0%	0%	100%
90	95	539	7%	2%	47%	27%	100.0%	2%	97%
95	100	832	10%	1%	44%	18%	100.0%	8%	91%
100	105	714	9%	-2%	30%	13%	98.7%	20%	71%
105	110	809	10%	-4%	22%	10%	83.2%	15%	56%
110	115	1681	21%	-7%	22%	9%	68.9%	30%	24%
115	120	1515	19%	-4%	21%	8%	76.4%	22%	23%
120	125	804	10%	-2%	18%	8%	66.9%	7%	38%
125	130	135	2%	0%	16%	11%	70.4%	4%	51%
130	135	84	1%	-2%	15%	5%	81.0%	0%	25%
135	140	28	0%	-3%	0%	-1%	10.7%	0%	0%



# Equity Allocation & Deployment Grid

➤ Below grid is based on Temperature Gauge Index





# Equity Portfolio Strategy

- Equity market outlook continues to remain positive based on deleveraging of Corporate Balance Sheets, uptick in Capex cycle and an expected steady trend in profit growth over the next few years.

## ➤ Existing Investors:

- As per their risk profile, investors having the appropriate level of Equity allocation should continue to remain invested
- If Equity allocation is lower than desired levels, we recommend to increase allocation by investing **100% lump sum in Large Cap & Multi Cap strategies**. For select Mid & Small Cap Strategies, we suggest a staggered investment approach over a period of 6-12 months.

## ➤ New Investors:

- **100% lump sum in Large Cap & Multi Cap strategies**. For select Mid & Small Cap Strategies, we suggest a staggered investment approach over a period of 6-12 months.





1. [Highlights](#)

2. [Equity](#)

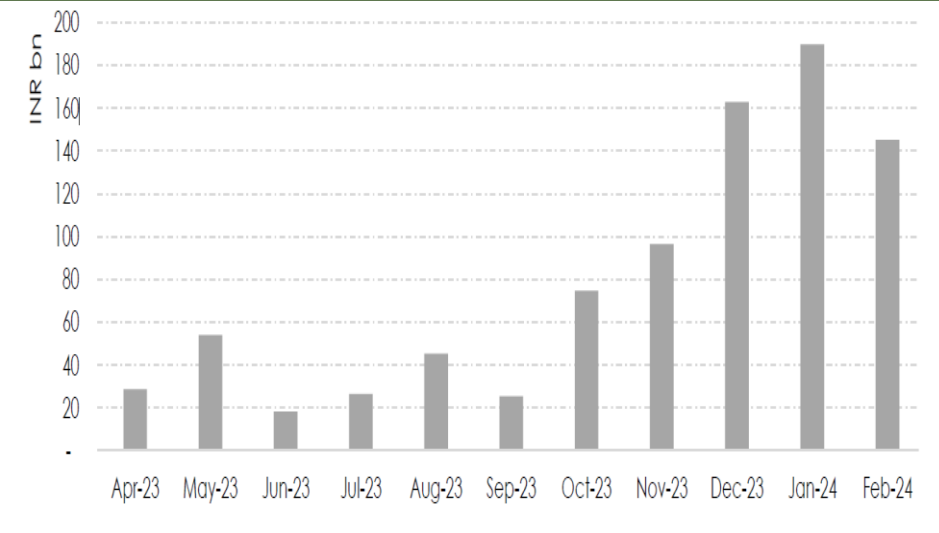
3. [Fixed Income](#)

4. [Gold](#)

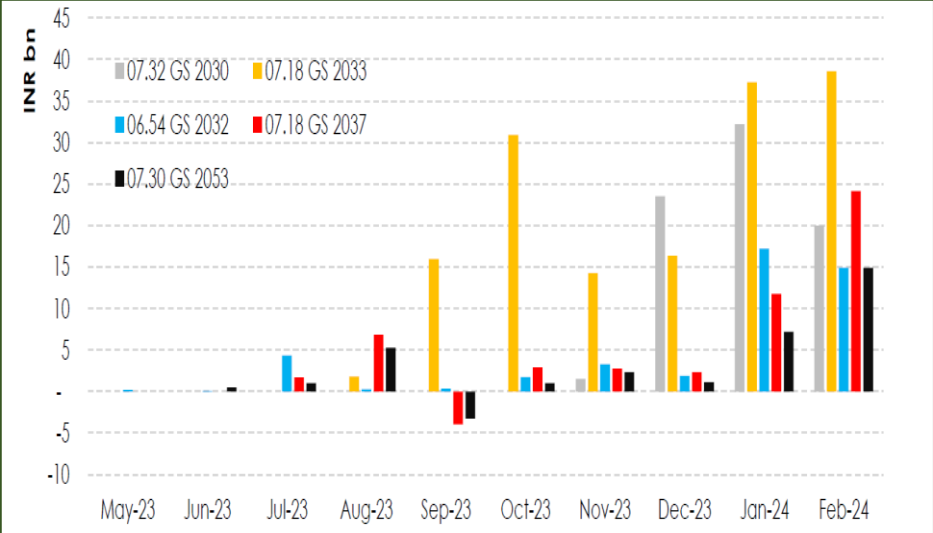
# Good Times Ahead for Indian Government Bonds

- **Foreign Investors have started investing in Indian G-secs which are under Fully Accessible Route (FAR)**
- Pace of buying started increasing after JP Morgan announced inclusion of Indian G-secs in its GBI-EM Global index suite since 2024
- Indian G-sec inclusion in Bloomberg Emerging Market Index from Jan 2025 also paves way for more global participation

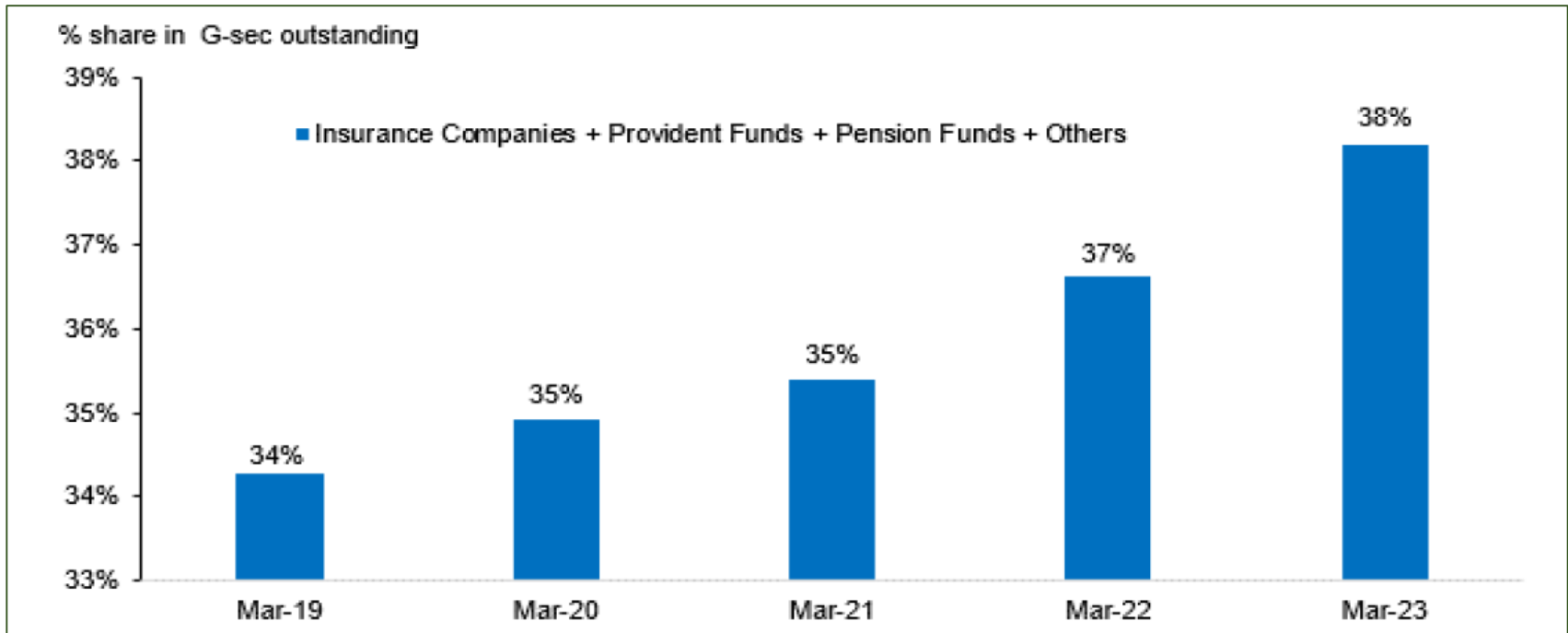
**FPI Net Bond Purchase under FAR Route**



**Net Purchase of Top 5 Securities under FAR Route**



# Increasing demand for Long term G-secs from institutions

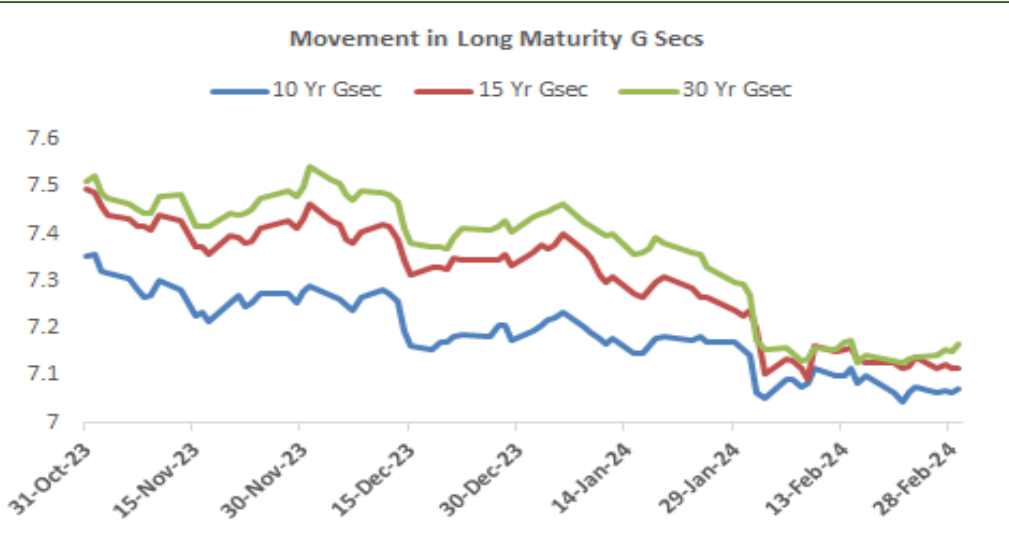


Source : RBI ; Internal Research

Note: 1) G-secs include securities issued under the Market Stabilisation Scheme and special Securities like bonds issued to Oil Marketing Companies, etc. 2) The category 'Others' comprises Pension Funds, DICGC, PSUs, Trusts, Foreign Central Banks, HUF/Individuals etc. till December 2021 quarter and, from March 2022, the category 'Pension Funds' has been shown separately by taking it out from 'Others' category

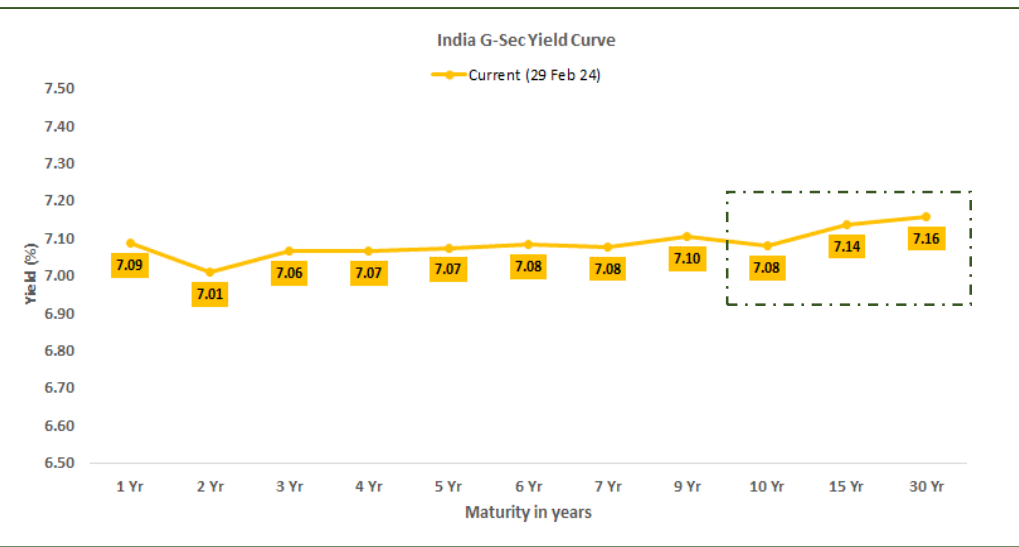


# G-Sec Yield Curve : Sweet Spot in 10 – 30 Year Maturity



- Yields have trended lower despite no rate cut from the RBI
- Long tenor G-sec's continue to provide attractive investment opportunities

- The Current yield curve is flat and does not offer any term premium
- **We reiterate our view to add duration to the Fixed Income Portfolio**



## Sensitivity Analysis for G-Sec MF with 10 Yr maturity

The below analysis has been done for illustration purposes only  
The analysis is for a mutual fund, not a direct fixed income instrument

Net YTM	Yield movement over next 1-3 Yrs (A)	Probability	Avg Maturity (Yrs)	Modified Duration (Yrs) (B)	Capital Gain/Loss (A*B)	Accrual (Z)	Total pre tax return $Z+(A*B)$	Post Tax Absolute		
								39%	25%	17%
							Total post tax return (Individuals @39%)	Total post tax return (Corporates @25%)	Total post tax return (MAT Corporates @17%)	
6.85%	1.00%	Low	10	6.67	-6.7%	6.85%	0.18%	0.11%	0.14%	0.15%
6.85%	0.75%		10	6.67	-5.0%	6.85%	1.85%	1.13%	1.39%	1.53%
6.85%	0.50%		10	6.67	-3.3%	6.85%	3.52%	2.14%	2.64%	2.92%
6.85%	0.00%		10	6.67	0.0%	6.85%	6.85%	4.18%	5.14%	5.69%
6.85%	-0.50%	Reasonable to High	10	6.67	3.3%	6.85%	10.19%	6.21%	7.64%	8.45%
6.85%	-0.75%		10	6.67	5.0%	6.85%	11.85%	7.23%	8.89%	9.84%
6.85%	-1.00%		10	6.67	6.7%	6.85%	13.52%	8.25%	10.14%	11.22%

## Note:

The above analysis does not consider change in accrual with rise/drop in yields  
Pre tax & post tax returns are assumed on absolute basis



## Sensitivity Analysis for G-Sec MF with 30 Yr maturity

The below analysis has been done for illustration purposes only  
The analysis is for a mutual fund, not a direct fixed income instrument

Net YTM	Yield movement over next 1-3 Yrs (A)	Probability	Avg Maturity (Yrs)	Modified Duration (Yrs) (B)	Capital Gain/Loss (A*B)	Accrual (Z)	Total pre tax return Z+(A*B)	Post Tax Absolute		
								39%	25%	17%
							Total post tax return (Individuals @39%)	Total post tax return (Corporates @25%)	Total post tax return (MAT Corporates @17%)	
6.65%	1.00%	Low	30	12.0	-12.0%	6.65%	-5.32%	-3.25%	-3.99%	-4.42%
6.65%	0.75%		30	12.0	-9.0%	6.65%	-2.33%	-1.42%	-1.75%	-1.93%
6.65%	0.50%		30	12.0	-6.0%	6.65%	0.67%	0.41%	0.50%	0.55%
6.65%	0.00%		30	12.0	0.0%	6.65%	6.65%	4.06%	4.99%	5.52%
6.65%	-0.50%	Reasonable to High	30	12.0	6.0%	6.65%	12.64%	7.71%	9.48%	10.49%
6.65%	-0.75%		30	12.0	9.0%	6.65%	15.63%	9.53%	11.72%	12.97%
6.65%	-1.00%		30	12.0	12.0%	6.65%	18.62%	11.36%	13.97%	15.45%

## Note:

The above analysis does not consider change in accrual with rise/drop in yields  
Pre tax & post tax returns are assumed on absolute basis



**We reiterate our view to increase duration in the fixed income portfolio so as to capitalize on the softening of yields in the next 1-3 years**

- **65% - 70% of the portfolio should be invested in combination of**
  - G-Sec roll down strategies through a combination of 10 - 14 years' maturity Bonds/Funds and for 20 to 30 years' average maturity prefer to invest through G-Sec MFs.
  - Multi Asset Allocation Funds which aim to generate efficient risk adjusted returns through a combination of debt instruments & arbitrage (equity and commodities).
  - Equity Savings funds which aim to generate enhanced returns than traditional fixed income along with moderate volatility through a combination of equities, arbitrage and fixed income instruments.
- To improve the overall portfolio yield, **30% – 35% of the overall fixed income portfolio** can be allocated to select high yield NCDs, Private Credit strategies & REITs/InvITs.
- **For liquidity management or temporary parking**, investments can be allocated to Arbitrage/Ultra Short Term (minimum 6 months)/Liquid (1-3 months)/Overnight (less than 1 month) strategies.







1. [Highlights](#)

2. [Equity](#)

3. [Fixed Income](#)

4. [Gold](#)

# Gold & Silver – Historical Performance

MCX Gold Spot (INR/10 gm)



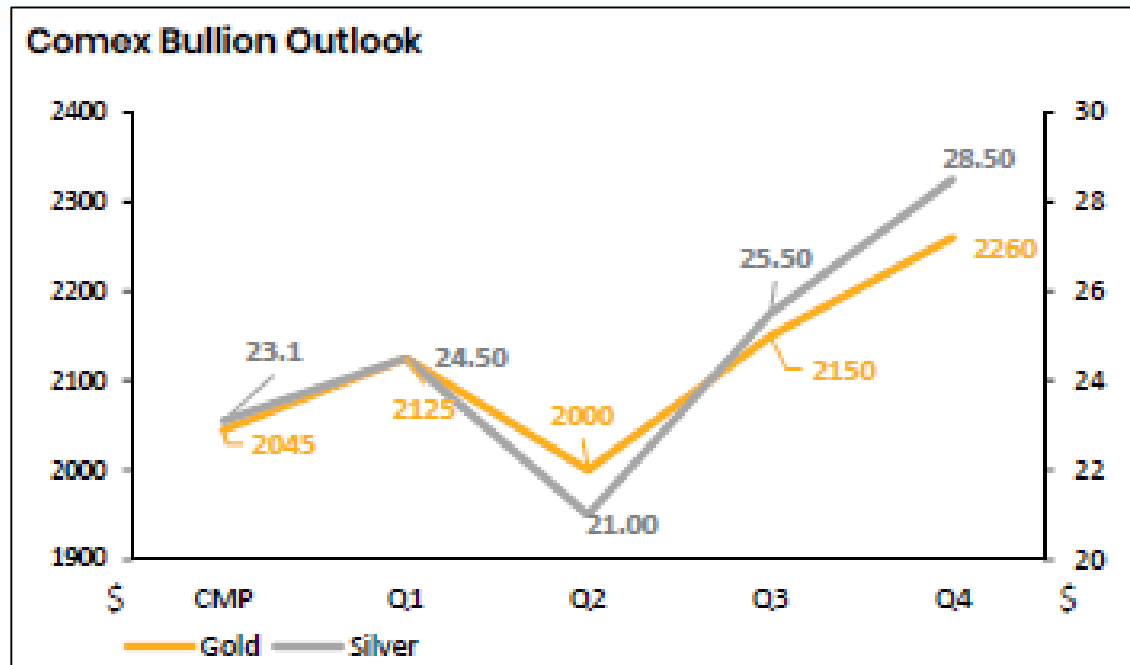
MCX Silver Spot (INR/Kg)



Particulars	Absolute Returns (%)				CAGR (%)	
	1 month	3 months	6 months	1 year	3 year	5 year
MCX Gold Spot (Rs)	1.7%	1.9%	7.0%	13.3%	12.6%	14.0%
MCX Silver Spot (Rs)	2.6%	-3.3%	-0.3%	12.8%	3.5%	12.9%



# Gold & Silver – Outlook



as on 6<sup>th</sup> Mar'24  
 Gold Price is \$2,148  
 Silver Price is \$24.16

- US Fed rate cut expectations, decline in US yields, fall in US dollar Index and safe heaven appeal are the factors that could contribute to positive rally in Gold
- Boost in industrial demand, growth in Manufacturing and Industrial activity in China and green tech advancement are the factors that could contribute to positive rally in Silver



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