

Festivities Continue



Strategy Report : 4th November 2021

1 Risk of large market correction

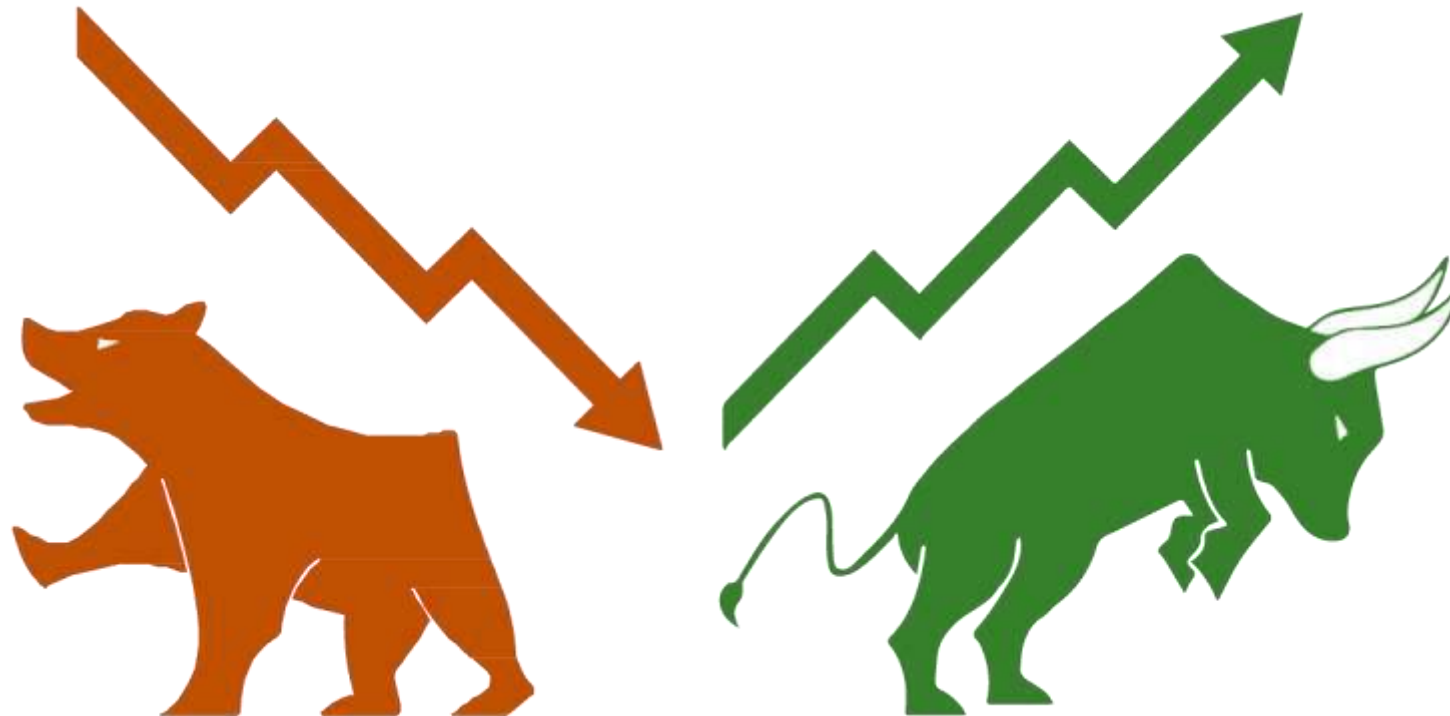
Economy and market

2

3 Corporate performance and market

Equity market outlook

4



Despite concerns, past experiences tell us a different story

Up 150-250%
since Apr'20

Up 10,000+ points
Nifty 50 since Apr'20

10 times 10% rally
Nifty 50 since Apr'20

Elevated returns
1/3/5/10 year CAGR



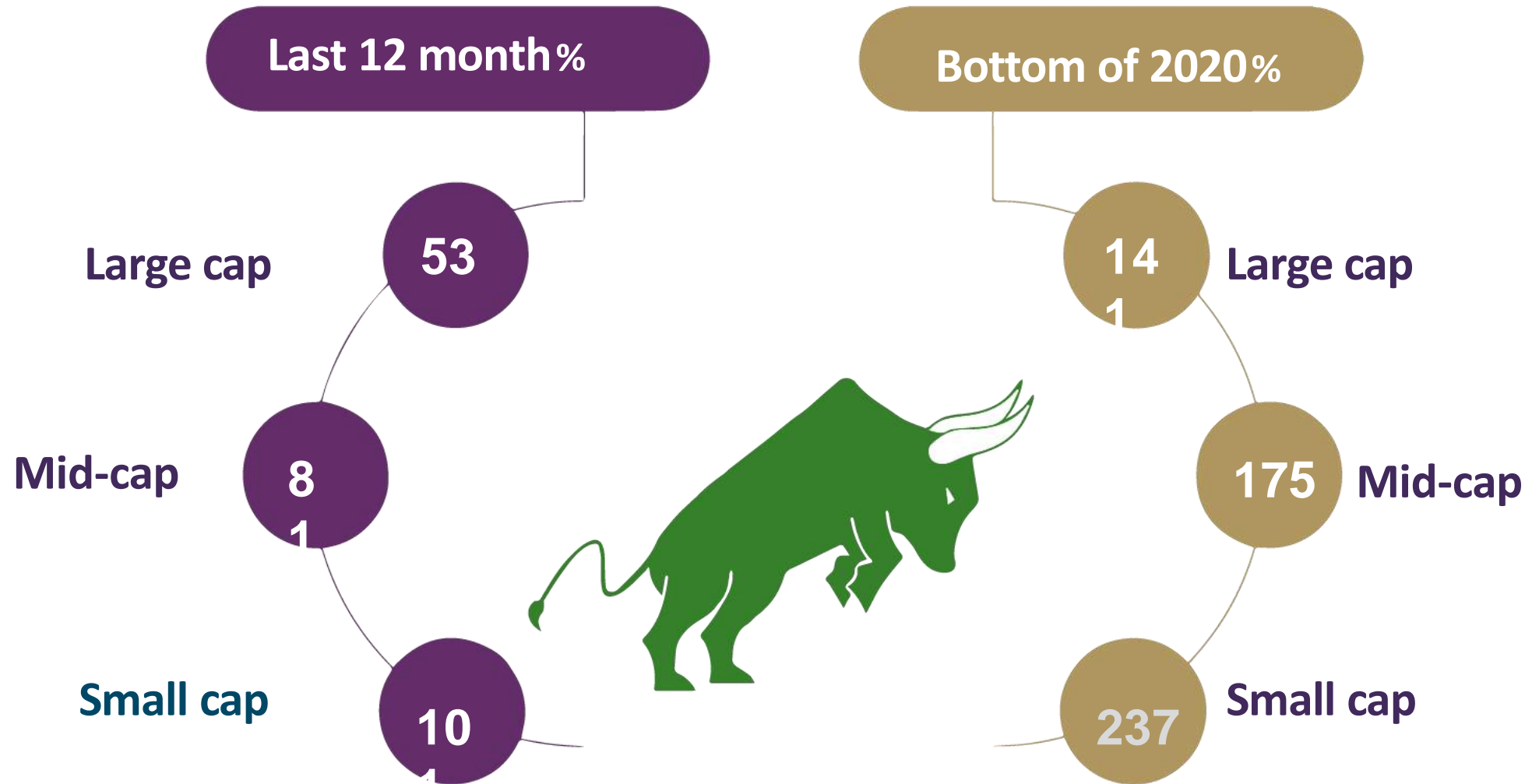
50% annual rally
Common except last 10Y

50%+ yearly rally
Each year 2003-10

88% positive return
12 M return post 50%+

14% average return
12 M return post 50%+

Equity market return has been very high



The rally even for large cap (Nifty 50) has been very fast

42

Minimum
annualized
return since
Mar'21, %

71

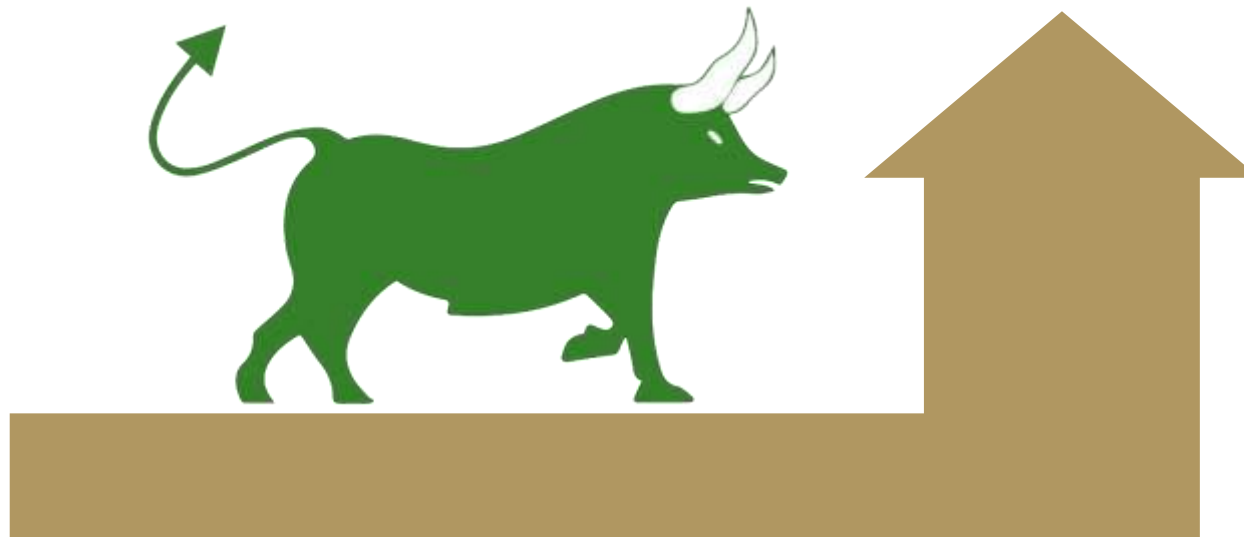
Maximum
Annualized
return since
Mar'21, %

10,728

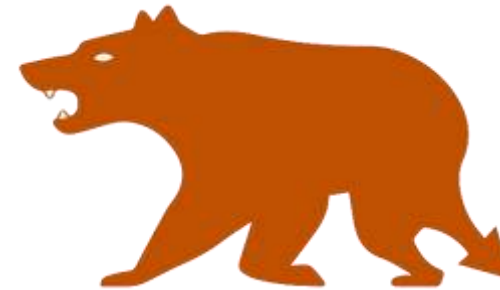
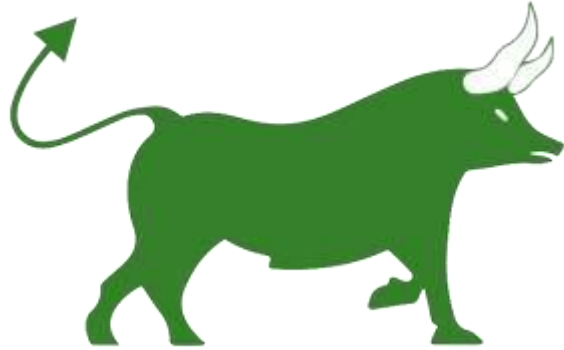
Index points
(Nifty 50)
added since
Mar'21

19

Maximum one
Month Return
(Nifty 50) since
Jan21, %



The rally since April 2020 has been almost one way without much breather



UP, % of months since Apr'20

79

21

DOWN, % of months since Apr'20

10

More than 10% monthly rally since Apr'20*

55

Month with + return since 2000

45

Month with - return since 2000

2

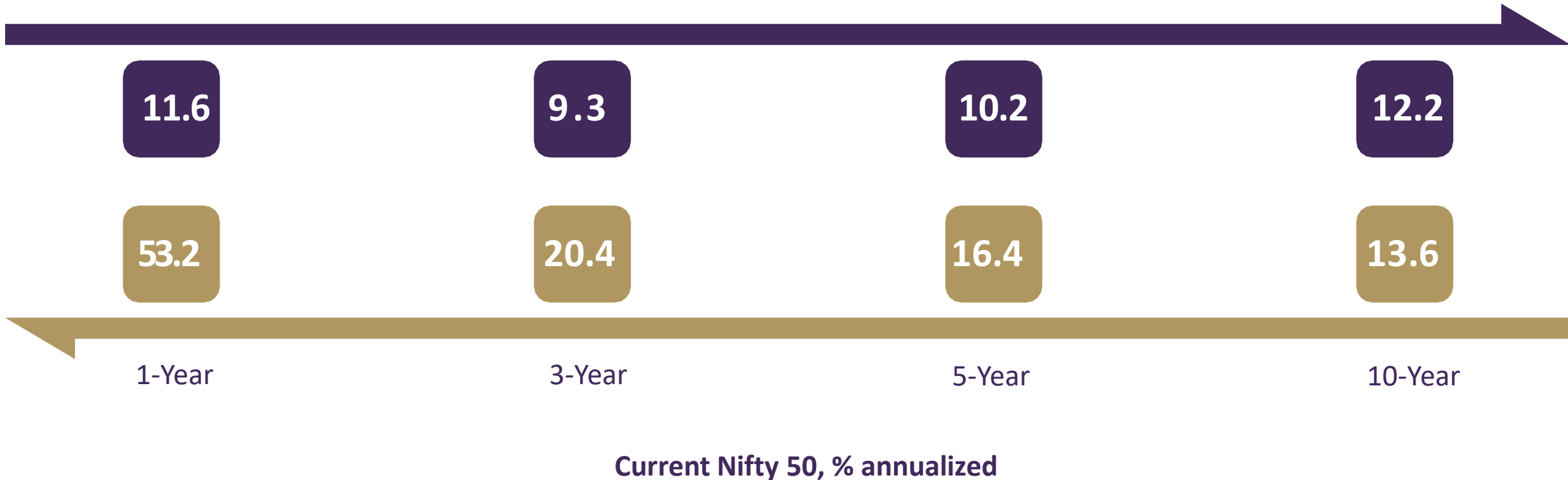
More than 10% monthly fall since Apr'20@

*Monthly high versus the low of the previous month.

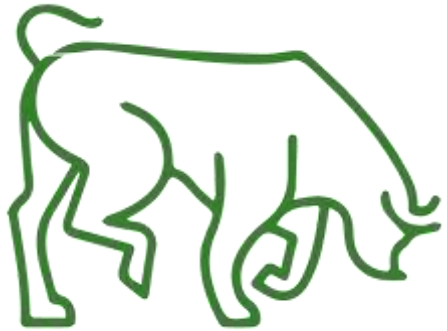
@Monthly low versus the high of the previous month.

The current market returns are way above long period averages

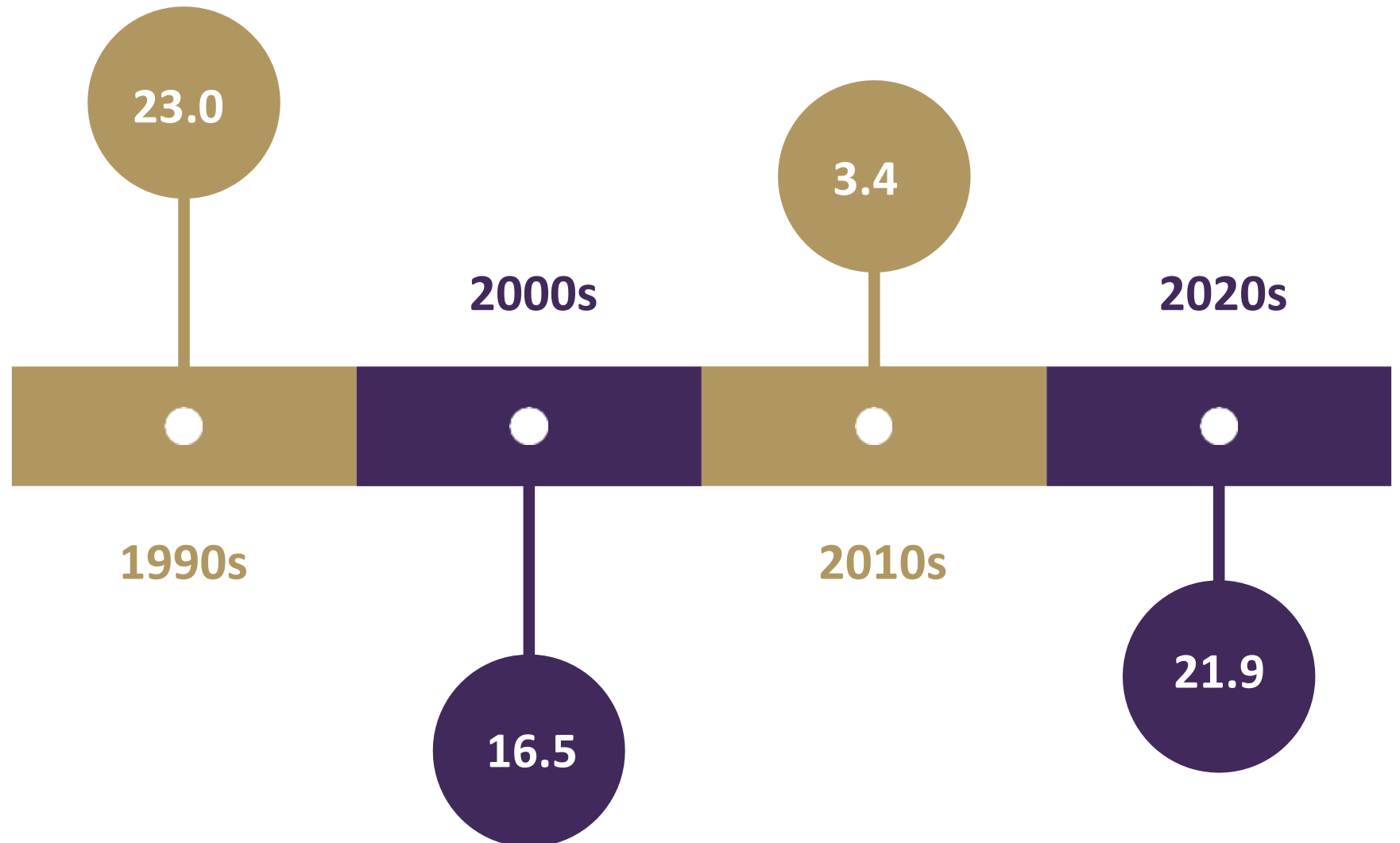
Average Nifty 50 return since 1991, % annualized



Yet, only in the last decade, high (50%+) annual return was very rare

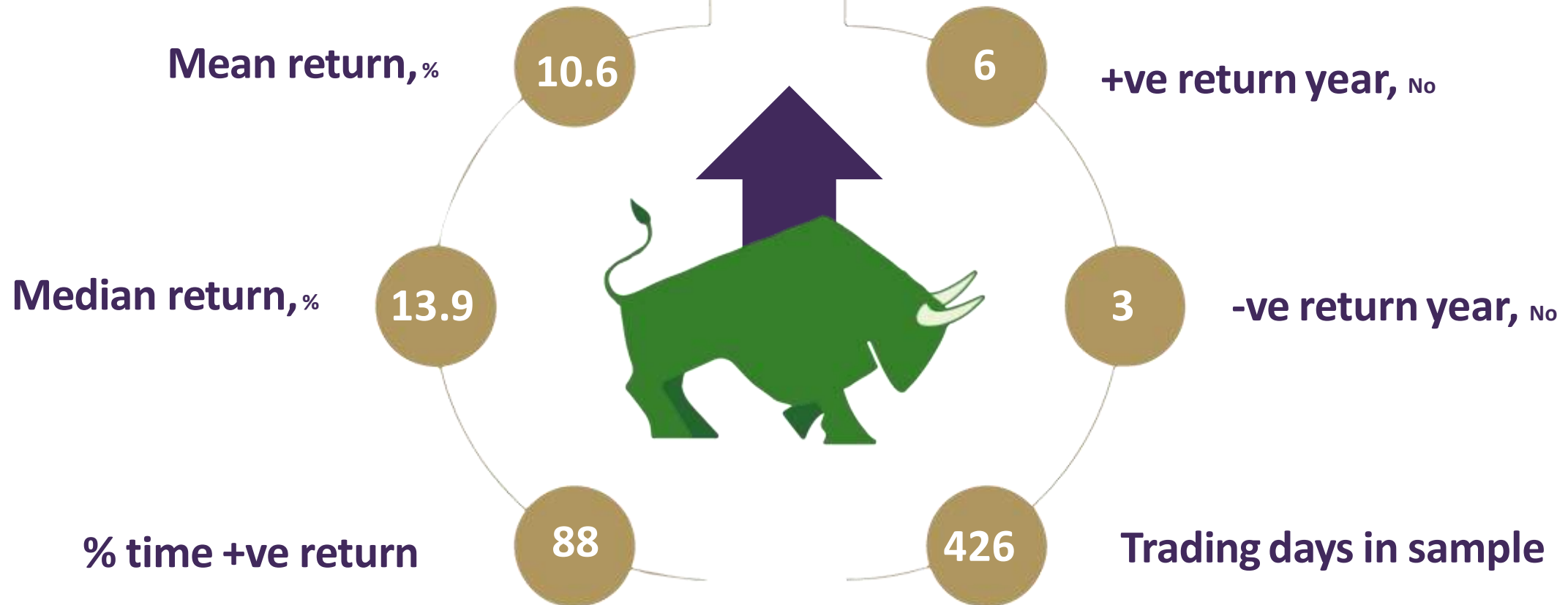


Percentage of time Nifty 50 generating 50%+ yearly return in a decade



Since 2000, after a 50%+ rally in 12 months, 88% times Nifty 50 generated +ve return in the next 12 months

What happened in the next 12 months after 50%+ rally since 2000?



Despite few exceptions, the economy is doing much better vs. pre pandemic

GDP growth 9.5%

Avg. Nifty return 20%+

Inflation 4-5%

Avg. Nifty return 20%+

Economy healthy

Agri, ind., most services

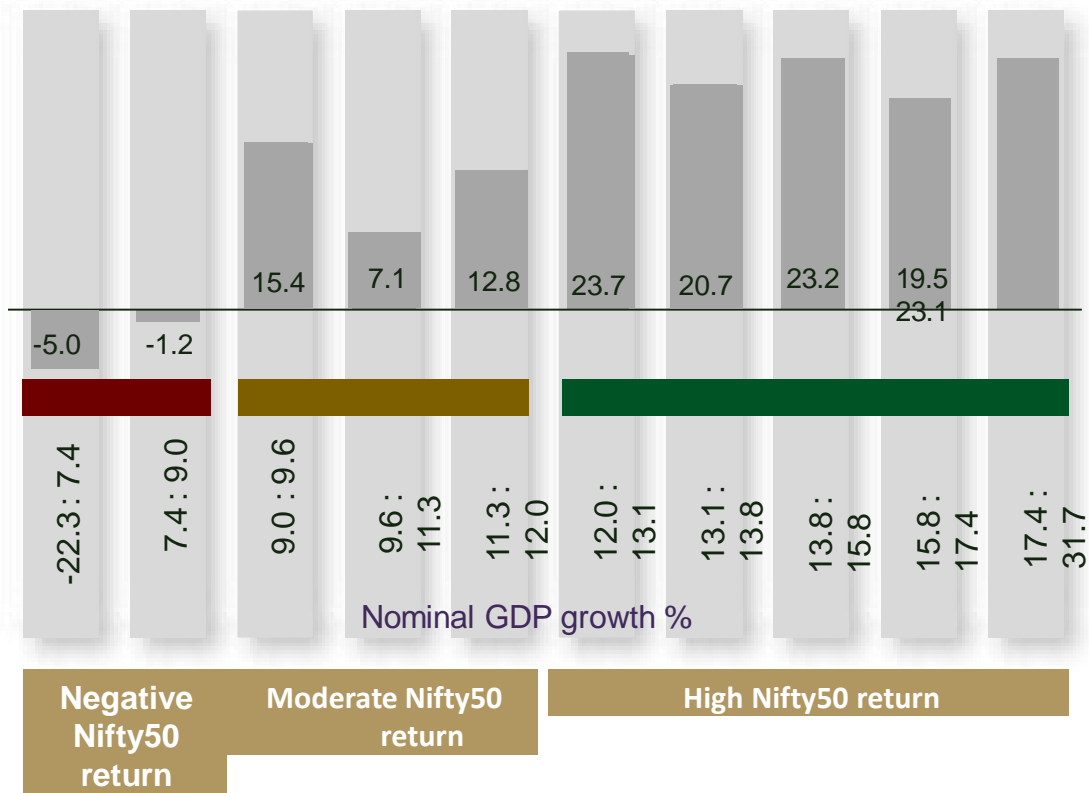
Few weaknesses

Transport, part of retail



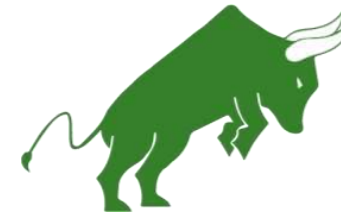
Strong and rising correlation, GDP outlook suggest strong equity return

Nifty 50 return, annualised, %



Reasonable correlation

0.6 - GDP growth and 12 M Nifty 50 return



Rising correlation

GDP-Nifty return correlation since 2012

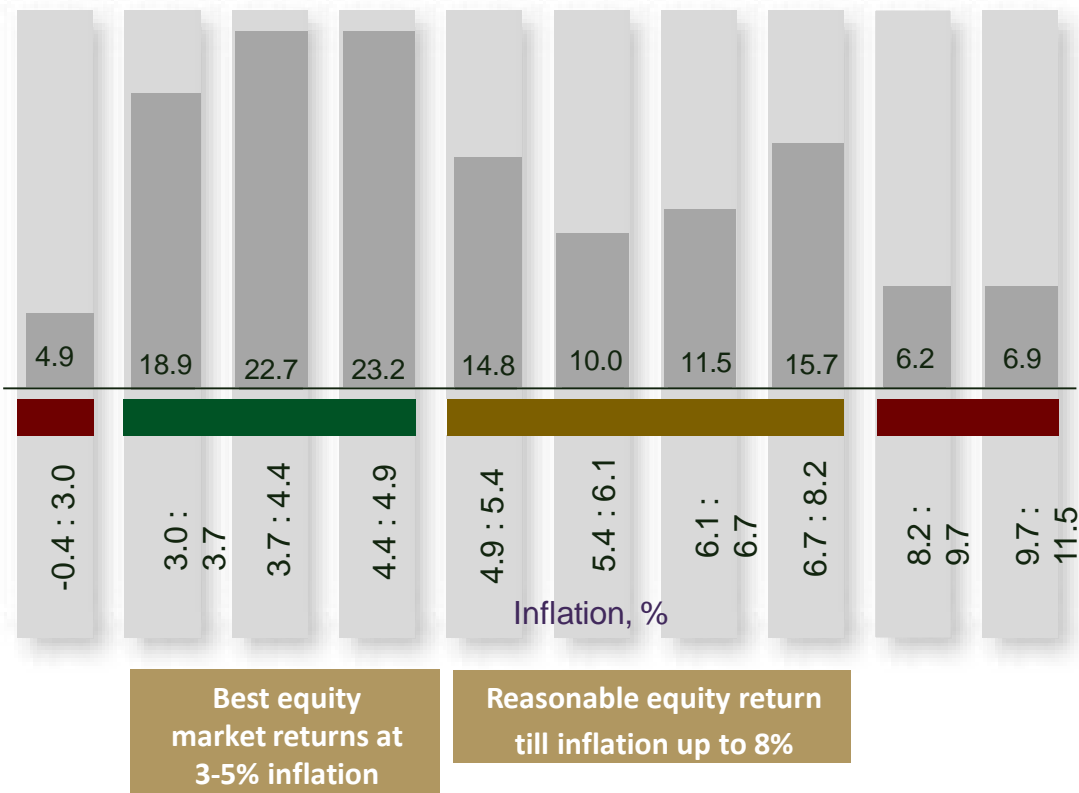


Sweet point 6.5%+

At 12%+ nominal GDP (~6.5%+ real GDP), 20%+ Nifty 50 return

Not much impact, 3-5% inflation best for equity market

Nifty 50 return, annualised, %



Weak but (-)ve effect

5%+ inflation impacts equity return



3-5% sweet spot

Best equity return at this inflation range



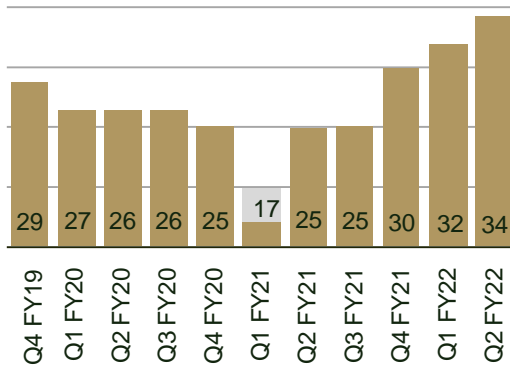
Too high, too low bad

Worst equity return at below 3% and above 8% inflation

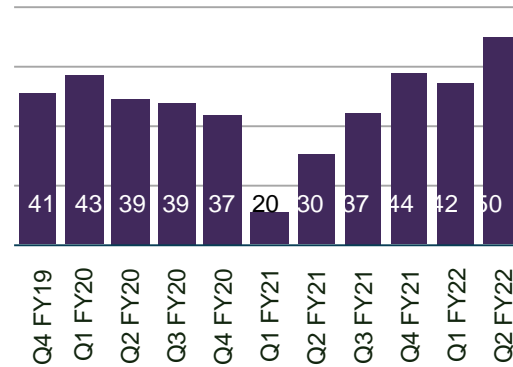
External sector, industry doing much better than pre-pandemic 29

Monthly averages

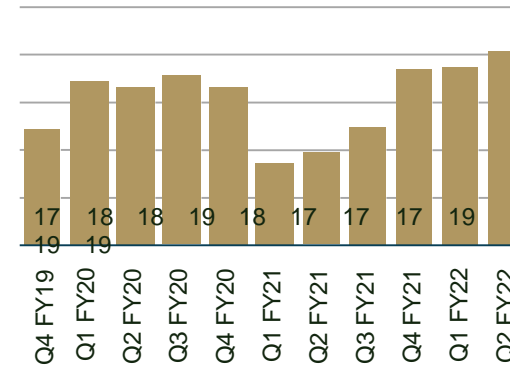
Exports, USD bn.



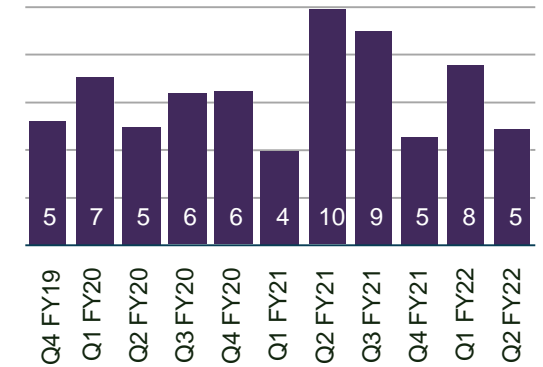
Imports, USD bn.



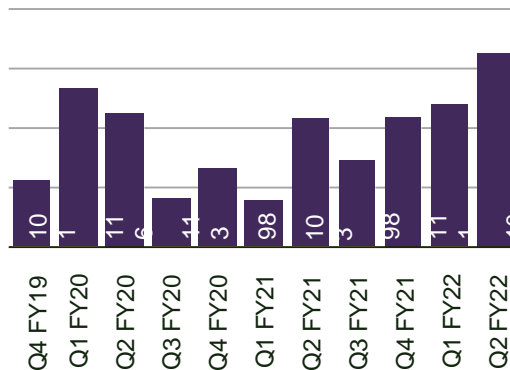
Services ex, USD bn



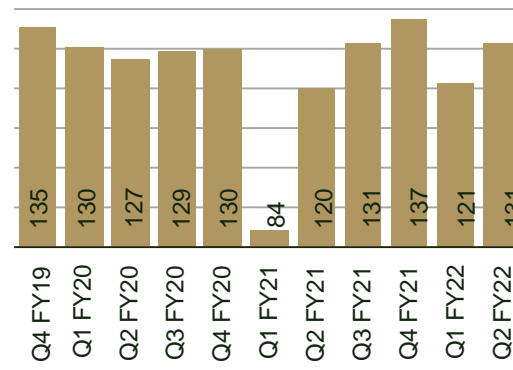
FDI, USD bn.



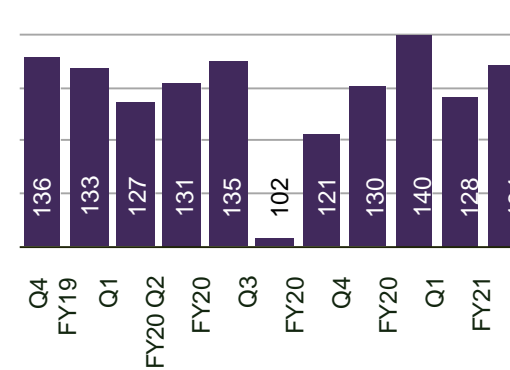
Electricity, '000 GWh



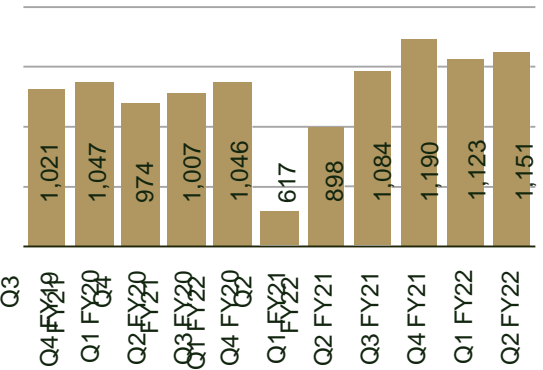
Industry, index



Infrastructure, index



GST, Rs '00 crore

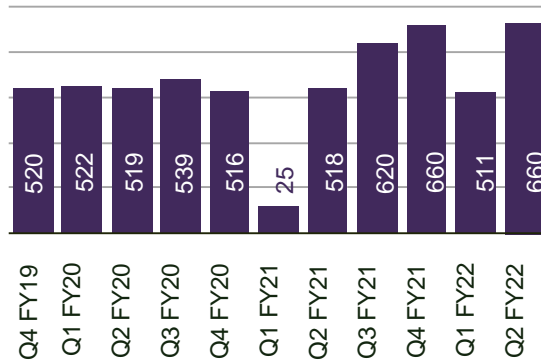


More segments doing well too

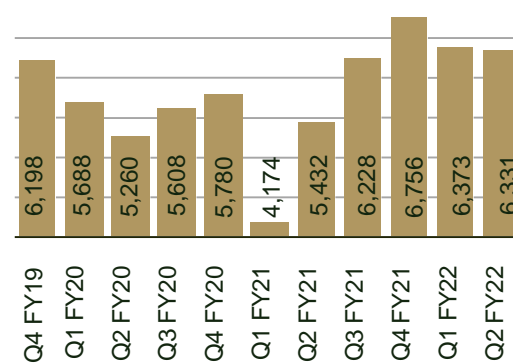
Govt. finance, transport, banking, jobs doing well too

Monthly averages

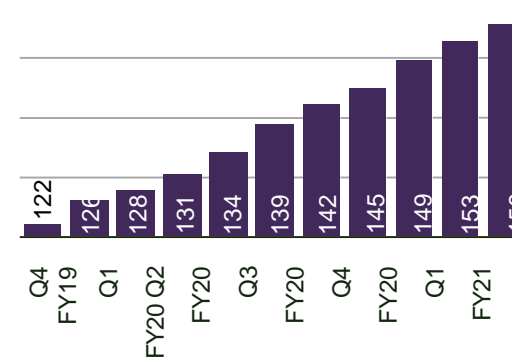
GST-E-way, Lakh



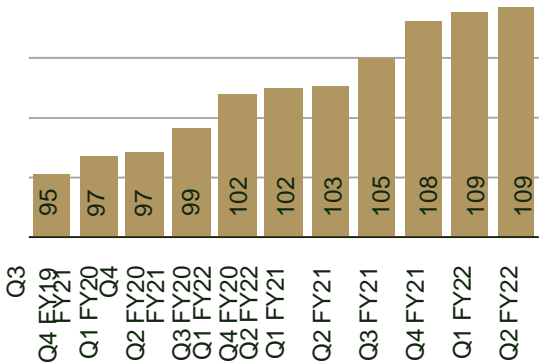
Rail freight, Km cr



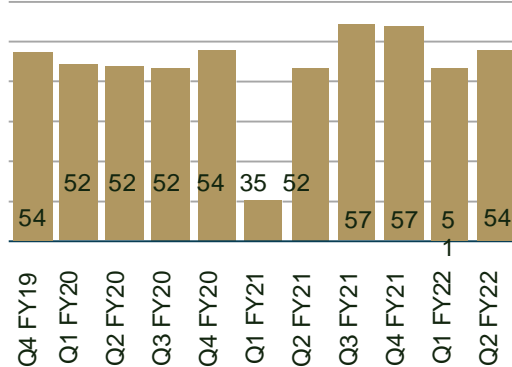
Deposit, Rs.lakh crore



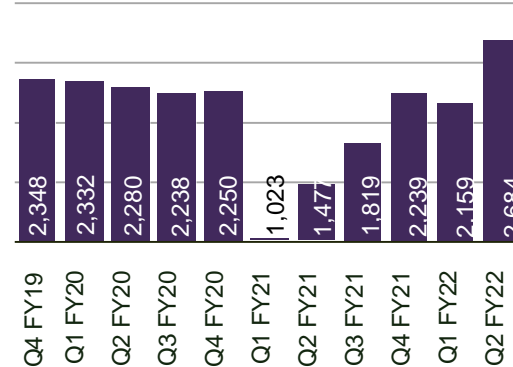
Credit, Rs.lakh crore



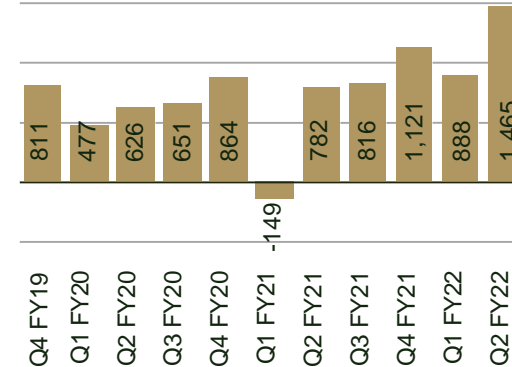
PMI-Manu, index



Job index



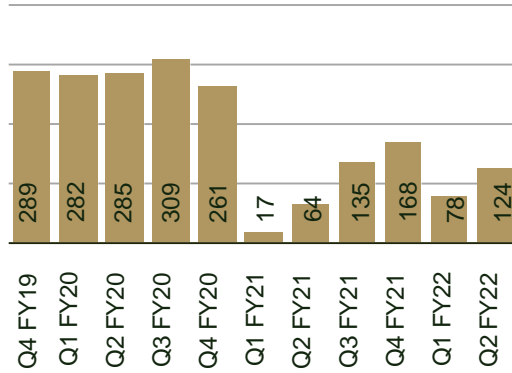
Net pay roll jobs, '000



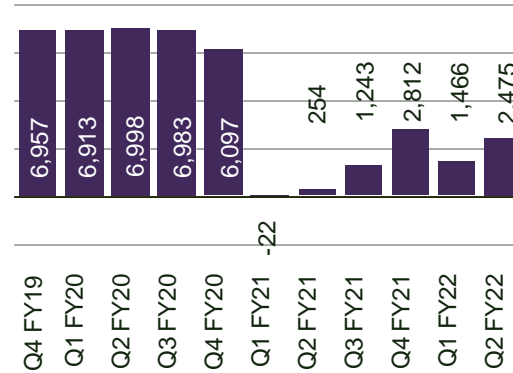
Passenger transportation, auto, parts of services yet to fully recover

Monthly averages

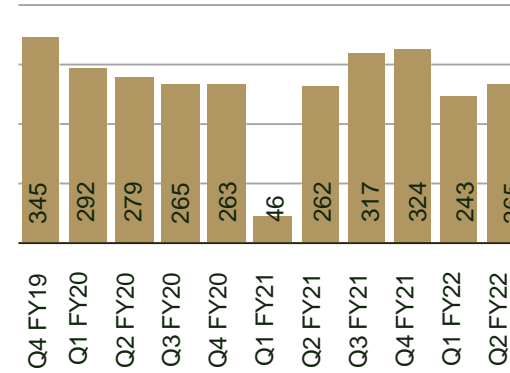
Air passenger, lakh



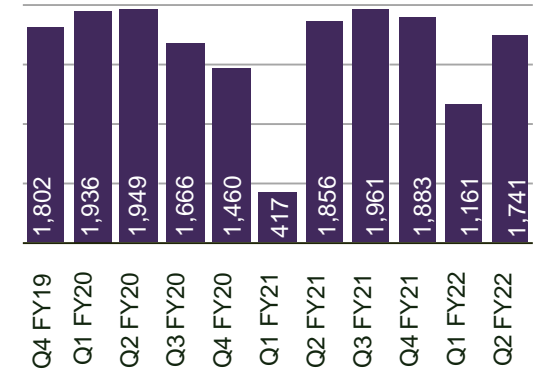
Rail passenger, lakh



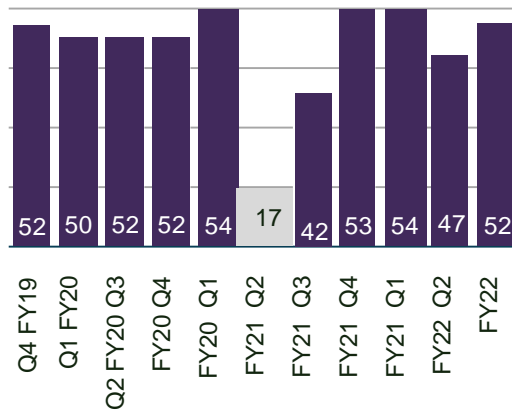
Car sales, '000



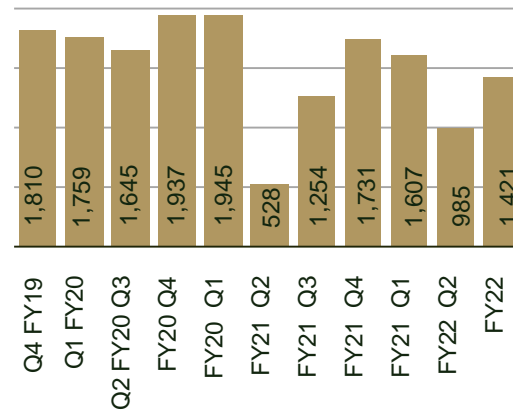
2-wheeler sales, '000



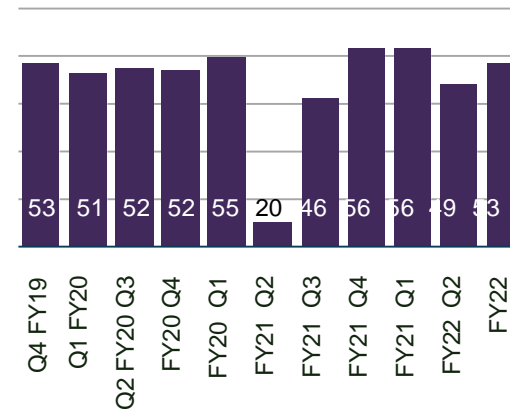
PMI-Services, index



Car registration, '000



PMI-Comp, index



Record sales, profit and margin but cost pressures building, valuation close to fair

Record sales, profit in Q4
FY21/ Q1 FY22



Strong earning
growth continues



Raw material, fuel
costs building up



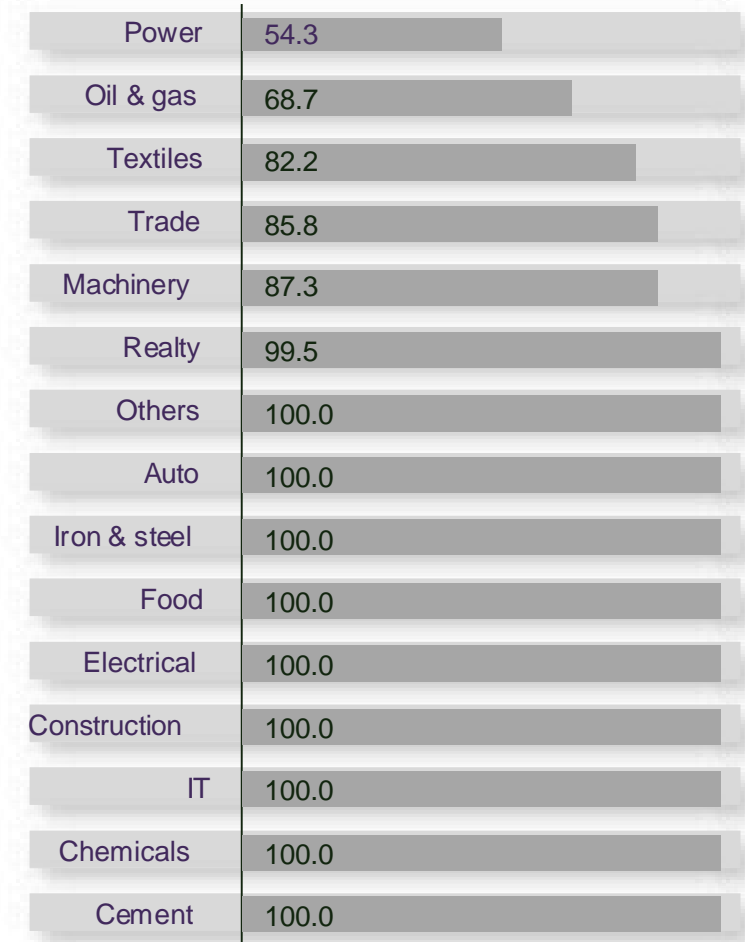
Valuation close to
historic average

Highest corporate sales in Jan-Mar'21, recent sales highest in most sectors

Corp. sales, Rs.'000 crore



Recent vs. max sales, %



■ Sales in Q4 FY21-Q1 FY22 vs. maximum

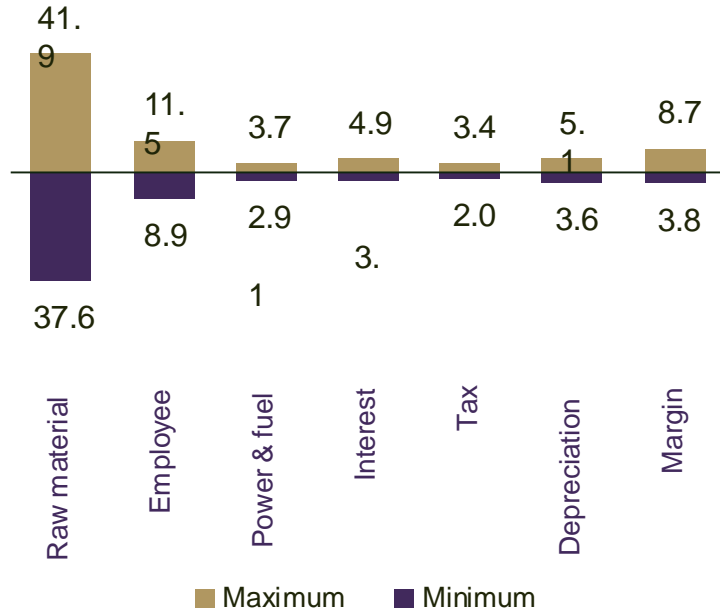
■ Max overall sales in Q4 FY21

■ Last 2 qtr. best for 9 of 15 sectors

■ High sales growth likely to continue

Modest margin pressure likely, better efficiency to partly compensate

Cost to sales: 2015-19, %



Raw material cost pressure

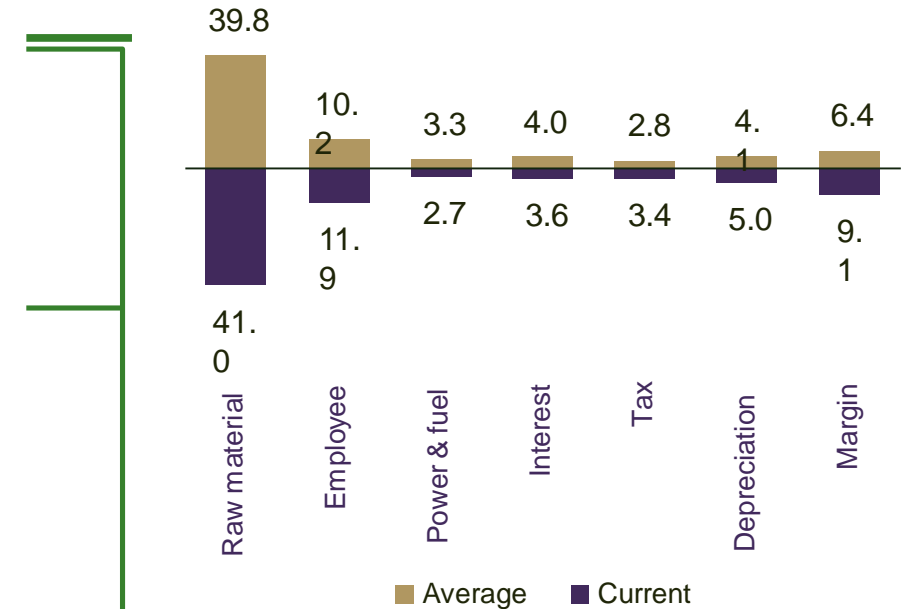
Power, fuel cost rising for most

Staff cost seems to have topped out

Efficiency gain, other cost savings to go on



Cost to sales: 2015-19 vs. current, %



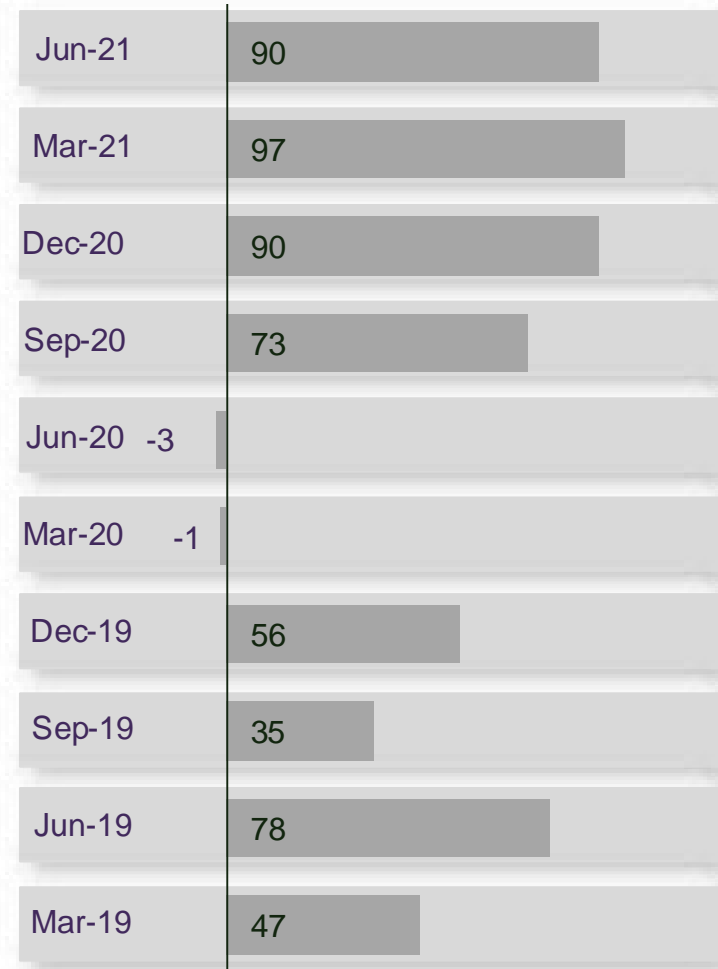
With close to record high margin and sales, profit at record high

■ Max overall profit in Q4 FY21

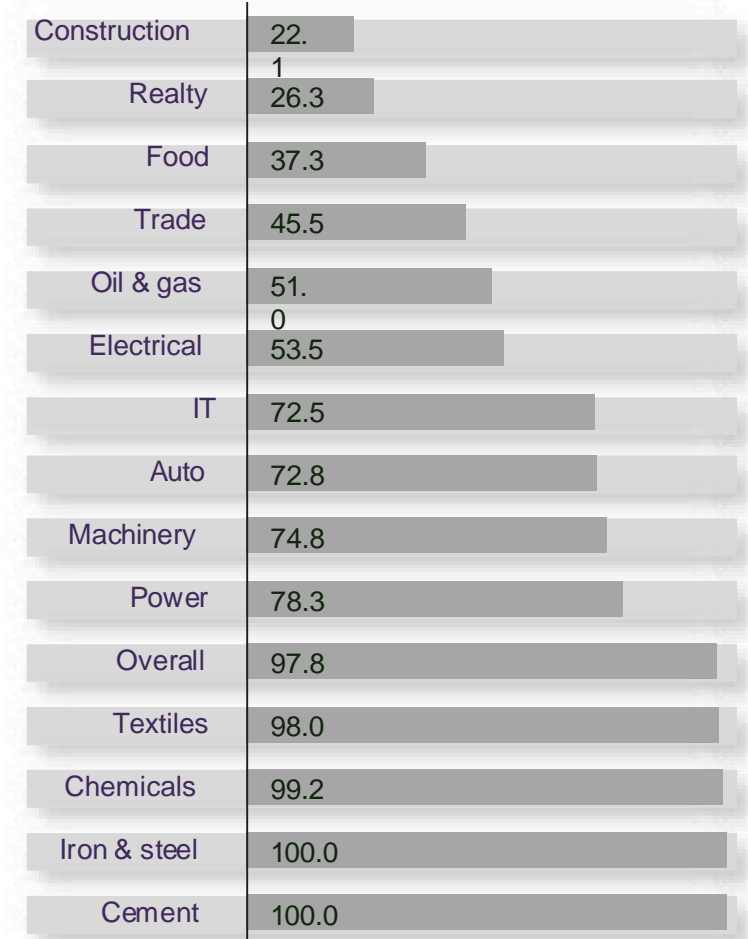
■ Last 2 qtr. best margin for many sectors

■ Best overall margin in recent quarters

Corp. profit, Rs.'000 cr



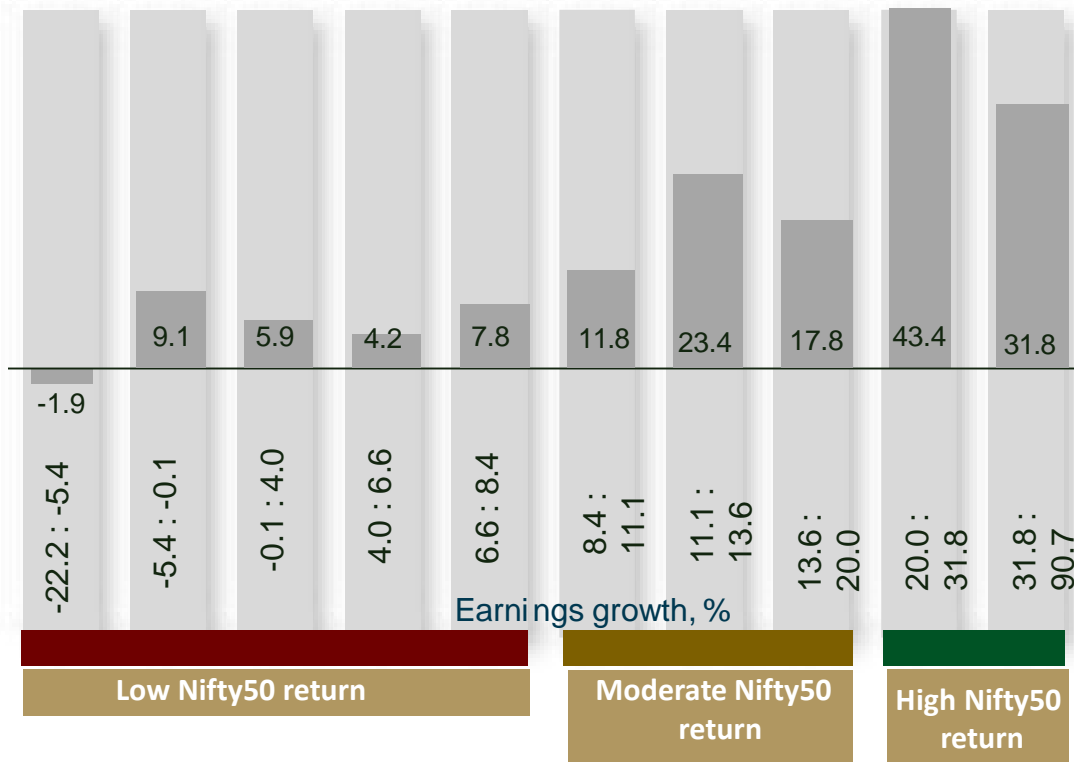
Recent vs. max profit margin, %



■ Profit in Q4 FY21-Q1 FY22 vs. maximum

If earnings growth holds above 20%, equities return unlikely to falter

Nifty 50 return, annualised, %



Reasonable correlation

0.6 - earnings growth and 12 M Nifty 50 return

Rising correlation

Earning growth-Nifty return correlation since 2012

Sweet point 20%+

At 20%+ Nifty earning growth, Nifty 50 average return over 30%

Trailing PE multiple looks expensive, but forward below average

Average between 2015 and 2019 for Nifty 50

Price to earnings ratio (PE)	One-year forward PE ratio	Difference PE and 1-Y forward PE	Forward earnings discount rate
24.6	24.4	25	7.29
27.5	22.6*	486	6.26
Ratio	Ratio	Basis points	

Current (7-day average) for Nifty 50

*At expected one-year earnings growth of 22%.

High market returns creating uncertainty about the future outlook



Large, mid-, small-
cap performance in
line with past

We like cap goods,
healthcare, metals,
power, realty

Indian equity done
the best in 1, 3, 10
year vs. peer

Equities have large
swings but return
+ve in last 17 of 20



The market-cap wise return profiles are largely in line

53

Nifty50

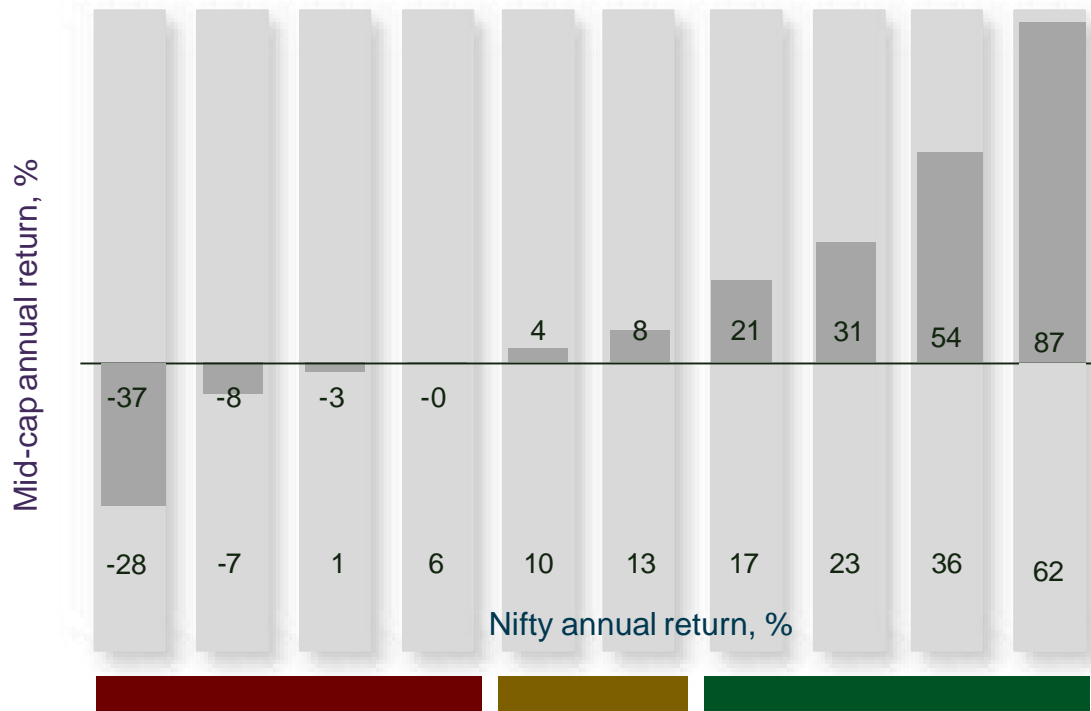
81

Mid-cap

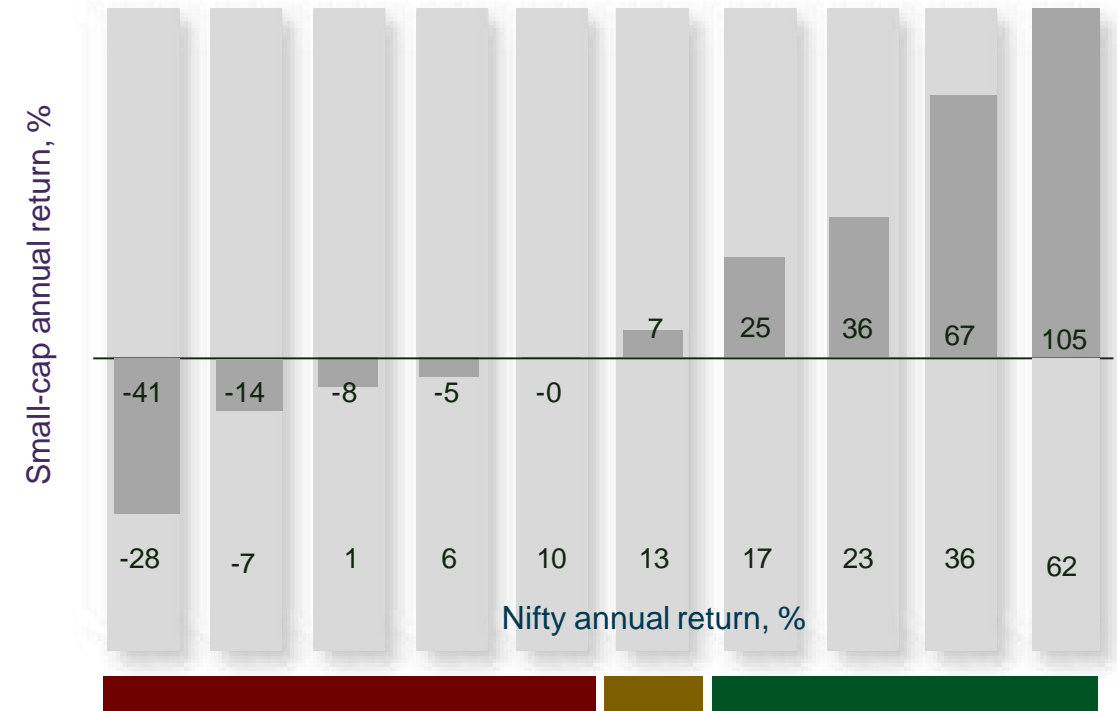
101

Small-cap

Nifty 50 vs. mid-cap return, %



Nifty 50 vs. small-cap return, %



Equity outlook by sector

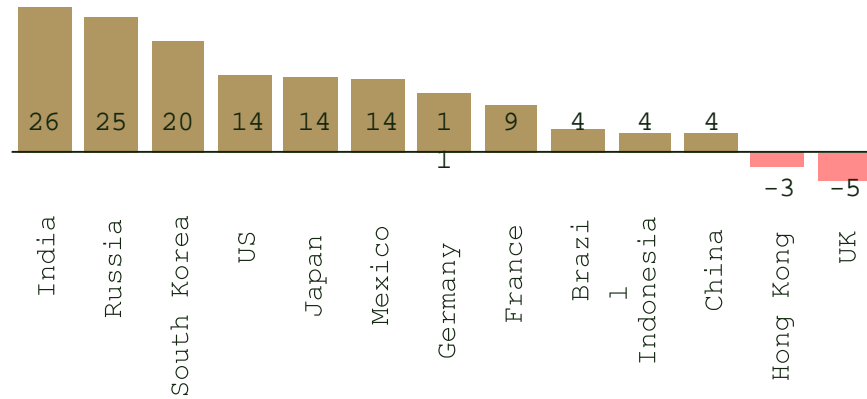
Prefer investment over consumption, cyclical over defensive

	Auto	Bank	Cap goods	Durables	FMCG	Health Care	IT	Metal	Oil & Gas	Power	Realty	Tech
1-Y return,%	45.5	65.4	97.6	91.3	37.4	32.2	57.1	169.5	61.6	118.7	153.2	53.8
Return vs Nifty												
1-year, %	-7.7	12.2	44.4	38.1	-15.8	-21.0	3.9	116.3	8.4	65.5	100.0	0.6
2-year, %	-2.9	-8.9	-4.1	6.8	-12.6	19.7	25.0	28.5	-13.1	8.0	21.5	17.5
3-year, %	-11.2	-3.9	-2.9	15.3	-9.1	1.1	13.5	-2.3	-7.1	1.1	17.9	8.5
5-year, %	-13.2	-0.8	-3.5	12.9	-3.9	-6.0	11.7	-0.2	-6.8	-4.4	6.4	6.3
10-year, %	-2.2	1.3	-4.0	7.5	0.7	2.6	6.4	-7.0	-5.3	-8.5	-4.8	2.7
Current vs. max earnings, %	41.1	98.7	37.4	69.3	91.9	98.9	99.3	99.0	99.0	25.3	18.4	84.1
Price to earnings ratio												
Current	54.0	26.5	80.6	87.9	43.8	35.4	34.4	9.0	10.4	20.8	85.1	53.9
Median	21.1	16.5	28.2	31.6	36.7	31.8	19.8	13.5	13.5	19.5	25.7	23.1
Top 85 percentile	30.1	29.5	40.0	79.2	43.2	41.7	24.3	26.9	17.9	28.3	53.7	28.3
Sector view	Sell	Hold	Buy	Sell	Hold	Buy	Hold	Buy	Hold	Buy	Buy	Sell

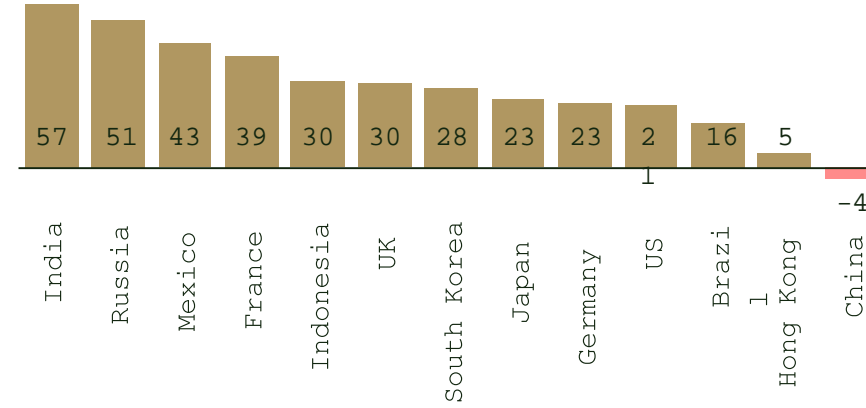
India vs. global equity

India is the best performing in 1-, 2-and 10-year horizon, second best in 5-year

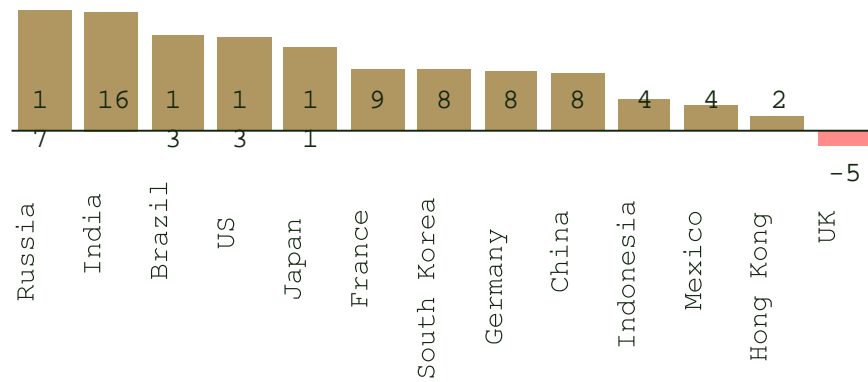
2 Year return, % annualised



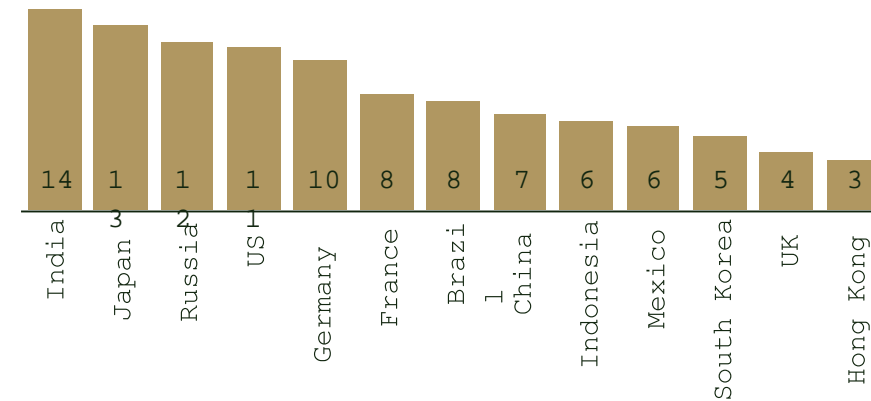
1 Year return, % annualised



5 Year return, % annualised

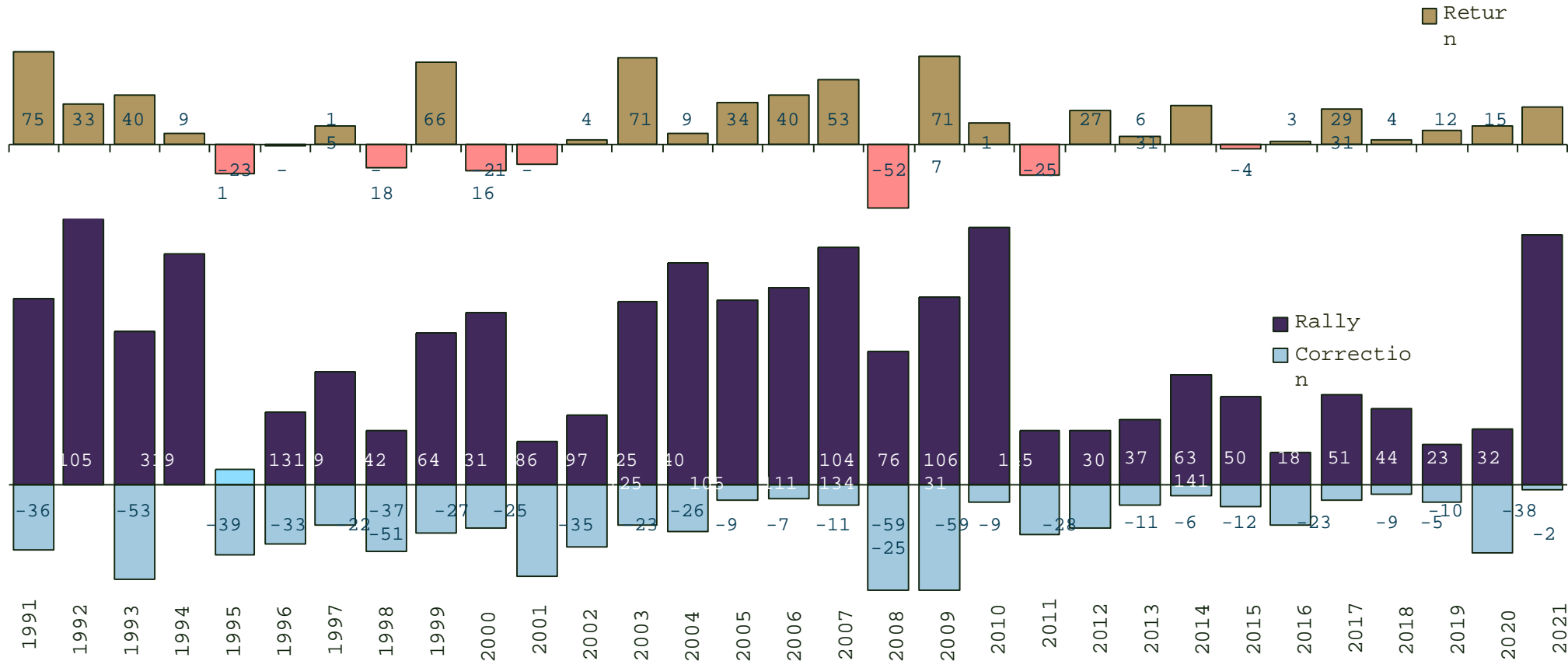


10 Year return, % annualised



Equity market rally & correction

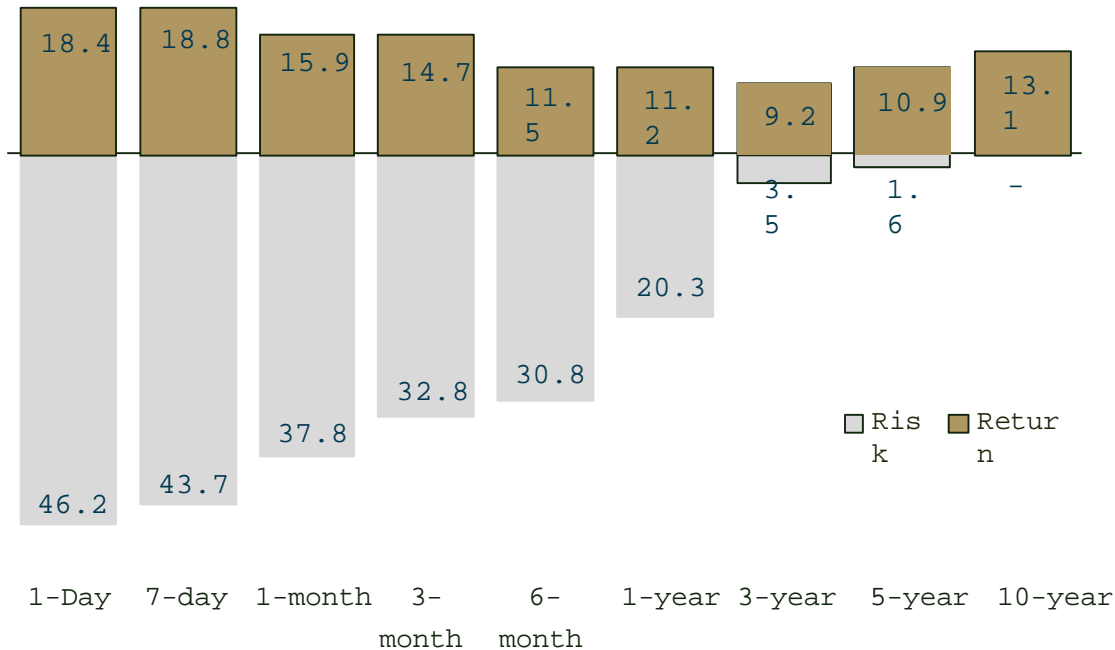
Yearly large rally and correction are frequent but yearly return negative only 3 times in last 20 years



* Yearly rally refers to the Nifty 50 high of a year versus the low of previous year, yearly Nifty 50 correction refer to low of a year versus high of previous year, yearly return refers to Nifty 50 return as at end December of a year versus the start of January of the same year.

Short-term invests may yield (pre-tax, transaction cost) but at huge risk

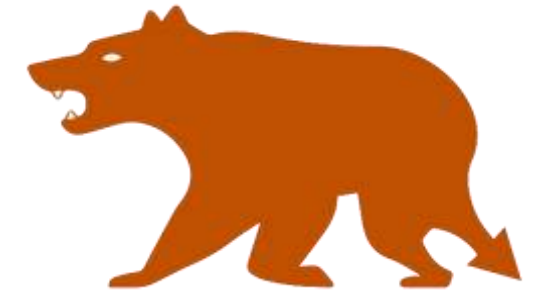
Nifty 50 risk-return vs. time*: 2010-21, %



3-Y+ investing

9%+ return

<4% risk



Up to 1-Y investing

11%+ return

20%+ risk

*: Return refers to annualized return at each investment horizon between 2010 and 2021. Risk refers to percentages of time negative return in those specific investment horizons.

To know more contact



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Appendix

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Additional information on recommended securities/instruments is available on request.

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Thank You