

QUANT YEARLY OUTLOOK 2021



Easy global liquidity to drive broad based performance in equities in 2021

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Unprecedented stimulus to continue

2021: Year of no rate hike

Dollar weakness to attract riskier assets

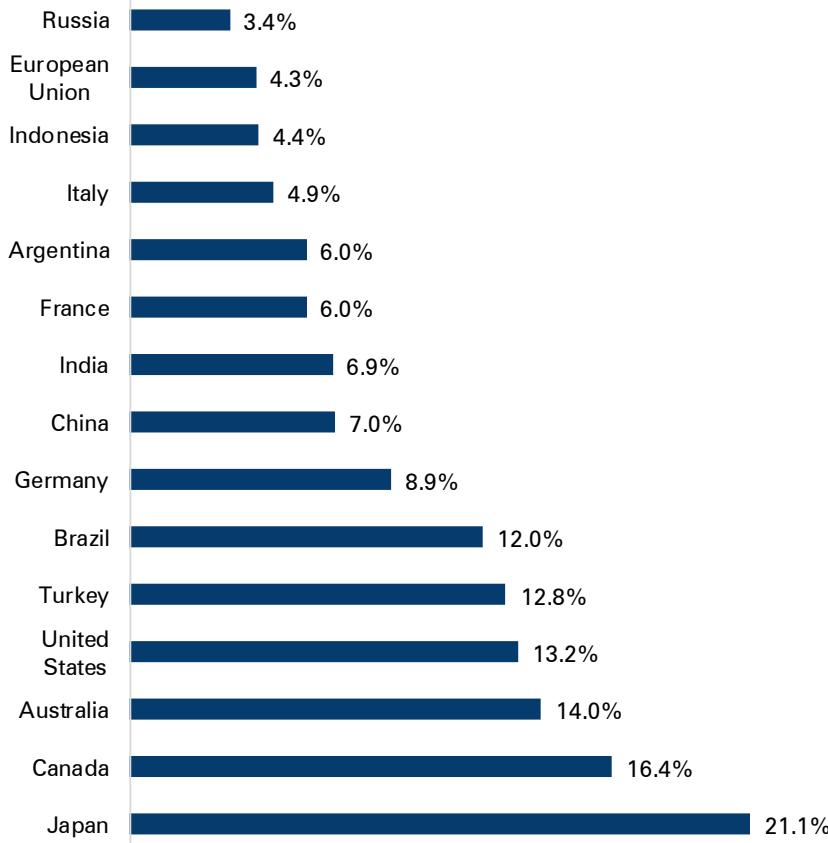
Currency stability to benefit India

FII's Sectoral Investment Analysis

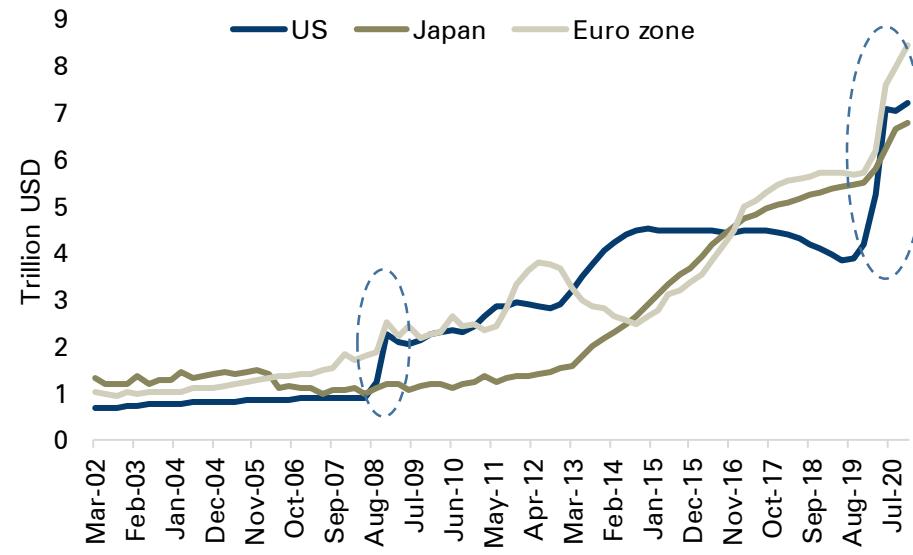
2021: Focus to be on midcaps equities

Quant Picks for 2021

Total stimulus as percentage of GDP

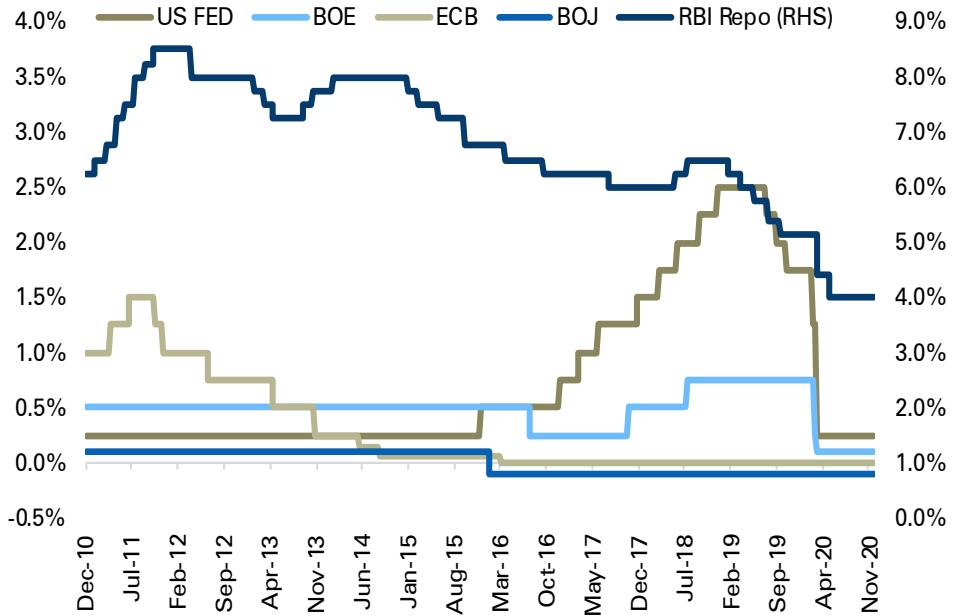


Quantum of stimulus by major economies

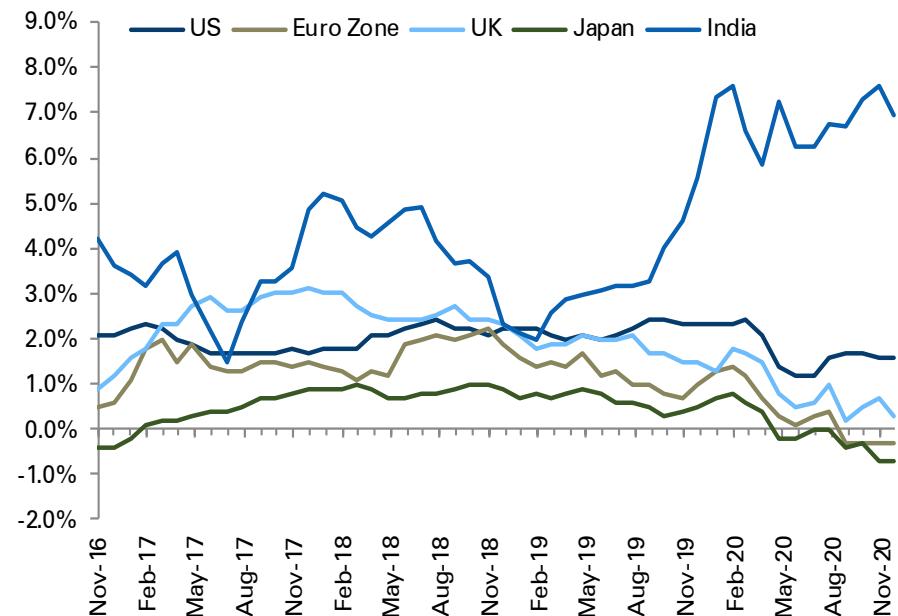


Magnitude of fiscal stimulus for Covid-19 crisis is huge even compared to subprime crisis in 2008. All major economies have pledged further liquidity support in future

Global interest rates to remain low



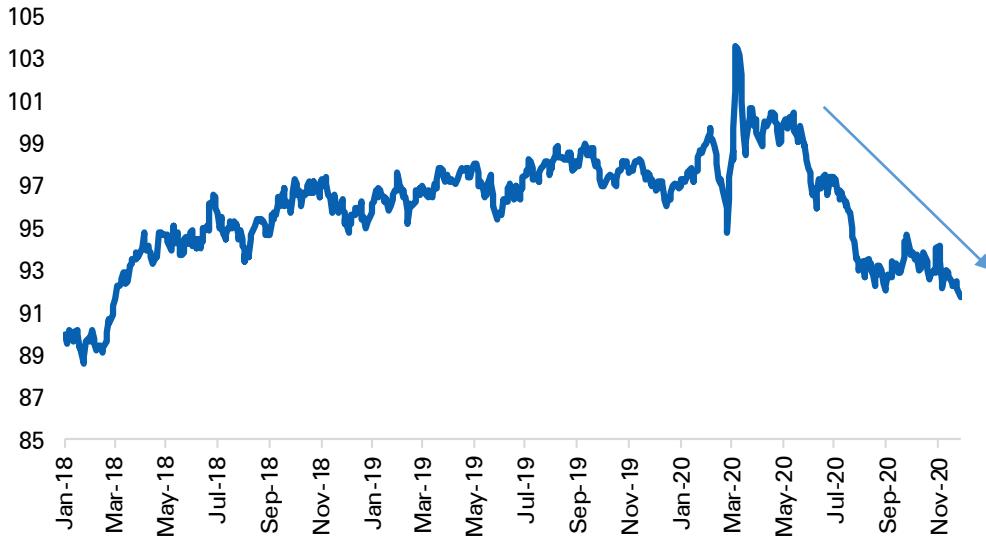
Inflation no major concern



- As the Covid-19 pandemic continues to remain a bigger concern for the global economy, major central banks around the globe have reduced interest rates to near zero to address the situation while emerging economies, including India, have also reduced interest rates to historic lows
- While developed economies are facing deflationary pressure, the monetary easing around the world is expected to continue in the coming year also as the global economy will need more fiscal support to recover. However, higher inflation remains a major concern for India. Still, RBI is not looking at inflation and has clearly mentioned its pro-growth stance. Thus, policy rates in India are also likely to remain unchanged in the foreseeable future

Dollar weakening to benefit riskier assets..

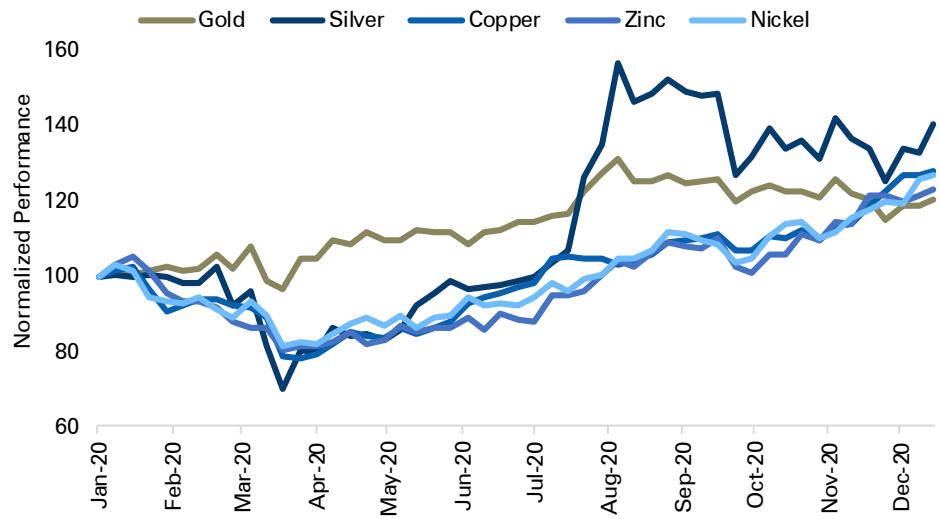
Dollar Index trend remains negative amid large stimulus



As dollar continues to weaken against a basket of major currencies, we have seen investments into riskier assets, including commodities in 2020. This is expected to continue next year as well

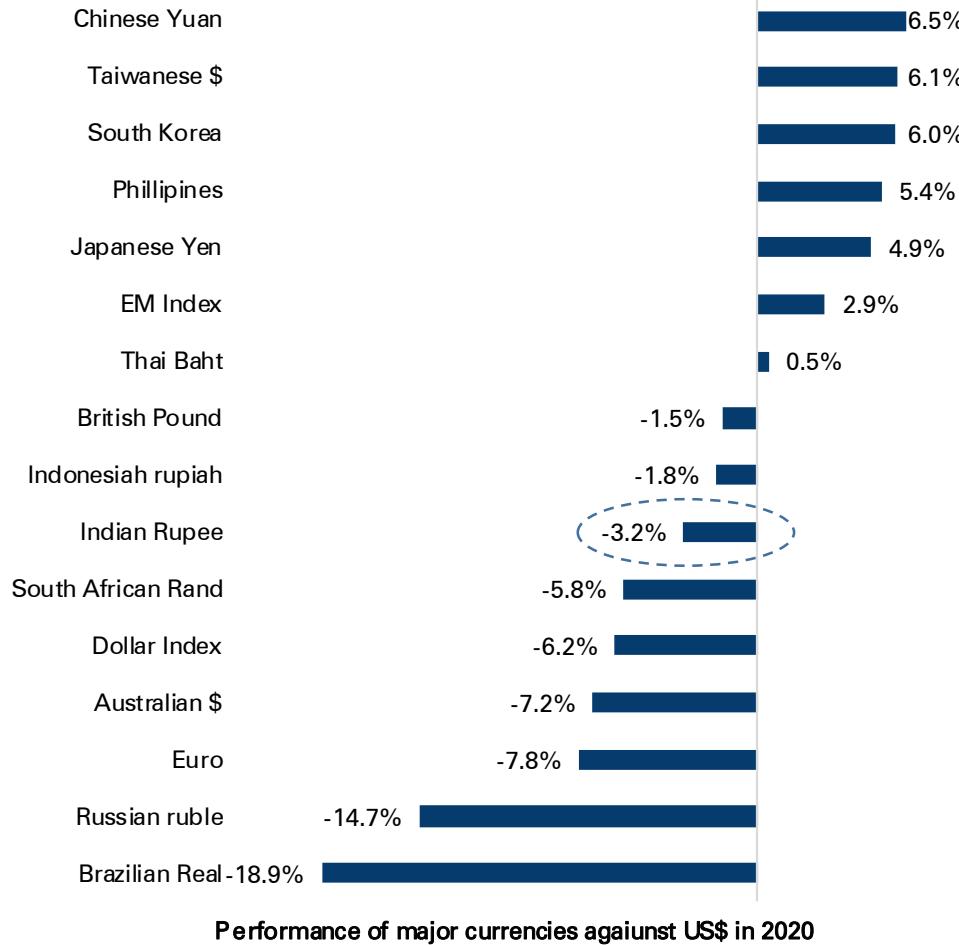
Dollar continues to decline against a basket of major currencies as a bigger stimulus package in the US after Joe Biden's victory prompts more investments into riskier assets and reduces demand for the safe haven greenback

Investments rise into riskier commodities

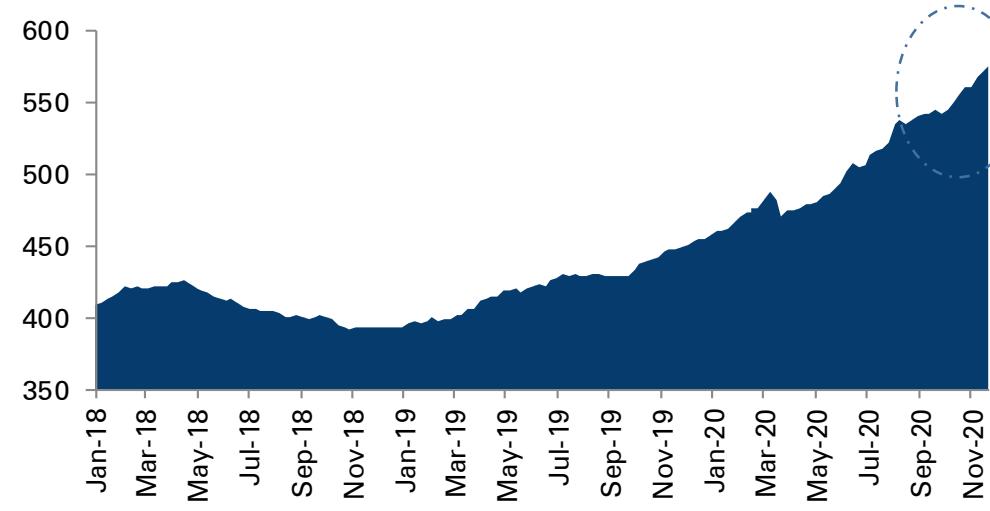


Currency stability to benefit India..

Rupee remains resilient

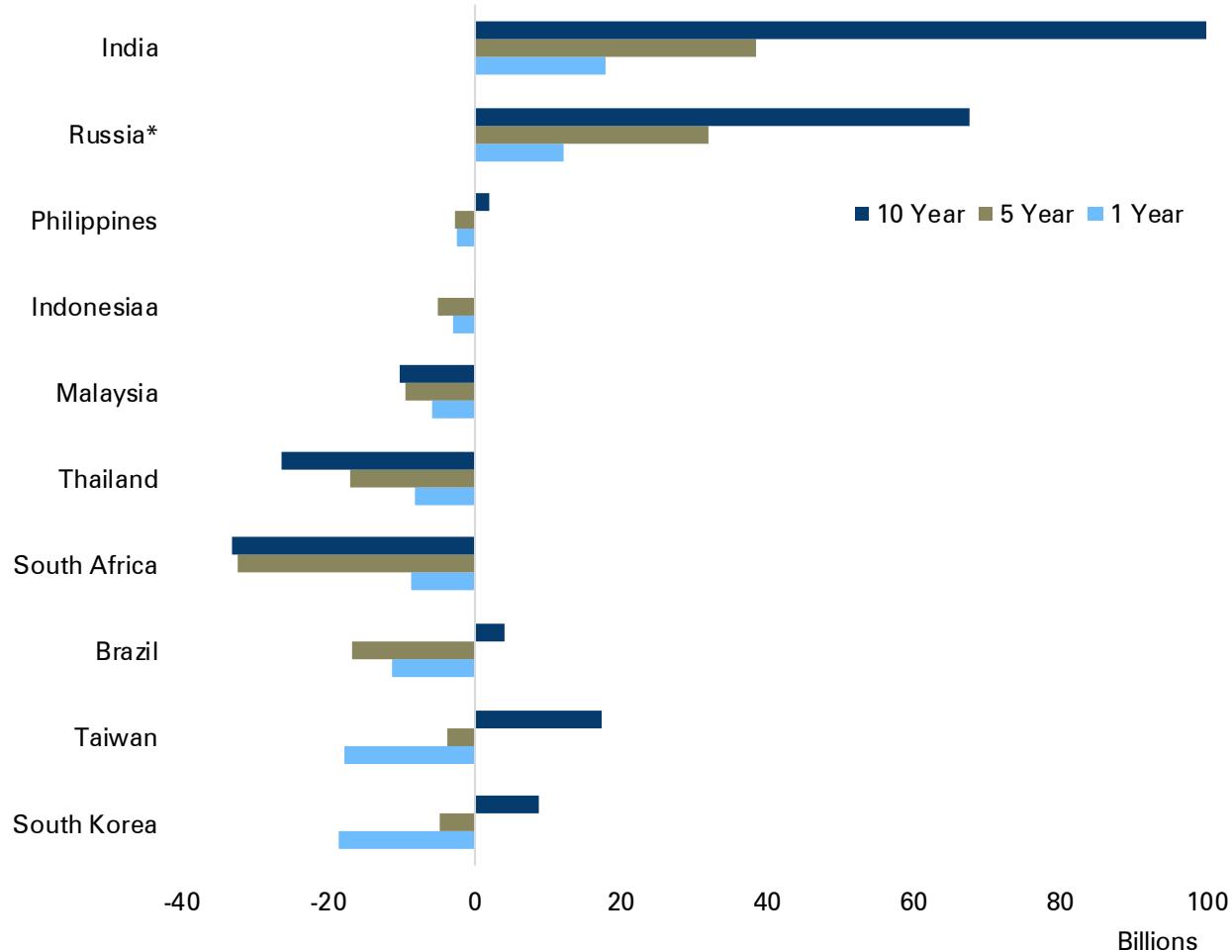


India's forex reserves (billion US\$)



- The rupee remains stable despite dollar weakening, which has affected other EM currencies
- Resilience of the rupee came with RBI's intervention to boost exports and bring more foreign funds as Indian forex reserves continue to climb to record highs
- The rupee's resilience became more prominent considering record FII inflows were seen in Indian equities in the last few months.

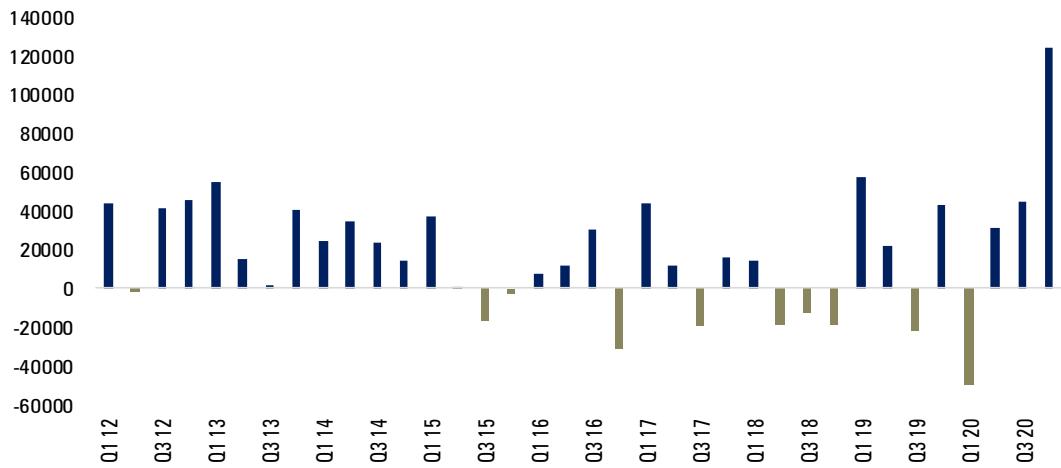
FII equity investments in Emerging markets (in billion US\$)



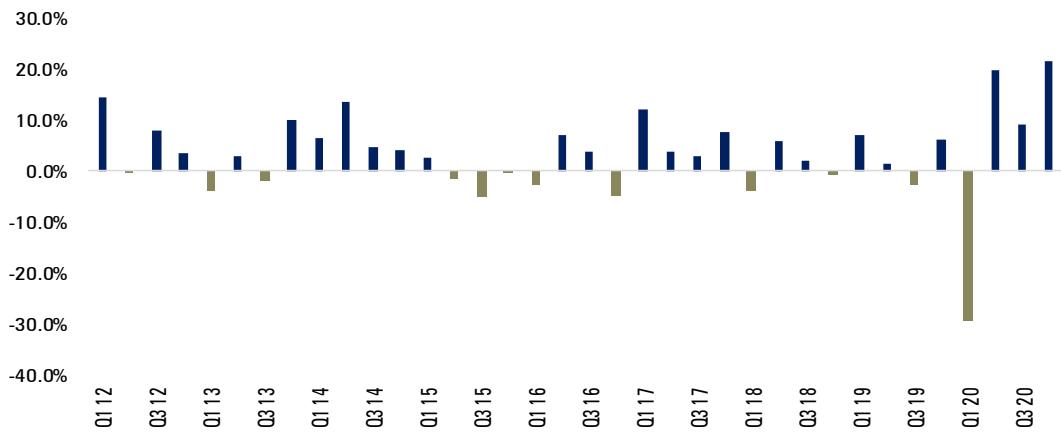
- India has remained one of the favourite FII destinations for investment in equities among emerging markets
- India has been the biggest beneficiary of foreign flows among emerging markets ex China
- In the last one year India saw inflows exceeding \$18 billion while most Asian peers apart from China are still YTD negative
- The flows seen in November and December are one of the highest ever seen in Indian equities

FII's major sectoral activities

FII inflow (QoQ)



Nifty returns (QoQ)



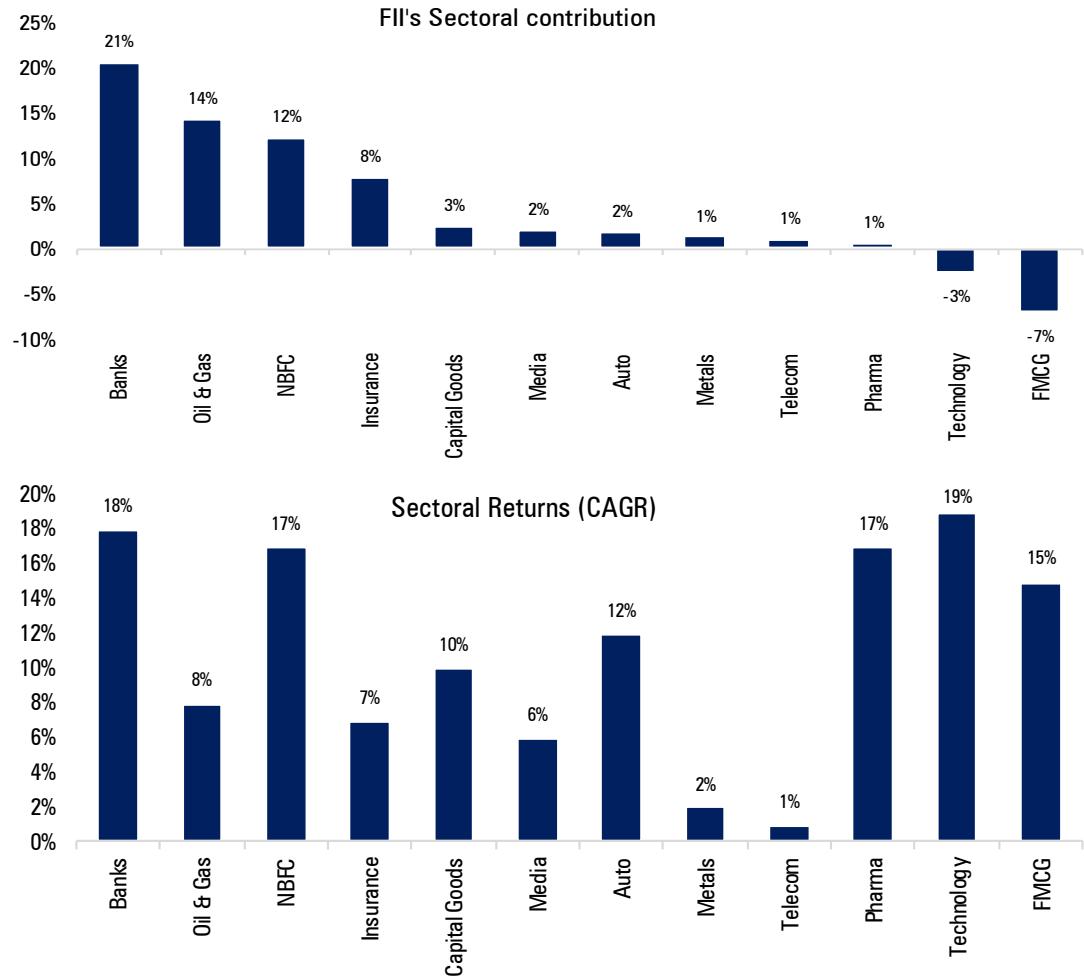
Source : Bloomberg, ICICI Direct Research, NSE, NSDL, Capitaline

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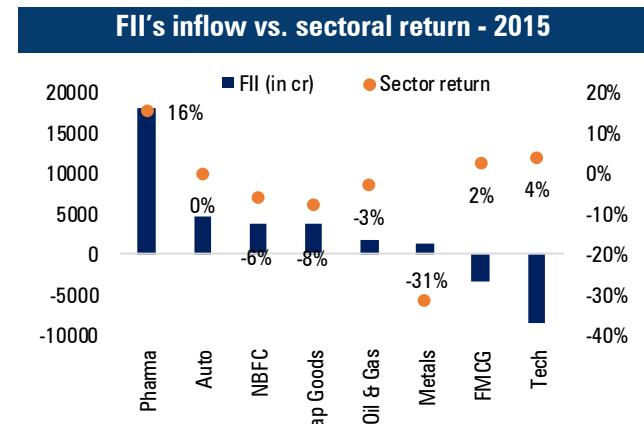
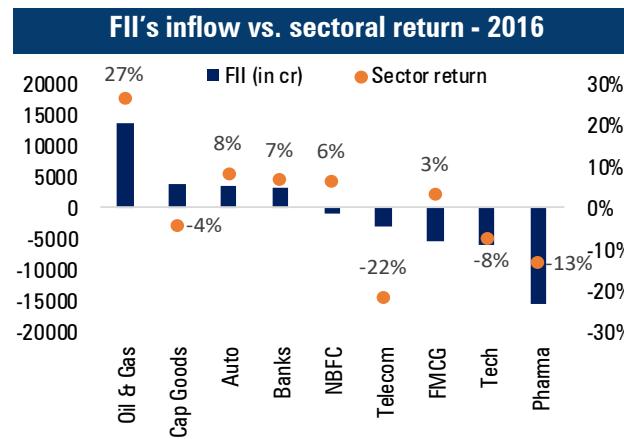
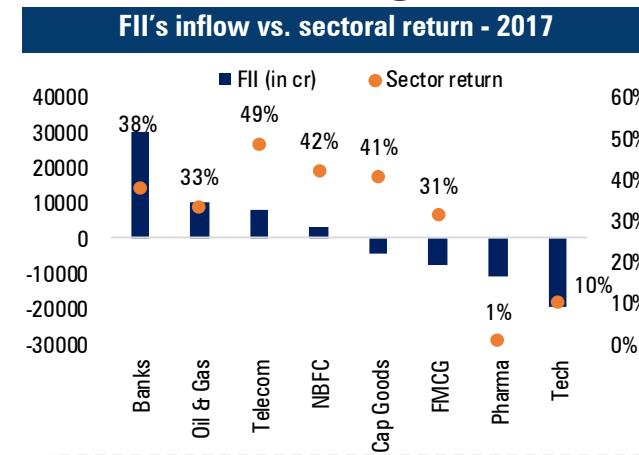
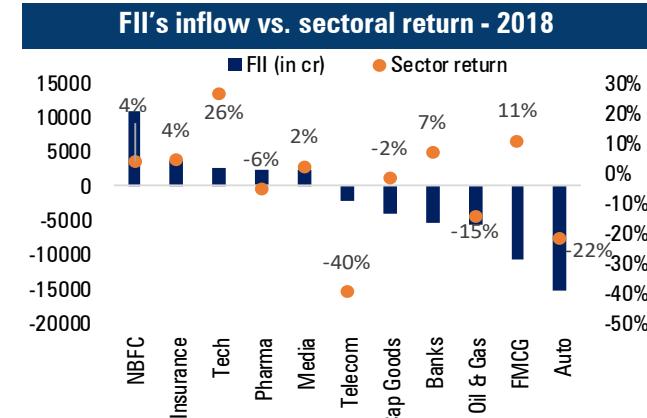
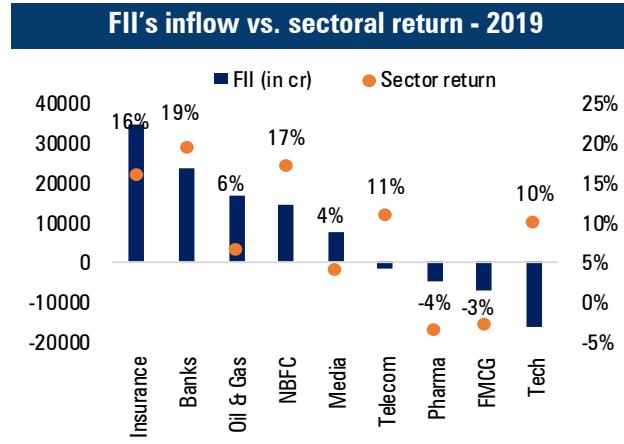
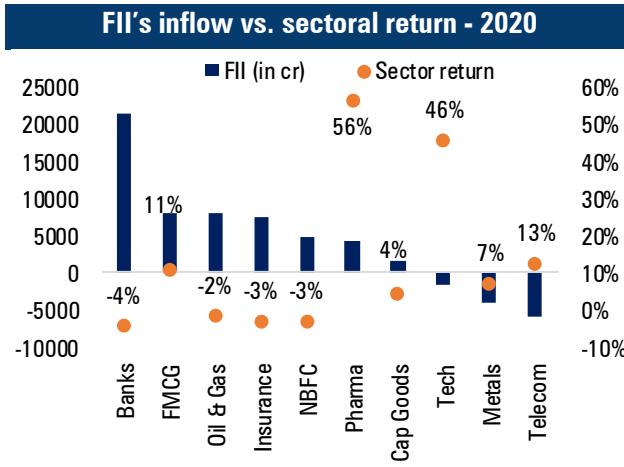
- FIIs played a pivotal role in shaping Nifty returns. Since 2012 they have largely remained net buyers of equities and pumped in nearly ₹ 6 lakh crore in Indian equities
- FII flows have remained positive in 24 quarters in the last eight years (32 quarters). Out of this, only four quarters have seen negative returns for the Nifty. In the remaining eight quarters, despite FII outflows, the Nifty managed to end positive in three quarters
- Highest ever outflow was observed in the first quarter of 2020 when FIIs sold almost ₹ 49800 crore worth of equities, which resulted in a 29% cut in the Nifty due to implementation of lockdown across the globe post Covid
- In quarter four of 2020 they pumped in highest ever inflows in equities where the Nifty delivered close to 20% returns
- In just the last two months, FIIs have poured almost ₹ 1 lakh crore in Indian equities. This has resulted in a broad based performance across sectors

Sectoral allocation of FII flows since 2012



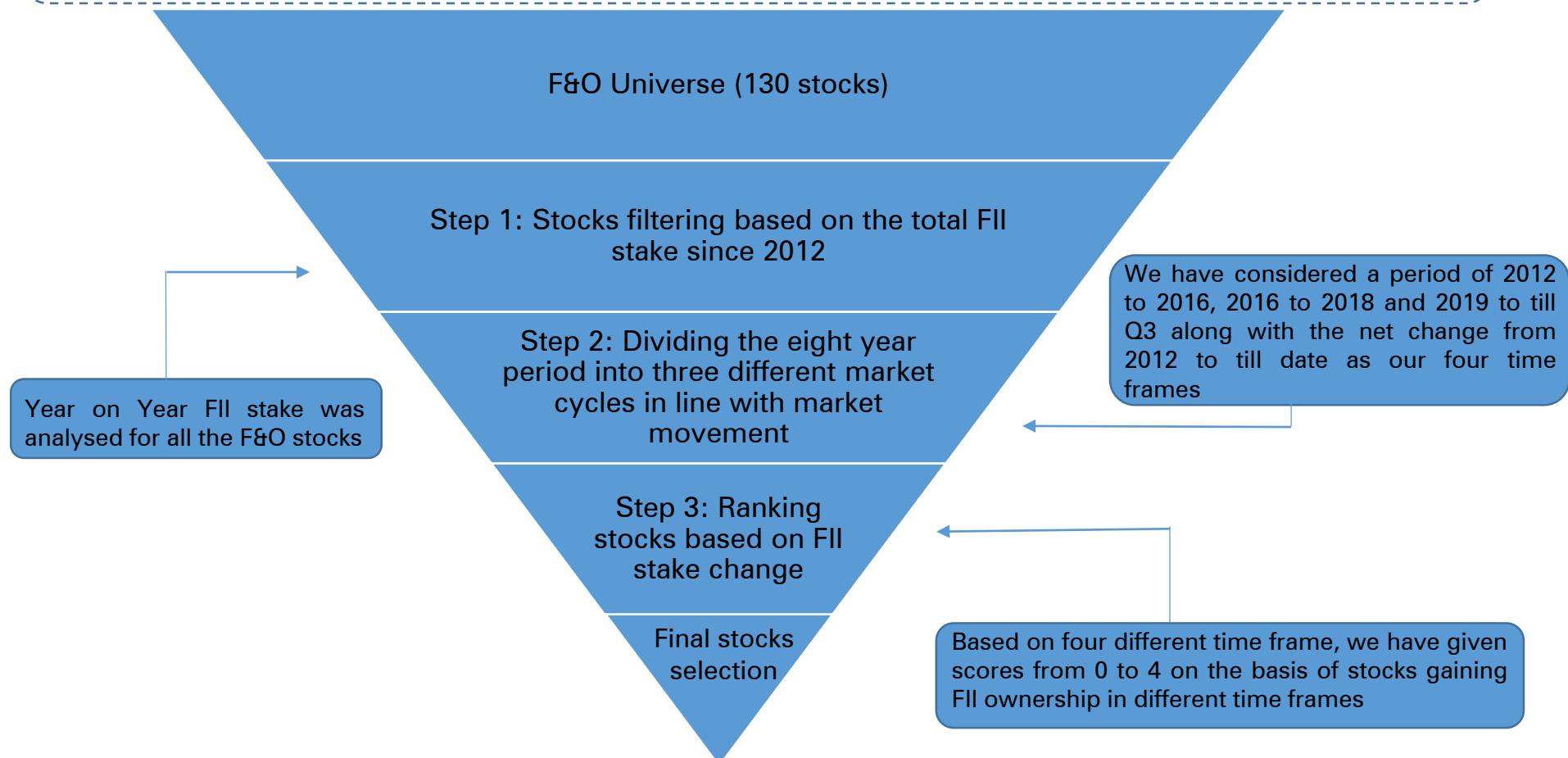
- In the last two years, sectors like banking & financials, saw the highest inflows. Overall also, the BFSI space attracted the highest inflows while continued capital raising by the sector can explain the high flows
- On the other hand, technology and FMCG sectors saw net outflows to the tune of -3% and -7%, respectively, of the total inflows seen in India. It happened despite bluechip stocks from both sectors delivering tremendous returns in the last eight years. Profit taking at higher levels can explain the outflows seen in these sectors
- In the last eight years, FII's favourite sector was banking, financials, oil & gas and capital goods. In last three years, insurance as a sector got the attention of FIIs and attracted significant flows

FII's major sectoral activities



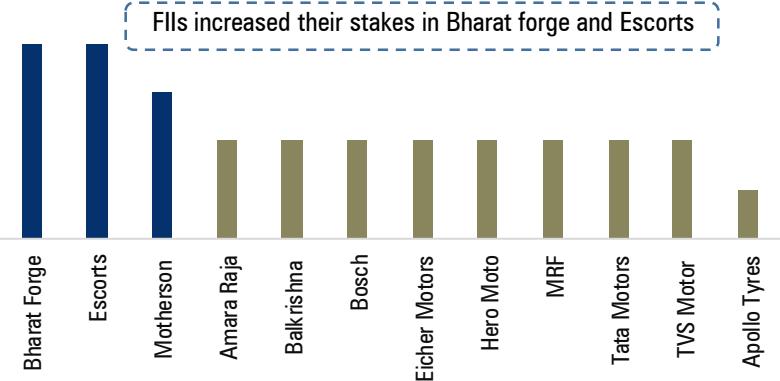
- FII's favourite sectors remained financials, oil & gas and FMCG where most flows were observed. In the last two years, FII's have pumped in more than ₹ 1 lakh crore each year from which major money flows were seen in the insurance space
- The pharma space gave strong returns with the flows. Recently, we have seen strong inflows in the space. We expect it to attract continued money flow in 2021 as well, which should lead to outperformance of pharma stocks

We have analysed all F&O stocks based on their FII holding from 2012 to September 2020 in line with the FII flows. Stocks where we have seen continued rise in FII stakes have been chosen

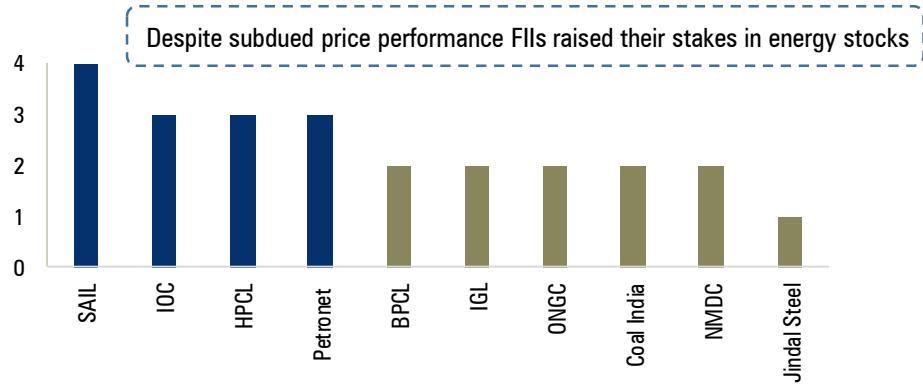


Sectoral scoreboard as per change in FII ownership

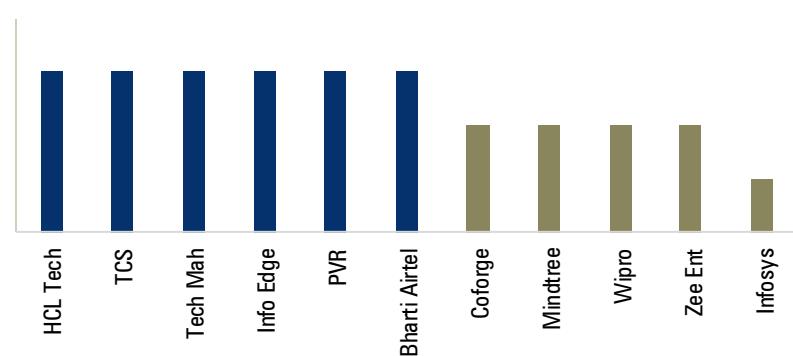
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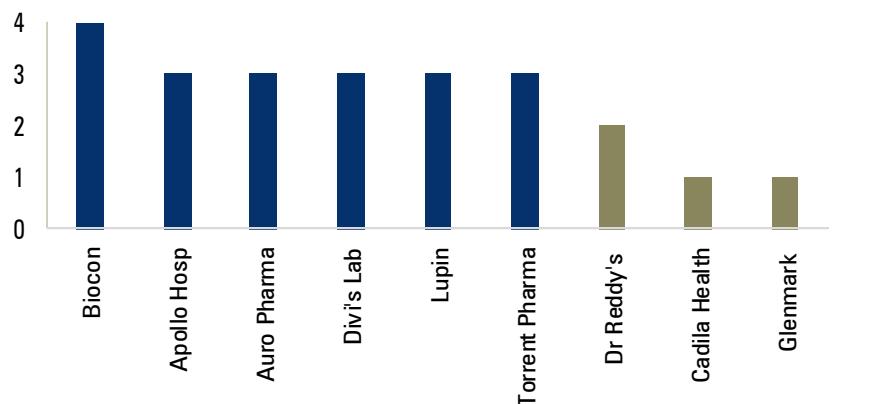
Energy/Metal



IT/Telecom/Media

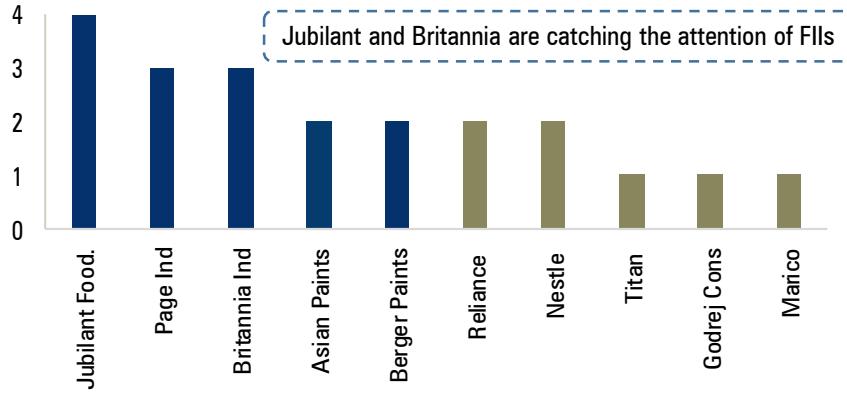


Pharma

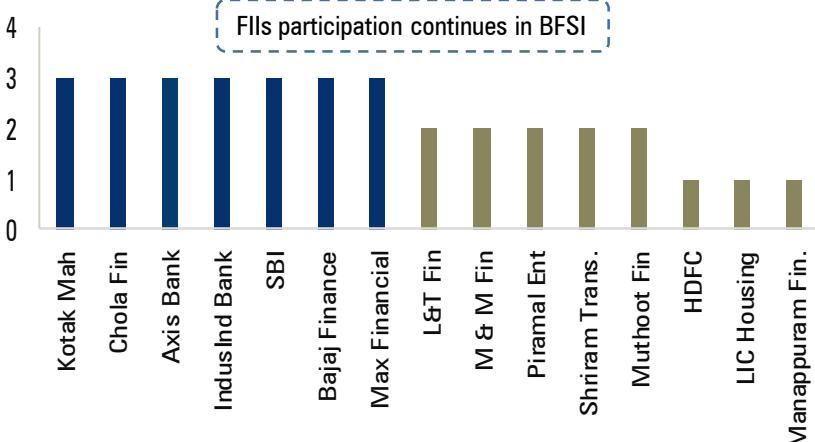


Sectoral scoreboard as per change in FII ownership

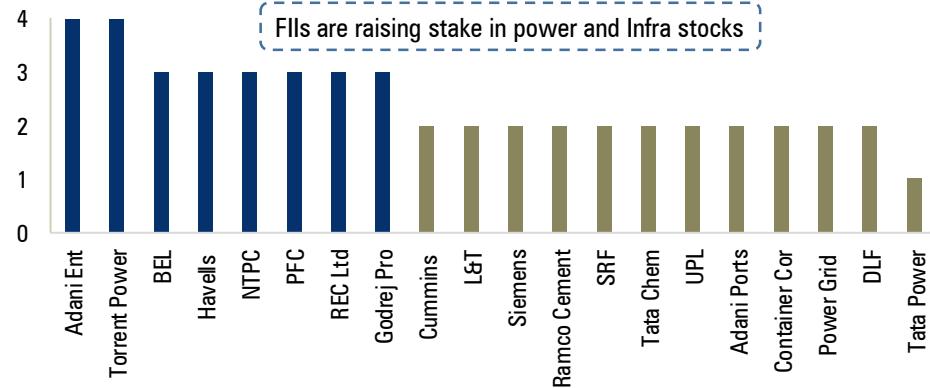
Consumption



BFSI

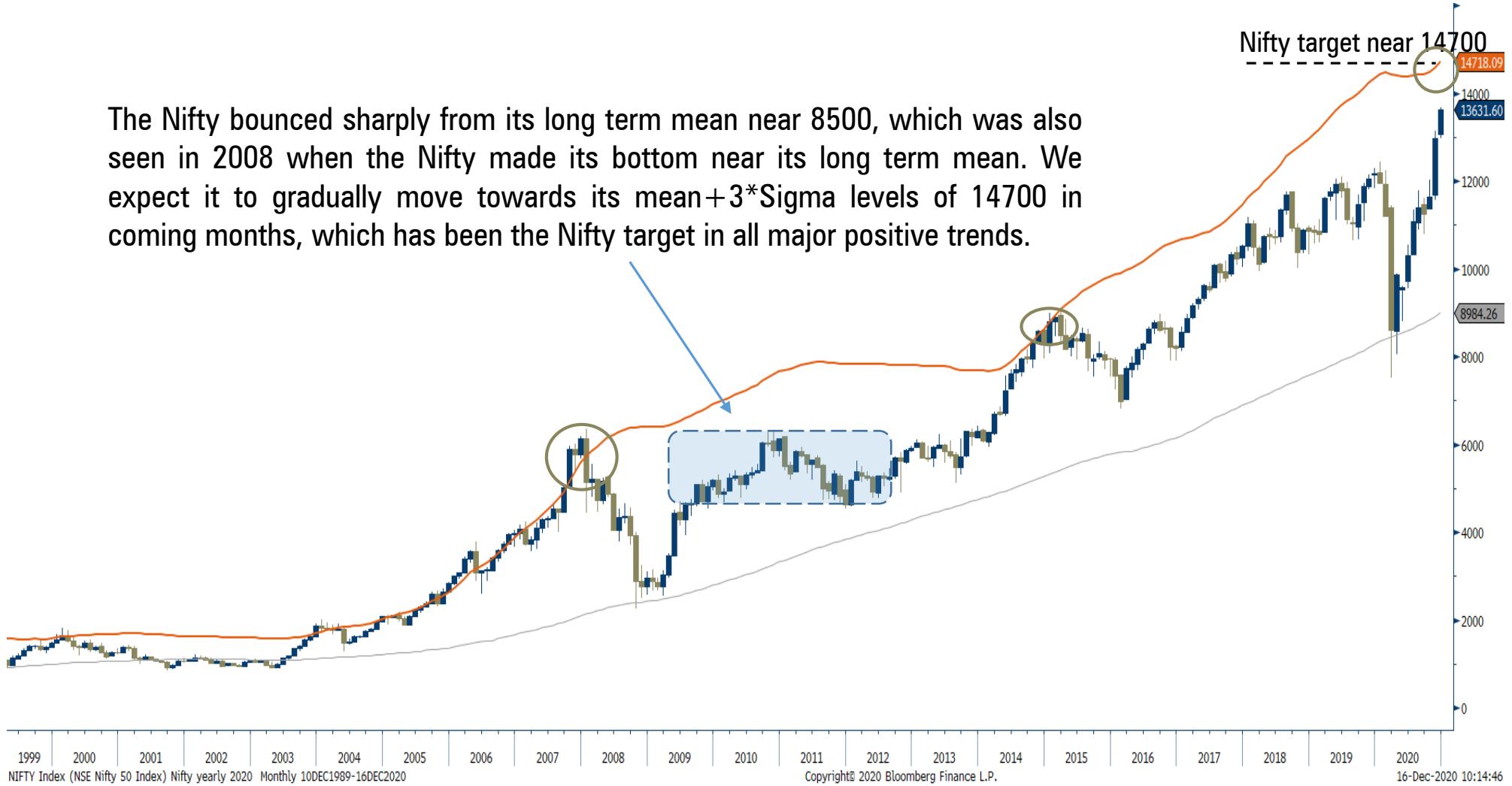


Others



Nifty may target Sigma level of 14700

The Nifty bounced sharply from its long term mean near 8500, which was also seen in 2008 when the Nifty made its bottom near its long term mean. We expect it to gradually move towards its mean+3*Sigma levels of 14700 in coming months, which has been the Nifty target in all major positive trends.



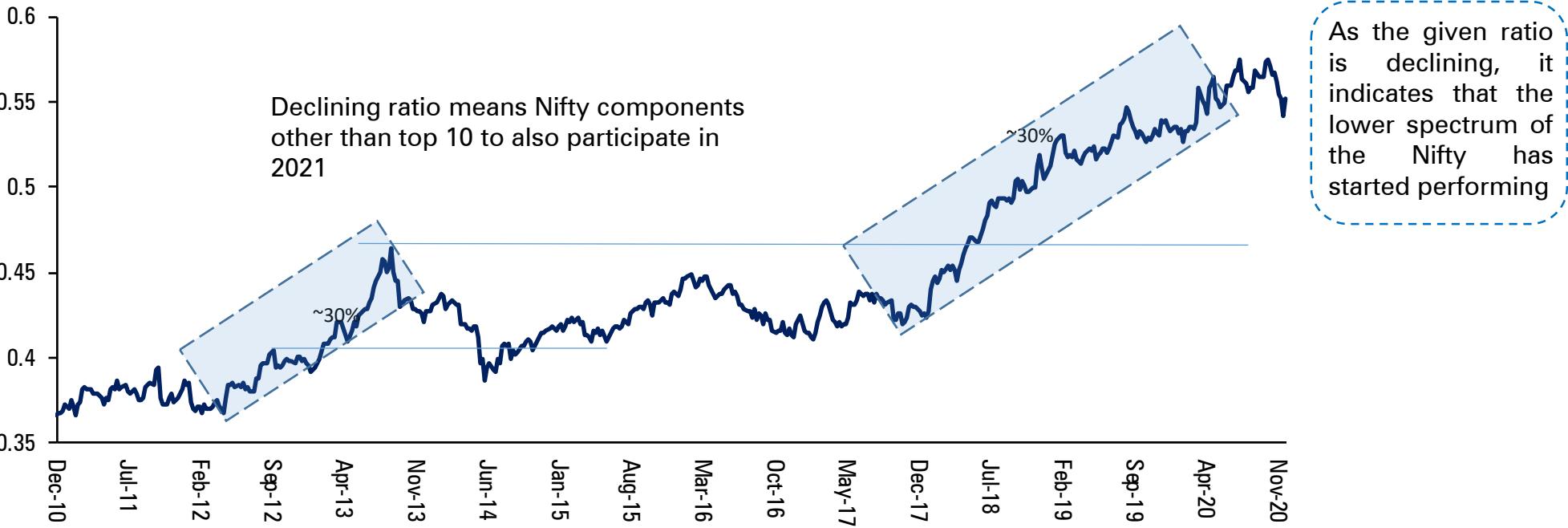
Source : Bloomberg, ICICI Direct Research

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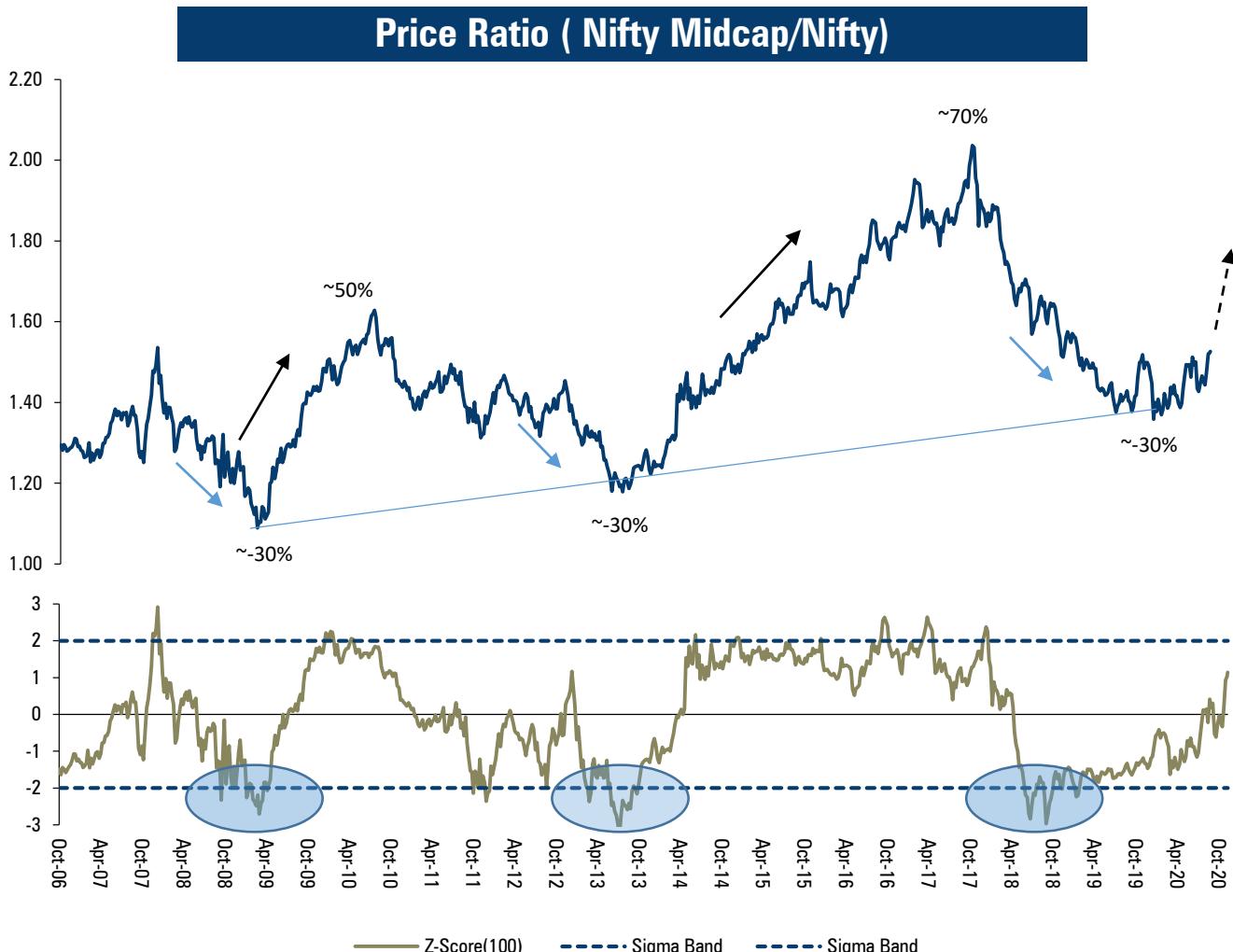
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Market cap ratio (Top 10 Nifty stocks vs. Nifty)



As per the previous observation in 2012 the ratio gave a breakout and appreciated by 30%. Post that, participation was noticed from the low weighted stocks of the Nifty. Similar observation was made in 2018. Post a breakout, it moved up by 30% and has now started declining



- Ratio of midcap index and the Nifty was continuously declining suggesting the underperformance of midcap index vis-à-vis the Nifty since 2017. However, in the past couple of months, the ratio has started reverting from support level of 1.40 amid a broader market recovery
- As per the previous observation, there was ~30% correction in 2008, 2013 and 2018, respectively, followed by an outperformance of midcap index by 50-70% in 2007 and 2017. Hence, we can conclude that a similar outperformance trend should be seen in the coming years
- The Z score of price ratio (between Nifty Midcap/Nifty) had reverted after testing -2^* sigma levels. Acceleration in the midcap index was observed when the Z score turned positive. This is visible in the current phase. We expect the Z score to continue towards 2 sigma levels
- Hence, the top stocks of Nifty midcap 100 index should remain in focus along with its other components

Quant Picks for 2021					
Stocks	Sectors	Initiation Range	Target	Stoploss	Upside Potential
Bharti Airtel	Telecom	490-510	620	440	22%
Biocon	Pharma	445-465	580	385	25%
Tech Mahindra	Technology	900-930	1160	775	25%
Bharat Forge	Auto	525-550	690	455	26%
Petronet LNG	Oil&Gas	248-258	325	218	26%

Quant Pick: Buy Biocon in the range of ₹ 445-465;
Target: ₹ 580; Stop loss: ₹ 385; Time Frame: 12 months

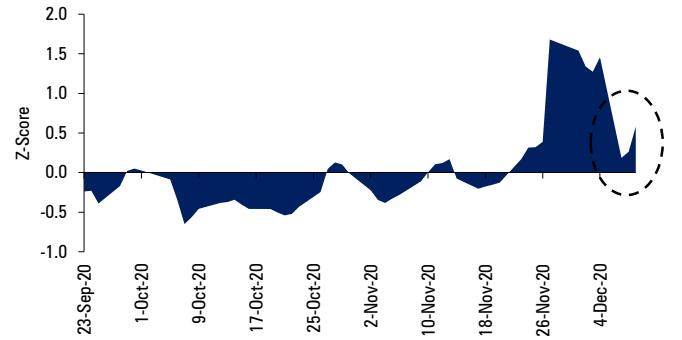


Data Snapshot

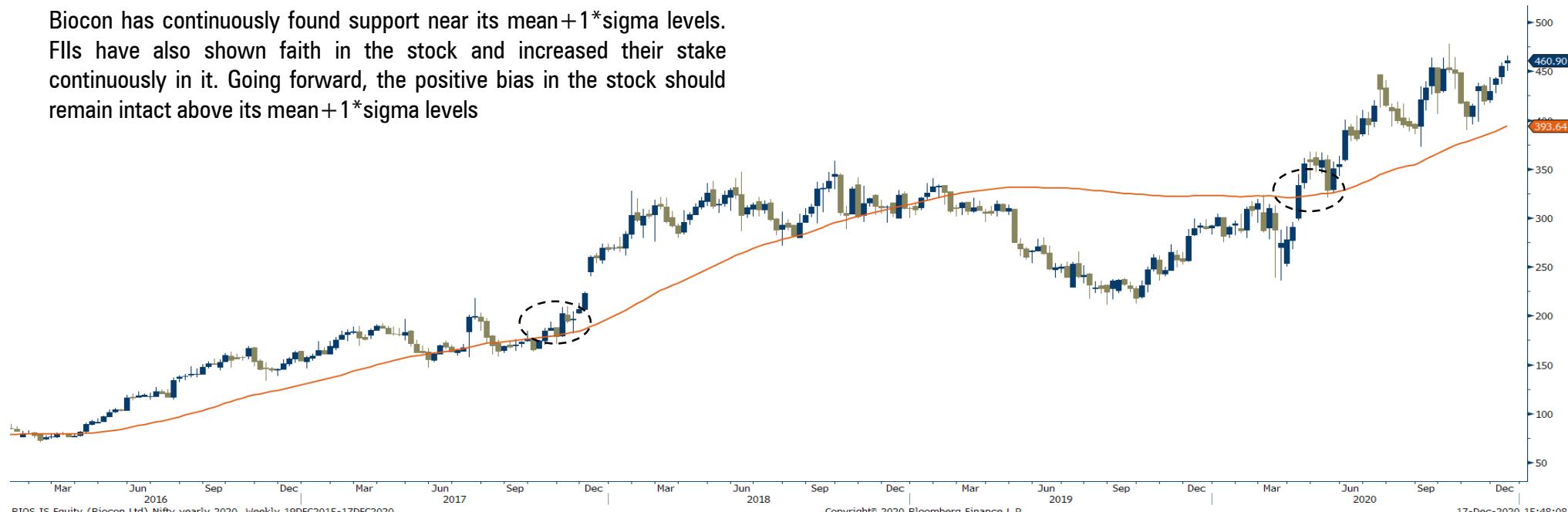
Spot	465.00
Beta	0.68
12M Avg Price (₹)	371
12M Avg Volume (Shares)	5844090
3M Avg Roll (%)	64%
HV 30 Day (% Annualised)	23.11

Lower volatility and pick-up in delivery Z score suggests ongoing accumulation in the stock

Delivery Z-Score



Biocon has continuously found support near its mean+1*sigma levels. FIIs have also shown faith in the stock and increased their stake continuously in it. Going forward, the positive bias in the stock should remain intact above its mean+1*sigma levels



Source : Bloomberg, ICICI Direct Research

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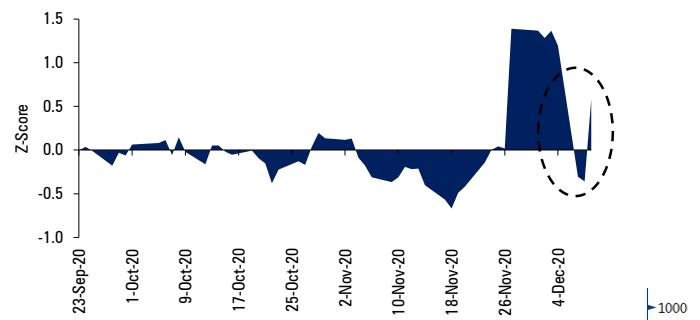
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Data Snapshot

Spot	930.00
Beta	0.76
12M Avg Price (₹)	690
12M Avg Volume (Shares)	4658420
3M Avg Roll (%)	64.44%
HV 30 Day (% Annualised)	30.70

Delivery Z-score started moving towards 1 indicating buying interest at lower levels

Delivery Z-Score



Tech Mahindra has continuously found a directional trend from its mean+1*sigma levels. Among technology stocks, this is one of the few stocks where FII's have increased their stake. The mean+1*sigma support for the stock is placed near ₹ 800 levels, above which positive bias seems likely to continue



Source : Bloomberg, ICICI Direct Research

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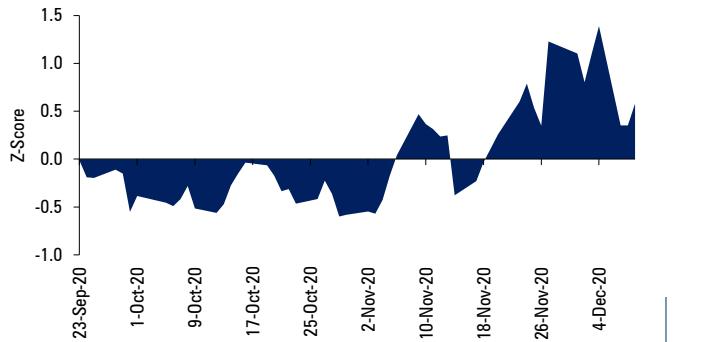
Quant Pick: Buy Petronet LNG in the range of ₹ 248-258; Target: ₹ 325; Stop loss: ₹ 218; Time Frame: 12 months

Data Snapshot

Spot	258.00
Beta	0.82
12M Avg Price (₹)	233.75
12M Avg Volume (Shares)	3842846
3M Avg Roll (%)	53.23%
HV 30 Day (% Annualised)	27.49

Lower volatility in the stock along with sharp increase in delivery Z score suggests better risk reward at current levels.

Delivery Z-Score



Petronet LNG has been a market performer in the last three years and consolidated below mean+2*sigma levels. In the recent market move, the stock was able to move above these levels and should find fresh positive momentum



Source : Bloomberg, ICICI Direct Research

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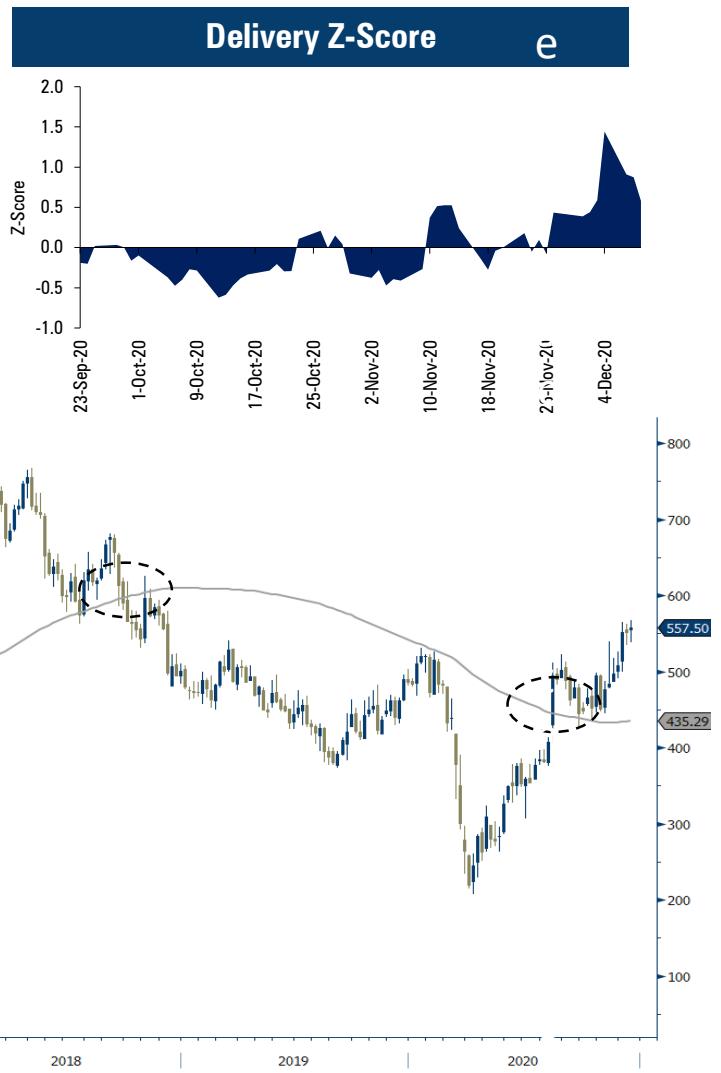
Quant Pick: Buy Bharat Forge in the range of ₹ 525-550;
Target: ₹ 690; Stop loss: ₹ 455; Time Frame: 12 months



Data Snapshot	
Spot	550.00
Beta	1.33
12M Avg Price (₹)	419
12M Avg Volume (Shares)	2954657
3M Avg Roll (%)	61.64%
HV 30 Day (% Annualised)	35.24

Significant high delivery volume was seen in the last quarter while the stock continues to outperform indicating aggressive buying.

Mean levels for Bharat Forge have acted as trend decider for the stock. It has witnessed significant directional moves after breaching these levels on either directions in the past. The recent up move above ₹ 450 levels is likely to trigger the fresh positive bias in the stock



Source : Bloomberg, ICICI Direct Research

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Data Snapshot	
Spot	510.00
Beta	0.79
12M Avg Price (₹)	504
12M Avg Volume (Shares)	20433121
3M Avg Roll (%)	65.14%
HV 30 Day (% Annualised)	29.60

Pick-up in delivery volumes at lower levels suggests healthy upsides expected. The volatility in the stock has also reduced significantly favouring upsides

Bharti Airtel has seen sharp moves last year as it move out of the range prevailing for the last many years. With liquidity flow likely to remain higher, stocks like Bharti Airtel are likely to outperform. Moreover, the stock is likely to remain positive till it holds above its long term mean levels in the coming months.



Source : Bloomberg, ICICI Direct Research

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Quant Yearly Picks performance - 2020					
Stocks	Sectors	Initiation Range	Target	Stoploss	Remarks
Divis Lab	Pharmaceuticals	1790-1830	2280	1560	Target Achieved
Tata Consumer	Consumption	312-324	410	271	Target Achieved
IGL	Oil&Gas	395-410	510	343	Target Achieved
HDFC	Finance	2285-2335	2880	2015	Exit at cost
Wipro	Technology	232-242	298	179	Stoploss Triggered

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