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The Eagle Eye

December 2020

INDIA IN LINE WITH EM IN NOV'20

- ❖ India in-line (v/s EMs in Nov'20) – a laggard YTD
- ❖ Metals and Pvt Banks O/P in Nov'20
- ❖ Average daily cash volumes up to INR700b in Nov'20

MARKET PERFORMANCE

- ❖ Catch-up rally leads to broad-based performance in Nov'20
- ❖ 90% of Nifty constituents post gains in Nov'20

2QFY21 EARNINGS SEASON

- ❖ 2QFY21 has seen blockbuster earnings, with broad-based beats and earnings upgrades
- ❖ MOFSL Universe and Nifty PAT at ATH in 2QFY21
- ❖ Profit Pool Analysis: BFSI % contribution to MOFSL Universe PAT increases YoY

MACROS

- ❖ Recession: GDP growth declines 7.5% YoY in 2QFY21
- ❖ FX reserves at record highs; reach USD575b
- ❖ Atmanirbhar Bharat Abhiyaan 3.0: Rural remains focus area

COVID PANDEMIC

- ❖ COVID cases tapering off
- ❖ Active cases fall for second consecutive month
- ❖ Case fatality rate stands at 1.5%

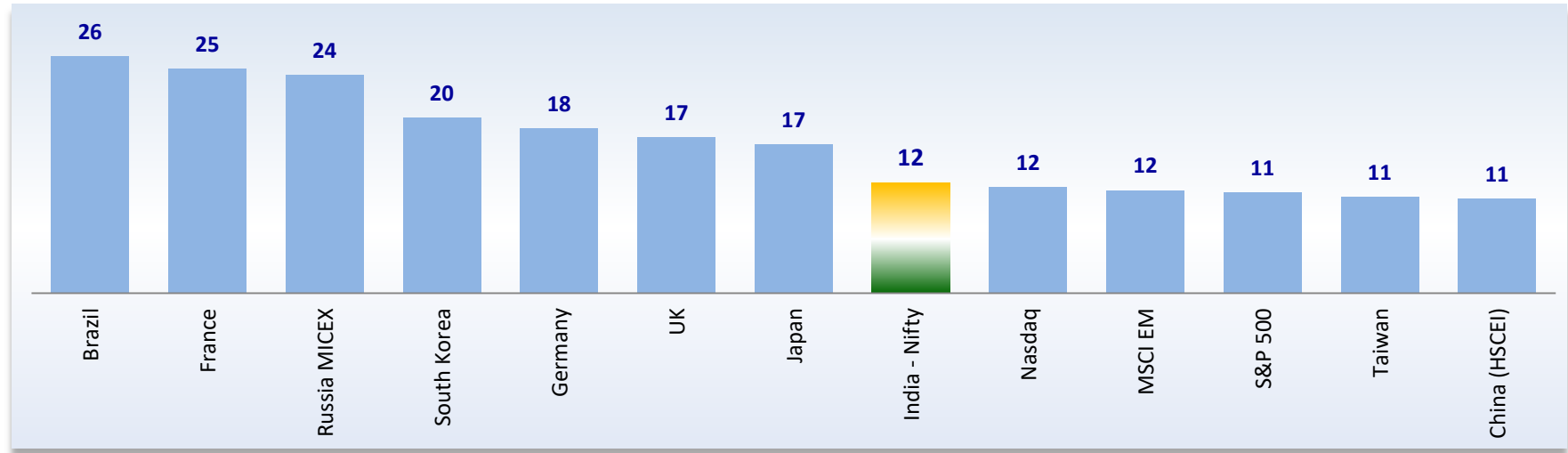
VALUATIONS

- ❖ Market cap/GDP ratio is at a 10-year high
- ❖ Nifty trailing 12-month P/E is trading at 15-year highs

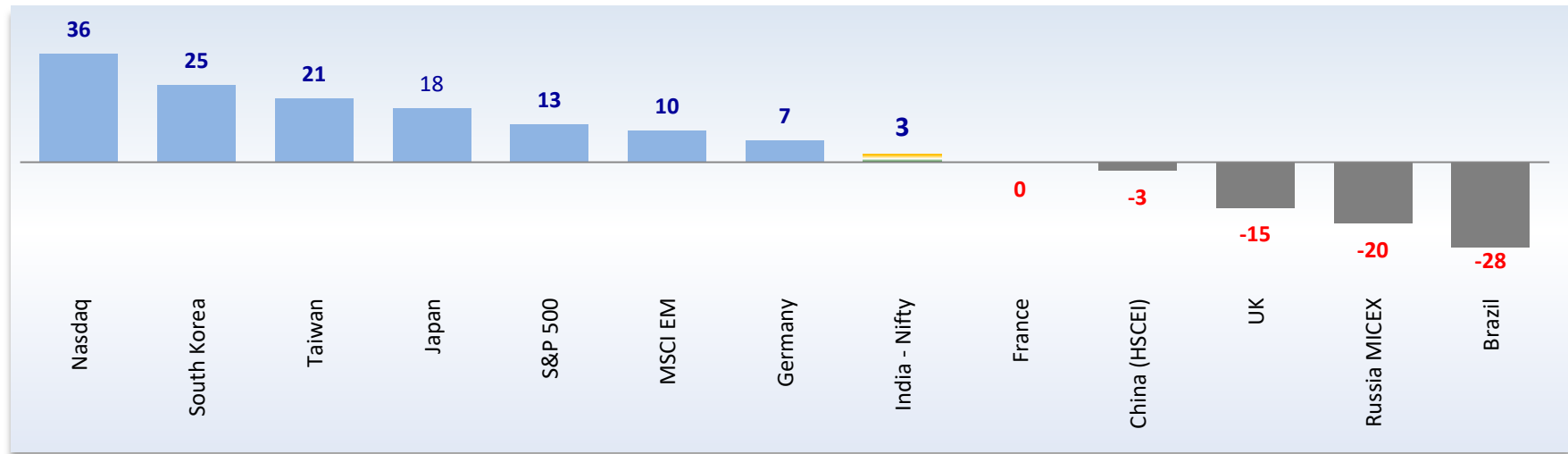
CONTENT

Global equities see a big rally in November; India turns YTD positive

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



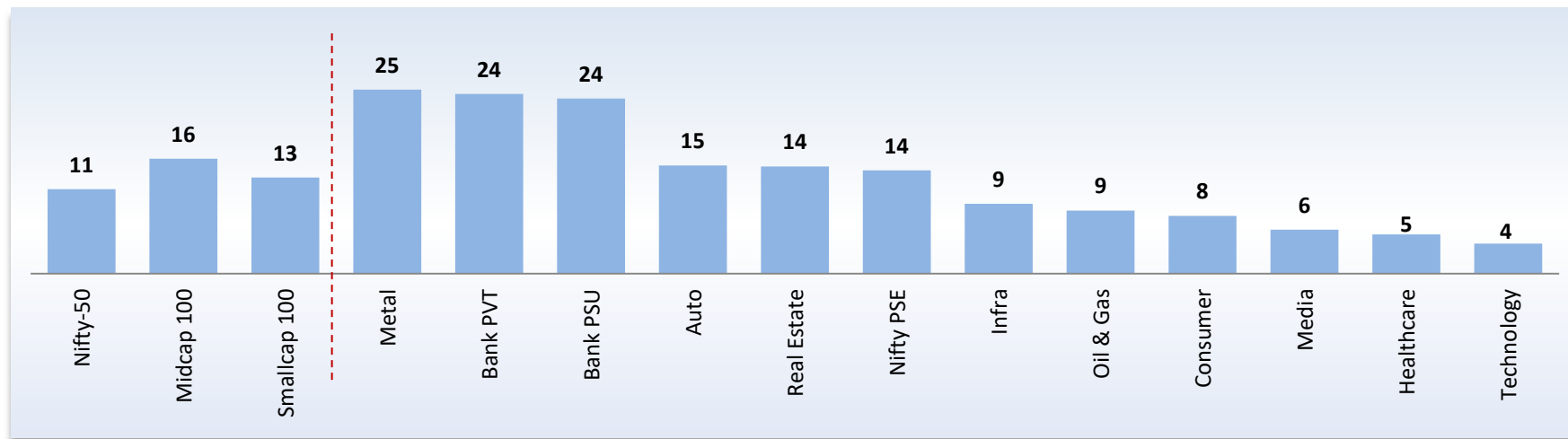
World equity indices (CY20 YTD) – in USD (%)



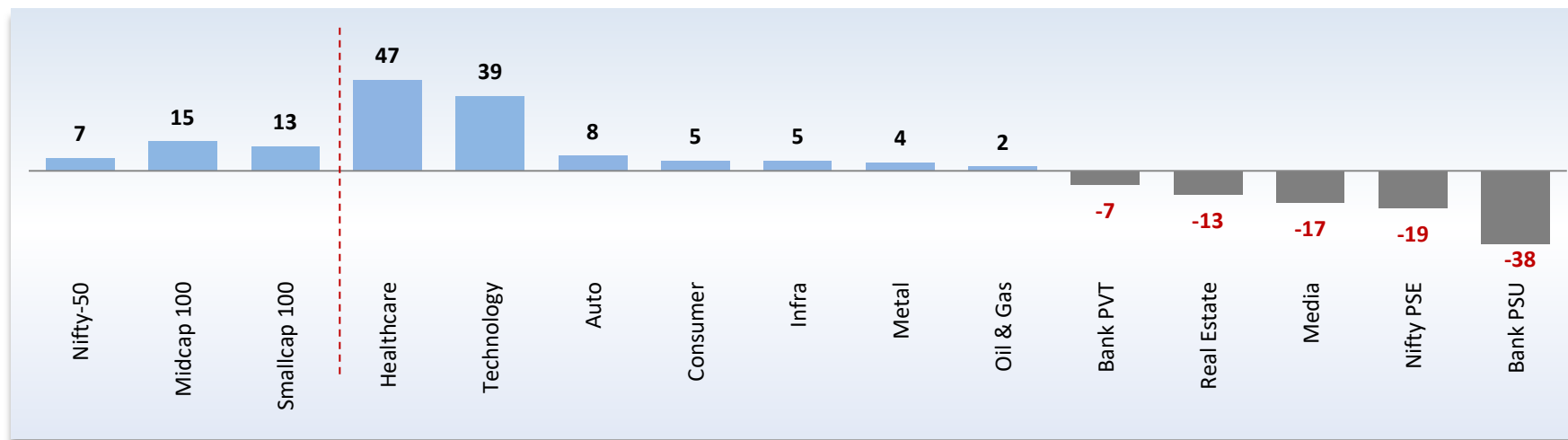
As on close of 27 Nov

All sectors deliver positive returns; Metals and Banks lead gains

Sectoral Performance MoM (%)



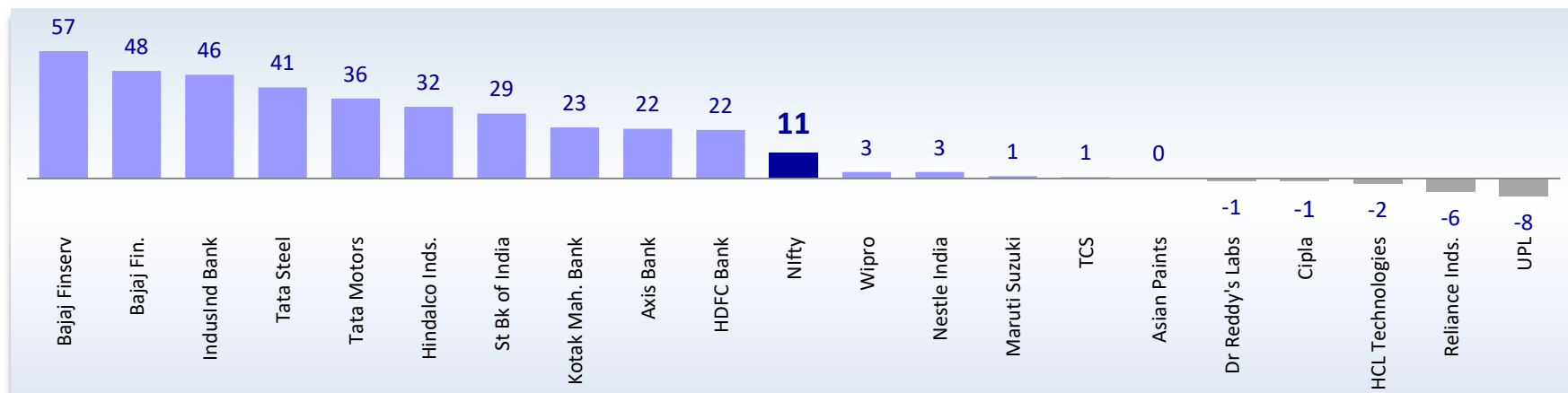
Sectoral Performance CY20 YTD (%)



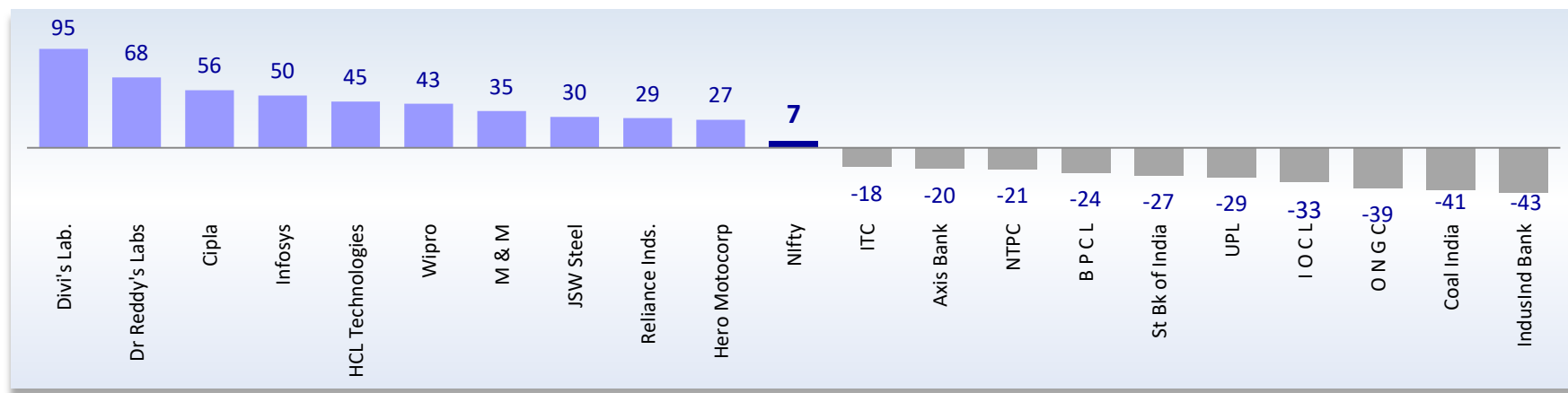
Nifty: BFSI outperforms big in Nov'20; 90% constituents see gains

- ❖ 45 of Nifty 50 stocks gained in Nov'20. Bajaj Twins were the top gainers with 57%/48% MoM.
- ❖ In CY20 YTD, 31 Nifty stocks have delivered positive returns with Divi's and Dr Reddy's gaining 95% and 68%, respectively.

Best and worst Nifty performers (MoM) in Nov'20 (%) – BFSI outperformed in Nov'20, while UPL was a laggard



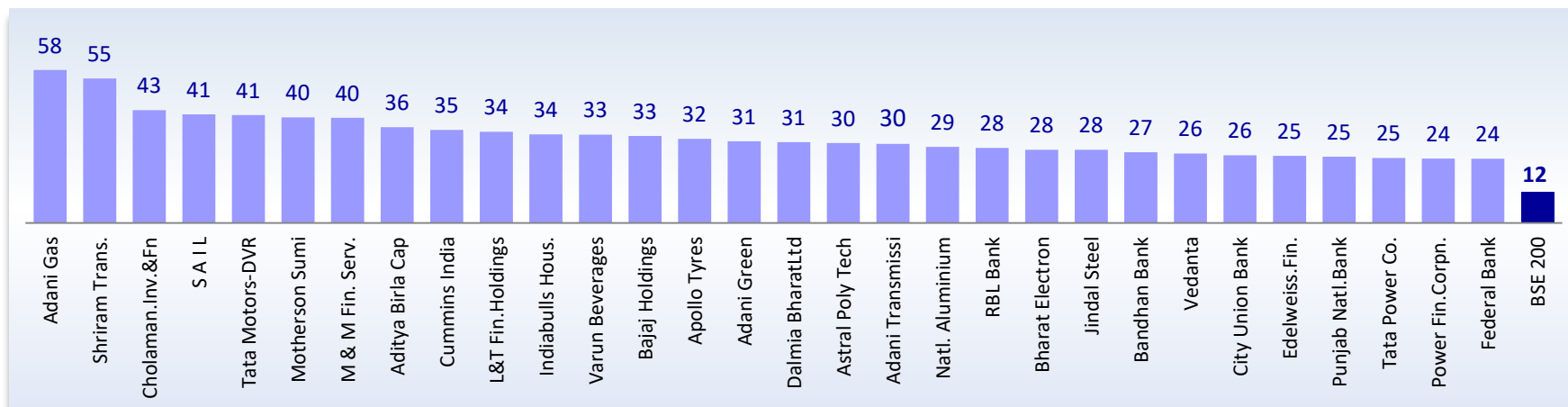
Best and worst Nifty performers (YoY) in CY20 YTD (%) – Healthcare and IT are leading YTD performance rankings



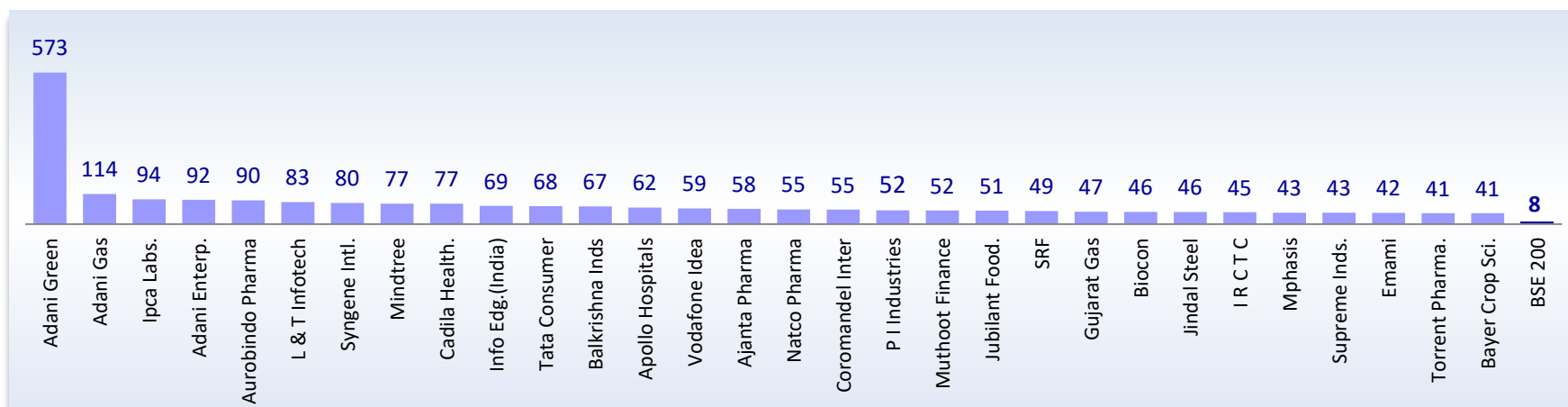
BSE-200: Broad-based rally as 91% of stocks rise in Nov'20

- ❖ 182 of BSE-200 constituents gained in Nov'20, with 116 stocks posting >10% gains MoM, leading to a broad-based rally.
- ❖ CY20 YTD, 120 of BSE-200 constituents posted positive returns, with 45 stocks returning >30%.

Big gainers of BSE-200 (MoM, %)*



Big gainers of BSE-200 (CY20 YTD, %)*

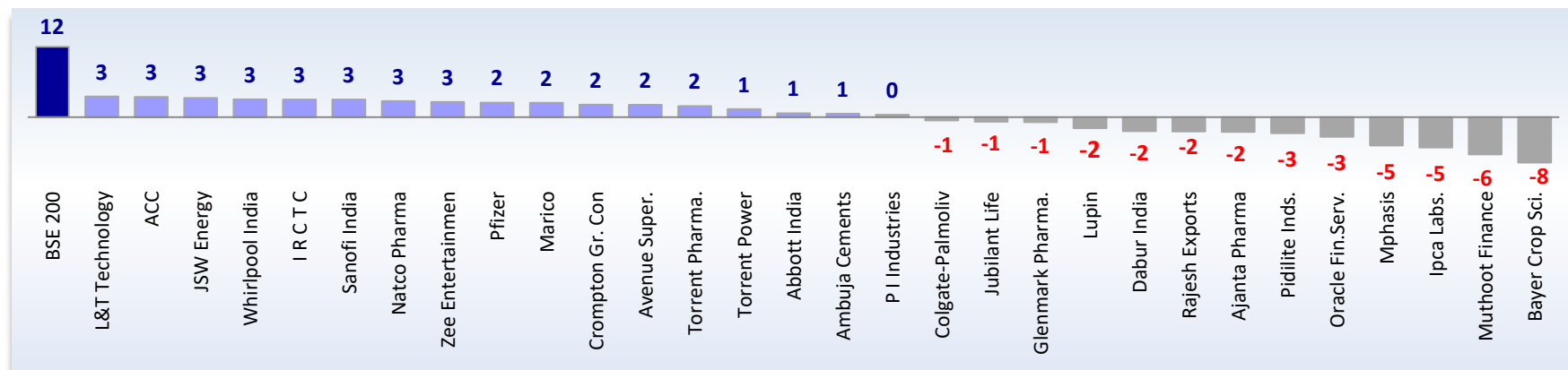


*List excludes Nifty 50 companies

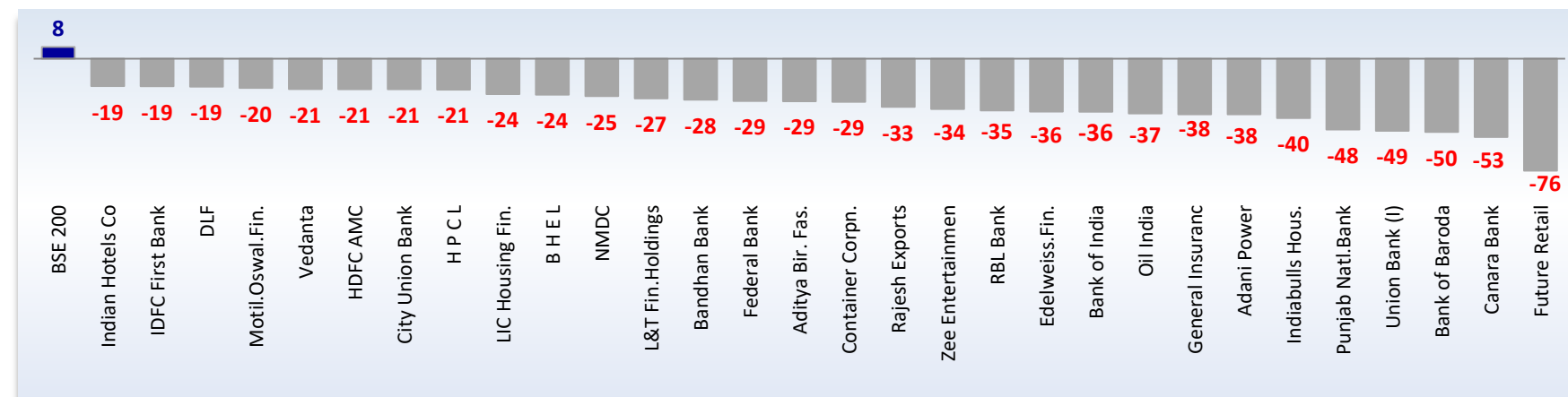
BSE-200: Just 9% of constituents post decline in Nov'20

- ❖ 9% of BSE-200 companies yielded negative returns in Nov'20.
- ❖ CY20 YTD, 40% of BSE-200 constituents declined – Future Retail and Financials such as Canara Bank and BoB are the major laggards.

Big laggards of BSE-200 (MoM, %) *



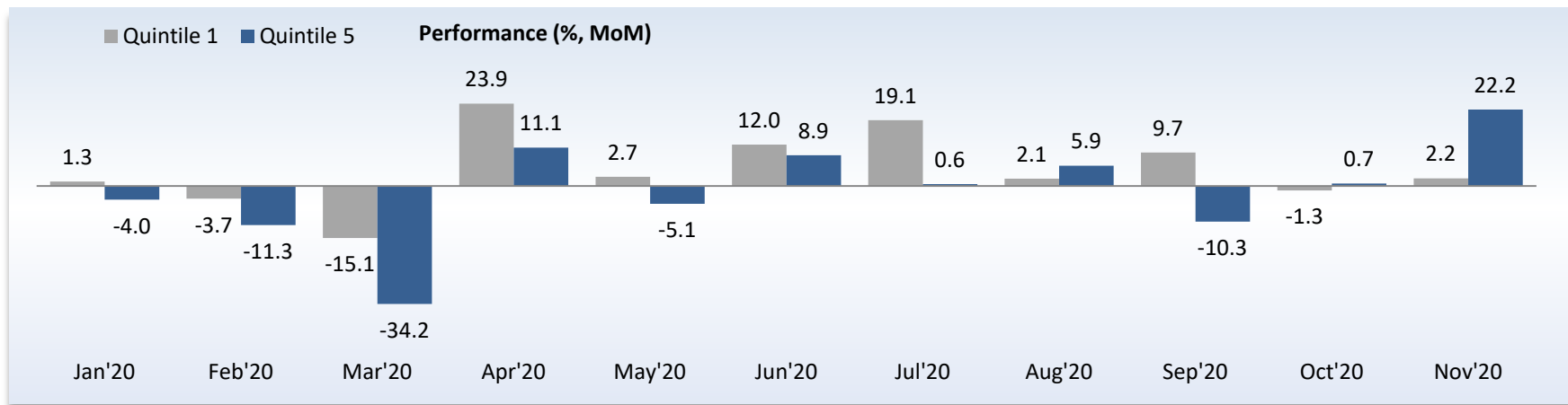
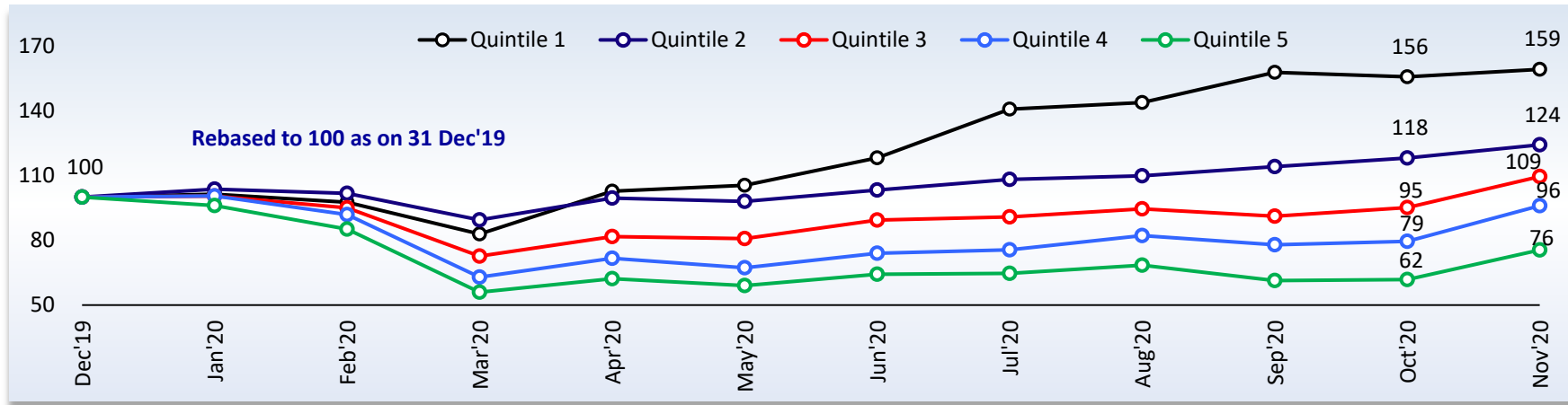
Big laggards of BSE-200 (CY20 YTD, %)



*List excludes Nifty 50 companies

Catch-up rally leads to broad-based performance in Nov'20

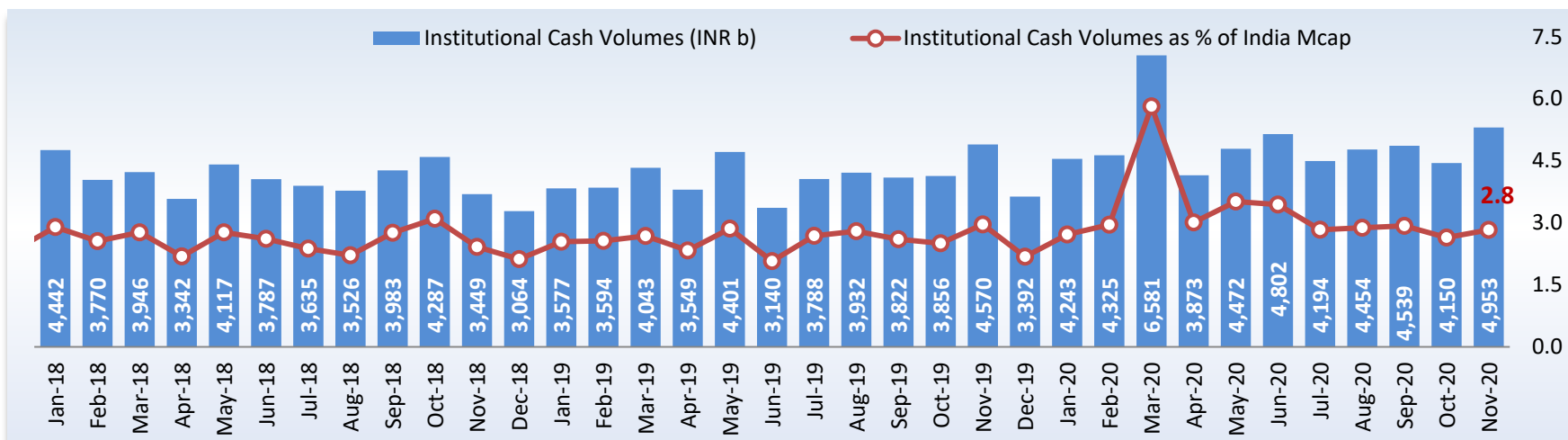
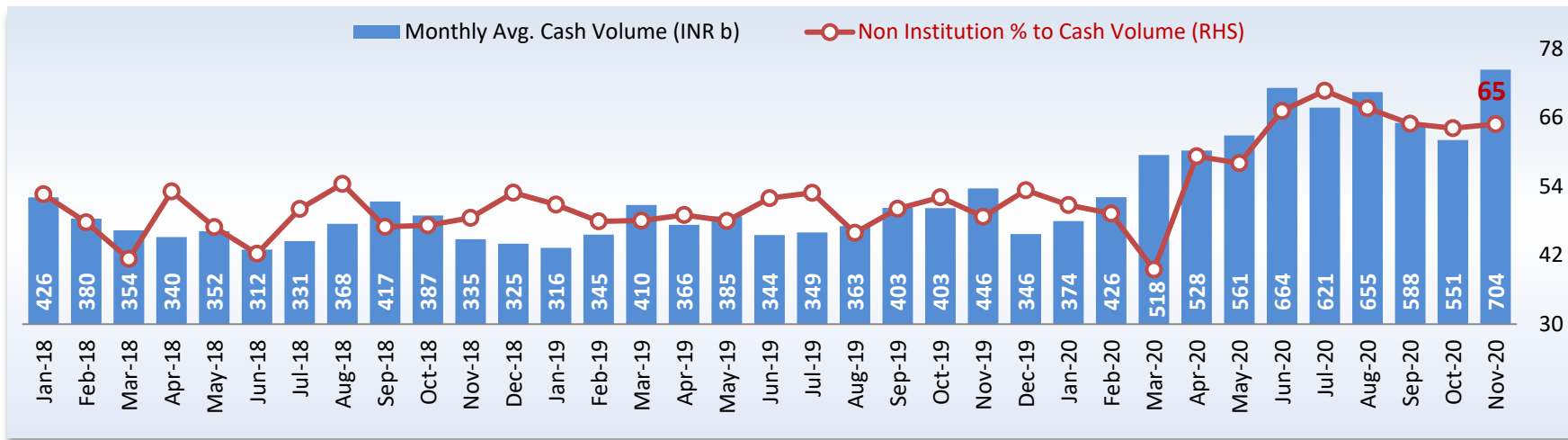
❖ Segregating NSE-500 companies into quintiles based on YTD performance as at October-end, we see that companies that were laggards YTD have gained the most in Nov'20, with aggregate performance up 22% in Nov'20 MoM.



Source: NSE, Capitaline, Bloomberg, MOFSL. NSE500 companies segregated into Quintiles are based on YTD performance between Dec'19 and Oct'20

Average daily cash volumes at new high of INR700b in Nov'20

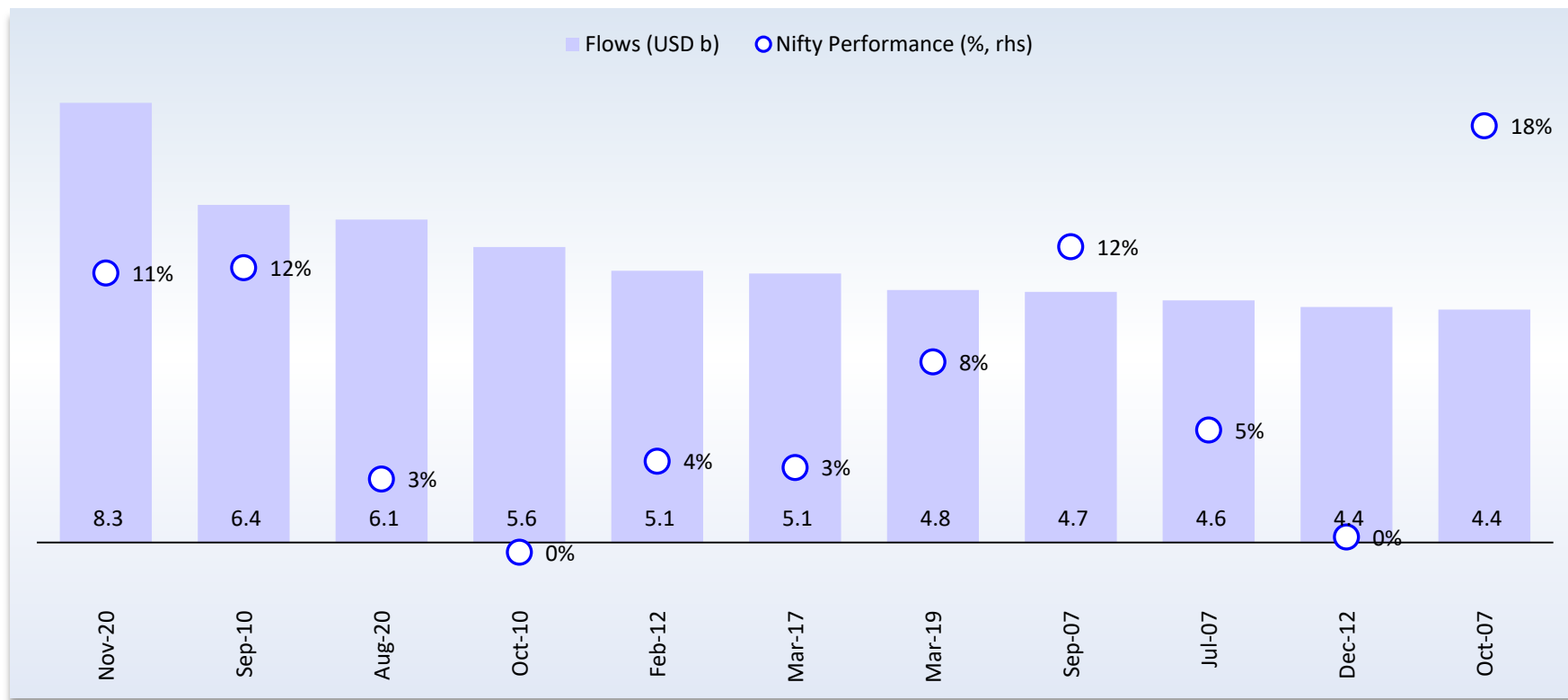
- ❖ Nov'20 average daily cash volumes were up 28% MoM, aided by MSCI rebalancing trade.
- ❖ Monthly Institutional cash trading volumes were up 19% MoM to INR4.9t from INR4.1t in Oct'20.



*Excludes 27 Nov'20 trading volume data

Highest FII monthly inflows in Nov'20

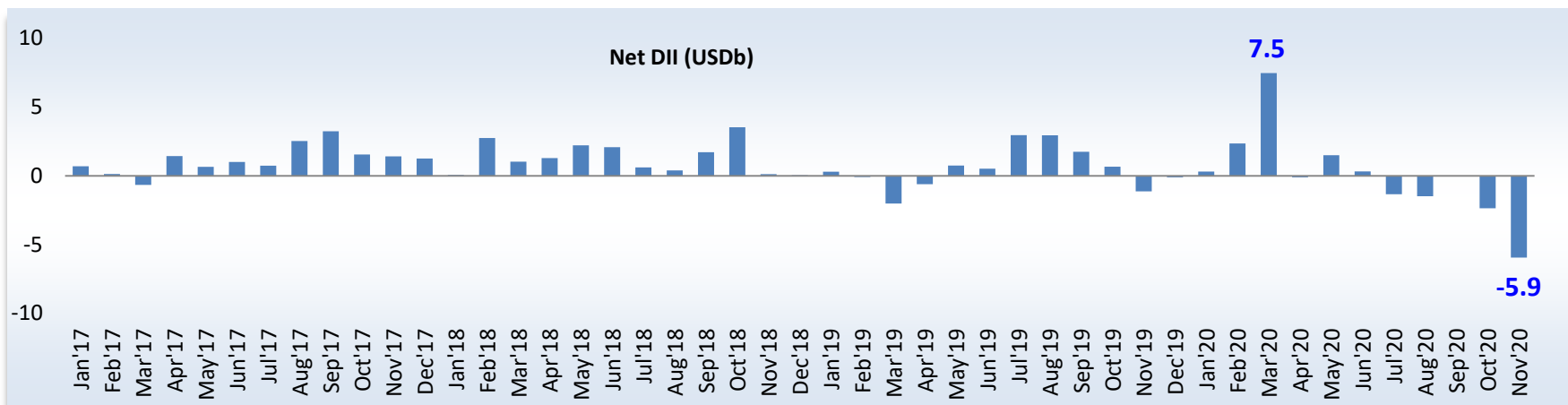
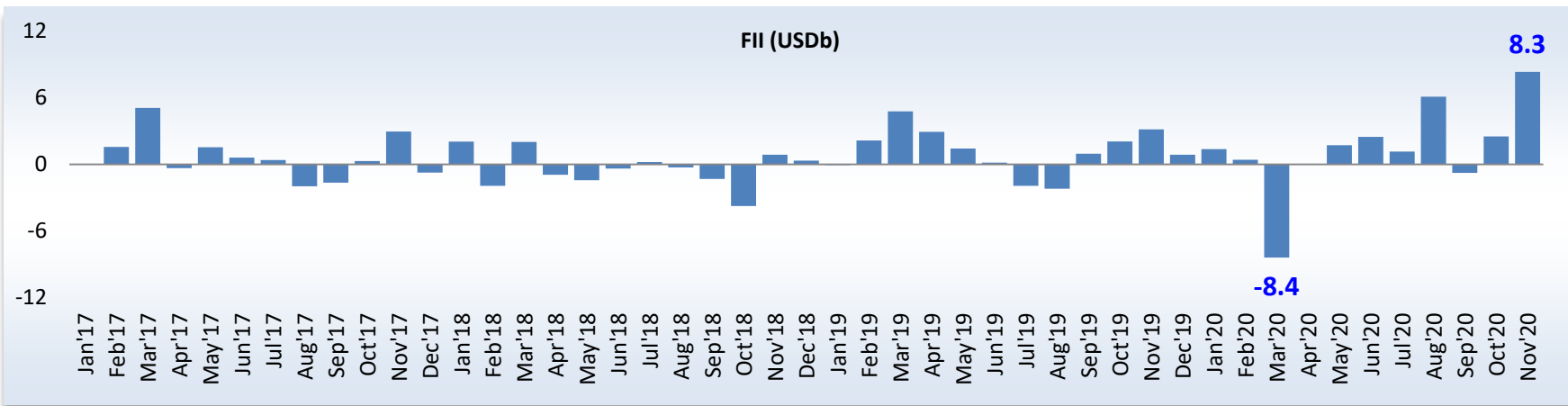
- ❖ FII monthly inflows in Nov'20 were the highest ever at USD8.3b.
- ❖ Nifty gained 11% in November on the back of high FII inflows.



F*FII inflows for Nov-20 as on 26 Nov'20.

FII inflows at USD8.3b; DII outflows highest ever at USD5.9b

- ❖ Nov'20 witnessed a dichotomy in flows between FII and DII.
- ❖ FII inflows were at the highest levels at USD8.3b, while DII sustained the highest net outflows of USD5.9b.

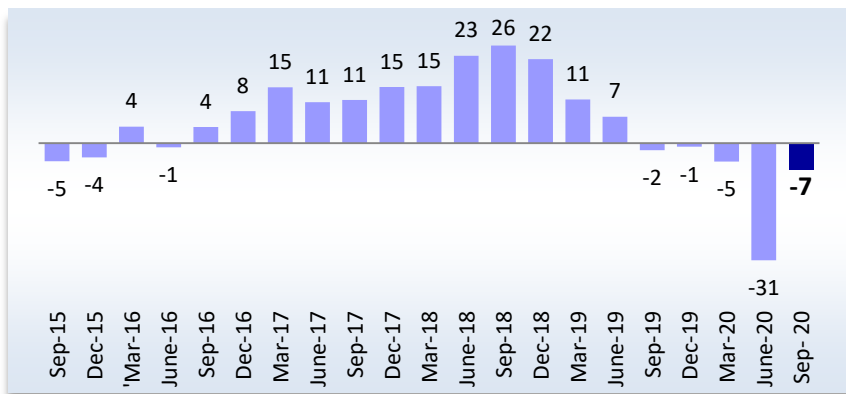


*As on 26 Nov'20

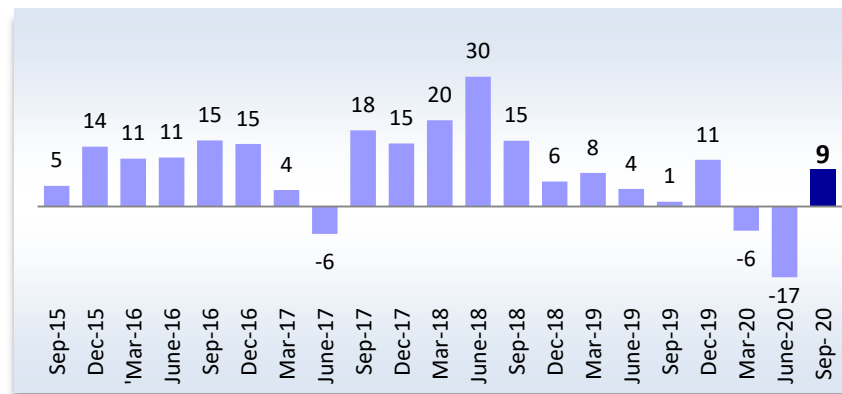
2QFY21 Earnings: MOSL Universe EBITDA/PAT above expectations

- ❖ 2QFY21 has seen block-buster earnings with broad-based beat and earnings upgrade. MOFSL Universe sales are in-line, while EBITDA/PAT are above expectations.
- ❖ EBITDA margins (ex-Financials) expanded 310bps YoY to 19.4%.

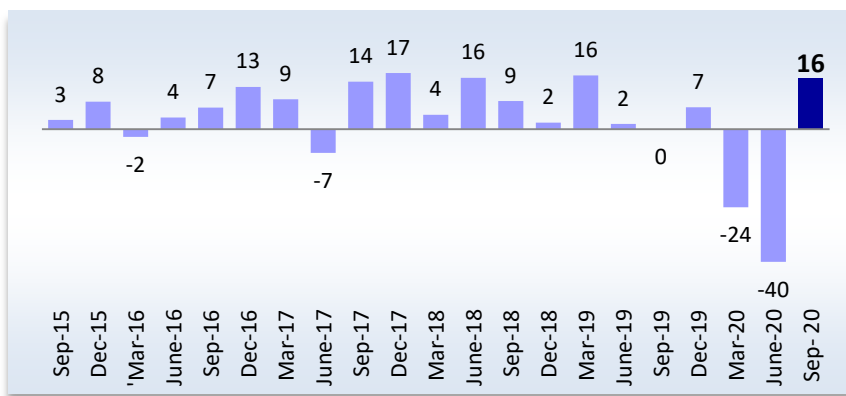
Sales in line with estimate – decline of 7% YoY



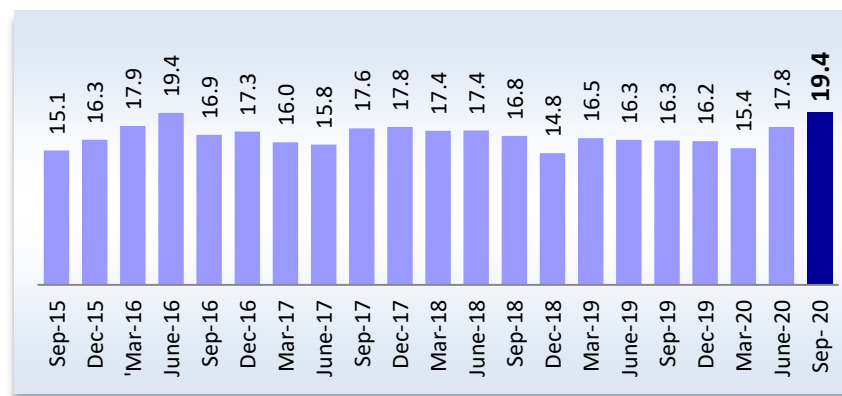
EBITDA above expectations – increase of 9% YoY (v/s est. -0.1% YoY)



PAT grew 16% YoY (v/s est. 7% YoY decline)



EBITDA margin (ex-Financials) expands 310bp YoY to 19.4%

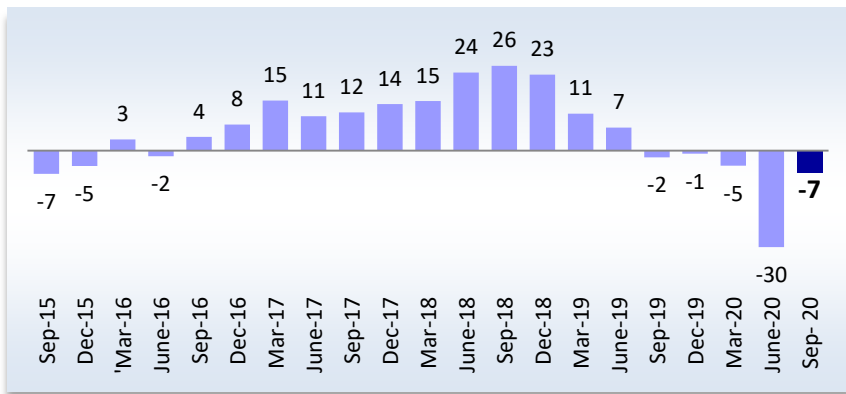


Source: MOFSL, Companies

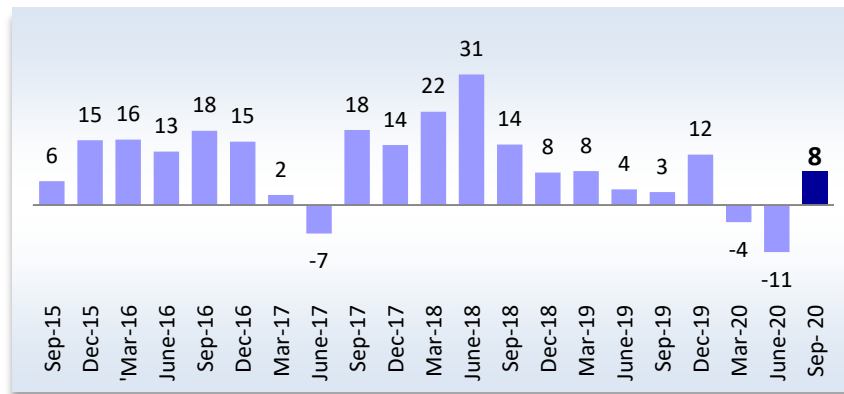
2QFY21 Earnings: Nifty EBITDA/PAT above expectations

- ❖ The Nifty Universe's 2QFY21 EBITDA/PAT growth was above expectations. 31 companies of 50 reported numbers above expectations.
- ❖ EBITDA margins (ex-Financials) expanded 310bp YoY to 19.8%.

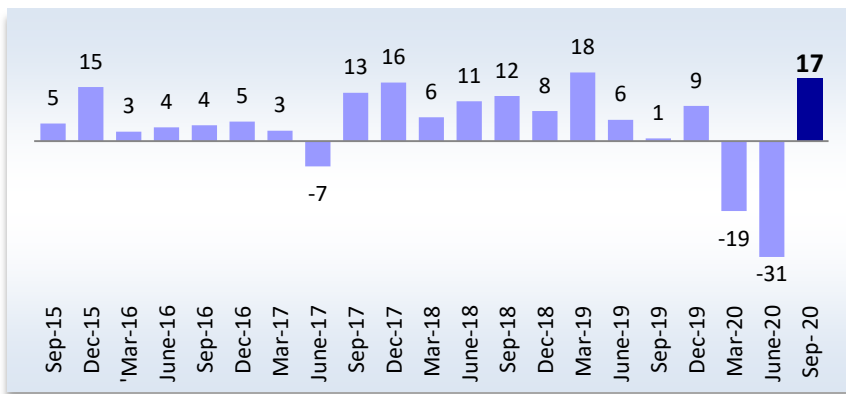
Sales in line with estimate – decline of 7% YoY



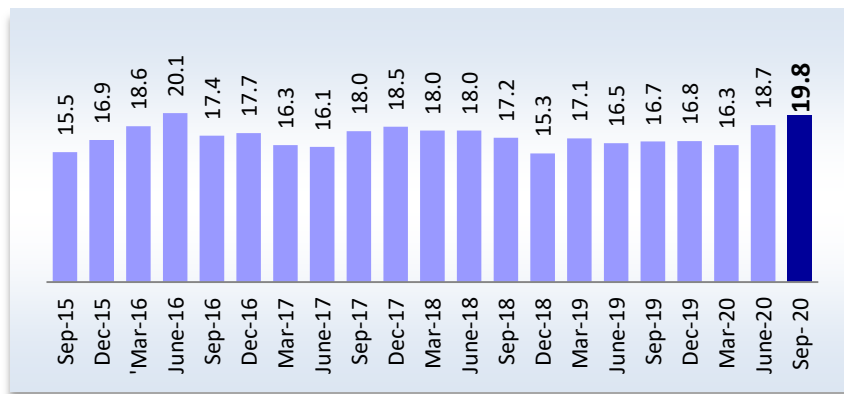
Nifty EBITDA grows 8% YoY (v/s est. -0.3%)



Nifty PAT increases 17% YoY (v/s est. -5%)



Nifty EBITDA margin (ex-Financials) expands 310bp YoY to 19.8% YoY



Source: MOFSL, Companies

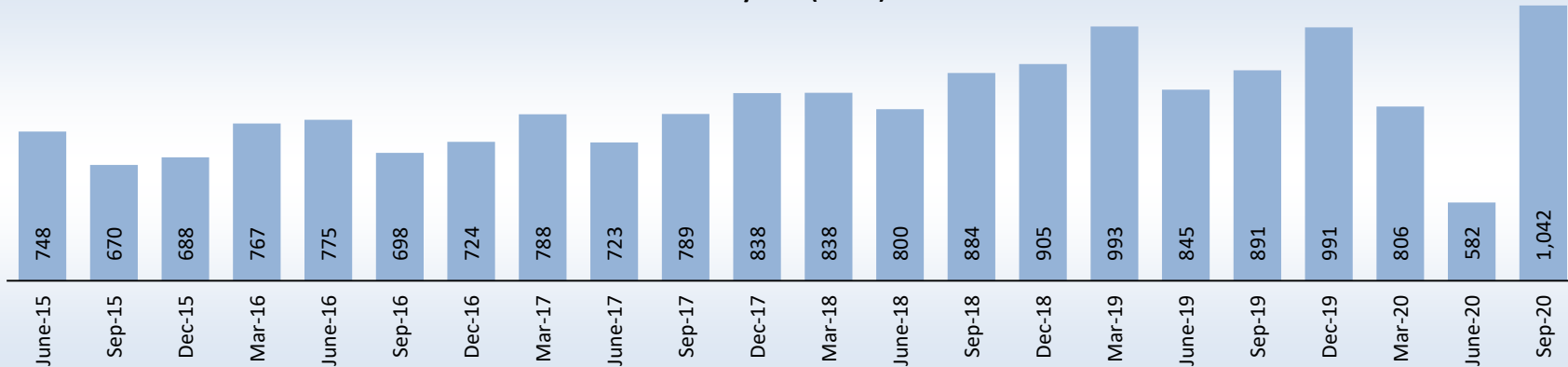
MOFSL Universe and Nifty PAT at ATH in 2QFY21

- ❖ MOFSL Universe and Nifty Universe PAT in 2QFY21 were at all-time highs.
- ❖ MOFSL Universe PAT came in at INR1308b, and Nifty PAT came in at INR1042b.

MOFSL PAT (INR b)

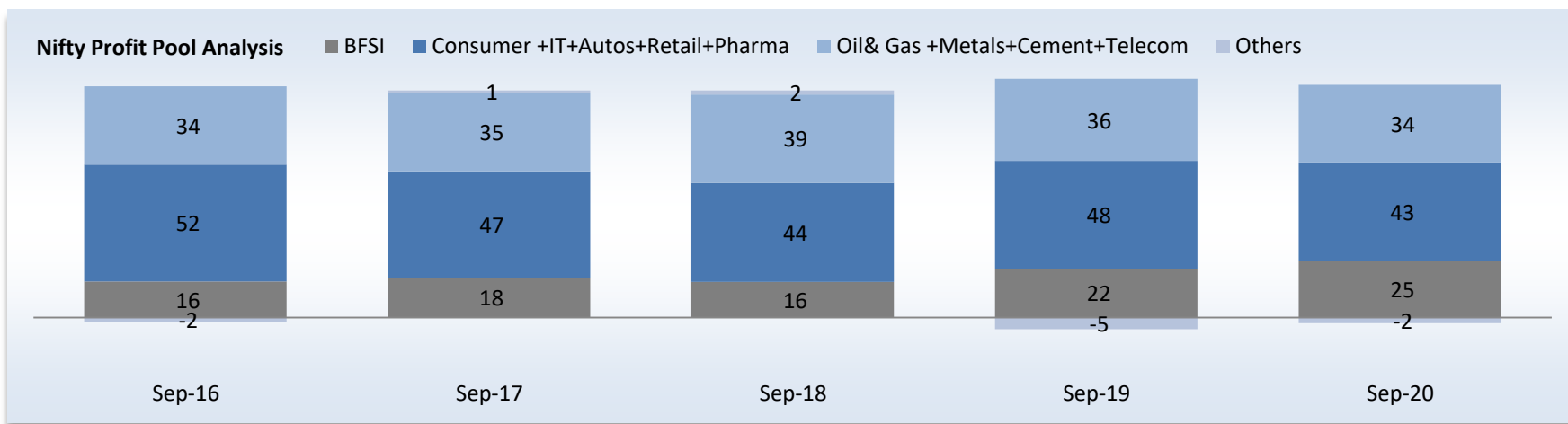
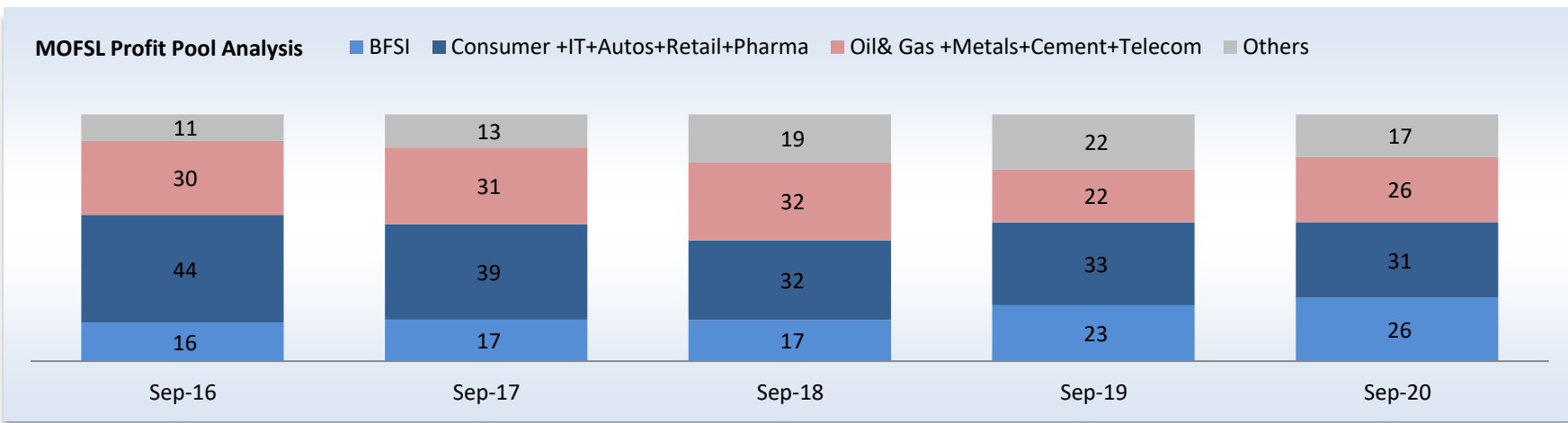


Nifty PAT (INR b)



Profit Pool Analysis: BFSI % contribution to MOFSL Universe increases YoY

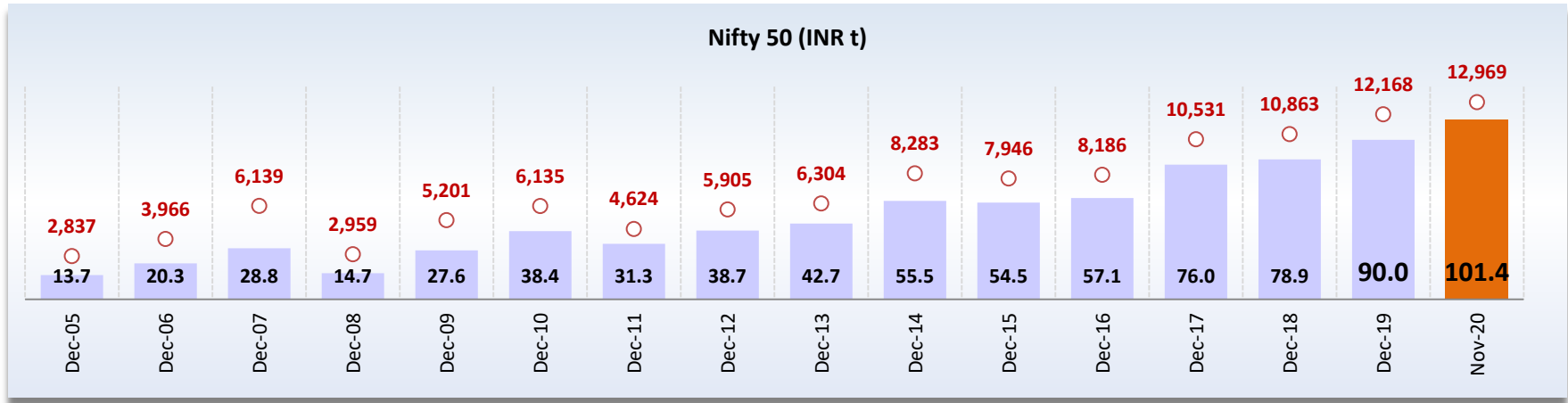
- ❖ BFSI profit contribution to the MOFSL Universe increased YoY, to 26% in Sep'20 from 16% in Sep'16.
- ❖ BFSI share as a percentage of Nifty 50 profits increased YoY, to 25% in Sep'20 from lows of 16% to in Sep'16.



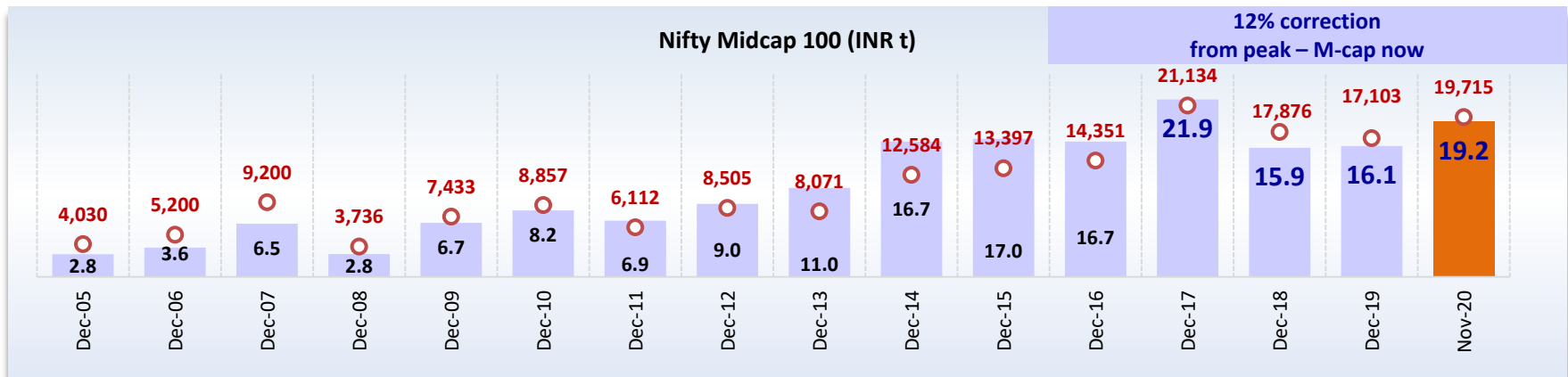
Nifty Market-cap above Dec'19 levels; Nifty Mid-cap still down 12% from peak levels

- ❖ Nifty 50 Market-cap continues to trade at all-time highs. Nifty Mcap is 13% above Dec'19 levels.
- ❖ However, Nifty Mid-cap 100's market cap is still down 12% from the peak, although it is above Dec'19 levels.

Nifty-50 M-cap (INR t) – 13% above Dec'19 levels



Nifty Midcap 100 M-Cap (INR t) – Above Dec'19 levels; down 12% from peak



Nifty-50 composition: BFSI recovery in Nov'20 leads to 380bps increase in wt.

- ❖ Nifty weightages – The BFSI segment (Public, Private, NBFCs, and Insurance) was the clear winner in Nov'20 as its weight increased by 380bps to 39.3% from 35.5% in Oct'20. O&G's outperformance has subsided now as RIL's weight is now down to 11.2%. Technology remains the clear winner as its weight is still 290bps above Dec'19 levels.
- ❖ The Healthcare sector gained – from 2.1% to 3.5% currently – but is still down from 7.3% in Dec'15. Cement weightage at 2.2% increased by 70bps from Dec'19.

Sector	Weight in Nifty-50 (%)				
	Dec-04	Dec-08	Dec-12	Dec-19	Nov'20
Automobiles	6.7	2.5	8.8	5.7	5.6
Banks - Private	4.7	5.0	16.9	27.8	25.6
Banks - Public	5.8	5.4	4.7	2.6	1.7
NBFC+ Insurance	2.1	2.3	7.9	11.6	12.0
Capital Goods	4.0	7.7	5.9	3.2	2.5
Cement	2.8	1.7	4.2	1.5	2.2
Consumer	7.8	6.5	12.3	10.2	10.1
Healthcare	6.3	2.6	5.0	2.1	3.5
Metals	8.2	4.8	3.8	2.4	2.0
Oil & Gas	27.1	24.5	12.3	12.5	12.9
Reliance	8.3	10.6	7.4	9.8	11.2
Telecom	6.3	11.6	2.0	2.2	2.0
Technology	14.5	9.0	11.4	12.8	15.7
Utilities	1.9	13.3	4.5	2.8	2.2
Miscellaneous	2.0	3.3	0.5	2.6	2.0
Nifty-50	100	100	100	100	100

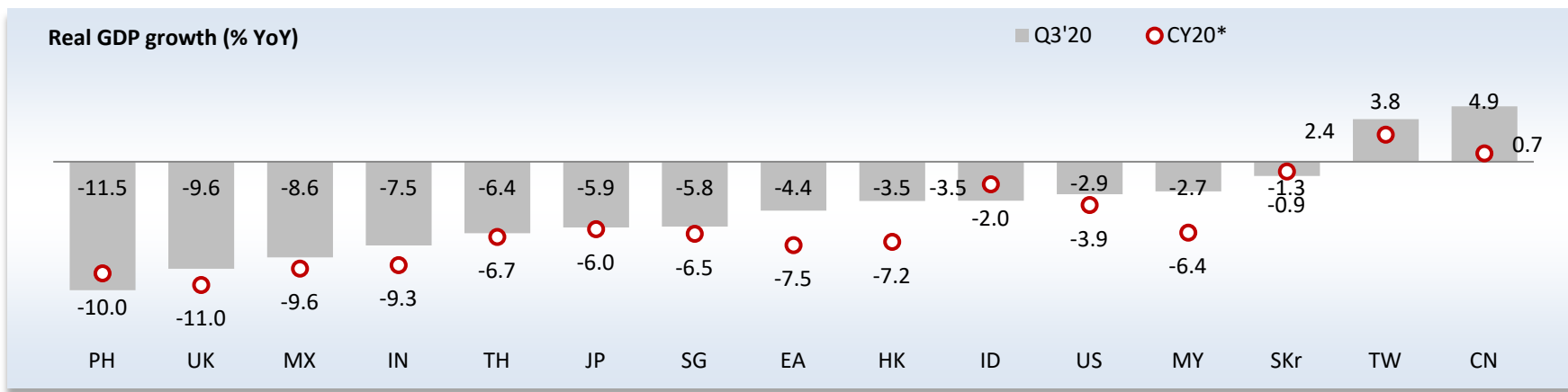
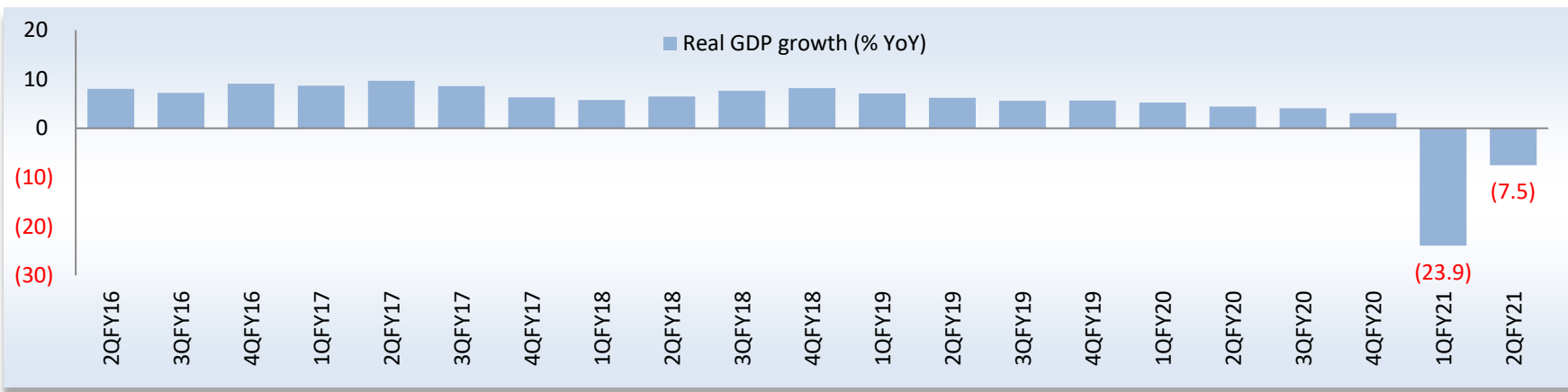
NBFC+Insurance companies weightage at 12% is above Dec'19 levels by 40bps

Private Banks at 25.6% weightage is only 220 bps down from Dec'19 levels

Technology has been the biggest gainer in terms of weightage YTD with a weight of 15.7% as on Dec'19 end.

GDP declines by 7.5% YoY in 2QFY21; trends to get better

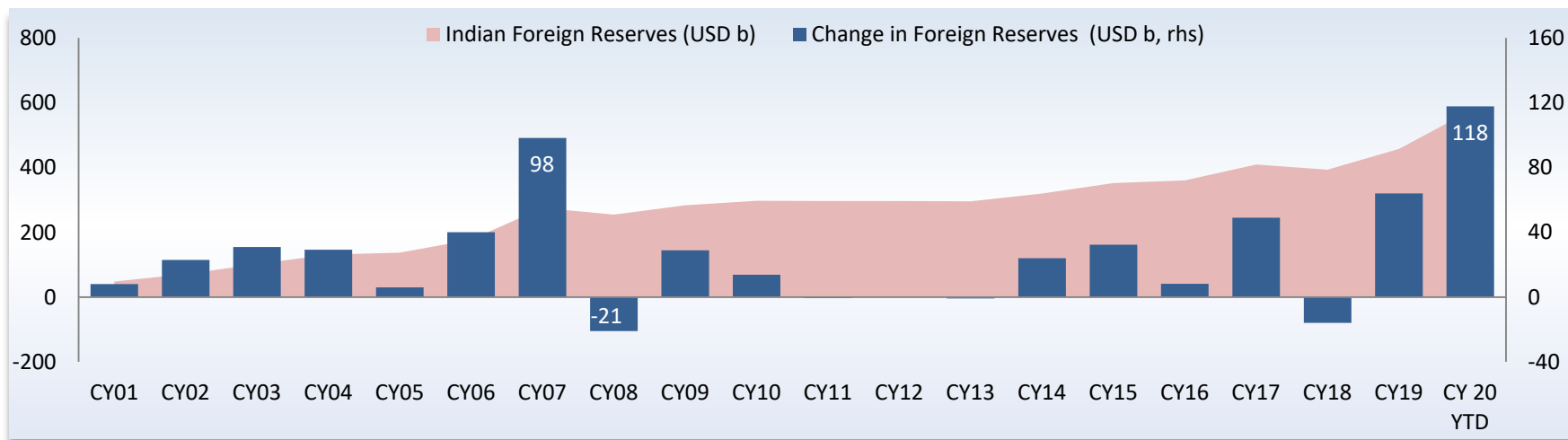
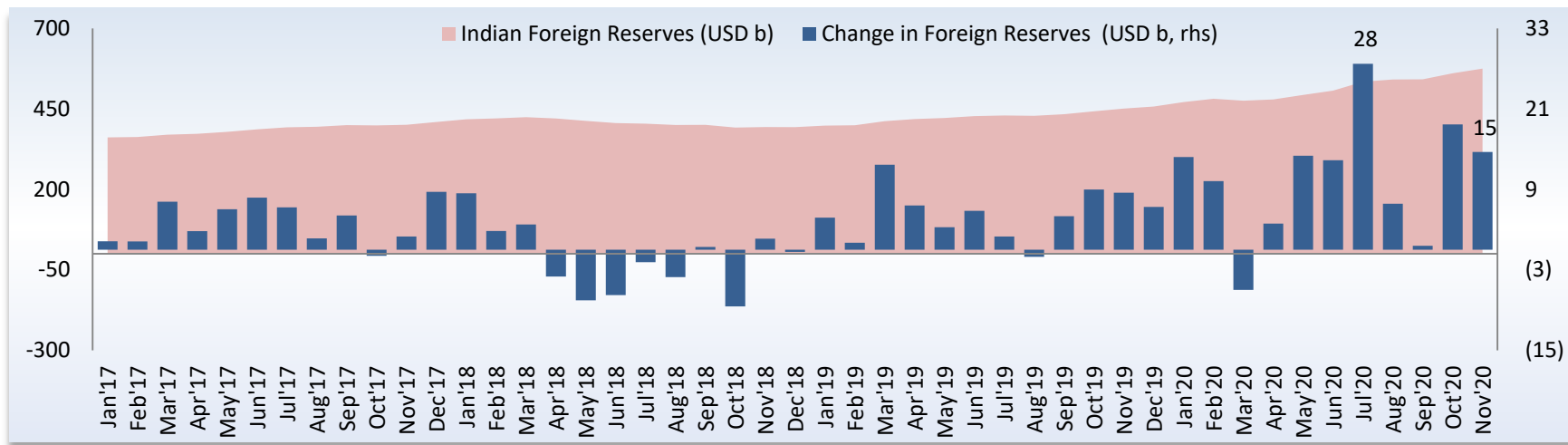
- ❖ Real GDP declined 7.5% YoY in 2QFY21. This was sequentially better than a 23.9% YoY contraction reported in 1QFY21.
- ❖ As of 3QCY20, India is no more the worst affected major economy in the world; the Philippines, UK, and Mexico are reporting sharper declines YoY.



* For the first three quarters of CY20. Source: Various national sources, CEIC, MoFSL

FX reserves at record high of USD575b; record annual inflow

- ❖ Foreign exchange reserves touched new highs. It has seen accretion for eight consecutive months now.
- ❖ In CY20, so far, USD118b of reserve accretion has already happened.



Atmanirbhar Bharat Abhiyaan 3.0: Rural remains focus area

- ❖ Central government came up with an **Atmanirbhar Bharat Abhiyaan 3.0** in which rural sector and employment generation remained the key focus areas.
- ❖ Estimated Benefits of announcements is worth INR2.7t estimated actual fiscal outgo could be at INR 1.1t

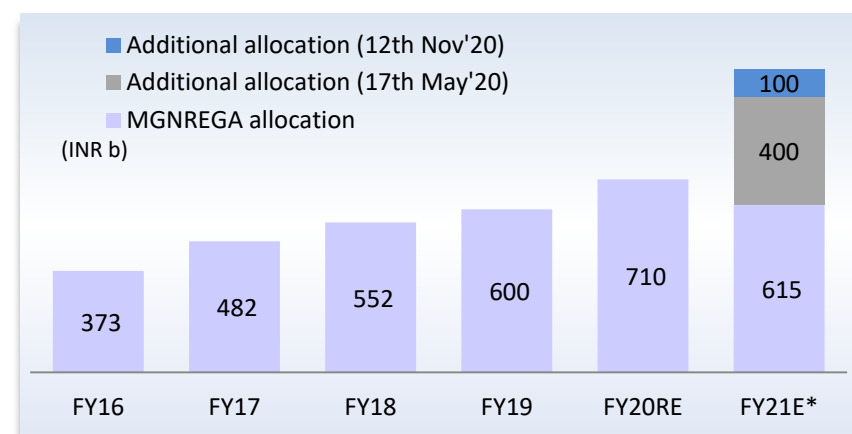
Expected fiscal outgo of 'Atmanirbhar Bharat Abhiyaan 3.0' in FY21 up to INR1.1t (0.5% of GDP)...

INR b	Estimated benefit	Expected Fiscal outgo in FY21
PMAY-Urban	180	180
Boost for rural employment	100	100
R&D towards COVID-19 vaccine	9	-
Additional capex by center	102	102
Credit Line to EXIM Bank	30	30
Production Linked Incentives	1,974	-
Additional Fertilizer subsidy	650	650
Equity infusion in NIIF	60	-
Atmanirbhar Bharat Rozgar Yojana	60	-
Extension of ECLGS 1.0	-	-
Launch of ECLGS 2.0	-	-
Income tax relief in housing sector	-	-
Total estimated benefit	3,165	1,062

Total fiscal outgo of all the packages taken together amounts to not more than INR4.7t (2.3% of GDP)

INR t	Estimated Benefit	Fiscal Outgo in FY21	% of GDP
Pradhan Mantri Garib Kalyan Package	2.0	1.4	0.7
Atmanirbhar Bharat Abhiyaan 1.0	11	1.1	0.5
PMGKP Anna Yojana	0.8	0.8	0.4
Atmanirbhar Bharat Abhiyaan 2.0	0.7	0.4	0.2
Atmanirbhar Bharat Abhiyaan 3.0*	3.2	1.1	0.5
Total fiscal stimulus	17.7	4.7	2.3

MGNREGA target spend in FY21 has been raised further by INR 100b

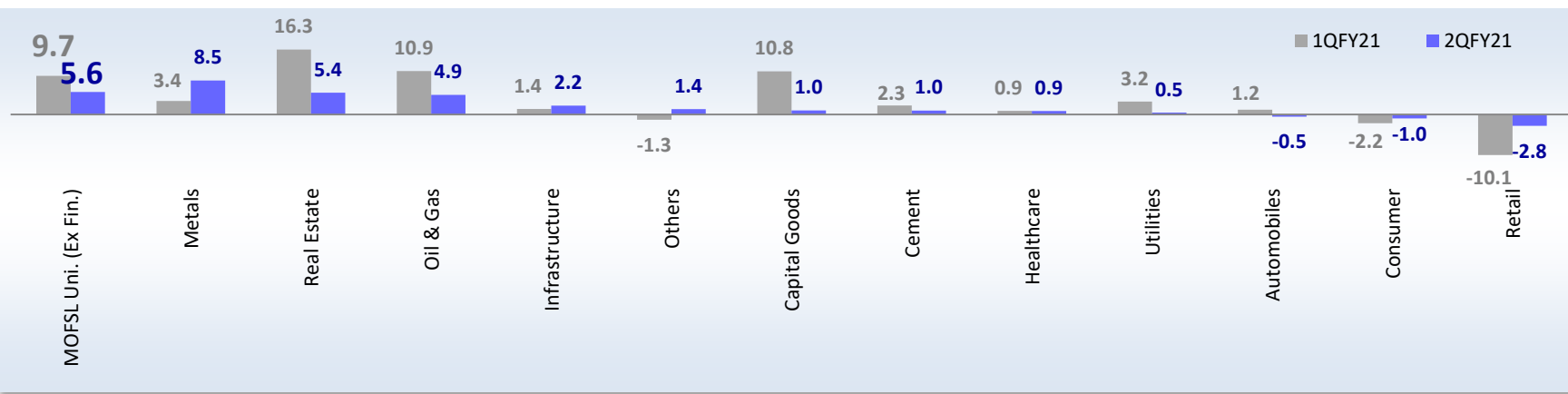


Key reports from MOFSL Research desk

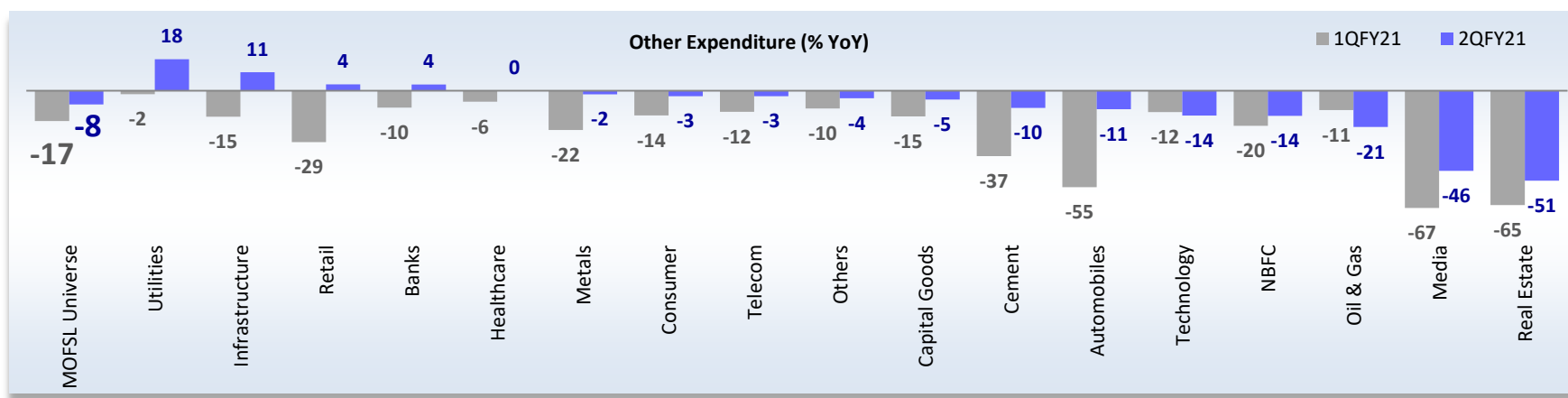
Corporate India doubles down on cost control!

- ❖ In the recently concluded 2QFY21 results, one of the key and defining features of this performance was the better-than-expected focus on cost mitigation measures, apart from demand recovery and a healthy tailwind from gross margin expansion.
- ❖ 2QFY21 was an optimum combination of gross margin expansion and operating cost reduction.

Gross margins expanded 600bps YoY; Metals and O&G saw sharp GM expansion



Two consecutive quarters of overhead cost reduction was seen across sectors in the MOSL Universe

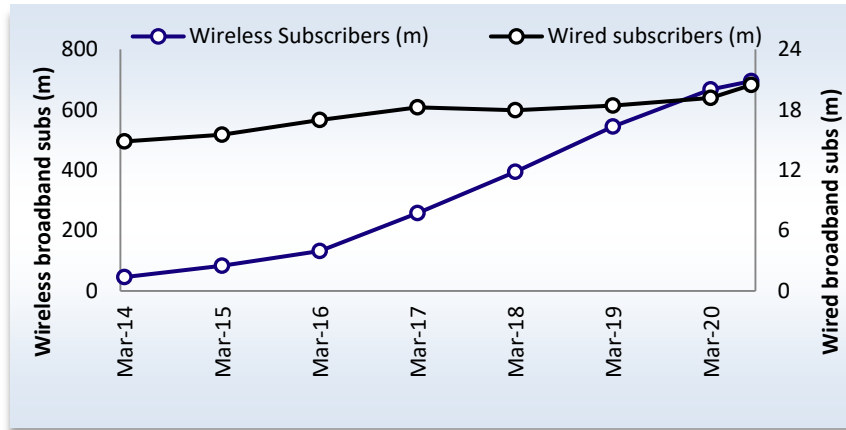


Source: Bloomberg, MOFSL . Refer to note Corporate India doubles down on cost control! ([link](#)).

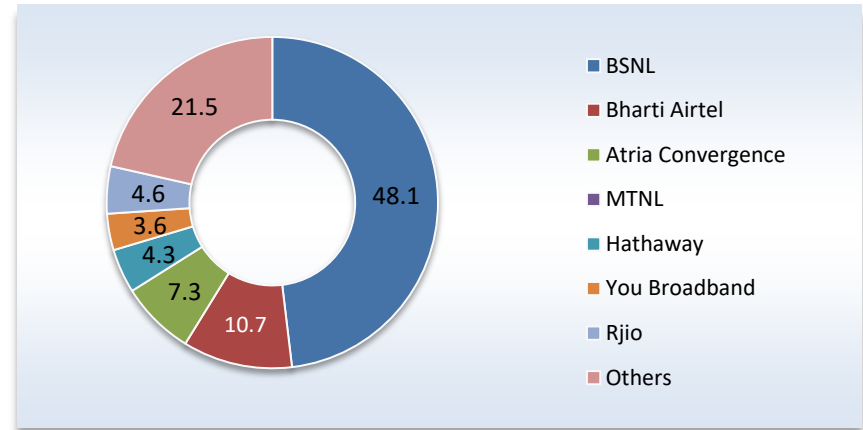
TELECOM - Home Broadband play

- ❖ Our Telecom team has released a thematic note on the Home Broadband play in India.
- ❖ We believe the Home Broadband market has a revenue/EBITDA opportunity of INR480b/INR240b (at 50m target base). RJio's recent foray (with tall targets), especially after delivering huge success in the Wireless market, has attracted all eyes on the opportunity in the Home Broadband market.

Wired subs are a fraction of wireless



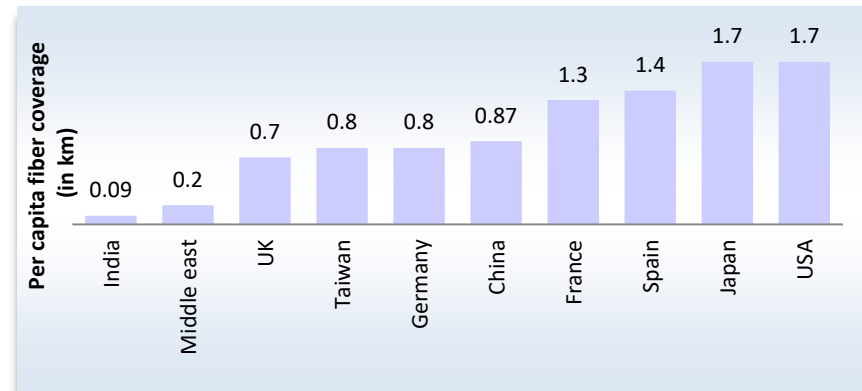
Player-wise market share of fixed internet connections in Jun'20 (%)



Business economics of Wired Broadband

Particulars	Amount in INR m
ARPU (INR)	400
Subscriber (m)	1
Annual Revenue	4,800
EBITDA	1,560
Margin (%)	~30-35%
Capex/subscriber (INR)	3500
Payback period (months)	27
Subscriber/home pass (%)	15-20%

Fiber deployment to population is low in India

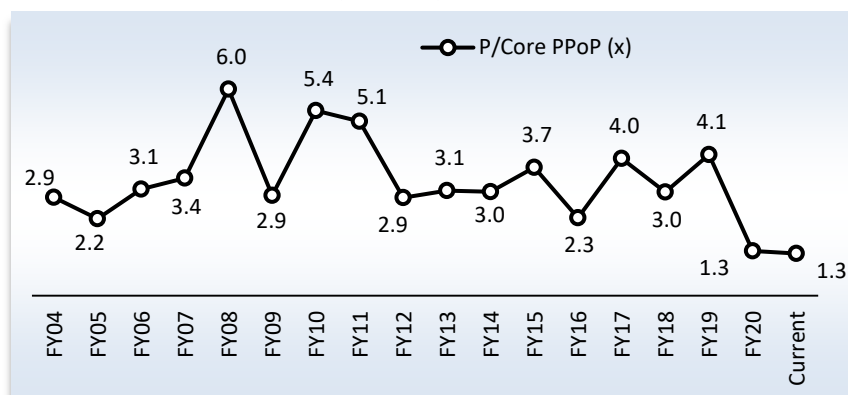


Source: MOFSL., Refer to the note -The Home Broadband play ([link](#))

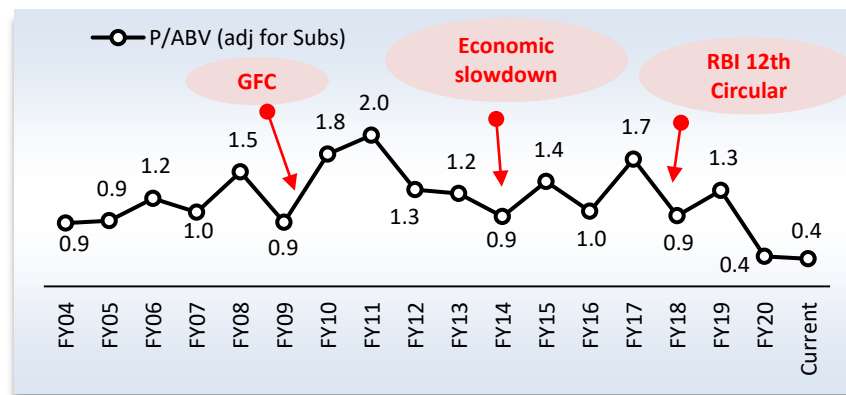
SBI – Steady asset quality; PPop->PAT conversion set to improve

- ❖ Our Banking team has released a note on SBI – they appear confident on asset quality and expect credit costs to normalize in FY22. The issues in the corporate NPA cycle are now largely behind, and the bank has improved its PCR sharply (similar to large private peers).
- ❖ We believe the earnings normalization cycle for SBIN has begun as the uncertainty brought about by the COVID pandemic has receded significantly.

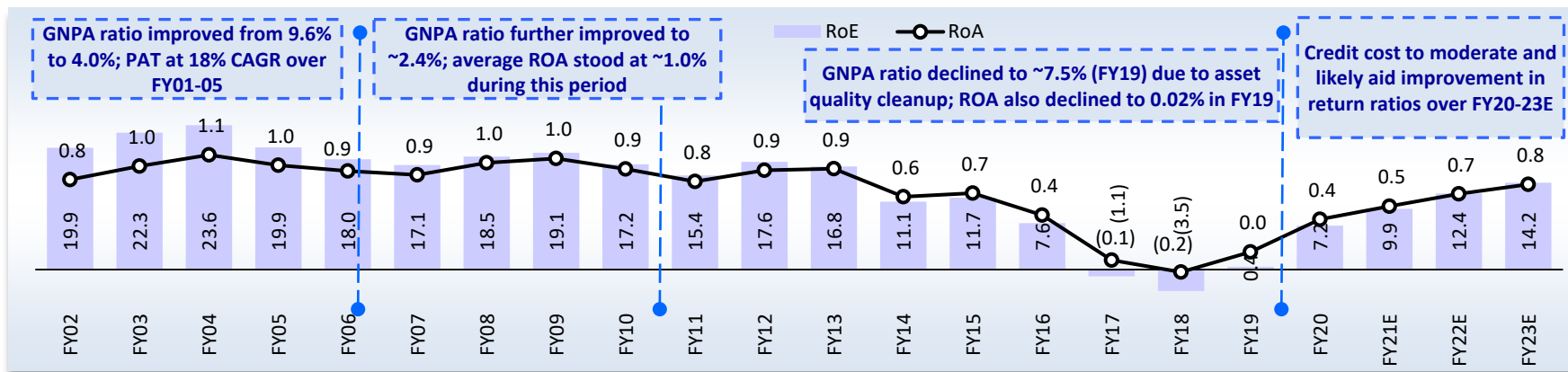
P/Core PPop for FY22E trading at cheap valuations of 1.3x...



P/ABV (adjusted for subs) also trading near all-time lows



Return ratios would pick up gradually, with RoE reverting to the double digits over FY22-23E

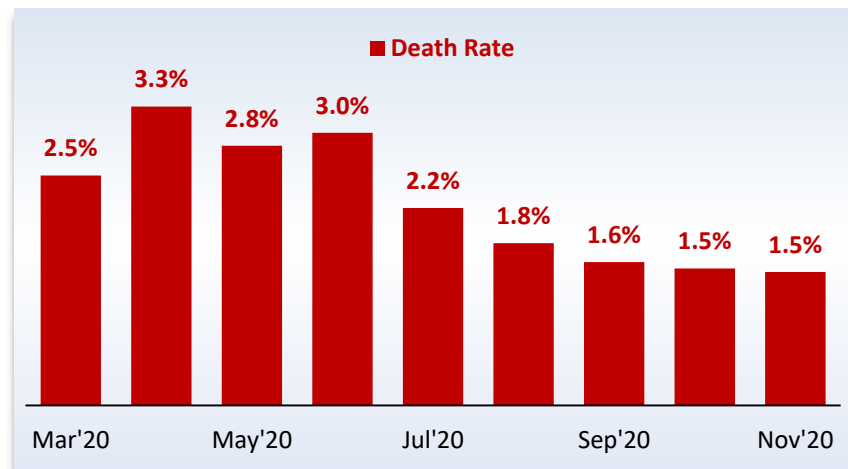
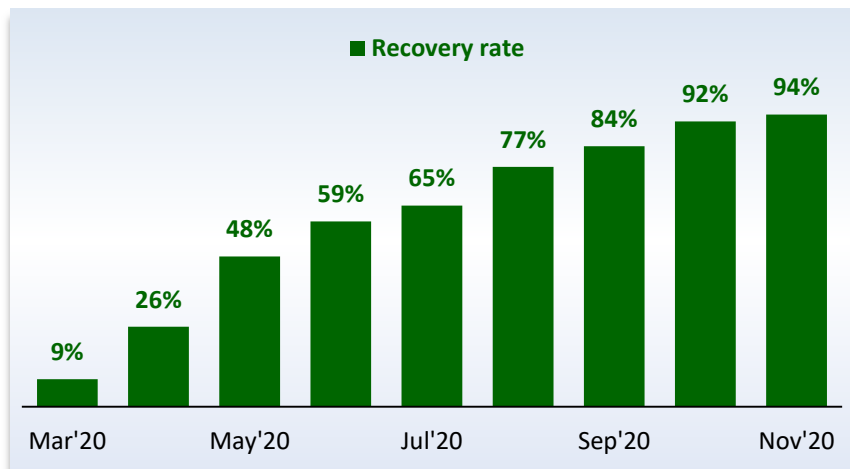
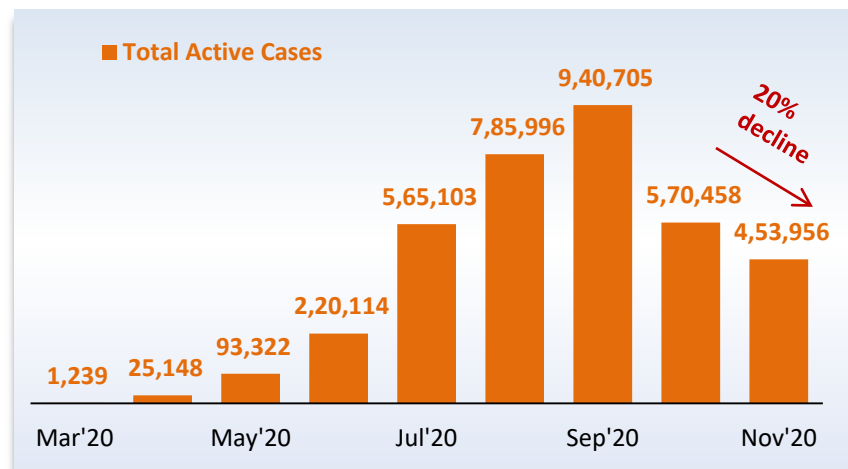
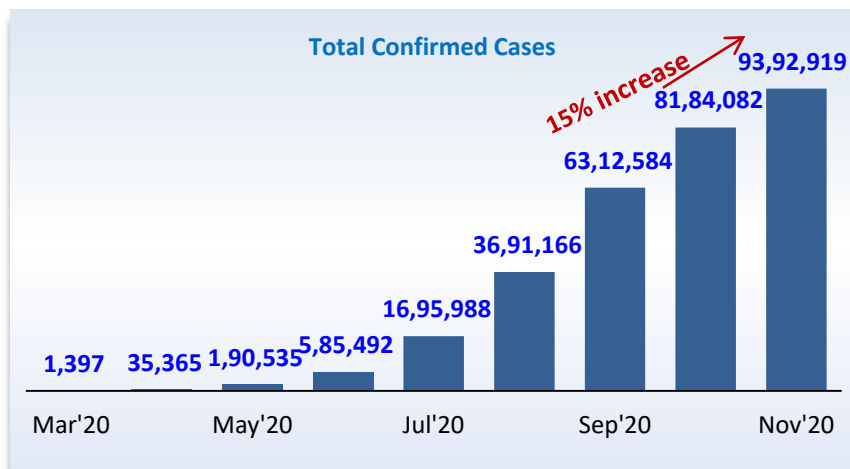


Source: MOFSL., Refer to the note -Asset quality steady; PPop->PAT conversion set to improve ([link](#))

COVID-19: Active cases decline in Nov'20

COVID-19: Active cases decline for second consecutive month in Nov'20

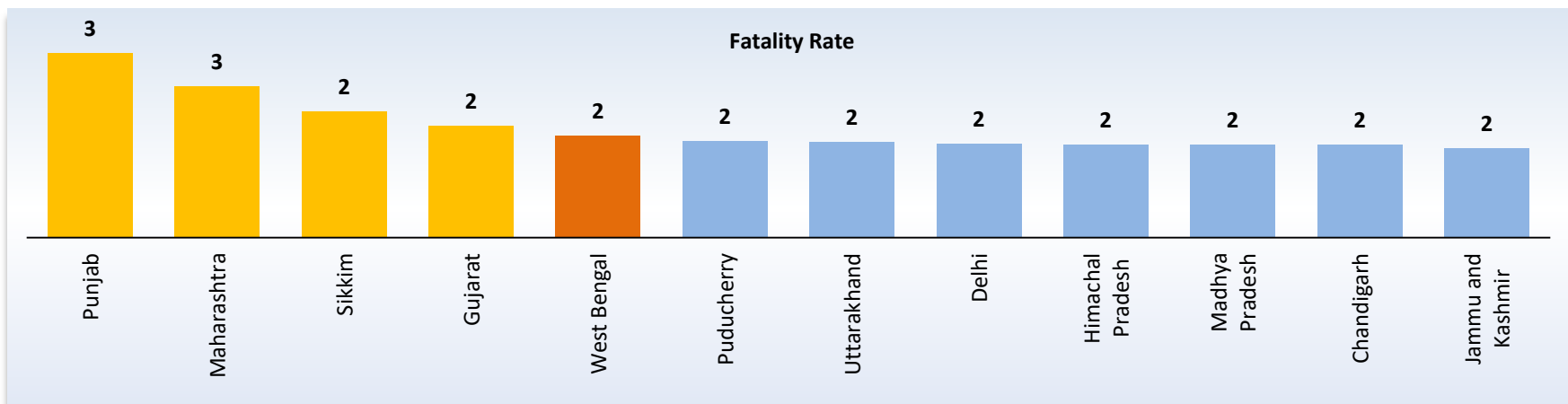
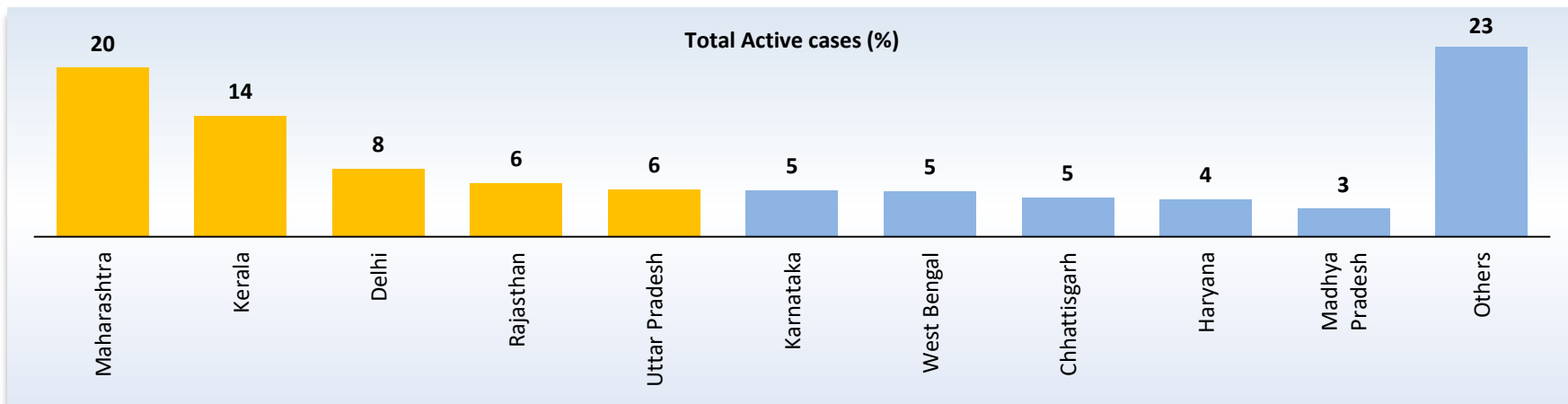
- ❖ Total confirmed cases of COVID-19 were up 15% in Nov'20 (MoM), while active cases were down 20% to 453K. This is the second consecutive month of decline seen in active cases.
- ❖ Case fatality rates for India remain steady at 1.5% in Nov'20.



Source: Ministry of Health and Family Welfare, MOFSL

COVID-19: 54% of total active cases in five states

- ❖ Maharashtra, Kerala, Delhi, Rajasthan, and Uttar Pradesh accounted for 54% of the total active COVID-19 cases in India as of 28th Nov'20.
- ❖ Punjab and Maharashtra have the highest fatality rates of 3% each, while the average for India stands at 1.5%.



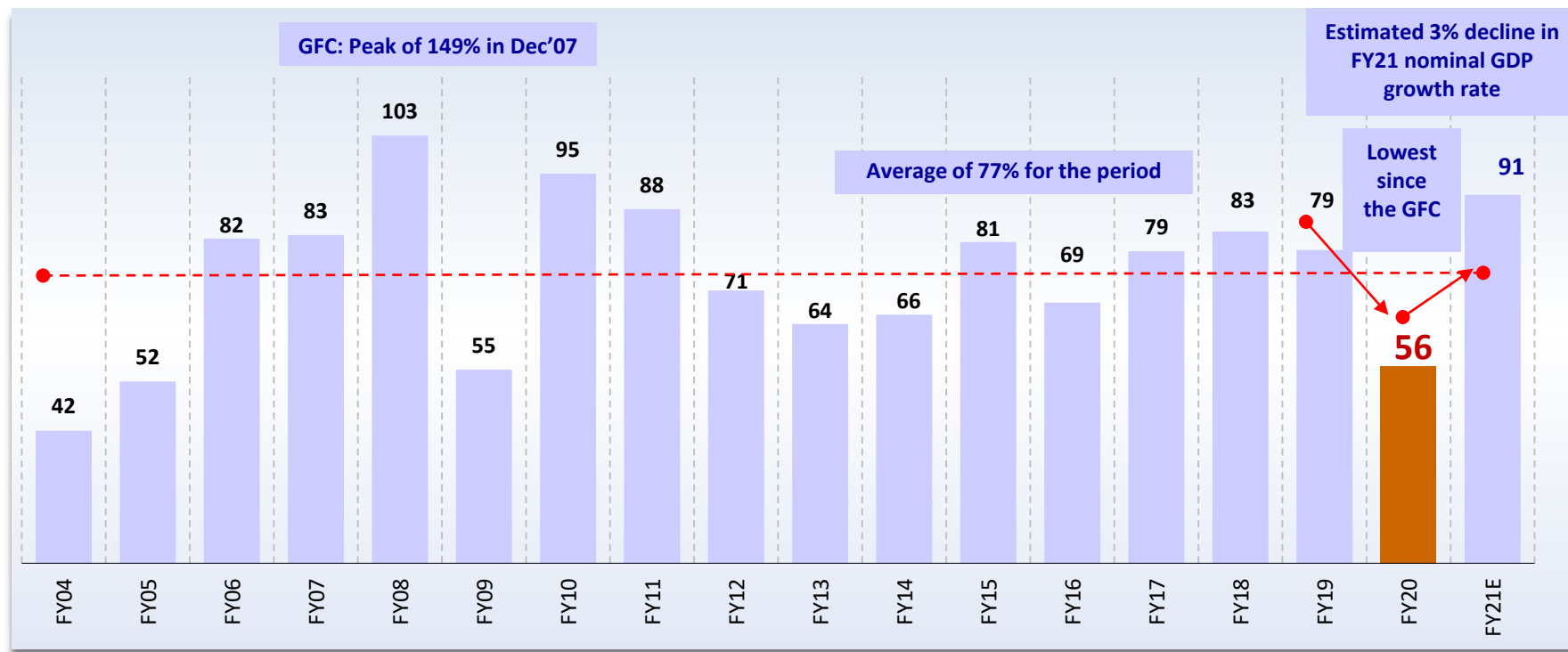
Source: Ministry of Health and Family Welfare, MOFSL

Valuations: Key Observations

Market cap-to-GDP ratio – highest in last 10 years

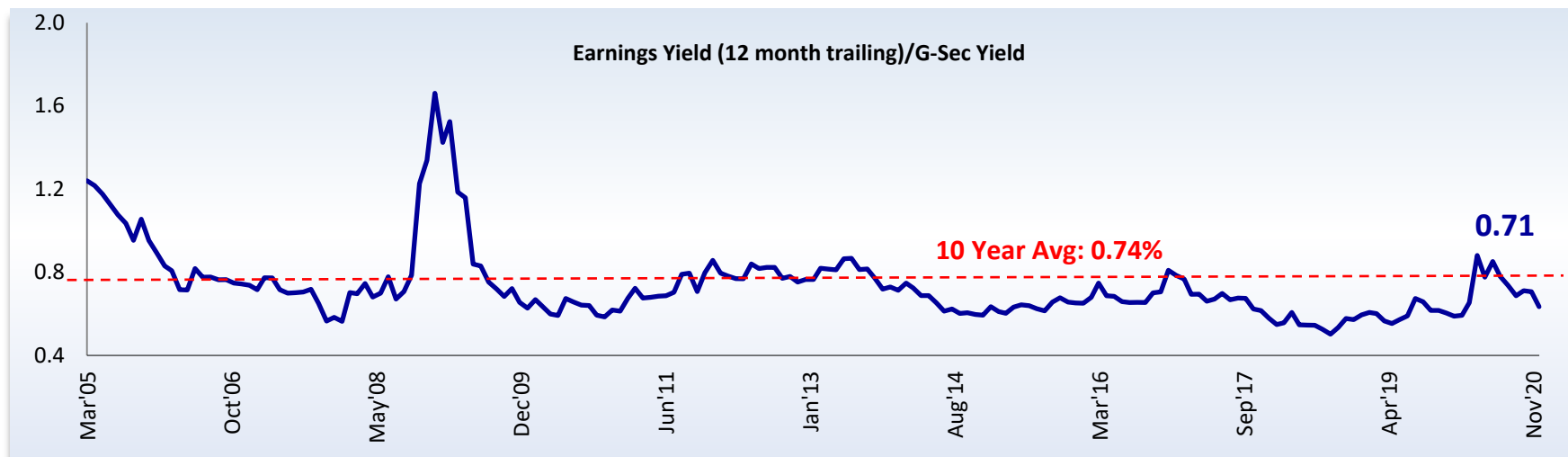
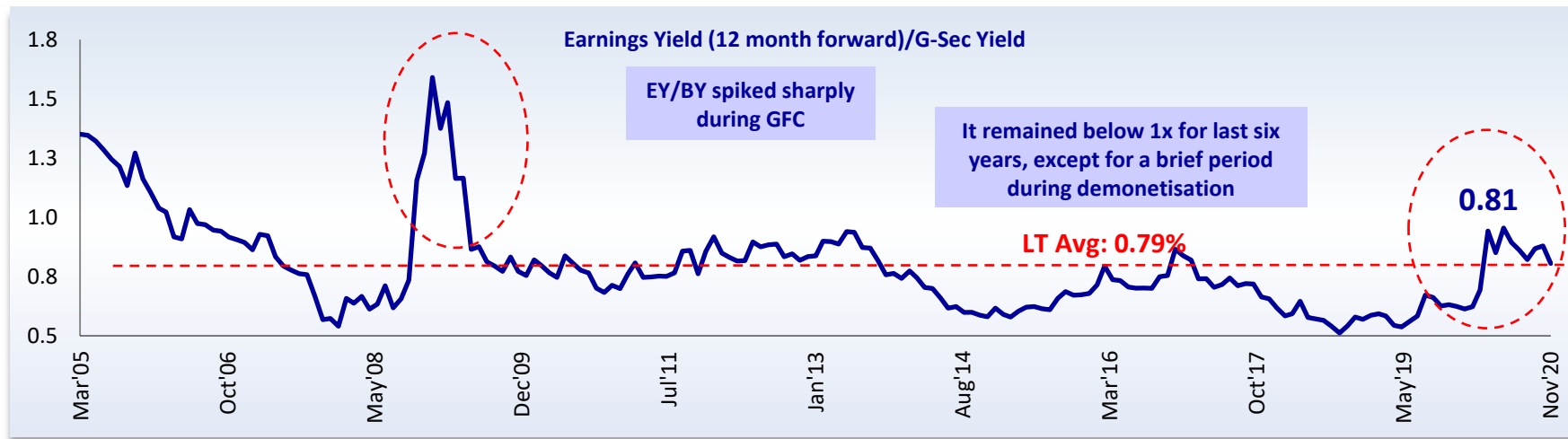
- ❖ The market cap-to-GDP ratio has been volatile. It increased from 79% in FY19 to 56% (FY20 GDP) in Mar'20 to 91% currently (FY21E GDP) – above the long-term average of 77%. The rally since June'20 has led to an Mcap/GDP ratio at the highest levels since FY10.
- ❖ The lowest in the last two decades was 42% in FY04. The ratio hit a peak of 149% in Dec'07 during the 2003-08 bull run.

Market cap-to-GDP ratio (%)



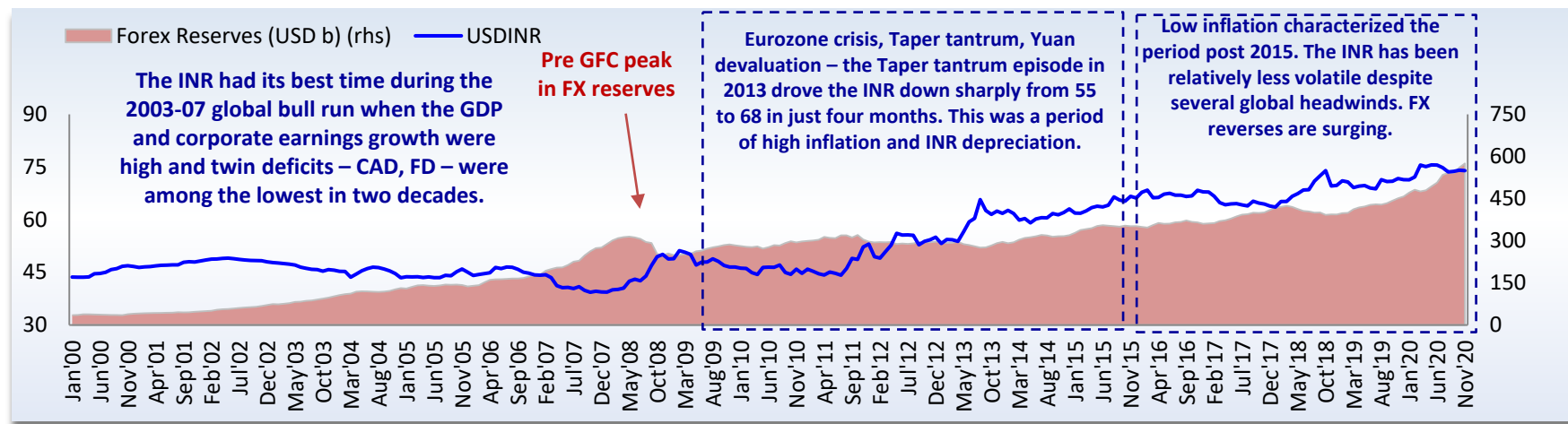
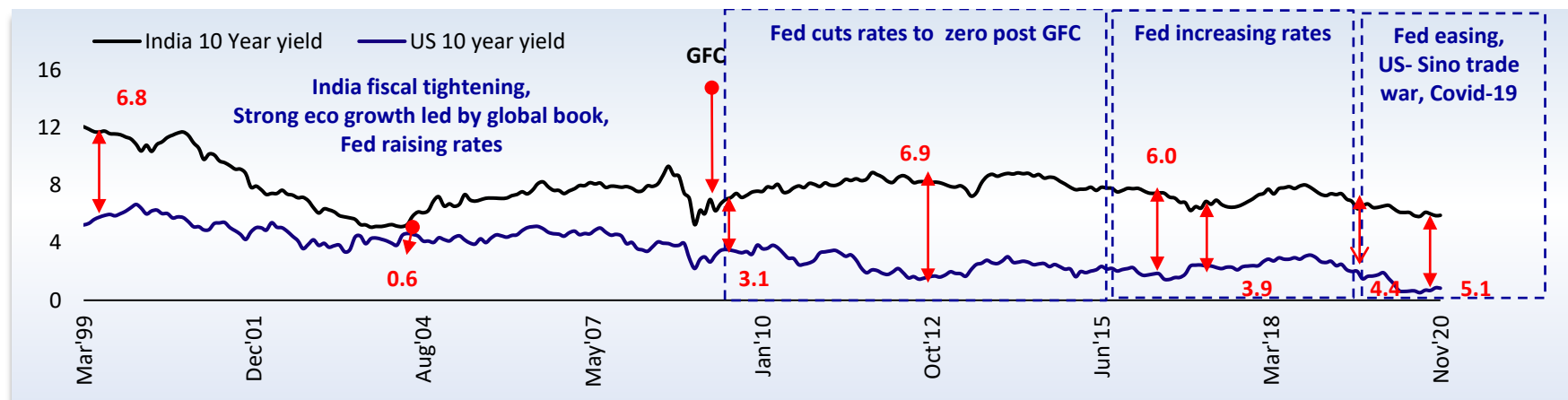
Yields: Earnings v/s bonds – near LT averages

- ❖ The EY/BY ratio is near 10-year LT averages, on both a forward and trailing basis. While on a forward basis, it is slightly above the LT average, on a trailing basis, it is below the LT average.



Bonds: Spread v/s US 10-year stable at 510bp; FX reserves at all-time highs

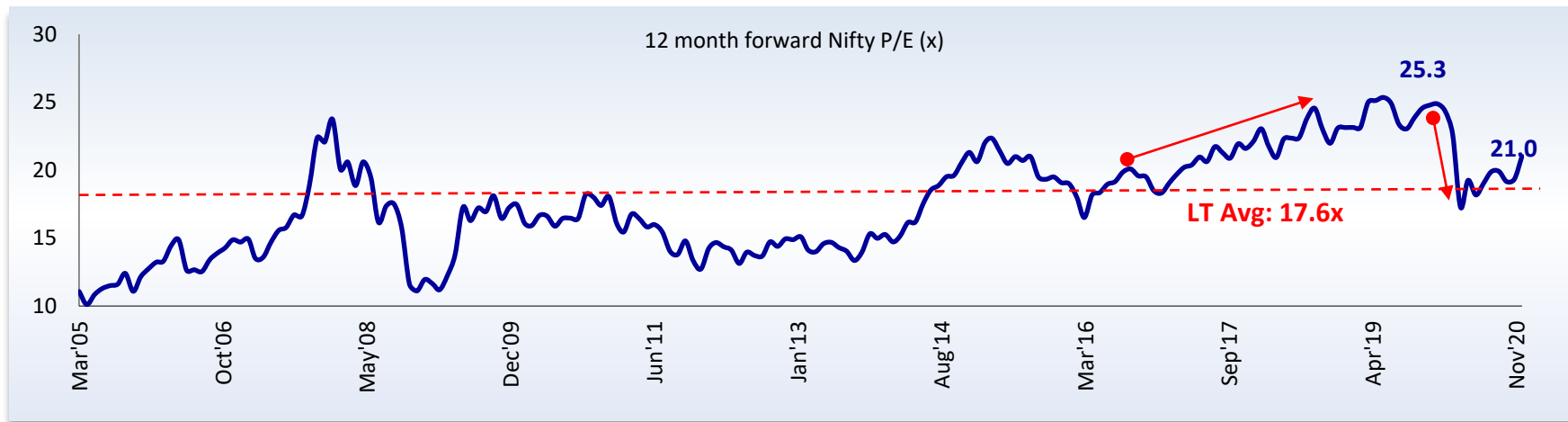
- ❖ US 10-year yields are trading near 0.82% and Indian 10-year yields are trading close to 5.9%.
- ❖ On the currency front, the INR has displayed remarkable stability given the underlying all-time-high forex reserves (USD575b). The INR has depreciated by ~3% YTD CY20.



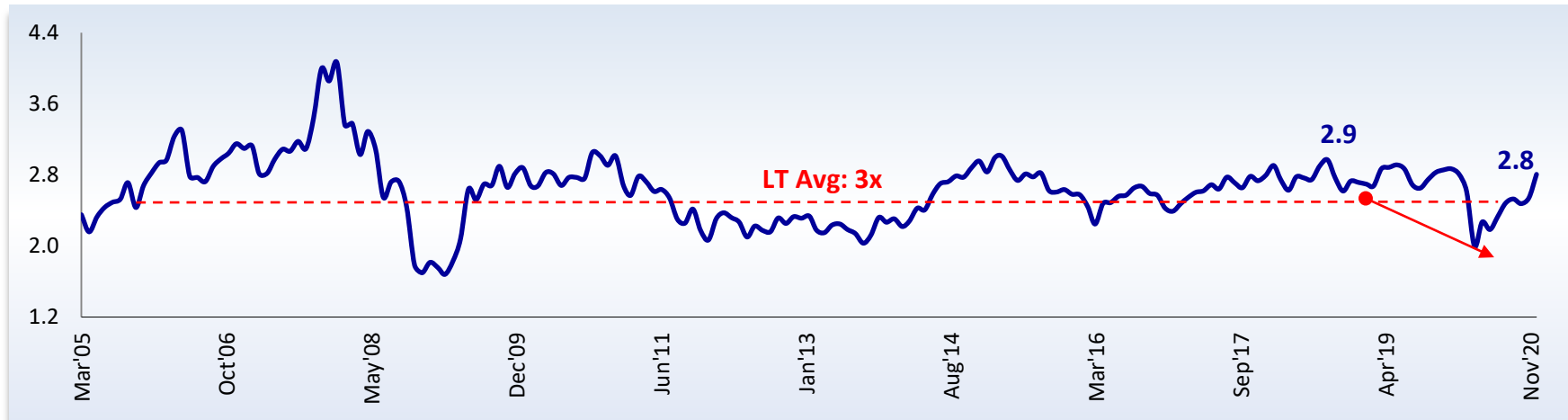
Valuations: Nifty forward P/E and P/B at a premium to LT mean

- ❖ The Nifty 12-month forward P/E of 21x is now at a premium of 19% v/s the LT average of 17.6x.
- ❖ At 2.8x, the Nifty's 12-month forward P/B is at a 6% premium to the historical average of 2.6x.

12-month forward Nifty P/E (x)



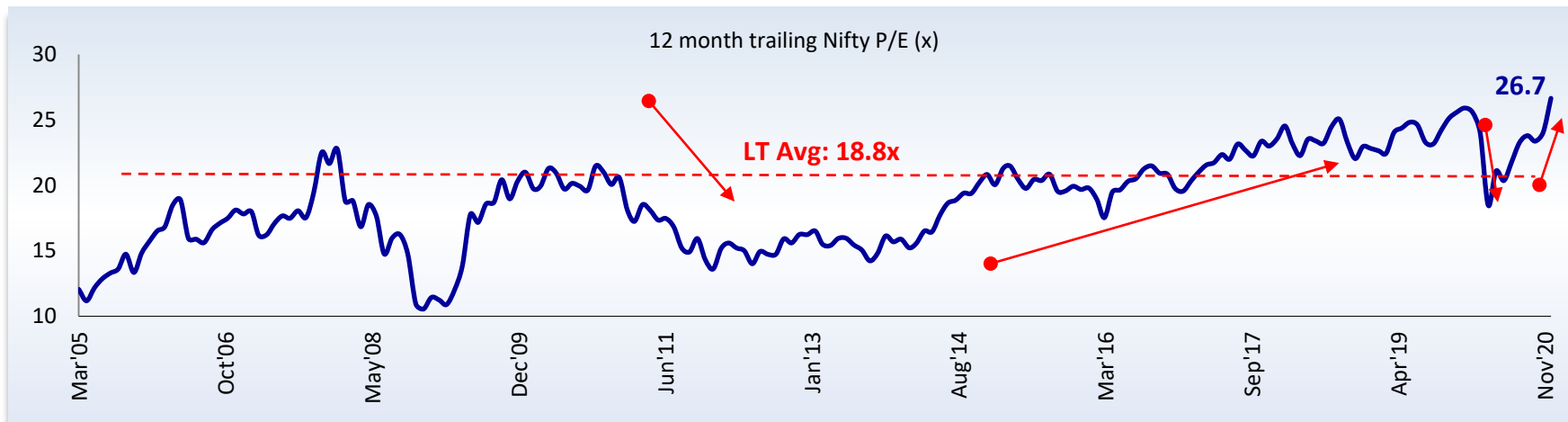
12-month forward Nifty P/B (x)



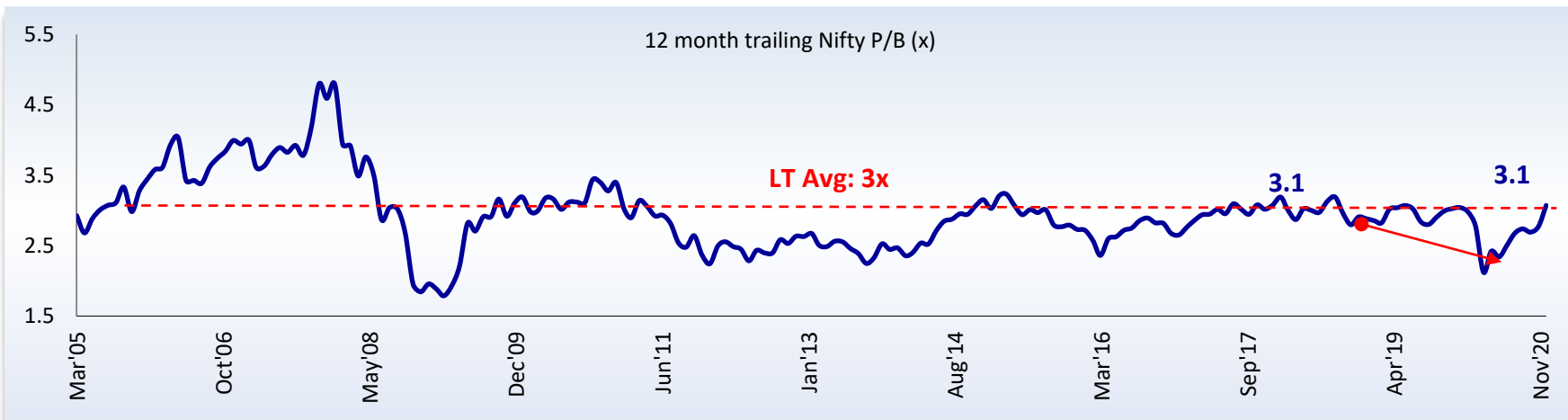
Valuations: Nifty trailing P/E highest in past 15 years; P/B near LTA

- ❖ The Nifty 12-month trailing P/E of 26.7x is trading at its highest levels in the past 15 years.
- ❖ At 3.1x, the Nifty 12-month trailing P/B is 4% above the historical average of 3x.

12-month trailing Nifty P/E (x)

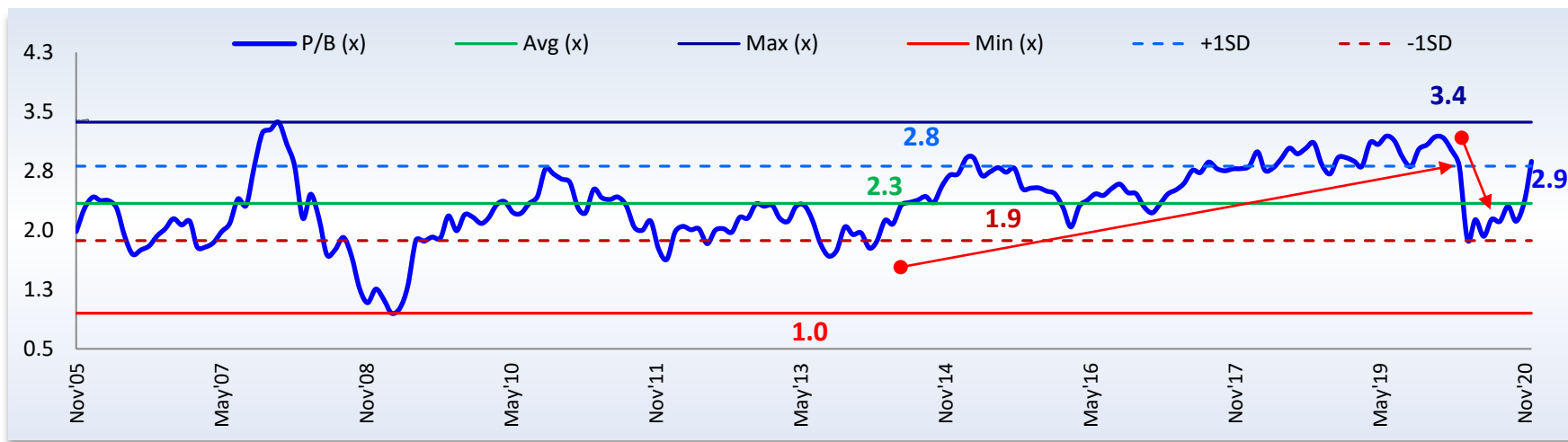


12-month trailing Nifty P/B (x)

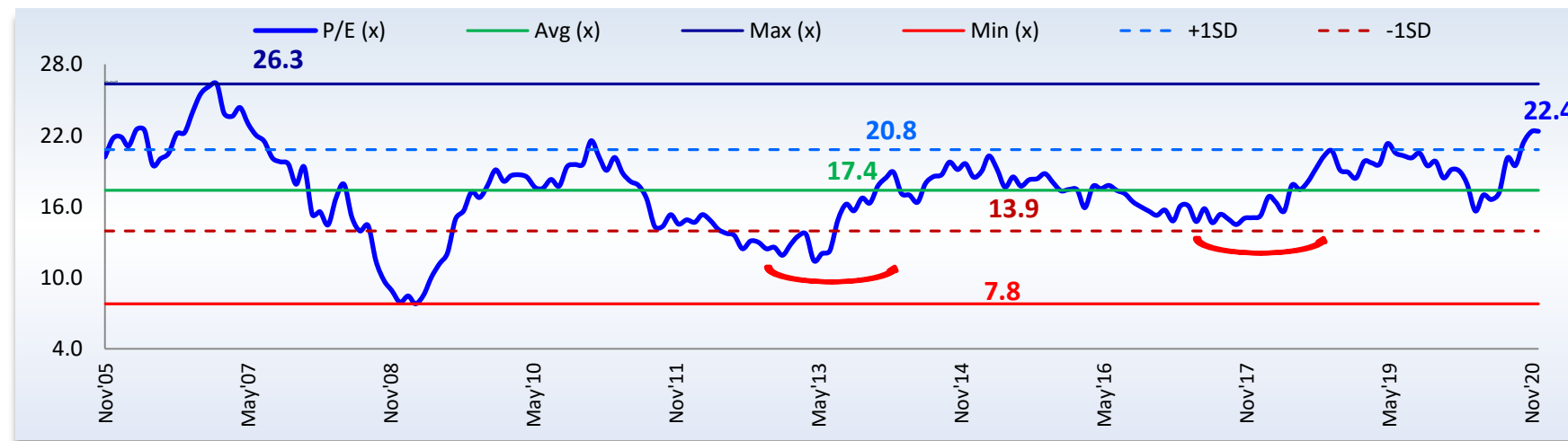


Sectoral valuations: Private Banks at +1 SD, while IT trades above +1SD

Pvt Banks' valuations near +1SD valuations

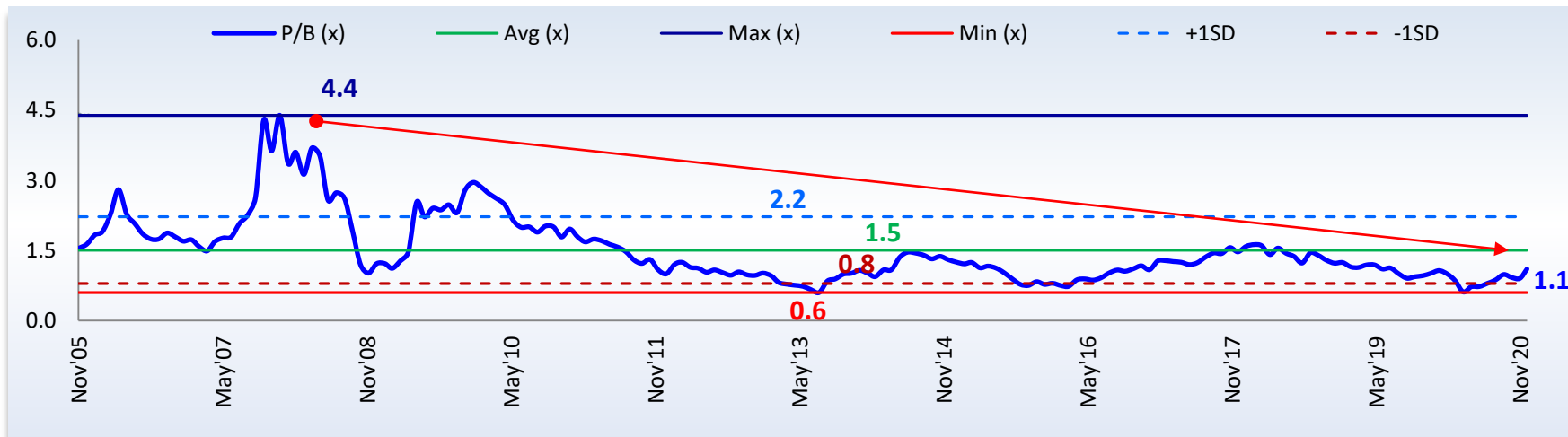


Technology trading above +1SD

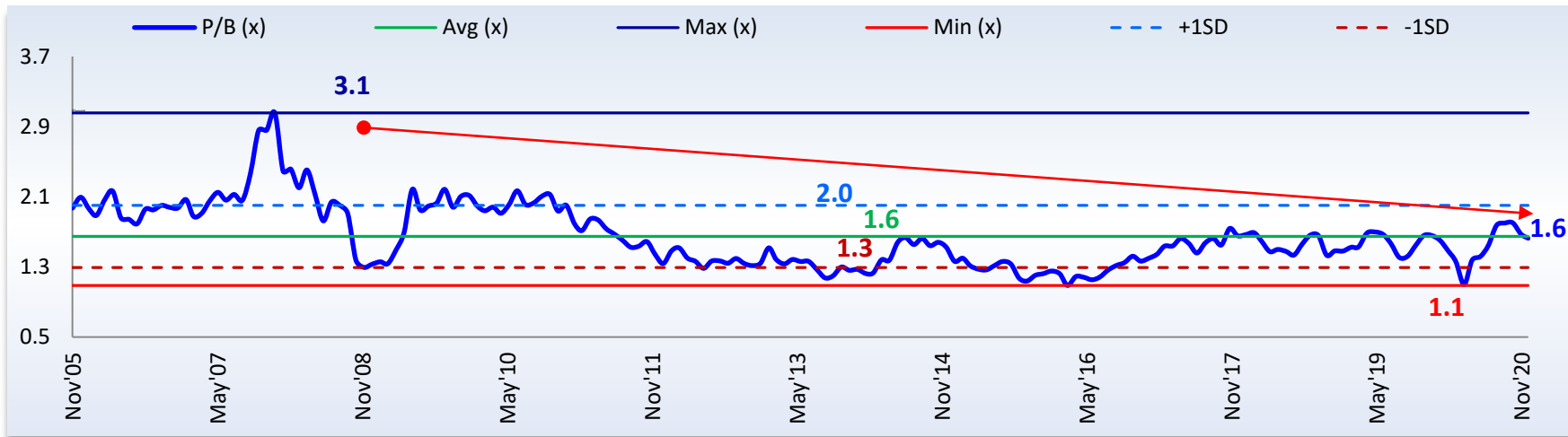


Sectoral Valuations: Metals above -1SD; Oil & Gas at LT mean

Metals: Valuations above -1SD; at book value

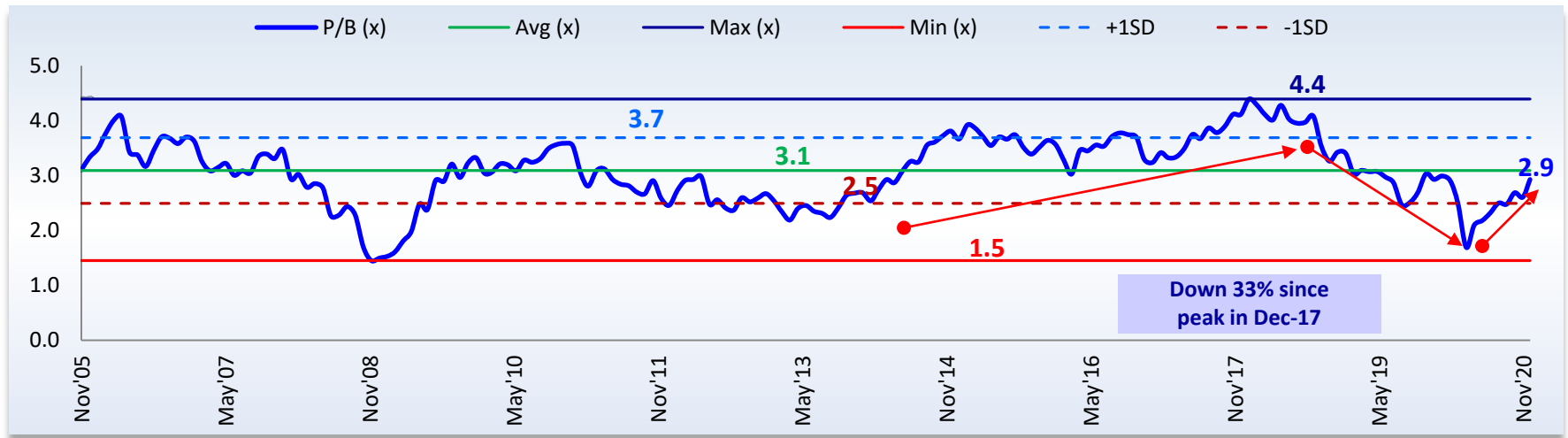


Oil & Gas: Valuations at LT mean

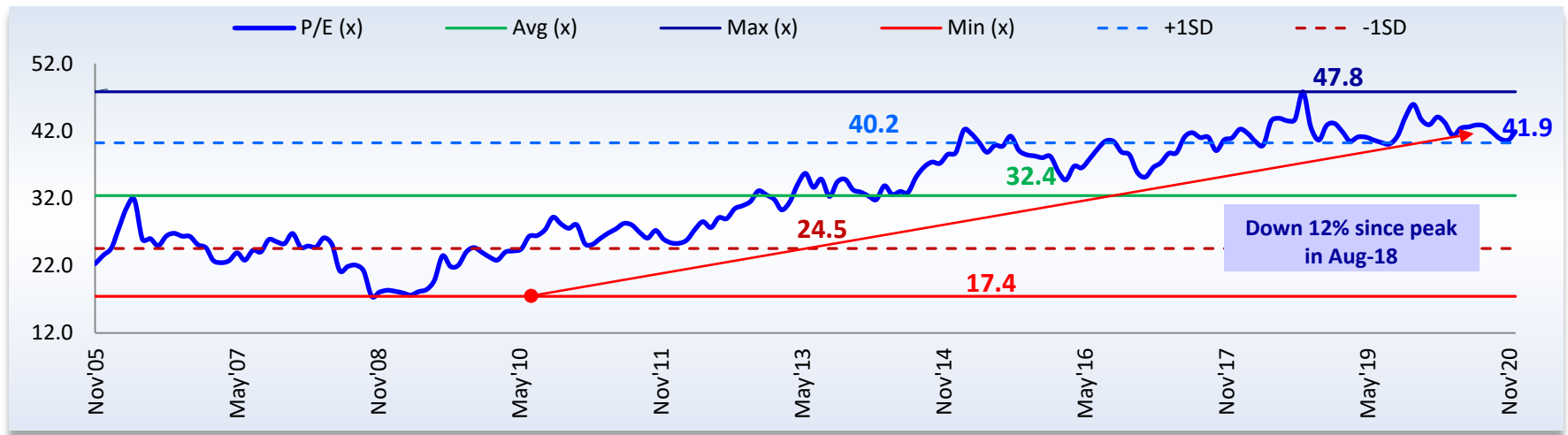


Sectoral Valuations: Consumer off 12% from peak; Autos near LTA

Auto valuations above -1SD; down 33% from peak in Dec'17



Consumer valuations above 1SD; 12% away from peak



Top Ideas

Company	MCAp (USD B)	EPS (INR)			EPS CAGR	PE (x)		PB (x)		ROE (%)		Stocks away from (%)	
		FY20	FY21E	FY22E	FY20-22, %	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	52 Week high	2 Year high
PREFERRED LARGE-CAP STOCKS													
Infosys	69	38.9	45.7	54.1	17.9	24.1	20.3	6.5	5.5	27.0	27.0	-7	-5
Hind. Unilever	68	31.2	34.8	42.7	17.0	61.4	50.0	10.2	10.2	28.6	20.4	-18	-14
ICICI Bank	44	12.3	20.0	27.7	50.3	23.7	17.0	2.3	2.0	10.5	12.8	-14	-14
Bharti Airtel	35	-7.5	1.8	4.5	NA	263.7	103.9	4.0	3.9	1.4	3.8	-24	-23
St Bk of India	30	22.1	30.9	41.3	36.5	7.9	5.9	0.8	0.7	9.9	12.4	-29	-34
UltraTech Cem.	19	132.9	170.0	213.7	26.8	28.2	22.5	3.0	2.7	11.9	13.3	-4	-3
Divi's Lab.	13	48.9	76.3	97.7	41.3	47.3	36.9	10.7	8.7	25.0	26.1	-1	0
Hero Motocorp	8	153.0	147.1	190.9	11.7	21.1	16.3	4.2	3.9	20.4	24.9	-8	-8
Muthoot Finance	6	75.3	87.3	102.2	16.5	13.2	11.3	3.2	2.6	27.0	25.6	-18	-15
PREFERRED MID-CAP STOCKS													
Ipca Labs.	3.6	51.4	93.7	94.9	36	23.4	23.1	6.0	4.9	28.7	23.3	-12	-9
Mphasis	3.5	61.5	66.2	78.0	13	19.9	16.9	4.2	3.7	21.4	24.1	-10	-8
AU Small Finance	3.6	22.6	44.8	35.8	26	18.7	23.4	4.5	3.8	27.2	17.5	-31	-29
Jindal Steel	3.4	-5.5	25.6	15.8	NM	9.5	15.4	0.9	0.8	8.7	5.6	-3	-2
Crompton Gr. Con	2.6	7.0	7.6	9.5	16	40.1	32.3	11.0	9.2	27.3	28.4	-7	-1
Emami	2.6	12.4	14.9	14.2	7	29.6	31.0	8.9	8.8	32.8	28.4	-2	0
LIC Housing Fin.	2.2	47.6	59.6	59.6	12	5.5	5.5	0.8	0.7	15.8	14.0	-32	-42
ICICI Securities	1.9	16.8	27.8	27.7	28	16.1	16.2	9.8	8.3	66.7	55.3	-21	-18
Aditya Birla Fashion	1.6	-0.2	-3.9	-0.7	NM	NM	NM	20.0	21.2	-51.5	-9.9	-42	-41
Indian Energy Exchange	0.9	6.0	5.9	7.6	13	37.0	28.8	14.7	12.7	42.2	47.3	-1	0

As of 27 Nov'20

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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