

Strategy

Equity market rally becoming broad-based for the first time since FY17

24 stocks account for more than 75% of the BSE 100 performance in FY21 so far: As indicated in our earlier note ([Link](#)), bulk of the equity market performance since FY17 has been driven by a handful of stocks while the broader indices have underperformed significantly. However, the tide is turning in terms of the number of stocks contributing to majority of the Index performance (>75% of BSE 100 index movement) at 24 stocks, which is the highest over the past four years. Small-cap and midcap indices have also outperformed large-caps for the first time since FY17.

Anatomy of FY21 market rally indicates four distinct phases where high level of sector and style rotation has been observed. Activity in Phases II and IV indicates that the rally is becoming broad-based.

	Phase I	Phase II	Phase III	Phase IV
Dates	23rd Mar- 30th Apr	30th Apr - 28th Aug	28th Aug - 14th Oct	14th Oct till now
NIFTY50	+30%	+18%	+3%	+12%
Top Outperforming themes	Pharma + 45% Energy (Largely RIL) + 34% Infra + 31%	Small Cap + 44% High beta + 43% Media + 44% Auto +37% Metal +36% IT +28% Pharma + 25% Realty PSU Banks & Energy + 21%	IT + 23%	PSU Banks +43% Metal + 39%, Realty + 33% High Beta + 31%, Power + 29% Banking & CPSE + 27% Telecom +22%, Midcaps +21% Infra, Auto, and smallcaps +16%, Energy +15%, Dividend +14%
Top Underperforming themes	PSU Banks + 4% Realty + 8% Media + 14%	FMCG +9% Telecom +10% Finance +11%	PSU Banks -19% Telecom -18% Metal -11% Media -10% Real estate -8% Energy -8%	IT +2% Pharma +5% Media 8%
Average themes	Low Volatility & Quality + 26% Dividend Yield + 24% Beta + 21% Small Caps & Mid Caps + 21%	Infra + 18% Power + 16%	Consumer Durables + 3% Pharma 2%	FMCG + 10% Value and Quality: +11%

Source: Bloomberg, I-Sec Research

- **Normalisation of economic activity continues, but second wave of Covid poses near-term challenges even with hopes of vaccine turning into reality.**
- **Limited high-frequency data for the month of Nov'20 so far indicated that MoM growth continued although the growth momentum lost some steam:**
 - PMI – manufacturing for Nov'20 came in at a 3-month low of 56.3 although it still continued to be in expansion mode. Internals from PMI indicated input prices rose in Nov'20 and employment continued to contract as Covid-related social distancing impacted workplaces.
 - GST collection dipped marginally to Rs1.04tn vs Rs1.05tn in Oct'20.
 - Softening of wholesale dispatches by auto companies in Nov'20 indicates lower than expected festive sales. Demand post the festive season will be key to understanding the sustainability of demand revival.
 - Credit growth continues to be muted at 5.8% YoY
- **Market valuations:** Market valuations continue to turn expensive – it is now above +1 s.d. on CAPE ratio, while on the trailing and forward P/E it was already above +1 s.d. Market cap to GDP has shot up to 95% due to a mix of better market performance and falling nominal trailing GDP. Valuation on P/B is reasonable at the long-term average of 3x (trailing basis).

Top picks: Large caps – SBI Life, Bharti Airtel, NTPC, Ultratech, Infosys, Balkrishna Industries, Abbott India. **Mid- and small-caps –** Akzo Nobel, Jyothy Labs, Quess, Price Pipes and Fittings.

Research Analysts:

Vinod Karki

vinod.karki@icicisecurities.com
+91 22 6637 7586

Siddharth Gupta, CFA

siddharth.gupta@icicisecurities.com
+91 22 2277 7607

24 stocks account for more than 75% of the BSE 100 performance in FY21 so far

As indicated in our earlier note ([Link](#)), bulk of the equity market performance since FY17 has been driven by a handful of stocks while the broader indices have underperformed significantly. However, the tide is turning in terms of the number of stocks contributing to majority of the Index performance (>75% of BSE 100 index movement) at 24 stocks, which is the highest over the past four years. Small-cap and midcap indices have also outperformed large-caps for the first time since FY17.

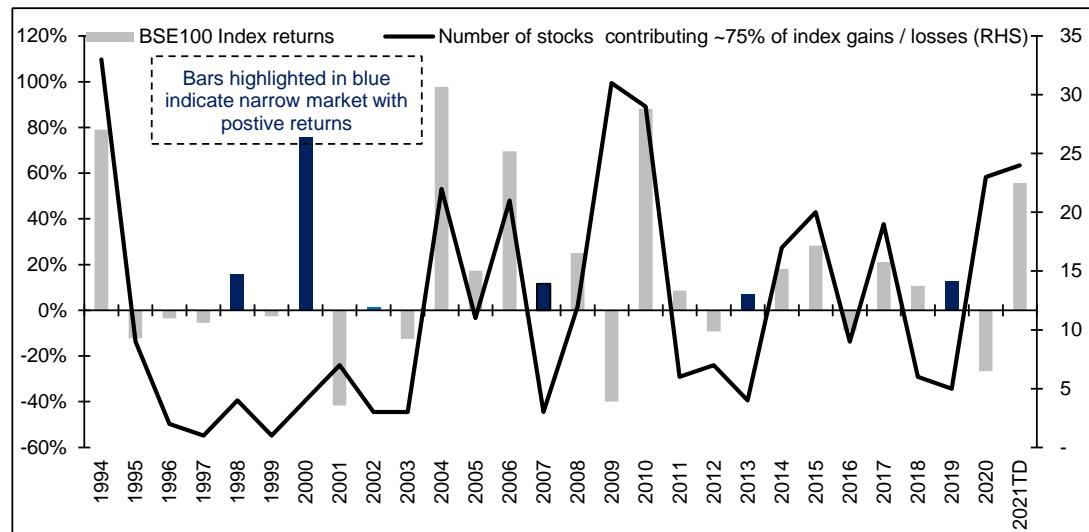
Table 1: Instances of narrow market with positive returns and count of stocks contributing >75% of index gains

Fiscal Year	1998	2000	2002	2007	2013	2018	2019	2021-TD*
Number of stocks contributing >75% of index gains	4	4	3	3	4	6	5	24
Energy	2		2	1		1	1	1
Metals & Metals Products								
Consumer Staples	2	1			1	1		
IT		3	1		1		2	
Telecom				1				
Infrastructure					1			
Auto					1			
Financial Services					1	2	2	2
BSE100 Index (Trailing one year return)	16%	76%	1%	12%	7%	11%	12%	56%
BSE100 Index (Forward one year return)	-3%	-42%	-13%	25%	18%	12%	-27%	

*2021 represents a break from narrow markets seen since FY17

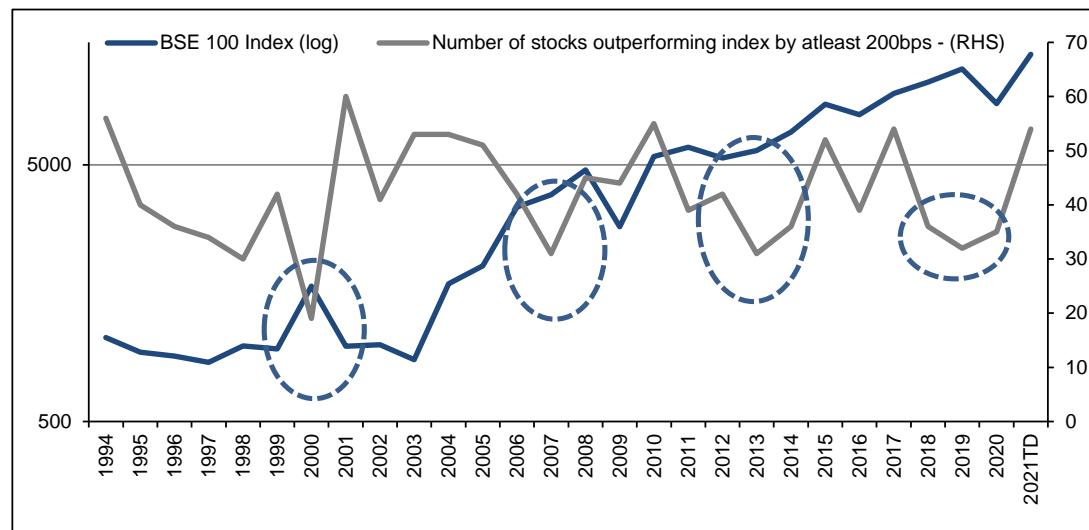
Source: Capital line, Bloomberg, I-Sec Research

Chart 1: Historical BSE100 index returns and number of stocks contributing >75% to index returns



Source: Capital line, Bloomberg, I-Sec Research

Chart 2: Instances of narrow market based on number of stocks outperforming index returns by atleast 200bps

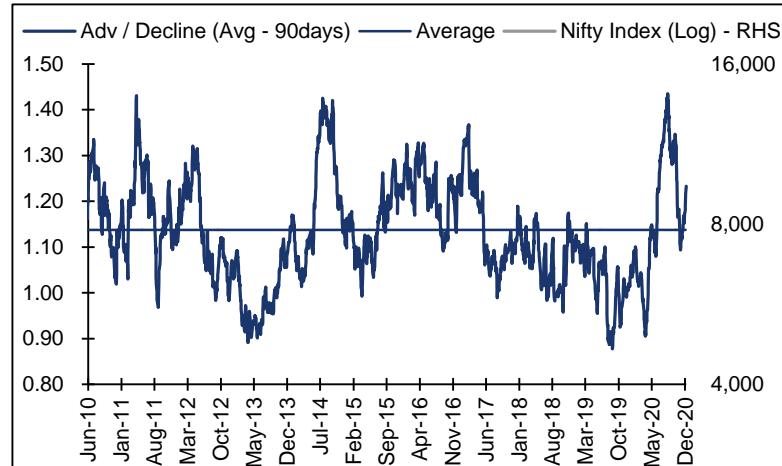
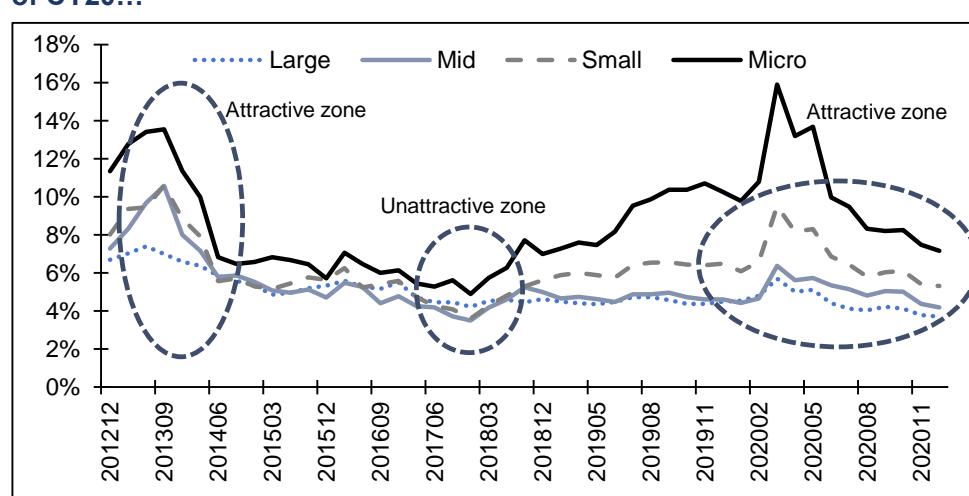


Source: Capital line, Bloomberg, I-Sec Research

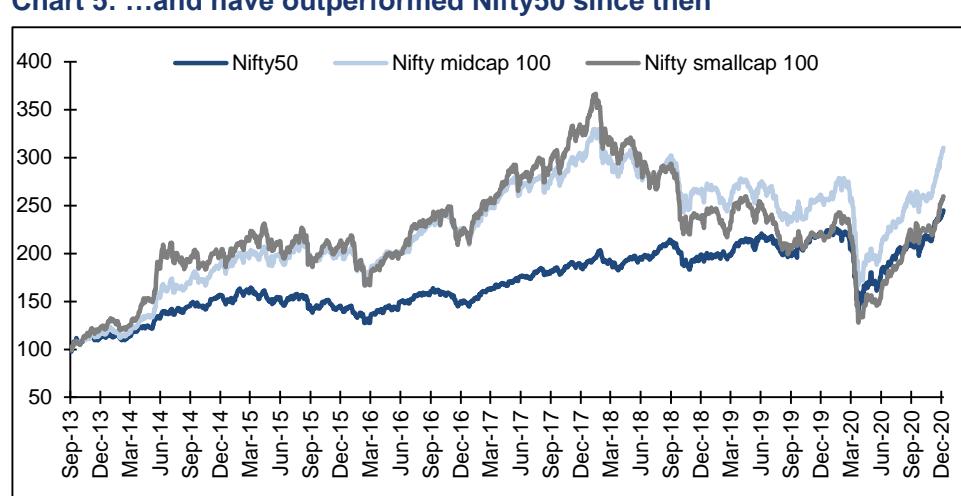
Table 2: Count of a) stocks contributing > 75% of index gains & b) stocks outperforming index gains by minimum 200bps in the years of positive index returns

Fiscal year	BSE100 returns	Number of stocks contributing atleast 75% of BSE100 index returns			Number of stocks outperforming index by atleast 200bps		
		Number of stocks	Aggregate weight of the stocks contributing 75% of Index returns	Average performance of stocks contributing 75% of index returns	Number of stocks	Aggregate weight of the stocks outperforming index by atleast 200 bps	Avg performance of stocks outperforming Index by 200bps
1994	79%	33	67.2	148%	56	42.30	164%
1998	16%	4	25.6	60%	30	39.84	92%
2000	76%	4	9.6	618%	19	19.08	407%
2002	1%	3	12.7	72%	41	37.94	50%
2004	98%	22	64.8	165%	53	34.84	190%
2005	17%	11	33.9	40%	51	37.19	62%
2006	70%	21	62.1	115%	42	45.48	118%
2007	12%	3	15.3	67%	31	41.81	38%
2008	25%	12	29.5	95%	45	44.84	74%
2010	88%	29	65.2	163%	55	44.39	173%
2011	9%	6	25.6	32%	39	51.95	28%
2013	7%	4	20.1	29%	31	43.84	33%
2014	18%	17	55.2	35%	36	32.57	45%
2015	28%	20	46.4	56%	52	50.37	63%
2017	21%	19	44.6	59%	54	52.44	54%
2018	11%	6	23.6	34%	36	42.75	37%
2019	12%	5	23.8	39%	32	47.84	33%
2021TD	56%	24	65.6	79%	54	44.77	93%

Source: Capital line, Bloomberg, I-Sec Research

Chart 3: Advance – decline ratio also breaks the downward trend since FY17**Chart 4: Broader market turned attractive on trailing earnings yields since start of CY20...**

(For more details, refer our [report dated 28th Nov 2019](#))

Chart 5: ...and have outperformed Nifty50 since then

Anatomy of the FY21 bull market

Chart 6: Phase 1 – 23rd March to 30th April

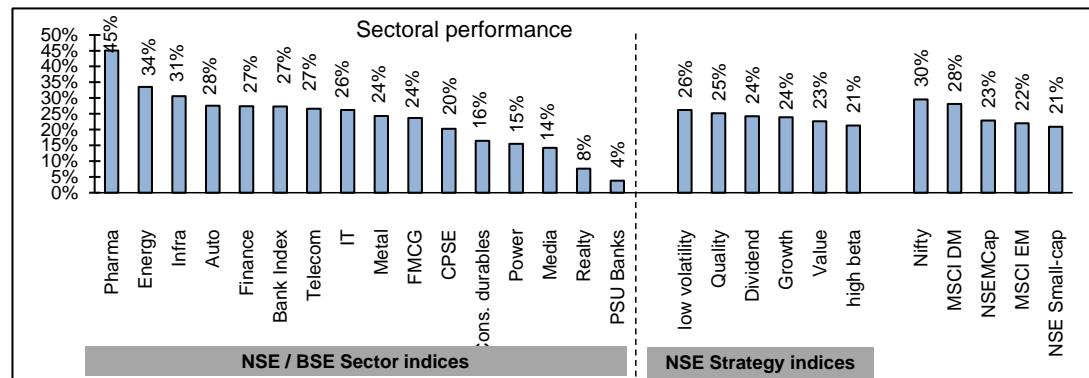


Chart 7: Phase 2 – 30th April to 28th August

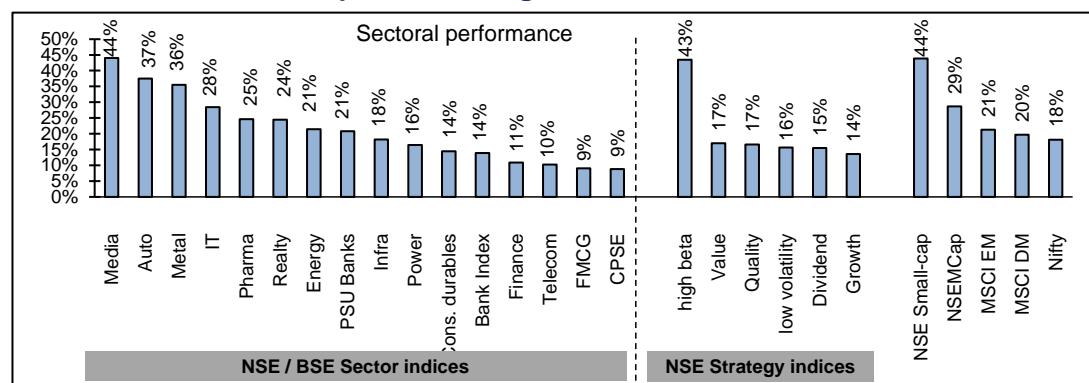


Chart 8: Phase 3 – 28th August to 14th October

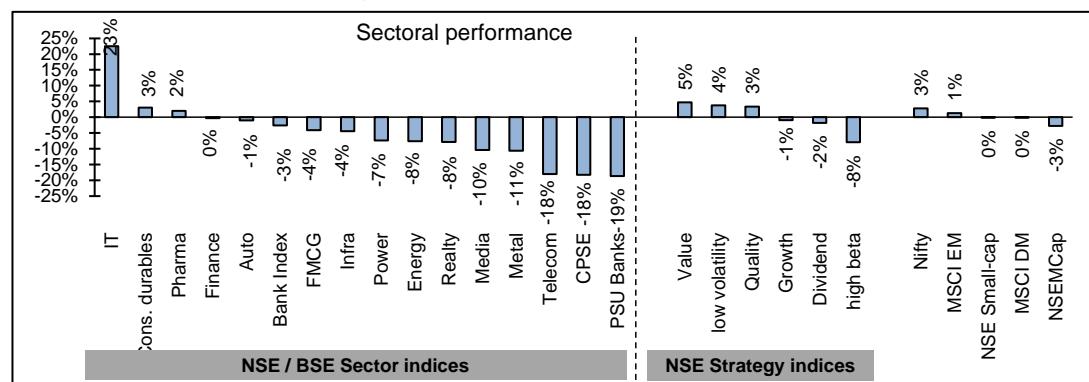
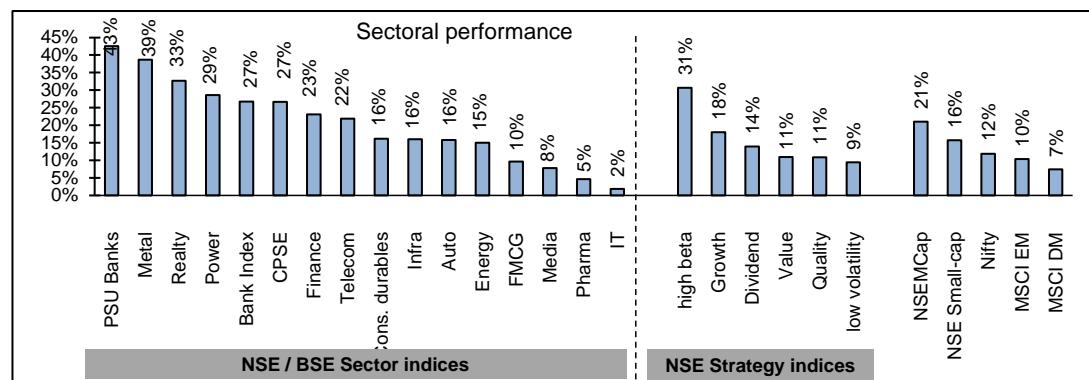


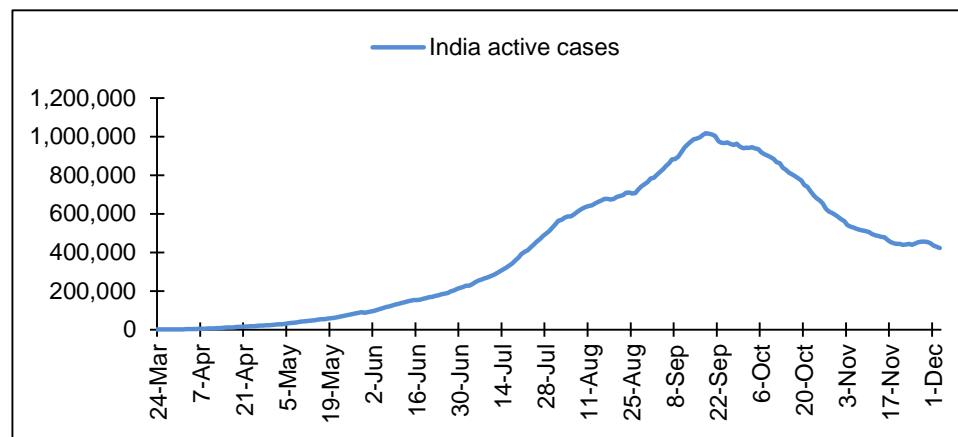
Chart 9: Phase 4 – 14th October to till now



Source: Bloomberg, I-Sec Research

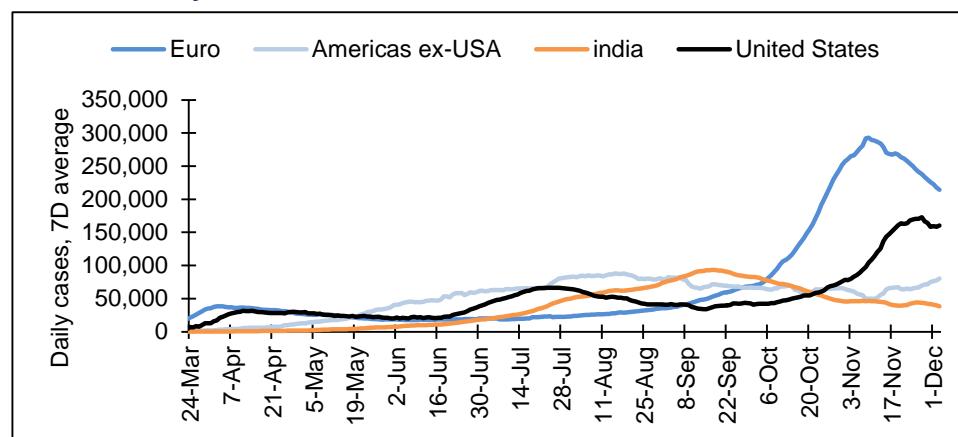
Normalisation of economic activity continues but second wave of COVID-19 poses near term challenges even as hopes of vaccine turning into reality.

Chart 10: India Active cases



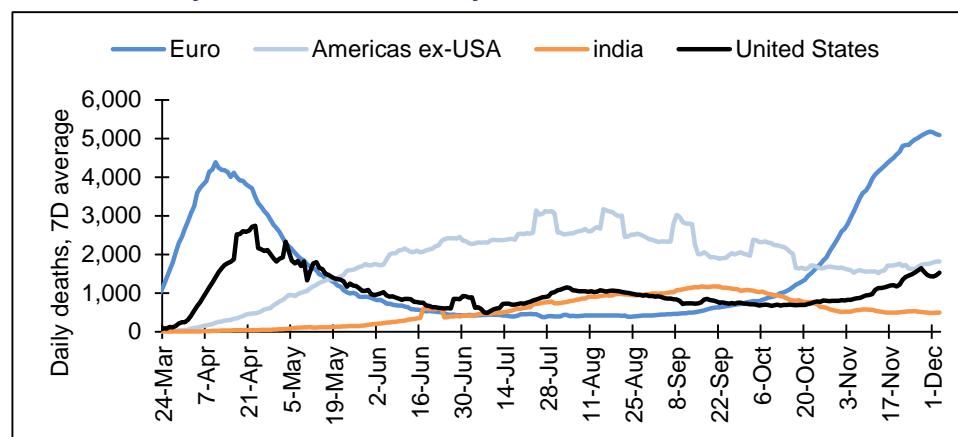
Source: CEIC, MOHFW, I-Sec Research

Chart 11: Daily new cases



Source: CEIC, WHO, I-Sec Research

Chart 12: Daily deaths for India stays low



Source: CEIC, WHO, I-Sec Research

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- Softening of wholesale despatches by Auto companies in Nov indicates lower than expected festive sales. Demand post the festive season will be key to understand the sustainability of demand revival.
- Credit growth continues to be muted at 5.8% YoY

Table 3: High frequency consumption indicators

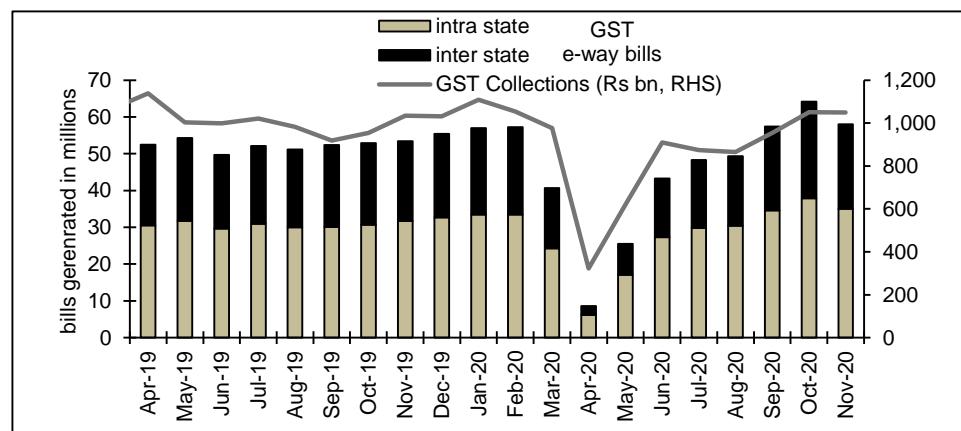
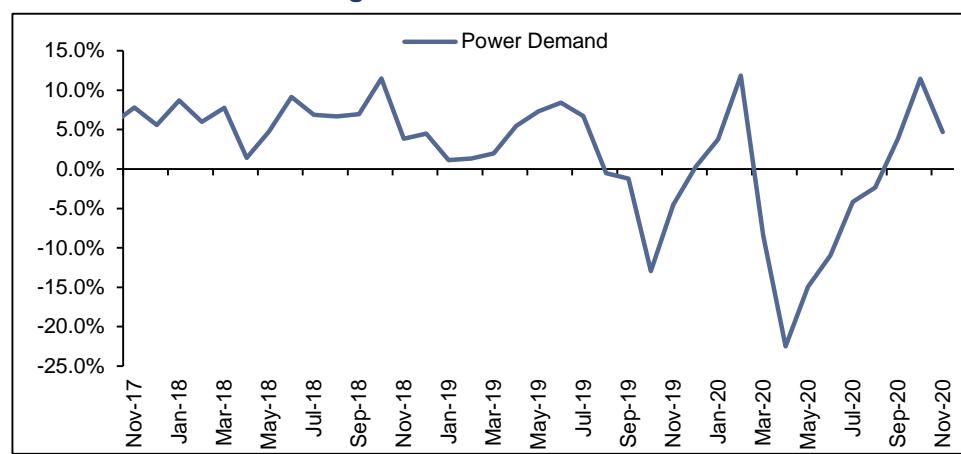
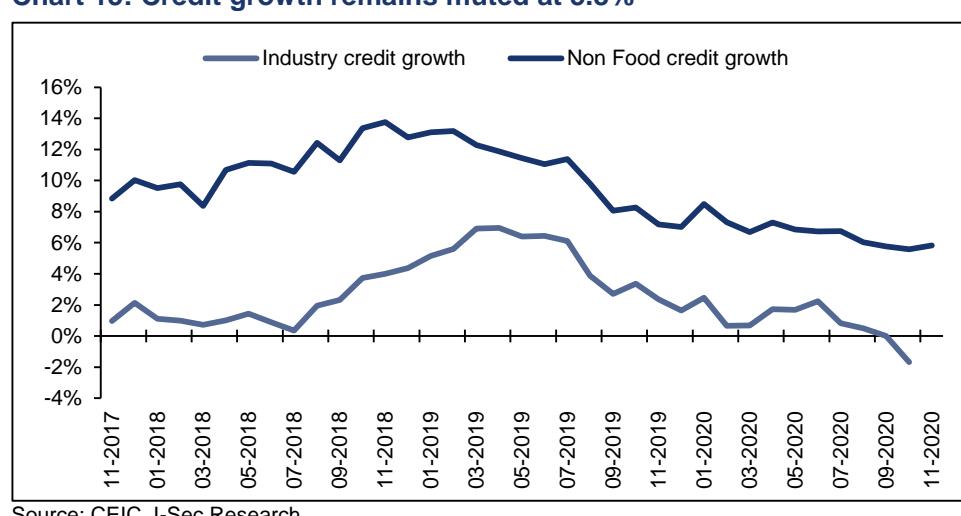
Consumption Indicator	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Personal Loan growth	15%	12%	11%	10%	11%	11%	9%	9%	NA
4W growth	-51.0%	NA	-85.2%	-49.6%	-3.9%	14.2%	26.5%	14.2%	NA
2W growth	-39.8%	NA	-83.8%	-38.6%	-15.2%	3.0%	11.6%	16.9%	NA
IIP - Primary Goods.	-4.0%	-26.6%	-19.6%	-14.5%	-10.8%	-10.8%	-1.5%	NA	NA
IIP Consumer Goods Durables	-36.8%	-95.7%	-70.3%	-34.8%	-23.0%	-9.6%	2.8%	NA	NA
IIP Consumer Goods Non Durables	-22.3%	-48.1%	-9.7%	6.9%	1.8%	-2.3%	4.1%	NA	NA
Petrol Consumption	-16.4%	-60.4%	-35.3%	-13.5%	-10.4%	-7.5%	3.3%	4.5%	NA
Nikkei India Services PMI	49.30	5.40	12.60	33.70	34.20	41.80	49.80	54.10	53.70
CPI	5.84%	7.22%	6.27%	6.23%	6.73%	6.69%	7.27%	7.61%	NA
Passenger - all airports	-37.8%	-99.8%	-97.5%	-85.3%	-84.1%	-78.6%	-69.5%	-62.2%	NA
Foreign tourist arrivals	-66.4%	NA							
Consumer confidence index	85.60	NA	63.70	NA	53.80	NA	49.90	NA	52.30
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Private final consumption exp real	8.79%	7.04%	6.19%	5.50%	6.39%	6.64%	2.72%	-26.68%	-11.32%

Source: CEIC, Bloomberg, I-Sec Research

Table 4: High frequency industrial indicators

Industrial Indicator	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Overall credit growth (fortnightly)	6.1%	6.8%	6.2%	6.2%	5.8%	5.5%	5.1%	5.1%	5.8%
Industry loan growth	0.67%	1.73%	1.69%	2.25%	0.82%	0.49%	0.00%	-1.68%	NA
CV growth	-88.1%	NA							
Thermal plant Load factor	60.27	42.17	48.00	49.88	53.09	49.13	55.45	55.54	NA
IIP growth	-18.7%	-57.3%	-33.4%	-16.6%	-10.8%	-7.4%	0.2%	NA	NA
Core sector growth (%)	-8.56	-37.86	-21.42	-12.44	-7.60	-7.35	-0.15	-2.54	NA
Diesel Consumption	-24.16%	-55.52%	-29.40%	-15.45%	-19.45%	-20.70%	-5.95%	7.44%	NA
Power demand	-8.4%	-22.5%	-14.9%	-11.0%	-4.2%	-2.4%	3.8%	11.5%	NA
IIP Capital Goods	-38.8%	-92.7%	-65.9%	-37.4%	-22.8%	-14.8%	-3.3%	NA	NA
Nikkei India manufacturing PMI	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3
WPI Commodity price index	0.42%	-1.57%	-3.37%	-1.81%	-0.25%	0.41%	1.32%	1.48%	NA
Cargo – Air	-32.02%	-82.85%	-67.68%	-40.56%	-34.59%	-29.44%	-16.23%	-13.86%	NA
Cargo - all ports	-5.1%	-21.1%	-23.3%	-14.5%	-13.2%	-10.4%	-1.9%	-1.2%	2.8%
Freight traffic – railways	-18.94%	-40.15%	-28.13%	-11.60%	-7.68%	1.35%	17.86%	11.05%	8.41%
Import Growth (%)	-27.97%	-59.70%	-51.04%	-48.04%	-29.56%	-26.04%	-19.60%	-11.53%	-13.32%
Export growth (%)	-34.33%	-60.98%	-35.70%	-12.21%	-9.54%	-12.23%	5.98%	-5.12%	-9.08%
Trade Deficit (USD bn)	-9.98	-6.92	-3.66	0.65	-4.75	-6.66	-2.74	-8.71	-9.96
Industrial Indicator	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Capacity utilisation	74.80	75.90	76.10	73.60	69.10	68.60	69.90	47.30	NA
GFCF	11.45%	11.43%	4.40%	4.57%	-3.92%	-5.16%	-6.48%	-47.08%	-7.35%

Source: CEIC, Bloomberg, I-Sec Research

Chart 13: GST collection trend above Rs1tn**Chart 14: Power demand growth weakened in Nov'20****Chart 15: Credit growth remains muted at 5.8%**

Valuations:

- Market valuations continue to turn expensive with market valuation now above +1 s.d. on CAPE ratio while on trailing and forward P/E, it was already above + 1 s.d.
- Valuation on P/B is reasonable at long term average mark of 3x on trailing basis

Chart 16: Nifty at +1SD on forward PE

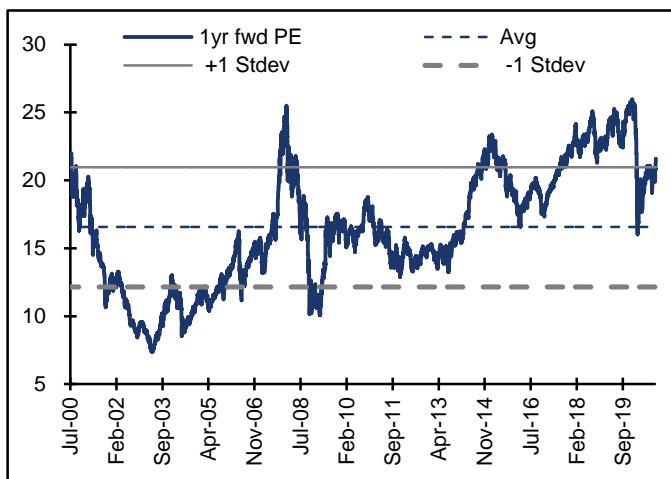


Chart 17: CAPE moved to above +1SD

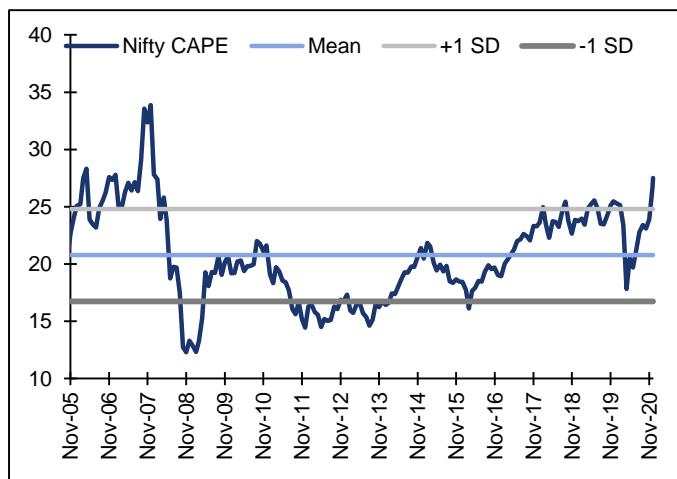


Chart 18: Nifty PB below LTA

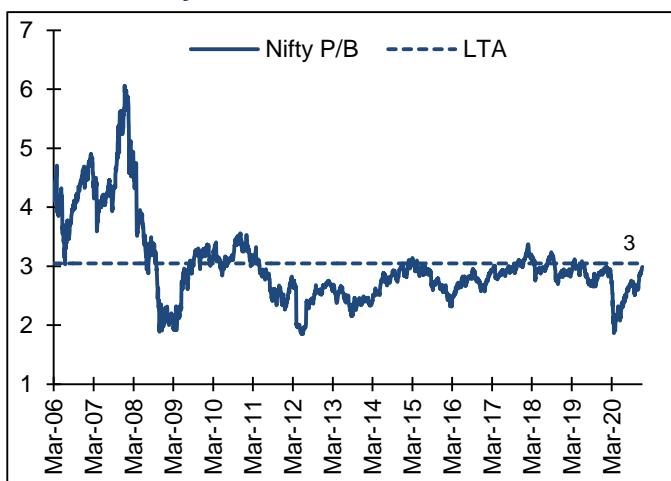


Chart 19: Bond earnings yield at 128bps

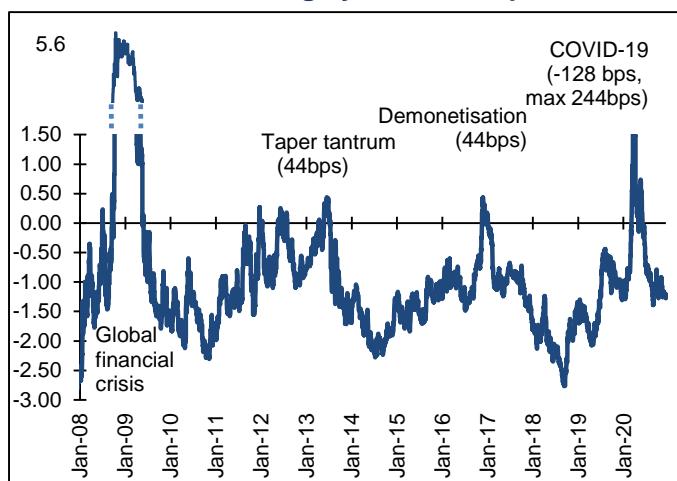
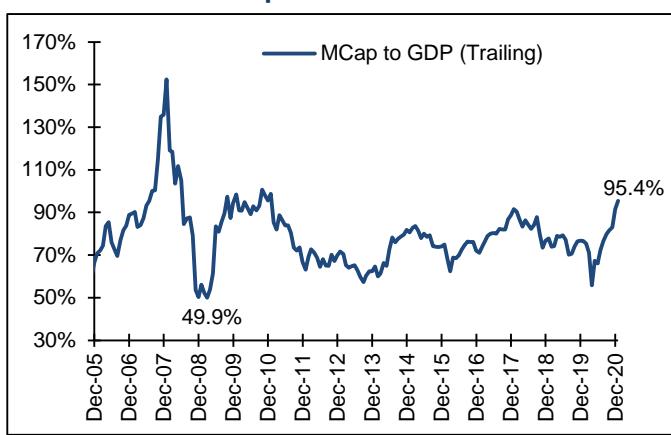


Chart 20: Market cap to GDP above LTA



Source: Bloomberg, Capitaline, I-Sec research

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