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The Eagle Eye

August 2021

INDIA OUTPERFORMS EM

- ❖ HK/China sell-off leads to EM underperforming DM
- ❖ Midcaps and smallcaps outperform Nifty in Jul'21
- ❖ Metals outperform; Tata Steel and Hindalco lead Nifty gainers

MARKETS

- ❖ China regulatory clampdown impacts HK Tech index
- ❖ IT and PSU Banks outperform Nifty, while Auto and FMCG underperform
- ❖ Sectoral indices: Breakdown of price returns; earnings and valuations impact performance

EARNINGS

- ❖ 1QFY22 : In line with expectations, aided by soft base
- ❖ Nifty EPS for FY22E revised down marginally to INR725.

OWNERSHIP ANALYSIS

- ❖ FII/DII ownership ratio declines to 1.5x in Jun'21
- ❖ FIIs increase weights in Healthcare, Metals, & Technology QoQ
- ❖ DIIs increase weights in Healthcare, Metals , IT, & PSU Banks QoQ

MACRO

- ❖ Fertilizer data, exports, railway freight, and PMI improve in Jul'21 v/s Jun'21
- ❖ GST collections improve 33% YoY
- ❖ Fiscal deficit in first 3M at just 18.2% of BE

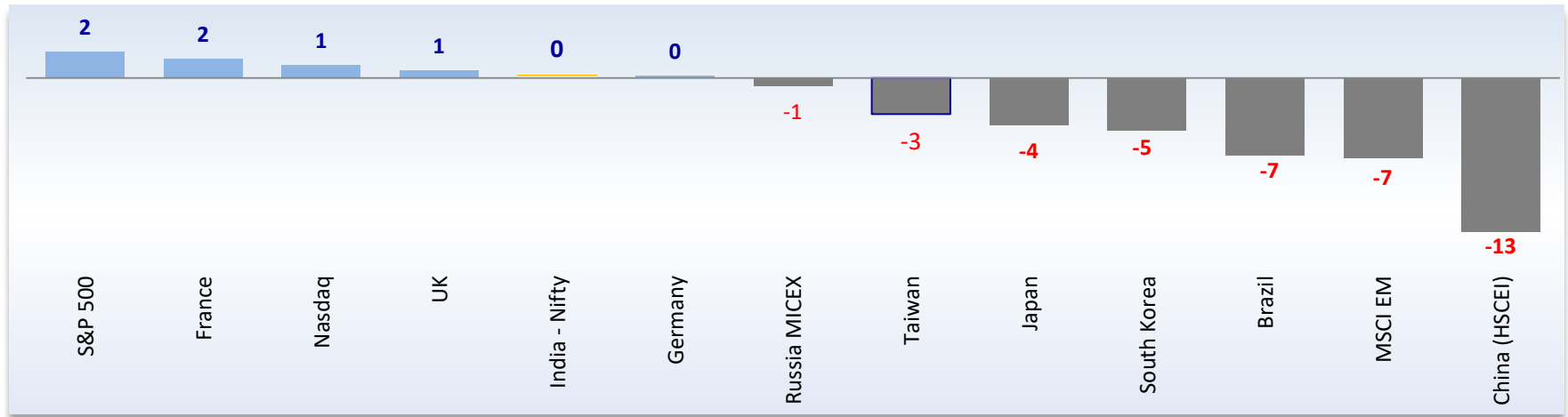
VALUATIONS, FLOWS

- ❖ Nifty trading at premium to LPA on P/E and P/B basis
- ❖ Mcap-to-GDP ratio at 10-year highs of 104%
- ❖ FIIs see outflows, while DIIs see net inflows in Jul'21

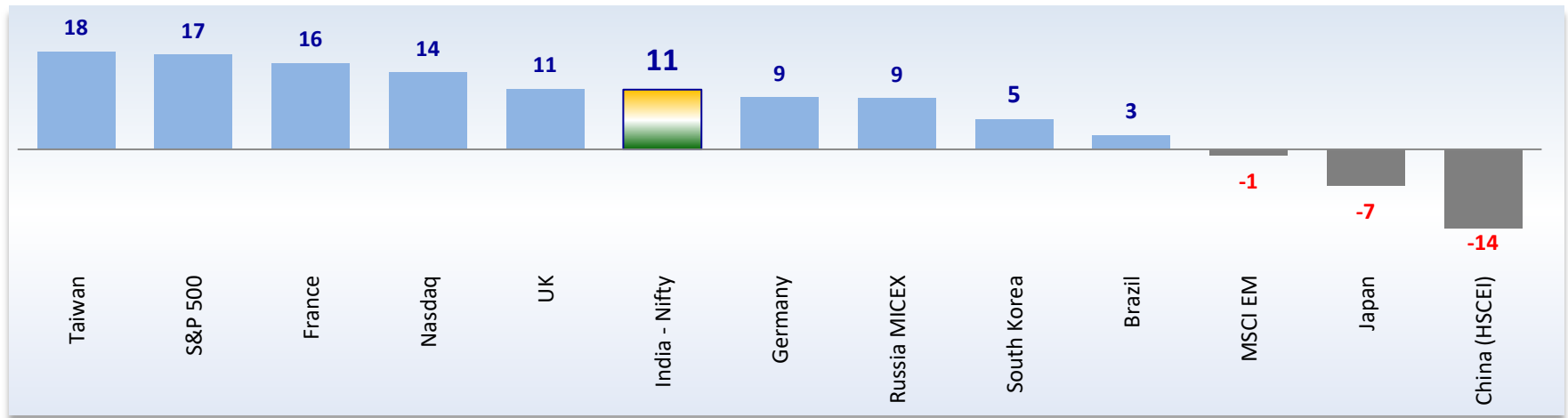
CONTENTS

HK sell-off leads to massive EM underperformance

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



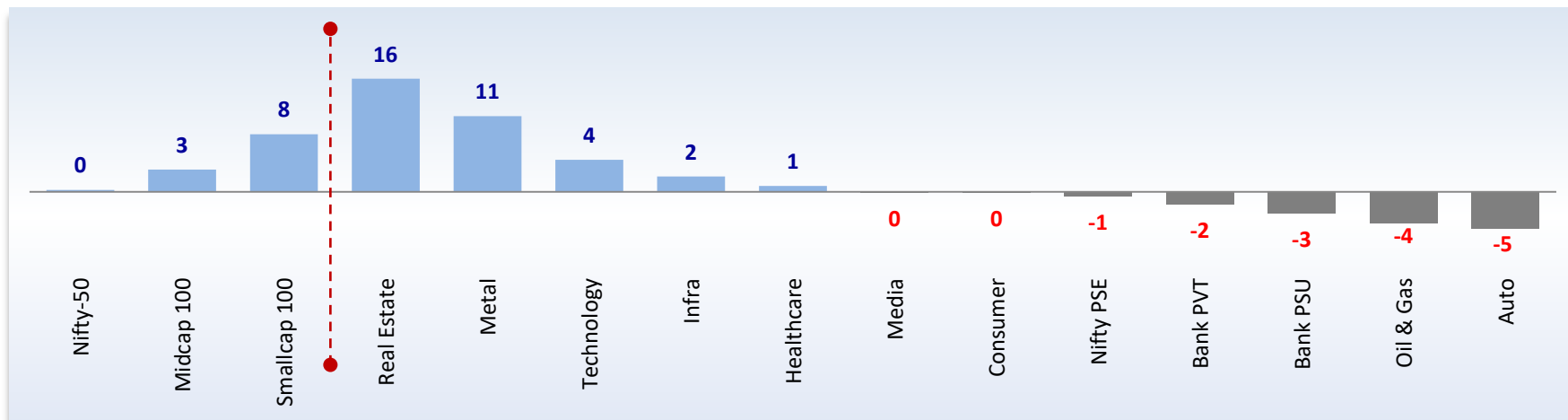
World equity indices (CY21 YTD) in USD terms (%)



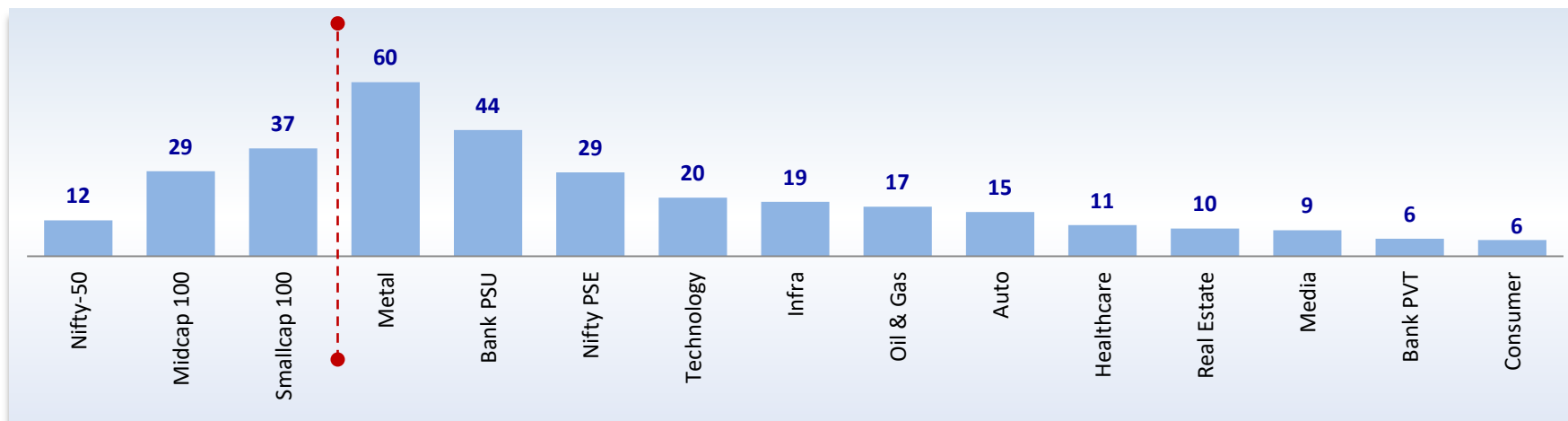
As of 31 Jul'21

Midcap100/Smallcap100 posts gains for 14th/9th consecutive month

Sectoral performance MoM (%)



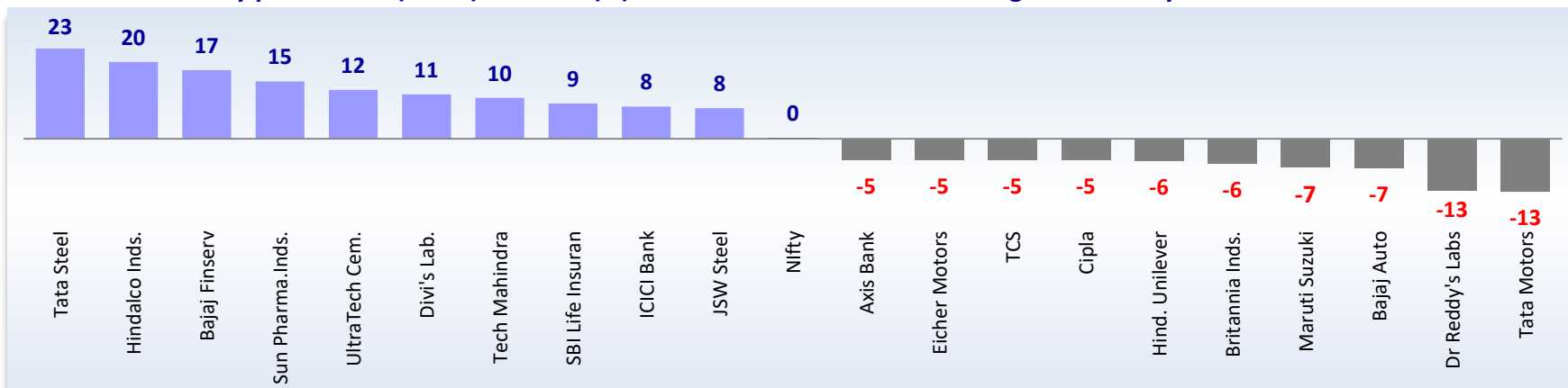
Sectoral performance in CY21 YTD (%)



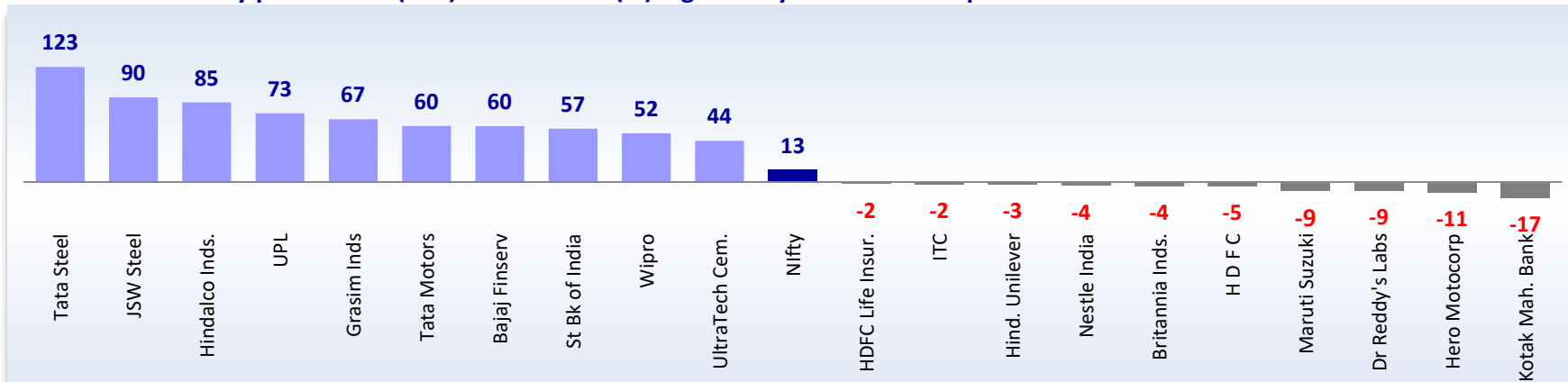
Metals continues to outperform; Auto remains a laggard

- ❖ Around 24 Nifty companies posted gains in Jul'21. Metals led gainers, while Auto remained a laggard due to semiconductor supply chain issues.
- ❖ In CY21 YTD, Metals continues to lead the outperformance, while Auto and Consumer are a drag.

Best and worst Nifty performers (MoM) in Jul'21 (%) – Tata Steel and Hindalco lead gainers in July'21



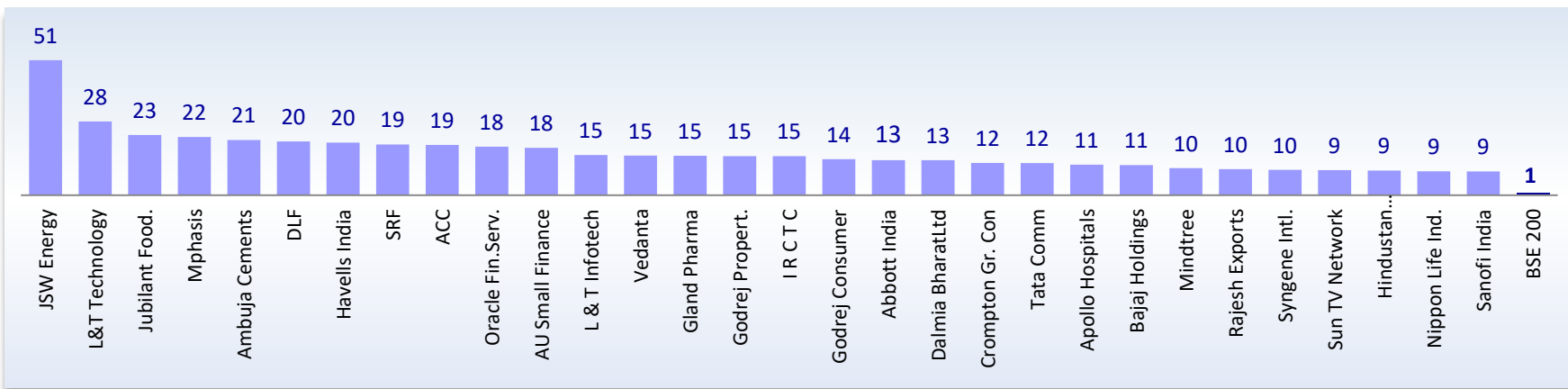
Best and worst Nifty performers (YoY) in CY21 YTD (%) – global Cyclical lead outperformance



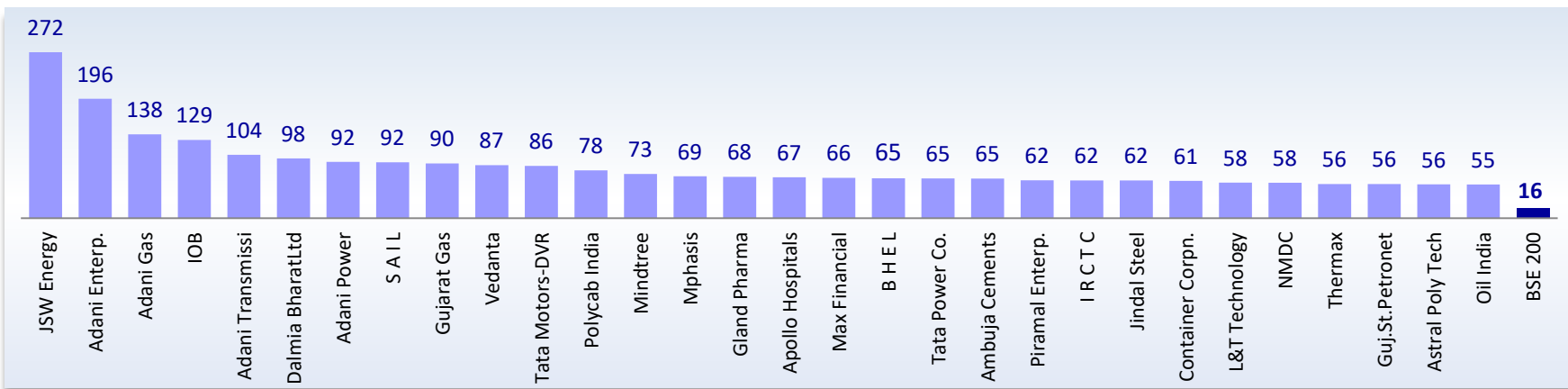
54% of BSE-200 constituents gain; Cyclical and Tech top gainers

- ❖ 54% of BSE-200 constituents gained in Jul'21. JSW Energy led gainers with 51% MoM gains.
- ❖ In CY21 YTD, 44 companies gained more than 50%. Cyclical topped gainers in CY21 YTD.

Top gainers from BSE-200 pack on MoM basis (%)*



Top gainers from BSE-200 pack in CY21 YTD (%)*

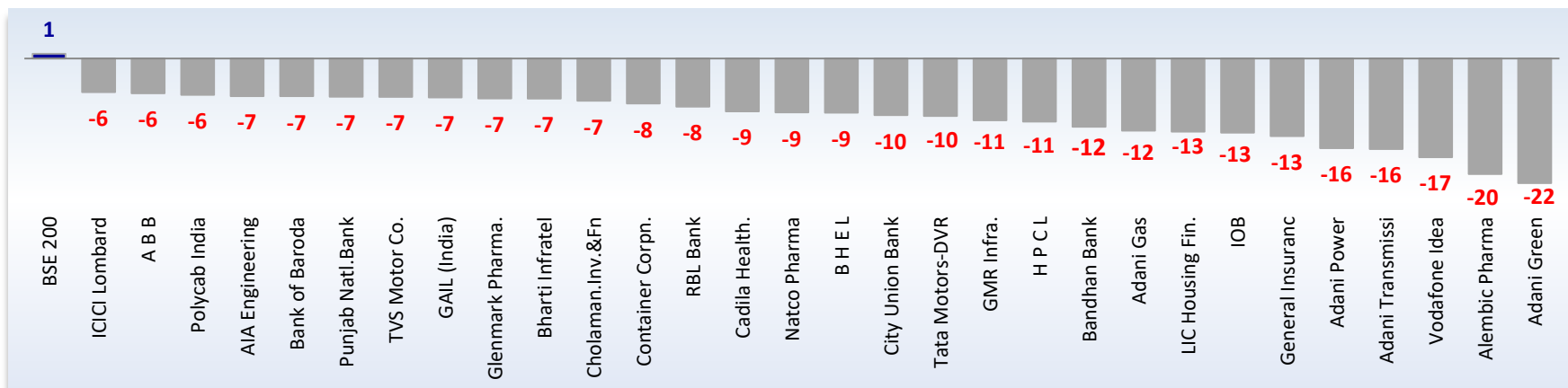


*List excludes Nifty companies

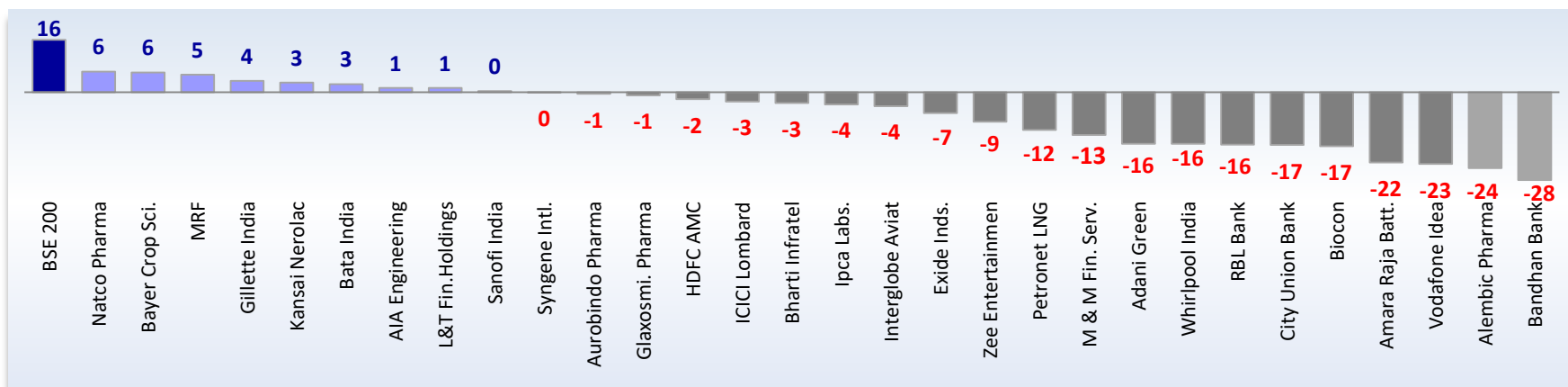
46% of BSE-200 constituents decline in Jul'21

- ❖ 46% of BSE-200 companies declined in Jul'21. Adani group companies, Alembic Pharma, and Vodafone were the key laggards.
- ❖ In CY21 YTD, 33 companies have posted declines. Bandhan Bank, Alembic Pharma, Vodafone Idea, and Amara Raja are down by more than 20% YTD.

Biggest laggards among BSE-200 constituents on MoM basis (%)*



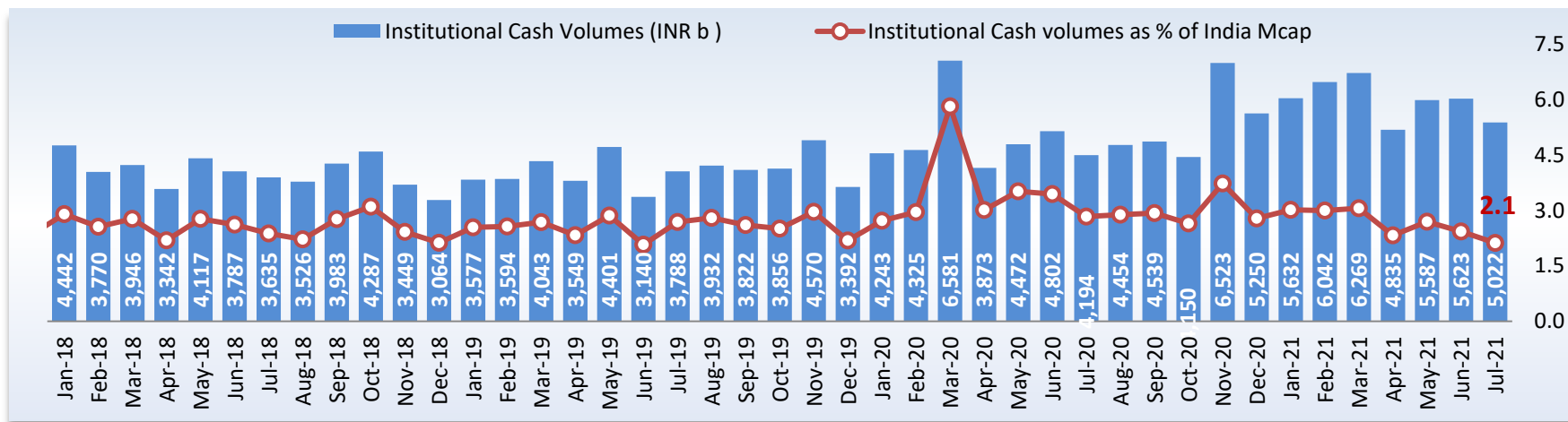
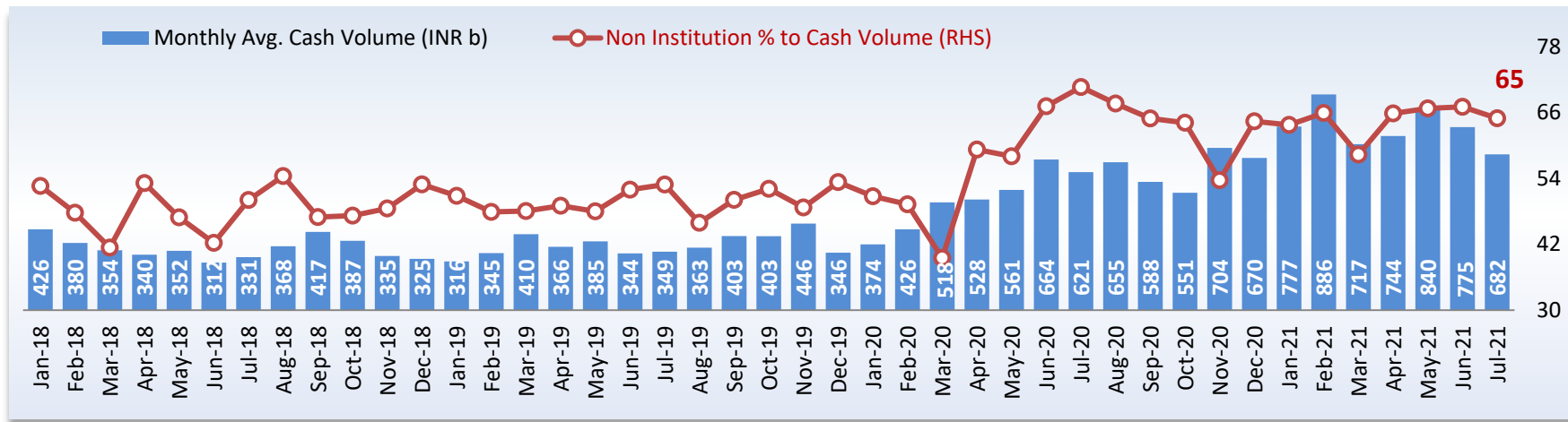
Biggest laggards among BSE-200 constituents in CY21 YTD (%)



*List excludes Nifty companies

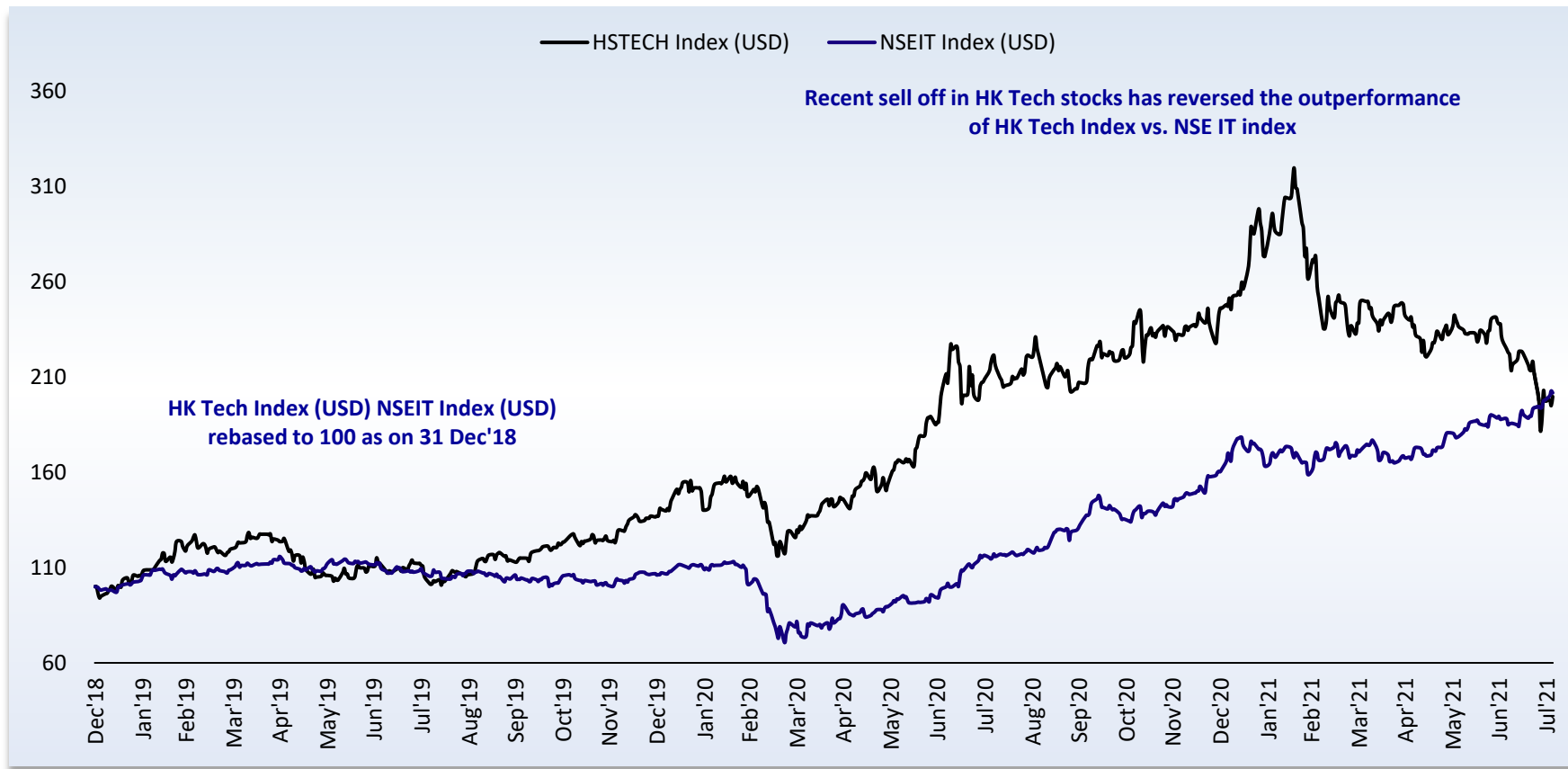
Average daily cash volumes down 12% MoM

- ❖ Average daily cash volumes declined to INR682b in Jul'21 as Non-Institutional volumes fell 19% MoM.
- ❖ Monthly Institutional cash trading volumes were down MoM to INR5.0t.



China: Regulatory clampdown on Technology sector

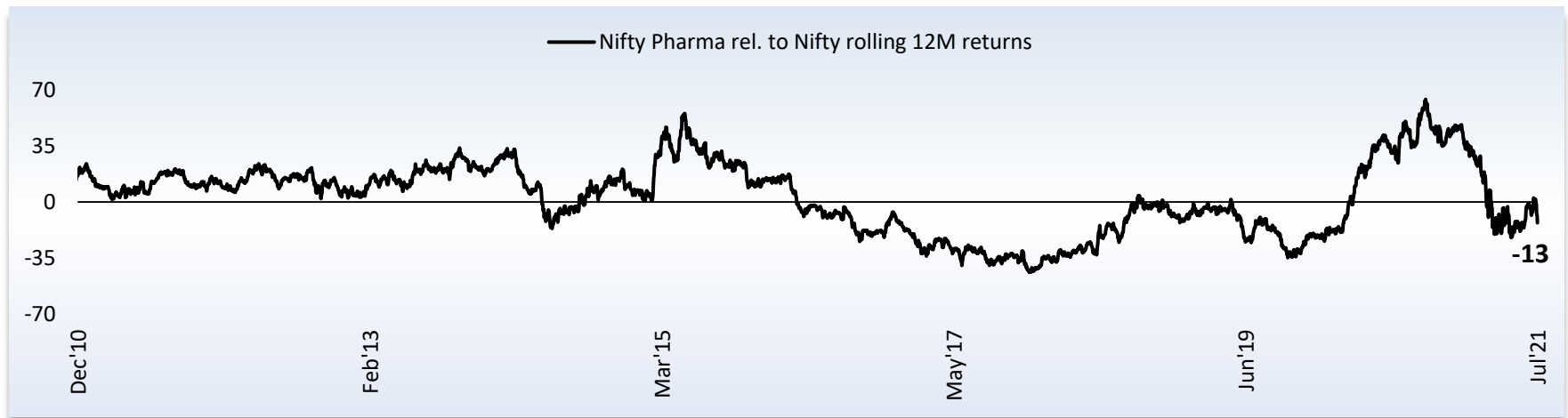
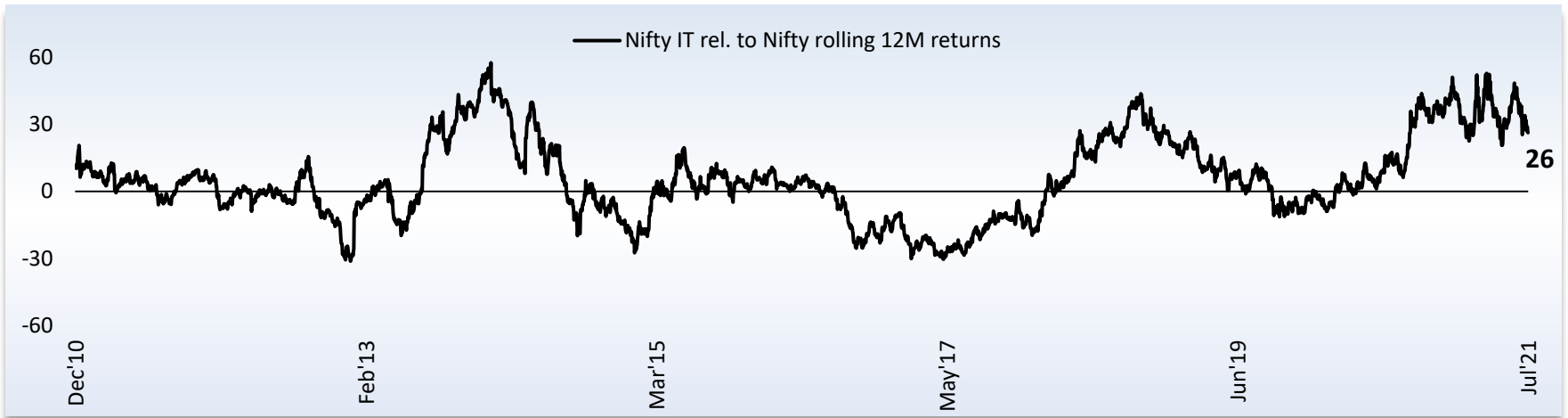
- ❖ HK Tech index outperformed Nifty by 150pp between July'19 to Feb'21.
- ❖ However, the recent regulatory clampdown in China has bridged the gap vs. Nifty IT index..



Source: Bloomberg, MOFSL. As of 31 Jul'21

Export oriented sectors: IT outperforms, while Pharma trails

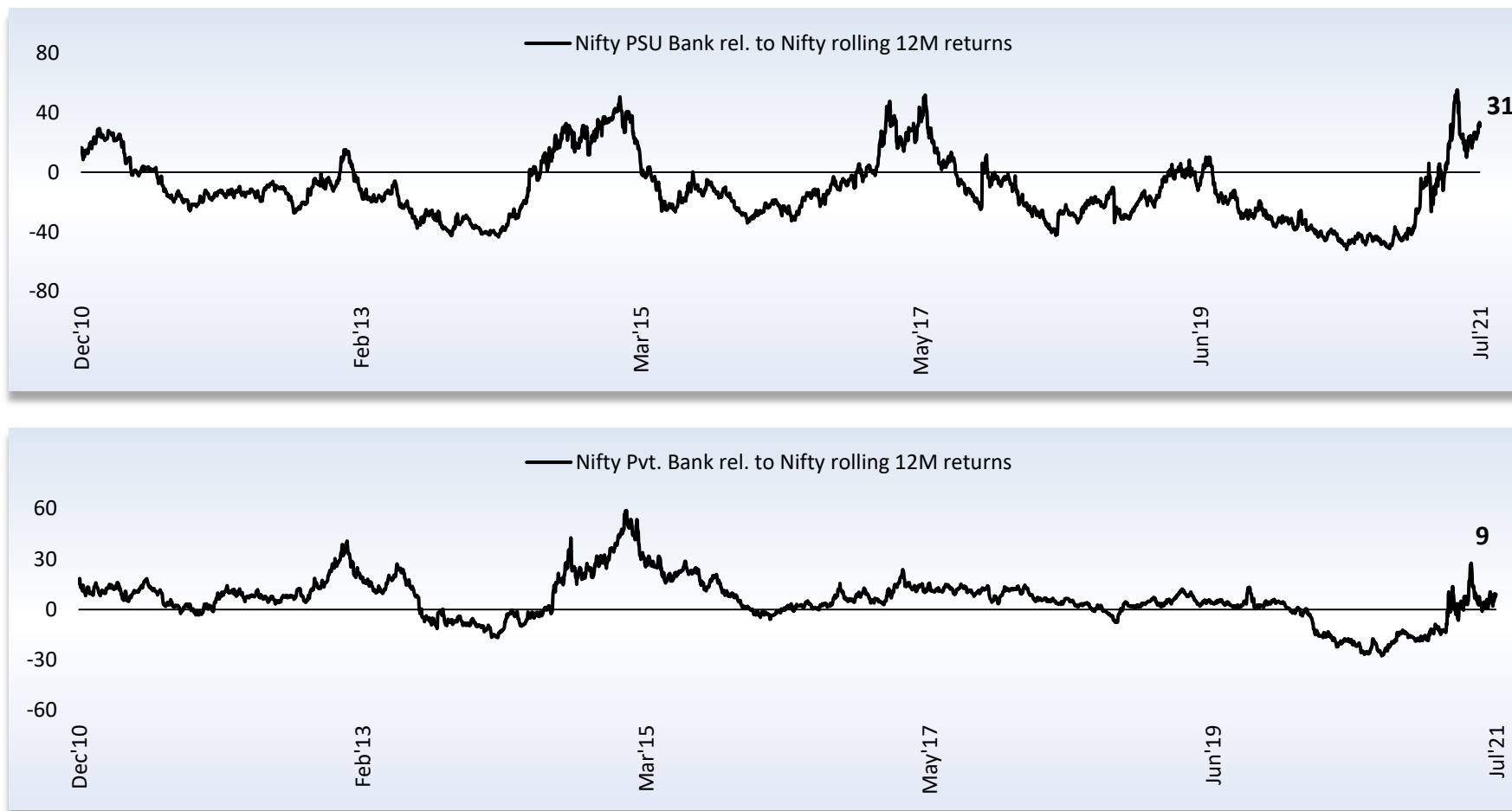
- ❖ IT companies have outperformed the Nifty by 26pp over the past 12 months.
- ❖ Pharma, however, has underperformed the Nifty by 13pp over the same period.



Source: Bloomberg, MOFSL. As of 31 Jul'21

Banks: PSUs outperform Private Banks

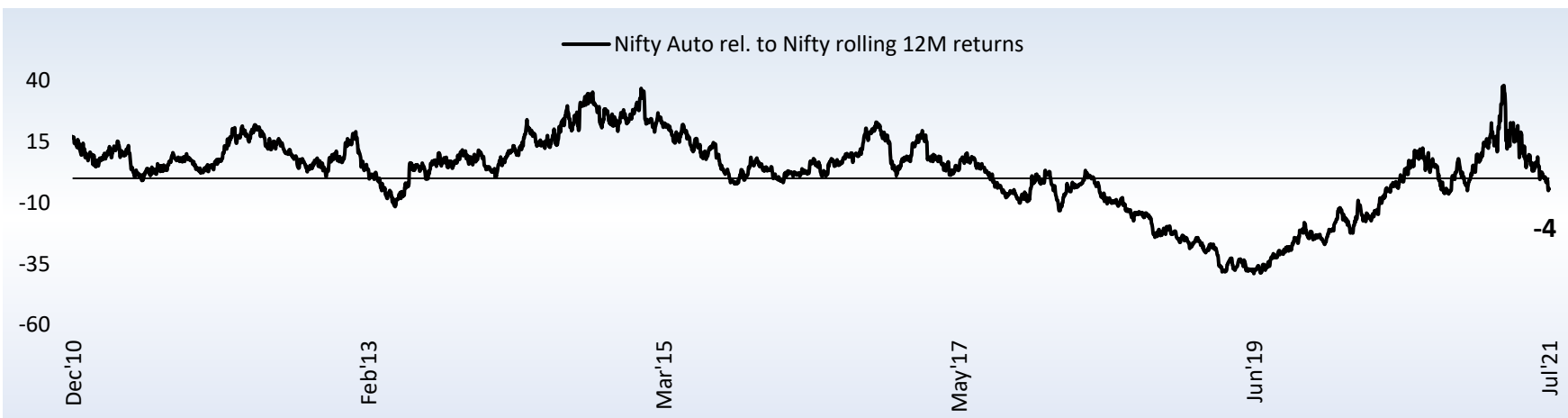
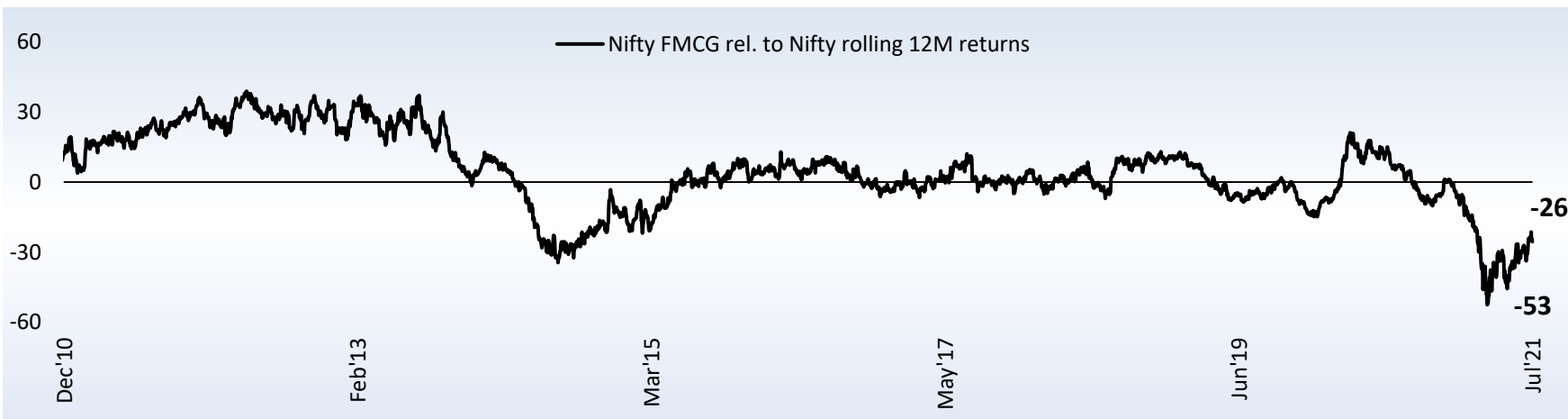
- ❖ The Nifty PSU Banks index has outperformed the Nifty by 31pp over the past 12 months.
- ❖ Nifty Private Banks had been underperforming the Nifty until Mar'21. The recent up-move has led the index to outperform the Nifty by 9pp.



Source: Bloomberg, MOFSL. As of 31 Jul'21

Consumption: FMCG and Auto trail vs. Nifty

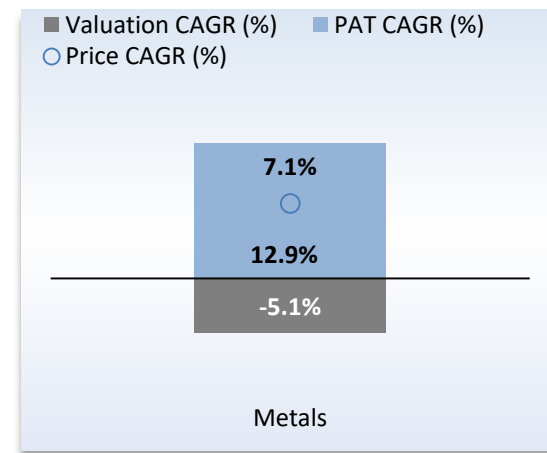
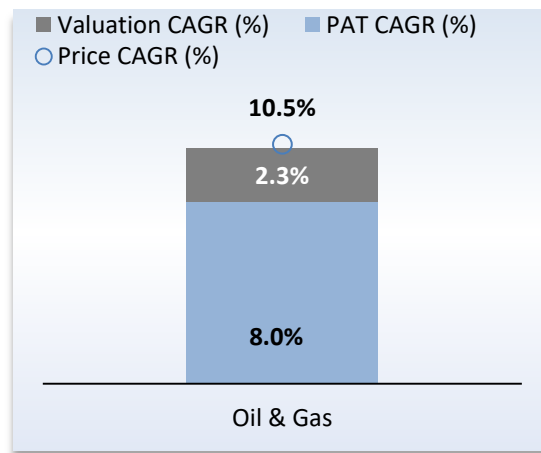
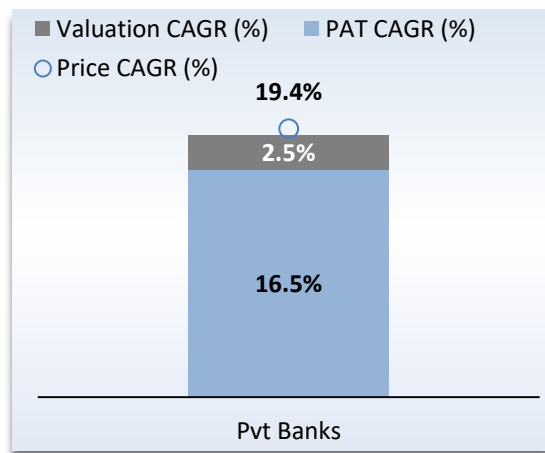
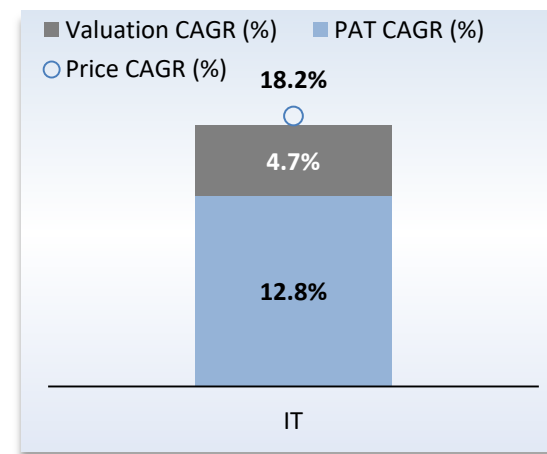
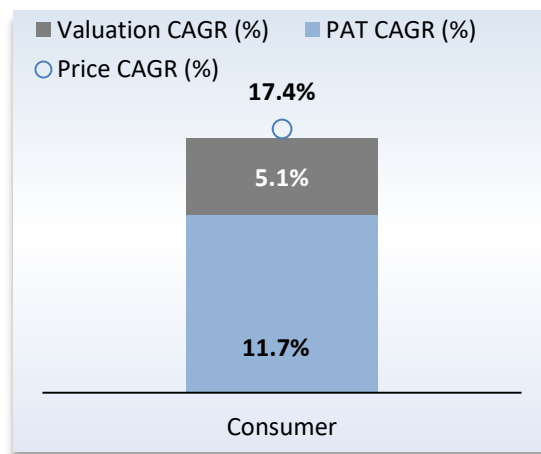
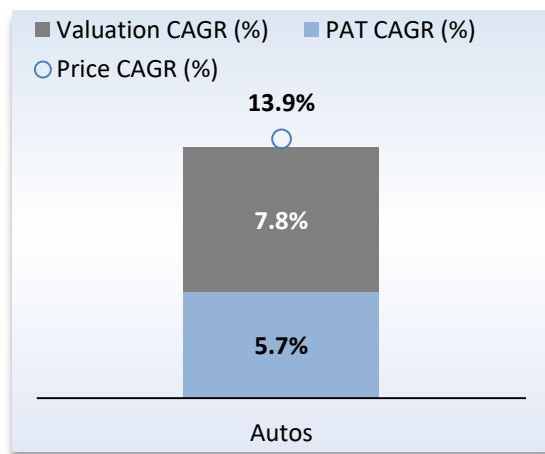
- ❖ The Nifty FMCG index has underperformed the Nifty by 26pp in the last 12 months. However, this is better than the 53pp underperformance in Apr'21.
- ❖ Auto has also underperformed the Nifty by 4pp. This marks a sharp reversal from the peak of 38pp outperformance in Apr'21.



Source: Bloomberg, MOFSL. As of 30th Jul'21

Sectoral Indices: Breakdown of price returns

- ❖ We look at the breakdown of prices for MOFSL sectoral indices over the past 10 years.
- ❖ Auto, Consumer, and IT have benefitted from earnings growth and valuation re-ratings. On the other hand, Private Banks, O&G, and Metals have not seen much valuation re-rating.

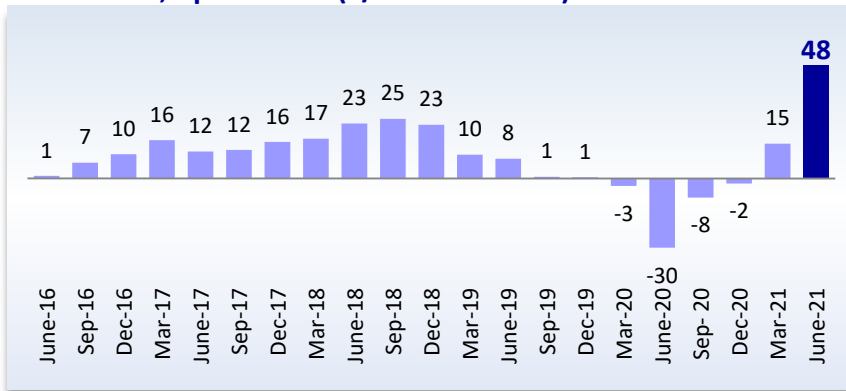


Source: Bloomberg, MOFSL. As of 31 Jul'21

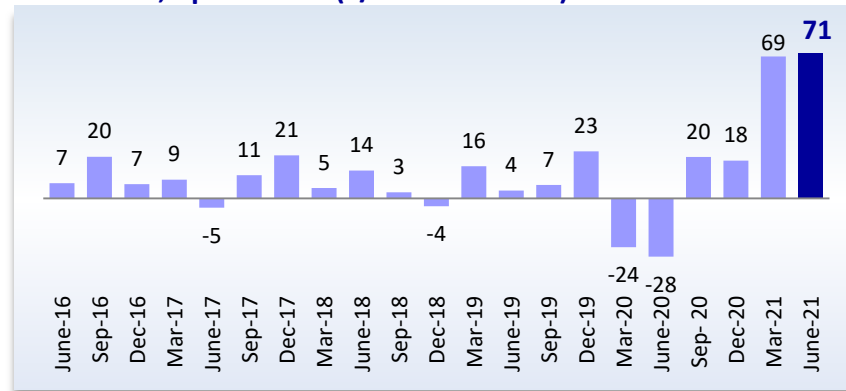
1QFY22 : In line with expectations, aided by a soft base

- ❖ For the 108 companies in our Coverage Universe that have reported up to 31st July, earnings have been in line with expectations.
- ❖ For the MOFSL Coverage Universe, sales/EBITDA/PAT has increased 48%/40%/71% YoY.

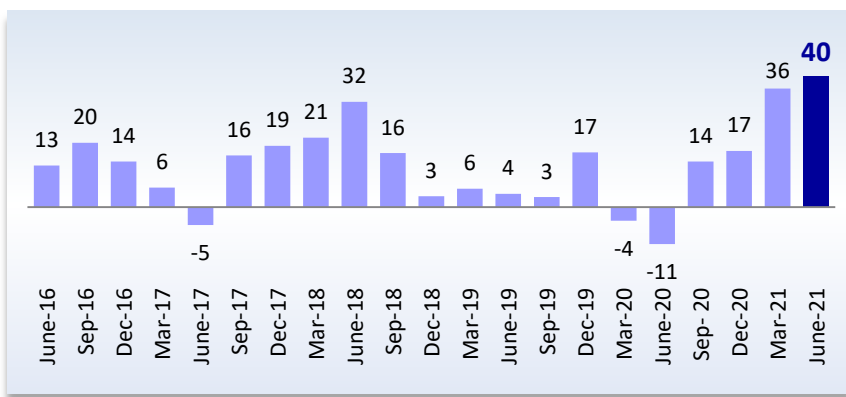
Sales in-line; up 48% YoY (v/s est. 45% YoY)



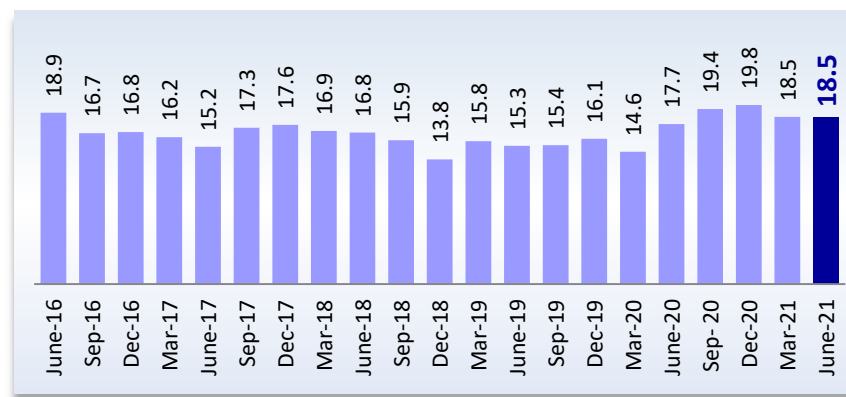
PAT in-line ; up 71% YoY (v/s est. 70% YoY)



EBITDA in-line; up 40% YoY (v/s est. 36% YoY)



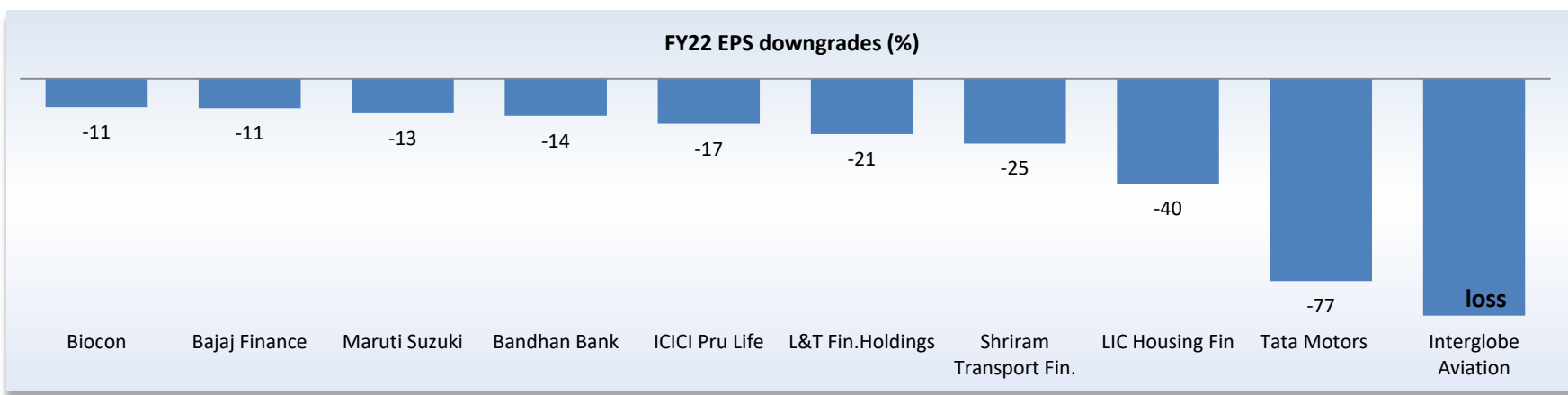
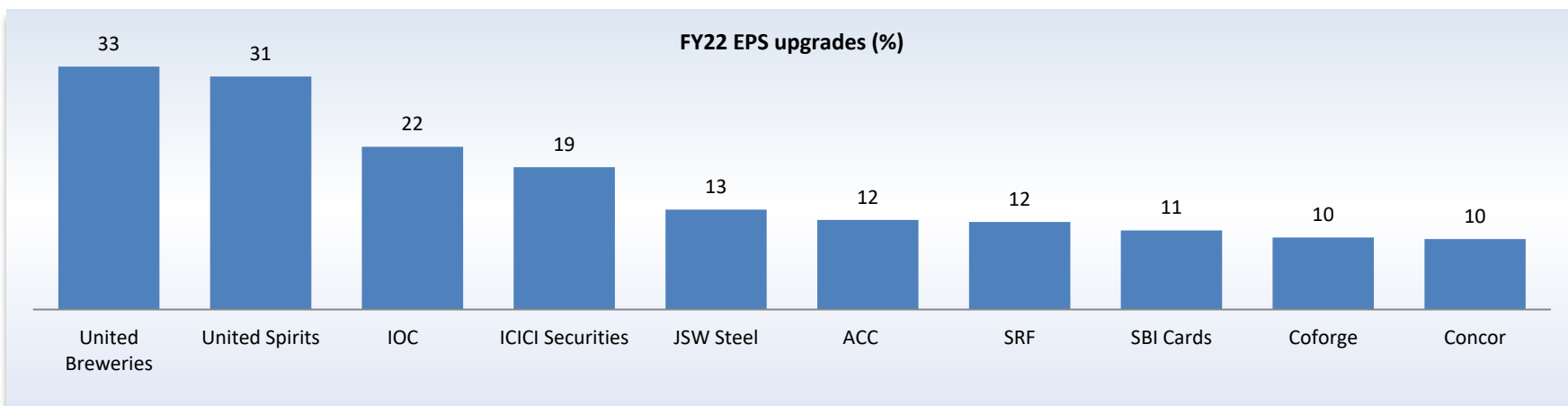
EBITDA margin (ex-Financials) up 80bp YoY to 18.5%



Source: MOFSL, Companies

1QFY22 earnings season – Marginal 1% cut in FY22 Nifty EPS to INR 725

- ❖ Of the 108 companies in our Coverage Universe that have reported, we have downgraded our FY22 estimates for 35 companies by more than 5%, while 22 companies have been upgraded by more than 5%.
- ❖ Cyclical and discretionary companies have seen the highest upgrades in 1QFY22, while Autos and NBFCs have seen earnings downgrades.

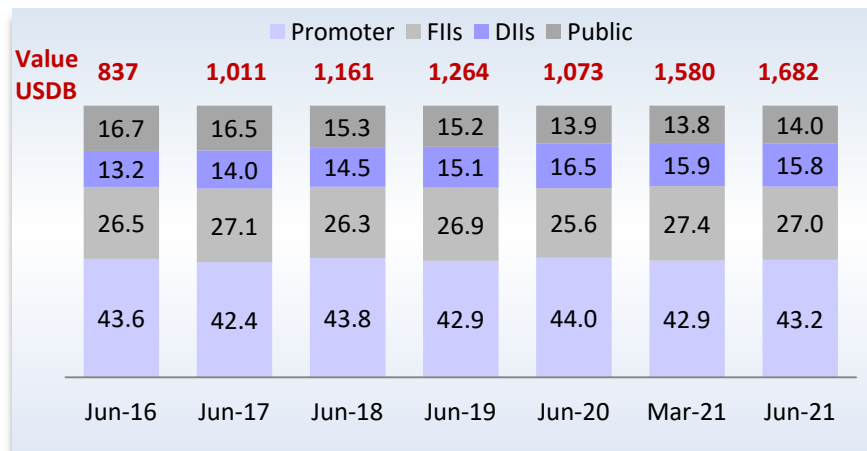


Source: MOFSL coverage companies which have seen the highest upgrades and downgrades during the earnings season based on FY22 basis and market cap above USD 2b

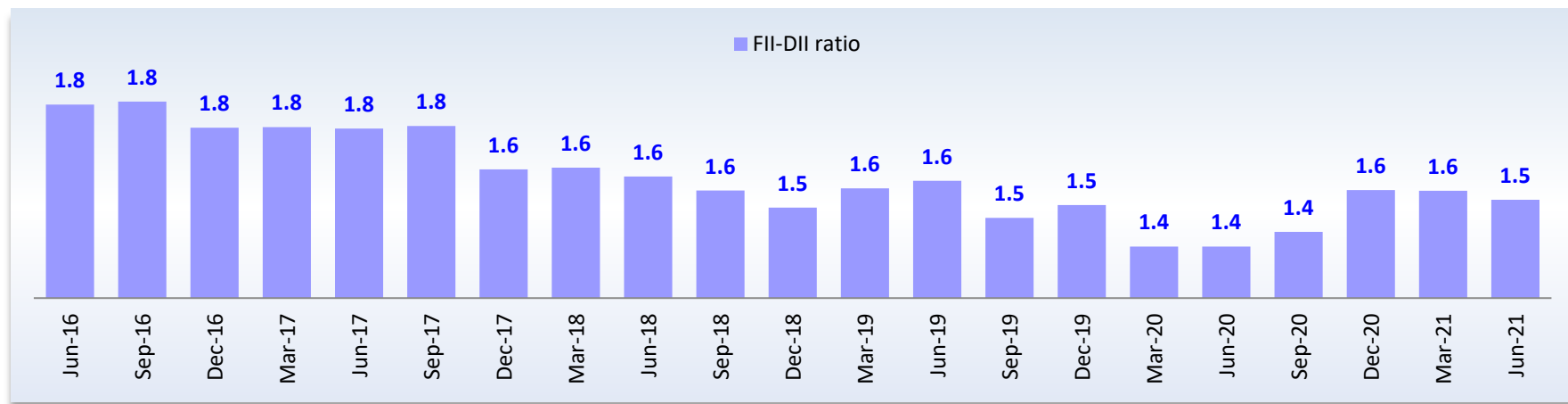
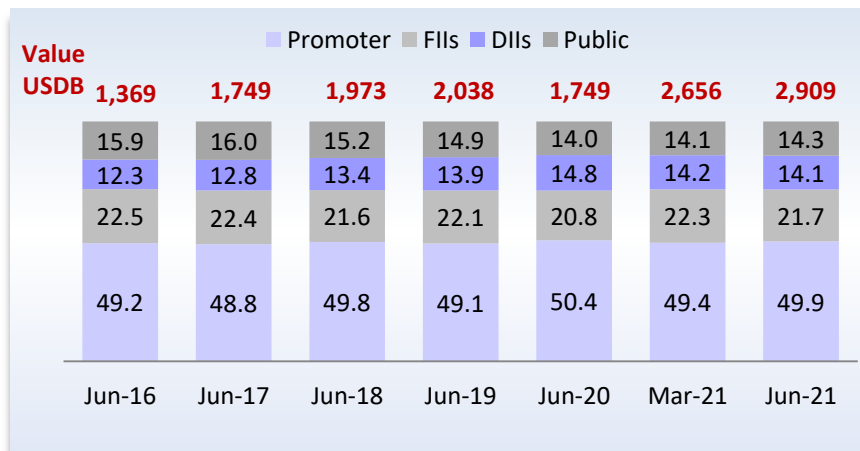
Ownership analysis – Institutional stake moderates in Jun'21

- ❖ The FII/DII ownership ratio declined to 1.5x in Jun'21.
- ❖ FII ownership in the Nifty-50 declined 40bps to 27% QoQ. Meanwhile, DII holdings in the Nifty-50 saw a reduction of 10bps to 15.8%.

Nifty-50 holding pattern (%)



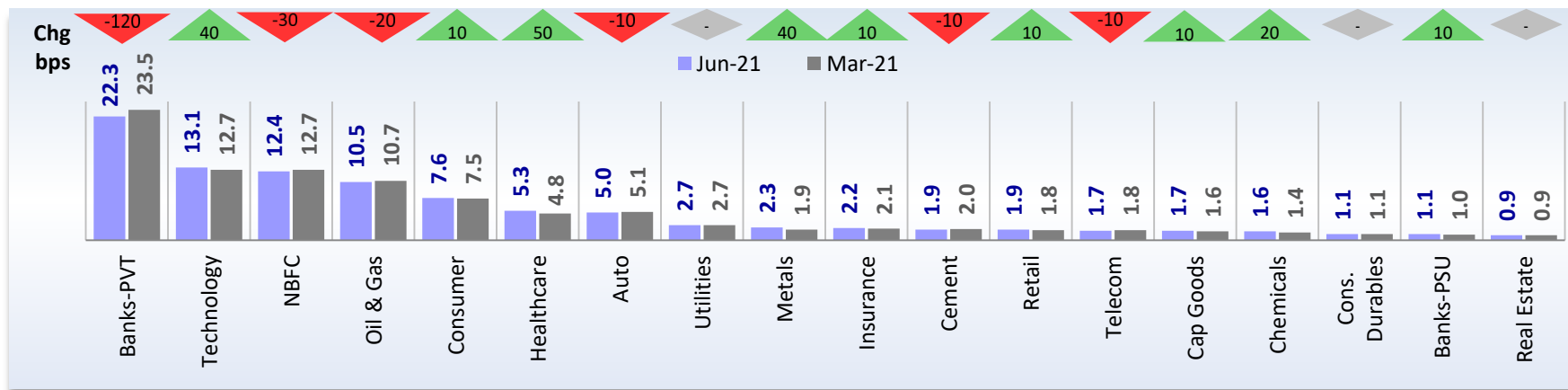
Nifty-500 holding pattern (%)



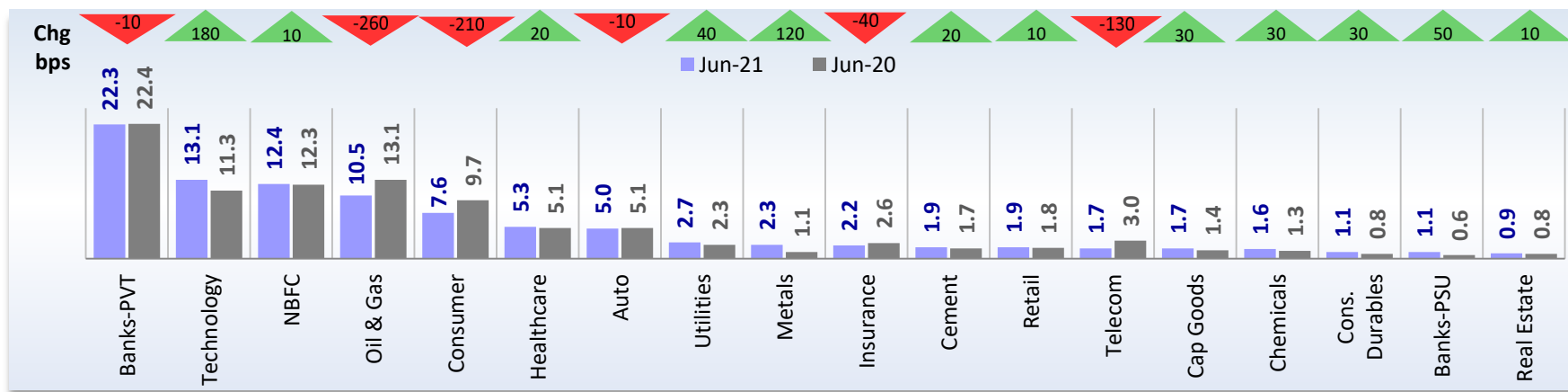
FII allocation increases in Pharma, Metals, and IT in 1QFY22

- ❖ On a QoQ basis, FIIs have increased weights in Healthcare, Metals, and Technology by 50bps, 40bps, and 40bps, respectively.
- ❖ On the flip side, Private Banks, NBFC, O&G have seen a decrease of 120bps, 30bps, and 20bps, respectively.

FIIs' sectoral allocation comparison QoQ (%)



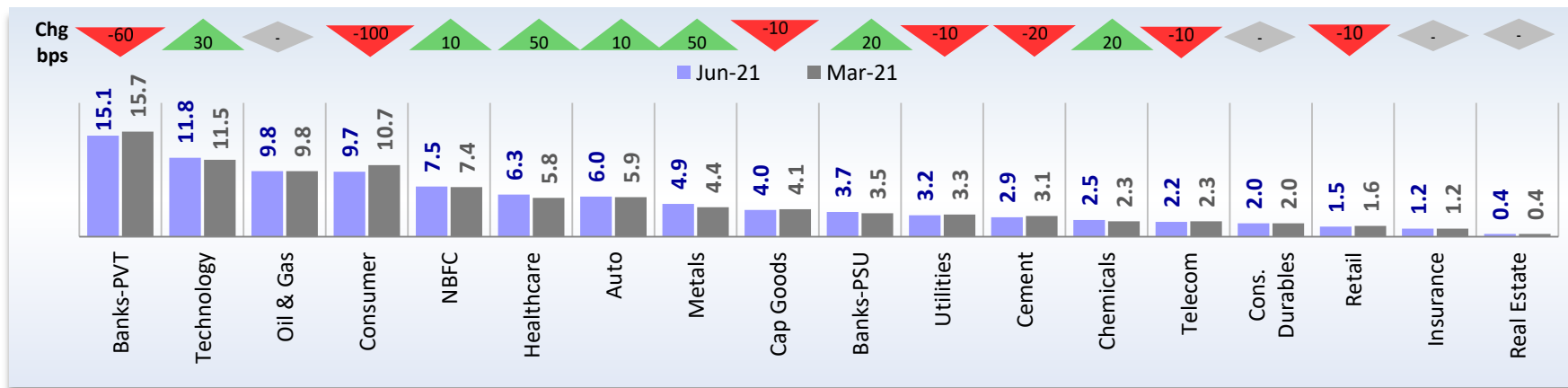
FIIs' sectoral allocation comparison YoY (%)



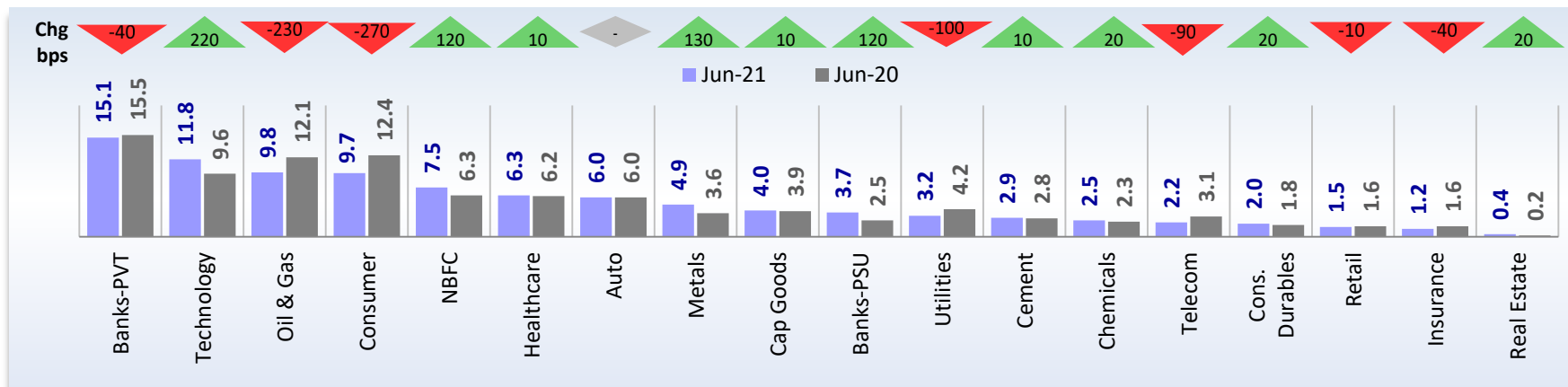
DIIs increase allocation in Healthcare, Metals, and Technology

- ❖ In 1QFY22, DIIs increased weights in Healthcare (+50bp), Metals (+50bp), IT (+30bp), and PSU Banks (+20bps) QoQ.
- ❖ Conversely, they decreased weights in Consumer (-100bps), Pvt Banks (-60bps), and Cement (-20bps) QoQ.

DIIs' sectoral allocation comparison QoQ (%)



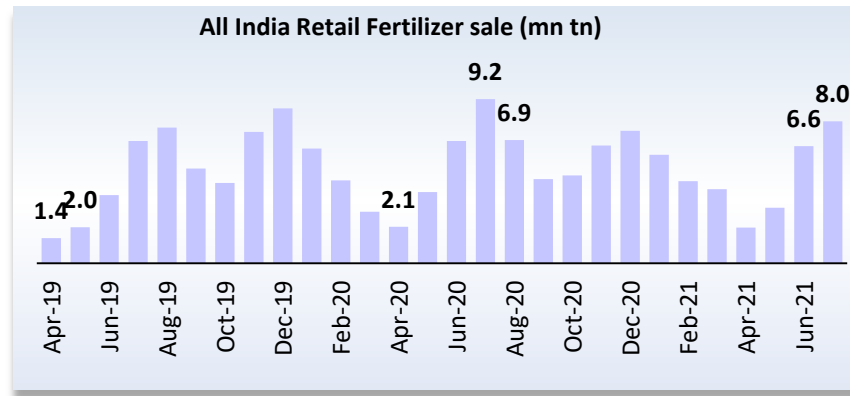
DIIs' sectoral allocation comparison YoY (%)



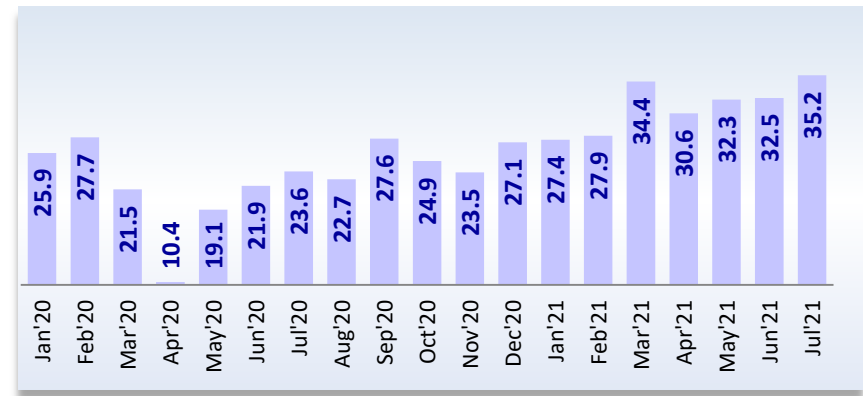
High-frequency data indicates improvement in Jul'21 over Jun'21

- ❖ Fertilizer sales increases MoM to 8mn tn. India exported the highest ever merchandise exports of USD35.2b in Jul'21.
- ❖ Railway freight increased 18% YoY; the Manufacturing PMI increased to 55.3, after dropping to 48.1 in Jun'21.

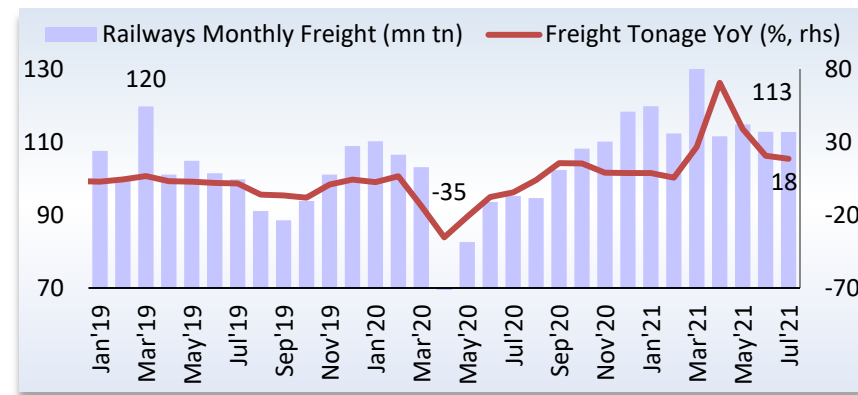
Fertilizer sales up to 8m t v/s 6.6m t in Jun'21



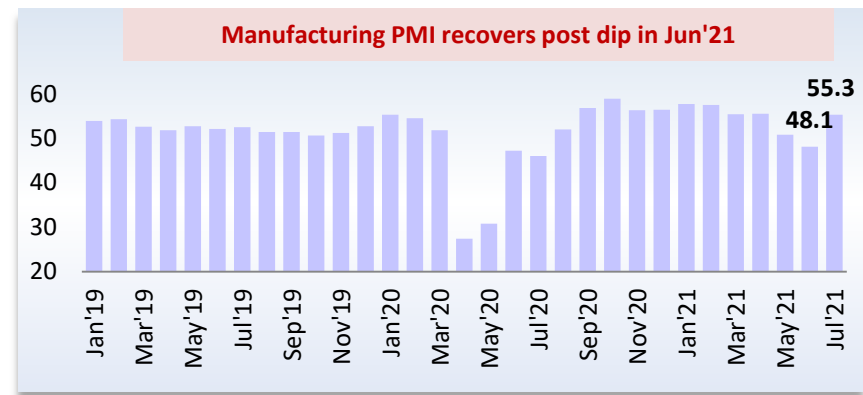
Highest ever exports in value terms in Jul'21



Railway freight up 18% YoY in Jul'21



Manufacturing PMI improves in Jul'21

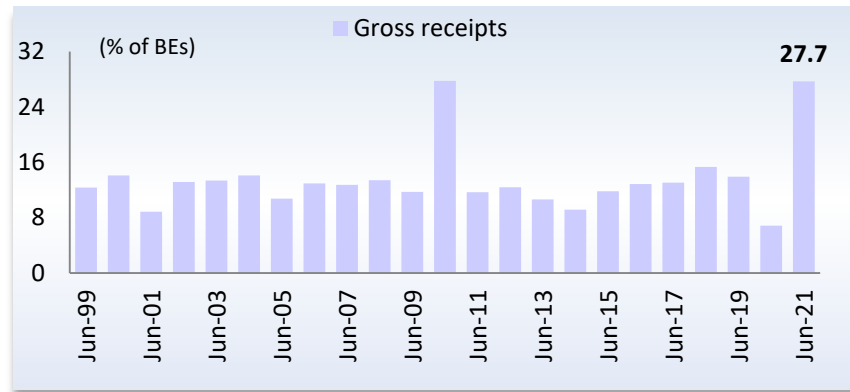


Source: MOFSL, Ministry of Commerce

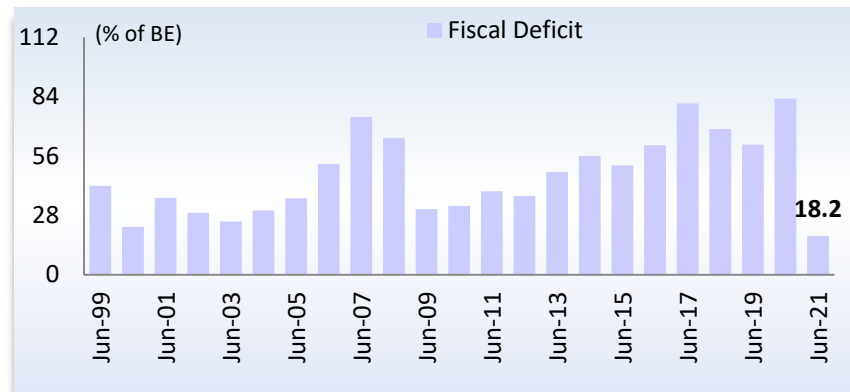
Fiscal deficit in Jun'21 at the lowest levels; GST picks up

- ❖ Government gross receipts as % of BE stood at an 11-year high of 27.7%. Fiscal deficit for the first three months was just 18.2% of BE.
- ❖ Daily e-way bill generation increased 13% MoM in Jul'21. GST collections increased 33% YoY.

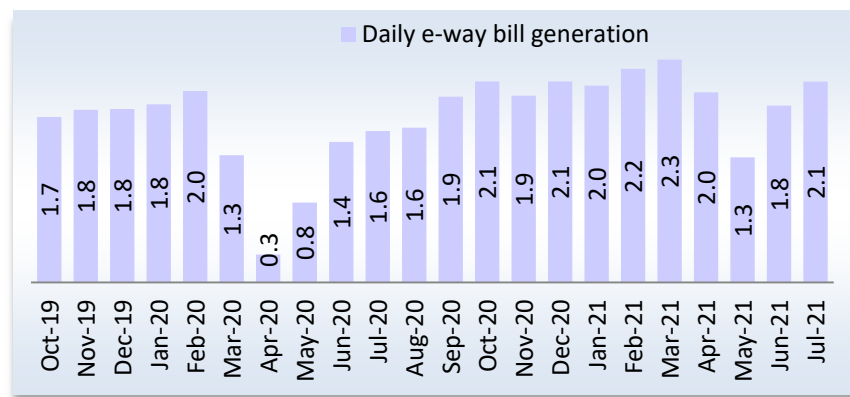
Government gross receipts at 11-year highs in 1QFY22



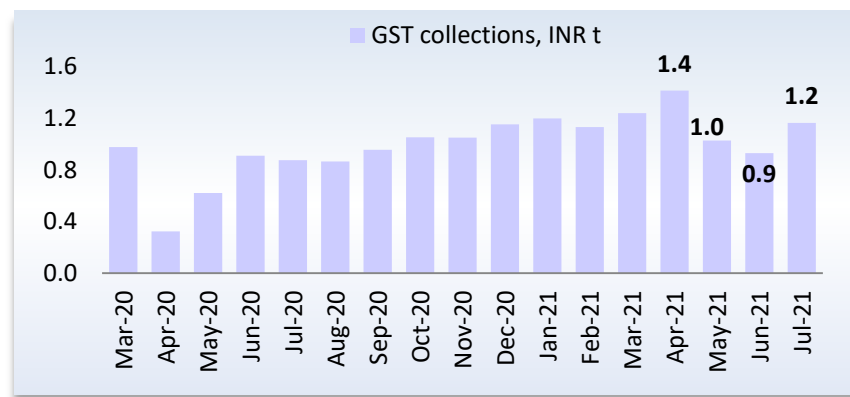
Fiscal deficit in first three months at just 18.2% of FY22BE



Daily e-way bill generation up 13% MoM in Jul'21



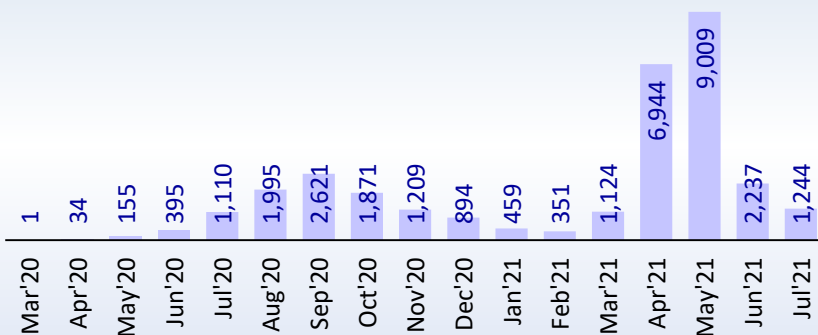
GST collections up 33% YoY in Jul'21



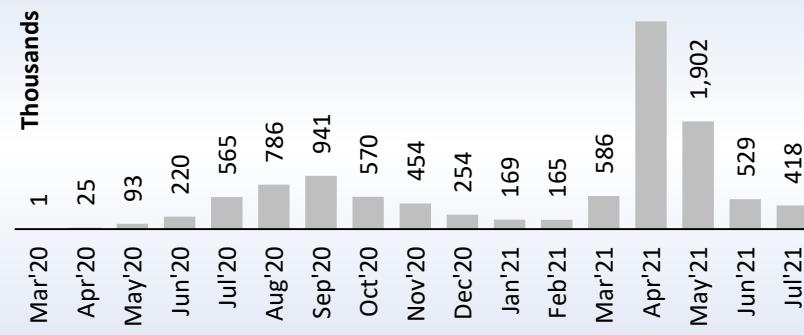
Active COVID-19 cases decline 21% in Jul'21

- ❖ Active cases fell 21% in Jul'21 as new cases declined 44% MoM and the recovery rate improved to 97%.
- ❖ The pace of vaccinations rose to over 4.8M doses per day in the last week of Jul'21.

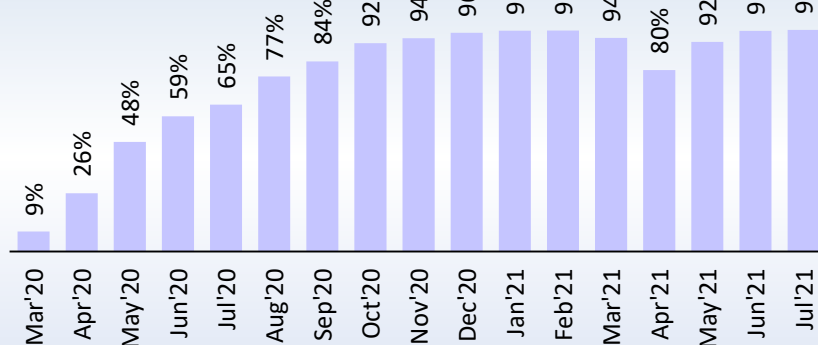
New cases on a monthly basis (in thousands)



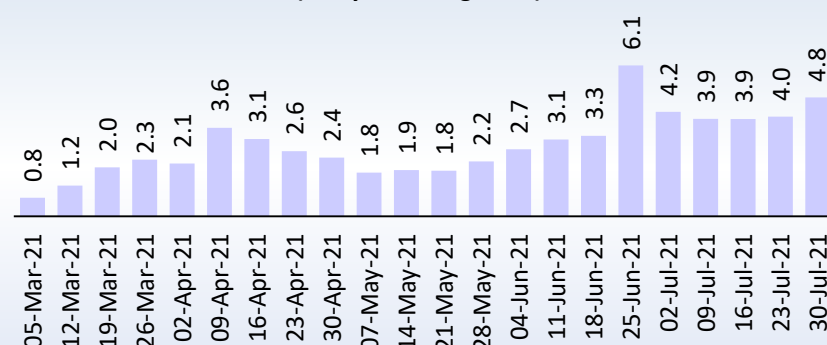
Total Active Cases (th)



Recovery rate



Vaccinations (7 day mov. Avg. , mn)



Source: Ministry of Health and Family Welfare, ourworldindata.org. MOFSL

Nifty composition | IT remains an outperformer | Auto trails

- ❖ The weightage of IT in the Nifty touched multi-year highs of 17.5%.
- ❖ Auto remained a laggard as its weight dropped 50bps (from Dec'20) to 4.9%, the lowest since Dec'08.
- ❖ L&T/SBI's weightage continues to increase and now stands at 2.8%/2.4%.

Sector	Weight in the Nifty (%)					
	Dec'04	Dec'08	Dec'12	Dec'19	Dec'20	Jul'21
Automobiles	6.7	2.5	8.8	5.7	5.4	4.9
Banks - Private	4.7	5.0	16.9	27.8	24.7	23.1
Banks - Public	5.8	5.4	4.7	2.6	1.8	2.4
NBFC + Insurance	2.1	2.3	7.9	11.6	12.3	11.6
Capital Goods	4.0	7.7	5.9	3.2	2.6	2.8
Cement	2.8	1.7	4.2	1.5	2.2	2.7
Consumer	7.8	6.5	12.3	10.2	10.4	9.8
Healthcare	6.3	2.6	5.0	2.1	3.6	3.7
Metals	8.2	4.8	3.8	2.4	2.0	3.6
Oil and Gas	27.1	24.5	12.3	12.5	12.5	11.2
Reliance	8.3	10.6	7.4	9.8	10.7	9.6
Telecom	6.3	11.6	2.0	2.2	2.0	1.9
Technology	14.5	9.0	11.4	12.8	16.3	17.5
Utilities	1.9	13.3	4.5	2.8	2.1	2.1
Miscellaneous	2.0	3.3	0.5	2.6	2.1	2.4
Nifty	100	100	100	100	100	100

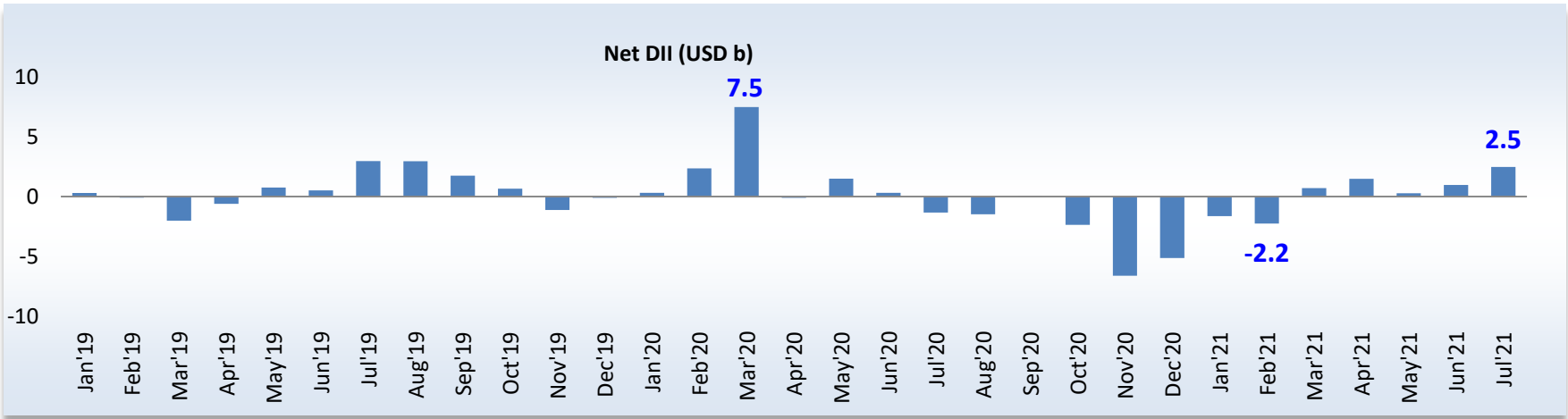
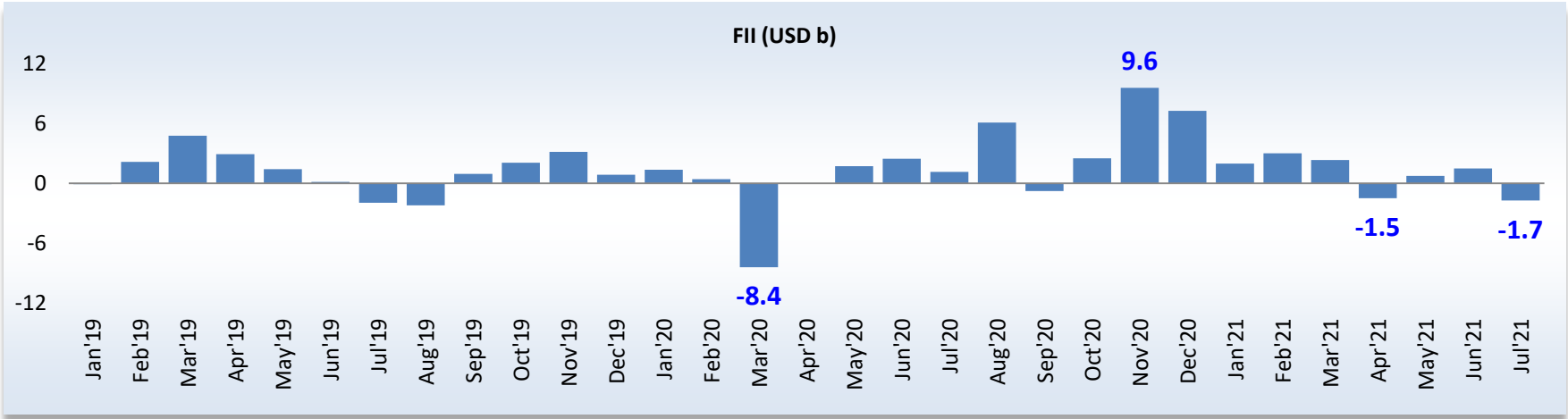
Technology weight up 110bp since Dec'20

Autos weight drops below 5% to 4.9% - the lowest since Dec'08

Reliance Industries' weight in the Nifty down 1.1% to 9.6% from Dec'20 levels

FII/DII post highest net outflows/inflows since Mar'20

- ❖ FII net outflows stood at USD1.7b in Jul'21, the highest since Mar'20.
- ❖ DII net inflows stood at USD2.5b in Jul'21, marking the fifth consecutive month of inflows.

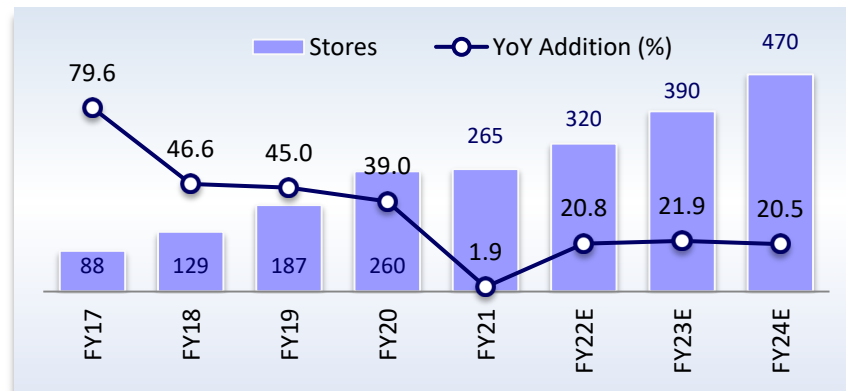
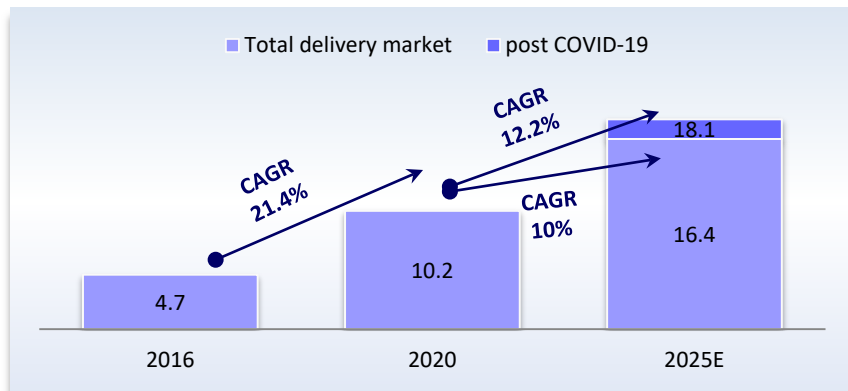


Key reports from MOFSL's Research Desk

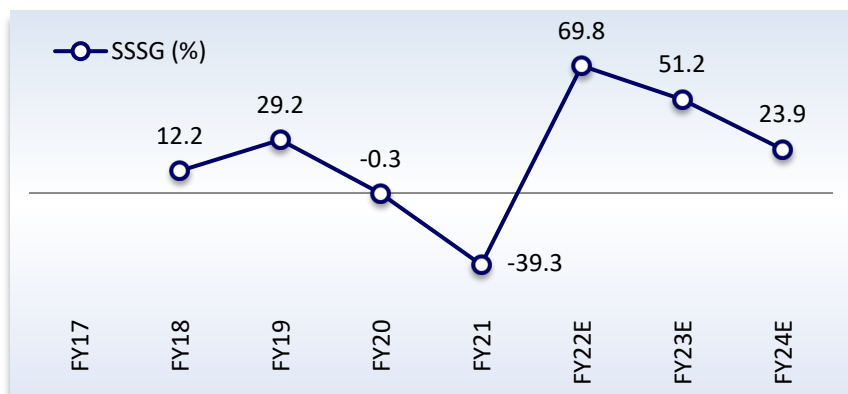
Burger King India: Whopper of an Opportunity ([Report link](#))

- ❖ QSRs are best placed to tap the growth opportunity in India's large Food Service Industry, driven by their high affordability, aspirational branding, higher convenience, scale benefits, and technological edge.
- ❖ BURGERKI's "barbell" product strategy, with a focus on premiumization and value products, makes it well-placed to drive SSSG and margin expansion. The introduction of BK Café from 4QFY22 would significantly elevate its performance.

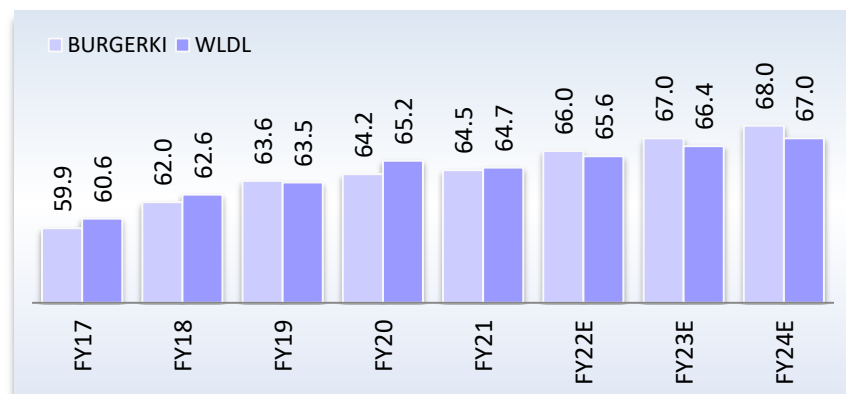
Delivery market prospects enhanced due to COVID



SSSG to see strong recovery in FY22E



BURGERKI's gross margins comparable with WLDL's; poised to expand further

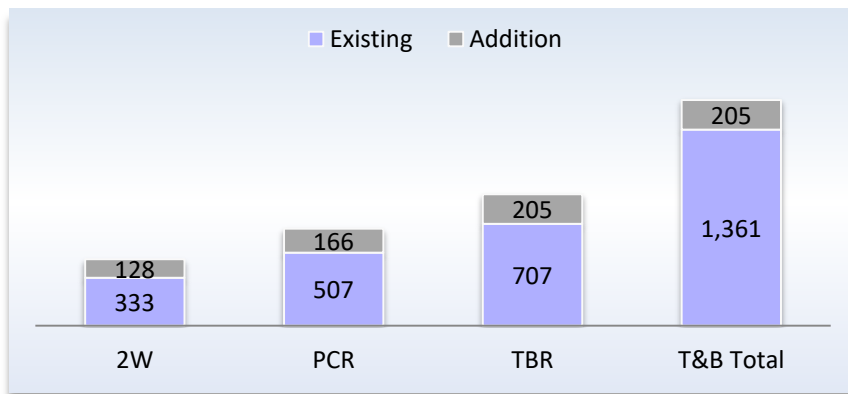


Source: MOFSL. Refer to our note 'Burger King India' Whopper of An Opportunity

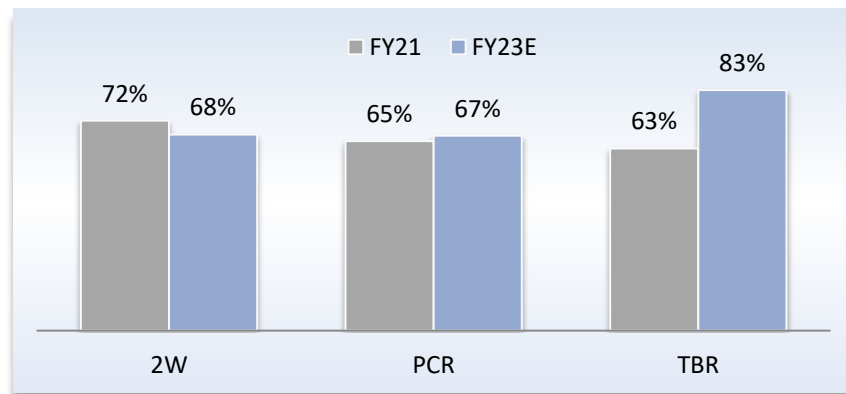
Automobiles – Tyres – (Ready to roll; Return of growth) ([Report link](#))

- ❖ The Indian Tyre industry is expected to recover from five years of weakness and be on a linear growth path (~12% CAGR over FY21–25E), supported by timely capacity expansions across companies. Improving demand, a stable competitive intensity, and peak capex (capex of INR116b over FY22–24E v/s INR135.5b over FY19–21) augur well for profitability.

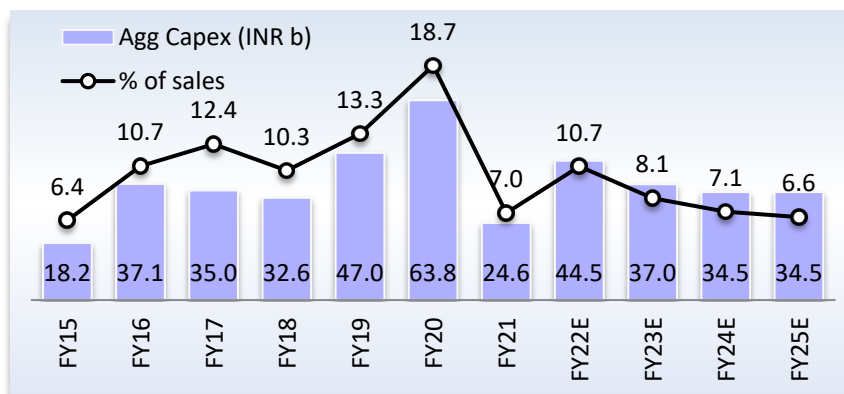
Capacity additions the highest in 2W ('000 MT)



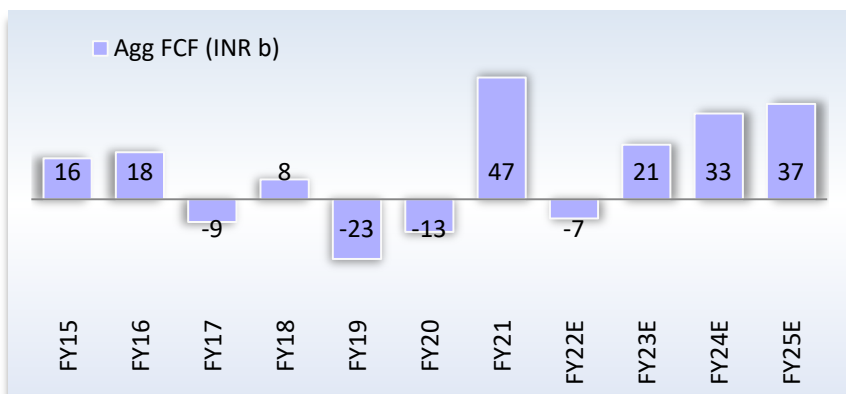
Utilization levels to be higher in TBR segment



Capex intensity to moderate...



...driving improvement in FCF generation

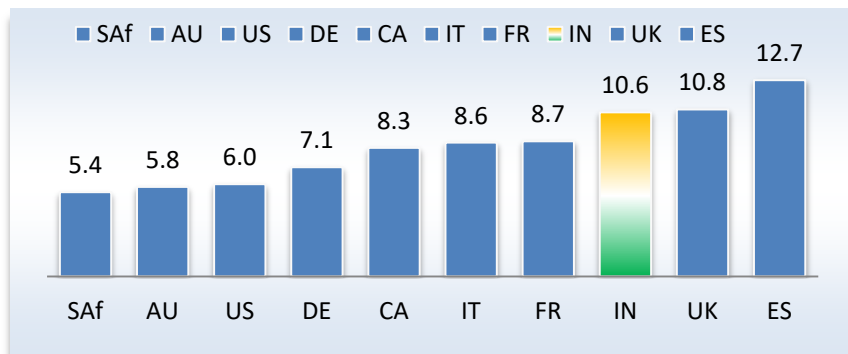


Source: MOFSL, Refer to our note – AUTOMOBILES – TYRES: Ready to roll; Return of growth, supported by timely capacity addition!

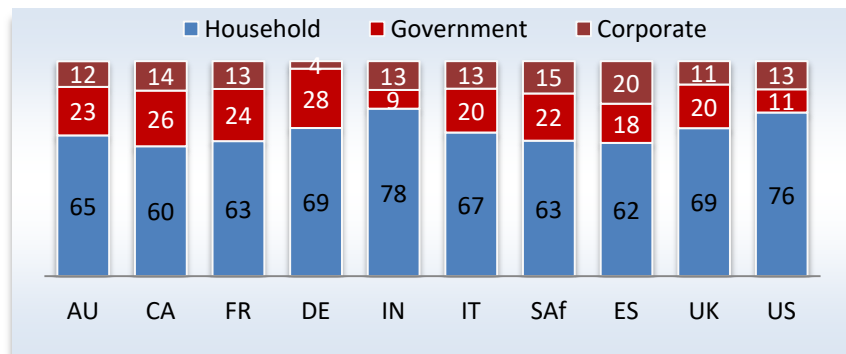
GLOBAL ECONOMY: A one-stop guide to key macro/financial indicators ([Report link](#))

- ❖ We are very happy to introduce a unique presentation on the global economy, covering as many as 39 nations, together accounting for over 85% of global GDP in CY20.
- ❖ We have attempted to cover most important macroeconomic indicators to offer our readers an idea of various themes, such as a) consumption v/s investments, b) link between monetary variables and inflation, c) key trends in global debt, d) government finances, e) monetary economics, f) international trade developments, g) the global Housing market condition, and h) the Labor market situation in developed nations.

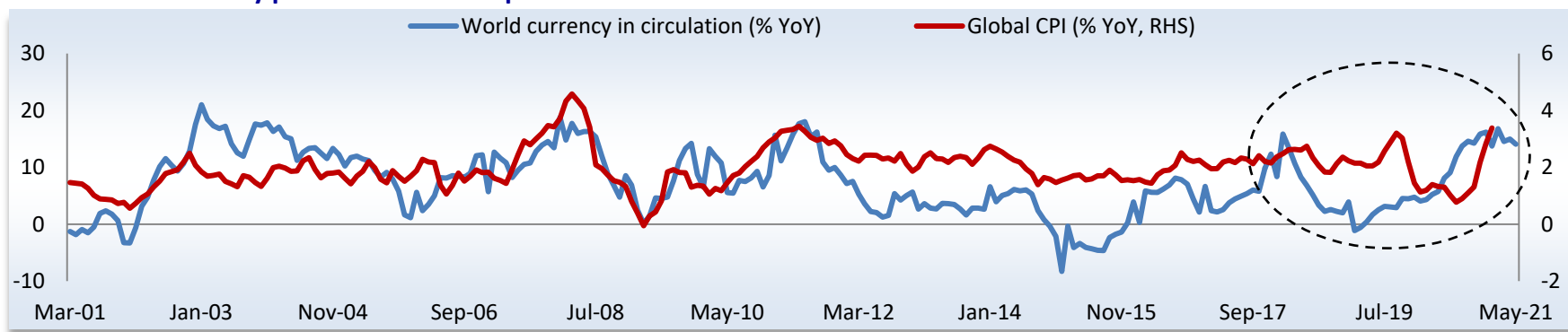
Estimated economic/income loss in CY20...



...and share of each sector in Gross Disposable Income (GDI) in CY19



Global inflation may peak out around Sep'21



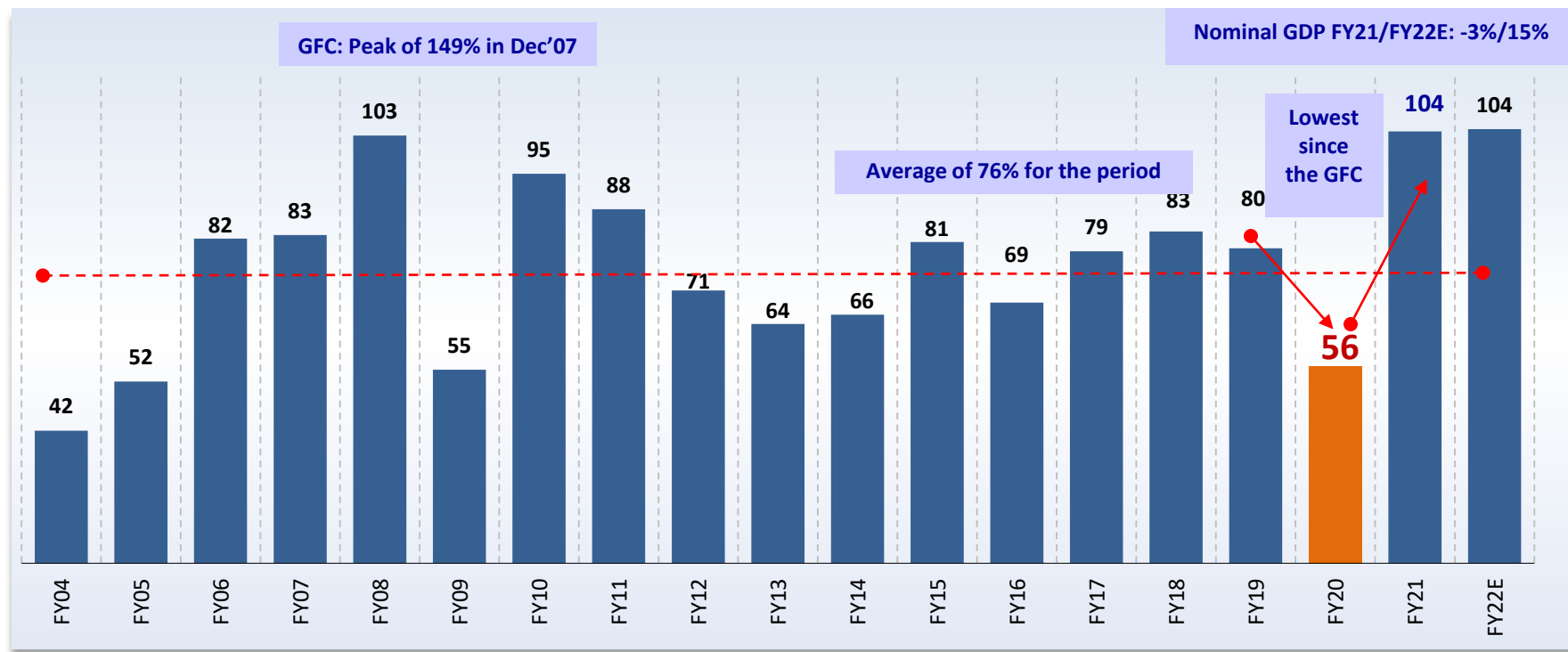
Source: MOFSL, Refer to our note – GLOBAL ECONOMY: A one-stop guide to key macro/financial indicators

Valuations: Key observations

Market capitalization-to-GDP ratio remains above 100

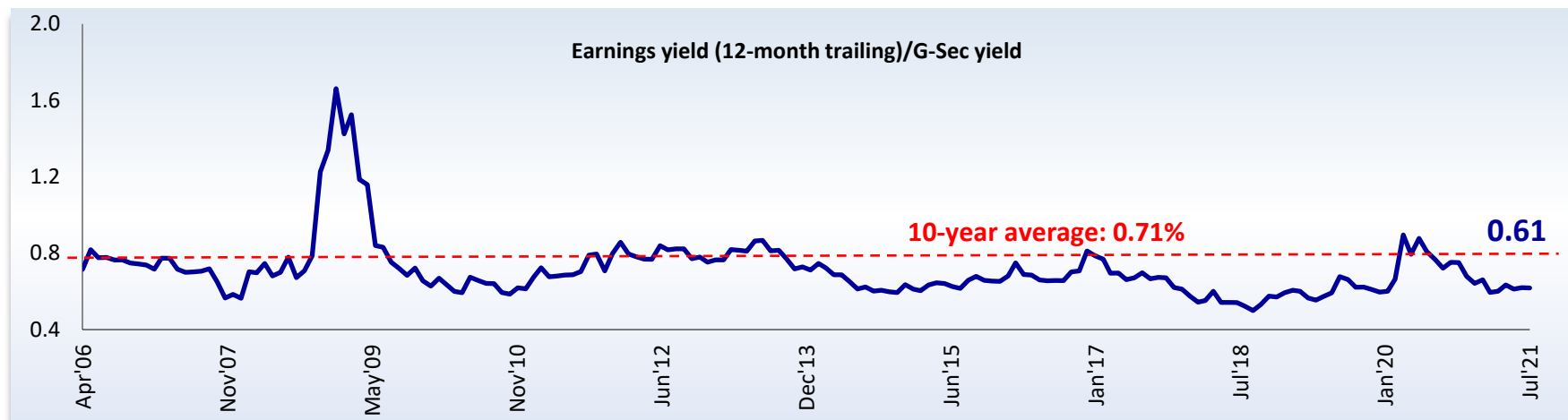
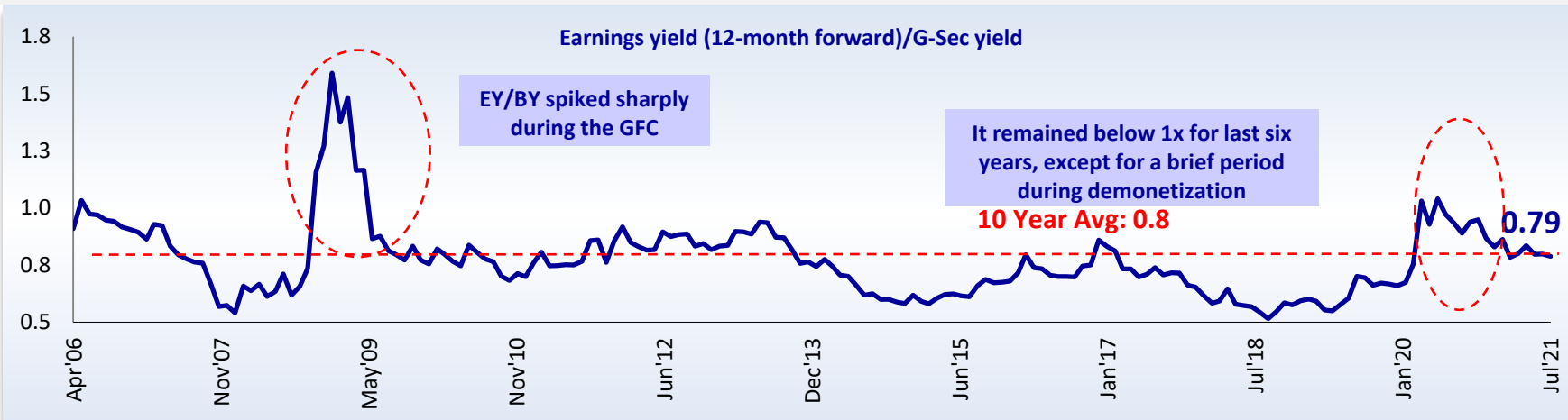
- ❖ The market capitalization-to-GDP ratio has been volatile. It fell to 56% (FY20 GDP) in Mar'20 from 79% in FY19 and has currently rebounded to 104% (FY22E GDP) – above LTA of 76%.
- ❖ The decline to 42% seen in FY04 was the lowest ratio recorded in the last two decades. The ratio hit its peak of 149% in Dec'07 during the CY03–08 bull-run.

Market capitalization-to-GDP ratio (%)



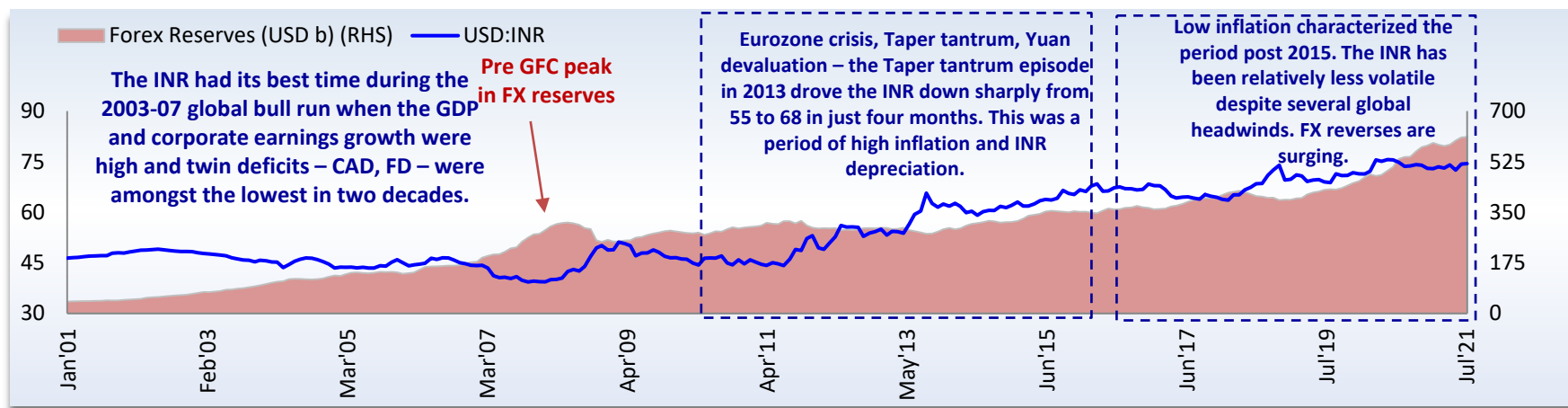
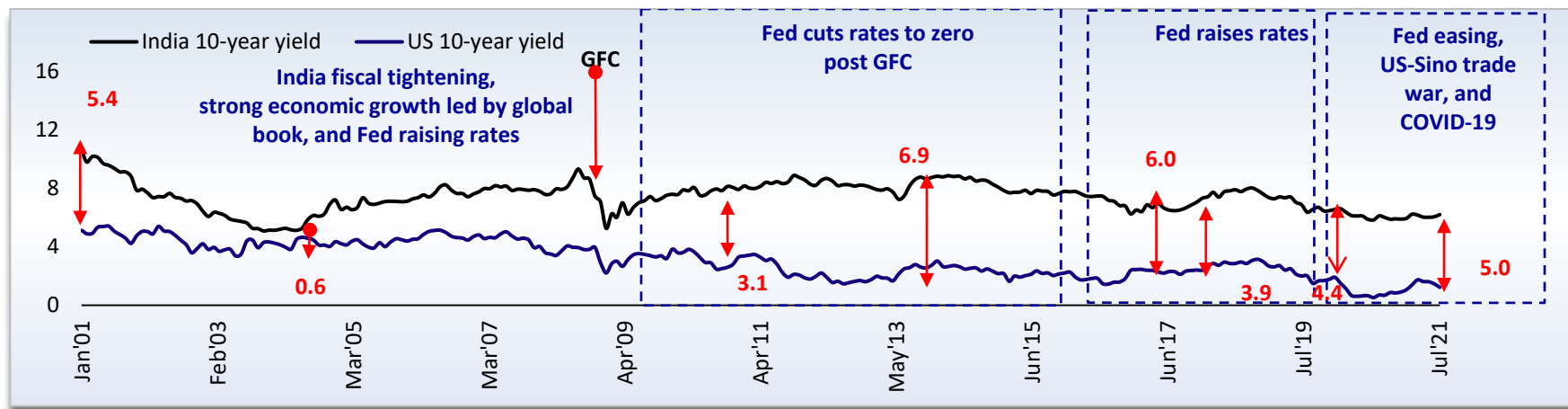
10-year G-Sec stable at ~6.2%; earnings estimates remain steady

- ❖ Yield on the 10-year G-Sec is currently hovering at ~6.2%, as CPI for June'21 came in at 6.3% YoY.
- ❖ The EY/BY ratio is below its LTA on a trailing basis, while it is on par with LTA on a forward basis.



Spreads move up v/s US 10-year bond; FX reserves at USD611b

- ❖ Yield on the US 10-year bond is trading at 1.22%. The Indian 10-year yield is trading at ~6.2%, resulting in spreads (v/s the US 10-year yield) rising to 500bps in Jul'21.
- ❖ On the currency front, the INR was flat in Jul'21 (MoM) v/s the USD. FX reserves increased by USD2b to USD611b.



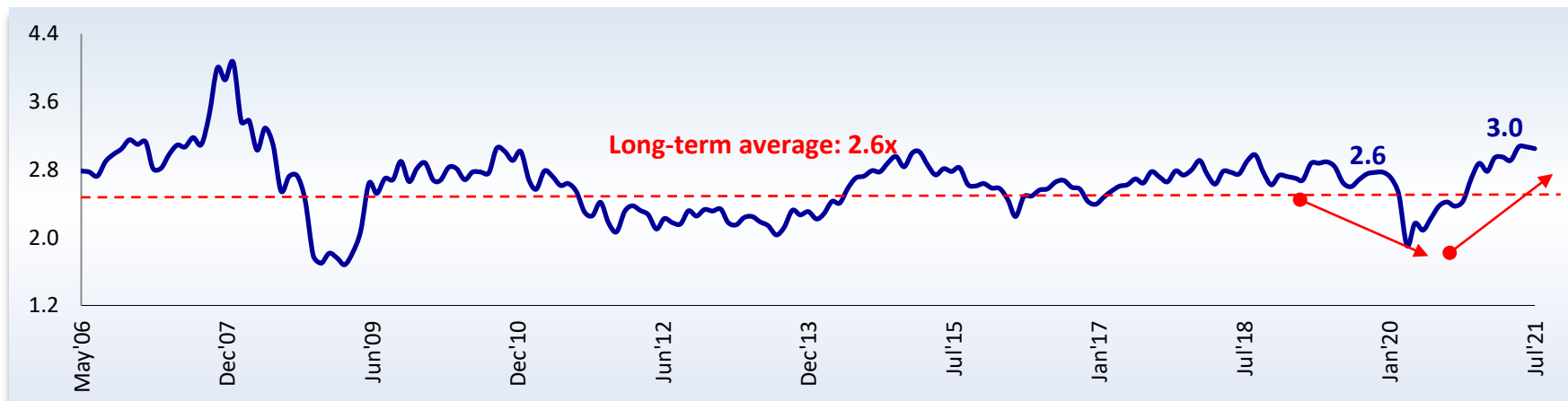
Valuations: Nifty forward P/E and P/B at a premium to long-term mean

- ❖ The Nifty 12-month forward P/E of 20.5x is at a premium of 14% v/s its LTA of 17.9x.
- ❖ At 3x, the 12-month forward P/B for the Nifty is at a 15% premium to its historical average of 2.6x.

12-month forward Nifty P/E (x)



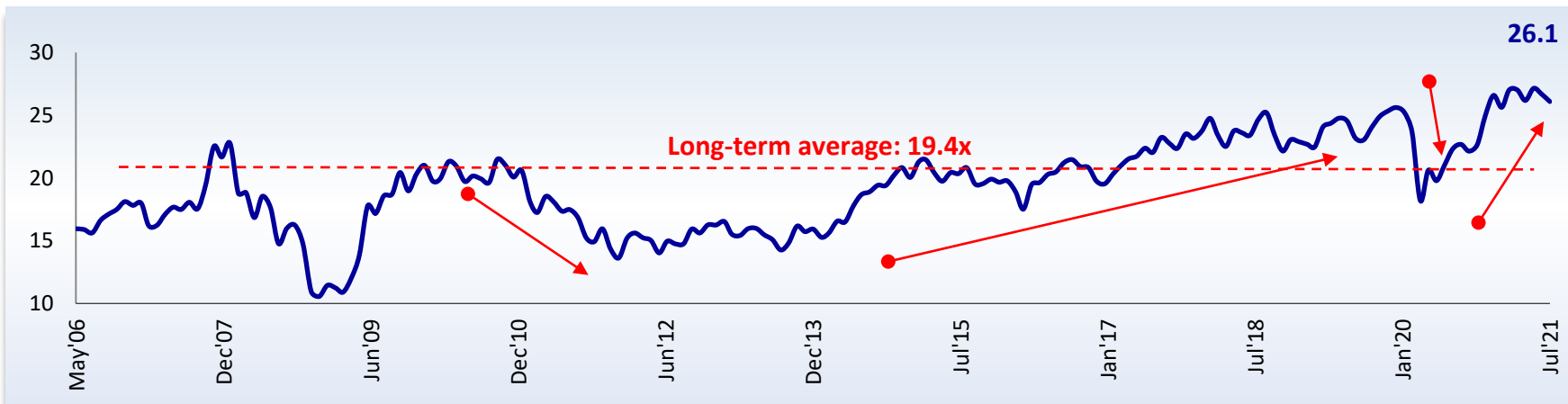
12-month forward Nifty P/B (x)



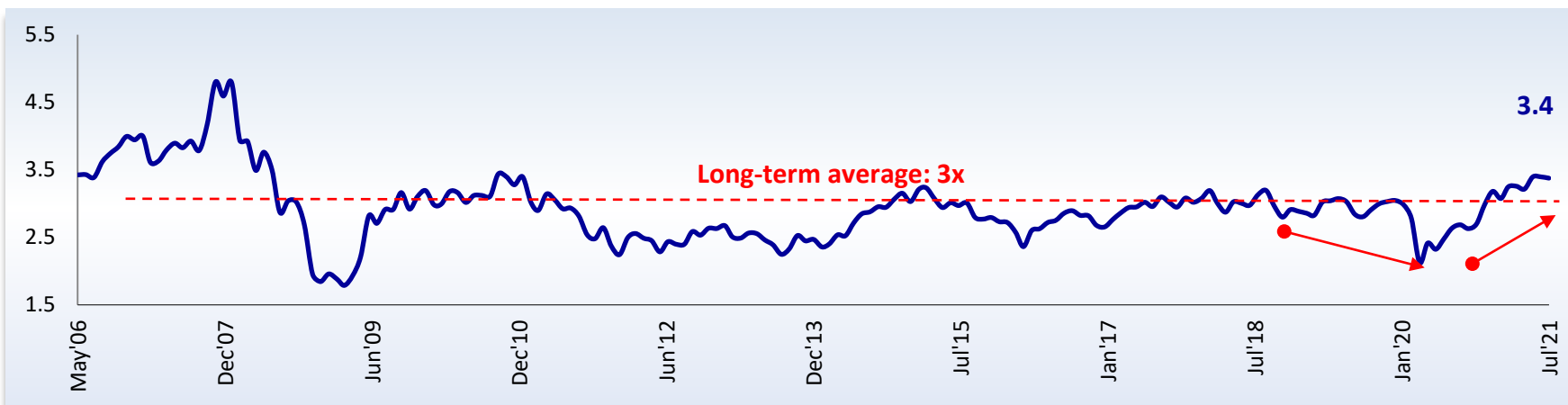
Valuations | Nifty trailing at P/E of 26x; P/B above its LTA

- ❖ The 12-month trailing P/E for the Nifty stands at ~26.1x, 34% higher than its LTA.
- ❖ At 3.4x, the 12-month trailing P/B for the Nifty stands at 15% above its historical average of 3x.

12-month trailing Nifty P/E (x)



12-month trailing Nifty P/B (x)

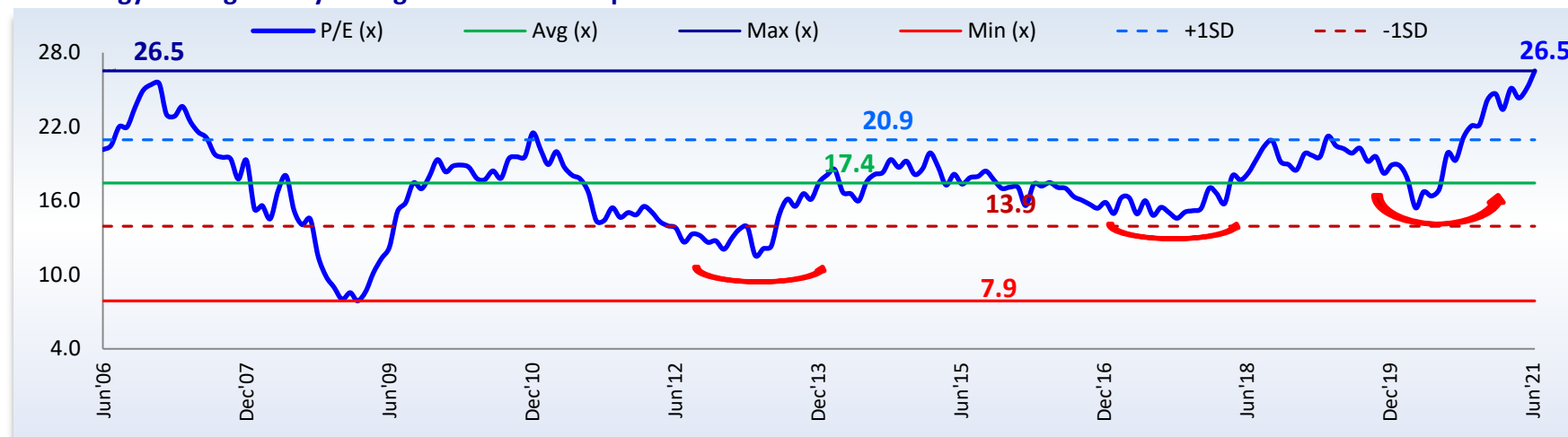


Sectoral valuations: IT at 15-year high; Private Banks at +1SD

Valuations for Private Banks at +1SD

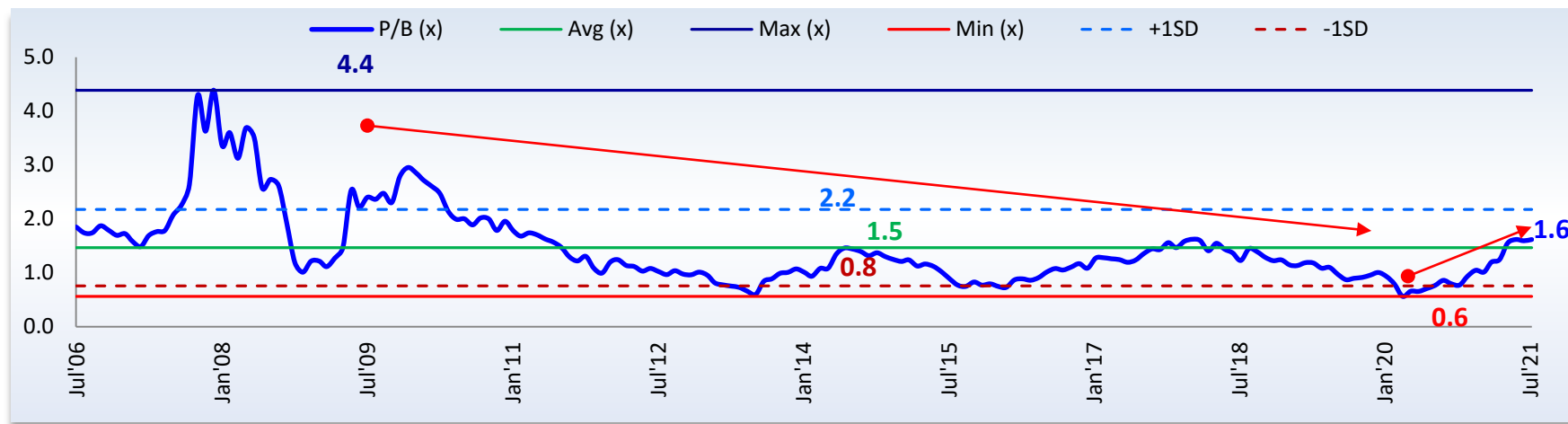


Technology trading at 15-year high valuation multiple

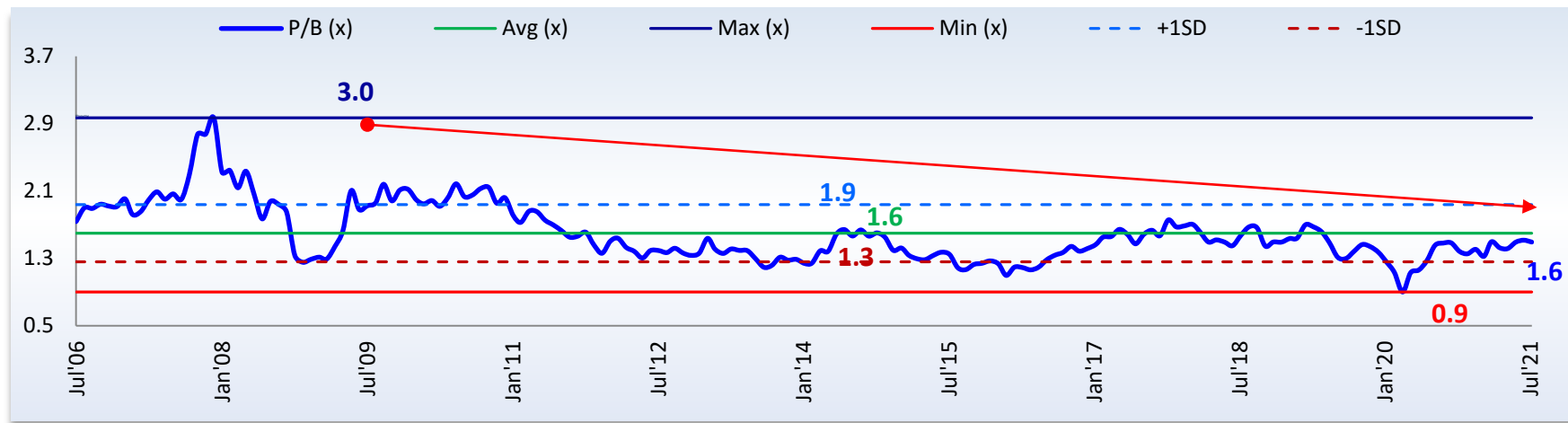


Sectoral valuations: Metals and Oil & Gas trading at LTA

Metals: Valuations near LTA

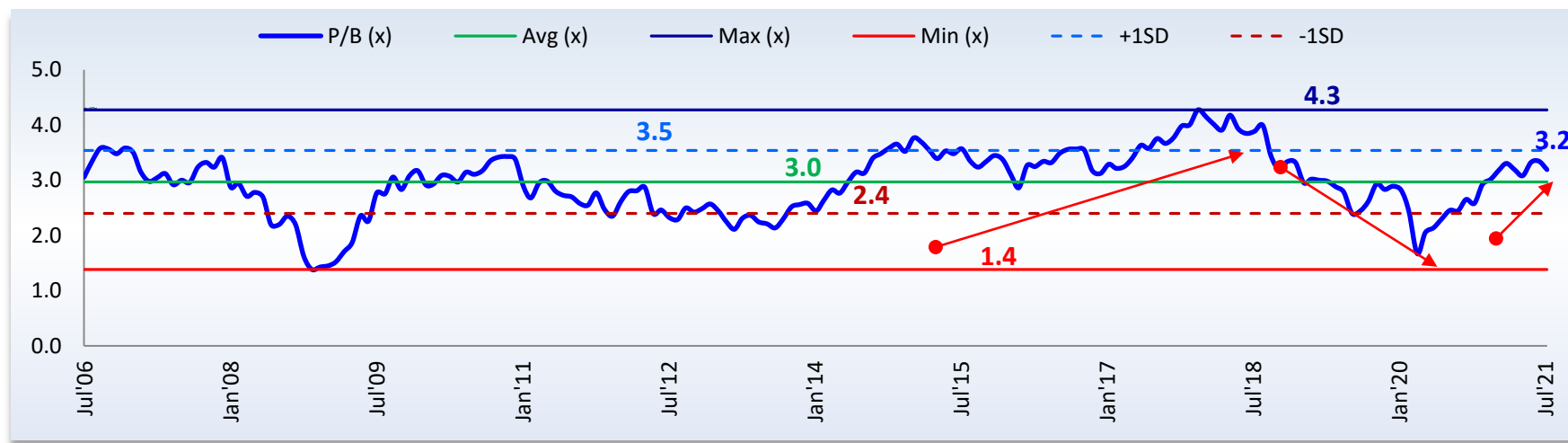


Oil & Gas: Valuation trend

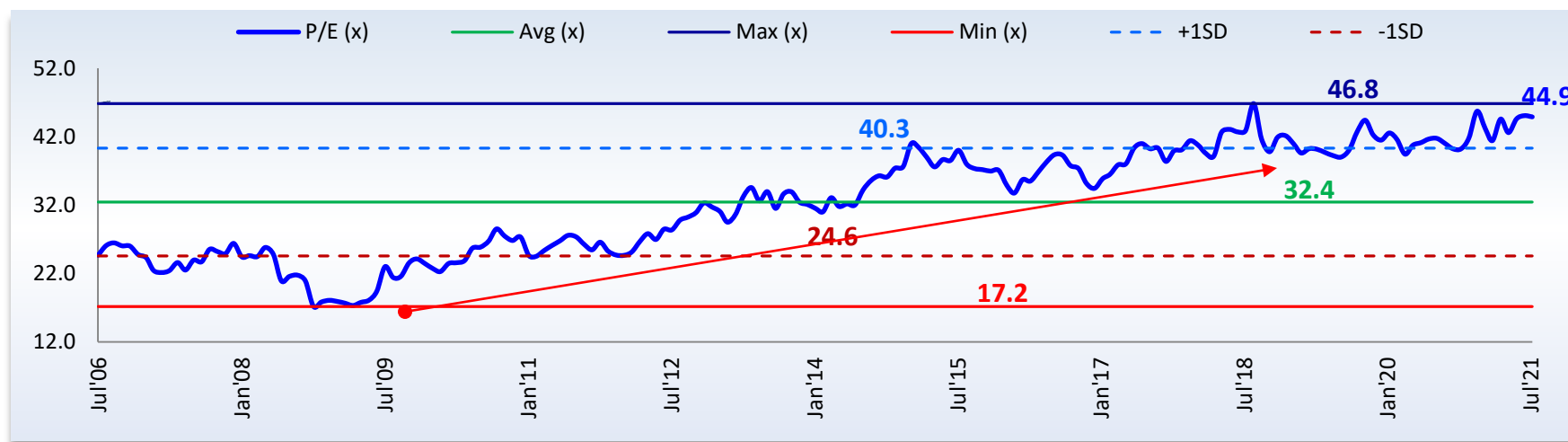


Sectoral valuations: Consumer marginally below peak; Auto at premium to LTA

Auto valuations at 8% premium to its LTA



Valuations of Consumer Staples 4% below peak valuations

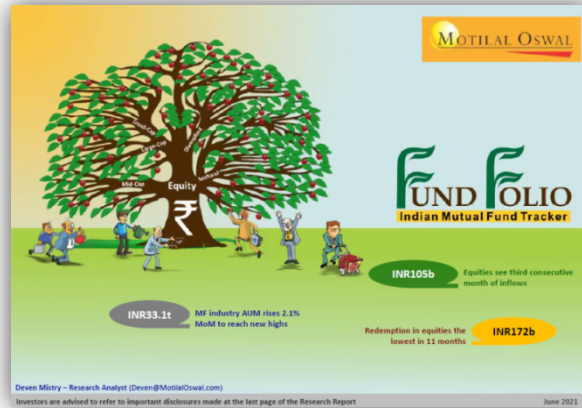
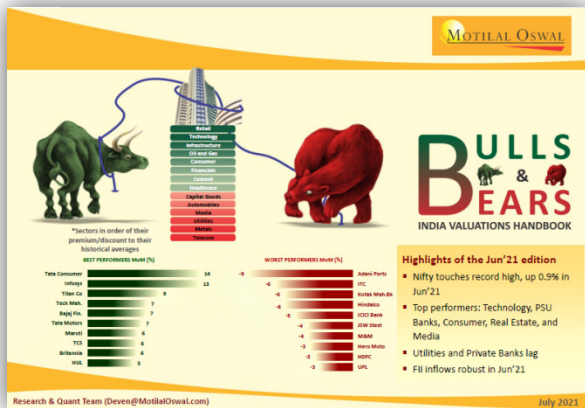


Top ideas

Company	M-cap (USD b)	EPS (INR)			EPS CAGR	P/E (x)		P/B (x)		RoE (%)	
		FY21	FY22E	FY23E	FY21-23, %	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Preferred largecap stocks											
Infosys	102	45.6	52.6	65.6	20.0	31.4	25.2	10.0	9.6	30.6	39.0
Hind. Unilever	75	34.8	38.4	47.5	16.9	61.4	49.6	11.7	11.7	19.0	23.6
ICICI Bank	66	24.2	30.8	39.0	26.9	22.8	18.0	2.9	2.5	13.8	15.3
St Bk of India	53	25.1	39.0	50.4	41.7	11.3	8.8	1.3	1.2	13.1	14.6
HCL Technologies	39	43.8	49.3	58.9	16.0	21.5	18.0	4.4	4.1	21.1	23.6
UltraTech Cem.	30	190.4	237.5	305.7	26.7	32.2	25.0	4.2	3.8	14.5	16.4
Titan Company	22	11.0	17.8	29.9	64.7	101.1	60.2	19.3	17.1	20.0	30.1
Divi's Lab.	18	75.6	98.1	129.8	31.0	50.2	37.9	11.7	9.7	25.5	27.9
Godrej Consumer	13	17.3	18.9	22.7	14.7	51.6	43.0	10.1	9.5	20.0	22.8
SBI Cards	13	10.5	17.7	29.4	67.5	58.3	35.1	12.4	9.4	23.6	30.5
S A I L	8	13.1	37.6	24.3	36.2	3.8	5.9	1.0	0.9	30.5	16.9
Preferred midcap stocks											
Cholaman.Inv.&Fn	6.0	18.5	21.5	29.4	26	25.1	18.3	4.0	3.3	17.0	19.7
L&T Technology	5.3	62.8	87.3	109.1	32	42.2	33.7	9.5	8.0	24.4	26.0
Max Financial	5.0	12.2	14.1	18.6	23	76.8	58.2	3.3	2.8	18.6	20.1
Deepak Nitrite	3.9	56.9	69.4	78.2	17	30.4	27.0	9.1	7.1	34.4	29.6
J K Cements	3.5	91.0	110.5	133.5	21	30.4	25.2	5.9	5.0	20.9	21.3
Endurance Tech.	3.3	36.0	48.4	63.9	33	36.2	27.4	6.1	5.3	17.9	20.6
Indian Hotels	2.3	-7.1	-3.0	1.8	NA	NM	79.3	5.3	5.1	-10.5	6.6
Aditya Birla Fashion	2.2	-7.1	-3.0	0.0	NA	NM	60638.3	9.6	9.6	-13.1	0.0
Orient Electric	0.9	5.6	6.5	8.7	24	49.5	36.8	12.4	10.0	25.0	27.2
Solara Active Pharma	0.9	45.0	82.4	103.4	52	21.4	17.0	3.3	2.7	23.1	24.0

NOTES

Quant Research & India Strategy Gallery



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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CIN No.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.

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* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.