Equity Research

September 6, 2021
CNX Nifty: 17378

ICICI Securities Limited is the author and distributor of this report

Sep'21 Outlook

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INDIA

Strategy

Less euphoria in valuations by 'asset approach', while EVA from existing assets set to rise; GDP revival led by asset creation and exports manufacturing

- Amongst the two major valuation approaches ('asset approach' using P/B ratio and the 'income approach' using P/E ratio), **NIFTY50 index is currently trading at relatively reasonable valuations on P/B basis at 3.6x, which is 0.77s.d. above LTA, largely driven by cheaper valuations of capital intensive sectors**. Peak P/B was hit at 6x in early 2008 when the NIFTY50 RoE hit 29% on the back of high operating and financial leverage as compared to the sub optimal 12% currently. In fact, 46% of NSE200 universe in capital intensive sectors is currently trading at P/B z-score of less than zero. Augmenting the picture further, existing assets are expected to improve their productivity or EVA (Economic value added) in the form of improving RoEs from around 10.5% in FY20 to 15% in FY23 largely led by capital intensive and cyclical stocks.
- **Back testing for the past 20 years, the average one year forward returns for NIFTY50 have been around +7% from similar levels of P/B.** Average positive one year forward returns for NIFTY50 have been around +26.9% from similar P/B levels seen in FY04-06, with conditions of improving EVA (FY04-06: RoE rose from 18% to 25%) and rising investment rate driven GDP growth. On the flip side, the risk of a drawdown from such levels of P/B is an average fall of around -14.7% accompanied by declining economic growth, falling investment rate and declining RoE trend seen during FY11-12.
- **Valuation by 'income approach' distorted as RoE (12%) and PAT/GDP (3.1%) in FY21 rising from the lowest levels in past two decades vs. the 2008 peak levels of 29% and 6.4% respectively**: On the income approach (P/E basis) the NIFTY50 is at 22.4x (+1.4sd) and approaching pre-GFC level reached in Nov'07. Our backtest over the past two decades in the pre-covid era indicates largely negative one year forward returns from above +1s.d. levels but currently we note two major distortions:
  - Record high valuations of low volatility, high RoE and growth stocks (Discretionary consumption, Staples, new age NBFCs, Insurance, Healthcare and IT) further flaring up selectively due to the impact of covid on profitability and slowdown in domestic consumption which is reflected in weak PFCE and services sectors within Q1FY22 GDP.
  - Relatively weak profitability (RoE) of certain capital intensive and cyclical sectors is inflating their P/Es (Telecom, Industrials, Auto). However, segments which appear significantly cheap relative to the index on the income approach are largely from the capital intensive sectors (Metals, Utilities, PSU bank, Energy, Tobacco, and Coal)
- **The above distortions have resulted in the market outperforming despite +1 s.d. on P/E basis sustaining from June'20 for the first time over the past two decades and rendering it to be an ineffective factor for gauging forward returns. While on the 'asset approach' the P/B continued to be below the long term average mark right upto Dec'20 starting from Mar'20 and turned out to be a much better valuation metric for predicting future returns.**
- As explained in our earlier note (link), **rising risk appetite of investors and sharp rise in stock price are reducing the expected returns from equities. Our NIFTY50 target is 17,800.** We are OW on Banks, Industrials, Telecom, Utilities, Insurance and Cement.
  - **Top picks: *Large caps:*** HDFC Bank, SBI, HDFC Life, Bharti Airtel, Tata Motors, Motherson Sumi, Hindalco, NTPC, Ultratech Cement, ONGC
  - ***Mid & Small caps***: Tata Communications, Hindustan Aeronautics, Oil India, CESC, Alkem Laboratories, TVS Motors, INOX, TCI Express

…Contd.

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- **Investment rate and exports manufacturing continue to drive Q1FY22 GDP growth which is relevant for sectors driven by the 'asset approach' of valuations, while RoE is improving due to sharp increase in profitability of capital intensive sectors:**
  - Bulk of economic recovery since Q4FY21 has been driven by 'asset creation' or 'investment rate' which touched 32% in Q1FY22 and manufacturing in the exports segment. Investments from new age economy sectors to further augment the investment rate.
  - On the other hand, domestic consumption (PFCE) and contact intensive services sector associated with the 'income approach' of valuations continued to struggle.
  - PAT to GDP rose to 3.1% in FY21, which was the highest in seven years thereby, improving the RoE of the NIFTY50 index which is expected to move into positive EVA zone (RoE of 15%) over FY21-23 largely driven by improvement in profitability of capital intensive sectors such as metals, utilities, telecom, industrials, banks and discretionary consumption.
- **High frequency indicators for Aug'21 indicate growth continuing MoM but the pace of expansion slowing down:**
  - Global PMI-manufacturing lost momentum at 54.1 in Aug'21largely reflecting slower expansion in advanced economics and contraction in Asia with India being an exception.
  - India PMI-manufacturing remained in expansion mode at 52.3 but the pace of expansion dipped as compared to July. Similar trend was seen in GST collections which dipped marginally to reach Rs1.12trn. PMI-services however showed a sharp uptick at 56.7.
  - Auto sales were sluggish with MoM growth drop or marginal increase across two wheelers and PVs. CVs also showed similar trends with the exception of LCVs which showed improvement in MoM growth.
  - Power consumption remained robust at 129.5bn units and well above the pre-pandemic period. Fuel demand though remained patchy with petrol demand rising and diesel demand falling.
  - Daily new covid cases for India remained around the 40k mark and daily deaths at around 500. Vaccination coverage for India improved with 37.1% of the population (515mn) administered with at least one dose of the vaccine and daily vaccinations reaching a record 10mn per day.

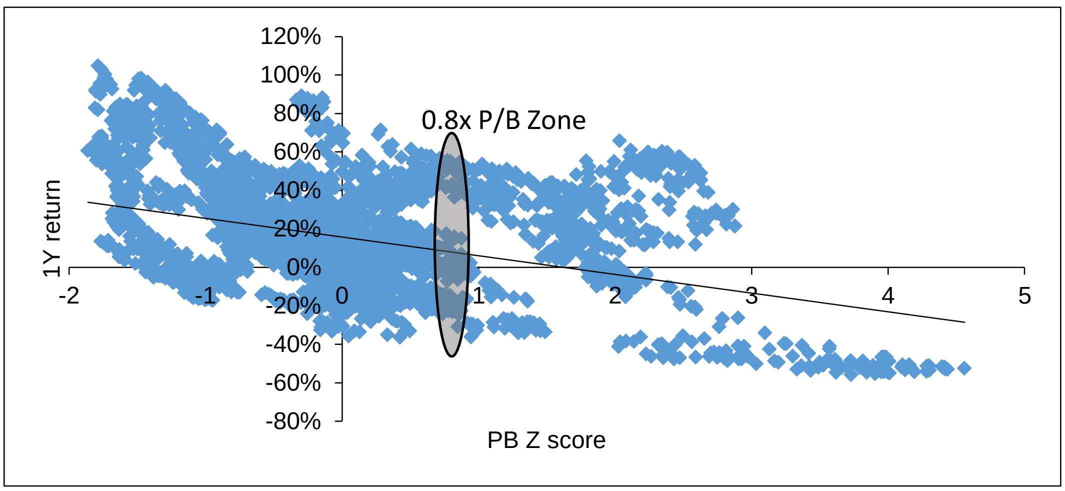
Story in charts

NIFTY50 index is currently trading at relatively reasonable valuations of + 0.77 s.d. on P/B basis (3.6x) largely driven by cheaper valuations of capital intensive sectors.

Back testing for the past 20 years, the average one year forward returns for the NIFTY50 have been around +7% from similar levels of P/B

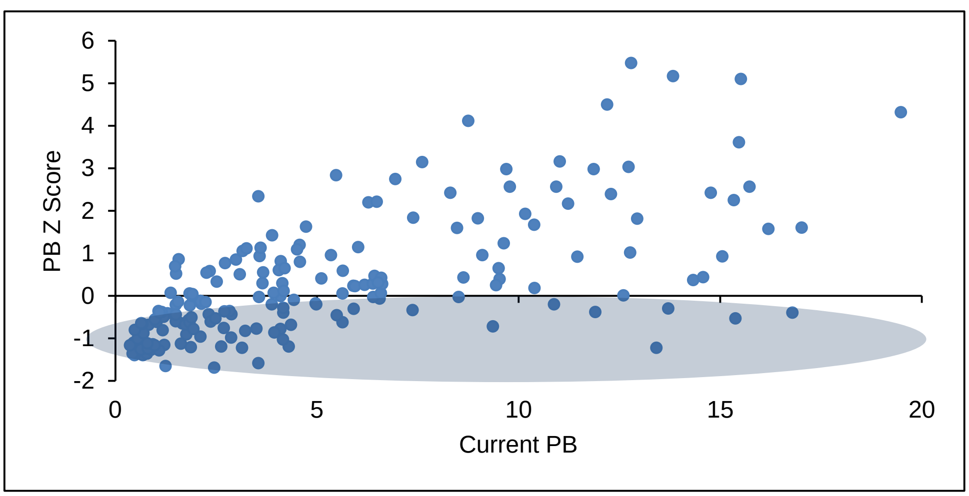
Average positive one year forward returns for NIFTY50 have been around +26.9% from similar P/B levels seen in FY04-06, with conditions of improving EVA (FY04-06: RoE rose from 18% to 25%) and rising investment rate driven GDP growth. On the flip side, the risk of a drawdown from such levels of P/B is an average fall of around 14.7% accompanied by declining economic growth, falling investment rate and declining RoE trend seen during FY11-12.

Chart 1: Correlation between PB Z-scores and Forward returns



Source: Bloomberg, I-Sec Research

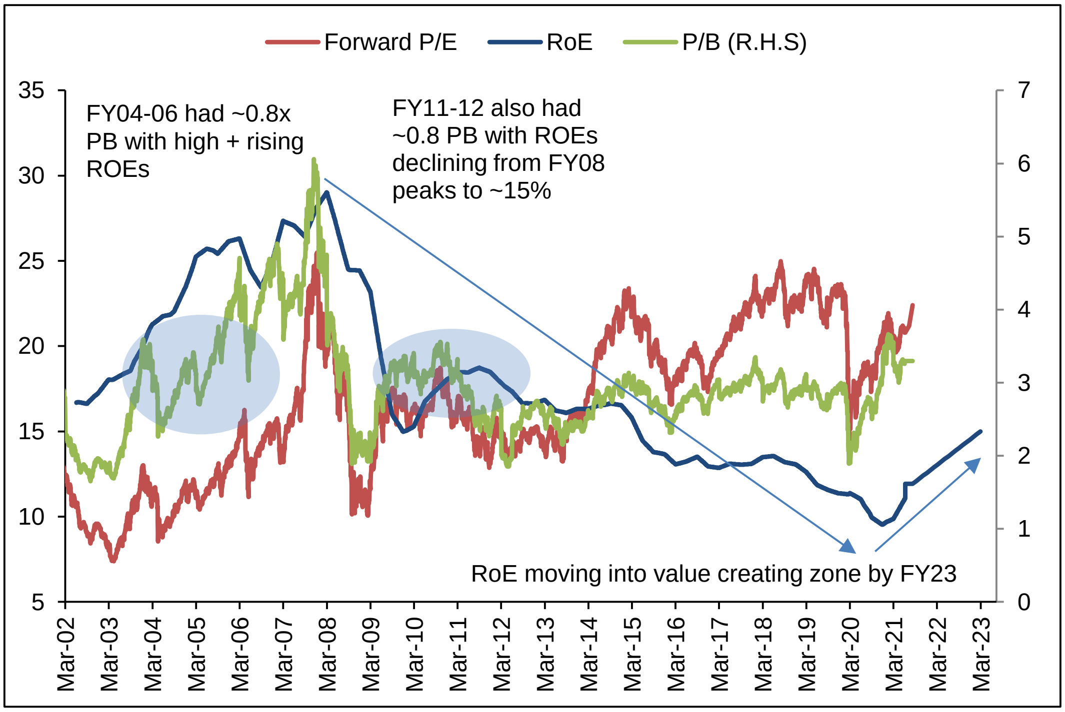
Chart 2: Currently 46% of NSE200 stocks have PB Z score below ‘0’



Source: Bloomberg, Capitaline, I-Sec Research

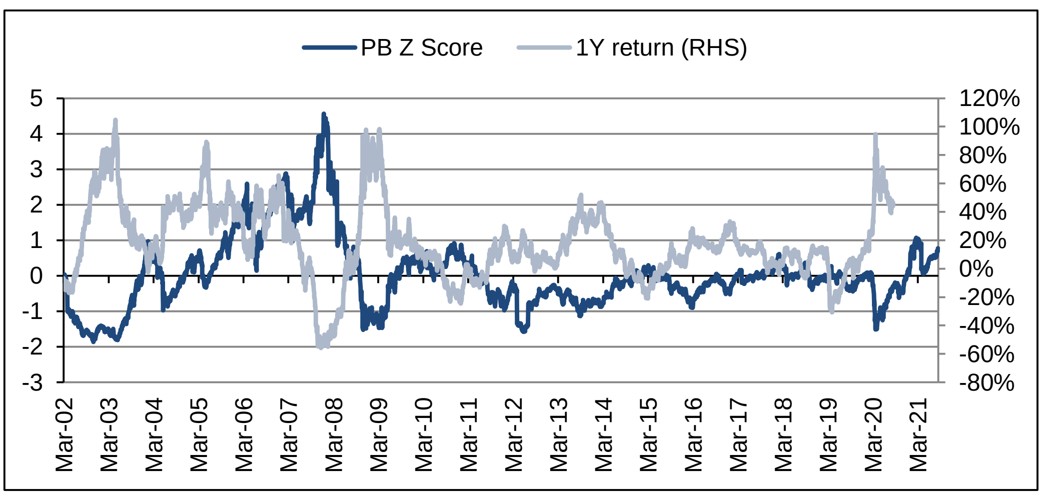
Augmenting the picture further, existing assets are expected to improve their productivity or EVA (Economic value added) in the form of improving RoEs from around 10.5% in FY20 to 15% in FY23 largely led by capital intensive and cyclical stocks.

Chart 3: Nifty50 ROE expected to bounce back to 15% in FY23



Note: Forward P/E is on ex-post basis, i.e. using actual forward EPS for historical data and current forward estimates for recent PE values.
Source: Bloomberg, I-Sec Research

Chart 4: PB Z score and forward returns



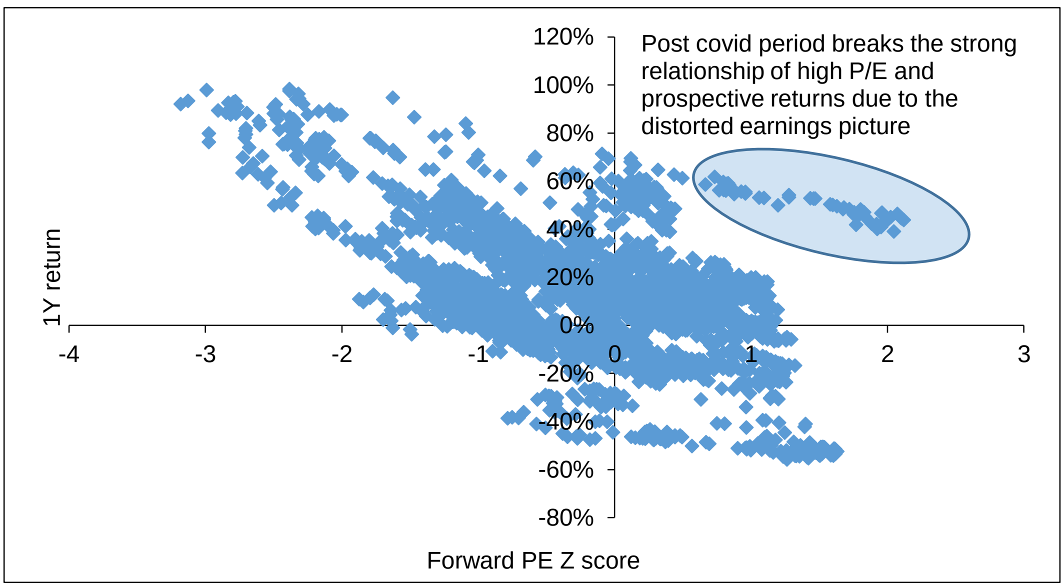
Source: Bloomberg, I-Sec Research

Valuation by 'income approach' distorted as RoE (12%) and PAT/GDP (3.1 %) in FY21 rising from the lowest levels in past two decades compared to the 2008 peak levels of 29% and 6.4% respectively

On the income approach (P/E basis) the NIFTY50 is at 22.4x (+1.4sd) and approaching pre-GFC level reached in Nov'07. Our back test over the past two decades in the pre-covid era indicates largely negative one year forward returns from above +1s.d. levels but currently we note two major distortions on this front:

- Record high valuations of low volatility, high RoE and growth stocks (**Discretionary consumption, Staples, new age NBFCs, Insurance, Healthcare and IT**) further flaring up selectively due to the impact of covid on profitability and slowdown in domestic consumption which is reflected in weak PFCE and services sectors within Q1FY22 GDP.
- Relatively weak profitability (RoE) of certain capital intensive and cyclical sectors is inflating their P/Es (**Telecom, Industrials, Auto**). However, segments which appear significantly cheap relative to the index on the income approach are largely from the capital intensive sectors (**Metals, Utilities, PSU bank, Energy, Tobacco, and Coal**)

Chart 5: Strong relationship of high P/E and negative prospective returns breaks down post covid



Source: Bloomberg, I-Sec Research

Table 1: Sectorwise distortion in PE based valuations

Sector	Weight	RoE FY21	RoE FY22	P/B	P/E -FY22	Earnings yield
Cons. Disc.	3.0	23%	27%	21.23	78.34	1.3
Financial Services	5.2	16%	17%	10.65	61.1	1.6
Cons. Staples	5.2	64%	54%	31.02	57.3	1.7
Telecom	1.9	-11%	9%	5.23	56.9	1.8
Cement	1.8	16%	16%	5.80	36.2	2.8
Healthcare	3.7	17%	18%	6.63	33.3	3.0
Auto	5.0	11%	15%	3.64	27.6	3.6
IT	17.5	27%	28%	7.55	25.9	3.9
Housing NBFC	6.4	15%	11%	2.81	24.6	4.1
Industrials	3.7	14%	10%	2.26	23.8	4.2

Depressed earnings

Above average P / E

Below average P / E

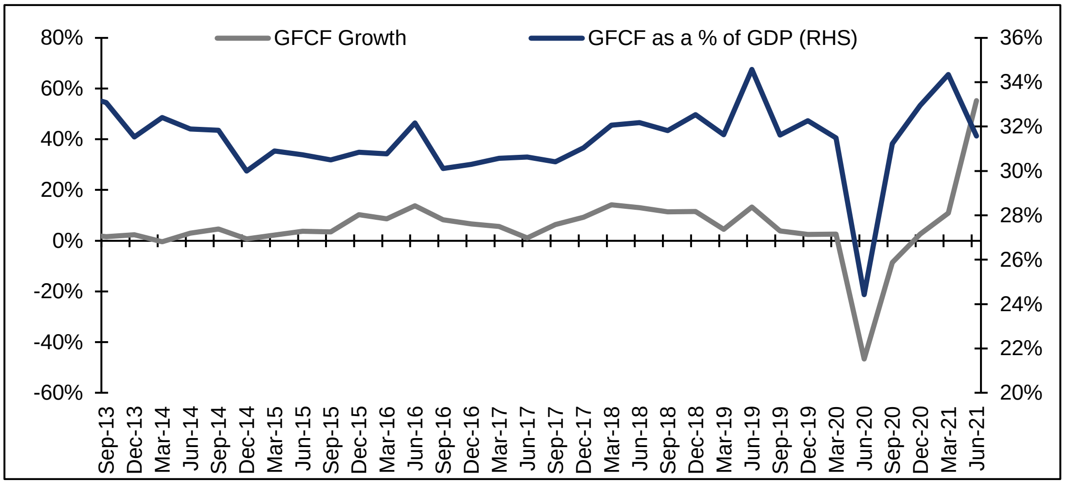
Sector	Weight	RoE FY21	RoE FY22	P/B	P/E -FY22	Earnings yield
Private banks	23.1	13%	14%	2.89	21.0	4.8
Transportation	0.7	20%	22%	4.50	20.9	4.8
Tobacco	2.6	20%	26%	4.18	16.2	6.2
Energy	11.2	18%	13%	1.35	11.9	8.4
PSU Banks	2.4	9%	14%	1.40	10.2	9.8
Utilities	1.7	17%	15%	1.31	8.4	11.9
Metals	3.6	13%	35%	2.54	7.9	12.6
Coal	0.4	39%	39%	2.42	6.2	16.1

Deep value; EY >=BY

Note: EY is Earnings yield and BY is Bond yield
Sector level numbers are simple average of constituent stocks
Source: Capitaline, Bloomberg, I-sec Research

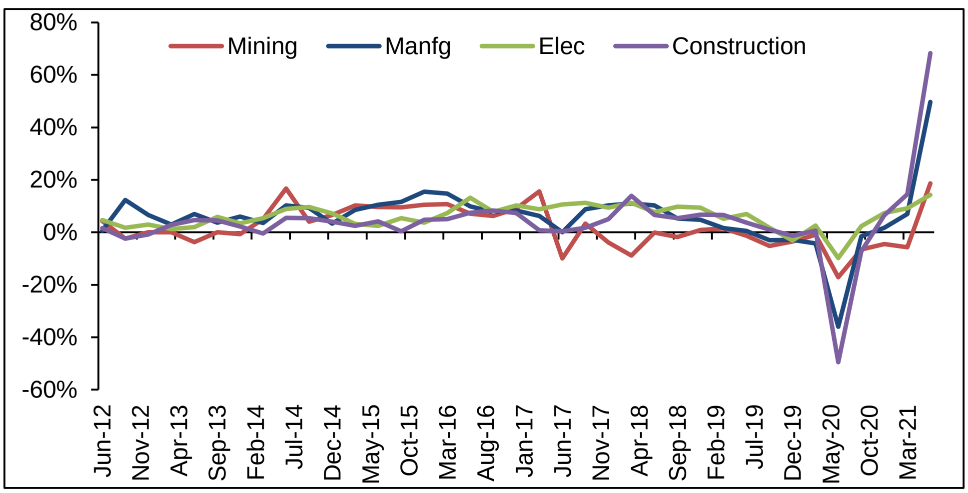
- Investment rate and exports manufacturing continue to drive Q1FY22 GDP growth which is relevant for sectors driven by the 'asset approach' of valuations, while RoE is improving due to sharp increase in profitability of capital intensive sectors

Chart 6: Improving investment rate propping up GDP revival



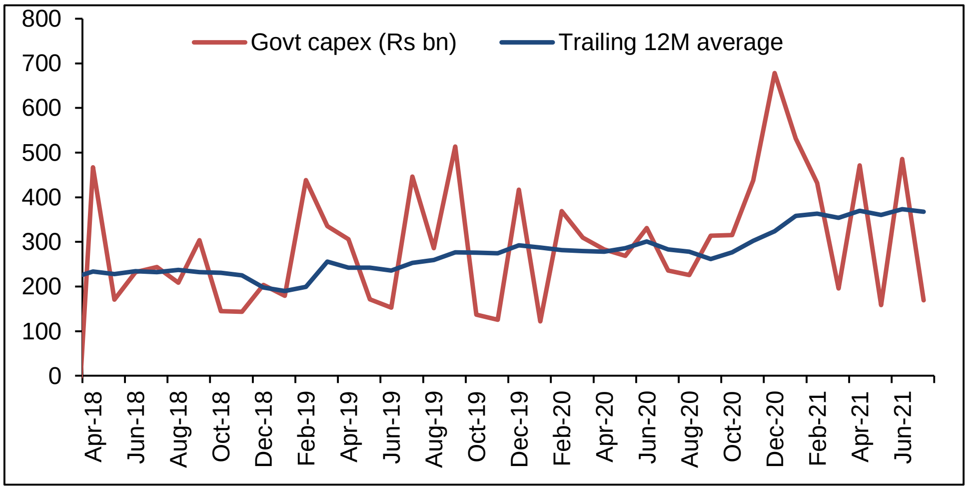
Source: CEIC, I-Sec Research

Chart 7: Growth of industrial sectors within the GDP



Source: CEIC, I-Sec research

Chart 8: Capex spends by the central government trending up – they're up 15% YoY in FY22TD



Source: CEIC, I-Sec research

Chart 9: Global growth outlook remains robust

(real GDP, annual percent change)	2020	2021	2022
Emerging Market and Developing Economies	-2.1	6.3	5.2
Emerging and Developing Asia	-0.9	7.5	6.4
China	2.3	8.1	5.7
India	-7.3	9.5	8.5
ASEAN-5	-3.4	4.3	6.3
Emerging and Developing Europe	-2.0	4.9	3.6
Russia	-3.0	4.4	3.1
Latin America and the Caribbean	-7.0	5.8	3.2
Brazil	-4.1	5.3	1.9
Mexico	-8.3	6.3	4.2
Middle East and Central Asia	-2.6	4.0	3.7
Saudi Arabia	-4.1	2.4	4.8
Sub-Saharan Africa	-1.8	3.4	4.1
Nigeria	-1.8	2.5	2.6
South Africa	-7.0	4.0	2.2
Memorandum			
Emerging Market and Middle-Income Economies	-2.3	6.5	5.2
Low-Income Developing Countries	0.2	3.9	5.5

Source: IMF, *World Economic Outlook Update*, July 2021

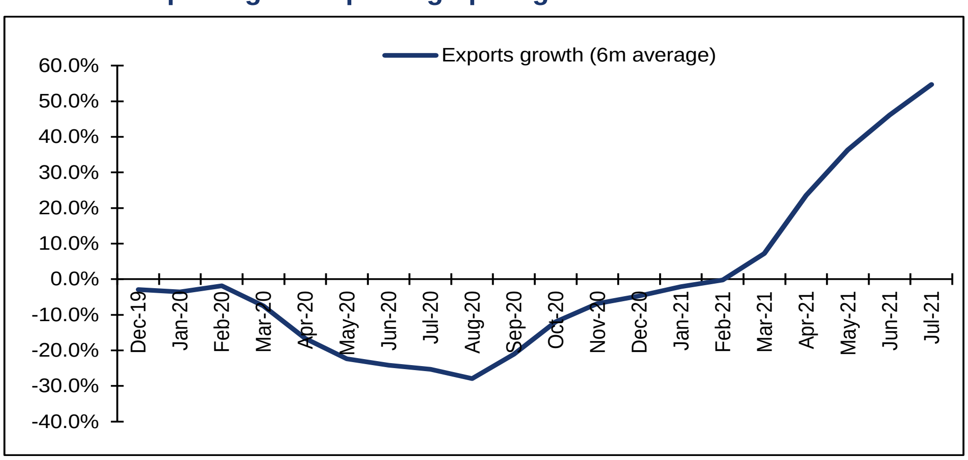
Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2020/2021 starting in April 2020. For the July 2021 WEO, India's growth projections are 8.8 percent in 2021 and 8.3 percent in 2022 based on calendar year.

(real GDP, annual percent change)	2020	2021	2022
Advanced Economies	-4.6	5.6	4.4
United States	-3.5	7.0	4.9
Euro Area	-6.5	4.6	4.3
Germany	-4.8	3.6	4.1
France	-8.0	5.8	4.2
Italy	-8.9	4.9	4.2
Spain	-10.8	6.2	5.8
Japan	-4.7	2.8	3.0
United Kingdom	-9.8	7.0	4.8
Canada	-5.3	6.3	4.5
Other Advanced Economies	-2.0	4.9	3.6

Source: IMF, *World Economic Outlook Update*, July 2021

Source: IMF WEO

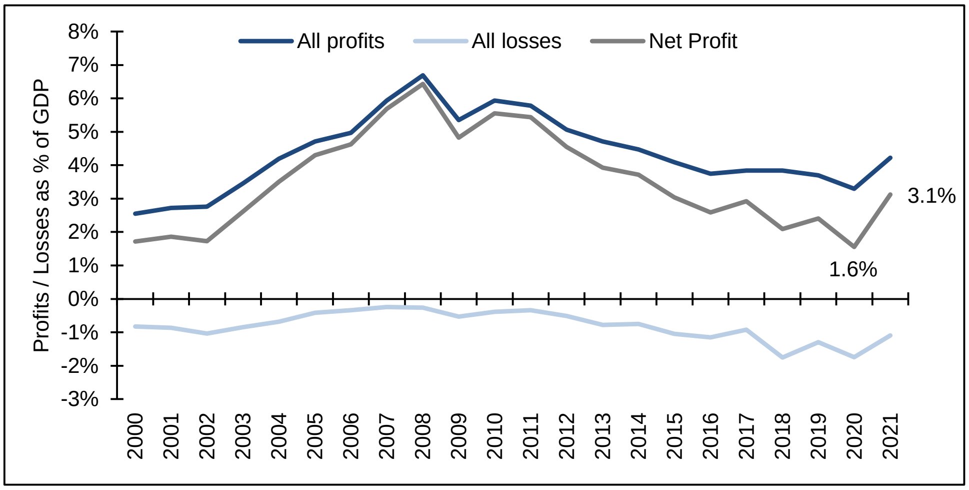
Chart 10: Exports growth picking up as global demand rises from DMs



Source: CEIC, I-Sec Research

- **PAT to GDP indicating similar trends of rising profitability of cyclicals in FY21…**

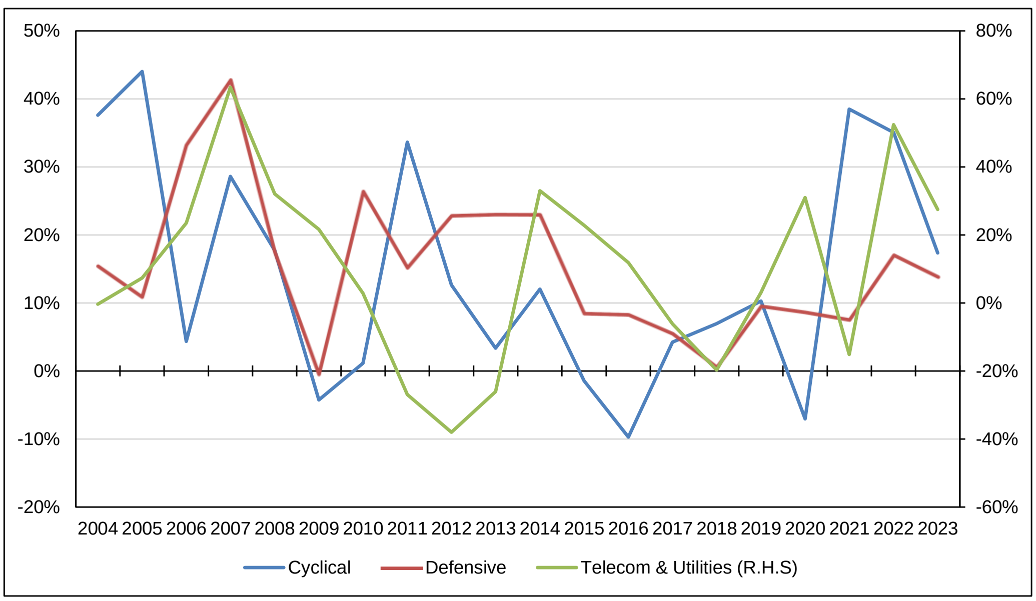
Chart 11: Listed India PAT to GDP coming off two decade lows



Source: Capitaline, CEIC, I-Sec Research

- **…which is expected to continue in FY21-23 - Cyclicals driving 'look through earnings' of NIFTY50 index**

Chart 12: PAT growth among Nifty50 broad sectors



Source: Capitaline, Bloomberg, I-Sec Research

High frequency indicators for Aug'21 indicate growth continuing MoM but the pace of expansion slowing down

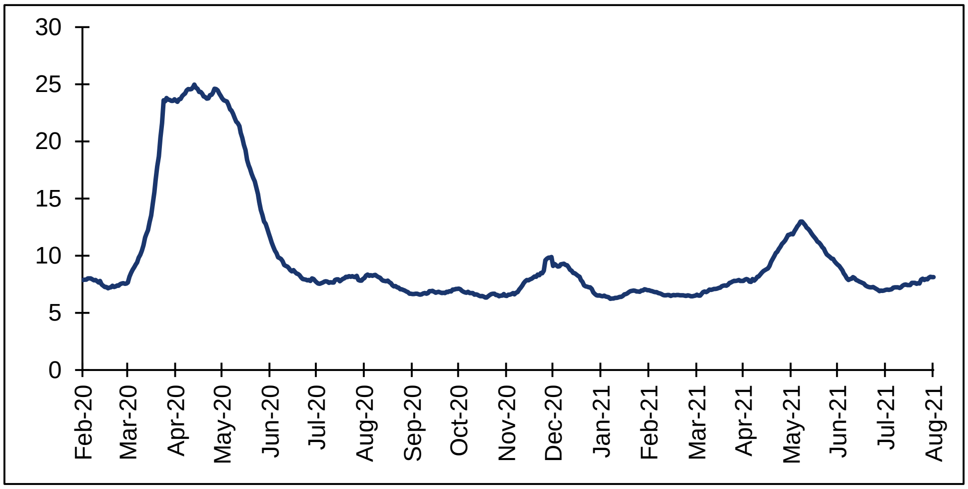
- PMI- manufacturing remained in expansion mode at 52.3 in Aug'21 but the pace of expansion dipped as compared to July. Similar trend was seen in GST collections which dipped marginally to reach Rs1.12trn.
- Auto sales were sluggish with MoM growth drop or marginal increase across two wheelers and PVs. CVs also showed similar trends with the exception of LCVs which showed improvement in MoM growth.
- Power consumption remained robust at 129.5bn units and well above the pre-pandemic period. Fuel demand though remained patchy with petrol demand rising and diesel demand falling.
- Daily new covid cases for India remained around the 40k mark and daily deaths at around 500. Vaccination coverage for India improved with 37.1% of the population (501 mn) administered with at least one dose of the vaccine and daily vaccinations reaching a record 10 mn per day.

Table 2: India high frequency data showing signs of recovery

Consumption Indicator	**Jan-21**	**Feb-21**	**Mar-21**	**Apr-21**	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**
Personal Loan growth	9%	10%	10%	13%	12%	12%	11%	NA
4W growth	11.1%	17.9%	115.2%	NM	162.5%	119.3%	44.7%	NA
2W growth	6.6%	10.2%	72.7%	NM	26.1%	4.0%	-2.1%	NA
IIP - Primary Goods.	0.7%	-4.6%	7.9%	36.8%	15.8%	12.0%	NA	NA
IIP Consumer Goods Durables	-0.1%	6.6%	59.9%	1880.0%	91.9%	30.1%	NA	NA
IIP Consumer Goods Non Durables	-5.4%	-3.8%	29.2%	94.9%	1.4%	-4.5%	NA	NA
Petrol Consumption	6.3%	-1.9%	27.1%	145.3%	12.5%	5.6%	16.4%	NA
Nikkei India Services PMI	52.80	55.30	54.60	54.00	46.40	41.20	45.40	56.7
CPI	4.06%	5.03%	5.52%	4.23%	6.30%	6.26%	5.59%	NA
Passenger - all airports	-46.6%	-42.9%	-3.4%	20042.1%	564.3%	51.7%	125.8%	NA
Foreign tourist arrivals	NA	NA	NA	NA	NA	NA	NA	NA
GST Collections (Rs bn)	1,198	1,131	1,239	1,414	1,027	928	1,163	1,120
Consumer confidence index	55.50	NA	53.12	NA	48.52	NA	48.63	NA
	Sep-19	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**	**Jun-21**
Private final consumption exp real	6.50%	6.42%	1.98%	-26.18%	-11.19%	-2.80%	2.66%	19.34%
Industrial Indicator	**Jan-21**	**Feb-21**	**Mar-21**	**Apr-21**	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**
Overall credit growth (fortnightly)	7.0%	6.6%	5.6%	5.7%	6.0%	5.8%	6.8%	6.6%
Industry loan growth	-1.28%	-0.24%	0.51%	0.40%	0.78%	-0.27%	1.04%	NA
CV growth	NA	NA	NA	NA	NA	NA	NA	NA
Thermal plant Load factor	61.10	63.32	66.64	66.56	54.42	55.04	56.73	NA
IIP growth	-0.6%	-3.2%	24.2%	134.6%	28.6%	13.6%	NA	NA
Core sector growth (%)	1.29	-3.28	12.58	62.60	16.29	9.34	9.39	NA
Diesel Consumption	-1.88%	-8.38%	27.82%	105.44%	0.83%	-1.50%	11.46%	NA
Power demand	4.5%	-0.4%	22.0%	38.2%	6.3%	8.4%	10.6%	17.1%
IIP Capital Goods	-9.0%	-4.2%	50.4%	1042.9%	78.2%	25.7%	NA	NA
Nikkei India manufacturing PMI	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3
WPI Commodity price index	2.51%	4.83%	7.89%	10.74%	13.11%	12.07%	11.16%	NA
Cargo - Air	-11.00%	-8.55%	34.20%	445.34%	150.92%	45.58%	35.16%	NA
Cargo - all ports	4.0%	1.9%	16.4%	29.5%	33.0%	19.5%	6.7%	NA
Freight traffic - railways	11.09%	7.77%	33.04%	86.88%	55.73%	27.09%	21.45%	NA
Import Growth (%)	1.96%	6.97%	53.81%	167.64%	68.68%	98.31%	62.98%	NA
Export growth (%)	6.44%	-0.48%	61.52%	201.99%	68.12%	48.34%	49.87%	NA
Trade Deficit (USD bn)	-14.44	-12.94	-13.70	-15.04	-6.28	-9.37	-10.97	NA
Industrial Indicator	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**	**Jun-21**
Capacity utilisation	69.10	68.60	69.90	47.30	63.30	66.60	69.40	NA
GFCF	3.90%	2.43%	2.54%	-46.60%	-8.55%	2.59%	10.85%	55.26%

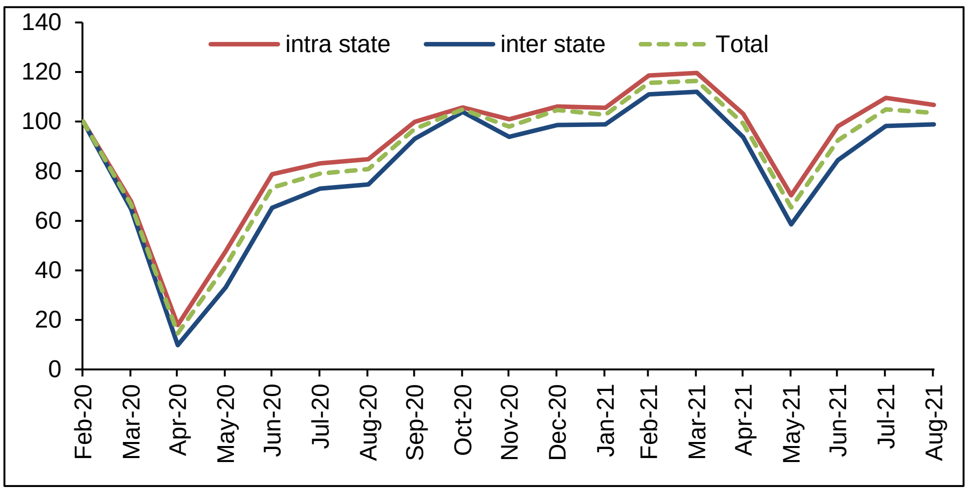
Source: CEIC, Bloomberg, I-sec Research

Chart 13: Unemployment numbers peaked in early-June (%)



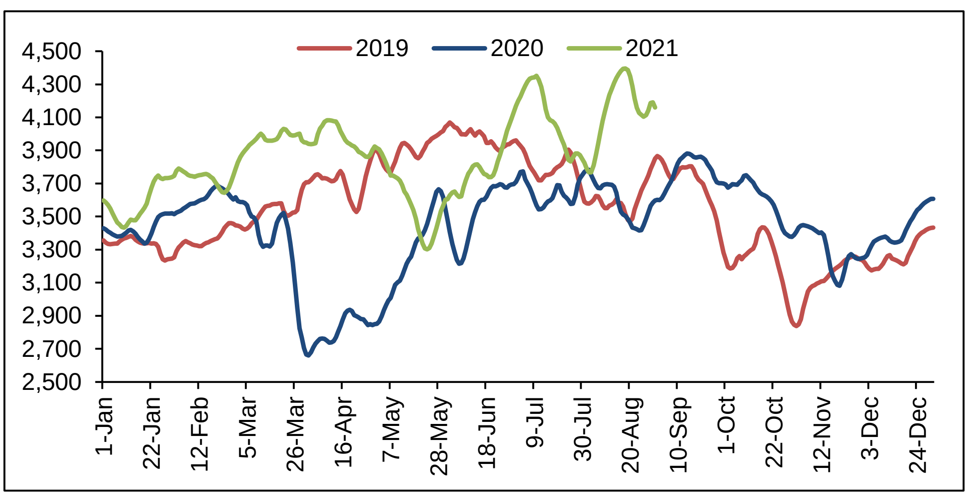
Source: CMIE

Chart 14: Aug'21 saw some moderation in eway bill generation



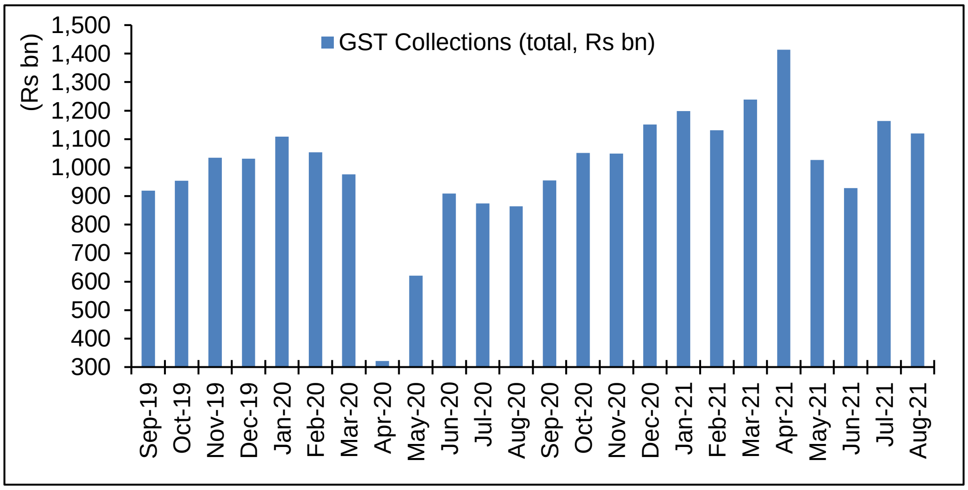
Note: Above numbers are indexed to Feb'20 daily average.
Source: GSTN, I-sec research

Chart 15: 7D avg power demand stable at ~4,200Mu



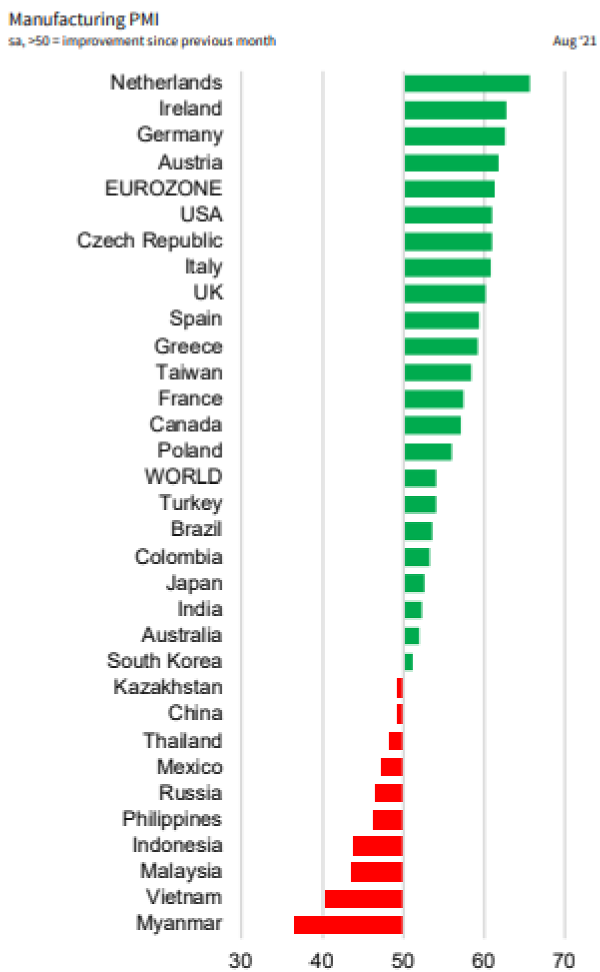
Source: RBI, CEIC, I-sec research

Chart 16: GST collections for Aug'21, reflecting activity in Jul'21 remained above Rs1trn



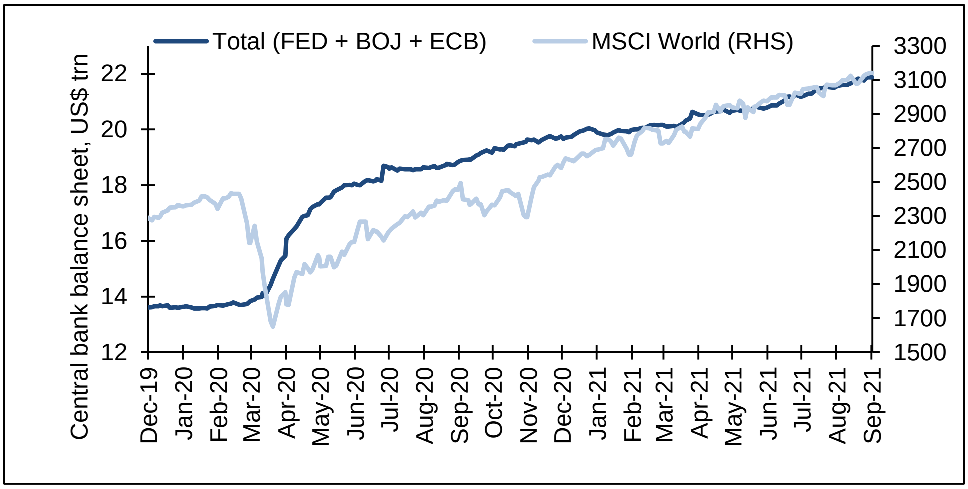
Source: Bloomberg, I-Sec research

Chart 17: DMs reviving earlier than EMs due to better vaccination coverage and much larger direct fiscal stimulus. PMI in expansion territory for most DMs as compared to EMS; India outperforms in August



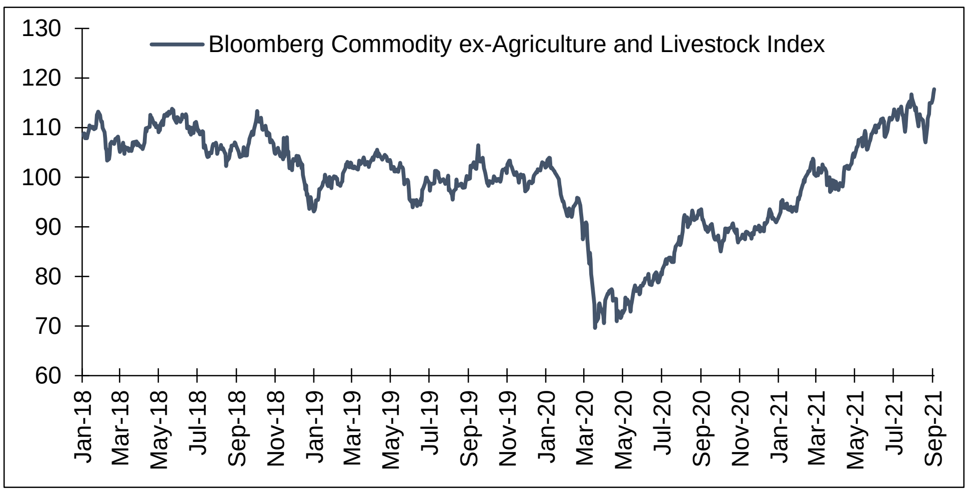
Source: Nikkei PMI

Chart 18: Central bank balance sheet driven liquidity infusion continues



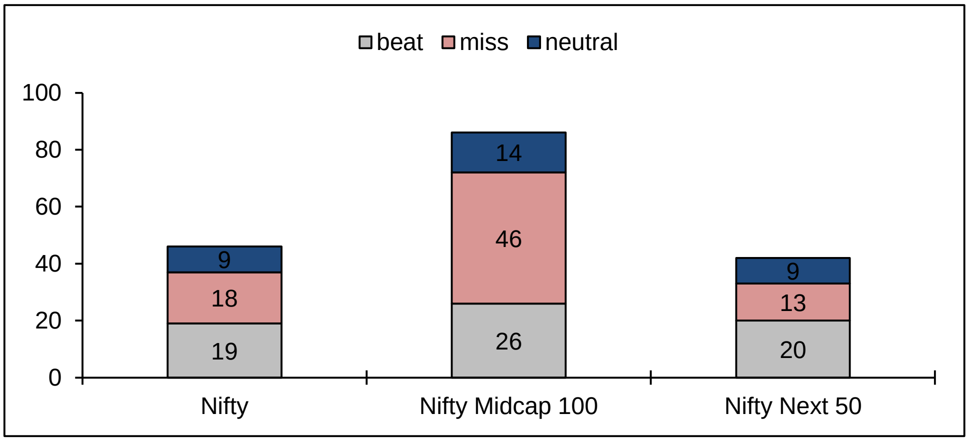
Source: CEIC, Bloomberg, I-Sec Research

Chart 19: Commodities have been firming up since May'20, improving commodities led capex demand



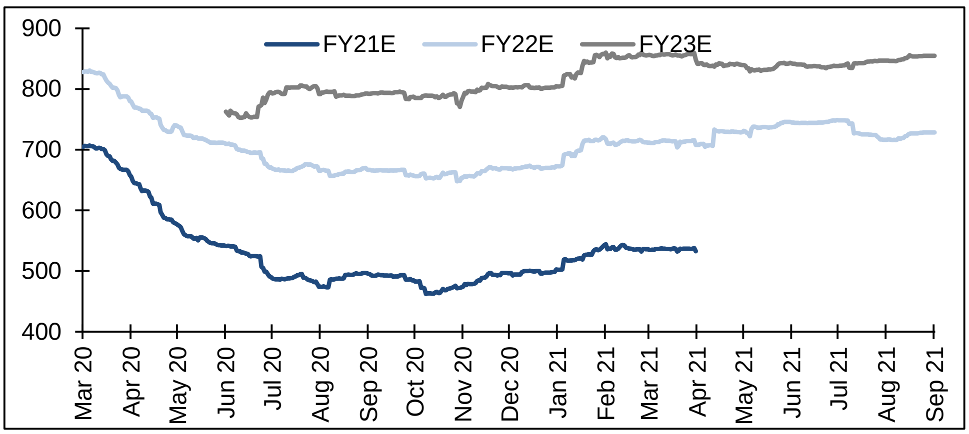
Source: Bloomberg, I-sec research

Chart 20: Earnings Beat-miss in Q1FY22



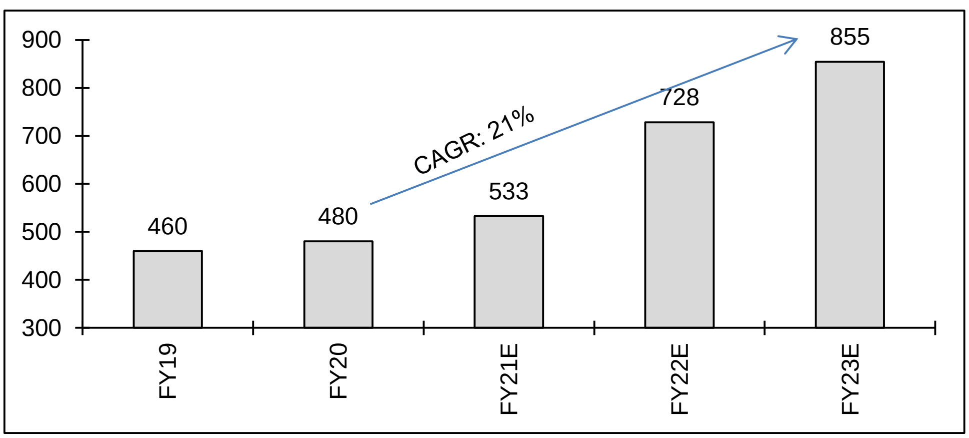
Source: Capitaline, Bloomberg, I-Sec Research

Chart 21: Nifty50 EPS trend



Source: Bloomberg, I-Sec Research

Chart 22: Nifty50 EPS expected to grow at a CAGR of 21% over FY20-23



Source: Bloomberg, I-Sec research

Table 3: 'Look through earnings' of NSE 200 index portfolio

(Free float, Rs bn)

	Sales			EBITDA			PAT			PAT (incl. financials)		
	Q1FY21	Q1FY22	YoY	Q1FY21	Q1FY22	YoY	Q1FY21	Q1FY22	YoY	Q1FY21	Q1FY22	YoY
Nifty	3,105	4,857	56%	534	920	72%	88	444	404%	245	653	166%
Next50	639	1,006	57%	103	164	60%	39	84	118%	49	94	92%
Midcap100	493	737	50%	85	165	94%	-60	51	-185%	-22	85	-495%
Nifty 200	**4,237**	**6,600**	**56%**	**722**	**1,250**	**73%**	**66**	**579**	**771%**	**273**	**832**	**205%**

Source: Capitaline, I-Sec Research

Table 4: Sectoral earnings from QFY22 results

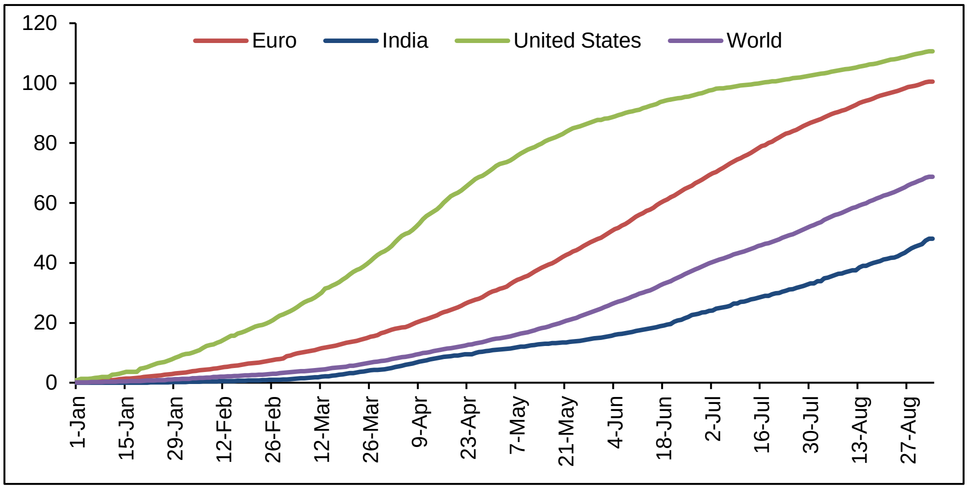
(Free float, Rs bn)

	Sales			EBITDA			PAT			Earnings vs consensus		
Sector	**Q1FY21**	**Q1FY22**	**YoY**	**Q1FY21**	**Q1FY22**	**YoY**	**Q1FY21**	**Q1FY22**	**YoY**	**beat**	**neutral**	**Miss**
Agriculture	78	86	10.5%	16	17	9.1%	6	9	48.2%	2	0	2
Auto Ancillaries	55	91	64.9%	6	12	110.4%	0	5	2689.6%	1	2	2
Automotives	284	639	125.2%	6	58	900.2%	-44	-4	loss maker	2	3	4
Aviation	2	8	292.2%	-4	-4	loss maker	-7	-7	loss maker	0	0	1
Building Material	3	6	120.6%	0	1	309.9%	0	1	721.8%	0	1	0
Capital Goods	200	282	41.1%	10	29	184.4%	-6	8	LtoP	0	0	4
Cement	91	145	59.6%	21	38	83.2%	8	20	147.1%	4	0	2
Cigarettes	63	87	37.1%	19	28	50.8%	17	21	28.6%	0	0	1
Defense	12	12	-5.1%	2	1	-39.1%	1	1	7.3%	0	0	2
Discretionary	87	157	81.3%	3	15	332.4%	-4	4	LtoP	6	2	13
FMCG	122	140	15.0%	27	28	4.4%	18	19	1.3%	1	4	4
Logistics	14	25	80.4%	7	11	55.8%	3	6	100.8%	1	0	0
Media	14	19	35.1%	3	5	44.2%	1	3	217.2%	0	1	1
Metals	506	988	95.0%	47	284	500.1%	-29	163	LtoP	6	2	1
Oil & Gas	1,478	2,458	66.3%	189	272	44.3%	82	143	75.2%	9	2	2
Paints	16	31	91.4%	3	5	95.5%	1	3	184.0%	0	1	1
Pharma	265	319	20.1%	66	79	19.9%	33	45	35.3%	10	4	8
Power/Mining	244	290	18.9%	108	134	23.8%	36	42	17.5%	0	0	3
Real Estate	7	9	40.3%	2	2	59.1%	0	1	LtoP	0	0	4
Speciality Chemicals	29	41	43.2%	3	5	76.1%	2	5	181.0%	3	0	1
Technology	520	613	17.7%	124	153	23.1%	86	106	24.5%	5	6	1
Telecom	152	163	7.0%	66	77	17.3%	-136	-15	loss maker	1	0	2
NBFCs	65	77	17.3%	74	74	0.2%	40	27	-33.3%	1	1	4
Financial Services	150	173	15.3%	62	64	2.8%	35	36	4.4%	2	2	8
Banking	518	623	20.3%	459	496	8.2%	131	190	45.1%	10	2	6
Ex-financials	**4,242**	**6,608**	**55.8%**	**722**	**1,252**	**73.3%**	**67**	**580**	**770.4%**	**51**	**28**	**59**
Total	**4,975**	**7,481**	**50.4%**	**1,317**	**1,886**	**43.2%**	**273**	**833**	**205.4%**	**64**	**33**	**77**

Source: Capitaline, Bloomberg, I-Sec Research

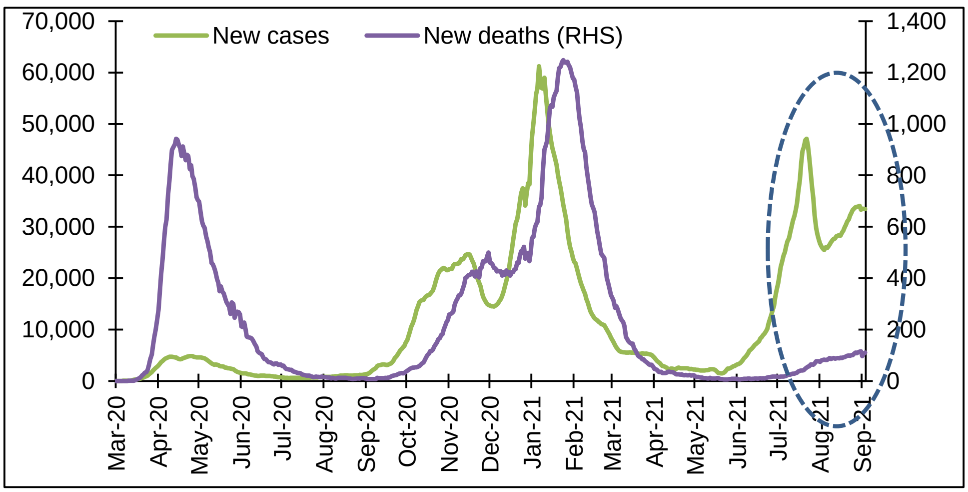
Covid situation monitor

Chart 23: Vaccinations per 100 rising rapidly in DMs



Source: Our World in data, I-Sec research

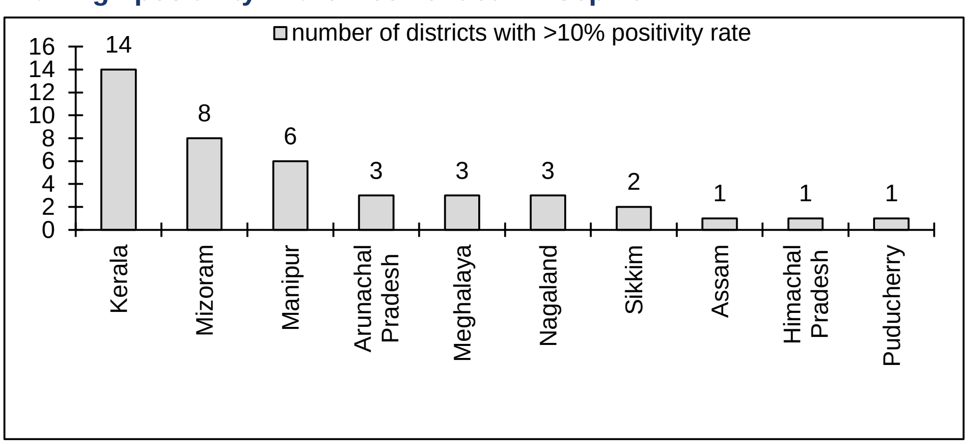
Chart 24: Vaccines work – UK new cases have spiked while deaths are a fraction of the previous waves



Source: Our World in data, I-Sec research

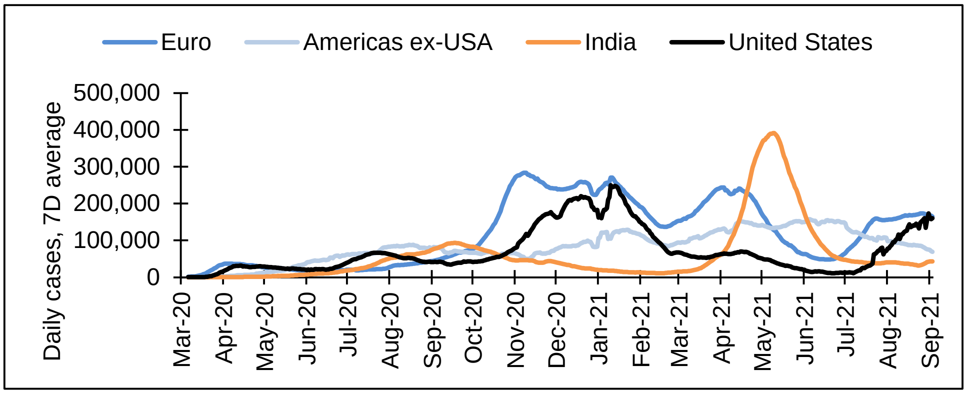
In India, Delta variant of covid virus remains a key concern with latest data indicating 42 districts still showing more than 10% positivity.

Chart 25: Kerala and North-eastern states continue to lead in terms of districts with high positivity in the week ended 4th Sep 2021



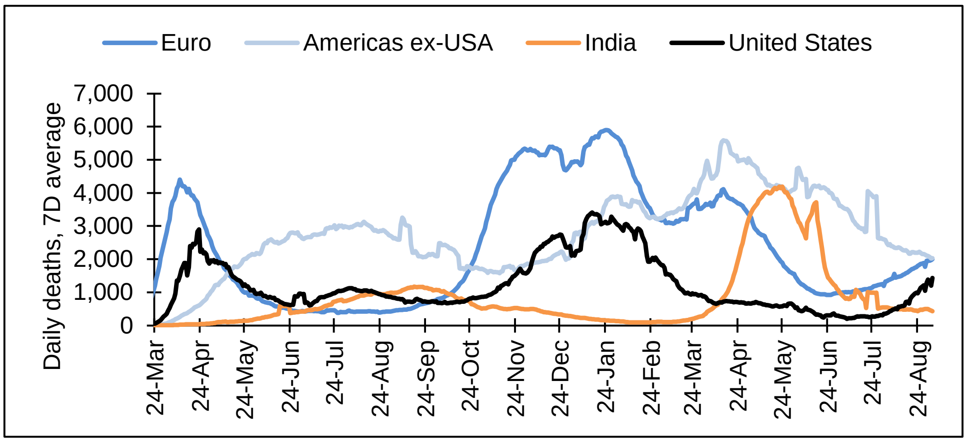
Source: MoHFW, I-Sec Research

Chart 26: Daily cases rise in developed markets…



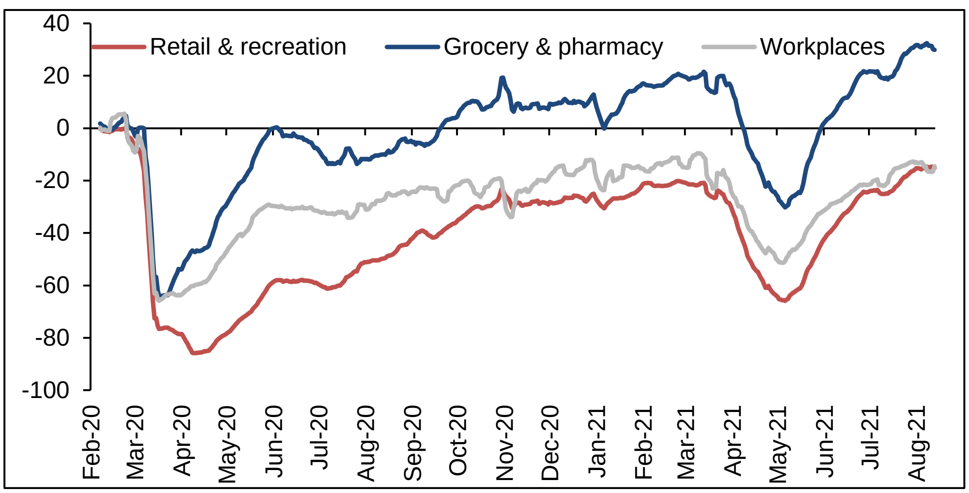
Source: MoHFW, I-Sec Research

Chart 27: …although daily deaths are not rising proportionately



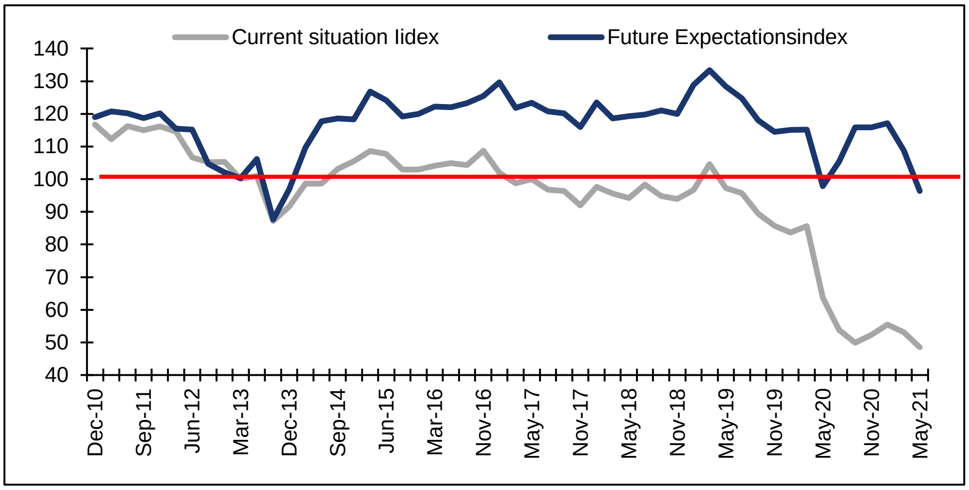
Source: MoHFW, I-Sec Research

Chart 28: Contact intensive sectors will pick up with a lag - Retail and recreation have seen the biggest impact on mobility but have seen significant pickup



Source: Google, I-Sec research

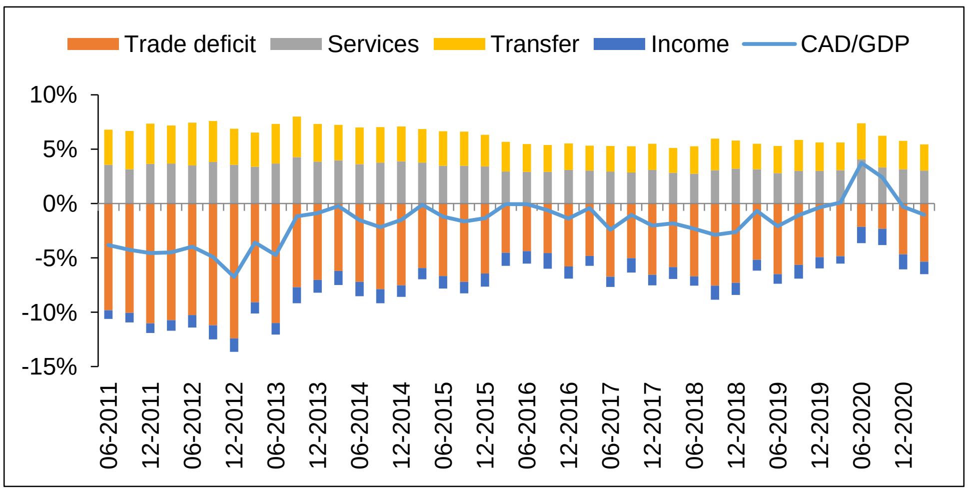
Chart 29: Consumer confidence for future expectations has dipped below 100 again post the second wave – earlier seen during taper tantrum and first wave



Source: RBI, CEIC, I-Sec research

External sector and flows remain comfortable

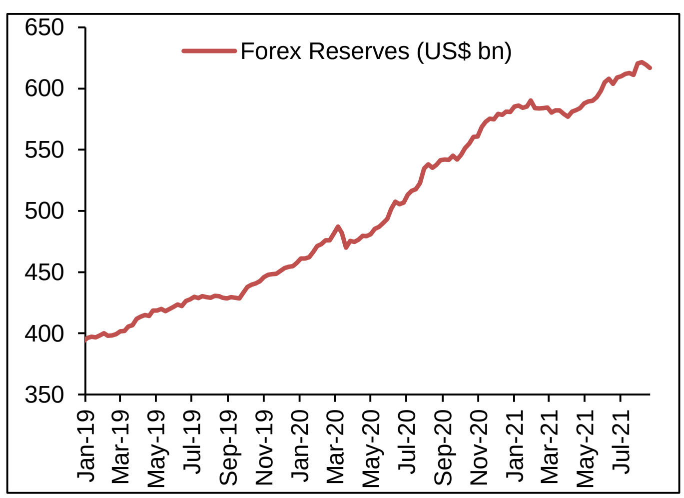
Chart 30: Components of India's Current Account (BOP)



Source: RBI, CEIC, I-sec research

Chart 31: while appreciating sharply, INR stays within the INR73-75/US$ range

Chart 32: High forex reserves lend stability



Source: Bloomberg, CEIC, I-Sec Research

Chart 33: FPI outflows were limited to Apr'21and Jul'21

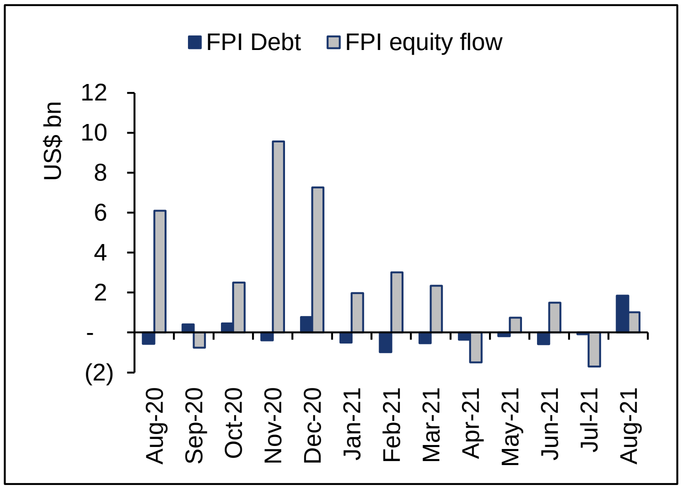


Chart 34: DII flows picking up

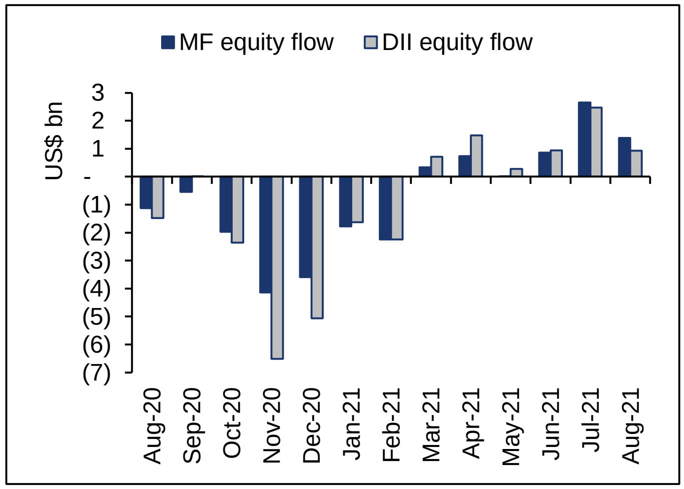


Chart 35: EM Equity flows

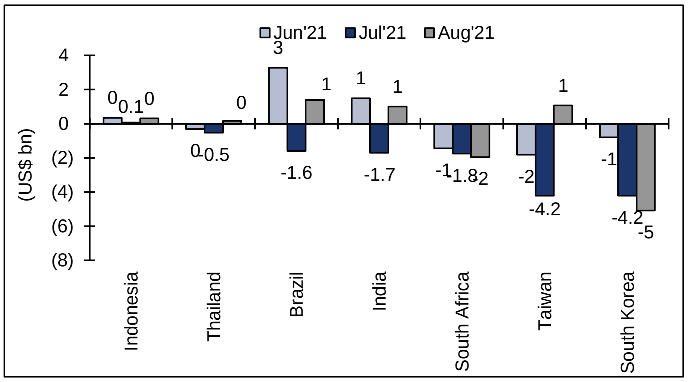
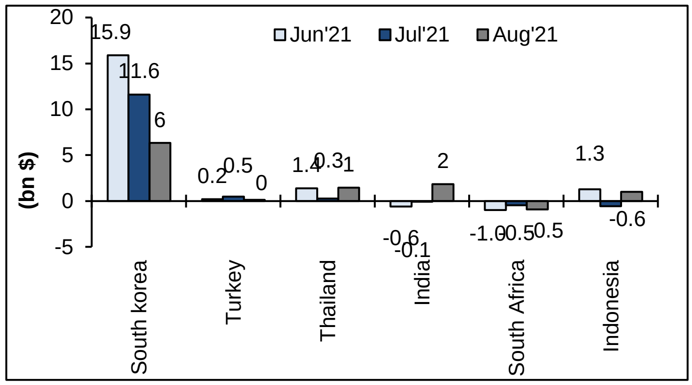


Chart 36: EM Debt flows



Source: Bloomberg, I-Sec research

PE expansion unlikely

Credibility of rolled forward earnings has improved significantly over the past one year given the consistent beats / in-line results vs consensus expectations.

Chart 37: Nifty just above +1SD on forward PE

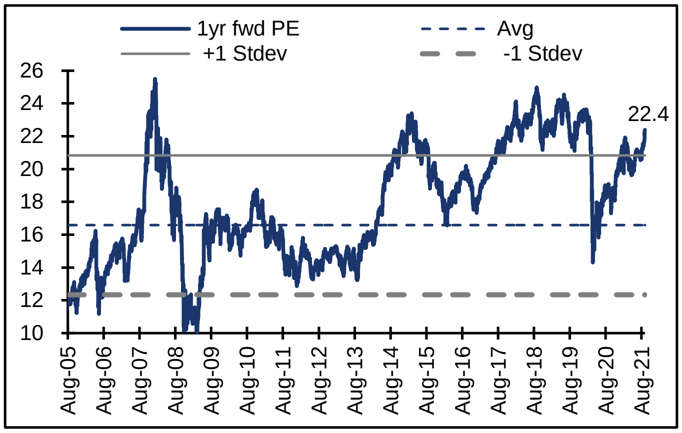


Chart 38: CAPE remains above +2SD

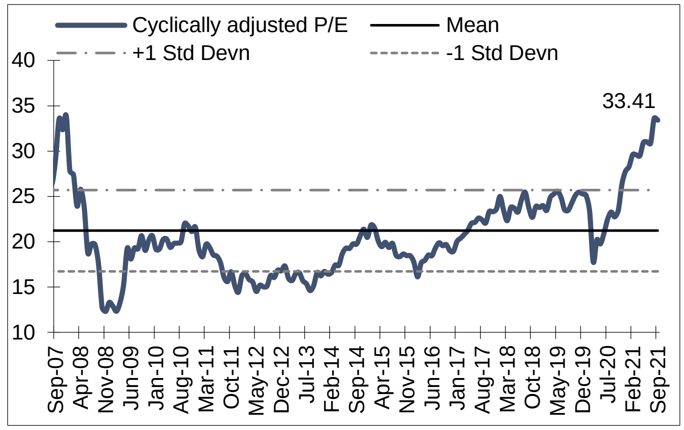


Chart 39: Nifty forward PE (ex-ante)

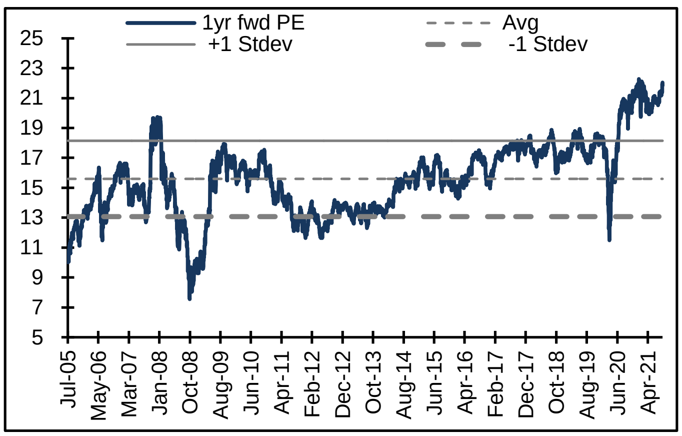


Chart 40: Nifty PB marginally above LTA

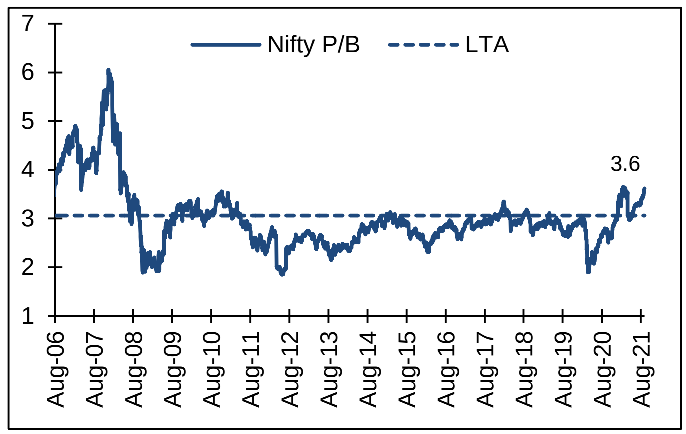


Chart 41: Market cap to GDP above LTA, reflects low trailing GDP

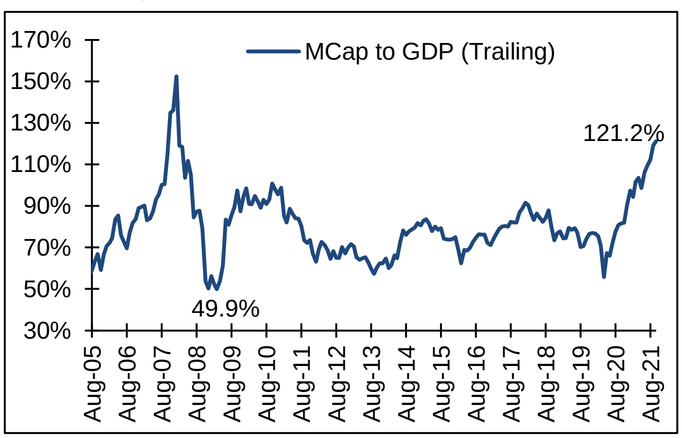
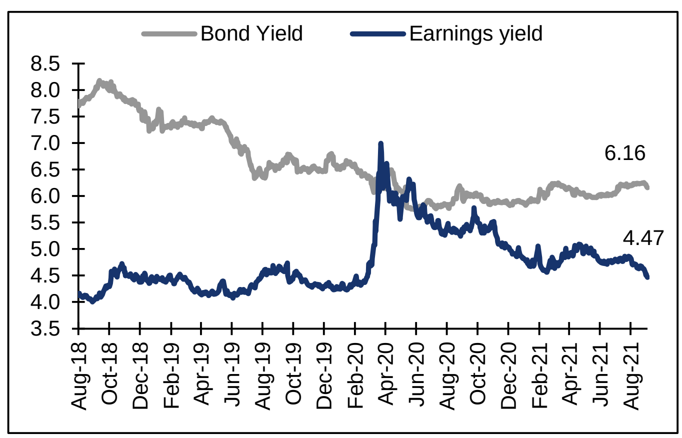


Chart 42: Bond and earnings yield widen



Source: Bloomberg, Capitaline, I-Sec research

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