

India

InCred Sector rating

Overweight	Neutral	Underweight
Aluminum	Automobile	Agribusiness
Cement	Auto Ancillary	Aviation
Consumer Electricals	Building Materials	Chemicals
Capital Goods	Consumer staples	Diagnostics
Electronic Manf services	Information Technology	Metals & Mining
Financial Services	Infrastructure	Ports & Logistics
Oil and Gas	Pharma	

India Strategy

Fed rings the bell for starting rate cut cycle

- Slowdown in economic indicators since the election season persists. Hopes of a rural & festival-led recovery in coming months. Rate cut to help sustain it.
- 1Q EPS growth was driven by sales momentum while the EBITDA margin was flat. EPS beat impressive but concentrated in a very few Nifty-50 stocks.
- Improved hopes of a rate cut lead to our new Nifty-50 target of 26,736, with a 7% upside, as the forward P/E valuation provides comfort at a 10-year mean.

Mixed economic trend prevails; hopes lie on festive season, rate cut

The high frequency economic indicators continue to weaken as seen from the subdued growth trend in loan credit, goods and services tax collection, automobile and home sales. However, sustained buoyancy in personal income-tax collections, healthy consumer sentiment (Fig. 12) and above-normal monsoon rains provide hopes of a turnaround in the festive season. With the Consumer Price Index or CPI inflation easing to a comfortable level, if the Reserve Bank of India follows the global trend of cutting interest rates in 2HFY25F, the economic recovery can prolong.

EPS growth slows but beat to consensus is healthy

The Jun 2024 quarter saw Nifty-50 companies' PAT growth at just 8% yoy but a 7% beat to Bloomberg consensus estimate, driven by sales growth of 9.5% and flattish EBITDA. The sales beat has been the strongest in the last six quarters but the PAT beat was restricted to a small proportion of stocks in the last 10 quarters (Fig. 38). The high EBITDA growth sectors in the NSE-200 universe were consumer durables, industrial gases, realty, retailing, non-ferrous and automobile. The laggards with an EBITDA dip yoy were the sectors such as oil refineries and chemicals. The major sectors that witnessed an EPS upgrade in the last six months were consumer discretionary, utilities & financial services.

We raise Nifty-50 target for a 7% upside

With the US Federal Reserve indicating the commencement of a rate cut cycle sooner than later, the hopes of the RBI following suit improve, especially with India's CPI inflation easing in the last few months (Fig. 25). This improves our bull-case probability to 30%, thereby increasing our blended Nifty-50 target to 26,736 (Fig. 50), an upside of 7% from the current levels. The P/E valuation is comfortable on an absolute basis, being near the 10-year mean level (Fig. 47) but compared to other Asia markets, its rich at +2SD. The key downside risks are political uncertainty in India and global geopolitical tensions.

Upgrades in rural and staple-focused sectors continue

We broadly maintain our sector ratings, with an Overweight rating on aluminium, capital goods, cement, electronics manufacturing services or EMS and financial services. In our coverage universe, we have upgraded the ratings of Britannia Industries, Marico, ABB India, Hero MotoCorp, LTI Mindtree and V-Guard Industries in recent weeks. In the high conviction list, we have removed Shriram Transport for achieving our target price and Spandana Sphoorty Financial for its adverse risk-reward ratio.

Research Analyst(s)



Pramod AMTHE

T (91) 22 4161 1541

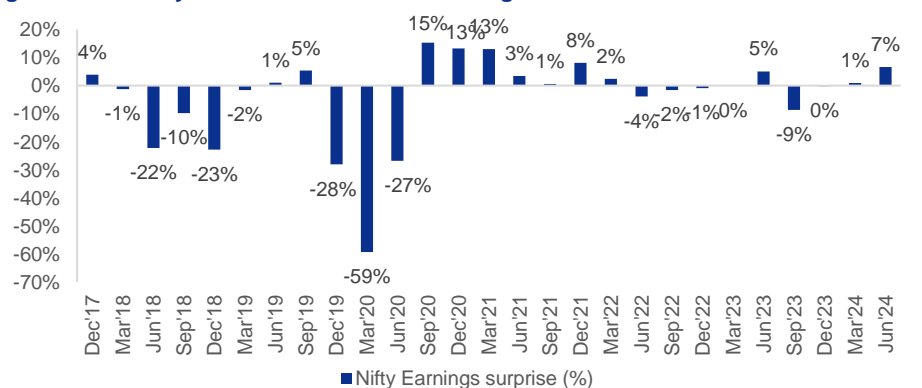
E pramod.amthe@incredresearch.com

Ravi GUPTA

T (91) 02241611552

E ravi.gupta@incredresearch.com

Figure 1: Quarterly EPS beat/miss vs. Bloomberg consensus estimates



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 2: Our high-conviction stock ideas

Company	BLOOMBERG TICKER	Reco.	Market Capital	Market Capital	Price	Target Price	Up/down	EPS		2-yr EPS CAGR (FY24A-FY26F)	P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	RoE %
			(Rsbn)	(US\$bn)	(Rs)	(Rs)	(%)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F	FY25F	FY25F
Aditya Birla Sunlife AMC	ABSLAMC IN	ADD	244	2.9	735	950	29%	35.3	43.2	26.8%	20.8	17.0	5.8	5.1	5.8	2.6%	29.9
Ajanta Pharma	AJP IN	ADD	427	5.1	2,970	2,800	-6%	77.6	91.2	19.6%	38.3	32.6	10.5	9.2	27.8	1.7%	27.7
Ashok Leyland	AL IN	ADD	885	10.6	262	281	7%	11.0	12.9	18.1%	23.8	20.3	7.4	6.3	13.1	2.2%	33.7
Aurobindo Pharma	ARBP IN	ADD	1,046	12.5	1,552	1,610	4%	68.3	83.9	20.9%	22.7	18.5	2.7	2.4	12.7	0.5%	12.6
BCL Industries	BCLIL IN	ADD	19	0.2	57	98	72%	3.9	7.0	44.4%	14.4	8.1	2.5	1.9	9.3	0.1%	26.2
Bharat Forge	BHFC IN	ADD	861	10.3	1,607	1,831	14%	28.8	36.2	35.5%	60.2	44.4	7.2	6.1	24.4	0.7%	15.9
Clean Science and Technology	CLEAN IN	REDUCE	187	2.2	1,528	665	-56%	25.3	24.6	3.6%	60.5	62.0	11.7	10.0	42.7	0.0%	21.1
Container Corporation of India	CCRI IN	ADD	690	8.3	985	1,083	10%	27.9	39.0	33.0%	35.3	25.2	4.3	3.9	22.5	0.0%	13.0
Cyient DLM	CYIENTDL IN	ADD	71	0.9	781	1,049	34%	15.2	23.5	74.8%	51.4	33.2	6.0	5.1	32.9	0.0%	21.0
Exide Industries	EXID IN	REDUCE	488	5.8	499	412	-17%	14.5	16.7	16.2%	34.5	29.8	3.1	3.0	15.6	1.7%	9.2
Dabur India	DABUR IN	ADD	1,312	15.7	643	725	13%	12.5	14.7	18.8%	51.3	43.8	10.2	9.1	40.9	0.9%	21.1
Globus Spirits	GBSL IN	ADD	30	0.4	892	1,588	78%	48.9	105.9	77.8%	18.2	8.4	2.3	1.8	10.2	0.2%	13.5
HDFC Bank	HDFCB IN	ADD	14,353	171.8	1,638	2,000	22%	94.1	109.9	17.2%	17.4	14.9	2.5	2.3	2.5	1.8%	15.4
InterGlobe Aviation	INDIGO IN	REDUCE	2,109	25.2	4,747	2,400	-49%	50.1	75.3	-38.4%	94.8	63.0	48.2	27.3	15.1	0.0%	91.0
Mahindra & Mahindra Finance	MMFS IN	ADD	455	5.5	320	370	15%	18.7	22.8	26.6%	17.1	14.0	2.0	1.9	2.0	2.8%	12.3
Maruti Suzuki	MSIL IN	ADD	4,519	54.1	12,497	15,541	24%	517.6	565.6	14.0%	24.1	22.1	3.6	3.3	15.8	1.3%	16.9
PG Electroplast	PGEL IN	REDUCE	152	1.8	505	185	-63%	7.3	8.0	23.5%	69.3	62.9	10.7	9.1	39.3	0.0%	16.7
SBI Cards	SBICARD IN	REDUCE	806	9.6	737	500	-32%	25.7	28.7	6.4%	28.6	25.7	4.9	4.3	4.9	0.5%	18.7
Skipper	SKIPPER IN	ADD	55	0.7	435	500	15%	14.5	17.9	51.7%	29.9	24.3	4.4	3.7	12.4	0.1%	15.7
State Bank of India	SBIN IN	ADD	8,375	100.3	816	1,100	35%	80.9	94.9	12.9%	10.1	8.6	1.7	1.5	1.7	2.5%	17.8
Tata Steel	TATA IN	REDUCE	2,221	26.6	155	82	-47%	5.4	5.4	-0.7%	28.5	28.6	1.7	1.6	9.8	1.3%	6.1
Tech Mahindra	TECHM IN	ADD	1,828	21.9	1,625	1,625	0%	64.2	77.1	62.7%	25.3	21.1	5.3	5.0	15.2	3.2%	21.2
Zyus Lifesciences	ZYDUSLIF IN	ADD	1,290	15.4	1,114	1,434	29%	46.1	50.9	15.7%	24.2	21.9	4.7	4.0	17.2	0.6%	21.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Fed rings the bell for starting rate cut cycle

Economic activity recovery looks for a festive-season trigger

Domestic economic activity weakness seen around the general elections period continues, as seen in slower credit growth, GST collection growth easing to 10%, and easing automobile and real estate sales growth. However, buoyancy in personal income-tax collection and above-average rainfall provide hope for the ongoing festive season triggering a revival soon.

Figure 3: Loan growth weakens from May 2024 peak level

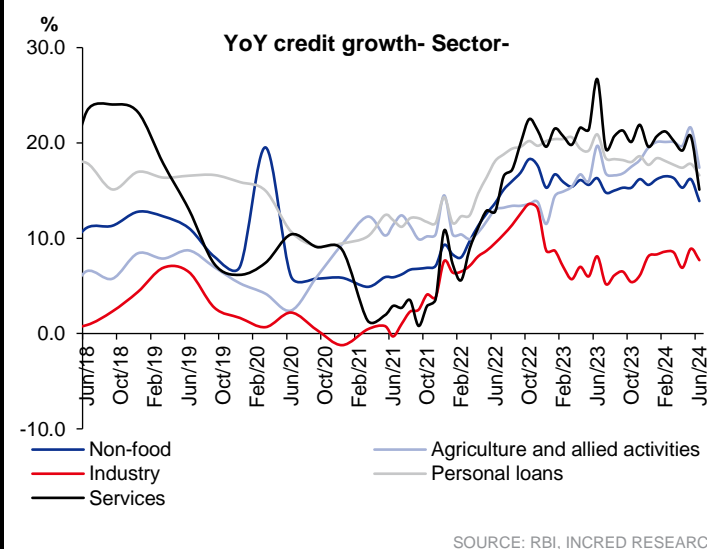


Figure 4: The non-food credit growth trend

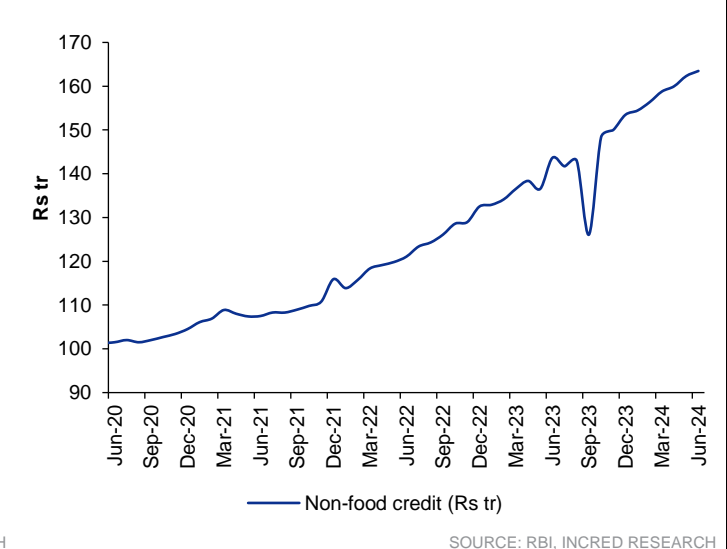


Figure 5: Automobile sales registrations – weakness in car space is a cause of concern

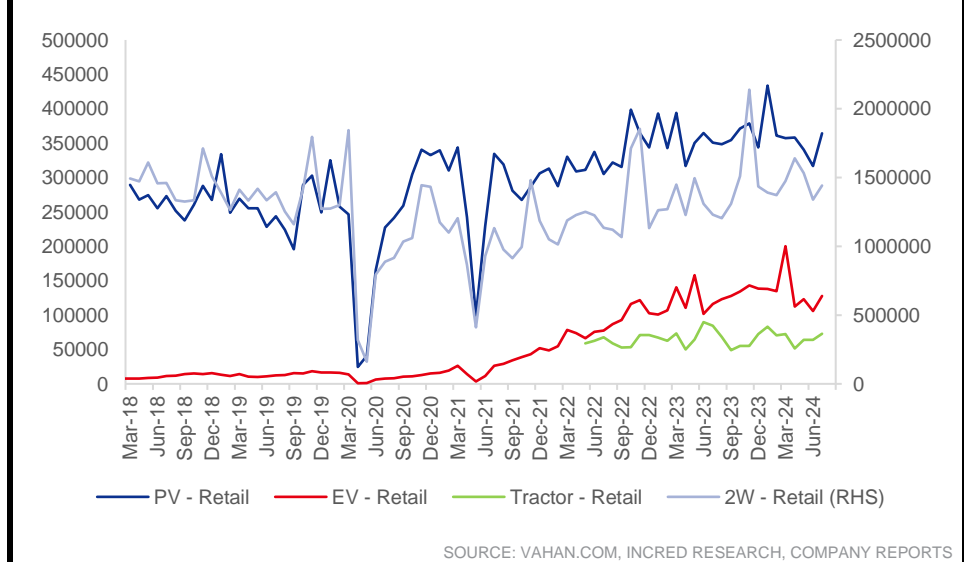
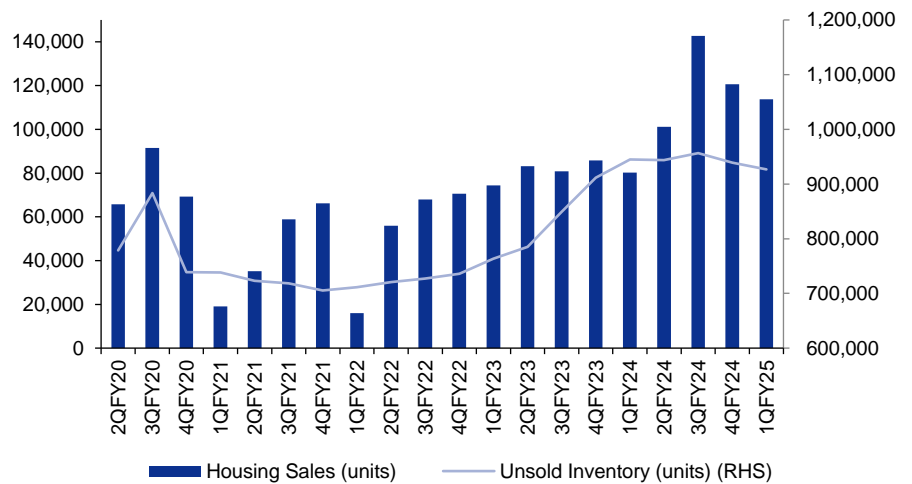
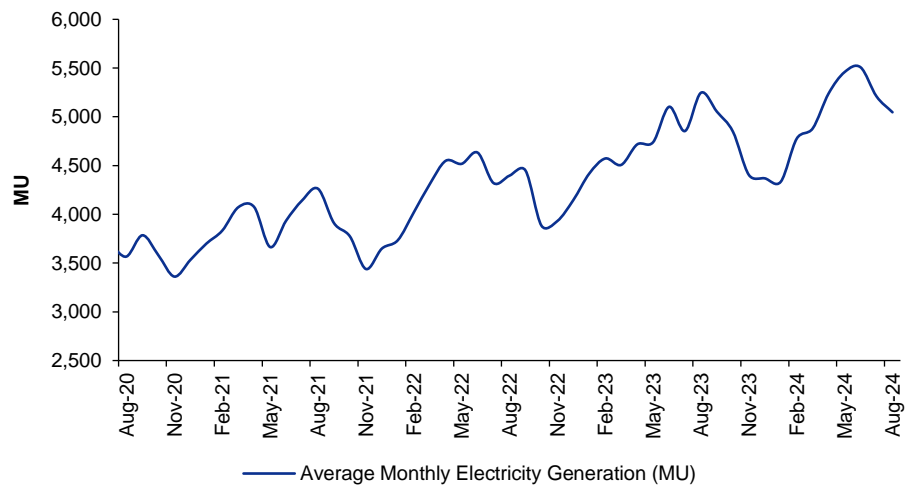


Figure 6: Housing sales (units) and unsold inventory ease from their peak levels



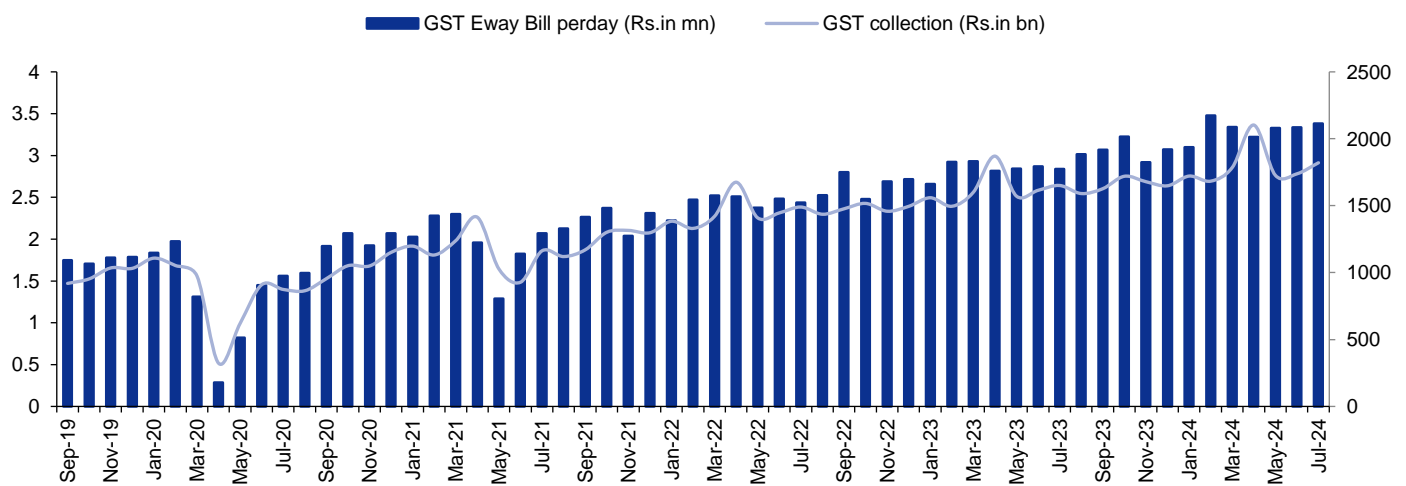
SOURCE: PROTIGER, INCRED RESEARCH

Figure 7: Electricity generation eases from its seasonal peak

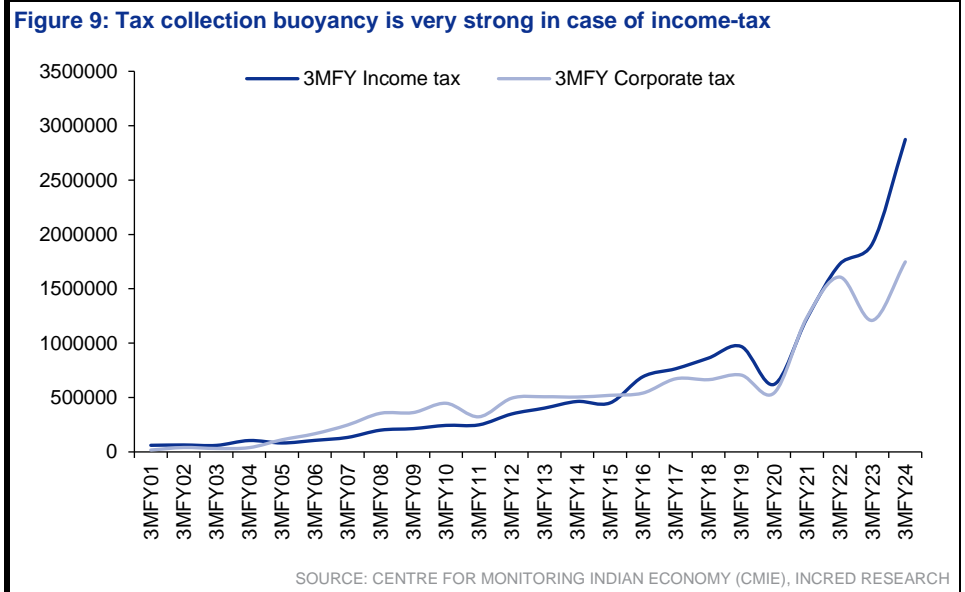


SOURCE: POWER SYSTEM OPERATION CORPORATION, INCRED RESEARCH

Figure 8: GST collection and E-way bills show low double-digit growth



SOURCE: GOODS AND SERVICES TAX NETWORK (GSTN), INCRED RESEARCH



Consumer sentiment remains healthy >

At an all-India level, seasonal rainfall surplus continues to cool off, touching 3% from 5% over the past one week, as many regions continued to experience the monsoon-break phase. However, northwest India saw improved rainfall in Aug 2024, reducing the region’s deficit from 13% at the start of the month to a neutral zone. Meanwhile, east & northeast seasonal rainfall remained unchanged during the week. Reservoir water storage levels are now 14% above last year’s levels; southern and eastern regions lead while the northern region lags.

As on 16 Aug 2024, total kharif crop sown area increased by ~2.1% yoy to ~103.2m ha, topping the 100m ha level, where paddy rose by 5.6% yoy to 36.91m ha.

Consumer sentiment in India marginally improved in Aug 2024, after easing from its Jul peak. The improved spending sentiment in the current year for both essential and non-essential items ahead of the festive season provides hope after the heat wave and heavy rains hit consumer foot falls. The start of the festive season in early Sep 2024 in the southern and western regions will be eagerly watched as it will provide early cues on the next two months’ festive demand trend.

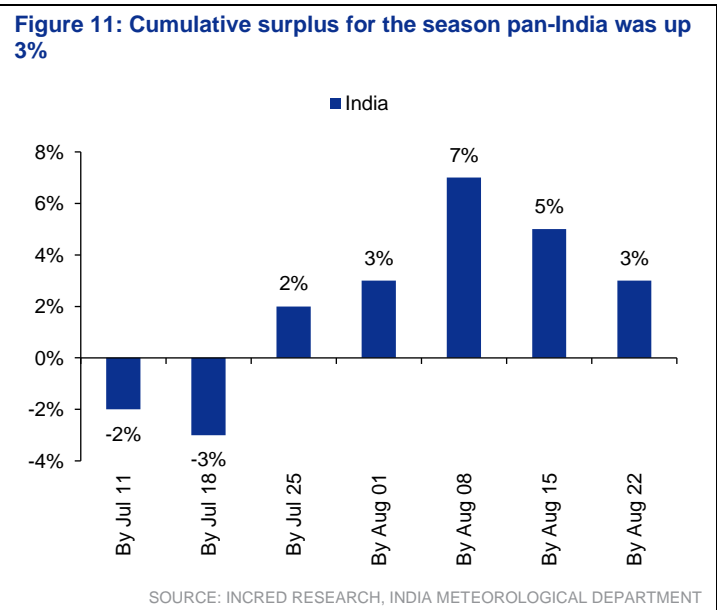
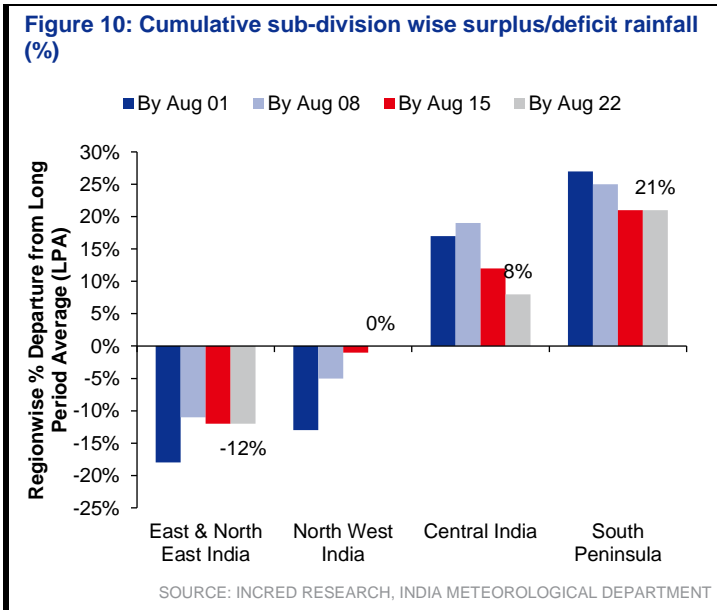
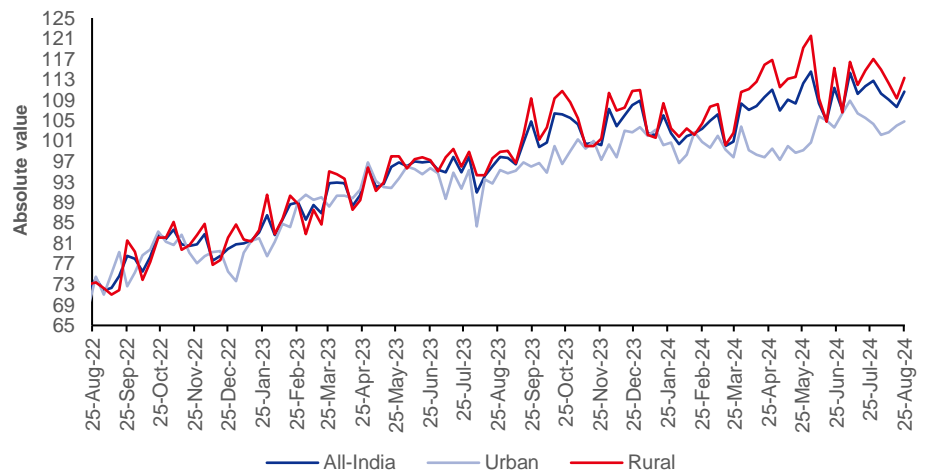
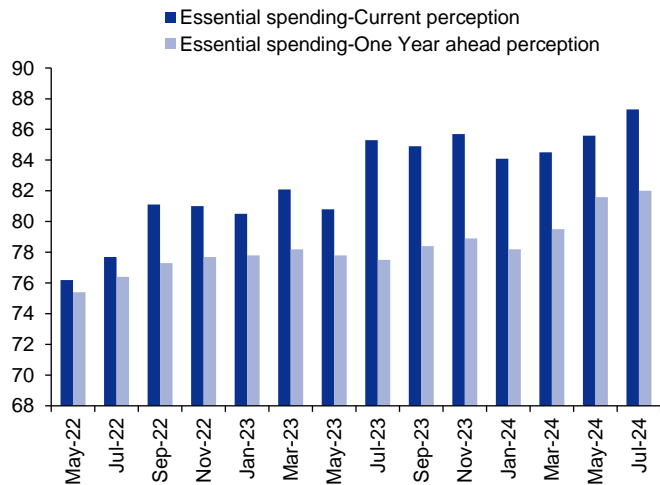


Figure 12: The Consumer Sentiment Index slips from its peak in rural areas (nos)



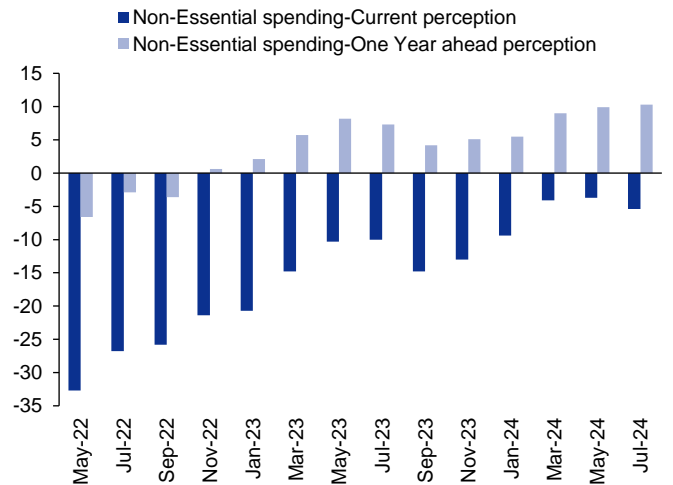
SOURCE: RESERVE BANK OF INDIA (RBI), INCRED RESEARCH

Figure 13: Consumer perception on essential spending for the current year is at a high level



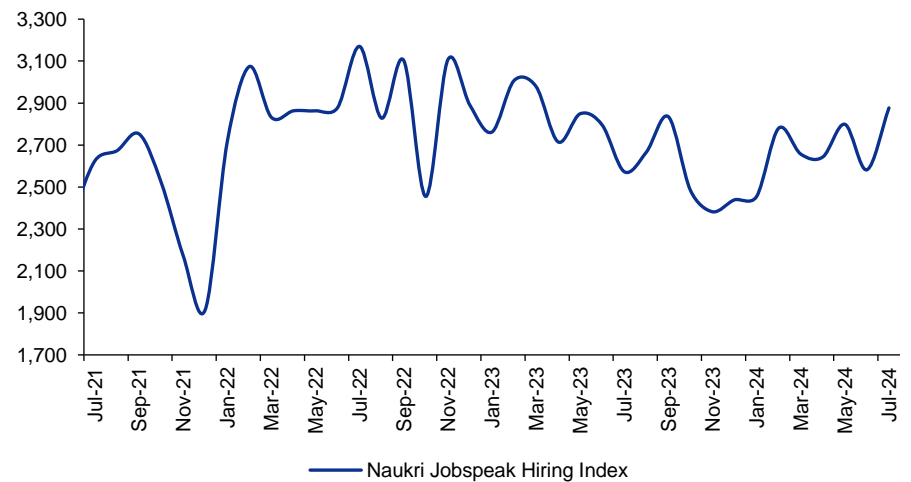
SOURCE: CMIE, INCRED RESEARCH, RBI.

Figure 14: Consumer perception on non-essential spending continues to improve



SOURCE: CMIE, INCRED RESEARCH, RBI.

Figure 15: Naukri Jobspeak Hiring Index improves



SOURCE: INCRED RESEARCH, NAUKRI JOBSPEAK REPORT

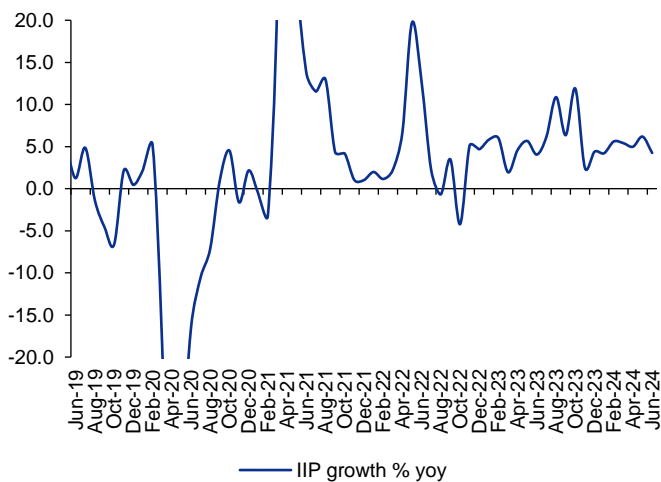
GDP growth outlook remains strong ➤

Projections on India’s real GDP growth during FY25F by most multilateral agencies, professional forecasters and rating agencies converge at 7%. Some of the estimates, like that of the RBI’s monetary policy committee or MPC were higher at 7.2% whereas of the others like the World Bank were lower at 6.6%.

The survey of economists by RBI maintained its growth forecast for private consumption, as measured by private final consumption expenditure (PFCE), at 6%. However, it reduced the forecast on investment spending, in the form of gross fixed capital formation (GFCF), to 8% from 8.6% in the earlier review. It appears that the upward revision in growth projection was based on expectation of a lower trade deficit.

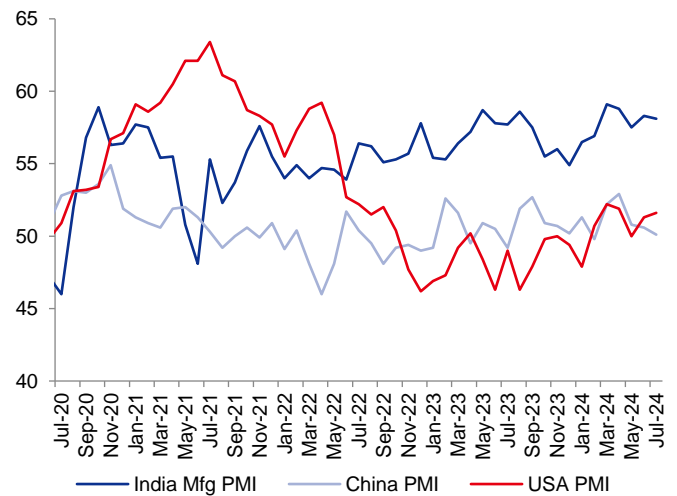
The MPC expects domestic growth to hold firm on the strength of investment demand, steady urban consumption and rising rural consumption.

Figure 16: Index of Industrial Production growth stable



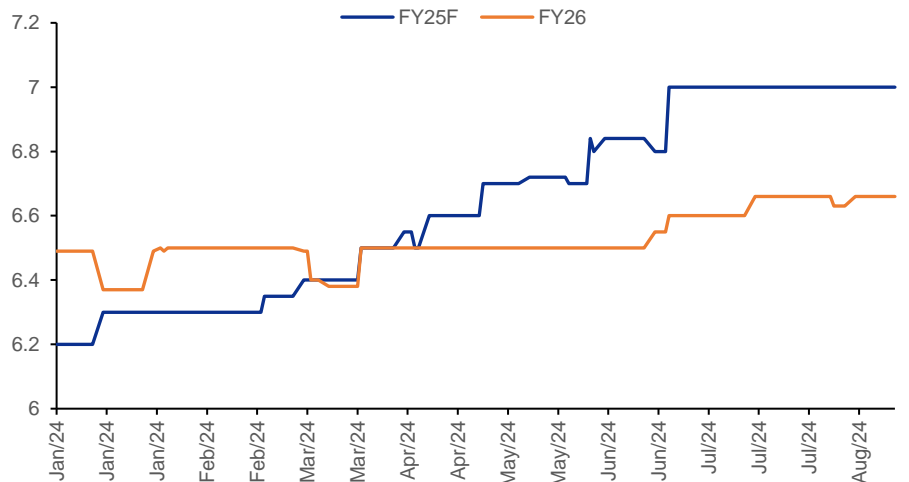
SOURCE: NATIONAL STATISTICS OFFICE (NSO), INDEX OF INDUSTRIAL PRODUCTION (IIP), INCRED RESEARCH,

Figure 17: India PMI trend is healthy



SOURCE: IHS MARKIT, PURCHASING MANAGERS' INDEX (PMI), INCRED RESEARCH

Figure 18: Bloomberg’s India GDP growth consensus estimate on the rise (%)



SOURCE: BLOOMBERG, INCRED RESEARCH

Trade deficit rising to a nine-month high is an area of concern ➤

India's merchandise trade deficit widened to a nine-month high of US\$23.5bn in Jul 2024. Trade deficit is now above US\$21bn, for the third month in a row. It had remained low in the range of US\$16-18bn between Dec 2023 and Apr 2024. Slowing exports were responsible for the high trade deficit in Jul 2024.

Merchandise exports fell to an eight-month low of US\$34bn in Jul 2024, down 1.5% yoy. The decline was primarily on account of a fall in exports of petroleum, oil & lubricants (POL), while non-POL exports rising yoy provides a ray of hope.

Figure 19: India's trade deficit widens

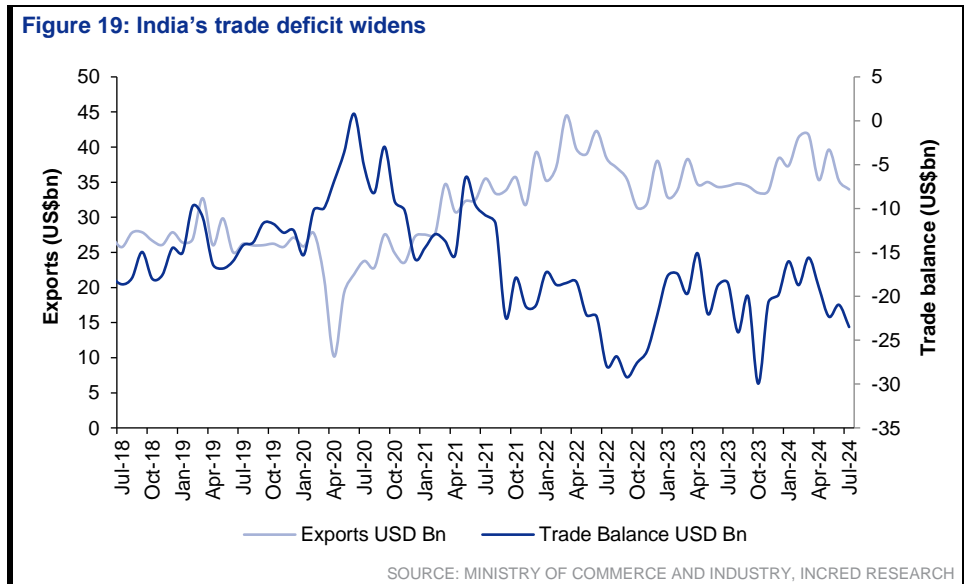


Figure 20: Global trade in goods and services picking up, which will aid the export sector

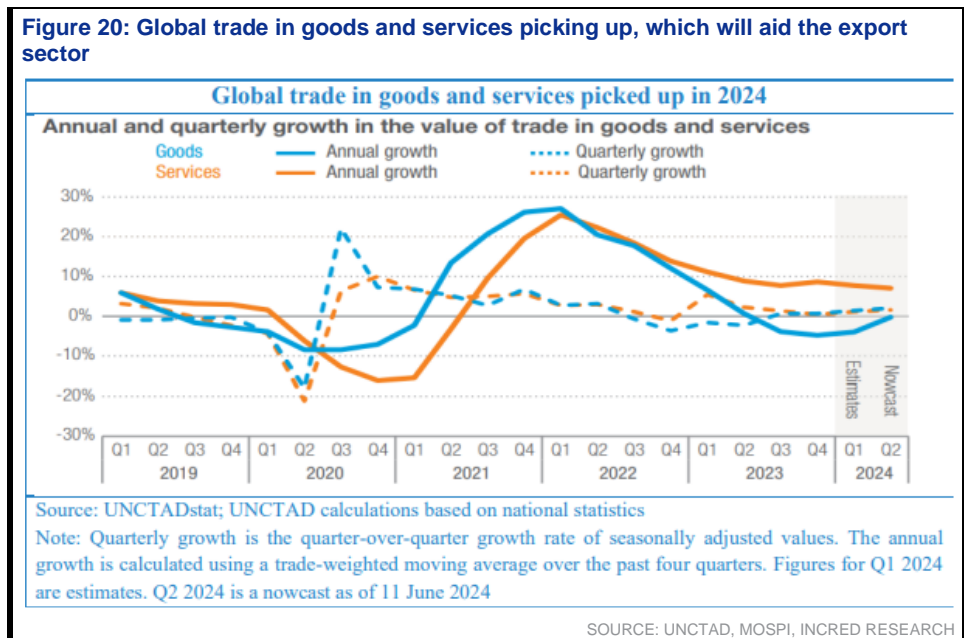
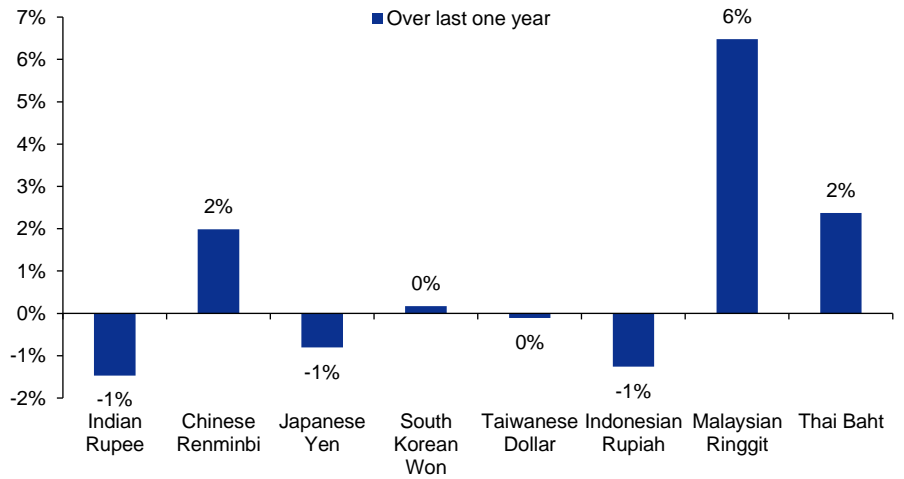
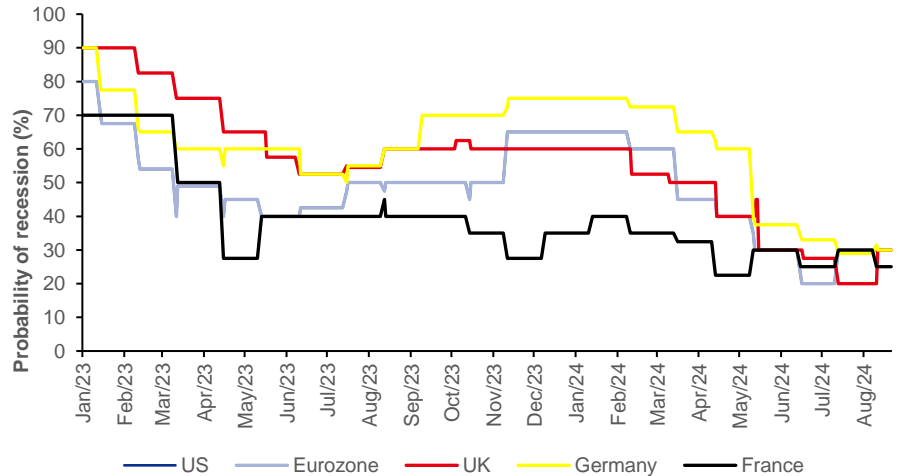


Figure 21: USD-INR's performance against Asian peers begins to weaken



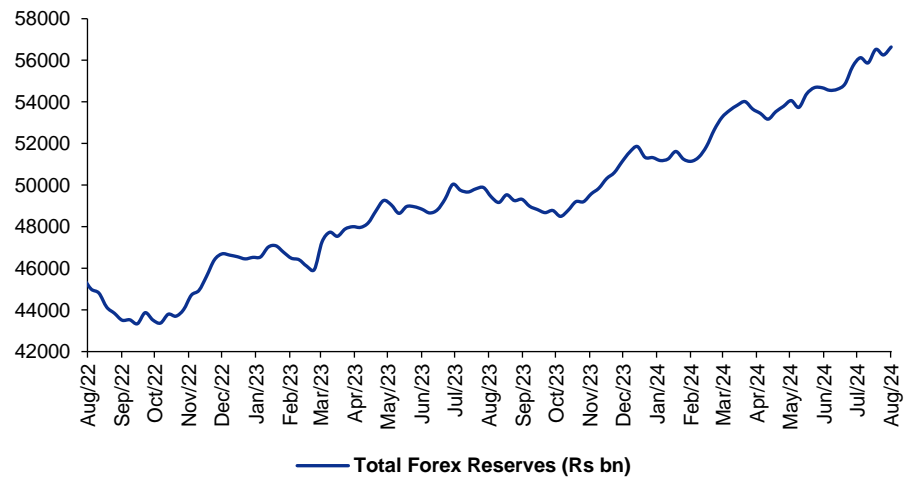
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 22: Recession probability in developed countries eases

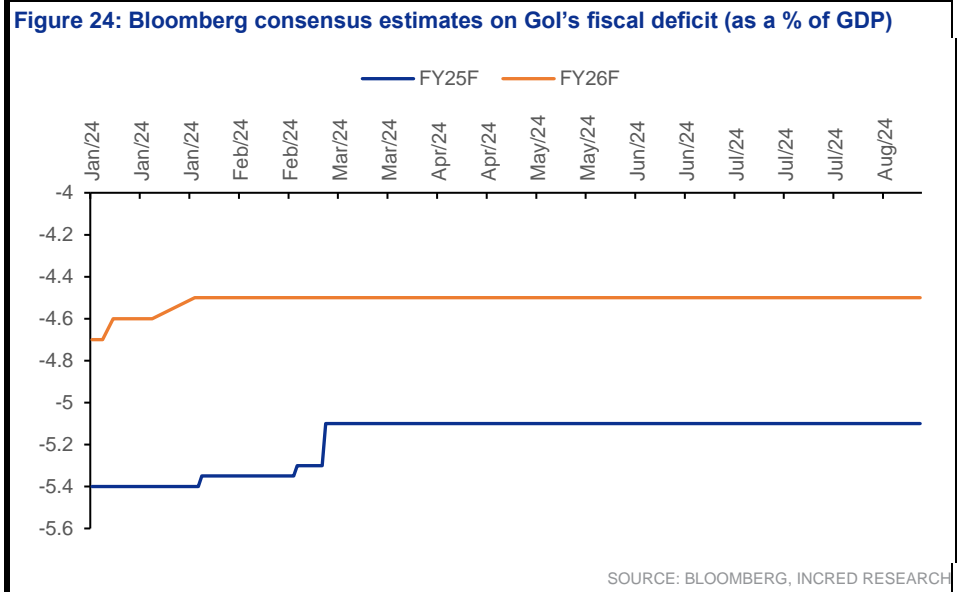


SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 23: India's forex reserves on a gradual uptick



SOURCE: RBI, INCRED RESEARCH



RBI's stance on rates will be key if US Fed cuts rates in Sep 2024 ➤

The MPC feels the risks from volatile and elevated food prices remain high, which may adversely impact inflation expectations and result in a spillover to core inflation. There are also indications of core inflation bottoming out. Accordingly, the MPC decided to remain watchful on how these forces play out going ahead. The MPC stays resolute in its commitment to align inflation to the 4% target on a durable basis. Considering all these circumstances, the MPC decided to keep the policy repo rate unchanged at 6.50% in its Aug 2024 meeting.

The MPC reiterates the need to continue with its disinflationary stance, until a durable alignment of the headline CPI inflation with the target is achieved. It feels enduring price stability sets strong foundations for a sustained period of high growth. Hence, the MPC also considers it appropriate to continue with the disinflationary stance of withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

Figure 25: Core Consumer Price Index or CPI at a historic low

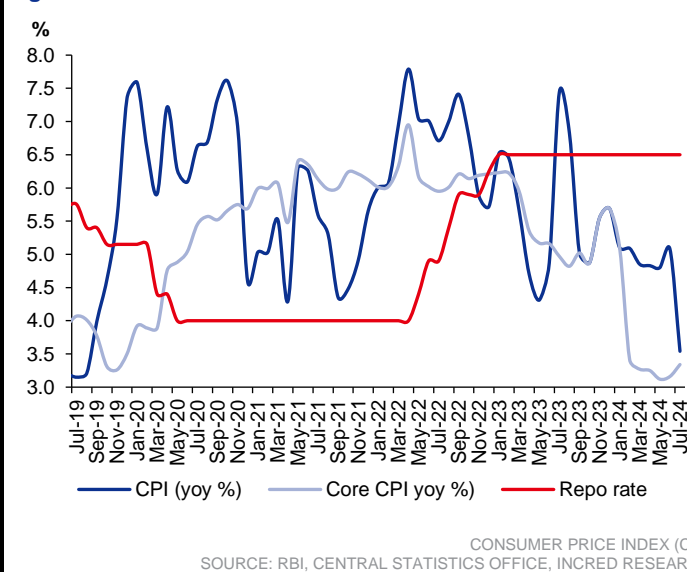


Figure 26: Wholesale Price Index or WPI inflation continues to rise

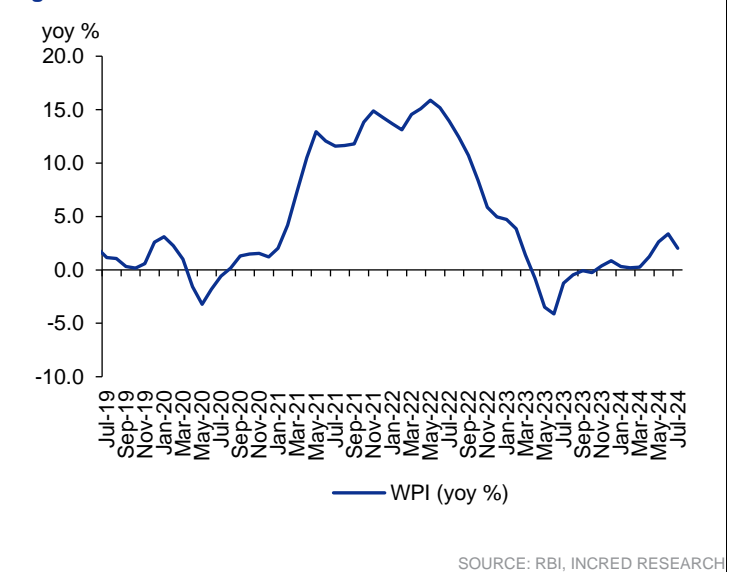
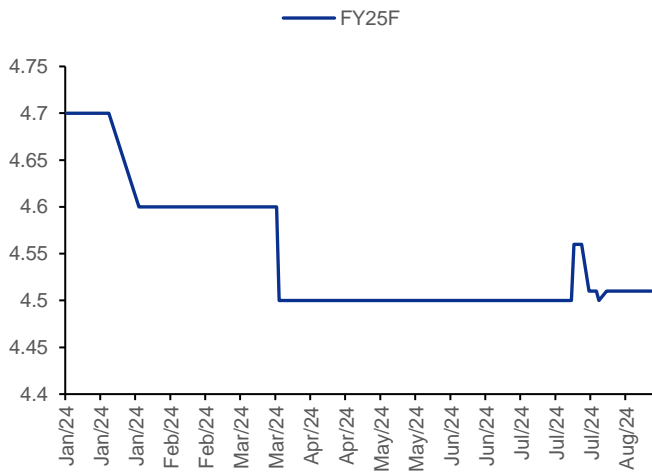
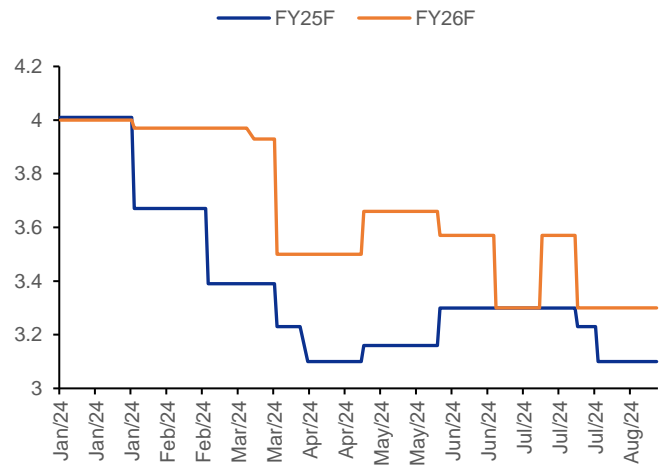


Figure 27: Bloomberg CPI inflation consensus estimate is stable **Figure 28: Bloomberg consensus estimates on WPI inflation**

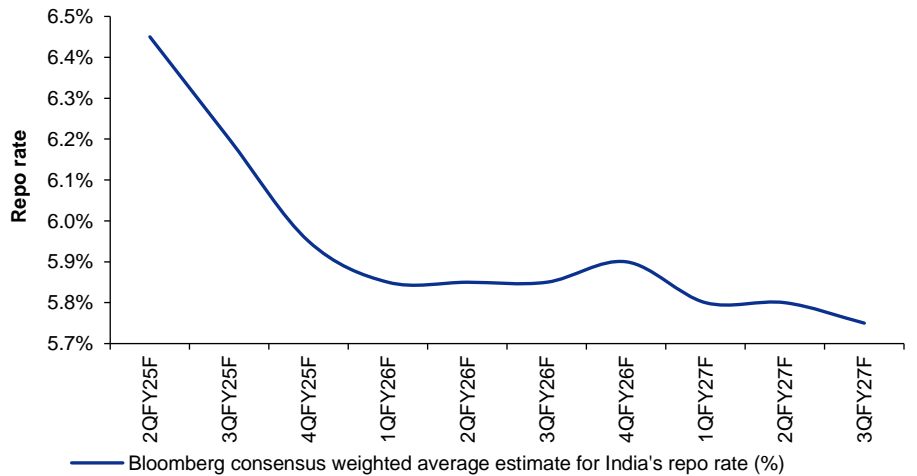


NOTE: CPI IS CONSUMER PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH



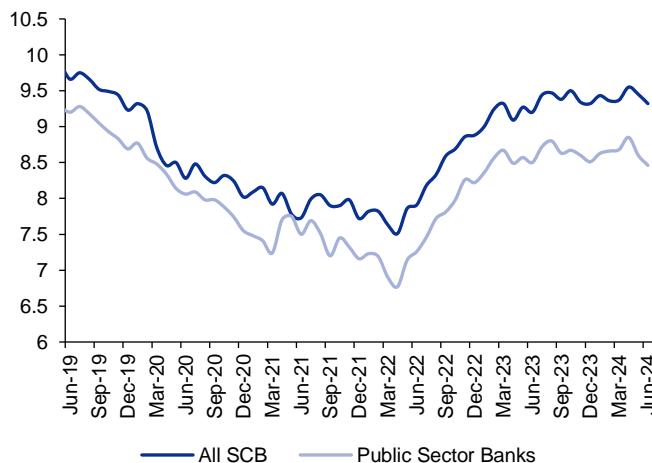
NOTE: WPI IS WHOLESALE PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 29: Bloomberg consensus estimate expects the repo rate to be cut by 50bp in the next one year

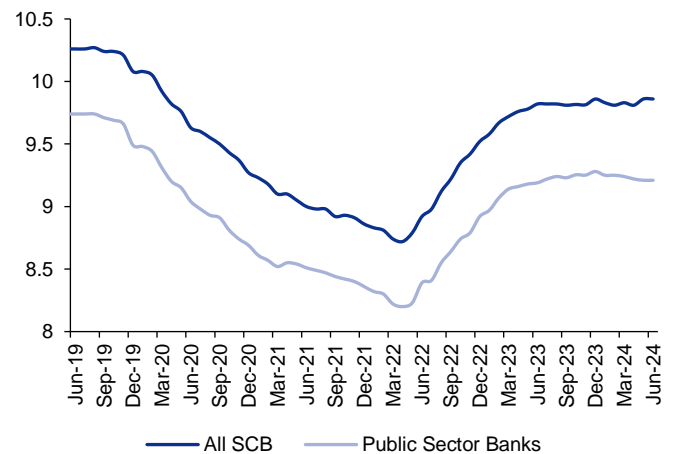


SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 30: Weighted average lending rate of banks begins to ease from their peak (fresh INR loans) **Figure 31: Weighted average lending rate of banks (outstanding rupee loans)**



SOURCE: RBI, INCRED RESEARCH



SOURCE: RBI, INCRED RESEARCH

Investment themes

Considering the slowdown in government policy action, all hopes lie on festival demand recovery in the coming months. Considering the RBI’s cautionary statements on lending, we have removed Shriram Finance as it has achieved its target price and Spandana Sphoorty Financial due to the microfinance or MFI sector’s rising risk profile.

Our high-conviction stocks’ performance and recent changes

Recent performance (since the start of the series in Sep 2022):

- Big outperformers to Nifty: Aditya Birla Sunlife AMC (ADD), Shriram Finance (ADD) and Skipper (ADD).
- Underperformers to Nifty: BCL Industries (ADD), Spandana Sphoorty Financial (ADD) & Clean Science and Technology (REDUCE).

Addition to the list:

InterGlobe Aviation (REDUCE): Short-term favourable competitive scenario overlooks structural challenges.

Deletion from the list:

Shriram Finance (ADD): Sharp run-up in the stock price makes the risk-reward ratio unfavourable.

Spandana Sphoorty Financial (ADD): Slowdown in the microfinance sector is leading to weak earnings growth and rising asset quality pressure.

Technical trend favourable idea: Ashok Leyland and BCL Industries

Figure 32: High-conviction stocks’ price performance since their introduction on 10 Sep 2022

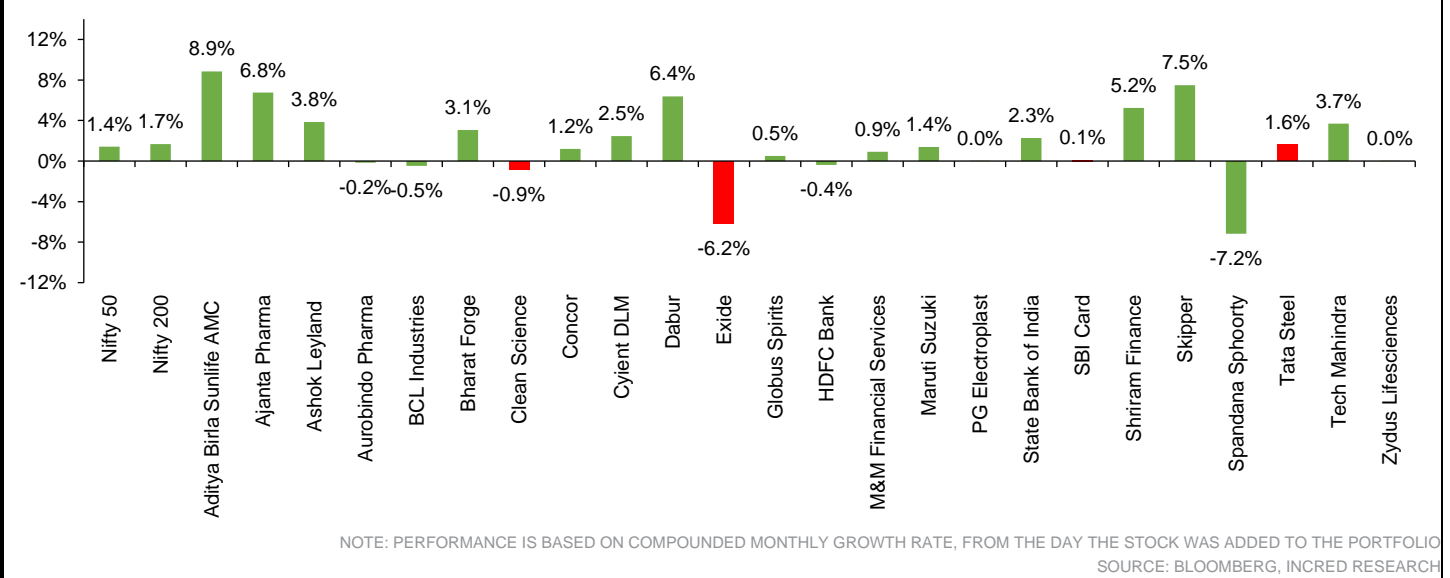


Figure 33: High-conviction stocks' price absolute performance since their introduction on 10 Sep 2022

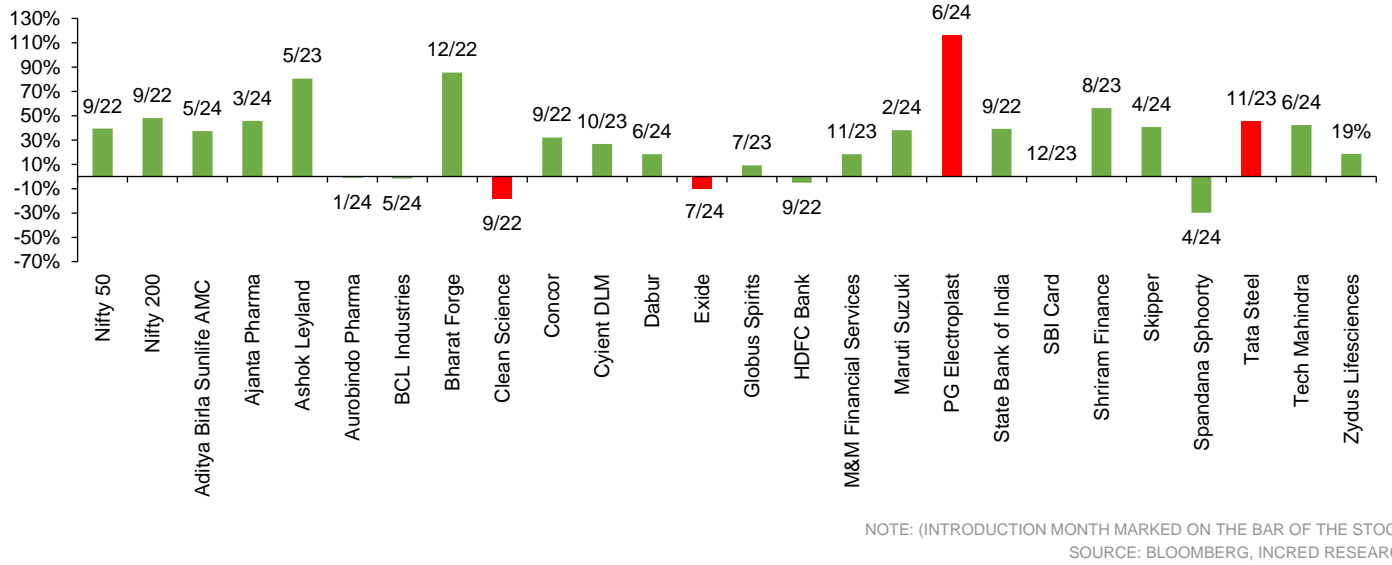
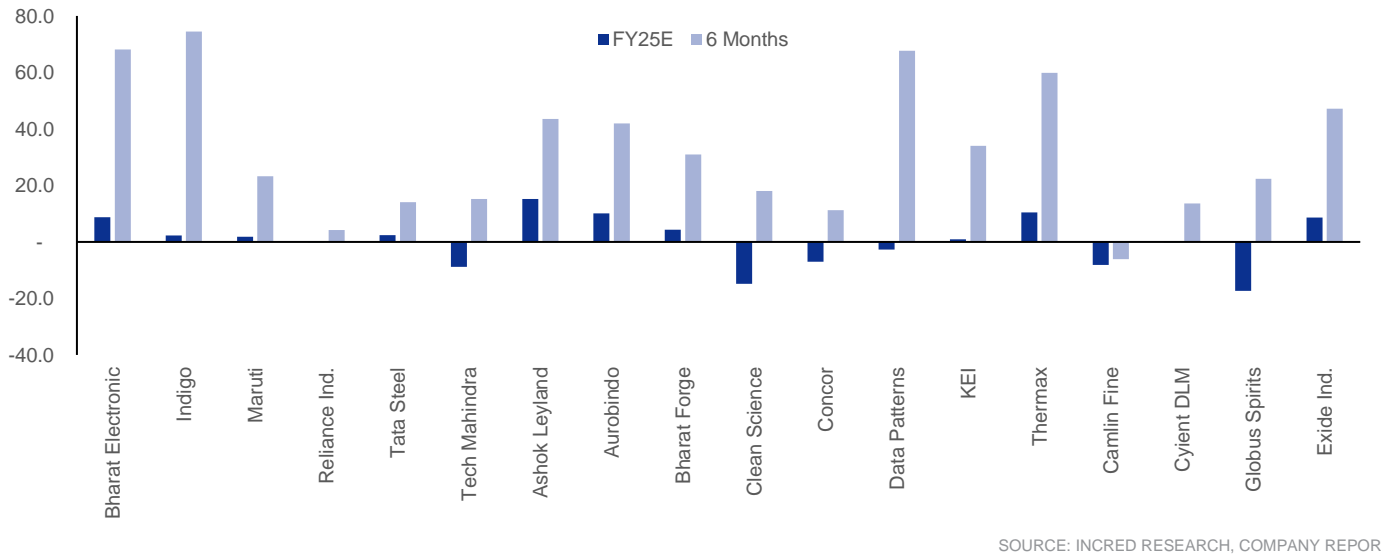


Figure 34: Last six months' EBITDA consensus change for FY25F vs. six months' stock price performance



FY25 starts with a slow pace

EPS growth eases to high single-digit for Nifty-50 companies

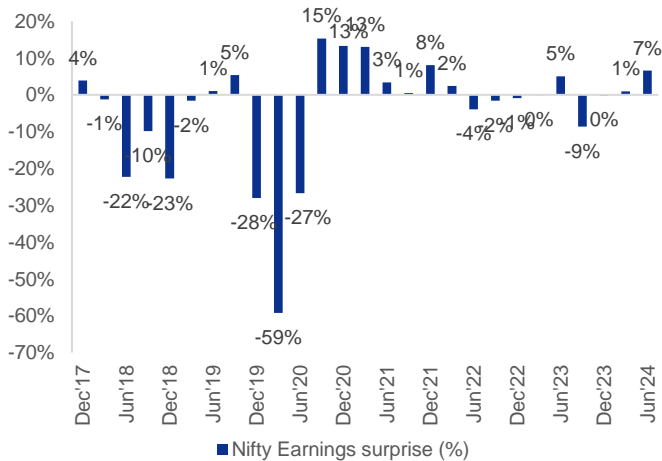
The Jun 2024 quarter reported Nifty-50 companies' PAT growth at just 8% yoy, driven by a sales growth of 9.5%. EBITDA was flattish as rising costs hit the EBITDA margin. Excluding the BFSI segment, PAT growth was just 2% yoy on a sales growth of 7% yoy. The sales beat has been the strongest in last six quarters (62% of Nifty-50 companies beat estimates) but the PAT beat was only in a small proportion of stocks in the last 10 quarters (36% of Nifty-50 stocks).

The larger universe, NSE-200 group's performance was muted with just a 2% reported PAT growth, driven by a 9% sales growth. The high EBITDA growth sectors were consumer durables, industrial gases, realty, retailing, non-ferrous and automobile. The sectors that were laggards with an EBITDA dip yoy were oil refineries and chemicals.

The upgrade in FY25F-26F Bloomberg EPS estimates in the recent results season to the extent of 0.5-1% provides comfort. Major EPS upgrades in the Nifty-200 universe were in Mazagaon Docks, LIC Housing, Adani Green, Trent and Voltas. Downgrades were in the steel and cement sectors. The major sectors to record an EPS upgrade in the last six months were consumer discretionary, utilities and financial services.

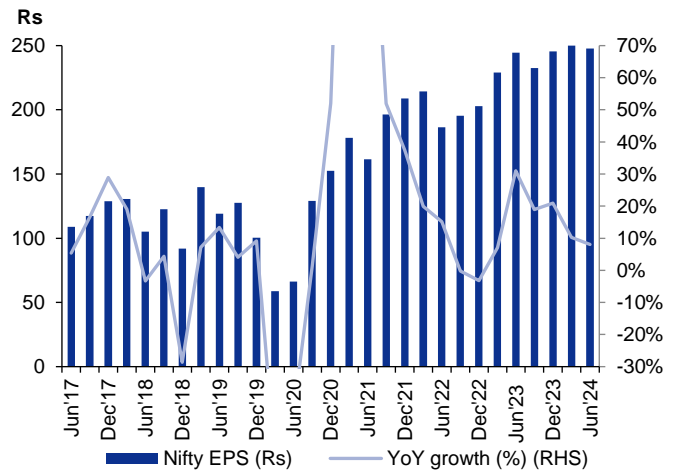
The FY25F-26F EPS CAGR for Nifty-50 companies is expected to be driven by the telecom, consumer discretionary, staples, energy and utilities sectors. The earnings drag is expected from financial services.

Figure 35: Nifty-50 companies' quarterly EPS beat/miss trend



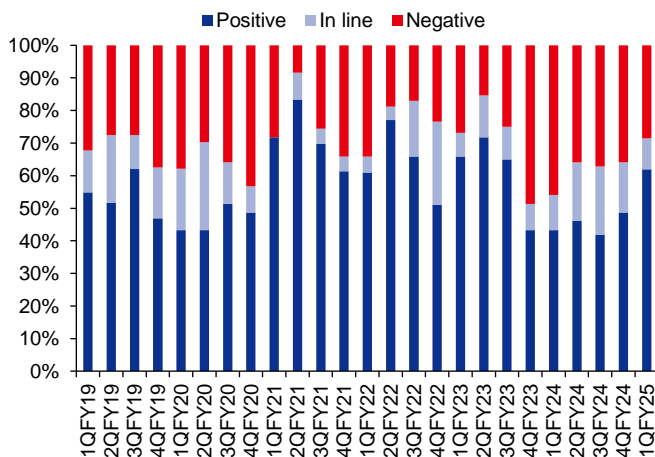
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 36: Nifty-50 companies' reported EPS growth eases



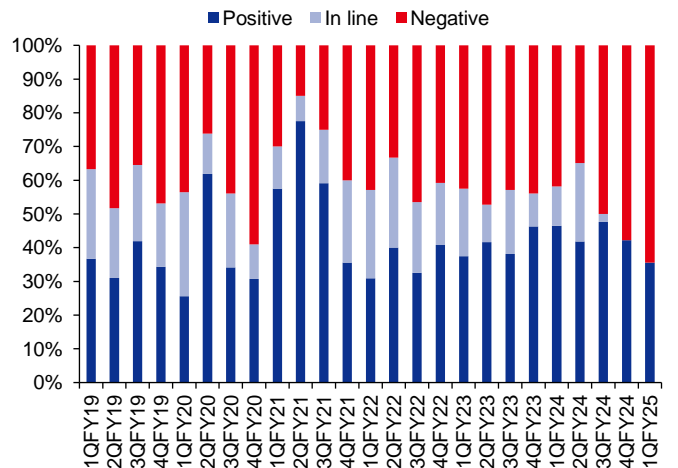
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 37: Nifty-50 companies' revenue beat/miss proportion mix



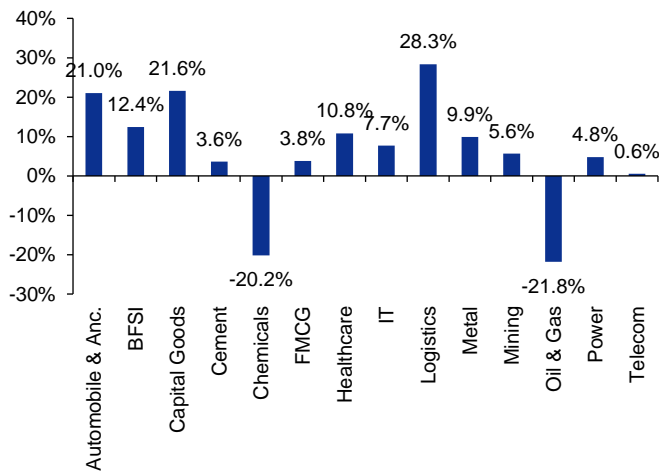
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 38: Nifty-50 companies' EPS beat/miss proportion mix



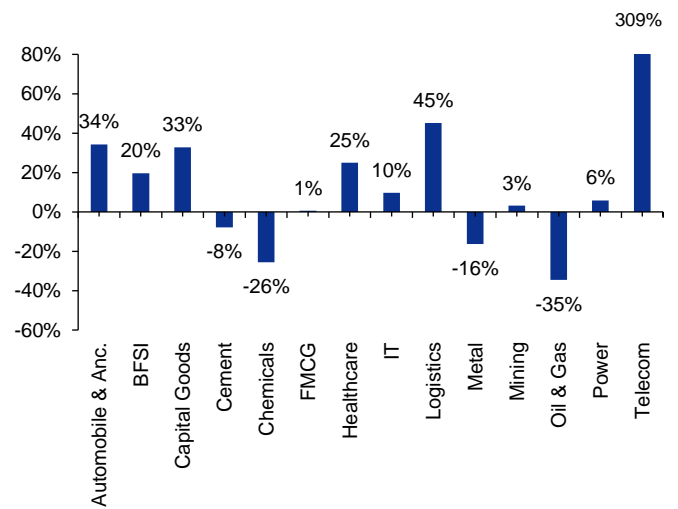
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 39: 1Q sector-wise EBITDA yoy growth in Nifty-50 companies



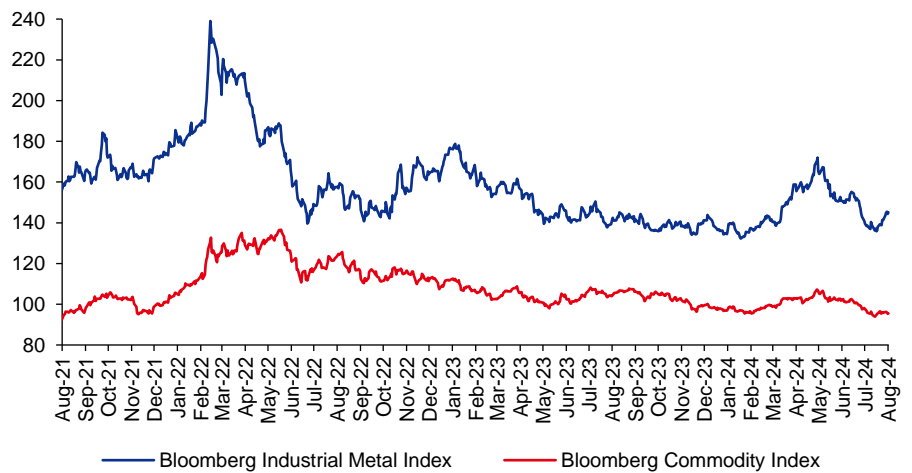
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 40: 1Q sector-wise PAT yoy growth in Nifty-50 companies



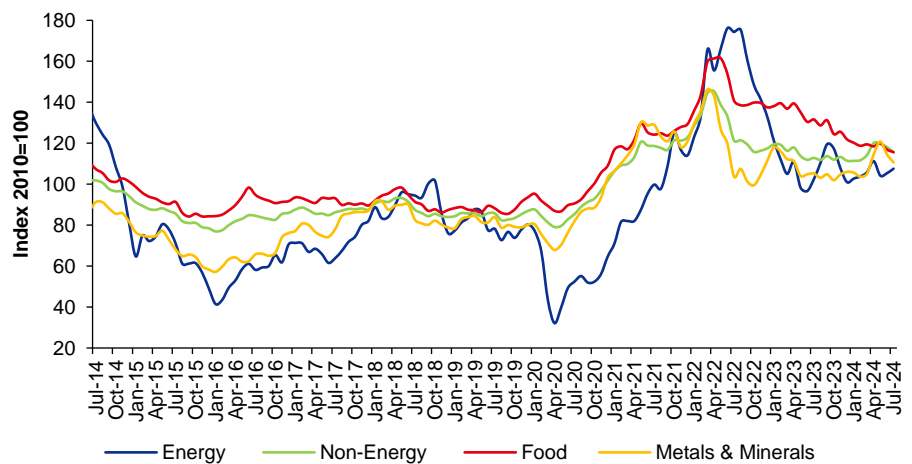
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 41: Bloomberg Industrial Metal Index starts rising



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 42: Global Commodity Index trend continues to ease, except in case of metals



SOURCE: BLOOMBERG, INCRED RESEARCH

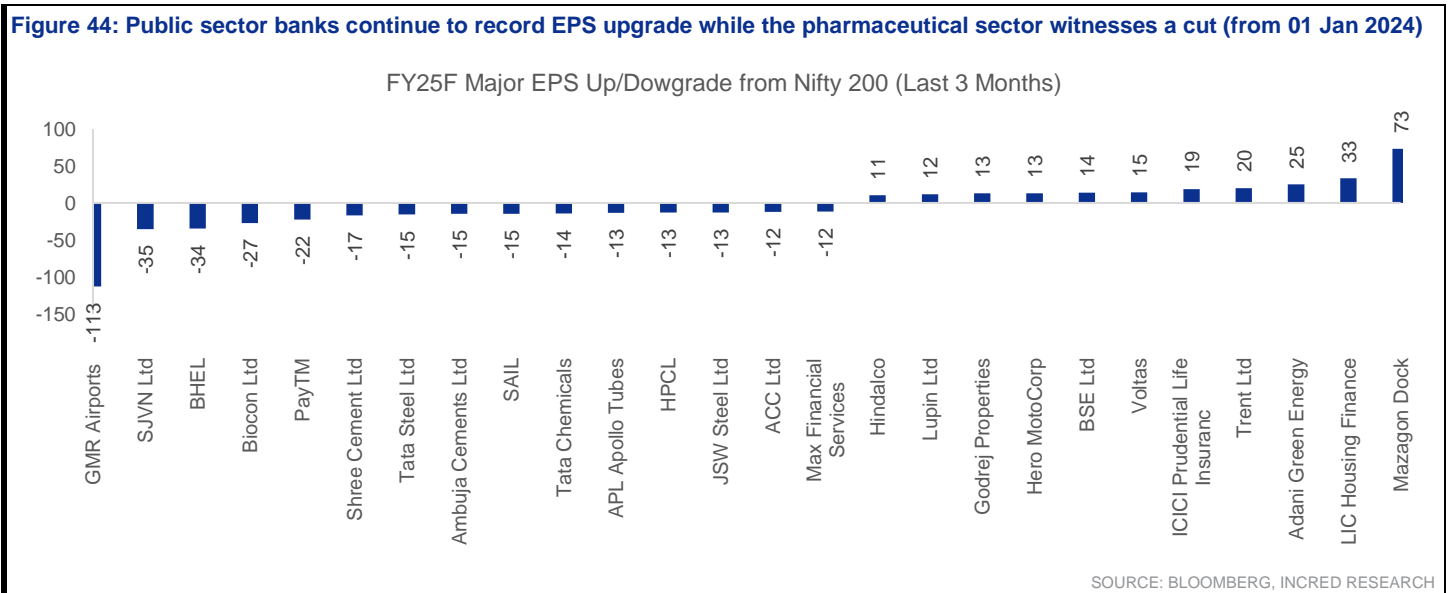
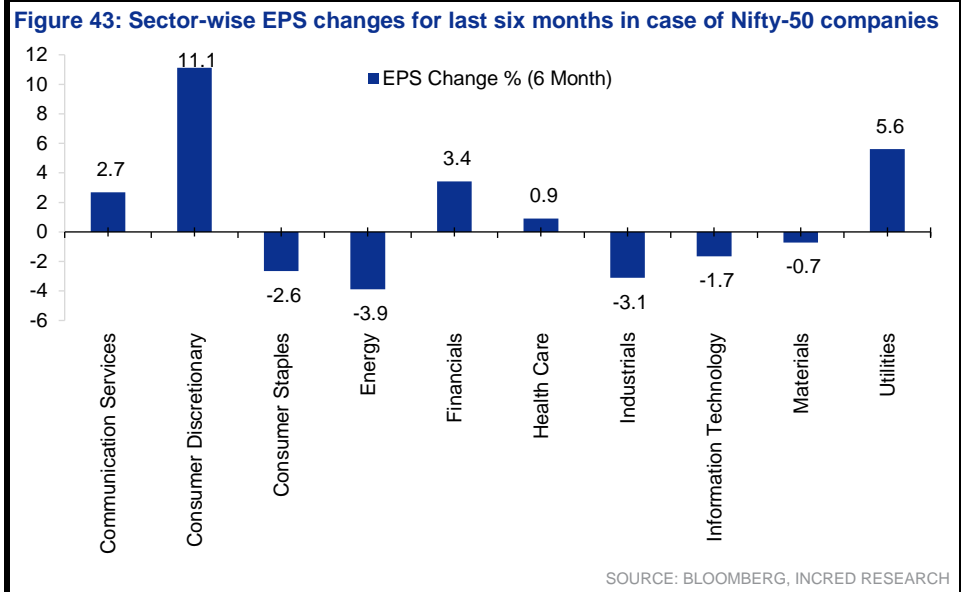
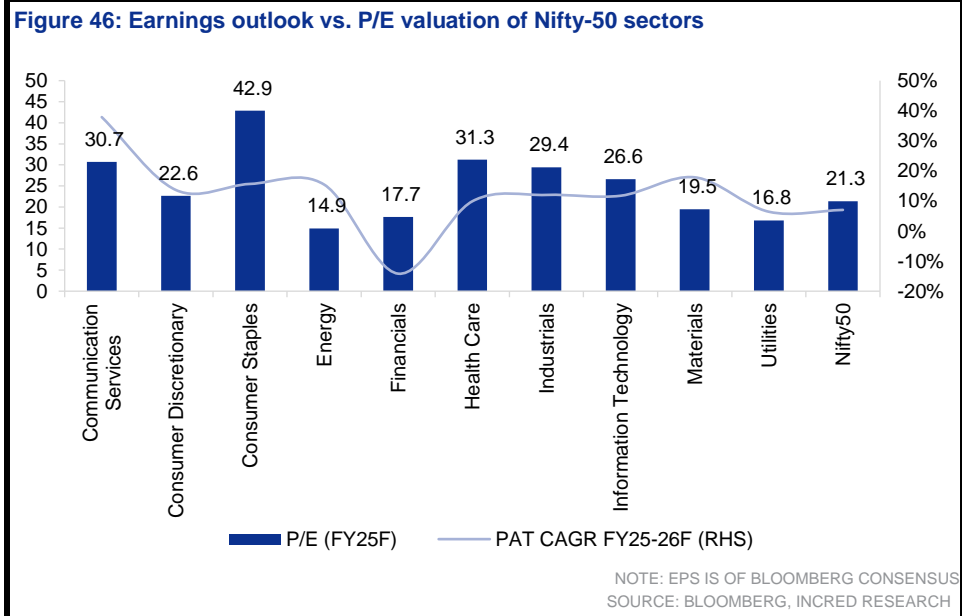


Figure 45: Recent Bloomberg consensus EPS trend change for Nifty-50 and Nifty-200 companies

Nifty-50 EPS	Nifty-200 EPS			
	FY25F	FY26F	FY25F	FY26F
15 days	0.12%	-0.44%	1.77%	1.14%
30 days	0.92%	0.91%	0.21%	0.45%
60 days	0.09%	0.19%	0.12%	0.24%
120 days	0.17%	0.60%	0.39%	0.96%

SOURCE: BLOOMBERG, INCRED RESEARCH



Nifty valuation and outlook

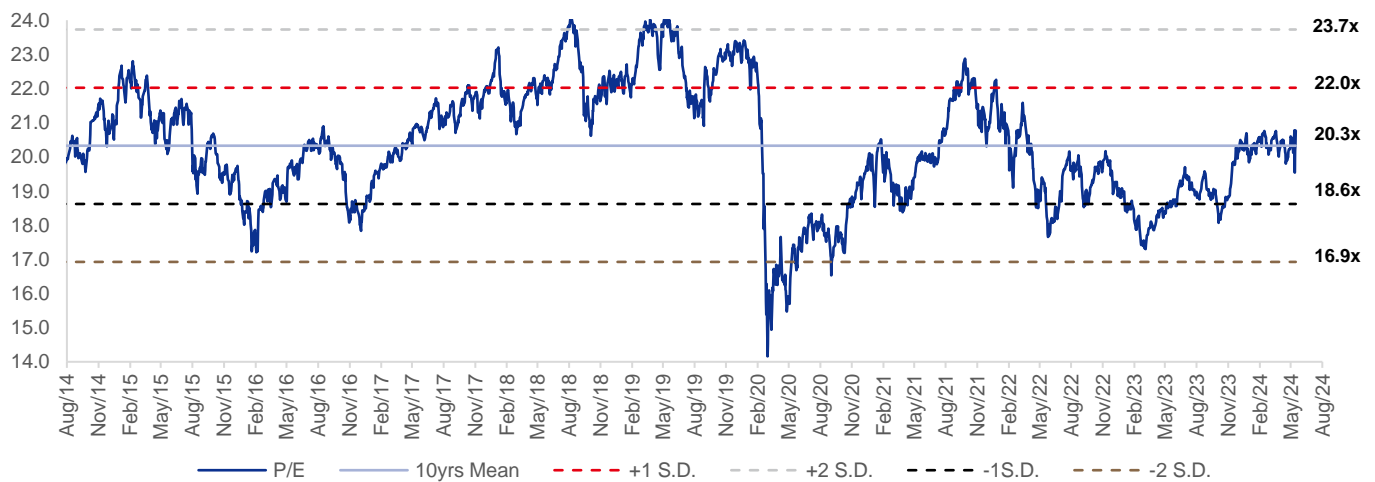
Index valuation provides comfort around the 10-year mean level, but is rich in comparison to Asia peers ►

The Nifty-50 Index’s valuation has been around the 10-year mean level of 20x one-year forward P/E for the last eight months. We prefer to look at a 10-year basis, as India emerges to drive global GDP growth. The major index earnings have been maintained post 1QFY25 results, with early-teen earnings growth.

The high volatility in the index to continue, considering the wide swing in sentiment after the coalition government at the Centre, global volatility and India’s rich valuation comparative to Asia (+2SD above the 10-year mean). Slow policy action by the central government under the Modi 3.0 regime is a cause of concern, especially considering the subdued government spending in the Jun 2024 quarter. Also, the policy action shifting towards winning assembly elections is also an area of concern.

We continue to maintain our base-case, bull-case, and bear-case Nifty P/E targets at 22x, 20x and 18x, respectively. With a higher probability of interest rates coming through on the back of the US Fed’s expected rate cut in Sep 2024F, we raise our bull-case probability to 30% and reduce the base-case probability to 60%. Hence, this leads to an upgrade in our Nifty-50 blended target to 26,736, an upside of 7% by the end of Mar 2025F.

Figure 47: Nifty-50 companies’ forward P/E valuation just above the 10-year mean level



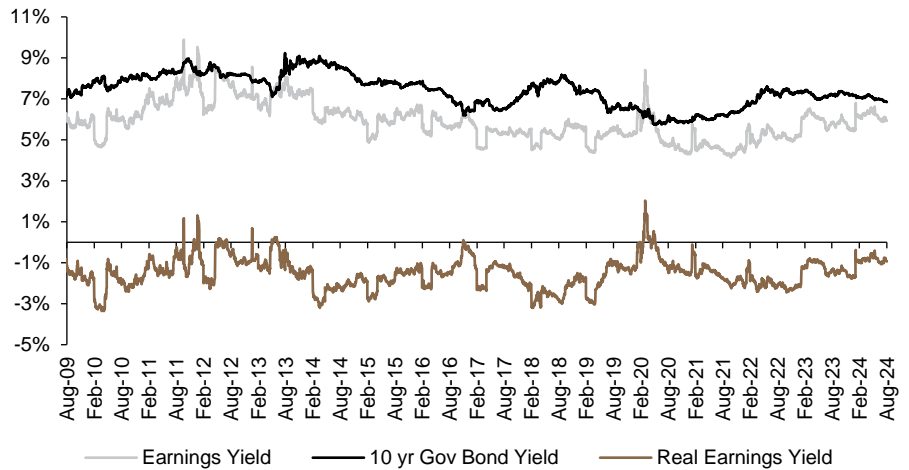
SOURCE: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

Figure 48: Nifty-50 companies’ forward P/E valuation is near +1SD of the 15-year mean



SOURCE: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

Figure 49: Real earnings yield for Nifty-50 companies improves, but not attractive



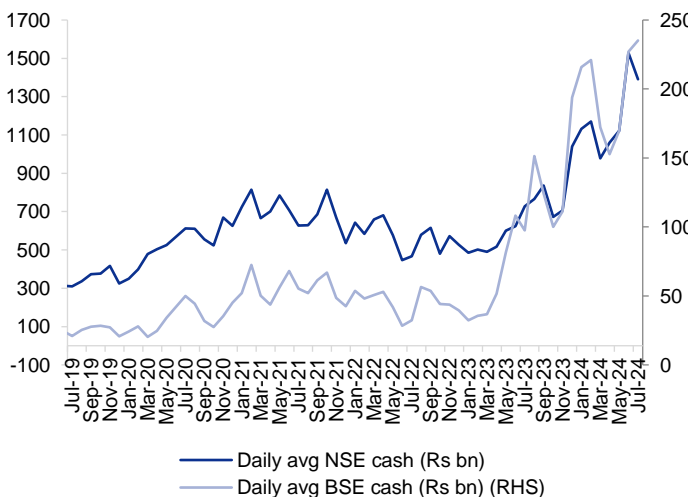
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 50: Nifty Index target and Bull-case, Base-case and Bear-case scenarios

Economic variables FY25F	GDP growth >7%, Stable coalition government, Brent crude oil <US\$90/bbl, inflation <4%, repo rate drops >100bp, above- normal monsoon	GDP growth >6.5%, Brent crude oil <US\$100/bbl, inflation <5%, repo rate drops >50bp, normal monsoon	GDP growth <6%, wobbly coalition government, Brent crude oil >US\$105/bbl, inflation >6%, repo rate drops <25bp, poor distribution of rainfall
Probability of event	30%	60%	10%
1-year forward EPS (Rs.)	1,310.6	1,310.6	1,310.6
Target P/E (x)	22.0	20.0	18.0
Target index	28,834	26,213	23,592
Nifty-50 now	24,997	24,997	24,997
Up/ downside	15.4%	4.9%	-5.6%
Blended index target		26,736	

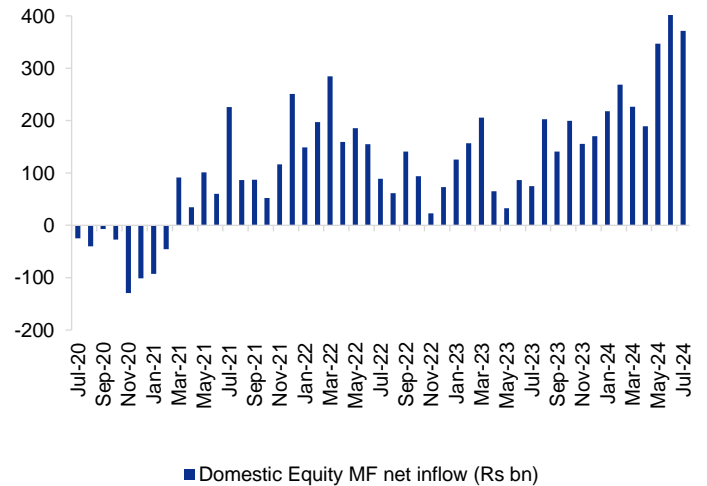
SOURCE: INCRED RESEARCH

Figure 51: Stock market volume continues to scale a new peak



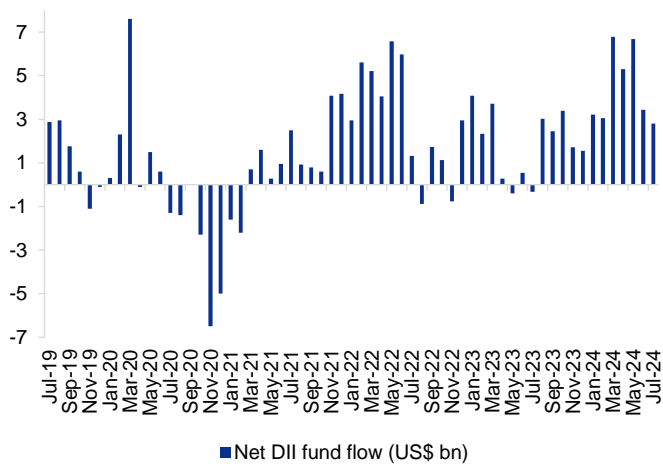
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 52: Domestic mutual funds' mobilization sustains its high levels



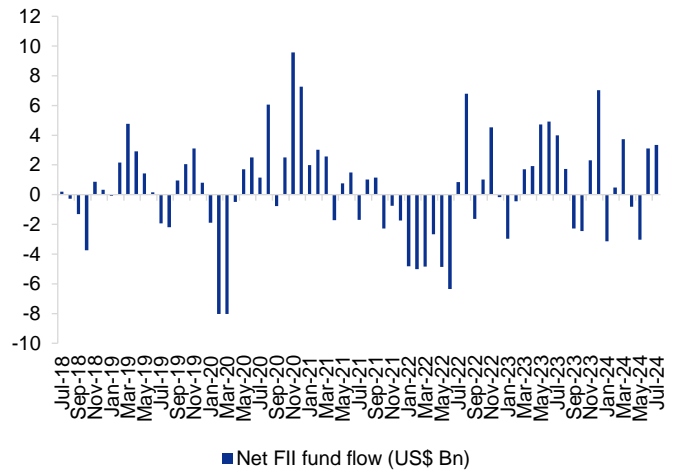
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 53: Domestic funds' investment eases from its peak



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 54: FII inflows sustain post-election political stability



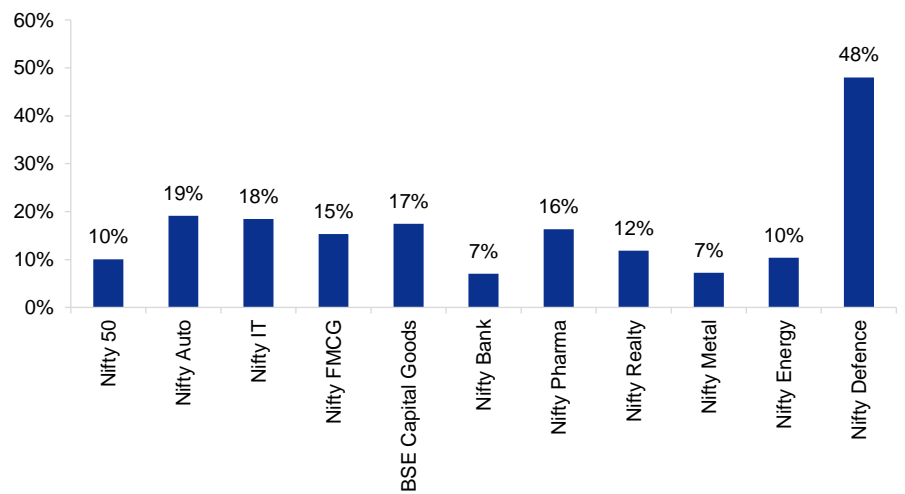
SOURCE: BLOOMBERG, INCRED RESEARCH

Sector-wise ratings and stock ideas

Nifty-50 has been in a consolidation phase in the last one month, while mid-caps and small-caps continue to outperform. The major beat has come from the pharmaceutical and information technology or IT sectors. The big underperformance has been from the public sector undertaking, real estate and automobile sectors. Comparing Bloomberg consensus EPS change vs. sector returns for the last six months, we feel the telecom sector's returns are excessive while the financial services sector's returns don't capture the EPS upgrade.

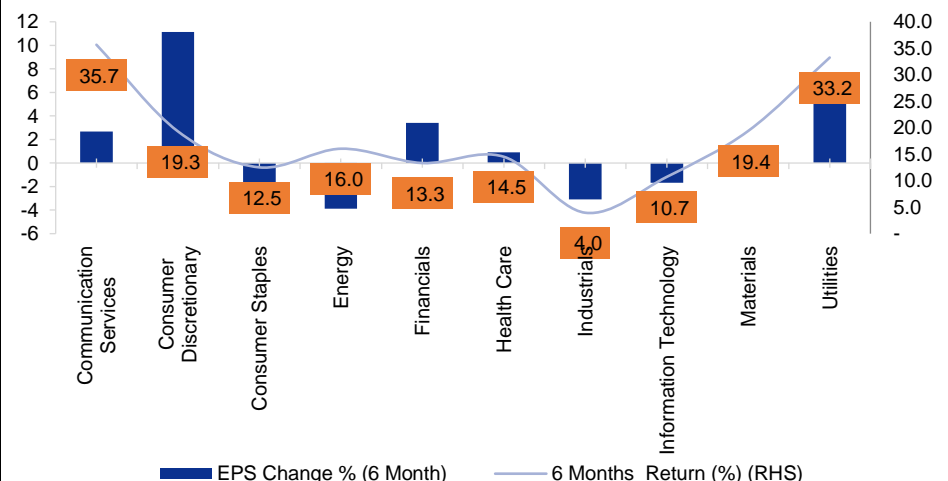
In the last few weeks, the number of stock upgrades almost equal downgrades. We have upgraded the ratings of Britannia Industries, Marico, ABB India, Hero MotoCorp, LTI Mindtree and V-Guard Industries. We have downgraded Adani Ports, Samvardhana Motherson International or SAMIL, IPCA Labs, Torrent Pharma, Mahanagar Gas, Indraprastha Gas, and Orient Cement.

Figure 55: Sectoral index performance vs. Nifty-50 (YTDFY25)



SOURCE: BLOOMBERG, INCRED RESEARCH, YTD TILL 2023

Figure 56: Last six months' correlation between EPS change and sectoral returns; disconnect seen in financial services and telecom sectors



SOURCE: INCRED RESEARCH

Figure 57: Our sector-wise ratings

Overweight	Neutral	Underweight
Aluminium	Automobile	Agribusiness
Cement	Auto Ancillary	Aviation
Consumer Electricals	Building Materials	Chemicals
Capital Goods	Consumer staples	Diagnostics
Electronic Manf services	Information Technology	Metals & Mining
Financial Services	Infrastructure	Ports & Logistics
Oil and Gas	Pharma	

SOURCE: INCRED RESEARCH

Figure 58: Nifty mid-cap forward P/E valuation discomfort vs. other indices

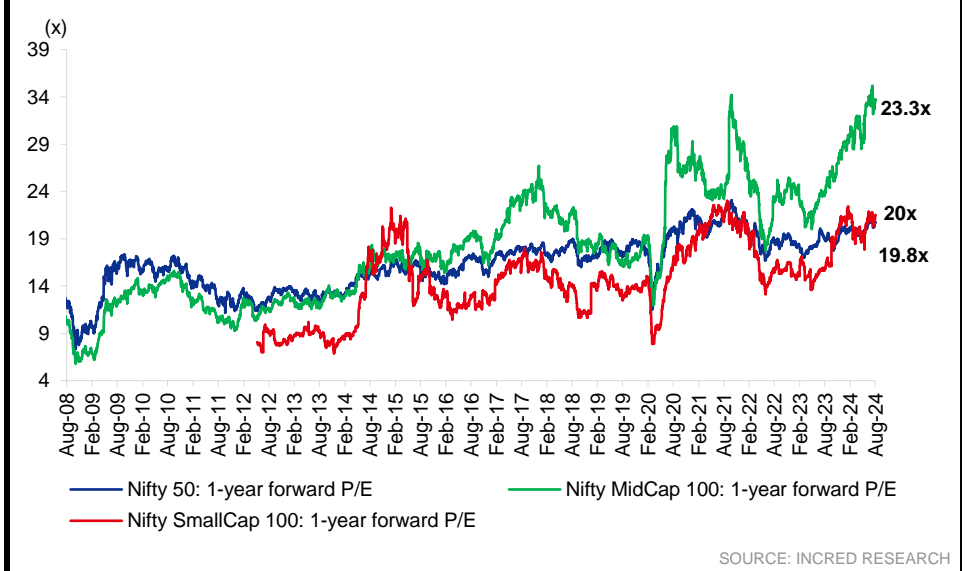


Figure 59: Non-consensus stocks with a REDUCE rating in our coverage universe

Company Name	Bloomberg Ticker	Reco.	Price	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/ EBITDA (x)	Dividend Yield (%)	Upside/ Downside (%)	ROE (%)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F				
Adani Ports	ADSEZ IN	REDUCE	1,478	1,329	3,692	44	48.5	60.0	30.5	24.6	5.1	4.3	19.0	0.0	-10%	23.0
Apollo Tyres	APTY IN	REDUCE	504	414	370	4	27.3	26.5	18.9	19.0	2.1	2.0	7.5	0.0	-18%	11.9
Avanti Feeds	BRCM IN	REDUCE	687	354	108	1	23.6	29.3	29.1	23.5	3.8	3.4	17.2	0.0	-48%	13.7
Balrampur Chini Mills	BRCM IN	REDUCE	687	354	108	1	23.6	29.3	29.1	23.5	3.8	3.4	17.2	0.0	-48%	13.7
Bharat Forge	BHFC IN	ADD	1,607	1,831	865	10	28.8	36.2	60.2	44.4	7.2	6.1	24.4	0.0	14%	15.9
Clean Science & Tech.	CLEAN IN	REDUCE	1,528	665	188	2	25.3	24.6	60.5	62.0	11.7	10.0	42.7	-	-56%	21.1
Coal India	COAL IN	REDUCE	531	209	3,786	45	27.4	24.9	19.4	21.3	4.1	3.8	11.4	0.0	-61%	22.5
Coforge	COFORGE IN	REDUCE	6,081	4,431	469	6	170.0	195.0	35.8	31.2	9.9	9.2	21.3	0.0	-27%	29.5
Cummins India	KKC IN	REDUCE	3,769	3,620	1,208	14	68.6	79.2	55.0	47.6	13.9	11.3	50.1	0.0	-4%	27.8
Delhivery	DELHIVER IN	REDUCE	430	263	368	4	(13.4)	NA	(32.2)	NA	4.5	NA	(84.2)	-	-39%	(13.1)
Divi's Laboratories	DIVI IN	ADD	4,903	5,649	1,505	18	74.0	94.1	66.2	52.1	8.8	7.8	46.3	-	15%	13.9
Exide Industries	EXID IN	REDUCE	499	412	490	6	14.5	16.7	34.5	29.8	3.1	3.0	15.6	0.0	-17%	9.2
Gland Pharma	GLAND IN	REDUCE	1,873	1,768	357	4	59.0	79.4	31.8	23.6	3.2	2.8	19.0	-	-6%	10.5
Gujarat Gas	GUJGA IN	ADD	600	642	477	6	21.9	34.9	27.4	17.2	4.7	3.8	16.1	0.0	7%	18.2
Indian Oil Corp.	IOCL IN	ADD	173	107	2,828	34	NA	NA	NA	NA	NA	NA	NA	NA	-38%	NA
InterGlobe Aviation	INDIGO IN	REDUCE	4,747	2,400	2,120	25.2	50.1	75.3	94.8	63.0	48.2	27.3	15.1	-	-49%	91.0
JSW Steel	JSTL IN	REDUCE	944	470	2,669	31.8	25.9	25.9	30.6	25.7	3.6	3.3	13.6	0.0	-50%	12.5
Kaveri Seed Co.	KSCL IN	ADD	1,050	639	62	0.7	NA	NA	NA	NA	NA	NA	NA	NA	-39%	NA
Mahanagar Gas	MAHGL IN	REDUCE	1,779	1,397	203	2.4	117.3	108.3	15.2	16.4	2.9	2.6	10.1	0.0	-21%	20.0
NCC	NJCC IN	REDUCE	327	150	237	2.8	15.1	16.1	21.6	20.4	2.6	2.3	13.6	0.0	-54%	17.1
NMDC	NMDC IN	ADD	230	319	778	9.3	27.2	30.7	8.4	7.5	2.1	1.7	5.0	0.0	39%	26.8
PG Electroplast	PGEL IN	REDUCE	505	185	152	1.8	7.3	8.0	69.3	62.9	10.7	9.1	39.3	-	-63%	16.7
PNC Infratech	PNCL IN	REDUCE	459	400	136	1.6	21.8	24.0	21.0	19.1	2.1	1.9	14.2	0.0	-13%	17.2
SRF	SRF IN	REDUCE	2,556	1,540	876	10.4	46.5	52.3	54.9	48.8	5.9	5.3	27.3	0.0	-40%	11.4
Tata Motors	TTMT IN	REDUCE	1,077	831	4,581	54.6	60.4	73.4	17.8	14.7	3.9	3.2	5.6	0.0	-23%	24.3
Tata Steel	TATA IN	REDUCE	155	82	2,233	26.6	5.4	5.4	28.5	28.6	1.7	1.6	9.8	0.0	-47%	6.1
Timken	TMKN IN	REDUCE	3,814	2,987	332	4.0	62.4	74.1	61.1	51.4	10.0	8.4	42.1	0.0	-22%	17.7
TVS Motor Company	TVSL IN	REDUCE	2,741	1,782	1,506	17.9	46.7	50.8	58.1	53.9	17.0	13.6	32.6	0.0	-35%	28.8
VRL Logistics	VRL IN	REDUCE	525	500	53	0.6	9.3	10.4	56.3	50.2	4.7	4.5	13.7	0.0	-5%	8.4

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG, NOTE: PRICES AS ON 7 JUN 2023

Figure 60: Our key mid-cap and small-cap stock recommendations

Company Name	Bloomberg Ticker	Reco.	Price	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	Upside/Downside (%)	ROE (%)
			Rs	Rs	(Rs bn)	(US\$ bn)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F	(%)	FY24F
Apex Frozen Foods	APEX IN	ADD	274	323	10	0	26.9	30.3	10.2	9.0	1.4	1.2	6.2	1.0	18%	19.3
Balkrishna Ind.	BIL IN	ADD	2,821	3,542	630	7.5	88.6	100.9	31.8	28.0	5.4	4.7	20.5	0.7	26%	18.0
Cyient	CYL IN	ADD	2,001	2,228	257	3.1	74.8	87.6	26.8	22.9	5.2	4.7	15.1	1.9	11%	27.3
Cyient DLM	CYIENTDL IN	ADD	781	1,049	72	0.9	15.2	23.5	51.4	33.2	6.0	5.1	32.9	-	34%	21.0
Endurance Tech.	ENDU IN	ADD	2,509	2,884	408	4.9	69.8	87.7	35.9	28.6	6.1	5.2	20.4	0.5	15%	18.3
Globus Spirits	GBSL IN	ADD	892	1,588	30	0.4	48.9	105.9	18.2	8.4	2.3	1.8	10.2	0.2	78%	13.5
KEC International	KECI IN	ADD	864	1,035	257	3.1	29.5	38.9	29.3	22.2	4.7	4.1	16.2	0.8	20%	17.3
MTAR Tech.	MTARTECH IN	ADD	1,800	2,644	64	0.8	31.3	58.8	57.6	30.6	7.2	5.8	33.7	-	47%	13.3
Navin Fluorine International	NFIL IN	ADD	3,290	4,080	189	2.2	69.0	81.6	47.7	40.3	6.0	5.2	26.8	0.3	24%	13.4
PG Electroplast	PGEL IN	REDUCE	505	185	152	1.8	7.3	8.0	69.3	62.9	10.7	9.1	39.3	-	-63%	16.7
Skipper	SKIPPER IN	ADD	435	500	55	0.7	14.5	17.9	29.9	24.3	4.4	3.7	12.4	0.1	15%	15.7
UPL	UPLL IN	ADD	583	694	506	6	16.7	44.5	86.4	16.8	1.5	1.4	10.3	0.3	19%	5.9

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG, PRICES AS ON 20 JAN 2024

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.