

India

India Strategy

InCred Sector rating

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

Slow economy and EPS momentum

- The recovery in economic activity of late has been gradual, as seen in GST mop-up, fuel consumption & vehicle sales. Hopes lie on 2H festive season.
- 2Q Nifty-50 Bloomberg consensus EPS growth expectations are just 2% yoy and flat qoq, while the full-year or FY25F expectation is of 14% growth.
- We expect the correction mode to prolong in the Dec 2024F quarter, as rich valuations undermine risk. We lower our Nifty-50 target by 3%.

Economic recovery post general elections is gradual

The economic slowdown in the Jun 2024 quarter due to general elections in India seems to be taking a longer-than-expected time to recover to the normal level. There was a miss in India GDP growth estimate for the Jun 2024 quarter, which the RBI expects to be covered up in 2HFY25F based on rural recovery and festive season-related demand. However, the festive demand-led recovery has been gradual so far and rural sentiment in Sep 2024 was weaker compared to the enthusiasm seen in Apr 2024. Private capex recovery in the Sep 2024 quarter & the RBI's monetary policy change to Neutral in Oct 2024 are encouraging.

Sep 2024 quarter's index EPS growth is expected to be muted

For the Sep 2024 quarter, Bloomberg consensus estimate expects Nifty-50 companies' EPS to grow by just 2% yoy. High double-digit PAT growth is expected in telecom, capital goods, automobiles, healthcare and IT sectors. The laggards are likely to be energy and consumer staples. The delay in the festive season may also be impacting discretionary demand-dependent sectors' performance for the quarter, which may normalize in the Dec 2024F quarter. For our coverage universe of 150 stocks, we expect a 7.2% PAT yoy growth on 3% sales growth. On qoq basis, sales and EBITDA growth is expected to be flattish.

Preference for large-caps over mid-caps continues

In the last six months, major EPS upgrades in the Nifty-100 index have come from utilities, industrials, pharmaceutical and telecom sectors while sharp cuts have been in the case of metals, FMCG and IT. Our analysis of Nifty-50 sector-wise valuations indicates that only telecom, energy and financial sectors are trading below +1SD of their 15-year mean levels. However, rich valuations of +2SD above 15-year mean P/E levels are seen in new technology, industrial & FMCG sectors. In our coverage universe, we have upgraded Infosys, HCL Technologies, SBI Life and Vinati Organics to ADD (from HOLD rating earlier).

Lower Nifty-50 target by 3% as the correction mode sets in

Taking into account the Nifty-50 EPS cut of 1.5% in recent weeks and factoring in the slower-than-expected economic recovery in our probabilities, we have cut blended Nifty-50 target by 3% to 25,978, an upside of just 5%. The rich MSCI India valuation to peers and Nifty-Midcap make earnings disappointment to reflect in a sharp stock price correction. We turn cautious on markets in the short term, as the Nifty-50 earnings ask rate in 2H is large vs.1H delivery. Key events to watch out for are the festive demand trend and assembly election results in some states in coming weeks. We prefer defensive sector stocks and large-caps.

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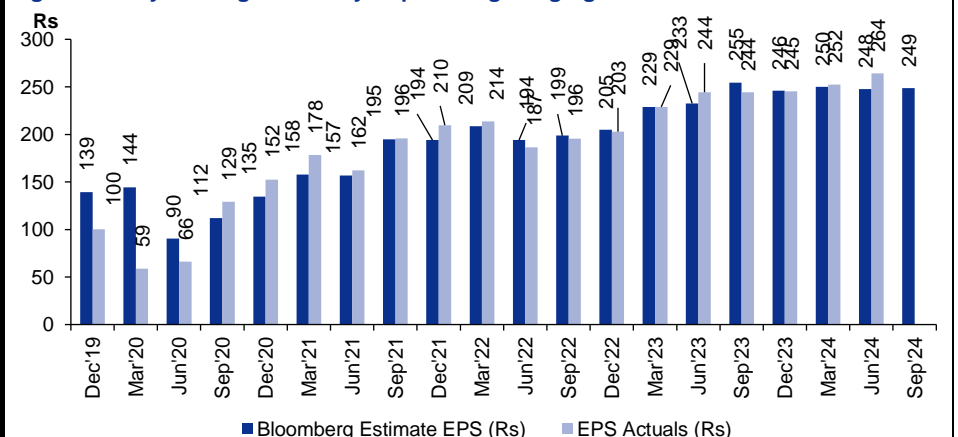
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Figure 1: Nifty earnings are likely to post single-digit growth in 2QFY25F



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 2: Valuations of our high-conviction ADD/ REDUCE stock ideas

Company	BLOOMBERG TICKER	Reco.	Market Cap.	Market Cap.	CMP	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
Aditya Birla Sunlife AMC	ABSLAMC IN	ADD	221	2.6	765	950	24%	35.3	43.2	26.8%	21.7	17.7	6.1	5.3	6.1	2.5%	29.9
Bajaj Finance	BAF IN	ADD	4,271	50.8	6,900	9,000	30%	287.8	386.3	28.6%	24.0	17.9	4.7	3.9	4.7	0.8%	21.2
BCL Industries	BCLIL IN	ADD	17	0.2	56	98	74%	3.9	7.0	44.4%	14.3	8.0	2.4	1.9	9.2	0.1%	26.2
Bharat Forge	BHFC IN	ADD	685	8.1	1,471	1,831	24%	28.8	36.2	35.5%	55.1	40.7	6.6	5.6	22.4	0.7%	15.9
Clean Science and Tech	CLEAN IN	REDUCE	170	2.0	1,599	665	-58%	25.3	24.6	3.6%	63.3	64.9	12.2	10.5	44.9	0.0%	21.1
Container Corporation of India	CCRI IN	ADD	529	6.3	869	1,083	25%	27.9	39.0	33.0%	31.2	22.3	3.8	3.4	19.6	0.0%	13.0
Cyient DLM	CYIENTDL IN	ADD	55	0.7	694	1,049	51%	15.2	23.5	74.8%	45.6	29.5	5.3	4.5	29.1	0.0%	21.0
Dabur India	DABUR IN	ADD	1,015	12.1	573	725	27%	12.5	14.7	18.8%	45.7	39.0	9.0	8.1	36.4	1.1%	21.1
Exide Industries	EXID IN	REDUCE	422	5.0	497	412	-17%	14.5	16.7	16.2%	34.3	29.7	3.1	3.0	15.5	1.7%	9.2
Globus Spirits	GBSL IN	ADD	31	0.4	1,081	1,588	47%	48.9	105.9	77.8%	22.1	10.2	2.8	2.2	12.2	0.2%	13.5
HDFC Bank	HDFCB IN	ADD	12,767	151.9	1,673	2,150	29%	93.9	112.9	18.7%	17.8	14.8	2.6	2.4	2.6	1.8%	15.4
Hero MotoCorp	HMCL IN	ADD	1,043	12.4	5,217	5,812	11%	240.8	263.1	16.1%	21.7	19.8	5.3	4.9	14.4	3.1%	25.6
InterGlobe Aviation	INDIGO IN	REDUCE	1,786	21.2	4,624	2,400	-48%	50.1	75.3	-38.4%	92.4	61.4	47.0	26.6	14.8	0.0%	91.0
Lupin	LPC IN	ADD	993	11.8	2,176	2,329	7%	65.3	78.6	53.2%	33.3	27.7	5.9	4.9	20.4	0.4%	19.0
Mahindra & Mahindra Finance	MMFS IN	ADD	349	4.1	282	370	31%	18.7	22.8	26.6%	15.1	12.4	1.8	1.7	1.8	3.2%	12.3
Maruti Suzuki	MSIL IN	ADD	3,818	45.4	12,144	15,541	28%	517.6	565.6	14.0%	23.5	21.5	3.5	3.2	15.2	1.3%	16.9
Petronet LNG	PLNG IN	ADD	526	6.3	351	519	48%	28.8	40.5	36.6%	12.2	8.7	2.7	2.2	8.6	3.1%	23.3
PG Electroplast	PGEL IN	REDUCE	155	1.8	594	185	-69%	7.3	8.0	23.5%	81.5	73.9	12.5	10.6	46.0	0.0%	16.7
SBI Cards	SBICARD IN	REDUCE	704	8.4	740	500	-32%	25.7	28.7	6.4%	28.7	25.8	5.0	4.3	5.0	0.5%	18.7
Skipper	SKIPPER IN	ADD	63	0.8	574	500	-13%	14.5	17.9	51.7%	39.5	32.1	5.8	4.9	15.9	0.1%	15.7
State Bank of India	SBIN IN	ADD	7,238	86.1	811	1,100	36%	80.9	94.9	12.9%	10.0	8.5	1.7	1.5	1.7	2.5%	17.8
Tata Steel	TATA IN	REDUCE	1,903	22.6	152	82	-46%	5.4	5.4	-0.7%	28.1	28.2	1.7	1.6	9.7	1.3%	6.1
Tata Consultancy Services	TCS IN	ADD	14,867	176.8	4,109	4,915	20%	141.8	158.0	10.9%	29.0	26.0	15.1	13.9	20.4	2.9%	54.3
Zydus Lifesciences	ZYDUSLIF IN	ADD	1,027	12.2	1,021	1,330	30%	46.1	50.9	15.7%	22.1	20.1	4.3	3.7	15.7	0.7%	21.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Economic activity yet to pick up in festive season

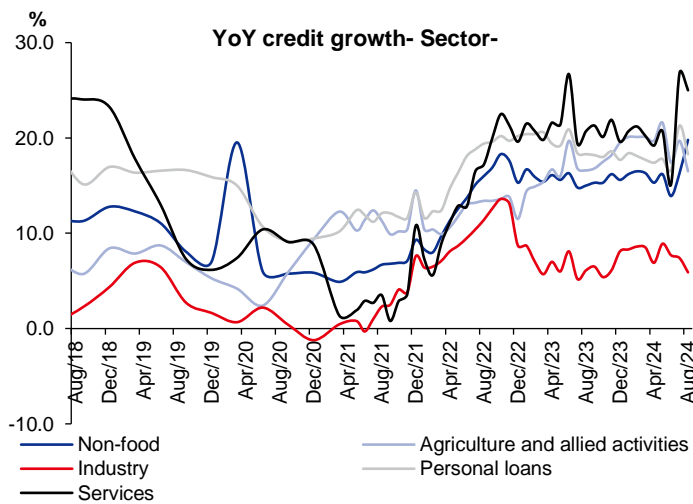
Economy section

Election-led slowdown prolongs ▶

The economic activity slowdown around the general elections period of May-Jun 2024, as recorded by the miss in GDP growth estimate, slow goods and service tax or GST collection growth, Index of Industrial Production or IIP, etc. seems to prolong, as seen from the lukewarm recovery in the festive period in Sep-Oct 2024, government capex's declining trend, easing credit growth, sluggish growth in e-way bill generation and toll revenue in Sep 2024 and diesel consumption dropping for the fourth successive month. Inflation inching up from its recent low adds to the woes. The high asking rate for 2HFY25F GDP growth rate to surpass the FY25F target of 7% is an area of concern.

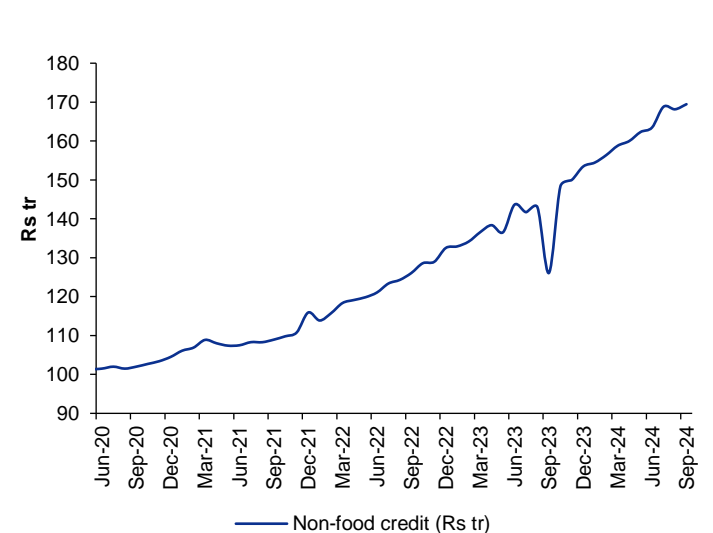
The growth in bank credit disbursements has been slowing in the current fiscal. Outstanding non-food bank credit of scheduled commercial banks (SCBs) (excluding the impact of the merger of HDFC with HDFC Bank) grew by 14.4% as of 20 Sep 2024 vs. +16.3% in FY24. The measures implemented by the Reserve Bank of India (RBI) in Nov 2023 to curb unsecured loan disbursements from SCBs by increasing the risk weight on these loans and, thereby making them costlier, appears to be having an impact on lending to non-banking finance companies or NBFCs. The only areas witnessing improved momentum are housing loans and credit to industry. Deposit growth has also been slowing, but at a slower pace.

Figure 3: Loan growth dips across sectors from its peak in May 2024



SOURCE: RBI, INCRED RESEARCH

Figure 4: Non-food credit witnesses a sharp recovery



SOURCE: RBI, INCRED RESEARCH

Auto fuel consumption fell in Sep 2024. This marks the fourth month in a row of declining demand. Mobility generally declines during the monsoon months, leading to lesser demand for auto fuels. Auto fuel consumption started falling since the onset of the monsoon season in Jun 2024. Declining consumption witnessed in the monsoon months of the current fiscal is, however, not merely seasonal. Consumption dropped even when the data was adjusted for seasonality. In the year-on-year comparison as well, September was a weak month in terms of auto fuel consumption. The weakness in automobile retail sales since May 2024 supports the weakening fuel consumption trend.

Figure 5: Automobile sector's volume on a weak momentum

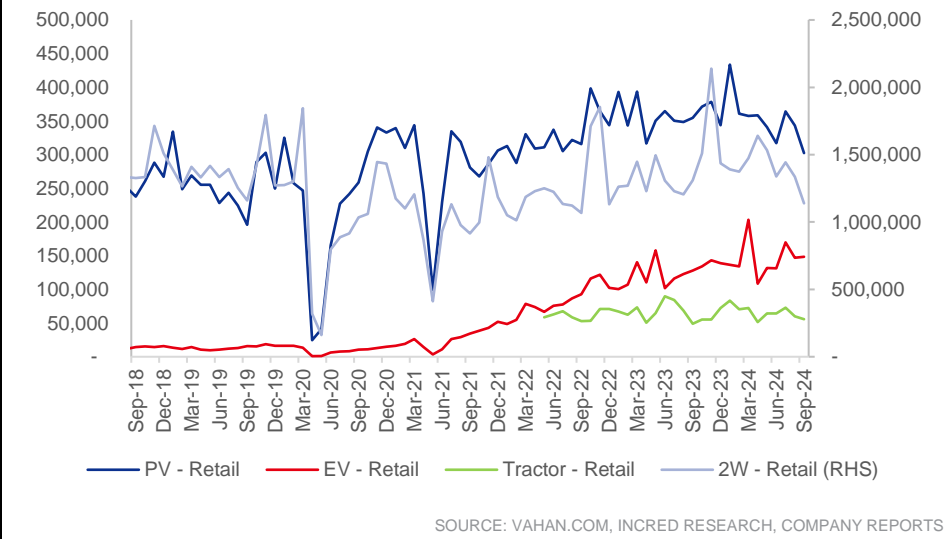


Figure 6: Fuel consumption lags despite seasonality

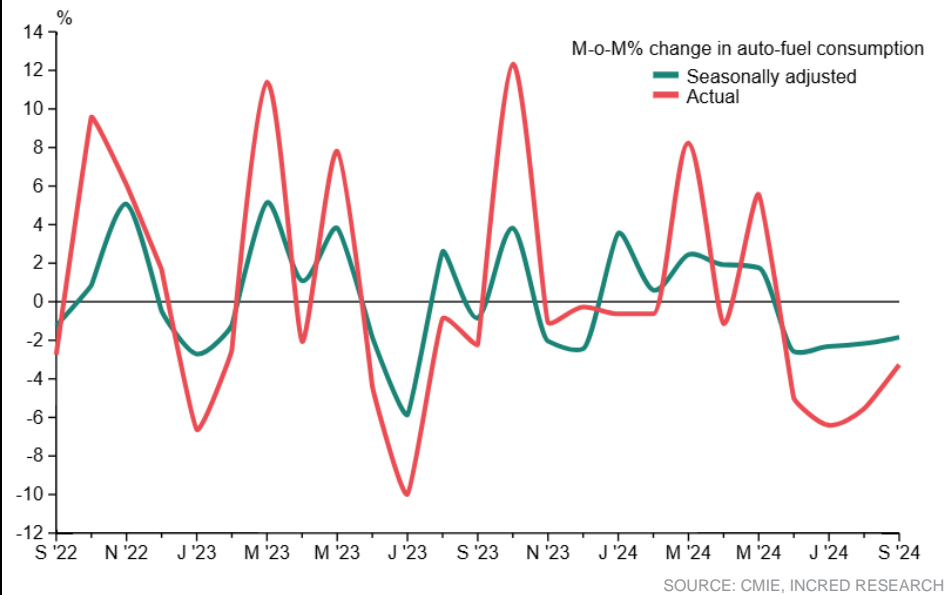


Figure 7: Electricity generation continues to ease from its seasonal peak

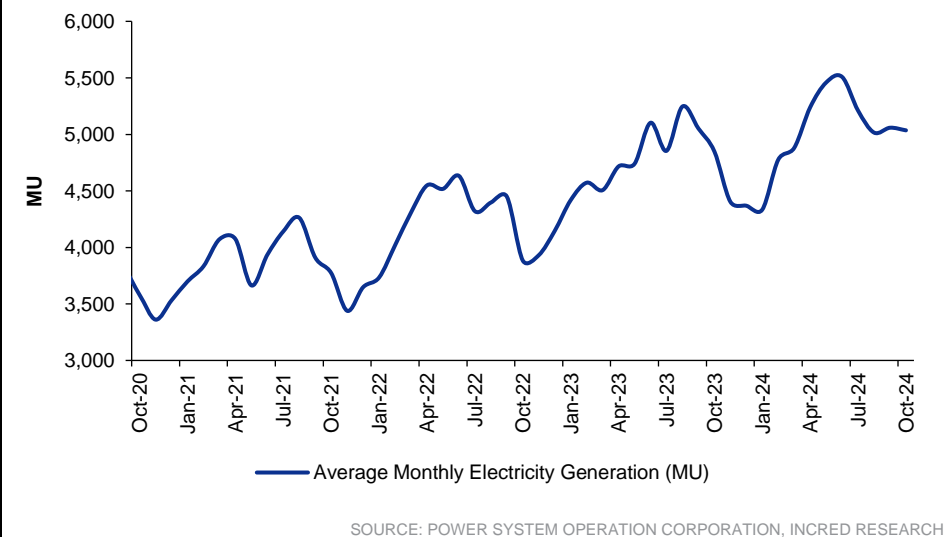
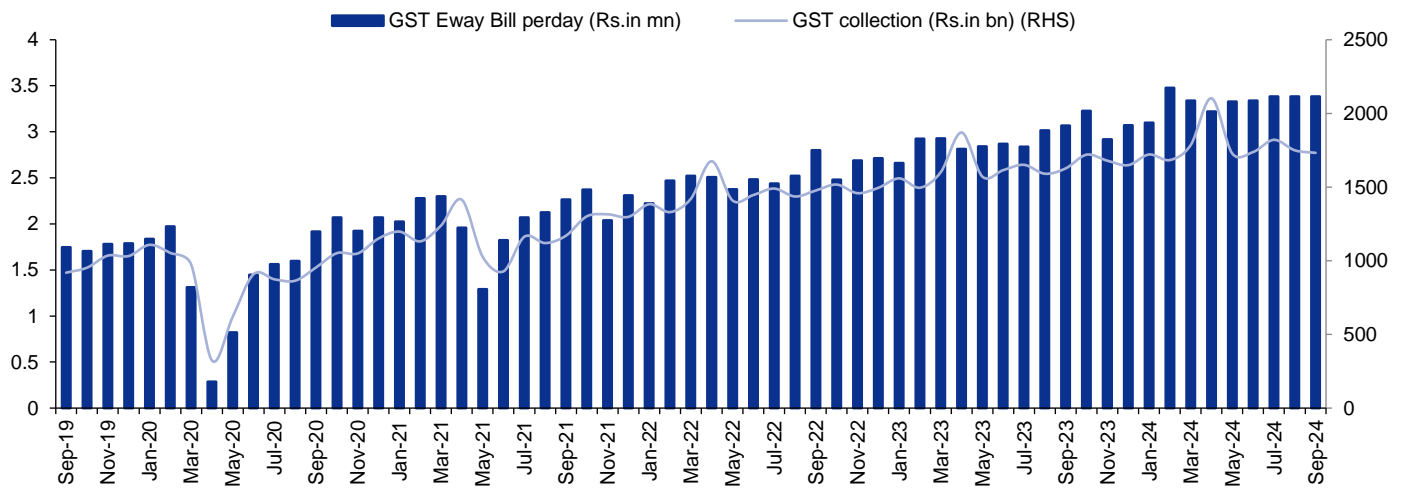
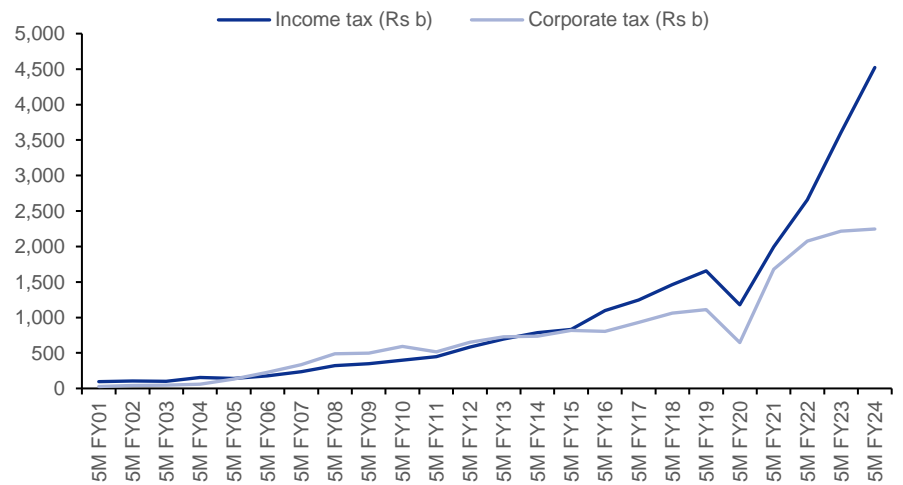


Figure 8: GST collections and E-way bills register mid-teen growth



NOTE: GST IS GOODS AND SERVICES TAX
SOURCE: GST COUNCIL, GOODS AND SERVICES TAX NETWORK (GSTN), INCRED RESEARCH

Figure 9: Income-tax collection continues to impress while corporate tax mop-up eases (Rs m)



SOURCE: THE CENTRE FOR MONITORING INDIAN ECONOMY (CMIE), INCRED RESEARCH

India's gross fiscal deficit (GFD) reduced by 31% yoy to Rs.4.4tr during Apr-Aug 2024. The lower GFD this year was on account of higher revenue collections and a fall in capital expenditure.

The central government's gross tax revenue collections rose by 12% yoy to Rs13.3tr during Apr-Aug 2024, driven by income-tax collection growth of 26% yoy while the corporate tax mop-up was down 6%.

Central government capital expenditure failed to pick up during the current fiscal. At Rs.3tr, it was down by 19% yoy vs. FY25 budgeted growth of 17%.

Urban consumer sentiment recovery is good for online sales >

All-India rainfall for the season ended with an 8% surplus vs. the India Meteorological Department or IMD's expectation of 6% above the normal level, with a deviation of 4% on either side. Region-wise, rainfall stood above normal for central India at 19%, northwest India 7% above normal, and south India 14% above normal while staying 14% below normal in east & northeast India.

The monsoon season started in India on a weak note in Jun 2024 (<89% of the long-period average or LPA) but picked up momentum from Jul 2024 and maintained the tempo, resulting in above-normal rainfall in all the months from Jul

2024 and >114% of LPA in the second-half of the season (Aug & Sep). Out of the 36 meteorological sub-divisions, three sub-divisions, namely Arunachal Pradesh, Punjab, and Jammu & Kashmir Ladakh received rainfall deficit during the season.

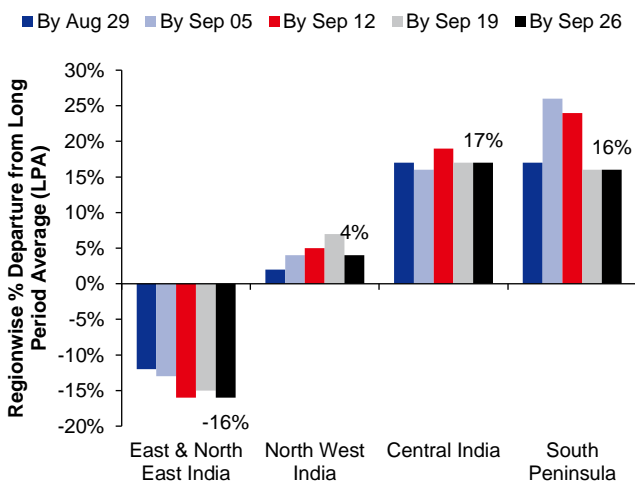
As per the Central Water Commission or CWC, as on 3 Oct 2024, the water levels at India's 153 reservoirs stood at 157.5bcm (billion cubic metres), or 88% of their total live storage capacity, much better than 74% of live storage capacity in the first week of Oct last year. Punjab, Himachal Pradesh and the nearby regions' water levels may remain a cause of concern in the near term as their water levels ended below the normal storage levels in the monsoon season.

Consumer sentiment in urban India recovered well in Sep 2024. The Index of Consumer Sentiment (ICS) in urban India grew by 2.9%, after having declined by 2.2% in Aug 2024. The recovery in September not only covered the losses of August but also undid the stagnation suffered in July. As a result, the ICS in Sep 2024 was close to its all-time high.

Urban households were more optimistic than rural households regarding their current economic conditions and also on what the future holds for them in Sep 2024. The urban Index of Current Economic Conditions (ICC) rose by 2.1% in Sep 2024 while its rural counterpart fell by 2.6%. The 2.9% recovery in urban consumer sentiment seen in Sep 2024 is encouraging and does raise expectations of good festive season demand in urban India. However, the sluggish recovery in urban India's buying intentions suggests cautious optimism.

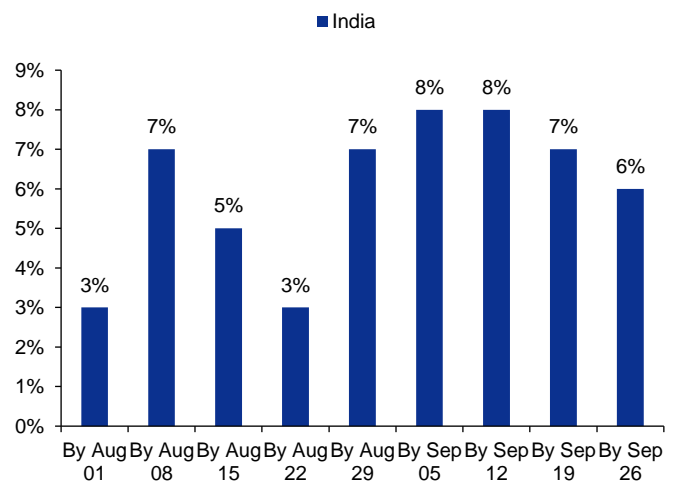
The decline in rural consumer sentiment in Sep 2024 sharply contrasts with the optimism seen in Apr 2024. Earlier, in April and May 2024, rural consumer sentiment surged and remained elevated as households were hopeful of above-normal rainfall. The growing cautiousness among rural households, as seen in their receding sentiment, is disconcerting for consumer marketers, particularly with the festive season round the corner.

Figure 10: Cumulative sub-division wise surplus/deficit rainfall (%)



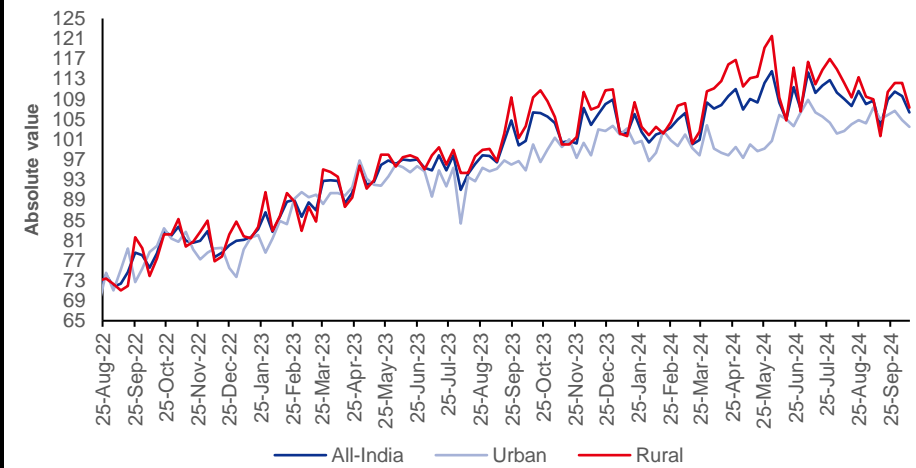
SOURCE: INCRED RESEARCH, INDIA METEOROLOGICAL DEPARTMENT

Figure 11: Cumulative deficit for the season pan-India down to -2%



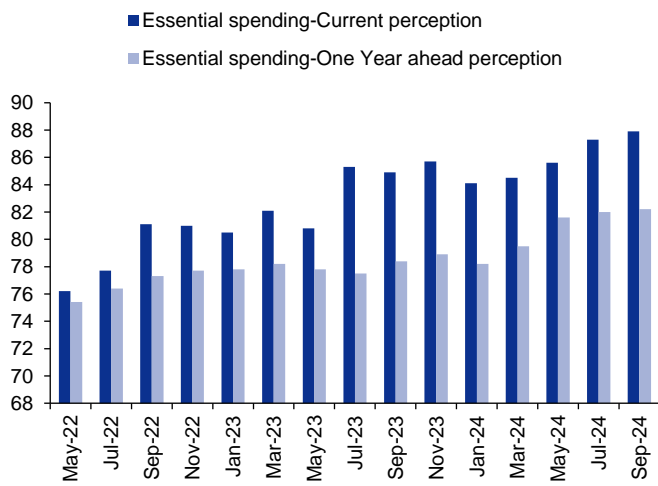
SOURCE: INCRED RESEARCH, INDIA METEOROLOGICAL DEPARTMENT

Figure 12: Consumer sentiment is on a gradual improvement path, but rural sentiment is still volatile



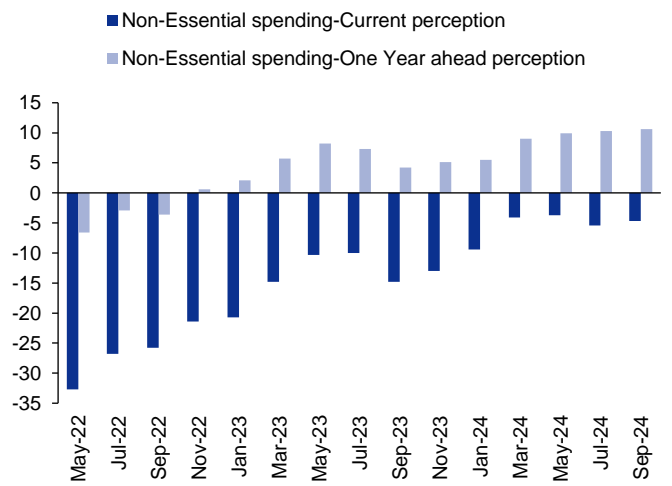
SOURCE: RESERVE BANK OF INDIA (RBI), INCRED RESEARCH

Figure 13: Consumer perception on essential spending for the current year and a year forward improves



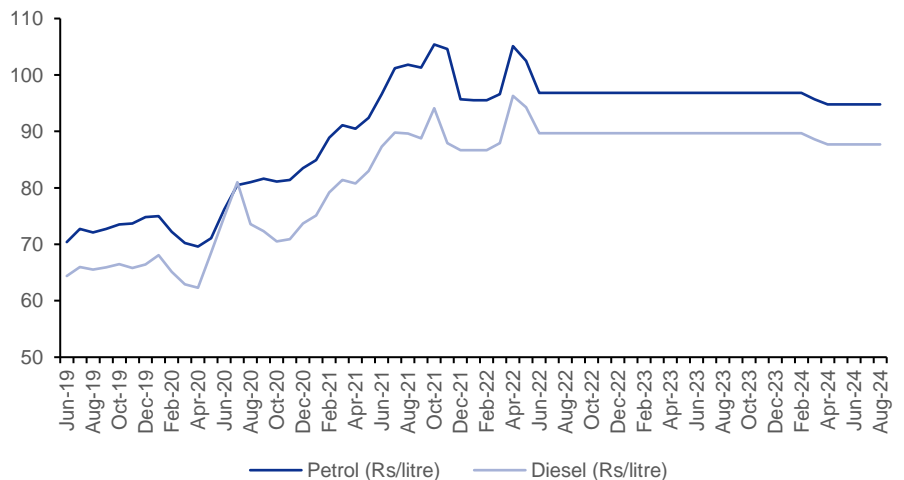
SOURCE: CMIE, INCRED RESEARCH, RBI.

Figure 14: Consumer perception on non-essential spending for the current year and a year forward shows improvement



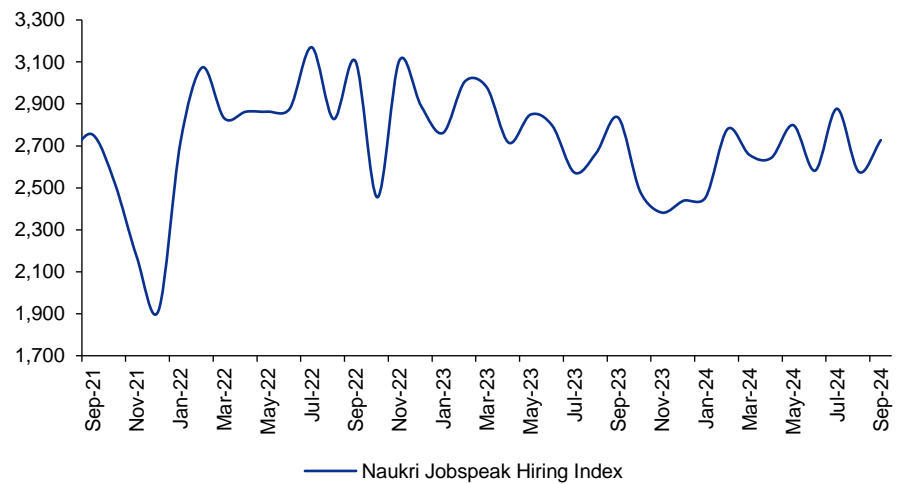
SOURCE: CMIE, INCRED RESEARCH, RBI.

Figure 15: Benign global crude oil prices helpful for local fuel prices (Rs/L)



SOURCE: INDIAN OIL CORPORATION (IOC) PRICES FOR DELHI, INCRED RESEARCH

Figure 16: Naukri Jobspeak hiring Index improves



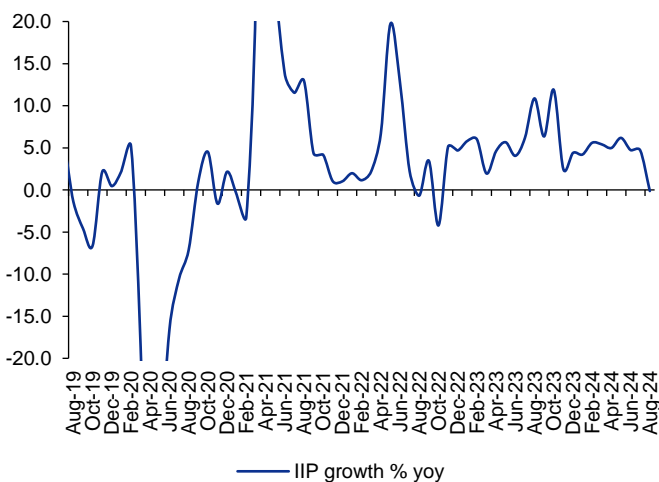
SOURCE: INCRED RESEARCH, NAUKRI JOBSPEAK REPORT

GDP growth miss in 1Q disappoints but high demand likely in 2H to meet 7+% FY25F target ▶

The Reserve Bank of India (RBI) maintained its real GDP growth forecast for India at 7.2% for FY25F, at its monetary policy committee (MPC) review in Oct 2024, despite 1Q GDP growth turning out to be just 6.7%, 40bp lower than the RBI estimate. The RBI has revised downwards its 2Q growth estimate by 20bp to 7%, but upgraded 2H growth estimate to 7.4% to reach the full-year estimate of 7.2%. It expects the improvement in agriculture activity to drive rural demand and sustained services sector growth to support urban demand. Investment activity would be supported by government capex, which is expected to be in line with budget estimate, and healthy balance sheets of banks and corporate enterprises.

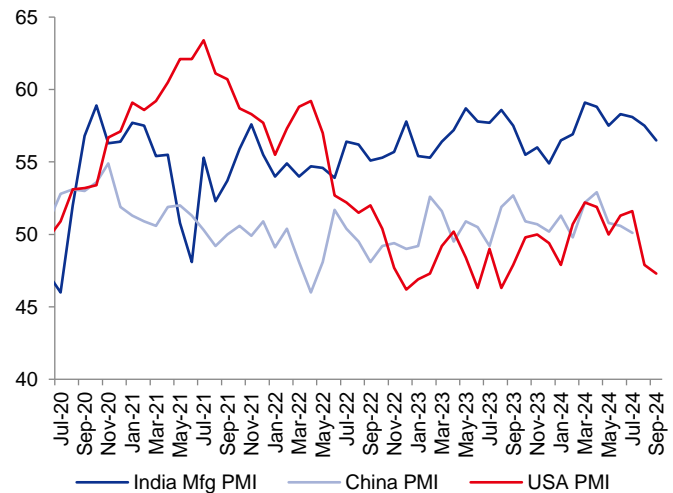
Median projection of India’s real GDP growth for FY25F, based on a survey of 47 professional forecasters conducted in Sep 2024, was 6.9%, a marginal 10bp downward revision to the earlier estimate.

Figure 17: Weakness in the Index of Industrial Production is an area of concern



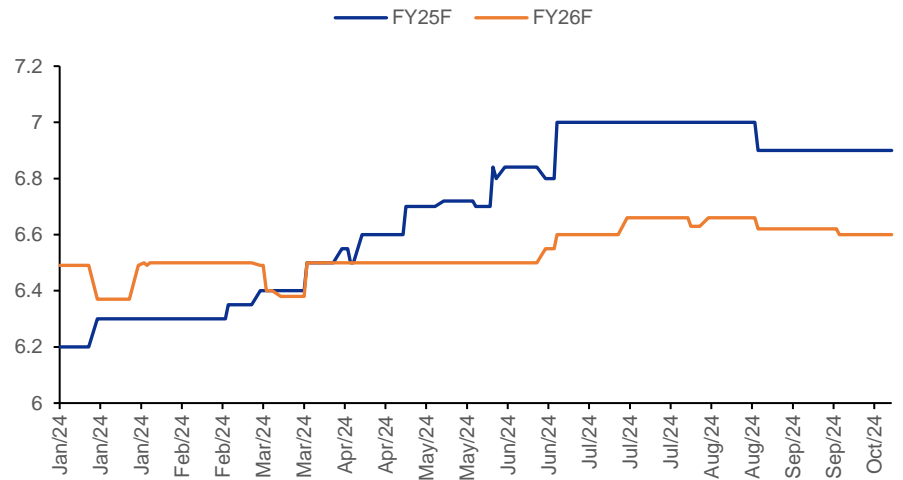
SOURCE: NATIONAL STATISTICS OFFICE (NSO), INDEX OF INDUSTRIAL PRODUCTION (IIP), INCRED RESEARCH,

Figure 18: Manufacturing Purchasing Managers’ Index or PMI of India, China and the US weakens



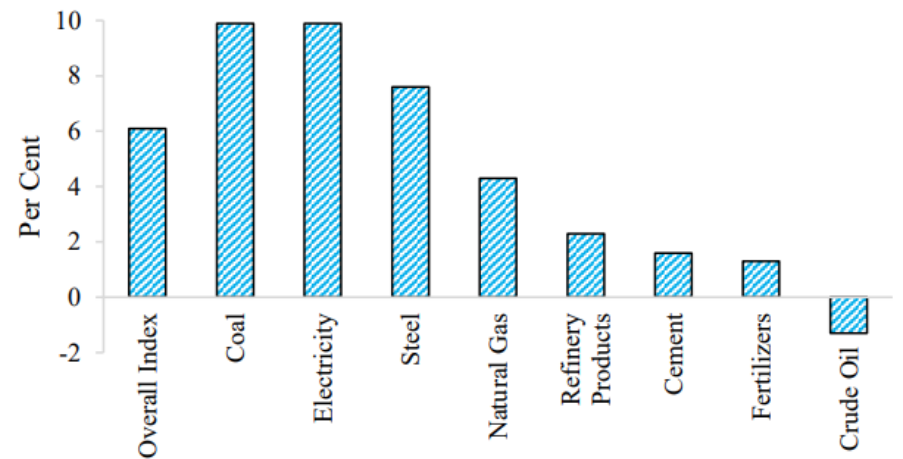
SOURCE: IHS MARKIT, PURCHASING MANAGERS’ INDEX (PMI), INCRED RESEARCH

Figure 19: India GDP growth - Bloomberg consensus estimate witnesses a marginal cut



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 20: Growth performance of eight core industries in Apr-Jul 2024



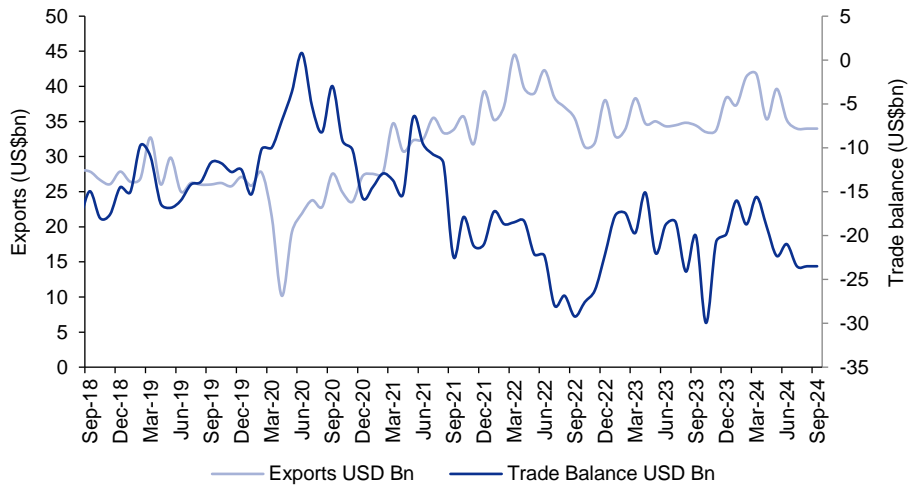
SOURCE: OFFICE OF ECONOMIC ADVISER, DPIIT, INCRED RESEARCH

CAD widens in 1Q ➤

India's current account deficit (CAD) widened by 9% yoy to US\$9.7bn in the Jun 2024 quarter. CAD, as a proportion of GDP, was at 1.05%, almost unchanged from the ratio a year ago. Merchandise trade deficit worsening to US\$65.1bn during the quarter is the main reason for CAD slippage.

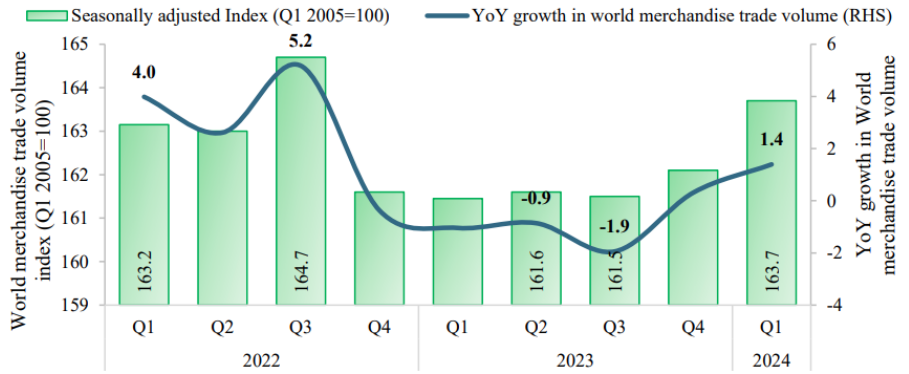
The merchandise trade deficit is likely to have expanded qoq further in the Sep 2024 quarter. At the same time, net earnings from services are likely to have been higher, as per the trend seen in the first two months of the Sep 2024 quarter.

Figure 21: India's trade deficit expands



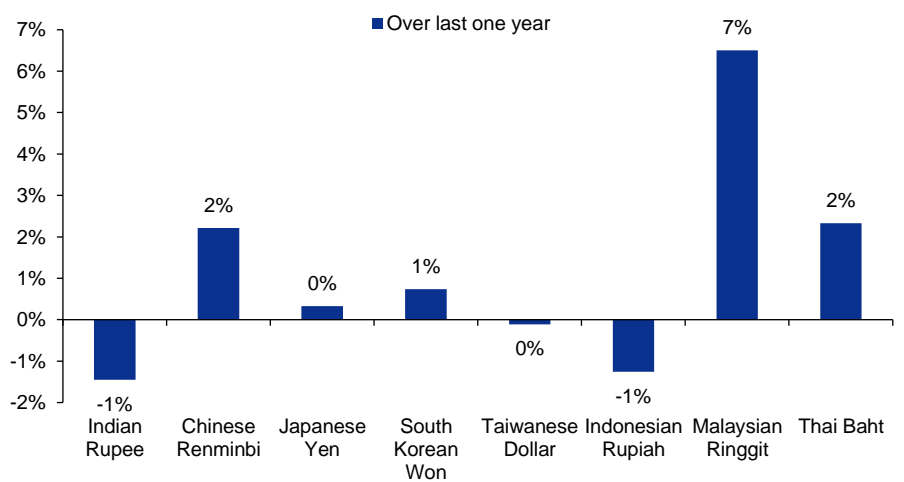
SOURCE: MINISTRY OF COMMERCE AND INDUSTRY, INCRED RESEARCH

Figure 22: Growth in world merchandise trade volume in 1QCY24



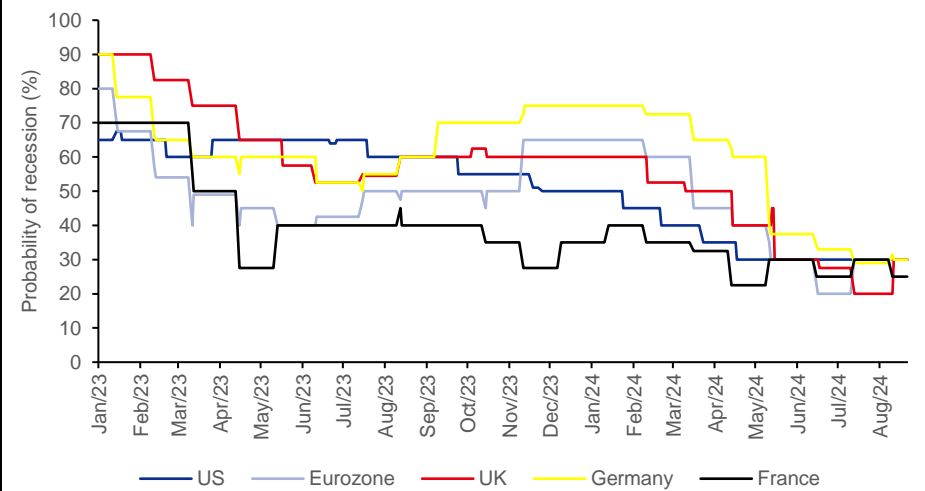
SOURCE: WTO, DEPARTMENT OF ECONOMIC AFFAIRS, INCRED RESEARCH

Figure 23: USD-INR's performance against Asian peers worsens of late



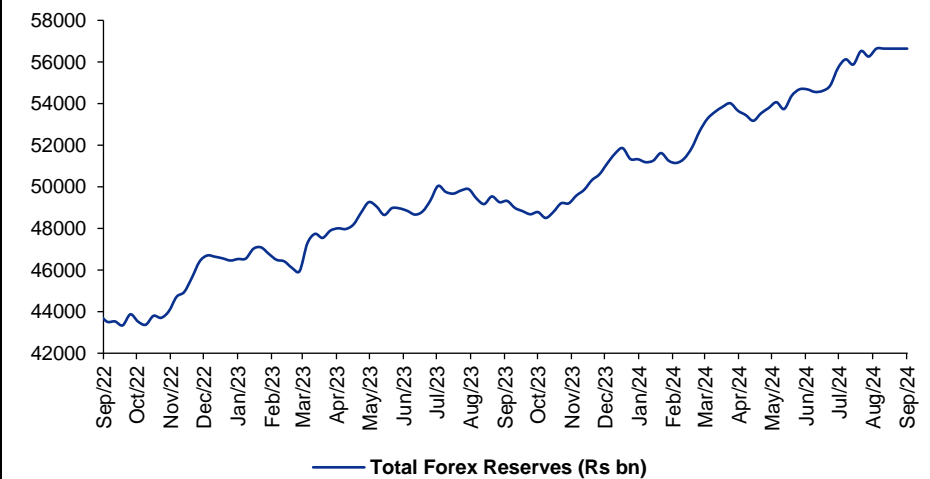
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 24: Recession probability (%) in developed countries continues to ease



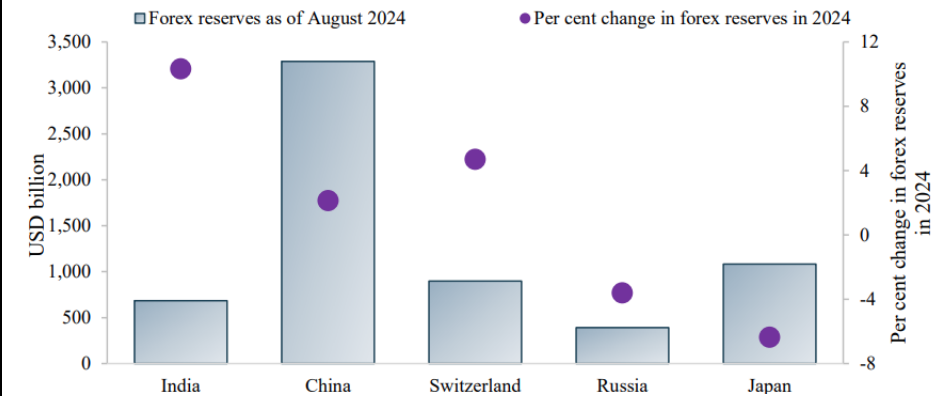
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 25: The uptrend in forex reserves sustains



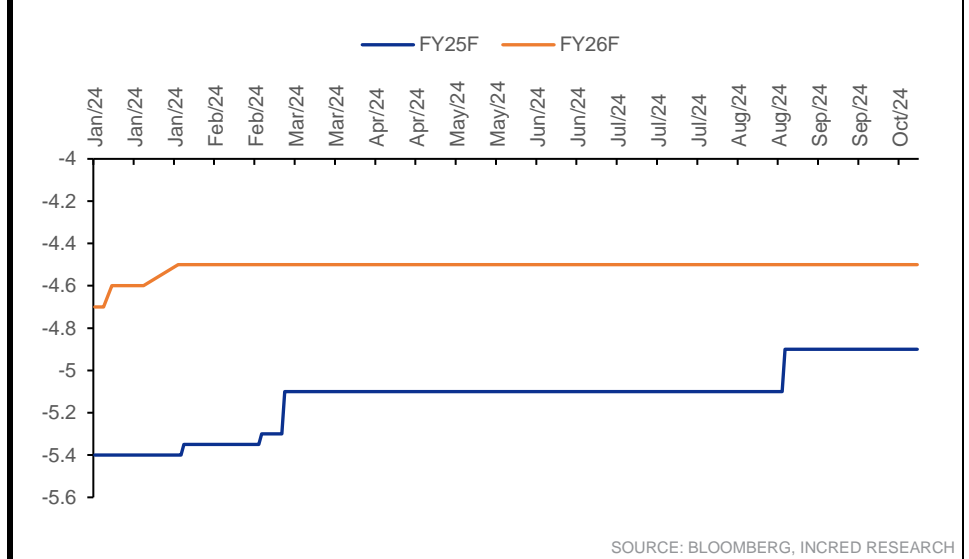
SOURCE: RBI, ACE EQUITY, INCRED RESEARCH

Figure 26: India witnessed the highest percentage increase in forex reserves holding in 2024 (Jan-Aug)



SOURCE: RBI, BLOOMBERG, INCRED RESEARCH

Figure 27: India's fiscal deficit expected to ease, as per the Bloomberg consensus estimate



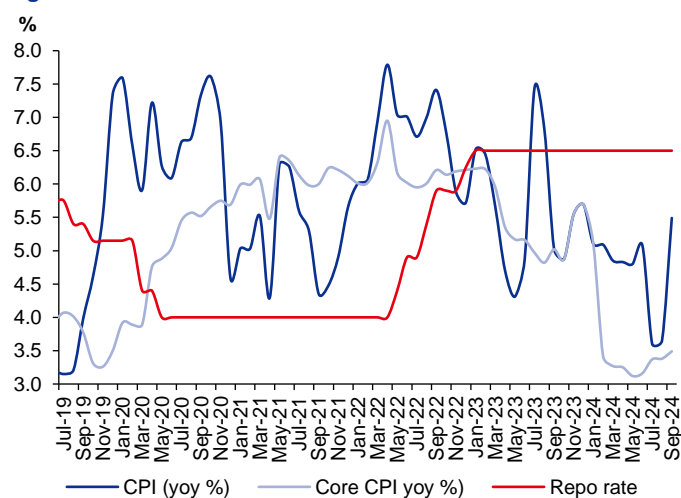
Core inflation continues to inch up ▶

Retail inflation, as measured by the Consumer Price Index (CPI) jumped to a nine-month high of 5.5% in Sep 2024. Inflation had softened to around 3.6% in the preceding two months. A combination of low base and rising prices, particularly in the food group, drove the steep rise in retail inflation. A rise in inflation was widely anticipated, but the actual inflation rate turned out to be much higher than the consensus estimate.

Core inflation, which excludes the volatile food and fuel inflation, inched up to 3.5% in Sep 2024, from 3.4% each in the preceding two months. However, it continues to remain below the target rate of 4%.

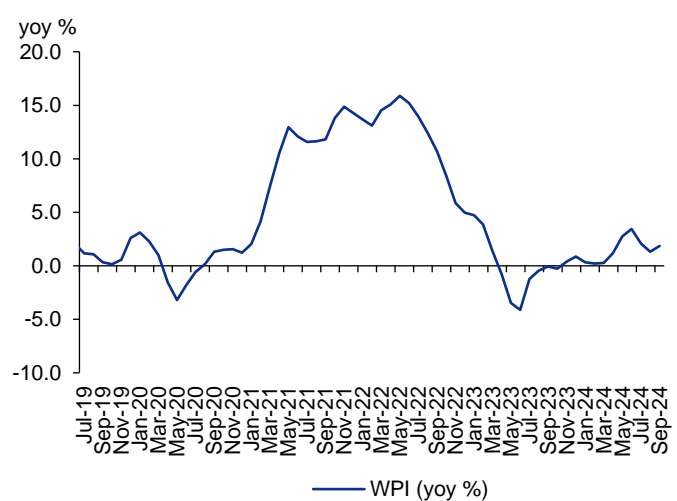
The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept the policy repo rate unchanged at 6.5% at its policy review meeting on 9 Oct 2024. It also decided to change the monetary policy stance to neutral from withdrawal of accommodation. The decision to change its stance to neutral indicates a likely cut in the repo rate in the near future.

Figure 28: Core Consumer Price Index or CPI inflation trend



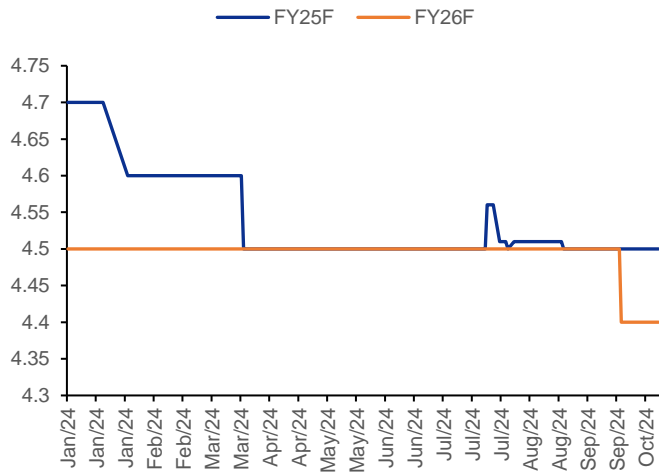
NOTE: CPI IS CONSUMER PRICE INDEX
SOURCE: RBI, CENTRAL STATISTICS OFFICE, INCRED RESEARCH

Figure 29: Wholesale Price Index or WPI inflation uptick continues



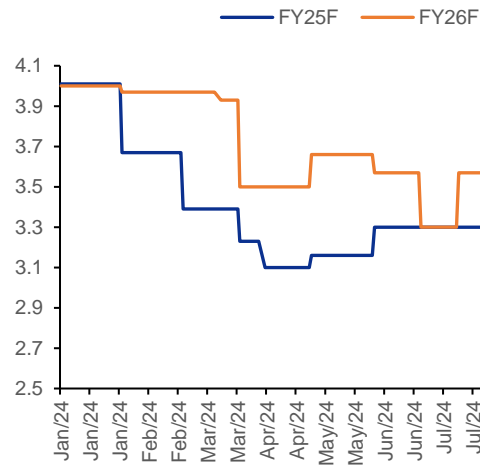
SOURCE: RBI, INCRED RESEARCH

Figure 30: Bloomberg CPI inflation consensus estimate



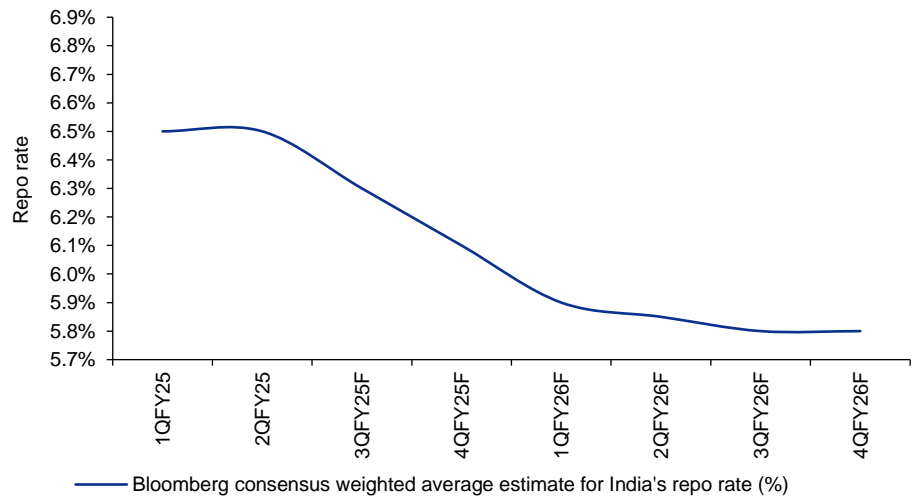
NOTE: CPI IS CONSUMER PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 31: Bloomberg WPI inflation consensus estimate



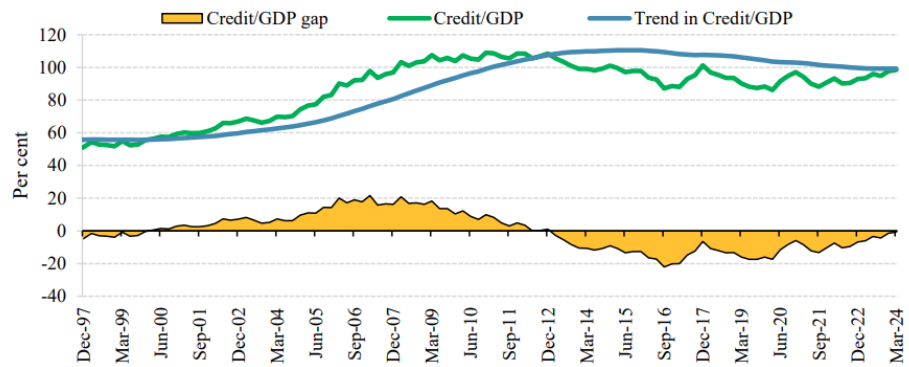
NOTE: WPI IS WHOLESALE PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 32: India's repo rate - Bloomberg consensus expects it to decline in FY25F



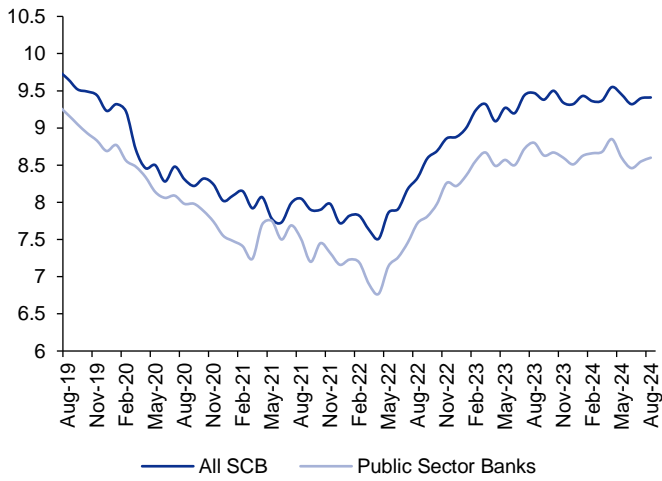
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 33: India's economy witnessing the commencement of a new credit upcycle



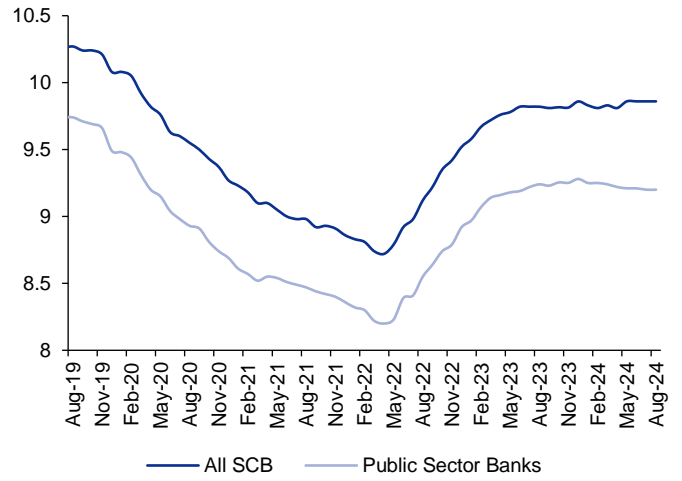
SOURCE: BANK OF INTERNATIONAL SETTLEMENT, INCRED RESEARCH

Figure 34: Weighted average lending rate (fresh INR loans)



SOURCE: RBI, INCRED RESEARCH

Figure 35: Weighted average lending rate (outstanding INR loans)



SOURCE: RBI, INCRED RESEARCH

Our high-conviction stocks' performance and recent changes

The recent performance of our high-conviction stocks, since the start of the series in Sep 2022, is given below:

Big outperformers to Nifty: Aditya Birla Sunlife AMC (ADD), Shriram Finance (ADD) and Skippers (ADD).

Underperformers to Nifty: BCL Industries (ADD), Spandana Sphoorty Financial (ADD) & Clean Science and Technology (REDUCE).

Addition to the list: Exide Industries (REDUCE): The sharp rerating in the stock price, post Hyundai MoU, has driven the stock to +2SD above the 10-year mean P/BV.

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

Figure 36: Our high-conviction stocks' price performance since their introduction on 10 Sep 2022

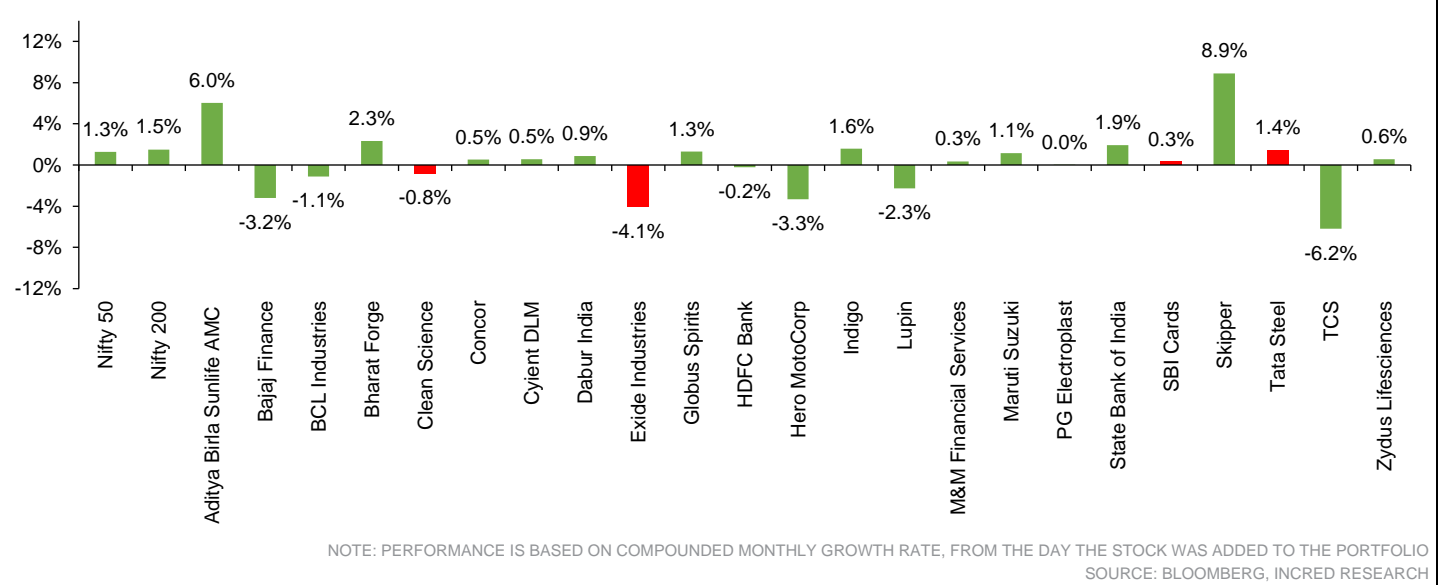
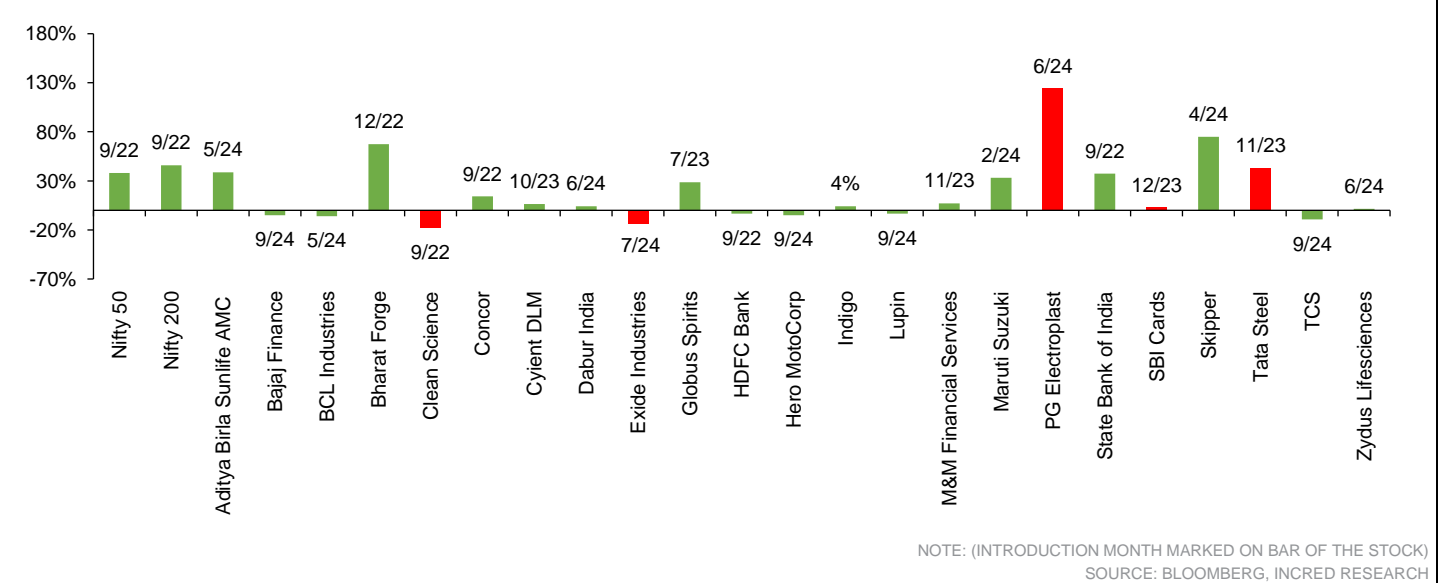


Figure 37: High-conviction stocks' price absolute performance since their introduction on 10 Sep 2022



Earnings outlook

Low 2Q EPS momentum raises concerns

For the Sep 2024 quarter, Bloomberg consensus estimate expects Nifty-50 companies' EPS to grow by just 2% yoy. In terms of sectors, higher double-digit PAT growth is expected in telecom, capital goods, automobiles, healthcare and IT sectors. The laggards are likely to be energy and consumer staples.

Delay in the festive period this year may also be impacting discretionary demand-dependent sectors' performance for the quarter, which may normalize in the Dec 2024 quarter. The broader commodity trend has been benign-to-flattish across energy, food and metals sectors. For our coverage universe comprising 150 stocks, we expect a yoy growth of 7.2% in PAT on sales growth of 3%. On qoq basis, sales and EBITDA growth is expected to be flattish.

Initial corporate results have been encouraging. As regards the 96 companies that have announced their Sep 2024 quarter results till date, (2% of all listed companies' universe), sales growth yoy was just 3% yoy but PAT was flattish.

In the last six months, major EPS upgrades in the Nifty-100 index have come from sectors like utilities, industrials, pharmaceuticals and telecom while sharp cuts have been witnessed in the case of metals, FMCG and IT sectors.

Figure 38: Nifty earnings are likely to post single-digit growth in 2QFY25F

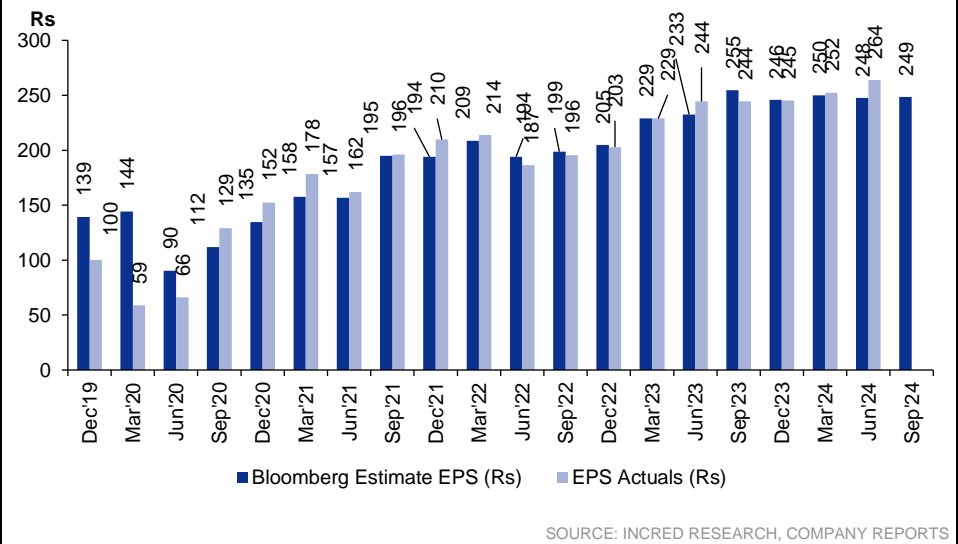


Figure 39: Bloomberg industrial metal index eases from its recent peak

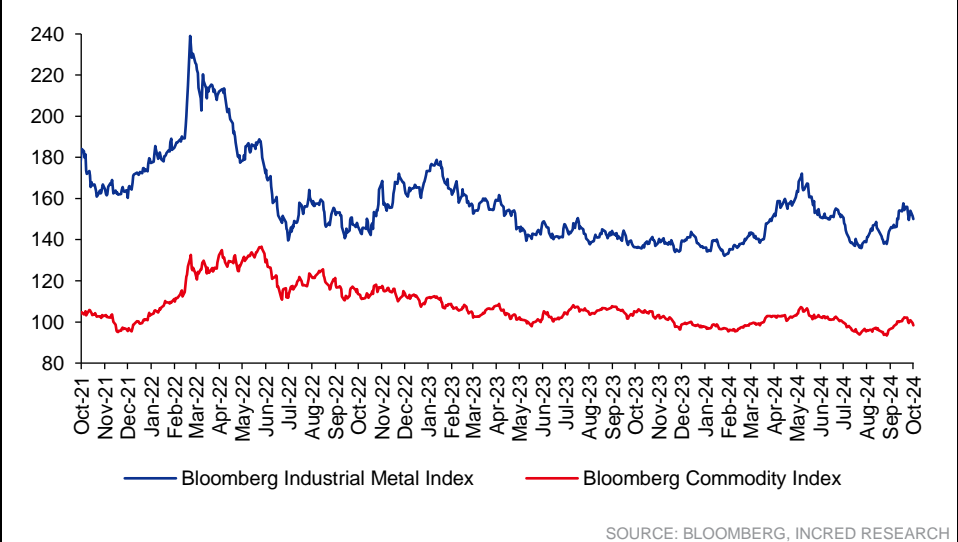
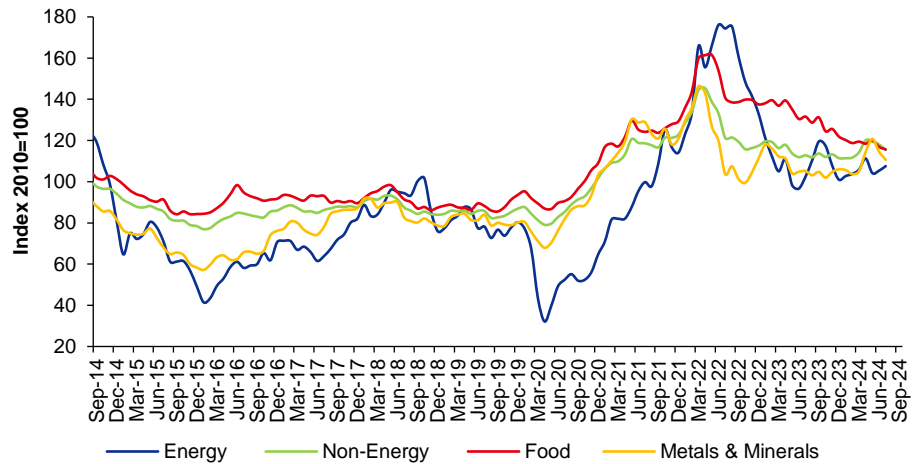
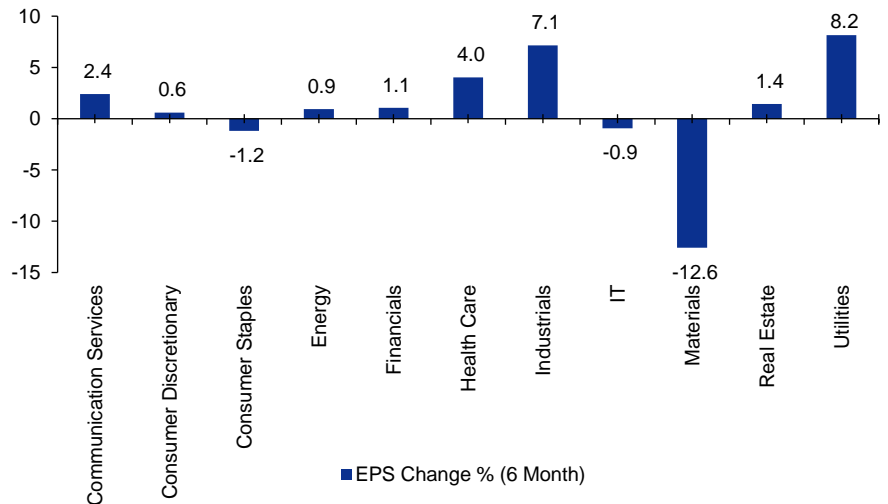


Figure 40: Global commodity index continues to be stable, except for metals



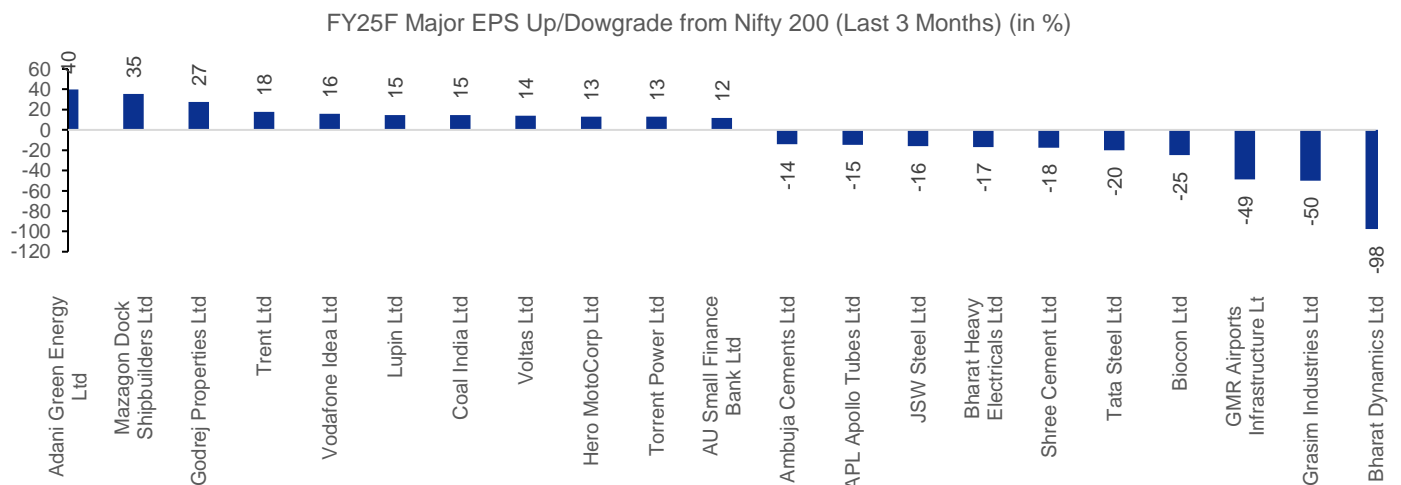
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 41: Sector-wise EPS changes in the last six months for Nifty-100 companies



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 42: Nifty-200 companies' EPS upgrade/downgrade (from Jul 2024)



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 43: Recent Bloomberg consensus EPS trend change for Nifty-50 and Nifty-200 companies

Nifty-50 EPS	FY25F	FY26F	Nifty-200 EPS	FY25F	FY26F
15 days	-0.05%	0.18%	15 days	0.41%	0.93%
30 days	-1.65%	-1.65%	30 days	0.11%	0.32%
60 days	-1.66%	-1.62%	60 days	-0.30%	-0.06%
120 days	-1.81%	-2.00%	120 days	0.75%	0.75%

UPDATED TILL 17 OCT 2024

SOURCE: BLOOMBERG, INCRED RESEARCH

Nifty valuation and outlook

Index valuation near +1SD above the 10-year mean P/E level ▶

The Nifty-50 index's sharp run of 17% post general elections till Sep 2024-end surprised us, aided by large inflows from FIIs and mutual funds. This pulled up the valuation to marginally near +1SD above the 10-year mean level.

The recent correction of 6% from its peak, due to tensions in the Middle East, eases it to below +1SD. However, Nifty-midcap one-year forward P/E valuation continues to be rich at +2SD above the 10-year mean.

With China stimulus attracting fund flows, MSCI India P/E valuation to Asia emerging markets eased from +2SD to +1SD above the 10-year mean level. India's elevated valuation, compared to peers in the region, will continue to result in higher volatility in the short term if earnings disappoint for a company/sector.

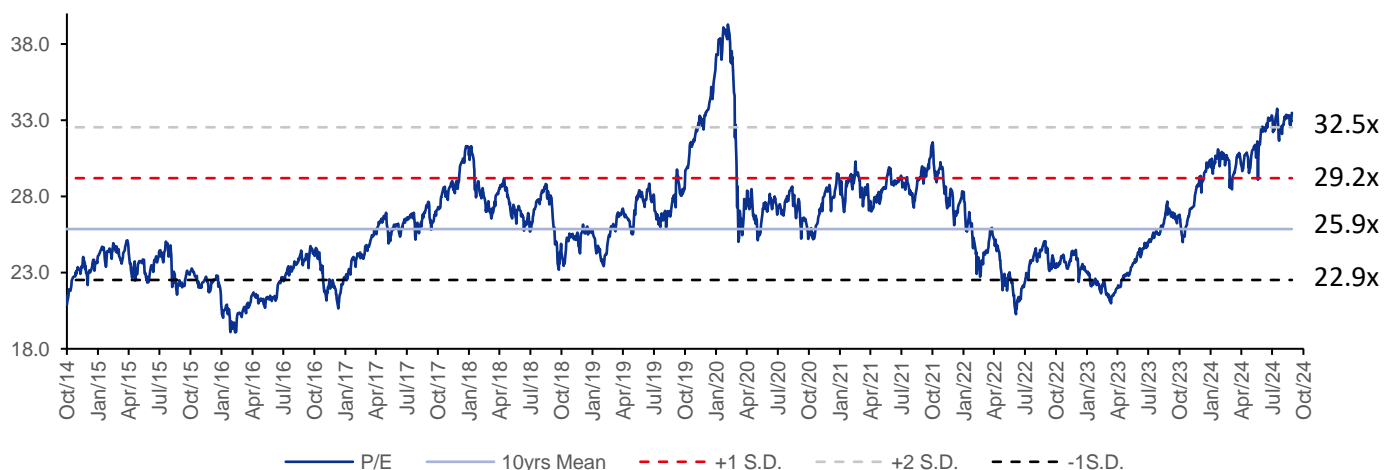
We lower our Nifty-50 index target by 3% to 25,978 to account for the recent EPS cut of 1.5% and accommodate weaker economic data points by raising the bear-case probability to 25% from 10% earlier, whereas the bull-case probability eases to 20% probability (from 30% in Aug 2024) and the base-case probability slips to 50% (from 55% earlier). Our bear-case Nifty target of 23,498, at 18x one-year forward, will show a 5% downside from current levels if the disappointment prevails from lower-than-expected festive period demand and/or setback to the Bharatiya Janata Party (BJP) in the upcoming assembly elections in some states.

Figure 44: Nifty-50 index forward P/E valuation is close to +1SD above the 10-year mean level



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 45: Nifty-Midcap index forward P/E valuation is rich at +2SD above the 10-year mean level



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 46: Real earnings yield trend for Nifty-50 companies improves marginally

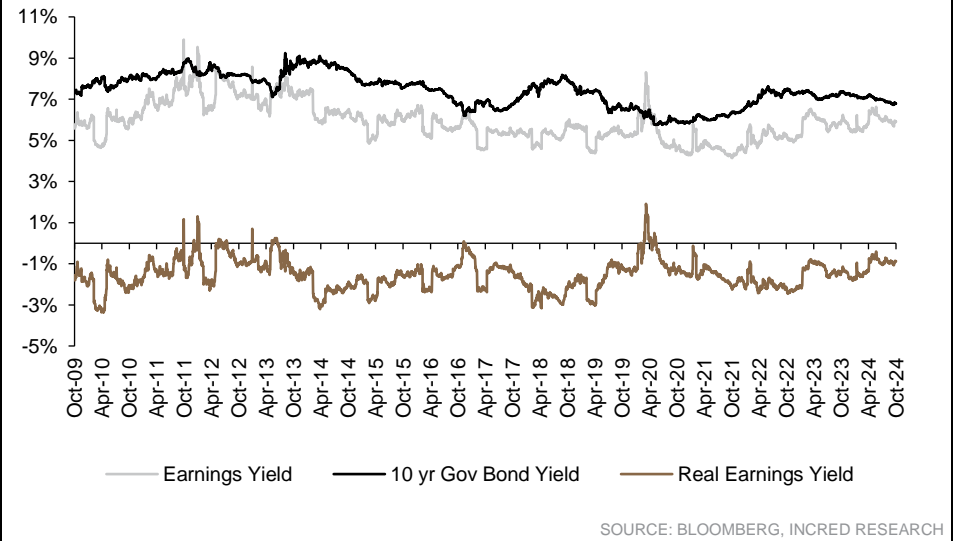


Figure 47: Nifty index target based on economic scenarios

	Bull Case	Base Case	Bear Case
Economic variables in FY25F	GDP growth >7%, stable coalition government, Brent crude oil price <US\$90/bbl, inflation rate <4%, repo rate drops >100bp, and above-normal monsoon.	GDP growth >6.5%, Brent crude oil price <US\$100/bbl, inflation rate <5%, repo rate drops >50bp, and normal monsoon.	GDP growth <6%, wobbly coalition government, Brent crude oil price >US\$105/bbl, inflation >6%, repo rate drops <25bp, poor distribution of rainfall.
Probability of Event	20%	55%	25%
1-year forward EPS (Rs.)	1,305.5	1,305.5	1,305.5
Target P/E (x)	22.0	20.0	18.0
Target index	28,720	26,109	23,498
Nifty-50 now	24,700	24,700	24,700
Up/ downside	16.3%	5.7%	-4.9%
Blended Index target		25,978	

NOTE: EPS IS OF BLOOMBERG CONSENSUS
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 48: IPO market enthusiasm helping to allocate new equity market inflow

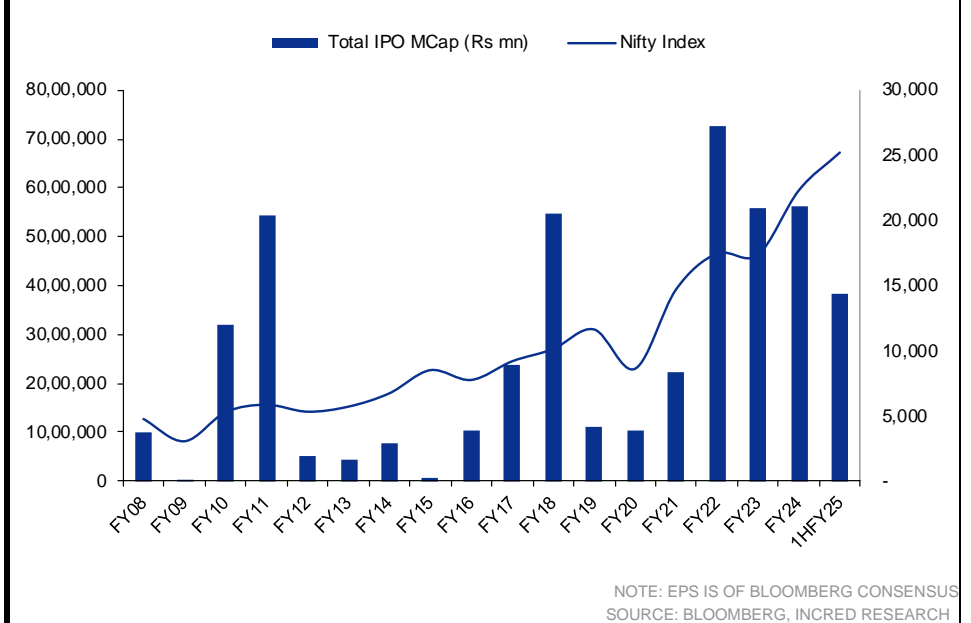
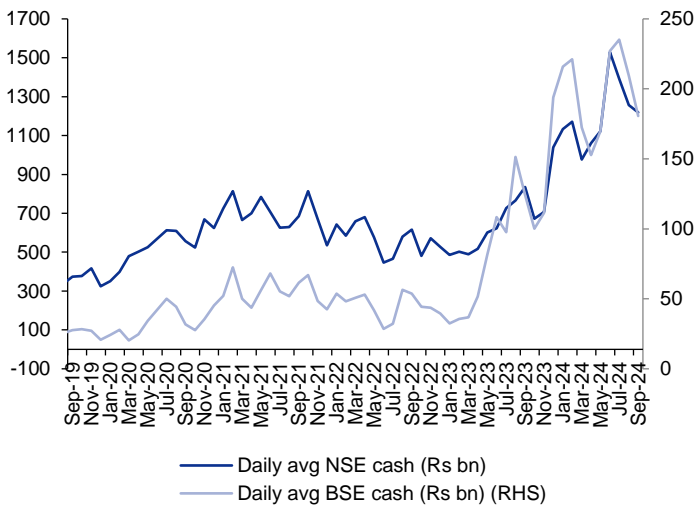
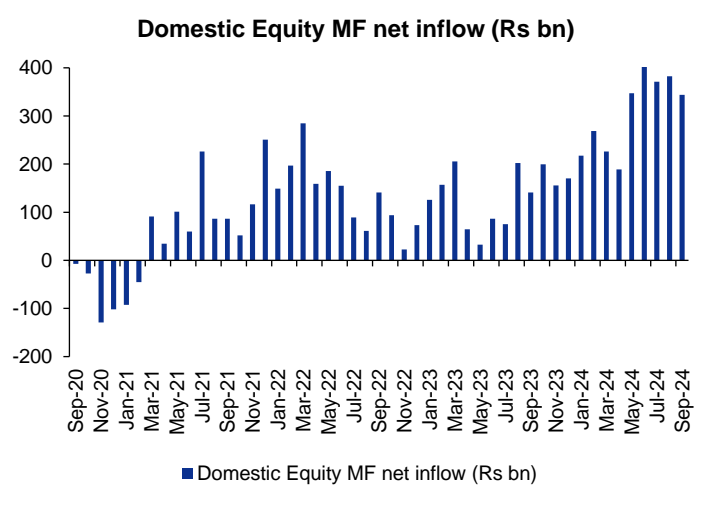


Figure 49: Stock market trade volume scales a new high



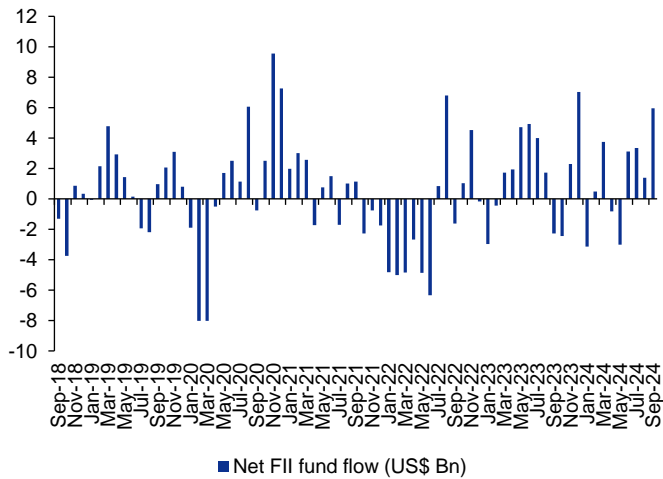
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 50: Domestic mutual fund inflow shows a steady trend



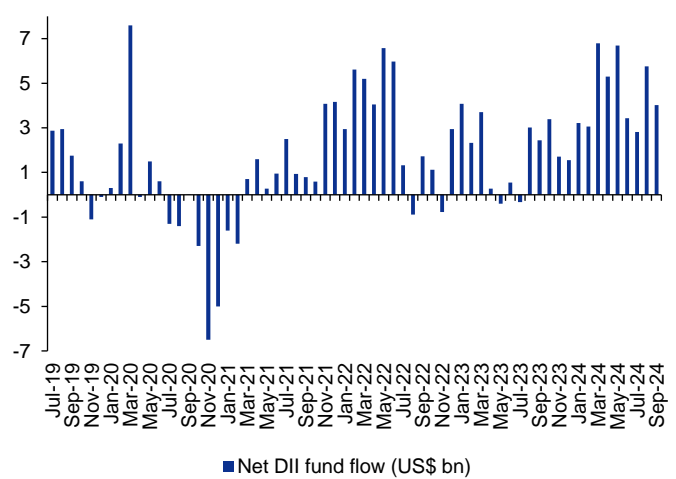
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 51: FII buying post general elections is impressive



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 52: DII fund flow has been stable



SOURCE: BLOOMBERG, INCRED RESEARCH

Sector ratings and stock ideas ➤

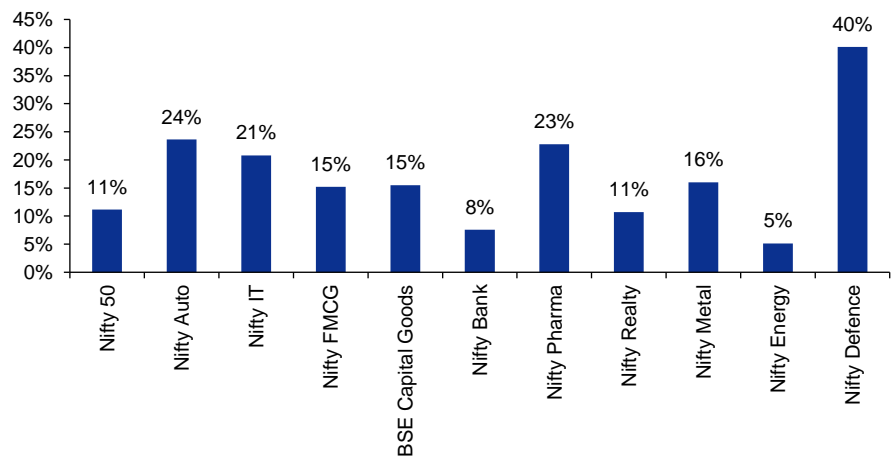
The Nifty-50 index has seen a sharp 3% correction in recent months and a withdrawal of 6% from its recent peak. The sharp underperforming sectors in recent months have been FMCG, media, energy, automobile and private banks. Outperforming sectors are IT, pharma and financial services. The Nifty-midcap index, due to its rich valuation, has started underperforming the Nifty-50 index. Considering the rich valuation, any miss in consensus estimates is leading to a sharp correction in mid-cap stocks.

Our analysis of Nifty-50 sector-wise valuations indicate that only telecom, energy and financial sectors are trading below +1SD of their 15-year mean levels. However, rich valuations of +2SD above the 15-year mean P/E are seen in new technology, industrial and FMCG sectors.

From our coverage stocks, in recent weeks, we have upgraded the IT sector to Overweight by upgrading the rating of Infosys and HCL Technologies (HCLT) to ADD (from HOLD earlier). In chemicals, we continue to turn constructive and upgraded Vinati Organics to ADD (from HOLD earlier). We upgraded SBI Life to ADD for its rising focus on protection plans. We initiated coverage on UGRO Capital and TCPL Packaging with ADD ratings.

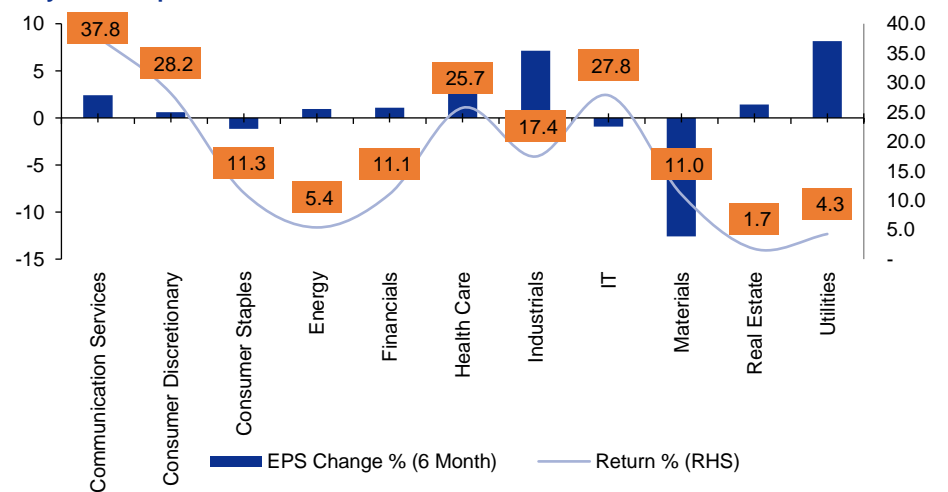
Considering the large fund-raising plans through IPOs which are absorbing the excess liquidity, and short-term earnings growth slowdown (single-digit growth for Nifty-50 companies in 1HFY25 vs. full-year mid-teen expectation), we turn cautious on market outlook in the short term. We prefer large-caps and defensive sectors over mid-caps and small-caps.

Figure 53: Sectoral index performance vs. Nifty-50 (YTDFY25)



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 54: Last six months' correlation between EPS change and sectoral returns of Nifty-100 companies



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 55: Nifty-200 companies' sector-wise valuation on 15-year mean

Sector	Mcap	Avg 15 Y PE	Average Current 10Y PE	FW PE	PE/SD to 15-year	PE/2+SD to 15-year
Financial	77,022	23.9	25.0	34.4	2%	-19%
Consumer, Non-cyclical	53,065	34.3	37.3	53.9	28%	7%
Industrial	36,784	31.6	35.6	61.5	37%	5%
Technology	37,098	34.9	36.4	52.5	38%	11%
Consumer, Cyclical	31,066	32.0	34.9	54.6	23%	-2%
Energy	33,285	9.8	9.5	12.2	-4%	-21%
Communications	16,764	77.4	78.9	97.8	-33%	-50%
Utilities	16,356	19.0	19.5	30.9	31%	3%
Basic Materials	16,156	19.0	22.1	32.2	24%	-3%

SOURCE: INCRED RESEARCH

Figure 56: Our sector-wise ratings

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

SOURCE: INCRED RESEARCH

Figure 57: Nifty-50 companies' forward P/E valuation is relatively cheaper than mid-caps and small-caps

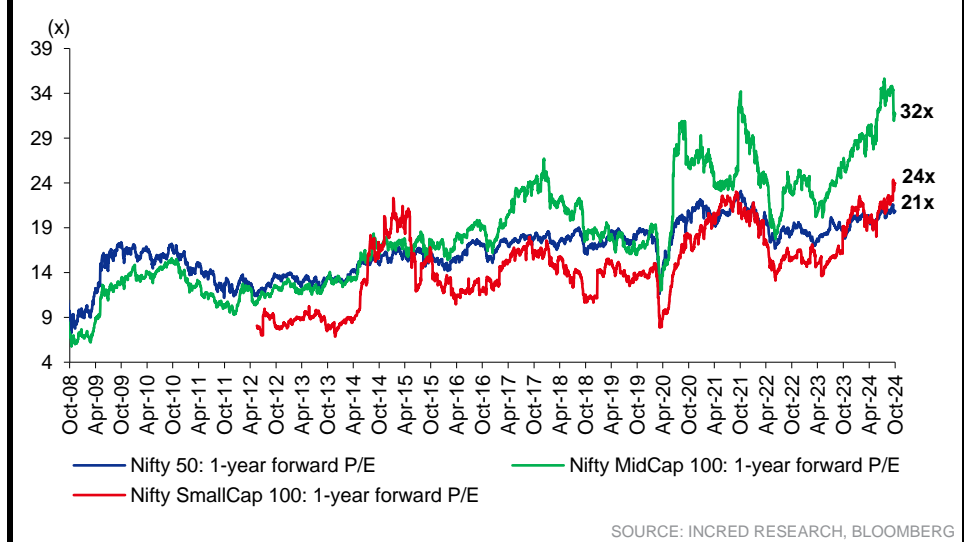


Figure 58: Non-consensus stocks with ADD/REDUCE ratings

Company Name	Bloomberg Ticker	Recomm.	Price	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA	Dividend Yield (%)	Upside/Downside (%)	ROE (%)
			Rs	Rs	(Rs bn)	(US\$ bn)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY24F	FY24F	FY24F
Adani Ports	ADSEZ IN	REDUCE	1,395	1,329	2,989	36	48.5	60.0	28.7	23.2	4.8	4.1	18.0	0.0	-5%	23.0
Apollo Tyres	APTY IN	REDUCE	504	414	318	4	27.3	26.5	18.9	19.0	2.1	2.0	7.5	0.0	-18%	11.9
Balrampur Chini Mills	BRCM IN	REDUCE	639	264	128	2	15.4	26.4	41.5	24.2	3.5	3.0	22.3	0.0	-59%	12.1
Bharat Petroleum	BPCL IN	REDUCE	343	375	1,475	18	NA	NA	NA	NA	NA	NA	NA	NA	9%	NA
Bosch	BOS IN	REDUCE	36,485	26,302	1,068	13	661.0	733.2	55.2	49.8	8.5	8.1	40.0	0.0	2%	15.8
Clean Science & Tech	CLEAN IN	REDUCE	1,599	665	169	2	25.3	24.6	63.3	64.9	12.2	10.5	44.9	-	-58%	21.1
Coal India	COAL IN	REDUCE	490	209	2,995	36	27.4	24.9	17.9	19.7	3.8	3.5	10.3	0.0	-57%	22.5
Eicher Motors	EIM IN	REDUCE	4,624	4,086	1,257	15	152.9	166.1	29.7	27.8	6.7	5.9	23.7	0.0	-12%	22.7
Exide Industries	EXID IN	REDUCE	497	412	419	5	14.5	16.7	34.3	29.7	3.1	3.0	15.5	0.0	-17%	9.2
Galaxy Surfactants	GALSURF IN	REDUCE	2,972	2,552	105	1	90.4	98.4	32.9	30.2	4.1	3.6	19.8	0.0	-14%	13.4
HCL Technologies	HCLT IN	ADD	1,868	2,021	5,029	60	64.0	69.9	29.2	26.7	7.2	7.1	18.8	0.0	8%	25.1
InterGlobe Aviation	INDIGO IN	REDUCE	4,624	2,400	1,772	21	50.1	75.3	92.4	61.4	47.0	26.6	14.8	-	-48%	91.0
IRB Infrastructure.	IRB IN	REDUCE	58	40	348	4	1.9	2.4	30.5	23.8	2.3	2.1	9.9	0.0	-31%	7.9
NCC	NJCC IN	REDUCE	311	150	193	2	15.1	16.1	20.5	19.3	2.5	2.2	13.1	0.0	-52%	17.1
KNR Constructions	KNRC IN	REDUCE	316	222	88	1	18.7	20.6	16.9	15.3	2.3	2.0	16.3	0.0	-30%	18.7
Pidilite Industries	PIDI IN	HOLD	3,154	2,860	1,592	19	42.7	49.3	73.9	64.0	16.5	14.4	50.2	0.0	-9%	24.0
SBI Cards	SBICARD IN	REDUCE	740	500	698	8.4	25.7	28.7	28.7	25.8	5.0	4.3	5.0	0.0	-32%	18.7
SRF	SRF IN	REDUCE	2,263	1,540	666	8	46.5	52.3	48.6	43.2	5.3	4.7	24.1	0.0	-32%	11.4
Tata Motors	TTMT IN	REDUCE	892	831	3,706	44.4	60.4	73.4	14.8	12.1	3.2	2.6	4.7	0.0	-7%	24.3
Tata Steel	TATA IN	REDUCE	152	82	1,888	22.6	5.4	5.4	28.1	28.2	1.7	1.6	9.7	0.0	-46%	6.1
Timken	TMKN IN	REDUCE	3,811	2,987	284	3.4	62.4	74.1	61.1	51.4	10.0	8.4	42.1	0.0	-22%	17.7
VRL Logistics	VRLL IN	REDUCE	587	500	51	1	9.3	10.4	62.9	56.2	5.2	5.0	15.1	0.0	-15%	8.4

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
PRICES AS ON 17 OCT 2024

Figure 59: Our key mid-cap and small-cap stock recommendations

Company Name	Bloomberg Ticker	Recomm.	CMP Rs	Target	Market	Market	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA	Dividend	Upside/	ROE
				Price Rs	Capital (Rs bn)	Capital (US\$ bn)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F	Yield (%)	Downside (%)
Apex Frozen Foods	APEX IN	ADD	253	323	8	0	26.9	30.3	9.4	8.4	1.3	1.1	5.7	1.1	27%	19.3
Balkrishna Industries	BIL IN	ADD	2,971	3,542	573	6.8	88.6	100.9	33.5	29.4	5.6	4.9	21.5	0.7	19%	18.0
Cyient	CYL IN	ADD	1,859	2,228	206	2.5	74.8	87.6	24.9	21.2	4.8	4.4	14.0	2.1	20%	27.3
Cyient DLM	CYIENTDL IN	ADD	694	1,049	55	0.7	15.2	23.5	45.6	29.5	5.3	4.5	29.1	-	51%	21.0
Endurance Tech	ENDU IN	ADD	2,394	2,884	336	4.0	69.8	87.7	34.3	27.3	5.8	5.0	19.4	0.5	20%	18.3
Ethos	ETHOSLTD IN	ADD	3,117	3,610	76	0.9	43.9	57.9	71.0	53.9	7.7	6.7	36.0	-	16%	15.4
Globus Spirits	GBSL IN	ADD	1,081	1,588	31	0.4	48.9	105.9	22.1	10.2	2.8	2.2	12.2	0.2	47%	13.5
Jyothy Labs	JYL IN	ADD	520	620	191	2.3	11.5	13.4	45.1	38.9	9.2	7.8	35.2	0.9	19%	21.9
Kalpataru Projects Intl.	KPIL IN	ADD	1,299	1,575	211	2.5	49.2	64.2	26.4	20.2	3.3	2.9	14.1	0.6	21%	13.1
MTAR Technologies	MTARTECH IN	ADD	1,731	2,644	53	0.6	31.3	58.8	55.4	29.5	6.9	5.6	32.4	-	53%	13.3
Navin Fluorine Intl.	NFIL IN	ADD	3,330	4,080	165	2.0	69.0	81.6	48.2	40.8	6.1	5.3	27.1	0.3	23%	13.4
Orient Electric	PGEL IN	REDUCE	594	185	155	1.8	7.3	8.0	81.5	73.9	12.5	10.6	46.0	-	-69%	16.7
PI Industries	PI IN	REDUCE	4,463	3,091	676	8.1	118.2	129.1	37.8	34.6	6.4	6.4	25.9	0.1	-31%	18.4
Skipper	SKIPPER IN	ADD	574	500	63	0.8	14.5	17.9	39.5	32.1	5.8	4.9	15.9	0.1	-13%	15.7
TCPL Packaging	TCPL IN	ADD	3,403	4,250	31	0.4	125.3	152.2	27.2	22.4	5.0	4.3	12.6	0.7	25%	20.0
UGRO Capital	UGRO IN	ADD	255	350	24	0.3	20.8	23.4	12.2	10.9	1.4	1.1	1.4	-	37%	12.4
UPL	UPLL IN	ADD	554	694	415	5	16.7	44.5	82.1	16.0	1.4	1.3	10.0	0.3	25%	5.9
Zydus Lifesciences	ZYDUSLIF IN	ADD	1,021	1,330	1,026	12	46.1	50.9	22.1	20.1	4.3	3.7	15.7	0.7	30%	21.4

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

PRICES AS ON 17 OCT 2024

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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.
<i>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.</i>	
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.