India

InCred Sector rating

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

India Strategy

Growth challenges persist

- The festive season momentum started to fizzle out while the Indian rupee's depreciation challenges for the economy prevailed in recent weeks.
- 3Q Bloomberg consensus Nifty-50 EPS growth estimate shows the single-digit yoy growth will sustain, leading the EPS downward revision to prevail.
- Nifty-50 forward valuation concerns ease while the risk stays in mid-caps. Value investing may take priority in CY25F as growth slowdown sinks in.

Macroeconomic growth challenges persist with INR depreciation

Improvement in consumer sentiment and demand during the festive season started easing in Dec 2024. The sharp INR depreciation and the decline in US dollar (USD) reserves seen in recent weeks adds to the inflation uptick woes. GDP growth expectations cut for FY25F continued in recent weeks, while the forthcoming Union budget provides hope to reverse this trend via income-tax rate cuts. Donald Trump's swearing-in as the new US President raises risk to global economic growth rate due to tariff hikes (see Fig. 17).

EPS growth slowdown seeps in

For the Dec 2024 quarter, Bloomberg consensus estimate expects Nifty-50 companies' EPS to grow by just 3% yoy. High double-digit PAT growth is expected in capital goods, healthcare and telecom sectors. The laggard sectors are likely to be metals, chemicals, consumer staples, banks and oil & gas. For our coverage universe comprising 150 stocks, we expect yoy growth of 9.7% in PAT on sales growth of 14.4%. On a qoq basis, sales and EBITDA growth is expected to be around 6%. The results season has started on a weak note (4% of listed companies), with flat PAT growth yoy on 4% sales growth.

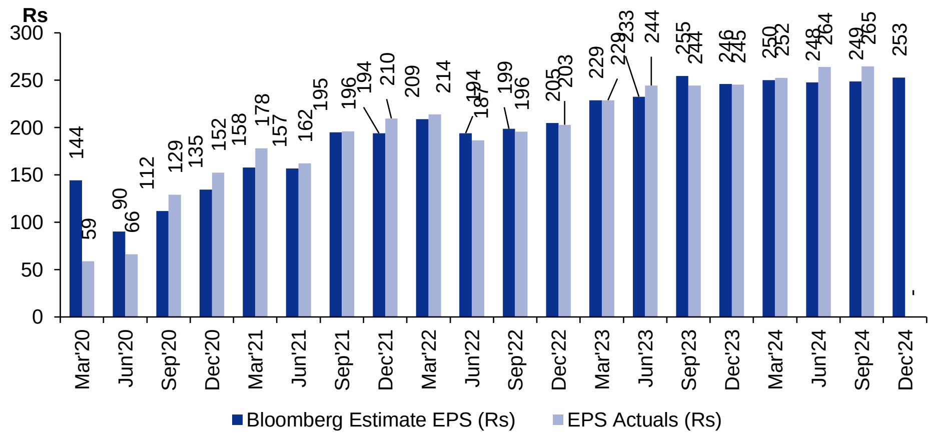
CY25F can be better for value investing; Nifty Value 20 outperforms

In the last six months, major Bloomberg consensus EPS upgrades in the Nifty-100 index have been very selective and they are for real estate and healthcare sectors only (Fig. 37), while sharp cuts have been witnessed in the case of metals, energy, FMCG and consumer discretionary sectors. In our high-conviction stocks list, we have added Deepak Fertilisers and Petrochemicals Corporation and removed Exide Industries and BCL Industries. With the earnings growth rate risk playing out, we feel the value investing style provides valuation comfort and also limits stock price downsides, which may be a better-yielding strategy than the growth investing style in the last few years.

Sideways Nifty index movement with a downward bias to continue

Considering 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 8% to 23,260. Our bear-case Nifty-50 target of 21,016 shows a 9% downside. While the forward P/E valuation easing to the 10-year mean level provides comfort, the downward EPS revision trend is yet to fully bottom out. Our large-cap preference over small-caps and mid-caps, which played out well in the last six months, remains. Hopes from budget proposals pose short-term upside risks.

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



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

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Growth challenges persist

Economy section

Festive season excitement eases; realty slowdown prevails

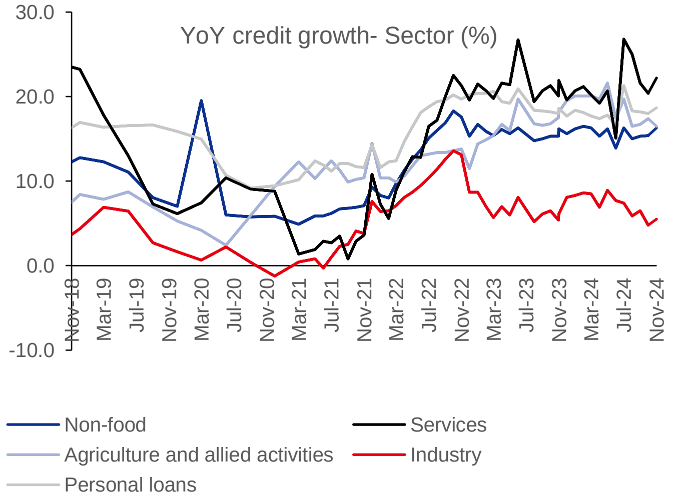
The high-frequency data improvement seen till Nov 2024 in the Index of Industrial Production or IIP, vehicle sales, and consumer sentiment has started to fizzle, as seen in Dec 2024 data points on Goods and Services Tax or GST collections, rising channel inventory and credit growth slowdown.

Growth in deposit mobilization slowed to 10.2% by end-Dec 2024 from 12.6% a year ago. Growth in outstanding non-food credit disbursed by scheduled commercial banks (SCBs) decelerated to 12.4% by end-Dec 2024 compared to 15.8% growth recorded a year ago. Growth has been steadily falling since Jun 2024.

Though growth in outstanding credit and deposits has been slowing, deposit growth remained below credit growth, As a result, the outstanding credit-deposit ratio remained high. It moved in the range of 77.1% to 77.9% since the beginning of the current fiscal year. It went up further to 78.7% by end-Dec 2024, indicating the rising shortfall in deposit mobilization vis-a-vis credit offtake.

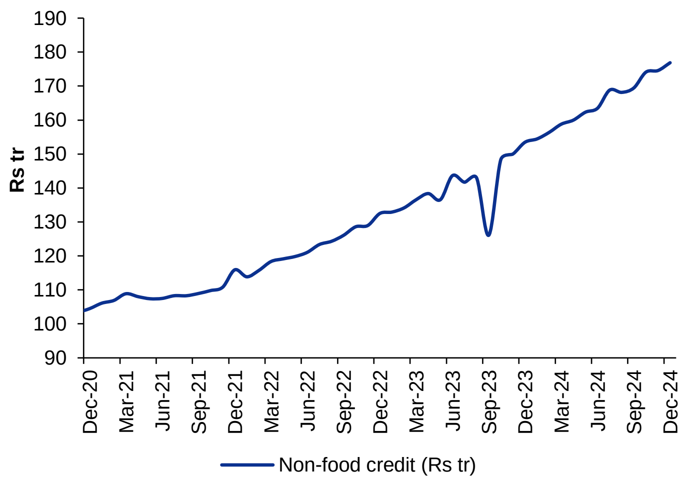
Following the slowing deposit growth, banks seem to have resorted to mobilizing short-term deposits by issuing certificate of deposits (CDs). This is evident from the fact that the higher end of the interest rate spectrum on CDs rose to 7.85% by end-Dec 2024 from 7.2% at the beginning of May 2024.

Figure 2: Loan growth dips across sectors from its peak in May 2024



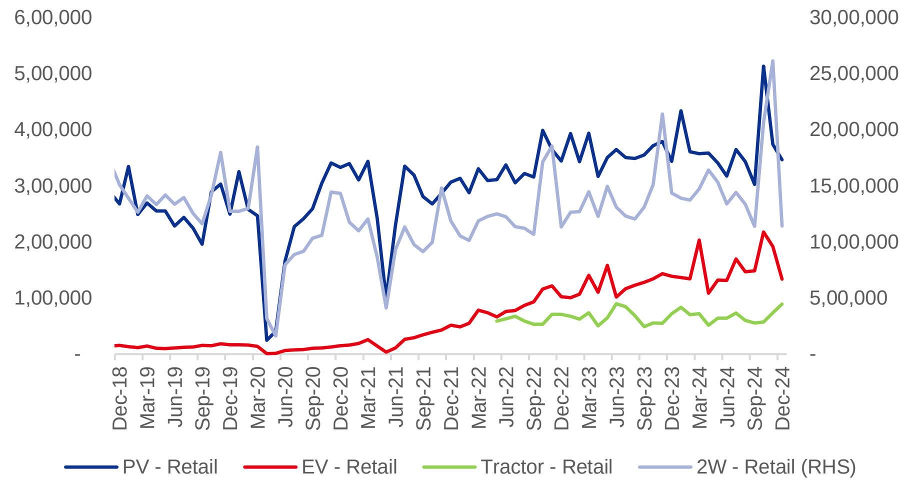
SOURCE: RBI, INCRED RESEARCH

Figure 3: Non-food credit witnesses a sharp recovery



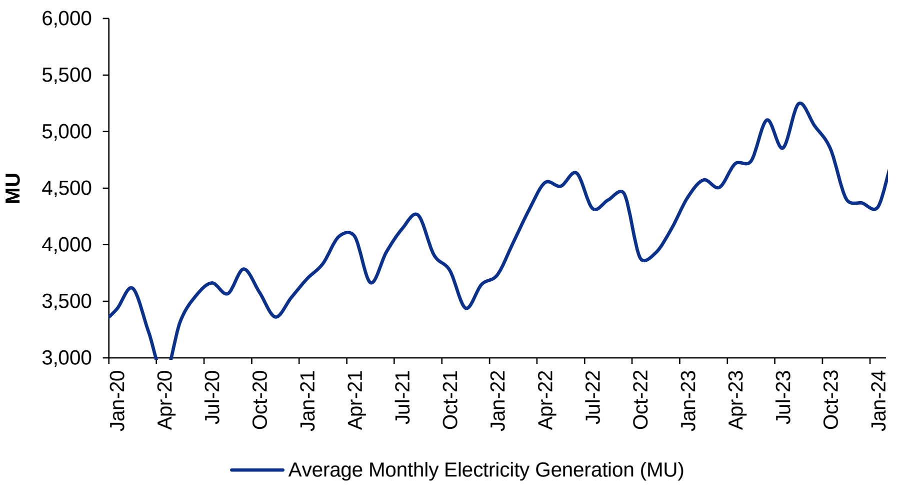
SOURCE: RBI, INCRED RESEARCH

Figure 4: Automobile sector's monthly volume trend eases from festive season peak



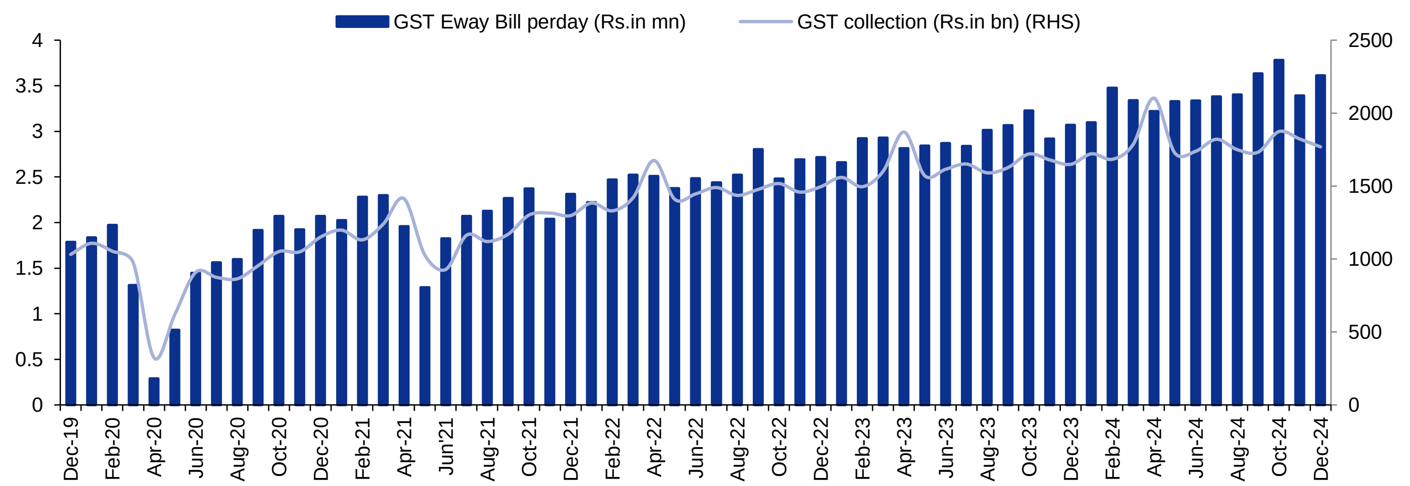
SOURCE: VAHAN.COM, INCRED RESEARCH, COMPANY REPORTS

Figure 5: Electricity generation improves from its recent lows



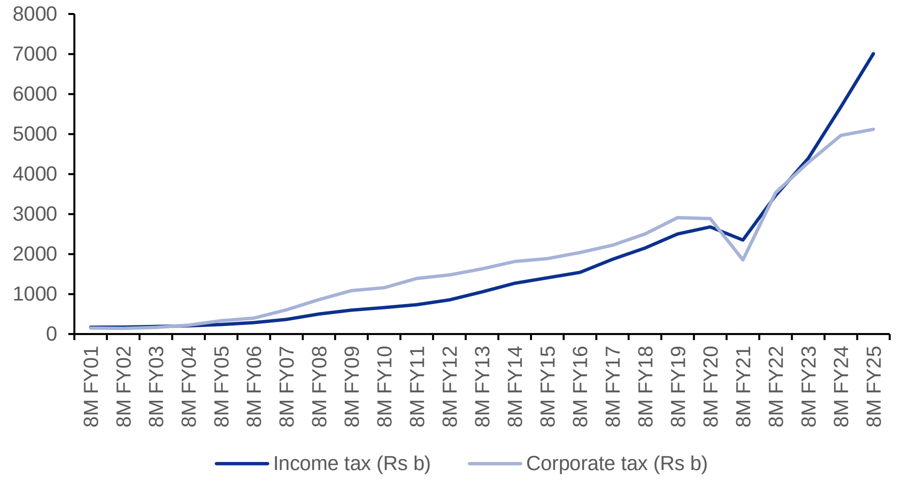
SOURCE: POWER SYSTEM OPERATION CORPORATION, INCRED RESEARCH

Figure 6: GST collections and E-way bills growth ease



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

Figure 7: Income-tax collection impressive, but corporate tax mop-up disappoints (Rs m)



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

At Rs.22.6tr, the central government's gross tax collections showed a 10.7% yoy rise for the Apr-Nov 2024 period, which was only marginally lower than the 11.7% rise budgeted for FY25F. Growth slowed because of lower corporate tax collections even as income-tax and GST collections remained healthy. Income-tax collections recorded a robust growth of 23.5% yoy, which was way higher than the budgeted growth of 16.1% for FY25F. Similarly, GST collections increased by 13% against the budgeted increase of 11% for FY25F. Collections from corporate tax were very disappointing at -0.5% vs. budget estimate of 10.6%.

The central government's gross fiscal deficit (GFD) amounted to Rs.8.5tr during Apr-Nov 2024. The GFD during the first eight months of the current fiscal year stood at a mere 52.5% of the budgeted amount of Rs.16.1tr for FY25F. The faster pace of revenue spending was partially offset by the sharp fall in central government's capital expenditure, restraining the growth in total spending. Total spending of the central government remained muted. It showed just a 3.4% rise yoy during the Apr-Nov 2024 period.

Central government's capital expenditure amounted to Rs.5.1tr during Apr-Nov 2024. This was a mere 46.2% of the budgeted amount of Rs.11.1tr for the current fiscal. Capex was lower by 12.3% yoy vs. planned growth of 16.9% for FY25F.

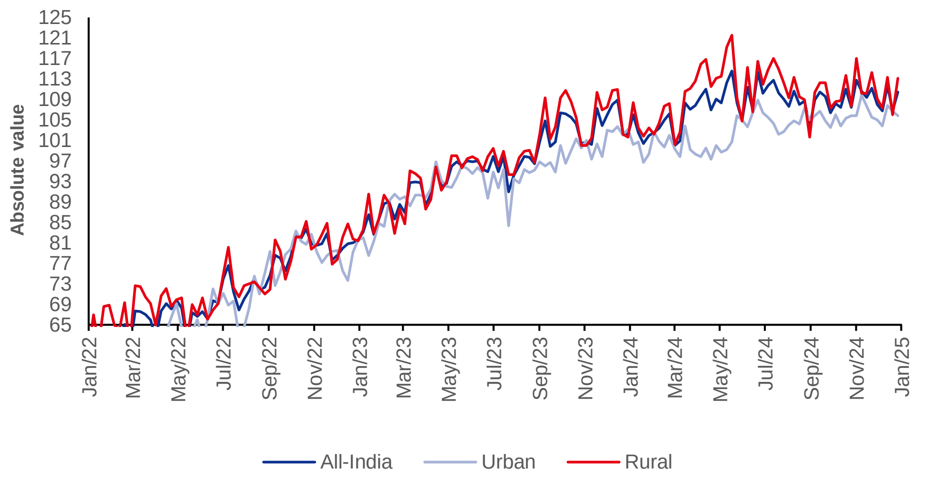
Consumer sentiment eases from the festive season peak ›

The Index of Consumer Sentiment (ICS) in India fell by 1.6% in Dec 2024. This decline reverses much of the 2.35 increase seen in Nov 2024 when festive cheer pushed the ICS. The drop in consumer sentiment in Dec 2024 was broad-based. The ICS fell in both urban and rural regions.

The ICS seems to be plateauing at a level it reached in Apr 2024. The index has not been able to scale up on a sustained basis since then. The fall in Dec 2024 thus appears to be a fall-back to the mean index level seen since Apr 2024. The sentiment seems to have remained flat during YTDFY25. The festive season did not leave a lasting impact on consumer sentiment. It seems that the ICS topped the pre-Covid levels in Apr 2024 and then stabilized after a rather long and arduous journey to recovery.

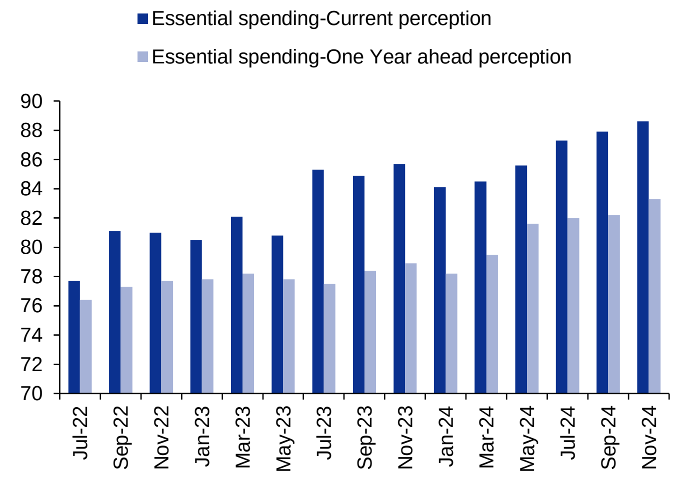
Production of major crops is expected to grow by 2% in FY25F, as per the Centre for Monitoring Indian Economy or CMIE. This comes after the production fell by 1.5% in FY24. The average annual weighted growth rate in production in the past five years was around 5.3%, compared to which the 2% growth expected this year seems moderate.

Figure 8: Consumer sentiment eases from its festive season peak



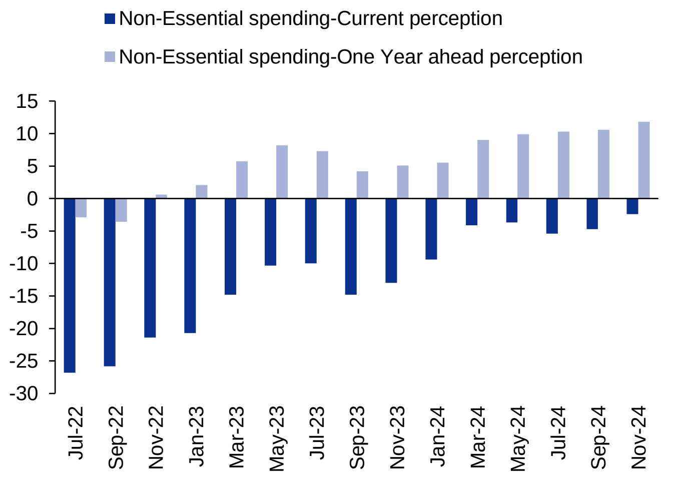
SOURCE: RESERVE BANK OF INDIA (RBI), INCRED RESEARCH

Figure 9: Consumer perception on essential spending for the current year and a year forward improves



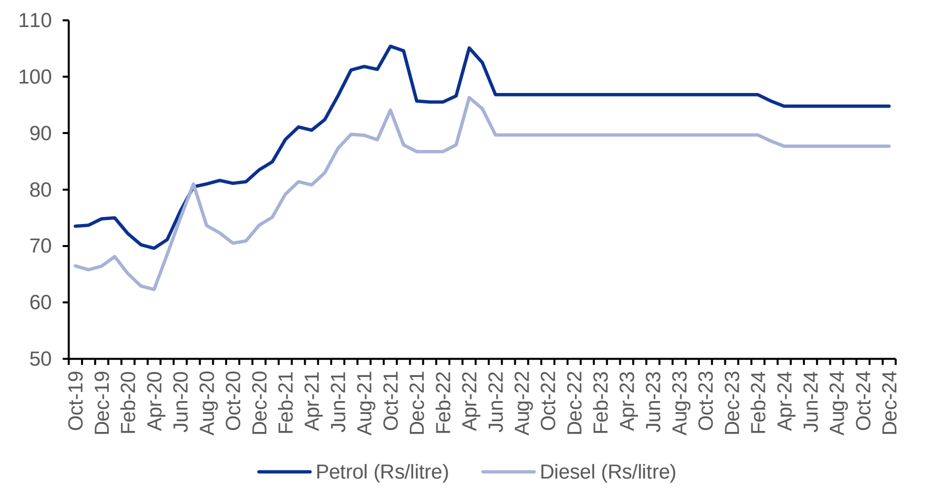
SOURCE: CMIE, INCRED RESEARCH, RBI.

Figure 10: Consumer perception on non-essential spending for the current year and a year forward shows improvement



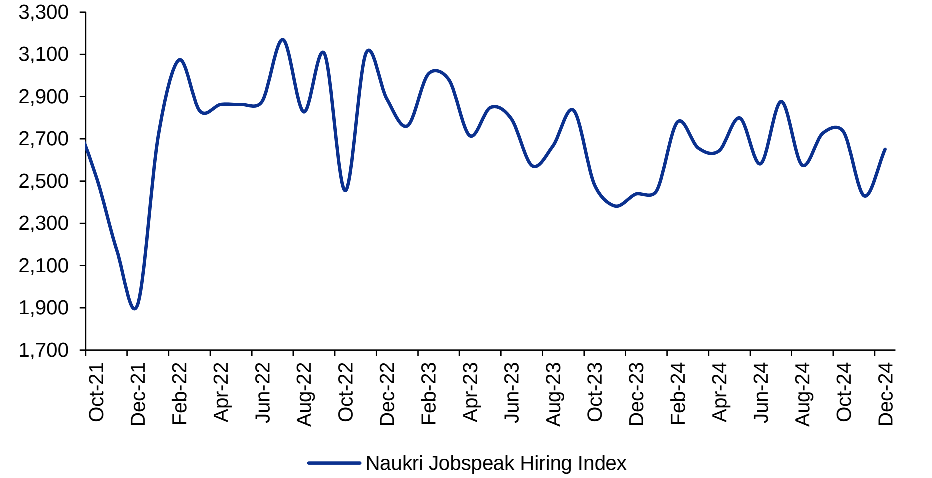
SOURCE: CMIE, INCRED RESEARCH, RBI.

Figure 11: Fuel price trend (Rs/L)



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

Figure 12: Naukri Jobspeak hiring Index improves



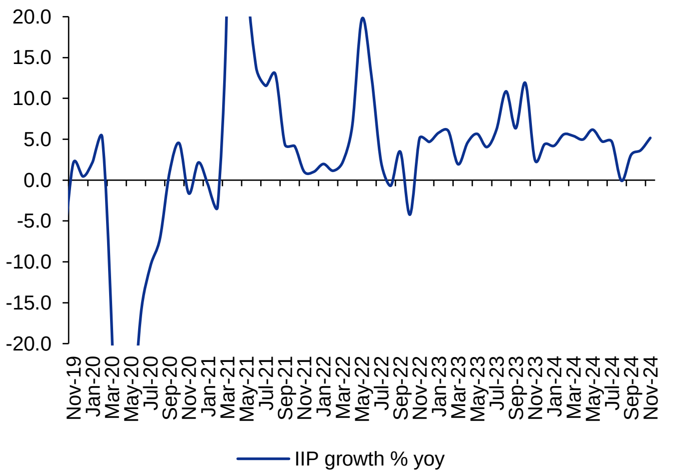
SOURCE: INCRED RESEARCH, NAUKRI JOBSPEAK REPORT

GDP growth estimate cuts prolong, net 60bp cut in six months ➤

The government expects the Indian economy to slow in FY25F, as seen in its first advance estimates (FAE) released on 7 Jan 2025. As per the National Statistical Office (NSO), real GDP is projected to grow by 6.4% during the current fiscal year. This would be the slowest growth in four years. Slowing growth in investment spending is expected to impact growth. The government, however, expects robust growth in consumption spending, which, economists feel, is optimistic.

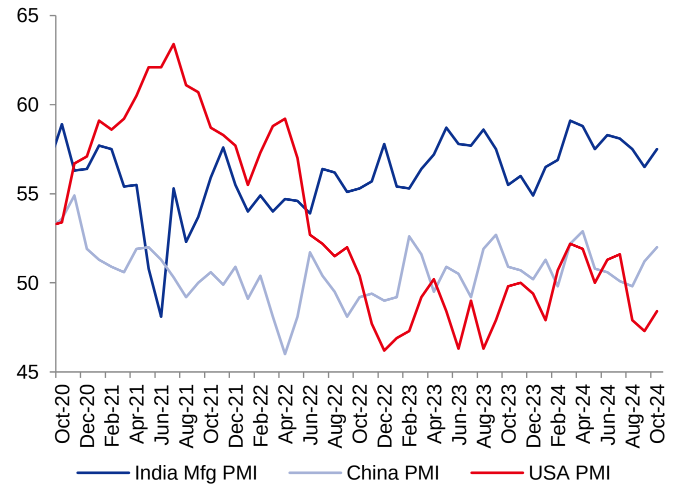
With the economy estimated to have grown by 6% in the first half, the advance estimate of 6.4% real GDP growth for the current fiscal year implies that it is expected to grow by 6.8% in the second half.

Figure 13: Index of Industrial Production improves from its lows



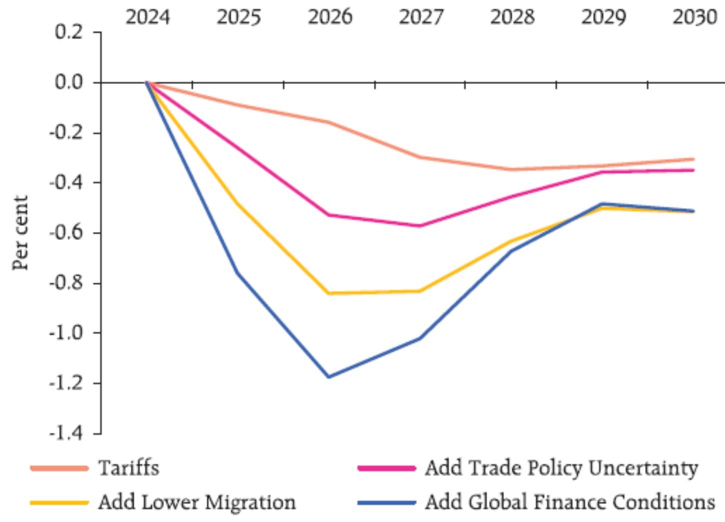
SOURCE: NATIONAL STATISTICS OFFICE (NSO), INDEX OF INDUSTRIAL PRODUCTION (IIP), INCRED RESEARCH,

Figure 14: Manufacturing Purchasing Managers' Index or PMI of India, China and the US improves



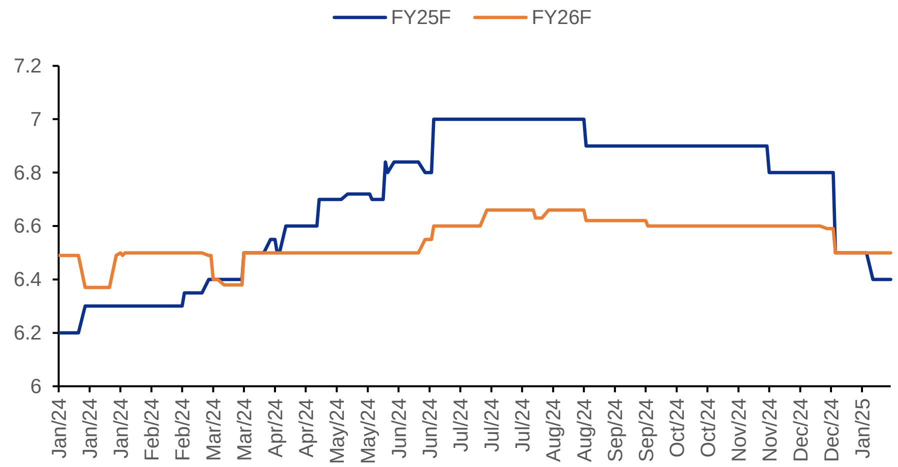
SOURCE: IHS MARKIT, PURCHASING MANAGERS' INDEX (PMI), INCRED RESEARCH

Figure 15: IMF's downside risk to global growth outlook



SOURCE: IMF, INCRED RESEARCH

Figure 16: India GDP growth - Bloomberg consensus estimate witnesses a marginal cut



SOURCE: BLOOMBERG, INCRED RESEARCH

INR depreciation trend brings in new challenges

A strong US dollar has been exerting pressure on the INR. The US Federal Reserve is not expected to cut interest rates in the near future as the country's incoming president's protectionist trade policies are expected to lead to higher inflation. This has led to a spike in US yields, leading to foreign portfolio investor or FPI outflows from India and other emerging markets.

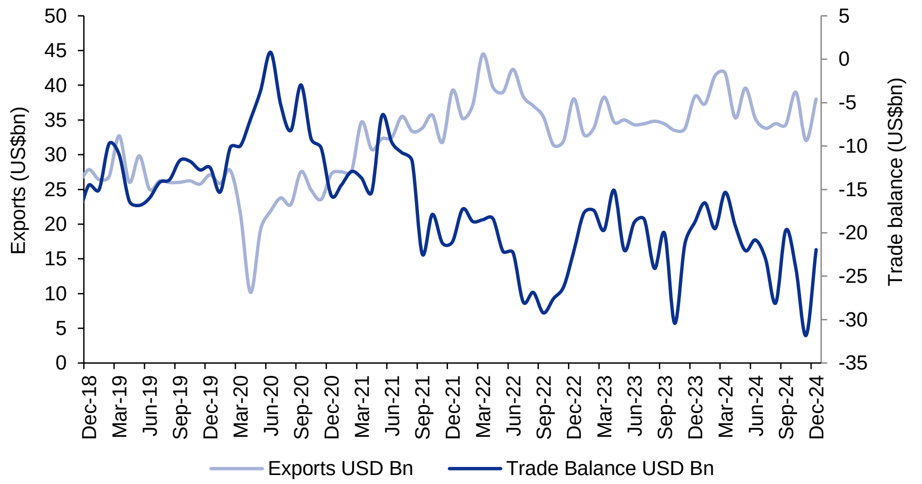
At the beginning of Jan 2025, reserves fell by a whopping US$70bn, from an all-time high of US$704.5bn as of end-Sep 2024.

Various factors contributed to the fall in India's forex reserves. High merchandise trade deficit on account of a steep rise in gold imports and lower exports led to the widening trade deficit. FPIs also pulled out US$11bn in the Dec 2024 quarter, contributing to the sharp fall in forex reserves. The Reserve Bank of India or RBI interventions in spot and forward markets are likely to have contributed to the drop in reserves. The sharp appreciation in the US dollar index against six major currencies also led to valuation loss in forex reserves.

INR continues to be overvalued, thereby continuing to be a risk in the short term. A 5% INR depreciation raises inflation by around 35bp, thereby extending the challenges for RBI's inflation management.

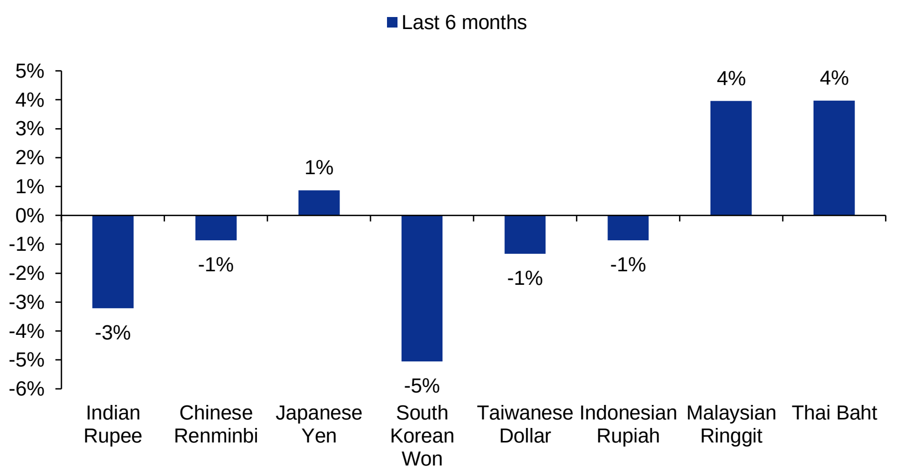
India's current account deficit (CAD) remained manageable in the quarter ended Sep 2024. It was at 1.2% of the GDP. Higher earnings from services and a rise in foreign remittances partially offset the outflows on account of higher merchandise trade deficit and primary income.

Figure 17: India's trade deficit trend



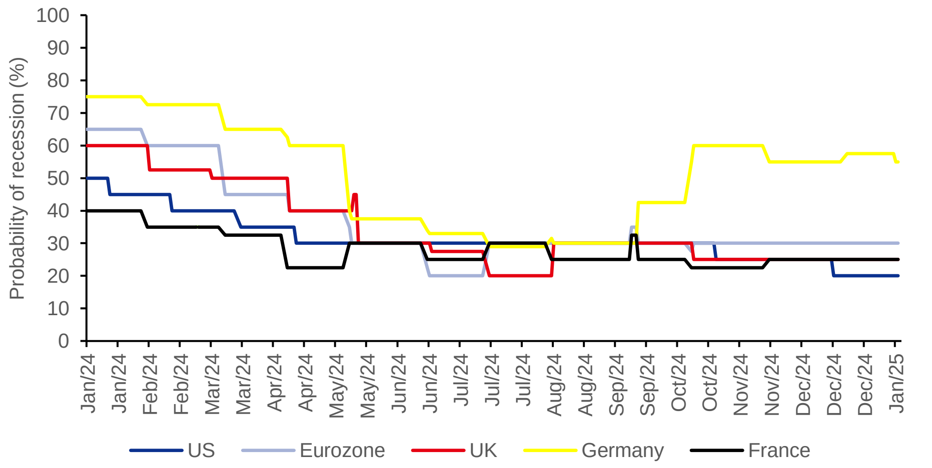
SOURCE: MINISTRY OF COMMERCE AND INDUSTRY, INCRED RESEARCH

Figure 18: USD-INR's performance against Asian peers worsens of late



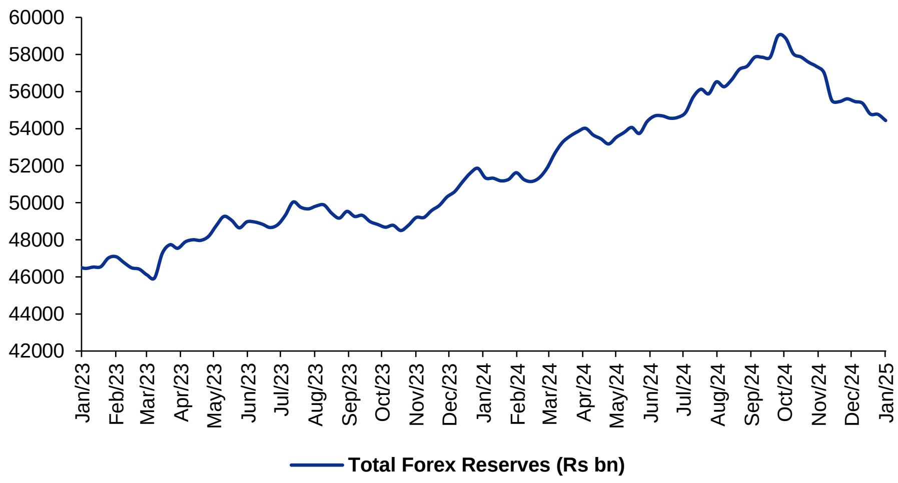
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 19: Recession probability (%) in developed countries continues to ease



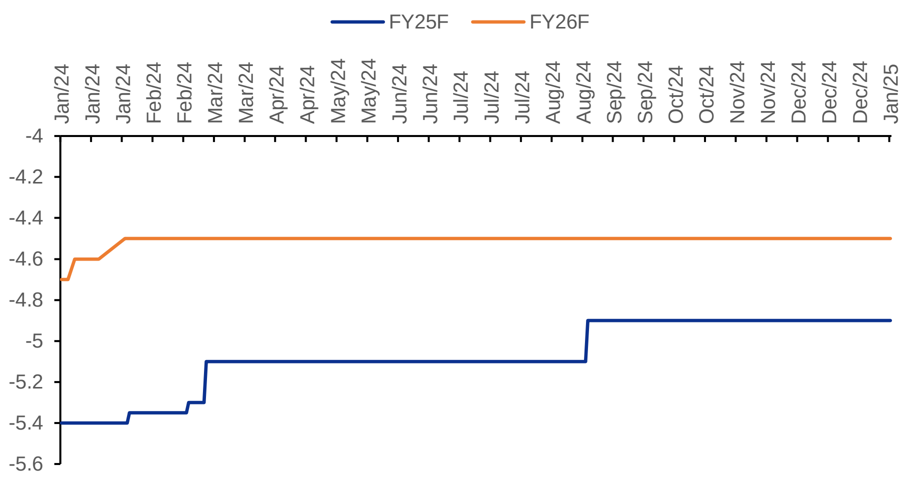
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 20: India's forex reserves are on a downward trajectory



SOURCE: RBI, ACE EQUITY, INCRED RESEARCH

Figure 21: India's fiscal deficit is expected to ease, as per Bloomberg consensus estimates



SOURCE: BLOOMBERG, INCRED RESEARCH

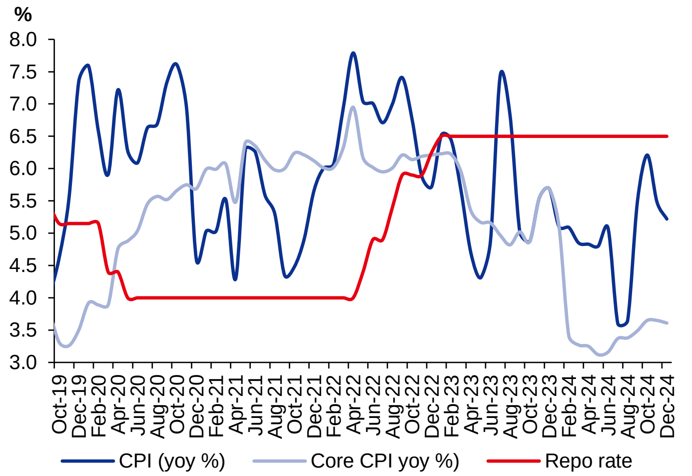
Inflation's volatile journey prevails

Retail inflation, as measured by the Consumer Price Index (CPI), inched down to 5.22% in Dec 2024 from 5.48% in the preceding month. Headline inflation eased only marginally and continues to remain way above the Parliament's target of 4%. The small dip in inflation was on account of easing vegetable prices. Inflation during the Dec 2024 quarter averaged 5.6%, rising to a five-quarter high. This is in line with the RBI's projection of 5.7% inflation for the quarter made in the first week of Dec 2024.

After rising and remaining at 3.65% for two months, core inflation, which excludes the volatile food and fuel & light group, eased a tad to 3.61% in Dec 2024.

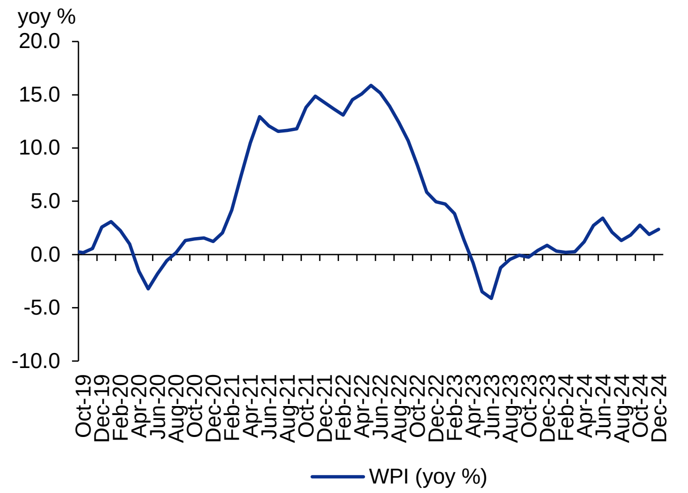
The RBI's monetary policy committee (MPC), at its Dec 2024 meeting, noted that near-term inflation and growth outcomes in India have turned somewhat adverse since its Oct 2024 policy. Going ahead, economic activity is set to improve along with rising business and consumer sentiment, as reflected in the RBI surveys. The recent spike in inflation highlights the continuing risks of multiple and overlapping shocks to the inflation outlook and expectations.

Figure 22: Core Consumer Price Index or CPI inflation trend



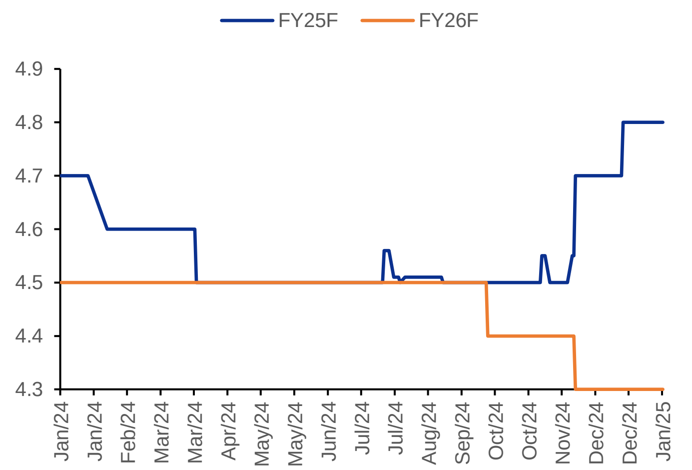
NOTE: CPI IS CONSUMER PRICE INDEX
SOURCE: RBI, CENTRAL STATISTICS OFFICE, INCRED RESEARCH

Figure 23: Wholesale Price Index or WPI inflation stabilizes



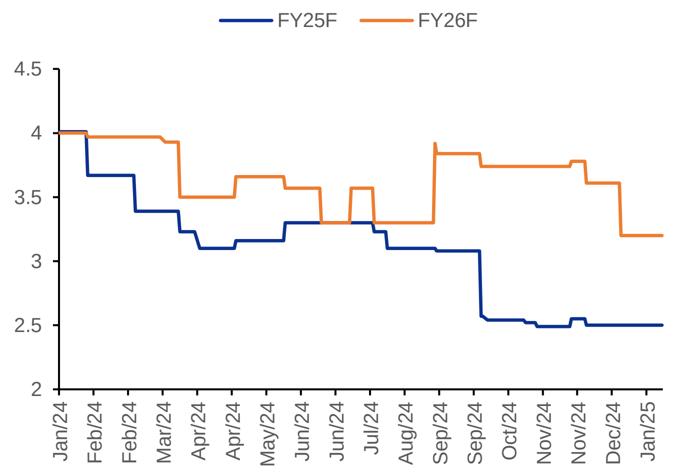
SOURCE: RBI, INCRED RESEARCH

Figure 24: Bloomberg CPI inflation consensus estimate



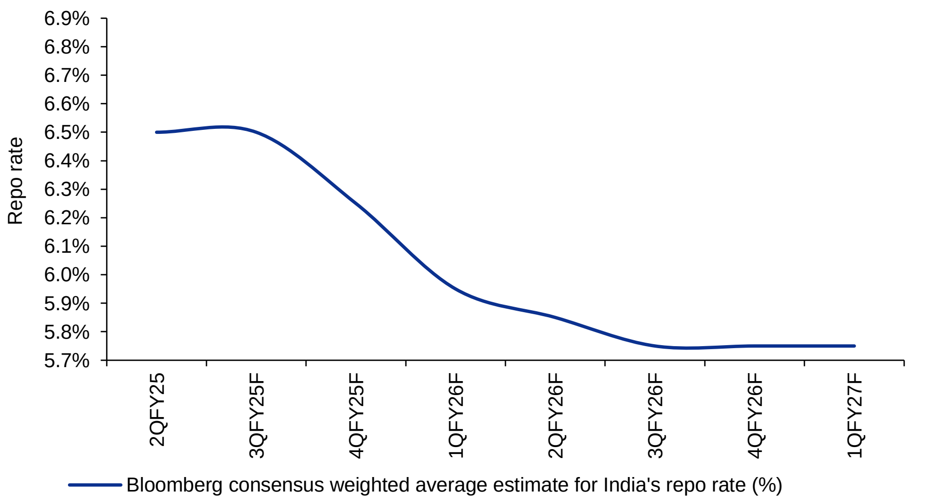
NOTE: CPI ISCONSUMER PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 25: Bloomberg WPI inflation consensus estimate



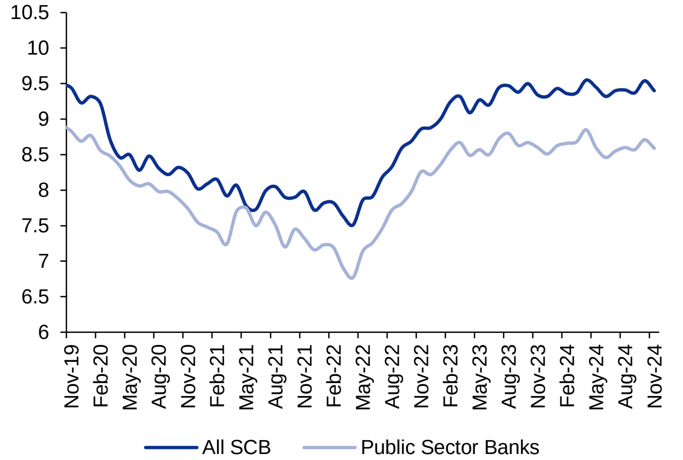
NOTE: WPI IS WHOLESALE PRICE INDEX
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 26: India's repo rate - Bloomberg consensus expects it to decline in CY25F



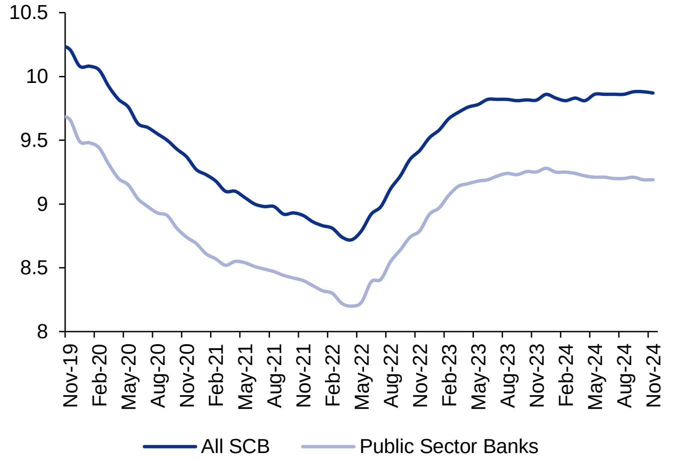
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 27: Weighted average lending rate (fresh INR loans)



SOURCE: RBI, INCRED RESEARCH

Figure 28: Weighted average lending rate (outstanding INR loans)



SOURCE: RBI, INCRED RESEARCH

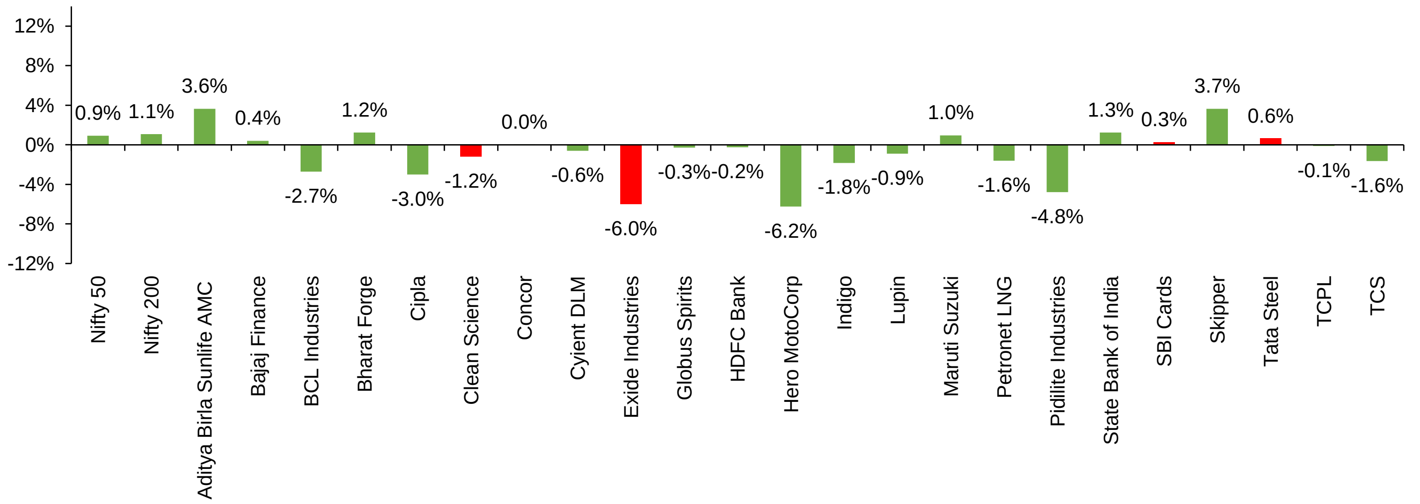
Our high-conviction stocks' performance and recent changes

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

Big outperformers to Nifty: Skipper (ADD), Aditya Birla Sunlife AMC (ADD) and Bharat Forge (ADD).

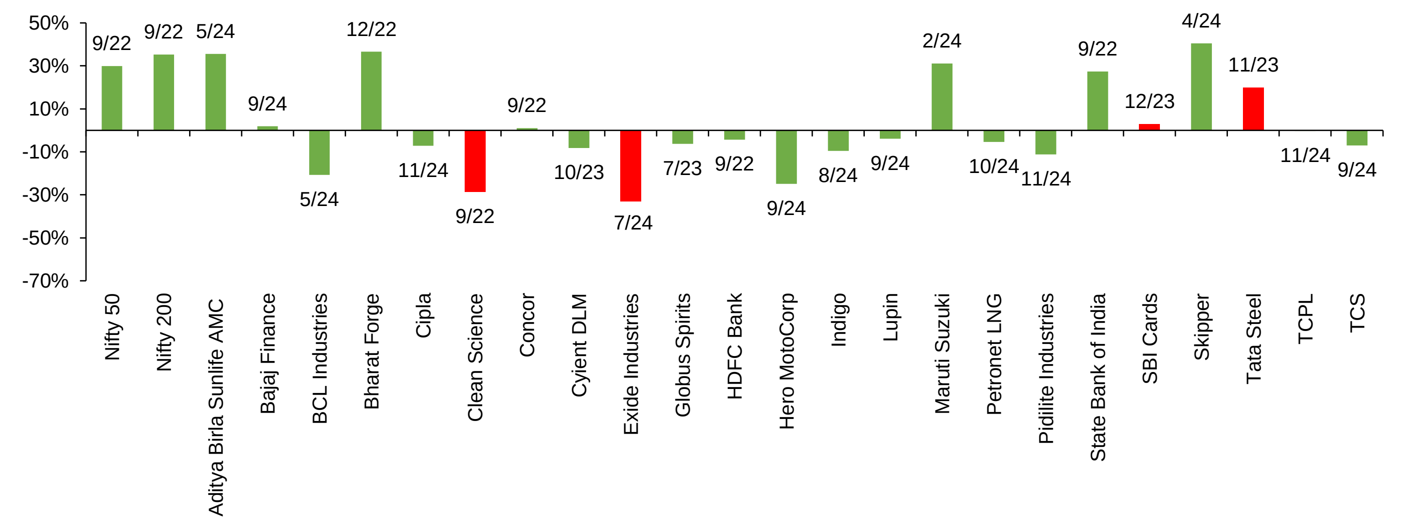
- **Underperformers to Nifty:** Hero MotoCorp (ADD), Exide Industries (REDUCE) and Pidilite Industries (ADD).
- **Recent month's performance - big absolute returns:** Lupin (ADD) and Bajaj Finance (ADD).
- **Addition to the list: Deepak Fertilisers and Petrochemicals Corporation (ADD)** – Cost benefit from ammonia expansion and gas contract to drive profitability.
- **Deletion from the list: Exide Industries -** Correction in stock price has played out as per our expectation and is close to our target price. **BCL Industries** - review of its business for foray into the biogas segment.

Figure 29: Technical trend favourable ideas: Hero MotoCorp, Lupin, Maruti Suzuki and Bajaj Finance (all with ADD ratings). Our high-conviction stocks' price performance since their introduction on 10 Sep 2022



NOTE: PERFORMANCE IS BASED ON COMPOUNDED MONTHLY GROWTH RATE, FROM THE DAY THE STOCK WAS ADDED TO THE PORTFOLIO
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 30: High-conviction stocks' price absolute performance since their introduction on 10 Sep 2022



NOTE: (INTRODUCTION MONTH MARKED ON BAR OF THE STOCK)
SOURCE: BLOOMBERG, INCRED RESEARCH

Earnings outlook

Slow single-digit EPS growth to continue in 3Q

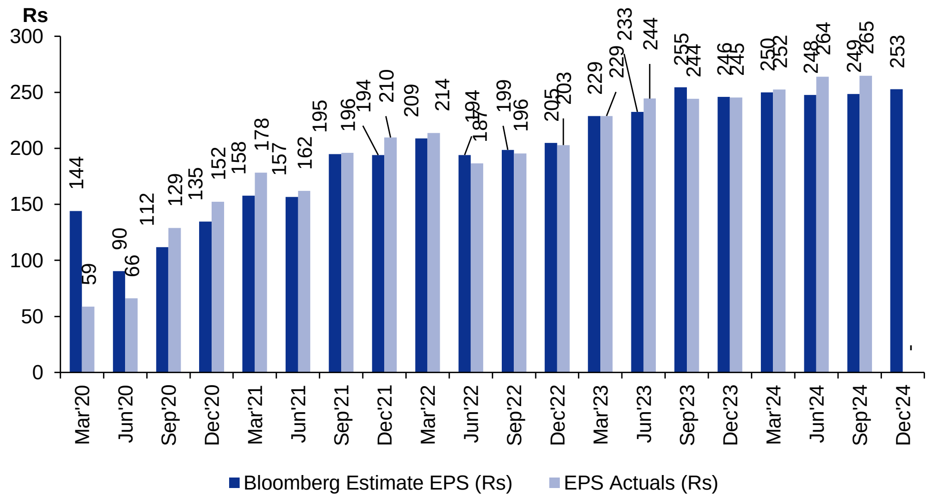
For the Dec 2024 quarter, Bloomberg consensus estimate expects Nifty-50 companies' EPS to grow by just 3% yoy. In terms of sectors, higher double-digit PAT growth is expected in capital goods, healthcare and telecom sectors. The laggard sectors are likely to be metals, chemicals, consumer staples, banks and oil & gas.

The good start to the festive season failed to persist through the quarter on the demand front as year-end discounts rose to clear the inventory. 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 9.7% in PAT on a sales growth of 14.4%. On qoq basis, sales and EBITDA growth is expected to be around 6%. High double-digit EBITDA yoy growth is expected in utilities, healthcare and industrial sectors.

Initial corporate results have been disappointing. As regards the 177 companies which have announced their Dec 2024 quarter results till date, (4% of all listed companies' universe), sales growth yoy was just 5%. The growth in expenses remains ahead of sales growth for the third successive quarter, leading to a flat PAT.

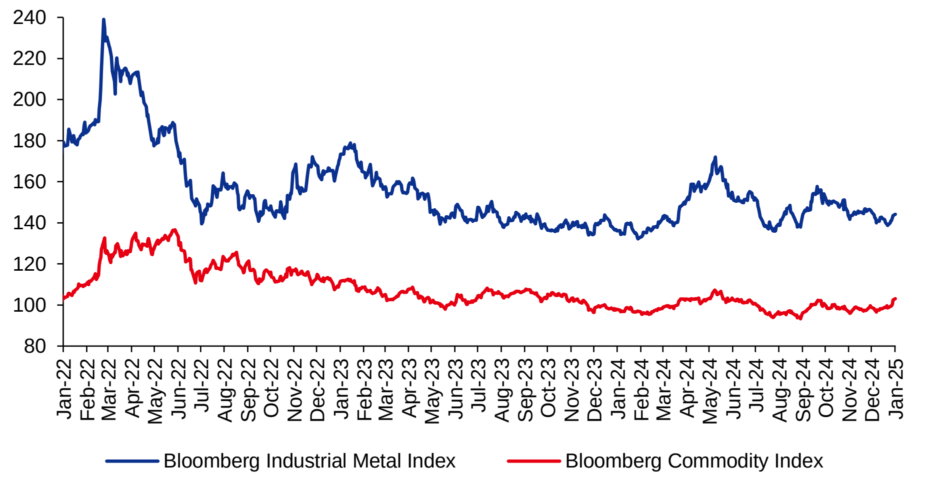
In the last six months, major Bloomberg consensus EPS upgrades in the Nifty-100 index have been very selective and are for real estate and healthcare sectors only, while sharp cuts have been witnessed in the case of metals, energy, FMCG and consumer discretionary sectors.

Figure 31: Nifty earnings are likely to post single-digit growth in 3QFY25F



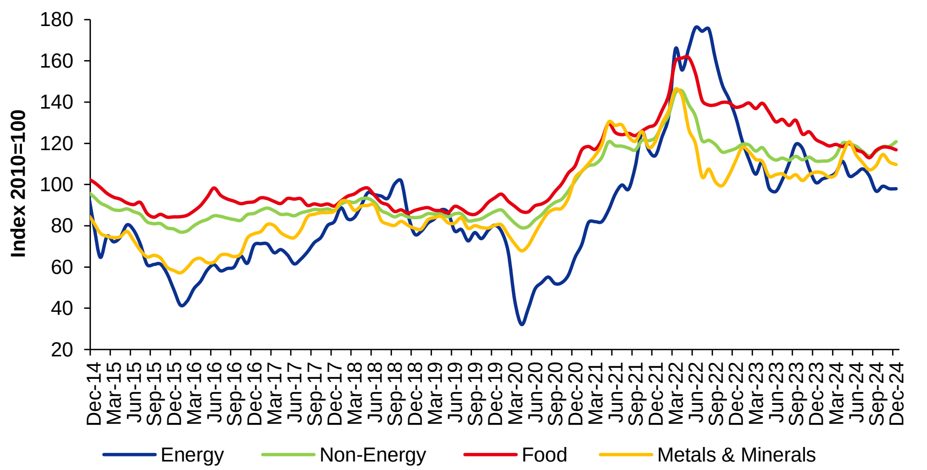
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 32: Bloomberg industrial metal index eases from its recent peak



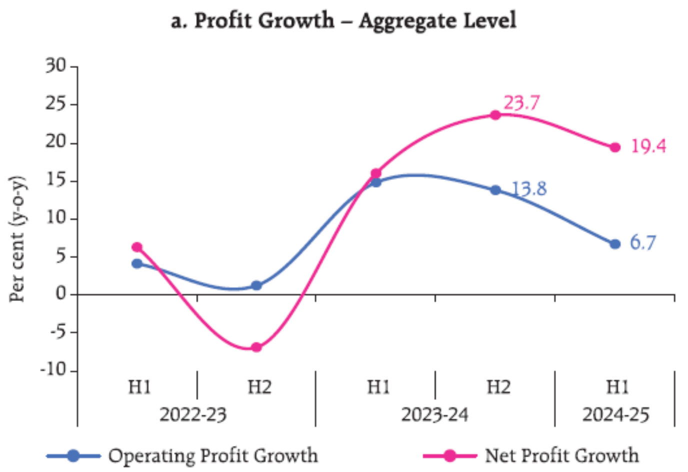
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 33: Global commodity index continues to be stable, except for metals



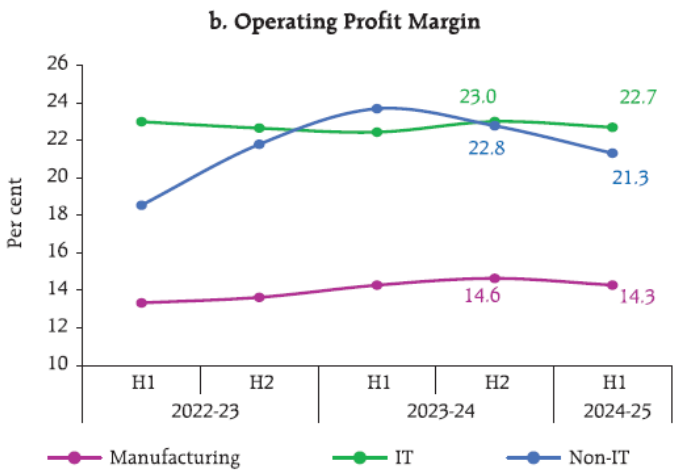
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 34: Corporate 1HFY25 results show slow operating profit growth



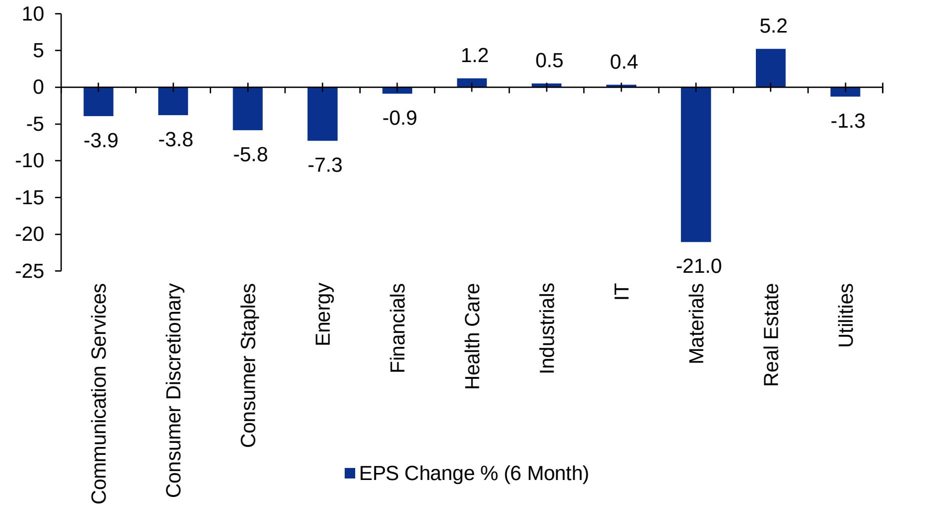
NOTE: FOR 2,800 LISTED NON-FINANCE FIRMS
SOURCE: RBI, INCRED RESEARCH

Figure 35: Non-IT companies' margin contraction continues in 1HFY25



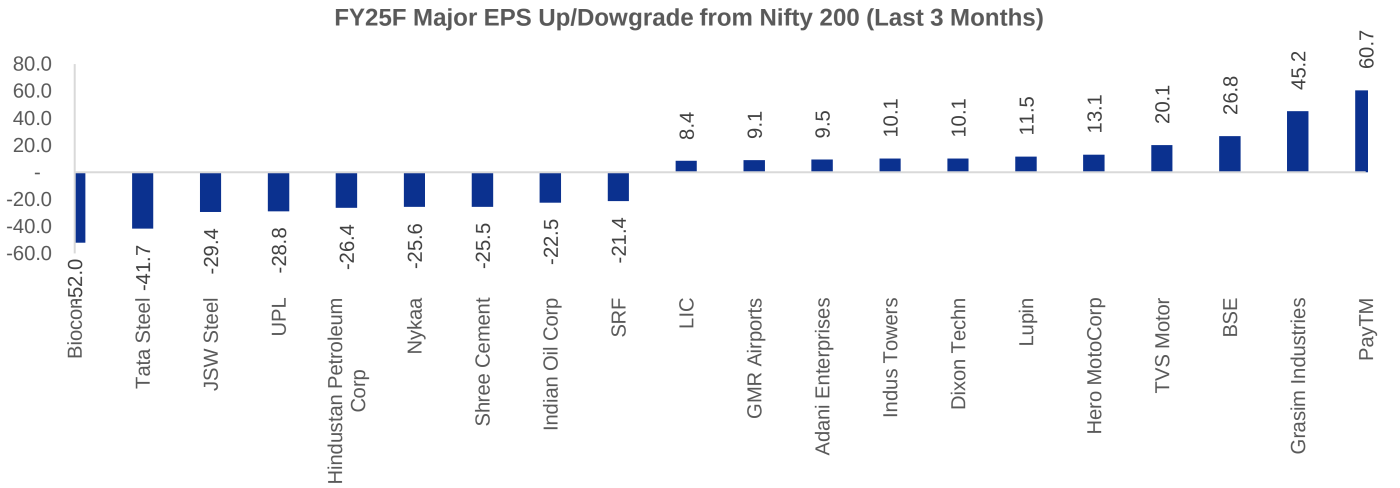
NOTE: FOR 2,800 LISTED NON-FINANCE FIRMS
SOURCE: RBI, INCRED RESEARCH

Figure 36: Sector-wise EPS changes in the last six months for Nifty-100 companies



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 37: Nifty-200 companies' EPS upgrade/downgrade (from Jul 2024)



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 38: 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	0.38%	0.06%	**15 days**	0.43%	-0.65%
30 days	0.38%	0.06%	**30 days**	0.17%	-0.91%
60 days	-0.40%	-1.18%	**60 days**	-0.23%	-1.58%
120 days	-4.28%	-6.87%	**120 days**	-1.66%	-4.34%

UPDATED TILL 14 JAN 2025

SOURCE: BLOOMBERG, INCRED RESEARCH

Nifty valuation and outlook

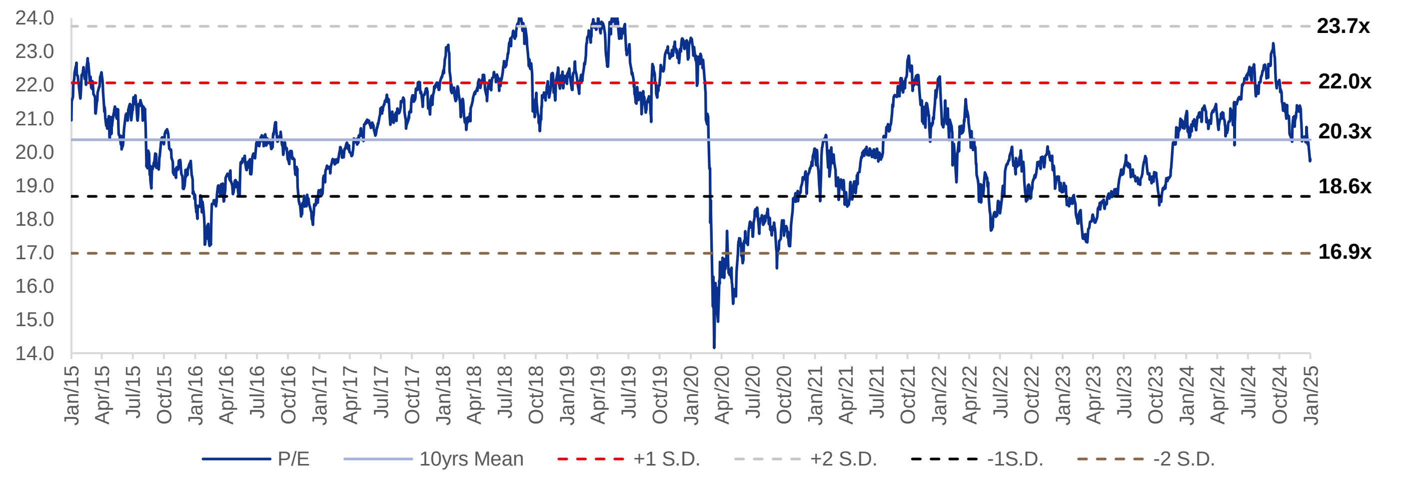
Index valuation eases below the 10-year mean P/E level

The Nifty-50 index's sharp correction of 8% in recent three months has been sharp, driven by weak macroeconomic problems and a sell-off by foreign institutional investors or FIIs. The reality of slow earnings growth is captured now by the forward P/E valuation easing below the 10-year mean level.

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 as earnings disappoint for a company/sector.

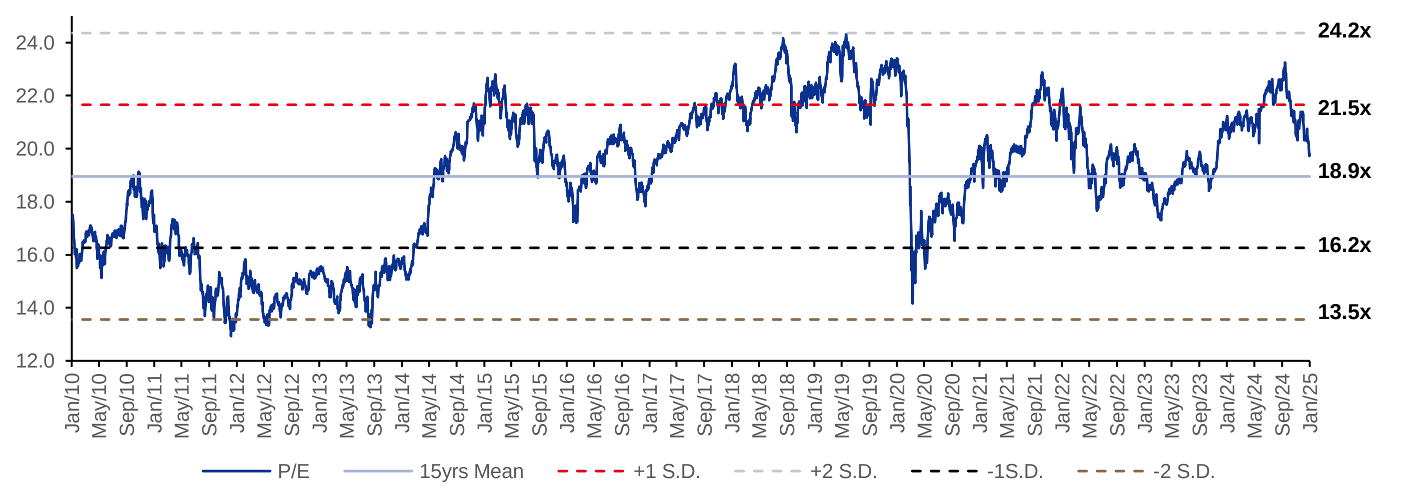
We lower our Nifty-50 index target by 8% to 23,260 to account for the recent EPS cuts and accommodate weaker economic data points by raising our bear-case probability to 40%, from 35% earlier, whereas the base-case probability slips to 50% (from 55% earlier). Our bear-case target has been quick to reach in recent months. We lower our bear-case Nifty target to 21,016 (at 16.2x P/E one-year forward), which is a 10% downside from the current levels if the disappointment prevails from corporate earnings and high-frequency economic data.

Figure 39: Nifty-50 index forward P/E valuation slips below the 10-year mean level



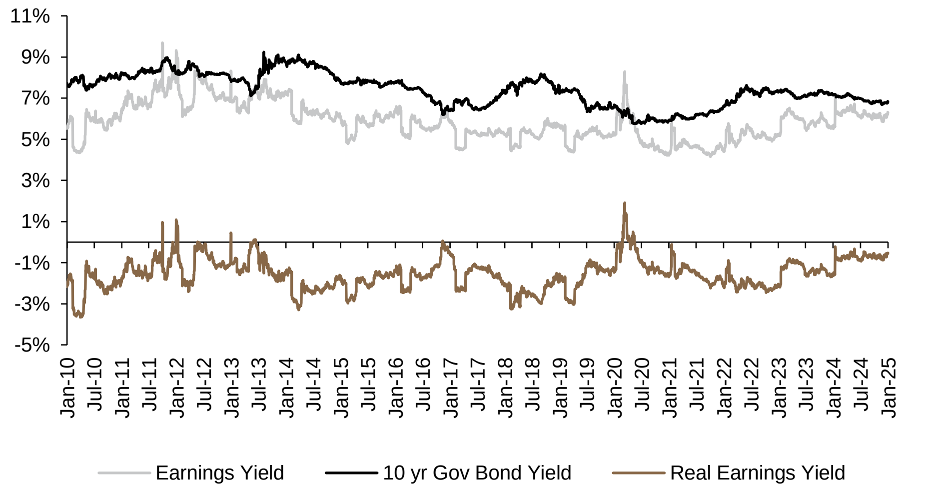
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 40: Nifty-50 companies' forward P/E valuation is nearing the 15-year mean level



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 41: Real earnings yield trend for Nifty-50 companies improves marginally



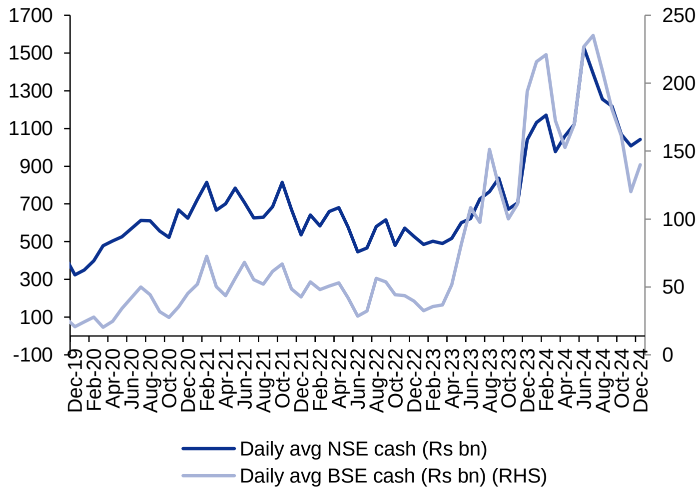
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 42: Nifty index target based on economic scenarios

	Bull Case	Base case	Bear Case
Economic variables FY26F	GDP growth >7%, Stable coalition governement, Brent Oil <US$90/bbl, Inflation <4%, Repo rate drop >100bp, above normal monsoon, INR Rs85	GDP growth >6.5%, Brent Oil <US$100/bbl, Inflation <5%, Repo rate drop >50bp, normal monsoon, INR Rs86	GDP growth <6%, Wobly coalition government, Brent Oil >US$105/bbl, Inflation >6%, Repo rate drop <25bp, poor distribution of rains, tariff barriers for exports, INR Rs89
Probability of Event	10%	50%	40%
1-year forward EPS (Rs.)	1,297.3	1,297.3	1,297.3
Target P/E (x)	20.0	18.9	16.2
Target index	**25,946**	**24,519**	**21,016**
Nifty-50 now	23,203	23,203	23,203
Up/ downside	11.8%	5.7%	-9.4%
Blended Index target		23,260	

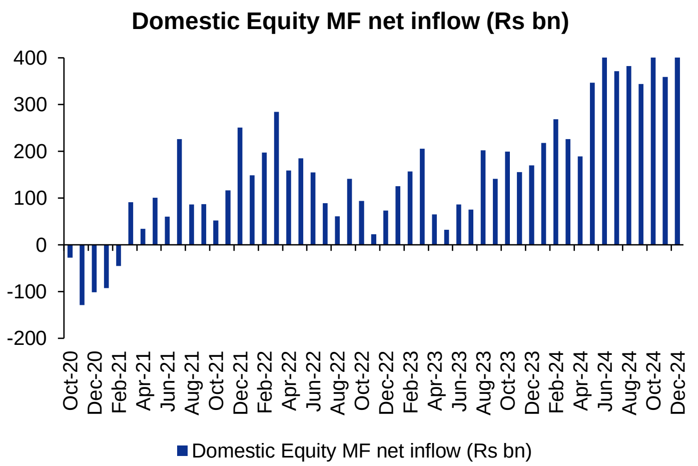
NOTE: EPS IS OF BLOOMBERG CONSENSUS
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 43: Stock market trade volume slide



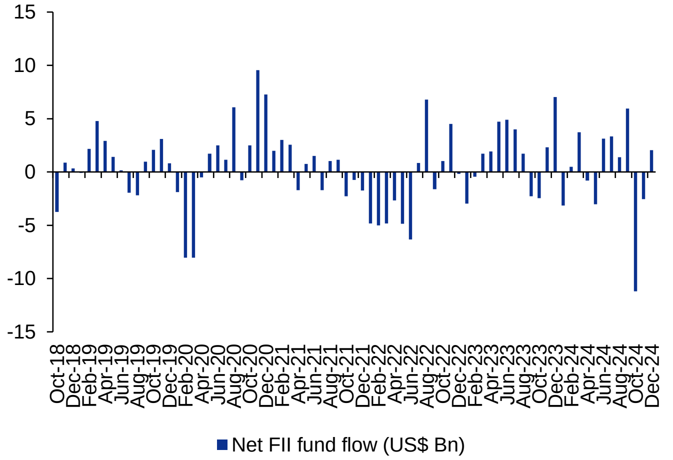
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 44: Domestic mutual fund inflow shows a steady trend



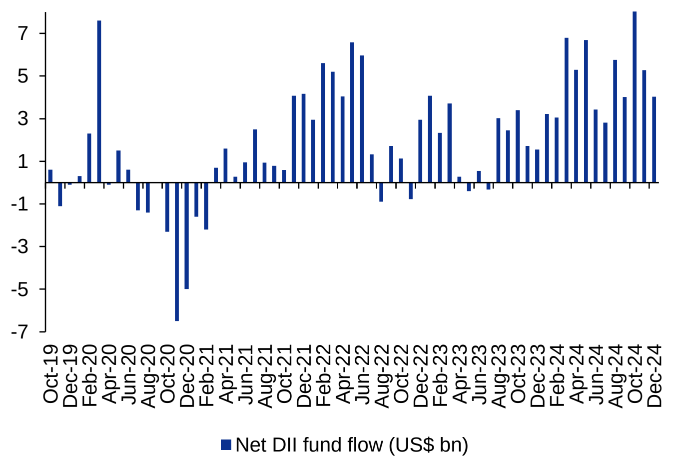
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 45: Volatile FII flow trend



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 46: DII fund flow has been stable



SOURCE: BLOOMBERG, INCRED RESEARCH

Sector ratings and stock ideas

The Nifty-50 index correction (7.6%) has been outpaced by mid-caps (9.6%) and small-caps (9.5%) in the recent quarter. While Nifty-50 forward P/E valuation eased to the comfort level, Nifty midcap-100 valuation is rich at a 33% premium to large-caps of Nifty-50. We expect the Nifty-50 index outperformance to sustain.

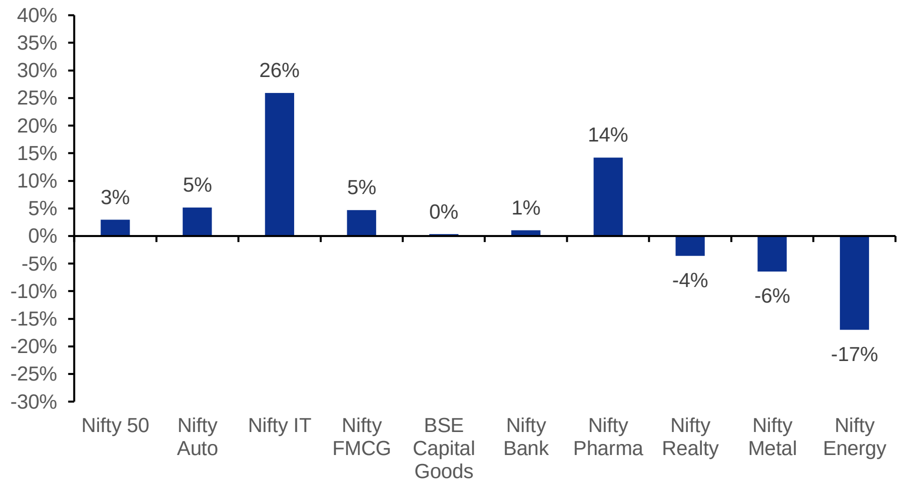
The sharp underperforming sectors in the recent quarter have been commodity, automobile, infrastructure and real estate. Outperforming sectors are IT, pharmaceutical and financial services.

We initiated coverage on NTPC and Deepak Fertilisers and Petrochemicals Corporation with an ADD rating and on Nykaa with a REDUCE rating. We reinitiate coverage on the building materials sector with an Underweight rating.

CY24 has been an year of two halves, as a consistent uptrend prevailed in early quarters, with general election results providing a big spurt in the Sep 2024 quarter. However, slow policy action and global challenges prevailed on corporate earnings, and the valuations are correcting to reflect the earnings mismatch. For CY25F, with EPS growth seeming a mirage, the value investing style may provide better return, deriving from valuation comfort. We have already seen in the current month that the Nifty50 Value 20 index has outperformed Nifty50 index marginally.

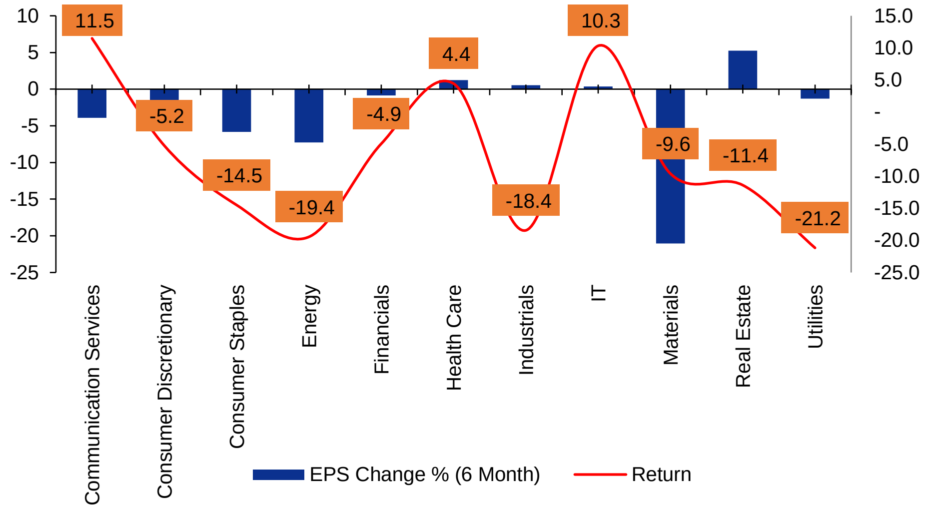
Considering the large fund-raising plans through initial public offers or IPOs which are absorbing the excess domestic liquidity, and short-term earnings growth slowdown (single-digit growth for Nifty-50 companies in 9MFY25 vs. mid-teen expectation), we remain cautious on market outlook and expect a sideways index moment with downward bias for CY25F. Key upside risk is the Union budget in early Feb 2025 taking aggressive policy measures to revive personal consumption and private capex.

Figure 47: Sectoral index performance vs. Nifty-50 (YTDFY25)



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 48: Last six months' correlation between EPS change and sectoral returns of Nifty-100 companies



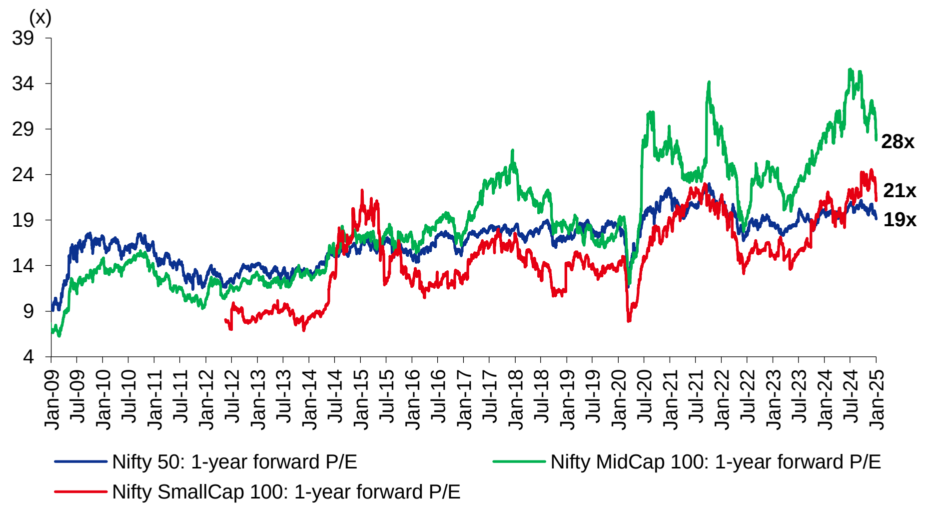
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 49: Our sector-wise ratings

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

SOURCE: INCRED RESEARCH

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



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 51: High dividend yield stocks for value investing outperformance

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)	FY24F	FY25F	FY24F	FY25F	FY23F	FY24F	FY23F	FY23F	(%)	FY23F
NMDC	NMDC IN	ADD	66	319	574	6.7	27.2	30.7	2.4	2.1	0.6	0.5	0.2	0.1	3.9	26.8
Shriram Finance	SHFL IN	ADD	547	4,250	1,023	11.9	217.1	268.3	2.5	2.0	0.4	0.3	0.4	0.1	6.8	15.8
IRB Infrastructure Dev.	IRB IN	REDUCE	53	40	316	3.7	1.9	2.4	27.6	21.6	2.1	1.9	9.1	0.0	(0.2)	7.9
Wipro	WPRO IN	HOLD	288	466	3,001	34.8	22.7	25.1	12.7	11.4	2.0	1.9	6.8	0.1	0.6	15.8
Hero MotoCorp	HMCL IN	ADD	4,076	5,810	812	9.4	242.5	267.2	16.8	15.3	4.1	3.8	10.7	0.0	0.4	25.8
Oil & Natural Gas	ONGC IN	ADD	262	221	3,283	38.1	38.6	NA	6.8	NA	1.0	NA	3.1	0.0	(0.2)	15.0
GAIL India	GAIL IN	ADD	180	261	1,176	13.6	14.7	17.0	10.7	9.4	1.4	1.3	8.5	0.0	0.5	11.6
Petronet LNG	PLNG IN	ADD	329	519	492	5.7	28.8	40.5	11.4	8.1	2.7	2.2	8.4	0.0	0.6	24.1
HCL Technologies	HCLT IN	ADD	1,773	2,021	4,792	55.6	64.0	69.9	27.7	25.4	6.9	6.8	17.8	0.0	0.1	25.1
UTI AMC	UTIAM IN	ADD	1,241	1,450	158	1.8	80.0	95.0	15.5	13.1	3.2	2.8	3.2	0.0	0.2	21.7
Dr Reddy's Lab.	DRRD IN	HOLD	1,298	1,365	1,079	12.5	72.2	70.0	18.0	18.5	3.5	3.2	11.7	0.0	0.1	20.5

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
PRICES AS ON 17 JAN 2025

Figure 52: Non-consensus stocks

Company Name	Bloomberg Ticker	Recomm	CMP	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	Upside/ Downside	ROE (%)
			Rs	Rs	(Rsbn)	(US$bn)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F	(%)	FY24F
Apollo Tyres	APTY IN	REDUCE	458	408	289	3	23.3	24.5	20.2	18.7	1.9	1.8	7.5	1.3	-11%	10.3
Avanti Feeds	BRCM IN	REDUCE	489	261	98	1	14.1	26.1	34.7	18.7	2.7	2.4	18.1	0.1	-47%	11.0
Balrampur Chini Mills	BRCM IN	REDUCE	489	261	98	1	14.1	26.1	34.7	18.7	2.7	2.4	18.1	0.1	-47%	11.0
Bharat Forge	BHFC IN	ADD	1,209	1,622	576	7	28.1	34.5	46.6	35.0	5.5	4.7	18.9	0.9	34%	15.6
Clean Science & Tech.	CLEAN IN	REDUCE	1,399	665	148	2	25.3	24.6	55.3	56.8	10.7	9.2	38.8	-	-52%	21.1
Coal India	COAL IN	REDUCE	380	209	2,332	27	27.4	24.9	13.9	15.3	2.9	2.7	7.4	3.3	-45%	22.5
Coforge	COFORGE IN	REDUCE	8,690	4,431	579	7	170.0	195.0	51.1	44.6	14.1	13.1	30.3	1.1	-49%	29.5
Delhivery	DELHIVER IN	REDUCE	331	263	245	3	(13.4)	NA	(24.8)	NA	3.5	NA	(65.9)	-	-21%	(13.1)
Divi's Laboratories	DIVI IN	ADD	5,931	6,560	1,568	18	74.0	97.8	80.2	60.6	10.7	9.4	54.9	-	11%	13.9
FSN Ecommerce	NYKAA IN	REDUCE	173	103	494	6	0.2	0.2	739.2	759.4	37.3	35.5	112.2	-	-40%	5.2
Gujarat Gas	GUJGA IN	ADD	489	642	335	4	21.9	34.9	22.3	14.0	3.8	3.1	13.1	1.2	31%	18.2
InterGlobe Aviation	INDIGO IN	REDUCE	4,100	2,400	1,578	18	50.1	75.3	81.9	54.4	41.7	23.6	13.2	-	-41%	91.0
JSW Steel	JSTL IN	REDUCE	907	470	2,208	26	25.9	25.9	29.4	24.7	3.5	3.1	13.2	0.7	-48%	12.5
Kaveri Seed Company	KSCL IN	ADD	901	639	46	1	NA	NA	NA	NA	NA	NA	NA	#VALUE!	-29%	NA
NCC	NJCC IN	REDUCE	245	150	153	2	15.1	16.1	16.2	15.3	1.9	1.7	11.1	0.3	-39%	17.1
PG Electroplast	PGEL IN	REDUCE	905	515	255	3	8.0	10.1	113.2	89.3	18.9	15.6	63.4	-	-43%	18.2
PNC Infratech	PNCL IN	HOLD	305	309	78	1	13.2	15.8	23.2	19.4	1.4	1.3	15.6	0.2	1%	11.9
SRF	SRF IN	REDUCE	2,583	1,540	763	9	46.5	52.3	55.5	49.4	6.0	5.4	27.6	0.2	-40%	11.4
Tata Motors	TTMT IN	REDUCE	774	746	3,229	37	61.3	75.2	12.6	10.3	2.7	2.2	4.6	0.8	-4%	23.7
Tata Steel	TATA IN	REDUCE	128	82	1,590	18	5.4	5.4	23.6	23.7	1.4	1.4	8.6	1.6	-36%	6.1
TVS Motor Company	TVSL IN	REDUCE	2,288	1,782	1,083	13	46.7	50.8	48.5	45.0	14.2	11.3	27.3	0.4	-22%	28.8

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
PRICES AS ON 17 JAN 2025

Figure 53: Our key mid-cap and small-cap stock recommendations

Company Name	Bloomberg Ticker	Reco.	CMP	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/ EBITDA (x)	Dividend Yield (%)	Upside/ Downside	ROE (%)
			Rs	Rs	(Rsbn)	(US$bn)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY25F	(%)	FY24F
Alkem Laboratories	ALKEM IN	ADD	5,192	6,150	618	7	189.2	215.2	27.4	24.1	5.1	4.3	22.5	0.7	18%	20.1
Balkrishna Industries	BIL IN	ADD	2,725	3,517	525	6	85.8	100.2	31.8	27.2	5.2	4.5	20.4	0.7	29%	17.4
CGConsumer Electricals	CROMPTON IN	ADD	363	480	232	3	9.4	11.3	38.7	32.1	6.9	6.2	24.9	1.1	32%	25.2
Cyient	CYL IN	ADD	1,766	2,034	195	2	62.1	74.7	28.4	23.6	4.3	3.9	16.3	2.0	15%	21.2
Cyient DLM	CYIENTDL IN	ADD	600	1,000	47	1	12.0	19.5	49.9	30.8	4.7	4.1	28.6	-	67%	16.2
FSN Ecommerce	NYKAA IN	REDUCE	173	103	494	6	0.2	0.2	739.2	759.4	37.3	35.5	112.2	-	-40%	5.2
Endurance Tech.	ENDU IN	ADD	2,089	2,832	293	3	64.5	83.9	32.4	24.9	5.2	4.4	17.9	0.6	36%	17.0
Ethos	ETHOSLTD IN	ADD	2,627	3,400	64	1	38.3	51.4	68.6	51.1	6.6	5.8	29.9	-	29%	15.6
Globus Spirits	GBSL IN	ADD	800	1,584	23	0	44.6	105.6	17.9	7.6	2.1	1.7	9.4	0.2	98%	12.4
Ipca Laboratories	IPCA IN	ADD	1,543	1,720	390	5	32.1	42.9	48.1	35.9	5.6	5.0	24.7	0.3	12%	12.2
Jyothy Labs	JYL IN	ADD	392	575	143	2	11.6	13.4	33.9	29.3	7.0	5.9	26.4	1.1	47%	21.9
Kalpataru Projects Intl.	KPIL IN	ADD	1,201	1,543	204	2	46.2	63.2	26.0	19.0	3.1	2.7	13.2	0.6	28%	12.4
Lloyds Metals & Energy	LLOYDSME IN	ADD	1,436	1,476	748	9	40.3	119.4	35.7	12.0	10.8	5.0	26.0	-	3%	42.6
Metropolis Healthcare	METROHL IN	ADD	1,885	2,460	96	1	35.0	42.4	53.9	44.5	7.1	6.2	27.2	0.2	31%	19.4
MTAR Technologies	MTARTECH IN	ADD	1,647	2,644	50	1	31.3	58.8	52.7	28.0	6.6	5.3	30.9	-	61%	13.3
Navin Fluorine Intl.	NFIL IN	ADD	3,780	4,080	187	2	69.0	81.6	54.7	46.3	6.9	6.0	30.8	0.2	8%	13.4
PI Industries	PI IN	REDUCE	3,482	3,091	526	6	118.2	129.1	29.5	27.0	5.0	5.0	19.8	0.1	-11%	18.4
Skipper	SKIPPER IN	ADD	474	615	50	1	14.7	19.1	32.2	24.7	4.8	4.0	12.1	0.1	30%	15.9
TCPL Packaging	TCPL IN	ADD	3,532	4,250	32	0	128.5	154.3	27.5	22.9	5.2	4.4	12.9	0.7	20%	20.4
UGRO Capital	UGRO IN	ADD	222	350	21	0	21.7	24.0	10.2	9.3	1.2	1.0	1.2	-	58%	13.0
UPL	UPLL IN	ADD	545	694	432	5	16.7	44.5	80.8	15.7	1.4	1.3	9.9	0.3	27%	5.9
Zydus Lifesciences	ZYDUSLIF IN	ADD	992	1,150	994	12	43.2	47.7	23.0	20.8	4.3	3.6	15.3	0.7	16%	20.2

SOURCE: BLOOMBERG, INCRED RESEARCH
PRICES AS ON 17 JAN 2025

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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.