

## India

## InCred Sector rating

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

## India Strategy

## High single-digit return outlook for FY25F

- While the economic activity improves on domestic and export fronts, rising commodity and fuel prices around general elections are a cause of concern.
- 4QFY24F Nifty-50 EBITDA is expected to rise by 4% yoy, as per Bloomberg consensus, and 7% yoy for our coverage universe comprising 150 stocks.
- We introduce Nifty-50 index blended target of 24,084 for Mar 2025F, an 8% upside from the current levels.

## Above normal rainfall and election results to be keenly watched

Macroeconomic factors have been favourable in domestic as well as external trade. The current account deficit or CAD-positive expectation by the CMIE for the Mar 2024 quarter provides comfort. The above-normal monsoon rain outlook by the IMD (only for the second time in the recent decade) should help revive rural markets and ease food inflation. While interest rate reduction seems to be delayed, subject to electoral outcome, private capex is expected to improve. The general elections in India in Apr-Jun 2024 are expected to favour the ruling Bharatiya Janata Party, in terms of higher seat wins, as per pre-poll surveys, while the vote share is expected to be flat vs. last time.

## Mar 2024 quarter is expected to yield 2% qoq Nifty-50 EPS growth

For the Mar 2024 quarter, Bloomberg consensus estimate expects Nifty-50 companies' EPS growth at 2% qoq and 9% yoy. The 4% yoy EBITDA growth is expected to be driven by the automobile, pharmaceutical, cement, capital goods and financial sectors (Fig. 35). For our coverage universe comprising 150 companies, we expect a 2% yoy growth in PAT driven by a 22% yoy growth in sales and a 7% rise in EBITDA.

## Select upgrades and addition to high-conviction list

The increased volatility has exposed cracks in mid-small caps (Fig. 53). Valuations ease a bit for select stocks. We make use of this opportunity to introduce Spandana Spoorthy Financial and Skipper among small-caps, APL Apollo Tubes in mid-caps and Titan Company in large-caps high-conviction list. We have removed Thermax and Som Distilleries and Breweries. Continued weakness in the chemical sector has been used to upgrade UPL and Navin Fluorine's rating to ADD. We remain constructive on large-caps and Nifty-50 index over the mid-cap and small-cap indices.

## High single-digit returns outlook for FY25F

We introduce FY25F Nifty-50 blended target of 24,084, an 8% upside from the CMP, with a 70% probability of a base-case scenario, 20% bull-case scenario and 10% bear-case scenario (Fig. 45). Markets seems to have already baked in a better number of Loka Sabha seats for the ruling party than its 2019 performance, which is our base-case assumption. We expect market returns will be below the Nifty-50 companies' EPS growth rate as the valuation rerating's upside potential is limited. We maintain sector ratings. Delay in interest rate cuts, below-expected political mandate and geopolitical issues are key downside risks.

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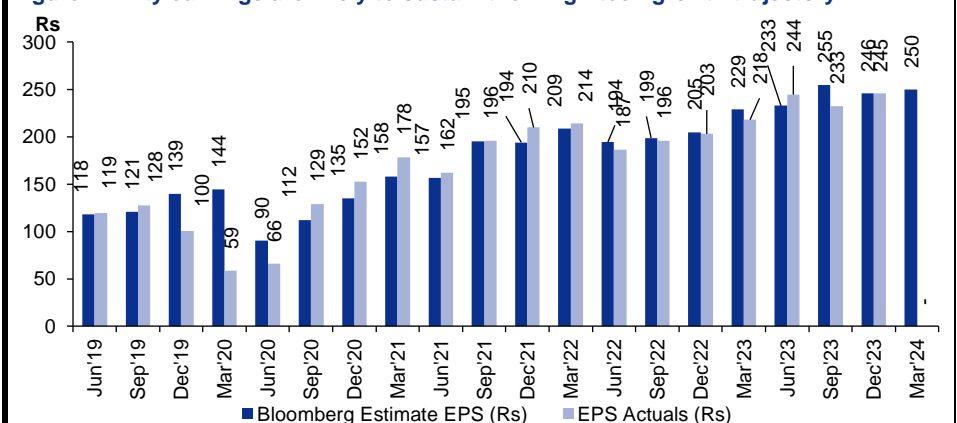
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Figure 1: Nifty earnings are likely to sustain their high-teen growth trajectory



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our high-conviction ADD/ REDUCE stock ideas' valuations

Company	BLOOMBERG TICKER	Reco.	Market Capital (Rsbn)	Market Capital (US\$bn)	Price	Target Price	Up/down (%)	EPS		2-year EPS CAGR (FY24-FY25F)	P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	ROE %	Analyst Name
								FY24F	FY25F		FY24F	FY25F	FY24F	FY25F				
Ajanta Pharma	AJP IN	ADD	260	3.1	2,065	2,400	16%	63.4	74.8	5.7%	32.6	27.6	7.8	7.1	22.0	2.5%	22.8	Praful BOHRA
APL Apollo Tubes	APAT IN	ADD	429	5.1	1,546	1,814	17%	27.6	39.3	5.7%	56.0	39.4	14.3	11.9	34.8	0.4%	31.3	Rahul AGARWAL
Ashok Leyland	AL IN	ADD	517	6.2	176	208	18%	8.0	9.5	6.2%	20.8	18.5	6.1	5.3	10.4	2.3%	25.7	Pramod AMTHE
Aurobindo Pharma	ARBP IN	ADD	651	7.8	1,111	1,178	6%	54.5	67.1	7.2%	20.8	16.5	2.4	2.2	11.0	0.5%	11.3	Praful BOHRA
Bharat Electronics	BHE IN	ADD	1,706	20.4	233	235	0%	5.3	5.9	3.5%	43.7	39.5	12.6	10.8	33.6	0.9%	26.5	Dipen VAKIL
Bharat Forge	BHFC IN	ADD	550	6.6	1,181	1,366	16%	21.2	27.4	8.9%	55.6	43.1	8.2	6.0	22.0	0.8%	12.4	Pramod AMTHE
Camlin Fine Sciences	CFIN IN	ADD	18	0.2	107	300	179%	15.1	21.8	13.1%	7.1	4.9	1.8	1.3	5.4	1.4%	21.2	Satish KUMAR
Clean Science and Technology	CLEAN IN	REDUCE	142	1.7	1335	663	-50%	22.1	25.5	4.9%	60.4	52.3	14.1	12.4	47.9	0.0%	21.8	Satish KUMAR
Container Corp of India	CCRI IN	ADD	577	6.9	947	1083	14%	22.0	27.9	8.1%	43.0	34.0	5.1	4.7	26.5	0.7%	11.5	Rajarshi MAITRA
Cyient DLM	CYIENTDL IN	ADD	54	0.6	684	1049	53%	8.6	14.2	18.3%	79.7	48.2	18.3	5.6	42.0	0.0%	19.6	Vipraw SHRIVASTAVA
Data Patterns (India)	DATAPATT IN	ADD	157	1.9	2,806	3,000	7%	35.1	51.3	13.5%	79.9	54.7	13.5	11.8	59.0	0.2%	15.7	Dipen VAKIL
Globus Spirits	GBSL IN	ADD	22	0.3	767	1562	104%	45.1	93.1	29.3%	17.0	8.2	2.5	2.2	11.2	0.4%	13.7	Nitin AWASTHI
HDFC Bank	HDFCB IN	ADD	11,463	137.3	1,509	2,000	33%	83.5	104.6	7.8%	18.1	14.4	3.0	2.5	2.5	1.7%	16.9	Jignesh SHIAL
InterGlobe Aviation	INDIGO IN	REDUCE	1,378	16.5	3,570	2,000	-44%	96.5	38.9	-26.1%	37.0	91.7	-21.8	-53.3	12.4	0.0%	-83.7	Rajarshi MAITRA
Mahindra & Mahindra Finance	MMFS IN	ADD	356	4.3	288	370	28%	14.1	22.7	17.2%	20.4	12.7	2.1	2.0	2.0	1.7%	9.9	Jignesh SHIAL
Maruti Suzuki	MSIL IN	ADD	3,930	47.1	12,503	12,554	0%	422.6	485.6	4.7%	30.1	25.7	6.5	5.7	21.0	1.2%	20.5	Pramod AMTHE
Reliance Industries	RIL IN	ADD	19,831	237.4	2,932	3,369	15%	178.7	NA	NA	0.0	NA	0.0	0.0	-0.6	0.0%	12.4	Satish KUMAR
SBI Cards	SBICARD IN	REDUCE	690	8.3	726	500	-31%	24.6	24.9	0.4%	29.5	29.1	7.0	5.8	5.8	0.5%	21.5	Jignesh SHIAL
Shriram Finance	SHFL IN	ADD	902	10.8	2,401	2,800	17%	192.6	233.1	6.6%	12.5	10.3	2.1	1.8	1.8	0.8%	15.5	Jignesh SHIAL
Skipper	SKIPPER IN	ADD	34	0.4	316	400	27%	8.4	12.7	-0.3%	37.8	24.9	4.2	3.4	13.2	0.1%	10.3	Arafat SAIYED
Spandana Sphoorty Financial	SPANDANA IN	ADD	63	0.8	880	1300	48%	76.4	99.5	-0.3%	11.5	8.8	2.0	1.7	1.7	0.0%	15.6	Jignesh SHIAL
State Bank of India	SBIN IN	ADD	6,707	80.3	752	800	6%	67.1	69.7	1.3%	12.3	10.8	2.0	1.8	1.8	2.0%	17.7	Jignesh SHIAL
Tata Steel	TATA IN	REDUCE	1,998	23.9	160	82	-49%	5.5	5.4	-0.3%	29.2	29.5	1.9	1.8	10.1	1.2%	6.4	Satish KUMAR
Tech Mahindra	TECHM IN	ADD	1,168	14.0	1,196	1,625	36%	29.1	64.2	30.1%	43.6	18.6	3.8	4.0	20.9	3.9%	9.5	Abhishek SHINDADKAR
Titan Company	TTAN IN	ADD	3,236	38.7	3,646	4,060	11%	43.3	53.0	-0.3%	84.3	68.8	27.4	22.3	56.7	0.4%	29.2	Rohan KALLE

SOURCES: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

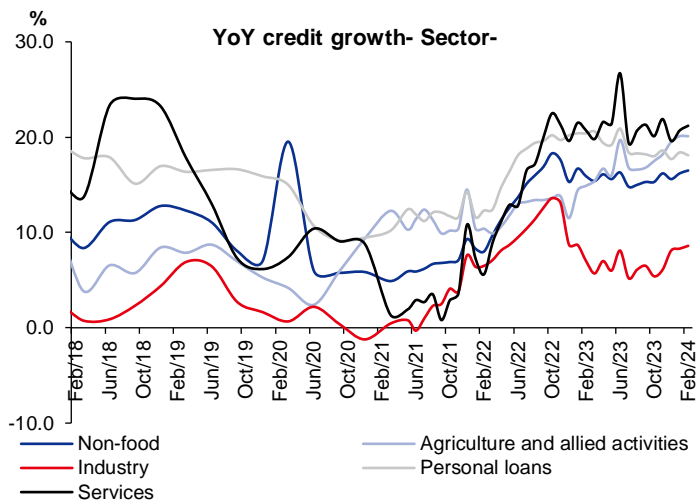
# High single-digit returns outlook for FY25F

## Economic activity continues to strengthen

### Sustained improvement in economic activity ➤

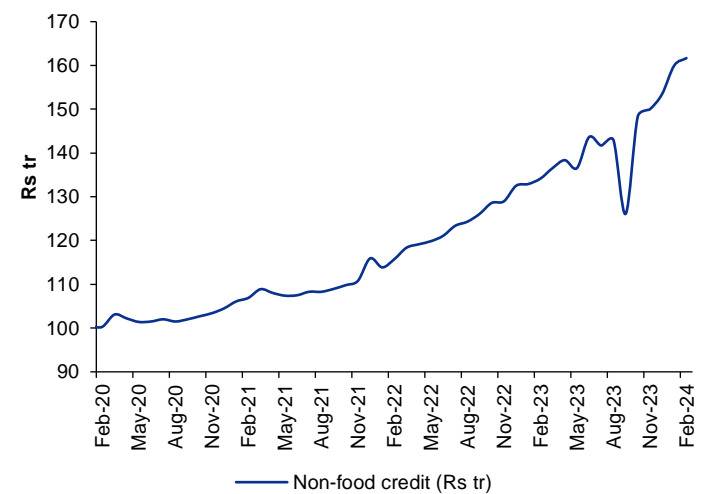
The economic activity in India continues its improvement path, as seen in electricity consumption, Index of Industrial Production or IIP growth, Purchasing Managers' Index or PMI manufacturing and credit growth. Improvement in the external sector comes to aid in the form of positive CAD. Favourable rainfall outlook should help strengthen rural market recovery. All eyes are on post-election economic policy action or priorities of the new government, as laid out by respective parties' election manifesto.

**Figure 3: Loan growth on a steady uptick**



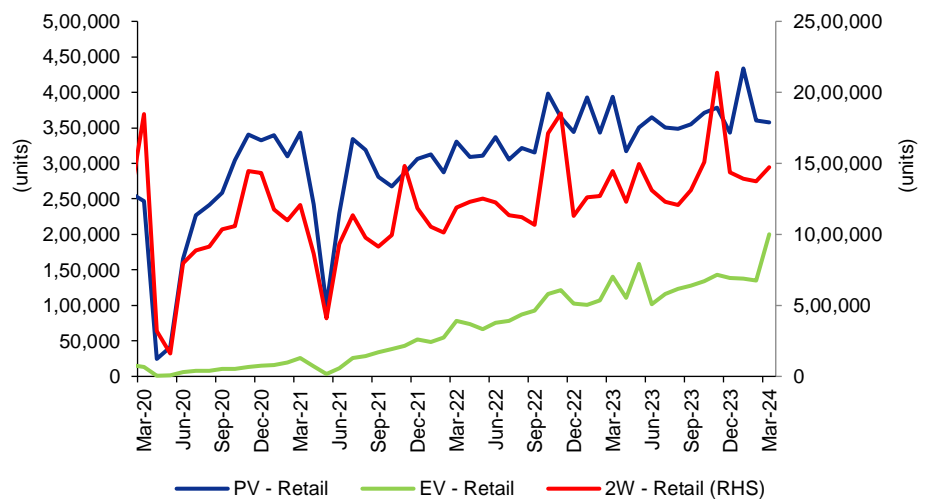
SOURCE: RBI, INCRED RESEARCH

**Figure 4: Non-food credit momentum sustains**



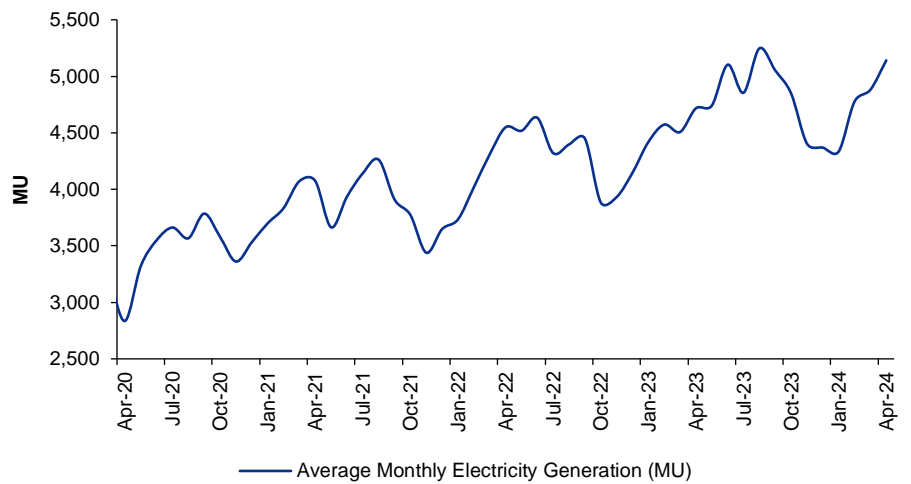
SOURCE: RBI, INCRED RESEARCH

**Figure 5: Automobile sector's retail momentum healthy**



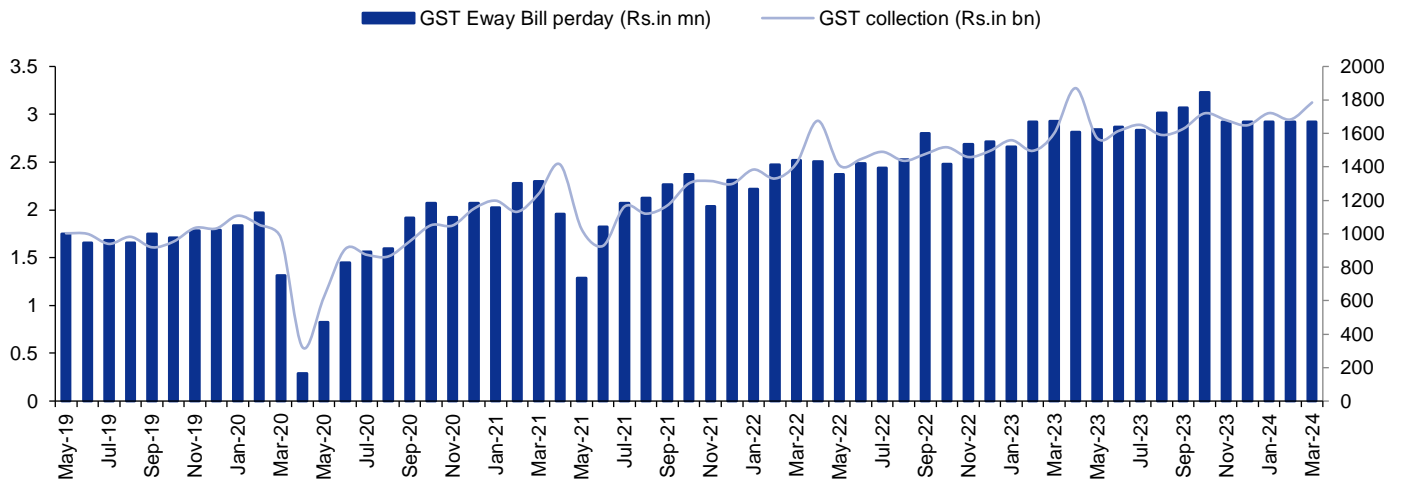
SOURCE: VAHAN.COM, INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Electricity generation continues to recover**



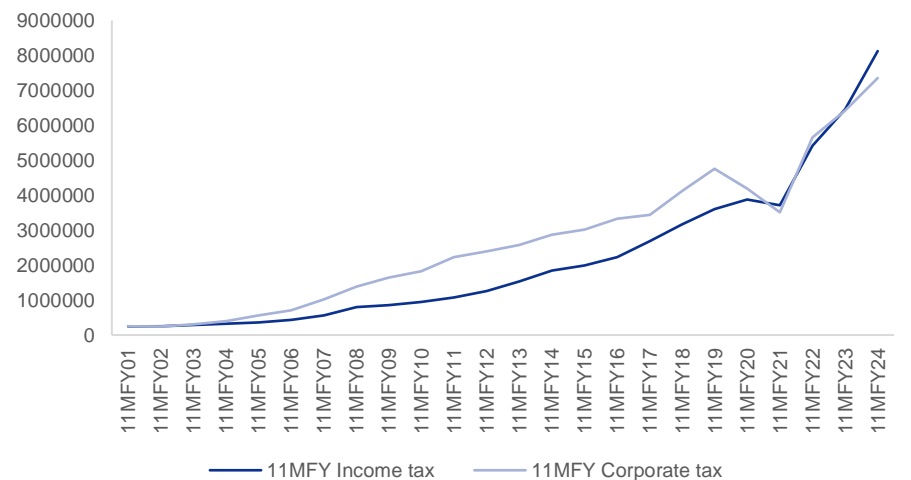
SOURCE: POWER SYSTEM OPERATION CORPORATION, INCRED RESEARCH

**Figure 7: GST collections and E-way bills on a healthy growth path**



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

**Figure 8: Income-tax and corporate tax collections remain impressive (Rs m)**



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

In FY24F, the Centre for Monitoring Indian Economy or CMIE estimates corporate tax collections to have exceeded the revised estimate or RE at Rs.9.9tr, which is

a 20% yoy rise, aided by an excellent corporate performance. The Government of India or Gol's expectation of a 13% rise on this higher base looks a little bit stretched for FY25F.

The Interim Union Budget expects gross fiscal deficit (GFD) of Rs.16.9tr in FY25F, compared to the revised estimate (RE) of Rs.17.3tr for FY24F i.e. 5.1% of gross domestic product or GDP. However, the upward revision in low growth capex for FY25F may need additional tax measures or a marginal slip in GFD.

### Consumer sentiment is weak but above normal rainfall provides hope➤

The Index of Consumer Sentiments (ICS) posted a 90bp increase in Mar 2024 after two months of decline. The recovery was only partial. The ICS fell by 270bp during Jan-Feb 2024. Despite the recovery in Mar 2024, the ICS was 170bp lower than its level in Dec 2023.

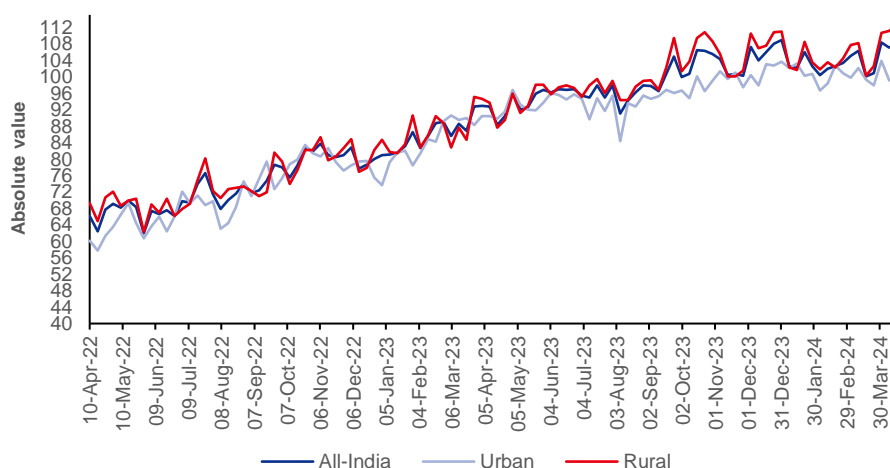
The Index of Current Economic Conditions (ICC) in rural India dipped sharply by 400bp in Jan 2024, recovered partially in Feb 2024 and fell again in Mar 2024. This time the margin of decline was smaller at 40bp.

The India Meteorological Department (IMD) has forecasted above-normal southwest monsoon in 2024. Rainfall during the southwest monsoon that spans from Jun to Sep is expected to be 106% of the Long Period Average (LPA). Rainfall within the range of 96% to 104% of the LPA is considered normal. IMD has attached a 31% probability of occurrence of above normal rainfall. The probability of excess rainfall was at 29% and that of normal rainfall at 30%.

In the last two decades, the IMD predicted above-normal monsoon showers only once in 2016 while southwest monsoon's actual rainfall has been above normal on five occasions during this period. In all these years, agriculture witnessed an increase in output, especially kharif foodgrain and oilseeds production.

IMD expects El-Nino conditions to weaken in the early part of the southwest monsoon. This will be followed by a shift to La Nina conditions in the second-half of the season. Additionally, the Indian Ocean Dipole (IOD) conditions prevailing over the Indian Ocean are likely to turn positive in the later part of the southwest monsoon season. A positive IOD is believed to bring more rains to the Indian sub-continent. IMD expects above-normal rainfall in most parts of the country other than some parts of northwest, east and northeast India.

**Figure 9: Consumer sentiment is on a gradual improvement path**



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

Figure 10: IMD rain forecast trend and outlook

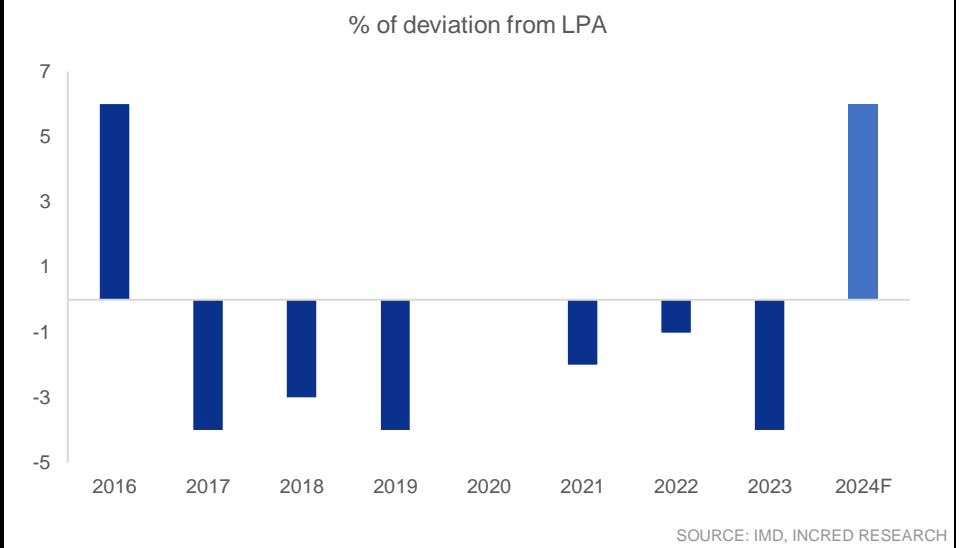


Figure 11: Consumer perception on essential spending for the current year is weak

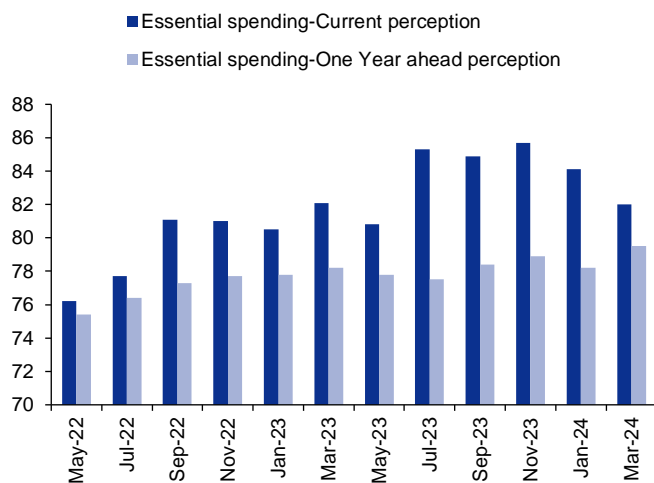


Figure 12: Consumer perception on non-essential spending for the year forward improves

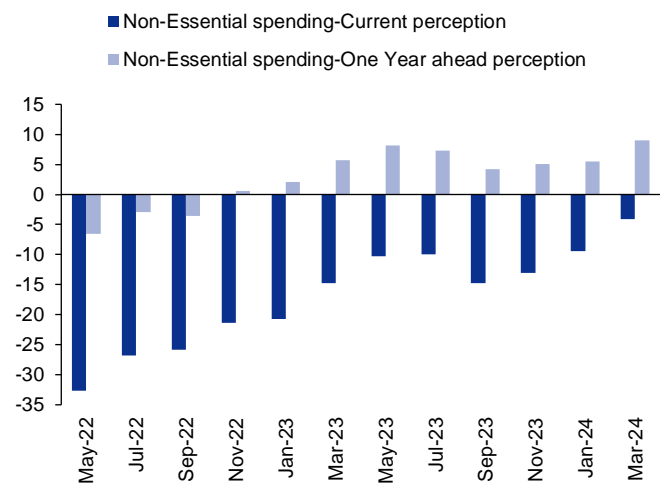
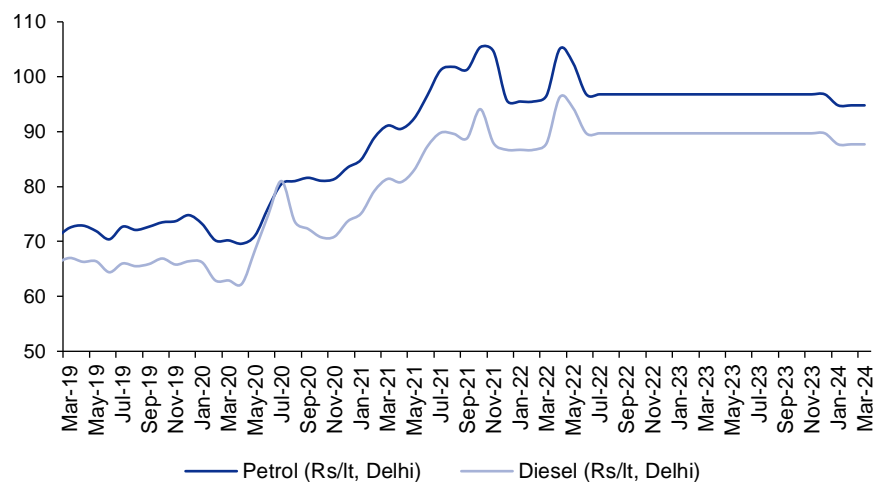
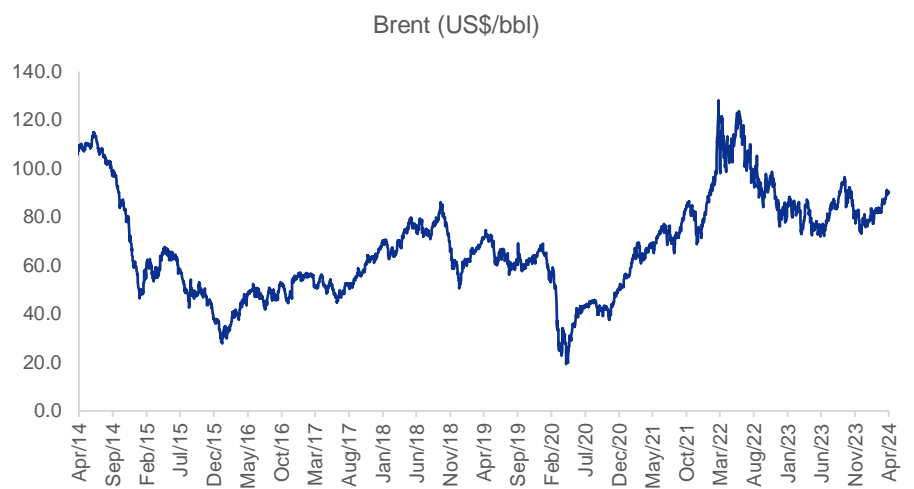
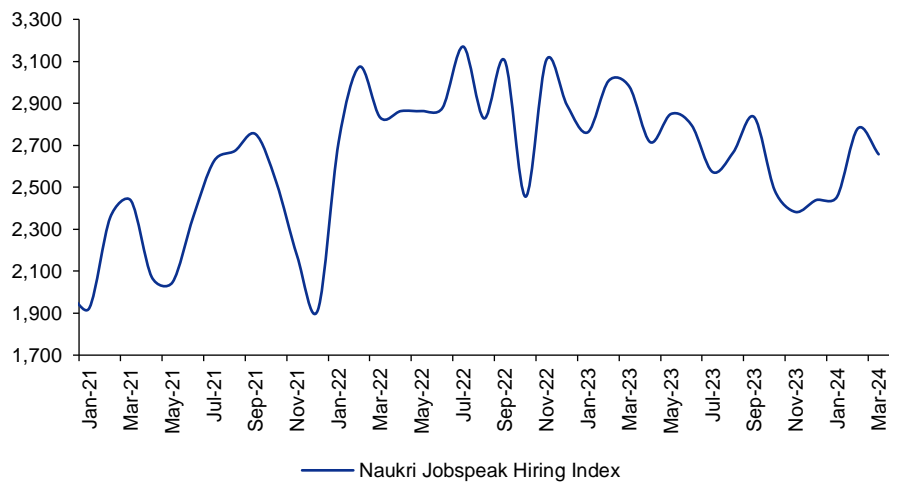


Figure 13: Volatile crude oil prices are a risk to flattish local fuel price trend (Rs/L)



**Figure 14: Crude oil prices inched up recently**

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

**Figure 15: Naukri Jobspeak hiring Index eases from recent peak**

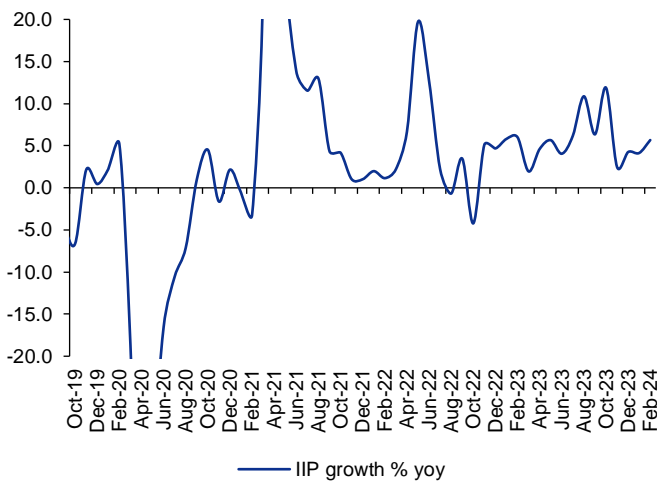
SOURCE: INCRED RESEARCH, NAUKRI JOBSPEAK REPORT

## GDP growth upgrade trend sustains ➤

The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) retained its GDP growth forecast for FY25F at 7% in its monetary policy meeting held in Apr 2024. The MPC expected private consumption to improve on account of a good rabi crop, better kharif crop production likely on account of above-normal southwest monsoon and the sustained pace of growth in manufacturing and services sectors. The MPC was of the view that private capex cycle was improving, which would lead to higher investment activity. Continuing geopolitical tensions and increasing disruption in trade routes, however, pose a threat to this optimistic outlook.

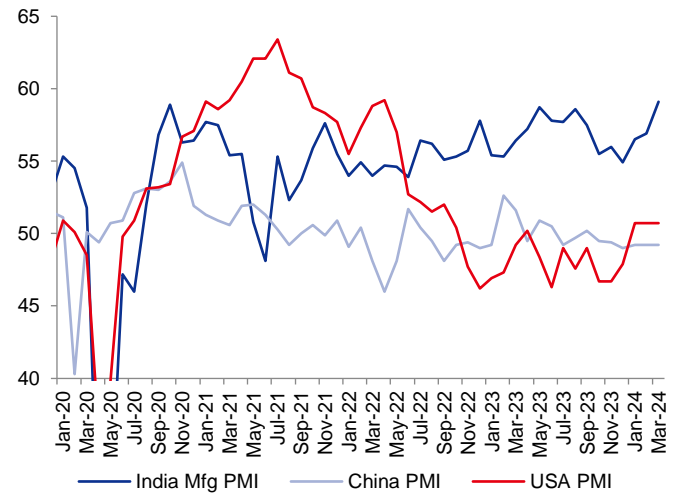
Median forecast of 45 professional forecasters polled by the RBI, in its Survey of Professional Forecasters, during Mar 2024 pegged India's real GDP growth at 6.7% in FY25F. This was 20bp higher than the median forecast polled in Jan 2024. A similar trend was observed in mean projection for GDP growth, which is 30bp points higher at 6.8%.

**Figure 16: The Index of Industrial Production on the rise**



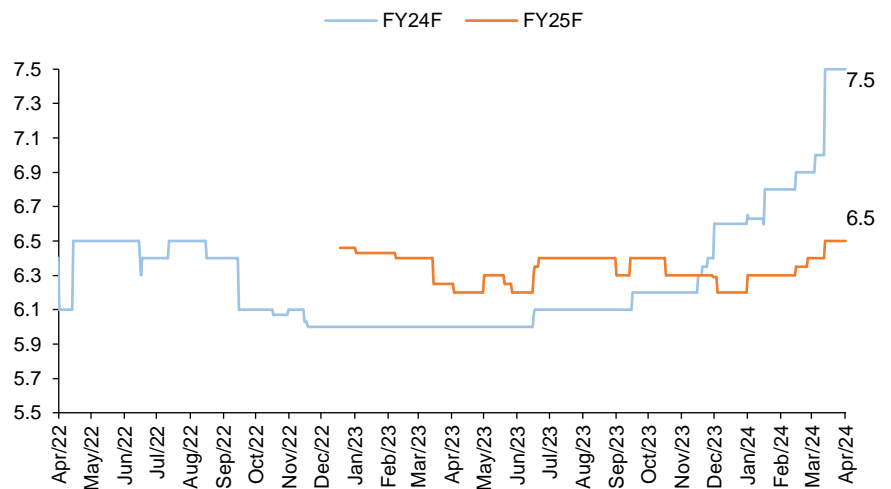
SOURCE: NATIONAL STATISTICS OFFICE (NSO), INDEX OF INDUSTRIAL PRODUCTION (IIP), INCRED RESEARCH,

**Figure 17: Manufacturing Purchasing Managers' Index or PMI of India is impressive**



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

**Figure 18: India's GDP growth - Bloomberg consensus estimate upgrade sustains**



SOURCE: BLOOMBERG, INCRED RESEARCH



## CAD surplus provides hope while trade deficit narrows further ➤

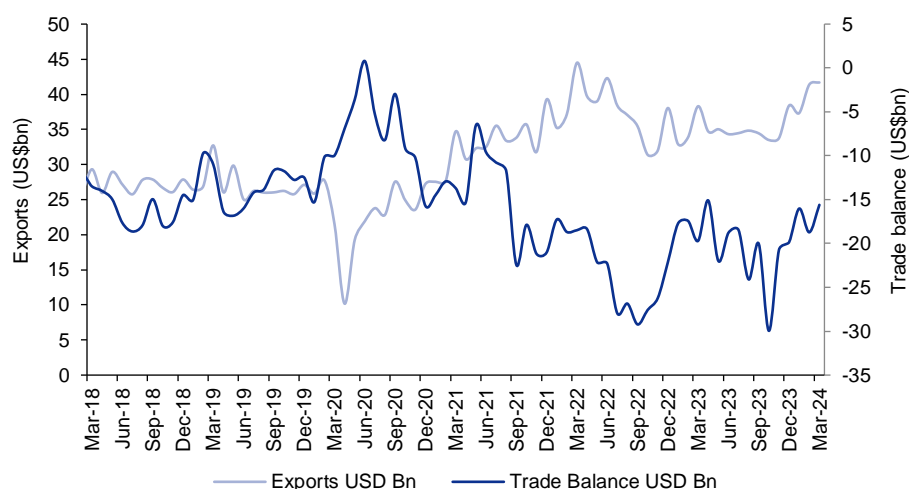
India's merchandise exports hit a 12-month high of US\$41.7bn in Mar 2024. While imported goods dipped 4.7% mom to US\$57.3bn in Mar 2024, primarily led by a sharp fall in imports of gold. Consequently, India's trade deficit narrowed to US\$15.6bn in Mar 2024 - its second lowest level since Apr 2023.

India exported goods in both Feb and Mar 2024, valued at over US\$41bn, which is fairly high compared to its US\$34-39bn range in other months of the fiscal year. The sharp rise in mobile exports, surpassing US\$10bn in FY24 and overtake pharmaceutical exports, is impressive.

CMIE expects the current account to be likely in surplus at US\$11.5bn in the Mar 2024 quarter. During the quarter, it estimates a surplus because of high services trade surplus and strong remittances even as the merchandise trade deficit is estimated to have shrunk sequentially. As a percentage of GDP, the current account surplus is expected to have closed at 1.2%. Between the Jun 2024 quarter and the Dec 2023 quarter, the CAD-to-GDP ratio ranged between 1.1 to 1.3%. With a surplus estimated in Mar 2024F, it estimates the CAD-to-GDP ratio to ease to 0.5% in FY24F from 2% in FY23.

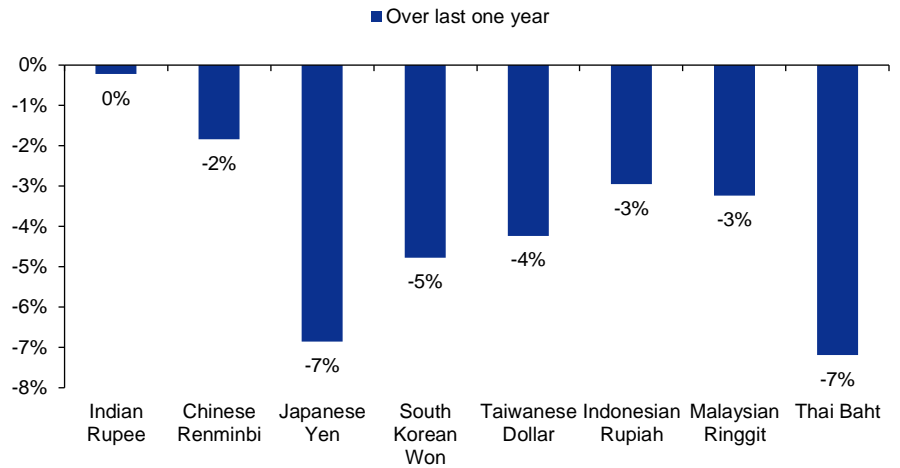
On an average, the INR held its ground against the US dollar, staying unchanged from Rs.82.97 per US\$ in Feb to Rs.82.99 per US\$ in Mar 2024. Throughout Mar 2024, the INR fluctuated within a band of Rs.82.68-Rs.83.37 per US\$. It began depreciating largely in the second half of Mar 2024, staying above the Rs.83 per US\$ mark consistently. Compared to Feb 2024 the INR took wider swings, showing more volatility in Mar 2024.

**Figure 19: India's trade deficit eases**



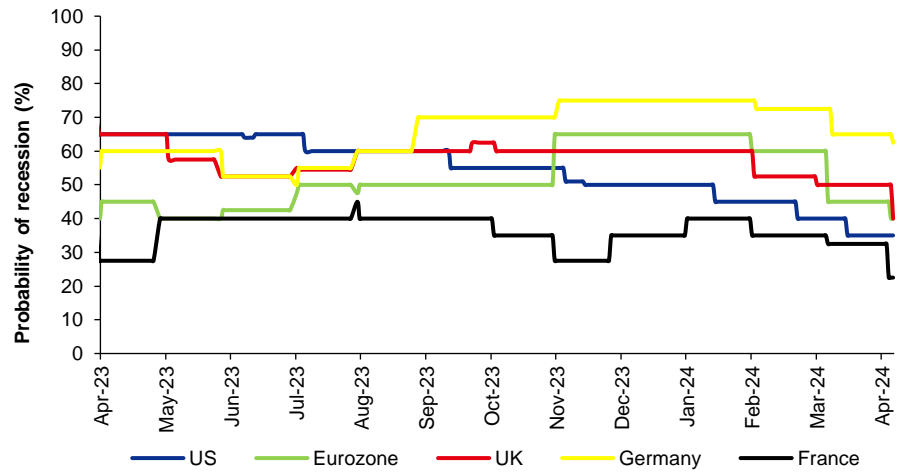
SOURCE: MINISTRY OF COMMERCE AND INDUSTRY, INCRED RESEARCH

**Figure 20: USD-INR's performance against Asian peers remains the strongest**



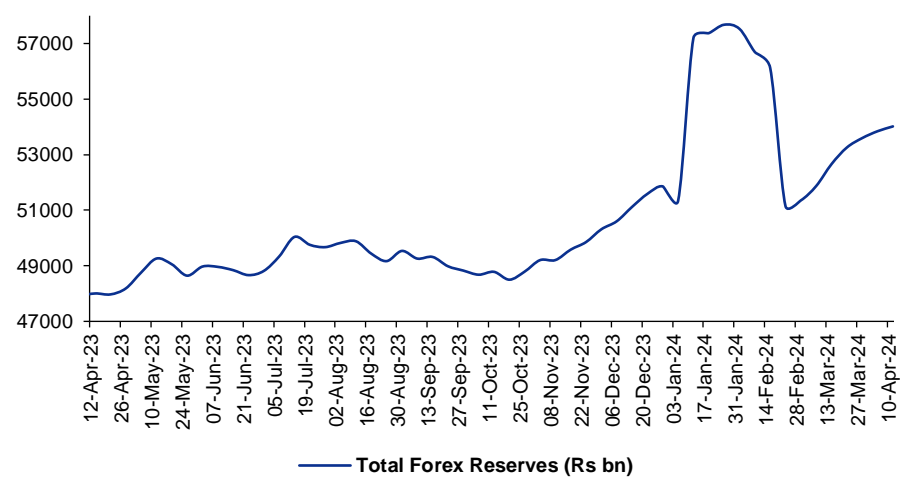
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 21: Recession probability in developed countries continues to ease**



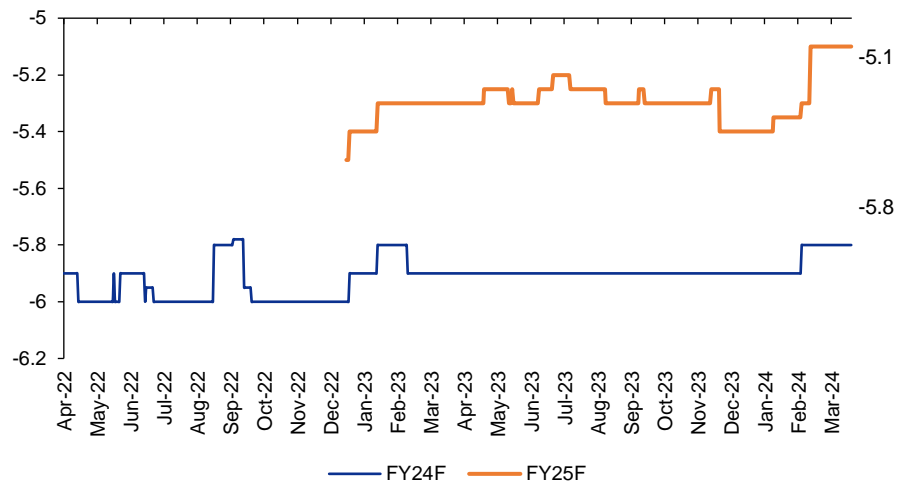
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 22: Forex reserves on a gradual uptick**



SOURCE: RBI, ACE EQUITY, INCRED RESEARCH

**Figure 23: India's fiscal deficit to gradually ease, as per Bloomberg consensus estimate**



SOURCE: BLOOMBERG, INCRED RESEARCH

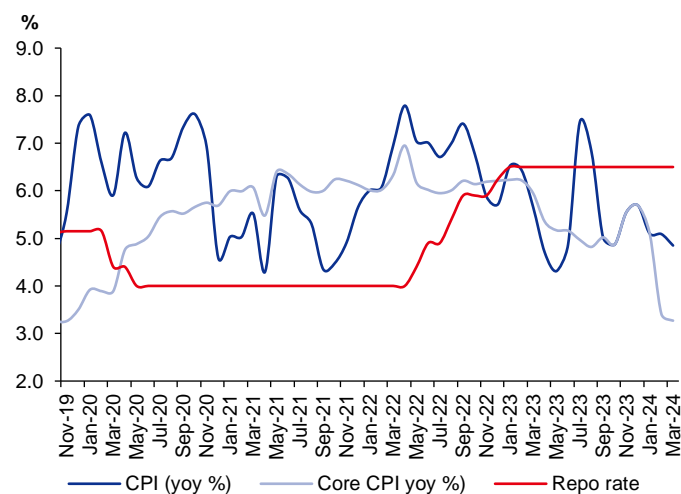
## Inflation decline trend under threat from global crude oil prices➤

Core inflation, which excludes the more volatile items of food and fuel, declined marginally mom to 3.3% in Mar 2024. Core inflation has been consistently falling since it hit the peak of 6.2% in Feb 2023 to below 4% since Dec 2023.

Though retail price inflation has been steadily easing and moving towards the government's target of 4%, the sudden spike in global crude oil prices poses a threat to the softening inflation trend. Price of Indian basket of crude oil shot up by 5% over the preceding week to average at US\$90.9 per barrel in the week ended 6 Apr 2024s. Price averaged at US\$90.6 per barrel in the first fortnight of Apr 2024, a 7% mom rise.

The RBI Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 6.5% in the monetary policy statement announced on 5 Apr 2024. The status quo was widely anticipated. The MPC also continued with its focus on withdrawal of accommodation. The MPC kept rates unchanged for more than a year after its last repo rate hike in Feb 2023. A rate cut seems unlikely in the immediate months, as the RBI Governor reiterated that inflation needs to ease on a durable basis in order for the MPC to initiate a rate cut.

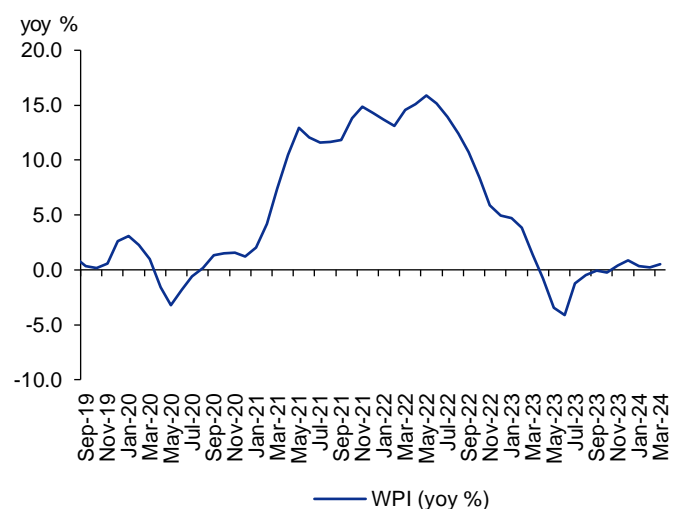
**Figure 24: Core Consumer Price Index or CPI inflation trend**



NOTE: CPI IS CONSUMER PRICE INDEX

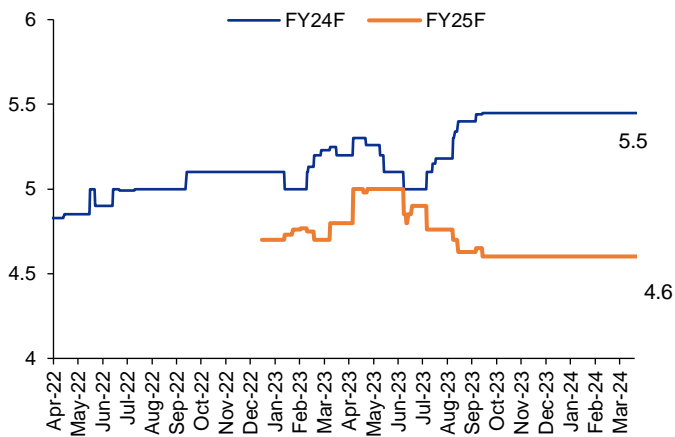
SOURCE: RBI, CENTRAL STATISTICS OFFICE, INCRED RESEARCH

**Figure 25: Wholesale Price Index or WPI inflation stable**



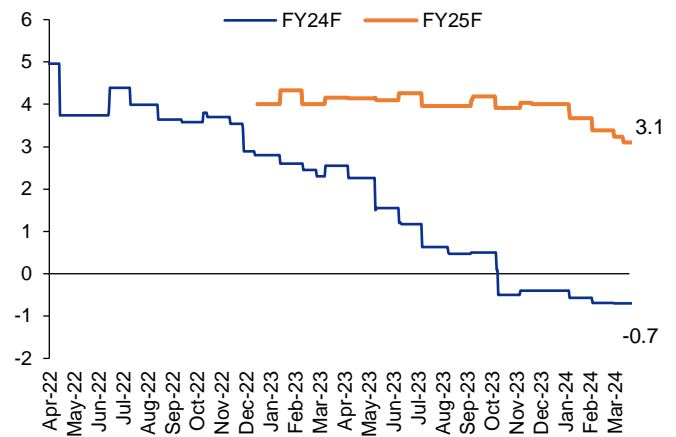
SOURCE: RBI, INCRED RESEARCH

Figure 26: Bloomberg CPI inflation consensus estimate



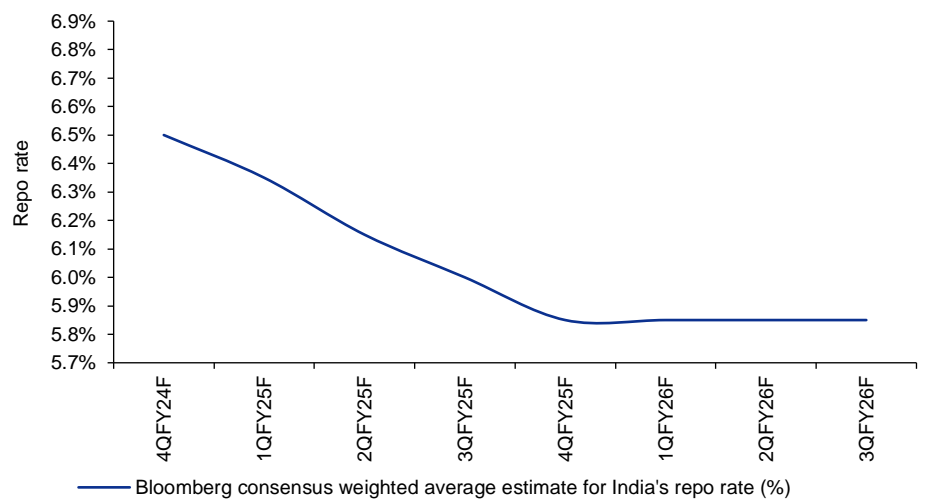
NOTE: CPI IS CONSUMER PRICE INDEX  
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 27: Bloomberg WPI inflation consensus estimate



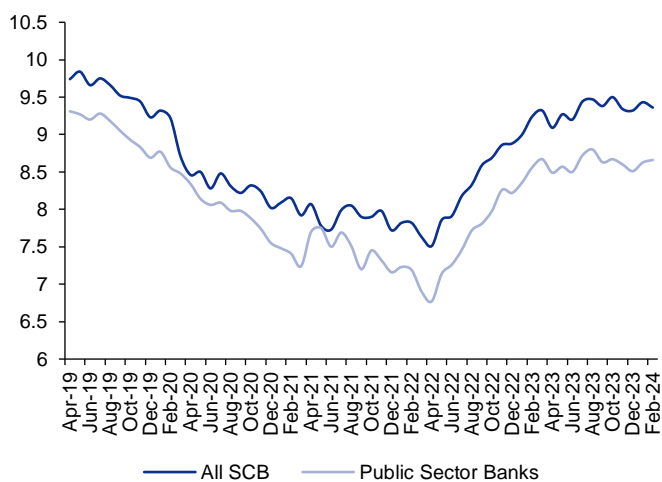
NOTE: WPI IS WHOLESALE PRICE INDEX  
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 28: India's repo rate - Bloomberg consensus expects it to dip 75bp in FY25F



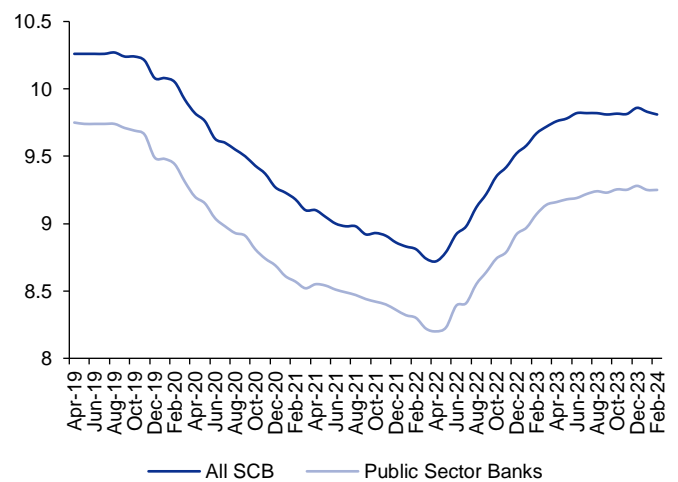
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 29: Weighted average lending rate (fresh INR loans)



SOURCE: RBI, INCRED RESEARCH

Figure 30: Weighted average lending rate (outstanding INR loans)



SOURCE: RBI, INCRED RESEARCH

## Investment themes

The recent mid-small cap volatility gives us an opportunity to pick up stocks selectively for a favourable risk-reward ratio. We introduce two small-caps, one mid-cap and one large-cap stock in our high-conviction list while we removed richly valued stocks.

## 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:** Thermax (ADD), Data Patterns (ADD) and Bharat Electronics (ADD).

**Underperformers to Nifty:** Camlin Fine Sciences (ADD), Clean Science and Technology (REDUCE) and SBI Cards (REDUCE).

### Addition to the list:

**APL Apollo Tubes (ADD):** Ramp-up of manufacturing capacity utilization, especially of value-added products from the new Raipur plant (50% utilization) can extend a sales volume CAGR of 25%+ over FY24F-26F.

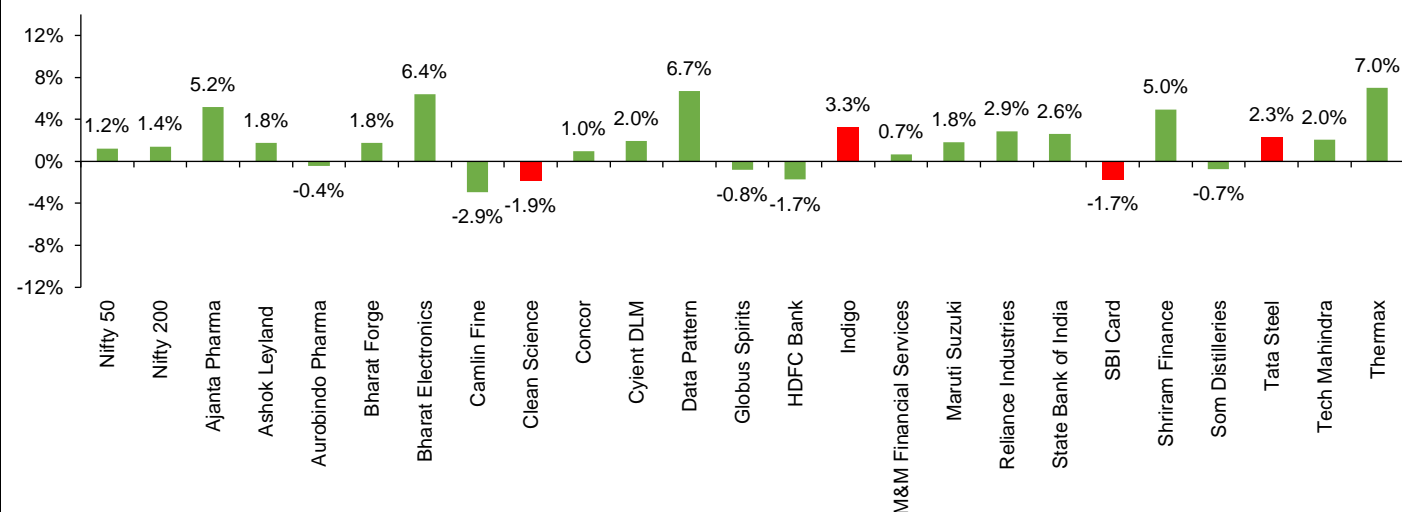
**Skipper (ADD):** Strong order book to help a revenue CAGR of 28% over FY23-26F and the benefits from transmission tower sector demand.

**Spandana Spahoorthy Financial (ADD):** New management's focus on diversity-led growth with a gradual shift towards the weekly collection model provides comfort.

**Titan Company (ADD):** Strong pace of growth in new buyers and continued market share gains to provide strong sales growth over the medium term.

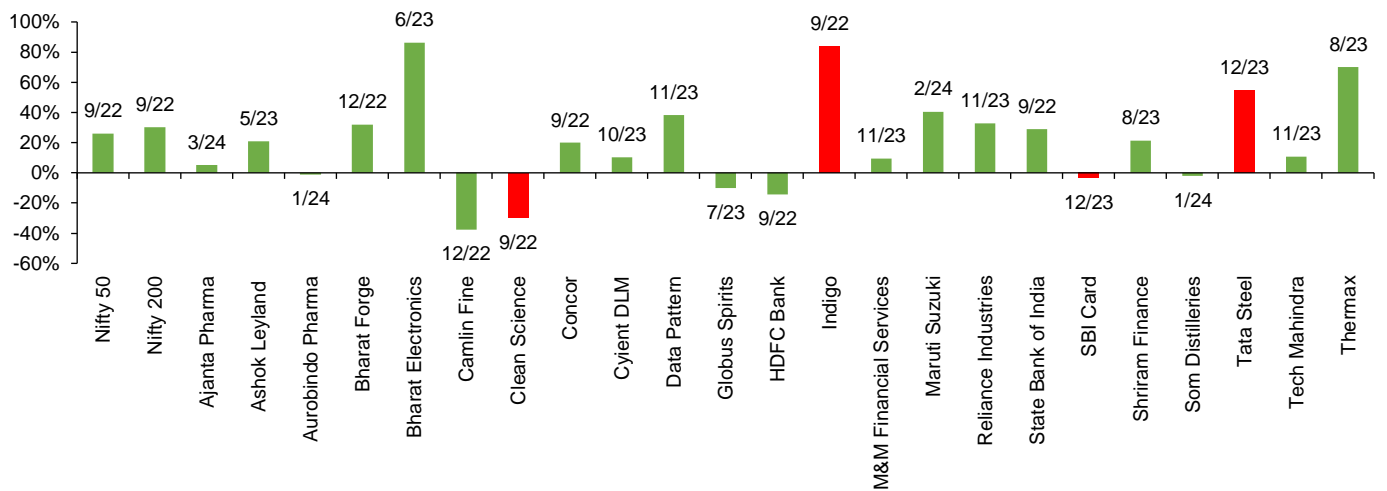
**Deletion from the list: Som Distilleries & Breweries (ADD):** Removed for corporate action discomfort. **Thermax (ADD):** Sharp stock price run takes P/E valuation to +3SD above the 10-year mean, where the risk-reward ratio is unfavourable.

Figure 31: Our high-conviction stocks' price performance since their introduction on 10 Sep 2022



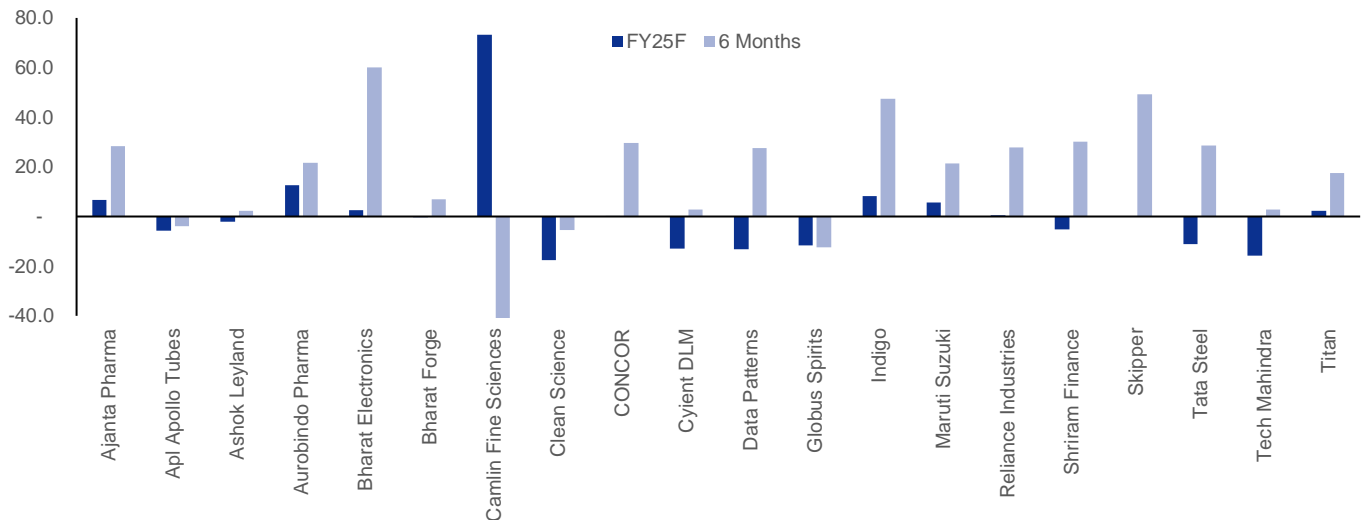
NOTE: PERFORMANCE IS BASED ON COMPOUNDED MONTHLY GROWTH RATE, FROM THE DAY THE STOCK WAS ADDED TO THE PORTFOLIO  
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 32: 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

Figure 33: Last six months' EBITDA consensus change for FY25F vs. six months' stock price performance



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Earnings outlook

### Consensus earnings likely to flatten on qoq basis in 4QFY24F

For the Mar 2024 quarter, Bloomberg consensus estimate expects Nifty-50 companies' EPS growth at 2% qoq and 9% yoy at Rs250. The 4% yoy EBITDA growth is expected to be driven by the automobile, pharmaceutical, cement, capital goods and financial sectors. However, a slow single-digit EBITDA growth is likely in IT and utilities while a yoy dip in commodities and consumer staple sectors.

The normalized PAT growth for Nifty-50 ex-energy is expected at 4% and ex-financials at 9.3% yoy.

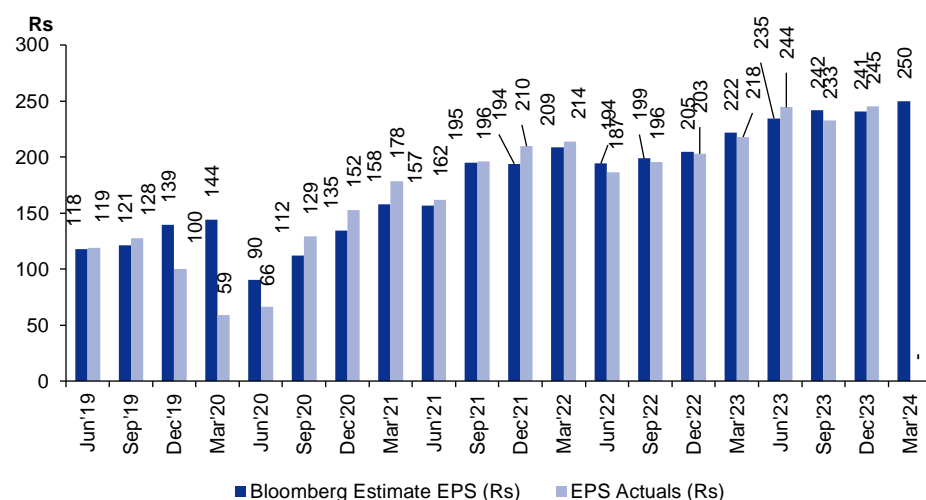
For our coverage universe (comprising 150 companies), we expect a 2% yoy growth in PAT driven by a 22% yoy growth in sales and a 7% growth in EBITDA.

Volume growth has been steady for the quarter for most sectors, barring some slowdown in commercial vehicles and tractors. In terms of raw material prices, steel, aluminium and coal prices continued to ease while rubber and copper prices rose from their lows. The EBITDA margin yoy expansion is expected in automobile, pharmaceutical and cement sectors.

In the first batch of results from 17 companies that have announced their 4QFY24 results so far, PAT growth is at 18% yoy, driven by a 4% yoy sales growth. In recent months, we notice consensus EPS upgrade for Nifty-50 companies of around 1% for FY24F-25F, while a cut of around 0.5% in Nifty-200.

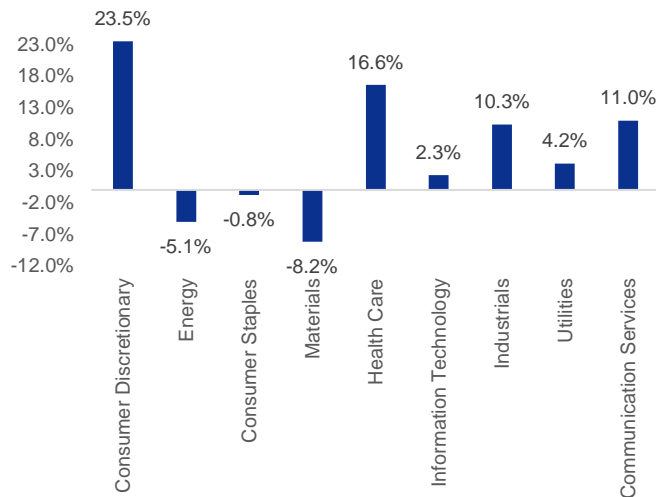
The FY24-25F EPS upgrade for energy, consumer discretionary and utility sectors help overcome the sharp cuts in capital goods, IT and commodity sectors.

**Figure 34: Quarterly consensus earnings estimates**



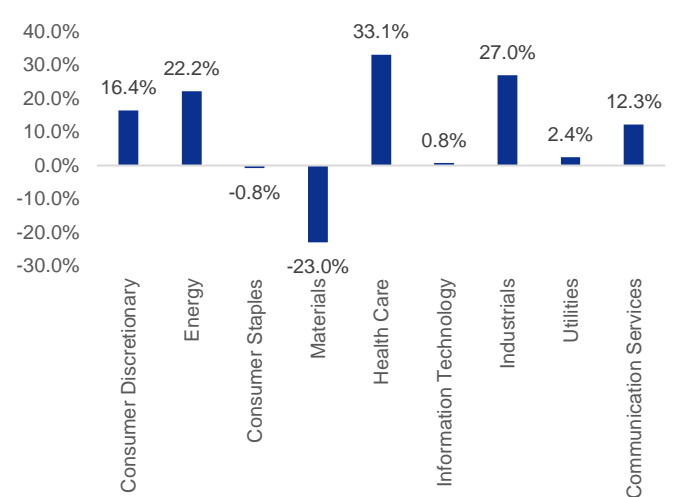
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 35: 4Q sector-wise EBITDA yoy growth in Nifty-50 companies**



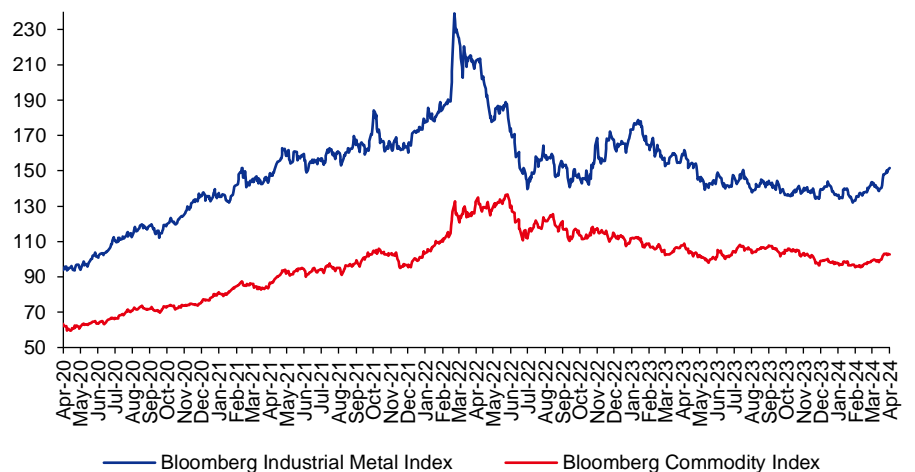
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 36: 4Q sector-wise PAT yoy growth in Nifty-50 companies**



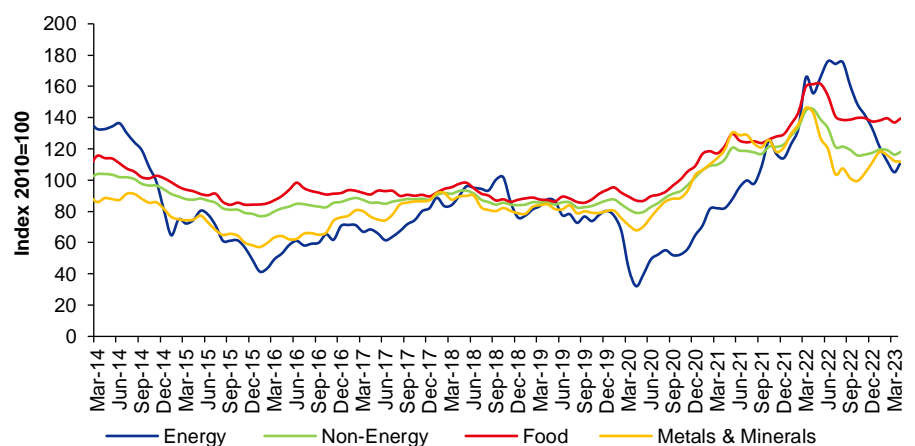
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 37: Bloomberg industrial metal index on a gradual uptrend from recent lows**



SOURCE: BLOOMBERG, INCRED RESEARCH

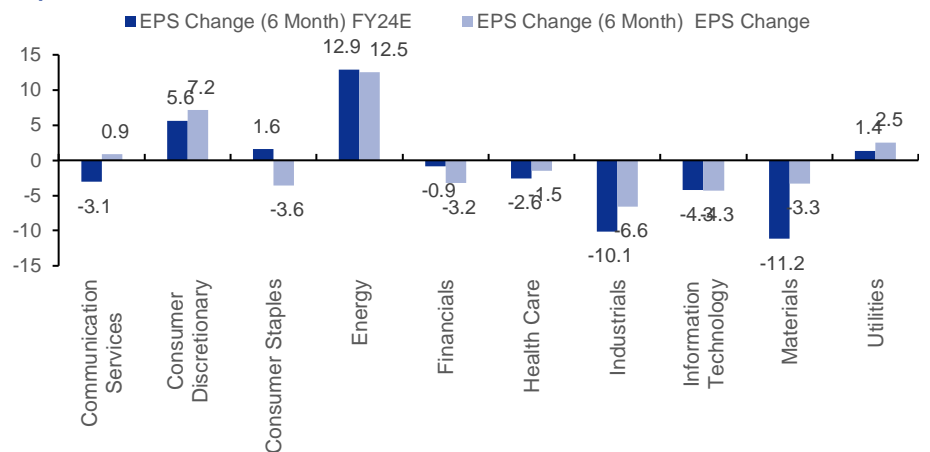
**Figure 38: Global commodity index continues to ease, except energy**



SOURCE: BLOOMBERG, INCRED RESEARCH

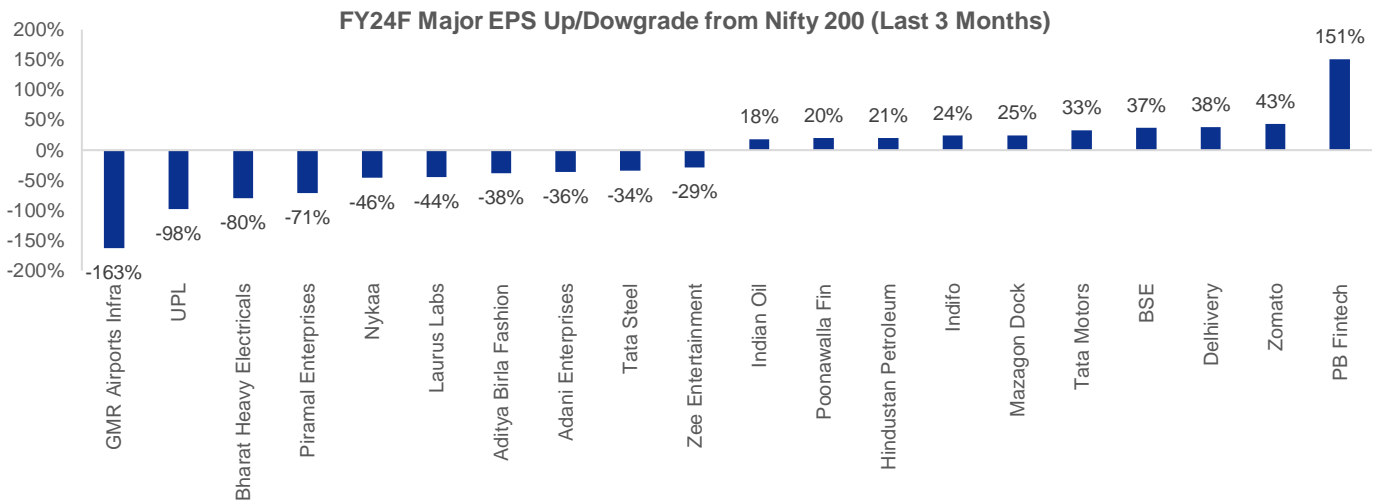


**Figure 39: Sector-wise EPS changes for last six months in the case of Nifty-50 companies**



SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 40: Nifty-200 companies' EPS upgrade/downgrade (change in last three months)**



SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 41: Recent Bloomberg consensus EPS trend change for Nifty-50 and Nifty-200 companies**

Nifty 50 EPS			Nifty 200 EPS		
	FY24F	FY25F		FY24F	FY25F
15 days	1.05%	0.96%	15 days	-0.36%	-0.14%
30 days	0.64%	-0.20%	30 days	-0.77%	-1.18%
60 days	0.85%	-0.09%	60 days	-0.70%	-1.14%
120 days	16.85%	14.62%	120 days	18.11%	15.98%

UPDATED TILL 14 APR 2024

SOURCE: BLOOMBERG, INCRED RESEARCH

## Nifty valuation and outlook

### Index P/E valuation in mid-caps/small-caps ease to below Nifty-50 level ➤

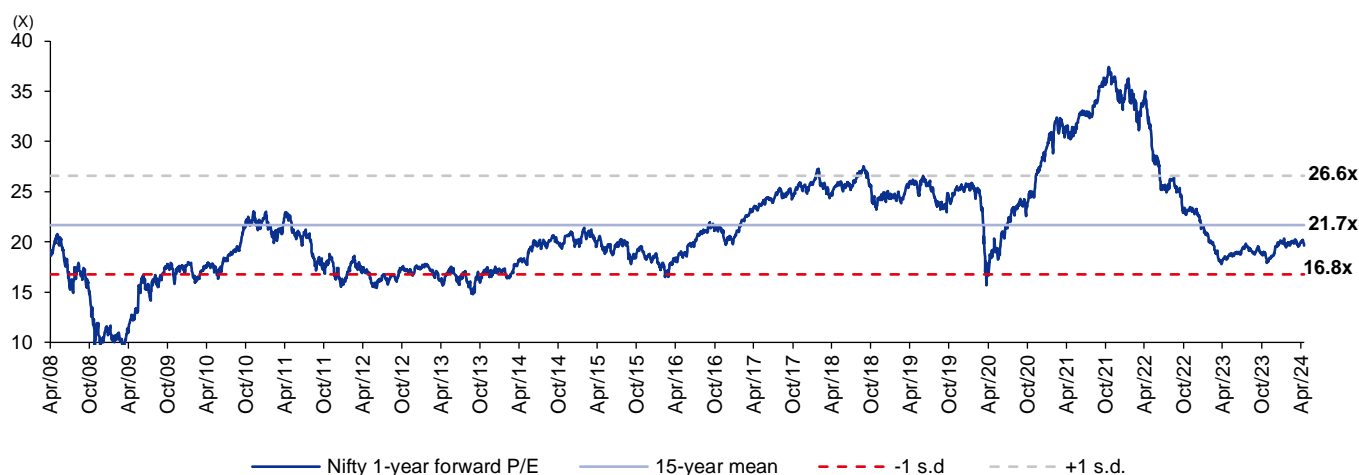
The Nifty-50 Index has been sideways in recent quarters while volatility has increased in Nifty-midcap 100 and Nifty-smallcap 100 indices. The consolidation led to easing of the MSCI India premium over emerging markets to slip below +1SD of the 10-year mean level. This has also eased forward P/E valuation of mid-cap and small-cap companies to below Nifty-50 index forward P/E.

The IPO market activity has been brisk in FY24, as the highest-ever number of companies (350) raised funds, while the market capitalization of IPO companies at Rs5.6tr is flattish yoy and formed just 1.4% of total market capitalization of all listed companies, funds raised. While a select part of the markets is overheated and may need caution, the broader market or large-caps provide comfort.

Foreign investors were net buyers in Mar 2024, infusing US\$5.8bn into Indian capital markets. This was almost a US\$2bn jump in mom inflow. Of this, the equity segment recorded an inflow of US\$3.7bn, largely contributing to the rise in FPI investments. Inflow in the equity segment improved from Feb 2024 US\$0.5bn inflow and Jan 2024 outflow of 3.1bn, indicating a strong return of foreign portfolio investors or FPIs into the equity markets.

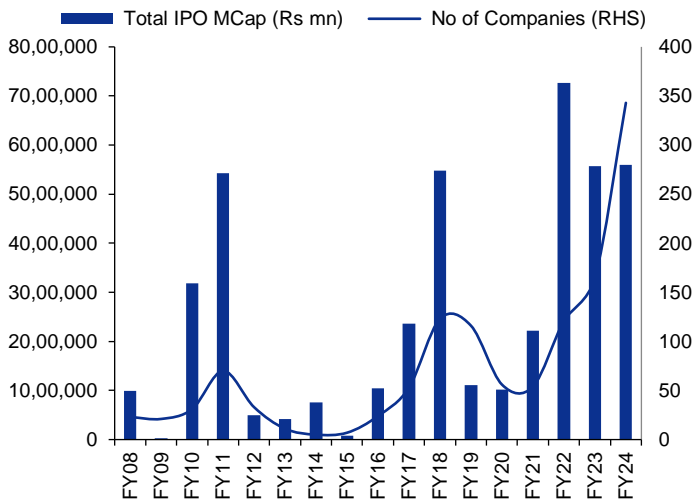
We introduce Mar 2025F Nifty blended target of 24,084 based on a 70% probability of a base-case scenario, 20% probability of a bull-case scenario and 10% probability of a bear-case scenario of economic and political parameters. We await the general elections outcome and next year's economic outlook provided by the Economic Survey and final budget documents in Jun 2024 to further crystalise our FY25F index target.

**Figure 42: Nifty-50 companies' forward P/E valuation inches close to the 15-year mean level**



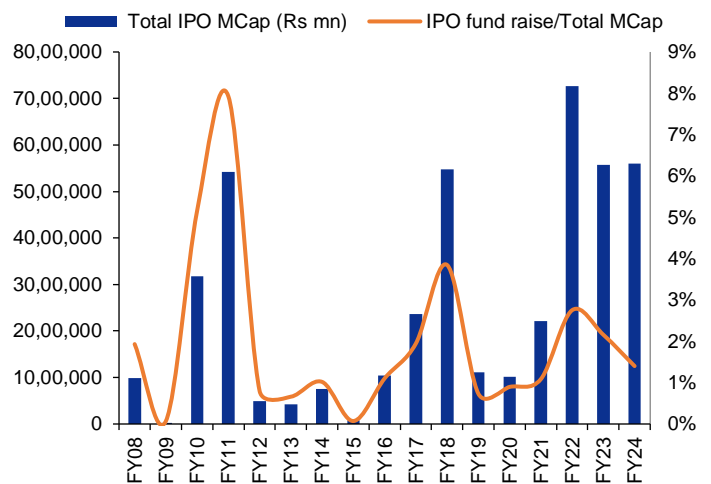
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 43: More companies tap the IPO fund-raising route, but the amount raised is still below the FY22 peak**



SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 44: IPO funds raised, as a proportion of total listed companies' market capitalization, is still not euphoric**



SOURCE: BLOOMBERG, INCRED RESEARCH

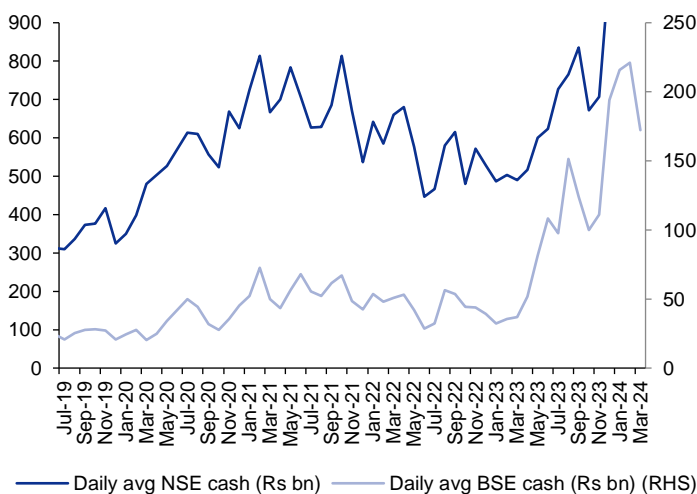
**Figure 45: Nifty Index target and Bull-case, Base-case and Bear-case scenarios**

	Bull Case	Base case	Bear Case
Economic variables FY25F	GDP growth >7%, 15% raise in ruling party seats, Brent Oil <US\$90/bbl, Inflation <4%, Repo rate drop >100bp, above normal monsoon	GDP growth >6.5%, 7% raise in ruling party seats, Brent Oil <US\$110/bbl, Inflation <5%, Repo rate drop >50bp, normal monsoon	GDP growth <6%, 10% lower ruling party seats, Brent Oil >US\$105/bbl, Inflation >6%, Repo rate drop <25bp, below normal monsoon
Probability of Event	20%	70%	10%
1-year forward EPS (Rs.)	1,241.5	1,241.5	1,241.5
Target P/E (x)	22.0	19.0	17.0
Target index	27,313	23,588	21,105
Nifty-50 now	22,148	22,148	22,148
Up/ downside	23.3%	6.5%	-4.7%
Blended Index target		24,084	

NOTE: FORWARD EPS IS OF BLOOMBERG CONSENSUS

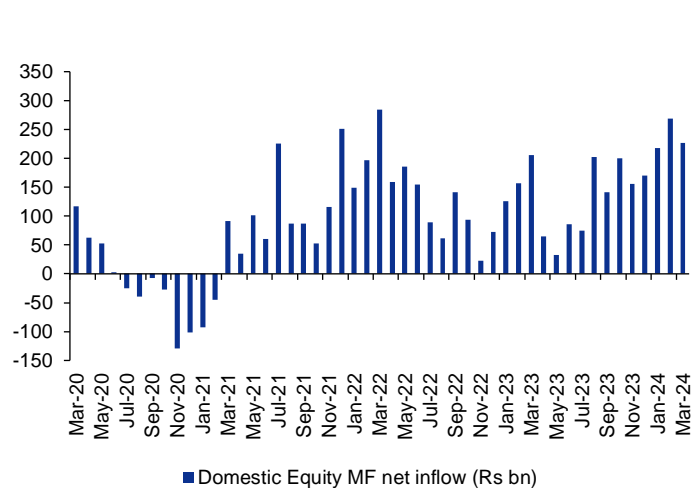
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 46: Stock market trade volume scales a new high**



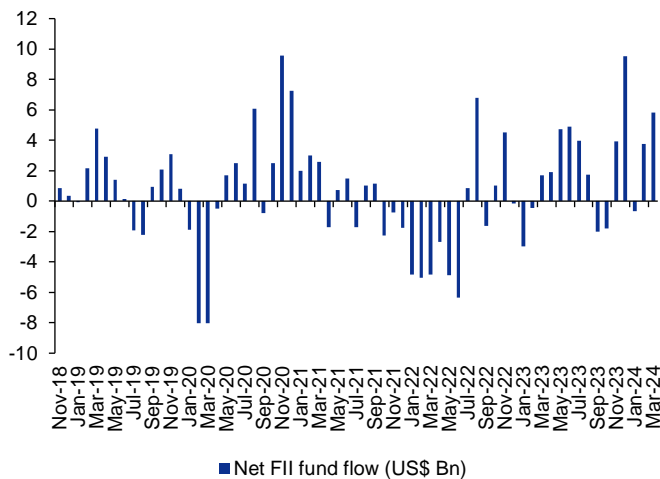
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 47: Domestic mutual fund inflow remains strong**



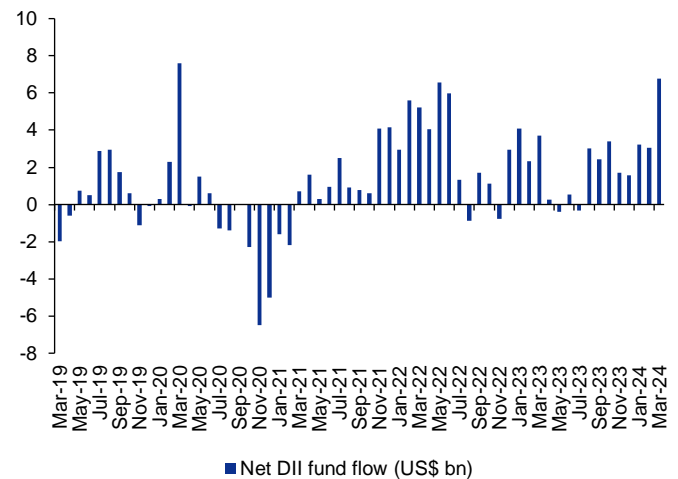
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 48: FII buying remains healthy



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 49: DII fund flow scales a new high



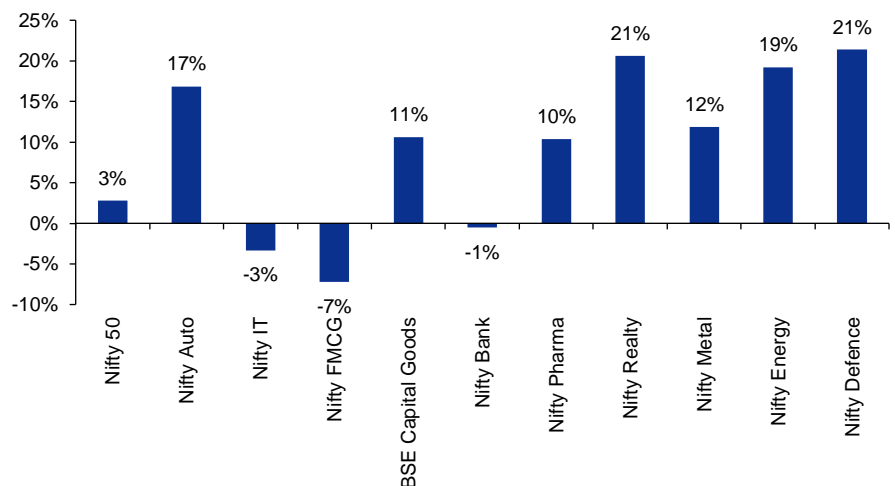
SOURCE: BLOOMBERG, INCRED RESEARCH

## Sector-wise ratings and stock ideas ➤

The index volatility has increased in recent weeks to reflect geopolitical tension and rising crude oil prices. Sharp correction in IT, FMCG and banking indices in recent months has been a drag while the outperformance in automobile, commodity, capital goods and real estate sectors is impressive.

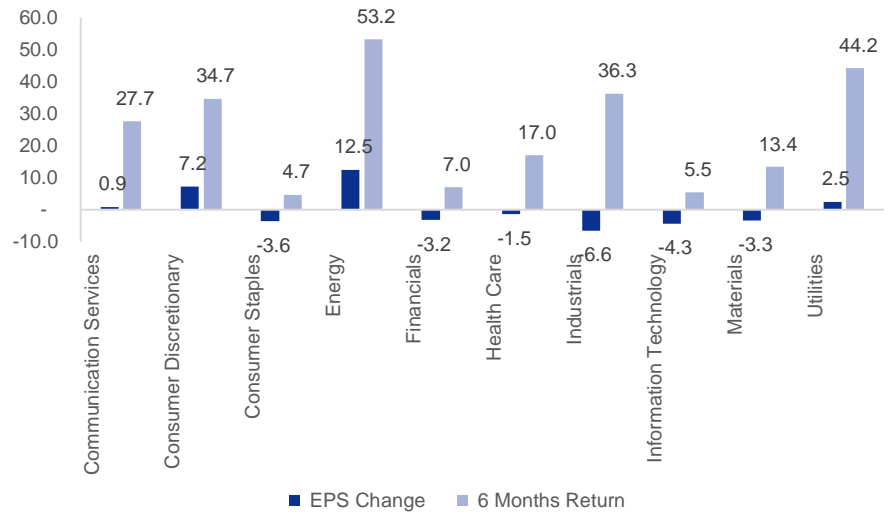
Considering the liquidity and short-term political uncertainty, we continue to favour large-caps. The sharp outperformance of mid- and large-caps has started easing. So, we remain selective in this segment. We upgrade our stock list in the high-conviction category. We broadly maintain our sector preferences.

Figure 50: Sectoral index performance vs. Nifty-50 (YTDCY24)



SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 51: Last six months' correlation between EPS change and sectoral returns; high returns in the utilities, energy and telecom sectors seems ahead of EPS changes**



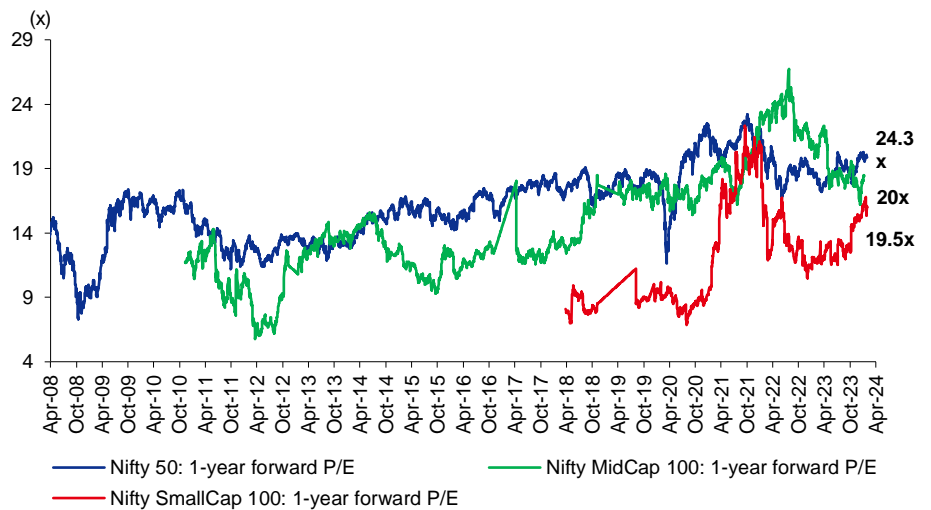
SOURCE: BLOOMBERG, INCRED RESEARCH

**Figure 52: Our sector-wise ratings**

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

SOURCE: INCRED RESEARCH

**Figure 53: Nifty mid-cap and Nifty small-cap forward PE valuation ease, but yet away from comfort levels**



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 54: Non-consensus stocks with REDUCE/HOLD ratings

Company Name	Bloomberg Ticker	Reco.	Price Rs	Target Price Rs	Market Capital (Rs bn)	Market Capital (US\$ bn)	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	Upside/Downside (%)	ROE (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
Apollo Tyres	APTY IN	REDUCE	478	412	303	4	28.7	29.2	16.6	16.3	2.4	2.1	7.3	1.7%	-14%	13.5
Avanti Feeds Ltd	AVNT IN	REDUCE	500	354	68	1	8.9	23.6	55.9	21.2	3.2	3.1	31.2	0.4%	-29%	5.6
Balrampur Chini Mills	BRCM IN	REDUCE	373	229	75	1	24.9	22.9	15.0	16.3	2.5	2.2	10.3	0.3%	-39%	21.3
Bharat Petroleum	BPCL IN	REDUCE	592	375	1,285	15	38.1	NA	15.5	NA	2.6	2.4	10.5	3.3%	-37%	16.3
Clean Science and Tech.	CLEAN IN	REDUCE	1,335	663	142	2	22.1	25.5	60.4	52.3	14.1	12.4	47.9	0.0%	-50%	21.8
Coal India	COAL IN	REDUCE	453	209	2,792	33	34.0	27.4	13.3	16.6	4.9	4.0	7.9	2.8%	-54%	32.8
Dhanuka Agritech	DAGRI IN	REDUCE	1,223	699	56	0.7	43.5	45.5	28.2	26.9	5.5	4.8	22.1	0.7%	-43%	18.1
Eicher Motors	EIM IN	REDUCE	4,356	3,227	1,192	14.3	141.7	154.1	30.7	28.3	9.1	7.6	25.0	1.1%	-26%	26.9
Finolex Industries	FNXP IN	REDUCE	250	182	155	1.9	7.8	9.3	32.1	15.8	3.2	3.0	24.0	1.2%	-27%	12.9
Galaxy Surfactants	GALSURF IN	REDUCE	2,606	2,552	92	1.1	84.7	90.4	30.8	28.8	4.8	4.1	18.7	0.1%	-2%	14.4
Hero MotoCorp	HMCL IN	REDUCE	4,323	3,321	864	10.3	196.9	221.7	22.0	19.5	5.2	5.1	14.6	4.2%	-23%	23.4
InterGlobe Aviation	INDIGO IN	REDUCE	3,570	2,000	1,378	16.5	96.5	38.9	37.0	91.7	(21.8)	(53.3)	12.4	0.0%	-44%	(83.7)
Mahindra & Mahindra	MM IN	HOLD	2,031	1,765	2,525	30.2	91.4	96.0	22.2	21.2	5.2	4.4	14.1	1.3%	-13%	21.4
NCC	NJCC IN	REDUCE	248	150	155	1.9	14.2	15.1	17.4	16.4	2.5	2.2	9.6	0.3%	-39%	19.0
Pidilite Industries	PIDI IN	HOLD	2,879	2,665	1,464	17.5	38.7	42.8	74.3	67.3	20.3	17.2	50.7	0.5%	-7%	25.1
SBI Cards	SBICARD IN	REDUCE	726	500	690	8.3	24.6	24.9	29.5	29.1	7.0	5.8	5.8	0.5%	-31%	21.5
SRF	SRF IN	REDUCE	2,518	1,540	746	9	47.9	55.0	52.5	45.8	7.2	6.5	29.8	0.3%	-39%	13.0
Tata Motors	TTMT IN	REDUCE	993	639	3,634	43.5	49.2	62.8	19.6	15.8	8.1	5.9	6.2	0.4%	-36%	33.6
Tata Steel	TATA IN	REDUCE	160	82	1,998	23.9	5.5	5.4	29.2	29.5	1.9	1.8	10.1	1.2%	-49%	6.4
Tech Mahindra	TECHM IN	ADD	1,196	1,625	1,168	14.0	29.1	64.2	43.6	18.6	3.8	4.0	20.9	3.9%	36%	9.5
Timken	TMKN IN	REDUCE	2,930	2,519	220	2.6	48.0	60.4	61.0	48.5	10.8	9.2	41.1	0.1%	-14%	16.3
VRL Logistics	VRLL IN	REDUCE	564	500	49	1	9.8	9.3	57.3	60.5	5.1	5.2	15.4	0.9%	-11%	8.9

SOURCE: INCRED RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

PRICES AS ON 20 JAN 2024

Figure 55: Our key mid-cap and small-cap stock recommendations

Company Name	Bloomberg Ticker	Reco.	Price Rs	Target Price Rs	Market Capital (Rs bn)	Market Capital (US\$ bn)	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBITDA (x)	Dividend Yield (%)	Upside/Downside (%)	ROE (%)
							FY24F	FY25F	FY24F	FY25F	FY24F	FY25F				
Apex Frozen Foods	APEX IN	ADD	207	323	6	0	13.4	26.9	15.4	7.7	1.3	1.2	8.1	0.6	56%	10.7
Avalon Tech.	AVALON IN	ADD	516	610	34	0.4	6.7	12.7	76.8	40.6	6.3	5.8	38.6	-	18%	7.8
Balkrishna Industries	BIL IN	REDUCE	2,352	2,160	455	5.4	66.6	80.3	35.3	29.3	6.0	5.4	21.8	0.9	-8%	16.0
Coastal Corp	CTW IN	ADD	256	842	4	0.0	30.4	70.1	8.4	3.7	1.2	1.1	7.5	2.4	228%	18.2
Cyient Limited	CYL IN	ADD	2,039	2,228	226	2.7	67.0	74.8	30.4	27.3	6.5	5.8	17.6	1.6	9%	25.8
Cyient DLM	CYIENTDL IN	ADD	684	1,049	54	0.6	8.6	14.2	79.7	48.2	18.3	5.6	42.0	-	53%	19.6
Endurance Tech.	ENDU IN	ADD	1,879	2,375	264	3.2	44.8	65.3	41.9	28.8	6.0	5.4	20.8	0.5	26%	13.5
Globus Spirits	GBSL IN	ADD	767	1,562	22	0.3	45.1	93.1	17.0	8.2	2.5	2.2	11.2	0.4	104%	13.7
Home First Finance company	HOMEFIRS IN	ADD	886	1,100	78	0.9	33.7	40.8	26.3	21.7	4.3	3.7	NA	NA	24%	15.0
Kaynes Technology	KAYNES IN	HOLD	2,467	3,120	158	1.9	25.9	40.3	95.3	61.1	16.4	6.2	56.7	-	27%	9.5
KEC International	KECI IN	ADD	701	800	180	2.2	17.2	33.2	40.8	21.1	4.8	4.4	17.6	0.7	14%	11.3
Metropolis Healthcare	METROHL IN	REDUCE	1,746	1,546	89	1.1	26.1	34.4	66.8	50.8	9.0	8.3	30.5	0.5	-11%	12.9
Navin Fluorine Intl.	NFIL IN	ADD	3,230	4,080	160	1.9	52.3	69.0	61.8	46.8	7.3	6.6	33.9	0.2	26%	11.3
Orient Electric	PGEL IN	REDUCE	1,820	1,612	47	0.6	46.3	46.3	39.3	39.3	12.0	4.4	19.9	-	-11%	16.2
PI Industries	PI IN	REDUCE	3,742	2,872	568	6.8	84.1	91.5	44.5	40.9	7.9	6.7	29.3	0.1	-23%	16.4
Som Distil. & Brew.	SDB IN	ADD	308	446	24	0	12.3	15.4	25.1	20.0	6.0	4.2	16.0	0.4	45%	26.1
UPL Limited	UPLL IN	ADD	485	694	364	4	(18.5)	16.7	(13.3)	71.9	1.2	1.3	12.9	-	43%	(5.5)
Zydus Lifesciences	ZYDUSLIF IN	ADD	945	974	951	11	37.2	38.5	25.5	24.5	5.5	4.6	17.8	0.7	3%	19.7

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

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