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The Eagle Eye

May 2021

INDIA UNDERPERFORMS EM IN APR'21

- ❖ Metals and Pharma – biggest gainers in Apr'21
- ❖ JSW Steel, Tata Steel post highest MoM gains in Apr'21

MARKETS AND EARNINGS

- ❖ Metals – the biggest outperforming sector in Nifty
- ❖ Value stocks make a comeback; outperforming high-P/E companies since Oct'20
- ❖ More misses than beats in on-going earnings season.

COMMODITY INFLATION

- ❖ CY21YTD: Surge in commodity prices; Oil – biggest price beneficiary; gains in Base Metals
- ❖ Gains in agro commodities; basket at highest levels since 2012

COVID-19

- ❖ Positivity rate in India above 20%
- ❖ Active cases up by more than 6x in a month
- ❖ Vaccination yet to pick up – supply challenges persist!

ECONOMY

- ❖ GST collections in Apr'21 at record highs
- ❖ E-way bills decline in Apr'21 as restrictions curb economic activity
- ❖ Power demand and railway freight remain strong; high-frequency data indicates slowdown in retail, grocery, transaction activity

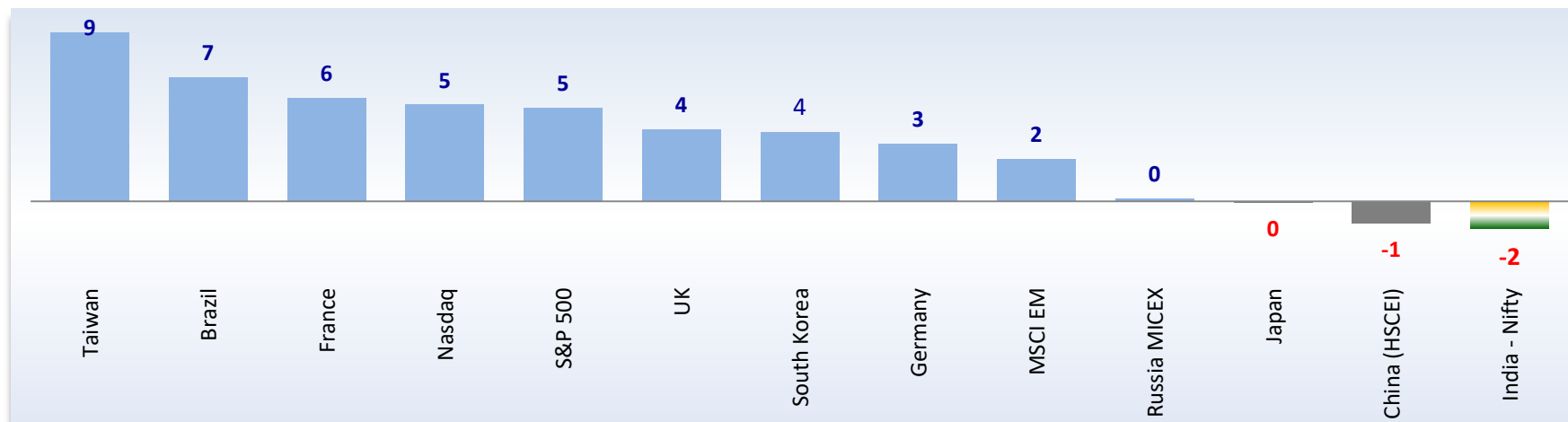
CONTENTS

VALUATIONS, FLOWS

- ❖ Market capitalization-to-GDP ratio at 10-year-high
- ❖ FII outflows in Apr'21 for first time since Sep'20

India underperforms in Apr'21

World equity indices (MoM) – in USD (%)



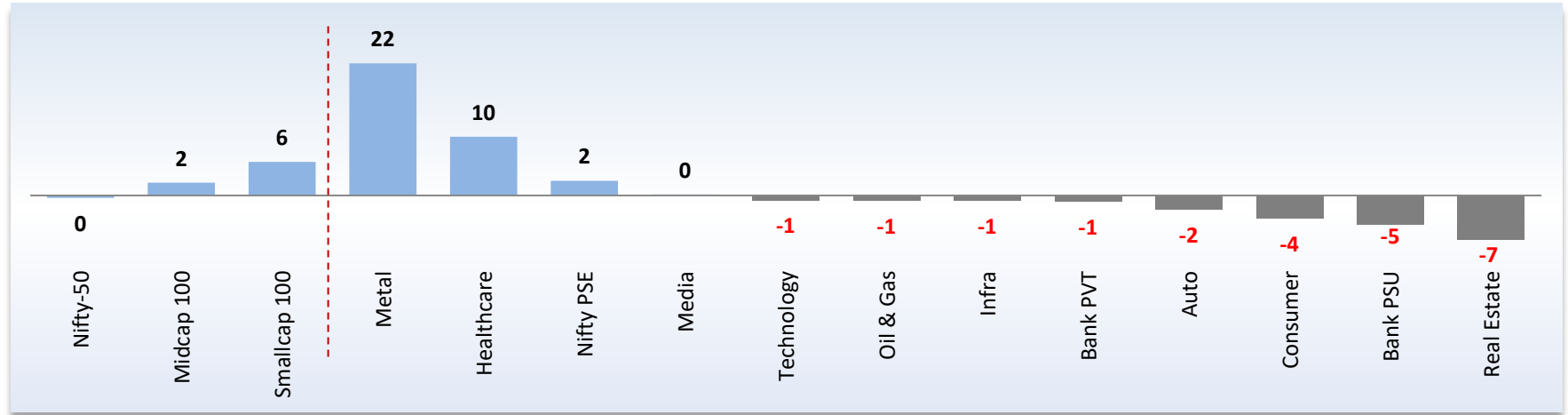
World equity indices (CY21YTD) – in USD (%)



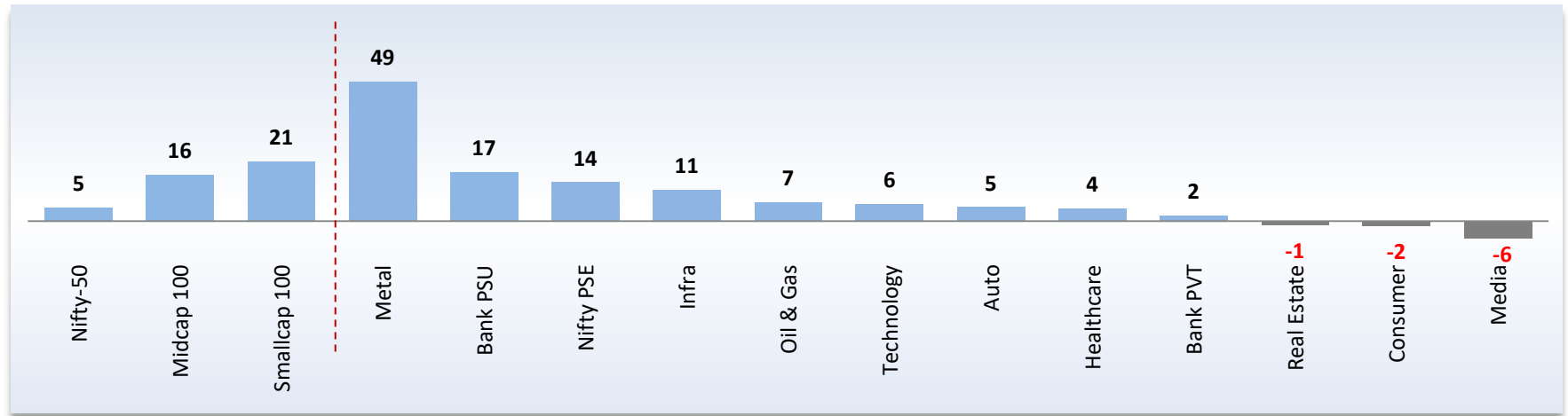
As of 30 Apr'21

Metals and Healthcare outperform; Metals up 49% in CY21YTD

Sectoral performance MoM (%)



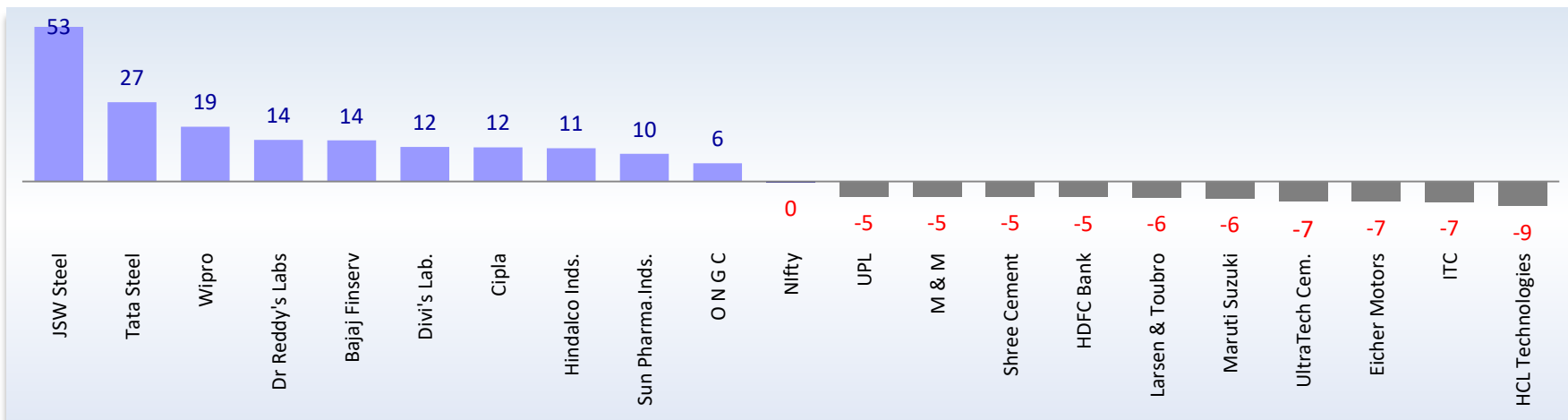
Sectoral performance in CY21YTD (%)



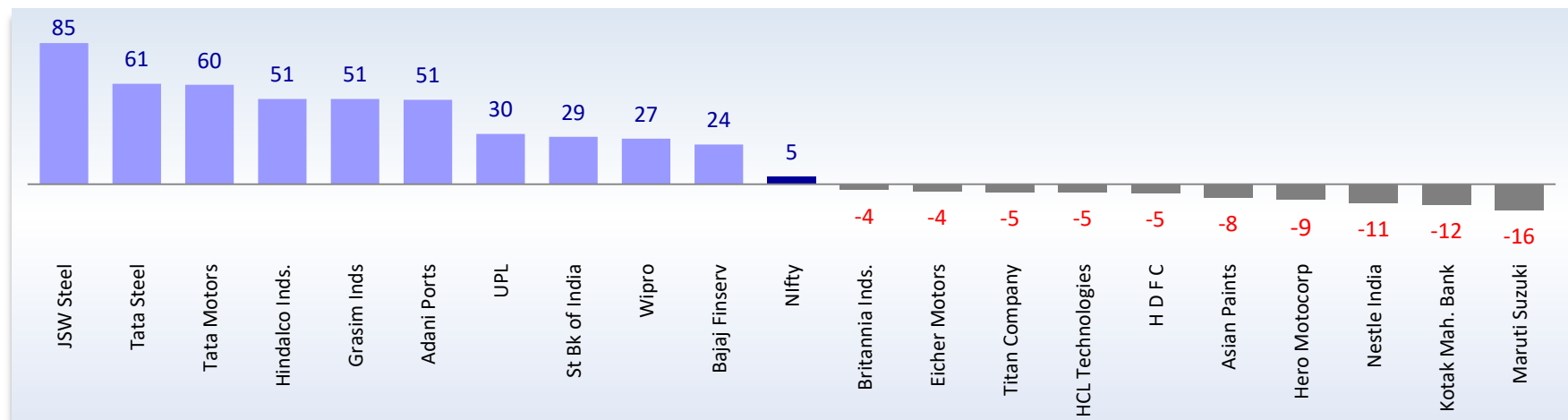
Nifty: JSW and Tata Steel – highest gainers MoM and CY21YTD

- ❖ Commodity prices continued to rise MoM in Apr'21, leading to outperformances from Metal companies JSW and Tata Steel.
- ❖ In CY21YTD, Cyclical have continued to outperform, with Metals gaining more than 50%. Consumer Discretionary remains a laggard.

Best and worst Nifty performers (MoM) in Apr'21 (%) – JSW Steel and Tata Steel lead gainers in Apr'21



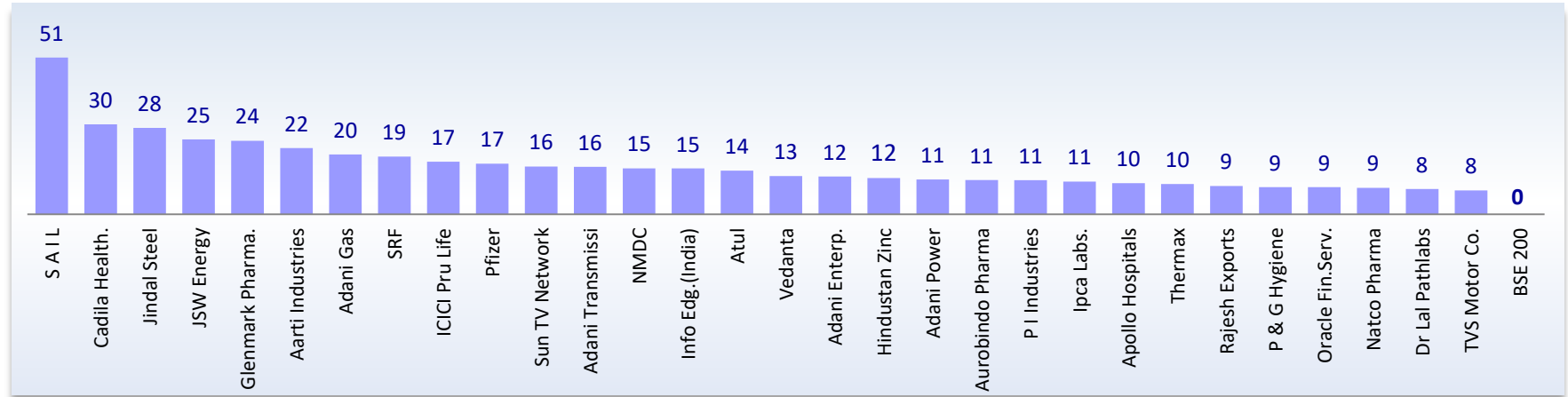
Best and worst Nifty performers (YoY) in CY21YTD (%) – Cyclical lead outperformance; Consumer Discretionary remains laggard



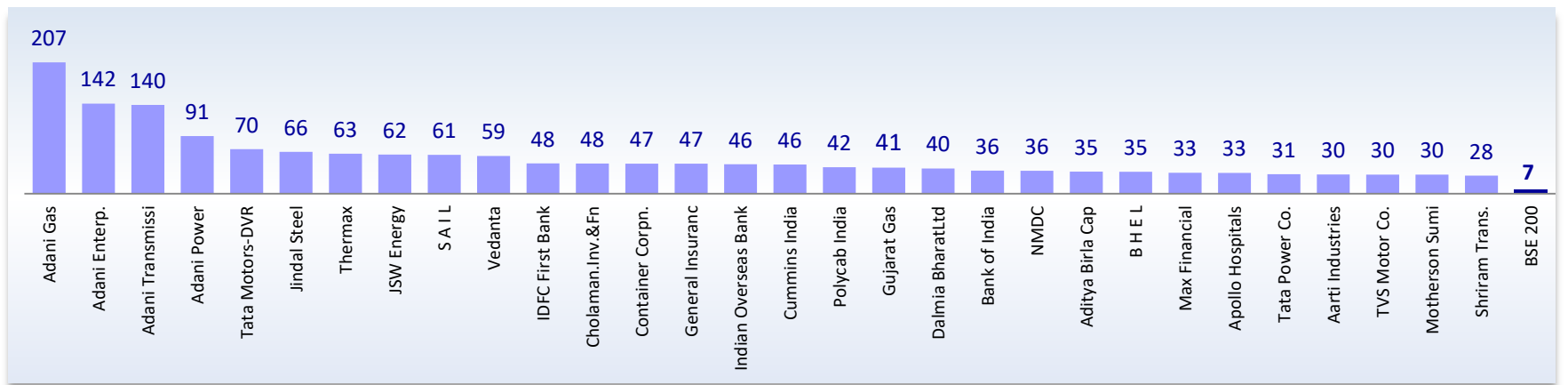
Apr'21 rally broad-based; ~45% of BSE-200 constituents gain

- ❖ Around 91 of the BSE-200 constituents gained in Apr'21, with 31 stocks posting gains of over 10% MoM. Cyclical stocks and Pharma companies Cadila and Glenmark were the major gainers. SAIL posted gains of >50% MoM.
- ❖ In CY21, 16 companies gained more than 50%. Adani companies led gainers.

Biggest gainers in BSE-200 on MoM basis (%)*



Biggest gainers in BSE-200 in CY21YTD (%)*

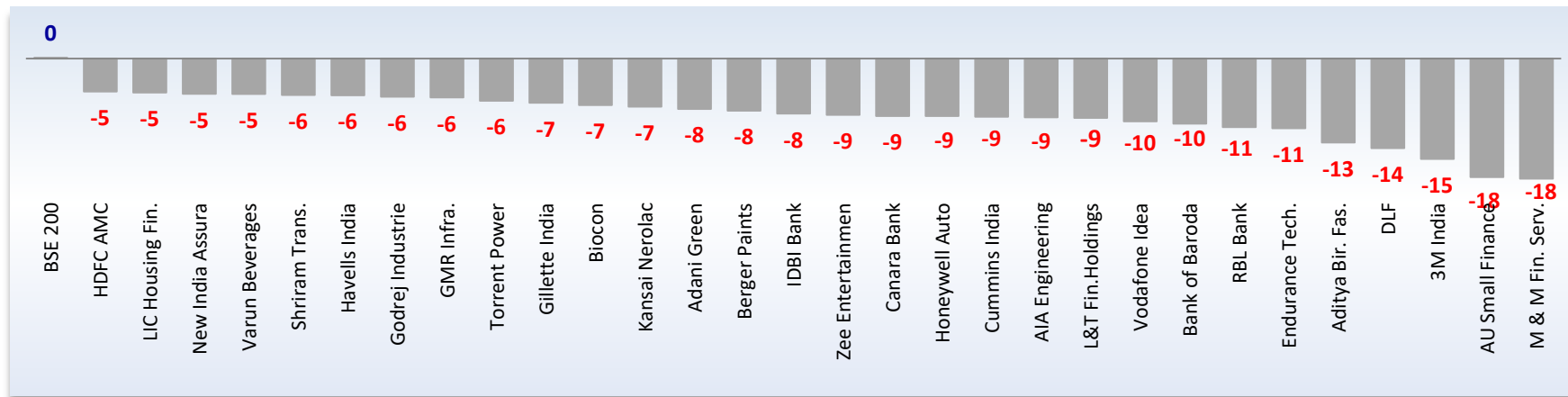


*List excludes Nifty companies

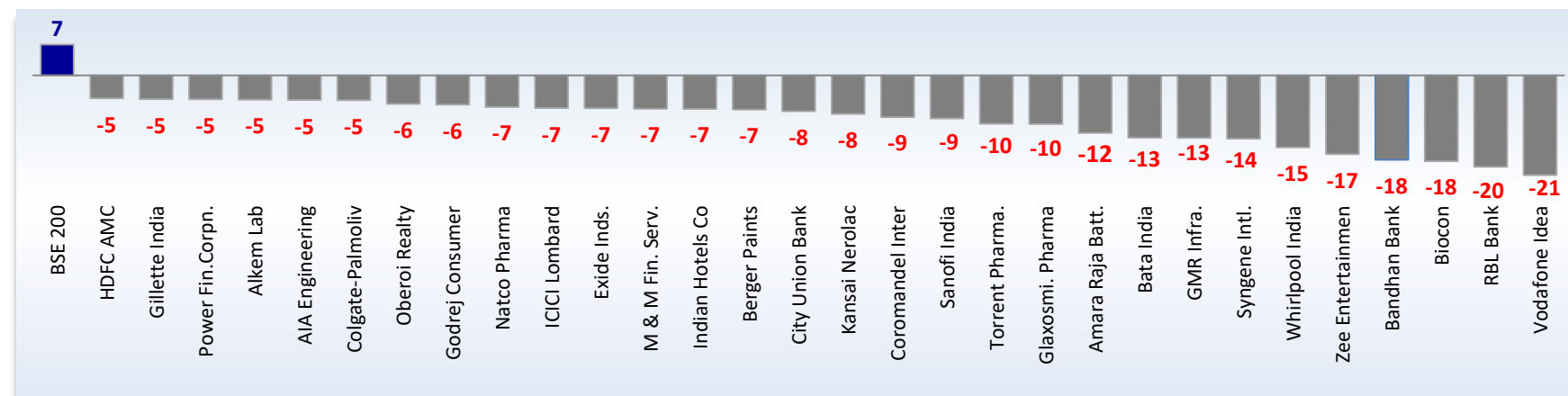
Financials stocks – key laggards in Apr'21

- ❖ Around 54% of BSE-200 companies posted decline in Apr'21. NBFCs/Banks – M&M Finance and AU Small Finance – were the major laggards.
- ❖ In CY21YTD, 30% of companies have posted decline. Vodafone Idea and RBL Bank fell more than 20%.

Biggest laggards among BSE-200 constituents on MoM basis (%)*



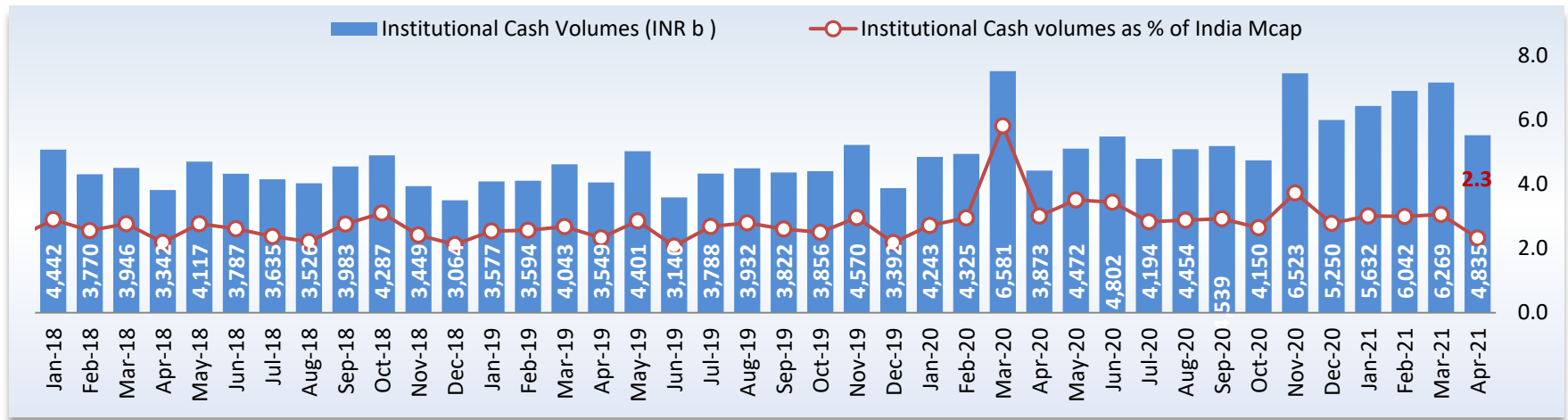
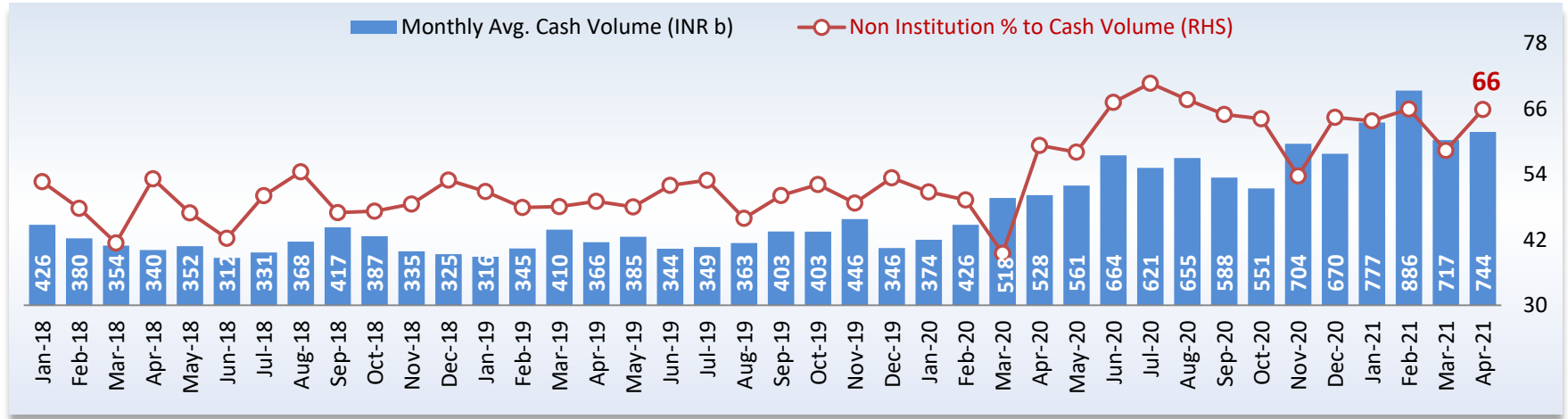
Biggest laggards among BSE-200 constituents in CY21YTD (%)



*List excludes Nifty companies

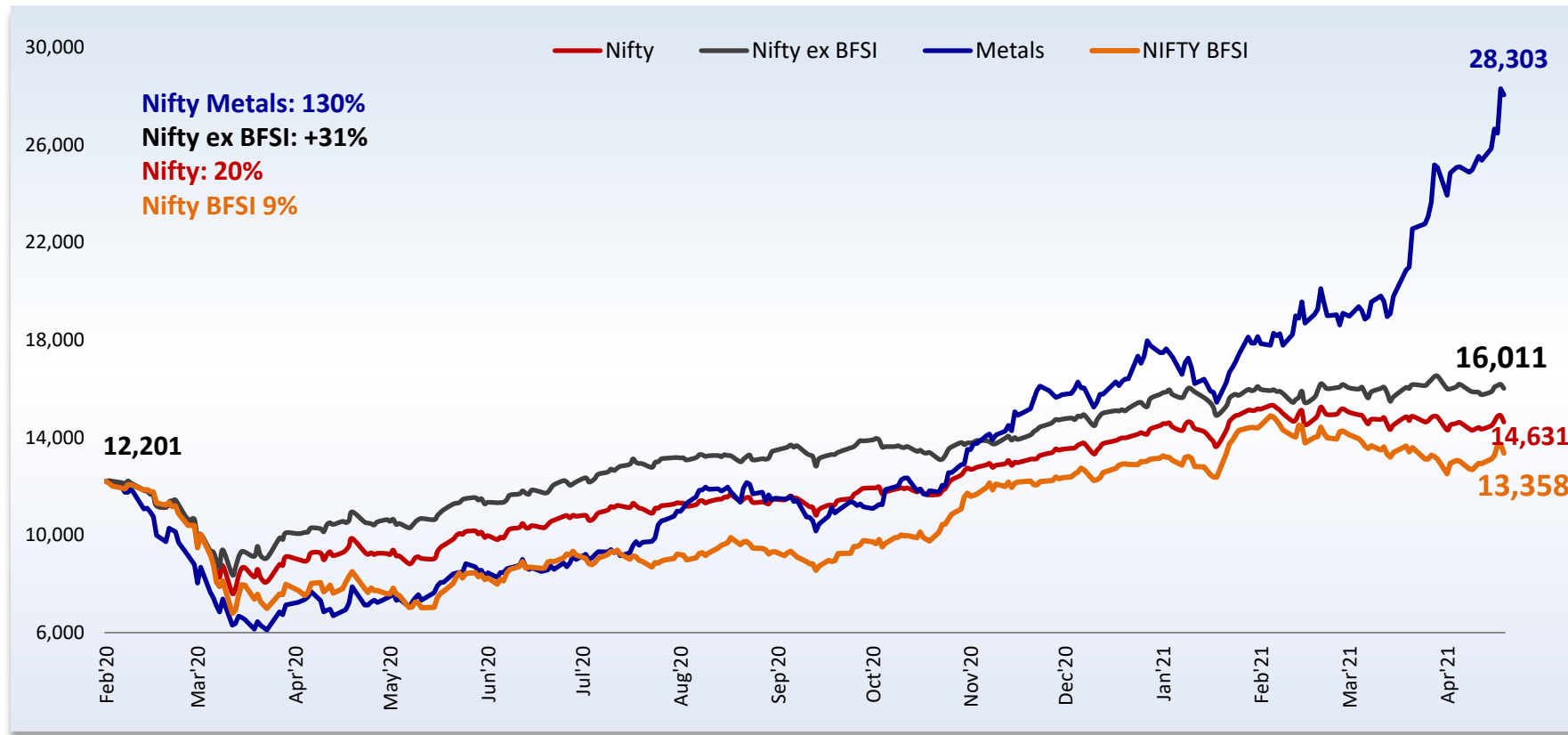
Average daily cash volumes up 4% MoM; institutional volumes down 23% MoM

- ❖ Average daily cash volumes increased to INR744b in Apr'21 as non-institutional participation increased to 66% of total volumes.
- ❖ Monthly institutional cash trading volumes declined (23%) MoM to INR4.8t.



Metals – distinct outperformer in Nifty; BFSI remains a laggard

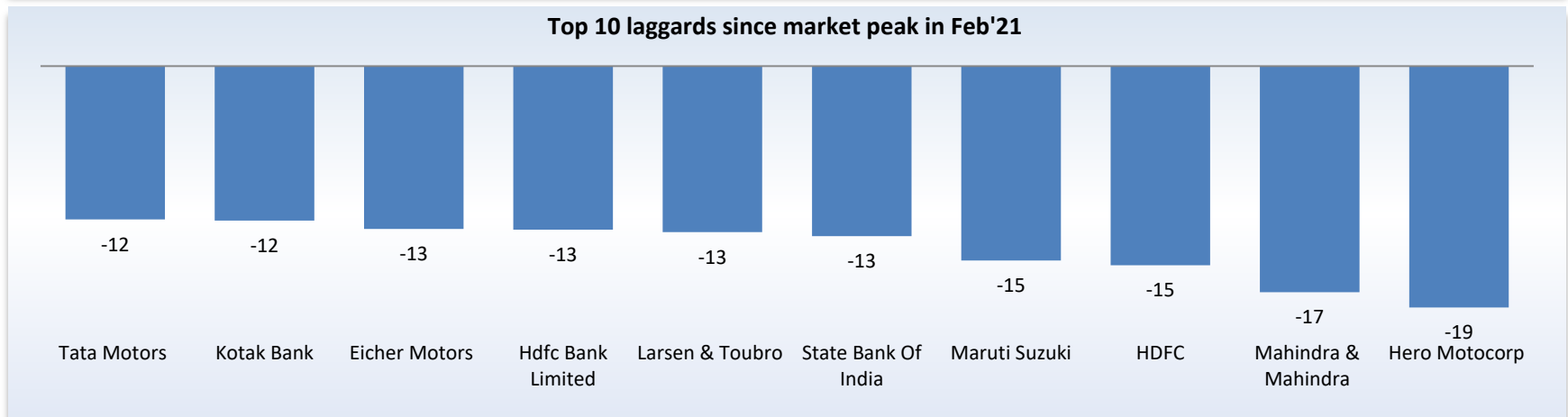
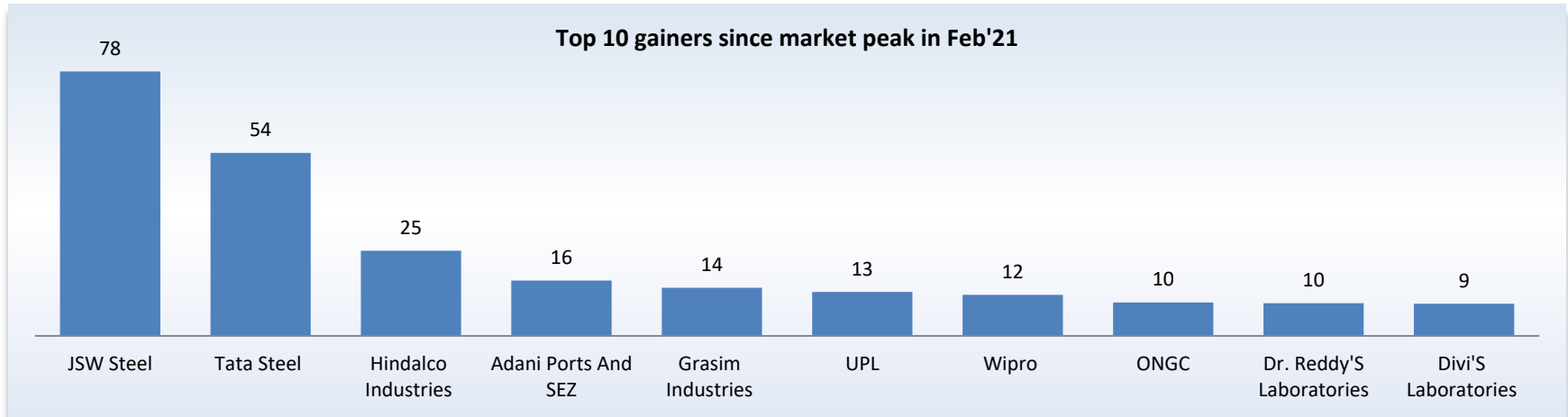
- ❖ Nifty Metals stocks, on an aggregate basis, have returned 130% since Feb'20 highs – 110% outperformance vs. Nifty.
- ❖ The BFSI sector, on the other hand, remains a laggard with just 9% gains, while the Nifty has delivered 20% returns.



Source: Bloomberg, MOFSL. As on 30 Apr'21. Indices rebased to Nifty values

Metals outperform, while Auto and Financials underperform

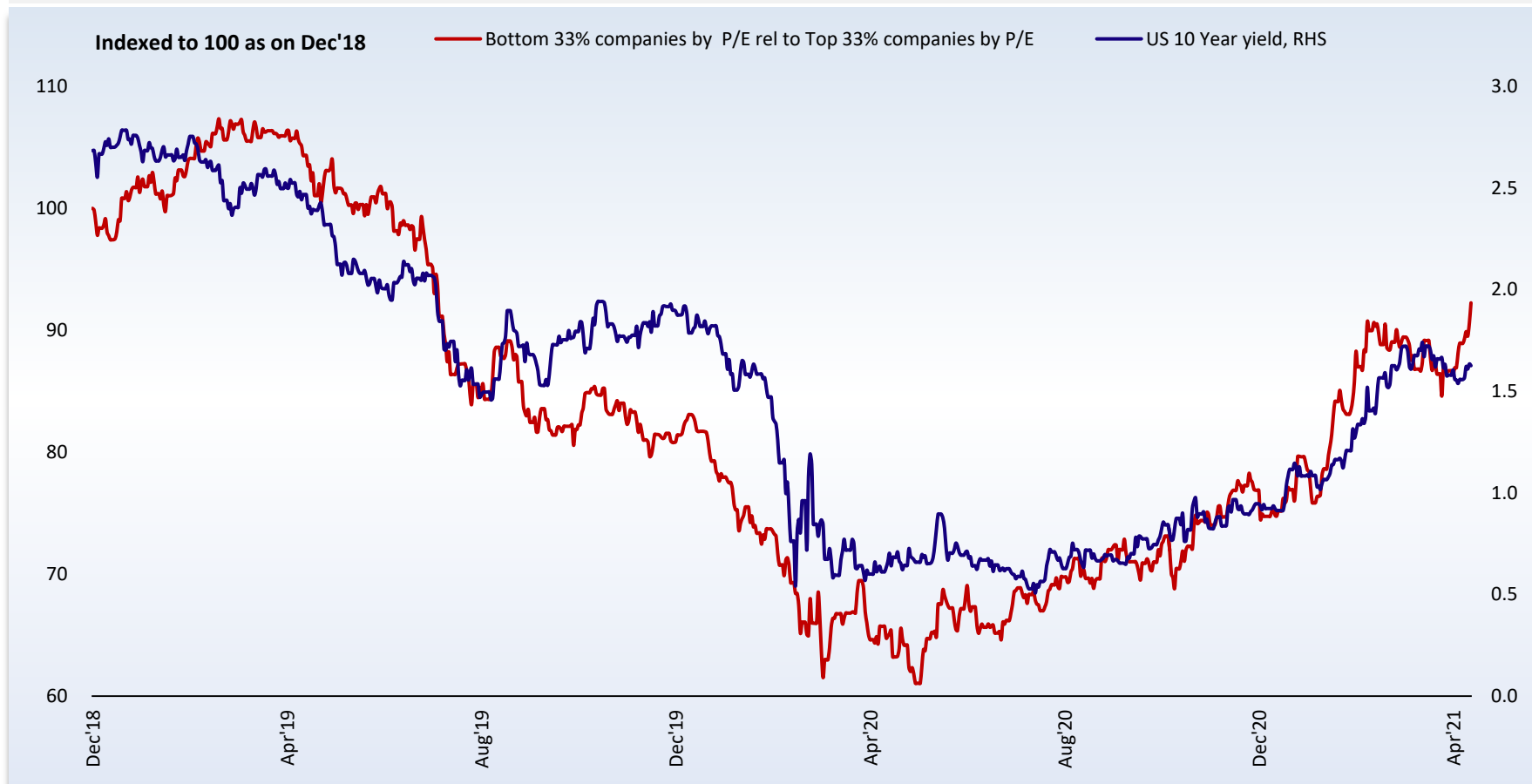
- ❖ In Nifty, Metal stocks have outperformed significantly since the Feb'21 peak; underlying strong commodity prices and multiple rounds of earnings upgrade and deleveraging aiding the dream run.
- ❖ 9 out of 10 companies in laggards belong to Autos and BFSI – impacted by COVID 2nd wave and consequent restrictions.



Source: Bloomberg, MOFSL. As on 30 Apr'21. Based on Nifty 50 companies

'Value' makes comeback as growth expectations is broad-based

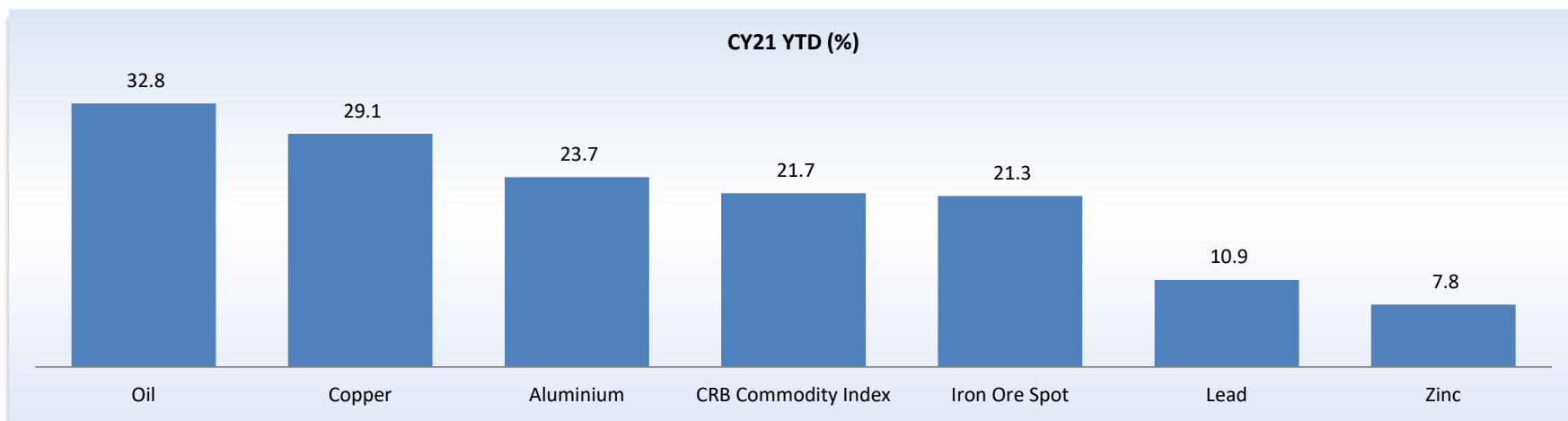
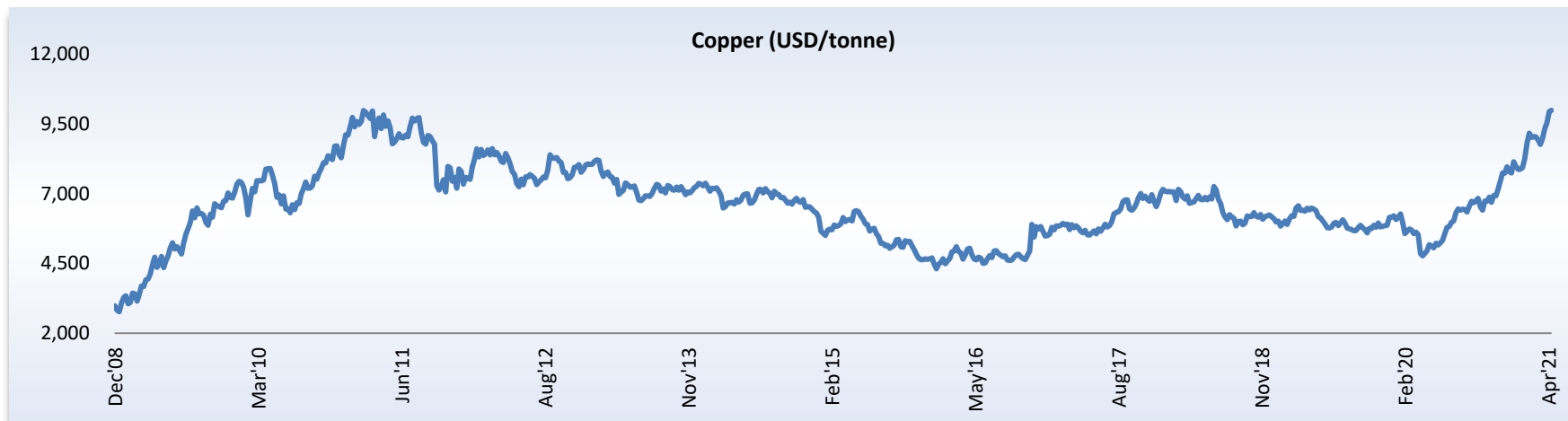
- ❖ As earnings growth turns more broad-based and commodity prices rally, 'value' segment in the Nifty is outperforming the expensive quality basket with rich valuations.



Source: Bloomberg, MOFSL. As on 30 Apr'21. Nifty 50 companies and segregated into 3 buckets based on 12M fwd P/E.

Commodity bull-run acquires more legs; Copper at all-time high

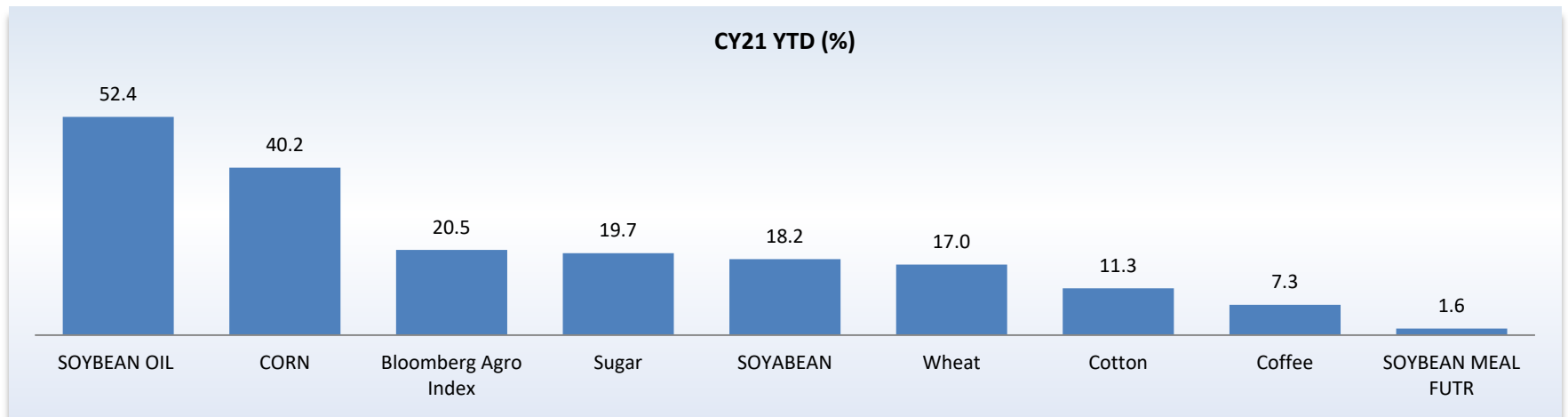
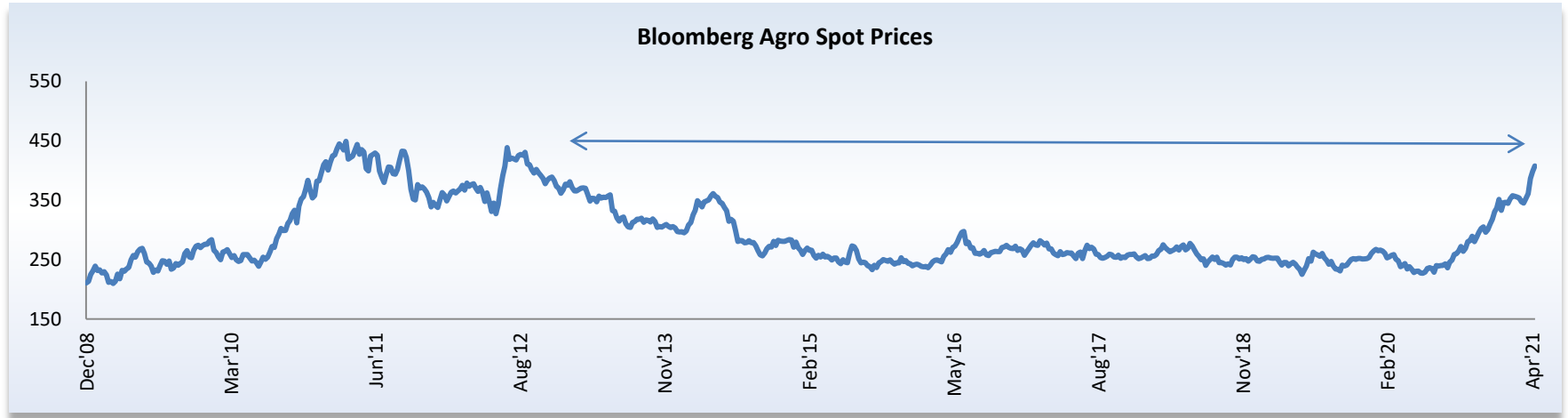
- ❖ Strong industrial demand and global reflationary growth have led to Copper prices reaching above USD10,000/tonne; this marks a new all-time high for the metal.
- ❖ Oil has gained the most in CY21, followed by Copper and Aluminum, indicative of strong global recovery post COVID.



Source: Bloomberg, MOFSL. As on 30 Apr'21. Brent Oil in USD/bbl, Copper, Aluminium, Lead, Zinc from LME in USD/t. Iron ore spot is China import prices in USD/t

Agro commodities join the party; at highest levels since 2012

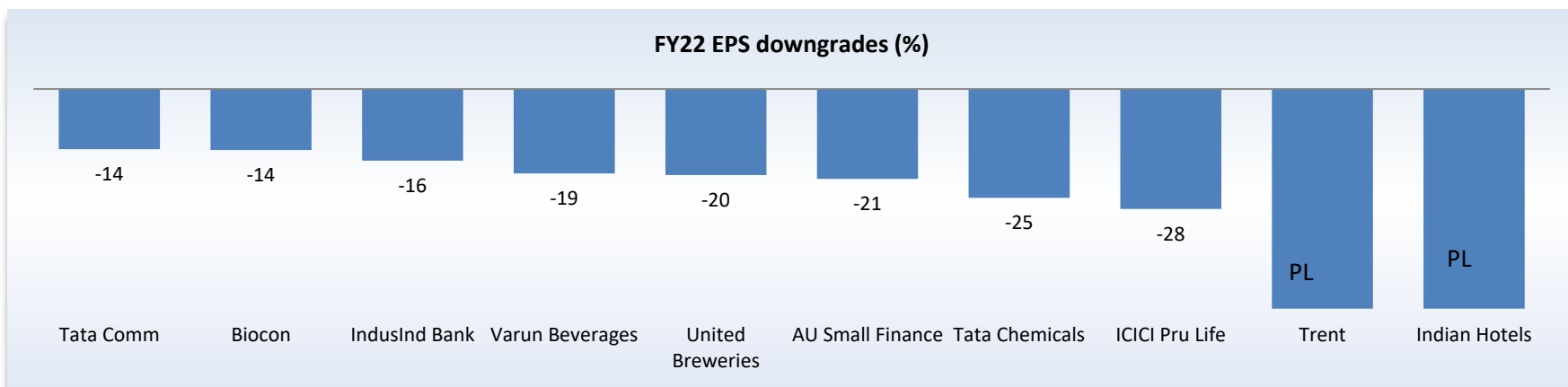
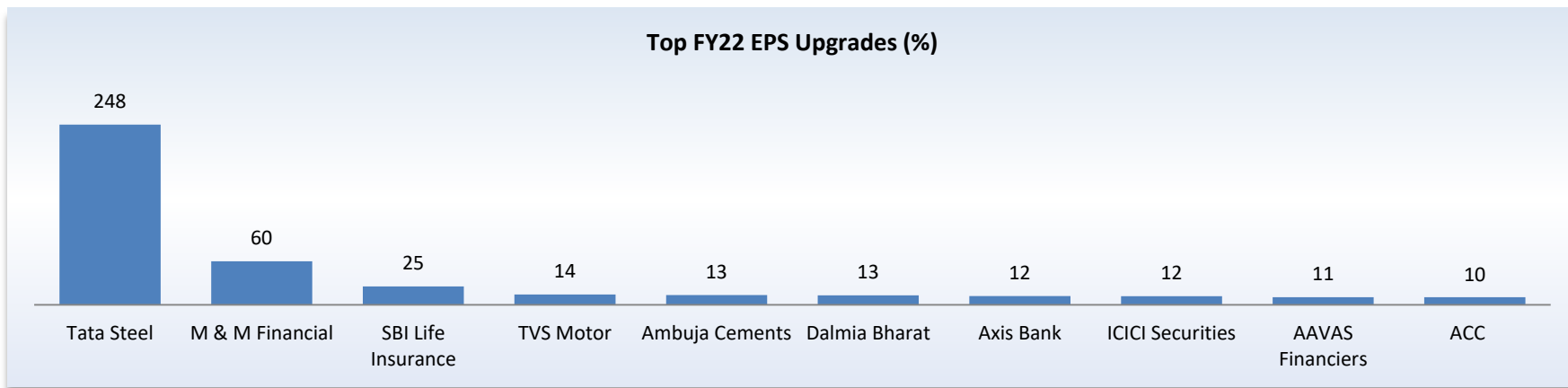
- ❖ Global agro commodity prices are at the highest levels since 2012. Strong fiscal and monetary stimulus have spurred demand.
- ❖ Soybean, Corn, Sugar, Wheat, and Cotton have gained by more than 10% in CY21YTD.



Source: Bloomberg, MOFSL. As on 30 Apr'21. Prices in USD. Corn, Soyabean, wheat – USD/bu. Soyabean oil, Sugar, coffee, cotton- USD/lb, Soyabean Meal- USD/t

4QFY21 earnings season – more downgrades than upgrades

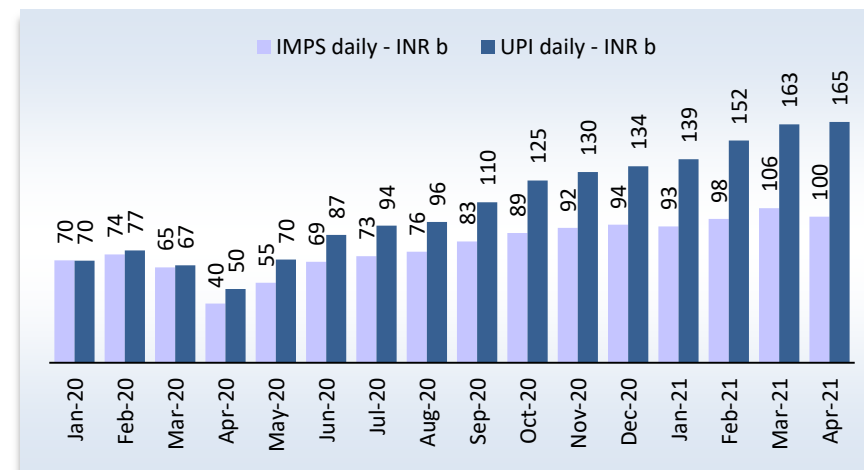
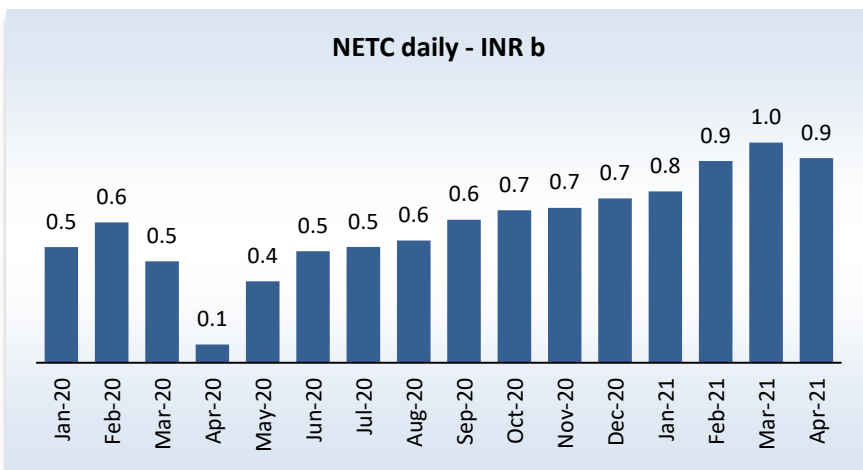
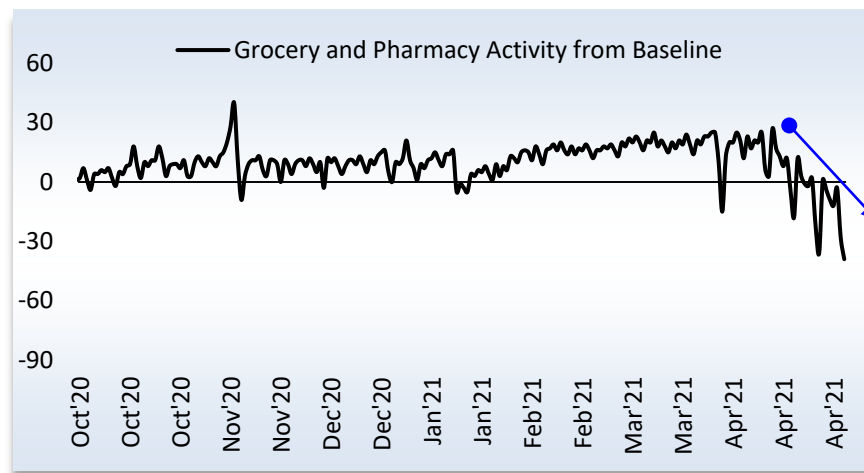
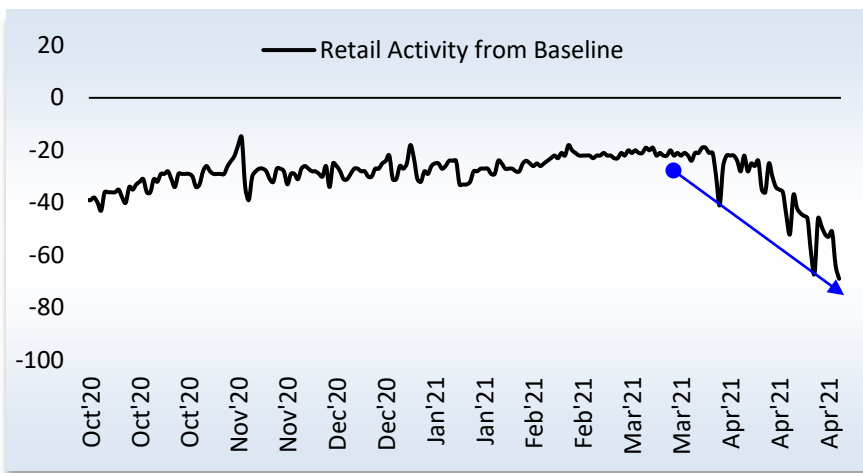
- ❖ Of the 66 companies in our Coverage Universe that have reported, we have downgraded our FY22 estimates for 42 companies, while 24 companies have been upgraded. The second wave impact and commodity cost inflation have led to the downgrades.
- ❖ Steel, Cement, and diversified Financials have seen the highest upgrades, while reopening themes such as Hotels, Retail, Spirits, and Beverages have suffered downgrades.



Source: MOFSL coverage companies which have seen the highest upgrades and downgrades during the earnings season based on FY22 basis and market cap above USD 1b

April restrictions indicate slowdown in activity

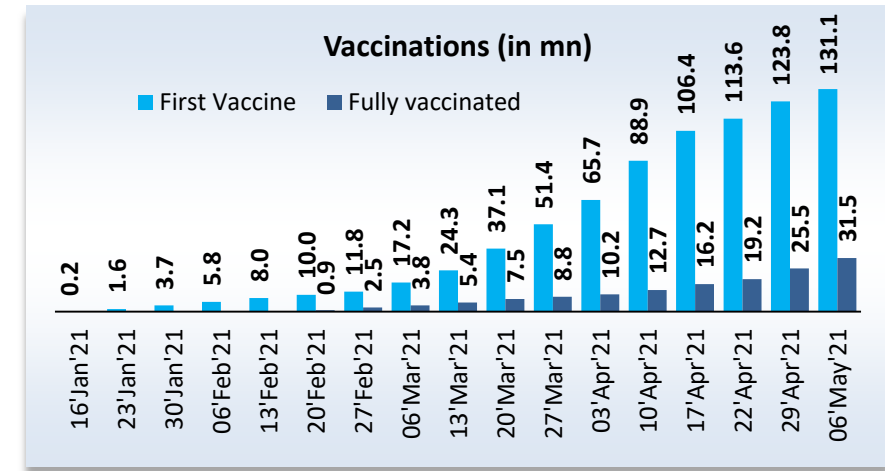
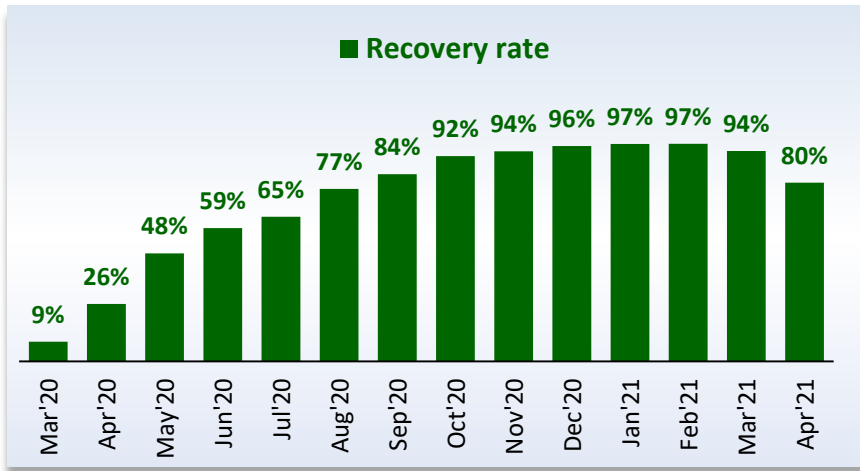
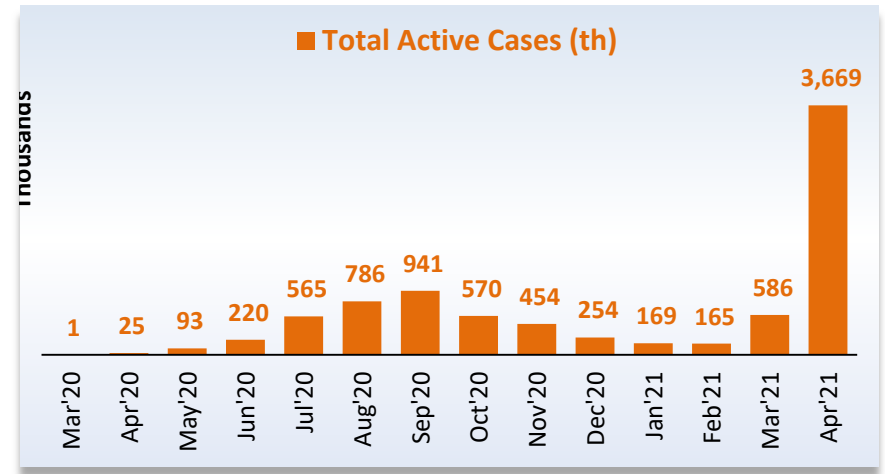
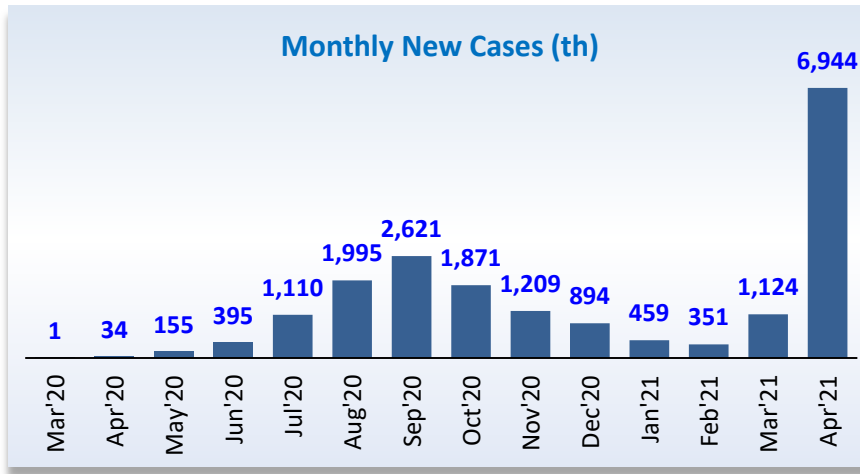
- ❖ High-frequency indicators suggest a slowdown in retail activity in April as the second wave led to the imposition of restrictions.
- ❖ National Electronic Toll Collections (NETC) indicated a drop of 10% MoM in Apr'21. UPI payments, however, remained steady MoM at daily levels of INR165b during the month.



Source: Google Mobility Reports, RBI, MOFSL

COVID-19: Active cases up by more than 6x in Apr'21

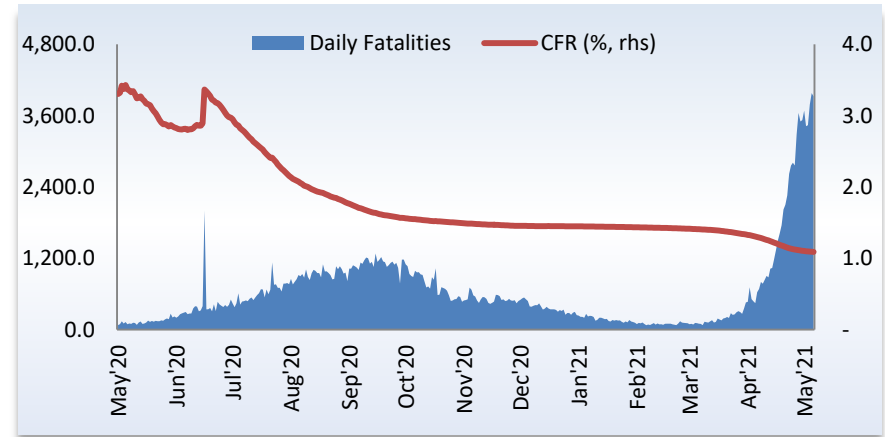
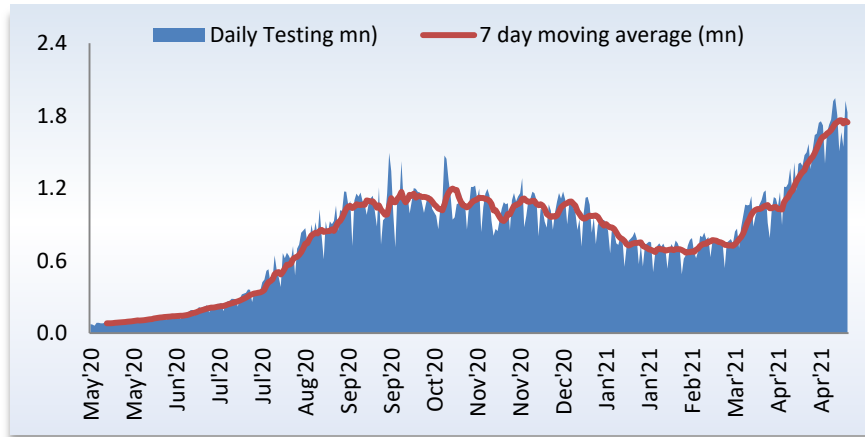
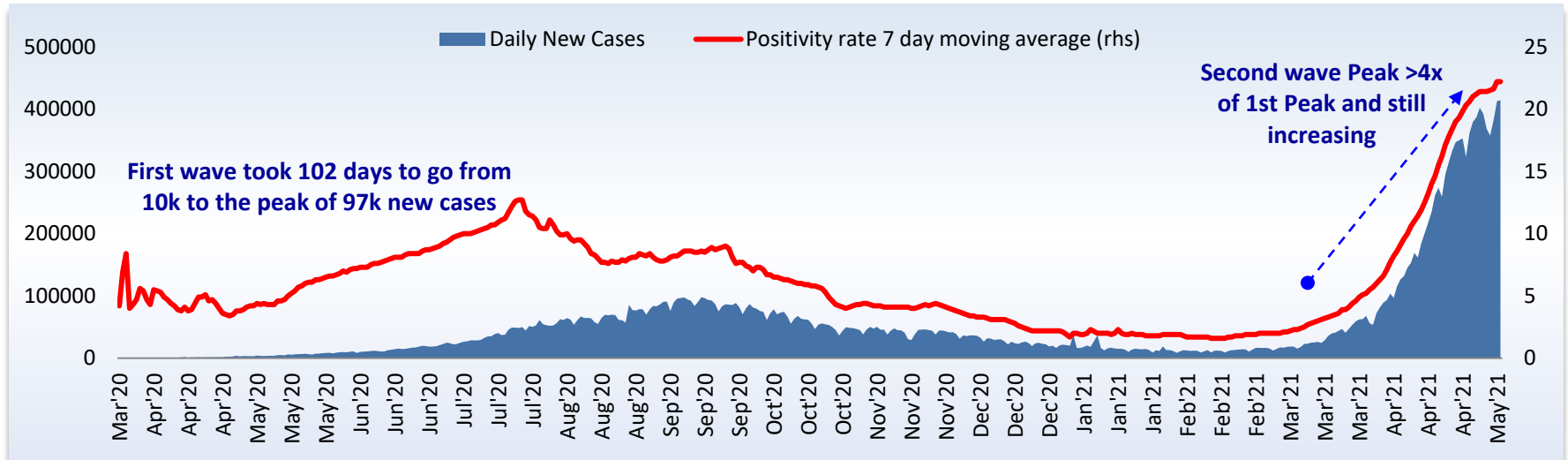
- ❖ Daily new cases exceeded 400k per day, with 6.9m people being infected during the month. Active cases increased by more than 6x to 3.66m.
- ❖ 123m people had received their first vaccine dose and 25.5m people were fully vaccinated at end-Apr'21.



Source: Ministry of Health and Family Welfare, ourworldindata.org. MOFSL

COVID-19: Positivity rate and cases rise despite an increase in testing

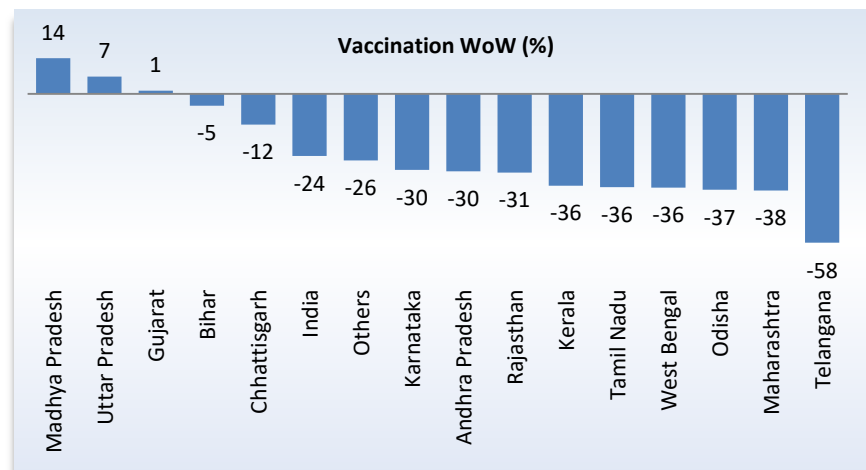
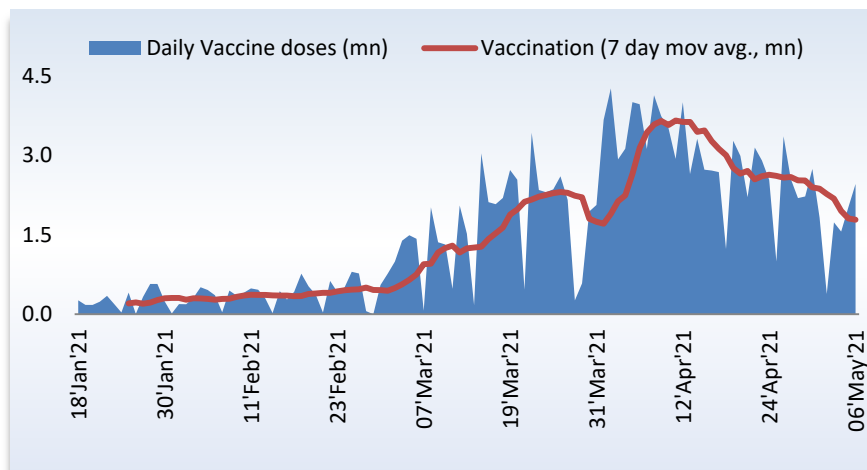
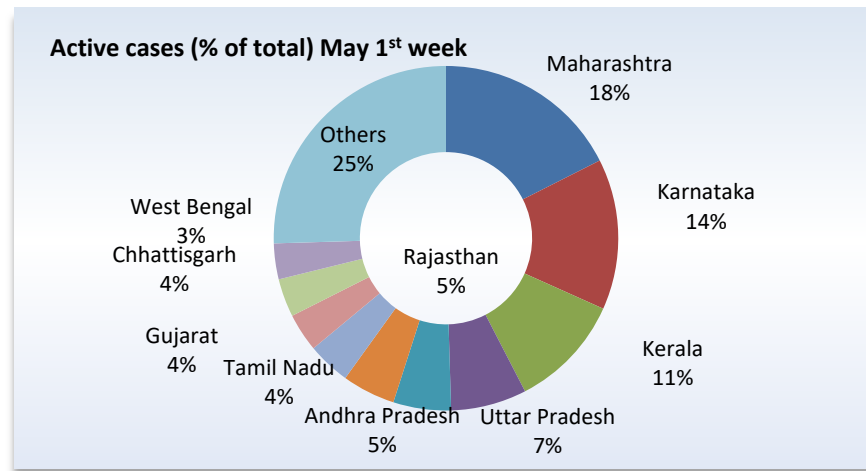
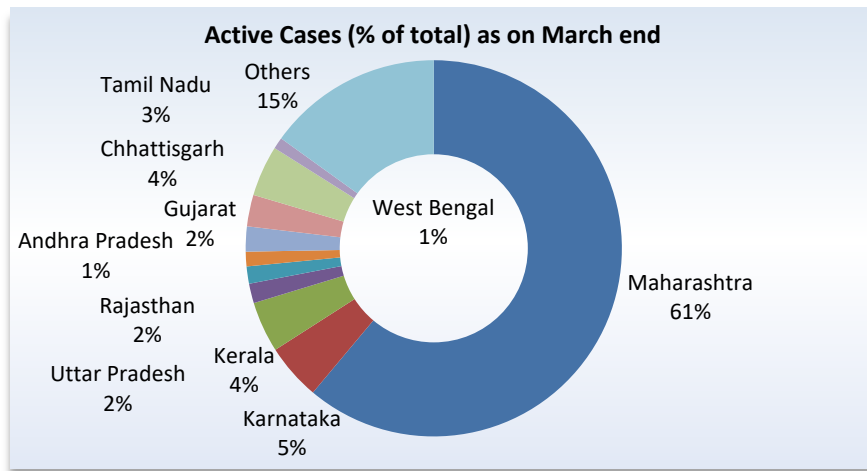
- ❖ The daily new cases exceeded the 400k per day mark in Apr'21, far higher than the peak of 97k cases in the first wave. India's positivity rate doubled from 10% in the first 10 days of Apr'21 to 21% in the last 10 days.
- ❖ Despite an increase in testing from 1m per day to over 2m per day, the positivity rate increased to 21% in Apr'21 from 10% in Mar'21. The absolute count of fatalities also reached 4k on a daily basis.



Source: Ministry of Health and Family Welfare, ourworldindata.org. MOFSL. As on 06 May'21

COVID-19: Active cases more widespread; vaccination pace declines

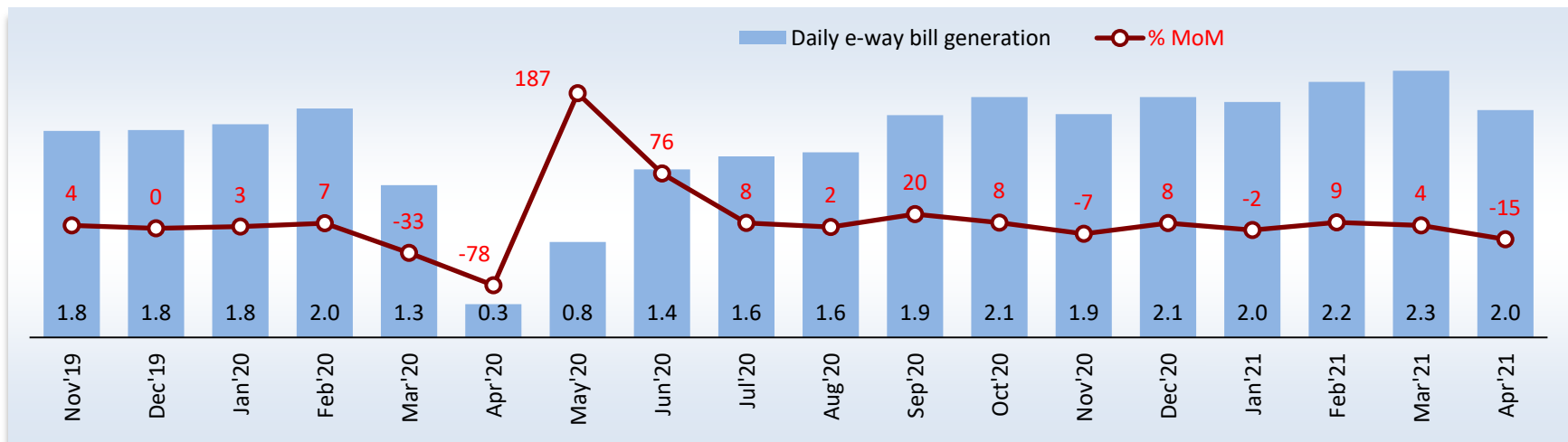
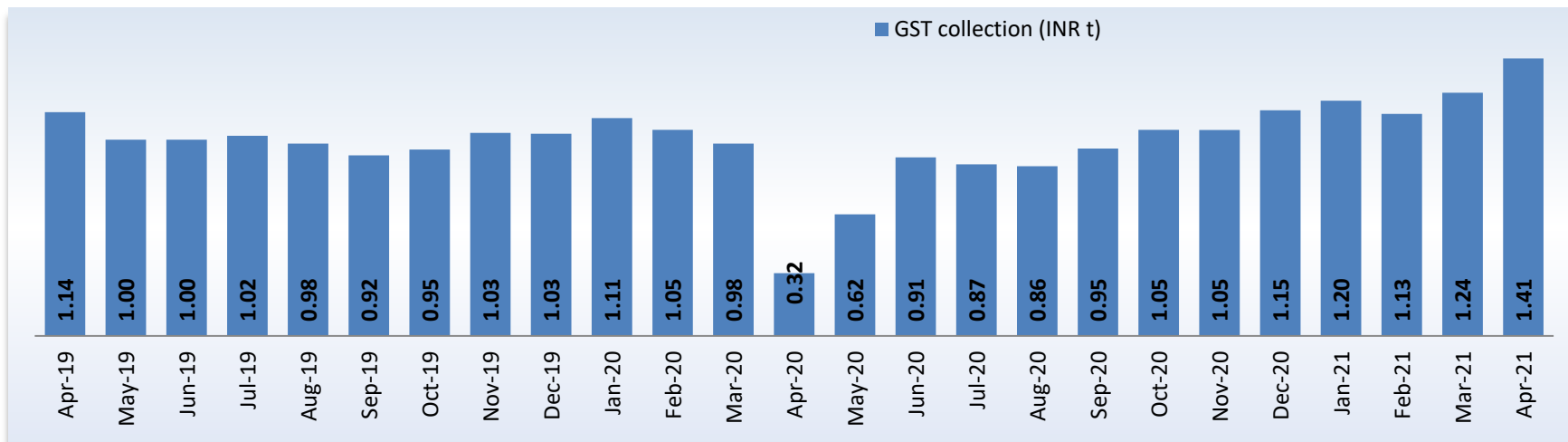
- ❖ April and May have seen the spread of the virus in all states of India. Maharashtra accounted for 61% of overall active cases in March'21, which now fell to 18% of the total active cases as of 6th May'21.
- ❖ The pace of vaccinations has slowed from the peak of 4.2m doses/day to around 2m doses at the start of May'21. MP, UP, and Gujarat were the only states to see a marginal uptick in vaccinations WoW among the Top 15 states with the highest vaccinations.



Source: Ministry of Health and Family Welfare, ourworldindata.org. MOFSL

GST collections, e-way bill generation at record highs

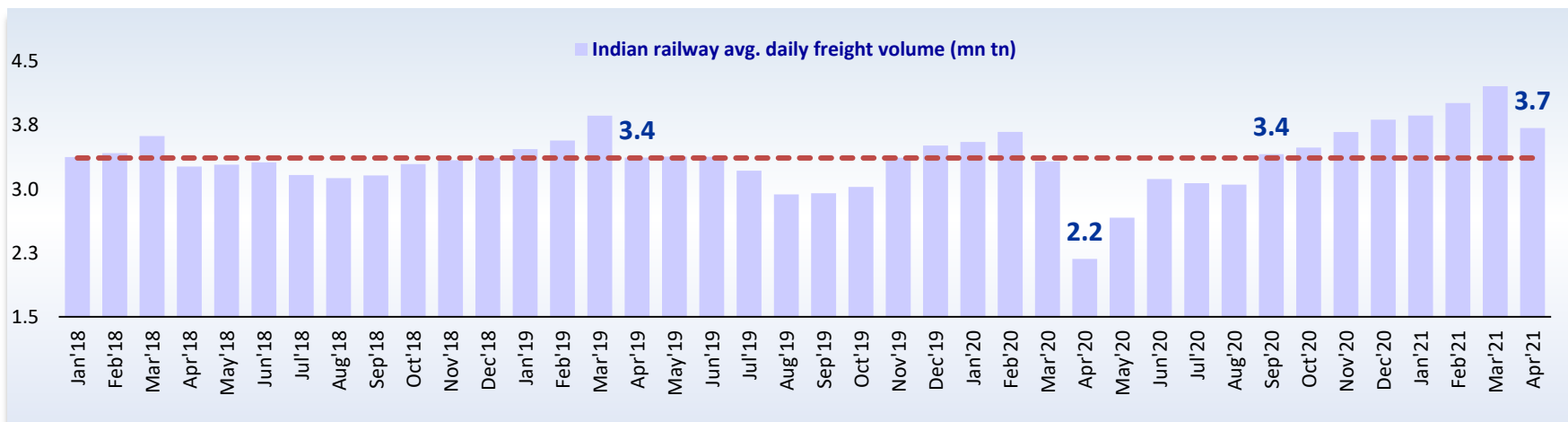
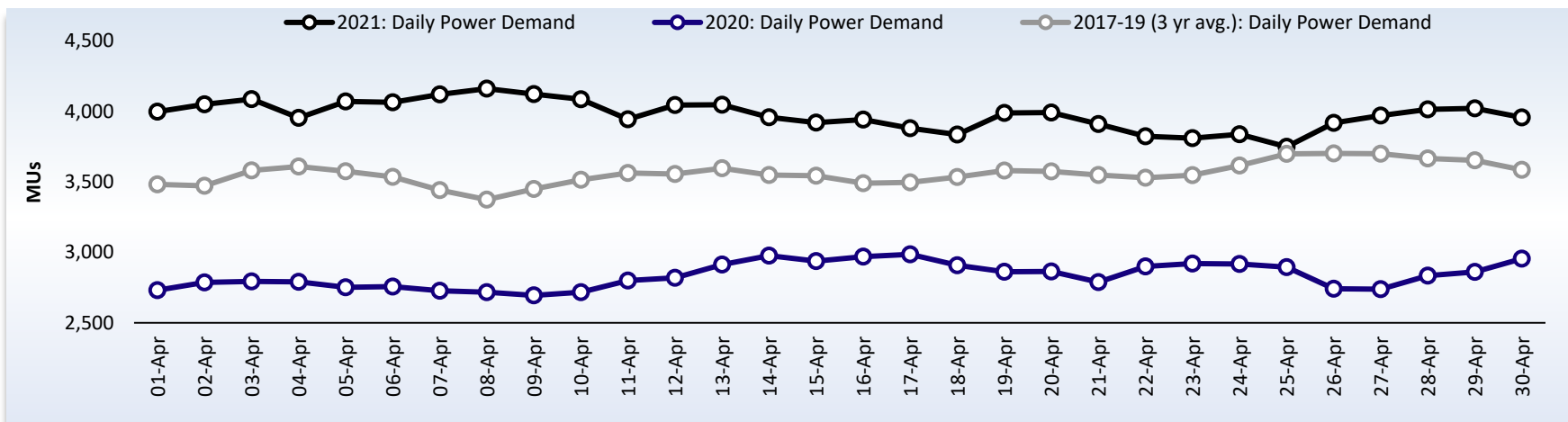
- ❖ GST collections reached the highest ever level of INR1.41t in Apr'21. Apr'21 GST collections posted a healthy 11.4% CAGR over Apr'19.
- ❖ E-way bill generation data for Apr'21 declined 15% MoM as the second wave led to the imposition of restrictions in many states.



Source: GSTN

Power demand, railway freight remain strong

- ❖ Power demand for April was 6.7% above the average levels of 2017–19 despite the imposition of restrictions and lockdowns in various states.
- ❖ Average daily railway freight volumes were 10% above April 2019 volumes.



Source: MOFSL, Companies

Nifty composition – Metals continues to gain weight in Apr'21

- ❖ Nifty weights – Metals weight in the Nifty is at 3.2%, the highest since Dec'18.
- ❖ Auto weight at 5.2% is the lowest since Dec'09 – as the second wave clouds the near-term demand outlook.
- ❖ Private Sector Banks weight remains 380bps lower than pre-COVID levels at 24%.

Sector	Weightage in Nifty (%)					
	Dec'04	Dec'08	Dec'12	Dec'19	Dec'20	Apr'21
Automobiles	6.7	2.5	8.8	5.7	5.4	5.2
Banks - Private	4.7	5.0	16.9	27.8	24.7	24.0
Banks - Public	5.8	5.4	4.7	2.6	1.8	2.1
NBFC + Insurance	2.1	2.3	7.9	11.6	12.3	11.7
Capital Goods	4.0	7.7	5.9	3.2	2.6	2.6
Cement	2.8	1.7	4.2	1.5	2.2	2.6
Consumer	7.8	6.5	12.3	10.2	10.4	10.1
Healthcare	6.3	2.6	5.0	2.1	3.6	3.7
Metals	8.2	4.8	3.8	2.4	2.0	3.2
Oil and Gas	27.1	24.5	12.3	12.5	12.5	11.8
Reliance	8.3	10.6	7.4	9.8	10.7	10.2
Telecom	6.3	11.6	2.0	2.2	2.0	2.0
Technology	14.5	9.0	11.4	12.8	16.3	16.5
Utilities	1.9	13.3	4.5	2.8	2.1	2.1
Miscellaneous	2.0	3.3	0.5	2.6	2.1	2.4
Nifty	100	100	100	100	100	100

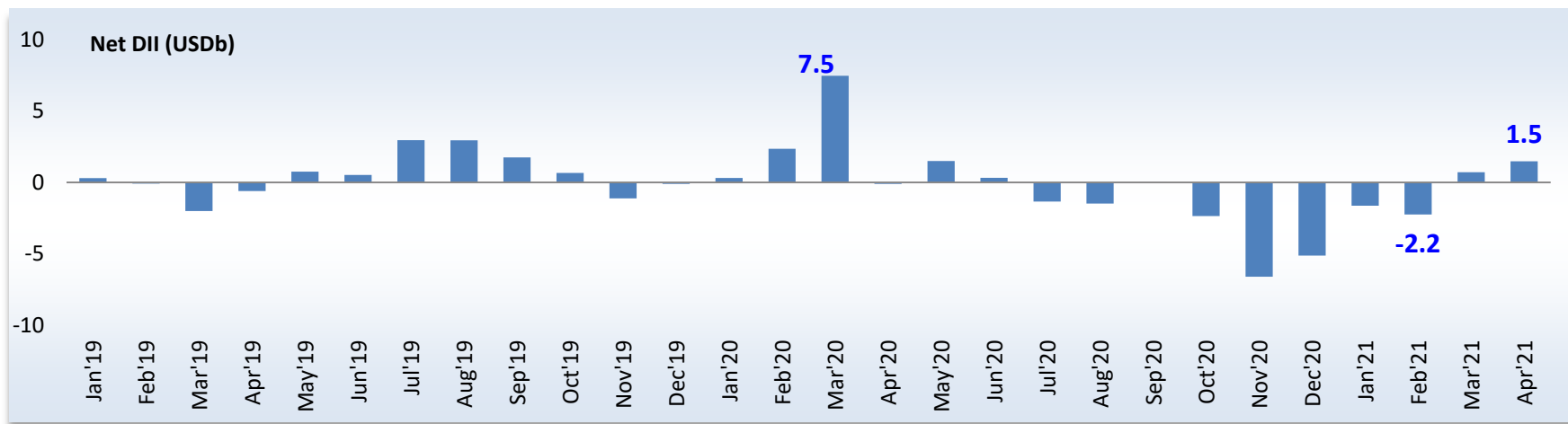
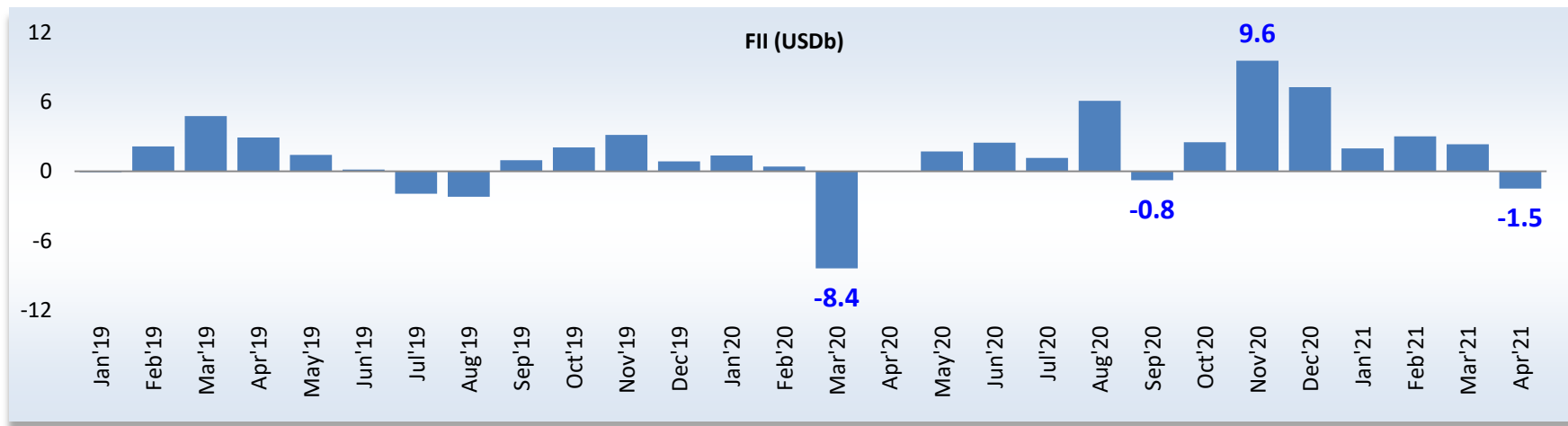
Metals weight at 3.2% – highest since Dec'18

SBI sees 30bps increase in weight to 2.1% in CY21

Auto weight at the lowest level of 5.2% since Dec'09

FII – first outflows since Sep'20; DII – net inflows

- ❖ FII outflows of USD1.5b were reported in Apr'21, the first in seven months.
- ❖ DII net inflows of USD1.5b were seen – the second consecutive month of inflows.

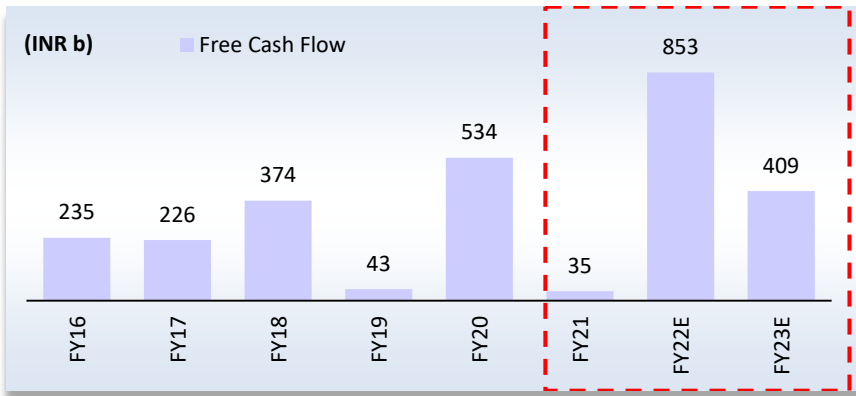


Key reports from MOFSL's research desk

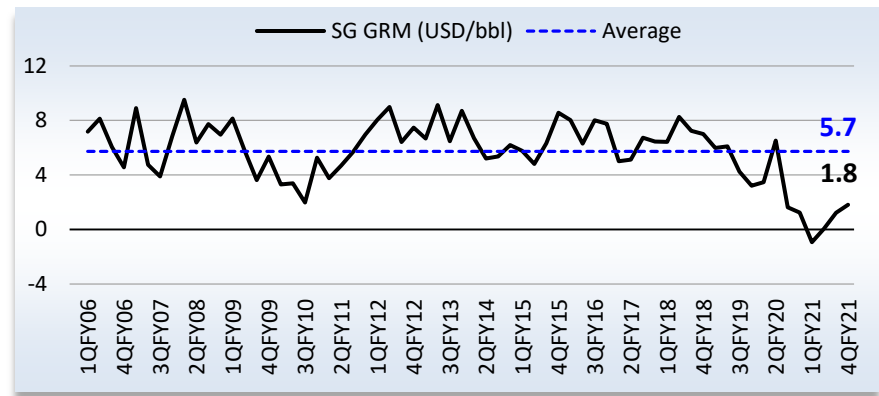
RELIANCE INDUSTRIES: Reiterate our faith in the businesses – ([Report Link](#))

- ❖ RIL has underperformed Nifty by ~35%, largely due to poor refining margins, uncertainty in retail, and slowing growth in the Telecom biz. However, the ongoing O2C restructuring may open up strategic partnership opportunities similar to those seen in other businesses.
- ❖ The growth and dominance of both the Consumer businesses – Rjio and Reliance Retail – in their respective sectors should hold them in good stead.

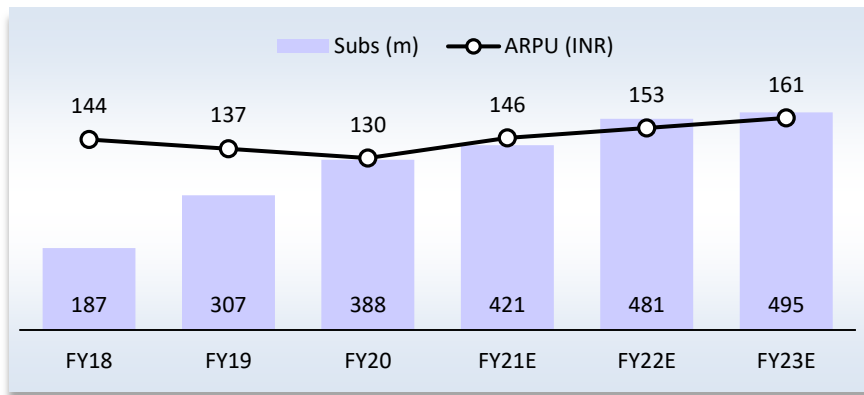
Standalone business to generate FCF of INR1,298b over FY21–23



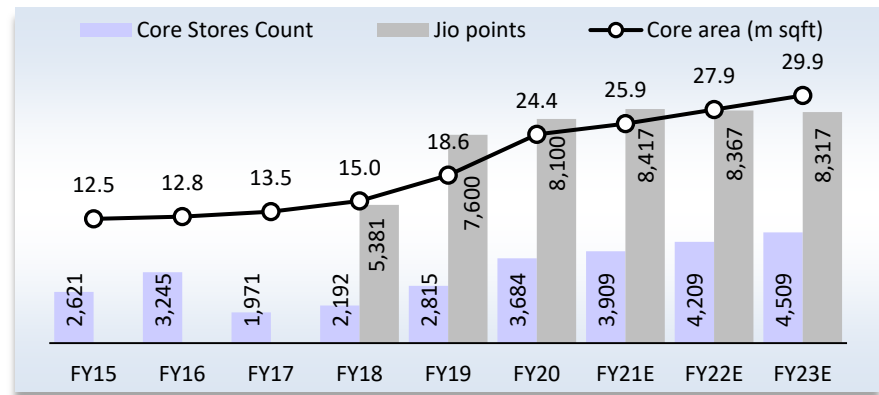
SGRM stands at ~USD1.9/bbl (v/s long-term average of USD5.7/bbl)



ARPU to reach ~INR160 in FY23E



Store/Area addition trend



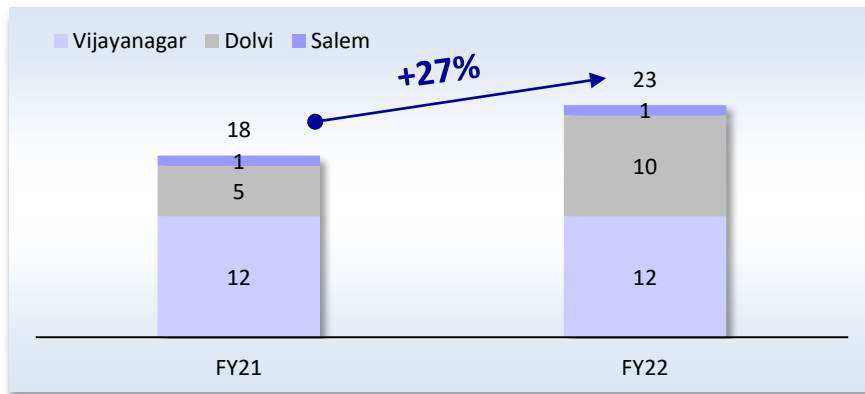
Source: MOFSL. Refer to note 'RELIANCE INDUSTRIES: Reiterate our faith in the businesses – O2C margins to enhance; Retail, Telecom hold long term opportunity

JSW Steel: Remains best volume play in sector ([Report Link](#))

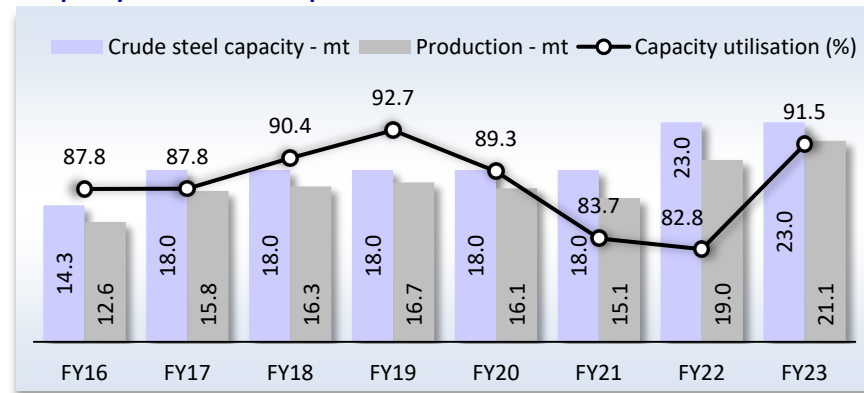
We see JSTL as a play on volume growth as:

- ❖ Completion of the Dolvi expansion would help JSTL achieve a 16% volume CAGR over FY22–23E, the best in the industry.
- ❖ The merger of BPSL, when it happens (we expect it by FY24E), would add volumes of ~3mt (~13% of FY22E capacity).
- ❖ The new downstream capacities due to be commissioned over the next 12M would increase market share of value-added steel (color coated, galvanized, and so on).

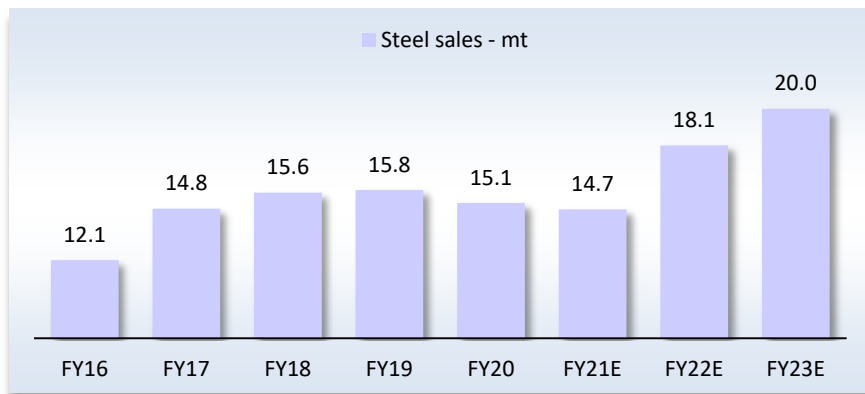
JSTL's capacity post Dolvi expansion to be 23mt



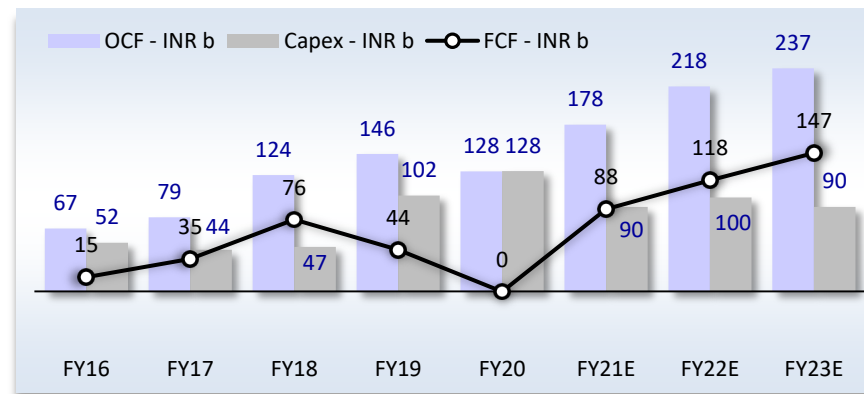
Capacity utilization to improve



Volumes to post ~16% CAGR over FY22–23E



JSTL's FCF to remain strong over FY22–23E

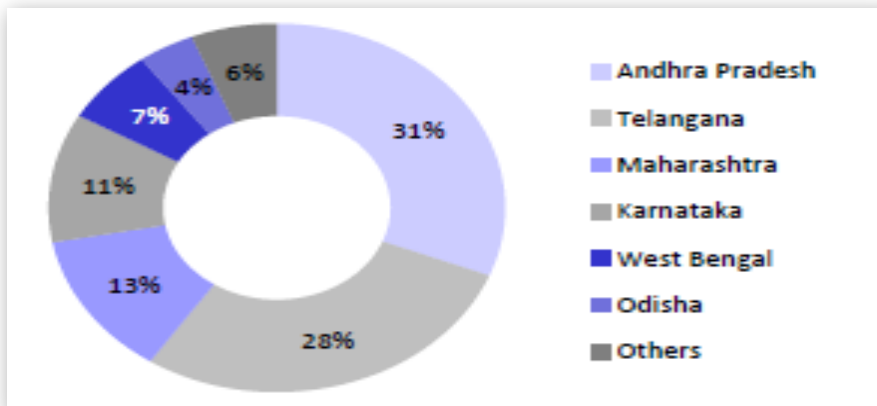


Source: MOFSL, Refer to the note – JSW Steel: Remains the best volume play in the sector

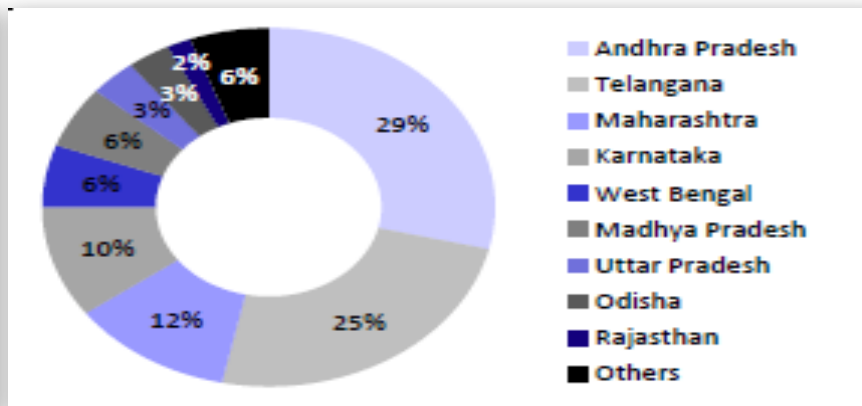
COROMANDEL INTERNATIONAL: Release of subsidies to aid CFO generation ([Report Link](#))

- ❖ The structural story remains intact with regard to increasing farmers' awareness about having balanced nutrients in crops. This is likely to aid the shift from urea to complex fertilizers; thus, CRIN stands to be a key beneficiary.
- ❖ Additionally, the company is likely to generate CFO of INR41.3b in FY21, aided by the release of subsidies by the government.

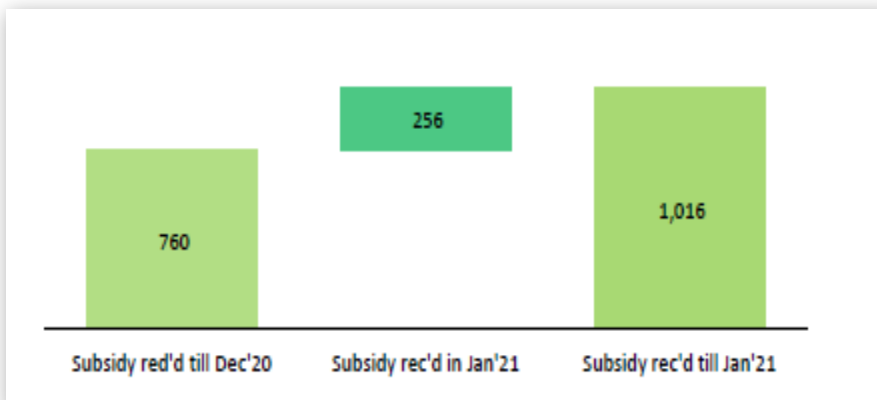
Six key states contribute 94% to DAP & NPKS volumes (FY20) for CRIN



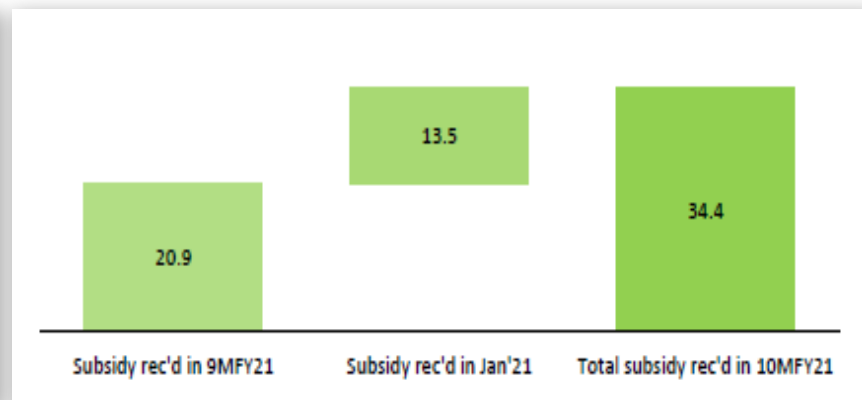
CRIN's state-wise fertilizer volume mix (FY20)



Fertilizer industry receives considerable subsidy in Jan'21 (INR b)



CRIN receives higher subsidy payment from government in Jan'21 (INR b)



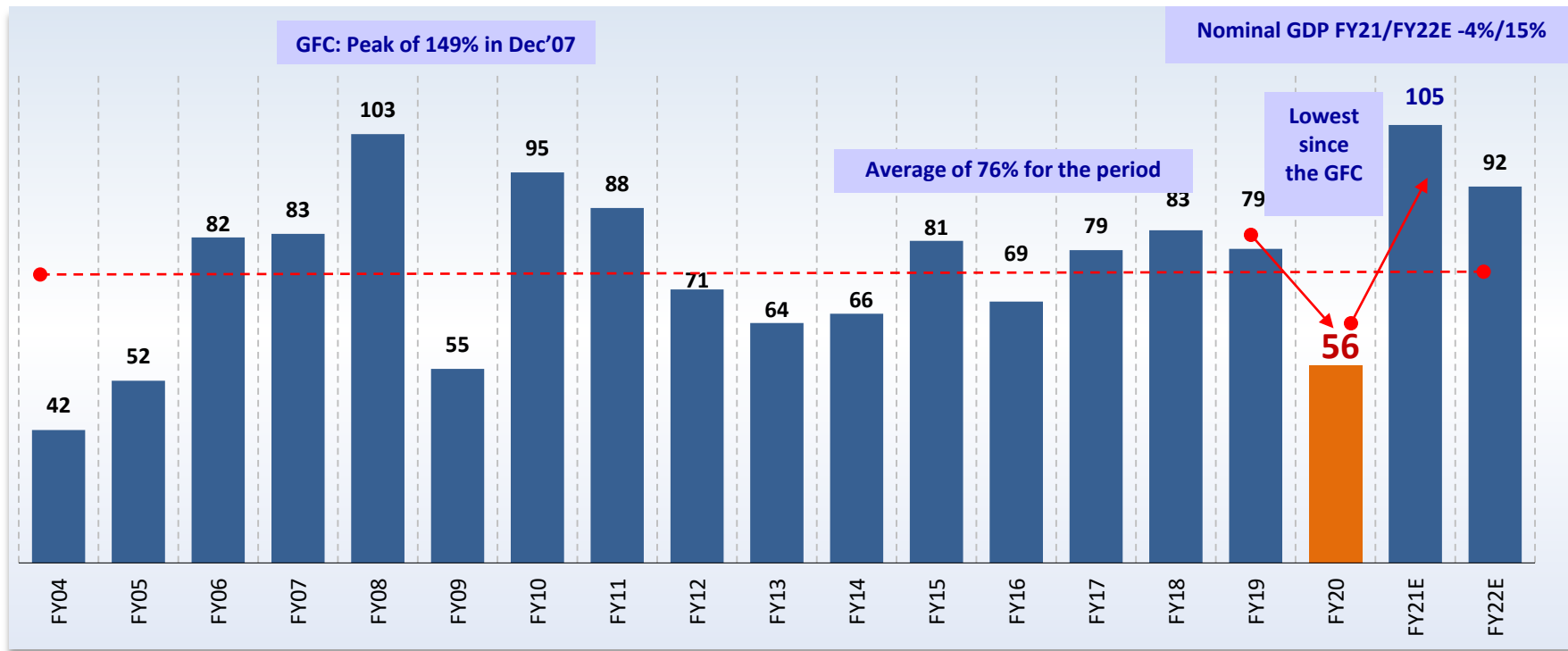
Source: MOFSL Refer to the note – COROMANDEL INTERNATIONAL: Release of subsidies to aid CFO generation

Valuations: Key observations

Sharp rebound in market capitalization-to-GDP ratio

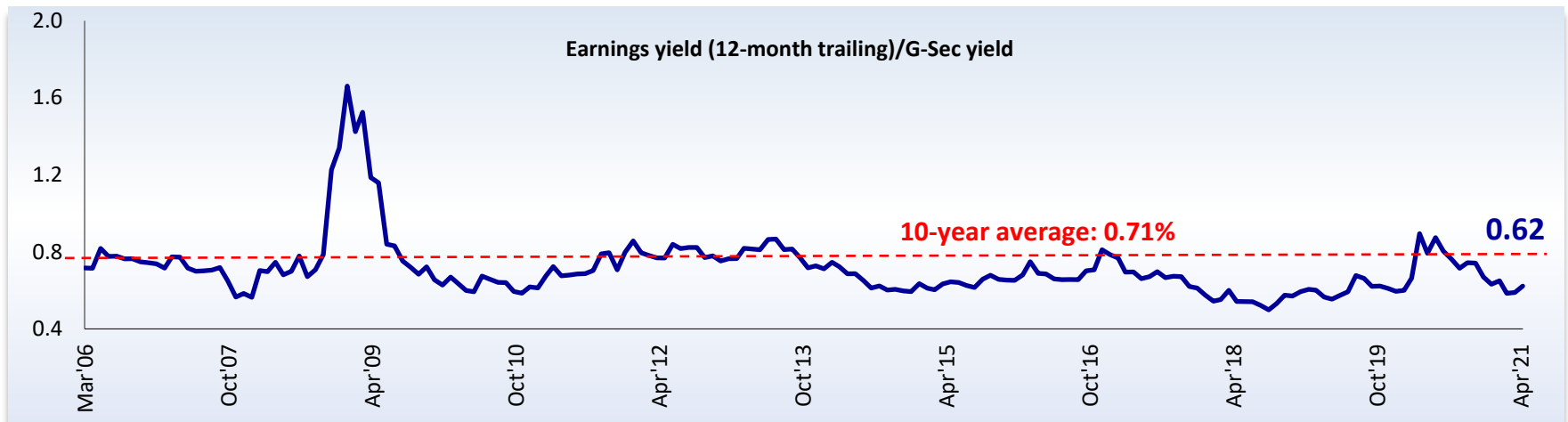
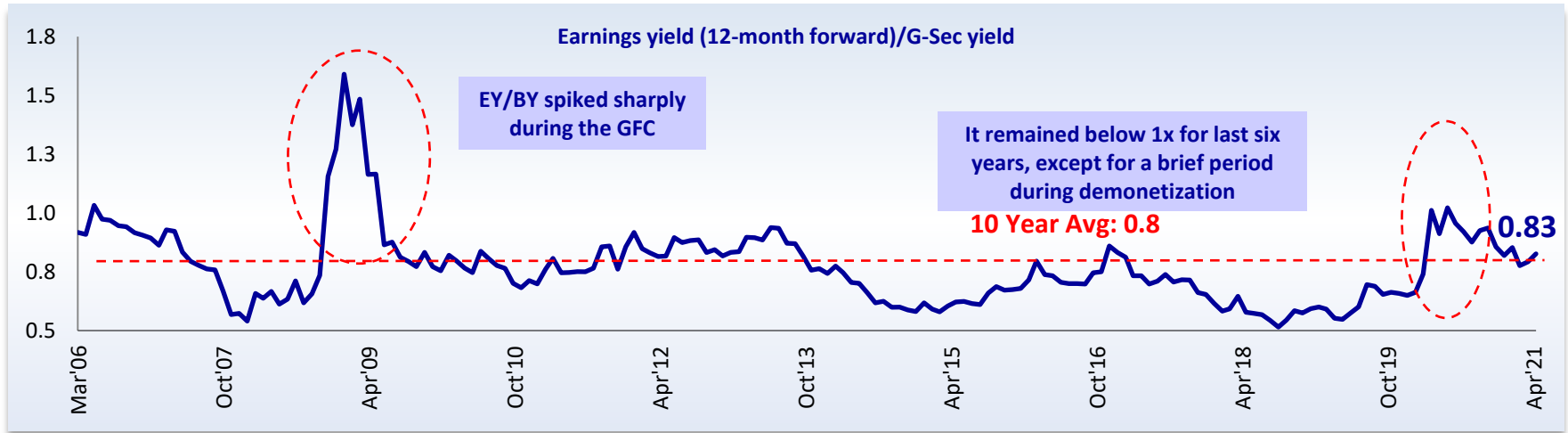
- ❖ The market capitalization-to-GDP ratio has been volatile. It declined to 56% (FY20 GDP) in Mar'20, from 79% in FY19, and has rebounded to 92% currently (FY22E GDP) – above the long-term average of 76%.
- ❖ The decline to 42% seen in FY04 was the lowest ratio recorded in the last two decades. The ratio hit the peak of 149% in Dec'07 during the CY03–08 bull-run.

Market capitalization-to-GDP ratio (%)



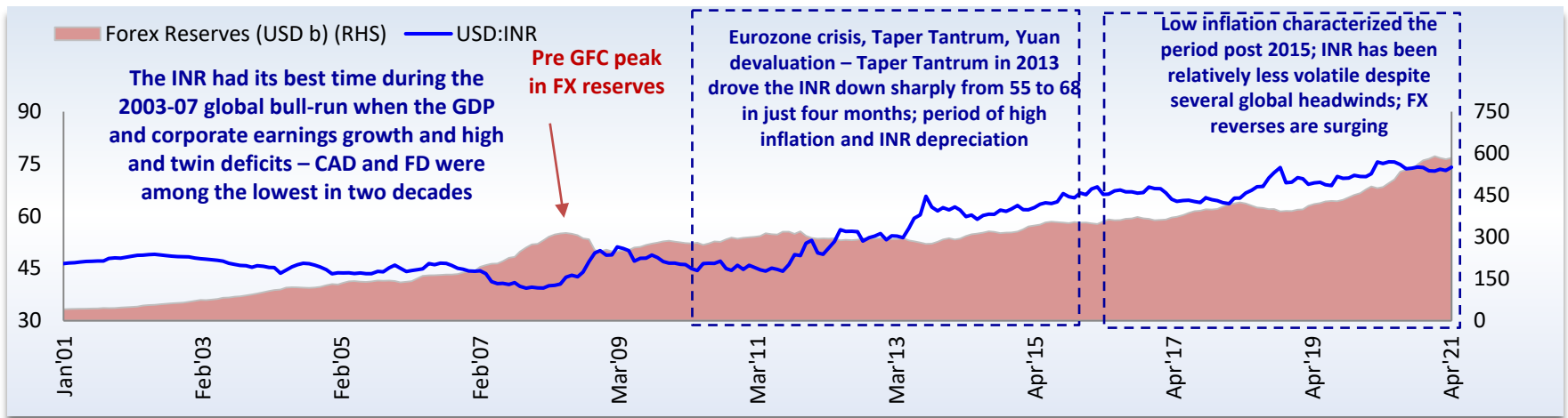
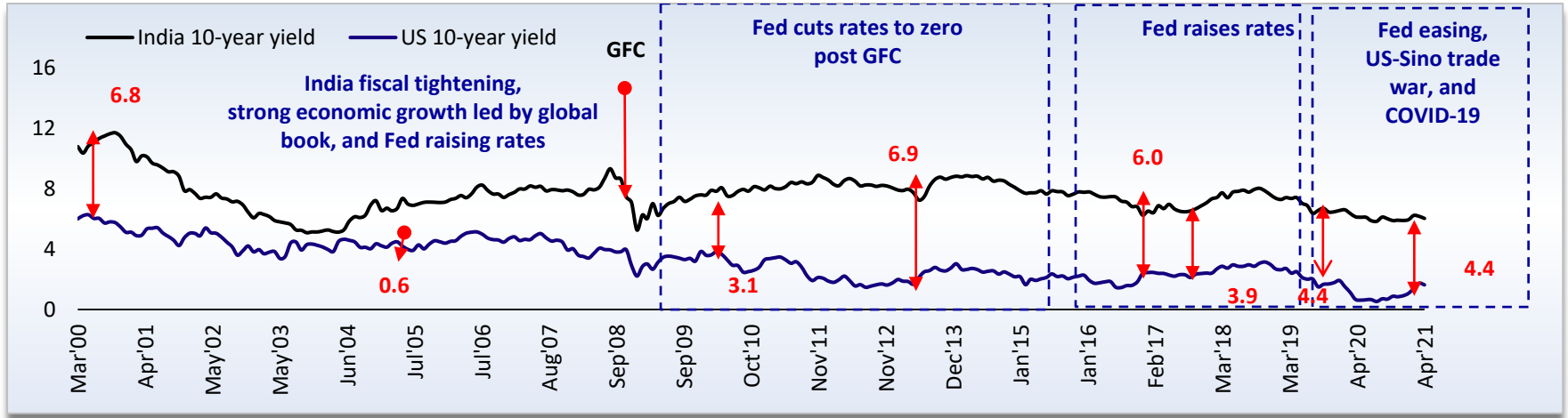
RBI managing bond yields just above 6%

- ❖ Bond yields have come off to around 6%. Any pick up in inflation may likely lead to a spike in bond yields – managed by the RBI at around 6% levels. The EY/BY ratio is below its long-term average on a trailing basis, while it is above LTA on a forward basis.



Spreads stable v/s US 10-year bond; at lowest level of 440bps since Jul'19

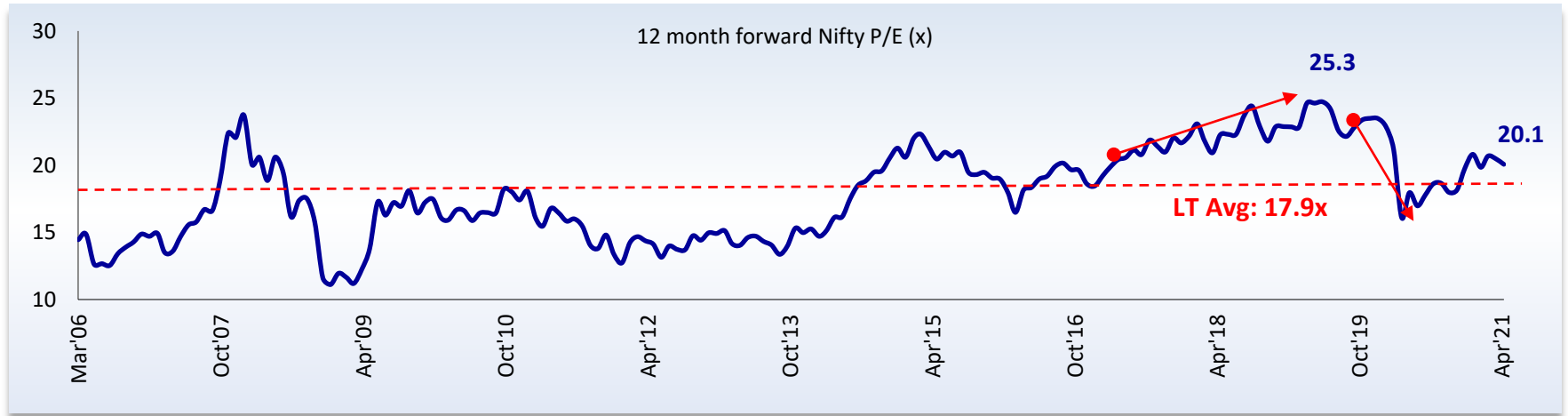
- ❖ The US 10-year yield is trading below 1.6%, and the Indian 10-year yield is trading at 6%. The spread (v/s the US 10-year yield) is at the lowest level at 440bps since Jul'19.
- ❖ On the currency front, the INR depreciated 1% in Apr'21 (MoM). FX reserves as of 23rd Apr'21 increased by USD4.8b to USD584b.



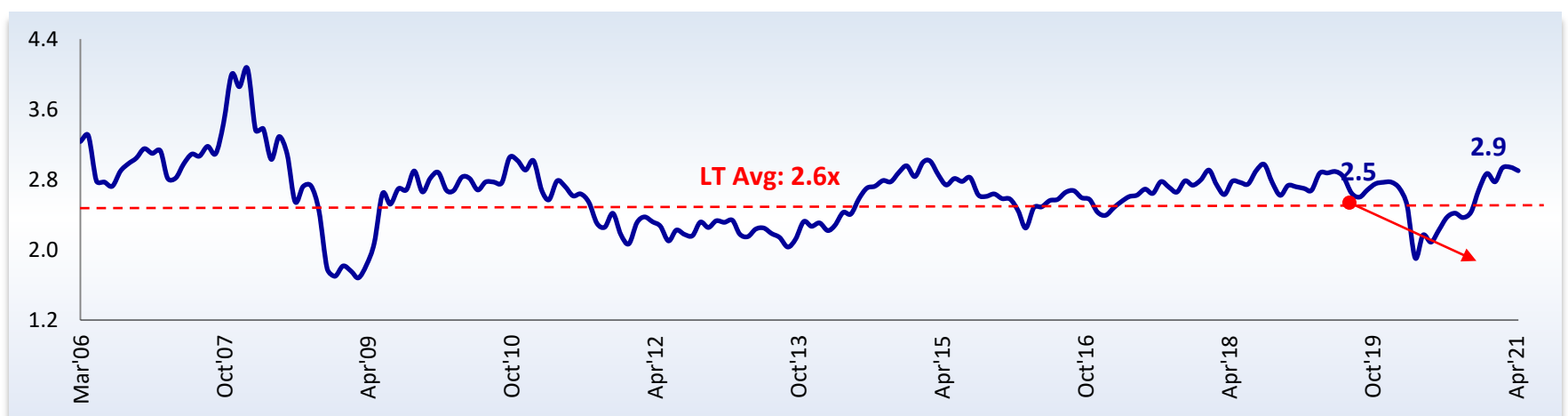
Valuations: Nifty forward P/E and P/B at premium to long-term mean

- ❖ Nifty 12M forward P/E of 20.1x is at a premium of 12% v/s its long-term average of 17.9x.
- ❖ At 2.9x, Nifty 12M forward P/B is at a 10% premium to its historical average of 2.6x.

12-month forward Nifty P/E (x)



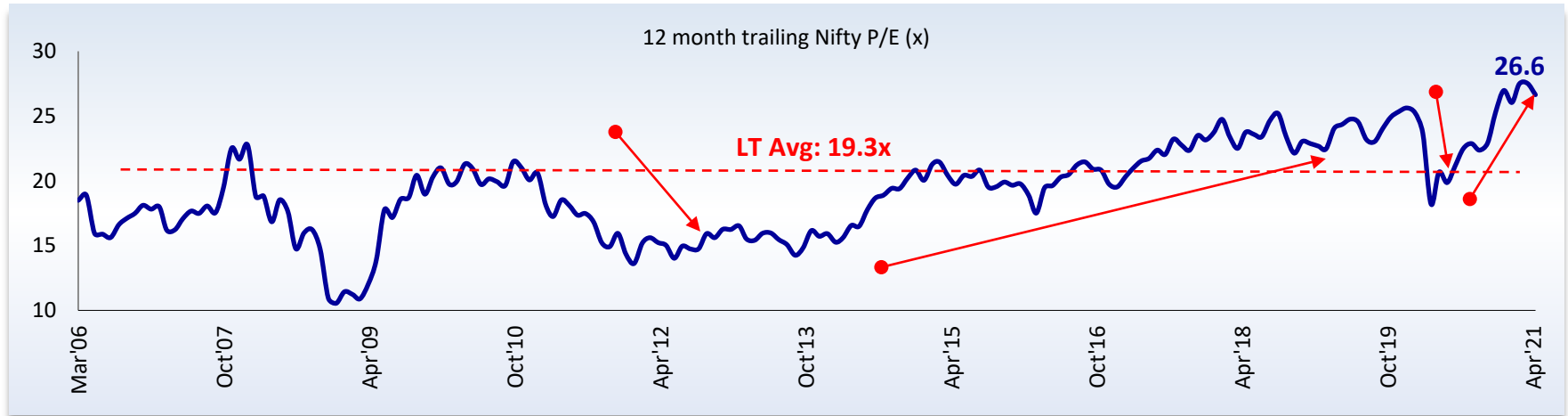
12-month forward Nifty P/B (x)



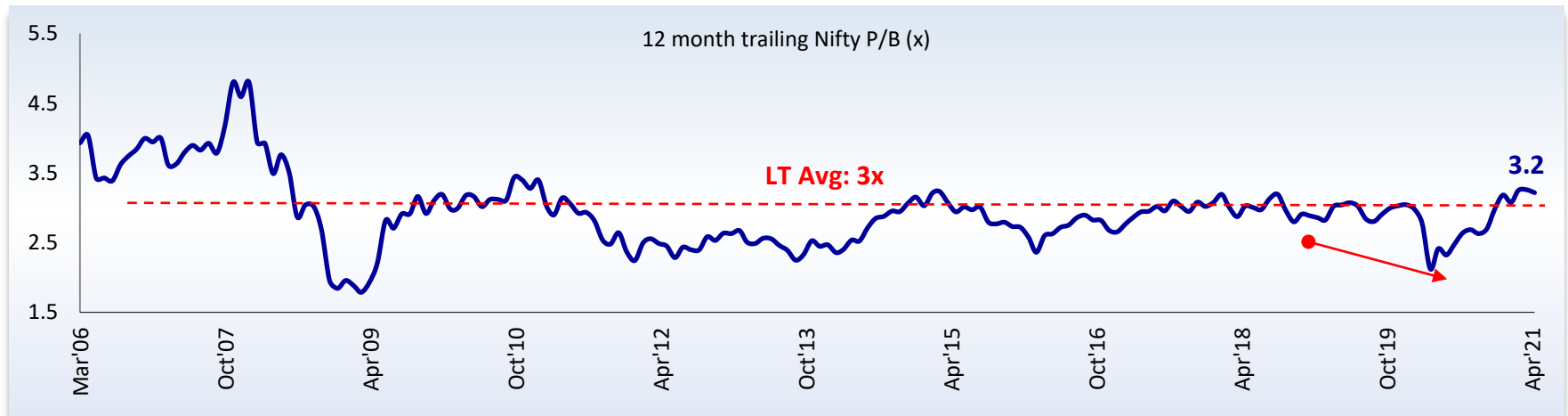
Valuations: Nifty trailing P/E at 26.6x; P/B above LTA

- ❖ Nifty 12M trailing P/E of 26.6x is 38% higher than LTA.
- ❖ At 3.2x, Nifty 12M trailing P/B is 9% above the historical average of 3x.

12-month trailing Nifty P/E (x)

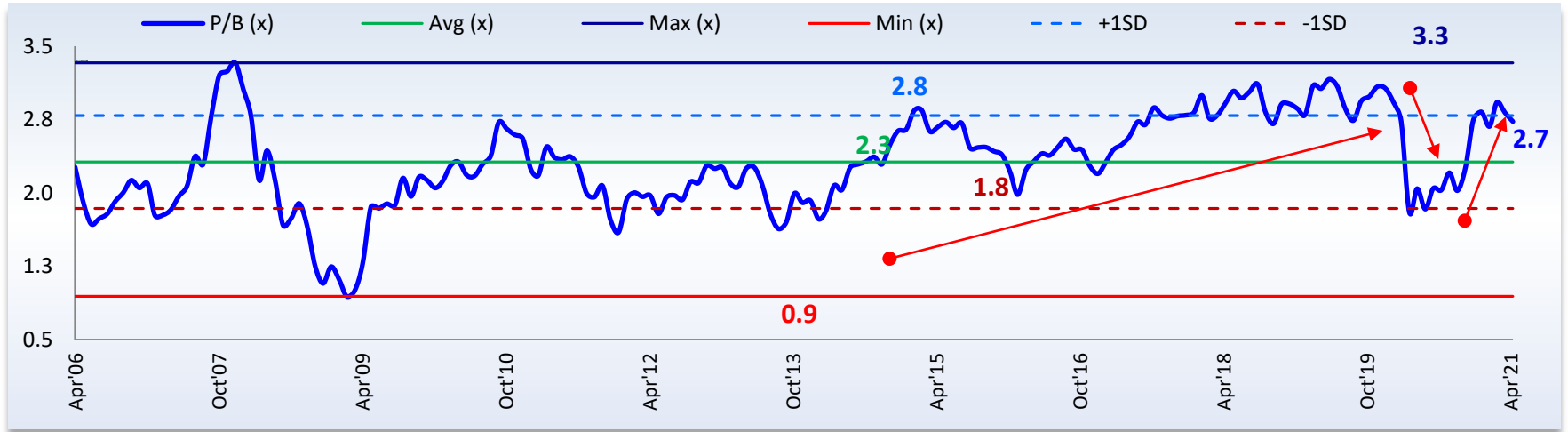


12-month trailing Nifty P/B (x)

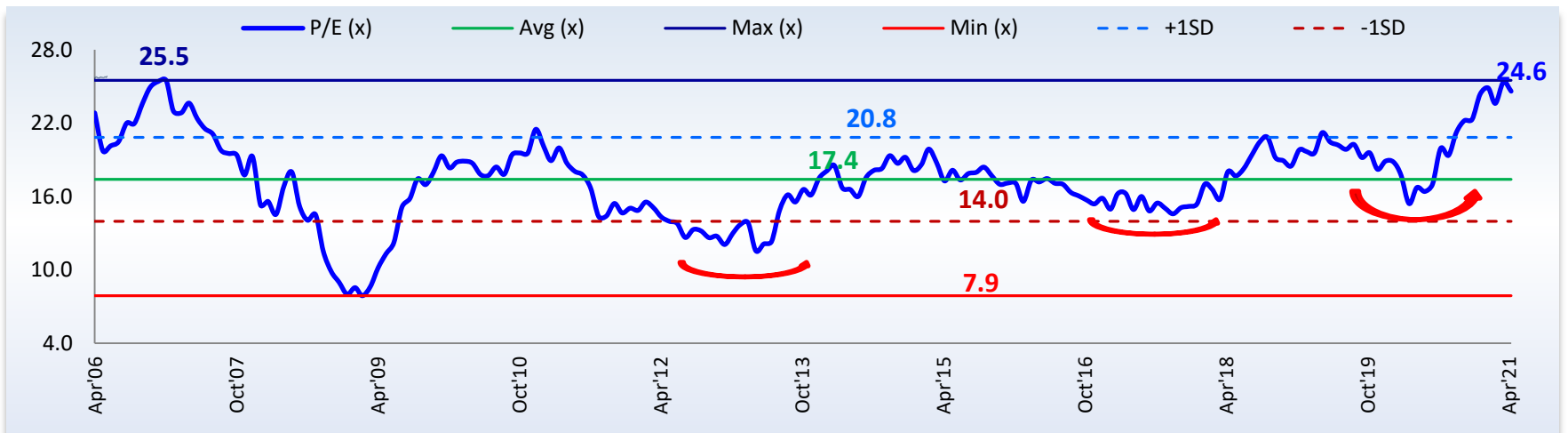


Sectoral valuations: IT near 15-year high ; Private Banks below +1SD

Private Banks' valuations at 2% discount to +1SD

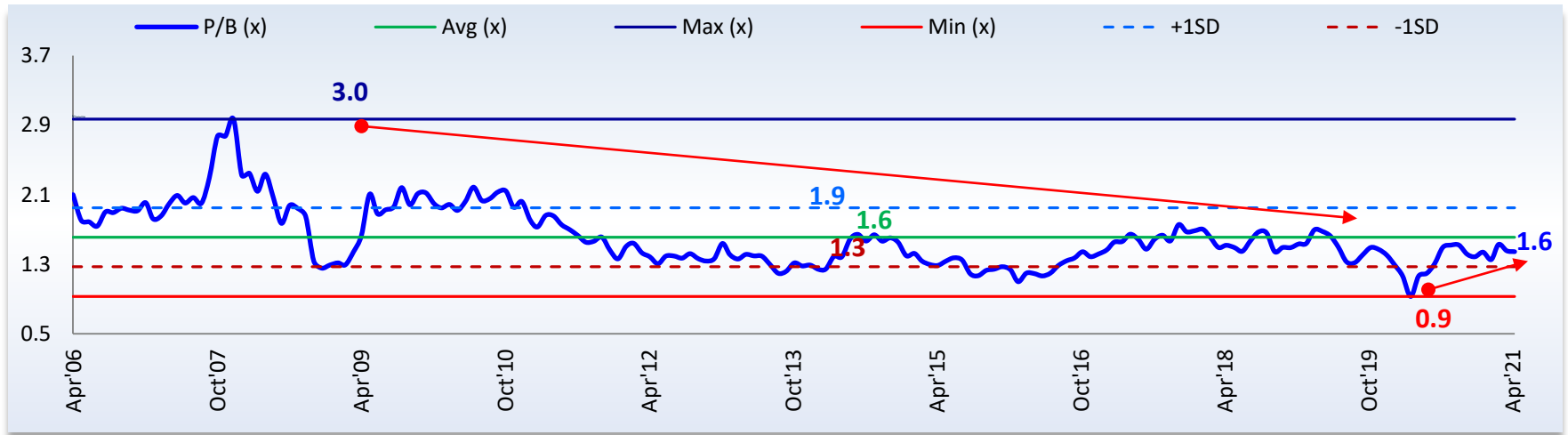


Technology trading at 3% discount to peak valuations

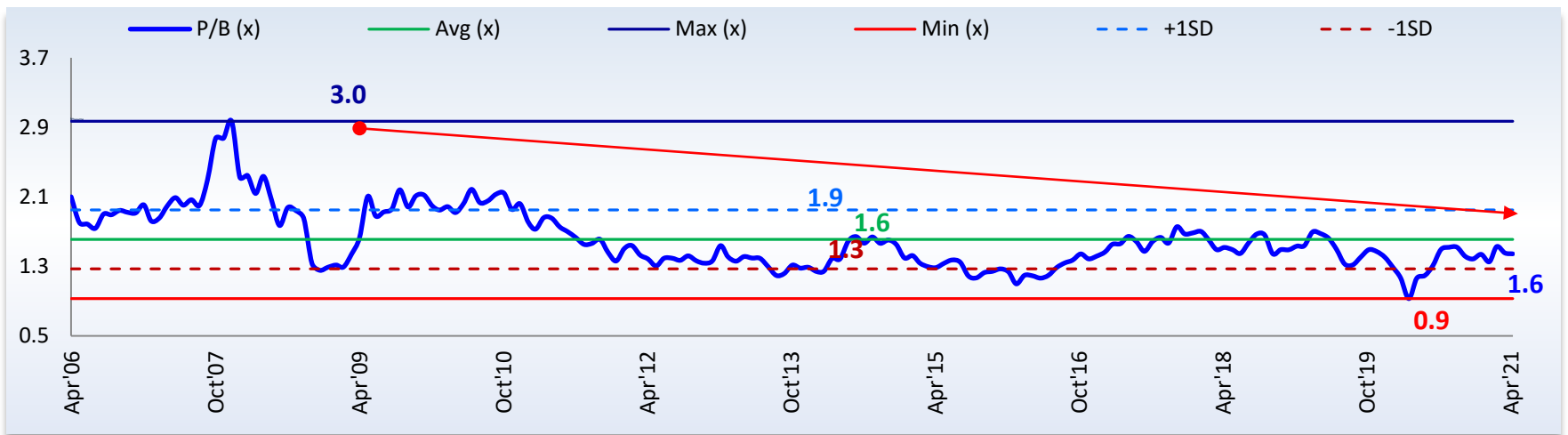


Sectoral valuations: Metals and Oil & Gas at LTA

Metals: Valuations at LTA

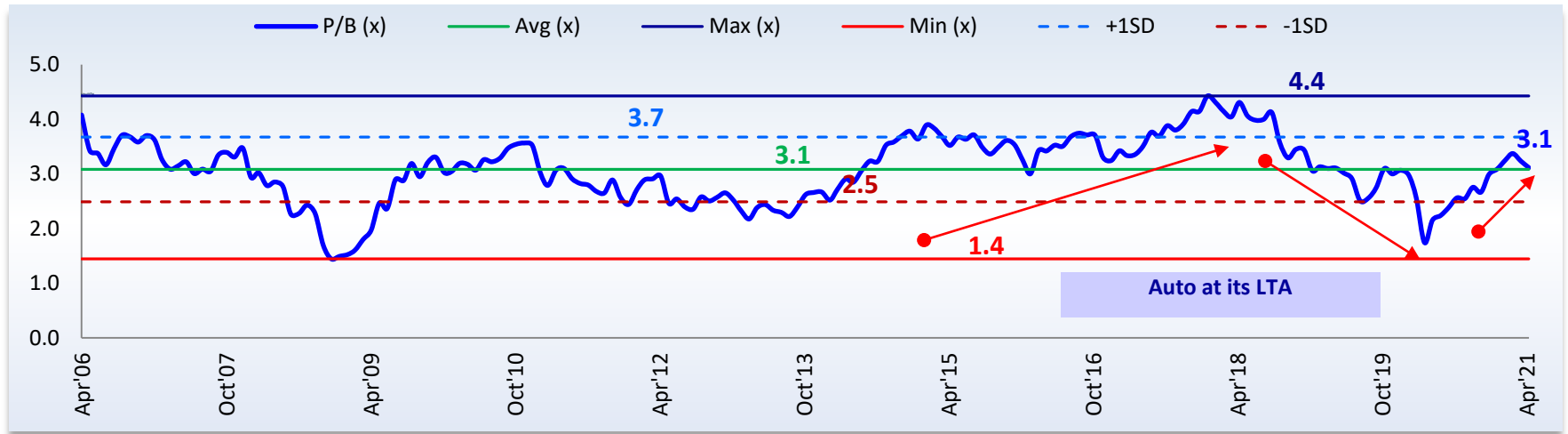


Oil and Gas: Valuations at LTA

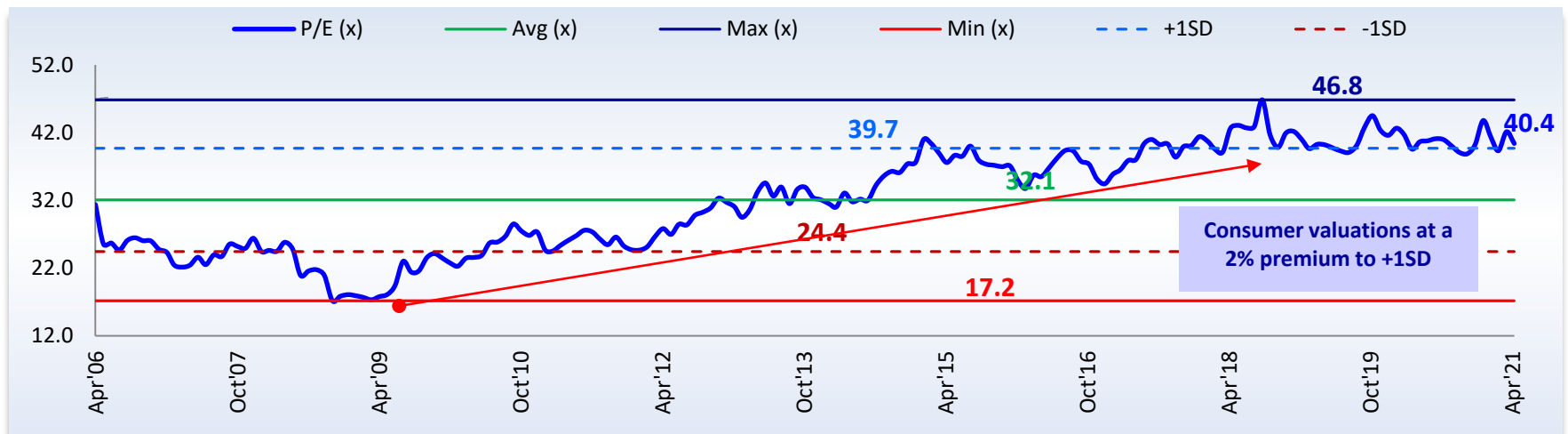


Sectoral valuations: Consumer above +1SD; Auto at LTA

Auto valuations at LTA



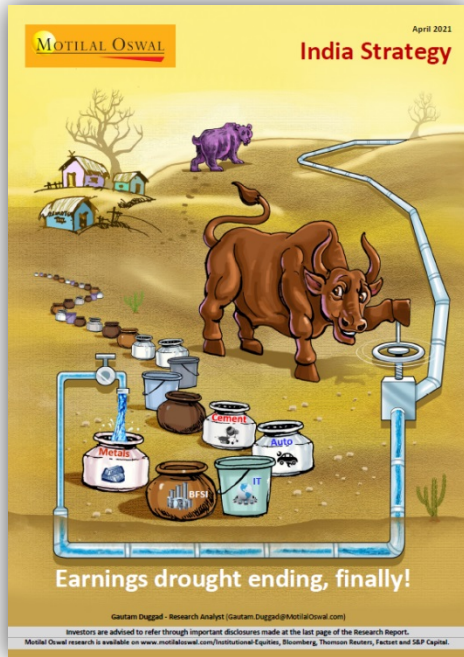
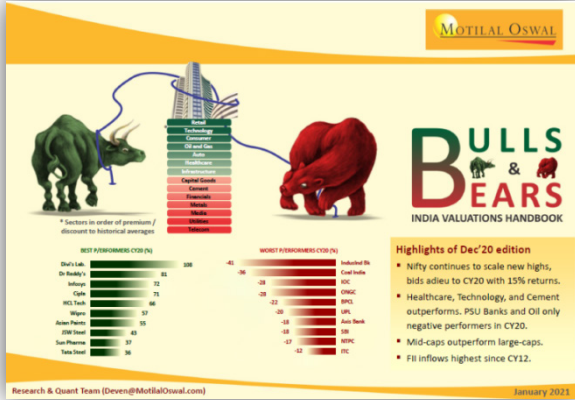
Consumer valuations at 2% premium to +1SD



Top ideas

Company	M-cap (USD b)	EPS (INR)			EPS CAGR	P/E (x)		P/B (x)		RoE (%)	
		FY21E	FY22E	FY23E	FY21-23, %	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
PREFERRED LARGE-CAP STOCKS											
Infosys	84.7	45.6	53.2	63.5	18.1	25.4	21.3	6.9	6.3	28.3	30.9
Hind. Unilever	76.4	34.8	39.8	48.9	18.5	60.6	49.4	11.5	11.5	19.3	23.2
ICICI Bank	57.3	24.2	30.9	38.8	26.6	19.6	15.6	2.5	2.2	13.9	15.2
St Bk of India	43.2	30.9	45.2	54.7	33.1	7.9	6.5	1.1	0.9	13.8	14.6
HCL Technologies	33.8	43.8	50.3	59.7	16.7	18.2	15.4	3.7	3.5	21.2	23.3
UltraTech Cem.	25.1	190.8	229.4	287.0	22.6	28.3	22.6	3.5	3.2	14.0	15.3
Titan Company	17.4	11.0	20.2	29.7	64.2	71.6	48.7	15.3	13.6	22.6	29.6
Divi's Lab.	14.7	75.9	98.0	127.3	29.6	41.1	31.6	9.8	7.8	26.2	27.5
SBI Cards	12.5	10.5	18.6	26.9	60.2	52.7	36.5	11.7	9.1	24.7	28.0
M & M	12.3	34.0	39.7	50.0	21.2	19.3	15.4	2.2	2.1	12.4	14.0
Hindalco Inds.	11.7	23.5	35.9	41.0	31.9	11.2	9.8	1.9	1.6	18.1	17.5
PREFERRED MID-CAP STOCKS											
S A I L	7.5	13.8	18.5	16.8	10.5	7.8	8.6	1.2	1.1	15.8	13.0
Cholaman.Inv.&Fn	6.5	22.1	28.7	32.6	21.6	19.8	17.5	3.9	3.2	21.7	20.3
Gland Pharma	5.8	57.7	72.6	92.3	26.4	36.5	28.7	6.2	5.1	18.5	19.4
Gujarat Gas	5.0	17.0	20.0	23.3	17.1	26.6	22.7	6.7	5.4	28.3	26.3
Varun Beverages	3.9	11.3	23.1	37.0	81.2	43.2	27.0	7.0	5.6	17.5	23.2
L&T Technology	3.7	62.8	84.4	104.3	28.8	29.9	24.2	6.6	5.6	23.7	25.0
Emami	3.0	17.2	17.0	18.7	4.2	28.5	25.8	10.0	10.0	35.3	38.8
Federal Bank	2.1	7.8	11.3	14.4	35.8	6.9	5.4	0.9	0.8	13.2	15.0
Indian Energy Exchange	1.6	7.1	8.3	9.8	17.5	46.8	39.6	22.0	18.9	50.6	51.2
Orient Electric	0.8	5.3	6.5	8.1	24.0	42.1	33.7	11.9	10.0	28.2	29.8

Quant Research & India Strategy Gallery



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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