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20 YEARS

REWIND 2022 & OUTLOOK FOR 2023

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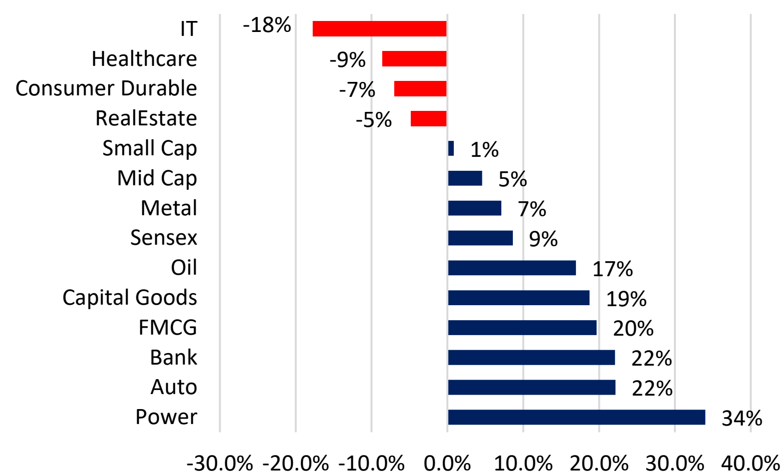
INDIAN MACRO-ECONOMIC ENVIRONMENT IN 2022 AND EXPECTATIONS FROM 2023

Year gone by

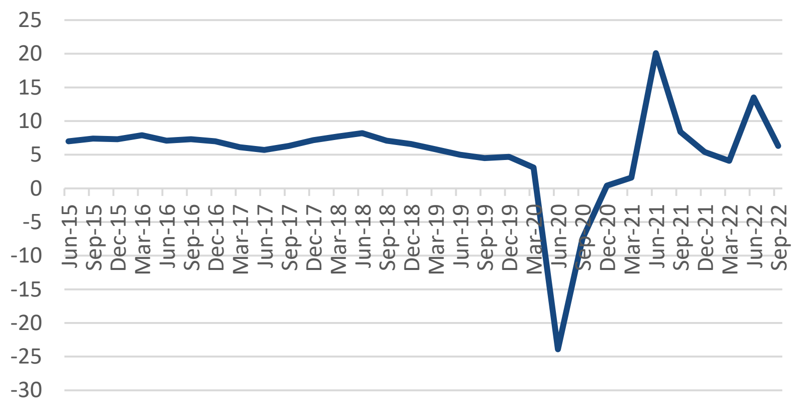
Moves in Nifty, BSE Midcap and BSE Smallcap indices

Sectoral Performance YTD

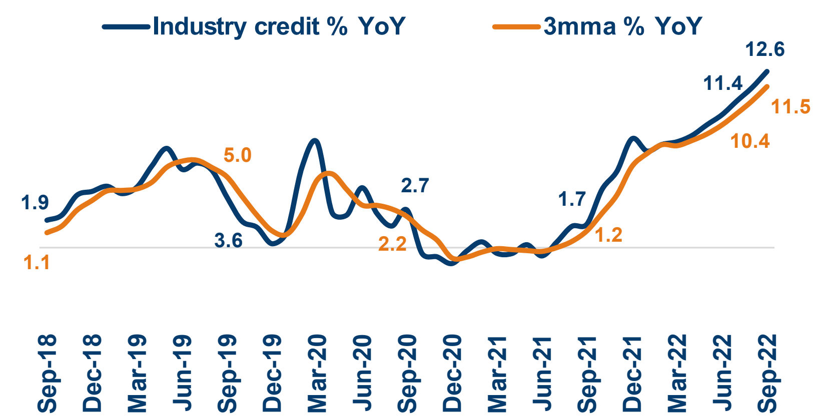


India- Macros improving gradually

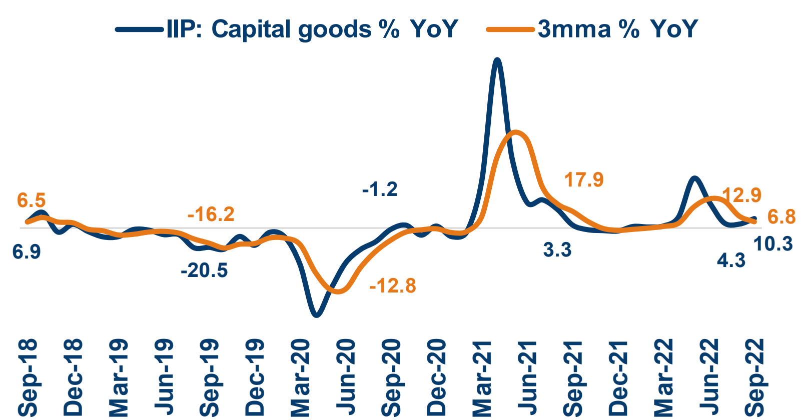
India QoQ GDP YOY (%)



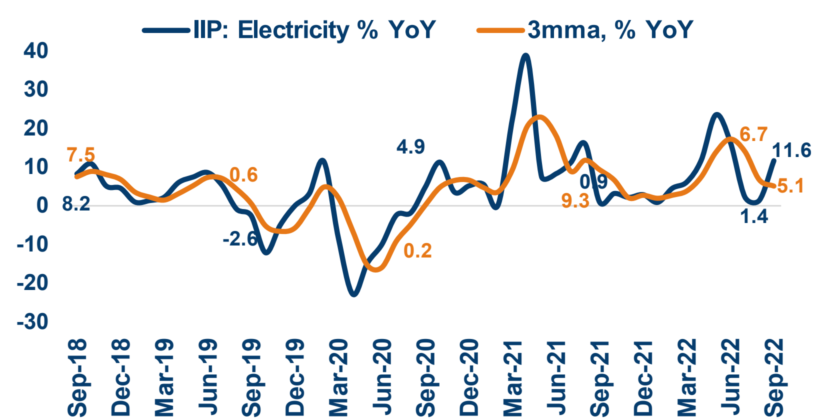
Industry credit growth



IIP Capital Goods Growth

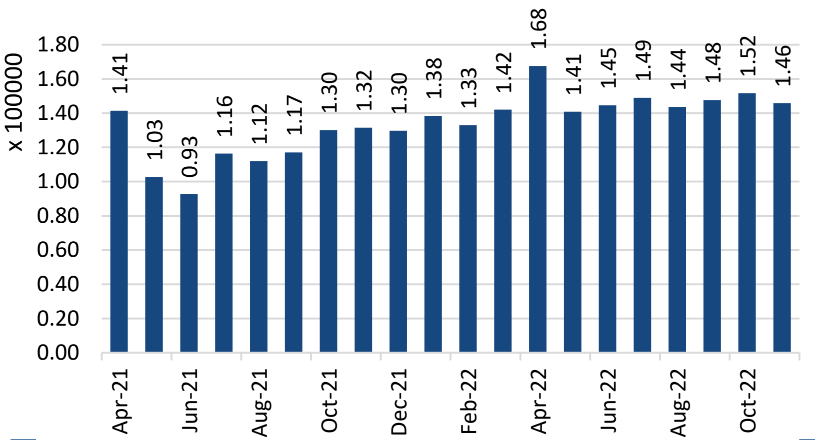


IIP Electricity Growth

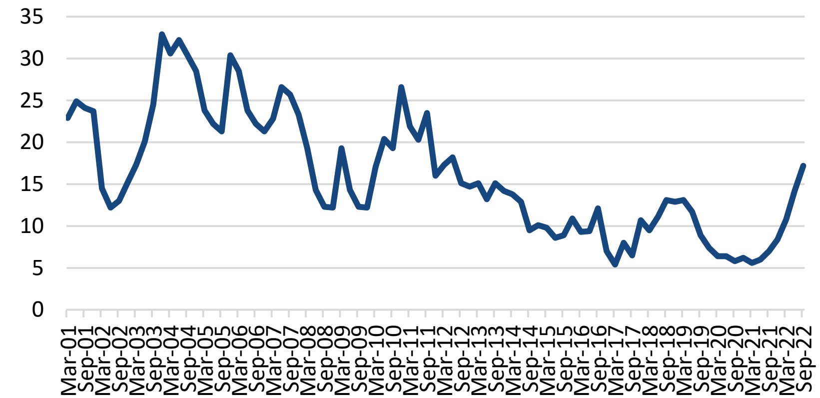


India- Macros improving gradually

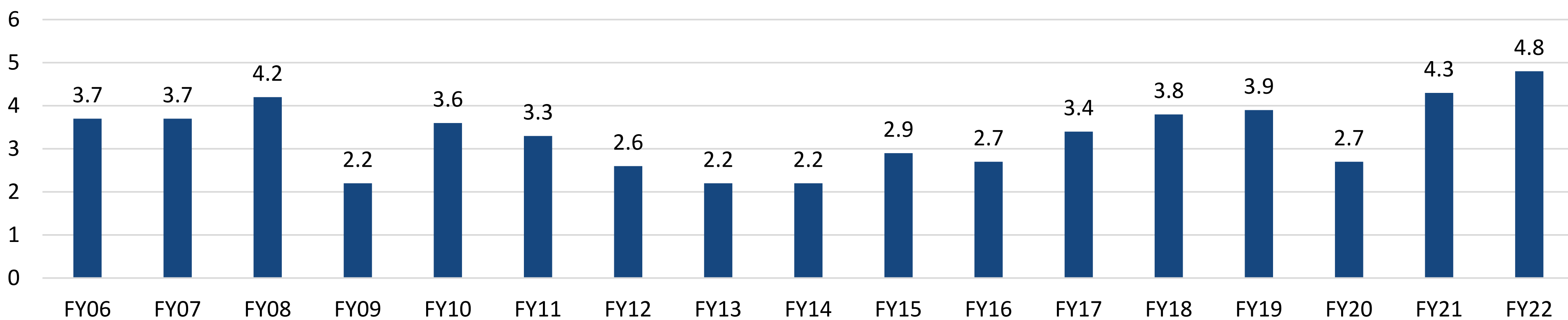
Trends in GST Collection (Rs. in lakh crore)



Bank Credit Growth (YoY)



% Household Assets in Equities

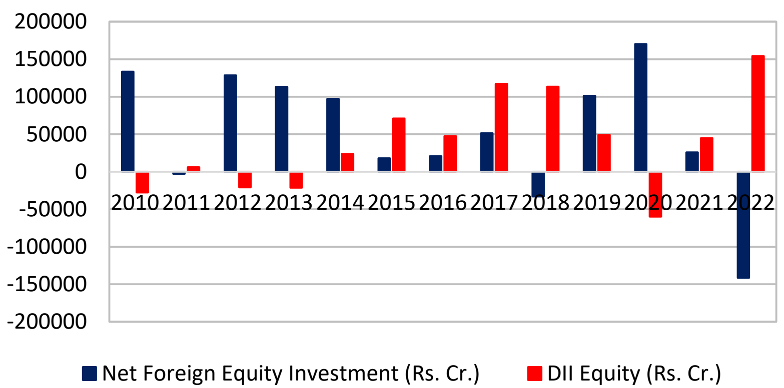


Other triggers for India

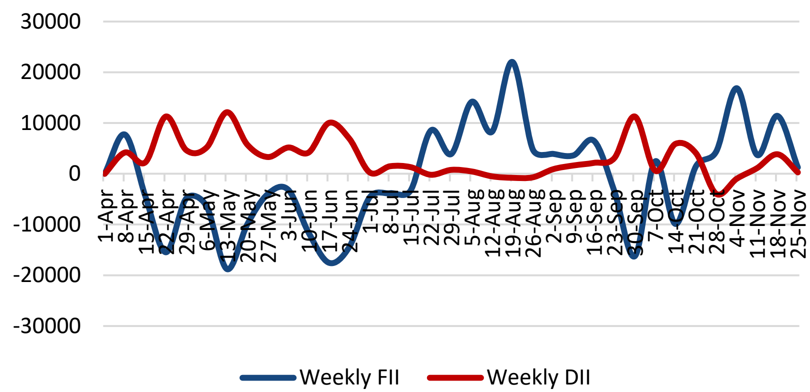
- Investment to GDP at 33% in FY23 versus 30.5% in FY21
- Higher infra and capital spending by government
- Real estate sector revival
- PLI driven investments
- Sustainability sector led investments: EVs and renewable
- Capex on Railways, Road, Defence and PLI schemes could create a ripple effect across the economy.
- Growth to be more domestic oriented than external led. Services and real estate sector to drive growth in FY23
- Supply chains are being consciously decoupled as national security concerns outdo economic efficiency. This will create opportunities for diversification enablers, including in India and ASEAN.

FPI flows turning up while MF SIP flows remain robust

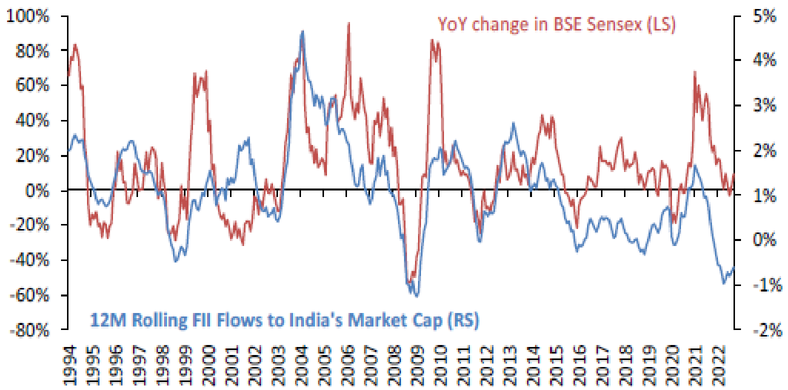
FII vs DII Inflows (Rs Cr.)



Weekly FII vs DII Equity Inflows (Rs. Cr.)

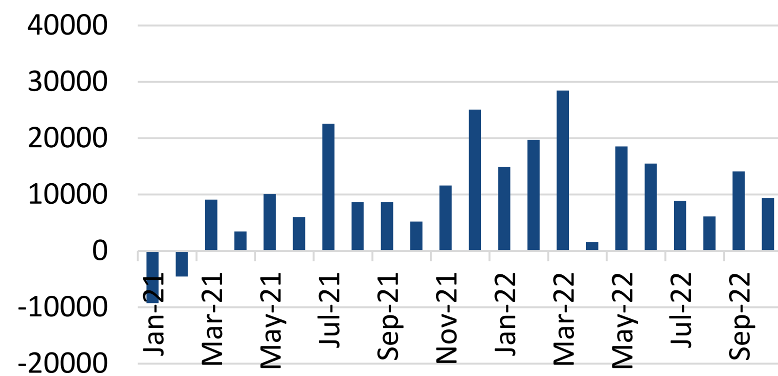


Relation between FII flows and Sensex Growth

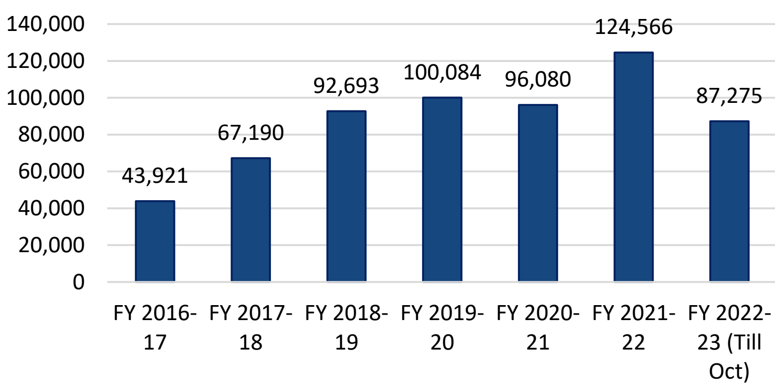


Source: BSE, SEBI, CDSL, Morgan Stanley Research

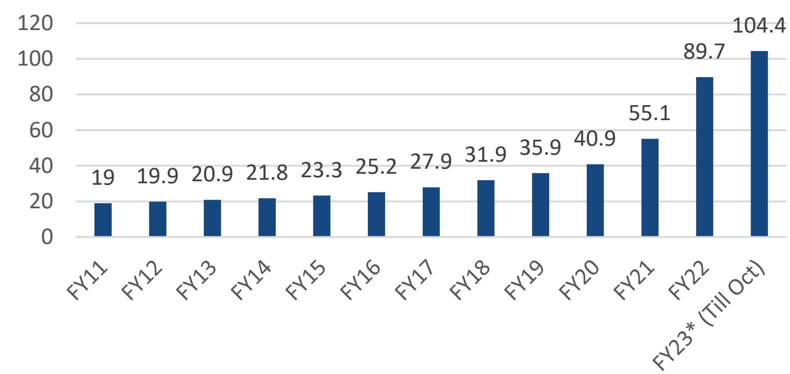
MF Net Equity Inflows (Rs.Cr.)



SIP Contribution (Rs Cr.)



No. of Demat Accounts (in Mn)



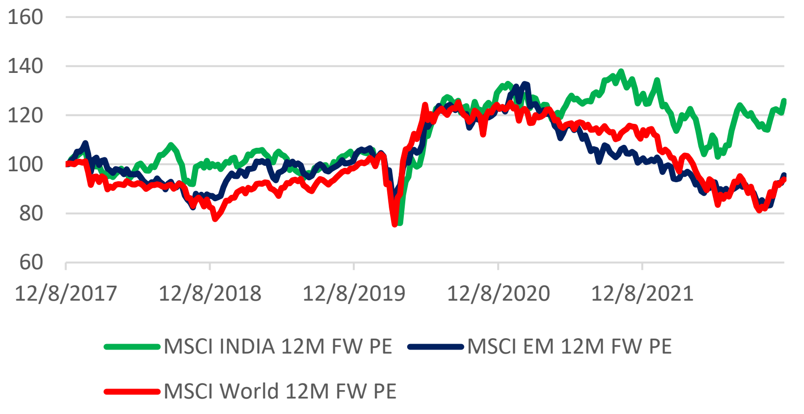
Valuation worries

Market-Cap to GDP Ratio

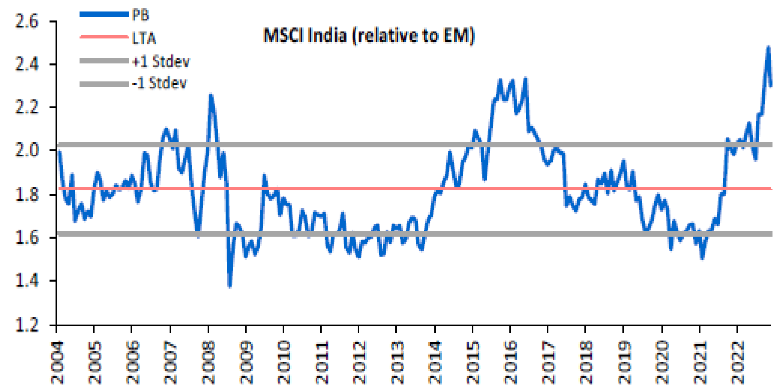
Country	US	China	Japan	Germany	UK	India	France
Dec-08	71.81	33.37	63.93	28.76	67.91	53.16	50.87
Dec-09	94.9	55.9	65.54	40.07	123.25	96.96	70.15
Dec-10	102.54	53.32	69.4	44.19	133.92	97.21	66.49
Dec-11	96.19	35.8	56.19	33.05	113.42	55.13	49.29
Dec-12	103.7	35.12	58.01	44.43	125.62	68.92	61.96
Dec-13	132.28	35.11	88.24	54.38	143.95	61.36	76.11
Dec-14	139.1	47.4	90.7	47.26	118.88	76.37	67.76
Dec-15	129.32	64.11	113.16	54.88	114.13	72.08	78.56
Dec-16	134.82	57.75	101.61	53.87	113.72	68.16	78.8
Dec-17	152.18	62.74	128.37	65.81	140.92	90	97.72
Dec-18	130.91	38.7	107.03	49.11	106.03	76.81	78.65
Dec-19	160.84	51.4	122.55	58.26	121.33	75.84	99.5
Dec-20	204.08	74.23	135.1	64.8	119.11	104	111.87
Dec-21	233.8	73.28	134.07	65.45	115.24	112	117.93
Estimates for Dec 2022	183.43	52.82	106.98	50.38	90.3	100.13	95.79

Valuation worries

MSCI India, EM and World 12 Month Forward PE



MSCI India (relative to EM)



Source: RIMES, MSCI, Morgan Stanley Research

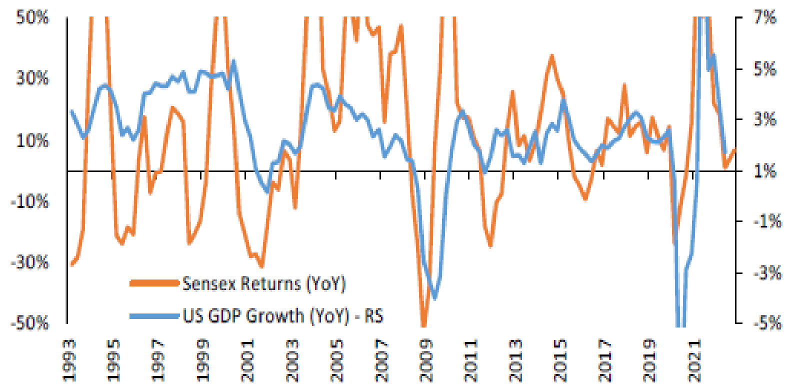
Indian markets have always traded at high P/E ratios (average 10-year Price to Earnings ratio for Nifty was 16x a few years ago and is above 18x now). Among many other reasons that can be attributed to this high number, an important fact is that India is a highly diversified market, with meaningful representation from almost all sectors. This affords more resilience to aggregate earnings, as a

Other worries for India

- Core inflation remains entrenched at 6% YoY with most items witnessing no let-up in momentum. Incomplete pass-through of higher commodity prices and demand outlook implies core inflation to ease only gradually.
- High oil prices, rising gold prices and higher than usual rainfall implies CPI inflation estimated at 6.8% in FY23. Inflation is likely to ease to 5.2% in FY24, with an upward bias given entrenched core inflation.
- Revenue expenditure expected to exceed BE on account of MNREGA spend & subsidies
- Current account turned to deficit (1.2% of GDP) in FY22 and likely to widen further to 3.3% of GDP in FY23 and print ~3% in FY24 amid higher trade deficit. This creates pressure on Rupee.
- A deep and broad US recession leading to slowing earnings and a consequent rise in the USD could pressure the BoP; a resurgence in oil and fertilizer prices due to supply outages could cause elevated inflation and higher rates.

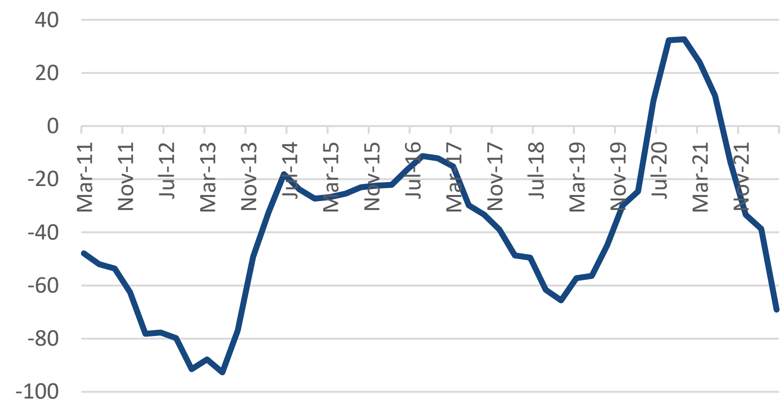
Other worries for India

US GDP Growth and Sensex Returns

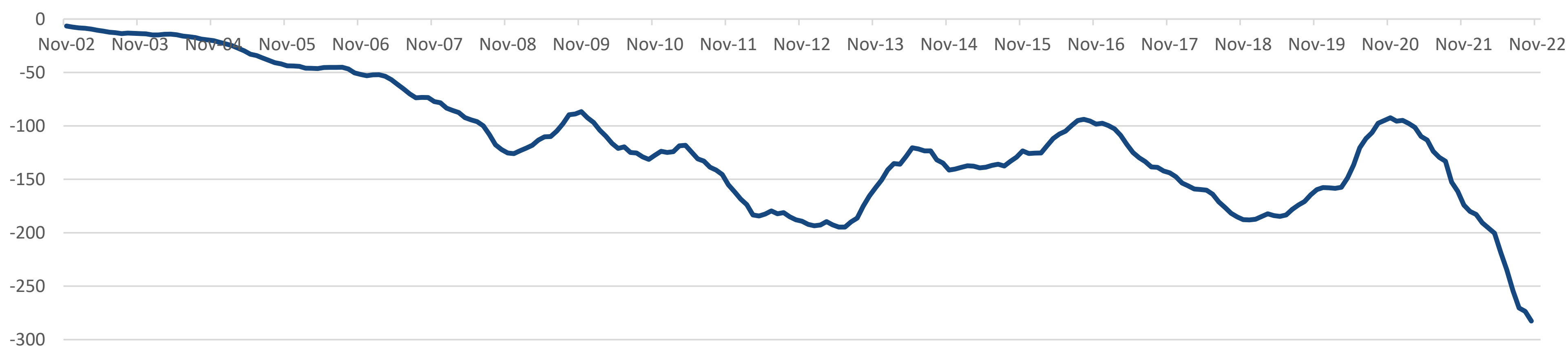


Source: CEIC, RIMES, Morgan Stanley Research

India Current Account Balance (% GDP)



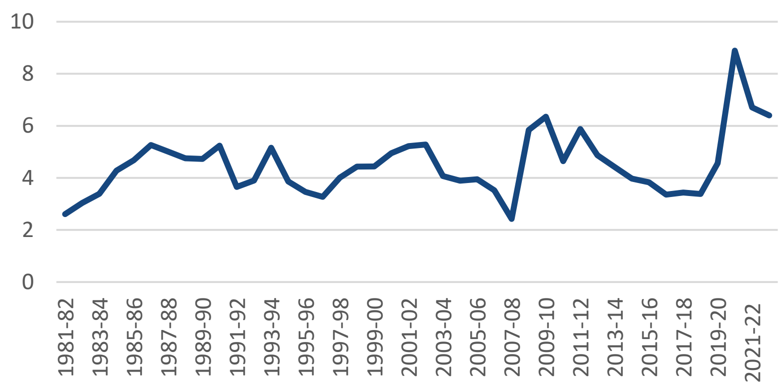
India Trade Balance ($ Bn)



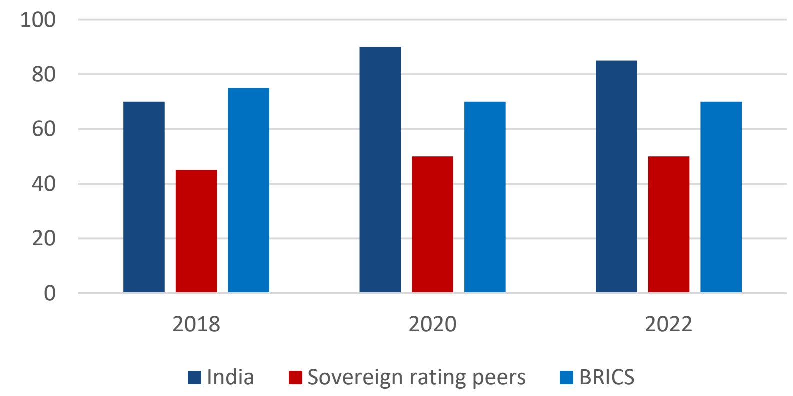
Other worries for India

- Fiscal deficit in India (Centre and Total) is not likely to come back to prudent levels soon after the Covid breach. This may attract action from rating agencies, apart from making inflation a difficult animal to control.

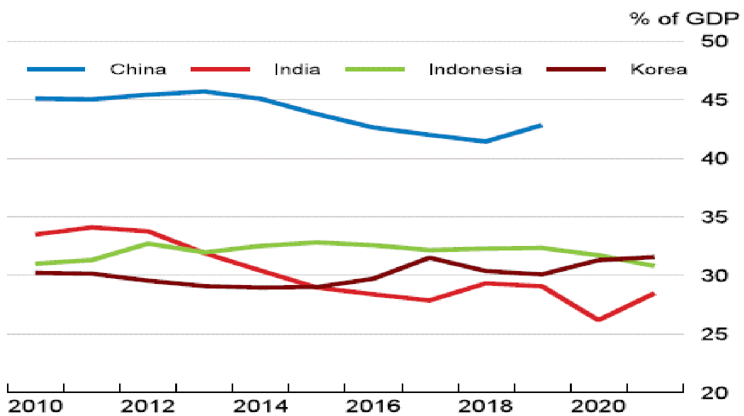
Net Fiscal Deficit (% of GDP)



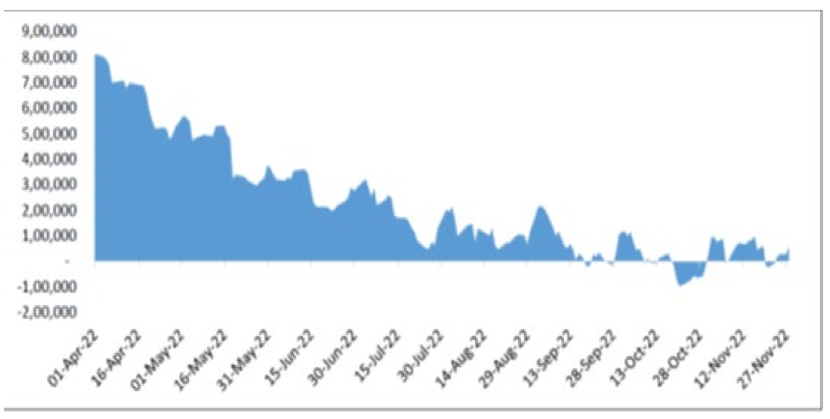
The public debt is higher than in peers



Investment is low by Asian Standards



Indian banking system liquidity movement (Rs. Cr)



Segment preference

Smallcaps continue to look good for alpha generation as

- Relative valuations suggest an opportunity to overweight small caps
- Small caps are well positioned for a continued backdrop of elevated inflation
- Small caps are bigger beneficiaries of a multi-year theme: capex / reshoring
- Services spending has held up better than goods spending (and typically does so in recessions except COVID induced), which benefits small caps
- Fed pauses and Fed cuts have typically been positive for smallcaps more than largecaps.

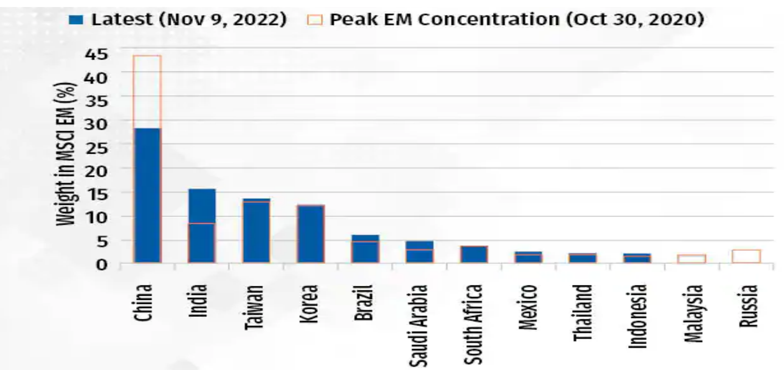
Nifty Small Cap & Mid Cap Indices moves -2022

Way ahead

- Emerging markets are likely to benefit from a relatively more benign world vs. 2022. However India's trailing outperformance could take a breather in H1CY23, given relative valuations.
- Going into 2H2023, the market should start factoring in its view on the general elections (slated for May-24) with outright repositioning or considerable hedging of portfolios. Given how central policy has been to India's improving macro and stock market outperformance, the market view on the election outcome is likely to affect stock markets considerably in H2CY23.
- IPO/FPO/OFS issuances could rise and FPI buying could return to India.
- RBI could exit the current rate cycle at 6.5%, or 60 bps above its current level, based on the view that inflation is heading lower in 2023. This will likely improve liquidity conditions, facilitate further acceleration in credit growth, and help share prices.
- If the global economy slips into recession, it would not be good news for India, which exports about 20% of its output. India's equity return correlations with the world are elevated and, hence, a further fall in global share prices may be a headwind for Indian stocks.
- India's relative valuations appear to be an impediment to further outperformance. That said, India is likely to have better growth than most parts of EM, a relatively strong macro environment.
- Indian equities have shown resilience and outperformed all major global markets in the past two years. A range of policy reforms implemented over recent years set the base, while further policy action has empowered people and boosted financial savings, directing flows into equities. India remains a buy on dips market.

MSCI EM weight changes since Oct-2020

Source: MSCI, RIMES, Morgan Stanley Research

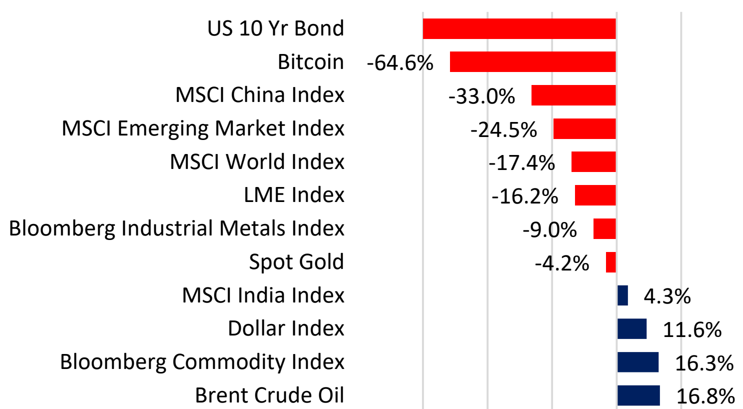


Source: FactSet, MSCI, Morgan Stanley Research; data as of November 9, 2022

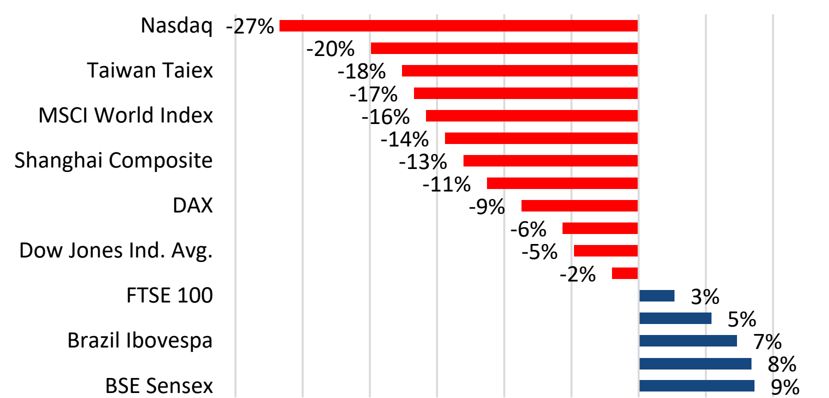
GLOBAL MACRO-ECONOMIC ENVIRONMENT IN 2022 AND EXPECTATIONS FROM 2023

Global Markets -Year Gone By

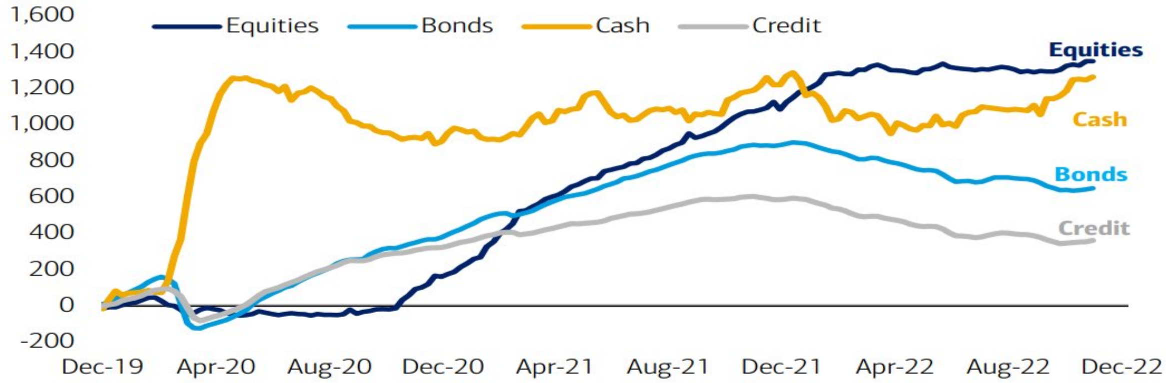
Asset Class Performance YTD (%)



World Indices Performance YTD



Cumulative inflow by asset class since year-end 2019 ($Bn)

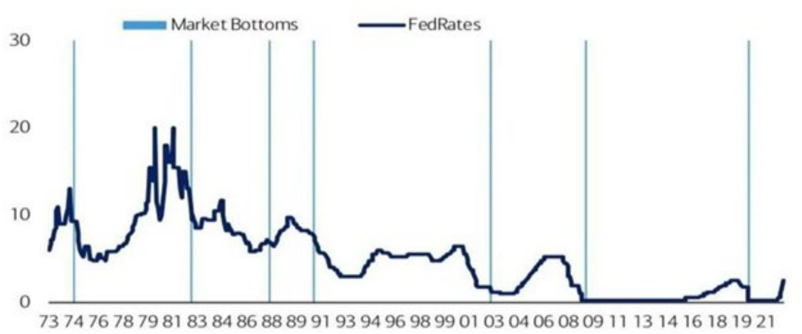


Source: BofA Global investment Strategy, EPFR

US markets may take time to bottom out

Dimming expectations around corporate profits could hurt stocks; US Fed's benchmark policy rate could rise farther than investors expect; Ukraine remains a wild card; History suggests that stocks won't bottom until the Fed cuts rates

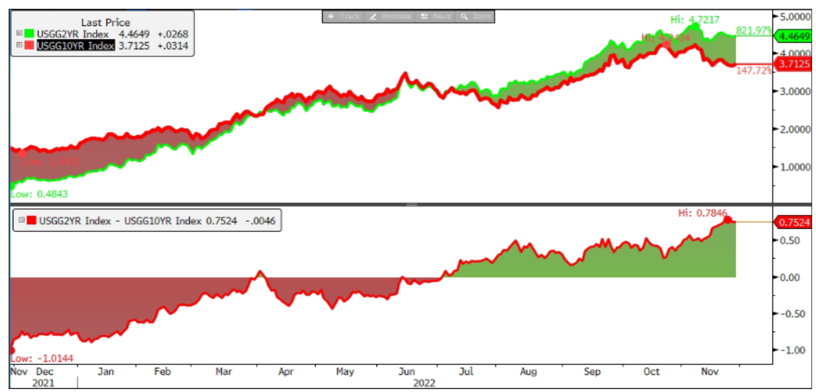
Federal Funds Rate and prior seven market bottoms (1973-8/22)



Source: Bloomberg, BofA US Equity & Quant Strategy

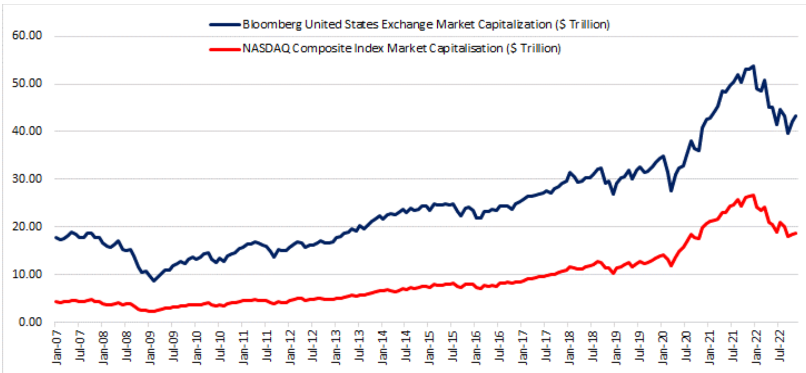
BofA GLOBAL RESEARCH

Bond market is still telegraphing a recession ahead (10 year – 2 Year spread)

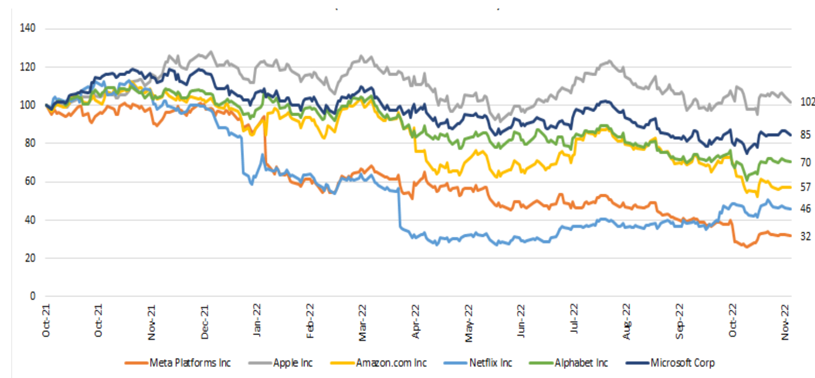


Wealth destruction in US

Fall in Market Cap

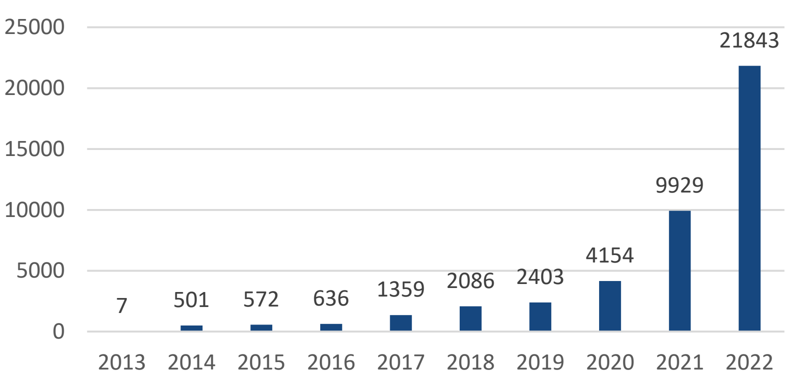


FAANGM Performance (Normalised at Oct 2021)



- In total, investors have lost roughly $7.4 trillion, based on the 12-month drop in the Nasdaq.
- Reshoring is well underway, and manufacturing capex is likely to eclipse tech spend for the first time in a long while.

Number of Crypocurrencies Worlwide



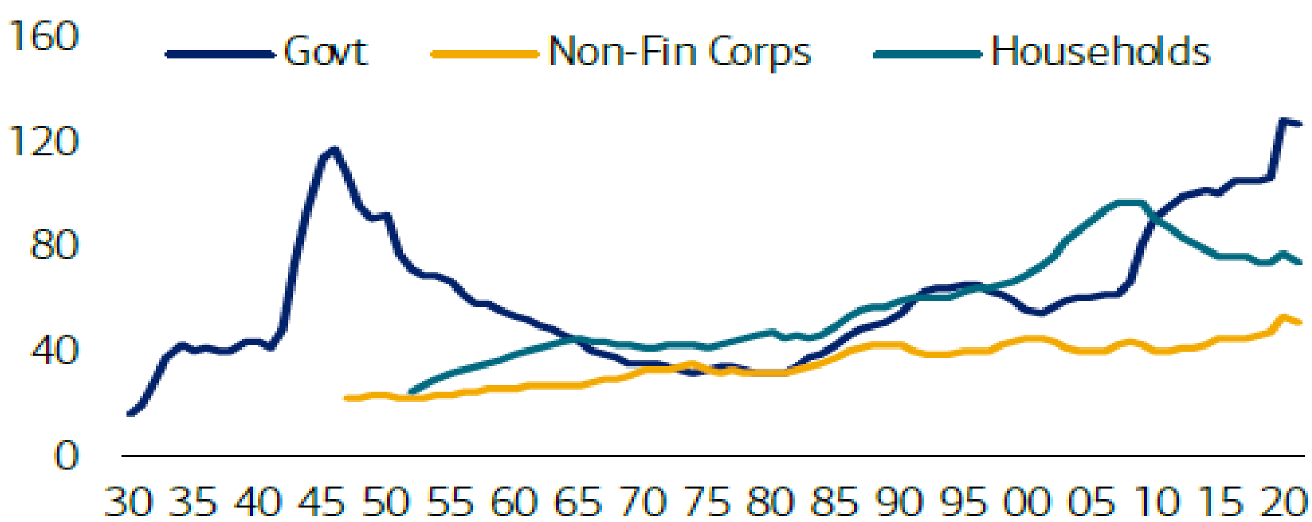
Bitcoin ($)

Healthy US consumer = more aggressive Fed

A big difference between today and prior downturns is consumer health.

- **$10T transferred from the Fed/Gov't to households/corporates.**
- **Low rates have kept financial obligations ratio contained so far.**
- **90% of US mortgages are fixed, far below levels seen in prior tightening cycles.**
- **Wage growth offsetting higher oil, food and staples prices at the low end**

US public debt to GDP, US non-financial corporate debt/GDP, and US household debt./GDP, fiscal years 1930-Present



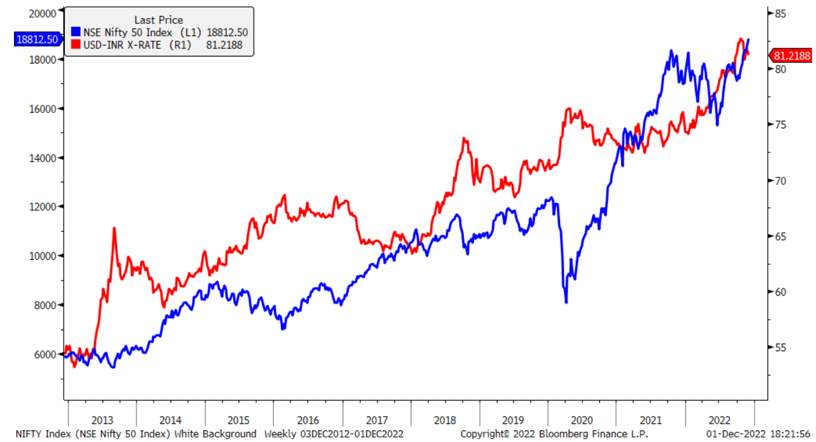
Source: Haver Analytics/Federal Reserve, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

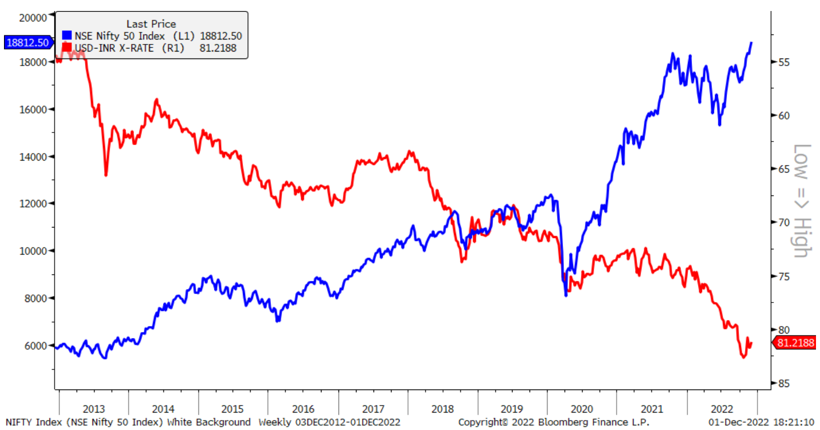
US Dollar .. Losing strength?

Dollar Index Chart

MSCI EM index vs Dollar Index



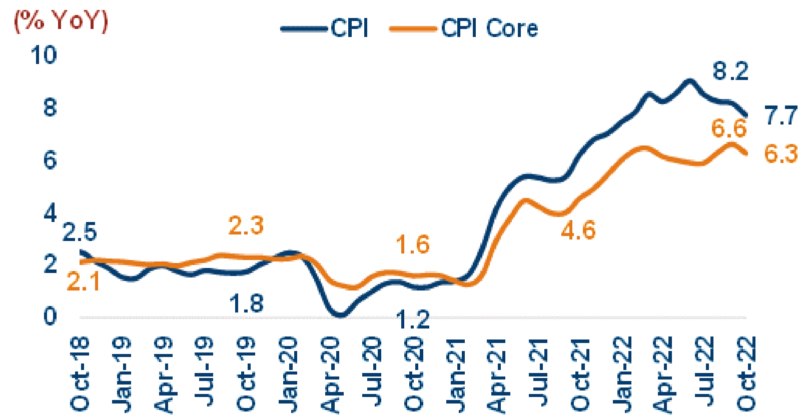
Nifty vs USDINR



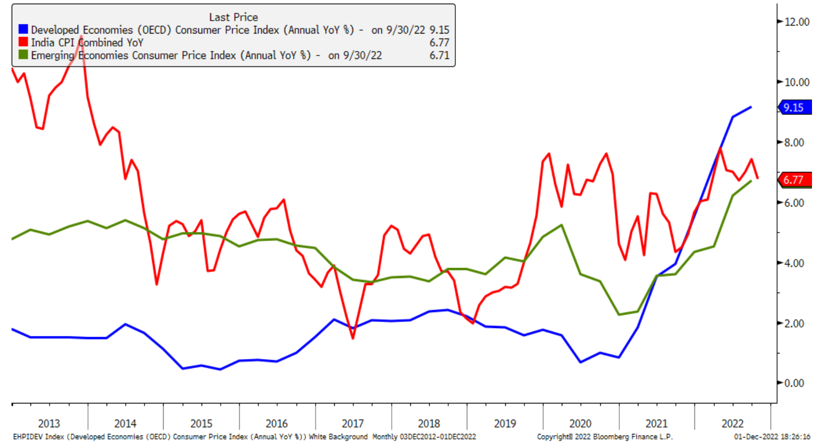
- USD strength had reached extreme levels both in nominal and REER terms.
- However, expectations of an FOMC pivot has worked to drive a reversal
- It seems that the USD has peaked and is poised to head lower over the medium-term.
- However in case the global growth slows more than expected, then the weakness in Dollar may get postponed.
- This weakness could beneficially impact emerging economies and commodity prices.
- MSCI EM typically outperforms in early cycle - after the longest EM equity bear market on record

Inflation ..still a Joker in the pack?

US CPI trend



Inflation across India, EM and DM



- Inflation forecasting hasn't exactly covered itself in glory
- As recessions tend to be highly disinflationary, we believe this will take the sting out of inflation

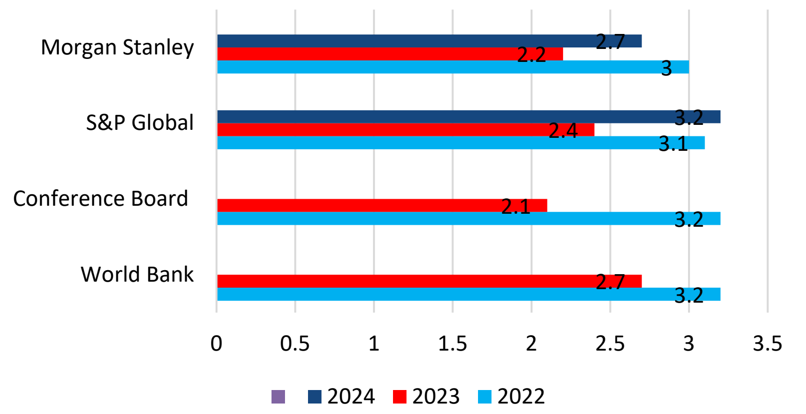
Global growth – low for some more time

Global growth forecasts are being revised lower across the board reflecting:

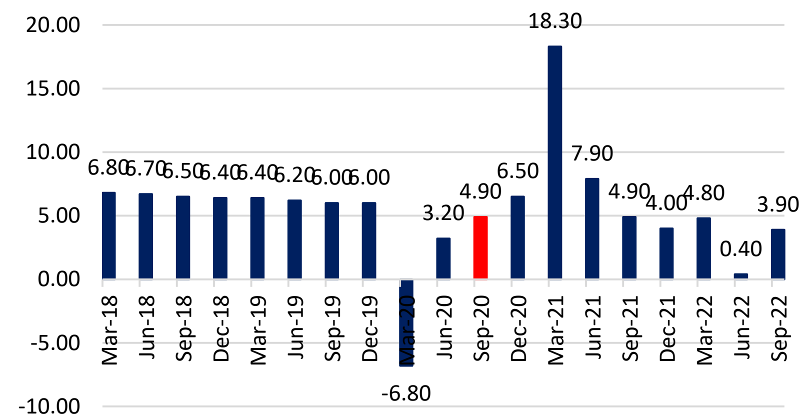
- Aggressive front-loaded policy rate increases by the FOMC that will weigh on the US and other economies
- European region faces headwinds from elevated inflation, even as energy prices have moderated, and weak export momentum.
- Delayed easing of lockdown in China or no end to a property crisis, keeping underlying demand weak
- Asian economies' export momentum is expected to slow sharply

Global growth – low for some more time

Global GDP Estimates



China GDP QoQ

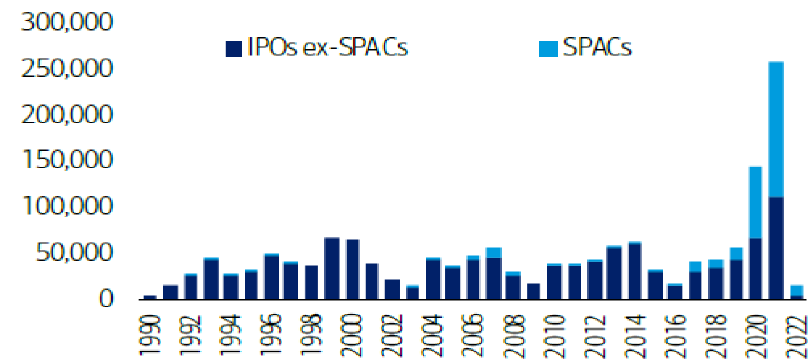


IPO bubble in 2021 and its after effects

- **123 tech IPOs in 2021, compared with an average of 38 a year between 2010 and 2020.**
- **In the U.S. in 2021, 619 SPACs went public, compared with 496 traditional IPOs. The CNBC Post SPAC Index, which tracks the performance of SPAC stocks after debut, is down over 70% since inception and by about two-thirds in the past year.**

CNBC Post SPAC (SPACPOST: Exchange)

Deal Value of US IPOs: Traditional (non-SPAC) and SPAC 1990-Oct 2022



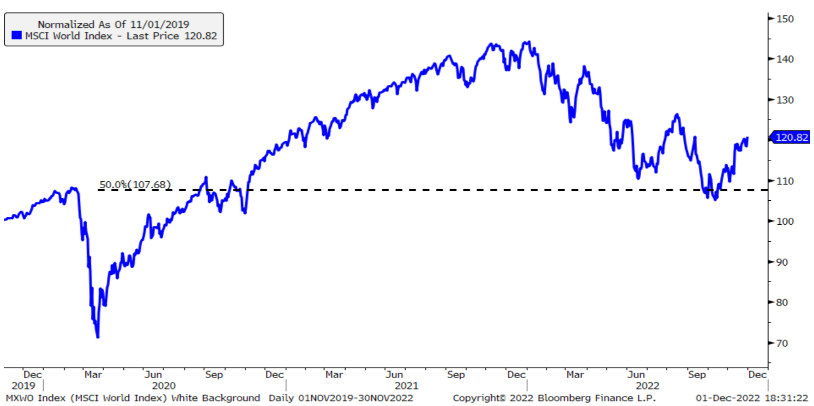
Source: Dealogic, BofA Global Research

BofA GLOBAL RESEARCH

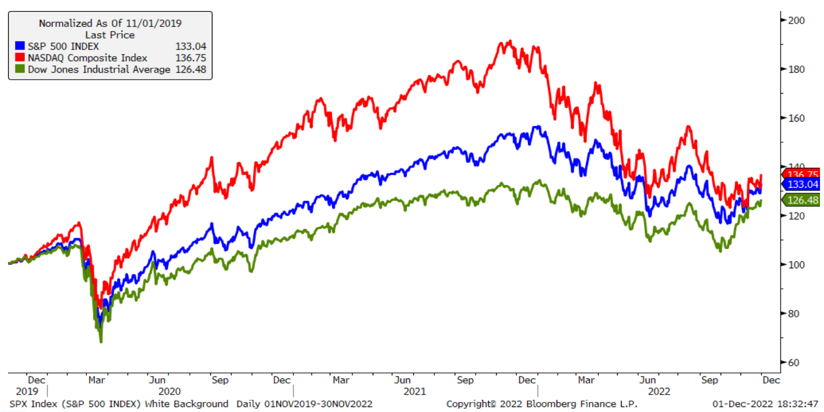
- There have been just 173 IPOs in the U.S. this year, compared with 961 at the same point in 2021. In the VC world, there haven't been any deals of note.

Way Ahead

MSCI World Index



S&P, DJIA and Nasdaq



- Global equity markets yet to make a bottom.

- We have seen just the first phase of bear market i.e. excesses and froth taken out (S&P P/E down from 22 to 17), but the next two phases pending i.e. calculating the impact of rising rates on economy and corporate earnings and third capitulation by investors.

- Risk appetite measures across major asset classes are more neutral, suggesting that we have not seen a capitulation yet.

- Pass through of tight monetary policy on to the real economy (especially private consumption and services sector) will likely start to show up more prominently from Q42022 in to H12023 onwards. The pass through has been delayed so far because of low household debt obligations and robust labour market that has kept income growth strong.

- One optimistic view is that this global weakness remains short and shallow; global growth bottoms around March/April, and improves thereafter.

- Optimists feel that most of negative triggers of 2022 are out of the way – Inflation seems to have peaked, Crude oil, commodity and food prices have fallen, Russia Ukraine conflict cannot get worse, US bond yields have started to fall, China looking to boost economy and go light on Covid curbs, expensive stocks have got derated sufficiently.

- Pessimists feel that rate tightening at the expense of growth will result in a hard landing. Higher discount rates will continue to deflate multiples. EPS downgrades are likely to spill over into H1CY23. Slower growth may lead to shift in consumption back from goods to services leading to a hit on corporate profitability and EPS forecasts. Corporate earnings expectations still need to come down to reflect the recessionary environment, rising inventories, increasing input costs and rates, and a stronger US dollar. .Geopolitical pressure and an intensifying US-China confrontation are key risks.

- Rates will settle far higher than they have been at any point over the past decade. This should be good for bonds, which have struggled through a decade of zero yields

- The market typically bottoms six months before the end of a recession, so buy in 1H based on some economists forecast of the recession ending by 3Q 2023.

- A moderate recession has already largely been priced into many stocks. By the end of September 2022, the S&P 500 had declined 25% from its peak. Historically, following this level of decline, the stock market has tended to be higher a year later. There have been two exceptions since 1950: the 2008 financial crisis and the bursting of the dot-com bubble in 2000.

GOLD –
YEAR GONE BY AND OUTLOOK

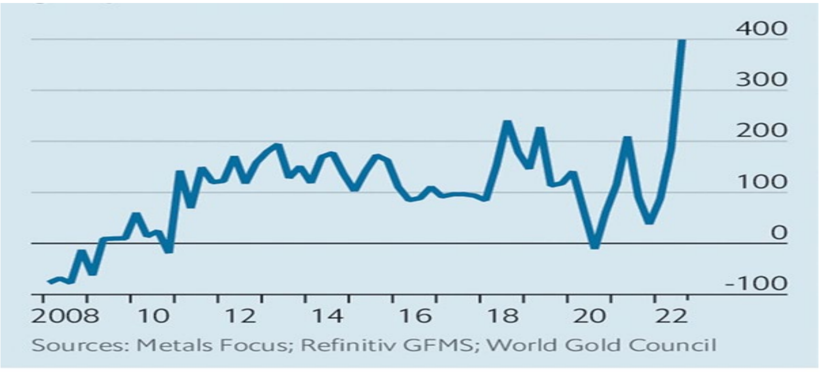
MCX Spot Gold ₹./10 grams

COMEX Spot Gold

- Gold price remained subdued through 2022 on weak investment and physical demand owing to the strength of the U.S. dollar and high interest rates. Gold in Rupee terms rose helped by depreciation of Rupee vis-à-vis USD.
- Central banks have also continued to accumulate gold. However, physical purchases are unlikely to be sufficient to offset the monetary headwinds facing investment demand.

Bullion Boom

Worldwide, central banks' quarterly gold purchases, tonnes

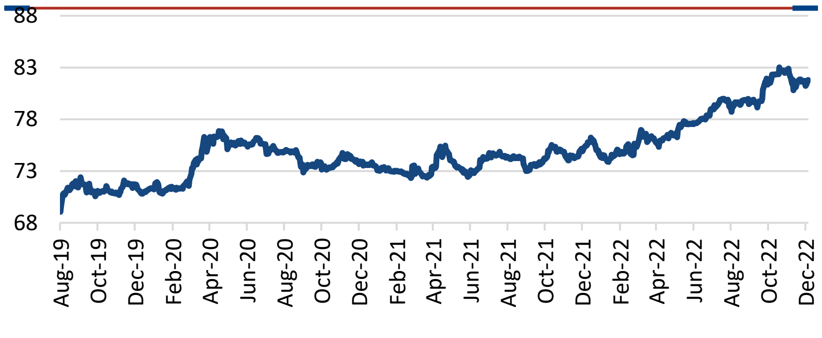


The Economist

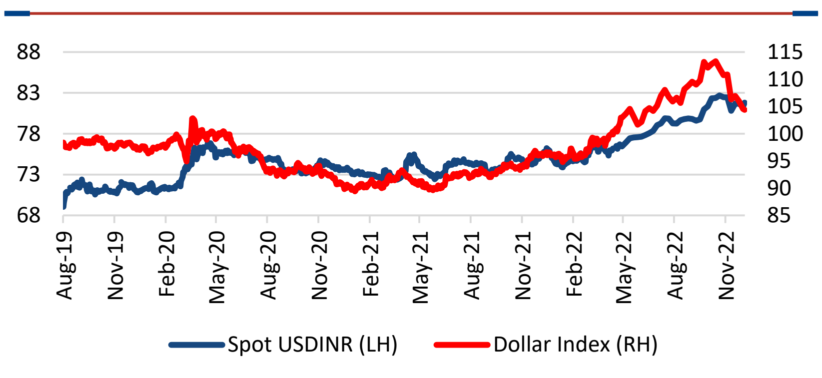
- Gold could not benefit out of traditional triggers of geo political conflicts and high inflation due to recession fears and supply constraints induced inflation.
- The crypto-currency related sell-off resulted in a rotation of investment / speculative funds back into gold via the safe-haven trade post mid-October 2022.
- Investors are positioning for a slower pace of rate hikes from the FOMC as well as expectations that the terminal rate will not exceed the 5-5.5% mark.
- As interest rate hikes are likely to continue well into early next year, gold prices are unlikely to experience a big rally in 1HCY23.
- We are moderately bullish on the yellow metal and expect it to find resistance near $1915 in 2023 (~6% appreciation). In case US Dollar keeps depreciating or global real interest rates turn negative soon, then we can see Gold prices crossing $2100 an ounce.
- Gold may take support around $1673.

INDIAN RUPEE – YEAR GONE BY AND OUTLOOK

Spot USD INR



USD INR vs Dollar Index



Outlook for 2023

Positives

- Foreign institutions have turned net buyers in the last couple of months
- Better macros compared to peers including recovery in High- Frequency economic Data
- Peaking of US interest rate and inflation.
- Weakening US Dollar index
- Inclusion of India sovereign bonds in global bond index

Concerns

- Longer and deeper recession across the globe boosting USD and impacting exports
- Political setback to the ruling alliance
- Risk off sentiments impacting FPI and FDI inflows
- Crude oil prices shoot up
- Trade deficit continues to rise.

We expect USDINR to remain in the 78-84.25 band

INDIA EQUITY STRATEGY

Post reopening of Indian economy subsequent to COVID related lockdowns, a broad based demand expansion was witnessed across industries. This in conjunction with supply side disruptions, surplus system liquidity and benign interest rate regime led to demand-supply dislocations resulting in an inflationary environment.

As a result while corporate India reported a handsome recovery in its revenue at aggregate level, profitability was compromised which led to earnings downgrades for 2 quarters till Q1FY23. However, with normalization of demand and softening commodity inflation, we have observed signs of cost inflation peaking in Q2FY23. In our view, earning downgrades are largely over for our coverage universe and margin recovery is on the cards.

Our views stem from the fact that aggregate earnings of our coverage universe which had grown at 34% CAGR between FY20-FY22 are expected to report more normalized 10.6% earnings growth in FY23 but improved 13% earnings growth in FY24 factoring margin recovery and sustained demand momentum.

Earning upgrades are mainly led by BFSI & auto sectors and ably supported by consumer discretionary, real estate and pharma. We are of the view that in FY24, aggregate earnings growth will primarily be led by BFSI, auto, IT, industrials and cement. Other heavy weight sectors metal and energy are expected to remain muted.

Moreover, with commodity inflation softening, we are gradually becoming more constructive on consumer staples. Rural recovery, which has remained elusive so far, if comes through can be a growth lever for the sector. Consumer discretionary is expected to report more normalized growth hereon post impressive recovery from COVID lows as advantage of pent-up demand is mostly over.

Overall, our preferred sectors are large-cap banks, industrial and real estate, power, autos, pharma, gas, insurance, and capital markets. We remain underweight on consumers, energy, NBFCs, and small banks.

Furthermore, we have a cautious view on the index. Nifty currently trades at 22.4xFY23 EPS and 18.9xFY24EPS. We believe, there is a downside risk to FY24 consensus earnings and a very limited scope of valuation upside. This will keep upside for index capped and at the best, it will move in line with the earnings growth.

UNION BUDGET 2023-24 EXPECTATIONS

Union budget 2023-24 is going to be presented at a time when we are witnessing geopolitical uncertainties & slowing global growth, domestic inflation and a depreciating currency. Hence, it is of supreme importance for the government to focus on augmenting drivers of domestic growth while keeping inflation in check.

We are of the opinion that government will reflect fiscal prudence and not resort to any big ticket radical announcements or reforms. It would continue the existing strategy of Infrastructure development, broad based Capex and manufacturing led growth as a sustainable way ahead for India.

Gross tax collections in this fiscal have been robust so far at INR 16.1 lakh crore (+18% YoY & 58.4% of FY23 budget estimates till Oct'22).As per industry assessments, it is expected to overshoot budgetary estimates. Further, fiscal deficit for H1FY23 had been 37.3% of the full year target led by buoyant tax collections.

Hence, it would be prudent to expect that full year fiscal deficit will remain well within estimated target of 6.4% of GDP. We believe union budget will maintain the country's journey on broad path of fiscal consolidation leading to a fiscal deficit target of below 4.5% of GDP by FY26.

Fiscal room created by strong tax collections and innocuous deficit will enable government to continue executing its plan of fuelling an investment cycle by increasing public investments. As capex will have multiplier effects in the economy through employment generations and cater indirectly to consumption growth, so we don't expect any radical reform by government to boost direct consumption. Further, public investments are expected to crowd in private capex, evidences of which taking place are increasingly becoming visible in the economy.

To Summarise, investment led growth will continue to be government's mantra in place of direct fiscal support to key consumption sectors.

SECTOR OUTLOOK

BFSI

- This is our top sectoral pick for the short to medium term. We prefer large private sector banking players from this pool of companies.
- Having witnessed strong credit growth (mid-teen in the previous two quarters), we expect it to continue in FY24. Retail credit already being robust, we expect wholesale credit demand to pick up as well led by capex recovery in India. Consequently, the Banks and NBFCs in our coverage universe are forecasted to grow their PAT at a CAGR of 26% from FY22 to FY24.
- NIMs are however expected to get compressed marginally as we build in higher deposit costs in our models going forward. Nevertheless, we expect lending financials to do the heavy lifting for the NIFTY in the forthcoming quarters.
- Insurance & capital market remain structural growth stories given "Financialisation of savings theme" being played out in the country.

IT

- We remain cautiously optimistic about the sector. In our view, stock price appreciation in the forthcoming quarters will broadly be a factor of earnings growth as we see limited opportunities of rerating in the industry. Margin pressure has peaked out and expected to improve hereon as attrition and subcontracting are normalising. Accordingly, we're factoring a PAT CAGR of 10% over FY22 to FY24.
- The largest risk to the industry still remains the sensitivity to FY24 demand and deal finalizations. The slowdown is visible in few pockets of client segments in form of delayed decision making but no major spending cuts have been announced as such.
- In longer term, IT remains a structure growth story as cloud adoption & digitalisation penetration grows.

Industrial/Real Estate/Infra/Building Materials

- For industrials we are factoring in improved execution on account of strong order backlog and easing commodity prices. Domestic tailwinds for Capex revival bodes well for capital goods' companies.
- Real estate is a sector we are positive on due to continued expectation of strong pre-sales growth driven by increase in urban disposable income.
- Building materials and cement were arguably impacted the most by commodity inflation as their respective profits were decimated in the past 2 quarters. In our view, both these subsectors have seen bottoming out of profit margins as commodity pressure is softening and price increases taken by producers are being well accepted by the market given structural demand. We expect these sectors to lookup from here led by infra and real estate growth..

Chemicals/ Oil & Gas

- Despite relatively high valuations, we are structurally positive on the Indian chemical industry as China plus one story plays out. While in the current fiscal year, industry has witnessed pressure on margins, we expect sequential expansion from Q3FY23 onwards as commodity inflation cools down.
- Long term growth visibility is intact backed by heavy ongoing investments in capex for specialty products and chemical synthesis expertise of domestic producers.
- We prefer gas companies in Oil & gas pack given sustained demand of CNG & PNG in spite of gas price rises witnessed in recent past. With gas prices expected to soften, these companies will report improved performances. Oil marketing companies will see a better time ahead as crude softening is leading to improvement in their so far subdued marketing margins.

FMCG

- With commodity inflation seemingly having peaked out, we are gradually getting more optimistic on the sector as earnings visibility improves.
- While volume growth has been weak this fiscal year, we expect at least the urban demand to improve henceforth. Rural demand has been subdued so far, which if improves can add decent upside to the overall volume growth in FY24. We haven't seen convincing evidences of rural demand recovery yet.
- Our coverage universe in the industry is expected to grow their profits at a CAGR of 13% over FY22 to FY24.

Power

- The power demand that had spiked up post reopening of economy has normalised to long term average levels. Hence, thermal coal scarcity and price volatility that was witnessed in CY21 and H1CY22 has subsided. It has led to a normalization in electricity prices. We expect power demand to grow in sync with GDP growth hereon.
- The structural story in the sector still remains the addition of renewable capacity, with the public sector power companies stepping up their renewable capex figures and following their private sector counterparts.

Chip manufacturing - Global Shortage and India setting-up facilities for Chip manufacturing

- The global chip shortage situation is segmented and altered for different end user industries. Empirical evidence suggests that the supply side constraints peaked in Q1 CY22 and have eased out since, albeit being at historically high levels.
  - Foundry capacity utilization at near 100% from Q1 CY21 to Q2 CY22; have reduced to 97.1%and 92.1% in Q2 and Q3 CY22 respectively.
  - Bookings to billings ratio for foundry companies have also come down to 1.02 from ~1.3 that was seen in Q1 CY21 to Q2 CY22.
- Consumer electronics that use smaller node sizes have been the main beneficiaries of the added capacities and easing of supply side constraints. Automobiles, that use relatively less sophisticated chips, still face chip shortages and expect the situation to materially improve in H1 CY23. The global foundry industry is in Capex mode to keep up with the rising demand.
- The semiconductor PLI scheme is India's big push into getting into this integral space. There are three projects currently approved under the scheme that are being executed by 2 JVs and 1 standalone entity; Vedanta with Foxconn, IGSS ventures and ISMC with Tower Semiconductor.
- Building and operating a foundry is a challenging endeavour involving steep learning curve, expensive & scarce machineries and requiring uninterrupted power and water supply in an extremely pure working environment. We believe this PLI scheme is a step in the right direction which will require minimum 3 years to show its true potential. Further, execution prowess of involved entities will be a key monitorable.

Auto Sector

- Auto sector has bounced back after a phase of subdued growth. We remain optimistic about growth in sector as input costs soften, semiconductor availability improves and industrial activity lifts up commercial vehicle demand hereon.
- Input cost pressures are softening led by decline in commodity prices and benefits are expected to accrue from Q3FY22 onwards. Simultaneously, EBITDA margins are expected to expand from the lows seen in FY22. Ex-Tata motors, the aggregate PAT of our auto coverage is forecasted to grow at a strong CAGR of 35% from FY22 to FY24.
- The downside risks in the industry are the extension of the chip shortage phase and weakness in the export markets.

EV Dream

- Although we are still in nascent stage of adoption of EVs, India has significant potential for EVs. Electrification of transportation sector presents huge opportunity to clean up air quality and improve national energy security by reducing petroleum import dependence.
- Currently, there are multiple entities in the country working on lithium ion cell manufacturing as well as alternative technologies viz. hydrogen & sodium cells. So far, the only commercially viable, safe and scalable technology is Lithium-ion cell manufacturing, others are at different stages of evolution.
- India neither has domestic sources of Lithium nor does it have any long term sourcing relationship from overseas so far. Hence we believe relying on Li-ion technology isn't going to resolve our fuel import dependence problem. It will only shift our fuel dependence from a petroleum rich country to another Lithium rich country. Consequently, for true self-reliance with respect to fuel sustainability, any breakthrough in the field of hydrogen or sodium as energy source becomes key monitorable.
- Once, we are able to overcome the mentioned herculean challenges that stand in the way of EV transition, we are optimistic that India will be able to make momentous shift towards the clean energy mobility.

Indian Brands looking to become market leaders in the country

- Indian market has been attracting the biggest international brands since liberalisation three decades back. In the early 90s, global brands dominated the market and the trend continued till we entered into the new millennium. However, there has been a gradual shift in the trend as home-grown brands built their own forte giving tough competition to foreign behemoths.
- We observe that multinational companies are gradually ceding market share to their domestic counter-parts in various sectors such as FMCG, pharma, banking, chemicals and paints to name a few. Key examples of such domestic brands being HDFC Bank, ICICI Bank, Asian paints, Sun pharma and SRF.
- One of the major drivers of such a trend is that Indian promoters understand hyper-local domestic markets and customers' expectations very well. Further, vision of such promoters are generally very long term and hence they have capability of withstanding a long gestation period before they see real profits. Several MNC counterparts may have obligations of showing a required return on capital in a stipulated time period to their parents. This limits their ability of investing time and money on understanding local Indian market and employ long term strategies. So, long term vision of Indian promoters outweigh profitability focus of MNCs.
- Global distribution network and technological expertise which were once competitive edges of international players are no more their monopolies as domestic brands have built their export capabilities and adopted technologies.

We are of the view, that this above mentioned trend will continue and we will witness several more Indian brands becoming market leaders in coming years.

LARGECAP STOCKS TO ACCUMULATE OVER 2023

AXIS BANK	
Industry	Banks - Private Sector
Equity Latest	614.8
FV	2
CMP December 02, 2022	905.2
Market Cap	2,78,248
Target	1,195

BHARTI AIRTEL	
Industry	Telecommunication - Service Provider
Equity Latest	2,781.6
FV	5
CMP December 02, 2022	848.7
Market Cap	4,72,124
Target	983

INFOSYS	
Industry	Computer - Software - Large
Equity Latest	2,104.0
FV	5
CMP December 02, 2022	1,637.9
Market Cap	6,89,241
Target	1,790

LARSEN & TOUBRO	
Industry	Diversified
Equity Latest	281.1
FV	2
CMP December 02, 2022	2,085.5
Market Cap	2,93,086
Target	2,345

RELIANCE INDUSTR	
Industry	Diversified
Equity Latest	6,765.5
FV	10
CMP December 02, 2022	2,722.2
Market Cap	18,41,657
Target	2,708

ST BK OF INDIA	
Industry	Banks - Public Sector
Equity Latest	892.5
FV	1
CMP December 02, 2022	607.6
Market Cap	5,42,214
Target	700

TATA STEEL	
Industry	Steel - Large
Equity Latest	1,221.3
FV	1
CMP December 02, 2022	112.0
Market Cap	1,36,787
Target	128.8

ULTRATECH CEM.	
Industry	Cement - Major
Equity Latest	288.7
FV	10
CMP December 02, 2022	7,237.1
Market Cap	2,08,919
Target	7,615

INVESTMENT ADVISORY FOR RETAIL INVESTORS

Make optimum use of SIP in MFs.

It is a good time to invest in Debt, if not invested

Don’t over-allocate in equities. Right size your asset allocation periodically.

Be wary of IPOs whose business model is difficult to understand and where profit seems some years away. Indian Retail and HNI investors have lost ~Rs.8500 cr in 13 IPOs since October 2021. Most of these have happened in IPOs of new age companies, Insurance and AMC companies.

Weed out consistent non-performers under multiple cycles and switch to quality

Pay less attention to Media hype and stories on macro. In core portfolio, lengthening one’s time horizon has been a recipe for loss avoidance. Market timing is difficult, and panic selling can result in outsized opportunity cost, as the best market days often follow the worst days.

Stock	Analyst	Educational Qualification	Holding
Aditya Birla Cap	Atul Karwa	MMS Finance	Yes
GAIL (India)	Abdul Karim	MBA	Yes
Hindustan Zinc*	Chintan Patel	MSc Financial Mathematics	No
Ipca Labs.	Kushal Rughani	MBA	No
M & M	Atul Karwa	MMS Finance	No
Max Financial	Nisha Sankhala	MBA	No
Max Healthcare	Hemanshu Parmar	ACA	No
St Bk of India	Atul Karwa	MMS Finance	No
Tech Mahindra	Abdul Karim	MBA	No
Zee Entertainmen	Abdul Karim	MBA	No

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Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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