AMBIT
Acumen at work

CELEBRATING 25 YEARS OF ACUMEN!

Strategy

Good & Clean 18.1

THEMATIC | **January 09, 2023**

A tough catch-up to fair value

Our EYBY-based Nifty valuation is now 19.5K for Dec-23, at 7.3% G-Sec yield and Dec-23 EPS of Rs920 (vs consensus' Rs960). Despite 10% upside, we aren't bullish for the near term. CY22 marks the 7th consecutive year of positive returns for Sensex, which has happened only thrice since 1985. Also, we see fault lines emerging. DII flows but, more importantly, net SIP is moderating given rising deposit rates and tepid MF returns. We don't expect hurried FII selling, but receding global liquidity and China reopening given punchy valuations will impact. Only saving grace is India's earnings (thanks to banks), which have not seen significant cuts. Polarisation is picking up again and we expect heavyweights to outperform smaller companies in Nifty and large-caps to outperform mid and small-caps. Trading is high outside NIFTY100, where we note higher estimate reductions and punchy EV/IC valuations. Revise IT to equal-weight (UW earlier), reduce Banks to moderate OW. Highlight UW in Auto and OW in OMCs/Metals.

We estimate a Nifty fair value of 19600 by Dec-23

With Dec-23 earnings estimate at INR 920, 10-year yield at 7.3% and market trading at -2.6 EYBY Gap (LTA), implied Nifty sustainable level is 19574. Upside to our target is possible if yields sustain at lower levels or Dec-23 earnings are higher than expectations. Whilst we assume a closer to long-term average for EY- BY gap, the gap can be different for the state of the markets.

Return of polarization

As liquidity receded, polarization made a comeback in 2HCY22. We expect it to accelerate in CY23. We expect performance polarization in favour of heavyweights (top-15 stocks by weight) over small weights in Nifty led by stronger earnings! Large-caps are set to outperform small-cap and mid-cap as earnings downgrades accelerate going down market-cap, relative valuations are still expensive and value participation remain tilted in favour of small-caps and mid-caps, which doesn't auger well for them. We see India's outperformance w.r.t. EMs continuing but moderating from CY22 (14%).

Fault lines emerge but earnings resilient

Moderation in DII flows was anticipated due to rising deposit rates and declining market returns, and it did manifest. With FII ownership one of the lowest in the decade, we don't subscribe to "Long China, Short India" trade, especially when historical evidence doesn't exist and earnings remain resilient driven by banks. However, FII flows can moderate scattering across EMs as China reopen! Rural consumption remains subdued, while global liquidity would be negatively impacted with BoJ and ECB action.

G&C Portfolio Positioning - concentrated in large-caps (85%)

Small/mid-cap allocations are 12%/3% & cash allocation 7.6%. While we remain OW on banks, we recommend taking off some weight as valuations aren't as cheap as in May & book yield- bond yield differential model suggests muted 1-year returns though earnings remain resilient. We also recommend reducing UW in IT to neutral, with likely mean reversion as earnings downgrades pause and relative valuation turns reasonable. Other key OWs: Metals & OMCs. Key UWs: FMCG, Auto & Capital Goods. Since Sep-22, G&C portfolio delivered (-1.3%) (1.2% u/p to NSE100). We make 8 changes.

What's in: HDFCB, SBILIFE, BPCL, HPCL, HNDL, TCS, and BANK NIFTY.

What's out: ICICIGI, HDFCLIFE, SBICARD, IGL, TVSL, AL, OINL, and LAURUS.

Exhibit A: G&C 18.1 composition

Company	Mcap (US$ mn)
Large-caps	
Tata Consultancy Services	142,780
HDFC Bank	108,035
ICICI Bank	73,760
Bharti Airtel	55,829
ITC	50,530
Bajaj Finance	43,992
Axis Bank	35,116
HCL Technologies	34,053
Tata Steel	17,174
Tata Motors	16,683
SBI Life	15,432
Hindalco Industries	12,632
Tech Mahindra	11,668
Godrej Consumer Products	11,400
BPCL	9,085
Dr Reddy's Labs	8,643
SRF	8,063
Info Edge India	5,787
Bank Nifty	N/A
Mid-caps	
HPCL	4,307
Federal Bank	3,459
LIC Housing Finance	2,707
PB Fintech	2,519
Small-caps	
VIP Industries	1,164
Amber Enterprises	779

Source: Ambit Capital research, Bloomberg,

Research Analysts

Bharat Arora
+91 22 6623 3278
bharat.arora@ambit.co

Nitin Bhasin
+91 22 6623 3241
nitin.bhasin@ambit.co

Viraj Dhandhukiya
+91 22 6623 3149
viraj.dhandhukiya@ambit.co

Nikhil Pillai
+91 22 6623 3265
nikhil.pillai@ambit.co

Ambit Capital and/or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, investors should be aware that Ambit Capital may have a conflict of interest that could affect the objectivity of this report. All Investors including US Investors should not consider this report as the only factor in making their investment decision.
Please refer to the Disclaimers and Disclosures at the end of this Report.

CONTENTS

Setting the context 3

- EYBY Framework: At 7.3% yield, 930 Dec’23 3
- Our take: Nifty fair value of 19600 by Dec-23 5

The return of polarization 8

The Outperformance of Indian Equities as risk? 14

Fault lines emerging... But earnings to remain resilient 18

Evaluating sectoral attractiveness 25

Two key themes likely to play out 27

- Value outperformance is likely to continue 27
- Cautious on small-caps and mid-caps 27

Key sectoral calls 29

- Banks maintain OW but reducing the extent 29
- Changing direction on “IT” 33
- Increasing allocation toward Metals 36
- OMCs: Diesel crack reduction is the next trigger; meanwhile expect volatility....38
- Autos: Pricey valuations already factor margin revival 39

A glance at our G&C 18.0 portfolio 40

- The historical trend is not in favour 40
- What will be on our radar? 41
- Audit of our portfolio returns 41
- What goes out and what comes in? 43
- Top Large-cap, Mid-cap, Small-cap Buy and Top Sell ideas 44
- Our G&C portfolio methodology 45

Setting the context

In our note "Good and Clean 18.0: Changing our lens and direction" dated 6-Sep-22, we changed our stance as we saw crisis factors coming off and moved our target, one-year forward, to 18723 (Sep-23) which came earlier than anticipated. We roll forward our target to Dec-23, the EYBY Gap implied sustainable level for Nifty (Dec-23) is 19574 at 7.3% yield, Dec-23 EPS (INR920) and markets trading at LTA (-2.6) of EYBY Gap. The upside surprise is possible if yields sustain at lower levels (<7.3%), Dec-23 earnings are higher than expectations (>920), and Nifty trades at a lower EYBY Gap than LTA (<-2.6). With earnings trajectory significantly better than FY16-21 CAGR (6.9%), it's a possibility that markets continue to trade at expensive EYBY Gap (<-2.6). Lastly, while the market does trade slightly in excess with EYBY Gap at -2.96, it's some distance away from threshold zone (about -3.6), where market correction becomes very probable. At TTM EPS of INR796, it amounts to 20900 Nifty.

EYBY Framework: At 7.3% yield, 930 Dec'23 EPS

Revisiting the EYBY Gap Framework: EYBY gap measures the attractiveness of equities w.r.t bonds by comparing earnings yield (1/PE) with bond yield. Higher the earnings yield as compared to the bond yield (higher gap), the better the subsequent returns and vice-versa. In our note "EYBY: The Gap that maps returns" we asserted: EYBY Gap is a better predictor of returns as compared to price multiples (P/E, P/B, and P/S). In Sep-22, we highlighted that worst of macro is behind, the economy has been resilient amidst the rate hike cycle, crisis has been averted and it's time to shift from near-term targets to the EYBY model-based Sep-23 fair value (18700) which has been tested. We roll-forward our targets to Dec-23.

Mathematically, the earnings yield bond yield gap can be shown as:

EYBY Gap = (Earnings/Price) - Bond yield

To work out the EYBY Gap implied fair value, three inputs are required: EYBY Gap, yield, and earnings estimate (Dec-23).

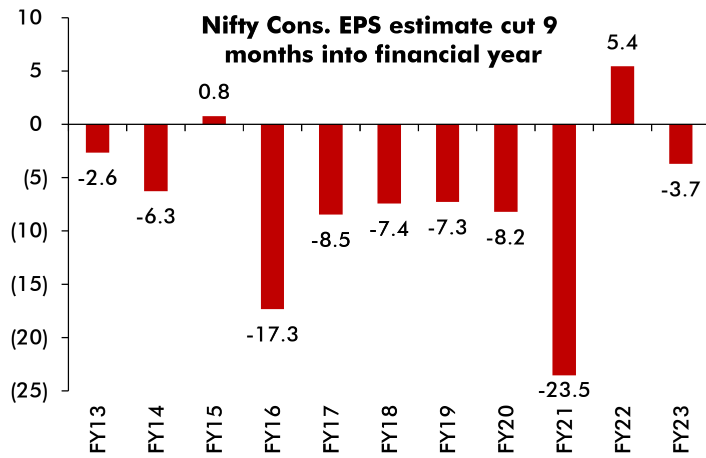
Assumptions: 7.3% yield, INR920 EPS for Dec-23 and Nifty trade at LTA EYBY Gap(-2.6)

How our assumptions fared? What's the change?

- **Earnings:** Consensus earnings estimates for FY23 have changed marginally from INR857/INR994 to INR846/INR1001 and hence Sep-23 earnings estimate of INR920 has not changed materially. The consensus estimate for 1-year fwd (Dec-23) stands at INR958. Assuming earnings cut, our assumption is around INR920 for Dec-23.

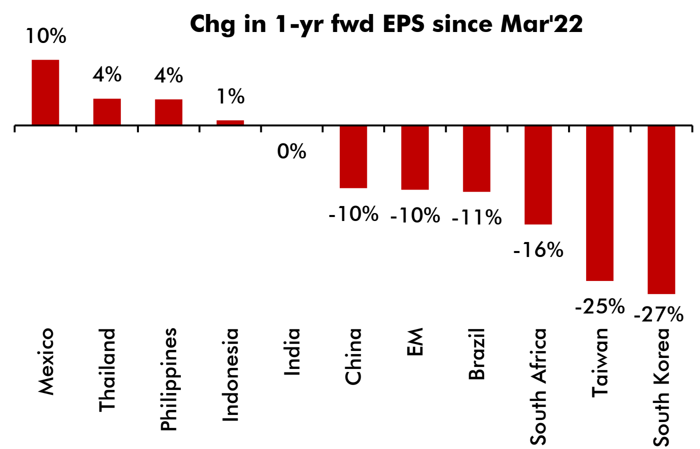
  Nifty earnings estimates have been resilient, with FY23/24 expected growth at 13.3%/18.4%. The earnings estimate cut 9 months into the financial year is one of the best in the decade as well as in comparison to other EMs. This has happened amid global uncertainty which contributed to India's outperformance. Please refer to flipbook. We are still assuming cuts to consensus estimate of INR960 and taken INR920 as base case for Dec-23.

Exhibit 1: Earnings estimates trajectory has been one of the best in a decade…



Source: Ambit Capital research, Bloomberg. latest estimates as of 31st Dec'22

Exhibit 2: ….with India's forward estimate remaining steady



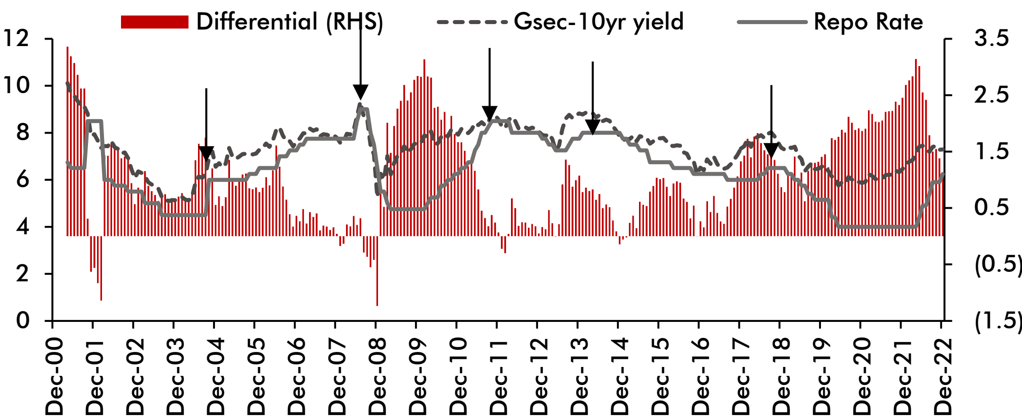
Source: Ambit Capital research, Bloomberg. Note: Following indices were used to represent each country - Nifty (India), SET Index (Thailand), Jakarta Composite Index (Indonesia), Ibovespa (Brazil), PSEi Index (Philippines), TWSE (Taiwan), Shanghai Composite (China), KOSPI (South Korea), SandP/BMV IPC (Mexico), FTSE/JSE Africa (South Africa). latest estimates as of 5th Jan'23

- **Earnings yield bond gap**: We take LTA (-2.6) as the valuation at which markets would trade. The premise is that as earnings growth normalizes in FY23 from a deflated FY16-21 (6.9% EPS CAGR), the inflated multiples can normalize, and hence choosing LTA looks reasonable. Markets can trade at expensive valuations, a point which we argued in our Sep-22 note too, especially if earnings remain robust and availability factor contraction continues.

- **Bond Yield: To stay at 7.3% with intermittent volatility**
  With the bull steepening of the OIS curve, we changed our direction on rates, highlighting that rates are likely to be at 7.3-7.5% barring intermittent volatility. *View reaffirmed*.

  The 10-year average/median spread between the 10-year yield and repo rate, a measure of the inflation expectations is 99/111bps. With a terminal rate of 6.5%, the yield looks capped at 7.5% (recent highs). What's worth highlighting is that assumption of spread being at 10-year average/median at the end of this rate hike cycle is very reasonable!

Exhibit 3: Spread at end of the rate hike cycle has been lower or at most equal to 10-yr avg./median of 99/111 bps



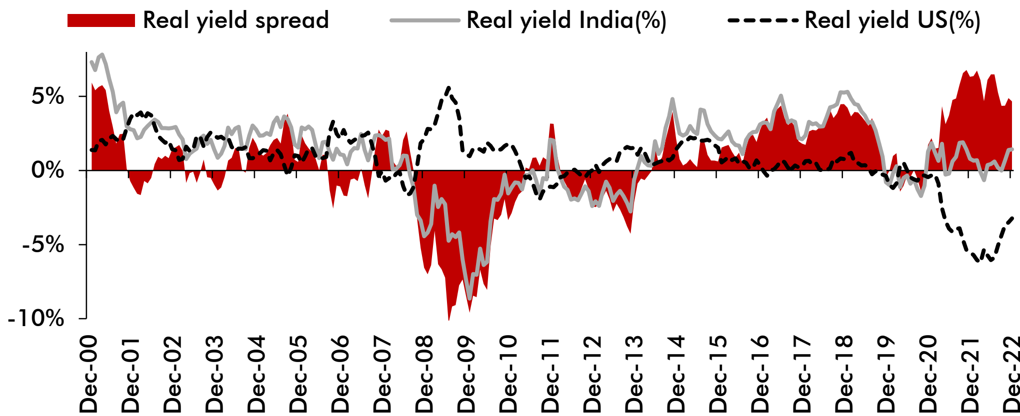
Source: Ambit Capital research, Bloomberg

In previous episodes, at the end of rate hike cycles, the spread has been lower or at most equal to the 10-year average/median. The spread is highest at the beginning of the rate hike cycle and reduces significantly as market expectations of rate hikes manifest and make the low post end of the rate hike cycle.

We have an official CPI estimate for 1QFY24 from the RBI (5%) and 2QFY24 (5.4%); a 6.5% terminal repo rate would yield a (>100bps) real positive policy rate, which looks adequate. In our opinion, the argument that the sovereign spread of India is close to an all-time high and should converge with Indian yields moving up doesn't hold credence. The below exhibit put things into perspective. It's the steep gradient in US inflation* that has driven US real yields into negative territory. While Indian inflation remains high, the gradient is nothing as compared to US!

Note: * US inflation jumped from 1.5% in Mar-20 to 7.1% currently, while India's inflation jumped from 5.8% in Mar-20 to 5.9% currently.

Exhibit 4: Real yield in US remains abysmal, jumping from a 2-decade low



Source: Ambit Capital research, Bloomberg

Putting it together

With bond yield at 7.3%, Dec-23 EPS INR920, and EYBY Gap (-2.6), the Nifty implied sustainable price level is 19600 (Dec-23).

Exhibit 5: Sensitivity analysis - Implied Nifty levels(Dec-23) for different earnings scenarios (consensus earning stands at INR960) at 7.3% yield

Dec-23 TTM EPS	Implied Nifty Level
920	**19574**
930	19787
940	20000
950	20213
960(consensus)	20426
970	20638

Source: Ambit Capital research, Bloomberg

In the above scenario, we have considered yield as constant and varied Dec'23 earnings. In the second case, we do a sensitivity analysis for Nifty levels under varying conditions of earnings and yields. For instance, under conditions of Dec-23 EPS of INR940 and the 10-year yield at 7.6%, Nifty fair valuation is ~18800.

Exhibit 6: Implied Nifty levels(Dec-23) for different yields and earnings levels

10-year yield	Dec-23 EPS				
	920	930	940	950	960 (Consensus)
7.1	20444	20667	20889	21111	21333
7.2	20000	20217	20435	20652	20870
7.3	**19574**	19787	20000	20213	20426
7.4	19167	19375	19583	19792	20000
7.5	18776	18980	19184	19388	19592
7.6	18400	18600	18800	19000	19200

Source: Ambit Capital research, Bloomberg

At EYBY Gap of -2.8% and Dec-23 EPS of 920, the implied Nifty level turns out to be 20444.

Exhibit 7: Implied Nifty levels (Dec-23) for different EYBY Gap and earnings levels at 7.3% yield

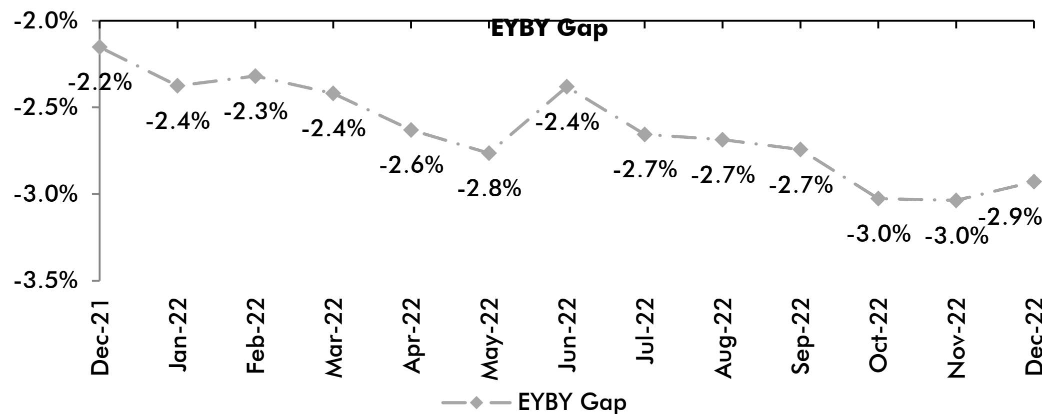
EYBY Gap	Sep-23 EPS(INR)				
	920	930	940	950	960 (consensus)
-2.5	19167	19375	19583	19792	20000
-2.6	19574	19787	20000	20213	20426
-2.7	20000	20217	20435	20652	20870
-2.8	20444	20667	20889	21111	21333
-2.9	20909	21136	21364	21591	21818

Source: Ambit Capital research, Bloomberg

Our take

Yes, the markets have become expensive over the last 3 months, with EYBY Gap worsening to -2.96 over the last 2 months but not close to the levels at which a sell signal can be called out!

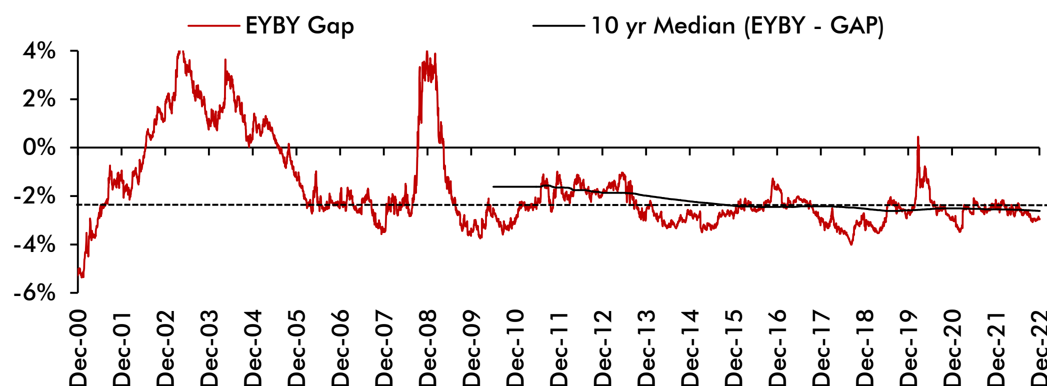
Exhibit 8: EYBY Gap has worsened to (-2.96) from (-2.6) on 5th Sep-22



Source: Ambit Capital research, Bloomberg

Putting it together: With the markets touching EYBY Gap implied sustainable levels for Sep-23 recently, we take another look. **And the question is have we reached the extreme?** We don't think that's the case. Yes, the markets have become expensive over the last 3 months, with EYBY Gap worsening to -2.96 over the last 2 months but not close to the levels at which a sell signal can be called out! In our note "EYBY Gap- Addressing your pertinent queries", we highlighted that trailing EYBY gap above 0 and below -3.7 is extremely rare. Lower the number, equities are more unattractive as compared to bonds and which manifests in a higher probability of a market correction. The threshold level is (-3.5) where the probability of market correction spikes. This can be seen in the below exhibit.

Exhibit 9: At EYBY Gap below -3.5, the markets have corrected most of the time. Median 10-year EYBY Gap is -2.62



Source: Ambit Capital research, Bloomberg. ACE Equity

Digging deeper, as market trajectory can involve a correction and subsequent recovery over 1 year, the below exhibit demonstrates the EYBY Gap's efficiency in predicting corrections in the short term. In most instances, markets correct significantly over the next 3-6 months.

Exhibit 10: Market correction over next 3-6 months as EYBY Gap reaches -3.5

Dates	Fwd. Returns (Months)						
	1m	2m	3m	4m	5m	6m	12m
12-Dec-07	1%	-21%	-21%	-22%	-19%	-26%	-53%
01-Dec-09	2%	-4%	-4%	3%	3%	-3%	16%
02-Mar-10	5%	5%	0%	4%	8%	9%	10%
13-Apr-15	-7%	-10%	-4%	-5%	-12%	-8%	-11%
07-Jun-18	0%	6%	8%	-4%	-2%	-1%	10%
16-Apr-19	-4%	0%	-1%	-6%	-7%	-3%	-24%

Source: Ambit Capital research, Bloomberg. ACE Equity

At current TTM EPS (INR796) and 7.3% yield, it translates to Nifty levels of 20900. At this level, EYBY Gap will touch (3.5) levels and there would be high probability of correction.

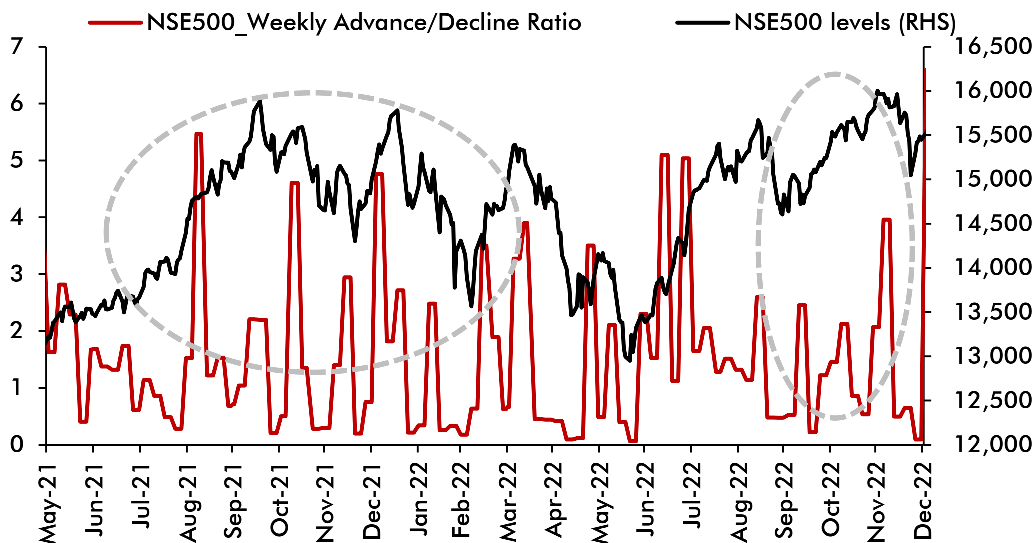
The return of polarization

Though Nifty & NSE500 created an all-time high, the participation of stock advancing was much lower in CY22, as evidenced by a lower A/D ratio vs CY21's A/D, marks the return of polarization. This is corroborated by the return distribution of NSE200 for CY21and CY22, where CY21 showed improvement in returns across the universe as the year progressed, while CY22 return distribution indicates return of polarization. The polarization is likely to continue in CY23 with large-caps preferred over mid-caps and small-caps, with earnings downgrades also showing divergence across market capitalization. Amongst Nifty stocks, the polarization can return in favour of heavyweights over small weights, with earnings trajectory (FY22-24) tilted in favour of heavyweights. We believe polarization will accelerate.

__Note:__ A/D Advance Decline ratio for an index is defined as no. of stocks advancing/no. of stocks closing lower over a reference time interval. For the weekly AD ratio, the reference period would be a week.

The broader market participation in the rally is over! The recent rally has been relatively narrow, with only a select few stocks driving the market. This is on expected lines as liquidity drains out and the divergence becomes more and more clear. While NSE500 did make a new high, the recent rally has been relatively narrow as compared to the broad-based rally in 2021. The weekly advance-decline ratio also points in a similar direction with the A/D ratio being smaller than the A/D ratio in 2021.

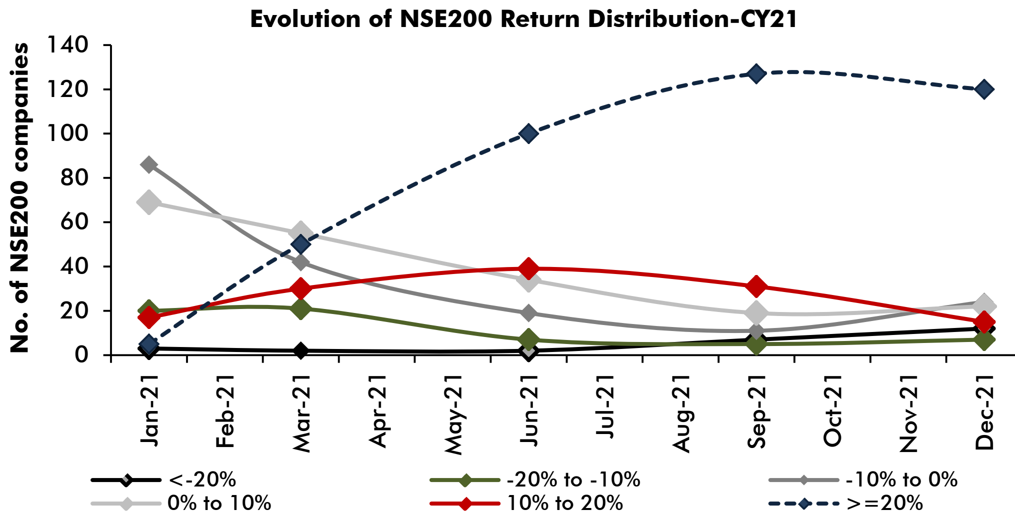
Exhibit 11: The rally was broad-based in 2021, but has become very narrow over the last few months in 2022



Source: Ambit Capital research, Bloomberg. ACE Equity. Latest data is up to 31st Dec'22

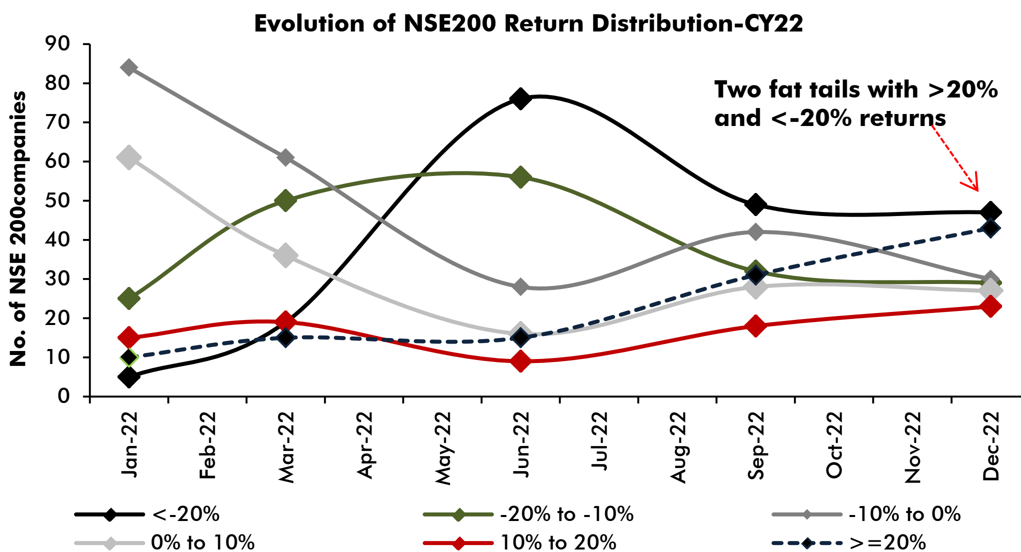
The "Evolution of Return Distribution" for CY21 and 22 puts things in perspective. In CY21, the return distribution kept on improving across the board as the year progressed! But, in CY22 polarization has returned! CY23 is going to be tough and stock selection would be of utmost importance.

Exhibit 12: Stocks in groups posting "negative return" kept declining in CY21, while the group with >=20% returns kept increasing



Source: Ambit Capital research, Bloomberg. ACE Equity

Exhibit 13: In CY22, groups with ">20%" and "<-20%" returns kept increasing

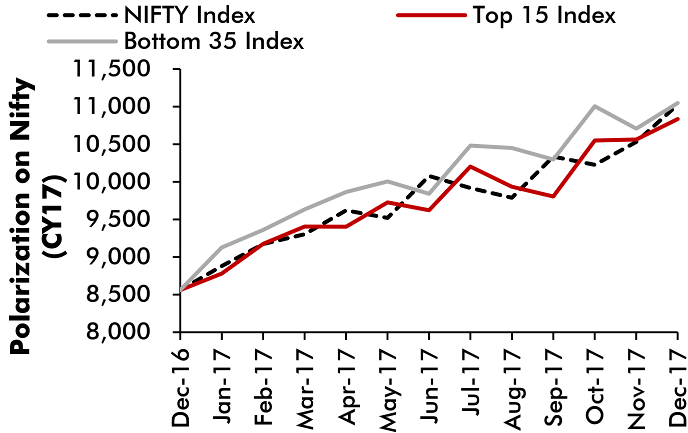


Source: Ambit Capital research, Bloomberg. ACE Equity

CY17-22, Nifty heavy weights vs small weights: A comparison

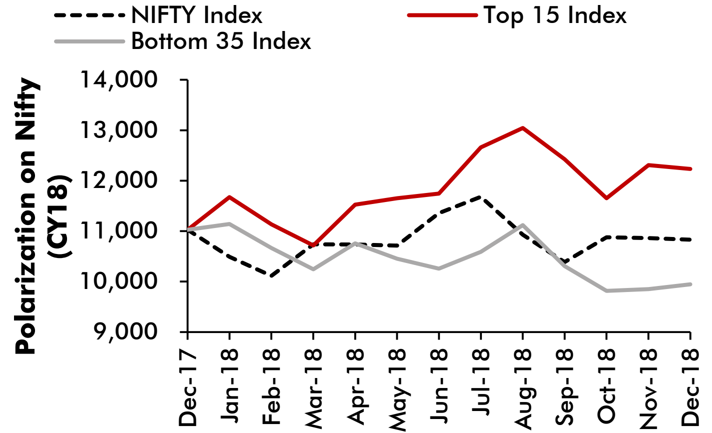
The below 6 charts put things in perspective on how the Nifty top-15 stocks by weight *(Heavyweight)* fared w.r.t bottom 35 stocks (*Small Weight*) over CY17-22. Post C17, for the next 2 years the market became more polarized as evidenced by the performance of the top 15 index - Heavyweight (red line). In CY20, with unprecedented liquidity every stock did well. CY21 performance was more divergent. CY22 divergence reduced a bit, and we expect the divergence to increase in CY23. The gradient in performance since June 22 underscores our point!

Exhibit 14: Every stock did well in CY17…



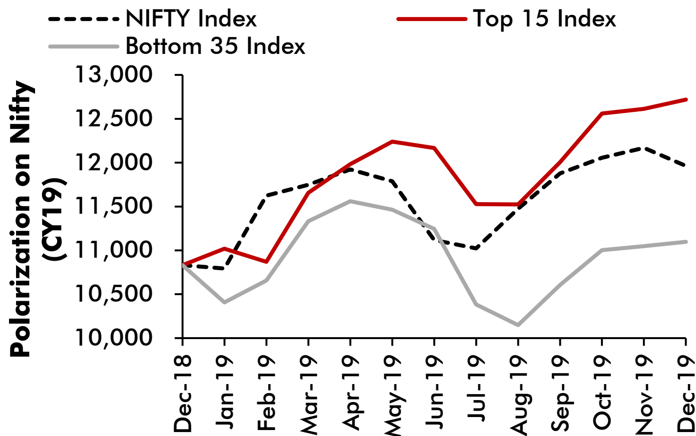
Source: Bloomberg. Ambit Capital research

Exhibit 15: …while the divergence returned in CY18



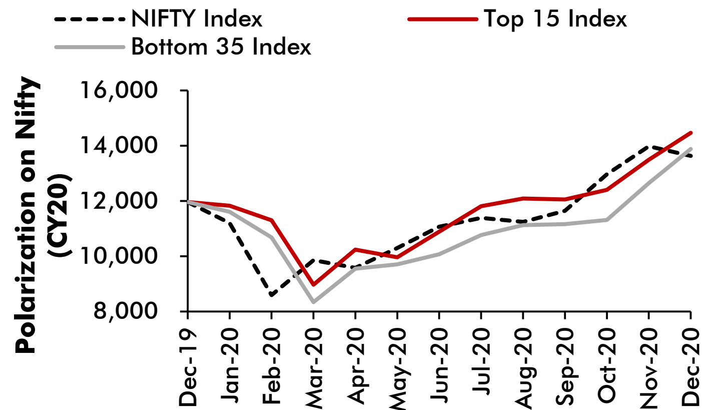
Source: Bloomberg. Ambit Capital research

Exhibit 16: …which continued in CY19



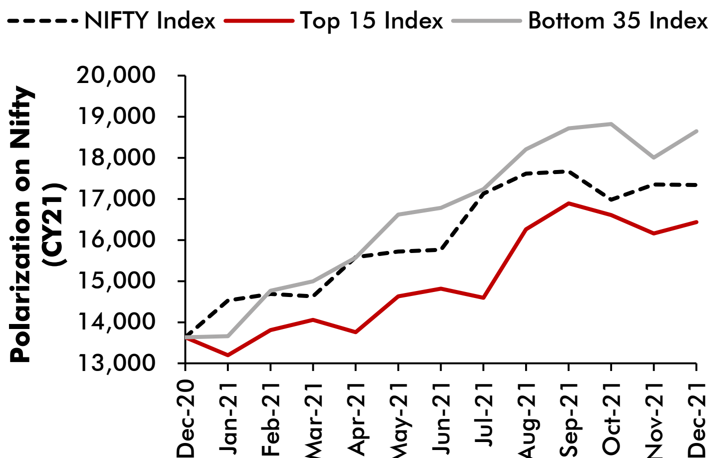
Source: Bloomberg. Ambit Capital research

Exhibit 17: In CY20, the divergence again reduced given ample liquidity



Source: Bloomberg. Ambit Capital research

Exhibit 18: The divergence expanded a bit in CY21…



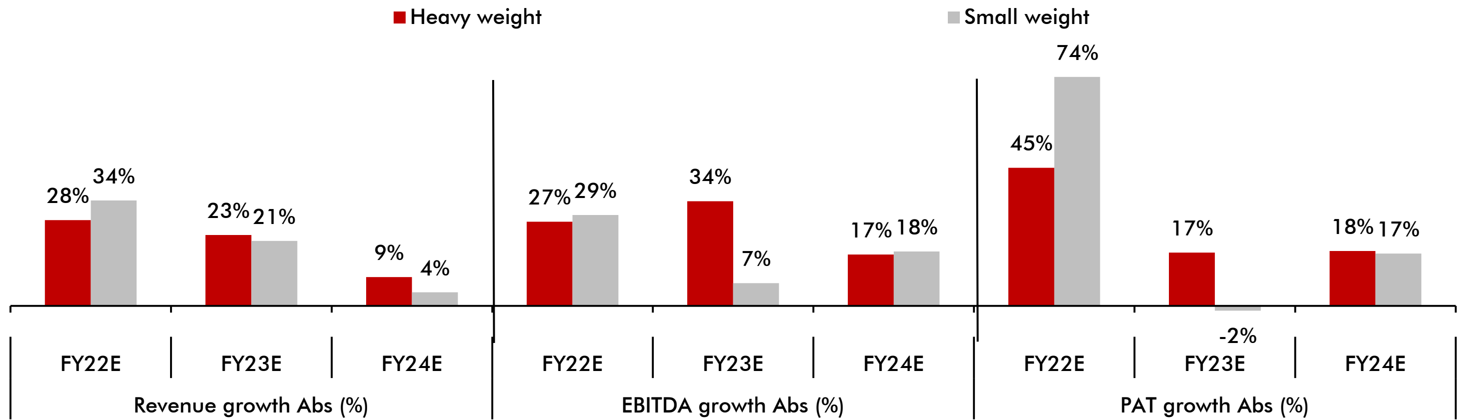
Source: Bloomberg. Ambit Capital research

Exhibit 19: ..and expanded again in 2HCY22

Source: Bloomberg. Ambit Capital research

We expect this polarization to accelerate in CY23 in favour of the heavyweights which are expected to deliver the bulk of the earnings. Over CY21 and CY22, the smaller companies in Nifty outperformed heavyweights.

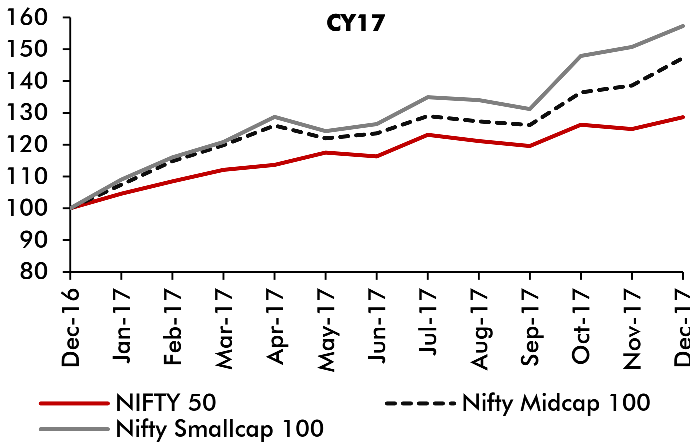
Exhibit 20: Earnings growth over FY22-24 is stacked in favour of heavy weights rather than small weights



Source: Ambit Capital research, Bloomberg. Latest data as 6th Jan'22

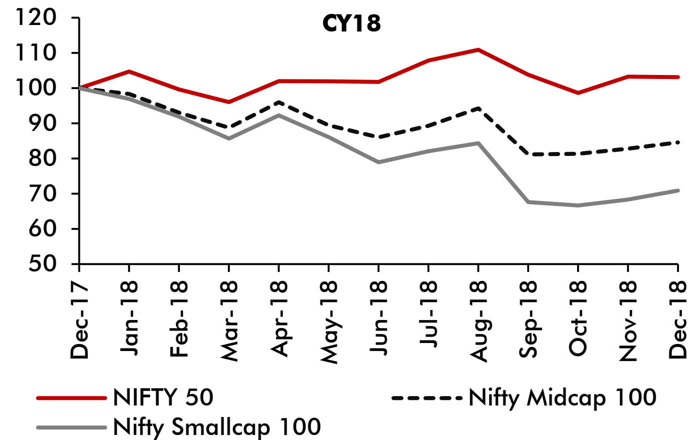
And, notice the divergence in small-cap, mid-cap and Nifty – we expect this trend to continue.

Exhibit 21: Small-caps and mid-caps dominated Nifty by a huge margin…



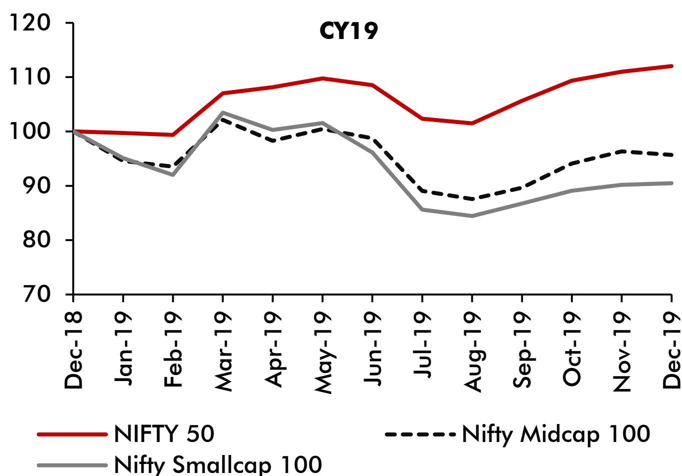
Source: Ambit Capital research, Bloomberg

Exhibit 22: …but in CY18 the reversion manifested



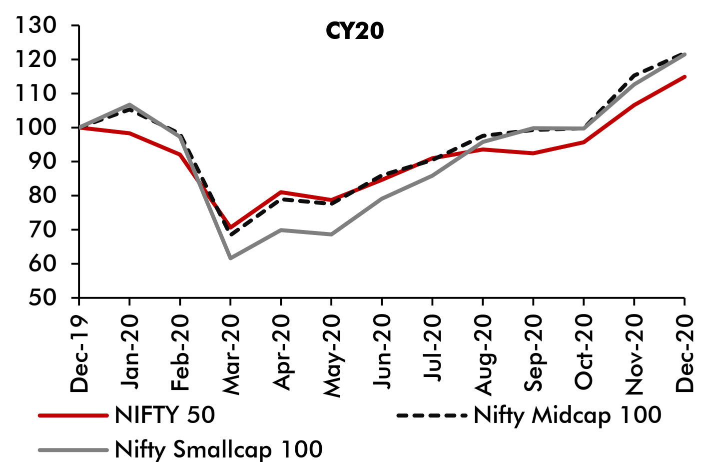
Source: Ambit Capital research, Bloomberg

Exhibit 23: CY19 saw the continuation of the trend…



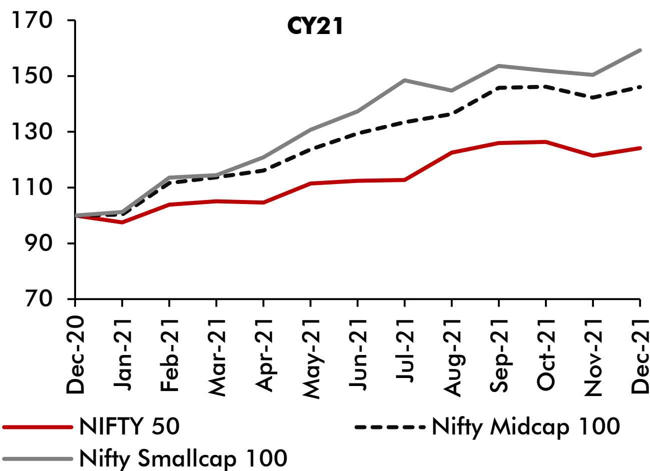
Source: Ambit Capital research, Bloomberg

Exhibit 24: …while CY20 saw small-caps and mid-caps dominating the market



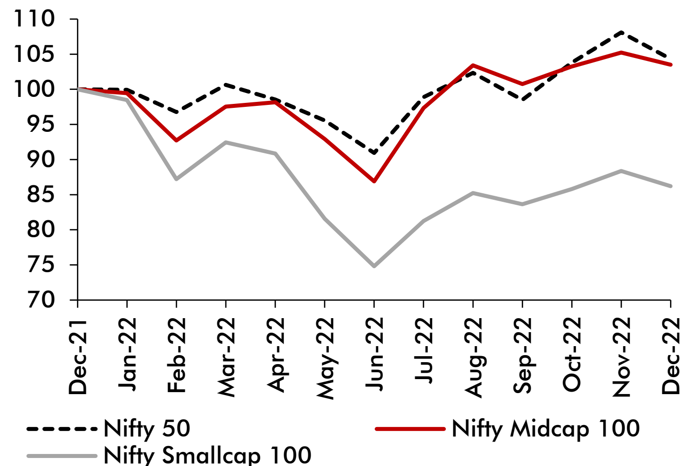
Source: Ambit Capital research, Bloomberg

Exhibit 25: In CY21, the trend continued



Source: Ambit Capital research, Bloomberg

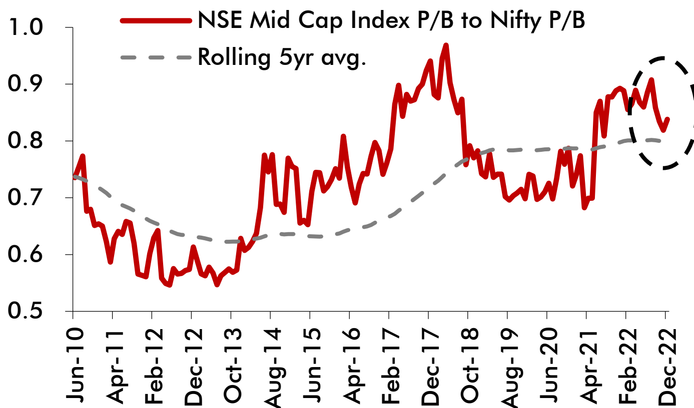
Exhibit 26: CY22 saw expansion in divergence with Nifty outperforming mid-caps & small-caps



Source: Ambit Capital research, Bloomberg

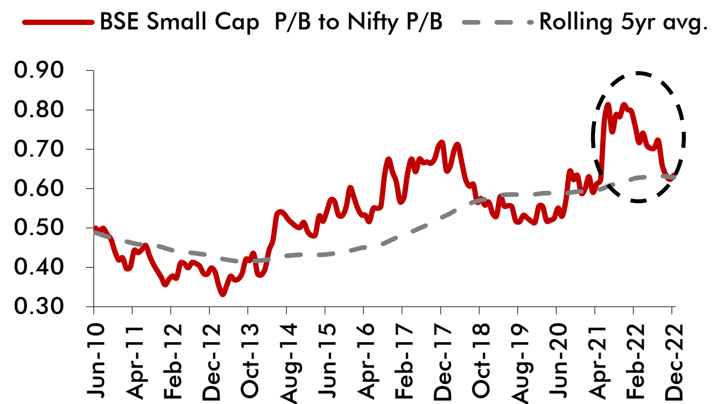
The divergence and polarization of returns should continue with a preference for large-caps over small-caps and mid-caps. The valuation doesn't provide any comfort either, especially in mid-caps! We prefer large-caps over mid-caps and small-caps and explain our rationale in the "Two key themes likely to play out" section!

Exhibit 27: On a relative basis, mid-caps are still expensive, at a premium to 5-year average…



Source: Ambit Capital research, Bloomberg

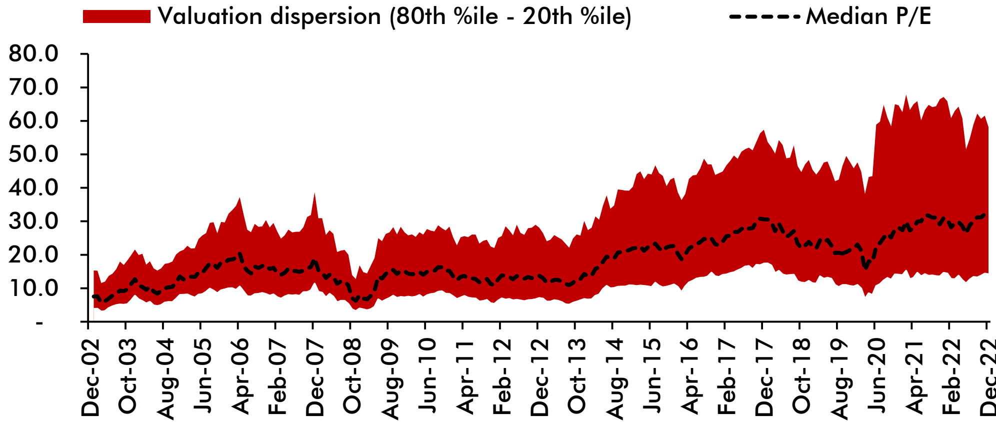
Exhibit 28: …while small-caps trade at the 5-year average on a relative basis



Source: Ambit Capital research, Bloomberg

Additionally, valuation dispersion remains high. The valuation dispersion measured by the 80th and 20th percentile of NSE 500 stocks remains high as compared to 2000-2010, adding to our point on "return of polarization". And, stock selection has become even more challenging, amidst uncertainty.

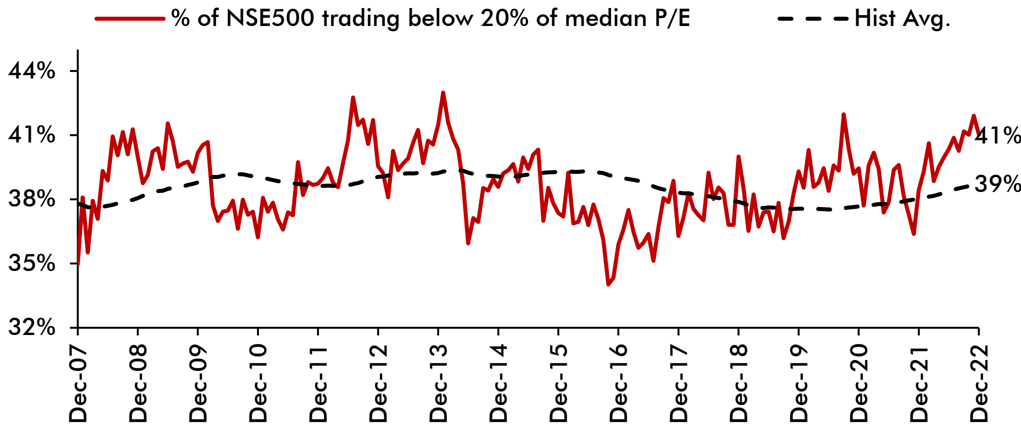
Exhibit 29: Valuation dispersion in NSE500 remains high



Source: Bloomberg. Ambit Capital research; Note: Valuation dispersion calculates the difference between the 80th and 20th percentile of P/E valuations of the NSE500 constituents

On an absolute basis, currently 41% of NSE500 stocks are trading at more than a 20% discount to the median, one of the highest in many years, and mid-caps are still trading at a premium to a 5-year average. What a divergence!

Exhibit 30: Percentage of NSE00 stocks trading (>20%) at a discount to median stands at 41%



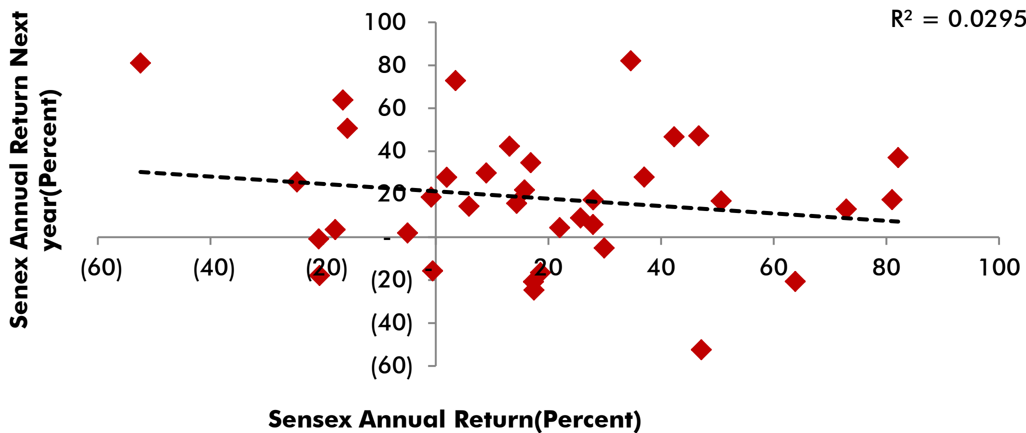
Source: Bloomberg. Ambit Capital research

Outperformance of Indian equities at risk?

CY22 marks the seventh consecutive year of Sensex's positive returns in rupee terms. This has happened only thrice since 1985 and has been the longest stretch of positive returns. Though we don't see any statistical relation between returns of two consecutive years, we see some risk emerging with SIP flows tapering and some moderation of FII inflows in Indian equities with China's reopening. However, India's resilient earnings trajectory and contraction of the Availability factor remains supportive of the outperformance of Indian Equities. Yes, valuations are relatively expensive. Putting it all together, we expect outperformance to last but to reduce from 14% in CY22.

Indian equities had a stellar CY21, outperforming FTSE EM by 22% in dollar returns. The outperformance continued in CY22 (14%). Will CY23 break the trend? Our regression analysis based on Sensex annual returns starting in 1986 suggests that Sensex annual returns have little bearing on Sensex annual returns next year, reflecting a poor R^2. There is no linear relationship! The returns are a function of entry multiples, discount rates, earnings upgrades, etc. and each of these factors can influence the returns.

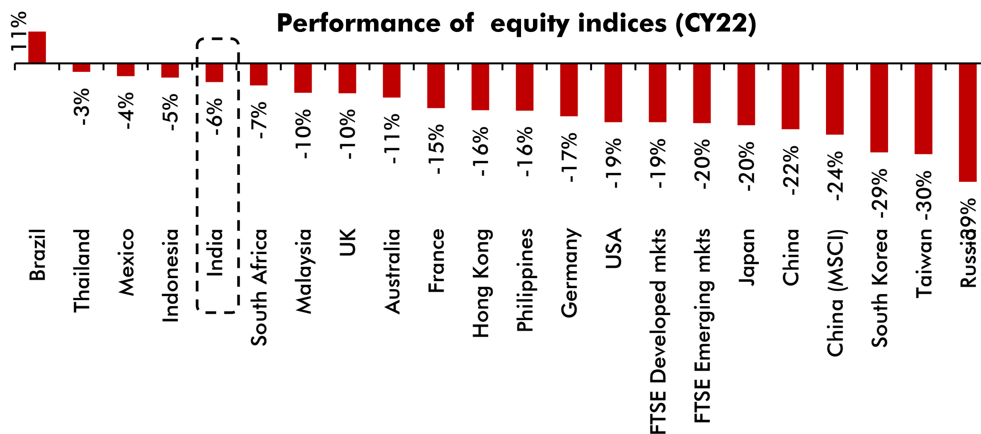
Exhibit 31: An exceptional year for markets doesn't necessarily mean a "quiet" next year



Source: Bloomberg. Ambit Capital research as on Dec. 31, 2022.

Nonetheless, since 1985, there have been only 3 instances when Sensex has delivered positive returns for a period of (>=6) consecutive years- 1988 to 1994(7 years), 2002 to 2007(6 years), and 2016 to 2022 (7 years) on CY basis. *CY2022 is Sensex's seventh consecutive year with positive annual returns in rupee terms.*

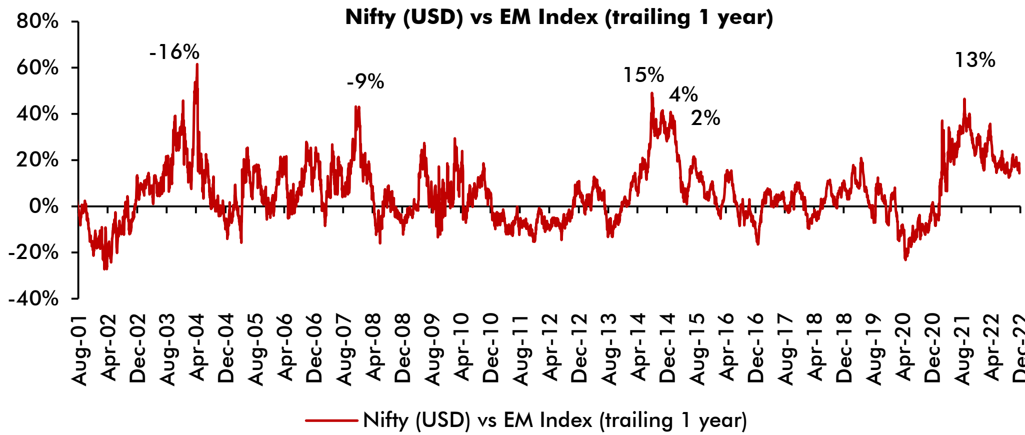
Exhibit 32: India was 5th best performer across major economies



Source: Bloomberg. Ambit Capital research as on Dec. 31, 2022. The following indices were used to represent each country - Sensex (India), SET Index (Thailand), Jakarta Composite Index (Indonesia), Ibovespa (Brazil), Philippines Stock Exchange PSEi Index (Philippines), FTSE/JSE Africa All Share Index (South Africa), Taiwan Stock Exchange Weighted Index (Taiwan), KOSPI (South Korea), Mexican Bolsa IPC Index (Mexico), Hang Seng (Hong Kong), Russian Trading System Cash Index (Russia), Shanghai Stock Exchange Composite Index (China), MSCI China Index (China), Nikkei 225 Index (Japan), SandP 500 Index (USA), ASX 200 Index (Australia), UKX Index (FTSE100-United Kingdom), DAX Index (Germany), CAC Index (France), FTSE Emerging Index (Emerging Markets), FTSE Developed Index (Developed Markets) and FTSE Bursa Malaysia Kuala Lumpur Composite Index (Malaysia).

While the earnings sustenance does explain the outperformance, the robust DII flows particularly over 1HCY22 have also cushioned Indian equities from volatility. But, these flows have become muted over the last few months. Our section on the emergence of fault lines focuses on this in detail.

Exhibit 33: Outperformance of Indian equities w.r.t EMs sustains



*Source: Ambit Capital research, Bloomberg. ACE Equity **Note**: Returns marked on the peak are 12m forward returns of Nifty w.r.t EMs in USD terms*

As evident from the above exhibit, the outperformance of USD w.r.t EM has sustained in 22, without reverting to the mean. *The key reason is the contraction in the availability factor and return of FII flows in 2HCY22*. With the gradual financialization of savings, the availability factor (AF) of Indian equities is contracting as demand for Indian equities (23% CAGR) is outstripping supply (13% CAGR over the past 5 years).

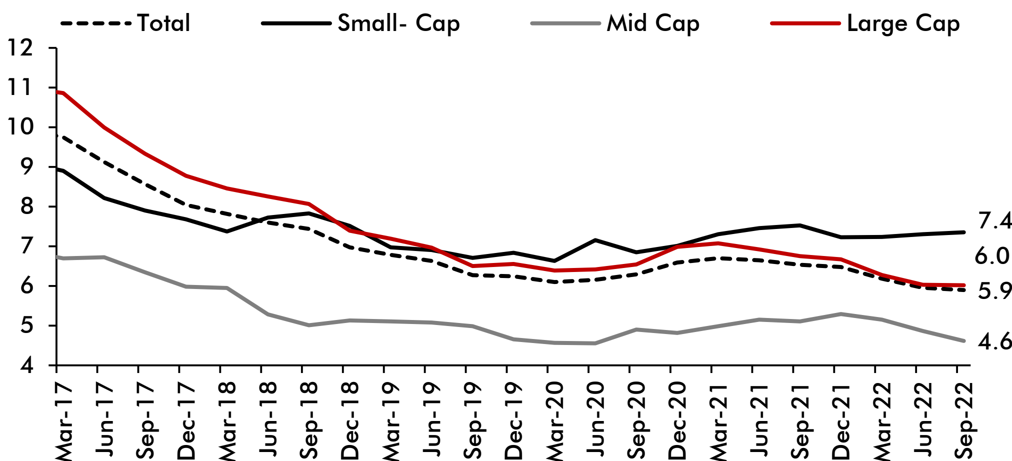
Deciphering the Availability Factor (AF)

We define the Availability Factor for DMFs as:

$$\text{Availability Factor} = \frac{\text{Free Float}}{\text{AUM of domestic mutual funds}}$$

In The Availability Factor - Demand and supply at work!, we highlighted that scarcity premium is driving the expansion in market multiples. The scarcity premium is highest for large-caps followed by mid-caps and small-caps as the availability factor compressed 40% for large-caps, 31% for mid-caps, and 11% for small-caps over Sep 17-22. The results stay the same after incorporating PMS/AIF holdings. While this lever remains robust from a medium-term perspective, the inflows have moderated in recent months!

Exhibit 34: MF ownership value of large-caps/mid-caps/small-caps/total increased 25%/24%/16%/24% faster than free float of 15%/16%/14%/15 CAGR over Sep17-22



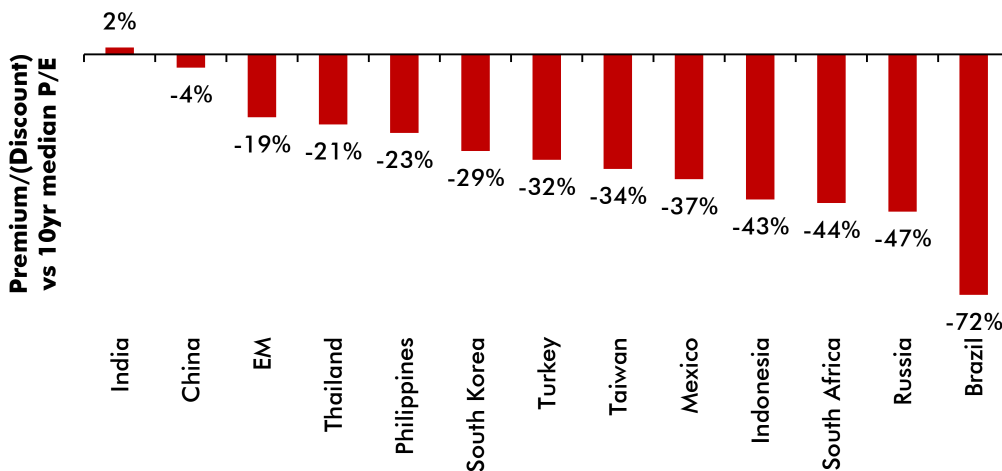
Source: Ambit Capital research, Bloomberg. ACE Equity, Note: Analysis includes Top 500 companies by market capitalization every quarter!

Worst of FII outflows behind, but expect some moderation

In "G&C 18.0: Changing our lens and direction" (Pages 6-8), we highlighted that the psychological factor appears supportive with FII outflows possibly coming to end, a factor which controls the Nifty direction. Over 2000-22, FII outflows have always occurred in anticipation of rate hikes but have been positive over the next 12 months in rate hike cycles. Lastly, over the last 2 decades, the worst 20 monthly episodes of FII outflows have often signalled the end of "FII selling" and the market has closed up 18/20 times higher. This has manifested and we expect this trend to continue.

While the inflows are likely to continue, with China opening up, EMs' economic activity would spur up and would benefit the EM basket. This can lead to FII inflows scattering across other EMs along with India, though the earnings trajectory of India remains robust. But, a fillip towards other EMs with China opening is likely and some normalization in FII flows is possible!

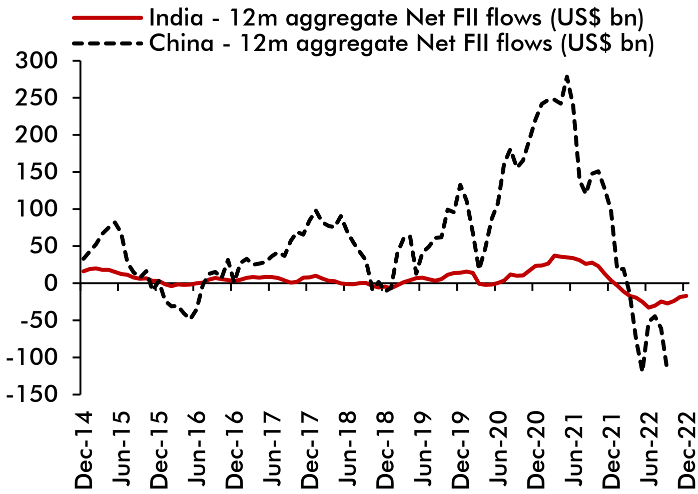
Exhibit 35: India leads EMs in valuation driven by robust earnings and AF contraction



Source: Ambit Capital research, Bloomberg. ACE Equity Note: Following indices were used to represent each country - Nifty (India), SET Index (Thailand), Jakarta Composite Index (Indonesia), Ibovespa (Brazil), PSEi Index (Philippines), TWSE (Taiwan), Shanghai Composite (China), KOSPI (South Korea), SandP/BMV IPC (Mexico), FTSE/JSE Africa (South Africa).Latest estimates as of 6th Jan'22

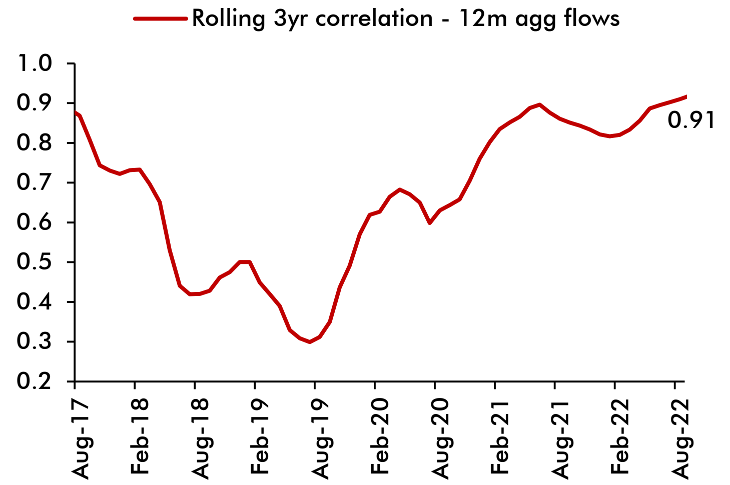
We also want to highlight that "Long China" trade may or may not materialize but FII inflows in India are not negatively correlated with inflows in China. The inflows in China in 1 month are significantly higher than annual inflows in India. And, long China trade wouldn't necessarily be funded by outflows from India (moderation in inflows is also possible) considering FII ownership of Indian Equities is still one of the lowest over the decade and India still offers the best growth amongst major economies. So, in a nutshell, some moderation of FII inflows and this lever would be slightly less favourable! Putting it all together, we expect outperformance to last but to reduce from 20% in CY22.

Exhibit 36: India's outflows would not fund inflows in China. At least historical evidence suggests this!



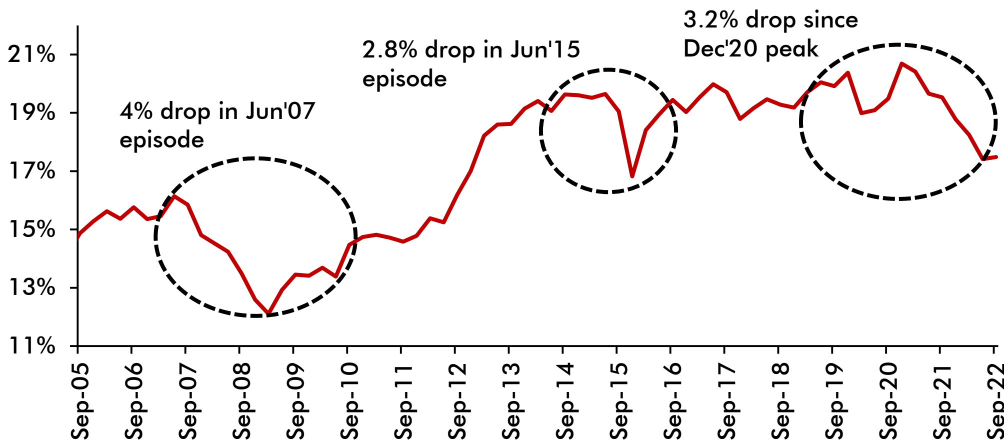
Source: Ambit Capital research, Bloomberg ***Note:*** *Data for FII inflows in China comes with a lag and is available till Sep'22*

Exhibit 37: ..on contrary, there is a strong positive correlation between FII flows in India & China



Source: Ambit Capital research, Bloomberg

Exhibit 38: FII ownership remains one of the lowest across the decade



Source: Ambit Capital research, Bloomberg. ACE Equity

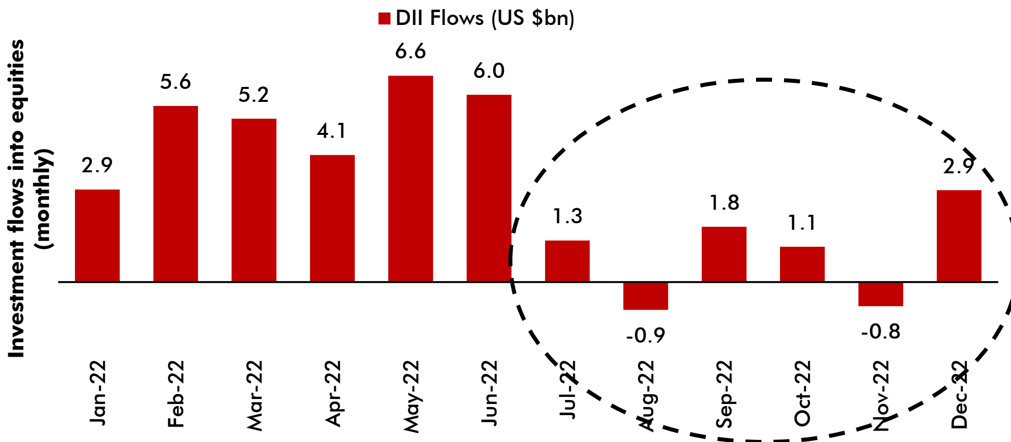
Fault lines emerging…

With rising deposit rates and declining market returns, moderation in DII flows was anticipated and the same has manifested. Net SIP flows have reduced significantly in recent months. With FII ownership one of the lowest in a decade, we don't subscribe to the "Long China, Short India" trade, especially when historical evidence doesn't exist and earnings remain resilient driven by banks. Though FII flows can moderate scattering across EM, as China reopen! Rural consumption remains subdued, while global liquidity would be negatively impacted by BoJ and ECB action.

Moderation in DII flows

The resilient DII flows have cushioned the impact of FII outflows (US$33bn over Oct'21- Jun'22) but domestic flows are now moderating. In our flipbook dated 16th May,22, we highlighted the possibility that DII equity inflows can moderate in CY22. The same has begun to play out.

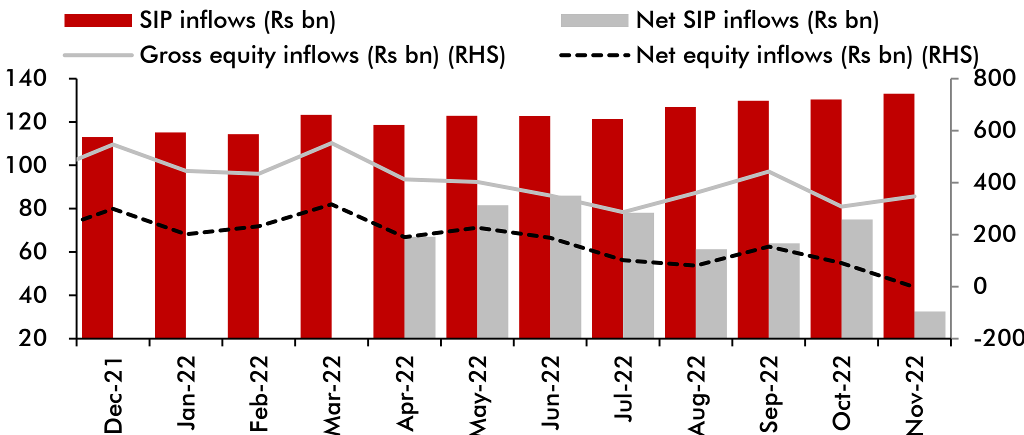
Exhibit 39: DII inflows have moderated in 2H CY22 (US$5.5bn) vs. 1HCY22 (US$30.4bn)



Source: Ambit Capital research, Bloomberg. Note: Latest data is as of 31st Dec 2022

Despite FIIs pulling out ~US$17.1bn from Indian equities, markets remained resilient as DIIs pumped ~US$35.8bn in CY22. This was led by stable SIP inflows from retail investors, which has tapered recently as evident in net SIP inflows.

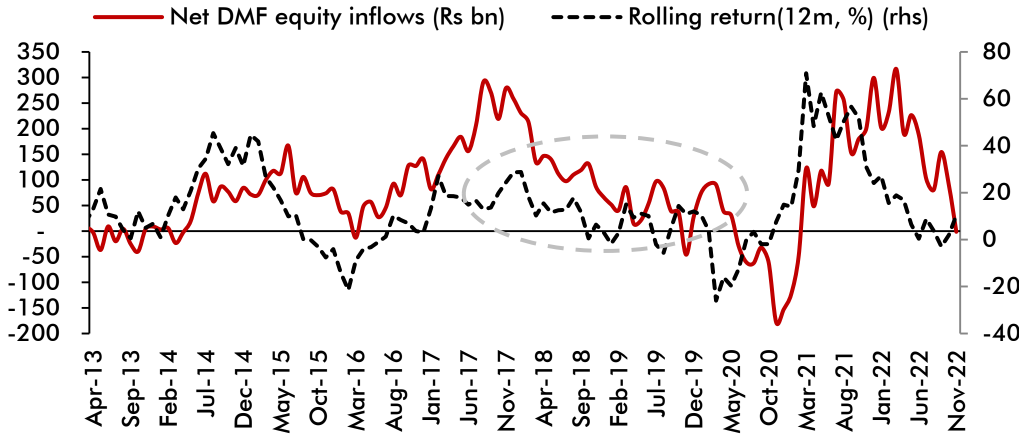
Exhibit 40: Net SIP flows showed a significant drop in Nov-22



Source: Ambit Capital research, latest AMFI available for Nov'22

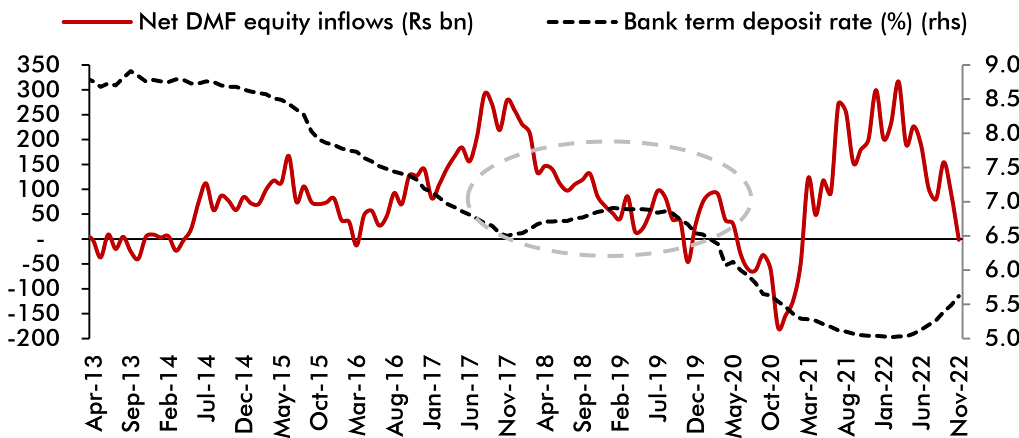
Why has this happened? DII flows face a double whammy of rising bank deposit rates and moderation in Nifty 1-yr returns. For the Nifty to show positive annual returns, it has to sustain above 18300. The base of the 12m rolling return has shifted higher! The market returns have fallen and are in negative territory. Historically, this has coincided with a reduction in DII net equity inflows.

Exhibit 41: Historically, DMF inflows have contracted as Nifty returns declined. The same played out in 2HCY22



Source: Ambit Capital research, Bloomberg

Exhibit 42: Rising deposit rates increase opportunity cost and impact DMF equity inflows

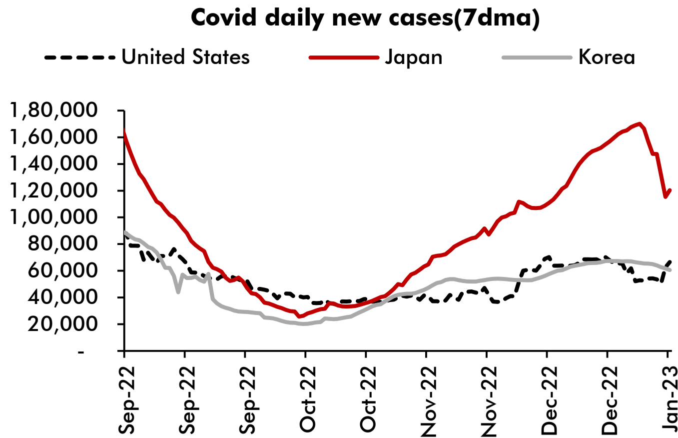


Source: Ambit Capital research, Bloomberg

Covid-19, volatility spike and tightening of liquidity

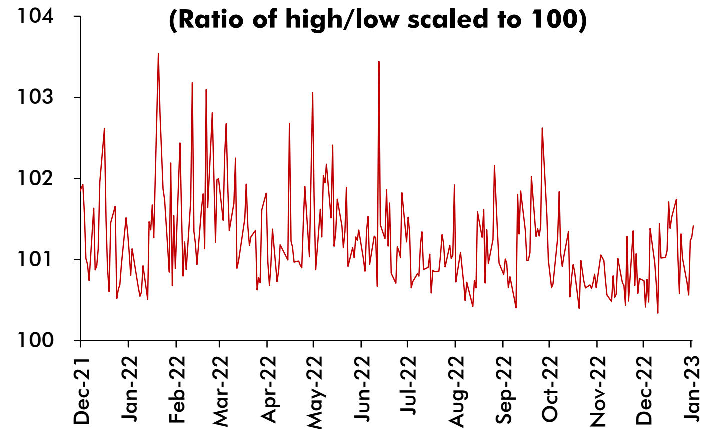
Volatility seems to have made a big comeback globally with surging Covid-19 cases in China with the abandonment of the "Zero Covid policy". The same is true for US, Japan, and South Korea. The Nifty intraday volatility has also spiked up significantly! Further, BoJ has finally turned by tweaking its yield curve control policy, allowing yield on the 10-year government bonds to rise further aiming to cushion the effects of protracted monetary stimulus measures. At the end of Sep'22, BoJ owned 50.3% of outstanding government bonds amounting to 536 trillion yen. The ECB has also announced a reduction in the Asset Purchase portfolio by 15bn euro starting Mar'22, which has already begun to manifest in yield hardening across Euro, especially in weaker economies like Italy and Greece.

Exhibit 43: Covid cases spiked in Japan, the US, and Korea



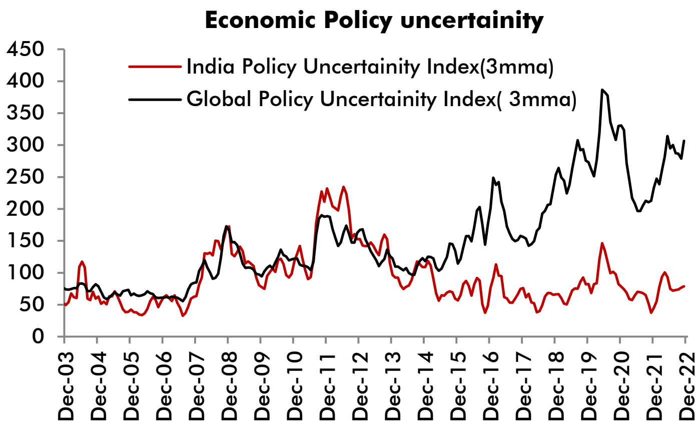
Source: Ambit Capital research, Bloomberg. Latest data as of 5th Jan, 23.

Exhibit 44: Nifty's intraday volatility rises over last month



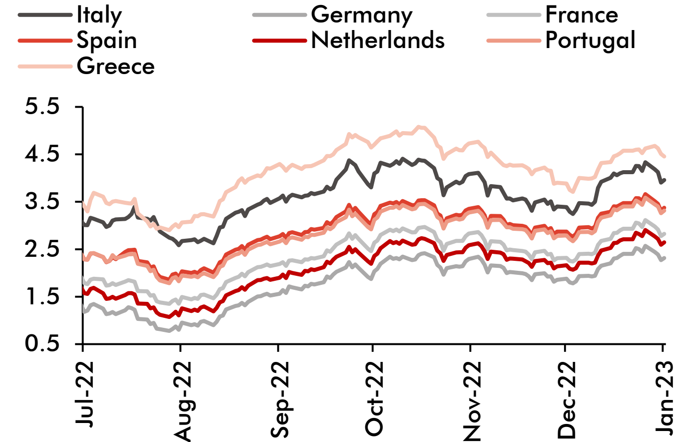
Source: Ambit Capital research, Bloomberg. latest data up to 5th Jan'23

Exhibit 45: Policy uncertainty in India relative to the world remains muted



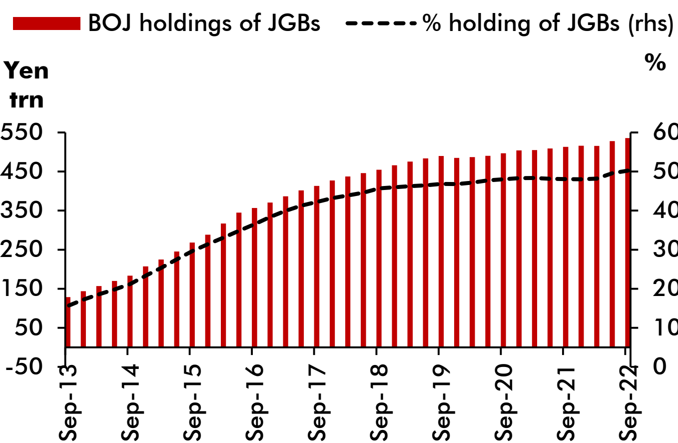
Source: Ambit Capital research, Bloomberg.

Exhibit 46: Bond yields in Europe's biggest economies rise as expectations of tightening grow



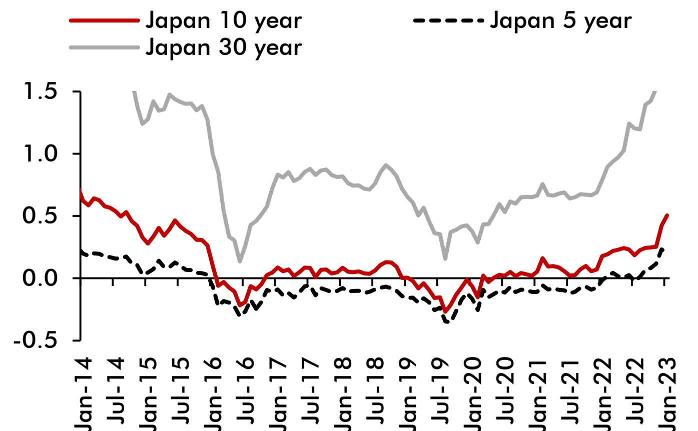
Source: Ambit Capital research, Bloomberg. Latest data up to 5th Jan, 23

Exhibit 47: Bank of Japan owns more than half of Japan's bond



Source: Ambit Capital research. Flows of funds BOJ, JGBs do not include "Treasury discount bills."

Exhibit 48: Japanese bond yields continue to rise after BOJ's policy tweak



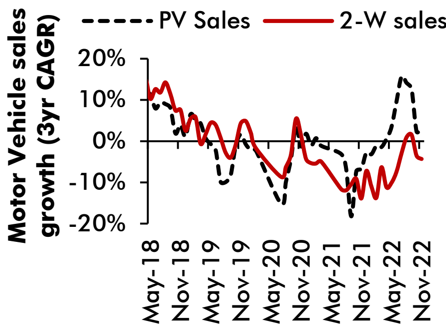
Source: Ambit Capital research, Bloomberg. Latest data up to 5th Jan'23

While these can have global implications, India appears well-placed to ride the uncertainty with bulk of the earnings driven by the domestic cyclicals. Additionally, economic recovery has been resilient, the inflation trajectory albeit higher is still not as steep as it is in DM, and government policies such as production-linked incentive schemes have lifted business sentiment and strong FDI flows. It reflects in the Indian policy uncertainty index which remains muted as compared to the global policy uncertainty index. Nonetheless, amidst these events, India VIX has expanded as well.

3. Divergence between urban and rural consumption continues

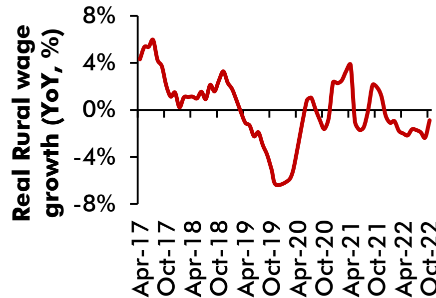
Multiple high-frequency indicators suggest India's consumption is currently witnessing a diverging trend between the urban formal sector and the predominantly informal-rural economy. Currently, rural India is facing a double whammy – a lack of non-farm jobs and elevated inflation. Elevated demand for the jobs under Mahatma Gandhi Rural Employment Guarantee Act (MGNREGA) scheme is an indicator of the tightening of the non-farm rural labour market. Surplus labour is contributing to low growth in the nominal wages of people living in the countryside. Low growth in nominal wages coupled with elevated inflation would continue to keep the purchasing power of rural Indians suppressed. On the other hand, the rapid formalization of the economy has been a silver lining for India during the pandemic. Formal sector hiring, which picked up significantly post 2nd wave of the pandemic, continues to show double-digit growth in FY23YTD over the previous year. Favourable labor market conditions have helped increase the purchasing power of the formal sector. Passenger vehicle and real estate sales, 2 major indicators of urban discretionary spending continue to show impressive numbers.

Exhibit 49: Urban and rural consumption have shown diverging trends in FY23



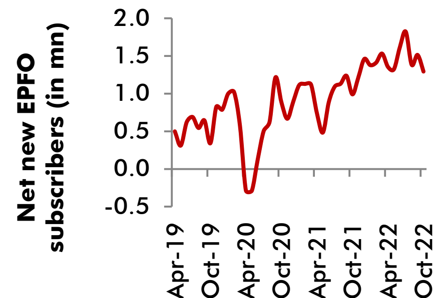
Source: CEIC, Ambit Capital research

Exhibit 50: Rural real wage growth has been in negative territory for 11 months in a row



Source: RBI, CEIC, Ambit Capital research. Note: Real rural wage growth has been derived by normalizing nominal wage growth using agricultural inflation.

Exhibit 51: Formal sector job addition remained strong in CY22 as well

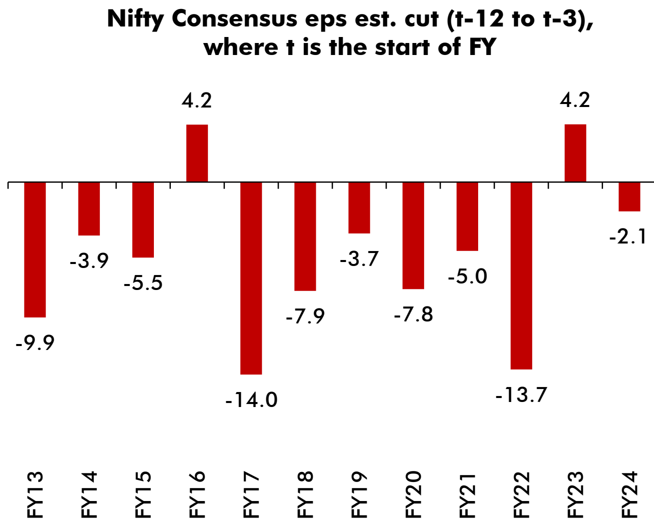


Source: EPFO, Ambit Capital research. Note: 1) EPFO- Employee Provident Fund Organisation 2) Net EPFO- News Subscribers + Those who rejoined the scheme - Those who left the scheme

…but earnings to remain resilient

In our G&C 18.0 edition, we highlighted that BFSI earnings growth would determine the trajectory of FY23 earnings growth, which appears stable. While BFSI will contribute the bulk of the earnings growth in FY24, its contribution would come off substantially from 83% in FY23E to 34% in FY24E and any material miss hereon can alter Nifty's earning trajectory. Our banking analyst Pankaj believes that while NIMs may see some compression 2 quarters ahead, material earnings downgrades look unlikely. Auto, Oil & Gas and IT are the other major contributors to FY24 earnings growth.

Exhibit 52: FY24 EPS trajectory is one of the best in the decade



Source: Ambit Capital research, Bloomberg. latest estimates as of 31st December 2022

Exhibit 53: BFSI to drive FY23/FY24E earnings growth

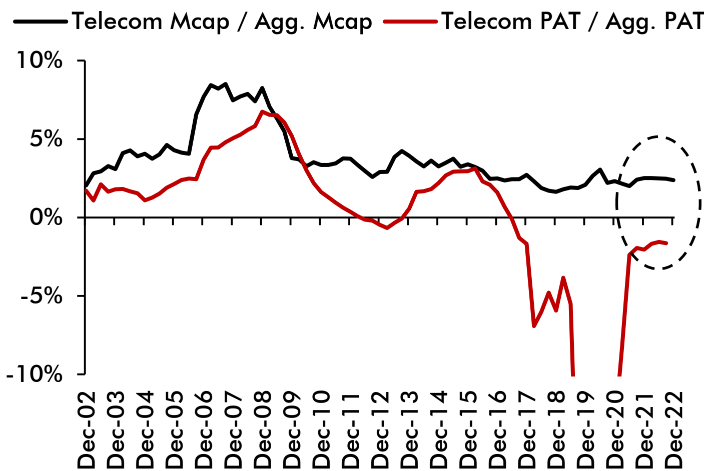
Sector	Nifty EPS growth			Sector-wise contributi to EPS growth		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E
BFSI	32%	29%	16%	25%	83%	34%
IT	13%	5%	15%	5%	6%	11%
Oil & Gas	38%	4%	15%	15%	6%	14%
Consumer	10%	19%	14%	2%	11%	6%
Auto / Auto Anc	1116%	205%	67%	4%	27%	16%
E&C / Infra / Cap. Goods	-24%	32%	24%	-3%	9%	5%
Metals and Mining	223%	-38%	2%	36%	-55%	1%
Utilities	29%	-8%	9%	3%	-4%	2%
Pharma	19%	53%	17%	1%	9%	3%
Cement	70%	-19%	24%	2%	-2%	1%
Telecom	128%	131%	64%	8%	7%	5%
Retail	120%	49%	20%	1%	1%	0%
Healthcare	578%	-8%	42%	1%	0%	0%
Chemicals	23%	27%	19%	0%	2%	1%
Nifty EPS	46%	11%	17%			
Nifty EPS (ex-Financials)	46%	7%	18%			

Source: Ambit Capital research, Bloomberg. latest estimates as of 31st Dec'22

O&G and Telecom no more a drag…

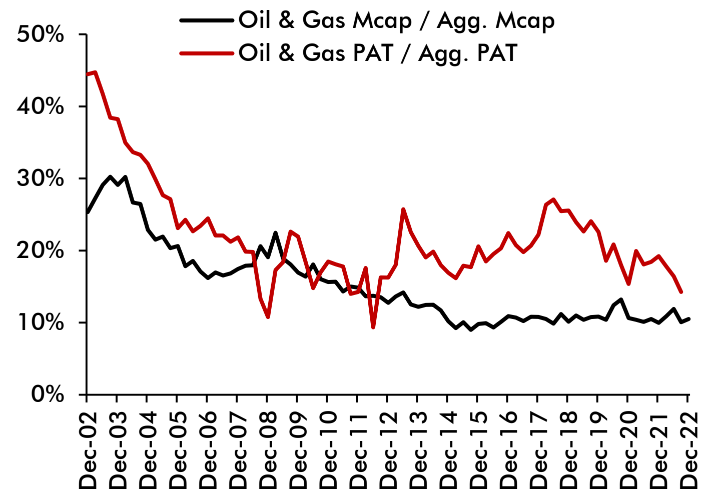
We look at those two sectors which have been a drag on earnings in the recent past: O&G and Telecom. Over the last decade, the telecom sector has seen the worst with fierce battles, uncertain capital deployment, and massive losses, resulting in low returns on equity. However, telecom with only three private players left is now geared to reap its fruits as they will generate FCF even after investing for growth on the back of ARPU reset, deleveraging for some, and capitalization of new opportunities guaranteeing valuations premium (Airtel and Jio) and healthy profitability. Telecom's mcap contribution stands at two-decade low of 2%. With telecom's profitability to improve, we don't see it dragging overall earnings. Airtel features in our G&C portfolio and has outperformed Nifty by 9% since then. On the other hand, OMCs have been saddled with losses, driven by negative marketing margin on diesel driving the profit pool contribution to the lowest! We are past the worst, and things look better from here on.

Exhibit 54: Telecom's profitability is set to improve further



Source: Ambit Capital research, Bloomberg. Latest PAT data is of 30th Sept'22(rolling 4-quarter sum) and market cap data as of 31st Dec'22.

Exhibit 55: O&G contribution to the profit pool is one of the lowest in the decade

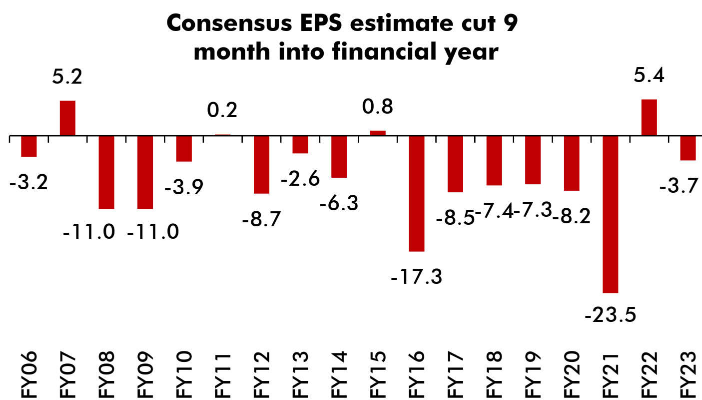


Source: Ambit Capital research, Bloomberg. Latest PAT data is of 30th Sept'22(rolling 4-quarter sum) and market cap data as of 31st Dec'22.

Dichotomy between earnings growth and GDP growth

India's GDP in FY21 and FY22 was marred by the pandemic which not only affected business activity but also consumption across various segments. In real terms, GDP contracted by 6.6% YoY in FY21 and grew by just 1.5% in FY22 over pre-pandemic FY20. RBI has projected GDP growth of 7.1% in FY23 (vs Ambit's estimate of 6-6.5%). What concerns us is that when the base effect wanes in 2HFY23, GDP would grow by only 4.3% YoY. Despite the unimpressive GDP expectations, the consensus EPS cut in FY23 (first 9 months) has only been 3.7%. This is half of what was seen during pre-pandemic FY16- FY20, where EPS cut during the first 9 months ranged between 7.3% and 17.3%. But, the IMF revision for CY22 and CY23 GDP has been much starker. Why?

Exhibit 56: Nifty's FY23 EPS estimate cut is lower than what was seen in the 5 years before the pandemic...



Source: Bloomberg. Ambit Capital research. Latest estimates are as of 31st December 2022.

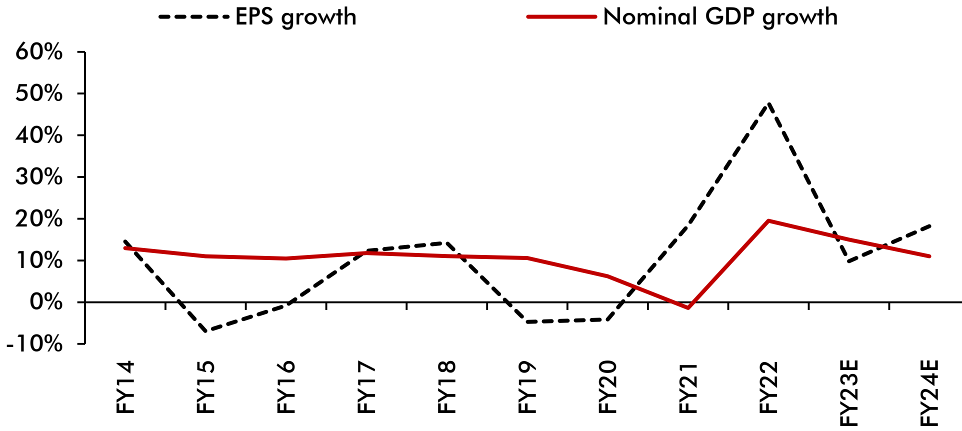
Exhibit 57: ..while India's real GDP Growth estimate was revised significantly

Real GDP growth estimation	CY22	CY23
Jan'22	9.00%	7.10%
April'22	8.20%	6.90%
Jul'22	7.40%	6.10%
Oct'22	6.80%	6.10%

Source: IMF, Ambit Capital research

Formal sector has emerged out to be the clear winner during the pandemic. This explains the optimism driving lower EPS cuts as listed companies form a major part of the organized space in India. The dichotomy between GDP growth and EPS growth is due to the performance of the unorganized sector, which continues to reel under pressure. India's unorganized/informal sector contributes to ~50% of the GDP and employs ~85% of the workforce. We believe GVA growth of this segment coupled with lower purchasing power caused consumption stress of the unorganized sector would be a drag on the overall GDP growth. Given that GDP is much broader than the output of the listed companies, GDP growth and EPS growth may not always move in tandem.

Exhibit 58: EPS &GDP growth estimates are diverging in FY23 and FY24



Source: CEIC, Bloomberg. Ambit Capital research. Latest estimates are as 31st Dec, 2022.

Evaluating sectoral attractiveness

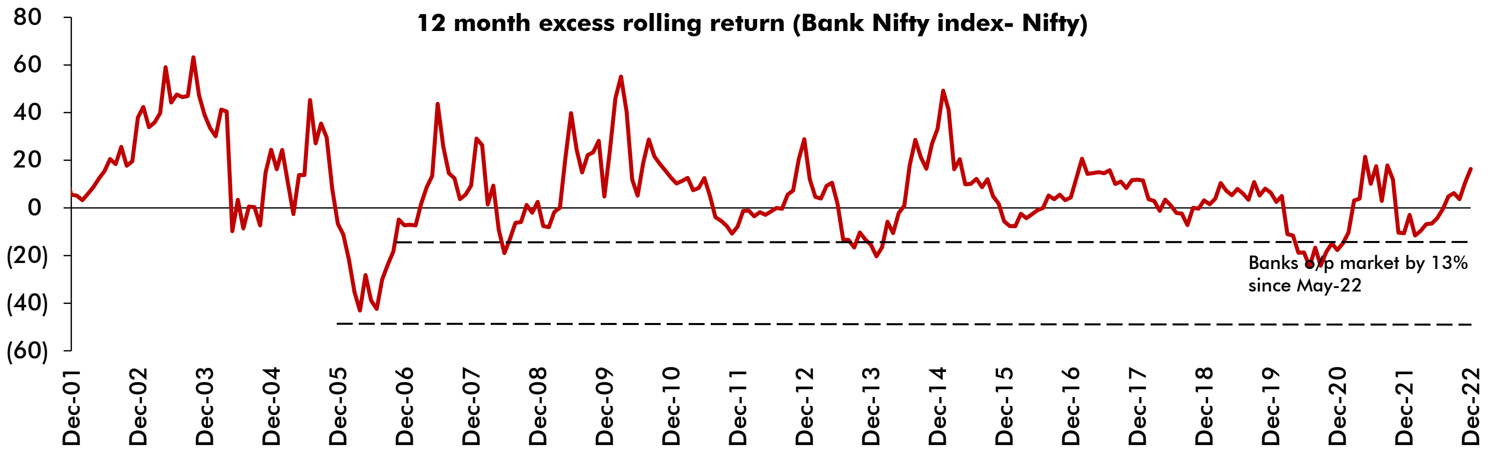
An evaluation of sectoral attractiveness on four parameters – 1. Excess returns. 2. Relative valuation. 3. Earnings estimate sustenance. 4. Ownership of the Sector – suggests taking off some weight from Banks and adding some weight in IT (UW -> neutral). We also keep Auto and Capital Goods as key UWs. On the other hand, Pharma and Metals appear attractive.

"Sectoral attractiveness" determination is a key attribute for determining portfolio allocation. We evaluate sectoral attractiveness on four key parameters:

1. "Mean reversion" determined by excess returns

We define excess returns of the sector as the 12-month rolling return differential of a sector w.r.t. market. The idea behind tracking these excess returns is that there is an anchoring bias in play and investors look at how much the sector has outperformed/underperformed Nifty over the last 1 year. "Extreme outperformance can breed reversion to mean and so does extreme underperformance". In May (slides 30-33), we highlighted banks' underperformance w.r.t market is close to historical troughs and historically – this in itself serves as a great signaling tool. The key is to look at sectors that are at the turning points.

Exhibit 59: The underperformance of the banks w.r.t market was close to troughs in May. Banks rallied!

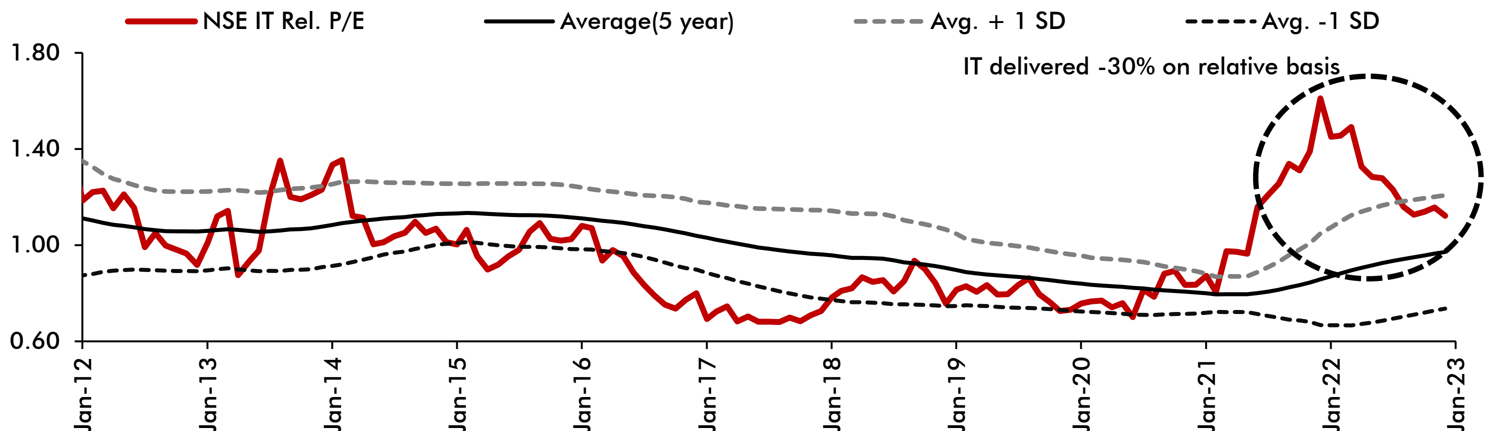


Source: Bloomberg, Ambit Capital research. Latest data as of 31st Dec 2022.

2. "Relative valuation"

The relative valuation of the sector w.r.t. market is the second variable for evaluating sector attractiveness. The crux is "Entry multiples matter!". As highlighted in the Availability Factor(AF) note, AF of Indian equities is contracting as demand for Indian Equities (23% CAGR) is outstripping supply of equities (13% CAGR over the past 5 years), which has manifested in higher "trough multiples".

Exhibit 60: The expensive relative valuation of the IT sector weighed on the returns



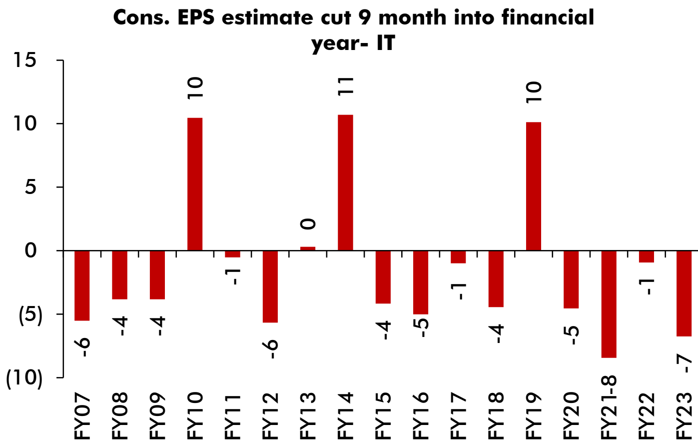
Source: Bloomberg, Ambit Capital research. Latest data as of 6th Jan 2023.

To account for this, it makes sense to look at relative valuation. How the extreme relative valuation of IT/Banks manifested in abysmal/good returns. Both the first and second variables are based on the principle of "mean reversion". The drawback with this analysis is that sometimes mean reversion can be slower, as it happened with mid-caps in 2018-19!

3. Earnings estimate sustenance

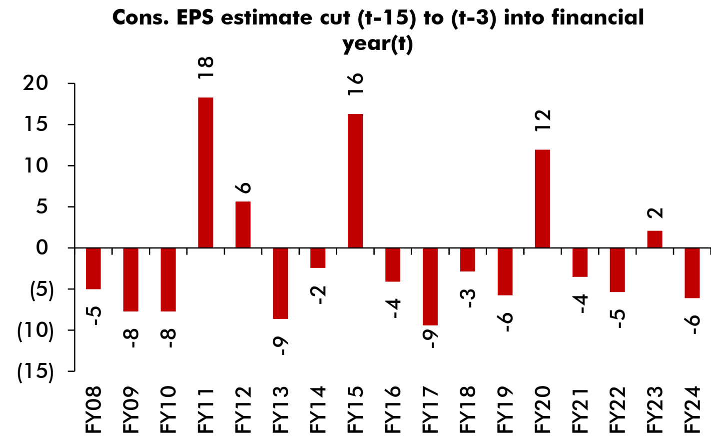
We look at earning estimate sustenance across sectors and compare with the historical trend over the last decade. This gives us an idea of whether earnings cuts are reaching business cycle lows or they are already showing reversion like in case of O&G. This is the third variable of our sectoral positioning framework.

Exhibit 61: FY23 estimate cut is 2nd worst ever for IT



Source: Ambit Capital research, Bloomberg

Exhibit 62: FY24 EPS cut also towards higher end



Source: Ambit Capital research, Bloomberg ***Note:*** t is the start of the FY and t-15 is 15 months before the FY start

4. Ownership

The ownership of the sector by DMF is the last variable of our sectoral evaluation. If the sector is under-owned and the mean reversion begins to manifest on price and valuation, this can add legs to the rally! We look at ownership of the sectors by comparing domestic MFs' allocation with index weights. The perfect way would be to compare the entire institutional investor ownership with the index weights, but since FII data comes with a lag, we have considered DMF as the representative.

This is how the sector looks like on our framework right now.

Exhibit 63: How sectors look on our framework

Sectors	NSE500 weights (%)	Excess Returns	Relative Valuation	Earnings Estimate Sustenance	DMF Ownership	G&C Positioning
Auto	6.0	Neutral	Unattractive	Close to worst	Significantly Overweight	UW
Banks	20.1	Neutral	Neutral	Robust	Significantly Overweight	OW
IT	10.7	Very attractive	Unattractive	One of the worst	Neutral	Neutral
Pharma	5.0	Attractive	Attractive	Close to worst	Significantly Overweight	OW
FMCG	9.2	Unattractive	Neutral	Robust	Significantly Underweight	UW
Metals	3.2	Attractive	Very attractive	Close to worst	Significantly Underweight	OW
O&G	10.0	Neutral	Attractive	Reversion in FY24	Significantly Underweight	UW*
Capital Goods	6.5	Neutral	Very unattractive	One of the worst	Neutral	UW

Source: Ambit Capital research, Bloomberg Note: Scores are assigned for excess returns, relative valuation and classified into 5 quintiles,, 0-0.20 scores as very unattractive, 0.20- 0.40 as unattractive, 0.40-0.60 as Neutral,0.60-0.80 as attractive, and 0.80 to 1 as Very attractive. Ownership is calculated as difference between Equity holdings of DMF's and NSE500 sector weights. +/- 5% are defined as neutral, 5-15% as underweight/overweight, >15% are classified as significant OW/UW. Earnings estimate sustenance has been calculated based on comparison of how earnings estimates evolution for current FY and next FY.

Two key themes likely to play out

Value outperformance is likely to continue

Since Mar'20, the value factor (low P/E) has outperformed growth (high P/E) as well as market and this trend has held strong in CY22 too. A part of this can be explained by the duration of the value and growth of stocks. Since a significant portion of the inherent value of growth stocks is dependent on future cash flows, the duration is higher and as such in a rising interest rate environment we expect growth stocks to underperform. The comparison of CY18 vs CY19 performance brings this point to the fore. As interest rate declined, growth outperformed value! The reversal seems to have manifested post Mar-20. The duration of the value stocks is lower, and amidst uncertainty has outperformed the market. With the interest rates likely to be higher as compared to the CY19-20 period, we expect value outperformance will continue.

Exhibit 64: Value outperformance is likely to persist

	PE Quintles	CY18	CY19	Mar'20-Dec'20	CY21	CY22	2HCY22	4QCY22
Low P/E	Q1	-27%	-21%	88%	38%	13%	29%	13%
	Q2	-19%	-9%	78%	27%	-2%	17%	3%
	Q3	-18%	-6%	70%	38%	-9%	11%	1%
	Q4	-18%	-2%	62%	43%	-7%	13%	-3%
High P/E	Q5	-22%	-3%	45%	33%	-13%	7%	-6%
	Q1-Q5	-5.0%	-18.1%	43.3%	5.4%	25.5%	21.6%	19.5%
	Gsec yield(Avg)	7.7%	6.9%	5.9%	6.2%	7.2%	7.3%	7.3%
	NSE500 return	-3.4%	7.7%	64.6%	30.2%	3.0%	15.4%	4.2%

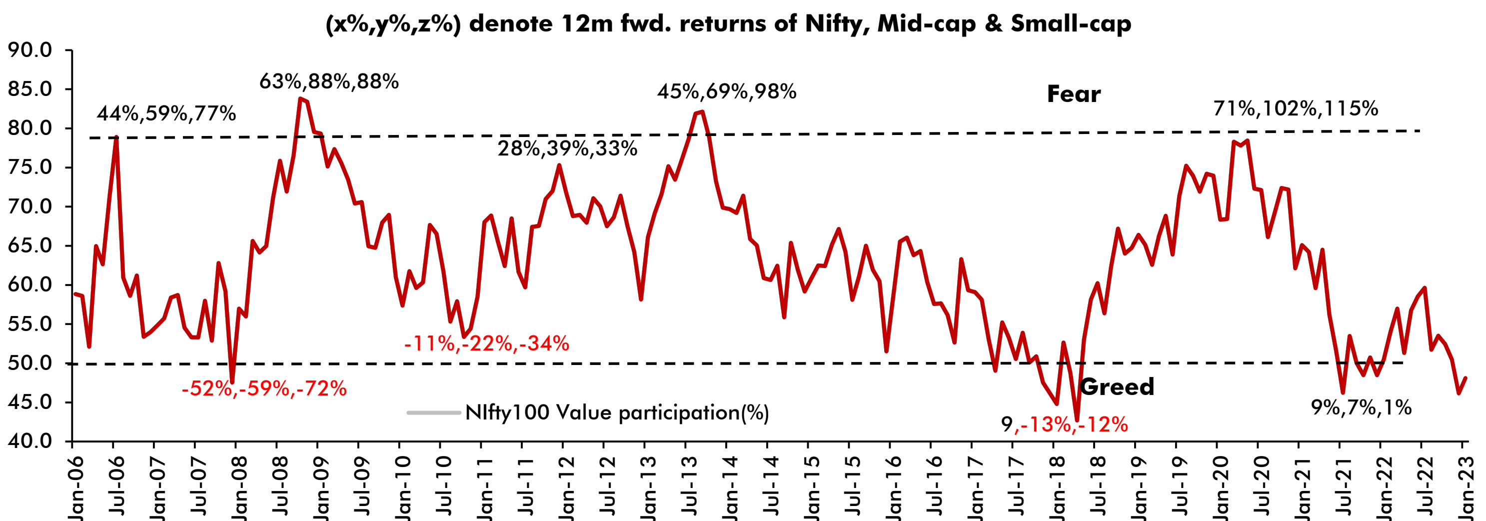
Source: Ambit Capital research, Bloomberg. Note: NSE500 index as of every start date has been considered; Q1 indicates 'Low P/E' and Q5 indicates "High P/E'

Cautious on small-caps and mid-caps

Greed vs fear indicator: Tilted towards Greed in Dec'22.

We define the greed vs fear indicator by Nifty 100 value participation, which is at the lowest level since May'18. If Nifty 100 value participation is high, it indicates fear is dominating the market and activity is higher in large-caps and vice-versa. When fear becomes excessive, markets rally over the next 1 year, and small-caps and mid-caps outperform Nifty, and vice-versa. The greed vs. fear indicator has been significantly lower in 2HCY22, indicating likelihood of mid-cap and small-cap underperformance over the next 12 months. Our relative preference remains large-cap> mid-cap> small-cap.

Exhibit 65: Portfolio tilted towards large-cap are likely to outperform

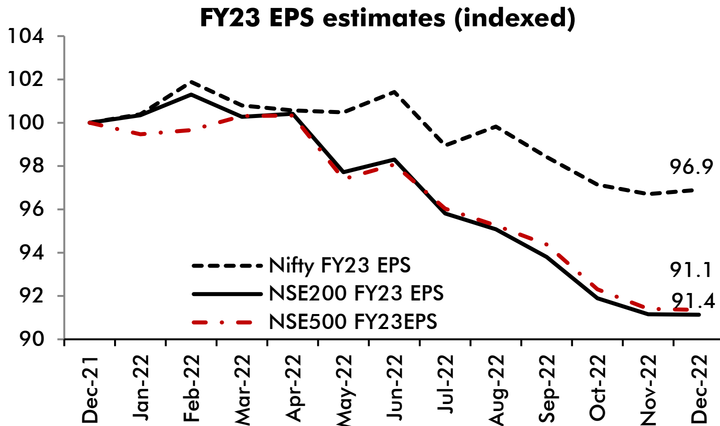


Source: Ambit Capital research, Bloomberg. Data updated till 5th Jan,2023 Note: Nifty mid-cap 100 and BSE small-cap index have been used

Earnings estimates are more sustainable in large-caps

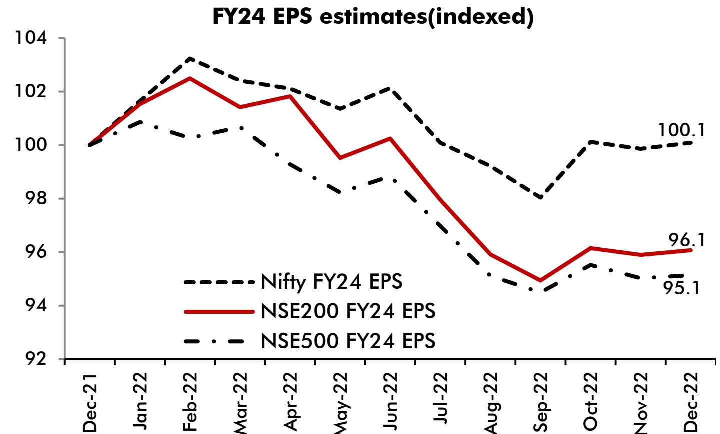
As we move down market cap, there is a significant divergence in earnings estimates trajectory. Since Mar-22, NSE500, NSE200 and Nifty FY23 EPS has been cut by 8.9%, 8.6%, and 3.1% respectively, implying that earnings estimates are more sustainable in large-caps. Likewise, Nifty FY24 EPS has remained stable since Dec-21 while NSE200 and NSE500 FY24EPS estimates have been cut by 3.9% and 4.9% respectively.

Exhibit 66: Nifty EPS estimates have held up compared to the broader index for FY23...



Source: Ambit Capital research, Bloomberg. Latest estimates as of 31st Dec 2022

Exhibit 67: ...and for FY24

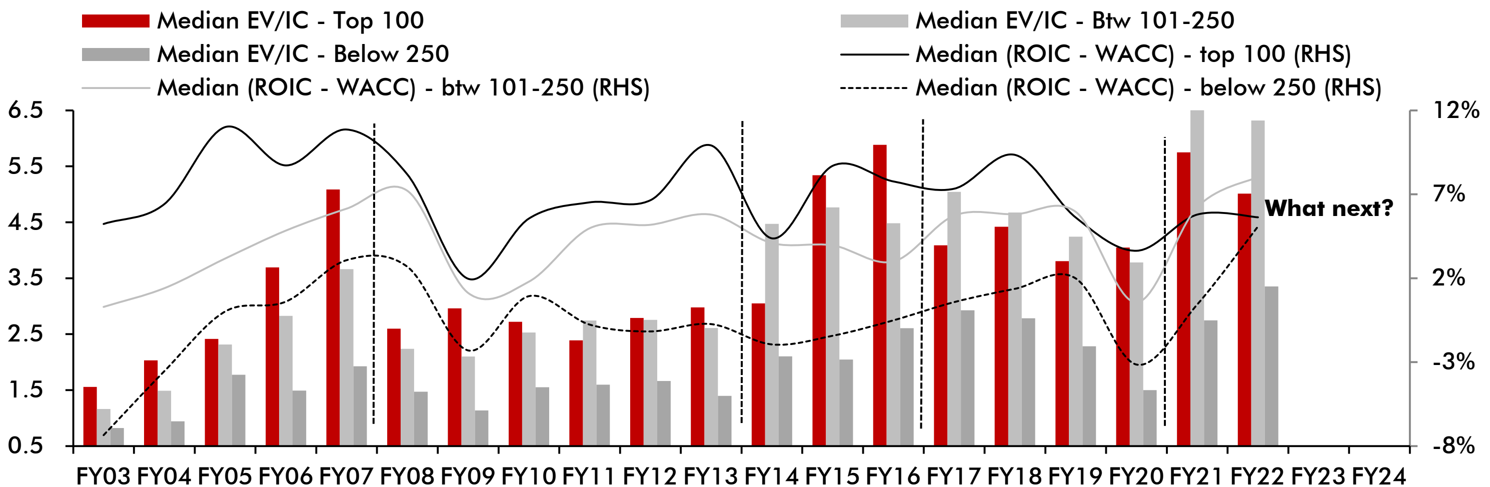


Source: Ambit Capital research, Bloomberg. Latest estimates as of 31st Dec 2022

EV/IC multiples for mid-caps and small-caps are close to all-time highs!

Mid-caps and small-caps (ROIC-WACC) have converged with large-caps and we notice that mid-caps' enterprise value/invested capital (EV/IC) is currently the highest since 2003. History suggests this excitement will be short-lived. Please refer to this note for details. The investment in capital and reinvestment rates has been abysmal in small-caps and mid-caps over the last 10 years. Going ahead, RoIC-WACC spreads are likely to decline for small and mid-caps led by RoIC contraction, which in turn would necessitate EV/IC multiples to come down.

Exhibit 68: Median spreads (ROIC-WACC) improved in FY21/22 across large, mid and small-caps. But history suggests improvement in spreads alone (FY08-13 and FY17-19) does not keep EV/IC at the top for long!



Source: Ambit Capital research, ACE equity; EV is calculated as mcap + total debt – cash – current investment; invested capital is calculated as total assets – cash – current investment

– current liabilities – other non-current assets; all values taken for computing EV/IC pertain to 31-March of each year; mcap is taken as at 30 June every year except FY22 where mcap is taken as at 05 Sep 22; universe is BSE500 (ex-BFSI); ROIC is calculated as net operating profit after tax/invested capital, WACC is calculated by taking expected market returns as cost of equity and actual interest rate as cost of debt

Key sectoral calls

Banks maintain OW but reducing the extent

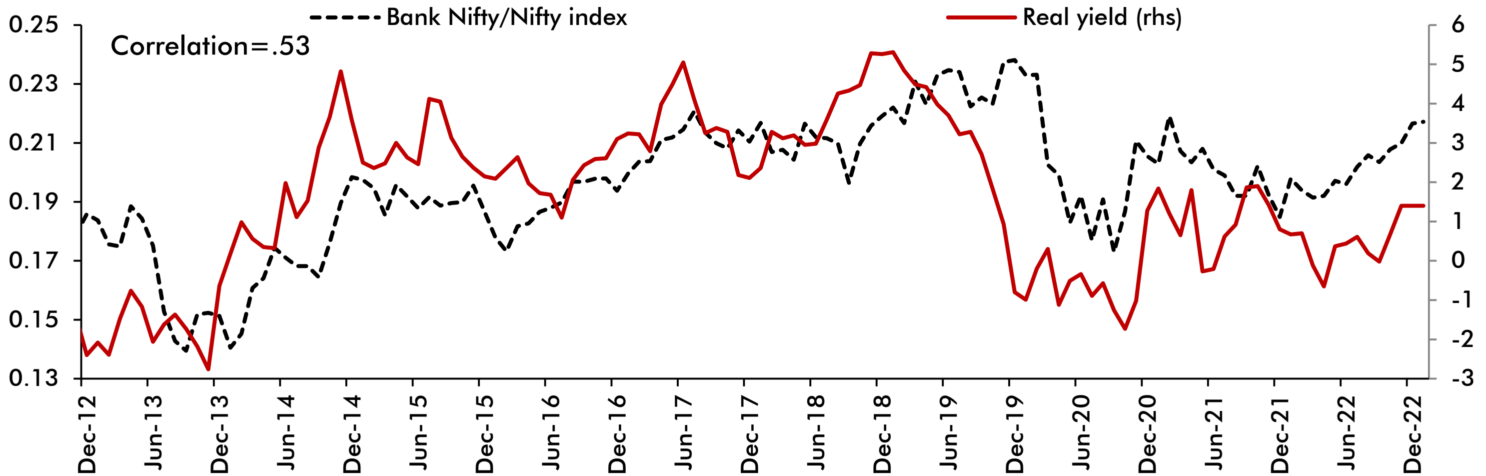
In G&C 18.0, we highlighted our OW stance on BFSI given stable earnings trajectory, play on real yield expansion, attractive valuations and mean reversion based on excess returns (12-month rolling return differential). Since 5th May'22, banks have outperformed Nifty by 13% and delivered 22% returns on absolute basis.

Change in Stance: OW to moderate OW.

Rationale

We remain OW on BFSI given the earnings trajectory has not changed materially, but real yields expansion from current levels look difficult. Banks outperform market as real yield expands. The valuations may not look expensive on an absolute basis, but the bond yield book yield differential for predicting bank annual returns has turned adverse, predicting -2% returns for Bank Nifty. The book yield, bond yield differential model for predicting bank returns has been built on similar lines as earnings yield, bond yield differential model for markets. The excess return predictor is no longer as attractive as compared to May.

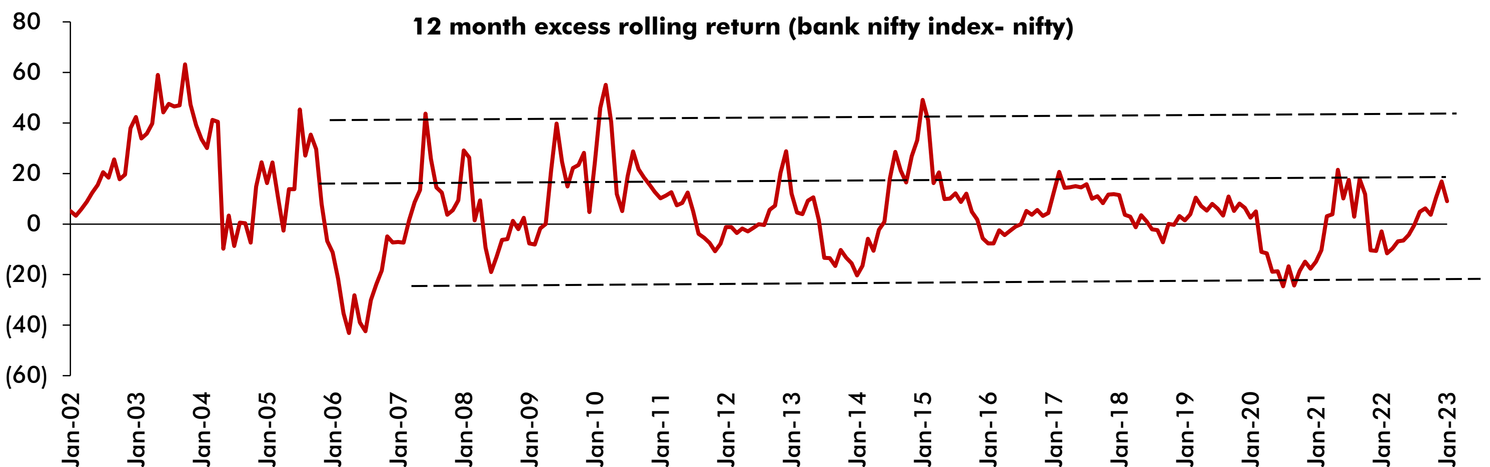
Exhibit 69: A further expansion in real yield can drive banks' outperformance over Nifty



Source: Bloomberg, Ambit Capital research. Latest data as of 6th Jan 2023.

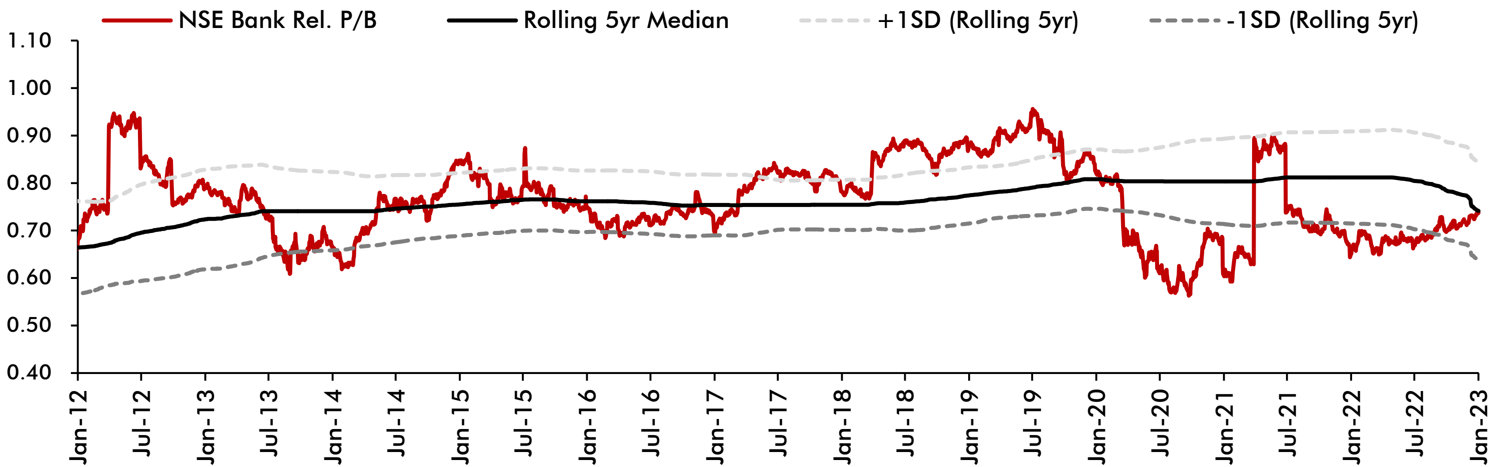
The correlation between real yield and bank index/Nifty jumps to .78 for Nifty private bank index vs .53 for bank Nifty index. On excess returns, banks' outperformance w.r.t Nifty on 12-month rolling basis is reaching lower peaks. While outperformance may continue, excess return indicator doesn't look as attractive as they were in May.

Exhibit 70: The "excess returns" of banks are reaching lower peaks, 7 months back it was close to troughs



Source: Bloomberg, Ambit Capital research. Latest data as of 6th Jan 2023

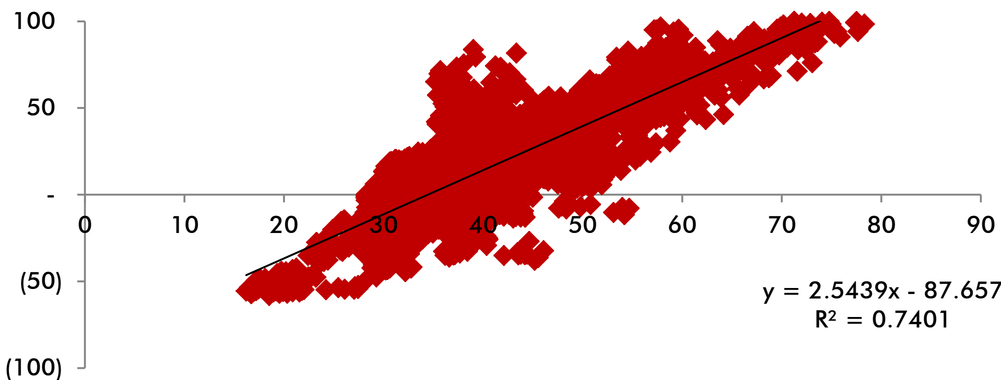
Exhibit 71: Bank Nifty relative valuation stands at 5-year median; in May, it was at (-1) standard deviation



Source: Bloomberg. Ambit Capital research. Latest data as of 4th Jan 2023

Our book yield bond yield differential model for banks, adapted from our earnings yield, bond yield for the market, explains 74% of the 1-year forward returns and predicts limited returns (-3%) from banks over the next 1 year. In May, it was predicting 17% returns over the next 1 year. Bank Nifty has delivered 22% since then.

Exhibit 72: Our model predicts muted returns for banks over next 1 year



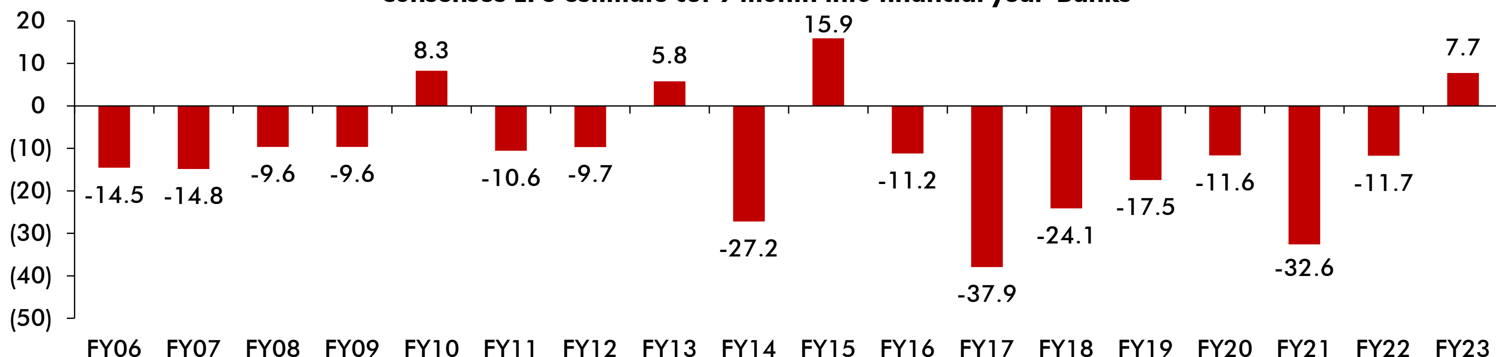
Source: Bloomberg, Ambit Capital research, x refers to book yield- Gsec differential and y is the 1yr fwd. return. Latest data as of 4th Jan 2023

For the complete review of our bank call, please refer to our analyst note" banks set to outperform" dated 5th-May 22 and slides 30-33 of "State of Market: Greed and Fear indicator turns away from greed" dated 27th May-22. *The most important question going ahead is on earnings estimates.*

Are earnings estimates sustaining?

The earnings estimate trajectory for Bank Nifty has been downward sloping almost every year in line with the broader market. Since FY06, there have been only 3 instances when Bank Nifty EPS growth was revised upwards. FY23 is one of them; BFSI as an aggregate is likely to contribute 36% of FY24 EPS growth.

Exhibit 73: FY23 EPS estimate has been revised up 7.7%, a rarity and third best since FY06



Source: Bloomberg, Ambit Capital research. Latest estimates as of 31st Dec 2022

Moreover, earnings estimates are sustaining not only at the aggregate level, but also at an individual level for individual stocks for FY23 and FY24. Amongst heavyweights, only HDFC Bank witnessed earnings cut (1.8% in FY23) since Mar-22 and the trend is similar for FY24 with KMB being the only stock witnessing the EPS downgrade. But the bigger question – is the trajectory sustainable?

Exhibit 74: Earnings trajectory remains robust for most banks

Bank Nifty Index constituents	FY23(EPS)				FY24(EPS)			
	Over last month	Since 30th Sept'22	Since 30th Jun'22	FY23 (YTD)	Over last month	Since 30th Sept'22	Since 30th Jun'22	FY23 (YTD)
SBI	0.2%	10.6%	5.3%	4.2%	0.7%	6.9%	6.8%	1.7%
Kotak	0.0%	4.7%	2.9%	5.9%	0.0%	0.4%	1.2%	-9.3%
Federal	0.2%	9.1%	11.2%	10.0%	0.2%	7.1%	7.4%	7.4%
HDFC Bank	0.0%	1.1%	-0.6%	-1.8%	0.1%	-1.0%	-2.0%	8.9%
ICICI	1.1%	4.9%	7.9%	9.9%	0.7%	3.5%	5.4%	27.6%
IndusInd	-0.1%	2.8%	3.8%	2.9%	0.4%	3.0%	2.6%	14.4%
Axis	0.1%	12.8%	17.4%	14.6%	0.0%	7.4%	9.8%	33.8%
Punjab National	0.1%	-7.4%	-31.7%	-41.8%	-0.1%	9.9%	-2.4%	-12.5%
AU Small Finance	0.0%	-2.3%	-7.1%	-6.9%	0.0%	-3.6%	-5.0%	22.4%
IDFC First	0.0%	4.2%	21.2%	35.1%	0.0%	-1.2%	6.1%	69.2%
Bandhan Bank	-5.3%	-22.4%	-26.1%	-19.0%	-2.5%	-12.5%	-12.6%	27.5%
Bank of Baroda	0.4%	16.2%	25.2%	21.2%	0.6%	14.2%	21.5%	25.6%

Source: Ambit Capital research, Bloomberg. Latest data is up to 31st Dec, 2022

Can there be a positive revision in estimates? Are current estimates sustainable?

Our banking team have highlighted two key trends in their note *How long will the dream last?* in agreement with our view:

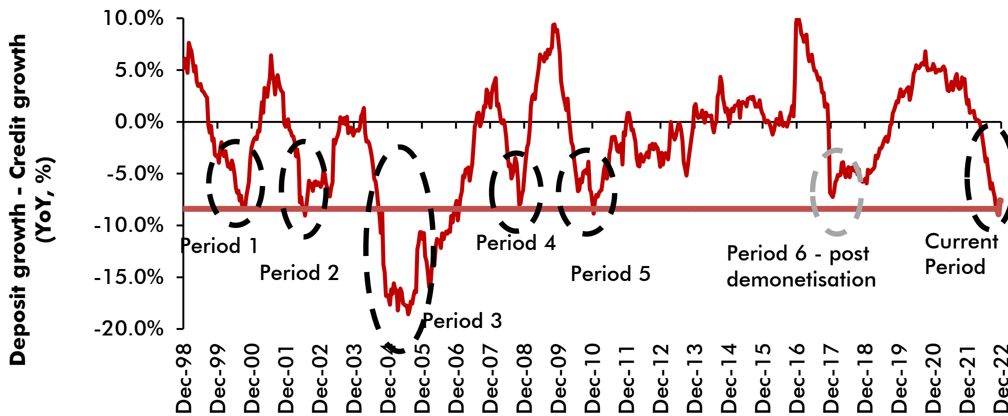
- In the next 12 months, deposit growth has high potential to pull down loan growth along with NIMs.
- Robust asset quality should ensure that healthy profitability will continue.

We believe there would not be any surprises on upside hereon as NIMs of the banking sector will tend to be lower in 2HFY23/FY24 vs 1HFY23. But at the same time banks with a higher share of MCLR-linked loans, higher liquidity buffers and higher share of retail deposit are better-placed to manage growth/NIM trade-off. Also, robust asset quality should ensure healthy profitability will continue and earnings sustenance hereon.

Loan growth should moderate along with NIMs

Loan growth hovers at 17-18% YoY, deposit growth for banks is languishing at 9.3% as of mid-Dec'22. The difference between loan growth and deposit growth is ~807bps now. This quantum of negative spread between deposit and credit growth was witnessed 7 times in this century. Similar to the current situation, the gap between loan growth and deposit growth in the past was always a result of acceleration in loan growth with deposit growth remaining static. In all previous instances, loan growth moderated eventually.

Exhibit 75: Current spread between deposit growth & credit growth has been witnessed 7 times in the last 2 decades

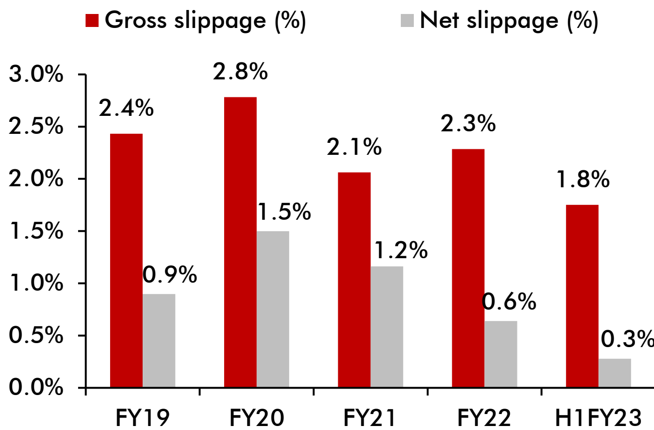


Source: Bloomberg, Ambit Capital research

Robust asset quality should ensure that healthy profitability will continue

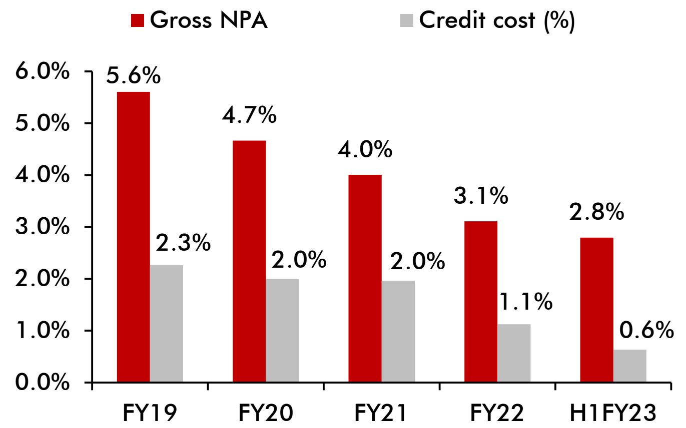
Asset quality has significantly improved for banks with consistent decline in gross NPA ratio, credit cost and slippages. Gross NPA ratio, fresh slippages and credit cost for the banking system stand at the best levels in the last 5 years. This has driven ROA/ROE of the banking sector to multi-year highs.

Exhibit 76: Incrementally, net slippages have come off sharply



Source: Company, Ambit Capital research, gross/net slippage is calculated as weighted average of sample size – HDFCB, ICICIBC, AXSB, KMB, IIB, SBIN, RBL, AUBANK, FB, CUBK, DCBB.

Exhibit 77: Declining stock of GNPLs and benign credit cost cycle



Source: Company, Ambit Capital research, gross/net slippage is calculated as weighted average of sample size – HDFCB, ICICIBC, AXSB, KMB, IIB, SBIN, RBL, AUBANK, FB, CUBK, DCBB.

Audit of Performance:

What went right? Banks outperformed market and returned 6% vs Nifty100 (0%). While Axis Bank and Federal Bank outperformed market, ICICI Bank underperformed.

What went wrong? The execution. We selected only 3 banking stocks and went OW on BFSI instead of banks including 2 stocks from NBFC (Bajaj Finance, LIC Housing Finance) and Insurance Stocks (HDFC Life, ICICI General Insurance).

What's the change? We are adding SBI Life, HDFC Bank and Bank Nifty to our portfolio. We are reducing weight on Bajaj finance to 4.1% (6% previously). We exclude seven stocks SBI cards, HDFC Life and ICICI Lombard. We have reduced our exposure to NBFC and Insurance.

What can go wrong? Our portfolio doesn't include PSU Banks which are in strong momentum and have been the biggest outperformers in 2022. And the trend might continue.

Changing direction on "IT"

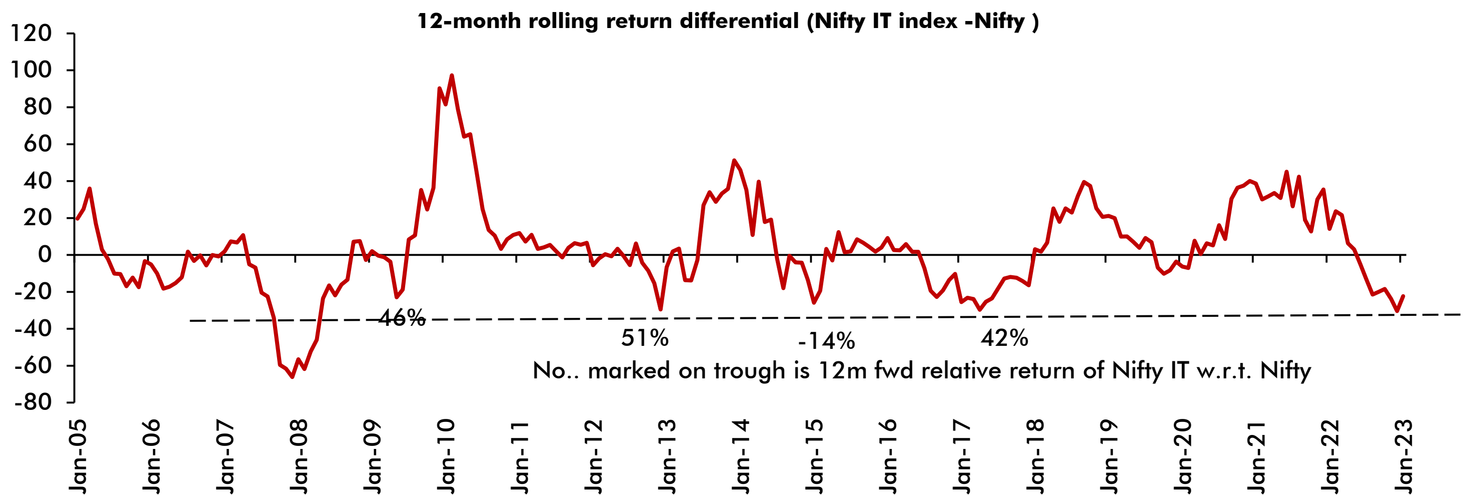
IT has been our key sectorial underweight since May 22, with weak macro and recession in the US manifesting in weak deal wins and slowing growth. This has been our fundamental call and reflected in G&C 18.0 portfolio. Expensive valuations also didn't provide comfort. Since May, IT has underperformed Nifty by ~9%.

In Revisiting our key recommendations – Big Winners, Small Losers dated 7th Nov, we highlighted the risks to our fundamental call as excess return differential bottomed out, earnings estimates downgrades come to an end and relative valuation turned reasonable. While our IT analyst maintains sell calls, we see tactical opportunity in IT.

Stance Change: UW to Equal Weight. **Rationale ?**

"Mean reversion" signaling outperformance: The relative performance of IT w.r.t. Nifty is close to the historical trough. Historical evidence suggests the end of underperformance of IT with mean reversion manifesting in outperformance over the next 12 months.

Exhibit 78: In all instances, IT has outperformed Nifty significantly over the next 12 months



Source: Ambit Capital research, Bloomberg. Latest data as of 4th Jan 2023.

From the troughs, these are the IT returns over the next 6/12/24 months on an absolute and relative basis.

Exhibit 79: IT outperformed Nifty significantly over the next 12 months in most instances on absolute...

Absolute Basis	6m	12m	24m
Jun-09	66%	69%	89%
Dec-12	10%	58%	86%
Jan-15	-2%	-5%	-17%
Apr-17	9%	41%	68%
Nov-17	23%	32%	35%
Oct-19	-9%	34%	121%
Median	10%	38%	77%
Average	16%	38%	64%

Source: Ambit Capital research, Bloomberg

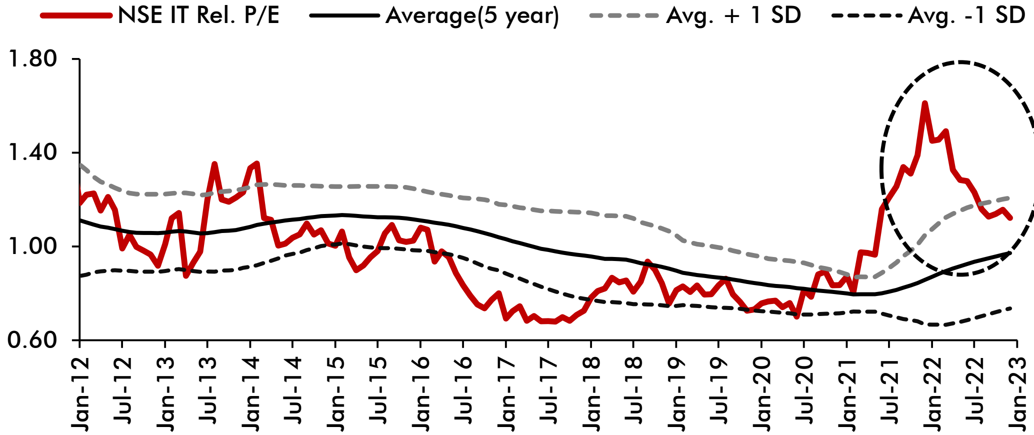
Exhibit 80: ....and on a relative basis

Relative basis	6m	12m	24m
Jun-09	45%	46%	58%
Dec-12	11%	51%	46%
Jan-15	1%	9%	-14%
Apr-17	-2%	25%	42%
Nov-17	18%	25%	17%
Oct-19	8%	36%	72%
Median	9%	31%	44%
Average	14%	32%	37%

Source: Ambit Capital research, Bloomberg

Moderation in valuations: The valuations have also moderated with relative PE multiple contracting from 1.28x in May-22 to 1.11x and are below 1 standard deviation. On an absolute basis, the P/E multiple has contracted from the Dec'21 peak of 37x to current levels of 26x, a 32% correction.

Exhibit 81: The NSE IT relative P/E has moderated below +1 SD

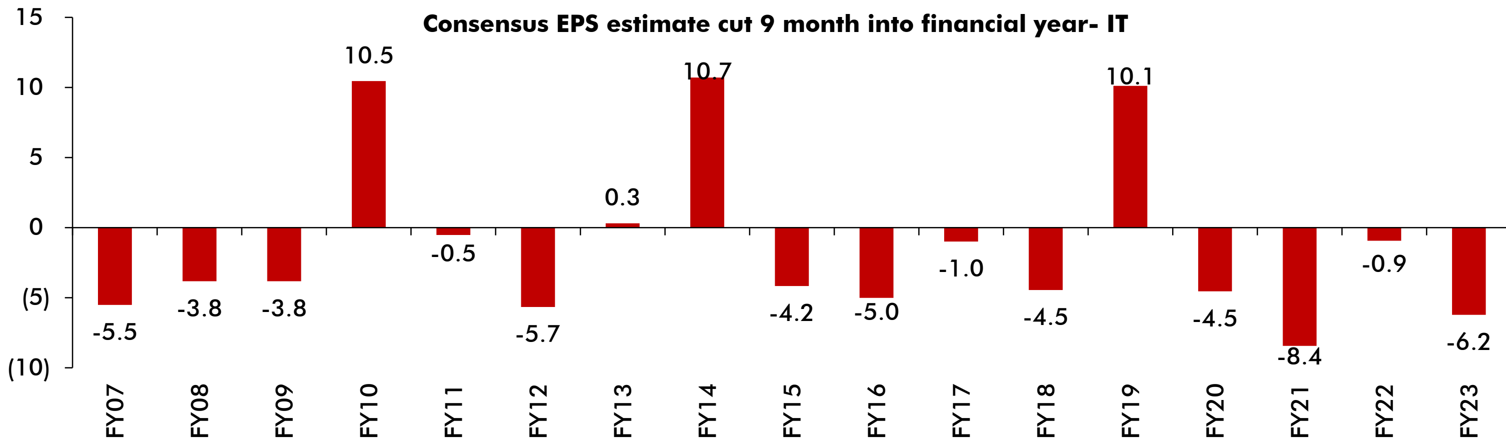


Source: Bloomberg, Ambit Capital research

EPS downgrades for the Nifty IT were second-worst ever in FY23

Over the last 17 years, "earnings downgrades cut 9 months into the financial year" were the steepest in FY21 driven by Covid disruption and FY23 was the second worst. What's important is that earnings downgrades have stopped since Sep-22 and are close to cyclical lows!

Exhibit 82: Nifty IT's FY23EPS trajectory has seen the second-worst downgrade over the last 17 years



Source: Bloomberg. Ambit Capital research. Latest estimates as of 31st Dec, 2022

Over the last 3m, earnings estimates have been upgraded for most of the NSE200 IT stocks. Barring Mphasis, Tech Mahindra, and Wipro, FY23 numbers have increased for most companies. Likewise for FY24 earnings estimates! Notice the divergence since Sep-22 and earlier!

Exhibit 83: Majority of the Nifty IT constituents witnessed positive earnings revision in 3QFY23

Nifty IT Index constituents	FY23(EPS) revision				FY24(EPS) revision			
	Over last month	Since 30th Sept'22	Since 30th Jun'22	FY23 (YTD)	Over last month	Since 30th Sept'22	Since 30th Jun'22	FY23 (YTD)
Coforge	0.0%	1.0%	-3.6%	-6.1%	0.0%	0.8%	-3.2%	-4.6%
HCL Technologies	0.0%	2.3%	-1.7%	-5.6%	0.2%	2.3%	-3.1%	6.1%
Infosys	0.1%	0.6%	-2.7%	-8.2%	0.0%	0.7%	-2.3%	6.4%
L&T Technology Services	0.0%	1.3%	-1.0%	-3.1%	0.0%	-1.3%	-1.5%	13.2%
LTIMindtree	0.3%	2.0%	1.6%	-3.3%	0.1%	1.7%	-1.1%	11.5%
Mphasis	0.0%	-1.8%	-3.5%	-5.0%	0.0%	-2.9%	-6.4%	10.1%
Persistent Systems	0.0%	4.2%	5.9%	9.9%	0.2%	3.2%	4.6%	32.0%
Tata Consultancy Services	0.1%	0.6%	-2.5%	-3.9%	0.0%	1.0%	-2.3%	8.5%
Tech Mahindra	0.2%	-2.4%	-11.7%	-17.9%	-0.1%	-2.6%	-9.8%	-3.3%
Wipro	0.0%	-4.6%	-12.5%	-17.0%	-0.1%	-3.9%	-10.6%	-3.4%

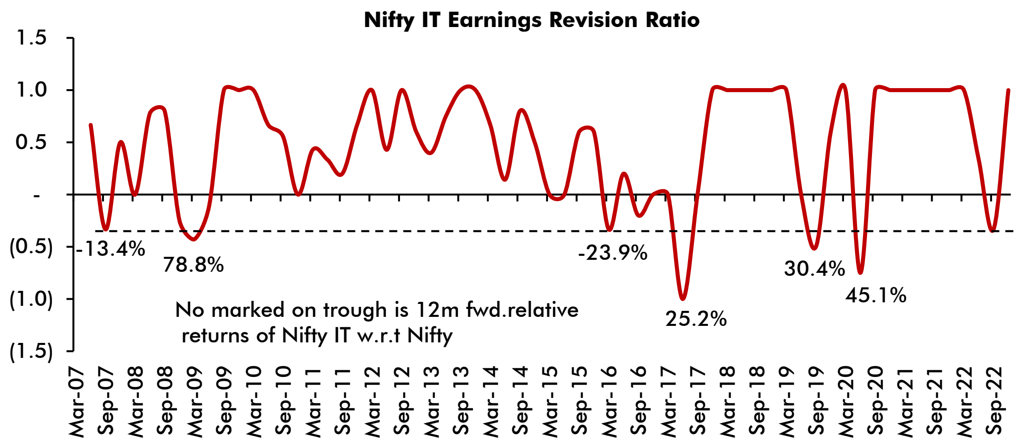
Source: Bloomberg, Ambit Capital research. Latest estimates as of 31st Dec 2022.

What is the earnings revision ratio telling us?

"Earnings Revision Ratio" defined as (no. of stock upgrades – no. of stock downgrades)/(no. of stock upgrades + no. of stock downgrades) is closer to troughs. ERR is a contrarian indicator, especially on the negative side with the worst Nifty ERR associated with Nifty IT outperformance.

Why contrarian indicator? The cyclical lows can be a good indicator of peak pessimism. In 4/6 instances associated with trough ERR, Nifty IT has outperformed Nifty massively. The trough was hit in Sep-22; the relative returns have been -1% since then. Historical evidence indicates a good probability of this differential converging.

Exhibit 84: From troughs, Nifty IT has outperformed Nifty over next 12 months on 4/6 instances



Source: Ambit Capital research, Bloomberg. Nifty IT NER is calculated by tracking changes in 1-year fwd. earnings estimates of Nifty's IT index constituents on a quarterly basis, where upgrades and downgrades are defined as 3% change over the period.

Though fundamentally, our IT Analyst remains cautious considering:

- Worsening macro/client financials and impact on tech-spends;
- F500 client financials, especially across BFSI/Retail/Hi-Tech (~55% revenue mix at Tier-1 IT) and Europe, face material deterioration in CY23E;
- Moderating large deal wins (34/27% YoY decline at Infosys/Wipro); and
- Margin recovery likely below pre-Covid levels as costs are sticky and uptick in travel/facility/discretionary costs is pending.

With macro issues surfacing and more segments getting affected, growth should normalize to pre-Covid by FY24E; margins though bottomed out could recover to below pre-Covid levels; and with cash generation moderating, valuations can come under pressure.

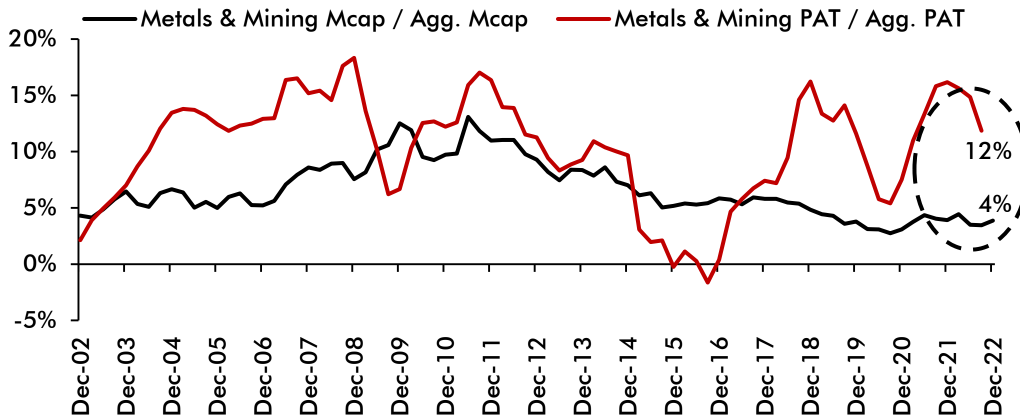
Audit of Performance

HCL Tech outperformed the market delivering 10.3%, while Tech Mahindra underperformed the market delivering -7.4%. We add TCS to our portfolio as we rebalance our IT position to neutral. Our IT stocks outperformed the market on aggregate basis

Increasing allocation toward Metals

On our "Sectoral attractiveness" framework, Metals appear a likely candidate to go overweight. Digging deeper, we observe a huge divergence in the Metals market cap and PAT contribution to the overall NSE500 market cap and PAT pool. The PAT contribution of Metals in Jun'22 was 15%, near peak levels of ~16% over the last decade (*temporary headwinds in Sept'22 due to China's curb, however, remains resilient ~12%*). MCAP contribution is close to a two-decade low at 4%. With bankruptcy risk gone due to deleveraging of balance sheets, the "Metals profit pool" is not expected to disappear. With huge divergence in profit and market-cap contribution, we expect market capitalization to increase. The valuations are not expensive either!

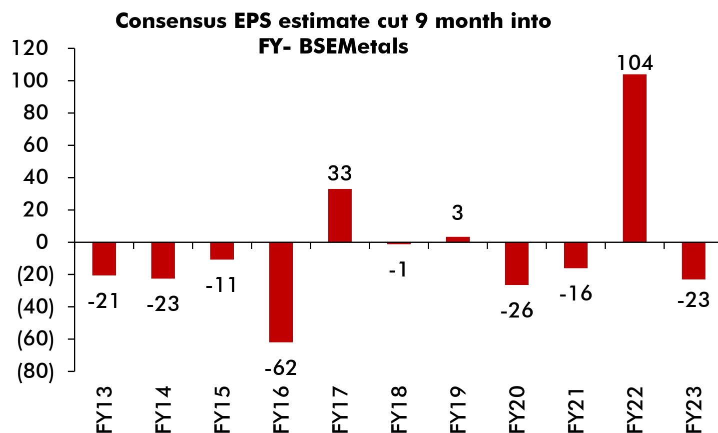
Exhibit 85: Huge divergence in Mcap & PAT contribution; convergence is likely!



Source: Ambit Capital research, Bloomberg. Latest PAT data is of 30th Sept'22(rolling 4-quarter sum) and market cap data as of 31st Dec'22

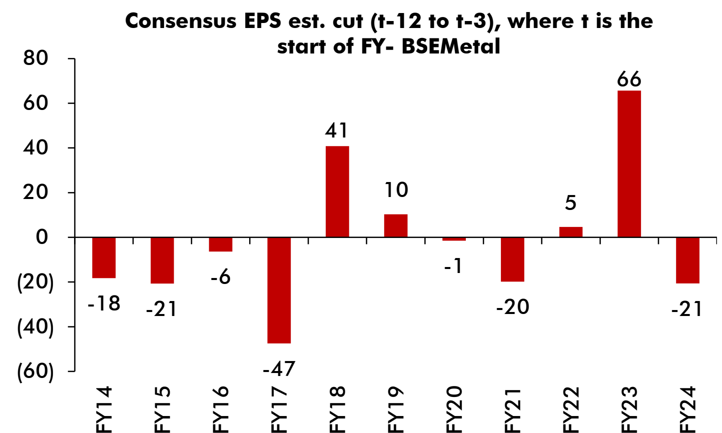
China opening up after abandoning its "Zero-Covid" policy is a positive for Metals demand and margins. Our analyst recently wrote about China's Central Economic Conference, one of the most important events for metal. Post easing cycle in 2020 and tightening in 2021, China is likely to maintain a neutral policy bias for the second consecutive year (2022 & 2023). Chinese credit impulse bottomed at 23-24% in late 2021 but should remain at 25-26% through CY23, well short of the 32-33% peak in late 2020. China is conscious it needs to stabilize growth and diffuse systematic financial risks, but also cognizant of high leverage in the system, and doesn't want to open floodgates. The lagged impact of neutral/partly-accommodative policy and opening up of the economy should spur some revival in metals demand/margins in FY24. But a significant rebound appears unlikely in FY24.

Exhibit 86: The FY23 estimate cut is 3rd worst for Metals in the decade...



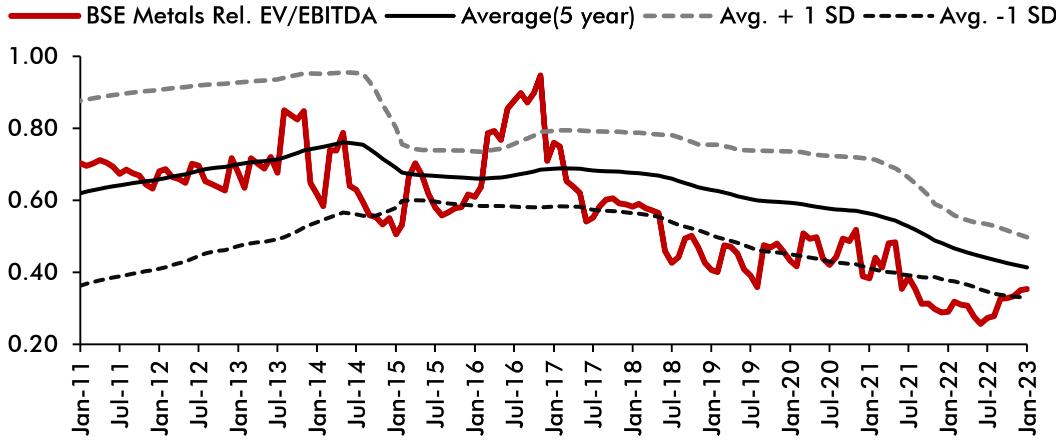
Source: Ambit Capital research, Bloomberg. BSE Metals Index

Exhibit 87: ...with FY24 EPS cut also towards the higher end



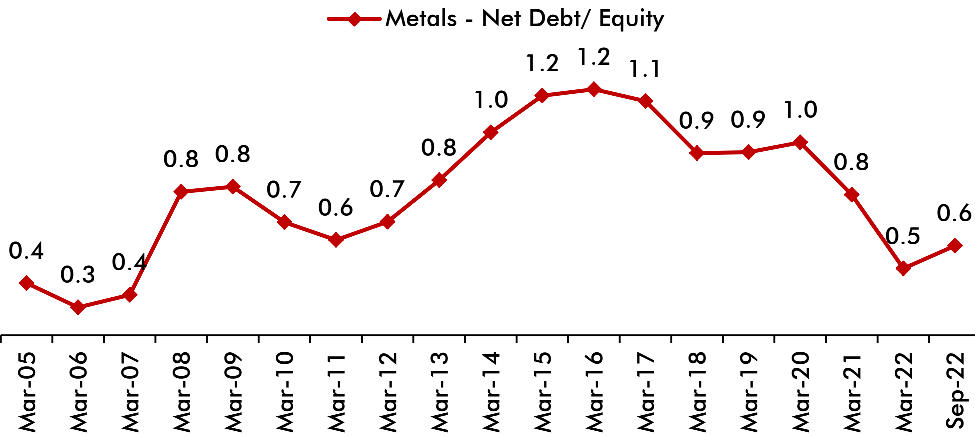
Source: Ambit Capital research, Bloomberg. BSE Metals Index

Exhibit 88: On a relative valuation basis, BSE Metals is trading below the 5-year average



Source: Company, Ambit Capital research. Latest data is as of 5th Jan'23, relative valuations defined as BSE Metals w.r.t Nifty's EV/12m trailing EBITDA

Exhibit 89: Metals B/S have deleveraged with net D/E falling from 1.2x to 0.6x over Sep'17-22



Source: Ace Equity, Ambit Capital research

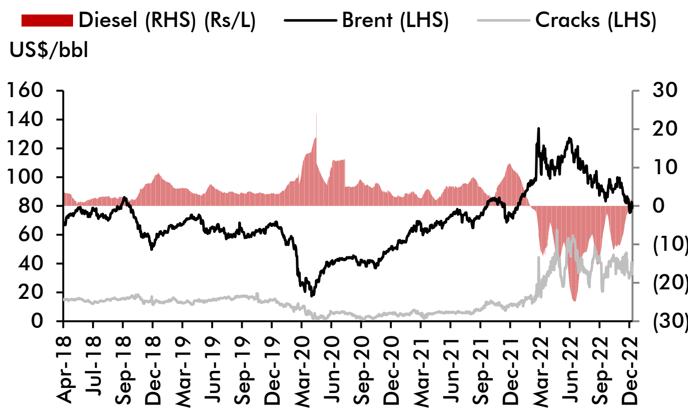
OMCs: Diesel crack reduction is the next trigger; meanwhile expect volatility

In Dec'22, OMCs' stock prices saw a sudden jump due to softness in crude oil. Hereon, triggers would be a further fall in crude price/gasoil cracks to US$70-75/US$20-25 per barrel. This is difficult to envisage unless sharp demand cuts happen due to Covid's re-emergence. Hence, we expect only a gradual valuation recovery. Further, many impending events like recovery of Chinese and aviation demand, EU embargo on Russian oil products from 05-Feb-23, and state elections in 2023 add to OMC profit uncertainties. Whilst we're positive on all three OMCs, we like BPCL/HPCL over IOCL due to high marketing exposure. Despite HPCL's greater marketing skew, we prefer BPCL due to the latter's prudent capex and better assets. Since we are cautious about crude oil, we prefer the more stable BPCL over HPCL.

Lower crude prices and gasoil cracks enablers of marketing margin recovery

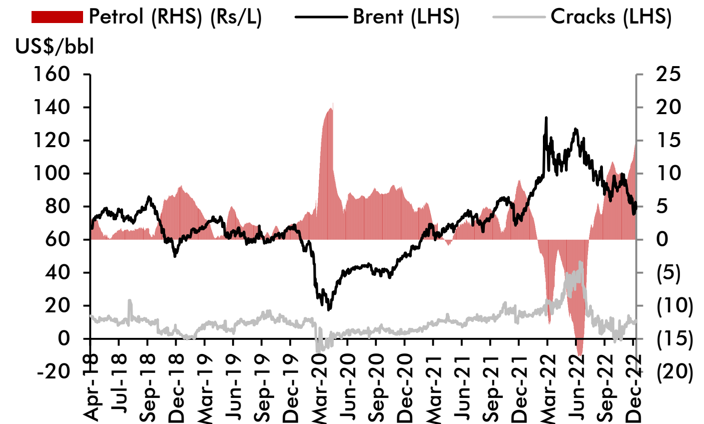
Petrol margins turned positive on 21-Jul-22 after 162 days of losses; since then margins averaged Rs8.3/L. Diesel margins turned positive on 07 Dec'22 after 299 loss days. Whilst softness in crude caused diesel margins to turn positive, petrol benefited from moderating cracks too. At our Brent assumption of US$88/bbl for FY24E, the gross marketing margin on petrol/diesel would be Rs5.7/Rs2.5 per litre assuming gasoline and gasoil cracks of US$10/US$20 per barrel. This would lead to an overall gross marketing margin of Rs3.6/L vs. loss in FY23E.

Exhibit 90: Diesel margins improved mostly due to oil price correction…



Source: IOCL, Bloomberg, Ambit Capital research; Note: Gross marketing margin is based on fortnightly average prices, Singapore gasoil cracks have been taken into consideration

Exhibit 91: …with petrol benefiting from lower crack spreads



Source: IOCL, Bloomberg, Ambit Capital research; Note: Gross marketing margin is based on fortnightly average prices, Singapore gasoline cracks have been taken into consideration

FY24-25E refining margins to sustain above 10-year average

We expect a sharp reduction in GRMs in FY24E/FY25E vs. FY23E as gasoil/ATF cracks would normalize. However, overall GRMs would remain above the historical average of US$8/bbl due to steady demand growth. We expect average GRM/bbl of US$9.9, US$10.6, and US$9.5 in FY24E-FY25E for BPCL, IOCL, and HPCL vs. US$18.6, US$20.1, and US$14.6 in FY23E. While a decrease in GRMs is negative for the refining segment, OMCs' marketing profits increase with the net impact being positive for OMCs.

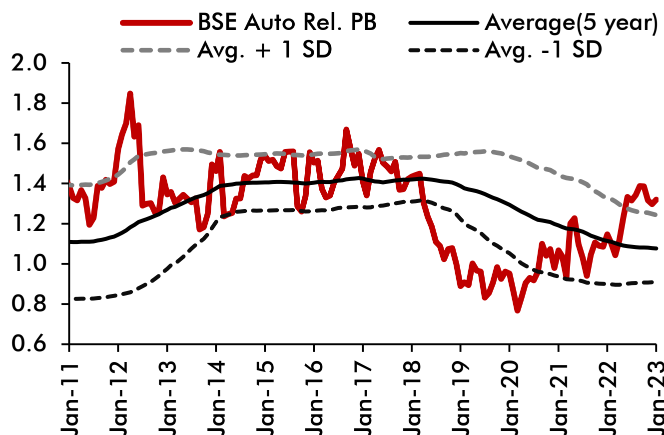
Valuations remain attractive

Although valuations rebounded from Jun-22 lows, HPCL, BPCL, and IOCL are still down 20%, 31%, and 24% vs. the last 10-year average, and 8%, 13%, and 9% lower vs. pre Russia-Ukraine war. HPCL, BPCL, and IOCL are trading at attractive valuations of P/B of 0.9x, 1.2x, and 0.8x of FY24E. Earnings recovery would be a key trigger for valuations to mean-revert.

Autos: Pricey valuations already factor margin revival

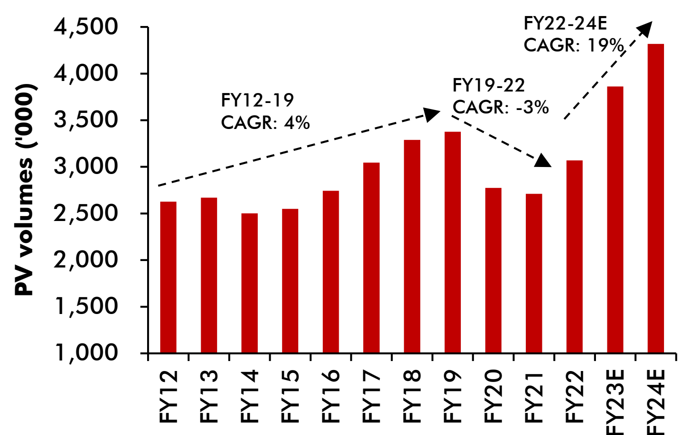
Auto is set to post strong growth in volume terms in FY23 since FY20, with domestic PV/2W/M&HCV segment volumes jumping 25-30% in the fiscal. However, these growths are on the top of a benign base in FY22 given the decline in FY19-22 owing to a series of challenges like regulatory (emission/safety related), Covid, supply shortages, etc. Supply chain shortages also resulted in robust order backlogs which were partly drawn down in FY23. However, from FY24, we expect growth rates to come down to more normalized levels on the FY23 base across the board for PV/2W/M&HCV OEMs. Moreover, with supply chain normalizing, resulting in shrinking order backlogs, we expect discounts to start inching back up, partly offsetting the benefits of falling input costs. OEMs who had postponed new launches will incur ad spends, which could put pressure on margins. Thus, with growth coming off, driving weak operating leverage benefits, discounts inching up and ad spends reviving, we expect weak profitability growth in FY23-25. Meanwhile, weak rural demand would continue to weigh on 2W demand, and tractors are also expected to deliver muted volume growth in FY23-25 on an elevated base. From a valuation standpoint, Nifty Auto is trading at expensive valuations and hence the benefits of margin revival are getting factored to a large extent.

Exhibit 92: On a relative basis, BSE Auto is trading above +1 SD



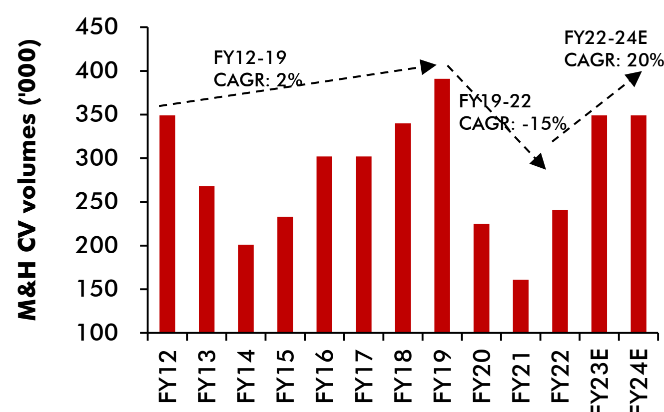
Source: Ambit Capital research, Bloomberg. BSE Auto P/B is relative to Nifty P/B

Exhibit 93: Volume growth appears high on the back of FY22 low base for passenger vehicles...



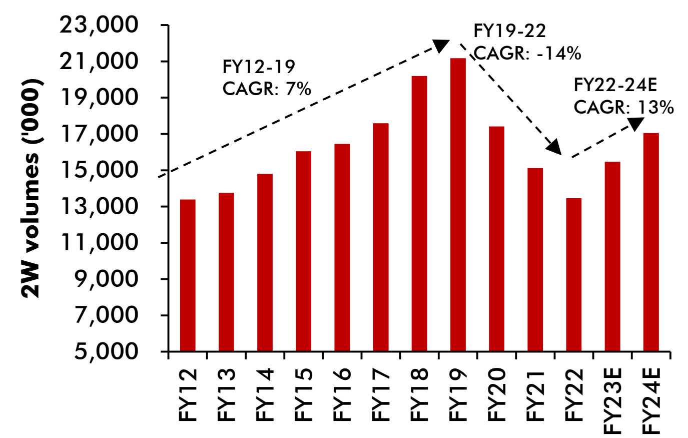
Source: Ambit Capital research, Bloomberg

Exhibit 94: ..For MHCV, the volume estimates are still lower than FY19...



Source: Ambit Capital research, Bloomberg

Exhibit 95: Exhibit 4: ...and for two-wheelers



Source: Ambit Capital research, Bloomberg

A glance at our G&C 18.0 portfolio

We revisit our G&C 18.0 portfolio launched in Sept '22. Our G&C 18.0 portfolio has underperformed the benchmark NSE100 index by ~122bps. While our OW stance on banks played out (outperformed by ~13%), our portfolio underperformed the market as the G&C portfolio was overweight on BFSI instead of banks. An execution error! O/W call on the Auto and Pharma sector didn't work out either, which dragged our overall portfolio performance. Laurus Labs, SBI Cards, and Amer were the biggest laggards while Axis Bank and VIP Industries were the biggest outperformers. Our preference order remains large-caps>mid-caps>small-caps. Our stance of small-caps has played out (underperformance over Nifty at ~12% since our call), while mid-cap has remained resilient.

The historical trend is not in favour…

The emergence of the fault lines coincides with the market's tepid underperformance in 1st quarter of the calendar year. Nifty usually performs worst in Q1 with median returns of 0.6 % (Q1) as compared to 1.4 % (Q2), 4.6 % (Q3), and 5.9% (Q4).

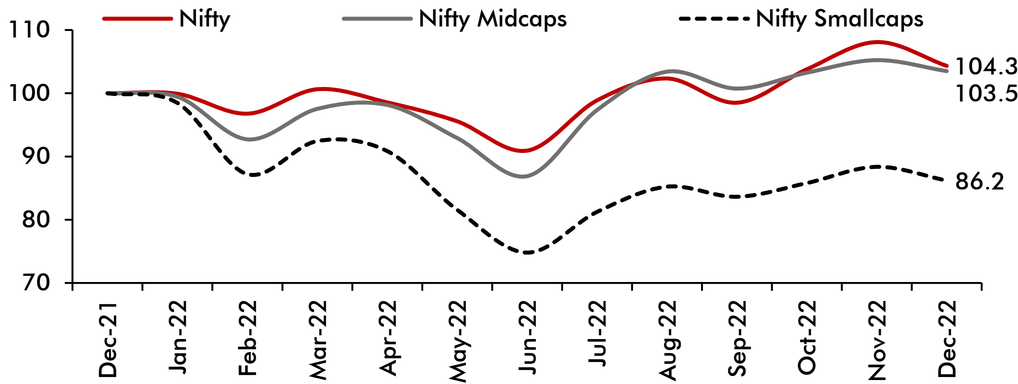
Exhibit 96: Historically, Q1(CY) has been a weak quarter for Nifty

Years	Q1	Q2	Q3	Q4
2000	3.2	-3.7	-13.6	-0.6
2001	-9.1	-3.5	-17.5	15.9
2002	6.7	-6.4	-8.9	13.5
2003	-10.5	15.9	24.9	32.6
2004	-5.7	-15	15.9	19.2
2005	-2.2	9.1	17.1	9
2006	20	-8.1	14.7	10.5
2007	-3.7	13	16.3	22.2
2008	-22.9	-14.7	-3	-24.5
2009	2.1	42	18.5	2.3
2010	0.9	1.2	13.5	1.7
2011	-4.9	-3.2	-12.5	-6.5
2012	14.5	-0.3	8	3.5
2013	-3.8	2.8	-1.8	9.9
2014	6.3	13.5	4.6	4
2015	2.5	-1.4	-5	0
2016	-2.6	7.1	3.9	-4.9
2017	12.1	3.8	2.8	7.6
2018	-4	5.9	2	-0.6
2019	7	1.4	-2.7	6
2020	-29.3	19.8	9.2	24.3
2021	5.1	7	12.1	-1.5
2022	0.6	-9.6	8.3	5.9
Summary				
Average	-0.8	3.3	4.7	6.5
Median	0.6	1.4	4.6	5.9
Proportion of Positive return	52%	57%	65%	70%

Source: Ambit Capital research, Bloomberg

In CY22, Nifty index delivered 4.3% returns, outperforming mid-caps by 0.8% and outperforming small-caps significantly by 18.1%. Our portfolio remains tilted towards large-caps and we remain cautious on small-caps and mid-caps.

Exhibit 97: Large-caps have outperformed mid-cap & smallcap in CY22

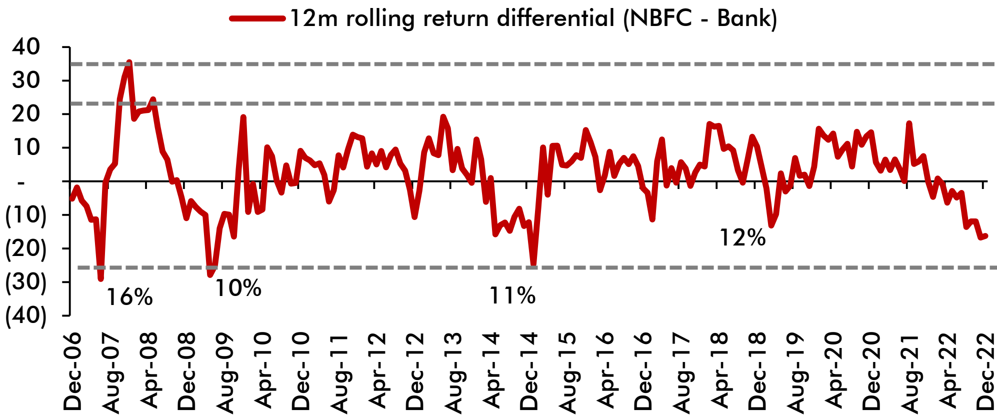


Source: Ambit Capital research

What will be on our radar?

We have reduced our weight in Bajaj Finance, which has been a big underperformer. The underperformance of the NBFC index* is still 10% away from peak levels. Business updates and relative valuation are the key monitorables here!

Exhibit 98: NBFCs' peak underperformance is still some distance away

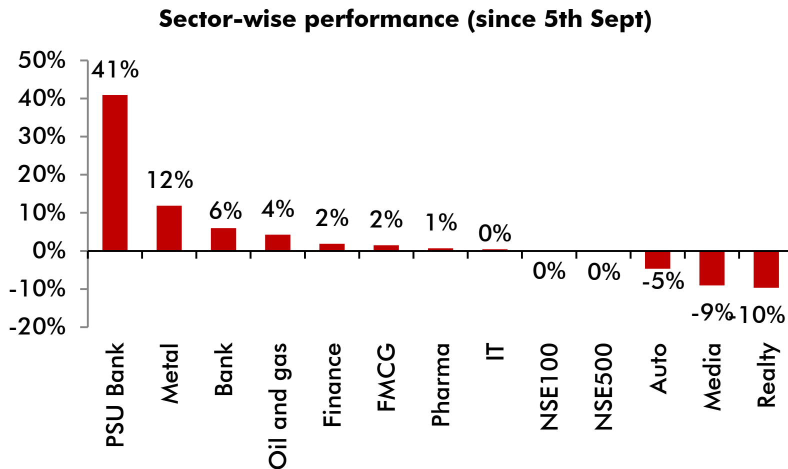


Source: Ambit Capital research

Audit of our portfolio returns

- Since 5th Sep-22, PSU banks were the biggest outperformers followed by Metals. Realty and Media were the biggest laggards. We had no PSU Bank in our portfolio. Nifty 100 delivered 0%, while Nifty 500 delivered (-0.1%) and G&C portfolio delivered (-1.3%).
- We highlighted banks as our key sectoral overweight and it outperformed the market. But our stock selection was tilted towards BFSI (OW on NBFCs and insurance), which underperformed and dragged performance. Axis Bank, our biggest outperformer with 24.3% returns mitigated the drag from Bajaj Finance (-16.9%) to a certain extent. SBI Cards was another key laggard (-17.3%).
- Amongst insurance stocks, both HDFC Life (6.6%) & ICICI Lombard (0.8%) outperformed the market. We drop both and add SBI Life. Please read our analyst's initiation report here.
- Auto was the other key laggard, underperforming the broader market by 5%, with all three, Tata Motors, TVS, and Ashok Leyland, underperforming the market.
- IT delivered flat returns at ~0.4% and our stock selection was mixed with HCL Tech outperforming the market and Tech Mahindra underperforming the market.
- Healthcare performance was a big drag on the G&C portfolio, driven by Laurus Labs (-34%). Dr. Reddy's outperformed the broader market. We remove Laurus Labs.
- SRF (-13.9%) and Info Edge (-13.4%) underperformed the market significantly. We drop Info Edge.

Exhibit 99: PSU banks and Metals were the biggest outperformers; Realty and Media were the biggest drags (Nifty 100/Nifty 500)



Source: Bloomberg. Ambit Capital research. Note: Returns have been calculated over 5th September'22 to 6th Jan, 23

Exhibit 100: G&C 18.0 – Sector-wise performance attribution

Sector	Weight in G&C18.0	Contribution to G&C18.0 return
Metals and Mining	6	0.5%
IT	10.1	0.3%
Telecom	4.1	0.3%
Oil and Gas	6	0.2%
FMCG	8.2	0.2%
BFSI	36.3	0.1%
Consumer Durable	3	0.0%
New-age tech	3	-0.2%
Media	4.1	-0.5%
Chemicals	4.1	-0.6%
Healthcare	6.1	-0.6%
Auto and Auto Anc	9.1	-0.9%
TOTAL	**100**	**-1.3%**

Source: Bloomberg. Ambit Capital research, Returns have been calculated from 5th September'22 to 6th Jan, 23

Exhibit 101: Performance of our G&C 18.0 portfolio

Company	Sector	Market Cap	Price Performance	Contribution to G&C 18.0 return
Tata Motors	Auto and Auto Anc	Large-cap	-16.8%	-0.7%
Ashok Leyland	Auto and Auto Anc	Mid Cap	-10.2%	-0.2%
TVS Motor	Auto and Auto Anc	Mid Cap	-1.3%	0.0%
Axis Bank	BFSI	Large-cap	24.3%	1.5%
Bajaj Finance	BFSI	Large-cap	-16.9%	-1.0%
HDFC Life	BFSI	Large-cap	6.6%	0.3%
ICICI Bank	BFSI	Large-cap	-1.4%	-0.1%
ICICI Lombard	BFSI	Large-cap	0.8%	0.0%
SBI Cards	BFSI	Large-cap	-17.3%	-0.7%
Federal Bank	BFSI	Mid Cap	8.9%	0.3%
LIC Housing Finance	BFSI	Mid Cap	-4.8%	-0.1%
SRF	Chemicals	Large-cap	-13.9%	-0.6%
Amber Enterprises	Consumer Durable	Small-cap	-17.0%	-0.3%
VIP Industries	Consumer Durable	Small-cap	15.4%	0.2%
Godrej Consumer Products	FMCG	Large-cap	2.7%	0.1%
ITC	FMCG	Large-cap	1.9%	0.1%
Dr Reddy's Labs	Healthcare	Large-cap	1.4%	0.1%
Laurus Labs	Healthcare	Mid Cap	-33.6%	-0.7%
HCL Technologies	IT	Large-cap	10.3%	0.6%
Tech Mahindra	IT	Large-cap	-7.4%	-0.3%
Info Edge India	Media	Large-cap	-13.4%	-0.5%
Tata Steel	Metals and Mining	Large-cap	8.2%	0.5%
PB Fintech	New-age tech	Mid Cap	-7.0%	-0.2%
Indraprastha Gas	Oil and Gas	Mid Cap	0.4%	0.0%
Oil India	Oil and Gas	Mid Cap	7.9%	0.2%
Bharti Airtel	Telecom	Large-cap	7.5%	0.3%
G&C 18.0 returns				**-1.27%**

Source: Bloomberg. Ambit Capital research

What goes out and what comes in?

What goes out? We exclude eight stocks – SBI cards, HDFC Life, TVS Motors, Oil India, Laurus Labs, Ashok Leyland, ICICI Lombard, and IGL from our G&C 18.0 portfolio.

What comes in? There are **seven new additions** to our portfolio – HDFC Bank, SBI Life, BPCL, HPCL, Hindalco, TCS, & Bank Nifty. These along with 18 existing stocks from G&C 18.0 comprise our latest G&C18.1 portfolio.

Weight reductions: We reduced weights on two stocks, Bajaj Finance and Tata Steel, from 6% to 4.1% each within the large-cap.

Size Allocation: Concentrated towards large-caps (85%). Small/mid-cap allocations stand at 12%/3%. Cash allocation stands at 7.6%.

Since mid-caps and small-caps are included in the portfolio, we change our benchmark to NSE500 from NSE100.

Exhibit 102: Implicit sector weights

Sector	G&C 18.0	Nifty500	Nifty100	Deviations	
				vs.Nifty500	vs.Nifty100
Financials	36.3	30.9	34.3	5.4	2.0
IT	14.2	10.7	12.3	3.5	1.9
Metals and Mining	8.2	3.2	3.3	5.0	4.9
FMCG	8.2	9.2	9.7	-1.0	-1.5
Oil and Gas	7.1	10.0	12.1	-2.9	-5.0
Auto and Auto Anc	4.1	6.0	4.9	-1.9	-0.8
Chemicals	4.1	2.4	1.0	1.7	3.0
Healthcare	4.1	5.0	3.7	-0.9	0.4
Media	4.1	0.6	0.3	3.4	3.8
Telecom	4.1	2.0	2.3	2.1	1.8
Consumer Durable	3.0	1.1	0.3	1.9	2.7
New-age tech	3.0	0.6	0.7	2.4	2.3
Misc.	0.0	18.1	15.0	-18.1	-15.0

Source: Bloomberg. Ambit Capital research

Exhibit 103: Dissection of our OW/UW call w.r.t Nifty500

Sector	OW/UW (%)	Portfolio Companies
Overweight		
Financials	5.4	HDFC Bank, ICICI Bank, Bajaj Finance, Axis Bank, SBI Life, Federal Bank, LIC Housing Finance, Bank Nifty
Metals and Mining	5.0	Tata Steel, Hindalco
IT	3.5	TCS, HCL Tech, Tech Mahindra
Media	3.4	Info Edge
New-age tech	2.4	PB Fintech
Telecom	2.1	Bharti Airtel
Consumer Durable	1.9	VIP Industries, Amber Enterprises
Chemicals	1.7	SRF
Underweight		
Healthcare	-0.9	Dr. Reddy's Labs
FMCG	-1.0	ITC, Godrej Consumer Products
Auto and Auto Anc	-1.9	Tata Motors
Oil and Gas	-2.9	BPCL, HPCL

Source: Bloomberg. Ambit Capital research

Exhibit 104: G&C 18.1 composition and valuations

Company	Sector	MCap (US$ mn)	6m MDVT (US $mn)	Accounting Decile	Greatness Score	Ambit stance	P/E		P/B		RoCE/RoA
							FY23E	FY24E	FY23E	FY24E	FY22
Tata Motors	Auto & Auto Anc	16,683	70	D9	0%	BUY	67.7	9.4	3.1	2.3	2.1
SRF	Chemicals	8,063	16	D4	92%	NR	30.9	26.2	6.4	5.2	17.7
VIP Industries	Consumer Durable	1,164	2	D10	17%	BUY	41.5	38.8	13.3	10.7	12.1
Amber Enterprises	Consumer Durable	779	2	D3	58%	BUY	36.2	24.5	3.3	2.9	6.8
Bank Nifty	Financials	N/A	N/A	N/A	N/A	NR	16.4	13.9	2.4	2.1	N/A
HDFC Bank	Financials	108,035	116	N/A	N/A	NR	20.4	17.7	3.2	2.8	1.9
ICICI Bank	Financials	73,760	121	N/A	N/A	BUY	19.5	17.2	3.2	2.7	1.8
Bajaj Finance	Financials	43,992	82	N/A	N/A	NR	32.7	26.4	6.8	5.5	3.7
Axis Bank	Financials	35,116	86	N/A	N/A	BUY	13.9	12.3	2.2	1.9	1.2
SBI Life Insurance	Financials	15,432	15	N/A	N/A	BUY	24.3	20.7	2.7	2.2	N/A
Federal Bank	Financials	3,459	19	N/A	N/A	BUY	10.5	9.0	1.3	1.2	0.9
LIC Housing Finance	Financials	2,707	10	N/A	N/A	BUY	6.6	5.1	0.8	0.7	1.0
ITC	FMCG	50,530	43	D3	58%	NR	22.9	20.7	6.4	6.1	24.9
Godrej Consumer	FMCG	11,400	10	D1	42%	BUY	55.7	40.6	7.4	6.6	18.1
Dr Reddy's Labs	Healthcare	8,643	20	D1	50%	BUY	20.4	15.4	3.2	2.7	11.8
TCS	IT	142,780	75	D4	50%	SELL	27.7	25.5	11.3	9.8	48.5
HCL Technologies	IT	34,053	36	D3	42%	BUY	19.3	17.8	4.6	4.4	23.7
Tech Mahindra	IT	11,668	35	D7	67%	BUY	17.3	15.5	3.3	3.1	19.9
Info Edge India	Media	5,787	17	D5	42%	BUY	73.7	56.1	3.3	3.2	3.9
Tata Steel	Metals & Mining	17,174	78	D5	67%	BUY	10.8	6.4	1.2	1.1	29.7
Hindalco Industries	Metals & Mining	12,632	44	D5	75%	BUY	9.5	8.1	1.2	1.0	16.8
PB Fintech	New-age tech	2,519	7	D5	75%	BUY	N/A	N/A	3.8	3.7	(25.4)
BPCL	Oil & Gas	9,085	14	D9	8%	BUY	N/A	7.6	1.5	1.4	13.4
HPCL	Oil & Gas	4,307	11	D5	42%	BUY	N/A	4.7	1.2	1.0	8.7
Bharti Airtel	Telecom	55,829	55	D2	0%	BUY	55.8	26.3	N/A	N/A	5.4

Source: Bloomberg. Ambit Capital research; Note: NR indicates 'Not Rated', For SBI Life, P/E indicates Price to Value of New Business per share (P/VNB); Ambit estimates have been used coverage cos else Consensus estimates are used; Data as of 7th Jan'23.

Exhibit 105: Top large-cap BUY ideas

Company Name	Ambit Sector	Mcap	FF Mcap	MDVT - 3m	Acctg. Decile	Revenue Growth (YoY) (%)		3yr Revenue CAGR	EPS Growth (YoY) (%)		3yr EPS CAGR	P/E (x)		P/B (x)		RoE (%)	
		(US$ mn)	(US$ mn)	(US$ mn)	FY22	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Axis Bank	Financials	35,116	31,713	88	N/A	27	13	19	59	14	28	14	12	2	2	17	16
SBI Life	Financials	15,432	6,873	13	N/A	17	16	16	41	17	24	24	21	3	2	19	21
HCL Tech.	IT	34,053	13,376	32	D3	18	9	12	7	9	7	19	18	5	4	23	25
Tata Steel	Metals & Mining	17,174	11,348	54	D5	(6)	(6)	(2)	(68)	69	(13)	11	6	1	1	11	18
BPCL	Oil & Gas	9,085	4,272	12	D9	35	(1)	3	(113)	959	9	N/A	8	2	1	(2)	19

Source: Bloomberg. Ambit Capital research Note: For SBI Life, P/E indicates Price to Value of New Business per share (P/VNB);Return on Embedded Value for SBI Life

Exhibit 106: Top mid-cap BUY ideas

Company Name	Ambit Sector	Mcap	FF Mcap	MDVT - 3m	Acctg. Decile	Revenue Growth (YoY) (%)		3yr Revenue CAGR	EPS Growth (YoY) (%)		3yr EPS CAGR	P/E (x)		P/B (x)		RoE (%)	
		(US$ mn)	(US$ mn)	(US$ mn)	FY22	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Federal Bank	Financials	3,459	3,459	20	N/A	16	19	18	44	16	28	10	9	1.3	1.2	14	14
Zee Ent	Media	2,775	2,665	19	D5	10	13	13	12	28	21	18	14	1.3	1.3	10	10
PB Fintech	New-age tech	2,519	2,519	11	D5	63	27	38	43	85	N/A	N/A	N/A	3.8	3.7	(10)	(1)
HPCL	Oil & Gas	4,307	1,943	9	D5	23	2	8	(257)	176	7	N/A	5	1.2	1.0	(30)	24

Source: Bloomberg. Ambit Capital research

Exhibit 107: Top small-cap BUY ideas

Company Name	Ambit Sector	Mcap	FF Mcap	MDVT - 3m	Acctg. Decile	Revenue Growth (YoY) (%)		3yr Revenue CAGR	EPS Growth (YoY) (%)		3yr EPS CAGR	P/E (x)		P/B (x)		RoE (%)	
		(US$ mn)	(US$ mn)	(US$ mn)	FY22	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
VIP Ind.	Consumer Durable	1,164	566	2	D10	67	13	29	244	7	63	42	39	13	11	33	28
Amber	Consumer Durable	779	465	2	D3	37	20	25	59	48	50	36	24	3	3	11	13
GESCO	Miscellaneous	1,122	785	3	D2	43	(10)	9	102	(28)	14	6	8	1	1	21	14

Source: Bloomberg. Ambit Capital research

Exhibit 108: Top SELL ideas

Company Name	Ambit Sector	Mcap	FF Mcap	MDVT - 3m	Acctg. Decile	Revenue Growth (YoY) (%)		3yr Revenue CAGR	EPS Growth (YoY) (%)		3yr EPS CAGR	P/E (x)		P/B (x)		RoE (%)	
		(US$ mn)	(US$ mn)	(US$ mn)	FY22	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY22-25E*	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Maruti Suzuki	Auto & Auto Anc	30,769	13,424	52	D9	29	18	21	85	45	50	36	25	4.4	3.9	12	16
M&M	Auto & Auto Anc	19,106	15,404	37	D8	36	12	21	38	11	22	21	19	3.5	3.1	16	16
Shree Cement	Cement & BM	10,457	3,916	11	D5	14	7	10	(36)	55	(1)	57	37	4.6	4.1	8	12
Voltas	Consumer Durable	3,275	2,283	10	D4	12	9	11	3	38	19	52	38	4.6	4.2	9	12
Reliance Inds.	Oil & Gas	208,550	103,086	130	D5	30	11	18	30	23	17	23	19	2.6	2.4	10	13

Source: Bloomberg. Ambit Capital research

Our G&C portfolio methodology

We construct our model G&C portfolio with the following premises:

Stock selection criteria: In line with earlier iterations, stocks that can be considered for inclusion in our G&C portfolio need to clear our "forensic" and "greatness" filters. For more details on these frameworks, please refer to this notes. We take an active call for size orientation of the portfolio. Currently, portfolio preference is in favour of large caps. Our sector allocation framework based on excess returns, relative valuation, earning estimate sustenance and ownership plays a key role in sectoral allocation. Our analysts' preferred picks in our OW/UW sectors also find a place.

Size of the portfolio: We construct our portfolio assuming a dummy allocation of US$1bn. Consequently, any stock that does not meet our minimum liquidity threshold does not get included in our portfolio.

Number of stocks: At any point in time, the maximum number of stocks in our portfolio is restricted to 25-30.

Cash holding: At any point in time, cash held in our portfolio would be between 2-15%.

Weights of the stocks: For large-cap stocks, we have kept two weight categories – 6% and 4.1%. For mid-cap stocks, we have kept two weight categories – 3% and 2%. For small-cap stocks, we have kept the weight at 1.5%. AMFI classification has been used for stock categorization.

Exhibit 109: Valuation of G&C portfolio 18.1 vs. Nifty100 and NSE500

Portfolio	Mcap M-CAP	6MDVT	P/E		P/B		RoE		EPS growth		Beta
	(US$ mn)	(US$ mn)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	
G&C18	12,085	27.4	25.3	17.3	3.3	2.9	14.8	16.8	3%	22%	0.95
NSE100	12,142	19.6	32.2	24.6	4.4	3.9	16.6	17.5	15%	21%	0.92
NSE500	1,957	3.2	30.7	22.9	4.0	3.5	15.7	17.6	15%	25%	0.91

Source: Bloomberg. Ambit Capital research

Institutional Equities Team

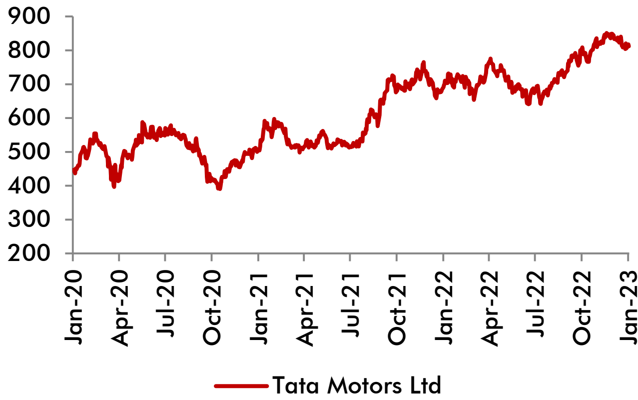
Research Analysts

Name	Industry Sectors	Desk-Phone	E-mail
Nitin Bhasin - Head of Research	Strategy / Accounting / Home Building / Consumer Durables	(022) 66233241	nitin.bhasin@ambit.co
Alok Shah, CFA	Consumer Staples / Consumer Discretionary	(022) 66233259	alok.shah@ambit.co
Amandeep Singh Grover	Mid/Small-Caps / Hotels / Real Estate / Aviation	(022) 66233082	amandeep.grover@ambit.co
Amar Kedia	Capital Goods / Infrastructure	(022) 66233212	amar.kedia@ambit.co
Ashwin Mehta, CFA	Technology	(022) 66233295	ashwin.mehta@ambit.co
Bharat Arora, CFA	Strategy	(022) 66233278	bharat.arora@ambit.co
Dhruv Jain	Mid-Caps / Home Building / Consumer Durables	(022) 66233177	dhruv.jain@ambit.co
Eashaan Nair	Economy / Strategy	(022) 66233033	eashaan.nair@ambit.co
Gaurav Jhunjhunuwala	Media / Telecom / Oil & Gas	(022) 66233227	gaurav.jhunjhunuwala@ambit.co
Jaiveer Shekhawat	Mid/Small-Caps	(022) 66233021	jaiveer.shekhawat@ambit.co
Jashandeep Chadha, CFA	Metals & Mining / Cement	(022) 66233246	jashandeep.chadha@ambit.co
Karan Khanna, CFA	Mid/Small-Caps / Hotels / Real Estate / Aviation	(022) 66233251	karan.khanna@ambit.co
Karan Kokane, CFA	Automobiles / Auto Ancillaries	(022) 66233028	karan.kokane@ambit.co
Kumar Saumya	Chemicals	(022) 66233242	kumar.saumya@ambit.co
Namant Satiya, CFA	Consumer Staples	(022) 66233259	namant.satiya@ambit.co
Omnath Sinh	Capital Goods / Infrastructure	(022) 66233212	omnath.sinh@ambit.co
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 66233206	pankaj.agarwal@ambit.co
Parth Dalia	Healthcare	(022) 66233041	parth.dalia@ambit.co
Parth Gupta	Hotels / Real Estate	(022) 66233251	parth.gupta@ambit.co
Parth Majithia	Strategy / Forensic Accounting	(022) 66233149	parth.majithia@ambit.co
Prabal Gandhi	Banking / Financial Services	(022) 66233206	prabal.gandhi@ambit.co
Pratik Matkar	Banking / Financial Services	(022) 66233252	pratik.matkar@ambit.co
Prashant Nair, CFA	Healthcare	(022) 66233041	prashant.nair@ambit.co
Raghav Garg	Banking / Financial Services	(022) 66233206	raghav.garg@ambit.co
Satyadeep Jain, CFA	Metals & Mining / Cement	(022) 66233246	satyadeep.jain@ambit.co
Saurabh Jain	Automobiles / Auto Ancillaries	(022) 66233142	saurabh.jain@ambit.co
Sumit Shekhar	Economy / Strategy	(022) 66233229	sumit.shekhar@ambit.co
Supratim Datta	Banking / Financial Services	(022) 66233252	supratim.datta@ambit.co
Vamshi Krishna Utterker	Technology	(022) 66233047	vamshikrishna.utterker@ambit.co
Videesha Sheth	Consumer Discretionary	(022) 66233264	videesha.sheth@ambit.co
Vinit Powle	Strategy / Forensic Accounting	(022) 66233149	vinit.powle@ambit.co
Viraj Dhandhukiya	Strategy	(022) 66233278	viraj.dhandhukiya@ambit.co
Vivekanand Subbaraman, CFA	Media / Telecom / Oil & Gas	(022) 66233261	vivekanand.s@ambit.co
Yash Joglekar	Technology	(022) 66233027	yash.joglekar@ambit.co

Sales

Name	Regions	Desk-Phone	E-mail
Dhiraj Agarwal - MD & Head of Sales	India	(022) 66233253	dhiraj.agarwal@ambit.co
Bhavin Shah	India	(022) 66233186	bhavin.shah@ambit.co
Dharmen Shah	India / Asia	(022) 66233289	dharmen.shah@ambit.co
Abhishek Raichura	UK & Europe	(022) 66233287	abhishek.raichura@ambit.co
Pranav Verma	Asia	(022) 66233214	pranav.verma@ambit.co
Shiva Kartik	India	(022) 66233299	shiva.kartik@ambit.co
Soumya Agarwal	India	(022) 66233062	soumya.agarwal@ambit.co
USA / Canada			
Sean Rodrigues	Americas	(022) 66233211	sean.rodrigues@ambit.co
Singapore			
Sundeep Parate	Singapore	+65 6536 1918	sundeep.parate@ambit.co
Pooja Narayanan	Singapore	+65 6536 1918	pooja.narayanan@ambit.co
Production			
Sajid Merchant	Production	(022) 66233247	sajid.merchant@ambit.co
Sharoz G Hussain	Production	(022) 66233183	sharoz.hussain@ambit.co
Jestin George	Editor	(022) 66233272	jestin.george@ambit.co
Richard Mugutmal	Editor	(022) 66233273	richard.mugutmal@ambit.co
Nikhil Pillai	Database	(022) 66233265	nikhil.pillai@ambit.co
Amit Tembhurnikar	Database	(022) 66233265	amit.tembhurnikar@ambit.co

Tata Motors (TTMT IN, BUY)

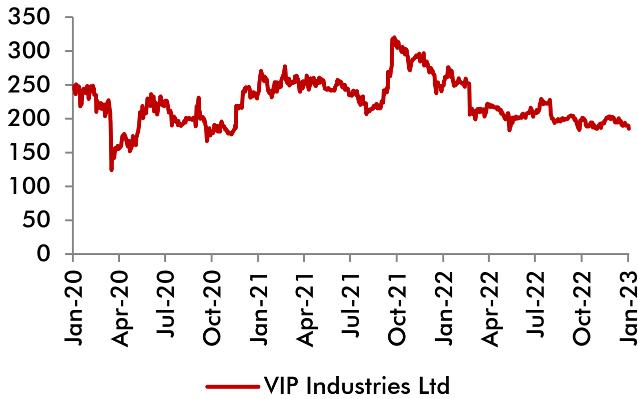


Source: Bloomberg, Ambit Capital research

SRF Limited (SRF IN, BUY)

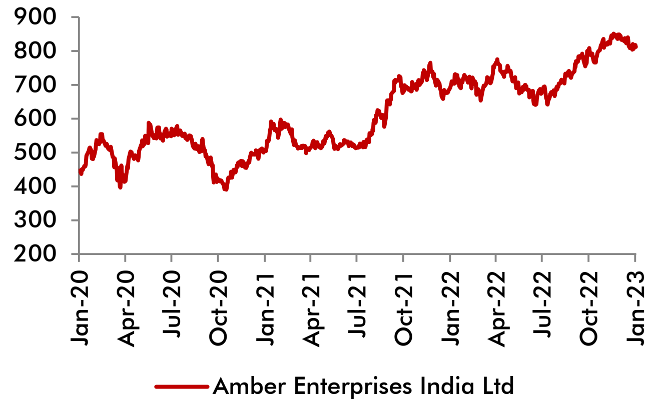
Source: Bloomberg, Ambit Capital research

VIP Industries Ltd Ltd (VIP IN, BUY)



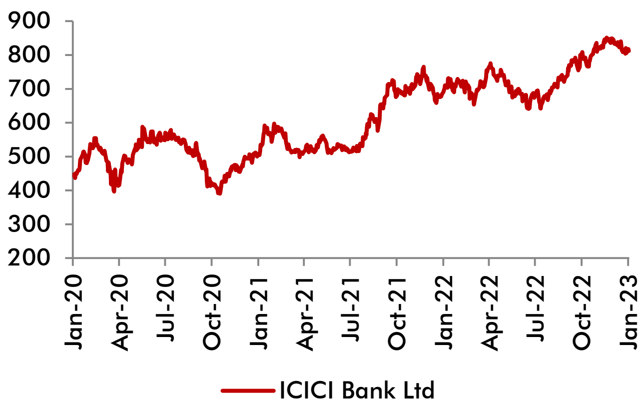
Source: Bloomberg, Ambit Capital research

Amber Enterprises India Ltd (AMBER IN, BUY)



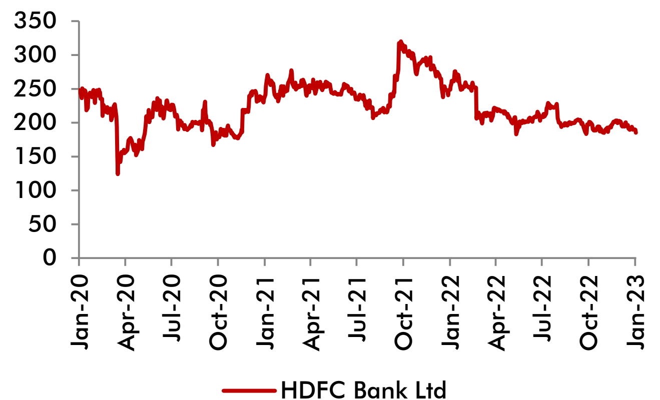
Source: Bloomberg, Ambit Capital research

ICICI Bank Ltd (ICICI IN, BUY)



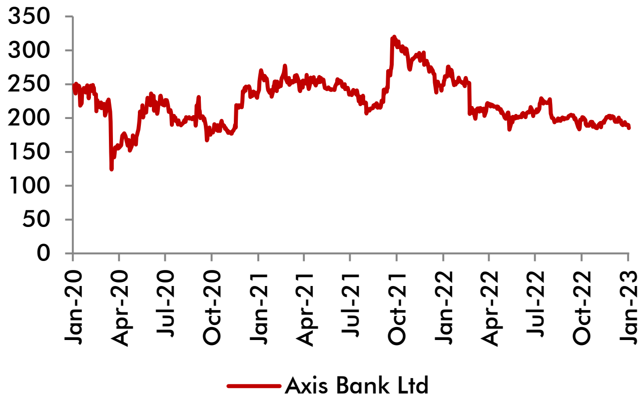
Source: Bloomberg, Ambit Capital research

HDFC Bank Ltd (HDFCB IN, SELL)



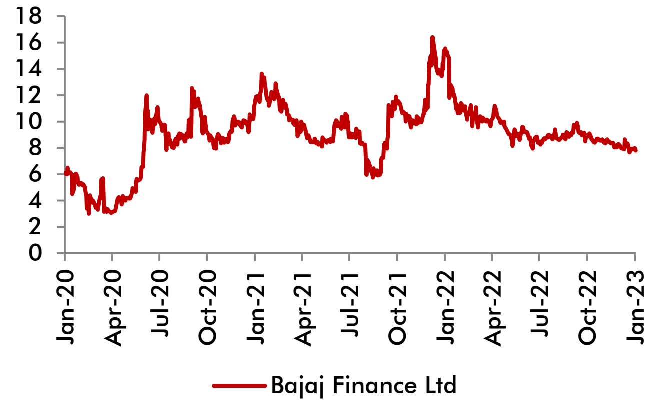
Source: Bloomberg, Ambit Capital research

Axis Bank Ltd (AXSB IN, BUY)



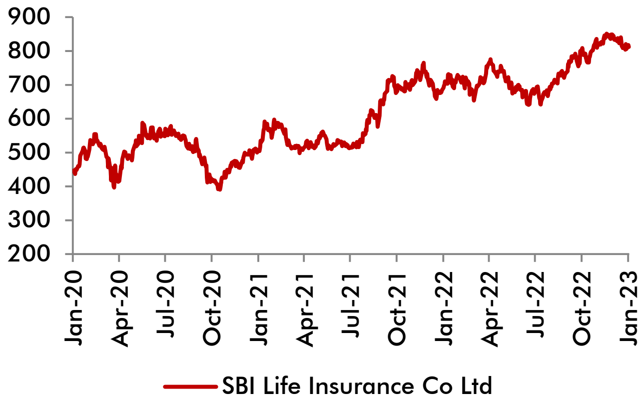
Source: Bloomberg, Ambit Capital research

Bajaj Finance Ltd (BAF IN, NOT RATED)



Source: Bloomberg, Ambit Capital research

SBI Life Insurance Co Ltd (SBILIFE IN, BUY)

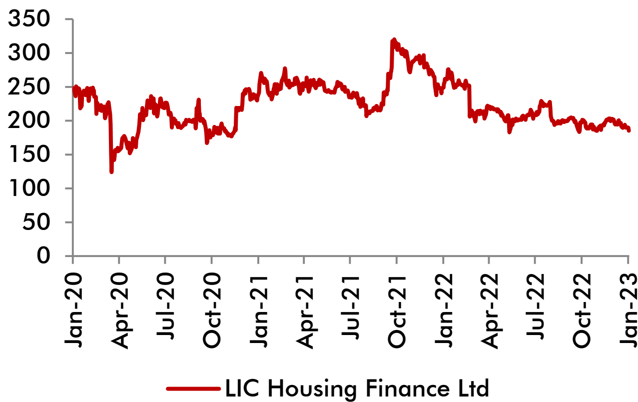


Source: Bloomberg, Ambit Capital research

Federal Bank Ltd (FB IN, BUY)

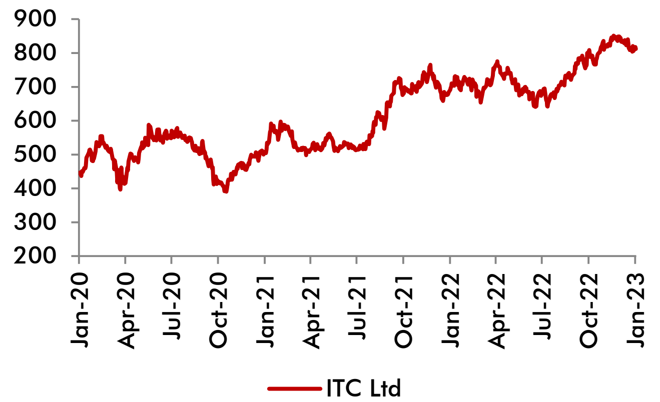
Source: Bloomberg, Ambit Capital research

LIC Housing Finance Ltd (LICHF IN, BUY)



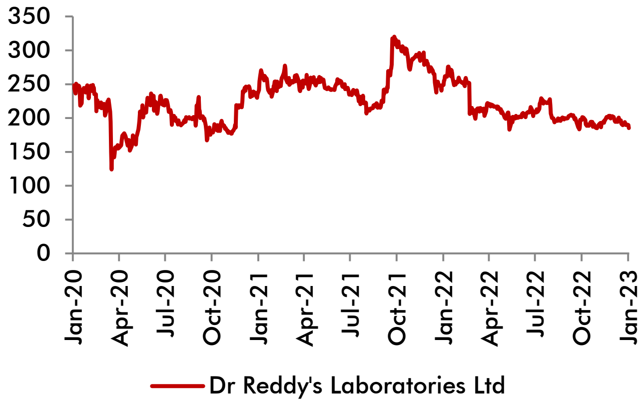
Source: Bloomberg, Ambit Capital research

ITC Ltd (ITC IN, NOT RATED)



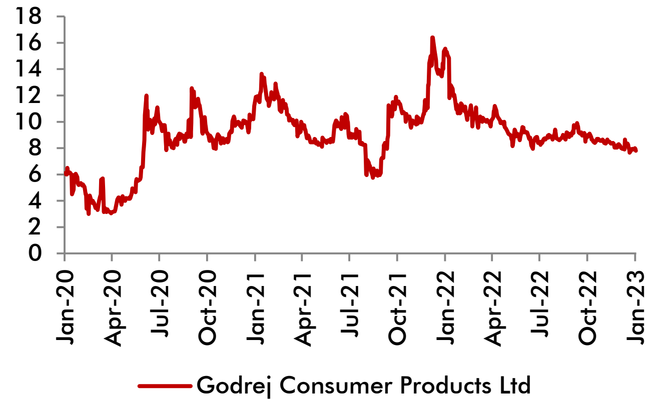
Source: Bloomberg, Ambit Capital research

Dr. Reddy's Laboratories (DRRD IN, BUY)



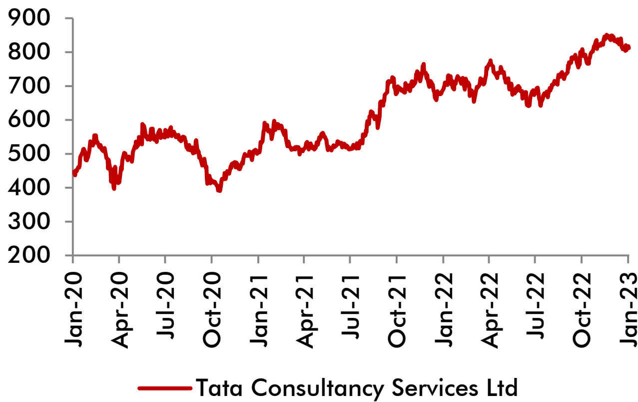
Source: Bloomberg, Ambit Capital research

Godrej Consumer Products Ltd (GCPL IN, BUY)



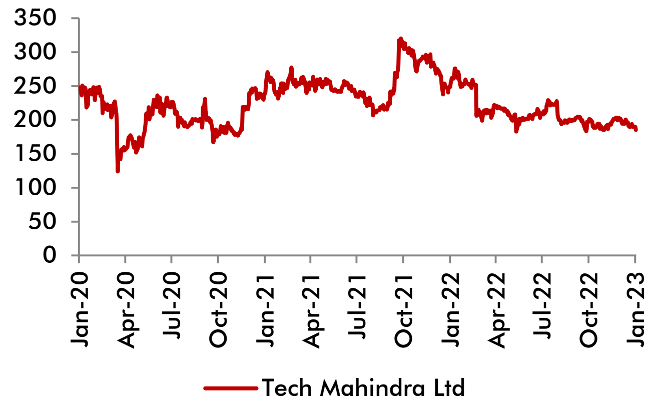
Source: Bloomberg, Ambit Capital research

Tata Consultancy Svcs Ltd (TCS IN, SELL)



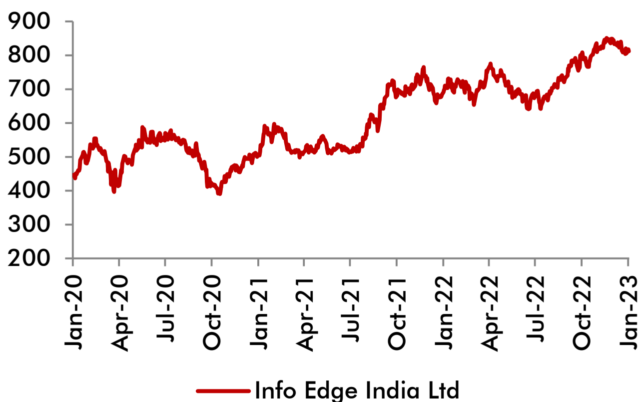
Source: Bloomberg, Ambit Capital research

Tech Mahindra Ltd (TECHM IN, BUY)



Source: Bloomberg, Ambit Capital research

Info Edge India Ltd (INFOE IN, BUY)



Source: Bloomberg, Ambit Capital research

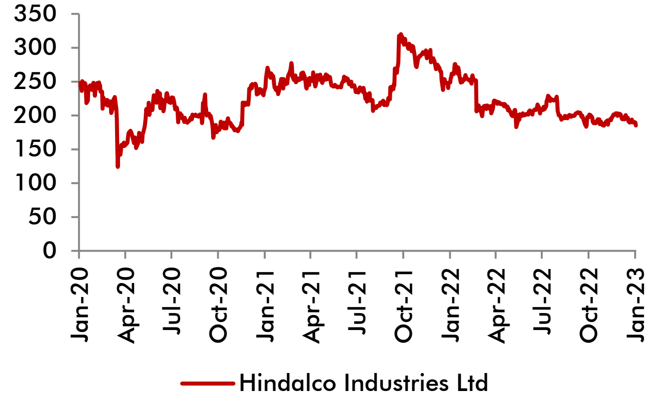
HCL Technologies Ltd (HCLT IN, BUY)

Source: Bloomberg, Ambit Capital research

Tata Steel Ltd (TATA IN, BUY)

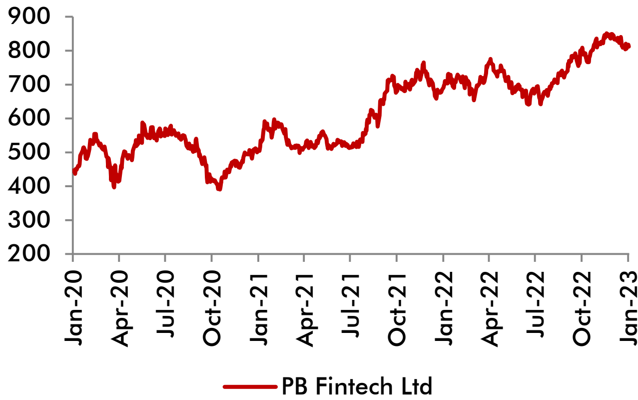
Source: Bloomberg, Ambit Capital research

Hindalco Industries Ltd (HNDL IN, BUY)



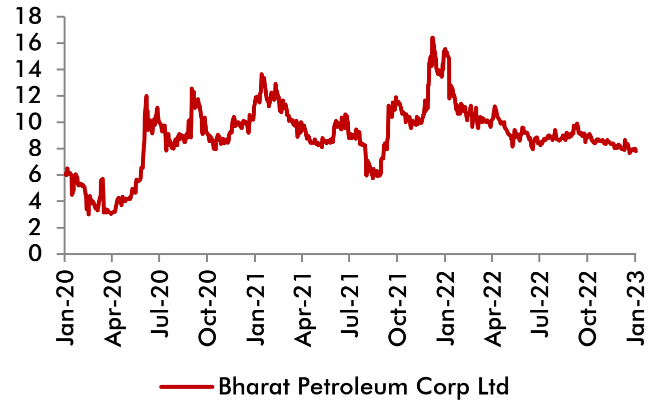
Source: Bloomberg, Ambit Capital research

PB Fintech Ltd. (India) (POLICYBZ IN, BUY)



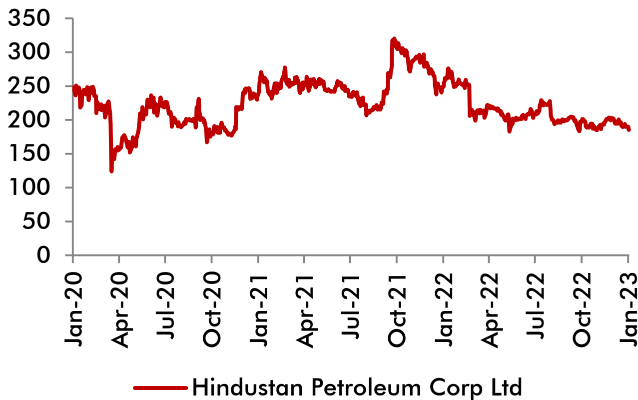
Source: Bloomberg, Ambit Capital research

Bharat Petroleum Corp Ltd (BPCL IN, BUY)



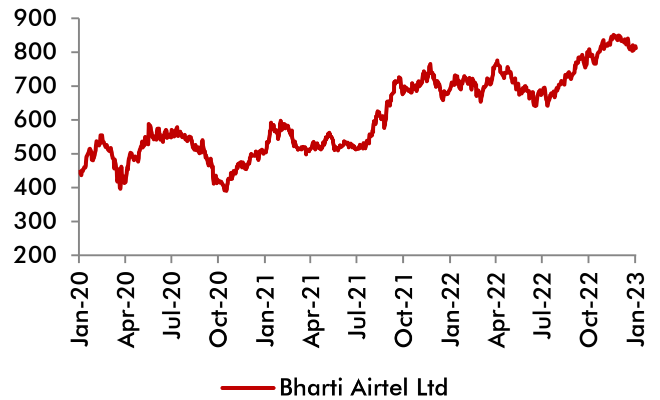
Source: Bloomberg, Ambit Capital research

Hindustan Petroleum Corp (HPCL IN, BUY)



Source: Bloomberg, Ambit Capital research

Bharti Airtel Ltd (BHARTI IN, BUY)



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating - Our target prices are with a 12-month perspective. Returns stated are our internal benchmark

Investment Rating	Expected return (over 12-month)
BUY	We expect this stock to deliver more than 10% returns over the next12 month
SELL	We expect this stock to deliver less than or equal to 10 % returns over the next 12 months
UNDER REVIEW	We have coverage on the stock but we have suspended our estimates, TP and recommendation for the time being NOT
NOT RATED	We do not have any forward-looking estimates, valuation, or recommendation for the stock.
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYs
NEGATIVE	We have a negative view on the sector and most of stocks under our coverage in the sector are SELLs
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation

Note: At certain times the Rating may not be in sync with the description above as the stock prices can be volatile and analysts can take time to react to development.

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital Private Ltd. Ambit Capital Private Ltd. research is disseminated and available primarily electronically, and, in some cases, in printed form. The following Disclosures are being made in compliance with the SEBI (Research Analysts) Regulations, 2014 (herein after referred to as the Regulations).

Disclosures

- Ambit Capital Private Limited ("Ambit Capital or Ambit") is a SEBI Registered Research Analyst having registration number INH000000313. Ambit Capital, the Research Entity (RE) as defined in the Regulations, is also engaged in the business of providing Stock broking Services, Portfolio Management Services, Depository Participant Services, distribution of Mutual Funds and various financial products. Ambit Capital is a subsidiary company of Ambit Private Limited. The details of associate entities of Ambit Capital are available on its website.
- Ambit Capital makes its best endeavor to ensure that the research analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by Ambit Capital and/or the analyst(s) and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. Ambit Capital and its affiliates/ group entities may or may not subscribe to any and/ or all the views expressed herein and the statements made herein by the research analyst may differ from or be contrary to views held by other businesses within the Ambit group.
- This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report and Ambit Capital or its affiliates shall not be responsible and/ or liable for any direct/consequential loss howsoever directly or indirectly, from any use of this Research Report.
- If this Research Report is received by any client of Ambit Capital or its affiliates, the relationship of Ambit Capital/its affiliate with such client will continue to be governed by the existing terms and conditions in place between Ambit Capital/ such affiliates and the client.
- This Research Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Research Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Research Report in other jurisdictions may be strictly restricted and/ or prohibited by law or contract, and persons into whose possession this Research Report comes should aware of and take note of such restrictions.
- Ambit Capital declares that neither its activities were suspended nor did it default with any stock exchange with whom it is registered since inception. Ambit Capital has not been debarred from doing business by any Stock Exchange, SEBI, Depository or other Regulated Authorities, nor has the certificate of registration been cancelled by SEBI at any point in time.
- Apart from the case of Manappuram Finance Ltd. where Ambit Capital settled the matter with SEBI without accepting or denying any guilt, there is no material disciplinary action that has been taken by any regulatory authority impacting research activities of Ambit Capital.
- A graph of daily closing prices of securities is available at www.nseindia.com and www.bseindia.com

Disclosure of financial interest and material conflicts of interest

- Ambit Capital, its associates/group company, Research Analyst(s) or their relative may have any financial interest in the subject company. Ambit Capital and/or its associates/group companies may have actual/beneficial ownership of 1% or more interest in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Ambit Capital and its associate company (ies), may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as an advisor or lender/borrower to such company (ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. However the same shall have no bearing whatsoever on the specific recommendations made by the Analyst(s), as the recommendations made by the Analyst(s) are completely independent of the views of the associates of Ambit Capital even though there might exist an apparent conflict in some of the stocks mentioned in the research report. Ambit Capital and/or its associates/group company may have received any compensation from the subject company in the past 12 months and/or Subject Company is or was a client during twelve months preceding the date of distribution of the research report.
- In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, Ambit Capital or any of its associates/group company or Research Analyst(s) may have:
  - managed or co-managed public offering of securities for the subject company of this research report,
  - received compensation for investment banking or merchant banking or brokerage services from the subject company,
  - received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
  - received any compensation or other benefits from the subject company or third party in connection with the research report.
- Ambit Capital and / or its associates/group company do and seek to do business including investment banking with companies covered in its research reports. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Additional Disclaimer for Canadian Persons

About Ambit Capital:

- Ambit Capital is not registered in the Province of Ontario and /or Province of Québec to trade in securities and/or to provide advice with respect to securities.
- Ambit Capital's head office or principal place of business is located in India.
- All or substantially all of Ambit Capital's assets may be situated outside of Canada.
- It may be difficult for enforcing legal rights against Ambit Capital because of the above.
- Name and address of Ambit Capital's agent for service of process in the Province of Ontario is: Torys LLP, 79 Wellington St. W., 30th Floor, Box 270, TD South Tower, Toronto, Ontario M5K 1N2 Canada.
- Name and address of Ambit Capital's agent for service of process in the Province of Québec is Torys Law Firm LLP, 1 Place Ville Marie, Suite 1919 Montréal, Québec H3B 2C3 Canada.

About Ambit America Inc.:

- Ambit America Inc. is not registered in Canada
- Ambit America Inc. is resident and registered in the United States.
- The name and address of the Agent for service in Quebec is: Lavery, de Billy, L.L.P., Bureau 4000, One Place Ville Marie, Montreal, Quebec, Canada H3B 4M4.
- The name and address of the Agent for service in Toronto is: Sutton Boyce Gilkes Regulatory Consulting Group Inc., 120 Adelaide Street West, Suite 2500, Toronto, ON Canada M5H 1T1.
- A client may have difficulty enforcing legal rights against Ambit America Inc. because it is resident outside of Canada and all substantially all of its assets may be situated outside of Canada.

Additional Disclaimer for Singapore Persons

- Ambit Singapore Pte. Limited is a holder of Capital Market services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to Ambit Singapore Pte. Limited by Monetary Authority of Singapore. In Singapore, Ambit Capital distributes research reports.
- Persons in Singapore should contact either Ambit Capital or Ambit Singapore Pte. Limited in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "Accredited Institutional Investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore. Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform either Ambit Capital or Ambit Singapore Pte. Limited.

Additional Disclaimer for UK Persons

- All of the recommendations and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover. No part of this research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report. This report may not be reproduced, redistributed or copied in whole or in part for any purpose.
- This report is a marketing communication and has been prepared by Ambit Capital Private Ltd. of Mumbai, India ("Ambit Capital"). Ambit is regulated by the Securities and Exchange Board of India and is registered as a Research Entity under the SEBI (Research Analysts) Regulations, 2014. Ambit is an appointed representative of Aldgate Advisors Limited which is authorized and regulated by the Financial Conduct Authority whose registered office is at 16 Charles II Street, London, SW1Y 4NW.
- In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended).
- Ambit Capital is not a US registered broker-dealer. Transactions undertaken in the US in any security mentioned herein must be effected through a US-registered broker-dealer, in conformity with SEC Rule 15a-6.
- Neither this report nor any copy or part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this report comes should inform them about, and observe any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities laws, or the law of any such other jurisdictions.
- This report does not constitute an offer or solicitation to buy or sell any securities referred to herein. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. The information in this report, or on which this report is based, has been obtained from publicly available sources that Ambit believes to be reliable and accurate. However, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It has also not been independently verified and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties.
- The information or opinions are provided as at the date of this report and are subject to change without notice. The information and opinions provided in this report take no account of the investors' individual circumstances and should not be taken as specific advice on the merits of any investment decision. Investors should consider this report as only a single factor in making any investment decisions. Further information is available upon request. No member or employee of Ambit accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this report or its contents.
- The value of any investment made at your discretion based on this Report, or income therefrom, maybe affected by changes in economic, financial and/or political factors and may go down as well as go up and you may not get back the original amount invested. Some securities and/or investments involve substantial risk and are not suitable for all investors.
- Ambit and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Ambit and its affiliates may from time to time render advisory and other services, solicit business to companies referred to in this Report and may receive compensation for the same. Ambit has a restrictive policy relating to personal dealing. Ambit has controls in place to manage the risks related to such. An outline of the general approach taken in relation to conflicts of interest is available upon request.
- Ambit and its affiliates may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.
- Ambit may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report and are not subject to any prohibition on dealing. By accepting this report you agree to be bound by the foregoing limitations. In the normal course of Ambit and its affiliates' business, circumstances may arise that could result in the interests of Ambit conflicting with the interests of clients or one client's interests conflicting with the interest of another client. Ambit makes best efforts to ensure that conflicts are identified, managed and clients' interests are protected. However, clients/potential clients of Ambit should be aware of these possible conflicts of interests and should make informed decisions in relation to Ambit services.

Additional Disclaimer for U.S. Persons

THIS RESEARCH REPORT IS BEING DISTRIBUTED IN THE US TO MAJOR INSTITUTIONAL INVESTORS UNDER RLE 15a-6 AND UNDER A GLOBAL BRAND OF AMBIT AMERICA AND AMBIT CAPITAL PRIVATE LTD.

- The Ambit Capital research report is solely a product of Ambit Capital Private Ltd. and may be used for general information only. The legal entity preparing this research report is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and/or the independence of research analysts.
- Ambit Capital is the employer of the research analyst(s) who has prepared the research report.
- Any subsequent transactions in securities discussed in the research reports should be effected through Ambit America Inc. ("Ambit America").
- Ambit America Inc. does not accept or receive any compensation of any kind directly from US Institutional Investors for the dissemination of the Ambit Capital research reports. However, Ambit Capital Private Ltd. has entered into an agreement with Ambit America Inc. which includes payment for sourcing new MUSSI and service existing clients based out of USA.
- Analyst(s) preparing this report are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Therefore the analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst.
- In the United States, this research report is available for distribution to major U.S. institutional investors, as defined in Rule 15a – 6 under the Securities Exchange Act of 1934. Additionally, this research report is available to a limited number of individuals as Globally Branded research, as defined in FINRA Rule 2241. This research report is distributed in the United States by Ambit America Inc., a U.S. registered broker and dealer and a member of FINRA. Ambit America Inc., a US registered broker-dealer, accepts responsibility for this research report and its dissemination in the United States.
- This Ambit Capital research report is not intended for any other persons in the USA. All major U.S. institutional investors or persons outside the United States, having received this Ambit Capital research report shall neither distribute the original nor a copy to any other person in the United States. In order to receive any additional information about or to effect a transaction in any security or financial instrument mentioned herein, please contact a registered representative of Ambit America Inc., by phone at 646 793 6001 or by mail at 370, Lexington Avenue, Suite 803, New York, 10017. This material should not be construed as a solicitation or recommendation to use Ambit Capital to effect transactions in any security mentioned herein.
- This document does not constitute an offer of, or an invitation by or on behalf of Ambit Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Ambit Capital or its Affiliates consider to be reliable. None of Ambit Capital accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.
- Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have or have had positions, may "beneficially own" as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of the equity securities or may conduct or may have conducted market-making activities or otherwise act or have acted as principal in transactions in any of these securities or instruments referred to herein.
- Ambit America Inc. or its affiliates or the principals or employees of Ambit Group may have managed or co-managed a public offering of securities or received compensation for investment banking services or expects to receive or intends to seek compensation for investment banking or consulting services or serve or have served as a director or a supervisory board member of a company referred to in this research report.
- As of the date of this research report Ambit America Inc. does not make a market in the security reflected in this research report.

Analyst(s) Certification

- The analyst(s) authoring this research report hereby certifies that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.
- The analyst (s) has/have not served as an officer, director or employee of the subject company in the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report.
- The analyst(s) does not hold one percent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report.
- Research Analyst views on Subject Company may vary based on fundamental research and technical research. Proprietary trading desk of Ambit Capital or its associates/group companies maintains arm's length distance with the research team as all the activities are segregated from Ambit Capital research activity and therefore it can have an independent views with regards to Subject Company for which research team have expressed their views.

Registered Office Address: Ambit Capital Private Limited, 449, Ambit House, Senapati Bapat Marg, Lower Parel, Mumbai-400013

Compliance Officer Details: Sanjay Shah, Email id: compliance@ambit.co, Contact Number: 91 22 68601965

Other registration details of Ambit Capital: SEBI Stock Broking registration number INZ000259334 (Trading Member of BSE and NSE); SEBI Depository Participant registration number IN-DP-CDSL-374-2006; SEBI Portfolio Managers registration number INP000002221, AMFI registration number ARN 36358.

© Copyright 2022 Ambit Capital Private Limited. All rights reserved.

AMBIT Acumen at work | CELEBRATING 25 YEARS OF ACUMEN