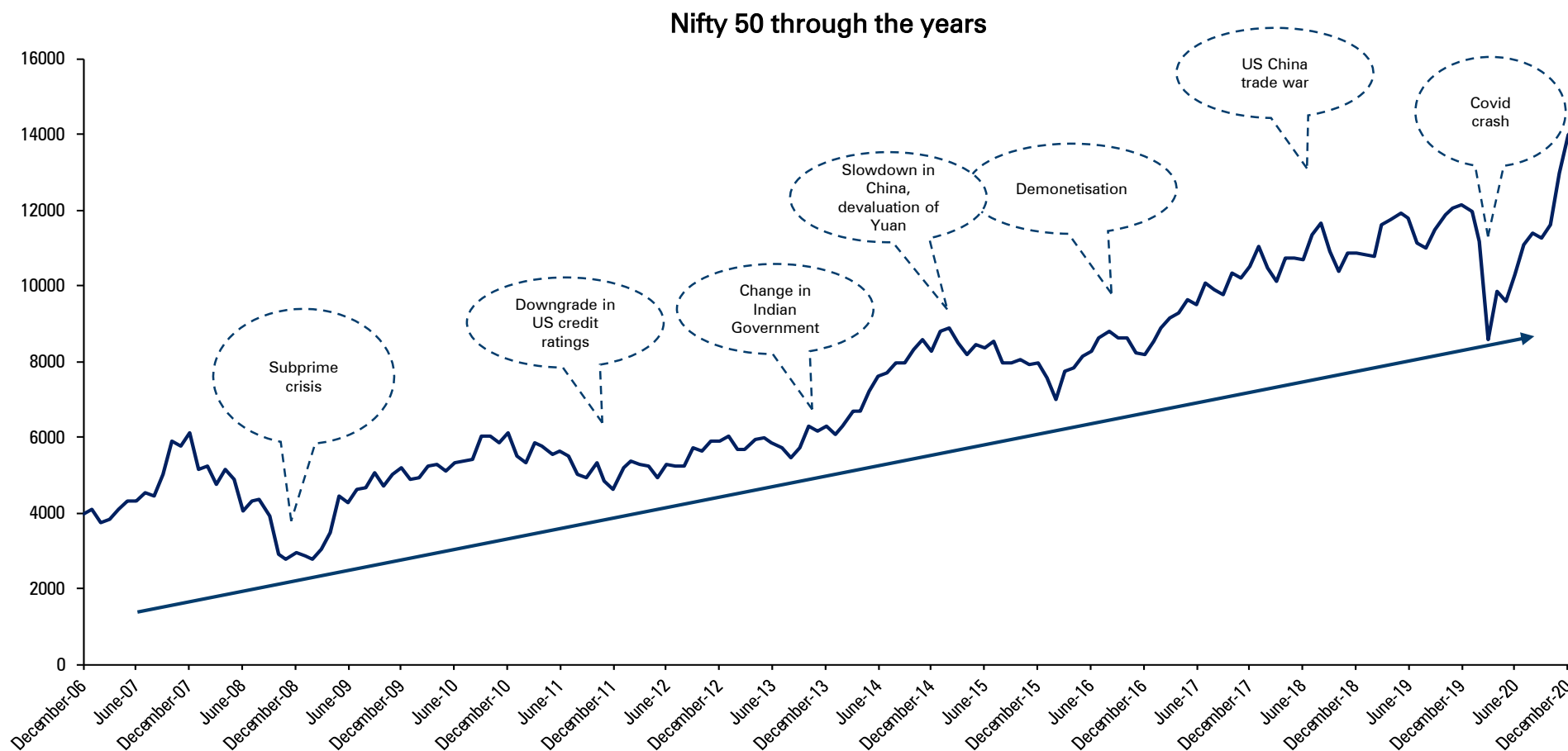


All Weather Multi-cap

Biggest risk in today's market is not being there in the market



Source: NSE, Company, ICICI Direct Research

Nifty shifting orbits ...

Nifty currently trades at a PE of ~32x (based on FY20 EPS) and at a PE of ~38x on Trailing Twelve Months (TTM) basis, thereby helping build the public opinion that the broader markets are highly euphoric and running ahead of fundamentals. We however dispel this notion, as we logically derive that present absolute PE multiples make little sense especially when we had a blip in corporate earnings in the recent past due to the Covid pandemic and are staging an impressive earnings CAGR (24%+ over FY21-23E) ahead of us.

Our key focal points:

- (i) Nifty constituents have undergone major change in past decade. The weights of capital efficient sectors such as FMCG, Financials (private banks), IT and Pharma have increased from 29% in March 2009 to 70% in December 2020.
- (ii) These sectors command higher PE multiples as markets prefer Earnings visibility and consistency
- (iii) Better performing business segments within existing companies is not captured by current PE. Companies like L&T, SBI etc. have multiple business lines and hence SoTP (Sum of the parts) based valuations of these names are not captured by the PE ratio alone.

Trend in Sectoral Weightages in Nifty

Sectors/Year	Mar-09	Mar-14	Mar-19	Dec-20
Financial Services	11.8	27.5	38.9	38.8
IT	9.1	16.3	13.7	16.3
Oil & Gas	40.7	14.3	15.3	12.5
FMCG	6.4	12.6	11.3	11.5
Automobile	3.3	8.8	6.1	5.4
Pharmaceuticals	2.5	5.2	2.4	3.6
Metals	5.4	4.8	3.7	2.5
Telecom	9.8	1.7	1.5	2.0

Target PE of few individual constituents based on FY23EPS

Nifty Stocks	Target PE (x)	Nifty Stocks	Target PE (x)	Nifty Stocks	Target PE (x)
Adani Ports	16.0	SBI Life	45.3	HDFC Bank Ltd	19.3
Asian Paints Ltd	58.2	Titan Co.	58.0	Reliance Industries	17.7
Bajaj Auto Ltd	18.9	Tata Steel	9.2	TCS	29.4
Bajaj Finance Ltd	46.5	Sun Pharma	21.9	Divis Lab	40.0
Bharti Airtel Ltd	32.3	NTPC Ltd	5.4	Axis Bank Ltd	17.5
Dr Reddy's	26.0	Maruti	28.0	Shree Cement	39.8
Nestle India Ltd	63.3	Indusind	37.2	ITC Ltd	17.0
Infosys Ltd	25.4	Britannia	44.5	Grasim Industries	34.7
Overall Nifty PE	26.2				

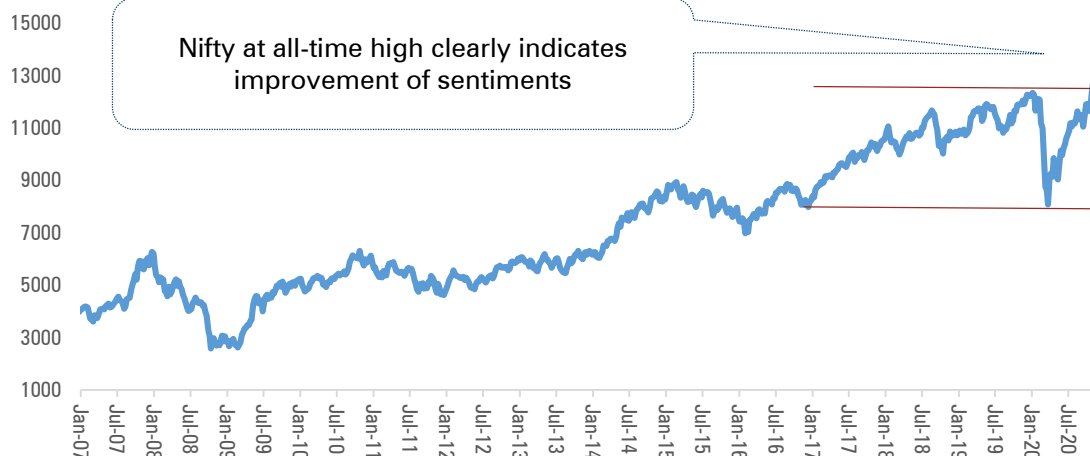
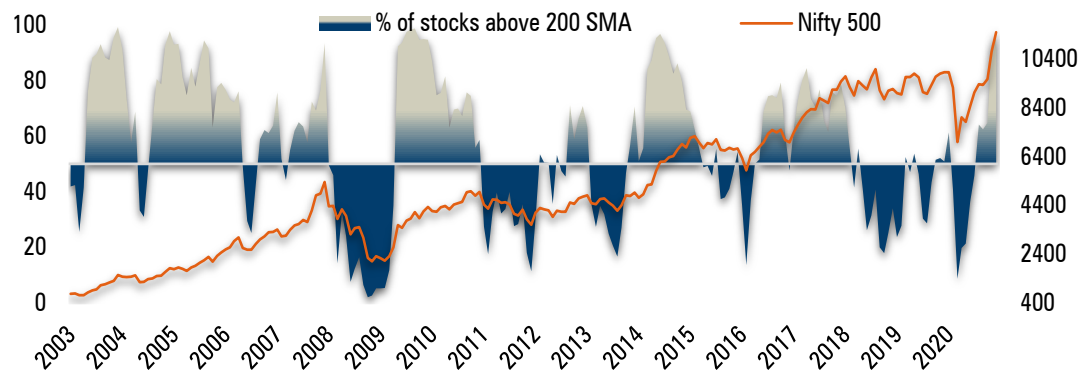
FII inflows at historical high, market sentiments bouyant...

FII Inflows/Outflows (2020)

January	12123
February	1820
March	-61973
April	-6884
May	14569
June	21832
July	7563
August	47080
September	-7783
October	19541
November	60358
December	62016
January (till 26th Jan 2021)	23630

FII Inflows/Outflows

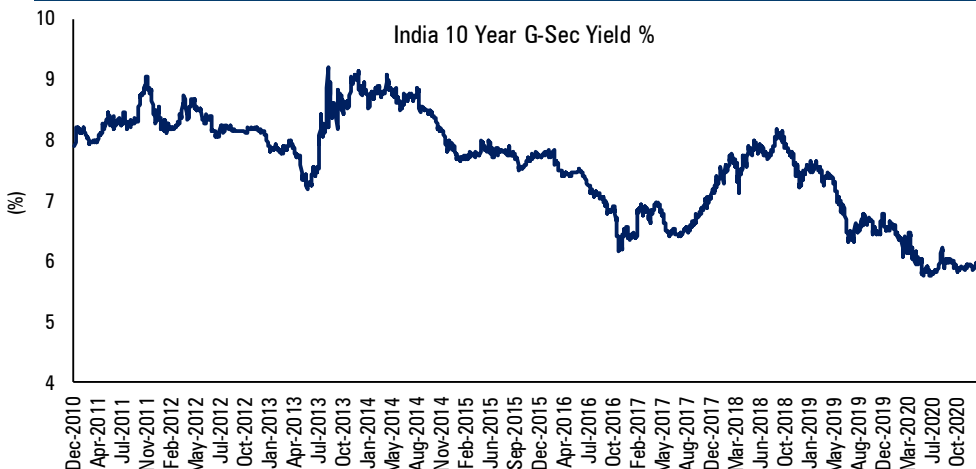
2020	170262
2019	101122
2018	-33014
2017	51252
2016	20568
2015	17808
2014	97054
2013	113136
2012	128360
2011	-2714
2010	133266
2009	83424
2008	-52987
2007	71487
2006	36540
2005	47181
2004	38965
2003	30459
2002	3630



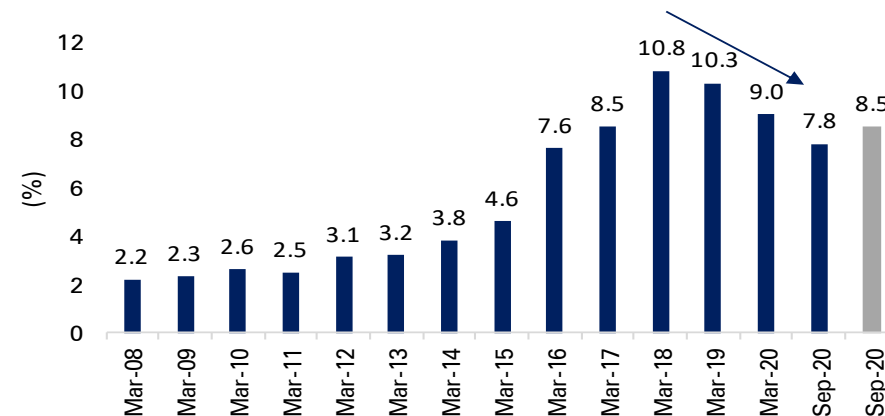
Greater than 90% of the NSE500 stocks are trading above their 200 SMA. This has never happened in previous bull runs. This highlights broad based participation and strong market sentiments.

Positive conditions for a broad based market rally...

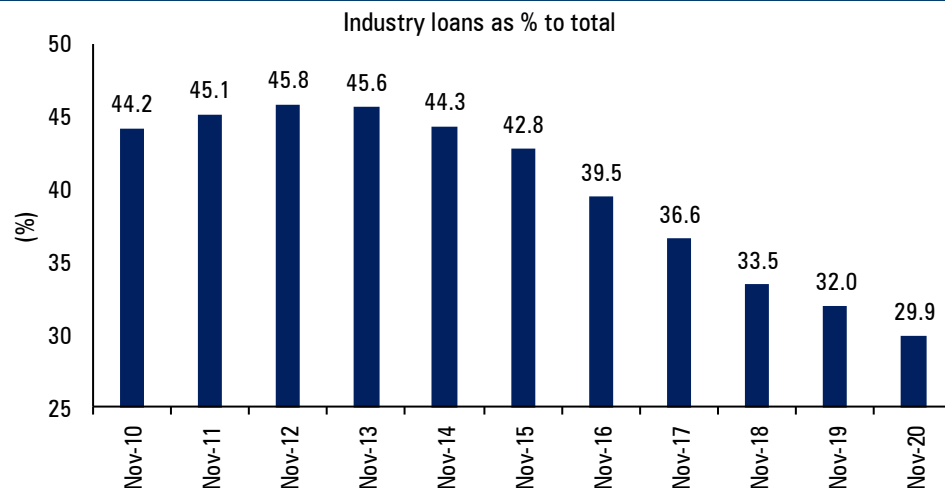
Interest rates at all time low



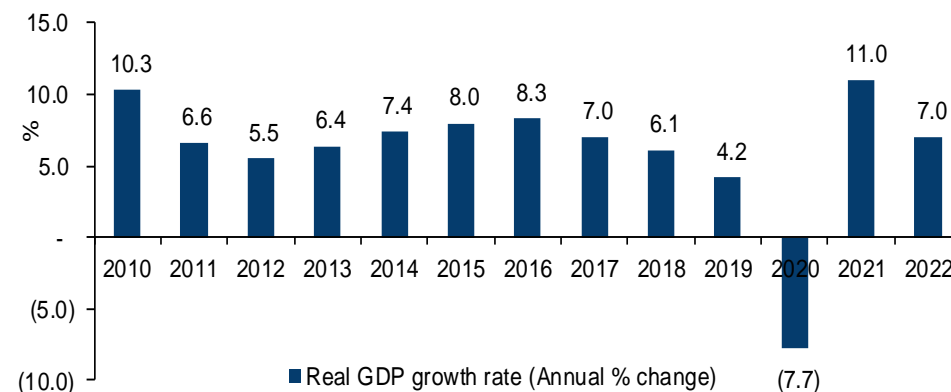
Asset quality concerns peaked out



Corporate debt at lowest levels



Historical GDP growth rate of India

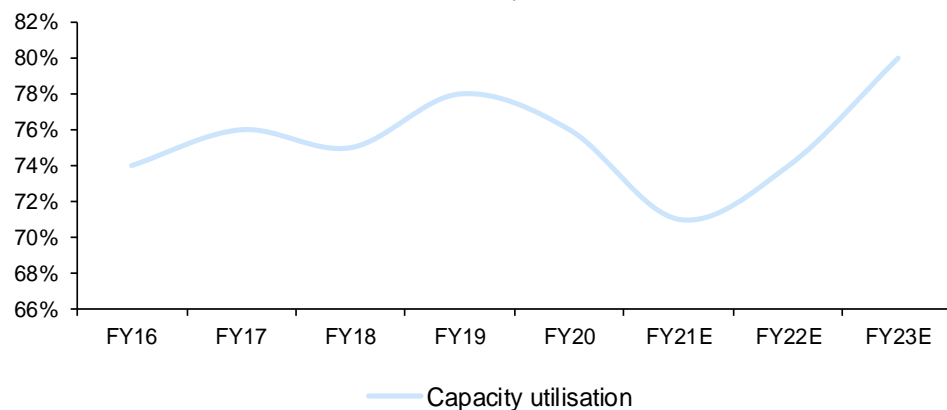


Source: NSE, RBI, IMF, WorldBank, ICICI Direct Research

Capacity utilisation trend for core sectors

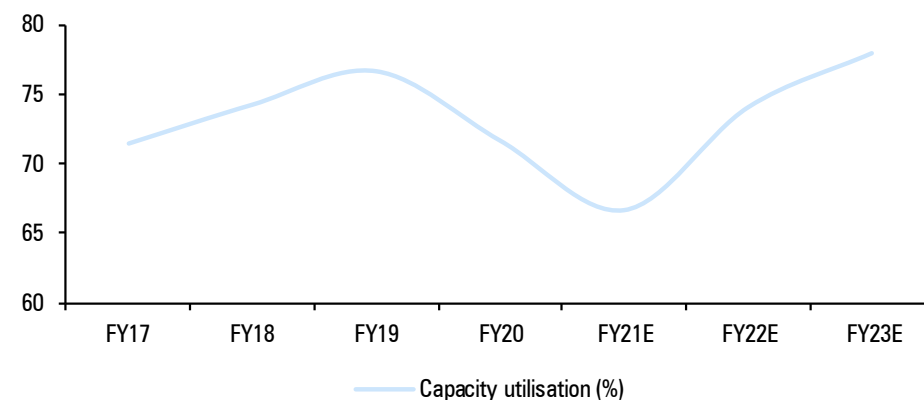
Steady demand from core industries should improve capacity utilisation in steel sector

Steel Capacity utilisation



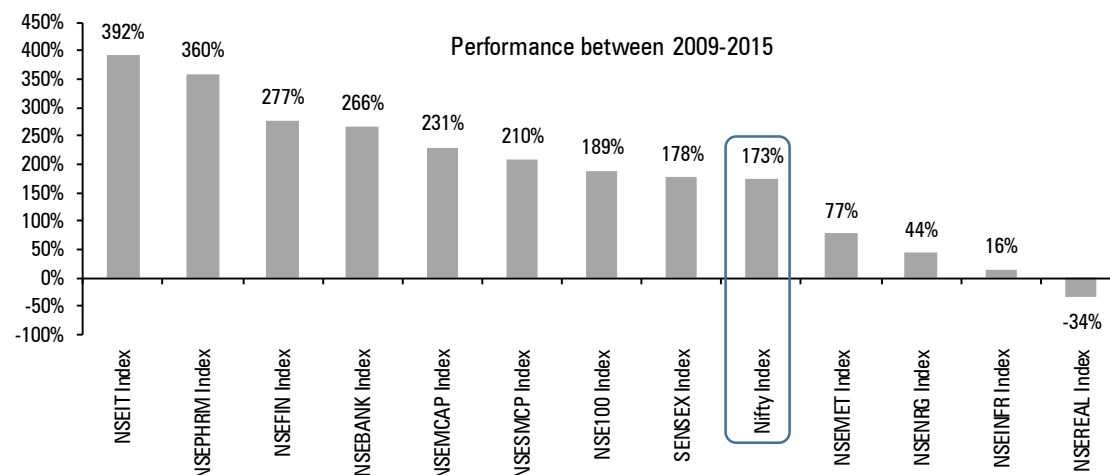
Focus on infrastructure to provide headroom for cap utilisation levels in cement sector

Capacity utilisation (%)

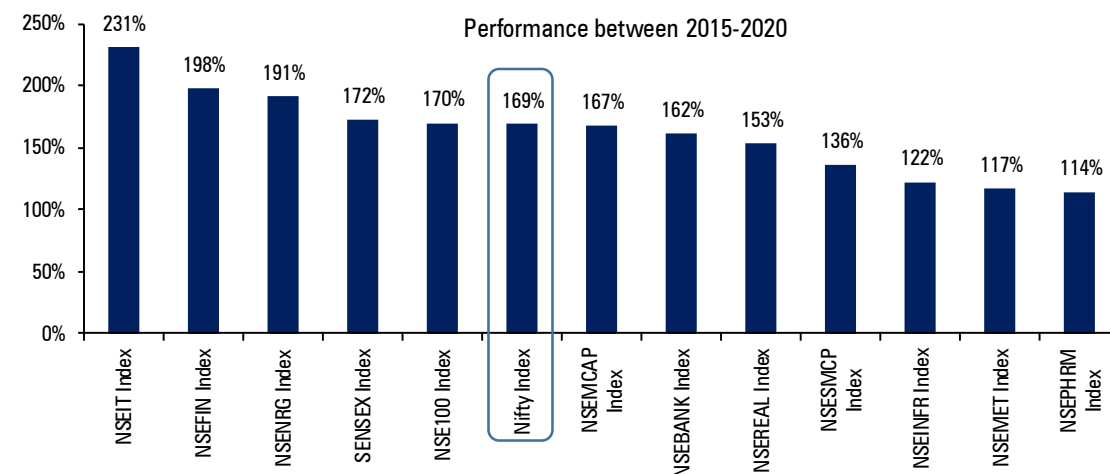


In long term, all market cap types & sectors have performed...

Broader Indices	1 year	3 year	5 year	10 year
Nifty 50	16.6%	26.3%	86.0%	155.3%
Nifty 100	16.1%	23.2%	85.1%	161.9%
Nifty midcap 100	16.4%	-0.2%	69.5%	168.0%
Nifty smallcap 100	14.8%	-19.9%	44.1%	101.8%

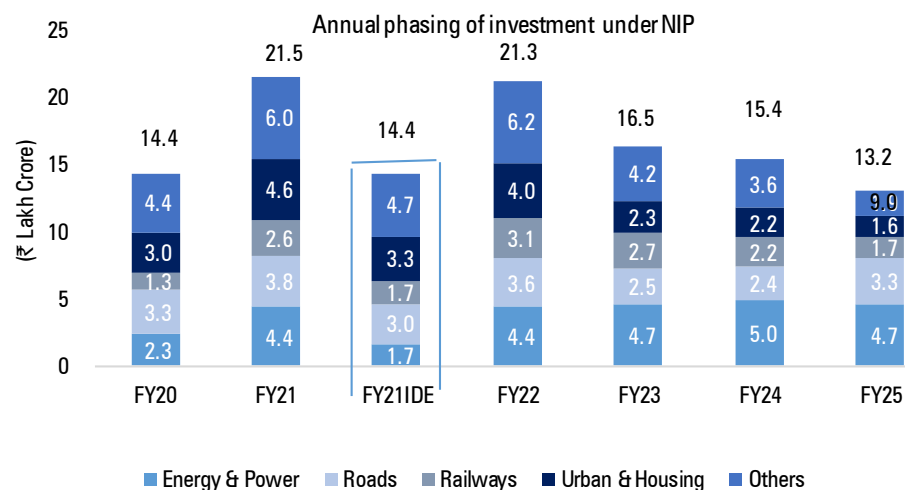


Sectoral Indices	1 year	3 year	5 year	10 year
Nifty Realty	-4.3%	-10.2%	103.4%	6.5%
Nifty Bank	-0.5%	11.3%	99.9%	187.7%
Nifty Metal	20.6%	-23.0%	91.6%	-25.6%
Nifty Financial Services	4.2%	31.2%	131.3%	254.6%
Nifty Energy	7.9%	15.3%	95.7%	88.6%
Nifty Infra	13.5%	3.2%	53.8%	23.7%
Nifty IT	57.4%	95.2%	128.7%	270.8%
Nifty Pharma	49.0%	30.4%	6.9%	167.6%



Source: Bloomberg, ICICI Direct Research

Capex plan under National Infrastructure plan

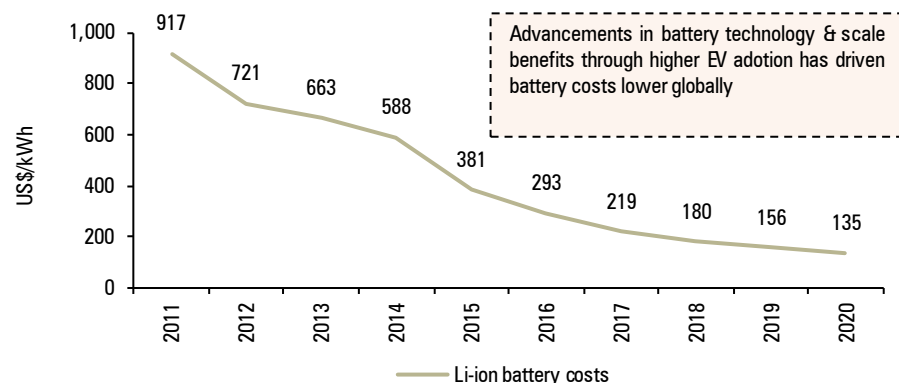


PLI scheme boost for favorable domestic manufacturing

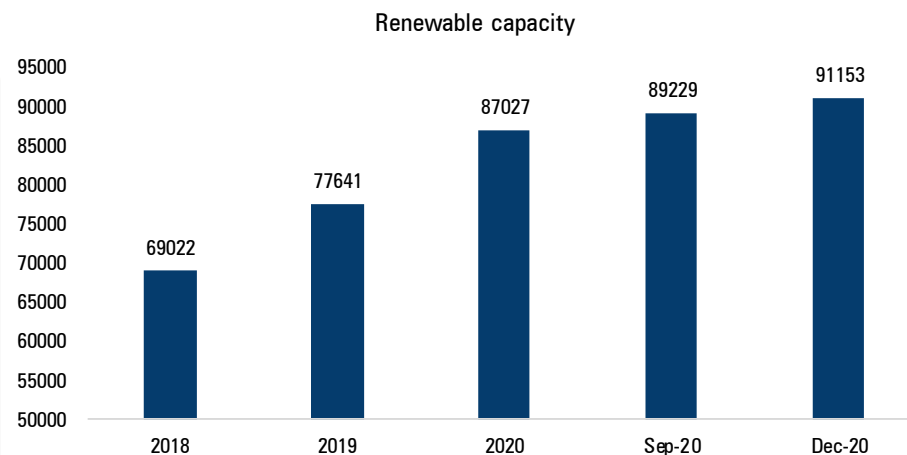
Sectors	Estimated Exp (₹ crore)
Mobile phone manufacturing	47240
API & others	6940
Manufacturing of Medical devices	3420
Advanced Cell Chemistry Battery	18100
Electronic/Technology products	5000
Automobiles & Auto Components	57042
Pharmaceutical Drugs	15000
Telecom & Networking products	12195
Textile products	10683
Food products	10900
High Efficiency Solar PV Modules	4500
White Goods (Acs & LED)	6238
Specialty Steel	6322
Total	203580

What we will not touch: stocks and sectors impacted by disruption

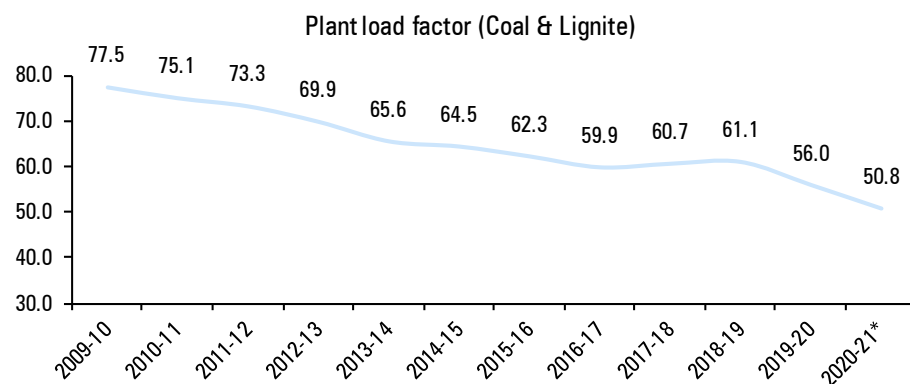
Declining trend in Li-ion battery costs



Renewable capacity & solar tariff in India



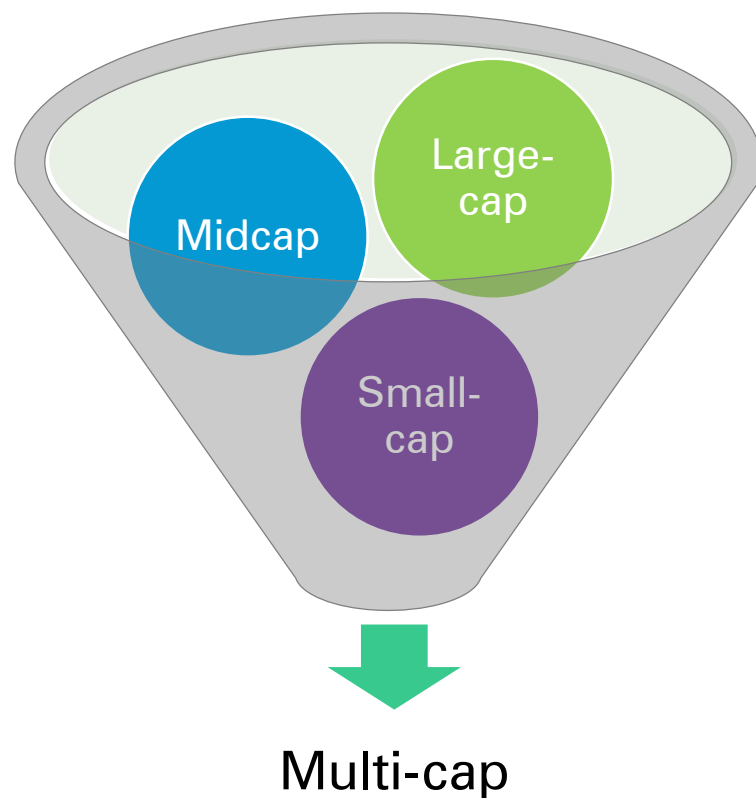
Countrywide PLFs for thermal power plants



Source: BNEF.com Statista, CEA, ICICI Direct Research

Why Multi-cap ?

Multi-cap portfolio provides a perfect blend of market-cap types & sectors that covers the broader spectrum of the market. The portfolio benefits from its diverse spread and winners keep rotating



Large-cap

Stable compounders with established business models along with business moat. Business franchises with brand equity and pricing power. These companies provide overall stability to the portfolio with consistent and stable performance

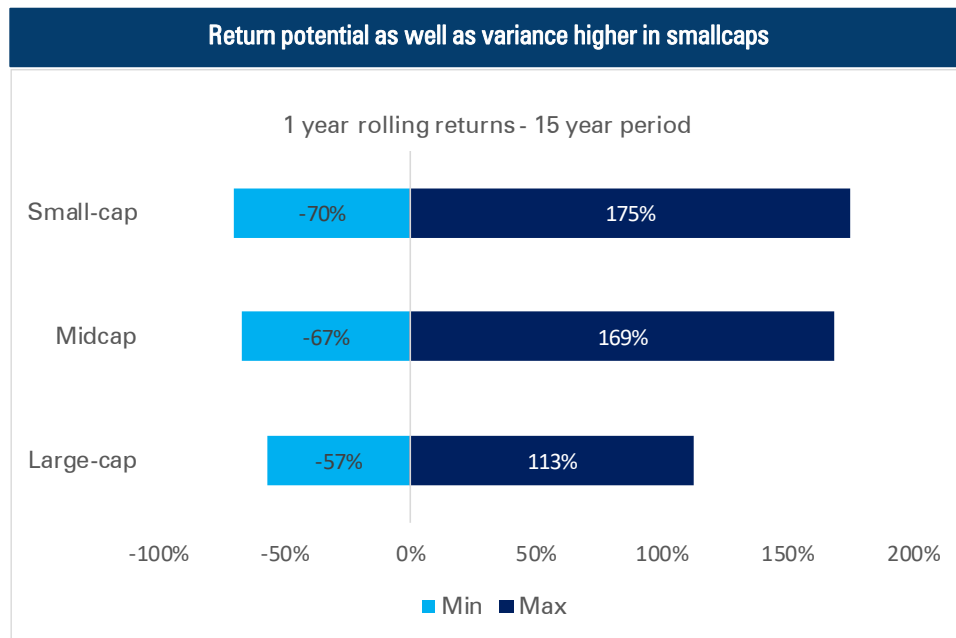
Mid-cap

Potential largecaps which offer higher growth potential than large cap stocks. Midcaps provide a blend of quality companies with strong fundamentals along with bright future prospects.

Small-cap

Emerging companies which are currently small in their respective segments but have the potential to become large over a period of time. These companies provide enormous headroom for growth and hence present with an opportunity to generate alpha in the portfolio.

Return range of companies across market cap & indices

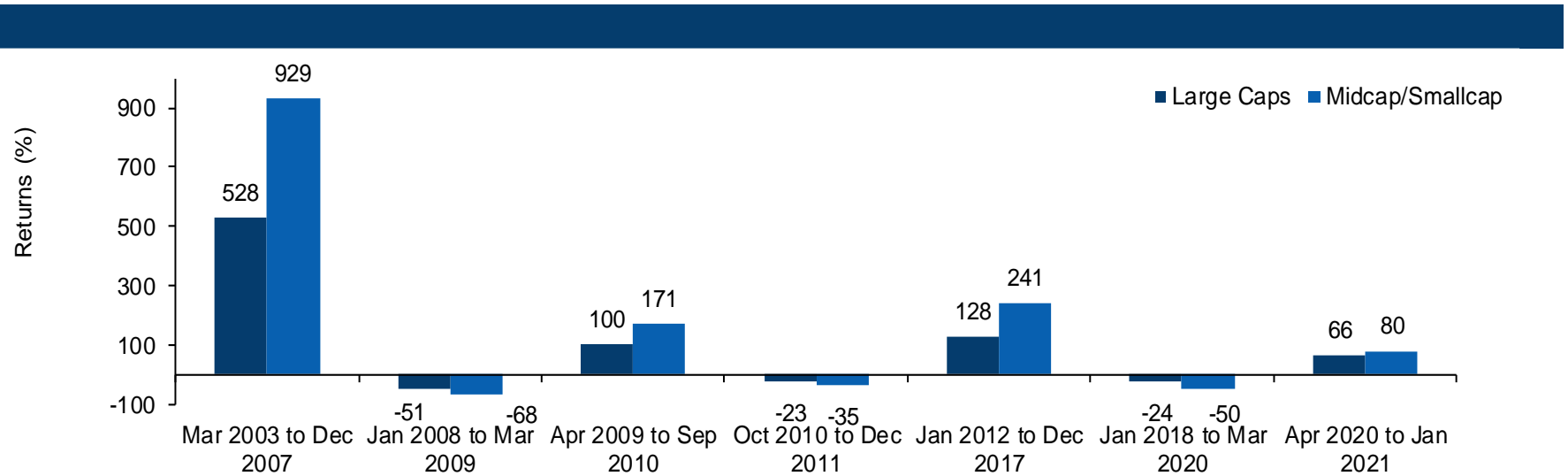


*1 year rolling returns – Annualised average return for 1 year

Smallcaps offers higher multi--baggers but have higher risk negative returns as well

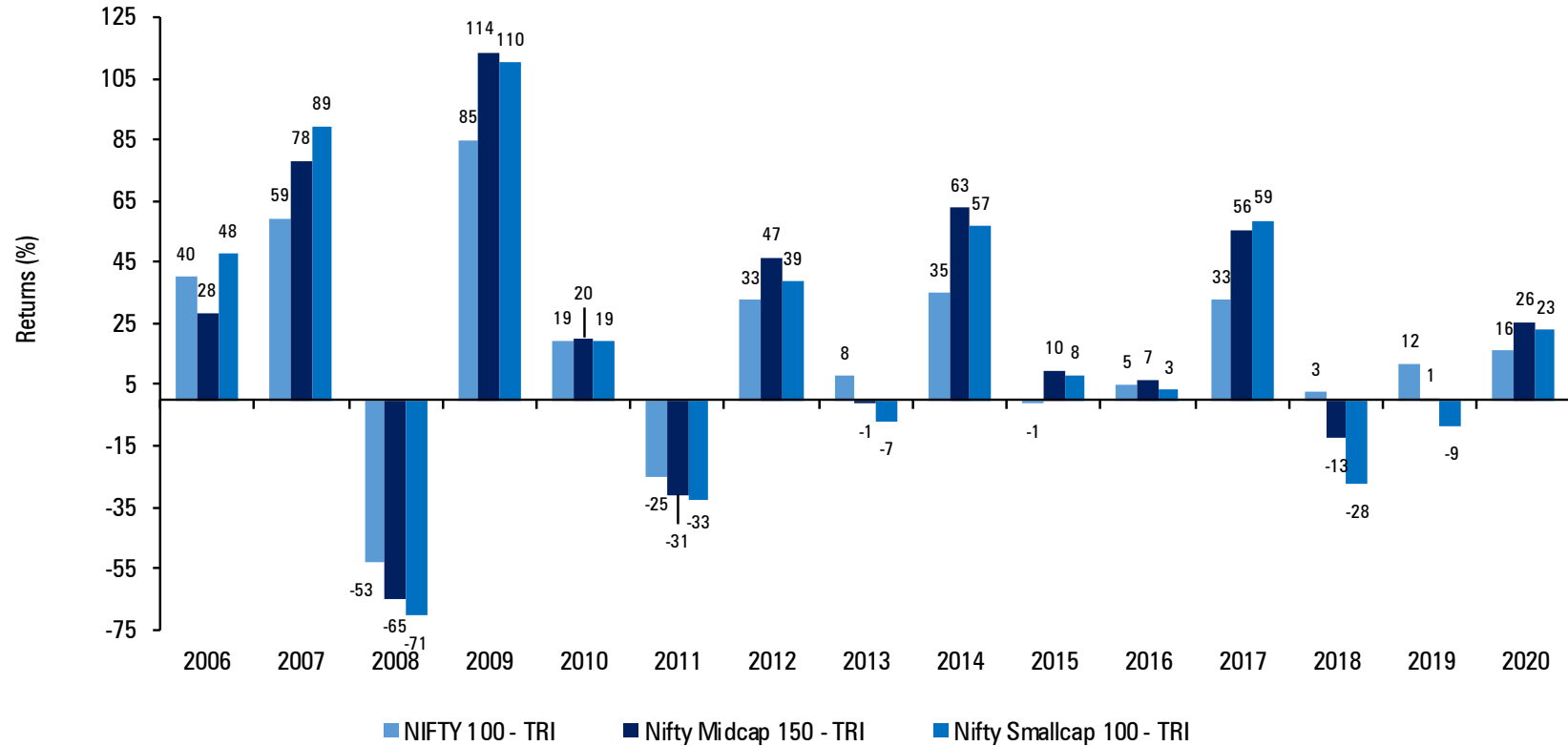
Return	Large-cap	Midcap	Small-cap
5x - 10x	5	9	10
2x - 5x	19	35	45
50% - 100%	15	18	27
0% - 50%	24	16	33
-20% - 0%	8	16	24
<-20%	16	24	57
NA	13	30	50

Midcap & Small-cap outperform in upcycle, large-cap provides stability



Source: NSE, Company, ICICI Direct Research

Midcap/Small-cap funds likely to outperform large-caps funds going forward



Source: NSE, Company, ICICI Direct Research

Winners keep rotating

It is the general nature of the market and the underlying economics behind it that no sector has been a clear outperformer in every cycle. Every few years, winners change and market shifts towards different sectors as per their respective cycle. Hence a broader participation with a long term view always ensures adequate participation in all sectors.

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
NIFTY 100 - TRI	16.08	11.83	2.57	32.88	5.01	-1.26	34.88	7.89	32.51	-24.93	19.28	84.88	-53.07	59.48	40.24
Nifty Midcap 100 - TRI	23.02	-3.40	-14.60	49.28	8.31	7.60	57.87	-3.71	41.43	-30.04	20.41	102.19	-58.74	79.36	30.87
Nifty Smallcap 100 - TRI	22.77	-8.54	-27.68	58.73	3.19	8.21	56.62	-6.95	38.54	-33.06	18.96	110.32	-70.59	89.28	47.63

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
NIFTY AUTO - TRI	13.05	-9.36	-22.35	32.57	11.66	0.26	58.16	10.71	44.61	-17.82	37.45	197.71	-54.03	6.51	30.08
NIFTY BANK - TRI	-2.78	18.94	6.78	41.41	8.47	-8.95	66.16	-7.69	58.44	-31.75	32.01	83.54	-48.51	66.13	35.06
Nifty Financial Services - TRI	4.74	26.38	11.31	42.67	6.15	-4.47	59.12	-6.11	54.09	-28.29	31.28	91.28	-54.60	84.83	41.77
NIFTY FMCG - TRI	14.73	0.09	15.29	31.19	4.61	1.39	19.58	13.34	50.72	10.18	32.90	44.41	-17.82	25.15	19.06
NIFTY INFRA - TRI	14.34	4.49	-11.00	36.06	-0.88	-7.58	24.18	-2.79	23.04	-37.98	-3.25	40.93	-56.86	96.60	57.01
NIFTY IT - TRI	58.08	10.99	26.11	14.53	-5.34	1.55	20.13	60.19	-0.16	-17.03	30.83	167.58	-54.16	-11.07	39.88
NIFTY PHARMA - TRI	61.76	-8.65	-7.30	-5.70	-13.82	9.72	44.39	27.33	32.94	-8.98	36.30	60.94	-24.86	16.06	26.46

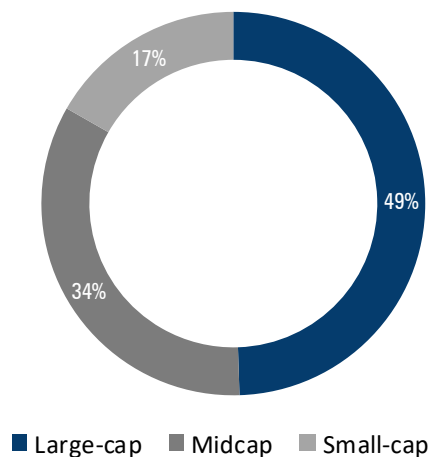
Constructed applying **bottom up style of investing methodology**.

Its key parameters include:

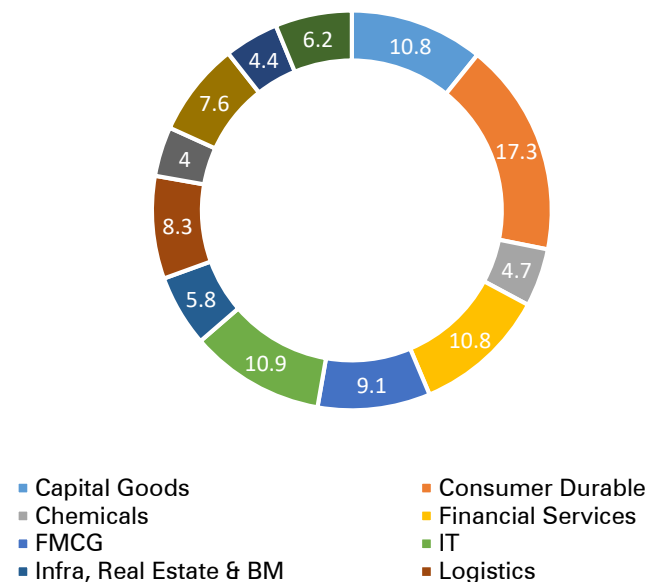
- **Capital efficient businesses** (subjective) with well defined path of higher return ratios in future. Expansion of sustainable ROCE.
- **Robust growth prospects**
- **Low on debt & leverage**
- **Sound Financials**; healthy B/S, positive cash generating businesses
- Run exhaustive check in terms of **management pedigree** and other **corporate governance parameters**
- **Time horizon** – We believe stocks show reasonable performance over 3-5 years
- **Valuation** - We do not follow necessarily a contrarian approach, so we do not aim to buy cheapest stock and sell expensive stocks. Stocks are cheap and expensive for a reason
- **Robust balance sheet**, here the income growth should be faster than the balance sheet growth
- **Other Criteria**
 - a) Multi-bagger approach
 - b) Universe of 15-20 companies
 - c) No sector will be more than 25% of the portfolio
 - d) Individual stocks should not be more than 10% and less than 3% of portfolio while investing

Diversified industry exposure: All weather Multi-cap portfolio to allow for broad market participation

Multi-cap portfolio composition



Portfolio Sectoral Mix



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