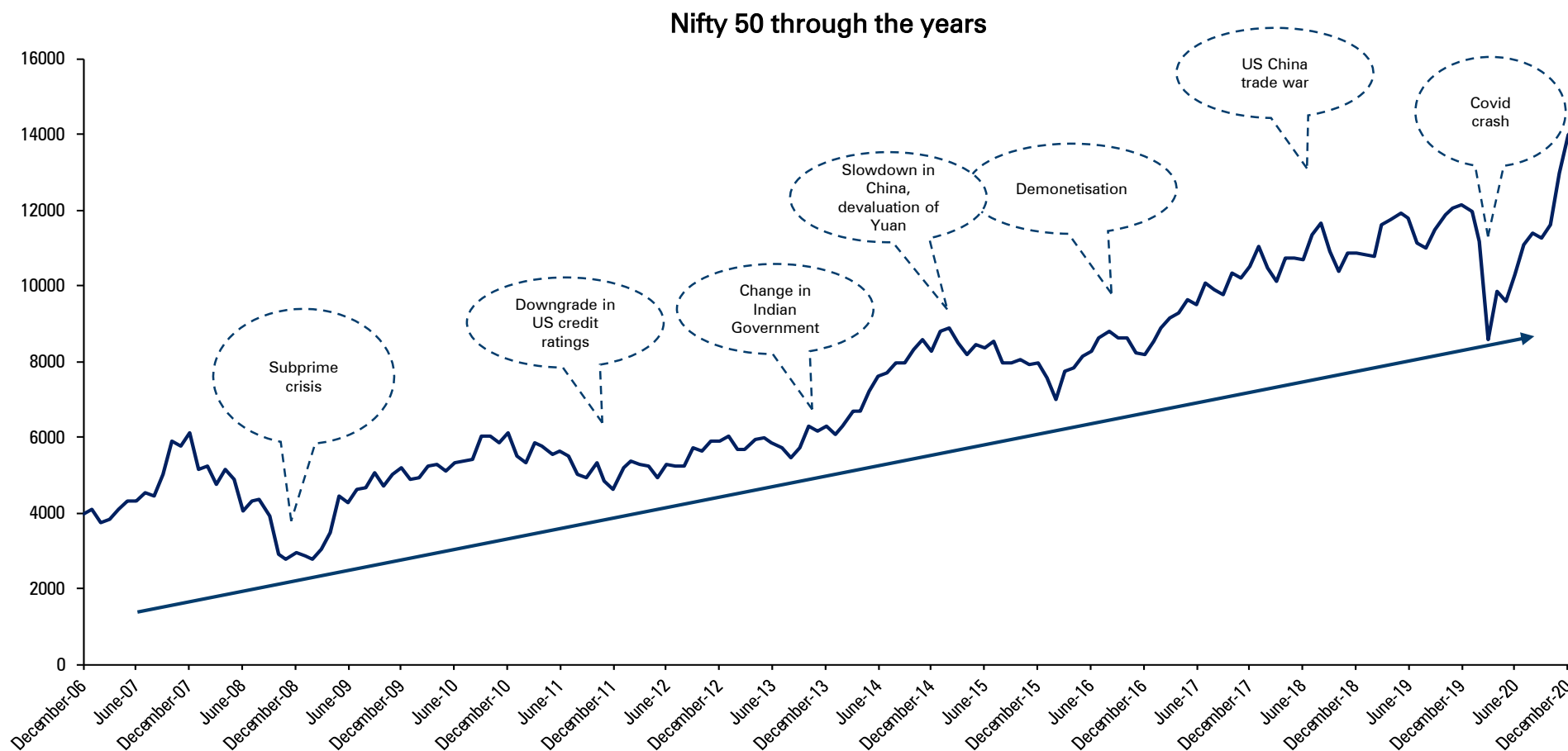




Equity Frontline Portfolio

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 **broadier 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				

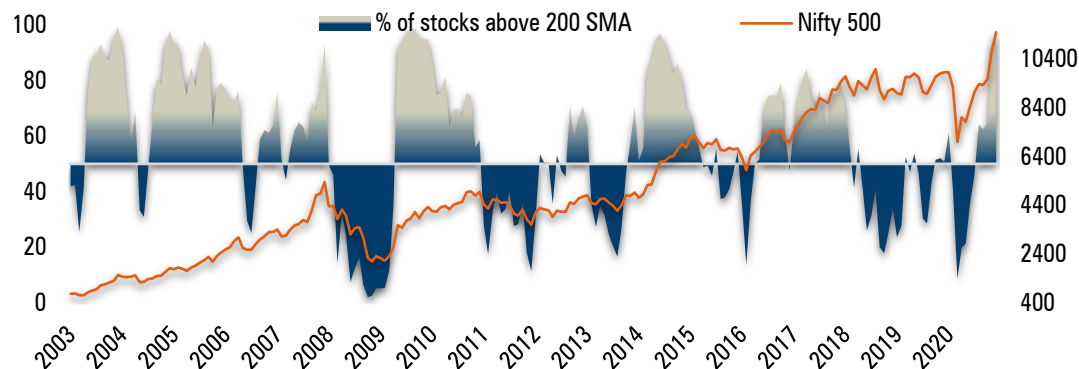
FII inflows at historical high, market sentiments bouyant...

FII Inflows/Outflows (2020)

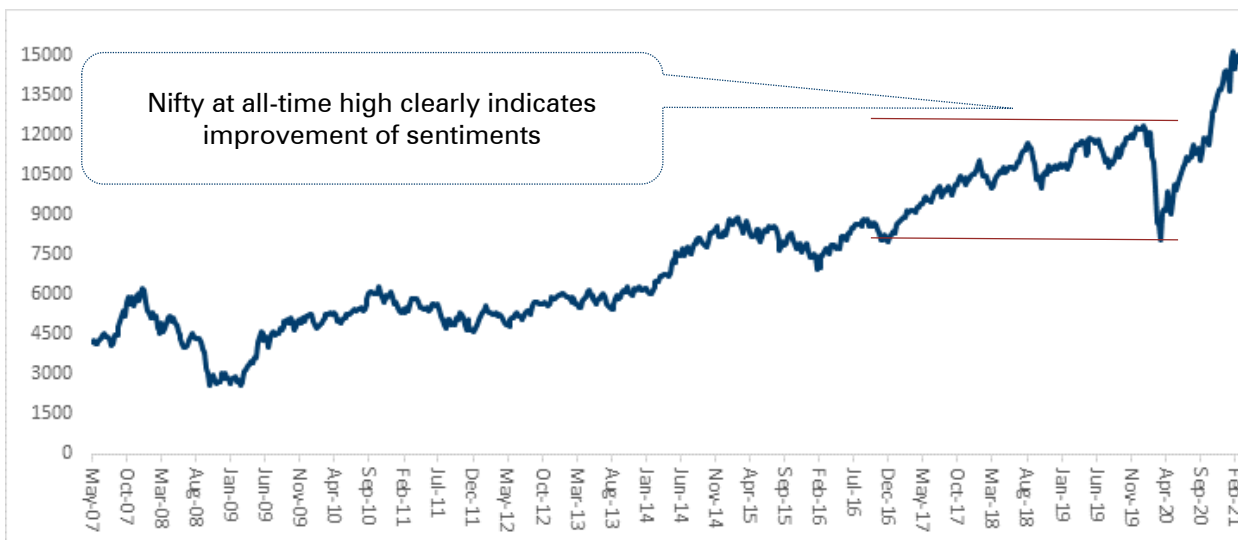
January	12123
February	1820
March	-61973
April	-6884
May	14569
June	21832
July	7563
August	47080
September	-7783
October	19541
November	60358
December	62016
January (till 26th Jan 2021)	23630

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



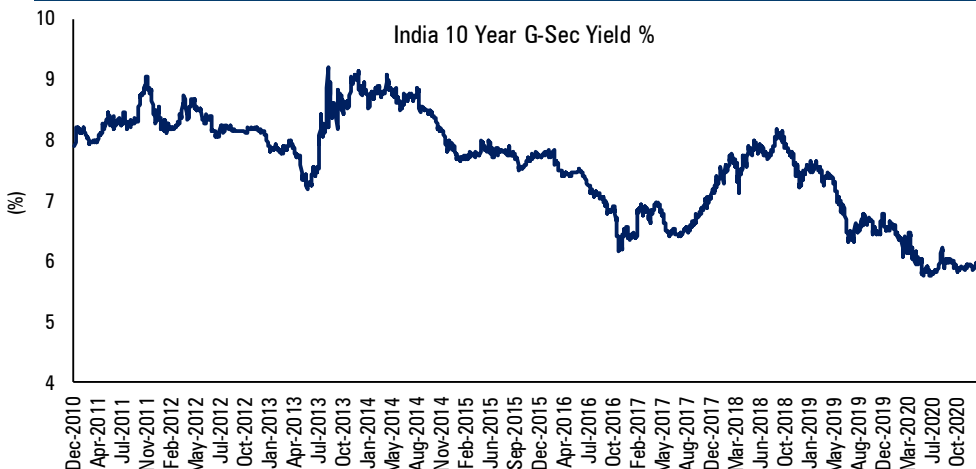
Greater than 90% of the NSE500 stocks are trading above their 200 SMA. This has never happened in previous bull runs. This highlights broad based participation and strong market sentiments.



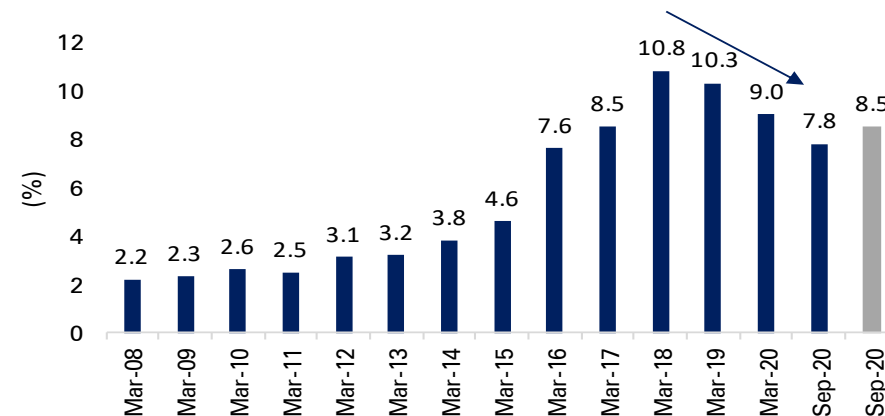
Source: NSE, NSDL, ICICI Direct Research

Positive conditions for a broad based market rally...

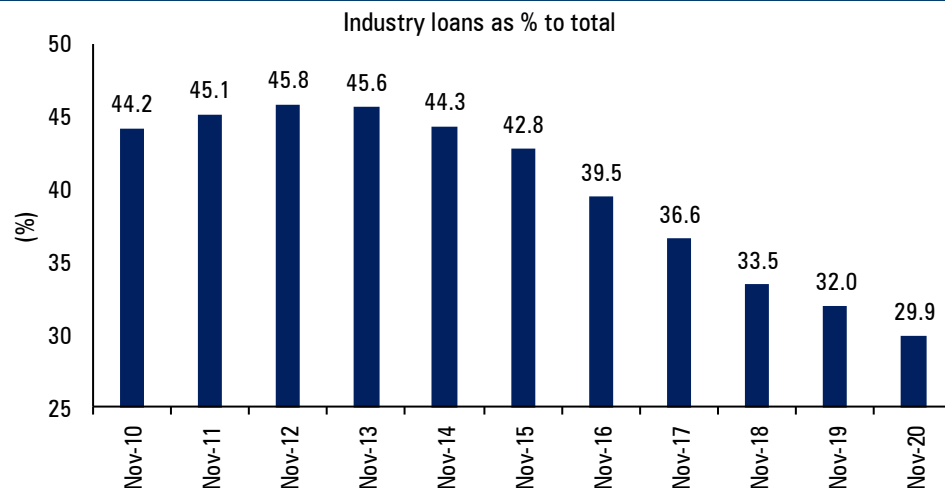
Interest rates at all time low



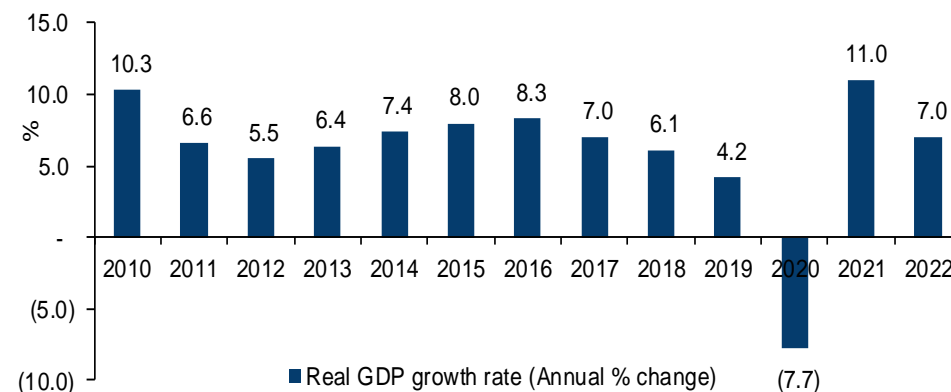
Asset quality concerns peaked out



Corporate debt at lowest levels



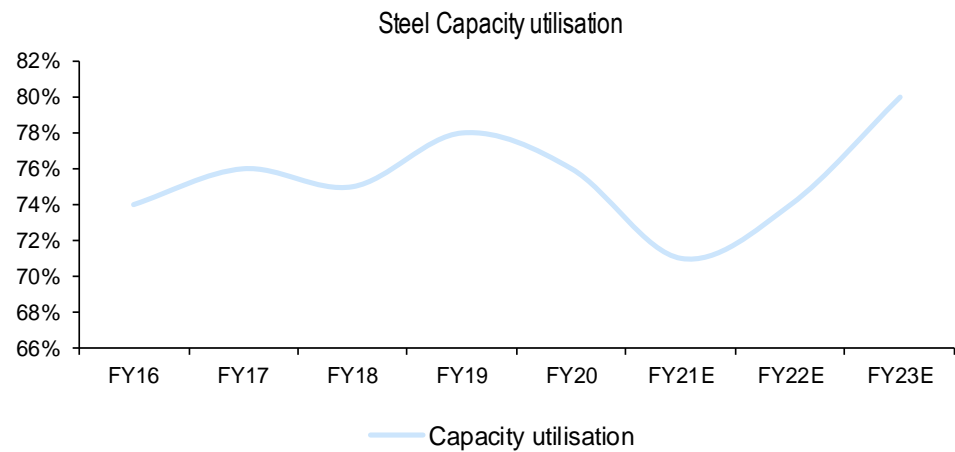
Historical GDP growth rate of India



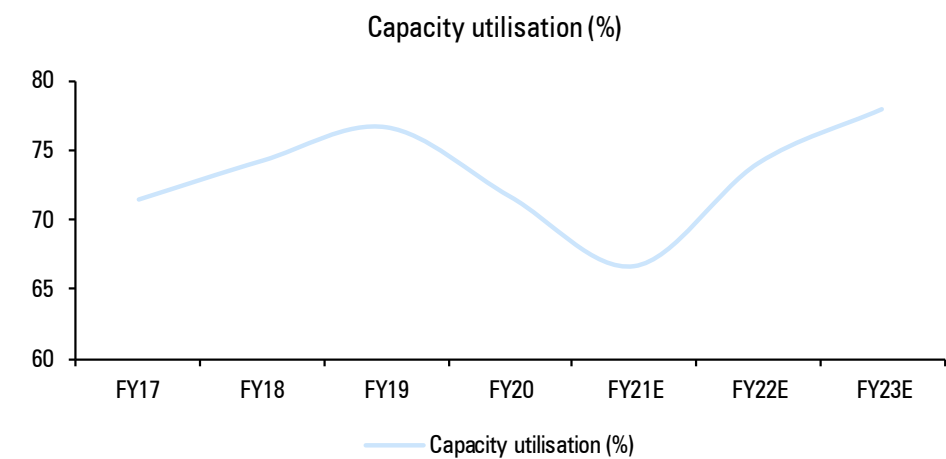
Source: NSE, RBI, IMF, WorldBank, ICICI Direct Research

Capacity utilisation trend for core sectors

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



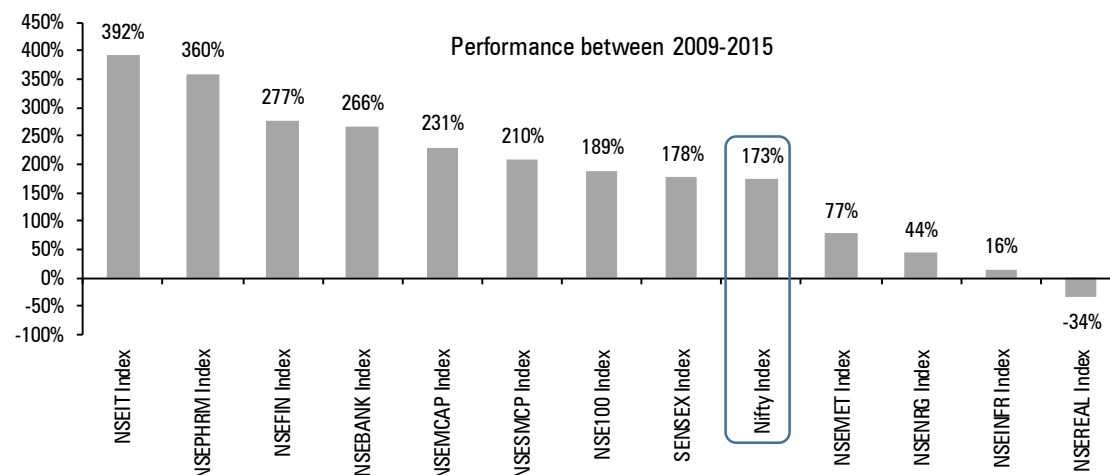
Focus on infrastructure to provide headroom for cap utilisation levels in cement sector



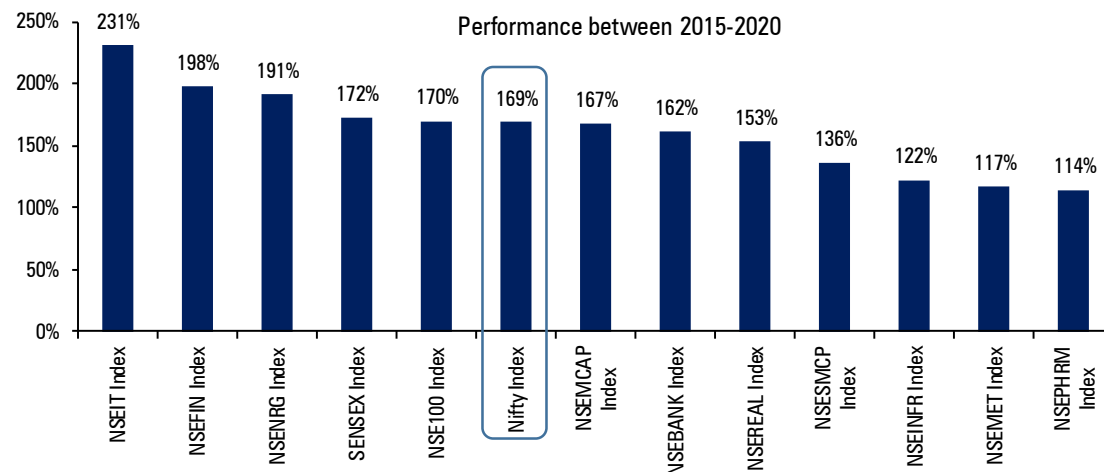
Source: Company, ICICI Direct Research

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%

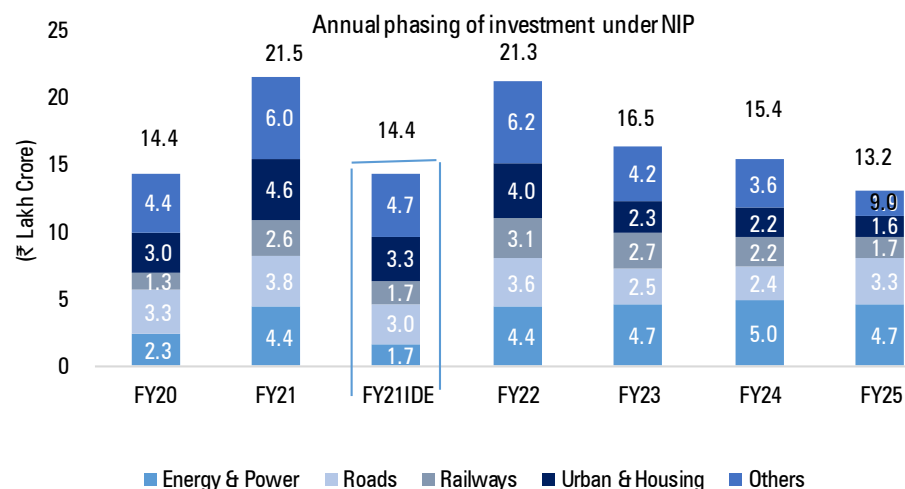


Sectoral Indices	1 year	3 year	5 year	10 year
Nifty Realty	-4.3%	-10.2%	103.4%	6.5%
Nifty Bank	-0.5%	11.3%	99.9%	187.7%
Nifty Metal	20.6%	-23.0%	91.6%	-25.6%
Nifty Financial Services	4.2%	31.2%	131.3%	254.6%
Nifty Energy	7.9%	15.3%	95.7%	88.6%
Nifty Infra	13.5%	3.2%	53.8%	23.7%
Nifty IT	57.4%	95.2%	128.7%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



Source: Bloomberg, ICICI Direct Research

Capex plan under National Infrastructure plan

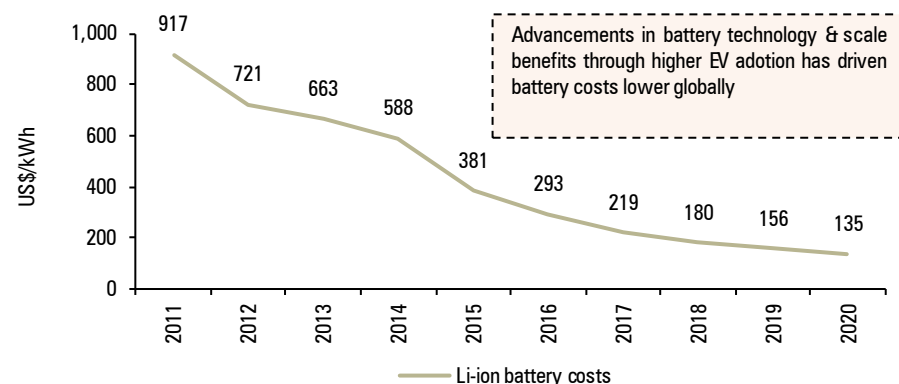


PLI scheme boost for favorable domestic manufacturing

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

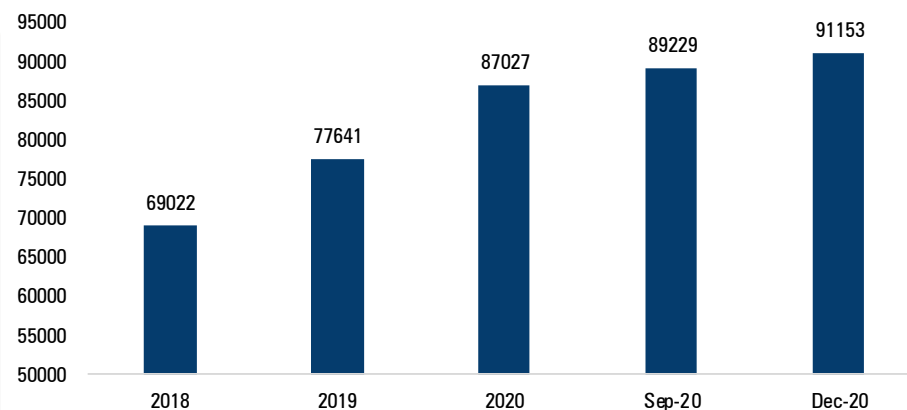
What we will not touch: stocks and sectors impacted by disruption

Declining trend in Li-ion battery costs



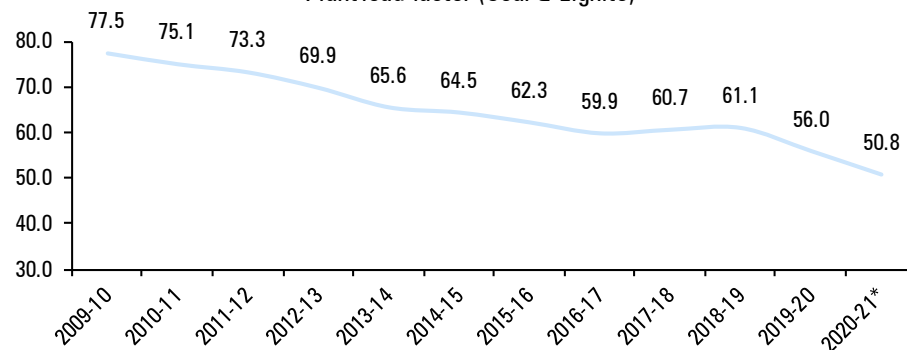
Renewable capacity & solar tariff in India

Renewable capacity



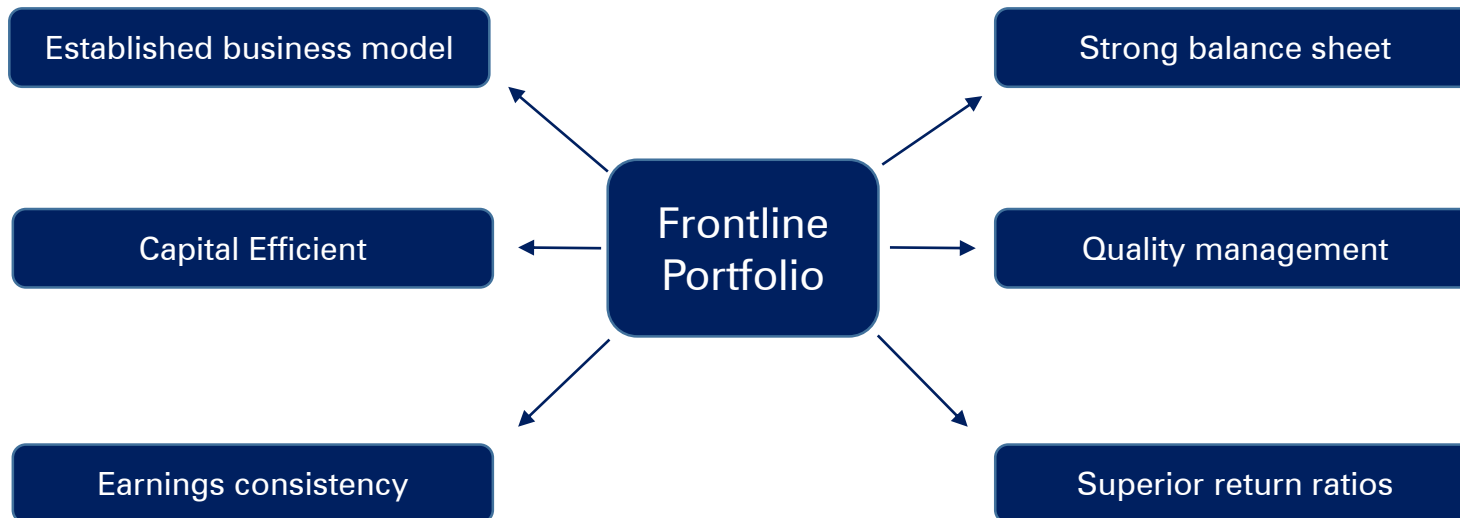
Countrywide PLFs for thermal power plants

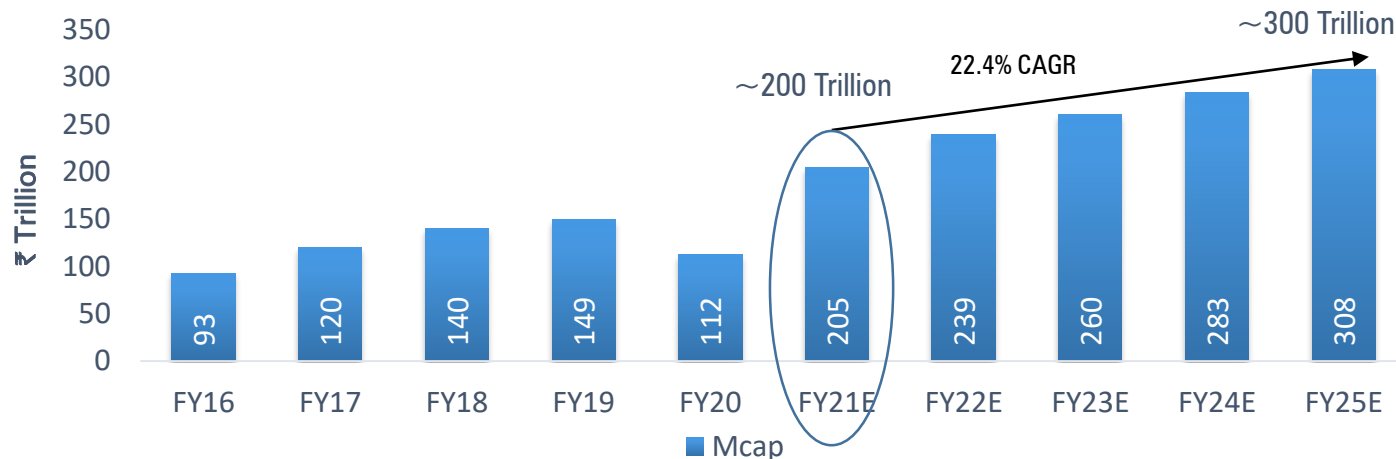
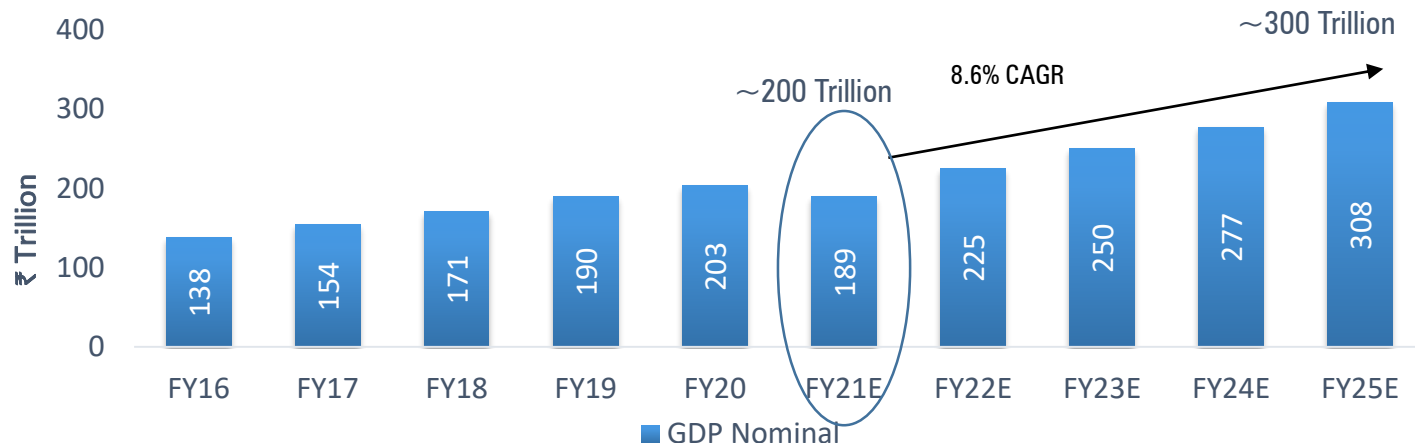
Plant load factor (Coal & Lignite)



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

The investment objective of the Frontline Equity Portfolio is to achieve long term stable capital appreciation from a portfolio that is predominantly invested in large cap companies. The portfolio invests in companies that have established business model, strong balance sheet, quality management and have delivered superior capital efficiency ratios over a period of time, with an aim to minimise risks in the portfolio.





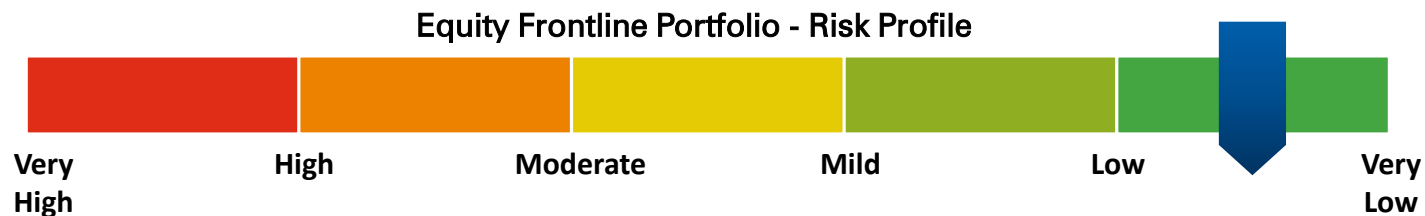
- MCap to GDP for FY21E is expected to be around 108%. Going ahead, we expect this ratio to be in the range of 1:1.
- With GDP growing to ~ ₹ 300 Trillion we expect MCap to follow suit and cross the ~ ₹ 300 Trillion mark by FY25E growing at a CAGR of 22.4%.
- Currently, a major share of the MCap is contributed by Large-cap companies and hence we expect the same to continue going ahead.
- Hence our Equity Frontline Portfolio which consists of top companies in the large-cap space would be the prime beneficiary of the economic growth in India

Equity Frontline Portfolio = Low risk + Stable Capital Appreciation

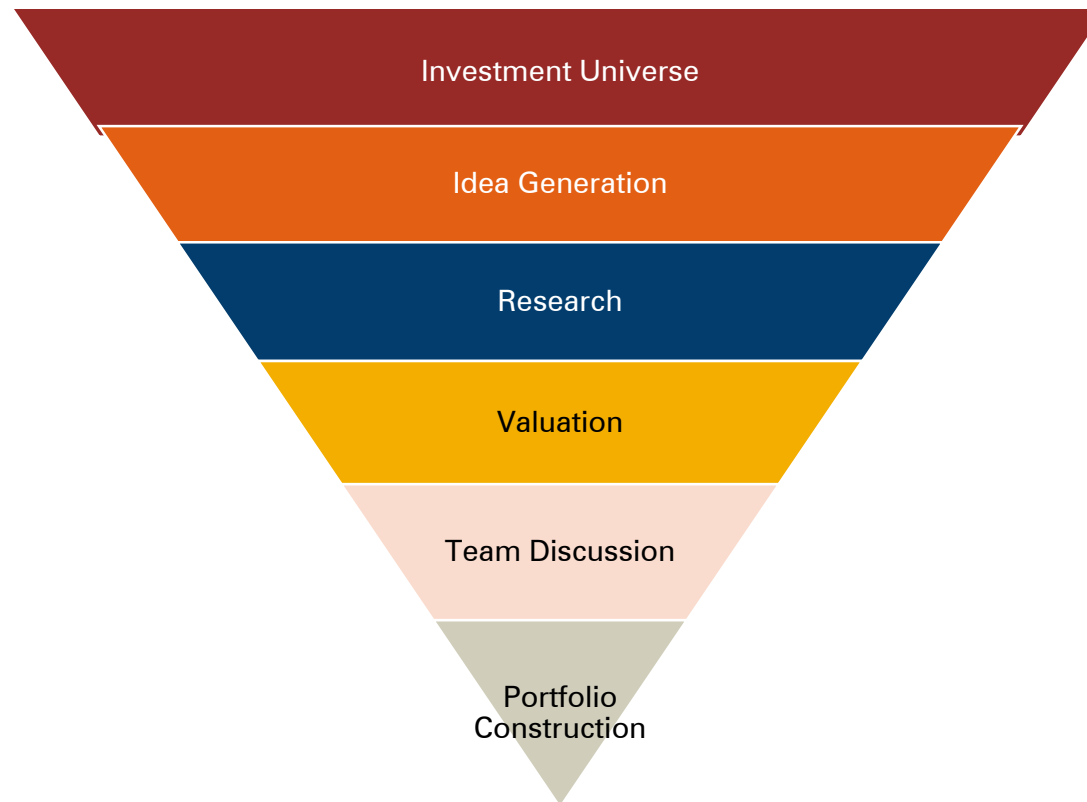
Historically, Large-caps have been more resilient to market fluctuations when compared to mid & small-caps. A primary reason for the same has been established business models and healthy financials that provide cushion in times of crisis.

Equity Frontline Portfolio is a 100% Large-cap portfolio consisting of blue-chip companies from diverse sectors. The primary objective of the portfolio is to generate alpha over FD returns while minimizing risk

1 Year Returns	Nifty 100	Nifty Midcap 100	Nifty Small Cap 100
2020	14.86%	21.87%	21.47%
2019	10.42%	-4.32%	-9.53%
2018	1.14%	-15.42%	-29.08%
2017	31.05%	47.26%	57.30%
2016	3.60%	7.16%	2.26%
2015	-2.14%	6.46%	7.21%
2014	33.17%	55.91%	54.95%
2013	6.46%	-5.10%	-8.28%
2012	30.60%	39.16%	36.81%



The Idirect Research team handpicks the stocks after undergoing extensive fundamental check across sectors and companies through various qualitative and quantitative measures. The process includes a 360 degree check across the fundamentals of the company. This also involves meeting the management of the companies, meeting competitors, plant visits, doing channel check for continuous monitoring and assess the future performance of the company

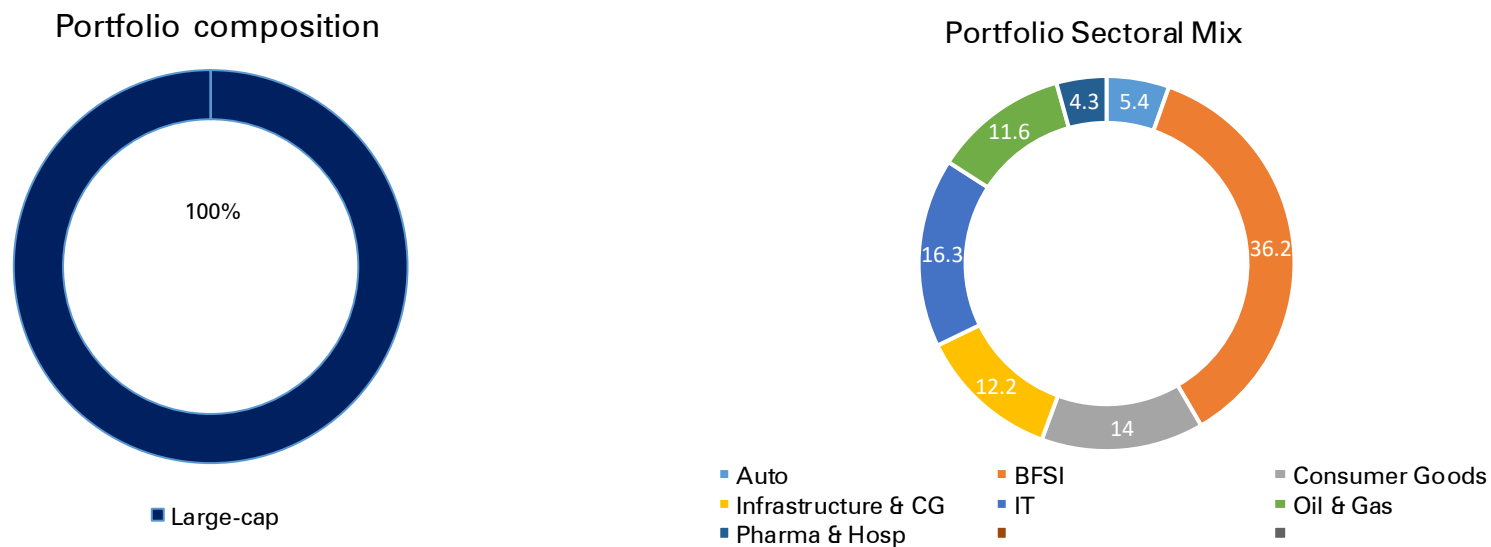


Constructed applying **bottom up style of investing methodology**.

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

Equity Frontline portfolio is concentrated towards Large-cap companies with established business models



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