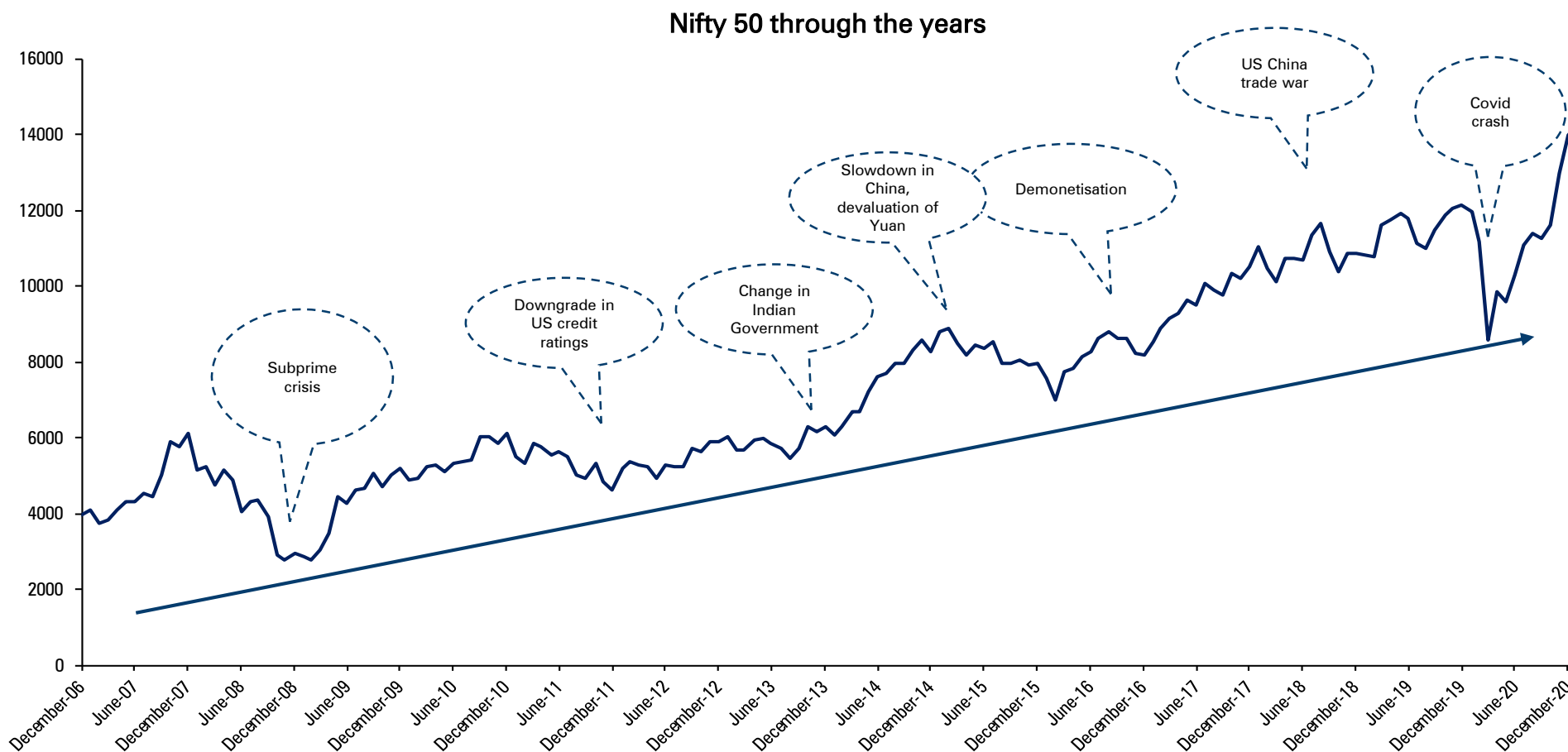


**Realising Atmanirbhar Bharat
India Rising**



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				

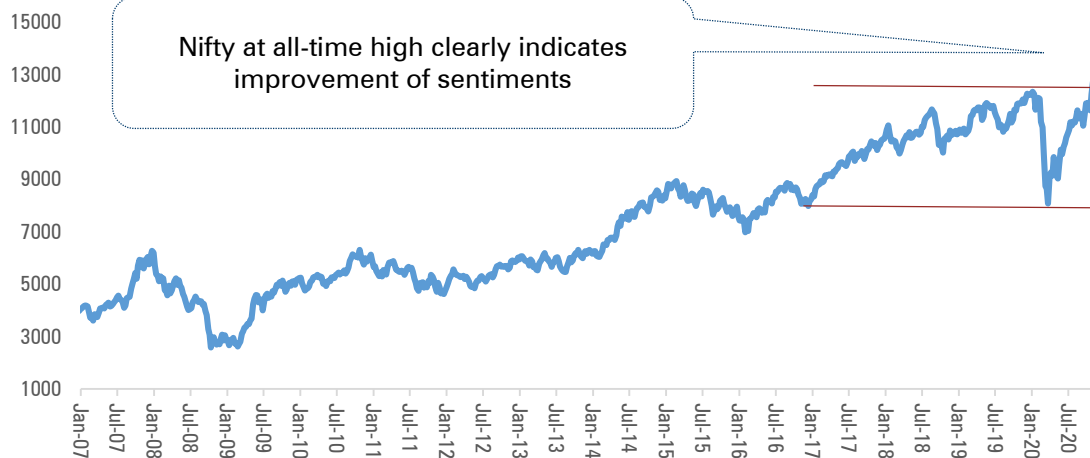
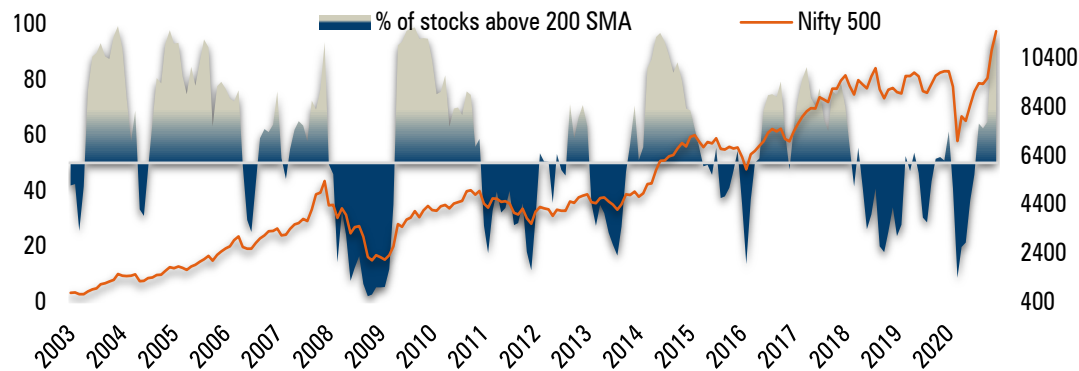
FII inflows at historical high, market sentiments bouyant...

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

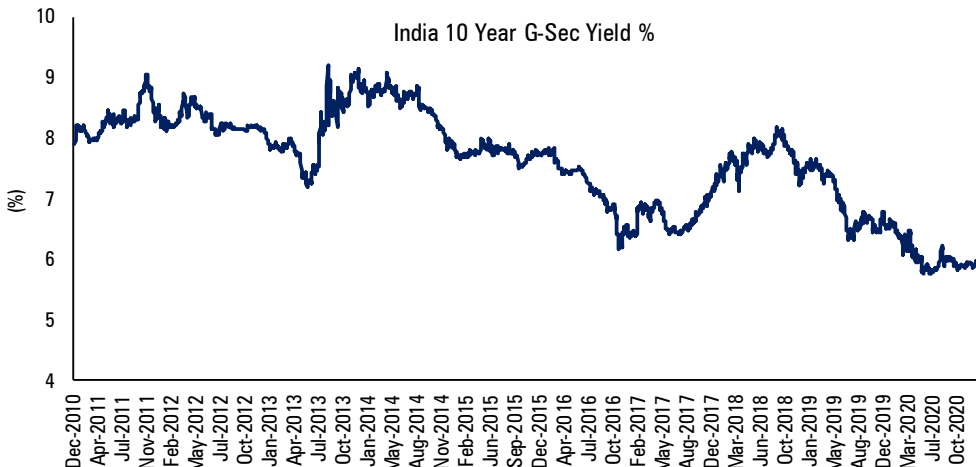


Greater than 90% of the NSE500 stocks are trading above their 200 SMA. This has never happened in previous bull runs. This highlights broad based participation and strong market sentiments.

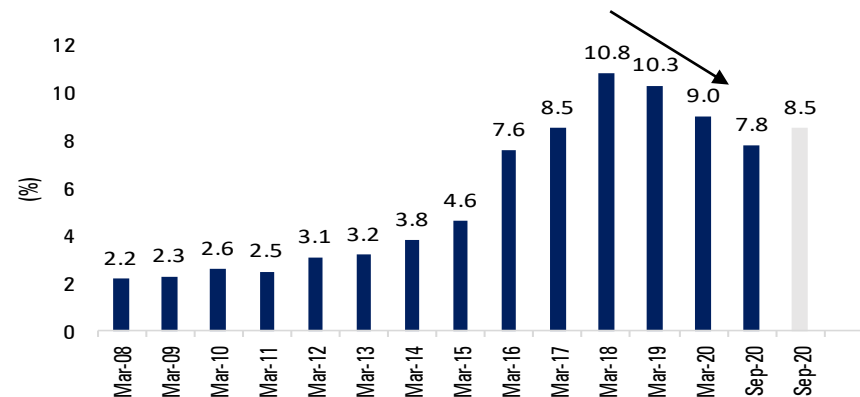
Positive conditions for a broad based market rally...

Interest rates at all time low

India 10 Year G-Sec Yield %

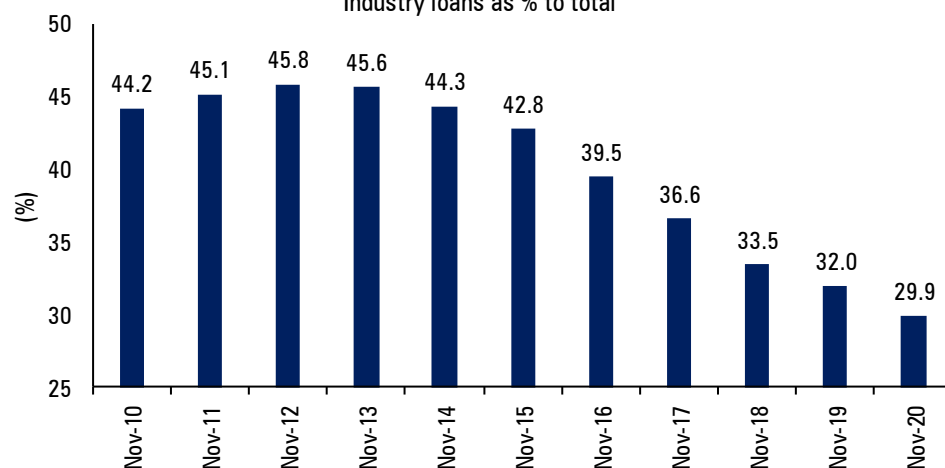


Asset quality concerns peaked out

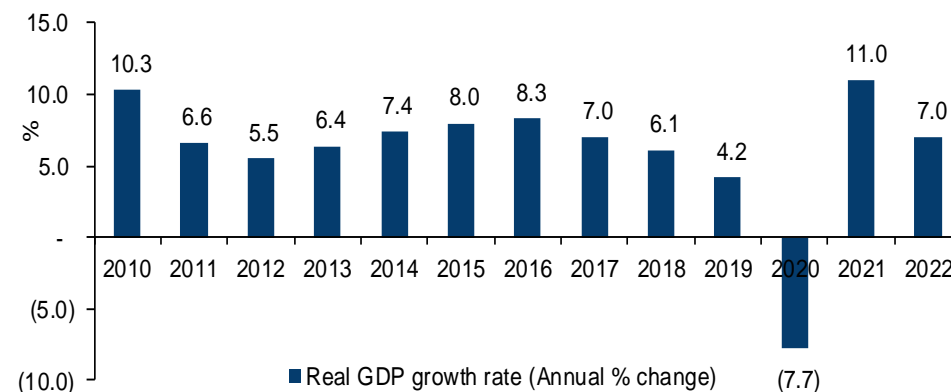


Corporate debt at lowest levels

Industry loans as % to total



Historical GDP growth rate of India

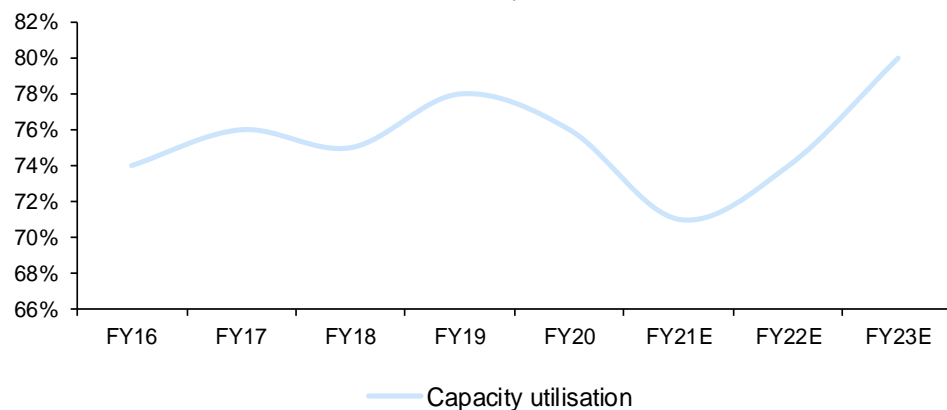


Source: NSE, RBI, IMF, WorldBank, ICICI Direct Research

Capacity utilisation trend for core sectors

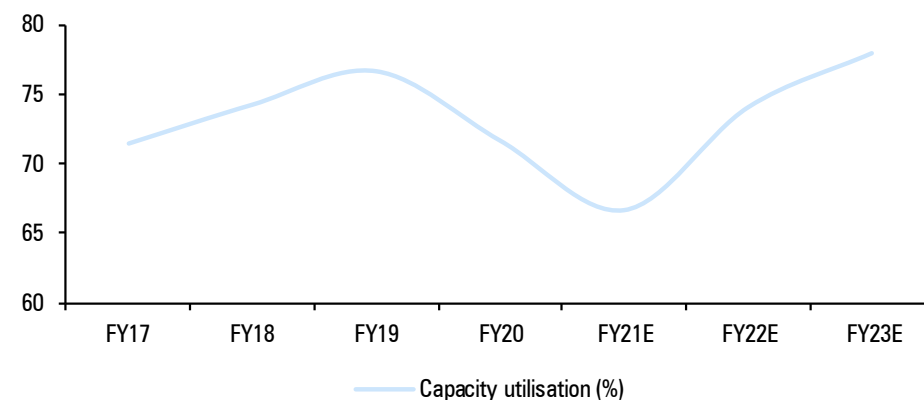
Steady demand from core industries should improve capacity utilisation in steel sector

Steel Capacity utilisation



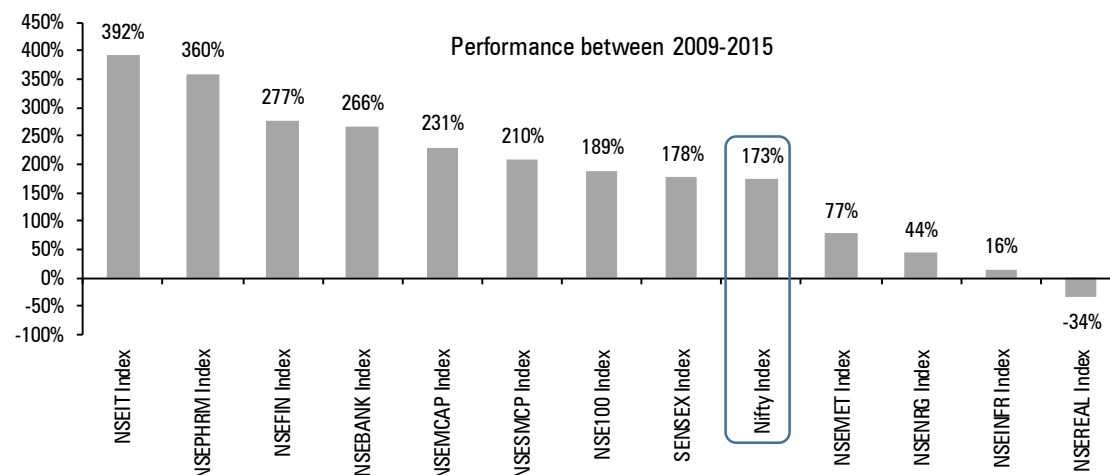
Focus on infrastructure to provide headroom for cap utilisation levels in cement sector

Capacity utilisation (%)

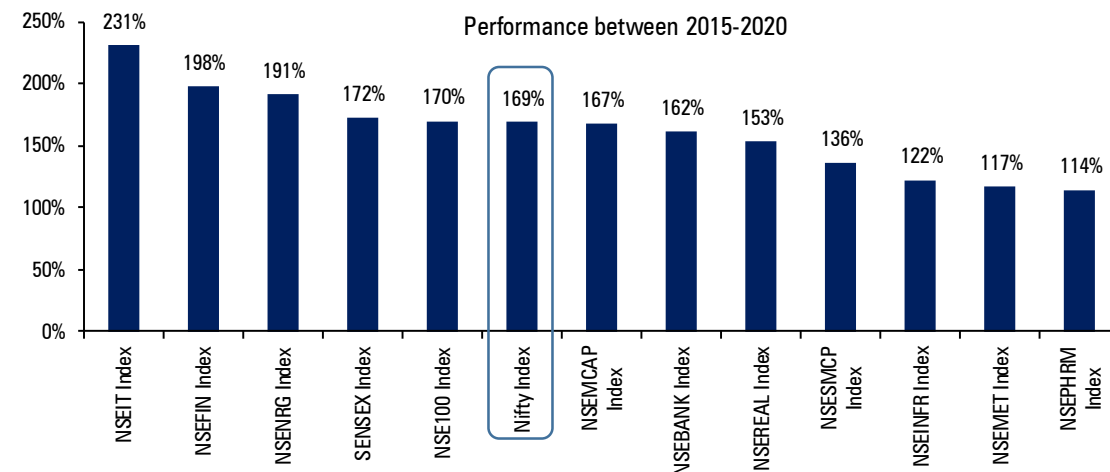


In long term, all market cap types & sectors have performed...

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%

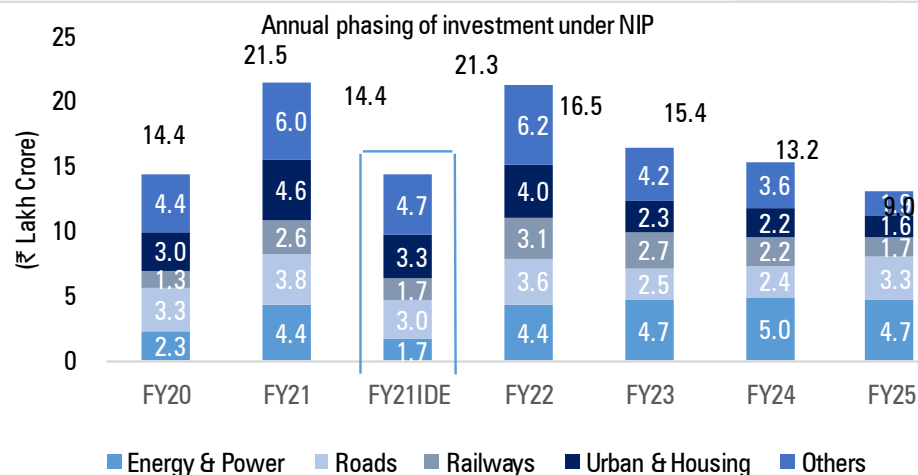


Sectoral Indices	1 year	3 year	5 year	10 year
Nifty Realty	-4.3%	-10.2%	103.4%	6.5%
Nifty Bank	-0.5%	11.3%	99.9%	187.7%
Nifty Metal	20.6%	-23.0%	91.6%	-25.6%
Nifty Financial Services	4.2%	31.2%	131.3%	254.6%
Nifty Energy	7.9%	15.3%	95.7%	88.6%
Nifty Infra	13.5%	3.2%	53.8%	23.7%
Nifty IT	57.4%	95.2%	128.7%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



Source: Bloomberg, ICICI Direct Research

Capex plan under National Infrastructure plan

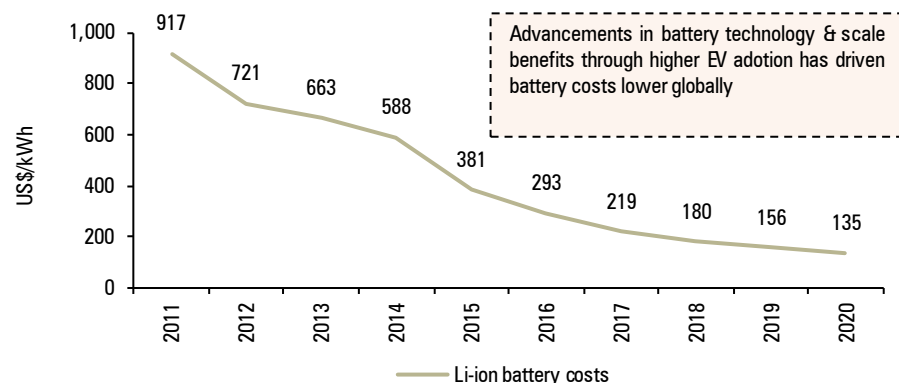


PLI scheme boost for favorable domestic manufacturing

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

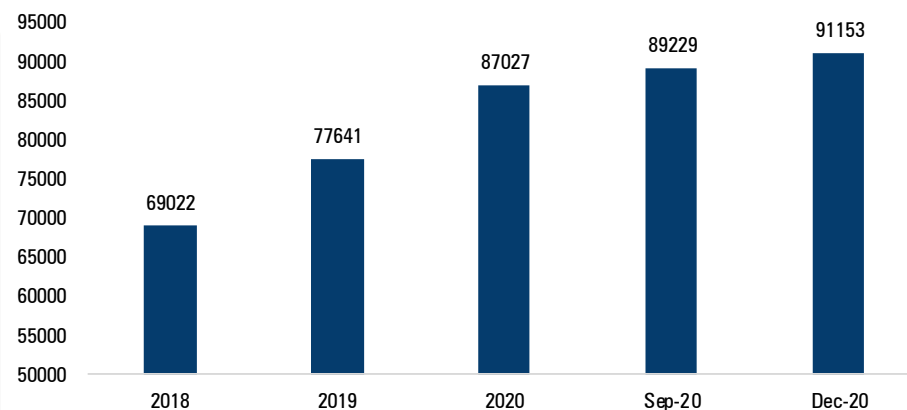
What we will not touch: stocks and sectors impacted by disruption

Declining trend in Li-ion battery costs



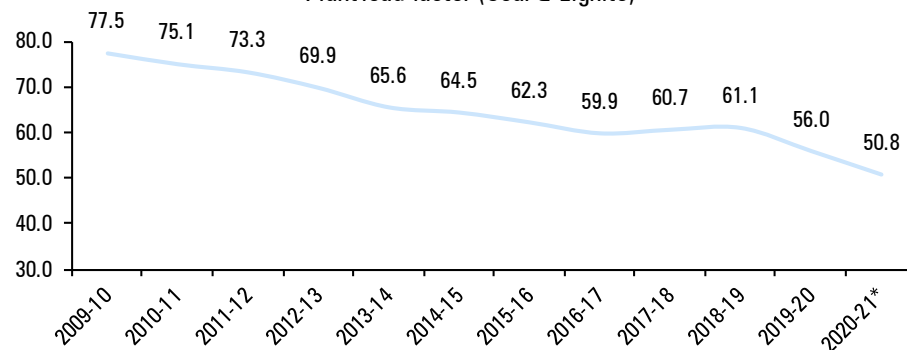
Renewable capacity & solar tariff in India

Renewable capacity



Countrywide PLFs for thermal power plants

Plant load factor (Coal & Lignite)



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

India Rising – Realising Atmanirbhar Bharat

Our India Rising portfolio seeks to achieve long term capital appreciation through investment in companies that are expected to benefit from changes in technology space, virtualization of business, making India a global supply hub and domestic consumption story. These will predominantly include companies in following Industries

01

Technology & Engineering Services – includes software, IT management, Data and IT Infrastructure services, cloud computing software

02

Domestic Internet technology enabled companies – including e-commerce, e-classified and other online services

03

Manufacturing – including companies focus on mobile manufacturing, white goods, electronics, API & others and key PLI beneficiaries

04

Telecommunications, including networking, wireless, and wire-line services, equipment and support

05

Niche Industries – including companies focusing on digital pay, automation of manufacturing, beverages, new age banking and healthcare

India – Moving up the global value chain

Widespread urbanization, rising disposable income & demographic dividend-drive consumption

India is estimated to add 30 crore new urban residents by 2050

Disposable incomes are projected to increase by ~ 55% by 2020

42% population remains young aged between 15-40 years ^

Digital India initiative by Government of India

Government's initiative to connect 55000 villages; already on boarded 8621 villages

Union of e-services, e-tailing and digital classifieds

Integration across e-tailing and e-servicing could enable cross sell business in the digital classifieds

Pay per transaction could gather traction in future

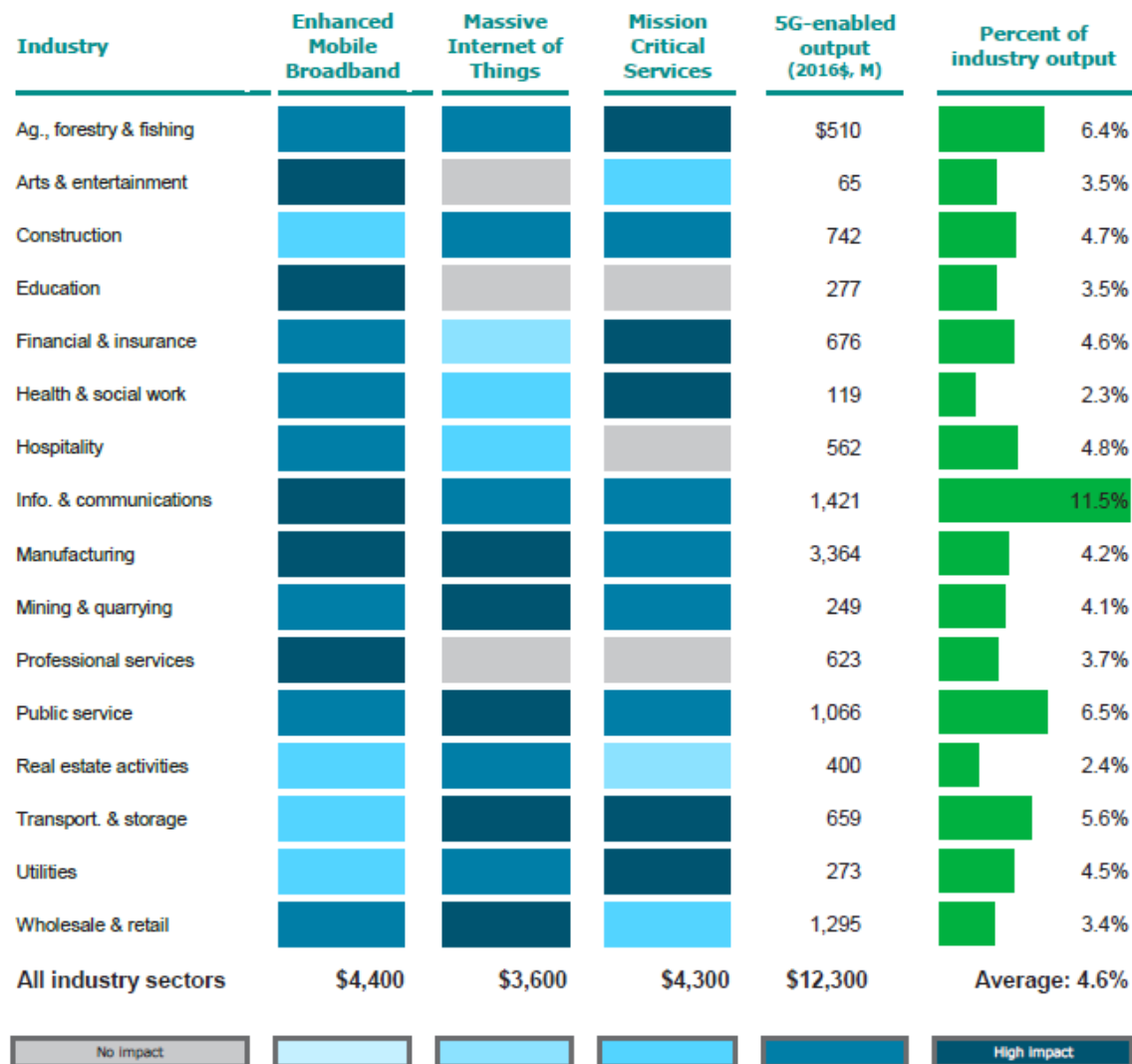
Internet penetration

~ 54.3% internet penetration with ~ 76 crore internet users (2020)

5G to usher in industrial revolution

Introduction of 5G will lead to digital revolution, give further impetus to virtualization of business, emergence of new business model and a technology driven ecosystem across sectors

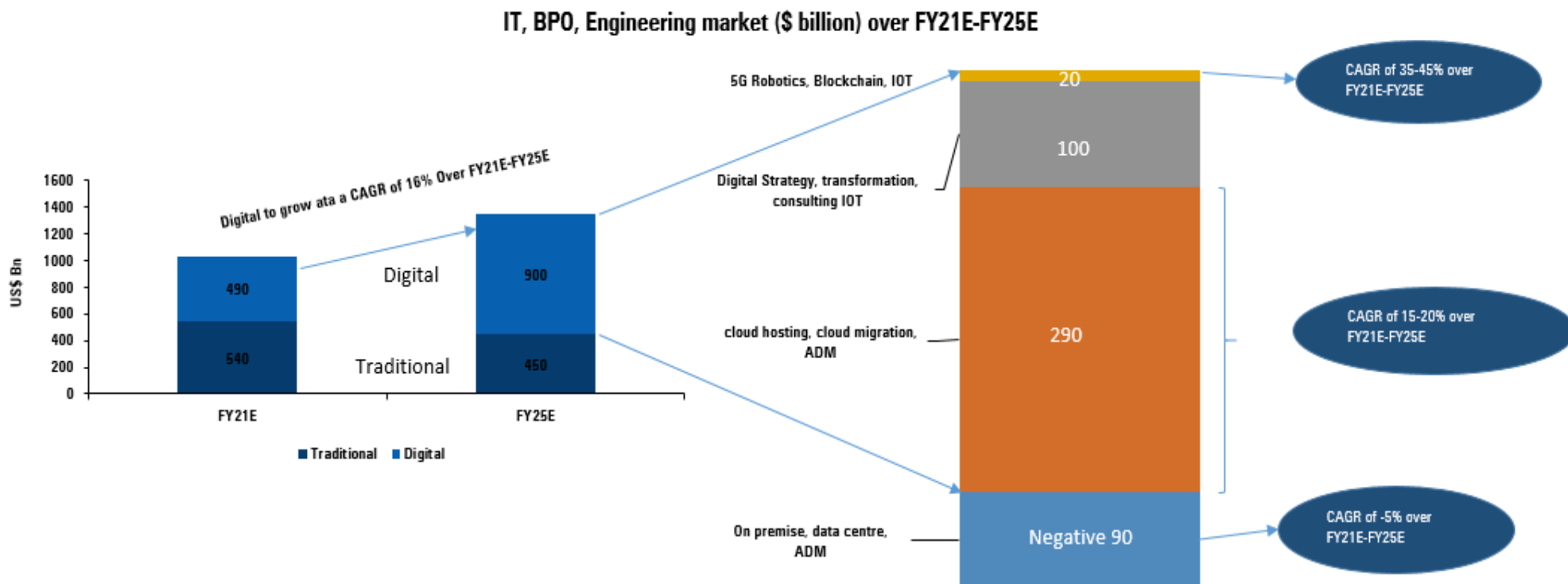
5G to usher in new industrial revolution



5G deployment will impact virtually every Industry. It is estimated the potential global sales activity across multiple industry sectors enabled by 5G could reach \$12.3 trillion, representing 4.6% of global real output. The major impact of 5G is likely to be in manufacturing (auto & other electronics), information & communication and public services.

In 2020-2035, global real GDP would grow at an average annual rate of 2.9% of which 5G would contribute 0.2% of growth. The overall contribution in value terms over the period accumulates to \$3 trillion, which when discounted at 3% rate, gives an NPV of ~\$2.1 trillion. To put this into perspective, in 2020-35, the overall contribution of 5G to the global economy would be roughly 75% of current GDP of India

Virtualisation of business models



Rising adoption of smartphones, high internet speed and social distancing (post Covid) has changed consumer behaviour. Consumers now prefer to transact (buy a product/ service) virtually leading to virtualisation of business . This proliferation of new age technologies (expected to grow at a CAGR of 16% in FY21E-25E) is expected to be the beginning of a multi-year technology transformation phase.

PLI scheme boost for domestic manufacturing

Union Budget aptly focused on production linked incentive (PLI) scheme which is expected to help the country in moving up the global value chain. It is launched with an aim to create global manufacturing champion across 13 sectors with an total outlay of ~₹ 2 lakh crore in the next five years starting FY21E.

Sectors	Estimated Expenditure (₹ crore)
Mobile Phones Manufacturing	47,240
API and others	6,940
Manufacturing of Medical Devices	3,420
Advance Cell Chemistry Battery	18,100
Electronic/Technology Products	5,000
Automobiles & Auto Components	57,042
Pharmaceuticals Drugs	15,000
Telecom & Networking Products	12,195
Textile Products	10,683
Food Products	10,900
High Efficiency Solar PV Modules	4,500
White Goods (ACs & LED)	6,238
Specialty Steel	6,322
Total	2,03,580

PLI scheme boost for domestic manufacturing of electronics

In a bid to give a boost to the domestic production of electronics goods and components like mobile phones, ACs, accessories, etc, and to reduce the imports, the government has launched a production linked incentive (PLI) scheme

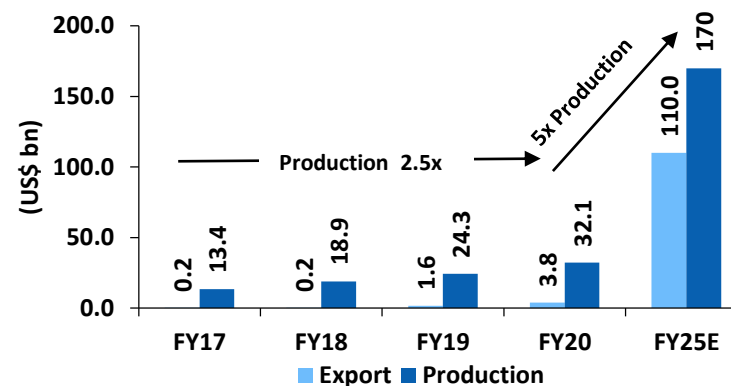
Key features of PLI scheme

- Total incentive of ~₹ 47,240 for mobile phones & white goods manufacturing over FY21E-FY26E
- Scheme targets zero import of mobile phones from current levels of US\$1 billion
- Production target of ₹ 10.5 lakh crore (US\$170 bn) worth of mobile. ₹ 6.5 lakh crore (US\$110 bn) of production will be exported
- Domestic value addition to increase from 15-20% to 45-50% in the next five years
- Total ~8 lakh new job creation

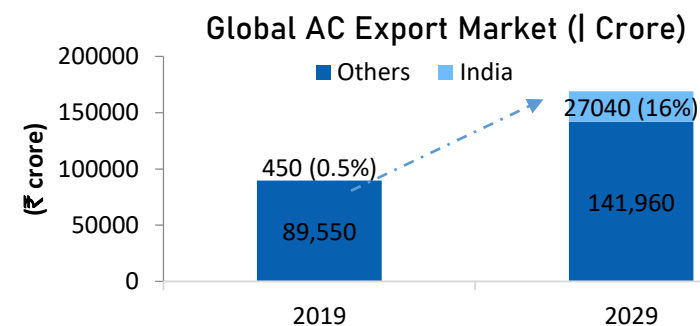
Major benefits

- ✓ Boost domestic production & lower imports (electronic goods third largest import item)
- ✓ Attracts foreign investments, preferred destination in China+1 strategy

Multifold jump in mobile production & exports



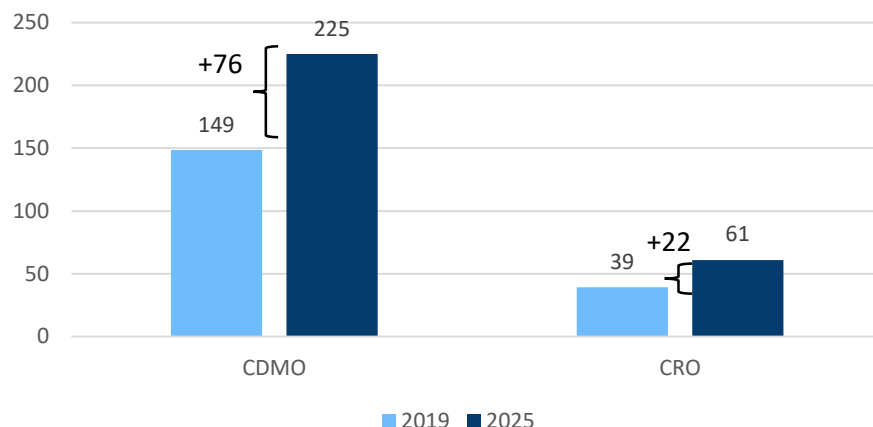
Multifold rise in India AC export market share



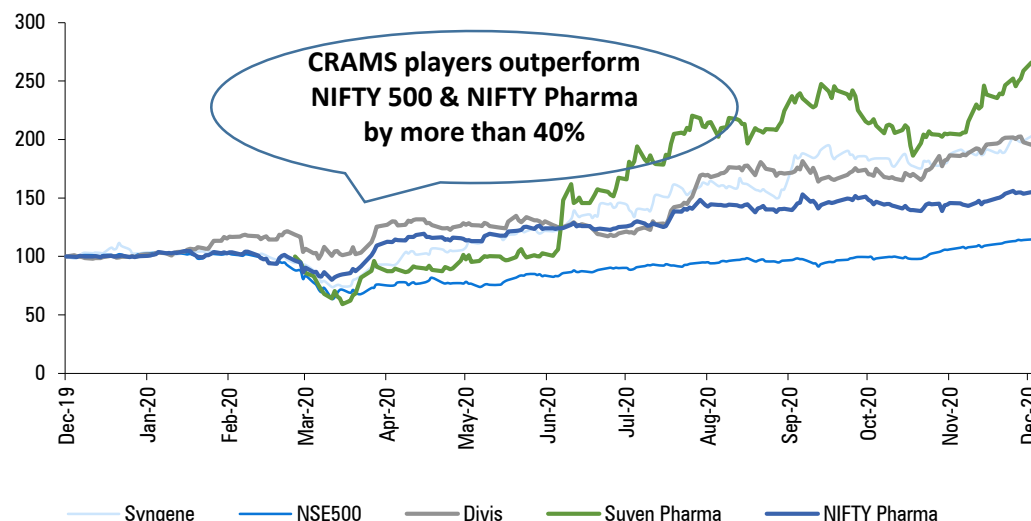
Source: NSDL, ICICI Direct Research

CRAMS – the big outsourcing opportunity

Opportunity size in billion US\$



CRAMS represents a big outsourcing opportunity. Besides the usual cost advantage and legacy capabilities, post Covid scenario would further strengthen the growth visibility.



Global CRAMS market is expected to grow at 7% CAGR in 2019-25 on the back of increasing costs of R&D, coupled with significant revenue loss due to impending patent cliff that has forced major pharmaceutical companies worldwide to outsource part of their research and manufacturing activities

Increasing capex plans across the board on the back of stronger CRAMS demand

Source: NSE, Company, ICICI Direct Research

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.
- **Dominant market share position**
- **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) Individual stocks should not be more than 10% and less than 3% of portfolio while investing

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com



ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Pankaj Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.