

## Market Commentary

Dec 2024

Broad Market Indices (Return %)					
Index Name	1M	3M	1 Yr	3 Yr	5 Yr
Nifty 50	-0.26	-4.23	21.27	13.76	16.22
Nifty Next 50	1.24	-5.95	48.24	20.18	20.86
Nifty 100	0.03	-4.50	25.34	14.47	16.78
Nifty 500	0.05	-4.28	27.29	16.89	19.47
Nifty Midcap 150	0.21	-4.54	31.68	23.91	28.04
Nifty Smallcap 250	-0.13	-2.35	34.52	24.77	30.79
Nifty Microcap 250	1.09	0.13	40.98	37.49	43.75
Nifty Total Market	0.09	-4.12	27.76	17.46	20.00

Sectoral Indices (Return %)					
Metal	-3.09	-3.80	29.46	21.90	29.99
Financials Ex-Bank	-2.27	-5.41	17.67	13.21	13.87
Pharma	-2.16	-4.18	37.88	18.54	23.02
Oil & Gas	-2.09	-17.39	31.98	15.76	17.86
Healthcare	-2.08	-2.61	38.08	17.95	24.34
FMCG	-1.86	-7.84	11.36	17.81	15.33
Media	-0.82	-4.83	-12.55	-2.19	2.44
Auto	-0.60	-10.69	34.15	31.28	24.94
Private Bank	0.43	-1.40	10.34	12.44	8.04
Financials Ex-Bank	0.56	1.62	20.92	12.10	11.87
Bank	1.13	1.37	18.07	14.36	10.90
PSU Bank	1.32	-2.46	36.14	40.34	21.60
Realty	2.07	-3.14	43.34	28.31	29.77
Consumer Durables	2.45	-2.74	36.99	12.94	20.82
IT	6.78	1.41	35.02	9.28	25.92

- Indian Equity Markets were broadly flat in November.
- Power (-4% m-o-m), Metals (-3.09%) and Oil & Gas (-2.09%) showed the strongest fall on a m-o-m basis. IT (6% m-o-m), followed by consumer durables (3%) and capital goods (2%), saw the strongest rise during the month
- While it is widely believed that large caps & mega caps in particular have the highest margin of safety, market players continue to be allured by the heady returns that the small cap & micro-cap space has provided in the last 2-3 years.
- The Small Cap Index was marginally down -0.13% during the month, even as 5 years CAGR returns were 30.79%.
- In spite of some inherent weaknesses, in the way the Indices are created, we prefer the Nifty 500 Index as a route to broad market participation



## Stocks Result Review- Oct 01, 2024 to Dec 07, 2024 for Q2 FY24-25 ending Sep 30, 2024

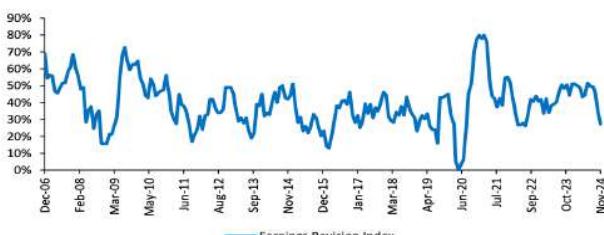
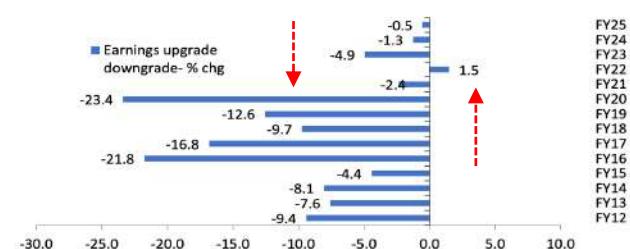
Stock Universe	No of Companies who have announced their results	Positive Profit Growth	Negative Profit Growth	Neutral Profit Growth	Total Revenue Growth %	Total EBITD Growth %	Total Operating Profit Growth %
		Growth	Growth	Growth	Growth %	Growth %	Growth %
Nifty 50	50	30	16	4	6.60%	9.40%	5.20%
Nifty Next 50	50	31	13	6	8.90%	2.30%	-5.40%
Nifty 500	500	281	177	42	8.70%	7.40%	2.50%
Nifty Midcap 100	100	58	35	7	11.70%	9.40%	2.70%
Nifty Midcap 50	50	31	15	4	9.60%	6.10%	0.90%
Nifty Small Cap 250	250	141	94	15	14.10%	3.90%	3.90%
Nifty Small Cap 100	100	59	36	5	8.70%	11.70%	8.80%
Nifty Microcap 250	250	145	94	11	6.80%	21.60%	6.00%

Source : Trendlyne, Esbee Sharpe Research

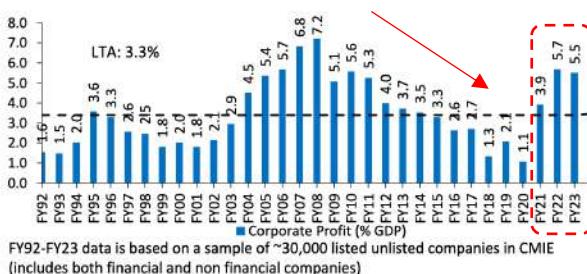
The FY25 Q2 Results were overall below expectations & the season closed, with more earnings downgrades than upgrades. While the smaller indices nos have been healthier in terms of revenue growth & pat growth, respective stock price movements suggest a loss of momentum if not a sharp correction.

**Summary**

- NIFTY reported ~4% growth in sales. EBITDA and PAT growth were lower at 5% y-o-y and 4% y-o-y respectively. The earnings outcome was muted.
- Topline of Indian companies are getting repeatedly dragged down by gradual moderation in global growth
- This has impacted the toplines for IT, chemicals, metals and oil & gas.
- Domestic sectors like consumer durables and real estate has posted a strong topline.
- The net impact is a single digit growth in topline.
- The profit growth is also gradually moderating to low double-digits even if we exclude the large detractors like Oil & Gas, in line with nominal growth in India.

**Earnings Upgrades to downgrades ratio falls further in November**

**In FY25 (till November), EPS projection saw a marginal downgrade**


On a full year basis FY EPS projections have seen a revision downwards except during FY22 post Covid.

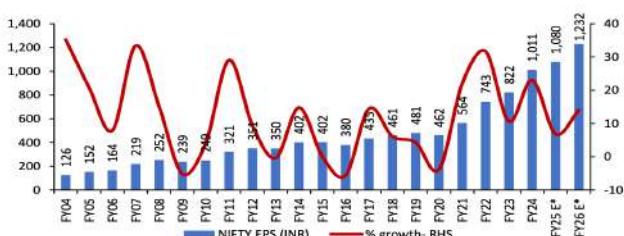
**Earnings have recovered from ultra-lows of FY17-FY20**


Corporate Profits as a % of GDP has increased in the last 4 years after a low during Covid in 2020. This has also bucked the more than a decade long trend since 2008.

**Sectoral breakup of NIFTY earnings outlook**

	No. of FY20 Cos.	EPS Change							(CAGR)
		FY21-20.0%	FY22-35.7%	FY23-5.9%	FY24-29.5%	FY25-5.9%	FY26-15.7%	FY27-14.8%	
Nifty	6	20.0%	35.7%	5.9%	29.5%	5.9%	15.7%	14.8%	12.1%
Materials	6	55.2%	222.5%	-54.7%	-13.8%	27.0%	48.6%	15.9%	29.8%
Industrials	4	22.9%	-30.1%	-0.9%	-0.9%	32.6%	21.5%	16.8%	23.5%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-0.5%	17.1%	23.7%	13.0%
Financials	11	13.8%	27.3%	23.1%	53.0%	5.9%	12.6%	16.0%	11.4%
Energy	4	56.9%	11.4%	8.1%	33.6%	8.8%	14.3%	9.3%	10.8%
Health Care	4	5.9%	51.7%	23.6%	2.5%	16.8%	10.9%	3.7%	10.3%
Consumer Staples	5	-5.0%	-3.9%	5.6%	32.6%	5.1%	12.1%	11.2%	9.4%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	8.5%	9.4%	7.2%	8.3%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	-8.6%	12.9%	12.4%	5.1%
Communication Services	1	NA*							47.2%

Nifty Earnings are expected to grow 12.1% as per consensus estimates between FY 2024-27.

**Near-term headwinds to earnings while medium term prospects look decent**


Source: SBIMF Monthly Market Outlook, Esbee Sharpe Research

As of 29<sup>th</sup> Nov 24, Nifty Closing value of 24,131 was trading at 22.34X FY25 EPS(E). (long term average PE multiple of Nifty is 20.4X)

Assuming this to be the fare PE, based on FY26 EPS(E), we can expect Nifty to be trading around 27,104 levels within the next 1 year.

However, besides the potential risk of earnings getting downgraded, an earnings disappointment is also likely to see a contraction of the PE multiple.

Therefore, assigning a PE multiple of 20X, we can assume Nifty to be trading around 24,640 levels in the next 1 year, in case of earnings revision on the downside.

## Small Cap Index Valuation Perspective

Month End	Small Cap (251 <sup>st</sup> Rank onwards) % to Total Market Capitalisation			Nifty Smallcap 250 TRI (% CAGR)		
	As on Date	Last 5 Years Average	Premium/Discount over Last 5 Years Average	Next 1 Year	Next 2 Years	Next 3 Years
Dec-13	10.4	11.8	-12%	72%	38%	25%
Dec-14	12.5	11.9	5%	11%	6%	21%
Dec-15	13.3	11.7	14%	1%	27%	6%
Dec-16	14.0	11.9	18%	58%	8%	3%
Dec-17	16.3	12.5	30%	-26%	-17%	-5%
Dec-18	13.1	13.3	-1%	-7%	8%	24%
Dec-19	10.5	13.3	-21%	26%	44%	26%
Dec-20	10.9	12.9	-15%	63%	26%	33%
Dec-21	14.6	12.9	14%	-3%	20%	
Dec-22	14.6	12.8	14%	49%		
Dec-23	18.3	13.2	38%	??		
Oct-24	20.2	14.4	41%			

As of 29<sup>th</sup> Nov 24, Nifty Small Cap 250 TRI is up 28.37% in this CY.

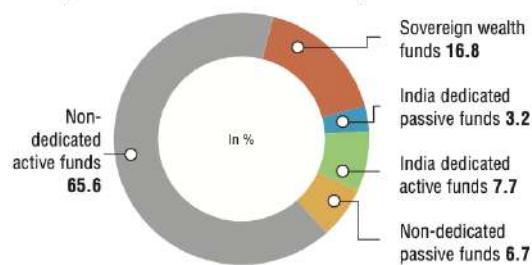
Seeing this data in Dec 23, one may have sold off, small cap, but lost out on a further huge upside.

We believe the dispersion of returns across this category will widen, since going forward, fund managers astuteness, understanding of business cycle & valuation will determine not only potential returns but risk management in their respective portfolio.

In this scenario our preference is to stick to funds, which have better consistency of performance across multiple market cycles, managed by a stable fund management team & with smaller size AUMs.

## How foreign money flows into Indian markets

Three-quarters of FII investment comes through non-dedicated routes



Source: Jefferies, Internal research of WhiteOak Capital. The break-up is as of the financial year ending March 2024.

Source: WhiteOak Capital AMC, Market Outlook,

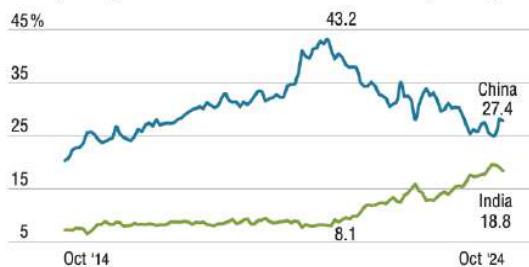
*"India receives approximately three-fourths of its FII/FPI flows via a 'non-dedicated route,' meaning that FIIs typically invest in a basket, such as Global Emerging Markets (GEM), with the Indian equity market receiving a proportional share of flows based on India's weight in that basket. India's weight in the MSCI EM (Emerging Market) Index has increased from 8.1 per cent in October 2020 to 18.8 per cent in October 2024. This significant rise reflects various factors, including the steep underperformance of China, the exclusion of Russia from the MSCI EM Index, favourable regulations, and India's resilient macroeconomic and corporate sector performance.*

*This shift implies that even if FIIs invest the same amount in the EM basket as they did four years ago, India will still receive double the inflows. Such increased allocations create a supportive environment for the relative performance of large-cap and larger mid-cap stocks in India."*

..... **Manuj Jain, CFA, Director & Head of Product and Strategies at WhiteOak Capital Asset Management Company.**

## India's emerging markets triumph

Country's weight in MSCI EM Index more than doubles in just four years



Source: RIMES, MSCI, Morgan Stanley, Internal Research of WhiteOak Capital. Data as of October 31, 2024.

### **Conclusion**

- In India, growth has moderated in Q2FY25 to 5.4% y-o-y (vs. 6.7 in Q1FY25).
- While the growth outlook for the rest of the year is expected to be relatively better, full year growth for FY 25 is expected to be 6.6% as per RBI, which seems to be a reasonable estimate.
- Muted revenue growth & earnings miss due to margin contraction could lead to an environment where the speculative element in the market gradually abates – or at least that is what most fund managers expect or believe.
- FY25 earnings estimate has been downgraded in recent months. Given the unforgiving market response to earnings misses so far in Q2 and the likelihood of weak earnings and EPS cuts, we expect markets to continue to remain range bound.
- FII's pulling out of India is impacting large cap in the same breadth even as the valuation arguments are relatively in the favour of large cap over mid and small cap.
- Irrespective of broad market behaviour, active fund management will be tested, since money flow will tend to move towards businesses which have strong fundamentals, long-term earnings growth visibility & positive cashflows.

### **Our Investment Thesis**

- We continue to focus on asset allocation with fresh allocations directed to large & midcap, multi-cap, focus funds category through weekly Systematic Transfer Plans (STPs).
- Following the market correction in the last 2 months, we prefer to allocate 30% of available funds in lumpsum at current market levels, while adopting 16-20 weeks STP strategy
- Hybrid Funds - balanced advantage & multi asset allocation funds continue to remain a suitable allocation strategy for first time investors (coupled with SIP) as well as conservative investors.
- For investors whose time horizon is 1-3 years, we prefer adopting a strategy using arbitrage funds & equity savings funds

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