

Market Commentary

Feb 2025

| Broad Market Indices Return (%) | | | | | |
|---------------------------------|--------|--------|-------|-------|-------|
| Index Name | 1M | 3M | 1 Yr | 3 Yr | 5 Yr |
| Nifty 50 | -0.45 | -2.71 | 9.58 | 12.02 | 15.82 |
| Nifty Next 50 | -7.13 | -9.55 | 15.00 | 16.30 | 18.37 |
| Nifty 100 | -1.70 | -3.85 | 10.33 | 12.35 | 16.04 |
| Nifty 500 | -3.47 | -4.74 | 10.06 | 14.26 | 18.18 |
| Nifty Midcap 150 | -6.09 | -4.84 | 11.60 | 21.11 | 25.40 |
| Nifty Smallcap 250 | -10.69 | -10.62 | 5.89 | 18.23 | 26.04 |
| Nifty Microcap 250 | -9.19 | -8.49 | 11.35 | 30.00 | 39.52 |
| Nifty Total Market | -3.70 | -4.89 | 10.08 | 14.70 | 18.65 |

| Sectoral Indices Return (%) | | | | | |
|-----------------------------|--------|--------|--------|--------|-------|
| Sector | 1M | 3M | 1 Yr | 3 Yr | 5 Yr |
| Nifty Auto | 0.15 | -2.72 | 19.84 | 26.12 | 24.40 |
| Nifty Bank | -2.50 | -3.67 | 8.77 | 10.23 | 10.61 |
| Financial Services | -1.23 | -2.74 | 14.43 | 10.23 | 10.95 |
| Nifty FMCG | -0.19 | -3.98 | 4.88 | 17.93 | 14.96 |
| Nifty IT | -0.99 | 6.19 | 19.08 | 9.26 | 23.91 |
| Nifty Media | -13.04 | -21.48 | -26.08 | -10.41 | -2.24 |
| Nifty Metal | -2.89 | -9.68 | 6.16 | 16.91 | 28.73 |
| Nifty Pharma | -8.40 | -5.65 | 20.35 | 18.53 | 22.28 |
| Nifty Private Bank | -1.59 | -3.31 | 4.18 | 9.40 | 8.10 |
| Nifty PSU Bank | -3.42 | -6.07 | 1.45 | 30.06 | 22.70 |
| Nifty Realty | -12.44 | -7.80 | 7.91 | 24.66 | 23.15 |
| Consumer Durables | -10.06 | -4.11 | 19.93 | 11.52 | 18.32 |
| Nifty Oil & Gas | -1.29 | -6.49 | -0.41 | 12.12 | 18.63 |
| Nifty Healthcare | -7.76 | -4.40 | 21.44 | 19.60 | 23.36 |

 Source : niftyindices.com

| Index Name | From 52 Week High | 1 Year | 2 Year | 3 Year | 5 Year | 10 Year | 15 Year |
|---------------------------------|-------------------|--------|--------|--------|--------|---------|---------|
| Nifty 50 TRI | -10.1 | 9.5 | 16.7 | 12.0 | 15.8 | 11.7 | 12.4 |
| Nifty 100 TRI | -11.5 | 10.3 | 18.1 | 12.3 | 16.0 | 11.9 | 12.7 |
| Nifty Midcap 150 TRI | -11.7 | 11.6 | 31.6 | 21.1 | 25.4 | 17.5 | 16.8 |
| Nifty Smallcap 250 TRI | -14.8 | 5.9 | 31.6 | 18.2 | 26.0 | 14.8 | 14.1 |
| Nifty 500 TRI | -11.7 | 10.0 | 21.3 | 14.2 | 18.2 | 12.9 | 12.8 |
| Nifty Microcap 250 TRI | -13.9 | 11.3 | 45.3 | 30.0 | 39.5 | 21.0 | 19.0 |
| Nifty200 Value 30 TRI | -16.2 | 10.7 | 39.2 | 31.8 | 31.5 | 14.4 | 13.6 |
| Nifty 200 Momentum 30 Index TRI | -22.3 | 2.9 | 27.1 | 15.2 | 21.3 | 17.8 | 19.2 |
| Nifty 200 Quality 30 Index TRI | -12.3 | 12.5 | 22.3 | 14.6 | 17.6 | 12.7 | 16.0 |
| BSE Utilities TRI | -24.8 | -0.8 | 30.7 | 17.9 | 26.8 | 14.4 | 8.3 |
| Nifty Energy TRI | -23.9 | -6.3 | 21.0 | 12.3 | 20.5 | 16.6 | 11.3 |
| Nifty India Defence TRI | -22.8 | 49.1 | 72.7 | 67.9 | 52.7 | -- | -- |
| Nifty Oil & Gas TRI | -21.3 | -0.4 | 18.9 | 12.1 | 18.6 | 15.5 | 12.3 |
| Nifty PSU Bank TRI | -21.0 | 1.5 | 26.4 | 30.0 | 22.7 | 5.3 | 5.8 |
| Nifty PSE TRI | -20.0 | 9.3 | 47.6 | 33.9 | 29.2 | 13.5 | 8.9 |
| Nifty Realty TRI | -19.7 | 7.9 | 50.0 | 24.6 | 23.1 | 15.1 | 5.3 |
| Nifty Capital Markets TRI | -18.4 | 40.1 | 69.1 | 29.7 | 29.3 | -- | -- |
| Nifty Metal TRI | -17.6 | 6.1 | 14.6 | 16.9 | 28.7 | 15.3 | 6.6 |
| Nifty Commodities TRI | -17.5 | 2.4 | 20.0 | 13.3 | 21.4 | 13.4 | 8.7 |
| Nifty Auto TRI | -17.2 | 19.8 | 32.0 | 26.1 | 24.4 | 10.9 | 16.0 |
| BSE Consumer Discretionary TRI | -17.1 | 13.2 | 28.8 | 17.6 | 20.1 | 13.9 | 14.7 |
| Nifty India Manufacturing TRI | -15.4 | 18.6 | 27.5 | 20.0 | 24.4 | 13.0 | 13.0 |
| Nifty FMCG TRI | -14.2 | 4.9 | 14.7 | 17.9 | 14.9 | 12.1 | 16.7 |
| Nifty Infrastructure TRI | -13.7 | 7.1 | 29.4 | 19.3 | 22.3 | 11.3 | 7.6 |
| NIFTY100 ESG TRI | -11.9 | 9.9 | 18.9 | 10.8 | 16.8 | 12.7 | -- |
| Nifty Private Bank TRI | -10.5 | 4.2 | 9.3 | 9.4 | 8.1 | 9.4 | 14.8 |
| Nifty Bank TRI | -8.8 | 8.7 | 11.4 | 10.2 | 10.6 | 10.3 | 13.2 |
| Nifty Healthcare TRI | -8.5 | 21.4 | 33.5 | 19.6 | 23.3 | 9.0 | 14.6 |
| Nifty Financial Services TRI | -7.6 | 14.4 | 14.4 | 10.2 | 10.9 | 12.1 | 14.6 |
| Nifty IT TRI | -6.7 | 19.0 | 22.2 | 9.2 | 23.9 | 16.0 | 16.6 |

 Source : WhiteOakCapital.com Market Perspective Feb 25

While the frontline Nifty 50 Index closed marginally lower, down - 0.45% during the month, volatility was high with India VIX spiking up from 14.45 on 31st Dec to 18.64 towards the end of the month.

This resulted in the Nifty swinging 3.5-4% during the month.

The Nifty Small Cap & Microcap Indices saw steep drawdowns falling ~10% on an average.

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

The correction from the 52 week high has brought in the much awaited relief to some market players sitting on cash.

However the correction has resulted in the market momentum & sentiments – both turning weak at the moment.

Stocks Result Review- Jan 01, 2025 to Feb 10, 2024 for Q3 FY24-25 ending Dec 31, 2024

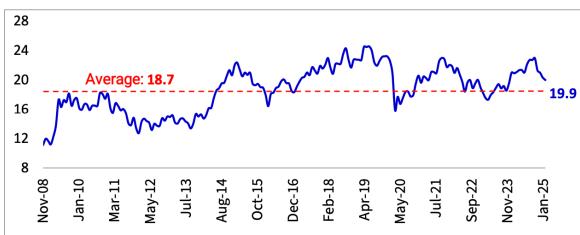
| Stock Universe | No of Companies who have announced their results | Positive Profit Growth | | | Negative Profit Growth | | | Total Revenue Growth % | | Total EBITD Growth % | | Total Operating Profit Growth % | |
|---------------------|--|------------------------|--------|--------|------------------------|--------|--------|------------------------|----------|----------------------|----------|---------------------------------|----------|
| | | Growth | Growth | Growth | Growth | Growth | Growth | Growth % | Growth % | Growth % | Growth % | Growth % | Growth % |
| Nifty 50 | 49 | 29 | 13 | 7 | 4.20% | 13.60% | 9.70% | | | | | | |
| Nifty Next 50 | 44 | 27 | 13 | 4 | 0.30% | 10.10% | 1.90% | | | | | | |
| Nifty 500 | 413 | 241 | 150 | 22 | 4.50% | 14.10% | 9.90% | | | | | | |
| Nifty Midcap 100 | 89 | 55 | 32 | 2 | 9.10% | 24.00% | 22.80% | | | | | | |
| Nifty Midcap 50 | 44 | 27 | 15 | 2 | 8.80% | 28.70% | 32.90% | | | | | | |
| Nifty Small Cap 250 | 195 | 111 | 78 | 6 | 8.60% | 13.40% | 8.50% | | | | | | |
| Nifty Small Cap 100 | 83 | 52 | 29 | 2 | 10.20% | 23.20% | 12.80% | | | | | | |
| Nifty Microcap 250 | 177 | 97 | 70 | 10 | 6.80% | -9.20% | -0.10% | | | | | | |

Source : Trendlyne, Esbee Sharpe Research

- The FY25 Q3 Results as of now have been in line with expectations.
- The Midcap & Small cap indices reported healthy nos, even as respective stock prices saw a severe loss of momentum followed by deep drawdowns in underlying stocks as sentiments weakened.
- Nifty EPS for FY 2024-25 is expected to be around Rs. 1033, while the FY 26E EPS is around 1177, which is a 14.7% expected growth.
- Based on Nifty value of 23381 (closing as of 10th Feb 25), Nifty is trading at a forward PE multiple of 19.86X, which is slightly above the long term historical average of 18.7X
- We assign a Base case scenario PE multiple of 22X on Nifty FY 26E EPS of 1177 & expect Nifty to trade around 25894 levels in next 1 year.

Valuations Are At Premium To Historical Averages

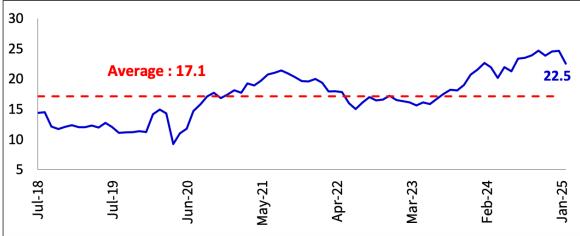
NIFTY P/E (x) - 1 Year Forward



NIFTY Midcap 150 P/E (x) - 1 Year Forward



NIFTY Smallcap 250 P/E (x) - 1 Year Forward



Valuation

| | |
|----------|-----------------------------------|
| Largecap | 6% premium to historical average |
| Midcap | 24% premium to historical average |
| Smallcap | 32% premium to historical average |

Source: Motilal Oswal, Bloomberg, As on 31st Jan 2025

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Source : Kotak Mutual Fund Market Outlook Feb 25

Summary

- The market cap of Small & Midcap stocks as a % of total market cap is currently around 39.1% up from the last 5 year (Dec 20-Dec 24) average trend of 33.1%.
- The 5 year average (percentage of Small & Midcap Stocks market cap to total market cap) has been on an improving trend from 19.2%, in Dec 00 - Dec 04, to even 29.3% in Dec 15- Dec 19.
- Historically Small & Midcap trading at such premium valuations over historical average has resulted in low or negative returns in the coming 1-3 year periods.
- Markets have been the most unkind towards stocks with slowing growth irrespective of market cap or pedigree.
- Even as there are pockets of growth visible in some sectors & themes most fund managers believe the margin of safety continues to be nil or negligible in terms of valuation across most stocks.
- The consensus view is that it is safer to stick to large caps & mega caps in the current scenario.
- Muted revenue growth & earnings miss due to margin contraction will likely see forward earnings estimates being revised downwards. In this scenario we believe markets will remain range bound in the near term.
- 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.
- As the size of the economy becomes bigger, the case is building for dialling down growth expectations both in earnings and returns
- 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.
- 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.

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
- We believe Gold can complement a portion of your debt allocation. However considering the volatile nature of the commodity and the fact that it is already trading at an all-time high, one should increase allocation in Gold in a staggered manner.
- 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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