

Market Commentary

Mar 2025

Sectoral Indices Return (%)					
Index Name	1M	3M	1 Yr	3 Yr	5 Yr
Nifty 50	-5.79	-8.10	1.89	10.93	15.96
Nifty Next 50	-9.51	-19.15	-2.54	13.42	17.53
Nifty 100	-6.44	-10.07	0.91	10.95	16.01
Nifty 500	-7.79	-12.20	-0.08	12.71	17.80
Nifty Midcap 150	-10.51	-15.01	0.07	19.45	24.08
Nifty Smallcap 250	-12.60	-21.78	-6.94	16.79	24.49
Nifty Microcap 250	-14.27	-22.39	-3.25	27.53	37.96
Nifty Total Market	-8.03	-12.60	-0.22	13.10	18.22

Sectoral Indices Return (%)					
Index Name	1M	3M	1 Yr	3 Yr	5 Yr
Nifty Auto	-10.35	-12.27	1.16	24.75	25.56
Nifty Bank	-2.51	-7.13	5.76	11.05	11.29
Nifty Consumer Durables	-8.33	-14.20	7.93	7.99	16.49
Nifty Financial Services	-0.79	-4.05	13.98	11.83	11.98
Nifty FMCG	-10.08	-12.02	-4.33	14.57	13.64
Nifty Healthcare Index	-7.84	-10.03	6.75	16.92	22.33
Nifty IT	-12.53	-13.01	1.16	5.48	22.07
Nifty Media	-12.11	-30.42	-31.91	-11.11	-2.98
Nifty Metal	-2.14	-8.80	4.50	13.05	31.58
Nifty Oil & Gas	-9.06	-13.15	-15.42	10.78	18.48
Nifty Pharma	-7.41	-10.72	4.96	16.18	22.08
Nifty Private Bank	-0.66	-4.35	5.68	10.41	9.26
Nifty PSU Bank	-10.53	-17.05	-17.85	30.07	24.79
Nifty Realty	-13.40	-21.78	-12.13	22.68	23.64

Index Name	% age fall from Sept' 24 Peak
Nifty 50	-15.61%
Nifty Next 50	-25.98%
Nifty 100	-17.53%
Nifty 500	-18.84%
NIFTY Midcap 100	-20.76%
NIFTY Smallcap 100	-23.68%
Nifty Smallcap 250	-24.90%
Nifty Midcap 150	-20.64%
Nifty Microcap 250	-24.20%
Nifty Auto	-25.45%
Nifty Bank	-11.09%
Nifty Energy	-32.00%
Nifty Financial Services	-8.45%
Nifty FMCG	-23.38%
Nifty IT	-11.49%
Nifty Media	-35.44%
Nifty Metal	-17.69%
Nifty MNC	-23.49%
Nifty Pharma	-14.78%
Nifty PSU Bank	-16.94%
Nifty Realty	-29.47%
Nifty India Consumption	-22.07%
Nifty Commodities	-21.92%
Nifty Infrastructure	-20.67%

Factors leading to this fall

- High valuations particularly in the small & mid cap space.
- Slowdown in Earnings growth
- FII Selling followed by Retail Investors as indicated by drop in volumes of leading broking turnover
- Rupee Depreciation
- Trump factor leading to heightened geopolitical tension around tariff wars

▪ Most of the gains in portfolio made in the previous 1 year has been eroded.

▪ Overall sentiment has turned negative and the outlook from most experts & fund managers have turned negative or at best muted.

▪ There are green-shoots of valuations in some pockets turning attractive & expectations of markets bottoming out soon.

 Source : www.nseindia.com, Esbee Sharpe Research.

Stocks Result Review 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	50	28	14	8	4.50%	13.90%	10.40%						
Nifty Next 50	50	33	13	4	0.90%	10.90%	4.30%						
Nifty 500	499	281	190	28	4.60%	14.20%	10.20%						
Nifty Midcap 100	100	61	37	2	8.20%	22.40%	21.50%						
Nifty Midcap 50	50	31	17	2	8.50%	24.60%	27.80%						
Nifty Small Cap 250	249	134	104	11	7.40%	12.50%	6.10%						
Nifty Small Cap 100	100	58	38	4	8.70%	21.80%	7.50%						
Nifty Microcap 250	250	133	105	12	7.30%	-15.10%	2.00%						

Source : Trendlyne, Esbee Sharpe Research

- The FY25 Q3 PAT growth has been in single digits, a trend already visible since the 2nd Qtr results and therefore, 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.

1 Year Nifty potential has a ~15% upside

	Nifty *	22552	
	EPS (Rs)	PE (X)	
FY 2025(E)	1033	TTM	21.83
FY 2026(E)	1177	FY 26 Fwrd	19.16
Scenario	PE (X)	Nifty Value (1 Yr)	
Bearish	18	21186	
Base	22	25894	
Bullish	24	28248	

*Nifty as of 7th Mar 25..Source NSE, Esbee Sharpe Research

- 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 19.16X, 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.

- The risk to this hypothesis is an earnings downgrade or disappointment in FY 26, which could lead to Nifty PE multiples languishing around the 18 -20X range.

“Recent release of economic survey has pegged FY25 economic growth at 6.5% and FY26 growth at 6.3-6.8% implying no material improvement in India’s growth. This puts FY26 15% EPS estimate at a downside risk even as we stay positive on India’s medium-term earnings trajectory.”

.....SBI Funds Management Monthly Presentation Mar 2025

- We therefore believe that from current levels the downside is limited with a potential 10-15% upside.
- Even as we avoid midcap & small cap dedicated portfolios, we believe that, long term portfolio growth will be achieved through prudent exposure to the broader markets.
- The earnings season has indicated healthy margins and growth across multiple pockets particularly in the midcap & small cap space & therefore we continue to have exposure in this segment through multi-cap, large & midcap and flexi-cap schemes.

Summary

- Broader markets have started to factor in potential earnings slowdown as indicated the recent correction.
- However, mid and small-caps valuations still continue to remain expensive vis-à vis their history as well as vs. Nifty
- While consensus earnings growth is expected to be in the 14-15% range in FY26, these expectations seem elevated and runs the risk of further disappointment going ahead.
- Nominal GDP growth remaining around ~10% followed by revival in topline growth is critical for the expectations to be met.
- With the broader markets underperforming the frontline large cap indexes in the last few weeks, market polarization has changed towards large caps, although the ratio of large to mid & small cap continues to remain low.
- Therefore, the risk-reward continues to be more towards large caps now.
- Market euphoria has corrected significantly and with sentiment turning weak, most sentiment indicators suggest a “Neutral” to “Buy” outlook on equities.
- However, the current environment is likely to see the risk of muted revenue growth & forward earnings estimates being revised downwards remaining elevated. In this scenario we believe markets will remain range bound in the near term.
- Fundamentals will take prevalence on market direction going forward and the focus is likely to shift back towards companies which have strong business models, long-term earnings growth visibility and sustainable 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 40% of available funds in lumpsum at current market levels, while adopting 12-16 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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