

Market Commentary
Sept 2024

Broad Market Indices- Return(%)					
	1M	3M	1Yr	3Yr	5Yr
Nifty 50	1.36	12.55	32.64	15.17	19.39
Nifty Next 50	0.79	11.81	70.65	22.92	24.33
Nifty 500	1.04	12.91	41.58	18.95	22.73
Nifty Midcap 150	0.38	13.84	50.08	27.88	31.92
Nifty Smallcap 250	1.37	16.63	53.26	28.12	33.50
Nifty Microcap 250	1.27	21.85	58.75	39.79	44.62
Nifty Total Market	1.04	13.21	42.13	19.50	23.21

- ✚ Even as the Nifty 50 & BSE Sensex touched all time highs in Aug 24, the market momentum seems to be slightly weakening.
- ✚ The breadth of the market is exhibiting some amount of fatigue, which we construe as a healthy sign for long term investors

Sectoral Indices - Returns (%)					
	1M	3M	1 Yr	3 Yr	5Yr
Nifty Auto	-1.67	12.51	68.25	38.86	31.51
Nifty Bank	-0.17	5.19	17.78	13.08	14.02
Nifty Financial Services	1.18	9.19	21.83	10.40	14.56
Nifty FMCG	1.67	17.61	25.79	18.96	18.62
Nifty IT	4.76	32.41	40.12	9.49	24.18
Nifty Media	-2.00	12.63	-7.87	10.24	2.67
Nifty Metal	-1.66	-2.96	41.94	19.85	34.66
Nifty Pharma	6.80	24.02	54.84	18.32	24.44
Nifty Private Bank	0.19	6.52	12.96	11.71	11.46
Nifty PSU Bank	-5.56	-5.29	57.51	45.92	24.08
Nifty Realty	-3.63	3.57	89.28	40.11	32.05
Nifty Consumer Durables	3.94	17.93	44.53	19.03	23.04
Nifty Oil & Gas	1.82	16.13	75.43	25.12	26.33
Nifty Healthcare Index	5.67	23.44	53.97	17.38	25.94

- ✚ Sector-wise performance was mixed in Aug 24
- ✚ Nifty PSU Banks saw the largest drawdowns down - 5.56%, followed by Realty (-3.63%) & Auto (-1.67%)
- ✚ On the other hand, Nifty Pharma was up 6.8% followed by Healthcare Index, up 5.67%, Nifty IT (4.76%) and consumer durables which was up 3.94% during the month

News Headlines in Aug 2024 – Be a sceptic but do not ignore data !!

A surprise repo rate cut by RBI likely in October, say Nomura economists

India's net direct tax collection grows 22% to Rs 6.93 lakh crore

July CPI inflation sees sharp decline to 3.54%; lowest in nearly 5 years

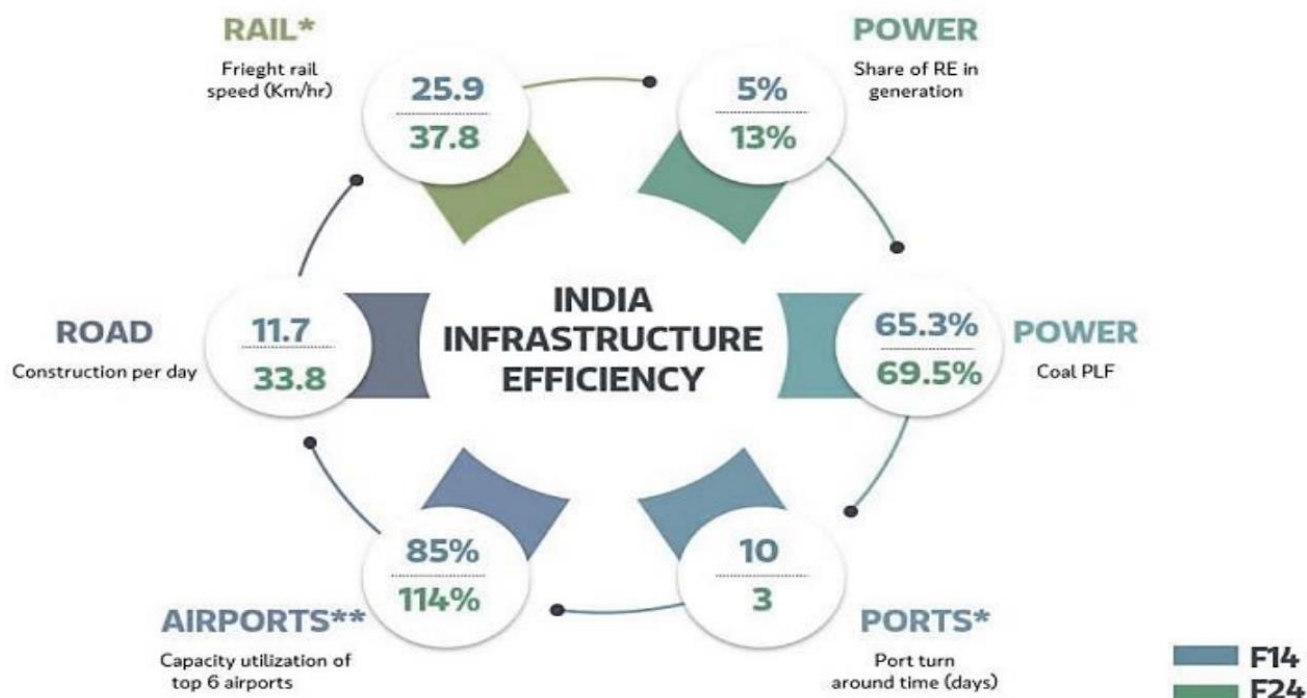
DII's step up buying in equity markets in August as FPI flows soften

MSCI August rejig today: Indian stock market likely to see \$5.5 billion inflows; HDFC Bank shares up on weight increase

Monsoon delivers heavy rainfall: July-August poised to be among the wettest in three decades

India's growth story brightens: Moody's boosts GDP forecast to 7.2% for 2024

India's Infrastructure Efficiencies Improving



Source : Kotak Mutual Fund September 24 Market Outlook – (Various ministries, Morgan Stanley Research. Please note: Rail and Port data is for F23. Airport data is from F17 to F24)

Short Term Macro Triggers

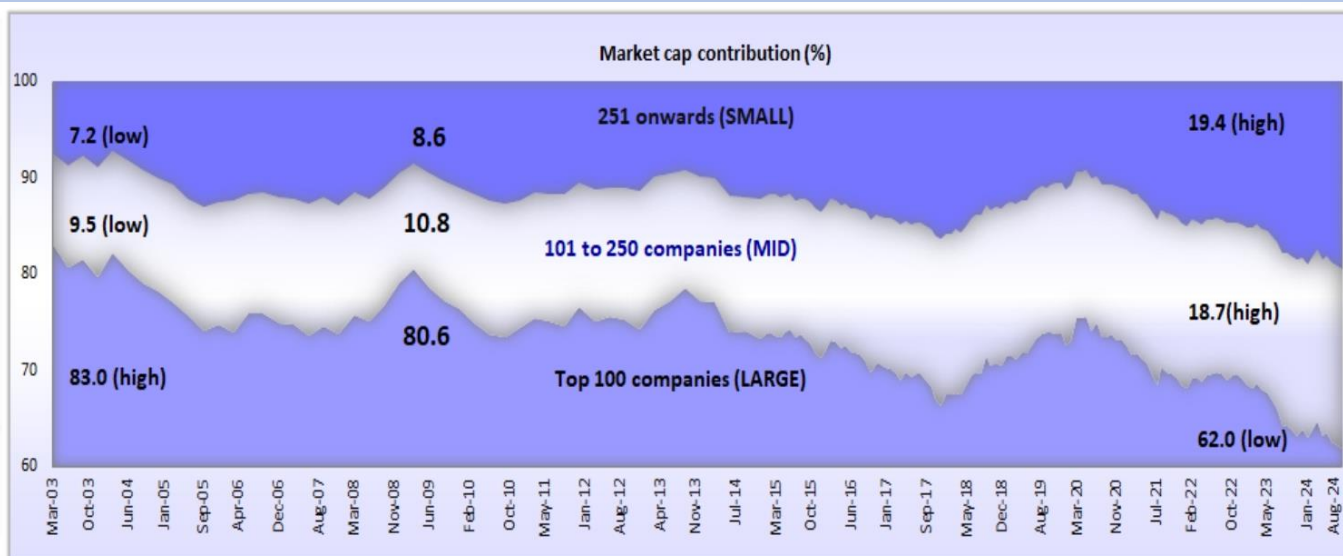
Positive Triggers

- ✚ India's Share of World Exports Rising, Especially for Services
- ✚ Rising Capacity Utilisation Levels (currently around 76.8% from 61% on June 21) Indicate Operating Leverage
- ✚ Tractor Sales Growth Back in Positive Territory – currently showing 8.1% growth year-over-year as of July 24, from -5.3% year-over-year growth in Oct 23.
- ✚ Kharif Crop Acreage Sees Increase – overall growth of 1.9% in 2024 over 2023.
- ✚ Rural Employment Gradually Diversifying Beyond Agriculture, with Industry & Services showing an improving contribution to overall rural employment.
- ✚ GST Collections - ₹1.75 Tn is the New Normal
- ✚ Oil Prices Have Fallen ~9% Since Aug-23

Negative Triggers

- ✚ Capex Decelerated as Contract Awards and new tenders softened in the Election Period
- ✚ India's GDP Growth Slows in Q1 FY25 to 6.7% in Q1 FY25 from 7.8% in Q4 FY24.
- ✚ Manufacturing PMI Output Index at a Seven-month Low in August, although still above 50 suggesting buoyancy.
- ✚ High Stock, Low Demand Drive Domestic Car Sales Down 2-3%, except 2-wheeler sales which grew 17.2% last month
- ✚ Asset Quality in Microfinance Portfolios Declined in Q1 FY25
- ✚ Earnings Growth & Upgrades Are Slowing. Nifty 50 reported a PAT growth of 4% in the June 24 Qtr. Similarly, Earnings upgrade to downgrade ratio is down to 0.4% in Q1FY25, from 0.9% in Q4FY24.

Mid- And Small-cap Contribution To Total Market Cap Rising To An All-time High



- Large Cap Market Cap contribution which was at a high of 83% of total market cap in 2003, is currently at an all-time low of 62%.
- Should Investors increase weightage in the large-cap for incremental capital allocation?

Earnings Expected To Remain Robust, Will Market Cap Follow?

NIFTY 50

INR Trillion	FY20-23 CAGR	FY24	FY25E	FY26E	Growth	
					FY25E	FY26E
M-CAP	27.0%	203	-	-		
EPS	19.0%	1006	1115	1316	10.8%	18.1%

NIFTY 500

INR Trillion	FY20-23 CAGR	FY24	FY25E	FY26E	Growth	
					FY25E	FY26E
M-CAP	31.6%	416.7	-	-		
EPS	15.5%	706.8	903.7	1061.1	27.9%	17.4%

Source: Motilal Oswal, Bloomberg, (FY24 Mcap as of August-24), (Reproduced from Kotak Mutual Fund Sept 2024 Market Outlook)

- The above table, suggests robust earnings growth for both Nifty 50 as well as Nifty 500 companies. This along with the strong liquidity inflows into equity markets from domestic investors perhaps justifies the current market valuations

Many Stocks Are Pricing Rapid Growth

12 M Trailing PE Ratio	No of Stocks from BSE 500 Sep 30,2024	No of Stocks from BSE 500 Jan 1,2020
1000 +	4	1
500-1000	3	1
100-500	53	10
75-100	52	17
50-75	112	50
Total	224	79

Source : Bloomberg (reproduced from Reproduced from Kotak Mutual Fund Sept 2024 Market Outlook)

- ✚ 224 stocks are trading above 50X 12M Trailing PE, a jump from 79 in 2020.
- ✚ This data suggests that in 2020, value investors had a larger universe of stocks to look for opportunities with a large or reasonable margin of safety.
- ✚ Clearly that universe has shrunk today

So What Next?

- ✚ Most expert believe that we are currently in a different & difficult environment and that the last 18 months was a period where adventure and action had huge handsome payoffs.
- ✚ The markets are currently in a phase of “what next”. In such situations, we believe the focus should be
 - To not be adventurous
 - To not chase returns but protect what has been earned in the last 2-3 years.
 - To assign higher weightage in seeking a higher margin of safety during future investment decisions.
- ✚ Marketeers of financial products now have to work on a higher base to achieve similar growths or higher growths.
- ✚ Beware of profit booking & investing in the next big idea or strategy!!
- ✚ To look at Dynamic Asset Allocations (Balanced Advantage Funds), Multi-Asset Allocation Funds, and diversified equity mutual fund categories with large cap bias through weekly Systematic Transfer Plans (STPs)

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