

## Market Commentary

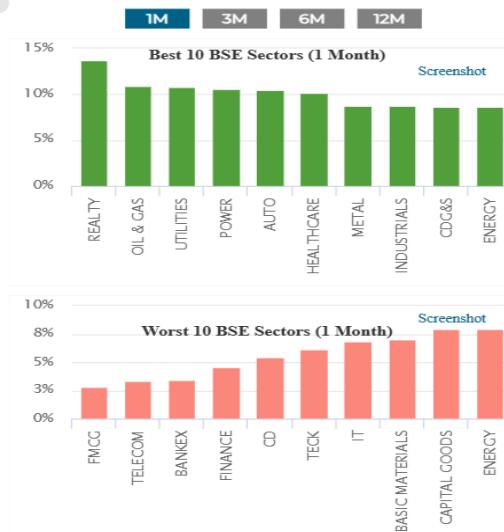
Dec 2023

- This was roaring month for the markets with the Nifty 50 closing up 5.52% & the BSE Sensex closing 4.87% up.
- The Nifty Midcap Index closed 9.59% up while the Nifty Small cap 250 Index closed 10.22% up.
- The Midcap & the Small cap Indices scaled their previous peaks, indicating that all concerns of stretched valuations in this category have been set aside by the strong market sentiments.

	Date	Peak	Values on	Diff from
		Values	30 Nov-23	Previous Peak
Nifty	15-Sep-23	20192	20133	<b>-0.29%</b>
Nifty Midcp 150	08-Sep-23	15505	15963	<b>2.95%</b>
Nifty Small Cap 250	17-Oct-23	12530	13252	<b>5.76%</b>

- All Sectors were in the positive this month with Realty (+18.43%), Oil & Gas (+12.71%) & Utilities (+11.47%) leading the pack.

BSE INDEX	LEVEL	TODAY %	30-Nov	MTD	YTD
BSE Basic Materials	5,287.09	<b>-11.09%</b>	0.89%	6.87%	5.50%
BSE CDG&S	5,798.50	<b>-22.85%</b>	1.36%	9.30%	31.36%
BSE Energy	9,132.93	0.76%	1.19%	9.65%	2.83%
BSE FMCG	19,420.79	1.38%	0.90%	3.45%	19.17%
BSE Finance	9,121.70	<b>-6.81%</b>	1.56%	4.94%	9.51%
BSE Healthcare	30,495.11	0.40%	2.43%	11.38%	31.87%
BSE Industrials	8,131.82	<b>-24.39%</b>	2.19%	9.54%	56.74%
BSE IT	33,224.95	<b>-0.01%</b>	1.34%	6.98%	15.89%
BSE Telecom	1,596.90	<b>-25.17%</b>	1.14%	7.16%	23.20%
BSE Utilities	4,080.02	2.31%	0.31%	11.47%	10.54%
BSE Auto	40,088.46	0.09%	2.06%	10.73%	38.48%
BSE Bankex	50,833.69	1.08%	1.61%	3.81%	2.83%
BSE Capital Goods	50,770.16	1.56%	2.29%	9.18%	49.93%
BSE CD	47,406.33	0.61%	1.52%	6.35%	18.62%
BSE Metal	24,524.96	1.18%	0.71%	9.00%	16.23%
BSE Oil & Gas	17,976.32	<b>-12.53%</b>	2.11%	12.71%	0.70%
BSE Power	5,034.90	2.32%	0.59%	11.04%	12.32%
BSE Realty	5,736.41	1.41%	1.06%	18.43%	64.11%
BSE Teck	14,864.04	<b>-0.07%</b>	1.37%	6.51%	10.89%



**Q2FY24 Earnings Update** - Sharing below a brief extract from a note from Motilal Oswal AMC, covering an update on the Q2FY24 Earnings.

- Companies reported strong 2QFY24 earnings on the back of margin improvements.
- The Nifty 50 basket reported a 28% earnings growth driven mostly by Automobiles, Cement & BFSI – refer chart below

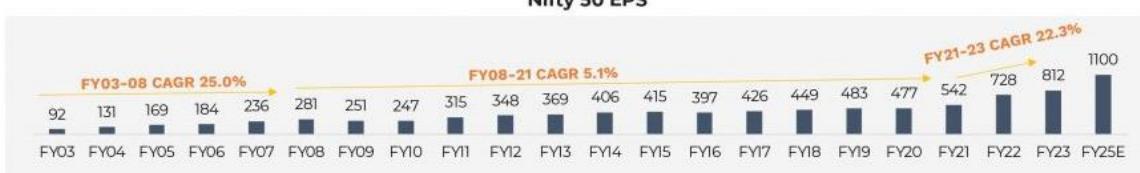
Sector	Sales		EBITDA		PAT	
	QoQ%	YoY%	QoQ%	YoY%	QoQ%	YoY%
Coverage Universe						
Automobiles	5.0	21.0	8.7	63.0	14.6	112.2
Cement	-8.1	11.6	-11.2	54.8	-1.5	96.7
Chemicals Spec	-1.7	-17.4	-2.9	-19.0	-3.3	-21.8
Consumer	-0.1	4.4	-2.3	13.7	-1.0	17.5
Banks Pvt	6.3	24.2	6.6	22.6	12.6	35.6
Banks PSU	1.7	13.5	-9.0	6.0	-4.1	30.4
Insurance	34.4	14.3	53.7	7.8	-2.9	14.7
NBFC Lending	5.2	28.1	4.6	30.0	1.7	34.0
NBFC Non Lending	25.1	36.7	36.8	28.0	26.3	25.8
Healthcare	5.0	14.3	7.9	18.0	12.4	15.0
Oil & Gas	-2.6	-8.8	-1.5	84.6	-0.9	126.4
Retail	4.5	20.3	4.7	7.0	4.1	-6.8
Technology	0.9	6.0	3.4	5.0	2.4	4.9
Infrastructure	-9.7	7.4	-8.8	3.7	-29.5	-10.7
<b>Aggregate (239)</b>	<b>1.0</b>	<b>2.8</b>	<b>0.0</b>	<b>30.2</b>	<b>1.0</b>	<b>47.8</b>
Aggregate Ex Metals & Oil	3.7	13.1	1.1	18.8	2.4	31.7
Aggregate Ex OMCs	3.9	6.8	1.3	20.5	3.0	30.0
<b>Nifty 50</b>	<b>3.4</b>	<b>5.1</b>	<b>0.4</b>	<b>20.6</b>	<b>2.8</b>	<b>28.0</b>

Source: MOAMC Internal Research, MOFSL

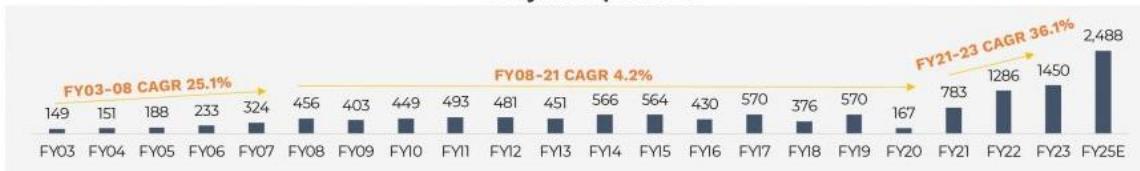
- The aggregate earnings of the MOFSL Universe companies (223 companies) rose 48% YoY (vs. est. of +40%).
- The earnings growth in MOFSL Universe was led by domestic cyclicals, such as BFSI (33% growth) and Auto (112% growth).
- Oil Marketing Companies (OMC's) profitability surged to INR266b in 2QFY24 vs. a loss of INR27b in 2QFY23, owing to strong marketing margins.
- Ex-OMCs, MOFSL earnings grew 30% YoY, (vs est of +23%)

The earnings momentum of the broader universe continues to be stronger than narrow large cap indices.

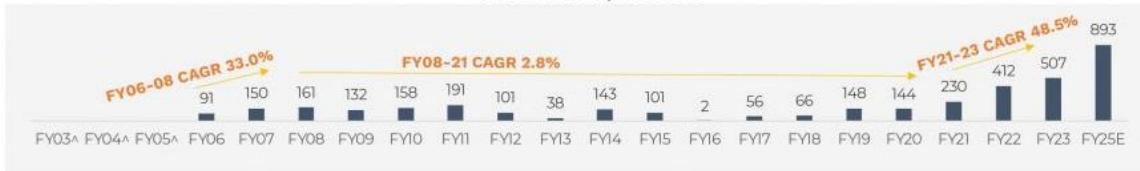
Nifty 50 EPS



Nifty Midcap100 EPS



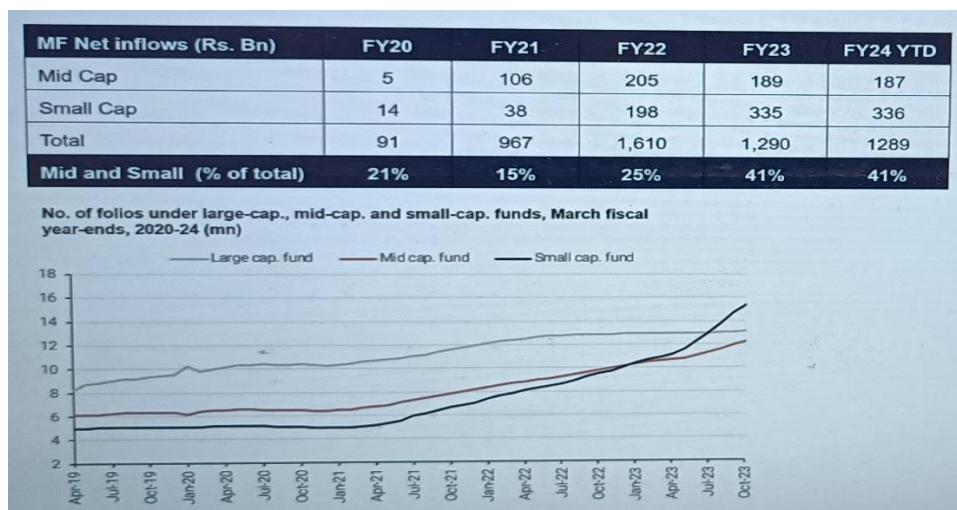
NSE SmallCap 250 EPS



Source: Motilal Oswal AMC Internal Research. Disclaimer: Past performance may or may not be sustained in future. The above graph is used to explain the concept for illustration purpose only and should not be used for development or implementation of an investment strategy. Data as on 31st Oct'23. ^Data unavailable.

## Summary

- The strong earnings growth momentum is reflected in the underlying share prices as well.
- Markets have re-rated stocks delivering higher growth in new emerging spaces with tailwind of reforms vs larger older businesses.
- With most of the new themes in the small and midcap part of the market, this space should continue to deliver outperformance.
- However it may be reasonable to expect lower than earnings growth returns going forward at least in the immediate future.
- Albeit the premium valuations in the midcap & small cap space, around 50% of domestic flows are going to mid and small cap MFs, providing strength to this part of the market.



- Given the steady inflows from domestic investors – both institutional & retail, this seems to be a structural positive for the equity markets
- FPIs ownership in large caps - mostly banks and large software has led to this segment facing the brunt of the selling.
- Besides FPI outflows, high bond yields in the US, have resulted in high growth, quality companies trading at high PE multiples, being derated in the last 2 years.
- While India is likely to benefit from increasing weight in the MSCI indices, FPI inflows will be largely triggered if, as & when yields soften in the US – a scenario likely to emerge over the next couple of years creating further tailwinds for the markets.

As a strategy we continue to maintain a portfolio with ~50% exposure to mid cap & small cap space. We also believe that the Transport & Logistics theme along with Banking & Financial Services are two strong themes which deserve tactical allocations.

For any queries, please contact:

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