

India Strategy

Monday Masala – Markets and More

India Strategy

Weekly Update

December 4, 2023

NIFTY 50: 20,687

ICYMI, [our rating system changed](#) to a four-category range. We have replaced HOLD with ADD and REDUCE.

- Use the NSEBANK rally to lighten positions in large lenders. The current up-move is a partial catch-up trade, with the sector having underperformed for some time now. The valuations wrt historic ranges look tempting, but such comparisons are misleading as the sector is a new zone of depressed growth and ROE. The best possible outcome is stocks delivering low-teen returns in line with earnings growth, with NIM challenges in FY25. In a beta rally, this sector should underperform. I prefer SMIDs, especially in manufacturing and mid-size lenders like IndusInd Bank.
- The two-wheeler sector is one of my favored picks, now reinforced by [Nov-23 sales data](#). This sub-sector continues to grow strongly, even as passenger-car sales are slowing and CV volumes contracting. 2Ws tick three boxes: a) the cycle is still nascent, coming as it is out of a funk that was more prolonged than in other auto subsectors; b) it is one of the few categories with momentum in mass segments and offers diversification from the premium-oriented business models in most other consumer companies; and c) it is not just the sector but companies like Hero MotoCorp and TVS Motors that are seeing stock-level tailwinds. Stay invested in the space.
- HDFC Life is a large-cap BFSI stock that stands out. [Our meeting with Vibha and Niraj](#) was a strong reminder of how well-run a company it is. The stock has been brutally derated over the last three years because, in my view, the valuation at the time of listing was overcooked. Regulatory bogeys in the last few years have, therefore, hurt valuation multiples. The trend is turning, with unified license and risk-based capital the possible positive catalysts post elections. The relationship with the bank (now a parent) should also structurally change.
- The IT sector has rallied on the back of continued strength in the US GDP data. [Dipesh's deep dive](#) into global companies' quarterlies suggests that the market may have jumped the gun – the outlook remains uncertain, at best. Valuation changes are the key stock-price drivers for most IT companies: earnings compounding is quite moderate. Large-cap stocks are great trades when they are at rock-bottom valuations (not now), but are unlikely to deliver sustained compounding. I would limit exposure to IT and wait for better entry points.
- [The 2QFY24 GDP beat](#) is a storm in a teacup. There were idiosyncratic factors like base effects and deflator issues in play. 2H numbers look to be much weaker as the disinflation slows. I am not a big fan of reacting to quarterly GDP releases. They come after corporate results have already been released – the market has a deeper, granular insight into the economy by then. Moreover, the relationship between corporate profits (which the market values) and GDP growth is firmly under the category of "it's complicated". The listed universe maps to a fairly narrow section of the economy.

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