

August 20, 2024

INDIA STRATEGY

Where Money Flows – Aug'24

PSU Stocks: Growth and Valuation Trends

We delve into the performance and trends in Public Sector Undertaking Stocks (PSUs) in India. *Here's a detailed summary of the key findings:*

Rise in Share of PSU Market Capitalization

- Over the past 24 months, Public Sector Undertakings (PSUs) have experienced notable growth in market capitalization, now comprising 15% of India's total market cap. This represents a 4-percentage point increase since June 2022.
- Additionally, the number of PSU companies in the top 200 by market cap has risen to 39, with 12 new entries in the last two years.

PSU Market Cap dominance in Listed Universe despite no notable change in Share of Earnings

- Core financial metrics such as *Revenue, EBITDA, and PAT* of PSU basket as a percentage of the total listed universe have remained unchanged.
- This indicates that the PSU market cap dominance is primarily driven by an expansion in valuation multiples rather than their earnings outperforming the listed universe.

Divergence in Valuation Multiples within PSU Basket

- Our analysis based on varied valuation metrics like Earnings CAGR, 1Yr Fwd Valuation Ratio (PE & PB) with last 5 years average reflects that Some PSUs stocks are trading at higher multiples despite slower forward earnings growth, while others present a more conservative valuation. Interestingly, some PSU banks with significant earnings growth are valued below their 5-year averages.

Shift in Institutional Holdings

- Foreign Institutional Investors (FIIs) & DIIs have reduced their stakes in PSUs. While FPIs have sold stake in large-caps but have increased their investments in small and mid-caps.

Improving ROE and Increasing Capex drive Optimism

- Few positives working in favour of PSU stocks:
 - Return on Equity (ROE) for PSU stocks has been on the rise, partially justifying the re-rating in valuation multiples.
 - Expected positive trend in earnings given the substantial capital expenditure (Capex) undertaken by these companies. Projections indicate that PSUs will dominate the Capex within the NSE 200, signaling a higher future growth and potential improvement in efficiency.



HITESH JAIN

Lead Analyst

hitesh.jan@ysil.in



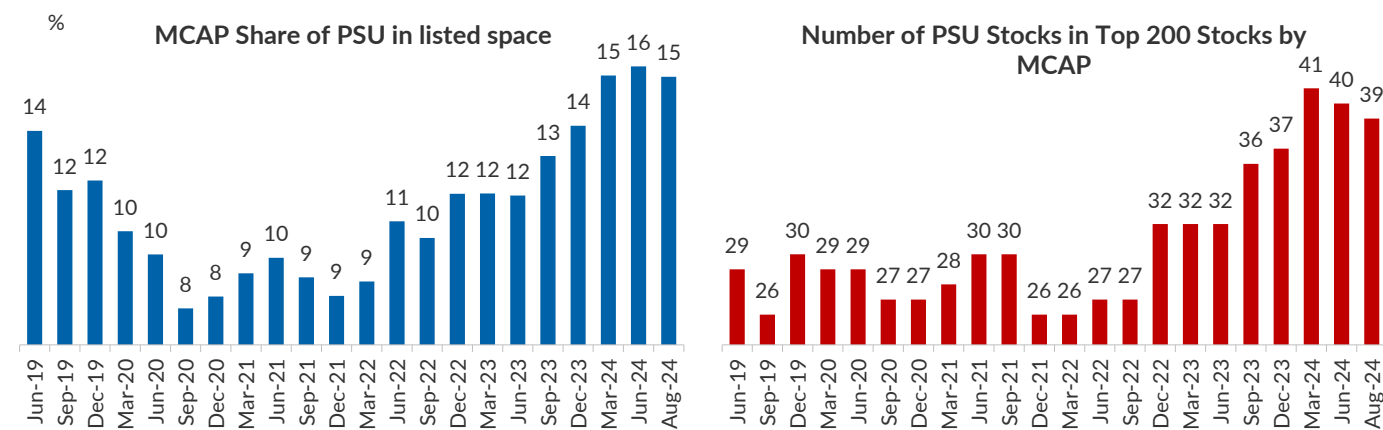
HEMANT NAHATA, Co-lead Analyst

hemant.nahata@ysil.in

KEVAL SHAH, Associate

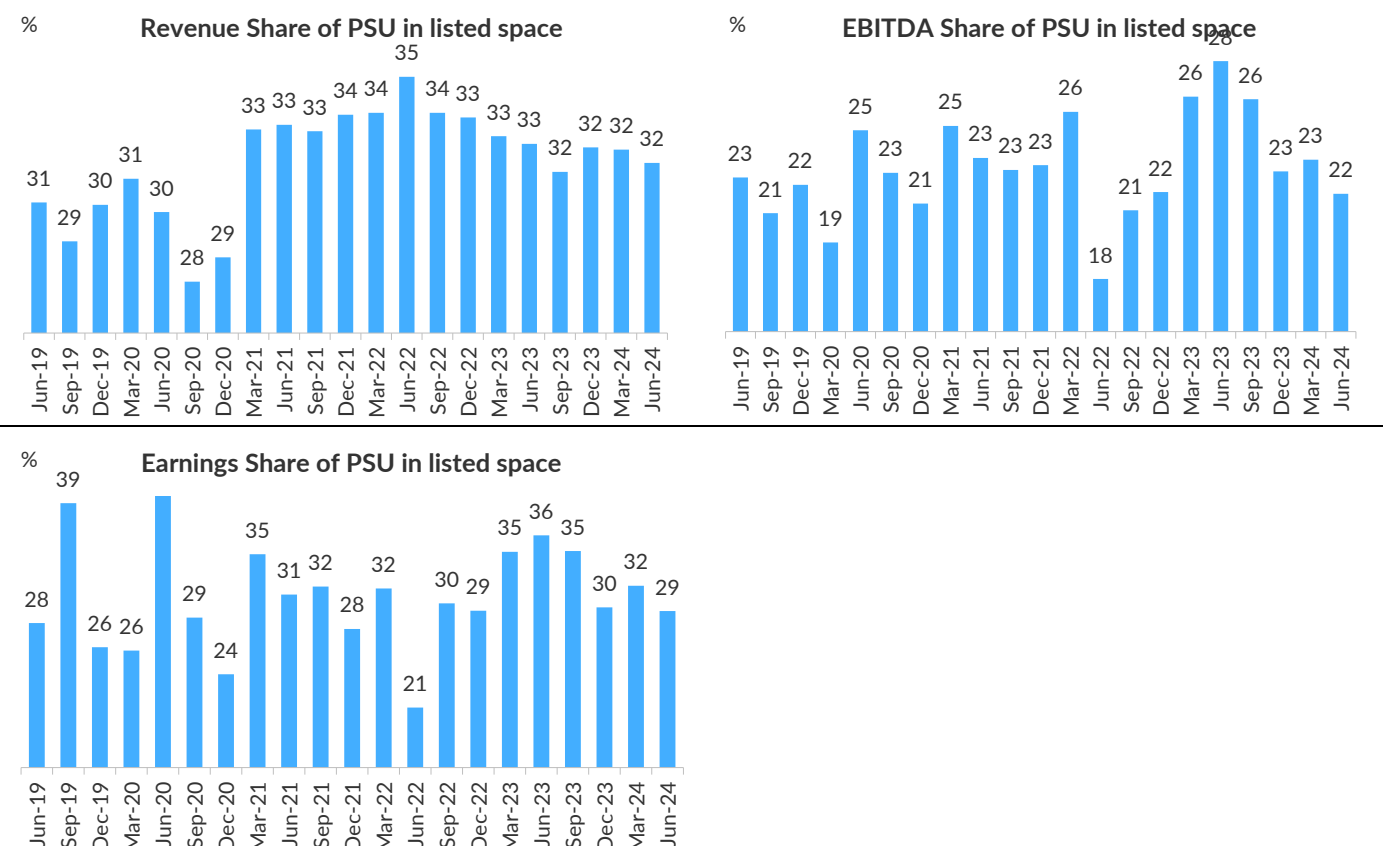
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Exhibit 1: PSU stocks has rallied sharply over the last 24 months and now accounts for 15% of total India's market cap (a rise of 4ppts from June 2022 levels). Further, now 39 PSU companies makes it to the list of top 200 companies in India, 12 companies have got added in the top 200 list over the past 2 years...



Source: NSDL, CEIC, YES Sec

Exhibit 2: ...fundamentally, Revenue, EBITDA and PAT share (PSU share as % of total listed space) has remained constant...



Source: Bloomberg, YES Sec

Exhibit 3: ...apparently a case of expansion in valuation multiples...

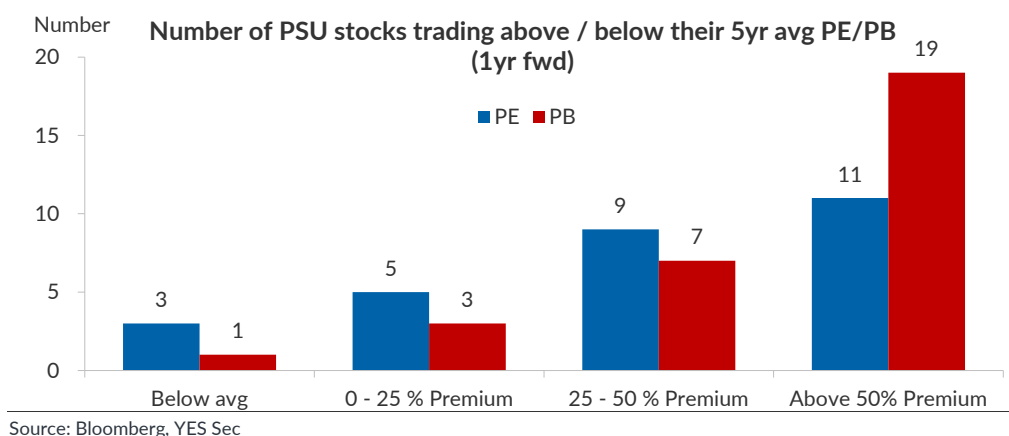
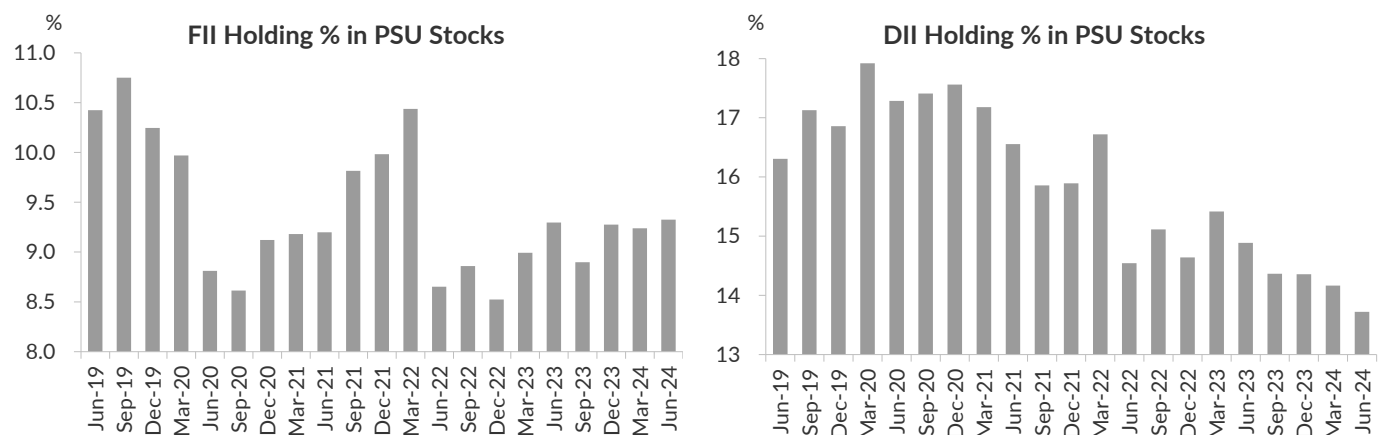


Exhibit 4: ...markets are also assigning steeper multiples to companies with below average forward earnings growth

Earnings CAGR							PE Ratio (1yr fwd)			PB Ratio (1yr fwd)		
Sr No	5yr (2019-24)	2yr fwd (2024-26)	Ticker	Name	Console /Parent	Total Analyst Reco	Latest	5yr Avg	Current SD	Latest	5yr Avg	Current SD
1	23.9	4.0	GICRE IN Equity	GICRE	P	4	10.3			1.0	0.9	0.3
2		9.4	UNBK IN Equity	UNIONBANK	P	11	5.6	7.7	(0.4)	0.8	0.5	1.2
3	21.6	20.2	GUJGA IN Equity	GUJGASLTD	P	32	27.8	22.6	1.3	4.5	4.9	(0.4)
4	26.6	(24.4)	BPCL IN Equity	BPCL	C	32	10.0	8.9	0.7	1.6	1.5	0.4
5	84.7	5.1	BOB IN Equity	BANKBARODA	P	35	6.9	7.1	(0.1)	1.0	0.7	1.3
6	133.2	10.4	SBIN IN Equity	SBIN	P	49	10.4	10.0	0.2	1.7	1.3	1.2
7		39.9	PNB IN Equity	PNB	P	18	8.7	9.8	(0.2)	1.1	0.6	1.7
8	4.4	15.7	NACL IN Equity	NATIONALUM	P	10	11.5	11.4	0.0	1.9	1.2	1.6
9	3.6	31.0	SAIL IN Equity	SAIL	P	26	14.6	9.9	0.6	0.9	0.6	1.2
10	14.1	45.7	NIACL IN Equity	NIACL	P	3	19.3	14.1	1.1	1.2	0.9	0.9
11	16.4	1.2	COAL IN Equity	COALINDIA	C	26	9.0	6.7	1.8	3.0	2.6	0.7
12	61.3	(14.5)	MRPL IN Equity	MRPL	P	4	16.2	10.0	0.6	2.4	1.2	2.1
13	0.3	24.1	CCRI IN Equity	CONCOR	P	26	35.9	30.3	1.2	4.6	3.3	1.6
14		18.8	BOI IN Equity	BANKINDIA	P	5	6.1			0.7	0.5	1.4
15	76.0	19.8	CBK IN Equity	CANBK	P	18	5.6			1.0	0.6	1.5
16	5.5	16.6	NMDC IN Equity	NMDC	P	22	8.8	5.9	1.5	2.1	1.1	1.7
17	51.5	15.8	INBK IN Equity	INDIANB	P	11	7.3	4.9	1.5	1.1	0.6	1.8
18	(26.2)	220.4	BHEL IN Equity	BHEL	P	18	59.3	41.9	0.7	3.9	1.1	2.7
19	1.6	16.1	ENGR IN Equity	ENGINEERSIN	C	8	26.0	13.0	2.4	4.8	2.6	1.8
20	21.6	(15.6)	HPCL IN Equity	HINDPETRO	P	33	9.2	6.4	1.8	1.6	1.1	2.5
21	12.8	0.8	ONGC IN Equity	ONGC	C	28	8.3	5.5	1.7	1.1	0.7	2.7
22	19.8	(20.3)	IOCL IN Equity	IOC	C	32	9.6	6.4	2.7	1.2	0.9	2.1
23	15.6	14.3	POWF IN Equity	PFC	P	7	9.4	4.4	2.2	1.8	0.7	2.6
24	16.1	18.6	BHE IN Equity	BEL	C	27	43.7	21.7	2.4	10.8	4.5	2.5
25	7.3	18.0	NHPC IN Equity	NHPC	C	9	21.9	10.3	2.5	2.4	1.1	2.4
26	18.7	12.8	RECL IN Equity	RECLTD	P	7	9.3	4.0	2.5	1.8	0.7	2.6
27	9.5	13.1	NTPC IN Equity	NTPC	P	24	17.7	9.5	2.6	2.3	1.2	2.5
28	8.8	12.8	GAIL IN Equity	GAIL	P	35	14.7	9.5	2.6	2.1	1.2	2.9
29	9.2	4.3	PWGR IN Equity	POWERGRID	P	21	19.4	10.6	2.9	3.4	1.8	2.9
30	0.6	34.6	NBCC IN Equity	NBCC	C	4	50.7	21.9	3.0			
31	17.3	31.3	OINL IN Equity	OIL	P	19	12.9	6.6	3.0	2.1	0.7	3.6

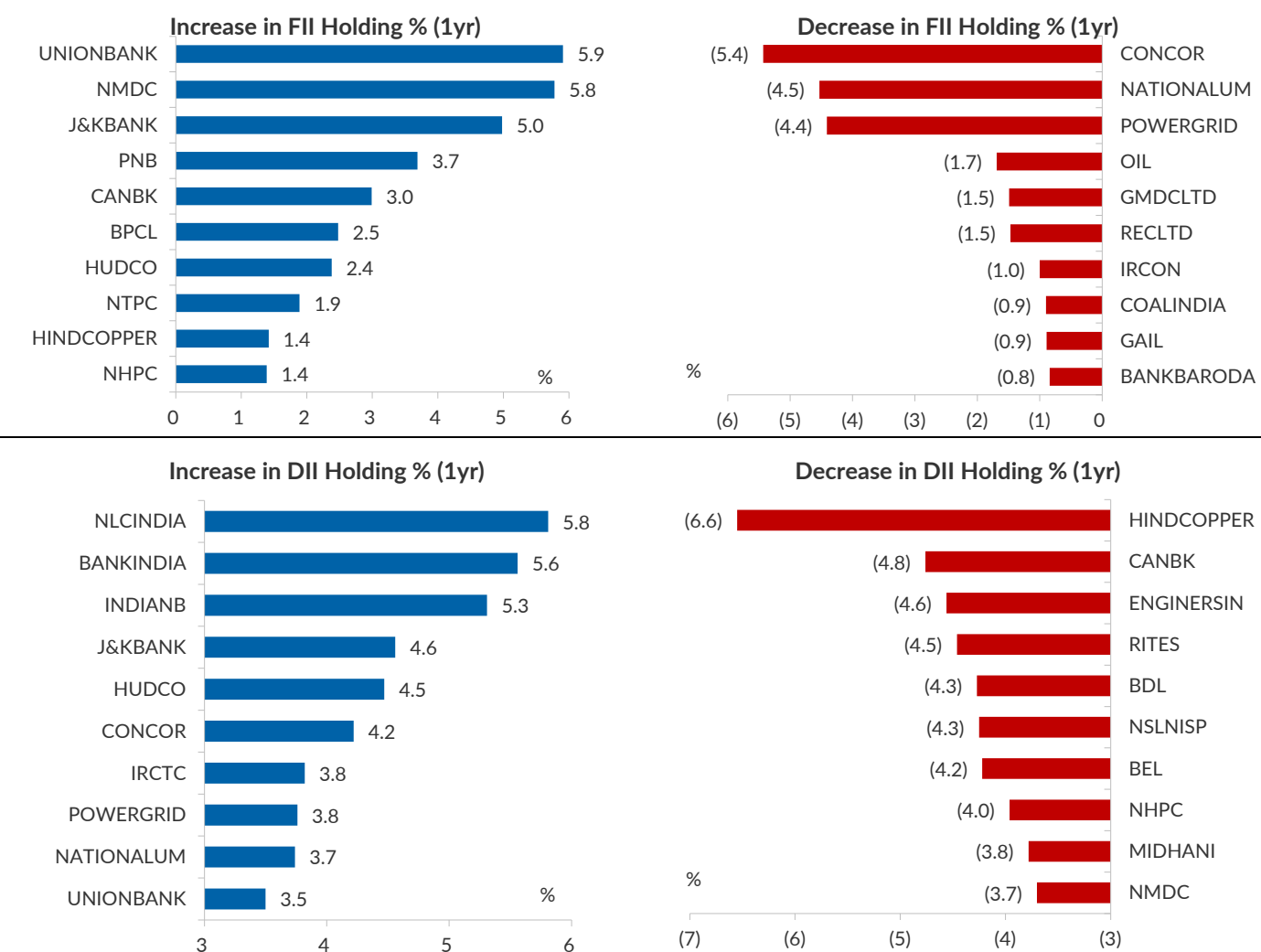
Source: Bloomberg, YES Sec

Exhibit 5: Institutional PIE has reduced over the years...



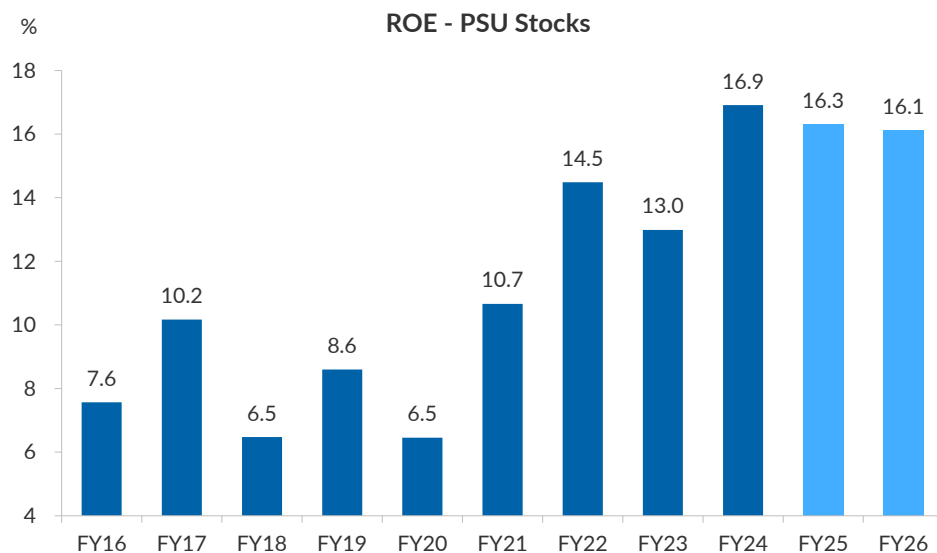
Source: Capitaline, YES Sec

Exhibit 6: ...while FPIs have added holdings in small and mid-cap names, they have been large sellers in large cap names over the past 1yr



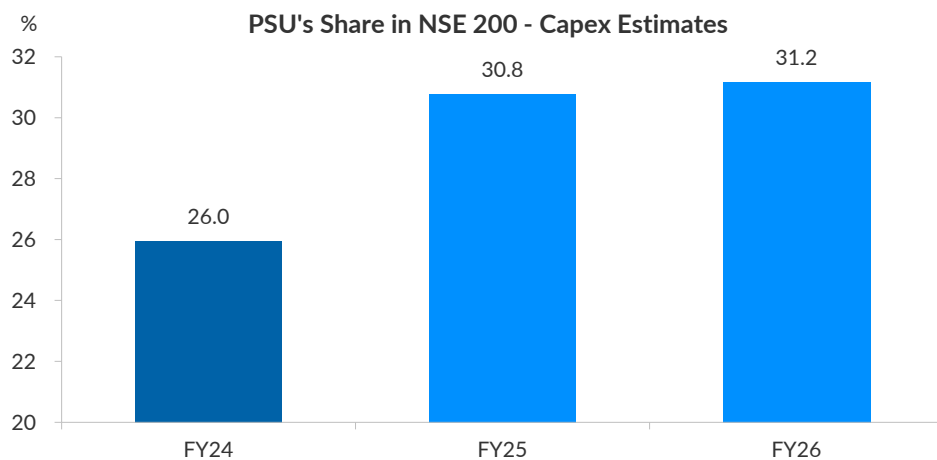
Source: Capitaline, YES Sec

Exhibit 7: On the positive front, improving Return on Equity warrants higher Valuation multiples...



Source: Bloomberg, YES Sec; Note: Data is available for 45 stocks

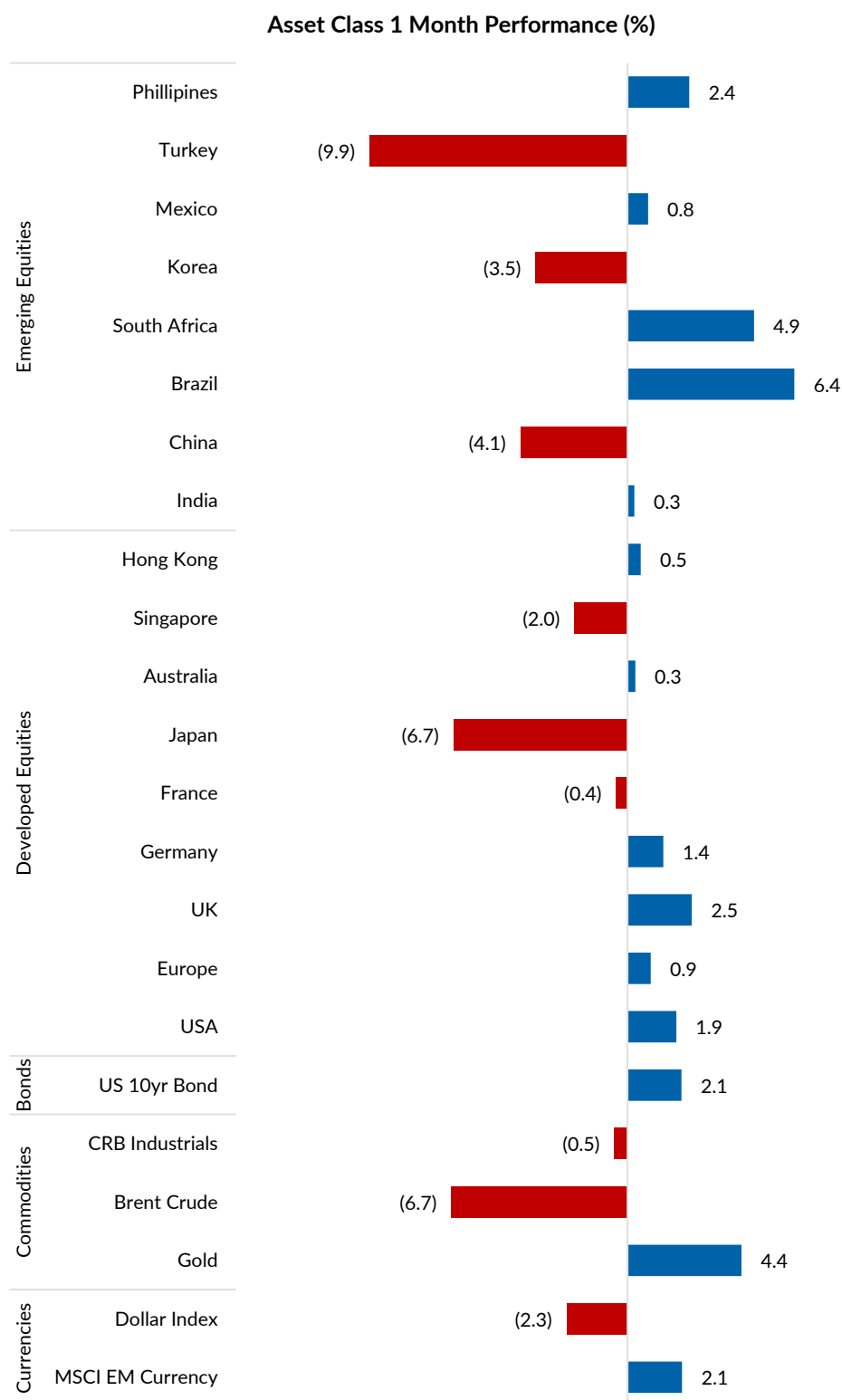
Exhibit 8: ...higher ROE projections prevail despite Heavy Capex, suggesting that PSU companies are turning more efficient on their capital



Source: Bloomberg, YES Sec; Note: Data is available for 34 stocks in NSE 200

Asset Class Performance

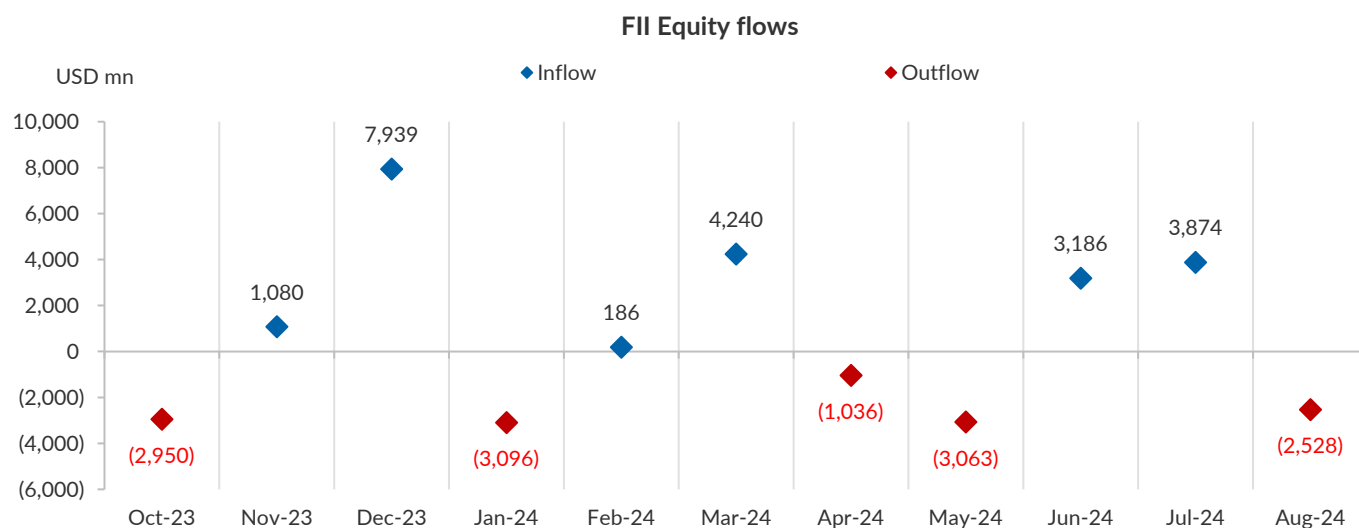
Exhibit 9: Global Risk Assets exhibit mixed trends



Source: Bloomberg, YES Sec Note: Data is from 20-Jul-24 to 20-Aug-24

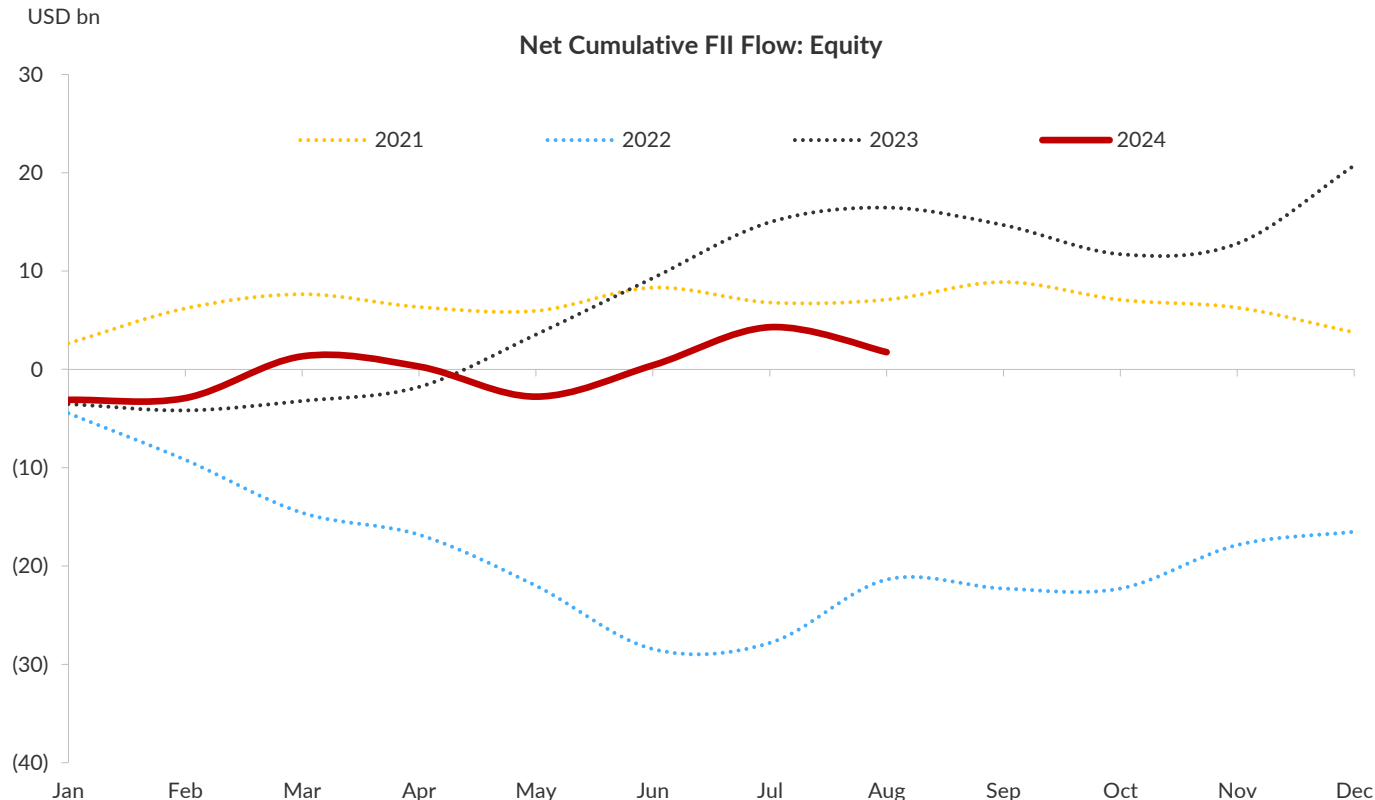
India Equities

Exhibit 10: FIIs sell in August...



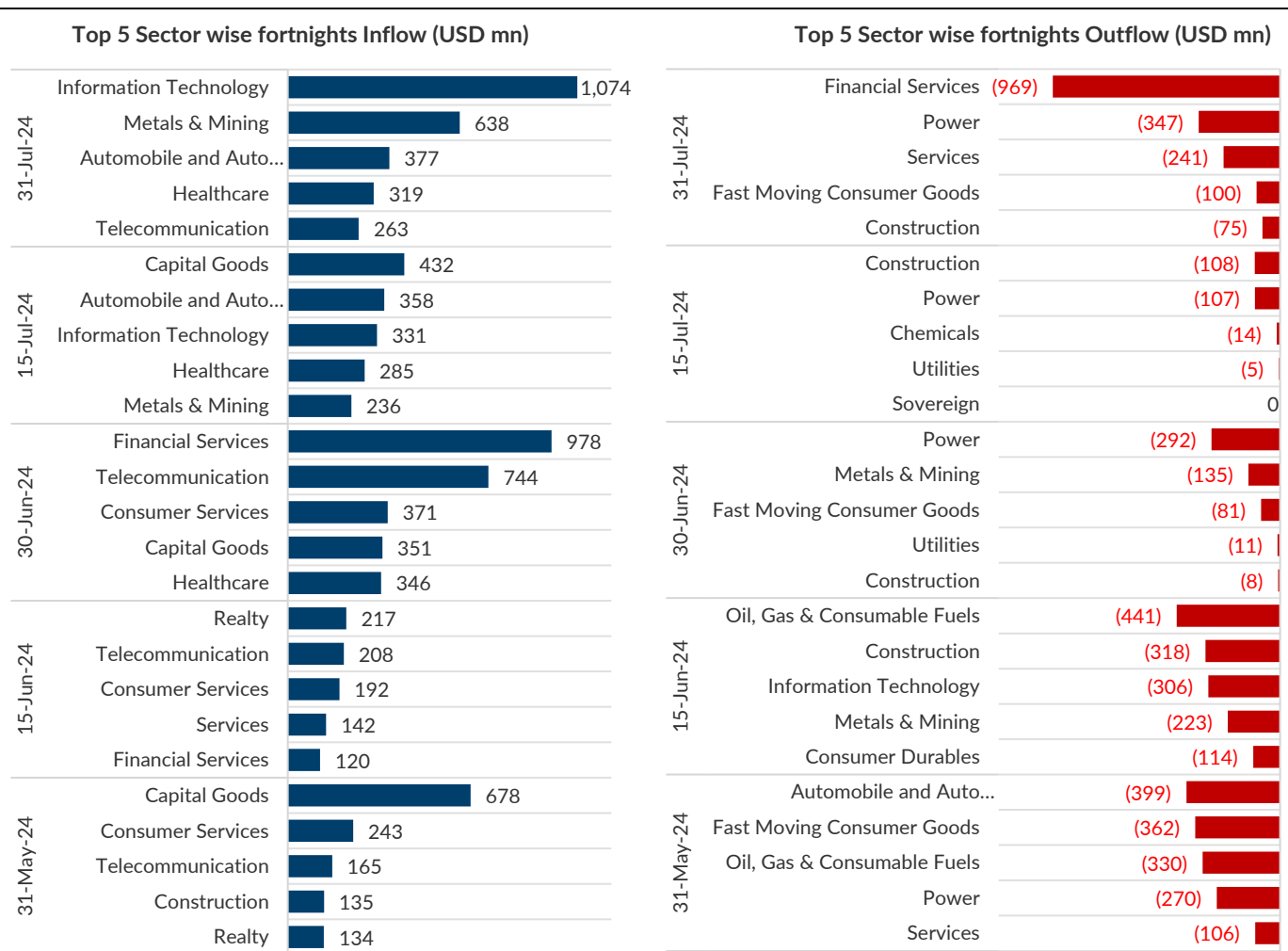
Source: CEIC, YES Sec

Exhibit 11: ... YTD 2024 FPI flows remain uninspiring



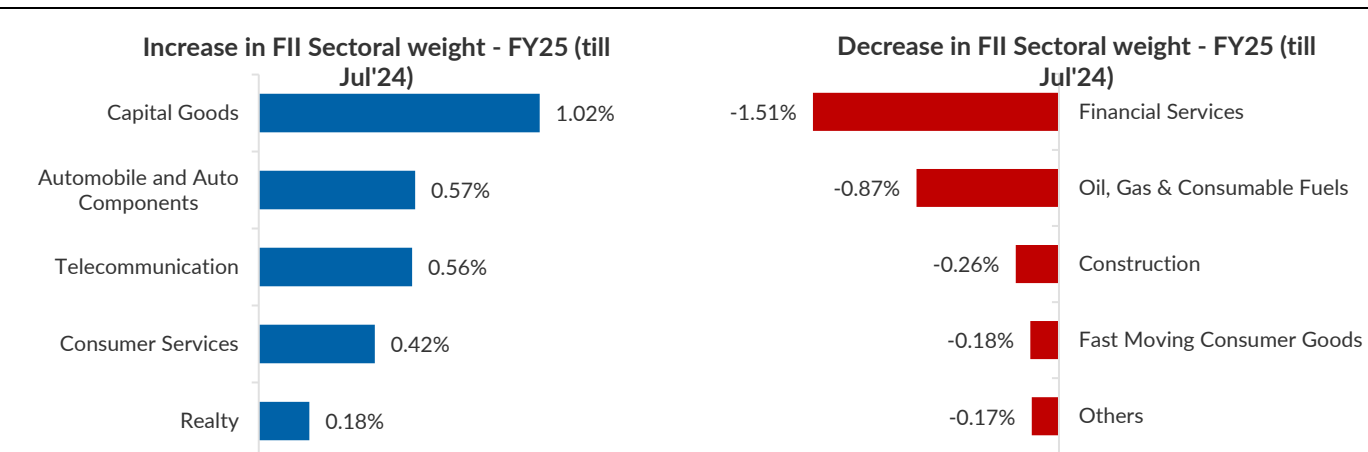
Source: CEIC, YES Sec

Exhibit 12: FPIs Buy IT and Metals, sell Financial Services over the last two fortnights



Source: NSDL, CEIC, YES Sec

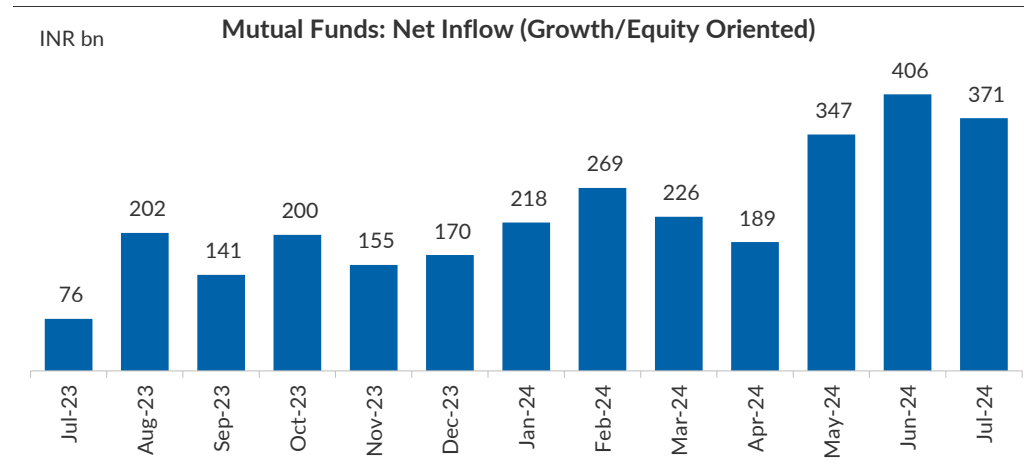
Exhibit 13: In FY25, FPI add Capital Goods and Auto, while sell Financials and Oil



Source: NSDL, CEIC, YES Sec

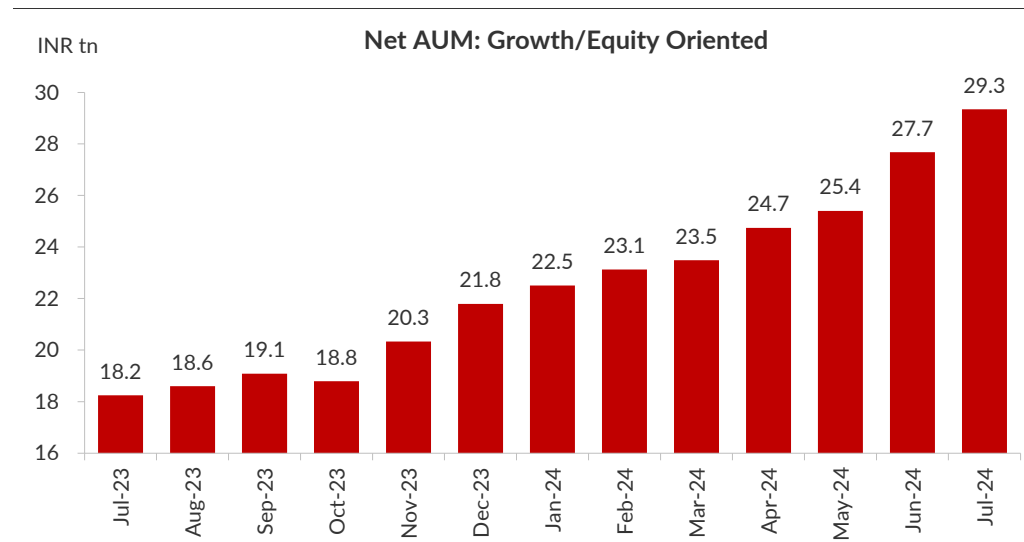
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Exhibit 14: Inflows in Equity MFs remain strong...



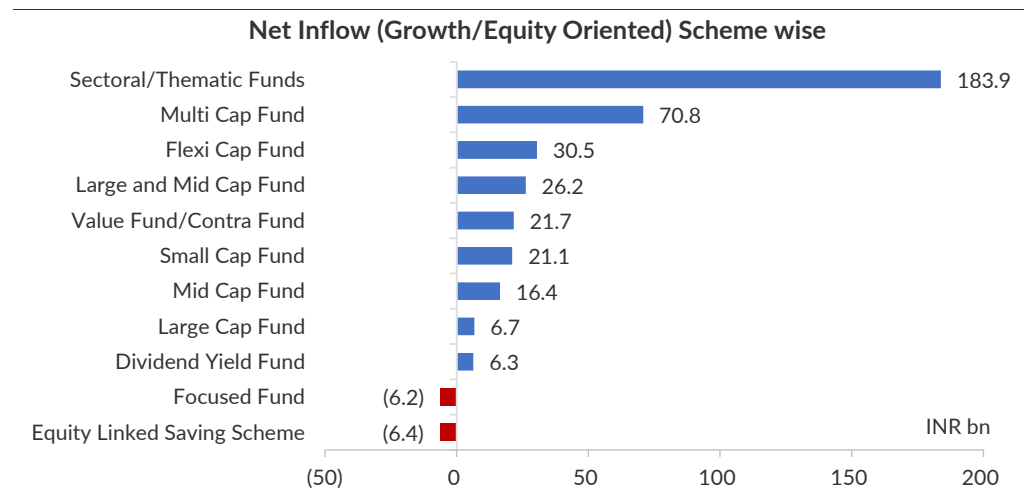
Source: AMFI, YES Sec

Exhibit 15: ...equity AUM maintains expansion



Source: AMFI, YES Sec

Exhibit 16: Sectoral and Thematic funds register strong inflows



Source: AMFI, YES Sec; Note: Data for Jul month

Exhibit 17: Mutual Funds What's-in & What's-out for July

New Entry			AMC	Total Exit		
Rank 3	Rank 2	Rank 1		Rank 1	Rank 2	Rank 3
	PAGEIND	SIS	360 ONE MF	ASTRAMICRO		
SOBHA	CENTURYTEX	TECHNOE	Axis MF	SHREECEM	INDIACEM	PRIVISCL
BAJFINANCE	ALKEM	EMCURE	Bajaj MF	TATASTEEL		
SOBHAPP	JUBLINGREA	ASIANPAINT	Bandhan MF	ENDURANCE	NOCIL	GET&D
ONGC	SIEMENS	FSL	Baroda MF	NAM-INDIA	BHARTIHEXA	PIDILITIND
EMCURE	PNBHOUSING	VEDL	Birla MF	IWEL	EXICOM	NETWEB
SCHNEIDER	GRANULES	SANSTAR	BOI MF	UBL	UBL	KKCL
OIL	COLPAL	DOMS	Canara Robeco MF	INDUSINDBK	HAVELLS	SUNDARMFIN
BANSALWIRE	CARYSIL	PNBHOUSING	DSP MF	BATAINDIA	DCBBANK	INDIACEM
APLLTD	KALYANKJIL	WHIRLPOOL	Edelweiss MF	AMIORG	APOLLOTYRE	GODREJCP
SOBHAPP	TATAPOWER	ICICIGI	Franklin Templeton MF	SBILIFE	RALLIS	MGL
HINDUNILVR	SUNPHARMA	TATAMOTORS	Groww MF	INDUSINDBK	BAJAJ-AUTO	JUBLFOOD
EMCURE	RBLBANK	PGIL	HDFC MF	INDIACEM		
HAL	INFY	ICICIGI	Helios MF	LT	NBCC	HINDPETRO
BIOCON	NYKAA	PNBHOUSING	HSBC MF	KIMS	RHIM	GMPFPAUDLR
ANGELONE	TECHNOE	TATAPOWER	ICICI PRU MF	AVANTIFEED	CHENNPETRO	SUNDARMFIN
BANSALWIRE	POWERINDIA	CARBORUNIV	Invesco MF	BAJAJ-AUTO		
PNBHOUSING	ONGC	PEL	ITI MF	SAIL	CAPACITE	MRF
INDIAGLYCO	INDIGOPNTS	BASF	JM MF	IDEA	TATASTEEL	BAJFINANCE
IDEA	BANSALWIRE	DEEPAKNTR	Kotak MF	TATAMTRDVR	NAVINFUOR	KANSAINER
MCX	IGL	JTLIND	LIC MF	TATAMOTORS	KAJARIACER	AIAENG
TIIL	MANAPPURAM	EMCURE	M&M MF	GRSE	KPRMILL	KPRMILL
EMCURE	WELCORP	BBL	Mirae MF	NMDC	BHARTIHEXA	DATAPATTNS
BARBEQUE	TITAGARH	BSOFT	Motilal MF	IDEA	FORTIS	BSE
MFSL	MAHABANK	DELHIVERY	Navi MF	MTARTECH	AVANTIFEED	LUMAXIND
ATUL	EMCURE	SCHAEFFLER	Nippon MF	TATACHEM	NAVINFUOR	INOXINDIA
RBLBANK	NMDC	SAIL	NJ MF	TATAMOTORS	GAIL	FEDERALBNK
EMIL	HINDUNILVR	CUMMINSIND	PGIM MF	POONAWALLA	SKFINDIA	BLUEDART
			PPFAS MF	OFSS		
MRF	PEL	ITC	Quant MF	HUDCO	TCS	KOTAKBANK
ZENSARTECH	JWL	COLPAL	Samco MF	MANINFRA	GILLETTE	TATASTEEL
EMCURE	BANSALWIRE	PITTIENG	SBI MF	GAEL	HARSHA	PRESTIGE
PFC	ITC	JWL	Shriram MF	SBIN	LT	JSWINFRA
OIL	ACC	PNBHOUSING	Sundaram MF	BALKRISIND	IGL	RELAXO
INDIACEM	BALKRISIND	OIL	Tata MF	SOLARINDS	VENUSPIPES	JKTYRE
ABCAPITAL	HAL	INDUSTOWER	Taurus MF	ATUL	BEML	LICI
SUZLON	SANSTAR	INFY	Trust MF	UNOMINDA	BDL	POLYCAB
STARHEALTH	GRWRHITECH	LUPIN	Union MF	JSL	KOTAKBANK	SANOFI
PITTIENG	TIPSINDLTD	BAJAJHLDNG	UTI MF	MANKIND	CHALET	
SOBHAPP	EMCURE	MOTILALOF	WhiteOak MF	BLUEDART	IDFCFIRSTB	CARTRADE

Source: NAV-India, YES Sec – Research

Exhibit 18: MF's Top Rejig in July

Increased			AMC	Decreased		
Rank 3	Rank 2	Rank 1		Rank 1	Rank 2	Rank 3
INFY	BLUEDART	SUVENPHAR	360 ONE MF	AXISBANK	MOTHERSON	LALPATHLAB
ITC	HDFCLIFE	INFY	Axis MF	DMART	BAJAJFINSV	TCS
TCS	HINDUNILVR	M&M	Bajaj MF	SRF	HDFCBANK	BHARTIARTL
BANKINDIA	HINDUNILVR	VEDL	Bandhan MF	ICICIBANK	BANKBARODA	MOIL
DIVISLAB	ARE&M	RELIANCE	Baroda MF	INDUSINDBK	BSE	OIL
JINDALSTEL	SOBHA	KOTAKBANK	Birla MF	HDFCBANK	TATASTEEL	RELIANCE
PCBL	HDFCBANK	JWL	BOI MF	IDEA	TATAMOTORS	RVNL
INFY	ICICIBANK	CROMPTON	Canara Robeco MF	HDFCBANK	AXISBANK	TITAN
LT	SBIN	SBIN	DSP MF	MOTHERSON	WHIRLPOOL	CANFINHOME
ALKEM	LUPIN	INFY	Edelweiss MF	MAZDOCK	BEL	DRREDDY
INDUSINDBK	ERIS	INDUSTOWER	Franklin Templeton MF	KOTAKBANK	HAL	KALYANKJIL
LT	HCLTECH	INDIGO	Groww MF	HDFCBANK	ICICIBANK	M&M
EICHERMOT	ESCORTS	AXISBANK	HDFC MF	HAL	INFY	BEL
ICICIBANK	RELIANCE	TCS	Helios MF	BEL		
SUMICHEM	APARINDS	BLUESTARCO	HSBC MF	VBL	JSL	MANKIND
RELIANCE	AXISBANK	HDFCBANK	ICICI PRU MF	INFY	ITC	HCLTECH
INFY	SUVENPHAR	JYOTICNC	Invesco MF	NTPC	BHARTIARTL	MANKIND
MCX	JYOTHYLAB	VEDL	ITI MF	BANKBARODA	CANBK	BDL
DRREDDY	TECHM	VEDL	JM MF	SWSOLAR	HDFCBANK	TATAPOWER
INFY	HDFCBANK	OFSS	Kotak MF	BEL	CUMMINSIND	SCHAEFFLER
BHARTIHEXA	ABDL	MARUTI	LIC MF	AXISBANK	ICICIBANK	KOTAKBANK
INDUSTOWER	HINDUNILVR	ONGC	M&M MF	ICICIBANK	BHARTIARTL	TATAPOWER
TITAN	GLENMARK	ASIANPAINT	Mirae MF	BHARATFORG	CROMPTON	EICHERMOT
DIXON	COFORGE	POLYCAB	Motilal MF	ZOMATO	BEL	TIINDIA
APOLLOHOSP	INDUSINDBK	EURKA	Navi MF	HDFCBANK	UNOMINDA	INFY
INFY	TCS	VEDL	Nippon MF	RELIANCE	ABFRL	BANKBARODA
RECLTD	CDSL	IDEA	NJ MF	RELIANCE	SBIN	TATAPOWER
AIAENG	SHRIRAMFIN	BHARTIARTL	Old Bridge MF			
KPITTECH	MEDANTA	ICICIGI	PGIM MF	MANKIND	CREDITACC	NH
COALINDIA	POWERGRID	INFY	PPFAS MF	ITC	UTIAMC	MOTILALOF
DRREDDY	HINDUNILVR	LICI	Quant MF	HDFCBANK	IRFC	RELIANCE
EPL	HDFCBANK	AXISBANK	Quantum MF	HEROMOTOCO	M&M	SHRIRAMFIN
COALINDIA	TVSMOTOR	MARATHON	Samco MF	HAVELLS	ARE&M	TORNTPOWER
VEDL	EICHERMOT	ADANIPTS	SBI MF	ICICIBANK	DIVISLAB	ULTRACEMCO
DIXON	BLUESTARCO	INFY	Shriram MF	JIOFIN	ICICIBANK	TRENT
COALINDIA	BSE	CREDITACC	Sundaram MF	RECLTD	DIXON	CANFINHOME
MPHASIS	ADANIPOWER	KOTAKBANK	Tata MF	M&M	INFY	PETRONET
KRBL	TATASTEEL	IDEA	Taurus MF	TATACHEM	ABBOTINDIA	HAPPSTMNDS
LUPIN	ZYDUSLIFE	ZOMATO	Trust MF	ICICIBANK	CGPOWER	M&M
MPHASIS	HAPPSTMNDS	INFY	Union MF	CUMMINSIND	TATASTEEL	JINDALSTEL
DRREDDY	DALBHARAT	ONGC	UTI MF	BALKRISIND	NAUKRI	MOTHERSON
LTF	HDFCBANK	ZOMATO	WhiteOak MF	DIXON	SYNGENE	HDFCAMC

Source: NAV-India, YES Sec – Research

Exhibit 19: MFs buy Consumption

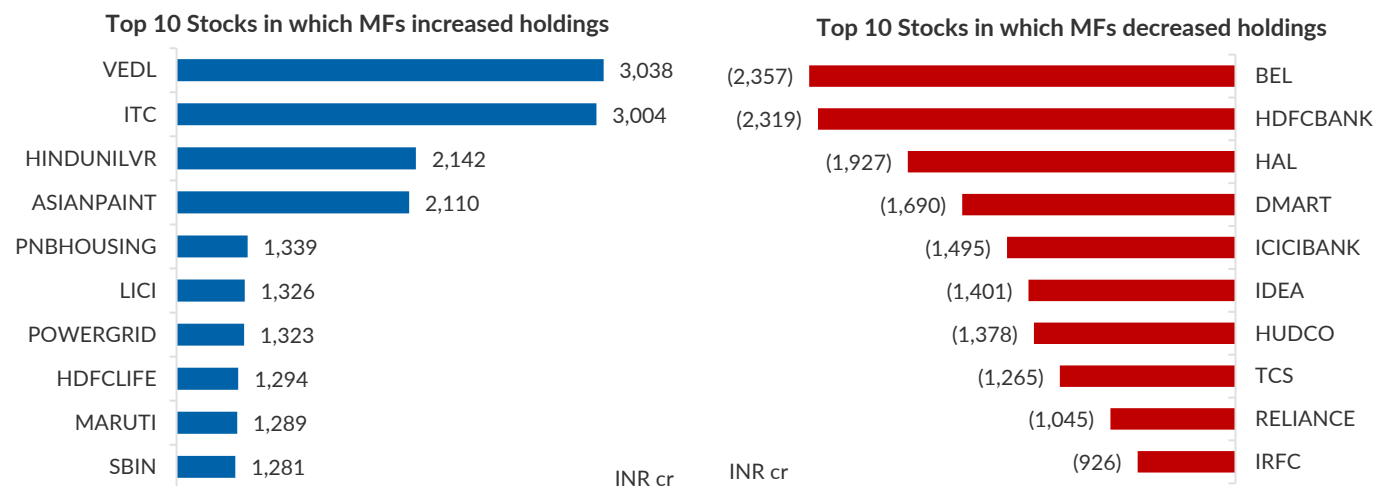


Exhibit 20: Promoter buying/selling for the last 30 days

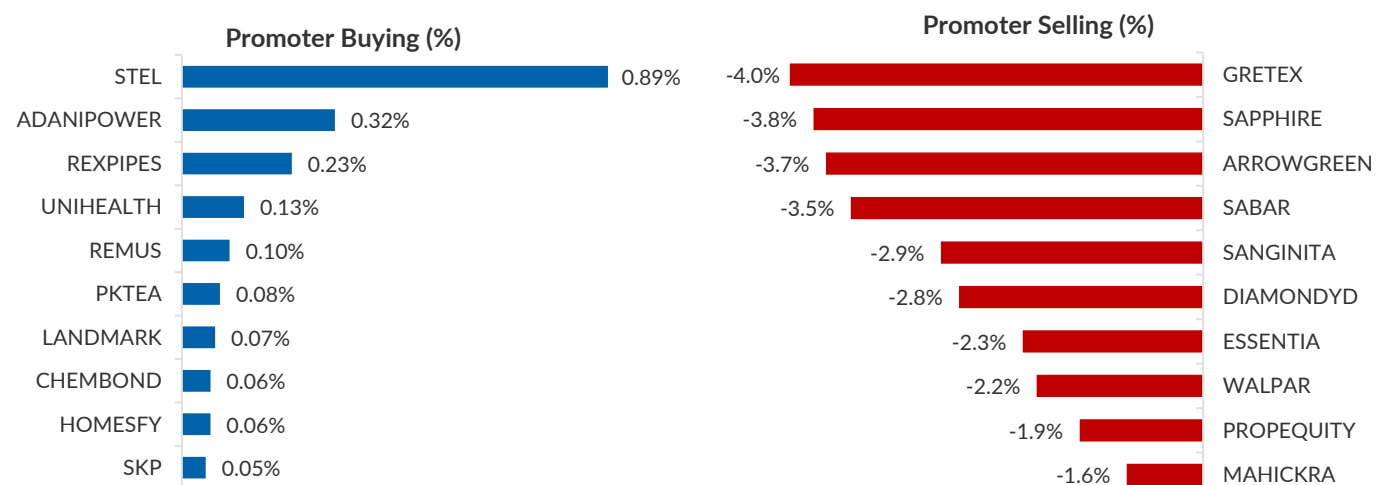


Exhibit 21: Promoter Pledge Matrix for the last 30 days

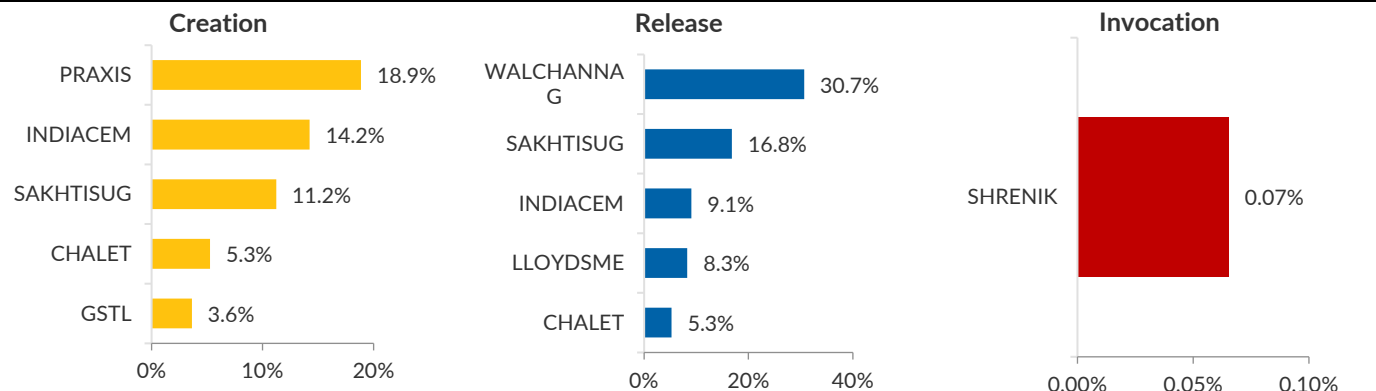
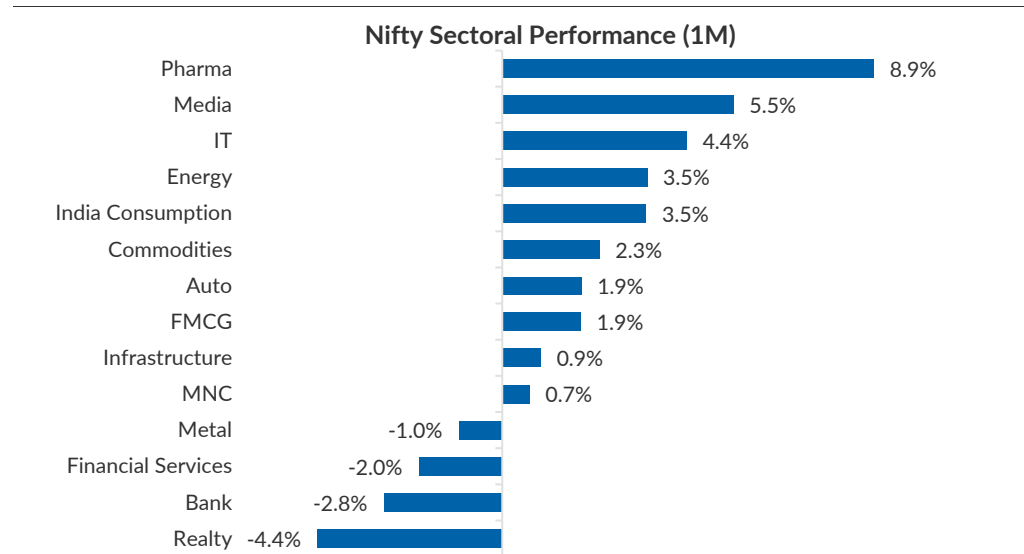
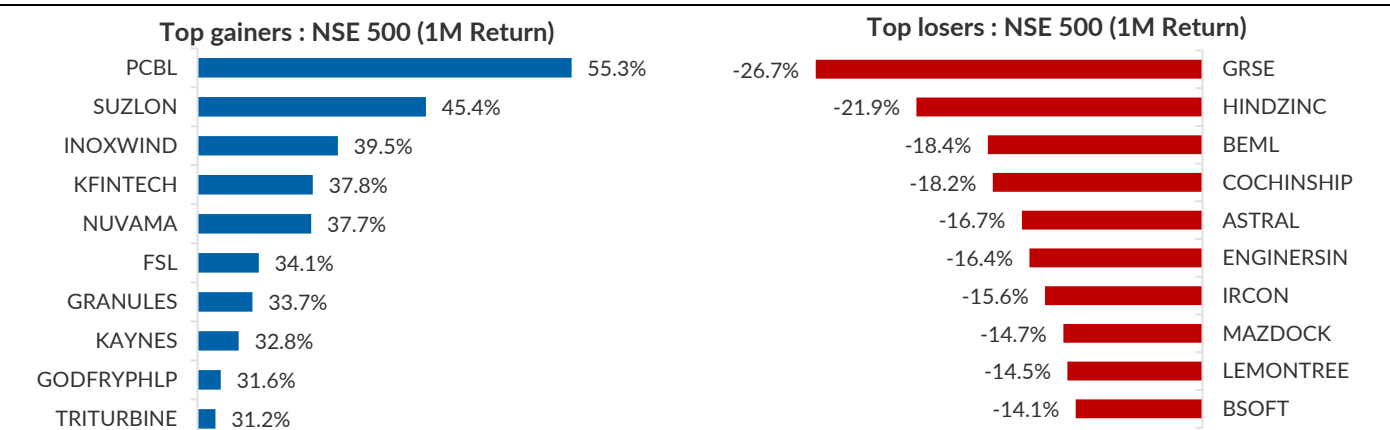


Exhibit 22: Pharma spearhead gains



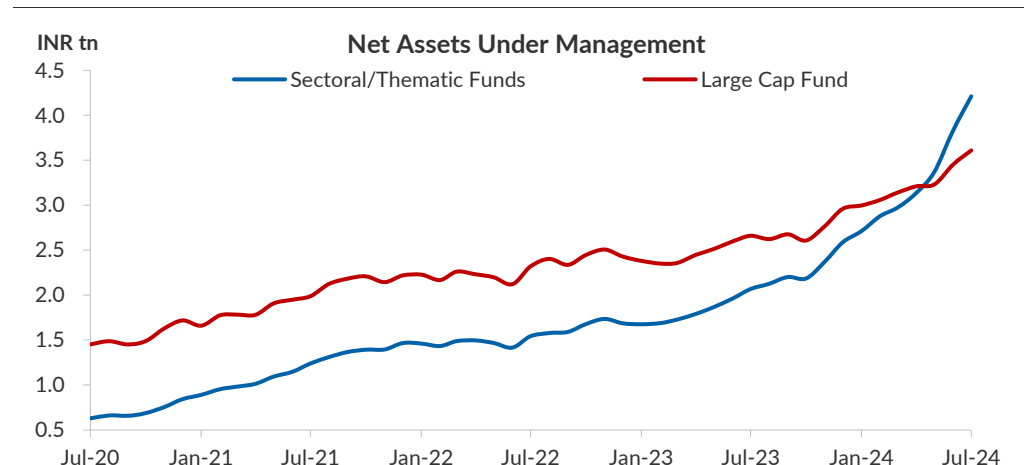
Source: Bloomberg, YES Sec; Note: Data reported between 20-Jul-24 to 20-Aug-24

Exhibit 23: Renewables make their mark, while PSU stocks witness profit taking after sizable gains



Source: Bloomberg, YES Sec; Note: Data reported between 20-Jul-24 to 20-Aug-24

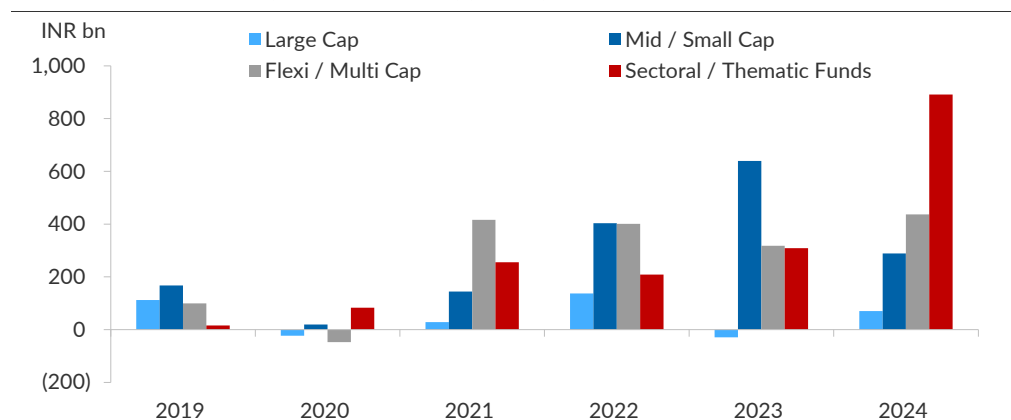
Exhibit 24: Indian investors are increasingly favoring sectoral and thematic funds



Source: CEIC, YES Sec

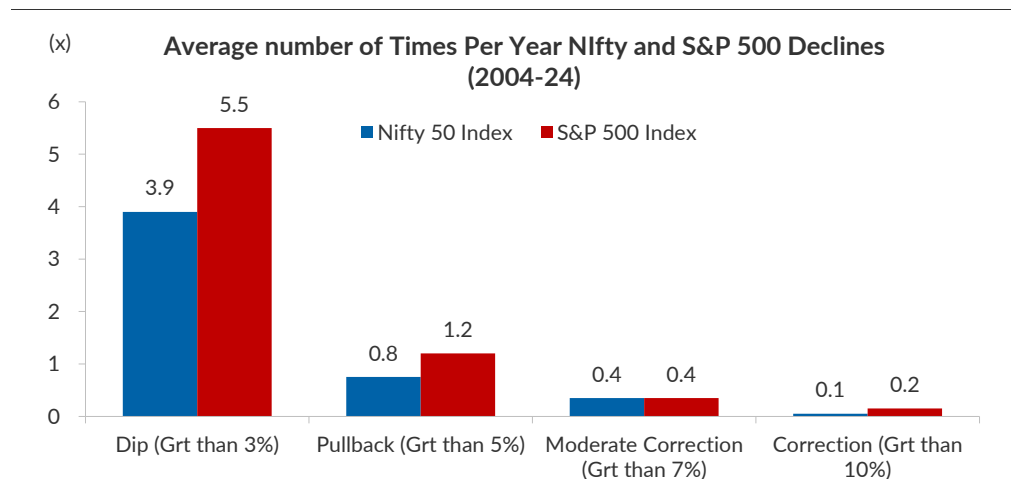
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Exhibit 25: India's Large Caps have lagged big time in terms of Investment flows



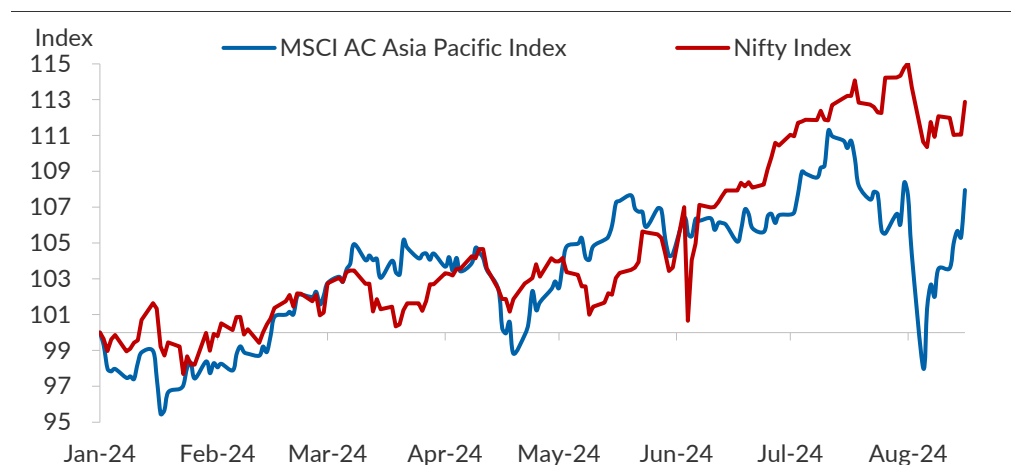
Source: CEIC, YES Sec

Exhibit 26: Fall in US Equities is more intense than in the Indian Markets, while the rebound is in line with the Averages



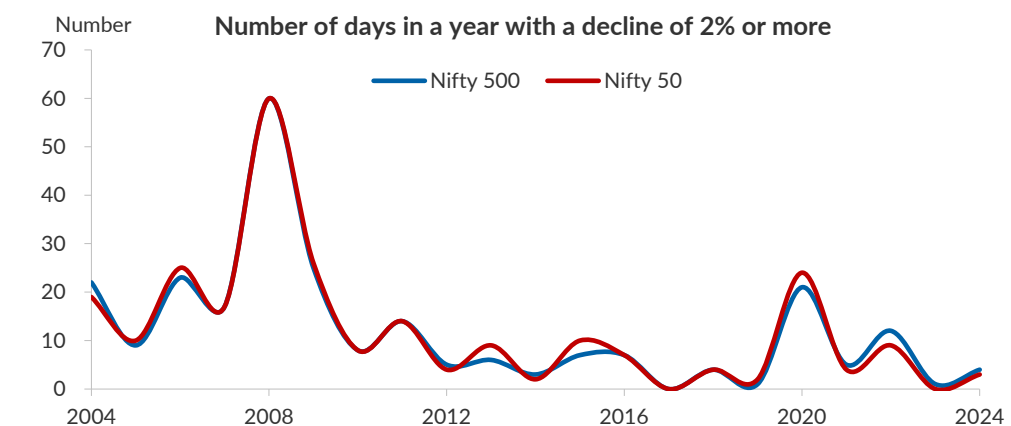
Source: Bloomberg, YES Sec

Exhibit 27: India is relatively resilient to the erosion of the gains in Asian Equities



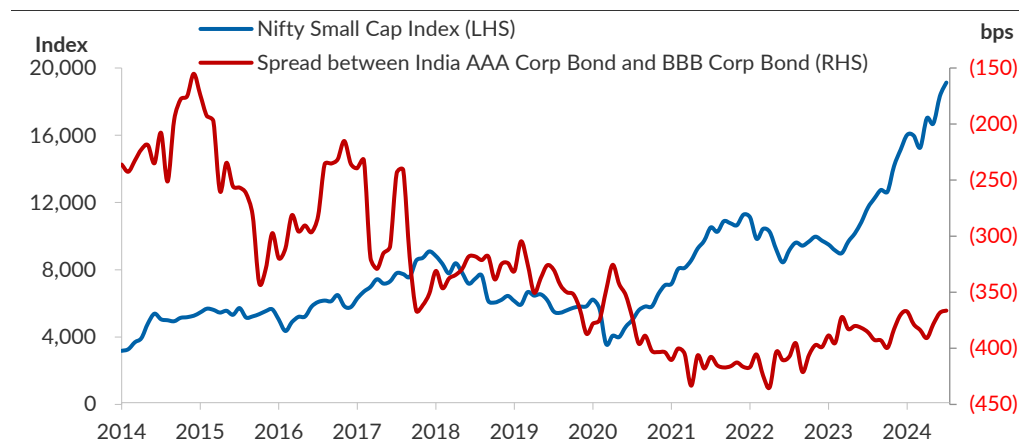
Source: Bloomberg, YES Sec; Notes: Values are rebased at 100

Exhibit 28: Indian Equities have become relatively less volatile over the the years



Source: Bloomberg, YES Sec

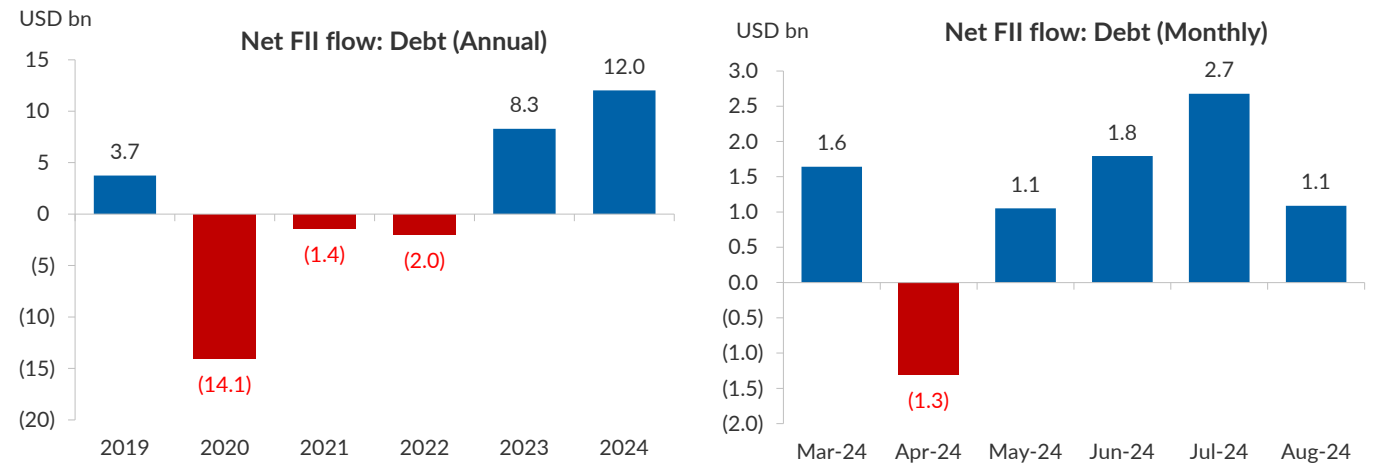
Exhibit 29: Narrowing Credit Spreads between has lot to do with the strength in Small Cap Equities



Source: Bloomberg, YES Sec

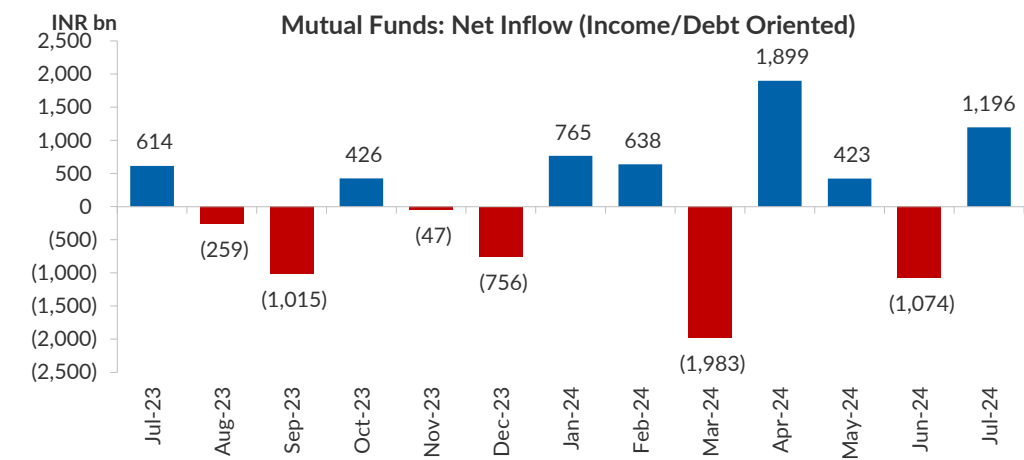
India Debt

Exhibit 30: FII continue to flock to Indian Debt



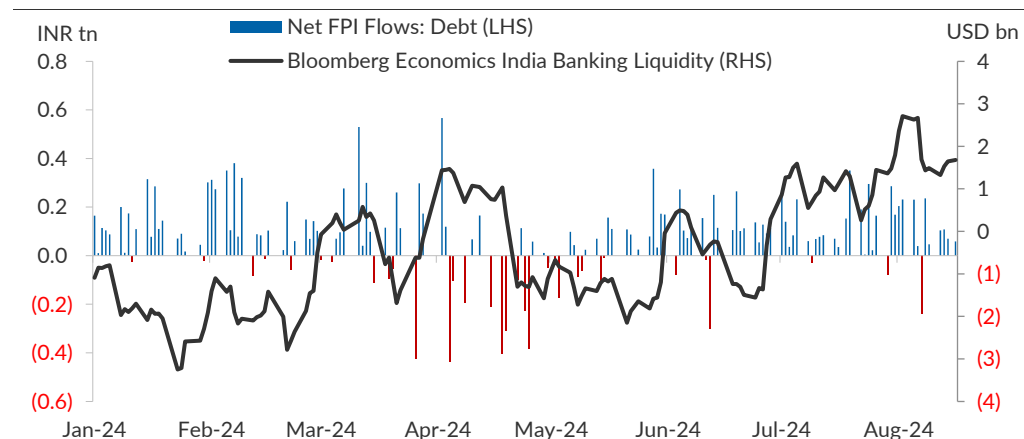
Source: CEIC, YES Sec

Exhibit 31: Debt MFs witness strong inflows during July



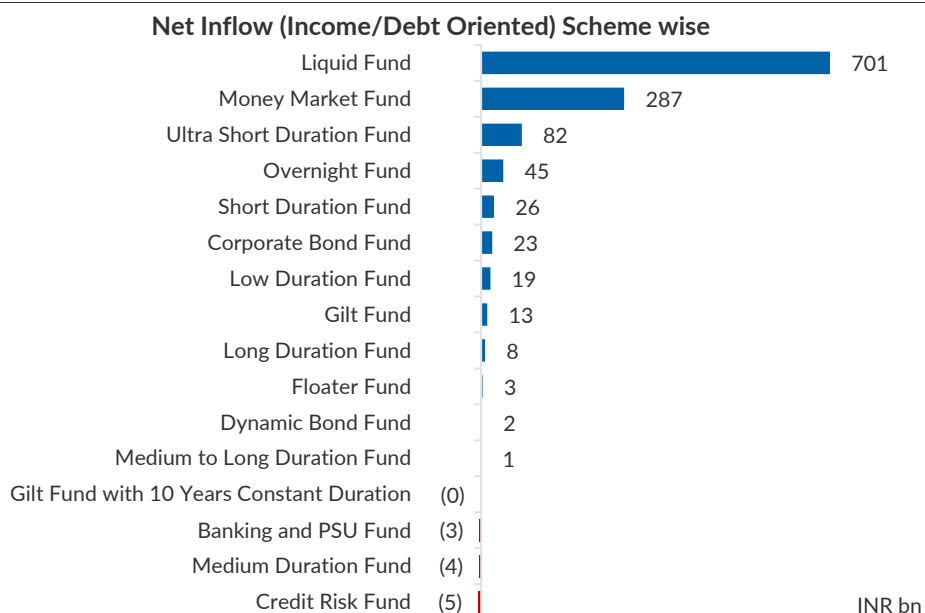
Source: AMFI, YES Sec

Exhibit 32: Surplus in India's Banking Liquidity widens as RBI is absorbing Dollars flowing into Sovereign Debt



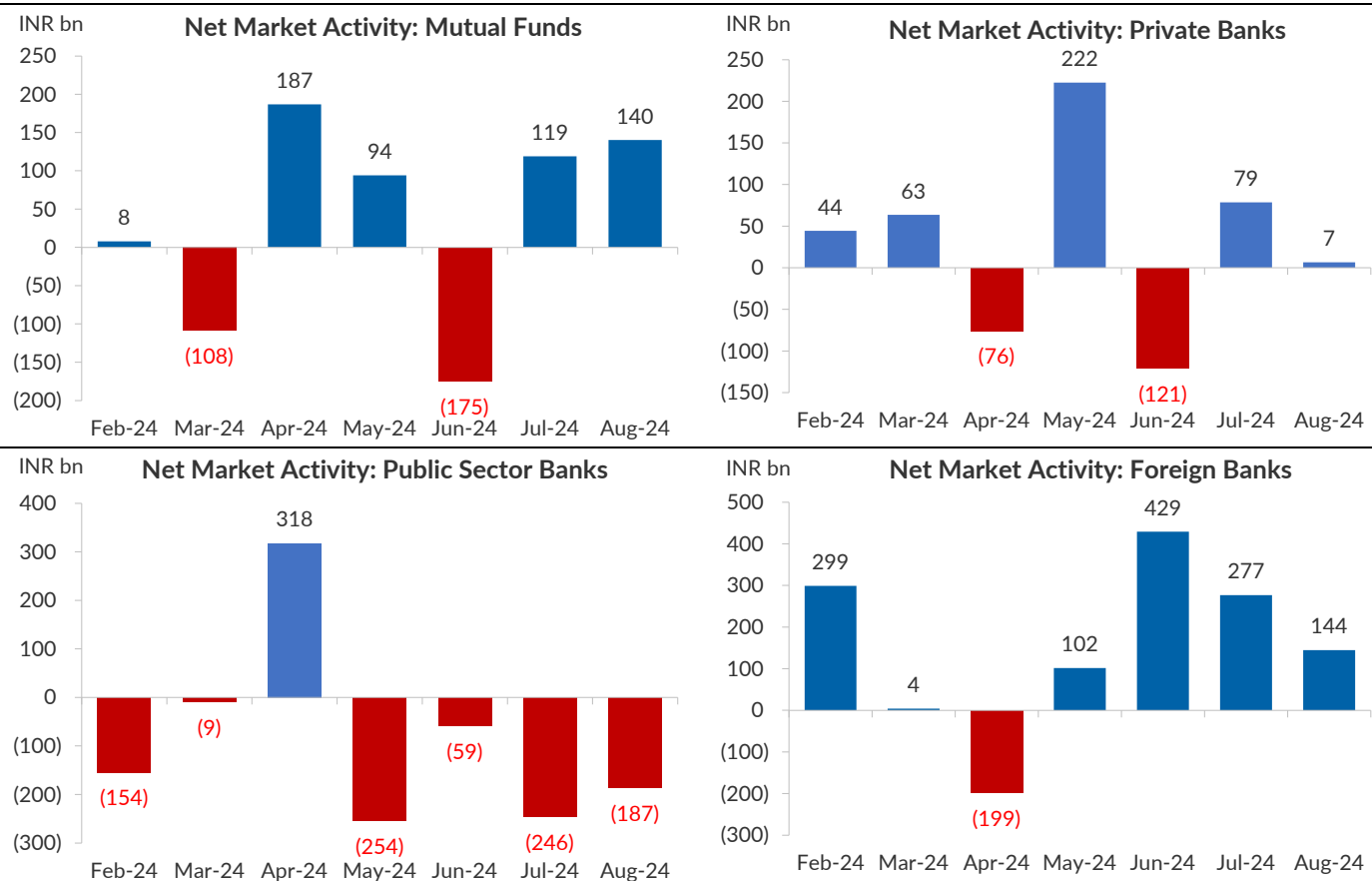
Source: CEIC, Bloomberg, YES Sec

Exhibit 33: Liquid Funds account for a chunk of the debt inflows



Source: CEIC, YES Sec; Note: Data for Jul month

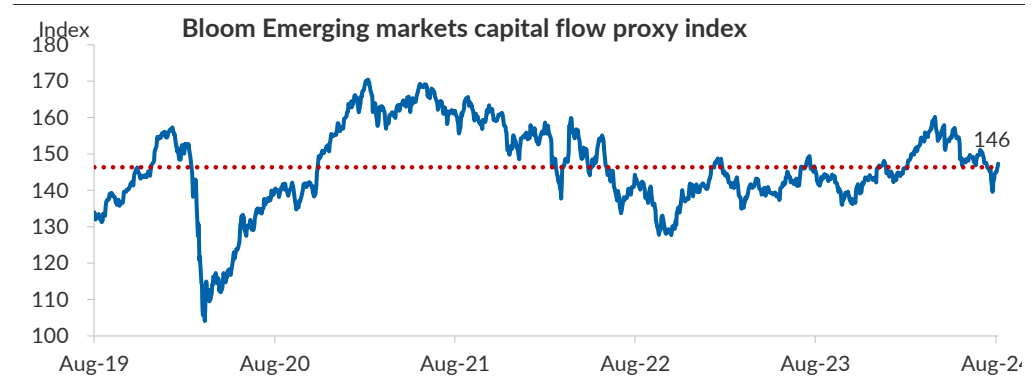
Exhibit 34: MFs and Foreign Banks are accumulating G-Secs



Source: Bloomberg, YES Sec

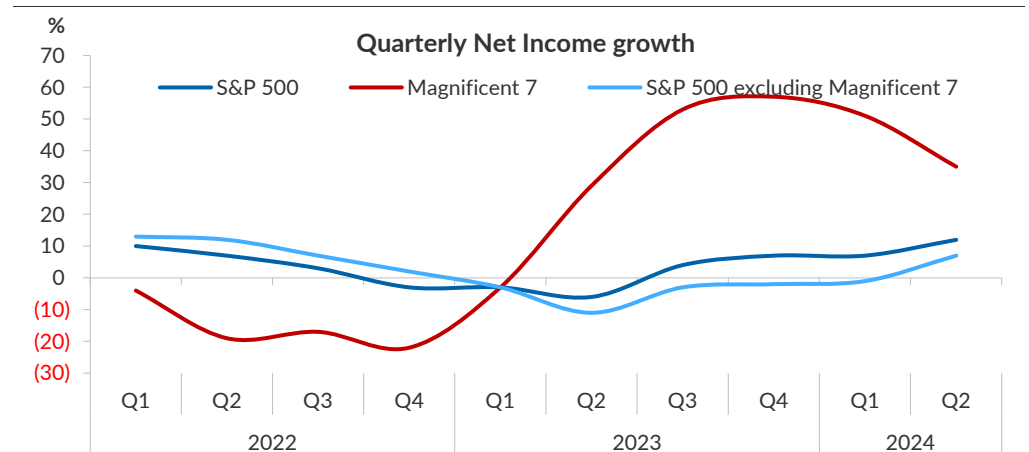
Global Liquidity

Exhibit 35: Capital flows in EMs is in line with the historical average



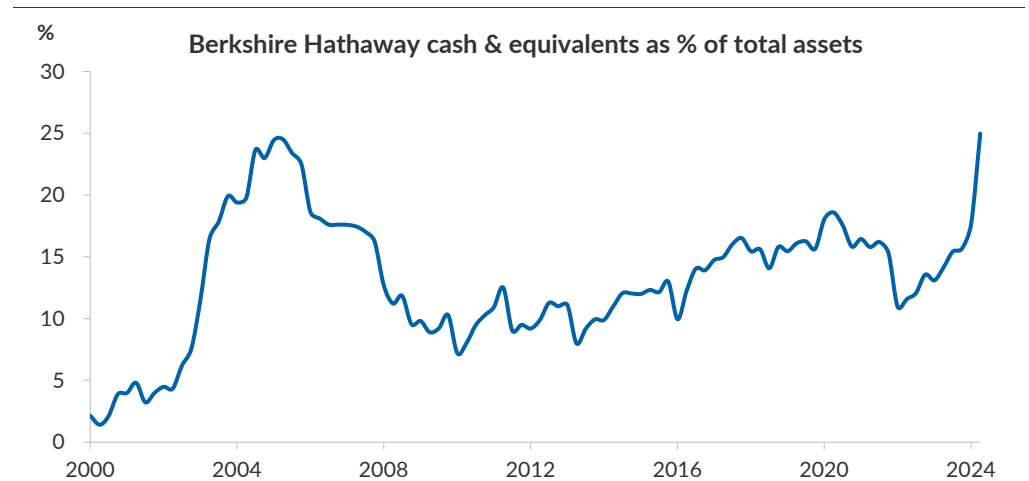
Source: Bloomberg, YES Sec

Exhibit 36: US Earnings Growth is broadening



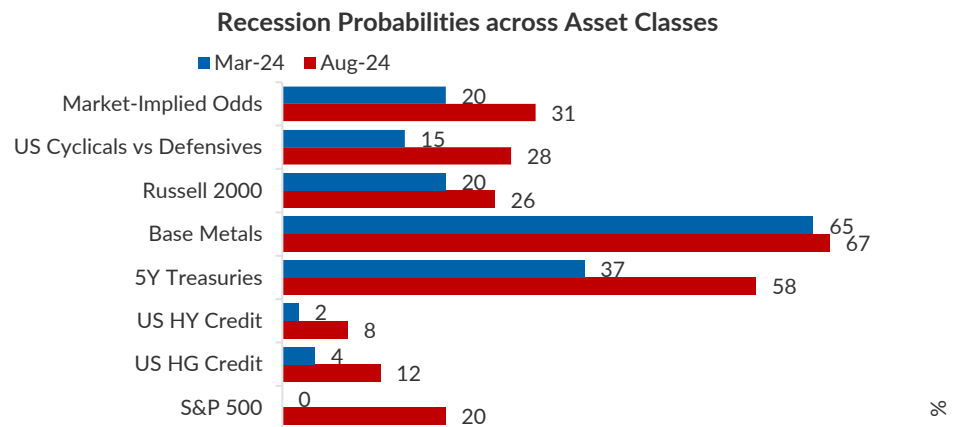
Source: Bloomberg, YES Sec

Exhibit 37: Warren Buffet Rising Cash Levels, Is it a Warning Signal?



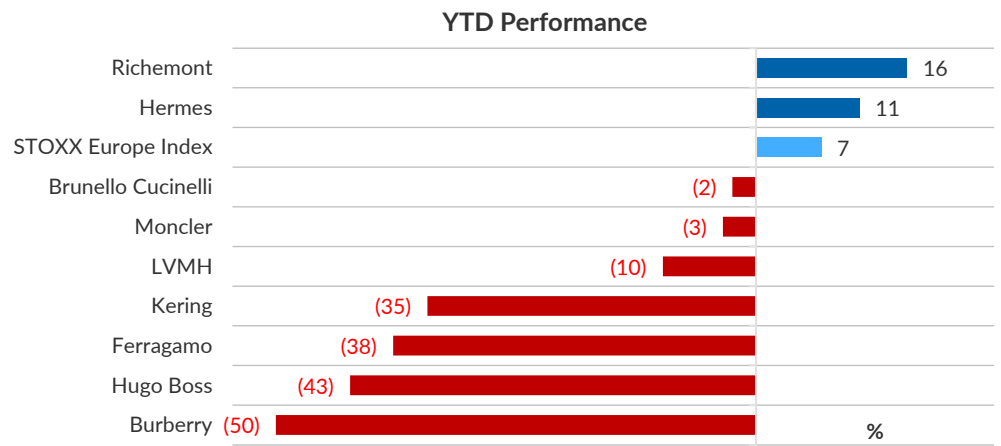
Source: Bloomberg, YES Sec

Exhibit 38: US Recession is priced in divergently by various Asset Classes



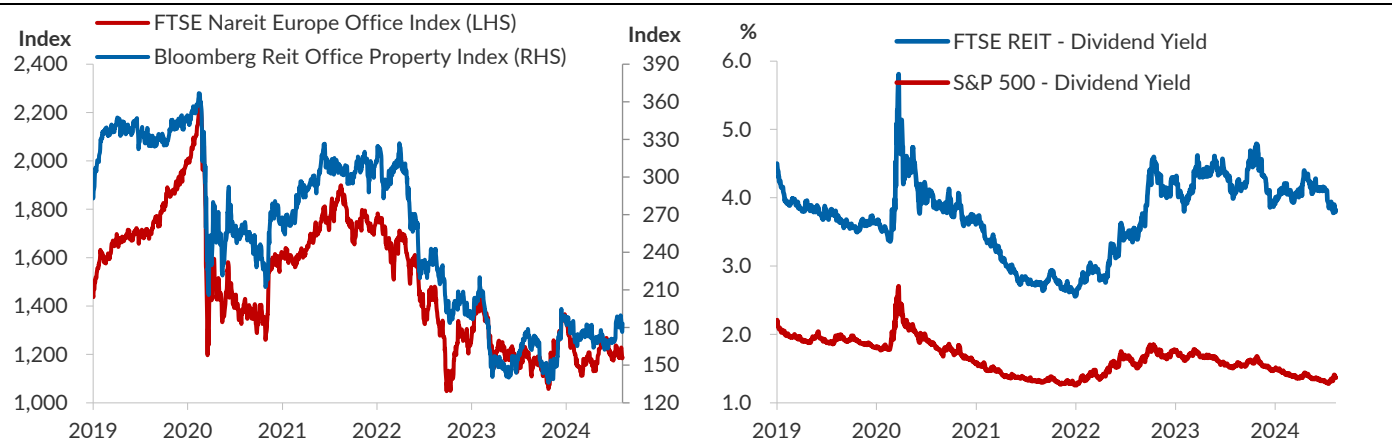
Source: JP Morgan, YES Sec; Notes: The bank calculates the metrics by comparing the pre-recession peaks of various asset classes and their troughs during the economic contraction.

Exhibit 39: European Luxury Names are not in Good Health, denoting a weak demand environment in China



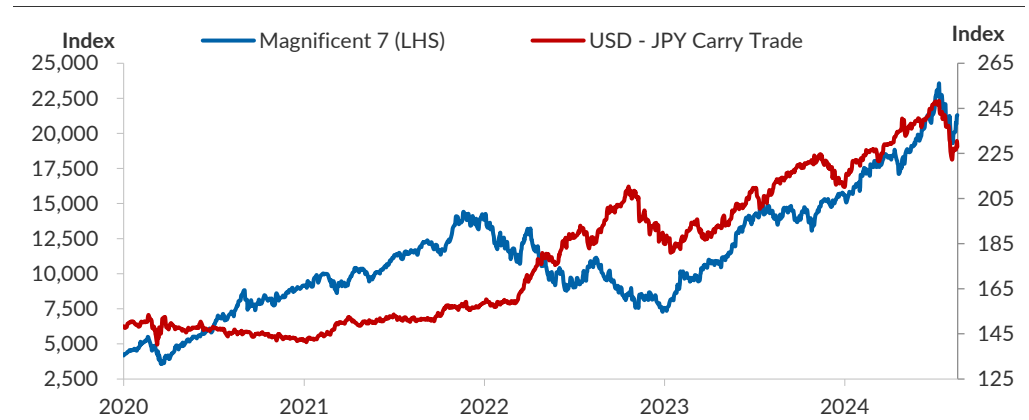
Source: Bloomberg, YES Sec

Exhibit 40: Commercial Real Estate seems to have bottomed out on both sides of the Atlantic, US REITs are yielding more than US Equities



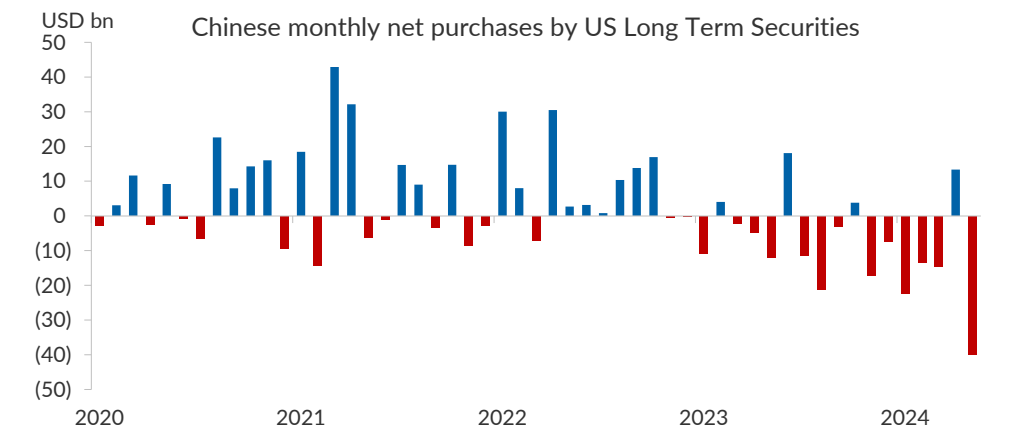
Source: Bloomberg, YES Sec

Exhibit 41: AI rally has been inversely correlated with Japanese Yen



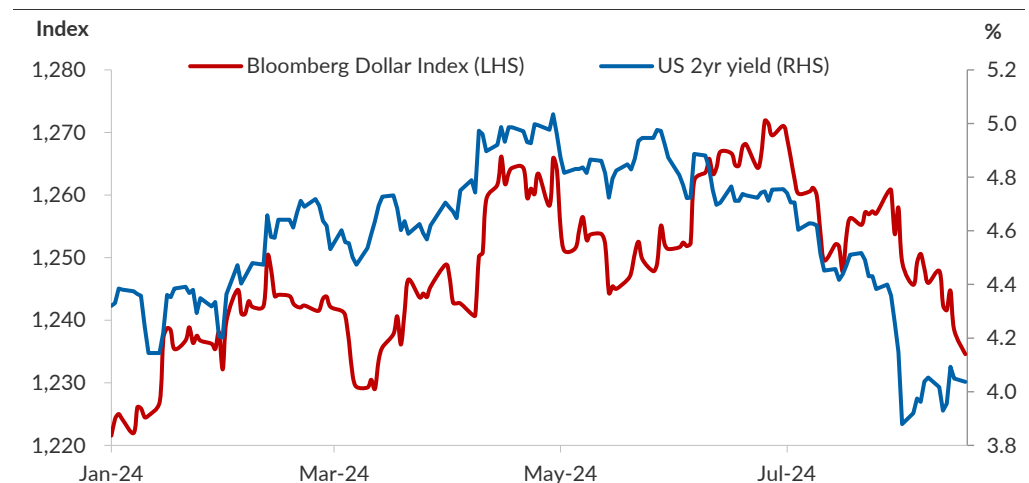
Source: Bloomberg, YES Sec

Exhibit 42: China continues to pare its holdings of US Treasuries



Source: Bloomberg, YES Sec

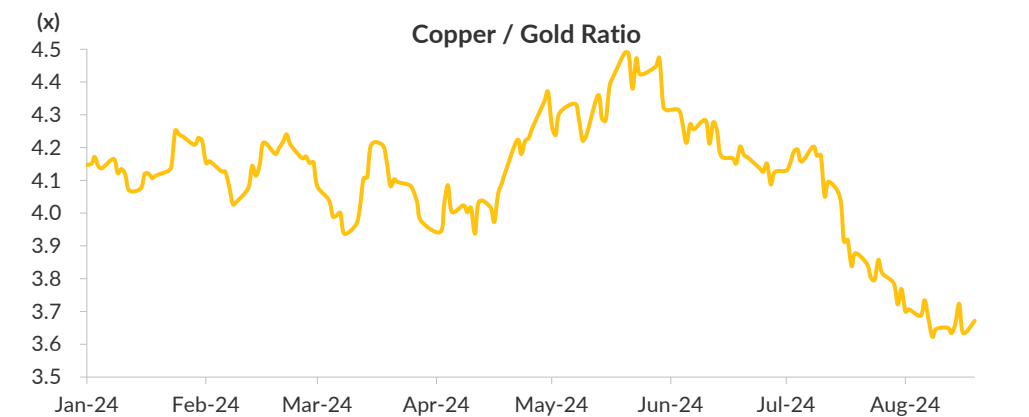
Exhibit 43: Greenback moves in sync with short end of the US yield curve



Source: Bloomberg, YES Sec

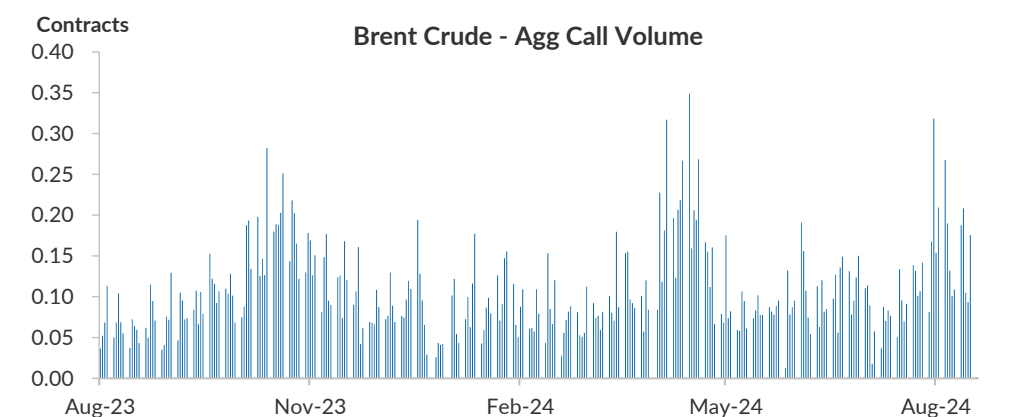
Commodities

Exhibit 44: Changing Global Political Landscape and Subdued Chinese Economic Recovery have led Investors to seek the safety of Gold over the strength of Copper, an economic bellwether



Source: CEIC, YES Sec

Exhibit 45: Oil traders have aggressively purchased call options to hedge against the risk of Iran's retaliatory attack on Israel



Source: Bloomberg, YES Sec

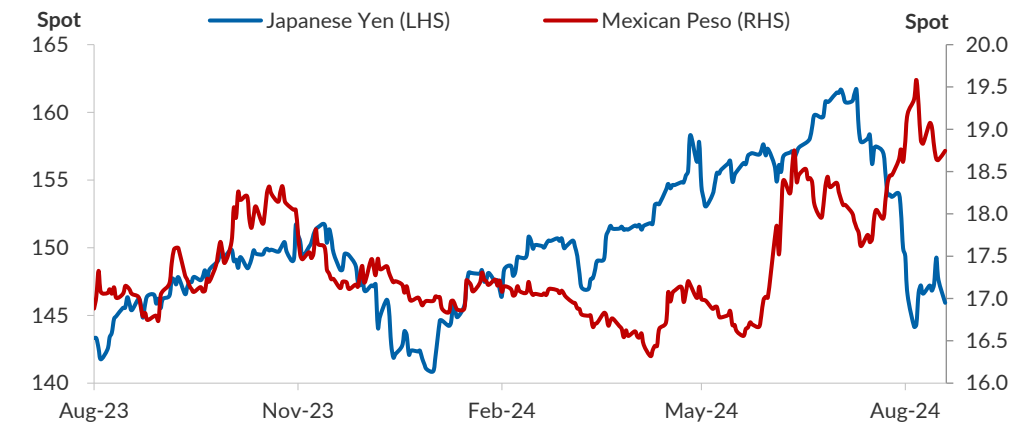
Exhibit 46: Speculators have turned bearish on Commodities for the first time in 8 years



Source: Bloomberg, YES Sec

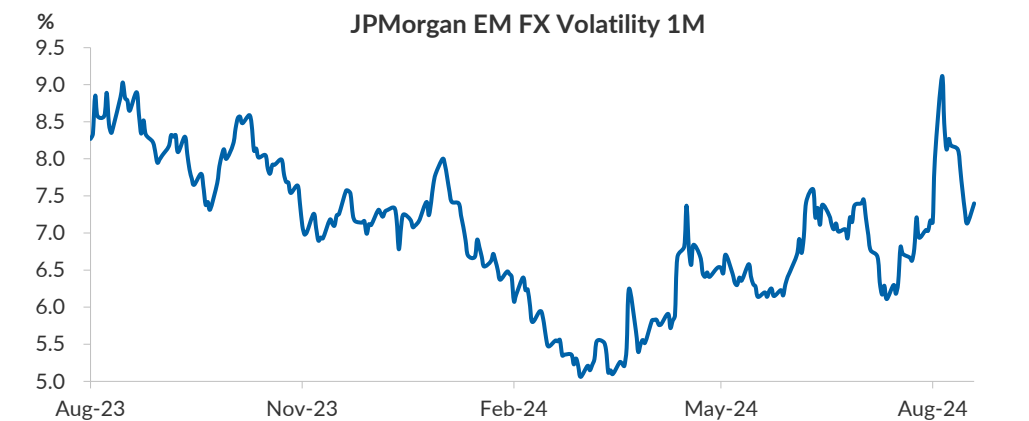
Currency

Exhibit 47: Mexican Peso pays a heavy price for Unwinding of Yen Carry Trade...



Source: Bloomberg, YES Sec

Exhibit 48: ...unwinding of carry trade had a palpable impact on volatility in EM currencies



Source: Bloomberg, YES Sec

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