

# Strategy

## Buy ideas in the FII sell-off

Nifty 50 is down 11% from its recent peak in Sep'24. During the course of this correction 21% of stocks in the JM Financial coverage universe have fallen > 30%, 55% of stocks have fallen > 20% and 72% of the stocks have fallen > 15%. We expect a pick-up in government capex and rural demand in 2HFY25. Further, with continued SIP flows and hopefully a slowdown in FII outflows in the near future, it might not be a bad time to start analysing JM Financial's preferred list of 14 large, 10 mid and 15 small cap stocks (bottoms-up ideas compiled from our research team).

- Started as the "Sell India, Buy China" trade** – The Nifty 50 is down 11% from its recent peak in Sep'24. During this correction 21% of stocks in the JM Financial coverage universe have fallen > 30%, 55% of stocks have fallen > 20% and 72% of the stocks have fallen > 15%. The sell-off started as a "Sell India, Buy China" trade post the Chinese government announcing stimulus measures for the economy in Sep'24. FIIs preferred moving to China (trading at less than half of India's valuations. India's 1-year forward P/E through Jul'24 to Sep'24 was > 1 standard deviation above mean). Consequently, China saw FII inflows of USD 96bn in Sep'24.
- Morphed into concerns about Indian corporates missing 2Q numbers** – Our analysis of consensus EPS and target prices revisions post 2Q for the JM Financial coverage universe suggest: (1) 66% companies saw EPS cuts for FY25 (2) 45% of the companies saw cuts in target price post Q2FY25 (3) For FY25, a larger % of small and midcaps (SMIDs) witnessed EPS cuts (>0%, 3%, 5% and 10%) and (4) larger % of small and midcap (SMIDs) saw > 10% EPS cuts.
- Are FIIs going back to the US?** The results of the 2024 US presidential elections indicate that Trump and the Republicans have gained control over all the three branches of the US government. We believe Trump's plans for lower corporate taxes, higher import tariffs, and deportation of illegal immigrants will result in growth in the US economy, higher inflation, higher interest rates and a stronger US dollar. This might tempt FIIs to take at least some portion of their money to the US.
- Right time to re-evaluate investment opportunities in India** - We believe this is the time to re-evaluate investment opportunities in India as valuations correct and analyst estimates become more realistic, as India is still the best long-term structural growth story, driven by the following factors: (1) India is one of the fastest growing economies in the world; (2) India's GFCF as a percentage of nominal GDP has risen for 4 years in succession. It is expected to hit 31.5% in FY25 (highest at 35.8% in FY08); (3) India and China will be the largest manufacturing hubs of the world by 2030 (4) India has its largest ever adolescent and youth population. It will continue to have one of the youngest populations in the world till 2030; (5) The Indian markets are supported by domestic capital flows, with SIP flows of INR 253bn in Oct'24.
- Bottoms-up stocks ideas to evaluate** – JM Financial has cherry picked a list of 14 large, 10 midcaps and 15 small caps that have fallen > 15% in recent correction which investors can evaluate as buying opportunities (please see Exhibit 1, 2 and 3).



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### Nifty Valuation table

Particulars	FY24	FY25E	FY26E
Nifty Index	23,444	23,444	23,444
EPS (INR)	985	1,048	1,238
YoY (%)	23.1	6.4	18.1
BPS (INR)	6,922	7,228	8,091
YoY (%)	(6.2)	4.4	11.9
PE (x)	23.8	22.4	18.9
PB (x)	3.4	3.2	2.9
ROE (%)	16.4	15.2	16.2

Source: Bloomberg, JM Financial

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## Exhibit 1. JM Financial top large caps that have fallen &gt; 15% from their 52 week high

Company Name	Down from 52-wk high (%)	MCap (USD Bn)	Target Upside	EPS CAGR FY25-27E	P/E			EV/EBITDA			RoE (%)		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
ONGC	-27.3	37.2	30.3%	7.9	6.8	6.1	5.8	4.9	4.5	4.3	13.4	13.6	12.9
Cholamandalam Investment	-26.9	12.3	23.9%	26.6	24.0	18.5	15.0	27.8	21.1	NA	20.1	21.1	20.3
Samvardhana Motherson	-24.1	13.9	25.8%	23.9	28.8	22.3	18.8	11.7	10.3	9.2	13.5	14.8	16.9
Shriram Transport	-23.1	12.5	29.8%	10.8	12.5	10.5	10.2	15.4	13.0	11.0	16.3	16.4	15.1
Havells India	-22.9	12.0	25.5%	22.0	63.5	50.4	42.7	43.8	34.8	30.0	20.0	22.0	22.9
Reliance Industries	-21.4	200.8	38.5%	13.6	21.3	18.2	16.5	11.4	10.0	9.0	8.8	9.6	10.0
DLF	-21.3	22.5	30.4%	19.8	53.3	44.7	37.2	60.2	47.7	41.4	8.6	9.8	10.9
Maruti Suzuki	-20.1	41.2	37.9%	12.1	23.8	20.8	19.0	19.3	17.2	15.4	17.1	17.1	16.2
Polycab	-20.0	11.5	NR	20.8	49.3	40.1	33.8	33.6	27.6	23.2	21.6	22.4	22.3
Jindal Steel & Power	-20.0	10.7	25.8%	40.4	16.9	10.7	8.6	9.1	6.6	5.5	11.2	15.3	16.8
Bank of Baroda	-18.9	14.5	17.9%	7.7	6.7	6.3	5.8	NA	NA	NA	15.6	14.5	14.2
Hindalco Industries	-18.0	17.4	16.4%	3.2	10.4	10.0	9.8	6.4	6.1	5.9	12.2	11.4	10.6
Bharat Electronics	-17.4	24.3	28.2%	17.5	43.6	36.6	31.6	32.6	27.5	23.6	26.7	27.2	26.4
Axis Bank	-15.0	41.2	26.8%	13.8	13.2	11.7	10.2	NA	NA	NA	16.2	15.6	15.5

Source: Bloomberg, Company, JM Financial

## Exhibit 2. JM Financial top mid-caps that have fallen &gt; 15% from their 52 week high

Company Name	Down from 52-wk high (%)	MCap (USD Bn)	Target Upside	EPS CAGR FY25-27E	P/E			EV/EBITDA			RoE (%)		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Supreme Industries	-41.9	6.9	NR	18.9	48.4	40.2	34.3	32.8	27.4	23.6	22.0	22.8	22.7
Oil India	-37.6	9.1	44.9%	27.2	9.4	7.6	5.8	8.2	7.2	5.7	15.9	16.5	20.5
Suzlon Energy	-34.1	9.5	37.2%	38.2	51.7	34.4	27.0	43.5	28.5	21.6	32.9	36.3	32.0
BHEL	-33.5	9.1	67.4%	140.7	119.0	27.7	20.6	60.8	22.4	16.2	3.1	10.1	13.4
Global Health	-32.6	3.4	35.5%	11.7	54.3	43.8	43.5	31.7	26.3	22.6	16.5	17.3	17.6
Gujarat Gas	-29.2	3.7	42.6%	18.7	23.3	19.0	16.6	14.2	12.3	10.9	16.1	17.3	17.6
KEI	-25.2	4.0	NR	23.5	48.1	38.9	31.5	33.0	26.5	21.7	19.7	19.9	20.3
Metro Brands	-21.8	3.6	22.7%	24.2	78.7	62.6	51.1	39.6	33.6	28.4	19.1	20.8	21.9
Deepak Nitrite	-17.2	4.1	18.7%	22.7	38.9	30.5	25.9	25.6	19.7	16.7	16.7	18.5	18.4
Marico Ltd.	-17.0	9.0	22.8%	12.0	46.5	41.4	37.1	34.3	30.3	27.7	39.3	40.2	41.3

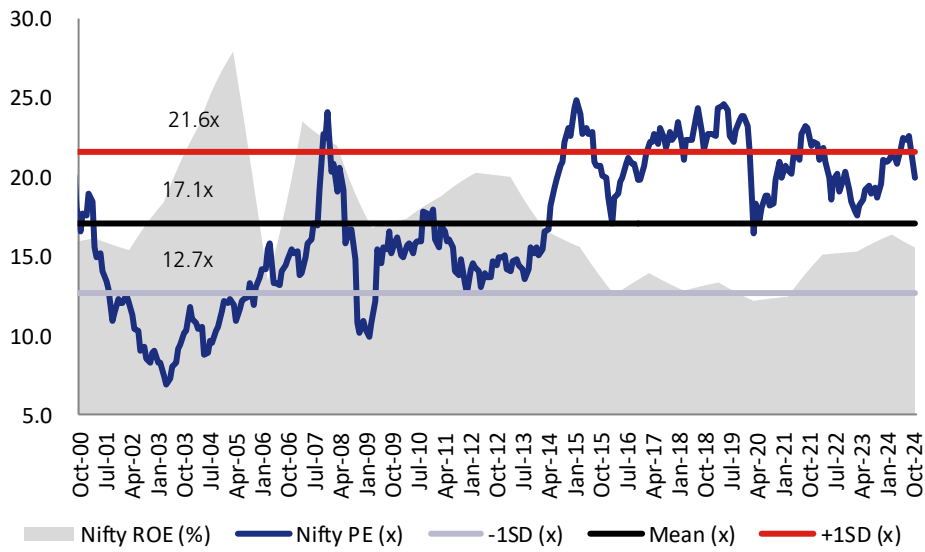
Source: Bloomberg, Company, JM Financial

## Exhibit 3. JM Financial top small caps that have fallen &gt; 15% from their 52 week high

Company Name	Down from 52-wk high (%)	MCap (USD mn)	Target Upside	EPS CAGR FY25-27E	P/E			EV/EBITDA			RoE (%)		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Zee	-61.2	1,317	72.9%	24.3	14.3	11.0	9.2	7.7	6.2	5.4	7.0	8.5	9.5
HG Infra Engineering	-35.0	930	53.6%	12.5	14.2	12.2	11.2	9.6	8.1	7.5	20.5	20.1	18.7
Ahluwalia Contracts	-34.9	771	44.0%	29.7	23.9	17.2	14.2	12.9	9.6	8.1	15.9	18.7	19.1
PCBL	-32.6	1,744	58.9%	30.7	26.4	19.4	15.5	13.1	11.0	9.6	15.0	17.5	19.0
Cyient DLM	-29.4	588	53.3%	50.1	50.6	29.2	22.5	29.0	18.4	14.6	10.3	15.3	16.7
Star Health and Allied Insurance	-26.6	3,251	60.6%	25.9	25.3	19.9	15.9	NA	NA	NA	15.3	16.4	17.4
Gokaldas Exports	-25.5	721	51.0%	40.1	37.1	22.5	18.9	16.7	12.3	10.4	11.4	14.0	15.3
Lemon Tree	-24.4	1,127	29.1%	35.5	45.5	31.4	24.8	19.2	16.1	13.9	18.3	21.4	23.2
SAMHI Hotels	-23.6	469	47.3%	65.9	43.5	23.5	15.8	14.1	11.9	10.4	8.7	13.7	16.4
PNB Housing Finance	-22.0	2,684	37.6%	18.8	12.2	10.4	8.6	23.7	19.2	15.6	11.7	12.2	13.0
CMS Info Systems	-21.4	925	21.2%	15.5	20.0	17.3	15.0	10.8	9.3	8.2	18.6	18.8	19.4
Balrampur Chini	-21.4	1,244	34.5%	19.5	21.3	16.4	15.0	15.3	12.3	11.0	13.5	15.0	14.8
Bikaji Foods	-20.5	2,300	23.8%	22.0	69.4	57.2	46.7	47.1	40.0	33.4	20.8	21.4	22.6
Techno Electric	-19.5	2,060	16.1%	30.4	48.9	35.6	28.7	43.5	28.8	22.3	12.3	12.6	13.9
Aadhar Housing Finance	-15.8	2,157	41.7%	19.8	19.2	15.8	13.4	NA	NA	NA	17.2	16.4	16.9

Source: Bloomberg, Company, JM Financial

Exhibit 4. Nifty50 – 1-yr forward P/E chart



Source: Company, Bloomberg, JM Financial

## APPENDIX I

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