



MARKET PERSPECTIVE

Market Outlook & Investment Opportunity Amid Recent Volatility

Oct 2022

Investment Approach in Current Falling Market

What is different in the two phases of correction in India Equities

Correction Phase 1 had impact on fundamentals as the correction which was led by global inflationary pressures had resulted in contraction of Ebitda margins of Indian Corporate by nearly 200bps.

Correction Phase 2 is not specific to India but markets are falling due to fall in global equities led by high global inflation and interest rates issues.



Suitable Investment Approach:

Currently with rise in Interest rates in US, US bonds are finding more liquidity and interest than Emerging Market Equities. Moreover, the reasons for fall in equities are not specific to India. India corporate margins are set to revive from Q2FY23 itself. Current consolidation phase in India offers good opportunity to BUY or ADD investments in Indian Equities.

Market Timing is the Reason Why Investors Make Lower Returns than Funds

Getting their timing wrong or going in and out of their investments is not limited to Indian investors. It is the same story in the US. **DALBAR Quantitative Analysis of Investor Behaviour** compares the investors' returns against market returns.

Dec 2011 Report

Study found that in the 20 calendar years ending in December 2011, as investor kept timing the market and funds the average investor in US equity mutual funds earned way lower than the return provided individual funds

Between 1992-2011, While S&P 500 gave 7.8% return, an average investor received only 3.5% annualized.

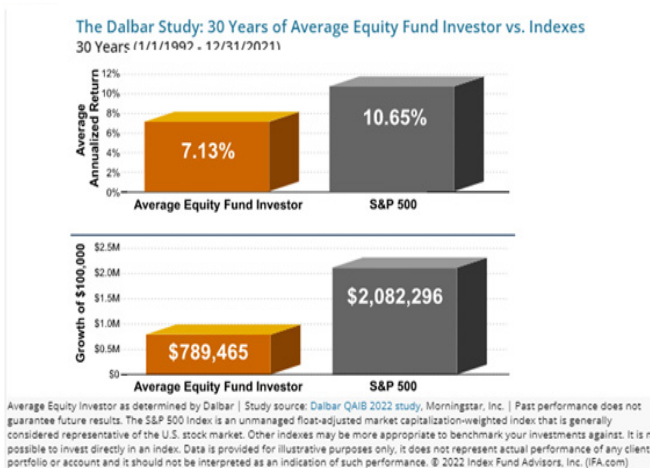
2022 Edition

The 2022 QAIB reaffirms past research finding that in a period of last 30 years, fund investors who remained patient and didn't focus on short-term market gyrations were significantly more successful than those who let their emotions override a longer-term strategy to build wealth.

Between 1992-2021 while S&P500 gave 10.65% return, an average investor received only 7.13%

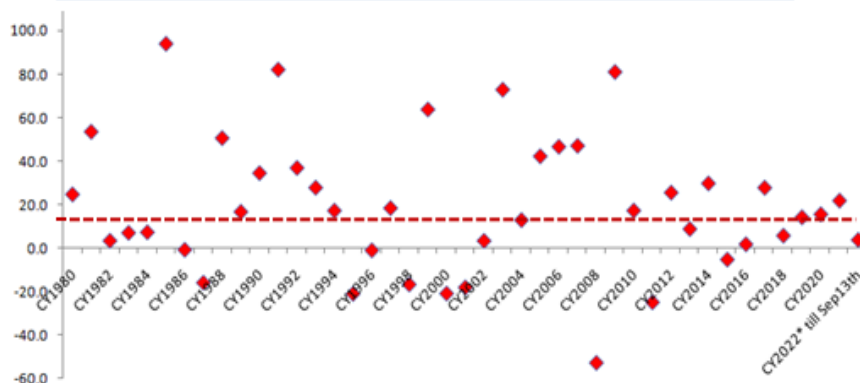
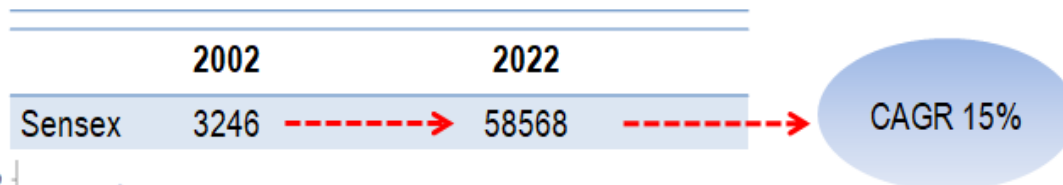
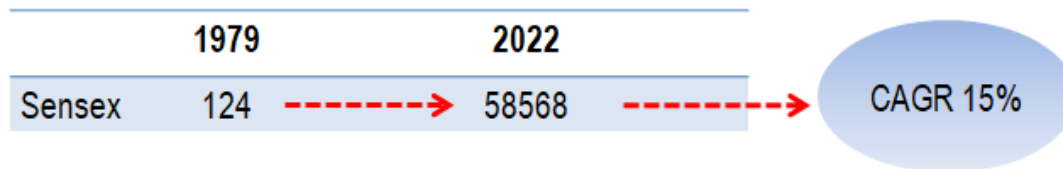
Investor Performance

The bar chart below shows the difference in performance as well as the growth of \$ 100,000 between the average equity investor and the S&P 500 Index for the past 30 years (through 2021)



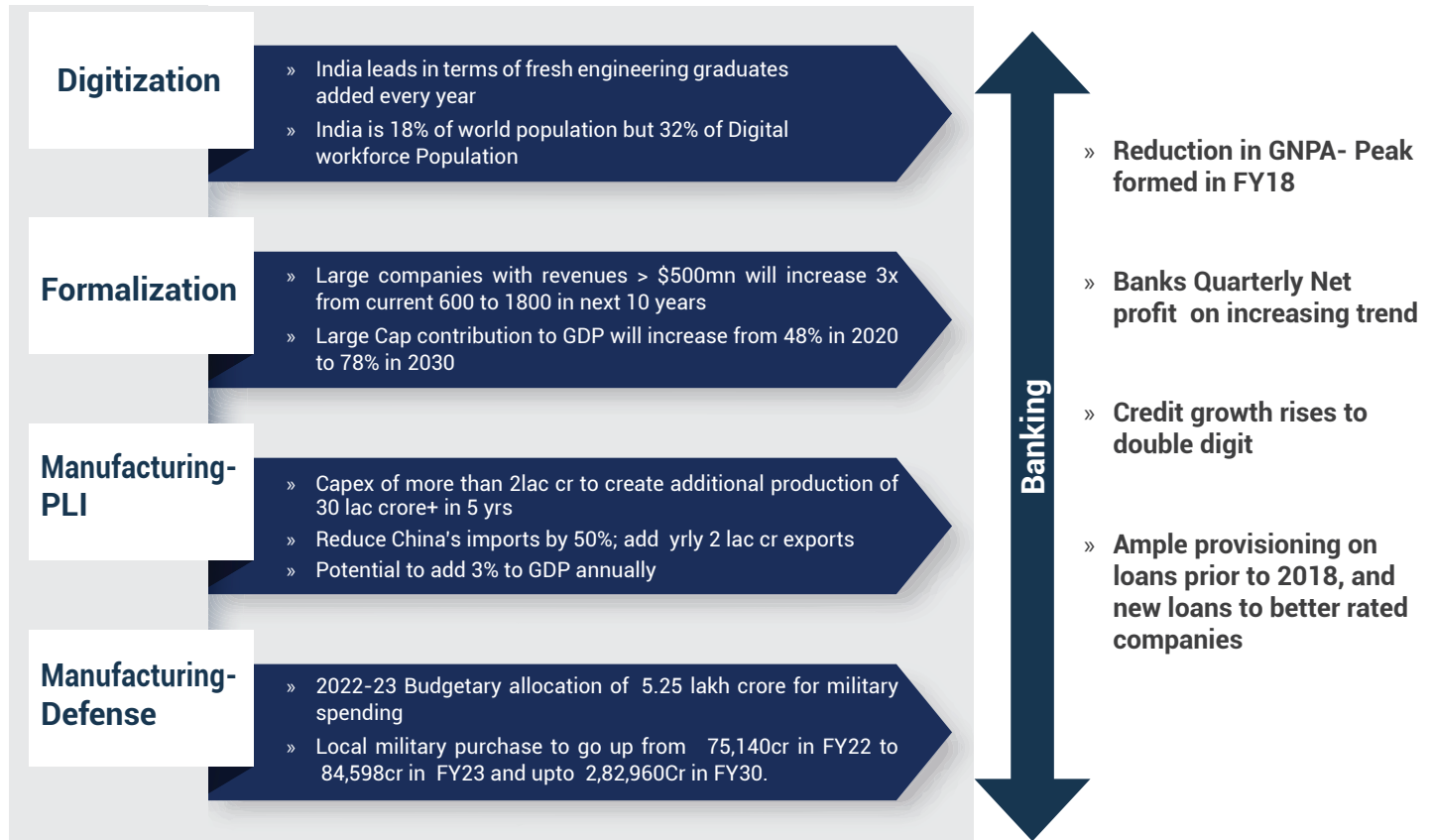
Source: DALBAR Quantitative Analysis of Investor Behaviour

Market Return-Big Picture. Why Invest?



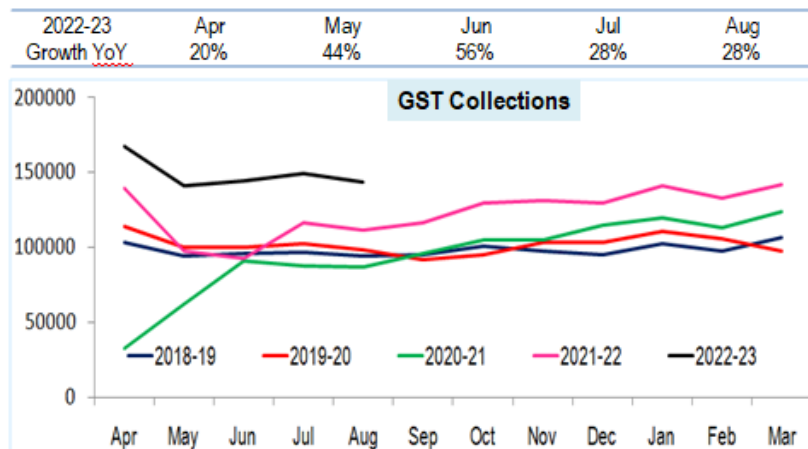
Market Returns while almost consistent at 15% annualized over long period but varies wildly on each year sense making market timing sound exciting.

Long Term Forces that Ensures Continuity in Indian Market Return



Direct and Indirect Tax Collections are Robust

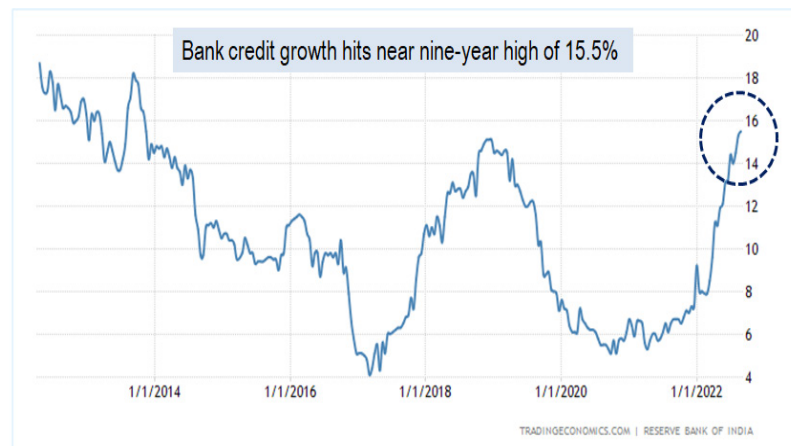
Over the last 70 years, Out of 12 rising rate cycle, market generated positive returns for 11 times



Advance Tax Collections		
Month	Total Adv Tax for the FY Rs Cr	Growth YoY
21-Jun	75,783	
21-Sep	2,52,077	
21-Dec	4,59,917	
22-Mar	6,62,896	
22-Jun	1,01,017	33%
22-Sep	2,95,308	17%

- » GST: Better compliance along with economic recovery and higher inflation rate has helped push the growth in GST collections. While FY19,20 and FY21 had lackluster numbers, FY22 had sharp improvement and the FY23 is continuing this improvement trend.
- » Advance Tax: The cumulative Advance Tax collections for the Q1 and Q2 of the FY 2022-23 stand at **Rs. 2,95,308 crore** as on 17.09. 2022, against Advance Tax collections of Rs. 2,52,077 crore for the corresponding period of FY 2021-22, showing a growth of 17%.

Bank Reporting High Credit Growth



Advance Tax Collections		
Some G20 Countries	Credit Growth%	
India	15.5	22-Aug
Saudi Arabia	13.8	22-Jul
China	10.9	22-Aug
Indonesia	10.7	22-Jul
US	8.6	22-Mar
France	6.1	22-Jul
Euro Area	4.5	22-Jul
Spain	3.3	22-Jan
Japan	1.9	22-Aug
Brazil	1.6	22-Jun

RBI's latest sectoral deployment of credit suggests that the retail segment is showing growth of ~19% supported by both secured and unsecured loans. The credit to industry has also seen highest growth since 2014, due to increased demand for working capital in an inflationary environment. Note that Indian corporate are now depending on banks for their funding requirements given bond yields have moved up sharply as compared to lending rates of banks.

Among industries, loans to micro and small industries grew by 28.3 per cent YoY; medium industries saw 36.8 YoY growth; and large industries saw 5.2 per cent growth

India Out-Performing in a Comparative Sense

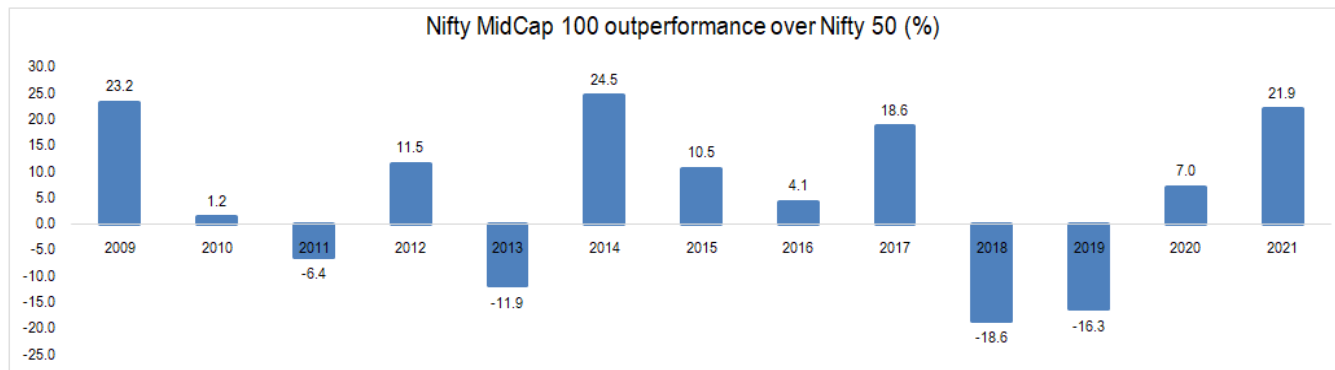
Indian market out-performance over US market was during 2002-2010 and had become popular as 'de-coupling' story. But during 2010-2021, US market had sharp out-performance. But starting middle of 2021 Indian market is out-performing and the trend has gathered good momentum lately.



Nifty 50 to Dow Jones

Mid/Small Caps to Outperform Broader Indices

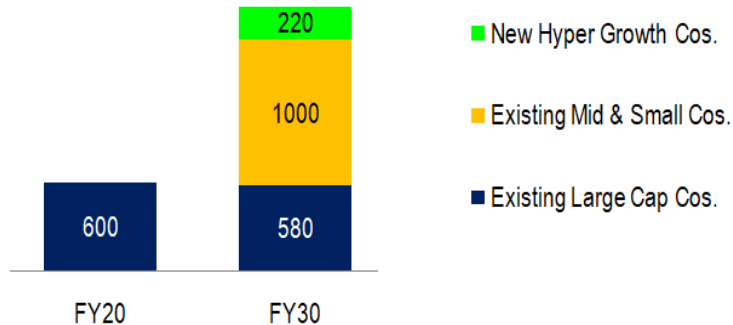
	Nifty 50	Nifty MidCap 100
% CAGR	~15%	~18%



- » On a 3-year daily rolling return basis, 61% of times midcap index has outperformed Nifty 50 Index
- » On a 5-year daily rolling return basis, 66% of times the midcap index has outperformed Nifty 50 Index.
- » **Relative performance is too significant a number to ignore**

Rolling Return Basis	Mid Cap Outperformance
3 Years	61%
5 Years	66%

Mid & Small Cap Stocks will become Large in Coming Decade



As per Mckinsey global report, around 1000 existing Mid and Small cap companies will become large companies, thus offering huge growth in these companies. This we expect to deliver big time going ahead

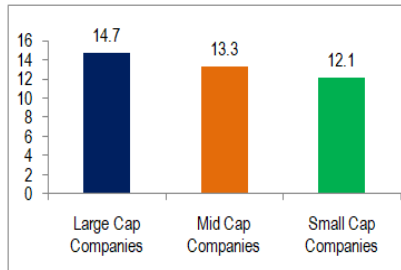
We have 70% Small Cap in NS Mid & Small Cap Portfolio vs only 30% Small Cap in CNX MidSmall 400

*Large companies means companies with annual turnover greater than \$500mn

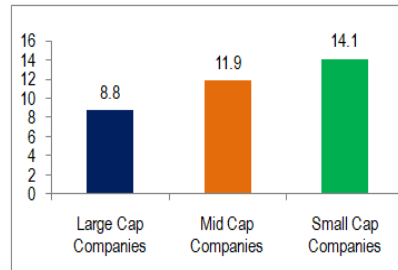


Mid and Small Cap Companies Report Healthy Q1FY23 Results

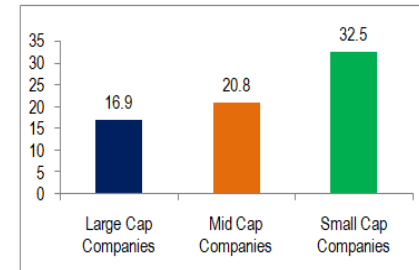
3 Yr CAGR Sales Growth YoY%



3 yr CAGR Ebitda Growth YoY%



3 yr CAGR Net Profit Growth YoY%



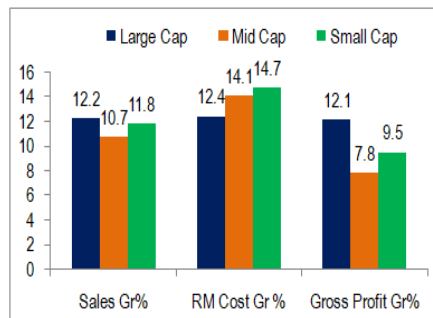
	Mid Cap Vs Large Cap	Small Cap Vs Large Cap
Sales Gr%	↔	↔
EBITDA Gr%	↑	↑
PAT Gr %	↑	↑

- » Small Caps have shown better profitability growth than Large Caps and Even Mid caps on a 3 year CAGR basis
- » The companies have been able to manage employee costs as excess flab has been removed. Other costs related to logistics, power and Ad spend have been brought to need based rather than peer based
- » There has been marked strengthening of balance Sheet of the Mid and Small Cap companies

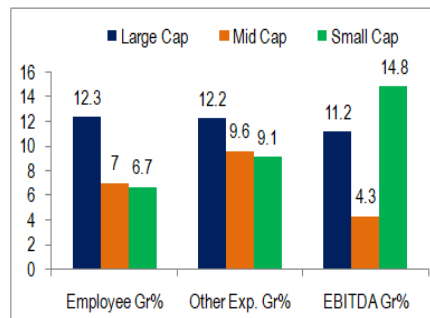
Source: Narnolia, Edelweiss Research

3 Years CAGR Ebdita and Net Profit Growth better than Hi Caps

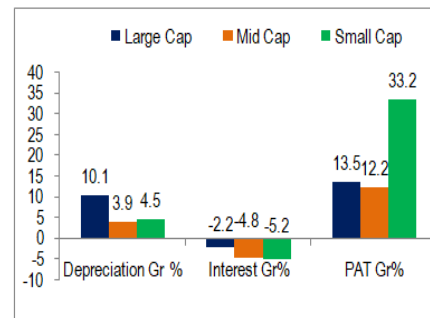
Lower Gross Profit Gr%



Higher Ebiita Gr%



Higher Net Profit Gr%



	Mid Cap Vs Large Cap	Small Cap Vs Large Cap
Sales Gr%	↔	↔
Raw Material Cost Gr%	↑	↑
Gross Profit Gr%	↓	↓

	Mid Cap Vs Large Cap	Small Cap Vs Large Cap
Employee cost Gr%	↓	↓
Other Exp Cost Gr%	↓	↓
Ebdita Gr %	↑	↑

	Mid Cap Vs Large Cap	Small Cap Vs Large Cap
Depreciation cost Gr%	↓	↓
Interest Exp Gr%	↓	↓
Net Profit Gr %	↑	↑

Source: Narnolia, Edelweiss Research

While Profitability Outperforms for Small Caps, Prices Have Not

CNX SMALL CAP Vs NIFTY

A rising line chart depicts outperformance of Small Cap Index over Nifty and Vice Versa.



CNX MID CAP Vs NIFTY

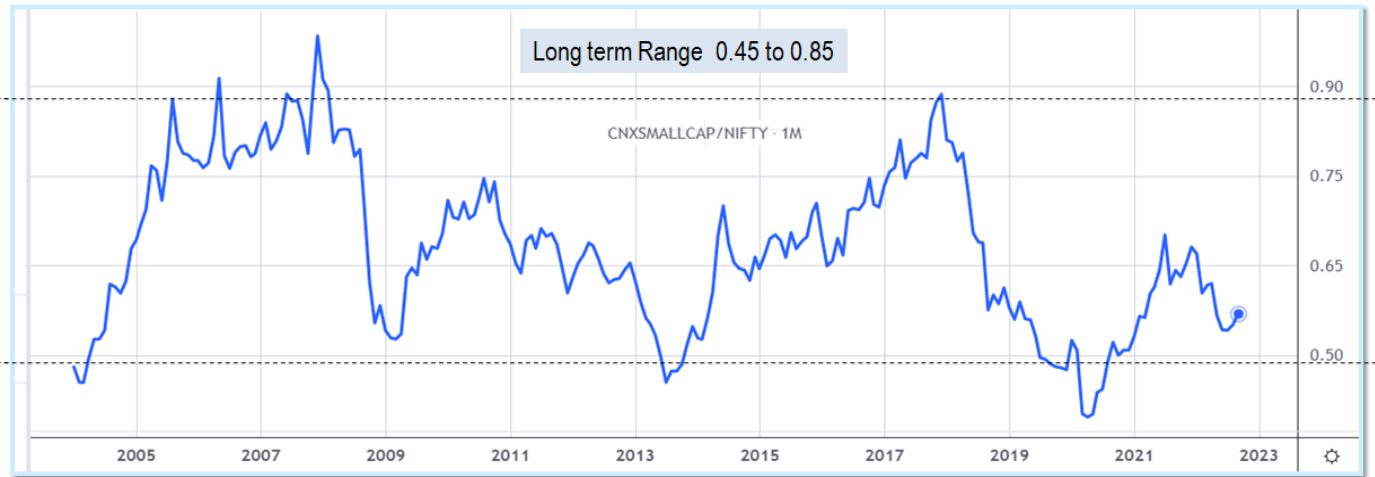
A rising line chart depicts outperformance of Mid Cap Index over Nifty and Vice Versa



In spite of marked outperformance in terms of profitability, Small Cap Shares have not performed in terms of Price returns. Since Jun 2019, Large Cap profitability is up by 41%, mid cap by 53% and Small cap by 132%. This high growth in Profitability has not translated into Price returns. While large cap index is up by 53%, mid and Small Cap index are also up by 57% and 58% respectively. Currently, CNX Mid Cap 100 to Nifty 50 offers lesser space for appreciation, while small cap offers a higher room for appreciation. NS Mid & Small Cap theme portfolio strategically has 70% Small Cap and 30% Mid Cap Stocks

Long Term Trend of Small Cap vs Nifty Suggest Better Days Ahead

CNX SMALL CAP Vs NIFTY – Long term trend since 2005



CNX Small Cap is trading at 0.55 times of Nifty 50 while the long term range is 0.45 to 0.85. Hence it can be inferred that small cap should outperform Nifty 50 going forward. After a long underperformance of 2018 and 2019, this should see reversal.

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