



Does it make sense to invest with Nifty at almost 16,000 points?

29th June 2021

Dilemmas before us

- Should we buy at these levels or sell?
- How far will this rally go?
- What will happen if I invest at market peak?
- Should we put money in large caps or mid caps?

Issues that we have tried to address

- What happened in the previous bull runs
 - What was special about the bull run of 2003 to 2008
- Do the midcaps outperform the large caps in a bull run
- How much do midcaps fall vs large caps on a correction
- How much time does it take normally for the market to reclaim its previous peak
- What is the range of returns we can expect from equities over the long term

Summary of previous bull-runs

	25 Jan 91 to 2 Apr 92	27 Apr 93 to 12 Sept 94	3 Nov 98 to 14 Feb 00	28 Apr 03 to 10 Jan 08	5 Mar 09 to 4 Nov 10	Average of past 5 bull markets	24 Mar 20 to 9 Jun 21
Performance Metrics							
Trough of the BSE Sensex	947	2,037	2,774	2,904	8,110		25,639
Peak level of BSE Sensex	4547	4,643	6,151	21,207	20,917		52,870
Duration in weeks	62	72	67	246	87	107	64
Absolute return	380%	128%	122%	630%	158%	284%	106%
Average weekly return	6.1%	1.8%	1.8%	2.6%	1.8%	2.8%	1.7%
Volatility of weekly return	4.4%	2.8%	2.6%	3.2%	3.5%	3.3%	3.0%
6M return from the peak	-28.6%	-26.3%	-31.2%	-34.3%	-11.7%	-26%	NM
BSE 500 change	NA	NA	NA	755%	177%	466%	115%
MSCI India US\$ Relative Gain to EM	NA	32%	48%	96%	32%	52%	23%
Top performing sector	NA	Technology	Technology	Industrials	Financials	Industrials	Materials
Worst Performing sector	NA	Materials	Cons Staples	Cons Staples	Comm. Services	Cons. Staples.	Cons. Staples.

We see similarities between the current bull market and the one in 2003-2008 period basis our view on fresh earnings cycle

Why is the rally of 2020 similar to 2003 rally

- The rally of 2003 started slowly and gathered momentum under extreme pessimistic scenario:
 - There was disappointment at the formation of a UPA Coalition Government supported from the outside by the Left parties.
 - The rally of 2020 started taking shape under the dismal background of national Lockdown and economic slowdown triggered by the Covid crisis.
- The common element in both the rallies is the tremendous pick up in the earnings momentum that lasted a few years
 - Nifty earnings picked up in FY03 – FY08 period and we saw 305% earnings growth (25% CAGR) from FY03 to FY08 period with 42%/29%/9%/28%/19% in FY04/05/06/07/08 respectively.
 - Despite the Covid pandemic and a loss of at least one quarter the Nifty earnings is likely to grow rather than decline in FY21
 - It is estimated that Nifty earnings will grow by 34% in FY 22, 14% in FY23 & 14% in FY24.

Midcaps outperformed Nifty in 2003-08 cycle

Period	Nifty %	Midcap %
From Bottom in CY 2003 to Dec'03*	103%	167%
Calendar Year 2004	11%	25%
Calendar Year 2005	36%	35%
Calendar Year 2006	40%	29%
Calendar Year 2007	55%	77%
Till peak in CY 2008**	2%	5%

**Nifty made bottom on 25th April 2003 and midcap index on 31st March 2003.*

***Nifty made a high on Jan 8th 2008 and midcap index on 7th Jan 2008 (All returns on closing basis)*

CY = Calendar Year

During the 2003-2008 cycle, Nifty index was up by ~5.8x and midcap index was up by ~9.8x

However Midcaps underperformed and saw deeper correction during downcycle

Peak date		Bottom		% Fall	% Fall
Nifty	Nifty Midcap	Nifty	Nifty Midcap	Nifty	Nifty Midcap
08-Jan-2008	07-Jan-2008	27-Oct-2008	09-Mar-2009	-60%	-70%

- During the downcycle, correction in the midcap index is deeper than the Nifty
- While Nifty made a bottom earlier than midcap index in October 2008, it was range bound and saw consolidation at the lower levels till March 2009

Time to recovery to reclaim peak post 2008 peak

	Peak in 2008	Recovery till 2010	Time taken (years)
Nifty	08-Jan-2008	05-Nov-2010	2.8
Nifty Midcap	07-Jan-2008	10-Nov-2010	2.8

- Despite steeper correction in midcap index, time to recovery in both the indices was similar

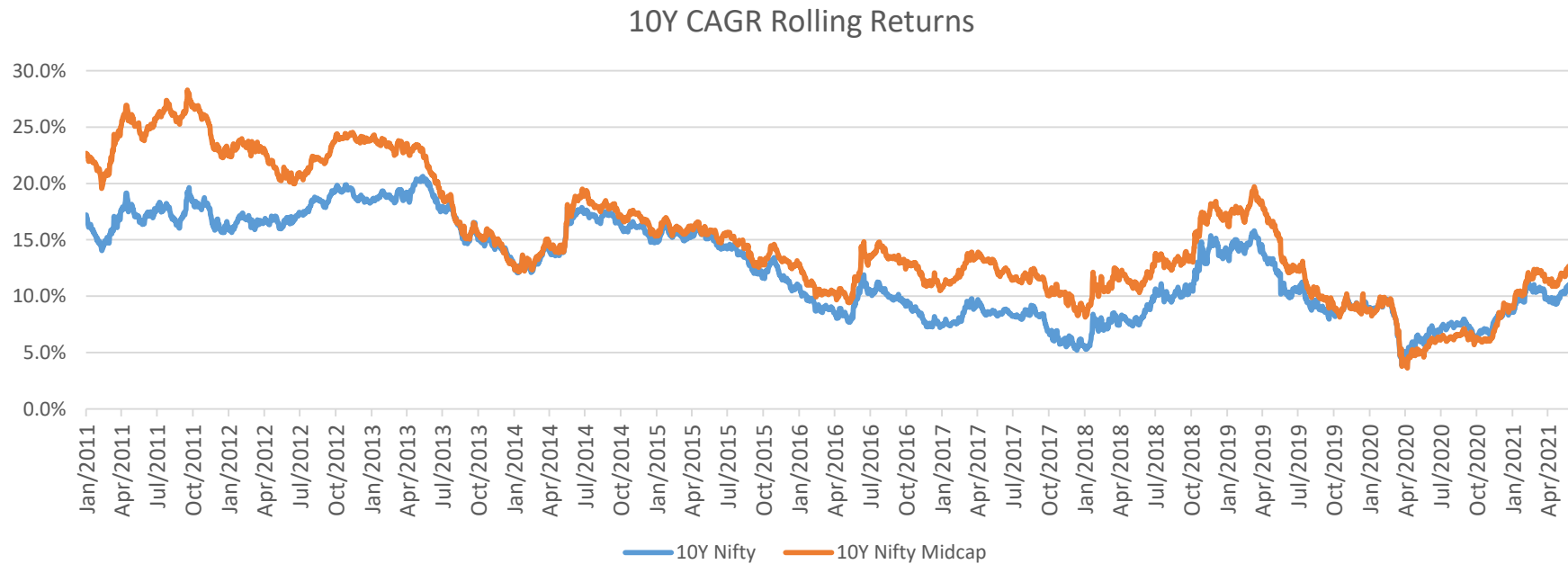
Midcaps reclaimed their previous peak once gain after 3 years from the 2018 peak

	Peak in FY18	Recovery to previous peak	Time taken (years)
Nifty	29-Jan-2018	24-July-2018	0.5
Nifty Midcap	23-Jan-2018	07-Jan-2021	3.0

- Post the 2018 peak, there was a faster recovery in the Nifty index while the midcap index reached its previous peak in 3 years
- However, the midcap saw strong outperformance from the lows in December 2011 (closing basis) to peak in Jan 2018, rallying by ~260% vs. 145% for Nifty*

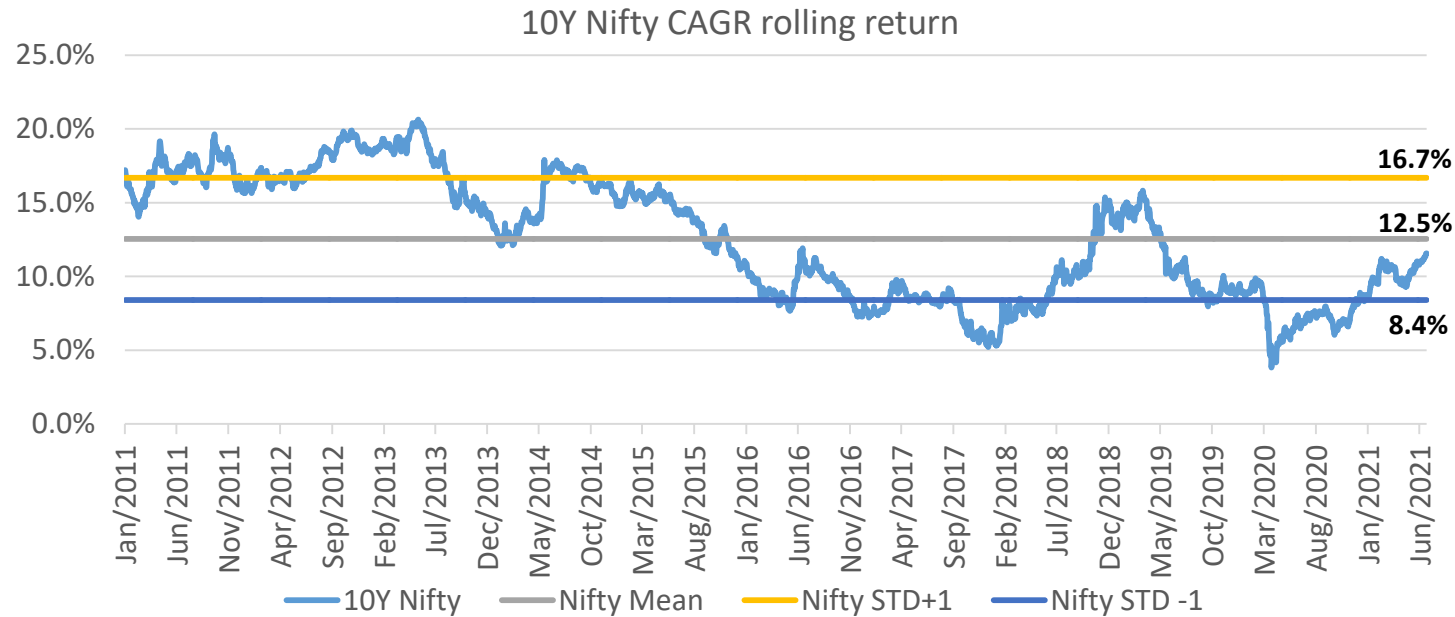
- *Performance for Nifty and Nifty Midcap is on closing basis*
- *Nifty and Nifty midcap made their low on 11th December 2011 and peaked on 29-Jan-2018 and 23-Jan-2018 respectively.*
- *Peak and trough levels are also on closing basis*

10 Year Rolling CAGR return



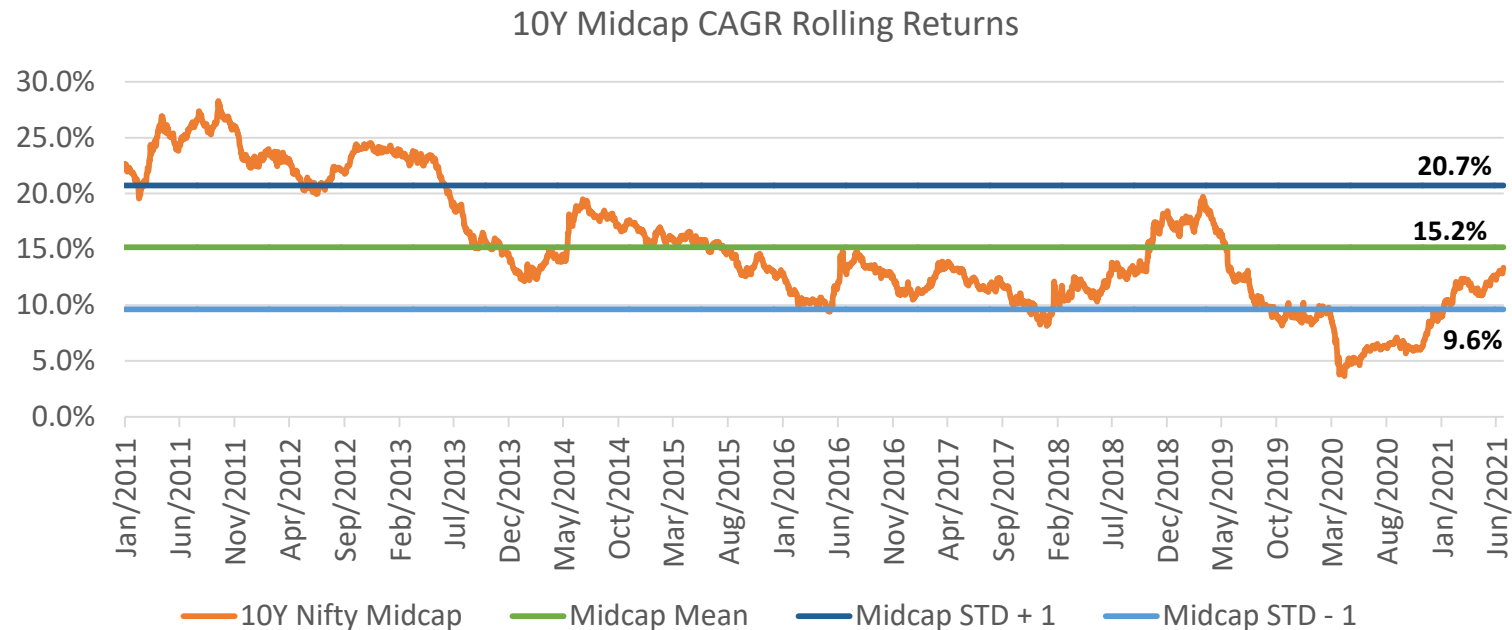
- We looked at the rolling returns over 10-year time frame (10Y CAGR) on daily basis for Nifty and Nifty Midcap between Jan 2011 till date
- At no point of time did the Nifty or Nifty Midcap give negative returns
- There are phases where Nifty outperforms midcap index and vice-versa

10 Year Rolling CAGR return - Nifty



- Average Nifty 10-year CAGR returns since Jan-2011 is 12.5% and ranges from 3.8% (during the lows in March 2020) to 20.6%
- For illustration, we have shown standard deviation over the last 10+ years; a Standard deviation of 1x gives a range of 8.6% to 16.7% which negates the outliers
- Despite the strong rally from Mar'20, the 10Y avg rolling CAGR is still below the long term average.

10 Year Rolling CAGR return – Nifty Midcap



- Average Nifty Midcap 10-year CAGR returns since Jan-2011 is 15.2% and ranges from 3.6% (during the lows in March 2020) to 28.3%
- For illustration, we have shown standard deviation over the last 10+ years; a Standard deviation of 1x gives a range of 9.6% to 20.7% which negates the outliers
- Despite the strong rally from Mar'20, the 10Y avg rolling CAGR is still below the long term average.

Views: Rakesh Jhunjhunwala

‘Big Bull’ sees years of double-digit gains

Rakesh Jhunjhunwala is betting big on banks, health insurance sectors, as he expects the bull phase to continue for a very long time

BLOOMBERG

June 24

Annual equity returns from Indian stocks will be about five percentage points on top of the economic growth of 7-10 per cent in the coming years, according to billionaire investor Rakesh Jhunjhunwala.

Known as India's Warren Buffett due to his penchant for equity investing, Jhunjhunwala is counting on the nation's potential for long-term growth and political stability to fuel further gains in the \$3 trillion stock market that's already been hitting record after record this year.

His bets range from banks and health insurance – which he says will be boosted by the pandemic – to a broad consumer rally on the back of Prime Minister Narendra

Modi's policies to give every Indian a home and access to clean water.

‘Bull phase’

“We are in the middle of a bull phase which will last for a very, very long time,” Jhunjhunwala said in an interview earlier this month. “India will also look lucrative when the US Federal Reserve begins to withdraw stimulus, but there will be short-term disruptions.”

Jhunjhunwala's comments come as local shares have continued to climb despite a deadly wave of the coronavirus that hurt the real economy, rendering

people jobless and denting consumption. India's Central bank warned in its annual report last month that the surge in local shares “poses the risk of a bubble.”

“The Reserve Bank and others were worried even when the Nifty was at 8,000 points,” Jhunjhunwala said in a video interview on June 3, referring to one of the country's key gauges that's now heading toward an unprecedented 16,000 level after having almost doubled since the end of 2015.

Only two events would be significant enough to make him wary about India's prospects, he said. Political instability – which he says is unlikely for now given

his expectation that Modi will stay in power at least through 2029 – and any antagonism from India's nuclear-armed arch-rival Pakistan.

Record pace of gains

The Nifty 50 index has risen more than 12 per cent so far in 2021, outperforming the MSCI Asia Pacific Index by about nine percentage points. The Indian gauge is trading at more than 20 times its 12-month forward earnings estimates, versus a five-year average multiple of 18, data compiled by Bloomberg show.

A record pace of gains, extreme breadth (95 per cent of stocks are above their 200-day moving average) and penny-stock mania could point to a near-term pause in Indian equities, yet “we continue to be structurally positive for the long term,” Bloomberg Intelligence strategists Gaurav Pantankar and Nitin Chanduka wrote in a report earlier this week.



Rakesh Jhunjhunwala

Views: Elara Capital

INDIA'S MARKET CAP CAN TOUCH \$5-TRILLION MARK AS EARLY AS 2025, SAYS ELARA

With India's market capitalisation recently topping the \$3-trillion mark, investors have set sights on \$5 trillion. How soon can India get there? In a note, Elara Securities says anywhere between 2025 and 2031, depending on how the gross domestic product (GDP) growth and valuations pan out.

"If we assume 11 per cent annualised growth in the GDP in rupee terms (8 per cent in US dollar terms) and a market cap-to-GDP ratio of 1.3 times, India could attain a \$5 trillion market cap by 2026, which is the best case scenario. If the rupee were to remain stable at the current exchange rate, the timeline would accelerate by a year, ie 2025," the brokerage said in a note.

Elara says listings of new-

TAKING STOCK

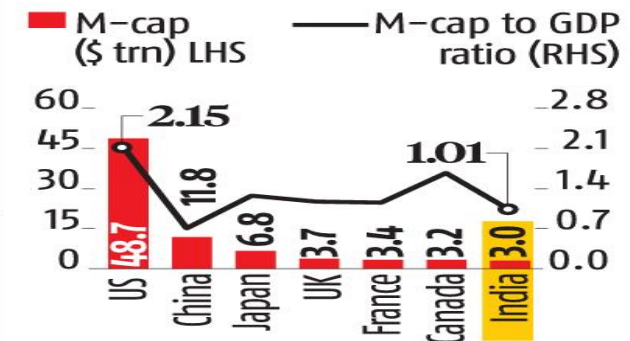
M-cap to GDP ratio	Nominal GDP growth (%) in \$		
	8	7	6
1.3	2026	2026	2027
1.2	2027	2027	2028
1.1	2028	2029	2030
1.0	2029	2030	2031

age tech companies could be a big driver. Also, it believes there is further scope for valuation expansion.

"India equities market is significantly underrepresented in the new-age tech sector. Currently, it is dominated by financials, which forms one-fourth of the total market. IPOs from new-age tech firms, disruptors and other big players would be big contributors to market cap

Getting pricey

The market cap-GDP ratio globally has expanded over the past decade, says Elara



Source: Elara Securities Estimate

growth. In line with market share consolidation seen globally, we expect disruptors in India to see the same, further supporting market cap-GDP premium expansion," said Elara analysts, led by Shiv Chanani.

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Views: Credit Suisse

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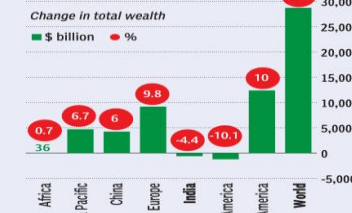
Global wealth grows, but India an outlier

Total global wealth grew by 7.4 per cent in 2020, but total wealth in India fell by \$594 billion or 4.4 per cent in 2020. The findings, which are a part of the Credit Suisse Global Wealth Report 2021, however reveal that wealth per adult in India grew at an average annual rate of 8.8 per cent from 2000 to 2020, versus an average global annual growth rate of 4.8 per cent

Total wealth in India above \$12 trillion in 2020 India's macro economic indicators

GDP (\$/adult)	2,902
Mean wealth (\$/adult)	14,252
Median wealth (\$/adult)	3,194
Total wealth (\$ trillion)	12.8
US dollar millionaires (1000)	698
Top 10% of global wealth holders (1000)	11,059
Top 1% of global wealth holders (1000)	649

But household wealth declined in India last year



Wealth per adult declined in developing and under-developed regions



Sharp decline in non-financial assets in India

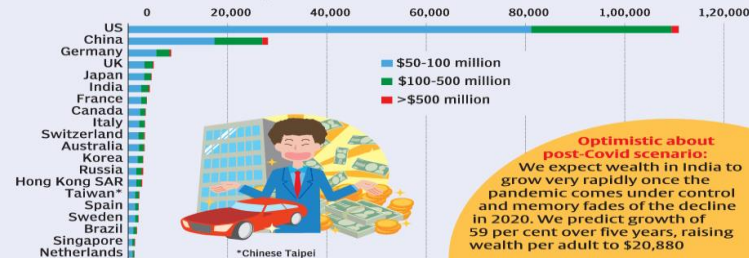
	Change in financial assets		Change in non-financial assets		Change in debt	
	\$ billion	%	\$ billion	%	\$ billion	%
Africa	-24	-1	26	0.9	-34	-8.5
Asia Pacific	2,974	7.4	2,549	6.4	829	8.9
China	3,389	10.2	1,912	4.3	1,055	15.3
Europe	6,648	14	3,969	6.6	1,438	10.3
India	119	3.8	-782	-6.8	-70	-5.8
Latin America	-655	-11.1	-796	-10.5	-236	-17
North America	10,037	10	3,145	7.7	812	4.7
World	22,486	9.7	10,023	4.8	3,794	7.5

Number of millionaires in India fell in 2020 mainly due to currency depreciation
The number of millionaires in India is expected to grow by 81.8% to reach 1.3 million in 2025

Adults (1000) with wealth above \$1 million



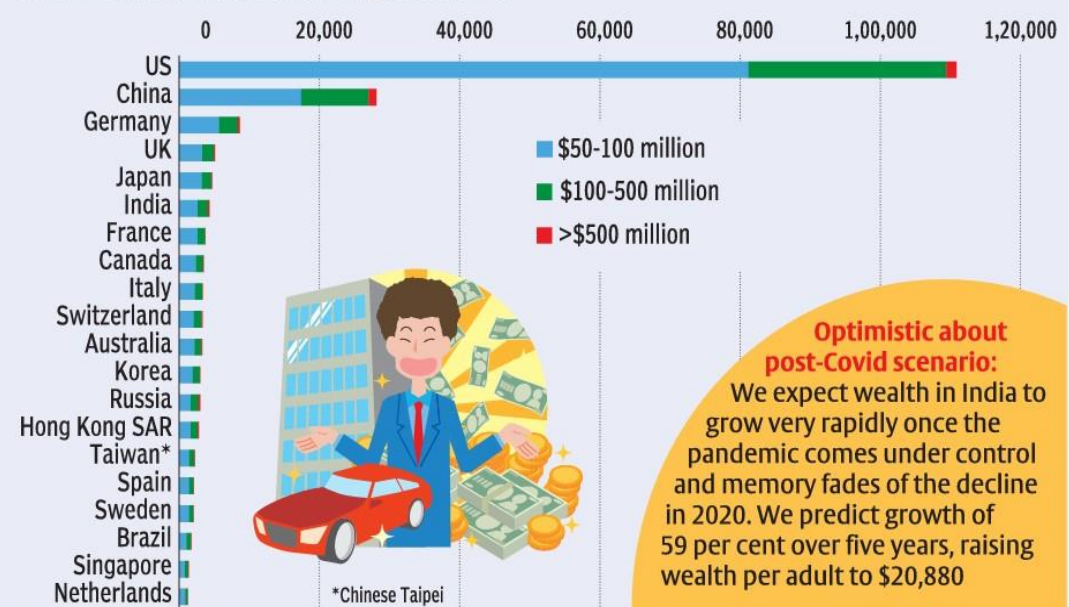
India had 4,320 ultra-high-net-worth adults with net worth exceeding \$50 million



Source: Credit Suisse Global Wealth Report 2021

Graphic: Visveswaran V

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Source: Credit Suisse Global Wealth Report 2021

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Optimistic about post-Covid scenario:

We expect wealth in India to grow very rapidly once the pandemic comes under control and memory fades of the decline in 2020. We predict growth of 59 per cent over five years, raising wealth per adult to \$20,880

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Graphic: Visveswaran V

Key Takeaways

- Market rally from March 23rd 2020, till date is now ~66 weeks old
- We believe this Bull-run has more legs and see similarities with bull-run from April 2003 to January 2008 – we see start of a fresh earnings cycle
- Midcaps have outperformed large Caps significantly during bull-runs – we expect this to happen this time also
- Drawdowns in midcap stocks after the end in Bull-run is usually steeper than large cap stocks
- Recovery to previous peaks has taken at the most 3 years in the last few occasions
- During a 10-year time frame at any point of time, Equities be it large caps or midcaps have never given negative yields (even during the most unprecedented events, a case in point being uncertainty during the first cycle of Covid)
- The range of returns for Midcaps (i.e Midcap Index) and Largecaps (Nifty) over a 10-year time frame point to the attractiveness of Equities as an asset class

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