

India Playbook 2024: Let's study the micro view

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Synopsis

We believe one should not look at indices, before concluding Indian markets are expensive. The additions to indices specially in large cap have mostly been costlier stocks making their past absolute valuations un-comparable. Indian seems to be in a Goldilocks situation with High Growth of corporate earnings, an ever growing macro economy contributing to ~15% of world's incremental growth and witnessing start of a Capex cycle to help India become a manufacturing hub for the world. Themes we like are a) Power, b) Water c) Defense, d) Railways, e) ER&D and f) Chemicals.



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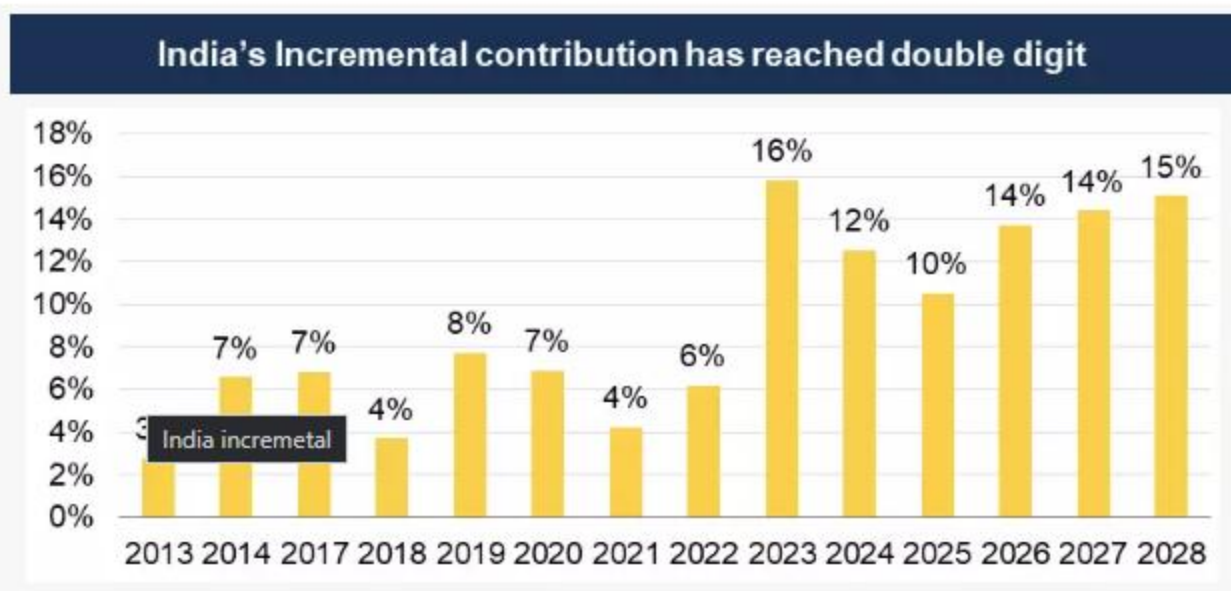
Is the Indian Market Index expensive?

The easiest answer which comes to ones' mind is "Yes". Nifty is at all-time high and trading at ~20x one year forward, hence on an absolute basis in line with its last five years' average. On a relative basis, it trades at a premium of ~88% to MSCI EM and 26% to MSCI World index, making India arguably one of the costlier markets. However, a) The Quality of Earnings and macro situation is not similar to India's past b) Indices are not comparable to their historic past.

The Indian economy is going from strength to strength with most economists increasing their estimates from 5-6% to 7-8%. If we were to add 4-5% as inflation, Nominal GDP could grow at 11-13%. India is adding US\$ 1 trillion in 3 years so assuming a MCap to GDP ratio it can add >US\$ 1.25 trillion incrementally every 2-3 years, for the broader markets or over 10-15% p.a. The PAT as % of GDP has increased from 1.9% lows in F2020 to over 5% currently and we will not be surprised if it doubles in the next 5 years if the profit growth is twice the GDP growth in a blue sky environment. Then one could argue of a higher MCap to GDP multiplier of 1.5-1.75 x. Our bottom up analysis in JM PMS estimates NIFTY 50 to grow at 15% plus p.a., with broader base contribution from many industries as against the financial industry historically.

The indices have had material changes in the last decade, almost 17 stocks or 35% of the no. of stocks have been reshuffled in the Nifty 50, and in most cases the stocks which have entered are much higher PEs.

Nifty Inclusion Exclusion over last 10 Years			
NIFTY Inclusion from Dec 2014	FY24E PE	Nifty Exclusion from Dec 2014	FY24E PE
ADANI ENTERPRISE	N.A	ACC LTD	26.1
ADANI PORTS AND	29.2	AMBUJA CEMENTS	34.3
APOLLO HOSPITALS	81.9	BANK OF BARODA	6.7
BAJAJ FINANCE	31.6	BHARAT HEAVY ELE	197.6
BAJAJ FINSERV LT	35.2	CAIRN INDIA	N.A
BRITANNIA INDS	59	DLF LTD	68
DIVI LABS LTD	60.7	GAIL INDIA LTD	12.3
EICHER MOTORS	28.3	HOUSING DEV FIN	N.A
HDFC LIFE INSURA	83.8	IDFC LTD	N.A
JSW STEEL LTD	17.9	JAIPRAKASH ASSOC	N.A
LTIMINDTREE LTD	36.3	JINDAL STEEL & P	14.9
NESTLE INDIA LTD	85.7	LUPIN LTD	38.6
SBI LIFE INSURAN	74.3	NMDC LTD	11.4
TATA CONSUMER PR	71.9	PUNJAB NATL BANK	14.9
TECH MAHINDRA LT	33.8	RANBAXY LABS LTD	N.A
TITAN CO LTD	88.7	TATA POWER CO	30.1
UPL LTD	14.8	VEDANTA LTD	12.2
AVERAGE	52.1		38.9



Defense

In the Defense sector the Indian government is following the "Atmanirbhar Bharat" or "Make in India" theme. We have witnessed a surge in defense localization orders. Historically defense sector depended a lot on imports from Russia, France and China for their requirement. In case of aircrafts, we believe Indian-made aircraft share will increase from ~18% (as of existing fleets, which is dominated by these countries) to +40% of new orders over the next 1-2 decades.

Power

The Indian power sector is poised for a transformational change benefiting all the companies in the ecosystem, including equipment manufacturers and contract executioners. To back the increasing power demand, India is poised to add generation capacity in thermal, renewable as well as nuclear to reach 778GW by 2030, of which 500GW will be from renewables. This will be supported by transmission and distribution infrastructure augmentation.

Railway

Capital outlay of Rs. 2.4 lakh Cr for the Indian Railways in the Union Budget 2023-24 which is 9 times the outlay made in 2013-14. This will be spent across segments that includes line additions, gauge conversion, signaling, station developments, DFCs and other rail infrastructures. Hence, overall a decadal long term story on railways is in the offing.

Water

Water opportunities are significant across segments with government focus on Jal Jeevan Mission, Namami Gange, Water treatment, irrigation, etc. The move towards building a strong water infrastructure comes from the fact that the population will require fresh water which is rapidly depleting and hence, treating water will be the only long term solution apart from conserving it from the natural resources.

ER&D

ER&D adds the power of IT to India's manufacturing power and hence growth to outpace IT services growth over the coming years. Structural growth drivers are 1. Digital Engineering, 2. Increased sourcing from service providers and global captive centres (GCCs) and higher offshoring.

Chemicals

Indian chemical industry is less than 5% of the global chemical industry by value and stands to gain from the China + 1 [~39% of by value] and Europe + 1. Indian companies continue to invest in capex aggressively and has strong inflow long-term contracts. Companies focusing on niche / complex chemistries and in pockets where India has unique manufacturing / supply chain advantage are likely emerge winners in the long run.

(Rs bn)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024BE	(X) over 2014-2024E
Water	140	153	212	262	355	322	301	268	823	745	992	7.1
Railways + Metro	241	271	301	350	605	574	672	864	1,179	1,405	1,747	7.2
Defence	802	831	836	915	954	998	1,160	1,399	1,380	1,500	1,626	2.0
Road	149	166	275	412	508	676	684	892	1,133	2,063	2,586	17.4
Others	291	388	500	873	650	802	793	1,054	2,298	1,603	2,175	7.5
Total Govt Budget	1,623	1,808	2,126	2,811	3,073	3,372	3,610	4,477	6,813	7,316	9,126	5.6
PSU capex	2,631	2,291	3,114	3,381	6,107	6,080	6,416	4,776	5,025	4,011	4,877	1.9
Total Govt + PSU Budget	4,254	4,099	5,240	6,192	9,180	9,451	10,025	9,254	11,838	11,327	14,004	3.3
Total Govt + PSU Budget % of GDP	3.8%	3.3%	3.8%	4.0%	5.4%	5.0%	5.0%	4.7%	5.0%	4.1%	4.6%	
Listed Corporate capex	528	474	464	515	527	634	554	549	632	762	846	1.6
Corporate non-PSU	2,103	1,816	2,650	2,866	5,580	5,445	5,861	4,228	4,393	3,249	4,031	1.9
State capex	2,223	2,685	3,261	3,858	3,795	4,221	3,920	4,107	5,259	5,903	7,566	3.4
State Capex % of GDP	2%	2%	2%	3%	2%	2%	2%	2%	2%	2%	3%	

Graphic: Water

Source- Union Budget, JM Financial research