

## MODEL PORTFOLIO

20 June 2020

### Realigning to volatility

As the market adjusts to shifting expectations in a Covid-19 world, we maintain our negative stance on leveraged companies. Our key overweight additions – Maruti, Petronet LNG, Laurus and Alembic – are part of this thought process. One-year forward Nifty 50 multiples have gyrated between 10x and 14x over the last three months – from expectations of doom and gloom to a V-shaped recovery. As we start discounting FY22 earnings, we adjust our model portfolio to reflect valuation changes across sectors.

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**Outlier bets – Pharma, Telecom, Oil & Gas:** The pharma and telecom sectors have benefitted the most from the pandemic, seeing stronger demand for their products/services. India oil and gas companies benefit from robust margin levers that enable them to sustain earnings growth despite lower volumes. Telecom companies in our model portfolio (led by Bharti) are expected to deliver a 24% earnings CAGR over FY20-FY22, followed by oil and gas (13%) and pharma (11%). While FY21 growth estimates are a function of normalising earnings for oil and gas, for pharma and telecom they reflect a sea-change in fundamental outlook.

**Extended bear run since Jun'17:** While the recent market run-up since Mar'20 lows (7500, 10.8x) appears to be the start of a new bull run, we view it as an extension of the bear run that began in Jun'17. Consensus Nifty earnings have been revised -8%/+5%/-5% for FY21/FY22/FY23 during Mar'20 to Jun'20. This can be attributed to changes in Nifty composition, nullifying the earnings downgrade. Weights have been slashed 800bps for financials from 42% to 33.3%, while being raised for consumers, IT, energy, pharma and telecom.

**Key picks:** After the recent run-up in financials and oil & gas (primarily Reliance Industries), we realign weights in our model portfolio. Pharma and energy (oil & gas) are primary sector Wipro, Axis bank, M&M, HDFC Ltd. And RIL has been the best performer in our model portfolio – we alter our stance to equal weight post the recent rally.

We remain **positive on cash-rich PSUs** with high dividend-yield potential – specifically IOCL, Coal India and BPCL. Pharma, energy, IT, consumer and telecom are our preferred sectors. We continue to believe that Nifty P/E could expand to 20x one-year forward by FY22 (>13000 levels).

### TOP 5 OVERWEIGHTS

TOP 5 Overweight	TOP 5 Underweight
Maruti	HDFC
Petronet LNG	Axis Bank
ICICI Bank	Heromoto
Laurus Labs	ONGC
Alembic Pharma	Wipro

Source: BOBCAPS Research



FIG 1 – BOBCAPS MODEL PORTFOLIO (BMP) CHANGES

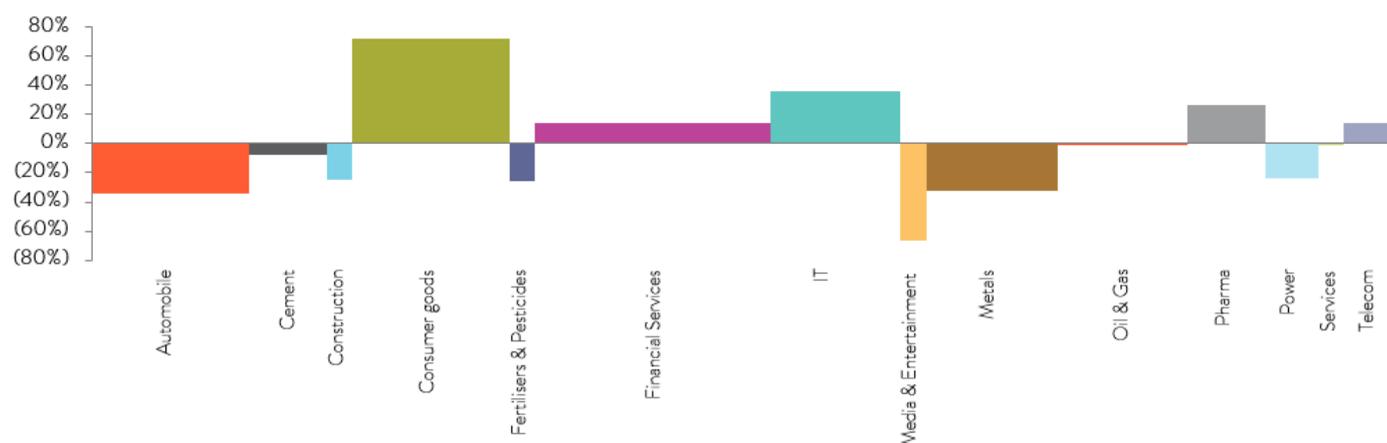
Sector	NIFTY 50		BMP		Stance	
	Earlier Allocation	Current Allocation	Earlier Allocation	Current Allocation	Earlier stance	Current stance
Automobile	5.3	5.6	6.0	4.3	Overweight	↓ Underweight
Cement	2.2	2.4	1.5	2.4	Underweight	↑ Equal weight
Infra and Construction	3.2	2.9	2.5	2.0	Underweight	↔ Underweight
Consumers	11.2	13.4	11.2	14.0	Underweight	↑ Overweight
Energy	14.5	16.5	15.5	18.7	Overweight	↔ Overweight
Agrochemicals	0.6	0.6	1.0	1.0	Overweight	↔ Overweight
BFSI	42.0	33.3	41.7	31.5	Underweight	↔ Underweight
IT	12.8	14.7	12.5	14.7	Underweight	↑ Equal weight
Media	0.4	0.4	0.0	0.0	Underweight	↔ Underweight
Metals & Mining	3.3	2.7	3.3	3.0	Overweight	↓ Equal weight
Pharmaceuticals	2.1	3.4	2.8	5.0	Overweight	↔ Overweight
Ports	0.6	0.6	0.0	0.0	Underweight	↔ Underweight
Telecom	2.2	3.6	2.1	3.5	Underweight	↑ Equal weight

Source: Bloomberg, BOBCAPS Research

### Extended bear run since Jun'17

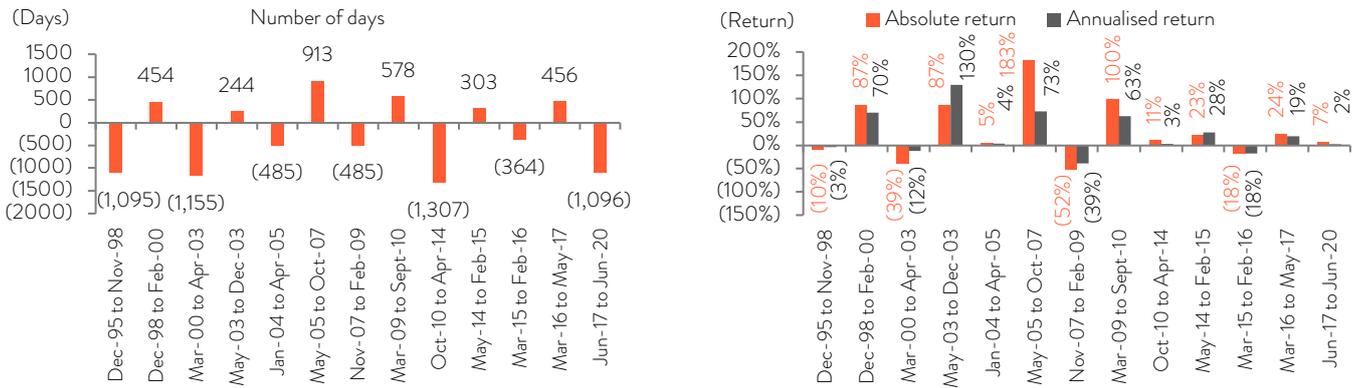
Contrary to popular perception, we are yet to see the start of a bull run. Nifty 50 returns indicate that markets are still amidst the bear run that began three years ago in Jun'17, generating annualised returns of just 2.4%. However, bright spots such as consumers, IT and pharma have significantly outperformed, with their Nifty constituents generating average returns of 72%, 36.5% and 26% respectively (Fig 2). Auto and power have been the biggest laggards

FIG 2 – NIFTY 50 SECTORAL PERFORMANCE FOR THE LAST 3 YEARS



Source: CMIE, BOBCAPS Research \*Note: width of the bar represents percentage numerical composition of companies

**FIG 3 – BULL AND BEAR RUNS**

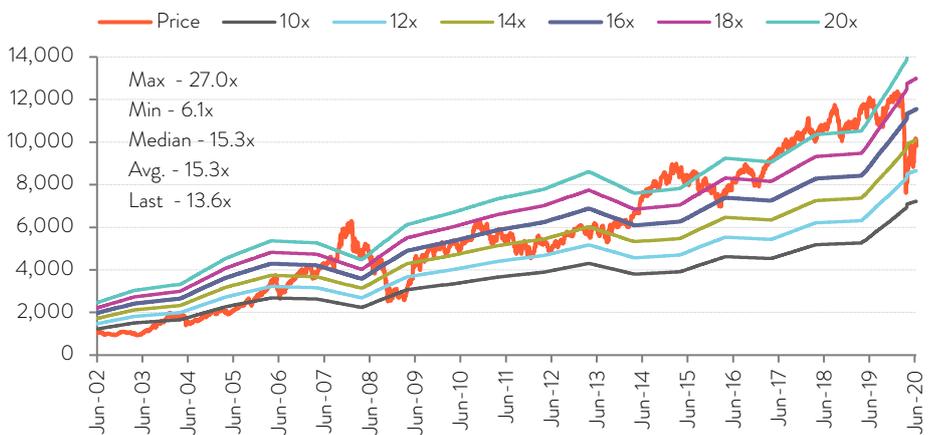


Source: Industry, BOBCAPS Research

### V-shaped rebound from black swan event does not signal bull market

The pandemic threat that has eroded India’s FY21 GDP growth estimates by >500bps led Nifty P/E to crash close to GFC lows of 10x one-year forward in Mar’20. Consensus Nifty earnings have been revised by -8%/+5%/-5% for FY21/FY22/FY23 during Mar-Jun’20. This can be attributed largely to changes in Nifty composition, nullifying the Covid-led earnings downgrade. Weights have been slashed 800bps for financials from 42% to 33.3%, while being raised for consumers, IT, energy, pharma and telecom.

**FIG 4 – NIFTY 50 P/E BAND (1-YEAR FORWARD)**



Source: Bloomberg, BOBCAPS Research

The sharp recovery in Nifty P/E since March has followed the global trend, triggered by a mix of aggressive monetary stimulus (~8% of GDP) and fiscal stimulus (~2% of GDP). Additionally, structural reform initiatives in laggard sectors such as farm, coal, mining and power have raised hopes of a long-term structural recovery in GDP (whenever the trend reverses – FY21 or FY22).

While the market run-up since Mar'20 lows (of 7500, 10.8x) appears to be the start of a new bull run, we see it as a continuation of the bearish trend that began in Jun'17. Nifty P/E based on current FY21 EPS estimates of Rs 705 has since risen to 13.6x levels, but is still well below the long-term average of 15x.

### Realigning our model portfolio

We realign our model portfolio by assigning a higher preference for sectors that are likely to see a V-shaped recovery post-pandemic, spurring higher profitability and hence potential expansion in valuation multiples. Our **Mar'20 model portfolio** marginally outperformed the Nifty by 60bps led by our overweight stance on energy and pharma.

Energy, pharma and telecom are expected to be the biggest earnings drivers and hence form the core of our model portfolio. On average, telecom companies in our portfolio (led by Bharti) are expected to deliver a 24% earnings CAGR over FY20-FY22, followed by oil and gas (11%) and pharma (11%).

### Changes to our model portfolio

- After the recent run-up in financials and oil & gas (primarily Reliance Industries), we realign weights in our model portfolio. Pharma and energy (mostly oil & gas) are our primary sector overweights, while we are now underweight on financials and auto.
- Our key stock picks are Maruti, Petronet LNG, ICICI Bank, Laurus Labs and Alembic. Key underweights are HDFC, Axis bank, Hero Moto, ONGC, and Wipro.
- RIL has been the best performer in our model portfolio – we alter our stance to equal weight post the recent rally.
- We remain **positive on cash-rich PSUs** with high dividend-yield potential, viz. IOCL, Coal India and BPCL. Pharma, energy, IT, consumer and telecom are our preferred sectors.

FIG 5 – MODEL PORTFOLIO

NSE code	Mar'20 update (weight %)		Current (weight %)		Earnings CAGR (%)	ROE (%)	ROCE (%)	P/E (x)	
	NIFTY 50	BMP	NIFTY 50	BMP				FY21E	FY22E
BAJAJ-AUTO	0.8	0.8	0.9	0.8	2.1	18.8	18.7	18.8	15.0
EICHERMOT	0.5	2.0	0.6	0.5	4.9	24.6	24.1	28.4	20.2
HEROMOTOCO	0.6	0.0	0.8	0.0	1.8	27.5	27.5	18.0	14.1
M&M	1.0	0.0	1.1	0.0	3.5	8.6	3.7	15.7	12.6
MARUTI	1.8	2.5	1.9	3.0	6.1	16.7	16.7	38.0	23.8
TATAMOTORS	0.6	0.7	0.4	0.0	15.7	(1.0)	(0.5)	-	7.6
<b>Automobile</b>	<b>5.3</b>	<b>6.0</b>	<b>5.6</b>	<b>4.3</b>					
GRASIM	0.6	0.6	0.6	0.6	4.5	3.4	1.8	15.3	11.1
ULTRACEMCO	1.0	0.9	1.1	1.1	5.6	8.6	4.9	35.5	24.5
SHREECEM	0.7	0.0	0.7	0.7	9.6	10.8	8.1	57.6	42.1
<b>Cement</b>	<b>2.2</b>	<b>1.5</b>	<b>2.4</b>	<b>2.4</b>					
LT	3.2	0.0	2.9	2.0	2.0	10.8	3.8	14.3	12.4
PNCINFRA	0.0	1.5	0.0	0.0	-	-	-	0.0	0.0
KNRCON	0.0	1.0	0.0	0.0	-	-	-	0.0	0.0
<b>Infra and Construction</b>	<b>3.2</b>	<b>2.5</b>	<b>2.9</b>	<b>2.0</b>					
ASIANPAINT	1.6	1.6	1.9	2.0	8.4	23.4	22.1	53.2	43.6
BRITANNIA	0.7	0.7	1.0	1.1	10.2	30.0	28.6	49.4	43.6
HINDUNILVR	2.7	2.7	3.7	4.0	8.1	83.8	79.2	56.7	49.2
ITC	4.1	4.1	4.3	4.5	3.9	23.2	23.2	15.6	13.8
NESTLEIND	1.1	1.1	1.6	2.0	10.1	70.2	69.1	60.5	53.6
TITAN	1.0	1.0	0.9	0.4	8.3	24.9	18.3	68.3	44.5
<b>Consumers</b>	<b>11.2</b>	<b>11.2</b>	<b>13.4</b>	<b>14.0</b>					
BPCL	0.8	0.0	0.7	1.0	26.6	18.8	9.2	11.8	8.4
GAIL	0.5	1.3	0.4	1.0	3.1	13.5	12.7	8.1	7.3
IOC	0.6	1.0	0.5	1.0	31.9	14.5	7.9	5.9	5.0
NTPC	1.1	0.0	1.2	1.2	6.5	7.4	3.1	6.8	6.2
ONGC	0.9	0.9	0.8	0.0	(5.3)	15.4	10.1	8.8	5.3
POWERGRID	0.9	0.9	1.0	1.0	6.0	17.5	5.1	7.1	6.5
PETRONET	0.0	1.5	0.0	1.5	6.0	21.5	19.4	10.8	10.4
RELIANCE	9.8	9.9	11.9	12.0	12.6	11.5	6.6	22.3	16.2
<b>Energy</b>	<b>14.5</b>	<b>15.5</b>	<b>16.5</b>	<b>18.7</b>					
UPL	0.6	1.0	0.6	1.0	13.1	13.6	5.9	10.9	8.5
<b>Agrochemicals</b>	<b>0.6</b>	<b>1.0</b>	<b>0.6</b>	<b>1.0</b>					
AXISBANK	3.4	3.4	2.2	1.0	30.9	4.8	1.4	8.8	7.7
BAJFINANCE	2.2	3.2	1.3	2.0	9.0	22.0	3.9	29.8	19.1
BAJAJFINSV	1.1	1.5	0.7	0.7	9.8	15.6	4.5	22.5	14.9
HDFCBANK	11.0	9.5	10.3	10.3	10.2	17.0	7.8	18.7	14.6
HDFC	8.3	8.0	7.2	5.0	3.4	9.4	2.1	18.7	13.9
ICICIBANK	7.0	7.0	5.4	6.5	18.9	2.8	1.1	17.2	12.5
INDUSINDBK	1.8	1.5	0.6	0.0	(0.3)	13.3	4.9	6.9	5.4
KOTAKBANK	4.5	5.0	4.1	5.0	3.7	12.8	5.9	29.5	23.9
SBIN	2.6	2.6	1.6	1.0	16.7	(3.0)	(1.1)	9.0	5.8
<b>BFSI</b>	<b>41.8</b>	<b>41.7</b>	<b>33.3</b>	<b>31.5</b>					

NSE code	Mar'20 update (weight %)		Current (weight %)		Earnings CAGR (%)	ROE (%)	ROCE (%)	P/E (x)	
	NIFTY 50	BMP	NIFTY 50	BMP				FY21E	FY22E
HCLTECH	1.2	2.0	1.5	1.7	4.7	26.7	24.6	14.3	12.7
INFY	5.3	5.0	6.4	6.4	3.1	25.2	24.3	18.2	16.1
TCS	4.5	4.5	5.2	5.2	3.1	36.4	34.7	24.1	21.3
TECHM	0.9	0.0	0.8	1.0	1.3	21.6	19.5	13.0	10.9
LTI	0.0	1.0	0.0	0.5	7.0	34.8	34.8	20.6	17.6
WIPRO	0.7	0.0	0.8	0.0	0.2	17.3	14.1	13.8	12.6
<b>IT</b>	<b>12.8</b>	<b>12.5</b>	<b>14.7</b>	<b>14.7</b>					
ZEEL	0.4	0.0	0.4	0.0	3.3	17.8	15.3	9.5	8.3
<b>Media</b>	<b>0.4</b>	<b>0.0</b>	<b>0.4</b>	<b>0.0</b>					
COALINDIA	0.8	0.8	0.7	1.0	(1.3)	64.2	59.5	5.5	5.0
HINDALCO	0.6	0.6	0.5	0.5	(1.1)	10.4	5.2	11.7	7.3
JSWSTEEL	0.6	0.6	0.5	0.5	18.9	24.2	9.9	31.4	8.6
TATASTEEL	0.7	0.7	0.6	0.6	41.0	12.4	5.0	489.9	6.9
VEDL	0.6	0.6	0.4	0.4	3.0	12.0	6.7	15.6	8.0
<b>Metals &amp; Mining</b>	<b>3.3</b>	<b>3.3</b>	<b>2.7</b>	<b>3.0</b>					
CIPLA	0.5	0.8	0.8	1.0	10.3	10.6	8.3	27.2	23.1
DRREDDY	0.7	0.0	1.2	1.0	12.3	13.4	10.0	26.3	22.2
LAURUSLABS	0.0	1.0	0.0	1.0	21.8	15.4	9.4	16.8	14.3
APLLTD	0.0	1.0	0.0	1.0	0.9	30.3	20.2	22.3	21.7
SUNPHARMA	0.9	0.0	1.3	1.0	9.6	10.2	8.3	24.1	20.3
<b>Pharmaceuticals</b>	<b>2.1</b>	<b>2.8</b>	<b>3.4</b>	<b>5.0</b>					
ADANIPTS	0.6	0.0	0.6	0.0	3.0	17.6	8.3	16.8	13.9
<b>Ports</b>	<b>0.6</b>	<b>0.0</b>	<b>0.6</b>	<b>0.0</b>					
BHARTIARTL	1.7	1.7	3.1	3.1	48.1	(7.7)	(3.1)	119.7	37.6
INFRATEL	0.4	0.4	0.5	0.4	(0.6)	8.7	8.7	13.2	12.8
<b>Telecom</b>	<b>2.2</b>	<b>2.1</b>	<b>3.6</b>	<b>3.5</b>					

Source: CMIE, Bloomberg, BOBCAPS Research

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**BUY** – Expected return >+15%

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