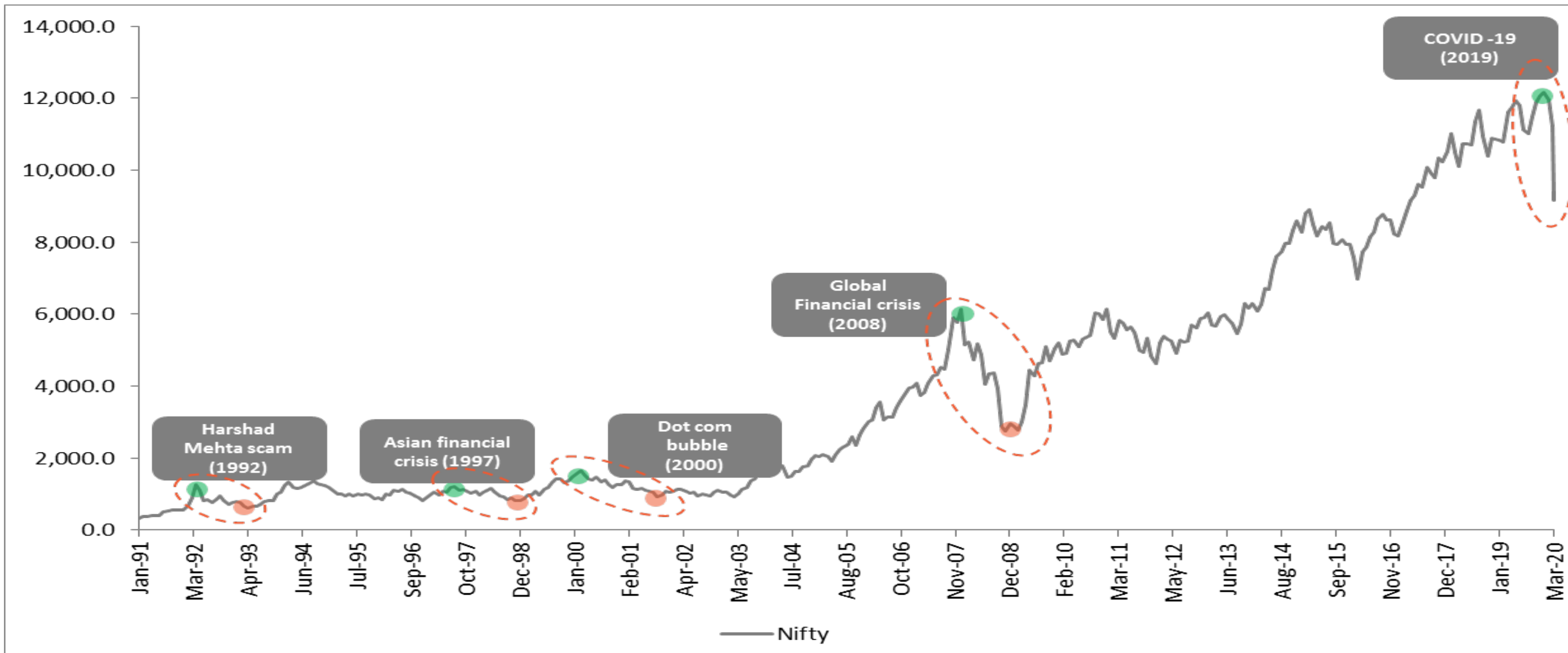
2020 A VIRUS STORY

Anatomy of a Bear Market

Phir teri kahani yaad aayi....

We have seen it earlier too. In the years 2000 and 2008, the equity market corrected sharply across the globe.

Indian stock markets retracted by 60-70% in previous severe global corrections. The carnage in the broader markets was all the more severe!



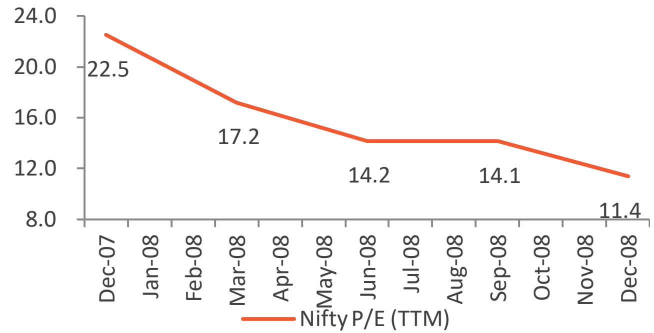
Source: Bloomberg, Sharekhan Research

Kal Aaj aur Kal...

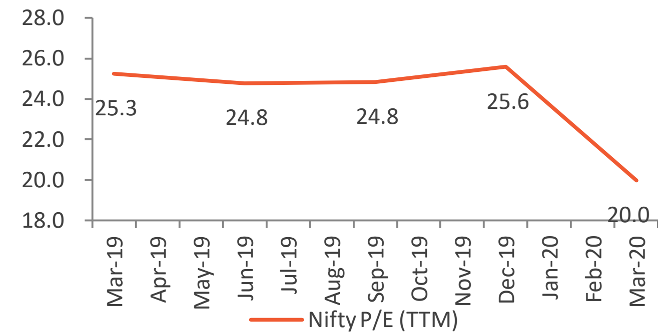
Kal... the Great Fall of 2008 – Where Are We Now?

NIFTY finds bottom at PE of 11-12x trailing earnings and we are still at 20x now. But the valuations are close to the bottom at 2.3x on a PBV basis!

NIFTY trailing P/E (Dec 2007 – Dec 2008)



NIFTY trailing P/E (Mar 2019 – Mar 2020)



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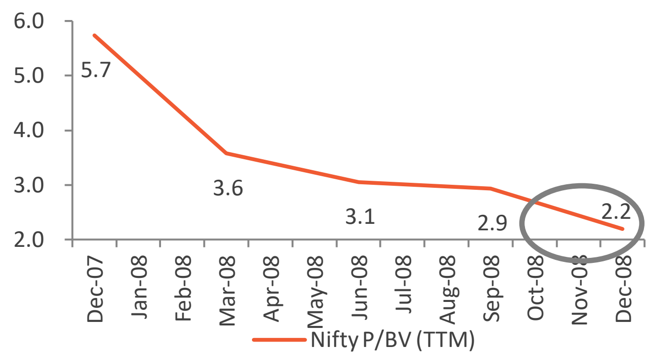

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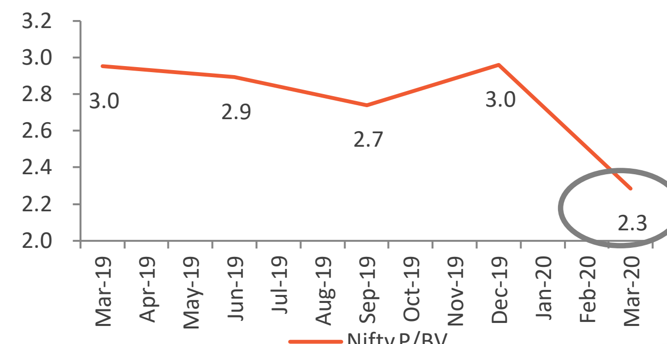
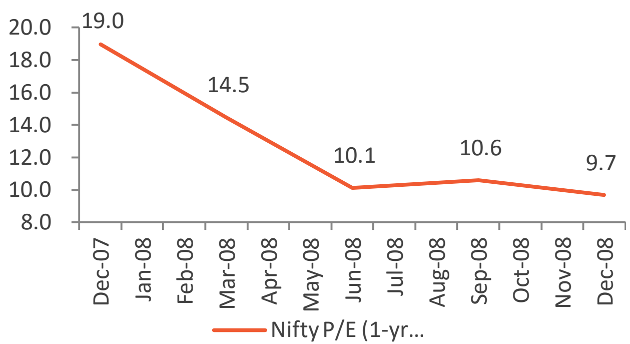


Source: Bloomberg, Sharekhan Research

Kal… the Great Fall of 2008 – Where Are We Now on Forward Earnings?

On a forward earnings basis, the NIFTY is still 15-18% higher than the bottom in 2008, both in terms of PE and PBV valuatio

NIFTY forward P/E (Dec 2007 – Dec 2008)



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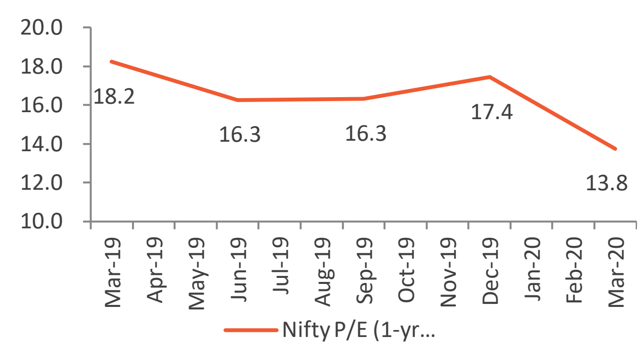

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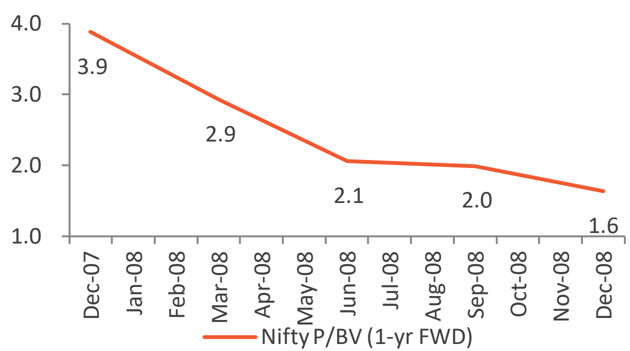

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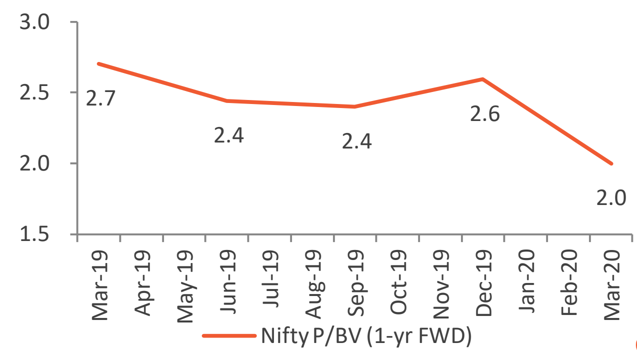
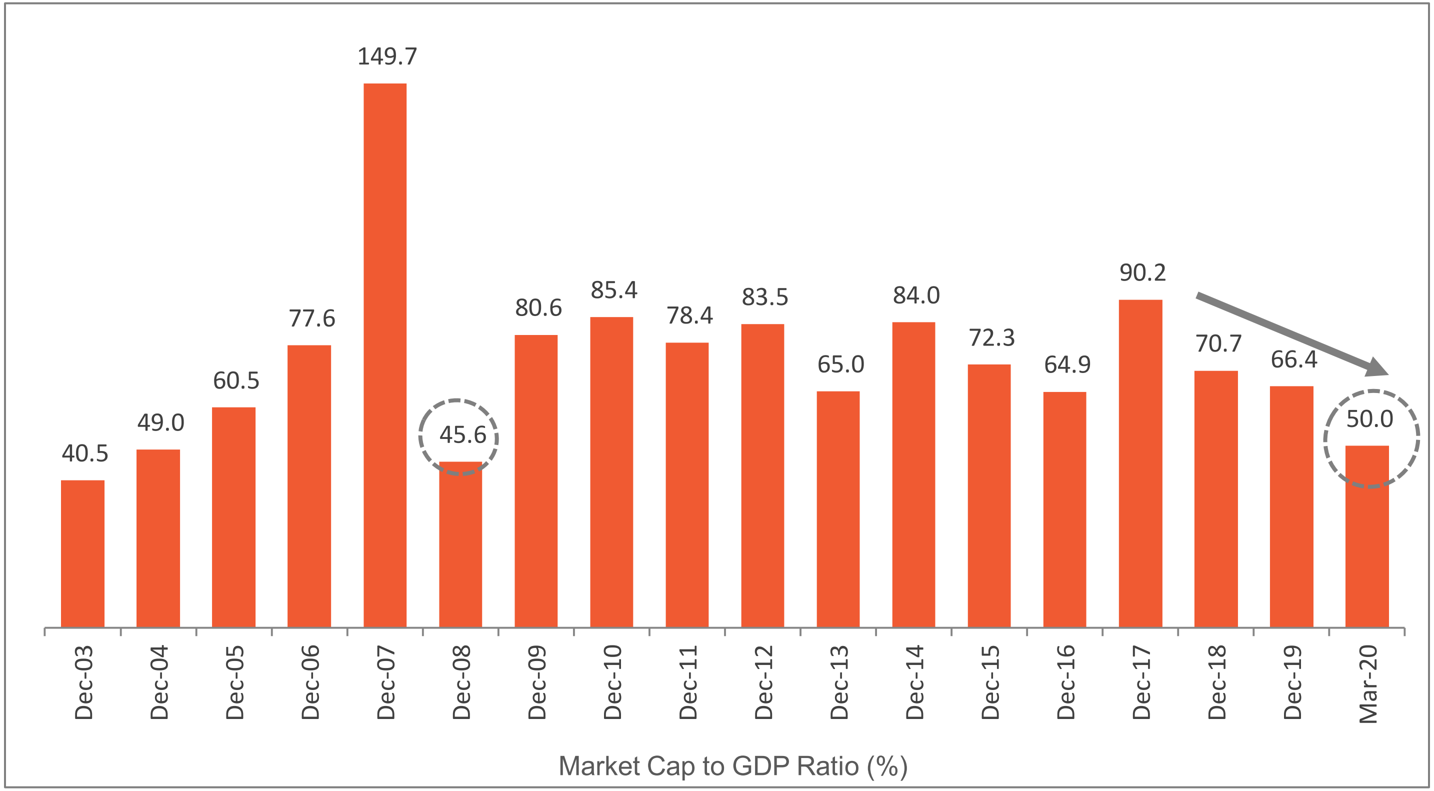


Source: Bloomberg, Sharekhan Research

Aaj... Market Cap to GDP Ratio – We Are Not Far from the Bottom

The market cap to GDP ratio being at 50% is significantly lower than the long-term average of 80%. This is close to the ratio we witnessed during the 2008 global financial crisis.

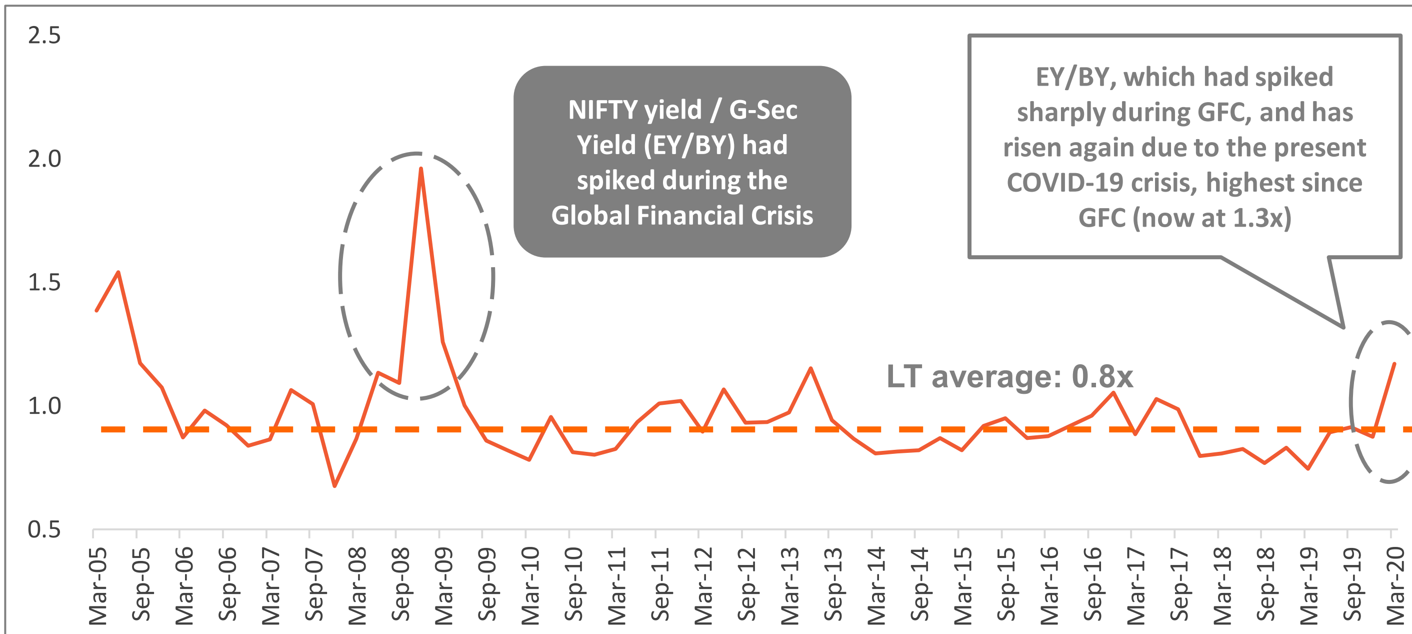


Source: Bloomberg, Sharekhan Research

Aaj… Earnings Yield Getting Attractive, but May Not Have Peaked!

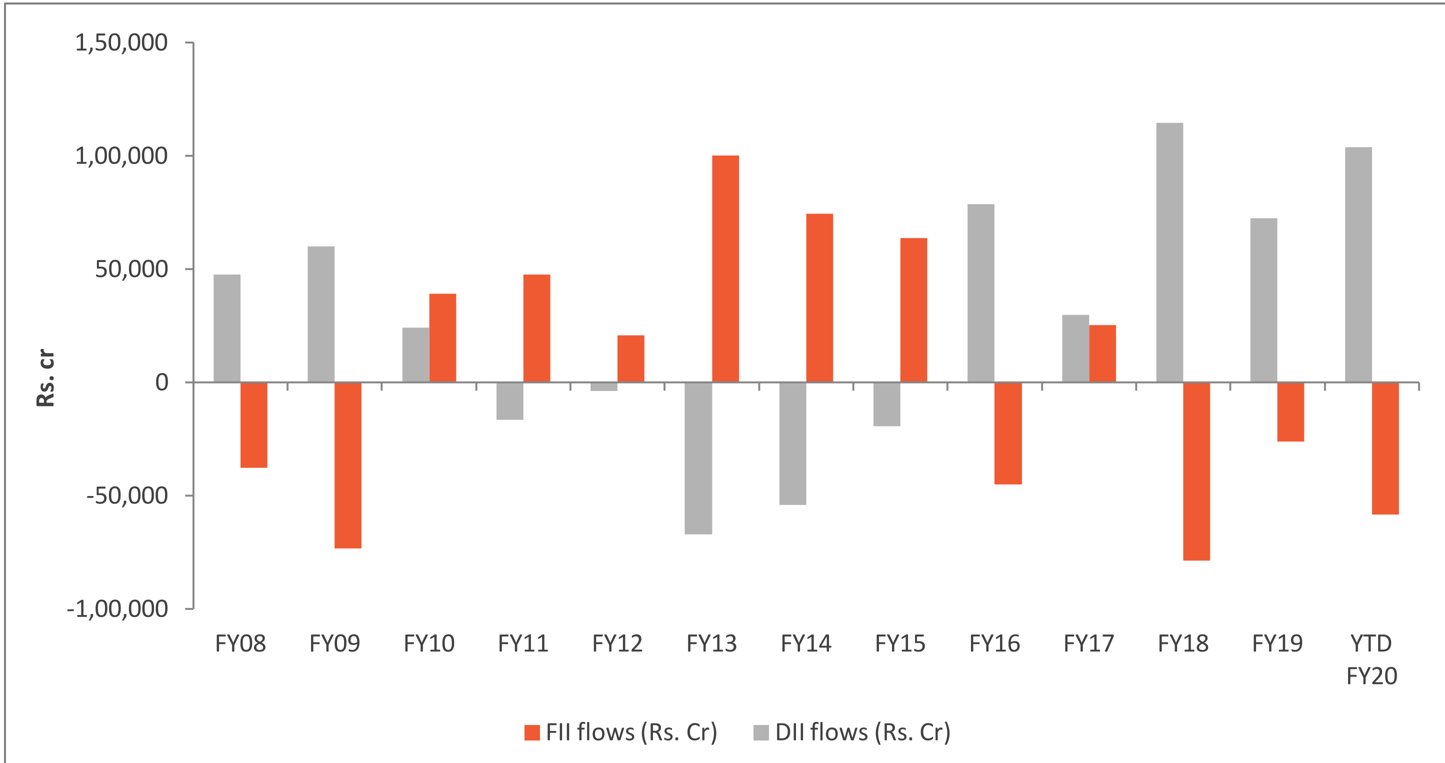
- Due to recent market corrections, the relative attractiveness of equities vs bonds is increasing. The NIFTY's earnings yield is now fairly close to the 10-year bond yield, which suggests the rising attractiveness of equity versus debt.
- It remained below 1x for most of the period in the last six years (except during demonetisation). Historically, when the earnings yield is close to the 10-year bond yield, it has been a good indicator of a NIFTY bottom.

NIFTY Earnings Yield (1-year forward) / G-Sec Yield at Multi-year High



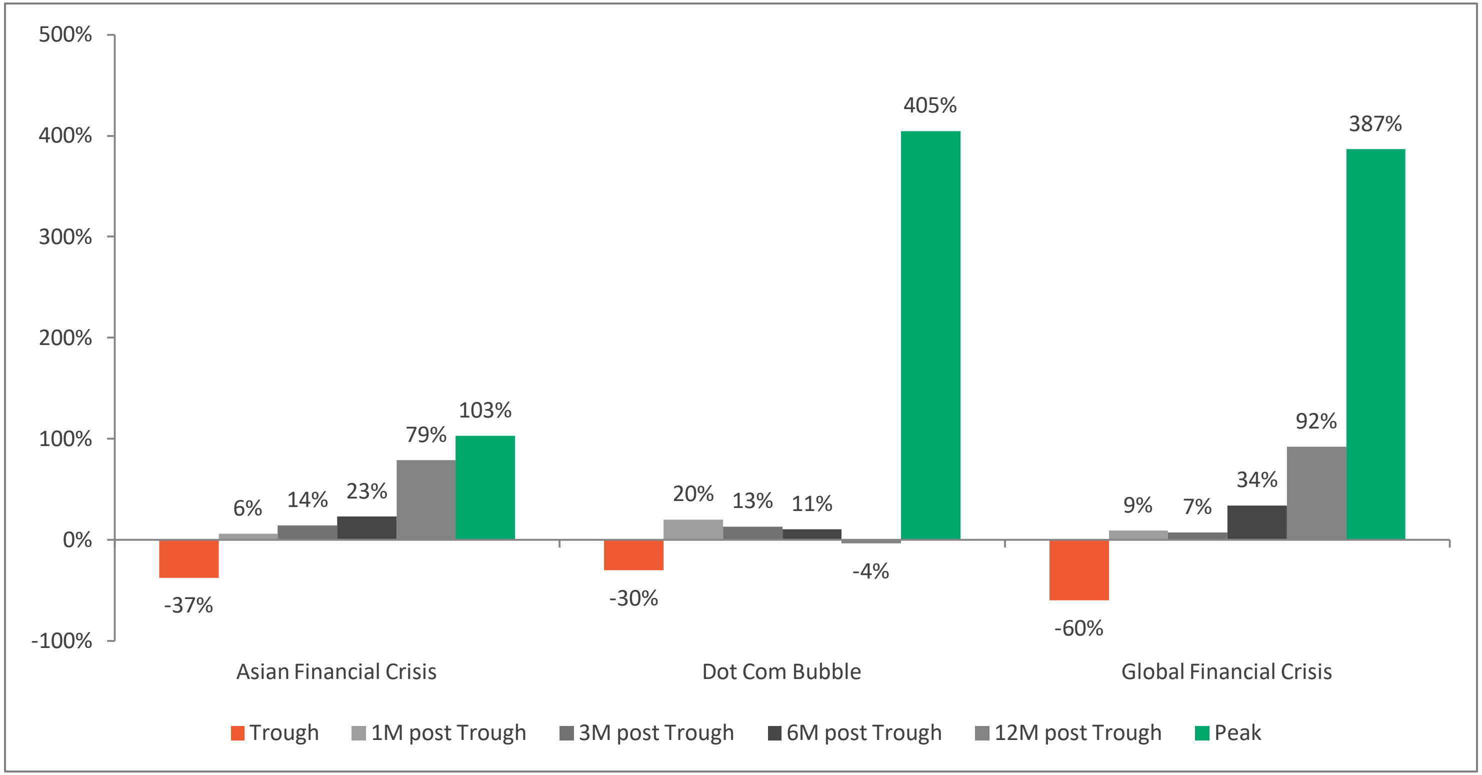
Source: Bloomberg, Sharekhan Research

Aaj... FII Outflow in YTD FY20 Is Higher than FY19 and 80% of FY18



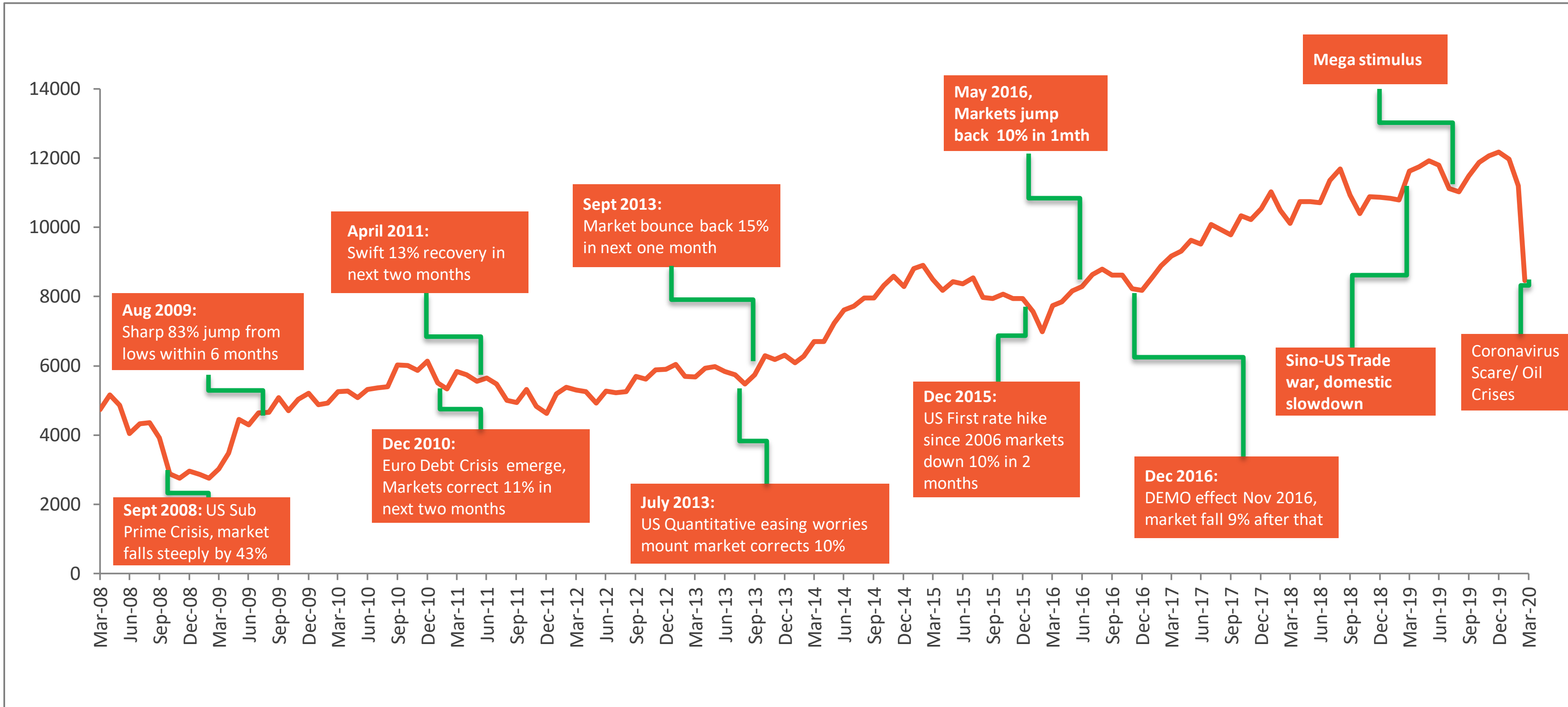
Source: Bloomberg, Sharekhan Research

Phir Kal... Handsome Returns Post Sharp Corrections



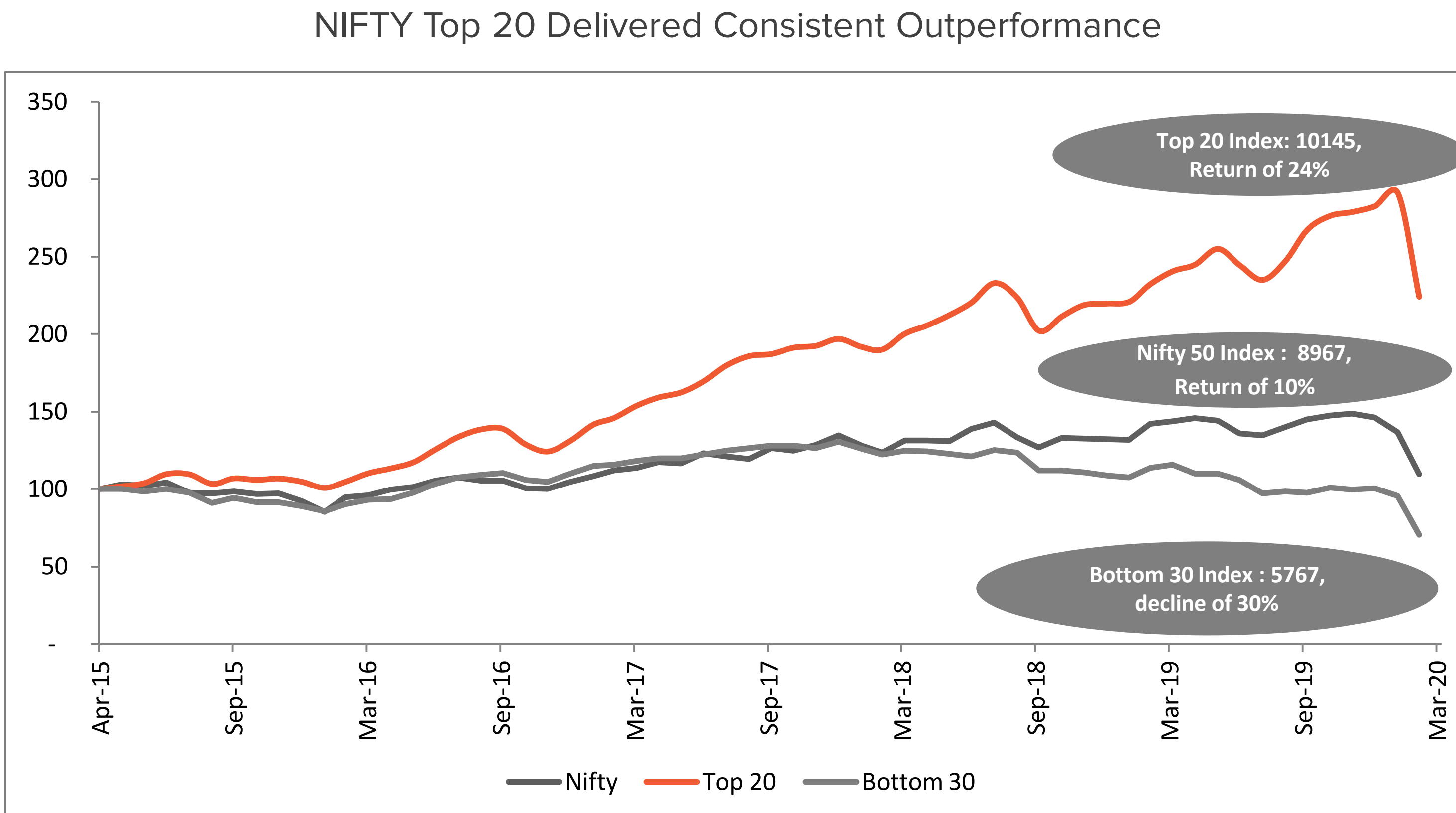
Source: Bloomberg, Sharekhan Research

Ultimately, Market Recovers, which Provides Multiple Attractive Opportunities



Source: Bloomberg, Sharekhan Research

NIFTY: Excluding the Top 20, the Next 30 Already at 5750 NIFTY Level



Source: Bloomberg, Sharekhan Research

Surviving Market Corrections...

How to Survive in Tough Market Conditions – Do's

SABSE BADA RUPAIYA...

"Cash is King"

The market is under pressure amid the ongoing global sell-off and some stocks are available at much lower levels. But because of a lack of clarity on how big this cut is going to be, it is not advisable to go all out and buy. We believe that depending on the risk appetite and patience for investment duration, it is better to hold a higher cash position and only deploy money if you are a long-term investor. So now, "Cash is King".

"AAJ MERE PASS GAADI HAI, BANGLAA HAI, BANK BALANCE HAI..."

"Dynamic allocation"

Investors should have dynamic assets allocation plans to maximise return potential while at the same time minimizing the overall risks of the investment portfolio.

"SAHI TIME PAR SAHI JAGAH HONA, SAHI TIME PAR SAHI BAAT KARNA, AUR SAHI TIME PAR SAHI KAAM UTHANA, ISEE KO LUCK KEHTE HAI..."

"Sector rotation"

The top-performing sectors change in every bull market. It was banks and commodities that led the 1992 and 2008 rallies. Similarly, the FMCG, Pharma and IT sectors were running the show in the 2000 and 2015 rallies. Investors should look at portfolio churn from the potential underperforming sectors to relatively outperforming sectors in these tough market conditions. It's important to place a bet on the right sector at the right time to get a strong outperforming portfolio.

How to Survive in Tough Market Conditions – Do's

"RISK TOH SPIDERMAN KO BHI LENA PADTA HAI…"

"Take calculated risks"

Taking calculated risks based on individual risk appetite could deliver big returns in the long term. Investors should look to build a long-term super portfolio by accumulating quality stocks in current market weakness.

"NAZDIKI FAYDA DEKHNE SE PEHLE… DOOR KA NUKSAAN SOCHNA CHAHIYE…"

"Long-term wealth creation"

Investors should keep long-term wealth creation in mind without worrying about short-term pain. They should not break their long-term portfolios just because of short-term gains.

"BADE BADE DESHON MEIN CHOTI CHOTI BAATEIN HOTI REHTI HAI…"

"The BIG picture"

The events of the next couple of months are quite critical from the economic, healthcare and policy point of view. However, the outlook remains constructive for the Indian economy for the next decade, as we are already on road to becoming a USD 5 trillion economy. Notwithstanding near-term uncertainties, don't miss the big picture and don't let near-term issues cloud your investment decisions.

How to Survive in Tough Market Conditions – Don’ts

“TUMSE NA HO PAYEGA…”

“Don’t overleverage”

Taking overleveraged bets in a falling market could lead to huge losses. Overleveraged trading should be avoided in volatile market conditions, as there is a high degree of uncertainty in the market. It’s better to preserve capital.

“MERE KARAN ARJUN AYENGE…”

“Keeping false hopes”

Do not set a preconceived benchmark price for the shares you hold. In a falling market, holding on to stocks that do not have strong fundamentals and waiting for your buying price to come could result in heavy losses. Also, do not tend to average your investment in weak stocks. If the price drops owing to fundamental reasons, it is better to exit and book losses. Don’t keep false hopes…

“MAIN APNI FAVOURITE HOON…”

“The BIG picture”

Avoiding news flows and corporate developments in the company you have invested in and sticking to one’s Confirmation Bias could prove costly. Discuss with your investment advisors and figure out if anything has materially changed in the company’s fundamentals from the time you have invested in it. Sticking to one’s Confirmation Bias in a falling market will only result in mounting losses.

Where to Invest Now...

"Successful investing is about managing risk, not avoiding it."

– Benjamin Graham

Where to Invest Now?

Investment strategies in tough market conditions are a lot more complicated, given the pain of draw-downs and an uncertain outlook. In a bear market, Cash is King, so ensure that you have ample liquidity to use opportunities to buy good quality stocks for the long term. Additionally, investors should use a staggered approach to invest in the market, as it would hardly show a V-shape recovery and tend to consolidate after a sharp fall over a long time.

Our past experience suggests that investing in high-quality companies always pays in the long term and these would be the first to recover when the dust settles. Further, a bear market provides ample opportunities for first-time investors to build a long-term portfolio.

Thus, we have created three distinctive portfolios keeping in mind the risk appetite of different sets of investors.

INVESTMENT PORFOLIO

- **SAFETY FIRST APPROACH**
- **QUALITY FIRST APPROACH**
- **OPPORTUNISTIC APPROACH**

Safety First Portfolio

Conservative Approach – Limited Draw-down and Reasonable Gains

		Allocation (%)
	Conservative Hybrid Funds (Balanced Funds)	**40%**
1	Kotak Debt Hybrid Fund	
2	ICICI Prudential Regular Savings Fund	
3	IDFC Regular Savings Fund	
	Large -cap Fund (Do SIP or STP)	**20%**
1	HDFC Top 100 Fund	
2	ICICI Pru Bluechip Fund	
	Alternate Asset (Debt/Gold)	**25%**
1	ICICI Pru Short Term Fund	
2	IDFC Low Duration Fund	
3	Gold ETF	
	Cash	**15%**
	Total	**100%**

Quality First Portfolio

Defensive Portfolio with High-quality Companies – The Right Mix for Difficult Times

	Allocation (%)
Consumer Staples	**40%**
Asian Paints	
Hindustan Unilever	
Dabur India	
Nestle India	
Pharma	**15%**
Abbott Ltd	
Divi's Labs	
Others	**15%**
Mahanagar Gas	
SRF	
Bharti Airtel	
Banking & Financials	**15%**
HDFC Bank	
HDFC Life	
Cash	**15%**
Total	**100 %**

Opportunistic Portfolio

Take advantage of the volatility to accumulate quality companies; for investors willing to take short-term pain for handsome long-term gains

	Allocation (%)
Banking and Financials	**35%**
Kotak Bank	
ICICI Bank	
Bajaj Finance	
HDFC Life	
Consumers	**25%**
Asian Paints	
Tata Consumer	
Bata India	
Hindustan Unilever	
Trent	
Speciality Chemicals + Gas	**10%**
SRF	
Mahanagar Gas	
Others	**15%**
Reliance Industries	
Bharti Airtel	
Cash	**15%**
Total	**100%**

SIP Approach

The Best Way to Beat Market Volatility

SIP Approach – Beat Volatility and Create Long-term Wealth

Despite near-term uncertainties and huge market volatility, investors who would stick to the systematic investing plan approach over the next 12-18 months would be the biggest beneficiaries in the next 3-5 years. Investing in quality companies through the stock SIP mode as well as through the mutual fund (MF) route would create wealth in the long run. We have created two baskets for the same: one is for SIP in quality companies and the second one is for SIPs through the MF route.

Mutual Fund – Equity Portfolio	Category
ICICI Pru Bluechip Fund	Large-cap
HDFC Top 100	Large-cap
Kotak Standard Multi-cap Fund	Multi-cap
Aditya Birla Sun Life Equity Fund	Multi-cap
DSP Equity Opportunity Fund	Large & Mid-cap

Stock SIP
Kotak Mahindra Bank
Asian Paints
Reliance Industries
Bajaj Finserv
Titan
SRF

What to Avoid...

Kaun Kitne Paani Mein...

What to Avoid... (Vulnerables)

In a bear market, the selling pressure can be relentless and will pull down even the best of stocks. However, it is important to understand which companies are more vulnerable in terms of an adverse impact on their business due to the COVID-19 outbreak and also other factors like **balance sheet issues, negative free cash flows, promoter pledge and so on**.

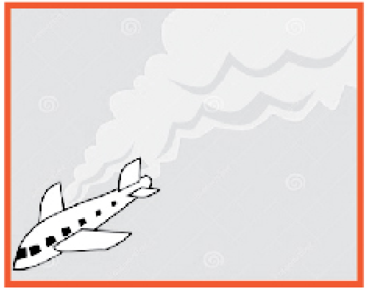
We have carefully scanned through companies under our coverage. The following are the key conclusions of our study:

- **Vulnerable market segments:** Generally, it is prudent to avoid small-caps and stocks with relatively poor liquidity.
- **Vulnerable sectors:** Certain sectors are expected to see significant impact on their businesses over the next few quarters, resulting in a downgrade of earnings estimates and valuation multiples. Consequently, these sectors could see relatively much higher selling pressure and correction.

Vulnerable Sectors:

- **Consumer Discretionary:** Automobiles, Retail, Hotels and Travel, Aviation, Building Materials and Construction, Engineering, among others
- **Export-driven Businesses:** Textiles, IT Services and Auto Ancillaries
- **Banks and Financials:** Weak banks and NBFCs owing to rising risk of NPAs and weaker credit demand

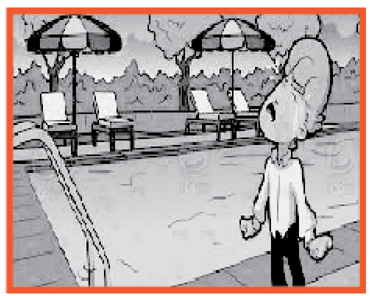
What to Avoid... Kacche Dhaage



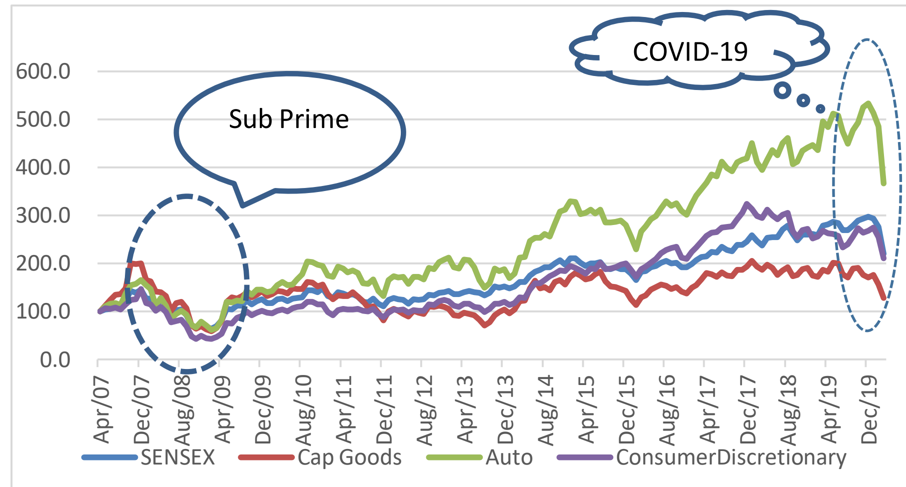
Aviation and Travel

Auto and Auto Ancillaries

Infra and Construction



Hotels



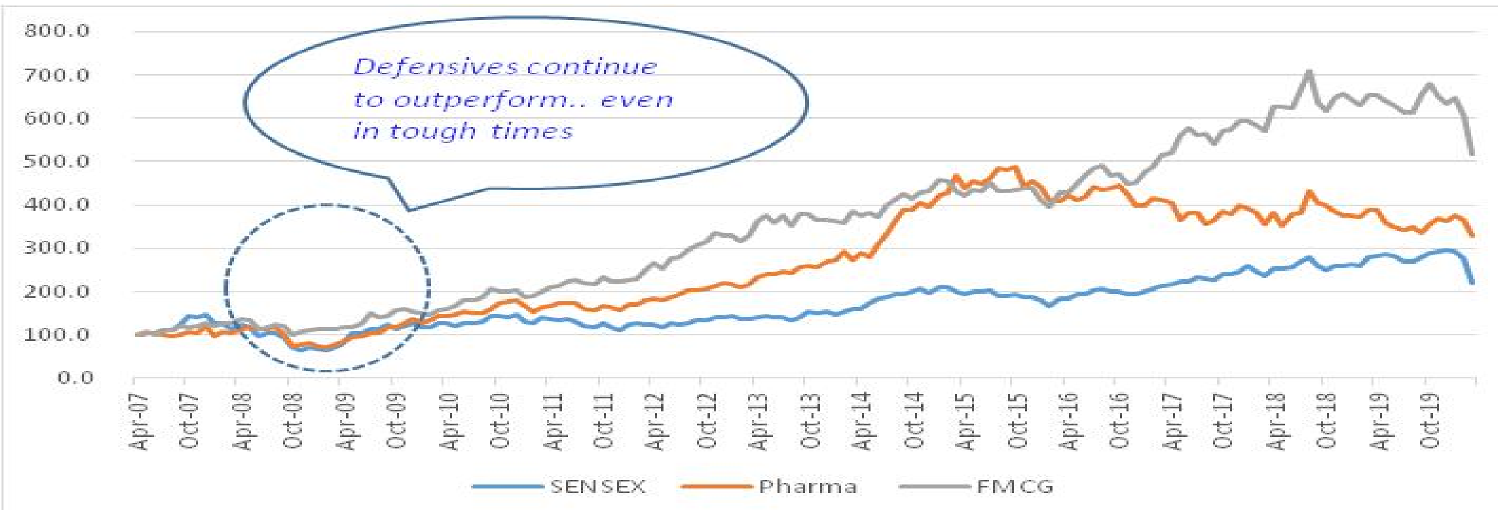
Source: Bloomberg, Sharekhan Research

Defensives Better Place than Others...

There are certain sectors that are expected to do better than ever in troubled times:

- Consumer staples
- Select Pharma and specialty chemicals companies
- Life insurance companies
- Multinationals with high return ratios and a dividend-paying track record

Saara Shehar mujhe Loin ke naam se jaanta hai...



Source: Bloomberg, Sharekhan Research

Sharekhan by BNP PARIBAS

Everything will be okay in the end, and if it’s not okay, it’s not the end...

Kyunki picture abhi baaki hai mere dost!

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