

What moved the Indian market?

2022 took the markets round the world on a rollercoaster ride. Despite global headwinds, Indian economy showed resilience and posted positive returns.

Nifty 50 lost some of the last year's gains post the release of the Hindenburg Report on Adani Group. Nifty Next 50, however, took a nosedive and fell 7%.

As investors turned to Large and Mid-cap stocks amidst heightened volatility, Small-caps suffered despite being available cheaply.

While, Banking and FMCG stocks continued to post positive returns, IT stocks plunged 12%.

Although the valuation premium of IT stocks has subsided, they continue to trade above their 10-year average.

Pharma stocks are available at attractive valuation; however, they continue to be laggards and are down ~9%.

		Fundamentals					
		Indices	1 Year return	P/E	P/B	Div. Yield	RoE
Broad Based	Nifty 50		3.0%	20.4	4.1	1.4	20%
	Nifty Next 50		-7.0%	25.8	4.2	2.0	16%
	Nifty Midcap 150		7.4%	23.9	3.2	1.2	13%
	Nifty Smallcap 250		0.4%	17.8	2.9	1.3	16%
Sectoral	Nifty Auto		17.7%	31.8	4.9	1.1	15%
	Nifty Bank		11.2%	15.6	2.7	0.7	17%
	Nifty Energy		-10.4%	13.0	1.9	2.9	14%
	Nifty Financial Serv.		6.2%	17.0	3.5	0.8	21%
	Nifty FMCG		26.5%	39.3	10.9	1.8	28%
	Nifty Healthcare		-7.6%	33.7	4.4	0.8	13%
	Nifty Manufacturing		3.1%	24.1	3.8	1.8	16%
	Nifty IT		-12.4%	26.3	8.3	2.6	32%
	Nifty Pharma		-9.1%	30.9	4.0	1.1	13%
	Nifty Realty		-9.9%	36.7	2.9	0.4	8%
	Nifty Services		-3.8%	19.5	4.1	1.4	21%
				Overvalued		Undervalued	

Source- MOAMC Research, Nifty Indices; Data as of 28-Feb-23

What led to these returns?

In this section, we analyze the return from the lens of valuation change and earnings growth.

While, the global markets were volatile, Nifty 50 gave a decent 3% return. The 6% contraction in P/E was offset by a 9% growth in EPS. Among various broad-based indices, only Nifty Next 50 noted expansion in valuation, and drop in earnings; whereas Midcap and Smallcap indices noted correction in valuation and sharp earnings growth.

The market remains bullish on Auto stocks, with the Nifty Auto Index delivering a notable 17.7% year-on-year return. Despite a significant contraction in the P/E multiple, which now stands close to the 10-year average, there has been a substantial 177% growth in EPS.

		Return Breakdown			
		Indices	1 Year return	P/E change	EPS change
Broad Based	Nifty 50		3.0%	-6%	9%
	Nifty Next 50		-7.0%	24%	-25%
	Nifty Midcap 150		7.4%	-11%	21%
	Nifty Smallcap 250		0.4%	-32%	48%
Sectoral	Nifty Auto		17.7%	-57%	177%
	Nifty Bank		11.2%	-25%	48%
	Nifty Energy		-10.4%	22%	-27%
	Nifty Financial Serv.		6.2%	-19%	31%
	Nifty FMCG		26.5%	7%	18%
	Nifty Healthcare		-7.6%	4%	-11%
	Nifty Manufacturing		3.1%	40%	-26%
	Nifty IT		-12.4%	-21%	11%
	Nifty Pharma		-9.1%	-2%	-8%
	Nifty Realty		-9.9%	-34%	37%
	Nifty Services		-3.8%	-18%	18%

Source- MOAMC Research, Nifty Indices; Data as of 28-Feb-23

Meanwhile, the Nifty FMCG Index has witnessed a surge of 26.5% on the back of an expansion in both P/E and EPS. Despite the 26% decline in earnings, the Nifty Manufacturing Index generated a 3% return year-on-year. This is likely due to a 40% expansion in the P/E multiple which offset the EPS contraction.

EPS of Energy stocks contracted by 27%. Although the P/E multiple expanded by 22%, it couldn't offset the earnings decline and the Nifty Energy Index posted a negative return of 10.4%.

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