

Peak Polarisation in Large Caps

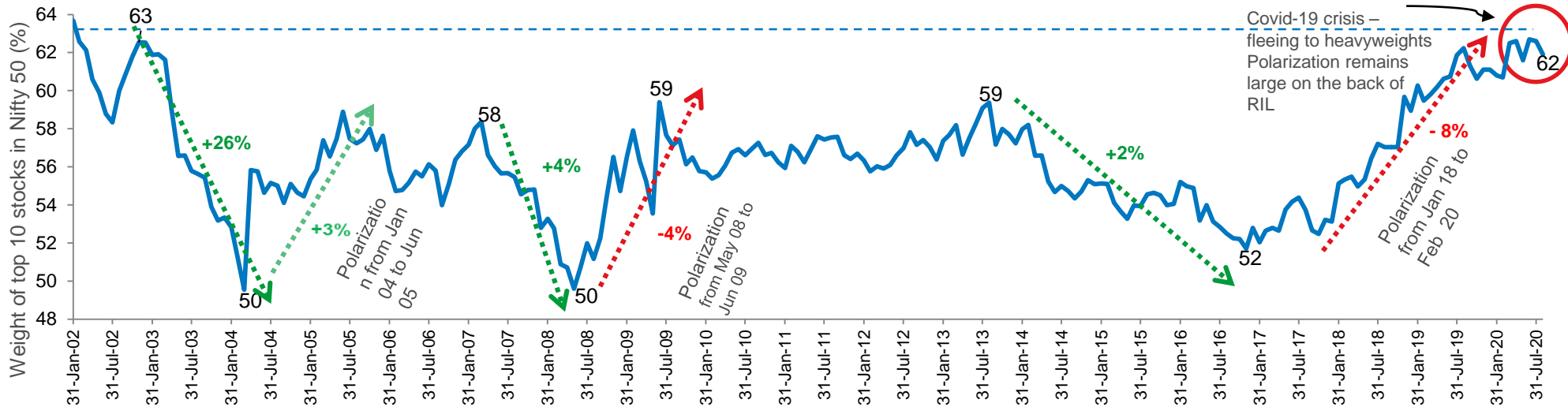
- Is this the start of a mean reversion?

**Nifty 50 Equal Weight Index (NEW)
vs
Nifty 50 Index (N50)**

September 21, 2020

Who led the rally post polarization in Index heavyweights? - Will history repeat?

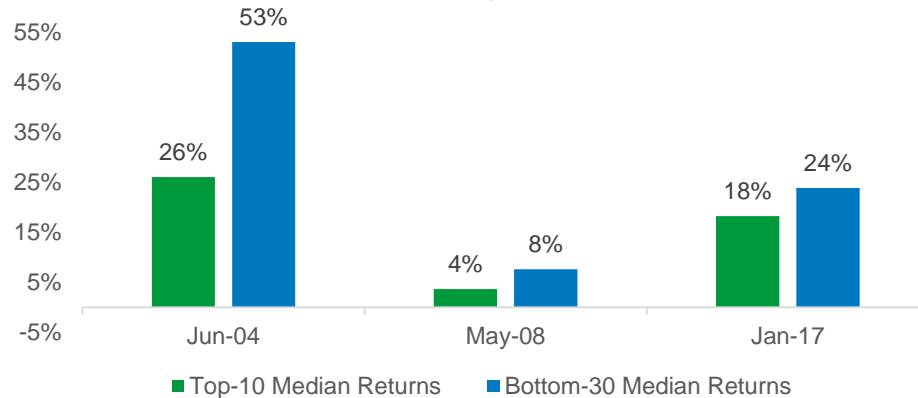
NEW vs N50 in periods of depolarization (Annualized returns in green/red fonts)



Source: Elara Capital; Data till Aug 31, 2020

Top 10 vs Bottom 30 stocks

1 year median returns during periods of depolarization



Source : NSE, Bloomberg, Elara Capital; Data as on dates mentioned

- ▶ Steep polarization in the last 24 months - weight of top 10 stocks near all time high
- ▶ Every time after such peak polarization - recovery or rally led by the broader market
- ▶ Post the peak polarization before and during Covid-19 crisis - outperformance of NEW over N50 has begun

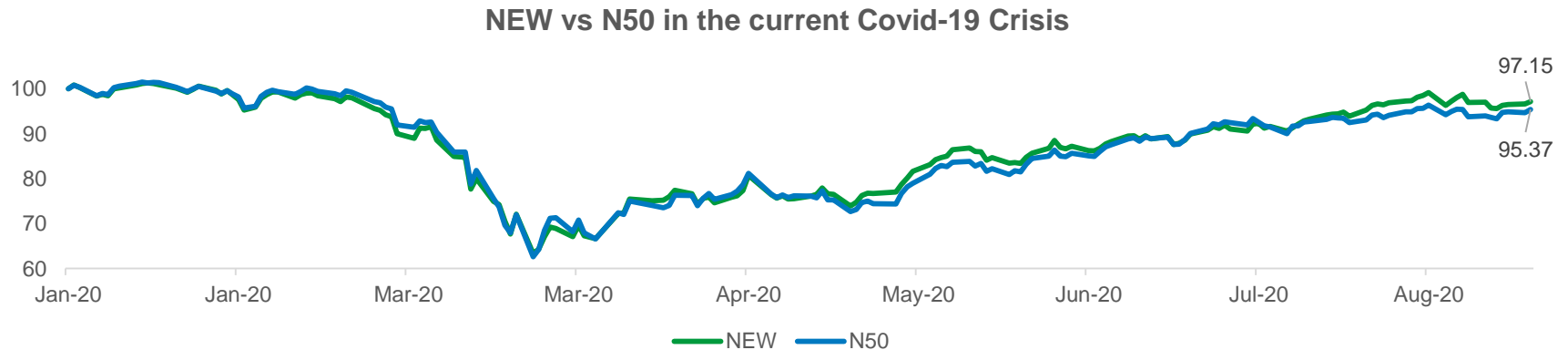
NEW vs N50 – In times of crises, can the same 50 stocks help fetch better returns with a slight twist in weights?

- ▶ Post 2008 crash, tail of Nifty 50 gained market share on the back of strong fundamentals and pick up in demand – NEW outperformed N50



Source: Internal, Bloomberg; Data for the period Jan 1, 2007 to Jan 1, 2010

- ▶ After the correction in March-2020, markets saw a strong rally which included smaller stocks – NEW marginally outperforming N50 in this rally

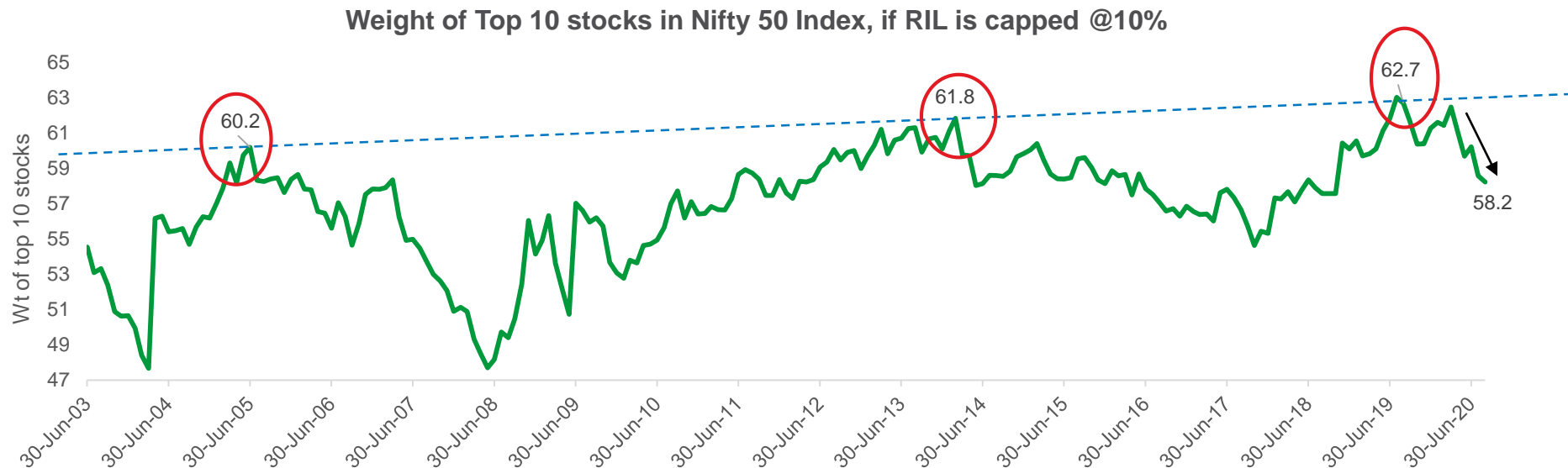


Source: Internal, Bloomberg; Data for the period Jan 1, 2020 to September 15, 2020

In times of crises, NEW has outperformed N50

Has depolarization begun?

- ▶ Average weight of Reliance Industries Ltd (RIL) in the N50 Index has been closer to 10% over a long history since 2003.
- ▶ If we consider that as a fair long term weight of the stock, what would the top 10 stocks of N50 look like?

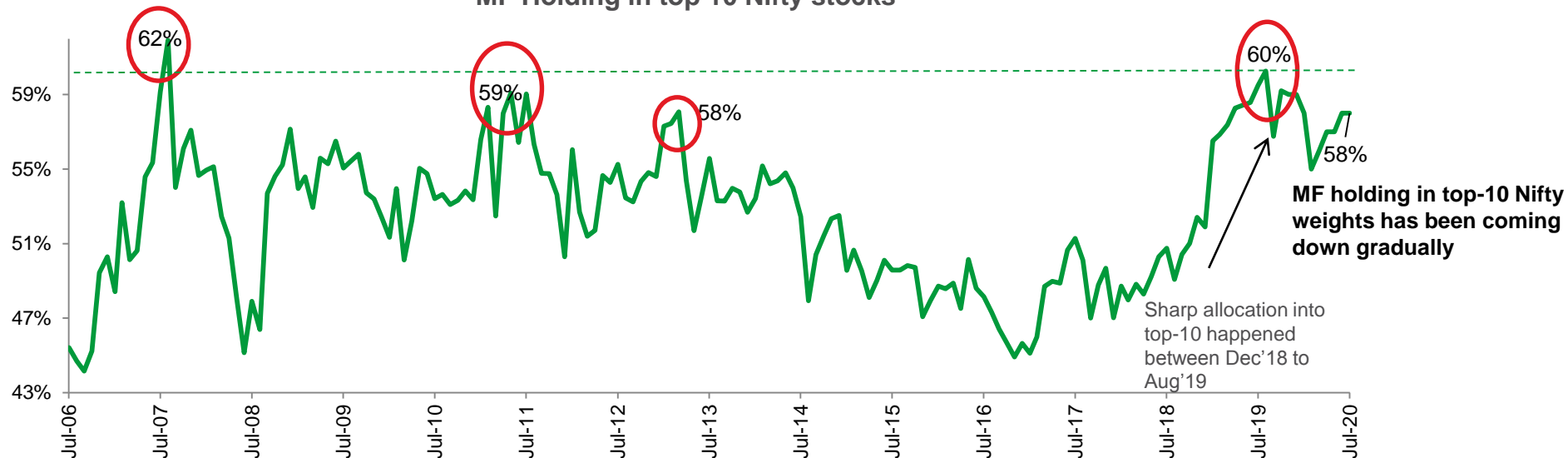


Source : Elara Capital; Data till August 31, 2020

If RIL is capped at 10% - Depolarization appears to have started

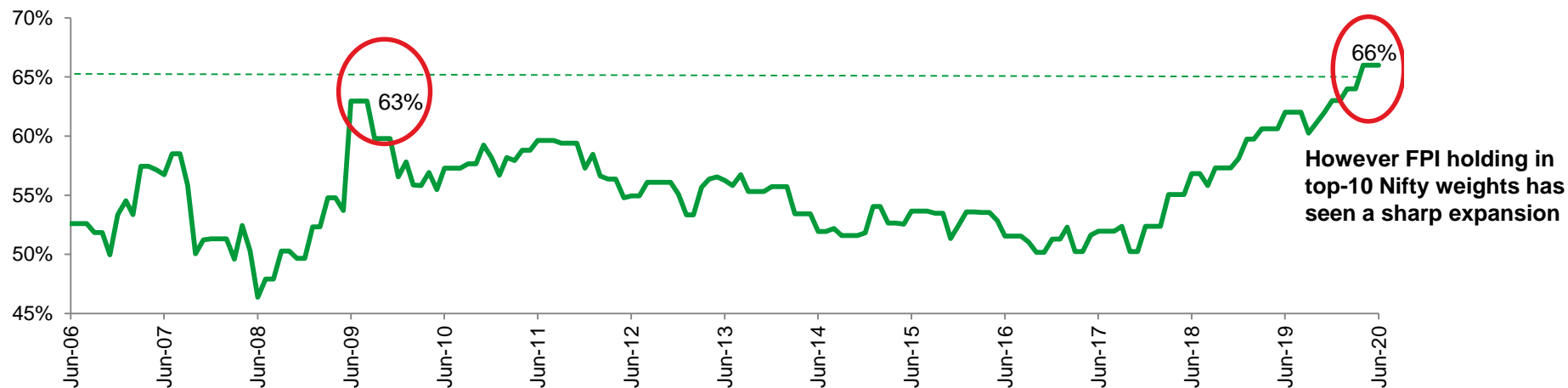
Depolarization in MF and FPI holdings ... starting to pan out?

MF Holding in top 10 Nifty stocks



Source : Elara Capital; Data as on July 31, 2020

FPI Holding in top 10 Nifty stocks



Source : Elara Capital; Data as on June 30, 2020

Nifty 50 Equal Weight Index: Balanced diversification

Top 10 companies as per Nifty 50 Index

Company Name	Weight in Nifty 50 Index	Weight in Nifty 50 Equal Weight Index
Reliance Industries Ltd.	13.6%	1.8%
HDFC Bank Ltd.	10.0%	1.9%
Infosys Ltd.	7.0%	1.9%
Housing Development Finance Corporation	6.5%	1.9%
ICICI Bank Ltd.	5.6%	2.0%
Tata Consultancy Services Ltd.	4.9%	2.0%
Kotak Mahindra Bank Ltd.	4.2%	2.0%
Hindustan Unilever Ltd.	3.9%	1.8%
ITC Limited	3.4%	1.8%
Bharti Airtel Ltd.	2.5%	1.7%
Total	61.9%	18.8%

Bottom 10 companies as per Nifty 50 Index

Company Name	Weight in Nifty 50 Index	Weight in Nifty 50 Equal Weight Index
JSW Steel Ltd.	0.6%	2.5%
Shree Cement Ltd.	0.6%	1.8%
Hindalco Industries Ltd.	0.6%	2.2%
Adani Ports And Special Economic Zone	0.6%	2.2%
Grasim Industries Ltd.	0.6%	2.2%
Tata Motors Ltd.	0.5%	2.6%
Indian Oil Corporation Ltd.	0.5%	1.8%
Zee Entertainment Enterprises Ltd.	0.4%	2.5%
GAIL (India) Ltd.	0.4%	1.8%
Bharti Infratel Ltd.	0.3%	1.9%
Total	4.9%	21.6%

Did you know? In Nifty 50 Index, weight of top stock (Reliance Industries, 13.6%) = ~weight of bottom 22 stocks

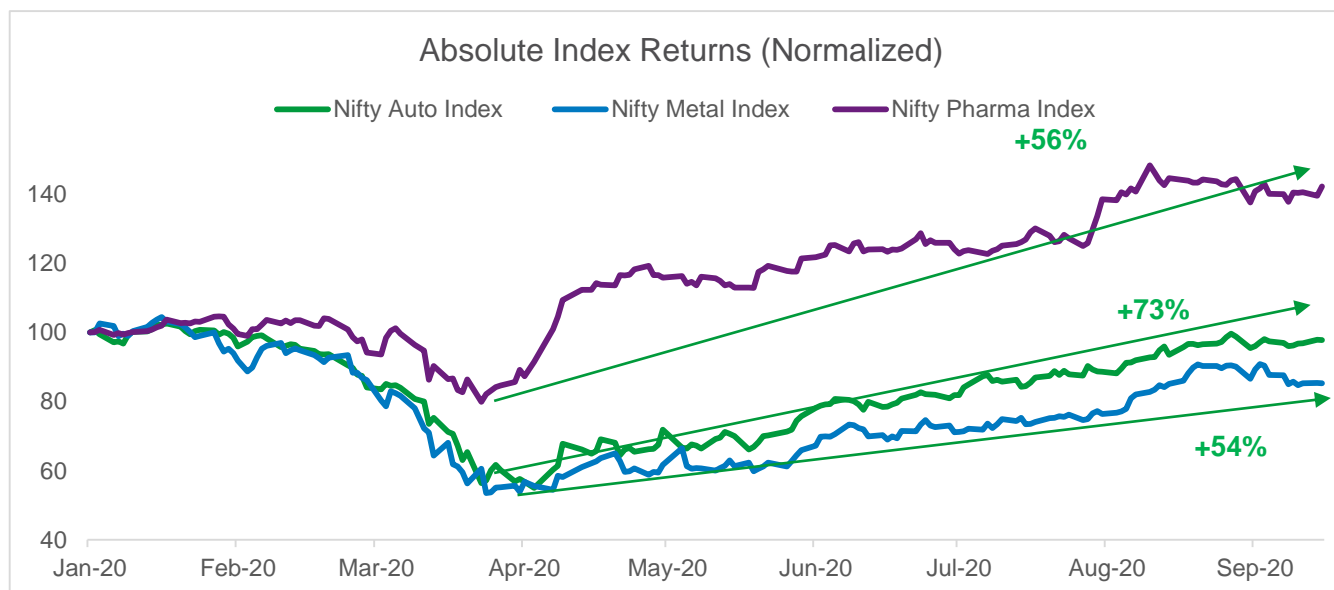
Every player has an equal potential to perform

Top 10 companies: Nifty 50 Index= 61.9% weight, Nifty 50 Equal Weight Index= 23.1%* weight

Sector View - Weight differential to generate alpha?

- ▶ The cyclicals i.e. Metals and Auto stocks had been in a negative zone since a while.
- ▶ Pharmaceuticals have seen a big jump amidst the pandemic.
- ▶ Banks and NBFCs have been stressed around concerns of growing NPAs.

Sector Name	Weight in N50	Weight in NEW	Underweight/Overweight
Financials	33%	20%	Underweight
IT	16%	11%	Underweight
Auto	6%	13%	Overweight
Metals	2%	9%	Overweight
Pharma	3%	6%	Overweight



Auto	N50 Weight	NEW Weight
Bajaj Auto	0.8%	1.9%
Eicher Motors	0.6%	1.9%
Hero Motocorp	0.8%	2%
M&M	1.2%	2%
Maruti	1.9%	2.2%
Tata Motors	0.6%	2.7%

Metal	N50 Weight	NEW Weight
Coal India	0.5%	1.8%
Hindalco	0.5%	2.2%
Jsw Steel	0.6%	2.6%
Tata Steel	0.6%	2.2%

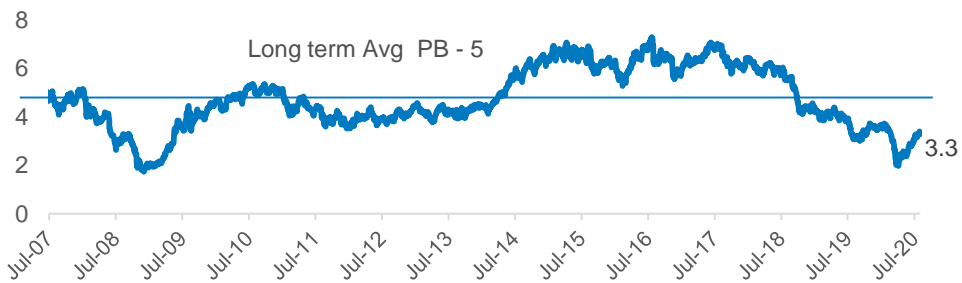
Pharma	N50 Weight	NEW Weight
Cipla	0.8%	2.1%
Dr Reddy's Labs	1.1%	2.1%
Sun pharma	1.1%	2%

Source : NSE, Bloomberg; Data as on September 15, 2020; For detailed disclaimers, refer Slide No.9

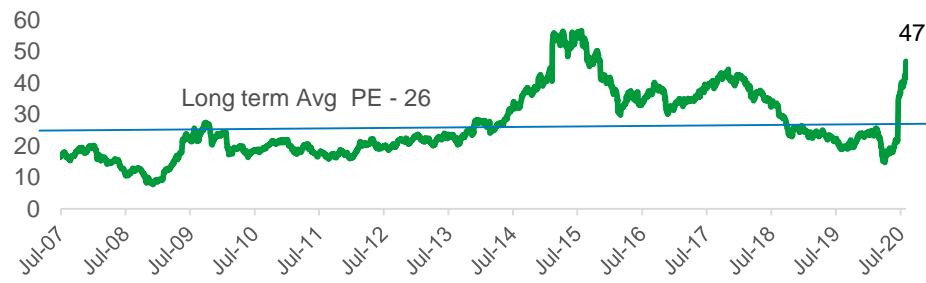
Recent run up in the Auto, Metals & Pharma sectors bodes well for the equal weight strategy

Sector Valuations – Attractive?

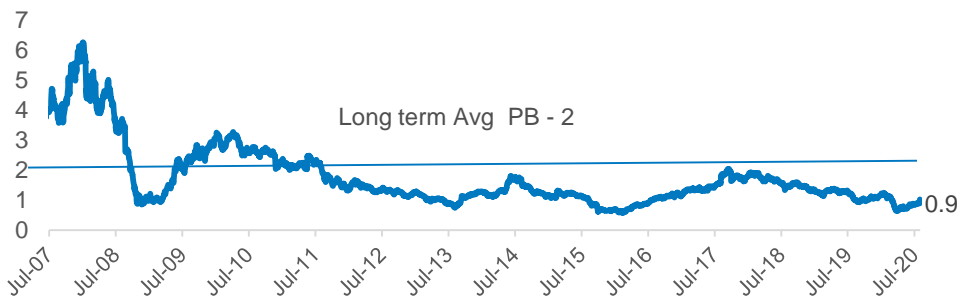
Nifty Auto Index P/B



Nifty Auto Index P/E



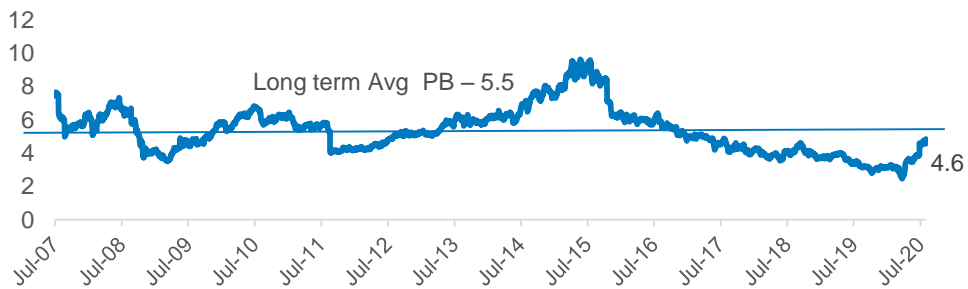
Nifty Metal Index P/B



Nifty Metals Index P/E



Nifty Pharma Index P/B



Nifty Pharma Index P/E



Source : NSE, Bloomberg ; Data till July 31, 2020; For detailed disclaimers, refer Slide No.9

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