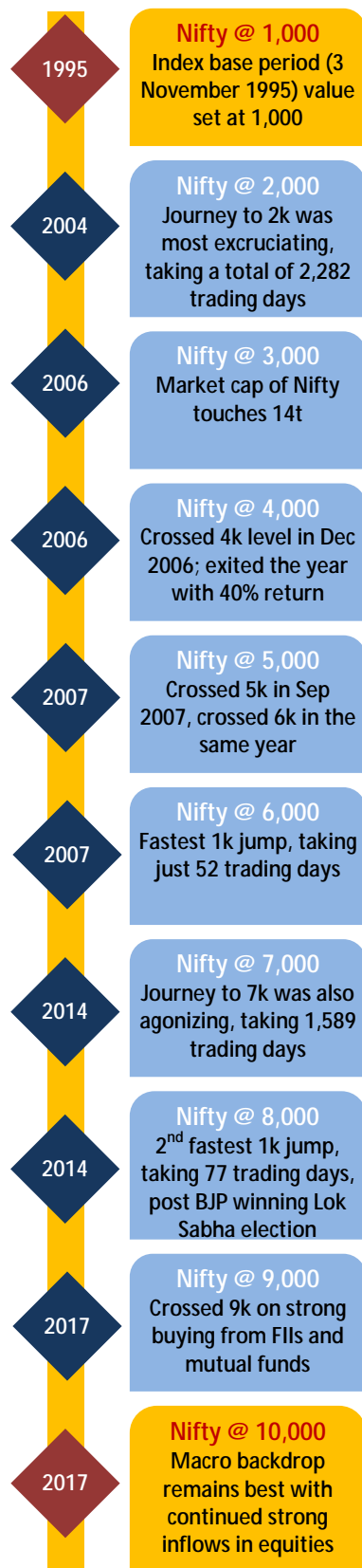




NIFTY MILESTONE JOURNEY



Nifty hits 10k mark after a stirring 22-year journey

Taking a trip down the memory lane – Nifty: Then and Now

A flashback – 1995 to 2017

- n For the first time in its history, the Nifty has crossed and closed above the psychological 10K mark. With this, the Nifty has now become the second Indian benchmark index to trade in five digits.
- n The Indian markets remain buoyed by continued liquidity inflow amid a strong macro backdrop. Domestic MF inflows in CY17 YTD stand at USD7b, matching inflows recorded in the entire last calendar year. Even more notable are FII flows of USD8.6b, higher than those recorded in CY15 and CY16. We note that the macro backdrop remains best in recent times, with inflation under control, twin deficits in check, stable currency, and policy momentum intact (evident from the smooth and timely GST implementation). Only missing link in an otherwise positive set-up is earnings recovery, in our view. Nifty earnings have remained flat for the last five years (4% CAGR over FY12-17) and hold the key for further re-rating, in our view.
- n In markets, one always looks at the future. Today, we make a small departure to this trend and look back at the past. In this note, we will also share some interesting tidbits of the Nifty's journey from 1,000 in 1995 to 10k today.

Nifty up 10x in ~22 years, market cap expands 48x

- n While traversing its journey from 1K to 10K, the Nifty has delivered 11% CAGR returns. Meanwhile, the market capitalization of the index has expanded 48x from INR1.5t to INR70.6t, implying a CAGR of 20%.
- n The journey of Nifty from 1k to 2k was most excruciating, which took a total 2,282 trading days (almost nine years). The move from 6K to 7K also took some time (1,589 trading days, 6.5 years), with the markets being stranded in a long phase of correction in the aftermath of the Global Financial Crisis (GFC) in 2008.
- n From 26 June 2009, the index shifted its computation to free-float methodology.

30% of index constituents unchanged over 22 years

- n Out of the 50 stocks in Nifty, 15 have been part of the index since its inception - RIL, HDFC BANK, HDFC, SBI, HUL, ITC, TATA MOTORS, HERO MOTORS, TATA STEEL, HINDALCO, ACC, AMBUJA, L&T, DR. REDDY and TATA POWER.
- n The combined market-cap of these 15 stocks increased at 18% CAGR since inception. These 15 stocks weigh 46% in Nifty today v/s 53% at inception.
- n Best performers (mkt. cap multiple since Nifty inception, % CAGR): HDFC Bank (693x – 36%), Hero Motocorp (126x – 26%), HDFC (68x – 22%), ITC (65x – 22%), Dr Reddy's Lab (65x – 22%) and Reliance Inds (55x – 21%).

Sunrise and Sunset: Some sectors acquire prominence, others fade

- n Over the years, the sectoral representation in the Nifty has undergone a sea change, in consonance with the changes in the underlying economy – new sectors have evolved, while some of the erstwhile dominant sectors of the economy have lost relative importance in the new India.

- n Consumer (with 17.6%) had the highest weight in the Nifty at inception. Today, it stands shoulder-to-shoulder with IT, Oil & Gas and Auto, with ~10-11% weight.
- n PSU Banks had the second highest weight of 12.2% at inception, while Private Banks (0.4%) had the lowest weight, with sole representation of HDFC Bank. Today, at 23.9%, Private Banks have the highest weight, while PSU Banks have just 3.3% weight.
- n Textile and Chemicals, which had 8.3% weight at inception, have no representation today. On the contrary, Information Technology and Telecom, which had no presence in the index in 1996, today form 14% of the index.

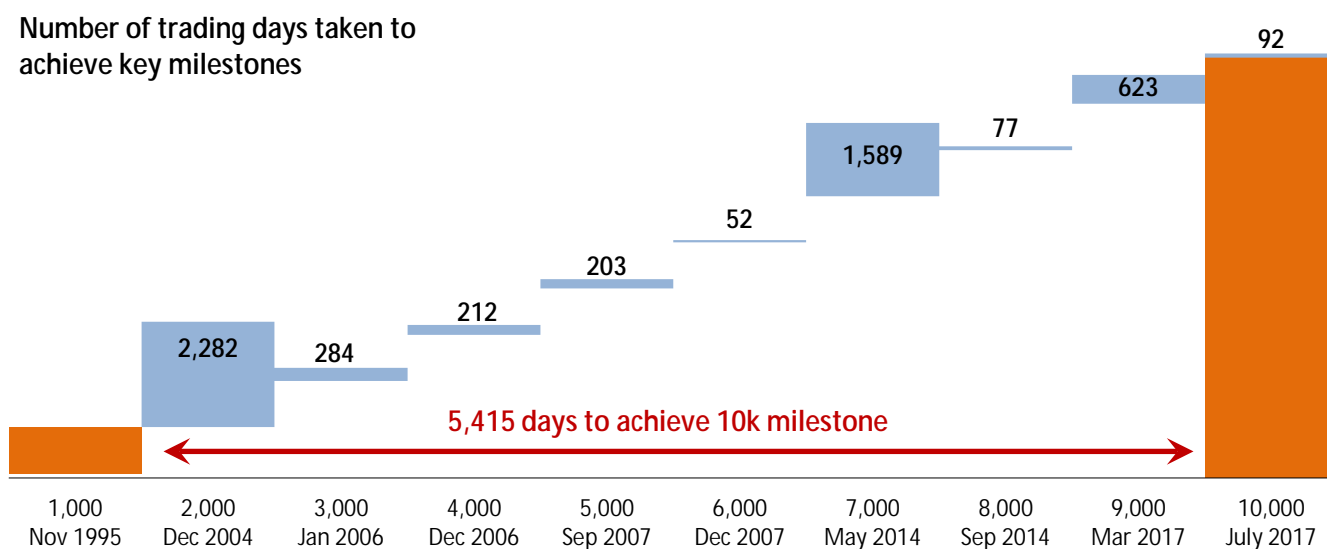
Key changes in market-cap ranks v/s January 2008 peak

- n The drivers of market earnings growth have changed over the last decade. While the large part of the first decade of the 21st century was characterized by stronger earnings performance from Cyclical and Infrastructure sectors, the story has changed post the Global Financial Crisis. Financials and Consumer/Consumer Discretionary have exhibited earnings outperformance over 2008-17. The same is reflected in the change in their market capitalization ranks.
- n The disproportionate influence of Financials and Consumer/Consumer Discretionary in the current cycle has been reinforced – these sectors have delivered best earnings performance and are re-rated significantly. Naturally, they have gained in prominence in the market cap rankings.
- n Biggest gainers in market cap ranks are: **Maruti, IndusInd Bank, Ultratech, Asian Paints, Eicher Motors, HDFC Bank and HUL**. Similarly, the underperformance of Cyclical is reflected in the change in market-cap ranks at the bottom, with **Tata Steel, Hindalco, ACC and Tata Power** being the key losers.

Valuations ~25% above long-period averages; 19% premium to Jan 2008 levels

- n The Nifty is trading at a trailing P/E of 22.3x, at a 25% premium to its own long-period average. Comparing the Nifty's current valuations with those in January 2008 (earlier peak), we note that the index now trades at a 19% premium.
- n Nifty trailing P/B, at 3.1x, is at a 10% premium to LAP, but at a 22% discount to January 2008 P/B of 3.9x.

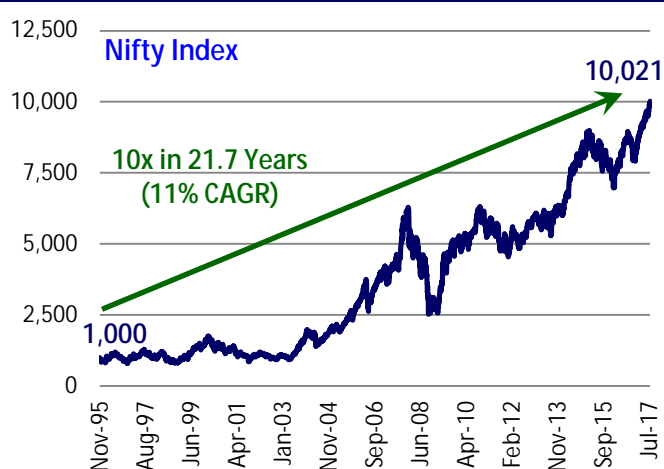
Exhibit 1: The journey of Nifty from 1K to 10K...



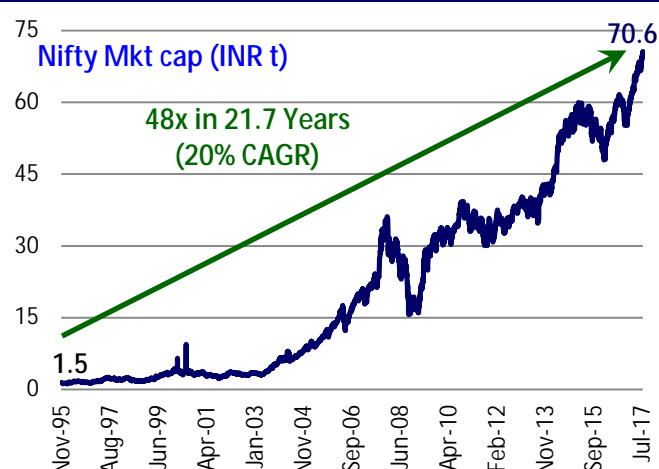
Source: NSE, MOSL

Nifty delivers 11% CAGR in ~22 years; total Nifty market cap up 48x

- n Since inception, the Nifty has delivered a CAGR of 11%; however, its total market cap is up 48x, implying a 20% CAGR.
- n 15 stocks have consistently remained on the index since inception. On a cumulative basis, the market cap of these stocks has gone up 35x, a CAGR of 18%.
- n The best Nifty performers (market cap multiple since Nifty inception): HDFC Bank (up 693x), Hero Motocorp (126x), HDFC (68x), ITC (65x), Dr Reddy's Lab (65x) and Reliance Inds (55x).
- n These 15 stocks represented 53% weight of the index in March 1996, and now account for 46.4%.

Exhibit 2: Nifty is up 10x in last ~22 years

Source: NSE, Capitaline, MOSL

Exhibit 3: Nifty market cap has increased by 48x; 20% CAGR

Source: NSE, Capitaline, MOSL

Exhibit 4: 15 common stocks since inception of Nifty

Company	Mkt Cap 1996 (INR B)	Weight 1996 (%)	Current Mkt Cap (INR B)	Current Weight (%)	Mkt cap Appreciation (x)
Reliance Inds.	95	6.5	5277	7.1	55
HDFC Bank	6	0.4	4498	9.3	693
ITC	55	3.8	3571	6.6	65
H D F C	38	2.6	2602	6.9	68
St Bk of India	112	7.6	2553	2.9	23
Hind. Unilever	103	7.0	2521	2.2	24
Larsen & Toubro	55	3.8	1653	3.8	30
Tata Motors	103	7.0	1457	2.3	14
Hero Motocorp	6	0.4	742	1.3	126
Tata Steel	67	4.6	549	1.0	8
Ambuja Cem.	26	1.8	526	0.5	20
Hindalco Inds.	54	3.7	497	0.9	9
Dr Reddy's Labs	7	0.5	449	0.9	65
ACC	32	2.2	320	0.4	10
Tata Power Co.	16	1.1	223	0.4	14
Total of Above	775	53.0	27440	46.4	35

Source: NSE, Capitaline, MOSL

Exhibit 5: Top 10 companies by weight in Nifty-50

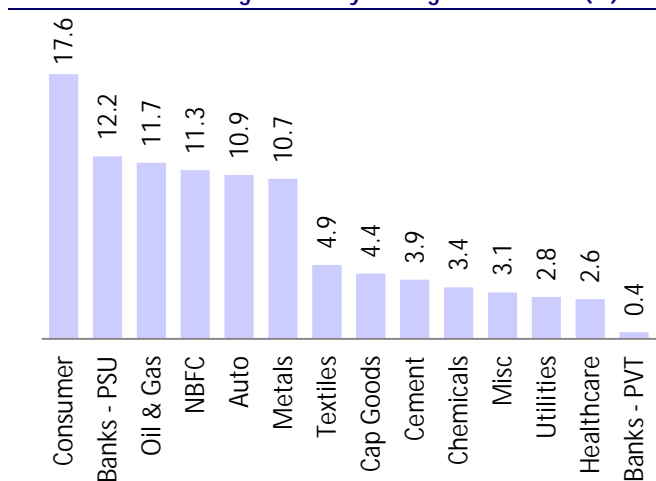
Company	Weight as of Mar 1996 (%)	Company	Weight as of 26 July 2017 (%)
SBI	7.6	HDFC Bank	9.3
HUL	7.0	Reliance Inds.	7.1
Tata Motors	7.0	HDFC	6.9
Reliance Inds.	6.5	ITC	6.6
Tata Steel	4.6	ICICI Bank	5.3
Bajaj Holdings	4.4	Infosys	5.2
L&T	3.8	L&T	3.8
ITC	3.8	TCS	3.6
Hindalco Inds	3.7	Kotak Mah. Bank	3.2
IDBI Bank	3.7	SBI	2.9

Source: NSE, Capitaline, MOSL

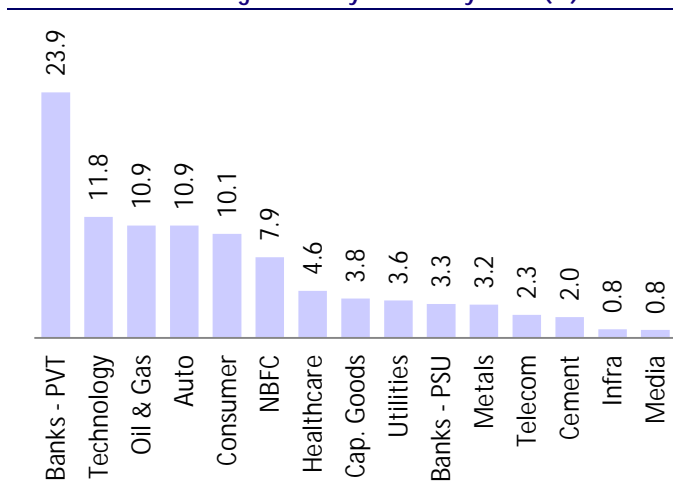
Four stocks continue to remain part of top ten since inception

Interesting observations from sectoral weight changes since inception

- Consumer (17.6%) and PSU Banks (12.2%) had the highest weights in March 1996.
- Private Banks had a meager 0.4% weight in the index then, with HDFC Bank as the sole representative. Today, Private Banks account for the maximum weight at 23.9%, while PSU Banks form just 3.3% of the index.
- Consumer sector's weight has shrunk to 10%. Some of the consumer companies that were part of the Nifty in 1996 (Brooke Bond, Ponds) have got merged/acquired.
- Textiles and Chemicals, which had 8.3% weightage in 1996, have no representation in the Nifty today. On the other hand, Technology and Telecom sectors, which were still in their infancy in mid-90s and had no representation in Nifty then, now account for 14% of the index.
- Auto weights have remained static at 11%.

Exhibit 6: Sector weight in Nifty during March 1996 (%)

Source: NSE, Capitaline, MOSL

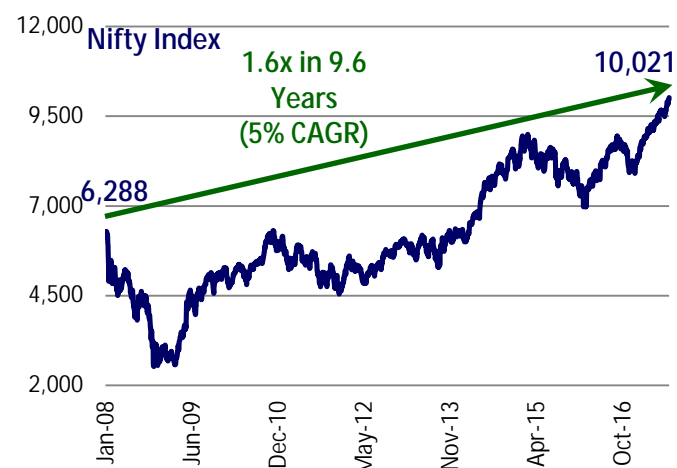
Exhibit 7: Sector weight in Nifty on 26 July 2017 (%)

Source: NSE, Capitaline, MOSL

From the earlier peak of Jan'08, Nifty has delivered only 5% CAGR

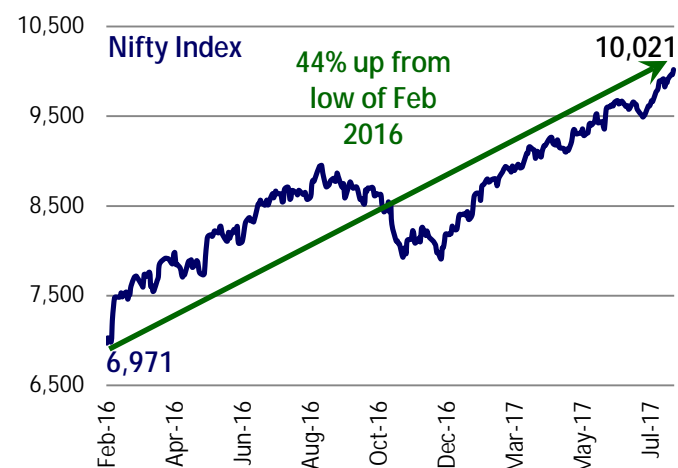
- Notwithstanding the recent buoyancy in the markets, if one were to compare the Nifty performance with the earlier peak of January 2008, then the returns exhibit only modest CAGR of 5%, largely reflecting the anemic earnings performance.
- From the recent bottom levels of February 2016, Nifty is up 44% in 17 months.

Exhibit 8: Nifty is up 1.6x from its peak of Jan 2008



Source: NSE, Capitaline, MOSL

Exhibit 9: Nifty is up 44% from its bottom of Feb 2016



Source: NSE, Capitaline, MOSL

Exhibit 10: Performance from recent bottom of Feb 2016

Company	CMP (INR)	CMP vs Feb 2016 Bottom (%)
NIFTY INDEX	10021	44
STOCKS TRADING HIGHER THAN 50%		
Vedanta	281	304
Hindalco Inds.	222	230
Yes Bank	1712	155
Tata Steel	566	128
Maruti Suzuki	7565	122
Indiabulls Hous.	1189	112
I O C L	374	105
Adani Ports	393	98
IndusInd Bank	1580	96
St Bk of India	296	95
ICICI Bank	310	87
HDFC Bank	1748	85
B P C L	471	85
Reliance Inds.	1623	72
Power Grid Corpn	217	65
GAIL (India)	376	64
Larsen & Toubro	1180	63
Kotak Mah. Bank	987	63
H D F C	1633	57
ITC	294	54
Eicher Motors	29002	54
Tata Motors	457	53
STOCKS TRADING HIGHER THAN 0-50%		
Bosch	24280	49
UltraTech Cem.	4074	47
Tata Power Co.	83	45
ACC	1706	42
Hero Motocorp	3717	42
NTPC	166	40
Ambuja Cem.	265	40
Axis Bank	529	40
Zee Entertainmen	531	40
Hind. Unilever	1165	38
Bharti Airtel	426	32
Asian Paints	1134	32
Aurobindo Pharma	748	27
Bank of Baroda	163	26

Exhibit 11: Performance from earlier peak of Jan 2008

Company	CMP (INR)	CMP vs Jan 2008 Peak (%)
NIFTY INDEX	10021	59
The Multi-baggers		
Eicher Motors	29002	7107
Aurobindo Pharma	748	1338
IndusInd Bank	1580	1150
Lupin	1124	822
Asian Paints	1134	809
Maruti Suzuki	7565	705
Yes Bank	1712	558
HCL Technologies	893	493
B P C L	471	476
Hero Motocorp	3717	438
Sun Pharma.Inds.	580	423
TCS	2556	417
HDFC Bank	1748	409
Hind. Unilever	1165	392
Bosch	24280	383
UltraTech Cem.	4074	319
Dr Reddy's Labs	2707	284
ITC	294	281
Zee Entertainmen	531	246
M & M	1414	241
Tata Motors	457	208
Kotak Mah. Bank	987	197
Cipla	575	174
H D F C	1633	165
Axis Bank	529	148
Infosys	994	139
I O C L	374	106
STOCKS TRADING HIGHER THAN 0-100%		
Wipro	289	97
Ambuja Cem.	265	87
Bank of Baroda	163	81
ACC	1706	73
Adani Ports	393	63
Vedanta	281	51
Power Grid Corpn	217	50
GAIL (India)	376	43
Tech Mahindra	389	41

Company	CMP (INR)	CMP vs Feb 2016 Bottom (%)
Bajaj Auto	2841	22
Tata Motors-DVR	271	16
TCS	2556	16
M & M	1414	15
Bharti Infra.	414	15
O N G C	164	14
Cipla	575	11
HCL Technologies	893	10
Wipro	289	8
STOCKS TRADING LOWER THAN FEB'16		
Tech Mahindra	389	-6
Dr Reddy's Labs	2707	-10
Infosys	994	-10
Coal India	261	-13
Sun Pharma.Inds.	580	-34
Lupin	1124	-36

Source: NSE, Capitaline, MOSL

Company	CMP (INR)	CMP vs Jan 2008 Peak (%)
ICICI Bank	310	27
St Bk of India	296	27
Larsen & Toubro	1180	22
Hindalco Inds.	222	17
Reliance Inds.	1623	6
STOCKS TRADING LOWER THAN 2008		
Bharti Airtel	426	-13
O N G C	164	-26
Tata Steel	566	-37
NTPC	166	-37
Tata Power Co.	83	-45

Source: NSE, Capitaline, MOSL

Key changes in market-cap ranks v/s January 2008 (peak phase)

- n The changes in market capitalization ranks vis-à-vis the peak of January 2008 reveal an interesting trend, as shown in Exhibit 13.
- n The disproportionate influence of Financials and Consumer/Consumer Discretionary in the current cycle has been reinforced.
- n Biggest gainers in market cap ranks are: **Maruti, IndusInd Bank, Ultratech, Asian Paints, Eicher Motors, HDFC Bank and HUL.**
- n The underperformance of Cyclical is reflected in the change in market-cap ranks at the bottom, with **Tata Steel, Hindalco, ACC and Tata Power** being the key losers.

Exhibit 12: Mkt. cap movement since low of Feb 2016

Company Name	Mkt Cap (INR b)	Rank July 2017	Rank Change Current Vs low of 2016
Vedanta	1,044	26	22
Yes Bank	783	33	11
I O C L	1,814	13	9
Maruti Suzuki	2,285	8	9
St Bk of India	2,553	6	7
Tata Steel	549	38	7
Hindalco Inds.	497	43	7
IndusInd Bank	946	28	7
Adani Ports	814	31	6
ICICI Bank	1,990	11	5
H D F C	2,602	5	5
Aurobindo Pharma	438	46	-5
Bharti Infra.	765	34	-6
Infosys	2,283	9	-6
Bank of Baroda	376	48	-6
Wipro	1,408	18	-7
HCL Technologies	1,274	21	-7
Cipla	463	44	-8
Coal India	1,618	16	-9
Tech Mahindra	380	47	-9
Dr Reddy's Labs	449	45	-11
Sun Pharma.Inds.	1,390	19	-13
Lupin	508	41	-17

Source: NSE, Capitaline, MOSL

Exhibit 13: Mkt. cap movements from peak of Jan 2008

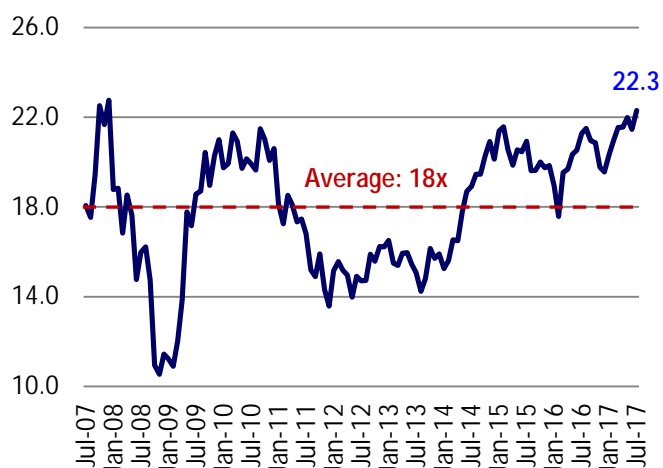
Company Name	Mkt Cap (INR b)	Rank July 2017	Rank Change Current Vs High of 2008
Maruti Suzuki	2,285	8	16
IndusInd Bank	946	28	16
UltraTech Cem.	1,119	24	15
Asian Paints	1,088	25	15
Eicher Motors	790	32	14
HDFC Bank	4,498	3	13
Hind. Unilever	2,521	7	10
Vedanta	1,044	26	9
HCL Technologies	1,274	21	8
O N G C	2,105	10	-8
Power Grid Corpn	1,137	23	-8
Bharti Airtel	1,704	14	-10
Tech Mahindra	380	47	-10
Cipla	463	44	-11
Ambuja Cem.	526	39	-12
Adani Ports	814	31	-13
Bank of Baroda	376	48	-16
GAIL (India)	635	37	-17
NTPC	1,372	20	-17
Hindalco Inds.	497	43	-18
ACC	320	49	-19
Tata Steel	549	38	-24
Tata Power Co.	223	50	-28

Source: NSE, Capitaline, MOSL

Valuations ~25% above long-period averages; 19% premium to Jan 2008 levels

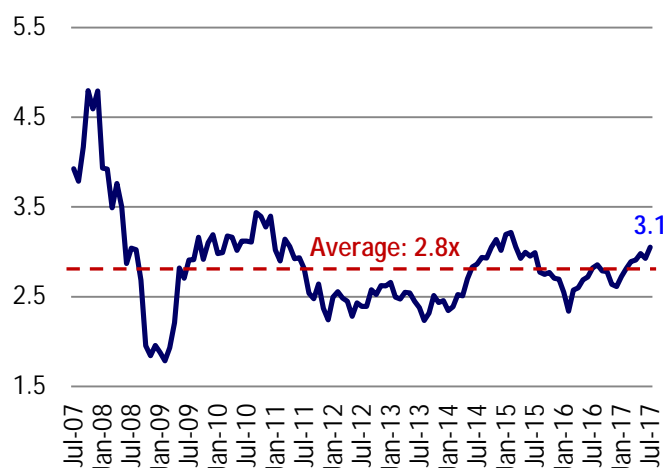
- n The Nifty trades at a trailing P/E of 22.3x, at a 25% premium to its own long-period average. Comparing the Nifty's current valuations with those of January 2008 (earlier peak), we note that the index now trades at a 19% premium.
- n Nifty trailing P/B, at 3.1x, is at a 10% premium to LAP, but at a 22% discount to January 2008 P/B of 3.9x.
- n Nifty RoE stands at 13.7%, a tad below its long-term average of 16.1%.
- n Market cap-to-GDP ratio of 78% (FY18E GDP) is at its long-term average.

Exhibit 14: Trailing Nifty P/E (x): ~25% premium to LPA



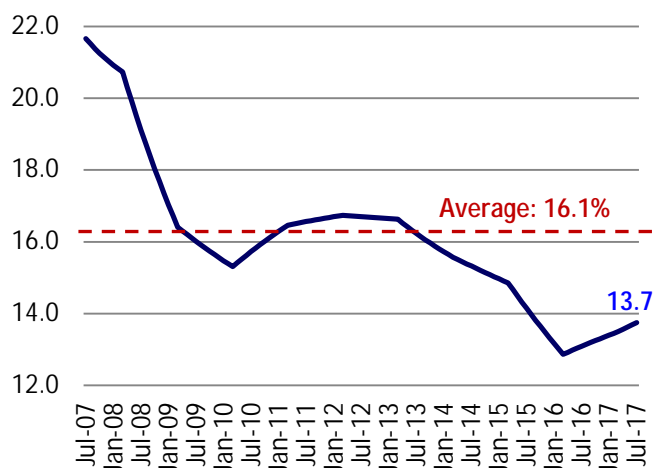
Source: MOSL

Exhibit 15: Trailing Nifty P/B (x): ~10% premium to LAP



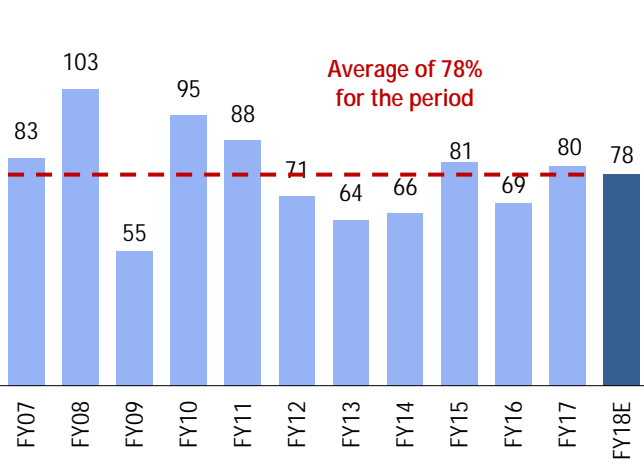
Source: MOSL

Exhibit 16: Trailing Nifty RoE (%)



Source: MOSL

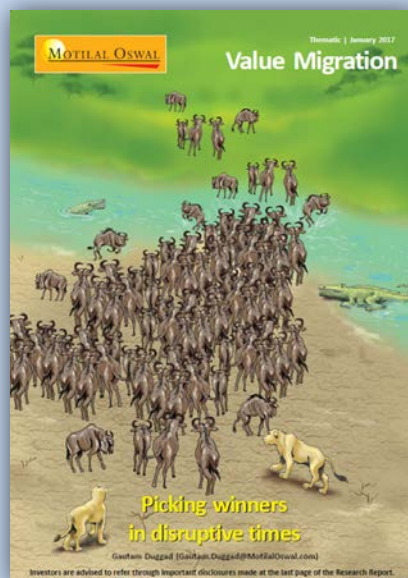
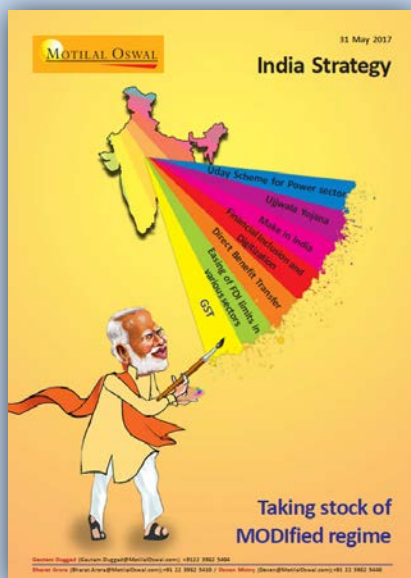
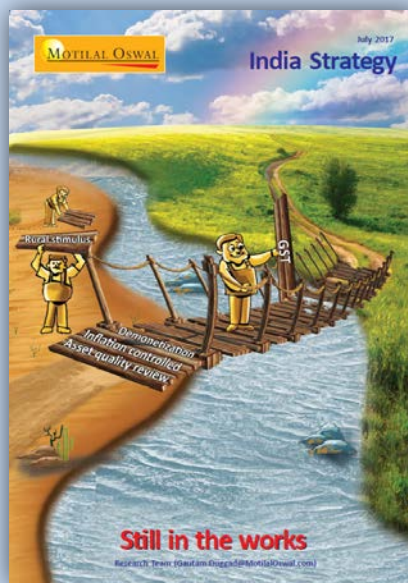
Exhibit 17: India's market cap to GDP (%)



Source: MOSL

NOTES

THEMATIC/STRATEGY RESEARCH GALLERY



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