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It's Advice, Not Adventure

# Quant Yearly Outlook 2023

## Banking, Technology heavyweights to propel Nifty in CY23


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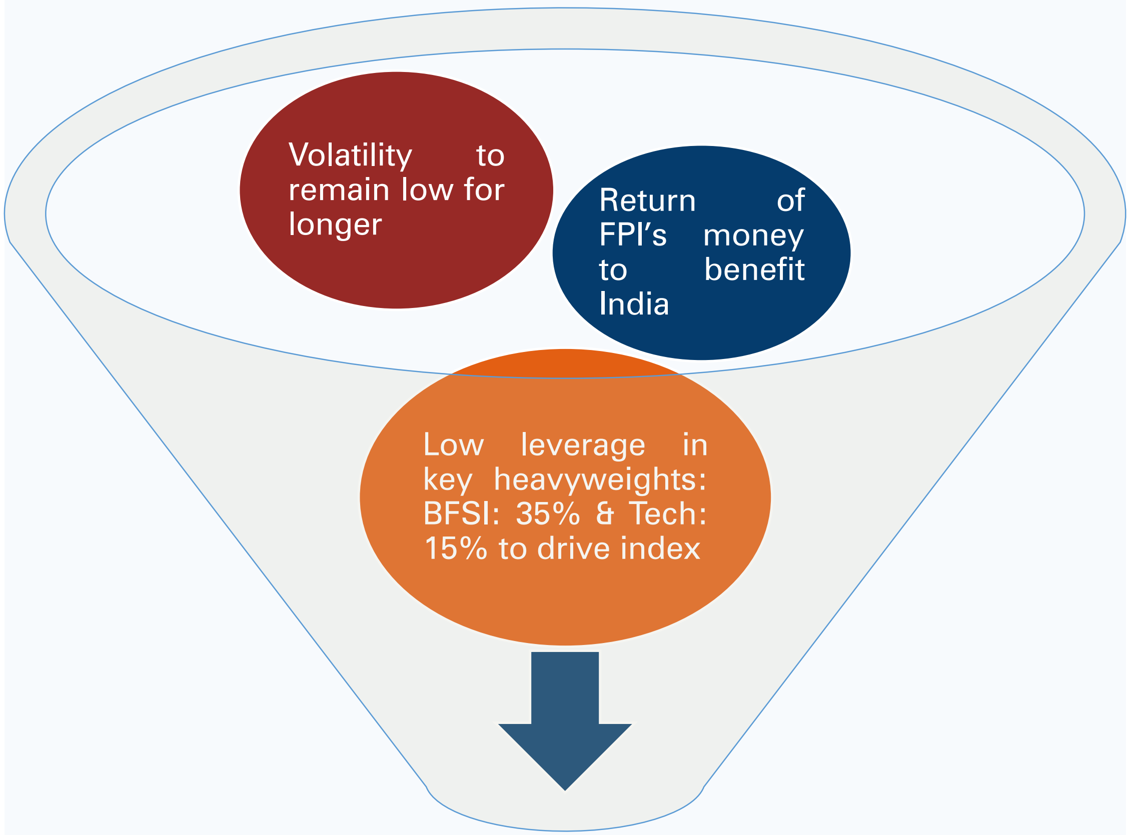
# Banking, Technology heavyweights to propel Nifty in CY23




**Nifty to move towards 21200**

### Volatility

- From Hypersensitive to Obstinate
- Divergence in IV trend: US VIX vs. India VIX
- Decent returns in lower volatility

### FPI

- FPIs turn positive on India from July 2022
- Continued outperformance to drive fresh flows

### Preferred Sectors

- Banking: To reinforce leadership further
- Technology: Recovery expected
- Capital goods: Should remain firm
- Metals: Outperformance likely in CY23

### Recommended stocks

- Bharat Forge
- Hindalco
- LTI Mindtree
- Multi Commodity Exchange
- State Bank of India
- Sun Pharma

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# 2023: Banking, Technology to drive Nifty towards 21200…

ICICI direct Research

- Low leverage among heavyweight sectors like banking and technology to lead Nifty towards 21200
- We expect volatility to remain subdued in coming weeks extending decoupling from globe
- FPI flows to remain strong due to continued outperformance of India


*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Low market wide leverage to fuel further leg of up move…

High leverage among F&O stocks have been a sign of euphoria, which has resulted in meaningful profit booking in the past. We observed this in 2015, 2018 and 2020. However, for the first time in the last 15 years, we are witnessing relatively low leverage in markets despite the Nifty making fresh lifetime highs.


Despite the Nifty making lifetime highs, overall stock open interest has declined despite new stock additions in F&O space

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

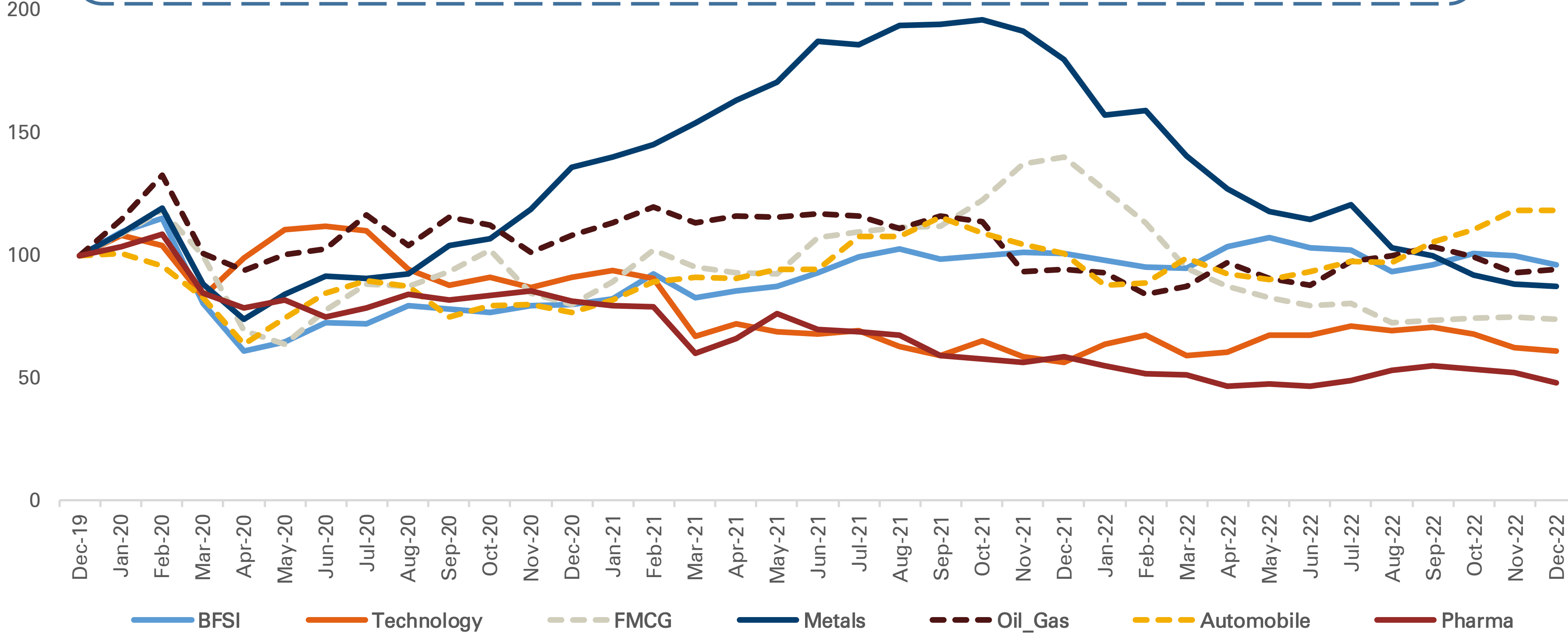


Contd…

# Low market wide leverage to fuel further leg of up move…

## Sectoral cumulative open interest (Normalised)

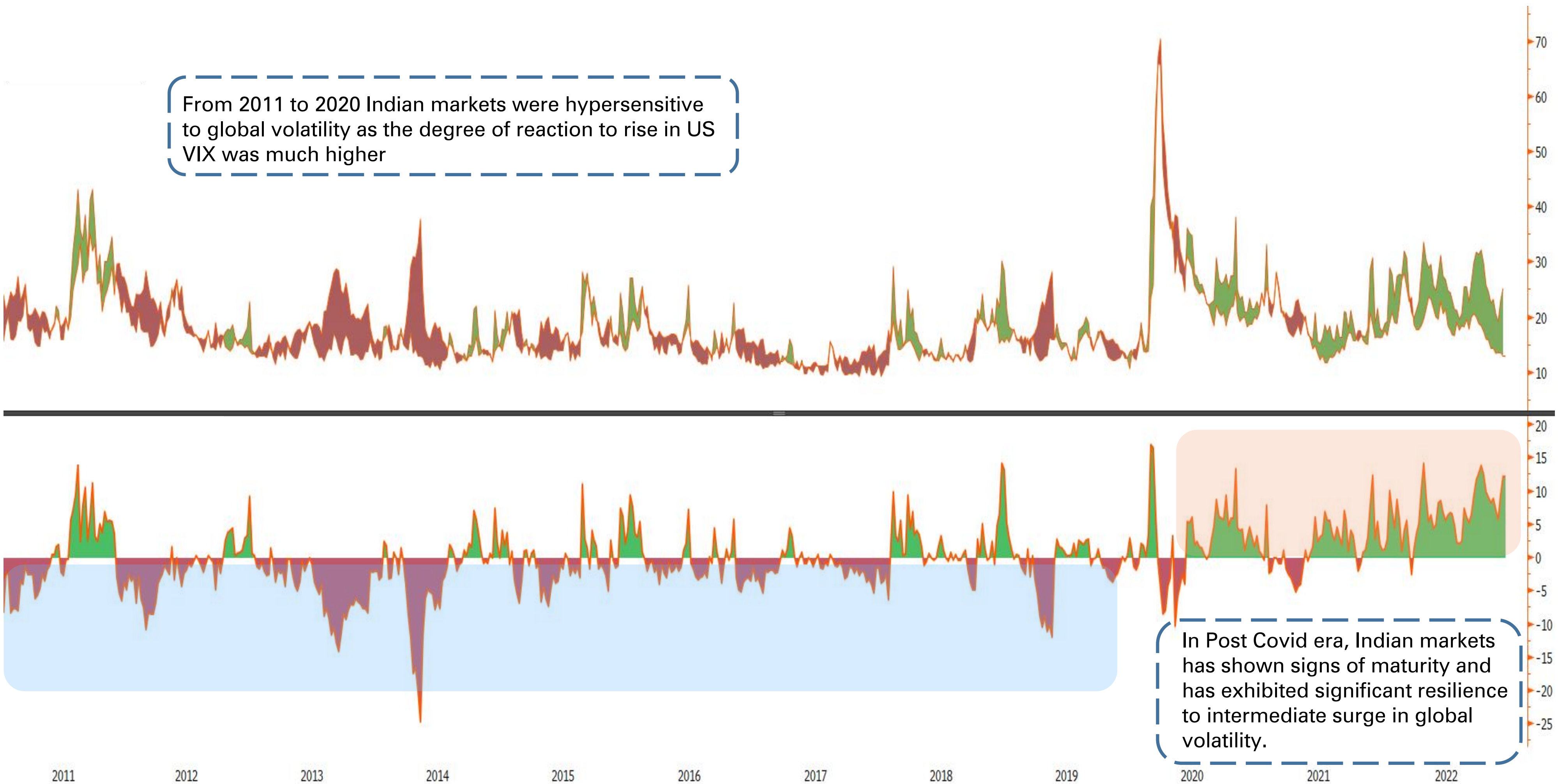
- Despite the increase in F&O stocks, most sectors are witnessing significantly low open interest suggesting scepticism
- Among major sectors where we can see relatively low leverage is BFSI, technology, pharma and metals. We believe fresh longs are likely to formed here and relative outperformance can be expected




*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Volatility may remain subdued for prolonged period…

## Indian markets: From Hypersensitive to Obstinate…




*Source: Bloomberg, Seediff.com, ICICI Direct Research*



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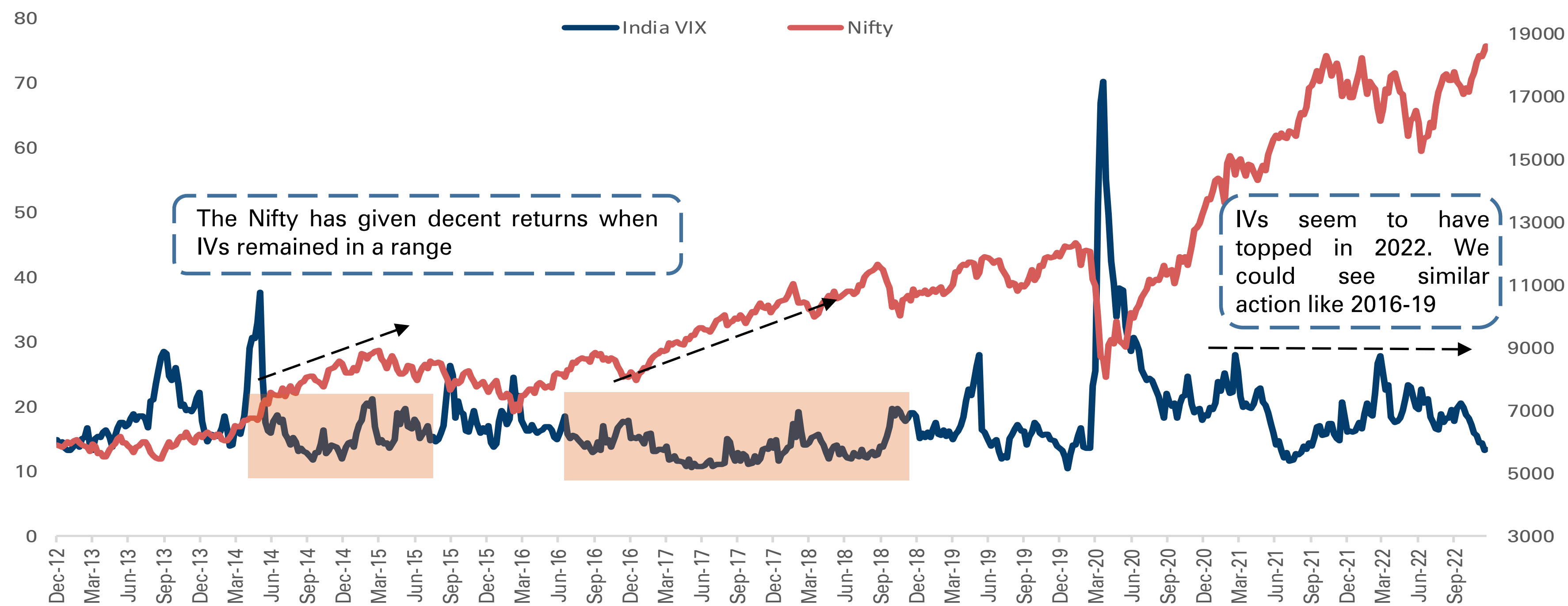
## Volatility to remain subdued for prolonged period of time

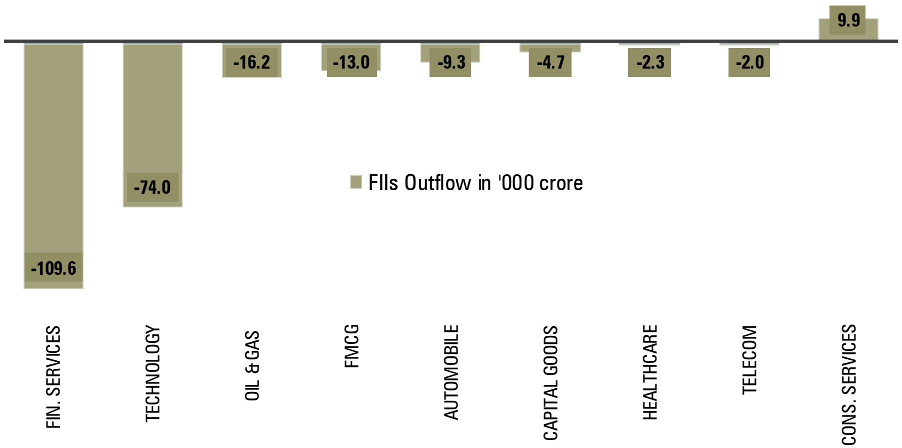



- Historically, volatility has been in a downward trend for a prolonged period of time, which, in turn, has been one of the best return periods for the Nifty. While the low volatility could be a cause for concern due to lack of risk perception, historical evidence suggests that low levels of volatility may remain for an extended period of time
- Despite US VIX moving higher, India VIX failed to sustain at higher levels suggesting inherited strength in Indian markets. Since 2021, India VIX has failed to sustain above 26 and remained in a declining trend. We expect volatility upsides to be limited in 2023 and remain on the lower side.

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

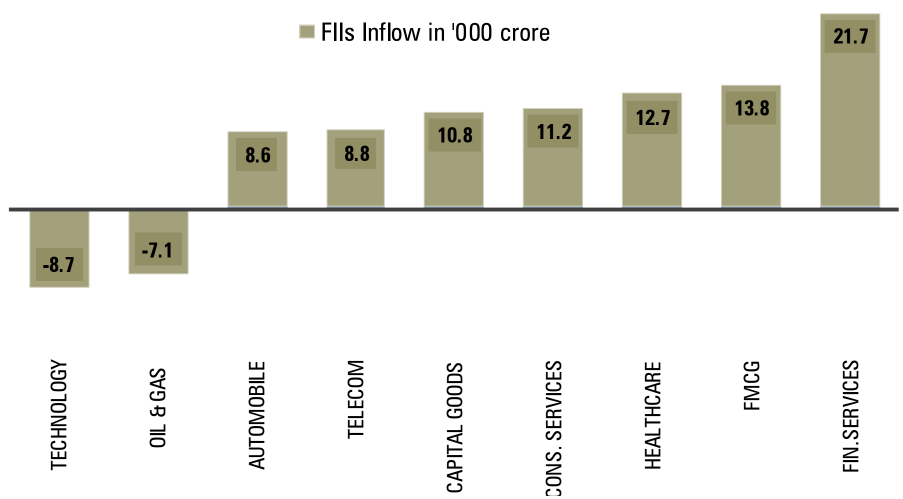
# Return of FPI money likely to elongate outperformance

## FII's outflow (October 2021-June 2022)




- FIIs had withdrawn ~₹ 2,56,000 crore from the domestic equity markets between October 2021 and June 2022
- The financials and technology space along with oil & gas saw cumulative outflow of ~ ₹ 186,000 crore
- Consumer services was the only sector where inflows were seen during the same period

## FII's Inflow (July 2022 till now)

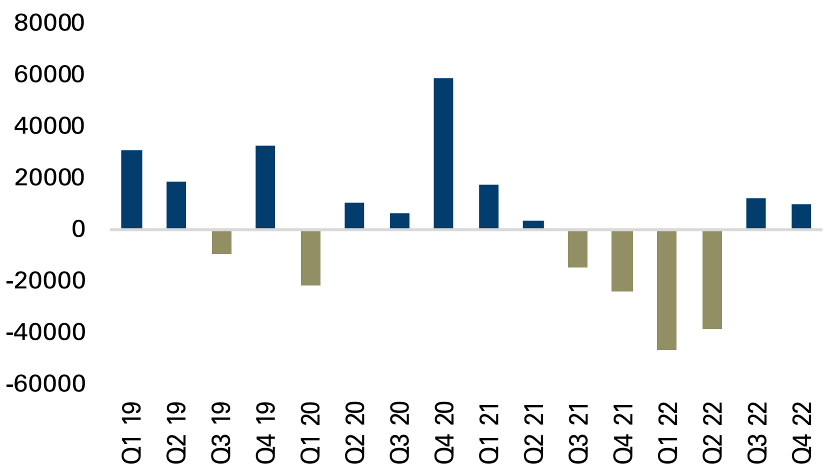



- Equity markets witnessed return of foreign funds since July 2022. They turned net buyers of almost ₹ 84,000 crore
- Apart from tech and oil & gas, almost every sector saw inflows. Even the technology sector started witnessing flows post September, which is the highest ever seen in more than three years
- Financials have seen the largest chunk of flows due to their weight. We expect the same trend to continue

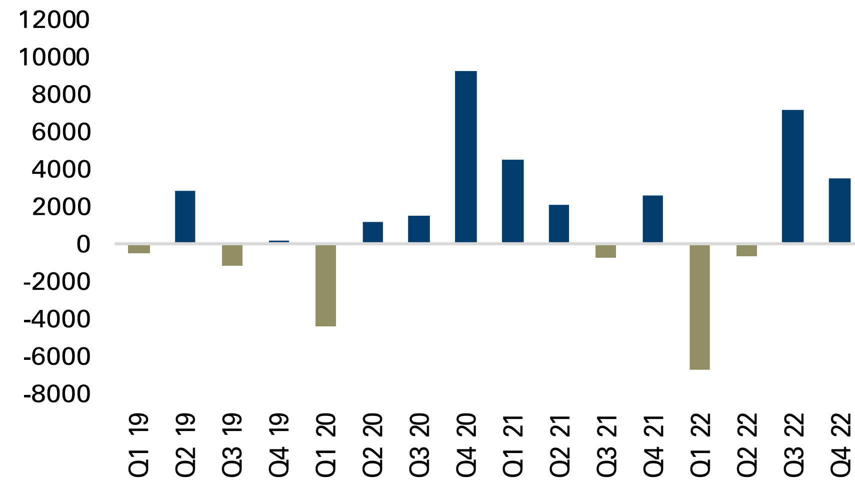
*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# FPI flows: BFSI, capital goods remain in favour

## BFSI: Resumption of flows trigger recovery




## Capital Goods: Highest net inflows



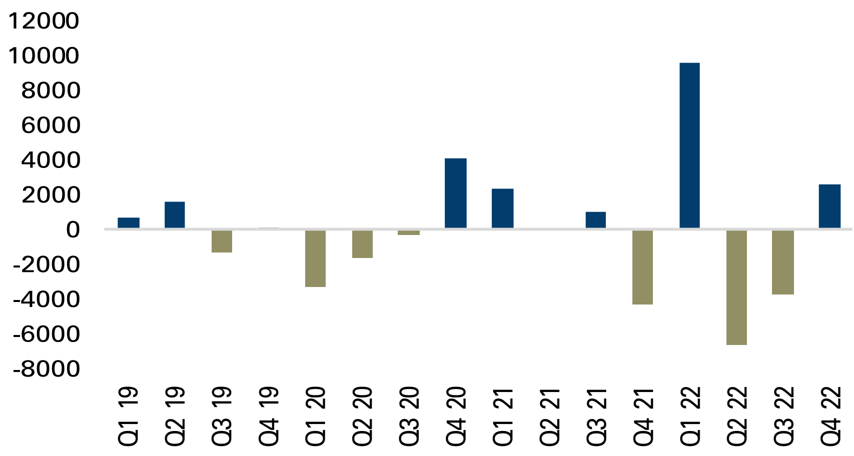

- Banking and financial services together gained almost 11% in CY22. Financials underperformed banks while private and PSU banks were the leaders with a gain of more than 22%
- After one year of continued outflows, the BFSI space has started witnessing fresh flows in the last two quarters where banking was the major beneficiary. We expect the same trend to continue in CY23 as well

- The capital goods space saw one of the highest inflows in recent years. While the rest of the sectors saw outflows, stocks from capital goods continued to witness inflows. Defence stocks along with L&T seem to have garnered a major chunk of the flows during the year

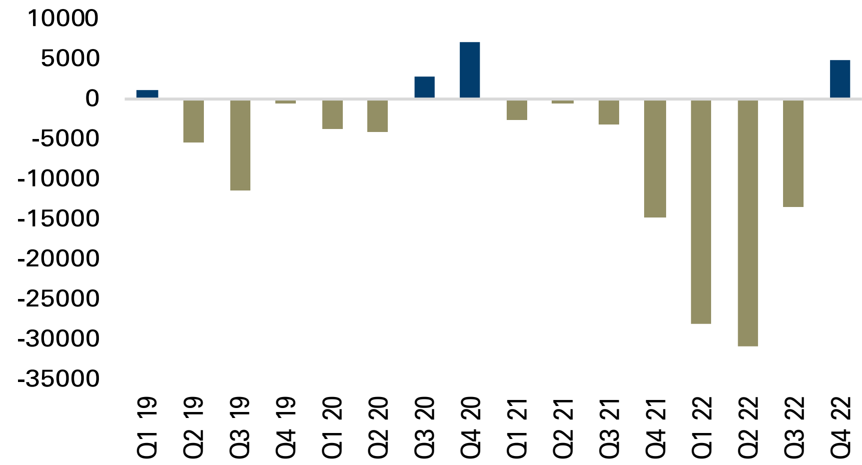
*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# FPI Flows: Metal, IT space sees renewed inflows…

## Metals




## Technology: Highest flows in two years



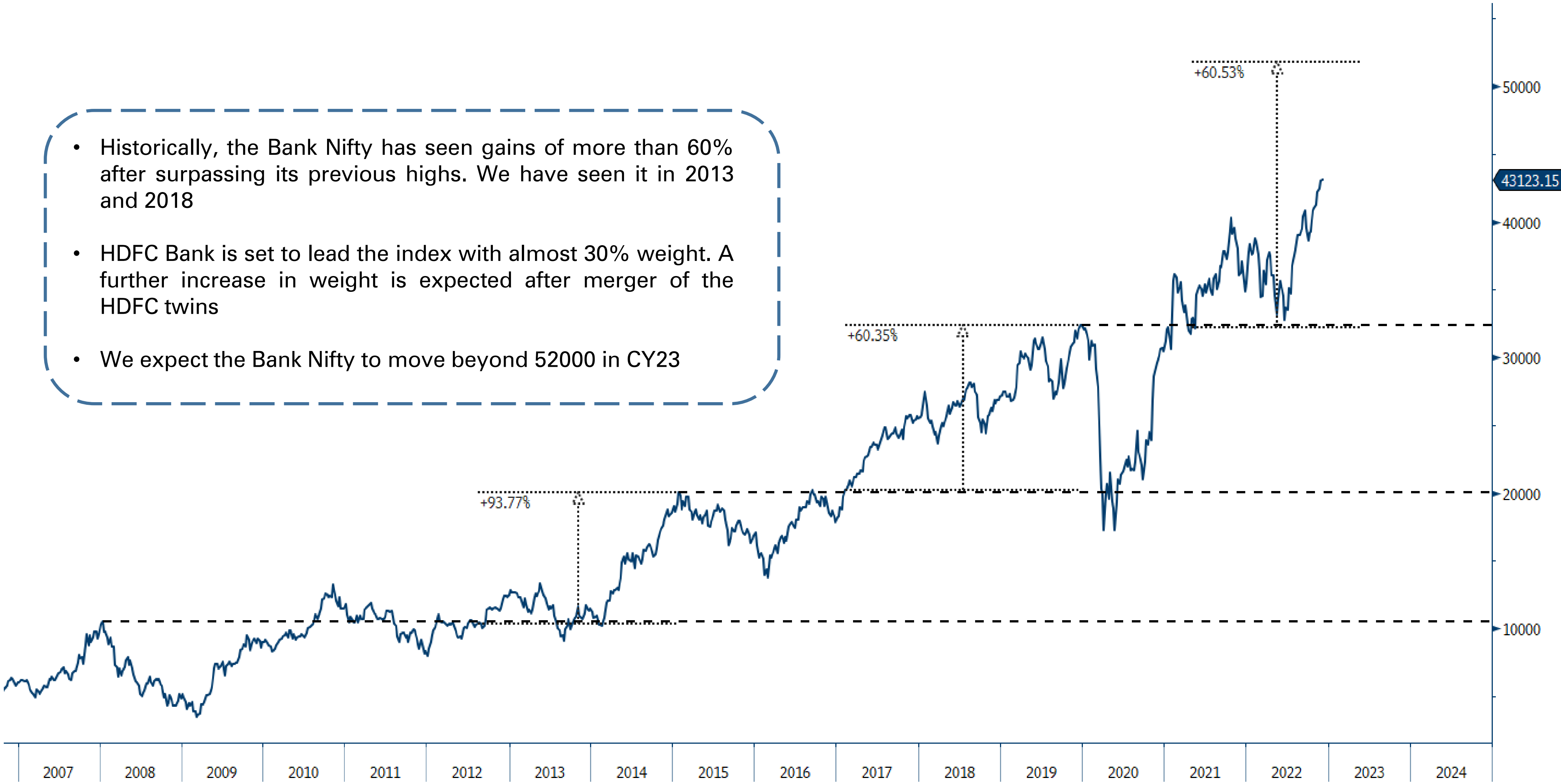

- Metal stocks have performed in line with global markets and witnessed continued flows till Q3 2021. However, they succumbed to FPI selling pressure along with broader markets
- Fresh inflow was observed in the current quarter also and is expected to continue, going ahead. The net flows in metals seem to be relatively higher suggesting broader uptrend

- Technology space has been witnessing continued outflows since 2019. Despite humongous flows in 2020, they have failed to see any major inflows compared to broader markets
- The ongoing quarter has seen one of the highest flows in more than two years suggesting some resumption of FIIs' interest at lower levels suggesting value area

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

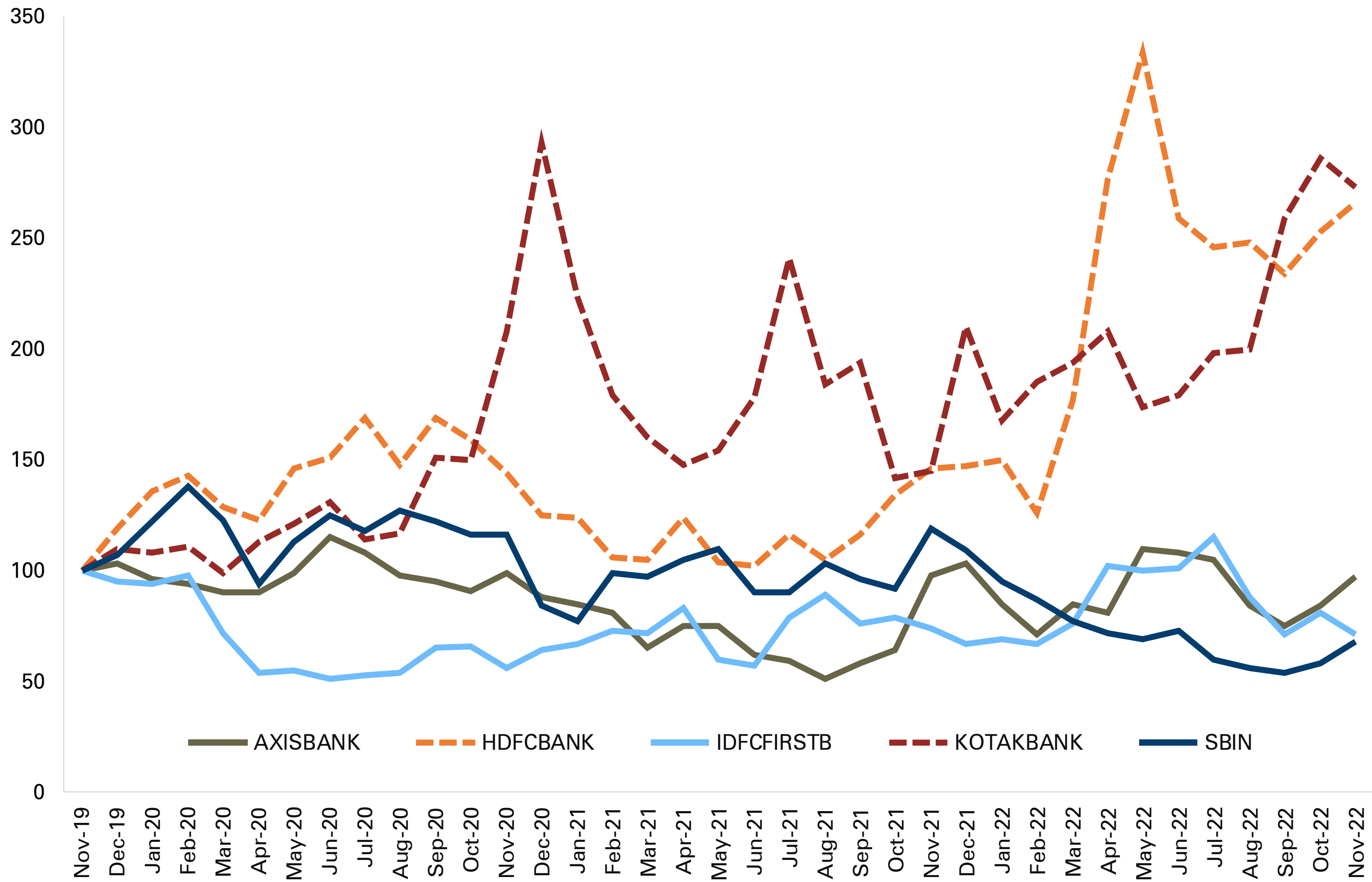
# Bank Nifty to move beyond 52000 levels...

- Historically, the Bank Nifty has seen gains of more than 60% after surpassing its previous highs. We have seen it in 2013 and 2018
- HDFC Bank is set to lead the index with almost 30% weight. A further increase in weight is expected after merger of the HDFC twins
- We expect the Bank Nifty to move beyond 52000 in CY23




*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Banks: At lifetime high prices, OI among leaders lingering near low…




## High OI Stocks

- Corporate action triggered high OI in HDFC Bank. Fresh trend likely to be seen
- Kotak Bank still high on shorts

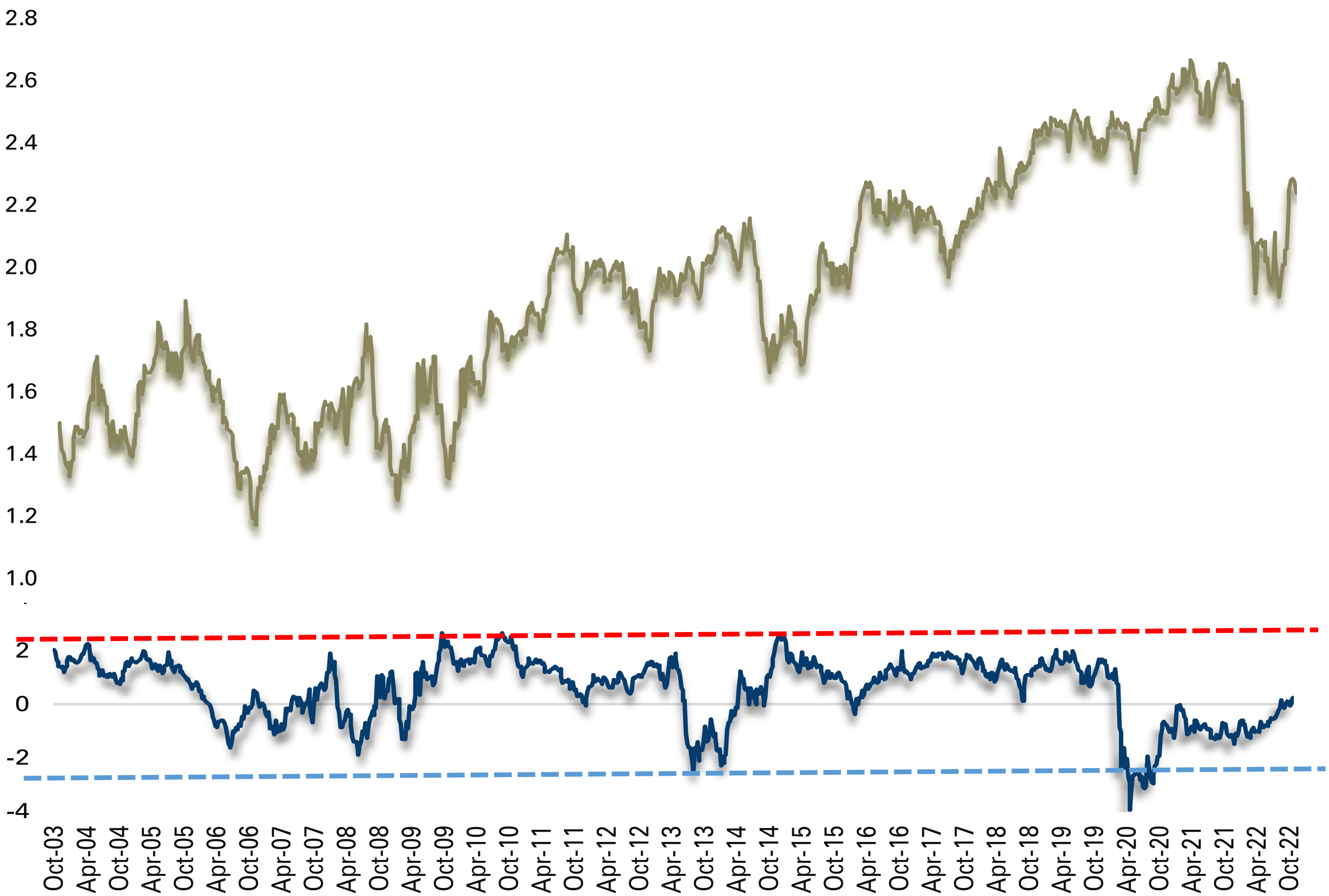
## Low OI Stocks

- PSU banks are witnessing significantly low leverage despite outperformance. The trend is likely to continue
- Axis Bank has started to witness the same trend. We expect further room for upside

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Bank Nifty/ Nifty price ratio to resume uptrend…

## Bank Nifty/ Nifty Price ratio




- The Bank Nifty has been the major driver of the Nifty since 2008 as visible through price ratio. We have seen intermediate corrections of ~25-30% in the ratio followed by outperformance by 50-70% as seen in 2013, 2015 and 2019. Henceforth, we believe that a similar outperformance trend should be seen in the coming months

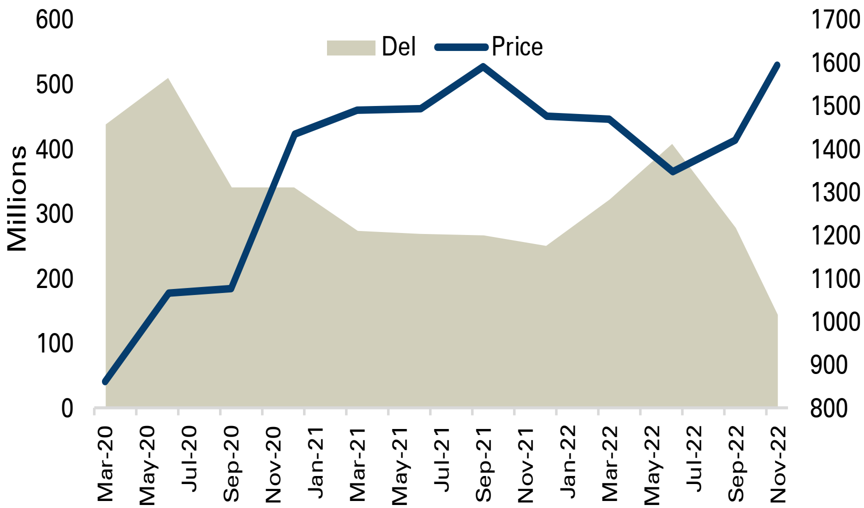
- The Z score of price ratio (between Bank Nifty/Nifty) had reverted after testing lower 2* sigma levels in April 20. We believe the outperformance may gather pace once the Z Score starts moving into the positive territory

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

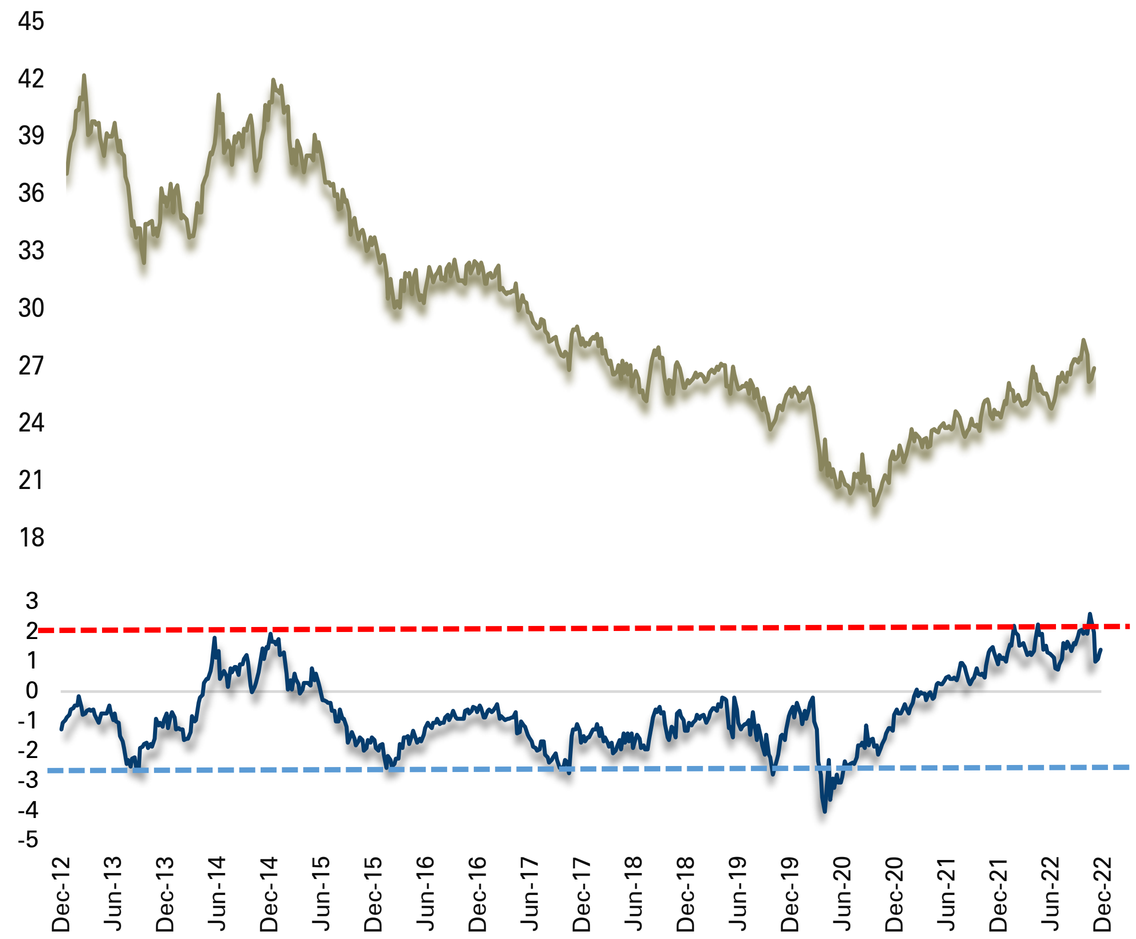
# HDFC Bank set to lead Bank Nifty

| Weightage | • Stock weight in Bank Nifty likely to increase due to merger of HDFC Ltd and HDFC Bank |
| --- | --- |
| Delivery Volumes | • Strong delivery based accumulation was seen in June quarter of 2022 |
| Bank Nifty/HDFC Bank Ratio chart | • Z Score suggesting reversal in ratio chart. Hence, HDFC Bank is likely to lead in coming months |

## HDFC Bank quarterly delivery




## Bank Nifty/ HDFC Bank Price ratio




*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Nifty IT to recover towards 36000

**Historical Perspective**

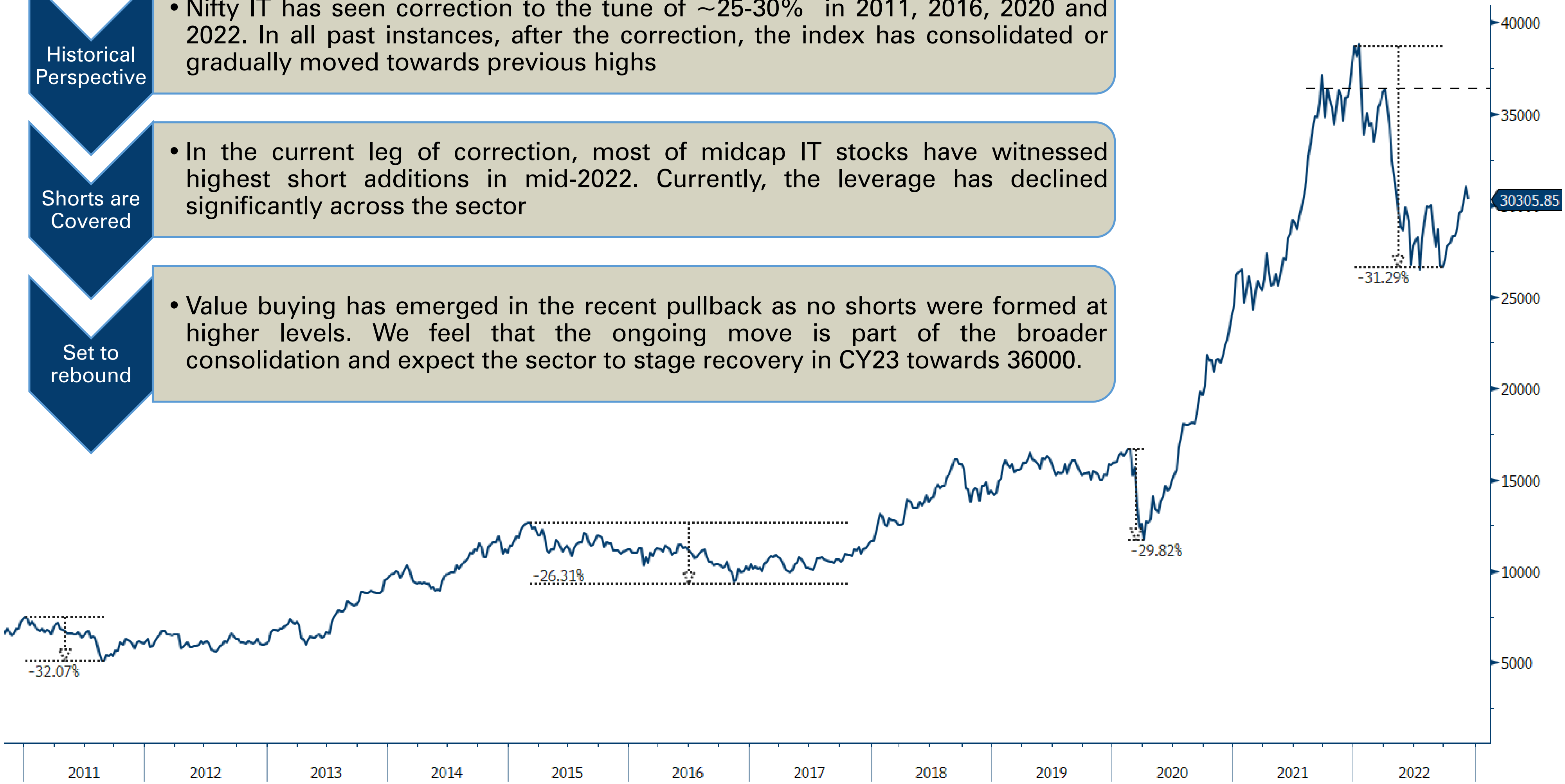
- Nifty IT has seen correction to the tune of ~25-30% in 2011, 2016, 2020 and 2022. In all past instances, after the correction, the index has consolidated or gradually moved towards previous highs

**Shorts are Covered**

- In the current leg of correction, most of midcap IT stocks have witnessed highest short additions in mid-2022. Currently, the leverage has declined significantly across the sector

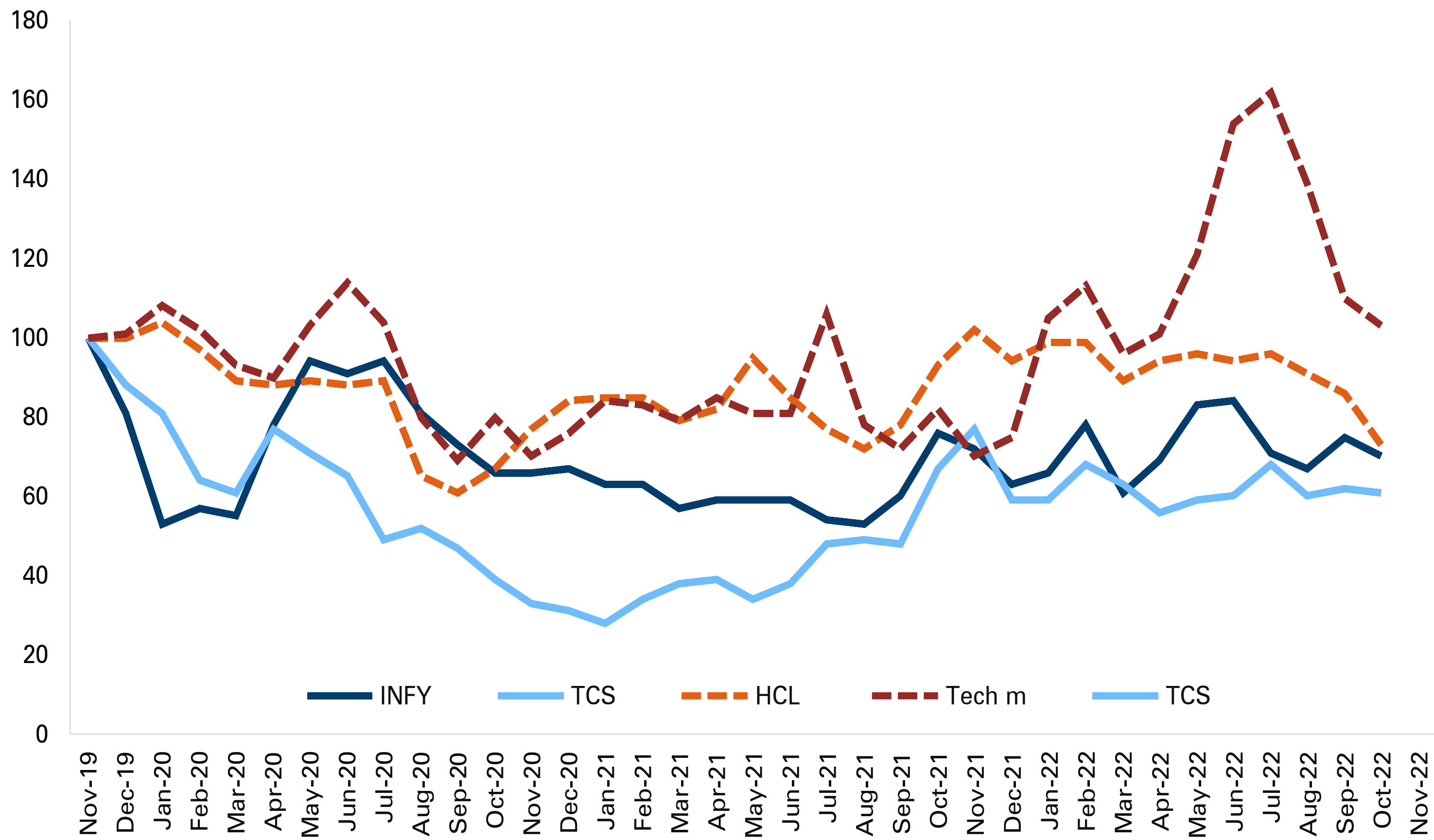
**Set to rebound**

- Value buying has emerged in the recent pullback as no shorts were formed at higher levels. We feel that the ongoing move is part of the broader consolidation and expect the sector to stage recovery in CY23 towards 36000.




*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Technology: Index heavyweights have not seen shorts



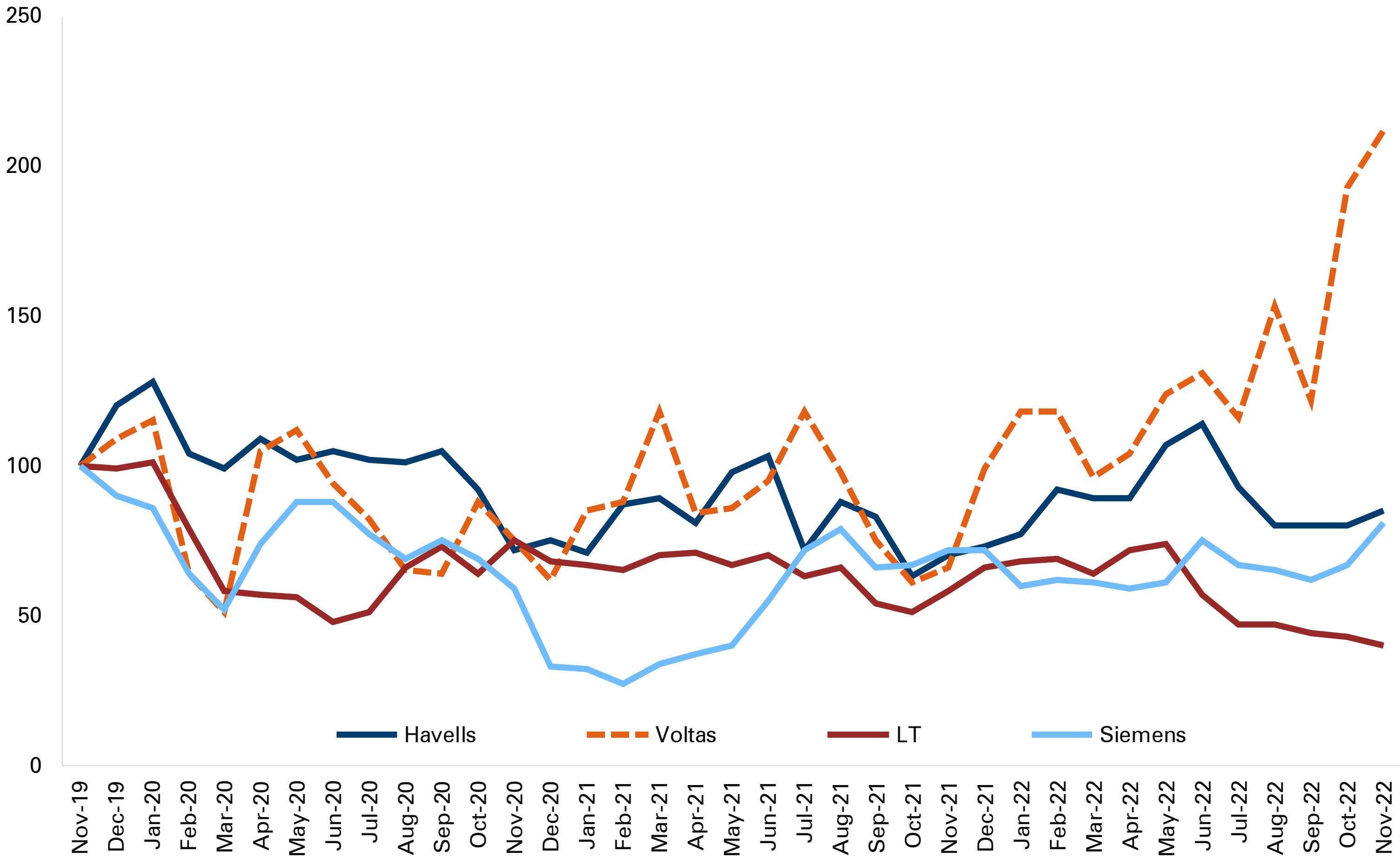

The technology space was the major laggard of the year and witnessed significant shorts across the sector in the first half of the year.

However, in the consolidation seen after June, significant closure was observed among most technology stocks. Only few stocks like Wipro are still holding high shorts.

The OI among heavyweights like TCS and Infosys has returned to normal levels. Hence, we do not expect further pressure among these names and expect recovery.

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Capital Goods: Large caps remain in favour



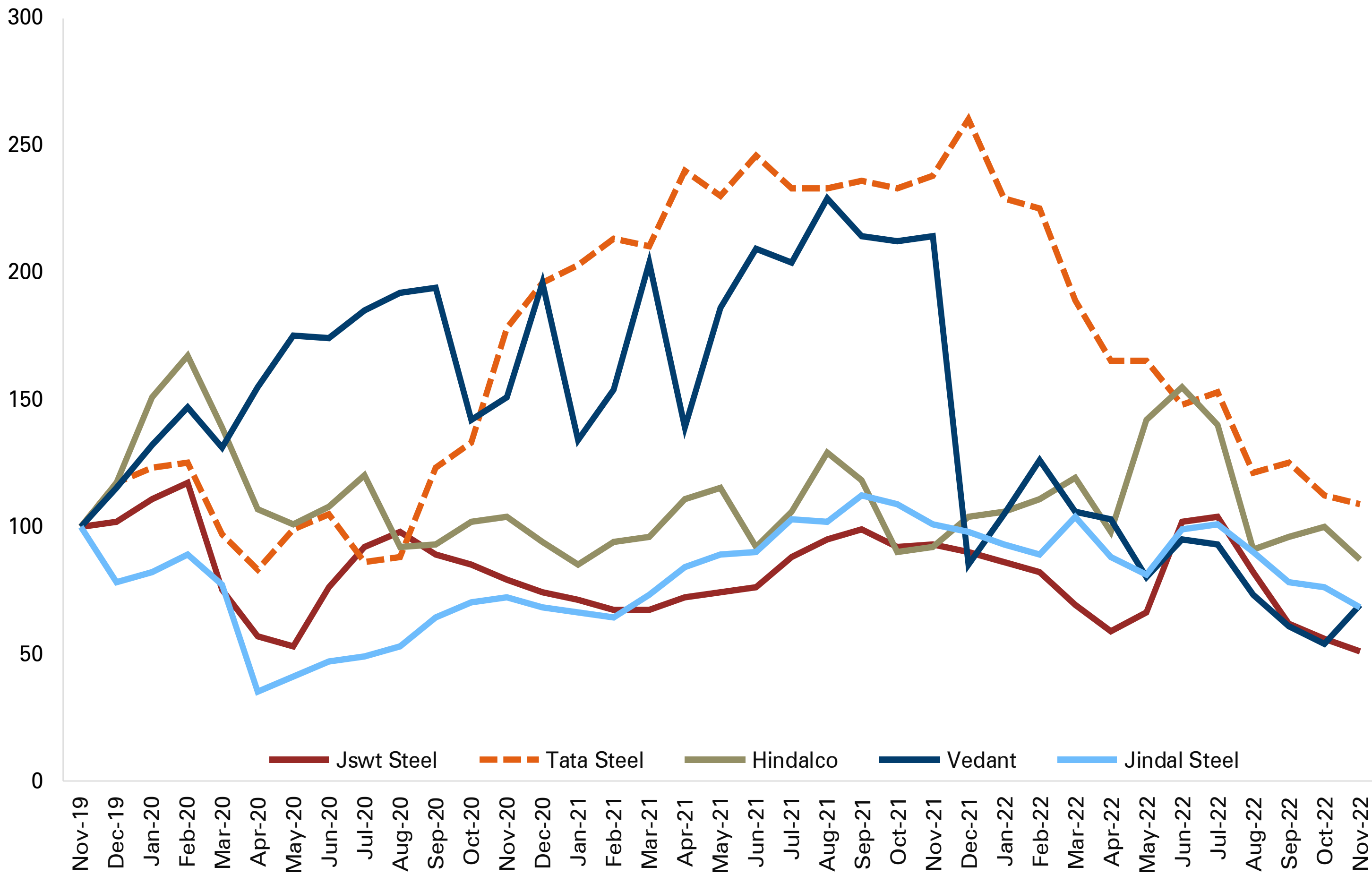

Capital goods has been the favourite sector for FPI as money inflow remained in this space throughout the year.

Stocks like L&T and Siemens have given major breakouts with notable delivery volumes.

However, open interest among heavyweights has remained low despite the outperformance. We expect the uptrend in stocks to continue.

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

# Metals: Open interest in stocks near multi-year lows




The open interest in metal stocks is close to multi-year lows. Hindalco and JSW Steel have one of the lowest OI

Tata Steel and Jindal Steel witnessing continued closure of short positions in last few months

Historically, we have seen a good price performance in the space whenever leverage have declined to such lows.

*Source: Bloomberg, Seediff.com, ICICI Direct Research*

## Quant Picks for 2023

| Stocks | Sectors | Initiation Range | Target | Stoploss | Upside Potential |
|---|---|---|---|---|---|
| Bharat Forge | Auto | 875-900 | 1150 | 730 | 28% |
| Hindalco | Metal | 455-470 | 590 | 380 | 26% |
| LTIMindtree | Technology | 4350-4450 | 5800 | 3620 | 31% |
| MCX | Midcap | 1610-1655 | 2150 | 1330 | 30% |
| State Bank of India | Banks | 610-625 | 790 | 515 | 26% |
| Sun Pharma | Pharma | 970-1000 | 1260 | 830 | 26% |

*Source : Bloomberg, ICICI Direct Research*

# Quant Pick: Buy State Bank of India in range of ₹ 610-625; Target: ₹ 790; Stop loss: ₹ 515; Time Frame: 12 months

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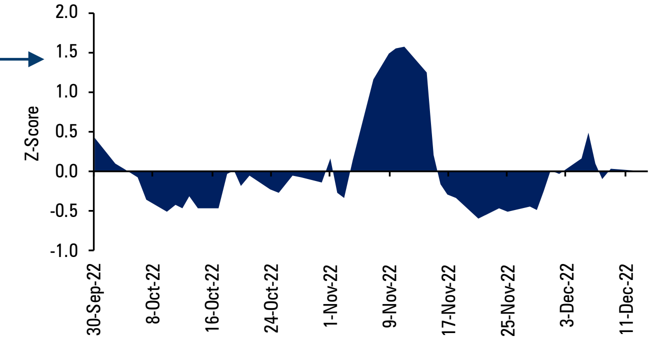
## Data Snapshot

| | |
|---|---|
| Spot Price | 620 |
| Beta | 1.38 |
| 12M Avg Price (₹) | 512 |
| 3M Avg Roll (%) | 85% |
| HV 30 Day (% Annualised) | 18.1 |

Pick-up in delivery volumes at lower levels indicates expected healthy upsides. The volatility in the stock has also reduced drastically signifying upsides.

## Delivery Z-Score




- SBI futures open interest has come down from almost 12 crore shares in the early part of the year to just over 6 crore while the stock has been largely below ₹ 550 levels
- The delivery accumulation seen near ₹ 525-550 levels now seems to be the base case scenario for the stock
- The stock has seen acceleration in the primary trend once it starts trading above its mean+1* sigma levels
- We believe the current up-move may extend towards ₹ 790 levels


*Source : Bloomberg, ICICI Direct Research*

# Quant Pick: Buy Sun Pharma in range of ₹ 970-1000; Target: ₹ 1260; Stop loss: ₹ 830; Time Frame: 12 months

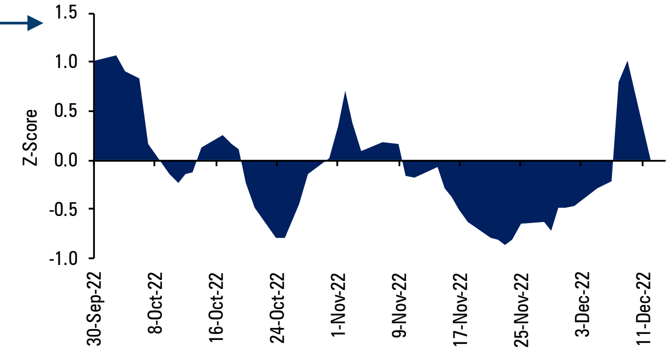
ICICI direct Research

## Data Snapshot

| | |
|---|---|
| Spot Price | 1000 |
| Beta | 0.72 |
| 12M Avg Price (₹) | 895 |
| 3M Avg Roll (%) | 93% |
| HV 30 Day (% Annualised) | 16.7 |

Lower volatility in the stock beside with sharp increase in delivery Z score indicates attractive risk reward at current levels

## Delivery Z-Score




- Since Q2-2022, significant inflows in the pharma space have been observed and Sun Pharma was among the best performers in the pack suggesting accumulation in the stock at lower levels
- Currently, the stock is trading above its mean+1*sigma levels where we expect it to witness fresh buying interest on dips. We expect it to cross its life-time highs


*Source : Bloomberg, ICICI Direct Research*

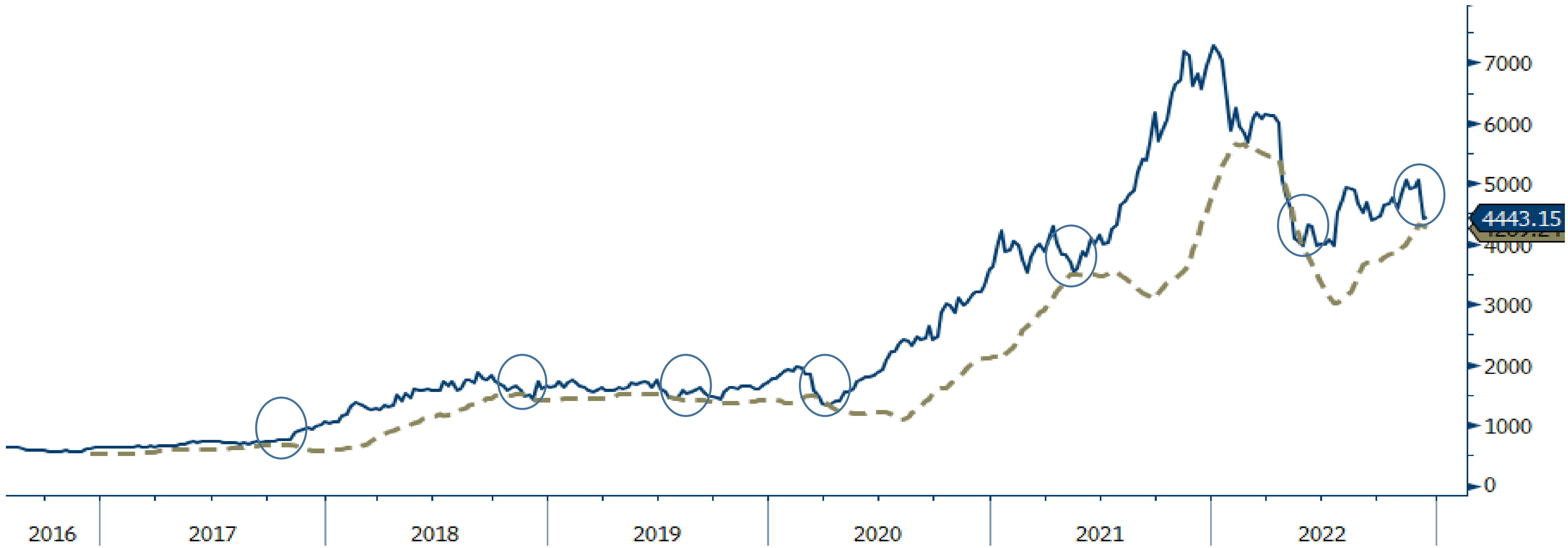
# Quant Pick: Buy LTIMindtree in range of ₹ 4350-4450; Target: ₹ 5800; Stop loss: ₹ 3620; Time Frame: 12 months

ICICI direct Research

**Data Snapshot**

| | |
|---|---|
| Spot Price | 4443 |
| Beta | 1.07 |
| 12M Avg Price (₹) | 5152 |
| HV 30 Day (% Annualised) | 33.5 |

- LTIM is one of the few IT names where open interest has moved higher. However, we believe the current addition in OI is on the back of corporate event. It is likely to be covered gradually in coming months
- The combined entity of LTI and Mindtree has a cumulative free float of more than ₹ 40,000 crore making it among Nifty contenders along with meaningful weight in Nifty Jr in coming months. Hence, we believe fresh fund flow may induce upsides
- Historically, the stock has a tendency to take support near its mean -2* sigma levels after sharp corrections. We feel the current levels are very much attractive in terms of risk-reward




*Source : Bloomberg, ICICI Direct Research*

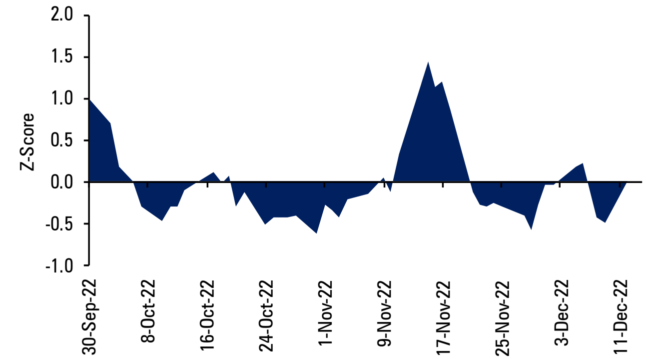
# Quant Pick: Buy Hindalco in range of ₹ 455-470; Target: ₹ 590; Stop loss: ₹ 380; Time Frame: 12 months

## Data Snapshot

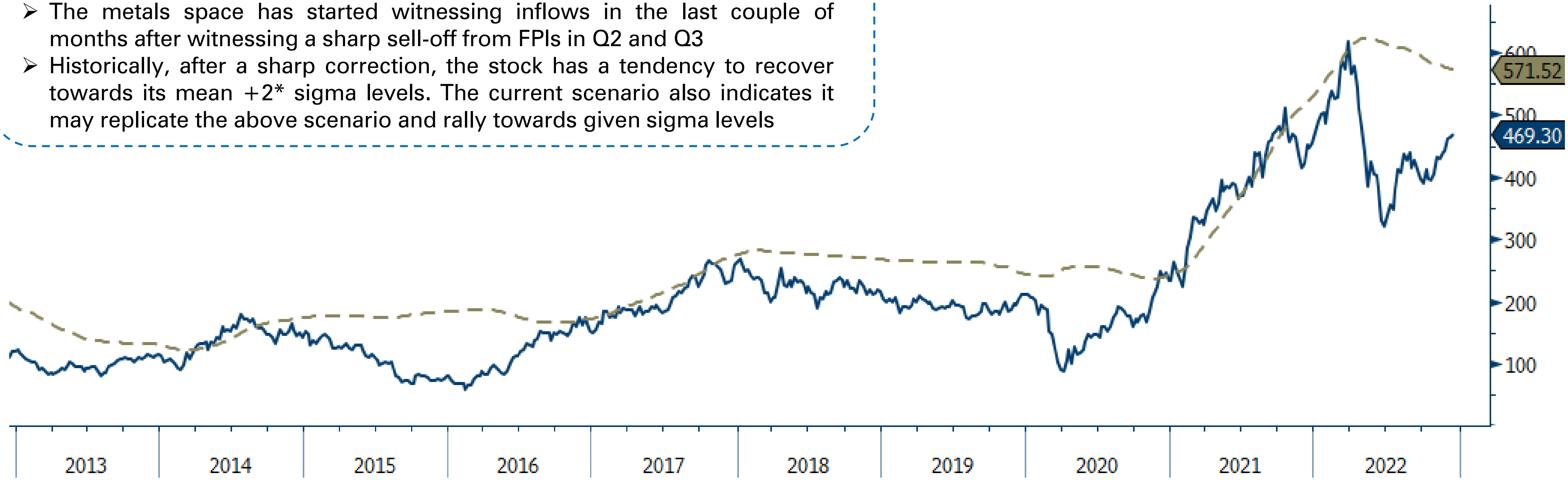
| | |
|---|---|
| Spot Price | 469 |
| Beta | 1.10 |
| 12M Avg Price (₹) | 450 |
| 3M Avg Roll (%) | 85% |
| HV 30 Day (% Annualised) | 40.1 |

In the recent consolidation the stock has seen staggered way delivery buying

## Delivery Z-Score




- Hindalco open interest is currently hovering near its decade lows. The sharp change in open interest was observed in the recent up move seen since June 2022
- The metals space has started witnessing inflows in the last couple of months after witnessing a sharp sell-off from FPIs in Q2 and Q3
- Historically, after a sharp correction, the stock has a tendency to recover towards its mean +2* sigma levels. The current scenario also indicates it may replicate the above scenario and rally towards given sigma levels




*Source : Bloomberg, ICICI Direct Research*

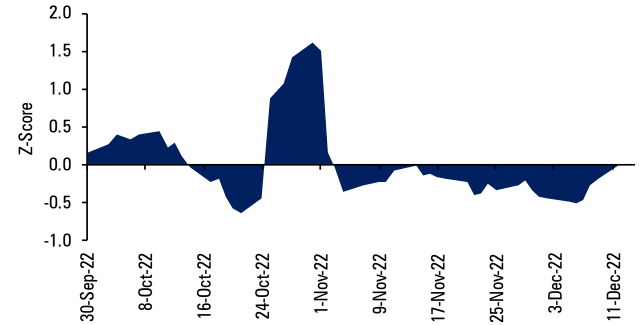
# Quant Pick: Buy MCX in range of ₹ 1610-1655;
# Target: ₹ 2150; Stop loss: ₹ 1330; Time Frame: 12 months

## Data Snapshot

| | |
|---|---|
| Spot Price | 1650 |
| Beta | 0.95 |
| 12M Avg Price (₹) | 1379 |
| 3M Avg Roll (%) | 94% |
| HV 30 Day (% Annualised) | 21.1 |

Delivery Z-score remained low suggesting no major delivery based selling in the recent consolidation seen in the stock.

## Delivery Z-Score




- Despite a relatively new entrant in F&O, MCX has started witnessing an uptrend on the back of notable delivery based buying since last quarter
- MCX has been a market underperformer in the last couple of years and remained below its mean+2*sigma levels of 1640. In the recent up move, the stock moved above it after consolidation of almost two years
- We expect the stock to find fresh positive momentum and lead towards its life-time highs


*Source : Bloomberg, ICICI Direct Research*

# Quant Pick: Buy Bharat Forge in range of ₹ 875-900; Target: ₹1150; Stop loss: ₹ 730 Time Frame: 12 months

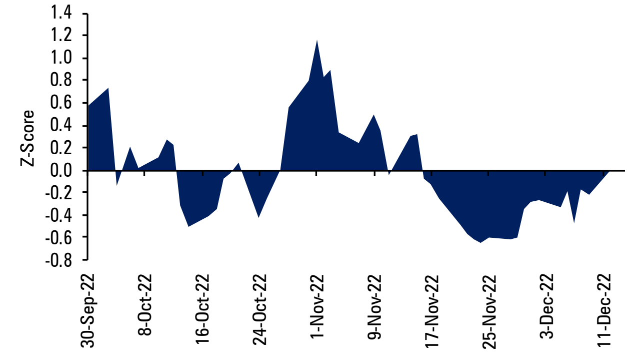
ICICI direct Research

## Data Snapshot

| | |
|---|---|
| Spot Price | 900 |
| Beta | 1.17 |
| 12M Avg Price (₹) | 722 |
| 3M Avg Roll (%) | 93% |
| HV 30 Day (% Annualised) | 24.1 |

Despite high volatility in the stock delivery Z score remained low.

## Delivery Z-Score



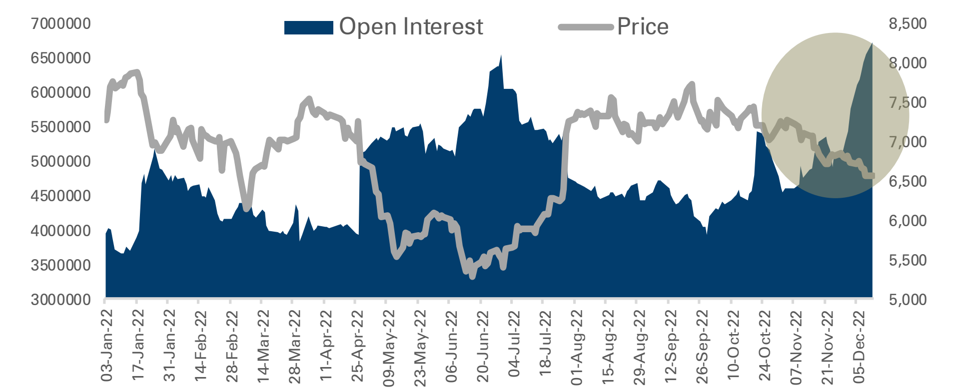

- Bharat Forge is one of the auto ancillary stocks that has moved to life-time highs in the recent market move
- The stock open interest has not seen any major increase and considering recent breakout, we believe continuation of up move is very much likely
- Further, it has witnessed significant directional move after breaching its mean+2 sigma levels in the past. The recent up move above ₹ 860 is likely to extend the positive bias in the stock


*Source : Bloomberg, ICICI Direct Research*

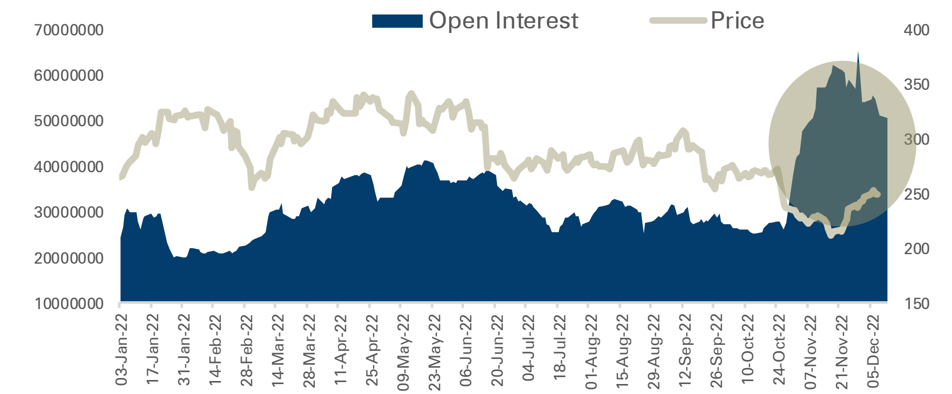
# Annexure I: Potential short covering candidates

| Symbol | Jan 2022 OI | Dec 2022 OI | % chng | Jan Price | Dec Price | % chng |
|---|---|---|---|---|---|---|
| Bajaj Finance | 3947875 | 6551375 | 65.9% | 7262.4 | 6567 | -9.6% |
| Bandhan Bank | 24179400 | 51067800 | 111.2% | 254.55 | 248.85 | -2.2% |
| Jubilant Foodworks | 8857500 | 15220000 | 71.8% | 734.91 | 539.25 | -26.6% |
| Voltas | 2614500 | 7043000 | 169.4% | 1233.4 | 837.95 | -32.1% |

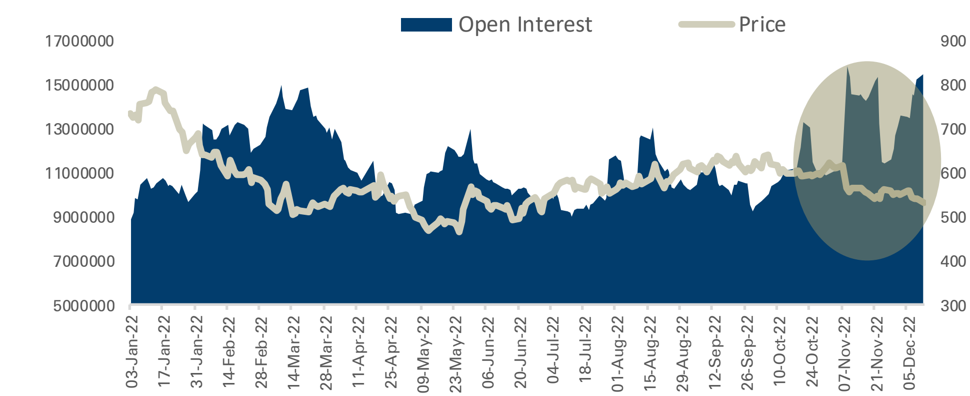
## Bajaj Finance



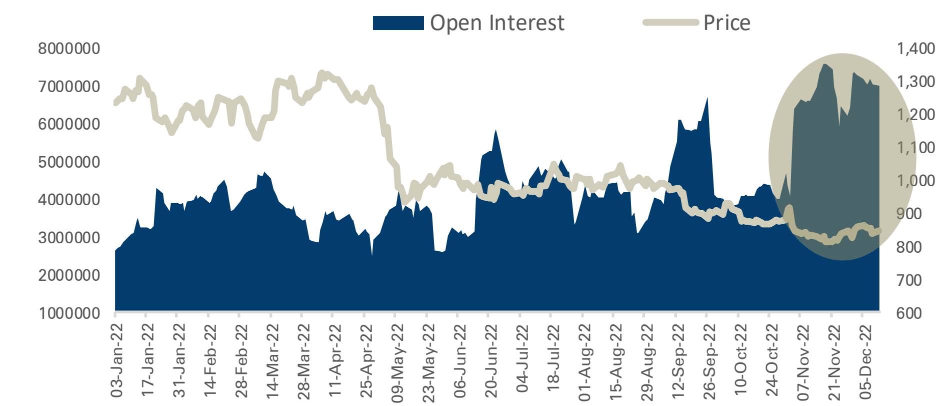

## Bandhan Bank




## Jubilant Foodworks




## Voltas



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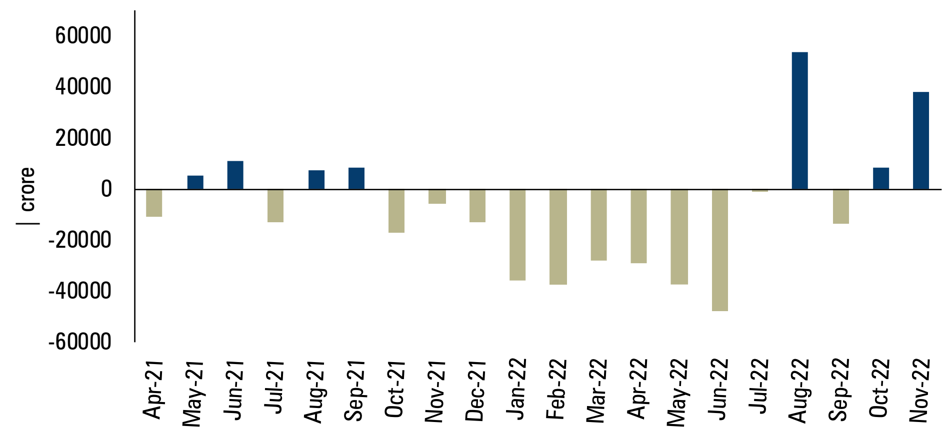
## Rest of the world far behind from India...

| Countries | Post-Covid Highs | 15-Dec | Change |
|---|---|---|---|
| India | 18604 | 18628 | 0.1% |
| UK* | 7687 | 7470 | -2.8% |
| Indonesia | 7377 | 6802 | -7.8% |
| Australia | 7633 | 7251 | -5.0% |
| Singapore* | 3466 | 3280 | -5.4% |
| Canada | 22213 | 20023 | -9.9% |
| France | 7385 | 6713 | -9.1% |
| Japan | 30796 | 28156 | -8.6% |
| German* | 16290 | 14439 | -11.4% |
| Malaysia* | 1696 | 1470 | -13.3% |
| Brazil* | 131190 | 103540 | -21.1% |
| US (S&P) | 4819 | 4020 | -16.6% |
| Taiwan | 18620 | 14739 | -20.8% |
| Korea | 3316 | 2399 | -27.6% |
| China* | 5931 | 3955 | -33.3% |
| Hong Kong* | 31183 | 19673 | -36.9% |

*** Countries trading below their pre Covid levels**

## Since July inflows have started in Indian equities...




## Despite outflows in 2022, India remains one of the biggest outperformer

In Billions

| | India | Brazil | Indonesia | Malaysia | Phillipines | South Korea | Taiwan |
|---|---|---|---|---|---|---|---|
| CY 2020 | 23.4 | -8.1 | -3.2 | -5.8 | -2.5 | -20.1 | -15.3 |
| CY2021 | 3.8 | 13.2 | 2.7 | -0.8 | 0.0 | -23.0 | -15.3 |
| CY2022* | -16.9 | 16.0 | 5.6 | 1.4 | -1.1 | -8.3 | -41.7 |

India has been the biggest outperformer in terms of recovery. India managed to outperform its peers and rewrote the history books by making a new lifetime high whereas other global peers are struggling to pair post Covid loss. Return of foreign money can be attributed to further outperformance of Indian indices.

- Source: Bloomberg, Seediff.com, ICICI Direct Research

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*Source: Bloomberg, ICICI Direct Research*

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