Senora Musings

Date: 13th March 2024

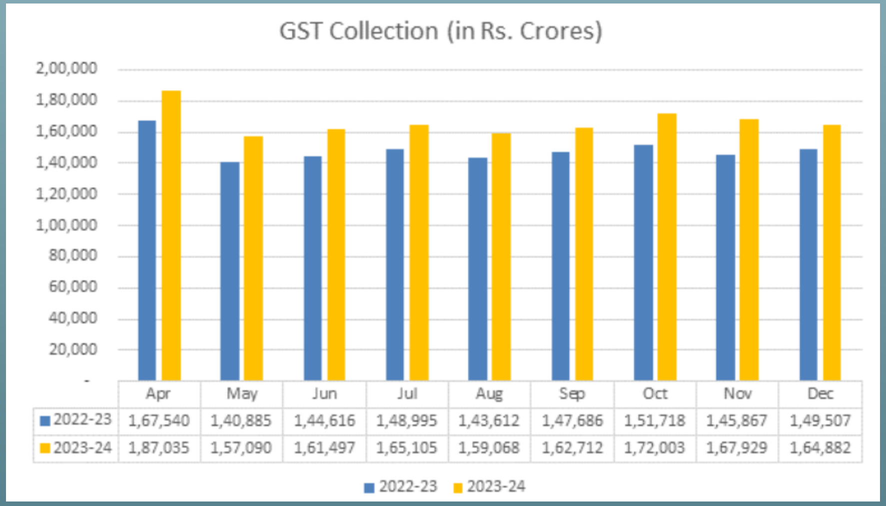
Backdrop

❑ We have been bullish on Indian Economy and hence equity markets for some time now, as mentioned in our previous notes "Correction is an opportunity" dated 27th Oct'23 and "Why Senora is bullish at 21000" dated 17th Dec'23

❑ In both our notes we analyzed the reason behind the correction and also discussed our rationales for bullishness

❑ Over the 6 months markets have bounced sharply after any correction and we don't see that changing

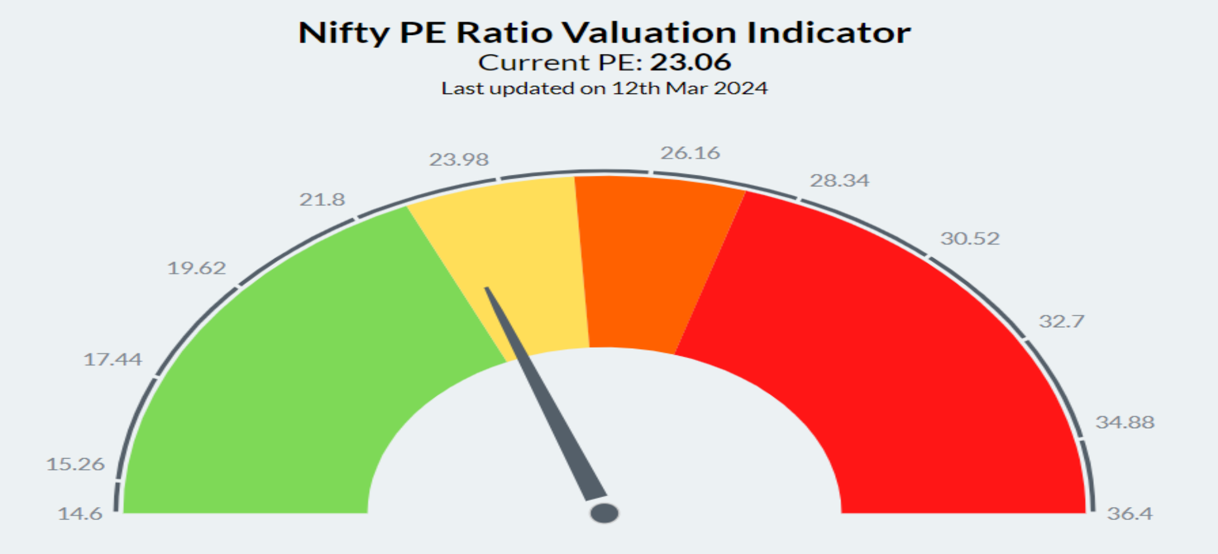
❑ Since there is no change in fundamentals our view remains intact as we discuss the reason for the same in this note



A look at Valuations

- Our thesis and conviction was based on fundamentals at company level and global macro at economy levels. With markets touching new highs every month, we hear a lot of noise around valuations and need to profit booking.
- The valuations are stretched in small and midcaps (as seen in BSE 500 valuations). But when it comes to large-caps, Nifty valuations are still in the reasonable range though margin of safety has come down
- The picture gets further clear when we plot earnings growth of stocks and their returns. We analyzed stock and earning performance of last 3 years for Nifty stocks. Barring pockets in PSUs there is strong correlation between earnings growth and stock performance.
- The performance of senora portfolio is superior because of better earnings growth, quality of earnings and future potential of the same.

Nifty PE Ratio Chart												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2024	22.86	22.66	23.06									
2023	21.49	20.89	20.29	20.7	21.56	21.8	23.35	22.43	22.39	21.74	21.02	22.61
2022	23.42	22.54	21.7	22.7	20.32	19.5	20.73	21.2	20.64	20.9	21.9	22.09
2021	38.9	40.8	40.43	32.73	29.27	29.08	28.11	26.11	26.98	27.31	23.43	23.69
2020	27.96	26.92	21.38	20.38	21.24	24.7	28.6	31.59	32.55	33.99	34.34	37.26
2019	26.08	26.66	27.76	29.12	28.88	29.25	28.28	27.12	26.93	26.51	27.67	28.18
2018	27.24	25.61	24.97	26	26.58	26.77	27.19	28.22	27.46	25.05	25.59	26.07
2017	22.44	23.23	23.47	23.37	24.25	24.31	25.1	25.37	25.99	26.26	26.35	26.42
2016	20.34	19.34	20.39	21.29	21.51	22.52	23.33	23.65	24.08	23.35	21.99	21.49
2015	21.73	23.09	23.21	22.88	22.4	22.7	23.49	22.99	21.69	22.48	21.36	21.1
2014	18.29	17.37	18.33	18.99	19.62	20.57	20.66	20.42	21.2	20.65	21.5	21.23
2013	18.87	18.26	17.89	17.4	18.13	17.49	17.88	16.12	16.83	17.72	17.8	18.56



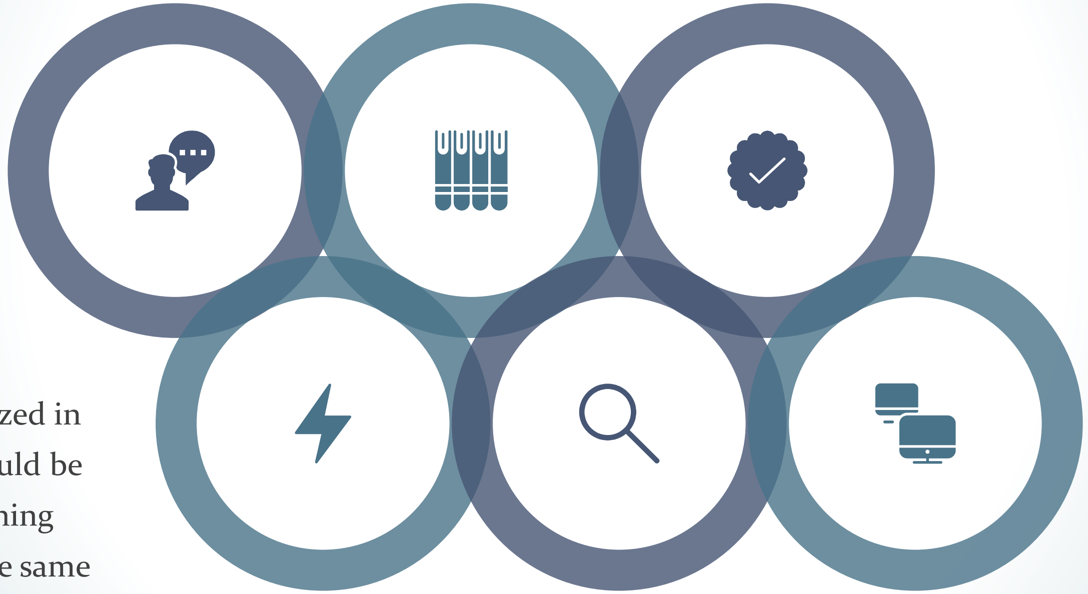
Why are we bullish?

SENORA ADVISORS

Earnings are a lead indicator but in some cases valuations run ahead of earnings. But wherever, valuation has gone up and earnings have not followed, price correction or consolidation will happen

Focus should be on direction of earnings, this with combined with valuation provides a clear picture in terms of opportunity and margin of safety

Our bullishness is based of earnings not valuations, while the 10 year CAGR of Nifty EPS is ~12%, the last 5 years CAGR is ~18%. We believe we are heading even stronger growth rate for next 5 years



Earnings or price should never be analyzed in isolation. Earnings of any company should be compared with past run-rate, peers earning growth, expectations in near future. The same when looked in combination with valuation (and not price), both absolute and relative gives a clear picture to predict future returns

There will be exceptions in all scenarios, one should be happy to let go of price without earnings and in some cases we may miss earnings also, but our aim should be to optimize returns by managing risk and higher probability of success

A 0-5% correction at any point of time is possible, anything beyond is unlikely. If we combine the valuation range with earnings growth in the worst case scenario we see a 0% return for this year (as seen in FY'23) but we sustainable markets are quick to catch up (as seen in FY'24).

What drives this confidence?

SENORA ADVISORS

Earnings

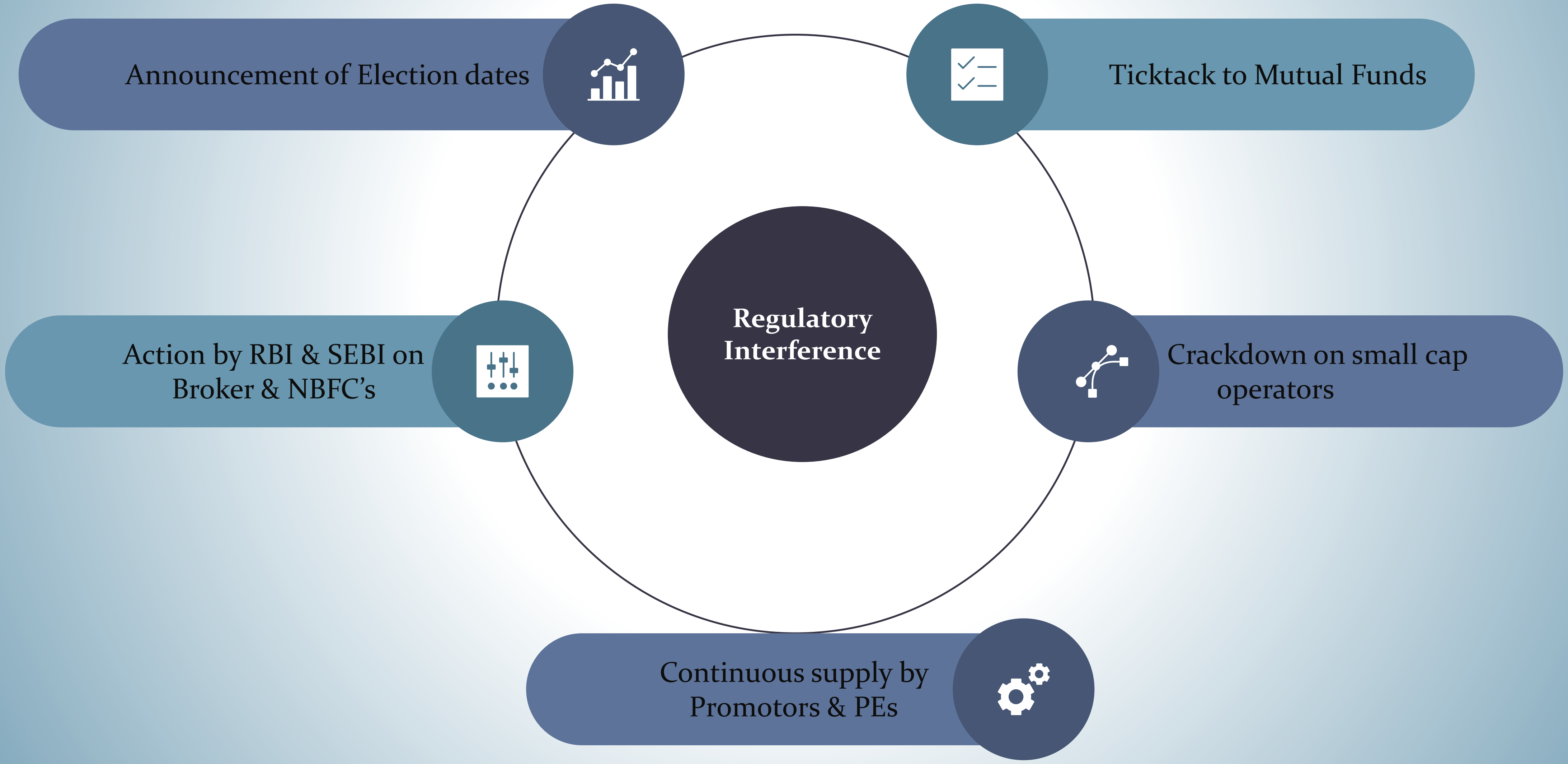
India is an opportunity

China and its struggle

Europe and its infighting

US- lack of leadership and structural issues

What has changed?



Our View

- Regulatory interference & liquidity tightening lead to risk averseness and price erosion as cost of capital goes up and also availability of capital becomes a challenge
- While the impact is larger on smaller names but spillover impact is seen in other segments also atleast in the short term, but as seen in past, quality names with earnings bounce back faster
- All the actions above doesn't impact earnings or growth potential of companies and economy and hence any price action is temporary in nature. Investors should use it to buy quality stocks
- Nifty is down 1-1.5% from peak and BSE 500 is down 3-4% from peak but the stocks with "froth" are down a lot more, creating pain for momentum investors and traders, but portfolio of process investing is doing fine
- We believe that at Nifty levels we can expect 15-20% return over the next 6 months period if invested in right stocks.
- We remain bullish on following stocks based on our superior earning view from these names

Thank You

Disclaimer

Senora Advisors LLP is a SEBI registered Investment Advisor – registration no. INA000011413. It provides advisory services under the brand name Senora. The content in this document is provided for informational purposes only. No material should be considered as investment advice directly, indirectly, implicitly, or in any manner whatsoever. Past performance is not an indicator of future performance. Senora accepts no liability whatsoever for any direct or consequential loss or damage arising from any use of any information in this document. All the summary, recommendations and comparisons are the independent expert opinion of Senora Advisors based on the facts, figures and information that are considered true, correct, reliable and accurate. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Senora, their directors and employees or their relatives may have any financial interest in the subject company. Senora, their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Senora and its employees have not received any compensation or other benefits from the subject company or third party in connection with the report. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. The contents of this document are confidential and are intended for the recipient specified in the converting email/letter of this document only. It may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Senora Advisors