BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

14 September 2022

RESEARCH

India Strategy | Macro & Micro

Bear up: Stick to the leaders

Metals & Mining | Ferrous Chartbook

Steel margins to stabilise over H2FY23

Daily macro indicators

Indicator	09-Sep	12-Sep	Chg (%)
US 10Y yield (%)	3.31	3.36	5bps
India 10Y yield (%)	7.11	7.14	2bps
USD/INR	79.59	79.53	0.1
Brent Crude (US$/bbl)	92.8	94.0	1.2
Dow	32,152	32,381	0.7
Hang Seng	18,855	19,362	2.7
Sensex	59,793	60,115	0.5
India FII (US$ mn)	**08-Sep**	**09-Sep**	**Chg ($ mn)**
FII-D	(22.3)	6.1	28.4
FII-E	356.0	285.7	(70.3)

Source: Bank of Baroda Economics Research

SUMMARY

India Strategy: Macro & Micro

- Stiff global headwinds have intensified concerns of a potential bear market among the investment community
- We analyse various combinations of holdings that have outperformed the Nifty 50/500 during bear market (20% contraction) phases
- Our study finds that a mix of 13 industry leaders has outperformed the index in each of the last 10 bear runs

Click here for the full report.

Metals & Mining: Ferrous Chartbook

- Global majors expect China to play a countercyclical role with its ability to run stimulus and support steel demand
- Construction activity still in expansion mode in the US and Europe and could aid a soft landing for steel consumption in these economies
- Maintain our constructive view on India’s steel sector; prefer defensive play TATA (BUY, TP Rs 140) amid the current volatile environment

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

MACRO & MICRO

13 September 2022

Bear up: Stick to the leaders

- **Stiff global headwinds have intensified concerns of a potential bear market among the investment community**
- **We analyse various combinations of holdings that have outperformed the Nifty 50/500 during bear market (20% contraction) phases**
- **Our study finds that a mix of 13 industry leaders has outperformed the index in each of the last 10 bear runs**

Kumar Manish | Aseem Madan
research@bobcaps.in

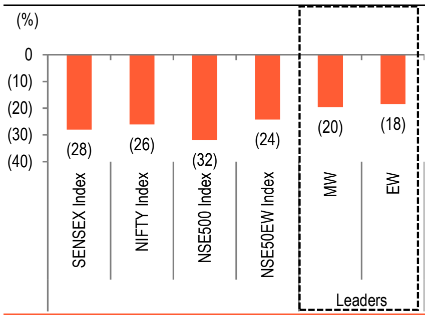
Context: In this report, we study various stock portfolio combinations that have outperformed the broader benchmarks during bear market phases. We believe it is important to identify avenues to better protect investments given the intense global macro headwinds from consumer inflation and aggressive rate hikes in the US and other developed economies, potential slowdowns in the developed world and China, and unabated geopolitical conflict.

Methodology: We have identified 10 bear market instances over the last 24 years where 12M rolling returns for the Sensex were less than or equal to -20% on a monthly frequency (Fig 2). We have also included cycle bottoms for bear markets lasting more than six months. Our study looks at bear market returns for three portfolio scenarios. **Option 1** comprises stocks listed since 1998 that broadly remain amongst the leaders in their respective sectors (a total of 13 stocks, Fig 6). **Option 2** includes the top 10 by market cap in the year 2000, and **Option 3** has the top 10 by market cap in 2000 with a portfolio reset every five years. We apply two weights for each option: equal weight and market cap weight.

Key finding – leaders show their mettle during downturns: Our analysis shows that the market-weight leader portfolio (**Option 1**), while a bit more expensively valued, has consistently outperformed the broader indices – not just during bear phases but also from an overall perspective on a 5Y, 10Y, 15Y and 20Y CAGR basis (Fig 1 & 2). This outperformance challenges the popular perception that passive investments in a diversified portfolio, as reflected by popular indices, offer more efficient risk-adjusted returns. The market-weighted Options 2 & 3 also outperformed the index during some of the bear events but not consistently.

Overall performance: The market-weighted portfolios were more consistent than the equal-weighted ones across the three options, underscoring the dominance of a select few stocks in overall returns. Further, there may be other options offering better risk-reward in a bear market scenario and, therefore, we aren't concluding that the above options are necessarily the best ones.

Index vs. Leaders: Average returns during last 10 bear markets



Source: MW: Market-weight, EW: Equal-weight

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

METALS & MINING | Ferrous Chartbook | 13 September 2022

Steel margins to stabilise over H2FY23

- **Global majors expect China to play a countercyclical role with its ability to run stimulus and support steel demand**
- **Construction activity still in expansion mode in the US and Europe and could aid a soft landing for steel consumption in these economies**
- **Maintain our constructive view on India's steel sector; prefer defensive play TATA (BUY, TP Rs 140) amid the current volatile environment**

Kirtan Mehta, CFA
research@bobcaps.in

China's countercyclical role could support steel margins: Global and Chinese steel majors such as AMNS, Baosteel, BHP, RIO, etc expect recovery in steel demand from the October-December quarter and through CY23. Covid lockdowns are regarded as a timing risk rather than stability risk. Players believe recovery is already underway in infrastructure and auto and do not expect housing to face a hard landing. **China's Q2 steel results signal slower demand recovery**.

Slowdown outside China softened by construction activity: For the US, although steel production and imports have started moderating, construction activity starts clocked a 14-year high in July with a growing pipeline of non-residential projects. Even so, we could see reduced activity in CY23 as a weaker economy and rising interest rates erode business confidence. Eurofer forecasts only a moderate recession in steel demand for Europe (-1.7% in CY22) amid a declining trend for the rest of CY22. However, it still expects modest growth in the output of steel-using sectors (+1.1%) on the back of supportive construction policy.

Global iron ore to turn surplus in H2CY22, coking coal to ease over CY23: With a slowdown in steel production and seasonal supply growth, the global iron ore market is likely to turn into surplus in H2CY22. In contrast, we expect tightness in the coking coal market to ease only gradually over CY23 as supply is restored to CY19 levels.

Global metals majors not deterred by downturn: While these are still early days, on-track capex plans and dividend payouts from global majors reflect their confidence in being able to work through the downturn without a material balance sheet impact.

Maintain constructive view on India's steel sector: We expect steel margins to stabilise to mid-cycle levels over H2FY23 and look beyond the ongoing volatility to focus on FY23-FY26 earnings growth from brownfield capacity expansion and margin enhancements. We prefer defensive play TATA (BUY, TP Rs 140) amongst our steel coverage for its ability to generate sector-leading margins. We also have a BUY on JSP (TP Rs 460) which has scope for a gradual rerating as the company demonstrates capital discipline and delivers on the next wave of growth.

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	448	460	BUY
JSTL IN	691	655	HOLD
SAIL IN	84	90	HOLD
TATA IN	108	140	BUY

Price & Target in Rupees | Price as of 13 Sep 2022

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Rating distribution

As of 31 August 2022, out of 119 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 67 have BUY ratings, 30 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 16 are rated SELL. Of these, 2 companies rated BUY and 1 rated ADD have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.