

Midcaps; bracing for a new rally....

Ignore noise, buy conviction...

The sharp rally over the past couple of weeks has taken many by surprise. Investors have been left wondering if this rally has further legs or whether this should be viewed as an exit opportunity, especially in the beaten down midcap and small cap space?

We do not foresee midcap and small cap indices to challenge February lows as the current rally is at the early stage of a major up trend. We recommend investors to start accumulating quality midcap stocks to ride the next leg of major up move (~30% from hereon). We expect bouts of volatility to persist in the run up to General Election 2019 which should be capitalised as an incremental buying opportunity.

In this note, we focus on examining the market internals of the ongoing rally in midcap and small cap stocks, drawing inferences from prevailing time cycles to ascertain the future course for rest of the 2019. Our thesis is corroborated by following findings:

- Since its inception in 2003, all three major corrections (2008, 2011 and 2015) in Nifty Midcap index, have matured in 14 months, followed by average minimum returns of 40%, in the following year. In the previous three instances, Nifty midcap index had rallied 169%, 41% and 48% on completion of the 14-month cycle. Although the Nifty Midcap index has already rallied 12% from February 2019 lows (16045), at least another 30% rally is ahead of us
- Noteworthy simultaneous improvement in twin breadth indicators, confirm maturity of 14-month down cycle, similar to past three instances
 - a) percentage of stocks above 200 DMA reversing above 50, after falling below 20
 - b) advance-decline summation index reversing to positive zone after recording extreme bearish set-up

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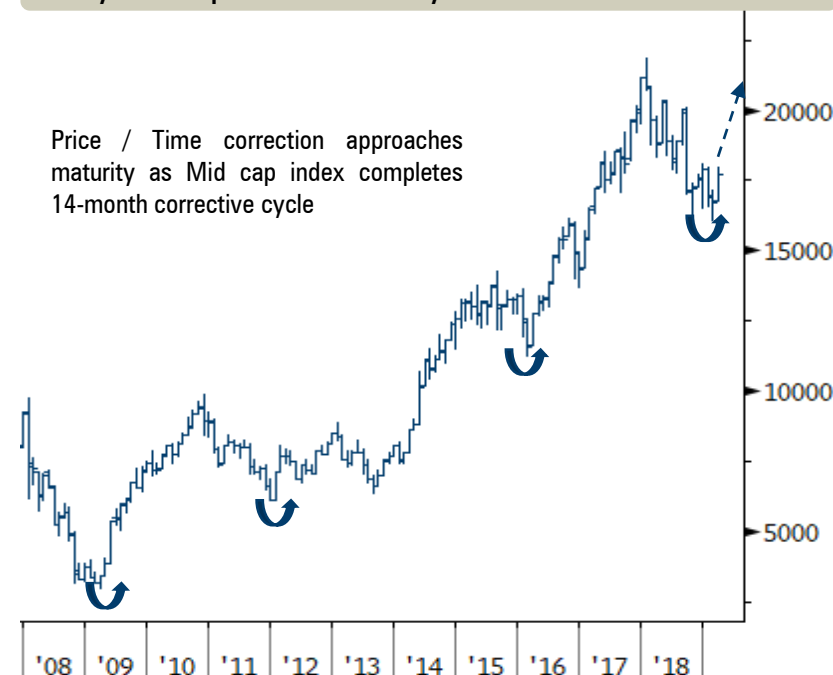
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Source: Bloomberg, ICICI Direct Research

March 18, 2019

Nifty Midcap 100 – Monthly Bar Chart

Price / Time correction approaches maturity as Mid cap index completes 14-month corrective cycle



Top Picks

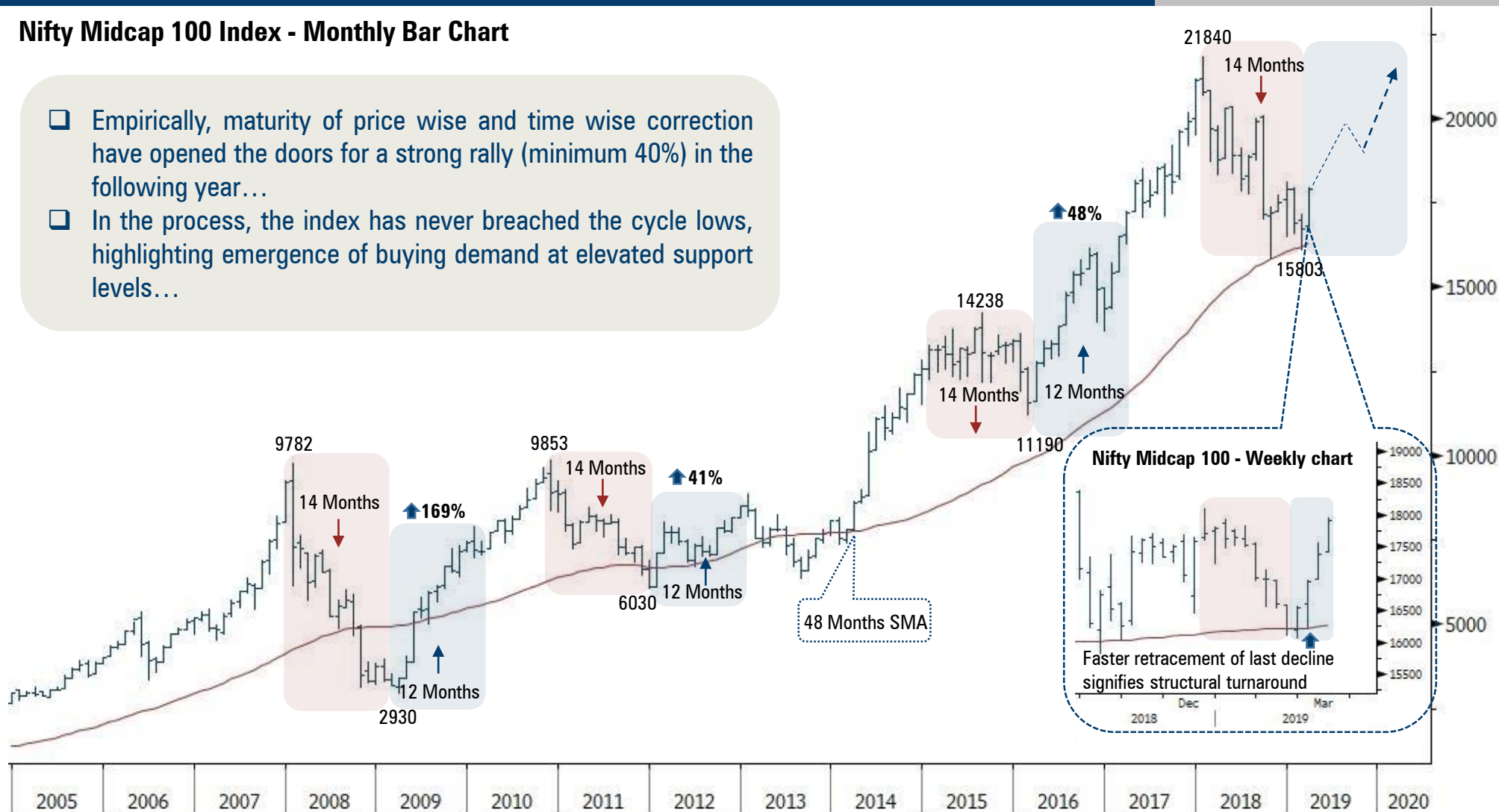
Duration: 6 Months

Scrip	I-Direct Code	Buying Range	Target	Stop loss	Upside%
Ipca Laboratories	IPCLAB	860-890	1,080	758	23
Kansai Nerolac	KANNER	450-470	550	405	20
NBCC	NBCC	63-68	80	56	22
Bank of India	BANIND	90-94	110	83	20
Lux Industries	LUXIND	1270-1290	1,560	1,152	23

New 14-month cycle in the offing...

Nifty Midcap 100 Index - Monthly Bar Chart

- Empirically, maturity of price wise and time wise correction have opened the doors for a strong rally (minimum 40%) in the following year...
- In the process, the index has never breached the cycle lows, highlighting emergence of buying demand at elevated support levels...

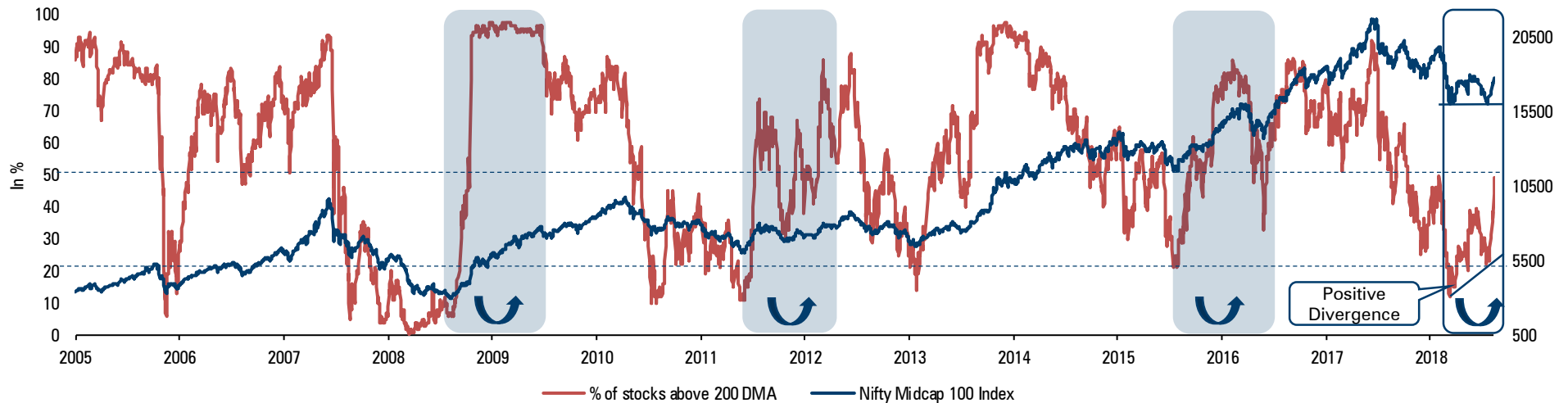


Source: Bloomberg, ICICI Direct Research
March 18, 2019

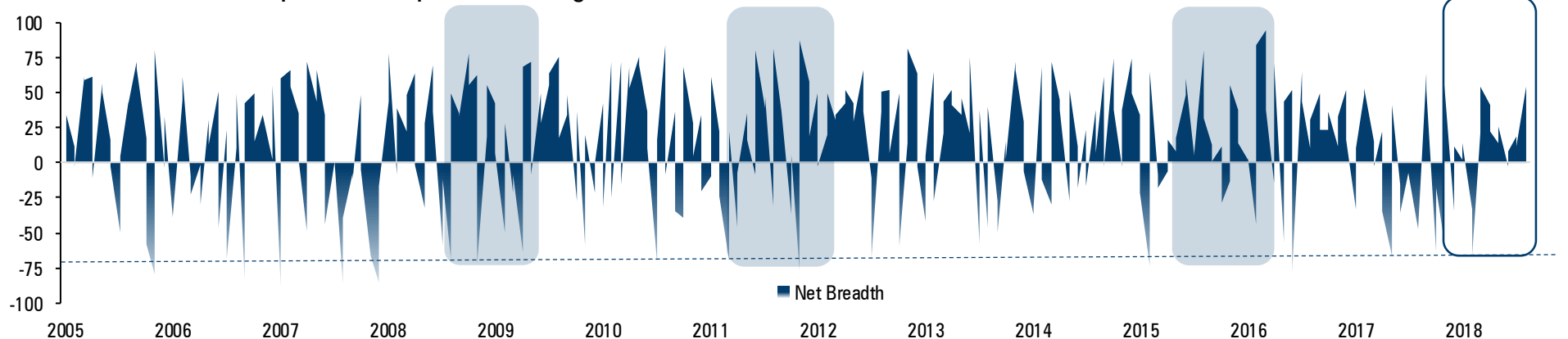
....complemented by reversal in long term breadth indicators....

Net AD reverses from extreme lows (below -75) and turns positive, combined with 50% components rising above 200 DMA. Historically, such a development has led to a strong rally averaging minimum 40% in the following year

Universe: Nifty Midcap 100



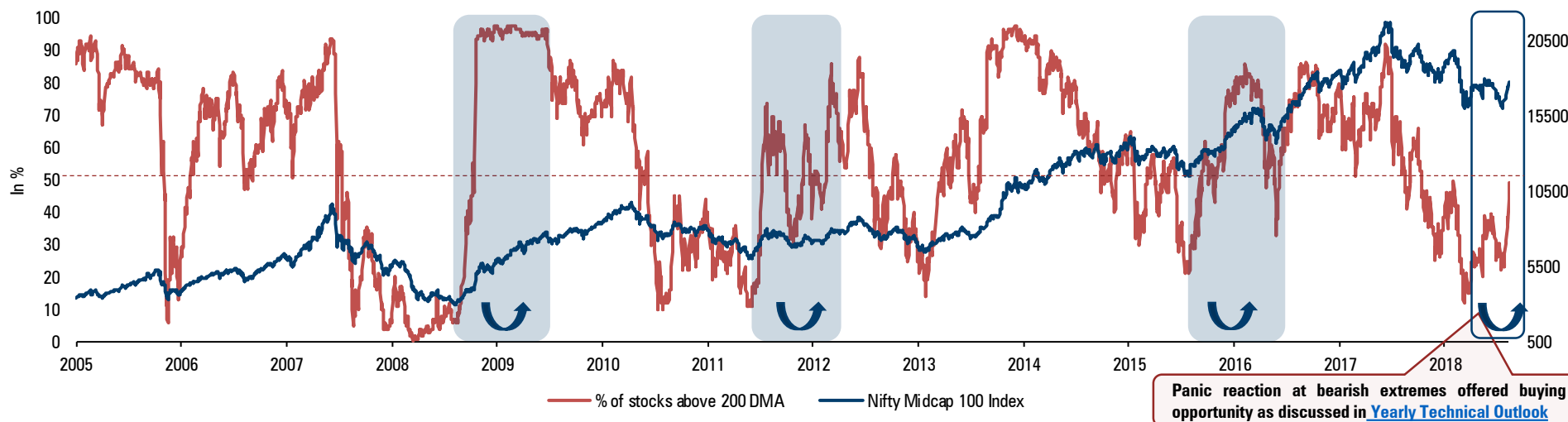
Net advance - decline improve amid positive divergence of breadth indicator



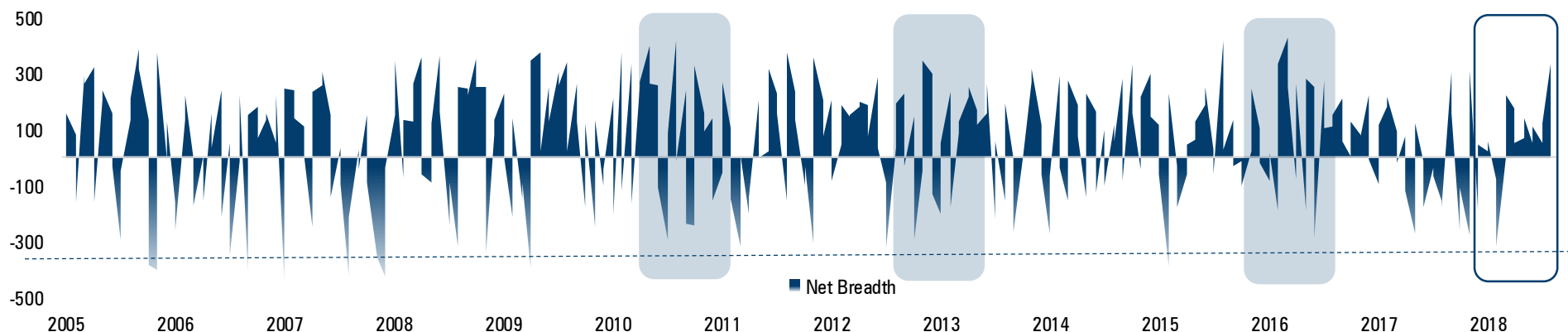
...which also reflects in Nifty 500 index...

Net A/D reverses from extreme lows (below -400) and turns positive, combined with 50% components rising above 200 DMA. Historically, such a development has led to a strong rally averaging minimum 35% in following year

Universe: Nifty 500



Net advance - decline have significantly improved after resolving out of bearish extreme, highlighting broader market participation



Outperformers

- Heidelberg Cement
- Ramco Cement
- Voltas
- Godrej Properties
- Oberoi Realty

Structural Turnaround

- Kalpataru Power
- KEC International
- EIH Ltd
- Indian Hotels
- Ipca Laboratories

Bargain Buys

- Bank of India
- Canara Bank
- IDFC First Bank
- Thermax
- Timken India
- Emami
- Kansai Nerolac
- Lux Industries
- Cera Sanitaryware
- JK Lakshmi Cement
- Blue Dart Express
- Jindal Steel and Power
- NCC
- NBCC
- Sadbhav infra

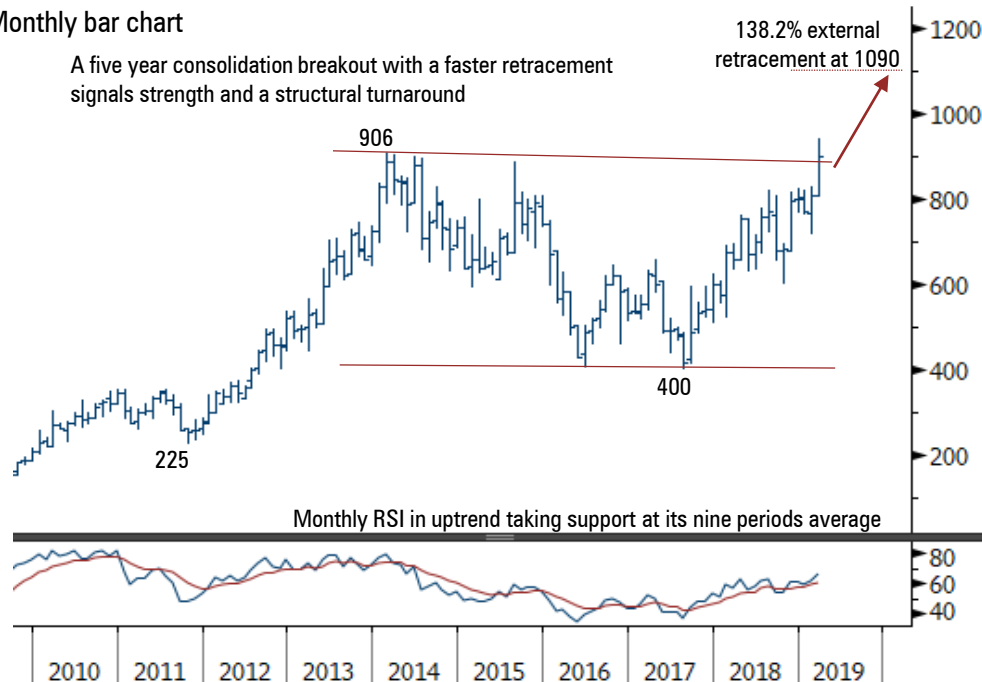
- We have applied in-house screeners using statistical models embedded with technical parameters comprising price structure and trend analysis, time cycle studies, volume behaviour, Fibonacci studies and volatility calculations
- Out of 400 stocks (Nifty 500 excluding Nifty 100), we zero down on top 25 stocks based on technical ratings and categorise them in three buckets viz. Outperformers, Structural Turnaround and Bargain Buys

Ipca Laboratories (IPCLAB): Breakout from five year consolidation

Rec. Price	860-890	Target	1080.00	Stop loss	758.00
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Monthly bar chart

A five year consolidation breakout with a faster retracement signals strength and a structural turnaround



Duration: 6 Months

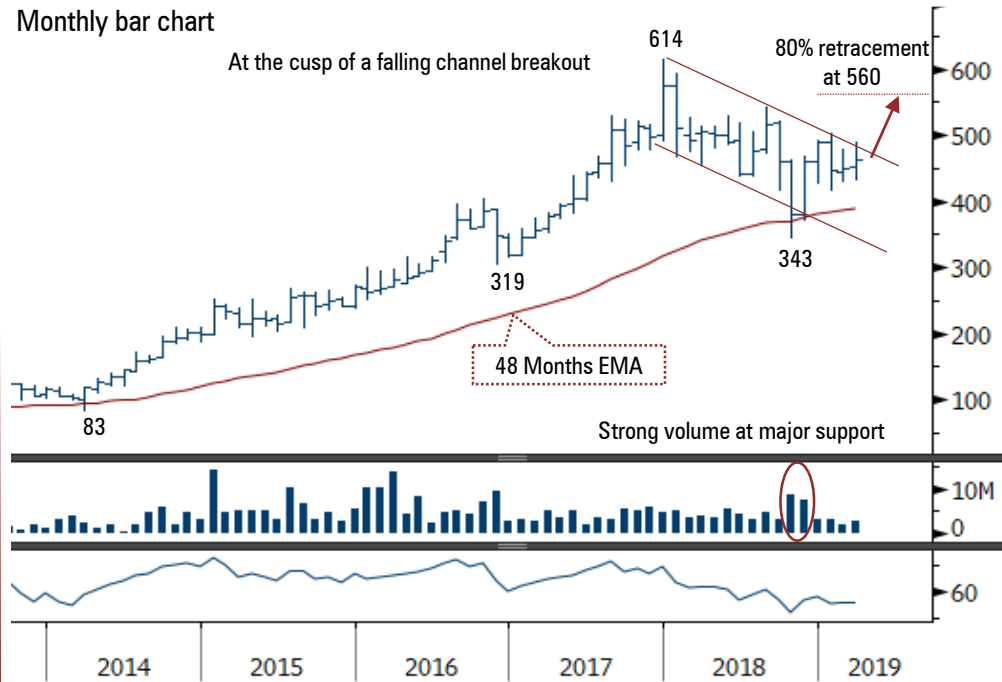
- Breakout from a five year consolidation signals a structural turnaround
- A faster retracement as 14 quarter decline (₹ 906-400) is completely retraced in just six quarters
- We expect the stock to continue its current up move and test levels of ₹ 1090 as it is the 138.6% external retracement of the entire previous decline (₹ 907 to ₹ 400)

Kansai Nerolac Paints (KANNER): Favourable risk reward set up

Rec. Price	450-470	Target	550.00	Stop loss	405.00
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Monthly bar chart

At the cusp of a falling channel breakout



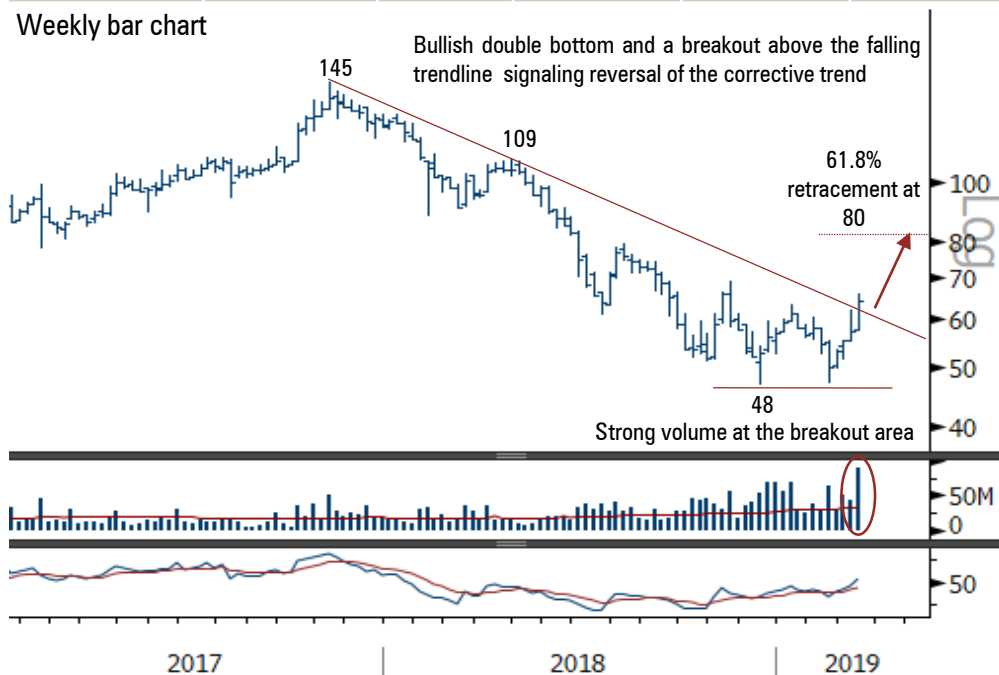
Duration: 6 Months

- Cusp of a falling channel breakout containing entire decline since high of Dec'17 (₹ 614)
- A slower retracement as the stock has already taken 14 months to retrace just 80% of the previous 12 month's up move from ₹ 319 to ₹ 614
- The favourable risk reward set-up offers a fresh entry opportunity for upside toward ₹ 560 as it is 80% retracement of the entire decline (₹ 614 to ₹ 343)

NBCC India (NBCC): Double bottom breakout

Rec. Price	63-68	Target	80.00	Stop loss	56.00
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Weekly bar chart



Duration: 6 Months

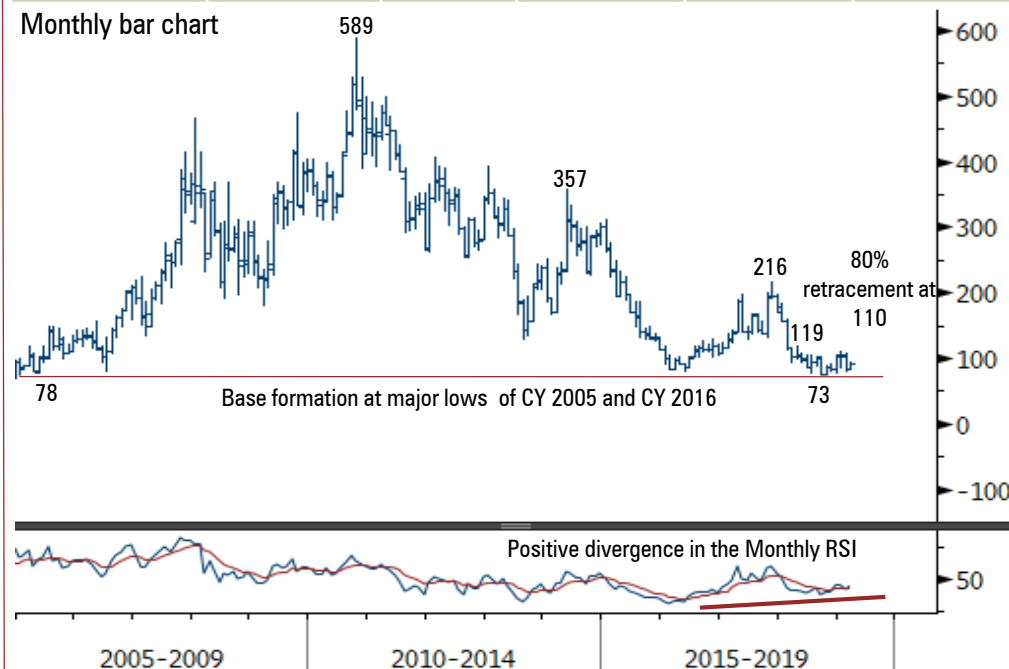
- Double bottom breakout aided stock to resolve out of long term falling trend line
- Longest pullback since November 2017 along with a faster retracement as six weeks decline (₹ 63-47) has been completely retraced in four weeks
- We expect the stock to resolve higher towards August 2018 high ₹ 80 as it is the 61.8% retracement of the last decline (₹ 109 to ₹ 47)

Source: Bloomberg, ICICI Direct Research
March 18, 2019

Bank of India (BANIND): Base formation at multiyear lows

Rec. Price	90-94	Target	110.00	Stop loss	83.00
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Monthly bar chart



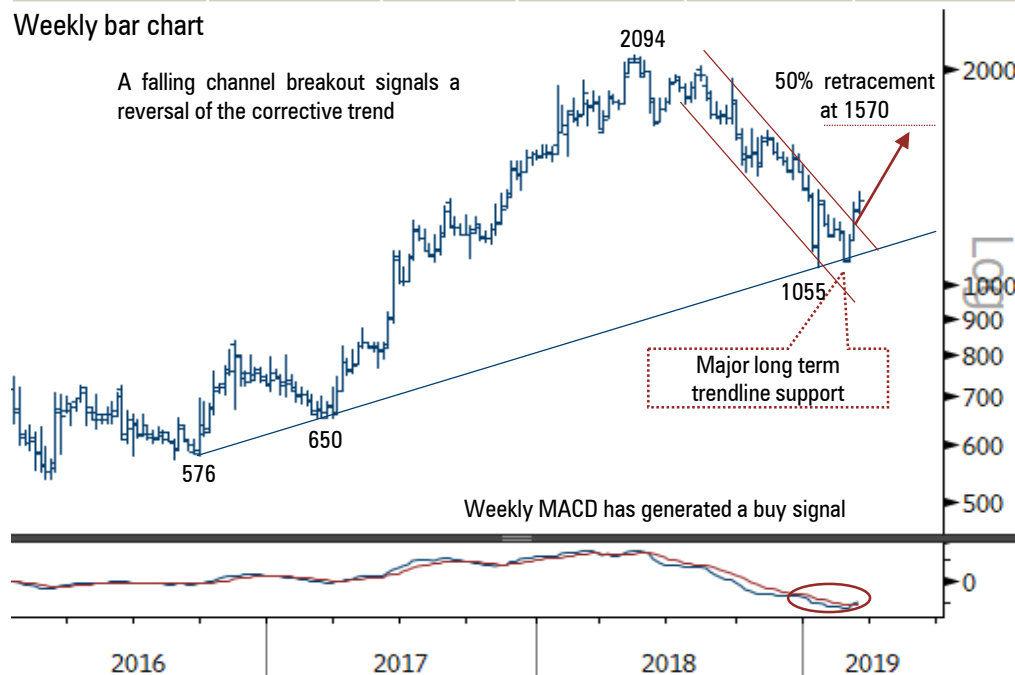
Duration: 6 Months

- The stock has been forming a base at key support zone of 80 as on multiple occasions it respected May 2005 lows (₹ 80)
- Monthly RSI recorded a bullish crossover after witnessing a positive divergence
- We expect the stock to continue its current up move and test ₹ 110 levels as it the high of January 2019 and 80% retirement of the previous major decline (₹ 119 to ₹ 73)

Lux Industries (LUXIND): Breakout from a major falling channel

Rec. Price	1270-1290	Target	1560.00	Stop loss	1152.00
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Weekly bar chart



Duration: 6 Months

- Breakout from a major falling channel containing the entire corrective decline
- The stock during current month rebounded from the major support area of ₹ 1100 as it is the major trendline support joining the lows of CY 2016 (₹ 576) and CY 2017 (₹ 650)
- The current improvement in price structure signals resumption of up move and open upside towards ₹ 1570 levels as it is 50% retracement of the entire decline (₹ 2094-1055)

Source: Bloomberg, ICICI Direct Research
March 18, 2019

Price history of past three years

NBCC



NBCC IN Equity (NBCC India Ltd) gladiator bar chart Weekly 18MAR2017-18MAR2019
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- It is recommended to enter in a staggered manner within the prescribed range provided in the report
- Once the recommendation is executed, it is advisable to keep strict stop loss as provided in the report on closing basis
- The recommendations are valid for six months and in case we intend to carry forward the position, it will be communicated through separate mail

Trading portfolio allocation

- It is recommended to spread out the trading corpus in a proportionate manner between the various technical research products
- Please avoid allocating the entire trading corpus to a single stock or a single product segment
- Within each product segment it is advisable to allocate equal amount to each recommendation
- For example: The 'Daily Calls' product carries 3 to 4 intraday recommendations. It is advisable to allocate equal amount to each recommendation

Recommended product wise trading portfolio allocation

Product	Allocations		Number of Calls	Return Objective	Duration
	Product wise allocation	Max allocation In 1 Stock			
Momentum Picks-Intraday	15%	30-50%	2-3 Stocks	1-2%	Intraday
Momentum Picks-Positional	35%	8-10%	6-8 Per Month	5-8%	1 Month
Gladiator Stocks	45%	15-20%		20-30%	6 Months
Cash	5%				
<hr/>					
	100%				



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