

Please refer our report dated  
June 2017



Please refer our report dated  
April 2019



As part of our analysis, we have divided BSE100 in 5 groups of 20 – Quintile-1 (Q1), Quintile-2 (Q2), Quintile-3 (Q3), Quintile-4 (Q4) and Quintile-5 (Q5), with Q1 composed of the most popular stocks and so on.

## Contrarian Investing – Quarterly Update

### A review of our contrarian investment strategies

Our thematic strategy note on [Contrarian Investing](#), published in Jun'17, gives a detailed account of the subject matter. In this note, we have reviewed the performance of our strategies. Also, since we use quarterly rebalancing to test our hypothesis, we have run the updated quintiles as on 30<sup>th</sup> Jun'19 and present our key findings along with our top contrarian bets.

### Key takeaways from 1QFY20 quintiles

- Our analysis suggests that, over a longer term, neutral-to-moderately popular stocks deliver a significant outperformance, even bettering the performance of the most popular stocks. *In 1QFY20, the most popular stocks performed the best, beating the benchmark, whereas the neutral to moderately popular stocks delivered the third best return.*
- Our findings prove that, over the long term, out-of-favor low P/E stocks deliver disproportionate returns, significantly beating the benchmark. *In 1QFY20, high P/E stocks performed the best, whereas low-P/E stocks came in second.*
- Similarly, out-of-favor low P/CF stocks deliver disproportionate returns, significantly beating the benchmark. In contrast, the performance of high P/CF stocks is dismal. *In 1QFY20, low P/CF stocks delivered the best returns, whereas high P/CF stocks delivered the second best returns.*
- 1QFY20 was characterized by the decent performance of the value quintiles (low P/E, low P/B delivered second best returns, whereas low PCF came in first).
- We also note that in some sub-themes, the returns from a quintile deviate from the long-term pattern, as highlighted in our initial detailed note. However, this is in line with the trends observed even in the long-term study – where returns can deviate for a quarter or two, but over the long period, the hypothesis is proven right. For example, in the Popularity theme, instead of Quintile-4, Quintile-1 has delivered the best returns in 1QFY20.

### Best delta: Consensus change from Net Sell to Net Buy

- Our findings suggest that a simple strategy of investing in stocks for which analyst consensus has changed from 'Net Sell to Net Buy' with a holding period of one year has delivered 21.1% annual returns over the last 12 years.
- Net Sell to Net Buy stocks for 1QFY20:** There were no stocks that satisfy this criterion for this quarter.
- Exit from list: United Spirits and ABB** have exited our list after completing 12 months. These stocks entered from 'Net Sell to Net Buy' in May'18 and delivered (17.2%) and 27.8% returns in a year.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

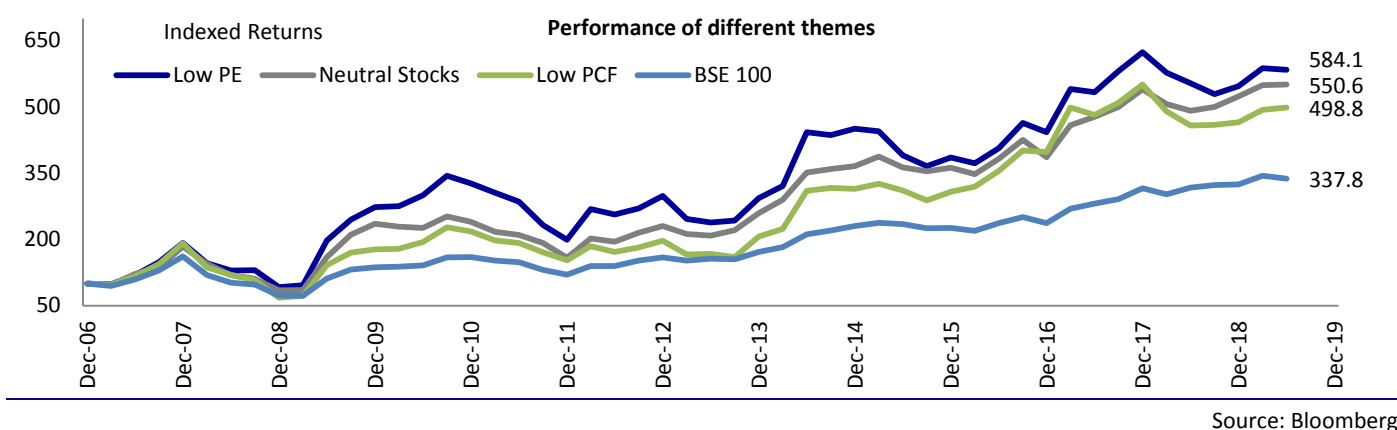
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Top contrarian picks**

We highlight our top contrarian Buy and Sell picks based on the various themes we have covered in this note as well as in the past – **Popularity, Relative Valuations, Net Sell to Net Buy, Consensus Sells.**

**Contrarian BUYs: Bank of Baroda, Siemens, NTPC, NMDC and ITC**

**Contrarian SELLs: Asian Paints, Havells, Britannia, Shree Cement and Cipla**

**Exhibit 1: Performance of our preferred quintiles - Indexed Returns****Exhibit 2: Top contrarian BUY ideas**

Company	Popularity score	% of Buy/Hold Ratings	Correction from 52w high (%)	12 month return (%)	1 Yr Fwd PE (x)	PE - Prem/Disc to LPA (%)	1 Yr Fwd PB (x)	PB - Prem/Disc to LPA (%)	PAT CAGR FY19-21E (%)
Bank of Baroda	3.8	80	-20	8	6.5	-25.4	0.7	-17.8	340.4
Siemens	3.2	74	-10	24	40.5	-18.5	4.9	-20.2	16.4
NTPC	4.9	100	-12	1	10.4	-7.4	1.2	-4.2	14.0
NMDC	4.0	90	-11	7	8.5	-13.8	1.2	-10.5	-7.2
ITC	4.6	93	-15	0	23.6	-8.5	5.2	-25.9	9.3

**Exhibit 3: Top contrarian SELL ideas**

Company	Popularity Score	% of Sell/Hold Ratings	Appreciation from 52w low (%)	12 month return (%)	1 Yr Fwd. PE (x)	PE - Prem/Disc to LPA (%)	1 Yr Fwd. PB (x)	PB - Prem/Disc to LPA (%)	PAT CAGR FY19-21E (%)
Asian Paints	4.4	25	19	-2	48.0	9.5	12.1	-4.8	11.8
Havells India	4.1	33	32	27	46.6	30.6	10.0	30.1	25.7
Britannia Inds.	3.7	49	6	-13	46.4	6.1	13.3	-18.2	19.3
Shree Cement	3.3	53	63	27	40.2	25.2	6.8	11.1	18.5
Cipla	3.9	45	14	-12	22.6	-7.7	2.6	-21.6	19.9

**Exhibit 4: Performance of our Contrarian Buy and Contrarian Sell calls indicated in last quarterly update**

Contra buys	Price Return	Contra Sell	Price Return
TGBL	20.0	Axis Bank	-1.1
<b>Ashok Leyland</b>	<b>-11.2</b>	<b>Nestle</b>	<b>6.7</b>
HDFC Life	24.9	Havells	-4.5
HPCL	8.4	Pidilite	-7.9
<b>Coal India</b>	<b>-3.7</b>	M&M	-6.7
BSE100	-1.1	BSE100	-1.1

Note: In bold, stocks which didn't perform as per expectations, Source: MOFSL, Bloomberg



# Contrarian Strategies

1



## Popularity as the selection criterion

Does a stock's popularity with analysts have a meaningful impact on its performance?

2



## Consensus Sell rating (%) as the selection criterion

Sell recommendations are not as common as buy/hold recommendations, and possess scarcity value.

3



## Consensus Buy rating (%) as the selection criterion

With the scarcity value theme of consensus sell ratings playing out well, we put to test the street's capability to predict the winners.

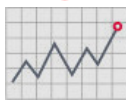
4



Consensus recommendation change from 'Net Sell' to 'Net Buy'

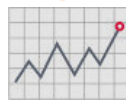
## Valuation

1



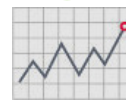
P/E

2

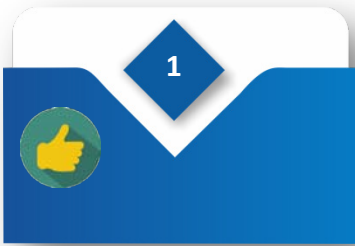


P/B

3



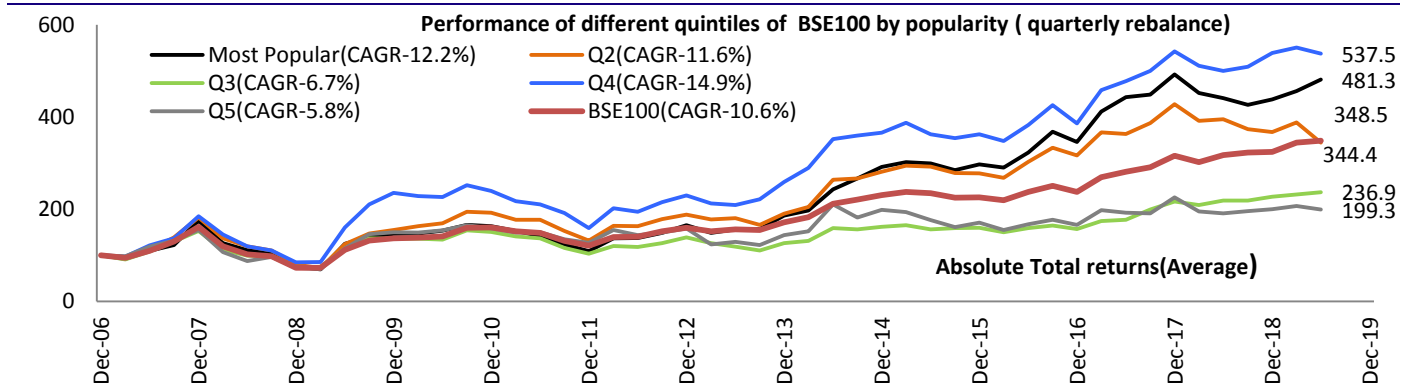
P/CF



## Neutral to moderately popular stocks (Q4) emerge winners

In our first note on the theme *‘Contrarian Investing: It pays to be different,’* we had demonstrated that over longer periods of time, neutral to moderately popular stocks have performed the best – and results are independent of whether the returns are measured on an average basis or a median basis.

**Exhibit 5: Stocks on which analysts are neutral to moderately positive have given best returns**



Source: Bloomberg

Above exhibit can be read as follows:

INR1k invested in Quintile-4 in December 2006 would be worth INR5.38k today. Similarly, it can be read for other quintiles.

Summary of the 1QFY20 performance of various quintiles:

- Most popular stocks (Q1) was the best performing group, whereas the second most popular stocks (Q2) was the worst performing group. Neutral to moderately popular stocks (Q4) came in third.
- Surprisingly, Q1 is the best performing quintile, followed by Q3, Q4, Q5 and Q2. In our first note on this theme, we had highlighted that typically Q5 and Q3 are the worst performers.
- It is important to note that investing in stocks based on the popularity metric (in Q4) would deliver the best returns over a longer period of time, though there may be periods of underperformance on a quarterly basis.

**Exhibit 6: Most popular stocks delivered the best return in 1QFY20**

	Q1	Q2	Q3	Q4	Q5	BSE100
Total returns	5.5	-11.4	2.1	-2.5	-3.7	1.2

Source: Bloomberg

Also, it is important to highlight that the BSE-100 index is based on free-float market capitalization, whereas our quintiles are equal-weighted portfolios. **In 1QFY20, a BSE-100 portfolio with equal weights would have delivered returns of -1.9%.**

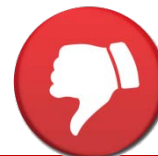
Following a simple strategy of investing in Quintile-4 (neutral to moderately popular stocks) could generate a significant alpha over the benchmark.

Our study had proven that the most popular (Q1) and the second-most popular (Q2) quintiles have also beaten the BSE-100 benchmark returns. We have categorized BSE-100 constituents in 60 winners and 40 losers.

#### Exhibit 7: Updated BSE-100 constituents divided in five quintiles as per popularity



Q1	Q2	Q4
BJHI IN	ONGC IN	HDFCLIFE IN
NTPC IN	SHTF IN	BRIT IN
ICICIBC IN	HDFC IN	TCS IN
LT IN	IIB IN	BOB IN
SBIN IN	NMDC IN	HUVR IN
HDFCB IN	TTCH IN	HMCL IN
FB IN	PLNG IN	TTMT IN
APHS IN	AXSB IN	CLGT IN
ARBP IN	RECL IN	DIVI IN
ITC IN	COAL IN	BJFIN IN
CROMPTON IN	NEST IN	VEDL IN
GRASIM IN	MSS IN	ACEM IN
HNDL IN	MRCO IN	BHFC IN
EDEL IN	GAIL IN	HAVL IN
UPLL IN	MMFS IN	BIOS IN
TTAN IN	TATA IN	ACC IN
ADSEZ IN	TPWR IN	BPCL IN
PIEL IN	TECHM IN	KKC IN
MM IN	DABUR IN	AL IN
PWGR IN	BHARTI IN	SIEM IN



Q3	Q5
HCLT IN	SUNP IN
EXID IN	BHIN IN
MRF IN	HPCL IN
RBK IN	JSTL IN
APNT IN	GNP IN
CCRI IN	GCPL IN
IHFL IN	DRRD IN
CIPLA IN	PIDI IN
KMB IN	PAG IN
TGBL IN	SRCM IN
CDH IN	EIM IN
RIL IN	BJAUT IN
Z IN	LPC IN
VOLT IN	YES IN
UTCEN IN	BHEL IN
IOCL IN	BOS IN
MSIL IN	DMART IN
BAF IN	WPRO IN
LICHF IN	TVSL IN
INFO IN	PNB IN

Source: Bloomberg

Among the current constituents of BSE-100, we note that Quintile-4 (Q4) has popularity score ranging from 3.44-3.74.

An important question remains unanswered. **Why does the quintile composed of stocks that have low consensus ratings/popularity (Quintile-4) outperform all the other quintiles, even bettering the performance of the most popular stocks?**

This is because the investment thesis of the most popular stocks is quite popular, making them more likely to be discussed in the market. And, as such, there are fewer marginal buyers with time. On the other hand, neutral to moderately popular stocks are usually neglected by the street and their drivers are evolving. As the drivers evolve, there is a sudden surge in investor interest in such stocks, leading to a spike in returns. Thus, the stocks that were previously neglected by investors deliver significant outperformance.

On the other hand, the least popular stocks underperform. This is because the least popular stocks have a lot of sell recommendations. Sell recommendations are not popular on the street – only about 16% of recommendations are sell as against 60% buy and 24% hold. So, they have scarcity value and are more likely to be acted on.

**Exhibit 8: Snapshot of Quintile-4 (neutral to moderately popular stocks)**

Company	Popularity Score	CMP INR	Mcap INR b	Trailing PE (x)		PE	PAT (INR m)			PAT CAGR (%)	ROE (%)
				5-year Avg.	Current		FY19	FY20E	FY19E		
ACC	3.5	1,576	4.2	34.1	19.5	-42.9	10,764	12,473	15,852	21.4	10.8
Ambuja Cem.	3.6	214	6.1	37.3	28.4	-23.9	12,450	13,249	14,947	9.6	6.1
Ashok Leyland	3.4	85	3.6	98.4	12.9	-86.9	20,381	17,505	15,688	-12.3	26.2
Bharat Forge	3.6	462	3.1	35.2	20.3	-42.3	10,440	10,824	11,915	6.8	20.6
Biocon	3.6	253	4.4	40.0	33.2	-16.9	7,432	11,366	13,555	35.0	13.2
Bank of Baroda	3.7	126	7.0	22.5	74.1	229.5	4,335	37,358	84,088	340.4	0.9
B P C L	3.5	346	10.0	12.8	9.9	-22.7	85,279	87,960	109,181	13.1	22.6
Britannia Inds.	3.7	2,780	9.7	58.6	58.7	0.3	11,564	13,945	16,465	19.3	30.2
Colgate-Palm.	3.6	1,138	4.5	46.1	39.6	-14.2	7,451	8,112	9,355	12.1	50.1
Divi's Lab.	3.6	1,612	6.2	36.0	31.3	-13.0	13,283	15,549	18,336	17.5	20.6
Havells India	3.6	711	6.5	45.4	62.1	36.8	7,915	9,932	12,509	25.7	18.7
HDFCLIFE	3.7	482	13.7	56.0	73.2	30.7	12,768	14,890	17,913	18.4	20.3
Hero Motocorp	3.7	2,569	7.3	20.7	15.2	-26.3	33,849	31,654	35,763	2.8	27.5
Hind. Unilever	3.7	1,713	54.5	52.7	64.1	21.5	62,630	70,837	84,410	16.1	85.0
Cummins India	3.5	756	3.1	32.5	29.3	-9.9	7,226	7,918	9,032	11.8	17.8
Siemens	3.4	1,231	6.4	43.5	52.2	20.0	8,939	11,574	12,106	16.4	11.2
TCS	3.7	2,108	120.6	22.7	26.0	14.6	316,420	328,409	375,902	9.0	35.6
Tata Motors	3.7	159	7.8	25.5	na	na	-14,785	45,205	52,302	NA	-1.9

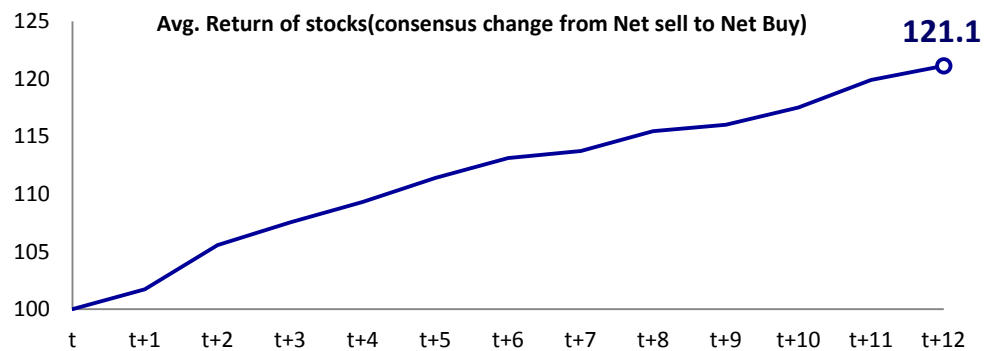
## Best delta: Consensus change from ‘Net Sell’ to ‘Net Buy’

We looked at instances of change in consensus rating from ‘net sell’ to ‘net buy’ over 2006-2019 across BSE-100 constituents. A change in consensus rating from ‘net sell’ to ‘net buy’ means a change in consensus rating from <3 to >3. We found that a strategy of investing in stocks with consensus rating change from <3 (net sell) to >3 (net buy) yields better results than any other strategy discussed in this study.

Essentially, these are stocks that have been ignored, have negative news flow and are battling short-to-medium-term challenges. Thus, typically they have consensus popularity rating <3. However, marginal earnings surprise, an improvement in news flow and beaten down valuations are some of the factors that result in popularity scores moving closer and then upwards of 3 (net buy). These stocks are yet to become over-owned/most popular names on the street (example, Quintile-1 of the Popularity thesis discussed in earlier sections).

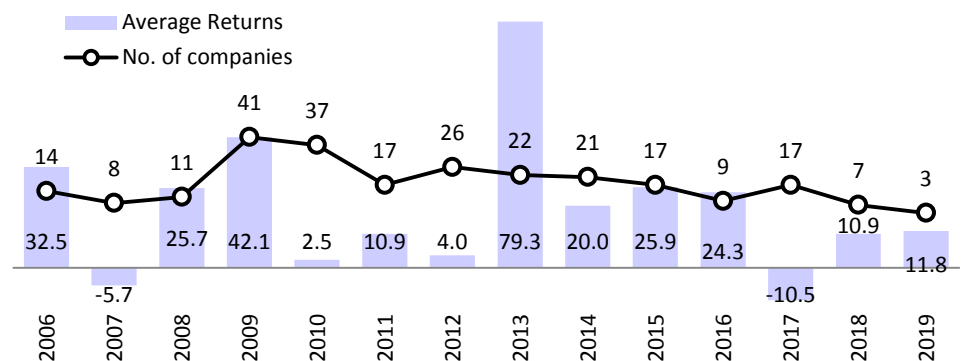
By investing in stocks for which consensus recommendation has changed from ‘net sell’ to ‘net buy’ as soon as they have been upgraded, and then holding them for 12 months, an investor would have earned an average return of 21.1%.

**Exhibit 9: Indexed return over 12 months from ‘net sell to net buy’ change**



Source: MOFSL, Bloomberg

**Exhibit 10: Returns have been significant across all years (2003-2019)**



Source: MOFSL, Bloomberg

We highlight that the investment was made after the stock’s popularity rating changed from -3 to +3, i.e., from ‘net sell’ to ‘net buy’ (and not ‘consensus buy’). Qualitatively, it suggests that when consensus recognizes the changing fortunes of an underlying business and upgrades ratings, it pays to be among the early birds in

investing in such a business. Our study shows that returns earned from this strategy are healthy even in absolute terms. However, one needs to be early to catch these returns, certainly before the stock becomes a consensus buy and crosses a popularity score of 3.5.

**We applied this framework on BSE-100 constituents for this quarter, this quarter no stock came up on this screen Below is a snapshot of stocks where the consensus popularity score changed from <3 to >3, in previous quarter.**

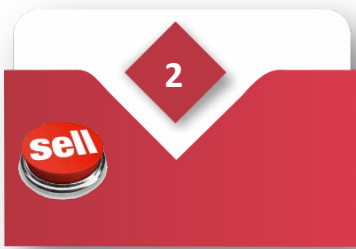
**Exhibit 11: Stocks where popularity has improved from <3 to >3 in 4QFY19**

Company	Dec-18	Jan-19	Feb-19	Mar-19
Page Industries Ltd	2.93	2.93	3.67	3.50
Siemens	2.95	2.95	3.05	3.05
HPCL	2.92	3.13	3.24	3.24

Source: Bloomberg

**United spirits and ABB has** exited our list after completing 12 months. These stocks entered the 'net sell' from the 'net buy' stocks in May '18 and delivered (17.2) and 27.81% total returns in a year.





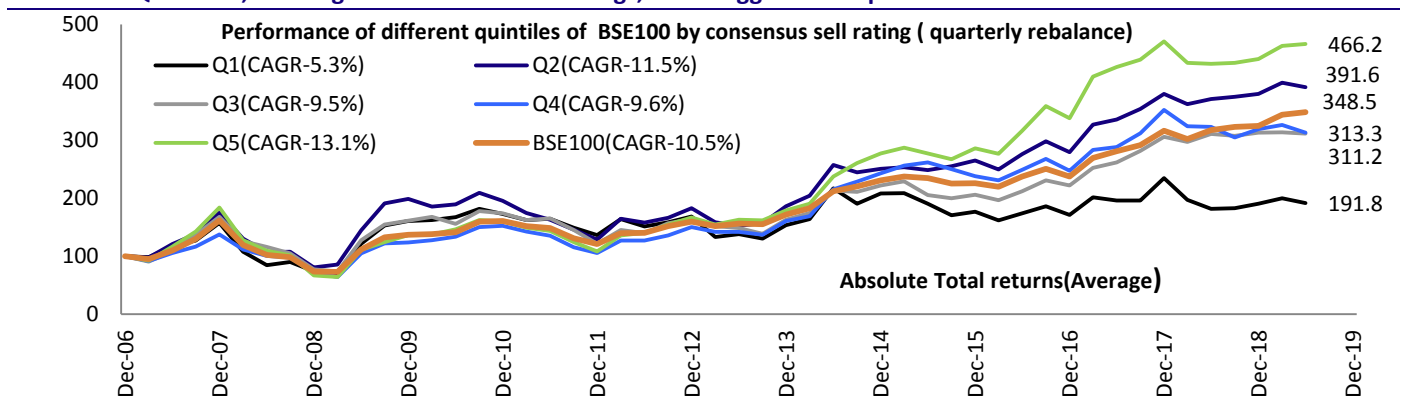
## Consensus sells are significant underperformers

The underperformance of Quintile-5 (the least popular stocks) in the popularity theme proves that owing to their scarcity value, sell recommendations can be quite efficient in predicting the stock performance.

This scarcity value prompted us to look at consensus sell ratings in isolation. In our note on **Contrarian Investing**, we had highlighted our finding that Quintile-1, composed of stocks with the highest consensus sell ratings, underperformed the market significantly. Thus, the consensus has been quite right in predicting sells.

***This can have meaningful implications for investors who can short-sell stocks.***

**Exhibit 12: Quintile-1, with highest consensus sell ratings, is the biggest underperformer**



Source: Bloomberg

On the other hand, Quintile-5, composed of stocks with the least consensus sell ratings, performed the best.

In 1QFY20...

- Q1, with highest consensus sells, came in second last – it has been the worst performing group historically.
- Q5, with the lowest consensus sell ratings, came in first.
- Q5 was the best performing group, followed by Q3, Q2, Q1 and Q4.
- It is important to note that investing in stocks with the lowest consensus sell ratings (Q5) would deliver the best returns over a longer period of time, although there may be periods of underperformance on a quarterly basis.

**Exhibit 13: Quintile-1, with highest consensus sell ratings came in second last**

	Q1	Q2	Q3	Q4	Q5	BSE100
Total Returns	-3.94	-1.96	-0.82	-4.04	0.76	1.20

Source: Bloomberg

It is important to highlight that the BSE-100 index is based on free-float market capitalization, whereas our Quintiles are equal-weighted portfolios. **In 1QFY20, a BSE-100 portfolio with equal weights would have delivered returns of -1.9%.**

We present below the snapshot of Quintile-1 of current BSE-100 constituents, with the highest sell ratings and low popularity score.

**Exhibit 14: Ten stocks with highest sell ratings in BSE 100 – Quintile-1 of Consensus Sell theme**

Company	Buy	Sell	Hold	% of Sell ratings	Popularity Score
PNB IN	3	20	8	65	1.9
DMART IN	6	11	2	58	2.5
TVSL IN	8	23	12	53	2.3
WPRO IN	7	22	20	45	2.4
BOS IN	1	4	4	44	2.3
LPC IN	17	20	10	43	2.9
YES IN	16	20	13	41	2.8
EIM IN	16	17	12	38	3.0
BJAUT IN	18	20	16	37	2.9
BHEL IN	7	12	15	35	2.7

Source: Bloomberg

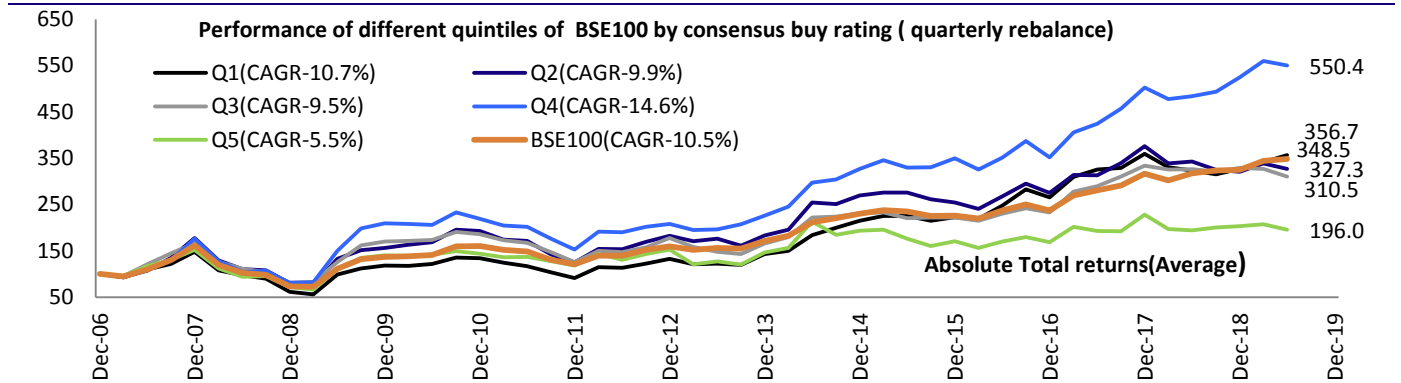
*The list is spread across different sectors with majority from Auto (4) and Banks (2), along with one each from Capital Goods, Technology, Retail and Pharma.*



## Consensus buys are not always great investments

To test the efficacy of consensus buy ratings, we repeated the analysis with buy ratings (%), and found that consensus buys are not necessarily great investments. Q4, the quintile with the second lowest (in terms of percentage) consensus buy ratings, delivered the maximum returns! Q4 has been the frontrunner, almost through the entire decade.

**Exhibit 15: Quintile-4 has been the best performer amongst all quintiles**



Source: Bloomberg

So, contrarian investing does work with consensus buy recommendations, and in fact, Q4 of popularity theme and consensus buy theme have several common members amongst themselves.

In the quarter ended June'19,

- Q5, with the lowest consensus buys, was the worst performer among all quintiles. On the other hand, Q1, with the highest buy ratings, came in first.
- Q2, with the second highest buy ratings, came in third.
- Q4, the contrarian quintile for generating returns, delivered -1.7% returns.
- It is important to note that Q4 of the popularity theme and the consensus buy rating theme have several members in common. For more details, please refer to our [first note](#) on the theme.

**Exhibit 16: Q5, with the least consensus buy ratings, performed the worst, whereas Q4 came in second**

	Q1	Q2	Q3	Q4	Q5	BSE100
Total returns	4.3	-3.3	-5.0	-1.7	-5.5	1.2

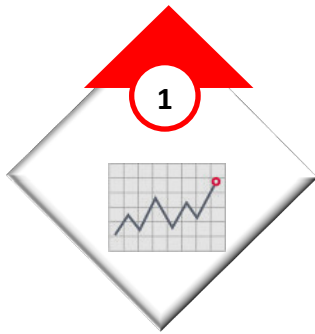
Source: Bloomberg

It is important to highlight that the BSE-100 index is based on free-float market capitalization, whereas our quintiles are equal-weighted portfolios. **In 1QFY20, a BSE-100 portfolio with equal weights would have delivered returns of -1.9%.**

**Exhibit 17: Ten stocks with highest BUY ratings in BSE-100 – Quintile-1 of Consensus Buy theme**

Company	Buy	Sell	Hold	% of Buy ratings
HDFCB IN	52	1	2	95
ICICIBC IN	51	0	3	94
SBIN IN	46	1	2	94
NTPC IN	25	0	2	93
LT IN	35	1	2	92
APHS IN	21	0	2	91
FB IN	34	0	4	89
UPLL IN	28	2	2	88
ITC IN	34	2	3	87
HNDL IN	26	3	1	87

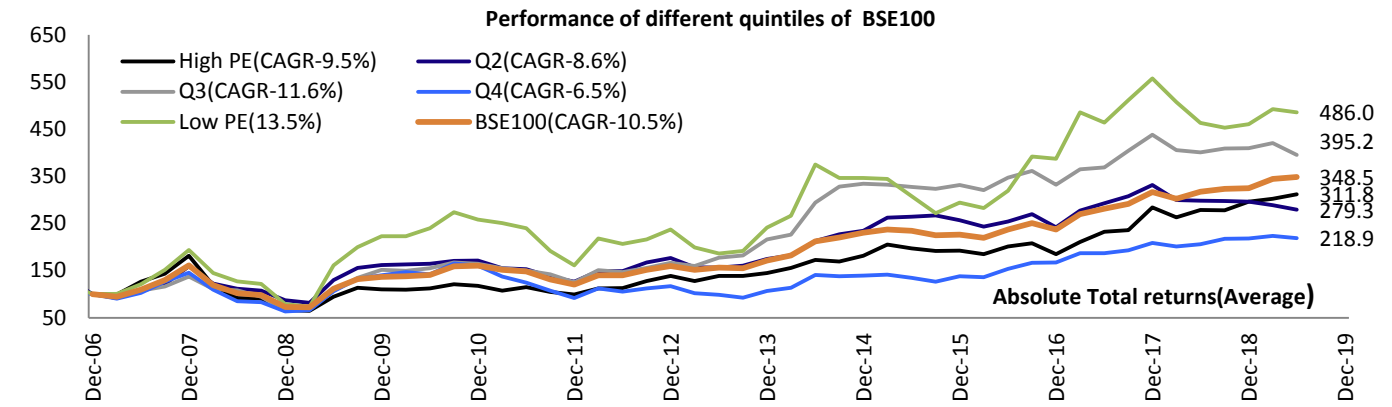
Source: Bloomberg



## Low P/E stocks outperform high P/E stocks

The most favored stocks by the market – the stocks with the highest P/E ratio – deliver dismal returns. On the other hand, the least favored stocks – the stocks with the lowest P/E ratio – are rewarded by the market. *The results of this quarter are on departure from expected lines –with high P/E stocks performing the best and low P/E stocks coming in second.*

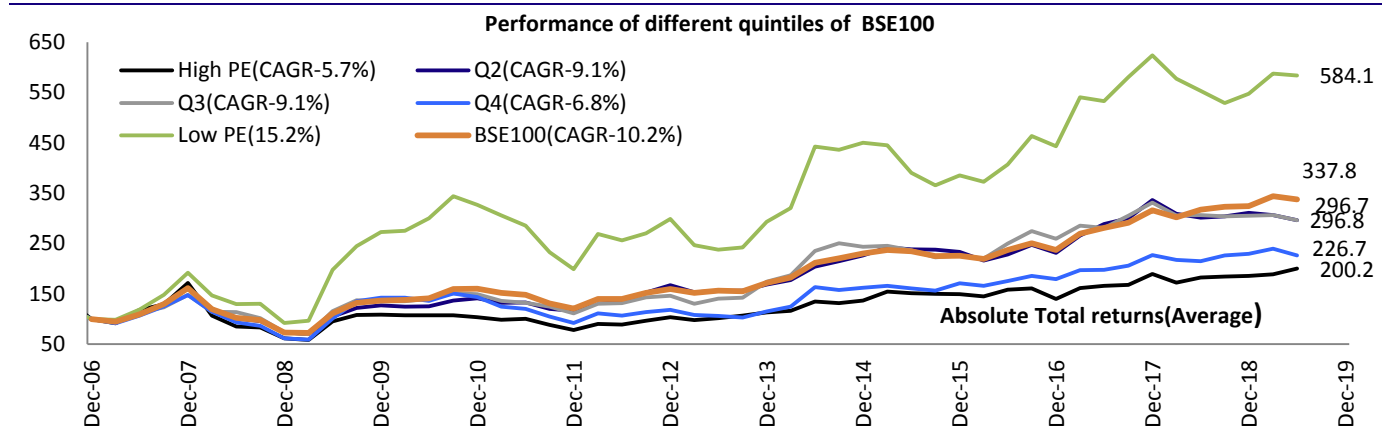
**Exhibit 18: Low P/E stocks outperform the market, whereas high P/E stocks fail to beat the market**



Source: Bloomberg

Investors/analysts have consistently overvalued the favorite stocks and undervalued the out-of-favor stocks! We repeated the same analysis with trailing multiples and found that trailing multiples are better predictors of returns, generating significant alpha over the benchmark, BSE-100.

**Exhibit 19: The results are better with trailing P/E ratio**



Source: Bloomberg

### Key updates from 1QFY20 on P/E quintiles

In the quarter ended Jun'19,

- Q5 (quintile with lowest P/E stocks) performed the second best, beating the benchmark. On the other hand, Q1, with the highest P/E stocks, performed the best.
- It is important to note that the quintile performance can depart from our assertion that “low P/E stocks dominate other quintiles” in some quarters, but

over a longer period, low P/E stocks should outperform other quintiles, according to our detailed study over ten years.

**Exhibit 20: High P/E stocks delivered the best returns in 1QFY20**

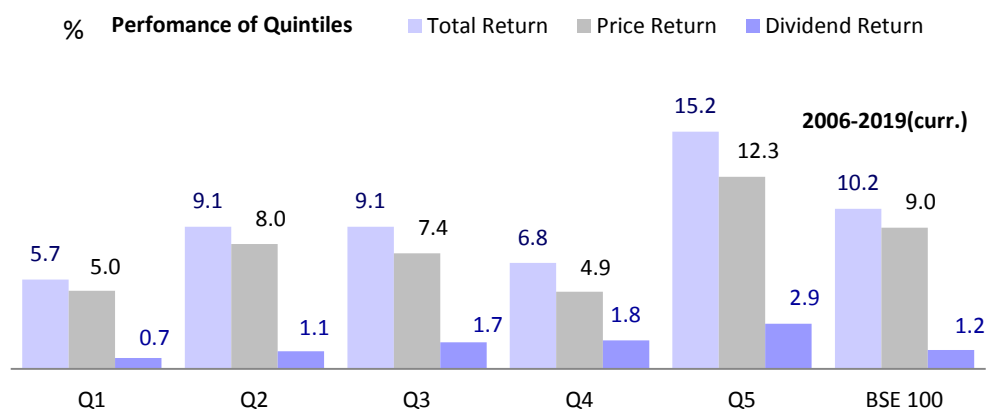
	Q1	Q2	Q3	Q4	Q5	BSE100
Total Return	5.96	-3.12	-3.29	-5.49	-0.68	-1.88

Source: Bloomberg

**It is important to highlight that the BSE-100 index is based on free-float market capitalization, whereas our quintiles are equal-weighted portfolios. In 1QFY20, a BSE-100 portfolio with equal weights would have delivered returns of -1.9%.**

Low P/E stocks offer a higher dividend yield (2.9%) than the market (1.5%), which acts as a support for the stock performance in a downturn. On the other hand, stocks with high P/E ratios offer lower dividend yield (0.7%) than the market. Worse, they fail to deliver growth they promise based on higher P/E ratios!

**Exhibit 21: High dividend yield supports performance of low P/E stocks in bear phases**



Source: Bloomberg

**Exhibit 22: Snapshot of winners - low P/E stocks**

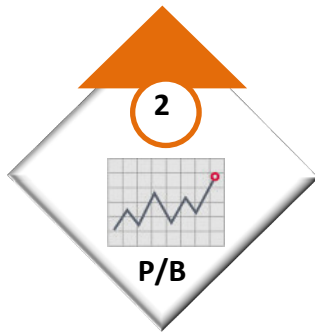
Company	Popularity Score	CMP INR	Mcap INR B	Trailing PE (x)		PE Prem/Disc (%)	Pat(INR M)			PAT CAGR (%)	ROE (%)
				5-year Avg.	Current		FY19	FY20E	FY19E		
B P C L	3.5	346	10.0	12.8	9.9	-22.7	85,279	87,960	109,181	13.1	22.6
Coal India	4.2	231	21.2	17.0	9.0	-46.9	174,630	174,715	185,384	3.0	66.0
Hindalco Inds.	4.6	199	6.4	17.3	8.4	-51.5	54,957	43,745	49,586	-5.0	14.5
H P C L	3.4	282	6.4	13.6	7.3	-46.3	66,906	80,791	85,843	13.3	23.9
Indiabulls Hous.	3.9	666	4.2	12.4	6.3	-48.9	40,905	34,354	36,499	-5.5	26.6
I O C L	3.8	147	19.8	15.7	8.4	-46.2	172,739	160,442	202,206	8.2	15.3
JSW Steel	3.3	268	9.4	22.3	8.7	-60.9	76,390	49,732	75,504	-0.6	24.4
LIC Housing Fin.	3.8	537	4.0	15.1	11.5	-23.4	24,310	28,151	32,217	15.1	16.0
NMDC	4.3	112	4.9	11.5	7.5	-35.0	47,789	38,442	41,142	-7.2	19.3
NTPC	4.9	128	18.6	11.7	11.1	-5.8	117,253	135,241	152,498	14.0	11.0
O N G C	4.4	150	28.6	13.4	7.0	-47.3	348,309	356,409	370,033	3.1	16.5
Power Grid Corpn	4.4	206	15.9	13.8	8.6	-37.6	100,335	109,532	118,741	8.8	17.7
Shriram Trans.	4.4	1,046	3.4	18.4	9.6	-48.0	25,640	26,169	28,955	6.3	17.6
Tata Steel	4.1	473	7.7	11.2	5.6	-50.0	101,390	76,638	89,513	-6.0	17.3
Tata Power Co.	4.1	68	2.7	111.1	8.5	-92.4	5,710	11,750	13,090	51.4	3.6

Source: MOFSL, Bloomberg

## Exhibit 23: Snapshot of high P/E stocks

Company	Popularity Score	CMP INR	Mcap INR B	Trailing PE (x)		PE	PAT (INR M)			PAT CAGR (%)	ROE (%)
				5-year Avg.	Current	Prem/Disc (%)	FY19	FY20E	FY19E	FY19-21E	FY19
Asian Paints	3.9	1,360	18.6	58.4	60.3	3.3	22,119	22,695	27,626	11.8	24.7
Bajaj Fin.	3.8	3,378	28.9	39.0	54.5	39.6	39,950	50,619	61,672	24.2	22.5
Bharti Airtel	4.1	356	27.0	96.6	366.5	279.4	-35,026	-27,512	-11,539	Loss	-5.0
Britannia Inds.	3.7	2,780	9.7	58.6	58.7	0.3	11,564	13,945	16,465	19.3	30.2
Avenue Supermarts	2.5	1,359	12.5	113.0	96.7	-14.4	9,025	11,319	14,738	27.8	17.6
Havells India	3.6	711	6.5	45.4	62.1	36.8	7,915	9,932	12,509	25.7	18.7
HCL Technologies	4.0	1,024	20.2	86.1	1015.9	1079.7	101,230	109,093	127,894	12.4	25.7
HDFCLIFE	3.7	482	13.7	56.0	73.2	30.7	12,768	14,890	17,913	18.4	20.3
Hind. Unilever	3.7	1,713	54.5	52.7	64.1	21.5	62,630	70,837	84,410	16.1	85.0
Lupin	2.9	762	5.0	55.5	56.3	1.3	10,546	14,996	19,402	35.6	7.7
Nestle India	4.2	11,679	16.1	67.3	69.8	3.6	17,217	18,901	21,911	12.8	48.5
Page Industries	3.2	20,592	3.4	75.4	58.3	-22.7	3,940	4,303	5,182	14.7	50.8
Pidilite Inds.	3.3	1,186	8.9	54.2	63.0	16.2	9,428	11,046	12,788	16.5	24.4
Siemens	3.4	1,231	6.4	43.5	52.2	20.0	8,939	11,574	12,106	16.4	11.2
Shree Cement	3.2	21,383	10.9	56.7	79.9	41.1	12,605	12,197	17,693	18.5	13.6
Titan Company	4.5	1,101	14.2	57.7	86.2	49.5	13,908	17,506	22,831	28.1	24.9
UltraTech Cem.	3.8	4,564	18.1	42.3	50.9	20.2	24,347	39,508	50,821	44.5	8.9

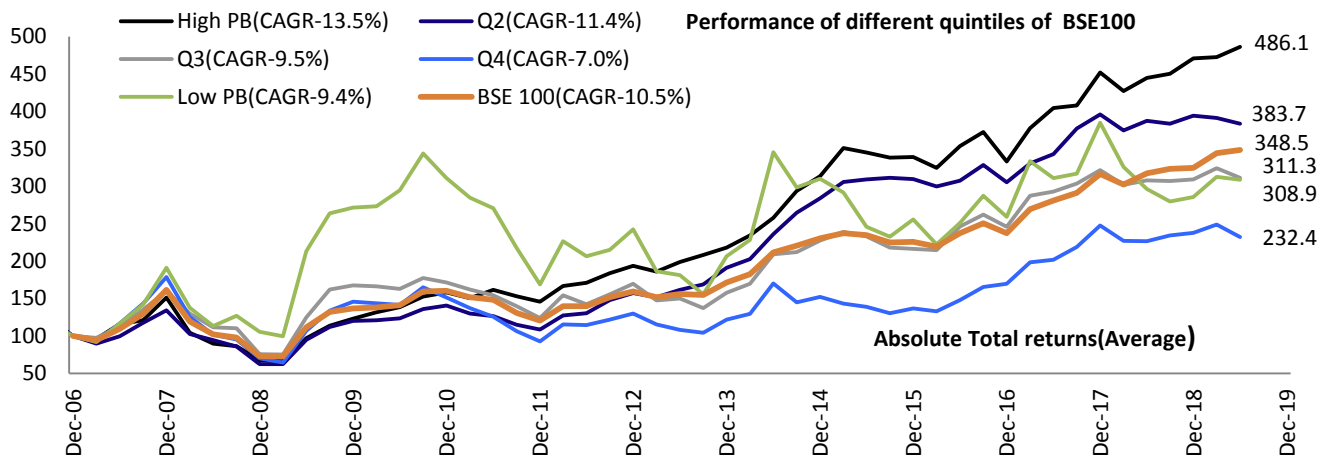
Source: MOFSL, Bloomberg



## Low P/B stocks dominate, but overall results mixed

Our empirical analysis suggests that high P/B stocks have delivered the best returns over the last 10 years. However, low P/B stocks have dominated other quintiles for significant part of the decade.

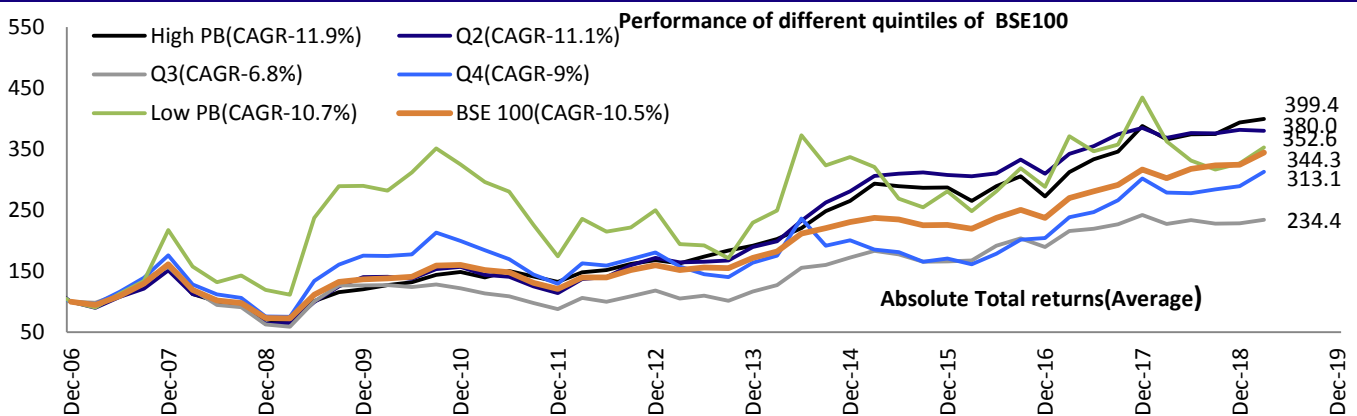
**Exhibit 24: Low PB stocks have dominated the other quintiles for a significant portion of the decade**



Source: Bloomberg

We have repeated the same analysis with the trailing P/B ratio. The low P/B stocks based on trailing BV did better than the low P/B stocks based on forward BV, whereas the high P/B stocks did somewhat worse. Again, low P/B stocks led the other groups for the majority of the decade and are the third best performing group.

**Exhibit 25: Trailing P/B ratio also presents the same picture**



Source: Bloomberg

In the quarter ended Jun'19...

- Q1 (high P/B stocks) and Q5 (low P/B stocks) were the top two performers among all quintiles, even beating the benchmark.
- Q1 was the best performing group, followed by Q5, Q2, Q3 and Q4.



**Exhibit 26: Low P/B stocks (Q5) have delivered the second best returns in 1QFY20**

	Q1	Q2	Q3	Q4	Q5	BSE100
Total Returns	2.23	-2.23	-3.04	-6.70	1.23	1.20

Source: Bloomberg

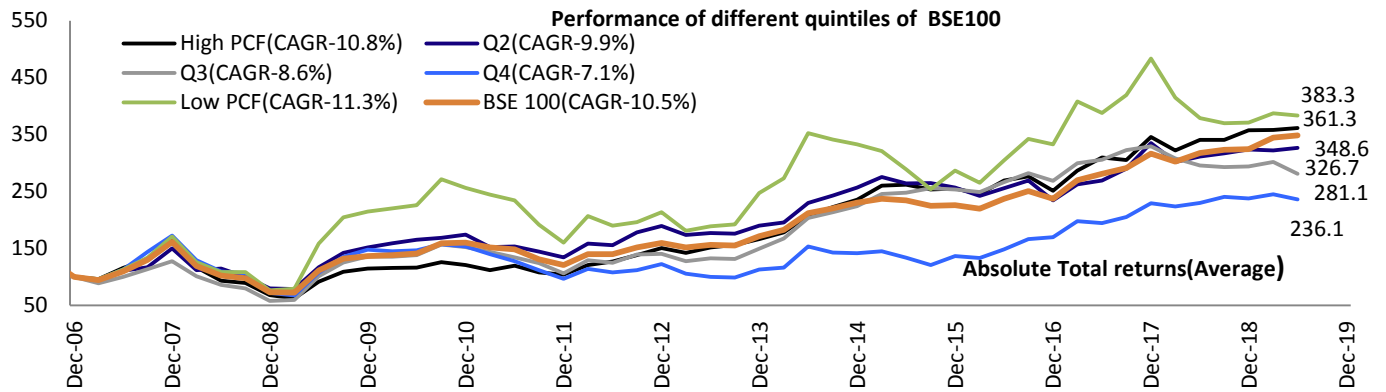
**It is important to highlight that the BSE-100 index is based on free-float market capitalization, whereas our quintiles are equal-weighted portfolios. In 1QFY20, a BSE-100 portfolio with equal weights would have delivered returns of (-1.9) %.**



## Low P/CF stocks outperform high P/CF stocks

The least popular (out of favor) stocks with a low P/CF ratio outperformed every other group, generating an alpha of 1.1% (returns CAGR of 11.3%) over the benchmark (BSE-100: CAGR of 10.5%). High P/CF stocks also delivered decent returns, beating the BSE-100 benchmark narrowly.

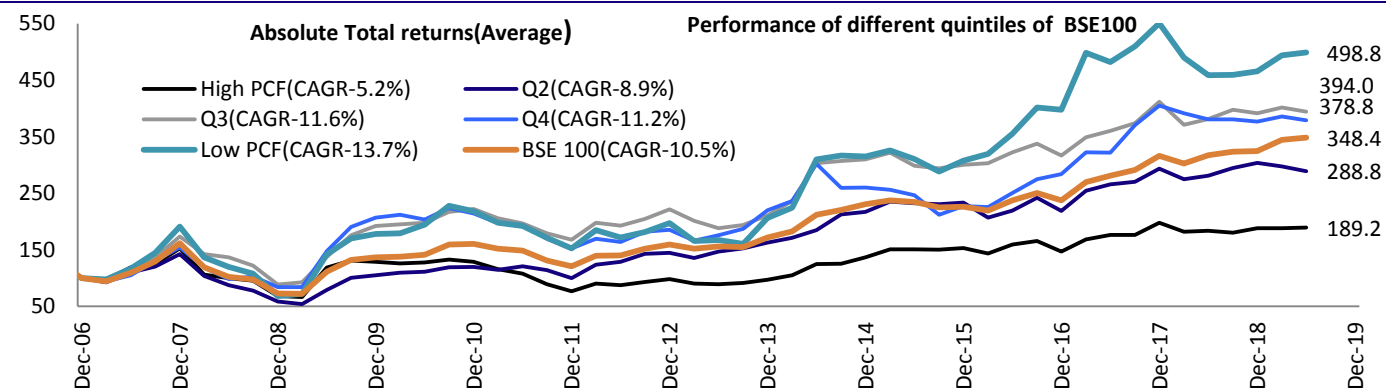
**Exhibit 27: Low P/CF stocks beat high P/CF stocks**



Source: Bloomberg

We repeated the same analysis with the trailing P/CF ratios. The outperformance increased with the trailing ratios. The low P/CF quintile outperformed every other group. The high P/CF quintile delivered the least returns, failing to beat the benchmark and underperformed every other quintile. This is in harmony with our analysis on the P/E theme.

**Exhibit 28: Margin of outperformance increases significantly with trailing P/CF ratios**



Source: Bloomberg

### Key updates from 1QFY20 on P/CF quintiles

In the quarter ended Mar'19,

- The low P/CF quintile (Q5) has performed the best failing to beat the benchmark.
- Q5 (Quintile with the lowest P/CF ratio) performed the best, followed by Q1, Q4, Q3 and Q2.

- It is important to note that the quintile performance can depart from our assertion that “low P/CF stocks dominate other quintiles” in some quarters, but over a longer period, low P/CF stocks have outperformed every other quintile.

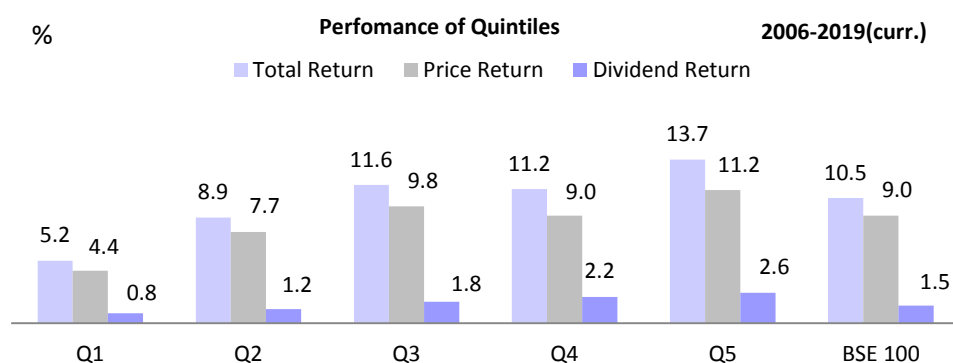
**Exhibit 29: Low P/CF performed the best in 1QFY20**

	Q1	Q2	Q3	Q4	Q5	BSE100
Total Returns	0.40	-2.97	-1.94	-1.79	1.01	<b>1.20</b>

Source: Bloomberg

It is important to highlight that the BSE-100 index is based on free-float market capitalization, whereas our Quintiles are equal-weighted portfolios. In 4QFY19, a BSE-100 portfolio with equal weights would have delivered returns of (1.9) %.

The low P/CF stocks offer a higher dividend yield (2.6%) than the market (1.5%); this acts as a support for the stock performance during a market downturn. On the other hand, stocks with the highest P/CF ratios offer a lower dividend yield (0.8%) than the market. Worse, they often fail to deliver growth that analysts envisaged for them.

**Exhibit 30: High dividend yield supports low P/CF stocks in bear market (%)**

Source: Bloomberg

**Exhibit 31: Snapshot of low P/CF stocks**

Company	Popularity Score	CMP INR	Mcap INR B	Trailing PE(x)		PE Prem/Disc (%)	PAT (INR M)			PAT CAGR (%)	ROE (%)
				5-year Avg.	Current		FY19	FY20E	FY19E		
HDFCLIFE	3.7	482	13.7	56.0	73.2	30.7	12,768	14,890	17,913	18.4	20.3
JSW Steel	3.3	268	9.4	22.3	8.7	-60.9	76,390	49,732	75,504	-0.6	24.4
Tata Steel	4.1	473	7.7	11.2	5.6	-50.0	101,390	76,638	89,513	-6.0	17.3
Tata Chemicals	4.3	600	2.2	16.7	13.7	-18.0	10,936	11,660	13,937	12.9	9.3
Tata Motors	3.7	159	7.8	25.5	na	na	-14,785	45,205	52,302	LP	-1.9
Vedanta	3.6	168	8.9	10.4	9.3	-10.2	67,450	53,820	52,460	-11.8	10.7

Source: MOFSL, Bloomberg

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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