Market Valuations Fullish But Long Term Return Matrix Has an Upward Tilt

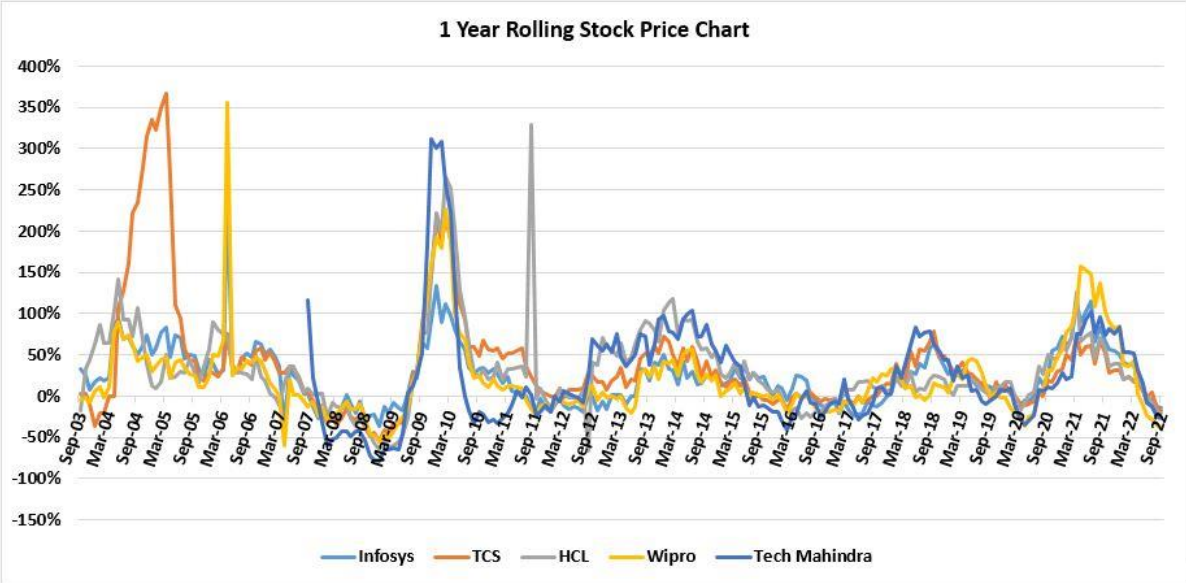
Post the ~ 15% rebound since mid-June Indian market valuations have pulled ahead of historical P/E averages. In 2022 India equities have meaningfully outperformed global and emerging market indices as a result of which India's premium over global markets and EM have expanded further.
On the other hand most top down indicators are suggesting that India is well placed for growth over next 3-5 years even though risks posed by the global macroeconomic slowdown cannot be ignored.
India is also getting increassigly recognised by global investors for being the only large country with a relatively stable economy especially if compared to the developed world that is stuggling with uncontrolled inflation and the risks of recession. Not surprisingly FPI flow into India in August, that turned positive for the first time after October' 21 continues to gain momentum. Interestingly there is increased chatter around India getting included in JP Morgan for global bond index. By better integrating India's debt markets with gloval ones this can augur well for liquisity in Indian capital markets.
From here we expect markets to be volatile broadly sideways over next six months. Over two years and more we continue to believe that India offers compelling wealth creation opportubities.
At this juncture the only sector where we are taking a combination of top down, and valuation driven bottom-up negative call is IT and software services.

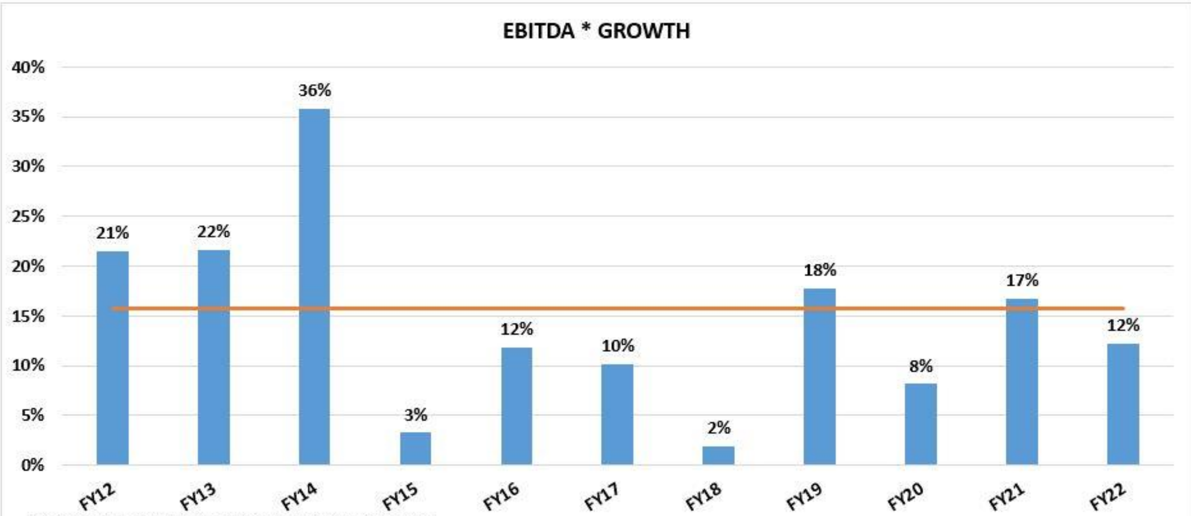
Table
Indian IT stocks have been having a torrid time of late. In last one year, large-cap IT sector stocks (Infosys, TCS, HCL Tech, Wipro & Tech Mahindra) are down by between 14% and 40%. Such declines are rare (2007-09 was one period where even worse performance had been witnessed).
12 month rolling chart

Clouding of earnings growth prospects- margin pressure so far, and fear of slowdown in revenue growth next year, seems to be the main culprit here. EBITDA growth of large Indian IT companies (Infosys, TCS, HCL Tech, Wipro and Tech Mahindra) for FY22 was 12% as against last 10 year CAGR of 16%. Given the weakening global

macro-economic outlook, particularly in the developed world, IT companies' EBITDA growth may slip further.
Ebitda chart

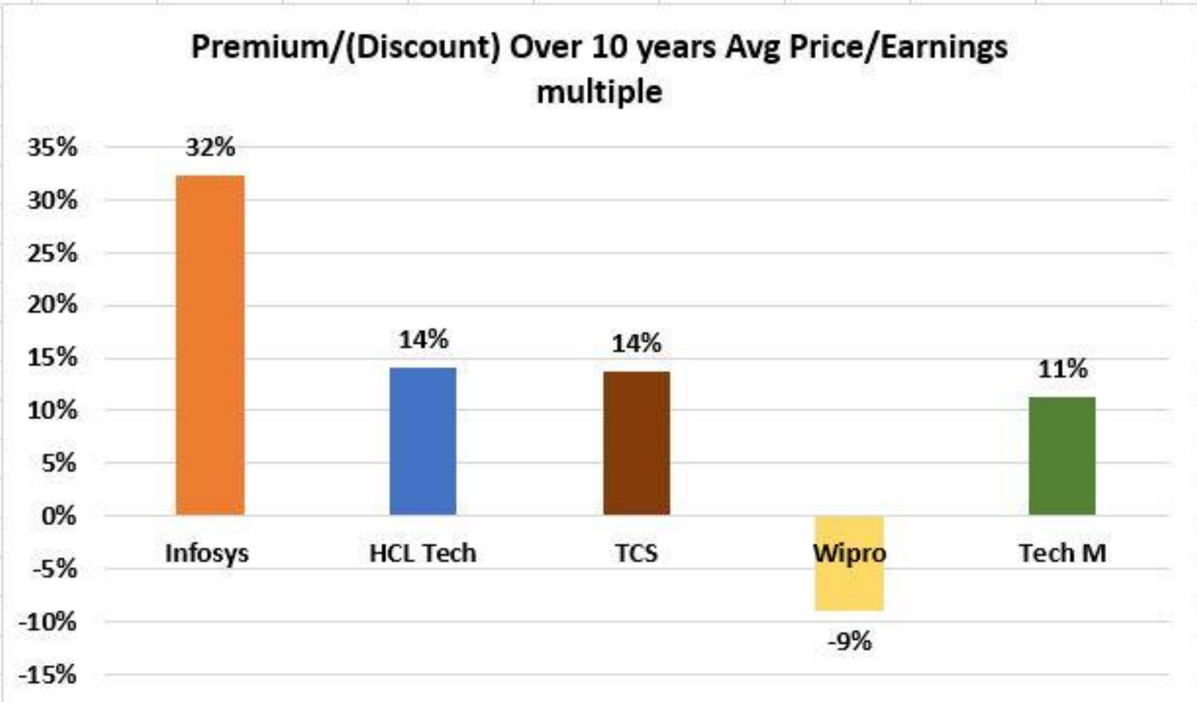
Interestingly, P/E multiples (trailing twelve month basis) of these stocks (except for Wipro) are still at more than 10% premium over their 10 Year average PE. This means even in forward multiples the valuations do not look too great - unless earnings growth rebounds, or at least stabilises.
Valuation chart





* Summation of EBITDA of large IT sector companies
(Infosys,TCS,Wipro,HCL Tech,Tech Mahindra)

Indices	YTD CY22	12 Months Returns
Nifty 50	0%	2%
Nifty IT	-28%	-20%
Nasdaq	-10%	-7%


Premium/(Discount) Over 10 years Avg Price/Earnings multiple
35%
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
32%
14%
14%
-9%
11%
Infosys
HCL Tech
TCS
Wipro
Tech M

Disclaimer and Risk Factors: The above viewpoint/newsletter is only for reference / information / educational purpose based on our views. The stocks, if any, mentioned above are only for reference and/or as example and are not recommendations. Any use of the information contained herein for investment related decisions by the Investors/ Recipients is at their sole discretion & risk. Please read the Disclosure Document and the Client Agreement along with the other related documents, if any, carefully before investing in the investment approaches of Magadh Capital Advisors LLP. Investments in Investment Approaches are subject to market risks, various micro and macro factors and forces affecting the capital markets and include price fluctuation risks. There is no assurance or guarantee/ warranty that the objectives of any of the Investment Approach will be achieved. The investments may not be suited to all categories of Investors/ Recipients. Investors must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in such Investment Approaches.

Past performance is no guarantee of future returns. Performance data provided herein is not verified by SEBI. MCA LLP does not guarantee the future performance of any investment style, process or any level of performance relating to any products of MCA LLP or any other third-party service provider. Investment in any product including mutual fund or in the product of third-party service provider does not provide any assurance or guarantee that the objectives of the Investment Approaches are specifically achieved. MCA LLP shall not be liable to client for any losses that they may suffer on account of any investment or disinvestment decision based on the communication or information or recommendation received from MCA LLP on any product or on this document.

****

Magadh Capital Advisors LLP (LLP IN - AAG-4940) SEBI Portfolio Managers Registration No. INP000007155	
Principal Place of Business	603 The Coworking Space, Matulya Centre, 2nd floor, Lower Parel, Mumbai, Maharashtra 400013, India.
Contact Details	Ph: +91-9821627938 Email: investor.info@magadhcapital.com Website: www.magadhcapital.com
Investment Approaches	Future Stars (Mid cap and Small Cap) Value For Growth (Multi Cap)
Investment Approach Launch	August 2021
Minimum Investment	Rs. 50,00,000/-

Investor may invest with us directly. To invest in any of our PMS investment approaches directly or for any additional details / clarification, please write to us at **investor.info@magadhcapital.com**

For any grievances please write to our Investor Relations Officer / Compliance Officer Mr. Vikshit Shah - **grievance.pms@magadhcapital.com.**