

FAITH & PATIENCE

“It is a semi colon; not a full stop.”

April 1, 2020 marked the beginning of new financial year and cannot be a better time to do “Simhavalokan” or take a look at the financial year which just got over. “Simhavalokan” is a Sanskrit word, where ‘Simha’ means lion and ‘avalokan’ means to contemplate or keenly observe or survey. At regular intervals, a lion, while travelling long distances with his pride, is known to get on a higher ground or a mound or a hillock and looks back on the ground covered before proceeding further on his journey.

While a lot is already being said on Covid-19 and is available in public domain, I am going to focus strictly on markets.

Fig: Indian market performance

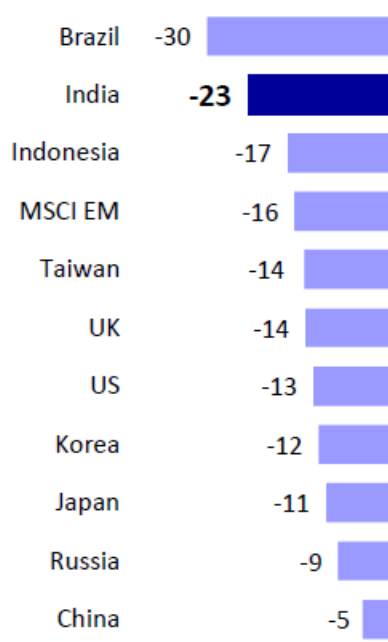
Index	Returns % for period ended March 31, 2020		
	1 Month	3 Months	1 Year
NIFTY 50	-23.25	-29.34	-26.03
NIFTY 100	-22.84	-28.83	-25.94
NIFTY 500	-24.25	-29.13	-27.60
NIFTY MIDCAP 100	-30.28	-31.57	-35.90
NIFTY SMALLCAP 100	-36.66	-38.39	-46.13
NIFTY AUTO	-31.47	-42.64	-43.24
NIFTY BANK	-34.32	-40.48	-37.08
NIFTY ENERGY	-18.51	-30.07	-32.52
NIFTY FMCG	-6.79	-9.30	-9.90
NIFTY IT	-16.10	-18.46	-18.33
NIFTY METAL	-29.39	-43.39	-47.90
NIFTY PHARMA	-5.28	-10.74	-23.22
NIFTY REALTY	-37.44	-41.22	-34.81
S&P BSE SENSEX	-23.05	-28.57	-23.80

Source: ACE EQUITY

Bulk of the fall (refer table above) during the financial year FY2019-20 can be attributed to month of March 2020. Nifty 50 index fell 23% during the month of March and ended 26% lower than the previous year’s close. Midcaps and small caps were hit hard. Nifty Midcap index was down 36% and Nifty Smallcap index was down 46% over the previous year. Amongst the various sectors, banking and real estate were the hardest hit in March 2020. Nifty Bank index was down 34% and Nifty real estate index was down 37%.

Domestic funds inflows remained strong during the year at USD17.9bn compared to USD10.3b in FY2019 whereas foreign fund inflows barely managed to remain positive and ended at USD1bn. Interestingly, in the month of March 2020, domestic funds were net buyers at USD7.5bn whereas foreign funds were net sellers at USD8.2bn. This was record high selling in a month by foreign funds.

Fig: Global markets performance (March 2020 over Feb 2020)



In local currency terms, compared to other key global markets, India is amongst the hardest hit (refer chart above) in March 2020. If one looks at it on a one-year basis and in USD terms, then Indian market is down 31% (UK -30%, Indonesia -38%, Brazil -37%).

Fig: Nifty trailing Price to Book

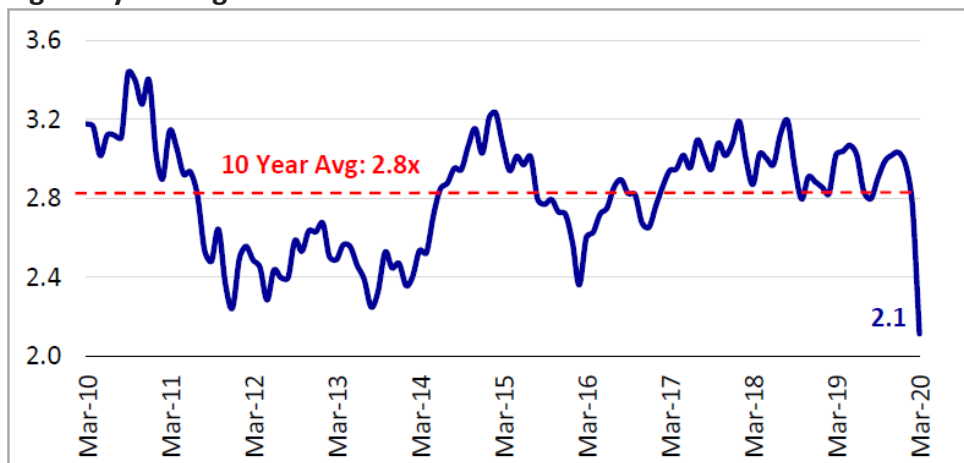
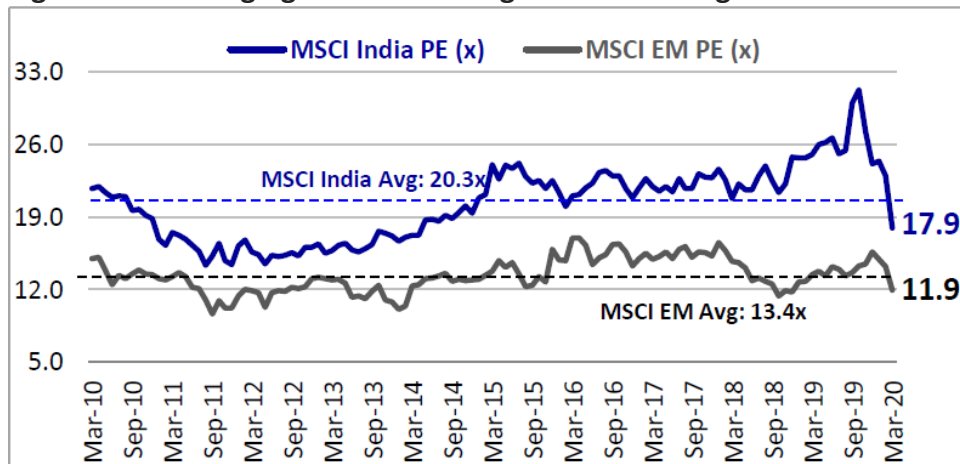


Fig: India vs Emerging Markets trailing Price to Earnings



Source: Bloomberg

With this fall, the valuations are well below their long period averages. Nifty now trades at around 25% discount to its long period average P/B ratio of 2.8. Even the valuation premium which Indian markets commanded over emerging markets has narrowed and it is now at the long period average.

Fig: Consensus earnings revisions

Sr. No.	Sector	Consensus Revisions
1	Autos	-6%
2	Cement	-8%
3	Banks	-7%
4	Consumer Staples	-2%
5	Healthcare	-7%
6	MNC Pharma	0%
7	Paints	0%
8	Domestic Pharma	-1%
9	Power/Mining	-2%
10	Specialty Chemicals	-2%
11	Technology	-2%
	Grand Total	-6%

Source: I-Sec

While the Nifty has fallen by 26% over the previous year's close, the earnings estimates have been revised downwards by the street (refer table above) by 6%, which is not alarming. One large institutional brokerage has revised earnings by -14%. While I agree the consensus earnings may get further revised and depend upon how corona crisis unfolds hereon but the price action nevertheless is severe.

One aspect I would like to highlight is the calibrated and well-coordinated approach taken by the Government of India (GoI), Ministry of Finance (FM) and Reserve Bank of India (RBI). So far, the steps taken by them, to ensure there is minimal disturbance to the economy and the measures are all encompassing, are as follows in a nutshell:

1. First, a “Janata” curfew or People’s curfew was imposed on March 22, 2020 for 14 hours to test the system and also to express gratitude towards people associated with providing essential services.
2. On the back of successful Janata curfew, on March 24, 2020 a lockdown was imposed for the next 21 days starting March 25, 2020.
3. Taxpayers were given time until June 30, 2020 to complete their tax-saving investments for FY2019-20. The earlier deadline was March 31, 2020. However, the financial year has not been extended.
4. Rs.1.7 lakh crore (USD23bn) relief package was announced for the weaker sections of the society and aimed at providing a safety net for those hit the hardest by the corona lockdown. Along with insurance cover for frontline medical personnel, about 800 million people will get free rice/wheat, cereals and cooking gas apart from cash through direct transfers for next three months.
5. For the formal sector, RBI undertook several steps, viz
 - a. 6-month Foreign exchange swap of USD2bn to ensure liquidity in foreign exchange markets
 - b. Infused liquidity of Rs.40,000crores or Rs.400bn (~USD5.3bn) through open market operations.
 - c. Policy rates cut (Repo cut by 75bps to 4.40% and reverse repo by 90bps to 4%)
 - d. Cash reserve ratio (CRR) cut by 100bps to 3% now. This has released Rs.1.37lakh crore or Rs.1.37 trillion (~USD18bn) of cash for lending with banks.

Fig: Repo rate at an all-time low

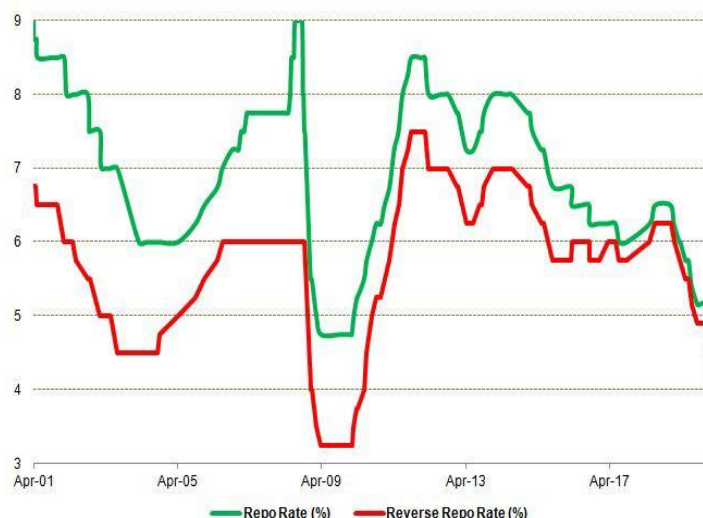


Fig: CRR at record low

- e. Marginal Standing Facility under which RBI lends overnight funds to banks has been increased to Rs.2.8 trillion (~USD37bn)
- f. Announced Long Term Repo operation to ensure liquidity in the corporate bond market
- g. Small and medium enterprises and individuals also covered and interest payments due on their loans deferred by 3 months. (Deferred not waived)
- h. Banks allowed to recalculate working capital, cash and credit limits upwards. So, more loans allowed.
- i. RBI specifically reposed faith in the private sector banks.

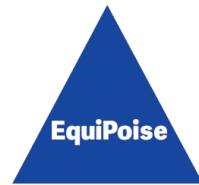
In summation, while it is difficult to assess the bottom of markets there is no doubt the markets today are cheaper. One year down, I believe the economy and markets would have adjusted for the negatives experienced today.

Stay safe. Stay healthy. Stay indoors.

Best,

Aashish Wakankar
Founder

April 7, 2020



Disclaimer: Nothing contained herein constitutes nor is intended to constitute an offer, inducement, promise, or contract of any kind. Notwithstanding any language to the contrary, these materials are for informational purposes only and are not intended to be, and should not be construed as, an offer to sell or a solicitation of an offer to purchase securities of EquiPoiSe Capital Management Pvt Ltd or of any entity or other investment vehicle managed by EquiPoiSe Capital Management Pvt Ltd or its affiliates. Offers to sell or solicitations of offers to purchase securities of a Fund will be made only by means of a confidential private placement memorandum and in accordance with applicable securities laws, and will be subject to the completion of a subscription agreement and related documentation. This document/presentation contains confidential information and is being delivered to a limited number of sophisticated prospective investors. EquiPoiSe Capital Management Pvt Ltd, its affiliates/- sponsors/employees, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this document/publication from time to time. Recipients of the information contained herein should exercise due care and caution and read the offer document (including if necessary, obtaining the advice of tax /legal/ accounting/ financial/ other professionals) prior to taking of any decision, acting or omitting to act, on the basis of the information contained herein. This document/presentation may not be reproduced, distributed or otherwise used except with our written consent. Each person, by accepting these materials, is deemed to agree to the foregoing, and to agree to return these materials to us promptly upon request. This document/presentation contains certain statements, estimates and forecasts with respect to future performance and events. These statements, estimates and forecasts are “forward-looking statements”. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as “may”, “might”, “will”, “should”, “expect”, “plan”, “intend”, “estimate”, “anticipate”, “believe”, “predict”, “potential” or “continue” or the negatives thereof or variations thereon or similar terminology. All statements other than statements of historical fact included in this document/presentation are forward-looking statements and are based on various underlying assumptions and expectations and are subject to known and unknown risks, uncertainties and assumptions, may include projections of future financial performance based on model portfolios and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied in the forward-looking statements. As a result, there can be no assurance that the forward-looking statements included in this newsletter will prove to be accurate or correct. In light of these risks, uncertainties and assumptions, the future performance or events described in the forward-looking statements in this presentation might not occur. Accordingly, you should not rely upon forward-looking statements as a prediction of actual results and we do not assume any responsibility for the accuracy or completeness of any of these forward-looking statements that may be made from time to time. We are under no obligation (and expressly disclaim any such obligation) to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise. The data contained herein is for informational purposes only and is not represented to be error free.