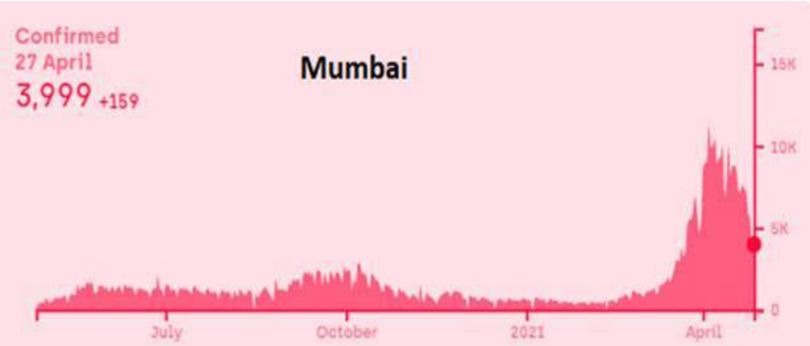
FAITH & *PATIENCE*

April 30, 2021

For the month ended April 30, 2021, Nifty 50 index was down 0.4% over previous month's close. Midcaps and small caps outperformed large caps hugely. NSE Midcap 100 Index was up 2.18% and NSE Small cap 100 index was up 5.6%. Within sectors, autos, consumer goods, technology, consumer durables, realty, banks, ESG and enhanced ESG underperformed Nifty 50 index whereas pharma, and metals outperformed. Foreign funds (FII/FPI) net sales stood at USD1.5bn for the month whereas domestic funds net purchases stood at USD75mn. CYTD foreign funds net purchases are USD5.8bn whereas CYTD domestic funds net sales are USD1.6bn.

India is currently experiencing an unprecedented surge in Covid-19 infections. The second wave is far severe than the first one, and the biggest challenge has been related to the transporting of oxygen (lack of cylinders, tanks, equipment) from the plants or industrial units producing oxygen to patients and hospitals. Global support in the form of oxygen cylinders, tanks and medicines is pouring in but given India's population of 1.35bn, it is a daunting task to manage the challenge. Surprisingly, Indian equity market has remained strong despite the Covid surge, and this is even though foreign funds have been net sellers. While it is not easy to ascertain the reasons, we tried to look at some factors to understand the market resilience:

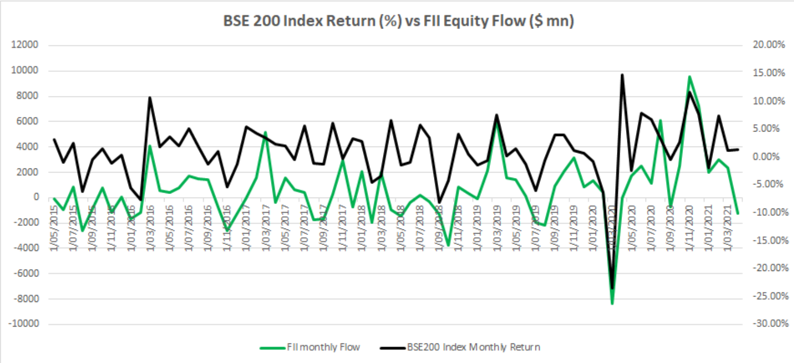
a) Maharashtra state, where the Covid-19 second wave started, is seeing a plateauing of new cases and particularly Mumbai is witnessing a steady decline in fresh daily cases. There is hope that rest of the country too will follow Maharashtra/Mumbai with 3-4 weeks lag.



b) Herd mentality and panic reaction from investors, had hurt short term fund performance last year. The learning for funds from last year's market behaviour, where market bounced back sharply, is fresh on the minds of investors. Domestic funds are more patient this time and it is visible from their net purchases last month despite heavy sales from foreign funds.

3) +150mn Indians have received atleast one dose of vaccine, whereas last year there was complete uncertainty. The pace of vaccination is expected to further pick up in the second half of May and even more in June.

Generally, Indian markets move in tandem with foreign flows. Last few weeks have seen a decoupling of market movement and foreign fund flows. Despite constant selling from foreign funds markets have been resilient.



Domestic funds have been buyers and India dedicated foreign ETFs have been sellers during April 2021. Foreign fund inflows are quite important for India as the correlation with markets is high and we believe this is one number we should be watching closely.

Q4FY2021 result season is largely in-line with market expectations so far. Sales, EBITDA and PAT yoy growth has been 15%, 16% and 18% (53% including financials), respectively for NSE 200 universe on a free-float basis. Macro cues from Q4 so far - exports (technology, auto), investment led (cement, metals) and consumption led (staples) are resilient, however discretionary consumption is lagging. Health crisis has not spilled over into a wide-spread financial crisis yet as indicated by low spreads in bond markets, absence of large gross NPA shocks in the financial system and improving government finances. Cost pressures are rising across the board (WPI inflation at 7.4% in Mar'21) but the ability to mitigate by cost rationalization, product mix and to pass on the cost is visible. PMI-manufacturing and GST collections are robust, but impact of second wave can be seen in weak mobility data and weak domestic auto sales numbers.

Our view:

Despite the significant impact of Covid, cyclical upturn is visible in corporate profits and economic growth while credit and investment cycles appear to be bottoming out along with the strengthening of corporate balance sheets. Going by the experience in developed markets like the US, the more infectious second wave during Q4CY20 did not have any material impact on economic recovery (in fact, US GDP growth forecast was raised to 4.3% during Q4CY20). We believe, India, with limited lockdowns now in a few states, will likely show similar trends with the organized corporate sector getting impacted even less than the unorganized sectors. The spectre of rising Covid cases has prodded the Reserve Bank of India to continue its accommodative stance. We saw similar commitment by the US Fed and the ECB last month, which should keep global liquidity conditions comfortable. US saw the peaking of the second wave of Covid in January 2021. Since vaccines became available, the rate of vaccination per day in the developed markets has also shot up. India on the other hand has seen the second wave start in March 2021 with a much slower rate of vaccination to start with but has climbed significantly to +3mn per day thereby making India the fastest country to administer +150mn doses.

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