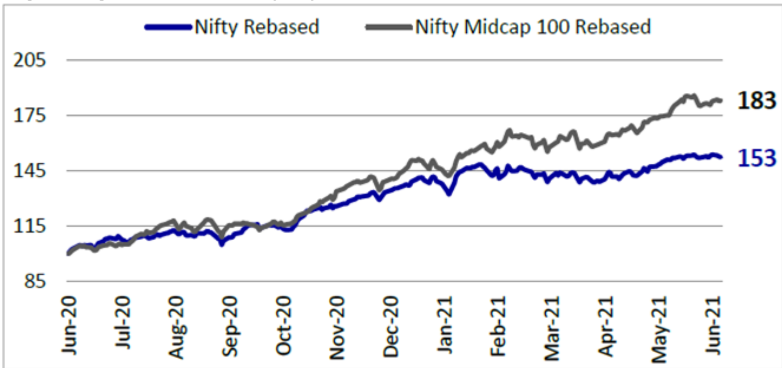
FAITH & *PATIENCE*

June 30, 2021

For the month ended June 30, 2021, Nifty 50 index was up 0.89% over previous month's close. Midcaps and small caps outperformed large caps. NSE Midcap 100 Index was up 4.64% and NSE Small cap 100 index was up 5.03%. Within sectors, technology, public sector banks, consumer, real estate, and media outperformed Nifty 50 index whereas infrastructure and energy underperformed. Foreign funds (FIIs/FPIs) were net buyers in June 2021 at USD1.5bn and domestic funds inflows for the fourth consecutive month at USD1bn. In the last one year, midcaps have risen 83% versus a rise of 53% for the Nifty. However, in the last five years, midcaps have outperformed by 5%.

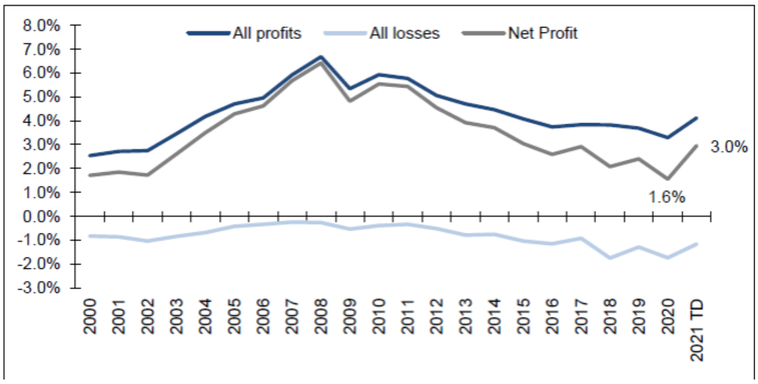
Fig: Large and midcaps performance last 12 months



While the benchmark indices BSE Sensex30 and Nifty50 have been scaling all-time highs, participation of retail investors has risen sharply. In June 2021, the market share of retail investors was at 70% of the average daily turnover which is a significant rise from 42% in March 2020. Generally, retail investors are known to rush to the markets after a large part of the bull-run is already behind. This time round, however, retail participation has seen steady rise since March 2020. Low interest rates, dull real estate, high volatility in gold, easy access to markets through various trading apps and "Work-from-home" due to Covid are some of the reasons why retail participation has gone up. While this is a global phenomenon but a rise in financial savings over physical savings, particularly gold, augurs well for India's economy. Since April 2020, around 19mn new investors have opened demat accounts with the two depositories in India.

Marred by second wave of Covid-19, Government of India unveiled series of measures, aggregating to INR6.29trillion, to support sectors affected including new credit guarantee scheme for healthcare, tourism, and small borrowers. Government also announced INR232.20bn scheme to strengthen healthcare infrastructure in the country. It also announced waiver of visa fees for first 0.5mn tourists visiting India. An extension has been allowed for the production linked incentive (PLI) scheme for mobile phone manufacturers including Foxconn, Winstron, Lava, Micromax and Dixon.

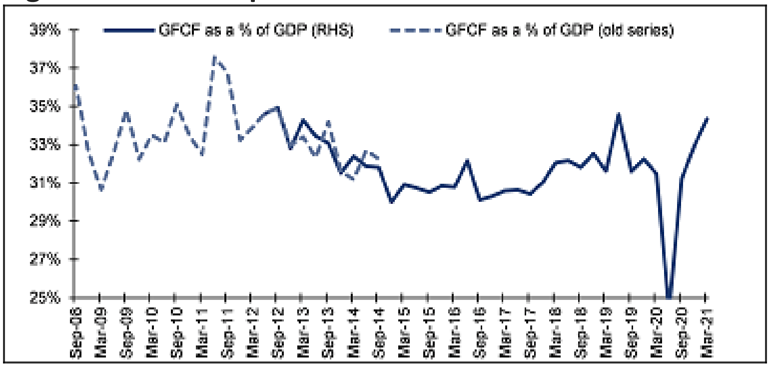
Fig: India's Profit after Tax to GDP



Source: I-Sec Research

Quarter four FY2021 is turning out to be the fourth consecutive quarter of earnings beat exceeding misses (led by cyclicals), which has resulted in PAT/GDP rising further to 3% despite upward revision to FY2021 GDP base. Earnings of NIFTY200 constituents have risen sharply driven by cyclicals in the quarter ended March 31, 2021. Latest GDP print indicates economic recovery is led by investments as the real investment rate rose to a 2-year high of 34.3% driven by robust construction and manufacturing sector along with higher government spending. It is also corroborated by robust quarterly results of sectors such as metals, cement, building material, capital goods, auto as well as the resilience shown by merchandise exports.

Fig: Gross Fixed Capital Formation at 34.3% of GDP



Source: I-Sec Research

Our view:

Investment rate continued to rise in Q4FY2021 and is at a 2-year high of 34.3% in real terms and 7-year high of 31.2% in nominal terms. Construction (14.5% YoY), manufacturing (6.9% YoY) and electricity (9.1% YoY) growth were robust in Q4FY2021 as evidenced by GDP print, corporate results, and robust merchandise exports. Also, month on month expansion of PMI-manufacturing (>50 reading) in Q1FY2022 so far is a positive surprise as April-May 2021 may be the worst affected period in the second Covid wave with June witnessing gradual reopening of the economy from the partial lockdown. GST collections have also remained relatively robust at Rs1.1trn.

We believe the environment for capex cycle is turning conducive at a macro level. Pick up in contact-intensive consumption will likely be with a lag and dependent on consumer confidence. We also believe rising demand driven moderate inflation and improving pricing power of manufacturers reflected in rising WPI is positive for corporate earnings and stocks in general. Inflation going out of hand and demand outlook falling, which looks unlikely currently, are risks watching out for.