FAITH & *PATIENCE*

March 31, 2021

For the month ended March 31, 2021, Nifty 50 index was up 1.11% over previous month's close. Midcaps outperformed large caps whereas small caps underperformed. NSE Midcap 100 Index was up 1.8% and NSE Small cap 100 index was up 0.8%. Within sectors, consumer goods, technology, and pharma outperformed Nifty 50 index whereas realty, banks, energy, and infrastructure underperformed.

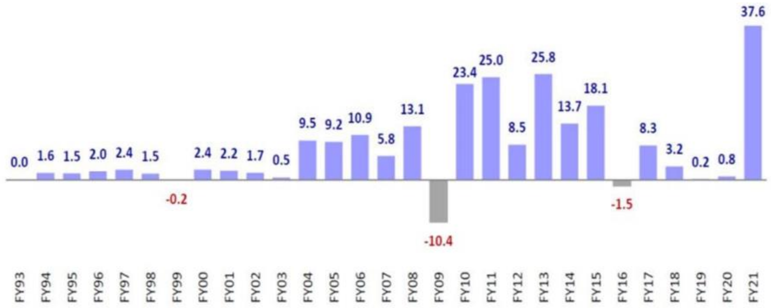
Fig: India's growth in recovery mode (%)

Index Name	1 month
Nifty FMCG	7.67
Nifty IT	6.39
Nifty MNC	3.20
Nifty Pharma	2.89
NIFTY Midcap 100	1.82
Nifty50 USD	1.63
Nifty 50	1.11
Nifty 500	1.09
Nifty 100	0.95
NIFTY Smallcap 100	0.79
Nifty Services Sector	0.12
Nifty Next 50	-0.15
Nifty Infrastructure	-0.55
Nifty PSE	-3.22
Nifty Energy	-3.24
Nifty Bank	-4.31
Nifty Realty	-4.47
Nifty PSU Bank	-9.80

Source: NSE

Interestingly, India recorded the highest ever foreign fund flows of USD37.6bn in financial year ended March 31, 2021. Foreign investors (FII or FPI) were net buyers again at USD2.6bn in March 2021 and domestic funds were net buyers at USD0.7bn. Foreign investors have been net buyers in the first three months of the calendar year 2021 with USD7.6bn whereas domestic funds have been net sellers in the same period at USD3.1bn.

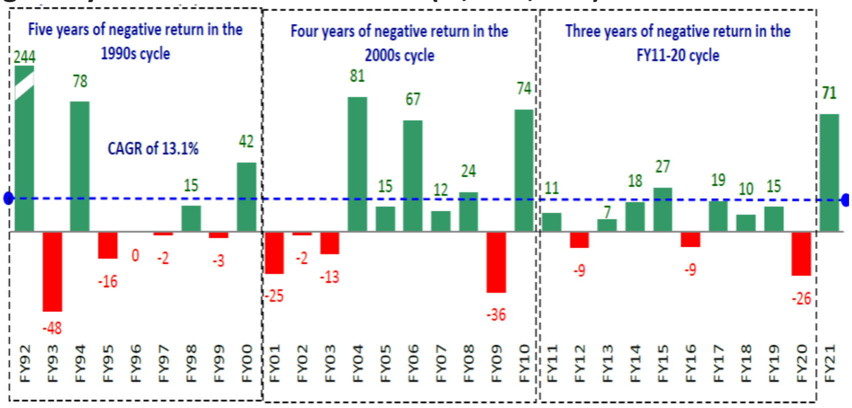
Fig: Annual foreign fund flows into Indian equities (USD)



Source: NSE, NSDL

Nifty 50 index ended FY2021 with 71% returns. The market delivered positive returns in all four quarters of FY2021. Covid pandemic caused sharp correction in markets globally, and in India as well, in March 2020. Indian market gradually recouped its losses in FY2021, led by policy measures by government, central bank as well as a better-than-expected corporate earnings performance which resulted in two consecutive quarters of earnings upgrades, a first in many years. All sectors delivered positive returns in FY2021. The Nifty Midcap 100 (+102% YoY) and Nifty Small cap 100 (+126% YoY) outperformed Nifty 50. Top gainers in the sectoral space were Metals (+151%), Autos (+108%), Technology (+103%), Real Estate (+90%), and Private Banks (+75%) while Consumer underperformed. Quality and defensive themes, the flavor of the past few years, took a breather. The breadth was positive in FY2021, with 49 Nifty stocks closing higher. Coal India (-7%) was the only stock in Nifty which ended lower.

Fig: Nifty 50 index annual returns (%, YoY, INR)



Source: NSE

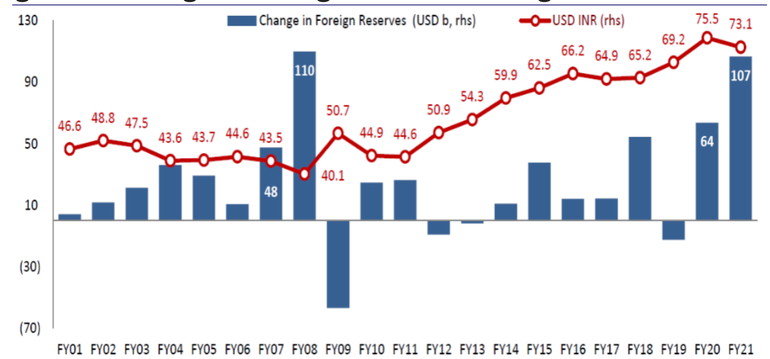
India’s foreign exchange reserves continued to rise in FY2021 despite Covid and severity of lockdown in India. With USD101.5bn rise in FY2021, India’s foreign exchange reserves jump was second highest ever in a financial year. India’s foreign exchange reserves at USD579.28bn is ranked third in the world after China and Japan. This is particularly noteworthy because it took India 12years to build its first USD100bn reserves after the balance of payment crisis in 1991 when India had reserves to cover only 15 days of imports. Today, foreign exchange reserves can cover almost 12 months of imports. Market has been upbeat on this buildup and expects greater foreign fund inflows into India as adequate foreign exchange reserves likely mitigate INR risk (large INR depreciation risk).

Fig: India global ranking in terms of foreign exchange reserves

Foreign Exchange Reserves (USD bn)	
World	8819
China	3205
Japan	1301
India	**579**
Hong Kong	496
Russia	444
Saudi Arabia	438
South Korea	430
Singapore	379
Taiwan	376

Source: Bloomberg, ETIG

Fig: India foreign exchange reserves change and USD INR movement



Source: Bloomberg

Our view:

India's goods and services tax (GST) revenue crossed INR1trillion mark for 6th month in a row. We believe record government collections of INR1.24trillion in March 2021 points to economic recovery, improved compliance, and strong anti-evasive measures. Increase in GST collections does indicate that the overall production and consumption cycle maybe back to normal. Another data point for India - headline CPI, rose sharply to 5% driven by food and fuel prices; core CPI (ex-food and fuel) also inched higher to 5.9% reflecting rising consumption demand and commodity prices. Month on month expansion continued for both manufacturing and services PMI at 57.5 and 55.3, respectively. We believe, an environment of economic revival and moderate inflation has been positive for stocks augmented by an accommodative stance of most central banks. However, key risks emerging for Indian equities include: (a) Rising Covid cases in key industrial states like Maharashtra, which can slow down the nascent economic recovery although availability of vaccines provides confidence of tackling the issue unlike the situation a couple of months ago; and (b) further spike in oil prices can impact demand, current account and government finances although sustained increase from current levels appear unlikely given the temporary disruptions on supply side.

We believe, given the recent “second wave” in Covid (it is more pronounced in one of the 28 states of India), the pace of vaccination will assume crucial importance. Markets will look at expeditious containment of Covid cases and accelerated pace of vaccination for comfort in FY2022 economic growth sustainability. Secondly, the expectations for FY2022 earnings are running high at 30%+ growth in Nifty FY2022 estimated earnings. Given the rich valuations, any misses on FY2022 earnings delivery may act as dampener. We remain mindful of these headwinds yet optimistic given the fact India has been one of the few countries successful in producing the Covid vaccine indigenously and has supplied over 64mn doses to more than 80 countries (of which over 10mn doses gifted). With Serum Institute of India (SII), India’s leading vaccine manufacturer, targeting over 100mn doses per month from current 60mn, we believe the severity of “second wave” to be lower.

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