FAITH & *PATIENCE*

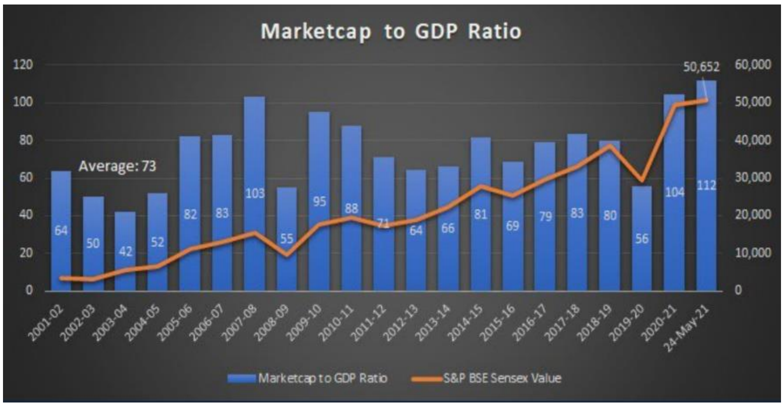
May 31, 2021

For the month ended May 31, 2021, Nifty 50 index was up 6.5% over previous month's close. Midcaps and small caps outperformed large caps. NSE Midcap 100 Index was up 6.56% and NSE Small cap 100 index was up 8.23%. Within sectors, autos, realty, banks outperformed Nifty 50 index whereas pharma, consumer goods, information technology and metals underperformed.

Index Name	1M
NIFTY 50	6.50
NIFTY Midcap 100	6.56
NIFTY Smallcap 100	8.23
NIFTY Auto	8.83
NIFTY Bank	8.37
NIFTY Financial Services	7.26
NIFTY FMCG	4.91
NIFTY IT	6.07
NIFTY Media	13.79
NIFTY Metal	6.47
NIFTY Pharma	4.32
NIFTY Private Bank	6.33
NIFTY PSU Bank	18.05
NIFTY Realty	8.58
NIFTY Financial Services	6.93
NIFTY Consumer Durables	5.40
NIFTY Oil & Gas	9.93
NIFTY Healthcare Index	4.30

Except Taiwan (-3%) and Indonesia (-1%), May 2021 saw all the key global markets, such as India (+7%), Brazil (+6%), China (+5%), Russia (+2%), MSCI EM (+2%), Korea (+2%), the UK (+1%), and the US (+1%), end higher in local currency terms. Over the last 12 months, MSCI India (+60%) has outperformed MSCI EM (+48%). Over the last 10 years, MSCI India has outperformed MSCI EM by 127%. In P/E terms, MSCI India is trading at an 87% premium to MSCI EM, above the historical average of 57%.

Foreign funds (FII/FPI) net sales stood at USD388mn for the month whereas domestic funds net purchases stood at USD75mn. CYTD foreign funds net purchases are USD5.9bn whereas CYTD domestic funds net sales are USD1.4bn.



Source: BSE

India's market capitalisation hit USD3trillion on May 24, 2021 for the first time. Positive news on declining fresh Covid cases, recoveries and vaccination has meant lower panic and rising investor confidence in economy and markets. India's market capitalisation has now surpassed Germany. The expected IPOs of India's unicorns/successful start-ups, Life Insurance Corporation of India - India's life insurance sector leader, disinvestment in select large public sector companies and select public sector banks privatisation means that India's market capitalisation could well surpass Canada and France.

India's market capitalisation was USD125bn in 2002. It reached USD1tr on May 28, 2007 and touched USD2tr on July 10, 2017. It took almost 10years to reach USD2tr and another 4years to reach the USD3tr mark. Despite this rise, India's market cap to GDP is at 112% and lower than UK (131%), Japan (133%), South Korea (136%), Canada (180%), United States (222%), Switzerland (304%), Saudi Arabia (324%), Taiwan (559%), Hong Kong (+1700%) and global average (129%).

Economic momentum strengthened in line with high frequency indicators in March. Gross Value Added (GVA), which captures activity from the supply side and gives more accurate representation of quarterly activity, grew 3.7% YoY (versus Reuters consensus of 2.7%). Meanwhile, GDP was reported higher than expected at 1.6% YoY versus consensus estimate of ~1%. The surprise came from real values for "indirect taxes – subsidies" led by +34% YoY rise in indirect tax collections in March quarter. Due to upward revision of March quarter, full year FY2021 GDP growth is now seen at -7.3% (vs. official estimate of -8%).

NSE 200 index portfolio earnings more than doubled (107% yoy) in Q4FY2021 so far largely driven by cyclicals. PAT to GDP for listed space has risen to four years high of 2.6% largely driven by reduction in loss pool and depressed earnings. Significant contribution to earnings pool trajectory by cyclicals should further boost 'PAT to GDP' over FY2021-23 as Nifty 50 earnings growth is expected to outpace nominal GDP growth. Despite the severe health impact of Covid second wave, Nifty 50 index FY2022 EPS outlook has remained resilient indicating expectations of limited impact of second wave Covid on headline benchmark index earnings. This contrasts with FY2022 GDP downgrades seen so far by various ratings agencies.

FAITH & *PATIENCE*

Q4FY2021 results are largely in-line so far with mostly neutral results and beats/misses evenly balanced.

Our view:

The second Covid wave has now started to recede, with the number of active Covid cases significantly down. There is greater visibility on vaccine supply now compared to April 2021. The expeditious containment of active Covid cases and accelerated pace of vaccinations would boost and provide confidence in economic growth recovery in FY2022. As states ease restrictions gradually in Jun 2021, we expect the demand environment to get better. However, after the recent run-up, the Nifty trades at rich valuations of 17.9x FY2023 EPS and seems to be already pricing in economic recovery. Thus, any misses in the FY2022 earnings delivery or economic recovery may act as a dampener.

India has further speeded up its vaccination drive. While the global vaccinations figure (people with at least one shot of Covid vaccine) stands at 1bn, for India it is 170mn. This is in line with India's population share in the world. Markets will also be watching this data closely along with newsflow regarding preparedness or plan of action proposed in case of a Covid third wave.

While Nifty 50 index earnings have been resilient, we believe the key reason for resilient headline index earnings outlook compared to GDP is that much of the economic impact has been in the unorganized sector and largely limited to economic activities like leisure, travel, hotels and retail which have relatively lower earnings weight in the index. The effect of the above-mentioned impacted sectors via gross non-performing assets is also limited to ex-Nifty 50 financial intermediaries while large financials in the index have managed to insulate themselves and have reported robust performance. Impact on investment and manufacturing side of the economy is limited to the shortage of migrant labourers and supply chain disruptions which have been much lower than during the first wave. Across the board, input cost pressure has not dented earnings outlook indicating the ability to rationalize and pass on cost which is corroborated by elevated WPI at 7.6% over Feb-Apr'21 (indicator of pricing power for manufacturers).

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.