FAITH & *PATIENCE*

November 30, 2021

For the month ended November 30, 2021, Nifty 50 index was down 3.90% over the previous month's close. Small caps outperformed large and mid-caps. NSE Midcap 100 Index was down 2.69% and NSE Small cap 100 index was down 0.98%. Within sectors, auto, banks, financial services, and oil & gas underperformed Nifty 50 index whereas healthcare, technology services and consumer durable outperformed. In fact, except for technology, healthcare, and consumer durables, rest all sectors ended negative.

Foreign funds (FIIs/FPIs) were net sellers in November 2021 at USD780mn whereas domestic funds were net buyers at USD4.31bn. Though foreign funds have been net buyers this calendar year but the net purchases of USD5.5bn is significantly lower than the USD23bn net purchases in calendar year 2020. It is encouraging to see that domestic funds have been net buyers at USD7.97bn. More importantly, the SIP or systematic investment plan led monthly inflow into domestic equity funds has touched an all-time high figure of USD1.4bn. It is these steady inflows from domestic retail investors which has kept the market buoyant despite low participation by foreign funds in secondary markets.

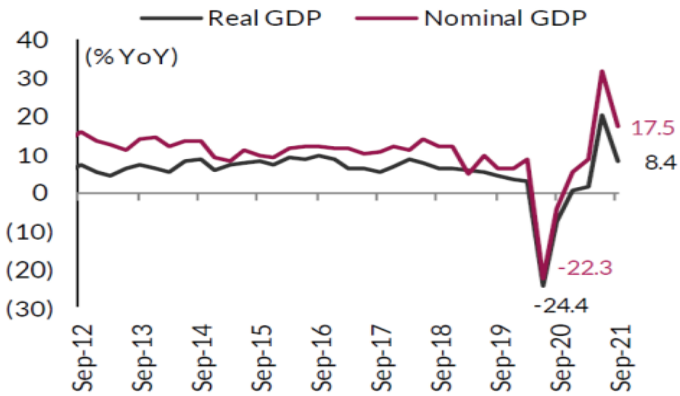
Monthly returns for November 2021

Index Name	Returns
NIFTY 50	-3.90%
NIFTY Midcap 100	-2.69%
NIFTY Small cap 100	-0.98%
NIFTY Auto	-6.14%
NIFTY Bank	-8.74%
NIFTY Financial Services	-6.69%
NIFTY FMCG	-2.18%
NIFTY IT	1.85%
NIFTY Media	-3.33%
NIFTY Metal	-6.50%
NIFTY Private Bank	-9.80%
NIFTY PSU Bank	-9.38%
NIFTY Realty	-2.23%
NIFTY Consumer Durables	0.14%
NIFTY Oil & Gas	-4.08%
NIFTY Healthcare Index	2.08%

On the macroeconomic front, GDP growth came in at 8.4% YoY. The sequential uptick was driven by trade, public administration and business services. Meanwhile, the sequential pace in agriculture was maintained. Personal consumption is now just 3.5% below pre-Covid level (vs. -11.9% as of June). The corresponding figures for investment (+1.5% vs. -17%), imports (+15.5% vs. -5.3%), government consumption (-16.8% vs. +7.4%) and exports (17.2%

vs. +8.7%) clearly show sequential recovery was led by personal consumption, external demand, and investments.

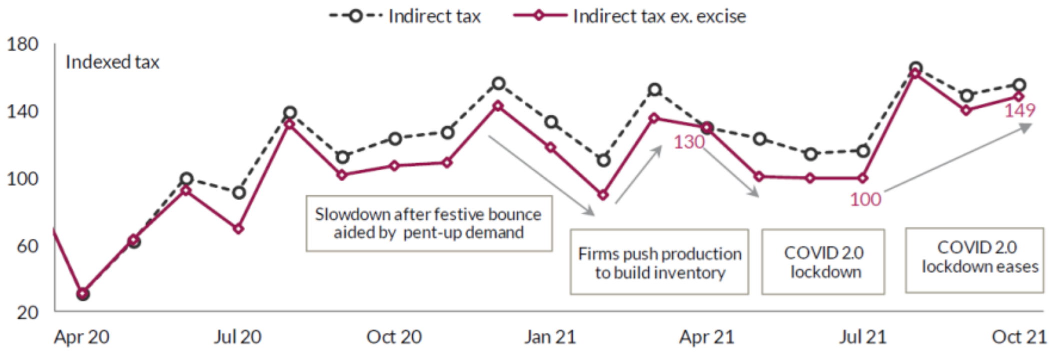
Fig: India GDP growth 8.4% remains strong



Source: CEIC, CSO

At INR1.32trillion, GST collections touched second highest monthly figure since the introduction of the tax since 2017. This is second consecutive month wherein the GST collection has been more than INR1.3trillion. GST collection is 25% higher than a year ago and another data point to suggest economic recovery is well underway. Robust revenues have helped the Government to contain its fiscal deficit in the first seven months of the current financial year at just 36.3% of budget estimate for the whole of year, causing markets to predict that the annual target might not be exceeded. This is quite encouraging.

Fig: Indirect tax collections trend



Source: CEIC

Even the gross tax collection was up at 56% YoY with indirect taxes (GST, customs, and excise on oil) up 44% YoY. Indirect tax collections excluding excise on petroleum has improved, thereby confirming an uptick in economic activity. Revenue expenditure has been curtailed but capital expenditure on infrastructure i.e., road, rail and housing ministries see serious spending impetus. These are encouraging signs for the economy (and hence markets from a long-term perspective).

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Led by robust domestic demand, India's manufacturing sector activity rose at its fastest pace in ten months on the back of rising new orders. The IHS Markit India Manufacturing PMI increased from 55.9 in October 2021 to 57.6 in November 2021. This is well above the long-term average of 53.6 and points to economic recovery.

Our view:
In line with our expectations, after touching a record high on October 18, 2021, the Nifty 50 index corrected ~8%. This was led by global factors viz. Fed's taper announcement, rising bond yields, higher crude oil prices, and strengthening of the US Dollar Index. Large fundraising in the primary market also put some pressure on the secondary market. Sentiments were disturbed across global equity markets on November 26, 2021, with the detection of a new COVID-19 variant - Omicron - in South Africa. This resulted in risk-off sentiment, with markets correcting by 2-3% globally, easing bond yields, and a sharp 11% fall in Brent crude prices.

Notwithstanding the above, India remains among the top performers in CY2021, with the Nifty up ~21% in CY2021 year to date November 30, 2021, versus a flattish performance of the MSCI EM Index. Corporate earnings in quarter two FY2022 were better than expectations, despite sharp input cost inflation impacting several sectors. Consensus earnings estimates for FY2022/FY2023 to appear stable and haven't seen any downward revision, strengthening our belief in the resumption of a new earnings cycle. India managed the second COVID wave in April-May 2021 with local restrictions and without implementing any national lockdowns, unlike the first wave in early CY2020.

Despite these positives, we are aware that the market has run up strongly since March 2020 and in certain pockets appears ahead of fundamentals. We are positive on India's macro and the emerging opportunities from Covid which have only accelerated China plus 1 strategy (to India's advantage).

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