FAITH & *PATIENCE*

October 31, 2021

For the month ended October 29, 2021, Nifty 50 index was marginally up 0.30% over the previous month's close. Small caps underperformed large and mid-caps. NSE Midcap 100 Index was up 0.28% and NSE Small cap 100 index was down 1.13%. Within sectors, auto, banks, media, and consumer durables outperformed Nifty 50 index whereas healthcare, metals, and realty underperformed. Foreign funds (FIIs/FPIs) were net sellers in October 2021 at USD2.27bn whereas domestic funds were net buyers at USD601mn. Though foreign funds have been net buyers this calendar year but the net purchases of USD6.2bn is significantly lower than the USD23bn net purchases in calendar year 2020. We do have two months left but USD17bn net inflows in next two months appears too steep.

Monthly returns for October 2021

Index Name	**Return**
NIFTY 50	0.30%
NIFTY Midcap 100	0.28%
NIFTY Smallcap 100	-1.13%
NIFTY Auto	6.60%
NIFTY Bank	4.52%
NIFTY Financial Services	2.67%
NIFTY FMCG	-5.45%
NIFTY IT	-1.77%
NIFTY Media	5.04%
NIFTY Metal	-0.85%
NIFTY Pharma	-4.06%
NIFTY Private Bank	3.83%
NIFTY PSU Bank	13.78%
NIFTY Realty	-2.94%
NIFTY Consumer Durables	4.26%
NIFTY Oil & Gas	-0.90%
NIFTY Healthcare Index	-4.07%

On the macroeconomic front, GST collection for October 2021 were second highest since implementation of GST in 2017. With INR1.30trillion gross GST revenue collected in October, this is the 4th straight month where the GST receipts are over INR1trillion. GST collections were not only 24% higher on a year-on-year basis but were 36% higher over 2019-20. GST revenues for October is 2nd highest to April 2021 and signify an improving economic environment and tax compliance.

UPI transactions crossed USD103bn in October 2021 driven by online and offline transactions. The value of transactions saw a month-on-month jump of INR1trillion to reach INR7.7trillion. Unified Payments Interface (UPI) is an instant payment system developed by the National Payments Corporation of India (NPCI), an entity regulated by Reserve Bank of India. This is a huge positive and one of the many positive side-effects of the digitisation and demonetisation initiatives of the Government. Digital payments mean less cash, less unaccounted money in the system and better tax compliance.

India's merchandise exports surged for the 11th month in a row in October 2021 on the back of engineering goods, chemicals, gems and jewellery, and petroleum products. The value of private equity and venture capital investments grew almost eight-fold on year-on-year basis in October to touch USD10.2bn. Last month saw record high deals across 117 Indian enterprises. Diesel sales in October surpassed the pre-Covid level for the first time in a year. On a month-on-month basis, diesel sales saw 20% jump over September 2021 indicating heightened mobility of people, raw materials and finished goods. Jet or aviation fuel too recorded a jump and is at 66% of October 2019 levels. Rapid vaccination and subsequent lifting of restrictions are seen as reasons for this pick in economic activity as India crossed 1billion mark in administering vaccines.

Manufacturing activity also rose at its fastest pace in October 2021. The IHS Markit India Manufacturing Purchasing Managers' Index (PMI) was at 55.9 in October 2021 versus 53.7 in September 2021.

On the corporate front, as of October 31, 2021, 34 Nifty companies have announced their results. The companies that have reported earnings so far comprise: (i) 71% of estimated earnings for the Nifty 50 index, (ii) 60% of India's market capitalisation, and (iii) 78% of the Nifty 50 index weight. Quarter two FY2022 earnings are ahead of expectations as the companies benefitted from: a) strong revenue growth in the technology sector b) steady recovery in loan growth, as well as recovery and upgrade in the asset quality of most private sector banks, c) higher commodity prices and volume growth in the energy and metal sectors, and d) opening up of the economy which boosted consumer and retail growth. Nifty 50 constituent companies' profit for the 34 companies that have announced their results grew 22% YoY.

While most companies have delivered on the earnings front, they indicated higher commodity and energy prices have exerted downward pressure on margins. Companies have taken price hikes to pass on the impact of commodity costs, but the impact on demand will have to be seen post festive season.

Our view:

The digitisation drive and pandemic-induced emergence of the gig economy have led to a faster formalisation of the economy, with the share of the informal sector shrinking to just 15-20 per cent in 2021 from 52.4 per cent in 2018, according to a recent study report. This is evidenced also from the sharp rise in UPI transactions and GST collections which indicate transparency, rising formal economy and better tax compliance. All the indicators are pointing to a recovery in the economy and can be attributed to the over 1 billion vaccines administered in India leading to lifting of restrictions and rising mobility.

We would not be surprised if the forecasts for economic growth (in India) need upward revisions. It is important to note that despite lockdowns, productivity boosters like formalisation, digitisation, construction of national highways had continued. Also, the drop in the economic activity (FY2021) was not due to excesses in the system typical with a financial or real estate bubble bursting. This drop was mainly due to restrictions on activity i.e., mobility. Interestingly and contrary to expectations, the rich in India maintained their spending spree. Sales of large high-end televisions, refrigerators, cars, and luxury hotel bookings have been witnessing a strong uptick. Spending by the rich is important for the economy. In India, spending of the top 10% of households equals spending by the bottom half. Consumption by the rich has a knock-on effect on the lower income group and also leads to job creation.

Despite these positives, we still believe that the markets have run up too sharply and in certain pockets appears ahead of fundamentals. We are watchful of inflation and surprises like Bank of Canada announcing withdrawal of stimulus. Indian markets have seen lower participation from foreign funds this year (compared to last year) and remain vulnerable to outflows. Lastly, we would also like to see sustainability of the economic recovery beyond the festive season to increase our conviction.

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