FAITH & *PATIENCE*

December 31, 2021

For the month and calendar year ended December 31, 2021, Nifty 50 index was up 2.18% and 24.12% up over the previous month's and previous year's (December 31, 2020) close respectively. Smallcaps hugely outperformed large and midcaps. (Please see table 'December 2021 returns' below). NSE Midcap 100 index was up 46% and NSE Smallcap 100 index was up 59% over a year ago. Within sectors, metals, realty, technology services (IT), consumer durables and oil & gas outperformed Nifty 50 index whereas banks, auto, financial services, and pharma underperformed. Within banks, private sector banks which form a large portion of the banking sector within the Nifty 50 index were laggards and underperformed the index significantly.

December 2021 returns (INR, %)		
Index Name	**Returns 1m**	**Returns 1yr**
NIFTY 50	2.18%	24.12%
NIFTY Midcap 100	2.67%	46.06%
NIFTY Smallcap 100	5.89%	59.28%
NIFTY Auto	3.14%	18.96%
NIFTY Bank	-0.60%	13.49%
NIFTY Financial Services	-1.16%	13.96%
NIFTY FMCG	0.52%	9.96%
NIFTY IT	10.44%	59.58%
NIFTY Media	2.20%	34.56%
NIFTY Metal	6.15%	69.66%
NIFTY Pharma	4.10%	10.12%
NIFTY Private Bank	-0.94%	4.58%
NIFTY PSU Bank	-1.16%	44.37%
NIFTY Realty	-0.71%	54.26%
NIFTY Consumer Durables	3.03%	46.10%
NIFTY Oil & Gas	-0.56%	33.03%
NIFTY Healthcare Index	2.01%	18.31%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net sellers in December 2021 at USD1.8bn whereas domestic funds were net buyers at USD4.14bn. Though foreign funds have been net buyers this calendar year but the net purchases of USD3.67bn is significantly lower than the USD23bn net purchases in calendar year 2020. While foreign funds buying in secondary markets was tepid, it remained stable in the primary market (IPOs) at USD10.7bn in CY2021 compared to USD9.8bn in CY2020. Foreign fund inflows into the Indian primary market have seen a rising trend over the last six years.

Domestic funds were net buyers in CY2021 at USD12.57bn. What is encouraging is the SIP or systematic investment plan led monthly inflow into domestic equity funds has touched an all-time high figure of USD1.5bn in November 2021. It is these steady inflows from domestic retail investors which are key to markets being buoyant despite heavy selling by foreign funds particularly in the last three months of CY2021.

Fig: Fund flows

(USD mn)	Current	MTD	CYTD
Foreign Funds (Cash)	-152	-1,827	3,676
Domestic Funds (Cash)	157	4,141	12,576
Foreign Funds (Debt)	100	-1,612	-1,529

Source: Axis Capital

Another encouraging trend is the rising share of foreign direct investment (FDI) which is reducing the dependence on foreign portfolio flows as a source of funding India's current account deficit. India registered the highest ever annual FDI inflow of USD81.97bn in the financial year 2020-21, according to the Ministry of Commerce and Industry. FDI inflows in the last seven financial years (2014-21) stands at USD480bn, which is nearly 60% cent of the total FDI inflow in the last 21 financial years, from 2000-2021, which stands at USD806bn. FDI inflows have been averaging at USD5bn per month in CY2021 and showed similar trend even during peak Covid 19 months in CY2020 (reported data April 2021-September 2021, https://dpiit.gov.in/sites/default/files/FDI_Factsheet_Spetember-21.pdf).

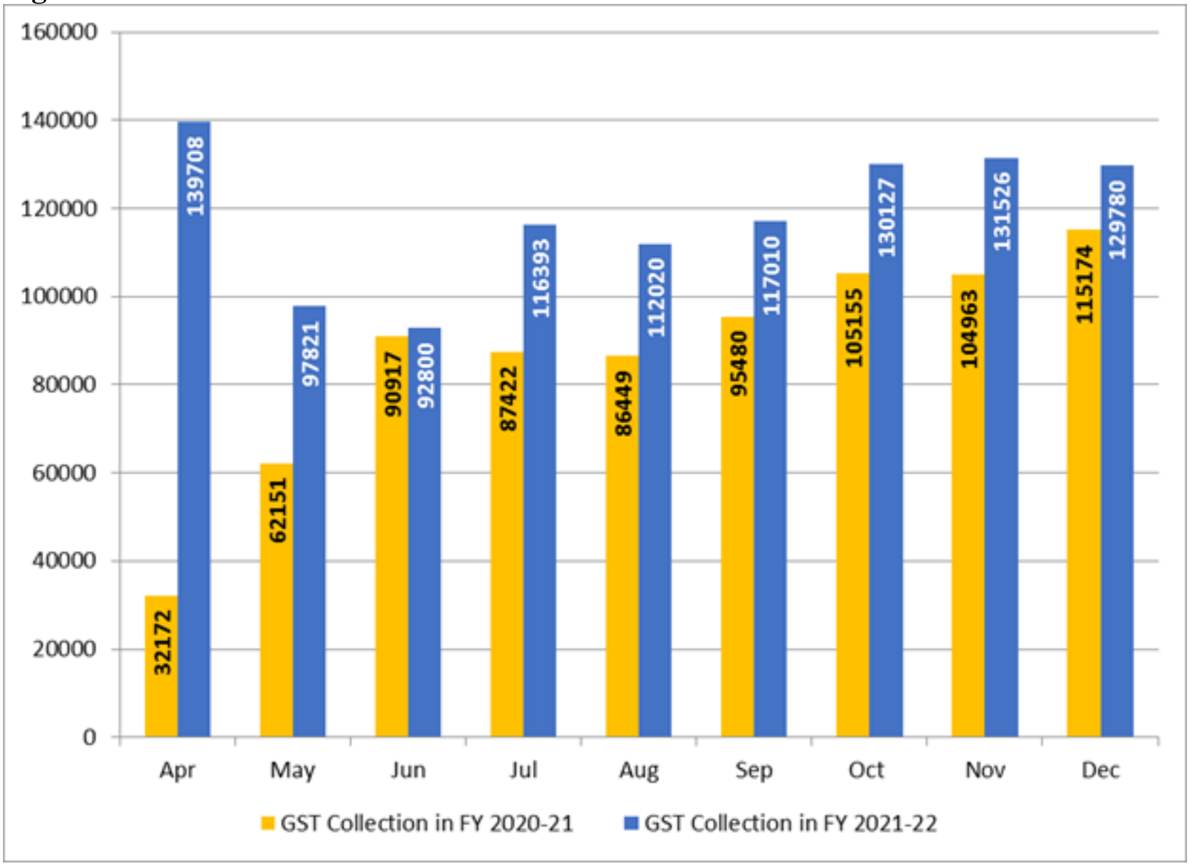
India's services sector at 16% followed by computer software and hardware sectors at 14% attracted highest FDI inflows during the reported period April-September 2021. Telecommunications, trading and infrastructure also attracted large FDI inflows.

On the macroeconomic front, for the period April-November 2021 and throughout Covid-19 lockdowns, the one activity which Government has clearly remained focused on is capital expenditure. Government's fiscal deficit at 45.9% of budget estimates, at a decade low, is due to higher-than-expected tax collections.

Capital expenditure has grown by 13.5% yoy (13% CAGR compared to same period in 2019). Specifically, capital spending has been higher towards roads which has grown by 39% yoy, railways which has grown by 67% yoy and urban & housing has grown by 2.5x.

The gross GST (Goods and Services Tax) revenue collected in December 2021 stood at INR1.29trillion, making it the sixth month in a row where GST collections have exceeded Rs.1trillion per month. The gross GST collection in November stood at INR1.31trillion, which was the second highest ever since introduction of GST. The revenues for December are 13% higher than collection in the same month last year and 26% higher than the GST revenues in December 2019. Income tax collections too have been robust. This bolsters Government's ability to continue capital expenditure and we will not be surprised if it results in the reported number for FY2022 being significantly higher than estimated by the street.

Fig: GST Collections trend



Source: Finance Ministry, Government of India

Our view:

Most global markets delivered strong returns in CY2021 as the global economy continued to recover from Covid-19 pandemic. As lockdowns and mobility related restrictions were gradually lifted, manufacturing related activity picked-up first, followed by other sectors, with the last ones being the hospitality, travel and tourism sectors thereby supporting the services part of the economy as well. Strong goods demand, particularly in the auto sector, is expected to further pickup as supply chain issues ease. Inflation, while remaining above pre-pandemic levels, can be expected to normalize from the elevated levels seen in 2021 as the effect of steep price increases, that followed the lockdowns, rollover (receding base effect) and supply chain challenges ease. This should likely result in gradually declining inflation as 2022 progresses.

Nevertheless, the ongoing global economic recovery, is expected to result in both the European Central Bank (ECB) and the US Federal Reserve (US Fed) reducing their asset purchases in 2022. US Fed is expected to start hiking rates in late 2022. Global investors have now focused on the potential risks both to economic growth and market returns due to expected action from policy makers.

Coming to India, while the impact of global policymakers and Omicron will influence the economy and markets but there are several themes or tailwinds which are hugely supportive.

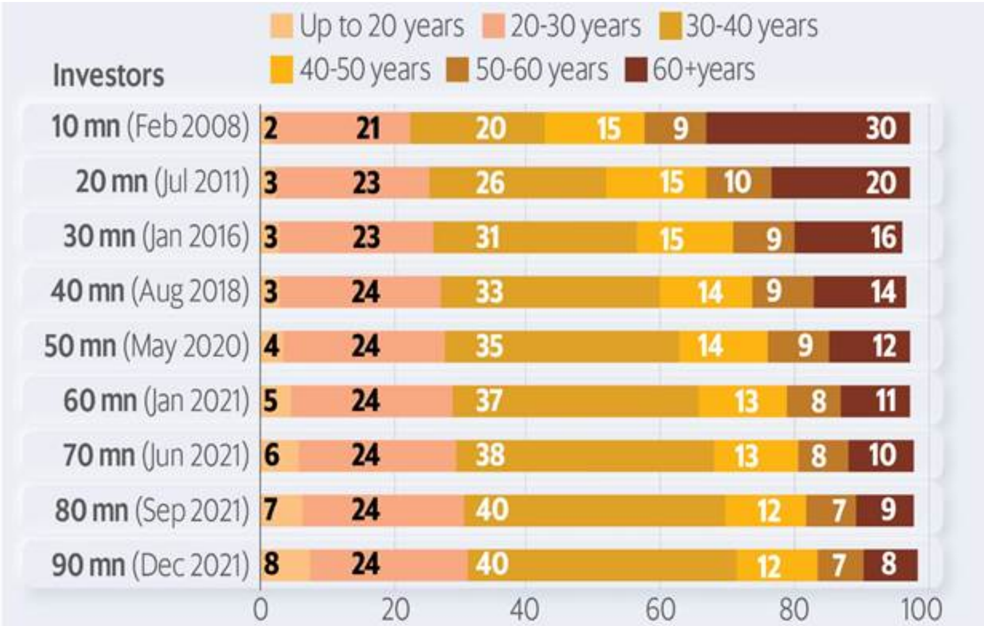
Firstly, Government of India has remained steadfast in its capital expenditure and infrastructure build-up throughout the pandemic. Unlike in the past i.e. global finance crisis (GFC) and unlike other major global economies' response to Covid-19 crisis, India took bold steps. While global economies repeated their actions of GFC by reembarking on consumption based economic revival, India decided not to repeat the same mistake and took the more arduous investment led economic revival path. This has paved the way for a more robust and long term real economic growth.

Secondly, reforms like GST, Insolvency and Bankruptcy Code, Demonetization, Make in India, Productivity Linked Incentives (PLI), corporate tax rates revision, abolishing retrospective tax and Start-Up India have started to show results. It is visible in the form rise in digital economy, rising tax collections, reducing defense imports and rising domestic production, reducing electronics imports and rising domestic production, improving corporate balance sheets, increase in loan recoveries, drop in bank non-performing loans and the sharp rise in entrepreneurial spirit making 2021 Indian Unicorn Year.

39 Indian startups achieved unicorn status (valuations in excess of USD1bn) in 2021 making India home to world's third highest unicorns - behind US and China but ahead of UK. Consistently strong FDI, which is long term oriented and less influenced by global markets volatility, is fast reducing India's dependence on foreign portfolio flows to fund its current account deficit.

Earlier foreign fund selling used to result in steep fall in Indian markets but despite strong selling by foreign funds in the last quarter of CY2021 Indian markets have held up due to strong, consistent and relentless participation from domestic retail investors. The shift to financial savings is visible in terms of rise in assets under management of Indian mutual funds, SIPs touching USD1.5bn monthly run-rate and last but definitely not the least a clear shift in investor profile. Young India seems to have strongly taken to investing and building wealth through financial savings.

Fig: Age distribution of BSE registered investors 2008 to 2021



Source: BSE, Mint

"WISH YOU HAPPY, PEACEFUL, HEALTHY AND PROSPEROUS 2022."

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