

# FAITH & PATIENCE

February 28, 2022

For the month ended February 28, 2022, Nifty 50 index closed 3.1% down over previous month's close. Midcaps and smallcaps hugely underperformed large caps. NSE Midcap 100 index was down 6.8% and NSE Smallcap 100 index was down 11.4% over the previous month. Within sectors metals and consumer durables ended positive whereas banks, media, oil & gas and autos ended deep negative.

Index Name	Feb-22		
	31-Jan-22	28-Feb-22	M-o-M Change
NIFTY 50	17339.85	16793.9	-3.1%
NIFTY Midcap 100	30273.95	28223.45	-6.8%
NIFTY Smallcap 100	11116.45	9844.65	-11.4%
NIFTY Auto	11703.5	10820.55	-7.5%
NIFTY Bank	37975.35	36205.3	-4.7%
NIFTY Financial Services	17836.25	16936.3	-5.0%
NIFTY FMCG	36467.25	35515.4	-2.6%
NIFTY IT	34824.55	33847.85	-2.8%
NIFTY Media	2235.35	2010.65	-10.1%
NIFTY Metal	5473.45	5896.85	7.7%
NIFTY Pharma	13179.9	12927.6	-1.9%
NIFTY Private Bank	19037.15	18397.85	-3.4%
NIFTY PSU Bank	2982.25	2667.6	-10.6%
NIFTY Realty	480.25	436.4	-9.1%
NIFTY Consumer Durables	27498.1	27753.35	0.9%
NIFTY Oil & Gas	7754.6	7268.35	-6.3%
NIFTY Healthcare Index	8233.55	8103.15	-1.6%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net sellers in February 2022 at USD5.14bn whereas domestic funds were net buyers at USD5.6bn. Foreign funds have been huge sellers of Indian equities for last 5 months in a row.

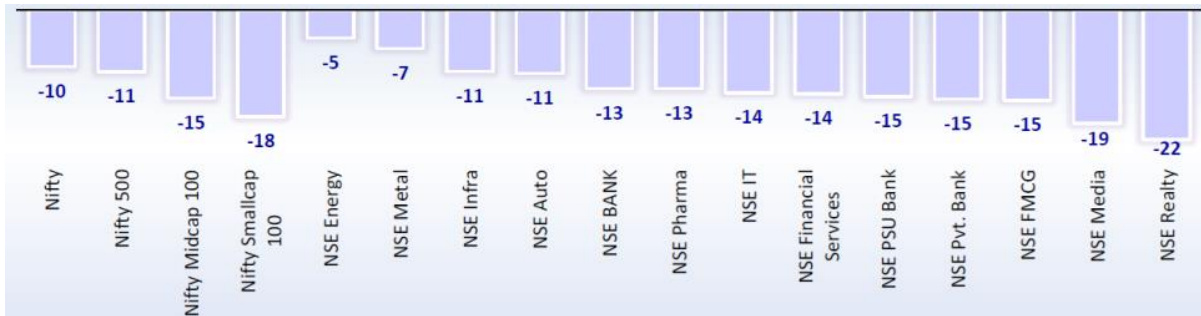
**Fig: Fund flows**

(USD mn)	MTD
Foreign Funds (Cash)	-5,144
Domestic Funds (Cash)	5,601
Foreign Funds (Debt)	-369

Source: Axis Capital, NSDL

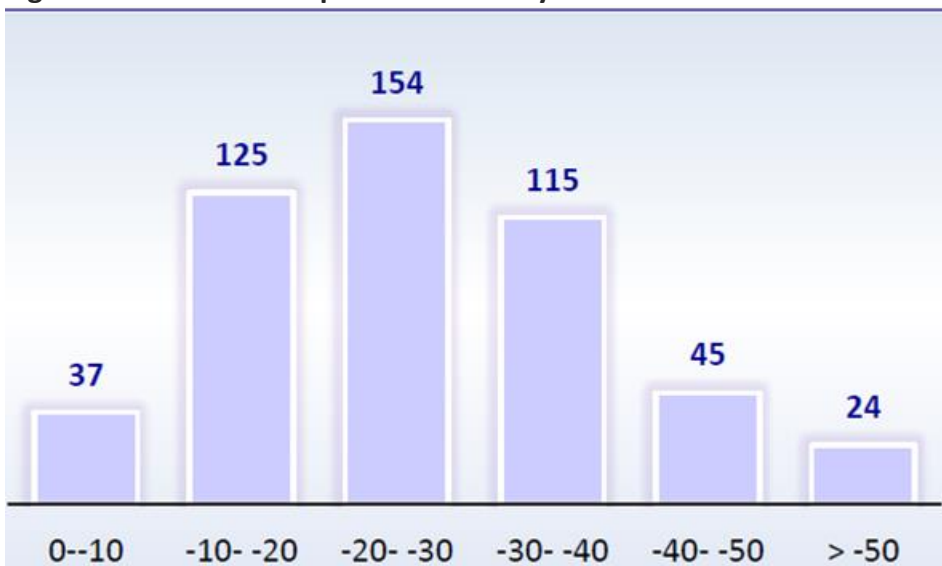
**Fig: Percentage decline from 52 week highs as on February 28, 2022**

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Source: MOFSL

**Fig: More than 338 companies from Nifty 500 decline > 20%**



Source: MOFSL

On the macroeconomic front, as the world looked forward to normalcy returning after nearly two years of restrictions due to Covid-19 pandemic, Ukraine crisis erupted. Despite mobility and travel restrictions lifted and 'business as usual', markets had turned volatile on the back of US Fed rate hikes and global inflation. To add to it, Ukraine crisis has only increased market volatility across asset classes, accelerated the risk-off sentiment, and is driving foreign funds to sell aggressively pushing the markets down. BSE Sensex 30 index fall of 4.72% or 2,700 points on February 24, 2022 is the highest single day decline since March 2020. Oil too crossed USD100/barrel. Despite the uncertainty, rising crude oil prices, foreign fund selling, Indian rupee has remained stable in the 74-76 range versus USD. India's foreign exchange reserves remain healthy at USD633bn.

GDP growth in YoY terms came in at 5.4% YoY versus consensus estimate of 6.0%. Some moderation was expected after V shaped bounce back from COVID 2.0 in September. GST collection for February 2022 was INR1.33trillion and has remained above INR1.30trillion mark for the 5<sup>th</sup> straight time. GST collections are 18% higher on YoY basis and 26% higher over February 2020.

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On the corporate front, quarter three FY2022 earnings were encouraging. Nifty 50 index companies posted 30% sales growth, 15% EBITDA growth and 25% PAT growth YoY. Banking and financial services sector stood out in this quarter aided by improvements in loan growth and disbursements, while asset quality improved sequentially propelled by moderation in slippages as well as healthy recovery and upgrades. IT services saw another quarter of robust USD revenue growth (+4.6% QoQ), while the deal pipeline remained healthy and hiring momentum offered further visibility on demand. For nine months period of FY2022, the Nifty 50 index universe reported sales/EBITDA/PAT growth of 36%/24%/45% YoY, respectively.

## Our view:

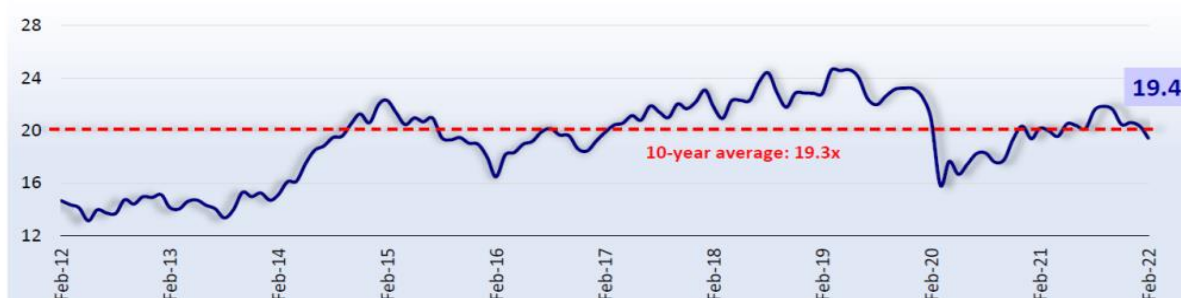
India's economy continues to report strong growth. This is reflected in the tax collection numbers including GST. Quarter three FY2022 corporate earnings were encouraging despite rising input costs. Healthy earnings were largely driven by -

- the banking and financial services sector due to improvement in asset quality and pick-up in loan growth,
- high energy prices that benefitted the oil and gas sector, and
- continued healthy delivery in the Technology.

Sectors that were a drag on earnings of index constituents were autos, consumer goods, specialty chemicals and metals

We believe that the market's focus has shifted to global central banks as inflation has persistently remained high in developed markets and oil having crossed USD100/bbl. Ukraine crisis has added to the concerns and caused volatility to rise affecting near-term sentiments. High inflationary environment notwithstanding, earnings have largely remained in line with consensus expectations. India's central bank, the Reserve Bank of India has maintained dovish stance in its February 2022 policy.

**Fig: Nifty 50 P/E chart**



Source: MOFSL

However, rising rates, higher crude prices, consequent higher inflation and bond yields, and Ukraine crisis, we believe volatility will remain elevated. Revenue, earnings and growth expectations of the companies in the model portfolio remains unchanged as of now. We remain optimistic on the long term growth story of India and maintain that foreign fund selling is making valuations even more attractive.

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