Generational Capital
The Way Forward

GENERATIONAL CAPITAL

(A unit of Satwik and Ritwik Ventures Pvt. Ltd.)

MONTHLY MARKET OUTLOOK
August 2021

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MACROECONOMIC INDICATORS

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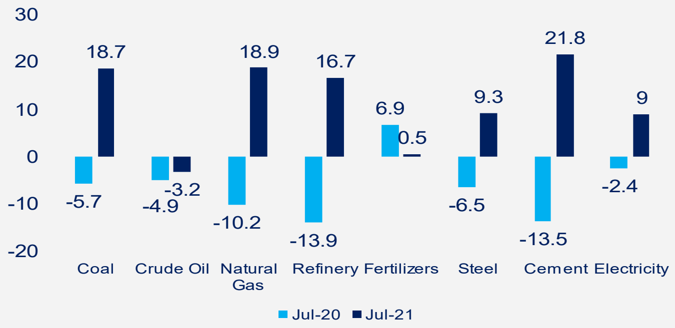
INDUSTRIAL PRODUCTION

The index of eight core industries increased by 9.4% in July'21 against negative 7.6% in July'20. This can be attributed to improved mobility post the opening up of the economy coupled with low base effect. Also, the infrastructure push by the government led to higher growth levels. The Cement and Natural Gas industries witnessed the highest growth levels when compared to the other constituents of the index.

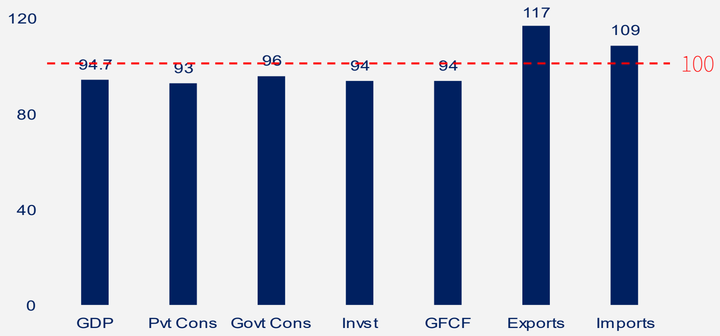
While seven out of the eight core industries experienced growth, the demand levels in the economy remained below the pre-pandemic levels. These levels of low demand and elevated levels of manufacturing input costs can act as a burden for the manufacturers in the coming periods. Exports came in at $ 33.14 Billion in August, up by 45%, as India has been emerging as the second most attractive manufacturing hub globally according to reports.

Growth in Eight core industries



Source: Ministry of Commerce & Industry

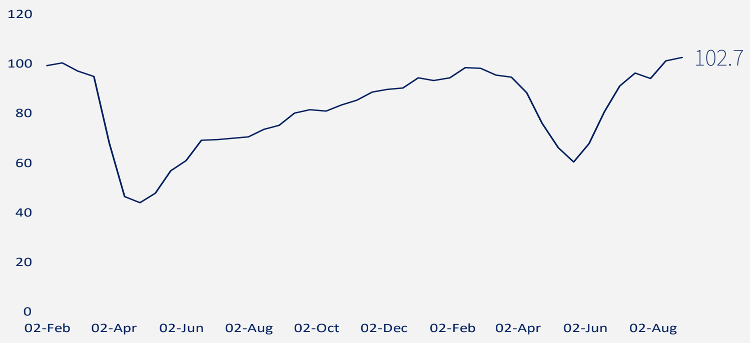
Demand below Pre-Pandemic Levels



Source: Kotak, MOSPI, J.P. Morgan

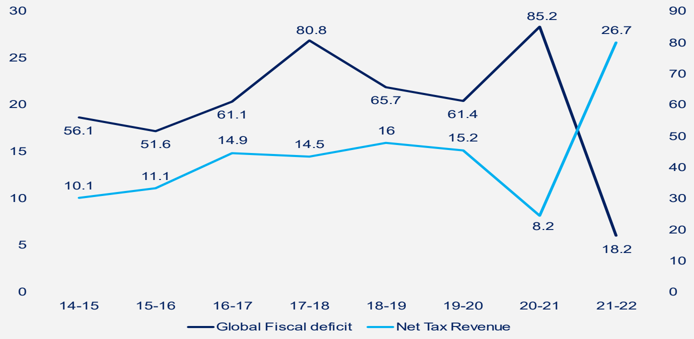
THE INDIAN ECONOMY

Nomura India Business Resumption Index (NIBRI)



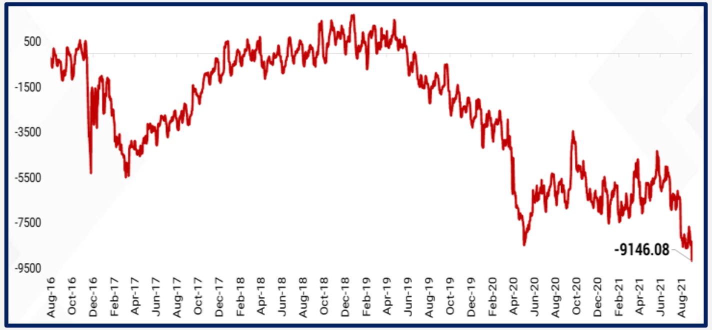
Source: Nomura Global Economics

Rising tax collections



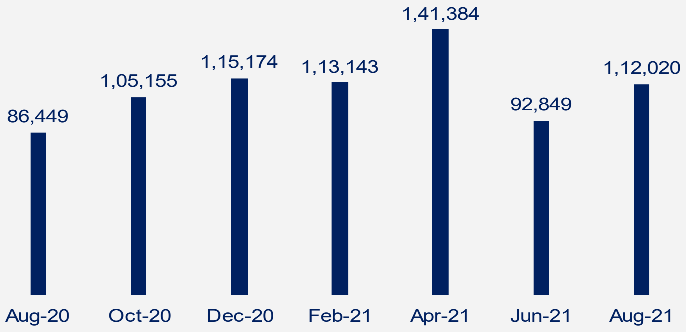
Source: Controller General of Accounts

Indian Banking Sector Liquidity



Source: Kotak; Negative denotes surplus

GST Collection



Source: moneycontrol.com

02

FIXED INCOME

FIXED INCOME

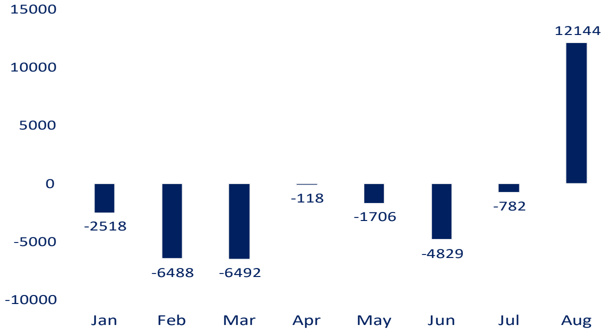
During the month of July'21, the Central as well as State government borrowings were at a lower level. Though the Central government borrowed heavily from the long term market, it cut back on its short term borrowings. Corporates, on the other hand, were subdued on their long-term funding from the fixed income markets but borrowed heavily from ultra-short term funds. Majority of this amount was directed towards investments in IPOs. Bank credit remained at low levels.

The cost of borrowing for the Central government remained low, while that for the State government was comparatively at a higher level. Corporate bond yields moderated during the period while Commercial Papers experienced a rise in the cost.

Benchmark India 10yr Bond Yield

Source: Investing.com

FPI Activity in Debt Market



Source: NSDL (Figures in Crores)

U.S. Yields are at record lows

Source: Kotak

INFLATION (WPI, CPI, FOOD INFLATION)

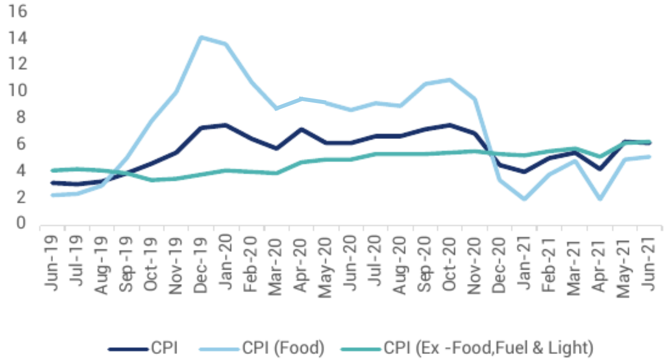
The CPI inflation at 5.59% in July 2021, though below the upper tolerance band of 6%, masks the very high inflation in certain key categories that are considered volatile.

Within the food and beverages category, items that have shown extremely high inflation include oil and fats (32.53%), eggs (20.82%), pulses (9.04%), meat and fish (8.33%), and non-alcoholic beverages (14.44%). With oils and fats and pulses making up the consumption basket of the common man, such inflation is bound to be iniquitous in its consumption impact across income groups.

Mirroring retail inflation, inflation in wholesale prices eased further in July coming in at 11.16% compared to 12.07% in June and 13.11% in May this year. The easing in the inflation index of fuel and power that went down from 3.55% in June to 0.55% in July is a major contributor. On a month on month basis however, the WPI increased 0.6% in July from June 2021.

"The high rate of inflation in July 2021 is primarily due to low base effect and rise in prices of crude petroleum & natural gas; mineral oils; manufactured products like basic metals; food products; textiles; chemicals and chemical products as compared to the corresponding month of the previous year," the office of the Economic Adviser in the Commerce and Industry Ministry said in a statement.

Consumer Price Index



Source: RBI

Wholesale Price Index

	FY19	FY20	FY21	FY22E	FY23E
WPI	4.3	1.7	1.3	9.6	5.0
Primary articles	2.8	6.8	1.7	5.0	3.1
Fuel	11.7	-1.6	-8.0	21.8	6.6
Manufactured goods	3.7	0.3	2.8	9.8	5.5
Food Articles	0.4	8.4	3.2	0.0	2.0
Core WPI	4.2	-0.4	2.2	9.4	5.5

Source: RBI

03

EQUITY

EQUITY

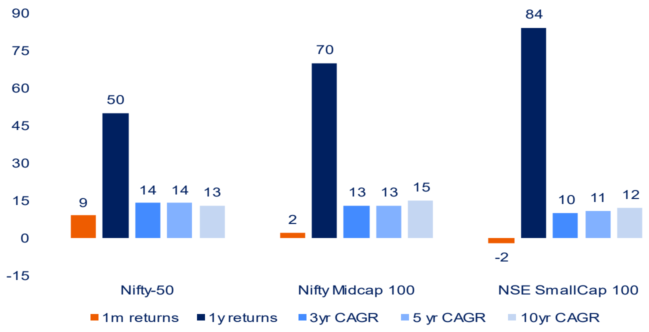
DOMESTIC & SECTORAL INDICES

India's equity markets continued to touch new highs. With the rising valuation levels, the large cap index (NIFTY 50) has outperformed the mid and smallcaps by a considerable margin. Moreover, the midcap and small cap stocks witnessed higher volatility on account of additional market cap filters announced by BSE.

Sector wise, IT, Power and Telecom were the best performers, which gained 13.4%, 11.6%, and 10.7% respectively, while, Media, PSU Banks and Realty were the worst performing sectors losing 10.8%, 4.4%, and 3% respectively.

Despite the major fall in the GDP growth rate for FY21, the NIFTY 50 profit growth came in at 14.8%.

Index Performance as on 31st August 2021 (% Returns)



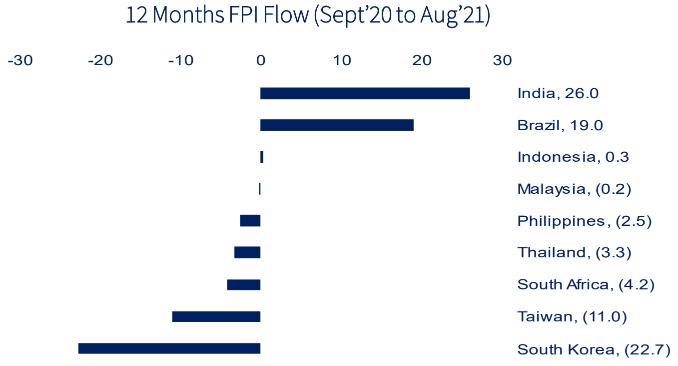
Source: National Stock Exchange

Corporate Profitability

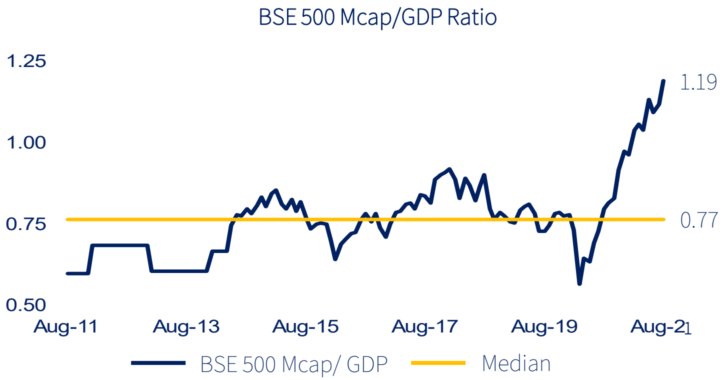
	FY20	FY21	FY22E	FY23E
GDP Growth	4%	-7.3%	8.7%	5.5%
NIFTY 50 Companies Profit Growth	-2.7	14.8	35.0	18.1
NIFTY EPS (INR)	472	542	732	865
NIFTY PE (x)	18.2	27.1	23.7	20.0
Factors responsible		Cost cut, Tax cut, Interest Rate reduction, Lower debt		Operating Leverage

Source: Kotak

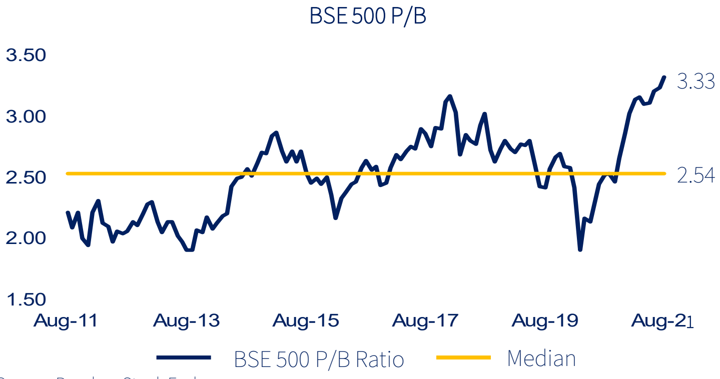
DOMESTIC VALUATIONS



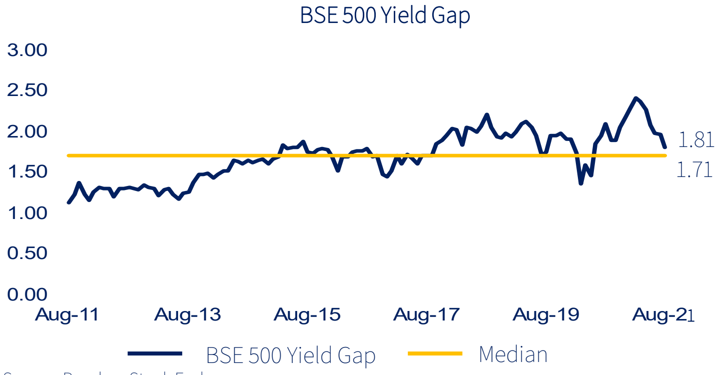
Source: Kotak



Source: Bombay Stock Exchange



Source: Bombay Stock Exchange



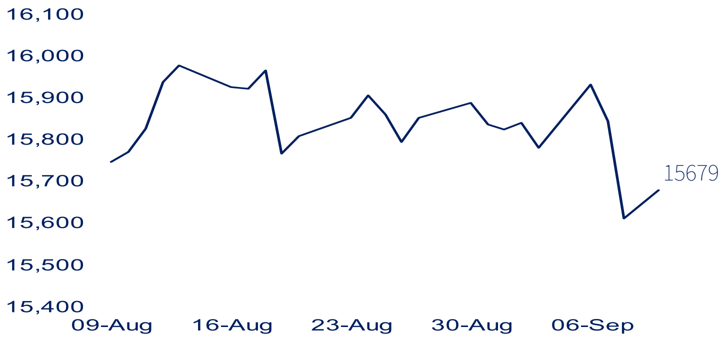
Source: Bombay Stock Exchange

INTERNATIONAL INDICES PERFORMANCE

S&P 500 Monthly Performance (U.S.)

Source: Investing.com

DAX Monthly Performance (Germany)

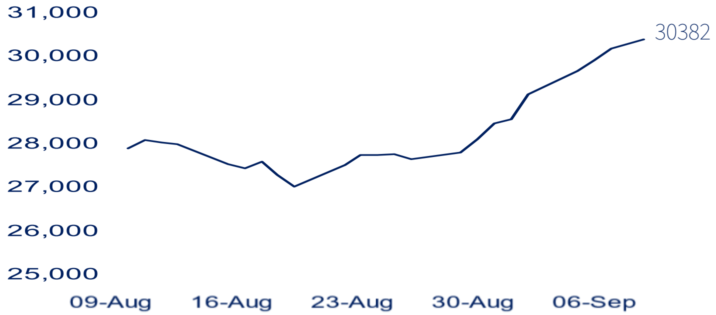


Source: Investing.com

CAC 40 Monthly Performance (France)

Source: Investing.com

Nikkei 225 Monthly Performance (Japan)



Source: Investing.com

04

EXECUTIVE CHAIRMAN'S NOTE

Our views

We saw markets witnessing a one way rally in August. Our greed & fear indicator shows no change in sentiments. We see the biggest positives for markets are strong 1) macro economic indicators like Naukri job speak index growing 89% YoY, Mumbai real estate registrations hitting decadal high, power demand hitting all time highs & robust GST collections, 2) liquidity parameters like the Forex Reserves, the strong SIP flows into equity markets, and 3) robust earnings momentum.

Corporate earnings

Corporate earnings in Q1FY22 have been in line with the optimistic expectations, due to the lower base of Q1FY21 and less stringent lockdowns now. Sectoral earnings have diverged sharply on account of the impact of second Covid-19 wave with higher commodity prices impacting the margins of select sectors like auto, consumer staples and durables, whereas cyclical sectors such as metals and oil & gas have benefitted, driving aggregate earnings. Overall Nifty sales have been in-line at 50% YoY, while PAT growth has come in at 101% YoY.

The ensuing festive season is expected to be a buoyant one. Further easing of restrictions and increasing coverage of vaccinations are likely to boost private spending on goods and services including travel, tourism and recreational activities, driving a broad-based recovery in aggregate demand

Increase in salaries, particularly in the IT and other services sector, should lead to an uptick in urban demand. Government infrastructure spending and private capex showing signs of green shoots also bodes well for capex and should aid GDP growth. Global liquidity continues to be strong and we expect record FDI flows into India to continue. The recent clampdown by Chinese government on their tech and digital companies has only strengthened the case for higher inflows into India.

We at our in house strategy, RH Perennial Fund, continue to stick to our philosophy of finding monopolistic and fast growing capital efficient franchises with reinvestment runways run by able and minority friendly management in 4 sectors- healthcare, technology, consumer & financial to compound capital between 18-25%.

Markets are expensive… what is the solution?

We as a house have always addressed the issue of overvaluation through our dynamic rebalancing policy, which makes us underweight on equities in such times. We continue to advise our investors that their allocations should at all times be guided by their asset allocation.

We have developed our equity reallocation policy based on P/E Ratio, P/B ratio, MCap/ GDP & Yield Gap helping us gauge at what the allocation of client should be towards equities.

Finally as we brace up for the decade ahead of us for wealth creation, I would conclude my note with the following quote from Seneca-

"Luck is where opportunity meets preparation"

Best wishes,
Satwik Jain
Executive Chairman

05

ASSET ALLOCATION DESK VIEW

DESK VIEW

EQUITY

The equity markets seemed to have taken the 2nd wave in their stride and kept on moving further up after a few minor blips. This can be attributed to a number of factors such as ample liquidity still available in the markets, companies reporting strong earnings and other asset classes underperforming.

While our positive stance on equities continues to remain, we do believe equity valuations have reached a stage where the importance of being invested in quality companies with high growth has increased. In addition, the importance of asset allocation strategies with allocation to international equity has increased further as we do believe that the Indian markets may underperform its global peers in case of a global sell-off triggered by a taper scare by the US Fed.

A disciplined approach of continuous investments shall be maintained adhering to financial goals and asset allocation rather than trying to time the markets.

DEBT

The RBI continues to actively support the market under OMO purchase auctions through GSAP 2.0 and attempted to keep yields under check by intervening in primary auctions. In the near term, we can expect the market to react to the development in the money markets and the RBI's response to it. The increase in the core liquidity surplus to over Rs 11 trillion from Rs 7 trillion could limit the RBI's capacity to buy bonds and foreign exchange. Hence there could be some risk for short-end bonds while the longer end of the yield curve still remains attractive.

In such a scenario, for investors with a short term horizon, arbitrage and liquid funds may be the most appropriate, investors with a longer horizon should now look at dynamic bond funds rather than longer duration funds due to the flexibility the fund manager has in dynamic bond funds.

However, the overall expectation from debt funds remains low and hence a portfolio of debt would need to include other higher non MF yielding options such as MLDs, venture debt, etc.

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