



## GENERATIONAL CAPITAL

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

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### MONTHLY MARKET OUTLOOK December 2021



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**01**

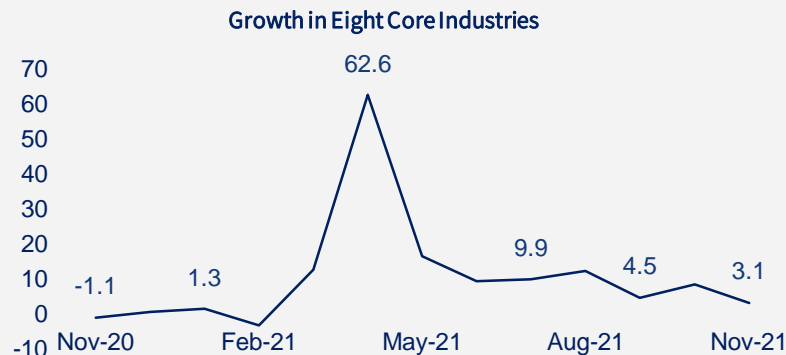
**MACROECONOMIC  
INDICATORS**



# MACROECONOMIC INDICATORS

## INDUSTRIAL PRODUCTION

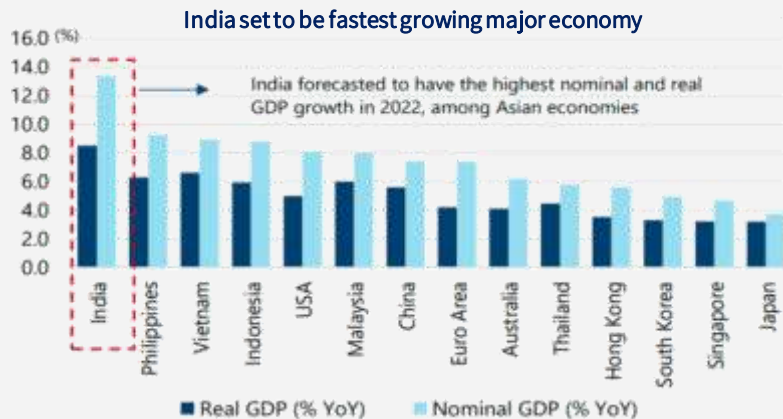
"The combined Index of eight Core Industries (ICI) stood at 131.7 in November 2021, which increased by 3.1 per cent (provisional) as compared to the Index of November 2020. The production of coal, natural gas, refinery products, fertilizers, steel and electricity industries increased in November 2021 over the corresponding period of last year," Ministry of Commerce and Industry said in a statement. While the overall pace of growth was higher compared to November 2020, slowdown has been witnessed across most sectors on a month-on-month basis in November versus October.



Source: Ministry of Commerce & Industry

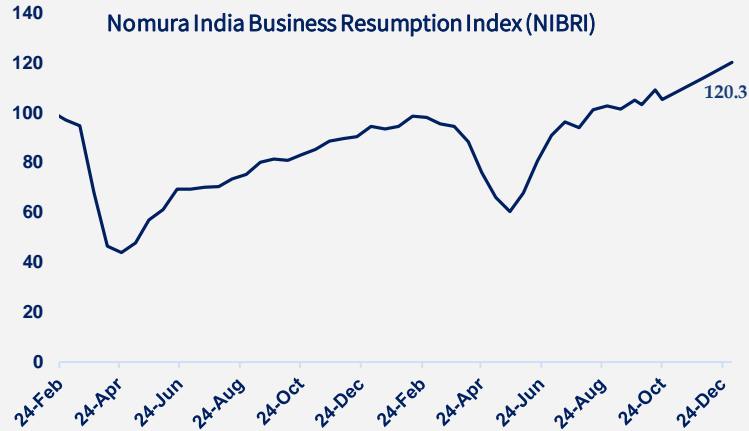
India is armed by both macro and micro factors to regain its position as the world's fastest growing economy in the current fiscal. Several experts have even claimed that by 2030, India is like to overtake Japan as Asia's second largest economy.

According to the first official estimate released by the Statistics Ministry, India's gross domestic product will grow 9.2% in the current fiscal year, the fastest since 1988-89, helped by a robust farm sector and strengthening recovery in manufacturing, construction and services sector.

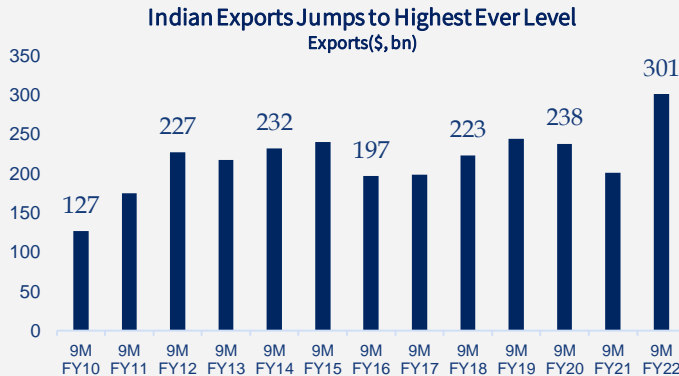


Source: IMF, Factset, Jefferies, Kotak

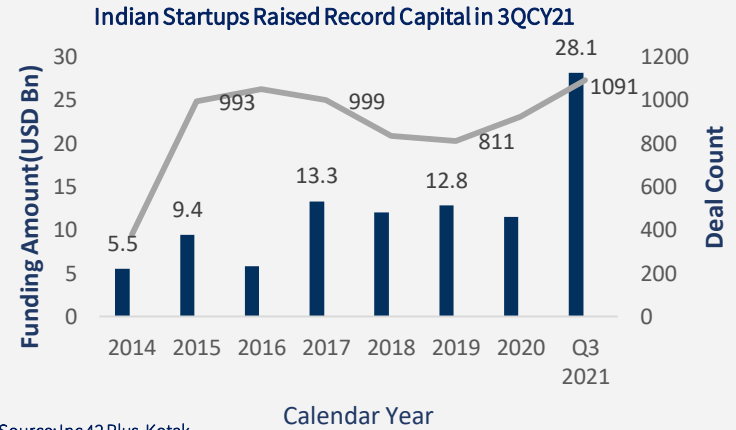
# THE INDIAN ECONOMY



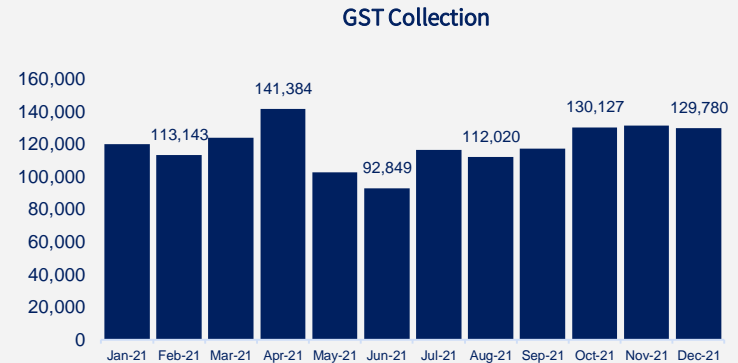
Source: Google, Apple, CMIE, Bloomberg, Nomura Global Economics, Kotak



Source: MOC, Spark Capital Research, Kotak



Source: Inc42 Plus, Kotak



Source: economic times, Kotak



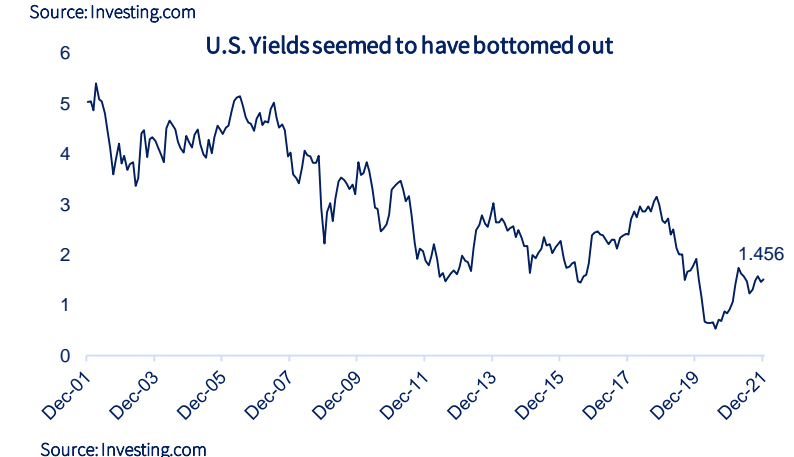
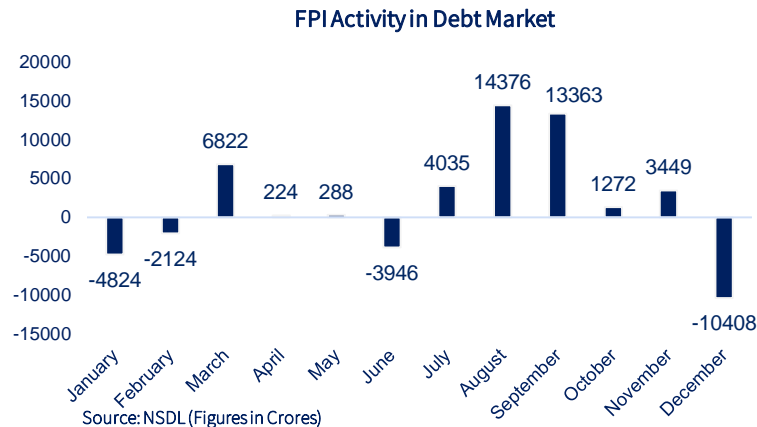
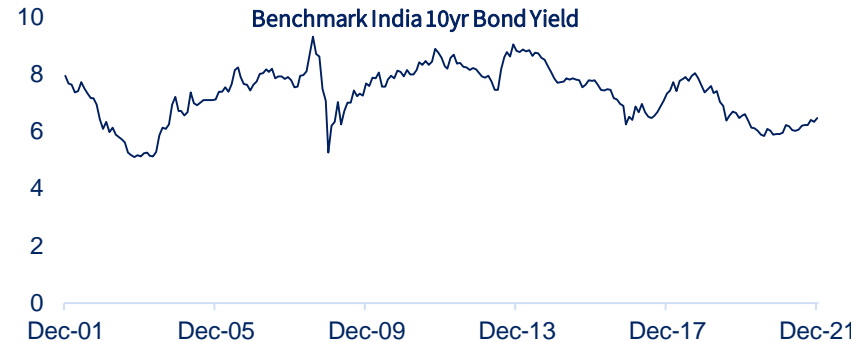
02

FIXED INCOME

# FIXED INCOME

The US Fed in its policy decided to double the pace at which it would reduce asset purchases every month. In addition, they have penciled in at least three rate hikes in 2022. A rise in yields in advanced countries results in narrowing of spreads with emerging market yields and hence making it less attractive to foreign investors.

While FPIs remained net buyers in CY21, their 5 month buying streak ended in December which witnessed a massive sell off. Fears of the third wave again halting the progress in the economy, the US Fed aiming to close the liquidity flow sooner and the expected rate hikes, it would be reasonable to expect capital outflows from emerging markets to continue.



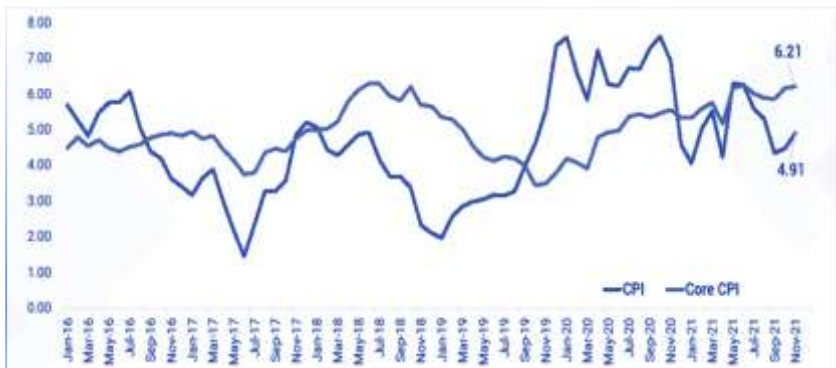


## INFLATION (WPI, CPI, FOOD INFLATION)

Core Consumer Price Index (CPI) increased to a three-month high of 4.91% in November with food prices rising, among indications the excise duty cuts by the Centre and the ensuing cut in levies by states have not provided much ease in tempering headline inflation. Food inflation increased to 1.87% in November from 0.85 per cent a month ago, according to data released by the National Statistical Office (NSO).

The CPI for November is lower than 6.93 per cent in November 2020 and within the 4+/-2 per cent target range of the RBI. Core inflation – the non-food, non-fuel inflation component – jumped to a five-month high of 6.08 per cent. Economists believe that input price pressures and supply-side shortages are increasing prices at the consumer level and may further impact demand in the near future.

CPI and Core CPI



Source: Bloomberg, RBI, internal research, Kotak

“The annual rate of inflation is 14.23% (Provisional) for the month of November, 2021 (over November, 2020) as compared to 2.29% in November, 2020. The high rate of inflation in November 2021 is primarily due to rise in prices of mineral oils, basic metals, crude petroleum & natural gas, chemicals and chemical products, food products etc as compared to the corresponding month of the previous year.” – Ministry of Commerce & Industry

This happens to be the 8<sup>th</sup> consecutive month in which WPI has stayed in double digits. The significant gap between the CPI and WPI depicts the pricing pressure on inputs, which we expect will be passed on to consumers causing a dent in demand in the near future.

Wholesale Price Index

	Weight	Oct-21		Nov-21	
	(%)	Index	Inflation	Index	Inflation
<b>All Commodities</b>	100	139.1	12.54	142.9	14.23
<b>I Primary Articles</b>	22.62	159.7	5.2	168.6	10.34
<b>II Fuel &amp; Power</b>	13.15	124.7	37.18	131.7	39.81
<b>III Manufactured Pr.</b>	64.23	134.9	12.04	136.1	11.92
<b>Food Index</b>	24.38	164.8	3.06	170.4	6.70

Source: Ministry of Commerce & Industry



# 03

## EQUITY

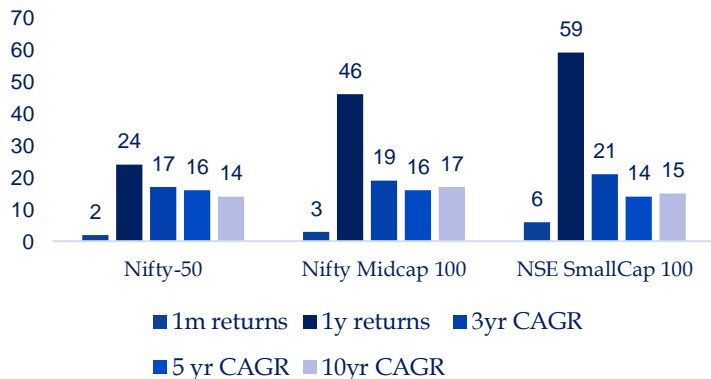


# EQUITY

## DOMESTIC & SECTORAL INDICES

2021 would certainly have been one of the best year for IPOs. According to data by CareEdge, we saw around 121 issues where companies raised Rs 1,81,736 crore, by far the best ever in the history of the Indian bourses. This was a clear sign of the exuberance in the markets despite the stretched valuations. 2022 shouldn't be far behind with the mega LIC IPO expected at Rs 1 lakh crore. Another positive sign was that the rally in 2021 was dominantly fueled by domestic investors who pumped in more than Rs 80,000 crore with more than 27 million demat accounts opened in the year.

Index Performance as on 31<sup>st</sup> December 2021 (% Returns)



Source: National Stockexchange,

With the budget just around the corner, expectations are high from the honorable finance minister. While the expected GDP growth rate is set to bounce back due to several factors including a low base effect, the third wave is causing concerns once again. As we can see below, significant operating leverage is expected to drive growth going forward but in the near term, companies are expected to report strong earnings growth. This can give equities more room for re-rating.

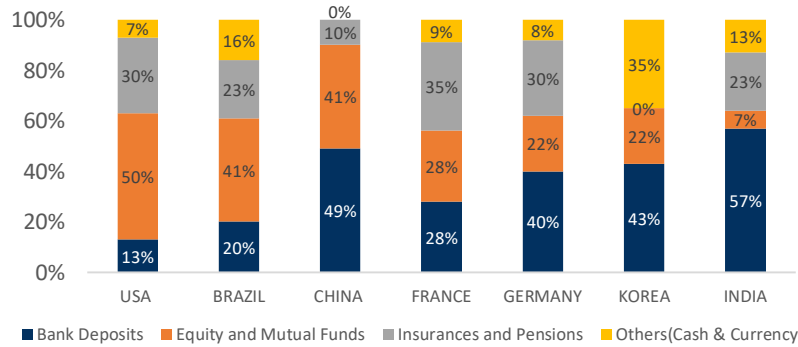
Corporate Profitability

	FY20	FY21	FY22E	FY23E
GDP Growth	4.00%	-7.30%	9.50%	8.50%
Nifty 50 Companies Profit Growth (%)	-2.9	22.7	36.6	16.6
Nifty EPS (INR)	472	542	744	872
Nifty PE Ratio(x)	18.2	27.1	23.7	20.2
Factors Driving Profit Growth	Cost Cut, Tax Cut, Interest rate reduction, Debt reduction & tighter working capital			Operating Leverage

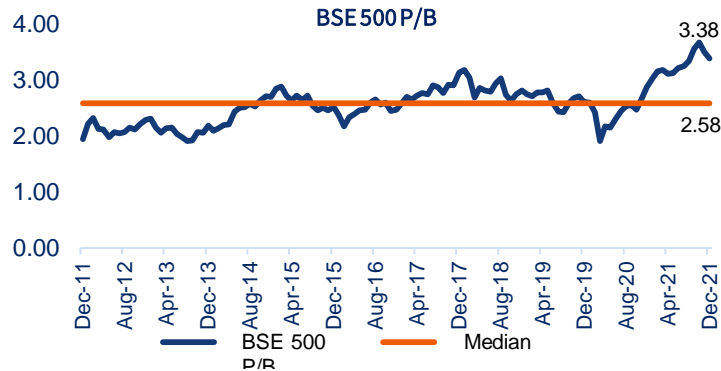
Source: Kotak Institutional, Motilal Oswal, Kotak

# DOMESTIC VALUATIONS

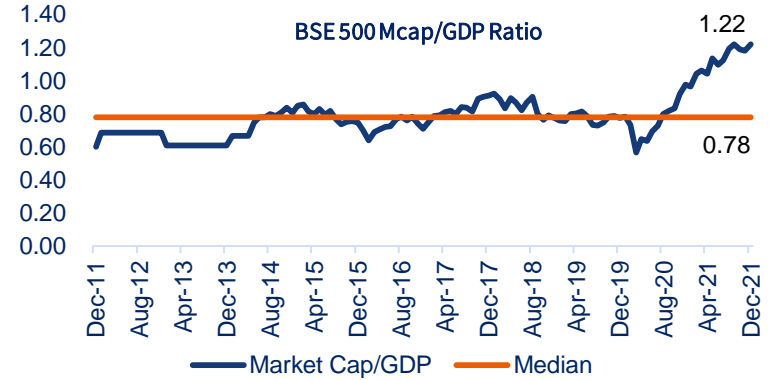
India's domestic equity holdings at 7% of financial assets vs 30% average of EMs



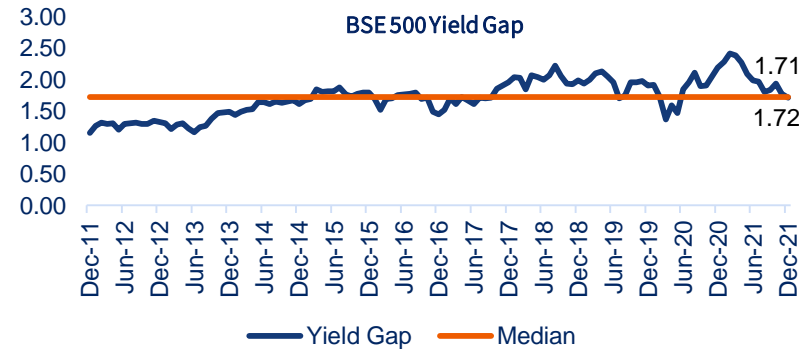
Source: Bloomberg, Kotak



Source: Bombay Stock Exchange



Source: Bombay Stock Exchange



Source: Bombay Stock Exchange



# 04

## Global Economy

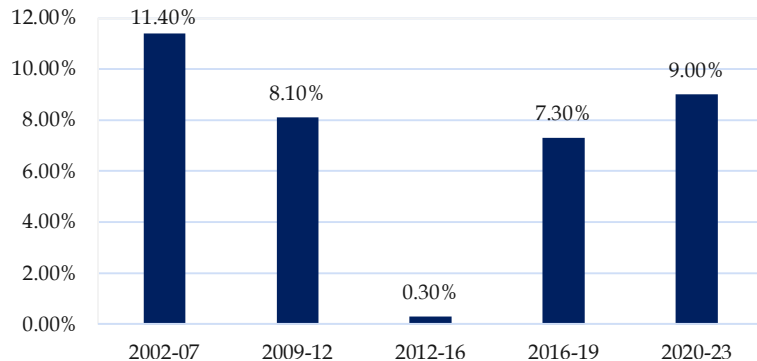
# Economy

## International

Reports of a global capex surge came at a very critical time as jitters related to the US Fed tapering, excessive valuations and rising inflation were spooking investors. This is drastically different from the global financial crisis in 2008 where the lack of fresh investments dragged on unemployment for years.

The most notable example being the expenditure around the world to address the chip shortage. Work from home and the resulting surge in the digital economy has significantly driven the demand for semiconductors where manufactures around the world are investing heavily in the to build capacities and increase supply.

**Global Corporate Capex Is Set To Surge**

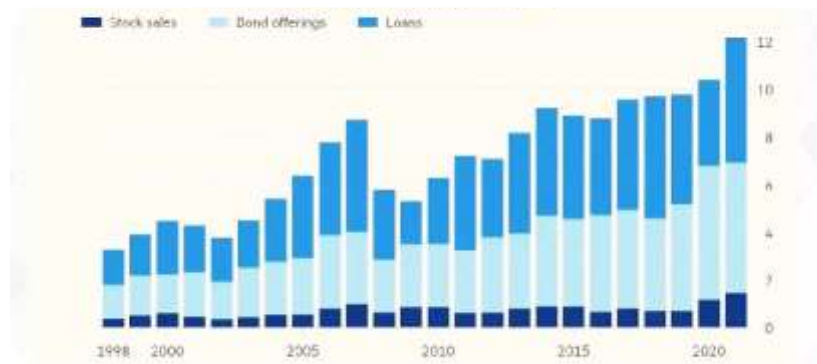


Source: World Bank, Antique, Bloomberg, Kotak

Not only was 2021 a blockbuster year for Indian IPOs, it was just a small part of the approximate \$12 trillion raise by companies around the world by selling stock and/or issuing debt and raising new loans. Led by the US which raised around \$5 trillion, this highlights the easy financial conditions that were prevalent.

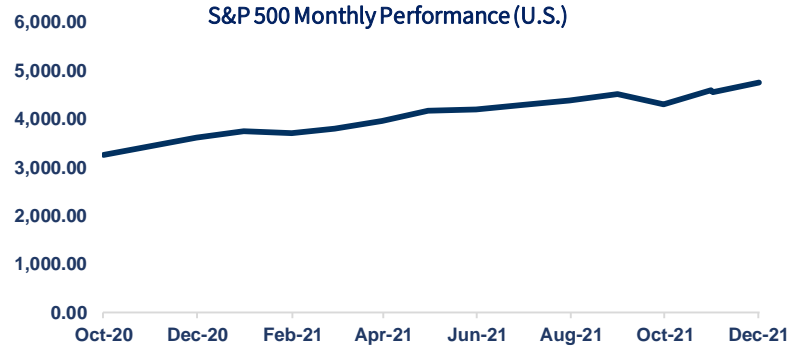
Huge bond buying programs from central banks pushing borrowing costs to all time lows along with significant amount of cash working through the financial system created a very favorable environment for companies to seek new investors and lenders.

**Companies Raised Over \$12Trn In Markets**

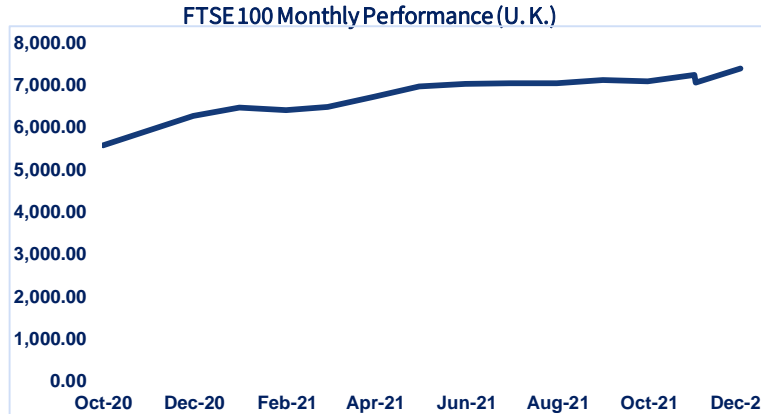


Source: Refinity, Financial times, Kotak

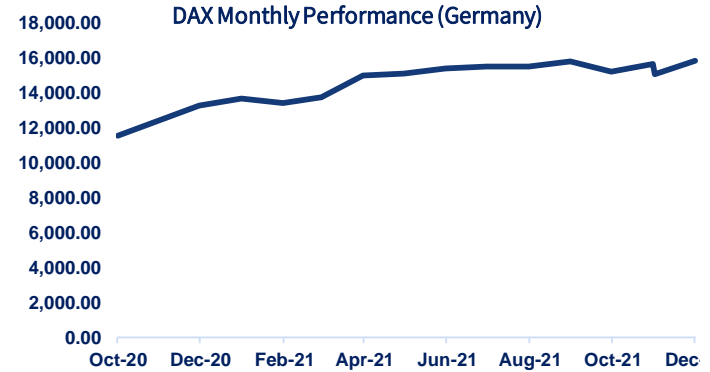
## INTERNATIONAL INDICES PERFORMANCE



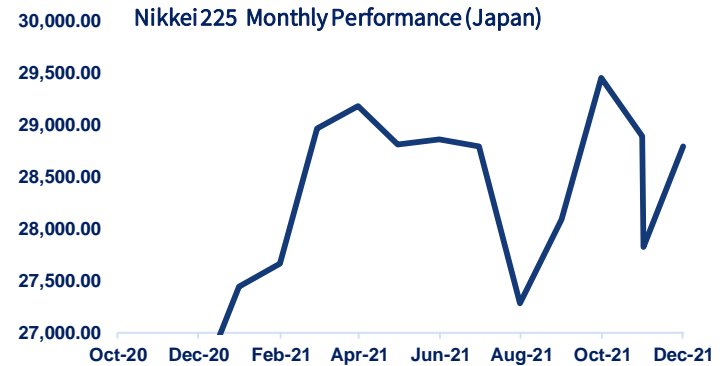
Source: Investing.com



Source: Investing.com



Source: Investing.com



Source: Investing.com

# 05

ASSET ALLOCATION  
DESK VIEW





# DESK VIEW

## EQUITY

While we can not deny that the markets are due for some kind of correction, the month of December proved that such corrections would be swift and investors are ready to buy on dips. Given the high growth expectations we expect the market to remain at premium valuations. We expect profit pools to consolidate further in favor of those companies that acted swiftly in grabbing opportunities that were presented to them post COVID.

The markets in 2021 soared on low interest rates, rebounding earnings and government stimulus. In 2022 it will now have to take on new challenges in the form of rising inflation, rate hikes and slightly moderate rise in earnings. Not only are we going to witness profit pools consolidating, several companies have also increased their share in the indices which again puts the focus on staying invested in quality. The style of value investing in companies that have had poor corporate governance and have been beaten down do not give a good risk reward ratio anymore.

We have always strongly advised a disciplined approach to investments by staying invested and adhering to financial goals rather than timing the market. While certain tactical calls can be made at times, it is a strict asset allocation policy that helps investors sail through any major corrections in the markets. We continue to remain positive on international equity, and recommend the allocation to it in all portfolios.

## DEBT

With the RBI having begun the normalization through VRRR in a gradual manner, the markets seemed to have already priced in the multiple rate hikes expected. In addition, in the absence of GSAP along with the combination of OMOs and OT, its reasonable to expect the 10-year yield to trade in a range of 6.30% to 6.60% in the near term.

GST collection in December 2021 came in strong at around Rs 1.29 lakh crore which is the sixth consecutive time it came in above Rs 1 lakh crore.

"Coupled with economic recovery, anti-evasion activities, especially action against fake billers have been contributing to the enhanced GST. The improvement in revenue has also been due to various rate rationalisation measures undertaken by the Council to correct inverted duty structure," the finance ministry said.

Higher FPI investments in debt through the VRR route coupled with the inclusion of Indian bonds in global indices bodes well for the debt market flows.

We recommend investors stay invested in fixed income strategies in line with their risk appetite and time horizon while also diversifying debt portfolios that include other non MF options such as MLD's, Venture debt, etc. Sound financial advisory and asset allocation is key.

### Investment Objective

Identify major wealth creation trends, monopolistic & fast growing capital efficient franchises with re-investment runways run by able & minority friendly management.

### Top Sectors

Consumer Goods	35.0%
Healthcare	24.0%
Technology	26.2%
Financial Services	9.00%
Capital Goods	3.00%

### Selected Holdings



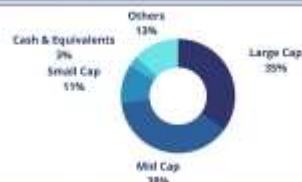
### Strategy Performance Analysis



### Investment Attributes

Market cap & sector agnostic exposure across businesses. The portfolio seeks capital preservation, then appreciation over the long term with volatility much lower than the benchmark. The typical portfolio would invest between 15-25 businesses.

### Cap. Allocation



### Strategy Details

Strategy Type	RH Perennial fund
SEBI Registration No.	IINA200002601
Fund Manager	Mr. Satwik Jain
Category Type	Multi-Cap
Inception Date	1st April, 2021
Benchmark	BSE 500
SIP Available	YES
STP Available	YES
Reporting Structure	TWRR (Pooled Portfolio Basis)
Bankers	HDFC Bank
Custodian	HDFC Custodial Services Ltd

Beta	0.63
Months of Excess Returns	67%

Sales 5Y(%)	EBIDTA 5Y(%)	Earnings 5Y(%)	ROE (%)	Net Debt:Equity FY(%)
15	20	28	26	0.3

# Fact sheet December 2021





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