# Market Update

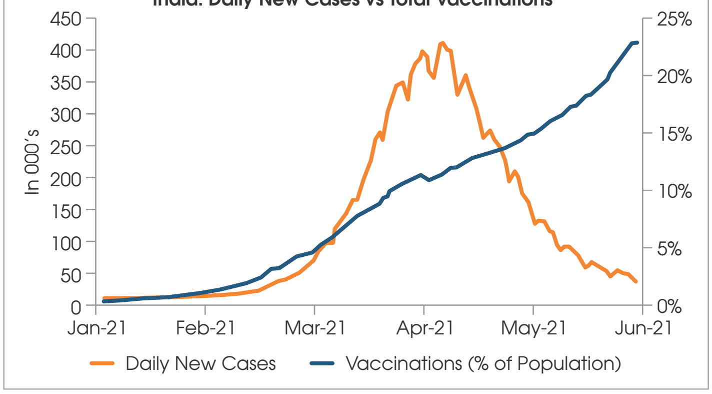
July 2021

The markets continued their optimistic run with the Nifty 50 Index gaining 0.9% for the month of June. Widespread interest in broader markets was visible with the S&P BSE Midcap and S&P BSE 250 Smallcap indices gaining 3.6% and 6.3% respectively. Hawkish commentary by US Fed lead to a momentary sell-off mid-June but a clarification led to a quick recovery in global markets. Indian Finance Minister announced another set of Covid relief measures with a focus on improving health infrastructure in non-metros and on the stressed segments (Small borrowers, Travel operators etc). In sector trends, IT was the clear winner supported by Accenture's positive update and INR depreciation of ~INR 2/USD in June.

## Macro/Economy Update

The Monetary Policy Committee (MPC) in India kept the repo rate unchanged at 4% and continued with its accommodative stance. US Federal Reserve also kept interest rates unchanged but signaled they expect two rate hikes by the end of 2023. The Indian government announced relief measures to support the economy including INR 1.1tn (~USD 15bn) worth of loan guarantee scheme for Covid-affected sectors, an increase in government outlay to INR 4.5tn (~USD 60bn) from INR 3tn (~USD 40bn). Flows were strong with FPIs buying ~USD 1.8bn of Indian equities while DIIs bought ~USD 0.9bn during June 2021. Monsoon rains have progressed satisfactorily with the cumulative rainfall for the country being 1% higher than normal rainfall by July 4.

Stress with respect to covid eased as cases declined steadily during the month along with pick up in pace of vaccinations. India achieved a milestone globally with total number of jabs administered being more than in countries like the US, the UK, Germany, France and Italy. However, the Delta plus variant of the novel coronavirus continue to be a source of concern.




Source: Worldometer, Data as on June 29, 2021

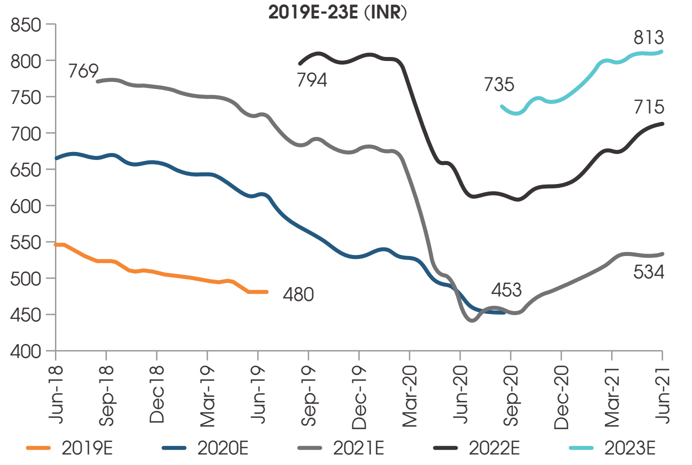
## Corporate Earnings

Corporate earnings continued the momentum of preceding two quarters even in the last quarter of FY21. Nifty 50 sales (Ex financials) were up 17%, while EBITDA/PBT/PAT growth stood at 40%/101/81% YoY respectively. While there was base effect of lockdown, the key point highlight is that earnings came in better than street estimates. Nifty 50 ended FY21 with a healthy 14% earnings growth, a very surprising positive outcome in a once-in-a-century pandemic year.

Exhibit 1 below shows how Nifty 50 earnings increased through the year. As can be seen, the Nifty 50 EPS expectations have seen constant upgrades with each passing quarter and this along with strong liquidity have been the key reason of the market performance.

Source*: NSDL, PTI, ANI, Bloomberg, BSE

**Exhibit 1: EPS estimates of FY2022-23 have been steady over the past three months Nifty 50 Index EPS estimates trend, March fiscal year-ends, 2019E-23E (INR)**




Source: Kotak Institutional Equities Estimates

## Market Outlook

The second Covid wave in India has been more emotionally distressing. The number of people and families impacted has been much higher, with a quite a few unlucky ones being hospitalized and some who unfortunately died of the virus. Also, unlike the first wave which was predominantly an urban India phenomenon, the second wave was more spread out, with even the smaller towns and villages impacted. Though the restrictions during Covid-2 were localized and less stringent, the spread of the lockdowns across the country would surely lead to some pressure on revenues in Q1FY22.

The upcoming earnings season should be quite interesting. Higher raw material and crude prices will get reflected in lower margins, with higher shipping costs also adding to the pressure for most companies and sectors. At the same time, producers of commodities will report strong margins. Low base for April/June 2020 quarter will still lead to a very handsome year-on-year growth in corporate earnings.

There is surely over optimism building in quite a few small-cap companies, with almost every second company hitting new highs on a daily basis. Twitter and WhatsApp research reports are leading to huge rises in stock prices, as new first time investors lap up easy money making, at least for now. Caution is advised to investors, even as our longer term outlook on the markets remains very optimistic.

## Disclaimer

Abakkus Growth Fund ("AIF Fund") is a SEBI registered Category III Alternative Investment Fund and is managed by Abakkus Asset Manager LLP ("Abakkus"). Abakkus is also a SEBI registered Portfolio Manager.

This document is for the purpose of information only and is neither a general offer to buy or sell nor solicitation of an offer to buy or sell any schemes of the AIF Fund or invest under the Portfolio Management Services offered by Abakkus. The delivery of this document at any time does not imply that information herein is correct as of any time subsequent to its date. The contents of this document are provisional and may be subject to change and Abakkus has no obligation to update any or all of such information. In the preparation of the material contained in this document, the information used is based on publicly available data, certain research reports including information developed in-house. Abakkus warrants that the contents of this document are true to the best of its knowledge, however assume no liability for the relevance, accuracy or completeness of the contents herein. Abakkus (including its affiliates) and any of its Partners, officers, employees and other personnel will not accept any liability, loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this document in any manner whatsoever. This document may include certain statements which contain words or phrases such as "believe", "expect", "anticipate", "estimate", "intend", "plan", "objective", "goal", "project", "endeavor" and similar expressions or variations of such expressions that are forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to risks, uncertainties or assumptions. Prospective investors should make an independent assessment, and consult their own counsel, business advisor and tax advisor as to legal, business and tax related matters concerning this document. The information contained in this document has been prepared for general guidance and does not constitute a professional advice and no person should act upon any information contained herein without obtaining specific professional advice. Abakkus nor its Affiliates or advisors would be held responsible for any reliance placed on the content of this document or for any decision based on it. Each existing / prospective investor, by accepting delivery of this document agrees to the foregoing. The investments are subject to several risk factors including but not limited to political, legal, social, economic and overall market risks. The recipient alone shall be fully responsible/are liable for any decision taken on the basis of this document.

CIN: AAM-2364 PMS SEBI Reg.: INP000006457 AIF SEBI Reg.: IN/AIF3/18-19/0550

Corporate Investment Adviser Registration no. INA000015729


**Contact us**

**For Investor Service Queries**
Write to us at abakkus@camsonline.com or call at +91 44 61092415 or +91 44 28432215

**Abakkus Asset Manager LLP**
Abakkus Corporate Center, 6th Floor, Param House, Shanti Nagar, Near Grand Hyatt, Off Santacruz Chembur Link Road, Santacruz East, Mumbai - 400055. India. Ph: +91 22 68846600 info@abakkusinvest.com