Market Update

Abakkus
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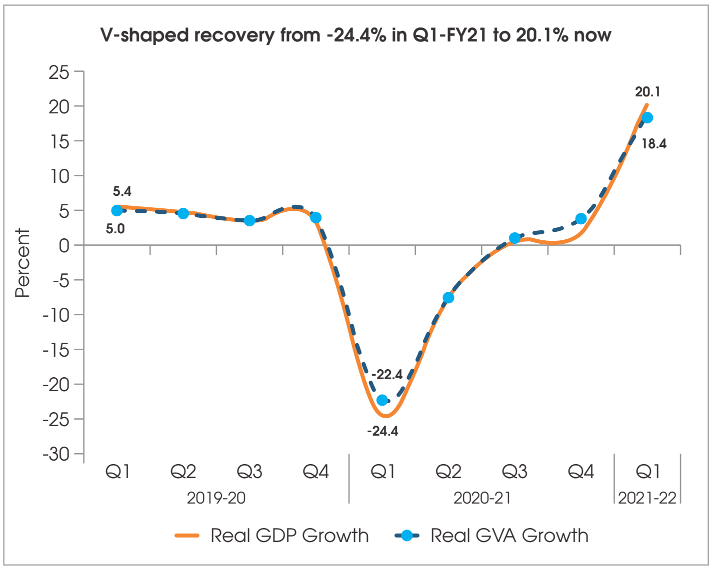
September 2021

The trend in markets in August were significantly different from what was seen over the past few months. For a change, the large caps caught up and significantly outperformed the broader markets. Divergence was strong, with the Nifty 50 logging in a sharp ~9% gain while on the other hand S&P BSE 250 Smallcap reporting a ~3% decline. This ~12% divergence in a month between the large cap vs small cap was the highlight for the month. This catch up was long coming, given the huge surge seen in the broader markets in 2021 YTD and significant outperformance over the large caps. Renewed Foreign Portfolio Investor interests, particularly in index stocks, also led to large caps doing well.

Indian markets witnessed net Foreign Portfolio Investment (FPI) inflows of ~USD 2 billion for the month August 2021, where as Domestic Institutional Investors (DII) net inflows was ~USD 4 billion. Domestic investor interest continues to be strong, with a domestic mutual fund garnering a record INR 14,500 crores in a New Fund Offering (NFO). On the global front, the initial worry over tapering uncertainties too seems to have abated. US FED has been very clear in its stance that liquidity tapering if any will be gradual and that rate hikes are not coming. We believe that modest rate hikes are already expected and priced in and therefore the impact, if any, will be very moderate.

Indian Finance Minister, Nirmala Sitharaman unveiled an INR 6 trillion (~USD 80 billion) National Monetisation Pipeline (NMP). National Infrastructure Pipeline (NIP) was meant for project identification while NMP is supposed to fill significant portion of funding gap through asset monetisation. NMP has the potential to:(a) attract new global investors and scale up InvIT and REITs, (b) create an institutional structure and ultimately create a virtuous cycle of infrastructure asset creation. Government of India (GOI) is rightly banking on the global liquidity surplus along with record low interest rates to help it achieve the target and is a step in the right direction.

On the macro front, GDP growth for Q1FY22 came in strongly at ~20% vis-à-vis decline of ~24% in Q1FY21. Even adjusting for the Covid base effect, numbers are quite strong. Even India Industrial Production (IIP) of 13.6% in June came in above expectations.

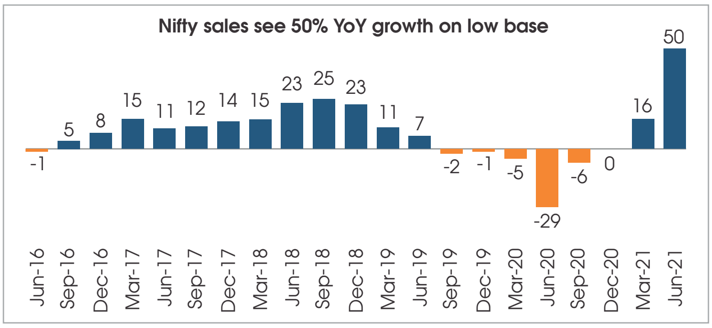


Source: MoSPI

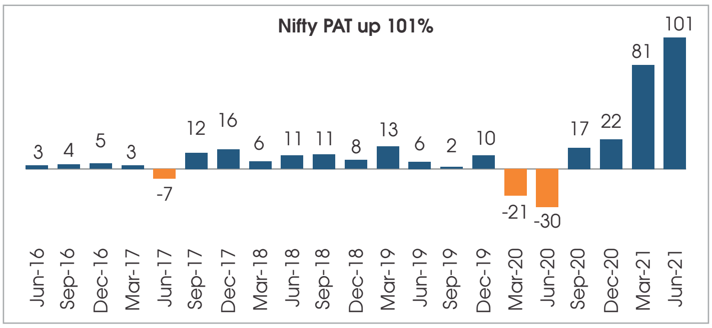
Source*: NSDL, PTI, ANI, Bloomberg, BSE

CPI Inflation eased to 5.6% in July 2021, from 6.3% in the previous month mainly due to decline in food cost. It was the first time since April that inflation remained within the central bank's 2-6 percent target range. The Wholesale Price Index (WPI) inflation too eased to 11.16% in July 21 from 12.07% in the previous month. This would have helped Monetary Policy Committee (MPC) to keep the policy repo rate unchanged at 4%.The monsoons started on a promising note, however, in the month of August 2021 the cumulative rainfall stands at ~10% below the Long Period Average (LPA). Nevertheless, on the positive side, the deficient rainfall is not widespread and is only limited to a few states.

Corporate earnings in Q1FY22 have been in line with the elevated expectations, due to the deflated 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 vis-à-vis estimated 48%, while PAT growth has come in at 101% YoY vis-à-vis estimated 94% (Source: Motilal Oswal Estimates).



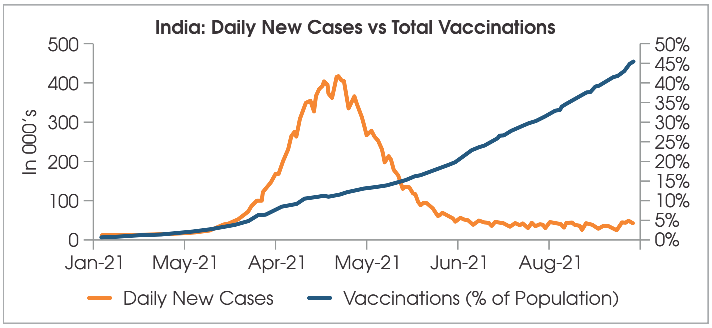
Source: Motilal Oswal Estimates



Source: Motilal Oswal Estimates

Covid Update

The 2nd wave in India has more or less stabilized with daily average cases in August being ~37-38k. Vaccination is picking up considerably in India with ~630mn having been administered at least one doze out of total eligible population of ~950mn in the age bracket >18years. On a few days, India has seen over 10mn vaccines being administered, giving hopes that 90% of the eligible population would be vaccinated atleast once by the end of Sept/middle of October. This has considerably reduced the possibility of an extensive third covid wave in India. Also, India got its fourth alternative, Cadila's ZyCov-D 3-dose vaccine that was approved for emergency approval.



Source: worldometer. Note: The % of total vaccination shown in the above chart is calculated on total population of the country i.e., 139.3 crores.

Market Outlook

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.

The mid and small caps have underperformed after a long time in August. This was expected and communicated by us in our previous communication. However, we believe that companies with visible earnings growth will consolidate and should again start to attract investor interest. We expect the markets to be firm as we head into the festive season.

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