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MARKET PERSPECTIVE
India Opportunities

Sept 2022

Market Recap

“Seed of future lies in the evolving structure of the past”

In the immediate past, Nifty had smart rally during May-2020 and October -2021 and then corrected during Oct-2021 and June-2022



Nifty and India 10 Year Bond Yield Charts



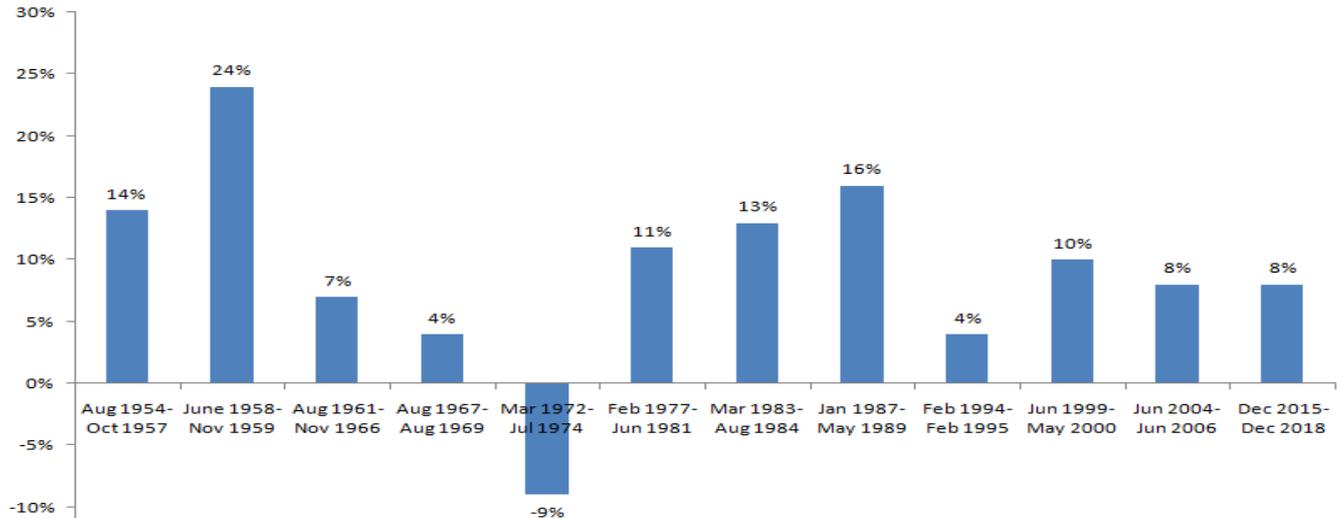
Interest Rates and Nifty Movement Relationship

10 year Bond Yield (Interest rates)	Nifty Movement
Rising	Falling
Falling	Rising
Sideways	Mostly Rising

- » Indian Markets have fallen only during period of Interest rates rising up.
- » In cases where the Interest rates have already risen at a particular level and are stable there , Nifty has moved up during the consolidation phase
- » In cases of falling interest rates period , Nifty has risen

S&P 500 Returns During Fed Rate Hike Cycles

Over the last 70 years, Out of 12 rising rate cycle, market generated positive returns for 11 times



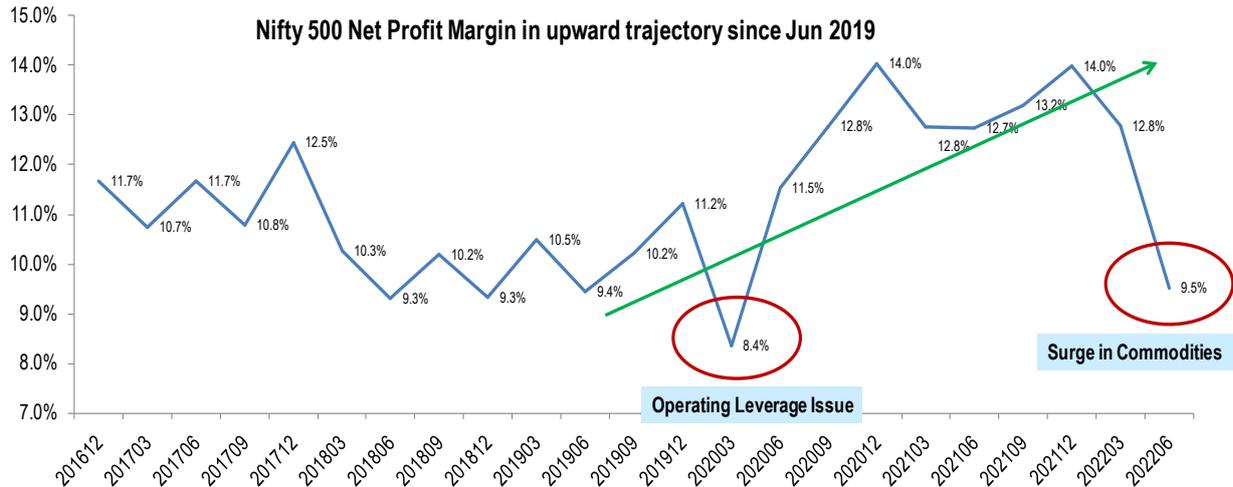
- » Rate hike cycle can be a period of rate hike till the start of rate fall.
- » Over last 70 years, there has been 12 periods of rate hikes wherein S&P 500 had positive returns 11 out of 12 times during periods of Fed rate hike cycle
- » Since 1954, S&P 500 has delivered an average of 9.4% annually during Fed rate hike cycles.
- » At the time of rate hike, the Index usually fall but as the rate hikes stops and consolidates, Index rises covering up the lost returns.

Bond Yield to Range Between 7-8% till Mar'23



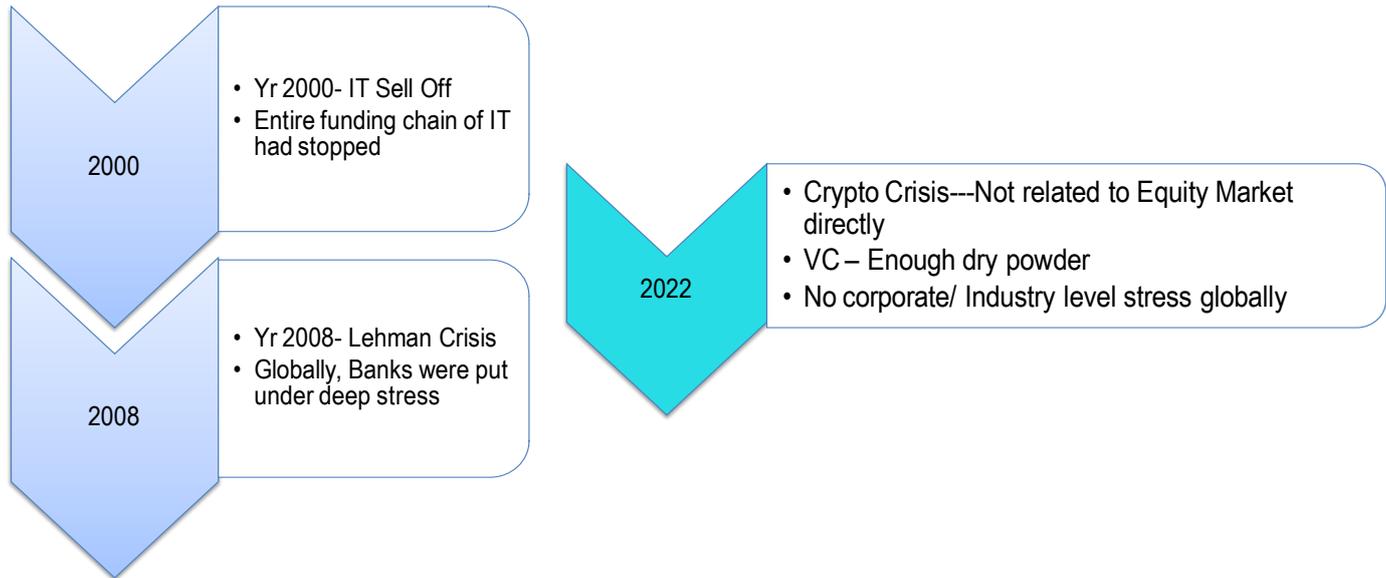
- » Till Mar'23, We expect the bond yield to range in between 7%-8%
- » This implies that sideways movement of Interest rates till Mar23 will keep Nifty movement of rising up
- » However, points where the bond yield moves from lower to higher range, Nifty will see intermittent declines for short term
- » In the short term (say 6 months), Nifty may see some selling when the interest rates go up, however Nifty will go up as rates consolidate
- » Currently the Repo rate is at 5.4% which means bond yields at 7.2% currently are at a premium of 180 bps. Even if Repo rate rises by 0.5% the yield has enough cushion to absorb the increase

Nifty 500 Net Profit Margin Chart Over Years



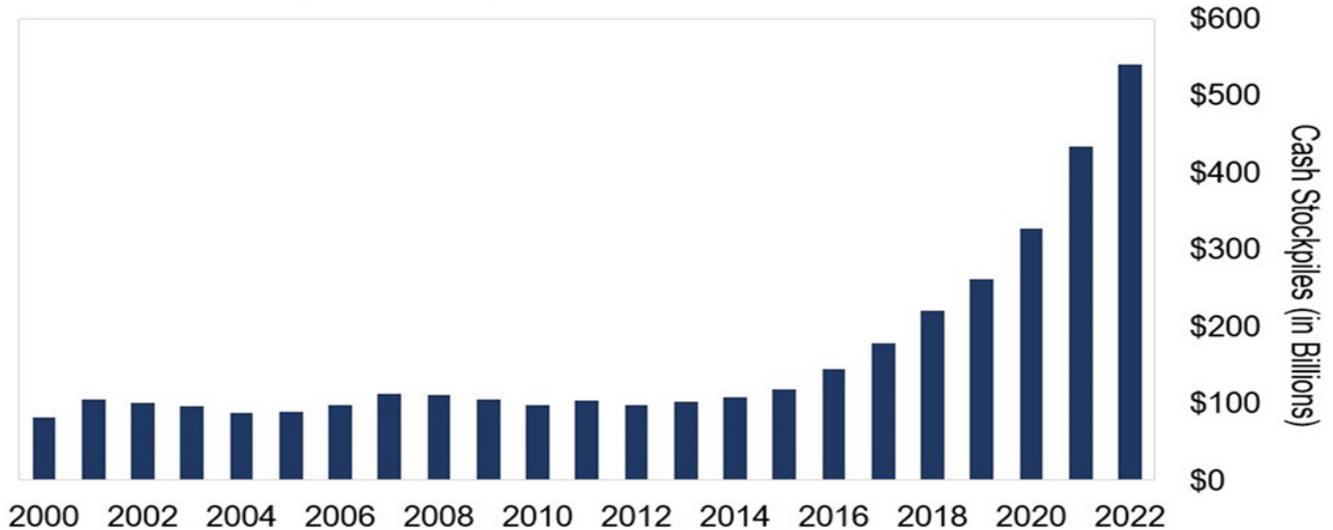
- » Indian Corporate entered into trajectory of Net profit margin expansion post Jun 2019 led by cut in corporate tax rate and other structural fundamental reasons.
- » During on set of Covid , margins fell due to lower operating leverage as Sales of companies declined
- » Post covid, Margins bounced back to the upward trajectory
- » The current downfall of margins are due to inflationary pressures and not due to lower revenue growth.
- » We expect this quarter was the worst in terms on NPM and from now on it should get back on upward trajectory as costs related issue slow down

2022- Selling Pressure Points not Institutionalized



- » Current fall in Nifty cannot be compared to fall in year 2000 or Year 2008 as unlike past there isn't any financial squeeze happening in a particular industry or Company
- » Scare of VC selling not plausible as Venture Capitalist firms losing money in crypto are still having enough liquidity in books.

Venture Capital Dry Powder at \$540 bn



Source: Prequin

- » This chart shows the last 22 years of venture capital liquidity which has not been deployed. This is referred to as “dry powder.”
- » After the sell off seen in the first half of this year, it is natural to think that VCs would be running for cover – But that’s not the case. There is enough liquidity in the hands of VCs before they start feeling selling pressure.

Indian Currency Getting Stronger

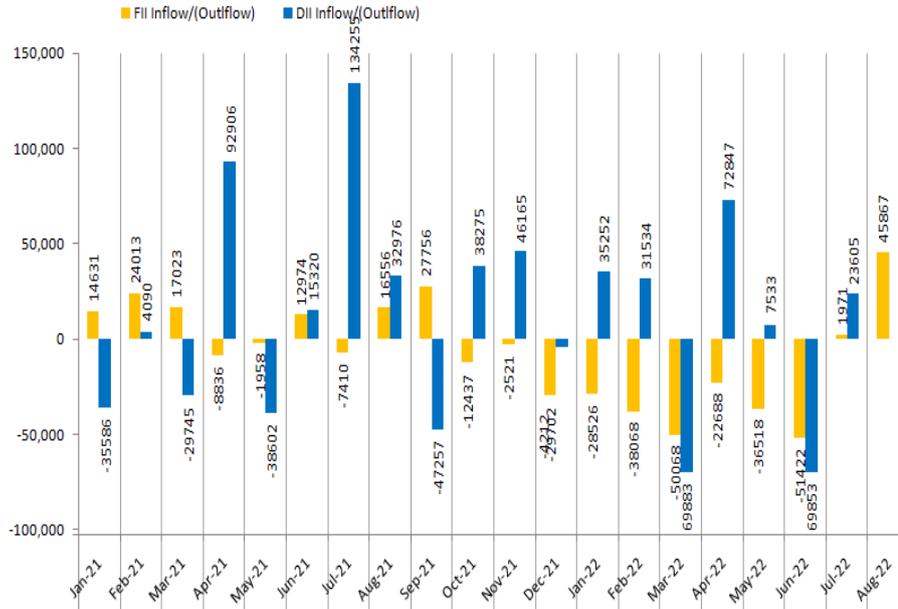
Period	EUR/INR	JPY/INR	GBP/INR	USD/INR	USD Index
Aug 21 Rates	86.13	0.66	100.33	72.95	92.63
Current Rates	79.26	0.58	93.84	79.87	109.09
Change % Aug 21-Aug 22	-8%	-12%	-6.50%	9.50% 	17.80%
	Appreciation	Appreciation	Appreciation	Depreciation	Rising Up

- » Indian Currency has got stronger vis a vis major countries' currencies.
- » USD/INR has depreciated by 9.5% while Dollar Index has gone up 17.8% which suggests strength of Indian currency over other important world currencies

*The dollar index tracks the relative value of the U.S. dollar against a basket of important world currencies. If the index is rising, it means that the dollar is strengthening against the basket - and vice-versa.

FII/ DII Flows Since Jan 2021

FII / DII Inflows / Outflows (Fig in Rs Cr)



FII's have sold equities worth ₹2.71 Lakh Cr from Oct 2021 to July 2022

FII's AUC currently is US\$ 603 bn

FII's have reduced their equity exposure by nearly 2%

Now FII's own about 22% of BSE 200

Domestic flows annually from stable sources are ~ ₹2.5 lakh Cr-

- » SIP
- » NPS
- » Insurance
- » EPFO

Global Investors are Under-Allocated to India

Investor Category/ Investment in India public markets in USD Billion	Equity	Debt	Hybrid	Total	India Investment as a % of global Total AUM
Central Bank/ Sovereign Wealth Funds/ Governments	82.8	11.6	1.3	95.7	1.20%
Pension Funds	51.3	2.6	0.2	54.1	0.10%
Endowments/ Foundation	2.6	0	0	2.6	0.30%
Insurance	7.7	1.3	0	9	0.00%
Investment Advisors/ Asset Managers/ Funds and other	449.8	34.7	2.3	486.8	0.30%
Total	594.2	50.2	3.8	648.2	0.20%

Source: NSDL Data, Global AUM data: PWC, OCED, Towers Watson, Quantum Analysis and Assumptions

- » The anomaly is that In terms of GDP we are 3.5% of the world but in terms of Investments only 0.2% of the world
- » This ratio should get better in coming years as India will be amongst very few countries (less than 10 out of 200 countries for which data is available) growing at great than 5% in terms of GDP.

Current Expansion Phase- Correction-O-Meter



Recent Bull Market Corrections since Jul 2020

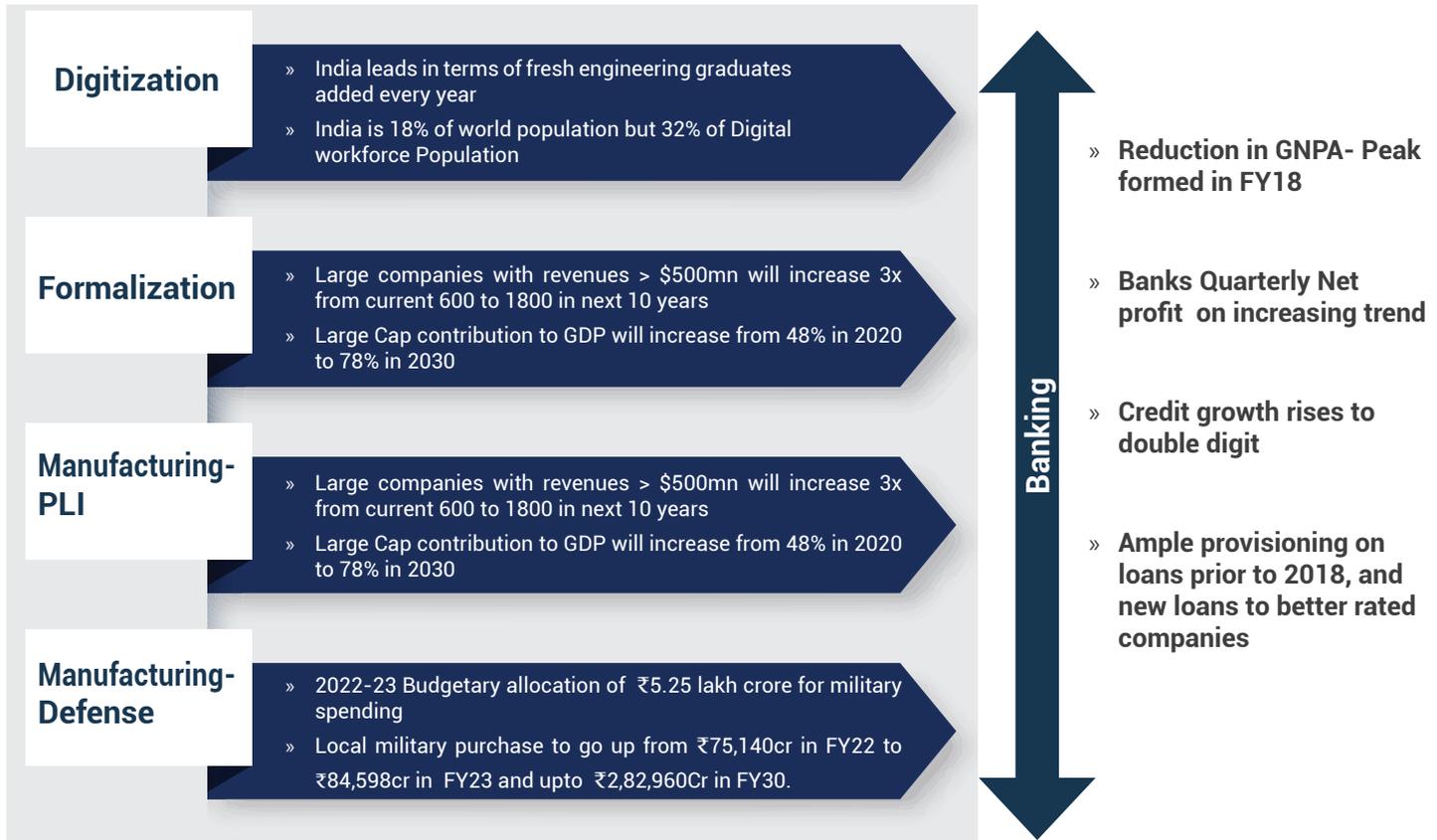
SI No	% Correction	Duration
1	7.30%	27
2	6.90%	9
3	6.60%	63
4	17.20%	242
5		
6		

Correction-O-Meter

Correction	No of times	Average days	Range Days
5-8%	1	22	19-38
8-15%	3	40	12-109
15-30%	2	117	35-345
Average	6-8		

Correction defined as 'more than 5% fall from its immediate peak

Long Term Forces that will shape India



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