



Market Perspective

April 2023

India Equity Outlook

Nifty has delivered 30% CAGR Returns in the last 3 years



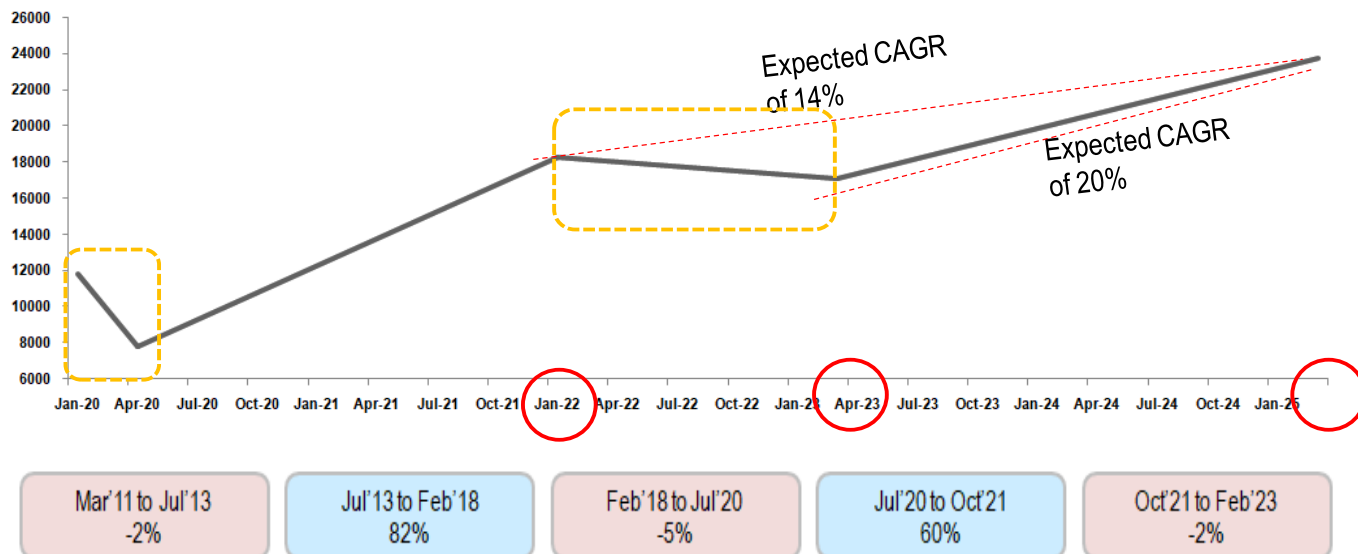
Since 2020 Apr, Market has yielded a CAGR return of 30%, Index moved from 7801 to current level of 17100 , However, since Jan 2020, market has yielded a CAGR return of 13.5%, Index moved from 11797 to current level of 17100. Meaning thereby, Investors who have invested after corrections in Mar 2020, they have made a 30% CAGR while the long term average is 14%

Nifty has been consolidating in the last 18 months



The sentiments have been poor because of low returns in last 1.5 years. Since 2022 Jan, Market has yielded a CAGR negative return of -6.71%, Index moved from 18255 to current level of 17100.

"Be Greedy when everyone is Fearful" - Warren Buffett



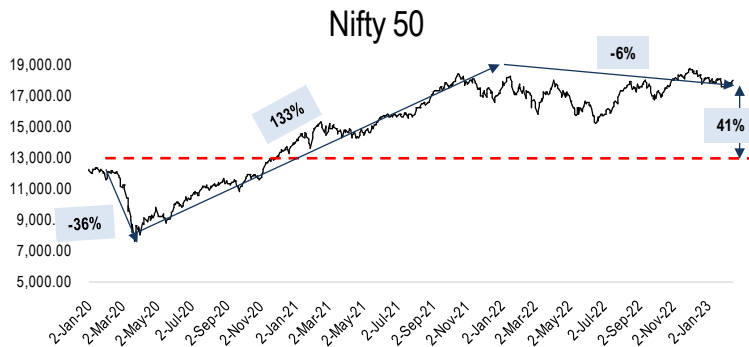
- » Indian Equities have given 14% long term annualized return. Now with better macro economic condition and better business climate there is no reason why it will not give similar returns in future.
- » Period of underperformance is invariably followed by period of out performance. If market does not give any return over 2-year period then in followed up 2 year period it must give way higher return than 14% to make the average go back to 14%.
- » Mar'11 - Jul'13: Nifty returns were -1.6%, but followed up from Jul'13- Feb'18, returns were 82.4%.
- » Feb'18 - Jul'20: Nifty returns were +5.3%, but followed up from July'20-Oct'21, returns were 59.6%
- » Oct'21 - Feb'23, Nifty returns is -2.1%, statistically higher returns should follow

India has resisted the fall to a large extent- what Price is saying

If we had internal issue, we would have fallen more than the world

If we were part of the global issue, we would have fallen as much as the world

India is only a few countries which are above the pre-covid levels. When we take a bird's eye view. Nifty pre-covid was at 12000 levels and are now at 17300, up by 41%.



Country	Covid Fall	Post Covid Rally	Fall Post Rally	Current Price
India	-36%	133%	-6%	41%
China	-16%	68%	-35%	-8%
Japan	-29%	83%	-8%	20%
France	-33%	82%	-5%	16%
US	-32%	108%	-20%	14%
Germany	-35%	70%	-2%	9%
Indonesia	-36%	79%	-5%	9%
Korea	-34%	116%	-23%	9%
UK	-28%	21%	16%	1%
Brazil	-42%	95%	-21%	-10%
Belgium	-33%	40%	-3%	-10%
Spain	-35%	57%	-15%	-13%
HongKong	-22%	43%	-37%	-29%
Russia	-45%	107%	-49%	-42%

Who ate our Cheese?.....Global Issue...Global Issue...Global Issue



Reasons for fall in the markets can be seen. In Feb – Mar '22 market fell by 13.5%, then again in April and Jun'22, Nifty fell by 15.3% and so on. Indian stock markets have not fallen because of any India specific concerns but because of Global concerns and most of these events were Unknown –Unknowable.

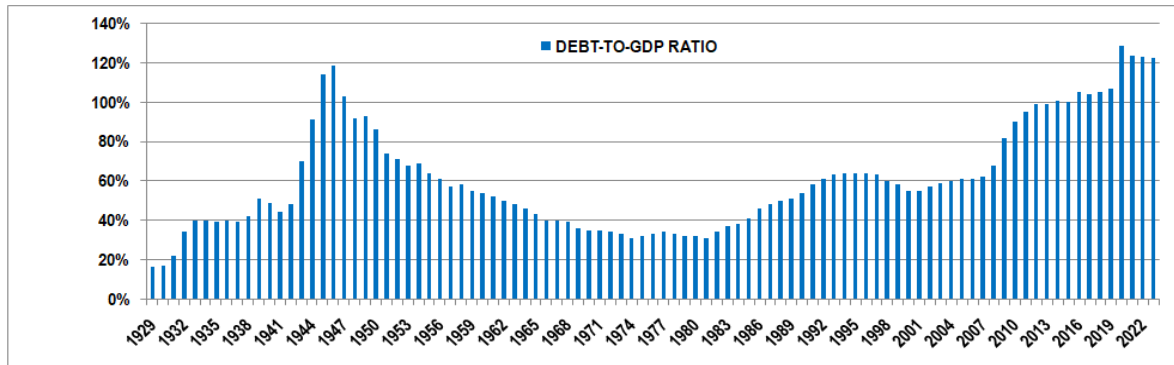
US Debt levels has to soften-hard Landing or Soft Landing??



HARD LANDING

OR

SOFT LANDING

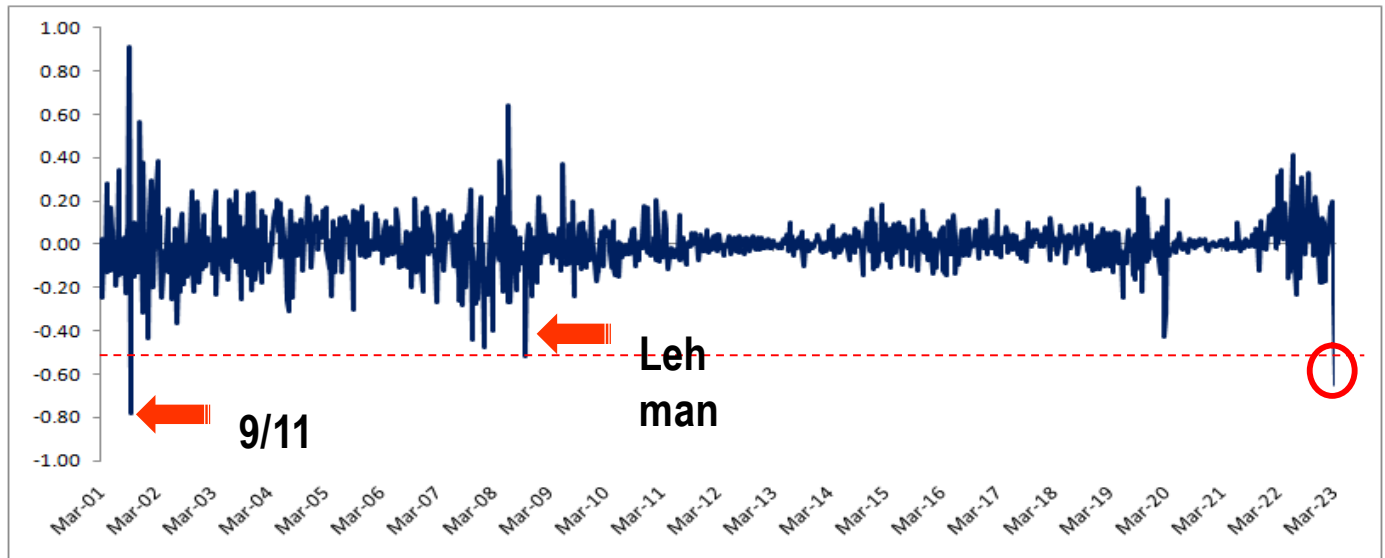


563 Bank Failures since 2001

Debt is very high in US and this is certainly a problem. One aspect can be to increase the Interest rates. This time whether it will be a harder or a soft landing, only the time will show.

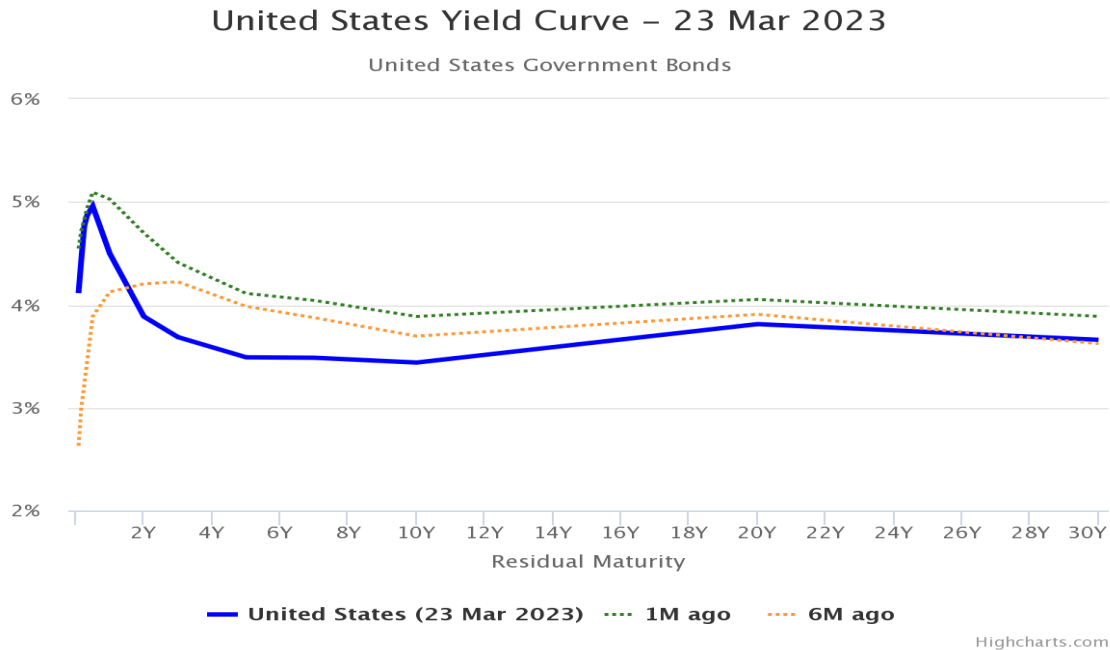
Reversal signs from US 2-Year Bond Yield

Weekly Change in US 2 Year Bond Yield



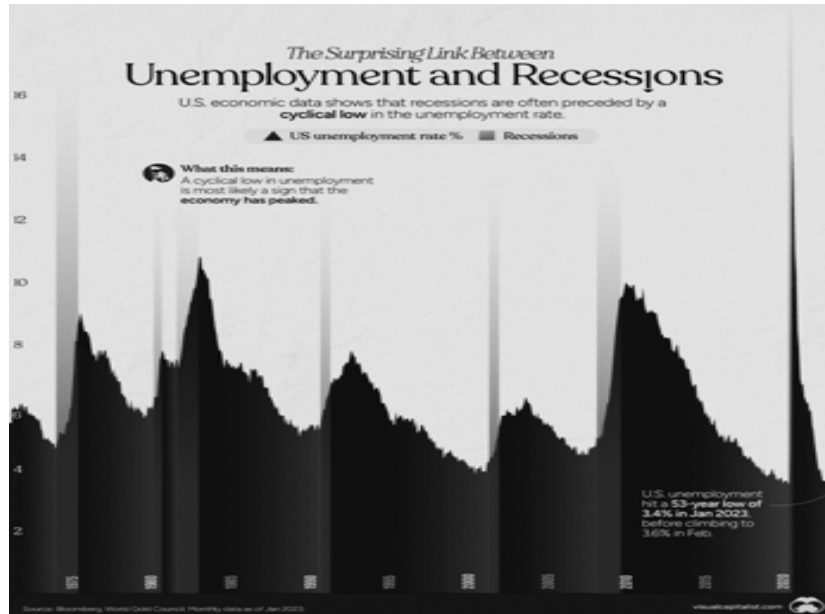
Above is 2 Year Bond Yield change in One week. In one week the 2 year Bond Yield fell by 0.6%. This is rare phenomenon and has occurred only a few times in the past and has signaled reversal in the crisis in global economy.

US Yield Curve



The bond yield curve shows Yields for different durations. There is a lot of changes in the yield curve during these times. During Oct to Feb, the yield curve was rising, but in the last month, this yield has fallen dramatically. This shows that the equilibrium is not there. Also, this is indicating that recession is underway.

Unemployment and Recession



The unemployment chart shows that whenever the Unemployment will reverse, it will rise very sharply. Till now, the labor market remains tight in US. The above chart shows that recessions are always preceded by a cyclical low in unemployment rate.

Worry-US Recession Risk. Is It?

For 'Corporate Revenue' or 'Trade' Nominal GDP growth is the key and not the ('Real') GDP growth

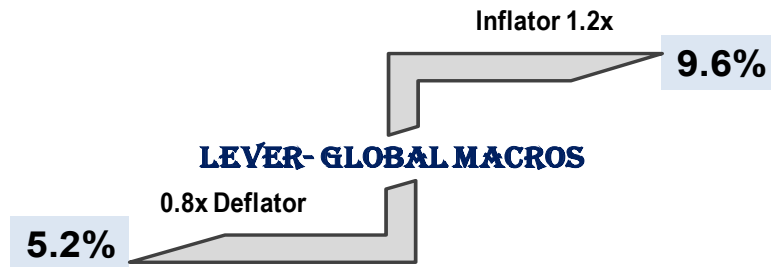
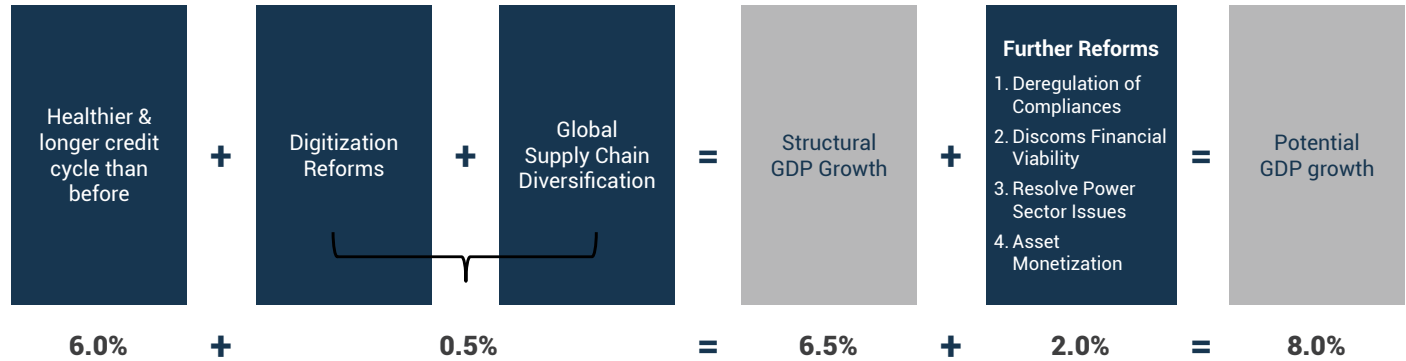
If current recession means a -1% real GDP growth, and inflation is 5%, the nominal GDP growth will still be 4%. The economy in dollar sense, the real recession will not impact.

Year	Inflation%	Real GDP Growth%	Nominal GDP Growth
2001	2.80%	1.00%	3.80%
2002	1.60%	1.70%	3.30%
2003	2.30%	2.80%	5.10%
2004	2.70%	3.90%	6.50%
2005	3.40%	3.50%	6.90%
2006	3.20%	2.80%	6.00%
2007	2.90%	2.00%	4.90%
2008	3.80%	0.10%	4.00%
2009	-0.40%	-2.60%	-3.00%
2010	1.60%	2.70%	4.40%
2011	3.20%	1.60%	4.70%
2012	2.10%	2.30%	4.40%
2013	1.50%	1.80%	3.30%
2014	1.60%	2.30%	3.90%
2015	0.10%	2.70%	2.80%
2016	1.30%	1.70%	2.90%
2017	2.10%	2.30%	4.40%
2018	2.40%	2.90%	5.40%
2019	1.80%	2.30%	4.10%
2023	5%	-1%	4.0%

Last 20 years Average Nominal GDP Growth rate is 4.1%

In 2023, even when Growth is -ve, Nominal GDP Growth rate will be at ~ 4%

Math of Structural Growth-India to achieve~6.5% Real GDP growth



As per recent Economic Survey report, it is expected that structural Real GDP growth should be around 6.5% and alongwith reforms like deregulations of compliance, asset monetization etc, the real GDP growth may be enhanced to 8%. We believe that Global macros will play an important role in defining India's growth going forward. A positive global macro environment will help inflate our growth by 1.2x to 9.6% while a negative global macro environment may deflate our growth by 0.8x to 5.2%.

India's Ranking - GDP and Market Cap

THE ANOMALY

India Rank 5th in terms of GDP

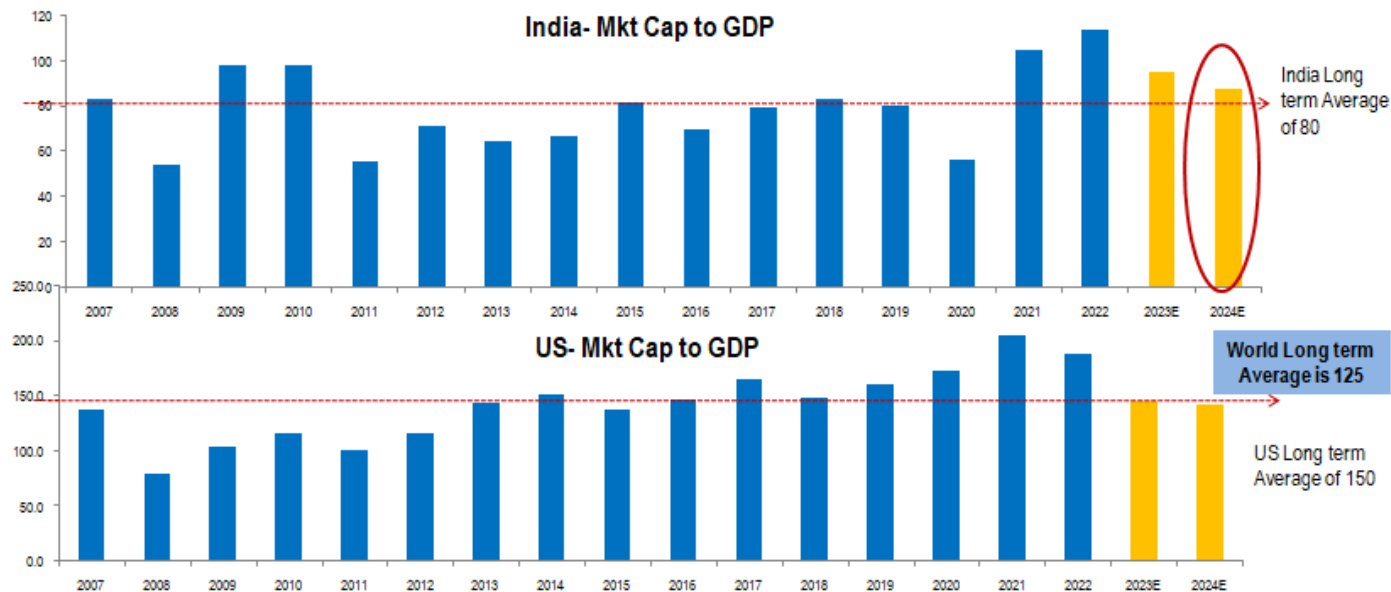
Rank	Country	GDP (tn US\$)
1	USA	\$22.01
2	CHINA	\$17.70
3	JAPAN	\$4.94
4	GERMANY	\$4.22
5	India	\$3.19
6	UK	\$3.17
7	FRANCE	\$2.94
8	ITALY	\$2.10

India Rank 6th in terms of Market Cap

Rank	Country	GDP (tn US\$)
1	USA	\$40.72
2	CHINA+HK	\$18.25
3	JAPAN	\$6.72
4	UK	\$3.57
5	France	\$3.35
6	India	\$3.15
7	Canada	\$3.07
8	SAUDI ARABIA	\$2.43



Valuation as f { Size }



If size is a basis, we are the 5th largest market in terms of economy, our market cap is also ~5th largest in the world. This certainly means that we are not overvalued. Also, considering the Buffet indicator, our market cap to GDP is lower than its own average and also, much lower than US

The Context- “Corporate Profits to GDP”

Every Valuation ratio has a certain context in which it can be best interpreted. Corporate profits to GDP share is the context in which we read the popular ratio-Market cap to GDP

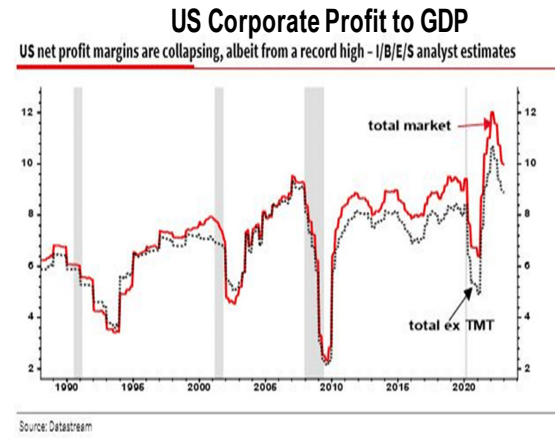
Corporate
Profit to GDP

=

Corporate
Sales to GDP

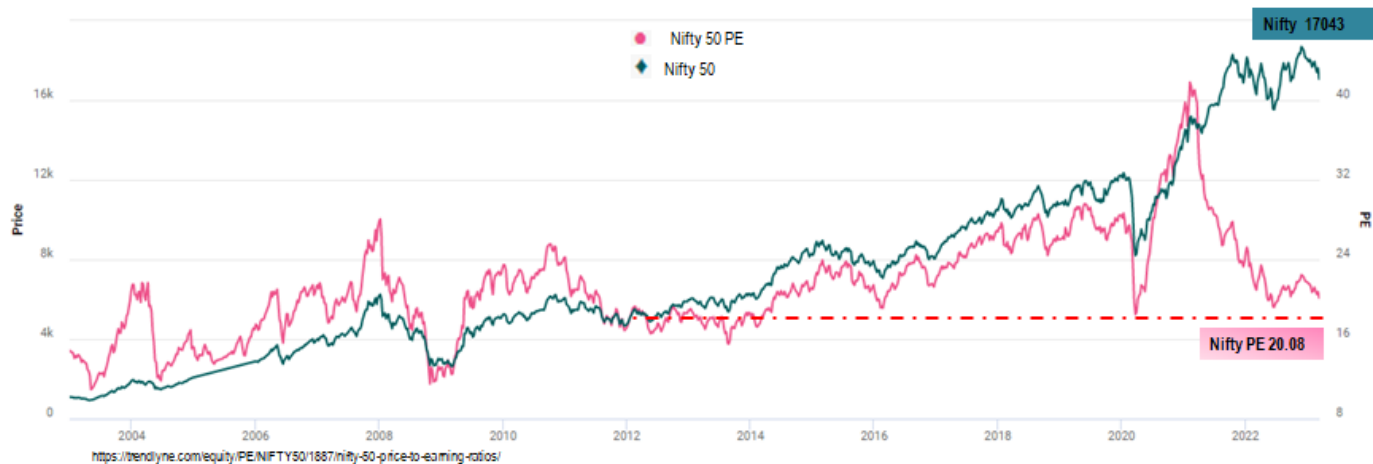
X

Profit
Margins %



Note: Market Cap to GDP is governed by an important indicator- Corporate Profit to GDP. Our Corporate profit to GDP is continuously rising meaning thereby that our valuations should also increase, whereas in US, the corporate profit to GDP is falling indicating a de-rating of valuation multiples.

Long term Nifty Current PE Chart



So Indian Market is attractively valued

- » Statistically
- » Macro Economy wise
- » Corporate Earnings wise

With every 1 point of fall in Nifty from here - the margin of safety is increasing

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