



# MARKET PERSPECTIVE

**This Decade Belongs to Emerging  
Markets-India to Shine**

August 2022

## Market Return-Big Picture

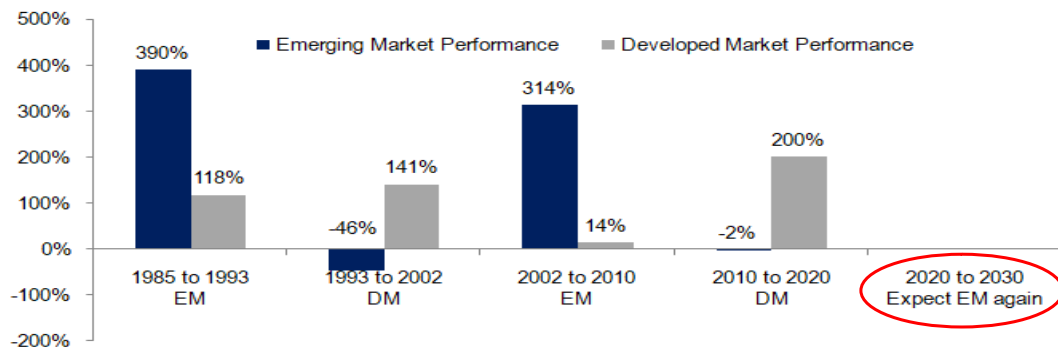


	Since 1979	
Since 1979	Time in the Market	Miss 43 up-days in last 43 yrs
Amount Invested	10,000	10,000
Amount on 30th Jun	4,270,555	1,81,406
CAGR Returns%	15.13%	6.97%
Cost of Market Timing		96%

	Since 2002	
Since 1979	Time In the Market	Miss 20 up-days in last 20 yrs
Amount Invested	10,000	10,000
Amount on 30th Jun	1,63,328	42,634
CAGR Returns%	15.00%	7.52%
Cost of Market Timing		74%

- » 43 years of Sensex data history suggest that there are many ups and downs in a period of 15 -20 yrs, but regardless of all problems , over a long term, Sensex has given a return of 15% average. Attempting market timing could prove fatal. Equity wealth creation requires staying for long term. Cagr return falls from 15% to mere 7%.
- » Similarly, being out of market for mere 20 highest up-days in 20 years can be very – very costly and de-mean being in Equity.
- » There are 2 key discipline needed to get higher returns of equities:
  - Staying Invested
  - Buying more during Market Declines

## Mean Reversion- Evidence over last 50 years



### 10 yr Government Bond Yield

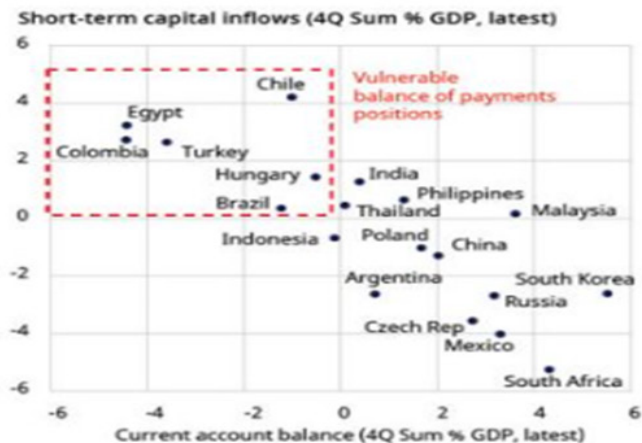
	2002 to 2010	2010 to 2020	2020 to 2030
Emerging Market	7% to 5% to 7.5%	7.5% to 6%	6% to 7.3%*
Developed Market	4% to 3.5%	3.5% to 0.6%	0.6% to 2.9%*

### Country Weights in EM Index

	China	Taiwan	South Korea	India	Brazil	Others
2019	43.2%	12.7%	11.9%	8.2%	4.4%	19.7%
2022	35.9%	14.5%	12.7%	11.3%	4.9%	21.3%

Between 1985 - 1993, EM returns were up by 390% while developed markets was up by 118%. But in next decade 1993-2002, EM was down by 46% while Developed markets were up by 141%. Over last 50 yrs, there are alternating cycles of outperformance by EMs or DMs. This suggests, in decade 2020-30, EM should outperform Developing markets. This statistical pattern can be verified by various fundamental factors. See Interest rates movement, country with falling interest rates have outperformed Developed economies. India's weight in EM index has gone up and this trend should continue

## EMs to Outperform

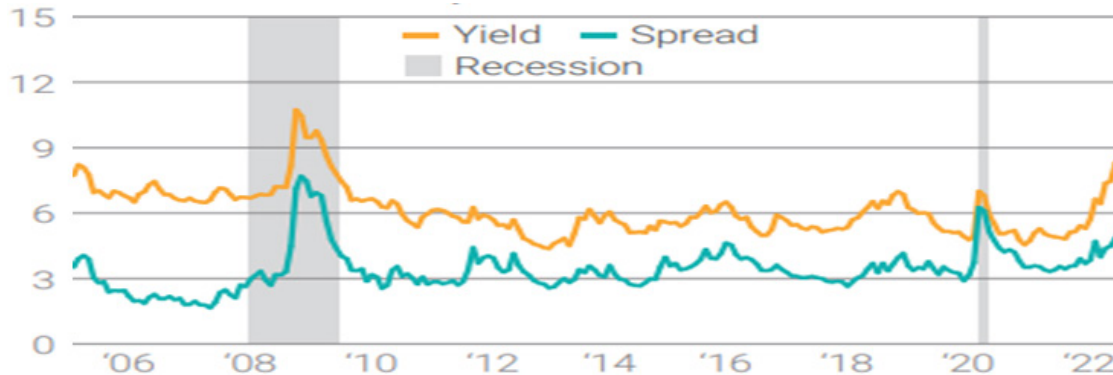


<https://www.spglobal.com/ratings/en/research/articles/220627-economic-research-economic-outlook-emerging-markets-q3-2022-testing-times-ahead-for-emerging-market-resilience-12422225>

- » Emerging Market Economies are less vulnerable to Fed policy Tightening in 2021 relative to 2013
- » In 2012-13, current account deficit was high and we were dependent on short term capital flows. But in 2021-22, number of vulnerable countries are less and moreover, India is out of vulnerability box.
- » 2011-13 was bad in terms of how various EM performed. That was the time when Currencies depreciated for many economies. India currency fell from Rs 39.2 to 68 per USD ( depreciation of 73.5%). Whenever geo political concerns rise, Investors worry about all these. In 2021-22 also this is happening.

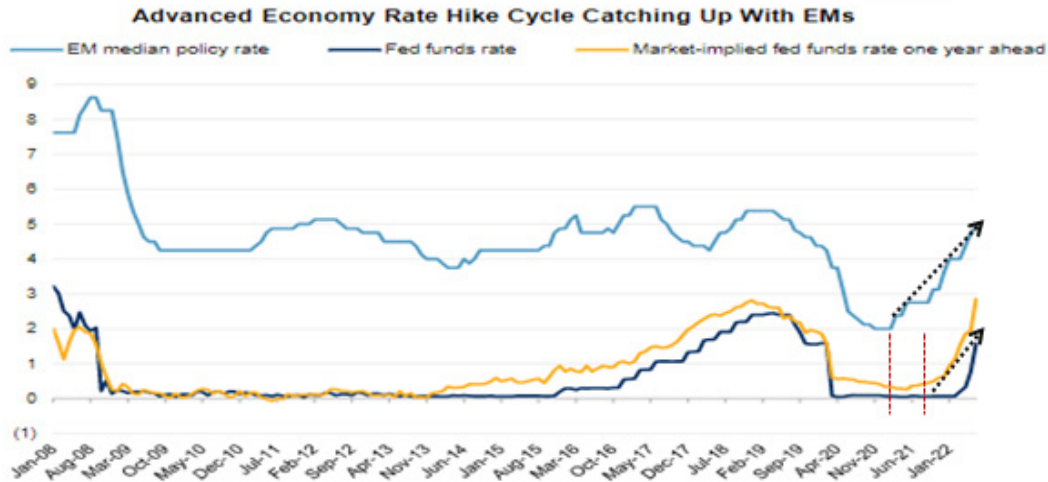
## Mean Reversion

### Emerging Market Debt : Spread and Yield



- » Spreads on dollar-denominated sovereign debt have widened around 125 bps since the start of the year and are approaching 500 bps. A recession isn't fully expected currently—spreads have historically peaked in a range of 600–800 bps during the past three recessions.
- » Emerging markets debt now yields almost 8.5%—a level not seen since the global financial crisis, wherein the macro economic scenario was worse. The current levels of yields and spreads provide a healthy cushion against near-term volatility

## EMs are Ahead in Policy Curve



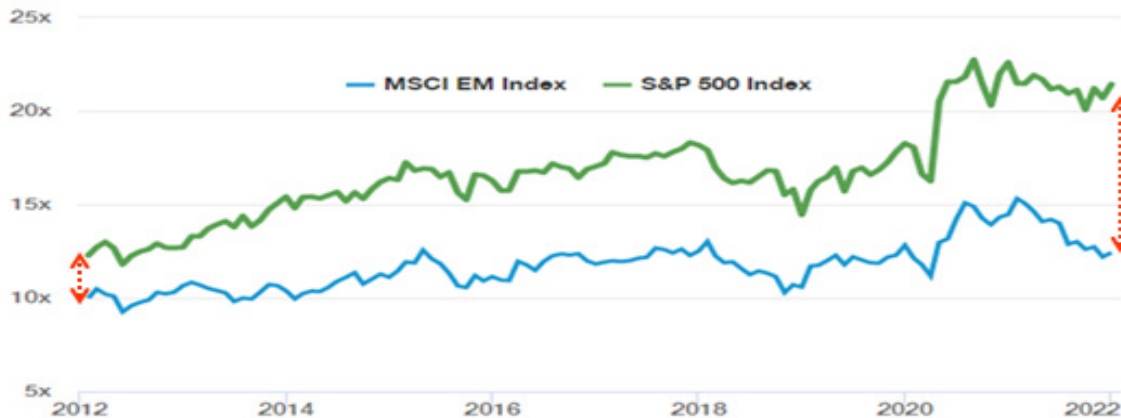
<https://www.spglobal.com>

Until recently, Ems used to take cues from US fed. India and other Ems have tackled the tightening better. Usually they follow lead by US but this time due to pressure from weaker currency, they have already tightening from 2021, a year ahead of US fed

This time, while many developed markets appear poised to start a cycle of tightening monetary policies, nearly half the central banks represented in the MSCI Emerging Markets Index, including South Korea, Mexico, and Brazil have already started earlier.

# Valuation Differentials also Suggests Emerging Market Re-rating

## Emerging Market PE Ratios expected to outpace those in developed markets



<https://www.thornburg.com/article/the-case-for-emerging-market-equities-in-2022/>

- » On a forward-looking earnings basis, the MSCI Emerging Markets Index is trading at a steep discount relative to the S&P 500 Index.
- » Valuation's differentials are even increased a lot. Over the past decade, forward-looking S&P 500 Index valuations have stretched by nearly 75% while emerging market valuations have expanded less than 25%. Hence, a re rating in valuations may be expected in Emerging Markets.

# India Opportunities

1. Production Linked Incentive Scheme basis increased Production, lower Imports and higher Exports
  2. Banking basis higher Credit growth, lower NPAs and higher profitability
-

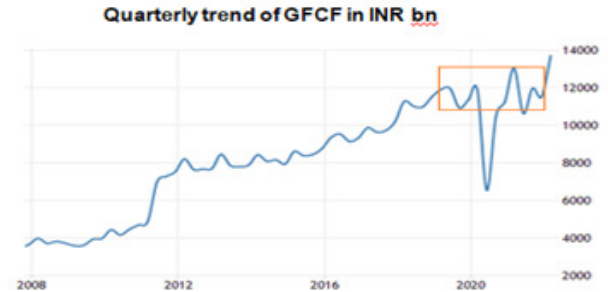
# India Opportunity- Creation of Large-Scale Manufacturing Capacities

2021 Global Manufacturing Risk Index: India and the US switched places--second and third---taking India one rank above from the rankings. India is benefiting from plant relocations from China to other parts of Asia due to its already established base in pharmaceuticals, chemicals and engineering, sectors that continue to be the focus of U.S.-China trade tensions. Recent reforms in India is key to India's success as a global manufacturing location.

**"India Emerges as 2nd Most Attractive Manufacturing Hub Globally" - ET Bureau**



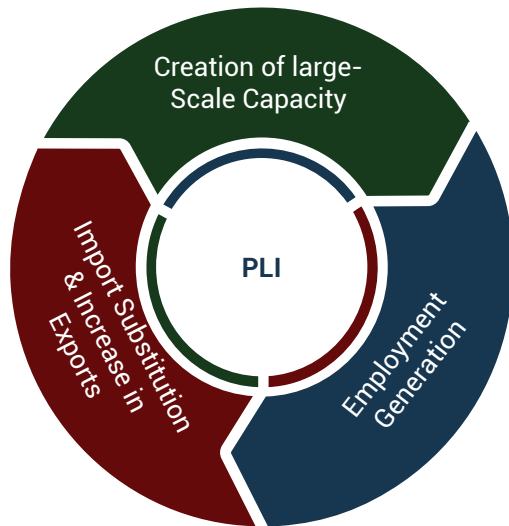
<https://databank.worldbank.org/reports.aspx?source=2&series=NE.GDI.FTOT.ZS&country=IND#>



<https://tradingeconomics.com/india/gross-fixed-capital-formation>

Gross Fixed Capital Formation in India increased to 13,710 INR Billion in the first quarter of 2022 from 11,520 INR Billion in the fourth quarter of 2021. There is an immediate need for revival in Capex. The Gross Fixed capital formation as a % of GDP has fallen to less than 30% currently.

### PLI Framework- Need and Impact



#### **Creation of large-scale manufacturing capacities**

In PLI, incentives is directly to production capacity/ incremental turnover, compelling investors to create large scale manufacturing facilities

#### **Import Substitution & Increase in Exports**

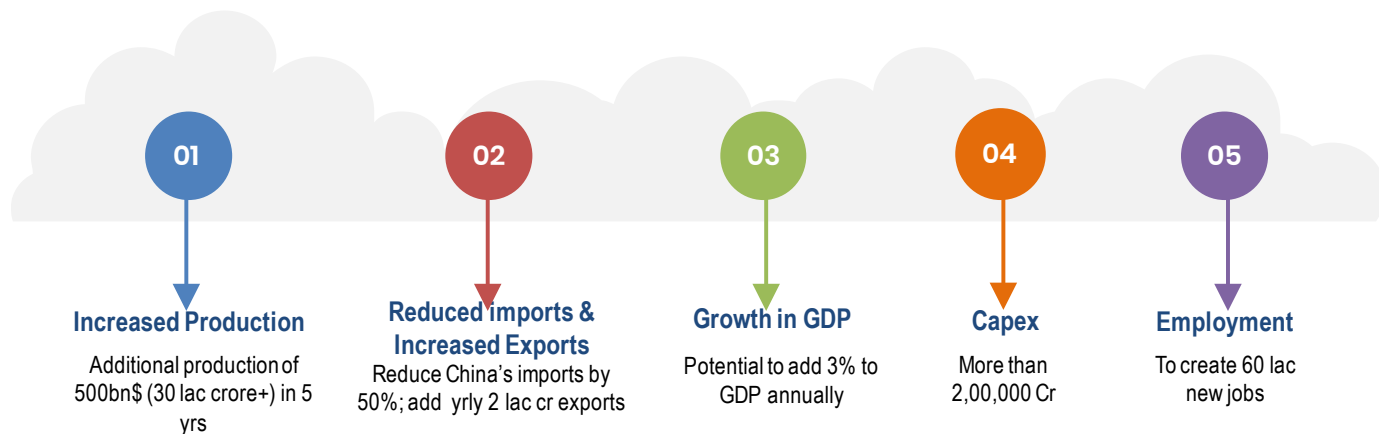
PLI would trigger a two-fold impact - an immediate reduction in reliance on imports and in the long term, a higher quantum of exports from India

#### **Employment Generation**

Large-scale manufacturing requires abundant manpower and hence will lead to great amount of Employment generation

# Macro Impacts of PLI

Budget outlay of INR 1.97 Lac Crores for the Production Linked Incentive (PLI) Schemes across key sectors



The schemes have received Interest from 900 companies and about **500 have got approvals** so far for one scheme or the other. Around 20% of the companies are global multinationals while others are domestic. Nearly 50% of the domestic players are Mid and Small cap or in the MSME category. There are nearly 100 companies which are listed in stock Exchanges.

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1710134>

## Benefitting Sectors

	Budget Outlay (Rs Cr)
<b>Mar-20</b>	
•Key Starting Materials (KSMs)/Drug Intermediates (DIs) and APIs: Department of Pharmaceuticals	6,940
•Large Scale Electronics Manufacturing: Ministry of Electronics and Information Technology	40,995
•Manufacturing of Medical Devices: Department of Pharmaceuticals	3,420
<b>November 2020:</b>	
•Electronic/Technology Products: Ministry of Electronics and Information Technology	7,350
•Pharmaceuticals drugs: Department of Pharmaceuticals	15,000
•Telecom & Networking Products: Department of Telecommunications	12,195
•Food Products: Ministry of Food Processing Industries	10,900
•White Goods (ACs & LED): Department for Promotion of Industry and Internal Trade	6,238
•High-Efficiency Solar PV Modules: Ministry of New and Renewable Energy	4,500
•Automobiles & Auto Components: Department of Heavy Industry	25,938
•Advance Chemistry Cell (ACC) Battery: Department of Heavy Industry	18,100
•Textile Products: MMF segment and technical textiles: Ministry of Textiles	10,683
•Specialty Steel: Ministry of Steel	6,322
<b>Sep-21</b>	
•Drones and Drone Components: Ministry of Civil Aviation	120
<b>Total Budget Outlay out of Rs 1,97,000 Cr till date</b>	<b>1,68,701</b>

# Listed Companies Approved Under Schemes

<b>ACC Batteries</b>	Sundram Fasteners Ltd	<b>Medical Devices</b>	<b>Textiles &amp; Apparels- Edition 1</b>
Rajesh Exports Limited	Tata Motors Ltd	Poly Medicure Ltd	Arvind Limited
<b>Auto and Auto Components</b>	The Hi-Tech Gears Ltd	<b>Pharmaceuticals Phase 1</b>	AYM Syntex Limited
Alicon Castalloy Ltd	Tube Investments Of India Ltd	Aarti Specialty Chemicals Limited	Donear Industries Ltd.
Asahi India Glass Ltd.	TVS Motor Company Ltd	Sadhna Nitro Chem Limited	Ginni Filaments Limited
Ashok Leyland Ltd	Varroc Engineering Ltd	Surya Life Sciences Ltd	Gokaldas Exports Limited
Automotive Axles Ltd	Wabco India Ltd	<b>Pharmaceuticals Phase 2</b>	Himatsingka Seide Limited
Bajaj Auto Ltd	<b>Electronics and IT hardware</b>	Aarti Industries	K G Denim Limited
Bharat Forge Ltd	Dixon Technologies (India) Limited	Alembic Pharmaceuticals Ltd	Monte Carlo Fashions Limited
Bharat Heavy Electricals Ltd	<b>Food Processing</b>	Aurobindo Pharma Ltd	Pearl Global Industries Limited
Bosch Ltd	Britannia Industries Ltd	Bal Pharma	Sangam (India) Limited
Ceat Ltd	Dabur India Limited	Biocon Ltd	SVP Global Textiles Limited
Hero MotoCorp Ltd.	Foods and Inns Ltd	Cadila Healthcare	Trident Limited
Lumax Auto Technologies Ltd	Hatsun Agro Product Ltd	Cipla Ltd	<b>White Goods</b>
Mahindra & Mahindra Ltd.	Hindustan Unilever Limited	Dr Reddy's Lab	Amber Enterprises India Limited
Maruti Suzuki India Ltd	ITC Limited	Glenmark Pharmaceuticals	Calcom Vision Ltd
Minda Corporation Ltd	KRBL Ltd	Lupin Ltd	Cosmo Flims Limited
Minda Industries Ltd	LT Foods Limited	Natco Pharma	Havells India Limited
Motherson Sumi Systems Ltd	Marico Ltd	Neogen Chemicals Ltd	Hindalco Industries Ltd
Motherson Sumi Wiring India Ltd	Nestle India Ltd	Panacea Biotec	IFB Industries Limited
Pricol Ltd	Parag Milk Foods Limited	Strides Pharma Science Ltd	Johnson Controls Hitachi AC (I) Ltd
Sandhar Technologies Ltd	Prataap Snacks Limited	Sun Pharmaceuticals	Orient Electric Limited
Sansera Engineering Ltd	Tasty Bite Eatables Limited	Torrent Pharmaceuticals	PG Technoplast Private Limited
Schaeffler India Ltd	Tata Consumer Products Limited	Venus Remedies	Stovekraft Limited
Sharda Motor Industries Ltd	Vadilal industries Ltd	<b>Telecom &amp; Networking Products</b>	Surya Roshni Limited
Sona BLW Precision Forgings Ltd	Varun Beverages Ltd	ITI Limited	Voltas Ltd
Steel Strips Wheels Ltd	Zydus Wellness Limited	Tejas networks Limited	Crompton Greaves Electrical limited
			Jindal polyfilms Limited

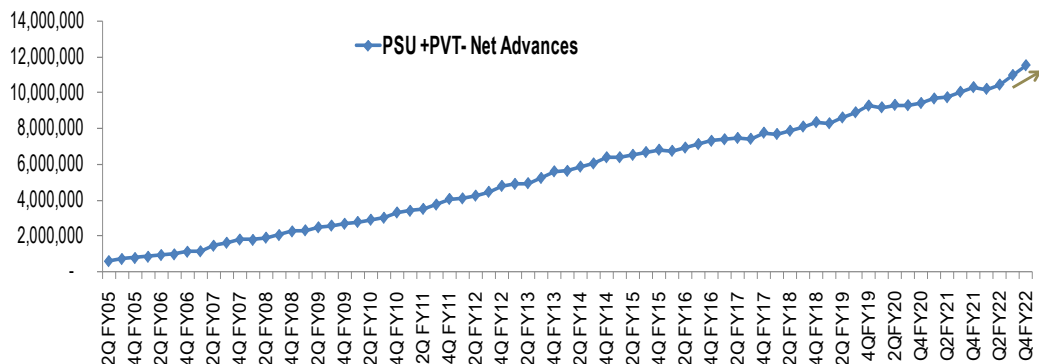
# India Opportunity-Banking-Better Days Ahead

## Factors Impacting Banking Stocks



- » Since the last two years , banking stocks had been underperforming as doubts related to Covid related additional provisioning loomed over profitability of Banking Stocks. However, post Covid, provisioning related data suggest that the fear was much more than the actuals.
- » Since 2013 GNPA started moving up for all Banking companies owing to loans for riskier assets in previous years and in 2018, GNPA has peaked and hence provisioning requirements have also gone down.
- » During Covid there was a slight increment in GNPA but even that was far below the peak formed in 2018.
- » There can be seen a sharp improvement in Profits of banking companies as double digit advances growth alongwith lower provisioning shape the financials of a Bank.
- » Banks are currently most attractive for Investment as high profitability comes with fairly low valuations for many good quality companies.

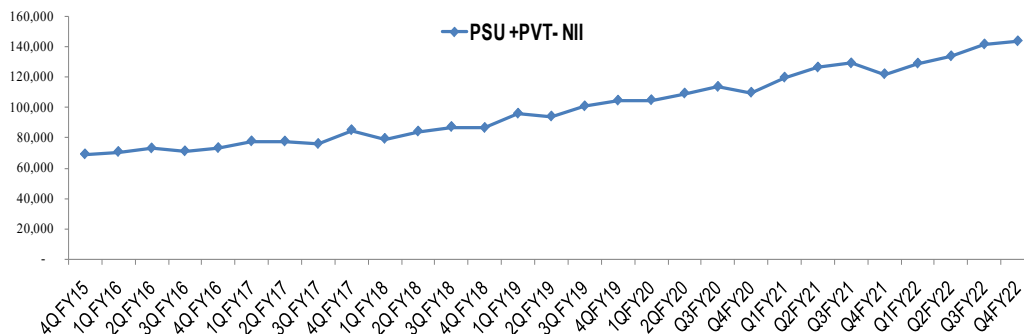
## Banking-Net Advances-Better Days Ahead



Net Advances	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Private banks	1,913,566	2,209,527	2,657,673	3,205,248	3,505,822	3,827,939	4,445,558
YoY Growth	25%	15%	20%	21%	9%	9%	16%
PSU Banks	5,399,680	5,557,365	5,697,967	6,072,996	5,915,554	6,477,065	7,079,207
YoY Growth	2%	3%	3%	7%	-3%	9%	9%
Total	7,313,246	7,766,892	8,355,640	9,278,244	9,421,376	10,305,004	11,524,764
YoY Growth	7%	6%	8%	11%	2%	9%	12%

Advances for Banks both PSU and Private Sector are increasing. Capex cycle is improving and the capacity utilization is already above pre covid levels at around 74%. As it crosses 78% , the growth will accelerate further. Also, due to increase in commodity prices, need for Working capital loans have also increased.

## Banking - Net Interest Income - Better Days Ahead

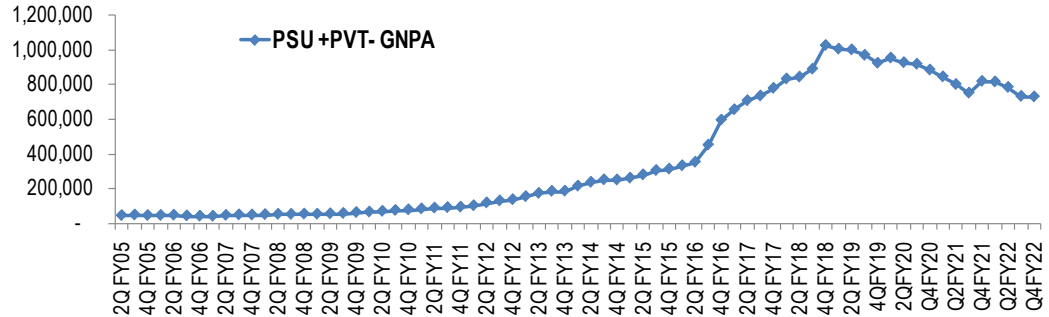


Net Interest Income	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Private banks	96,720	113,854	131,945	158,367	187,240	213,623	241,157
YoY Growth		18%	16%	20%	18%	14%	13%
PSU Banks	191,121	202,261	205,150	237,077	250,411	283,959	307,417
YoY Growth		6%	1%	16%	6%	13%	8%
Total	287,842	316,115	337,095	395,444	437,651	497,582	548,575
YoY Growth		10%	7%	17%	11%	14%	10%

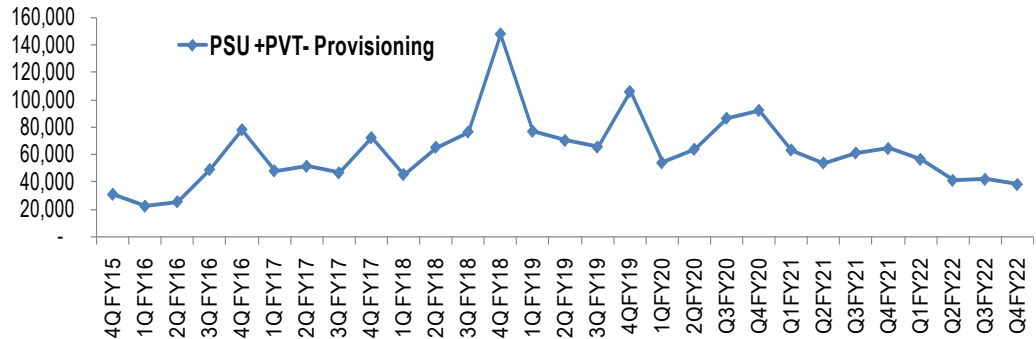
Net Interest Income for Private banks show a double digit growth while for PSU there has been reduction in growth to single digit owing to lower advance growth and more loans to A rated companies.

## Banking - Better Days Ahead

Concerns in GNPA did rise during Covid period but did not cross the peak formed in 2018



Provisioning has reduced considerably after peak GNPA in 4QFY18. Notable is, in PSU Banks, the average Provision coverage ratio is 88% while for private Banks the average is at 73%

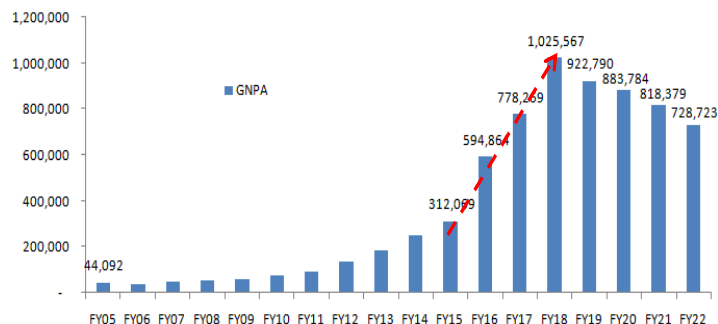
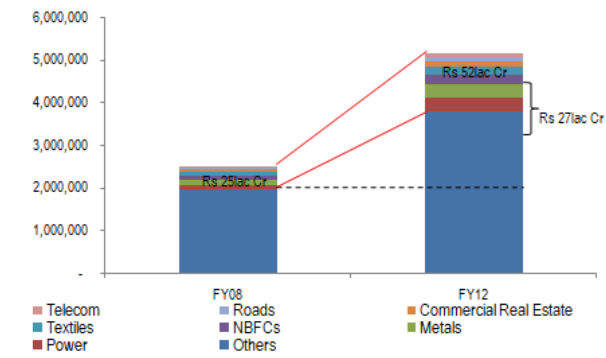


## GNPA is Far Behind us

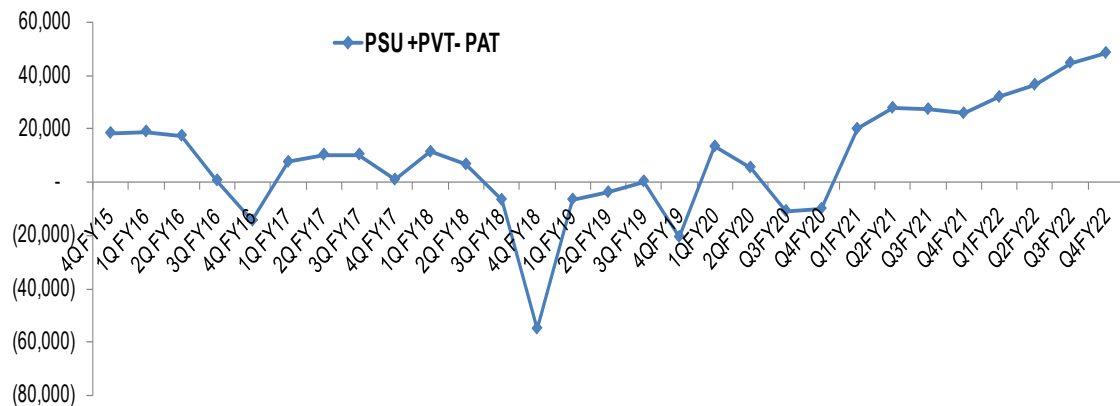
**2008 to 2013- During this period the Bank credit grew 140% from Rs 25lac Cr to Rs 60 lac Cr**

ALL SCHEDULED COMMERCIAL BANKS	FY08	FY13	Growth
Gross Advances (Rs in Cr)	2,503,431	5,971,820	139%
Industry (Rs in Cr)			
Power	95,075	415,849	337%
Roads	34,476	131,312	281%
NBFCs	78,938	260,257	230%
Telecom	38,282	87,765	129%
Metals	128,763	314,116	144%
Textiles	102,695	183,536	79%
Commercial Real Estate	63,168	126,070	100%

Riskier Sector Advances grew 181% from 5.4l ac Cr to 15.18 lac Cr



## Profit After Tax Trends



Profit After Tax	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Private banks	41,023	42,752	41,940	43,419	26,556	68,376	93,505
YoY Growth		4%	-2%	4%	-39%	157%	37%
PSU Banks	-18,115	-13,251	-85,369	-73,840	-28,316	33,297	68,978
YoY Growth	Loss	Loss	Loss	Loss	Loss	Loss to Profit	107%
Total	22,908	29,501	-43,429	-30,422	-1,759	101,673	162,483
YoY Growth		29%	Loss	Loss	Loss	Loss to Profit	60%

As Provisions decline and new loans require lesser provisioning, Net Profits for Banks have started increasing (and normalizing) thereon making the sector once again attractive for investment.

NARNOLIA FINANCIAL SERVICES LTD. is a SEBI REGISTERED PMS- INP000006420, CIN- U51909WB1995PLC072876. Registered office: Marble Arch, 2nd Floor, Office 201, 236B, A J C Bose Road, Kolkata 700 020,033 40501500; Corporate Office: 803, A wing, Kanakia Wall Street, Chakala, Andheri East, Mumbai - 400093, Maharashtra; PHONE NO.: +91 22 6270 1200.

**Disclaimer:** This report has been prepared by Narnolia Financial Services Ltd. (NFSL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Investment in Securities Market is subject to Market risks, read all the related documents carefully before investing. Past performance may not be indicative of future results and no promise or guarantee can be given for the same. Performance related information is not verified by SEBI. For detailed disclosures & disclaimers please refer to our website at [www.narnolia.com](http://www.narnolia.com). For grievances kindly mail us at [ig@narnolia.com](mailto:ig@narnolia.com) or call us at 022-6270 1200