Monthly Equity Market Insight

April 2021

MIRAE ASSET Mutual Fund

EQUITY UPDATE

- The BSE-30 and Nifty-50 indices fell 1.5% and 0.4% and underperformed other global markets over the past one month. The BSE Mid-cap. and BSE Small-cap. indices gained 0.6% and 4.9%. Among sector indices, metals (led by strong commodity prices) and healthcare indices gained 24% and 10% while realty and capital goods fell 8% and 4% respectively.

- Sharp increase in Covid cases, shortage of medical supplies, imposition of strict lockdowns, weak macroeconomic data weighed on the investor sentiments. Other key developments: (1) the RBI kept interest rate unchanged, (2) the Indian government announced that instead mention everyone above 18 years of age will be eligible to get Covid vaccine doses from May 1, 2021, (3) the Federal Reserve kept interest rates unchanged, (4) the RBI capped tenure of bank CEOs, MDs to 15 years.

- Global markets were positive in April – S&P 500 gained 5.2%, Euro Stoxx 50 rose 1.4%, and MSCI Emerging Markets index was 2.4% higher in the month.

Global Macros

- The US 10 year bond yield contracted 12 bps during the month to end at 1.63%. The dollar index declined 2.1% to 91.3 at the end of April.

- Crude re-gained March's loss and ended April 6% higher at USD67.3/bbl.

Domestic Macros

- **Inflation:** (a) March CPI inflation rose to 5.52% compared to 5.03% in February, largely due to unfavourable base. For FY21, average inflation stood at 6.2%, first annual print above 6% since RBI adopted the flexible inflation targeting framework; (b) March WPI inflation rose to 7.4% compared to 4.2% in February.

- **Currency:** Rupee appreciated 133 bps to end April at INR74.1/USD.

- **Growth:** February Index of Industrial Production contracted 3.6% as against a fall of 0.9% in January.

- **Trade deficit:** Trade deficit came in at USD13.9b in March (from USD12.6b in February).

Regulatory, policy and market developments

- **Equity trading trends:** FIIs turned sellers for the first time in 2021 and sold equities worth USD1.5b and Domestic Institutional Investors bought equities worth USD1.5b during April. For calendar year 2021, FIIs have net bought USD5.8b of equities and DIIs have net sold USD1.7b.

- **GST:** GST collection was at Rs1,414 bn for March (14% mom) compared to Rs1,239 bn in February. The increase was despite the resurgence in Covid infection rate.

- **Monetary Policy:** Given the risks emanating from second wave, MPC deferred policy normalization by leaving key policy rates unchanged and maintaining accommodative stance.

- **COVID update:** India's daily COVID 19 cases reached 4 lakh, 4x of the 1st wave peak. 6 states/UT accounting for 1/3rd of India's GDP announced stringent lockdowns, around 19 states accounting for 3/4th of India's GDP announced night curfews and states/UT accounting for half of India's GDP announced weekend lockdowns. The government announced vaccinations also for all citizens above the age of 18 years from 1st May. However, vaccine shortage needs to be addressed. ~2.2% of India population is fully vaccinated, while ~10% has taken atleast one dose.

- **State Elections:** Out of the 5 state elections in April, 3 states (West Bengal-TMC, Assam-BJP, Kerala-LDF) voted for a return of the present ruling parties in a pro-incumbency move.

4QFY21 results so far – Good, sequential growth, however commodity prices impact margins

- **Banks:** Core operating profit has been fairly strong for the large banks aided by strong NIM - flat to QoQ growth, healthy fee income and lower opex. Credit cost has come off from 1HFY21 levels and the banks are sitting with buffers. Slippages have gone up in 2H, but overall stress formation have been broadly in line with expectations.

- **Life Insurance:** Strong growth in premium (Annualized Premium Equivalent) with almost all insurers reporting VNB margin expansion YoY. VNB growth has been much stronger aided by relatively better product mix (Higher share of Non Par & Individual protection). Persistency have seen improvement on YoY basis for most insurers across cohorts.

- **NBFCs:** AUM growth has been weaker than expected with collections being steady. Focus still remains on collections while disbursement in certain categories are not yet back to Pre Covid levels. Improvement in Cost of Product have been offset by higher liquidity on balance sheet neutralizing margins for a few companies. Asset quality has held up largely for most companies with stress formation in line with guidance.

- **FMCG:** Overall revenue growth momentum has been intact with two year volume CAGR tracking in mid-single digit. Raw Material inflation has started weighing on gross margins as companies are passing on the sharp inflation with lag in price hikes.

- **Technology:** While the topline was lower than estimates in three out of five Tier-1 IT companies. Deal win Total Contract Value, nature and type of deals and pipeline are a good indicator of demand. All these were good and point to a healthy demand environment. A key highlight is that deal wins were characterized by strong net new wins and a good mix of small, medium and large deals, which augur well for revenue conversion in FY2022E. Margins face downside risk from the war for talent.

- **Auto:** Results so far highlights higher than expected impact of raw material cost, while price hikes to compensate for the same were a bit delayed by auto companies. For Q1FY22, retail demand has been impacted in several states due to restrictions amid the Covid crisis.

- **Cement:** The results so far are show higher than expected profitability mainly led by lower costs as they benefited from Master Supply Agreement, lower clinker factor and higher usage of alternate fuels during the quarter.

- **Oil & Gas:** While large part of the sector is yet to report, early trends suggest decent refining performance and strong petrochemical margins.

- **Metals:** Strong commodity price supported by supply restrictions In China has resulted in windfall gains for the domestic steel producers.

- **Agrochem/Chemicals:** Uptrend seen in prices since Q3 has continued. Increased input cost have dented gross margins but most companies have seen increased demand which has led to operating leverage offsetting the impact. Exports have seen robust demand driven by good agri cycle in US and Europe.

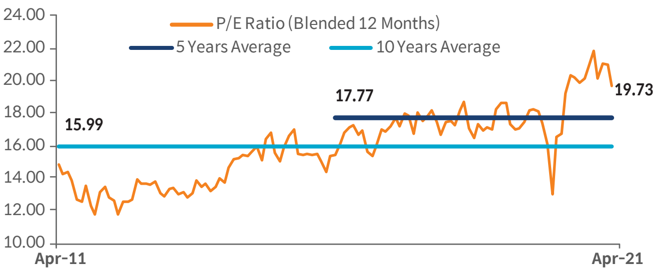
Source: Bloomberg, as on 30th April, 2021, For all the above data

Outlook

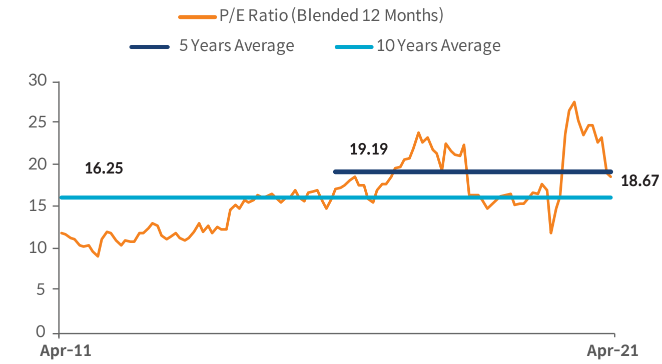
- The impact of the second wave on the economy and earnings will be clearer over the next 1-2 months depending on the duration and nature of lockdowns. However, Maharashtra state which was impacted first and severely, now seems to be improving. Hence, can expect other states to follow the same trend with a lag. Expeditious containment of Covid19 cases and accelerated pace of vaccination will provide comfort for FY22 economic growth recovery.
- While the near term challenges will always, persist, we believe that India is at a cusp of multi-year growth revival given multiple drivers which will lead to mean reversion in growth rates. Support from improving global economy as well as lower interest rate, expected normal monsoon and still in control oil price augurs well for the economy and market from the medium term perspective. This coupled with expected normal monsoons, focus on manufacturing exports is positive.
- Overall, we expect strong growth both in GDP as well as Profit / GDP in FY22 and FY23. Corporate Profit to GDP (%) at a consensus level is estimated to increase from 2.2% of GDP in FY20 to about 4 % of GDP in FY23E.
- Key things to watch would be (a) level of COVID lockdowns, (b) oil price trend and (c) interest rates.
- The consensus estimates indicate ~23% earnings CAGR in FY20-23 period driven by financials, auto, energy, and IT sectors. Nifty now trades at 16.8x FY23 EPS.
- We would advise investors to not to time the market and invest in a disciplined way in equities for the long-term within their earmarked asset allocation (based on one's risk profile). In the current market scenario, staggered investments through SIPs or STPs would remain one of the best ways to invest in equities.

We would suggest you to invest in a disciplined way in equities for long term, within the earmarked asset allocation (based on individual risk profile). In the current market scenario, staggered investments through SIP or STP, may be one of the best ways to invest in equities.

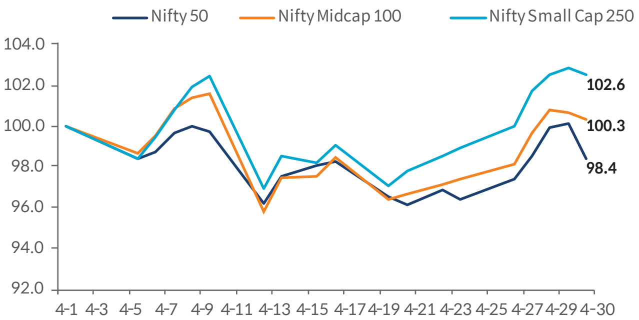
Nifty 50 Index Valuation



Nifty Midcap 100 Valuation



Index Movement



Performance In March Of Major Indian Indices

Major Indian indices	Apr-2021	Mar-2021	Performance (%)			
			1m	3m	6m	1Y
S & P BSE SENSEX	48,782	49,509	(1.5)	5.4	23.1	44.7
NIFTY 50	14,631	14,691	(0.4)	7.3	25.7	48.4
NIFTY Midcap 100	24,196	23,693	2.1	15.7	41.8	79.2

Performance of Global and Regional Indices

Name	Performance (%)			
	1m	3m	6m	1Y
Global and regional indices				
BSE (Sensex)	(1.5)	5.4	23.1	44.7
Brazil (Bovespa)	2.9	4.3	27.8	49.1
Shanghai (SHCOMP)	0.1	(1.0)	6.9	20.5
Germany (DAX)	1.0	12.9	31.2	39.6
Hong Kong - HSI	1.2	1.6	19.2	16.6
Japan (Nikkei)	(1.3)	4.2	25.4	42.7
Korea (Kospi)	2.8	5.8	38.8	61.6
Russia (MOEX)	0.7	8.8	39.5	32.3
UK (FTSE)	3.5	8.4	24.6	17.7
US (Dow Jones)	3.3	13.6	28.5	39.9

Performance of Indian Sector Indices

Name	Performance (%)			
	1m	3m	6m	1Y
NSE sector indices				
CNX Bank	(1.6)	7.3	37.2	52.2
CNX Realty	(7.3)	1.3	35.7	65.3
CNX Energy	(0.8)	11.6	20.4	37.1
CNX Infrastructure	(0.8)	10.4	29.5	47.2
CNX FMCG	(3.7)	1.5	14.3	17.3
CNX Auto	(2.2)	(1.8)	24.3	63.4
CNX Pharma	9.8	10.7	19.8	44.4
CNX IT	(0.7)	4.1	22.7	81.9

Source: Source: Bloomberg, as on 30th April, 2021, For all the above data
Past Performance may or may not be sustained in future.