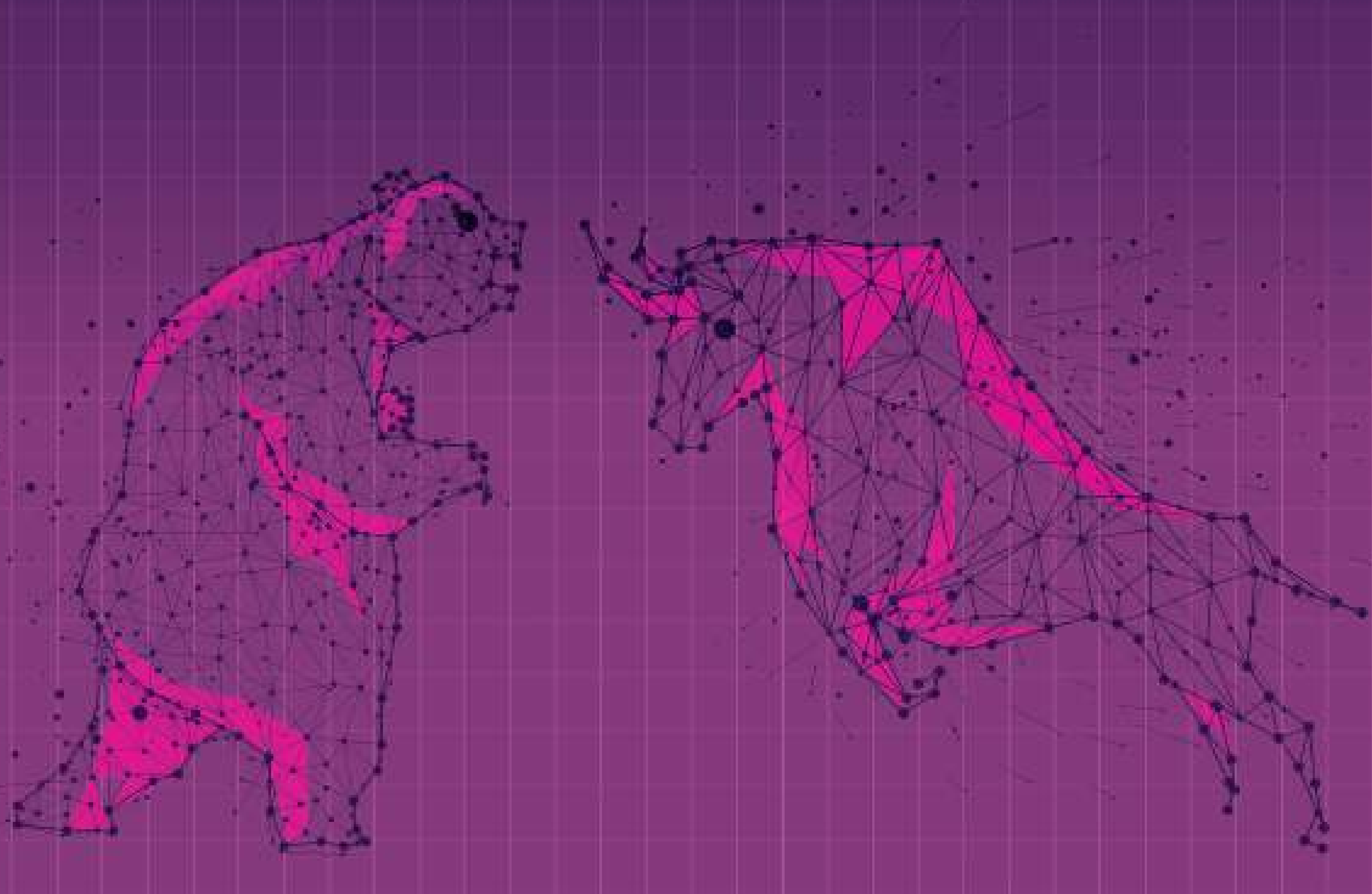
ANANDRATHI PRIVATE CLIENT GROUP EQUITY PCG

FINANCIAL

# FLASH

January 2022



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# PCG Communique

## From the Desk of the PCG Head

**Rajesh Kumar Jain**

**HELLO & WELCOME 2022**
**Wish you all a very Happy New Year!!**

The year 2021 will be remembered as the year with the biggest gain where the Sensex crossed the 50000 mark for the first time and scaled a new high of 60000 and beyond. It will also be remembered as a year where FII has done massive selling at the later part of the year to a tune of 91,626 CR and DII buying to a tune of 94846 CR to support the market. This shows the strength of the retail investor which is pouring money through the SIP route which has crossed 11000CR p.m. Nifty gained by 24% & Sensex gained 22% in 2021.

2021 has been a record year for IPO's where many Unicorn has come with their IPO and got a good response from the investor's community. There have been 63 issues that have raised 1.20 lakhs CR. The highest gainer spot however is occupied by precision engineering solutions company MTAR Technologies, which has surged 297.4% from its IPO price. Laxmi Organic, Easy Trip, and Clean Science were the other investor favorites, rising 170-230% from their respective IPO prices. Companies that tanked after listing include Suryoday Small Finance Bank, Cartrade Tech, Windlass Bio, Shriram Properties, Aditya Birla Sun Life AMC, Kalyan Jewellers, and Krsnaa Diagnostics which are down over 22-52% from their IPO prices.

Moving to 2022, investors have to trim down their expectation from the Equity market and has to look at modest return for their portfolio. The phase of making high returns has come to an end and making money will be challenging in this FY. The market will have high swings with sector-specific moves and within the sector, there are very companies that will participate in the sector rally and not all the companies in a particular sector. There are a lot of concerns over supply chain issues which is believed to continue for the next 6-8 months, central banks to stop the money flow by slowing down the bond purchase program, Inflation is gearing up which is a concern on central banks in India and across the world might start looking at raising rates. BOE has already started the process of raising interest rates to 0.25% from 0.10%. The new variant of Covid will have some hiccups in the overall market sentiments. And the rising numbers of Covid cases might dampen the sentiments to a certain extent but the good part is that the new variant is not as deadly as the Delta variant and the death cases haven't been reported except one or two. In the last one and half year's world has understood how to work despite the pandemic.

The market has corrected from the top of 18500 odd level to the low of 16700 level and there has been fear in the mind of the investor that there can be further fall in the market. What we believe is that market has already corrected 10% approx. from the highs and there will be a reasonable amount of time correction in the market going forward and might be stock-specific movement can keep happening but index level we might see consolidation before the next move. At present Nifty 50 is trading at a valuation of 24.8times FY22E, 21.4 FY23E & 18.6FY 24E. Though valuation looks rich 10% correction, consolidation in the market and the earnings growth in Nifty 50 companies will make the market quite reasonable to FY23 earning. Mkt can go through a time-bound correction but sector and stock within the sector can see a rally.

But one shouldn't look at the Market only from the PE perspective as India is going through a low-interest regime and high growth phase where most of the analysts are having a consensus of 9.6% growth in 2021-22 and 7.5% for 22-23. When an economy goes through such a phase of low-interest rates and high growth then the market tends to trade at such valuations. One also has to think contrary that modest inflation is not bad but it shows that the people have the money to buy goods and services at a price. The annual inflation rate in India edged to 4.91% in November of 2021 from 4.48% in October but the below forecasts of 5.1%, staying within the RBI's target range of 2%-6%.

We will be entering the earning season and we have to have an eagle eye on companies which has been able to pass on the rising input prices to the end consumer as well as has shown volume upticks. Companies which has been able to pass on the price hike with the volume uptick can be the companies where one should be looking to add into the portfolio. As these companies will demonstrate that even with the rise in the price of their goods & services, the demand persists.

2022 promises to be full of opportunities in our view. It is time to adopt a bottom-up investing approach as there are quality stocks in several booming sectors. The key to outperformance in 2022 will be to get the sectoral allocation and preference right. The recent market correction has been a blessing for long-term investors as it is facilitating several investors to re-enter instead of sitting on the sidelines. Investors should look at new-age business. Businesses which will be the future like EV, clean energy, digital business, AI, Robotics, industry which are going through the revolution, CAPEX related, company which will have the benefit of China+1 strategy. On dips, one should look at stock from the IT, Power, Bank, Chemicals, EV space, etc for their long-term holding. The few stocks which we like the most are Infosys, LTTS, Mind Tree, Bajaj Finance, Minda Industries, Pidilite, ICICI Bank, Tata Power.

# Market Commentary

The Nifty index ended the December month at 17,354.05 with a positive return of 2.18%. However, Sensex ended the December month at 58,253.82 with a positive return of 2.08%.

Markets made a positive opening to the week as traders took encouragement with Minister of State for Finance Pankaj Chaudhary's statement the net direct tax collection grew nearly 68 percent from April 1 to November 23 to more than Rs 6.92 lakh crore. Afterward, markets extended gains as India's GDP in the second quarter of the fiscal year 2021-22 grew at 8.4 percent. However, massing selling on the final day of the week ate most of the weekly gains for the markets as investors assessed the impact of the Omicron variant of Covid-19 that has spread to 25 countries, including India. Sentiments also weighed down with private report increasing its current account deficit (CAD) forecast to 1.9 percent of GDP at $60 billion for 2021-22 as compared to $45 billion earlier, following the record $23.27 billion trade deficit in November.

Key gauges started the week on a pessimistic note as investors fretted over the spread of the Omicron variant of Covid-19. Sentiments remained dented with India Ratings and Research (Ind-Ra) stating that tightening of norms may increase non-banking finance companies (NBFCs) headline non-performing advances (NPA) by around one-third. On the very next day, markets took U-turn and gained momentum as traders took encouragement with a private report that the Indian economy is showing strong signs of recovery from the devastation caused by the pandemic, with an upswing being reported in 19 out of the 22 economic indicators as compared to the pre-Covid levels. Markets witnessed consolidation on the final day of the trade as market participants were concerned as Health Ministry said that there are 23 cases of Omicron variant of Covid-19 in India and authorities are closely monitoring the situation.
Markets started the week on a pessimistic note as Reserve Bank of India (RBI) Governor Shaktikanta Das has cautioned depositors to be careful while chasing high returns as it comes with greater risk. Traders shrugged off India's industrial production data which rose 3.2 percent in October 2021. Sentiments continued to remain to dampen after India's inflation accelerated again in November, driven by steep increases in food and fuel prices. The consumer price index rose 4.91 percent year-on-year following a 4.48 percent increase in the previous month. Though, selloff on the final day of the week ensures massive losses for the week as traders turn concerned with the Centre for Monitoring Indian Economy's statement that the consumer sentiment index in November is far below the pre-pandemic levels though better than November last year, suggesting the economic recovery is excruciatingly slow and uninspiring.

Markets started the week on a pessimistic note as rising Omicron cases spooked investors' sentiment. Sentiments remain dampened as a private report estimated 6.3 percent real GDP expansion in FY23, among the lowest within the analyst community, and stated that there is uncertainty on the growth trajectory. However, markets took a U-turn as traders turned optimistic and went for bargain hunting with the report that the Asian Development Bank (ADB) will provide a $350 million loan to improve access to urban services in India by accelerating policy actions and reforms to enhance service delivery and promote performance-based central fiscal transfers to urban local bodies (ULBs). Markets pared their gains on the final day of trade to end with week with meager gains as sentiments remained downbeat after the Centre for Monitoring Indian Economy said that the outbreak of pandemic has led to an increase in the number of households with no earning members making them more vulnerable to the pandemic.

Markets made a positive start to the last week of the year as traders took encouragement after a member of the Monetary Policy Committee (MPC) of the Reserve Bank, Jayanth R Varma expressed hope that in a few quarters from now, capital investment would begin to pick up even in the old economy, and said the next fiscal year is also expected to witness a decent growth. Markets extended gains on the report that India's exports in the first three weeks of December rose 36.20% on-year at $23.82 billion. Outbound shipments were 27.7% higher than the same period of 2019-20. Afterward, markets witnessed consolidation as caution prevailed among investors with the finance ministry's report stating that the government's total liabilities (including liabilities under the 'Public Account') stood at Rs 125.71 lakh crore in the September quarter (Q2FY22), up 3.97 percent from the previous quarter. Rally on the final day of trade enlarged weekly gains for markets as India Ratings and Research (Ind-Ra) said that higher tax and non-tax revenue collections this fiscal are expected to more than offset the shortfall in disinvestment revenue, leading to the fiscal deficit coming in at 6.6 percent of GDP in FY22, or 20 basis points lower than the budgeted target.

In terms of economic performances, the IHS Markit India Manufacturing Purchasing Managers' Index (PMI) at 55.5 in December, pointed to a robust improvement in overall operating conditions that were elevated by historical standards. This was despite the headline figure slipping from November's ten-month high of 57.6. Moreover, the latest quarterly reading was at 56.3, its highest since the final quarter of the fiscal year 2020/21.

**The IHS Markit India Services PMI posted 58.1 in November, down only fractionally from 58.4 in October. PMI data for November indicated that the Indian service sector continued to strengthen, with a substantial upturn in new orders underpinning output growth.**

The combined Index of Eight Core Industries stood at 131.7 in November 2021 which increased by 3.1% as compared to the Index of October 2020. Coal, Natural Gas, Refinery Products, Fertilizers, Steel & Electricity recorded growth whereas Cement and Crude Oil recorded negative growth.

India’s retail inflation, measured by CPI rose to a three-month high of 4.91 % in November as compared to 4.48% in the previous month. India's retail inflation touched a three-month high in November on elevated vegetable prices, despite a favorable base and fuel price cut by the Centre and States.

Regarding export-import activity, India's exports grew by 37% year over year at $37.29 billion in December while imports increased by 38.06% year over year to $59.27 billion. The Goods and Services Tax (GST) collection in November stood at ₹1,29,780 crore.

Also, India's foreign exchange reserves decreased by $587 million to $635.08 billion in the week ended December 24. Foreign currency assets (FCAs), a key component of the overall reserves, decreased by $847 million. Additionally, Foreign Portfolio Investors (FPIs) were net sellers of Rs. 29,702 crores in December, driven by net outflows in equity of Rs. 19,026 crore.

The U.S. markets ended higher during the passing week amid easing concerns about the economic impact of the Omicron variant of the coronavirus. With early indications that the Omicron variant causes milder symptoms, traders seemed optimistic the new strain will not derail the economic recovery. On the economic data front, after reporting a slowdown in the pace of growth in Chicago-area business activity in the previous month, MNI Indicators released a report showing growth picked back up in December. Meanwhile, the Labor Department released a report unexpectedly showing a modest drop in first-time claims for U.S. unemployment benefits in the week ended December 25th. The report said initial jobless claims dipped to 198,000, a decrease of 8,000 from the previous week's revised level of 206,000. The slight pullback surprised participants, who had expected jobless claims to inch up to 208,000 from the 205,000 originally reported for the previous week. Besides, revised data released by the University of Michigan showed consumer sentiment in the U.S. improved by slightly more than initially estimated in December. However, a report released by the National Association of Realtors (NAR) showed an unexpected pullback in the U.S. pending home sales in November. NAR said its pending home sales index slid 2.2 percent to 122.4 in November after spiking 7.5 percent to 125.2 in October. The decrease surprised participants, who had expected pending home sales to rise by 0.5 percent. A pending home sale is one in which a contract was signed but not yet closed. Normally, it takes four to six weeks to close a contracted sale. The unexpected pullback came after the pending home sales index reached its highest level since last December in the previous month.

In the labor market, first-time claims for U.S. unemployment benefits decreased in the week ended December 25, according to a report released by the Labor Department. The report said initial jobless claims moved lower to 198,000, a decrease of 8,000 from the previous week's revised level of 206,000. The street had expected jobless claims to rise to 208,000 from the 206,000 revised level reported for the previous week.

Meanwhile, IHS Markit indicated a further subdued upturn in production across the US manufacturing sector. Except for October and November, the pace of output growth was the slowest since October 2020. IHS Markit U.S. Manufacturing PMI stood at 57.7 in December, down from 58.3 in November but broadly in line with the earlier released 'flash' estimate of 57.8. The Eurozone manufacturing sector data revealed that consumer goods makers drove the slower improvement in manufacturing conditions, with intermediate and capital goods producers registering marginally quicker upturns. The final reading of the IHS Markit Eurozone Manufacturing PMI fell to 58.0 in December, from 58.4 in November and its lowest reading in ten months. As per the report of the global data firm, “Although what gains to be had were only marginal, with shortages, port congestion, and transport issues still at large, PMI data showed stocks of purchases rising at a survey-record rate in December. This should hopefully bring some much-needed relief to production schedules in the very near term, which have been squeezed tight by input shortages. That said, the latest survey data showed output growth remaining subdued overall and unchanged from November”

The final au Jibun Bank Manufacturing PMI dipped from 54.5 in November to 54.3 in December. This indicated a softer improvement in the health of the sector but was well above the average seen in 2021 as a whole (52.7).

Regarding China, The National Bureau of Statistics reported that the official manufacturing PMI for December rose to 50.3 in December from 50.1 in November. The country’s non-manufacturing PMI, which gauges sentiment in the services and construction sectors, was at 52.7 in December, from 52.3 in November.

**Going Ahead**

The growth situation at the macro and corporate levels continues to remain ahead of expectations. There have also been improvements in government finances. While inflation remains a concern globally, there are reasons to believe that the inflation rates would start coming off in 2022, which would ease pressures on central banks, and interest rates may not rise significantly. With several global concerns, equity markets have corrected between 10 to 15% since Aug’21. Such corrections are common and healthy during a bull market. With a huge rally during Apr’20 to Aug’21, a phase of consolidation would be helpful for strong future returns. With continued strong macro and high earnings growth, Indian equities remain attractive in the medium to long run.

As Finance Minister Nirmala Sitharaman is scheduled to present the Union Budget for the financial year 2022-23 on 1st February, the Micro, Small & Medium Enterprises (MSME) sector is upbeat that the forthcoming Budget is expected to provide much-needed impetus to the economy.

As markets continue to tread in volatility, we advise investors to remain invested in healthy growth and value-oriented companies with quality management to create long-term sustainable wealth.

# Equity Outlook

Developed market equities declined for the month by around 2% while the emerging market equities declined by around 4% for the same period. The news in November was dominated by the resurgence of Covid- 19 and potential effect of the new variant. The US Consumer Price Index (CPI) jumped to 6.2% year-over- year in October, its highest reading in 31 years. October macroeconomic data for China showed an improvement in both external demand and domestic activity. The crude oil declined by more than 15% as a new COVID-19 variant spooked investor sentiments. Gold and base metal prices declined marginally. Domestic equity markets declined for the month dragged by fears around the new variant of coronavirus, hawkish commentary by the US Federal Reserve, FPI outflows and profit booking by investors with equities trading at life high. The large caps declined the most followed by Midcaps and Small caps. Among sectors Banks and Auto declined the most while Healthcare and IT gained for the month. Daily new cases continued to fall gradually and stood below 8000. The recovery rate stood above 98%. The total no of vaccines administered was around 1.3 billion. India's real GDP growth came in at 8.4% YoY in FYQ2 2021 (from 20.1% YoY in FYQ1 2021).

Domestic economy continues on the path to gradual recovery with resumption of activities. The ongoing pick-up in consumption supporting demand improvement could lead to higher capacity utilization. This along with structural policy reform measures and support from government spending are preparing a conducive backdrop for a spurt in private sector capex growth. Positive multiplier effect of capex ratios could lead to all-round productivity growth through increased employment opportunities, income growth leading to consumption recovery – a virtuous growth cycle. Furthermore, household capex growth is also catching up aided by pent-up demand, low interest rates and rise in aggregate demand led by job addition in key sectors including technology. In conclusion, these factors along with increased government spending on infrastructure collectively engender a well-balanced capex growth trend with participation from government, private sector and household. Other positives include improving vaccination rates and increasing coverage to ensure sustenance of demand recovery.

Globally speaking, Omicron variant of the COVID-19 virus has revived the fears around global economic resumption and serves as a reminder of uncertainty that the global economies could face. Any disruptions in global supply chain impacting global commodity prices could renew inflationary concerns thereby rendering the recovery forecasts vulnerable to downside risks. An eventual tightening of accommodative monetary policy stance by global central banks could weigh on flows to emerging market. That said, India could be a beneficiary of global supply chain diversification with global companies keen on implementing China plus one model.

Interim corrections in the market could make the valuations seem relatively better than the levels seen till previous month. However, with earnings growth staging a gradual catch up, domestic market valuations continue to appear rich at present even as investment opportunities exist at stock level. From an investment perspective, with elevated index levels across all market capitalization categories due to recent rally, we recommend staggered & systematic approach instead of making lump sum investments at this juncture.

# Debt Outlook

India's economy grew by 8.4% year-on-year in Q2FY22 (against -7.4% Q2FY21). Gross Value-Added growth came a tad higher at 8.5% y-o-y. Easing of lockdowns across states, steady decline in COVID-19 cases, and the higher vaccination rate facilitated higher economic activity. Private consumption and investment have witnessed improvements on an annual basis. Government consumption, on the other hand, has seen a decline from the previous quarter. Nominal GDP grew 17.5% y-o-y (against -4.4% Q2FY21), boosted in equal parts by real GDP growth (up 8.4% y-o-y) and a rise in the GDP deflator (up 8.4% y-o-y). An elevated GDP deflator is indicative of inflationary pressure in the economy which risks hurting household purchasing power and consumption and can eventually necessitate the tightening of monetary conditions.

Earlier the market expectations were tilted towards a 20bps hike in the reverse repo rate. However, post the emergence of the Omicron variant the market became divided with respect to a reverse repo rate hike. The RBI has retained its growth projection at 9.5% for FY22. The committee noted that growth is gaining traction with consumption demand showing clear signs of improvement. However, it will remain watchful of the new COVID variant (Omicron), and its repercussions on the global and domestic economies. The RBI maintained a growth centric approach to ensure that the nascent recovery remains unhindered. On the inflation front, the RBI retained its FY22 forecast at 5.3%. While increasing its near term forecast due to an increase in perishable food prices. It indicated that the outlook for the medium-term inflation had improved slightly amid the large fuel price tax cuts implemented in November. The MPC has also expressed concerns about the sticky core inflation.

Post the policy, the 10-year G-sec was down 4-5bps. The yield curve continues to be steep. Further, growth recovery is still nascent and continues to be at the centre of MPC deliberations. The RBI has embarked on a gradual exit from the prevailing loose monetary policy by reducing short-term liquidity through measured increases in the VRRR. Subsequently, we expect the RBI to narrow the policy rate corridor through a reverse repo hike depending on evolving conditions. We believe that the yields in the mid part of the curve are reasonably priced with moderate duration. Even with yields tending to inch up, higher accruals could provide a buffer to mitigate some of the price erosion. Investors may consider investing in funds that offer such exposure along with lower volatility. Investors may also consider floating rate funds as they provide a hedge against a rise in interest rates.

**Focused Equity Mutual Funds and Returns**

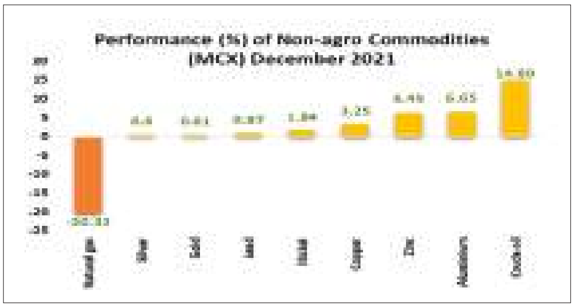
| Large Cap | 1 Years | 3 Years | 5 Years | Since Inception |
|---|---|---|---|---|
| Mirae Asset Large Cap Fund | 29.28 | 19.14 | 17.88 | 16.32 |
| Canara Rebeco Bluechip Fund | 26.03 | 22.21 | 19.32 | 13.49 |
| Franklin India Bluechip Fund | 33.85 | 17.83 | 14.30 | 16.82 |
| **Large & Midcap** | | | | |
| Kotak Equity Opportunities Fund | 31.15 | 20.71 | 16.99 | 18.76 |
| **Flexi Cap** | | | | |
| Canara Robeco Flexi Cap Fund | 33.97 | 23.01 | 20.31 | 18.74 |
| Parag Parikh Flexi Cap Fund | 45.64 | 30.29 | 23.23 | 20.96 |
| HDFC Flexi Cap Fund | 37.42 | 16.78 | 15.60 | 18.53 |
| **Midcap Fund** | | | | |
| Kotak Emerging Equity Fund | 47.15 | 25.87 | 19.66 | 14.43 |
| DSP Midcap Reg Gr | 28.88 | 21.23 | 16.79 | 15.78 |
| **Focused Fund** | | | | |
| SBI Focused Equity Fund | 43.37 | 24.58 | 21.45 | 20.46 |
| ICICI Pru Focused Equity Fund | 36.49 | 20.60 | 15.54 | 13.59 |
| **ELSS** | | | | |
| Aditya Birla SL Tax Relief '96 Fund | 13.47 | 11.75 | 13.26 | 10.98 |
| Axis Long Term Equity Fund | 25.77 | 21.00 | 19.73 | 18.25 |
| Mirae Asset Tax Saver Fund | 36.71 | 24.76 | 22.26 | 21.17 |

Source: Anand Rathi Internal Research.

Note: Such representations are not indicative of future returns.

# Commodities Outlook

## Omicron variant of the virus drives the broader sentiment




(Source: Bloomberg)

MCX gold appreciated for the third straight month but the gains were limited owing to weakness in the USDINR pair. On one side, spot gold appreciated by more than 3% and finished the month comfortably above $1,800 at $1,829 per troy ounce, the MCX gold advanced merely by 0.6% as USDINR depreciated by more than 1% in the month gone by. First of all, the rupee gained amid potential FII inflows. Indian too is dealing with rising cases of Omicron variant of the virus, but so far this is not reflected in the rupee. Another major trigger for rupee appreciation is the robust IT exports which have crossed India's oil imports.

Spot gold declined by 3.59% in 2021, its biggest annual loss since 2015 as a strong post-pandemic economic recovery and persistently high inflation prompted major central banks to tighten monetary settings earlier than anticipated. The Federal Reserve committed to ending its' bond-buying by March and signaled three 25 basis point interest rate hikes in 2022. The Bank of England surprised markets by becoming the first G7 central bank to raise its main rate since the pandemic began. Meanwhile, the ECB and Bank of Japan started dialing back pandemic-era stimulus, but will likely retain ultra-easy policies in 2022.

Gold was widely considered as a hedge against inflation and uncertainties, with looming threats from surging Covid cases, but higher interest rates increase the bullion's opportunity cost and reduce its appeal. The safe-haven investment demand also declined in 2021. The holding at the SDPR Gold ETF was 1,170 tonnes as of 31st December 2020, which fell sharply to 975.66 tonnes as of 31st December 2021, registering a fall of nearly 16.6% as a smooth vaccination drive triggered a risk-on sentiment around the world and economies rebounded from pandemic era shock.

Retail demand surged around Dussehra and Diwali in India as prices were pretty low as compared to an all-time high that it hit in August 2020 plus India withdrew lockdown restrictions amid a successful vaccination drive. As the year came to an end, the yellow metal was flat as the Fed announced to fasten tapering, will reduce a bond-buying by $30 billion a month and finish by March 2022 and three rate hikes in 2022. The downside was limited as the Omicron variant of the Covid-19 provided support.

MCX Silver also ended with a marginal gain of 0.6% in December owing to a strengthening rupee otherwise, international silver was up by more than 2%. The sentiment was positive in the base metals too as China is seen adding stimulus to stabilize growth next year, with various ministries vowing more proactive measures to reverse the slowdown caused by a worsening property slump, weak consumption, and the coronavirus. The iShare silver trust, which is the largest silver ETF in the world experienced a weak trend. The holding was at 17,378 tonnes as of 31st December 2020 which fell to 16,511 tonnes as of 31st December 2021 – a fall of 5% from a year ago.

### Bullion Outlook

Gold may appreciate in January amid the rise in the Omicron variant of the virus, however, not a single country as of now announced lockdown restrictions or cross border travel ban. Nonetheless, we expect haven buying to underpin the price. China from 31st January will celebrate holidays owing to Lunar New Year. Hence we also don't deny the possibility of retail buying. China on one hand already pledged to provide support to support the dwindling economy by giving stimulus in January. Hence although the Fed has fastened the pace of tapering we expect the yellow metal to stay elevated in the coming month. MCX Gold may travel to Rs. 49,000 per 10 gram.

## A golden year for base metals

Base metals performed outstandingly well in 2021, which is not surprising as they effectively made up ground that was lost during 2020. It was a golden year for metals as the market was dominated by supply squeezes, China's property-led economic slowdown, and a global energy crisis that hints at more disruptions to come. Last year saw copper hitting a record as the pandemic roiled supply and demand. LME Aluminium rose by more than 40% as investors weighed fresh signs of output pressure, with Alcoa Corp. planning to shut a European plant and Beijing vowing to cut carbon emissions from China's huge army of smelters.

**Performance of last 5 years**

| MCX / YEAR | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| ALUMINIUM | 25.93 | -11.59 | +4.84 | +19.80 | +39.95 |
| COPPER | +23.67 | -12.50 | +8.22 | +34.78 | +25.93 |
| NICKEL | +19.86 | -9.46 | +38.78 | +17.78 | +29.48 |
| LEAD | +17.73 | -12.40 | +9.02 | +2.09 | +20.03 |
| ZINC | +22.01 | -17.75 | +3.33 | +19.75 | +34.31 |

For the first time in five years, all five metals have given returns of more than 20%, on global economic recovery, optimism surrounded by a successful vaccination program, falling inventories & demand-supply imbalance. The rising dollar has had almost no impact on the metals. Even the crack in China's real estate sector failed to impact metals' overall positive undertone.

A caveat: High metal prices have stifled the demand in some Asian countries, except for India, China, and Southeast Asia. Most metals may be in surplus in 2022, which seems very natural, as demand will slow down and supply may gradually recover. This means that high prices will gradually decline in the next three to six months. When demand and supply reach a balance, prices will become more acceptable to consumers. Aluminum is heading for one of its best-ever years as production cuts at European smelters create fresh supply worries for consumers who've faced rare shortages in 2021. Most energy-intensive aluminum producers in China earlier this year saw constraints in China amid a nationwide electricity shortage, propelling prices to the highest level in over a decade. The carbon peak and carbon neutrality policy have affected the Chinese and even the global aluminum supply and demand throughout 2021, a year which not only marks the beginning of the "14th Five-Year Plan" period (2021-2025) but also unveils the "dual carbon" policy.

The Chinese aluminum smelters have suffered frequent production restrictions and power rationing. The continuously rising prices of aluminum-related commodities, such as coal and natural gas, have increased the manufacturing costs of the aluminum industry chain.

The production restrictions and power rationing extended from domestic aluminum smelters to downstream aluminum processing enterprises near the end of 2021, leading to an increase in social inventory in the peak season and weighing on aluminum prices. Outlook is positive for Aluminium. Metal is set to get support from expectations of output cuts in Western Europe. We don't rule out the possibility of a technical correction in the metal but buying on dips is the strategy to implement. MCX Aluminium may rise to Rs. 250 per kg and a floor are seen around 200 per kg.

The second most appreciated commodity has been Zinc with nearly 32% returns y-t-d. Record energy prices in Europe have already hit zinc smelters. Nyrstar, a leading global producer, said it will halt production at a smelter in France in the first week of January. Nyrstar's plant in Auby, in northern France, has been running at reduced capacity since October and the other two plants in the Netherlands and Belgium have also been operating at a reduced rate and will continue to do so, it said. Zinc, used to galvanize steel, surged to the strongest in more than a decade in October after Trafigura and Glencore Plc announced production cuts.

There have been constant disturbances pervading the smelting end. For example, the output at smelters in Inner Mongolia could not exceed the level of the same period last year according to the dual control policy of energy consumption in March, resulting in a decline in the output. Yunnan is also subject to this policy in May and local smelters were required to reduce their output.

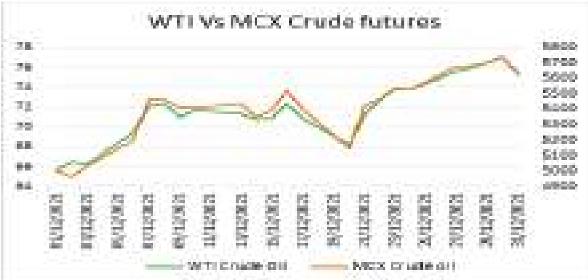
The demand for industrial electricity this year has increased sharply from 2020. The power supply in Yunnan and Guangxi tightened due to the limited increase in hydropower supply this year; thus, the smelters continued to reduce their production. The production restrictions also came on stage in Hunan and Henan amid a tight supply of power. The domestic output is likely to turn to negative growth YoY in 2021.

Outlook in Zinc is bullish as the metal is expected to perform strongly amid supply disruptions at European smelters. MCX Zinc ay rise to 320 per kg where-as support is seen around 250 per kg.
Copper, which is also considered an economic barometer, is likely to close in 2021 with a handsome gain of more than 25%. Although there were hardly any disruptions to the production at overseas mines from the Covid-19 pandemic at the beginning of 2021, many unexpected shipping issues in South America have caused sudden changes in the copper concentrate spot market. Las Bambas mine underwent community roadblocks in mid-December, 2020, and the

impact on the mine exceeded market expectations. The ports in Chile faced high tides in January, which were concentrated in the northern region, the main copper concentrate production area in the country. That affected the delivery of large copper mines such as Escondida and Chuquicamata and prices appreciated.

China has experienced a rare nationwide large-scale power rationing since the second half of this year, out of a series of factors such as abnormal weather and energy structure upgrading. Companies were forced to temporarily suspend production due to power rationing. Outlook is bullish in Copperas US has passed infrastructure bill and China is likely to provide stimulus in January / February to save the economy from shocks of real estate sector. MCX Copper may rise to Rs. 850 per kg next year.

## Crude oil recovers sharply in December and is likely to continue in January




Crude oil futures recovered sharply in December by more than 13% to close above $75 per bbl after a 20% fall in the previous month and was up by 57% in 2021, the strongest annual performance since 2009 driven by the global economic recovery and supply-side issues. Meanwhile, MCX Crude oil futures rose more than 14% tracking the global benchmark. (Source: Bloomberg)

Earlier in the month, Crude futures tumbled below $63 per barrel, the lowest since August 2021, after OPEC+ agreed to go ahead with the planned January output rise. OPEC+ has been releasing 400,000 barrels per day of oil per month winding down its record cuts from last year. The spread of the Omicron coronavirus variant added to concerns over lower demand and crude surplus early next year after major oil-consuming nations pledged to release the emergency reserves.

Later, oil prices rebounded on optimism that the omicron virus variant may not be as severe as feared, easing concern over the demand outlook and China's crude imports rose for the first time in three months after private refiners received new quota allowances. Meanwhile, Saudi Arabia increased its oil prices for customers in Asia and the US in January, just days after the OPEC+ alliance agreed to boost output for the same month. Amid heightened worry about the course of the pandemic after the emergence of the Omicron variant, Saudi Arabia injected a dose of confidence in markets by raising its official selling price for its flagship Arab Light to a nearly two-year high.

Oil extended gains as investors balance upbeat long-term demand forecast from OPEC. OPEC said it expects world oil demand to average 99.13 million barrels per day in the first quarter of 2022, up 1.11 million BPD from its forecast in the previous month. The organization also stuck to a timeline for a return to pre-pandemic levels of oil use, saying the omicron variant would have a mild and brief impact.

US crude oil inventories declined for a fifth consecutive period and fell by 3.576 million barrels in the week ending December 24th, according to EIA data, showcasing robust demand. In the 24th OPEC+ meeting, the group agreed to the 400,000 b/d oil output for February. OPEC and its allies agreed to revive more halted production as the outlook for global oil markets improved, with demand largely withstanding the new coronavirus variant. The group is sticking to its plan to gradually restore output halted during the pandemic after its analysts predicted a smaller surplus this quarter than previously expected. Production will exceed demand worldwide by 1.4 million barrels a day in the first three months of the year, compared with 1.9 million in its previous assessment.

US Natural gas futures fell for a third consecutive month in December and lost almost 18% to $3.73 per MMBtu, pressured by mild weather forecasts and as concerns about this winter's gas supplies almost disappeared. Temperatures remained well above normal levels throughout December, following an unexpectedly mild winter heating season, which has dampened natural gas demand for heating purposes.  MCX Natural gas futures, however, fell more than 20%, tracking the global benchmark.

## Outlook

Oil prices are likely to gain further in January towards 6,000/bbl as OPEC+ agreed to add 400,000 b/d oil output for February, as expected. But the major factors to look at going forward would be if the 400,000 supply planned can be delivered and the pace of the demand recovery. While OPEC+ is discussing a nominal increase, the group has been struggling to deliver as countries such as Angola, Malaysia and Sudan struggle to increase production. Right now crude oil is well-positioned with robust demand recovery and consistent decline in the US crude stockpiles. The major risk to the expected rally would be a rise in covid cases globally beyond a level that could bring in lockdowns like restrictions and demand destruction.

# Currency Outlook

## Rupee might tumble in January after a volatile December


(Source: Bloomberg)

Indian rupee spot appreciated 1.1% or 83 paise in December and closed at 74.34, even though it was a volatile month for the rupee, with the rupee weakening in the first half and strengthening towards the second half of the month. However, the domestic currency saw a fourth consecutive annual loss and depreciated by 1.71% in 2021, weighed down by sharply higher crude oil prices which pushed up inflation and raised concerns over potential interest rate hikes.

In India, the Wholesale Price Inflation, a proxy figure for producer prices, rose to 14.2% YoY, its highest level since December 1991. The high rate of inflation in November 2021 was primarily on account of a jump in prices of basic metals, crude petroleum & natural gas, chemical and chemical products, and food products. Meanwhile, Consumer Price Inflation for November was seen at 4.91% YoY despite excise duty cuts on fuel by the center and the subsequent cut in levies by states. There has been a barrage of aggressive rate hikes across most other emerging markets such as Brazil, Colombia, Mexico, the Czech Republic, Poland, Russia, Hungary, and even South Korea and India is becoming an outlier in this cycle and the accommodative stance at the risk of inflation is one of the reasons for the outflows.

The dollar consolidated for December and closed almost flat or slightly down at 95.67 as markets already factored in the rate hikes and tapering. FOMC statement on December 15 showed that the Fed would end its pandemic-era bond purchases in March, paving the way for three interest rate hikes by the end of 2022, as policymakers voiced concerns over persistently high inflation against a backdrop of a steady recovery in the labor market. The central bank doubled the pace of taper to $30 billion a month, putting it on track to conclude it in March 2022. Meanwhile, the Bank of England followed the Fed by commencing interest rate hikes in December. This caused an FPI outflow of Rs. 17,147 crores from Indian stocks and Rs.12,280 crores out of Indian bonds in December alone.

However, Rupee sharply appreciated towards the end of December, despite the November trade deficit expanding to $177 billion, which clearly shows RBI has been active in the forex market and this is seen in forex reserves declining from $641 billion in October 2021 to $635 billion in December. Along with that, potential inflows for NSE's CPSE Index rebalancing also witnessed some dollar selling. Meanwhile, a rally in domestic equity indices by more than 2% after a sharp decline in November also underpinned the rupee.

## Outlook

Indian Rupee spot is expected to depreciate towards 75.5 in January as the dollar has been strengthening since the Fed taper began and there is a high possibility of an earlier than expected rate hike by March to tame the inflation surging past decade highs. US Labour data and Inflation numbers will be keenly watched along with the FOMC meeting on January 28th, which is the major event for the month. The rise in Omicron cases worldwide also poses a threat to the rupee, in case if it goes out of hand, even though the effects have been undermined.

Anand Rathi PMS

# MNC Portfolio

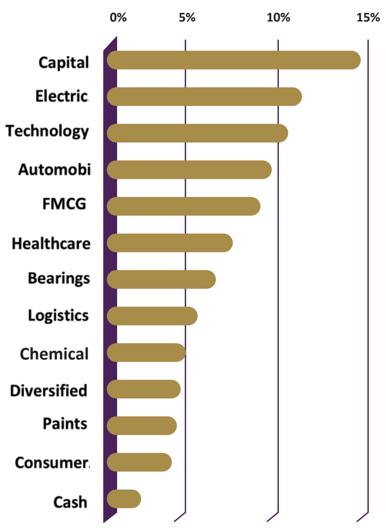
Focus on consistency of return and risk moderation by investing in Multinational Companies listed in India. Investments into listed companies in India in which the foreign shareholding is over 50% and/or the management control is bestowed in foreign company and/or the technological and managerial know-how brought in by foreign partner/investor.

| | |
|---|---|
| **Strong Business model** | MNC benefits from a) Innovation b) Strong R&D c) Advanced Technology d) Strong Brand/Product e) Economies of scale |
| **Strong Corporate Governance** | MNC's are generally rated high for their corporate governance standard. They depict high transparency and accountability with well laid out policies and regulatory framework, internal control and risk management |
| **Healthy Balance Sheet** | Most MNC's have a) Better operating ratios b) Zero Debt or Low debt /Equity c) Positive Free Cash flow d) Healthy Return ratio |
| **Special opportunity** | MNC companies sometime carries an additional trigger for value appreciation in form of corporate actions like open offers, Buybacks and Delisting etc. This usually add substantial appreciation to the share price enhancing investors ROI |

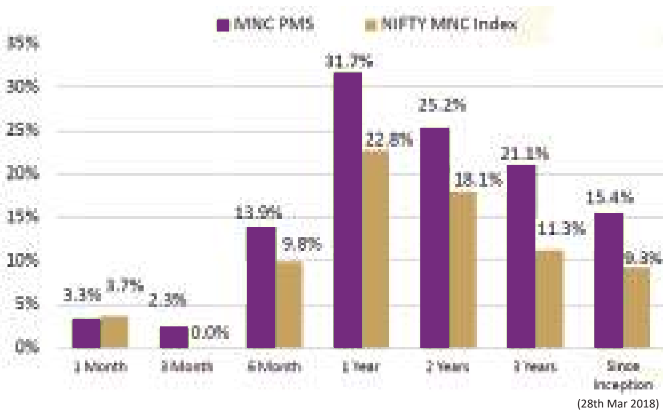
## Top Holdings and Allocation

| Sr. No. | Top 10 Holdings | % Holdings |
|---|---|---|
| 1 | Grindwell Norton Ltd. | 8.2% |
| 2 | KSB Ltd. | 7.8% |
| 3 | SKF India Ltd. | 7.0% |
| 4 | Blue Dart Express Ltd. | 6.2% |
| 5 | Honeywell AutomationIndia Ltd. | 5.8% |
| 6 | Siemens Ltd. | 5.6% |
| 7 | Coforge Limited. | 5.5% |
| 8 | MPhasis Ltd. | 5.4% |
| 9 | Maruti Suzuki India Ltd. | 5.3% |
| 10 | BASF India Ltd. | 5.1% |

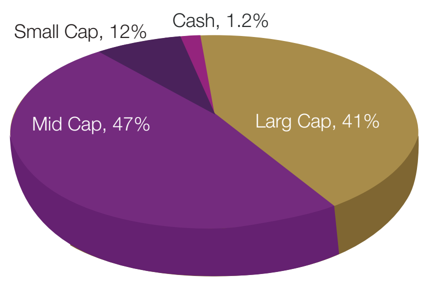
## Sector Allocation




## Performanceas on 31st December, 2021




## Market Cap Allocation




**Source:** *Anand Rathi Internal Research.*

Data as on 31st December 2021

**Note:** *Returns above one year are annualized. Returns are net of fees and expenses.*

**Disclaimer:** *Past Performance is not necessarily indicative of likely future performance. Performance mentioned above are not verified by SEBI. We have shown the performance as Aggregate performance of all clients on TWRR basis.*

# Anand Rathi PMS
# Impress

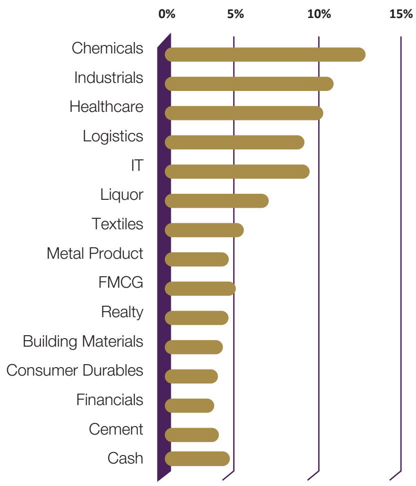
Focus on Return Optimization by investing in multicap portfolio of rising enterprises with sound corporate track record and sustainable business model keeping balance between value and growth strategy.

| | |
|---|---|
| **Business model** | Improving Market Share, Leadership and Niche Market |
| **Rising Enterprises** | Stable and Improving Margin and Improving ROE and ROCE |
| **Sustainability** | Visibility of Earning Over Next 2-3 Years and Predictable Business Model |
| **Sound Corporate Track Record** | Management Background and Accounting & Corporate Policies |

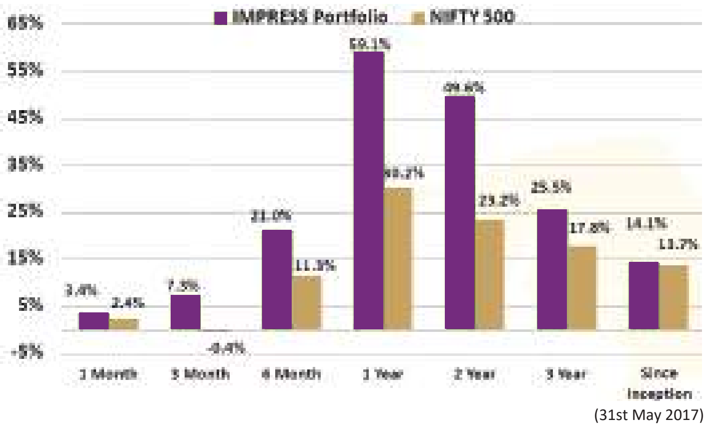
## Top Holdings & Market Cap Allocation

| Sr. No. | Top 10 Holdings | % Holdings |
|---|---|---|
| 1 | Radico Khaitan Ltd. | 7.4% |
| 2 | Solar Industries India Ltd. | 6.5% |
| 3 | Carborundum Universal Ltd. | 6.0% |
| 4 | Krishna Institute of Medical Sciences Ltd. | 6.0% |
| 5 | K.P.R. Mill Ltd. | 5.9% |
| 6 | Aarti Industries Ltd. | 5.4% |
| 7 | Tata Consumer Products Ltd. | 5.4% |
| 8 | Apar Industries Ltd. | 4.9% |
| 9 | Ratnamani Metals & Tubes Ltd. | 4.9% |
| 10 | Oberoi Realty Ltd. | 4.9% |

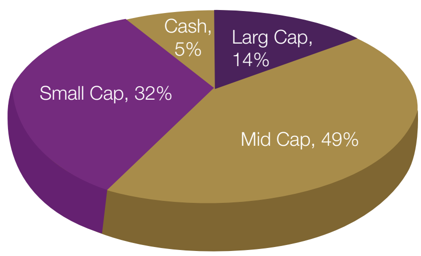
## Sector Allocation




## Performanceas on 31st December, 2021




## Market Cap Allocation




Data as on 31st December 2021

***Source:*** *Anand Rathi Internal Research.*

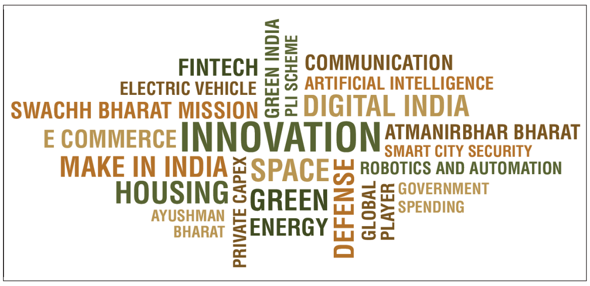
***Note:*** *Returns above one year are annualized. Returns are net of fees and expenses.*

***Disclaimer:*** *Past Performance is not necessarily indicative of likely future performance. Performance mentioned above are not verified by SEBI. We have shown the performance as Aggregate performance of all clients on TWRR basis.*

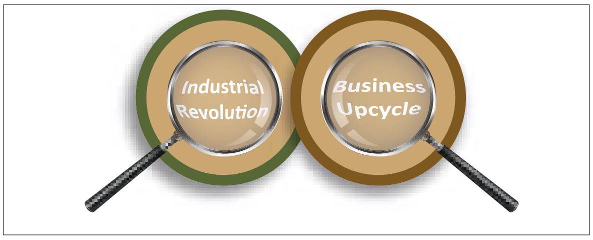
Anand Rathi PMS

# Decennium Opportunity

Focus on return optimization by investing in multicap portfolio of companies with good corporate governance, strong emerging business or companies entering into next business upcycle.




## Dual Focus Portfolio Strategy




Investing in companies which are likely to benefit from Industrial Revolution, new age business, favorable Policies, and companies that are showing visible sign of turnaround with higher growth in their next business up cycle.

## Emerging business of ongoing Industrial Revolution

## Opportunity - Accelerated Growth from Business Upcycle

- Indian economy has found its place among the key global players in many of the sectors.
- India increasing its share and becoming a part of the global supply chain and also a reliable partner.
- Government focus on building capabilities, scale and good manufacturing practices.
- PLI, Export incentive and Atmanirbhar Bharat Initiative very well supportive to strengthen India's private players/ Enterpreneurs to scale up their business.
- With overall economic growth both at macro and micro level and favorable policy many sectors enters into their next business upcycle

## Opportunities at every level of emerging business

## Stock Selection Process

Structure Product Idea

# Nifty Accelerator

| Product Name | Nifty Accelerator - 100% | |
|---|---|---|
| **Issuer** | Anand Rathi Global Finance Limited | |
| **Underlying** | Nifty 50 Index | |
| **Capital Guarantee** | Principal is not protected | |
| **Tenor(days)** | 1875 Days | |
| **Initial Fixing Level** | 150 pointscontingent from closing nifty then rounded to next 100 | |
| **Final Fixing Level** | Average of Closing NIFTY on last Thursday of 50th, 53rd,& 56thMonth. | |
| **Nifty Performance (NP)** | (Final Fixing Level/Initial Fixing Level)-1 | |
| **Contingent Coupon (CC)** | 100%(IRR –~14.45%) | |
| **Participation Rate (PR1)** | 100%(From 108% to 133% of Initial Fixing Level) | |
| **Participation Rate (PR2)** | 7500%(From 132% to 133% of Initial Fixing Level) | |
| **Decay Multiple (DM1) Knock-In Put @ 85%** | 1.25x (below -85% till -30%fall with catch-up) | |
| **Decay Multiple (DM2) Nifty @ 70% of initial** | 0.25x (Beyond -30% fall decay decreases) | |
| **Payoff** | If Final Fixing Level is at or above 133% of Initial Fixing Level | Contingent Coupon |
| | If Final Fixing Level is Above 108% & below 133% of Initial Fixing Level | (NP-8%)* PR1+ Max(0%,(NP-32%)*PR2 |
| | If Final Fixing Level is above 85% & at or below 108% of Initial Fixing Level | PrincipalProtection |
| | If Final Fixing Level is below 85% of Initial Fixing Level | MAX(-100%,MAX((-30%*DM1), NP*DM1)+MIN(0%,(NP+30%)*DM2)) |

Product IRR* **14.45%**

Tenor **1875 Days**

Target Nifty Perf. **33%**

## Product Explanation

| | |
|---|---|
| NP >= 33% | 100% (Contingent Coupon) |
| 32% < NP < 33% | Max(0%,(NP-32%)*PR2 |
| 8% < NP < 33% | (NP-8%)* PR1 |
| -15% <= NP <= 8% | Principal Protection |
| -30% <= NP < -15% | 1.25x Decay with Catch-up |
| Nifty falls beyond -30% | Decay decreases to 0.25x |

*Product IRR assume to be Pre-Tax IRR
• NP: Nifty Performance
^ Initial Fixing Level is taken as 15778, adding 150 points contingent: 15928, rounded off to next 100: 16000.
**Historical Standard Deviation is calculated for 1710 days daily rolling NIFTY (Working Days Only )return from 1st Jan’2001 - 29thJuly’2021

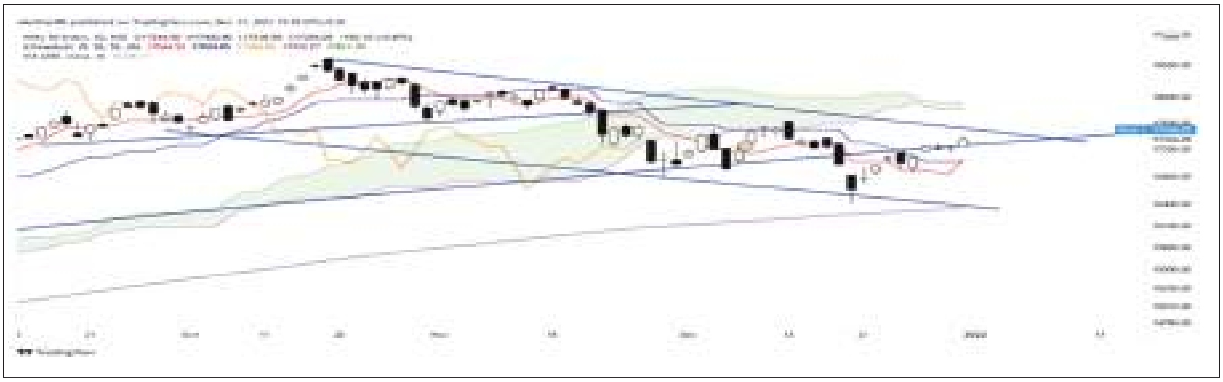
Source: Anand Rathi Internal Research.
Note: Such representations are not indicative of future returns.

# Technical Analysis

What the fantastic year 2021 has been for the Indian equity markets. Despite too many roadblocks; the benchmark indices kept on inching higher with some minor correctives. Specifically the index NIFTY ended the calendar year 2021 with fabulous gains of around 24%. During the process, it reached the milestone of 18000 and made a life high near the 18600 mark. However, the past couple of months has been choppy for the markets wherein the index corrected towards 16400 and is now back above the 17000 mark. Some major triggers for this corrective move were fear of the new Covid variant; the Fed statement about fastening the speed of tapering and consistent selloff by FIIs in the cash market.

In our previous month's edition, we discussed that the overall target for the HEAD and SHOULDER pattern breaks down in NIFTY is around 16800 – 16600 and that seems to be achieved. In line with that, the index not only reached the lower target but also stretched itself towards the 16400 mark. On the weekly scale, we witnessed a hammer candlestick pattern which was followed by the recent pullback towards the 17300 mark. Due to this, the price action in the short term has turned positive. However, we are also witnessing a lower top lower bottom formation on the weekly scale which will be negated only above the 17600 mark. Thus we advise traders to remain a bit cautious at higher levels since the rising cases of COVID in India could further dent the sentiments. On the upside; only a move above 17600 would reverse the trend. The downside support seems to be placed at 16800 - 16400. A breach of this zone could drag the index towards the 16359 mark which is the placement of 200 DMA.

During the second half of the 2021 year; the NIFTY BANK index underperformed big time. After almost testing the milestone of 42K the index nosedive back to 34K mark and ended the year with gains of just 13%. During the process, it has even breached its 200 DMA and is struggling to rise above that. Thus going ahead; a weekly close above 35800 would reinforce the index to move higher towards 37Kor 38K mark in the coming month. However; the recent low of 34000 would be very critical support for the index.



## Technical Pick – BUY FEDERALBNK

POTENTIAL UPSIDE 12.8%- 17.07% ▲

- FEDERAL BANK has found a support at ICHIMOKU cloud on the weekly scale.
- This support coincides with the placement of 200 SMA on weekly scale and that is a very strong demand zone.
- During the month of Aug 2021, the stock surged above 100 mark from this moving average and we expect similar kind of movement going ahead.
- Thus; traders are advised to accumulate the stock in the range of 83 - 81 with a stop loss of 75 on closing basis for the upside potential target of 92.5-followed by 961evels in coming months.

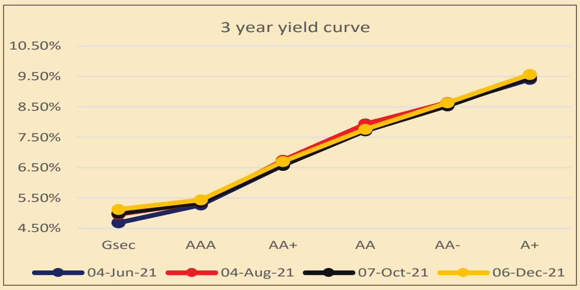
# Fixed Income Services

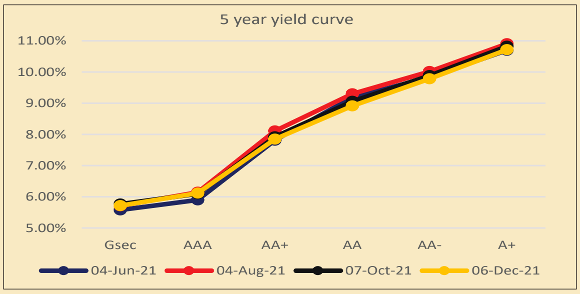
The Monetary Policy Committee (MPC) unanimously kept the Repo and the Reverse Repo rate unchanged in its December 2021 review, with a 5 to 1 majority to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

**Key Takeaways:**

- The projection for CPI inflation has been revised to 5.3% during 2021-22; 5.1% in Q3; and 5.7% in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.0% and for Q2 at 5.0%.
- The projection of real GDP growth for 2021-22 is retained at 9.5% in 2021-22 consisting of 6.6% in Q3; and 6.0% in Q4 of 2021-22. Real GDP growth for Q1:2022-23 is projected at 17.2% and 7.8% for Q2.The MPC maintaining a unanimous status quo on rates was in line with major market expectations even as swap rates had been indicating the expectation of some hike in the reverse repo. The expectation of change in reverse repo not being met was taken positively with the RBI continuing to use variable reverse rate repo auction (VRRR) as the mode of managing liquidity and short-term rates. The MPC continued to emphasize that its focus would remain on growth.

G-Sec yields eased post the policy, with the yield curve continuing to remain steep. Going forward, global central bank policies would be key with a cautious approach to short-term rates. Significant credit spread compression has been seen in the AA space since our last update as seen below




*Source: RBI Press Release, Fixed Income Databases*

**Secondary Market Bond Offers**

| Security | Maturity/C | IP | Rating | Yield |
|---|---|---|---|---|
| **Tax Free Quotes** | | | | |
| 7.35% NABARD Tax Free 2031 | 23-Mar-31 | Annual on 23-Mar | IND AAA/Stable | 4.47% |
| 7.38% REC 2027 | 19-Dec-27 | Annual on 1-Dec | IND AAA/Stable | 4.36% |
| **PSB Perpetual Quotes** | | | | |
| **Security** | **Maturity/C** | **IP** | **Rating** | **Yield** |
| 7.55% SBI Perp 2026 | 14-Dec-26 | Annual on 14-Dec | AA+ by CRISIL & IND | 7.50% |
| 7.74% SBI Perp 2025 | 09-Sep-25 | Annual on 9-Sept | AA+ by CRISIL & IND | 7.01% |
| **PSU Quotes** | | | | |
| **Security** | **Maturity/C** | **IP** | **Rating** | **Yield** |
| 6.95 IRFC 2036 | 24-Nov-36 | Annual on 24-Nov | AAA by CARE | 6.89% |
| 7.11 PFC 2036 | 30-Jun-36 | Annual on 30-Jun | AAA CRISIL, ICRA & CARE | 6.91% |
| 7.05 NHAI 2041 | 28-Sep-41 | Annual on 28-Sept | AAA CRISIL, ICRA & CARE | 6.69% |
| **Corporate Bonds** | | | | |
| **Security** | **Maturity/C** | **IP** | **Rating** | **Yield** |
| 6.75 Piramal Capital & Housing Finance Ltd. 2031 | 31-Sept-31 | 28-Mar & 28-Sept | AA by ICRA & CARE | 10.50% |
| 7.45% Mahindra &Mahindra Financial Services Ltd 2031 | 17-Nov-31 | Annual on 17-Nov | AAA by IND Ratings & CARE | 7.30% |
| 8.20 India Grid Trust 2031 | 06-May-31 | Annual on 6-May | AAA CRISIL & ICRA | 7.35% |
| 10.25 Shriram Transport Finance Corporation 2024 | 26-Apr-24 | Monthly on 28th | AA+ CRISIL & IND | 8.50% |
| 8.07 L&T Finance Ltd 2024 | 14-Jun-24 | Annual on 14-Jun | AAA by CRISIL & ICRA | 6.90% |
| 7.02 Bajaj Finance Ltd. 2031 | 18-Apr-31 | Annual on 19-Apr | AAA by IND & CRISIL | 7.05% |
| 9.20% Hinduja Leyland Finance Ltd. 2024 | 13-Sep-24 | Annual on 13-Sep | AA-/Stable by CARE | 9.45% |
| 7.40 Muthoot Finance Ltd 2024 (Secured) | 5-Jan-24 | Annual on 5-Nov | AA+ by CRISIL & ICRA | 6.10% |
| 8.35 Tata Motors Finance 2027 | 13-Nov-27 | Annual on 13-Nov | AAA by CRISIL & ICRA | 7.70% |

*The above mentioned offer(s) are indicative and subject to changes in market conditions.*

'Please note that investments in these bonds should not be construed as an advice or recommendation however we can facilitate the execution of the same. The bonds are tradeable on the Exchange platform, however we do not provide any assurance or guarantee on the liquidity of bonds. The investment decision shall at all times exclusively remain with the investor. The organisation shall not responsible or liable for any loss or shortfall incurred by the investors.'

Purnartha

RESEARCH - RESULTS - RELATIONSHIPS

## PROPRIETARY QUANTITATIVE MODEL

Purnartha uses a Proprietary Quantitative Model for stock selection that has been tested with data spanning over 10 years.

The algorithms built into this model then help select few stocks to arrive at a portfolio construct that has a good risk-reward balance.

**SAMPURNA**

**Fundamental Analysis** | **Quantitative Analysis**

## FUNDAMENTAL RULES OF ALGORITHM

- Sales Growth
- PAT Growth
- Operating cash flow Growth
- Debt free or Net Cash
- ROCE Growth
- Margin Expansion
- & many more...

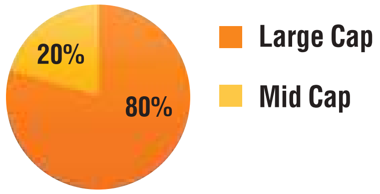
## QUANTITATIVE RULES OF ALGORITHM

- Lower Drawdown
- Faster Recovery
- No. of times stock touching 52 week high
- Stock Price Performance
- Macro Index
- & many more....

## STOCK SELECTION PROCESS

1. We will run Net cash formula
2. As on date 405 companies are net cash
3. We will give score based on Fundamental & Quant Rules
4. We will select top 25 companies
5. We will exclude PSUs & Cyclicals
6. We will select 12 to 18 stocks for Portfolio

## Market Cap Allocation (As on 31st August)




### Investment Option 1

| | |
|---|---|
| Lumpsum Investment | ₹ 6,00,000 |
| SIP for 36 month | ₹ 60,000 |
| Expected Return(20.5%CAGR) | 75% |
| Weighted Average Return | 59.74% |
| **Total Investment** | **₹ 27,60,000** |
| **Total Profit** | **₹ 12,82,500** |
| **Value of Investment at the end** | **₹ 40,42,500** |
| Fees of 3 yrs (Incl. GST) | ₹ 1,47,500 |
| Effective Fee for 3 year | 5.35% |
| Effective Fee for 1 year | 1.75% |

### Investment Option 2

| | |
|---|---|
| Lumpsum Investment | ₹ 10,00,000 |
| SIP for 36 month | ₹ 50,000 |
| Expected Return (20.5%CAGR) | 75% |
| Weighted Average Return | 51.56% |
| **Total Investment** | **₹ 28,00,000** |
| **Total Profit** | **₹ 14,43,750** |
| **Value of Investment at the end** | **₹ 42,43,750** |
| Fees of 3 yrs (Incl. GST) | ₹ 1,47,500 |
| Effective Fee for 3 year | 5.35% |
| Effective Fee for 1 year | 1.75% |

### Investment Option 3

| | |
|---|---|
| Lumpsum Investment | ₹ 14,00,000 |
| SIP for 36 month | ₹ 40,000 |
| Expected Return (20.5% CAGR) | 75% |
| Weighted Average Return | 56.51% |
| **Total Investment** | **₹ 28,40,000** |
| **Total Profit** | **₹ 16,05,000** |
| **Value of Investment at the end** | **₹ 44,45,000** |
| Fees of 3 yrs (Incl. GST) | ₹ 1,47,500 |
| Effective Fee for 3 year | 5.20% |
| Effective Fee for 1 year | 1.75% |

### Investment Option 4

| | |
|---|---|
| Lumpsum Investment | ₹ 0 |
| SIP for 36 month | ₹ 75,000 |
| Expected Return (20.5% CAGR) | 75% |
| Weighted Average Return | 38.54% |
| **Total Investment** | **₹ 27,00,000** |
| **Total Profit** | **₹ 10,40,625** |
| **Value of Investment at the end** | **₹ 37,40,625** |
| Fees of 3 yrs (Incl. GST) | ₹ 1,47,500 |
| Effective Fee for 3 year | 5.45% |
| Effective Fee for 1 year | 1.80% |

# MA₹CELLUS

## About Marcellus

Marcellus Investment Managers was founded in 2018 and currently has c.US$ 1.2bn in assets under management and advisory. The founders have worked together for the past 15years

**Saurabh Mukherjea**
CFA - Chief Investment Officer

- Former CEO of Ambit Capital assets under advisory were $800 mn
- Author of three bestselling books Gurus of Chaos 2014 The Unusual Billionaires 2016 and "Coffee Can Investing 2018
- Co founder of Clear Capital, a London based small cap equity research firm which he and co-founders created in 2003 and sold in 2008
- MSc in Economics from London School of Economics
- Member of SEBI's Asset Management Advisory Committee

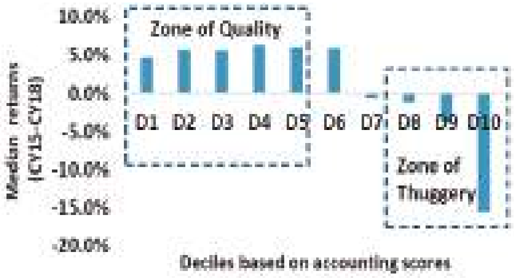
Key steps for identifying consistent compounders

### Step 1: Identify companies with clean accounting

Ten forensic accounting checks used to identify naughty companies.

| Category | Ratios |
|---|---|
| Income statement checks | 1) Cashflow from operations (CFO) as % of EBITDA<br>2) Volatility in non operating income<br>3) Provisioning for doubtful debts as a proportion of debtors overdue for >6 months |
| Balance sheet checks | 4) Yield on cash and cash equivalents<br>5) Contingent liabilities as % of Networth (for the latest available year)<br>6) Change in reserves explained by the profit / loss for the year and dividends |
| Auditor checks | 7) Growth in auditor's remuneration to growth in revenues<br>8) Miscellaneous expenses as proportion of total revenues<br>9) CWIP to gross block |
| Cash theft checks | 10) Free cash flow (cashflow from operations cashflow from investing) to median revenues |

Strong correlation between accounting quality and shareholders' returns




*Note: Returns above represent median of decile-wise median returns calculated for every year from CY15 (accounting scores based on FY15 financials) to CY18 (accounting scores based on FY18 financials).*

**Methodology:** We look at over six years of consolidated financials for the universe of firms. Wefirst rank stocks on each of the 10 ratios individually (outlined in the table on the left) These ranks are then cumulated across parameters to give a final pecking order on accounting quality for stocks.

This framework draws upon Howard Schilit's legendary text on forensic accounting, "Financial Shenanigans".

### Step 2: Identify companies with superior capital Allocation

We create a list of stocks using a twin-filter criteria of double digit YoY revenue growth and return on capital being in excess of cost of capital, each year for 10 years in a row.

Next, we build a portfolio of such stocks each year and hold each of these annual iterations of portfolios for the subsequent 10 years (without any churn). The bar chart on the right shows the back testing performance of such a filter based portfolio.


Source: Bloomberg. Note: Only the Consistent Compounder Portfolios which have finished their 10 year run have been shown. Note: These are total shareholder returns in INR terms.

## There are two conclusions from this exercise:

• This filter based portfolio delivers returns of 20-30% p.a. (of INR returns) and 8-12% out- performance relative to the Sensex.

• The volatility of returns of such portfolios, for holding periods longer than 3 years, is similar to that of a Government of India Bond.

Returns here (both for our portfolio and for the Sensex) are on a Total Shareholder Return basis i.e. all dividends are included in the returns.

## step 3: Identify companies with high barriers to entry

In depth bottom up research of companies which pass our filters to assess sustainable competitive moats and build a portfolio of 10 15 stocks which consistently compound earnings

What do we look for in our research?

- Look for managements with an obsessive focus on the core franchise instead of being distracted by short term gambles outside the core segment
- Look for companies which relentlessly deepen their competitive moats over time
- Look for promoters who are sensible about capital allocation, i.e. refrain from large bets (especially those outside core franchise) and return excess cash to shareholders

"Most companies tend to focus on short term results and hence that makes them frequently do things that deviate away from their articulated strategy these diversions take them away from the path they have to travel to achieve their long term goals"

**- Rama Bijapurkar**

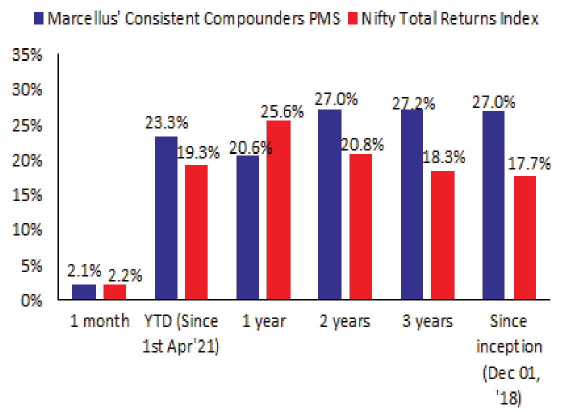
**Leading market strategy consultant**

## In Most Sectors, the top 1- 2 Companies Account for 80% of the Profit Pie

| Sector | Top 2-3 players Accounting for 70-80% of the Profit Pie |
|---|---|
| Paints | Asian Paints, Berger Paints |
| Small cars | Maruti Suzuki, Hyundai |
| Biscuits | Britannia, Parle |
| Cigarettes | ITC |
| Adhesives | Pidilite |
| Cooking oil | Marico, Adani |
| Hair oil | Marico, Bajaj Corp |

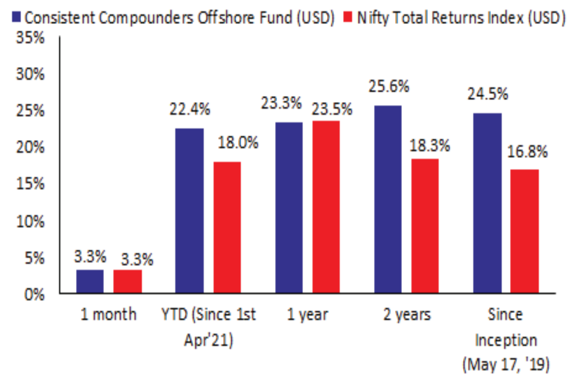
## Fund performance (as on 31st Dec' 2021)

**Exhibit 1a: Marcellus' Consistent Compounders PMS performance as on 31st December'21 (INR)**




*Source: Marcellus, Bloomberg; All returns are net of fees and expenses (TWRR); Since inception, 2 years & 3 year returns are annualised; Other time period returns are absolute*

**Exhibit 1b: Consistent Compounders offshore fund advised by Marcellus - as on 31st December'21 (US$)**



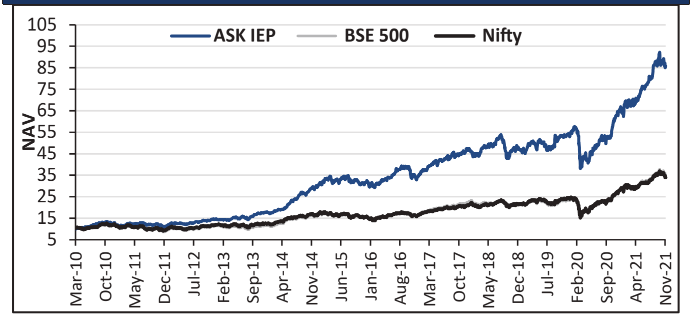

*Source: Marcellus; All returns are net of fees and expenses (TWRR); Since inception and 2 years returns are annualised; Other time period returns are absolute; NSE /FBIL for USD-INR exchange rate*

# ASK Indian Entrepreneur Portfolio – Nov 2021

**Investment Approach Objective:** ASK Indian Entrepreneur Portfolio (ASK IEP) invests in entrepreneurially driven and/or family owned businesses; listed on the Indian stock markets, for compounding gains over the medium to long term.

| Top 10 Holdings (%) | |
|---|---|
| Bajaj Finance Ltd | 6.6 |
| Bajaj Finserv Ltd | 6.3 |
| APL Apollo Tubes Ltd | 5.3 |
| Divi's Laboratories Ltd | 5.3 |
| Tata Consultancy Services Ltd | 5.0 |
| Havells India Ltd | 4.9 |
| Aarti Industries Ltd | 4.8 |
| Astral Ltd | 4.6 |
| PI Industries Ltd | 4.6 |
| AU Small Finance Bank Ltd | 4.5 |

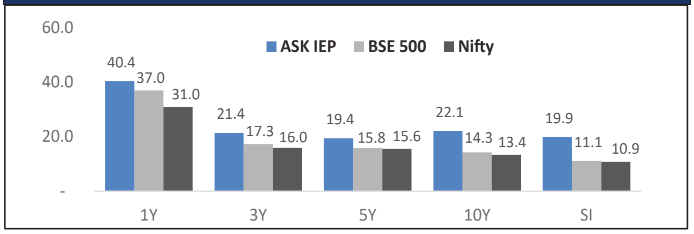
**ASK IEP Movement Since Inception**




**Rs. 1 Cr invested in ASK IEP in Jan 2010 is now worth Rs. 8.59 crs v/s Rs. 3.49 crs in BSE 500**

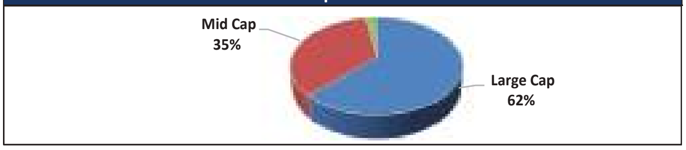
| Top Sector Weights % | |
|---|---|
| NBFC | 10.9 |
| Retail | 10.3 |
| Pharma | 9.3 |
| Banks | 8.5 |
| Consumer durables | 7.9 |
| Insurance | 6.3 |
| Building Products | 6.0 |
| Pipes | 5.3 |

**ASK IEP Portfolio Performance**




| ASK IEP Portfolio Metrics | |
|---|---|
| Total Assets under Management & Advisory in Rs. Crs. | 19,799 |
| Weighted Average Market Cap in Rs. Crs. | 259,426 |
| Median Market Cap in Rs. Crs. | 89,790 |

**Market Cap Classification**




**ASK IEP Portfolio Update**

Markets took a break from the trend being seen for past few months. The month saw Nifty 50 Index fall by 3.9% and the benchmark BSE 500 fall by 3% during the month of October. Markets turned wary of rising Covid cases and also risk of faster increase in global bond yields due to persistently strong inflation print in the global economy. Also, the announcement by Government of repeal of three contentious farm laws in the upcoming winter session, added to the sentiment. Global macros continue to remain uncertain.

However, notwithstanding the macro volatility – the post pandemic earnings trajectory of corporates has not been bad at all. During the quarter gone by, the portfolio companies in aggregate recorded profits growth of 36%! Not only have earnings trajectory been positive, but Balance Sheets also continue to remain in a strong shape. This lends lot of confidence that businesses are moving in the right direction.

During the month we exited out of Eicher Motors. Business has faced continued headwinds on multiple fronts not limited to chip shortage, demand challenges, cost inflation. Also, uncertainty with respect to new factors in EVs, poses additional risk to the business. We further added to our positions in APL Apollo Tubes and Metropolis and took off certain weights from Pidilite and Titan.

Overall, our positioning continues to remain biased towards exceptional businesses that are run by set of high performing people. Also, we believe most of our portfolio businesses have strong relative pricing power which should help us remain in good stead given the high inflationary environment that we are witnessing.

**Note:** Inception Date of ASK IEP is 25-Jan-2010. *Note: Performance figures are net of all fees and expenses. ASK Portfolio returns are composite returns of all the Portfolios aligned to the investment approach as on Nov 30, 2021. Returns for individual client may differ depending on time of entry in the Portfolio. Past performance may or may not be sustained in future and should not be used as basis for comparison with other investments. Returns for 1 year or lesser time horizon are absolute returns, while more than 1 year are CAGR. Returns have been calculated using Time Weighted Rate of Return method (TWRR) as prescribed by the SEBI.*

**Source:** Closing Price as sourced from Bloomberg. Returns for 1 year or less time period are absolute returns, while more than 1 year are CAGR. Market Cap is Acc to AMFI Classification which happens half yearly. Classification as on June 21.

## ASK Indian Entrepreneur Portfolio – Nov 2021

**Key Investment Approach Objectives & Attributes**


**Investment Approach Research Methodology & Filtration**


| FY-wise Drawdown Analysis | | | | |
|---|---|---|---|---|
| Financial Year | Max Drawdown | | FY Performance | |
| | ASK IEP | BSE 500 | ASK IEP | BSE 500 |
| FY 11 | -18% | -20% | 22% | 7% |
| FY 12 | -14% | -25% | 3% | -9% |
| FY 13 | -4% | -10% | 13% | 5% |
| FY 14 | -7% | -16% | 34% | 17% |
| FY 15 | -2% | -7% | 73% | 33% |
| FY 16 | -15% | -20% | -5% | -8% |
| FY 17 | -17% | -12% | 25% | 24% |
| FY 18 | -5% | -11% | 15% | 12% |
| FY 19 | -19% | -16% | 11% | 8% |
| FY 20 | -31% | -38% | -18% | -28% |
| FY 21 | -10% | -11% | 69% | 77% |

**ASK IEP Portfolio Cos Average Performance over last 5 years (CAGR) as on FY21**

| Sales | OP | PBT | ROCE* | PAT |
|---|---|---|---|---|
| 15% | 16% | 17% | 36% | 18% |

*For Banking & Financial companies, we have not considered ROCE, but have considered ROE for the above analysis. ROCE is only for FY20.

| Risk Parameters (Since inception) | | |
|---|---|---|
| Parameter | ASK IEP | BSE 500 |
| Beta | 0.83 | N.A. |
| Standard Deviation | 16.0% | 16.6% |
| Sharpe Ratio | 0.72 | 0.24 |

| Key Terms | |
|---|---|
| Portfolio Name | ASK Indian Entrepreneur Portfolio (IEP) |
| Platform / Structure | PMS |
| Benchmark | BSE 500 |
| Portfolio Managers | Mr. Sumit Jain (Primary Portfolio Manager) / Chetan Thacker (Co-Portfolio Manager) |
| Minimum Initial Investment Amount | Rs. 50 Lakhs |
| Minimum Add-on Investment Amount | Rs. 5 Lakhs |
| Exit Charges | 1% between 0-36 months, Nil after 36 months |
| Fees[1] | Fixed Management Fees: 2.50% p.a. |
| Systematic Transfer Plan (STP)[2] | Investments will be made in a staggered manner as per the instructions provided by the client. Fees as per the respective strategy (ASK Liquid / ASK Equity) will be charged for the invested amount. |

**Notes:**

- [1]In addition to the Management Fees, there are Recurring Expenses including Custody Fee, Account Opening Charges, Audit Fees, etc. to be payable at actuals. All fees and expenses will be subject to applicable taxes. For more details, kindly refer the Fee Schedule.
- [2]Kindly refer to the STP Application Form for the detailed terms and conditions.
- Exit Charges are calculated on each tranche of inflow (initial or additional). Redemption amount is arrived at after calculation and charging of all Fees and Expenses.

# Explore the
# **Hidden Treasure** of **Unlisted Shares***

With

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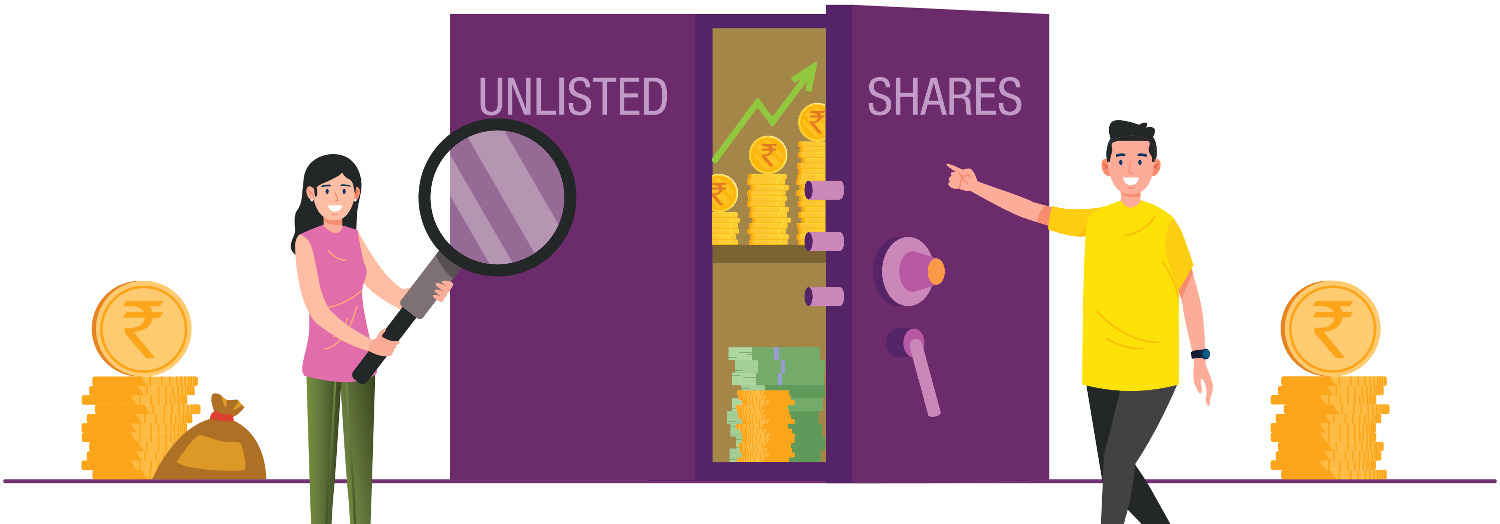
***Investment in Unlisted Shares****




## What are
## **Unlisted Shares*?**

Unlisted shares is a financial instrument that is not traded on a formal exchange, Trading of unlisted shares is done in over-the-counter (OTC).

- Reliance Retail – Retail
- HDB Financial Services Limited – Financial Services
- Fino Paytech Ltd. – Payment Bank
- Chennai Super Kings – IPL Team
- Studds Accessories Ltd. – Helmet Accessories
- Kurlon Ltd. – Mattresses
- Philips India Ltd. – Electronics
- Sterlite Power Transmission Ltd. – Power & Transmission
- Hero Fincorp Limited – Financial Services
- TATA Technologies Limited – Engineering
- Tamilnad Mercantile Bank – Banking
- Care Health Insurance – Insurance

*These are not Exchange traded products and all disputes with respect to the distribution activity, would not have access to Exchange Investor Redressal Forum or Arbitration mechanism.

FINANCIAL

# FLASH

January 2022

ANAND RATHI

INVESTMENT SERVICES

***The Investments recommended in News letter / research reports, may not be suitable for all investors. Investors must make their own investment decisions based on their own specific investment objectives and financial position and using such independent professional advisors as they believe necessary.***


**Anand Rathi Share and Stock Brokers Ltd.,**

**Regd. Office:** Express Zone, 10th Floor, A Wing, Western Express Highway, Goregaon (E), Mumbai - 400 063, Maharashtra. Tel: (022) 6281 7000.