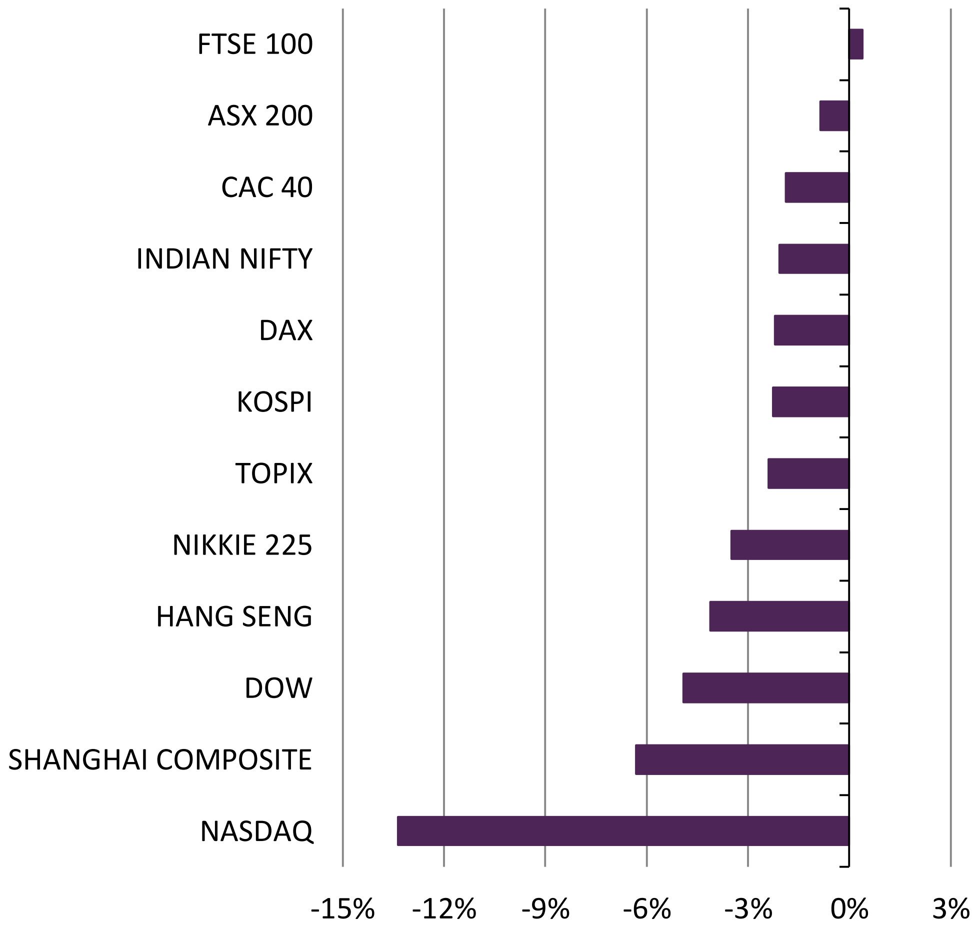
BESPOKE

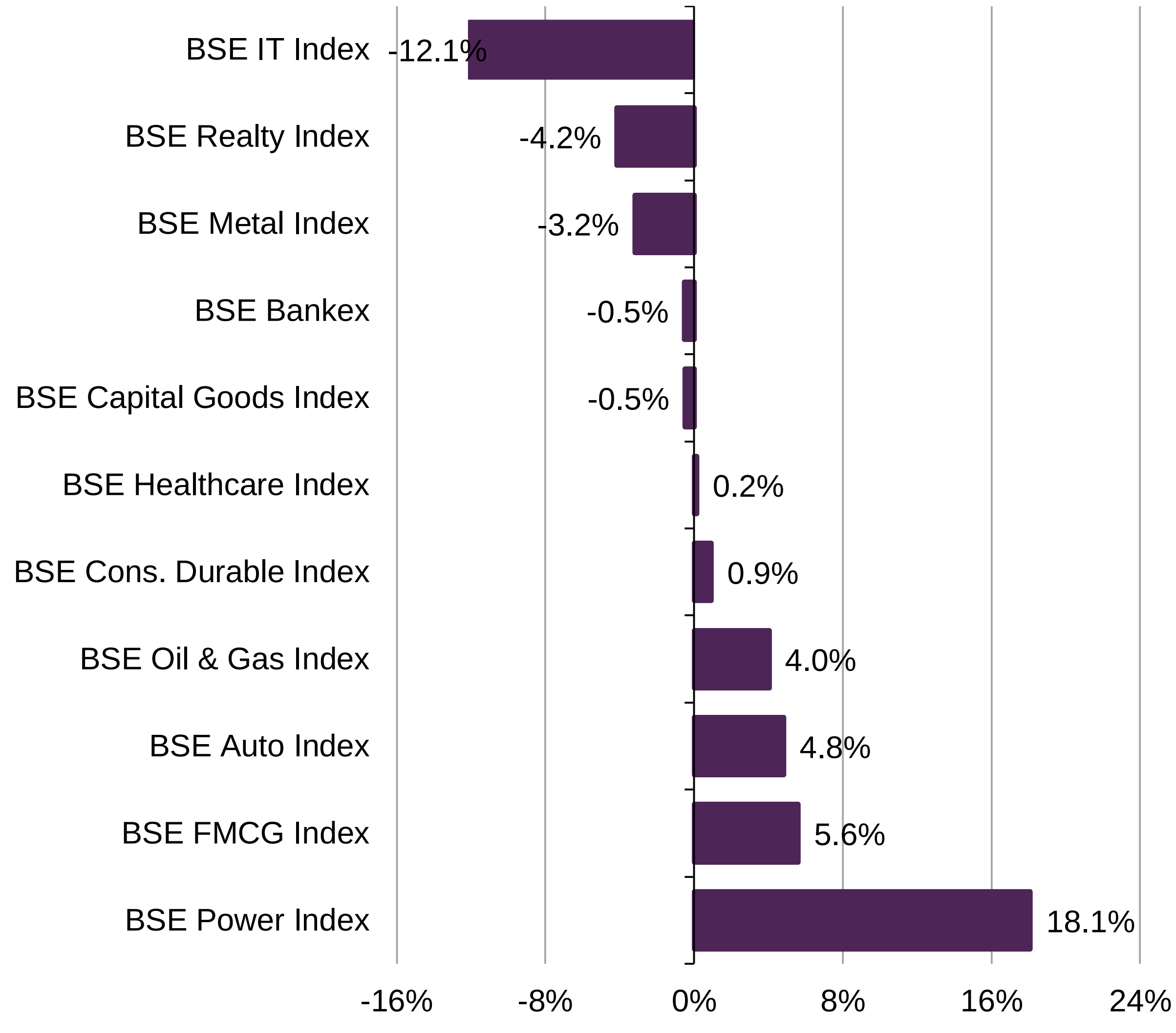
Advice for a select few

ANAND RATHI
PRIVATE CLIENT GROUP
EQUITY
PCG

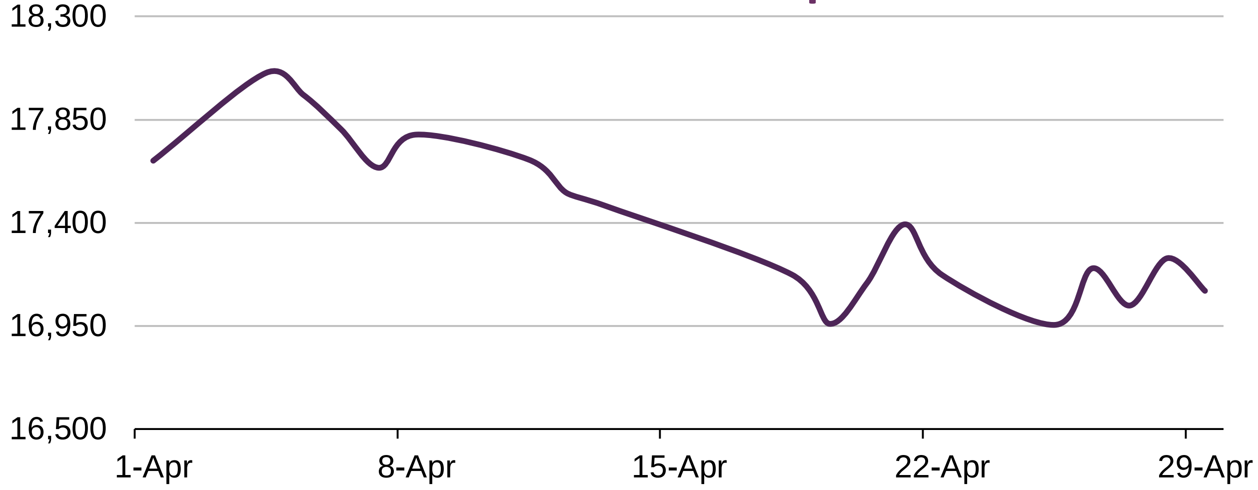
Global Markets performance in Apr-22



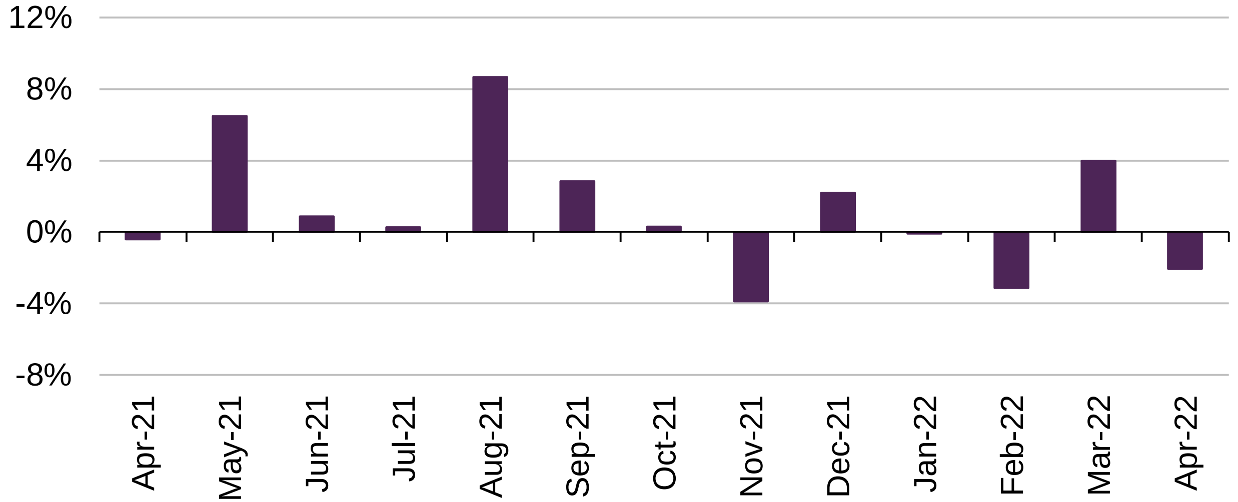
Sector wise performance during the month



NIFTY Performance in Apr 2022



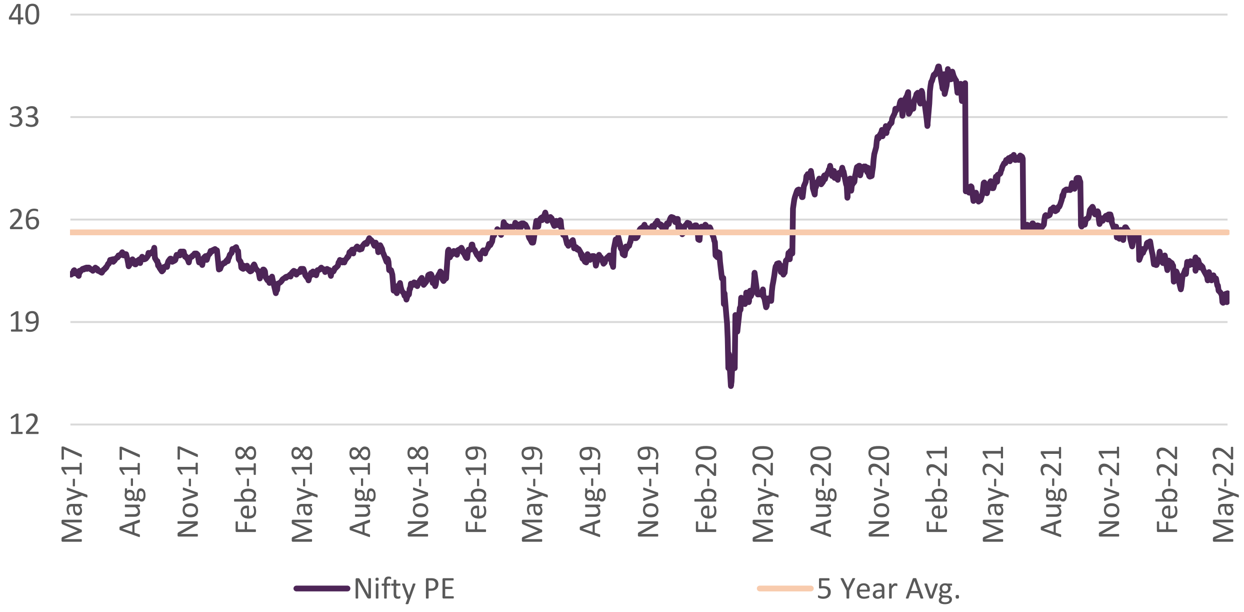
NIFTY monthly performance for trailing 12 months



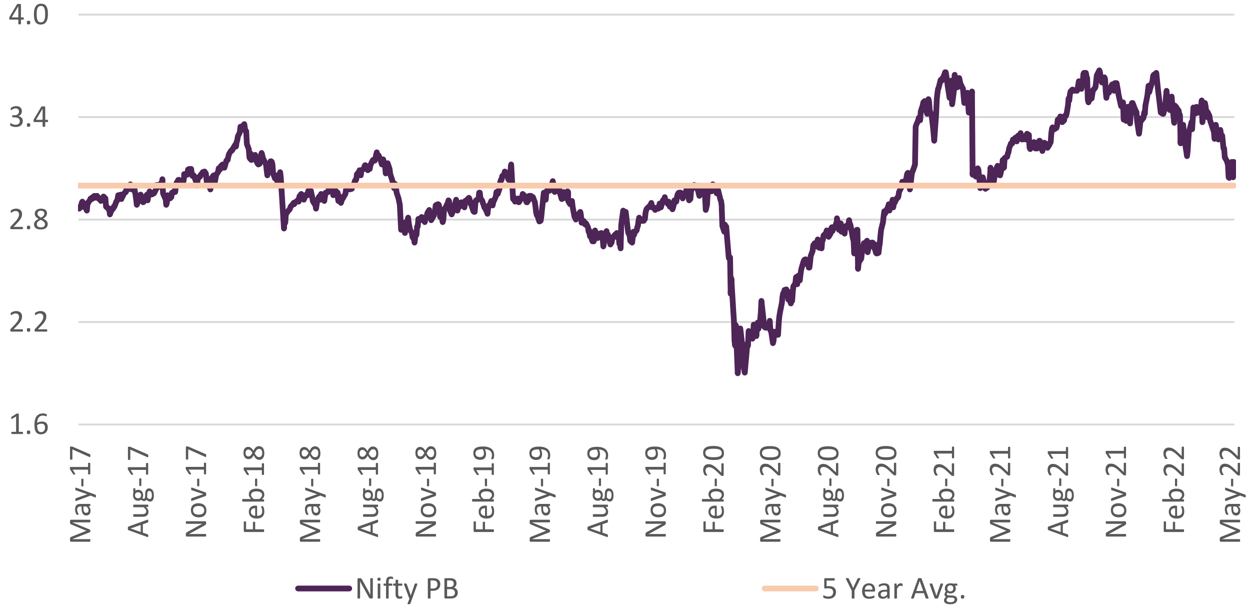
Equity Investing: *Index valuations*

ANANDRATHI PRIVATE CLIENT GROUP EQUITY

Nifty Trailing 12M P/E & 5 Yr. Avg. P/E



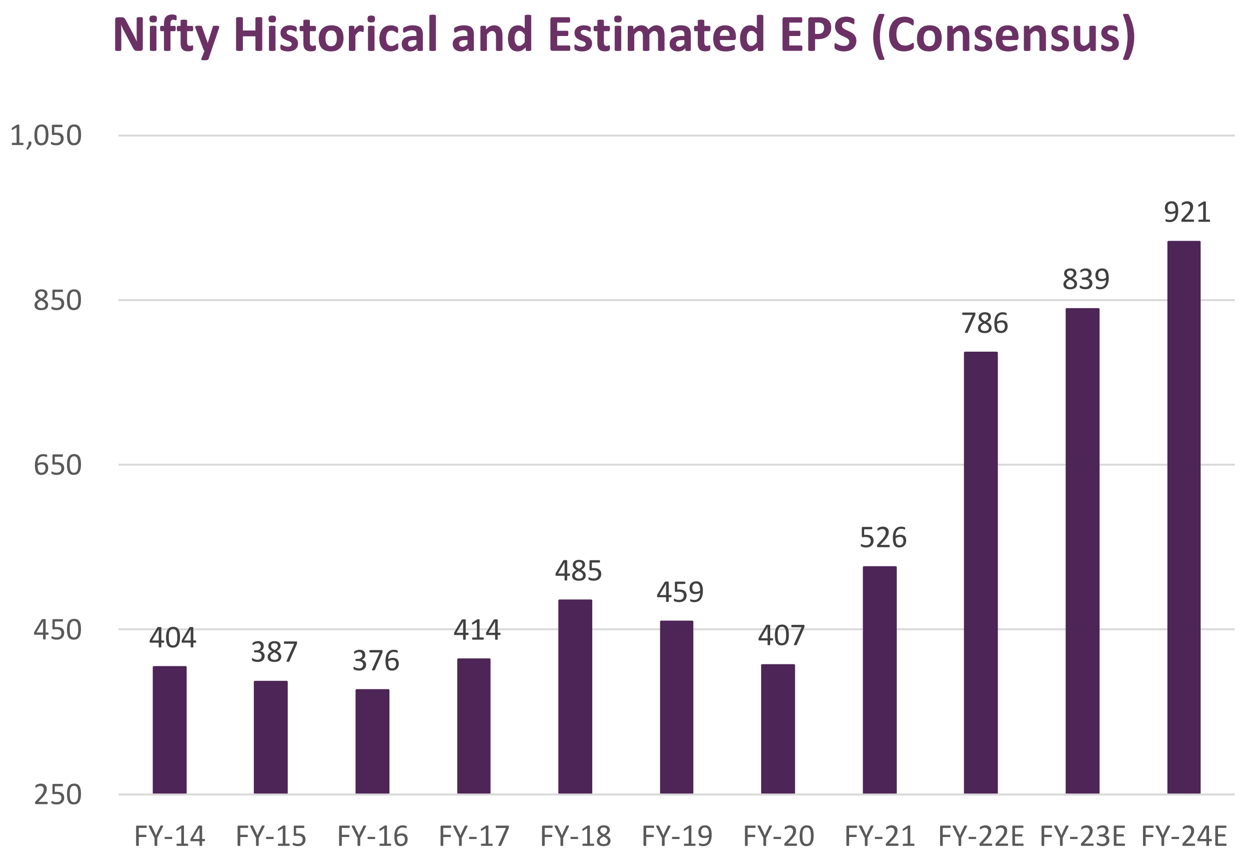
Nifty Trailing 12M P/B & 5 Yr. Avg. P/B



- Currently Nifty50 is trading at around 20.5x its trailing 12 month price to earnings ratio while its five year historical average price to earnings ratio stands at around 25.1x. A discount of around 16.5% from its five year historical average.

- In terms of price to book ratio, the Nifty50 is trading at around 3.1x it price to book while its five year historical price to book ratio stands at around 3x. A premium of around 4.5% from its five year historical average.

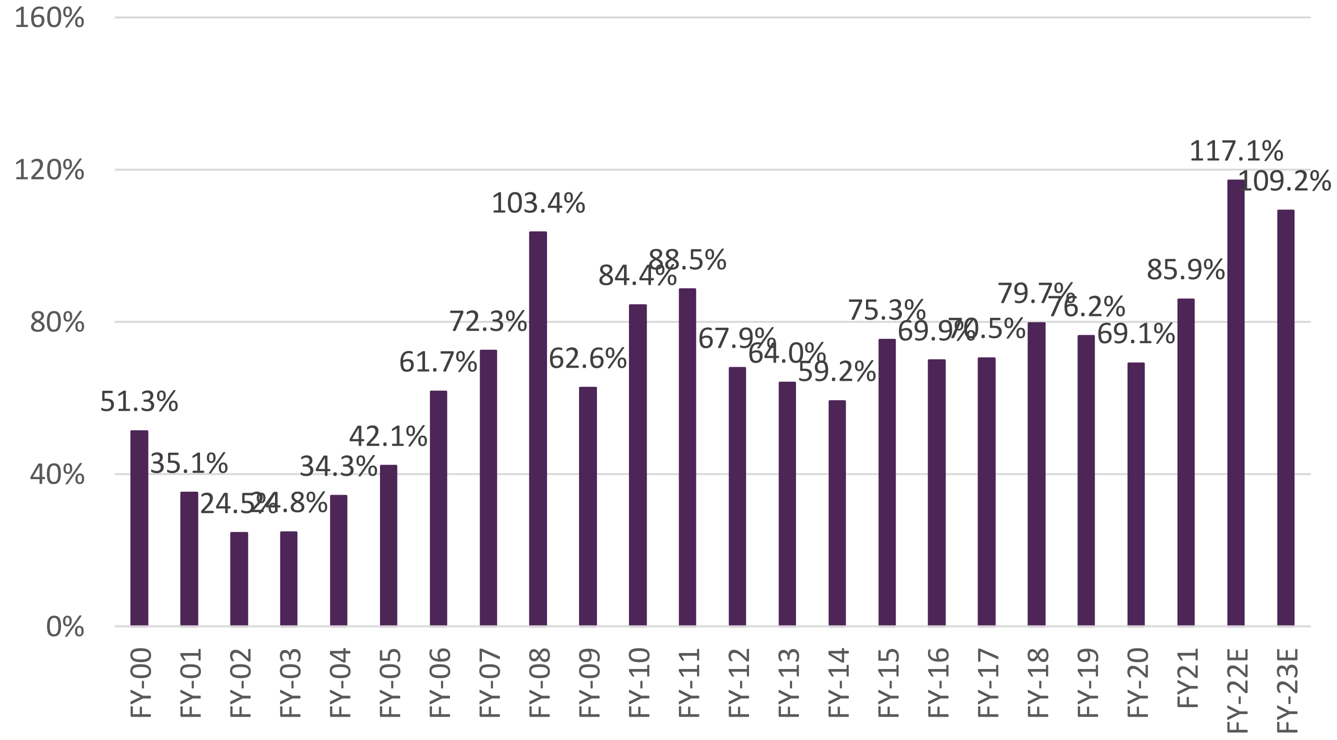
Equity Investing: *Index valuations contd.*



- Nifty50 earnings are estimated (consensus) to grow at a CAGR of about 20.5% in next three years from FY21 onwards till FY24.

Equity Investing: *Broader Market valuations*

India Market Cap. to GDP Ratio



- Currently India's listed companies market capitalisation to GDP ratio stands at about 117.1% at month end while it was about 125% at the start of the Apr-22 month. The ratio is considered an indicative of overall equity market sentiments and cycles.
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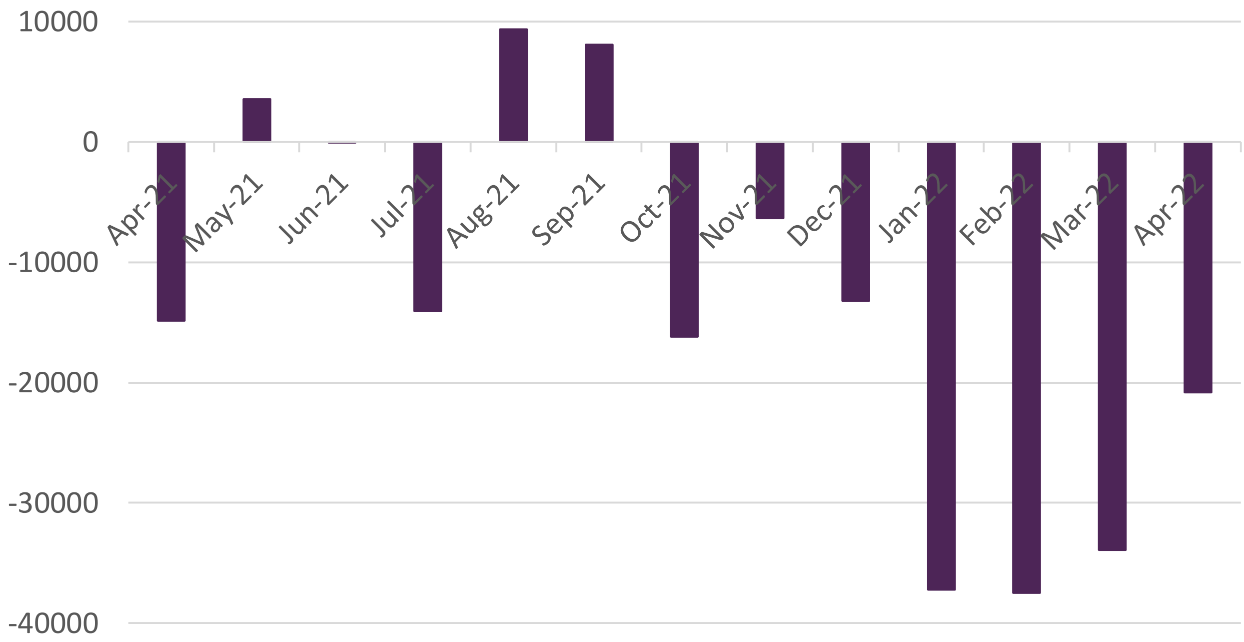
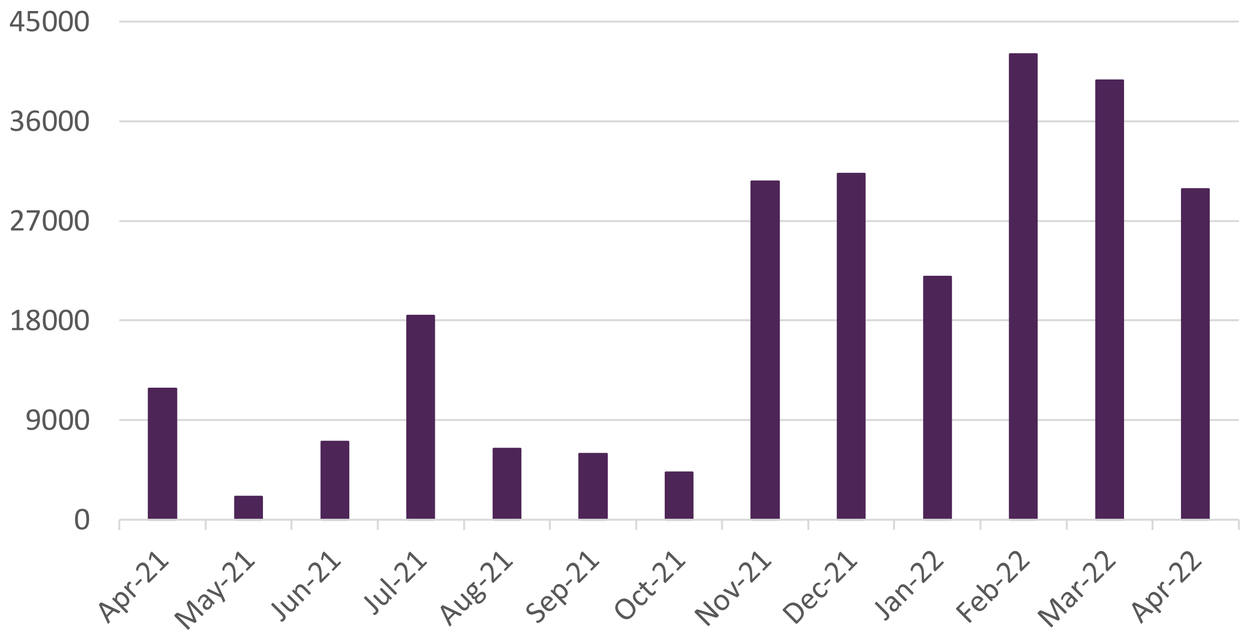
Equity Investing: Big *Money Flow*

FII Monthly Inflows in Equity (₹ Crore)



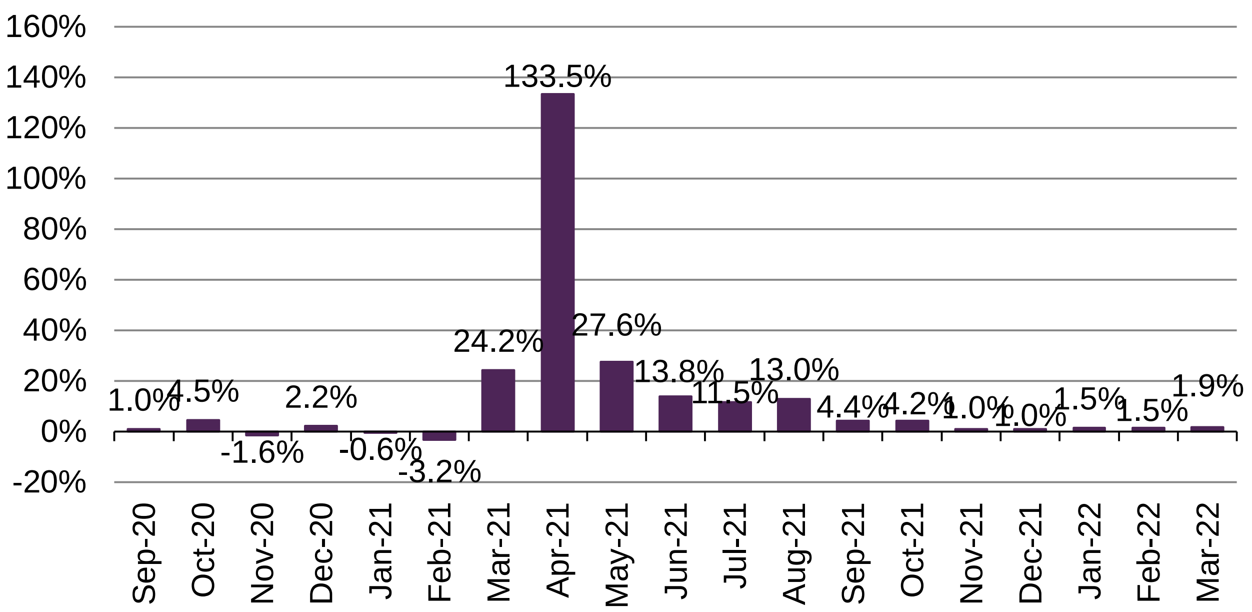
DII Monthly Inflows in Equity (₹ Crore)



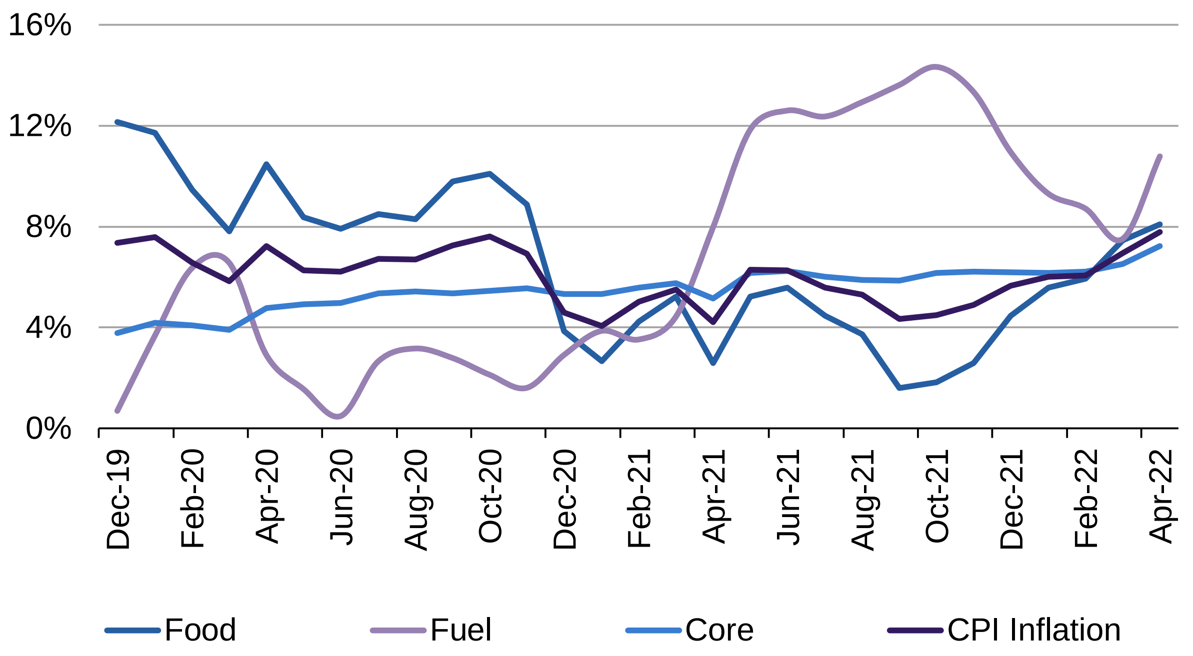
- FII monthly inflows for the month of Apr-22 has seen net outflows of almost ₹20,813 crores which is seventh consecutive outflow month.
- On the other hand, domestic funds have seen monthly net inflows which stood at around ₹29,869 crores.

Equity Investing: Growth & Inflation

IIP Growth (%) trend (2011-12 base)



Food, Fuel, Core & CPI Inflation (%) YoY



- Index of Industrial Production (IIP) data for the latest month Mar-22 maintained its positive momentum in industrial activity. The index stood at 1.9% for the month.
- Latest inflation data released showed sustained increase in inflation across all categories with Fuel inflation stood at 10.8%, core inflation stood at 7.2%, CPI at 7.8%. The Food inflation for the Apr-22 month stood at 8.1%.

Stagflation scare can make equity markets volatile

Inflation likely to soften

But it may take several months

Substantial risk to growth

Growth likely to fall before inflation falls

Aggressive rate hikes likely

Central banks did not act for a long time

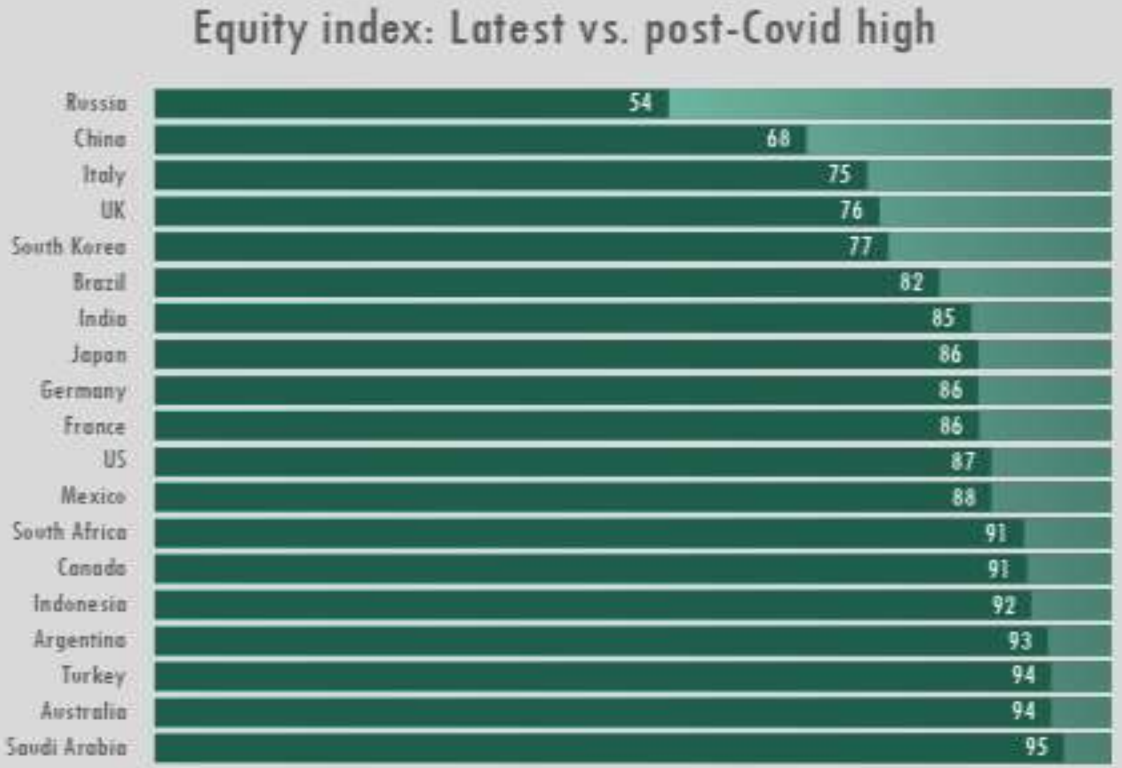
Fiscal tightening to be gradual

Low growth and political issues

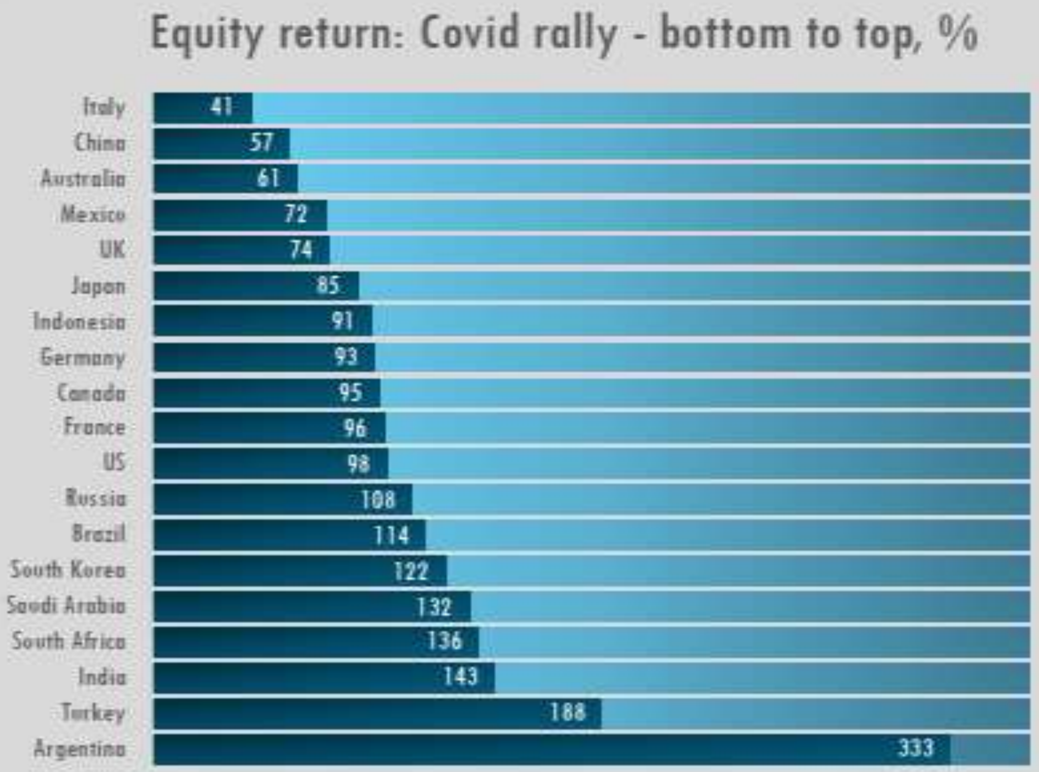
Equities to be volatile

Near-term correction cannot be ruled out

With rising risks, most equity markets corrected since late 2021



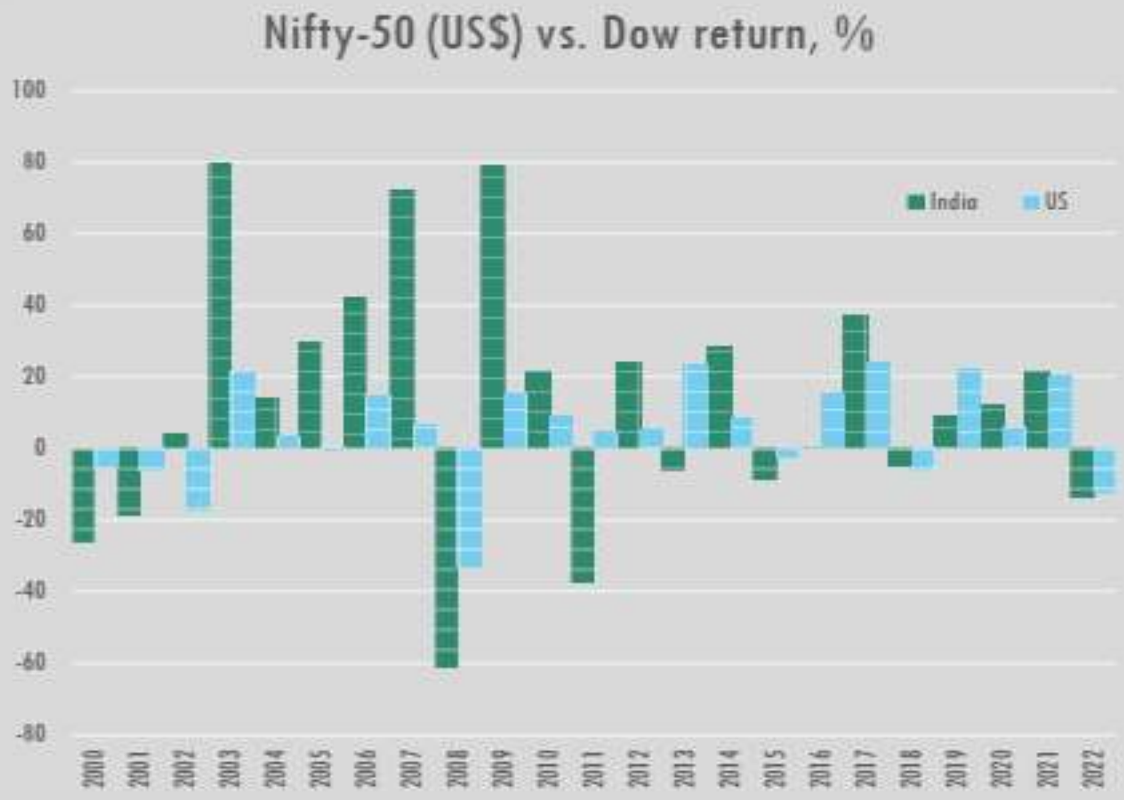
Geo-political, macro and policy concerns impacted equity markets

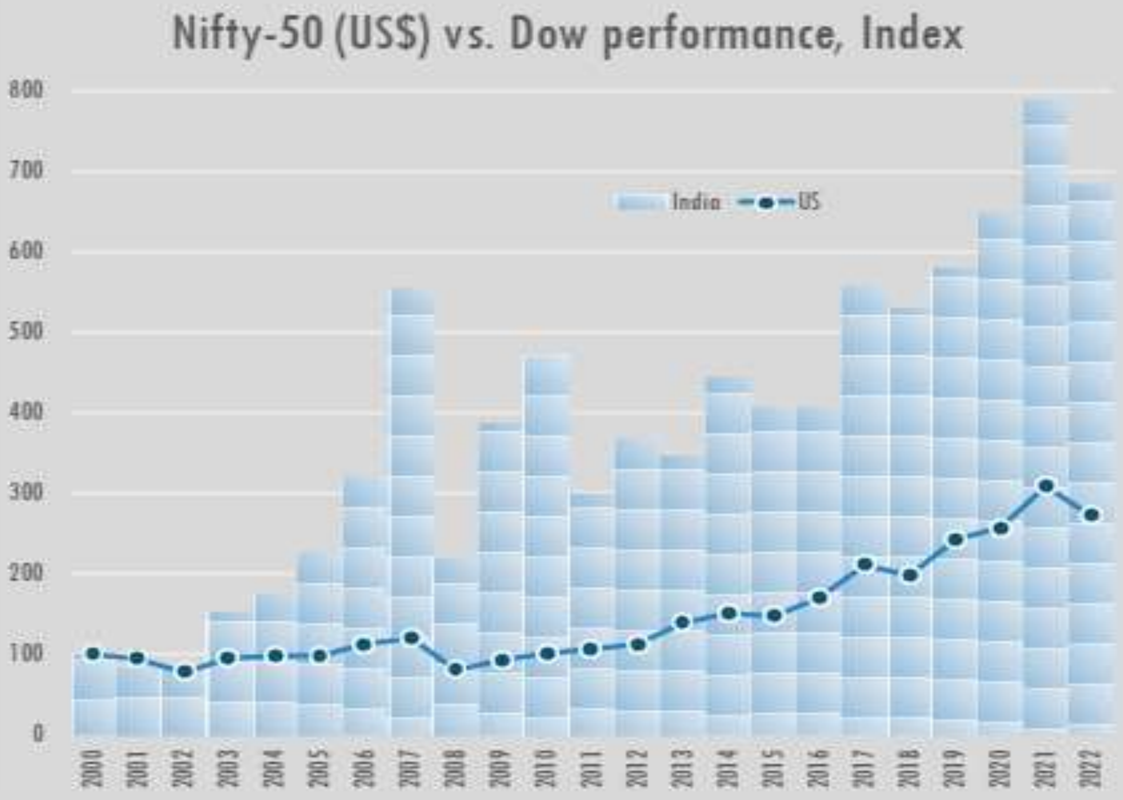


Near-term equity market outlook not particularly encouraging

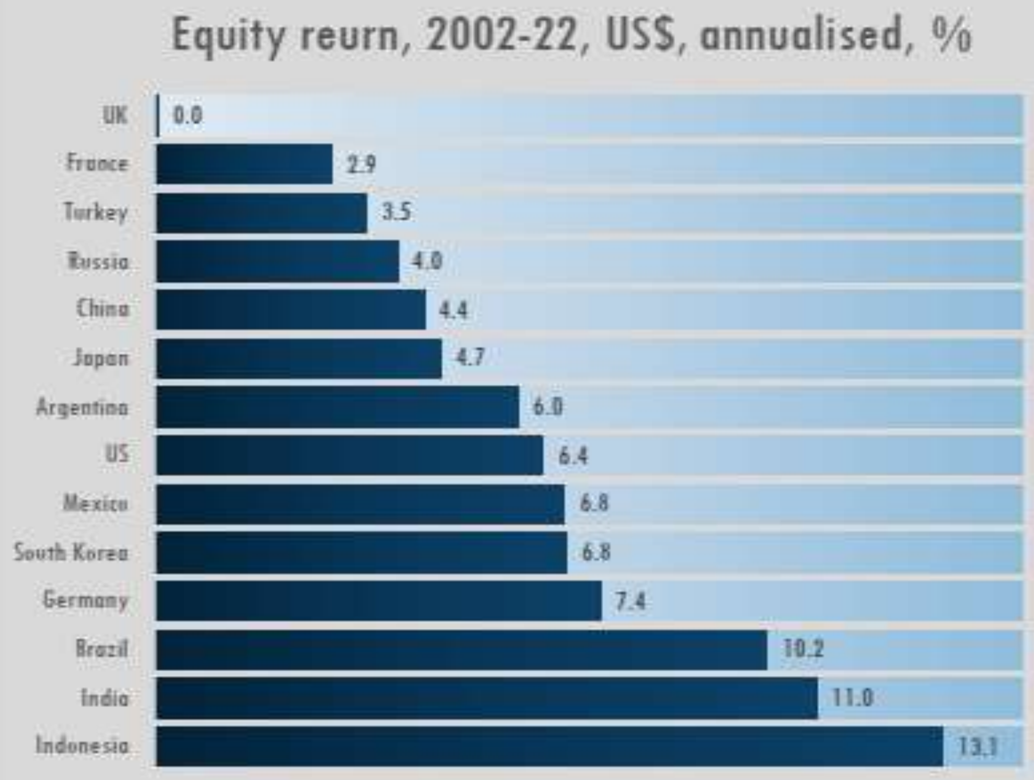
Softer demand	Higher cost	Margin pressure	Risk aversion	Valuation concern
Lower growth, policy tightening	Elevated commodity prices	Full pass-through of cost difficult	Possible withdrawal of equity investment	Lower earnings, higher discount rate

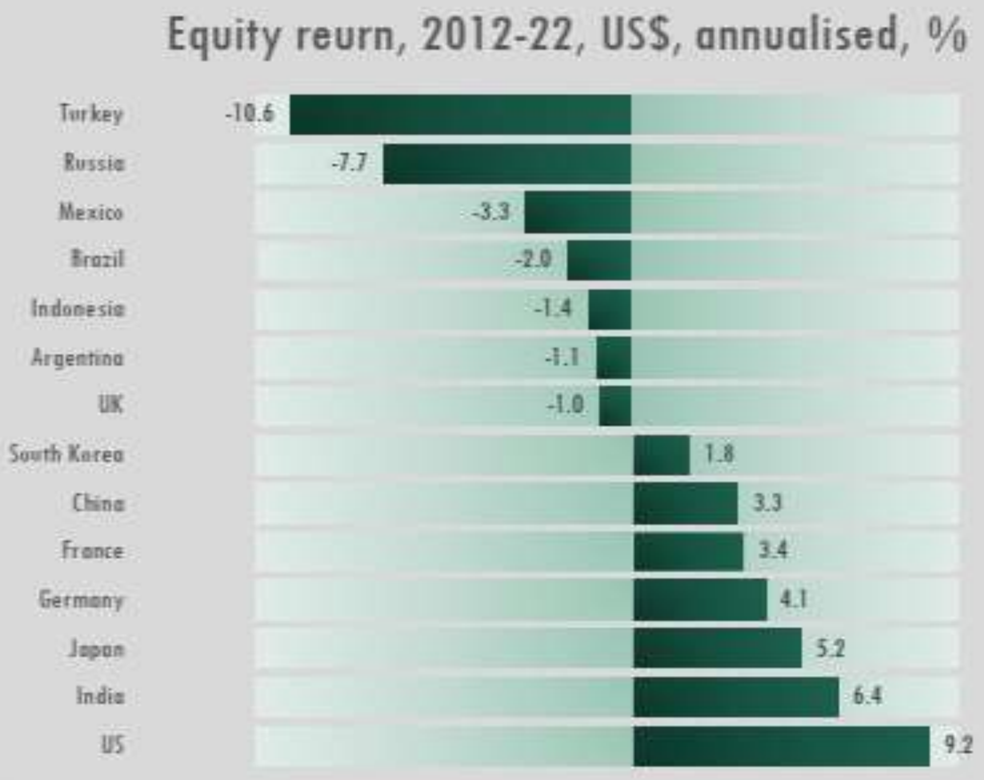
India can not remain unscathed if global markets correct





Over longer term, India delivered better consistent dollar returns vs. all peers

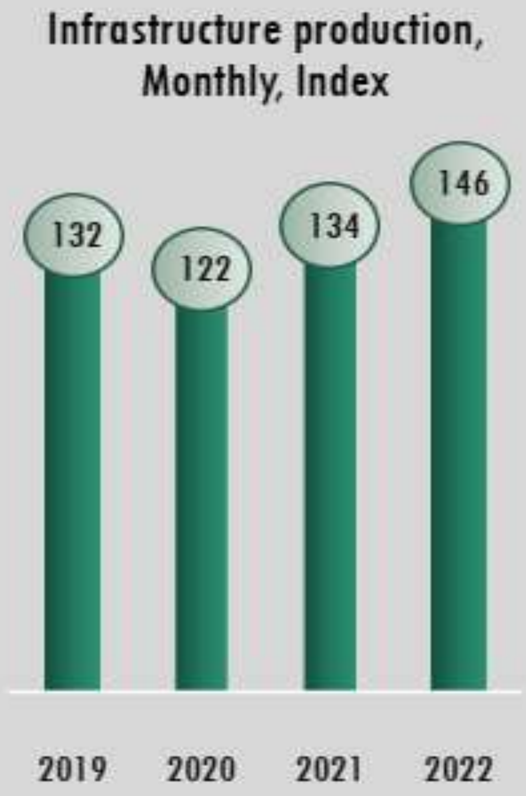


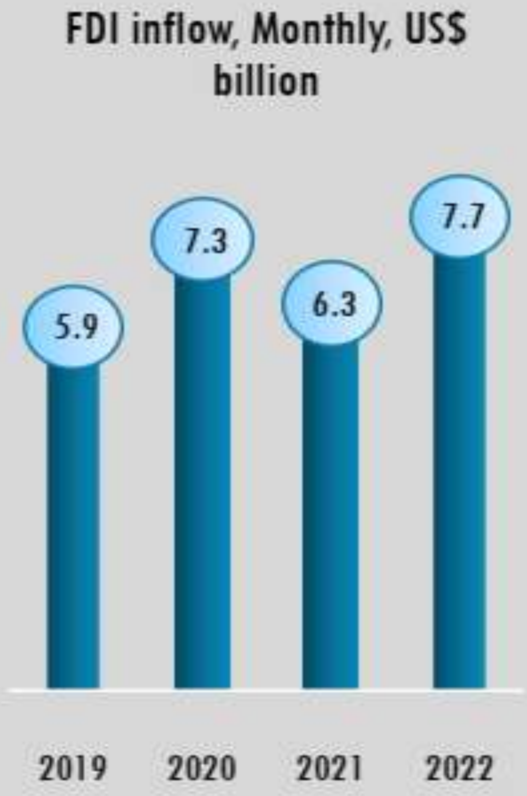


India better off with strong fundaments, ample liquidity and many companies

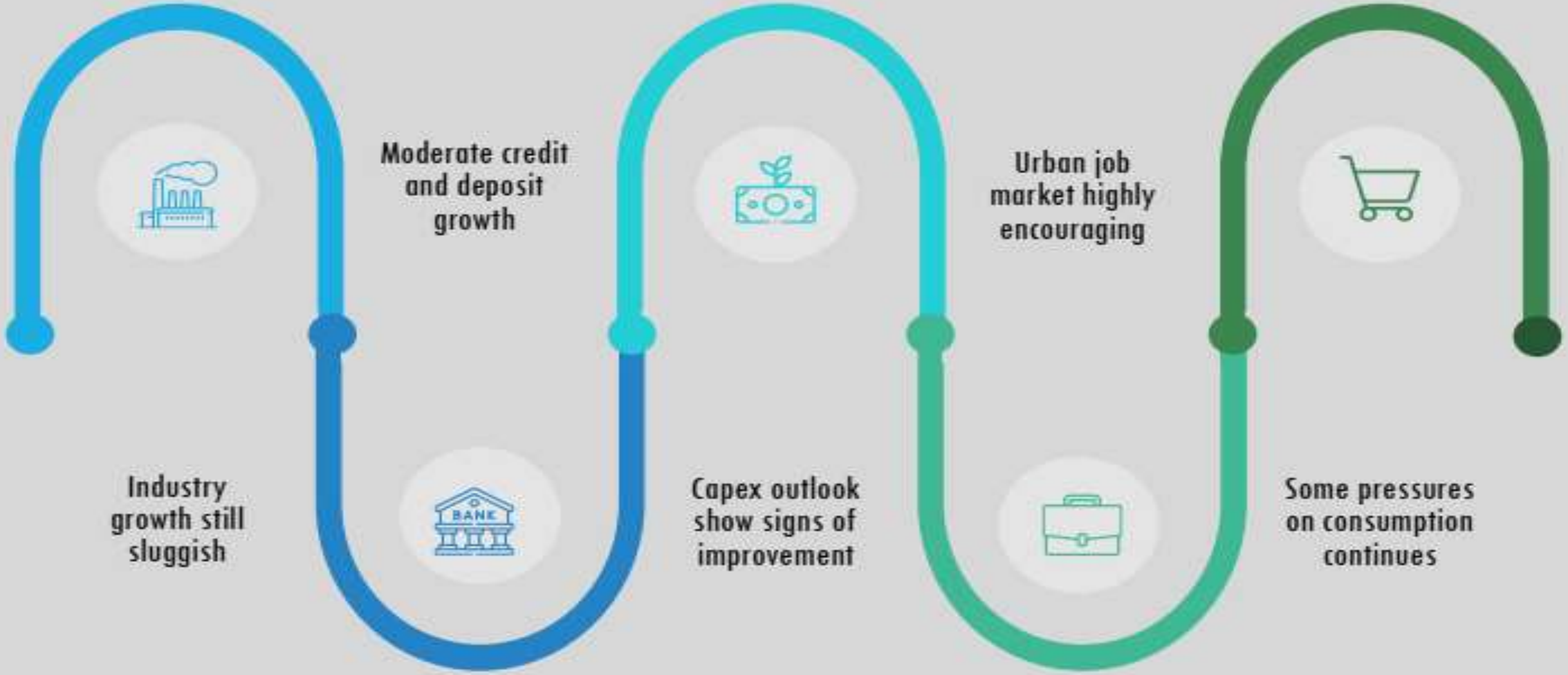
Strong macro fundamentals	Better corporate performance	Low policy uncertainties	Ample equity market liquidity	Large choice among corporate
High GDP growth, moderate inflation	Earnings growth better than GDP growth	Consistent reform, few policy reversals	Strong FII inflow, rising domestic equity share	Highest number of listed companies

Sluggish growth but business optimism seems to be improving





India's macro fundamentals better than most peer and own pre-pandemic levels



Corporate fundamentals healthy despite input cost pressures

Record high corporate sales

Profit margin well above pre-covid

Margin dipped in Dec'21 quarter

Record high corporate profit

Raw material cost to sales rising

Considerably better balance sheet

Changed investment pattern, but liquidity still ample in equity market

Foreign ownership	Mutual fund ownership	Insurance sector ownership	Retail/HNI ownership	Direct vs. indirect equity investment
Secondary down, primary up	Rising progressively	Modest increase in the recent past	Covid bump-up, drop thereafter	Moving from direct to indirect

Indian equity valuation not cheap, not expensive either

Jump in valuation during 2016-21

Mis-match between expected and realized earnings performance

Modest drop in multiple in 2022

With sharp rise in earnings, valuation multiples fallen

Strong earnings growth

After slow earnings growth during 2016-21 big jump post-covid

Earnings growth to slowdown

Low base induced strong earnings growth to slowdown

Valuation not key concern

Valuation not a concern if earnings do not deteriorate

Remaining invested despite market volatility rewards investors

Market entry post a large correction boosts 1-year equity return	Entry at market peak or after 36% fall yields similar 3-y return	Entry at market peak or after 36% fall yields similar 5-y return	Entry at market after over 36% fall yields better returns	In sharply falling market, however, few investors dare to invest
Timing the market helps in short-term	**Timing matters little for 3-year investment**	**Timing matters even less for 5-year investment**	**Good entry point when market down sharply**	**Few dare to invest if market down by 30%**

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