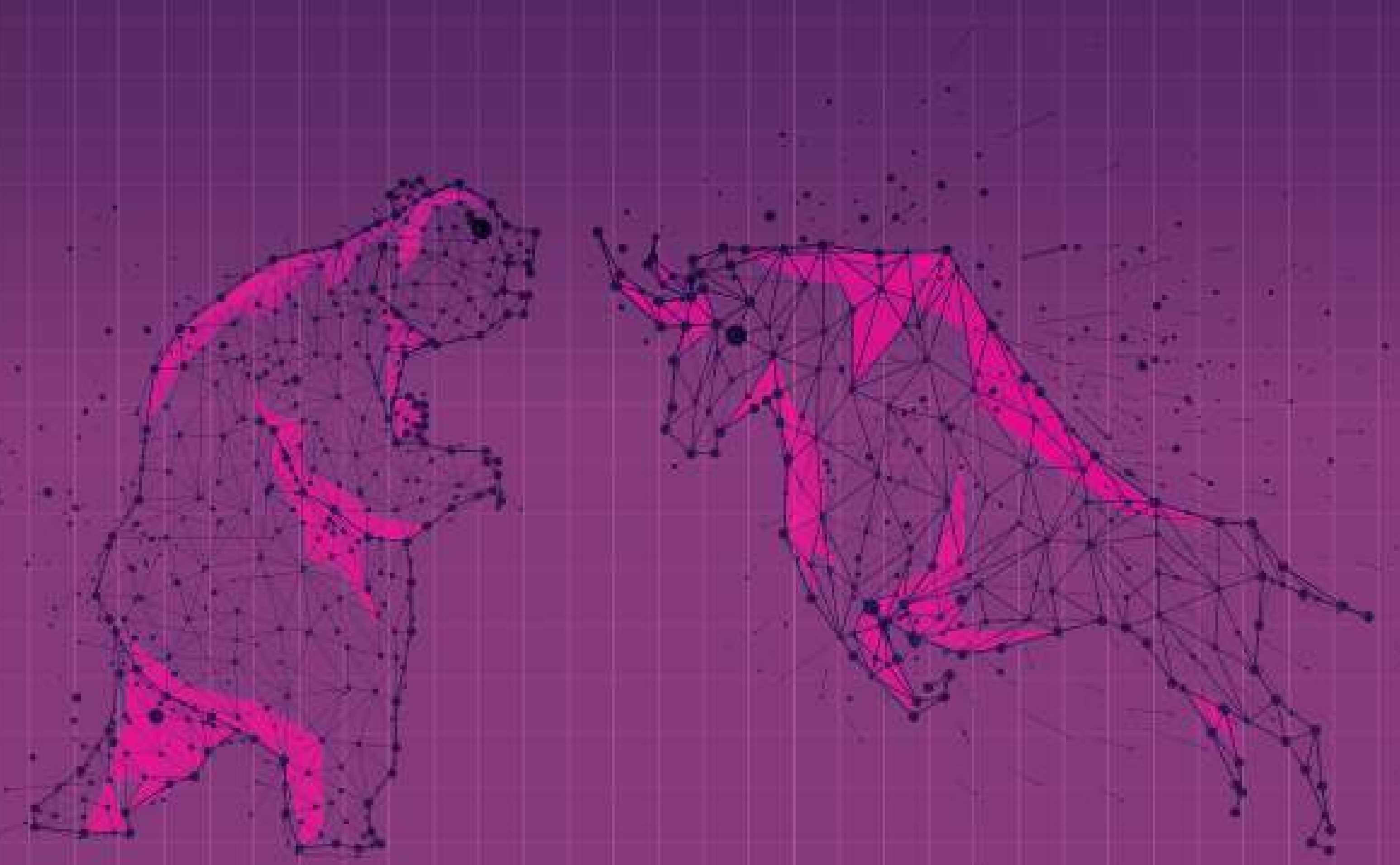
AnandRathi
Private Client Group
Equity

FINANCIAL

FLASH

October 2021



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PCG Communique

From the Desk of the PCG Head

Rajesh Kumar Jain

The high optimism in the market is taking into consideration all the factors of high growth, the good corporate result for the 2nd qtr, the speed of the vaccination drive, low-interest rates to continue for some more time, higher GST collection, good monsoon, and forthcoming festive season without fear of Coivd. There is a lot of optimism that the coming festive season will be far better than what we have seen in 2019 & 2020 and this time the way vaccination drive has taken place with 90.3CR population got the 1st shot of vaccination and 24.9 of the population got fully vaccinated the fear of Covid is far less then what it was.

Coming to markets, both FII & DII has been a net buyer in Sept to an extent of 913 CR while DII were net buyer of 5948 CR. In the aggregate terms for FY 21-22, FII were net sellers of approx. 42927 CR, whereas DII was a net buyer for 51704 CR (approx.). There have been subsequent increases in the Aug month SIP figures which registered 9923 CR Vs 9609 CR in July.

India's outperformance is continuing, despite neighboring countries, China is going through a power crisis, real-estate company fiasco, high leverage in most of the corporate Balance Sheet. China is going through a decarbonization phase and in a long term wants to adopt a BLUE SKY policy, which will reduce pollution by trimming down industrial production. We firmly believe that the China+1 strategy with play out very well for India, where the Industrial activity will shift to some of the EMs. Chemical, Pharma, Industrial goods are a few industries that will be a major beneficiary with the China plus ONE strategy.

Despite the major run-up in the IT sector, we see some amount of profit booking in the IT space in Sept. Auto look to be a muted sector due to the semiconductor problem which is still haunting the industry, While Evergrande crisis in China put pressure on metal stocks due to China hard landing concerns, global consumption of oil and production not getting hiked is raising the prices of crude to $81 which is a concern area for India.

The second lockdown has dampened the sentiment for industries and consumers alike. However, the expectation is that economy will recover faster than before as lockdown opens up. We are seeing signs of turnaround by looking at volume growth/capacity utilization/inventory-sales ratio. Vaccination rate is another metric to track as it means faster normalization of economic activities.

While Q1FY22 corporate earnings were a mixed bag there were a few upgrades, especially in the IT, Metals & cement sectors. Autos & Pharma were major disappointments. Real estate continued to witness strong up move. August saw the highest number of residential registrations in a decade. On the macroeconomic front, many high-frequency indicators are pointing towards month-on-month improvement. June quarter reported GDP number was better than estimates. Normalization of economic activities continued through the whole of 2nd qtr.

This time opening up may not see a U-turn in discretionary spending, unlike last year which was linked to pent-up demand. We remain cautious in Consumer stocks including Auto, FMCG, and Durables. Also, fully priced valuations have kept us away from these sectors.

Banking and financial services are again at the forefront to face the brunt of slow economic recovery. Leading private sector banks and NBFC both have warned of delinquencies over the next few quarters. We remain cautious and recommend owning only selective ones where we can estimate the worst-case scenario and still earn reasonable returns over the medium term. As the dark clouds get clear, we will see good wealth creation in banking stocks.

Even if near-term risks galore on valuation and narrow recovery, we will not be perturbed by interim correction, if any. We are well past the recessionary period, any interim correction will be transitionary and see faster recovery.

The Indian corporate sector is in the best position to gain pricing power and balance sheet strength. The majority of the sectors have seen consolidation. We are seeing this across sectors: Power, Telecom, Cement, Banks, NBFCs, Real Estate, building materials, Paper, pharma, capital goods, consumer durables, etc. This will give strong profitability for incumbents due to the high barrier to entry for the next few years.

Primary markets are getting complacent about risks where businesses with a long gestation period to profitability are enjoying several multiples of bids. So far 43 IPOs have come in this calendar year raising 78500CR (approx.) through IPO.

India’s current account is likely to turn to a deficit in FY22 with rising domestic demand resulting in higher import growth compared to that of export while the escalated global commodity prices could push the import bill upwards. The Indian rupee may however remain range-bound as the risks from a strong dollar and higher global energy prices may partly be offset by the strong capital inflows.
We see a gradual recovery and elevated commodity prices pressurizing the import bill. We expect import growth exceeding export growth, while higher losses in oil-led terms of trade imply that the current account-to-GDP will be back to a deficit in FY22,”

India's manufacturing sector activities improved in September as companies benefited from strengthening demand conditions amid the easing of COVID-19 restrictions.
The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) improved from 52.3 in August to 53.7 in September, indicating a stronger expansion in overall business conditions across the sector.

On the prices front, rising fuel, raw material, and transportation prices pushed the overall rate of input cost inflation to a five-month high. Output prices, however, increased at a slower and only moderate rate. After subsiding in each of the previous two months, cost inflationary pressures intensified in September.

On the macro-economic front, subdued prices of food items like vegetables pulled down retail inflation for the third month in a row to 5.3 percent in August, within the RBI's comfort zone. Retail inflation, which rose sharply to 6.3 percent in May from 4.23 percent in April, has been on a downward trajectory since then. It was 6.26 percent in June and 5.59 percent in July & 5.30% in Aug this year. Economists believe the Reserve Bank of India is expected to continue with the accommodative policy stance in its October 6-8 monetary policy discussions.

October could be an uncertain month with several factors. The fallout of Evergrande is still not clear while US inflation poses a macro risk. The RBI has hinted at a hike in reverse repo rates and a tapering of liquidity. A lot will depend on how the quarterly results for the Sep-21 quarter match up to the market euphoria. But on the other side good Monsoon, rural demand, festive season, and opening of the complete economy will drive demand and earning of many companies.

We advise the investor to be cautious and book some profit from the table. Even invested move the portfolio to Large Caps and avoid the small-cap and mid-cap for the time being. We would also advise you to boldly exit the speculative bets that have gone wrong and still appear in your portfolio. Do not end up buying poor-quality stocks just because there is a liquidity-driven rally in the broader markets. The risk-on rally tends to spur investors to chase prices rather than focus on fundamentals. Be aware of this. Although over the long term Mkt will behave as per the earnings of the companies and will continue to do well while the short term can be corrective and volatile. Investors buying any companies based on fundamentals at these levels, have to have a view of at least a year and buy, done buy short term investment with a long term horizon as the market will see volatile and going forward it will not be that every stock will participate with the overall market rally but it will very sector or stock-specific which will participate with the rally.

Sector to watch out for IT, Paints and Building ancillary, Chemicals & Power.

Market Commentary

The Nifty index ended the September month at 17,618.15 with positive gains of 2.84%. However, Sensex ended the September month at 59,126.36 with positive gains of 2.73%.

Bulls continued to roar on Dalal Street with frontline gauges extending their record-breaking spree during the passing week, settling above their crucial 17,300 (Nifty) and 58,100 (Sensex) levels. Sentiments remained jubilant for most of the week on a report that high-frequency key economic indicators for August 2021, in the form of GST collection, railway freight, auto sales volume despite semiconductor issues, power consumption, import-export data, and fuel volumes indicate a sustained economic recovery. Markets extended rally to end the weekly trade near all-time highs as investors cheered RBI's statement that India's holding of IMF's Special Drawing Rights (SDR) has gone up to SDR 13.66 billion.

Markets made an optimistic start to the holiday truncated week as traders took encouragement with a private report that recovering from the economic slump caused by the pandemic, hiring trends saw an improvement in August. However, traders book some profit off the table as some concern occurred with a private report projecting a real gross value added (GVA) growth of 7 to 8 percent year-on-year in the second quarter of the current fiscal year. Buying on the final day of trade made sure that key gauges will end in green as S&P Global Ratings said India is expected to post strong economic growth in the coming quarters, even as inflation, led by food prices, is likely to remain elevated.

Markets started the week on a pessimistic note as traders were concerned after a periodic labor force survey by the National Statistical Office (NSO) showed that the unemployment rate for all ages in urban areas rose to 10.3 percent in October-December 2020 as compared to 7.9 percent in the corresponding months a year ago. Some cautiousness also came in after India Ratings and Research (Ind-Ra) said that salaried and wages earners will be a drag on overall economic recovery in the medium-term due to tepid recovery of household consumption. Key gauges took a U-turn on the very next day, gaining momentum as the government data showed India's retail inflation in August marginally eased to 5.3%. However, markets given some of their weekly gains as profit-taking ensued following a steep rally in the indices which saw them hitting significant landmarks.

Markets started the week on a pessimistic note as traders got anxious with a report that the country's foreign exchange reserves declined by $1.34 billion to $641.113 billion in the week ended September 10, 2021, according to RBI data. Some cautiousness also prevailed in the markets with President Ram Nath Kovind's statement the Covid pandemic hit the country's economy hard and the government has taken various fiscal measures to alleviate distress and help the poor. Markets witnessed some consolidation after Asian Development Bank (ADB) has revised down India's GDP growth forecast to 10 percent for FY22 from 11 percent predicted earlier, citing the adverse impact of the second wave of the pandemic.

It turned out to be a disappointing week of trade for Indian equity benchmarks with frontline gauges snapping five weeks winning streak, as traders remained concerned over China's Evergrande Group's debt crisis and widening power shortage in China. Traders also remain concerned with a report stating that as many as 470 infrastructure projects, each worth Rs 150 crore or more have been hit by cost overruns totaling more than Rs 4.37 lakh crore. Some concern also came as the finance ministry stating that India's external debt rose modestly by 2.1 percent year-on-year to $570 billion as of March-end 2021, notwithstanding the COVID-19 pandemic.

In terms of economic performances, the IHS Markit India Manufacturing Purchasing Managers' Index (PMI) rising from 52.3 in August to 53.7 in September, highlighted a stronger expansion in overall business conditions across the sector. For the second quarter of the fiscal year 2021/22, the PMI averaged 53.8, a sizeable improvement from 51.5 in the opening quarter. The IHS Markit India Services PMI posted 55.2 in September, highlighting a marked increase in output. Despite falling from August's 18-month high of 56.7, the latest reading remained well above its long-run average. Where activity growth was reported, panelists mentioned accommodative market conditions and favorable underlying demand amid the easing of COVID-19 restrictions. The combined Index of Eight Core Industries stood at 133.5 in August 2021 which increased by 11.6% as compared to the Index of August 2020. Coal, Natural Gas, Refinery Products, Steel, Cement & Electricity recorded growth whereas Fertilizer, Crude Oil recorded negative growth.

India's retail inflation, measured by CPI marginally eased to 5.30 % in August as compared to 5.59% in July, staying within Reserve Bank of India (RBI)'s target range for the second month in a row, as moderation in food price rises was offset by continued supply-chain disruptions. Wholesale price-based inflation (WPI) rose to 11.39% in August, staying in the double digits for the fifth month in a row. The high rate of inflation in August 2021 is primarily due to the rise in prices of non-food articles, mineral oils, crude petroleum & natural gas, manufactured products like basic metals, food products, textiles, chemicals, and chemical products, etc as compared to the corresponding month of the previous year.

Regarding export-import activity, India's exports grew by 21.35% year over year at $33.44 billion in September while imports increased by 84.75% year over year to $56.38 billion. The Goods and Services Tax (GST) collection in September stood at ₹1,17,010 crore.

Also, India's foreign exchange reserves decreased by $997 million to $638.65 billion in the week ended September 24. Foreign currency assets (FCAs), a key component of the overall reserves, declined by $1.255 billion. Additionally, Foreign Portfolio Investors (FPIs) were net buyers of Rs. 27,756 crores in September, driven by net inflows in equity of Rs. 13,154 crore.

On the global front, The U.S. markets ended lower during the passing week as Treasury yields rose to three-month highs and lawmakers in Washington continued their budget stalemate. The turnaround by yields came after Federal Reserve Chair Jerome Powell warned inflation could be held up longer than previously thought due to supply chain problems. Further, adding to the negative sentiment on markets, the Conference Board released a report unexpectedly showing a continued deterioration in U.S. consumer confidence in September. The Conference Board said its consumer confidence index tumbled to 109.3 in September from an upwardly revised 115.2 in August. Growth in Chicago-area business activity continued to slow in September, according to a report released by MNI Indicators. MNI Indicators said its Chicago business barometer slipped to 64.7 in September after slumping to 66.8 in August, although a reading above 50 still indicates growth.

In the labor market, first-time claims for U.S. unemployment benefits increased in the week ended September 25th, according to a report released by the Labor Department. The report said initial jobless claims moved higher to 362,000, an increase of 11,000 from the previous week's unrevised level of 351,000. The street had expected jobless claims to drop to 335,000 from 351,000 unrevised levels reported for the previous week.

Meanwhile, IHS Markit signaled a marked improvement in the health of the U.S. manufacturing sector, despite being the slowest since April. Despite rising markedly, production was often hampered by severe material and labor shortages, as supply chain disruption worsened. IHS Markit U.S. Manufacturing PMI stood at 60.7 in September, down from 61.1 in August.

Growth of the eurozone manufacturing sector registered another strong improvement in operating conditions during September, latest PMI data showed, owing to further marked rates of expansion in output, new orders, and employment. The final reading of the IHS Markit Eurozone Manufacturing PMI for September of 58.6 was a fraction below the preliminary 'flash' print of 58.7, but a notable step down from 61.4 seen in August and the lowest since February. As per the report of the global data firm, "While Eurozone manufacturing expanded at a robust pace in September, growth has weakened markedly as producers report a growing toll from supply chain headwinds." The final au Jibun Bank Manufacturing PMI eased to 51.5 in September as compared to 52.7 in August, signaling a softer, more marginal improvement in the health of the sector

Regarding China, The National Bureau of Statistics reported that the official manufacturing PMI for September fell to 49.6 from 50.1 in August. The country's non-manufacturing PMI, which gauges sentiment in the services and construction sectors, jumped to 53.2 in September from 47.5 in August.

Going Ahead

The IMF expects India to be the fastest-growing major economy in the world during 2021 and 2022. The Indian corporate sector is doing even better than the economy. Yet, with over 130% rally of Nifty 50 since April 2020 and even stronger performance mid and small caps over the last 12 months, investors are getting concerned about the possibilities of a large market correction. The equity market by nature is volatile, especially in the short term, which makes timing the market consistently impossible. Consequently, the chances of market correction cannot be ruled out. From a medium to long-term perspective, the attractiveness of the Indian equity market continues.

RBI Monetary Policy is also one of the most important factors that are going to influence the course of the market in the week ahead. The Reserve Bank of India is scheduled to announce its bi-monthly monetary policy on Friday, October 8. It will be important to listen to the commentary of RBI Governor Shaktikanta Das.

India companies will officially kick off the earnings season for the September quarter as the largest IT player Tata Consultancy Services (TCS) will announce its Q2 results on Friday, October 8. The expectations of the results are a mixed bag which will be an important factor in deciding the future course of the market.

In addition to domestic factors influencing the market, the Global market factor will also determine the course of the markets. The global markets as of now have been quite volatile recently, with some weaknesses. The biggest worry is inflation and signs of a slowdown in China. Furthermore, the US market is also showing some signs of plateauing in growth. The market will have an eye on global data to get further direction.

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

Global markets remained under pressure as September FOMC turned out to be more hawkish than street expectations which led to a rally in yields. This quarter's negative performance (-8.8%) was the MSCI EM's worst quarter since COVID-19 hit in early 2020. MSCI EM posted a negative return (-4.2%) in September, in line with DM (-4.3%). Sell-off in Chinese stocks proved to be a major drag on EM Equity performance. Electricity shortages, concerns of One of the largest Real Estate Developers defaulting, and ongoing regulatory concerns kept the China equity markets under pressure. Energy-heavy markets rallied on the back of rising oil and gas prices (Russia, Colombia, and MENA). U.S. Treasury yield rose +18bps to 1.49%.

Indian equity market after reaching record highs during the month, S&P BSE Sensex settled with gains of 2.8%. S&P BSE Midcap and S&P BSE Small-Cap indices gained by 5.9% and 4.3% respectively. Indian markets continued their forward march, which can be attributed to India's insulation from a potential slowdown, steady trends on the pandemic front, govt. reforms/relief measures (Telcos, Auto, Banks, etc.) and record low-interest rates which placed India in a relatively better position than other economies.

In sector trends, Real Estate was the standout performer driven by a seemingly sharp uptick in property sales while Metals (China property market concerns) and Cement (seasonally weak period) were the laggards. Capital market activity moderated a bit in September but investors are looking at a very busy October with multiple high-profile IPOs likely to launch during the month.

FPI inflows rose in both the debt and equity markets. Domestic mutual funds purchased stocks for a seventh consecutive month and, thus, total institutional activity remains positive. Other key developments include:

1. FM announced that the government will back guarantees worth Rs306bn for the National Asset Reconstruction Company, which will take over bad loans worth Rs. 2trn (Rs.900bn in the first phase) from banks

2. With over 890mn+ doses administered to date, India's vaccination roll-out became the largest globally. ~70% of the adult population received at least one dose and ~25% both doses as the pace ramped up to ~8mn/day

3. After disappointing in July and August, the monsoon gathered momentum in September (29% above average). This along with delayed withdrawal restored the expectations of normal average rainfall for the entire season.

Our view going forward:

- Long-term view on equity remains positive, however, the medium-term view has turned cautious due to valuations moving higher.
- Broad market valuations are not cheap.
- There are few pockets across sectors that are still reasonably valued.
- We remain positive on sectors/themes like Oil & Gas, Construction, Banks, Auto, Pharma, and PSU companies, where the valuation, earnings, or dividend yield remains attractive.
- In terms of a trigger, we would continue to monitor US 10 Year Treasury yield and US Fed roadmap for the withdrawal of stimulus.
- Sentiments remain high and in certain areas appear to be euphoric.
- Dynamic Asset allocation scheme and equity-oriented scheme with high flexibility remain our key recommendations.

Debt Outlook

Gilt prices ended flat, with the yield on the 10-year benchmark 6.10% 2031 paper remaining at 6.22% on September 30. As highlighted in our earlier communication, we continue to believe in the gradual withdrawal of monetary stimulus. The case for normalization of monetary conditions is starting to pick up the pace with the number of COVID cases coming down, aggressive vaccine roll-out, economic activity leading to growth picking up, US Fed hinting for a taper soon, higher commodity prices, etc. We believe as the RBI gains comfort with growth picking-up, the possible glide-path for normalization of monetary conditions is expected to start with a reduction in liquidity injection, post that measures to sterilize liquidity, following up with narrowing of the LAF corridor and after that change instance.

While RBI would continue to maintain adequate systemic liquidity, it has provided signals which point towards its intent to manage short-term liquidity more actively. For example, with the 7-day VRRR auction cut-off coming at 3.99% conducted on Sep 28, 2021, the market has already started raising questions, whether this is a signal that RBI has started giving shape to the policy normalization approach. To further bolster such steps, RBI may resort to slightly longer tenor VRRR and tapering of GSAP quantum.

Also, for the first time after many months, there has been a break in the unanimous decision of policy stance and the growing dissent among the MPC members point towards future policy decisions which would be characterized by giving due importance to inflation dynamics. Going forward, RBI may have to do a fine balancing act. On one hand, upside risk to COVID cases due to the upcoming festive season, which may hamper growth recovery, which in normal conditions would have warranted for easing of monetary condition and on the other hand RBI would need to keep an eye on upside risk to inflation and global central banks initiating tapering.

Hence, we believe the above evolving conditions point towards a more nimble and active duration management strategy, which may help in navigating a higher interest-rate-sensitive period. Also, as communicated earlier, we believe that we are at the start of the interest-rate rise cycle and the above-mentioned strategy would provide better accrual (an active strategy that may take advantage of higher term premium) and would help in mitigating mark-to-market impact (active strategy of having adequate short-duration instruments). It may be an opportune time to invest in a floating-rate bond in this interest rate scenario with expected volatility.

In the coming years, we recommend the following strategies: Accrual Strategy and Active Duration strategy. Accrual strategy due to high spread premium which is still prevalent between the spread assets and AAA & MMI instruments, as going forward capital appreciation strategy may take a back seat due to limited rate cuts. Term premiums (spread between longer and shorter end of the yield curve) remain one of the highest seen historically, because of which active duration strategy is recommended to benefit from the high term premium. In our portfolios, we may follow a barbell strategy i.e having high exposure to extreme short-end instruments to protect the portfolio from interest rate movements and high exposure to long-end instruments to benefit.

Focused Equity Mutual Funds and Returns

Large Cap	1 Years	3 Years	5 Years	Since Inception
Mirae Asset Large Cap Fund	54.31	18.66	16.82	16.59
Canara Rebeco Bluechip Fund	53.58	21.51	17.26	13.75
Franklin India Bluechip Fund	71.73	16.51	13.06	16.95
Large & Midcap				
Kotak Equity Opportunities Fund	55.18	20.79	15.74	18.98
Flexi Cap				
Canara Robeco Flexi Cap Fund	56.87	22.12	18.09	18.88
Parag Parikh Flexi Cap Fund	56.58	27.73	21.43	21.01
HDFC Flexi Cap Fund	75.96	16.97	14.51	18.69
Midcap Fund				
Kotak Emerging Equity Fund	72.58	25.68	17.59	14.42
DSP Midcap Reg Gr	50.40	22.47	15.97	16.12
Focused Fund				
SBI Focused Equity Fund	66.18	23.06	17.93	20.36
ICICI Pru Focused Equity Fund	63.09	16.88	14.35	13.76
ELSS				
Aditya Birla SL Tax Relief '96 Fund	34.81	11.51	12.10	11.29
Axis Long Term Equity Fund	62.42	21.78	17.96	18.76
Mirae Asset Tax Saver Fund	64.30	24.11	20.99	21.77

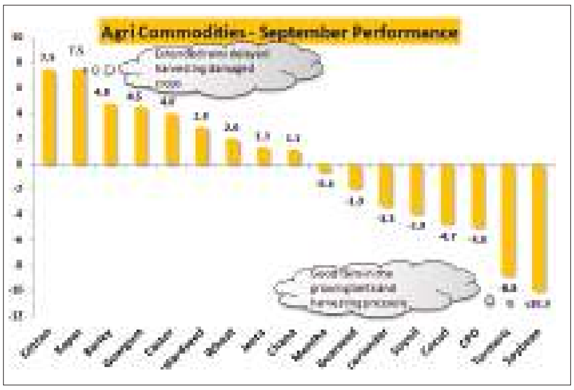
Source: Anand Rathi Internal Research.

Note: Such representations are not indicative of future returns.

Commodities Outlook

Cotton to remain in Focus in October-Weather vagaries still a concern

Agricultural commodities remained volatile last month as September rains proved beneficial for some of the Kharif crops like Soyabean, Guar, and Turmeric. But at the same time, delayed withdrawal due to extended heavy rains led to damage to the standing Kharif crops like cotton. For Rabi crops too, rains may prove beneficial for sowing but the same may get delayed due to late harvesting of Kharif crops.



Cumulative rainfall during the four-month monsoon season (June-Sept) was near normal. The rainfall over the country as a whole was 110 percent in June, 93 and 76 percent in July and August respectively — the months that bring the maximum rains. However, the shortfall of July and August was compensated in September, which recorded rainfall 135 percent of the LPA.

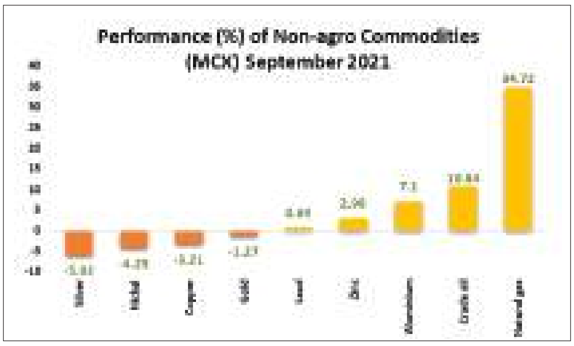
MCX Cotton outperformed last month in line with the international markets. The benchmark US ICE cotton futures have crossed 100 cents or $1 mark last month, the level was last seen in 2011 on worries over adverse weather in the US and rising demand that will further tighten the cotton balance sheet. In India, a healthy cotton crop was seen until early September. However, back to back the cyclonic storm and extended heavy rains in many cotton-growing states including Maharashtra, Gujarat, and Telangana has delayed harvesting and caused damage to the standing crop.

Weather developments over the last two weeks have raised concern for the first picking of cotton, though yield in the subsequent picking may be better. The cotton output which was expected to be a bumper one now seems to be lower year on year. The actual picture will be clear only after mid-October after the southwest monsoon withdraws and the weather turns clear. On the demand front, mills are covered till mid-November, however, will have to restart stocking by mid-October for their further commitments. Domestic cotton market fundamentals still hint at upward momentum to continue at least in the short term.

As far as ICE cotton futures are concerned we had seen prices dropping below 90 cents level last week after the Everglade story in China and thereafter rebounding sharply by more than 10% to test its decade-high level. For ICE cotton too, markets are largely going by demand-supply fundamentals. Demand in nations including China, Turkey and. Pakistan is boosting the appetite for US cottons major consumers, like Vietnam and Pakistan, do not have enough stocks and the U.S. remains the main source of cotton for them.

In Nutshell, the erratic weather developments, tight demand-supply scenario, economic developments all point towards a favorable price scenario for cotton markets, and thus the commodity will remain in focus in October.

Bullion commodities witnessed yet another month of negative undertone



(Source: Bloomberg)

MCX gold in December future finished September with a loss of 1.27% or 599 points and closed at Rs. 46,521 per 10 / gram. This year MCX gold has declined by 6.8% and in six out of nine months, the yellow metal has closed in the red. Silver also has finished lower for the fourth consecutive month in September, a total of six in a year. In September, silver slipped by nearly 5.9%.

The risk-on sentiment after smooth vaccination progress the world over, robust economic data from the US and central banks like the Fed & the ECB has given signal to withdraw pandemic era stimulus has dragged the bullion commodities lower this year. The investment demand (SPDR Gold ETF) continued to decline in September.

The US dollar has appreciated by 1.72% after the odds are high that the removal of Fed support will be underway soon and several Fed officials have been reiterating tapering will start before the year-end. Recently, the Fed signaled it could start reducing asset purchases as soon as November and start hiking rates next year.

The dollar was also underpinned as US retail sales unexpectedly rose in August which tempered expectations for a sharp slowdown in economic growth in the third quarter. Retail sales in August rose by 0.7% against July's revised down 1.8%. Online retail sales rebounded 5.3% after tumbling 4.6% in July. The American economy advanced an annual 6.7% on quarter in the second quarter of 2021, slightly higher than early estimates of 6.6%.

Further, MCX Silver for four back-to-back months declined amid weakness in the industrial metal sector over and above persistent weakness in the bullion commodities. London spot Silver extended losses below $22 per troy ounce, the lowest since July 2020 as the dollar index continued to march higher on rising prospects the Federal Reserve would start cutting back on its monetary stimulus. Also, the Bank of England noted that the case for modest tightening strengthened.

Going ahead, October could be a month of a pullback in the bullion commodities as we are approaching the festival season, i.e., 15th October is Dussehra and the first week of November is Diwali time. We Indians love to buy gold during these times. The government has eased lockdown restrictions and gold has declined from an all-time high of Rs. 56,191 / 10 gram (August 2020) to the current level of approx. Rs. 46,800 / 10 gram. On the other side, MCX Silver December has fallen from Rs. 77,949 / kg (August 2020) to the current level of approx. Rs. 60,700 / kg. Hence, since the price has fallen so sharply in the recent past, buying may emerge from current levels. Technically also we may experience short covering in the metals. MCX Gold December may rally towards Rs. 48,500 / 10 gram and Silver December could appreciate to Rs. 64,000 / kg in the month. So, we recommend going long in bullion commodities on every dip in October.

Outlook for base metals is bright, but uncertainty looms with China debt crisis

In September, MCX Aluminium soared on supply disruption amid Beijing's push to curb emission.

MCX Aluminium has appreciated by more than 7% in September owing to a positive undertone in the international market. LME Aluminium rose to levels above $3,000 / tonne, the highest level in 13 years amid Chinese supply disruptions while demand kept rising. The widespread power shortage in China has helped to drive a rally in aluminum on sharp production cuts.

China's aluminum production in August fell for a fourth straight month, as a control on metal production and power usage in key smelting hubs kept supply under pressure. Aluminum producer Shaanxi Nonferrous Yulin has reduced its output by 50% in September as part of energy consumption restrictions.

Yunnan Aluminium, a unit of China's state-run metals group Chinalco, has cut its 2021 aluminum output target by over 500,000 tonnes, or almost 18% after the local government moved to keep limits on production for the rest of the year.

According to the World Bureau of Metal Statistics (report dated 15th September 2021), from January to July 2021, the primary aluminum market was in a deficit of 1,076,000 tonnes which followed a surplus of 1,211,000 tonnes recorded for the whole of 2020.

MCX Copper in H1 of 2021 appreciated by approx. 21% as a massive stimulus has helped economics to open up. But due to the smooth vaccination drive, the indicators of economic health like retail sales, manufacturing PMI, employment scenario, and consumer confidence in the US have improved. Hence the Fed has signaled to taper off the pandemic-era stimulus to start soon and the rate hike cycle to begin even sooner than anticipated and ultimately the dollar has appreciated, putting pressure on the metal.

Recently, the debt crisis at the China Evergrande Group has hurt the sentiment across financial markets including industrial metals. Copper, nickel, zinc, and aluminum have all faltered lately in September. Moreover, prices faltered as China saw its factory sector contracting in September (actual 49.6 vs forecast 50.1 vs Aug 50.1) for the first time since the pandemic began. Hence the red metal finished September with a loss of 3.21%.

Going ahead, the outlook is bullish for base metals but uncertainty looms with China's debt crisis. LME Aluminium may appreciate as China is serious about energy efficiency, the restrictions on metal production and power usage in key smelting hubs may keep supplies tight. Hence the outlook is positive from a medium to long term perspective in Aluminium. MCX Aluminium October may rally up to Rs. 240 per kg. MCX copper October may stay in a tight range from Rs. 700 to 730 per kg owing to fear of a slowdown in the Chinese demand after real estate giant is feared to have defaulted. MCX Nickel amid rising demand in the electric vehicle segment and stainless steel sector may stay elevated in the near term. MCX Nickel October may rise to Rs. 1,480 / kg in coming weeks.

Crude oil rebounds in September; may continue to rally this month

WTI and Brent Crude oil prices surged by 7% in August while MCX prices jumped by 11% in September following near 8% weakness last month as supply disruption concerns in crude oil trumped demand woes arising out of COVID-19. Serious production worries rose after Hurricane Ida smashed into the Gulf Coast in late August, taking nearly 95 percent of the Gulf of Mexico's oil production and refining offline while damaging current and abandoned pipelines and structures. Nearly 96 percent, or 1.741 million barrels a day, of the U.S. Gulf's crude oil, was shut in, as well as almost 94 percent, or 2.091 billion cubic feet a day, of natural gas production while an estimated 288 offshore platforms were evacuated, 51 percent of the US Gulf's total.

Consistent decline in US crude oil, gasoline, and distillate stocks over the last few weeks has put them 7%, 3%, and 12% below the five-year average respectively. The consecutive seven-week decline in crude oil inventories can be largely attributed to swifter recovery in refining activity compared to supply increase from the Gulf of Mexico. Lesser than expected addition from OPEC coupled with weather-related outages such as Hurricane Ida in the Gulf of Mexico at the end of August shifted markets' focus to supply disruptions amid faster demand recovery from COVID Delta variant.

Further, all the major oil market organizations acknowledged uncertainty to global growth recovery path owing to the spread of the Delta variant however IEA and OPEC remain positive on the global oil demand outlook. International Energy Agency expects global oil demand to rebound with a 1.6-million-BPD jump in October and continue rising through the end of the year, although slightly revised down its full-year 2021 demand growth projection to 5.2 million BPD in 2021, down by 110,000 BPD compared to the forecast in last month's assessment but raised its 2022 figure by 85,000 BPD to 3.2 million BPD.

Oil prices are likely to gain further in October towards 5,800/bbl as record-high natural gas prices may prompt some producers to shift to crude oil for their energy requirements. Besides, OPEC+ is widely expected to stick to its current production agreement and going ahead with another increase of 400,000 BDP for at least the month of November. The only notable risks to upside include sooner than expected monetary policy tightening by the US Federal Reserve and lingering Evergrande fiasco.

Currency Outlook

USDINR spot likely to weaken further in October; albeit at a slower pace

Indian Rupee Spot depreciated sharply to 74.12 in September, 111 paise lower compared to 73 in August, hurt by stronger DX amid increasing prospects of Fed moving closer to withdrawing its emergency pandemic stimulus and China's regulatory crisis.

Along with safe-haven buying, a dollar also sought support from Fed chair Powell warning of high inflation in the coming months before moderating in his testimony pushing US 10 year treasury yields higher to 1.56%. Also, the widely watched Fed dot plot indicated a sooner than expected rate hike with 9 Fed officials eyeing rate hikes in 2022 vs. 7 in the June meeting. Similarly, 17 members expect a rate hike in 2023 vs. 13 in the June meeting. Federal Reserve Chair Jerome Powell stated that the central bank could begin tapering asset purchases in November and complete the process by mid-2022 and hinted interest rate hikes may follow more quickly than expected, although 18 US central bank policymakers remained split on borrowing costs increase in 2022.

The only cushion for Rupee being the hopes of a robust domestic economic rebound which pushed Sensex and Nifty to record high levels. Also, FIIs turned net buyers in the Indian capital markets in September 2021 for the first time since March 2021.

Volatility may continue this month as well as domestic investors await the outcome of the RBI monetary policy meeting due 8th October. Also, the dollar may continue to gain on increasing bets of the Federal Reserve inching closer to a tapering of its bond purchase program. However, markets will closely watch the release of crucial US employment reports for September following consistently higher jobless claims figures for the last three weeks. So, we expect the Indian Rupee spot to depreciate further towards 74.7 levels in October.

Anand Rathi PMS

MNC Portfolio

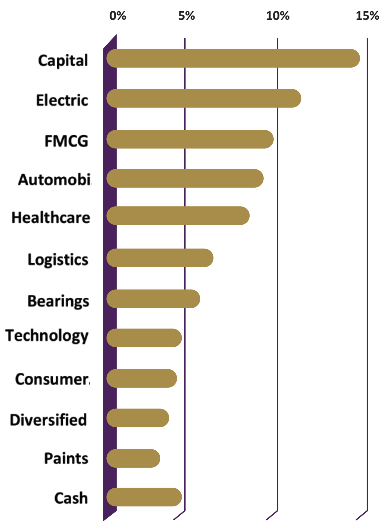
Focus on consistency of return and risk moderation by investing in Multinational Companies listed in India. Investments into listed companies in India in which the foreign shareholding is over 50% and/or the management control is bestowed in foreign company and/or the technological and managerial know-how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

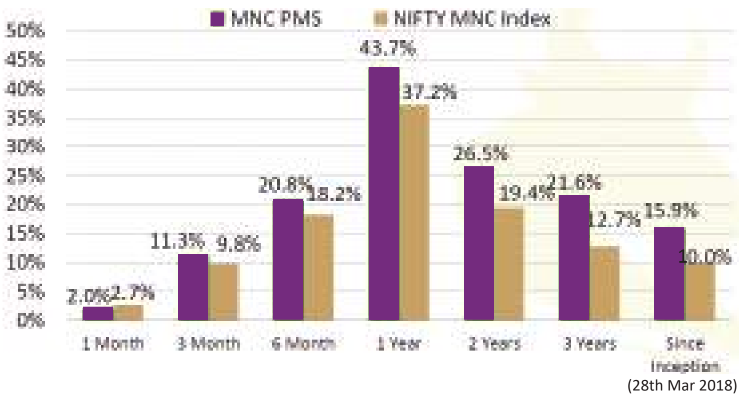
Top Holdings and Allocation

Sr. No.	Top 10 Holdings	% Holdings
1	KSB Ltd.	7.9%
2	Grindwell Norton Ltd.	7.0%
3	Blue Dart Express Ltd.	6.5%
4	Honeywell Automation India Ltd.	6.4%
5	SKF India Ltd.	5.9%
6	BASF India Ltd.	5.8%
7	Hindustan Unilever Ltd.	5.6%
8	Maruti Suzuki India Ltd.	5.3%
9	Siemens Ltd.	5.1%
10	Coforge Ltd.	5.0%

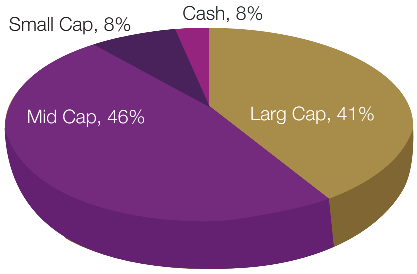
Sector Allocation



Performanceas on 30th September, 2021



Market Cap Allocation



Source: *Anand Rathi Internal Research.*

Data as on 30th Sepembert 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

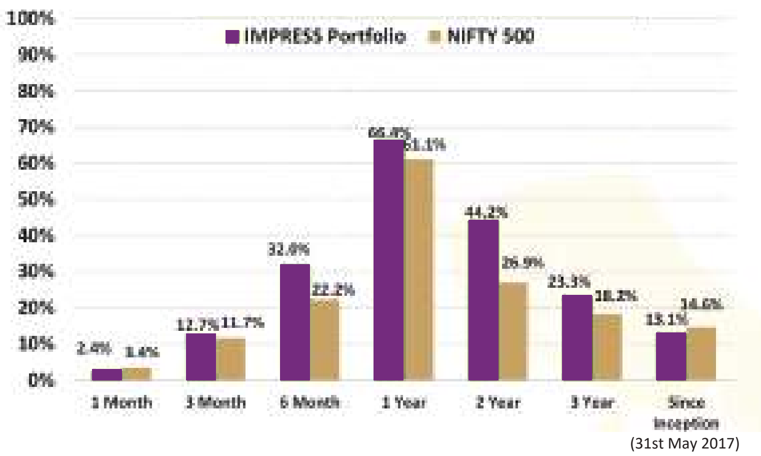
Focus on Return Optimization by investing in multicap portfolio of rising enterprises with sound corporate track record and sustainable business model keeping balance between value and growth strategy.

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

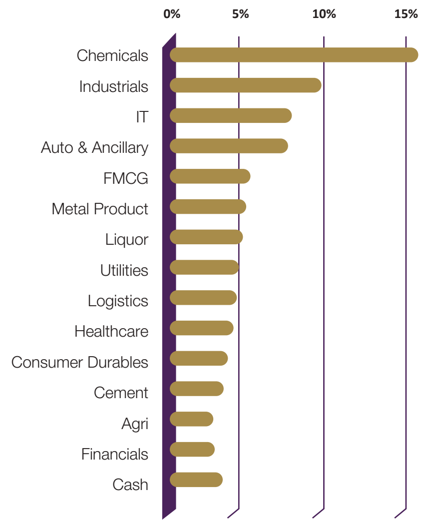
Top Holdings & Market Cap Allocation

Sr. No.	Top 10 Holdings	% Holdings
1	Tata Consumer Products Ltd.	6.27%
2	Solar Industries India Ltd.	6.14%
3	Ratnamani Metals & Tubes Ltd.	5.98%
4	Carborundum Universal Ltd.	5.87%
5	Galaxy Surfactants Ltd.	5.83%
6	Radico Khaitan Ltd.	5.67%
7	Somany Ceramics Ltd.	5.45%
8	Blue Dart Express Ltd.	5.13%
9	K.P.R. Mill Ltd.	4.98%
10	Crompton Greaves Consumer Electricals Ltd.	4.60%

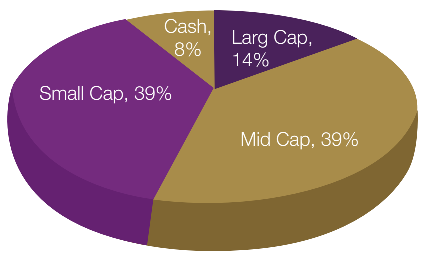
Performanceas on 30th September, 2021



Sector Allocation



Market Cap Allocation



Source: *Anand Rathi Internal Research.*

Data as on 30th September 2021

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

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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 points contingent from closing nifty then rounded to next 100	
Final Fixing Level	Average of Closing NIFTY on last Thursday of 50th, 53rd, & 56th Month.	
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	Principal Protection
	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

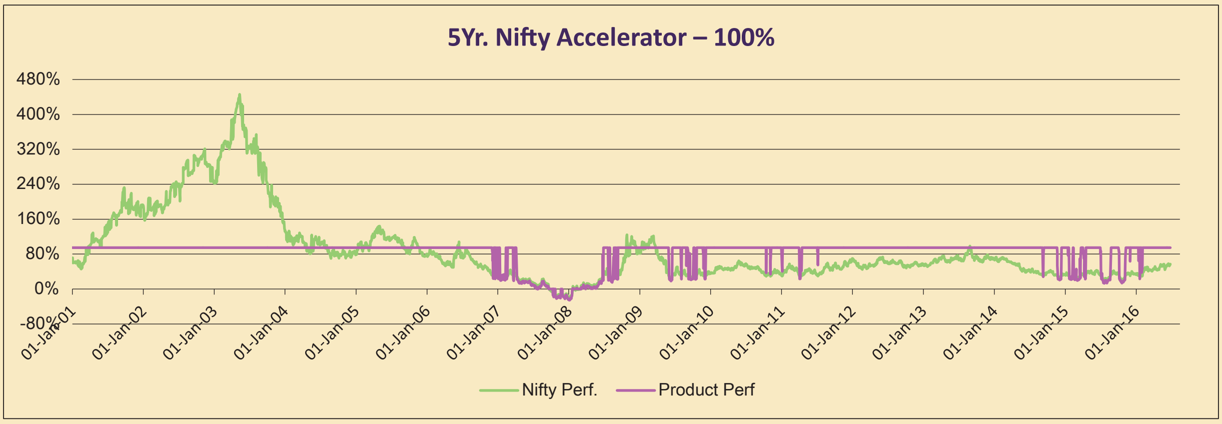
NP >= 33%	100% (Contingent Coupon)
33% < NP < 33%	Max (0%,(NP-32%)*PR2
8% < NP < 33%	(NP-8%)* PR1
-15% <= NP <= 8%	Principal Protection
-30% <= NP < -15%	1.25x Decay with Catch-up
Nifty falls beyond -30%	Decay decreases to 0.25x

*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 - 29th July'2021

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

Nifty Accelerator - 100%: Product Back Testing

Historical 1710 Day Rolling Return (Nifty Working Days Only)



NIFTY Accelerator - 100% Probability		
Particulars	**Normal**	**%**
Total Observation	3959	
% of Product Has Given Maximum Returns (100%)	3346	84.52%

% of time Product has given zero or positive returns	3940	99.52%
Standard Deviation		**4.43%**

The information provided is this communication is reproduction of factual details. No part of information provided herein should be construed as investment advice by ARSSBL and/or its employee. Investor/Client must make their own investment decisions based on their own specific investment objectives and financial position. This communication does not constitute an offer or solicitation for the purchase or sale of any financial instrument / security.*Historical probability & Standard Deviation is calculated considering coupon of 100% and 1710 Day daily rolling Nifty (Working Days Only) returns as on 29th July'2021 Nifty Data from January 2001 to 29th July'2021.

Technical Analysis

The month of September 2021 proved to be stupendous for the domestic markets for 2 major reasons. First, the benchmark index BSE SENSEX reached the new milestone of 60K, and second, the NIFTY BANK index finally managed to make a new lifetime high of 38377. On the other hand, the NIFTY spot index had a close encounter with the 18K milestone but failed to reach there and eventually close near the 17600 mark. On the whole, NIFTY surged by over 2% during the month from its previous close. The derivative data indicates that the rollover for the Oct series stood at around 75% which was lesser than its previous rollover of 83%. In addition, there was a dip in open interest too which indicates that the longs which formed in Sept 2021 are now out of the system. The other derivative data shows no hints of any kind of breakthrough since the PCR has been oscillating between 1.5 and 0.9 while the FIIs have a mixed position in index futures.

In the cash segment, FIIs remained buyers to the tune of over 8000 cr INR. So even on that front, there is no sign of liquidity squeeze. Now technically the index is facing a hurdle at a psychological mark of 18000. This might continue to act as a very strong hurdle even in Oct 2021. Only a breach of the same on the upside would reaffirm the extended rally towards 18200 – 18400. At this juncture, the index is struggling near its previous swing low of 17326. A daily close below this level might confirm a temporary pause in the uptrend and we could witness some selling pressure in the market. This could drag the index towards the 17000 mark and that could be decisive support on the technical front. However, one interesting chart we want to share in this edition of the Bazaar Bulletin is SENSEX vs. GOLD (INR). We gathered the data since 2005 and have witnessed that GOLD and SENSEX have been moving in line with each other.

Whenever there has been a huge divergence between them, they tend to catch up. Even at this juncture, there is a divergence of around 25%. This indicates that either GOLD will catch up SENSEX at 60K or both might try to meet in between. In such a scenario, SENSEX could slow down from here on or even correct a bit. Thus one needs to remain extremely cautious and stock-specific from here on. With regards to the NIFTY BANK index, it slightly outperformed the benchmark indices and surged above 38000. However yet again it failed to build the momentum and close the month near the 37500 mark. Now the support for the index is shifted to 36000 and a breach of the same might reinforce the bears to dominate the banking index. On the upside, only a sustainable move above 38000 would propel the index towards the 40000 mark.

BUY MANAPPURAM FINANCE LTD.

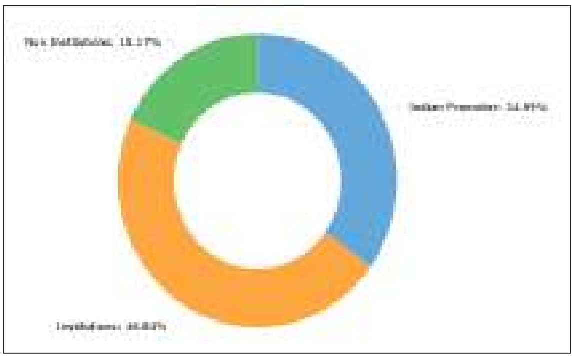
POTENTIAL UPSIDE 13%-27%

- The provided weekly chart depicts that the stock **MANAPURAM** confirmed a major range breakout during July 2021 above the 190 mark. Then after the stock surged towards 220 and is now back below the breakout zone.

- The theoretical target for the breakout comes near the 280 mark and that indicates that there is much more upside left for the stock in the coming months.

- At this juncture, the stock has turned from the ICHIMOKU cloud support on a weekly scale.

- Even on the daily scale, it has turned from the placement of 200 DEMA and 200 DSMA. Thus; traders are advised to buy the stock **in the range of 172 - 182** with a stop loss of 155 on a closing basis for the upside potential target of 200 followed by 225 levels in the coming months.



Action	
Stock	**MANAPPURAM**
Sector	FINANCIALS
Entry	172-182
Average	165
Stop Loss	155
Target 1	200
Target 2	225
Stock Information	
Market Cap. (Rs)	15027 Crs
52 week High/Low	218 / 139
Face Value	2
O/S Shares	84,63,94,729
Beta (x)	1.06
Technical Parameters	
21 DEMA	170
100 DEMA	170
200 DEMA	166
Derivative Parameters	
OI	21852000
Change in OI	+4.8%
Rollover	-

Source: *Bloomberg, Trading View, Spider, marketsmojo*

Fixed Income Services

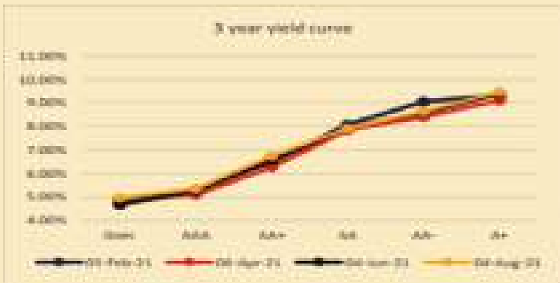
The Monetary Policy Committee (MPC) unanimously kept the Repo and the Reverse Repo rate unchanged in its August, 2021 review, with a 5 to 1 majority to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19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

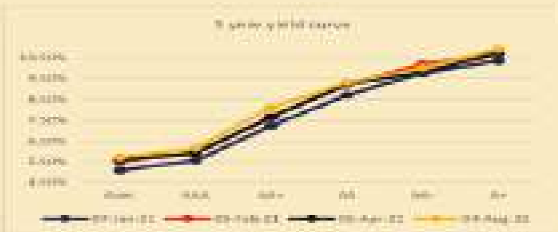
Key Takeaways:

- The projection for CPI inflation has been revised to 5.7% during 2021-22; 5.9% in Q2; 5.3% in Q3; and 5.8% in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.1%

- The projection of real GDP growth for 2021-22 is retained at 9.5% in 2021-22 consisting of 21.4% in Q1; 7.3% in Q2; 6.3% in Q3; and 6.1% in Q4 of 2021-22. Real GDP growth for Q1:2022-23 is projected at 17.2%. The policy was on expected lines with the MPC maintaining status quo on rates with a unanimous decision, however the accommodative stance was maintained with one member expressing reservations on continuing with the stance in the wake of persistently high inflation. To address the excess liquidity which is currently at 10 lakh cr, RBI increased the variable reverse rate repo (VRRR) auctions amount from current 2 lakh cr to 4 lakh cr by the end of September, which would push up short term rates. The RBI also announced G-sec Acquisition Programme of 25,000 cr each for next week and the end of August which should keep markets steady.

G-Sec yields hardened post the policy on account of the following reasons: (1) Increase in CPI inflation projections, (2) Increase in VRRR amount which may be a first step towards policy normalisation (3) reservations by one of the MPC members on the continuation of the accommodative stance. Credit yields have hardened at the shorter end since our last update as seen below:





Secondary Market Bond Offers

Security	Maturity/C	IP	Rating	Yield
Tax Free Quotes				
7.19% PFC 2023	04-Jan-23	Annual on 04-Jan	IND AAA/Stable	4.01%
8.66% NTPC 2033	16-Dec-33	Annual on 16-Dec	IND AAA/Stable	4.40%
PSB Perpetual Quotes				
7.72% SBI Perp 2026	03-Sept-26	Annual on 03-Sept	AA+ by CRISIL & IND	7.50%
8.70 Bank of Baroda	28-Nov-24	Annual on 28-Nov	AA+ by CRISIL & IND	7.02%
PSU Quotes				
7.03 NHAI 2040	15-Dec-40	Annual on 15-Dec	AAA by CRISIL & ICRA	6.95%
7.04 PFC 2030	16-Dec-30	Annual on 9-Sept	AAA CRISIL, ICRA & CARE	6.81%
7.52 REC 2026	07-Nov-26	Annual on 30-Nov	AAA CRISIL, ICRA & CARE	5.99%
Corporate Bonds				
7.35 Hero Fincorp Ltd. 2031	07-May-31	Annual on 07-May	CRISIL & ICRA AA+	7.20%
8.20 India Grid Trust 2031	06-May-31	Annual on 6-May	AAA CRISIL & ICRA	7.50%
10.25 Shriram Transport Finance Corporation 2024	26-Apr-24	Monthly on 28th	AA+ CRISIL & IND	8.75%
7.75 Muthoot Finance Ltd 2025	05-Nov-25	Annual on 05-Nov	CRISIL AA+, ICRA AA+	6.45%
9.50 Shriram Transport Finance Corporation 2023	27-Feb-23	Annual on 26-Feb	AA+ CRISIL	7.40%
9.75 Sundaram Finance Ltd 2023	31-Jan-23	Annual on 31-Jan	AAA CRISIL & ICRA	6.01%
9.70 Tata Motor Finance 2024	19-Dec-24	Annual on 19-Dec	AA by CRISIL & ICRA	7.70%
9.50 Piramal Capital & Hsg Finance Ltd 2022	15-Apr-22	Monthly on 15th	AA CARE	6.50%

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

Chayan

[INVESTMENT PHILOSOPHY]

Companies that show strong fundamentals and are likely to witness robust growth in revenue

Companies that display margin expansion and net profit growth across cycles

Net Cash companies (zero net debt) i.e. growth funded by clients & internal accruals rather than debt

Companies with lower drawdowns and potential to recover quick

Use of a proprietary algorithm based quantitative model to select stocks from 10-year data across sectors to build a portfolio aimed at wealth creation

We rigorously look for companies that satisfy all five of the above qualities. This universe of companies is filtered through our proprietary quantitative model to select stocks that could have the best potential for wealth creation.

"In God we trust. All others must bring data."

- W. Edwards Deming, Statistician

Shodh

[RESEARCH]

In a market that thrives on ambiguous investment tips and gut feelings, Purnartha uses a proprietary quantitative model powered by well thought-out algorithms that come up with possible investment opportunities which are further examined by the Research team. We select stocks of companies that display strong fundamentals, are supported by business tailwinds, have potential for growth and show a resilience to bounce back in the face of adverse market conditions. In addition we also look at stock prices and performance trends.

History

We look at stock performance across various data points for over a decade. For stocks that have been listed on the bourses relatively recently, we look for only those that have been listed for at least 5 years. This historical data allows us to examine the market's acceptance of such stocks, and see the stock performance beyond its initial price discovery stage. Such historical data also permits a better reading of stock price trends and refines the stock selection process.

Proprietary Quantitative Model

Purnartha uses a proprietary quantitative model for stock selection that has been tested with raw data spanning over 10 years to arrive at a shortlist that is rigorously examined for investment. The algorithms built into this model then help select few stocks to arrive at a portfolio construct that has a good risk-reward balance. Such portfolios are also tested for their resilience to market downturns to check for quicker recovery from lows. The quantitative model is also continually refined by incorporating learnings and parameters that make the stock selection sharper and better aligned to our requirements. This continuous upgradation of the algorithm assists the Research team in narrowing on the most suitable stocks that show a favorable risk reward ratio.

Stock selection methodology

Our proprietary quantitative model is built on a data-driven algorithm that looks for growth-oriented companies in non-cyclical businesses that show consistent revenue and operations cash flow growth. Such parameters are indicative of the soundness of the company's operations, depth of management and demand for the company's products in the marketplace. These selected companies are then examined by the Research team to arrive at a collection of stocks across market capitalisation and sectors that could endeavour to create wealth in the future.

A company's growth if funded by clients and not debt, is a positive indication. A Net cash company possesses a brilliant competitive advantage in the market. A fairly unexplored avenue when it comes to deciding investments, being a cash rich business is an important part of our consideration as it tells us a lot about company stability during rocky market conditions.

The resultant of philosophy is lower drawdown and faster recovery driven by strong fundamentals of the company.

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

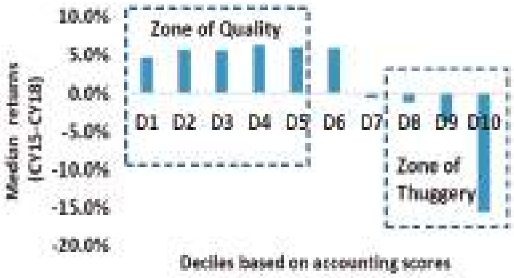
Key steps for identifying consistent compounders

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 2) Volatility in non operating income 3) Provisioning for doubtful debts as a proportion of debtors overdue for >6 months
Balance sheet checks	4) Yield on cash and cash equivalents 5) Contingent liabilities as % of Networth (for the latest available year) 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 8) Miscellaneous expenses as proportion of total revenues 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"

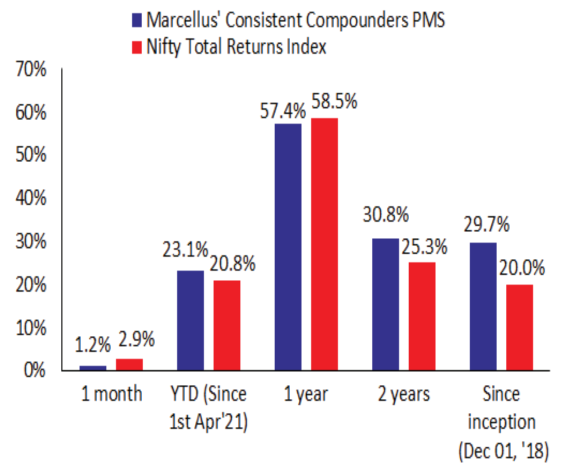
- Rama Bijapurkar
Leading market strategy consultant

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

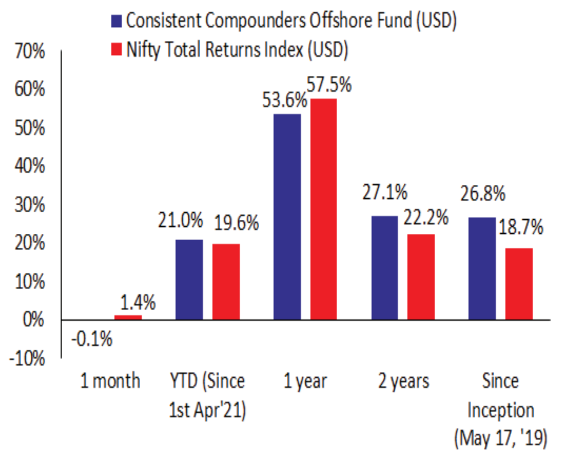
Fund performance (as on 30th Sep' 2021)

Exhibit 1a: Marcellus' Consistent Compounders PMS performance as on 30th September'21 (INR)



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

Exhibit 1b: Consistent Compounders offshore fund advised by Marcellus - as on 30th September'21 (US$)



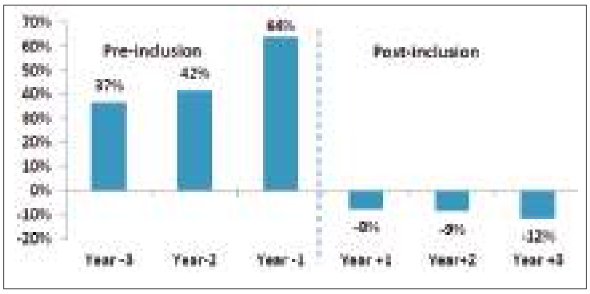
Source: Marcellus; All returns are net of fees and expenses (TWRR); Since inception and 2 years returns are annualised; Other time period returns are absolute; NSE /FBIL for USD-INR exchange rate

LITTLE CHAMPS PMS*

SMALL CAP INVESTING: OPPORTUNITIES

On an average over the last ten years, about 50 stocks have entered/exited BSE 500 every year indicating a high degree of churn

The biggest part of the relative outperformance for a stock entering BSE 500 occurs in the years preceding the inclusion



Source: Bloomberg, Ace Equity Relative returns (to BSE 500 are medians CAGR of stocks that have been included in the BSE 500 For prior returns, returns are measured until 1 quarter preceding the quarter of entry The above returns calculation is for the entries from June 2003 to June 2020.

Source: Ace Equity, Bloomberg Note 1 We classify companies with market cap of >Rs 150 bn as Large Cap, between Rs 30 bn to 150 bn as Mid Cap and below Rs 30 bn as Small Cap 2 Market cap, analyst coverage and share price data as of July 31 2020 3 Institutional ownership data as of June 30 2020 (EPS and Book value considered for FY 20.

RIGOROUS SCREENING AND DUE DILIGENCE TO IDENTIFY THE RIGHT STOCKS AND AVOID THE WRONG ONES

Starting universe of >1,000 companies

The universe: Stocks with Market Cap <US$500mn

Forensic Accounting Screen - Eliminate companies with sub par accounting

Typically avoid 'Zone of thuggery' candidates(refer next slide)

Above median on each parameter
- **Top 20% on overall score**
- **RoCE & net debt thresholds**

> Median score on individual parameters (revenue growth, asset turns etc) + Top 20% on aggregate score ('cream of the crop') + avoid companies struggling to cover their capital cost and debt laden companies

Botto-mup research and analysis

Detailed analysis of annual reports, management interviews and other published reports

3rd party/channel checks, management meetings

Corroborating 'management version' with channel feedbacks + independent views on governance/capital allocation

~15 - 20 Little Champs

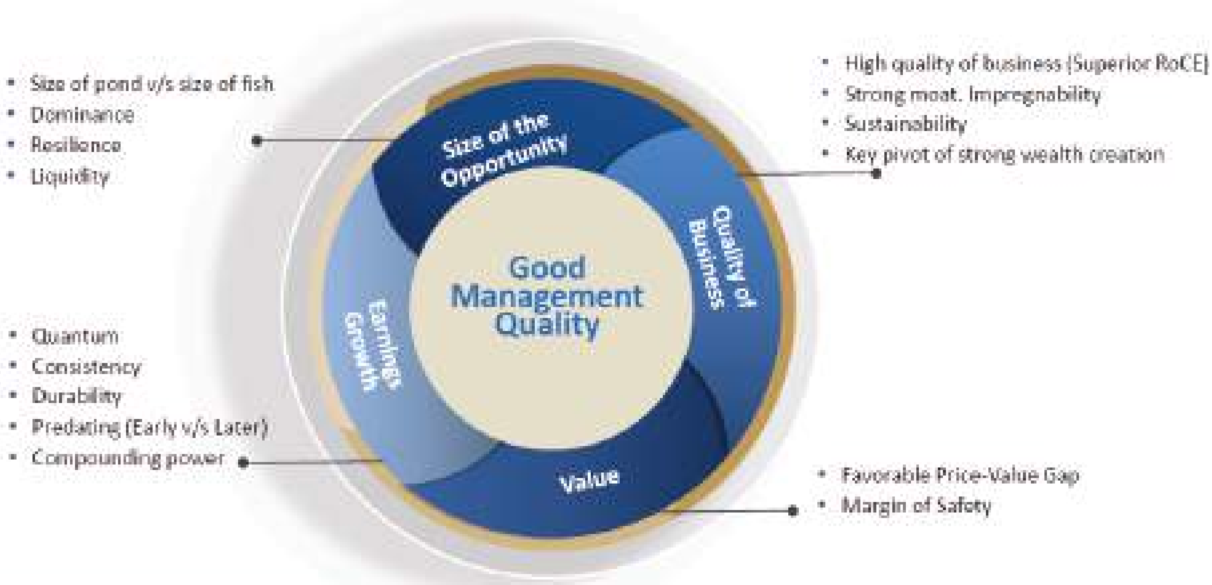
Final portfolio of ~15 20 Cos.

Key Investment Objectives

- **Capital Preservation*** over a period of time
- **Capital Appreciation** over a period of time

Achieved through...

- Long term Investments in high quality companies with strong growth prospects



ASK IM endeavors to preserve the capital however equity investments are subject to market risks.

- **Rs 1 Crore invested at inception has grown to Rs 8.58 Crore Vs Rs 3.59 Cr in BSE 500**
- **The Investment Approach has been able to generate returns continuously even while markets were flat between Oct 11, Jun 12 and Aug 13.**

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 Aug 31, 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.

ASK Indian Entrepreneur Portfolio: The Investment Approach

1. Identify large and growing business opportunities.

2. Identify businesses with competitive advantage that are significant sized (min Rs.100cr of PBT) : Enables growth from both market share gains and growth of the opportunity size and can sustain for multiple years.

3. The quality of the business should be good to be able to fund strong growth through internal cash generation

- We seek over 20% compounded growth from each business that we buy and target over 25% growth from the portfolio
- To fund this growth, the business ROCE should be over 25% so that growth can be funded and there are surpluses for dividend

4. The management should have the drive and have skin in the game to deliver compounded growth period after period (uncompromised corporate governance is a must)

- Hence, invest into businesses with an identifiable business house at helm with minimum 25% stake*

5. We seek to identify such businesses at reasonable discount to value and stay invested for a length of time and make money as EPS compounds.

*Note: Promoter / Family stake of at least 25% is desired in portfolio companies, except in rare and fit cases.

Investment Approach Research Methodology and Filtration

500

- Top 500 as per market capitalization

306

- Only companies > 25% promoter / family holding (except in very rare and fit cases)
- Universe of Entrepreneur and/or Family-Owned Business = 306 cos

210

- Condition of minimum PBT of INR 100 cr (USD 16 mn)

123

- Subjective evaluation on management quality, their integrity, vision, past track record, execution,capital allocations and distribution skills, corporate governance standards etc.

59

- Quality of Business (Capital Efficiency) – Minimum ROCE of 25%*

20-25

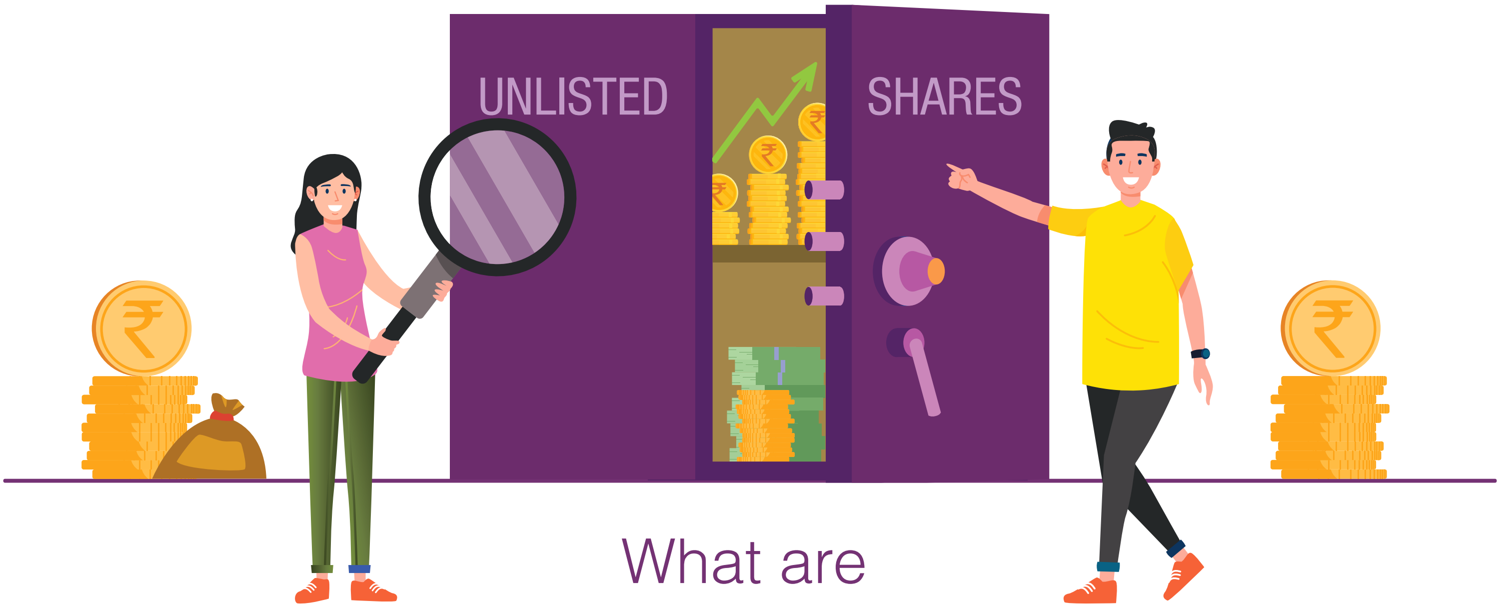
- Two more filters for selection of stocks a) Minimum 20 to 25%* earnings growth over the next 3 to 5 years without capital dilution and b) Price-Value gap (margin of safety) of 20%
- ASK Indian Entrepreneur Portfolio

Note: Maximum of 20% of the portfolio may be an exception to the above.
*at the time of 1st purchase of the stock

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

EQUITY UNICORN

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
- Chennai Super Kings — IPL Team
- One 97 Communications Ltd — Digital payment & commerce
- TATA Technologies Limited — Engineering
- Fino Paytech Ltd — Payment Bank
- Studds Accessories Ltd — Helmet Accessories
- Care Health Insurance — Insurance
- Sterlite Power Transmission Ltd — Power & Transmission
- Philips India Ltd — Electronics
- Tamilnad Mercantile Bank — Banking
- Kurlon Ltd — Mattresses
- Hero Fincorp Limited — Financial Services

*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

October 2021

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.