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20 YEARS

Indian Capital Markets 2020 and Outlook 2021

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Outlook on Global macroeconomic environment in 2020 and expectations from 2021

The COVID pandemic created havoc across the globe as economies implemented lockdowns and economic growth came to a standstill. Compared to the 2019 global growth of 2.9%, the year began with economists projecting growth of 3.3% and gradually cutting forecasts due to the pandemic. IMF in Oct-20 revised the growth projections down to - 4.4% (although up from its earlier projection of -4.9%). For 2021, it projects global growth of 5.2%.

Central banks infused liquidity in their systems, and governments came out with fiscal stimulus to beat the effects of a slowdown due to COVID. This has ensured that interest rates remain low creating a favourable background for equity markets. In 2020, the US Fed's balance sheet size grew 74% in one year to $7.2 trillion. It was between $4.0 to $4.5 trillion between 2013-19.

Encouraging news on COVID-19 vaccines arrived near the end of a challenging and volatile 2020. Trial results of several vaccine candidates suggest more than 90% effectiveness, promising an eventual end to the pandemic. However, virus case counts are rising around the world and mass vaccine distribution will be no small feat, given the logistical complexities.

The migration from cars powered by fossil fuels to electric vehicles (EVs) will have a profound effect on personal transport. COVID-19 caused a 20% drop in global light-vehicle sales in 2020, to about 70mn, but these could pick up in 2021. And led by China, the proportion of vehicles powered by batteries should proliferate. This shift could change the way people travel.

The price of Bitcoin has been on a tear, rising nearly 175% this year. Bitcoin bulls feel this might be just the beginning. Bitcoin's recent rise to $19,723 may give investors flashbacks to 2017 when the cryptocurrency reached a high of $19,783.21 in Dec-20 before selling off. This time, it will be different as institutional investors are involved, who could drive its price even higher.

If all institutions were to assign a similar mid-single-digit allocation to Bitcoin, the cryptocurrency could rise exponentially.

The Bank of Korea begins trials of an experimental Central-Bank Digital Currency (CBDC). With China quickly moving towards the launch of its own digital currency, reports say the Bank of Korea will initially test its blockchain-based CBDC in a virtual environment. Given the rise of mobile payments, China worries that the big tech platforms have got too much power. The digital Yuan will offer an alternative. It will also give China a conduit for moving money across its borders without having to rely on swift, a global payments system that comes under American influence.

Debt to GDP ratios has risen sharply in COVID times. In case of a premature withdrawal of stimulus, we could see fiscal situations deteriorating sharply across the globe.

The huge rise in corporate leverage, combined with an uncertain economic outlook, increases the chances that debts will not be repaid in full or on time. Bond defaults have already picked up sharply. Almost no one expects the economy to have fully recovered by the end of 2021. In Oct-20, in its twice-yearly World Economic Outlook, the IMF stated that America's GDP could return to its 2019 level only in 2022. It is evident in Europe that rebound in activity from the trough of Mar-20 is losing momentum, because of a resurgence of infections. A faltering recovery puts more corporate-bond issuers at risk of default.

However, the various government-led short-time working schemes, furloughs and support programmes have helped keep a lot of financially stressed companies alive. Also helping them is bond-market liquidity.

The burst of issuance during 2020 owed a lot to America's Federal Reserve, which said in Mar-20 that it stood ready to buy corporate bonds, prompting investors to start buying bonds in anticipation.

Different regions continue to carry unique risks. In Europe, Italy remains a separation risk; the United Kingdom itself still needs to formalise its separation from the EU and Scotland has expressed a desire to leave the UK. Conflict in the Middle East tends to spill over into the economy and financial markets through oil prices. Turkey has been active in establishing itself as a significant player in the region, threatening Saudi Arabia, Russia and Iran. Though war is unlikely, the region is on a low boil and should be monitored.

Inflation was remarkably stable over the last decade; however, the game has changed now. In the past, higher inflation was a constant risk for economies. Central banks were adamant about keeping inflation down. Today, the risk that prices won't rise fast enough or actually fall is more realistic than the threat that they will rise quickly. As a result, global central banks are actively trying to push inflation higher rather than working on keeping it contained. Supply chain disruptions from de-globalisation could put upward pressure on prices, but that process could play out over several years.

Meanwhile, a powerful blend made up of stimulus hopes, vaccine progress, and a patient Federal Reserve is powering inflation expectations to their highest levels in months. In the US, core PCE inflation could rise to 2% YoY in 2H21 and overshoot from 1H22, with the risk that it happens sooner. Worries around renewed price pressures have spilt over into the bond market, sending long-term treasury yields to multi-week highs, amid hopes that a senate bipartisan coronavirus aid proposal and a COVID-19 vaccine will allow the economy to begin returning to normal by next year.

Industrial commodities price trends suggest the recovery in the global manufacturing sector is well underway, supporting reflationary views. Commodity prices can deviate significantly from long-run averages. These imbalances take a long time to correct. It could be due to high start-up Capex for new projects, and the time needed to bring new supply online as firms wait until they are sure of price upturns. The commodity asset class is massively underinvested.

The pace of industrial growth globally generally quickened in Oct-Nov-20. The purchasing managers' indexes (PMIs) for manufacturing, at both the global level and for individual surveyed economies, rose higher into expansion territory. The services PMIs for the world and surveyed economies also show expansion (except in Russia); the United States and China are leading the revival of the services. Trade continues to rebound.

One needs to keep in mind that apparent economic recoveries in the US have given way to relapses in 8 of the 11 business cycles since World War II. The relapses reflect two conditions: lingering vulnerability from the recession itself and the likelihood of aftershocks.

After the initial rise, growth could moderate as economies enter the next phase of recovery. Europe faces the risk of a double-dip.

2020 has been among the worst years for the global economy in more than 70 years. We expect 2021 to be a Year of Restoration.

In addition to the virus, the key risks to the markets include failure of governments/central banks to provide enough policy support.

Markets:

Global equity markets suffered their sharpest ever drawdown (the MSCI All-Country World Index fell 34% from the peak on 12th Feb-20 to trough on 23rd Mar-20), but recovered at a record pace, making new all-time highs by Sep-20. In response to the vaccine news, broad equity markets are close to or at all-time highs, and the stocks of companies in industries most impacted by virus restrictions have been rallying in anticipation of the benefits that a return to normal would bring.

High valuations may even be the new normal as long as global central banks stay accommodative and long-term interest rates remain near secular lows.

Stock market valuations in the US are very high today, but they are not yet at the absurd levels reached in the late 90s. Further, many of the largest tech companies today, the so-called FAANGS, are likely not part of the bubble problem; these companies are real and large global businesses - highly profitable, and millions, even billions, of people use their products and services every day.

However, the current valuation of the S&P 500 is higher than it was pre-COVID-19, which warrants caution, given the sheer amount of uncertainty that exists (e.g., the shape of the economic recovery, the availability and efficacy of a vaccine, the risk of a second wave, US citizens not adopting safety protocols - to name a few).

Prospects seem bleak for investors seeking income. As the big three global central banks may not raise rates in a hurry, investors may want to hold less cash and consider other means to maximise yield for strategic cash reserves.

To augment income, investors may also prefer to increase risk. The Dow Jones Industrial average's rally could draw in side-lined cash and broaden market leadership.

Low interest rates support equity valuations in two ways: the rate at which future earnings streams are discounted is low, and equities look more attractive to investors on a relative basis because dividend, earnings and cash flow yields are much higher than fixed-income yields.

Uncertainties around US politics and vaccine are coming to an end. Coming out of uncertainties and bottoming of profits could mean that market sentiments could remain supported. However, given the substantial gains recently, expected returns should be lower from hereon.

2021 could see rising exposure by market participants to 5G, fintech, health tech, and green tech.

Revived economic and corporate earnings growth should also mean renewed outperformance from those cyclical companies and markets that underperformed in 2020. Inexpensive "cyclical" stocks could benefit from a post-virus reopening. Cyclical shares move with the momentum of the larger economy.

While many investors are crowding into the stock market and bringing record inflows, insiders have never been selling more heavily than they have done in Nov-20.

Central banks around the globe have pumped in so much liquidity to help stem market collapse that more normalised market conditions give a reason for the next leg in the bull run.

Outlook on Indian macroeconomic environment in 2020 and expectations from 2021

Macro:

India was severely hit by the COVID pandemic and the resultant lockdowns. The GDP for Q1 contracted sharply but showed decent growth in Q2 after the lows. Nifty sales in Q2FY21 fell 7% YoY, EBITDA grew 8%, and PAT grew 17%. The Indian government and the RBI took many proactive steps to deal with the situation of slowing growth and lack of liquidity.

In India, the latest data points indicate stability in growth. Energy consumption was back to positive growth. E-way bill generation until 29th Nov-20 was valued at 86%/104% of Oct-20/Nov-19. Daily railway freight tonnage grew in Nov-20 at 8.5% YoY. The unemployment rate improved to 6.5% in Nov-20. Rabi sowing was at +4% YoY growth vs. -1.5% a year ago, at 56% of the normal crop area. GST collections topped ₹1 lakh cr for the second month in a row.

Economic recovery seems consistent and could lead to a more optimistic economic outlook. While some segments have reached near-normalcy, the others would do so in the coming months.

The recent rebound has been concentrated in goods consumption; big-ticket durables such as cars, furniture, and appliances along with soft-good non-durables such as food, clothing, fuel, and pharmaceuticals have made up for more than the loss during the lockdown-induced plunge.

But services consumption, which makes up over 61% of total consumer spending, is a different matter altogether. While services have partly bounced back since then, they have recouped just 64% of the lockdown-induced losses earlier in the year.

COVID has dealt an uneven blow to economic agents and benefits of the policy response (domestic and global) are not evenly distributed.

Corporates/large businesses are better poised to lead the recovery than Households/MSMEs; the latter are getting squeezed between cost control by businesses, weak job market, and inadequate fiscal transfers. We could foresee a two-track recovery with exports, manufacturing Capex and pockets of real estate leading and services, government Capex and leveraged consumption lagging.

Many of the largest EM countries are better prepared and better able to manage the effects of COVID-19 than most developed countries. Also, their currencies are cheap, which acts as a tailwind to performance.

A weaker dollar also leads to more comfortable financial conditions for many emerging market countries and companies which earn revenue in local currency but service debt in dollars. This dynamic would also help support the recovery in emerging markets.

Markets:

Indian markets saw a sharp fall in Mar-20 and a gradual recovery which has brought us to all-time highs. Despite this, in the past two years, Indian equity markets have underperformed their global peers against the background of perennially expensive valuations.

Post US elections and vaccine news flow to EM have exploded in Nov-20, equity inflows into Asian markets have risen to a record high. India saw $17.7 bn inflow in 12 months to Nov-20, including $8.3 bn in the same month. Nifty EPS has seen the first upgrade after 23 quarters of a downgrade. 182 of BSE-200 constituents gained in Nov-20, with 116 stocks posting >10% gains MoM, leading to a broad-based rally.

The pandemic has created massive opportunities for some businesses. It has created enormous opportunities for pharmaceutical and chemical companies, the technology industry, for IT offshoring, remotely operating industries.

Overall, the Emerging Markets (EM) are going to do better in the coming year. To that extent, India, being part of the EM pack, would also benefit.

The 50-stock index is currently trading at a one-year forward price-to-earnings multiple of ~27 times compared with its 10-year average of 17.3 times. The Nifty 50 is also trading two standard deviations above its historical average. MSCI AC World –12-month forward PE is now close to 20, 3SD above average of 14.1. India's market cap to GDP ratio is at 91+ vs the average of 75.

Bulls tend to argue that P/E may not be the right valuation measure in current times. However, historically, it has been able to forecast the subsequent one-year and five-year returns. High current P/E typically leads to subnormal returns in the subsequent one-year or five-years. This is true for the S&P 500 and will be equally applicable for Nifty.

Bulls feel that the coming growth cycle is not fully priced in. A better-than-expected Q2FY21 fuelled market optimism, wherein maximum companies benefitted from low raw material costs and better operating leverage. Also, management commentaries were optimistic of demand prospects and retaining some part of operating leverage gains.

Lower interest rates should support higher-than-median valuations. However, current equity valuations have run up, factoring in robust growth.

We believe a large portion of the Nifty run-up is over and, from now on, its rise (if substantial) would be gradual and measured. In the interim, we may see bouts of correction, especially if FPI flows dry up for a couple of days/weeks. Stock-wise moves could continue to take place even as institutions continue to take higher exposure out of their erstwhile preferred 50-80 stocks.

The continuation of low or zero interest rates globally can keep pushing valuations higher for the world as well as for India. But this ride has to be taken keeping in mind the possibility of sudden and sharp reversal.

Asset allocation review may be required to bring down the value of equities to desired levels over the next few weeks.

Indians have a choice to invest anywhere in the world under the LRS. The country's market cap is around 2-3% of global market cap. Indian investors need to seriously consider putting a small portion of their investible surplus by diversification and investing in stocks listed abroad.

With many broad market indexes already surpassing pre-pandemic highs in 2020, many investors are asking whether it's too late to buy. Tactically, we still think there is plenty of opportunities, both in catch-up plays and in structural winners, to continue reaching new highs. In times of uncertainty, investors should take advantage of volatility to enter markets after assessing their risk exposures.

We believe that small and midcap space will be back in favour in 2021. One of the most distinguishing characteristics of companies in this segment is higher growth rates than larger peers. Investors have always flocked to this category in anticipation of higher returns, given their potential to report increased profitability and gains in market share.

The Nifty Midcap 100 index shows an extremely high correlation with GDP growth. As compared to the Nifty, the Midcap index has higher weights in Autos & Auto components, Consumer, Real Estate, Chemicals & Pharma and Utilities, all of which have structural tailwinds favouring them for the next 18-24 months.

Growth hungry midcaps flourish in low-interest-rate regimes. Data shows a high correlation between repo rate and the ratio of MidCap index to Nifty 50, again suggesting a likelihood of outperformance over the Nifty in the coming year if interest rates continue to remain low.

The current disruption has forced companies (especially midcaps) to rework their business models right from sourcing to manufacturing to distribution. Many smaller companies have adapted and embarked on prudent cost-cutting and reduced debt to clean up balance sheets.

Smaller companies run lean compared to large companies and tend to do well in times of rapid growth in the economy and high inflation. Over the next six months, as vaccines roll out, the market could continue to broaden and favour small caps and value stocks.

Gold and Currency Outlook

Gold:

Gold prices have witnessed another bullish year in 2020 with prices hitting all-time highs during the year. Gold has emerged as one of the best-performing asset classes so far for investors, gaining 23% year to date in COMEX and 28% at MCX. Gold prices rose by nearly 10% in 2019 on US-China trade war and accommodative stance from the US Fed. The buying spree continued in 2020 on recession fears over coronavirus outbreak. Gold prices in India received additional support from rupee depreciation against the dollar during the year as spot rupee was down by around 3% year to date.

The spot gold prices corrected last month as recent vaccine progress and end of US Presidential election eased market uncertainty, dragging prices down from all-time highs of $2075 per ounce.

The sharp fall in US equity indices in the first half of the year and fall in real yields drove investors out of US dollar, which boosted buying in gold. The global gold ETFs continued to witness inflows amid economic uncertainties during the pandemic. The total Bloomberg gold holdings have risen by 29% to 3,322 tonnes as of now while gold ETF inflows at SPDR gold shares have increased by 32% to 1,180 tonnes, year-to-date.

The coronavirus crisis is still an evolving story for global markets despite a breakthrough in vaccine development, whose timing of availability and safety are critical. Many countries, including Europe, US, UK and Canada, are still implementing lockdowns in part due to renewed surge in virus cases.

The loose monetary policies followed by major central banks and expansion of their balance sheets with the announcement of more stimulus packages should continue to support gold prices over the medium to long term.

The US FED's balance sheet has reached to $7.22 trillion in Dec-20 from $4.3 trillion in Mar-20, while further stimulus measures are in the pipeline, which makes a strong bull case for gold for the next two years.

We believe gold prices are headed higher for the next year with targets of $2150 and $2390 (per ounce) on concerns over slower-than-expected global economic recovery along with the higher amount of stimulus measures

Investors should appreciate that gold as an asset class does not provide regular returns year after year but lumpy returns every 3-5 years. Hedging against inflation and currency is one of the primary purposes of investing in gold

Investors can look for investment avenues like Gold ETFs, Digital Gold, Sovereign Gold Bonds, apart from owning physical gold.

Currency:

The economic implications of COVID-19 and the extraordinary fiscal and monetary policy responses have driven financial markets higher in 2020. Forceful monetary and fiscal responses and greater visibility on how to control the virus and come out with a vaccine have raised expected future growth rates. This pushed equity markets higher ever since then and weakened the dollar against the major G-10 currencies.

The Indian rupee is headed for the third yearly decline against the American dollar. So far this year, the rupee has depreciated 3% to 73.52 a dollar, the worst performance among Asian currencies. The underperformance was on the back of the central bank's dollar buying and weaker domestic economic activities following COVID outbreak.

Despite substantial foreign fund inflows into the economy, the rupee did not revive since the RBI absorbed almost all dollar inflows through regular interventions to restrict the currency from appreciating to maintain export competitiveness.

In 2020, India has received more than $50 billion through the FPI and FDI routes. Foreigners have bought equities worth $17.7 billion and sold $14.5 billion debt with net inflows of $7.7 billion in CY2020, as per the official data from NSDL. The foreign direct investment in the current year stands at $43.21 billion, as per the DIPP monthly release.

India's forex reserves have increased $117.4 billion to $574.82billion from previous year's $457.47 billion.

Among other trading currencies, the rupee depreciated more than 10% against the Euro, reflecting the Euro's strength against the US dollar, which has gained 8.15% so far this year. The better-than-expected economic recovery, ultra-loose monetary policy, possibly reserve rebalancing flows and risk-on sentiments support the Euro's strength.

The Sterling Pound gained a percentage point versus the dollar and 4.2% versus the rupee, so far this year. While the impact of Brexit could take years to play out, the UK economy is relatively well-positioned to benefit from a vaccine-driven normalisation next year.

The Japanese Yen has appreciated more than 4% versus the dollar so far this year despite the country having run into trade deficits. In the wake of the dollar's weakness, the haven demand shifted to Yen along with diversification demand. Higher global equities showed little impact as the supply-demand factors indicate a limited risk of Yen appreciation.

The prime factors driving forex fluctuations in 2021 are likely to be interest rates (short-term), supply-demand (short/medium-term) and inflation outlooks (long/ultralong term).

With the bearish dollar momentum spilling over into other major currencies, following loose monetary policy from the Federal Reserve, USD-INR is expected to trade lower at the start of 2021. However, RBI's dollar buying could restrict the downside in USD-INR. We believe the pair is expected to trade in a broad range of 71 to 76 in 2021.

Sector outlook for 2021

Financials

We expect financials to benefit from growth pick-up in 2021. We expect bank provisions to come down after a long credit down-cycle of the past four years and PPOP growth to pick up due to improving credit growth.

We expect non-lending financials to continue to see fast-paced changes, led by higher capital markets activity both at the retail and corporate level.

Exchanges, payments, capital markets (AMCs and brokers) are the emerging and high growth segments, while life insurance and banking should remain the mainstays. Select niche NBFCs with moats in some product segments (auto loans and durables financing) are also expected to make a comeback after the past two tough years, post the IL&FS crisis. Valuations leave some room for a rerating in banks and select financials.

Industrials/Manufacturing/Real Estate

We expect this sector to make a comeback in 2021, given growth pick-up and Make in India thrust. Residential real estate and overall capital formation have troughed out in 2020 after a prolonged down-cycle and should improve with the help of lower interest rates. Infrastructure sector is expected to do well as government spending on roads etc. remains strong despite fiscal constraints. Private sector balance sheets are in good shape now and have room to leverage for growth. Valuations are attractive, making risk-reward attractive if we are at the start of the Capex cycle. Government Capex would be the first one to kickstart and private sector Capex could come after 1-2 years once capital utilisations go up and demand picks up.

IT/Pharma

We expect globally-oriented sectors such as IT and Pharma to continue doing well. IT spends continue to be strong, led by companies increasing digital spends in the context of the pandemic. Indian IT companies are well-placed to benefit from this multi-year trend.

Strong capital efficiency and cost controls have led to earnings surprises which could continue. Pharma also seems to be on a strong wicket with domestic demand being steady, especially in chronic segments. The US generics market has also seen its worst and is gradually improving from pricing and margin erosion seen in the past 2-3 years. We see bottoms-up investment opportunities in these sectors despite a sharp pick-up in 2020. Select mid-cap business models look scalable and are profitable investment opportunities.

Consumer Durables/FMCG

Consumption has made a strong comeback in 2HCY20, post the unlock, and rural demand remains healthy. Urban consumption demand, especially in home improvement segments, seems sustainable as consumers look to purchase durables and appliances. Given low penetration levels in multiple categories, these offer a long-term growth runway for strong brands with a deep distribution. Valuations are rich in most segments, but we see select ideas where long-term growth rates could surprise positively.

FMCG demand remains steady and continues to be led by higher rural penetration. Rising farmers' income could be a structural tailwind for the sector.

Value plays/select PSUs

We believe that select PSUs with strong competitive positioning in their respective sectors such as Power, Oil & Gas, Utilities, Coal and large Banks look attractive, offering deep value.

The government is also starting to unlock value in some of these through strategic sale, buybacks which could lead to a sharp rerating from depressed levels of valuations. Most of these stocks also offer high dividend yields making them attractive in the current low-interest-rate environment. We have increased exposure to these names in our model portfolio over the past six months as they have become attractive, and we remain confident of their business models over the medium term.

Top picks for 2021

Sr No	Company	Industry	Equity Latest	FV	CMP Dec 09, 2020	Mkt cap	Book Value latest	Net Sales FY20	Change in sales y-o-y	PAT FY20	Change in PAT y-o-y	EPS TTM	P/E TTM	P/BV	Last Div %.	Divi-dend Yield
1	Bandhan Bank*	Banks - Private Sector	1610.4	10	400.0	64407	103.5	10885.5	63.9%	3023.7	54.9%	16.9	23.7	3.9	0	0.0%
2	Birla Corpn.	Cement - Major - North India	77.0	10	769.1	5923	517.3	6915.7	5.6%	505.2	97.6%	66	11.6	1.5	75	1.0%
3	GAIL (India)	Gas Distribution	4510.1	10	122.5	55249	113	72508.4	-4.8%	9422.1	43.9%	18.9	6.5	1.1	64	5.2%
4	H P C L	Refineries	1523.8	10	218.3	33265	228.6	267923.8	-2.3%	3556.5	-46.8%	47.5	4.6	1.0	97.5	4.5%
5	Hind. Unilever	Personal Care - Multinational	235	1	2292.2	538575	199.3	39238	1.4%	6895.5	11.0%	31	74	11.5	2500	1.1%
6	Infosys	Computers - Softv1are - Large	2129.8	5	1175.2	500576	157.2	90791	9.8%	16594	7.7%	41.9	28	7.5	350	1.5%
7	Nippon Life Ind. (NAM)	NBFC-Asset Management Com1	612.7	10	302.0	18501	45.8	1203	-18.6%	415.3	-14.6%	7.4	40.7	6.6	50	1.7%
8	O N G C	Oil Exploration I Allied Service	6290.1	5	91.2	114732	166.9	425001.4	-6.3%	16222.5	-48.5%	10.4	8.8	0.5	100	5.5%
9	St Bank of India	Banks - Public Sector	892.5	1	270.4	241277	271.8	269851.7	6.5%	16301.4	704.8%	23.1	11.7	1.0	0	0.0%
10	Sun Pharma. Inds.	Pharmaceuticals - Indian - Bulk	239.9	1	569.6	136652	187.85	32325.17	12.7%	3982.76	8.0%	21.2	26.9	3.0	400	0.7%

Note:
Source: Capitaline Database
All figures in Rs.cr. except for FV, BV and EPS
CMP is as of December 09 2020
EPS is adjusted for extraordinary items
Past dividend yield may not necessarily sustain in future

Bandhan Bank

Positives

- Bandhan Bank is India's largest MFI company with 20%+ market share in India and 50%+ market share in the East and North-east. It has consistently demonstrated a strong track record in growing its balance sheet/earnings (AUM grew by CAGR 44% FY10-20). As on FY20, its total customer base stood at ~20mn customers with a loan book of Rs 76k crore.
- Post the merger with Gruh Finance, mortgages account for ~26% of the loan book. In the next five years, it aims to transform itself into a one-stop solution for all banking requirements of mid and low-income group customers.

Concerns

- Private banks and new MFIs are expanding their activities in microfinance, resulting in greater competition for Bandhan Bank.
- Microloans are not backed by collateral; as a result, they may pose a higher degree of risk than loans secured with physical collateral. Their recovery is also susceptible to political risks.

Birla Corporation

Positives

- Birla Corp (BCL) has a significant presence in central (Madhya Pradesh), northern regions (Uttar Pradesh and Rajasthan), West Bengal and Maharashtra. It has 4.2% of the market share in the Indian cement industry.
- The company has finalised a plan to scale up its capacity to 25 MTPA by 2025 from the current capacity of 15.6 MTPA, which provides strong visibility of future growth.

Concerns

- BCL is run by non-promoter professional management. A probate court ruled that Lodha, the chairman of the group's flagship firm Birla Corporation, should be removed from his position and also from being a director on the boards of other MP Birla companies. This development could create some uncertainty with promoters.
- Cement prices have been up due to decent demand. Any fall in demand could lead to lower realisations and margins.

GAIL

Positives

- GAIL is planning expansion in petrochemicals, speciality chemicals and renewables to supplement growth in its core business of natural gas marketing and transportation.
- Apart from this, it plans to invest more than Rs 45,000 crore over the next five years to expand the National Gas Pipeline Grid and city gas distribution network.

Concerns

- Any changes in regulation by PNGRB in the City Gas Distribution and Gas Transmission industry concerning marketing exclusivity can hurt GAIL.
- GAIL's liquid hydrocarbon and petrochemical segments could face volume and margin headwinds due to weakening demand in 2020, followed by a gradual recovery in 2021.

HPCL

Positives

- Amongst PSU OMCs, HPCL is more focused on downstream business which is marketing and distribution of crude derivative products. It has a wide distribution and marketing infrastructure network, including a network of cross country pipelines, terminals, depots and 16,707 retail outlets.
- HPCL plans to invest more than Rs 60,000 crore in the next five years to build and develop infrastructure, including the implementation of significant projects such as the capacity expansion at its refineries, expansion of its pipeline network, and setting up of new pipelines. Any development on divestment front for BPCL could lead to a rub-on effect on HPCL's valuations.

Concerns

- HPCL has seen under-recoveries in the past as prices of SKO and LPG are controlled in the domestic market. While GoI has provided budgetary support, the absence of an institutionalised mechanism to meet under-recoveries has delayed subsidy receipts in the past. Refining margins have been soft of late, and marketing margins could contract once local fuel prices start to fall to reflect lower international crude prices.

- HPCL is engaged in several projects. Any adverse development in project cost and timelines could impact its profitability.

Hindustan Unilever

Positives

- HUL is a market leader in multiple FMCG categories and has the widest distribution reach with +7mn outlets. The company is debt-free and cash-rich (~Rs.5113 cr cash as of FY20) after recent acquisitions of GSK's consumer business. We expect substantial synergy benefits to play out in the next 2-3 years.
- In H1FY21, the company has launched 100+ SKUs in the hygiene category, which along with the company's other health and nutrition brands, forms 80% of the portfolio that has seen 10% growth. The stock price has remained muted. Earnings may surprise on the upside, and the stock could get rerated gradually.

Concerns

- Volatility and price fluctuation in commodities like tea, palm oil and crude can temporarily affect the company's margins.
- Many brands and businesses of HUL are highly mature ones which have already reached a size and scale that make it difficult for a double-digit every year.

Infosys

Positives

- Infosys announced large deal wins with a total contract value of $ 3.15b, which is the highest ever recorded in Q2FY21 (includes mega-deal with Vanguard); 16 large deal wins were reported in Q2FY21. The IT deal pipeline has been continuously improving despite cost-cutting and cash conservation measures by clients.
- Infosys' financial profile is robust, led by a debt-free balance sheet and healthy cash-generating ability in the past. Financial flexibility is strong, supported by robust liquidity in the form of cash and cash equivalent of Rs 26,011 crore as on 30th Sep-20.

Concerns

- Any significant adverse observations or findings from the ongoing investigations by regulators and government agencies into the whistle-blower complaints in the US could impact its profitability.
- Many of Its clients' business operations may be negatively impacted by the economic downturn – resulting in postponement, termination, and suspension of ongoing projects with Infosys.

NAM India

Positives

- NAM India is one of the largest asset management companies in India. Given that India is massively underpenetrated, there is enough scope for AMCs like NAM to continue to expand profitably.
- There is increasing acceptability of the Nippon brand by Indian investors. Fund management business has high operating leverage, which will continue to aid profitability.

Concerns

- Continuous underperformance of its schemes could lead to a high level of redemption. Management has taken several measures to improve investment performance, including hiring new fund managers and realignment of the portfolio to mitigate this risk.
- The unprecedented volatility due to COVID-19 fears has impacted the sentiment of retail investors. A considerable amount of lumpsum redemptions and stopping of SIPs may impact AUM growth.

ONGC

Positives

- The recent rise in crude oil prices and the expected uppishness therein is not fully reflected in the current valuations of ONGC. ONGC's average Capex (standalone) per annum has been in the range of Rs 30,000 to Rs 32,000 crore with about 23-25% expenditure on development drilling, 23-25% expenditure on exploration drilling, 38-40% expenditure on capital projects and the balance of 10- 12% on surveys, R&D, integration and JVs.
- ONGC's acquisition of a majority stake in HPCL is a defining move - one that significantly transforms its downstream portfolio. HPCL will provide the company a pure-play refining and marketing edge with an extensive retail presence across the country, entailing significant diversification benefits.

Concerns

- E&P business is highly capital intensive activity and has a long gestation period with high uncertainty about the estimation of reserves.
- ONGC has been experiencing a decline in production in its mature fields over the recent past.

State Bank of India

Positives

- SBI is almost immune to any liability-side risks at this juncture, given its expansive, granular deposit base and government's majority holding. It is better placed to deal with asset quality worries than many other large banks because of the quality of its loan book. Asset quality worries seem to be overblown.
- SBI is a financial conglomerate. Through its various subsidiaries and JV companies, it has a presence in insurance, asset management, credit cards and various other services, including a stake in various regional rural banks. All these are performing exceptionally well and adding substantial value to the bank's valuation.

Concerns

- Corporate-facing banks like SBI with a substantial corporate book are highly sensitive to a delay in the process of resolution of large assets due to the prevailing pandemic-related uncertainties.
- Recent COVID pandemic is likely to have a huge and far-reaching impact on the banking sector. The ongoing stress in the Corporate and SME segment might accelerate, and the retail loan segment might emerge as a new source of stress.

Sun Pharma

Positives

- Sun Pharma is the largest Indian pharma company that commands ~8.2% market share in the Indian market. The company has 31 brands amongst top-300 brands in IPM. It is ranked No.1 in CNS, Cardiac, Orthopaedic, Dermatology, Nephrology and Urology in the domestic market.
- Sun Pharma has made ~Rs 12,600cr worth of cumulative R&D investments over the past six years (FY15-20), which bodes well. It has earned ~ $ 410mn in revenue from the global speciality business in FY20. We believe that in the next 2-3 years, Sun Pharma's superior earning growth will be driven by (1) regulatory resolutions, (2) moderating price erosion and (3) several product launches across generic and speciality categories.

Concerns

- A slower ramp-up in the speciality portfolio is a concern. Speciality pharma is a vastly different business model compared to traditional generics, requiring significantly superior R&D skills and capabilities, business development strategy, and risk appetite.
- A delay in USFDA resolution of Halol 483s and higher-than-estimated price erosion in the US.

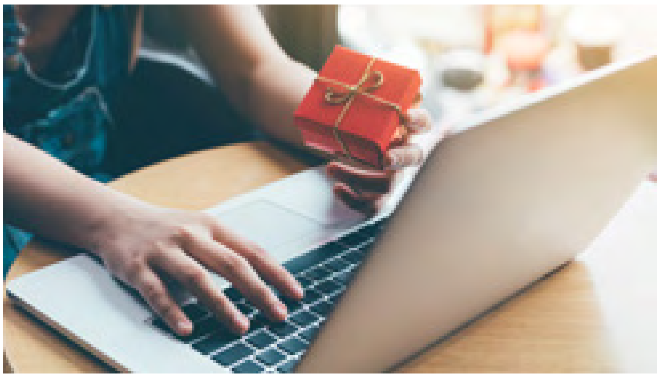
Insights into investing patterns of retail investors in 2020

In YTD20 so far (until 30th Nov-20), the domestic equity market has witnessed considerable volatility and a complete cycle within just one year. Starting from Jan-20, the benchmark CNX Nifty50 Index first lost 37.5% of its index value closing at a low of 7,610 on 23rd Mar-20 and thereafter, the index gained a whopping 71.5% till end Nov-20. In totality, the overall gain for the CY20 till end Nov-20 stood at mere 6.6%. Going backward by a year, 2019 was a year when, while the markets made new highs, the wealth of retail investors eroded considerably as baring a few large-cap index stocks the mid- and small-cap stocks witnessed a big carnage. This changed a lot in 2020 with the Nifty Mid-cap 100 index gaining 15.3% YTD, thus outperforming the Nifty50. A similar trend was witnessed in the Small-cap stocks too.

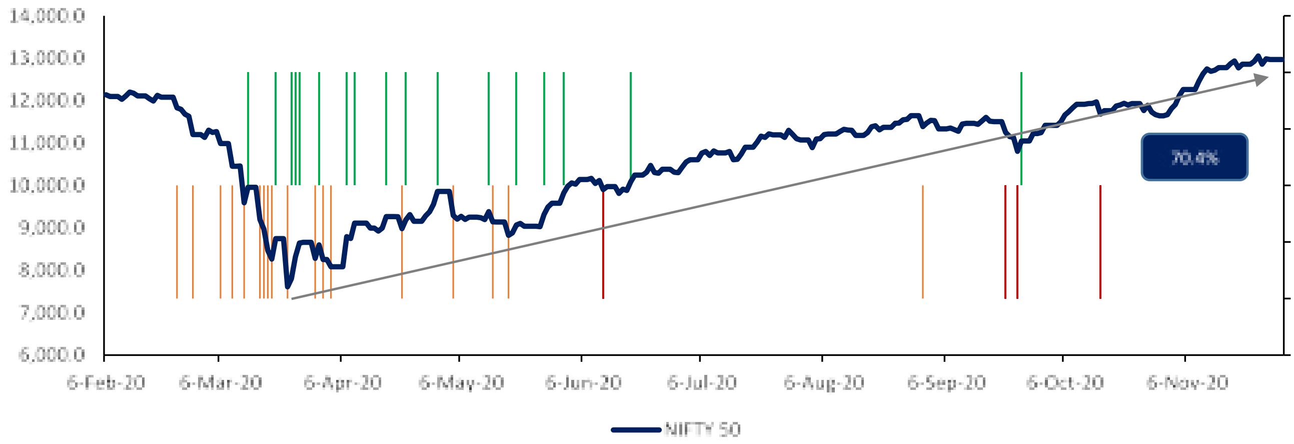
During the year, the retail investors led the massive market rally post the crash in Mar-20. The Nifty50 and Nifty Midcap 100 indices gained ~71% and ~79%, respectively post the low of 23rd Mar-20. This rally was largely led by the retail investors as indicated by the sharp increase in trading & demat account openings witnessed in Apr-Jun-20 quarter. Moreover, the non-institutional segment witnessed the highest (in a decade) volumes in cash segment of trading in equity shares, breaching 70% in Jul-20 as compared to an average of about 55% until recently. According to Prime Database, the shareholding of retail investors in listed Indian companies increased to a 11 year high in the Jul-Sept-20 quarter at 7.01% vs. 6.74% in the previous quarter and 6.46% in the corresponding quarter last year. In value terms, these retail holdings crossed the Rs10 trillion mark on NSE alone, at the end of Sept-20.

Apart from the visible data, it can be said that the equity markets globally have matured during this year of the pandemic. With investors having more disposable income, they have not just focussed on increasing investments but made a conscious effort of understanding the equity market and building wealth through that route. This can be clearly seen from the way certain sectors have behaved. We had a rough year but few sectors such as Information Technology, Pharmaceuticals, Specialty Chemicals, Healthcare and Essentials have made their way to a high growth regime on the back of the opportunities therein. Furthermore, the kind of lifestyle people are now adopting is only building additional long term growth opportunities for these sectors. This understanding was visible in the investor community as they continued to pump in the funds in these promising sectors. There was never any dearth of information and knowledge relating to investment in equities, but the interest generated during this calendar year is here to stay.

It now becomes critical to channelize this interest and money in the right direction by way of bringing in more knowledge and advice to the retail investors. Not only does the investor need more information in terms of available products and opportunities but they also need to be made self-reliant to take their decisions albeit with expert advice. This can be done by way of providing the investors with tools that help them evaluate their holdings and also understand the rationale behind making investment decisions.



Investment advisory for retail investors for 2021



2020 has been a monumental year for investors new and old alike, with COVID-19 possibly being the biggest event of the past decade. The year has seen the entire cycle of risk on, risk off, flight to safety, and, finally, liquidity playing out with a grand full reversal and investors who stayed invested being amply rewarded. From the lows of March 23, Nifty 50 has bounced back sharply by gaining almost ~70.4% (as on 30th Nov-20).

Though the recovery can be attributed to the easing of lockdown and the opening of various sectors and industries, the primary reason behind the index's sharp rise is the considerable amount of liquidity present in the market.

During these five months, there were 22 days the index fell by over 2% and 17 days it rose by over 2%. Let's see what happens if you miss those 'best days' when the market rose:

Best Days missed	Returns Missed
1 Day	8.8%
2 Days	15.4%
3 Days	21.2%
4 Days	25.4%
5 Days	29.3%

The bottom line is if you missed top 2 of those fantastic 16 days, your portfolio return would have reduced by ~15%, but if you missed top 5 days, your portfolio return would stand reduced by ~29%.

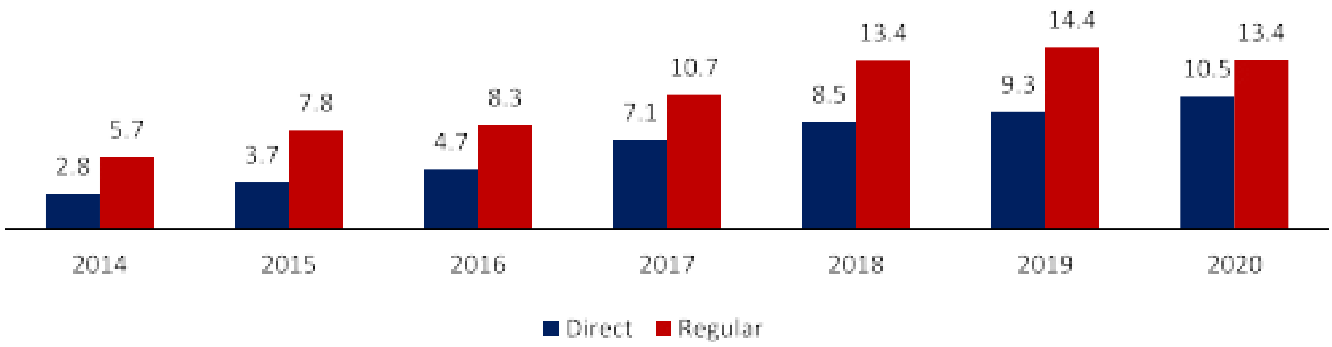
The current times are ripe enough to enjoy sizeable gains and green arrows associated with the bull run of markets, but it is also essential to ponder over the next phases of the market, which are rife with uncertainties. This is why investment advisory becomes critical for investors.

Across asset classes, we have seen extreme movements: Calendar 2020 has been a great learning laboratory - where one had to move across equity, debt, commodities and cash deftly. The most important consideration that has played out in the past and would do so in future is asset allocation. Investors, in consultation with the investment advisor, must first decide on an apt asset allocation as per the risk-return profile. After that, staying disciplined to the decided asset allocation is the key.

Since asset allocation is done considering the long term horizon, one must be prepared to ride out the short-term volatilities. While deciding asset allocation, it is important to include various asset classes to ensure portfolio diversification. For example, if a client had not included gold as an asset class in his/ her financial portfolio, he/she would have missed the opportunity of earning ~35% return in the current year.

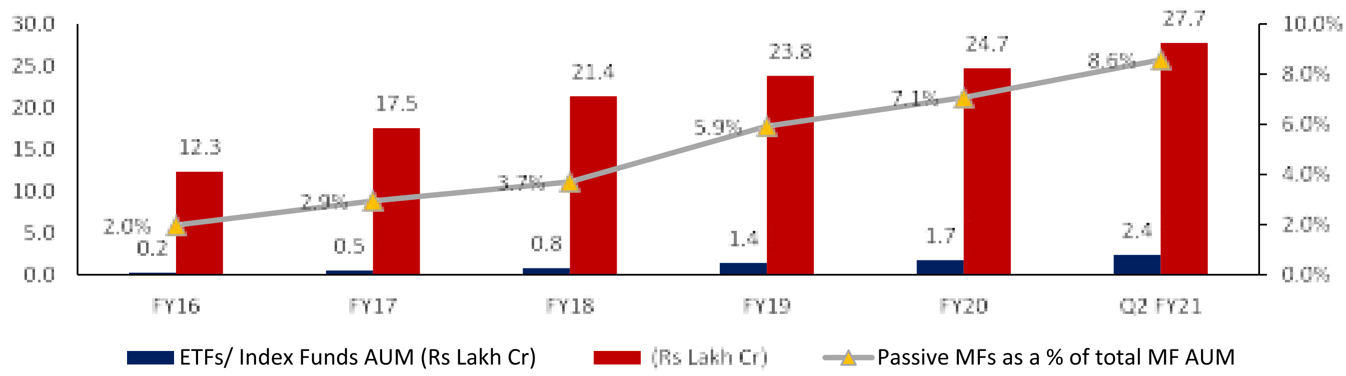
Secondly, going forward, the investments in the direct option of the mutual funds will increase at a breakneck pace. The direct investments have already witnessed multifold growth in last five years. From 2014-2020, Direct HNI investments grew by a CAGR of ~37% and total direct investments grew by ~25%. Direct MF investments, which represent 44% of the total Direct investments, grew by ~25%.

Total AUM MF (Rs Lakh cr)



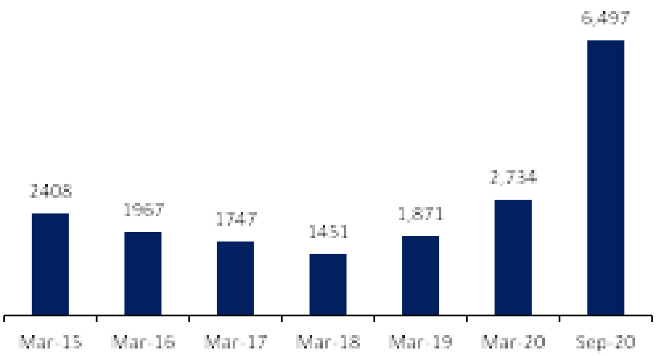
Source: AMF

Thirdly, investors have been exploring passive, low cost, yet effective, investment vehicles such as ETFs and index funds. Not only from the domestic perspective, but offshore investments through feeder funds and ETFs are picking up pace as well. Products like Small case and global investing should bloom further in the upcoming year. Since the past five years, we have been witnessing a healthy flow of investments in ETFs/index funds. The domestic ETF AUM linked to equity and debt has grown at a solid rate of 65% per annum over the past 10 years (including EPFO money).

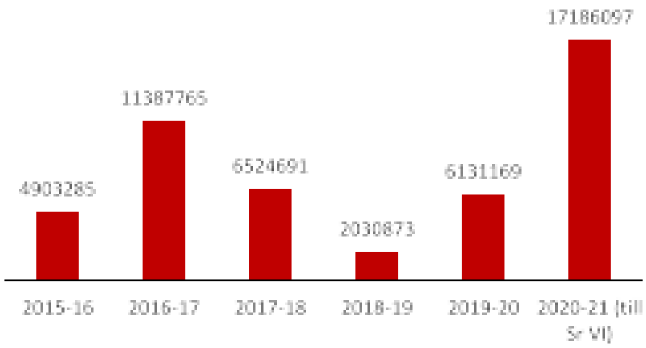


Source: AMF

Fund of funds investing overseas, Rs (Cr)



No. of gms of Gold issued in SGBs (till Sr VI)



We see these factors mentioned above (importance of asset allocation, direct investments in mutual funds, passive style of investments, and exploring alternative asset classes) as the key pillars of the foundation of the financial portfolios of investors.

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