Emkay©
Your success is our success

BoP

Refer to important disclosures at the end of this report

Current account back in deficit

- **The current account finally reverted to a deficit of US$1.7bn (-0.2% of GDP) in Q3FY21 from a surplus of US$15.1bn (2.4% of GDP) in Q2FY21, driven by a widening in trade deficit, while the services surplus saw an improvement. Nonetheless, the material improvement in capital account in Q3FY21 led to a record-high BoP surplus of US$32.5bn. The large capital account surplus was boosted by robust net FPI equity flows of US$22bn. Although FPI flows moderated sequentially, they remained strong at ~$17bn. The basic balance (CAD+FDI), which reflects durable current account funding, sharply moderated to US$15.2bn from a whopping US$40.1bn in Q2FY21.**
- **Going ahead, even as current account surplus will narrow further as domestic and global economies normalize, it will still likely to be in a surplus of 0.9% of GDP in FY21 amid a comfortable funding environment, implying FY21 BoP surplus of ~US$90bn. However, the best seems to be over on external sector comfort. A gradual recovery means import growth will exceed export growth, while higher losses in oil led terms of trade imply current account/GDP to return to a deficit of ~0.8%. However, healthy capital flows should ensure FY22E BoP remains in surplus of US$52bn.**
- **Net positive BoP dynamics should help keep a mild upward bias on INR vs. USD but the overall trajectory of INR will be caught between mixed external sector terms of trade, gradually changing global risk environment and RBI stance on FX. We see USD-INR in the range of 71.50-75.50 in FY22.**

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Madhavi Arora
madhavi.arora@emkayglobal.com
+91 22 6612 1341

Key Highlights:

- **Current account turns to deficit of 0.2% of GDP in Q3FY21.**
- **Capital account surplus improves further to 4.5% of GDP, led by robust FPI equity flows.**
- **BoP prints record surplus of US$33.5bn, while the basic balance worsens to US$15.2bn.**
- **FY21 current account/GDP to be in surplus of 0.9%; BoP to be in surplus of ~US$90bn.**
- **FY22 CAD/GDP likely to be at 0.8%; BoP to be in surplus of ~US$52bn.**

Q3FY21 current account turns into deficit on higher trade deficit

After posting a surplus in the previous three consecutive quarters, Q3FY21 current account finally gave way to deficit, printing (-)US$1.7bn (-0.2% of GDP) vs. a surplus of US$15.1bn (2.4% of GDP) in Q2FY21 and US$2.6bn deficit (0.4% of GDP) a year ago. The sequential move toward CAD was primarily due to higher merchandise trade deficit of US$34.5bn (4.7% of GDP) vs. US$14.8bn (2.3% of GDP) in the preceding quarter, caused by a sharp rise in imports over exports stemming from higher oil prices and improving domestic demand. Imports rose to US$111.8bn (US$90.4bn in Q2FY21), while exports inched up marginally by US$1.6bn (QoQ) to US$77.2bn in Q3FY21. Turning to invisibles, net services receipts increased both sequentially and on a year-on-year basis, primarily on the back of higher net export earnings from computer services. Net remittances increased a tad to US$19.3bn. However, net income drag worsened further to (-) US$10.1bn from (-)US$9.3bn.

Q3FY21 capital account bloats on FPI equity flows, leading BoP to super surplus

The material sequential improvement in capital account in Q3FY21 (US$33.5bn; 4.5% of GDP) from Q2FY21 (US$15.4bn; 2.4% of GDP) was largely due to robust equity FPI flows which largely picked pace in early November, FPI debt flows improved a tad. FDI flows moderated but remained healthy at US$17.0bn (US$24.6bn in Q2FY21). Other debt inflows like ECBs and banking capital continued to see outflows. ECB outflows stood at (-) US$1.7bn, down from (-)US$4.3bn in Q1FY21 with repayments exceeding fresh disbursals, while net accretions to NRI deposits increased to US$3.0bn from US$1.9bn in the previous quarter. Overall, BoP surplus in Q3FY21 remained high at US$32.5bn (US$31.6bn in Q2FY21). The basic balance (CAD+FDI), which reflects durable current account funding, moderated sharply sequentially to US$15.2bn from a whopping US$40.1bn in the prior quarter.

FY22 current account to reverse into 0.8% deficit amid normalization and oil effect

High-frequency external sector data imply Q4FY21 current account deficit will likely worsen further. Nonetheless, overall exports recovery for FY21 may still outdo that of core imports. We see FY21 current account/GDP at a surplus of 1.1% (US$28bn), which would be led by huge terms of trade gains from a slump in oil imports while core import demand is still sluggish. Net funding remains comfortable amid still-easy global liquidity, with FY21 BoP in surplus of ~US$96bn, helped by lower current account as well as solid FPI and FDI flows. As we move into FY22, a gradual recovery implies import growth will exceed export growth, while higher losses in oil led terms of trade will imply current account/GDP to return to a deficit of ~0.8%. However, healthy capital flows will ensure FY22E BoP remains in surplus of US$52bn.

Ideally, positive BoP dynamics should help keep a mild upward bias on INR vs. USD, especially as global liquidity continues to chase carry in EM economies albeit selectively. However, global winds may imply foreign investors start asking for a higher risk premium from EM and could start pressurizing EM assets, including India. We note India's real rates are negative and one of the lowest in the EM pack. Besides, continued tactical intervention by the RBI will ensure the INR remains somewhere in the middle of the EM pack in terms of spot returns. Overall, the INR's performance will be caught between mixed external terms of trade, gradually changing global risk environment, RBI stance on FX and fiscal fragilities.

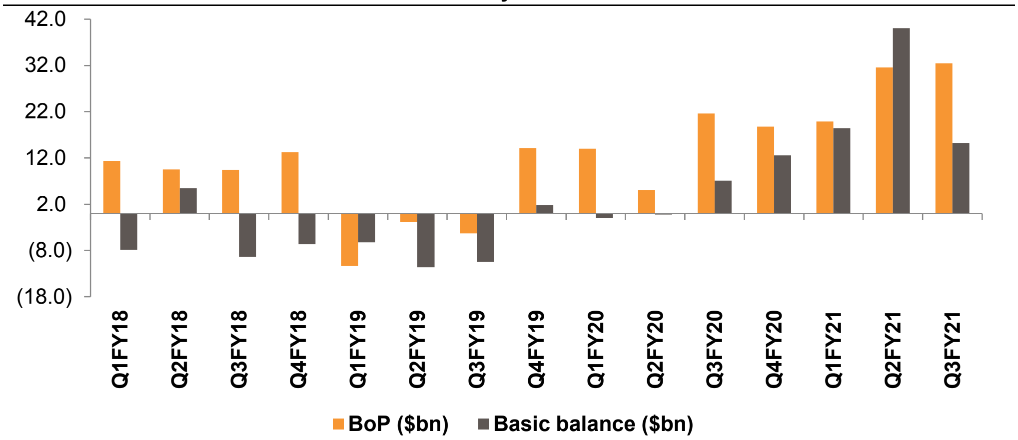
Please see our model portfolio (Emkay Alpha Portfolio): Nifty (Page 4)

Exhibit 1: Current account reverts to deficit as trade deficit widens

(US$bn)	3QFY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Current account	**(2.6)**	**0.6**	**19.2**	**15.5**	**(1.7)**
CAD/GDP (%)	**(0.4)**	**0.1**	**3.7**	**2.4**	**(0.2)**
Trade balance	(36.0)	(35.0)	(10.8)	(14.8)	(34.5)
Trade balance/GDP (%)	**(5.0)**	**(4.9)**	**(2.1)**	**(2.3)**	**(4.7)**
- Exports	81.2	76.5	52.4	75.6	77.2
- oil exports	10.9	9.1	4.8	7.3	0.0
- non-oil exports	70.4	67.4	47.5	68.3	77.2
- Imports	117.3	111.6	63.1	90.4	111.8
- oil imports	31.5	33.8	13.2	18.8	0.0
- non-oil imports	85.8	77.7	49.9	71.6	111.8
Net Invisibles	33.4	35.6	30.0	30.3	32.8
- Services	21.9	22.0	20.5	21.2	23.6
o/w Software	21.5	21.1	20.8	22.3	23.4
o/w Non-software	0.4	0.9	(0.3)	(1.1)	0.2
- Transfers	18.9	18.4	17.0	18.4	19.3
- Net Income	(7.4)	(4.8)	(7.5)	(9.3)	(10.1)
Capital account	**23.6**	**17.4**	**1.0**	**15.4**	**33.5**
% of GDP	3.2	2.4	0.2	2.4	4.5
Foreign investment	17.6	(1.8)	(0.2)	31.6	38.2
- FDI	9.7	12.0	(0.8)	24.6	17.0
- FPI	7.8	(13.7)	0.6	7.0	21.2
Banking capital	(2.3)	(4.6)	2.2	(11.2)	(7.6)
- NRI deposits	0.8	2.8	3.0	1.9	3.0
Short-term credit	(1.4)	(1.0)	(0.2)	(1.8)	0.2
ECBs	3.2	10.3	(1.4)	(4.3)	(1.2)
External assistance	1.3	0.6	4.1	1.9	1.2
Other capital account items	5.2	13.8	(3.5)	(0.7)	2.8
E&O	0.6	0.9	(0.4)	0.6	0.7
Overall balance	**21.6**	**18.8**	**19.8**	**31.6**	**32.5**

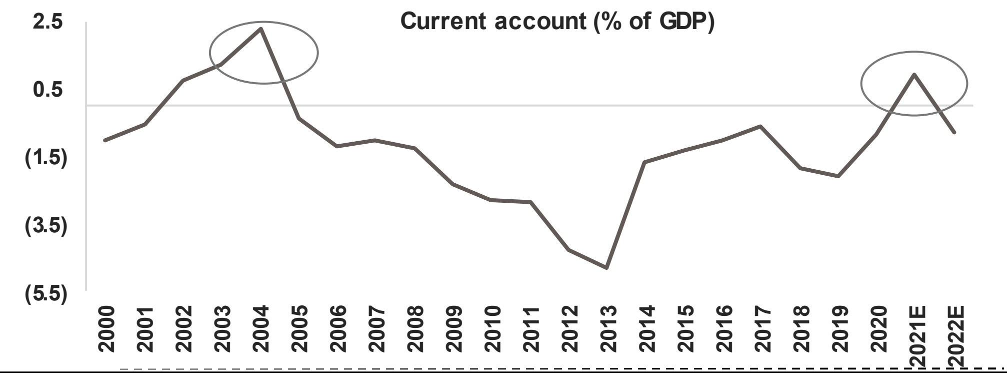
Source: CEIC, Emkay Research

Exhibit 2: Basic BoP narrows in Q3FY21 but likely to remain comfortable in FY21



Source: CEIC, Emkay Research estimates

Exhibit 3: Current account/GDP poised to print 0.9% surplus in FY21, to be fully reversed in FY22



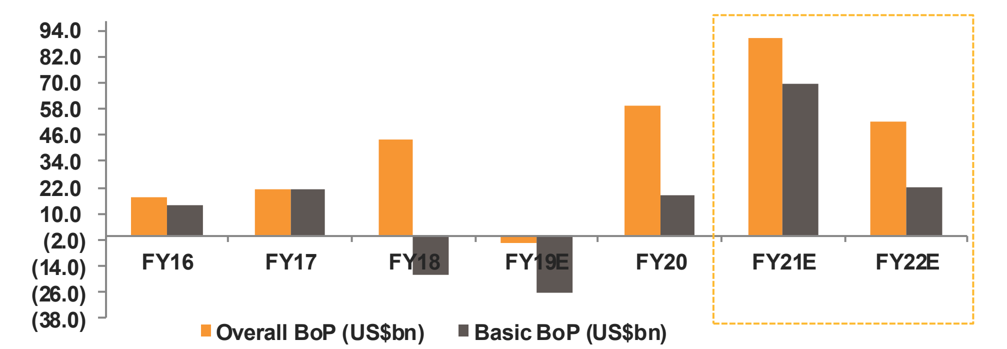
Source: CEIC, Emkay Research estimates

Exhibit 4: Current account/GDP to revert to 0.8% deficit in FY22 as trade deficit widens

(US$bn)	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Current account	**(14.4)**	**(48.7)**	**(57.3)**	**(24.7)**	**23.6**	**(22.5)**
CAD/GDP (%)	**(0.6)**	**(1.8)**	**(2.1)**	**(0.8)**	**0.9**	**(0.8)**
Trade balance	(112.4)	(160.0)	(180.3)	(157.5)	(104.6)	(158.0)
Trade balance/GDP (%)	**(4.9)**	**(6.0)**	**(6.7)**	**(5.4)**	**(4.0)**	**(5.5)**
- Exports	280	309	337	320	286	325
- Imports	393	469	518	478	391	483
- oil imports	87	109	141	131	81	141
Net invisibles	98	111	123	133	123	131
- Services	68	78	82	85	87	93
- Transfers	56	62	70	75	71	73
- Net Income	(26)	(29)	(29)	(27)	(35)	(35)
Capital account	**36.4**	**91.4**	**54.4**	**83.2**	**66.8**	**75.0**
% of GDP	1.6	3.4	2.0	2.9	2.6	2.6
Foreign investment	43.2	52.4	30.1	44.4	78.8	60.0
- FDI	35.6	30.3	30.7	43.0	45.8	45.0
- FPI	7.6	22.1	(0.6)	1.4	33.0	15.0
Banking capital	-17	16	7	-5	-19	5
- NRI deposits	(12)	10	10	9	10	10
Short-term credit	6	14	2	(1)	(1)	1
ECBs	(6)	(0)	10	23	3	5
Others	8	6	1	18	-	-
Overall BoP	**21.6**	**43.6**	**(3.3)**	**59.5**	**90.3**	**52.5**

Source: CEIC, Emkay Research

Exhibit 5: Basic BoP to narrow sharply in FY22 but still remain positive



Source: CEIC, Emkay Research estimates

Emkay Alpha Portfolio – Nifty

EAP-Nifty (25 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
Agri Input & Chemicals	0.56	0.00	-100%	-56
UPL	0.56	0.00	-100%	-56
Auto & Auto Ancillaries	5.40	9.38	74%	398
Bajaj Auto	0.75	1.98	164%	123
Eicher Motors	0.57	1.61	182%	104
Hero Motocorp	0.60	0.60	1%	1
Mahindra & Mahindra	1.20	0.00	-100%	-120
Maruti Suzuki India	1.44	2.69	88%	126
Tata Motors	0.85	2.50	193%	164
BFSI-Banks	26.43	34.46	30%	803
Axis Bank	2.76	5.67	105%	291
Bandhan Bank	0.00	2.03	NA	203
HDFC Bank	10.24	9.4	-8%	-85
ICICI Bank	6.34	7.37	16%	103
Indusind Bank	0.85	4.03	376%	319
Kotak Mahindra Bank	4.05	0.00	-100%	-405
State Bank of India	2.20	5.97	171%	377
BFSI-Insurance	1.45	2.08	43%	63
HDFC Life	0.91	0.00	-100%	-91
SBI Life	0.54	2.08	284%	154
BFSI-NBFCs	10.15	9.32	-8%	-83
Bajaj Finserv	0.92	0.00	-100%	-92
Bajaj Finance	2.15	0.00	-100%	-215
Cholamandalam Investment	0.00	2.17	NA	217
HDFC	7.08	7.15	1%	7
Cement & Building Materials	2.72	5.50	103%	279
Grasim Industries	0.87	1.48	70%	61
Shree Cements	0.62	1.71	176%	109
Ultratech Cement	1.22	2.31	89%	109
Consumer Goods & Retail	11.49	6.98	-39%	-451
Asian Paints	1.80	1.82	1%	2
Britannia Industries	0.67	0.00	-100%	-67
Hindustan Unilever	3.42	0.00	-100%	-342
ITC	3.01	1.97	-34%	-103
Nestle India	0.96	0.00	-100%	-96
Tata Consumer	0.60	0.00	-100%	-60
Titan Company	1.02	2.12	107%	110
United Breweries	0.00	1.06	NA	106
Engineering & Capital Goods	2.70	2.24	-17%	-46
Larsen & Toubro	2.70	2.24	-17%	-46
Information Technology	16.77	13.15	-22%	-362
HCL Tech	1.68	3.21	91%	154
Infosys	7.98	7.44	-7%	-54
TCS	5.18	0.00	-100%	-518
Tech Mahindra	0.97	2.50	158%	153
Wipro	0.96	0.00	-100%	-96
Metals & Mining	2.86	3.67	29%	81
Coal India	0.43	0.65	51%	22
Hindalco	0.75	1.48	97%	73
JSW Steel	0.71	0.00	-100%	-71
Tata Steel	0.96	1.54	60%	58
Oil & Gas	11.78	4.68	-60%	-709
BPCL	0.63	1.98	215%	135
GAIL	0.00	0.40	NA	40
Indian Oil	0.37	0.00	-100%	-37
ONGC	0.59	0.59	1%	1
Reliance Industries	10.19	1.71	-83%	-848
Pharmaceuticals	3.26	3.86	18%	60
Cadila Healthcare	0.00	1.03	NA	103
Cipla	0.65	0.66	1%	1
Divi's Lab	0.73	0.00	-100%	-73
Dr. Reddy's Lab	0.86	1.64	91%	78
Sun Pharma	1.02	0.53	-48%	-49
Ports & Logistics	0.81	0.00	-100%	-81
Adani Ports	0.81	0.00	-100%	-81
Power	1.67	1.70	2%	4
NTPC	0.80	0.82	3%	3
Power Grid Corporation	0.87	0.88	1%	1
Telecommunications	1.97	2.96	51%	100
Cash		**0.00**		
Nifty	**100.0**	**100.00**		

*Source: Emkay Research; Note: *We have internally capped single stock exposure to 10% in our EAP*

Sector portfolio NAV

	Base					Latest
	1-Apr-19	1-Apr-20	30-Sep-20	29-Dec-20	1-Mar-21	31-Mar-21
EAP - Nifty	100.0	69.7	91.3	112.1	122.7	121.0
Nifty50	100.0	70.7	96.4	119.4	126.5	125.9

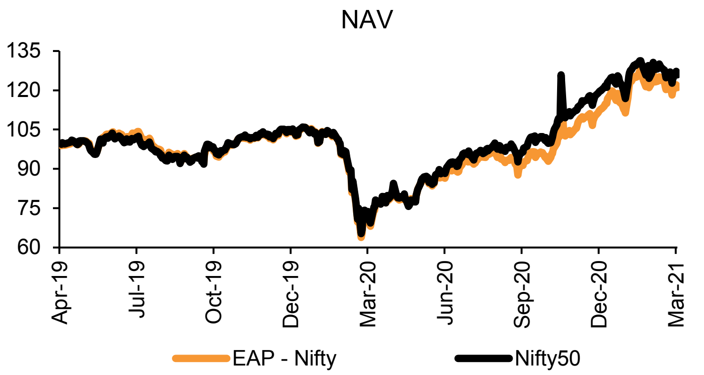
**Performance measurement base date 1st April 2019*
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Nifty	-1.4%	7.9%	32.6%	73.6%
Nifty50	-0.5%	5.4%	30.6%	78.0%

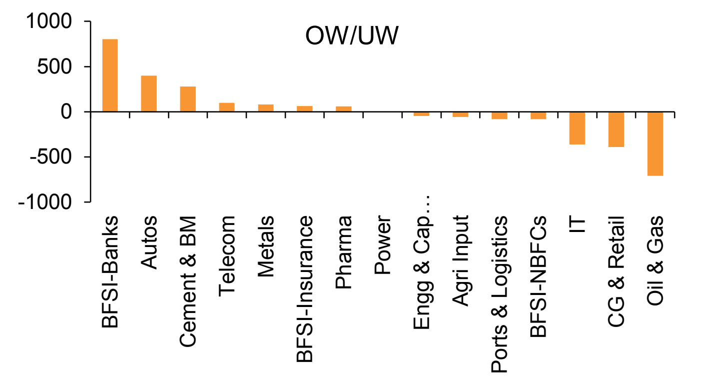
Source: Emkay Research

NAV chart



Source: Emkay Research

Sector OW/UW



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): SMID

"Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals"

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 01 Apr 2021 12:43:16 (SGT)
Dissemination Date: 01 Apr 2021 12:44:16 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

ANALYST CERTIFICATION BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL)

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible of the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer, director or employee of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant). The research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. EGFSL has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the EGFSL and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of EGFSL compensation to any specific investment banking function of the EGFSL.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interest that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at the arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):

Disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report-:

1. EGFSL, its subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of April 1, 2021
2. EGFSL, and/or Research Analyst does not market make in equity securities of the issuer(s) or company(ies) mentioned in this Research Report

Disclosure of previous investment recommendation produced:

3. EGFSL may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by EGFSL in the preceding 12 months.
4. EGFSL , its subsidiaries and/or other affiliates and Research Analyst or his/her relative's does not have any material conflict of interest in the securities recommended in this report as of April 1, 2021.
5. EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her relative's does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the April 1, 2021
6. EGFSL, its subsidiaries and/or other affiliates and Research Analyst have not received any compensation in whatever form including compensation for investment banking or merchant banking or brokerage services or for products or services other than investment banking or merchant banking or brokerage services from securities recommended in this report (subject company) in the past 12 months.
7. EGFSL, its subsidiaries and/or other affiliates and/or and Research Analyst have not received any compensation or other benefits from securities recommended in this report (subject company) or third party in connection with the research report.
8. Securities recommended in this report (Subject Company) has not been client of EGFSL, its subsidiaries and/or other affiliates and/or and Research Analyst during twelve months preceding the April 1, 2021

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is not for distribution into Australia.
Hong Kong	This report is not for distribution into Hong Kong.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is not for distribution into Malaysia.
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 16800306E) or DBSVS (Company Regn. No. 1860024G) both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an agreement under Regulation 32C of the financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608-610, 6th Floor, Gate Precinct Building 5, PO Box 506538, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

NAVAL SETH

Digitally signed by NAVAL SETH
DN: c=IN, o=EMKAY GLOBAL FINANCIAL SERVICES LTD, ou=INSTITUTIONAL EQUITIES, cn=NAVAL SETH,
serialNumber=5486859566404ade1c4ed187e19b0fbd0bc6ded66804bd4a1fa0708c90aeeb5f, postalCode=400028, 2.5.4.20=abda4ce9ac067602590d86cf238501fd6c297f83ac23daf73ed9a76df274942b,
st=Maharashtra
Date: 2021.04.01 10:15:14 +05'30'