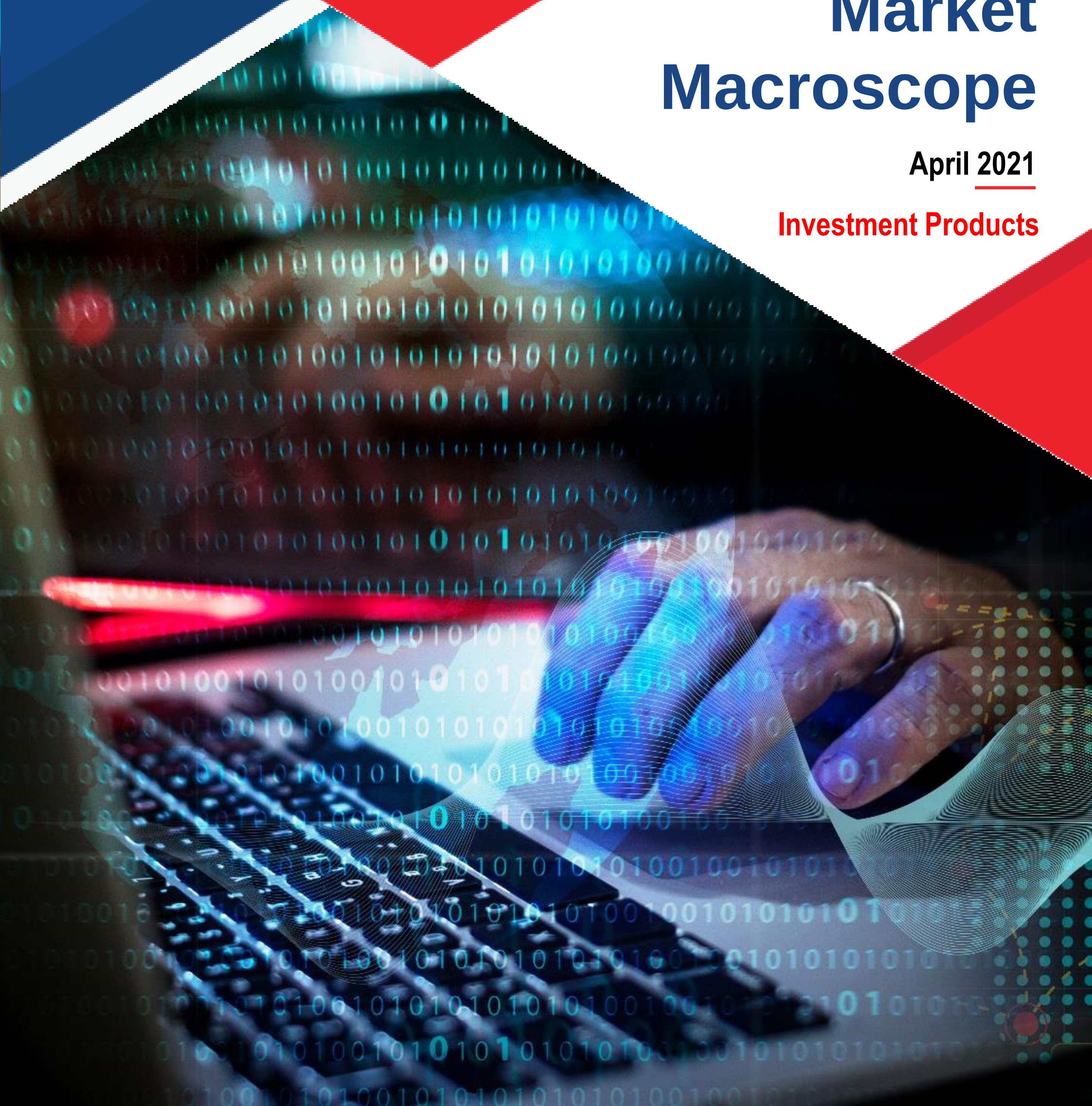
Market Macroscope

April 2021

Investment Products



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Macroeconomic Review:

The $1.9 trillion US fiscal stimulus was approved in early March. US President Biden also unveiled a further $2 trillion infrastructure plan. This is only the first part of what is likely to be a $4 trillion plan. The infrastructure plan would focus on transportation, water, clean energy and manufacturing among others. The Biden administration plans to raise US corporate tax rates from the current 21% to 28% to finance the plan. It is likely to take 2-3 months for the plans to be approved. We expect the tax increases to be a near term risks for equity markets. You will recollect that Trump had cut US corporate taxes to 21% early in his tenure and that had led to a sharp rally in US equities.

The US bond yields have been trading in a narrow band for the last couple of weeks but this is a risk to be monitored. Any large spike in bond yields could be negative for equity markets in the near term.

India's GST collections continued to be close to record highs in each of the past few months suggesting continued strength in the economy. However, March saw a sharp increase in Covid infection in India and some states and cities have imposed partial lockdowns/ night curfews. A continued increase could disrupt the nascent economic recovery.

The RBI's Monetary Policy Committee held rates unchanged in its early April meeting with a commitment to keep an accommodative policy. India's 10-year bond yield has shown some stability and traded in a narrow band over the last couple of weeks. The Supreme Court decided in favour of the banks in a plea urging waiver of interest during the lockdown. The Supreme Court also lifted the stay on classification of accounts as NPL.

Equity markets review:

The market movement in March can best be described as sideways with no big triggers to move the markets in either direction. The increase in Covid cases was a negative surprise for the markets. The FII buying activity, which has fueled the rally in the last six months, was much lower in March compared to the past few months. FIIs invested Rs. 10,482 Crores in the Indian equity markets in March 2021 while domestic mutual funds reported net outflows.

Nifty increased by 1% and Bank Nifty fell by 4.3% respectively during the month. Financials and realty were one of the worst performing sectors during the month. FMCG and IT services, which had underperformed sharply in February were among the best performing sectors in March.

The best and worst performing stocks within the NSE 500 universe are shown in the table below. Stocks from the Adani group had a strong run.

Best Performing Stocks Among NSE 500 in March 2021					
Large Cap		Mid Cap		Small Cap	
Stock Name	Returns	Stock Name	Returns	Stock Name	Returns
Adani Enterprises Ltd.	23.7%	Adani Total Gas Ltd.	87.7%	Intellect Design Arena Ltd.	71.6%
IDBI Bank Ltd.	22.2%	3M India Ltd.	32.1%	APL Apollo Tubes Ltd.	30.2%
Grasim Industries Ltd.	21.4%	MindTree Ltd.	29.5%	Prism Johnson Ltd.	28.3%
Adani Transmission Ltd.	21.2%	Fortis Healthcare Ltd.	25.4%	Can Fin Homes Ltd.	28.0%
JSW Steel Ltd.	18.2%	JSW Energy Ltd.	22.4%	KSB Ltd.	23.9%

Worst Performing Stocks NSE 500 in March 2021					
Large Cap		Mid Cap		Small Cap	
Stock Name	Returns	Stock Name	Returns	Stock Name	Returns
Punjab National Bank	-10.3%	Bank of India	-17.7%	Hindustan Copper Ltd.	-20.2%
Petronet LNG Ltd.	-12.3%	Vodafone Idea Ltd.	-18.4%	Hemisphere Properties India Ltd.	-21.6%
Info Edge (India) Ltd.	-12.4%	UCO Bank	-21.2%	Future Consumer Ltd.	-25.2%
SBI Cards and Payment Services Ltd.	-13.0%	Astral Poly Technik Ltd.	-23.6%	Future Retail Ltd.	-38.7%
Coal India Ltd.	-14.3%	Dhani Services Ltd	-53.6%	Bliss GVS Pharma Ltd.	-43.6%

Source: NSE,BSE

IPO Review:

March 2021 was a strong month in terms of no. of IPOs issuances with 9 companies raising Rs. 6,082 crores during the month through a mix of OFS and fresh issue of shares. However, the investors would be fairly disappointed with the listing prices of many of the IPOs. Only 3 out of the 9 companies which started trading in March, Heranba, MTAR Technologies and Nazara Technologies, gave outsized gains. Two other, Easy trip and Laxmi Organics, gave 13-19% returns on listing day. The other 4 companies gave negative returns on listing date.

Many of the companies listed at far below the supposed "grey market premium" (GMP) that had been quoted by some of the market participants. High GMP influenced many investors to subscribe to these IPOs. We have always maintained that the GMP is too opaque and too illiquid to be trusted as a valid signal. We hope that this month has thoroughly discredited GMP. At the very least, the message investors should take away is that IPOs too have risk and evaluating that carefully is important.

The table below summarizes the IPOs which either closed or listed during March 2021:

Name of the company	Size of IPO (Rs. Cr)	Issue close Date	IPO price (Rs. Per share)	Listing date open (Rs. Per share)	% Inc from issue price	Overall Subscription (times)	QIP Subscription (times)
Heranba Industries	624	25-Feb-21	627	900	43.5%	83.3	67.4
MTAR Technologies	597	5-Mar-21	575	1075	87.0%	200.7	165.0
Easy Trip Planners	510	10-Mar-21	187	212	13.4%	160.0	77.9
Laxmi Organics	600	17-Mar-21	130	155	19.2%	106.8	175.4
Anupam Rasayan	760	16-Mar-21	555	521	-6.1%	45.2	65.9
Craftsman Automation	823	17-Mar-21	1490	1359	-8.8%	3.8	5.2
Kalyan Jewellers	1175	18-Mar-21	87	74	-15.1%	2.6	2.8
Nazara Technologies	582	19-Mar-21	1101	1990	80.7%	175.4	103.7
Suryodaya SFB	582	19-Mar-21	305	292	-4.3%	2.4	2.2
Barbeque Nation	453	26-Mar-21	500	489	-2.2%	6.0	5.1

Source: NSE,BSE

Recommended reading for the month:

Morgan Housel is the author of best selling book "The Psychology of Money", a book we would highly recommend. He also writes a blog on collaborativefund.com. This week we recommend his blog post published on March 18, 2021 titled "Too Much, Too soon, Too Fast", in which he discusses the perils of targeting breakneck growth.

Outlook:

All eyes this month should be on the results of the March quarter. In the last 2 consecutive quarters, companies have beaten street expectations and earnings estimates have been raised. We expect companies to report strong results again this quarter. However, the element of positive earnings surprise is likely to be much lower than in the last 2 quarters because of the increased estimates. Results of the banking and NBFC sector is the key known unknown and the street will be closely watching the guidance of the companies in the sector.

The table below shows select "buy" and "reduce" recommended stocks as rated by HDFC Securities' Institutional equities team.

HDFC Sec Institutional Equities: Select "Buy" rated stocks				
Name	**Industry**	**Target price**	**CMP**	**% Upside**
Bharat Forge	Auto Anc.	720	612	17.6%
Birla Corp	Cement	1,371	967	41.8%
Capacite Infraprojects	Construction and infra	320	199	60.8%
Hero Moto	Auto Anc.	3,890	2,942	32.2%
Oberoi Realty	Real Estate	697	572	21.9%
HDFC Sec Institutional Equities: Select "Reduce" rated stocks				
Name	**Industry**	**Target price**	**CMP**	**% Downside**
Indusind Bank	Banks – Pvt	749	947	20.9%
RBL Bank	Banks – Pvt	214	215	0.5%
ICICI Lombard	Insurance	1230	1454	15.4%
TCNS Clothing	Retail & Fashion	400	496	19.4%

Source: HDFC Sec IE

The table below gives select positional buy calls issued by the HDFC Retail Research team:

Company Name	Reco date	Entry price	CMP	Target price	% Upside
Sun TV	11-Feb-21	522	477	735	54%
PNB Housing Finance	16-Feb-21	402	384	523	36%
Triveni Engineering	3-Mar-21	90	84	104	24%
GSFC	1-Apr-21	85	89	104	17%
Laurus Labs	5-Apr-21	375	397	480	21%

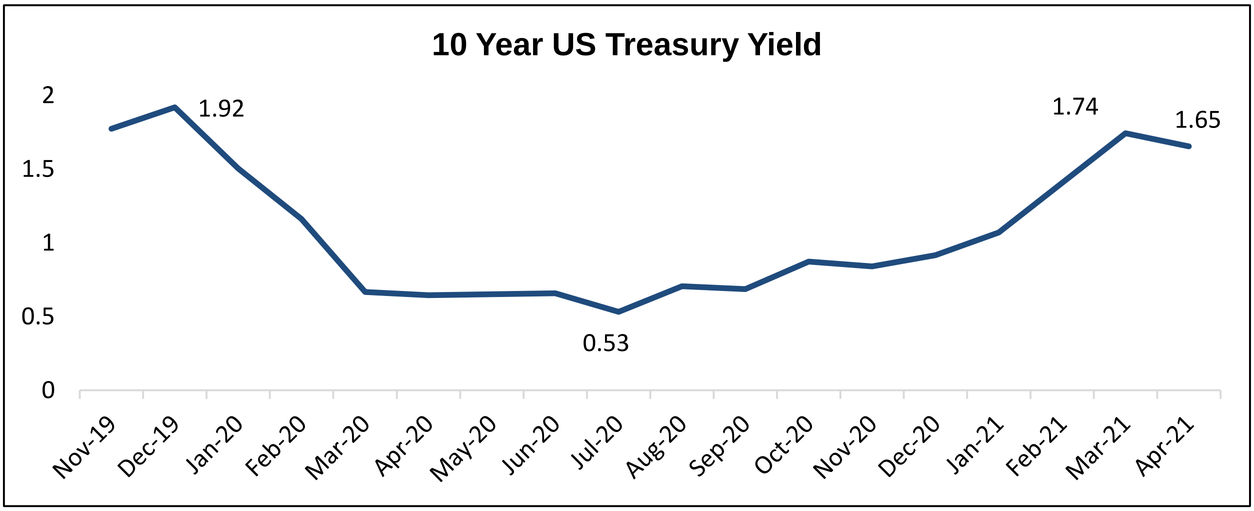
Greater details about the above institutional equities recommendations and retail research calls can be accessed at our website.

Risks:

The sharp increase in Covid 19 cases in metros and the prospects of new lockdowns are a key risk for the markets. Global Inflation prints will be closely watched and could move bond yields and impact equity markets.

US Yields – the single biggest drivers of the market at the moment

Thus far, CY 2021 has been a turbulent year not only for the US bond markets, but across the world. US 10 yr bond yields have risen by 76 bps. A similar trend has been observed across major bond markets in the world.



Source: fred.stlouisfed.org

The major reason for the same is that the new U.S. government has been able to pass through ~$2 trillion fiscal package (~10% of U.S. GDP) and is looking forward to another infrastructure stimulus package during the second half of the calendar year or later. On account of this additional stimulus, the inflation expectations in the U.S. have skyrocketed and that has led to a rise in bond yields across the world.

At its meeting on 16–17 March, the Federal Open Market Committee (FOMC) decided to hold the target range for the federal funds rate at its effective floor of 0.00%–0.25%. Moreover, the Fed reaffirmed its commitment to using its full range of powers to support the economic recovery at its current pace. The decision though was widely anticipated by market analysts.

The Fed kept the target range unchanged due to the economic fallout caused by the ongoing public health crisis. Despite recent momentum in economic activities, employment levels are expected to remain below their pre-pandemic levels in the short term and the sectors most affected by Covid-19-related restrictions remain depressed.

Meanwhile, to ensure sufficient liquidity for households and businesses and the effective transmission of monetary stimulus to broader financial conditions, the Fed reaffirmed its commitment to increase its holding of Treasury securities at least at the current pace of USD 80 billion per month.

Looking ahead, the Fed revised its economic projections upward in March and now sees GDP growing 6.5% in Q4 2021 (December projection: 4.2%). Meanwhile, it expects the unemployment rate to average at 4.5% in Q4 2021 (December projection: 5.0%) and the personal consumption expenditures inflation rate, closely watched by the Fed to monitor price pressures to average 2.4% in the Q4 2021, (December projection: 1.8%).

Inspite of the improved outlook, the Fed reaffirmed it will likely keep the target policy rate at its current level until “labour market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time”.

India inflation – in control and fingers crossed

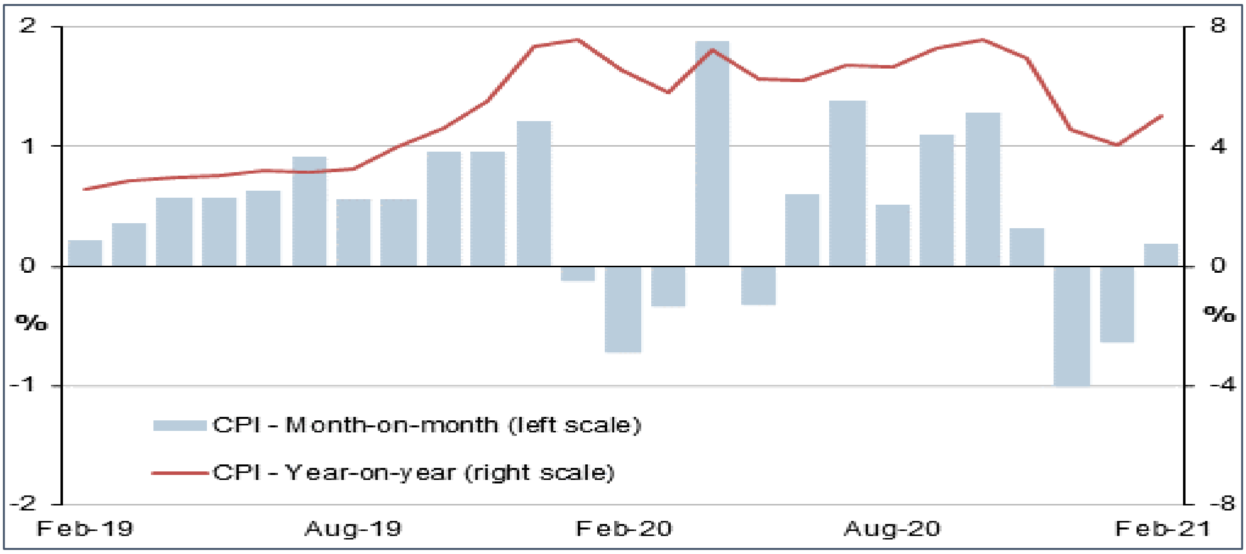
Inflation Y-o-Y came in at 5.03% in February, above January's 4.06% and above market forecasts of 4.83%. It is the highest reading in the last 3 months.

The rise in retail inflation last month was mainly due to a rise in food prices. Food inflation accelerated to 3.87% from 1.89% which was the lowest since May of 2019.

Consumer prices rose 0.19% in February over the previous month, swinging from the 0.64% fall recorded in January. After a 35% rise in crude prices from November'20 to February'21, there has been a consolidation in crude prices in the month of March.

Another leg of rally in crude prices may put the central bank into some bother.

India CPI Annual & Monthly Variation (%)



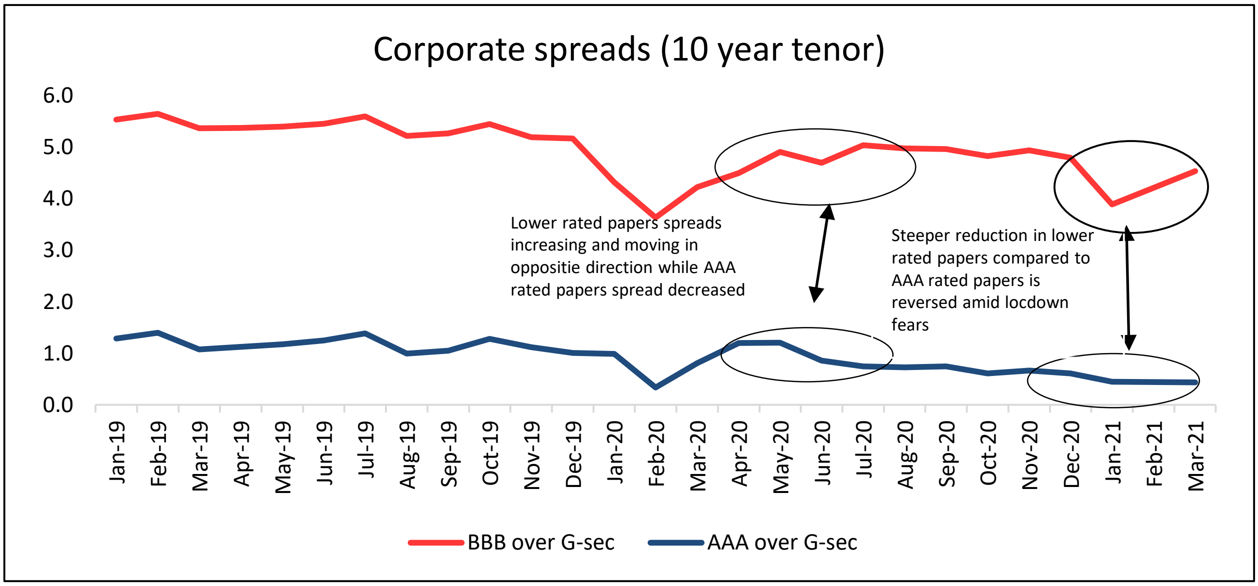
Source: focuseconomics.com

Corporate bond market – Things have been difficult for the lower rated companies

The 10Y Government bond yield has stabilised to 6.18% from 6.23% last month and the 5Y Sovereign rates moved to 5.71% from 5.75% last month. Similar action was witnessed in the corporate bond space with 10Y Benchmark AAA bonds having moved to 6.62% from 6.68%, but 10Y Benchmark BBB has moved to 10.72% from 10.12% last month as 10Y BBB bonds spreads increased by 65 bps to 4.45%.

With the fear of lockdown looming amid the rise in Covid cases, a partial or complete lockdown will be detrimental to smaller business to a large extent than their bigger counterparts. This uncertainty has resulted in selective lending to larger corporates by banks.

This means that while the AAA corporate spread is reasonable at 0.44%, lower rated companies and NBFCs still have to borrow at rates closer to 10%. However, with the return of confidence and growth, these spreads should come down.



Source: CARE Rating

RBI Monetary Policy Update:

The RBI kept the repo rate unchanged at 4% for the fifth time in a row while maintaining its accommodative policy stance. The MPC maintained its Gross Domestic Product (GDP) growth forecast at 10.5% for FY22. The monetary policy continues to be growth-centric, despite the underlying upside risks to inflation. The central bank believes that inflation today is short-term in nature, while growth has to be protected for long term sustainability.

A few key highlights for your ready reference:

- Policy measures: Repo rate kept unchanged at 4%.
- GDP: Retained Real GDP growth projection at 10.5% in FY22.
- Inflation: Expected at 5.0% in Q4 2020-21; 5.2% in Q1 2021-22; 5.2% in Q2; 4.4% in Q3 and 5.1% in Q4.
- Stance: Maintains the accommodative stance as long as necessary to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.
- Other measures:
  - GSAP 1.0 under which the RBI plans to buy government securities worth Rs 1trn in Q1FY22
  - Small payments bank can now allow individual customers to keep a balance of up to 2 lakh. (Good for financial inclusion)
  - Targeted long term repo operation (TLTRO) on tap scheme extended by a period of 6 months till 30th September 2021
  - To extend fresh support of Rs 50,000 cr to all India financial institutions for new lending in 2021
  - To extend the priority sector lending (PSL) classification for lending by banks to NBFCs for 6 months i.e. up to 30th September 2021

Fixed Income Outlook – stay at the shorter end

We believe that this rate cycle is going to be much more patient than the previous one. Between 2013-14 to 2017-18 RBI followed a rigid CPI targeting framework, which means that although RBI's CPI target range was 4% (+/-2%), the focus was always to ensure that CPI is close to 4%. We think that RBI's philosophy and framework has changed and they indeed today are a flexible inflation-targeting central bank, which means that they are no longer obsessed with 4% and are happy for inflation to be in the range of 4%(+/-2%) in actuality.

In the near term, the prospects for debt markets would be guided by specific market support measures that the RBI may consider. The central bank may continue to do the operation twist in some form as they have been doing till now, where they sell short term bonds and buy long term bonds. The central bank would also like to avoid creating more liquidity as it could eventually lead to inflationary concerns. RBI is expected to do at least Rs 3 lakh crore OMO in the next financial year. We believe RBI is trying to bring the change in yield in an orderly manner. This will lead to a calibrated and gradual rise in yields.

Fixed income investors thus should avoid the long end of the yield curve. They can look to invest in 2-3 year Hold to Maturity strategies to lock in the yield and bide their time for the interest rate cycle to turn. Alternately, for investors willing to take slightly higher risk, 4-5 year maturity MFs/bonds can be looked at with a 1-2 year horizon. The steepness in the yield curve will allow the absorption of potential MTM.

We get asked this question a lot by investors looking to invest in equities – **"Is it a good time to invest now or should one wait for a correction?"**. We note that "waiting for a correction" is the default mode for many investors irrespective of the market conditions. Even some of the more experienced investors fall into this category.

So we decided to dig a little into the historical data and try and see what lessons we could draw. We considered two hypothetical types of strategies:

Strategy type	Characteristics
Strategy U	Invest upfront and do not wait for a correction- Strategy U is short for Upfront investment
Strategy W	Wait for a correction of at least 15% from the most recent high. Strategy W is short for an investor "waiting for a 15% correction"

Please note that there could be instances where Strategy W invests at a higher level than Strategy U because the markets may have a strong rally before correcting 15% from their most recent high. The process is explained in the table below:

Investor following strategy U	Investor following strategy W
Invests upfront in Nifty irrespective of market level	Step 1. Checks market level. If market is 15% or more below its recent high, invests in Nifty straightway. Else, invests in liquid fund. Step 2. Waits for market correction to reach 15% from the recent high. On that day, redeems liquid fund and buys Nifty.

We compared the 5-year IRRs for both type of strategies.

We considered data from Jan 1, 1995 till March 15, 2016. We repeated this theoretical exercise for every trading day from 1995 till 2016. **We thus got 7,745 observations for returns generated by the two type of strategies.**

(Note: Our analysis ends in March 2016 because we were interested in the 5-year IRRs. However, this does not take anything away from our conclusions)

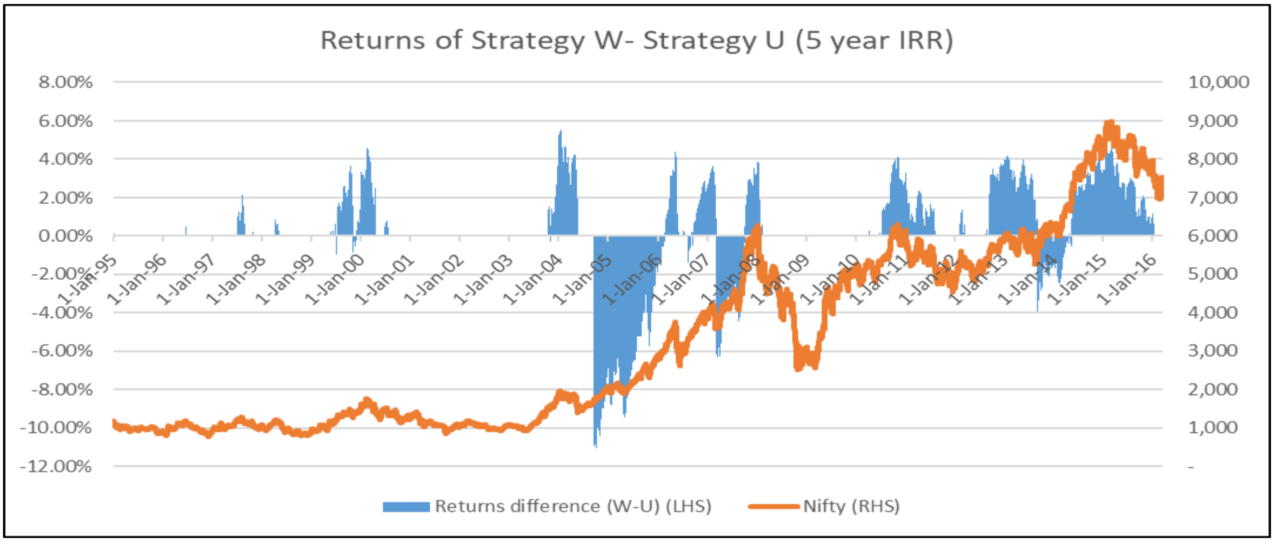
The Results:

The results are summarized in the table below:

Results	No. of observations	Observations in %	Remarks
Strategies W and U yielded same results	4,361	56.3%	This is the period where the market is below 15% or more from a most recent high.
Strategy W and U IRRs were within +2% or -2% of each other	1,327	17.1%	Strategy W and U IRRs are fairly close together and results are not very material.
Strategy W outperforms U by more than 2%	1,362	17.6%	Strategy W outperforms- mainly just before and during corrections
Strategy W underperforms U by more than 2%	695	9.0%	Strategy W underperforms around large rallies
Total	**7,745**	**100.0%**	

The data for the above points is presented in the chart below. The RHS shows the nifty levels. The LHS shows the difference between the 5-year IRRs of strategy W less the 5 year IRRs of strategy U.

- Readings greater than zero mean that the strategy W outperforms the strategy U.
- Readings below zero imply that strategy W underperforms strategy U.
- All readings of zero signify that the markets were at least 15% below their most recent highs and therefore there is no difference between strategy W and strategy U.



<u>The Lessons:</u>

So what are the lessons we can learn from the above data analysis:

Lesson 1: Markets spend a lot of time well-below their most recent all-time high.

In fact, out of the 7,745 observations, markets were 15% or more below their most recent all-time high a whopping 4,361 times, i.e., 56.3% of the time. In such cases, both Strategy U and Strategy W would invest at the same time and therefore their IRRs would be the same.

Lesson 2: "Waiting for a correction" is meaningful only a very limited number of times.

Strategy W outperformed Strategy U by 2% or more (in IRR terms over a 5-year period) only in 1,362 observations out of the total 7,745 observations i.e., about 17.5% of the time. Strategy W outperformed strategy U by 3% or more only 683 times. While this seems high, we must also ask the question "How many times does strategy W underperform strategy U by 2% or more"? The answer is 695 times or about 8.9% of the time. So a small number of times the upfront investment strategy was meaningfully better. But if you look at the chart above closely, you will notice that **strategy W underperforms U by anywhere between 6-10%. This means that investor following strategy W often misses out on large rallies.**

Lesson 3: In what instances does strategy W outperform.

The Nifty corrected sharply between Jan 2000 (from 1638) to April 2000 (about 1428) and for much of this period the strategy W outperformed. Please note that the Nifty actually peaked at 1756 on Feb 2000 but the period of outperformance for strategy W was much larger. ***Strategy W generally outperforms Strategy U just before a significant market correction.***

Similarly, strategy W outperformed strategy U substantially during December 2003 to May 2004. Remember that Nifty hit a lower circuit of 20% in May 2004.

Lesson 4: In what instances does strategy U outperform.

Strategy U outperformed strategy W from Sept 2004 to May 2006 as the Nifty rose from 1,705 to 3,754 before correcting to 3,081. As a result, ***the strategy W waited too long before investing and missed out on a very large part of the rally***. A similar pattern played out from March 2007 to January 2008 when the Nifty rallied from 3,600 levels to 6,200 levels in Jan 2008. Strategy U outperformed for much of this period.

Summary and Suggestions:

Lesson 4 listed above might be the most important lesson of all. Our theoretical exercise was quite simplistic. Anecdotally, we would suggest that actual investor experience is far worse than the numbers that we have presented above. This is because many investors, at the time of correction, wait for an even larger correction and quite often miss the opportunity to invest at the time of correction. Quite often, investors actually reduce equity allocation after a sizable correction.

Also, investors sometimes miss out on large rallies because of their desire to buy only in a correction. Remember that equity market returns generally are bunched up and we often see large rallies before a meaningful correction.

Many investors follow a “waiting for a correction” strategy without applying much thought to it and quite often as a “default” mode. Such investors miss out on large rallies. However, this is actually a very important asset allocation decision. So what can an investor do to improve his experience. We have two recommendations:

Recommendation 1: Devise an asset allocation strategy and follow a disciplined investment approach around the same

A strong asset allocation strategy is very important for any investor. A typical asset allocation strategy would define the high and low value of equity allocation and design some heuristics about increasing / decreasing equity allocations.

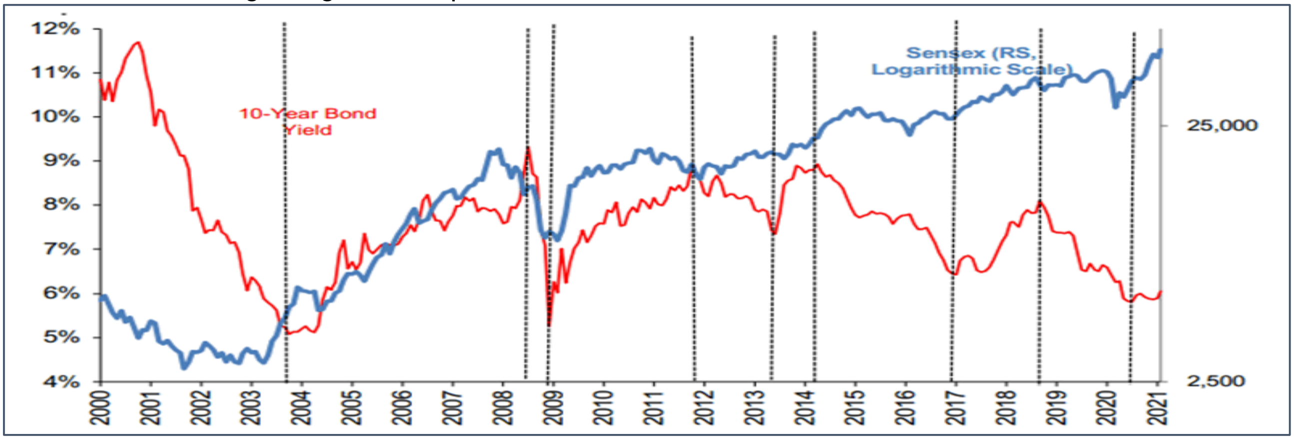
One rather simplistic equity allocation heuristic we use, is that we look to reduce equity allocation only if we believe that markets have a “high probability of correcting at least 15% or more”.

Why 15% and not 5% or 10%. Well, the markets typically move 5% or more in a month generally responding to near term news flow. These are difficult to predict and an investor would merely end up trading a lot. Let us assume that we think the market is likely to correct 10%, we expect that we would not be able to capture more than 5 or 6% out of the same. Again, trying to avoid such a small correction would not lead to any significant benefit for the portfolio IRR. That is the reason we look out for “high probability of correction” of 15% and higher.

Recommendation 2: Be bottom up driven in terms of adding to /reducing from the portfolio

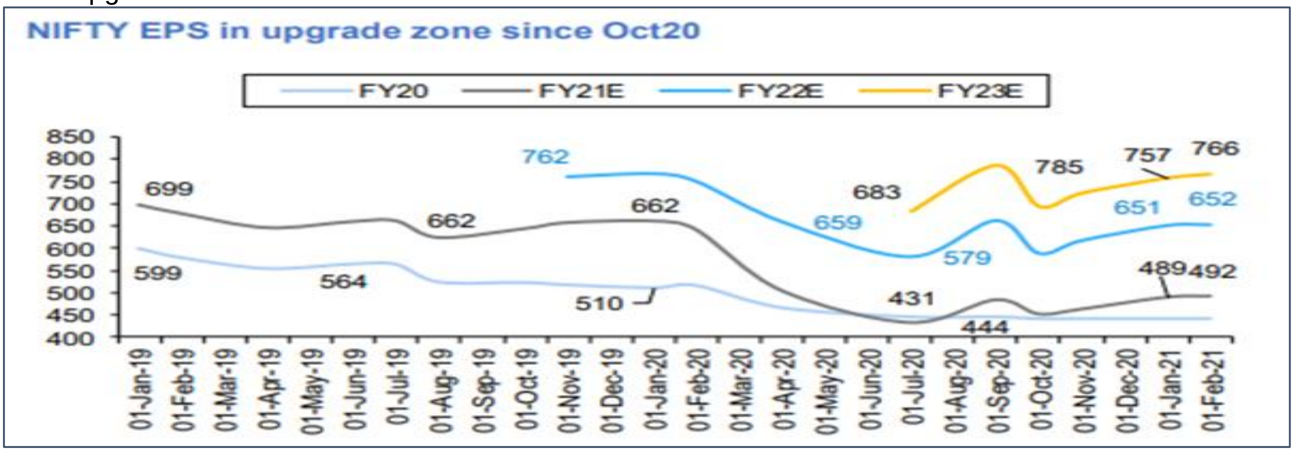
The other way to manage equity allocation is to focus much more on bottom up analysis of markets and your portfolio. If you find a fundamentally strong, high quality business at attractive valuations you should look to add that to your portfolio. Conversely, if any stock in your portfolio is at risk of a significant correction, then you should look to exit the same. This approach is a superior approach to recommendation 1 and has the benefit of automatically adjusting overall equity exposure without having to take an overall market directional call.

Rising yields vs Sensex: The chart below shows the bond yields and the Sensex level over the past 2 decades. (Note- Sensex is shown in log scale). **Note that in the 4 periods of rising bond yields (2004-08, 2009-12, 2013-14, 2017-18), Sensex gave positive returns.** In the above cases, the valuations at the beginning of these periods was attractive.



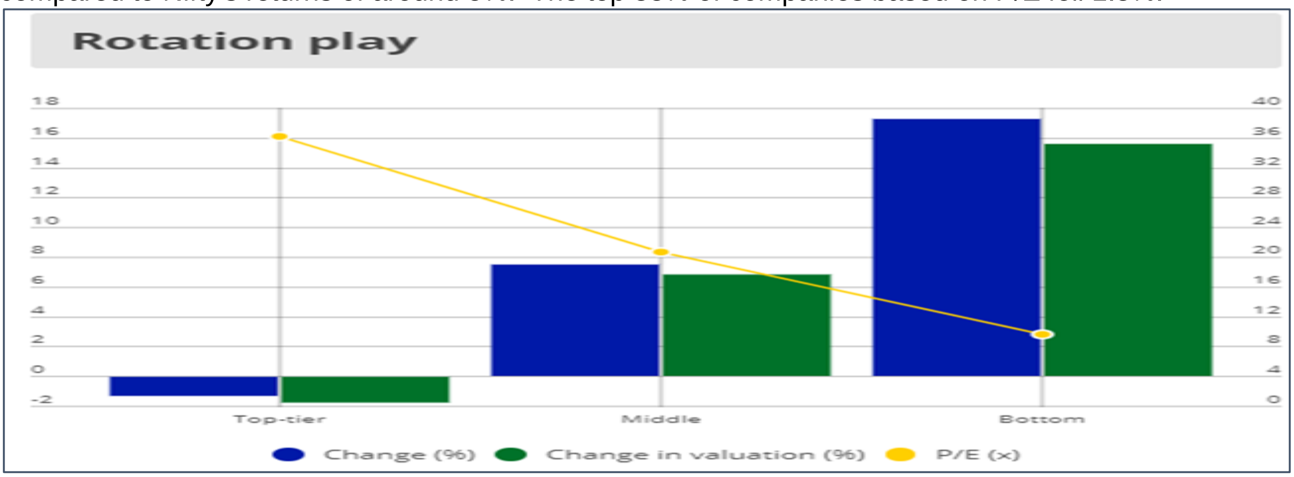
(Source: Morgan Stanley research)

Nifty EPS Upgrade – The chart below shows the Nifty EPS estimates for FY21-23. The FY23 Nifty EPS has increased from around 690 to 766 in the past 2 quarters. Can the March 2021 quarter bring more upgrades?



Source – Bloomberg

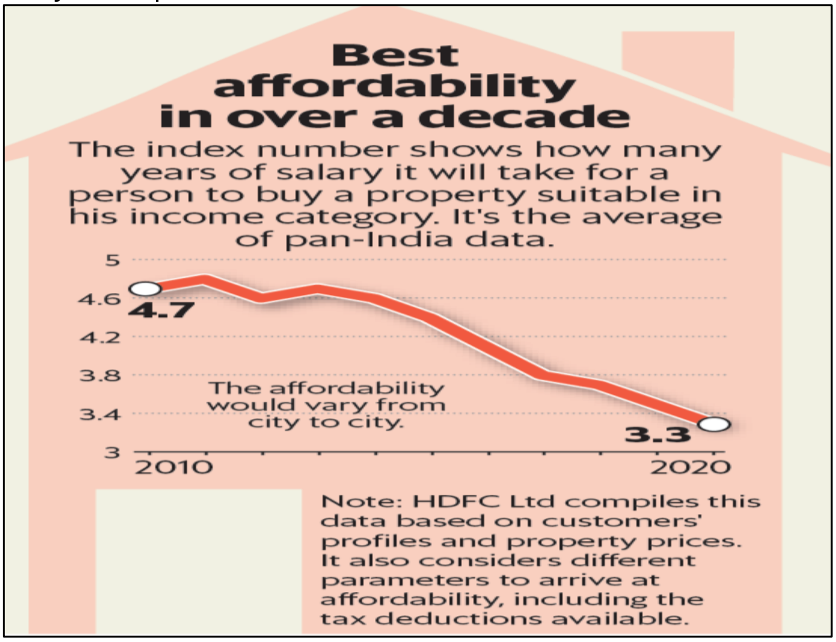
Rotation into value? – In February, the bottom 33% Nifty companies in terms of P/E, rose 17.3% compared to Nifty's returns of around 5%. The top 33% of companies based on P/E fell 1.3%.



Source – Business standard, Motilal Oswal

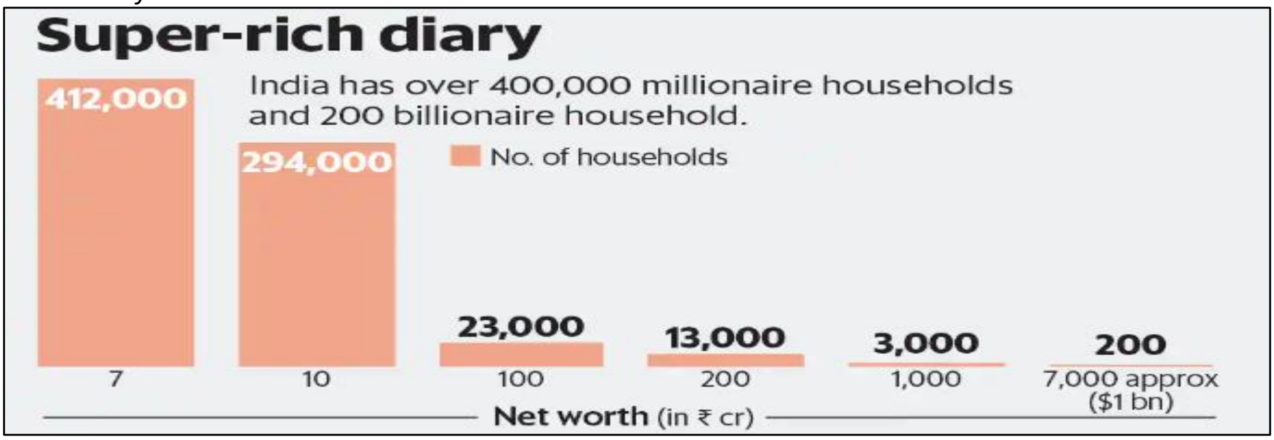
Note: Nifty 50 companies divided into 3 buckets of 33% each; PE based on FY22 earning estimates

Home Affordability – Home loan rates are available from major banks/HFCs at 6.65-6.75% p.a. compared to around 8% in January 2020. A 3% drop in home loan rates can let a borrower take a 28% larger home loan. In FY2000, property prices on an average were 5.9 times the annual income of a buyer compared to 3.3 times now.



Source: Live Mint

India's Wealthy– According to a survey by Hurun India, almost 23,000 families have a networth of more than Rs. 100 crores. Almost 35% of respondents were looking to increase equity investments in the next 3 years.



Source: Livemint.com

PSU Stock Rally - The S&P BSE PSU Index has gained 20% since the budget compared to around 8 percent gain in the Sensex. The government aims privatize 2 banks and one general insurance company. In 2002, the divestment of Balco, Hindustan Zinc, IPCL and VSNL happened at a premium to their then market cap.

PSUs: Gaining ground

	Price (Rs)	Change (%)
Hindustan Copper	125.8	109.8
General Insurance Corporation of India	219.25	66.0
MMTC	42.1	47.7
BEML	1343.05	47.4
Rashtriya Chemicals & Fertilizers	71.9	33.1
The New India Assurance Co.	164.9	29.9

PSUs: Gaining ground

	Price (Rs)	Change (%)
Container Corporation Of India	560.5	29.3
Shipping Corporation Of India	107.25	25.8
BSE - PSU	**6889.2**	**20.3**
Balmer Lawrie & Company	135.4	14.0
Bharat Petroleum Corporation	433.05	12.8
S&P Bse Sensex	**49858.24**	**7.7**

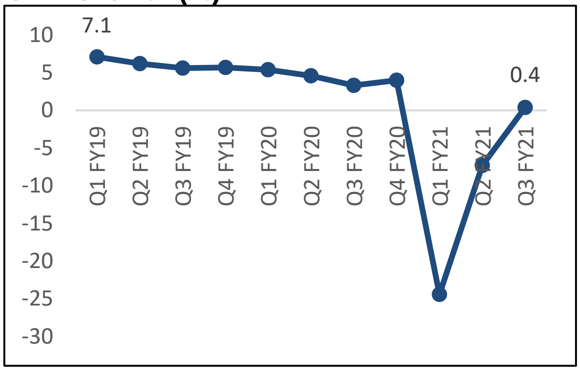
Source: Business standard

Index Performance (31-Mar-21)

Scheme Name	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y	10 Y
NIFTY 50	1.1	5.1	30.6	70.9	12.4	13.2	13.7	9.7
NIFTY 500	1.1	6.9	31.8	76.0	12.8	11.3	13.8	10.3
NIFTY AUTO	-3.0	7.3	24.7	108.5	8.7	-3.0	4.0	9.8
NIFTY BANK	-4.3	6.5	55.2	74.0	4.6	11.1	15.6	11.0
Nifty Financial Services	-2.3	3.3	47.9	68.7	11.9	15.4	19.0	13.0
NIFTY FMCG	7.7	2.2	17.1	27.9	7.3	10.1	12.1	14.3
NIFTY INFRA	-0.5	12.0	32.7	73.2	12.8	7.1	9.9	2.9
NIFTY IT	6.4	6.6	29.6	102.6	28.5	27.3	18.0	13.7
NIFTY MEDIA	-4.9	-6.3	-0.2	48.6	-21.2	-22.2	-7.8	0.8
NIFTY METAL	4.0	22.2	77.4	150.8	14.2	4.2	15.8	-0.8
Nifty Midcap 150 - TRI	2.0	14.6	39.2	101.6	18.6	11.8	17.5	15.3
NIFTY NEXT 50	-0.1	5.1	26.4	61.8	9.9	6.2	12.7	11.7
NIFTY PHARMA	2.9	-5.0	4.2	71.0	14.5	13.6	2.2	10.5
NIFTY PRIVATE BANK	-4.2	3.0	50.3	74.6	1.3	9.0	0.0	0.0
NIFTY PSU BANK	-9.8	23.1	68.9	62.9	-19.5	-9.1	-2.5	-7.0
NIFTY REALTY	-4.5	6.5	57.7	90.4	11.4	4.3	16.4	0.6
Nifty Smallcap 250 - TRI	0.9	14.6	39.5	118.7	14.3	4.6	12.7	11.4
S&P BSE Consumer Durables	3.4	8.0	35.2	69.5	17.2	13.8	23.4	18.0
S&P BSE MidSmallCap - TRI	1.9	13.6	38.7	105.2	17.1	8.4	15.2	12.7
S&P BSE OIL & GAS Index	-4.7	5.2	21.1	47.9	-1.5	0.5	10.1	3.8
S&P BSE Power Index	2.3	20.0	49.7	79.6	10.3	5.2	6.9	-0.9
S&P BSE SENSEX	0.8	3.7	30.1	68.0	13.1	14.5	14.3	9.8
S&P BSE Telecom	-7.3	2.2	25.2	33.4	12.3	-0.7	0.1	0.3

Data as on 31st March. Returns less than 1 year are in absolute terms and greater than 1 year are CAGR
Source: ACE MF

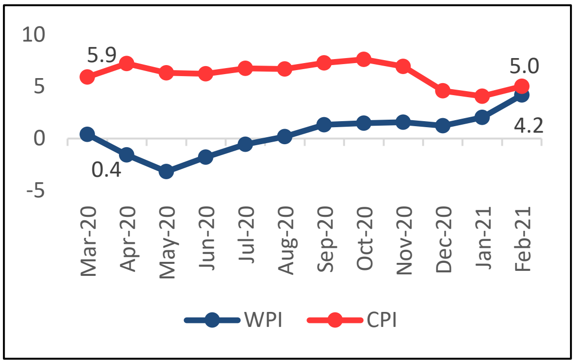
GDP Growth (%):



	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21
Quaterly GDP %	4.6	3.3	4.0	-24.4	-7.3	0.4

Source : Ministry of Statistics & Programme Implementation

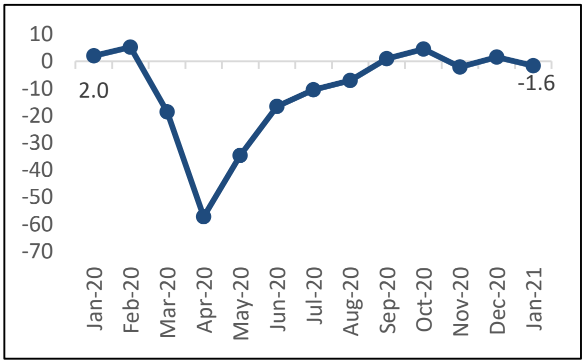
Inflation:



	Mar-20	Jun-20	Sep-20	Dec-20	Feb-21
WPI	0.40	-1.80	1.32	1.22	4.17
CPI	5.91	6.23	7.27	4.59	5.03

Source : Ministry of Statistics & Programme Implementation

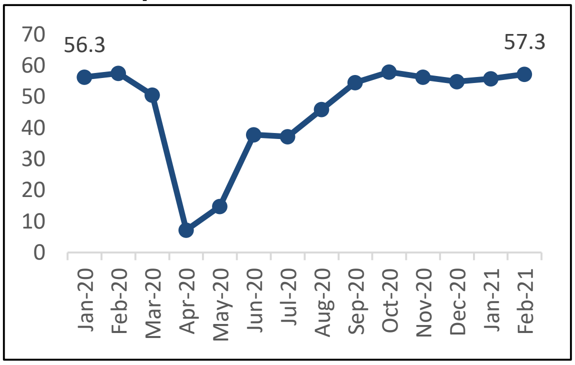
Industrial Production Growth:



	Jan-20	Apr-20	July-20	Oct-20	Jan-21
IIP	2.0	-57.3	-10.5	4.5	-1.6

Source : Ministry of Statistics & Programme Implementation

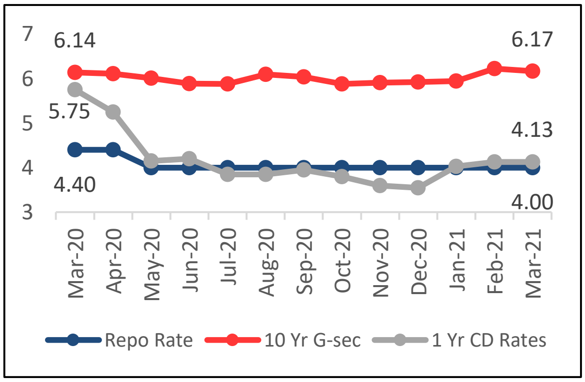
India Composite PMI:



	Mar-20	Jun-20	Sep-20	Dec-20	Feb-21
Composite PMI	50.6	37.8	54.6	54.9	57.3

Source :www.fxempire.com

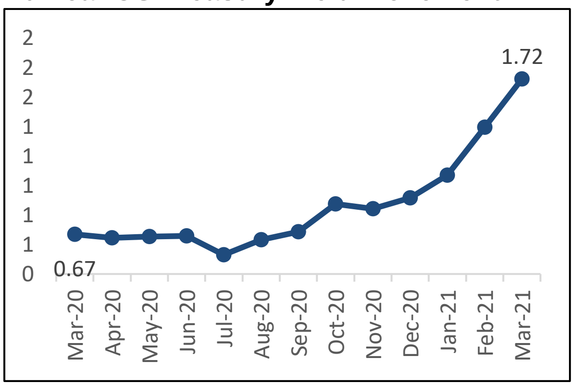
Domestic Yield Movement:



	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Repo	4.40	4.00	4.00	4.00	4.00
1 Yr CD	5.75	4.20	3.95	3.55	4.13
10 Yr Gsec	6.14	5.89	6.04	5.93	6.17

Source : investing.com, RBI, Bloomberg

10 Year US Treasury Yield Movement:

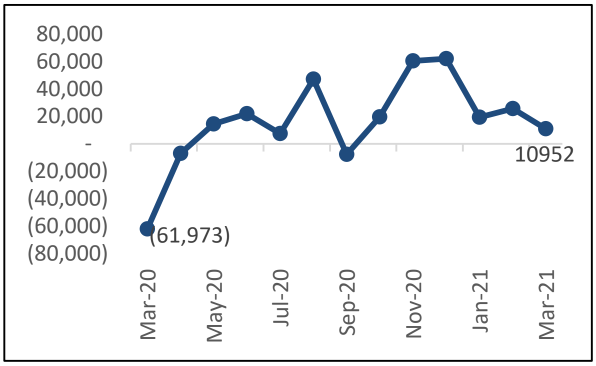


	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
US Yields	0.67	0.66	0.69	0.92	1.72

Source : investing.com

HDFC securities 20 YEARS

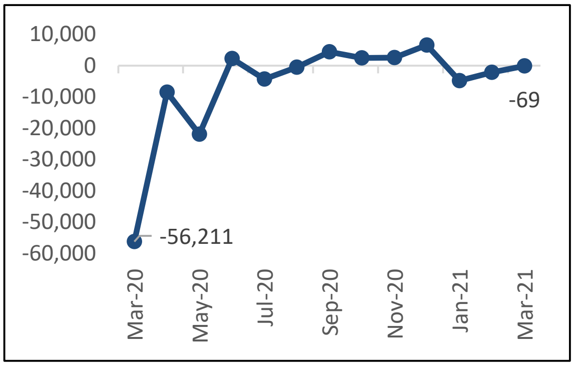
FII Equity Flows (Rs cr):



	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
FII Equity Flows	-61,973	21,832	-7,783	62,016	10,952

Source : NSDL

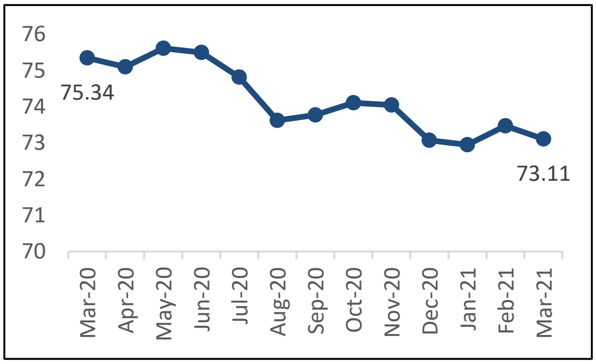
FII Debt Flows (Rs cr):



	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
FII Debt Flows	-56,211	2,221	4,364	6,542	-69

Source : NSDL

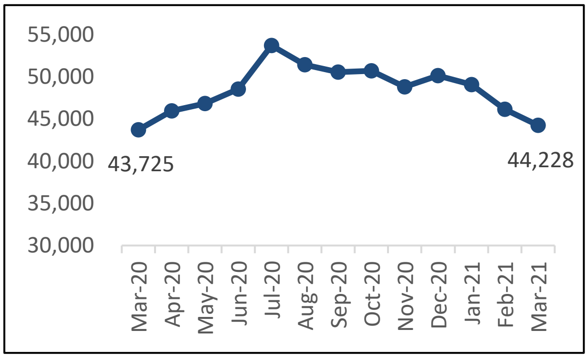
USD vs. INR:



	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
$ vs. ₹	75.34	75.50	73.77	73.07	73.11

Source : Bloomberg

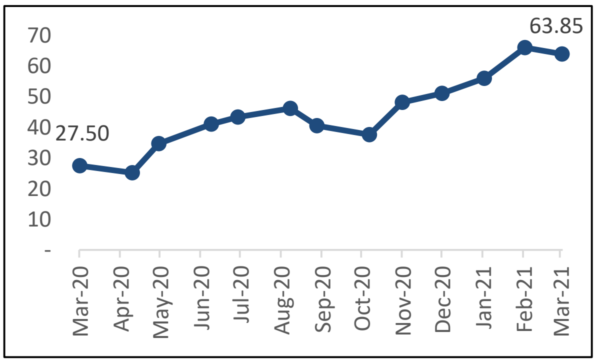
Gold Price (Rs/10gm):



	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Gold Price	43,725	48,534	50,528	50,123	44,228

Source : India Bullion and Jewellers Association

Brent Crude (USD/Barrel):



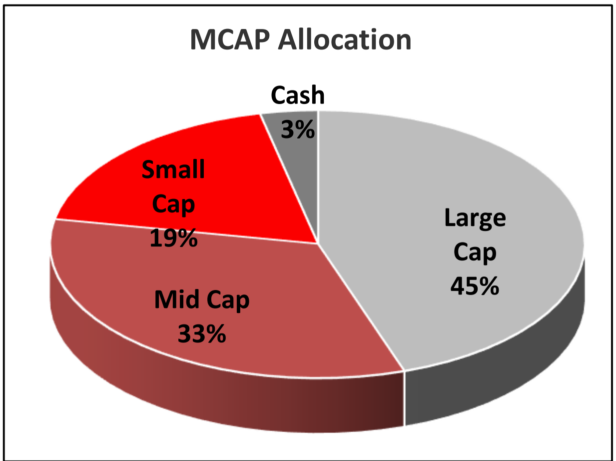
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Brent Crude	27.50	41.09	40.48	51.08	63.85

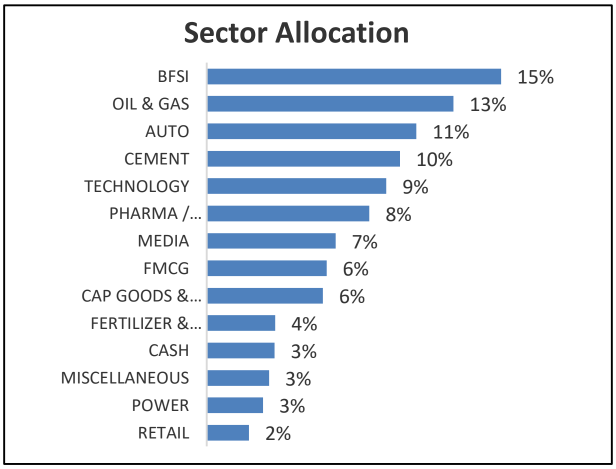
Source :Oilprices.com

Portfolio Details:

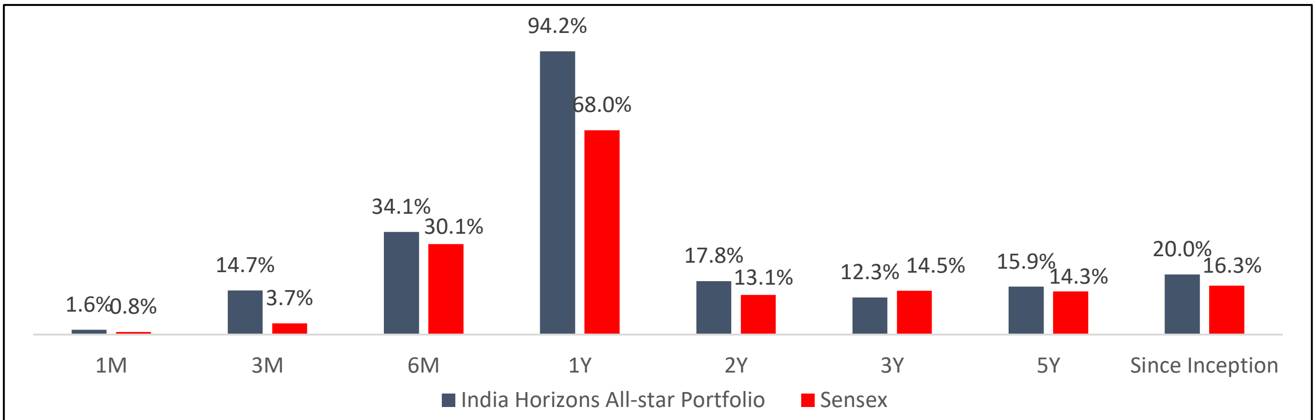
Stock	%
Bank Bees	10.4%
Reliance Industries	8.4%
Infosys	6.0%
Saregama India	4.8%
Jk Cement	3.8%
Apollo Hospitals	3.6%
Cash	3.5%
Birla Corporation	3.3%
TCS	3.3%
Supreme Industries	3.2%
Zydus Wellness	3.0%
UltraTech Cement	2.9%
Larsen & Toubro	2.8%
Gujarat State Petronet	2.7%
State Bank of India	2.6%
Laurus Labs	2.6%
Bajaj Auto	2.4%
Atul Ltd	2.3%

Stock	%
Mahindra & Mahindra	2.2%
Thyrocare Technologies	2.2%
Phoenix Mills	2.2%
Max Financial Services	2.1%
Radico Khaitan	2.1%
Voltas	1.9%
KEC International	1.9%
Minda Industries	1.9%
Apollo Tyres	1.8%
Petronet LNG	1.6%
Sun TV Network	1.5%
Exide Industries	1.3%
Bharat Electronics	1.2%
UPL	1.2%
Jyothy Laboratories	1.1%
Tata Motors	1.1%
Apar Industries	1.0%
ENIL	0.3%





Performance

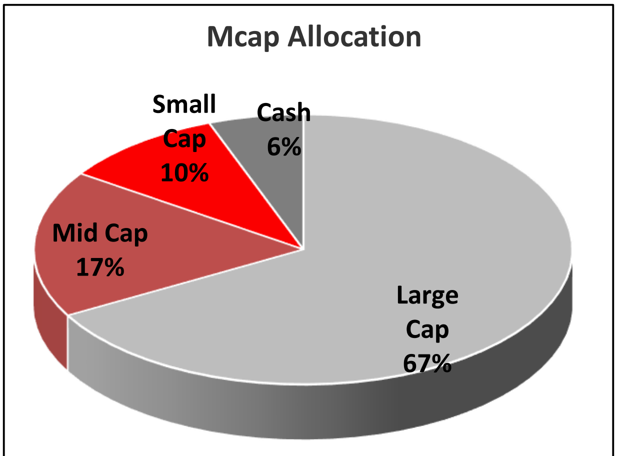


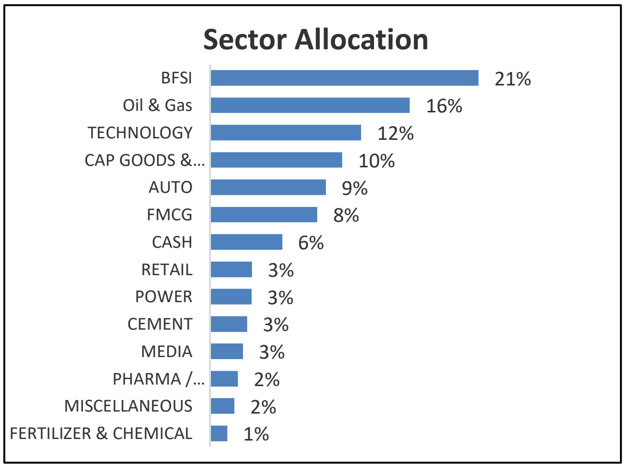
Inception Date: 01-Oct-02, Returns less than 1 year are absolute, more than 1 year are CAGR

Portfolio Details:

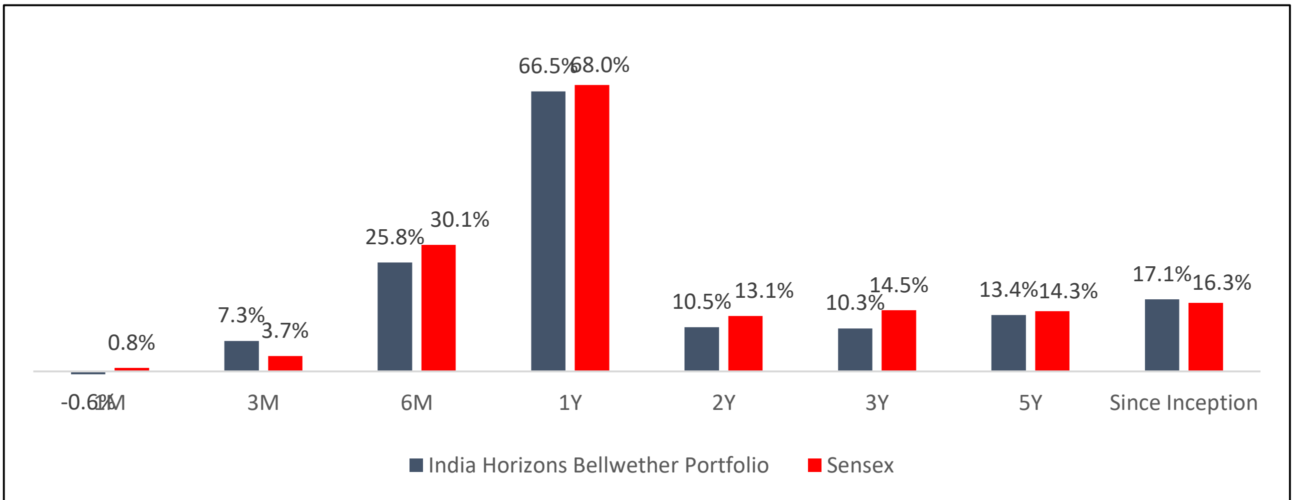
Stock	%
Bank Bees	15.3%
Reliance Industries	10.8%
Infosys	7.6%
Cash	5.7%
TCS	4.3%
State Bank of India	3.8%
Larsen & Toubro	3.6%
ITC	3.5%
Bata India	3.3%
Carborundum Universal	3.3%
Mahindra & Mahindra	3.2%
Gujarat State Petronet	3.0%
Ultratech Cement	2.9%
Bajaj Auto	2.8%
Sun TV Network	2.6%

Stock	%
Thyrocare Technologies	2.2%
United Spirits	2.2%
Voltas	2.1%
Power Finance Corp	1.9%
Huhtamaki PPL*	1.9%
Petronet LNG	1.9%
NTPC	1.9%
Godrej Agrovet	1.8%
Tata Motors	1.6%
Exide Industries	1.5%
KEC International	1.4%
Bharat Electronics	1.4%
UPL Ltd	1.4%
Jyothy Laboratories	1.0%





Performance



Inception Date: 01-Oct-02. Returns less than 1 year are absolute, more than 1 year are CAGR

The biggest and most important part of portfolio management is the ability to measure returns. Because only then is one able to compare performances and see who has done well and who has not.

There are various ways to calculate returns. While The Simple Rate of returns is actually not a real life phenomenon, the others – CAGR, IRR, TWRR etc are used at different situations. Lets study them below –

CAGR:

CAGR or compound annualised growth rate is the rate at which your investments have compounded over the years. The operative word here is 'Average'. If you know the initial value and the final value, CAGR gives you the average rate at which the investment has grown every year.

CAGR Formula:
(End Market Value / Beginning Market Value) ^ (365 /(Ending Date - Beginning Date) – 1

One fundamental weakness of CAGR is that it needs an insulated box to be relevant. i.e, to calculate CAGR for a period, the initial value and final value cannot be disturbed by a cash inflow or cash outflow into the box. The moment that happens, CAGR stops holding any meaning. Thus, CAGR is ideal at a security level, but less relevant at a portfolio level.

IRR / XIRR (interchangeable):

- XIRR or Extended Internal Rate of Return are returns on investments where there are multiple transactions taking place at different times.
- XIRR is a very useful tool to calculate the performance of your Portfolio where the investments are done based on availability of funds or as per prevailing opportunities in various asset classes.
- Especially, returns on your mutual fund investments through a Systematic Investment Plan /Systematic Transfer Plan can be calculated appropriately with an XIRR.

In MS Excel we can calculate XIRR with ***XIRR() function: XIRR(values, dates, guess)***

TWRR:

- Time-weighted rate of return (TWRR) is a method for calculating the compound growth rate of an investment portfolio in the presence of external flows such as transfers of cash, securities or other instruments in or out of the portfolio; capital infusion or withdrawal and interest or dividend payments.
- It is actually far more simple than people think. It is basically the return that the portfolio manager is generating. The fact that you gave him more money at some times and withdrew money at other times should not distort his performance. Unfortunately XIRR has that limitation. TWRR takes care of this limitation.
- How does it do it ? It just focuses on the various sub interval returns. It ignores the amounts. Thus it consolidates all the returns of these subintervals and calculates the overall average return.
- The basic TWRR formula for a sub-period / interval is:
  = (Final Amount – Initial Amount) / Initial Amount

The TWRR formula when multiple sub-periods are involved is:

TWRR = [(1 + rate of return from the 1st period) x (1 + rate of return from the 2nd period) x .. x (1 + Rate of return from the nth period)] – 1

TWRR is particularly beneficial for public investment managers or fund managers who deal with public securities. As they have no influence over the timing and amount of cash flows to an investment portfolio, which makes TWRR an ideal parameter for measuring their performance.

The below illustrations depict the impact of bad and good timing of cash flows on XIRR, whereas TWRR is unaffected by the timing of cash flows.

Bad timing of Inflows and Outflows: (Note the sum total of all cash flows is zero)

Date	Monthly Returns	Cashflow	Portfolio Value	Portfolio NAV
30-Jun-19		100	100.00	100.00
31-Jul-19	5%	0	105.00	105.00
31-Aug-19	3%	20	128.15	108.15
30-Sep-19	-2%	-20	105.59	105.99
31-Oct-19	3%	0	108.75	109.17
30-Nov-19	-1%	-20	87.67	108.07
31-Dec-19	6%	20	112.93	114.56
31-Jan-20	-4%	20	128.41	109.98
29-Feb-20	-3%	0	124.56	106.68
31-Mar-20	2%	0	127.05	108.81
30-Apr-20	0%	-20	107.05	108.81
31-May-20	15%	0	123.11	125.13
30-Jun-20	2%	-20	105.57	127.64
31-Jul-20	7%	0	112.96	136.57
31-Aug-20	3%	20	136.35	140.67
30-Sep-20	-2%	0	133.62	137.85
31-Oct-20	1%	0	134.96	139.23
30-Nov-20	0%	0	134.96	139.23
31-Dec-20	0%	-20	114.96	139.23
31-Jan-21	5%	20	140.70	146.19
28-Feb-21	-8%	0	129.45	134.50
31-Mar-21	3%	0	133.33	138.53
XIRR	17.8%		Absolute TWRR	38.5%
			Annualised TWRR	20.4%

As we can observe in the above table, the investments are made after an upward trend but withdrawals are done after a downtrend month (i.e. withdrawals at cheaper levels and investments at slightly dearer levels). This impacts the XIRR negatively, whereas, TWRR calculates the performance of the portfolio by neutralizing cash flow at every step and hence is not affected by the cash flows.

Good timing of Inflows and Outflows: (Note the sum total of all cash flows is zero)

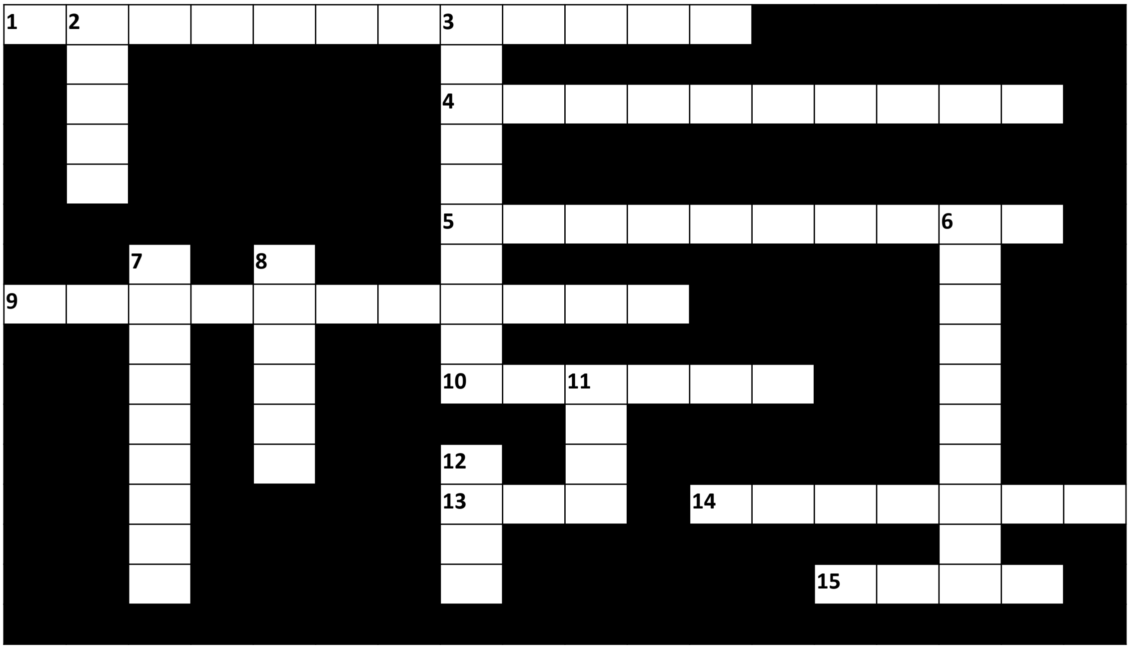
Date	Monthly Returns	Cashflow	Portfolio Value	Portfolio NAV
30-Jun-19		100	100.00	100.00
31-Jul-19	5%	0	105.00	105.00
31-Aug-19	3%	-20	88.15	108.15
30-Sep-19	-2%	20	106.39	105.99
31-Oct-19	3%	0	109.58	109.17
30-Nov-19	-1%	20	128.48	108.07
31-Dec-19	6%	-20	116.19	114.56
31-Jan-20	-4%	-20	91.54	109.98
29-Feb-20	-3%	0	88.80	106.68
31-Mar-20	2%	0	90.57	108.81
30-Apr-20	0%	20	110.57	108.81
31-May-20	15%	0	127.16	125.13
30-Jun-20	2%	20	149.70	127.64
31-Jul-20	7%	0	160.18	136.57
31-Aug-20	3%	-20	144.99	140.67
30-Sep-20	-2%	0	142.09	137.85
31-Oct-20	1%	0	143.51	139.23
30-Nov-20	0%	0	143.51	139.23
31-Dec-20	0%	20	163.51	139.23
31-Jan-21	5%	-20	151.68	146.19
28-Feb-21	-8%	0	139.55	134.50
31-Mar-21	3%	0	143.74	138.53
XIRR	23.0%		Absolute TWRR	38.5%
			Annualised TWRR	20.4%

As we can observe in the above table, the investments are made after a downtrend trend but withdrawals are done post an uptrend, (i.e. investments at cheaper levels and withdrawals at slightly dearer levels). This impacts the XIRR positively, whereas, TWRR calculates the performance of the portfolio by neutralizing cash flow at every step and hence is not affected by the cash flows.

The important factor to decide between the application of XIRR & TWRR is, whether an investor has control on the cash flows. If the answer is no then he / she should use TWRR, if yes then XIRR is a better choice.

Condition	Evaluation
Portfolio TWRR < Benchmark returns and Portfolio XIRR < Benchmark returns	It depicts the Fund manager has failed to perform.
Portfolio TWRR < Benchmark returns but Portfolio XIRR > Benchmark returns	It depicts the Fund manager has failed to perform but due to favorable/lucky deployment strategy by the investor, the portfolio has done well.
Portfolio TWRR > Benchmark returns but Portfolio XIRR < Benchmark returns	It depicts the Fund manager has performed well but due to unfavorable/unlucky deployment strategy by the investor, the portfolio has not done well. Thus the fund manager should not be blamed in this case.
Portfolio TWRR > Benchmark returns and Portfolio XIRR > Benchmark returns	It depicts the Fund manager has performed well.

Crossword



Across

1. a type of financial statement that lists an entity's assets, liabilities, and capital
4. any asset pledged for the repayment of a loan.
5. the inability of an entity to payback its due
9. ______________bonds can be changed into another security, typically an equity
10. the difference between a dealer's bid price and its ask price for a security
13. the price at which a dealer will sell a security from its inventory
14. gold or silver in the form of bars or ingots.
15. a negotiable, long-dated, interest-bearing financial instrument

Down

2. an entity enjoined to act on behalf of a principal in some business activity
3. any negotiable financial instrument, including debt, equity, and hybrid instruments
6. a percentage of the sale price of an asset paid to a broker for its brokering services.
7. sustained increases in the price level of commodities or services
8. an entity which owes something,
11. known volatility in the rate of return
12. a type of option derivative that gives the option holder the right but not the obligation to purchase some predetermined asset at a predetermined strike price.

Note : Solution for the above crossword will be provided in next month's newsletter

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