Investment Snapshot

For the quarter ended in June-2020

Covid-19

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Quarter gone by for the Indian markets

The financial year FY21 kick-started on a tepid note, as the economies and markets across the globe have been sailing in unchartered territories grappling with the COVID-19 pandemic and its aftermath of economy lockdowns. The rapid global spread of the disease and the halt in the economic activity of world's major economies lead to an almost vertical fall across global markets in March. Nonetheless, global central bank's including India have been swift and responsive to the Covid shock and gave the financial markets the much needed 'financial vaccine' in the form of fiscal and monetary stimulus (rate cuts, quantitative easing and liquidity boosting measures) to combat the covid impact on economy. The government of India and the RBI too announced a slew of measures to help the individuals and institutions deal with the incumbent liquidity crisis along with providing income and nourishment support to the nethermost strata of the society. Since then, gradual withdrawal of restrictions and reopening of economies around the globe including India began in May and June. With the gradual resumption of economic activities over eight weeks of unlock, there are some green shoots emerging in the form of several macro and micro indicators bouncing back , with some semblance of normalcy returning. The key silver lining has been the resurgence in rural demand as the impact of pandemic has been less prominent in rural areas vis-à-vis urban areas, along with increased government rural spend, robust Kharif crop sowing and normal monsoons.

In response to the strong liquidity boost (QE and rate cuts) and wide fiscal stimulus announced by the major central banks of the world, the markets around the globe have recovered as steeply as they fell in March. Equity markets in India and globally have staged a sharp rebound buoyed by the reopening of the economies post the lockdown phase. Majority of the markets have recovered up to 40-60% from the bottoms of Mar'20. Indian Equity benchmark- NIFTY 50 was up 24% during Q1FY21 (35% up from the bottom), while Nifty midcap 100 and Nifty small cap 100 was up 29% and 32% respectively, during the same period. Pharma and Auto saw the maximum recovery followed by Energy, while Banks, Financials and -PSUs saw the least recovery. Strong liquidity in the system, positive sentiments along with pent-up demand seen after the phase wise reopening of the economy, and sanguine data points coming in from the developed economies which had reopened ahead of India, drove the rally in markets. The building wave of dichotomy between markets and the macros, both moving in opposite directions exemplifies the forward looking ability of the markets to see beyond the here and now. FII's turned net buyers in the quarter ended Jun'20 from net sellers in FY20 in the Indian equities and infused more money than DII's which were also net buyers in Q1FY21. FII infused back more than half of the money in Q1FY21 ($4.42bn) withdrawn in Mar'20 ($8.4bn).

Macro - economic and Fixed Income Update

The global macro narrative which was initially dominated by the rising number of Covid infections, extensions of lockdowns and escalating tensions between US -China, was later dominated by escalating India –China standoff, China's signing of HK security legislation and probable fears of a second wave of Covid 19 infection in US and consequent protracted economic recovery. The aggressive rate cuts by major central banks (Federal rate reduced from 1.50-1.75% in Feb'20 to 0.00-0.25% in Mar'20) accompanied by an expansive fiscal firepower by respective governments seem to have stabilised the economic situation in short term. Countries such as US and Germany have expanded their fiscal budget by as much as 9% and 13% of their GDP respectively, to quell the gravity of COVID-19's economic impact in the months ahead. As a consequence of the flushed liquidity in the system, global yields have remained lower through the quarter.

On the domestic front, RBI too came out with all guns blazing to sanitise the struggling economy and financial system. RBI reduced the repo rate by a whopping 115 bps from 5.15% in Feb'20 (pre-COVID) to 4% in May'20, along with extension of moratorium on loan repayments by 3 more months till August'20 and infusion of liquidity in the system by way of TLTRO , CRR cuts etc. The main highlight of the quarter gone by were the wide gamut of fiscal measures announced by the Finance Minister of India over five press briefings claiming a total of Rs.20 trillion (10% of GDP) with an estimated balance sheet impact of Rs.2.12tn, which is 1% FY20 GDP . Through the stimulus, the government has made an honest attempt to provide some upfront solace to impacted sectors such as SME/MSME, NBFCs, agriculture, migrants and support the states as well. The measures announced with respect to MSME guarantees & measure for NBFC will assuage the current stress in the financial sector and thereby increase their capacity to lend more and help in reviving the economy. Given that majority of the initiatives are in the nature of credit guarantees, the impact and utility of many of the elements of the stimulus package will only be known with time. Interestingly the Government has also touched upon a few structural reforms such as opening up the market for agricultural produce, commercial mining, hike in FDI for defence to 74% and further push to privatization, which could have important positive long - term ramifications. Overall while we believe, structurally the measures announced were in the right direction by opening up more avenues for private investment, the impact of measures would be seen only in the medium term.

On the domestic macro front, the quarter saw a dismal 4QFY20 GDP print of 3.1%, with downward revisions of previous FY20 quarter prints, thus indicating the pronounced slowdown even before the Covid crisis. Nonetheless the key positive is that economic activity indicators have begun to show signs of improvement coming off their lows recorded in April. The silver lining for the Indian macros was in the external account, wherein the current account has registered a surplus.

As a confluence of Global and domestic factors stated above, Indian bond yields rallied on the shorter end driven by surplus liquidity, while longer end bonds underperformed marginally due to slight supply fatigue resulting in steepening of the curve. In the quarter, the 10 yr benchmark eased further from 6.14% at the end of Mar'20 to 5.88% in Jun'20. In its recent measures, RBI announced special open market operations (operation twist) of government securities worth ₹10,000 crore which provided further confidence to the debt markets and kept the yields softer. With respect to corporate bond markets, the spreads of investment-grade corporates and NBFC's is currently quite contained, contrary to the sharp widening seen in April, as strong inflows into debt mutual funds continue.

Macroeconomic and Fixed Income Market Outlook

While the near term outlook for the economy is tough as we continue to battle with Covid and resultant disruptions to economic activity, the medium and long term outlook remains encouraging. With COVID-19 related economic downturn staring us down, GDP contraction in FY21 is an inevitable consequence and at this juncture, economic recovery all over the world looks challenging as the incremental GDP revisions for CY20 for all countries continue to be negative. Nonetheless, we pencil in the phase of normalization to play out over the next 6-9 months and therefore Q3/Q4 are imperative inflection quarters to watch out for. The pickup in growth in the second half is likely as the significant amount of fiscal and monetary stimulus announced by central banks and governments across the world including India, will steer the wheels of growth in the economy.

In fact, post the gradual opening of lockdown, the economic indicators have already got on to the track of recovery, as reflected in the rise in electricity consumption, nascent rise (M-o-M) in auto sales in June and improvement in mobility and freight indicators (railway freight and GST E-way bills). Improvement is also conspicuous in manufacturing and services PMI indicators jumping to 47% and 33.7% in June, with lesser decline in output and new orders, along with fall in unemployment rates. Besides, the government's incremental spending in the rural economy (including substantial hike in MNREGA allocations to Rs.1 trillion), better-than-expected advent of the Southwest monsoons, and bumper Rabi crop and strong Kharif sowing should augur well for rural recovery, which will be the key to kick starting the consumption and growth engines of the economy. We certainly believe that the worst is behind us and any incremental development will be positive from here on as the economy picks up and the COVID cases peak out, consumption and demand will improve aided by government support as well.

From debt market's perspective, an accommodative policy stance with easy liquidity conditions is expected to persist for some more time. Going forward, with likelihood of growth concerns mounting and near-term inflation reflecting supply shocks, than that of underlying demand along with financial markets remaining susceptible to volatility, we expect further support from RBI in the form of rate cut amidst widening of negative output gap and assertion of disinflationary pressures. On the rates front, RBI's stance on the fiscal funding would become crucial amid impending overhang on the Gsec market and huge supply of borrowings will continue to weigh on markets. At this juncture, we believe markets are expecting more than a rate cut, the timely RBI support in the form of conventional (continued announcements of OMO purchases) and unconventional measures (direct monetization) to assuage market apprehension about impending issuances and provide financial stability, which would keep the bond yields lower in the near term.

From equity markets standpoint, we reckon the markets will continue to be volatile in near term as we have seen sharp up move in market in last three months. Having said this, we remain undeterred bulls on India growth story over long term. We are firmly of the opinion that the long term structural India story is not derailed but has been delayed by a few quarters.

Since, we as an insurance company offer a long term investment vehicle in the form of insurance, we take the liberty to make long term calls (while being cognizant of short term headwinds) and have considered the same in our portfolio construct and to partake in the rally. During the fall in markets in the month of March, while a large part of the investment community was clamouring for the markets to test lower levels, we went against the conventional wisdom and the consensus view and built a stable long term portfolio at attractive valuations. COVID-19 was in the front and centre of Investor's mindshare, as markets were amidst fear. This fell perfectly in line with our investment philosophy of investing in growth at reasonable prices with strong focus on cash flow generation ability of the business and low leverage ratios. We took the current market volatility as an opportunity and worked to create sustainable building blocks to generate long term returns for our esteemed investors.

It's a time tested fact that markets come back from every correction and eventually make new highs and that investments made in these tough times have reaped substantial returns , as exemplified during the global 2008 crisis, demonetization etc. This time will be no different and there is no reason for this trend to reverse. Indian Equity markets have bounced nearly 50% from its off lows in March, at a time when the world is staring at a sharp decline of 5% in GDP and slowdown across the globe. We believe, despite the near term challenges in reviving growth in India, the long term structural growth story is intact and its favourable demographics should continue to support the structural growth to play for next few years.

Indian Macro Data at a Glance (Monthly Data)

Real Sector	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Industrial production (%y/y)	1.2	4.6	-1.4	-4.3	-3.8	1.8	0.1	2.1	4.6	-16.7	-57.6	-34.7	
Core infrastructure (%y/y)	0.7	2.7	0.1	-5.1	-5.8	-0.6	2.1	1.4	7.1	-9.0	-37.0	-23.4	
Automobile sales (%y/y)	12.3	18.7	23.5	22.4	12.8	12.1	13.1	13.8	19.1	45.0	98.0	86.7	
Manufacturing PMI	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2
Services PMI	49.6	53.8	52.4	48.7	49.2	52.7	53.3	55.5	57.5	49.3	5.4	12.6	33.7
CPI Inflation (%y/y)	3.2	3.1	3.3	4.0	4.6	5.5	7.4	7.6	6.6	5.8	7.2	6.3	6.1
Core CPI (%y/y)	4.1	4.3	4.3	4.1	3.5	3.5	3.7	4.2	4.1	4.0	4.8	5.0	5.1
GST Collections (In Rs. Crore)	99939	102000	98202	91916	95380	103482	103184	110828	105366	97597	32294	62009	90917
Exteral sector & Market Flows	**Jun-19**	**Jul-19**	**Aug-19**	**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**
Export growth (%y/y)	-9.7	2.3	-6.0	-6.6	-1.1	-0.3	-1.6	-1.7	2.9	-34.6	-60.3	-36.5	
Import growth (%y/y)	-9.1	-10.4	-13.4	-13.8	-16.3	-12.7	-8.8	-0.8	2.5	-28.7	-58.6	-51.0	
Non oil-non gold imports (%y/y)	-10.4	-2.2	-9.3	-8.9	-10.3	-12.0	25.4	26.6	24.4	-30.5	-52.2	-33.8	
Trade balance (USD Bn.)	-15.3	-13.4	-13.5	-10.9	-11.0	-12.1	-11.3	-15.2	-9.9	-9.8	-6.8	-3.2	
Forex reserves (USD Bn.)	429.8	428.8	428.6	433.7	445.1	451.3	459.9	471.3	481.3	477.8	481.1	493.5	506.8
Net FII inflows (USD Bn.)	1.9	-0.4	-0.9	0.9	2.3	3.2	0.4	0.1	1.3	-15.9	-2.0	-1.0	3.4
FII equity (USD Bn.)	0.4	4.0	-2.5	1.1	1.7	3.5	1.0	1.7	0.3	-8.3	-0.9	1.9	2.9
FII debt (USD Bn.)	1.2	2.1	1.6	-0.1	0.5	-0.3	-0.7	-1.6	0.3	-8.1	-1.7	-3.0	-0.2
FDI (USD Bn.)	6.7	4.0	2.0	1.9	2.8	2.9	4.3	6.3	2.0	2.5	2.4	2.0	
DII Equity flows (USD Bn.)	0.5	3.0	2.9	1.8	0.7	-0.1	-0.2	0.3	2.4	7.5	-0.1	1.5	0.3
MF SIP Flows (Rs. Bn)	81.2	83.2	82.3	82.6	82.5	82.7	85.2	85.3	85.1	86.4	83.8	81.2	
Crude (Avg. Price)	64.4	64.1	59.2	59.9	59.6	61.3	66.4	56.3	50.0	21.5	23.3	31.0	39.9
DXY Index	96.1	98.5	98.9	99.4	97.3	98.4	96.5	97.4	98.1	99.0	99.0	98.3	97.4
Rupee (INR/$) Average	69.0	68.8	71.4	70.7	70.8	71.7	71.4	71.4	72.2	75.6	76.2	75.7	75.7
US 10Y Yield	2.01	2.01	1.50	1.60	1.69	1.78	1.89	1.51	1.15	0.67	0.64	0.65	0.66
India 10Y	6.88	6.37	6.56	6.70	6.45	6.47	6.55	6.60	6.37	6.14	6.11	5.76	5.89

Source: Bloomberg, Reuters, Capital Line, IMF & FG Research

Quarterly Data

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4Y20
Real GDP (YoY%)	6.0	6.8	7.7	7.7	7.1	6.2	5.6	5.8	5.2	4.4	4.1	3.1
Real GVA (YoY%)	5.9	6.6	7.3	7.6	6.9	6.1	5.6	5.7	4.8	4.3	3.5	3.0
Agriculture	5.9	6.2	5.7	6.5	3.8	2.5	2.0	-0.1	3.0	3.5	3.6	5.9
Industry	0.6	6.7	7.7	10.3	7.5	4.8	5.0	2.6	4.2	0.5	-0.3	-0.6
Services	8.4	5.8	7.5	6.1	7.4	7.4	7.4	8.7	5.5	6.5	5.7	4.4
Export Growth (%)	10	12.9	12.8	6.3	14.0	9.6	7.1	6.3	-0.8	-4.1	-2.2	-12.4
Import Growth (%)	27	16.7	19.1	15.7	12.2	22.9	8.9	-1.0	-0.2	-11.5	-12.5	-9.0
Trade balance	-41.9	-32.5	-44.0	-41.6	-45.7	-50.0	-49.3	-35.2	-46.2	-38.1	-34.6	-35.0
Net invisibles	27.0	25.5	30.3	28.6	29.9	30.9	31.2	30.6	31.9	31.8	33.2	35.6
Current account Balance	-15.0	-7.0	-13.7	-13.1	-15.8	-19.1	-17.7	-4.6	-14.3	-6.3	-1.4	0.6
Capital account	26.9	16.9	22.5	25.0	5.3	16.3	13.7	19.3	27.9	12.1	22.4	17.4
FDI	10.6	13.0	11.3	12.6	0.0	7.9	7.3	6.4	13.9	7.4	10.0	12.0
FPI	7.1	12.4	4.3	6.4	0.0	-1.6	-2.1	9.4	4.8	2.5	7.8	-13.7
Balance of Payments	11.4	9.5	9.4	13.2	-11.3	-1.9	-4.3	14.2	14.0	5.1	21.6	18.8
CAD as % of GDP	-2.5	-1.1	-2.1	-1.9	-2.4	-2.9	-2.7	-0.7	-2.0	-0.9	-0.2	0.1

Source: Bloomberg, Reuters, Capital Line, IMF & FG Research

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
GDP Growth %	8.5	10.3	6.6	5.5	6.4	7.4	8.0	8.3	7.0	6.1	4.2
CPI Inflation Avg	12.3	10.5	8.6	9.9	9.4	6.0	4.9	4.5	3.6	3.4	4.8
Exports (US$bn)	182	256	310	307	319	317	266	280	309	337	314
Imports (US$bn)	301	383	500	502	466	461	396	393	469	518	467
Trade Deficit (US$bn)	-118	-127	-190	-196	-148	-145	-130	-112	-160	-180	-153
Trade Deficit (%of GDP)	-8.6	-7.5	-10.4	-10.7	-8.0	-7.1	-6.2	-4.9	-6.2	-6.6	-5.0
Year End Brent Crude oil	81.3	117.3	123.8	109.3	107.0	53.3	38.7	52.7	69.1	70.3	21.5
Oil Import USD Bn	87.1	106.0	155.0	164.0	164.8	138.3	82.9	87.0	109.1	140.8	130.4
CAD $ Bn	-38.2	-48.1	-78.2	-88.2	-32.4	-26.8	-22.2	-15.3	-48.7	-57.3	-24.7
CAD (% of GDP)	-2.8	-2.8	-4.3	-4.8	-1.8	-1.3	-1.1	-0.7	-1.9	-2.1	-0.9
FDI (US$bn)	18.0	11.8	22.1	19.8	21.6	31.3	36.0	35.6	30.3	30.7	30.0
FII (US$bn)	32.4	30.3	17.2	26.9	4.8	42.2	-4.1	7.6	22.1	-0.6	-0.3
Total BoP (US$bn)	13.4	13.1	-12.8	3.8	15.5	61.4	17.9	21.6	43.6	-3.3	59.5
Fiscal Deficit %	-6.5	-4.8	-5.9	-4.9	-4.5	-4.1	-3.9	-3.5	-3.5	-3.4	-4.6
Foreign Reserves (US$bn)	279	305	294	292	304	342	360	370	425	413	478
Average INR	47.4	45.6	48.1	54.5	60.9	61.2	65.7	67.1	64.5	69.9	71.0
Repo Rate year ending	5.0	6.8	8.5	7.5	8.0	7.5	6.8	6.3	6.0	6.3	4.4
US-10 year end	3.8	3.5	2.2	1.8	2.7	1.9	1.8	2.4	2.7	2.4	0.7
GIND-10 year end	7.83	8.02	8.56	8.01	8.88	7.80	7.40	7.06	7.42	7.35	6.1

Source: Bloomberg, Reuters, Capital Line, IMF & FG Research

Market Performance

Performance of Indian Equities across Market Caps and Debt benchmarks

Sector	7 year CAGR	5 year CAGR	3 year CAGR	1 year	6 months	3 months
Nifty	8.4%	4.2%	2.7%	-12.6%	-15.3%	19.8%
Sensex	8.8%	4.7%	4.1%	-11.4%	-15.4%	18.5%
Nifty Midcap Index	10.4%	2.5%	-6.0%	-16.7%	-14.0%	25.6%
Nifty Smallcap Index	6.8%	-2.8%	-14.2%	-25.6%	-20.9%	28.4%
NIFTY Composite Debt Index	8.4%	9.4%	8.3%	12.8%	8.3%	4.0%

Source: Bloomberg, Reuters & FG Research

Indian Sectoral Indices Performance (%)

Sector	7 year CAGR	5 year CAGR	3 year CAGR	1 year	6 months	3 months
Dow BSE Capital Goods	5.04%	-6.00%	-9.02%	-35.24%	-24.11%	17.12%
NSE Financials	11.65%	7.06%	3.62%	-22.09%	-27.45%	13.36%
NSE Infra	4.32%	-1.40%	-1.79%	-10.00%	-6.85%	28.46%
NSE Bank	9.10%	3.15%	-2.72%	-31.30%	-33.55%	11.63%
NSE Energy	8.76%	10.11%	7.46%	-10.28%	-9.50%	29.42%
NSE Consumer	8.77%	8.32%	3.97%	1.75%	-0.19%	10.04%
NSE Auto	5.76%	-4.33%	-13.94%	-15.25%	-18.54%	42.01%
NSE IT	12.10%	5.98%	13.26%	-7.42%	-5.74%	15.60%
NSE Metals	0.16%	-2.73%	-12.68%	-33.18%	-28.91%	25.57%
NSE Pharma	5.74%	-3.93%	1.30%	23.81%	24.19%	39.14%

Source: Bloomberg, Reuters & FG Research

Global Indices Performance (%)

Sector	7 year CAGR	5 year CAGR	3 year CAGR	1 year	6 months	3 months
Dow Jones Index (USA)	8.05%	7.79%	6.28%	-3.64%	-10.18%	16.95%
S&P 500 (USA)	9.76%	8.36%	8.35%	4.78%	-4.60%	19.26%
Nikkei 225 (Japan)	7.23%	1.95%	3.62%	4.76%	-5.78%	17.82%
Hang Seng (Hong Kong)	2.32%	-1.43%	-1.76%	-14.42%	-13.35%	3.49%
FTSE 100 (UK)	-0.11%	-1.10%	-5.51%	-16.91%	-18.20%	8.78%
Shanghai Composite Index (China)	6.04%	-6.94%	-2.22%	0.19%	-2.15%	8.52%
DAX (Germany)	6.43%	2.38%	-0.04%	-0.71%	-7.08%	23.90%
iBovespa (Brazil)	10.52%	12.49%	14.98%	-5.31%	-17.32%	30.94%
MICEX (Russia)	10.89%	10.64%	13.43%	-0.82%	-9.94%	9.34%

Source: Bloomberg, Reuters & FG Research

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