

# KNOW THE NOW

A NEW ERA FOR INDIA

**Zomato** listed on the Indian Stock Exchanges on July 23<sup>rd</sup> 2021 at more than a 50% premium to its issue price and since then has gone onto breach the INR 1 lac crore market cap. From the seed round of the food delivery and restaurant discovery platform in August 2010 to the IPO going live, India has its first BIG internet consumer company of scale in the public markets and also a playbook for the Indian tech startups looking to go public in the next few months.

Being first off the block probably gave Zomato a massive scarcity premium and with valuations at 50 times sales, many wonder on its sustainability. In this edition of **Know the Now : A New Era for India**, Sunil Sharma our Chief Investment Strategist notes ‘Time will tell, but *the percolation of negative earnings models and dot com valuations into the public markets is certainly a landmark event, we enter a new era for India*’.

Despite the humanitarian, social and economic impact of the pandemic over the last 18 months the stock markets have continued to decouple from the real economy sparked by the liquidity boosts from Central Banks around the world, enthusiastic participation of retail investors and tech stocks domination of global indices. Despite the traumatic second wave in India, the Nifty 50 is one of the top performing indices globally for the past year.

This month, we deep dive into earnings, sales growth, profit growth, valuations, sector review and market cap slicing and come up with a considered view to our clients to remain focused on the long term attractiveness of equities. In Feb’21 we launched two **PMS strategies - Alpha Growth and CALIBER**. Performance of both the strategies has been very satisfying, we believe both strategies are managed by active managers who are nimble at rotation to ride the business and economic cycles.

	1 Month	3 Month	Inception		1 Month	3 Month	Inception
Alpha Growth	9.1%	23.8%	36.2%	CALIBER	6.3%	19.2%	31.0%
Nifty 500 Multicap 50:25:25 Index TRI	3.2%	14.7%	27.1%	Nifty 50 TRI	0.4%	8.4%	7.5%
				Nifty 500 TRI	1.6%	11.0%	13.0%

(Returns as of Jul’21, post expenses, TWRR basis, composite returns of all portfolios aligned to the Strategy, Inception date for Alpha Growth is 28-Jan-21 and first fund deployment date for CALIBER is 04-Feb-21)

We have been encouraging our clients to build their private market portfolios either through the Ambit Select universe of VC and PE funds or through our Direct Deal program. We think this new era will be ripe for many winners to emerge and we would like to position our clients for that.

We were pleased when Asiamoney Private Banking adjudged us as the **Best for Investment Research, India 2020** and it’s even more gratifying when they told us why. Keeping our clients ahead by providing institutional quality and actionable research is what inspires us – do take a minute to watch (refer link: [Asiamoney](https://www.asiamoney.com)).

Happy reading.

**Amrita Farmahan,**  
Chief Executive Officer

# A New Era for India

**Sunil A. Sharma**  
Chief Strategist

## Eyeballs and Clicks

“We’re not paying for P/E, we’re paying for clicks and eyeballs”. This quote recently brought back memories of the dot com era, when investors paid for clicks, and eyeballs, and also the potential of the Internet. Today we pay that for... food delivery.

Amazon, in late 1999, was *the* poster child of loss-making internet business models and sported a market cap of USD 27.2 billion at the peak of the Internet bubble. Meanwhile, it had 1999 full year sales of USD 1.64 billion, and a price to sales multiple of 16.5 times. Today, the asking rate is 50 times sales.

Is this time different? Time will tell, but **the percolation of negative earnings models and dot com valuations into the public markets** is certainly a landmark event, we enter **a new era for India**.

## Teflon Equities

Retail investors have been steady buyers of equities. Inflation unleashed worries early on this year, and Retail yawned.

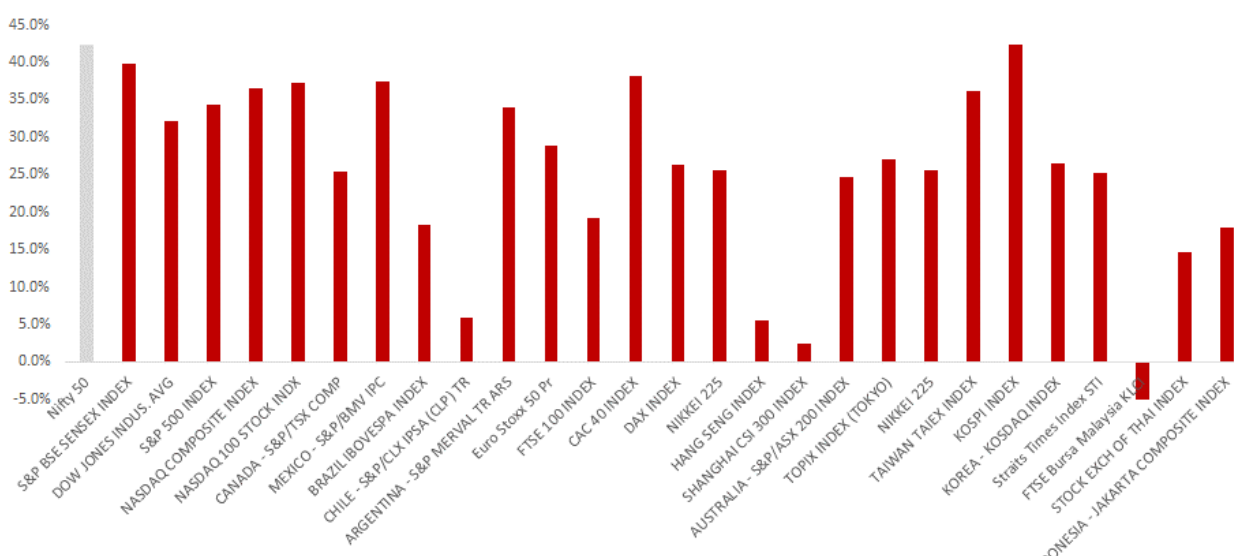
Covid devastated India and Retail kept buying. Last month, China unleashed mayhem on tech and smart money. Alibaba, Tencent, Didi, the education sector, have taken painful beatings. Yet our market has remained resilient. Now, the market’s fighting through what are at face value disappointing sequential earnings.

Notably, this has led to the Nifty 50, alongside the Kospi, as the top performer on the past 1 year.

## Earnings Scorecard – Impressive Quarterly Performance in a Challenging Environment

Moving on to earnings. On a like to like comparison, with 230 companies reporting so far (30%~ of total), year-on-year sales growth is 38.5%, which is an impressive performance, given that Q2 2021 was a devastating time for India with covid wave II versus an equally devastating first wave last year. Sequentially, an 8% decline in sales is largely acceptable, given a chunk of the economy for much of the quarter was essentially in shut down mode.

**The Nifty’s 42.3% 1 Year Return Places it as the Top Performer ...  
...Alongside the Kospi over the Past 1 Year**



**June Qtr, NSE Universe Sales are Up +38.5% YoY and Down -8.0% QoQ (30%~ Companies Reported)**

	Sales LTM YoY%	Sales Q2CY21 YoY%	Sales Q2CY21 QoQ%	Sales Q1CY21 QoQ%	Sales Q4CY20 QoQ%	Sales Q3CY20 QoQ%
Communication Services	7.4%	40.3%	-14.2%	5.0%	21.8%	27.8%
Consumer Discretionary	<b>15.1%</b>	133.9%	<b>-23.3%</b>	11.4%	32.6%	106.4%
Consumer Staples	4.4%	21.3%	-10.2%	4.1%	9.9%	18.2%
Energy	<b>13.3%</b>	75.1%	-5.8%	24.4%	14.9%	30.1%
Financials	-0.6%	-2.3%	-3.6%	-7.7%	9.2%	0.6%
Health Care	4.4%	19.0%	<b>8.4%</b>	-2.6%	1.7%	10.9%
Industrials	7.7%	50.4%	-32.4%	24.0%	19.0%	50.9%
Information Technology	4.2%	17.9%	<b>5.6%</b>	2.9%	4.6%	3.8%
Materials	<b>13.2%</b>	77.7%	-4.2%	15.5%	12.2%	43.2%
Real Estate	11.7%	130.8%	<b>-38.6%</b>	5.0%	24.5%	187.3%
Utilities	16.4%	135.1%	-14.2%	7.7%	31.5%	93.6%
NSE Universe	<b>7.5%</b>	38.5%	-8.0%	8.6%	13.3%	22.3%

**Net Profits are +107.4% YoY and -8.7% QoQ, Consumer Discretionary Margins Impacted**

	Profit LTM YoY%	Profit Q2CY21 YoY%	Profit Q2CY21 QoQ%	Profit Q1CY21 QoQ%	Profit Q4CY20 QoQ%	Profit Q3CY20 QoQ%
Communication Services	14.9%	836.2%	-34.9%	-55.1%	266.3%	773.0%
Consumer Discretionary	n/m	-90.4%	<b>-37.9%</b>	<b>-134.8%</b>	5.9%	-141.8%
Consumer Staples	5.3%	28.2%	-15.8%	6.7%	7.5%	32.8%
Energy	3.9%	18.0%	-20.1%	35.1%	4.1%	5.0%
Financials	4.0%	18.6%	-1.9%	0.8%	-0.4%	20.4%
Health Care	15.8%	133.2%	<b>11.6%</b>	-15.8%	-14.1%	188.8%
Industrials	14.0%	-82.5%	<b>-108.7%</b>	3.7%	-34.1%	-393.9%
Information Technology	6.0%	26.8%	<b>11.9%</b>	-10.5%	17.5%	7.9%
Materials	28.9%	346.6%	<b>-10.4%</b>	<b>38.7%</b>	<b>49.8%</b>	<b>140.1%</b>
Real Estate	26.5%	-745.6%	-45.5%	1.9%	103.8%	-669.9%
Utilities	25.6%	351.0%	-4.1%	-2.0%	50.5%	219.0%
NSE Universe	<b>14.0%</b>	<b>107.4%</b>	<b>-8.7%</b>	-1.5%	8.8%	111.9%

**Information Technology and Health Care Margins Improve, Negative Impact Evident in Cons. Disc.**

	Net Margin Q2CY21	Net Margin Q1CY21	Net Margin Q4CY2	Net Margin Q3CY20	Net Margin Q2CY20
Communication Services	3.2%	4.3%	10.0%	3.3%	0.5%
Consumer Discretionary	<b>-1.6%</b>	<b>-1.9%</b>	<b>6.2%</b>	7.7%	-38.1%
Consumer Staples	<b>15.1%</b>	<b>16.1%</b>	<b>15.7%</b>	<b>16.1%</b>	14.3%
Energy	6.6%	7.8%	7.2%	7.9%	9.8%
Financials	<b>11.0%</b>	<b>10.8%</b>	<b>9.9%</b>	<b>10.8%</b>	9.1%
Health Care	<b>13.0%</b>	<b>12.6%</b>	<b>14.6%</b>	<b>17.2%</b>	6.6%
Industrials	<b>-0.7%</b>	<b>5.1%</b>	<b>6.1%</b>	<b>11.0%</b>	-5.6%
Information Technology	<b>17.5%</b>	<b>16.5%</b>	<b>19.0%</b>	<b>16.9%</b>	16.3%
Materials	<b>15.5%</b>	<b>16.5%</b>	<b>13.8%</b>	<b>10.3%</b>	6.2%
Real Estate	25.7%	28.9%	29.8%	18.2%	-9.2%
Utilities	<b>33.2%</b>	<b>29.6%</b>	<b>32.6%</b>	<b>28.5%</b>	17.3%
NSE Universe	<b>9.5%</b>	<b>9.6%</b>	<b>10.6%</b>	11.0%	6.4%

**Small Caps Still Maintain a Valuation Edge on Large & Mid...  
 ...Sport Higher Sales Growth and Profit Growth...  
 ...But Their QoQ Deceleration Was Worst During Q2**

	Market Cap	Average Normalized P/E	Average Trailing P/E	Qtr Sales Growth YoY %	Qtr Profit Growth YoY %	Qtr Sales Growth QoQ %	Qtr Profit Growth QoQ %	LTM Sales Growth YoY %	LTM Profit Growth YoY %	3 Yr Profit Growth CAGR%
Large	77.0%	41.1	59.3	35.1%	123.2%	-7.1%	-3.9%	7.0%	15.6%	15.5%
Mid	13.9%	39.4	43.1	27.7%	82.4%	-6.1%	-14.3%	5.7%	11.5%	23.9%
Small	9.2%	27.9	45.5	51.0%	n/m	-10.3%	-21.8%	9.2%	51.7%	26.6%

**Profit Growth Posts a Credible Performance Down 8.7% Sequentially**

Profit growth of 107% year over year is noteworthy, but our takeaway is that Corporate India maintained margins at the aggregate level, with **profits down 8.7% sequentially, in line with sales down 8.0% sequentially**. Inflation did not manifest materially at the aggregate level. At the sectoral level, however, performance was fairly widely dispersed. Information Technology, and Health Care again led the way, while Consumer Discretionary has taken it on the chin.

**Margins – Consumer suffer, Others Not Affected**

Margins have suffered notably for Consumer Discretionary, and Industrials. Besides that, most sectors have emerged unscathed despite rising inflation. At an aggregate level, margins dropped to 9.5% on a like to like comparison, from 11.0% in Q3 last year, but under the circumstances, a healthy enough result.

**Large Vs Mid Vs Small Caps**

Small caps continue to sport a valuation edge over large caps and mid caps. Over the past 12 months, small caps have delivered the best performance on sales and profits. The 3 year profit growth for small caps is also the best at 26.6%. However, small caps had the worst deceleration in earnings in Q2.

**Info Tech and Health Care Lead Earnings, Consumer Lags**

Information Technology and Health Care delivered positive sequential QoQ growth, while the greatest impact was felt in Consumer Discretionary, Industrials

and Real Estate. Moreover, last 12 month’s growth over the prior year is fairly satisfactory, considering what the Indian and global economy have come through, sales are up 7.5% and profits up 14%.

**Valuations on Nifty at 27 Times Trailing Normalized**

The market sells at 2.6 times trailing sales, and **27 times normalized, trailing earnings**. Expensive, but not too bad.

**Global Growth Recovery Underway, India to Catch Up**

India made global headlines on the covid delta variant during this summer. India is now arguably ahead of the delta curve, at least at the moment, having made progress on vaccinations, with antibodies in nearly two-thirds of the population, and a similar number having been exposed to Covid.

We’ve attached the heatmap for global PMIs, a reliable indicator for global growth. While global growth remains healthy, India’s growth lags global growth due to the devastation of wave 2. That could flip to be an advantage looking ahead. The recent India Manufacturing PMI certainly points to a sharp recovery in manufacturing, while services remain at about neutral.

**Inflation Remains Within the Glide Path**

Despite supply chain challenges, and covid wave 2 suffocating normal operating activity, inflation remains at levels that most central banks would consider transitory and manageable. With further recovery, and opening up of economies, supply and trade will improve and prices should reduce.

## India is Ironically the Worst Performing Region on PMIs, Global Growth Has Recovered Nicely

	30-06-2021	31-05-2021	30-04-2021	31-03-2021	28-02-2021	31-01-2021	31-12-2020	30-11-2020	31-10-2020
<b>JPMorgan Global Composite PMI</b>	<b>56.6</b>	58.5	56.7	54.8	53.2	52.3	52.7	53.1	53.3
<b>JPMorgan Global Manufacturing</b>	<b>55.5</b>	56	55.8	54.9	53.9	53.6	53.8	53.8	53.1
<b>JPMorgan Global Services PMI S</b>	<b>57.5</b>	59.6	57	54.7	52.8	51.6	51.8	52.2	52.9
Markit US Manufacturing PMI NS	61.5	61.8	61	61.6	58.4	59.7	56.5	56.9	53.7
Markit US Services PMI Busines	60.7	69.9	66.5	62.6	62.6	61.9	53.3	61.6	56.2
Markit US Composite PMI SA	59.7	63.7	68.7	63.5	59.7	59.5	58.7	55.3	58.6
<b>Markit India Composite PMI SA</b>	<b>43.1</b>	48.1	55.4	56	57.3	55.8	54.9	56.3	58
<b>Markit India Manufacturing PMI</b>	<b>48.1</b>	50.8	55.5	55.4	57.5	57.7	56.4	56.3	58.9
<b>Markit India Services PMI NSA</b>	<b>39.3</b>	45.9	50.6	55.6	58.6	52.3	52.2	53.6	57.2
Markit EU Composite PMI Output	59.4	57	53.6	53	48.8	47.8	49	45.3	49.9
Markit EU Manufacturing PMI SA	63.1	62.7	62.3	61.9	57.6	54.7	55.1	53.7	54.5
Markit EU Services PMI Busines	58.3	55.2	50.5	49.6	45.7	45.4	46.4	41.7	46.9
Markit Eurozone Composite PMI	60.6	59.5	57.1	53.8	53.2	48.8	47.8	49.1	45.3
Markit Eurozone Manufacturing	62.6	63.4	63.1	62.9	62.5	57.9	54.8	55.2	53.8
Markit Eurozone Services PMI S	60.4	58.3	55.2	50.5	49.6	45.7	45.4	46.4	41.7
Markit Eurozone Construction P	50.3	50.3	50.1	50.1	45	44.1	45.5	45.6	44.9

## Inflation Does Not Appear to Be Heating Up Globally, Except Brazil & Russia

	30-06-2021	31-05-2021	30-04-2021	31-03-2021	28-02-2021	31-01-2021	31-12-2020	30-11-2020	31-10-2020	30-09-2020
US CPI Urban Consumers YoY NSA	5.4	5	4.2	2.6	1.7	1.4	1.4	1.2	1.2	1.4
<b>India CPI Combined YoY</b>	<b>6.3</b>	<b>6.3</b>	4.2	5.5	5.0	4.1	4.6	6.9	7.6	7.3
France CPI 2015=100 YoY	1.5	1.4	1.2	1.1	0.6	0.6	0	0.2	0	0
UK CPI EU Harmonized YoY NSA	2.5	2.1	1.5	0.7	0.4	0.7	0.6	0.3	0.7	0.5
Japan CPI Nationwide YoY	0.2	-0.1	-0.4	-0.2	-0.4	-0.6	-1.2	-0.9	-0.4	0
STCA Canada CPI YoY NSA 2002=1	3.1	3.6	3.4	2.2	1.1	1	0.7	1	0.7	0.5
Germany CPI All Items YoY	2.3	2.5	2	1.7	1.3	1	-0.3	-0.3	-0.2	-0.2
Euro Area MUICP All Items YoY	1.9	2	1.6	1.3	0.9	0.9	-0.3	-0.3	-0.3	-0.3
Australia CPI All Groups Goods	3.8	1.1	1.1	1.1	0.9	0.9	0.9	0.7	0.7	0.7
<b>Brazil CPI IPCA YoY</b>	<b>8.35</b>	<b>8.06</b>	<b>6.76</b>	<b>6.1</b>	<b>5.2</b>	<b>4.56</b>	<b>4.52</b>	<b>4.31</b>	<b>3.92</b>	<b>3.14</b>
China CPI YoY	1.1	1.3	0.9	0.4	-0.2	-0.3	0.2	-0.5	0.5	1.7
Indonesia CPI YoY	1.33	1.68	1.42	1.37	1.38	1.55	1.68	1.59	1.44	1.42
South Korea CPI YoY	2.4	2.6	2.3	1.5	1.1	0.6	0.5	0.6	0.1	1
China CPI YoY	1.1	1.3	0.9	0.4	-0.2	-0.3	0.2	-0.5	0.5	1.7
Hong Kong CPI Composite All It	0.7	1	0.8	0.6	0.5	2.6	-1	-0.3	-0.4	-2.2
Malaysia CPI YoY 2010=100	3.4	4.4	4.7	1.7	0.1	-0.2	-1.4	-1.7	-1.5	-1.4
Philippines CPI All items YoY%	4.1	4.5	4.5	4.5	4.7	4.2	3.5	3.3	2.5	2.3
Singapore CPI All Items YoY	2.4	2.4	2.1	1.3	0.7	0.2	0	-0.1	-0.2	0
South Korea CPI YoY	2.4	2.6	2.3	1.5	1.1	0.6	0.5	0.6	0.1	1
Taiwan CPI YoY NSA	1.89	2.48	2.1	1.23	1.38	-0.19	0.05	0.09	-0.26	-0.58
Thailand CPI All Items YoY	1.25	2.44	3.41	-0.08	-1.17	-0.34	-0.27	-0.41	-0.5	-0.7
Saudi Arabia Cost of Living Ge	6.16	5.68	5.26	4.95	5.25	5.72	5.33	5.8	5.76	5.74
Mexico CPI YoY	5.88	5.89	6.08	4.67	3.76	3.54	3.15	3.33	4.09	4.01
Russia CPI YoY	6.5	6	5.5	5.8	5.7	5.2	4.9	4.4	4	3.7
South Africa CPI YoY	4.9	5.2	4.4	3.2	2.9	3.2	3.1	3.2	3.3	3

## Fed Taper & Rate Hike Comments by Bullard

There is, however, important news out of the Fed this month, with comments from a couple of different FOMC members.

James Bullard carries a fair degree of weight and his comments historically have an impact on markets. He's

out last week with statements preferring a decision to **taper in September and be done by March.**

That's a significantly accelerated view from what markets have been factoring in. Moving too early, incidentally, was what led to mayhem in the markets in 2018. A rise in U.S. yields typically leads to upward pressure on G-secs, albeit with a slight lag. Add that to

the list of factors RBI may need to manage in coming months.

Inflation as per the U.S. personal consumption deflator is now 4.0% and running hot. Actual inflation in the U.S. feels like it could be higher, and probably is.

The Fed likely knows this, and **the forward prognosis for equities must factor in a possible Fed Taper and rate hikes in coming months.** As we head into the Fall, expect to hear more talk about tapering bond purchases, and rate hikes. Much of this talk could be just that, talk. However, should inflation keep running hot in the U.S., Fed taper could arrive as early as Fall 2021, and rate hikes in late 2021, early 2022.

Meanwhile Treasury bonds are telling a completely different story. Growth is slower than expected, there remains labor slack, millions could be evicted in the

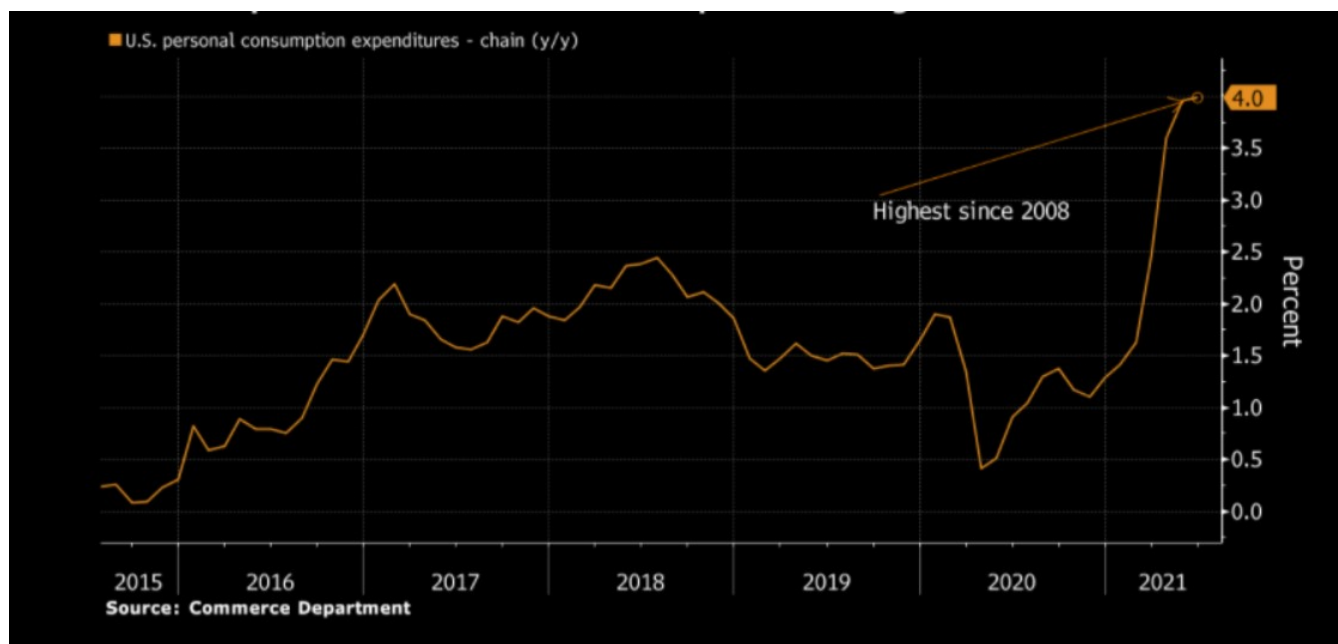
U.S. as benefits are set to expire, and long term inflation expectations remain reasonably anchored.

### China's Crackdown on Private Sector is Advantage India

Finally, a geopolitical trend that will continue to benefit India. It started with Alibaba and the disappearance of Jack Ma. Since that time, Tencent, Didi, and the entire education sector have been decimated. Tencent loss USD 170 billion in market value in July. The destruction in value is tangible and the messaging even clearer.

The likely response is fairly evident in First Solar's announced intent this weekend to invest USD 684 million in Tamil Nadu to set up a 3.3 GW plant. This news is vindication for India's Make in India PLI incentives. India has taken the necessary steps to position itself as an attractive destination for FI investment capital.

### The Fed's Preferred Inflation Measure – the Personal Consumption Expenditures Deflator - Has Risen Sharply, Prompting Talk of Taper and Hikes



## Fixed Income

### U.S. Treasury Yield Spreads to G-Sec Have Narrowed

Domestically, while G-secs have seen yields rise marginally, U.S. 10 year treasuries have seen a surprising and sharp reversal in yields down to 1.3% levels, leading to a minor spread widening, but largely within historical ranges.

### Corporate & G-Sec Spread Remains Narrow

Domestically, corporate yields have stubbornly resisted the upward pressure on yields, leading to a spread that's tighter than historical averages, and no attractive spread based opportunities. The tight spreads are a function of the robust private placements that corporates have accessed.

### Corporate Private Placements Remain Healthy

Corporate Private Placements have been robust over the past year. This is a clear signal that corporates –

particularly high quality – have no challenges in gaining access to capital at attractive borrowing rates.

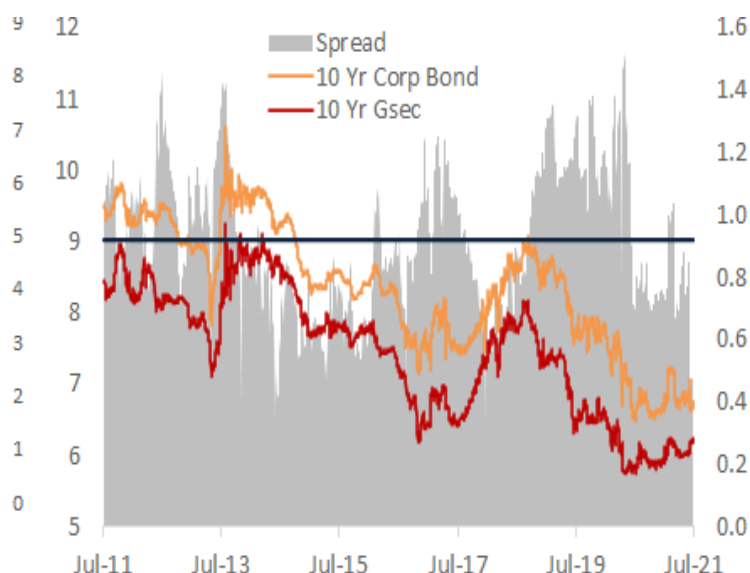
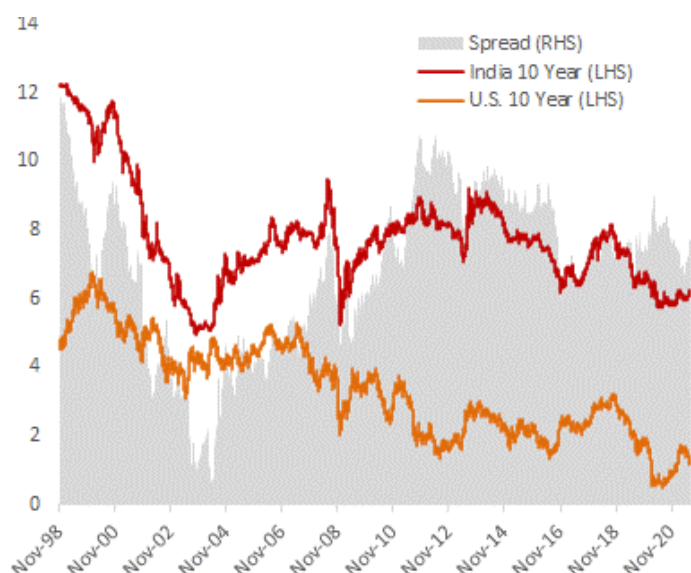
### Credit Recovery Underway

Finally, in further news supportive of a nascent economic recovery, credit growth appears to be bottoming, boding well for the recovery. Personal loans registered 11.9% growth in June '21, primarily due to loans against jewellery and vehicle loans. Credit to agriculture and allied also performed well, up 11.4%.

### Upgrade Downgrade Ratio is Strongly Positive for High Grade Paper

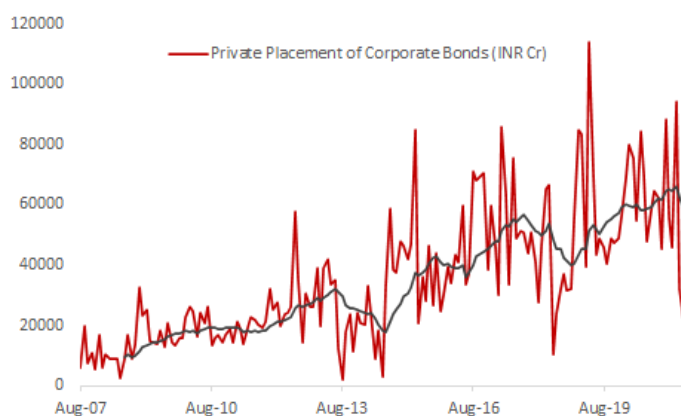
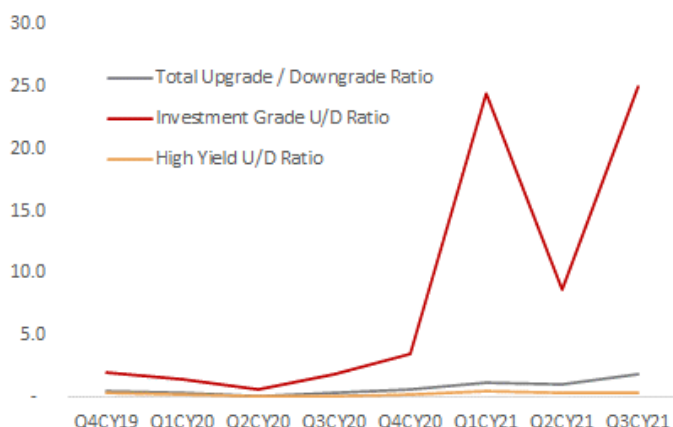
In further signs of credit improvement, upgrades to high quality corporates are coming through as rating agencies upgrade high quality investment grade corporates. As the recovery takes hold, high yield is likely to follow.

### The Recent Decline in U.S. Yields Has Led to Minor Spread Widening Between G-Secs and Treasuries... ...While Corp – G-sec Bond Yield Spreads Remain Narrow

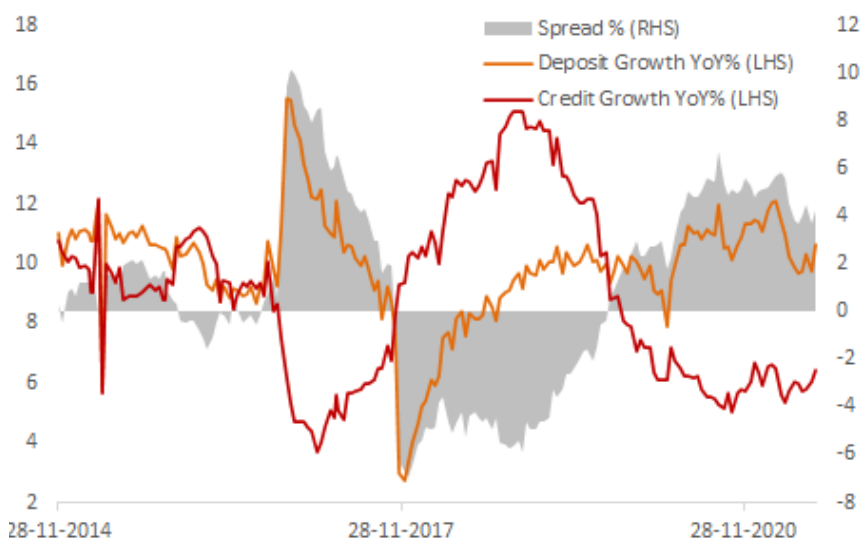




### Rating Agencies Upgrades Rise for Investment Grade Corporates... ... While Corporate Private Placements Remain Healthy



### Credit Growth Appears to Have Bottomed... ... And Pockets of Growth – Agriculture (+11%) and Personal (+11%) - Are Emerging



#### Outlook

Given the challenging scenario on interest rates, and low absolute yields across the yield curve, we remain under-weight fixed income as an asset class in our tactical asset allocation.

Our sub sector preferences are over-weight MLDs, over-weight short to medium term bonds should yields

rise higher as the recovery progresses, long selective high-grade credit and adding incremental credit exposure as the cycle progresses. Given ongoing uncertainties and a stretched fiscal deficit, we would avoid duration and the long end of the curve. We remain committed to select, risk appropriate exposure in high yield assets such as MLDs as an opportune means of raising the weighted asset class return.

## ASSET ALLOCATION & OUTLOOK

### An Air Pocket in the Second Year of the Bull Market

The resilience of markets in the face of the devastating covid second wave is a starting point on forward views for the market.

### Shift in Fed Policy Stance Could Lead to Volatility

However, the benign global monetary policy stance appears to be in a process of potential shift, and starts to negate the positive driving force of accommodative monetary policy. We would expect the Fed to be cognizant of its shifts in monetary policy on markets.

### Domestic Rate Policy and Financial Savings Remain Supportive

RBI, and Retail continue to remain supportive of equities. This flow of money is likely to continue, both in India and the U.S. However, here again, given the vast number of new accounts that are being opened, one must expect that many of these investors could ultimately be unprepared for high volatility cycles.

### Recap of Our Investment Views

We've been pushing the bullish view since November 2020. Prior to that, we were the only institutional fund

manager to put out a bearish call *prior* to the March 2020 crash. Taken in conjunction, investors that followed our view avoided angst, and losses and key mistakes in March, were neutral in the summer and rode the bull market to large gains in the past 10 months. Those that chose to invest with us, have enjoyed 20%+ outperformance over the indices in our PMS in a short span of less than 6 months.

### Why 2021 is Not 2013, Nor is it 2018

We sense a prevailing unease in markets about the Fed. **However, India is no longer a Fragile Five economy as it was in 2013.**

In 2018, the **Fed Taper was exacerbated by the IL&FS debacle**, SEBI reclassification of large and mid caps, and the VIX ETF blowup in early 2018.

India's banking system is far cleaner and arguably stronger than 2018. We don't anticipate a return to 2018 should the Fed decide to begin an early taper.

Further, the Indian economy remains on a gradual upward economic growth trajectory and many structural reforms have been implemented to open the path to growth.

## A Trend Shift Away from Expensive Large Caps, FMCG & Consumption Continues...

India	1 Week	1 Month	3 Month	QTD	YTD	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year
S&P BSE SENSEX Index	-0.5%	0.2%	7.8%	0.2%	10.1%	39.8%	18.6%	11.9%	13.3%	10.5%	11.2%
NSE Nifty 50 Index	-0.4%	0.3%	7.7%	0.3%	12.7%	42.3%	19.2%	11.7%	12.7%	10.6%	11.1%
NIFTY Midcap 100	1.0%	2.9%	15.0%	3.1%	33.5%	79.8%	33.1%	13.9%	13.6%	14.4%	13.2%
NIFTY Smallcap 100	0.6%	6.3%	22.8%	8.1%	48.5%	110.0%	38.3%	12.3%	11.5%	11.0%	10.9%
NSE Nifty 200 Index	-0.2%	0.8%	9.3%	0.8%	16.1%	46.9%	21.3%	11.8%	12.9%	11.4%	11.5%
NSE Nifty 100 Index	-0.3%	0.5%	8.4%	0.5%	13.8%	42.9%	19.8%	11.4%	12.6%	11.0%	11.5%
NSE Nifty Auto Index	-1.8%	-6.0%	4.2%	-5.2%	9.3%	38.0%	21.9%	-2.7%	1.3%	5.4%	10.6%
NSE Nifty Bank Index	-0.3%	-0.6%	5.5%	-0.5%	10.6%	59.8%	9.6%	7.5%	12.6%	12.2%	12.3%
NSE Nifty India Consumption	-0.7%	-0.1%	9.2%	0.7%	7.8%	28.9%	19.4%	7.1%	10.4%	11.2%	12.9%
NSE Nifty FMCG Index	-0.6%	-0.5%	7.2%	-0.1%	5.5%	16.8%	11.8%	5.3%	10.1%	9.7%	13.3%
NSE Nifty IT Index	2.4%	5.1%	18.8%	4.5%	25.7%	68.7%	40.2%	28.3%	22.8%	16.7%	17.1%
NSE Nifty Media Index	1.4%	-0.5%	16.0%	-0.1%	8.9%	39.8%	-5.6%	-14.2%	-8.2%	-1.7%	2.5%
NSE Nifty Metal Index	7.9%	12.5%	19.0%	10.6%	77.3%	168.7%	51.1%	20.2%	18.8%	8.3%	4.3%
NSE Nifty Energy Index	-3.4%	-3.8%	5.0%	-4.5%	11.9%	23.7%	14.3%	8.3%	15.2%	10.2%	8.6%
NSE Nifty Pharma Index	-1.0%	-0.7%	7.1%	0.8%	11.7%	29.4%	35.3%	16.5%	4.4%	6.4%	11.5%
NSE Nifty PSU Bank Index	1.3%	-3.2%	18.8%	-3.1%	39.3%	72.9%	-5.1%	-8.9%	-3.4%	-5.3%	-4.5%
NSE Nifty PSE Index	-0.8%	-0.4%	12.9%	-0.7%	28.2%	44.2%	6.2%	-0.3%	0.9%	0.1%	0.8%
NSE Nifty Realty Index	0.7%	15.7%	28.8%	15.9%	27.0%	98.3%	22.0%	14.1%	13.9%	7.5%	3.6%

Covid remains a risk to the global recovery, but what appears evident is vaccinations hold the key. A preponderance of the infections in the U.S., for instance are the unvaccinated.

Finally, with FI flows and QE sloshing around, volatility is a given. **We would be buyers of any correction in the market.**

**Sectorally, an Important Trend Shift Has been Underway**

We spoke about this a few months ago as well (Know the Now : A Change in Leadership March 2021). Over the past year, the FMCG sector is up 16.8% vs the Nifty at 42.3%. The FMCG sector also sports a minimal 3 year CAGR return of 5.3%. Consumption is similarly lagging at 7.1%.

The two immediate questions are i) why? and secondly, a reminder on portfolio strategy.

Certainly Covid has been a detriment or is it? FMCG are generally staples, but we've witnessed companies in the paints space, arguably a tougher business during lockdowns, thriving. Performance in our view is muted due to high valuations. Investors, being rational, have rotated capital to attractive mid and small caps at the expense of expensive large caps over the past year. Some of that could reverse should Fed action roil markets.

**Portfolio Strategy – The Two Kinds of Strategies and Managers**

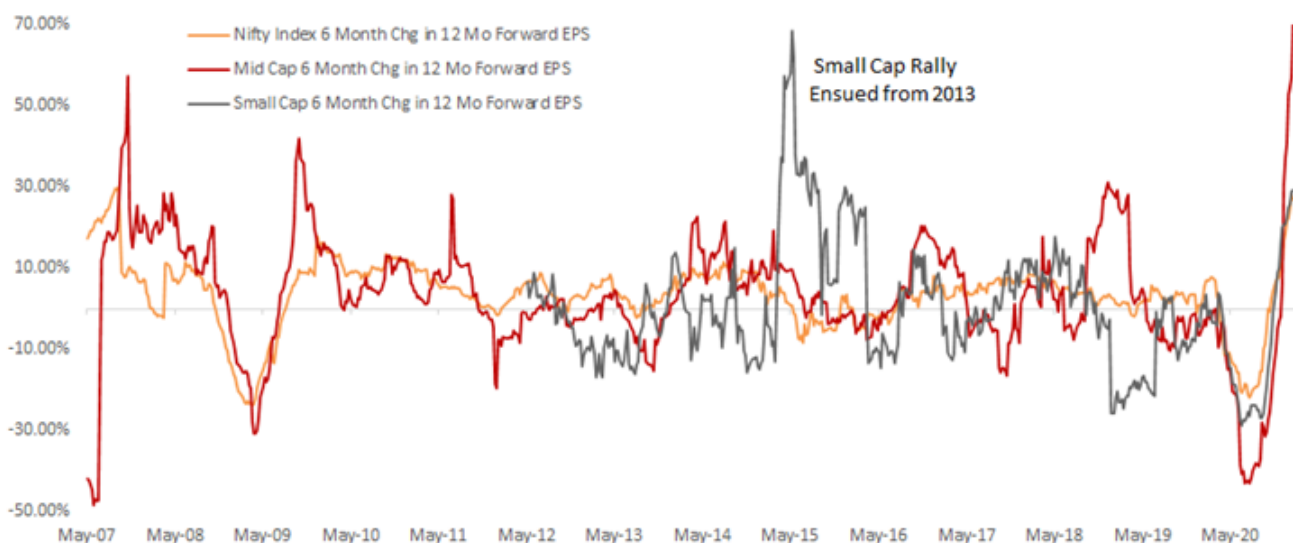
Portfolio managers are generally classified by cap in India. We think **style classification** has merit as well. There are in our opinion, managers that **manage according to a strategy** and stay committed for years to that strategy. Then there are true **active managers that** are flexible and skew portfolios on the margin – generally via sector exposure and stock selection – to maximize ongoing returns.

**Strategy based returns** are predictable, in that allocators know what to expect from such managers. However, these strategies can **experience painful periods of lagging performance**. On the other hand, **active managers** that are effective at rotation, presumably have the opportunity to **outperform by strategically riding the business cycle**.

**Full Cycle Return & Risk**

As we move through the cycle, it is imperative investors understand risk embedded in their portfolios. **There are too many stocks today that are rising on the back of momentum, without supportive fundamentals. In a bull market, everyone looks like a genius.** It is full cycle returns and the degree of risk that an investor inherits in a portfolio that is critical to understand.

**Meanwhile Forward 12 Month EPS Momentum Remains Strong Despite Covid Wave II...  
...But Shorter Term EPS Momentum Has Hit an Air Pocket**



## Structural Trends Remain in Place

We've spoken often about demographics, work from anywhere, technology, productivity, structural reforms such as electrification and financialisation, as well as the move to an organized economy as drivers of the long term attractiveness of equities.

## Long Term Equity Returns Understated by Nifty

We've also highlighted the true returns growth stocks have delivered to investors in well constructed and somewhat concentrated portfolios.

## Risks Now Bear Watching as Well

However, one must now remain watchful of risks, particularly pertaining to global monetary policy. We'd also note that generally the primary contributor to volatility has been global events – PIGS, China debt, trade war, debt, mortgage bubble etc.

## Managing the Investment Horizon

For long term investors, the best approach remains to stay invested and ride through the cycles. Central banks have a dual mandate of growth and inflation, and remain committed to global growth with low inflation. Should the situation worsen, we think they will act rapidly – and aggressively.

## Indian Economy on a Gradual Recovery

Further, India remains on an upward economic recovery trajectory, having managed to scrape through wave 2 and now showing signs of growth in manufacturing and credit uptake.

Net Net, Indian equities have shown resolve, surviving challenging environments. Valuations remain at the high end of the range, but inflation has not surfaced at the aggregate level to present a problem.

We continue to advise clients, therefore, to remain **focused on the long term attractiveness of equities.**

Going forward, **hedged strategies** that protect capital while providing appreciation in excess of alternative asset classes, would be prudent areas for incremental capital allocation. Secondly, tactical deployments on sell offs are a sound strategy as well.

Finally, specialized managers provide an abundant opportunity for outsized absolute returns, well in excess of the market.

While we've been bullish this year, since Nov '20, we shift to a moderately bullish view acknowledging that global central bank policy may be shifting away from accommodative.

Given the lack of attractive alternative asset classes, is another reason we remain moderately overweight equities.

Those of a risk averse persuasion can rebalance portfolio allocations, particularly on **mid and small caps skews**. Our preferred long term mix remains centered around 70/30 large / mid & small mix for moderate growth clients.

Large Vs Mid Valuation Differential



**While Forward Estimates are Too Optimistic...  
...The Up Trend in Mid Cap and Steady Trend in Large Cap Revisions Despite Covid Wave II Is a Good Sign**

NIFTY50	EPS - Jul-21	EPS - Apr-21	% Change - Qtr	%Change YoY
Trailing EPS	521.42	526.06		
1yr Forward	725.34	728.75	-0.5%	39.1%
2yr Forward	845.96	839.28	0.8%	16.6%

Periods	EPS - Jul-21	EPS - Apr-21	% Change - Jul-21	%Change YoY
Trailing EPS	958.97	958.04		
1yr Forward	1,229.56	1,134.26	8.4%	28.2%
2yr Forward	1,495.12	1,388.01	7.7%	21.6%

### Ambit Global Private Client - Asset Allocation & Investment Committee

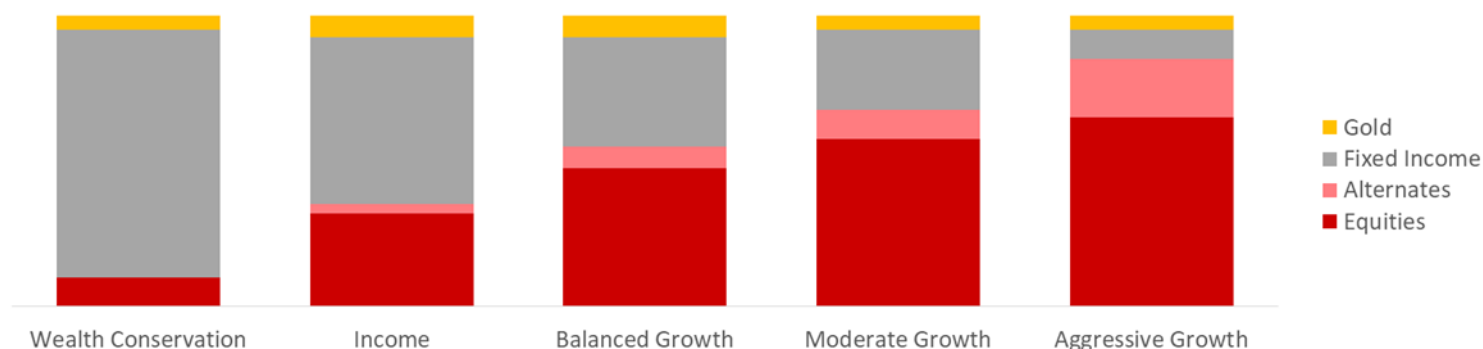
The Ambit GPC Asset Allocation & Investment Committee (AAIC) is a group comprised of the CEO, Head of Products and Alternates, Chief Investment Strategist and Head of Fixed Income (listed below). The team has over 100 years of collective investment experience in markets. The AAIC meets monthly and as necessary during periods of market volatility to discuss the economy and markets. The committee determines the investment outlook that guides our advice to clients. The AAIC continually monitors developing economic and market conditions, reviews tactical outlooks and recommends asset allocation model changes, as well as analysis, investment commentary, portfolio recommendations and reports.

### Asset Class - Underweight / Overweight – Tactical Views

Asset Class Views	Scale					Weight
	←	Underweight	Neutral	Overweight	→	
<b>Fixed Income</b>		◆				Under weight
Arbitrage				◆		Over weight
Duration		◆				Under weight
Corporate			◆			Neutral
G-Sec				◆		Over weight
Credit Risk			◆			Neutral
REIT			◆			Neutral
InvIT			◆			Neutral
Long Short (Absolute Return)			◆			Under weight
<b>Equity</b>					◆	Over weight
India Equity - Large Cap				◆		Over weight
India Equity - Mid & Small Cap				◆		Over weight
International Equity - US			◆			Neutral
International Equity - Europe			◆			Under weight
International Equity - EM			◆			Neutral
Hedge Strategy (Long + Long Short)				◆		Over weight
<b>Alternate</b>					◆	Over weight
Private - Early Stage				◆		Over weight
Private - Mid to Late Stage				◆		Over weight
<b>Commodity</b>					◆	Under weight
Gold			◆			Under weight

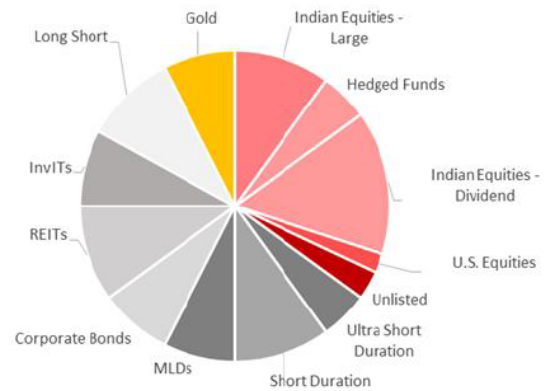
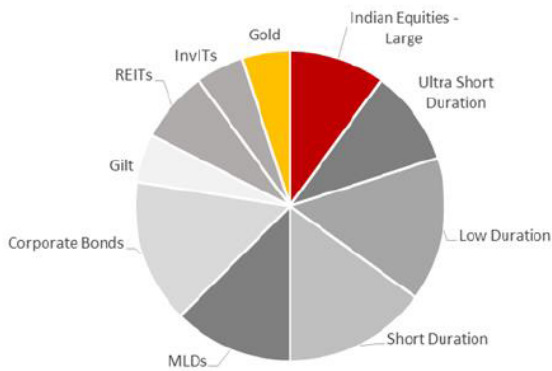
### Wealth Profiles - Summary

#### Strategic Asset Class Weights by Profile

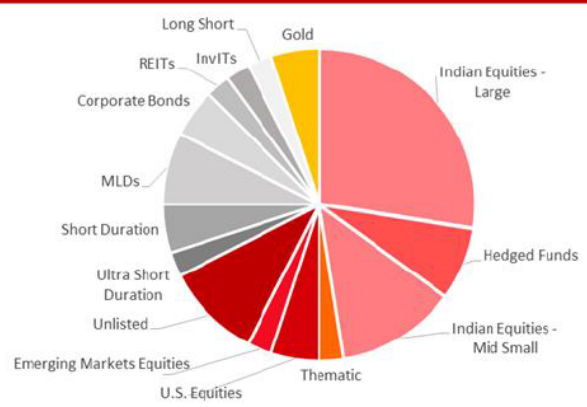
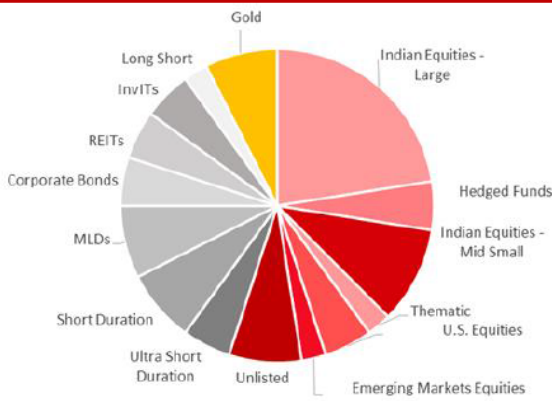


**Wealth Profiles – Asset Allocation**

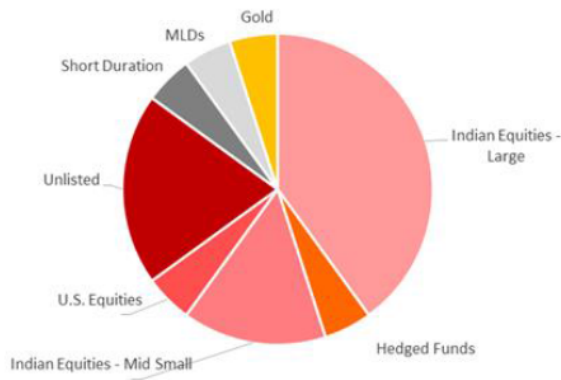
**Wealth Conservation      Income**



**Balanced Growth      Moderate Growth**



**Aggressive Growth**



## Tactical Asset Class Rationale

Equity	Weight	Rationale
<b>India Equity</b>	<b>Overweight</b>	India's economy was recovering well before Covid wave 2 struck. We look for a gradual recovery heading in Q3 CY21 as vaccinations gain traction and global demand recovers and global supply chains repair. We expect a gradual global recovery given Covid delta variant concerns. The second year of the bull market continues but could be in an air pocket.
<b>India Hedge Strategy (Long + Long Short)</b>	<b>Over Weight</b>	The traditional 60/40 portfolio that was expected to deliver reliable 12% returns is weighed down by the weight of low interest rates on the fixed income side. Rising volatility is a constructive environment for hedge fund managers. Hedged portfolios provide the perfect complement to an equity portfolio today, providing a diversifying non-correlated asset class that enhances risk adjusted return, while holding the opportunity to provide equity-like returns with debt-like risk.
<b>U.S. Equity</b>	<b>Market Weight</b>	Indian HNI portfolios are dramatically underweight global equities. Diversification provides strong benefits.
<b>Emerging Market Equity</b>	<b>Market Weight</b>	Valuations for emerging markets are trading at reasonable levels, and inflationary risks are centered in the U.S., exposure to emerging markets will add to portfolio diversification. We would avoid China given large political risk. Most other emerging markets are trading at reasonable valuations.
<b>Europe Equity</b>	<b>Under Weight</b>	We expect growth in India, Emerging markets to outpace European growth and therefore find limited compelling reasons to be exposed to Europe, except selectively at a company specific basis.
Fixed Income	Weight	Rationale
<b>Duration</b>	<b>Under Weight</b>	With risks on the inflation front, and demand supply dynamics eventually getting overwhelmed by supply, the likelihood of interest rates moving higher is tangible.
<b>Accrual Corporate</b>	<b>Market Weight</b>	Medium maturity corporate bonds, enabling safety, liquidity and steady returns without duration risks and consequent negative MTMs.
<b>Accrual – Credit Risk</b>	<b>Market Weight</b>	With expectations of an improving economy, conditions will improve. Quality credits will enable a positive risk reward equation (especially with well researched and strongly constructed investments) and allocations should be in light of investor's risk appetite.
<b>Long Short (Absolute Return)</b>	<b>Under Weight</b>	While long short sounds good in concept, the track record of funds in this space has been below par. Selectively, long short funds that have consistently delivered post-tax 8% are a worthy addition to portfolios.
<b>REITs</b>	<b>Market Weight</b>	Real estate investment trusts (REITs) have lagged in the past year due to the impact of Covid on retail and urban office space. With rising threat of inflation, REITs offer an attractive inflation hedge that provides exposure to fixed assets.
Alternate	Weight	Rationale
<b>Private Unlisted</b>	<b>Over Weight</b>	We expect significant value and wealth creation in unlisted space in India primarily led by Technology, Financial and New Age Consumption companies. Our Direct Deal Thesis focuses on late stage companies with significant market share & profitability and our Manager Selection in early stage investments focuses on fund managers with established track record across cycles.
Gold	Weight	Rationale
<b>Gold</b>	<b>Under Weight</b>	Gold provides inflation protection, though the relationship isn't highly positively correlated. Gold provides currency debasement protection. It's suffered of late due to a slowdown in India Gold purchases and the rush towards Bitcoin investing in the U.S. Given our view of a gradual growth recovery and transient inflation, we tilt our positioning to a marginal underweight.

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Ambit GPC wins trust and awards alike.





**Sources:** All sources unless otherwise noted are Bloomberg, NSE. Returns for PMS are as of Jul '21 end; Returns are post expenses except for custody charges for the month of Jun '21. Returns are composite returns of all the portfolios aligned to the investment approach. Client wise portfolio returns may vary as compared to strategy aggregate returns. Returns are absolute and calculated on TWRR basis as prescribed by SEBI; The performance related information is not verified by SEBI. Past performance may or may not be sustained in future. Inception date for Alpha Growth is 28-Jan-21 and first fund deployment date for CALIBER is 04-Feb-21.

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