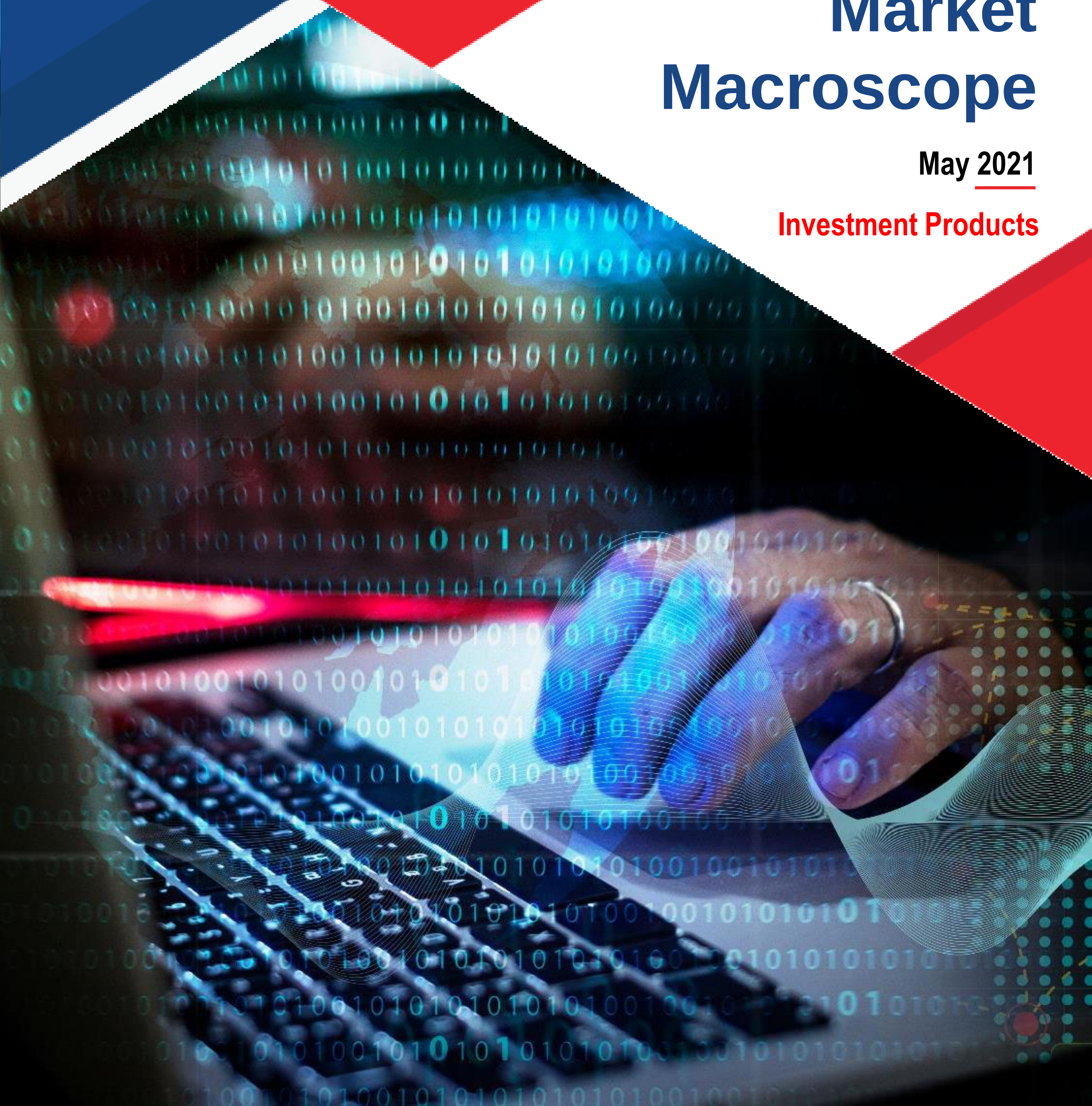
Market Macroscope

May 2021

Investment Products



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Dear Investors,

The nation is currently grappling with the 2nd wave of Covid-19 infections. The large number of people infected has stretched the healthcare facilities to the limits in several locations. In these difficult times, it is every responsible citizen's duty to follow the Covid protocols of avoiding crowded places, wearing a mask in public places and maintaining social distancing. Together, we can help bring the pandemic under control. We wish a safe and healthy future for you and your family.

Investing in today's world is a complex task with a wide array of financial assets, products and structures available. It is difficult for a single investor to track all the various trends and opportunities in the different asset classes. Risk management, an aspect often ignored by investors, should be an integral part of any investing philosophy. HDFC securities has a team of experts in each asset class with decades of experience. They can help you in your investment decisions and inform you of the risks involved. Even one right decision can make a significant difference to your portfolio returns. I hope you will select HDFC Securities as your partner in your journey of creating wealth. Do reach out to your Relationship Manager to understand the ways in which HDFC Securities can add value to your investing journey.

The Monthly Macroscope is our effort to summarize the current trends and outlook in the world of investing which will help investors stay informed. We also endeavor to present the basic ideas of certain complex topics in a simplified language which can become a guide for every investor. This month we attempt to simplify Infrastructure Investment Trusts (InvITs in short) for our investors. We hope you find this publication useful. We would be happy to hear your feedback on the same.

Yours Sincerely

Dhiraj Relli
MD and CEO – HDFC Securities

Macroeconomic Review:

The second wave of Covid-19 infections rose sharply in several regions in India, including Mumbai, NCR, UP and MP among others. The second wave overwhelmed the healthcare infrastructure in these regions. This forced many state governments to issue lockdown like orders. The impact of these lockdowns on sectors can be classified as per the table below:

Resilient Sectors	Negatively Impacted Sectors	Severely impacted sectors
Information technology	BFSI - MFI, CV finance	Airlines, hotels, tourism
Consumer Staples	Autos	Retail (non-staples)
Pharma	Real Estate	Restaurants
Broking	Commodities - metals, cement	
Telecom	Infrastructure	
Agriculture	Consumer Durables	

Corporate earnings in FY22 are likely to take a hit because of these localized lockdowns. The overall impact will depend on the duration of the lockdowns and how quickly governments lift these restrictions. State and Central governments have come under severe criticism for their role in failing to predict, control or prepare for the second wave and the high number of people infected. We therefore expect state governments to be very conservative in lifting these restrictions.

A prolonged lockdown scenario could negatively impact the markets as investors demand higher returns for these risks. However, we do not expect a repeat of the fall of March 2020. Investors have learnt from the experiences of FY21 and have a greater understanding of the impact of the lockdowns. Indian economy and corporate earnings have also demonstrated their resilience in FY21 with a near V-shaped recovery from the lockdown lows in 2020.

The RBI's Monetary Policy Committee held rates unchanged in its April meeting with a commitment to keep an accommodative policy. In early May, RBI announced various steps to ease the impact of the new set of lockdowns on India's banking sector including a relaxation in restructuring norms for individuals and MSMEs. We expect more stimulus measures from the government and the RBI.

Globally, economies continued to strengthen led by the USA. USA reported a GDP growth of 6.4% in Q1CY21 beating estimates of a growth of 6.1%. The Biden administration also proposed a host of tax increases aimed at wealthy Americans including an increase of corporate tax rates to 28% from 21%, an increase of top individual tax rate to 39.6% from 37% and capital gains tax payable at 43.4% for taxpayers with an annual income of more than $1 mn.

Equity markets review:

The markets witnessed a sharp correction in mid-April on the back of rising Covid cases with Nifty 50 Index touching a low of 14,151 on April 22nd. Markets recovered in the last few days of April but still closed at 14,631 lower by 0.4 % in April.

Flows:

FIIs were net sellers in April after several months of buying. FIIs net sold Rs. 9,659 cr of Indian equities. A large portion of the net sales came in the second half of April. DIIs were net buyers to the tune of Rs. 11,359 cr in April. DIIs have been net sellers from Oct 2020 till Feb 2021.

Among sectors, metals and pharma were the best performing sectoral indices gaining 22% and 10% respectively this month. Banks and Realty were the worst performing indices declining 3% and 5.8% respectively.

The best and worst performing stocks within the NSE 500 universe are shown in the table below. April was a month for metals with steel stocks among the best performers in the month.

Best Performing Stocks Among NSE 500 in April 2021					
Large Cap		**Mid Cap**		**Small Cap**	
Stock Name	**Returns**	**Stock Name**	**Returns**	**Stock Name**	**Returns**
JSW Steel Ltd.	53.4%	Steel Authority of India Ltd.	51.5%	Supreme Petrochem Ltd.	74.2%
Cadila Healthcare Ltd.	29.6%	AstraZenca Pharma India Ltd.	29.9%	H.E.G. Ltd.	56.1%
Tata Steel Ltd.	27.3%	Jindal Steel & Power Ltd.	28.4%	Balaji Amines Ltd.	47.9%
Wipro Ltd.	18.9%	Laurus Labs Ltd.	26.0%	Alkyl Amines Chemicals Ltd.	47.6%
ICICI Prudential Life Insurance	16.8%	JSW Energy Ltd.	24.6%	Dishman Carbogen Amcis Ltd.	44.8%

Worst Performing Stocks NSE 500 in April 2021					
Large Cap		**Mid Cap**		**Small Cap**	
Stock Name	**Returns**	**Stock Name**	**Returns**	**Stock Name**	**Returns**
DLF Ltd.	-13.7%	AU Small Finance Bank Ltd.	-18.8%	Ashoka Buildcon Ltd.	-18.7%
HCL Technologies Ltd.	-8.5%	M&M Financial Services Ltd.	-18.5%	Infibeam Avenues Ltd.	-17.2%
IDBI Bank Ltd.	-8.4%	3M India Ltd.	-16.3%	Teamlease Services Ltd.	-14.5%
Berger Paints India Ltd.	-7.6%	Escorts Ltd.	-13.4%	Orient Electric Ltd.	-13.5%
ITC Ltd.	-7.2%	CreditAccess Grameen	-12.1%	NBCC (India) Ltd.	-12.9%

Source: NSE,BSE

IPO Review:

There were 9 IPOs in March 2021. April 2021 was a lean month for IPOs with only 2 companies- Macrotech Developers and Power Grid Infrastructure Investment Trust (PGInvIT) - coming out with IPOs. Barbeque nation which completed its IPO in March 2021, listed in April 2021.

The table below summarizes the IPOs which either closed or listed during April 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/(Dec) from issue price	Overall Subscription (times)	QIP Subscription (times)
Barbeque Nation	453	26-Mar-21	500	489	-2.2%	6.0	5.1
Macrotech Developers	2,500	9-Apr-21	486	436	-10.3%	1.4	3.1
PowerGrid Invit	7,734	3-May-21	100	NA	NA	4.8	4.6

Source: NSE,BSE

Barbeque Nation has done well since listing and currently trades at Rs. 605 per share (21% higher than issue price of Rs. 500 per share). Macrotech Developers' shares currently trade at Rs. 605 per share (up 24% from the issue price of Rs. 486 per share).

Recommended reading for the month:

"Most things believed about investing is wrong"- that is the provocative title of an article by Lawrence Burns, an investment manager at Baillie Gifford, a UK based investment management firm. The article draws from the work of several academics to question widely held investment beliefs and practices - if the Capital Asset Pricing Model (CAPM) is valid in the real world, if booking profits is always right, if diminishing returns to scale is valid and so on. Whether you agree or not, this is certainly an article worth reading. (link here)

Outlook:

Bottom up stock picking is our investment philosophy. However, in the near term, macro-economics will likely take center stage in the markets. The trajectory of the 2nd wave of Covid infections in India will be the most important factor to watch. The government response in terms of lockdowns will have a large impact on growth and markets outlook.

There will be several companies reporting results and each of these companies is likely to report strong results given the strength of the economic recovery during the March quarter. However, markets will be forward looking and trying to ascertain the impact of the lockdowns on various sectors and companies.

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

HDFC Sec Institutional Equities: Select "Buy" rated stocks				
Name	Industry	Target price	CMP	% Upside
ICICI Bank	BFSI	649	603	7.6%
Birla Corp	Cement	1,451	915	58.5%
KNR Constructions	Construction and infra	281	198	41.9%
Tech Mahindra	Technology	1,160	960	20.8%
HDFC Sec Institutional Equities: Select "Sell" rated stocks				
Name	Industry	Target price	CMP	% Downside
Shoppers' Stop	Retail	170	197	13.7%
Titan	Retail	1,300	1,430	9.1%
Vinati Organics	Chemicals	1,015	1,713	40.7%
Berger Paints	Consumer	610	713	14.4%

Source: HDFC Sec IE

Our Retail Research team published a report on April 29, 2021 titled "Is it time to be more selective in Mid and Small Caps". It is a timely warning of some of the common pitfalls in investing in mid and small cap space. It urges investors to do their due diligence on the business model and corporate governance of the companies in the space and to be selective in the space.

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	502	735	46.5%
Hatsun Agro	3-May-21	805	828	1050	26.8%
Care Ratings	4- May -21	515	529	650	22.9%

Source: HSL Retail Research

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

Risks:

As discussed Covid 19 cases and the related lockdowns are likely to be the key factor influencing equity markets in the near term.

The US bond yields reduced from 1.71% at the beginning of the month to close at around 1.59% at the end of the month. Any large spike in bond yields would be negative for equity markets and is a risk to be monitored in the near term.

Lets look at the key drivers which dictate the debt markets in India –

US yields:

World over, developed economies led by the US are gaining momentum backed by large fiscal stimuli and faster roll out of vaccination. For emerging markets though, the second wave may constrain the pace of recovery because they are limited in their ability on both counts – fiscal stimulus and vaccination coverage.

With stronger than expected growth recovery in US (Q1CY21@6.4%), the potential catchup in inflation in the backdrop of continuing large fiscal stimulus has caught the bond market's attention and has reflected in the higher nominal yields on US Treasuries which are currently at 1.58%, up from 0.92% at the beginning of the year.

While the FED has so far pushed back against any increase in rates, it won't be surprising if at least talks on 'tapering' come back on the table at some point if the current pace of recovery sustains helped by additional fiscal measures such as Biden's $ 2.5 trillion infrastructure plan.

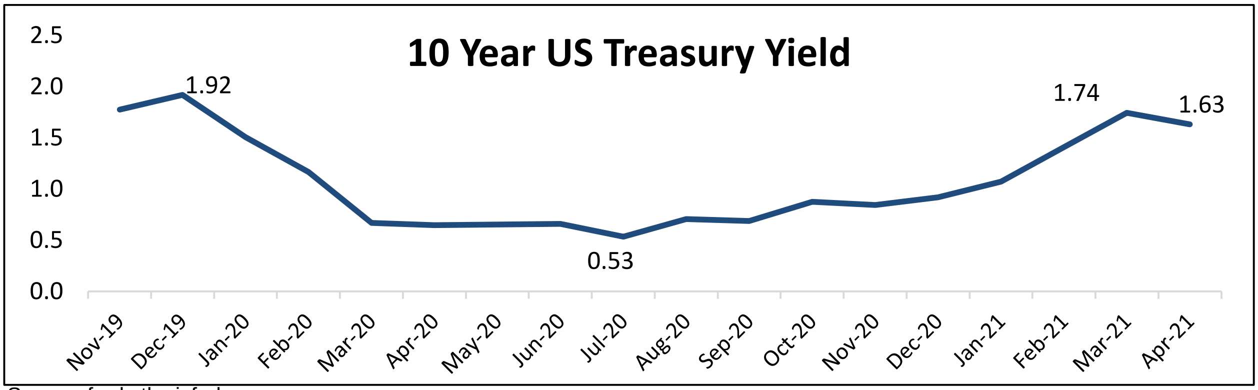
We have already heard mixed statements from US treasury secretary, Janet Yellen, who said that interest rates may have to rise modestly to prevent the American economy from overheating due to higher levels of government spending. She later clarified that she is not recommending a rate hike and respects Fed's independence on decision making on interest rates.

At its meeting on 27–28 April, 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 was widely anticipated by market analysts.

The Fed kept the target range unchanged even after the recent jump in inflation, which came in above the Fed's 2.0% target rate at 2.6% in March, as the rise in inflation seems to have been predominately driven by momentary factors.

Furthermore, 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 purchases of Treasury securities, and agency residential and commercial mortgage-backed securities, at least at the current pace of USD 80 billion per month and USD 40 billion per month, respectively.

Looking ahead, 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.



Source: fred.stlouisfed.org

India Inflation:

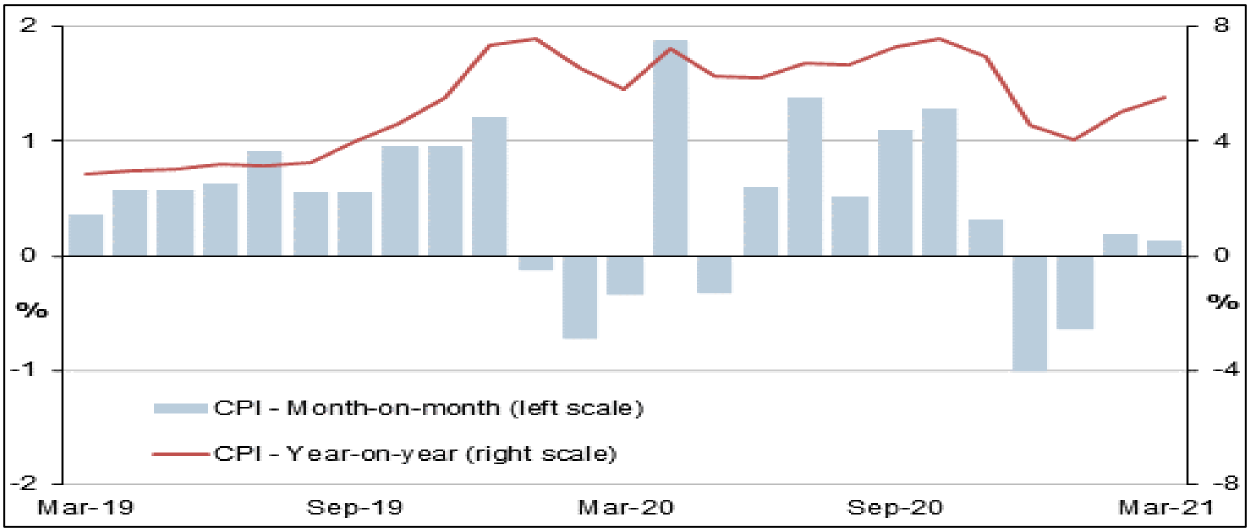
Inflation yoy came in at 5.52% in March, above February's 5.03% and above market forecasts of 5.4%. It is the highest reading in the last 4 months. However, it is the fourth consecutive month that inflation remained below the RBI's upper margin of 6%.

The rise in retail inflation last month was mainly due to a rise in food prices. Food inflation accelerated for the second month to 4.94 % from 3.87 %. Cost also accelerated for fuel and light to 4.5%.

On sequential basis, CPI increased by 0.13% in March (over Feb), lower than the 0.19% increase in February (over Jan).

Going ahead, a steady rise in crude prices and a steep food inflation caused by supply-disruption could be a cause of concern for the central bank.

India CPI Annual & Monthly Variation (%)



Source: focuseconomics.com

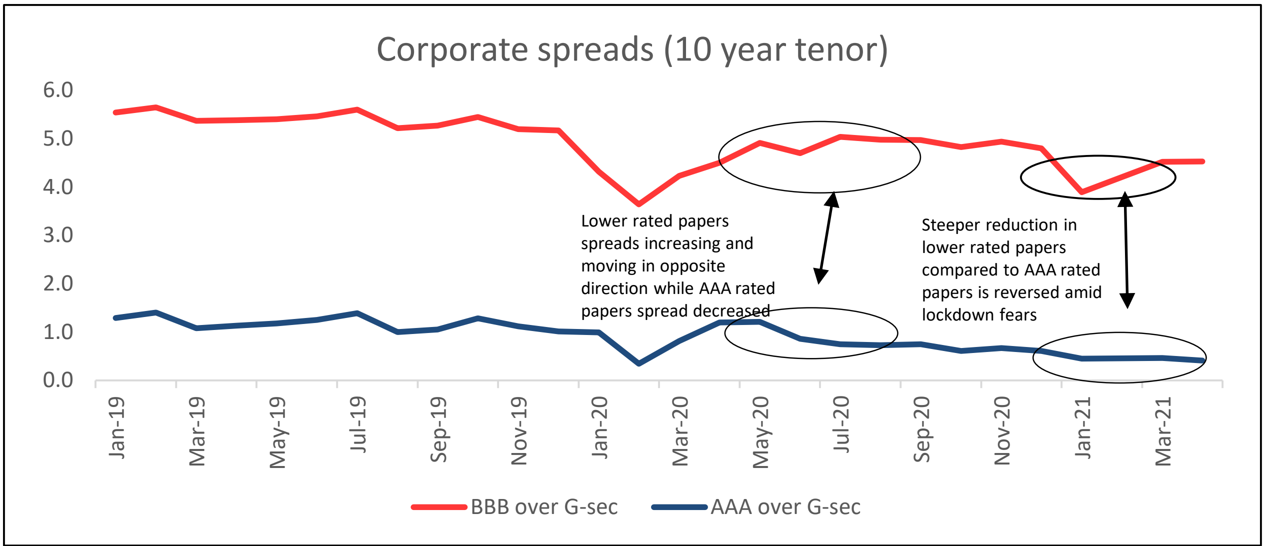
Corporate Bond Spreads:

The 10y Government bond yield has moved to 6.03% from 6.18% last month and the 5y Sovereign rates moved to 5.42% from 5.71% last month – much larger movement now that RBI is focusing on the 5 year too.

Similar easing was witnessed in the corporate bond space with 10 y Benchmark AAA bonds having moved to 6.44% from 6.64%, and 10 y Benchmark BBB moving from 10.72% to 10.52%

As the extent of localised lockdown has increased amid the rise in Covid cases, the restrictions will be detrimental to smaller business to a larger 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 0.41%, lower rated companies and NBFCs still have to borrow at rates higher than 10%. However, with the return of confidence and growth, these spreads should come down.



Source: CARE Rating

RBI Governor's unscheduled announcement – Positive for yields

RBI Governor Shaktikanta Das, on 5th May 21 unveiled liquidity support measures amid rising Covid-19 cases in India. He said that the 2nd wave of COVID-19 in India has drastically altered the economic situation. To address the same, he announced slew of measures such as:

- providing additional liquidity of up to Rs. 50,000 cr. at Repo Rate for financial assistance to the healthcare sector for up to three years, allowing banks to treat exposure to healthcare as Priority Sector exposures till loans are repaid
- one-time restructuring of existing loans of retail and MSME segment with exposure up to Rs. 25 cr. till Sep 30, 2021
- buying of Rs 35,000 crore of bonds from the secondary market on May 20. This will be part of the Rs 1 trillion Government Securities Acquisition Plan (GSAP) scheduled for the quarter
- SFBs permitted to on-lend to smaller microfinance institutions of asset size upto Rs 500 crs as priority sector lending. This facility will be available up to 31 March 2022
- allowing banks to park surplus liquidity equivalent of their exposure to healthcare sector at a higher rate

These proactive measures by the RBI are welcome by the market participants and reassuring for debt market. 10 year G-sec eased from 6.01% to 5.98% on the day the announcements were made

Fixed income Outlook

India is witnessing a severe second wave of Covid- 19. The impact of the second wave may constrain the pace of economic recovery. RBI governor has also highlighted his concern about the recent softening in high-frequency economic data after encouraging readings in April 2021. This slowdown will have a much severe impact on MSMEs in particular.

With the RBI's new measures, MSMEs and individual borrowers will benefit from the extension in the moratorium. Pharma, healthcare and hygiene companies catering to the pandemic will be provided fresh lending support and RBI has extended their 'priority sector classification' up to March 31, 2022. The RBI's intent to take further measures if need be to provide relief and focus on the post-COVID future will send the right signal for the markets.

RBI has definitely changed gears as it is apparent with the announcement of an upfront "QE" style market intervention named GSAP 1 of Rs 1 trillion for Q1 FY22. This provides market participants a more definite schedule of intervention that was missing all throughout the previous financial year.

The challenges of a smooth conduct of market borrowings have been evident even with the GSAP auctions with the RBI having to cancel or devolve stock in the first 3 auctions and the last auction in April.

Core inflation (which excludes food, fuel and light) also continues to be sticky at 5.76% in March. With restrictions being imposed to curb the second wave, supply-chain issues may inflict inflation risk.

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 will be diligently creating more liquidity on an 'as-needed basis' to avoid inflationary pressures. Hence, Bond prices may trade within a thin range in absence of any fresh cues.

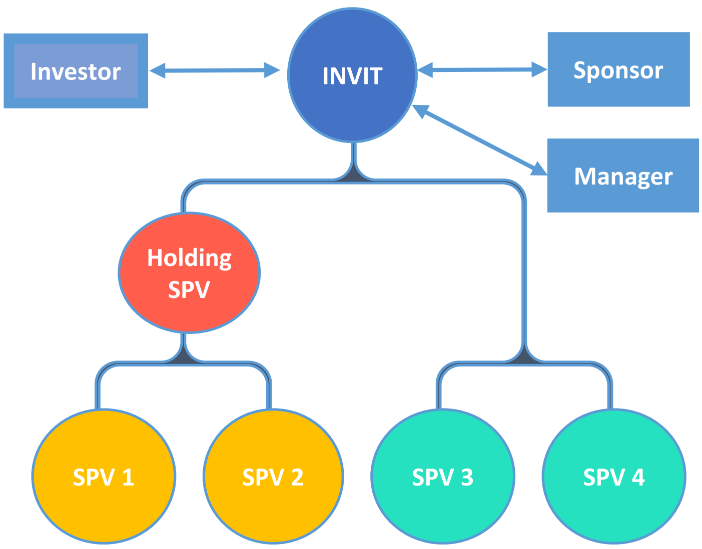
Fixed income investors should avoid the long end of the yield curve. They can look to invest in 2-3 year Hold to Maturity strategies to lock in the yield and bide their time for the interest rate cycle to turn. Alternately, for investors willing to take slightly higher risk, 4-5 year maturity MFs/bonds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

What are InvITs:

An Infrastructure Investment Trust (InvIT) is an investment vehicle created to hold income-generating assets such as roads, power transmission lines, etc. InvITs enable infrastructure companies to monetize their assets and allow investors to own such assets and receive income from these assets. InvITs are required to be registered with SEBI as a trust and are regulated by SEBI Infrastructure Investment Trust Regulations 2014.

InvITs invest the money collected from unit holders into infrastructure SPVs (either in the form of debt or equity). These SPVs pay dividend, interest or repayment of debt capital to the InvIT. The InvIT transfers at least 90% of such cash flows to the unit holders. In InvITs, regulations require that the cash flows have to be distributed back to investors at least semi-annually (typically done every quarter). Units of publicly listed InvITs can be bought or sold on the stock exchanges.

InvITs – Structure & Stakeholders:



Sponsor
- Responsible for the setup of the InvIT and appointment of trustee
- The sponsor(s) should collectively hold 15% in REIT for at least 3 years and 10% post that

Trustee
- Oversees the activities of InvIT and is registered with SEBI as a debenture trustee

Manager
- Manages assets and investments of InvIT and is responsible for the day-to-day activities

Unitholder
- Subscribes to the InvIT and receives cash-flows from the revenue generated from the infrastructure assets

Special Purpose Vehicles (SPVs)
- These are individual companies or entities that hold different assets/projects

InvITs Globally and in India:

Globally, InvITs are a popular investment vehicle for long-term infrastructure funding. Reports suggest over 400 InvITs are listed globally with an aggregate market capitalization of more than $1.5 trillion.

The Securities and Exchange Board of India (SEBI) first notified InvIT Regulations in 2014, allowing setting up and listing of such trusts. Currently 15 InvITs are registered with SEBI. However, only two of them are listed on the stock exchange (India Grid and IRB InvIT). PowerGrid InvIT, which concluded its IPO on May 3rd, will be the 3rd listed InvIT. Next big InvIT being talked about is NHAI.

Experts believe that InvITs have enormous potential in India and could raise ~Rs 4 lakh crore over the next 5 years. InvITs in conventional sectors like Power Transmission and Roads have become popular but other sectors like Renewable Energy or multi-sector InvITs are yet to see the light of day.

InvIT Capital Raise in India:

Including the market capitalization of the newly launched PowerGrid InvIT, the total market cap of the three listed InvITs (IRB + IndiGrid + PowerGrid) would be appx Rs 21,000 Crs.

InvIT	Issue Size	Issue Price	NAV (Sep-20)	CMP	IRR since launch	Sensex Returns	Short Term Bond Fund Returns	10 Yr Constant Maturity Fund Returns
IRB InvIT	5,921	102	109.2	53.3	-3.2%	13.1%	7.6%	9.7%
IndiGrid InvIT	2,250	100	101.2	136.4	19.5%	12.7%	7.6%	9.6%

- Issue Date of IRB InvIT is 05-May-17 and IndiGrid InvIT is 19-May-17
- Pls note, Sensex, short term bond and 10 yr bond returns are for corresponding periods for each InvIT.
- IRR calculation factor in issues price, quarterly distributions, rights issue and closing price 30-Apr-21
- The cash flow received by the unitholder from the InvIT could be in the form of interest, dividend or repayment of capital and the proportions varies in different InvITs
- NAVs are declared every 6 months. Mar-21 NAVs not available yet.

InvITs – Distribution & NAV:

	Total Distribution	Q3 FY 21	Q2 FY 21	Q1 FY 21	FY 19 - 20	FY 18 - 19	FY 17 - 18
IndiGrid InvIT	**42.7**	3.1	3.0	3.0	12.0	12.0	9.6
Interest	**41.9**	3.1	3.0	3.0	11.9	11.7	9.2
Capital Repayment	**0.7**	-	-	-	0.1	0.3	0.3
Dividend	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0
IRB InvIT	**38.8**	2.5	2.0	1.5	10.0	12.3	10.6
Interest	**28.3**	1.8	1.5	1.5	7.0	8.9	7.7
Capital Repayment	**10.5**	0.7	0.5	0.0	3.0	3.4	2.9
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*Total distribution is distribution made since listing

InvIT Taxation:

One reason why InvITs are gaining popularity is that investors believe such structures are tax friendly. Let us see the taxation for InvIT structure and the unit holder of an InvIT:

SPVs to Trust:
- **Interest Payments, Dividend Payments and Debt/Capital Repayment** are not taxable

Trust to Unit holders:
- **Interest Payments** are taxed at MMR
- **Dividend Payments** are tax-free if the SPVs are under the old regime of corporate taxation
- **Dividend Payments** are taxed at MMR if the SPVs are under the new regime of corporate taxation
- **Debt/Capital Repayment** are not taxable

Sale of units by unit holders on exchange:
- **Long Term Capitals Gains** are taxed at 10% and **Short Term Capital Gains** are taxed at 15%. Period for gains to be considered long term is 3 years or more.

Factors to look for when Investing in an InvIT:

1. NAV:
- NAV is generally calculated as the valuation of the SPVs divided by the number of units outstanding. The valuation is carried out by an independent valuer appointed by the Board of the InvIT.
- InvITs declare their NAVs once every six months.
- The market price may vary from the NAV. Purchasing units at prices below the NAV could increase the returns of the unitholder.
- Cash flows from the SPVs may vary over a period of time. Hence, NAV is a better measure of InvITs than cash flow yields.

2. Sponsor:

- The experience and corporate governance track record of the Sponsor would have an influence on the market price of the Unit.

3. SPV evaluation:

- The cash flows of the underlying SPVs and the risks to these cash flows should be carefully evaluated before investing in InvITs.
- Cash flows should be diversified across multiple SPVs to avoid concentration risks.

Public Issue of Units of InvITs in India:

- Minimum subscription for any non institutional investor is Rs 1 lacs
- The allocation in the public issue shall be as follows:
    - i. not more than 75% to Institutional Investors
    - ii. not less than 25% to other investors
    - iii. 60% of the portion available to Institutional Investors can be offered to Anchor Investors (Min Rs 10 crs)

Why should you consider investing in InvITs?

- **Access to Infrastructure Assets** – an InvIT structure enables an individual investor to participate in an asset class that is normally unaffordable to them
- **Diversification** – an InvIT typically holds a portfolio of infrastructure assets and hence offers unitholders an opportunity to diversify their investments across such portfolio assets. It reduces risks associated with a single asset ownership
- **Liquidity** – an InvIT is required to be listed on a stock exchange, thereby providing liquidity
- **Regular cash-flows** – InvITs are required to invest at least 80% of their corpus in revenue generation assets and such revenues is distributed to unit holders, typically on a quarterly basis
- **Professional asset management** – Investing through InvITs help retail investors with professional management of assets through qualified project managers

Benefit to Promoter:

- **Reduces Debt Burden** – promoters are able to reduce their debt burden significantly which can enable them to move to an asset-light model
- **Investments in new assets** – Allows promoters to use the proceeds to buy new assets in the portfolio thereby diversifying the portfolio

Risks associated with InvITs:

- **Regulatory Risk** – India is still in the early stages of InvITs as an asset class and hence carries regulatory risk. We have already seen some changes in taxation, minimum investments, etc. and there could be further regulatory changes in the future
- **Credit Risk** – InvITs can borrow upto 70% of their enterprise value. Any adverse development in SPV cashflows could have a significant negative impact on the value of units of the InvITs
- **Interest Rate Risk / Inflation Risk** – Typically infrastructure assets involve long term lease agreements (in the form of BOT/ BOOT etc.). An increase in interest rates would lower the Net Present Value (NPV) of these cash flows. Also, rise in inflation may increase operating costs and hence lower the return to the InvIT and thus the unitholder. Also, since InvITs carry regular returns to the investor, the trading price of InvIT units in the exchange get impacted by rising interest rates (a similar phenomenon happens with bonds)

InvIT – Regulations, Conditions & Restrictions in India:

- Each InvIT has to be registered with SEBI as a trust and the sponsor must have a minimum net worth of Rs 100 crs and a sound track record in development of infrastructure or fund management in the infrastructure sector
- Distribution Requirement:
  - SPV to distribute at least 90% of distributable cash flows to Holding Company. or InvIT
  - Holding Company to distribute 100% of cash flows received from SPV and 90% of cashflows generated on its own to InvIT
  - InvIT to distribute 90% of cash flows generated to unitholder and distributions to be made every six months (typically distributions are made quarterly)
- Sponsors / Sponsor Group are required to collectively hold at least 15% of the post-Issue capital of the InvIT for a period of 3 years from the date of listing
- If InvIT proposes to re-invest the sale proceeds into another infrastructure asset, it shall not be required to distribute any sale proceeds to unit holders
- However, if it does not re-invest into another asset, then sale proceeds to be distributed within 15 days of declaration
- An InvIT is required to invest at least 80% of the value of InvIT in completed and revenue generating infrastructure assets
  - up to 10% can be invested in under-construction infrastructure projects
  - balance can be invested in listed / unlisted debt of companies in infrastructure sector, equity shares of listed companies in infrastructure sector, government securities or liquid mutual funds / cash equivalents
- An InvIT cannot invest in units of other InvITs
- Once acquired, an InvIT is required to hold an infrastructure asset for a period of at least 3 years
- Aggregate consolidated borrowings (InvIT, Holdco & SPV) to be capped at 70% of the value of the assets

Introduction:

The Nifty-50 index composition is rebalanced every 6 months. The rebalancing also involves inclusion of new stocks or exclusion of existing stocks from the index. The Nifty 50 index has undergone significant changes since inception. We looked at the inclusion/exclusion data from 2000 onwards to see if any valuable information can be gleaned from the past trends. This period saw a total of 76 instances of exclusion from the index and 76 instances of inclusion into the index. The data suggests that on average 3-4 companies are included into the index every year and a similar number of companies are excluded from the index every year. The number of companies still surviving in the index from its inception date are 14.

The analysis throws up 2 kinds of lessons-

- Near term returns of companies included/excluded from the Nifty show statistically significant patterns
- Sectoral composition of inclusions/exclusions can be a valuable guide to the long term evolution of certain sectors

We summarize our conclusions in the Section below:

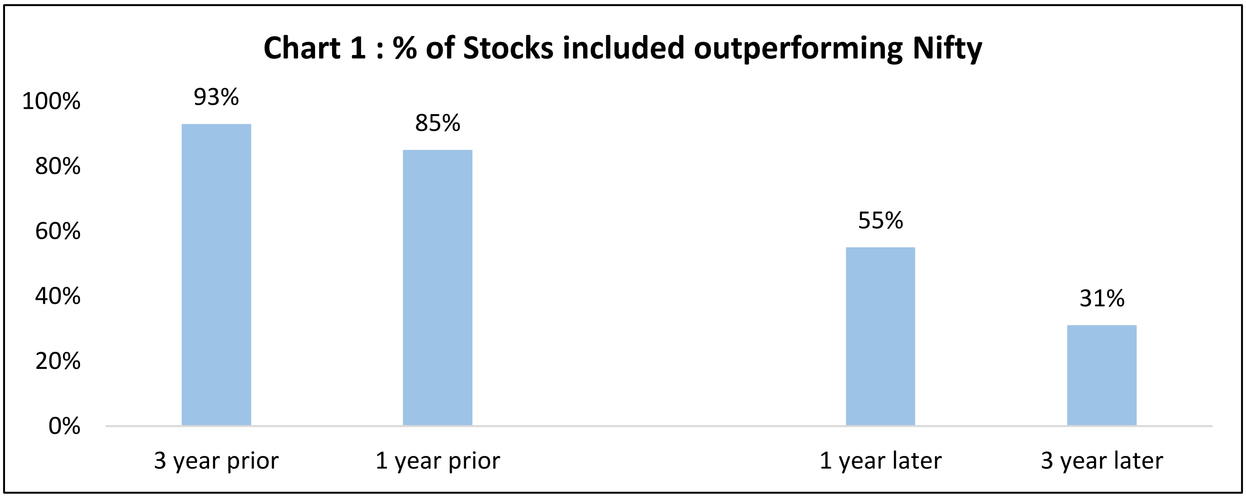
Part A: Returns of companies included in the Index

The companies included in the index show some clear trends:

- **Outperformance over 1-year and 3-year period before inclusion**: As many as 85% and 93% of the stocks included, outperformed Nifty in the 1-year and 3-years before their inclusion respectively *(see chart 1)*. This might seem obvious but you must remember that the stocks outperformed the Nifty and not just the worst performing companies in the Nifty. The % of times that the stocks outperformed was quite large.

- **Outperformance over a 1-year period after inclusion**: The companies included in Nifty, continued to outperform for a further period of 1-year after inclusion. However, the extent of outperformance dropped significantly after their inclusion to 55% of the time. *(see chart 1)*

- **Underperformance over a 3-year period after inclusion**: The stocks included in Nifty, outperformed the Nifty only 31% of the time over a 3-year period after their inclusion in the index. Clearly, high expectations/ valuations catch up with the companies and result in underperformance over a 3-year period after inclusion. *(see chart 1)*



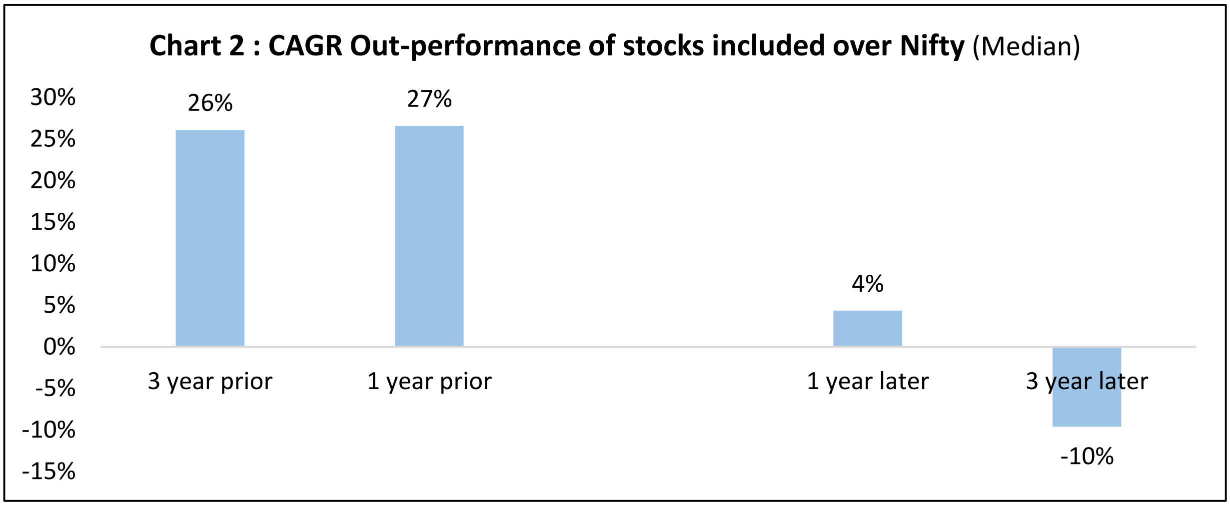
Source – HDFC Securities

- A similar pattern is observed in the extent of stock outperformance. The stocks outperformed the Nifty by a wide margin in the 1 and 3-year periods prior to inclusion. The stocks continued to outperform in the 1-year period after inclusion. However, over a 3-year period after inclusion in the Nifty, the stocks significantly underperformed. *(see the table & chart 2 below)*

CAGR Performance of stocks included in Nifty v/s Nifty - Average				
	1 year prior to inclusion	3 year prior to inclusion	1 year after inclusion	3 year after inclusion
Avg. Stock returns	57%	51%	16%	7%
Avg. Nifty Returns	12%	10%	15%	14%

CAGR Performance of stocks included in Nifty v/s Nifty - Median				
	1 year prior to inclusion	3 year prior to inclusion	1 year after inclusion	3 year after inclusion
Median Stock returns	29%	34%	4%	4%
Median Nifty returns	12%	11%	13%	11%

Source – HDFC securities



Source – HDFC Securities

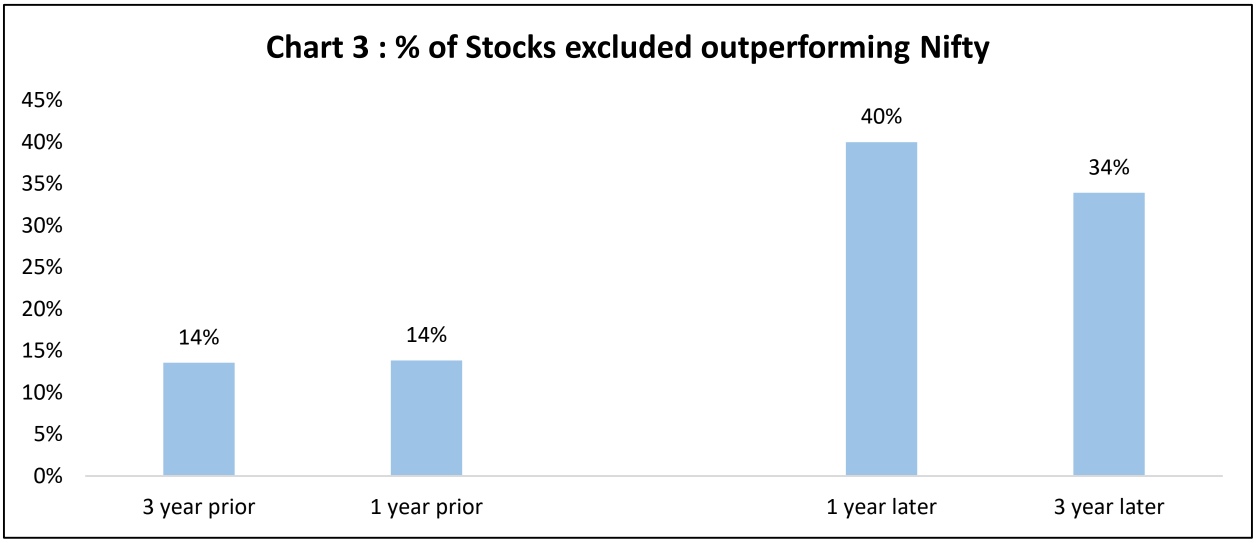
If you could estimate the stocks which were likely to get included in the Nifty well ahead of their inclusion, you could have probably profited greatly from the knowledge by including the stock in your portfolio. However, if you included the stock in your portfolio after its inclusion in the Nifty, you would probably be disappointed in its long-term returns.

<u>Part B: Returns of companies excluded from the Index</u>

The companies excluded from the index show some clear trends:

- **Underperformance over a 1-Year and 3- year period before exclusion:** As many as 86% of the stocks excluded from Nifty underperform the Nifty in the 1-year and 3-years before their exclusion (see chart 3). This is probably obvious as these stocks were likely among the worst performing stocks in the Nifty.

- **Underperformance over a 1-Year and 3- year period after exclusion:** The companies excluded from Nifty continued to underperform for a further period of 1-year and 3-years after exclusion. There was no reversion to mean. Any attempts to pick these stocks as “value” picks or contrarian investments would have disappointed investors most of the time. However, the extent of underperformance after their exclusion dropped significantly to around 60% of the time. (see chart 3)



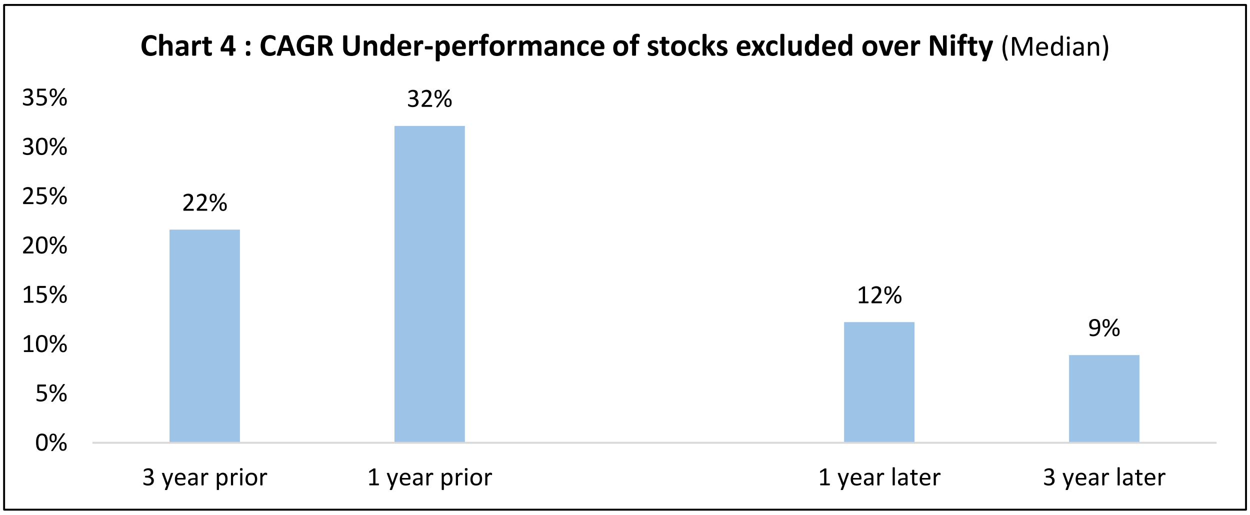
Source – HDFC Securities

- A similar pattern is observed in the extent of stock underperformance. The stocks underperformed the Nifty by a wide margin in the 1 and 3-year periods prior to exclusion. The stocks continued to underperform in the 1-year and 3-year periods after exclusion, however the margin of underperformance reduced. *(see the table & chart 4 below)*

CAGR Performance of stocks excluded from Nifty v/s Nifty - Average				
	1 year prior to exclusion	**3 year prior to exclusion**	**1 year after exclusion**	**3 year after exclusion**
Avg. Stock returns	-16%	-11%	12%	-1%
Avg. Nifty Returns	16%	13%	14%	12%

CAGR Performance of stocks excluded from Nifty v/s Nifty - Median				
	1 year prior to exclusion	**3 year prior to exclusion**	**1 year after exclusion**	**3 year after exclusion**
Median Stock returns	-15%	-10%	-4%	7%
Median Nifty returns	14%	11%	13%	11%

Source – HDFC Securities



Source – HDFC Securities

If you could estimate the stocks which were likely to get excluded from the Nifty well ahead of their exclusion, you could have probably profited greatly from the knowledge by avoiding the stock. Indeed you would have done well if you had avoided the stock even after its exclusion.

Sectoral composition of inclusions into and exclusions from the Index

Part C: Sectors which saw the number of companies in the index increase:

A handful of sectors and themes dominated the companies included in the sector.

- **BFSI sector -** Private sector financial companies saw a lot of inclusions into the Index. These included Axis Bank, Kotak Mahindra Bank, Indusind Bank, Bajaj Finance and HDFC Life Insurance. Yes Bank too was a part of the Index before its stressed assets led to a crash in the stock price of the company. BFSI sector is now the largest sector in the Nifty index.

- **IT sector -** The large cap names included in the Nifty Index were TCS, HCL Tech, Wipro and Tech Mahindra

- **Consumer sector** - The last decade has seen the inclusion of a large number of consumer staples and consumer discretionary companies. These include Britannia, Nestle (in the staples sector) and Asian Paints, Titan Industries, Maruti and Eicher in consumer discretionary sectors.

- **Pharma sector -** The pharma sector was doing very well till 2015 and had accumulated a large weightage in the sector. Inclusions in the Index from the sector included Lupin, Sun Pharma, Dr. Reddy's and Aurobindo. However, intense competition in the US market and consequent price erosion meant that Pharma sector underperformed after that. Lupin and Aurobindo were subsequently excluded from the Index.

- **IPOs -** Over the last 2 decades, many large cap companies have come out with their IPOs and they were subsequently included in the Index. These companies include NTPC, Bharti Airtel, ONGC, Coal India, Maruti Udyog, HDFC Standard Life among others.

Part D: Sectors which saw the number of companies in the Index decrease;

A few distinct themes can be observed from the list of stocks excluded from the Nifty:

- **PSU stocks -** PSU stocks probably saw the largest number of exclusions. These included PSU Banking stocks (IDBI, IFCI, Bank of India, Oriental bank of commerce, Bank of Baroda, PNB) as well as non-banking stocks (MTNL, BHEL, Sail, Nalco). Private sector competitors took their place in the banking sector.

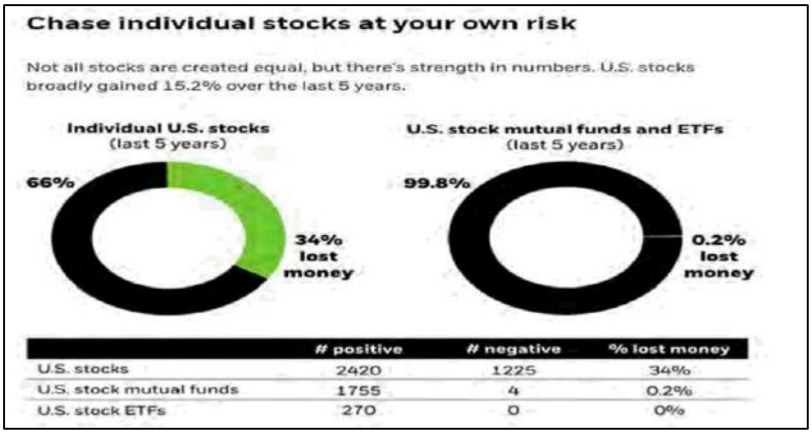
- **Commodity stocks -** The commodity companies saw a 10-year bear market from 2011 onwards and many of the stocks from the sector got excluded (Sail, Nalco, Vedanta, ACC).

- **Leveraged Stocks -** High leverage saw all of the ADAG group stocks (Reliance Cap, Reliance Communication, Reliance Power, Reliance Infrastructure) excluded from the Index. This category also included Jai Prakash Associates, Suzlon Energy, Unitech and Idea Cellular.

- **Capital intensive sectors/ Low value addition sectors -** The companies in these sectors to be excluded from the Nifty included the likes Indian Hotels, Shipping Corporation, Jet airways, HCL Infosystems.

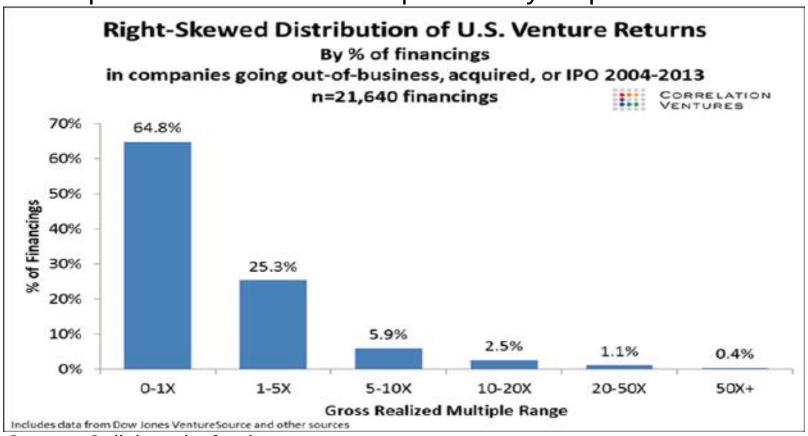
As we look at the list of companies excluded from the Index, it becomes clear why these excluded companies continued to underperform the Nifty even after exclusions. It is also a cautionary tale against investing in companies with high leverage, poor corporate governance or poor management capabilities (PSUs for instance).

<u>Case for Diversification:</u> Over the last 5 years, as much as 34% of all US stocks have given negative returns even as the US markets as a whole returned almost 15% CAGR. However, all Mutual Funds and practically all ETFs have given positive returns during the same period



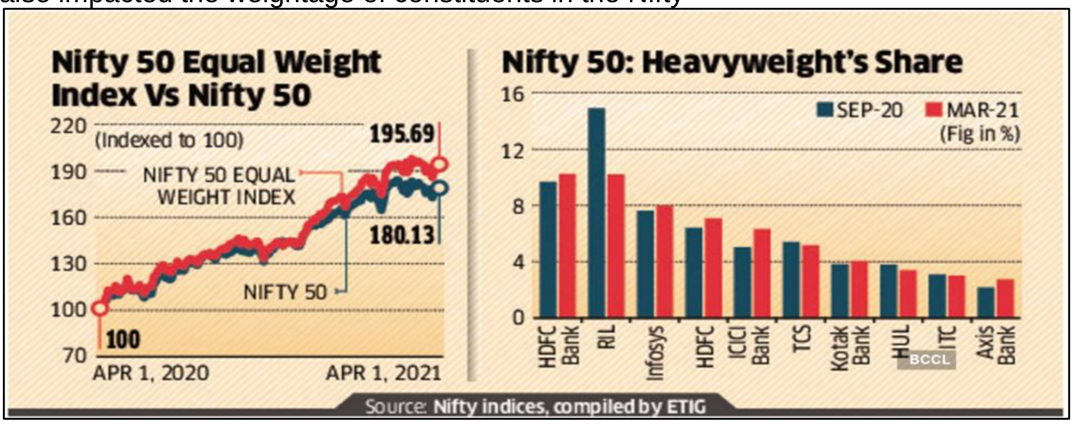
Source: BlackRock

<u>VC investing:</u> Correlation Ventures studied 21,460 VC investment instances in the US between 2004-13. The chart below summarizes their findings. Almost 65% of the investments resulted in losses. Almost the entire fund returns were generated by about 4% of the investments which returned more than 10 times the investment returns. **<u>Lessons for Angel investors</u>**- diversify widely and be prepared to accept losses in a substantial portion of your portfolio.



Source: Collaborativefund.com

<u>Equalweight NIfty outperforms:</u> The Nifty 50 Equal Weight Index has consistently outperformed the Nifty 50 index in the last 12 months. In contrast, during 2016-19, Nifty 50 had returned 53% (non-annualized) while the Nifty 50 Equal Weight Index had delivered only 28%. The broad current rally has also impacted the weightage of constituents in the Nifty



Source – Economic Times

Nifty-50 @25: It's been 25 years since Nifty 50 Index was launched. During the period, the index has returned 11.3% CAGR even as the market cap has increased at 18.3% CAGR. The higher growth of market cap could be due to fund raising or mergers etc. Weightage of banking sector has more than doubled during the period. Several old economy/ commodity/ PSU stocks have been pushed out to be replaced by information technology/ consumer/ pvt bank stocks. Only 14 stocks are common between the launch date and today's Nifty 50 constituents. The table at the right shows the CAGR of the market capitalization of these stocks.

TOP FIVE STOCKS BY WEIGHTAGE

1996 (M-cap)

	(₹ cr)	Weightage (%)
SBI	14,482	8.6
Tata Motors	11,633	6.9
HUL	11,070	6.6
RIL	10,945	6.5
IDBI Bank	7,936	4.7

2021 (M-cap)

	₹ trn	Weightage (%)
RIL	12.5	9.9
HDFC Bank	7.8	9.6
Infosys	5.7	7.8
HDFC	4.5	6.9
ICICI Bank	4.0	6.2

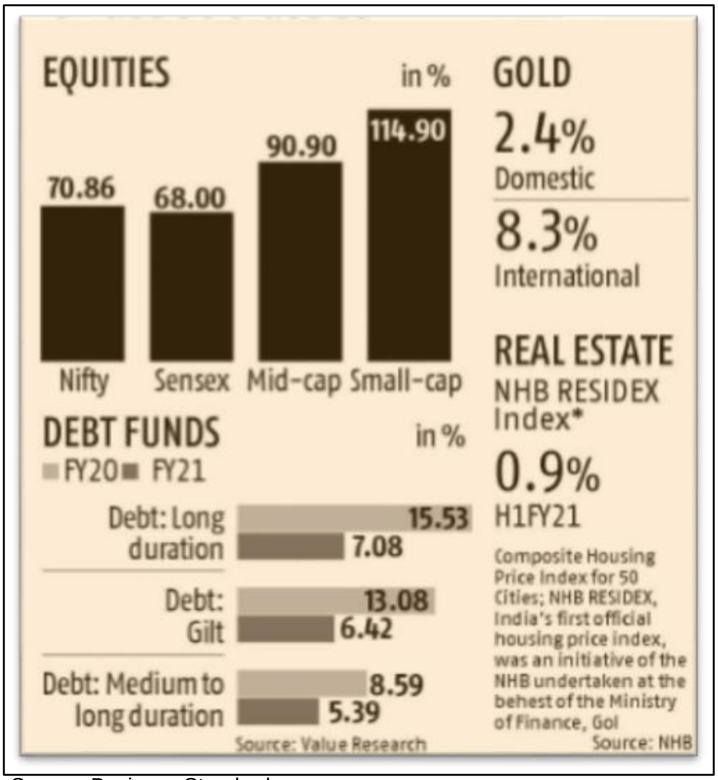
14 COMMON STOCKS

	M-cap (₹ cr) 1996	M-cap (₹ cr) 2021	CAGR returns (%)
HDFC Bank	753	7,84,192	32.0
ICICI Bank	3,268	4,00,644	21.2
HDFC	3,731	447,325	21.1
Dr Reddy's Labs	737	86,474	21.0
RIL	10,945	12,49,767	20.9
Hero MotoCorp	551	56,960	20.4
HUL	11,070	5,52,007	16.9
ITC	6,553	2,53,439	15.7
L&T	6,645	1,87,761	14.3
SBI	14,482	3,00,447	12.9
Grasim	4,411	85,559	12.6
Tata Steel	7,731	1,10,254	11.2
Hindalco	6,284	79,948	10.7
Tata Motors	11,633	1,04,453	9.2

Sources: NSE, *BS* Research Bureau

Source: Business Standard

FY21 returns: Equities delivered handsome returns in FY21 from the low base of March 2020. Small-caps outperformed both the mid-caps and large-caps buoyed by the strong returns in cyclical sectors. Long duration bonds and gilts did reasonably well but far lower than FY20 when RBI cut rates sharply. Residential real estate sales volumes picked up but pricing remained stable. Gold returned 2.4% in INR terms.



Source: Business Standard

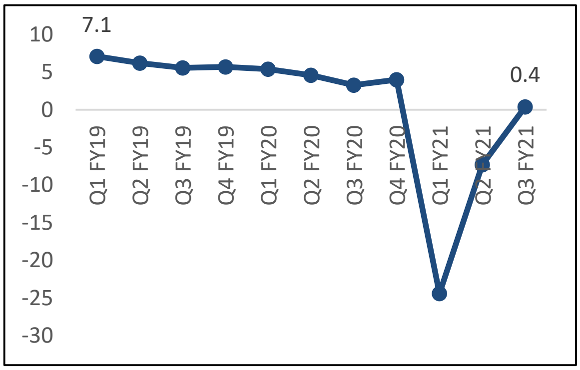
Index Performance (30-April-21)

Scheme Name	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y	10 Y
NIFTY 50	-0.4	7.3	25.7	48.4	11.6	10.8	13.2	9.8
S&P BSE SENSEX	-1.5	5.4	23.1	44.7	11.8	11.5	13.7	9.8
S&P BSE 500	0.4	9.5	29.4	54.8	13.4	9.4	13.6	10.2
S&P BSE Mid-Cap	0.6	12.3	36.3	69.1	16.8	6.1	12.9	11.1
S&P BSE Small-Cap	4.9	20.5	45.6	95.2	21.7	5.6	14.5	9.5
NIFTY AUTO	-2.2	-1.8	24.3	63.4	7.4	-6.0	3.1	9.2
NIFTY BANK	-1.6	7.3	37.2	52.2	4.9	8.7	14.3	11.0
Nifty Financial Services	-1.0	6.6	33.7	47.2	11.3	13.4	18.2	13.0
NIFTY FMCG	-3.7	1.5	14.3	17.3	5.3	5.3	11.2	13.4
NIFTY INFRA	-0.8	10.4	29.5	47.2	14.2	5.0	9.0	3.0
NIFTY IT	-0.7	4.1	22.7	81.9	23.9	22.4	18.0	14.3
NIFTY MEDIA	0.2	-6.2	9.1	33.5	-19.8	-22.8	-8.6	0.5
NIFTY METAL	21.9	57.5	106.9	160.7	25.2	8.7	18.8	1.2
NIFTY NEXT 50	1.7	9.5	27.1	44.2	11.8	4.2	12.4	11.8
NIFTY PHARMA	9.8	10.7	19.8	44.4	19.7	14.1	3.6	11.1
NIFTY PRIVATE BANK	-1.0	5.3	32.6	49.7	2.3	6.4	13.1	0.0
NIFTY PSU BANK	-4.8	13.3	63.1	55.0	-18.0	-10.5	-3.4	-7.3
NIFTY REALTY	-7.3	1.3	35.7	65.3	9.5	-1.3	12.1	0.7
S&P BSE Consumer Durables	-1.5	7.4	34.3	57.5	16.3	13.0	22.3	17.6
S&P BSE OIL & GAS Index	1.2	8.6	23.7	24.3	-1.2	1.3	9.9	4.1
S&P BSE Power Index	0.2	23.8	43.5	66.5	12.2	3.5	6.1	-0.7
S&P BSE Telecom	3.5	-0.5	25.8	18.3	17.2	1.1	0.1	0.2

Data as on 30th April 2021. Returns less than 1 year are in absolute terms and greater than 1 year are CAGR
Source: ACE MF, BSE, NSE

Macro Economic Indicators

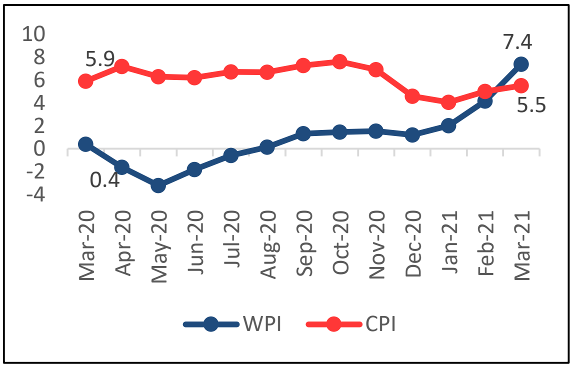
GDP Growth (%):



	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

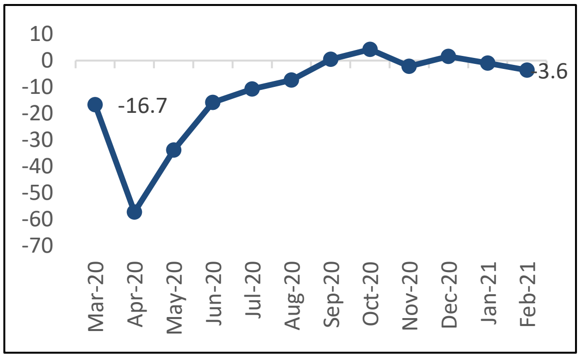
Inflation:



	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
WPI	0.40	-1.80	1.32	1.22	7.39
CPI	5.91	6.23	7.27	4.59	5.52

Source : Ministry of Statistics & Programme Implementation

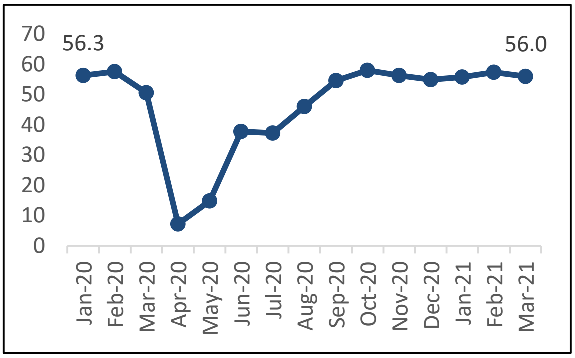
Industrial Production Growth:



	Mar-20	Jun-20	Sep-20	Dec-20	Feb-21
IIP	-16.7	-15.8	0.5	1.6	-3.6

Source : Ministry of Statistics & Programme Implementation

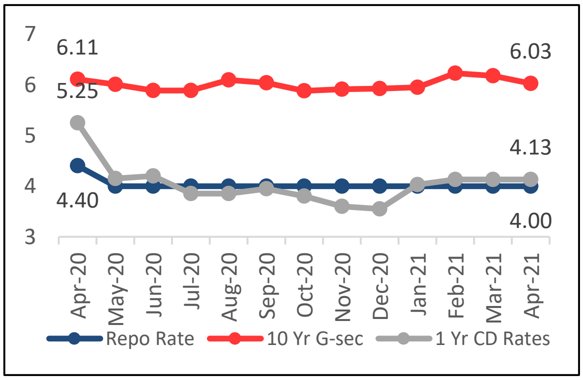
India Composite PMI:



	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Composite PMI	50.6	37.8	54.6	54.9	56.0

Source :www.fxempire.com

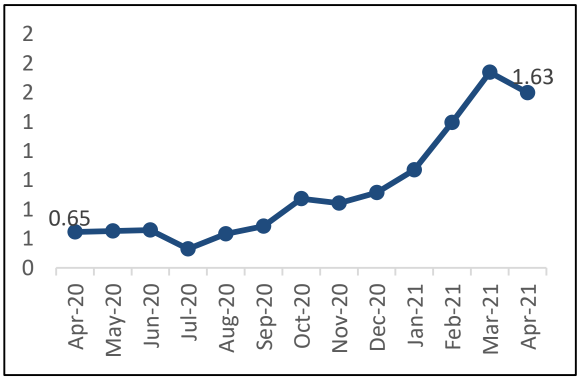
Domestic Yield Movement:



	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
Repo	4.40	4.00	4.00	4.00	4.00
1 Yr CD	5.25	3.85	3.80	4.03	4.13
10 Yr Gsec	6.11	5.89	5.88	5.95	6.03

Source : investing.com, RBI, Bloomberg

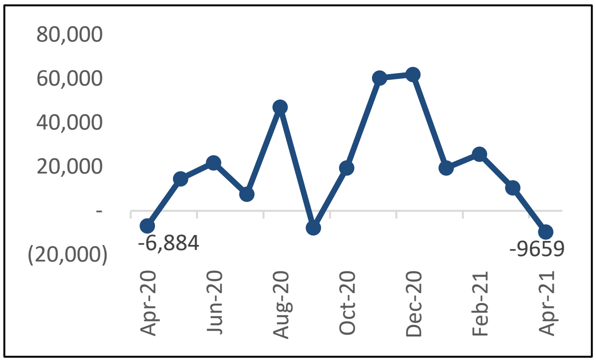
10 Year US Treasury Yield Movement:



	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
US Yields	0.65	0.53	0.87	1.07	1.63

Source : investing.com

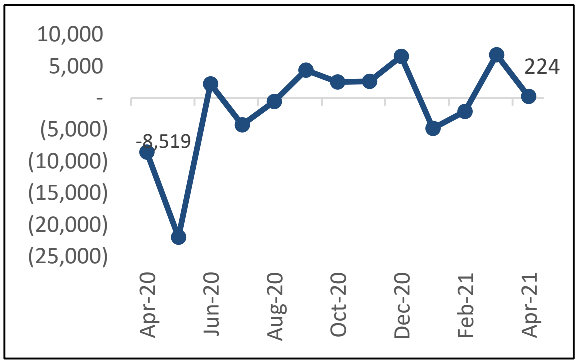
FII Equity Flows (Rs cr):



	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
FII Equity Flows	-6,884	7,563	19,541	19,473	-9,659

Source : NSDL

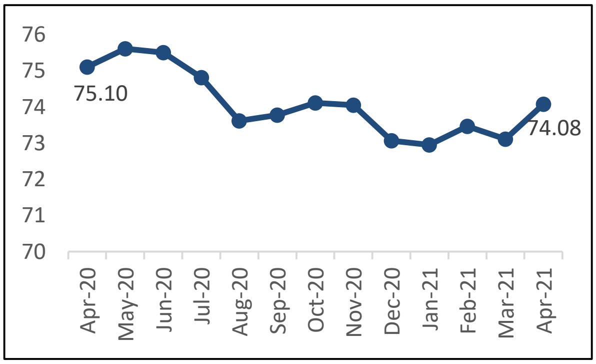
FII Debt Flows (Rs cr):



	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
FII Debt Flows	-8,519	-4,262	2,492	-4,824	224

Source : NSDL

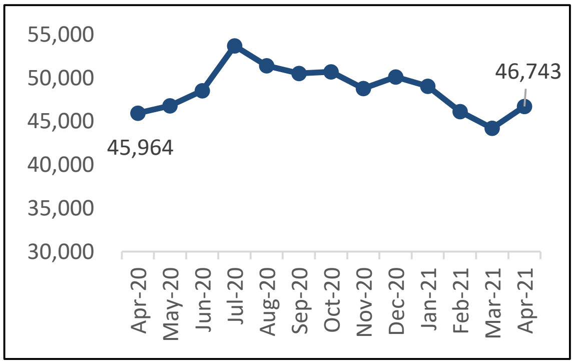
USD vs. INR:



	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
$ vs. ₹	75.10	74.82	74.11	72.95	74.08

Source : Bloomberg

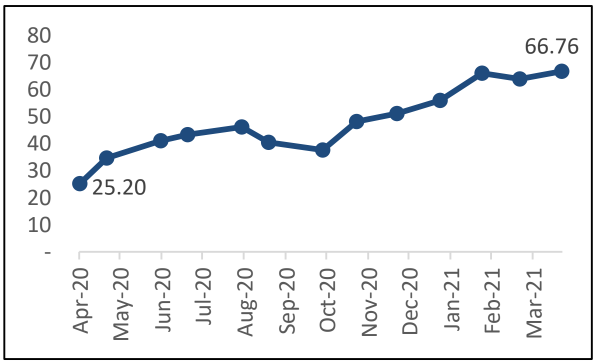
Gold Price (Rs/10gm):



	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
Gold Price	45,964	53,708	50,710	49,074	46,743

Source : India Bullion and Jewellers Association

Brent Crude (USD/Barrel):



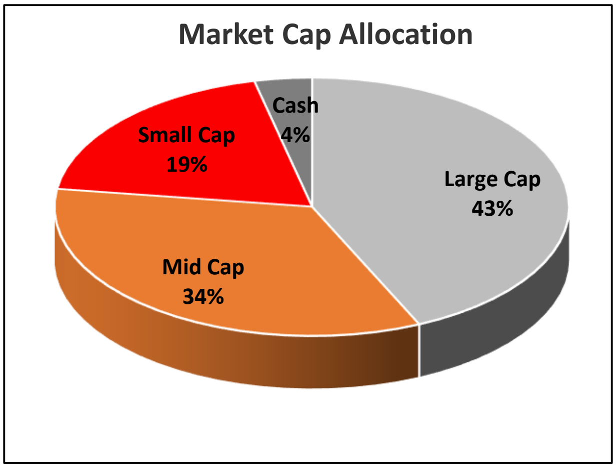
	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
Brent Crude	25.20	43.35	37.65	55.95	66.76

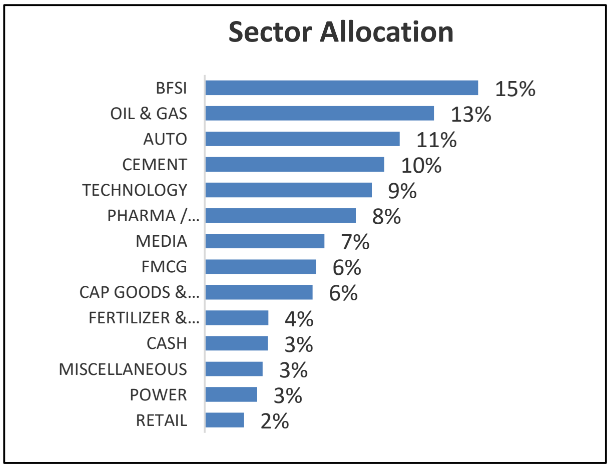
Source :Oilprices.com

Portfolio Details:

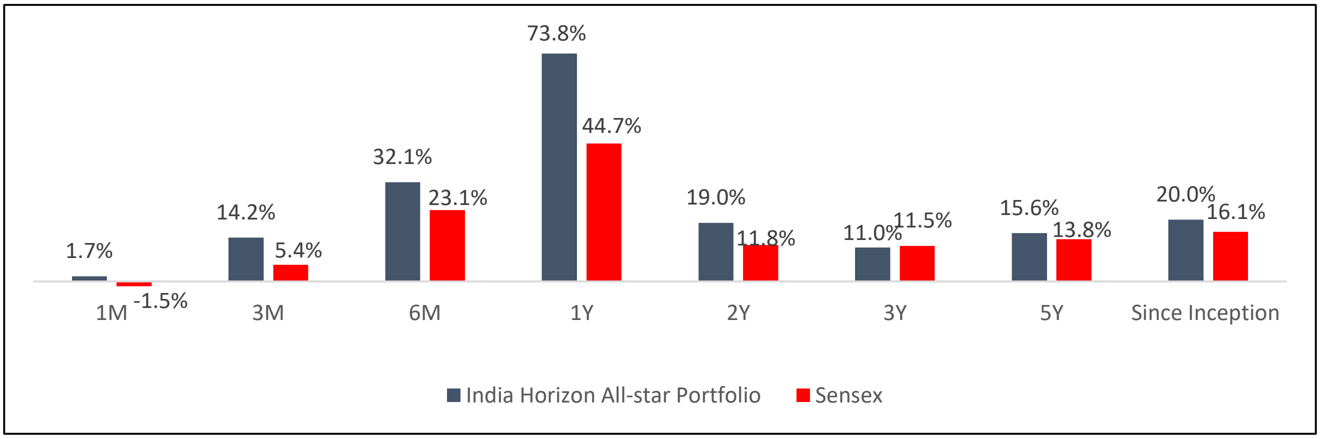
Stock	%
Bank Bees	10.0%
Reliance Industries	8.2%
Infosys	5.8%
Saregama India	5.5%
Apollo Hospitals	3.9%
Jk Cement	3.6%
Supreme Industries	3.2%
Laurus Labs	3.1%
Birla Corporation	3.1%
Zydus Wellness	3.1%
TCS	3.1%
Larsen & Toubro	2.6%
Atul Ltd	2.6%
UltraTech Cement	2.6%
Gujarat State Petronet	2.6%
Bajaj Auto	2.5%
State Bank of India	2.5%
Thyrocare Technologies	2.5%

Stock	%
Max Financial Services	2.2%
Mahindra & Mahindra	2.1%
Radico Khaitan	2.0%
Phoenix Mills	2.0%
KEC International	1.8%
Minda Industries	1.8%
Voltas	1.8%
Apollo Tyres	1.8%
Petronet LNG	1.7%
Sun TV Network	1.7%
Bharat Electronics	1.3%
Exide Industries	1.3%
Jyothy Laboratories	1.2%
UPL	1.1%
Tata Motors	1.0%
Apar Industries	1.0%
ENIL	0.3%
Cash	3.6%





Performance

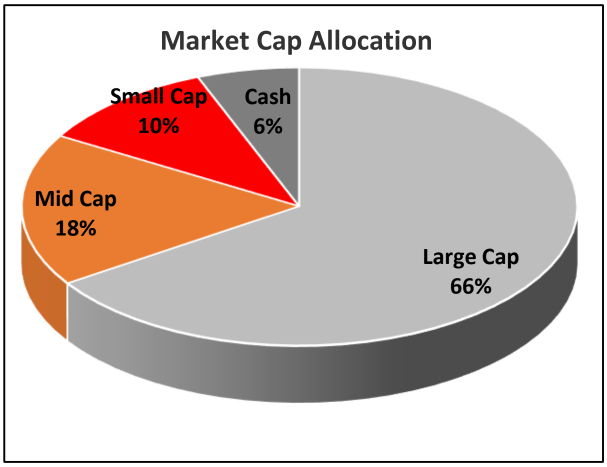


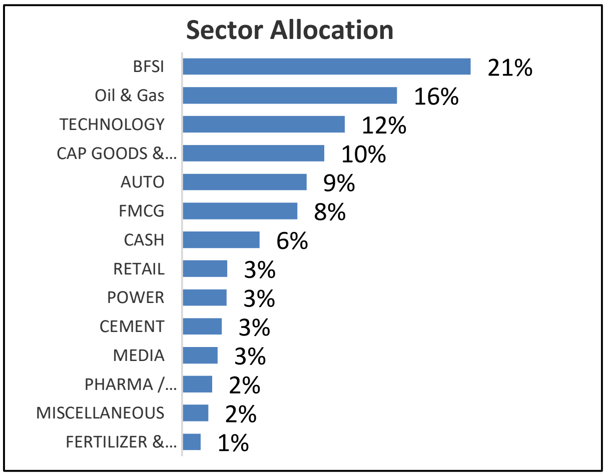
Data as on 30th April 2021 Inception Date: 01-Oct-02, Returns less than 1 year are absolute, more than 1 year are CAGR

Portfolio Details:

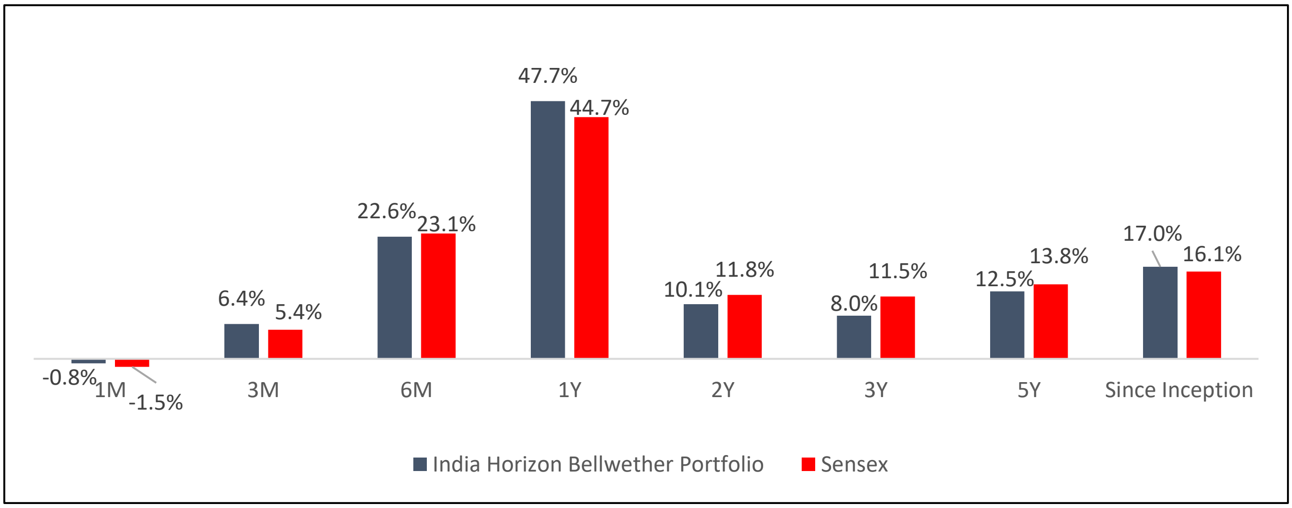
Stock	%
Bank Bees	15.1%
Reliance Industries	10.8%
Infosys	7.6%
TCS	4.2%
State Bank of India	3.8%
Carborundum Universal	3.5%
Larsen & Toubro	3.5%
Bata India	3.2%
ITC	3.2%
Mahindra & Mahindra	3.1%
Gujarat State Petronet	3.0%
Sun TV Network	3.0%
Bajaj Auto	3.0%
Ultratech Cement	2.7%
Thyrocare Technologies	2.7%

Stock	%
United Spirits	2.1%
Petronet LNG	2.0%
Voltas	2.0%
Huhtamaki PPL	1.9%
Power Finance Corp	1.9%
NTPC	1.8%
Godrej Agrovet	1.7%
Tata Motors	1.6%
Bharat Electronics	1.5%
Exide Industries	1.4%
KEC International	1.4%
UPL Ltd	1.3%
Jyothy Laboratories	1.1%
Cash	5.9%



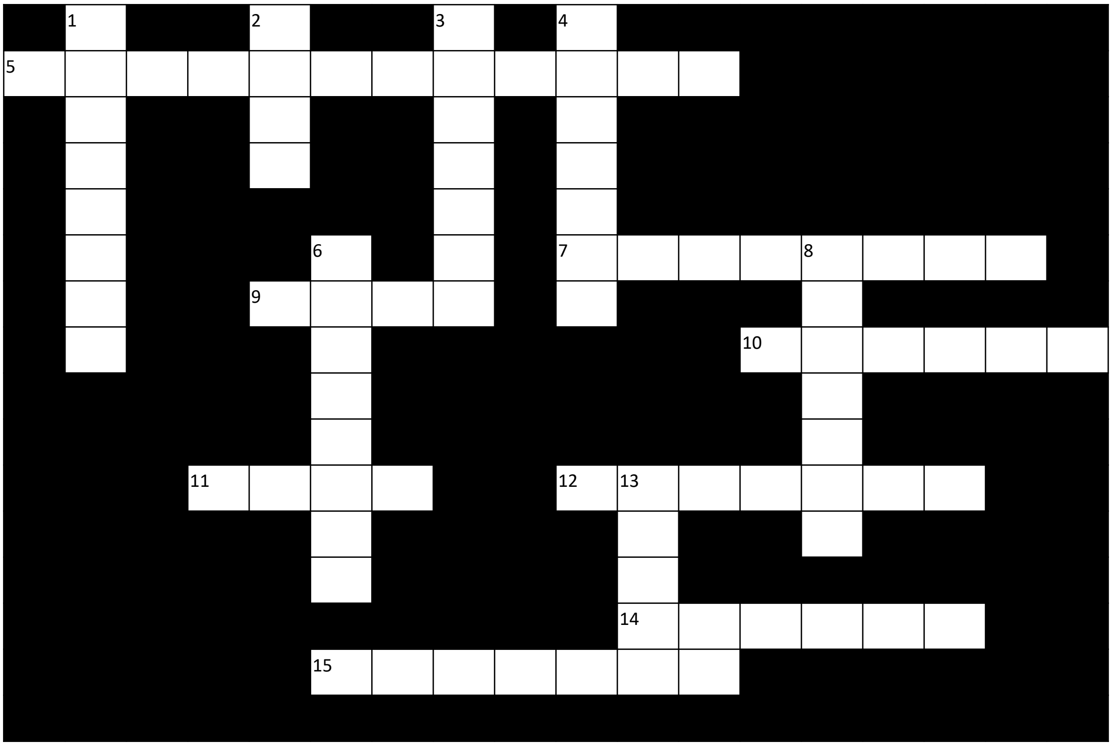


Performance



Data as on 30th April 2021. Inception Date: 01-Oct-02. Returns less than 1 year are absolute, more than 1 year are CAGR

Crossword



Across

5	An individual who establishes a new business entity(12)
7	A market for trading securities(8)
9	Anything owed to another entity, obligation(4)
10	Money earned through employment and investments.(6)
11	A small or private business entity(4)
12	An entity’s net worth(7)
14	A share/ownership in a company(6)
15	Goods produced abroad but consumed domestically(7)

Down

1	Charge for using money until repaid at a future date(8)
2	An investor who expects and wants to benefit from a fall in prices(4)
3	Failure to make a payment due on a bond or other debt instrument(7)
4	Forward contracts that has been standardized and trade on an exchange(7)
6	The difference between your assets and liabilities.(8)
8	An amount paid out every year to someone(7)
13	Any good owned by any entity and held on its balance sheet(5)

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

Answers of last month's crossword:

Across	
1	Balancesheet
4	Collateral
5	Insolvency
9	Convertible
10	Spread
13	Ask
14	Bullion
15	Bond

Down	
2	Agent
3	Securities
6	Commission
7	Inflation
8	Debtor
11	Risk
12	Call

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