



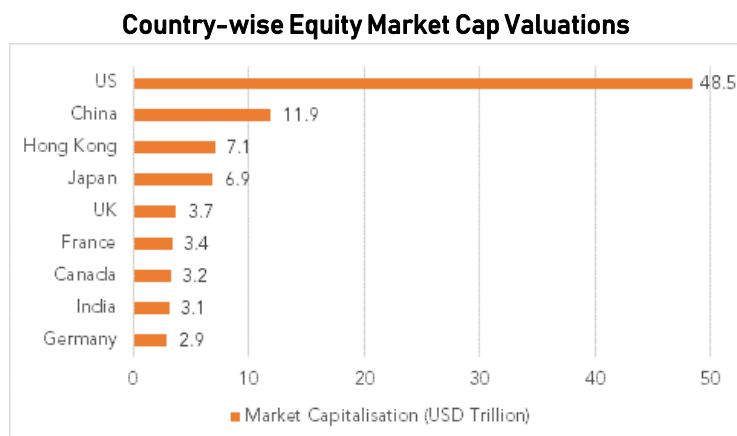
# Sanctum view

June 9, 2021

## Investment Strategy

### Touching New Heights

Last month the market capitalisation of companies listed on the BSE crossed USD 3trillion for the first time, doubling from USD 1.5trillion in March 2020. India first touched the USD 1trillion mark in May 2007, it took another 10 years to reach the next trillion. The last trillion has taken lesser than 4 years. India is currently 8th largest in market capitalisation and with giant like LIC likely to be listed this year or the next, India could soon cross Canada and France.



Source: Bloomberg, Sanctum Wealth Management

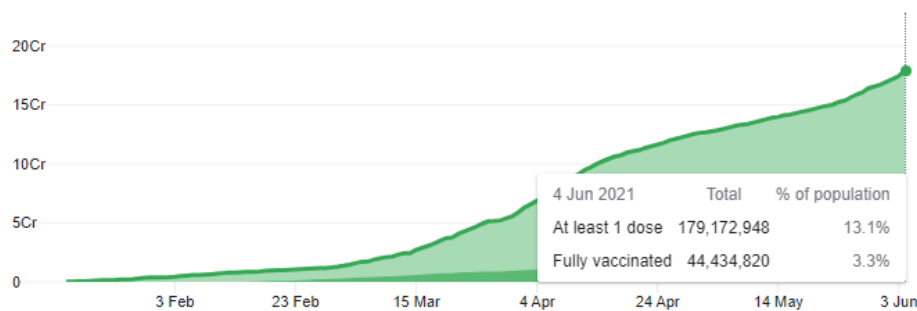
This has come on the back of GDP degrowth year. The market discounted FY21 and looked ahead to a strong FY22. The recent second wave has impacted FY22 growth estimates to some extent as well. However, India's second wave is now showing signs of moderation, some states have rolled out phased unlock plans and vaccination roll-out is also picking pace. This should drive economic recovery in the second half of this year. While monetary policy has been supportive throughout, further fiscal policy support could hasten the recovery process.

### Vaccination is Key

Vaccination remains a key in avoiding further spikes in covid cases and related lockdowns. Developed markets like the US, UK and recently Europe where the vaccination pace is strong have seen a rise in business confidence with economies reopening. The US is on track to get everyone (willing to get vaccinated) above the age of 18 vaccinated within the next 2-3 months. Europe which has ramped up its vaccination drive recently reported strong PMIs in May, the highest level since 2018.

India has lagged the world in vaccination so far. The daily average of doses administered declined from about 3 million in early April to 1 million by mid-May amid supply-side issues. Since then, the pace of vaccination has picked up to about 2.5 million now. With vaccine production likely to increase in the coming months, pace of vaccination is likely to pick up further. Additionally, both Indian authorities and masses, hopefully, are better prepared to avoid the third wave. Hence, while economic data in the near-term is likely to be disappointing, the Indian economy should recover in the coming months.

Vaccination Drive Picking Pace in India

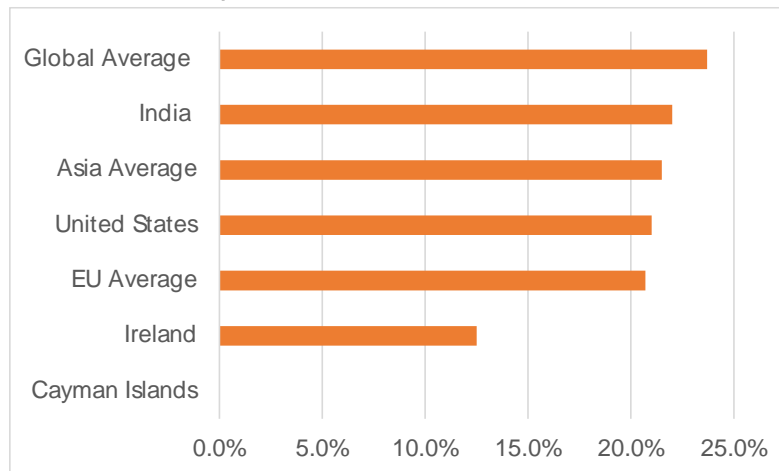


Source: Our World in Data

### Nothing is Certain but Taxes

Over the last few years, countries around the world have been cutting taxes to attract companies. Hence, in an unprecedented move last week G7 countries committed to a global minimum corporate tax of at least 15% in a bid to end the race to the bottom. While the agreement will now be discussed in G20, if implemented in its current form it will impact tax havens and firms like Facebook and Google that used low tax countries like Ireland as their European headquarters.

### Corporate Tax Rates Across Countries



Source: KPMG

President Biden on the other hand proposed a 15% corporate minimum tax as an alternative to his plan of raising corporate taxes to as high as 28% to fund his infrastructure plan. The Republicans and the President (from the Democratic party) have failed to agree on the size of the infrastructure plan as well as the funding of the plan. While the gap between the two has narrowed a final deal is yet to be made. A minimum corporate tax is likely to impact giants like Amazon which currently pay very little tax in the US.

### Inflation Fears

Recent macroeconomic data has rekindled inflation fears. US core inflation (ex of food and energy prices) increased 3%/y in April 2021, the highest pace in over two decades. However, a closer look at the data suggests transitory factors like disrupted manufacturing supply chains, scarcity of vital components like microchips and an unfavourable base effect drove inflation higher.

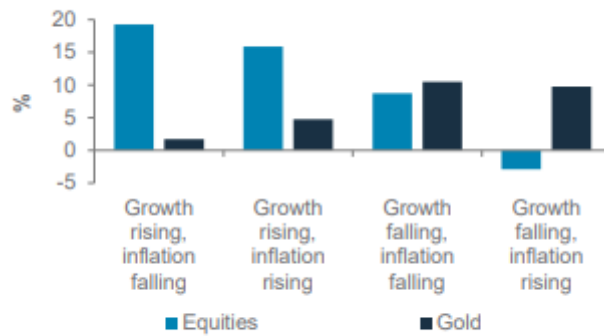
The Fed has reiterated that the US economy is still some time away from the Fed's employment and inflation goals and hence the Fed would continue buying bonds till the same is achieved. However, it would be interesting to see the Fed's resolve if inflation remains elevated for longer than expected.

A potential hike in US taxes and elevated valuations are risks that have been well-flagged and probably priced in, however, a sooner than expected move by the Fed is a key risk to watch out for.

Though it is also important to note that, historically global equities have done well as long as growth is rising, regardless of rising or falling inflation. Global equities tend to underperform when growth is falling and end up delivering negative returns when growth is falling, and inflation is rising (stagflation).

## Global Equity Performance Across Business Cycles

Average 12m returns in different economic regimes



Source: Bloomberg, Standard Chartered. Economic scenarios identified by BCA Research across business cycles. Oct '05-Feb '21

### India Macro

As expected, the RBI in its latest monetary policy meeting kept rates unchanged and retained an accommodative stance. The RBI increased the quantum of bond buyback under GSAP2.0 to INR 1.2 lakh crores from INR 1 lakh crore. It also provided liquidity to contact-intensive sectors which have been impacted the hardest by the second wave of Covid and extended the loan restructuring to a larger set of MSMEs. The RBI cut GDP growth forecast for FY22 by about 100bps to 9.5% and marginally increased inflation expectation to 5.1%.

### Fixed Income

The RBI monetary policy was in line with market expectation from bond market perspective. As highlighted earlier the trajectory for bond yields over the next few years is upwards, however the RBI seems keen to keep the rise in bond yields orderly. Our view remains unchanged, we continue to suggest barbell strategy with very low duration, safe investments at one end and opportunistic investments across the yield curve and structured credit at the other end.

### Equities

After strong returns early this year global equity markets were range-bound in May. Global equities are now up more than 20% compared to pre-covid levels. Strong earnings have supported global equities this year. 86% of S&P 500 companies exceeded EPS estimates in Q1 2021, the highest in the last 10 years. This led to a sharp upward revision in 2021 earnings growth estimates. The jump in corporate earnings growth estimate is not limited to the US, almost all regions barring China and Japan have seen a rise in consensus earnings growth estimate for 2021 compared to the start of the year. A mix of strong corporate earnings and sustained low-interest rates could continue to support elevated equity market valuations.

Performance of Key Equity Indices as of 31 <sup>st</sup> May 2021	1 Month	1 Year	3 Year	5 Year
NSE Nifty 50 Index	6.5%	62.7%	13.2%	13.8%
S&P 500 INDEX	0.5%	38.1%	15.8%	14.9%
NASDAQ Composite Index	-1.5%	44.9%	22.7%	22.7%
Shanghai Stock Exchange Compos	4.9%	26.8%	5.3%	4.4%
Nikkei 225	0.2%	31.9%	9.1%	10.9%
MSCI Global Index	1.4%	39.6%	11.8%	12.1%
MSCI AC Asia Pacific Index	1.3%	38.8%	6.7%	10.1%
MSCI Emerging Markets Index	2.1%	47.9%	7.1%	11.3%

\* Source: Bloomberg, Sanctum Wealth Management  
The above returns are local currency returns

## Gold

Gold typically acts like a hedge if inflation goes higher or remains elevated longer than expected. We saw this play out yet again last month when gold rallied about 6.5% in dollar terms amid inflation fears. Additionally, a weak USD also supports gold prices. However, for Indian investors a strong INR means INR gold returns get diminished by some extent. Technically too gold has given a break-out after 9-months of correction. Thus, while we are neutral gold in our model portfolios, we continue to suggest holding gold from a strategic allocation perspective for those under allocated.

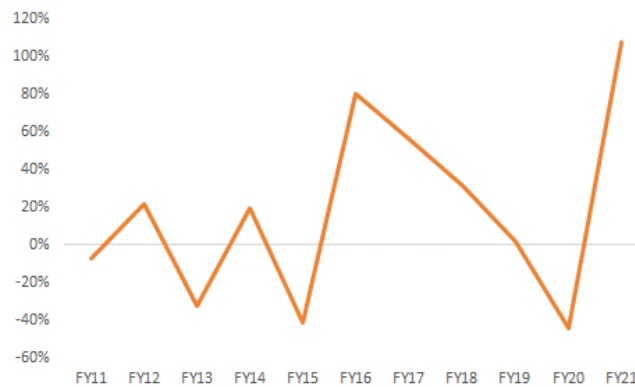
## Quarterly Results – Strength Continues

The earnings momentum continued in Q4FY21 on the back of robust economic recovery and resilience shown by larger organised players. With corporate earnings results out for 46 out of 50 Nifty companies, earnings growth has not only been strong but also better than consensus estimates. Overall net income stood at ~8% ahead of street estimates. Compared to last year, net income for Nifty grew >2x driven by 17% revenue growth, albeit on a low base. EBITDA grew 68% as most sectors excluding Consumer Staples witnessed margin improvement compared to the same period last year.

Metals, Energy and Autos led most of the earnings growth. Multi-year high commodity prices supported earnings for metals and OMCs benefitted from inventory gains. Two out of top three PAT growth companies in Nifty are from Metal space and the third one is an OMC while two out of top three EBITDA growth companies in Nifty are OMCs and third one is from Auto space. Historically, we have noticed that earnings trajectory of companies in these sectors are volatile. While, we have seen strong growth in earnings of these companies, the supernormal growth in profits shall not continue over long period of time. Once the base gets adjusted with impact of high commodity prices, the growth numbers should moderate.

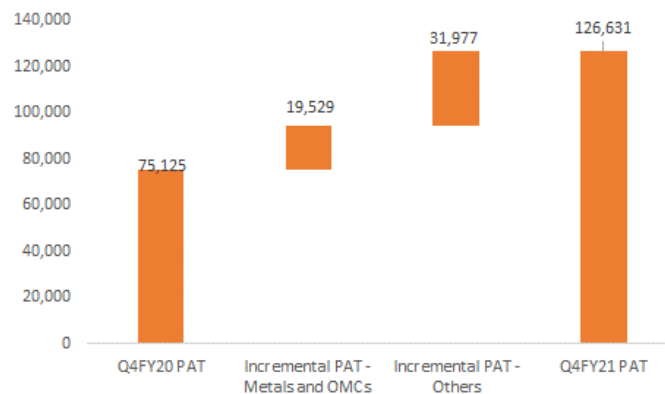
On dissecting the PAT growth, we observe that most of the incremental PAT is contributed largely by Metals and OMCs. Total Nifty PAT of INR0.75 tn in Q4FY20 has grown to INR 1.26 tn in Q4FY21. However almost two third of the incremental PAT is contributed by Metals and OMCs (see chart below).

### Cumulative PAT growth of Metal and OMCs



Source: Bloomberg, Sanctum Wealth Management

### Nifty Profit Bridge



Source: Bloomberg, Sanctum Wealth Management

Nifty EPS has been in the range of Rs 400 -500 for the last 7 years now, in FY21 Nifty EPS is expected to breach this range with growth of 20%. Strong earnings results have resulted in the meaningful upgrades for Nifty EPS for FY23, Nifty EPS has been upgraded by 19% over the last quarter. With this upgrade, the consensus is expecting Nifty EPS to grow ~29% over the next two years. This is achievable driven by (i) expectations of real GDP growth rebounding to 8-9% over the next two years, (ii) larger companies gaining market share over the unorganised sector and (ii) fading credit cost in financials. Nonetheless, considering impact of second wave impacting Q1FY22 and higher commodity prices, some moderation in growth expectation can't be ruled out.

### Quarterly Results of In-house PMS Strategies

In our in-house PMS strategies, our endeavour is to identify companies with superior and sustainable earnings growth along with a high return on capital. Hence, we generally invest in companies operating in high growth industries or ones that are gaining market share from peers or both.

While, FY21 has been a rough year for most businesses, we believe this is less true for sector leaders and large organised businesses which have gained market share from smaller unorganised players.



Most of the companies in our portfolios have outgrown their industry peers. We believe this trend is likely to continue in FY22 as well as these companies are better prepared to combat future disruptions.

For instance, our top holdings ICICI Bank and HDFC Bank have reported loan growth of 18% YoY and 14% YoY respectively, far higher than the industry average of 6%. Further, with huge inflow of deposits and lower cost of funds, growth of these franchises should continue to outpace that of the industry. Strong balance sheet and high capital adequacy ratio of these businesses should also enable them to withstand any short-term uncertainty.

Companies in IT space – Infosys and TCS reported revenue growth of 13% YoY and 10% YoY respectively, higher than the single digit growth reported by comparable peers. Paints industry was significantly impacted during lockdown. However, as and when the economy reopened and the demand revived, it was the largest paint manufacturer – Asian paints (portfolio company) which benefited the most with 43% revenue growth. This is a very commendable growth for a company which already caters to ~60% of organised paints industry. Similar is the case with Titan Industries which gained share from unorganised player. Incidentally, Titan reported highest revenue growth amongst Nifty companies.

Most of our mid cap companies have also gained market share from unorganised and smaller players. For instance, last year rubber consumption de-grew 6% globally and 5% domestically while NOCIL's volumes grew 5% indicating market share gains. Astral Poly reported revenue growth of 80% in pipes division, much higher than the industry. What we also like about the company is its entry to adjacent segments thus increasing opportunity size. Similar trend is witnessed in our other holdings like Polycab, Aarti Industries and Relaxo footwears.

The weighted average revenue and PAT growth was at 16.1% and 48% for Sanctum Indian Olympians and 15.5% and 52.6% for Sanctum Indian Titans, respectively.

Performance as on May 31, 2021	1 Month	3 Month	6 Month	1Year	CAGR		
					2 Year	3 Year	Since Inc.*
Sanctum Indian Olympians	6.7%	8.3%	13.3%	51.4%	15.2%	13.8%	12.7%
NSE100 Index	6.8%	7.7%	20.8%	61.9%	14.6%	12.6%	12.8%
Relative to NSE100 Index	<b>-0.1%</b>	<b>0.6%</b>	<b>-7.4%</b>	<b>-10.5%</b>	<b>0.6%</b>	<b>1.2%</b>	<b>-0.2%</b>
* Since Inception Returns are from 16-Sep-16							
Sanctum Indian Titans	7.0%	9.9%	19.7%	57.9%	20.2%	12.1%	15.1%
NSE200 Index	6.8%	8.1%	22.0%	65.3%	15.2%	12.4%	15.3%
Relative to NSE200 Index	<b>0.2%</b>	<b>1.9%</b>	<b>-2.2%</b>	<b>-7.5%</b>	<b>4.9%</b>	<b>-0.4%</b>	<b>-0.2%</b>
Nifty Index	6.5%	7.3%	20.2%	62.7%	14.3%	13.2%	

\* Since Inception Returns are from 18-Nov-16

## Technical Commentary

After being in correction mode for past few months, Nifty gave a breakout in latter part of May to rally to a new all-time high of 15,739. Nifty is now back into the rising channel as seen in the chart, thus resuming its uptrend. It is forming higher tops and higher bottom on daily chart which is a positive sign. Moving average convergence divergence (MACD) has given positive crossover in weekly chart which is another positive indicator. The immediate resistance for Nifty is now at 15,780 and a break above

could see Nifty move towards 15,990 and then 16,500. On the downside, previous high of 15,431 will act as support followed by 15,000 levels



Source: Falcon7

Indices	Next Resistance Level	Key Resistance Level	Current Market Price	Initial Support Level
Nifty Index	15,780	15,739	15,752	15,431
BSE Smallcap Index	25,949	24,761	24,597	23,750
BSE Midcap Index	24,460	23,400	22,688	21,850

\* Current Market Price as of 7<sup>th</sup> June 2021



---

# Sanctum Wealth Management

## Investment & Advisory

### Roopali Prabhu

*Chief Investment officer*

[roopali.prabhu@sanctumwealth.com](mailto:roopali.prabhu@sanctumwealth.com)

### Hemang Kapasi

*Head of Equities*

[hemang.kapasi@sanctumwealth.com](mailto:hemang.kapasi@sanctumwealth.com)

### Ashish Chaturmohta

*Head of Technical and Derivatives*

[ashish.chaturmohta@sanctumwealth.com](mailto:ashish.chaturmohta@sanctumwealth.com)

### Salvin Shah

*Investment Analyst, Investment Office*

[salvin.shah@sanctumwealth.com](mailto:salvin.shah@sanctumwealth.com)

### Anway Bhujbal

*Technical & Derivative Analyst*

[anway.bhujbal@sanctumwealth.com](mailto:anway.bhujbal@sanctumwealth.com)

### Alekh Yadav

*Product Specialist*

[alekh.yadav@sanctumwealth.com](mailto:alekh.yadav@sanctumwealth.com)

---

#### Disclaimer

Different types of investments involve varying degrees of risk, and past performance is not indicative of future results. Do not assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by us) will be profitable. Results may vary over time and from client to client. Any projections or other information illustrated in this presentation which may have been provided to you regarding the likelihood of various investment outcomes are hypothetical in nature, and do not necessarily reflect actual investment results nor should they be considered guarantees of future results. Historical performance results for investment indices and/or categories have been provided for comparison purposes and index returns may vary substantially from past performance in the future. Other investments not considered in the analysis and the recommendations resulting from this analysis may have characteristics similar or superior to those being analyzed. Please remember to contact Sanctum Wealth Management if there are any changes in your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our services.