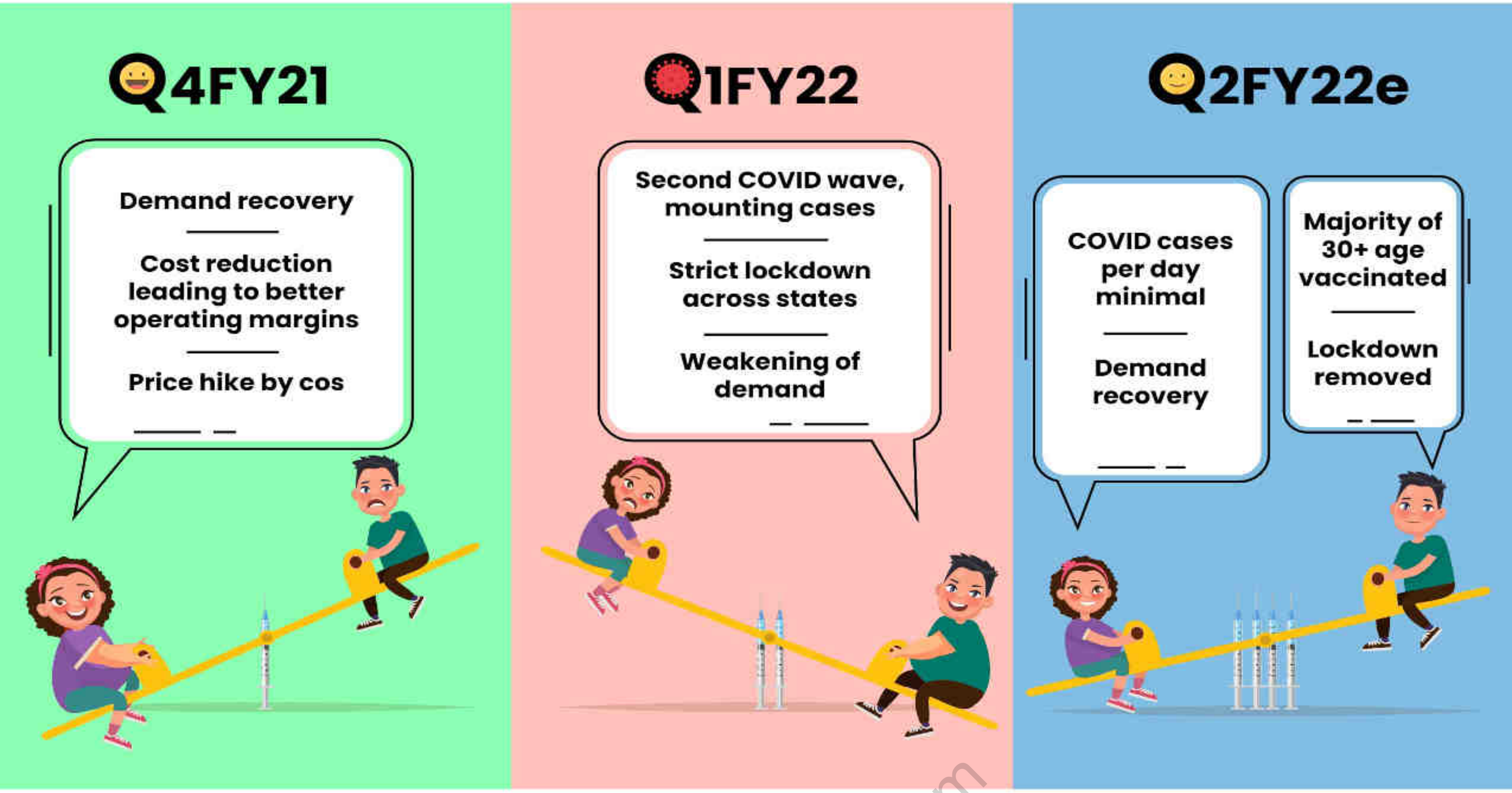
MONTHLY NEWSLETTER

APRIL 2021



April is a promise that May is bound to keep

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The above quote by American author Hal Borland exudes a lot of optimism. The quote states that despite the current gloomy situation, we can still have hope and faith that good will come to us. We think given the situation that the whole world is in, it is important that we try to remain positive and hopeful (apart from remaining safe and indoors). For the COVID ravaged world, after death and gloom we have hope and vaccine. The world has once again started looking ahead with a renewed confidence that we will be able to breathe easy (quite literally!) soon.

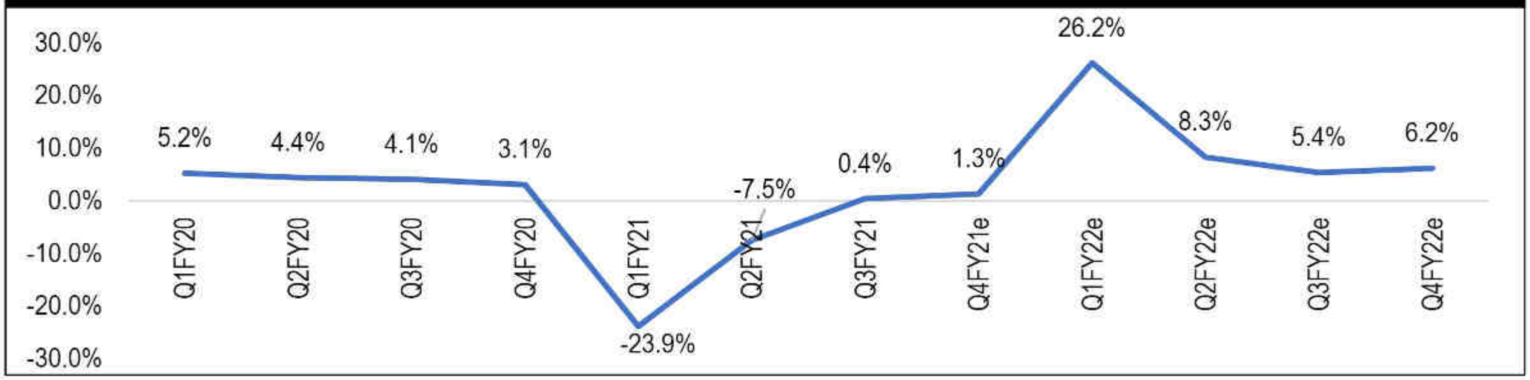
We begin this newsletter by looking at how economists and analysts, after rounds of upgrades and downgrades, are still betting on India for faster economic growth compared to the world. We then look at the trends that we are seeing from early-bird result announcements of Q4FY21. Putting an ear to the ground, we look at what CXOs are saying. If you want to understand how businesses are doing, what better than to ask the people who run these businesses. Finally, in our “What’s Trending” section, we take a look at what is the vaccination situation in India, USA, UK and Israel. These countries, excluding India, have made remarkable progress in vaccinating large portion of their population.

GDP: TO UPGRADE OR DOWNGRADE, THAT IS THE QUESTION

According to economists, India's GDP growth and future projections are expected to resemble many alphabets. "V", "U", "W", "L", "K" and probably many more. We are not getting into what each alphabet means, but suffice it to say that each shape talks about one or more drops in economic growth and recovery after each drop, before finally getting back to growth as usual.

India's economy has swayed from a sudden drop in response to the COVID onset to gradual recovery in Q2, Q3 and Q4 of FY21. The second wave threatens to throw GDP growth out of gear; however, we do not see a decline in GDP projections as sharp as last year (Q1FY21).

India's Quarterly GDP Growth

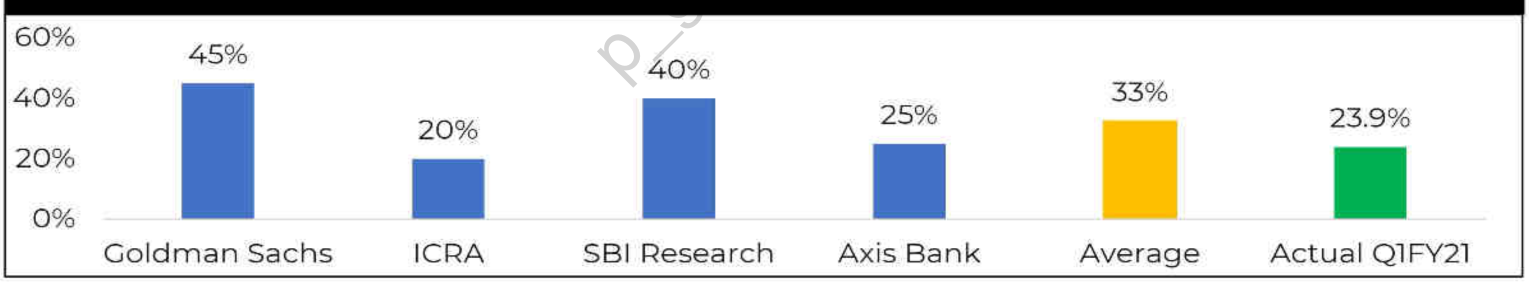


***Note**: Q4FY21 are street estimates, Q1-Q4FY22 are RBI estimates. All other numbers are actual*

Q1FY21 GDP growth estimates were very pessimistic at the height of lockdowns and restrictions, however actual numbers came in much better due to following:

1. Even during most stringent lockdown phase, demand for groceries, home essentials & related products remained strong. This was due to panic buying/hoarding by consumers & because these businesses were allowed to function smoothly.
2. Rural economy flourished due to strong demand for farm produce, strong monsoon 2nd yr in a row
3. Restrictions remained less stringent in rural areas as cases were lower, enabling the economy to grow at a much faster rate compared to urban areas.

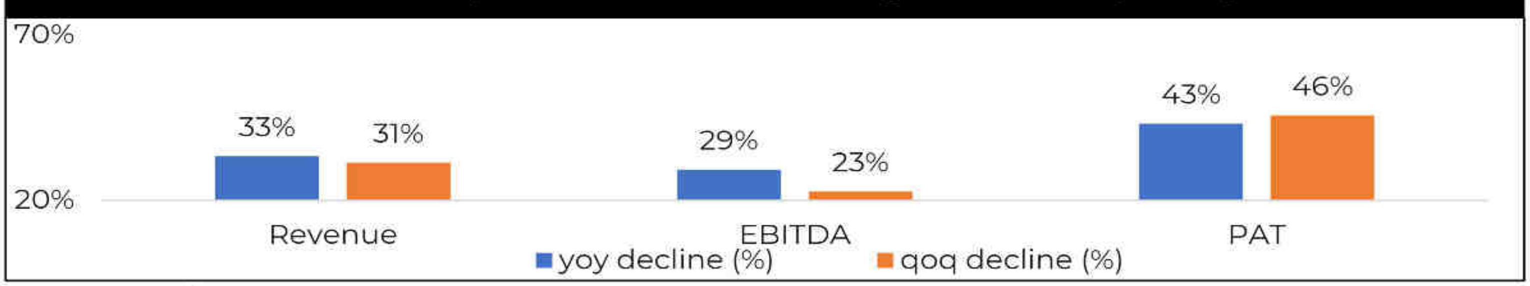
India Q1FY21 GDP decline projections



***Source**: Web Sources. Please note that all these are GDP declines*

Corporates pulled up their socks and came out stronger

Q1FY21 result trend (NIFTY cos ex-banking and NBFC) – implies decline



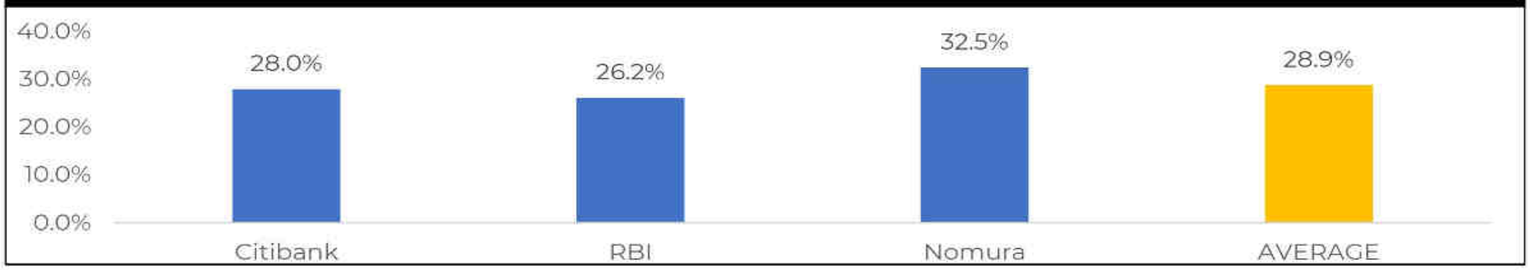
***Source**: ACE Equity*

Economists can take heart from hindsight in projecting Q1FY22

Given the experience of last year, economists have been less pessimistic in projecting Q1FY22 GDP growth. Also, we have a low base of Q1FY21, which is expected to push Q1FY22 GDP growth numbers optically. Major reasons for the same are:

1. Restrictions are much less stringent compared to last year, they are rising as COVID cases continue to mount. See a "W" shaped recovery, not a "V" shaped recovery
2. Rural demand remains buoyant and record agriculture production for 2020-21 bodes well for its resilience. Urban demand has been gaining strength on the back of the normalization of economic activity and should get a fillip with the ongoing vaccination drive
3. Lockdowns in badly-hit states seem benign as only a few contact-intensive sectors could be hit, while most Indian businesses have adopted the new normal. Overall impact of the second wave on the economy could be visible in most part of 1QFY22 but broader upcycle will remain intact.

Q1FY22 GDP growth projection



FY22 projections have been downgraded, however bright spots remain

Economist	FY22 GDP Projection - Previous	FY22 GDP Projection - Revised	Difference
Barclays	11.00%	11.00%	0.0%
ICRA	10.50%	10%	-0.5%
Nomura	13.50%	12.60%	-0.9%
HDFC Bank	11.00%	10.00%	-1.0%
JP Morgan	13.00%	11.00%	-2.0%
UBS	11.50%	10.00%	-1.5%
Brickwork Ratings	11.00%	9.00%	-2.0%
SBI	11.00%	10.40%	-0.6%
India Ratings	10.40%	10.10%	-0.3%
Kotak Mahindra Bank	10.50%	10.00%	-0.5%

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Reasons for downgrade

- Local lockdowns threatening already fragile recovery
- Largest contributor to India's GDP, Maharashtra (~14%) facing the highest number of cases and restrictions. Other heavily industrialized states - Gujarat and Delhi - are also having very high number of cases.
- Government's current attention and funding is directed towards containing the virus, limiting deaths, ensuring oxygen and medical supplies to hospitals. Hence, developmental measures could take a backseat over the next couple of months.
- A month-long nationwide lockdown, if implemented, can shave off 100-200bps points off GDP.
- Spread of the virus has been due to complacency in mask wearing, social distancing and other precautionary measures. These issues are behavioral in nature and hence more difficult to tackle. Measures such as policing, penalizing and "naming-and-shaming" can work only in a limited way.
- The revival in sectors that fall under discretionary spending may be further delayed.
- The cost of immunizing half the populace of 13 major states would be approx. 0.1% of GDP or 15% - 20% of states' health budget, presuming that the Centre would cover the cost of vaccination for the other half of this population.

However, reality may not be as grim due to the following points:

- Since we are currently in May, only the second month of the financial year, it could be too early to go in for aggressive GDP cuts. The experience of last year taught that the economy declined sharply in Q1FY21 and bounced back strongly in subsequent quarters. We could see a similar trend play out in FY22.
- Economists and health officials are expecting the second wave to peak out by May-Jun'21 in India. Hence, we could see an economic resurgence from Q2FY22 onwards.
- Rural demand remains buoyant and record agriculture production in 2020-21 bodes well for its resilience.
- Focus of Union Budget 2021-22, on investment-led measures with increased allocations for capital expenditure, the expanded production-linked incentives (PLI) scheme, and rising capacity utilization will reinforce the process of economic revival.
- Even as restrictions and lockdown measures are likely to dampen economic activity, we think the impact will be much lower than in 2020, as containment measures are localized, short-lived, less stringent than last year and households and businesses have adjusted to the 'new normal'.

Over the medium term, India will be less affected compared to most other economies:

Country	2019 (Base 100)	2020E	2021E	2022E	2021 vs 2019	2022 vs 2019
China	100	2.3%	8.4%	5.6%	111	117
India	100	-8.0%	11.5%	6.9%	103	110
USA	100	-3.5%	6.4%	3.5%	103	106
Australia	100	-2.4%	4.5%	2.8%	102	105
Russia	100	-3.1%	3.8%	3.8%	101	104
Canada	100	-5.4%	5.0%	4.7%	99	104
Brazil	100	-4.1%	3.7%	2.6%	99	102
Germany	100	-4.9%	3.6%	3.4%	99	102
France	100	-8.2%	5.8%	4.2%	97	101
Japan	100	-4.8%	3.3%	2.5%	98	101
UK	100	-9.9%	5.3%	5.1%	95	100
Italy	100	-8.9%	4.2%	3.6%	95	98

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As per IMF study of April 2021, India GDP will grow at 11.5% in 2021, and 6.9% in 2022, the fastest amongst the top 50 nations. Even if there were to be a dent in 2021 due to second wave leading to erosion of over 150bps, India will still be the fastest growing nation. Also as shown in above table, post pandemic, over 3 year period of 2019-22e, India's GDP would have grown at 10% cumulative, second highest after China. In the same duration, GDP of countries in 2022 like Italy, UK, Japan & France would be at similar levels as in 2019.

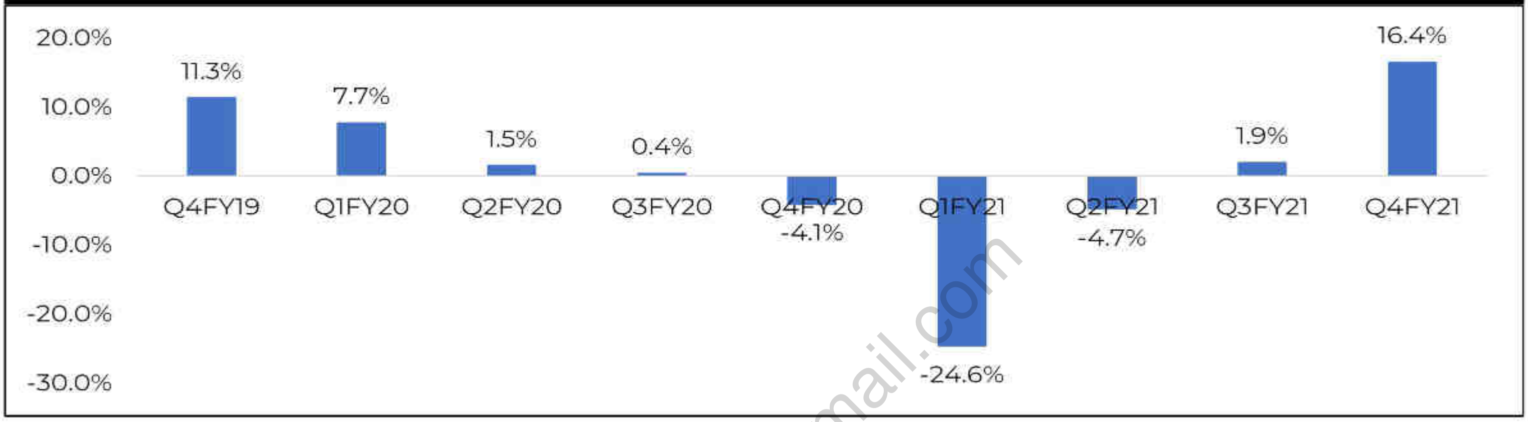
EARLY TRENDS FROM Q4FY21 RESULTS

The Q4FY21 earnings season has begun well for companies as seen from the trend seen in results announced so far. The quarter saw continuation of festive and recovery momentum seen in Q2FY21 and Q3FY21. We take a look at the trends for BSE 500 companies, a set of companies across wide range of sectors.

- Demand pick-up resulting from pent-up demand and on-ground recovery boosted top-line to the extent of 16.4% yoy for BSE500 companies, highest since Q3FY19
- EBITDA growth at 31.3% too has been the most robust since Q4FY19, accompanied by continuation of EBITDA margin at 22%, level seen in Q3FY21.This was also a 250bps margin expansion yoy.
- Adjusted PAT growth came in at 53.9% yoy for BSE 500 companies, highest in 31 quarters. This was owing to a low base of the year ago quarter (Q4FY20), when companies were caught unawares.

Trends from Q4FY21: 1/3rd of BSE 500 results declared

Revenue Growth (yoy) steadily recovering after a steep drop in Q1FY21

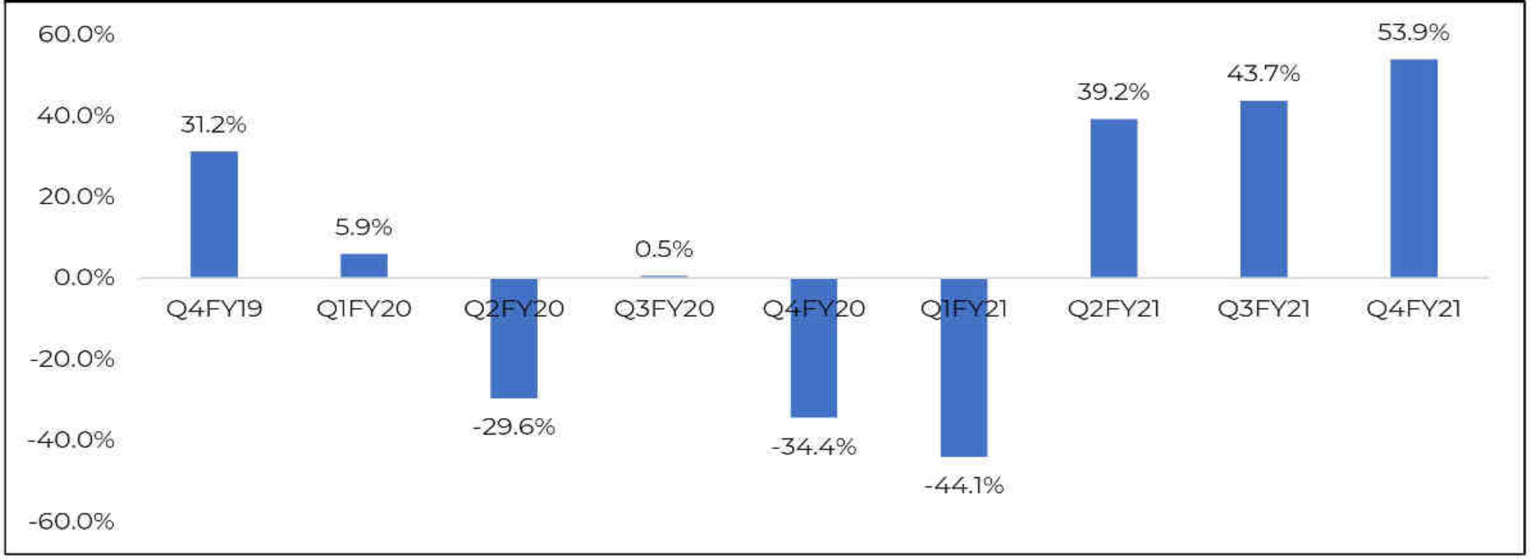


- Revenue growth largely in line or above estimates helped by low base of last year
- IT sector and certain sections of consumption (essentials and food products) did well, cement and building materials saw good growth owing to demand from infrastructure projects and pick-up in real estate

EBITDA Margin was retained despite commodity cost increase due to fixed cost rationalization

- Input cost inflation was biggest concern for companies as base metals, precious metals, crude, etc. saw a strong rally led by growth in demand after a slump last calendar year.
- Companies rationalized costs, some took price hikes which helped retain operating margin at Q3FY21 levels

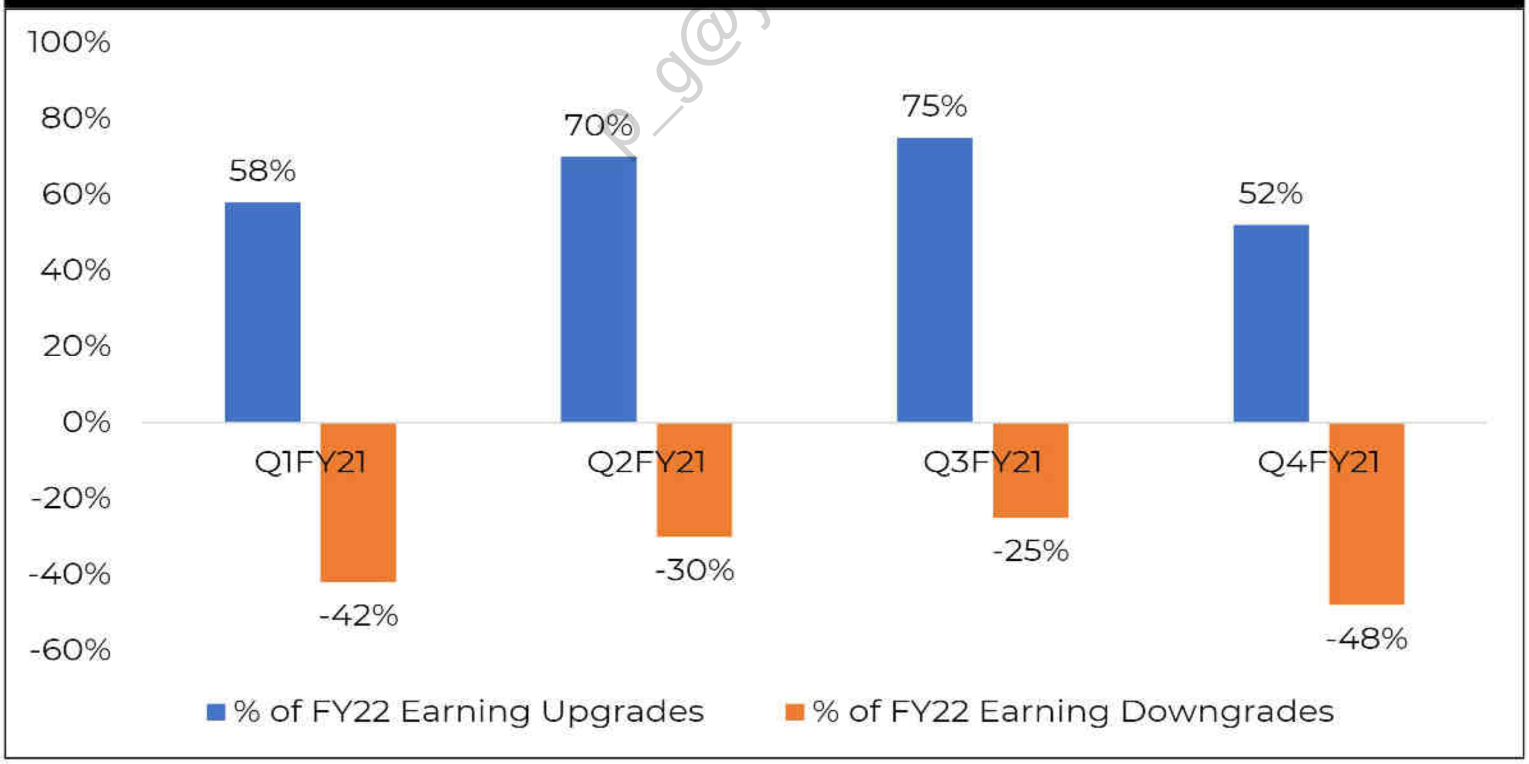
PAT received a boost from lower interest costs and steady depreciation



- Besides strong EBITDA growth, the PAT growth (54% yoy) was aided by muted depreciation (no incremental capex) and lower interest cost yoy.
- Interest expenses declined as working capital cycles shrunk, companies refrained from borrowing more and the cash rich ones repaid some part of existing loans.

On the whole, better preparedness owing to experience of last year helped companies tide over Q4FY21 better. On the face of it, current year seems to be a mirror of last year as 1QFY22 is expected to be muted and recovery from subsequent quarters.

FY22 earnings: Ratio of upgrades to downgrades, rose from Q1FY21 to Q3FY21; Apr'21 lockdown halted the rise



CURRENT CONDITIONS: CXO SPEAK

When assessing a situation, it most important to put your ear to the ground, to know what's coming. We have tried to do that with businesses, by collating comments from people at the helm of affairs in large companies. Their comments and feedback is most crucial to understand what businesses are foreseeing in the current situation. It also helps us understand what their business strategies are to tide over the crisis and come out with minimum disruption.

Neville Noronha, MD & CEO

- +80% of stores are operating for max four hours per day or shut for operations for 1 to 2 weeks or shut on weekends thus impacting sales.
- Continue to receive regular supply of goods from suppliers. However, this time we may have a problem of excess inventory, an issue larger than the first wave.
- Expect more frequent lockdowns across cities and towns. This trend is likely to continue until a large part of the population is vaccinated and new infections reduce significantly.

Rakesh Sharma, ED

- Schools/offices are shut; 90% of 3Ws are bought on finance, if customers do not have power to pay EMIs then no one will buy a 3W
- Consumer sentiments have been impacted by current second wave of infections. However, if the consumers are broken down into 2 half – (a) top half has been relatively better off as reflected in 4-Wheeler and KTM bike demand. (b) However, bottom half of consumers have been more impacted economically, which is reflected in the sales of these product categories such as 100 cc motorcycles.
- Shipping availability still an issue for exports market.

Niranjan Gupta, CFO

- Do not see any underlying issue with any of the key factors that drive demand in two wheelers
- Monsoon, normal crop levels or fundamental rural income or need for mobility; I think all of those factors should come back so I think that would really be the time Q2 time when you start looking at these factors again

Amit Syngle, MD & CEO

- All the factories are open but some markets are operating with restrictions. With covid peaking, expect things to normalize in 3/4 weeks' time.
- Uncertainty rising with 2nd covid wave especially in India and some international markets. Vaccination hopefully will help in economic recovery. Headwinds seen due to input cost inflation which has risen sharply since Dec 20.

Salil Parekh, CEO

- Large enterprises have taken learnings from the past 12 months that the more digital they are, the better they are able to grow and service their customers and employee base
- Tech spending which was focused on digital, is not just a cost element for them, it is also an investment in their future – both for them to thrive and survive

C Vijaykumar, CEO

- Demand environment is quite robust and we have not seen any lay down in the demand, while different geographies are going through their own phases of the pandemic.
- Most client geographies seem to be very focused on continuing their journey, whether it is digital transformation or optimizing their cost structures or implementing new solutions.
- They believe technology has been the lifeline in the pandemic to try to survive and thrive. So, that is deeply embedded in the plans to continue spending on these areas.

Thierry Delaporte, MD & CEO

- In the course of the COVID-19 pandemic, many businesses realized that their business continuity plans, digital readiness and security protocols were not effective enough.
- There's never been a better time to review enterprise IT resilience. The demand environment has been improving steadily over the last few months.

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- As a high-frequency indicator, in the last 7-10 days, the company has continued to originate 50-55% of daily volumes in B2B business, 80-85% in B2C and SME businesses and 40-50% in mortgages.
- We are confident that the second COVID will not have any major impact and any loss in 1QFY21 will be covered up in next 3 quarters.

Rajeev Jain, MD

Keki Mistry, VC & CEO

- Robust growth is coming about by virtue of the fact that COVID has also brought about the need for people to look at new houses, bigger houses.
- Both husband and wife are working from home, so you need your own space, you need your own privacy.
- These are all factors which have resulted in strong growth for the company.

- Prioritizing efforts to launch Sputnik V vaccine across India while working on the development and commercialization of several drugs for the treatment of mild to severe COVID 19 infections.
- Over and above the tie-ups with six Indian manufacturers, other manufacturers too may be roped in to ramp up Sputnik V capacities further.
- Contributing to the vaccination drive in India is our biggest priority right now to help Indians be healthy and safe

G V Prasad,
MD & Co-Chairman

Lupin- Management

- Double digit growth expected in US and India business- led by the new launches and steady traction in key chronic therapies coupled with recovery in acute segment.
- Scouting for opportunities in the COVID therapy space. Tied up with Eli Lilly for baricitinib which is being prescribed along with Remdesivir to hospitalized COVID-19 patients.
- Expects to bring in the drug to the Indian market and is in talks with players globally.

- Globally, customers are looking to de-risk supply chain and management is witnessing increased order inquiries.
- Demand in most markets and segments is at pre-COVID levels, barring container glass.
- Soda Ash volume already at pre-COVID levels, volume to improve in the coming quarters.
- Witnessing strengthening of Spot soda ash prices which will ease margin pressures sequentially in the coming quarters.

Tata Chemicals Management

Mr. T.V Narendran, MD

- Second wave of Covid-19 as of now doesn't impact the business much; however, liquid oxygen shortage can impact the fabrication unit.
- India's finished steel consumption in March was up by 25%, and end user demand is likely remained strong this fiscal year.
- Export steel demand & prices are strong.

- With regional lockdowns, demand is too unpredictable. There was some loss in sales in April-21.
- Management expects this to be a short term phenomenon and sees robust demand recovery going ahead like it happened in FY21.
- Input costs have increased, Pet coke prices are expected to stabilize by H2CY21.

Mr. Atul Daga, CFO

C.K. Venkataraman, MD

- FY22 began well continuing the momentum till the 2nd wave. Will take a view on Q1FY22 maybe at the end of May when things stabilise.
- Greater interest in jewellery category because of greater spend in wedding as other avenues of expenditure are muted; this will continue in next 1 year.
- Also, the store of value has picked up because of not spending on other discretionary categories and that is coming into jewellery.

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- Whenever crisis abates, customer demand should rebound strongly possibly starting in the 2nd quarter.
- Cautiously optimistic on the medium-term outlook.
- Significant number of additional locations fitted-out & ready to open (19 Westside and 15 Zudio stores). These stores would open once covid related restrictions are eased / approvals are in place.

Noel N Tata, Chairman

Sanjeev Mehta, CMD

- Difficult to predict demand amid 2nd wave. Inflationary pressure elevated.
- Demand will be impacted as mobility is impacted, but this will be lower than June Quarter of 2020 when there had been blanket lockdown vs. localized lockdowns and micro-containment strategy currently.

- Post 2nd COVID wave, operating environment has become very challenging.
- While there is not a nationwide lockdown till now unlike last year, the localized restrictions are leading to some last mile disruptions in supply chain
- Anticipate an impact on discretionary portfolio as people are staying home and outdoor activity is restricted. Healthcare, especially the immunity building Ayurvedic products is already witnessing an uptick in the second part of April.

Mohit Malhotra, CEO

Shashank Srivastava, ED

- Current demand is holding with respect to fresh booking, despite of second wave of corona virus infection. Nine states in lockdown constitutes 35% of sales and if covid persists for longer time, retails might get severely affected. Company doesn't see any problem on supply chain issues, thus far.
- Rural demand is expected to continue to hold as Rabi season is good

- Some construction projects are impacted because of the restrictions (75% of the country); Adhesives are classified as non-essential.
- Rural India hadn't been impacted last time but this time with covid cases going to hinterlands need to check demand from Rural India performance. B2B had been impacted due to total lockdown last time which isn't the case this time. Exports likely to do well given international markets are gradually opening.

Bharat Puri, MD

Varun Berry, CEO, Britannia

- Government & Industry is better aware in 2nd Covid wave vs. 1st Covid wave of lockdown. There has been some pantry loading in current wave. However, situation is dynamic and difficult to predict.
- Unlike last time competition has been smarter, agile & things more organized.

- April month high frequency economic indicators have gone back to Dec levels after constantly rising till March.
- Lockdown has been strict in high GDP earning states like Maharashtra, Delhi, TN and is likely to pull down overall GDP if these get extended.
- ICICI Bank is well poised to manage the stress as it is well capitalized, has made adequate COVID provisions, level of digitization has enabled it to grow much ahead of peers in a pandemic year.

ICICI Bank Management

HDFC Bank Management

- Demand was improving in Retail until March. April month has seen a reversal partly due to the pandemic and partly due to the fact that April is historically a weaker month compared to March.
- Cheque bounces in April have increased and gone back to Jan levels. Maharashtra, MP, Punjab, Telangana are the states pulling it back.
- HDFC Bank had minimum impact till date due to COVID. Loan portfolios are being well managed and should continue next year.

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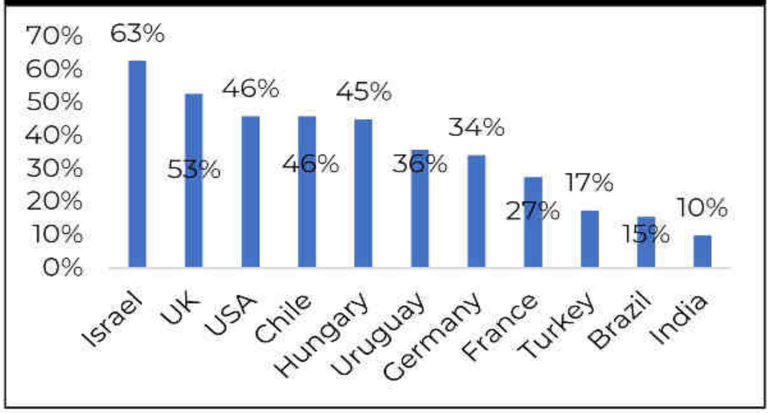
After crores of cases, lakhs of deaths and several months of anxious waiting, vaccine development offered solace to a pandemic-torn world. Starting with UK on 8th December, 2020, vaccination took off across the world and nations got into a race to vaccinate most of their adult population in the shortest possible time. In India, vaccination commenced on 16th January, 2021, starting with healthcare workers, and then for those with age 60+.

% of population vaccinated at least once



Israel, UK, USA lead the race
India, Brazil have ground to cover

Source: Our World in Data. Nos as on 11-May-21. Note: Share of total population that received at least one vaccine dose. This may not equal the share that are fully vaccinated if the vaccine requires two doses.

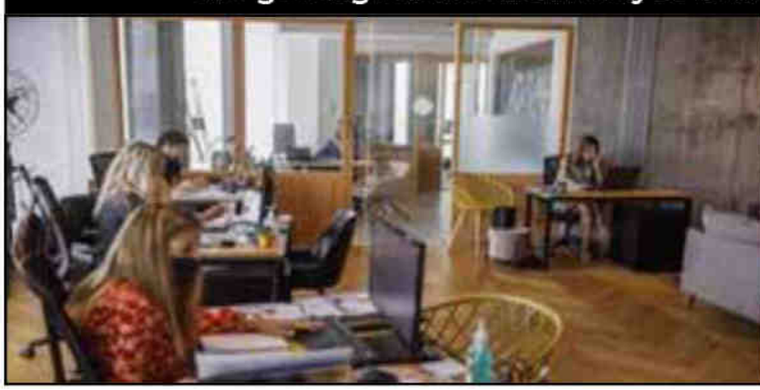
In terms of percentage of total population vaccinated, Israel and UK have taken the lead and have vaccinated more than 50% of their people at least once. USA is closing in, at 45%. India will take time to increase its vaccine coverage, given its large population.

Early trends post vaccination in major countries

Israel (63% vaccinated)

- Israel has done a commendable job of vaccinating nearly 65% of its people.
- People have slowly begun to step out of their house and mix up with others without using masks.
- Travel restrictions remain, and unfortunately India is among the barred countries.
- In cities such as Tel Aviv, people are slowly getting back to offices.
- Restaurants, bars and cafes are fully booked as people are just desperate to get out

Life getting back to normalcy in Israel post extremely high vaccination rate



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United Kingdom (52% vaccinated)

- The nation is slowly looking at taking steps towards normalcy.
- It plans to soon allow people from 12 countries to travel to UK, while India remains in its "red" list.
- Pubs & salons have started with restrictions. Gyms are opening up, with social distancing rules.
- The Govt plans to relax social limits further from 21st June.

Public places in UK getting back to normal with social distancing norms

United States of America (46% vaccinated)

- The US President has announced that US will vaccinate 70% of American adults by 4th July.
- Travel restrictions will remain for some time.
- Places where people come together, such as gyms, health clubs and few tourist places are gradually opening state by state with restrictions.
- USA is planning to "open up" in a big way on 4-Jul-21, America's Independence Day.

State by State restrictions in USA getting eased, 4th July set to be the big "opening-up" day

India (10% vaccinated)

- India started vaccinating its 60+ population in Jan'21 & 45+ population starting 1-Apr'21.
- It was then opened to everyone above 18 years of age, from 1st May, 2021.
- Till date India has administered 17.7cr vaccines.
- Opening up vaccination to everyone put pressure on the system.
- But the message is that India will now vaccinate the entire adult population en-masse.

Nearly 15cr people in 45+ age category vaccinated till 30-Apr-21

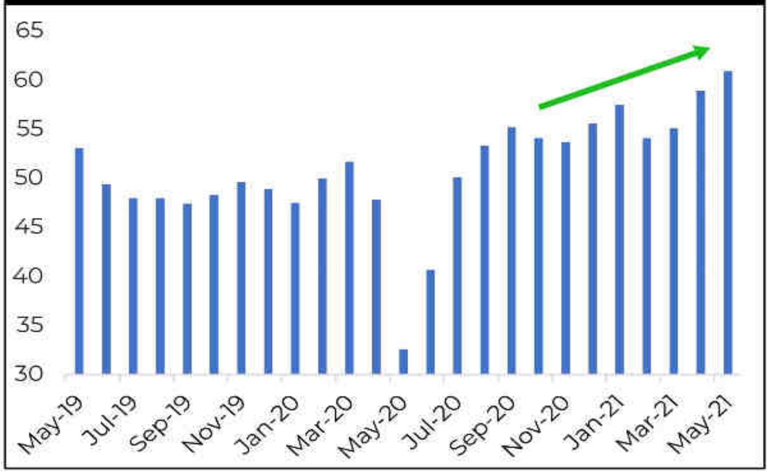
Vaccination for everyone above 18 years of age opened up from 1-May-21

Note: Please note that situations are continuously evolving and hence situation on ground could be different from one mentioned above.

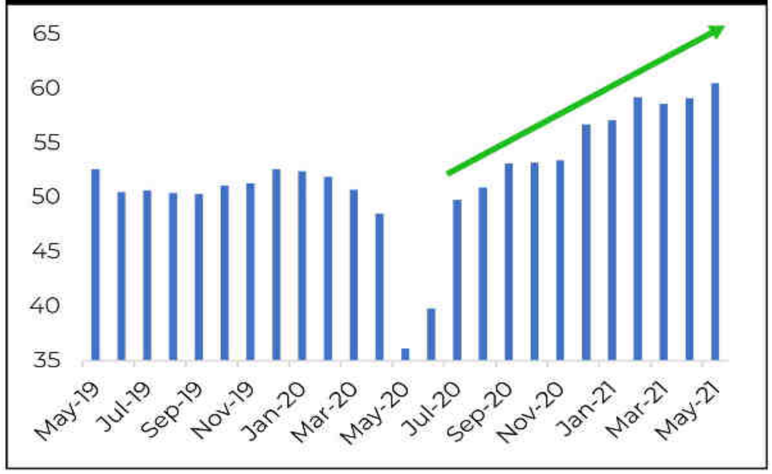
- Apart from the countries we just looked at, there are several other countries which are slowly looking at easing COVID-related restrictions like Belgium, Switzerland, Denmark, Germany, Italy and France.
- While some places are easing restrictions on social life, some are easing them on travel.

Manufacturing indicators in UK, USA and India

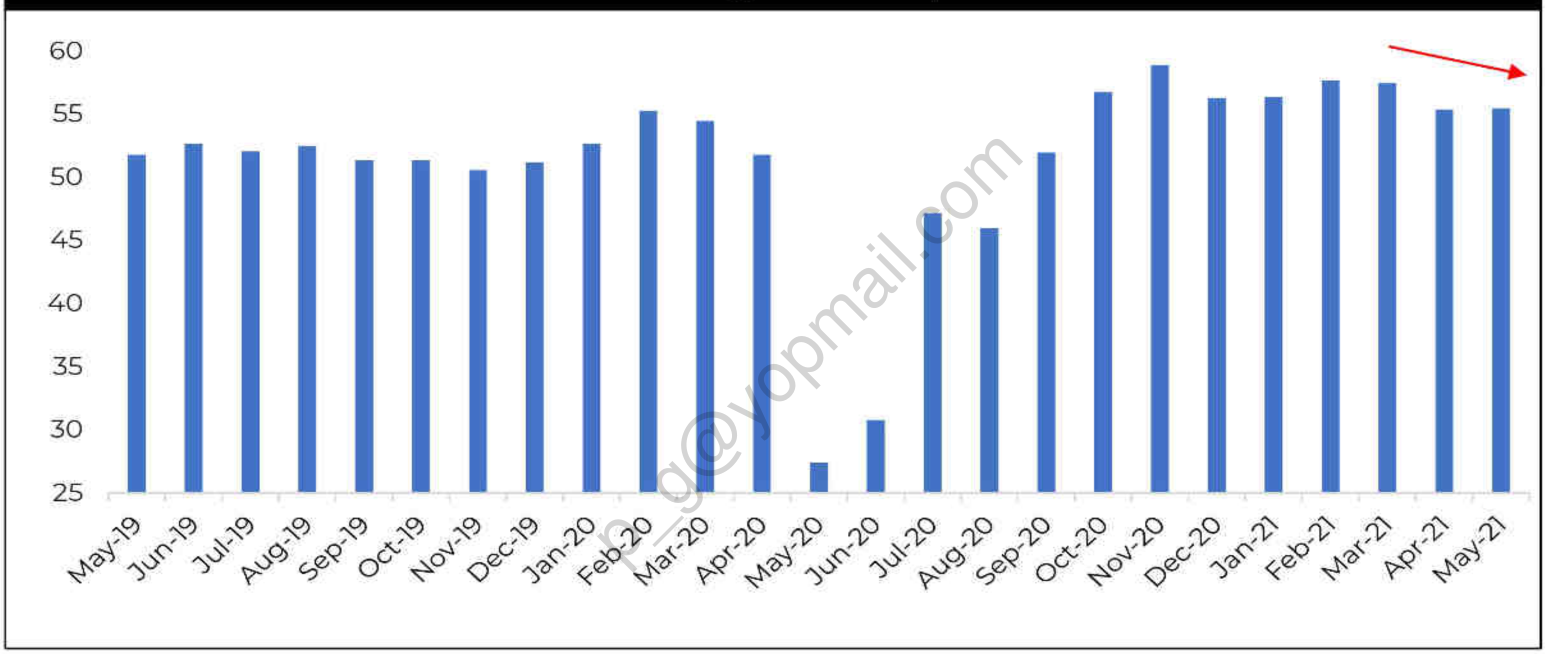
U.K. Manufacturing PMI highest since 1994, as export orders from Europe, USA and Asia picked up



USA Manufacturing PMI picked up led by new orders and surge in backlog



After picking up in Feb'21 & Mar'21, India Nikkei Markit Manufacturing PMI dipped as restrictions tightened in April



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- PMI picked up steadily from May'20 till Nov'20, owing to pent up & festive demand. Thereafter, there was a lull in Dec & Jan.
- Recent months of April & May have seen the index move lower yet again, as restrictions became stricter
- Average PMI was 55 prior to pandemic. It dropped to 27, climbed close to 60 when activity picked up and has again fell to 54-55 in April and May as restrictions tightened.

It is very evident that economies / countries where vaccination coverage has been high have begun to normalize, albeit with restrictions. India is expected to see its cases peak out by end-May or June. However, there are differences in opinion on when India will be able to achieve (almost) full vaccination for its adult population. **As per best case estimates, +70% of India's vulnerable (+45 years age) population would get vaccinated by July, 2021. Similarly basis ramp-up in production and availability of other vaccines, a majority of moderately vulnerable (30-45 years) should get vaccinated by Sep'21. Hence, we could see resurgence in economic activity in H2FY22.**

RESEARCH &RANKING™

THANK YOU

We would love to hear from you...

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