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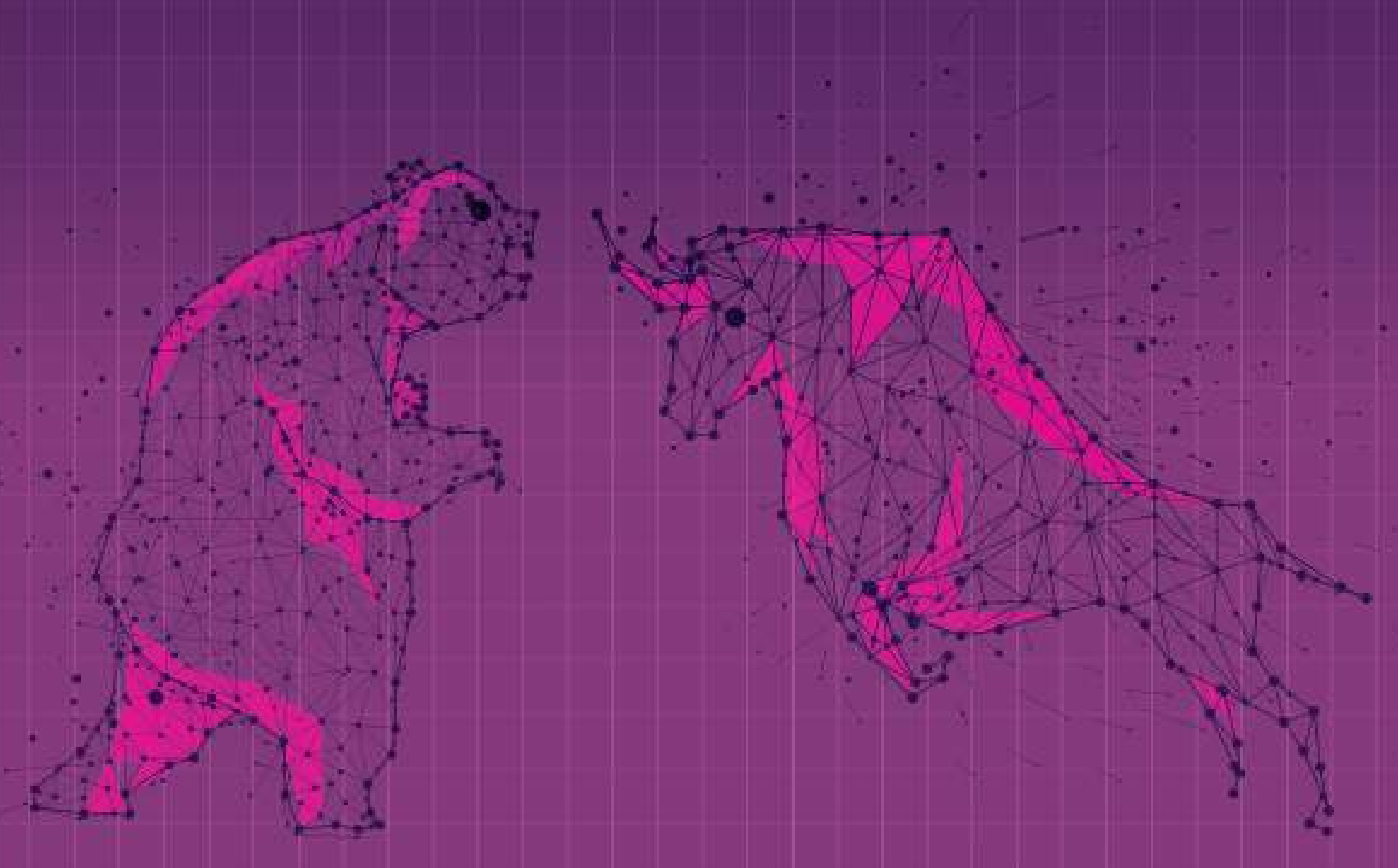

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PCG Communique

From the Desk of the PCG Head

Rajesh Kumar Jain

If someone has gone through the stock selection which I have mentioned in the July 2021 series of Financial Flash, then most of them have outperformed Nifty in the last 1 month's performance. Asian Paint (10.3%), Pidilite (2.79%), Voltas (5.18%), Titan (9.73%), Deepak Nitrate(12.17%) , Tata Power (0.94%), Mid Cap IT names like Mind Tree(30.84%), LTTS(19.15%) Vs Nifty 7.39%. The last 1 year saw a massive shift in stock performance versus the prior 2 years where only Nifty stayed flat while the rest of the market saw correction. In the last 1 year, every segment of the market, small, mid, value, cyclical did better than Nifty. Low interest rates globally and high investor participation in the global market have led to good gains in stocks. Performance of small/mid-cap, capital goods, and PSU was encouraging and playing a catch up with the rest of the market. Mid/small-cap and Equal weight had a phenomenal run but it has still some ground to cover to catch up. Nifty was a tough benchmark to beat at least in the last 3 years.

Incremental macro data is improving but recovery is still patchy across various sectors. However, companies are in better shape to withstand any disruptions in between as last year's event has made them more agile. We are seeing listed companies are facing lesser financial stress than small and medium scale enterprises (MSME). This bodes well for the Stock market and Nifty 100/200 EPS growth rate. The poor and small businesses are going to be stressed entities and their demand is going to be much more limited as we come out of the pandemic.

The IPO market in August has raised almost 18,242CR but the listing gains haven't been the same which we have seen for the IPO which has got listed in July 2021 except for Devyani International & Rolex Rings. Focus remains on understanding individual businesses and buying them at a reasonable price.

Coming to markets, FII has been a net seller in July to an extent of 2568 CR while DII was a net buyer of 6894 CR. For the FY 21-22 FII were net sellers of approx. 43,841CR, whereas DII was a net buyer for 45,759CR (approx.). There has been a subsequent increase in the July month SIP figures which registered 9609 CR Vs 9156 CR in May.

In Aug, sectorally Software and IT has gained 13.42%, Oil & Gas 9.93%, FMCG 9.65%, Private Banks 4.79%, Consumer Durables4.18%, while PSU banks, Metals, Real Estate, Pharma & Automobile where net looser.

The Indian market has been breaching the new highs and is amongst the world's best performers, wherein FIIs have been a net seller in August too. DIIs have been consistent buyers in the markets for the whole of this FY. However, the market direction continues to remain a bit shaky with the near-term outlook appearing stretched as there are a fear of the Fed increasing the rate in near future, high equity valuations, fear of the third wave of coronavirus, and Delta variant cases in the western world.

On the other hand, the Indian government is not leaving any stone unturned to ensure that the markets remain vibrant and positive. The recent announcement by the Finance Minister to raise Rs 6 lakh crore from monetizing state-owned assets over the next four years under its asset monetization pipeline is in line with creating liquidity to wade through the current pandemic-driven tough economic cycle. On the vaccination front, the per day doses have gone up to 1CR a day which is the highest so far, and to date, 66CR population has got either the 1st & 2nd dose of the vaccination. With this pace, we will get the complete vaccination done by March 2022 for the population beyond 18 yrs which I have mentioned in my earlier communique also.

The economy grew at a record pace of 20.1 percent in April-June 2021 compared with the corresponding period last year, when a national lockdown due to the Covid-19 pandemic had nearly halted all economic activities. The GDP had contracted 24.4 percent in April-June 2020. The first quarter's high growth rate, however, has come despite a brutal second wave of the pandemic which peaked in April-May.

A better-than-expected manufacturing performance and a milder hit to services, combined with a robust pace of vaccinations, have helped keep the annual growth outlook for the economy steady at 9.6%, according to most of the economist. That pace is the same seen in a poll last month and the quickest among major economies. Economists said with the GDP print coming in below the RBI projection of 21.4% for April-June, the central bank is expected to maintain the status quo on key policy rates, and full economic recovery would require the support of both fiscal and monetary policies.

Factory managers in India saw a surge in activity in July, reflecting a pickup in new orders, while a similar survey of services' purchasing managers showed the sector was inching back toward expansion. Exports, which account for nearly a fifth of the economy, have been growing for the past eight months signaling strong global demand. The recovery from the second wave has been faster with activity indicators recovering lost ground in less than three months compared to 10 months in the first wave. High-frequency growth indicators show that the economic cost of the lockdowns was lower.

India started seeing a swift recovery in June and the July-September quarter has so far been very good. But risks loom in the form of an impending third wave and if monsoon continues to disappoint.

We look at companies that have good earning triggers over the next 2 years. We are investing in companies i) coming out of sector consolidation/debt reduction, or ii) introducing new products, or iii) commissioning new capacities, or iv) executing orders in hand. v) Export-oriented companies as economic recovery is better in western countries. This gives certainty of growth rather than plain anticipation.

India's corporate debt profile is very good versus the world. Most sectors have few strong players and highly indebted companies are already written off. This reduces risks in the country and financial system. The Indian corporate sector is in the best position to gain pricing power and balance sheet strength. The majority of the sectors have seen consolidation. We are seeing this across sectors: Power, Telecom, Cement, Banks, Building materials, Pharma & Chemical, Capital goods, Consumer durables, etc. This will give strong profitability for incumbents due to the high barrier to entry for the next few years. At the same time, we remain cautious in Consumer stocks including Auto, FMCG, and Durables. Also, fully priced valuations have kept us away from these sectors. Banking and financial services are again at the forefront to face the brunt of slow economic recovery. Leading private sector banks and NBFC both have warned of delinquencies over the next few quarters. We remain cautious and recommend owning only selective ones where we can estimate the worst-case scenario and still earn reasonable returns over the medium term. As the dark clouds get clear, we will see good wealth creation in banking stocks.

We recommend avoiding stocks/sectors that have run up much ahead of their earnings growth over the last 1 year. While the company may continue to do well but stocks may not earn good returns. We have often seen that popular stocks tend to lag over time as prices reflect all the future growth. Many small and mid-cap stocks have run ahead of valuation as non-institutional participation has led to excesses in few pockets.

The second lockdown has dampened the sentiment for industries and consumers alike. However, the expectation is that economy will recover faster than before as lockdown opens up. We are seeing signs of turnaround by looking at volume growth/capacity utilization/inventory-sales ratio. Vaccination rate is another metric to track as it means faster normalization of economic activities. This time opening up may not see a U-turn in discretionary spending, unlike last year which was linked to pent-up demand.

Inflation from rising commodity and oil prices can spark fear in economic recovery. However, with lower utilization in various sectors, inflation might not be passed on completely to take advantage of higher volumes and favorable operating leverage.

Going forward, good Monsoon, rural demand, festive season, and opening of the complete economy will drive demand and earning of many companies. But we advise the investor to be cautious and book profit and sit in partly cash for the part of the portfolio and move the portfolio to Large Caps and avoid the small-cap and mid-cap for the time being. We would also advise you to boldly exit the speculative bets that have gone wrong and still appear in your portfolio. Do not end up buying poor-quality stocks just because there is a liquidity-driven rally in the broader markets. The risk-on rally tends to spur investors to chase prices rather than focus on fundamentals. Be aware of this. Although over the long term Mkt will behave as per the earnings of the companies and will continue to do well while the short term can be corrective and volatile. Hence, keep the faith and have patience.

Market Commentary

After consolidating for nearly two months in a narrow range, the index was able to break the shackles and move above the 16,000 marks during a month, the Nifty index ended the August month at 17,132 with positive gains of 8.7%.

Markets made an optimistic start of the month after India's manufacturing sector activities witnessed the strongest rate of growth in three months in July amid improved demand conditions and easing of some local COVID-19 restrictions. Markets continued bulls run as traders found support with rating agency ICRA's statement that IT services companies are expected to see revenue growth, driven by robust demand for digital technologies resulting in higher awards of contracts. Additional optimism came with a private report that India's recruitment activity has been recovering steadily as the hiring rate in June 2021 was around 42 percent above the pre-pandemic levels in 2019. However, key gauges pared some of their gains on the final day of trade as the RBI kept the key policy rate unchanged at 4%. The inflation guidance was at 5.7%.

Bulls continued splendid run on Dalal Street for yet another week with key gauges breaking record highs one after other as investors remain optimistic about the present growth momentum. Sentiments remained upbeat throughout the week on the back of strong domestic economic indicators and strong company results in Q1FY22. Markets made a positive start to the week as traders took support with the Services Export Promotion Council's statement that services exports have been recording a healthy growth rate consistently and are expected to grow by 28 percent in 2021-22 to take the exports to nearly $ 266 billion. Bourses extended gains as traders took encouragement with a private report stating that business resumption activity reached a record high since the start of the pandemic over 15 months ago for the week ended August 8. Afterward, markets witnessed consolidation as sentiments turned fragile on a report of ICRA that the fresh rupee-denominated bond issuances witnessed a sharp decline of 45 percent to Rs 1.3 lakh crore in Q1 FY2022 on a YoY and a QoQ basis (Rs 2.3 lakh crore each in Q4 FY2021 and Q1 FY2021). But, the rally on the last two sessions of trade helped markets to end near all-time high levels as promising inflation and industrial production data aided the sentiments.

Indian equity benchmarks ended the holiday truncated week in red terrain amid rapid spread of the coronavirus Delta variant, signs of faltering Chinese economic growth, and the Taliban's takeover of Afghanistan. Markets started the week on an optimistic note after the country's exports surged 49.85 percent to $35.43 billion in July on account of healthy growth in petroleum, engineering, and gems and jewelry segments, even as the trade deficit widened to $10.97 billion during the month. However, sentiments turned pessimistic as traders got anxious after traders' association CAIT said that the change of regime in Afghanistan and the uncertainty over the future will hit the bilateral trade between the country and India. The Confederation of All India Traders (CAIT) also cautioned domestic exporters and sought the Centre's intervention in preventing losses to the business community. Some concern also came as CMIE's latest data showed that the unemployment rate in urban India has been on the rise since the beginning of the current month.

Markets made an optimistic start as traders took encouragement with the government's statement that the country's agri-exports are estimated to grow 15% in FY22, adding that export of products like rice, meat, cereals, and dairy items rose 44.3% on-year to $4.81 billion during April-June 2021. Sentiments were upbeat as investments in the Indian capital markets through participatory notes (P-notes) rose to Rs 1.02 lakh crore till July-end, making it the highest level in the last 40 months. Markets extended rally after SBI research report Ecowrap has shown that country's gross domestic product (GDP) is expected to grow at around 18.5 percent with an upward bias in the first quarter of the current financial year. Some optimism also came with Icra Ratings' report stated that with the easing of COVID-19-related restrictions by the states, the roots of the economic recovery deepened in July 2021. Key gauges witnessed some consolidation during mid of the week as traders turned wary with the Asian Development Bank (ADB) stating that the coronavirus pandemic may have pushed as many as 80 million people in developing Asia into extreme poverty last year, threatening to derail progress on global goals to tackle poverty and hunger by 2030. Some cautiousness also crept in with rating agency Moody's stating that India's second Coronavirus (Covid-19) wave is increasing asset risks for banks in retail and the SME loan segment. Buying on the final day of the week helped markets to settle near all-time highs as Reserve Bank extended the scheme for encouraging the deployment of Point of Sale (PoS) infrastructure to street vendors covered under the PM SVANidhi program in tier 1 and 2 centers.

In terms of economic performances, the IHS Markit India Manufacturing Purchasing Managers' Index (PMI) registering 52.3 in August, pointed to an improvement in overall operating conditions for the second straight month.

The IHS Markit India Services PMI moved to 56.7 in August up from 45.4 in July, signaling a robust rate of expansion. August data pointed to a renewed increase in private sector activity across India, ending three months of downturn. Services firms outperformed manufacturers for the first time in over three years. Where growth was reported, panelists mentioned strong inflows of new work and improved demand conditions. The combined Index of Eight Core Industries stood at 134 in July 2021, which increased by 9.4% as compared to the Index of July 2020. Coal, Natural Gas, Refinery Products, Fertilizers, Steel, Cement & Electricity recorded growth whereas Crude Oil recorded negative growth.

India's retail inflation, measured by CPI eased to a three-month low to 5.59 % in July as compared to 6.26% in June. The inflation figure came within the RBI's target band after two months. Wholesale price-based inflation (WPI) eased marginally to 11.16 percent in July. India's wholesale price index (WPI)-based inflation eased in July but remained in double digits for the fourth consecutive month.

Regarding export-import activity, India's exports grew by 45.17% year over year at $33.14 billion in August while imports increased by 51.47% year over year to $47.01 billion. The Goods and Services Tax (GST) collection in July stood at ₹1,12,020 crore.

Also, India's foreign exchange reserves decreased by $2.470 billion to $616.895 billion in the week ended August 20, foreign currency assets (FCAs), a key component of the overall reserves, declined by $3.365 billion. Additionally, Foreign Portfolio Investors (FPIs) were net buyers of Rs. 16,556 crores in August, driven by net inflows in equity of Rs. 2,083 crore.

On the global front, the U.S. markets ended higher during the passing week on firm commodity prices and hope that the FDA's approval of the Pfizer/BioNTech covid-19 vaccine could boost vaccination rates in the U.S. and spur economic growth contributed as well to the market's uptick. Further, Sentiments got a boost amid continued optimism about growth and on hopes, the Federal Reserve might not begin tapering its bond-buying program anytime soon. Investors awaited a highly-anticipated speech by Fed Chairman Jerome Powell during the virtual Jackson Hole Symposium on Friday for more clarity on the Fed's tapering timeline.

In the labor market, first-time claims for U.S. unemployment benefits dropped in the week ended August 28th, according to a report released by the Labor Department. The report said initial jobless claims moved lower to 340,000, a decrease of 14,000 from the previous week's upward revised level of 354,000. The street had expected jobless claims to drop to 345,000 from the 354,000 revised level reported for the previous week.

Meanwhile, IHS Markit signaled a marked improvement in the health of the U.S. manufacturing sector. Although slightly softer than that seen in July, the expansion was supported by steep upturns in production and new orders, manufacturing PMI stood at 61.1 in August, down from 63.4 in July.

Growth of the eurozone manufacturing sector registered another marked expansion during August, the latest PMI data showed, although momentum waned once again as the headline index fell to a six-month low. At 61.4 in August, the IHS Markit's Manufacturing PMI was fractionally lower than July's flash figure of 61.5, and down from 62.8 in July. As per the report of the global data firm, "Eurozone manufacturers reported another month of buoyant production in August, continuing the growth spurt into its fourteenth successive month. The overriding issue was again a lack of components, however, with suppliers either unable to produce enough parts or are facing a lack of shipping capacity to meet logistics demand."

The final au Jibun Bank Manufacturing PMI dipped to 52.7 in August as compared to 53 in July, indicating a softer improvement in the health of the sector, reflecting the continued impact of the COVID-19 pandemic on the Japanese manufacturing sector.

Regarding China, The National Bureau of Statistics reported that the official manufacturing PMI for August fell to 50.1 from 50.4 in July. The country's non-manufacturing PMI, which gauges sentiment in the services and construction sectors, plunged to 47.5 in August from 53.3 in July.

Going Ahead

There is significant improvement globally and the Indian economy is likely to achieve 10% growth during the current financial year. The recent policy announced by FED indicates that a lower interest rate policy is likely to be continued for quite some time. The Reserve Bank of India has also given a similar indication in monetary policy that interest rate is not likely to increase in near future.

The IMD released its Long Range Forecast for September. Quantitatively, the all-India rainfall for this month will remain over 110 percent of the Long Period Average (LPA), which for September is 170 mm. With above-average rainfall and the upcoming festive season, an increase in demand across sectors could be seen.

With the rising concern of Covid 19, the Union Health Minister has advised against any mass gatherings during the festive season. Increasing vaccination will also allow states to keep Covid restrictions at a minimum and help the economy take advantage of the busy festive season.

The equity market has been doing exceedingly well. Since the valuation of Indian equity had grown up substantially during the last 6 months, the markets are likely to remain volatile.

As markets continue to tread in volatility, we advise investors to remain invested in healthy growth and value-oriented companies with quality management to create long-term sustainable wealth.

Equity Outlook

The global economy is projected to grow at 6.0% in 2021 and 4.9% in 2022 by the IMF in its July outlook. Growth forecast is revised upwards for advanced economies whereas it has been marked down for Asian emerging economies for 2021. These changes are reflective of the pandemic developments and policy changes implemented in these economies. India is projected to grow at 9.5% in 2021 (3% below the April 2021 IMF forecast).

Domestically speaking, as improvement in industrial indicators and external demand are unfolding, the economic activities could potentially normalize from September onwards supported by pent-up demand, ongoing vaccination drive (current pace stands at~4mn/ day), support from policy mix and resurgence in global growth (to boost exports growth). Cyclical recovery could aid domestic GDP growth for FY22. Monetary policy stance remains supportive of growth.

Risks to domestic economy emanate from patchy trend in monsoon and a slow pickup in sowing in this season so far. On the global front, despite the encouraging economic growth numbers in the US, the US Federal Reserve seeks additional improvement in the economy including labour market to be able to decide on the tapering of stimulus program. The US central bank acknowledges inflationary risk but views it to be transitory in nature. Potential risk could emerge from slower-than-expected vaccine rollout/uneven recovery and new virus variants, faster than anticipated pace of inflation, especially commodity price inflation, warranting policy action whereby worse pandemic dynamics and tighter financial conditions could impact recovery in emerging markets.

From an investment perspective, with elevated index levels across all market capitalization categories due to recent rally, we recommend staggered & systematic approach instead of making lump sum investments at this juncture

Focused Equity Mutual Funds and Returns

Large Cap	1 Years	3 Years	5 Years	Since Inception
Mirae Asset Large Cap Fund	48.23	14.89	16.08	16.47
Canara Rebeco Bluechip Fund	49.42	17.85	16.7	13.7
Franklin India Bluechip Fund	57.8	12.63	12.14	20.22
Large & Midcap				
Kotak Equity Opportunities Fund	54.6	16.94	15.53	18.99
Flexi Cap				
Canara Robeco Flexi Cap Fund	54.48	18.13	17.55	18.85
HDFC Flexi Cap Fund	56.21	11.61	13.28	18.5
Midcap Fund				
Kotak Emerging Equity Fund	72.31	19.89	17.26	14.35
DSP Midcap Reg Gr	50.2	16.91	15.57	16.05
Focused Fund				
SBI Focused Equity Fund	53.83	17.91	17.25	20.42
ICICI Pru Focused Equity Fund	52.28	14.08	13.41	13.54
ELSS	**1 Years**	**3 Years**	**5 Years**	**Since Inception**
Aditya Birla SL Tax Relief '96 Fund	30.95	7.33	11.74	11.13
Axis Long Term Equity Fund	57.25	16.89	17.3	18.71
Mirae Asset Tax Saver Fund	60.09	19.93	20.75	21.65

Source: Anand Rathi Internal Research.

Note: Such representations are not indicative of future returns.

Debt Outlook

In line with our expectation, the RBI's MPC unanimously voted to keep the policy rate unchanged for the seventh consecutive time, while maintaining its accommodative policy stance. The RBI has retained its growth projection at 9.5% for FY22 while noting that the ongoing recovery remains dependent on progressive up scaling of vaccinations, continued large policy support, buoyant exports, and benign monetary and financial conditions. High-frequency data show signs of improvement, led by rural demand, strong export growth, ongoing fiscal support, and relatively minimal disruptions to economic activity due to the second wave of the pandemic. On the inflation front, the RBI acknowledged the upside risks to inflation emanating from supply side pressure, cost push factors, and rising global commodity prices. Accordingly, the outlook for headline CPI was revised upwards to 5.7% for FY2022 from an earlier projection of 5.1%, with risks broadly balanced. Despite this increase, the RBI has indicated that early moves to normalize monetary policy could stifle the currently tenuous economic recovery. Further, it expects the higher CPI inflation print to be transient in nature.

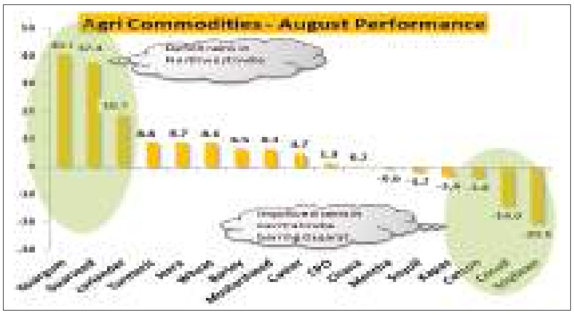
The RBI announced to conduct fortnightly Variable Rate Reverse Repo (VRRR) auctions of INR 2.5 trillion on August 13, 2021; INR 3.0 trillion on August 27, 2021; INR 3.5 trillion on September 9, 2021; and INR 4.0 trillion on September 24, 2021. The RBI announced to conduct two more auctions of INR 250 billion each on August 12 and August 26, 2021, under G-sec acquisition programme (G-SAP) 2.0. The central bank also mentioned that it will continue to undertake these auctions and other operations like open market operations (OMOs) and operation twist (OT), among others, and calibrate them in line with the evolving macroeconomic and financial conditions.

Growth concerns continue to assume centre stage in MPC deliberations. We believe that the RBI may embark on a gradual exit from the prevailing loose monetary policy by reducing the short-term liquidity by gradually increasing the Variable Rate Reverse Repo (VRRR) or reducing G-SAP. Subsequently, we expect the RBI to narrow the policy rate corridor through a reverse repo hike in Q4FY22. Key risk to this assumption is weaker than anticipated growth which may push the policy normalization to a later time. We believe that the yields in the mid part of the curve are reasonably priced with moderate duration. Even with yields tending to inch up, higher accruals could provide a buffer to mitigate some of the erosion in price. Investors may consider investing in funds that offer such exposure along with lower volatility. Investors may also consider floating rate funds as they provide a hedge against a rise in interest rates

Commodities Outlook

September rains to decide fate of Agro commodities ahead

August was an action-packed month for Agricultural commodities. The NCDEX has launched two sectoral Indices viz- Guarex and Soydex which are likely to gain traction as they are based on the most liquid contracts traded on the exchange and also come with several distinguished advantages. Another eye-catching event in August was that the Guar complex which has been trading in a very narrow range since 2014-15 has moved out from the consolidation phase witnessing more than 50% gains in both guar seed and gum through profit booking was seen in the latter part of the month.

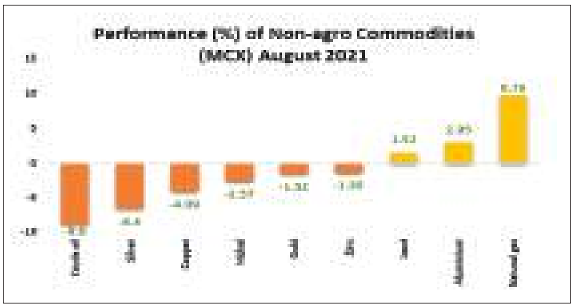


On the monsoon front, August saw 9% below average rains with drought conditions most likely predicted for Gujarat and Northwest Rajasthan. The absence of rains in Northwest Rajasthan led to a rally in the guar complex while Jeera and coriander too skyrocketed eying the monsoon deficit in these two spice-growing states. One negative development which occurred in August was the suspension of the Chana contract which temporarily affected the market sentiments.

Among the losers last month were the cotton complex and the Soya complex. Better crop prospects and the upcoming harvesting season exerted pressure on the prices. Stepping into the last month of the four-month monsoon season, i.e. September. IMD has come out with its September forecast wherein it expects monsoon most likely to be above normal. This is a very good sign and if materializes could aid Kharif crop prospects. However, Gujarat and Northwest Rajasthan don't see any major relief, and the crop size of commodities like Guar seed may continue to remain uncertain. While in the case of the Jeera and Coriander, sowing of the same will commence next month and the market is expecting a shift from these two crops considering unappealing returns.

On the other hand, soybean harvesting will pick up the pace from mid-September onward. No significant fall in the price is expected this month because of the tight supply situation. Demand would be robust at the start of the season and this should restrict the downside.

Bullion commodities came under pressure but Aluminium continued to show resilience



(Source: Bloomberg)

Continuing with a bearish undertone, MCX Silver September futures crashed by nearly 6.6% or Rs. 4,481 points in August. It has marked the third consecutive monthly fall and this year it is down for five out of eight months, and ultimately, it's down by 7.4% this year. For MCX silver, the fall in August 2021 has been the largest in terms of the net (Rs. 4,481) and percentage (6.6%) decline since September 2020 owing to the weakness in base metals, rebound in the US dollar, and a psychological technical break-down in the international Silver market.

MCX Gold October futures have finished August with a loss of around 1.5% or Rs. 726 as the U.S. dollar appreciated by 0.61% and closed a t92.65 in the same month after few of the Federal Reserve governors spoke of the possibility of early tapering of bond-buying and the start of increasing interest rates sooner than anticipated although there are challenges related to the delta variant of Covid-19. Lastly, MCX Bulldex August future ended at Rs. 14,141 with 3.46% fall as the tone was bearish in the bullion space. The holding at the SPDR Gold ETF, the largest gold back ETF has dropped to 1,000.26 tonnes as of 31st August 2021 as compared to 1,031.46 tonnes as of 30th July 2021 and 1,170.74 tonnes as n 31st December 2020.

(Source: Bloomberg)

Further, bullion commodities came under pressure as the U.S.'s GDP rose at a revised 6.6% annualized pace (6.5% a quarter ago) in the second quarter. The slight increase in GDP reflected somewhat stronger consumer spending and U.S. exports than initially reported. The revised GDP report also included the first look at corporate profits in the second quarter.

Traders have mostly digested the Jackson Hole, Wyoming annual Federal Reserve symposium. While several Federal Reserve officials gave hawkish interviews, Fed Chairman Jay Powell said that while the Fed could begin to reduce its monthly bond purchases this year, it will be in no hurry to raise interest rates. Powell's remarks were not deemed as being overly hawkish on U.S. monetary policy.

Going ahead, September is another important month for overall markets and the bullion commodities in particular. The U.S. is already grappling with a delta variant of Covid-19 however we are seeing a risk-on sentiment with Dow Jones Industrial Average and S&P 500 Index is hitting a fresh an all-time high every second day. The U.S. will release non-farm payrolls for August and most crucial is monetary policy which will be held on 21st and 22nd September along with the Summary of Economic Projections. Recently, the Chairman of the Federal Reserve, Jerome Powell did not provide any decisive timeline for withdrawal of stimulus, hence traders will be keenly watching for every economic data point to gauge the future action plan of the Fed. We expect the month to be volatile with a bearish undertone but September also marks the kick start of festivities in India as Ganesh Chaturthi & Navratri / Durga Puja falls in September and October. So from lower levels, we also expect retail buying from India. Hence initially, MCX Gold October future may decline to Rs. 45,700 - 46,000 per 10 gram in September and Rs. 48,500 per 10 gram is a good resistance. We don't rule out a technical pullback in MCX Silver December futures but the sentiment is likely to be weak. MCX Silver December may appreciate to Rs. 66,000 per kg once prices settle around Rs. 62,000 per kg.

MCX Aluminium has been resilient amid supply disruptions; Nickel and zinc took a breather

MCX aluminum has been the top performer among base metals which closed higher for the eighth consecutive month, appreciated by 2.95% in August, hitting an all-time high of Rs. 214.5 per kg since the trend was bullish on the LME owing to the rising supply-side disruptions at the world's largest primary aluminum producer, China is one of the major drivers of the market. Meanwhile, the light metal largely shrugged off a total 210,000 tonnes stock release from the Chinese state reserve bureau in a bid to tame prices.

Smelters at China's multiple provinces are told to keep the power load lower. As a result, smelters have had to lower their operating rate, resulting in lower production. Monthly aluminum productions have been declining three-month in a row—in provinces including Inner Mongolia, Guangxi, Guizhou, and Yunnan. However, there is a risk that another province, Qinghai, may also face the same problem as the local grid has issued a warning to smelters on potential power shortage. The province has a collective capacity of around 2.8 million tonnes and relies 100% on the grid power supply instead of captive power. While many blame the nation's tight power market, many market participants hope the situation will improve after summer power consumption peaked. Besides the disruptions to existing operations, some new projects have failed to ramp up on schedule for the reasons above. At the end of last year, we expected over three million tonnes of additional capacity to come online; however, this has come down to less than one million tonnes.

Otherwise, metals like copper, nickel, and zinc declined amid a resurgence of delta variants in the U.S. and China raised questions of global economic recovery. MCX Copper August futures with more than 4% loss was the top loser among the base metals as fear of supply tightness eased after BHP's management and workers union at Chile's Escondida mine has successfully avoided a major strike as the union accepted a revised wage offer from the management after rounds of negotiation. MCX Nickel witnessed a weak undertone due to bearish momentum in the Chinese Stainless steel market.

Going ahead, it will be commodity-specific in the base metal space. As mentioned earlier, MCX Aluminium could continue to travel higher amid fear of supply disruption after China has ordered smelters to control electricity consumption. MCX Aluminium September futures may climb further to Rs. 220 per kg. Other metals like copper, zinc, and nickel could stay subdued amid rising Covid-19 cases in the U.S. another trigger for bears is a rebound in the U.S. dollar which will be dependent on the U.S. data. MCX Copper September may stay in a range from Rs. 700 to Rs. 740 per kg in September. MCX Zinc having hit an all-time high in August, may experience a profit booking and decline to Rs. 240 per kg.

Crude oil tumbles sharply in August; likely to recover in September

WTI Crude oil prices tumbled by 7.4% in August while MCX prices plunged by 8.6% spurred by sharp Rupee appreciation. In the earlier part of the month, the announcement of new restrictions in China including flight cancellations, warnings against travel, and limits on public transport in worst-hit areas, weighed on global risk appetite. Also, China's crude oil imports dipped slightly to 9.71 million barrels per day (BPD) in July, marking the fourth month in a row of imports below 10 million BPD. This, along with weaker economic data from China increased concerns of slower economic growth and in turn lower fuel demand from the world's biggest importer.

Further, IEA said in its monthly report that rising demand for oil reversed course in July and was set to proceed more slowly for the rest of the year and cut its 2021 global oil demand growth forecast by 100,000 barrels a day. While on the other hand, OPEC maintained its demand outlook but warned of "significant uncertainties", most notably COVID-19. On the other hand, OPEC did not make any revisions to the oil demand outlook but warned of significant uncertainty, most notably COVID-19. Also, they expect US Shale output to grow further in 2022, which could potentially hurt the oil market balance maintained by OPEC since the COVID pandemic. Still, crude oil prices made a sharp recovery in the last week of August as the US Food and Drug Administration (FDA) granted full approval to the Pfizer/BioNTech SE Covid-19 vaccine for use in people age 16 and older. Also, China bought local COVID cases back to zero after a month of drastic restrictions on movement, thereby raising prospects of higher fuel demand. Further, supply disruption from Mexico where a major outage after a fatal fire at a Mexican platform reduced its crude oil production by 421,000 barrels per day (BPD), or around a quarter of the country's output.

Oil prices are likely to gain further in September towards 5,300/bbl as OPEC+ agreed to stick with earlier plans to add back 400,000 barrels per day from Oct. 1, adding that market fundamentals have strengthened and OECD stocks continue to fall as the recovery accelerates while the effects of the COVID-19 pandemic continue to cast some uncertainty. OPEC+ experts revised the 2022 oil demand growth forecast to 4.2 million BPD, up from a previous 3.28 million BPD, and expects global oil demand to grow by 5.95 million BPD in 2021 after a record drop of about 9 million BPD in 2020 because of the Covid-19 pandemic. Other than that, the Memorial Day holiday and Hurricane season in the US may weigh on supply in the US and prompt more inventory drawdowns.

Currency Outlook

USDINR spot to take a breather after an impressive rally in August

Indian Rupee spot appreciated sharply by 140 paise in August, jumping sharply in the last week on weakness in the dollar index following Fed chair comments at the much-awaited Jackson Hole Symposium. Fed chair Jerome Powell reiterated that it could be appropriate to start taper 'this year' but Tapering doesn't carry a direct rate-hike timing signal, similar to comments in the FOMC July meeting minutes. Powell said the labor market has made "clear progress" as part of the tapering test to make "substantial further progress", but still has much ground to cover to reach the target full employment. These comments pushed expectations for the Fed's long-term tightening trajectory sharply lower thereby pushing the dollar lower towards two weeks low at 92.5 while US 10 year treasuries retreated towards 1.27%.

Along with this, rally in domestic equities to all-time high levels pushed Rupee higher to 72.98, the highest since June 11 on the last day of the month.

Dollar still managed to close the month with a gain of 0.5% in August on safe-haven buying during the month spurred by risk aversion in the markets considering the lingering COVID-19 concerns, political unrest in Afghanistan, disappointing data releases from China. Also, FOMC July meeting minutes hinted towards reducing bond purchases later this year although they clarified that tapering was not a precursor to an imminent rate hike. So we saw the dollar touching a high of 93.75, the highest since November 2020.

Indian Rupee spot is expected to depreciate towards 73.5 levels this month as Fed is highly data-dependent and will keep tabs on US labor and inflation figures, which have been pretty favorable for the dollar in the last few months. Ongoing COVID-19 situation and fears of the third wave in India with rising COVID cases in Kerala and Maharashtra may bother domestic investors.

Anand Rathi PMS
MNC Portfolio

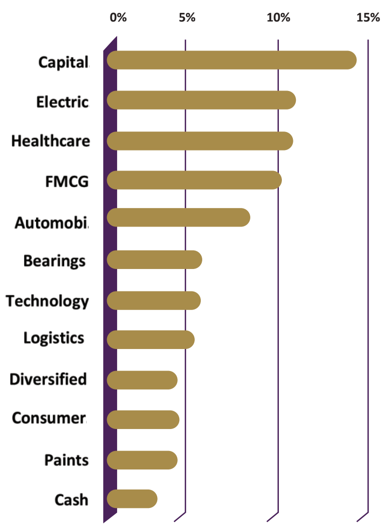
Focus on consistency of return and risk moderation by investing in Multinational Companies listed in India. Investments into listed companies in India in which the foreign shareholding is over 50% and/or the management control is bestowed in foreign company and/or the technological and managerial know-how brought in by foreign partner/investor

Strong Business model	MNC benefits from a) Innovation b) Strong R&D c) Advanced Technology d) Strong Brand/Product e) Economies of scale
Strong Corporate Governance	MNC's are generally rated high for their corporate governance standard. They depict high transparency and accountability with well laid out policies and regulatory framework, internal control and risk management
Healthy Balance Sheet	Most MNC's have a) Better operating ratios b) Zero Debt or Low debt /Equity c) Positive Free Cash flow d) Healthy Return ratio
Special opportunity	MNC companies sometime carries an additional trigger for value appreciation in form of corporate actions like open offers, Buybacks and Delisting etc. This usually add substantial appreciation to the share price enhancing investors ROI

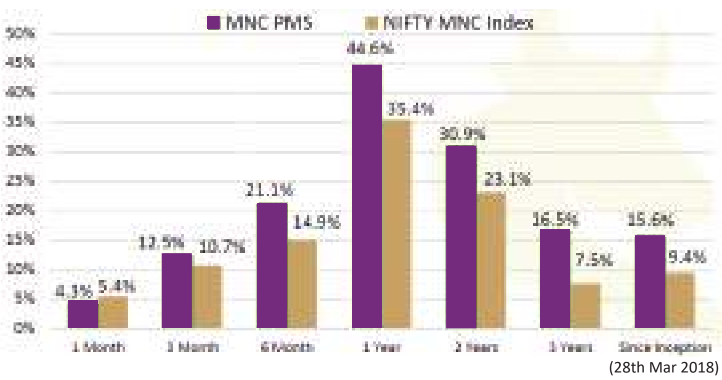
Top Holdings and Allocation

Sr. No.	Top 10 Holdings	% Holdings
1	KSB Ltd.	7.9%
2	Grindwell Norton Ltd.	6.7%
3	BASF India Ltd.	6.3%
4	SKF India Ltd.	6.0%
5	Mphasis Ltd.	6.0%
6	Hindustan Unilever Ltd.	5.8%
7	Blue Dart Express Ltd.	5.8%
8	Honeywell Automation India Ltd.	5.7%
9	Siemens Ltd.	5.6%
10	Maruti Suzuki India Ltd.	5.1%

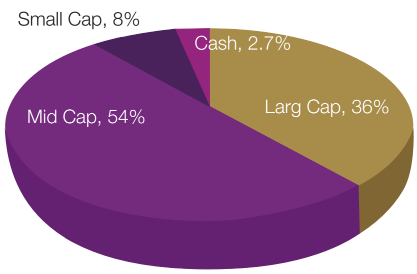
Sector Allocation



Performanceas on 31st August, 2021



Market Cap Allocation



Data as on 31st August 2021

Source: *Anand Rathi Internal Research.*

Note: *Returns above one year are annualized. Returns are net of fees and expenses.*

Disclaimer: *Past Performance is not necessarily indicative of likely future performance. Performance mentioned above are not verified by SEBI. We have shown the performance as Aggregate performance of all clients on TWRR basis.*

Anand Rathi PMS

Impress

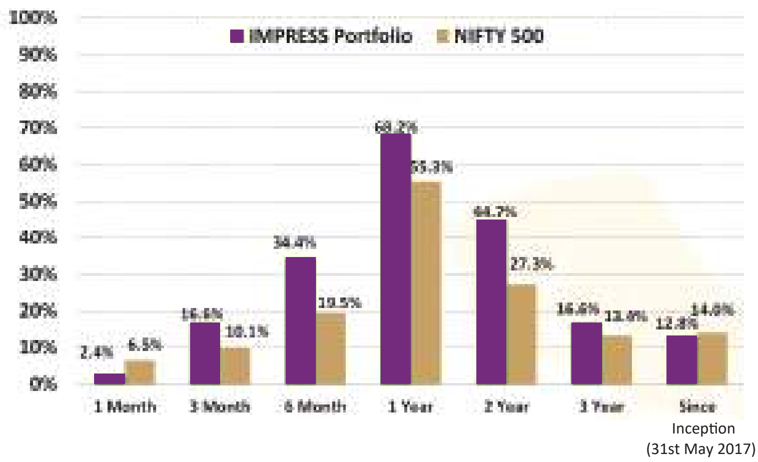
Focus on Return Optimization by investing in multicap portfolio of rising enterprises with sound corporate track record and sustainable business model keeping balance between value and growth strategy.

Business model	Improving Market Share, Leadership and Niche Market
Rising Enterprises	Stable and Improving Margin and Improving ROE and ROCE
Sustainability	Visibility of Earning Over Next 2-3 Years and Predictable Business Model
Sound Corporate Track Record	Management Background and Accounting & Corporate Policies

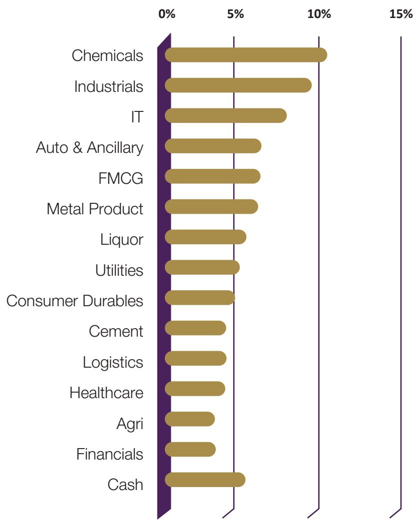
Top Holdings & Market Cap Allocation

Sr. No.	Top 10 Holdings	% Holdings
1	Tata Consumer Products Ltd.	7.45%
2	Ratnamani Metals & Tubes Ltd.	6.61%
3	Galaxy Surfactants Ltd.	6.34%
4	Radico Khaitan Ltd.	6.29%
5	Carborundum Universal Ltd.	6.11%
6	Somany Ceramics Ltd.	5.70%
7	Crompton Greaves Consumer Electricals Ltd.	5.37%
8	Solar Industries India Ltd.	5.20%
9	JK Lakshmi Cement Ltd.	4.70%
10	Mindtree Ltd.	4.48%

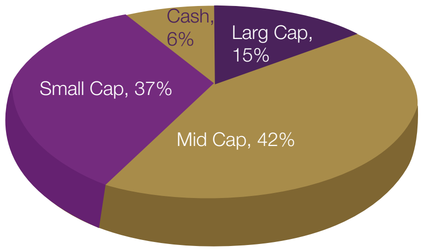
Performanceas on 31st August, 2021



Sector Allocation



Market Cap Allocation



Source: *Anand Rathi Internal Research.*

Data as on 31st August 2021

Note: *Returns above one year are annualized. Returns are net of fees and expenses.*

Disclaimer: *Past Performance is not necessarily indicative of likely future performance. Performance mentioned above are not verified by SEBI. We have shown the performance as Aggregate performance of all clients on TWRR basis.*

Structure Product Idea

Nifty Accelerator

Product Name	Nifty Accelerator - 100%	
Issuer	Anand Rathi Global Finance Limited	
Underlying	Nifty 50 Index	
Capital Guarantee	Principal is not protected	
Tenor(days)	1875 Days	
Initial Fixing Level	150 points contingent from closing nifty then rounded to next 100	
Final Fixing Level	Average of Closing NIFTY on last Thursday of 50th, 53rd,& 56th Month.	
Nifty Performance (NP)	(Final Fixing Level/Initial Fixing Level)-1	
Contingent Coupon (CC)	100% (IRR – ~14.45%)	
Participation Rate (PR1)	100% (From 108% to 133% of Initial Fixing Level)	
Participation Rate (PR2)	7500% (From 132% to 133% of Initial Fixing Level)	
Decay Multiple (DM1) Knock-In Put @ 85%	1.25x (below - 85% till -30% fall with catch-up)	
Decay Multiple (DM2) Nifty @ 70% of initial	0.25x (Beyond -30% fall decay decreases)	
Payoff	If Final Fixing Level is at or above 133% of Initial Fixing Level	Contingent Coupon
	If Final Fixing Level is Above 108% & below 133% of Initial Fixing Level	(NP-8%)* PR1+ Max(0%,(NP-32%)*PR2
	If Final Fixing Level is above 85% & at or below 108% of Initial Fixing Level	Principal Protection
	If Final Fixing Level is below 85% of Initial Fixing Level	MAX(-100%,MAX((-30%*DM1), NP*DM1)+MIN(0%,(NP+30%)*DM2))

Product IRR* **14.45%**

Tenor **1875 Days**

Target Nifty Perf. **33%**

Product Explanation

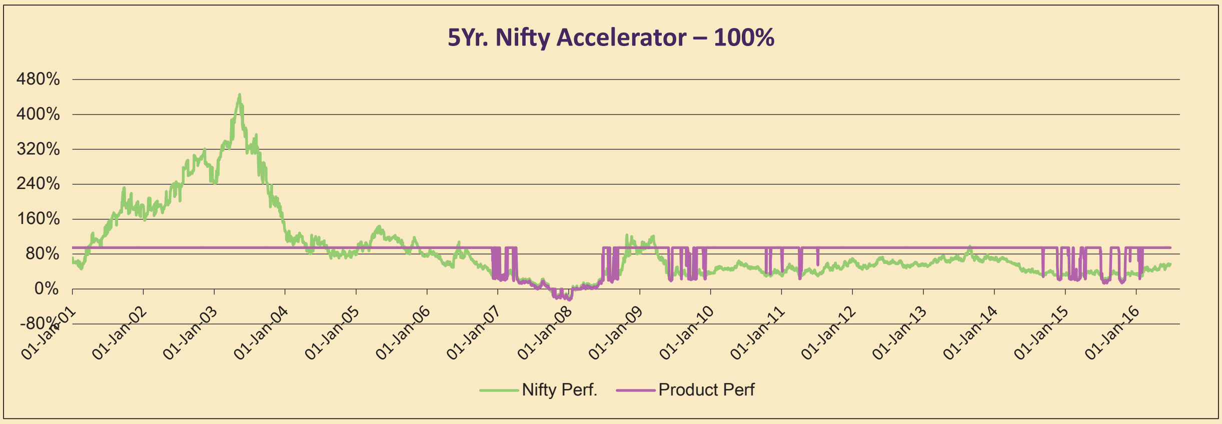
NP >= 32%	100% (Contingent Coupon)
32% < NP < 33%	Max (0%,(NP-32%)*PR2
8% < NP < 33%	(NP-8%)* PR1
-15% <= NP <= 8%	Principal Protection
-30% <= NP < -15%	1.25x Decay with Catch-up
Nifty falls beyond -30%	Decay decreases to 0.25x

*Product IRR assume to be Pre-Tax IRR
•NP: Nifty Performance
^ Initial Fixing Level is taken as 15778, adding
150 points contingent: 15928, rounded off to next 100: 16000.
**Historical Standard Deviation is calculated for 1710 days daily rolling NIFTY (Working Days Only)return from 1st Jan'2001 - 29th July'2021

Source: Anand Rathi Internal Research.
Note: Such representations are not indicative of future returns.

Nifty Accelerator - 100%: Product Back Testing

Historical 1710 Day Rolling Return (Nifty Working Days Only)



NIFTY Accelerator - 100% Probability		
Particulars	**Normal**	**%**
Total Observation	3959	
% of Product Has Given Maximum Returns (100%)	3346	84.52%

% of time Product has given zero or positive returns	3940	99.52%
Standard Deviation		**4.43%**

The information provided is this communication is reproduction of factual details. No part of information provided herein should be construed as investment advice by ARSSBL and/or its employee. Investor/Client must make their own investment decisions based on their own specific investment objectives and financial position. This communication does not constitute an offer or solicitation for the purchase or sale of any financial instrument / security.*Historical probability & Standard Deviation is calculated considering coupon of 100% and 1710 Day daily rolling Nifty (Working Days Only) returns as on 29th July'2021 Nifty Data from January 2001 to 29th July'2021.

Technical Analysis

The month of August has been historical for the equity market as the benchmark index NIFTY50 has achieved two milestones of 16K and 17K in the same month. The index rallied 8.69% in the last month and has boosted the overall market sentiments. Select blue chip counters have contributed to the rally with IT and FMCG showing outperformance. It was a complete dominance of the bulls that even the slight correction in mid and small caps in between the series did not hamper the sentiment and the rally continued in such a manner that the corrected counters also reversed. The strong fundamentals, quarterly earnings, and mostly because of the liquidity the bulls have taken over the equity market.

On technical parameters, NIFTY is looking very strong on charts as any small correction in the past is taken up easily by the bulls. However, the market has been trading at an overbought zone which could be depicted from the derivative data, where the PCR is consistently placed at a higher zone. Even the index is stuck near to the upper band of the Bollinger (20, 2) since the breakout at the milestone of 16000 followed by the 14 period (weekly) RSI which is nearing the previous swing high of 79 odd zone where the index got stuck in a consolidating phase. Hence, looking at the early sign of consolidation, it is advisable to stay cautious at higher levels. As per derivative data, the immediate support is pegged around the 17000 mark followed by 16500, while on the higher side 17500 could be seen as immediate hurdle breaching which in a decisive manner could trigger another set of rally in the September month series.

Attention should also be given to India VIX that is consolidating near the support zone of 12 odd levels and is in the formation of rounding bottom in daily time frame. Even on the weekly time frame the 14 period RSI has made a positive crossover near the oversold region indicating a cautious approach in the market. Hence, it is advisable to stay extremely selective while picking up stocks and always to book considerable profits in the current market scenario.

On the other hand, BANKNIFTY has moved in line with the broader index in the last expiry as it gained over 5.32% on the month on month basis. On the weekly chart, the index has witnessed a strong bullish candlestick pattern and settled above the mean of the Bollinger band (20, 2). The index has also breached the sloping trend-line and is all set to surge high in the coming future. However, the confirmation is pending for the index to move upwards, till the coming week witnesses a follow-up buying. Till the time the participation of BFSI is not made decisively, it would be difficult for the markets to surge higher. Only if the index sustains above the 36500 mark then it could possibly travel towards lifetime highs of 37700 and also towards the 40000 mark, while on the downside 34000 could be a major decisive support zone.

BUY BUY ADANIPORTS

POTENTIAL UPSIDE 20%-26.6%

- The given weekly chart depicts the relative strength of ADANIPORTSvs. rest of the Adani group stocks. The stocks can be identified based on the colourful labels on the top left side and the line charts of them.

- What we can conclude from this is that apart of ADAIPORTS rest of the other stocks from the group have done great in the recent times and are again near their previous peak.

- We expect similar kind of performance from ADANIPORTS in the coming weeks.

- On the daily chart we are also witnessing a bullish crossover of short term EMA with medium term EMA. Thus; traders are advised to buy the stock in the range of 750 - 740 with a stop loss of 645 on closing basis for the upside potential target of 895 followed by 945 levels in coming months.

Fixed Income Services

The Monetary Policy Committee (MPC) unanimously kept the Repo and the Reverse Repo rate unchanged in its August 2021 review, with a 5 to 1 majority to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

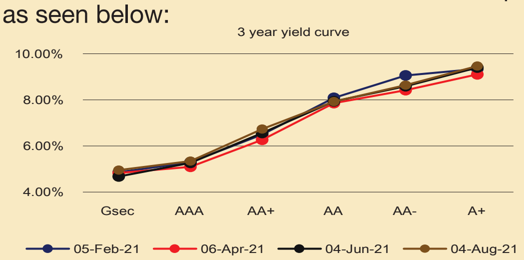
Key Takeaways:

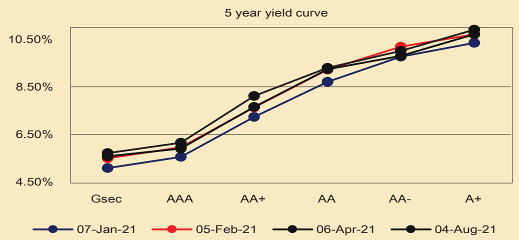
- The projection for CPI inflation has been revised to 5.7% during 2021-22; 5.9% in Q2; 5.3% in Q3; and 5.8% in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.1%.

- The projection of real GDP growth for 2021-22 is retained at 9.5% in 2021-22 consisting of 21.4% in Q1; 7.3% in Q2; 6.3% in Q3; and 6.1% in Q4 of 2021-22. Real GDP growth for Q1:2022-23 is projected at 17.2%.

The policy was on expected lines with the MPC maintaining status quo on rates with a unanimous decision, however, the accommodative stance was maintained with one member expressing reservations on continuing with the stance in the wake of persistently high inflation. To address the excess liquidity which is currently at 10 lakh cr, RBI increased the variable reverse rate repo (VRRR) auctions amount from the current 2 lakh cr to 4 lakh cr by the end of September, which would push up short term rates. The RBI also announced the G-sec Acquisition Programme of 25,000 cr each for next week and the end of August which should keep markets steady.

G-Sec yields hardened post the policy on account of the following reasons: (1) Increase in CPI inflation projections, (2) Increase in VRRR amount which may be the first step towards policy normalization (3) reservations by one of the MPC members on the continuation of the accommodative stance. Credit yields have hardened at the shorter end since our last update as seen below:





Secondary Market Bond Offers

Security	Maturity/C	IP	Rating	Yield
Tax Free Quotes				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
8.20% NHAI 2022	25-Jan-22	Annual on 01-Oct	IND AAA/Stable	3.35%
8.63% IRFC 2029	26-Mar-29	Annual on 15-Apr	IND AAA/Stable	4.42%
PSB Perpetual Quotes				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
7.74% SBI Perp 2025	09-Sept-25	Annual on 09-Sept	AA+ by CRISIL	7.20%
8.50% Canara Bank Perp 2025	31-Dec-25	Annual on 31-Dec	IND AA & CRISIL	8.34%
8.50 Bank Of Baroda	22-Nov-24	Annual on 22-Nov	AA+ by CRISIL & ICRA	7.00%
PSU Quotes				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
8.56 REC 2028	29-Nov-28	29-May & 29-Nov	AAA by CRISIL & ICRA	6.69%
6.83 PFC 2031	22-Jan-31	Annual on 22-Jan	AAA CRISIL, ICRA & CARE	6.70%
8.37 REC 2028	07-Dec-28	07-Dec/07-Jun	AAA CRISIL, ICRA & CARE	6.65%
Corporate Bonds				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
09.75 Aadhar Housing Finance 2028	29-Sep-28	Annual on 29-Sep	CARE AA	7.88%
8.20 India Grid Trust 2031	06-May-31	Annual on 6-May	AAA CRISIL & ICRA	7.50%
10.25 Shriram Transport Finance Corporation 2024	26-Apr-24	Monthly on 28th	AA+ CRISIL & IND	9.20%
7.90 Muthoot Finance Ltd 2031	30-May-31	Annual on 31-May	CRISIL AA+, ICRA AA+	7.70%
9.50 Shriram Transport Finance Corporation 2023	27-Feb-23	Annual on 26-Feb	AA+ CRISIL	7.25%
9.75 Sundaram Finance Ltd 2023	31-Jan-23	Annual on 31-Jan	AAA CRISIL & ICRA	5.75%
9.70 Tata Motor Finance 2024	19-Dec-24	Annual on 19-Dec	AA by CRISIL & ICRA	7.85%
9.50 Piramal Capital & Hsg Finance Ltd 2022	15-Apr-22	Monthly on 15th	AA CARE	7.05%

The above mentioned offer(s) are indicative and subject to changes in market conditions.

'Please note that investments in these bonds should not be construed as an advice or recommendation however we can facilitate the execution of the same. The bonds are tradeable on the Exchange platform, however we do not provide any assurance or guarantee on the liquidity of bonds. The investment decision shall at all times exclusively remain with the investor. The organisation shall not responsible or liable for any loss or shortfall incurred by the investors.'

Purnartha

RESEARCH - RESULTS - RELATIONSHIPS

Chayan

[INVESTMENT PHILOSOPHY]

Companies that show strong fundamentals and are likely to witness robust growth in revenue

Companies that display margin expansion and net profit growth across cycles

Net Cash companies (zero net debt) i.e. growth funded by clients & internal accruals rather than debt

Companies with lower drawdowns and potential to recover quick

Use of a proprietary algorithm based quantitative model to select stocks from 10-year data across sectors to build a portfolio aimed at wealth creation

We rigorously look for companies that satisfy all five of the above qualities. This universe of companies is filtered through our proprietary quantitative model to select stocks that could have the best potential for wealth creation.

"In God we trust. All others must bring data."

- W. Edwards Deming, Statistician

Shodh

[RESEARCH]

In a market that thrives on ambiguous investment tips and gut feelings, Purnartha uses a proprietary quantitative model powered by well thought-out algorithms that come up with possible investment opportunities which are further examined by the Research team. We select stocks of companies that display strong fundamentals, are supported by business tailwinds, have potential for growth and show a resilience to bounce back in the face of adverse market conditions. In addition we also look at stock prices and performance trends.

History

We look at stock performance across various data points for over a decade. For stocks that have been listed on the bourses relatively recently, we look for only those that have been listed for at least 5 years. This historical data allows us to examine the market's acceptance of such stocks, and see the stock performance beyond its initial price discovery stage. Such historical data also permits a better reading of stock price trends and refines the stock selection process.

Purnartha

RESEARCH - RESULTS - RELATIONSHIPS

Proprietary Quantitative Model

Purnartha uses a proprietary quantitative model for stock selection that has been tested with raw data spanning over 10 years to arrive at a shortlist that is rigorously examined for investment. The algorithms built into this model then help select few stocks to arrive at a portfolio construct that has a good risk-reward balance. Such portfolios are also tested for their resilience to market downturns to check for quicker recovery from lows. The quantitative model is also continually refined by incorporating learnings and parameters that make the stock selection sharper and better aligned to our requirements. This continuous upgradation of the algorithm assists the Research team in narrowing on the most suitable stocks that show a favorable risk reward ratio.

Stock selection methodology

Our proprietary quantitative model is built on a data-driven algorithm that looks for growth-oriented companies in non-cyclical businesses that show consistent revenue and operations cash flow growth. Such parameters are indicative of the soundness of the company’s operations, depth of management and demand for the company’s products in the marketplace. These selected companies are then examined by the Research team to arrive at a collection of stocks across market capitalisation and sectors that could endeavour to create wealth in the future.

A company's growth if funded by clients and not debt, is a positive indication. A Net cash company possesses a brilliant competitive advantage in the market. A fairly unexplored avenue when it comes to deciding investments, being a cash rich business is an important part of our consideration as it tells us a lot about company stability during rocky market conditions.

The resultant of philosophy is lower drawdown and faster recovery driven by strong fundamentals of the company.

MA₹CELLUS

About Marcellus

Marcellus Investment Managers was founded in 2018 and currently has c.US$ 1.2bn in assets under management and advisory. The founders have worked together for the past 15years

Saurabh Mukherjea
CFA - Chief Investment Officer

- Former CEO of Ambit Capital assets under advisory were $800 mn
- Author of three bestselling books Gurus of Chaos 2014 The Unusual Billionaires 2016 and “Coffee Can Investing 2018
- Co founder of Clear Capital, a London based small cap equity research firm which he and co-founders created in 2003 and sold in 2008
- MSc in Economics from London School of Economics
- Member of SEBI’s Asset Management Advisory Committee

Key steps for identifying consistent compounders

Step 1: Identify companies with clean accounting

Ten forensic accounting checks used to identify naughty companies.

Category	Ratios
Income statement checks	1) Cashflow from operations (CFO) as % of EBITDA 2) Volatility in non operating income 3) Provisioning for doubtful debts as a proportion of debtors overdue for >6 months
Balance sheet checks	4) Yield on cash and cash equivalents 5) Contingent liabilities as % of Networth (for the latest available year) 6) Change in reserves explained by the profit / loss for the year and dividends
Auditor checks	7) Growth in auditor’s remuneration to growth in revenues 8) Miscellaneous expenses as proportion of total revenues 9) CWIP to gross block
Cash theft checks	10) Free cash flow (cashflow from operations cashflow from investing) to median revenues

Strong correlation between accounting quality and shareholders’ returns

Note: Returns above represent median of decile-wise median returns calculated for every year from CY15 (accounting scores based on FY15 financials) to CY18 (accounting scores based on FY18 financials).

Methodology: We look at over six years of consolidated financials for the universe of firms. Wefirst rank stocks on each of the 10 ratios individually (outlined in the table on the left) These ranks are then cumulated across parameters to give a final pecking order on accounting quality for stocks.

This framework draws upon Howard Schilit’s legendary text on forensic accounting, “Financial Shenanigans”.

Step 2: Identify companies with superior capital Allocation

We create a list of stocks using a twin-filter criteria of double digit YoY revenue growth and return on capital being in excess of cost of capital, each year for 10 years in a row.

Next, we build a portfolio of such stocks each year and hold each of these annual iterations of portfolios for the subsequent 10 years (without any churn). The bar chart on the right shows the back testing performance of such a filter based portfolio.

Source: Bloomberg. Note: Only the Consistent Compounder Portfolios which have finished their 10 year run have been shown. Note: These are total shareholder returns in INR terms.

There are two conclusions from this exercise:

• This filter based portfolio delivers returns of 20-30% p.a. (of INR returns) and 8-12% out- performance relative to the Sensex.

• The volatility of returns of such portfolios, for holding periods longer than 3 years, is similar to that of a Government of India Bond.

Returns here (both for our portfolio and for the Sensex) are on a Total Shareholder Return basis i.e. all dividends are included in the returns.

step 3: Identify companies with high barriers to entry

In depth bottom up research of companies which pass our filters to assess sustainable competitive moats and build a portfolio of 10 15 stocks which consistently compound earnings

What do we look for in our research?

- Look for managements with an obsessive focus on the core franchise instead of being distracted by short term gambles outside the core segment
- Look for companies which relentlessly deepen their competitive moats over time
- Look for promoters who are sensible about capital allocation, i.e. refrain from large bets (especially those outside core franchise) and return excess cash to shareholders

"Most companies tend to focus on short term results and hence that makes them frequently do things that deviate away from their articulated strategy these diversions take them away from the path they have to travel to achieve their long term goals"

- Rama Bijapurkar

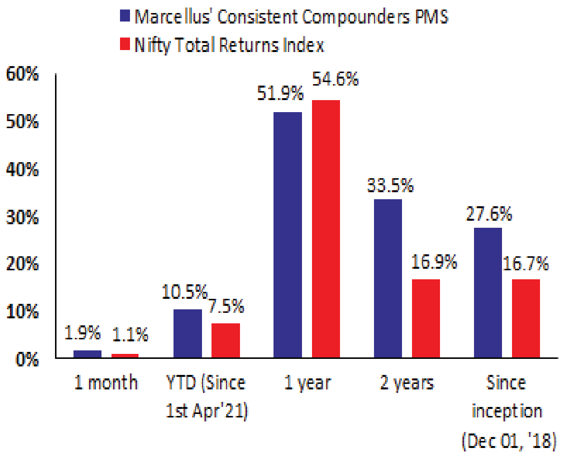
Leading market strategy consultant

In Most Sectors, the top 1- 2 Companies Account for 80% of the Profit Pie

Sector	Top 2-3 players Accounting for 70-80% of the Profit Pie
Paints	Asian Paints, Berger Paints
Small cars	Maruti Suzuki, Hyundai
Biscuits	Britannia, Parle
Cigarettes	ITC
Adhesives	Pidilite
Cooking oil	Marico, Adani
Hair oil	Marico, Bajaj Corp

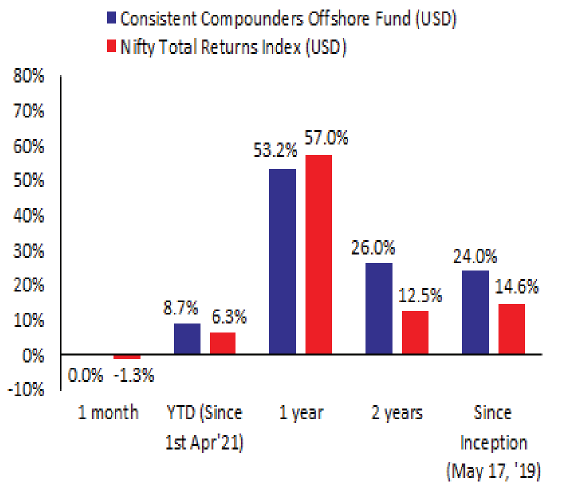
Fund performance (as on 30th June '2021)

Exhibit 1a: Marcellus' Consistent Compounders PMS performance as on 30th June'21 (INR)



Source: Marcellus, Bloomberg; All returns are net of fees and expenses (TWRR); Since inception and 2 years returns are annualised; Other time period returns are absolute

Exhibit 1b: Consistent Compounders offshore fund advised by Marcellus - as on 30th June'21 (US$)

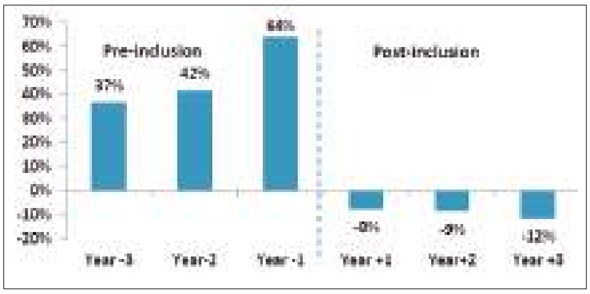


Source: Marcellus; All returns are net of fees and expenses (TWRR); Since inception and 2 years returns are annualised; Other time period returns are absolute

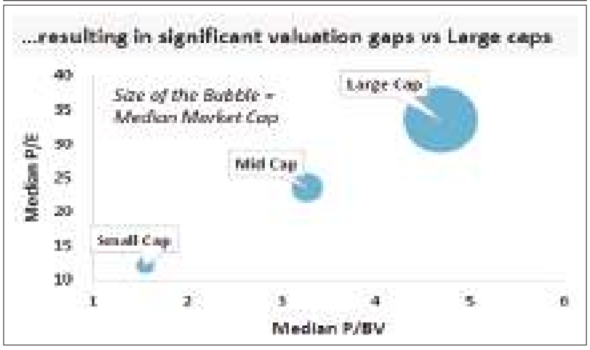
SMALL CAP INVESTING: OPPORTUNITIES

On an average over the last ten years, about 50 stocks have entered/exited BSE 500 every year indicating a high degree of churn

The biggest part of the relative outperformance for a stock entering BSE 500 occurs in the years preceding the inclusion



Source: Bloomberg, Ace Equity Relative returns (to BSE 500 are medians CAGR of stocks that have been included in the BSE 500 For prior returns, returns are measured until 1 quarter preceding the quarter of entry The above returns calculation is for the entries from June 2003 to June 2020.



Source: Ace Equity, Bloomberg Note 1 We classify companies with market cap of >Rs 150 bn as Large Cap, between Rs 30 bn to 150 bn as Mid Cap and below Rs 30 bn as Small Cap 2 Market cap, analyst coverage and share price data as of July 31 2020 3 Institutional ownership data as of June 30 2020 (EPS and Book value considered for FY 20.

RIGOROUS SCREENING AND DUE DILIGENCE TO IDENTIFY THE RIGHT STOCKS AND AVOID THE WRONG ONES

Starting universe of >1,000 companies

The universe: Stocks with Market Cap <US$500mn

Forensic Accounting Screen - Eliminate companies with sub par accounting

Typically avoid 'Zone of thuggery' candidates(refer next slide)

Above median on each parameter

- **Top 20% on overall score**
- **RoCE & net debt thresholds**

> Median score on individual parameters (revenue growth, asset turns etc) + Top 20% on aggregate score ('cream of the crop') + avoid companies struggling to cover their capital cost and debt laden companies

Botto-mup research and analysis

Detailed analysis of annual reports, management interviews and other published reports

3rd party/channel checks, management meetings

Corroborating 'management version' with channel feedbacks + independent views on governance/capital allocation

~15 - 20 Little Champs

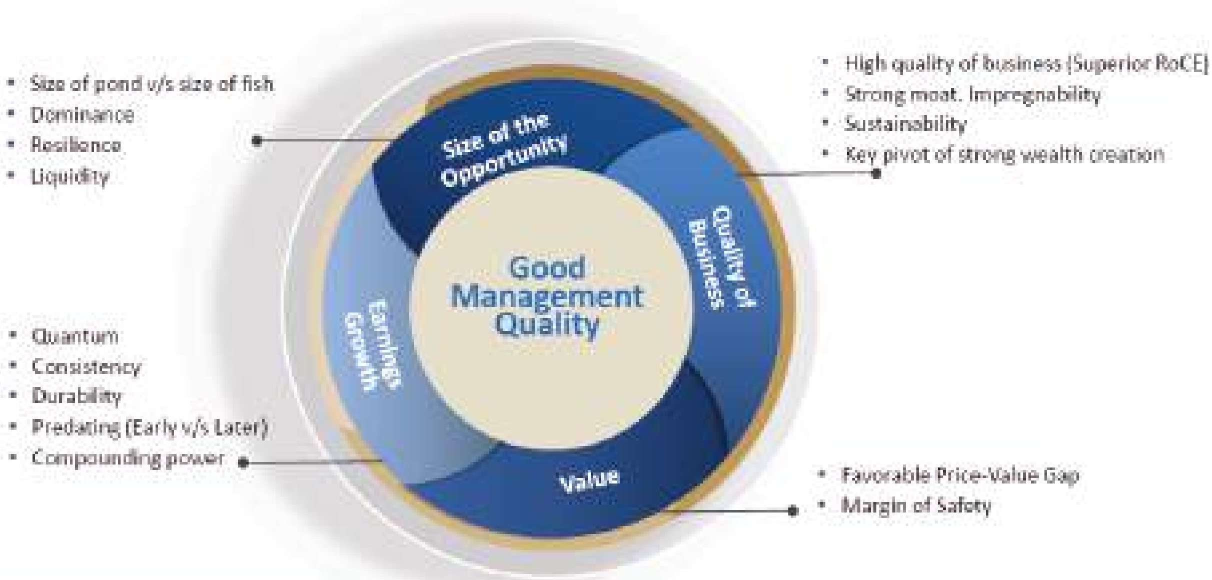
Final portfolio of ~15 20 Cos.

Key Investment Objectives

- **Capital Preservation*** over a period of time
- **Capital Appreciation** over a period of time

Achieved through...

- Long term investments in high quality companies with strong growth prospects



ASK IM endeavors to preserve the capital however equity investments are subject to market risks.

- **Rs 1 Crore invested at inception has grown to Rs 8.40 Crore Vs Rs 3.47 Cr in BSE 500**
- **The Investment Approach has been able to generate returns continuously even while markets were flat between Oct 11, Jun 12 and Aug 13.**

Note : Performance figures are net of all fees and expenses. ASK Portfolio returns are composite returns of all the Portfolios aligned to the investment approach as on Aug 31, 2021. Returns for individual client may differ depending on time of entry in the Portfolio. Past performance may or may not be sustained in future and should not be used as basis for comparison with other investments. Returns for 1 year or lesser time horizon are absolute returns, while more than 1 year are CAGR. Returns have been calculated using Time Weighted Rate of Return method (TWRR) as prescribed by the SEBI.

ASK Indian Entrepreneur Portfolio: The Investment Approach

1. Identify large and growing business opportunities.

2. Identify businesses with competitive advantage that are significant sized (min Rs.100cr of PBT) : Enables growth from both market share gains and growth of the opportunity size and can sustain for multiple years.

3. The quality of the business should be good to be able to fund strong growth through internal cash generation

- We seek over 20% compounded growth from each business that we buy and target over 25% growth from the portfolio

- To fund this growth, the business ROCE should be over 25% so that growth can be funded and there are surpluses for dividend

4. The management should have the drive and have skin in the game to deliver compounded growth period after period (uncompromised corporate governance is a must)

- Hence, invest into businesses with an identifiable business house at helm with minimum 25% stake*

5. We seek to identify such businesses at reasonable discount to value and stay invested for a length of time and make money as EPS compounds.

*Note: Promoter / Family stake of at least 25% is desired in portfolio companies, except in rare and fit cases.

Investment Approach Research Methodology and Filtration

500

- Top 500 as per market capitalization

306

- Only companies > 25% promoter / family holding (except in very rare and fit cases)
- Universe of Entrepreneur and/or Family-Owned Business = 306 cos

210

- Condition of minimum PBT of INR 100 cr (USD 16 mn)

123

- Subjective evaluation on management quality, their integrity, vision, past track record, execution,capital allocations and distribution skills, corporate governance standards etc.

59

- Quality of Business (Capital Efficiency) – Minimum ROCE of 25%*

59

- Two more filters for selection of stocks a) Minimum 20 to 25%* earnings growth over the next 3 to 5 years without capital dilution and b) Price-Value gap (margin of safety) of 20%
- ASK Indian Entrepreneur Portfolio

Note: Maximum of 20% of the portfolio may be an exception to the above.
*at the time of 1st purchase of the stock

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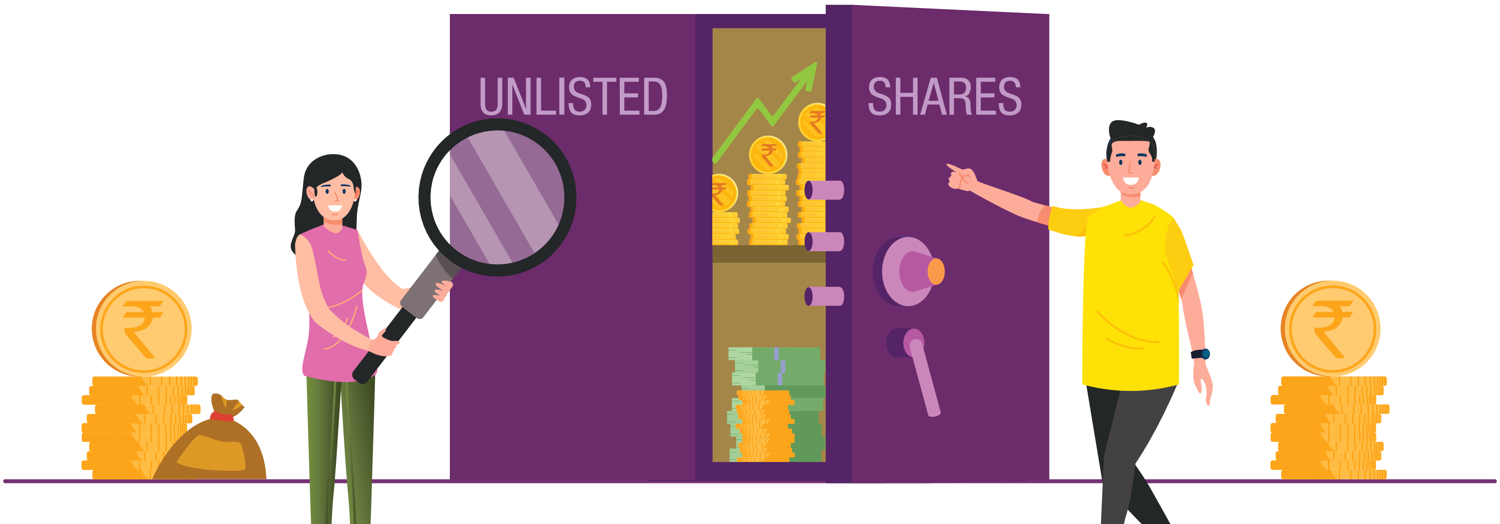

What are
Unlisted Shares*?

Unlisted shares is a financial instrument that is not traded on a formal exchange, Trading of unlisted shares is done in over-the-counter (OTC).

Company	Sector
Reliance Retail	Retail
HDB Financial Services Limited	Financial Services
Fino Paytech Ltd.	Payment Bank
Chennai Super Kings	IPL Team
Studds Accessories Ltd.	Helmet Accessories
Kurlon Ltd.	Mattresses
Philips India Ltd.	Electronics
Sterlite Power Transmission Ltd.	Power & Transmission
Hero Fincorp Limited	Financial Services
TATA Technologies Limited	Engineering
Tamilnad Mercantile Bank	Banking
Care Health Insurance	Insurance

*These are not Exchange traded products and all disputes with respect to the distribution activity, would not have access to Exchange Investor Redressal Forum or Arbitration mechanism.

FINANCIAL

FLASH

September 2021

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INVESTMENT SERVICES

The Investments recommended in News letter / research reports, may not be suitable for all investors. Investors must make their own investment decisions based on their own specific investment objectives and financial position and using such independent professional advisors as they believe necessary.

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