

MONTHLY INSIGHT

10TH NOVEMBER, 2021

Equity markets took a pause in November 2021. The Nifty, Nifty Midcap and Nifty Smallcap returned +0.3%, +0.3% and -1.1% respectively. In comparison the MSCI Emerging Markets Index rose +0.9% while the MSCI World Index returned +5.6% (the S&P 500, the Euro Stoxx and FTSE 100 returned +6.9%, +5.0% and +2.1% respectively).

Economic activity and performance continues to be relatively healthy – Indian exports FYTD Oct-21 have grown at a 2 year CAGR of 12.2% in dollar terms (improving from the FYTD Sept-21 CAGR of 11.4%), GST collections FYTD 2 year CAGR for 7M FY 22 were 7.6% (despite weakness in the auto sector which contributes 15% of overall GST collections), railway freight volumes were higher by 7.6% YoY in Oct-21, the composite PMI in Oct-21 rose to the highest level since Jan-12 on the back of services momentum and finally, indications from traders on Diwali demand has been extremely positive.

On the flip side, some corporates have however called out incipient signs of moderation in rural demand from Sept-21 (perhaps led by crop damage on excessive rainfall and also weakening exports on supply chain woes). Real wages for rural and agri laborers have turned negative due to heightened inflation and evidence of pressure is visible in very high MGNREGA demand – Sept-21 work demanded, while down sequentially to 27.61 crore person days, was still significantly higher than pre COVID levels of 14.6 crore person days. Nevertheless, the medium term picture for rural India is positive – with close to 70% of rural GDP non-agri, a broader economic cyclical recovery should lift all boats.

FUND PROFILE

Key Fund Information

Launch Date: 11th April 2018

Structure: Open-ended, CAT III AIF

Domicile: India

Currency: INR

Min Initial Investment: ₹ 1 crore

About the Fund

Investment Manager:

The Investment Trust of India

Investment Strategy:

To outperform the Nifty index over a full equity market cycle, while protecting downside during equity market downturns

Performance (before fees and taxes)

Oct 2021 -0.95% (0.30%)

Since Inception* 71.21% (69.88%)

*Till Oct 31st, 2021
(figures in brackets correspond to Nifty returns)

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GOVERNMENT SPENDING KICKER IN H2 FY 22?

Government spending has been relatively sedate this fiscal year till date – the H1 FY 22 fiscal deficit at 35% of BE is the lowest in 18 years. Buoyed by robust tax collections (personal income tax collection H1 FY 22 2 year CAGR at 13.4%, corporate tax collection at 11.3%, GST as above at 7.6% for 7M FY 22), government of India has plenty of fire-power to spend and cut taxes (as evidenced by the sharp Rs. 5/10 excise duty cut on petrol/diesel on Diwali). Government cash balances currently are at Rs. 4.5-5 lakh crores – indicative of the filip to H2 growth, barring no 3rd COVID wave, that can potentially occur.

One wrinkle however is continued costs of recovery from COVID plaguing the Indian economy – media articles point to government sources suggesting a Rs. 40,000 crore additional fertilizer subsidy requirement (given runaway energy prices globally), an additional Rs. 30,000 crore to fund higher MGNREGA demand and additional sums for the free food drive and incentive program for exporters. Nevertheless, even if budgetary estimates are only met and not exceeded (as widely expected), H2 seems to be set up to be materially better than H1 for the economy (especially also considering pent-up demand in the festive season etc).

PORTFOLIO STANCE: CAUTIOUS OPTIMISM

Global central bankers have in recent times shown less hawkishness than expected by markets. The most stark example was the Bank of England for whom markets had been pricing in a hike from Nov-21 itself given commentary earlier by Andrew Bailey – not only where there no hikes, but in line with commentary by Jerome Powell, central bankers have shown a desire to support a full labour market recovery and look beyond supply chain disruptions versus combating inflation. Consequently they are also expected to be gradual in their QE withdrawal. Interest rate decisions have been delinked and made completely independent from the decision to taper.

Meanwhile for India, the narrative for the economic cyclical recovery has never been better – the buoyant outlook for Indian equity markets therefore remains firmly in place.

In terms of risks, the primary sources at the moment are international markets; if inflation proves to be far more persistent and surprises sharply on the upside, there is the real risk of policy rates being behind the curve and therefore needing to sharply accelerate at a later point of time. For India specifically, crude oil prices have an outsized impact and need to be watched out for.

At this moment, especially given the dream run markets have been on, our preference is of a more conservative stance. We however continue to remain overweight in businesses where multi-year earnings growth visibility is very high.

ANNEXURE

PERFORMANCE

QUARTERLY

Returns	Q1 FY 22	Q2 FY 22	Q3 FY 22	Since Inception*
ITI LS	2.86%	12.02%	-0.95%	71.21%
Nifty (%)	7.02%	12.06%	0.30%	69.88%

Returns	Q1 FY 19*	Q2 FY 19	Q3 FY 19	Q4 FY 19	Q1 FY 20	Q2 FY 20	Q3 FY 20	Q4 FY 20	Q1 FY 21	Q2 FY 21	Q3 FY 21	Q4 FY 21
ITI LS	5.33%	7.41%	0.62%	4.64%	-0.79%	-1.17%	6.97%	1.60%	-1.52%	3.34%	12.55%	3.21%
Nifty (%)	3.00%	2.01%	-0.62%	7.00%	1.43%	-2.67%	6.04%	-29.35%	19.81%	9.18%	24.30%	5.07%

* from 11-Apr-18. Fund returns are after expenses, before management fees and taxes

MONTHLY

Returns	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Since Inception*
ITI LS	-0.97%	3.24%	0.60%	1.89%	8.70%	1.14%	-0.95%	71.21%
Nifty (%)	-0.41%	6.50%	0.89%	0.26%	8.69%	2.84%	0.30%	69.88%

Returns	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
ITI LS	0.24%	-1.05%	-0.71%	5.40%	-1.94%	-0.01%	2.08%	4.50%	5.51%	0.53%	2.52%	0.15%
Nifty (%)	14.68%	-2.84%	7.53%	7.49%	2.84%	-1.23%	3.51%	11.39%	7.81%	-2.48%	6.56%	1.11%

Returns	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
ITI LS	0.22%	-1.12%	0.11%	-2.76%	-2.92%	4.69%	1.50%	2.62%	2.70%	1.02%	0.92%	-0.34%
Nifty (%)	1.07%	1.49%	-1.12%	-5.69%	-0.85%	4.09%	3.51%	1.50%	0.93%	-1.70%	-6.36%	-23.25%

Returns	Apr-18*	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
ITI LS	2.32%	1.36%	1.56%	4.69%	2.04%	0.55%	-1.68%	3.03%	-0.67%	1.85%	-2.54%	5.42%
Nifty (%)	3.24%	-0.03%	-0.20%	5.99%	2.85%	-6.42%	-4.98%	4.72%	-0.13%	-0.29%	-0.36%	7.70%

* from 11th April, 2018

*From 11th April, 2018;

Fund returns are after expenses, before management fees and taxes

Cumulative returns post fees and taxes since inception till FY 21:

ITI LS Fund: 31.97%

Nifty: 41.23%

ANNEXURE

PORTFOLIO SNAPSHOT

QUARTERLY

Strategic Long Positions - Top 5	
Stock	PF Weight
HDFC Bank	6.8%
Infosys Limited	6.4%
HDFC Ltd	6.2%
Reliance Industries	5.2%
SBI Life	4.1%

Top Tactical Longs - Top 5	
Stock	PF Weight
L&T	4.6%
ICICI Bank	3.9%
SBI	3.8%
HCL Tech	3.5%
United Spirits	3.4%

Top Tactical Longs - Top 3	
Stock	PF Weight
Pharma	2.1%
Auto	1.6%
BFSI	1.2%

Exposure	
Gross Exposure (month-end)	95%
Net Exposure (month-end)	46%
Gross Exposure (month-avg)	91%
Net Exposure (month-avg)	66%

* Note: Gross and Net Exposures above are calculated only on exposure to direct equity instruments of the fund

RISK METRICS

Key Ratios		
	ITI LS Fund	Nifty
Sharpe Ratio	1.87	0.84
Annualized Standard Deviation	8.57	20.45
CAPM Beta	0.22	1.00
Treynor Ratio	73.77	17.27

* for the period 11-Apr-18 to 31-Oct-21
Source: Kotak Fund Accounting

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