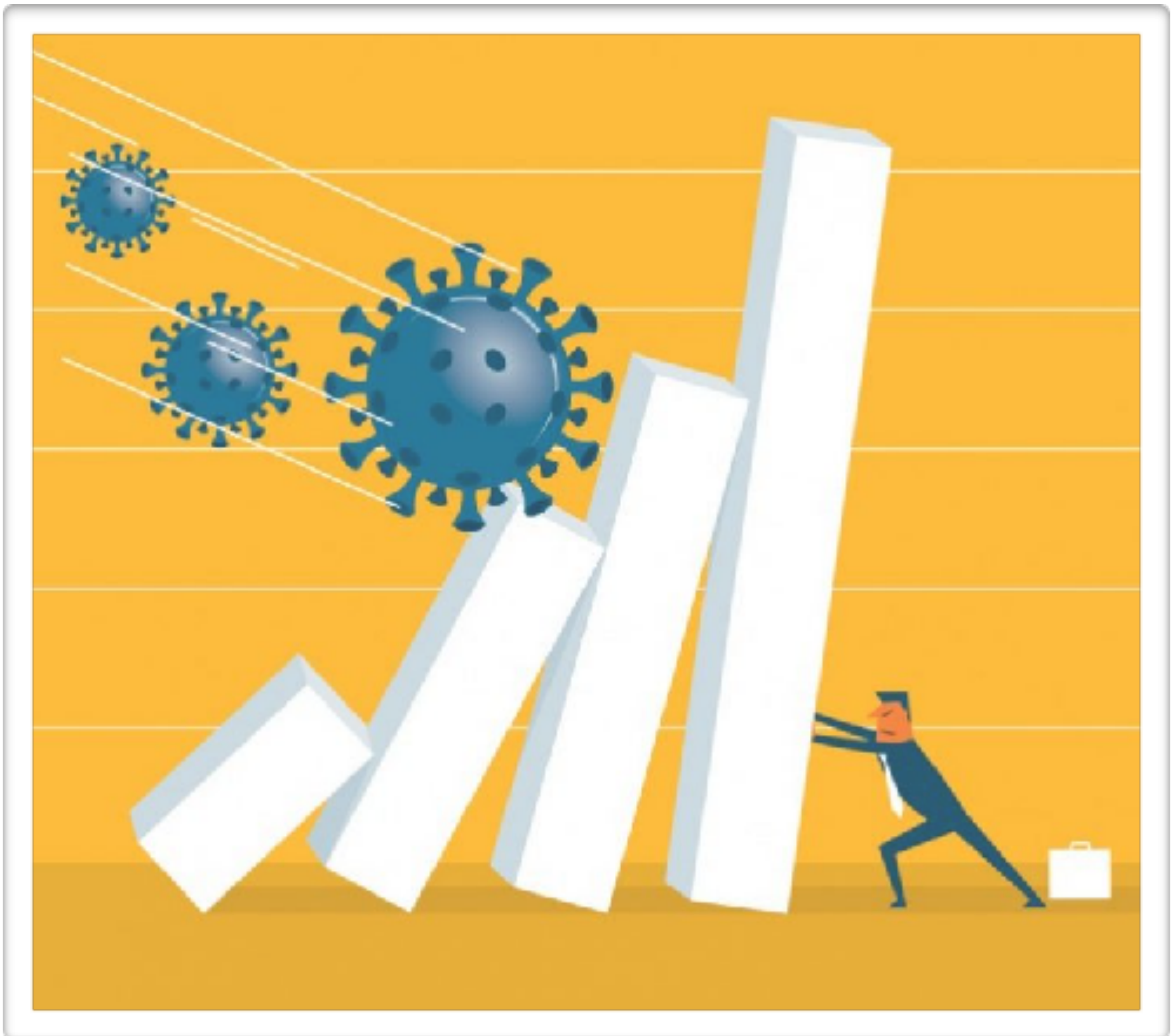
ASPECTS



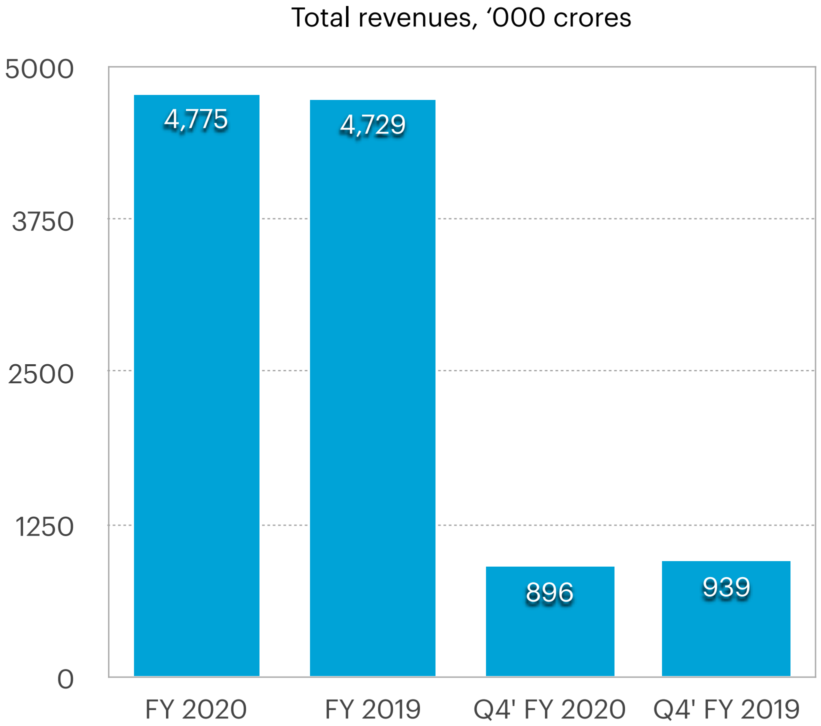
Introduction

ASPECTS is a periodic newsletter discussing the economy, financial markets and other matters of importance to prospects & clients

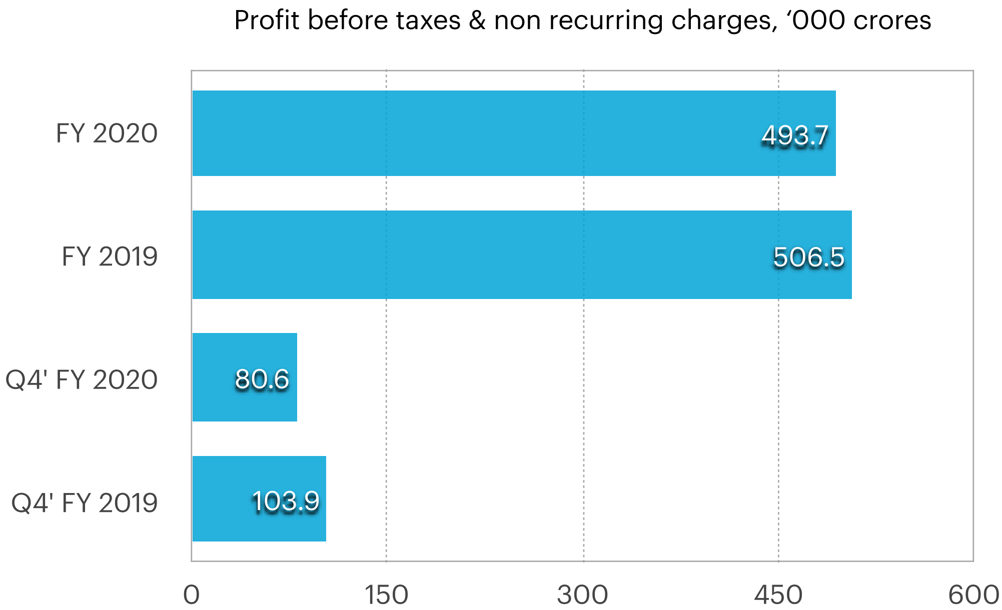
Earnings season for FY 2020 is drawing to a close and reviewing results and returns relative to last year highlights the challenges companies were facing through most of FY 20, even before COVID 19 struck India in early March.

Company Performance

Let's begin with a snapshot of revenues and profits for the NIFTY 50 index on an aggregate basis[1].



Revenues for FY 20 were 1% higher relative to FY 19, and if one were to compare Q4 FY 20 to Q4 FY 19, revenues decreased by 4.5%.



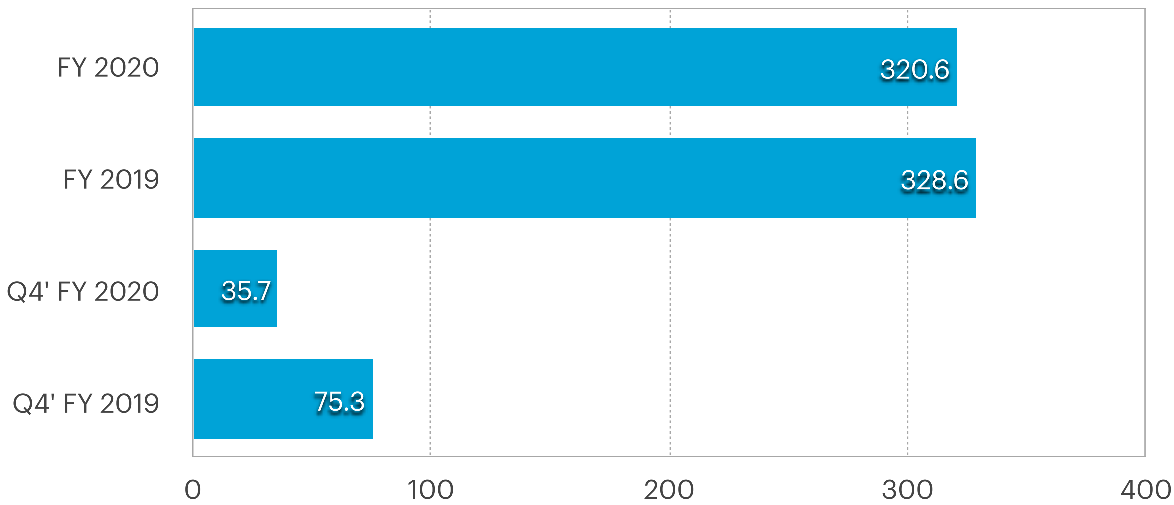
Profit before taxes[2] decreased by 2.5% and 22.4% for the entire year and the most recent quarter, respectively.

[1] NIFTY 50 index comprises of the largest 50 companies by market capitalization listed on the National Stock Exchange (NSE). As of 19th June 2020, entire year results were available for 40 of the 50 companies. For the remaining 10, 9 month results are included as a proxy for 12 month results, and these 10 companies are excluded from the quarterly analyses.

[2] Profit before taxes excludes non recurring charges.

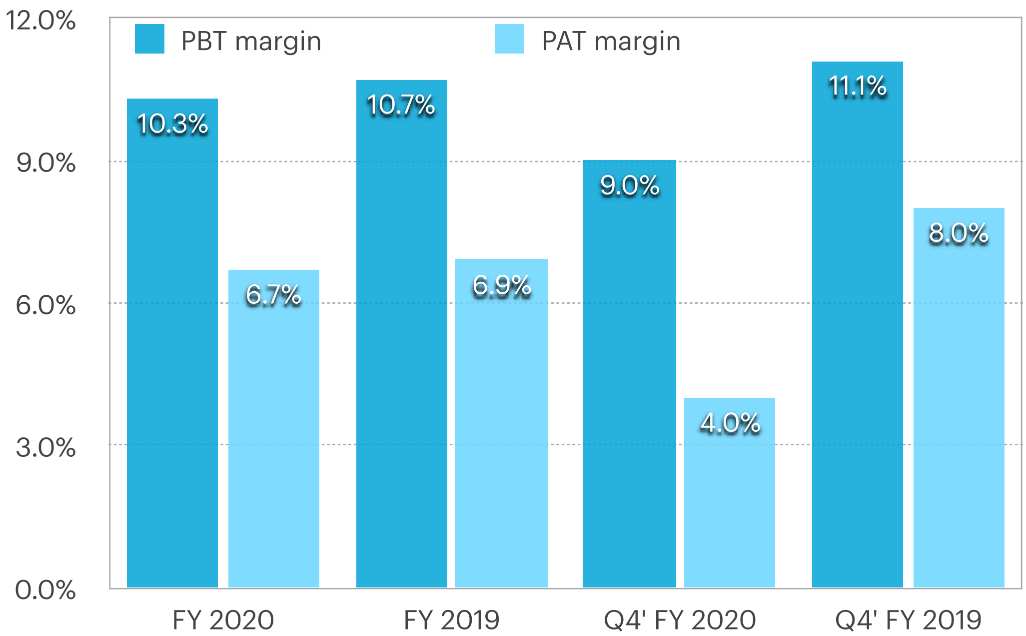
Profit after taxes[3], (PAT) was 2.5% lower for the entire year and 52.6% lower for Q4 FY 20, relative to last year.

Profit after taxes & minority adj, '000 crores



PBT margin was 37 bps lower for the entire year FY 20 and 207 bps lower for Q4 FY 20, relative to comparable periods in FY 19. PAT margin was 24 bps lower and 404 bps lower for similar periods.

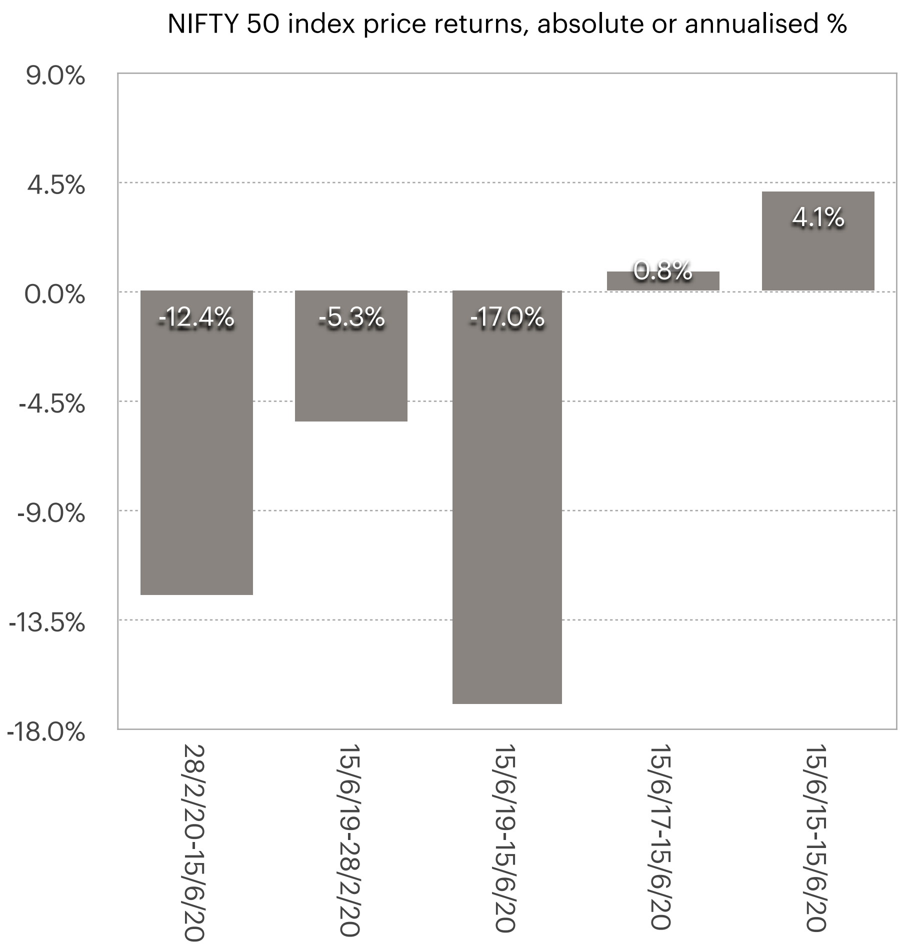
PBT & PAT as a % of total revenues



[3] Profit after taxes includes all charges and minority and associate profit adjustments.

While most companies benefitted from a reduction in headline corporate tax rates from 30% to 22%, variations in operating costs relative to sales and non recurring charges pulled aggregate margins lower.

Market Returns



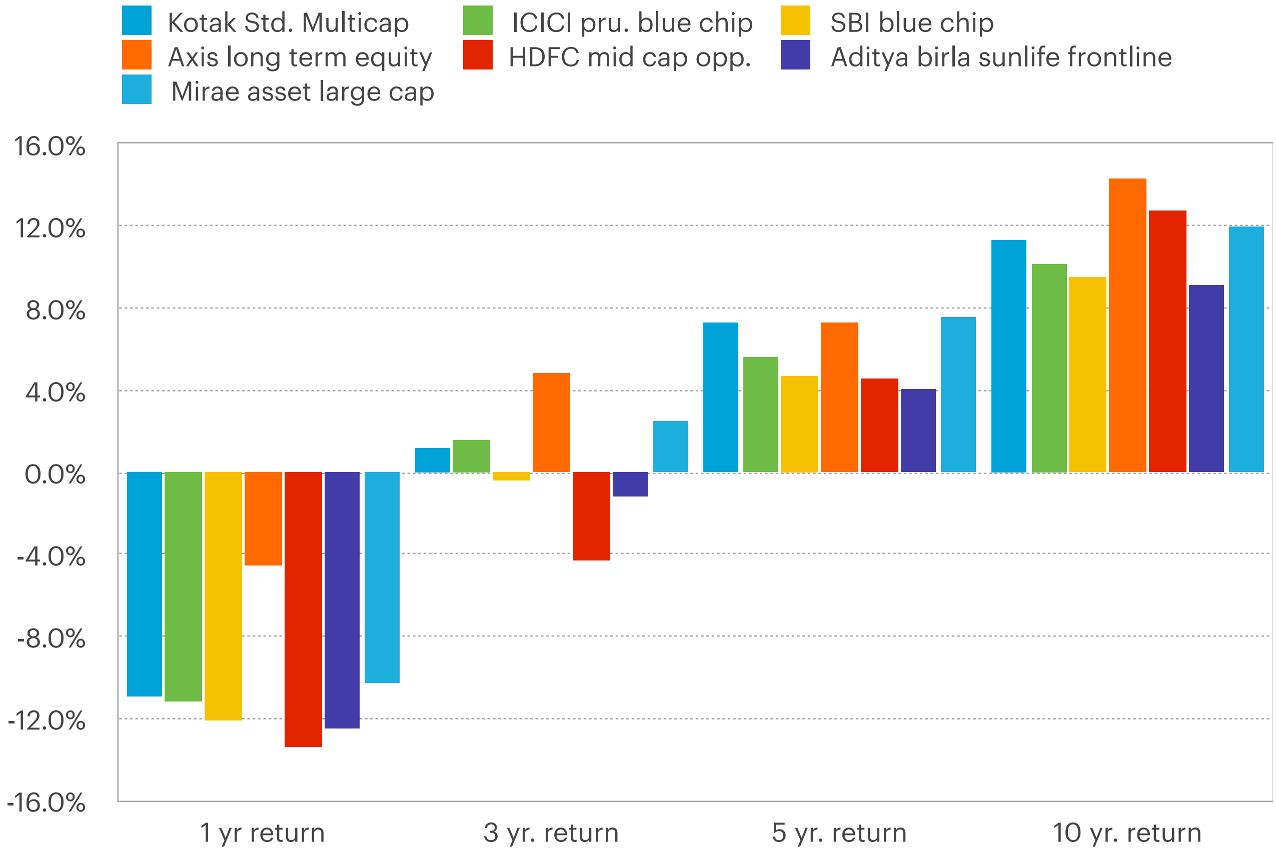
NIFTY 50 index, pre COVID-19 outbreak in India, from 15/6/19 to 28/2/20 had lost 5.3%, whereas for the full year prices have fallen by 17%. 3 and 5 year returns[4] are also pressured.

Several experts have forecasted a drop in real GDP for India of 2 - 5% in FY 21, with a particularly severe impact in Q1 FY 21. Since markets discount forward expectations, some analysts suggest that prices may have shot ahead of fundamentals. Others however reason that a decent pace of recovery would justify prices in the near to medium term.

[4] Date as mentioned or most recent, incase markets closed

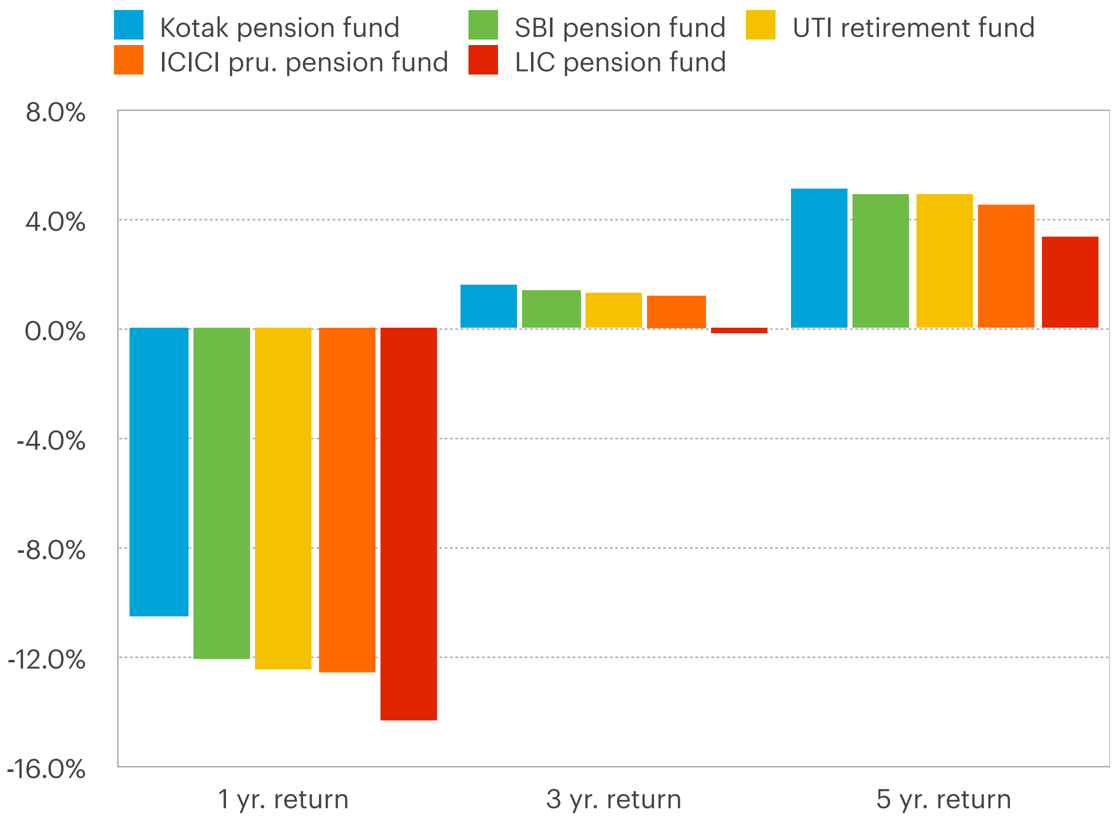
Mutual Fund Returns

1-3 year annualised returns from prominent equity mutual funds[5] have taken a hit, albeit to different degrees.



[5] "Prominent" refers primarily to equity fund portfolio size where at least 10 years of return information is available for general funds and 5 years for NPS funds. Because a fund is included does not imply its returns are better than those that are excluded and nor does it recommend any included fund over excluded ones.
Annualised returns provided for "growth"option, "regular" plans as of 19/6/20.

Near term performance of equity funds offered via the National Pension Scheme, NPS, has also suffered.



Debt fund[6] returns classified by maturity and fund strategy are tabulated below:

Fund Name	1 yr. return%	3 yr. return%	5 yr. return%	10 yr. return%
	A. LIQUID FUNDS: Short term low risk inv. in TBills, Comm. paper			
HDFC liquid fund	5.52	6.53	6.90	7.85
SBI liquid fund	5.56	6.58	6.92	7.89
ICICI prudential liquid fund	5.69	6.67	7.00	7.95

[6] Debt funds from prominent fund houses, with asset pool > 1000 crore and return information available for at least 10 years for general purpose funds and 5 years for NPS funds. Returns for "growth" option, "regular" plans as of 19/6/20. Short term funds primarily holds debt instruments with maturity of less than 3 years.

	B. SHORT TERM FUNDS: Govt. & corp bonds < 3 year maturity			
SBI short term debt fund	10.65	7.82	8.20	8.40
ICICI Prudential short term debt fund	10.46	7.65	8.44	8.44
IDFC short term debt fund	10.93	8.18	8.20	8.25
	C. MEDIUM & LONG TERM DEBT FUNDS: Govt. and corp. bonds > 3 year maturity			
Aditya Birla Sun Life corp. bond fund	11.32	8.66	8.92	8.99
Nippon India Floating rate fund	10.61	7.79	8.02	8.42
ICICI prudential med. term bond fund	9.31	6.76	7.78	8.17
ICICI prudential GILT fund	14.19	8.03	9.94	8.95
SBI Magnum GILT fund	13.69	8.30	10.01	9.86
	D. NATIONAL PENSION SCHEME C1 PLANS: Corp. bonds of varying maturity			
HDFC pension mgmt. company	12.20	8.90	9.90	
SBI pension fund	12.30	8.80	9.80	
ICICI prudential fund	10.60	8.60	9.70	
LIC pension fund	12.10	8.50	9.70	
UTI retirement solutions fund	11.70	8.40	9.50	
Kotak pension fund	9.70	7.70	9.30	
	E. NATIONAL PENSION SCHEME G1 PLANS: Govt. bonds of varying maturity			
LIC pension fund	13.20	10.50	11.70	
SBI pension fund	13.40	9.70	10.70	
ICICI prudential fund	12.80	9.50	10.60	
Kotak pension fund	12.90	9.30	10.70	
UTI retirement solutions fund	13.30	9.10	10.20	
HDFC pension management co. fund	13.90	9.00	10.20	

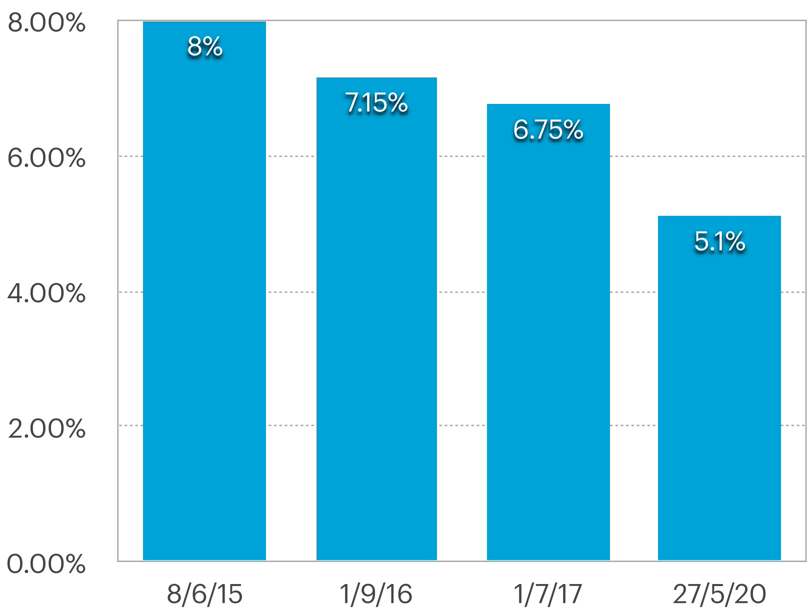
Lowering of yields across maturities and government measures to spruce liquidity have aided returns from debt funds. However, economic conditions, company performance, elevated NPA levels and tighter lending criteria have exerted pressure, and may continue to influence bond fund returns[7].

Fixed Deposits

A point of interest for several investors, with large allocations to fixed deposits, is the rate these deposits are earning. Government measures to ease monetary conditions have led to downward revisions in FD term deposit rates by most banks across tenures. While existing deposits are usually not repriced to lower rates, new deposits and renewals are booked at the revised rates.

As an example, 1 year rates on Fixed deposits at the State Bank of India at different points of time over the last 5 years, are graphed below.

1 yr. rates on domestic FD's at SBI



While fixed deposits will continue to provide assured returns and security of deposit and accrued interest[8], investors may want to take heed of lower interest income.

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[7] Several companies have been unable to service their debt and consequently have been taken to Insolvency and Bankruptcy court by lenders.
Franklin Templeton asset management company recently announced closure of 6 of its debt schemes citing liquidity constraints and investor redemptions as key reasons.

[8] Government recently increased deposit insurance limit from 1 lac to 5 lac per depositer on principle and accrued interest at insured banks via the Deposit insurance and credit guarantee corporation (DICGC).

Conclusion

The economic context over the last year has been challenging with slowing growth, elevated NPA's, trade tensions and global concerns being further weighed down by COVID 19 and border issues with neighbours. From expectations of close to 7% real GDP growth we are possibly expecting a 2 - 5% contraction in FY 21. While there are varying opinions on how protracted the downturn might be, and how long the recovery could take, the interim period is likely to witness several factors at play which in turn would influence market returns.

Now, as much as before, investors may want to recalibrate their income, expense and returns expectations over the near, medium and long term.

Appendix

Sources

www.nseindia.com
www.moneycontrol.com
www.valueresearchonline.com
Company websites
www.dicgc.org.in
www.sbi.co.in
Google images

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