

ASPECTS

FINANCIAL INVESTMENTS: PERFORMANCE & TRENDS

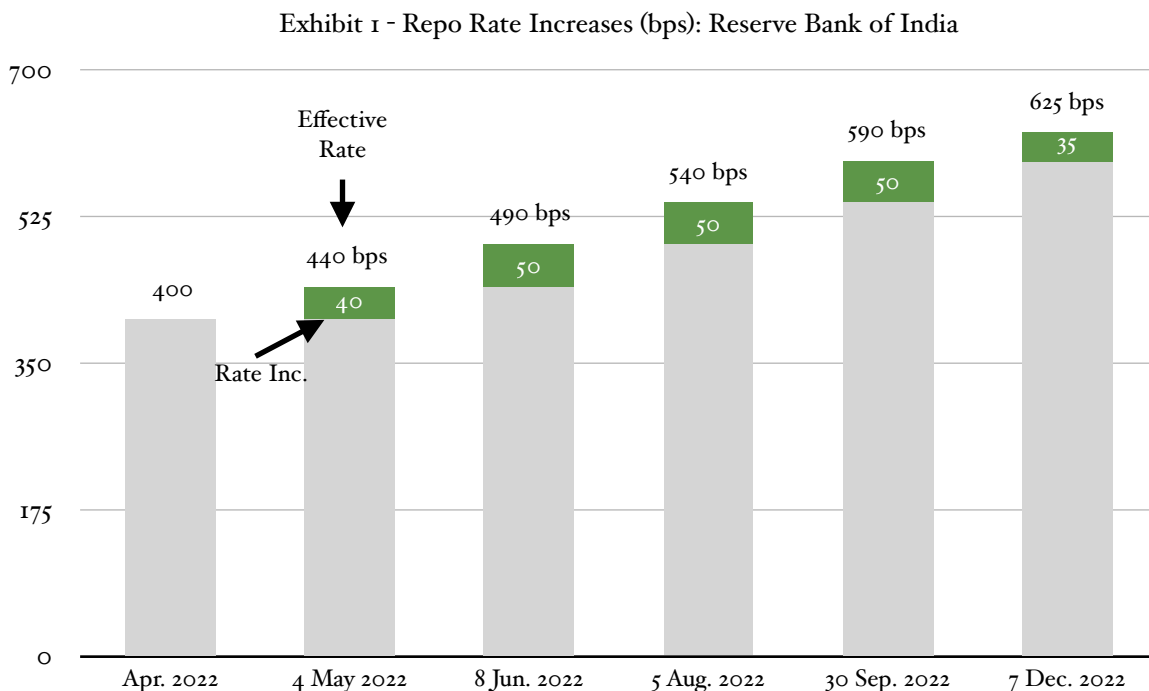


NORTHPLAINS CAPITAL PARTNERS LLP

DECEMBER 2022

INTEREST RATES

With a view to containing inflation running persistently above tolerance bands, and in light of global inflation trends, broader geopolitical context and central bank rate actions, the Reserve Bank of India has increased short term repo rates in aggregate by 225 bps over the last 8 months¹ as a key part of its monetary tightening strategy.



These rate increases have in turn informed rate changes in medium and longer duration Government borrowings, although to different degrees, with the longer tenure rate increases being less pronounced than rate increases at the short end of the curve. Current and historical yields for Govt. securities are provided in Exhibit 2.

¹ Source: www.rbi.org.in. Monthly RBI Bulletin, RBI press notes. Current and historical.

Exhibit 2 - G Sec. Primary yields: Current & Historical			
	Current: Dec. 2022	1 Yr. Ago: Dec. 2021	3 Yr. Ago: Dec. 2019
Repo rate	6.25%	4%	5.15%
91 day T Bill rate	6.4%	3.66%	5.03%
364 day T Bill rate	6.9%	4.27%	5.30%
5 Yr. yield	7.2%		
10 Yr. yield	7.3%	6.47%	6.78%

Interest Rates on mass market Fixed Deposits have also increased even as there are significant variations in the terms offered by different banks².

Exhibit 3 - Fixed Deposit Rates: Current & Historical			
	Current: Dec. 2022	1 Yr. Ago: Dec. 2021	3 Yr. Ago: Dec. 2019
State Bank Of India	6.25%	4.9%/5.6%	6.2%/6.4%
HDFC Bank	7.0%		
ICICI Bank	7.0%		
Punjab National Bank	7.25%		

² Current Rates for prominent banks are provided as per information from respective bank websites as of 21/12/2022. Broadly applicable, highest advertised rates for “resident deposits”, below threshold deposit amounts. 1 Yr. Ago & 3 Yr. Ago rates are from RBI monthly bulletin which provides a range for rates of public deposits per defined criteria.

DEBT MUTUAL FUND RETURNS

Debt mutual funds invest in Government and corporate bonds and borrowings of varying maturities depending on fund strategy and objectives. While Money market and liquid funds invest in shorter duration borrowings (< 3 months), Government and Corporate bond funds invest in borrowings of longer duration from 1-3 years for medium duration funds to as much as 10 years or more for long duration funds. From the standpoint of reviewing the performance of debt funds, National pension scheme (NPS) debt funds, which provide participants the option to invest their retirement contributions in debt securities are included in the comparison tables below³.

As can be seen in Exhibit 4, returns from short duration liquid funds have stayed range bound across holding periods with an uptick in near term returns consistent with increases in short term rates.

Exhibit 4 - Short Term Liquid Mutual Fund returns %				
	AUM, Cr.	1 Yr. return	3 Yr. return	5 Yr. return
SBI Liquid Fund	58372	4.64%	4.04%	5.19%
HDFC Liquid Fund	56900	4.65%	4.0%	5.15%
ICICI Pru. Liquid Fund	42959	4.64%	4.06%	5.23%

Returns from longer duration Government debt funds have

³ Returns provided for prominent funds, primarily based on AUM, in a given category. Source: moneycontrol.com, valueresearchonline.com, etmoney.com. Returns for "Regular" investment option as of 20/12/2022. NPS funds: npstrust.org.in. Performance as of 16/12/2022. AUM in Indian Rupees (INR). 1 Cr. = 10 Million.

dipped over the last year, as rising yields have pressured prices of longer duration debt assets.

Exhibit 5 - Government Debt Mutual Fund returns %				
	AUM, Cr.	1 Yr. return	3 Yr. return	5 Yr. return
<i>Regular Funds</i>				
SBI Magnum GILT Fund	4032	4.18%	6.31%	7.21%
ICICI Pru. GILT Fund	2537	3.30%	6.73%	7.30%
Kotak GILT Fund	1756	2.23%	5.95%	6.81%
<i>NPS Funds</i>				
HDFC Pension Mgmt.	12577	1.99%	7.11%	7.88%
SBI Pension Fund	11620	1.85%	6.72%	7.65%

A similar trend is seen in Corporate debt funds with average returns over a 5 year period well above near term annual returns.

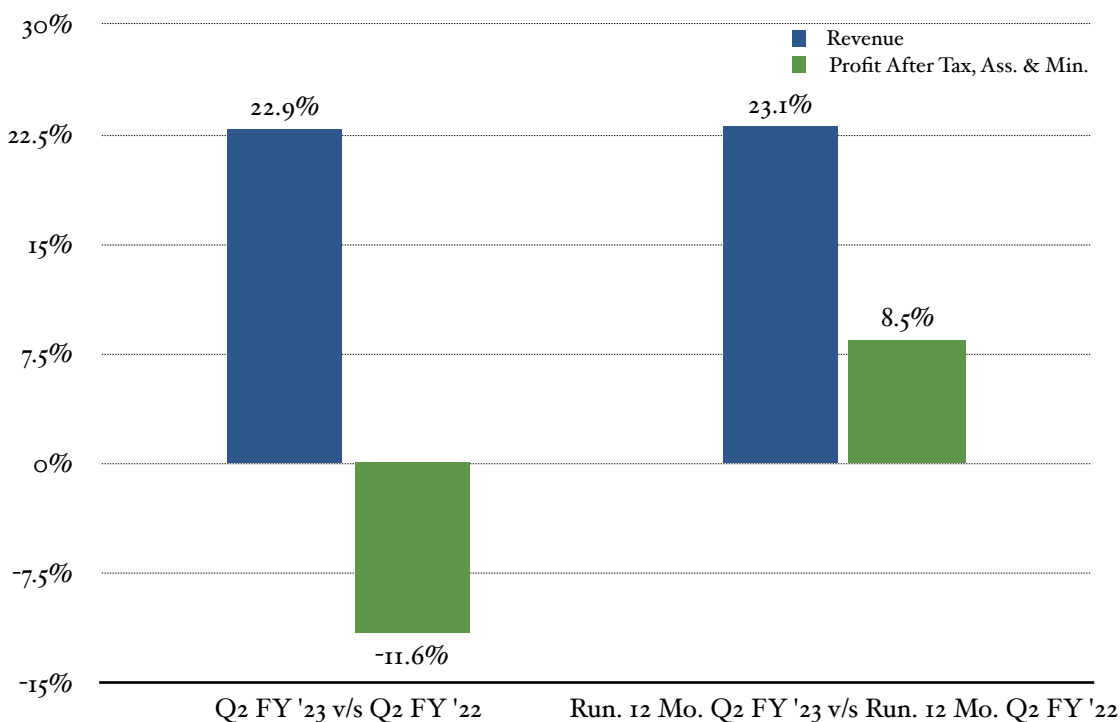
Exhibit 6 - Corporate Debt Mutual Fund returns %				
	AUM, Cr.	1 Yr. return	3 Yr. return	5 Yr. return
<i>Regular Funds</i>				
HDFC Corp. Bond Fund	23230	3.08%	6.29%	7.06%
IDFC Corp. Bond Fund	16438	2.46%	5.87%	6.45%
Aditya Birla Sun Life Corp. Bond Fund	12547	3.93%	6.60%	7.24%
<i>NPS Funds</i>				
HDFC Pension Mgmt.	7586	2.92%	7.55%	8.04%
SBI Pension Funds	5638	2.62%	7.03%	7.74%

EQUITY MARKETS

Aggregate performance of large listed companies for the quarter ending September 2022 (Q2 FY '23), has been somewhat mixed. For our benchmark tracking portfolio⁴, revenues increased by 22.92% relative to the same quarter last year, while profits after tax and associate and minority interests (PAT) decreased by 11.62%. The PAT as a percent of revenues was lower by 286 bps relative to Q2 FY '22.

On a running 12 month basis, revenues were higher by 23.08% and aggregate PAT was higher by 8.51% relative to the comparable 12 month period a year ago.

Exhibit 7 - Benchmark portfolio: Year on Year Revenue & Profit Changes



⁴ Northplains benchmark portfolio: Comprises all companies that were part of NIFTY 100 index as of 8/2/2021. While the NIFTY 100 index composition changes over time, the benchmark portfolio tracks the same set of companies. As of 21/12/2022, 83 of the 100 companies in the official NIFTY 100 index were included in the benchmark tracking portfolio.

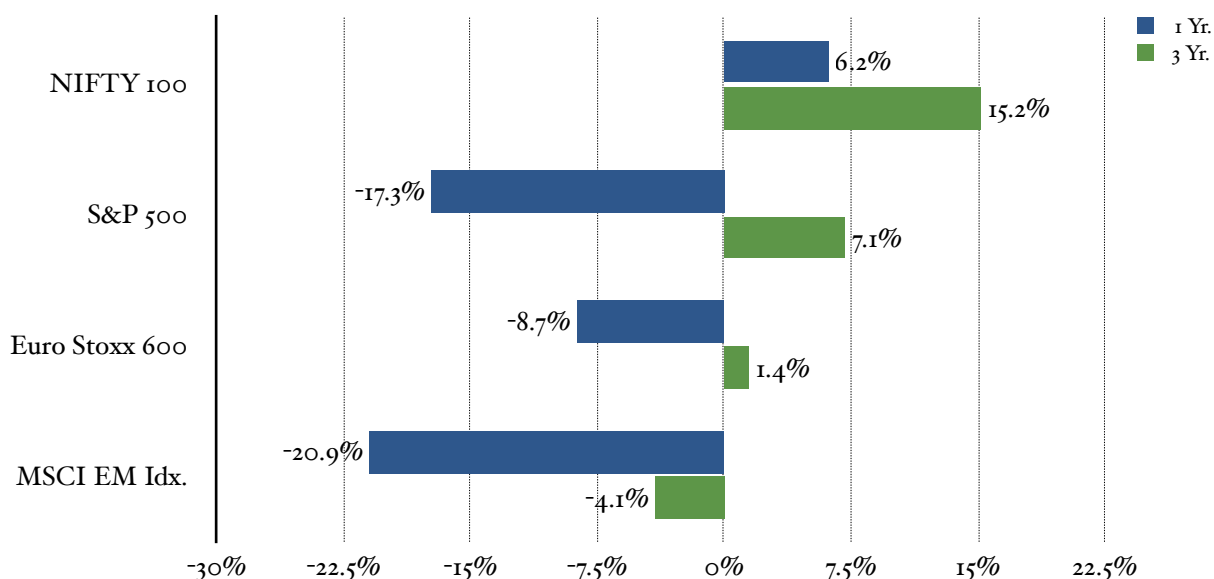
The corresponding returns from investing in equities have been subdued over the near term.

Exhibit 8 - NIFTY 100 Index Annualised Price return % as of 15 Dec. 2022



On a relative basis though, Indian indices have provided healthy returns exceeding those from global benchmarks⁵.

Exhibit 9 - Relative Annualised return %: NIFTY 100 & select Global indices



⁵ NIFTY 100: Comprises largest 100 stocks by market cap on National Stock Index. www.nseindia.com.
 S&P 500: Largest 500 stocks by market cap traded on US markets. www.google.co.in, www.spglobal.com.
 Euro Stoxx 600: 600 large stocks from 17 countries in the Euro Area, including U.K. www.cnbc.com, www.stoxx.com.
 MSCI EM Idx.: Comprises 1386 constituents from 24 Emerging market countries. www.investing.com, www.msci.com.
 Price only returns in local currency, excluding dividends and cost of managing index, as per standard reporting format at sources cited.

EQUITY MUTUAL FUND RETURNS

Equity mutual funds invest in different sectors of the overall equity markets depending on fund strategy and mandate. A popular fund categorisation is by market cap of underlying companies, and corresponding returns for prominent regular and retirement oriented funds are summarised in the table below. Also included are price based returns, excluding dividends and costs, from relevant benchmarks. It may be seen that returns vary by fund family and select funds are able to exceed benchmark returns over different timeframes.

Exhibit 10 - Equity Mutual Fund returns %				
	AUM, Cr.	1 Yr. return	3 Yr. return	5 Yr. return
<i>Large Cap Funds</i>				
Axis Bluechip	36890	-0.45%	10.98%	11.88%
ICICI Pru. Bluechip	35929	12.90%	16.45%	11.68%
SBI Bluechip	35616	11.26%	15.59%	10.81%
NIFTY 100 Index				
		10.17%	14.52%	11.28%
<i>Mid Cap Funds</i>				
HDFC Midcap Opp.	36158	19.87%	25.46%	12.02%
Kotak Em. Equity	23223	11.44%	24.67%	13.36%
Axis Midcap	19741	2.53%	19.83%	14.92%
NIFTY Midcap 150 Idx.				
		10.57%	24.7%	11.18%
<i>Small Cap Funds</i>				

Exhibit 10 - Equity Mutual Fund returns %				
Nippon India Smallcap	23765	17.02%	35.70%	15.21%
HDFC Smallcap	14688	12.09%	28.19%	12.25%
Axis Smallcap	11358	11.44%	27.22%	17.64%
NIFTY Sm.cap. 250 Idx.		6.05%	27.13%	6.72%
<i>NPS Funds</i>				
HDFC Pension Mgmt.	17467	6.78%	16.24%	12.69%
SBI Pension Fund	10376	7.08%	15.21%	11.64%

A rising rate environment in India and in many countries globally presents risks and opportunities for managing returns from debt and fixed return securities. Indian equities on the other hand, have weathered a downtick in quarterly earnings, while still providing strong index level relative returns. We continue to advise our clients and prospects to invest as per their return expectations and risk appetite, consistent with their financial situation and plans.

APPENDIX

Sources

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Mutual Fund Prospectuses

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