

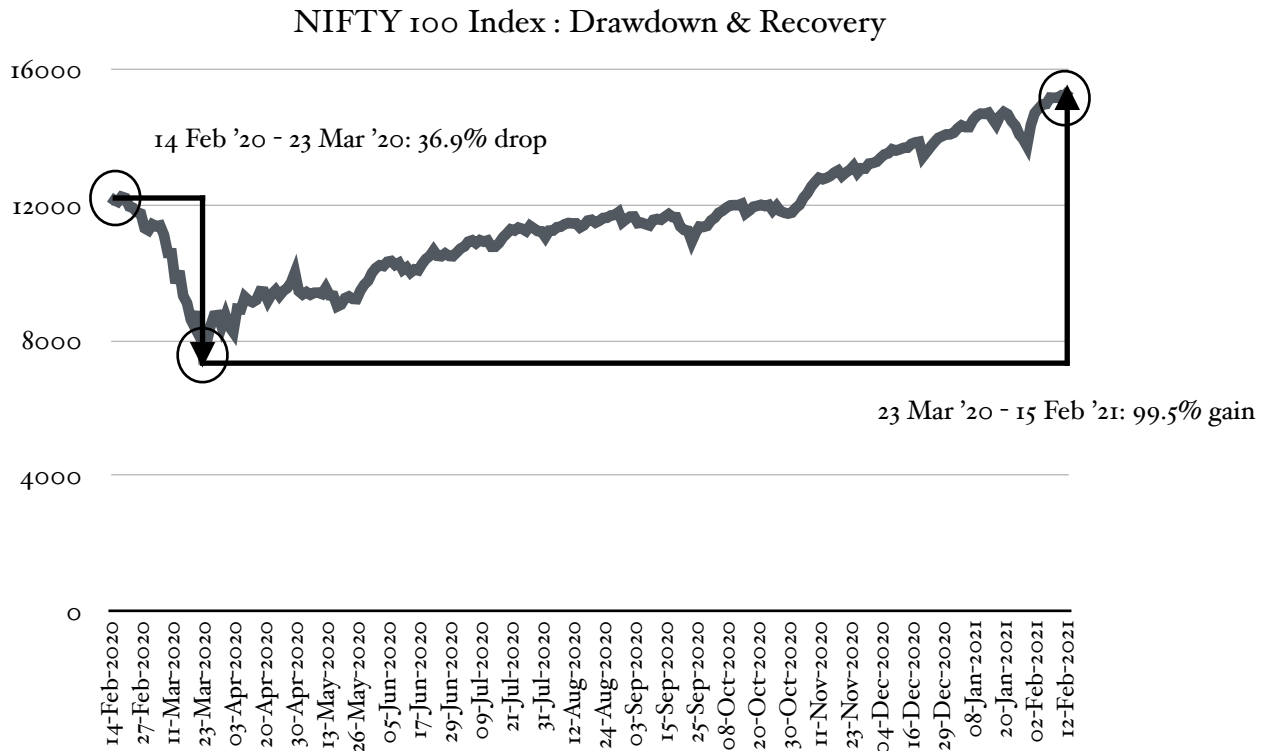
**INVESTMENTS MARKET PERFORMANCE**

# **ASPECTS**

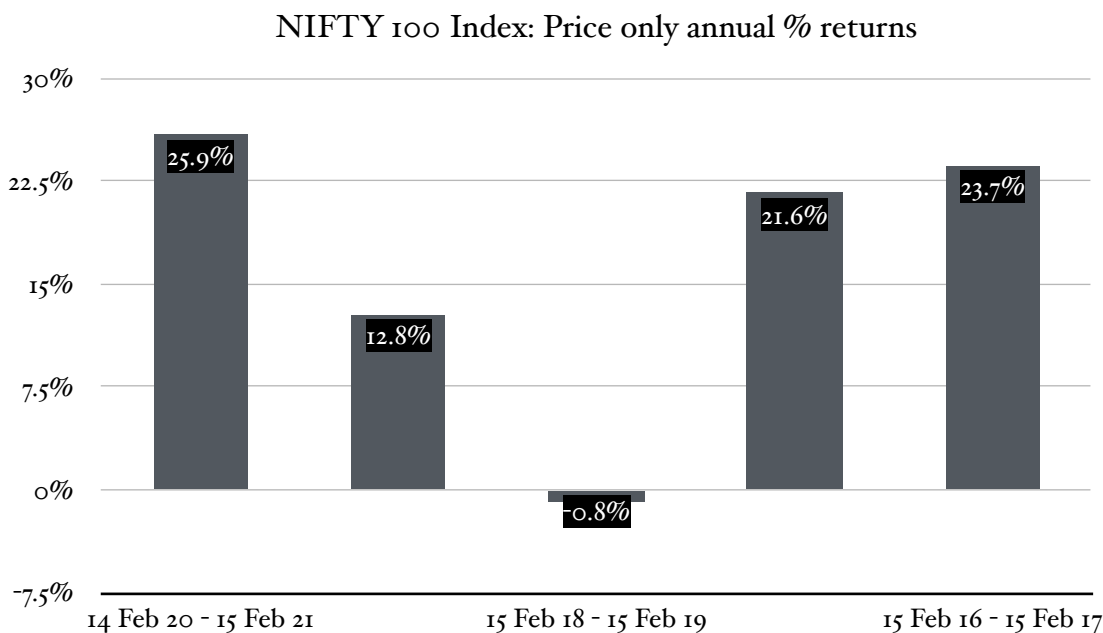
**18 FEBRUARY 2021**

**NORTHPLAINS CAPITAL PARTNERS LLP**

**Indian equity markets** have weathered the COVID - 19 pandemic well, and key indices have recovered significantly from their March 2020 lows. The NIFTY 100 index, comprising the largest 100 NSE listed companies by market cap, has provided an annual return<sup>1</sup> of 25.9% as of 15 Feb 2021, making 2020 - 2021 a rewarding year for market participants.



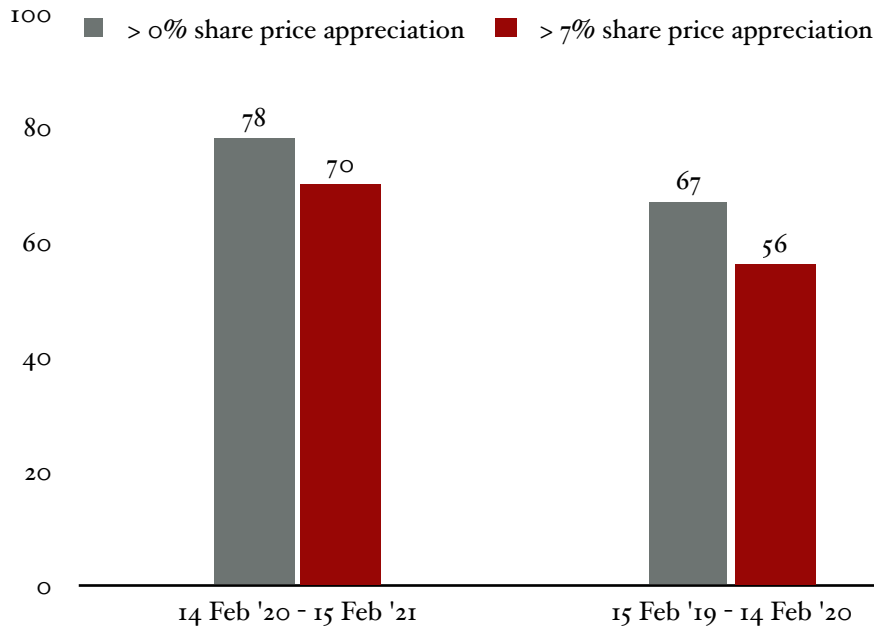
In fact, the NIFTY 100 has given double digit positive returns in four of the previous five comparable annual periods.



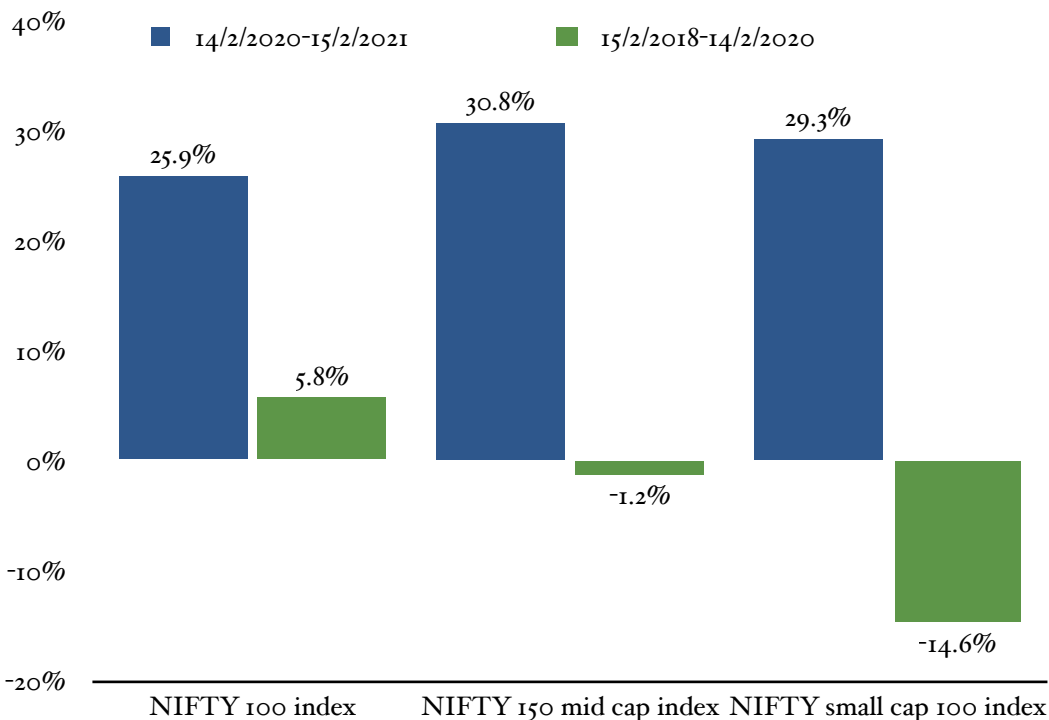
<sup>1</sup> NIFTY index price only return, does not include dividends.

The recovery has been broad based on a relative and absolute basis, as is seen in the number of scripts recording price appreciation amongst large caps, and in the performance of mid and small cap indices which have provided strong positive returns in '20-'21 relative to the '18-'20 time frame<sup>2</sup>.

NIFTY 100 constituents share price change



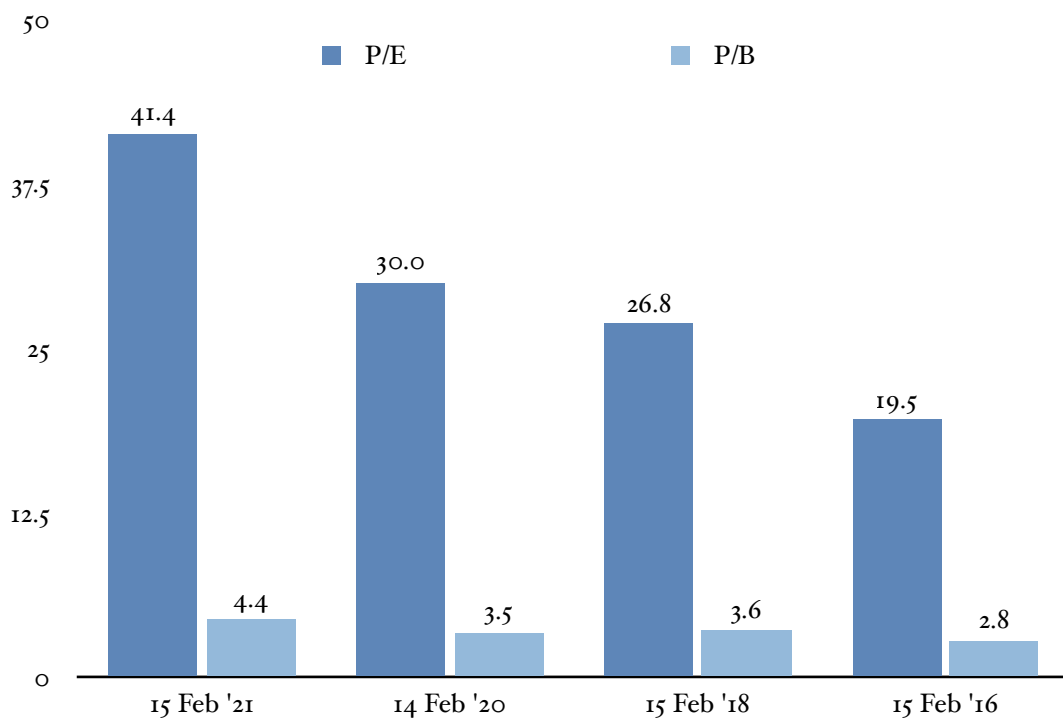
NIFTY Large, Mid & Small Cap Indices: Annualised % price change



<sup>2</sup> Returns for prominent mutual funds investing in large, mid and small cap stocks are included in Appendix A1.

While market prices have appreciated, commonly employed valuation metrics (P/E) Price/Trailing 12 month earnings & (P/B) Price/Book value of equity have also risen and are now at historically high levels, suggesting that the increase in market prices has not been matched by a commensurate increase in reported earnings, and that the markets may currently be valued at levels significantly higher than over past periods.

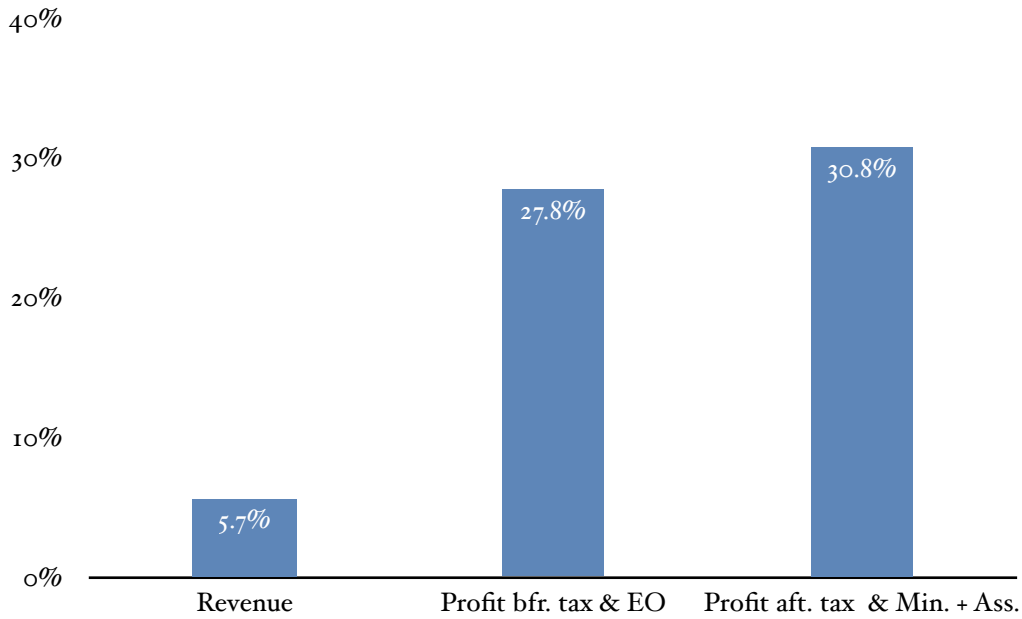
NIFTY 100 index: Valuation Metrics



However, several market participants have observed that prospects of markedly better future earnings enabled by growth in the broader economy, globally prevalent low interest rates and high liquidity, amongst other factors, may justify relatively higher valuations.

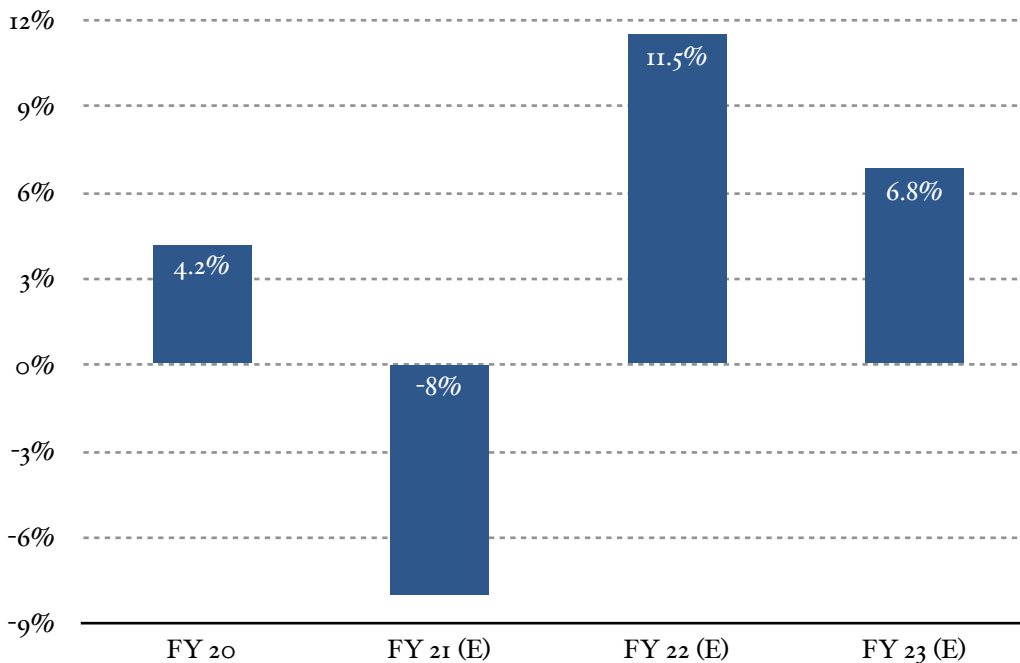
The most recent set of quarterly earnings for Q3 FY 21 have been encouraging. As of 15 Feb '21, 97 of the 100 constituents of the NIFTY 100 had declared their quarterly results, reporting a 30.8% increase in cumulative profits after taxes over the same quarter last year.

NIFTY 100 companies: Q3 FY '21 v/s Q3 FY '20, % Change

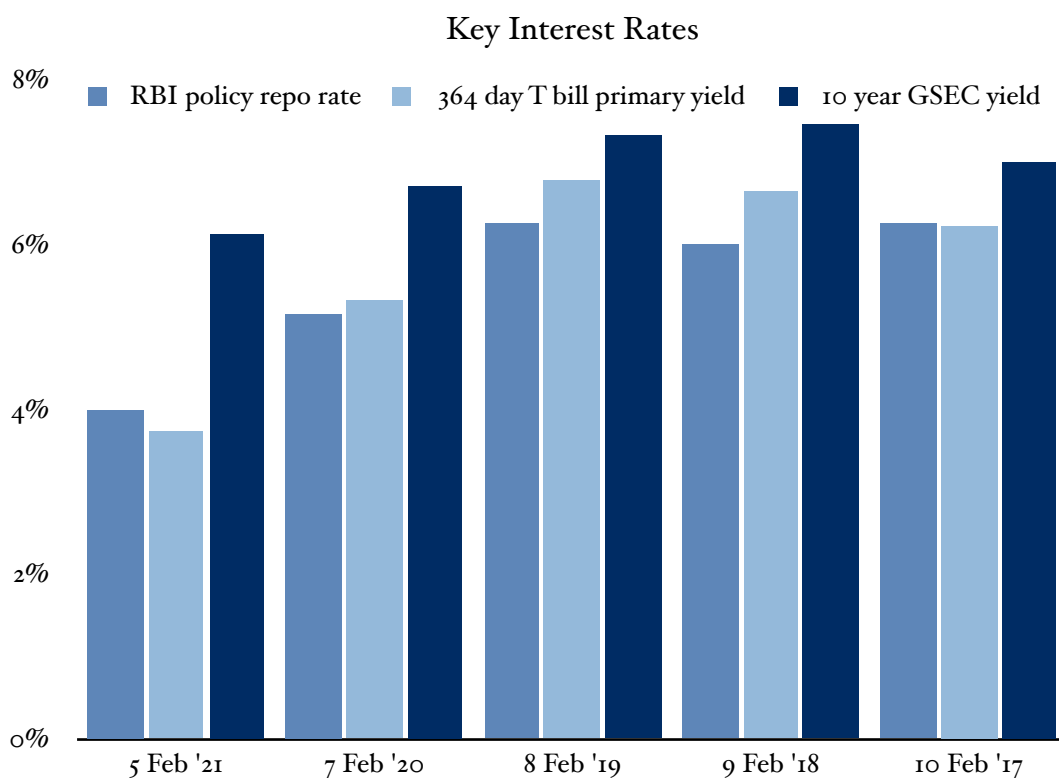


In addition, the International Monetary Fund, in its World Economic Outlook growth projections report released in January '21, has forecasted a strong rebound in real GDP growth for India in FY '22, and another report by the rating agency ICRA has estimated that the Indian economy may turn around and record marginal positive GDP growth in Q3 FY '21 itself.

IMF Forecasts for India: Annual % Change in Real GDP



**Interest Rates** on Government of India lending and borrowing programs have dipped in accordance with government policies and actions in the wake of COVID - 19 and more broadly<sup>3</sup>.



From the standpoint of investors in mass market products, returns from prominent debt based mutual funds have been relatively consistent over the last 1-10 years, and are tabulated below<sup>4</sup>.

**GILT Funds:** Investing primarily in central and state government debt of varying maturities.

Name	AUM Cr.	1 yr. return	3 yr. return	5 yr. return	10 yr. return
<i>Growth, Regular, NAV return</i>					
<b>SBI Magnum GILT Fund</b>	4324	7.72%	10.07%	9.71%	9.80%
<b>ICICI Prudential GILT Fund</b>	3473	8.42%	10.13%	10.07%	8.88%
<b>IDFC Government Securities Fund</b>	2369	8.82%	11.33%	9.82%	10%

<sup>3</sup> Rates from Reserve Bank of India periodic bulletins. 364 day yield for 2017 is as of 3 Feb '17.

<sup>4</sup> Returns as of 15 Feb '21. AUM: Assets under management in INR. 1 Cr.: 10 Million.

Corporate Bond Funds: Investing primarily in investment grade corporate debt.

Name	AUM Cr.	1 yr. return	3 yr. return	5 yr. return	10 yr. return
<i>Growth, Regular, NAV return</i>					
<b>HDFC Corporate Bond Fund</b>	30846	8.89%	9.08%	8.82%	9.0%
<b>Aditya Birla Sun Life Corporate Fund</b>	26657	9.42%	9.09%	8.72%	9.19%
<b>Kotak Corporate Bond Fund</b>	8484	7.45%	8.44%	8.31%	8.58%
<b>L&amp;T Tripe Ace Bond Fund</b>	6783	7.78%	9.61%	8.72%	8.02%

## Outlook

Emerging from the COVID - 19 pandemic, equity markets have shown swift price recovery, probably aided by several factors including past performance and future expectations.

As the broader economy recovers from the effects of the pandemic, and growth enabling government policies gain further traction, companies with sound fundamentals and bright growth prospects could provide reasonable returns.

Debt market returns have been rangebound over the past, and future returns, influenced by interest rates and supply & demand dynamics could see additional volatility driven by government borrowings, and foreign fund inflows/outflows.

We continue to advise prospects and clients investing for the medium to long term to carefully assess their income and asset profiles and invest in a diversified mix of assets consistent with their return expectations and risk profiles.

## Appendices

A1: Annualised returns from prominent equity based mutual funds.

Name	AUM Cr.	1 yr. return	3 yr. return	5 yr. return	10 yr. return
<i>Growth, Regular, NAV return</i>					
<b>Large &amp; Multicap Funds</b>					
<b>ICICI Prudential Bluechip Fund</b>	25513	25.85%	11.49%	16.81%	13.44%
<b>SBI Blue Chip Fund</b>	24854	30.09%	12.62%	15.68%	14.54%
<b>Axis Bluechip Fund</b>	21867	21.98%	17.88%	18.90%	14.56%
<b>Mirae Asset Large Cap Fund</b>	21745	26.18%	12.98%	19.03%	15.76%
<b>Midcap Funds</b>					
<b>HDFC Midcap Opportunities Fund</b>	23988	27.97%	8.03%	16.44%	17.41%
<b>DSP Midcap Fund</b>	9815	25.44%	10.97%	18.49%	16.63%
<b>Kotak Emerging Equity Fund</b>	9162	29.89%	12.09%	19.16%	17.89%
<b>Smallcap Funds</b>					
<b>Nippon India Smallcap Fund</b>	10636	35.25%	6.71%	19.26%	19.66%
<b>HDFC Smallcap Fund</b>	9069	31.58%	4.10%	17.16%	13.80%
<b>Franklin India Smaller Comp. Fund</b>	5952	28.20%	2.60%	12.85%	17.03%



## A2: Additional Information

## Sources:

[www.nseindia.com](http://www.nseindia.com)[www.moneycontrol.com](http://www.moneycontrol.com)[www.valueresearchonline.com](http://www.valueresearchonline.com)[www.economictimes.com](http://www.economictimes.com)[www.imf.org](http://www.imf.org)[www.icra.in](http://www.icra.in)

Company websites

Research from fund houses, banks and brokerages

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## Disclosures

1. The newsletter intends to provide useful information to clients and prospects. It is not a recommendation to take investment actions in mutual funds in general or in any specific fund in particular. Performance information is provided for the largest 5 funds by AUM in their respective categories, with a return history of at least 10 years. If a fund is included, it does not imply that it is better or worse than other smaller funds in its category.
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