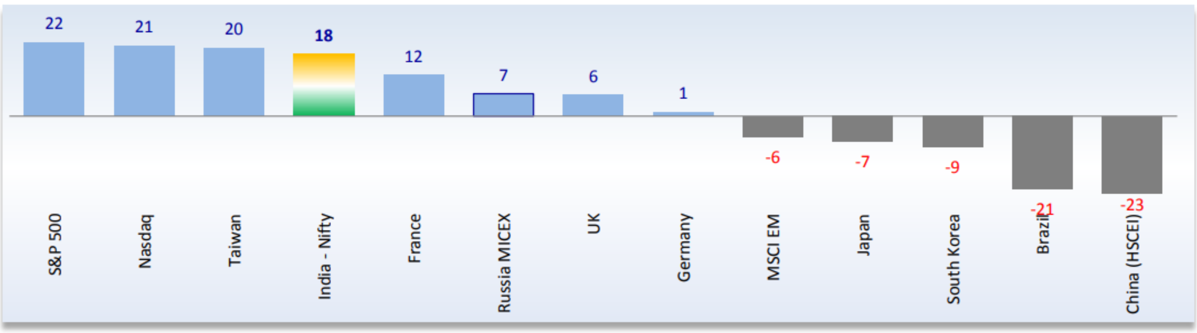
NEWSLETTER
NOV 2021

PI SQUARE
INVESTMENTS

For global markets, November was dominated by rising Covid hospitalisation in parts of Europe and concerns about the new Omicron variant in South Africa. Having started the month well, developed market equities ended the month down 2.2%. Government bonds rallied sharply as money started moving to safety. The extent of restrictions imposed so far has varied with the number of hospitalisations. So far, nobody knows whether the mutations in the Omicron variant will significantly reduce the effectiveness of existing vaccines in preventing hospitalisations. This is clearly the key issue to monitor over the coming weeks. Even in the worst-case scenario that vaccine efficacy is significantly reduced, it would be tough for markets to correct in the same scenario as March 2020. The US Consumer Price Index (CPI) jumped to 6.2% year-over-year in October, its highest reading in 31 years. Retail sales proved resilient growing 1.7% in October, indicating concerns over inflation remain outweighed by other factors such as the strength of the labour market.

Back home in India, Nifty Index (-3.9%) was under pressure, witnessing a new round of volatility. In the absence of any major economic news or events, markets focused on quarterly data and management commentaries. IT was the only sector in green with +1.8% gains for the month, while banking corrected by -9.4% followed by metals at -6.5%. Small Cap (-1.0%) and Mid cap (-2.7%) indices continued to outperform wider indices on lower side. For the month of November, FIIs were net sellers at INR -39,900 cr., while DIIs were net buyers at INR +30,500 cr. For the CY 2021, FII have now sold almost INR -64,000 cr. (second worst in the decade). For the year NIFTY is up +21.5% and looks like India will be again one of the best performing emerging markets.

World equity indices in USD terms (%) in CY21 YTD

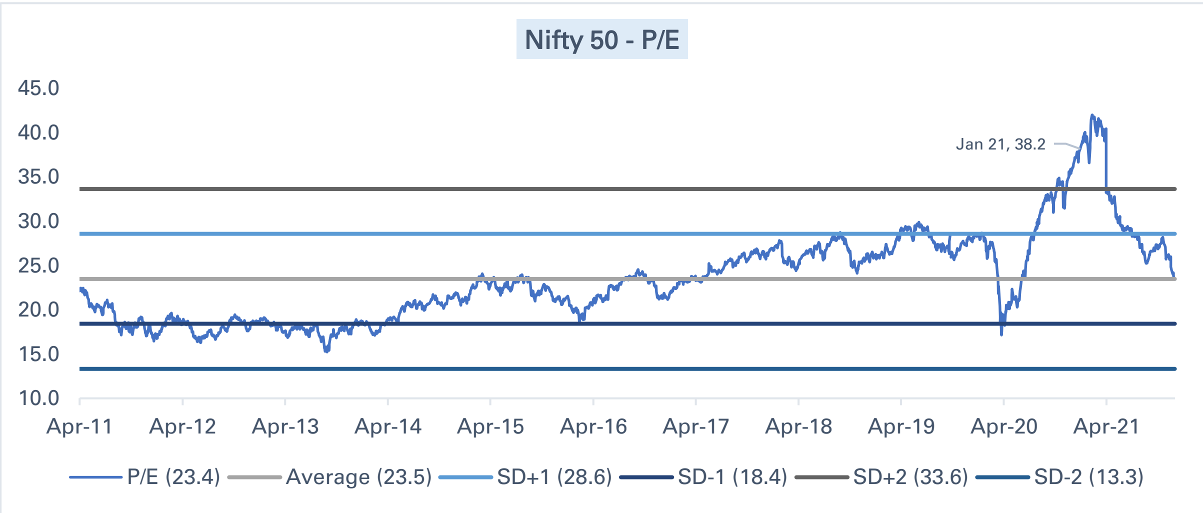


As of 30 Nov'21

Source: MOSL

All our 3 India Equity strategies continued to post strong numbers for the year; India Business leaders and India Equity solutions both posted strong alpha for the year. In India Equity solutions, we have increased our allocation to defensive names slowly to hedge the valuation and volatility risks. We have also increased our allocation to new segments like logistics and packaging. In our India market leader portfolio, portfolios are built on strong internal quantitative matrix. For our quant portfolio (India Market Leader Portfolio), we are looking at creating smart-alpha compared to volatile markets and we are fully invested in top quality market leaders in each segment. For the India Edge portfolio, large allocation to Consumer goods and Financials was a major challenge, as both sectors underperformed markets widely for the CY. We believe the banking and financial services industry is well placed as NPA numbers along with provisions for the GNPA will come down drastically from next quarter, helping profitability to post strong growth numbers.

At current levels, Nifty-50 is trading at around 23.4x TTM (refer chart below) from down to 38x at the beginning of the CY (while markets have gone up 21%). Valuations will slowly come down to average on back of the strong profitability growth, not with market corrections. The retail perception of an expensive market is always one-sided. Indian corporates have posted highest profits ever, names like ONGC have posted INR 18,000 cr profit for the quarter; highest quarterly profits for any corporations. Loss-making units of the past like SBI, Tata Steel and many other public sectors have turned around. Economy grew 8.4% for the second quarter while GST tax collections stood at INR 1.31 Tn, which was second best ever. IIP and employment data posts a very strong upcycle for Indian manufacturers. CPI Inflation rate rose marginally and posted stood at 4.48%. We do not believe RBI will intervene anytime soon to reverse the interest rate cycle. Lowest mortgage rates have created new demand for new houses, posting the best cycle for the housing sector in a decade. At Pi Square, we expect Nifty earnings to grow by 29% in FY22E and by 18% in FY23E. On a valuations basis, some sectors are trading at the highest-ever valuations with below par growth, this is why we hate buying any businesses at any valuations. We do not agree with paying 80x cashflows just because they have been growing at 15-20%. At Pi Square, we have always believed at the bottom-up approach and have looked at investing with great management. For a $3Tn economy in next year, the largest listed logistics player is at $2 billion. The largest packing player is valued at $1-$2bn. We do believe some of these emerging sectors will go through massive transformation and will witness above average profitability growth. We continue to focus on the stocks that have consistent sales and earnings growth, high return on equity, and strong management pedigree.



Source: NSE

Strategy	1 M	CY	Since Inception
India Equity Solution (Incep. date: Jan 2011)	**-0.18%**	**39.49%**	**18.02%**
Nifty 50	-3.90%	21.47%	9.77%
India Edge (Incep. Date: Jan 2011)	**-6.10%**	**15.06%**	**16.53%**
Nifty 50	-3.90%	21.47%	9.77%
India Business Leaders (Incep. Date: Dec 2016)	**-4.54%**	**55.47%**	**36.22%**
Nifty 50	-3.90%	21.47%	17.28%