


# Equity Market & Macro Update (8 Oct 2020)



# Macro Economy Outlook

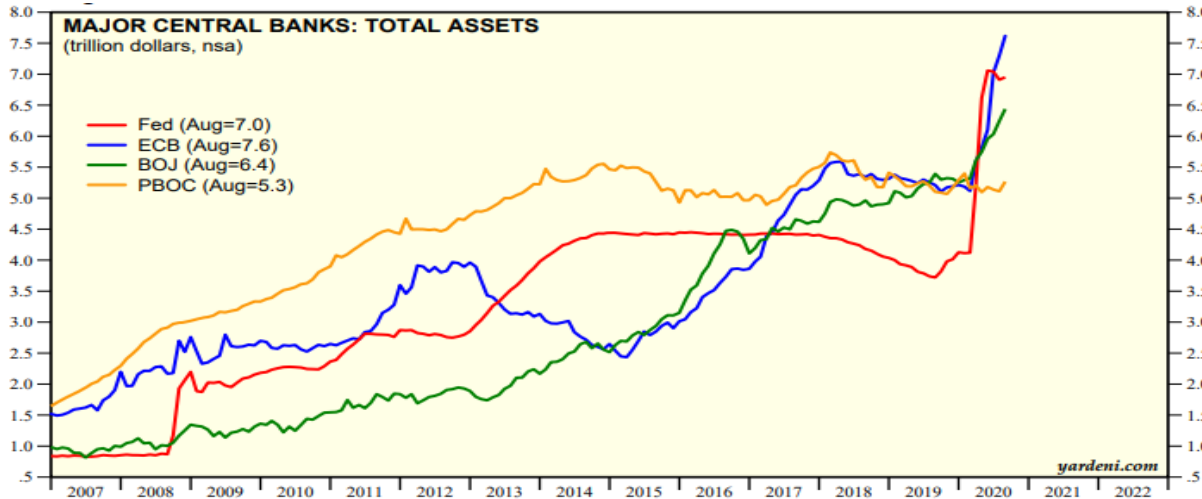
- Interest rates and commodity prices are very supportive to growth.
- Current Account registered a record surplus of 3.9% of GDP (US\$ 19.8bn) as against a surplus of US\$6.0 bn in 4QFY20 (0.1% of GDP)
- Aggregate deposit growth continues while credit de-growth for FYTD at all time low YoY, indicating excess liquidity in the system due to subdued economic activities
- September trade balance registered deficit of US\$ 2.9bn with exports at US\$ 27.4bn (5.3% YoY growth) and imports at US\$ 30.3bn (contraction of 19.6% YoY)
- CPI inflation rose to 6.69% in Aug'20 led by increase in food inflation



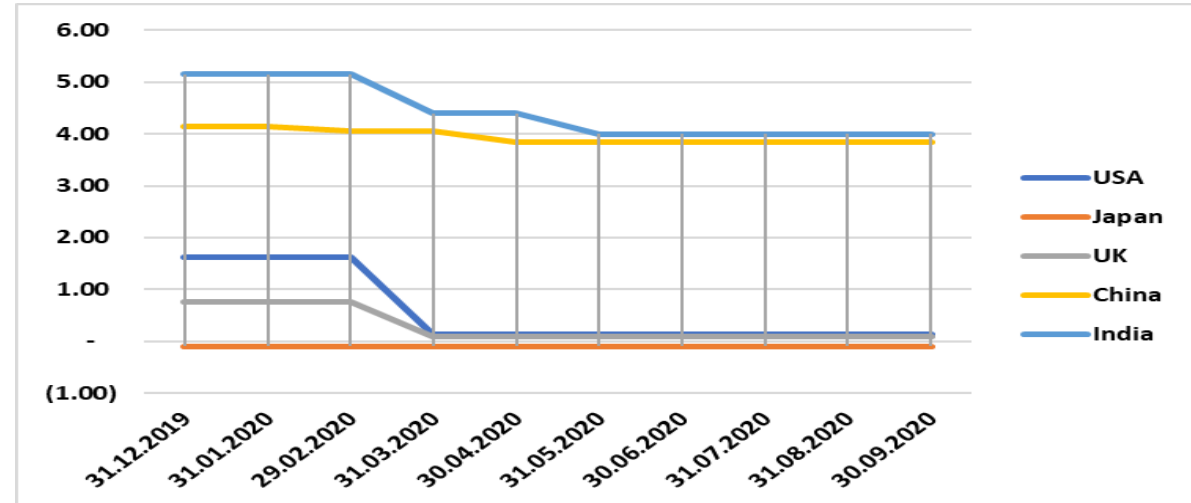
Macro being what they are, support for the stock specific investment argument is mixed. However, bottoms up investing approach with long term approach, risk management discipline should help.

# Global Economy Outlook

## Central Banks globally have been ensuring liquidity

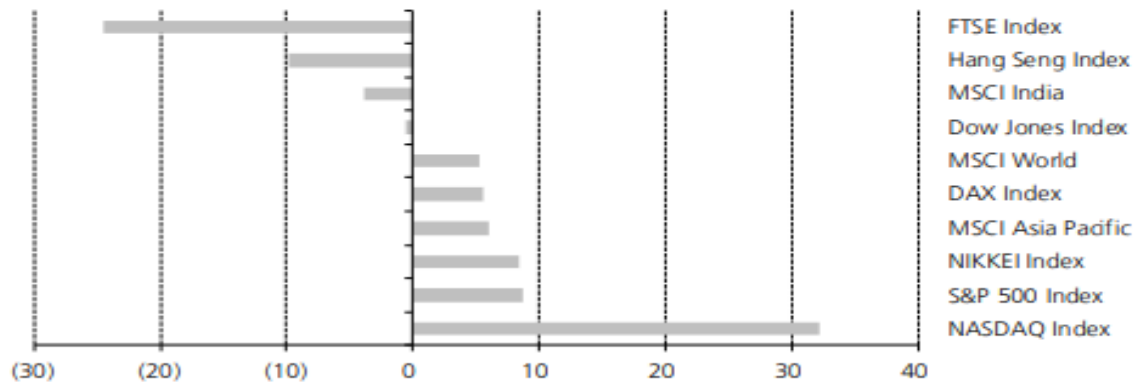


## Stimulus was also offered by lowering policy interest rates

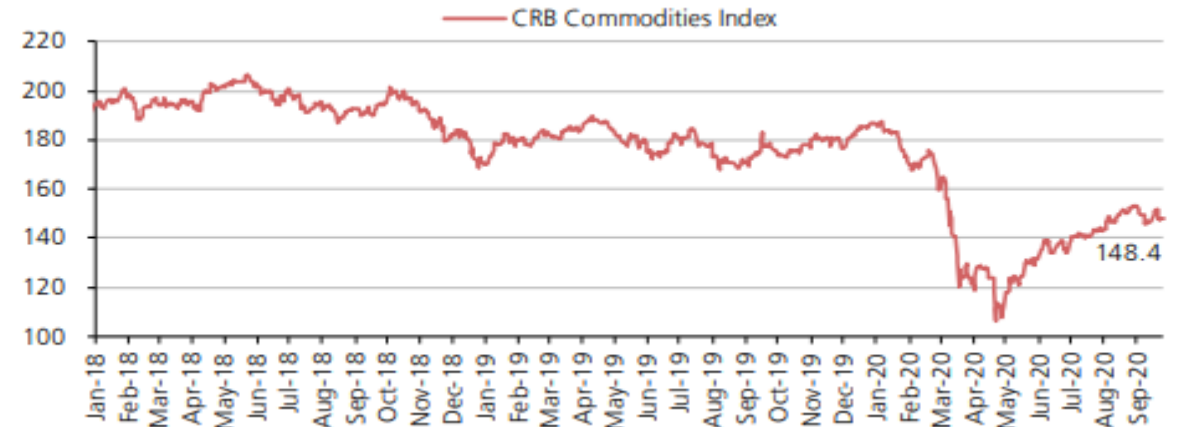


## Markets have performed relatively better considering pandemic

YTD performance of benchmark global indices (%)

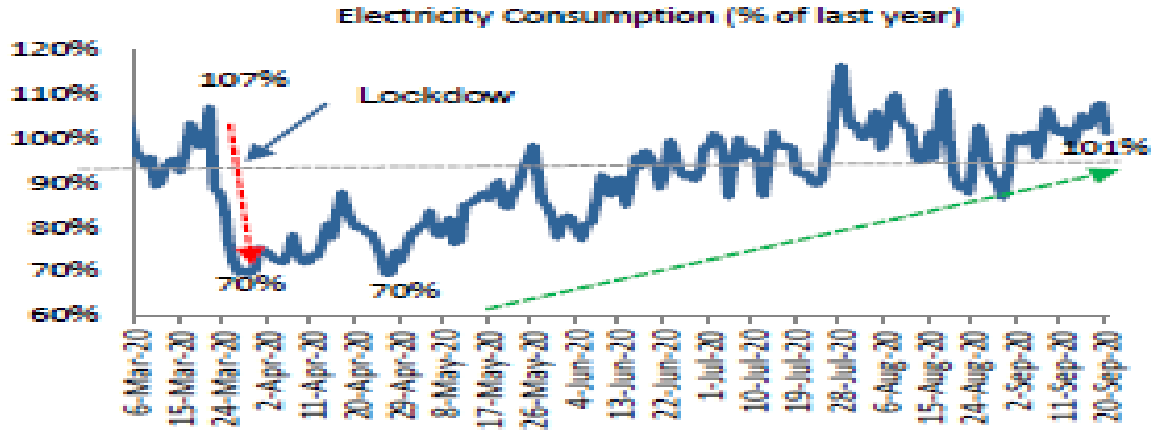


## Commodity prices have been supportive to manufacturing

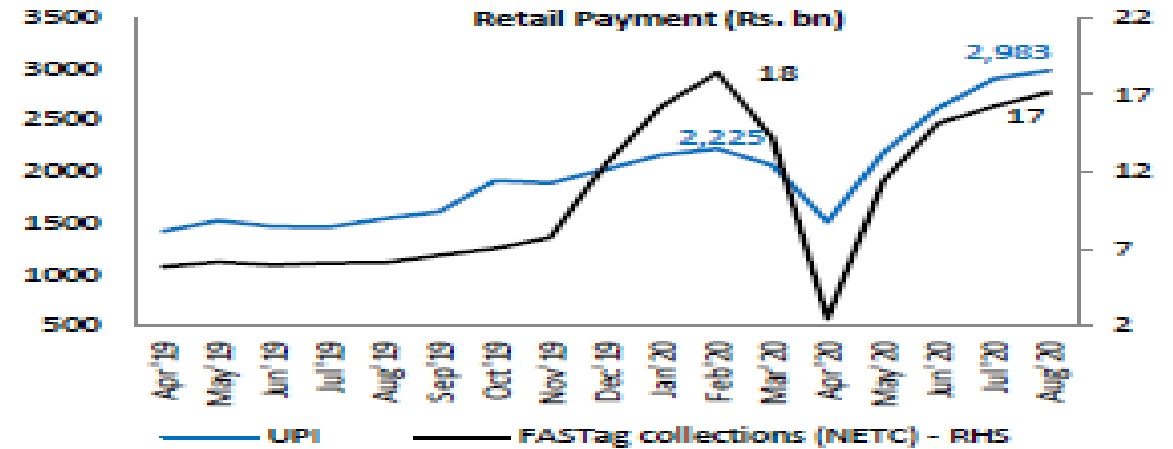


# Macro data indicating pre-Covid levels

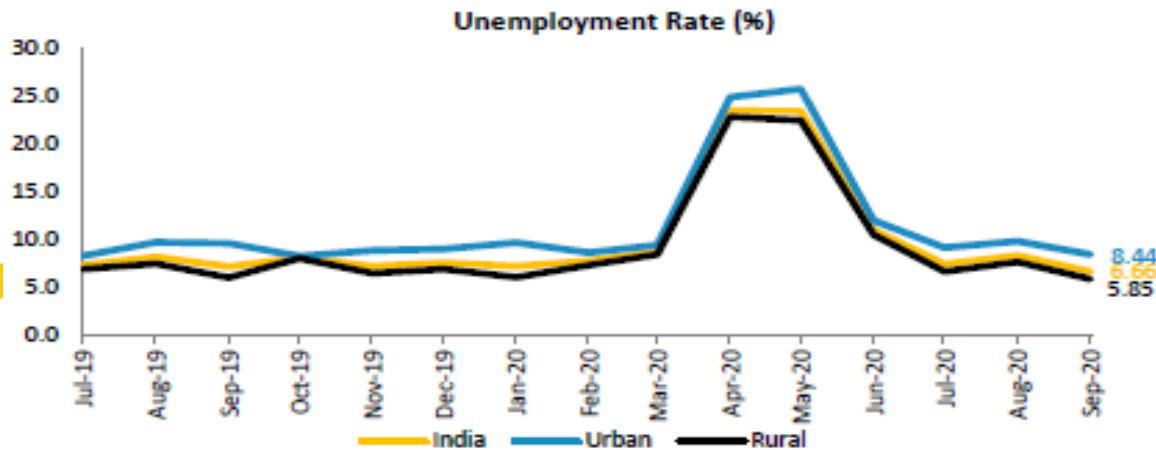
In Sep'20, electricity consumption is more than 100% vs LY



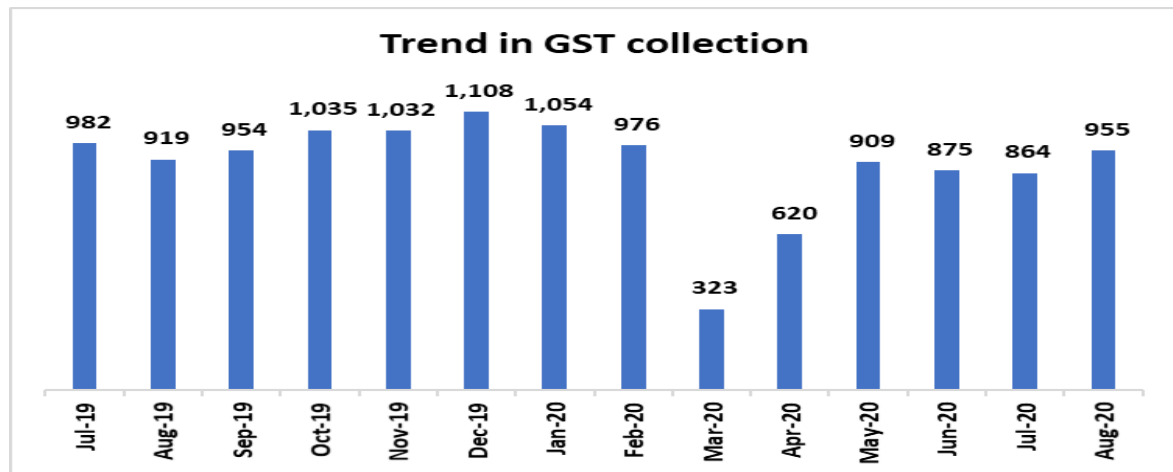
Online Retail payments & FASTag have crossed pre-covid levels



Unemployment rate back to pre-covid levels



August GST collection at Rs 955bn vs Rs 919bn



Source: Spark Strategy, Kotak Institutional Equities

# Economy showing signs of revival

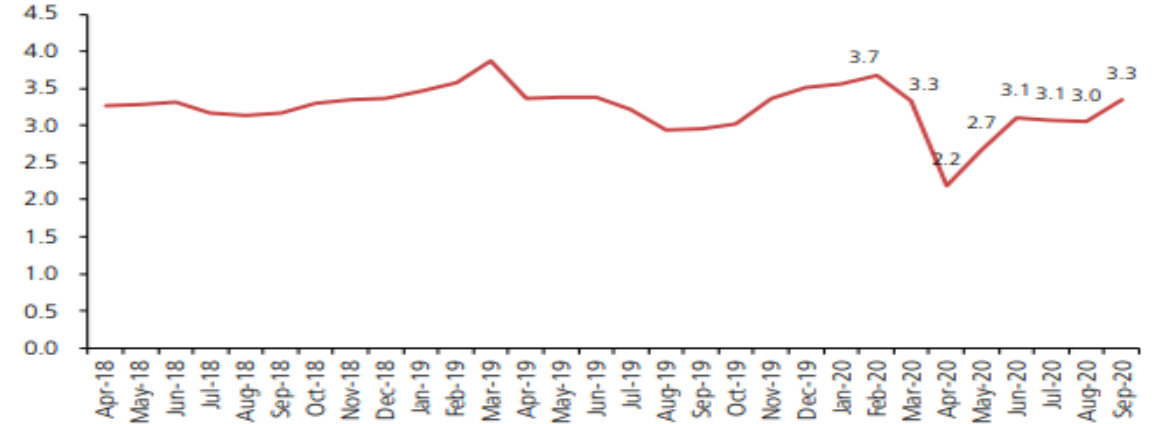
## Average daily e-way bills rising week-on-week

Daily average e-waybills generated (mn)



## Similarly, railway freight has been improving month-on-month

Daily average freight traffic (mn tons)



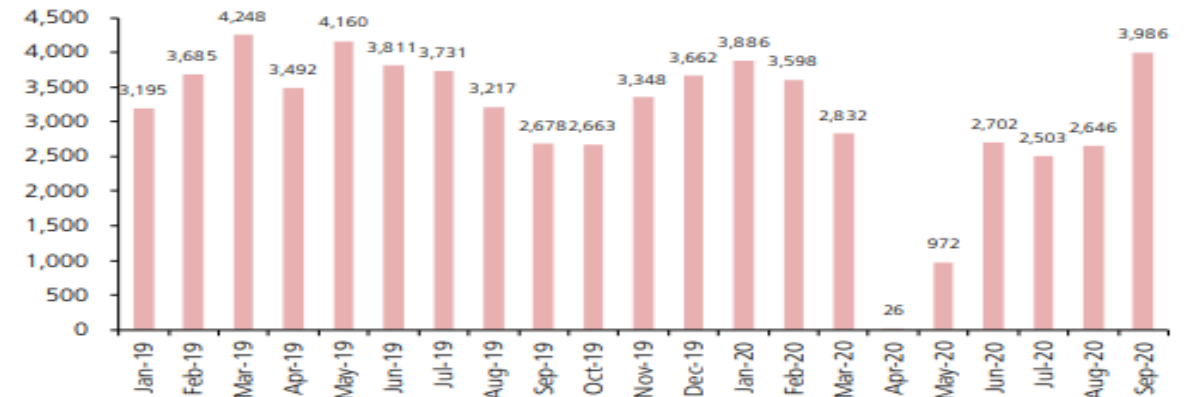
## Daily 2W registrations showing pick-up in consumption

Legend: FY2020 (Dark Grey), April 2020 (Light Grey), May 2020 (Light Pink), June 2020 (Pink), July 2020 (Red), August 2020 (Blue)



## Daily avg. Maharashtra property registrations have increased sharply

Average daily registration of property sales in Maharashtra (#)



# Rural economy showing resilience

Govt. has increased MSP of Kharif crop for 2020-21 which is a huge plus for the Indian farmers

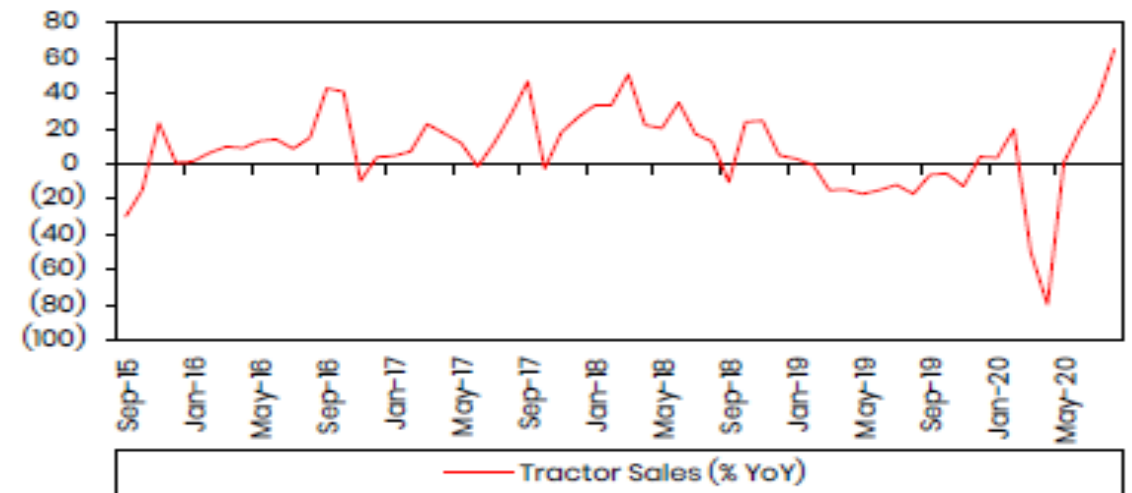
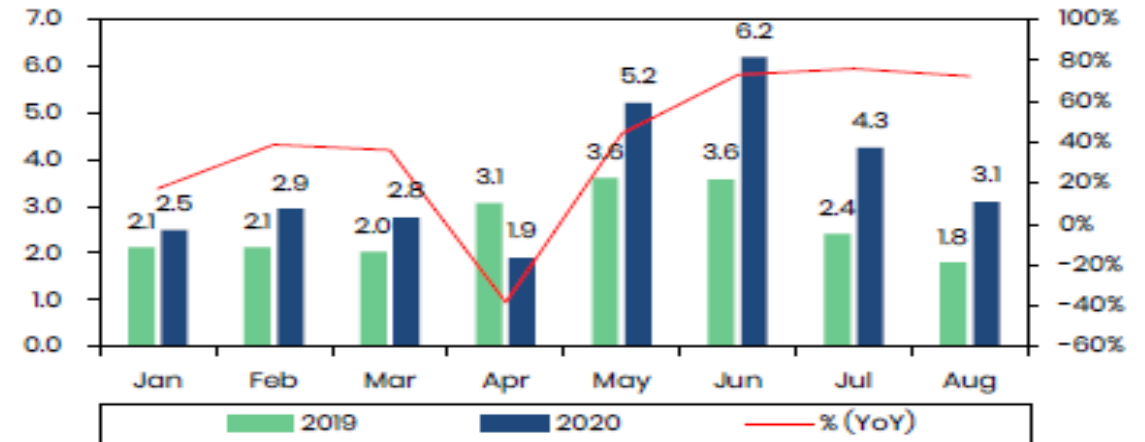
## Minimum Support Price (MSP) of Kharif crops

Crop (Rs/Quintal)	FY20	FY21	% YoY	Proj. cost	Return over cost
Paddy common	1,815	1,868	2.9	1,245	50%
Maize	1,760	1,850	5.1	1,213	53%
Tur	5,800	6,000	3.4	3,796	58%
Moong	7,050	7,196	2.1	4,797	50%
Urad	5,700	6,000	5.3	3,660	64%
Groundnut	5,090	5,275	3.6	3,515	50%
Medium staple cotton	5,255	5,515	4.9	3,676	50%

Govt hikes minimum support price for wheat, five other rabi crops

Besides, MSPs of wheat, lentil (masoor), gram, barley, safflower and mustard/rapeseed have been increased.

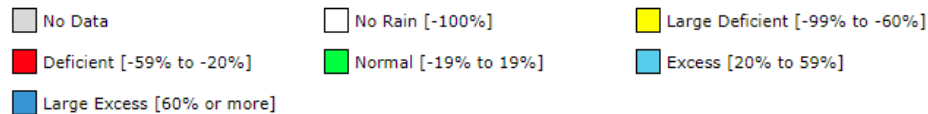
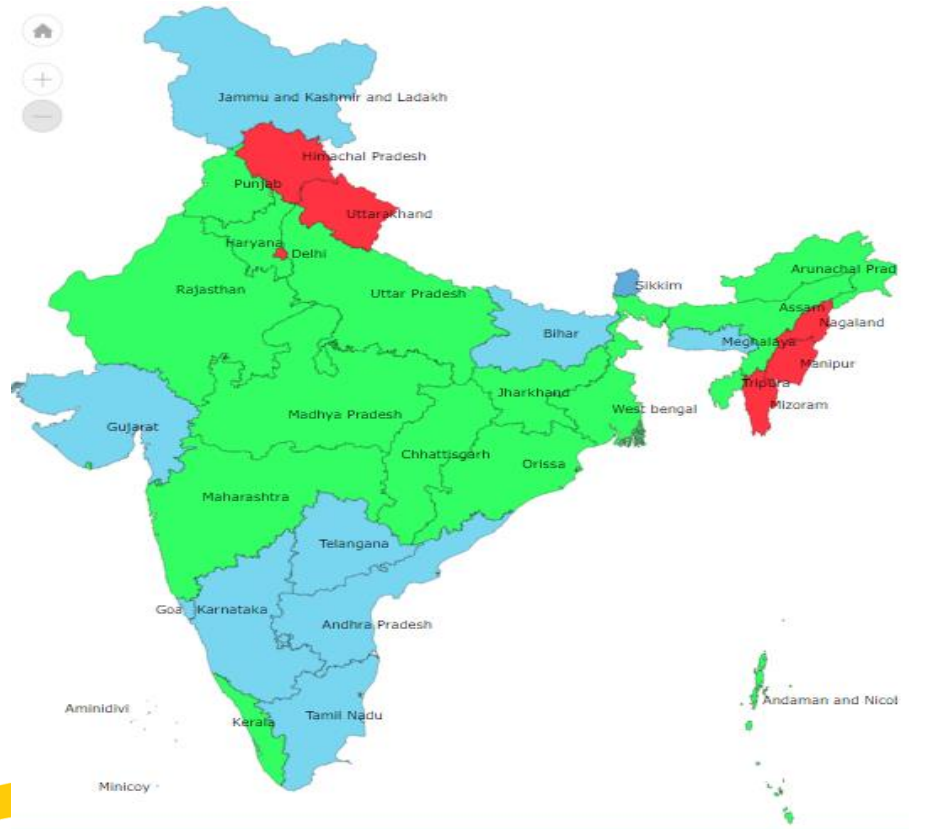
Reverse migration has seen spurt and tractor sales too are picking up significantly



# And agriculture seeing strong thrust

Cumulative rainfall till 30<sup>th</sup> Sept has been normal to excess

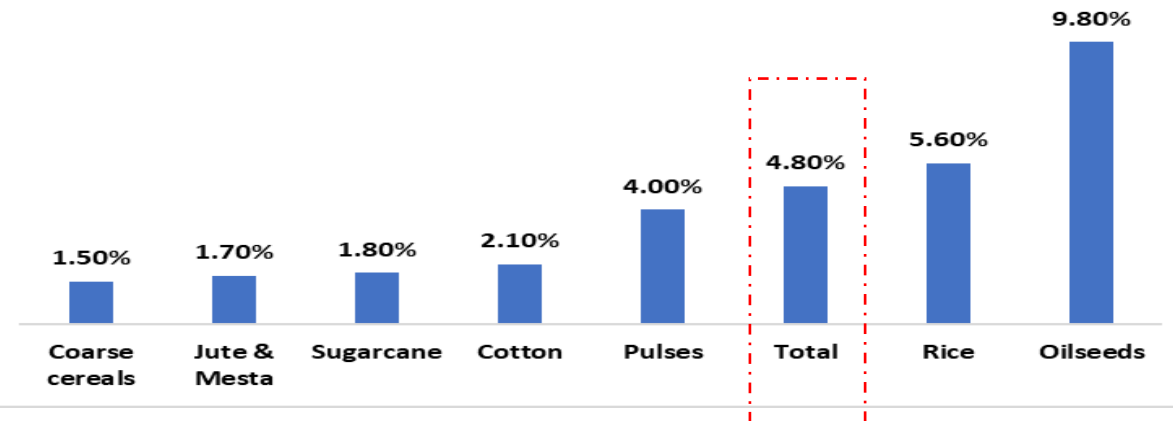
Kharif sowing up 4.8% YoY led by increase in sowing of oilseeds and rice



Acreage for major Kharif crops as on 25-09-20

in million hectare	Area sown 2020	Area sown 2019
Sugarcane	5.3	5.2
Jute & Mesta	0.7	0.7
Cotton	13.0	12.8
Coarse cereals	18.3	18.0
Pulses	13.9	13.4
Rice	40.7	38.6
Oilseeds	19.7	18.0
<b>Total</b>	<b>111.7</b>	<b>106.6</b>

% increase YoY in kharif sowing as of 25-09-2020



Source: IMD, MoACFW

# Agri reforms to aid agricultural growth

## The Farmers' Produce Trade and Commerce (Promotion & Facilitation) Bill, 2020

- Aims at creating additional trading opportunities outside APMC thereby promoting One India, One Agriculture Market
- This will supplement the existing MSP procurement system
- Farmers and traders will enjoy freedom of choice of sale and purchase of agri-produce
- Government to also provide framework for electronic trading under this bill

## The Farmers (Empowerment & Protection) Agreement of Price Assurance and Farm Services Bill, 2020

- Seeks to provide national framework for farming agreements
- Empower farmers for engaging with processors, wholesalers, aggregators, wholesalers, large retailers, exporters etc., on a level playing field
- This will attract private investment for building supply chains for supply of India farm produce



# Agri reforms – strengthening the farmer

**Liberalising the agriculture distribution/marketing chain and strengthening the link between farmers and the market forces**

Curtailing legal monopoly of APMC market yards

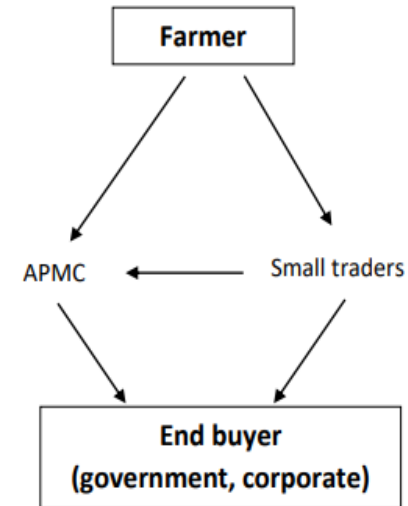
Freeing up stocking limits

Encourage pvt investment in procurement storage facilities

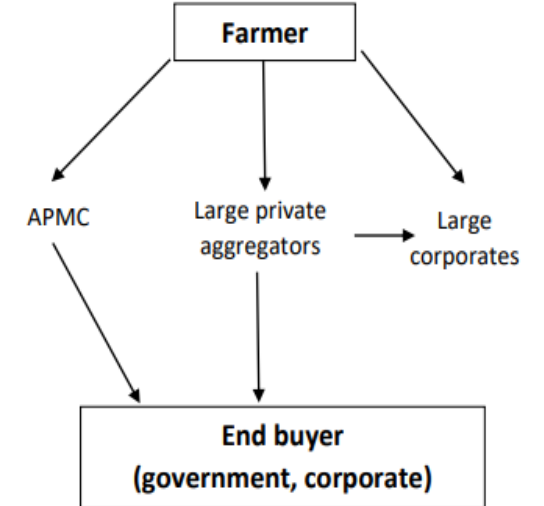
Better price discovery and cost efficiency

Enhance bargaining power of farmers

How current agriculture distribution works?



What the latest reforms aim to achieve?



## Key challenges

Cyclical downturn – downcycles do not attract big investment

APMCs serve other purposes as well – help keep market infrastructure

Problem of politics – creates uncertainty and risk for private sector

Challenges of direct procurement – intermediaries play big role

# PLI Schemes – a game changer in electronics

Ministry of Electronics and IT gave its approval to **16 eligible applicants (5 international mobile manufacturing companies, 5 domestic mobile manufacturing companies and 6 under Specified Electronic Components Segment)** under the PLI Scheme

Over the next 5 years, the approved companies under the PLI Scheme are expected to lead to total production of **more than Rs 10,50,000 cr (Rs 10.5 lakh cr)**

Out of the total production of Rs 10,50,000 cr in the next 5 years, around **60% will be contributed by exports** of the order of **Rs 6,50,000 cr**

The companies approved under the scheme will generate **more than 2 lakh direct employment opportunities** in next 5 years along with creation of additional indirect employment of nearly 3 times the direct employment.

Companies will bring in additional investment in electronics manufacturing to the tune of **Rs 11,000 cr**

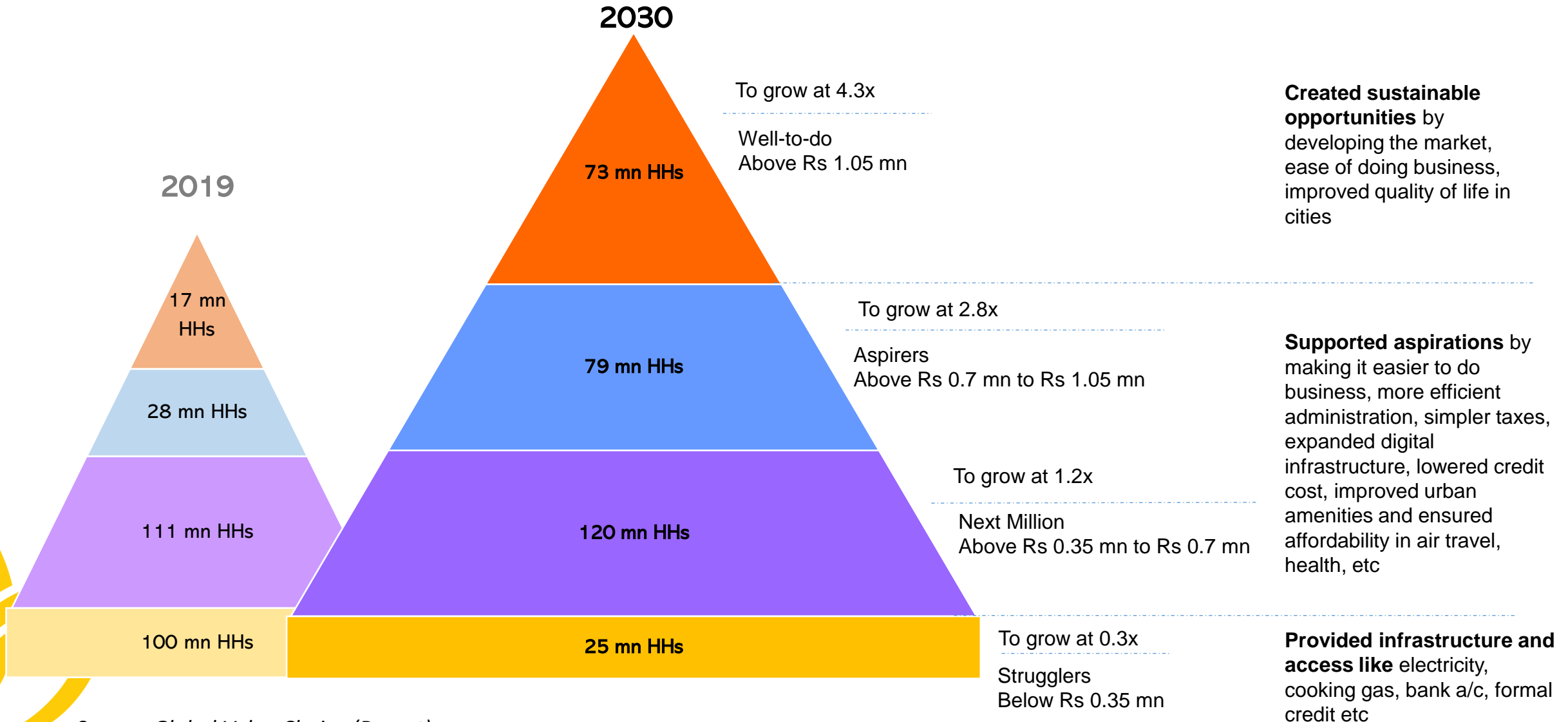
# Macro dashboard

Consumption														
YoY %	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Passenger cars	(31.6)	(23.7)	0.3	(0.8)	(1.2)	(6.2)	(7.6)	(51.7)	(100.0)	(86.0)	(53.2)	(9.0)	9.9	
2 Wheeler	(22.2)	(22.1)	(14.4)	(14.3)	(16.6)	(16.1)	(19.8)	(39.8)	(100.0)	(83.8)	(38.6)	(15.2)	3.0	
Electricity generation	0.4	(2.9)	(12.9)	(6.1)	(1.7)	2.1	10.7	(10.3)	(25.8)	(17.6)	(11.3)	(0.1)	(2.6)	
Petrol consumption	3.3	0.7	(2.0)	8.8	0.3	0.1	4.5	(17.8)	(48.7)	(19.4)	(8.4)	(12.3)	(16.2)	
IPM (monthly growth)	9.4	11.9	5.1	14.5	8.8	7.6	12.1	8.9	(11.2)	(8.9)	2.4	0.2	(2.2)	4.5
Investment														
8 core industries	(0.2)	(5.1)	(5.5)	0.7	3.0	2.2	6.4	(8.5)	(37.0)	(22.0)	(13.0)	(9.6)	(8.5)	
IIP	(1.4)	(4.6)	(6.6)	2.1	0.4	2.2	5.2	(18.7)	(57.6)	(33.9)	(15.8)	(10.4)		
Manufacturing PMI	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8
Services PMI	52.4	48.7	49.2	52.7	53.3	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8
Composite PMI	52.6	49.8	49.6	52.7	53.7	56.3	57.6	50.6	7.2	14.8	37.8	37.2	46.0	54.6
Cement production	(5.1)	(1.9)	(7.7)	4.3	5.4	5.1	7.8	(25.1)	(85.3)	(22.2)	(6.9)	(13.5)	(14.6)	
Diesel consumption	(1.1)	(3.1)	(7.3)	9.1	-	(1.8)	6.3	(24.2)	(55.5)	(29.4)	(15.4)	(19.4)	(20.7)	
Steel Production	3.8	(1.4)	(0.5)	7.0	8.7	1.6	2.9	(24.1)	(78.7)	(43.1)	(25.4)	(16.4)	(6.3)	
Fiscal total expenditure	25.9	34.3	9.1	5.5	32.3	(6.4)	5.2	75.0	20.6	20.7	45.7	5.6	(15.0)	
Commodities														
Crude	60.4	60.8	60.2	62.4	66.0	58.2	50.5	22.7	25.3	35.3	41.2	43.3	45.3	
Gold (USD/t oz.)	1,523	1,466	1,515	1,466	1,523	1,583	1,567	1,583	1,694	1,737	1,801	1,963	1,971	

# Macro dashboard




External														
YoY %	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Exports	(6.4)	(6.3)	(0.7)	(0.5)	(1.8)	(1.7)	2.9	(34.6)	(60.3)	(36.5)	(12.4)	(10.2)	(12.7)	5.3
Imports	(12.9)	(12.1)	(16.3)	(12.7)	(8.8)	(0.8)	2.5	(28.7)	(58.7)	(51.1)	(47.6)	(28.4)	(26.0)	(19.6)
Trade Balance (USD bn)	(13.5)	(10.9)	(11.0)	(12.1)	(11.3)	(15.2)	(9.9)	(9.8)	(6.8)	(3.2)	0.8	(4.8)	(6.8)	(2.9)
FX Reserves (USD bn)	434	443	451	457	471	482	476	479	493	507	523	535	541	542
Net FII inflows (USD bn)	(0.6)	0.7	2.3	2.7	0.5	0.4	0.4	(16.6)	(1.6)	(1.0)	2.2	0.9	6.7	
FDI (USD bn)	1.7	1.9	2.0	1.1	3.9	5.7	2.9	2.5	2.4	2.0	(0.8)	3.3		
Financial Indicators														
CPI	3.3	4.0	4.6	5.5	7.4	7.6	6.6	5.8	7.2	6.3	6.2	6.9	6.7	
WPI	1.2	0.3	-	0.6	2.6	3.1	2.3	1.0	-	(3.2)	(1.8)	(0.6)	0.2	
Broad money multiplier	5.6	5.7	5.6	5.6	5.5	5.6	5.5	5.6	5.6	5.5	5.4	6.5		
Credit growth	10.2	8.7	8.9	8.0	8.1	7.2	6.1	6.1	6.8	6.5	6.1	5.7	5.5	
Deposit growth	9.7	9.4	10.3	9.7	11.8	9.9	9.0	7.9	9.5	11.3	12.1	11.0	10.9	
Monetary base (M3)	9.9	9.7	10.6	9.8	10.4	11.3	10.2	8.9	10.8	11.7	12.3	12.4	12.6	
Currency in circulation	12.9	13.6	15.1	12.8	11.9	11.9	11.5	14.5	15.7	18.4	20.6	22.2	23.2	
Credit deposit ratio (x)	75.8	75.7	75.8	76.1	76.5	75.8	75.8	76.4	75.4	73.9	73.5	72.5	72.6	
APE growth	10.5	14.2	10.1	110.0	50.8	46.0	13.9	(47.9)	(32.7)	(25.7)	(55.5)	(31.9)	(0.7)	
10-year G Sec yield (%)	6.6	6.7	6.5	6.5	6.6	6.6	6.4	6.1	6.1	5.8	5.9	5.8	6.1	

# India an emerging economy with rising income levels

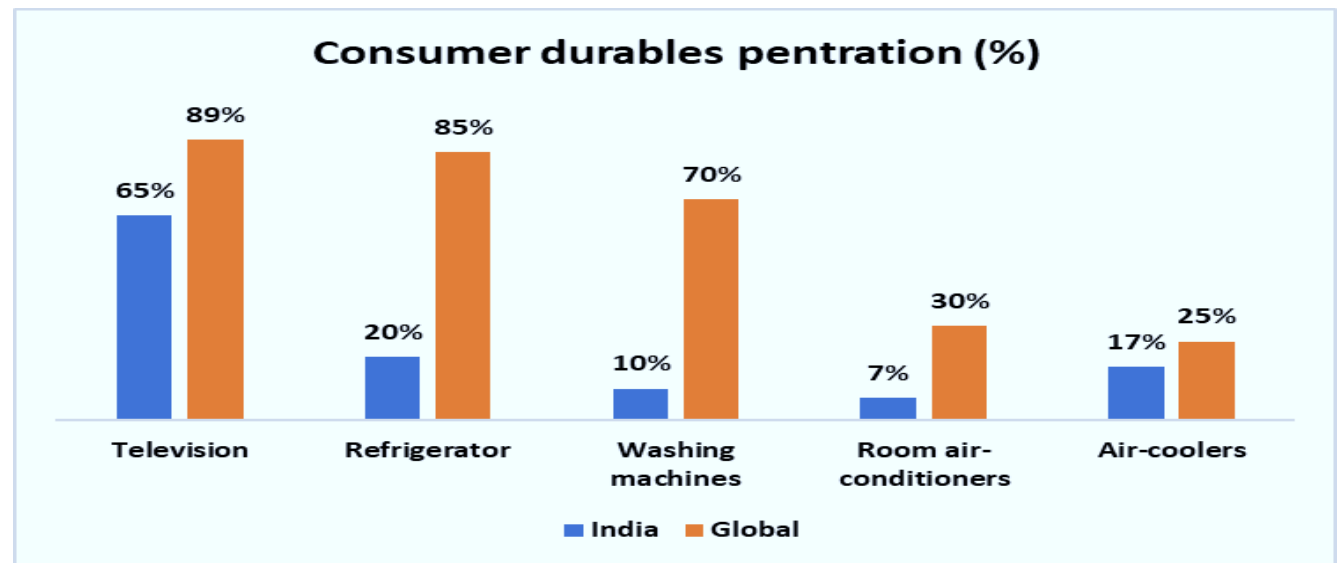
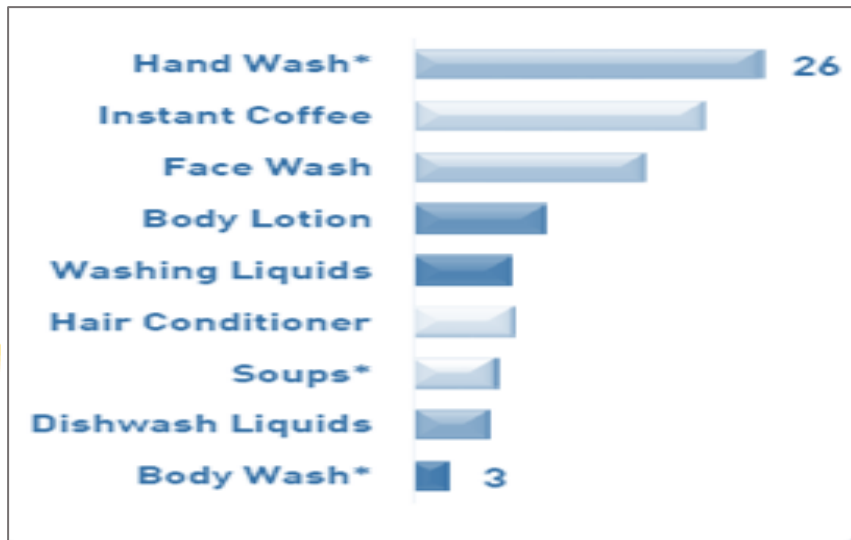
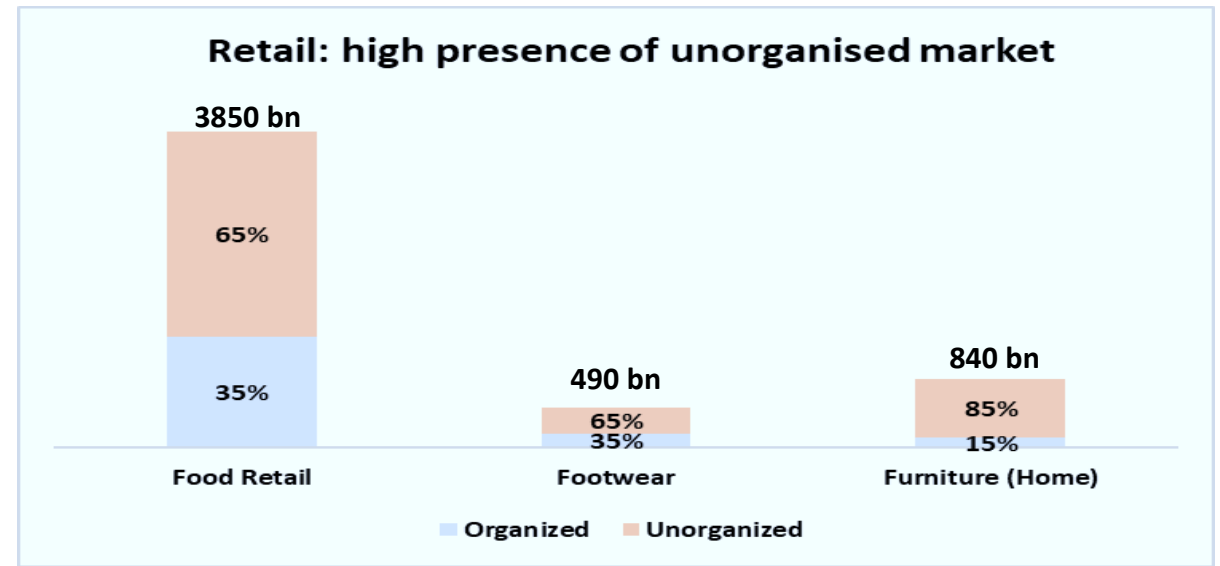
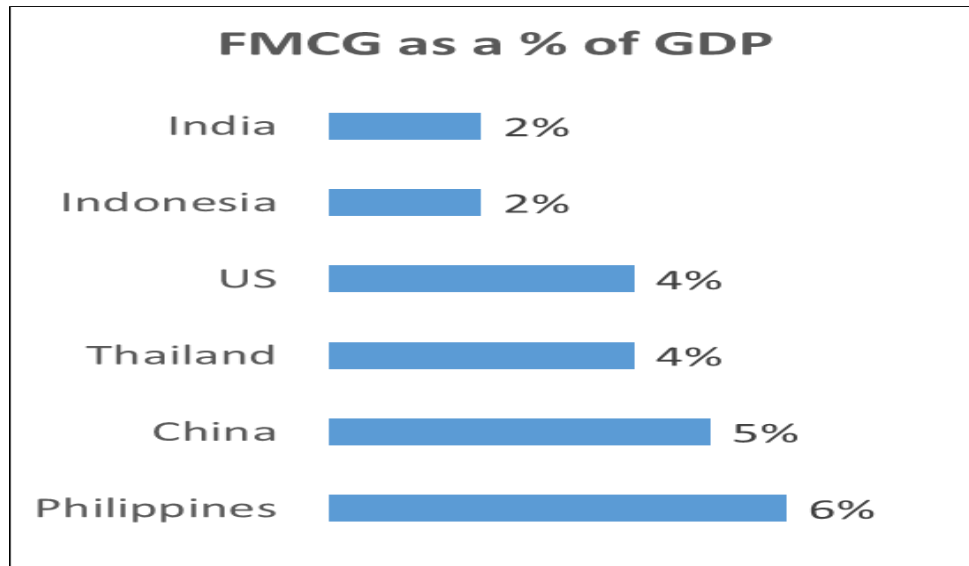


Source: Global Value Chains (Report)

# Favourable socio-demographic factors

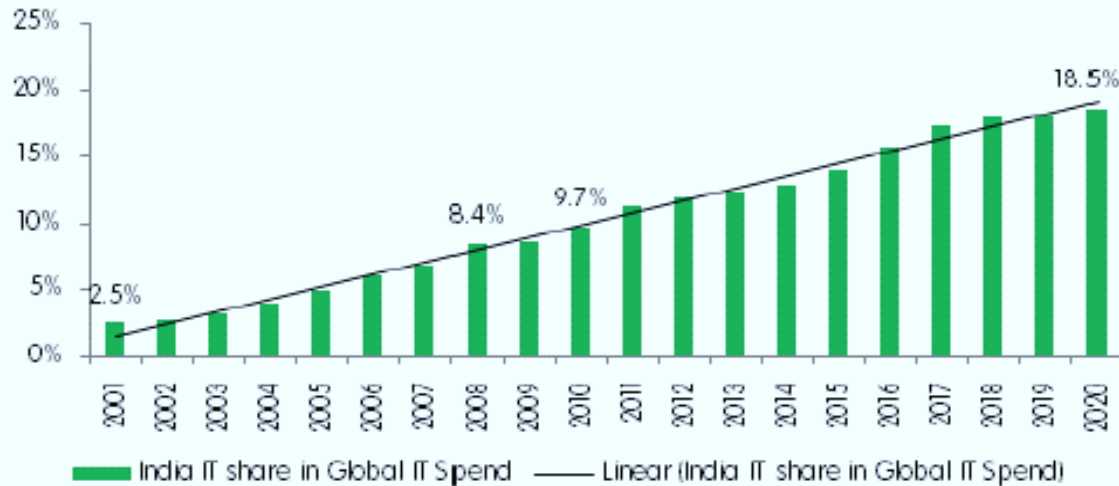
Factor	Shift	Implications on Consumption
 Urbanisation	<b>39%</b> Urban population by 2027 vs 33% in 2018	<b>2.2x</b> Average consumption per HH in urban vs rural
 Nuclearization	<b>75%</b> HHs to be nuclear by 2027 as against 68% in 2018	<b>20-50%</b> Higher consumption of nuclear vs joint families
 Gen 'I'	<b>80%</b> Of the population will belong to Gen 'I' by 2027 vs 70% in 2018	Have options, higher appetite to spend and comfortable with credit

# Consumer goods- an underpenetrated market



# IT- enabling digital innovation

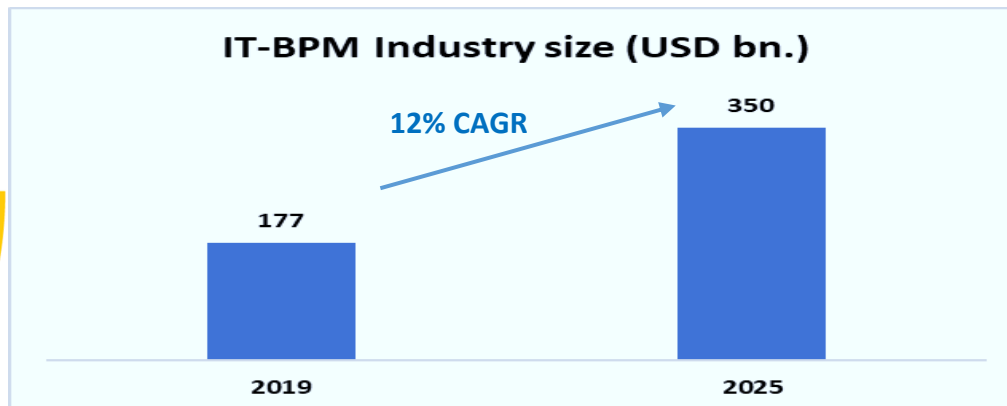
Indian IT industry contributes 18.5% of global IT spend



Data & AI will aid economic growth and inclusive development



The industry is expected to grow at ~12% CAGR...



...with rising Internet penetrations and Automation adoption

2<sup>nd</sup> largest online market with Internet penetration at 50%

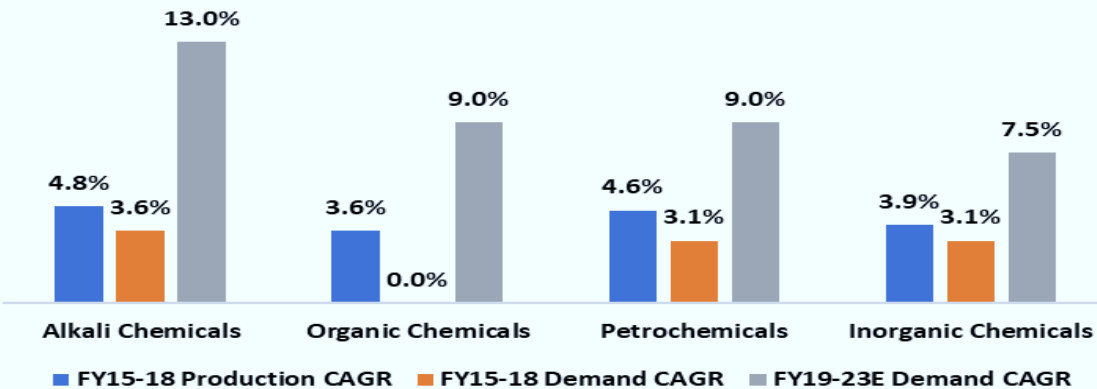
Post Covid-19, individual and employee health will drive Automation adoption



# Chemicals- an emerging opportunity

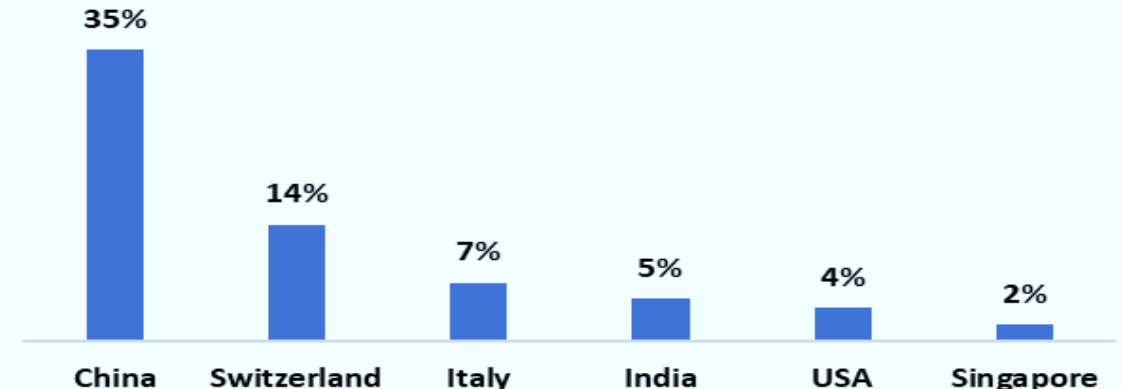
## Future growth rates for bulk chemicals to be higher than past

Historical & Expected growth rates of bulk chemicals

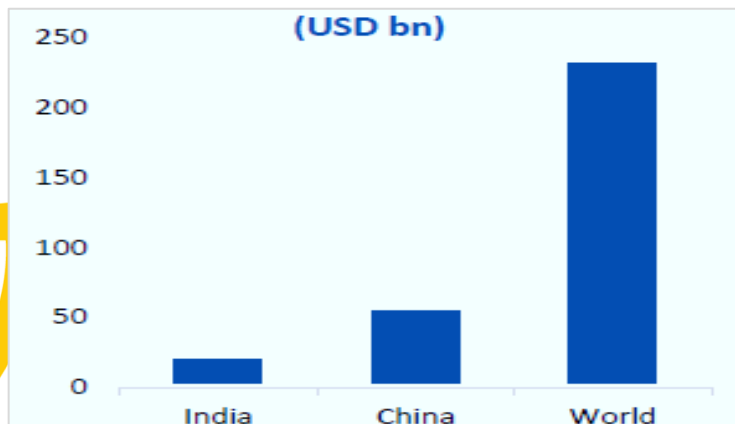


## Localisation of API manufacturing to set strong footing for India

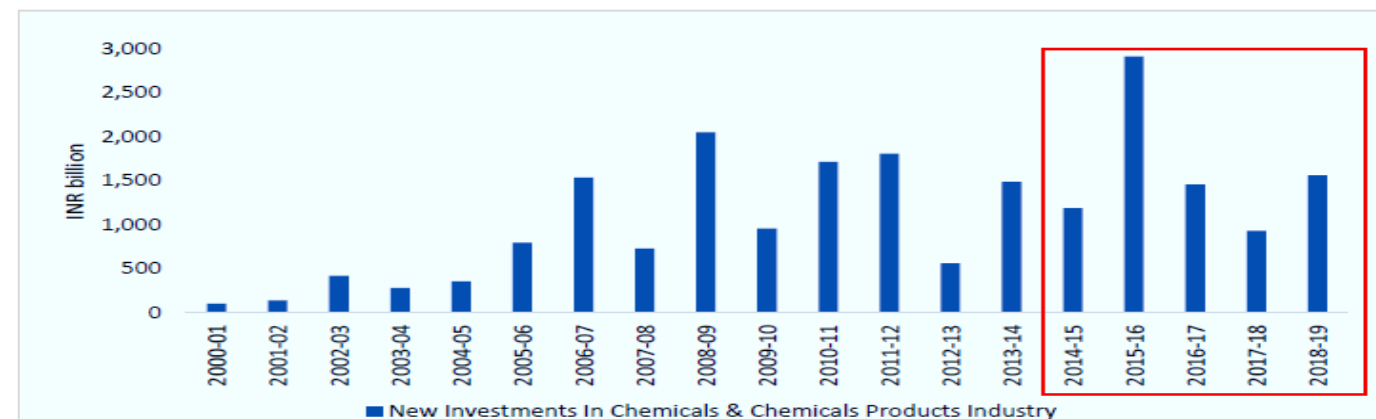
API global market share in 2019



## Significant opportunity in speciality chemicals

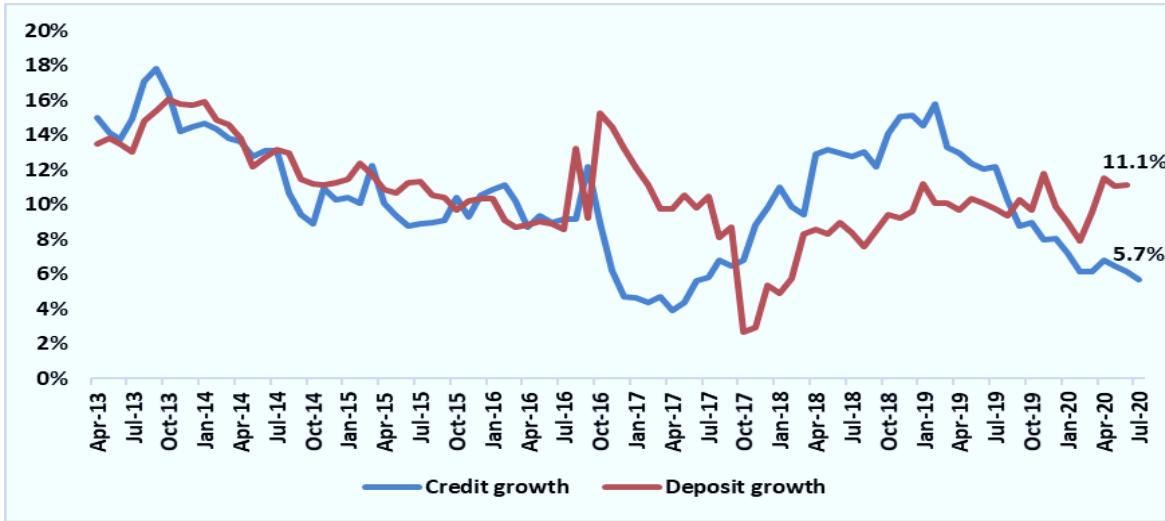


## Rs 8 tn of new capex was undertaken in chemicals sector in the last 5 years

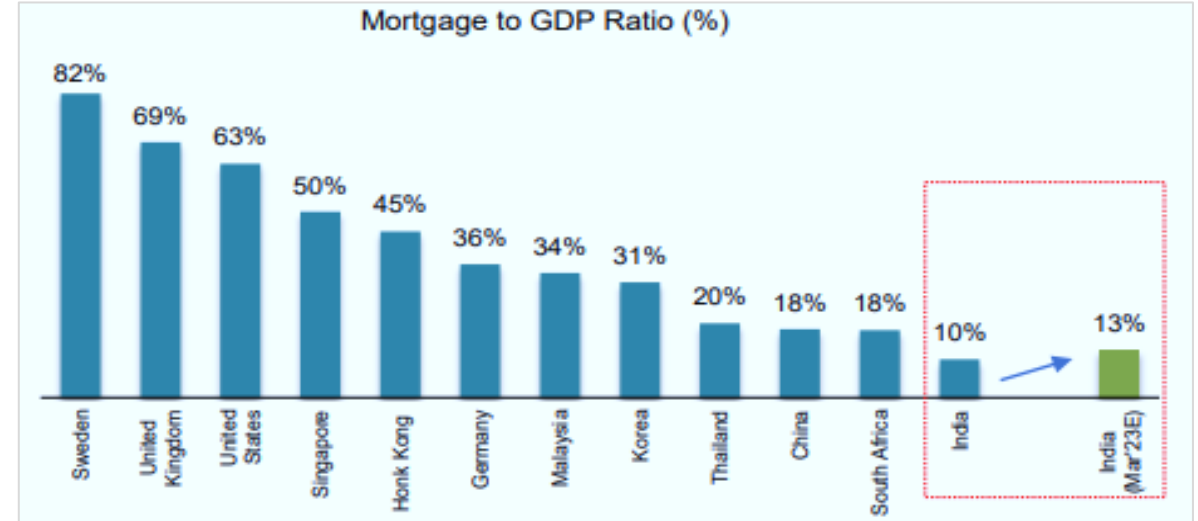


# BFSI- strong spine adopting newer trends

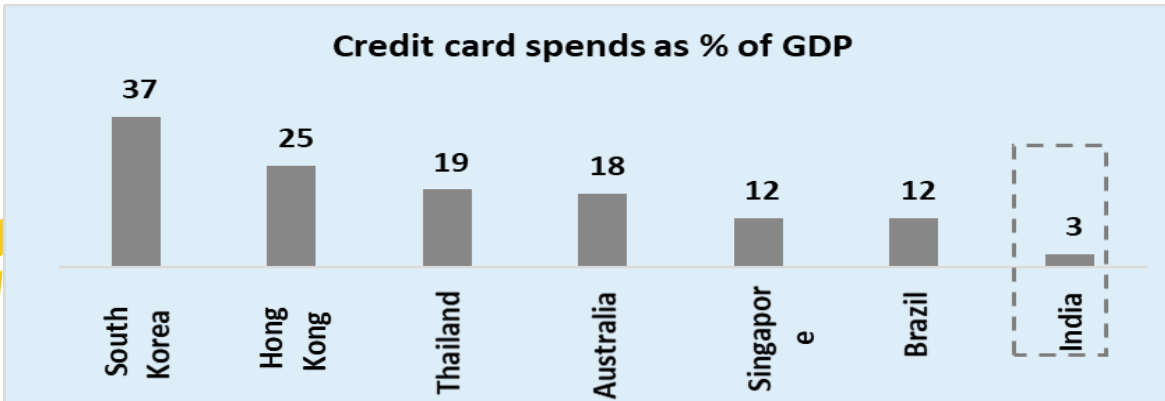
Both deposit and credit have recorded 12% CAGR in last 10 yrs



Indian mortgage market is significantly underpenetrated



Cards penetration in India is low with huge scope for expansion

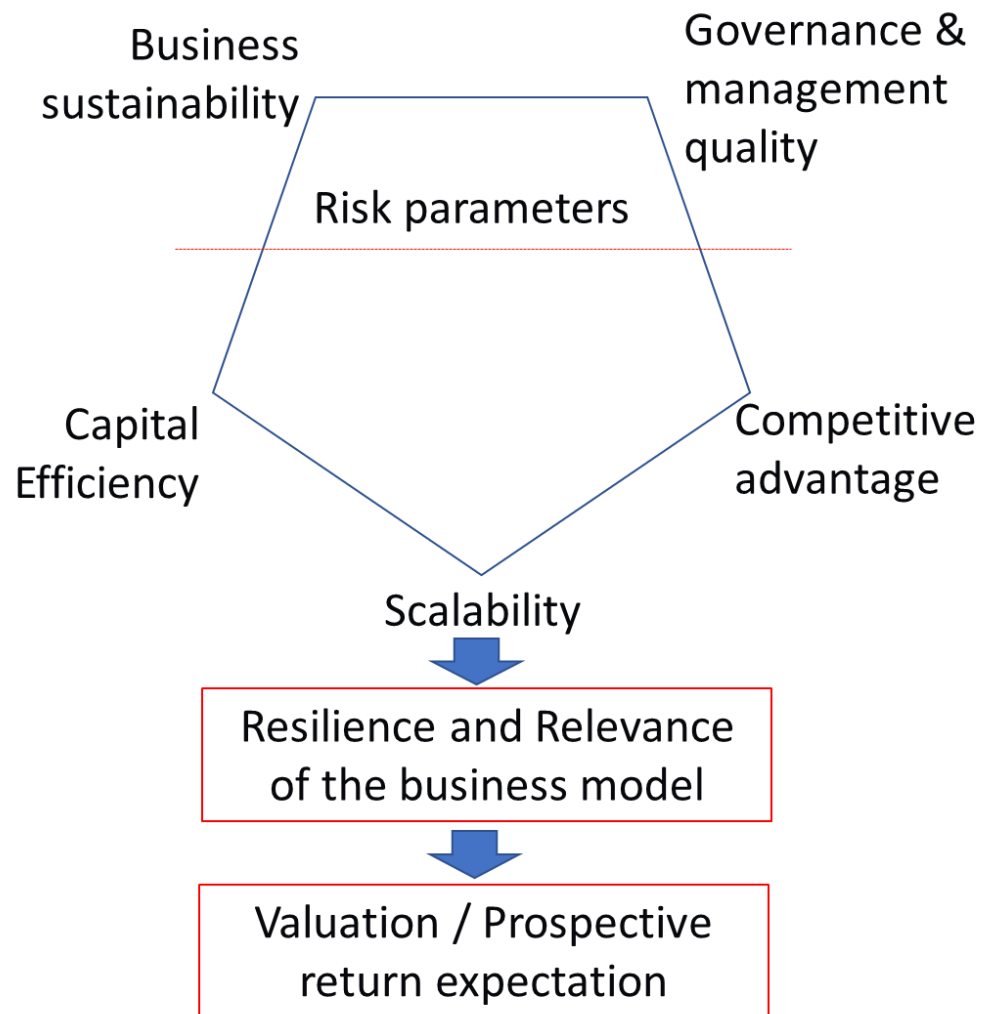


Digital payments gaining ground

UPI seeing 1 billion transactions per month with ~570% CAGR between FY17-20

India expected to contribute 2.2% of world digital payment by 2023

# Our investment framework



Maintaining quality is important

# Investment philosophy

Markets are not fully efficient and active management backed by independent thinking can add value

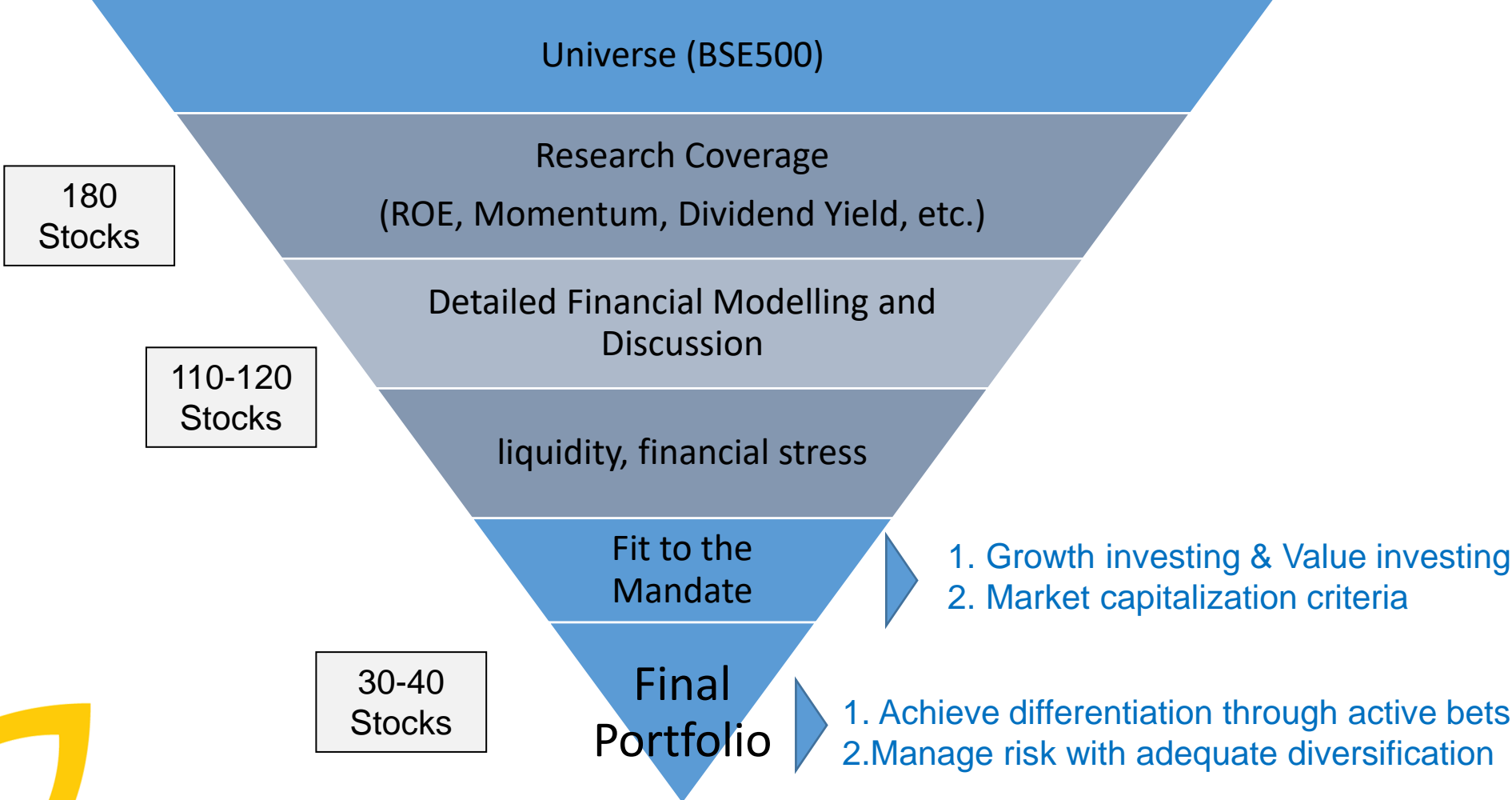
As the allocator of client's hard earned money, we care about management quality, return on capital employed, and governance

Blended Top-down & Bottom up Most of the value created through stock selection  
We do not to bias ourselves on macro, but rather treat macro exposures as risk factors to be checked

Investment process that is designed to look through current market perception and focus on the intrinsic value



# Portfolio construction



**Final Portfolio to provide diversification and maintain a balance of risk & return**

# Equity market outlook and drivers

Industry  
consolidation

Technology

Reforms

Favourable  
macros

Focus on  
domestic  
manufacturing

Cost saving  
measures

Gradual  
Recovery



# Things to watch out for

US-Presidential elections

US-China Trade War

Covid-19 cases and vaccine

SC decision on moratorium

India-China border conundrum

Further easing of lockdowns



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**Statutory Details: Sponsor: Life Insurance Corporation of India.  
Investment Manager: LIC Mutual Fund Asset Management Ltd. CIN: U67190MH1994PLC077858**

**For further details, please refer to the Scheme Information Document, Statement of Additional Information and Key Information Memorandum cum Application forms, available on our website [www.licmf.com](http://www.licmf.com), and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.**

**LIC Mutual Fund Asset Management Ltd.**

Investment Managers to LIC Mutual Fund

**Formerly known as LIC Nomura Mutual Fund Asset Management Co. Ltd.**

Industrial Assurance Building, 4<sup>th</sup> Floor, Opp. Churchgate Station,  
Mumbai - 400 020.

To know more, please visit [www.licmf.com](http://www.licmf.com)

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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**