



# Covid 2<sup>nd</sup> wave Road ahead UPDATE

Original Note: 19<sup>th</sup> Apr, 2021  
Update : 21<sup>st</sup> May 2021



## **What we said in our Note Circulated on 19th April, 2021**

## Why had the market fallen so much

- Weakness started with the rising Bond yields in the USA
- There was an apprehension that Fed will start tightening the monetary policy and this would lead to flight of capital from emerging markets
- Rising inflation set at rest expectations of a rate cut by RBI in the near future
- The last straw has been an explosion of Covid cases in India:
  - Started with Maharashtra and other western states but has now engulfed the entire nation
  - Fear of Lockdown has come up again (even though the State Govts are trying to ensure that economic activity does not come to a standstill completely)
  - Shortage of vaccine and medical facilities (beds, oxygen, life saving drugs) has compounded the fear
  - Unchecked crowding in election rallies and at the Kumbh Mela are expected to further worsen and already grim situation.
- Sentiments are at an all time low and uncertainty at an all time high

## Which sectors have been affected more

Index	52WH Date	52WH Price	▲(CMP,52WH**)	ATH* Date	ATH Price	▲(CMP,ATH)
S&P Bse Bankex	16-02-2021	42655.21	-14.9%	16-02-2021	42655.21	-14.9%
S&P Bse Realty	04-03-2021	2909.94	-14.7%	08-01-2008	13848.09	-82.1%
S&P Bse Auto	09-02-2021	25072.54	-11.7%	20-12-2017	27031.02	-18.1%
S&P Bse Sensex	16-02-2021	52516.76	-7.0%	16-02-2021	52516.76	-7.0%
S&P Bse IT	12-04-2021	28385.91	-5.5%	12-04-2021	28385.91	-5.5%
S&P Bse Midcap	04-03-2021	21085.51	-4.4%	04-03-2021	21085.51	-4.4%
S&P Bse Consumer Durables	09-04-2021	33763.96	-4.0%	09-04-2021	33763.96	-4.0%
S&P Bse Metal	08-04-2021	16709.89	-3.6%	04-01-2008	20494.62	-21.4%
S&P Bse Smallcap	09-04-2021	21667.13	-3.0%	09-04-2021	21667.13	-3.0%
S&P Bse FMCG	09-04-2021	13123.79	-1.6%	09-04-2021	13123.79	-1.6%
S&P Bse Healthcare	16-04-2021	23107.27	-0.4%	12-04-2021	23047.46	-0.2%

\*ATH – All Time High  
\*\*52WH – 52 Week High

Except for the Auto, Realty and Metals all the other sectoral indices touched their all time high in 2021

Banking, Realty and Auto have underperformed Sensex from their 52WH while Small Cap and Mid Cap Index have outperformed

## How are our portfolio positioned and what are we doing?

Sector	Model Weight (%)	Actual Weight (%)	View	What are we doing
Financials	20	16.8	Medium Term Negative	1. Underweight vis-à-vis Model 2. Almost 1/3 <sup>rd</sup> of our weight in Financials is to Credit Card and Insurance
Consumer	18	14.7	Minimal Impact	Buying on dips
IT Services	14	12.3	No Impact	Almost fully invested
Cyclicals	12	9.7	Impact largely in the price	Buying on dips
Auto	9	7.0	May be impacted	We have larger allocation to globally exposed companies and tractors
Chemicals	6	6.3	Minimal Impact	Fully invested
Metals	6	4.7	No Impact	Substantial Allocation already invested
Diversified	5	3.9	Minimal Impact	Buying on dips
Pharma	3	3.3	No Impact	Fully invested
Telecom	3	3.0	No Impact	Fully invested
Cash	4	18.2	For transactional purposes	Disproportionately higher level of cash to take advantage of market volatility



Most of the sectors and stocks that we have invested in have minimal to no impact

# Opinions

Excerpt from the presentation from Neelkanth Mishra, Credit Suisse

- I. Expects intensity of pandemic (i.e. fatalities) to fade by end Apr in Maharashtra and mid-May in rest of the country.
- II. Key reason is that 87% of deaths are in 45+ population. In this age cohort, anti-body prevalence will be >50% by end-Apr aided by vaccinations. Fatality rate will reduce to as low as 0.03-0.04%.
- III. Overall impact of 2nd wave should last only for next 15-30 days and not 2-3 months as is being widely expected. Impact on GDP growth should be <1%
- IV. Significant earnings downgrades not expected. Loan growth is key monitorable.
- V. Expects markets to turnaround quickly once panic subsides after Apr-end and markets to rally earlier than the actual recovery as we saw last year.

Excerpts from Dr. Devi Shetty's (Chairman and Founder, Narayana Health) article

“The first lockdown came at tremendous cost to society and the economy, but it bought us time to prepare our infrastructure and plan our strategy. “A second lockdown will not make us any more prepared and the virus will still be waiting for us when we open up. “There’s a good chance that we can stop the pandemic within the next six months if we take up mass vaccination on a war footing and vaccinate people between the ages of 20 to 45, who’re the real super-spreaders.”

## The way forward

1. Nifty support is at 14250, which as of now is holding
2. US market is at its All Time High and earnings outlook for US companies strong
3. We believe that the 2nd wave of Covid will not last as long as first 1st wave
4. Midcap & small cap index still technically not weak
5. IMF GDP growth projection for India is 12.5%. Even RBI in the recent policy maintains FY22 GDP growth forecast at 10.5%
6. As long as Lockdown is local and not extended, analysts believe that there is very little scope for an earnings downgrade
7. Past corrections have shown that fear quotient rises with market fall and on most occasions investors end up staying out of the market in the last leg of the correction



# UPDATE



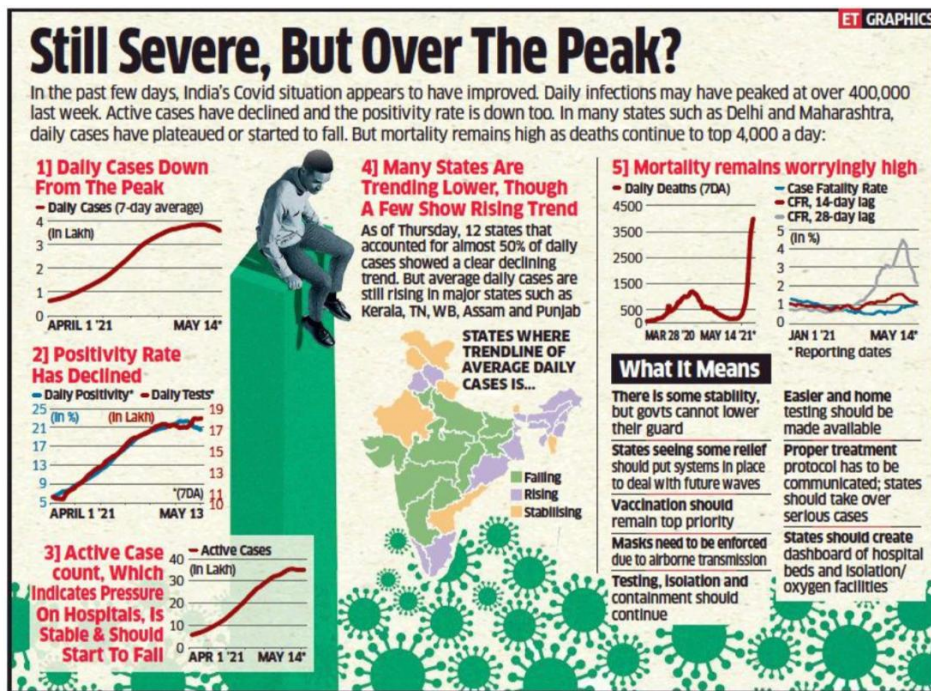




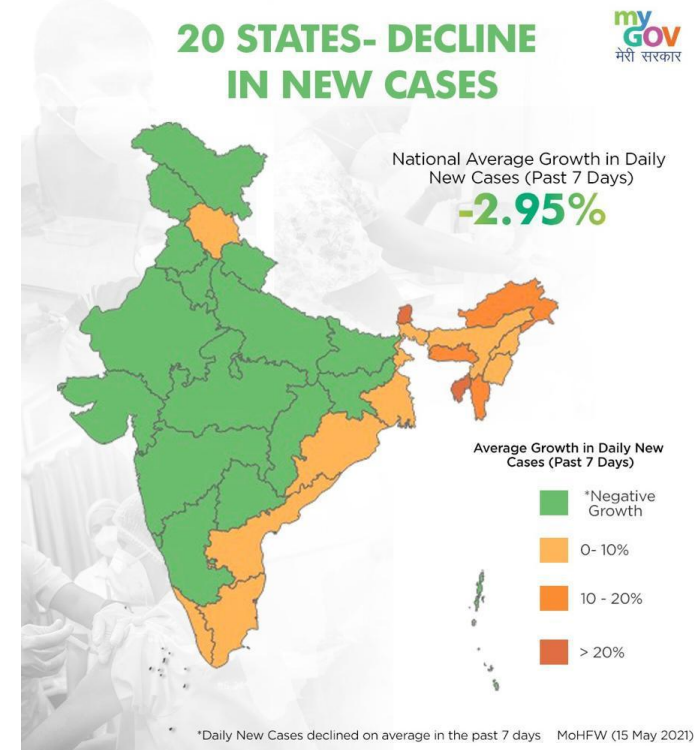
**Trends after we first circulated the  
note**

# Covid-19 Second Wave: Declining from the Peak

Daily case count peaked on 1<sup>st</sup> May with more than 4 lakh cases reported on a single day; The daily case count has reduced to 2.76 lakh



Source: Economic Times



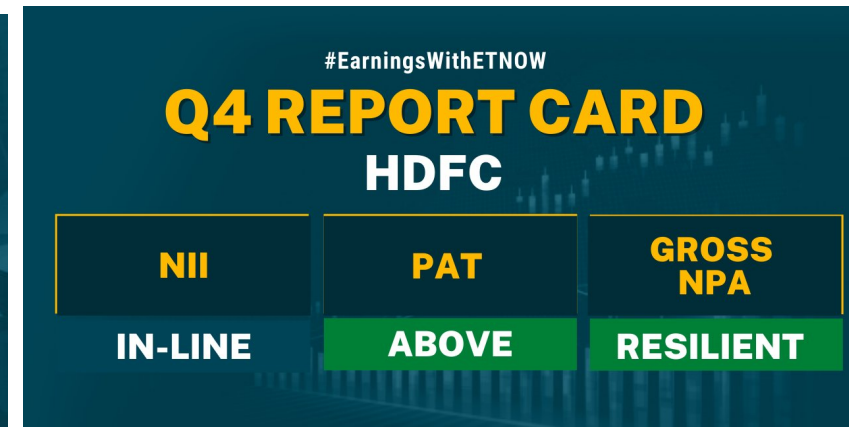
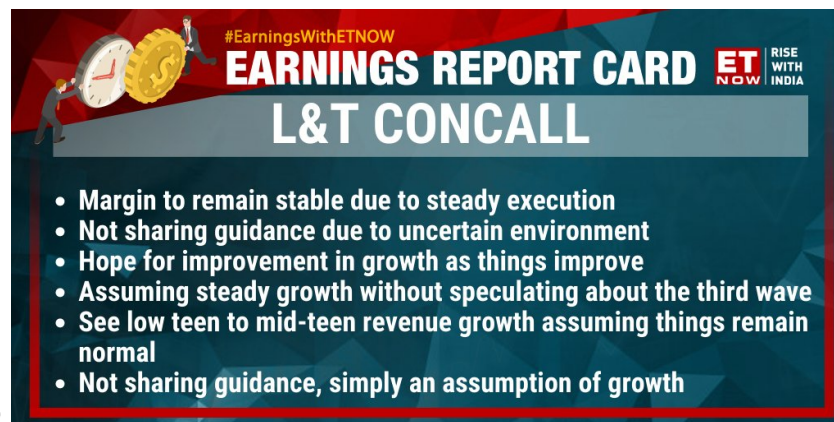
Source: mygov.in

## Availability of Covid vaccine improving exponentially

VACCINE MATHS								
Companies	YTD April 2021		Jun-21		Aug-21		Oct-21	
	Doses	Value	Doses	Value	Doses	Value	Doses	Value
Serum Institute (AstraZeneca)	150	3,172.5	90	2,925	110	3,575	110	3,575
Bharat Biotech	15	352.5	30	1,575	50	2,625	50	2,625
Cadila Healthcare (doses converted to 2)	-	-	-	-	7	166.7	7	166.7
Novavax (local)	-	-	-	-	15	487.5	20	650
Sputnik V (local)	-	-	-	-	-	-	22	907.5
Biological E (own vaccine)	-	-	-	-	-	-	12	390
J&J (local)	-	-	-	-	-	-	50	1,625
<b>Total India manufactured</b>	<b>165</b>		<b>120</b>		<b>182</b>		<b>271</b>	
Total imports	-	-	20	-	50	-	-	18
Less (exports by SII & BB)	12	-	32	-	32	-	-	-
<b>Total supplies</b>	<b>165</b>		<b>128</b>		<b>200</b>		<b>257</b>	
% of India's requirement	10%		23%		46%		74%	
<b>Total spend on local manufacturing</b>		<b>3,225</b>		<b>4,500</b>		<b>6,854.2</b>		<b>9,939.2</b>
Total spend on imports		-		1,050		2,562.5		1,057.5
<b>Total spend for India</b>		<b>3,225</b>		<b>5,550</b>		<b>9,416.7</b>		<b>10,996.7</b>

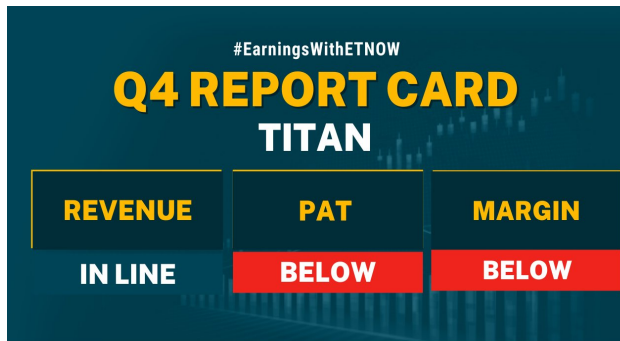
Source: Investec Securities estimates

## Corporate commentary: Positive





# Corporate commentary: Negative



Q4FY21 EARNINGS REVIEW 3<sup>rd</sup> May, 2021 beyo! NIRMAL

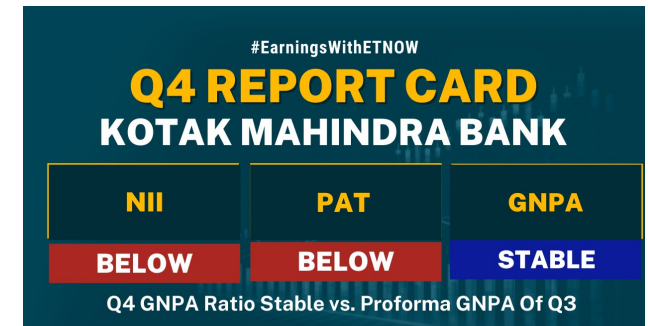
### MAHINDRA HOLIDAYS & RESORTS INDIA

RESULT HAS DECLINED

	Q4FY21	Q4FY20
REVENUE FROM OPERATIONS	RS. 465.4 CR	RS. 616.6 CR
EBIDTA	RS. 44.4 CR	RS. 104.2 CR
EBITDA MARGIN	9.5%	16.9%
ADJ. PAT	RS. -10.2 CR	RS. -164.6 CR

\*COMPANY HAS APPROVED BONUS IN THE RATIO OF 1:2

Source: Nirmal Bang



# Views of Economists and Industry Leaders

#EarningsWithETNOW

## MANAGEMENT SPEAK



“ Though the second wave and partial lockdowns have brought new challenges, given the scale up of the Corporation's digitalisation platforms for borrowers, depositors, channel partners and deposit agents, coupled with the learnings of the past year, as of date, the Corporation stands in a ready state to tackle the extant challenges. ”

Keki Mistry, HDFC

#EarningsWithETNOW

## MANAGEMENT SPEAK



“ "The recent surge in COVID cases is of serious concern and ensuring safety and wellbeing of people remains our top priority. We will continue to work closely with governments, health authorities and our partners to support the needs of the society and the Nation to overcome this adversity. #HULStandsWithTheNation" ”

Sanjiv Mehta, Hindustan Unilever



VISHRUT RANA  
S&P Global

- Lockdowns Have Been Much More Targetted, More State Specific
- See 1.2% Drop In GDP Due To COVID-19 Second Wave In Moderate Scenario
- Will See A More Significant Impact On GDP As The COVID Peak Draws Out
- May See A Recovery Closer To 2nd Half Of The Year If The Scenario Becomes More Severe
- May See A Third Wave Of COVID-19



NEELKANTH MISHRA  
Credit Suisse

- Expect Lesser Lasting Damage From Second Wave Lockdowns
- Advising To Buy The Dips In Sectors Like Banking
- Expect Some Trimming Down In EPS Estimates
- Global Iron Ore Prices At \$190/t Is A Positive For Ferrous Industry
- Need To Track Risk To Current Balancesheet & Ability To Grow w.r.t Banks





## Market Trends after the 1<sup>st</sup> note and the way forward

- ▶ We circulated this note first on 19th April'21. The Nifty closing was 14,359 on that day
- ▶ Since then, Nifty has shown momentum and has now decisively closed above 15,000 levels

Index	19-Apr-21	20-May-21	Return
Nifty 50	14,359	15175	6%
Nifty Mid Cap 100	23,256	25,413	9%
<u>Nifty Small Cap 100</u>	<u>8,066</u>	<u>9,089</u>	<u>13%</u>

- ▶ Summary
  - ▶ Despite all the negative sentiment the market was resilient
  - ▶ As stated Nifty Mid Cap 100 and Nifty Small Cap 100 indices which were technically stronger rallied more than the Nifty



## Outlook

- Nifty has now breached the resistance at the upper end of its channel at 15000 points and is holding firm.
- Nifty Mid Cap 100 and Nifty Small Cap 100 indices continue showing signs of good momentum
- Most corporate results have exceeded expectations and may have contributed to the resilience of the markets
- Q1FY22 results will be watched with bated breaths as the damage of the extended Lockdown at company levels will be visible better
- This time rural areas have also been affected by the spread of the virus. It is to be seen if a good monsoon offsets the damage.
- Macro hit is already known with most economists downgrading FY22 GDP growth estimates by 1.5% to 2%
- Inflation concerns emerging in Developed markets have been absorbed well by their markets as well as emerging markets
- **Conclusion:** There will always be some or other negative concern, big or small, which will keep emerging from time to time. Buy the dips and hold on to your position in equity as long as your asset allocation is proper





**Thank you**





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