



# Citrus Advisors

7<sup>th</sup> July 2022

Dark clouds with silver linings

# Performance by Market Cap

Company Name	CMP	MTD	1M	3M	6M	1Y	3Y
S&P Bse Sensex	53,019	-4.6	-5.2	-9.7	-8.3	1.0	34.6
S&P Bse Midcap	21,713	-6.2	-5.7	-9.7	-11.8	-3.7	46.6
S&P Bse Smallcap	24,786	-6.0	-5.4	-11.9	-14.9	-1.8	74.1

Company Name	CMP	52WH Date	52WH Price	▲(CMP,52WH)	ATH Date	ATH Price
S&P Bse Sensex	53,019	19-Oct-2021	62,245	-14.8%	19-Oct-2021	62,245
S&P Bse Midcap	21,713	19-Oct-2021	27,246	-20.3%	19-Oct-2021	27,246
S&P Bse Smallcap	24,786	18-Jan-2022	31,304	-20.8%	18-Jan-2022	31,304

Performances as of June 30<sup>th</sup> 2022

- Correction across the board in the June quarter
- Small and midcap indices saw a deeper correction from their ATH vis-à-vis large cap

# Sectoral Performance

Company Name	CMP	1M	3M	6M	1Y	3Y
S&P Bse Auto	26,768	2.1	11.4	9.7	12.6	49.5
S&P Bse FMCG	13,766	-2.5	4.4	1.1	1.8	21.2
S&P Bse Oil & Gas	18,022	-3.9	-3.5	4.1	11.4	21.7
S&P Bse Capital Goods	26,026	-3.6	-5.2	-8.9	13.4	31.1
S&P BSE Industrials	5,263	-4.2	-5.5	-7.4	10.8	63.7
S&P CPSE	1,485	-5.2	-5.8	-1.2	2.2	-0.8
S&P Bse Bankex	38,476	-6.9	-7.7	-3.5	-2.2	10.0
S&P Bse Healthcare	21,606	-4.1	-12.0	-16.9	-15.6	67.6
S&P Bse Realty	3,068	-4.4	-16.4	-19.1	12.0	39.4
S&P Bse Information Technology	28,313	-6.3	-22.5	-25.1	-6.0	80.9
S&P Bse Metal	15,552	-12.6	-30.8	-17.5	-16.7	40.0

Performances as of June 30<sup>th</sup> 2022

- Outperformance over the last quarter led by Autos and FMCG
- Sharp correction in Metals and IT in the June Quarter

# Dark clouds over the market last Quarter

- Sharp surge in inflation globally due to
  - Higher commodity prices and supply chain bottlenecks on the back of ongoing Russia-Ukraine conflict
  - However, we have seen softening in commodity prices post central bank actions in the last month
- Rate Hikes by central Bankers
  - The US Fed raised rate by 150bps in the last 6 months
  - RBI raised Repo Rate by ~90bps in June 'Q

Global Inflation – May 2022

COUNTRY	INFLATION%
ZIMBABWE	192%
TURKEY	73.50%
ARGENTINA	60.70%
SRI LANKA	39.10%
RUSSIA	17.10%
PAKISTAN	13.80%
BRAZIL	11.73%
UNITED KINGDOM	9.10%
UNITED STATES	8.60%
INDIA	7.04%

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# Dark clouds...continued

- India witnessing twin deficit concerns
  - Higher crude prices, import bill and currency weakness widening the current account deficit
  - Higher subsidies and fuel tax cuts putting pressure on fiscal position of the government

Runaway Deficit		
(in \$b)	June	Q1FY23
Exports	37.94	116.7
Imports	63.58	187.02
Trade deficit	25.63	70.25

**TOP EXPORTS** (%rise in June)

Petroleum products  
**98.01**

Electronic goods  
**50.66**

Readymade garments  
**44.67**

**TOP IMPORTS** (%rise in June)

Petroleum, crude & products  
**94.17**

Coal, coke & briquettes  
**241.81**

GOLD  
**169.45**

June non-oil, non-gold imports  
**31.71**

Engineering, pharma, yarn, plastic exports shrink

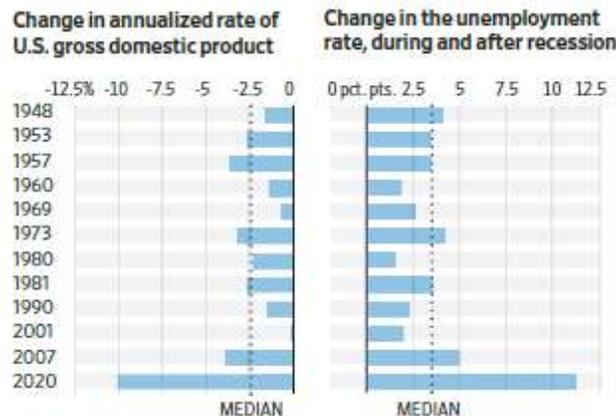
**CAD seen at 3% of GDP**

Rupee seen widening to **80-81/\$ in Q2**

- Government action to curb inflation
  - Export duty on Metals (Steel and iron ore), curbs on food grain exports
- No definitive resolution on the Russia-Ukraine conflict yet
- Fear of recession in key Developed markets (US, UK, Europe)

# Fear of US Recession? – Street seems divided

- US economy saw GDP contraction of 1.6% in Q1CY22 and street expects output to decline even in the June Quarter
- Usually, an economy is considered to be in recession, if it contracts for 2 straight quarters.
- However, unemployment rates are at historic lows, which is unprecedented and not in sync with output
  - The U.S. has recorded more than 11 million unfilled job openings in six of the past seven months, four million more monthly openings than was typical before Covid-19
  - Economists see modest increase in unemployment even though many indicators point to a potential upcoming recession
  - Unemployment rate forecasted to be 3.9% in CY22 and 4.4% in CY23

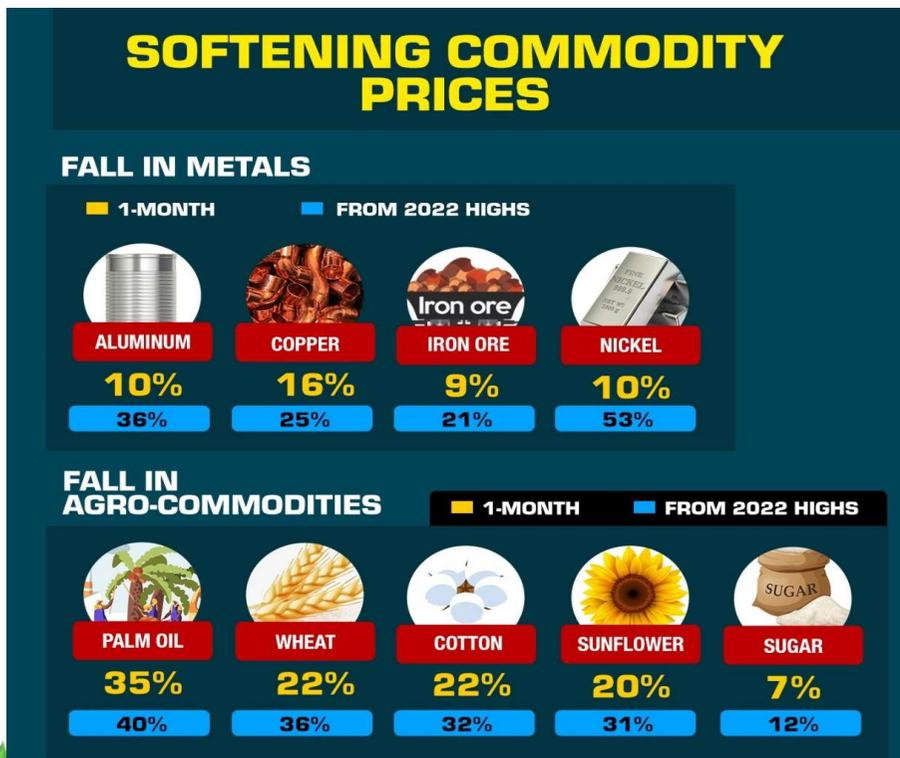


Note: Recessions listed by year they began, from trough to peak for GDP and unemployment rate.  
Source: Bureau of Economic Analysis

Source: WSJ

# Silver linings: Commodity prices softening

- Commodity prices have begun to soften:

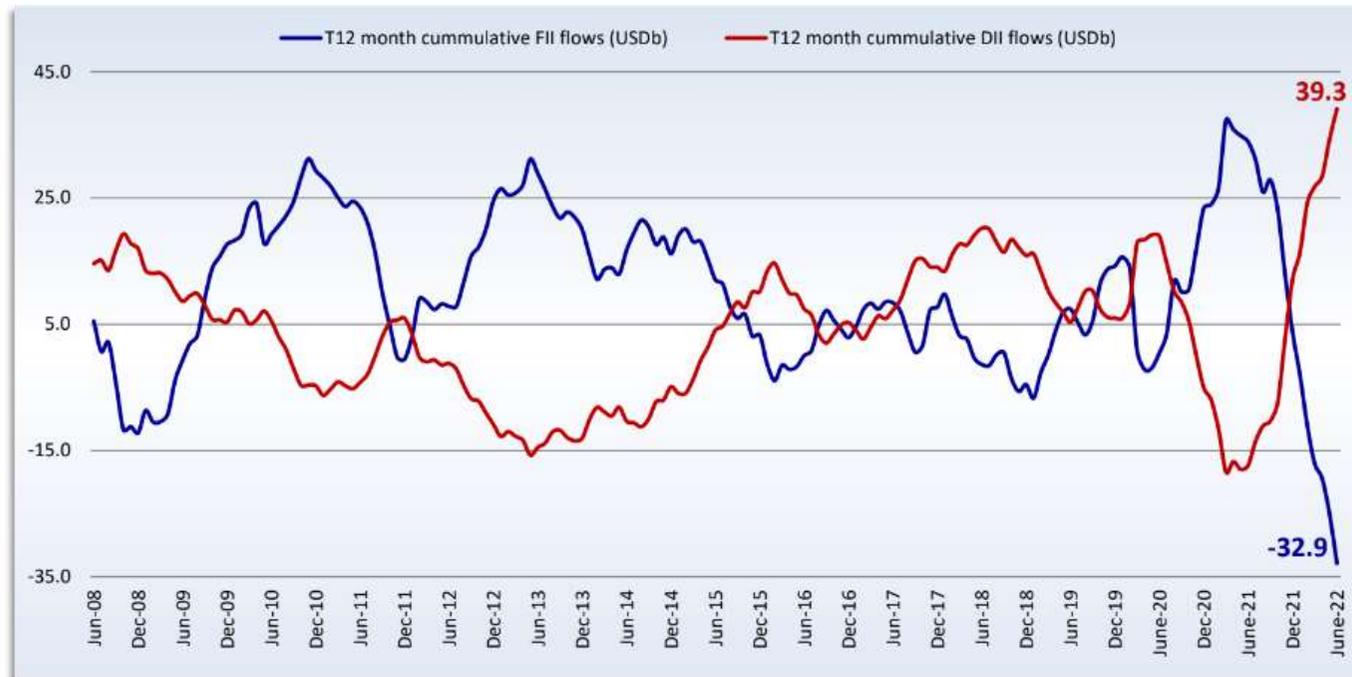


Agriculture Commodities			
Price	Recent High	05/07/2022	Change (%)
Corn	824.5	585	-29.0%
Soya Bean	1784	1435	-19.6%
Coffee	260	220	-15.4%
Sugar	20.69	17.8	-14.0%
Cotton	156	93.5	-40.1%
Wheat	1340	808	-39.7%
Rice	18.15	16.13	-11.1%

Base Commodities & Energy			
Price	Recent High	05/07/2022	Change (%)
Nickel	5617	2012	-64.2%
Coking coal	530	290	-45.3%
Steel (HRC)	1654	921	-44.3%
Natural Gas	9.66	5.38	-44.3%
Aluminium	3966	2375	-40.1%
Copper	5	3.4	-32.0%
Silver	27.33	19.1	-30.1%
Zinc	383	270	-29.5%
Brent	139.2	102	-26.7%
Gold	2085	1766	-15.3%
Lead	198	174	-12.1%

# Silver lining: Retail Flows:



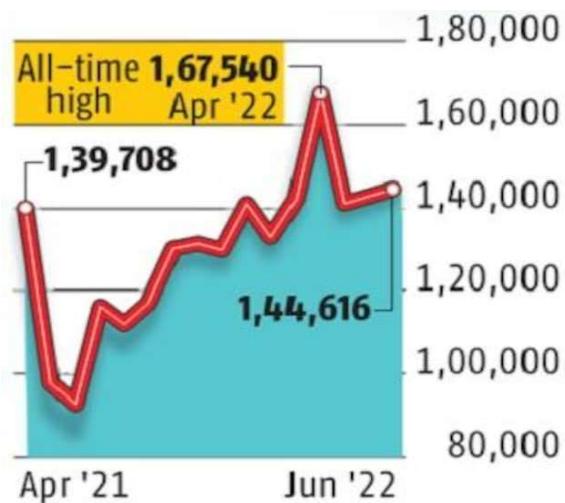
Source: SEBI, Motilal Oswal Report

- Relentless selling by FIIs over the last 3 quarters, which has been unprecedented has been offset by strong Retail flows
- DII Flows over trailing twelve months at ~2.5 lakh crs

# Silver lining: Robust tax collection

- GST collection for June'22 at Rs. 1.45 lakh crs, +56% yoy. For Q1FY23, average monthly GST collection stands at ~Rs.1.51 lakh crs, much higher than Rs 1.2 lakh crs derived from the Budget Estimates
- Advance Tax Collection for the June'22 quarter was up 48% yoy to Rs. 42,679crs; Corporation Advance tax was up 46% and Personal Income tax collections were up 52% yoy

GST Collection trend (Rs. crs)



Source: Finance ministry

Advance Tax collections

## ADVANCE TAX MOP-UP\*



# Silver lining: GDP growth and earning estimates still strong

- FY22 GDP growth of India at 8.7%. India's Q4FY22 (March'22 Q) GDP growth was 4.1% vs. 1.6% contraction in US and 0.3% growth in UK.
- RBI maintained its FY23 GDP growth ests at 7.2% in the last MPC meeting
- FY23E/24E saw minor downgrade in EPS ests (led by metals). However, 2-yr EPS CAGR at ~13% from from FY22 to FY24



Source: Kotak Institutional Equities



# Events to watch out for

- Domestic Events
  - Q1FY23 Earnings
  - Inflation Data
  - Key Economic data –Industrial Production, Inflation, Credit Growth, etc.
- Global Events
  - Q1FY23 earnings
  - Fed rate hikes and Treasury Yields
  - Developments on Russia-Ukraine issue

# What should be the strategy in the current market

- **Events are unfolding very fast and it is difficult to anticipate all of them:**
  - Ukraine war and China lockdown were absolutely unexpected
  - Try to factor in the short term, medium term and long term impact of the events
  - Take advantage of the short term irrationality of the market
  - Do not alter your long term allocation or strategy if the impact is not structurally negative for your portfolio
- **Investment decisions are taken based on probability of outcome**
  - It may not be possible to predict outcome in black and white
  - Make sound assumptions and keep validating it with emerging facts
  - Be prepared for short term tactical corrections wherever required

# .....strategy in the current markets

- **Market tends to overshoot or overcorrect in either direction**
  - The greed and fear drives flows at both levels of the market.
  - At 18000 + points of Nifty the excessively high valuations of mid and small caps was ignored
  - At the current levels the decline in commodity prices are being ignored.
- **Earnings growth and P/E multiple expansion may not happen simultaneously**
  - Earnings growth is a function of the competitive advantage of the company and its management, the sector to which it belongs and macro economic factors
  - P/E expansion is largely a function of market cycles and the ability of the company to meet growth expectations
  - It is as difficult to predict both but relatively easier to identify a growing company
  - If the stock selection is good, the probability of P/E expansion in an up cycle can be large

Avoid trying to time the market. Invest with a perspective of a reasonable time horizon. Focus more on the quality of the portfolio

# What can we offer today?



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# What can we offer today?

- Based on Ticket size
  - Below Rs 10 Lakhs: MF
  - Bet Rs 10 – 50 Lakhs: RIA
- Based on Asset class:
  - One stop shop for all domestic asset classes: MF, Direct Equity, FDs, Bonds
    - Either separately or in combination
    - We are providers of complete solutions rather than piece meal advice

# Our Investment Process

# Investment Philosophy: Bottom up stock pickers

Fund will look to invest in future opportunities to reap the benefits of growing India



# Investment Process

Our Universe – 2,000 stocks

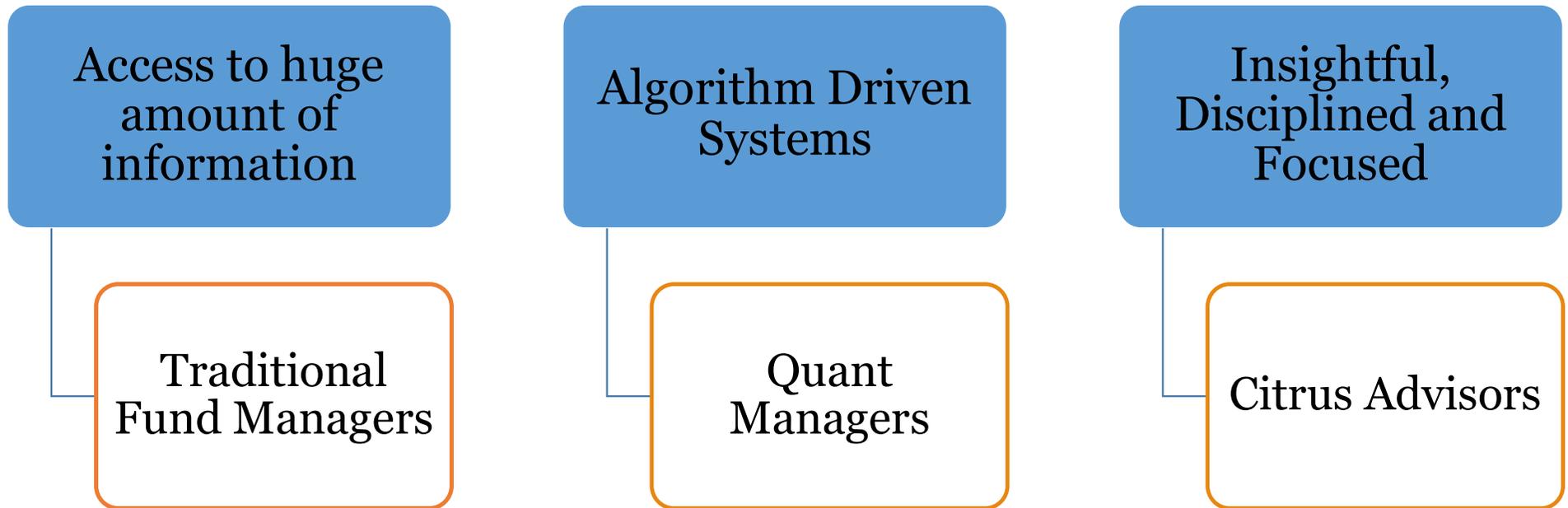
Watchlist – 1,000 stocks

Shortlist – 500 stocks

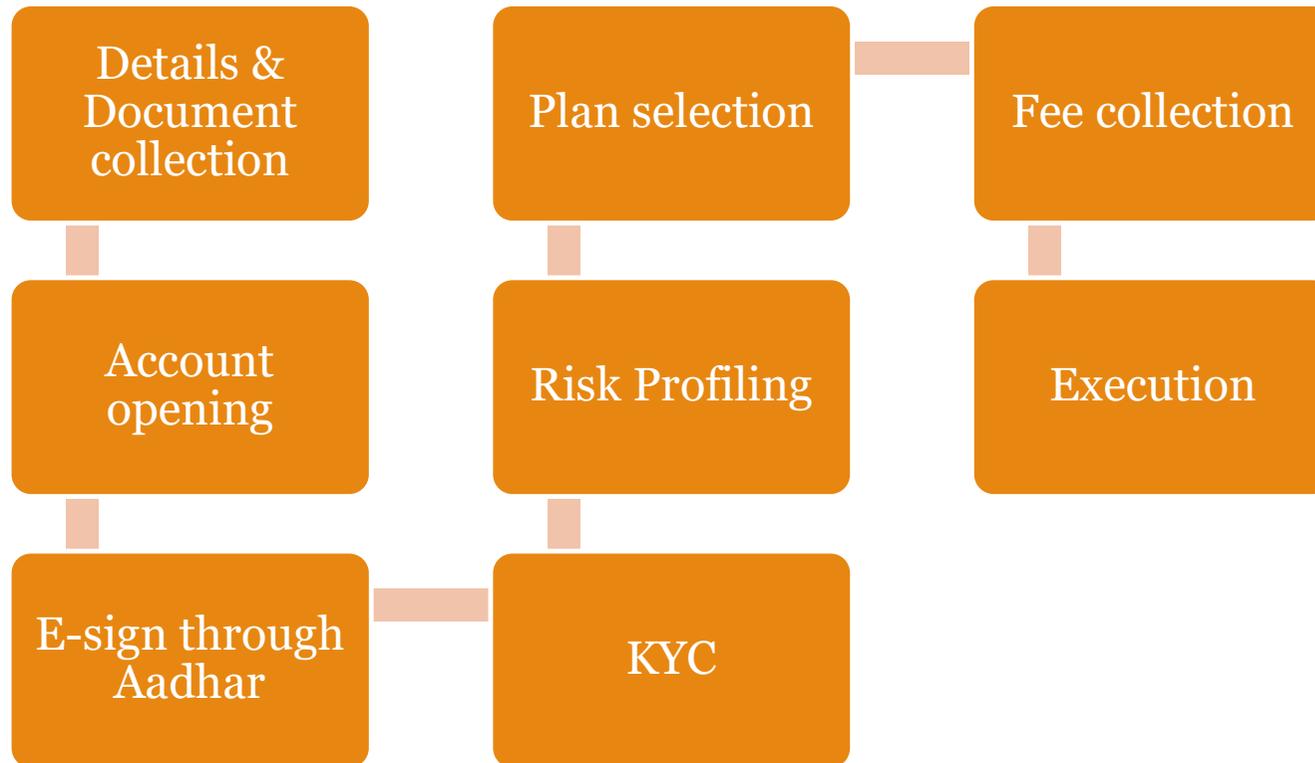
Investable universe – 60 stocks

Meticulous Screening process, before we do a deep dive

# How do we see ourselves?



# Process flow



# What do the clients need to have

**An active demat & trading account**

## **Documents Required**

- PAN Card
- Aadhar card
- Cheque
- Passport size photo

## **Details Required**

- Email Id
- Mobile No
- Occupation
- Annual Income
- Father's Name
- Mother's Name
- Nominee Details
- Place of Birth

# Brokers with direct transaction facility



You will be able to seamlessly execute our buy/sell advise through any of the above brokers. These cover ~97% of Demat accounts

# Strategies Offered under RIA



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# Multicap Equity Strategy

- Concentrated Equity Portfolio Strategy across sectors and market capitalization with bias towards large caps.
- Top-down Strategy with focus on identifying winning sectors with a time horizon of 1-3 years and within these sectors the best companies in our portfolio
- Sector & stock weights will be decided based on return potential as well as risks attached with them and we will keep revisiting sector & stock selection decision based on emerging data and relative performance.
- Concentrated Portfolio of 10 stocks with atleast 50% exposure to large caps
- Market capitalization criteria will be based on SEBI's formula.
- Client can expect 3-4 updates on portfolio changes over 12 months
- Have differentiated portfolios for high ticket size clients

# Midcap Equity Strategy

- Concentrated portfolio of 10 Small and Mid-Cap stocks with potential to be the large Caps in the long run
- Bottom Up Strategy with focus on identifying companies with a strong market position, capable management team and huge earnings growth potential in medium to long term.
- Number of Stocks in Portfolio –10
- Mid-Cap Portfolio with Market Cap in the range of INR 1,000 crs- 30,000 crs
- Client can expect 3-4 updates on portfolio changes over 12 months

# Hybrid Equity Strategy

- Investment Strategy will be a mix of Mutual Fund and Equities
- We would provide 2 strategies to clients within this
  - 50:50 Hybrid Strategy: We provide an investment strategy with 50% exposure to Mutual Funds and 50% exposure to Equities
  - 80:20 Hybrid Strategy: 80% exposure to Mutual Funds and 20% to Equities
- The Mutual Fund investment would be across different strategies within Equity and Debt Mutual Funds.
- The Mutual Funds advisory would be only via Direct Mutual Funds
- Allocation towards Equities would be in a concentrated Multi-cap Equity Portfolio of upto 10 stocks across market capitalization and sectors with bias towards largecaps
- Market capitalization criteria will be based on SEBI's formula.

# Mutual Fund Strategy

- Investment Strategy with 100% allocation to Mutual Funds
- We will advice on asset allocation based on client's risk profile
- Post asset allocation, drill down to investment across different funds within
  - Equities (viz, Large Cap, Flexi Cap, Mid, Small cap and sectoral themes) and
  - Debt (Long and Medium Duration, Gilts Funds, Ultrashort term, Liquid funds)
- The Mutual Funds advisory would only be via Direct Mutual Funds

# Passive Fund Strategy

- Investment Strategy with 100% allocation to Index Funds and ETFs
- We will advise on asset allocation based on client's risk profile
- Rebalancing and re-allocation within Index funds would be managed in an active manner
- Aim to generate higher than benchmark returns given the low fee structure of Index Funds vs. Actively managed funds.
- The Mutual Funds advisory would only be via Index funds (Direct plan) and/or ETFs

# Fees and Features



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# Fee and Features

	<b>MultiCap / MidCap Equity Strategy</b>	<b>50:50 Hybrid Strategy</b>	<b>80:20 Hybrid Strategy</b>	<b>Mutual Funds Strategy</b>	<b>Passive Fund Strategy</b>
Fee	2.5% of AuA	1.75% of AuA	1.3% of AuA	1.0% of AuA	1.25% of AuA
Minimum Ticket Size (Rs. lakhs)	10.0	10.0	10.0	10.0	10.0
Frequency of Fee	Half-Yearly	Half-Yearly	Half-Yearly	Half-Yearly	Half-Yearly
Remarks	Upfront fee of only 1.25% of initial AuA will be collected	Upfront fee of only 0.875% of initial AuA will be collected	Upfront fee of only 0.65% of initial AuA will be collected	Upfront fee of only 0.5% of initial AuA will be collected	Upfront fee of only 0.625% of initial AuA will be collected

\* AuA: Assets Under Advisory



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# Who is the target segment?

Investor Category	Traits	Product
1. Very savvy investors	<ul style="list-style-type: none"> <li>Actively trading in the market &amp; privy to a lot of market news</li> <li>However does not track fundamentals</li> <li>Takes pride in success &amp; hides all his failure</li> </ul>	<ul style="list-style-type: none"> <li>Handpicked selection of micro, small and midcap stocks</li> </ul>
2. Active Investors	<ul style="list-style-type: none"> <li>Has a large portfolio of good &amp; bad stocks</li> <li>Privy to tips but not necessarily the best ones</li> <li>Knows how to enter but does not know how to exit</li> </ul>	<ul style="list-style-type: none"> <li>Can be offered the Multicap strategy and midcap strategy</li> </ul>
3. Testing the water	<ul style="list-style-type: none"> <li>Has equity MFs but wants to have exposure to direct equity</li> <li>Not privy to tips or news</li> </ul>	<ul style="list-style-type: none"> <li>All strategies being launched initially can be offered</li> </ul>
4. Robinhood Investors	<ul style="list-style-type: none"> <li>Post covid newcomers</li> <li>Millennials in the age bracket 25-35</li> </ul>	<ul style="list-style-type: none"> <li>All strategies being launched initially can be offered</li> <li>It is likely that they may prefer the lower cost strategies</li> </ul>



# Welcome to Citrus Advisors



-  [Does it make sense to invest with Nifty at 16k?](#)
-  [The rally of 2021: How irrationally exuberant?](#)
-  [Covid 2nd Wave: Road Ahead - Update](#)
-  [Covid and Waves: Road Ahead](#)



Activate Windows  
Go to Settings to activate Windows.

# STUDIES

## Our recent views

- Sensex at 50K – Does the rally have more legs: 12<sup>th</sup> Feb 2021
- Covid 2<sup>nd</sup> Wave : The Road Ahead: 19<sup>th</sup> Apr 2021
- Covid 2<sup>nd</sup> wave – an Update: 20<sup>th</sup> May 2021
- The Rally of 2020 – how irrationally exuberant – 22<sup>nd</sup> June 2021
- Does it make sense to invest with Nifty at almost 16000 points – 29<sup>th</sup> June 2021
- Q1FY22 takeaways – Not too many surprises – 29<sup>th</sup> August 2021
- Top 10 issues for 2022 : 25<sup>th</sup> Jan 2022
- Russia Military Action in Ukraine (First-Cut Views) – 24<sup>th</sup> Feb 2022
- Crystal Ball Gazing – How do we see the next 10 years? – May 2022
- Debt Investment Strategy – June 2022

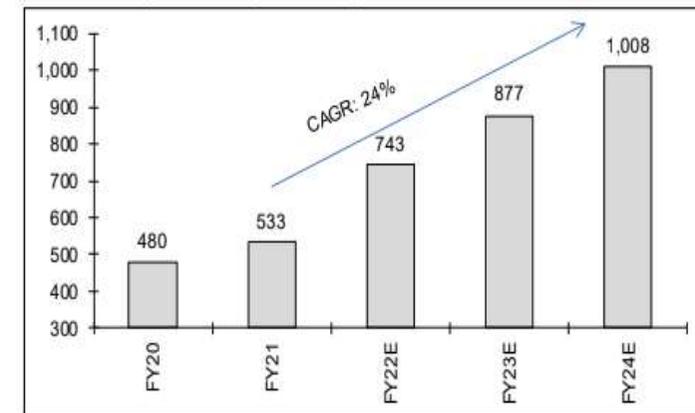
# Annexures

# What factors will drive the markets

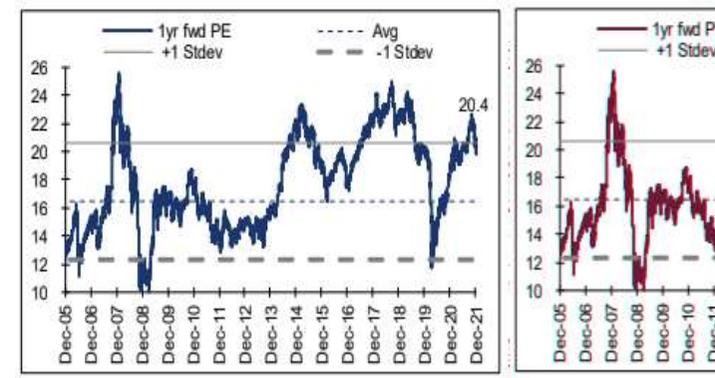
Jan 2022

# Bipolar structure of the market will continue

- At one end of the spectrum, investors are pouring in money behind quality stocks driving their valuations to unjustifiable levels.
  - On a trailing basis Nifty is trading at a PE of 26
- On the other hand, we have a section of investors jumping at any new idea with momentum without any heed to its fundamental virtue.
  - The large cap index delivering about 20% return and the mid and the small cap bounced ahead with 40% and 60% returns respectively
  - But almost 250 out of the Top 1000 have seen their prices go up by more than 100% in 2021



Source: Bloomberg, I-Sec Research



# Bottom up stock picking will be rewarded more than top down approach

- Last year has not been very good for the auto sector. Industry faced many issues like raw material inflation, slowdown in demand and also semiconductor shortages. The BSE Auto Index is actually one of the worst performing indices of the year.
  - Despite all these issues, our portfolio companies consisting of Tata Motors and Escorts were able to deliver superior returns.
- Macro or Top-down approach does not always work out at stock level in the short term:
  - Some of the leading insurance companies have not only underperformed the benchmark, but also delivered negative returns in CY21.
  - Similarly, we have seen the banking and financial services space underperform the benchmark over the last few quarters, while the long-term drivers of increase in financial inclusion should drive credit growth over the long term.

# Government Policy will be a major driver for the markets

- This will operate at various levels
- The Union Budget surprised most with its aggressive allocation for infrastructure
- PLI has been a major driver for the various sectors in 2021
  - China +1 and PLI can spark capex and large scale revival of manufacturing
- More recently RBI's decision not to hike rates was also a trigger for the market
- It may also be noted that there have been no fuel price hikes since 1st Dec 2021
- Once the state elections are over, one can expect a few more market friendly announcements by the Govt

# Beneficiaries of Govt. Policies

SECTOR/ THEME	BENEFICIARY
Textile	<ul style="list-style-type: none"> <li>• Almost all textile stocks</li> <li>• Government incentives &amp; Ease of doing business have made them globally competitive</li> <li>• Just like metals, we have seen sharp deleveraging across many companies</li> </ul>
Ethanol	<ul style="list-style-type: none"> <li>• Sugar companies</li> <li>• Ethanol Plant manufacturers</li> <li>• Alcohol companies</li> </ul>
Electric Vehicle	<ul style="list-style-type: none"> <li>• Battery makers</li> <li>• EV component makers</li> <li>• Auto ancillaries focused on CASE (Connectivity, Autonomous, Sharing and Electrification)</li> <li>• IT Companies focused on ER&amp;D</li> </ul>
White Goods	<ul style="list-style-type: none"> <li>• Contract Manufacturers</li> <li>• Consumer Durable companies</li> <li>• Raw material providers (Polymers, Metals, etc.)</li> </ul>
Chemicals	<ul style="list-style-type: none"> <li>• Related Chemical Stocks in those chemistries</li> <li>• Contract Manufacturers</li> <li>• Importers of the specific raw materials</li> </ul>
Pharma	<ul style="list-style-type: none"> <li>• API and Bulk Drug Players</li> <li>• CDMO/CRAMS players</li> <li>• Specialty Chemical players</li> </ul>

# Retail flows can offset FII outflows

- The trend of MF and FII flows in 2021 were very interesting
  - Till Oct the FII flows very far higher than MF flows
  - In the last two months a reversal happened with the final figure as follows:

CATEGORY	FII	MF
NET FLOWS	28,170	44,777

- The retail participation has been the hallmark of 2021
  - The Total number of demat accounts jumped to 77 million by the end of Nov 2021
  - Retail now accounts for 45% of the volumes in the secondary market – far higher than DIIs (7.5%) and FIIs (11.5%)
- This rising domestic appetite for equity can be a formidable defense against the outflow of “hot money” following the beginning of taper

# Covid waves now behind us?

- Omicron turned out to be more infectious but thankfully not so severe in terms of its impact
  - Initial evidence of Vaccine's efficacy against severe disease
  - Indian Health infrastructure was not overwhelmed
- There has been explosion in consumption and production after the end of both the previous two waves. We can expect the same this time around.
- The 3<sup>rd</sup> Covid wave seems to be coming to an end without any significant economic or human costs
  - Most states have announced relaxation of restrictions and are opening schools/colleges and other institutions
- World is not reconciling to the fact that we will live with the virus as an endemic and no longer as a pandemic

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