Indian Economy

- Pace of vaccination has picked up significantly in Sep'21 (7.8 million doses/day vs 5.4 million doses/day in Aug'21). 64% of India's adult population has been vaccinated with the 1st dose and 24% with both the doses
- Moody's improves India outlook to stable from negative while retaining rating of Baa3
- India growth indicators are steadily improving. Aggregate economic activity has surpassed the pre pandemic activity by 5%. Exports, electricity demand, Govt tax and toll revenues, Govt capex remain in positive zone; auto sales, air/rail traffic and production activity lags
- India's core sector output expanded 11.6% in August, compared with 9.9% expansion in July.
- Improved rain in Sep'21, bodes well for Rabi sowing and consequently agri-inputs demand. Tractor sales, may however, moderate after a robust sale in last 12 months.
- GST collection was at 5-month high in Sept; above INR 1.1 Lac Crs.
- Net direct tax collections grew over 74% on a YoY basis to INR 5.7 Lac Crs far this fiscal.
- India's quarterly exports crossed USD 100 Bn-mark for the first time leading to current account surplus
- Fiscal Deficit is at historical low (5FY22- 31% of budgeted deficit). Govt spending is lagging and it needs to pick up pace
- India's position in several indicators has improved significantly since 2014. Also, India is now the world's **sixth-biggest** stock market, overtaking France for the first time in market capitalization, with the benchmark Sensex surging more than 23% this year

Progress In Several Key Indicators

Progress indicator	Position of Bharat		Country displaced	Top Countries
	2014	2021		
Economy Size (GDP)	10	6	France, Brazil. Italy, Russia	US, China, Japan, Germ, UK
Auto Market	7	4	Germany, S.Korea	China,US, Japan
Electricity Generation	4	3	Russia	China, USA
Mobile phone Production	12	2	Vietnam, Korea, US,	China
Steel Production	4	2	Japan, US	China
Sugar Prodution	2	1	Brazil	India
Solar Power Plants	10	2	USA, Japan, Germany	China
Climate change Performance	31	10	Switzerland, France...	Sweden, UK, Denmark
World 'Giving' Index	69	14	Australia, USA, UK...	Indonesia,Kenya, Nigeria
Global Innovation Index	83	46	Greece, Philippines...	Switzwrland, Sweden, US
WGI Governance Index	103	49	Russia, Indonesia...	Finland, Switzerland
Ease of doing business*	142	63	Ukraine, Oman....	Newzeland, Singapore

*Index withdrawn

Source: Bloomberg

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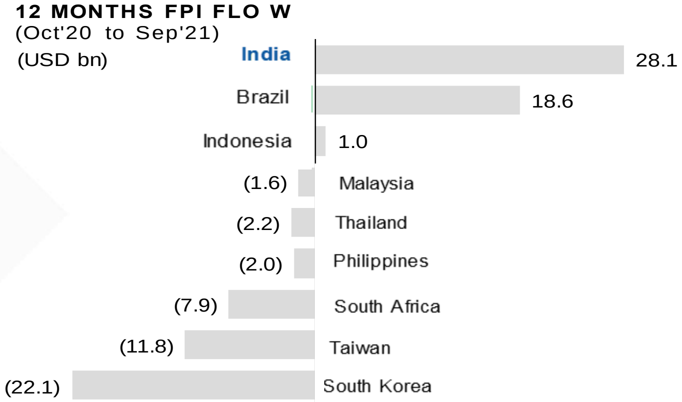
- Indian corporates have reported highest quarterly profit of over INR 2 Lac Cr in 1QFY22. Factors driving profit growth are improved margins on account of several cost cutting measures, reduction in corporate tax rates, low interest rates, debt reduction and tighter working capital management.
- The govt launched the "Ayushman Bharat Digital Mission", which will enable access and exchange of longitudinal health records of citizens with their consent.
- Mumbai property registrations activity at 10-year high in Sep'21. Indicating pick up in real estate.
- Sharp jump in new manufacturing firms registered. Shows government policy to boost manufacturing is effective.
- India's principal energy commodities (crude and coal) have witnessed a sharp rise in prices. China's de-carbonization agenda, multi-year low investment in coal and crude capacity and strategic production cut by OPEC is exerting upward pressure on prices
- A rise in US benchmark treasury yields added to the pressure on domestic gilts and bond prices. The US 10-year benchmark's yield remained elevated after the US Federal Reserve Chairman Jerome Powell warned that inflation might remain sticky for a prolonged period.
- The rupee weakened against the US dollar weighed by higher crude oil prices. Tighter supplies and prospects of improving global crude oil demand have fueled a rally in prices.
- Also, a rise in US benchmark treasury yields led to fears of outflows from local debt and equity markets, further adding to the pressure on the rupee.
- An uptick in global investor risk aversion due to the threat of inflation flagged by various central banks contributed to a risk-off sentiment.
- However, foreign investors continue to have conviction in the India growth story. India has received the highest portfolio investment inflow among prominent emerging economies



Global Economy

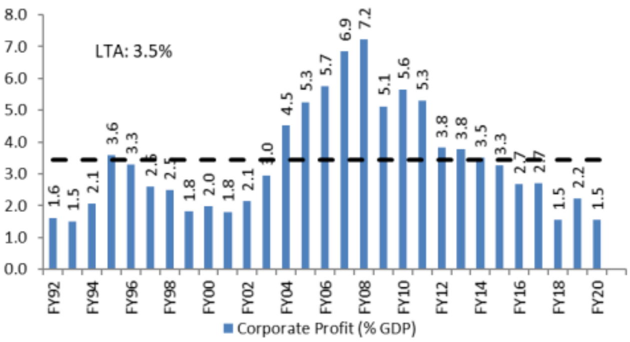
- Global inflationary expectations are at elevated levels.
- China shifts narrative to 'common prosperity' with an aim to reduce income disparity. Markets have downgraded the China's FY22GDP numbers to sub-5% for 2021 and 2022.
- China's manufacturing PMI has declined in Sep 2021 to 49.6 (the lowest since the pandemic), reflecting negative impacts from both Beijing forceful green measures and power outages.
- Global equities ended mostly lower on the back of rising bond yields amid rising prices, and China's power and realty sector crisis. US treasury prices declined on the prospect of tighter monetary policy by global central banks going forward. Crude oil prices rose owing to the tightening of global supplies amidst a fast recovery in global fuel demand.
- US Federal Reserve policymakers signalled that they might start scaling back the asset purchases from November.

Outlook

- Production, core imports and capacity utilization are still weak. This is likely to improve in coming months on improved demand, restocking activity, ironing out of supply disruptions and more so on waning of concerns surrounding the COVID-19 third wave.
- Easy liquidity, Government's push to infrastructure, continued global demand for Indian goods and services and bottoming out of adverse job situation bodes well for continued growth recovery in India.
- Real estate should support economic recovery. Mortgage rates are at all-time low and affordability is at all-time high. Inventory in Tier 1(Top 7) cities has fallen to 2.3 yrs from 3 yrs.
- The economic impact of any possible third wave in India from the upcoming festive season and any supply disruptions due to COVID or Chinese economy developments has to closely monitored.

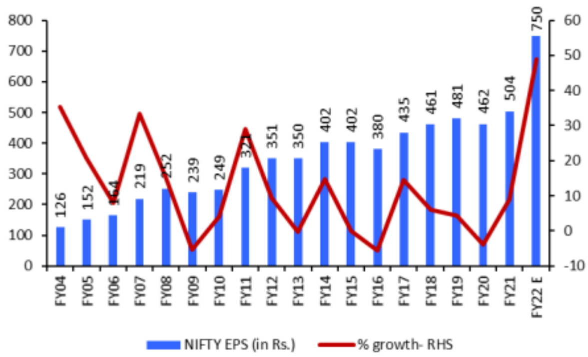
- Mounting inflationary concerns, expectations of earlier-than-anticipated tapering by the US Federal Reserve, China's power outages, Evergrande liquidity crisis and the recent US debt ceiling negotiations may continue to weigh on the global stock markets
- Indian equities have stayed strong outperformer relative to EM equities leading to a significant expansion in their valuation premium
- Attractiveness for equities has receded and a recovery in earnings is vital to support further upsides though we continue to be constructive on corporate earnings
- At a time when economic growth has likely troughed, an uptick in profits to GDP could lead to non-linear uptick in earnings over the next few years.
- Equity outlook stays positive premised on our view that we are in early stages of an earnings upcycle, even as investors would do well to moderate their return expectations. It would be a good time to rebalance asset allocation and we believe that one should add on to pro-economy assets during any significant pullbacks.
- Corporate earnings revisions are still robust though lower than the previous quarter.

Extremely low corporate profits to GDP makes a strong case for mean reversion



Based on a sample of ~20,000 listed unlisted companies in CMIE

Earnings recovery likely to be healthy in FY22



- The issue of policy normalization remains both on rate and liquidity side somewhere in the near future, which keeps us conservative on fixed income as an asset class.
- Hence we continue to recommend target maturity funds, Index funds and short and medium term funds for the debt allocations depending on suitable time horizons.