Vol. 6 - Oct 2023 Pages - 13 Reading time - 16 mins

Emkay Investment Managers
Your success is our success

EMINSIGHTS

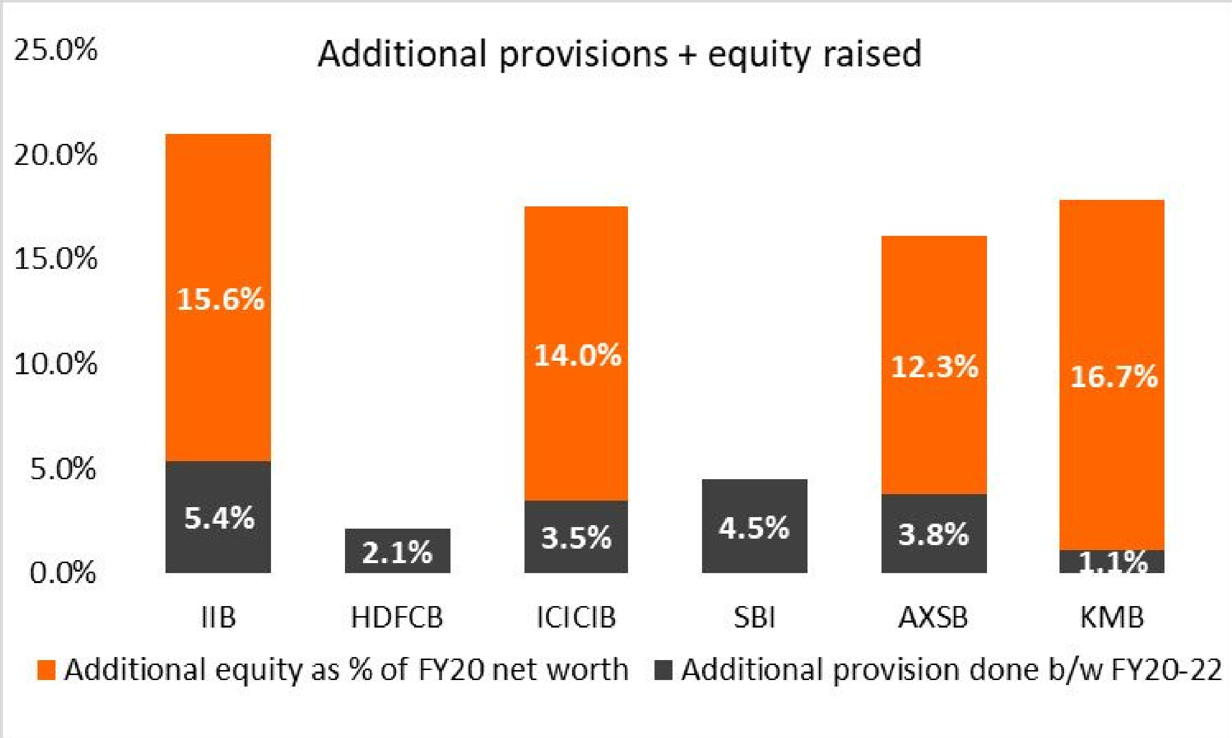
GEAR UP FOR NEWER TERRAINS OF GROWTH

- India V/s US Banking system
- Returns Anlysis FYTD
- Launch - Emkay Emerging Stars AIF Series 6
- Competitive populism and economy

emkayim.com

Bank of America reported its earnings recenty and disclosed unrealized losses of $131bn on HTM investments. Now put that number in context of $280bn net worth that bank holds. That's almost 50%!!!

Indian economy should eternally remain thankful to the Reserve Bank of India (RBI) for the sheer reason that fortification of Indian banks' balance sheets has always been its priority. Everything else can come later. Maybe that is the reason why Mr. Shaktikanta Das deserves to be the top central banker in the world as highlighted by Global Finance Magazine. Whether it's push to financial institutions to provide more for assets (even though they may be standard) or nudging to raise more equity, RBI has been at forefront of making banks' balance sheets stronger.



In 2020, when the central bankers globally were worried about liquidity, two noteworthy things happened in Indian banking.

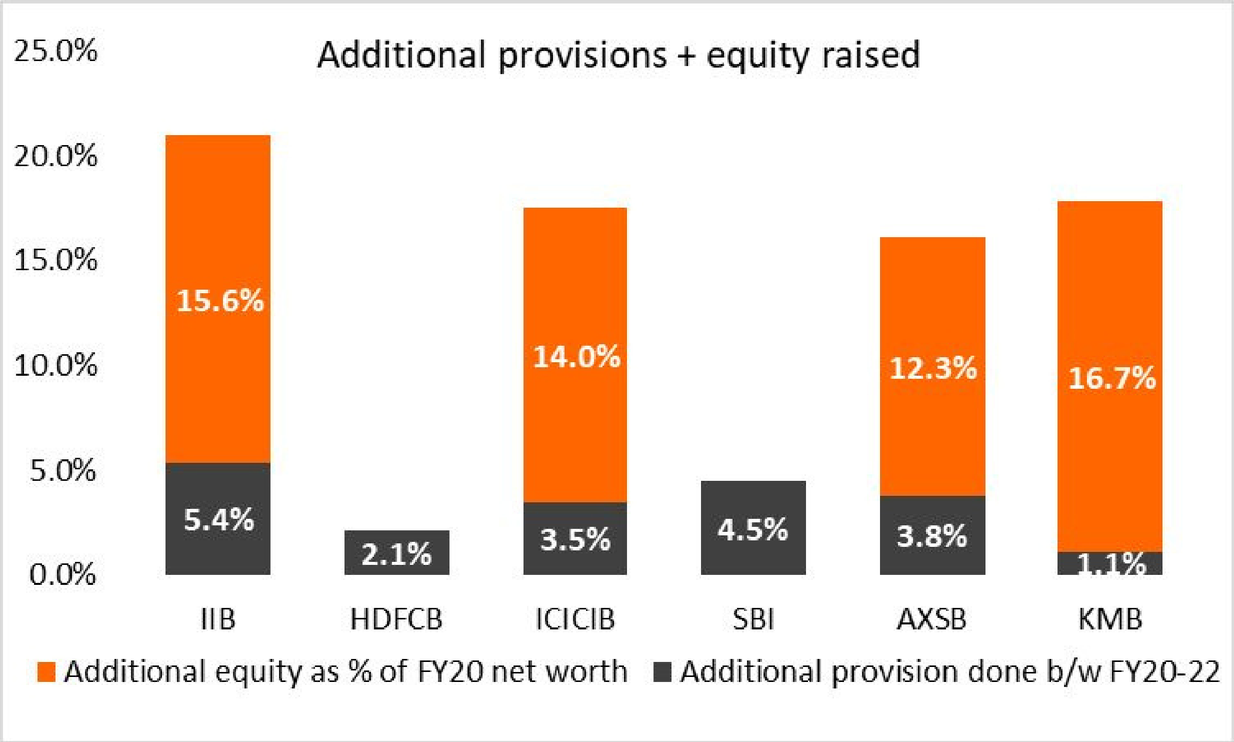
a. Additional provisions for COVID-19

While Indian banks were already carrying excess provisions even prior to COVID-19 break out, it was accelerated during post-COVID period. All major private sector banks as well as SBI pushed up standard asset plus non-specific provisions from 3.3%-7% of net worth to 4.5%-11% of networth. That's equivalent to setting aside 2-5% of networth additionally.

b. Equity raising even if it was rock bottom valuations

Almost all large private sector banks raised equity equivalent to 12-15% of their FY20 net worth during FY21/22.

Totalling together, Indian private sector banks strengthened their balance sheets by up to 16-20% of their net worth over FY20-22. It didn't matter whether the dilutions happened at much-depressed stock prices due to the outbreak of COVID-19. A strong financial system is imperative for achieving strong real-sector growth. The lost decade of 2011-20 has taught us as much. And for today's strong GDP growth, a part of thanks goes to RBI.



An Analysis of FYTD indices returns and few observations

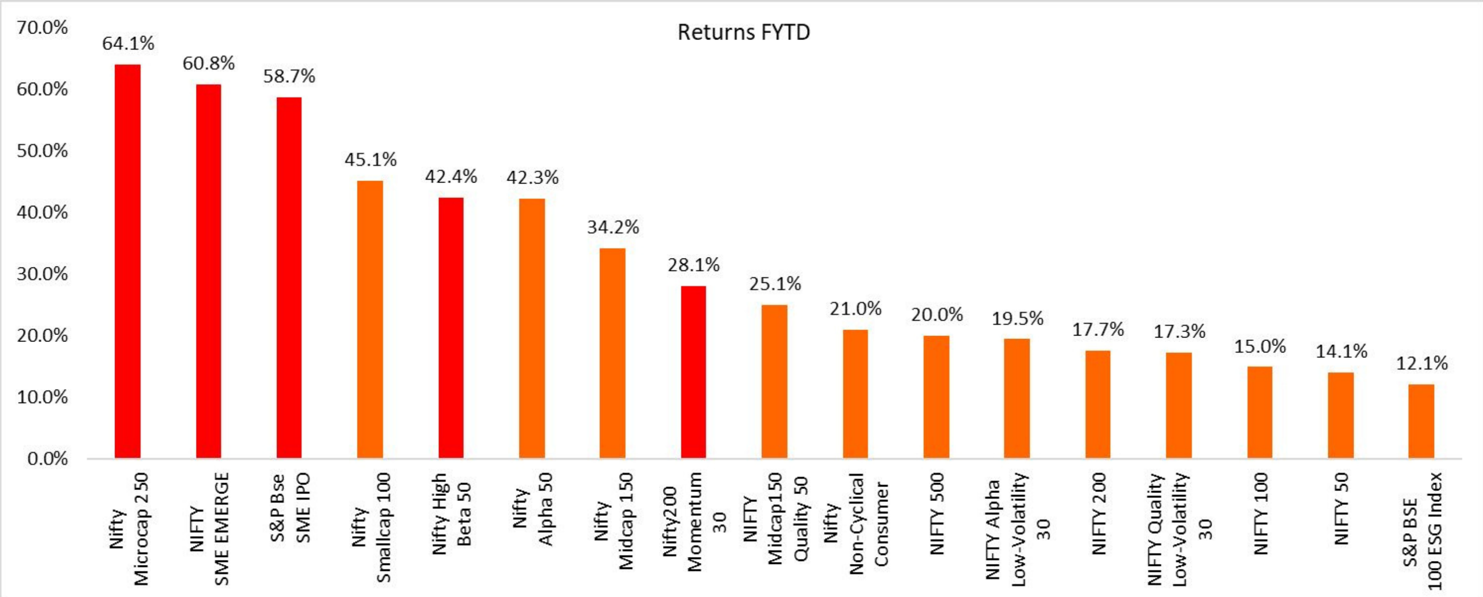
🚨Risk-on mode is in with its full mightiness

⚡Nifty #Microcap 250 Index with an average free float mcap of Rs2115cr is the top performer

⚡Nifty #SMEEmerge Index with a total mcap of Rs170cr (forget free float or even average) is the second best performer

⚡Nifty #HighBeta 50 (average beta 1.30x) is fourth best performer

⚡Momentum is in thing as Nifty #Momentum 30 is amongst top 8 performers



Quality and low risk can wait as NIFTY Quality and Nifty Alpha Low-Volatility 30 Indices are amongst the bottom performers

#ESG is not an "in thing" anymore and is the BSE 100 ESG Index one of the worst performers (could be because Banks/IT would have higher weights)

While evaluating your portfolio, some of these observations are important as an investor must also be aware of how much risk has gone into generating returns.

NEW LAUNCH

Emkay Investment Managers
Your success is our success

Emkay Emerging Stars Fund AIF VI

Long-term capital appreciation by investing in companies benefitting from:

- Rising consumption
- Digitisation / AI
- Energy Transition
- Financialisation of savings
- Rising prowess in Indian manufacturing

Number of stocks in the portfolio

15-25

Flexicap strategy

- Market cap focus – across all categories, large, mid and small.
- Stock weights to be flexible

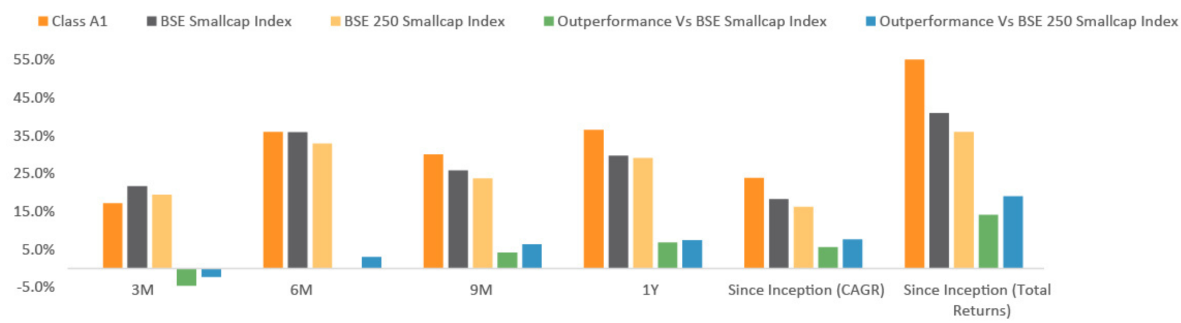
Benchmark - Nifty 500 index

Fund Managers

MANISH SONTHALIA
Chief Investment Officer

KASHYAP JAVERI
Fund Manager

Emkay Emerging Stars Fund Series IV (AIF)



%	3M	6M	9M	1Y	Since Inception	Total Returns
Class A1 (CAGR)	17.1	35.9	30.0	36.5	23.8	55.0
BSE Smallcap Index	21.7	35.9	25.8	29.6	18.2	40.9
BSE 250 Smallcap Index	19.4	32.9	23.7	29.1	16.2	36.0
Outperformance Vs BSE Smallcap Index	**-4.6**	**0.1**	**4.2**	**6.9**	**5.6**	**14.1**
Outperformance Vs BSE 250 Smallcap Index	**-2.3**	**3.0**	**6.3**	**7.5**	**7.6**	**19.0**

Fund close date : 30th April 2022

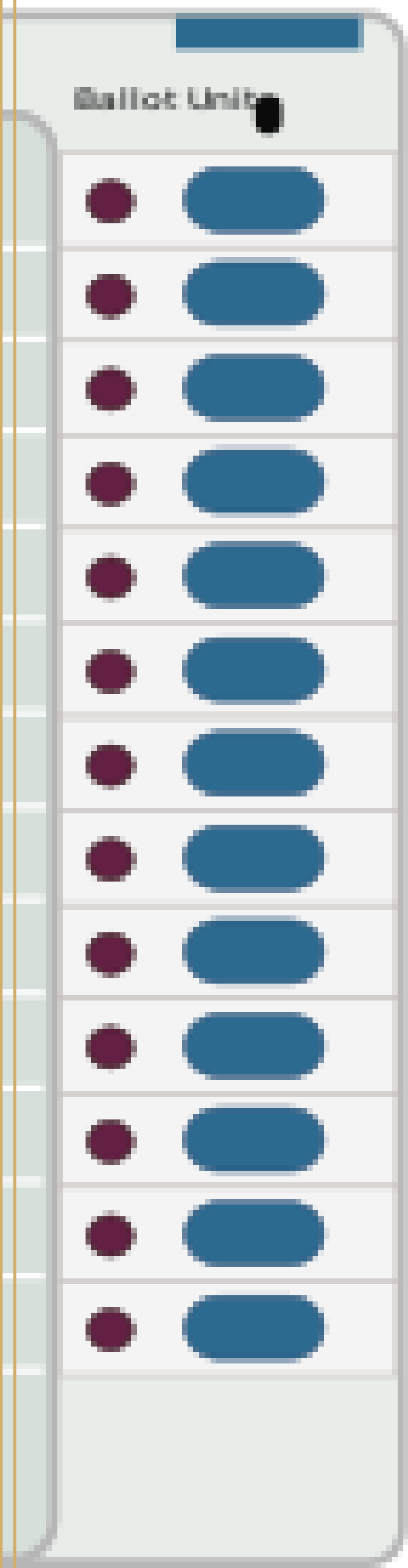
ECONOMIC CHALLENGES ARISING OUT OF COMPETITIVE POPULISM.

The biggest challenge to the #India story is from within and not outside

The biggest worry for the market isn't what's happening in the middle east. #Oil prices have gone up dramatically multiple times in the past and reversed equally spectacularly.

Its not even #Nifty50 EPS growth. Since 2005, 5-yr NIFTY 50 CAGR has always been 1.2-2x of its EPS growth barring few years. The biggest worry for market is coming from within and not from outside.

#MadhyaPradesh is going into election this month. Going by the announcement by both the major parties, it seems like the state is going down under a Rs500bn bill with no tangible outcomes irrespective of who gets the reigns.



The Freebies

👎Free electricity till unto 100 units of power and half price for the following 100 units

👎Rs1,500 monthly allowance for all women in the state

👎A return to the Old Pension Scheme (#OPS) for government employees (a well documented path to disaster)

👎A gas cylinder at only Rs 500

👎CM Ladli Behana Yojana - the payout to 1.32 crore women at Rs3000 each,

👎LPG cylinders at Rs 450 per month

👎Rs 6,000 a year for farmers from the state’s side to the PM Kisan Nidhi scheme

Vol. 6 - October 2023

ECONOMIC CHALLENGES ARISING OUT OF COMPETITIVE POPULISM.

This is an unmitigated disaster waiting to happen if the template is repeated everywhere including, if at all, for union elections. The last time we went down this road, we had what we call today “India’s lost decade”.

Consumption spiraling out of control without any sort of response from the supply side.

It started with 9-10%+ #inflation for straight four years ➡ depletion of FX cover ➡ significant tightening of liquidity ➡ transmitting to higher interest rates ➡ corporate and HH balance sheets deteriorating

⛔ Hopefully better senses will prevail and we won’t go down that road again.

Emkay
Your success is our success

Investment Managers

7th Floor, The Ruby, Senapati Bapat Marg, Dadar (West), Mumbai - 400028 Maharashtra, India

West Zone

Kyra Ahuja : +91 98219 14842
Hitesh Singh: +91 98208 36643

East and South Zone
Vishnu Pata : +91 98864 01337

Direct / NRI Clients
Sameer Merchant: +91 99876 06786

North and West Zone
Ritesh Pathak : +91 93216 74655

Email: info@emkayim.com

emkayim.com

Sources:
Global Finance Central Banker Report Cards 2023
Company data of Indian financial markets
Ace Equity, Annual Reports

Emkay
Your success is our success

Investment Managers

Disclaimer

Disclaimer: This document has been prepared by Emkay Investment Managers Ltd (EIML) for information purposes only. This document and the information contained herein shall not be disclosed or reproduced in whole or in part for any other purpose or furnished to any third party without the express prior written permission of EIML.

EIML does not represent or warrant (express or implied) of any nature nor takes any responsibility or liability of any kind for any error or inaccuracy or any losses suffered on account of information contained in this document. Information and/or data contained in this document is obtained from sources believed to be reliable but cannot be guaranteed as to the completeness, timeliness, adequacy or accuracy of the information, hence EIML advises each recipient of this document to verify the veracity/appropriateness of the information before taking any investment decisions. Past Performance if mentioned herein, is not an indicator of future performance. Performance-related information enclosed in this document is not verified by SEBI.

EIML and its group companies, its directors and employees shall have no liability for any misstatement or omission (by reason of negligence), opinions, derivations, information or matters (express or implied) contained in the document. Each recipient of this document are advised to consult and/or make its own independent evaluation and/or investigation before taking any investment decision. PMS Investment products are subject to market risks, investors are advised to read all the PMS scheme related documents carefully before investment

For further details, please visit: emkayim.com/disclaimer/

Source RBI bulletin - August 2022
Private Corporate Investment: Growth in 2021-22 and Outlook for 2022-23*
Exchange Rate Volatility in Emerging Market Economies