ICICI direct Research

March 19, 2021

Monthly Report

ICICI Securities – Retail Research

Equity Market

Update

Indian equity markets have been trading in a narrow range since February highs with mild profit booking witnessing at higher levels. The consolidation post sharp run up is an overall healthy trend for the markets. Prior to this recent consolidation, Indian equity market have had a phenomenal run from the post Covid-19 pandemic induced lows last year.

Equity markets continued their rising streak and started 2021 on a positive note with fresh all-time highs being recorded regularly in January and February. Broader markets, represented by midcaps and small caps, continue to outperform.

The last year was a remarkable one for the global economy as well as the equity markets. From the extreme end of despair and uncertainty, the last year highlights recovery and hope as the fight with the pandemic nears an end with the beginning of vaccination.

Equity markets both globally and in India took a forward looking view despite rising Covid-19 cases. Now, incrementally the rate of positive cases is declining. Smart investors took a more medium to long term view of the next two to three years and ignoring the near term impact on current years weak earnings of the companies. Aided by strong fiscal and monetary stimuli and no rollback of re-opening the economy, developed markets led by the US continued their positive momentum.

The market optimism was also fuelled by a better-than-expected recent quarterly results wherein maximum companies benefitted from low raw material cost and realised operating leverage benefits with management commentary positive on demand prospects and retaining some part of operating leverage gains in the post Covid world.

India has been the preferred destination for foreign investors in CY20, with inflows touching an all-time high signifying improvement in market sentiment. We believe it will continue to remain the same in CY21.

Outlook

Corporate earning gained momentum in the post Covid unlocking era with the optimism fuelled by higher consumption spends in the festive season. Q3FY21 earnings were ahead of estimates as corporates benefited from lower raw materials cost, higher volume growth and leaner cost structure. Going forward, we expect Nifty earnings to grow at 24.2% CAGR in FY21E-23E. With muted earnings expectation in FY21E, the focus will entirely be on the pace of earnings growth in FY22.

Markets remained buoyant as sentiments have turned positive due to factors like abundant global liquidity (recent US$1.9 trillion stimulus in the US), strong progress in vaccination drive globally, high frequency indicators showing recovery, expected double digit GDP growth in FY22 and a growth focused Budget for FY22.

We expect midcaps and small caps to gain relatively more than the large caps in 2021. The earnings growth during a recovery phase will be high in midcaps and small caps along with valuation multiple expansion. Accordingly, we believe midcap and small cap funds offer a better investment opportunity at current levels.

Volatility may increase, going forward, given the market has run up sharply since Covid-19 induced lows in March last year. The allocation strategy should be measured or buy on dips. Rebalancing of portfolio as per desired asset allocation is also important in the current environment.

Our overall market outlook remains positive. However, with equity markets trading at all-time highs, buy on dips is better investment strategy. We believe midcap and small cap funds are better placed to outperform, going forward

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Debt Market

Update

Indian debt markets has seen selling pressure since the Union Budget, which further got accentuated by a sell-off in global bond markets. The benchmark 10 year G-Sec yield has moved up more than 30 bps from the lows and is currently trading at around 6.20% levels.

Global bond markets witnessed a sell off amid improved economic outlook, rise in commodity prices and resultant higher inflation expectations. Globally, the increase in bond yields was led by the long end of the curve possibly suggesting markets being more fearful of the increased bond supply and inflation surge rather than premature tightening. US 10 year benchmark yield has risen sharply by more than 50-60bps to around 1.7%.

Indian bond markets have fared far better compared to its global peers in terms of rise in bond yields. Assurance from RBI Governor on OMOs and ensuring smooth passage of government borrowing helped market sentiments

Indian bond markets have fared far better compared to its global peers as the rise in yields has been measured compared to the sharp sell-off in global bond yields. The primary reason for Indian bond yields rising relatively less was due to the RBI Governor's comments and assurance in terms of managing the high government borrowing with explicit guidance that OMOs will be equal to or higher than last year's levels.

The Union Budget has pegged the current years (FY21) fiscal deficit at 9.5% of GDP and 6.8% in FY22. The fiscal deficit target has been above market expectation for both years. The expectation for FY21 was around 7.5% while for FY22 was around 5.0-5.5%. Due to higher deficit, the borrowing from bond market is also higher. The finance minister has announced additional ₹ 80000 crore of market borrowing in current financial year while for FY22, the gross market borrowing is pegged at ₹ 12 lakh crore. Bond market was expecting gross borrowing around ₹ 10 lakh crore for FY22.

CPI Inflation rose to 5.03% in February 2021 compared to 4.06% in January 2021 reversing the declining trend of the last three months primarily because of the negative base effect of last year. The rise in inflation is primarily driven by YoY increase in food inflation, which increased to 4.25% in February compared to 2.6% in January 2021. The core inflation has also risen to 5.89% in February compared to 5.66% in January. The recent sell-off in Indian bond market is primarily driven by higher government borrowing and sell-off in global bond markets and less to do with change in inflation expectations. The trend is likely to continue with the RBI likely to keep benchmark rates on hold in the near term. The bond market will be more focusing RBI intervention and global debt market movement.

Outlook

Given the global backdrop of rising bond yields, elevated commodity prices, particularly crude oil prices and higher bond supply, long bond yields are likely to be under pressure going into the next financial year.

After the last two months of sell-off, yields are expected to settle down over the next two to three months once there is clarity on the new financial year's borrowing and liquidity environment. Till that time, it is better to avoid long duration funds like G-Sec funds or higher maturity corporate bond funds.

In the current uncertain environment, tactical investors may avoid any fresh exposure to bond funds in the near term and remain liquid by investing in liquid funds, overnight funds or ultra short term bond funds

There may be measures to normalise the excess liquidity and normalise the overnight/call-money rates. Hence, overnight rates are expected to gradually increase and converge with the repo rate (4.0%) in the coming 12 months. This will be through combination of liquidity management and reduction in spread between reverse repo and repo rate.

In the current uncertain environment, tactical investors may avoid any fresh exposure to bond funds in the near term and remain liquid by investing in liquid funds, overnight funds or ultra short term bond funds.

Industry Synopsis

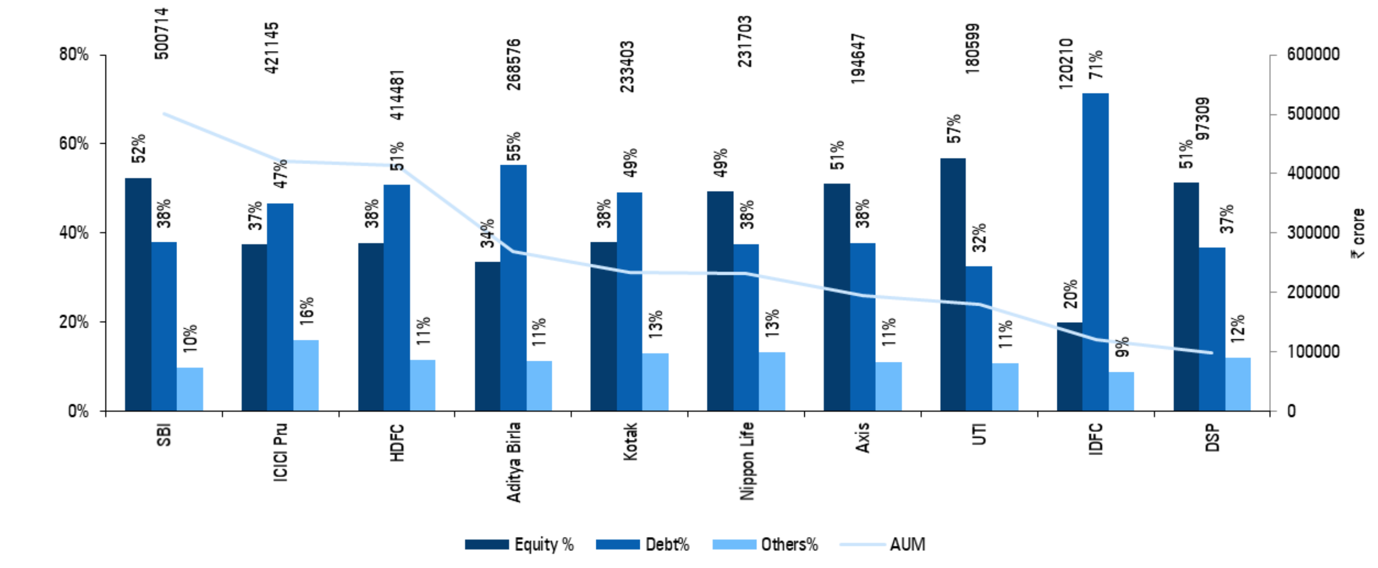
The mutual fund industry AUM rose by 3.7% in February 2021 to ₹ 31.6 lakh crore compared to ₹ 30.5 lakh crore in January 2021 primarily due to mark to market gains in equity funds as equity market gained further in February.

AUM of open ended equity funds is now at ₹ 9.63 lakh crore compared to ₹ 8.91 lakh crore in January 2021. Equity funds witnessed reduced outflows at ₹ 4500 crore in February 2021. Equity funds have seen outflow for the eighth consecutive month now. Total outflows in the last eight months have cumulated at ₹ 47000 crore. Few investors seems to be booking profit at current higher levels.

In debt funds, almost all category of funds except liquid/low duration/money market funds witnessed outflow as rising yields made investors cautious. Corporate bond funds and short term debt funds category remain the highest category in term of AUM at around ₹ 1.5 lakh crore.

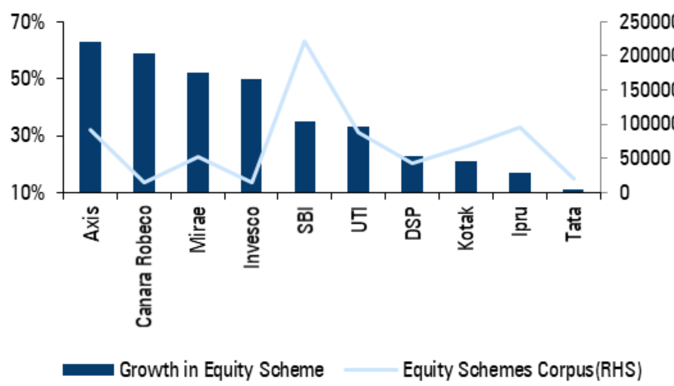
Balanced Advantage or Dynamic Asset Allocation funds AUM is now above ₹ 1 lakh crore. The balanced advantage category is gaining popularity as asset allocation funds at current higher level attracting higher investor interest.

Exhibit 1: Total AUM, break-up of major AMCs



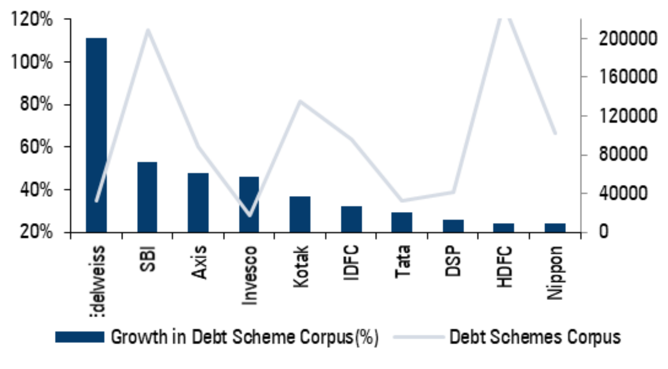
Source: ACE MF. Data as on month-end February 2021

Exhibit 2: Axis, Canara Robeco, Mirae, Invesco witness highest growth in equity schemes among major AMCs



Source: ACE MF. Data as of December 2020. YoY growth in last one year.

Exhibit 3: In debt, Edelweiss, SBI, Axis see highest AUM growth in 2020 among major AMCs



Source: ACE MF. Data as of December 2020.

Category Analysis

Equity Funds

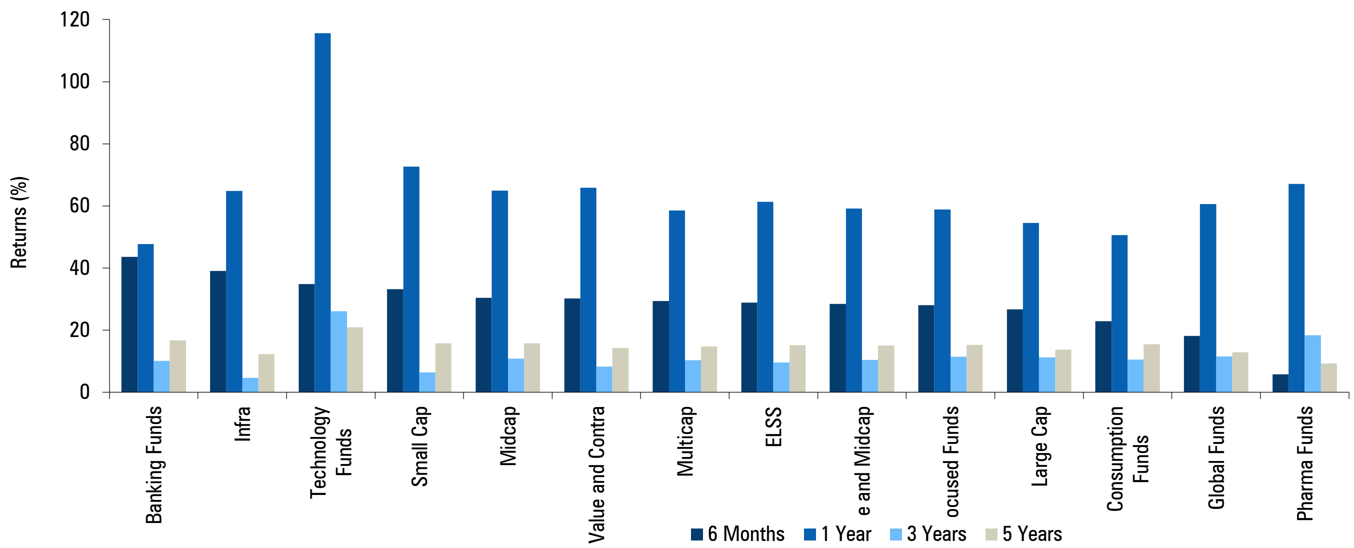
Year 2020 has been one of the most volatile years for Indian as well as global equity markets. There was a sharp fall of ~40-50% in February and March with an equally sharp recovery since then taking markets to new highs. Equity investors who stuck to their asset allocation plan and investors who continued their regular investment through SIP and otherwise stand out as winners in this extremely difficult year.

Sector rotation has also been witnessed in the last one year with the clear winners being IT and pharma delivering around 60% return. Banking funds have also outperformed in the last six months as the impact of Covid-19 related stress seems to be lower than earlier expected on the banking system.

After the initial recovery phase, the broader markets, as represented by the midcap and small cap funds, have outperformed large cap funds category.

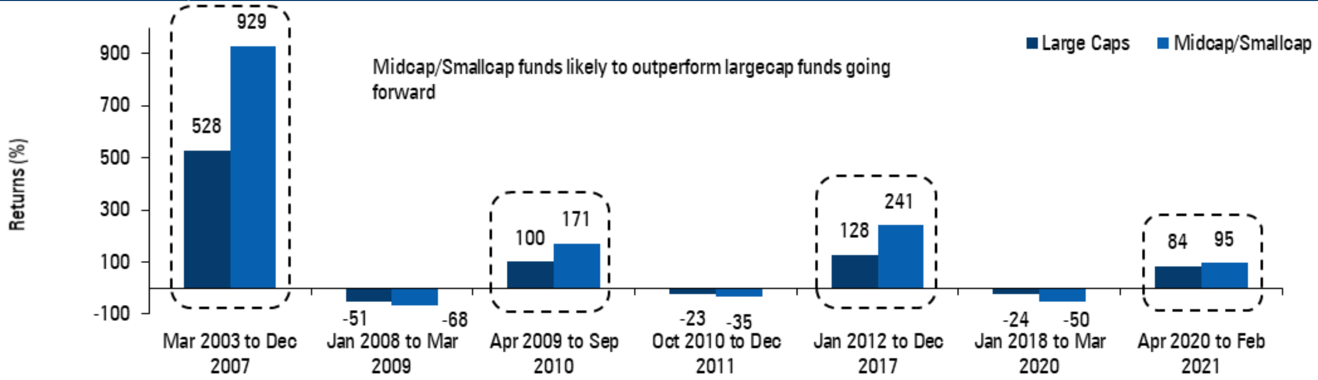
International funds, after having outperformed for a brief period, have underperformed in the last few months now.

Exhibit 4: Banking, infra funds outperform in last few months with infra funds making a comeback after a long time. Small cap, midcap funds overall remain better performers



Source: CRISIL. Category average returns as on March 17, 2021. Returns above one year are annualised

Exhibit 5: In most up market cycle midcap/small cap funds have outperformed significantly especially after previous underperformance cycle



Source: ACE MF

Equity diversified funds

Flows into equity funds witnessed a turnaround in the last seven months. Equity funds, after witnessing consistent inflows in the last four years, have been witnessing outflows in the last seven months. January 2021 saw net outflows of ₹ 9253 crore. Total outflows in the last seven months are now at ₹ 42000 crore.

While retail investors have shown significant maturity by continuing investment at lower levels, few investors seems booking profit as markets recovered. The normalised SIP inflows, however, remained sticky at around ₹ 8000 crore.

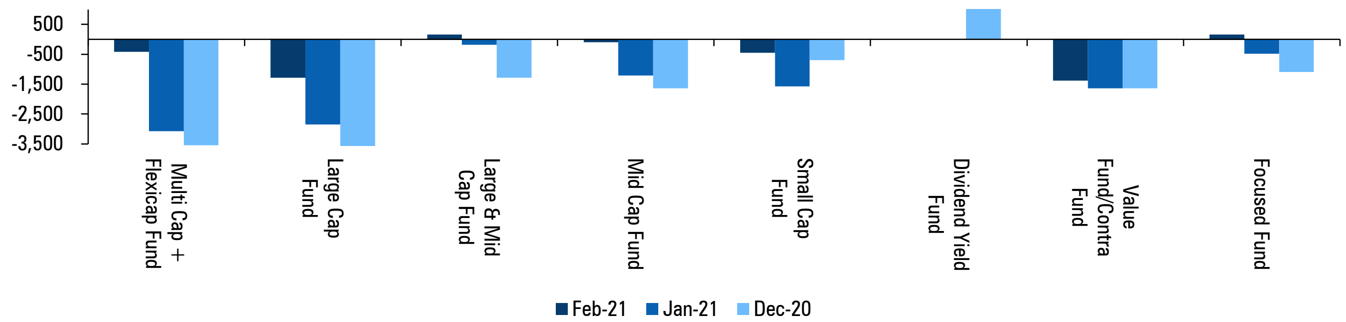
The last seven months witness outflows against the long trend of consistent inflows. SIP inflows, however, continue to remain strong at around ₹ 8000 crore

While outflows in equity funds were secular across categories, multicap funds witnessed higher outflows in the last three months.

Midcap and small cap funds witnessed the least outflows in the last few months as their continued outperformance draw investor's interest.

We continue to prefer multicap funds as they offer fund managers flexibility to allocate funds across all market segments, especially in the current market where many smaller cap stocks offer a good investment opportunity. Investors may also consider investing lumpsum amounts in midcap/small cap funds from a long term perspective.

Exhibit 6: Monthly flows: Large caps, multicap funds witnessing higher outflows



Source: AMFI

Exhibit 7: Outflows continue across major categories

Euuity Oriented Category	Inflow/(Outflow) during Feb 2021	AUM
Large Cap Funds	(1,280)	177,549
Multi Cap + Flexicap Funds	(419)	176,378
ELSS	(848)	122,936
Mid Cap Funds	(99)	113,515
Sectoral/Thematic Funds	(365)	95,364
Large & Mid Cap Funds	157	74,937
Small Cap Funds	(452)	67,764
Focused Funds	157	67,502
Value Fund/Contra Funds	(1,379)	60,815
Dividend Yield Funds	(6)	6,599

Source: ACE MF

Exchange traded funds (ETFs)

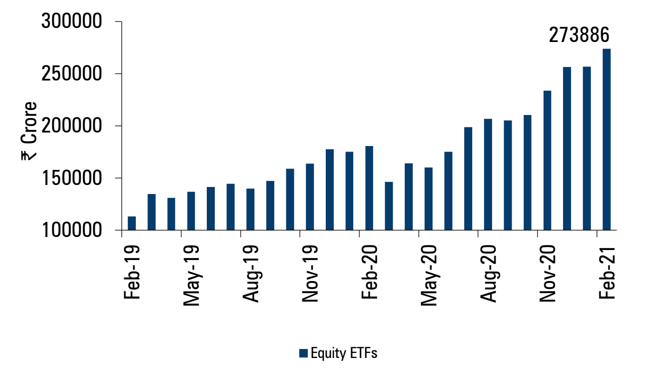
ETFs have already taken the world by storm, with assets under management (AUM) in such funds already surpassing that in traditional mutual funds in many countries. Passive funds emerged in the US more than two decades ago. The first modern day exchange traded fund (ETF) S&P SPDR (Spiders) started trading in the US in 1993. The market for ETFs has grown tremendously since then. Today, 2,000 ETFs are listed in the US. In India, the ETF landscape has gained traction since 2015 and has not only become much bigger but also more diverse. AUM for ETFs has grown from ~₹ 5400 crore in December 2014 to ~₹ 2.7 lakh crore as of February 2021. While growth in ETF is driven by institutional flows led by EPFO in Nifty 50 and BSE Sensex ETF along with CPSE ETFs, inflows from individual investors have also started gaining traction.

This trend of allocation towards ETF is increasing and is likely to gain further traction. The ETF market is expected to grow on the back of continued thrust from government and rising acceptance of such products as an investment vehicle by the retail segment.

ETFs are best placed from an asset allocation perspective as they do not carry any stock selection risk. Indian equity ETF market has grown with many categories of ETFs now available in large cap, midcap, thematic segment.

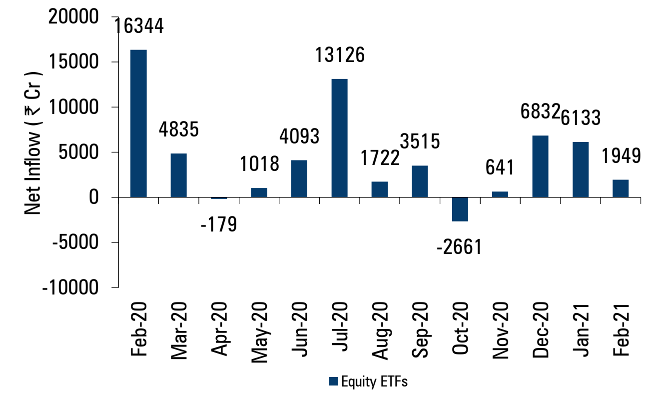
ETFs have a number of attractive features. Usually they have much lower fees and can be bought and sold during the day as opposed to mutual funds that usually execute at the close. Earlier, there was primarily Nifty or Sensex ETF but now there are many ETFs in the large cap space like Nifty Next 50 ETF. Similarly, in midcaps, Nifty Midcap 100 ETF and Nifty Midcap 150 ETF are available to take exposure to midcaps. Many thematic ETFs are also available like banking ETFs and Nasdaq 100 ETFs.

Exhibit 8: Equity ETF AUM continues to rise and at an all-time highs in February 2021



Source: AMFI

Exhibit 9: ETFs continue to witness inflows dominated by institutional flows



Source: AMFI

Different category of investment options available under ETFs

Exhibit 10: There are currently around 27 categories of ETFs available in Indian market

Nos.	Types of ETFs	Name of ETF	AUM (Cr)
I	**Largecap oriented ETFs**		
1	Nifty 50 ETF	Most AMCs	2998 (Nippon AMC- Highest)
2	Sensex ETF	Most AMCs	528 (LIC MF- Highest))
3	BSE 100 ETF	SBI-ETF BSE 100	5
4	Nifty 100 ETF	LIC MF ETF-Nifty 100	409
		Nippon ETF Nifty 100	113
		ICICI Pru Nifty 100 ETF	20
5	Nifty 100 Quality 30 ETF	Edelweiss ETF - Nifty 100 Quality 30	10
6	Nifty 200 Quality 30 ETF	SBI ETF Quality	24
7	Nifty Low Vol 30 ETF	ICICI Pru Nifty Low Vol 30 ETF	272
8	Nifty Alpha Low Vol 30 ETF	ICICI Pru Alpha Low Vol 30 ETF	42
9	Nifty Next 50 ETF	Nippon India ETF Junior BeES	1529
		SBI-ETF Nifty Next 50	735
		UTI-Nifty Next 50 ETF	474
		ICICI Pru Nifty Next 50 ETF	164
		Aditya Birla SL Nifty Next 50 ETF	86
		Mirae Asset Nifty Next 50 ETF	55
10	Sensex Next 50 ETF	Nippon India ETF Sensex Next 50	15
		UTI S&P BSE Sensex Next 50 ETF	7
		SBI-ETF Sensex Next 50	4
11	NV 20 ETF	Nippon India ETF NV20	31
		Kotak NV 20 ETF	18
		ICICI Pru NV20 ETF	12
12	Nifty Dividend Opportunities 50 ETF	Nippon India ETF Dividend Opportunities	2
II	**Midcap Oriented ETFs**		
13	Midcap 100 ETF	Motilal Oswal Midcap 100 ETF	55
14	Nifty Midcap 150	Nippon India ETF Nifty Midcap 150	304
		ICICI Pru Midcap 150 ETF	65
15	Midcap Select ETF	ICICI Prudential Midcap Select ETF	24
III	**ETF in Multicap segment**		
16	S&P BSE 500 ETF	ICICI Pru S&P BSE 500 ETF	47
IV	**ETFs based on sectors/Themes**		
17	Banking ETF	Kotak Banking ETF	7625
		SBI-ETF Nifty Bank	3852
		Edelweiss ETF - Nifty Bank	1
18	PSU Bank ETF	Kotak PSU Bank ETF	162
		Nippon India ETF PSU Bank BeES	162
19	Private Bank ETF	ICICI Pru Pvt Banks ETF	1888
		Tata Nifty Pvt Bank ETF	13
20	IT ETF	ICICI Pru IT ETF	1256
		Nippon India ETF Nifty IT	643
21	Nifty India Consumption ETF	Nippon India ETF Nifty Consumption	18
22	Nifty Infrastructure ETF	Nippon India ETF Infra BeES	22
23	Nifty 100 ESG Sector Leaders ETF	Mirae Asset ESG Sector Leaders ETF	120
24	Nifty 50 Shariah ETF	Nippon India ETF Shariah BeES	7
25	Global ETF	Motilal Oswal Nasdaq 100 ETF	2989
		Nippon India ETF Hang Seng BeES	43
26	CPSE ETF	CPSE ETF	13986
27	BHARAT 22 ETF	BHARAT 22 ETF	7119

Source: ACE MF. AUM as on February 2021. In Sensex and Nifty ETFs, SBI and UTI AMC has higher AUM but dominated by institutional flows.

Exhibit 11: Return of various category of ETFs

Name	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Largecap Oriented ETFs							
Nifty 50 ETF	6.1	20.5	37.4	27.4	14.8	18.0	12.0
Sensex ETF	6.3	20.0	37.8	27.8	16.5	18.8	12.4
BSE 100 ETF	6.0	21.1	37.1	27.8	13.8	18.0	-
Nifty 100 ETF	5.8	20.3	36.0	26.7	13.4	17.5	-
Nifty 100 Quality 30 ETF	1.2	16.0	29.8	26.4	12.4	-	-
Nifty 200 Quality 30 ETF	-0.4	14.6	25.2	26.7	-	-	-
Nifty Low Vol 30 ETF	1.9	15.2	27.3	29.7	13.6	-	-
Nifty Alpha Low Vol 30 ETF	0.6	13.1	21.4	-	-	-	-
Nifty Next 50 ETF	4.0	20.0	28.9	24.0	6.9	16.2	13.0
Sensex Next 50 ETF	6.0	25.3	36.8	27.5	-	-	-
NV20 ETF	1.1	20.2	33.1	33.7	17.3	19.7	-
Nifty Dividend Opportunities 50 ETF	0.1	17.8	25.1	24.0	7.6	15.4	-
Midcap Oriented ETFs							
Midcap 100 ETF	6.3	27.1	41.8	30.0	6.3	15.0	12.1
Nifty Midcap 150 ETF	6.7	26.9	42.1	32.5	-	-	-
Midcap Select ETF	7.3	26.6	41.7	29.8	7.3	-	-
Multicap Oriented ETFs							
S&P BSE 500 ETF	6.1	22.0	37.7	28.5	-	-	-
ETFs based on sectors/Themes							
PSU Bank ETF	19.5	63.4	61.6	3.9	-10.8	2.4	-5.4
Nifty Bank ETF	15.0	30.2	70.8	18.3	13.4	21.2	-
Nifty Pvt Bank ETF	12.2	24.6	67.1	16.2	-	-	-
IT ETF	-2.8	19.6	-	-	-	-	-
Nifty India Consumption ETF	0.8	15.9	22.0	20.0	9.4	15.1	-
Nifty Infrastructure ETF	7.3	24.2	31.0	28.1	7.2	13.0	3.8
Nifty 50 Shariah ETF	-3.1	12.7	25.8	32.7	12.4	16.4	11.4
Hang Seng ETF	7.0	14.2	18.7	15.3	6.5	13.9	10.4
Nasdaq 100 ETF	6.4	13.6	19.8	46.6	31.9	29.2	-
CPSE ETF	1.5	23.5	22.9	9.8	-9.6	3.4	-
Bharat 22 ETF	8.5	32.1	39.4	14.1	0.3	-	-

Source: ACE MF. Return as on February 16, 2021

Hybrid funds

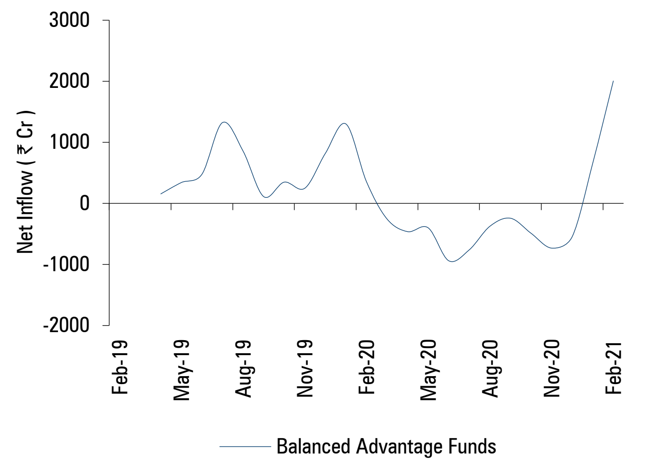
The hybrid funds category is dominated by aggressive hybrid funds (erstwhile balanced funds) and balanced advantage or dynamic asset allocation funds.

The trend of outflow continues in the aggressive hybrid category. The category has witnessed consistent outflows in the last many months.

While Balanced Advantage Funds or Dynamic Asset Allocation category saw marginal outflows in the last few months, the category has grown significantly over the last few years.

Arbitrage funds, as a category, have been popular among investors for parking money temporary in a tax efficient manner.

Exhibit 12: BAFs witness inflows in last two months after outflows since March 2020



Source: AMFI

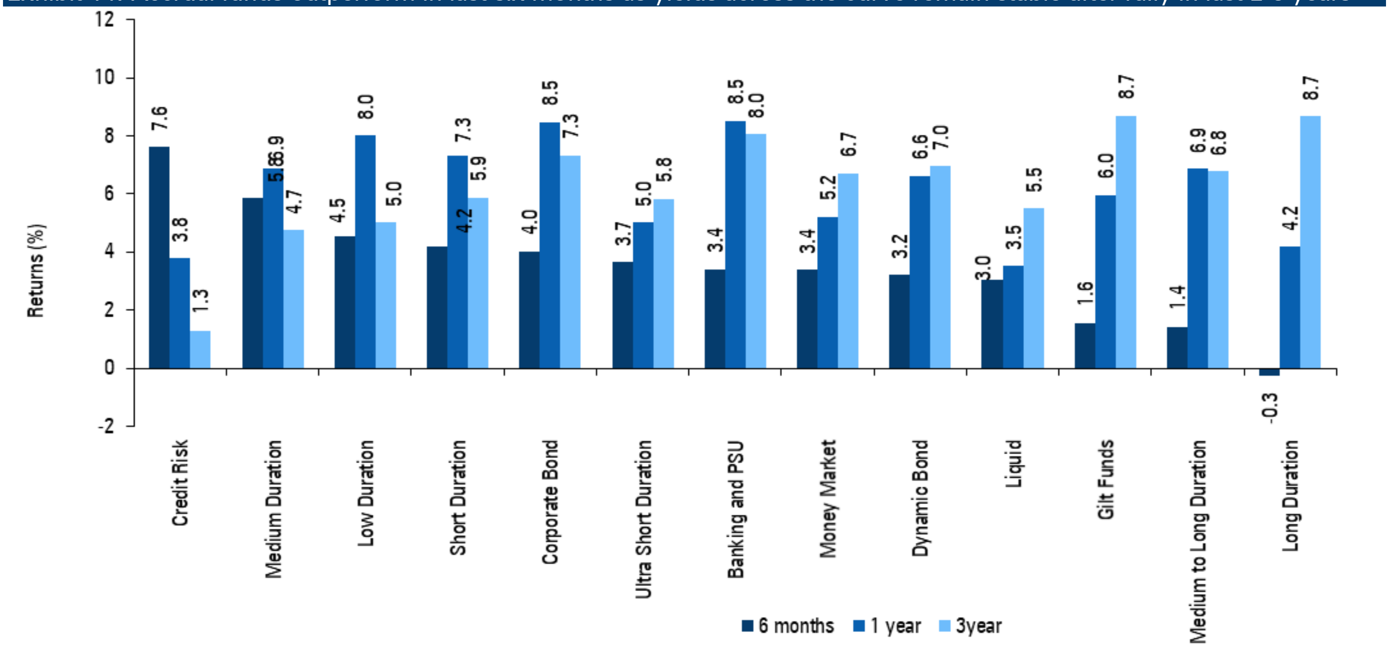
Exhibit 13: Hybrid category has not seen any significant inflows in last few months

Hybrid Category	Inflow/(Outflow) during Feb 2021	AUM
Balanced Hybrid Fund/Aggressive Hybrid Fund	(2,334)	122,779
Dynamic Asset Allocation/Balanced Advantage	2,006	106,473
Arbitrage Fund	5,033	71,858
Multi Asset Allocation	(24)	14,788
Conservative Hybrid Fund	145	12,513
Equity Savings	(123)	9,804

Source: AMFI

Debt Funds

Exhibit 14: Accrual funds outperform in last six months as yields across the curve remain stable after rally in last 2-3 years



Source: CRISIL. Category average annualised returns as on February 17, 2021

Mutual Fund Recommendation

Exhibit 15: Equity oriented funds

Category wise top picks	
Largecap Funds	Axis Bluechip Fund
	Canara Robeco Equity Bluechip Eq. Fund
	ICICI Prudential Bluechip Fund
	IDFC Large Cap Fund
Large and Midcap Funds	Invesco Growth Opportunity Fund
	Kotak Equity Opportunities Fund
	LIC Large and Midcap Fund
	SBI Large and Midcap Fund
	Sundaram Large and Midcap Fund
Multicap Funds	Adity Birla Sunlife Equity Fund
	Axis Multicap Fund
	Canara Robeco Equity Diversified Fund
	Invesco Multicap Fund
	Kotak Standard Multicap Fund
	Nippon Multicap Fund
	Parag Parikh Long Term Equity Fund
	UTI Equity Fund
Midcap Funds	Axis Midcap Fund
	ICICI Pru Midcap Fund
	Kotak Emerging Equity Fund
	Tata Midcap Fund
	UTI Midcap Fund
Smallcap Funds	Axis Smallcap Fund
	ICICI Pru Smallcap Fund
	Invesco Smallcap Fund
	Kotak Smallcap Fund
	Nippon Small Cap Fund
	SBI Smallcap Fund
Focus Funds	Axis Focused 25 Fund
	IDFC Focused Equity Fund
	SBI Focused Equity Fund
	Tata Focused Equity Fund
ELSS	Axis Long Term Equity Fund
	Canara Robeco Equity Taxsaver Fund
	DSP Blackrock Tax Saver Fund
	IDFC Tax Advantage Fund
	Mirae Asset Tax Saver Fund
Balanced Advantage Funds	Aditya Birla SunLife Balanced Advantage Fund
	DSP Dynamic Asset Allocation Fund
	Edelweiss Balanced Advantage Fund
	ICICI Prudential Balanced Advantage Fund
	IDFC Dynamic Equity Fund
	Kotak Balanced Advantage Fund

Source: ICICI Direct Research

Exhibit 16: Debt funds

Category wise top picks	
Category	**Fund**
Overnight / Liquid / Ultra Short Term	Aditya Birla Sun Life Savings Fund
	HDFC Ultra Short Duration Fund
	SBI Magnum Ultra Short Duration Fund
Low Duration / Money Market	ICICI Prudential Savings Fund
	IDFC Low Duration Fund
	Kotak Low Duration Fund
Short Term	Aditya Birla Sun Life Short Term Fund
	HDFC Short Term Debt Fund
	ICICI Prudential Short Term Fund
Medium Term	Axis Strategic Bond Fund
	HDFC Medium Term Debt Fund
	ICICI Prudential Medium Term Bond Fund
Medium to Long Term / Long Term	Aditya Birla Sun Life Income Fund
	ICICI Prudential Bond Fund
	IDFC Bond Fund - Income Plan
Dynamic Bond Fund	DSP Strategic Bond Fund
	IDFC Dynamic Bond Fund
	Kotak Dynamic Bond Fund
Corporate Bond	Aditya Birla SL Corporate Bond Fund
	HDFC Corporate Bond Fund
	IDFC Corporate Bond Fund
Credit Risk	-
	-
	-
Gilt	Aditya Birla Sun Life G-Sec Fund
	IDFC G-Sec Fund - Investment Plan
	SBI Magnum Gilt Fund

Source: ICICI Direct Research

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