AAA Insights

March 2024

Mr. Economy <> Mr. Market

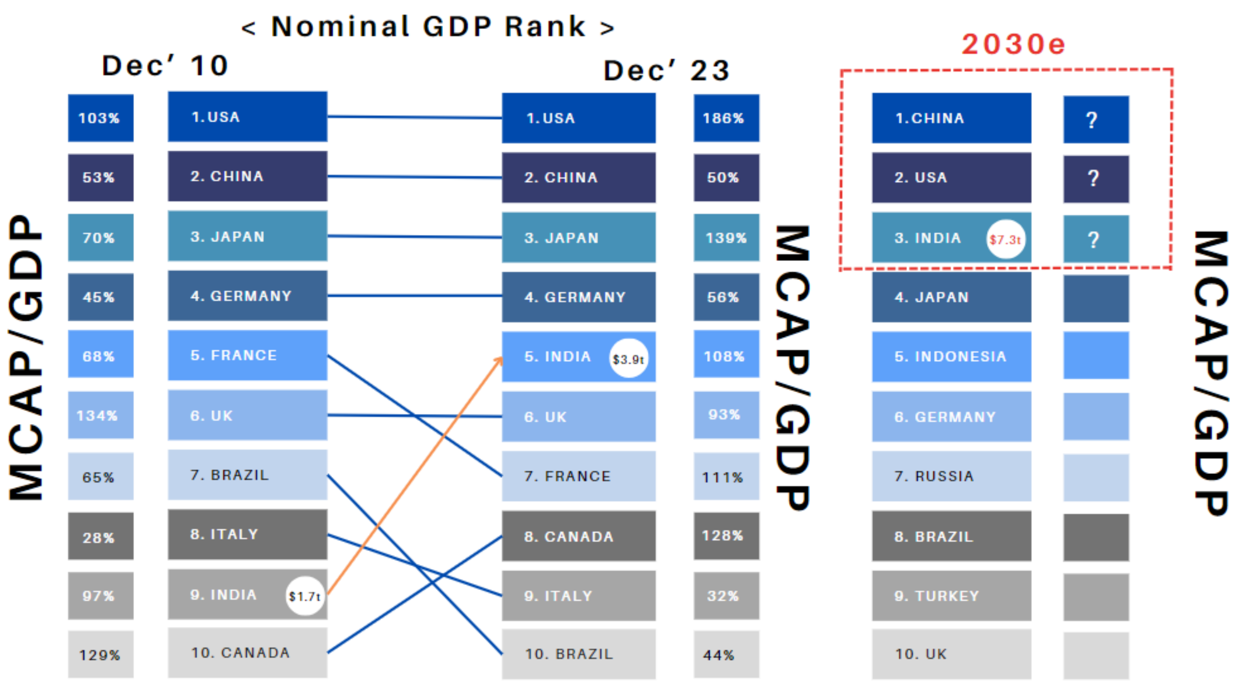
FOMO (Fear Of Missing Out) has modestly crept back into the market narrative. The irony is that sidelined cash may keep a relative floor on how far markets correct. Do one fun activity with family and friends – ask who's waiting to buy an equity market selloff. Follow it up with "At what level?". Our sense is that most people will say 5%-10% lower. It's always 5%-10% lower. Range-bound is likely the right way to describe current markets. We've been trading the same broad ranges on the BSE500 for most of this calendar year. Sidelined cash may not let us re-test last October's low unless something really goes wrong. While Mr. Market will continue to be a mystery, throwing nasty surprises time and again, let us map the possible scenarios for Mr. Market from a longer-term horizon.

India's Footing

Looking at the transition of the current developed nations, it is interesting to observe how the GDP growth influences the Market Cap Growth. For instance, in the recent decades, USA GDP growth has become relatively stable, hovering around 2-3% annually as compared to the 80s and 90s where the economy underwent a massive expansion. Despite the reversion of this growth to normal levels, it is quite surprising to know the USA Market Cap to GDP has continued to increase, standing at a staggering 186% right now, as compared to 103% thirteen years ago.

However, in India, the pattern is strikingly different. India's MCAP/GDP has remained relatively stable, going from 97% to 108% over the same period. On the other hand, the Indian economy has continued to skyrocket, with India now standing as the 5th largest economy in the world. Hence, there is a significant disparity between the two figures. While we understand that there are a multitude of factors influencing this ratio, we believe that India's MCAP/GDP ratio can have a multiplier effect going forward. Considering the $7.3 trillion-dollar economic target by 2030, India is poised to become at least the third largest economy in the world. If this is true, then the Indian markets can multi-fold over this decade, as markets are always forward looking in nature.

Fig1: MCAP/GDP For the current top 10 economies

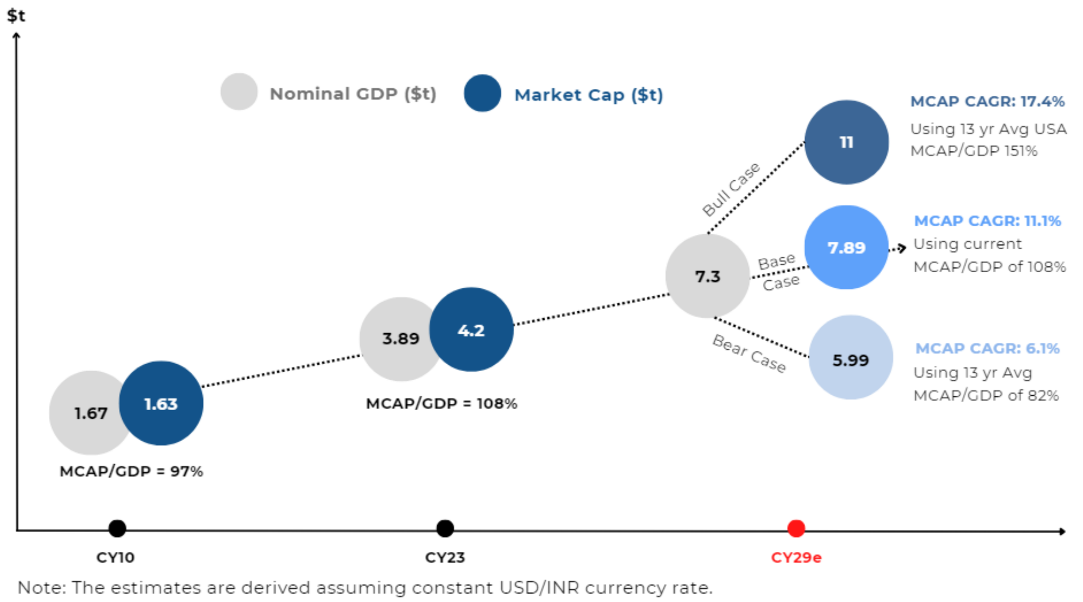


Note: Dec'23 Figures Are based on Bloomberg Calendar Year Estimates
Source: AAA Research, Bloomberg, S&P Global, IMF

Taking a step further, we tried to arrive at the possible Market Cap of the listed universe in India before 2030 (Ref Fig2). In our base case, assuming that India enjoys the same MCAP/GDP in 2029 as it is currently, the MCAP CAGR turns out to be 11.1% for CY24-CY29. In a bullish scenario, assuming India can trade at a similar MCAP/GDP ratio as USA, and calculating backwards, it can be deduced that the listed universe in India can deliver 17.4% CAGR over the next six years. Lastly, on the downside, we assume India's MCAP/GDP to be in line with the previous average of 82%, which still results in an annualized return of 6.1% over the same period. It is important to note that all figures are in USD and hence currency depreciation has not been accounted for.

All in all, India continues to stand on a strong footing, and as some forecast, it has the potential to be the breakout market of this decade. Our previous market stance continues: Be Bullish, Be Prudent. We acknowledge that there are pockets of the market where valuations are running ahead of their fundamentals. However, at a broader level, markets seem to be trading at reasonable valuations.

Fig2: Scenario Analysis: India Listed Universe MCAP by 2030



Note: CY23 Figures Are based on Bloomberg Calendar Year Estimates
Source: AAA Research, Bloomberg, S&P Global, IMF

Quarterly Earnings Update

For 3QFY24, our portfolio strategies delivered a strong performance as compared to Nifty (Ref Fig 3,4,5). In terms of sectoral analysis, sectors like auto, cement and healthcare registered good volume growth as well as improvement in margins due to lower raw material/freight costs. The Capital Goods sector continued to register strong growth in order intake with key sectors like power, T&D, renewable energy, data centers, real estate, and defence witnessing strong traction. The sectors which remain under pressure are FMCG, Chemicals, and Information Technology. The banking sector posted a mixed performance in 3QFY24, marked by healthy business growth, controlled provisions, persistent NIM pressure, and high operating expenditure.

Fig3: AAAIOP vs Nifty50 (YoY)

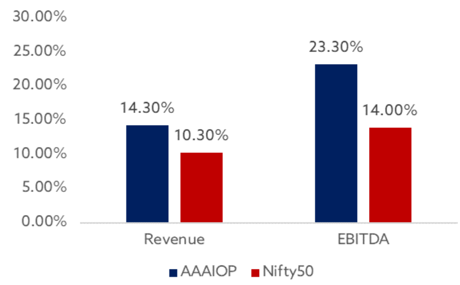


Fig4: AAABB vs Nifty50 (YoY)

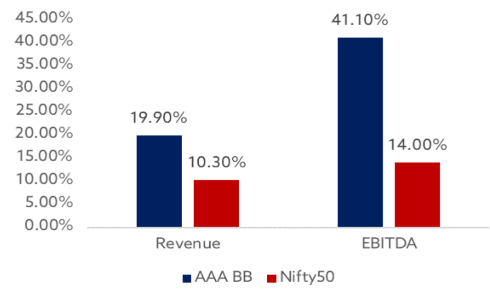
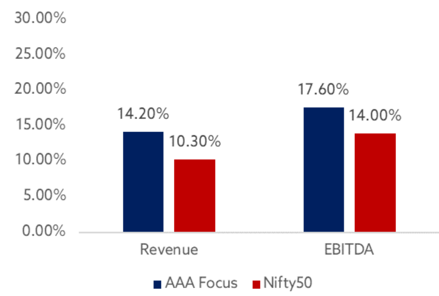


Fig5: AAA Focus vs Nifty50 (YoY)



Source: AAA Research, Ace Equity

AAA PMS Performance

Compounded Annual Returns (%)	1 Year	2 Years	3 Years	5 Years	10 Years	Since inception*
AAA IOP PMS	**35.5**	**18.9**	**19.5**	**19.2**	**20.2**	**18.8**
BSE 500 TRI (Benchmark)	39.5	19.8	19.5	19.0	16.7	13.1
BSE Midcap TRI	64.7	31.3	26.8	23.8	21.1	14.9
BSE Smallcap TRI	66.8	31.3	32.0	28.2	22.6	14.6
Nifty 50 TRI	28.5	15.7	16.2	16.7	14.7	12.1

Compounded Annual Returns (%)	1 Year	2 Years	3 Years	5 Years	Since inception#
AAA FOCUS PMS	**25.4**	**13.1**	**15.2**	**16.9**	**14.3**
BSE 500 TRI (Benchmark)	39.5	19.8	19.5	19.0	13.7
BSE Midcap TRI	64.7	31.3	26.8	23.8	16.9
BSE Smallcap TRI	66.8	31.3	32.0	28.2	17.1
Nifty 50 TRI	28.5	15.7	16.2	16.7	12.2

Compounded Annual Returns (%)	1 Year	2 Years	3 Years	Since inception@
AAA Budding Beasts PMS	**48.2**	**28.8**	**30.6**	**31.0**
BSE 500 TRI (Benchmark)	39.5	19.8	19.5	20.6
BSE Midcap TRI	64.7	31.3	26.8	29.7
BSE Smallcap TRI	66.8	31.3	32.0	34.7
Nifty 50 TRI	28.5	15.7	16.2	16.8

*(23 Nov 2009 – 29 Feb 2024); #(17 Nov 2014 – 29 Feb 2024); @(01 Jan 2021 – 29 Feb 2024)
Performance is after all expenses and fees from April 2018 onwards. Prior to April 2018, the performance is after all expenses and Fixed Management fees. Index performance is calculated using Total Return Indices, as per SEBI guidelines.

Note: Returns of Individual clients may differ depending on the time of entry in the strategy. Past performance may or may not be sustained in the future and should not be used as a basis for comparison with other investments. Performance related information provided herein is not verified by SEBI.