



What's Inside

RECAP 2021

BUDGET: FY23 - WHAT WE CAN EXPECT

**WHAT LED TO THE SWING IN NEW-AGE
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**GLOBAL IPO 2021 ANALYSIS: MORE MISSES
THAN HITS**

WHAT CAUGHT OUR ATTENTION THIS MONTH

2021 was quite an eventful year for the world. From achieving the distant goal of Covid vaccination to second Covid wave to creating history in the Olympics, India's journey in 2021 was a story of ups and downs. As a whole, it was a year when people finally started returning to their normal lives. Let's take a quick recap of events that made headlines in the country in 2021



Events that are expected to grab headlines in 2022



Q3FY22 results will be one of the key factor for driving market sentiments.

Analyst believes that the results will be at par or little above expectations for most of the business



The Union budget 2022-23 could be another pro-growth budget.

Infrastructure spending, housing boost, consumption thrust, financialization of savings, thrust on rural economy, privatization, reducing trade deficit would be the key themes that this budget would focus on.



T+1 settlement cycle to come into effect from 25th Feb, 22.



Fed plans to double their pace of taper to \$30 bn a month to finish the purchase in early 2022 instead of the earlier planned Sept- 22.



Near-term inflationary pressures is likely to persist driven by higher commodity prices

RBI may hike interest rates faster than expected to offset the accelerating inflationary pressures besides following the trend of similar spike in US



Government said that it will introduce a bill to regulate crypto assets and cryptocurrencies in India amidst the tremendous price swings in the crypto market

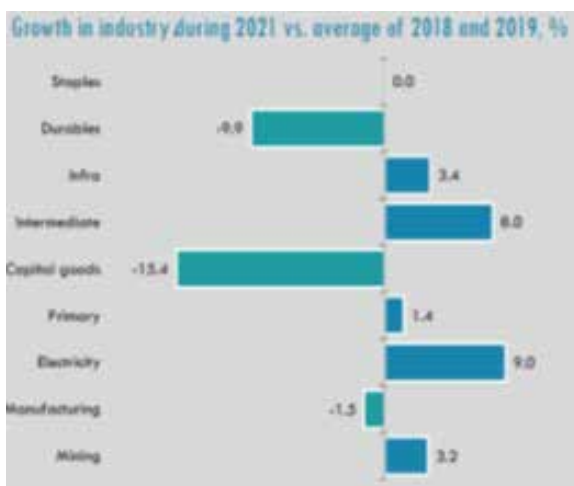


Heightened focus around developing crypto and its linkage blockchain as a technology, coins as currency or assets and Web 3 related Metaverse

Events that are expected to grab headlines in 2022

	<p>China will focus on growth once again post Winter Olympics in February 2022.</p> <p>China's focus will help lift global growth and commodity prices</p>
	<p>The year 2021 saw a total of 1,058 unicorns in the world, adding about 472 last year. 2021 also saw 44 unicorns born in India taking the total to 81 unicorns</p> <p>2022 is expected to see a similar boom of Unicorns.</p>
	<p>Keep an eye out for the Mega IPO's coming in 2022. At the top of the list is LIC's IPO in March.</p> <p>Other major IPOs expected are Pharmeasy, IXIGO, Mobikwik, Manyavar</p>
	<p>With various government schemes and incentives announced such as PLI scheme, India is expected to attract foreign investment</p> <p>Private capex looks strong in 2022 on the back of various PLI schemes and shift away from China.</p>
	<p>Semi-conductor shortage will continue to persist with little respite in the near term.</p>
	<p>As many as seven states are going for assembly elections in 2022. The outcome of these elections, particularly Uttar Pradesh, Punjab and Gujarat will be closely watched</p>
	<p>EV Sales expected to touch 10 Lakh Units In 2022</p> <p>Shift from petrol vehicles to electric ones due to attractive prices, lower running costs, and lower maintenance</p>

The last budget saw a sharp focus on investments, with growth being a priority and fiscal consolidation less of a concern. Increased allocation went towards healthcare (Rs. 2.2 lakh cr, +137% over FY21), and capex (Rs. 5.5 lakh cr, +25% over FY21). Besides, the Government also eased tax compliance, ironed out taxation issues wherever applicable on various categories of taxpayers, thus making it more friendly and easy to comply with. To support the thrust of Atmanirbhar Bharat, PLI and boost exports while minimizing imports, it increased basic customs duty on key materials of import in sectors like Textiles, Chemicals, Auto, White goods and FMEG. The path to privatization was clearly spelt out with sectors being identified and Institutions like the Bad Bank, Development Financial Institutions (DFIs) were introduced for the overall welfare and health of the entire ecosystem.








In the upcoming Budget, we expect continued strong support from the Government as growth is yet to come back meaningfully, the pandemic still not over, and underlying challenges still present. The manufacturing and cap goods sectors are still below the pre-COVID levels, consumption is also weak, reflected in the durables segment. Reverse migration has led to lower urban remittances, leading to poor rural demand. While the goods segment has picked up to pre-COVID levels, the growth has petered out in the last 9 months. Services sector is yet to recover meaningfully and barring a few hi-flyers like IT, bulk of the segment is struggling with travel and hospitality in dire straits. The fiscal deficit numbers for April-Nov '21 suggests that we are well ahead of historical trends and the actual FY22 fiscal deficit will end up being well within initially budgeted estimates (6.8% of GDP), thanks to the strong revenues from income tax, corporate tax, GST, and customs duties. This is despite the miniscule contribution from Divestments.

We highlight key focus areas this budget is likely to target :



Wishlist	Impact
Infrastructure	
Increase the Infrastructure outlay from Rs. 5.5trn to Rs. 7trn.	Will boost private sector investments in the infrastructure sector and kickstart the capex cycle
Increase the Healthcare outlay from Rs. 2.3trn to Rs. 3trn.	Will help the Healthcare sector combat the challenges of COVID and boost investments
Bring Transport and Hospitality sector under Infrastructure status	Will help them get better access to funds at low cost
Bring investment vehicle like REIT in Healthcare	Will help bring down debt and boost investments in the sector
Real Estate	
Bring the Realty sector under Infrastructure status	Will help them get better access to funds at lower cost and continue the growth phase that has started
Increase the rebate on the interest component of Home Loan from Rs. 2 lakhs to Rs. 3-4 lakhs	Will boost investments in the sector and put more money in the hands of consumers
Extend the additional interest deduction of Rs. 1.5 lakhs on affordable housing up to 45 lakhs, also enhance the limit above Rs. 45 lakhs to benefit large cities.	Will continue to benefit affordable housing segment
Bring Data centers under Infrastructure status	Will help them get better access to funds at low cost and boost investments and support data localization thrust



	Personal Consumption	
	Increase the standard deduction from Rs. 50,000 to Rs. 75,000 – 1,00,000	Will boost consumer spending
	Insurance	
	Create separate category for Life Insurance rebate (presently part of 80C)	Will boost life insurance penetration
	Increase section 80D limits from Rs. 50,000 (incl. dependents) to Rs. 75,000	Will boost health insurance penetration
	Agri and Rural economy	
	Enhance the assured income of farmers, which currently stands at Rs. 6,000	Will boost the rural economy
	Enhance MNREGA allocation from Rs. 730bn	Will boost the rural economy
	Export thrust	
	To announce more sectors under PLI	Will bring down the trade deficit further and make India an export hub
	To increase customs and import duties on key raw materials and reduce export duties on finished products	
	Taxes	
	Tax on cryptocurrencies, under business income	Will help boost revenues for the government as this is a new and rising investment avenue
	Bring down long term tax on unlisted shares from 20% to 10%, same as listed equity.	Will boost the startup ecosystem and help a larger section of investors participate
	Privatization	
	Divestment to be given high priority	Government walking the talk on privatization theme and helping manage the fiscal deficit
	Increase FDI in LIC to 20% from 10%	Will boost prospects of LIC IPO
	Increase FDI in PSU Banks to 74% from 20%	Will facilitate privatization

Conclusion

The FY23 Budget is unlikely to announce any big bang reforms, rather build on the previous budget announcements. Government is unlikely to take the foot off the pedal and continue its focus on pushing growth. The current pandemic scenario also gives it the luxury to worry less about fiscal deficit which would have otherwise attracted the ire of the Credit Ratings Agencies. *Infrastructure spending, housing boost, consumption thrust, financialization of savings, thrust on rural economy, privatization, reducing trade deficit* would be the key themes that this budget would focus on. Rural economy will see some impetus especially considering key states going into election. Divestments are likely to make a strong comeback with many big-ticket items like LIC IPO, PSU Bank privatization already in the pipeline. Tax to GDP will moderate to an extent but will be offset by higher divestments. In the light of these events, as per economists/experts, the fiscal deficit for FY23 is likely to be budgeted at 6.0-6.5% of GDP.

WHAT LED TO THE SWING IN NEW-AGE DIGITAL STOCKS IN U.S.

The tech heavy NASDAQ index has corrected ~8% from its all-time high (Nov'21) dragged down by a sell-off in new-age tech and high-growth stocks. Apart from this, the last 3 and 6 months have seen most new-age Tech platform companies' stocks tumble including stocks like Paypal, Doordash, Twilio etc. that have seen a significant correction. Stocks like Zoom have corrected back to the levels of 2nd half of March'20 (beginning of pandemic).

Companies	Mcap (\$bn)	Returns				Description
		3M	6M	12M	24M	
Alphabet	1859	2%	6%	60%	95%	Parent Co. of Google
Amazon	1677	1%	-10%	6%	75%	Internet Retail
Meta Platforms (FB)	930	3%	-4%	33%	51%	Parent co. of Facebook, WhatsApp etc.
Tencent Music	583	-4%	-15%	-20%	17%	Online music entertainment platform
Alibaba	365	-21%	-38%	-41%	-43%	Internet Retail
Netflix	240	-14%	-1%	9%	60%	Entertainment platform
Paypal	225	-25%	-36%	-20%	66%	FinTech platform
Bookings Holdings	101	0%	13%	12%	19%	Travel Services
Snowflake Inc	92	-8%	19%	3%	NA	Cloud-based data platform
NetEase	71	9%	-7%	-2%	52%	Electronic Gaming & Multimedia
Baidu	56	-5%	-14%	-35%	10%	Internet search services
Zoom	51	-34%	-51%	-51%	138%	Video communication platform
Doordash	49	-30%	-15%	-25%	NA	Foodtech Platform
Spotify	45	-4%	-7%	-32%	56%	Audio streaming services
Twilio	42	-32%	-38%	-38%	94%	Cloud communications(CPaaS)
Match Group	36	-21%	-22%	-18%	41%	Dating services like Tinder etc.
Roku	25	-44%	-55%	-55%	39%	TV streaming platform.
Zillow Group	15	-39%	-45%	-60%	25%	Online real estate marketplace
TripAdvisor	4	-19%	-19%	-16%	-5%	Travel Services
Trivago	0.8	-14%	-27%	-4%	-22%	Travel Services
Average		-15%	-18%	-15%	42%	

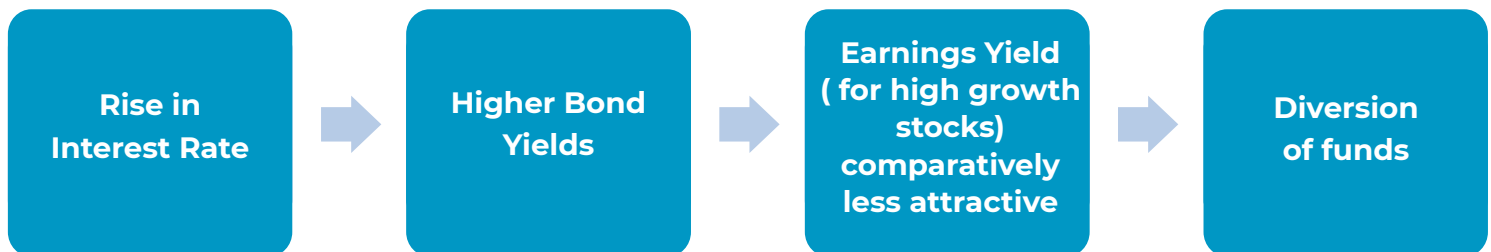
MCap as on 12th Jan 2022.

Fed signals Interest Rate hike

The Fed, in the minutes from its meeting in December, signalled tapering its bond purchases and raising rates soon after it finishes the taper in March. It also indicated getting aggressive in raising rates. The anticipation of rising interest rates has led to a rise in bond yields. Bond yields hit a 2-yr high as 10 year US Treasuries yields surged to ~1.77% in the first week of Jan.



Increasing Bond yields are considered a threat to expensive high growth stocks. High growth stocks are also considered to be richly valued (i.e high P/E ratio). As bond yields rise, the earnings yield (reverse of P/E) of the high growth stocks begins to look less attractive compared to bond yields. Generally, rising bond yields lead to a sell-off in high priced stocks due to diversion of funds from high growth stocks to safer alternatives thus driving a correction in these stocks.



Conclusion

- The prospect of faster interest rate hikes from the Federal Reserve (leading to increasing bond yields) has led to a correction in new-age digital platform companies over the past few months. However, this has been driven by a knee-jerk reaction due to sell-off in some of the unprofitable, leveraged tech companies.
- Some aberrations like China-based US-listed companies i.e Alibaba and Tencent have seen a sharper correction partially driven by the regulatory crackdown on tech firms in China in the past year. While there is limited listing history of new-age tech platform companies in India, recent listings like Paytm and CarTrade are stocks that have corrected a steep ~40-50% from their issue price.
- The rising bond yields have led to greater scrutiny on the overly valued tech stocks. However, stable tech companies with strong growth outlook are likely to not be impacted in the long run.

GLOBAL IPO 2021 ANALYSIS: MORE MISSES THAN HITS

Although 2021 was a year full of uncertainties, the **global** IPO market broke records by both IPO volume and proceeds. With 2,388 deals listed and US\$453.3bn raised, 2021 became the most active year for IPOs in the past 20 years, outpacing even the go-go days of the 1990s dot-com boom.

Global IPO activity was up 64% and 67% year-over-year (YOY) by deal numbers and proceeds, respectively.

Initial optimism on the COVID-19 vaccine rollout and rebound of global economies from their sharp declines in 2020 were among the key drivers of the exceptional IPO activity in 2021. Government stimulus programs, ample liquidity in a low interest rate environment, buoyant stock markets and low yields from alternatives such as fixed deposits fuelled the risk appetite of many and paved the way for several companies who took advantage of the open window. Technology-led, user-friendly trading platforms helped to attract new groups of retail investors.

IT, health care and industrials led sector-wise IPO activity. There were also more than double the number of unicorn IPOs in 2021 over 2020

The high year of US IPOs ends on a low

Looming behind this record-breaking run though is a darker truth. After a sell-off towards the end of the year, 1 in every 2 companies that debuted on the NASDAQ in 2021 (420 of 834), is now trading below its listing price.

Capitalizing on investors' willingness to place speculative bets, companies ranging from technology start-ups to aggregators flooded the market with offerings.

Some of those bets worked out. Those who bought into Roblox, the kids gaming app that surged in popularity during the pandemic, have almost doubled their money since it was listed in March.

But many IPOs soured. Shares of Udemy, an online learning platform are down 47% from its issue price and 53% from its high. Rivian, the Amazon-backed electric vehicle maker and the company that was valued at over \$100 billion post its largest global IPO debut in 2021, enjoyed a banger run in its initial days but corrected by over 50% in the waning days of the year.

US stocks	Issue Size (in \$Mn)	Change from issue	Correction from high
Bumble	2150	-25%	-62%
Didi Global Inc. (DIDI)	4400	-68%	-73%
Digital World Acquisition	250	459%	-41%
Freshworks	1000	-35%	-7%
GitLab	650	-5%	-47%
Oatly Group AB (OTLY)	1400	-57%	-75%
Rivian	12000	4%	-6%
Robinhood Markets Inc.	2000	42%	-81%
Roblox	520	90%	-40%
Udemy	421	-47%	-53%

Did a similar story replicate in India

Although, the US continued to play a dominant role in driving this record global IPO year, the Indian exchanges recorded one of the most notable rebounds in activity (156% year-on-year by deal numbers and 314% year-on-year by proceeds). However, a lot of these have seen some intermittent corrections lately.

Zomato and Nykaa made stellar debuts on the exchange but are now almost 23% down from their all-time highs in November. PolicyBazaar is almost 12% below its issue and as much as 41% from its high of 1470. Paytm is way below the valuations at which it went public in November. Nazara technologies, the IPO that was oversubscribed 175 times is currently trading 30% below its high. Paras defence is trading 321% above its issue price but has seen a 41% correction from its high. Similarly, Medplus is also 33% above its issue price currently but 31% lower than its high.

Staying on top of the Everest is harder than getting there

Indian Stocks	Issue Size (in Rs. Cr)	Oversubscription	Change from issue	Change from high
CarTrade	2998	20x	-49%	-49%
Latent view	600	326x	201%	-21%
Medplus	1398	52x	33%	-31%
MTAR technologies	596	200x	299%	-11%
Nazara technologies	581	175x	113%	-30%
Nykaa	5352	82x	76%	-23%
Paras defence	171	304x	321%	-41%
Paytm	18300	1.89x	-48%	-43%
PB Fintech	5625	17x	-12%	-41%
Star Health	7249	1x	-12%	-16%
Tatva chintan	500	180x	153%	-8%
Zomato	9375	38x	73%	-22%

Reasons

- Policy tightening and interest rate hike plans by global central banks and rising cases of the Omicron variant rattled investors who were already on edge.
- High valuations ahead of fundamentals is also an added cause behind the correction. This is because many investors were willing to pay top dollar to buy into these companies in private fundraising rounds in the run-up to their IPOs.
- Companies also need to address rising input costs, supply chain disruptions, labour shortages and other economic and slowdown concerns.

Investing lessons for companies getting IPOed in 2022

There are a number of IPOs lined up for 2022. Around 32 companies have already received approval from the markets regulator for raising ₹47,000 crore including the likes of Pharmeasy, IXIGO, Mobikwik, Manyavar, Ola, Snapdeal, Delhivery, Flipkart and perhaps the most anticipated, LIC. We are sure the companies will keep in mind the above factors while pricing the issue.

With new investor-friendly rules kicking in from April 2022, the IPO bazaar is likely to be fraught with action. However, one must remember to drown the noise and focus on the foundations



115 companies filed their applications under Auto PLI Scheme

Incentives will be provided under the scheme for the products and components manufactured in the country from 1st April 2022 for five consecutive years.

This scheme will facilitate the Automobile Industry to move up the value chain into higher value-added products.

LIC is likely to file draft IPO prospectus in the final week of Jan, for what could be India's biggest IPO

The government has sought to sell a 5 -10% stake in LIC fetching a valuation of Rs. 10 trillion

Authorities will review and amend rules on foreign-direct investment to make it easier to lure investors from abroad



EV Sales to touch 10 Lakh Units in India in 2022: SMEV

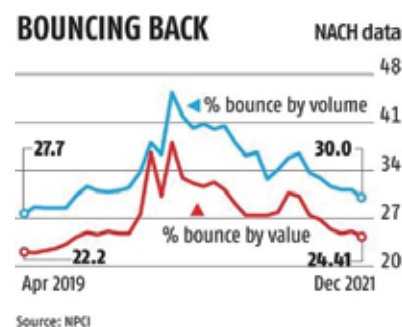
In 2021, the sales of electric two-wheelers (E2Ws) in the country jumped over two-fold at 2,33,971 units

Customers have started shifting in large numbers from petrol two-wheelers to electric ones due to attractive prices, lower running costs, and lower maintenance

Bounce rates in December 2021 fell to their lowest since the Covid-19 pandemic break-out and were even lower than pre-Covid levels

December data indicates a good third quarter for banks on asset quality front as collection efficiency improves further, a continuation of trend witnessed in Q2FY22

Bounce rates in volume and value terms were the lowest since September 2019.



India's GDP to grow at 9.2% in 2021-22, to surpass pre-Covid level, says govt data

The improvement in the economy comes over a GDP contraction of 7.3% during 2020-21.

The improvement will be mainly on account of improved performance especially in farm, mining and manufacturing sectors.

India's Services sector activity records 3-month low In Dec 21

The seasonally adjusted India Services Business Activity Index fell from 58.1 in Nov 21 to a 55.5 in Dec 21

The moderation was due to softer pace of business activity and sales while price pressures and the possibility of new waves of Covid-19 affected business sentiment



As India breaches 1 lakh-mark in daily Covid cases, restrictions brought back

States across the country have tightened restrictions amidst rising Omicron cases.

Most states like Maharashtra, West Bengal, Tamil Nadu, Uttar Pradesh, Karnataka have allowed restaurants, theatres, spas, gyms etc. to function at ~50% capacity

Delhi imposed stricter restrictions with weekend curfews, closure of private offices as well as shutting dine-in facilities shut (takeaways only).



India considering easing curbs on some Chinese investments after proposals worth \$6bn were stuck in red tape

Currently, the government scrutinizes all investment proposals bordering countries or have an investor from one of these nations

The government is considering exempting proposals where the so-called beneficial ownership is less than 10%

As of Nov. 2021, over 100 proposals are awaiting clearance from the government, with around a quarter of them of over \$10 million each.

Global News

Sri Lanka might be pushed into bankruptcy this year rising financial and humanitarian crisis

Sri Lanka's foreign debt has been increasing since 2014, reaching 42.6% of GDP in 2019.

The government and private sector of Sri Lanka will have to repay an estimated USD 7.3 billion in domestic and foreign loans over the next 12 months



Evergrande ordered to demolish 39 buildings on island mega resort it is developing on artificial islands on China's southern coast.

Evergrande asked the Hong Kong stock exchange to suspend trading in its shares pending confirmation of the demolition order

The demolition notice pertained only to 39 buildings on the Island and does not involve other plots of land of the Ocean Flower Island project.

Omicron may be headed for a rapid drop in US and Britain

Covid-19's alarming omicron wave may have peaked in Britain and is about to do the same in the US, at which point cases may start dropping off dramatically

The United States shattered the global record of daily coronavirus disease with a million cases last week

The experts warn that there's still much uncertainty over the course of the pandemic.





THANK YOU

We would love to hear from you...

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