



Insights on India

May, 2021

India is going through a massive transformation – from being a bureaucracy driven economy to an entrepreneur driven economy; from being an imitation driven economy to an innovation driven economy; and, from an economy where private enterprises were perceived as a burden to where they now enable and energize the growth of India. While the change is unmistakable, it is still in its infancy. Many of the above factors will play out over many years, if not decades.

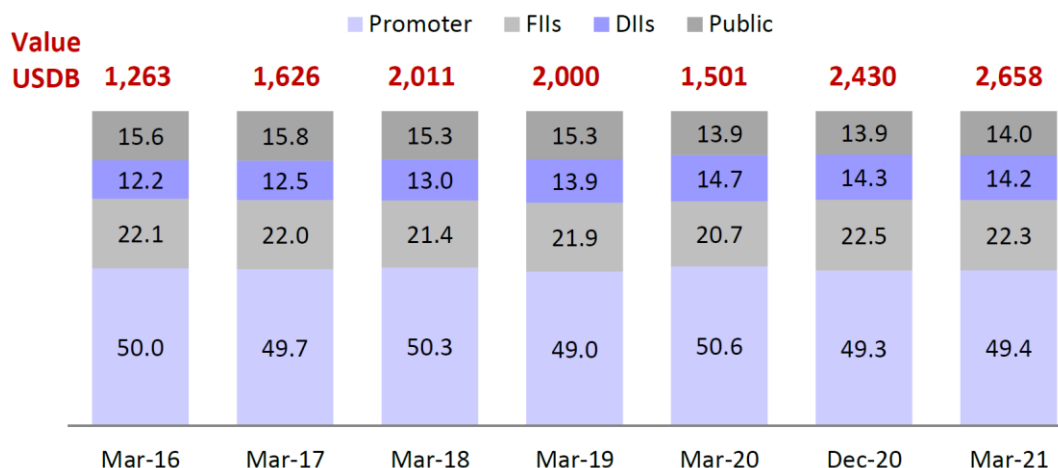
We recently launched DoorDarshi India Fund (DIF) to take advantage of the many opportunities in the Indian ecosystem. The fund focuses on the opportunities in the public listed space of Indian equity. DoorDarshi India Fund is domiciled in Delaware, US and is registered as an FPI (Foreign Portfolio Investor) into India. Through the fund, foreign investors can partake in the opportunities in India.

While the fund is a great way to leverage the opportunities in Indian equities, we want to do more. Through this newsletter we hope readers will become familiar with the Indian ecosystem. We also hope to create a feedback loop with our readers. They will help us recognize additional aspects that we will inevitably miss. May the learning begin!

Ownership of Indian companies

In this newsletter we provide an overview of the key players in the Indian stock market. Nifty 500 companies reflect the top 500 companies in India that are listed on NSE stock exchange. As Exhibit 1 of Nifty 500 companies demonstrates, Promoters of companies hold the biggest holding followed by FII (Foreign Institutional Investors), DII (Domestic Institutional Investors) and then Retail public.

Exhibit 1: Nifty-500 holding pattern (%)



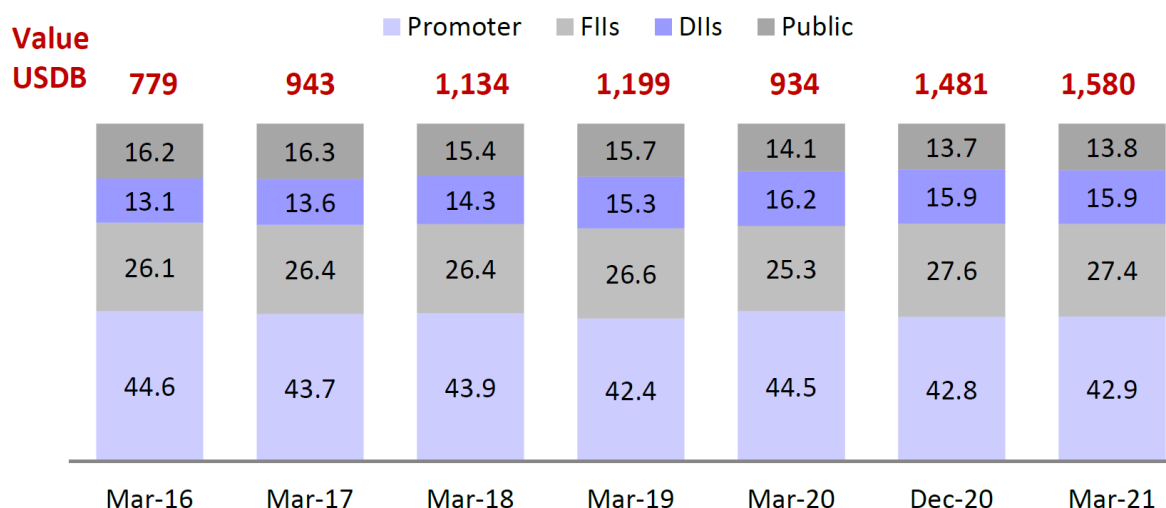


In terms of influence, however, FII has the biggest impact on the market. This is because promoters infrequently buy and sell their shares of the company. FIIs, on the other hand, have no such constraints. In addition, FIIs are driven by the inflows and outflows of their investors in their corresponding fund. Hence, during extremes of the market (both risk-on and risk-off) they tend to accentuate the moves.

DII's are the next most influential player. DIIs refer to institutions registered in India who are either managing other people's money or insurance companies. Domestic fund companies have the same dynamic as that of FIIs. Insurance companies, on the other hand, provide a stable long-term source of capital.

As shown in Exhibit 2, FIIs tend to have a higher influence in Nifty 50 (index which contains the 50 largest listed companies of India). Lower ownership by Promoter in these companies is compensated by higher ownership by FIIs.

Exhibit 2: Nifty-50 holding pattern (%)



Sharp observers would have noted a few additional facts from both the exhibits above:

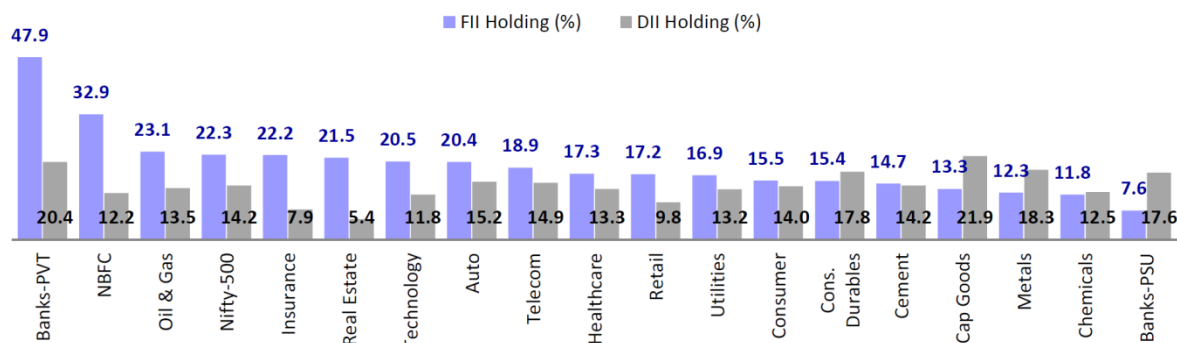
- Market capitalization of top 500 listed companies of India is \$2,658 Billion as of March end, 2021. This is up from \$1,263 Billion as of March end, 2016. Hence the 500 companies' index has more than doubled in the last 5 years in \$ terms.
- Market capitalization of top 50 listed companies of India is \$1,580 Billion as of March end, 2021. Thus 60% of the market capitalization of the top 500 companies is accounted for by the top 50 companies. Hence, the remaining 450 companies account for only 40% of the market capitalization of the top 500 companies. Given the highly skewed nature of the Indian equity (where only a few companies account for a big proportion of the market cap), it provides interesting opportunities for fund managers like us. We can look at companies which are under the radar of many big fund managers.



- Promoters have a significant skin in the game. This can be seen by the high ownership that promoters have in the top 500 companies. However, if you remove the top 50 companies, the promoter shares goes above 50%. Hence, promoters are in the same shoes as that of an investor. As a fund manager we need to ensure that promoters are trustworthy, ethical and will act in the best interests of the minority investors.

Next let us look at some of the sectors that the institutional investors (both FIIs and DIIs) focus on. Exhibit 3 shows the comparison.

Exhibit 3 : Sectoral FII/DII holdings in Nifty-500



Multiple things stand out from exhibit 3 and exhibit 4:

- FIIs are very bullish on Indian private banks and NBFC (Non-Banking Finance Corporation). Their ownership of companies in the finance sector is much higher than the average holding in the Nifty 500. They also have much lower ownership of PSU (Public Sector Unit) banks.
- More than 35% of the total investment of FIIs in Indian equities is focused on private banks and NBFCs (exhibit 4).
- DIIs on the other hand are more balanced in their preference of PSU (Public Sector Unit) Banks, Private Banks and NBFCs.
- Exhibit 4 also demonstrates the many sectors of Indian economy that don't find favour with FIIs.

Exhibit 4

FII sectoral allocations within Nifty-500 (%)

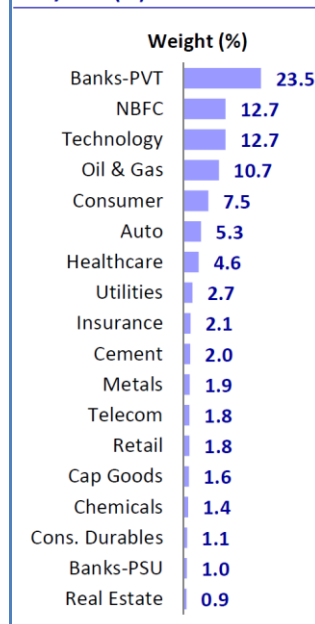




Exhibit 5

Top 5 stocks in institutional portfolio

% OF FPIs' PORTFOLIO

HDFC Bank	9.7	
RIL	8.7	
HDFC	7.6	
Infosys	6.7	
ICICI Bank	5.5	

% OF MFs' PORTFOLIO

HDFC Bank	6.6	
ICICI Bank	6.3	
Infosys	5.9	
RIL	4.4	
SBI	3.1	

% OF BFIs' PORTFOLIO

RIL	7.6	
ITC	6.4	
TCS	5.6	
Infosys	5.4	
ICICI Bank	4.0	

Source: Prime Database, Bloomberg, BSE, NSE, Kotak Institutional Equities

Lastly, Indian equity markets witness extreme concentration of ownership by institutional investors:

- Exhibit 5 on the left lays out the top 5 stocks of institutional investors as a group. It is interesting that 3 stocks are common across all of them.
- Top 40 stocks account for 75% of equity portfolio of FPIs in India. Same number for BFI (Banks and Financial Institutions) is 74% and for MF (Mutual Funds) is 67%.

This extreme concentration in stocks stems from the fact that Indian equity markets are highly skewed. As we saw earlier, top 50 stocks accounted for 60% of the total market cap of the top 500 companies.

This sort of concentration is precisely why we think that the Indian stock market is a stock picker's market for fund manager like us. There are many stocks beyond the top 100 stocks that many of the big institutions are unable to own because of their

liquidity requirements. Hence, many of these "illiquid" stocks become mispriced from time to time creating interesting opportunities for our fund.

Performance of Indian Economy

We recently came across an exhibit which neatly summarized some of the key barometers of the Indian economy. A few things stand out from exhibit 6:

- The month of April and May, 2020 were the worst months for Indian economy. That is not a surprise since the whole economy was in a lockdown.
- Hence, the demand for work provided through MGNRES (unemployment scheme) jumped in May and June, 2020. Those two months had the highest hours of work as the unemployment rate shot up in the economy.
- Vehicle registration and sales have continued at a good pace in Q3 (Oct-Dec) and Q4 (Jan-Mar) of FY 21. However, they have come down in April as lockdowns are again becoming prevalent in India.
- GST (Indirect tax) collection was the highest in April, 2021. This is surprising until we realize that GST is a lagging indicator. It reflects business that was done in March when the economy was humming.



- Lastly, both manufacturing and service PMI index continue to show strength. Since PMI is a forward looking measure, one hopes that economy continues to show the resilience that it has shown in FY 21. Stock market definitely seems to be indicating the same as well.

Exhibit 6

Indicators	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
GST collections (Rs trillion)	1.1	1.1	1.0	0.3	0.6	0.9	0.9	0.9	1.0	1.1	1.0	1.2	1.2	1.1	1.2	1.4
E-way bills generated (million)	57	57	41	9	25	43	48	49	57	64	58	64	63	64	71	59
Exports (USD bn)	26	28	21	10	19	22	24	23	28	25	24	27	28	28	34	30
Non-POL Exports (USD bn)	23	24	19	9	17	20	22	21	24	23	22	25	25	25	31	27
Non-Oil Imports (USD bn)	28	27	21	12	19	16	23	25	25	28	27	33	33	32	38	35
Manufacturing PMI	55	55	52	27	31	47	46	52	57	59	56	56	58	58	55	56
Services PMI	56	58	49	5	13	34	34	42	50	54	54	52	53	55	55	54
Vehicle registrations (million)	1.8	1.7	2.3	0.4	0.2	1.0	1.2	1.2	1.4	1.5	1.9	1.9	1.6	1.5	1.7	1.2
Work provided MGNRES-HHs ('000)	16	19	16	11	33	39	28	20	20	20	18	21	21	23	20	16
Work provided MGNRES-Person days ('000)	231	268	183	142	569	641	391	260	264	263	236	285	278	308	256	200
Consumer Sentiment Index	107	105	97	46	42	43	43	47	46	52	52	53	54	55	57	54
Unemployment Rate	7.2	7.8	8.8	23.5	21.7	10.2	7.4	8.4	6.7	7.0	6.5	9.1	6.5	6.9	6.5	8.0
Passenger Vehicle Sales ('000 units)	155	149	81	0	14	55	103	125	164	183	150	147	153	155	157	141
Two-wheeler sales ('0000 units)	134	129	87	0	28	101	128	156	185	205	160	113	143	143	150	100
Three-wheeler sales ('000 units)	61	41	28	0	2	10	13	15	19	26	24	22	26	27	32	14
Multi utility vehicle sales ('000 units)	81	79	48	0	17	46	71	82	97	114	104	95	111	114	122	109

Source: CMIE, Vahan registration

A Milestone

Indian stock markets achieved a milestone this month when the market value of all the companies listed on the Indian stock exchange was valued at \$3 Trillion.

For an economy which is shy of \$3 Trillion, this milestone was only a matter of time. Every successive \$Trillion has come at a faster pace than the previous one. Let us see how long it takes to get the next \$Trillion!

Exhibit 7

THE BIG BOYS

India has joined the likes of the UK, France, and Canada in the \$3-trillion club

	M-cap (\$ trillion)	YTD chge (%)	Share* (%)
US	47.5	11.4	42.1
China	11.4	4.1	10.1
Hong Kong	7.0	7.4	6.2
Japan	6.7	-0.9	6.0
UK	3.7	12.8	3.3
France	3.3	12.9	2.9
Canada	3.1	20.7	2.8
India	3.0	16.7	2.7
Germany	2.8	12.4	2.5
World	112.8	9.3	100.0

Note: *Contribution to world mcap; Source: Bloomberg



Concluding Thoughts

We hope this first letter gives you an overview of the Indian equity markets and the key players in this market. Despite the pandemic and the corresponding lockdowns, the Indian economy has shown resilience and the Indian stock markets seem to be reflecting that.

We will continue to explore various aspects of the Indian ecosystem in the future newsletter. Feel free to write to us at contact@doordarshiadvisors.com and let us know your comments and ideas.

With best wishes,

Rajeev Agrawal

Fund Manager & Managing Partner

DoorDarshi India Fund