The Bottom Line... PLUTUS ALPHA

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Wealth Management with a Conscience

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Our markets are currently like – no water anywhere, but lot of water to drink. On the one hand, so many companies and large business groups are floundering, but on the other hand, several businesses are flourishing and generating profits like never before. These businesses have rewarded investors handsomely over the last twelve months. If we look at the broader Nifty500, the index itself has returned 7.73% over the last year, but the best performing 100 companies in the Nifty500 have returned an average of 50.1% during the same period In fact, even the next 50 companies have returned an average of 18.31% in the same period. On the contrary, the worst performing 100 companies in the Nifty500 have destroyed shareholder wealth by a massive 44.73% in just one year. So, if you are a shareholder in a business which is well governed, with solid fundamentals and strong financials, this is the best time to remain invested into equities.

As we had anticipated, GDP growth has come crashing down to 4.5% for Q2. This gives the RBI enough room to cut rates aggressively. The base case for a cut of 25 bps is baked in, but there is a clamour for deeper cuts. The question really is about transmission and liquidity, or if w e put it simply, price and quantity. For the average borrower, price of borrowing is still very high; and over the last year availability has reduced dramatically. This has impacted everything, including consumption, industrial growth and employment. Some green shoots are visible, viz. the resolution of the NCLT impasse giving the Committee of Creditors seniority, inclusion of financial services in the NCLT mechanism, superseding the board of Dewan Housing and by RBI so on. We must remember that since August, the government has been trying to improve conditions for the economy. We believe that for the economy to recover, financing activity has to recover. At some point within the next year, these moves will improve the price and quantity problem. Now we have to see if the borrower comes back when these problems are addressed.

Our scepticism stems from changing preferences and its impact on the economy. There is a popular comparison which shows the daily cost of owning a car and using Uber. It is telling how younger generations are more interested in experience, rather than ownership. On the one hand, MG Hector has sold more cars in India than they could produce, while Maruti is still facing stagnant or declining sales. This has profound implications on what the recovery will look like. At this point, assuming that the new normal will be like the old normal, is a fallacy. This line of thought leads one to wonder if cycles will become even shorter and sharper.

On the face of it, markets look extremely perplexing. But if you dig deeper, you realise that the markets have recognised that there are fundamental changes in the way business is being done in India. Quality of governance, healthy financials and simple business models are being rewarded handsomely. In the case of Nippon AMC, we have seen how the same business gets valued differently when ownership changes. We have seen the markets punish so many companies where corporate governance was found wanting. This trend has picked pace and will define Indian markets over the next few years.

In global news, the S&P continues to hold record high levels. This is largely due to the improvement in US consumer sentiment, lower taxes and surplus liquidity. Markets seem vary of the outcome of the USA-China deal and react quickly to any news thereof. In UK, there is a new election in December which will determine the fate of Brexit; however fatigue has set into UK based companies, who seem to have decided to take it as it comes. China continues to face unrest in Hong Kong, where the US has come out in support of the agitators. This space needs to be watched carefully for any conflagration in the US-China situation.

If we look at the composition of the Nifty, the top 15 companies make up 72% of the index by weight. Most of these companies, with the sole exception of ITC, are trading at or near their 52 week high and in many cases their all-time highs. This is one of the reasons that drive the Nifty higher; while the rest of the market does not perform comparably. However, earnings growth has not kept pace with lofty valuations in many cases. Currently, Nifty and several of the performers are trading at a premium to their longer term average price to earnings ratio. This raises the chances of a reversal to mean valuations.

Our strategy of selling options had a good month in November. We took our positions on 13th November, with just half month remaining. After the rally in October, the Nifty had consolidated around 11,900 and we saw the opportunity to sell calls at 12,200 and purchased cover at 12, 400. We also sold puts at 11,400 with cover at 11,200. The total income collected was ₹ 64.11 Lacs against a margin of ₹ 100 Crs worth of securities, and would be on the money as long as Nifty remained between 11,371 and 12,229. During the month, we got an opportunity to close our put positions on 21st November, which we exercised. On 28th November, we also closed our call position and booked income of ₹ 58.58 Lacs for the month. The Nifty finally closed at 12,151, which was also within our target range. Thus, we generated income of ₹ 58.58 lacs in November. Our strategy has generated income of ₹ 6.19 Crs cumulatively since September 2018 on a margin of ₹ 100 Crs worth of securities.

We have seen record inflows by foreign investors in India in this month. This follows a global risk on sentiment, as more money has gone into all emerging markets. However what fascinates us is the appetite of foreign investors to take single large size bets on Indian companies. In the last few months, we have seen FIIs pick up more than $ 500 Million worth of shares each in Zee, SBI Life and ICICI Bank in a single day What better testament to the commitment of foreign investors to India. We can safely say that quality Indian businesses which are consumer facing will continue to attract foreign capital, even at elevated valuations.

As we go into December, we look forward to the RBI policy in the first week followed by the OPEC and OPEC+ meetings on production cuts. Additionally, there are several global events that are lined up – UK elections, Trump impeachment progress, USA-China deal and so on. If RBI does cut rates further and transmission improves, low interest rates could give fuel to this rally. These are important events which could shape the market movement in December.

Plutus Alpha Performance Update

Month	Trade Date	NIFTY Level	Recommended Position	Total Premia Collected (₹ Lacs)	NIFTY Closing	Net Income for Month ₹ Lacs	Cumulative Income (₹ Lacs)
November 2019	13 November	11,891	Sold Puts at 11,400 and bought Puts at 11,200;	64.11	12,151	58.58	677.36
			Sold Calls at 12,200 and bought calls at 12,400				
October 2019	14 October	11375	Sold Puts at 10,700 and bought Puts at 10,500;	47.48	11,877	24.23	618.78
			Sold Calls at 11,900 and bought calls at 12,100				
September 2019	3 September	11,023	Sold Puts at 10,400 and bought Puts at 10,200	33.13	11,571	52.30	594.55
	20 September	11,200	Sold Puts at 10,800 and bought Puts at 10,600	20.92			
August 2019	13 August	11,110	Sold Puts at 10,600 and bought Puts at 10,400;	70.68	10,948	70.68	542.25
			Sold Calls at 11,500 and bought calls at 11,700				
July 2019	16 July	11,626	Sold Puts at 11,300 and bought Puts at 11,100;	29.18	11,252	(-) 2.30	471.57
			Sold Calls at 11,900 and bought calls at 12,100				
June 2019	7 June	11,844	Sold Calls at 12,300 and bought calls at 12,500	27.68	11,842	27.68	473.87
May 2019	No recommendations						446.19
April 2019	9 April	10,605	Sold Calls at 12,000 and bought calls at 12,200	40.46	11,642	40.46	446.19
March 2019	13 March	11,342	Sold Puts at 10,900 and bought Puts at 10,700;	43.21	11,570	43.21	405.73
			Sold Calls at 11,700 and bought calls at 11,900				
February 2019	1 February	10,894	Sold Calls at 11,300 and bought calls at 11,500	41.85	10,793	81.72	362.52
	15 February	10,746	Sold Puts at 10,400 and bought Puts at 10,200	39.87			
January 2019	17January	10,891	Sold Puts at 10,500 and bought Puts at 10,300;	60.91	10,831	60.91	280.80
			Sold Calls at 11,200 and bought calls at 11,400				

Calendar Year Returns	2018 (4 months)	YTD 2019
Total Return	₹ 219.89 Lacs	₹457.47 Lacs

Notes:

- This strategy commenced in September 2018. Details of transactions prior to January 2019 available upon request
- All options are sold for expiry of the said month with NIFTY50 Index as the underlying.
- This portfolio is based on a model portfolio of ₹100 Cr of shares given as margin.
- The entire premia collected is credited into the account of the investor
- There is no pledge or encumbrance on the securities that are used as margin

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