FAITH & *PATIENCE*

January 31, 2022

For the month ended January 31, 2022, Nifty 50 index closed flat or 0.08% down previous month's close. Small caps hugely underperformed large and mid-caps. NSE Midcap 100 index was down 0.55% and NSE Small cap 100 index was down 1.53% over the previous month. Within sectors, auto, banks, media and oil & gas outperformed Nifty 50 index whereas technology (IT), consumer durables, metals, and pharma underperformed.

Index Name	Jan-22		
	31-Dec-21	31-Jan-22	M-o-M Change
NIFTY 50	17354.05	17339.85	-0.08%
NIFTY Midcap 100	30442.9	30273.95	-0.55%
NIFTY Smallcap 100	11289	11116.45	-1.53%
NIFTY Auto	10936.9	11703.5	7.01%
NIFTY Bank	35481.7	37975.35	7.03%
NIFTY Financial Services	17330.85	17836.25	2.92%
NIFTY FMCG	37579.95	36467.25	-2.96%
NIFTY IT	38701	34824.55	-10.02%
NIFTY Media	2218.8	2235.35	0.75%
NIFTY Metal	5521.75	5473.45	-0.87%
NIFTY Pharma	14223	13179.9	-7.33%
NIFTY Private Bank	18041.85	19037.15	5.52%
NIFTY PSU Bank	2530.4	2982.25	17.86%
NIFTY Realty	484.15	480.25	-0.81%
NIFTY Consumer Durables	29138.95	27498.1	-5.63%
NIFTY Oil & Gas	7348.8	7754.6	5.52%
NIFTY Healthcare Index	8968.7	8233.55	-8.20%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net sellers in January 2022 at USD4.46bn whereas domestic funds were net buyers at USD2.93bn. Foreign funds have been incessant sellers of Indian equities for last 4 months in a row. Total selling by foreign funds in the last four months alone stands at USD9.57bn.

Fig: Fund flows

(USD mn)	MTD
Foreign Funds (Cash)	-4,460
Domestic Funds (Cash)	2,936
Foreign Funds (Debt)	698

Source: Axis Capital

Union Finance Budget 2022 was presented today, February 1, 2022 by India's Finance Minister Ms. Nirmala Sitharaman.

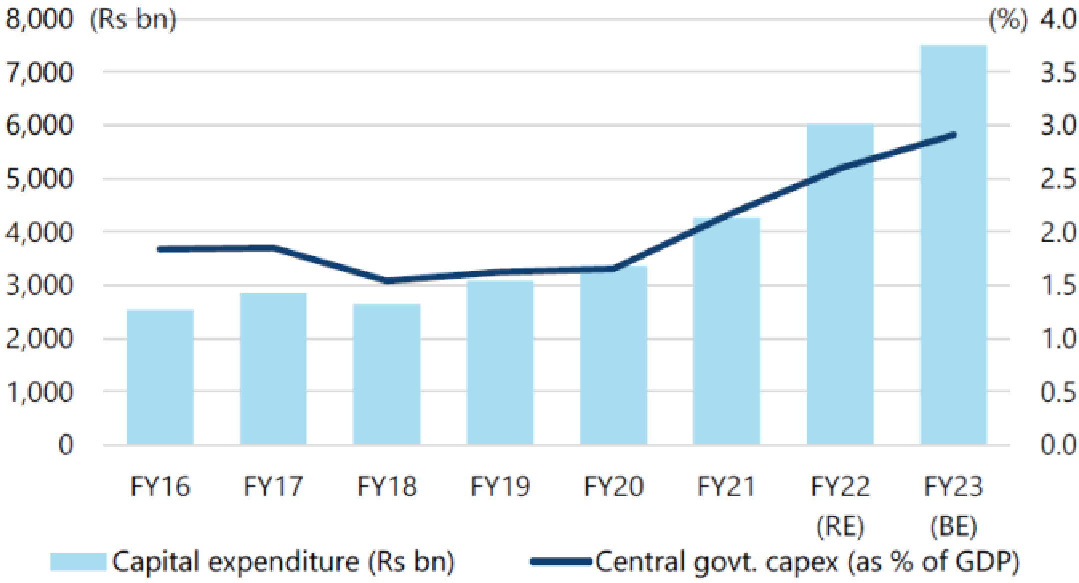
From market's perspective, the two main expectations were 1) no hike in taxes and 2) 18-20% capital expenditure growth.

On January 31, 2022, the Ministry of Finance, presented the Economic Survey of India. This document in a way set the tone on the Government's intent. The Economic Survey advance estimates showed that economic growth remains strong at 9.2% in 2021-2022. Separately, IMF projections also points to 9% GDP growth in 2021 and again in 2022, making India the fastest growing economy in the world. With such strong growth and tax buoyancy, the Govt. seems to have decided, unequivocally, to push growth further with the sole focus on the needs of the country over the next 25 years.

The announcements in this budget and analyse their impact:

1. Capital expenditure growth was expanded by 35.4% to Rs 7.50 lakh crore (Rs 7.5trillion) in FY 23 versus Rs 5.54 lakh crore (Rs 5.5trillion) in FY22. FY22 capex figures show a growth of 30% over FY21, which in turn is 27% higher than FY20 capex. This shows sustained focus or preference on investment led growth over consumption led growth, the basic difference over the previous approaches, including those of developed economies.

Fig: Trend in Central Government capital expenditure



Post global financial crisis 2008, global central banks, including India's, had got together and had given an economic stimulus which inspired consumption led V shaped economic recovery. However, it was not sustainable, at least not in India, and what followed was a period of high inflation.

This time around too, as a response to the Covid pandemic, globally economic stimulus was announced which was again meant to boost consumption led economic revival. The only difference this time was, India moved away as it had learnt from the previous experience. India decided to take the more painful or arduous part of investment led economic revival. This choice meant that unlike other global economies, India's recovery would be delayed and presented serious challenges as regards meeting expectations. While this was being done, the weaker and vulnerable sections of the society were ring-fenced including ensuring food grains were delivered to individuals and emergency credit line guaranteed to MSMEs.

What we are witnessing right now are the benefits of this approach taken keeping long term interest of the country in mind.

2. ECLGS (Emergency Credit Line Guarantee Scheme) has been expanded by Rs. 50,000cr to Rs. 5 lakh crore (Rs. 5trillion) and extended till (Rs 500bn) March 2023. This has been done keeping in mind the fact that hospitality sector is still 8.5% below pre-Covid levels, and that MSMEs in general need support. The effort clearly is to take care of the vulnerable and marginal players.

3. Fiscal deficit for FY22 marginally up from 6.8% to 6.9% and estimated at 6.4% in FY23. This again shows Government's focus on investment led growth, conservatism and realism. In a way, Govt. is being mindful that we are not fully out of Covid, plus global geopolitical challenges have emerged and globally rate hikes cycle is about to start.

4. Throughout this budget, emphasis on further building infrastructure, urban mass transport, clean energy, digital economy, environment, highways, affordable housing, clean water, electric vehicles, battery swapping, e-vidya "One Class, One TV Channel", digital rupee… to name a few. This document has set the stage for making India a globally competitive and an advanced country.

While taxes slabs and rates were left unchanged, what needs to be appreciated is the benefit that will accrue in terms of employment generation and, in turn, on consumption due to Govt's focus on investment led growth. Not only will the measures in this budget generate employment through infra build-up but will result in efficiency gains, in rise in real wages thereby driving consumption… a virtuous, sustainable, structural cycle of real growth.

Fig: Capital expenditure breakup

Rs bn	FY21A	FY22RE	FY23BE	% YoY FY22	% YoY FY23
As reported numbers					
Govt. capex	4,263	6,027	7,502	41	24
PSU capex	4,776	5,025	4,695	5	-7
Total capex	**9,040**	**11,052**	**12,197**	**22**	**10**
Relevant capex					
Govt. (adj. for Air India transfer)	4,263	5,507	7,502	29	36
PSE's (adj. for Food corp.)	4,200	4,135	3,820	-2	-8
Total capex	**8,463**	**9,642**	**11,322**	**14**	**17**
Ministry-wise capex trends (govt + PSE)					
Roads	1,542	1,863	1,877	21	1
Railways	2,346	2,148	2,456	-8	14
Defence	1,413	1,481	1,633	5	10
Housing & Urban	292	382	452	31	18
Transfer to states	196	208	1,119	6	nm
Others	2,675	3,561	3,785	33	6
Total capex	**8,463**	**9,642**	**11,322**	**14**	**17**

Our view:

FY2021 saw the central government's fiscal deficit rise to 9.2% of GDP due to pandemic related expenses and emergency measures. A lot has changed since then, particularly in FY2022. Nearly 1.67bn indigenously manufactured vaccine doses have been administered covering over 75% of the addressable population.

Economy has revived strongly, tax collections - corporate, individual, and GST, have surprised positively. GST collections were at Rs.1.40trillion in the month of January 2022 and have crossed the Rs.1.30trillion mark for the fourth time. FY2023 is also expected to see some reduction in pandemic related expenses which should support in reducing the projected fiscal deficit. While divestments have been lower for three years in a row and expected to pick up as the groundwork for their launch would be ready but the most difficult privatisation - Air India, has been successfully completed and handed over to the new owners, the Tata Group.

With tax buoyancy, strong economic growth, strong corporate balance sheets, abundant global liquidity, government's focus on infrastructure, digital economy, boosting manufacturing sector, providing production linked incentives to 14 sectors including semiconductor fab, are some of the positives which we believe will have a big positive impact on creating jobs which in turn will boost consumption.

Given this view, at the model portfolio level, we have positioned ourselves to capture the opportunities emerging due to various reforms and initiatives taken by Government including defence, infrastructure, China plus 1 and expected credit growth (private banks).

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