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EquiPoise

March 31, 2022

For the month ended March 31, 2022, Nifty 50 index closed 4% up over previous month's close. Midcaps and smallcaps outperformed large caps. NSE Midcap 100 index was up 5.25% and NSE Smallcap 100 index was up 6% over the previous month. Within sectors energy, metals, media and information technology outperformed Nifty 50 whereas banks, consumer durables and autos underperformed.

Index	M-o-M Change %
NIFTY 50	4.00
NIFTY Midcap 100	5.25
NIFTY Smallcap 100	6.07
NIFTY Auto	-2.46
NIFTY Bank	0.46
NIFTY Financial Services	1.26
NIFTY FMCG	2.17
NIFTY IT	7.30
NIFTY Media	18.49
NIFTY Metal	9.41
NIFTY Pharma	5.08
NIFTY Private Bank	0.12
NIFTY PSU Bank	2.18
NIFTY Realty	6.22
NIFTY Financial Services 25/50	2.03
NIFTY Consumer Durables	-2.21
NIFTY Oil & Gas	8.46
NIFTY Healthcare Index	4.55
NIFTY Financial Services Ex-Bank	3.06

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net sellers in March 2022 whereas domestic funds were net buyers. Foreign funds have been huge sellers of Indian equities since September 2021.

Fig: Fund flows

(USD mn)	Curr	MTD	CYTD
FII - Cash	-23	-5,152	-11,226
DII - Cash	160	5,044	26,160
FII - Debt	-90	-658	-1,994

Source: Axis Capital, NSDL

Here it is important to highlight that the foreign fund selling in Indian equities is unprecedented since the global financial crisis with US$36bn of sales in last 12 months compared with US$28bn during 2008. Aggregate foreign fund equity assets stood at Rs.45.5 trillion as of end-February 2022, that is 18% holding of aggregate listed Indian equities (Rs.252 trillion) which is a fall of 200bps over March 2021. However, foreign fund selling appears to be lower in mid- and small-cap universe stocks. Within sectors, bulk of the foreign fund selling over the past 12 months has been concentrated around banks, information technology, non-banking finance companies and industrials.

While foreign funds have been relentless sellers, domestic investors have been consistently buying. Systematic Investment Plans monthly run rate in excess of Rs.110bn now and even account holders in mutual funds have gone up from 40mn in December 2014 to 126mn in February 2022. Apart from domestic inflows, another factor which is reducing the impact of foreign fund selling in equities, is rising share of FDI with an annual run-rate of US$40bn-50bn.

There were quite a few strong positive data points as far as the Indian economy is concerned. GST collections hit an all-time high of Rs.1.42trillion. Indian railways freight loads touched 1418mt during FY2022, a jump of 15% YoY.

Financial health of Indian companies improved significantly in nearly a decade. The industry credit ratio (upgrades versus downgrades) surged 172 basis points YoY as most borrowers restrained expenses and sweated their assets to lighten up their balance sheets throughout the pandemic.

But the most important or “watershed” moment was India and Australia signing Economic Cooperation and Trade Agreement (ECTA) that seeks to double bilateral trade in next five years. This is the first of its kind trade agreement by India with a developed country. With ECTA, immediately 96.4% of India’s exports to Australia and 85% of Australia’s exports with now attract NIL duty. Textiles, leather, furniture, sports goods, and jewellery will attract NIL duty immediately.

Our view:

Currently in India, we are witnessing consistent buying by domestic investors in the face of unprecedented selling by foreign funds despite covid pandemic and Russia-Ukraine conflict. We believe this is a positive and ushers the structural deepening of domestic savings into equities in India. Such behavior of aggressive buying during declining stock prices by domestic investors should result in improved long-term outcomes for their portfolios vs buying in a high-optimism phase of the market, and thereby setting off a virtuous cycle.

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The rise in credit ratings of Indian companies and GST collections indicate economic recovery is gaining pace in India. We believe, Indian banks should benefit from upcoming cycle of improving credit growth, higher interest rates and stable asset quality, as balance sheets of most of the banks are stronger than pre-Covid period in terms of capital levels, provision cushion and liability mix.

We believe that due to higher crude prices, consequent higher inflation and bond yields, and Ukraine crisis, volatility will remain elevated. Revenue, earnings and growth expectations of the companies in the model portfolio remains unchanged as of now.

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