FAITH & *PATIENCE*

April 30, 2022

For the month ended April 29, 2022, Nifty 50 index closed 2% lower over previous month's close. Midcaps outperformed large caps and small caps. NSE Midcap 100 index was up 0.63% and NSE Smallcap 100 index was down 1.72% over the previous month. Within sectors oil & gas, auto, consumer durables outperformed Nifty 50 whereas information technology, real estate and financial services underperformed.

Sr. No.	Index Name	M-o-M Change
1	NIFTY 50	-2.07%
2	NIFTY Midcap 100	0.63%
3	NIFTY Smallcap 100	-1.72%
4	NIFTY Auto	4.98%
5	NIFTY Bank	-0.78%
6	NIFTY Financial Services	-2.98%
7	NIFTY FMCG	5.28%
8	NIFTY IT	-12.93%
9	NIFTY Media	-9.66%
10	NIFTY Metal	-1.50%
11	NIFTY Pharma	-0.89%
12	NIFTY Private Bank	-0.51%
13	NIFTY PSU Bank	1.21%
14	NIFTY Realty	-4.27%
15	NIFTY Consumer Durables	1.40%
16	NIFTY Oil & Gas	4.18%
17	NIFTY Healthcare Index	-0.71%

Source: National Stock Exchange of India

For seventh month in a row, foreign funds (FIIs/FPIs) were net sellers in April 2022 at USD4bn whereas domestic funds remained net buyers at USD3bn.

Fig: Fund flows

Flows (USD b)	2-May	MTD	CY21
FIIs	-0.24	-4.06	-17.34
DIIs	0.25	3.36	14.90

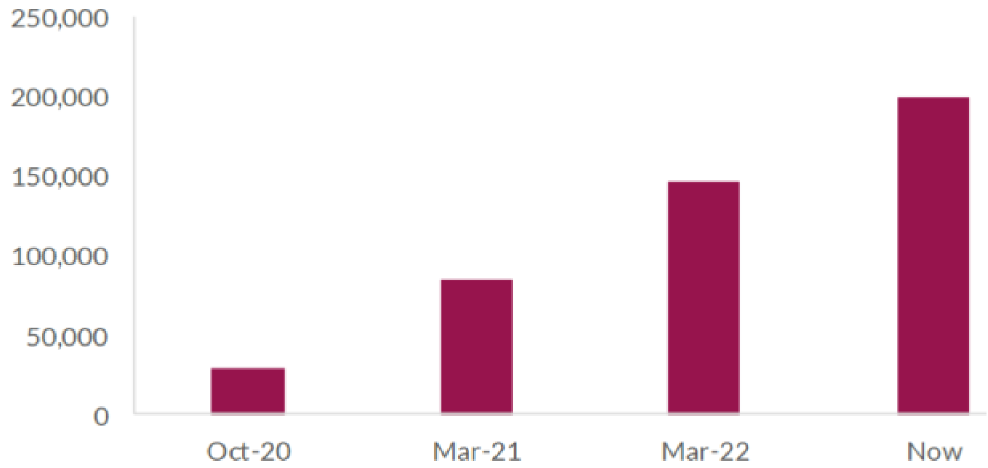
Source: Motilal Oswal

Relentless selling by foreign funds has also resulted in narrow markets (Nifty 50) underperforming the broad markets (Nifty Midcap 100). Amongst the various sectors, <u>selling</u>

<u>in banking and financial services for the fifth consecutive quarter</u>, which is also the largest weight in the Nifty 50 index, has exacerbated its underperformance. Banking, Financial Services and Insurance's (Private Banks, NBFCs, Insurance, and PSU Banks) underperformance has continued to reflect in foreign fund allocation - down to 34.2% (at a multi-quarter low) from 40.1%. This is even though credit growth in India has now touched a 31-month high of 10.24%. Credit to retail borrowers remains significant growth driver and bankers are now witnessing green shoots from corporate borrowers as well.

GST collection in April touched an all-time high of over INR1.68trillion. It is for the first time that gross GST collection has crossed INR1.50trillion mark. Apart from pickup in economic activity, increasing compliance and stricter enforcement through various measures have led to higher buoyancy in GST collections over the last few months and we believe that is likely to continue. Usage of technology and analytics, by the Government, has also resulted in significantly improving tax compliance. A few things worth noting here are - 1) April 20, 2022, saw highest ever single day collection of INR578bn through nearly 1mn transactions and 2) the growth is across most states of India with Maharashtra, Karnataka, Gujarat, Uttar Pradesh and Haryana leading and the north eastern state of Arunachal Pradesh showing highest growth in percent terms.

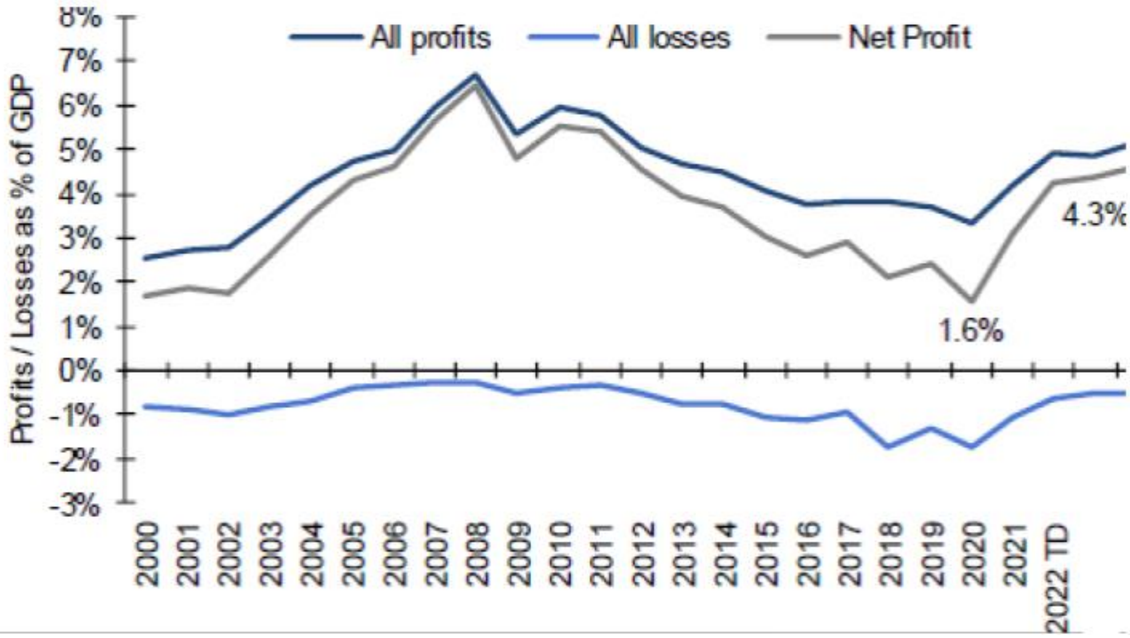
Fig: Number of taxpayers generating e-invoices



Source: NIC, Axis Capital

Quarter four FY2022 results declared so far have been better than consensus expectations and indicate the mean reversion of aggregate corporate profits, which began from the decadal low point of FY2020, maybe intact. The mean-reversion, since FY2020, in corporate profitability has resulted in the PAT to GDP ratio more than doubling to reach 4.3% on a trailing 12-month basis after including the results of around 230 stocks that have reported Q4FY22 numbers so far.

Fig: PAT to GDP trend



Source: ISec

Our view:

We believe good monsoon prospect in 2022 should keep food inflation in check. In the case of cereals, particularly wheat, domestic price action is being driven more by global factors which should subside once it becomes clear that Indian government is willing to slow procurement and run down its stocks for public distribution needs. We expect bank credit growth to remain strong in FY2023, driven mainly by working capital needs. We remain optimistic on private sector capex as India's gains in global manufacturing value chain has likely accelerated through the last few months of supply chain disruptions. This should likely boost credit growth further.

Rising GST collections show India's economic growth is strong and measures implemented by Government related to tax compliance are showing positive results. Tax collection is expected to remain strong in FY2023 and should support Government's focus on capital expenditure.

We believe that due to higher crude prices, consequent higher inflation and bond yields, and Ukraine crisis, volatility in markets will remain elevated. Quarter four FY2022 results announced so far are from commodity consumers (Industrials, auto, consumption etc) along with services (financials and IT). Services are relatively less impacted due to commodity prices, but have their own cost challenges such as high attrition rate for IT. However, overall beats have exceeded misses within the NSE200 universe and particularly so in the mid-cap space. Most commodity producers are yet to announce results, especially from the oil & gas sector, and could likely tilt the scale further in favour of more beats than misses going ahead. Ability to pass on the inflation, which in turn will be a function of demand environment, will be a key variable to watch apart from solution to Ukraine crisis.

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