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EquiPoise

May 31, 2022

For the month ended May 31, 2022, Nifty 50 index closed 3% lower over previous month's close. Midcaps and smallcaps underperformed large caps. NSE Midcap 100 index was up down 5.33% and NSE Smallcap 100 index was down 10.22% over the previous month. Within sectors auto, consumer staples, banks outperformed Nifty 50 whereas information technology, real estate, pharma and metals underperformed.

Sr No	Index Name	May-22
		M-o-M Change
1	NIFTY 50	-3.03%
2	NIFTY Midcap 100	-5.33%
3	NIFTY Smallcap 100	-10.22%
4	NIFTY Auto	4.59%
5	NIFTY Bank	-1.66%
6	NIFTY Financial Services	-0.97%
7	NIFTY FMCG	1.33%
8	NIFTY IT	-6.15%
9	NIFTY Media	-4.51%
10	NIFTY Metal	-15.72%
11	NIFTY Pharma	-6.38%
12	NIFTY Private Bank	-1.17%
13	NIFTY PSU Bank	-6.63%
14	NIFTY Realty	-7.22%
15	NIFTY Consumer Durables	-9.96%
16	NIFTY Oil & Gas	-4.47%
17	NIFTY Healthcare Index	-7.18%

Source: National Stock Exchange of India

For eighth month in a row, foreign funds (FIIs/FPIs) were net sellers in May 2022 at USD4.7bn whereas domestic funds remained net buyers at USD6.5bn. Foreign fund selling has been quite severe with USD22bn net sales in CYTD2022.

Fig: Fund flows

(USD mn)	Curr	MTD	CYTD
FII - Cash	294	-4,743	-22,087
DII - Cash	238	6,573	24,349
FII - Debt	48	-752	-1,752

Source: Axis Capital

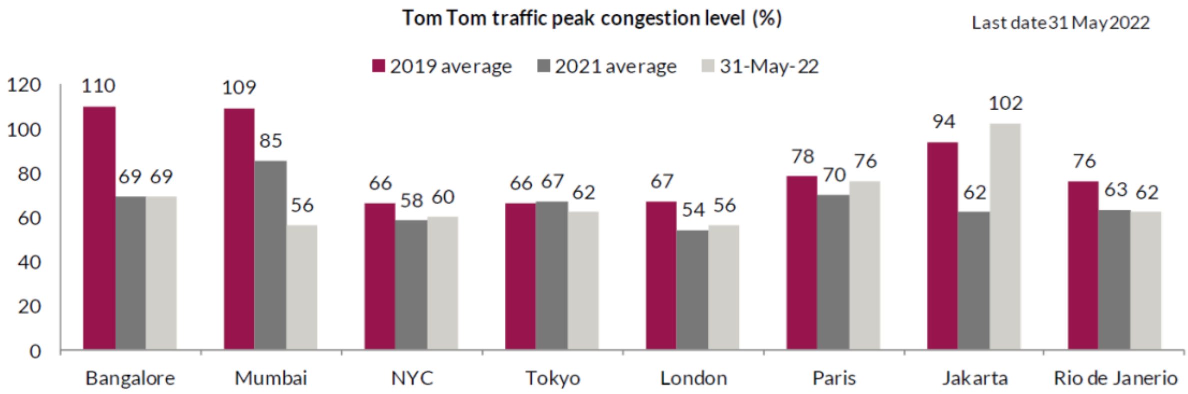
While foreign fund selling continues unabated, two things worth noting are India's domestic fund buying and India's economy which have been resilient and strong.

India's economy grew 8.7% in FY2022 making it the fastest growing major economy in the world. This growth is despite fourth quarter being badly hit due to third wave of Covid, supply chain disruptions and Ukraine crisis. Stronger revenue collection helped the Government contain fiscal deficit at 6.7% slightly lower than estimated at 6.9% during the Union Finance Budget. This is despite higher expenditure on food and fertilisers. The fiscal deficit and growth need to be seen (and also appreciated) from the perspective of massively colossal and successful social programs carried out by Government of India. *Nearly 800mn people are being given free food grains every month for last two years which was also lauded by IMF as a single biggest driver of poverty alleviation despite Covid. 800mn is combined population of EU and USA or nearly 10 times the population of Germany. Another successful social program is the Government supported house ownership scheme which covers nearly 150mn people. That's combined population of Australia and Japan been given houses*.

GST collection in May 2022 was INR1.4trillion showing a 44% year-on-year rise. It is for the fourth time that monthly GST collection has crossed INR1.40trillion mark since inception. Strong GST collections five months in a row are a clear indicator of the economic growth. With above normal monsoon expectations, the GST collections are expected to be robust in FY2023.

Another indicator of economic resilience is petrol sales which have jumped steeply by 56% YoY. The sales have been attributed to increased tourism related mobility and augurs well for the services sector which was most severely hit due to Covid. Even jet fuel sales are up 110% over a year ago. With hybrid work conditions adopted by most firms still prevalent even in India, the increased mobility, seen through rise in petrol sales, seems to further support services sector which forms a major part of India's GDP.

Fig: Traffic peak congestion level across the globe



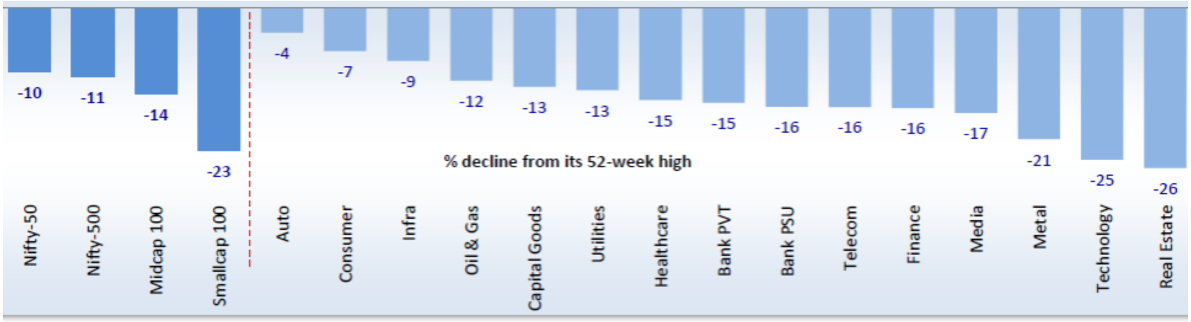
Source: Tom Tom traffic index, May 31, 2022.

Quarter four FY2022 earnings were healthy and Nifty 50 universe earnings grew by 21% YoY in 4QFY22, which came on a high base of growth in quarter four FY2021. The aggregate growth was driven by banking and financial services, oil and gas and metals. More than half of the incremental growth was steered by banking and financial services sector as the Indian banking sector continued with its solid all-round performance even in fourth quarter FY2022 with a further uptick in loan growth and continued improvement in asset quality. The only reason for serious divergence in earnings and stock performance can be attributed to relentless foreign fund selling with their concentration in banking stocks leading to the sector's underperformance relative to narrow and broad indices. We believe this paradox should normalise.

Our view:

The performance of markets from their peaks has been quite as anticipated with smallcaps underperforming midcaps which in turn have underperformed largecaps. While being fully invested we had a bias towards largecaps and within that towards banking sector. Price action at benchmark indices level and corporate earnings growth (of companies and sectors with our overweight) give indication on our allocation and selection. The selling by foreign funds has been unprecedented and USD22bn net sales in CYTD2022 is by no imagination small. Despite this we believe that the Indian markets have held up well on the back of nearly equal net buying by domestic institutions.

Fig: Percentage decline in Smallcaps > Midcaps > Largecaps



While the corporate earnings grew 21% YoY and within that led by banking sector, we are mindful of the fact that global macroeconomic challenges persist viz inflation, high oil prices, rising interest rates, liquidity tightening and rising agriculture commodity prices. These challenges present severe headwinds for global markets and not just India. The Indian economy is strong and has an advantage given its huge domestic consumer markets, but rising input costs are a cause of worry. Government is mindful of these challenges and aims to achieve, by September 2022, nearly 60% of the capital expenditure targeted for FY2023. This frontloading of capital expenditure should support the economy facing inflation and other global headwinds.

We believe good monsoon prospect in CY2022 should keep agri commodity prices in check and the benefits to start accruing quarter four of CY2022.

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