FAITH & *PATIENCE*

June 30, 2022

For the month ended June 30, 2022, Nifty 50 index closed 4.8% lower over previous month's close. Midcaps and smallcaps underperformed large caps. NSE Midcap 100 index was down 6.49% and NSE Smallcap 100 index was down 8.29% over the previous month. Within sectors auto, consumers, energy outperformed Nifty 50 whereas information technology, real estate, banking and metals underperformed.

Index Name	% change
Nifty 50	-4.85%
NIFTY Midcap 100	-6.49%
NIFTY Smallcap 100	-8.29%
Nifty Auto	0.99%
Nifty Bank	-5.81%
Nifty Energy	-2.08%
Nifty Financial Services	-6.08%
Nifty FMCG	-2.71%
Nifty IT	-6.19%
Nifty Media	-7.56%
Nifty Metal	-12.60%
Nifty MNC	-4.14%
Nifty Pharma	-3.53%
Nifty PSU Bank	-5.47%
Nifty Realty	-6.41%

Source: National Stock Exchange of India

For nineth month in a row, foreign funds (FIIs/FPIs) were net sellers in June 2022 at USD 6.2bn whereas domestic funds remained net buyers at USD5.8bn. Foreign fund selling has been quite severe with USD 28.5bn net sales in CYTD2022. Foreign fund selling in Indian equities is the highest since the global financial crisis of 2008 and their last 12 months cumulative selling in the secondary market of USD53bn is nearly double of USD28bn sales during the 2008 crisis.

Fig: Fund flows

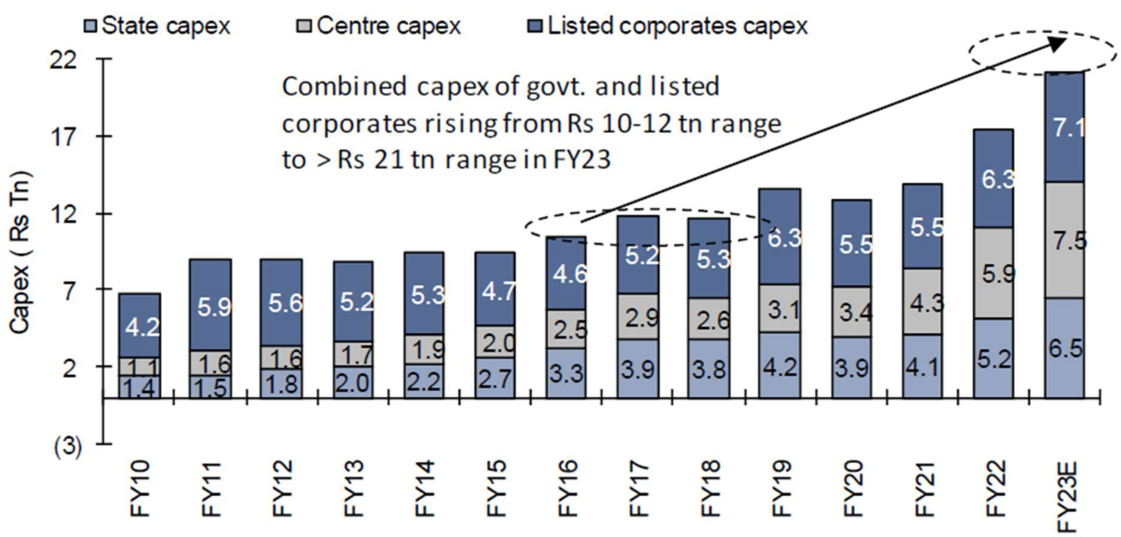
(USD mn)	Curr	MTD	CYTD
FII - Cash	-108	-6,269	-28,484
DII - Cash	107	5,794	30,144
FII - Debt	-135	-226	-1,926

Source: Axis Capital

While foreign funds have been selling relentlessly, domestic investors have more than covered their outflows. Domestic funds net buying has been USD30.14bn in CYTD2022. On a 12 months trailing basis, the domestic net buys stand at USD42.6bn thereby providing the much-needed support to the markets. Another shock absorber, and here more for the currency INR, has been from the annual run rate of FDI inflows of nearly USD50bn. Sectorally, bulk or more than 90% of the foreign fund selling has been concentrated around financials (banking) and information technology (IT), along with consumer staples and construction materials whereas metals, power, discretionary consumption and telecom saw inflow.

On the macroeconomic front, Goods and Services Tax (GST) collections rose 55.8% year-on-year to Rs.1.44trillion in June 2022, the second highest level since the July 2017 rollout of the indirect tax regime. Economic recovery, anti-evasion activities, especially action against errants, have contributed to the rise in GST.

Fig: Estimated combined capital expenditure FY2023 listed companies and government



Source: ICICI Securities Institutional Equities Research

India's infrastructure sector grew to a 13-month high of 18% over a year ago. Latest data for private sector also shows traction with aggregate listed corporate capex rising to Rs.6.3trn in FY2022 versus Rs.5.5trn in FY2021. Government capex rose to Rs.11.1trn in FY2022 and is likely to exceed Rs.14trn in FY2023 as per Union Budget estimates. Services sector, especially the contact-intensive ones viz hospitality, are yet to recover fully from the covid pandemic and could see a lag in investments.

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Our view:

We believe, large scale outflows from Indian equities by foreign funds has largely been driven by the fear of aggressive quantitative tightening by the US central bank to tame inflation. This has resulted in rationalising market valuations significantly from October 2021 levels. Fear of a structural increase in inflation is reducing as global commodity prices have declined. This augurs well for India whose internal economy is already showing strength - GST collections, credit growth.

Apart from GST collections, India's credit growth further improved to a multi-month high of 12.6% YoY. Industry credit grew by 8.7% and services by 12.9%. Personal loan segment grew by 16.4% and agriculture by 11.8%. We maintain our view on the banking sector as the credit growth is driven by higher consumption demand and rebound in business activities. Within industry, sectors like engineering, chemicals, fertilizers, metals, cement, construction etc. have posted improvement in credit growth most likely led by working capital demand. We believe, the price decline in banking and financial services stocks, despite the rise in credit growth and fall in bad loans, is technical and attributable to severe selling by foreign funds.

Risk remains in terms of elevated inflation and crude oil prices which are yet to climb down meaningfully from their recent peaks.

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