FAITH & *PATIENCE*

July 31, 2022

For the month ended July 29, 2022, Nifty 50 index closed 8.73% higher over previous month's close. Midcaps outperformed large caps and small caps. NSE Midcap 100 index was up 12% and NSE Smallcap 100 index was up 8.6% over the previous month. Within sectors banks, financial services, consumers durable, real estate, metals, media outperformed Nifty 50 whereas information technology, oil & gas, and pharma underperformed.

Index Name	% change
NIFTY 50	8.73%
NIFTY Midcap 100	12.03%
NIFTY Smallcap 100	8.60%
NIFTY Auto	7.20%
NIFTY Bank	12.17%
NIFTY Financial Services	12.69%
NIFTY FMCG	12.80%
NIFTY IT	4.70%
NIFTY Media	9.56%
NIFTY Metal	17.70%
NIFTY Pharma	5.08%
NIFTY Private Bank	13.90%
NIFTY PSU Bank	14.38%
NIFTY Realty	17.04%
NIFTY Consumer Durables	13.16%
NIFTY Oil & Gas	3.17%
NIFTY Healthcare Index	6.74%

Source: National Stock Exchange of India

After nine consecutive months of selling, foreign funds (FIIs/FPIs) turned net buyers in July 2022 at USD651mn whereas domestic funds remained net buyers at USD1.3bn. While foreign fund net sales stand at USD27.9bn in CYTD2022, domestic funds purchases are at USD31.6bn.

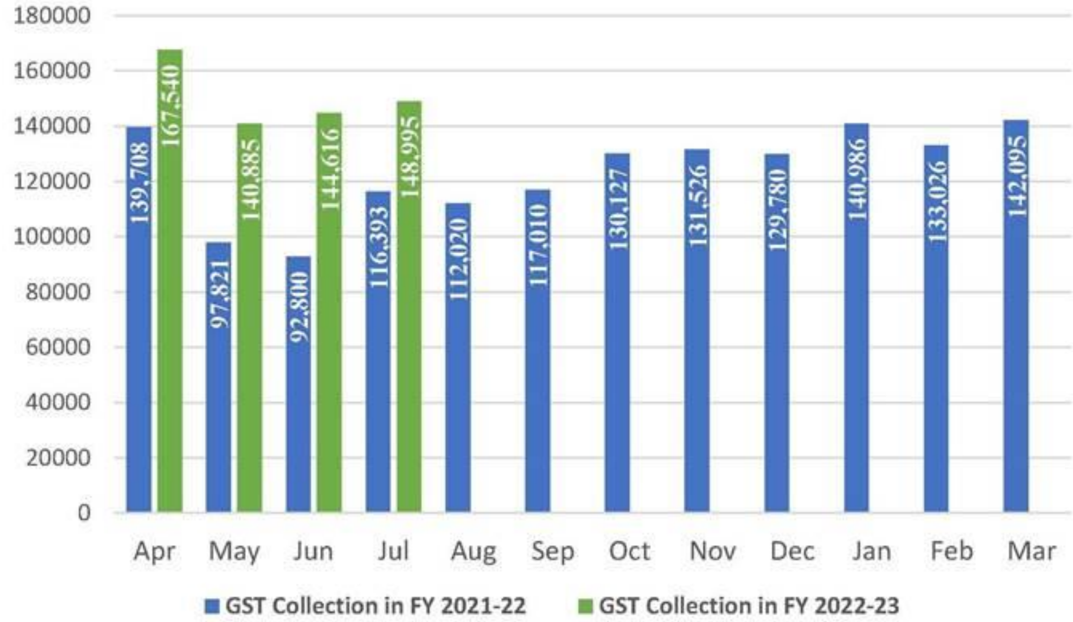
Fig: Fund flows

(USD mn)	Curr	MTD	CYTD
FII - Cash	809	651	-27,905
DII - Cash	-0	1,328	31,647
FII - Debt	-93	-234	-2,191

Source: Axis Capital

Goods and Services Tax (GST) collections for July 2022 remained above Rs.1.4 trillion for the fifth straight month. Gross GST revenue collected in the month of July 2022 is Rs.1.49trillion, which was the second highest collection ever since the introduction of GST. The July revenue figure is 28% higher than the revenues in the same month last year of Rs.1.16trillion. Better reporting coupled with economic recovery has been having positive impact on the GST revenues on a consistent basis.

Fig: Trends in GST collection (Rs. In Crore, One crore equals Ten million)



<u>Our view:</u>

Bulk of the NSE200 universe has declared quarter one FY2023 results so far with major profit growth share emanating from cyclicals (banks, industrials & discretionary consumption) while the contraction was driven by metals, technology and cement. Another key highlight of quarter one FY2023 results so far has been the better-than-expected top-line growth (+30% YoY for non-financials) driven by not just a favourable base effect but better-than-expected volumes as well as price realisations. On the flip side, margins and earnings growth have lagged due to cost pressures across the board.

As expected, financials are exhibiting improving top-line growth as well as earnings growth driven by lower credit costs even though other operational expenditure remains elevated. The sharp drop in commodity prices seen across the board in the second quarter FY2023 may likely tilt the scale going ahead towards improving profitability for non-financial companies if the robust demand pattern persists and input costs slump. Infrastructure, capital goods, construction and building material demand remained robust.

Risk remains in terms of elevated inflation and crude oil prices which are yet to climb down meaningfully from their recent peaks. At the same time post the recent 75bps rate hike by US Fed and two quarters of negative GDP growth rate, there is a raging debate whether US is in recession or not and whether there would be need for further rate hikes beyond another 75bps (50bps in September and 25bps in November 2022) “baked in” by markets.

While markets focus on growth and seem to have moved on (being future discounting machines), most economists feel it is important to bring down the inflation below the real GDP growth. So, the markets seem to be suggesting another 75bps rate hike and Fed would be done and over with rate hikes whereas economists feel more rate hikes are needed till inflation decisively falls.

US rate hike cycle is definitely having a negative effect on global liquidity as capital moves into safe haven asset the USD. Indian markets, though flush with domestic liquidity, come under severe (downward) pressure when foreign funds flow out. To add to these challenges, Ukraine crisis has had its effect on food grain and oil prices.

Two important data points we would highlight are -

1) India’s foreign exchange reserves are a healthy USD571.56bn
2) Monsoon rains have picked up and are 11% above normal.

Healthy foreign exchange reserves indicate India is well positioned to weather any global crisis. There have been unnecessary concerns (raised in media) about India’s economy in the backdrop of neighbouring countries like Sri Lanka, Bangladesh and Pakistan facing economic crisis.

Secondly, monsoon rains +11% of normal suggest a repeat of FY2011, FY2012 and FY2016 when India’s solid agricultural output buoyed private consumption. Strong domestic supply conditions supporting demand buoyancy is a positive read-across for inflation outlook as well as real return possibilities. However, we believe the Reserve Bank of India (RBI) will remain on guard given external challenges.

Be it the economy (imported inflation) or the markets (foreign fund flows), India’s challenges, we believe, are more external.

We believe a solution to the Ukraine crisis will unleash the Indian economy however till then we remain cautious, though bullish.

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