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August 31, 2022

For the month ended August 30, 2022, Nifty 50 index closed 3.5% higher over previous month's close. Midcaps outperformed large caps and small caps. NSE Midcap 100 index was up 6.23% and NSE Smallcap 100 index was up 4.91% over the previous month. Within sectors auto, banks, consumers durable, oil & gas, metals, outperformed Nifty 50 whereas information technology, media, realty and pharma underperformed.

Index Name	Aug-22
	M-o-M Change
NIFTY 50	3.50%
NIFTY Midcap 100	6.23%
NIFTY Smallcap 100	4.91%
NIFTY Auto	5.37%
NIFTY Bank	5.46%
NIFTY Financial Services	4.57%
NIFTY FMCG	3.14%
NIFTY IT	-2.55%
NIFTY Media	-0.47%
NIFTY Metal	8.18%
NIFTY Pharma	-0.60%
NIFTY Private Bank	6.69%
NIFTY PSU Bank	7.84%
NIFTY Realty	2.72%
NIFTY Consumer Durables	6.39%
NIFTY Oil & Gas	6.58%
NIFTY Healthcare Index	-0.04%

Source: National Stock Exchange of India

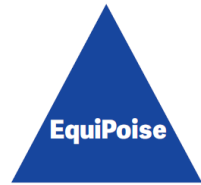
Foreign funds (FIIs/FPIs) were net buyers in August 2022 at USD6.3bn for the second consecutive month with one of highest monthly inflows in recent times. Foreign fund net flows for calendar year 2022 stand at negative USD21bn whereas domestic funds net purchases are at USD31bn.

Fig: Fund flows

(USD mn)	Curr	MTD	CYTD
FII - Cash	258	6,257	-21,463
DII - Cash	-82	-889	30,757
FII - Debt	-85	539	-1,708

Source: Axis Capital

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There are several indicators pointing to a strong Indian economy.

India's GDP growth for the April-June 2022 quarter (Q1FY2023) was 13.5%. Notwithstanding it was lower than the consensus estimates of around 15%, India's GDP growth is significantly higher than the average GDP growth for 20 largest economies which is at 4.9%. India's growth clearly stands out in a slowing down world. India also overtook UK to become the fifth largest economy in the world as UK's economy contracted 0.1% in quarter one FY2023.

While China is witnessing a fall for eleventh straight month in housing sales, on the other hand India property sales are registering 60% YoY growth in quarter one FY2023. Car sales too are strong.

Goods and Services Tax (GST) collections for August 2022 showed 28% YoY growth and were Rs.1.44tr. This is the sixth straight month where GST collections have remained above Rs.1.4 trillion.

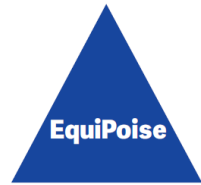
India's manufacturing sector too was robust in August 2022 on the back of improved demand conditions, new orders, moderating inflation and rising business confidence. S&P Global India Manufacturing PMI stood at 56.2 and signalled amongst the strongest improvement in recent times. While on manufacturing sector, it important to mention a proud moment for India which commissioned its first indigenous aircraft carrier INS Vikrant - the largest ever warship to be built by and in India. India joined the elite group of countries in the world - US, UK, Russia, China and France, which have the capability to manufacture such huge aircraft carriers using indigenous technology.

Separately, digital transactions made through India's Unified Payments Interface (UPI) scaled a new high of 6.57bn with an aggregate value of Rs.10.7trillion in August. This is significant development as it improves transparency, efficiency, better tax compliance, lower use of cash and plugs leakages in the system. Government is now able to efficiently transfer the amounts from its various schemes directly into the accounts of the beneficiaries who are mostly the weaker sections of the society.

Our view:

We believe that the outlook for India's growth is robust both in absolute and relative terms led by government policies. Moreover, normal monsoon rains, and adequate reservoir levels in most parts of the country along with elevated soft commodities demand promises buoyant rural income growth and consumption demand in FY2023.

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Corporate earnings for Nifty 50 companies were decent with bulk of the sectors and companies either meeting or exceeding profit expectations. Like in quarter four FY2022, earnings in quarter one FY2023 was entirely driven by banking and financial services, aided by a moderation in credit cost. Earnings for Nifty 50 rose 23% YoY led by banking and excluding banking sector earnings grew 18% YoY.

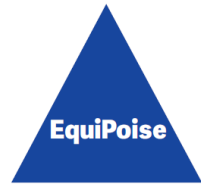
Inflation risk remains due to Ukraine crisis and crude oil prices which are yet to climb down meaningfully from their recent peaks.

Be it the economy which gets severely impacted due to imported inflation or the markets which are greatly influenced by foreign fund flows, India's challenges, we believe, are more external.

We remain bullish on the Indian economy. We believe US Fed's response to inflation and the on going Ukraine crisis are key headwinds for the Indian markets.

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