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October 31, 2022

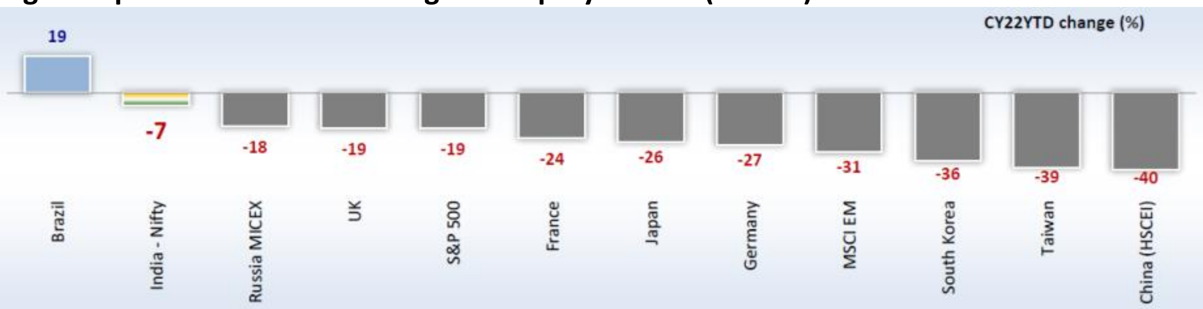
Overview:

For the month ended October 31, 2022, Nifty 50 index closed 5.37% higher over previous month's close. Mid and smallcaps underperformed large caps. NSE Midcap 100 index was up 2.49% and NSE Smallcap 100 index was up 2.59% over the previous month. Within sectors banks, financial services, oil & gas and information technology outperformed Nifty 50 whereas consumer goods, media, realty and pharma underperformed.

Sr No	Index Name	Oct-22 M-o-M Change
1	NIFTY 50	5.37%
2	NIFTY Midcap 100	2.49%
3	NIFTY Smallcap 100	2.59%
4	NIFTY Auto	5.37%
5	NIFTY Bank	6.93%
6	NIFTY Financial Services	5.89%
7	NIFTY FMCG	-0.25%
8	NIFTY IT	6.47%
9	NIFTY Media	-0.03%
10	NIFTY Metal	2.22%
11	NIFTY Pharma	1.85%
12	NIFTY Private Bank	6.33%
13	NIFTY PSU Bank	15.56%
14	NIFTY Realty	3.46%
15	NIFTY Consumer Durables	-0.58%
16	NIFTY Oil & Gas	5.66%
17	NIFTY Healthcare Index	2.31%

Source: National Stock Exchange of India

Fig: YTD performance India and global equity indices (in USD)



Source: Motilal Oswal Institutional Research

Foreign funds (FIIs/FPIs) were net buyers in October 2022 at 1.03bn but their net flows for calendar year 2022 stand at negative USD20.8bn.

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Indian economy continues to demonstrate strength month after month. Goods and Services Tax (GST) collections for October 2022 were Rs.1.517trillion. This is the second highest collection with April 2022 being the highest at Rs.1.67trillion. This also the eighth straight month where GST collections have remained above Rs.1.4 trillion. Strong GST collections provide additional headroom for Government's investment led growth approach.

India's factory growth activity further expanded in October thus pushing companies to hire more workers. The Manufacturing Purchasing Manager's index compiled by S&P Global rose to 55.3 (better than Reuters poll estimates of 54.9) and has remained above 50 for sixteen months.

Automobile sales volumes indicate strong festive growth across segments. Dispatches for passenger vehicles grew 30% YoY driven by strong demand and high order backlog. Domestic motorcycles and scooters sales grew by double-digits in festive season. In tractors, YoY growth despite high base was a positive surprise. Commercial vehicles demand remains strong.

As per Reserve Bank of India (RBI), India's banking sector credit growth was up 18.4% YoY. Segment-wise trends for September 2022 indicate growth in personal loans (+2.2% MoM), education loan (+2.4% MoM), NBFCs (+2.4% MoM) and retail trade (+5.1% MoM). While the growth was broad-based, services and retail grew faster. Credit to industry segment was at +1.4% MoM, supported by healthy pick-up in large corporates. So far, Q2FY2023 trends indicate that loan growth is healthy an broad based.

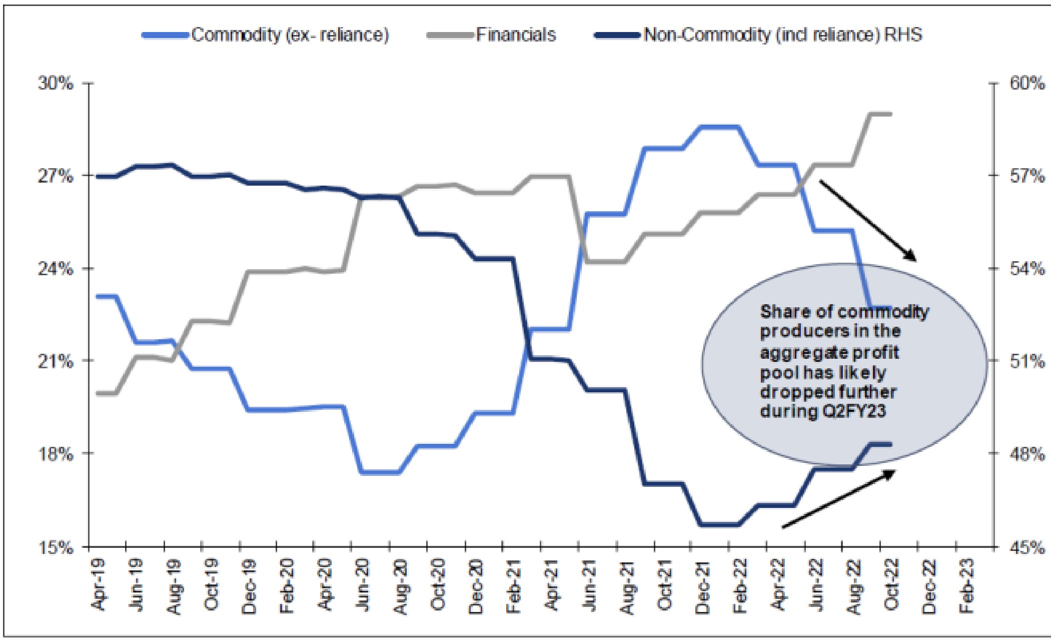
Our view:

Financials have primarily driven overall year on year increase in aggregate profit during Q2FY2023 for the NSE200 universe so far. However, commodity companies within the NSE200 have gone into the loss pool on an aggregate basis due to declining realisations as global prices cool off coupled with introduction of new domestic taxes (windfall taxes, export duty, etc). The contraction in aggregate profit after tax within commodities is significantly higher than the expansion in profit pool of other non-financial stocks so far (information technology, auto, industrials, tobacco, consumption, and others).

Contraction in profit pool of commodity producers due to falling prices is likely to augment the profit pool of commodity users going ahead if the robust domestic demand environment continues. Although still elevated compared to pre-covid period, commodity prices have started to cool off from the spike seen during Q1FY2023 while shipping costs have also fallen sharply. Moderation in these two costs should likely arrest further margin erosion for commodity users going by the latest commentary of companies in sectors such as auto, consumer goods and other industrials. On the other hand, robust domestic demand in areas related to the investment cycle (industrial capex and real estate) and higher end discretionary consumption will allow such companies (commodity users) to retain their pricing power.

Some of the loss in the profit pool of commodity producers will also see transfer towards public spending via additional taxes (windfall profit tax on oil producers, export duty, etc.)

Fig: Trend in earnings of commodity producers and users



Source: ISec Institutional Research

We maintain, foreign portfolio outflows due to global events are impacting Indian market despite a robust and stable economy. India's challenges, we believe, are more external (and less internal).

With strong credit growth and cooling off commodity prices (India is highly dependent on commodity imports, hence runs a trade deficit), we should expect Indian economy to grow further, and have a positive impact on corporate earnings.

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