FAITH & *PATIENCE*

EquiPoise

September 30, 2022

Overview:

For the month ended September 30, 2022, Nifty 50 index closed 3.74% lower over previous month's close. Smallcaps outperformed large caps and mid-caps. NSE Midcap 100 index was down 2.58% and NSE Smallcap 100 index was down 1.87% over the previous month. Within sectors pharma and consumers goods outperformed Nifty 50 whereas oil & gas, media, realty and pharma underperformed.

Sr No	Index Name	Sep-22
		M-o-M Change
1	NIFTY 50	-3.74%
2	NIFTY Midcap 100	-2.58%
3	NIFTY Smallcap 100	-1.87%
4	NIFTY Auto	-3.92%
5	NIFTY Bank	-2.29%
6	NIFTY Financial Services	-3.99%
7	NIFTY FMCG	1.33%
8	NIFTY IT	-5.02%
9	NIFTY Media	-0.30%
10	NIFTY Metal	-2.80%
11	NIFTY Pharma	2.15%
12	NIFTY Private Bank	-1.91%
13	NIFTY PSU Bank	-0.28%
14	NIFTY Realty	-8.46%
15	NIFTY Consumer Durables	-1.06%
16	NIFTY Oil & Gas	-8.54%
17	NIFTY Healthcare Index	2.47%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net sellers in September 2022 at USD964mn whereas domestic funds were net buyers at USD1.7bn. Foreign fund net flows for calendar year 2022 stand at negative USD21.9bn whereas domestic funds net purchases are at USD32.5bn. Despite foreign funds net selling for last 12 month at around USD32bn, the markets have fallen only 3% during the same period. This is unprecedented and shows that the inflows from domestic investors have been resilient. The monthly retail inflows into domestic mutual funds through SIPs (systematic investment plans) at around USD1.6bn have been growing steadily and have been sticky.

Fig: Fund flows

(USD mn)	Curr	MTD	CYTD
FII - Cash	-256	-964	-21,893
DII - Cash	399	1,723	32,480
FII - Debt	-46	608	-1,101

Source: Axis Capital

There are several indicators which point towards a strong Indian economy. India's central bank Reserve Bank of India (RBI) forecasts 7% GDP growth in FY2023 making India the fastest growing large economy. Goods and Services Tax (GST) collections for September 2022 showed 26% YoY growth and were Rs.1.47tr. This is the seventh straight month where GST collections have remained above Rs.1.4 trillion. A few key takeaways from strong GST collections are - 1. they provide additional headroom for Government capex, 2. they can be expected to be strong in the next 3 months as well given festive season and 3. they indicate strong demand even for luxury or high-end goods e.g. cars/SUVs.

Another indicator is employment data. As per Centre for Monitoring Indian Economy (CMIE) nearly 10mn jobs got added during September 2022 thereby leading to a drop-in unemployment rate to 6.43% from 8.3%.

Motorcycles, scooters, passenger vehicles and commercial vehicles have seen a strong surge. Passenger vehicles (cars, SUVs) sales have doubled year on year. Motorcycles and scooters too are witnessing demand due to the festival season. Easing semiconductor supplies, increasing economic activity and high-capacity utilization are seen as the key reasons for surge in automobile sales.

India's credit growth in the banking system touched a multi-year high of 16.2% YoY as per the latest data released by RBI. Last time, credit growth touched 16 per cent was in November 2013. Credit is witnessing a continuous revival led by continued traction in the retail and MSME (micro, small and medium enterprises) segment. Industry segment is also seeing a revival, led by improved working capital requirements. Demand for housing loans, vehicle, unsecured, and small business loans continue to do well, while the demand for commercial vehicles is also improving. Credit cards business is seeing a healthy momentum, with spends remaining strong.

As per media reports, E-commerce platforms are estimated to have registered 30% YoY growth during the on-going festive season. E-commerce volume is expected to grow more in Tier-2 and Tier-3 towns compared to Tier-1 cities. Government of India expects Indian ecommerce market could outpace more mature markets to become the third largest market in the world with US$ 350 billion by 2030.

Anecdotal evidence suggests that China+1 is having its impact on India. Apple has exported USD1bn worth of iPhones manufactured in India to Europe and Middle East. It expects to achieve USD2.5bn exports by March 2023. Apple also intends to start manufacturing other accessories in India soon. PLI (production linked incentive) policy of Government of India too is attracting semiconductor majors to set manufacturing units in India.

Even the Self-Reliant India initiative is showing good traction particularly in the defence equipment manufacturing sector. After launching an indigenous aircraft carrier, several other battleships, light combat aircraft (LCA), Indian Air Force inducted indigenously designed, developed, and manufactured Light Combat Helicopter (LCH). These efforts not only save valuable foreign exchange but have started boosting exports.

Our view:

We maintain that the outlook for India's growth is robust both in absolute and relative terms thanks to the heavy lifting done by prudent government policies during Covid. One of the fallouts of Covid on Indian industry has been systematic reduction in debt and improvement in corporate balance sheets leading to improved creditworthiness.

Buoyed by strong tax collections, India is expected to remain in a capex overdrive led by uptick in housing and infrastructure spend, especially prior to the general elections due April 2024. 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. Led by strong credit growth, sustained reduction in credit costs and higher business growth, financials sector (which also has a dominant weightage in the index) is expected to show healthy earnings growth.

Indian markets, we believe, have been under pressure due to global events. Be it Ukraine crisis leading to sharp spike in energy and food prices or rate hikes in US leading USD appreciation versus global currencies including INR or news around EU's high debt levels, currency depreciation or banking sector challenges, all these have a direct influence on foreign fund flows thereby impacting Indian markets and economy.

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 (and less internal).

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