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December 31, 2022

Overview:

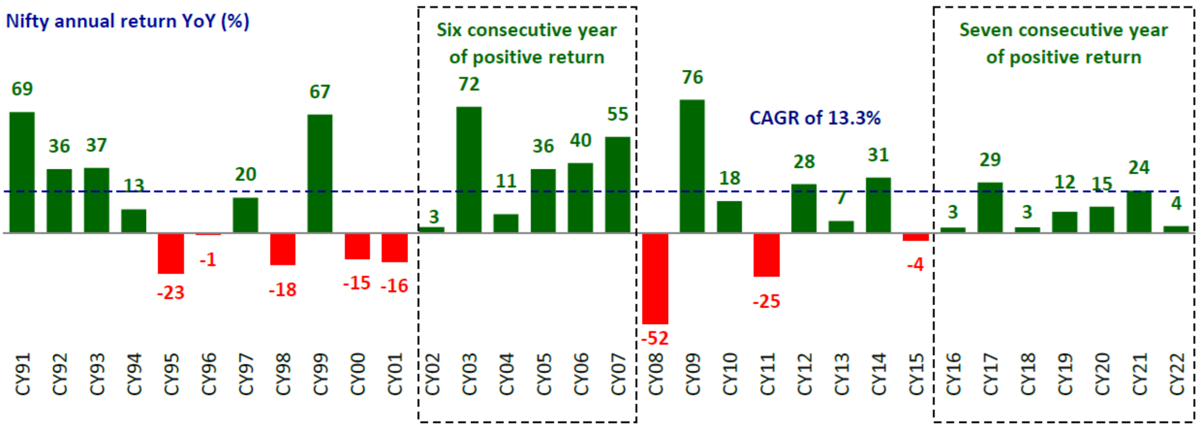
For the month ended December 30, 2022, Nifty 50 index closed 3.48% lower over previous month's close. Mid and smallcaps outperformed large caps. NSE Midcap 100 index was down 1.65% and NSE Smallcap 100 index was down 2.45% over the previous month. Within sectors banks, financial services, oil & gas and metal outperformed Nifty 50 whereas automobiles, media, realty and pharma underperformed.

Sr No	Index Name	Dec-22
		M-o-M Change
1	NIFTY 50	-3.48%
2	NIFTY Midcap 100	-1.65%
3	NIFTY Smallcap 100	-2.45%
4	NIFTY Auto	-4.69%
5	NIFTY Bank	-0.57%
6	NIFTY Financial Services	-1.95%
7	NIFTY FMCG	-3.00%
8	NIFTY IT	-5.82%
9	NIFTY Media	-5.88%
10	NIFTY Metal	2.43%
11	NIFTY Pharma	-4.16%
12	NIFTY Private Bank	-0.71%
13	NIFTY PSU Bank	7.94%
14	NIFTY Realty	-4.08%
15	NIFTY Consumer Durables	-4.59%
16	NIFTY Oil & Gas	-1.99%
17	NIFTY Healthcare Index	-4.51%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net buyers in December 2022 at USD1.37bn with their net flows negative for calendar year 2022 at ~USD17bn (Source: NSDL). Domestic funds (DIIs) ended the year 2022 huge net positive at USD35bn supported by SIP or systematic investment plans of Indian mutual funds, which are receiving monthly inflows of ~USD1.60bn from retail investors. Driven by strong corporate earnings growth and inflows from domestic investors, Indian equity markets have delivered positive returns for the seventh consecutive year despite global challenges and inflation.

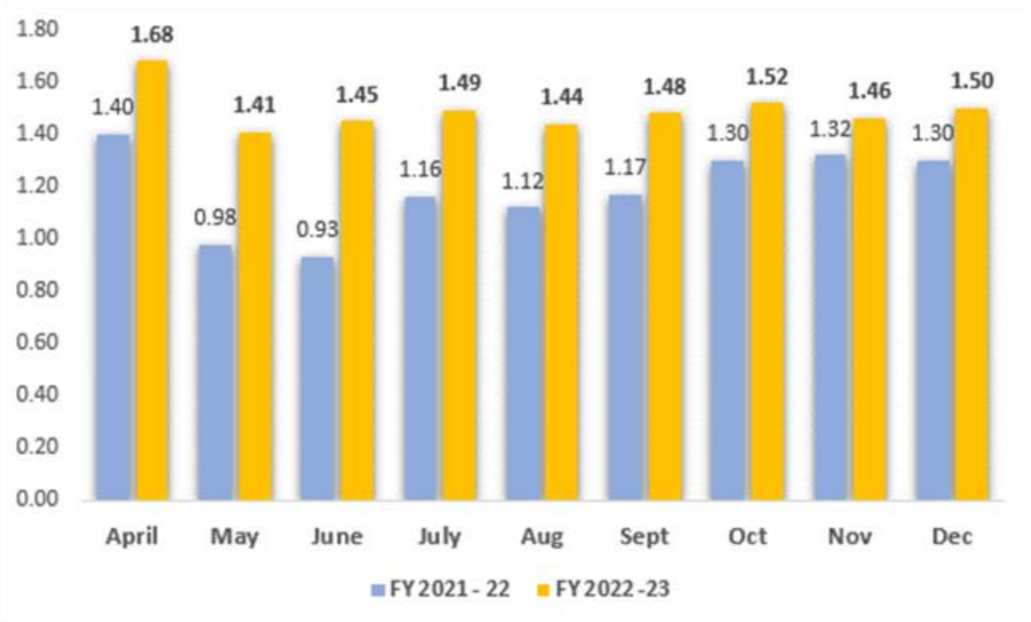
Fig: Indian equity markets performance over last 3 decades (in INR %)



Source: Motilal Oswal Institutional Research

Goods and Services Tax (GST) collections for December 2022 was up 15% at Rs.1.50trillion. This also the tenth consecutive month in a row where GST collections have remained above Rs.1.4 trillion. Strong GST collections indicates stability of India's manufacturing sector, domestic demand and resilience of India's economy amid global slowdown.

Fig: Indian GST Collections (INR trillion)



Source: GoI, EquiPoise Capital research

Driven by strong jump in manufacturing activity in India, which also supported job creation, the S&P Global India Manufacturing Purchasing Managers' index (PMI) rose to a 13-month high of 57.8 in December up from 55.7 in November 2022. Output of 8 core sectors - coal, steel, electricity, cement, fertilisers, crude oil, natural gas, and petroleum refinery products, rose 5.4% thereby indicating robust expansion of industrial output.

Auto industry ended the calendar year 2022 with its best year ever. With 3.8mn vehicles sold in 2022 (3.1mn in 2021), this is biggest year for India's car industry. Interestingly, India's car industry saw share of premium vehicles (costing INR1mn and above) as a percent of total car sales rise to 41% versus 16% about four years ago.

Transportation fuels i.e. diesel and petrol sales were strong in December 2022 rising 13% YoY and 9% YoY respectively. Fuel sales continue to remain strong on the back of demand from robust agriculture sector, holiday travel and rising car sales. Jet fuel or ATF (aviation turbine fuel) sales too recorded a sharp rise of 18% YoY on the back of surge in number of flyers. Most passengers at airports in India are experiencing unprecedented long queues and crowded airports despite the airports being world class and newly built.

Pathbreaking innovations viz India Stack and UPI (unified payments interface) are being talked about with awe across the world these days. Number of transactions on UPI (digital payments) platform crossed 7.82bn in December 2022 up 71% YoY and with value crossing INR12.8trillion up 55% YoY. For the full year CY2022, UPI platform saw 74.04bn transactions and value INR125trillion.

As a reflection of strong domestic consumption demand and improving corporate credit, India's bank loans have surged 18% despite an increase in financing costs/interest rates.

Landmark India Australia Economic Cooperation and Trade Agreement (ECTA) came into force on December 29, 2022. ECTA is seen as a strategic agreement which is expected to give boost to labour intensive sectors of India particularly textiles, information technology and ITeS. Australia is one of the largest importers of garments in the southern hemisphere with China currently supplying around 70% whereas India supplying less than 5%. Indian industry is also expected to benefit from import of coal, LNG, alumina, manganese, and other commodities from Australia. Not just does ECTA reduce landed costs of commodities and intermediates, due to removal of duties, but it also ensures supplies. Bilateral trade between India and Australia is expected to triple to USD70bn in next 5 years.

Our view:

Whether it is GST collections, direct tax collections, petroleum products sales, vehicle sales, bank credit growth, industrial output, consumption demand, holiday travel and other indicators, they all have been pointing month after month that India's economy has been extremely strong in a world witnessing slowdown or recession. IMF has indicated that in 2023, 1/3rd of the world economies can be expected to face recession mainly due to slowing down US, EU and China. In this backdrop, IMF itself expects India's economy to grow at ~6% in 2023.

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Tax collections are helping Government more than comfortably achieve its targeted capital expenditure at the same time meet its welfare schemes. Government of India's differentiated approach, during Covid, of pressing investment led economic growth is showing results in the form of economy's resilience.

Further, success of UPI shows adoption of digital payments across India, benefits accruing to the poor and weaker sections of the society, their formalisation into the main economy, transparency, compliance and improved governance. This, we believe, will further boost consumption led growth in India's economy. With industry wide capacity utilisation in excess of 72%, much awaited private sector led capex demand can be expected in the coming quarters. Strong loan growth across services, industry and retail sectors and buoyant core industrial sector also point in that direction.

Driven by strong corporate earnings growth and inflows from domestic investors, Indian equity markets have delivered positive returns for the seventh consecutive year despite global challenges and inflation. Falling oil prices and assured commodity supplies thanks to ECTA, we believe, will support demand, margins and corporate earnings. In the last 1-2 years we have seen the positive impact on the public sector companies due to transparency, better compliance, and accountability by Government. Hence, we remain constructive on the Indian market.

Risks remain in the form of global geopolitics turning further unfavourable leading to sharp spike in oil and other commodity prices, high foreign fund outflows and unexpected pandemic.

Wishing all our investors "Happy, Healthy and Prosperous 2023"

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