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January 31, 2023

Overview:

For the month ended January 31, 2023, Nifty 50 index closed 2.45% lower over previous month's close. Mid-caps were down 2.64% and smallcaps were down 2.36%. Within sectors automobiles, technology, consumer goods and pharma outperformed Nifty 50 whereas banks, metal, media, realty and oil & gas underperformed.

Sr No	Index Name	Jan-23
		M-o-M Change
1	NIFTY 50	-2.45%
2	NIFTY Midcap 100	-2.64%
3	NIFTY Smallcap 100	-2.36%
4	NIFTY Auto	5.65%
5	NIFTY Bank	-5.42%
6	NIFTY Financial Services	-4.67%
7	NIFTY FMCG	0.65%
8	NIFTY IT	3.91%
9	NIFTY Media	-4.69%
10	NIFTY Metal	-3.79%
11	NIFTY Pharma	-1.88%
12	NIFTY Private Bank	-5.17%
13	NIFTY PSU Bank	-7.22%
14	NIFTY Realty	-4.69%
15	NIFTY Consumer Durables	-4.53%
16	NIFTY Oil & Gas	-10.10%
17	NIFTY Healthcare Index	-1.99%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net sellers in January 2023 whereas domestic institutions were net buyers.

Fig: Fund flows

(USD mn)	Curr	MTD	CYTD
FII - Cash	-753	-2,393	-2,393
DII - Cash	551	4,092	4,092
FII - Debt	-71	3,698	3,698

Source: Axis Capital

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GST collections in January 2023 crossed Rs.1.56 trillion. This is the second highest collection ever, next only to the Rs 1.68 trillion gross collection in April 2022. Revenues in the current financial year, upto January 2023, is 24% higher than the GST revenues during the same period last year. Strong GST collections indicates stability of India's manufacturing sector, domestic demand and resilience of India's economy amid global slowdown.

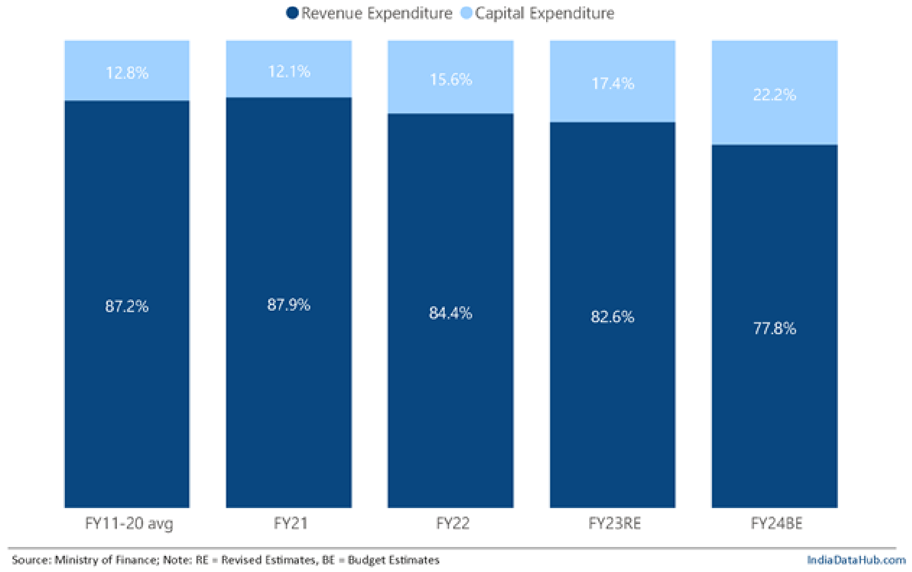
Finance Minister, Government of India presented the Union Finance Budget 2023 on February 1, 2023. It is expected that, given India will have general elections next year, the government could announce some freebies, some income support for the rural sector or announce some measures to boost consumption. Much to the relief of markets, and in-line with our expectations, the government continued with its investment-led spending growth approach and stuck to fiscal consolidation. The Budget continued to show conservative stance by assuming 10.5% YoY nominal GDP growth in FY2024 despite the Economic Survey projecting 11%.

Capital expenditure of Rs.10trillion is budgeted for FY2024 which is 33% higher than FY2023, it is 3.3% of GDP and it is higher than the combined capital expenditure incurred by Government of India from 1971 to 2005. To get another perspective, capital expenditure in FY2019 was Rs.3trillion. Over the last few years India is the only country which has seen tax collection to GDP go up, debt to GDP go down and external debt to GDP go down by nearly 5% to 19.2% of which nearly 1/3rd is INR debt.

These three initiatives are driving the capex push, in our view.

1. Logistics: INR600bn has been earmarked to develop 100 priority infrastructure projects that provide last mile access to existing ports, coal, steel, fertilizer, and food grains sector hubs. Railway minister speaks of more high-speed train manufacturing plants, hydrogen fueled trains etc.
2. Clean energy transition: INR197bn planned for National Hydrogen Mission and INR350bn for priority capex in energy transition/energy security projects. Viability gap funding will also be provided for battery storage projects.
3. States support: Outlay of INR1.3trillion may be used for (1) scrapping old government vehicles, (2) urban planning and financing reforms, (3) housing for police personnel, (4) construction of unity malls (which act as window for GI (geographical information) tag products and domestic products under one district one product scheme), or (5) states' share of capex spending.

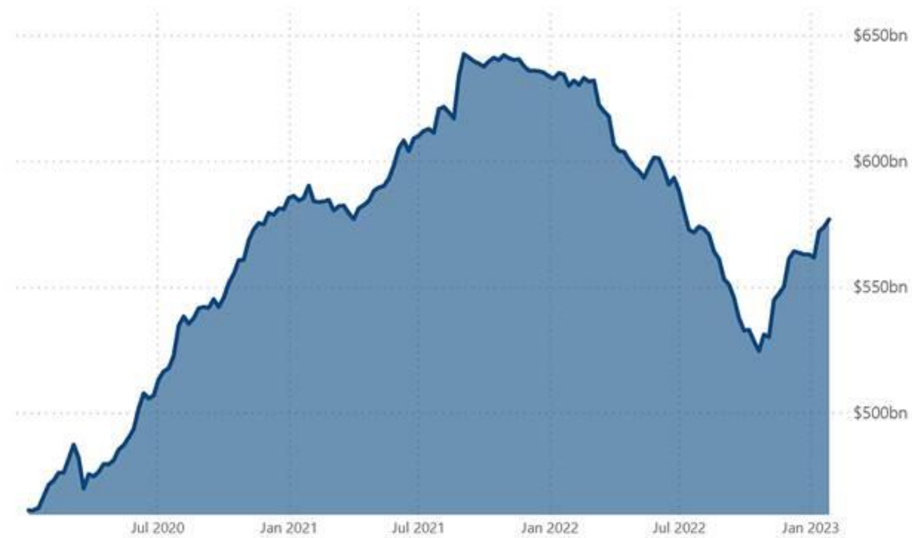
Fig: Composition of Central Government Expenditure



Source: GoI, IndiaDataHub.com

Another small but incrementally positive change is the build-up in foreign exchange reserves. Foreign exchange reserves rose by USD3bn in the last week of January to touch USD575bn. This is on top of a USD12bn increase in the preceding two weeks. Reserves are still USD65bn lower than the peak in September 2021, but they have risen by USD50bn in the last three months. This is being driven by a sequential moderation in the trade deficit and relatively healthy capital flows.

Fig: India foreign exchange reserves (USD bn)



Source: GoI, IndiaDataHub.com

Our view:

Fig: Performance of MSCI India index vs MSCI US, MSCI World, MSCI Emerging Market and MSCI China indices rebased to 100

Source: Motilal Oswal Institutional Research

Indian markets outperformed global markets in CY2022 but the outperformance has narrowed significantly versus China in the last 2 months. While this can be attributed to relative valuations and also to some foreign investors moving to grab this opportunity as Covid situation in China normalises. We believe that this does not seem to be a secular trend and the strong fundamentals of the Indian economy cannot be ignored. Whether it is GST collections, direct tax collections - corporate and personal, 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.

The FY2024 Budget is inclusive in its orientation, provides a 33% increase in public investment, reduces income tax rates for all taxpayers choosing the new (simpler) tax regime, and yet reduces the fiscal deficit to 5.9% of GDP for FY2024 from the current fiscal year's conservative estimate of 6.4%. This remarkable balancing act has been made possible by buoyancy of tax revenues, which in turn has been helped by the strength of nominal GDP growth in the last couple of years. Last year's big increase in public investment has helped bolster fixed investment spending in April to November 2022, as evident in both capital goods output and imports growing strongly, providing a crucial spur to the economy.

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Now the uncertainty, if at all with any section of investors, regarding Union Finance Budget is also behind us with the Government signalling a strong investment led growth focused confidence filled approach.

We remain constructive on the Indian markets and maintain our positive bias towards domestic sectors.

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.

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