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EquiPoise

February 28, 2023

Overview:

For the month ended February 28, 2023, Nifty 50 index closed 2.03% lower over previous month's close. NSE Midcap 100 index was down by 1.82% and NSE Smallcap 100 index was down by 3.64% over the previous month. Within sectors information & technology, consumer goods and consumer durables outperformed Nifty 50 whereas automobiles, media, oil & gas & metal underperformed.

Sr No	Index Name	Feb-23 M-o-M Change
1	NIFTY 50	-2.03%
2	NIFTY Midcap 100	-1.82%
3	NIFTY Smallcap 100	-3.64%
4	NIFTY Auto	-4.44%
5	NIFTY Bank	-0.95%
6	NIFTY Financial Services	-0.58%
7	NIFTY FMCG	1.09%
8	NIFTY IT	-0.26%
9	NIFTY Media	-10.21%
10	NIFTY Metal	-18.54%
11	NIFTY Pharma	-4.96%
12	NIFTY Private Bank	-0.70%
13	NIFTY PSU Bank	-8.69%
14	NIFTY Realty	-4.46%
15	NIFTY Consumer Durables	-0.71%
16	NIFTY Oil & Gas	-8.50%
17	NIFTY Healthcare Index	-4.38%

Source: National Stock Exchange of India

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

Fig: Fund flows

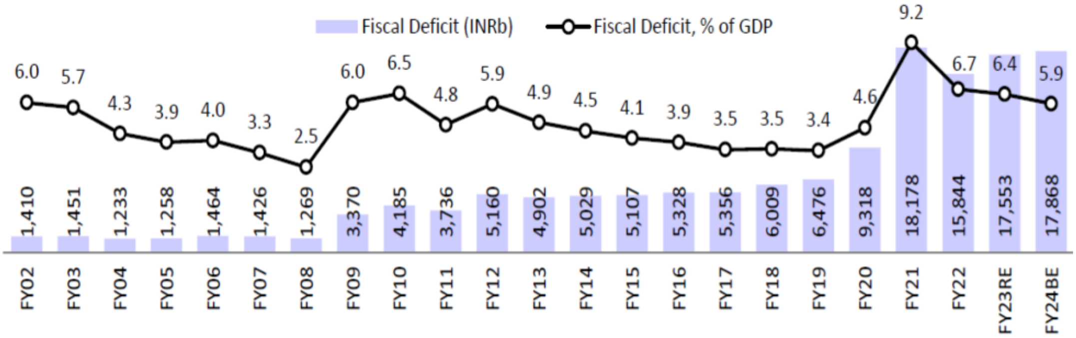
(USD mn)	Curr	MTD	CYTD
FII - Cash	-196	-77	-3,737
DII - Cash	558	2,330	6,332
FII - Debt	-7	98	724

Source: Axis Capital

GST collections in February 2023 rose 12% YoY to touch Rs.1.50 trillion despite a slowdown in the collections from imported goods and despite February being a month with 28 days. This marks the 12th straight month of GST collections more than Rs.1.4trillion. This is also the second time, since GST was introduced in July 2017, that the cess on luxury goods and 'sin goods' such as tobacco, soft drinks, yachts, aircrafts and coal has crossed Rs.110bn. Strong GST collections in February 2023 were mainly driven by 15% growth in domestic collections indicating stability of India's manufacturing sector, domestic demand and resilience of India's economy amid global slowdown.

In the run-up to the Union Finance Budget 2023, fiscal deficit was a key concern for many and rightfully so. The budget has laid out a clear path for fiscal consolidation i.e. bringing down fiscal deficit.

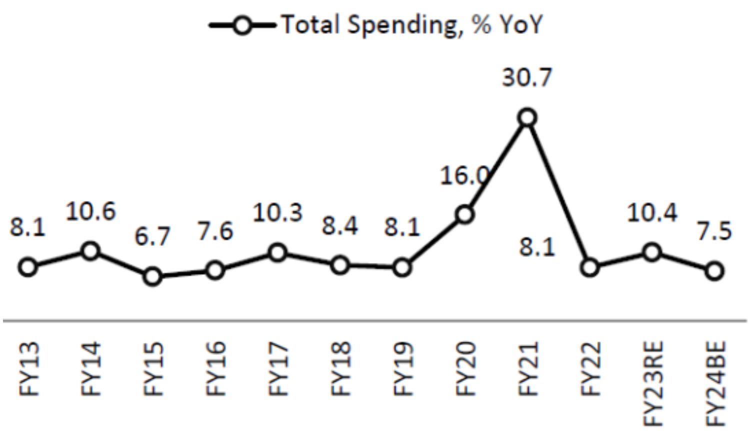
Fig: Fiscal consolidation back on track post Covid surge



Source: Union Budget documents

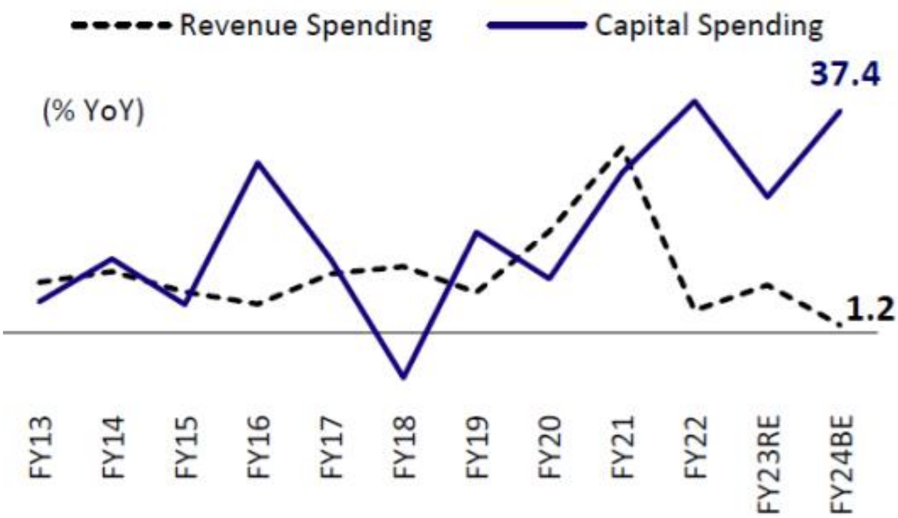
Government has reigned in expenditure. YoY growth in spending and as a % of GDP is on a decline. However, quality of expenditure i.e. capital expenditure has seen strong growth year on year. Capital expenditure was less than 2% of GDP in 2019 and it has risen to 3.3% in this year's budget.

Fig: Total expenditure growth on a steady decline (% YoY)



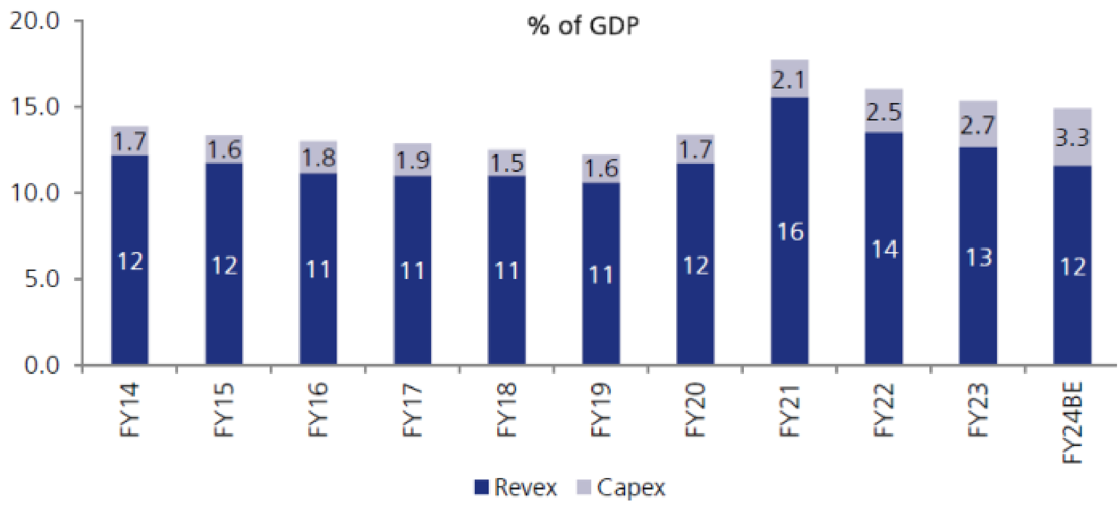
Source: Union Budget documents

Fig: Capital expenditure as % of total expenditure and YoY % growth



Source: Union Budget documents

Fig: Revenue expenditure and Capital expenditure as % of GDP



Source: Union Budget documents

Other macroeconomic indicators such as car sales (up 11% YoY), petrol sales (up 13% YoY), jet fuel sales (up 41% YoY), manufacturing activity or PMI, core sector growth (4 month high of 7.8%) point towards a strong economy. Even the non-food credit growth momentum remains healthy at ~17% YoY. The credit growth momentum continues to be broad based with services (up 21.5% YoY), retail (up 20% YoY) and agriculture (up 14% YoY) segments reporting a healthy growth.

Our view:

Corporate India's profitability moderated in quarter three FY2023. Corporate earnings were dragged by commodities while financials and auto were robust. Nifty, earnings growth stood at 11% YoY. The aggregate performance was impacted by a sharp drag from global commodities - metals, oil and gas, which posted a 63% and 19% YoY earnings decline, respectively. Excluding these, Nifty index reported a solid 29% and 31% YoY earnings growth (v/s consensus expectations of +27% and +26% YoY), respectively, fuelled by banking and financial services and autos.

FY2024 finance budget has reiterated Government's focus on investment led growth. Expenditure towards building roads and railways have seen an increase of 25% and 50% YoY respectively. Strong capex push by the Government is expected to crowd-in private capital expenditure. Expected normal monsoon (despite exceptional heat wave currently) plus tail winds in the form of falling oil and other global commodity prices, easing of supply chains, strong productivity linked incentives program of Government can be expected to drive growth in India in an otherwise dull global economic outlook. We believe India has embarked on a multi-year big capex cycle which will lead to sustained real growth in the years ahead.

Risks remain in the form of ability to sustain credit growth in the face of rising rates, global geopolitics turning further unfavourable leading to disruption of supply chains, sharp spike in oil, fertilisers and other commodity prices, and unabated foreign fund outflows.

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