Overview:

For the month ended May 31, 2023, Nifty 50 closed 2.6% higher over previous month's close. Mid and Small caps outperformed large caps. NSE Midcap 100 index was up by 6.19% and NSE Smallcap 100 index was up by 5.1% over the previous month. Within sectors auto, realty, technology services, consumer goods outperformed Nifty 50 whereas metals, media, pharma and financials underperformed.

Sr No	Index Name	May-23
		M-o-M Change
1	NIFTY 50	2.60%
2	NIFTY Midcap 100	6.19%
3	NIFTY Smallcap 100	5.10%
4	NIFTY Auto	7.66%
5	NIFTY Bank	2.07%
6	NIFTY Financial Services	1.48%
7	NIFTY FMCG	6.75%
8	NIFTY IT	5.82%
9	NIFTY Media	2.39%
10	NIFTY Metal	1.56%
11	NIFTY Pharma	0.51%
12	NIFTY Private Bank	2.67%
13	NIFTY PSU Bank	-3.31%
14	NIFTY Realty	7.57%
15	NIFTY Consumer Durables	7.45%
16	NIFTY Oil & Gas	-0.80%
17	NIFTY Healthcare Index	2.46%

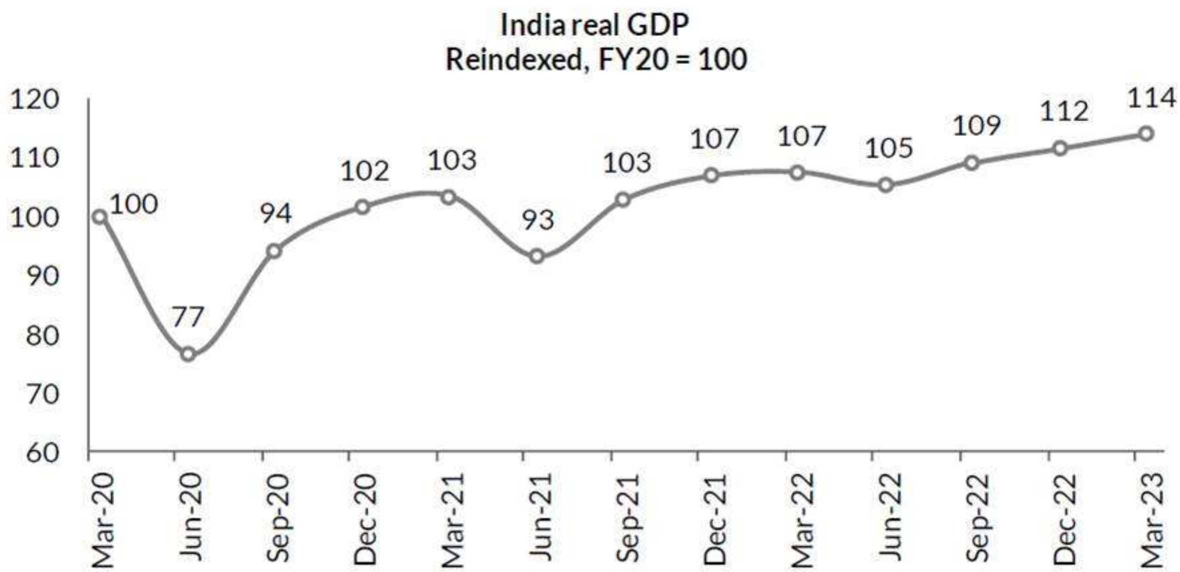
Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were strong net buyers in May 2023 at ~INR438bn or USD5.33bn whereas domestic institutions were net sellers at USD400mn. For CY2023, foreign funds have been net buyers at USD3.55bn.

On the macroeconomic front, India's GST collection in May 2023 was Rs.1.57trillion, up 12% YoY. Last financial year saw Rs.1.4 trillion GST collection as the base and the expectations are that the base in the current financial year may well be Rs.1.5 trillion. Another interesting data on tax collections is direct tax buoyancy, which measures growth in the collection of personal income tax and corporation tax against the rise in GDP. India recorded highest direct tax buoyancy in 15 years at 2.52 which reflects greater efficiency in tax collections. The cost of tax collections too has declined due to use of technology and systems.

India reported strong GDP growth at 7.2% for FY2023 making it the fastest growing major economy in the world. Manufacturing grew 4.5% in quarter four, after two quarters of contraction, investment growth was 8.9% and inflation was down to 4%. FY2023 GDP growth shows the resilience of the Indian economy amidst globally challenging environment.

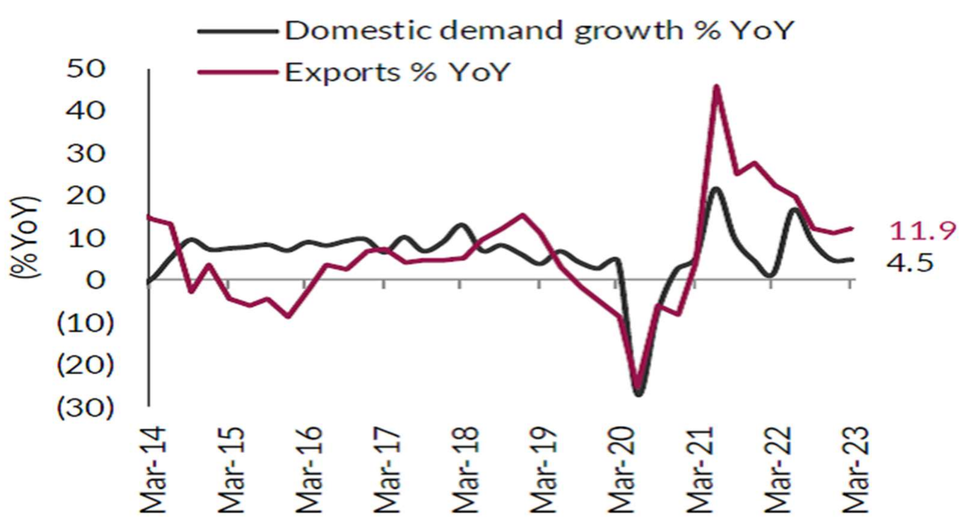
Fig: Sequential expansion in GDP



Source: Axis Capital

India's GDP is estimated for FY2023 at ~Rs.272trillion or USD3.32trillion. India's GDP growth was boosted by manufacturing and construction on the supply side and by investments and net exports on the demand side.

Fig: Services boost exports



Other economic indicators and data that point to strong demand in the economy, are -

1. India's manufacturing PMI touched at **31 months high** of 58.7 on the back of robust demand as per S&P Global survey.
2. India's diesel and petrol sales were up **9.3% and 10.4% YoY** respectively in May.
3. India's passenger vehicles/car sales **grew 13.5% YoY** in May and in absolute numbers touched 334,800 units.
4. India's electric two-wheeler sales more than doubled over a year ago and touched 100,000 mark for the first time.
5. India's air traffic has encouraged Indian carriers to add 115 aircrafts in FY2024.
6. India's foreign exchange reserves touch **USD589bn**.

Quarter four FY2023 corporate earnings were healthy despite an uncertain global environment. As expected, corporate earnings were driven by financials whereas metals dragged aggregate profitability. Technology services companies reported a mixed performance with tier-1 firms delivering muted revenue growth and modest margins, while tier-2 companies outpaced the tier-1 pack with stronger revenue growth. Banking sector reported a strong quarter four FY2023, driven by healthy loan growth, stable margins, and continued asset quality improvements. There were numerous drivers of credit expansion, with the retail and micro, small and medium enterprises exhibiting robust growth. Automobile volumes grew across segments, except for two-wheelers which remained flat due to a decline in exports. Consumer companies' performance was mixed but margins should show improvements going forward.

Our view:

India's economic growth is despite higher interest rates and weak real income growth. These factors are set to improve in the upcoming quarters as inflation moderates, credit growth remains strong and banking sector liquidity improves. The recent fall in market interest rates and improvement in real incomes should help sustain the robust pace of activity. The sharp divergence between nominal and real economy size at the start of the pandemic represents outsized profits in the economy which will trickle down as real activity in ensuing quarters through stronger pace of investments, wage growth and firms adopting volume strategy. There is evidence of this trickle down in the corporate earnings of FY2023.

Nifty 50 index companies ended FY2023 with a 11% earnings growth that too on a high base of 34% growth in FY2022. With strong economy, moderating inflation, healthy corporate balance sheets and real wage growth, the stage seems likely set for another year of robust growth. We remain upbeat on the Indian economy and maintain our positive bias towards domestic sectors viz infrastructure, defence manufacturing, consumer goods, telecom and logistics.

Risks remain in the form of unforeseen global events, actions by global central banks, oil production cuts by OPEC+, supply chain challenges, Ukraine war, and the resultant impact of these events on global and emerging market funds.

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