FAITH & *PATIENCE*

June 2023

Helping You Achieve Your Goals

Overview:

For the month ended June 30, 2023, Nifty 50 closed 3.5% higher over previous month's close. Mid and Small caps outperformed large caps. NSE Midcap 100 index was up by 5.9% and NSE Smallcap 100 index was up by 6.6% over the previous month. Within sectors auto, realty, consumer goods, healthcare outperformed Nifty 50 whereas technology services, banks, oil & gas, and media underperformed.

Sr No	Index Name	Jun-23
		M-o-M Change
1	NIFTY 50	3.53%
2	NIFTY Midcap 100	5.90%
3	NIFTY Smallcap 100	6.60%
4	NIFTY Auto	6.68%
5	NIFTY Bank	1.40%
6	NIFTY Financial Services	3.15%
7	NIFTY FMCG	2.26%
8	NIFTY IT	0.83%
9	NIFTY Media	-0.69%
10	NIFTY Metal	5.42%
11	NIFTY Pharma	8.59%
12	NIFTY Private Bank	2.01%
13	NIFTY PSU Bank	2.00%
14	NIFTY Realty	8.60%
15	NIFTY Consumer Durables	4.01%
16	NIFTY Oil & Gas	1.39%
17	NIFTY Healthcare Index	8.84%

Source: National Stock Exchange of India

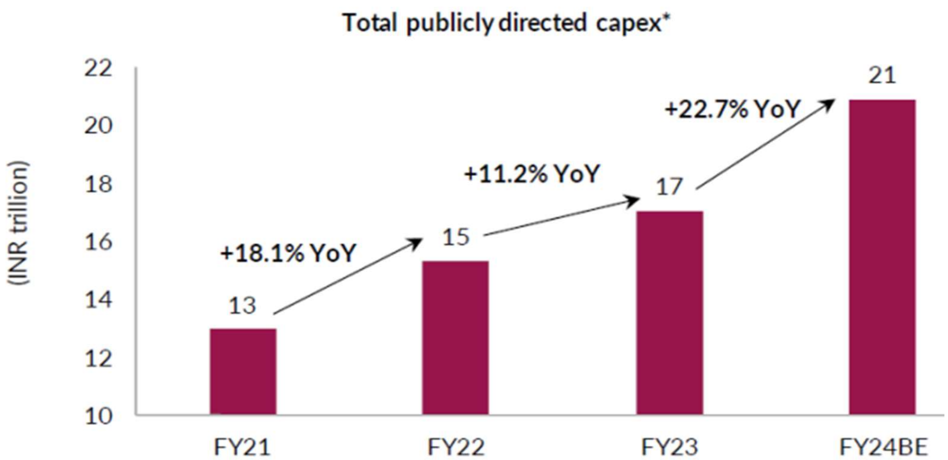
Foreign funds (FIIs/FPIs) were strong net buyers in June 2023 at ~INR471bn or USD5.73bn whereas domestic institutions were net buyers at USD540mn. For CY2023, foreign funds have been net buyers at USD9.29bn.

On the macroeconomic front, India's GST collections in June 2023 were Rs.1.61trillion, up 12% YoY. GST collections crossed Rs.1.6trillion mark for the 4th time since inception of GST. It crossed Rs.1.4trillion mark for 16 months in a row and Rs.1.5trillion for the 7th time. Average monthly gross GST collection for Q1FY2022 was Rs.1.10trillion, FY2023 was Rs.1.51trillion and for FY2024 it is Rs.1.69trillion. This indicates a strong economy and increasing efficiency in tax collections.

After an anxious period of two weeks in June 2023 due to delay, the Indian monsoon has rapidly advanced and covered most of the country 6 days before the normal date. The deficit in rainfall due to delay has been more than adequately covered. Due to the slow start, the sowing of water-intensive crops such as rice, cotton, jute has been weaker than last year, but this is expected to improve. As of now, concerns on inflation due to delayed monsoon seem to have abated.

As per recent GDP and industrial production data, construction demand is the driver of growth in India. Governments both central and state have set very high targets for capex this year. Even if states underachieve, total Government directed capex in FY2024 is expected to grow by 23% YoY to Rs.21trillion (6.9% of GDP in FY24 vs. 6.2% in FY23). Apart from the public capex uptick, healthy investment sentiment from corporate and household sectors is also being witnessed. Stamp duty collection growth by states (~17% 3-yr CAGR) is a good indicator for investment sentiment and in real estate sector. Construction demand is being supported by falling input costs and stronger real incomes.

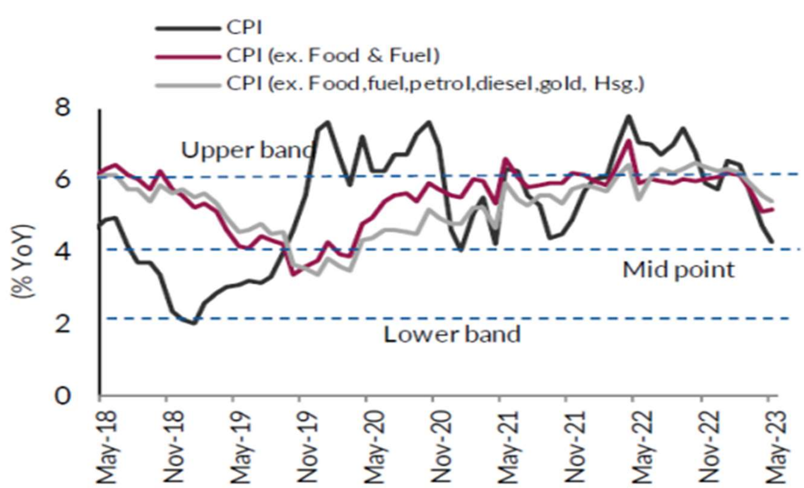
Fig: Total public capex (Centre + States + PSUs)



Source: Union and State Budget documents FY2024, Axis Capital

Largely led by food, headline CPI inflation slowed towards 4% as expected by the markets. It is expected to remain near 4% in the coming months and the prospects of India's central bank reacting (rate cuts) is low. The focus is on aligning expectations at 4% CPI to achieve lower long-term cost of capital. Besides, there are inflation concerns from El Nino impact, generous Minimum Support Price and strengthening domestic demand. The fact that there is a major election in May 2024 cannot be ignored and no Government can afford high inflation.

Fig: Falling inflation



Source: CEIC, Axis Capital

Our view:

Benchmark Nifty50 index closed at 19189 points on June 30, 2023, and Indian markets are at new highs. India's market capitalisation has touched a record Rs.298trillion or USD3.5trillion. India continues to be in a bull market which started in April/May 2020 during the covid pandemic. Indian market did enter a consolidation phase post October 2021 as earnings growth slowed, most of the growth was priced in by then, supply chain issues cropped up and elevated raw material prices presented additional headwinds.

With inflation numbers coming off, low input costs, rising real incomes, an unstoppable Government juggernaut pushing capital expenditure to ensure economic growth, unprecedented relentless rise in tax collection particularly GST and rising credit growth, have given the markets the confidence to come out of the long consolidation phase. It should, however, be noted here that, when we speak of market confidence, we specifically mean foreign investors. For throughout the last 2 years, retail Indian investors have been steadily increasing their exposure to equities as seen through the steady rise in systematic investment plans of mutual funds which have hit a monthly rate of ~Rs.140bn or USD1.7bn.

We believe that the India capex story has been firing only on one engine i.e., public capex. The other engine, i.e. corporate or private sector capex has been lagging for some time now. To give a number in perspective, India's private sector corporate capex to GDP touched 4% in 2003 and thereafter rose to ~17% in 2010. We again hit private sector capex to GDP of 4% last year and have begun clawing back. Unleashing of animal spirits in private sector corporate capex, the other engine, is the data point to be watched keenly in FY2024. We remain constructive on this.

We are upbeat on the Indian economy, the companies in our portfolio, their earnings trajectory and maintain our positive bias towards domestic sectors.

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 markets.

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(A division of EquiPoise Capital Management Pvt. Ltd.)

July 5, 2023.

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