Overview:

For the month ended July 31, 2023, Nifty 50 closed 2.94% higher over previous month's close. Mid and small caps outperformed large caps. NSE Midcap 100 index was up by 5.5% and NSE Smallcap 100 index was up by 7.99% over the previous month. Within sectors auto, metal, pharma, realty, oil & gas, and healthcare outperformed Nifty 50 whereas technology services, consumer durables, and financial services lagged.

Sr. No.	Index Name	Jul-23
		M-o-M Change
1	NIFTY 50	2.94%
2	NIFTY Midcap 100	5.50%
3	NIFTY Smallcap 100	7.99%
4	NIFTY Auto	3.70%
5	NIFTY Bank	2.02%
6	NIFTY Financial Services	1.42%
7	NIFTY FMCG	0.85%
8	NIFTY IT	1.24%
9	NIFTY Media	18.22%
10	NIFTY Metal	8.84%
11	NIFTY Pharma	8.90%
12	NIFTY Private Bank	2.13%
13	NIFTY PSU Bank	12.42%
14	NIFTY Realty	8.99%
15	NIFTY Consumer Durables	1.03%
16	NIFTY Oil & Gas	8.03%
17	NIFTY Healthcare Index	7.01%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were strong net buyers in July 2023 at ~INR466bn or USD5.68bn whereas domestic institutions were net sellers at USD325mn. For CY2023, foreign funds have been net buyers at USD15bn.

On the macroeconomic front, India's GST collections in June 2023 were Rs.1.65 trillion, up 11% YoY. GST collections crossed Rs.1.6 trillion mark for the 5th time since inception of GST. During the month, revenue from total Government directed capex in FY2024 is expected to grow by 23% YoY to Rs.21trillion (6.9% of GDP in FY24 domestic transactions were 15% higher than the revenue from these sources during the same month last year. This indicates a strong economy and increasing efficiency in tax collections. With festive season starting September, the coming 2-3 months should see strong consumer buying e.g. cars, scooters, motorcycles, white goods, clothes, house buying, home decorations, vacations etc. This should ensure strong GST collections during CY2023.

IMF has raised India's FY2024 growth forecast to 6.1% (from 5.9% earlier) making India retain its number one rank as the fastest growing large economy in the world. IMF forecasts the world economy to grow by 3%.

India's core sector (electricity, steel, refinery products, crude oil, coal, cement, natural gas, and fertilizers) growth accelerated to 8.2% in June 2023. This is the fastest growth in the last 5 months on the back of capital expenditure by the Government - Centre as well as States. India's manufacturing too remained robust in July and the S&P Global India Manufacturing Purchasing Managers' Index (PMI) posted a reading of 57.7. S&P Global India Services PMI rose to 62.3 in July touching a 13 year high indicating strong demand for services also boosted by services exports.

Government of India's PLI initiative or Production Linked Incentives to boost domestic manufacturing, to create jobs and reduce import dependency is starting to show immense success. PLI was launched with an objective to "Make in India, For India and For The World." Electronics imports in the recent past have been a major cause of worry for the Government due to its strain on balance of payments and foreign exchange. Electronics, thanks to PLI, have now become the fourth largest exported item from India and grew 56% in quarter one FY2024 (April 1 to June 30, 2023). Electronics exports have overtaken chemicals and pharmaceuticals exports and are expected to emerge as the third largest exported item beating gems and jewelry. Mobile phone form bulk of the electronics exports and within that Apple constitutes 35% of total electronics exports and 66% of mobile phone exports.

Car sales continued to show healthy growth (SUVs continue to drive growth) in July with sales of 352,492 vehicles and it was also seen through the petrol sales growth as Indians preferred personal vehicles for transportation, an indication also of improved road conditions, road safety and road network. Aviation fuel sales rose 10.3% YoY in July indicating robust growth in domestic travel (which augurs well for tourism). Electricity consumption was 8.5% YoY and digital transactions were up 58% touching 9.96 billion in July 2023. India's overall economic growth remains robust.

Our view:

Quarter one FY2024 earnings have been good so far. Bulk of the demand in the economy is being driven by the cyclical recovery in capital expenditure, credit growth and discretionary consumption. This is also getting validated through the results announced so far. NSE 200 universe (more than 60%) has reported earnings so far and the YoY aggregate free float earnings growth stands at 41%. While deflation in commodity prices has hurt commodity producers it does help the overall economy hugely especially at a time when India is incurring capital expenditure. Unlike in China's case where the infrastructure build up took place with commodity prices at their peak, India has an opportunity to build its infrastructure when input prices are benign.

While the commodity deflation is a big drag on quarter one FY2024 earnings, the volume growth for commodities such as steel and cement has been in strong given the revival in capex and real estate cycles. Credit growth has been robust, as expected, and it is witnessed through strong results of most financial companies. Also, consumer discretionary sector (tourism, real estate, autos etc.) have shown good results.

We are positive on the Indian economy, the companies in our portfolio, and their earnings trajectory. While the market has run-up sharply in the last few months and there are pockets where valuations could be ahead of fundamentals, but we believe India's growth story is intact and corrections present an opportunity for long term investors.

Risks remain in the form of unforeseen global events, actions by global central banks and by ratings agencies (recent Fitch ratings downgrade), inflation - oil as well as agricultural commodities, and Ukraine war.

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August 6, 2023.