Overview:

For the month ended September 29, 2023, Nifty 50 closed 2% higher over previous month's close. Mid and small caps outperformed large caps. NSE Midcap 100 index was up by 3.63% and NSE Smallcap 100 index was up by 4.12% over the previous month. Within sectors auto, metals, realty outperformed Nifty 50 whereas media, information technology, banks and consumer durables lagged.

Sr No	Index Name	Sept 2023
		M-o-M Change
1	NIFTY 50	2.00%
2	NIFTY Midcap 100	3.63%
3	NIFTY Smallcap 100	4.12%
4	NIFTY Auto	3.28%
5	NIFTY Bank	1.35%
6	NIFTY Financial Services	1.09%
7	NIFTY FMCG	1.00%
8	NIFTY IT	1.99%
9	NIFTY Media	-1.09%
10	NIFTY Metal	2.70%
11	NIFTY Pharma	2.17%
12	NIFTY Private Bank	0.79%
13	NIFTY PSU Bank	17.71%
14	NIFTY Realty	3.09%
15	NIFTY Consumer Durables	0.86%
16	NIFTY Oil & Gas	2.25%
17	NIFTY Healthcare Index	2.54%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were heavy net sellers in September 2023 at ~INR148bn or USD1.8bn whereas domestic institutions were net buyers at USD2.1bn. For CY2023, foreign funds have been net buyers at USD14.7bn and domestic institutions at ~USD15bn.

On the macroeconomic front, India's GST collections in September 2023 were Rs.1.63 trillion, up 10% YoY. GST collections crossed Rs.1.60 trillion for the fourth time in the current financial year on the back of a 14% jump in domestic transactions thereby indicating a pick-up in consumption. Gross GST collections for first six months of FY2024 are up 11% YoY at Rs.9.92 trillion.

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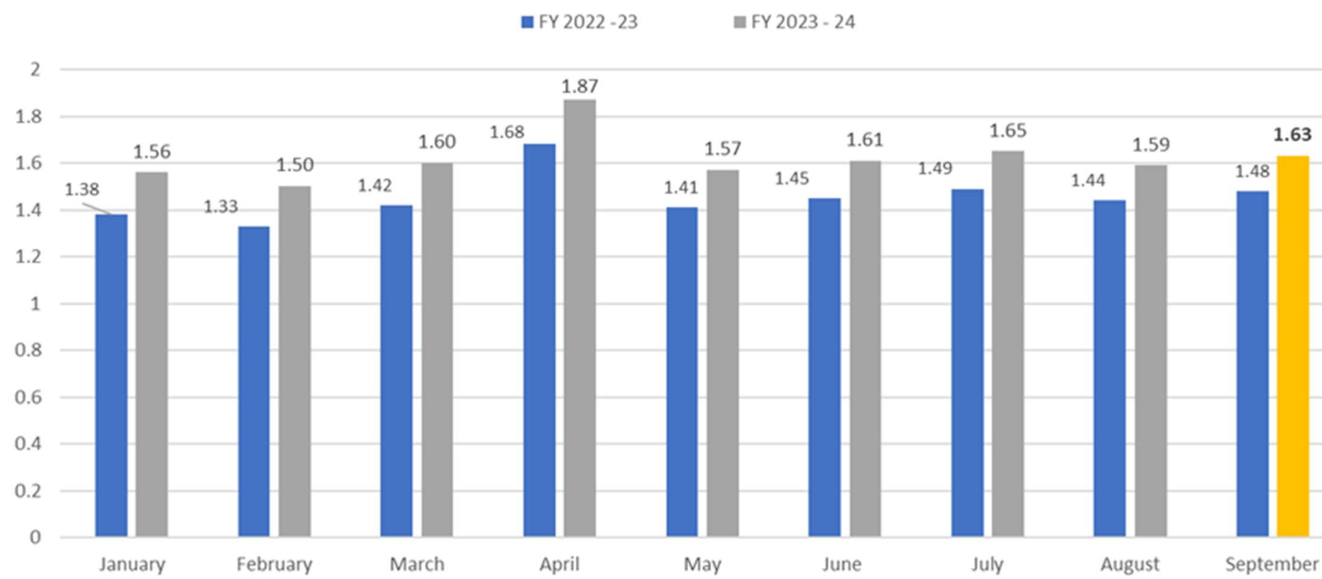
Fig: GST Collections trend (in INR trillion)



Source: Government of India, EquiPoise Capital research

S&P Global Market Intelligence has revised India's GDP growth for FY2024 to 6.6% from 5.9%, World Bank has retained its growth estimates at 6.3% whereas Asian Development Bank has lowered its growth estimates to 6.3% from 6.4% earlier.

India's core sector - coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity, output growth touched a 14-month high of 12.1% in August 2023 on the back of 8.4% rise in July 2023. These eight core sectors make up 40% of the Industrial Index of Production (IIP) and indicate further growth in India's industrial sector.

India's power consumption grew 10.7% to 140.49 billion units in September 2023 vs 126.91 billion units in September 2022 vs 112.43 billion units in September 2021. The peak power demand met rose to 239.97 GW vs 199.50 GW in September 2022 vs 180.73 GW in September 2021. Cement production rose to a 9-month high and natural gas production growth hit 18 months high.

September quarter saw sales of consumer goods, cars, smartphones, and household appliances surge both sequentially and on year-on-year basis. Passenger car companies ended the September quarter on a high note with 1,070,377 units sold during the quarter. Even electronics and household appliances surged 15% YoY by volume.

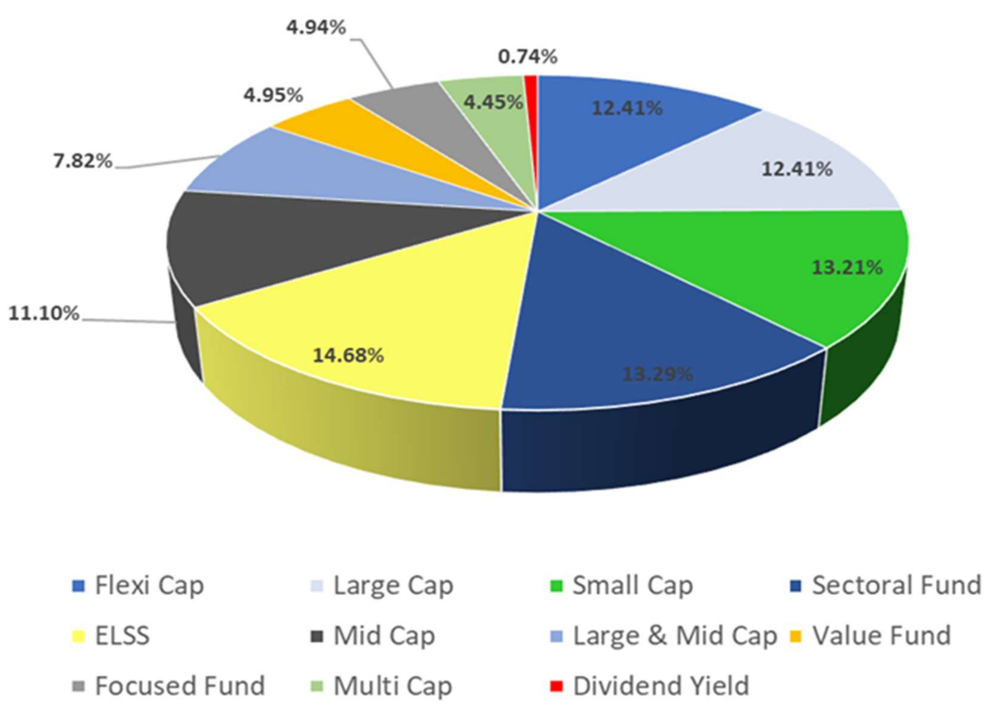
India's indigenously developed and a shining example of digital transformation, UPI or Unified Payments Interface, the real time payment mechanism run by NPCI or National Payments Corporation of India a not-for-profit organization promoted by the Reserve Bank of India and Indian Banks' Association, has crossed the 10 billion mark for the second straight month in September after reaching a new milestone 10.5 billion monthly transactions in August 2023. UPI transactions were up 55% YoY in September 2023 and stood at Rs.15.79 trillion. This growth and size show that Indians across socioeconomic backgrounds have embraced digital payments and transactions. This will continue to have a positive impact on the overall economy through improved transparency and tax collections as cash economy takes a backseat and reported economy rises.

According to the data released by CBDT, advance tax collections are estimated to have gone up nearly 21% and gross direct tax collections are estimated to have risen by 18.3%.

At 3.6 million, gross new accounts registration for investing in mutual fund through systematic investment plans (SIP) in August 2023 is now significantly higher than the average 2.2 million monthly addition over last two years. Monthly additions have remained above 3 million for the second month in a row thereby taking total SIP accounts tally to 69.7 million. The monthly SIP inflow now stands at Rs.158.14 billion, total SIP linked assets under management (AUM) are at Rs.8.5 trillion and account for 18.2% share in total mutual funds AUM. SIP accounts have been growing at 23% annually over the last 5 years resulting in 31% annual growth in SIP linked AUM.

Another interesting data is the monthly mutual fund new folio additions (or new investors addition). At 2.2 million, the new folio addition in August 2023 was twice that of the mutual fund industry's long-term average. It also showed a bias of Indian investors towards small caps as 38% of the new folio additions were in small cap equity funds (16.4% in sectoral funds and 14.2% in mid cap funds). This has resulted in overall small cap folios now being higher than large cap fund folios. The total tally of equity mutual fund folios is now 104 million and has been growing by 15% annually over the last four years.

Fig: Equity Mutual Fund Folio Break-up



Source: AMFI, EquiPoise Capital research

Our view:

From the sustained growth in GST collections, advance tax collections, direct tax collections, robust retail consumption, core sector growth, IIP growth, GDP projections of RBI, S&P, World Bank, and ADB, it is amply clear that Indian economy is strong and probably the only large economy expected to continue growing at +6% over next 2-3 years.

A recent study, by a leading global consulting firm, shows India is fast emerging as one of the winners in global manufacturing over the past five years with its exports to the US increasing by 44%. As per the study, India's exports of semiconductors and material to US surged 143%, auto components exports surged 65% and mechanical machinery exports grew by 70%. The study also highlighted that the landed cost of Indian made goods imported into US were 15% lower than if they were manufactured in US. The study also pointed that the difference in landed cost was mere 4% in the case of goods imported (by US) from China and 21% higher in case of goods subject to US tariffs related to US-China trade war.

From mere 2% in 2005, India's share in global commercial services exports has risen to 4.4% in 2023 (leading to employee poaching wars among Big4 as reported by India's leading daily). India is also set to further accelerate its share in the China+1 manufacturing opportunity and has a major advantage given its broad manufacturing base that supplies from heavy engineering, electric vehicles to household appliances and even chemicals to its domestic market. So, both services exports and manufacturing exports from India are expected to grow.

There are many positives specific to India in a rather gloomy global backdrop of rising oil prices, high inflation in developed economies, rising global bond yields and expectations of US Fed keeping rates higher for longer than anticipated. High oil prices do hurt India as well and CPI inflation is at 6.8% already well over RBI's comfort zone of 2-6%. Inflation in India has been mainly driven by food prices in the recent months. Good monsoon this year is resulting in softening of Agri-commodity prices and is expected to bring CPI inflation below 6%.

As far as the Indian markets are concerned, global liquidity is the key factor to watch. Foreign funds on the back of global concerns have been in a selling mode particularly in September. Robust domestic fund flows thanks to SIPs and ever-increasing retail participation are helping absorb the foreign fund outflows. However, we have seen the divergence in the performance of narrow markets (Sensex, Nifty 50) versus broad markets and it can be attributed to the fund flows which are negative in large caps (due to foreign fund selling) and overwhelmingly positive in mid and small caps particularly biased towards small caps (domestic retail inflows).

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 foreign fund outflows, unforeseen global events, actions by global central banks, inflation - oil and Ukraine war.

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