FAITH & *PATIENCE*

October 2023

Helping You Achieve Your Goals

Overview:

For the month ended October 29, 2023, Nifty 50 closed 2.84% lower over previous month's close. Large and Midcaps underperformed Small caps. NSE Midcap 100 index was down by 4.10% and NSE Smallcap 100 index was down only 0.77% over the previous month. Within sectors realty, consumer goods and auto outperformed Nifty 50 whereas banks, information technology, banks and healthcare lagged.

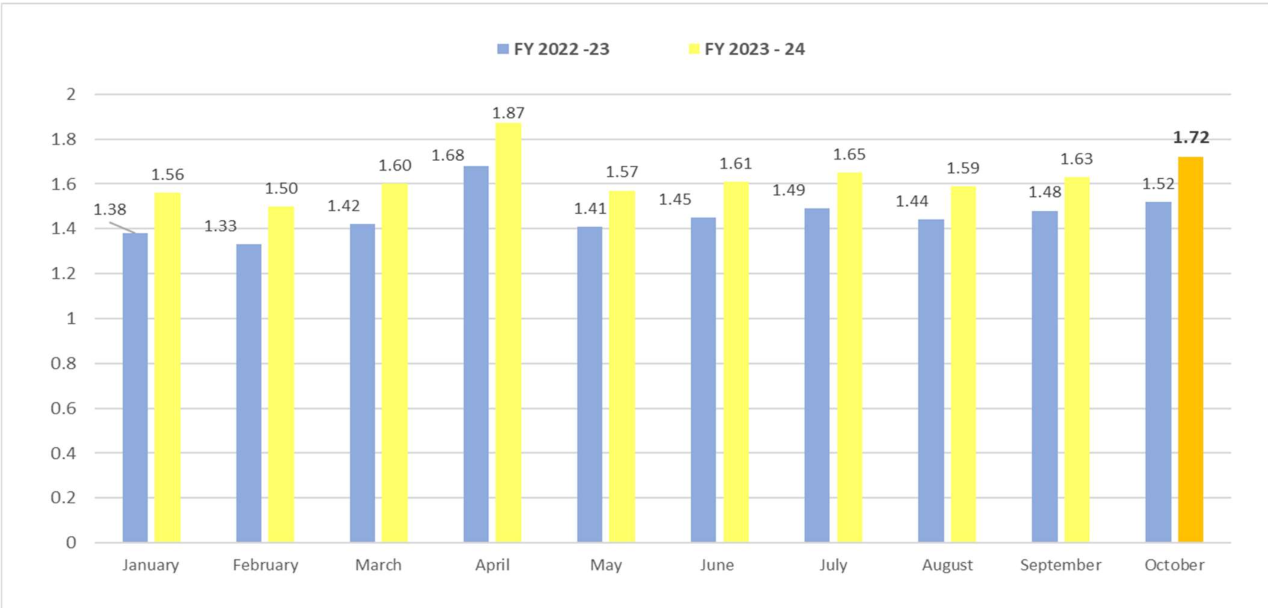
Sr No.	Index Name	Oct-23
		M-o-M Change
1	NIFTY 50	-2.84%
2	NIFTY Midcap 100	-4.10%
3	NIFTY Smallcap 100	-0.77%
4	NIFTY Auto	-1.66%
5	NIFTY Bank	-3.90%
6	NIFTY Financial Services	-3.06%
7	NIFTY FMCG	-0.66%
8	NIFTY IT	-3.78%
9	NIFTY Media	-3.05%
10	NIFTY Metal	-5.66%
11	NIFTY Pharma	-4.79%
12	NIFTY Private Bank	-3.75%
13	NIFTY PSU Bank	-6.16%
14	NIFTY Realty	4.75%
15	NIFTY Oil & Gas	-3.71%
16	NIFTY Healthcare Index	-4.77%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were heavy net sellers in October 2023 at ~INR283bn or USD3.4bn whereas domestic institutions were net buyers at USD3.4bn. For CY2023, foreign funds have been net buyers at USD11.3bn and domestic institutions at ~USD18.5bn.

On the macroeconomic front, India's GST collections in October 2023 surged to second highest ever at Rs.1.72 trillion, up 13.4% YoY. GST collections crossed Rs.1.60 trillion for the fifth time in the current financial year, a remarkable growth on account of underlying economic factors. The gross GST collections till October now stand at Rs.11.64trillion.

Fig: GST Collections trend (in INR trillion)



Source: Government of India, EquiPoise Capital research

Other indicators which point to resilient growth:

- Government capex growth for first half FY2024 is up 46% YoY with states beginning to contribute strongly.
- Core sector growth for September 23 was 8.1% YoY and non-food credit growth as of October 2023 was 19.4% YoY.
- October 2023 PMI-manufacturing reading at 55.5.
- Passenger vehicle sales growth in October of 16.3% YoY at 390,000 units.
- Two-wheeler or motorcycles and scooters sales show strong double digit YoY growth.
- India's fuel demand remains strong and power demand is up 22% in October 2023. Power consumption now stands at 138.9 billion units versus 113.9 billion units a year ago.
- While consumption has been strong, Premiumisation (consumer discretionary spending) is starting to take firm roots. Anecdotal evidence in the form of halving of market share of entry level cars, despite overall strong rise in vehicle sales plus SUV sales. Similar trends are visible in television sets, home appliances and mobile phones. Apple Inc's third quarter 2023 results show 34% growth in India sales, marked its best ever quarter in India and expectations are that this year's volume sales will likely touch 10mn, thereby giving Apple a market share of 6% (up from less than 4% in FY2022)
- Income tax returns filed by individual taxpayers surged 90% in AY2022 highlighting widening of tax base.
- 34% rise in entities filing gross income total tax returns of over Rs.5bn and nearly 21mn paid income tax but did not file returns as per latest data released. This can be attributed to robust economy, rising corporate profits, higher household incomes and better use of big data and technology by Government.
- Average gross income for individual taxpayers has increased by 56% in the last 8 years as per recent data released by the Central board of Direct Taxes.

- Quarter two FY2024 earnings have been robust. Earnings growth for NSE200 universe so far in Q2FY24 remains robust at ~42%.

Our view:

While India's GDP growth is strong, we believe it likely has upside risks given the robust high frequency indicators listed above viz. PMI, tax buoyancy, corporate profits, industrial production, credit growth, power demand etc. Recently world's top 3 economies viz US, China and Japan too showed strong growth. This indicates global GDP growth outlook likely has upside risks. Hence, the expectation of a rate cut in the near term is being replaced by 'higher for longer' given the robust growth and elevated but declining inflation. An environment of resilient growth and elevated inflation has been known to be bullish for equities as nominal earnings growth is robust. Q1FY2024 and even Q2FY2024 results so far have been strong.

1. India is the only large economy continuing to show strong economic growth.
2. Inflation is within central bank's acceptable limits and falling.
3. Stable Government focused on reforms.
4. Government focused on capital expenditure and investment led growth model.
5. Rising tax collections, improving tax compliance, digital payments, transparency and rise in domestic manufacturing as well as exports.
6. India's share in global services exports rising to 4.4% and last but definitely not the least.
7. Rise of domestic Indian investors who are now putting in Rs.160bn per month consistently and ensuring despite the relentless heavy selling by foreign funds, Indian markets have remained stable.

Despite the above positives, with key state elections in November and December 2023 and the grand finale or central elections in April/May 2024, we believe calls for a cautiously optimistic approach.

We maintain our bias towards domestic sectors viz banks, infrastructure, defence manufacturing, engineering and construction, and consumer goods. We believe India's growth story is getting only better by the day 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, Ukraine war and Middle East crisis. Any further rise in interest rates remains a key risk to economic growth and valuations of equities relative to bonds, but inflation projections of the RBI and the US Federal Reserve indicate peak inflation is likely past us.

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

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