FAITH & *PATIENCE*

November 2023

Helping You Achieve Your Goals

Overview:

For the month ended November 30, 2023, Nifty 50 closed 5.52% higher than previous month's close. Midcaps and smallcaps outperformed large caps. NSE Midcap 100 index was up by 10.37% and NSE Smallcap 100 index was up 12% over the previous month. Within sectors realty, healthcare, oil & gas, metals, and auto outperformed Nifty 50 whereas banks, consumer durables, banks and media lagged.

Sr. No.	Index Name	Nov-23 M-o-M Change
1	NIFTY 50	5.52%
2	NIFTY Midcap 100	10.37%
3	NIFTY Smallcap 100	12.03%
4	NIFTY Auto	10.28%
5	NIFTY Bank	3.82%
6	NIFTY Financial Services	4.43%
7	NIFTY FMCG	3.42%
8	NIFTY IT	6.54%
9	NIFTY Media	4.43%
10	NIFTY Metal	8.76%
11	NIFTY Pharma	10.59%
12	NIFTY Private Bank	4.05%
13	NIFTY PSU Bank	2.16%
14	NIFTY Realty	18.34%
15	NIFTY Consumer Durables	4.91%
16	NIFTY Oil & Gas	11.39%
17	NIFTY Healthcare Index	11.17%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net buyers in November 2023 at USD614mn whereas domestic institutions were net buyers at USD1.7bn. For CY2023, foreign funds have been net buyers at USD12.7bn and domestic institutions at ~USD20bn.

Fig: Flows

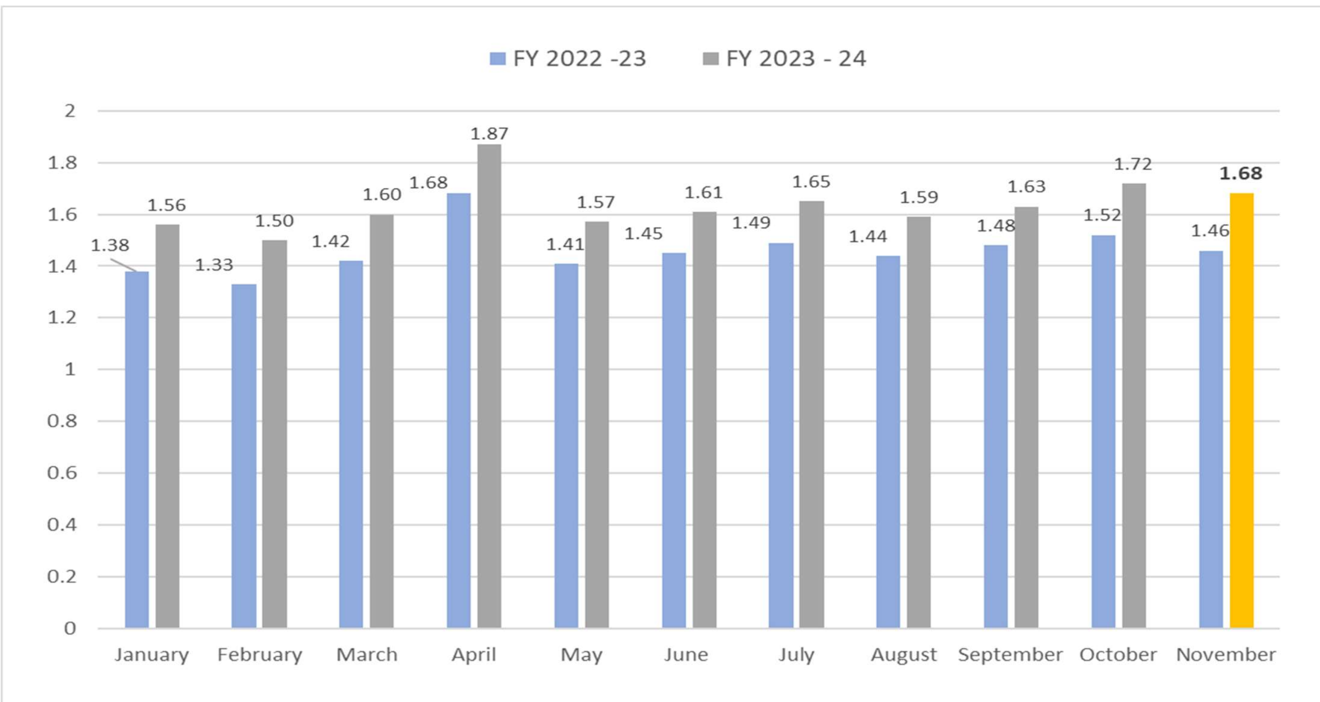
(USD mn)	Curr	MTD	CYTD
FII - Cash	214	614	12,716
DII - Cash	-94	1,700	20,233
FII - Debt	53	1,652	6,046

Source: Axis Capital, Bloomberg

India's market capitalization crossed the USD4trillion mark in November 2023, making it the fifth country behind US, China, Japan, and Hong Kong to achieve this milestone. India's share in world market cap stands at 3.6% (3.37% in January 2023).

On the macroeconomic front, India's GST collections in November 2023 touched Rs.1.68 trillion and surged 15% YoY which is the highest growth rate. GST collections crossed Rs.1.60 trillion for the sixth time in the current financial year. FY2024 GST collections till November 2023 now stand at Rs.13.32trillion averaging Rs.1.66 trillion per month which is 11.9% growth over FY2023 till November 2022.

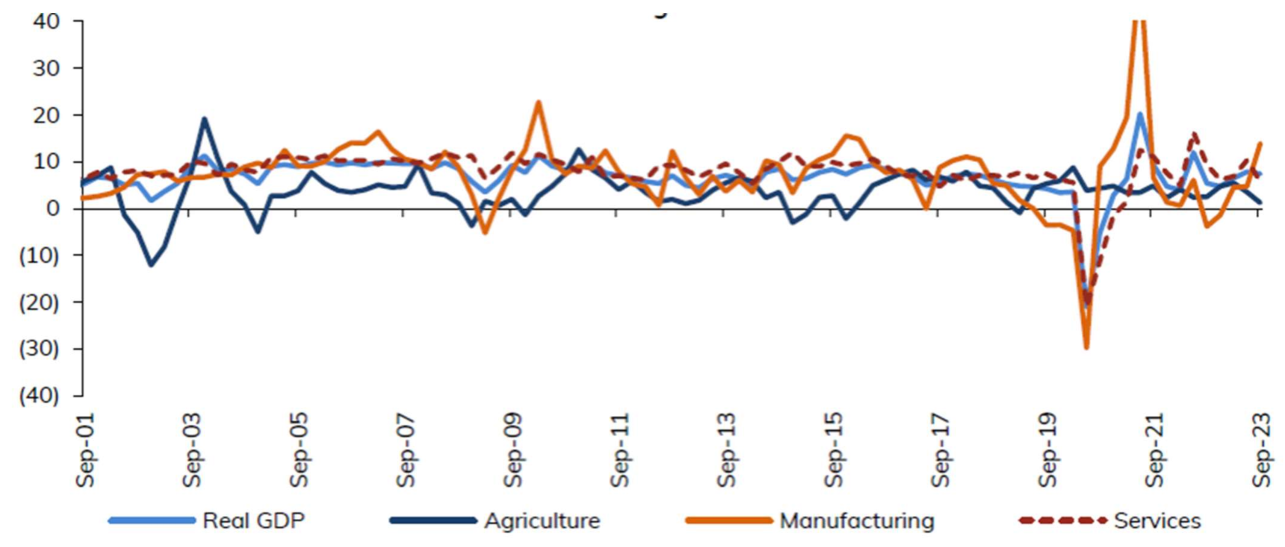
Fig: GST Collections trend (in INR trillion)



Source: Government of India, EquiPoise Capital research

Led by strong growth in investments, India's real GDP grew by 7.6% YoY in Q2FY2024 (well ahead of the consensus expectations of 6.8%), thereby retaining its position as the fastest growing major economy in the world. On the industry side, it was the star performer manufacturing sector which grew 9.3% YoY - a nine quarter high, in first half FY2024 and is expected to grow 9% YoY in H2FY24 as well, helped by the continuation of a goods-export recovery, strengthening investment spending, and likely improvement in private consumption as inflation abates. During H1FY2024, share of gross fixed capital formation in GDP increased to 35%, whereas the share of consumption expenditure (private and government) fell. Manufacturing sector surge offset modest growth in services and agriculture sectors.

Fig: Manufacturing main driver of GDP growth in Q2FY2024

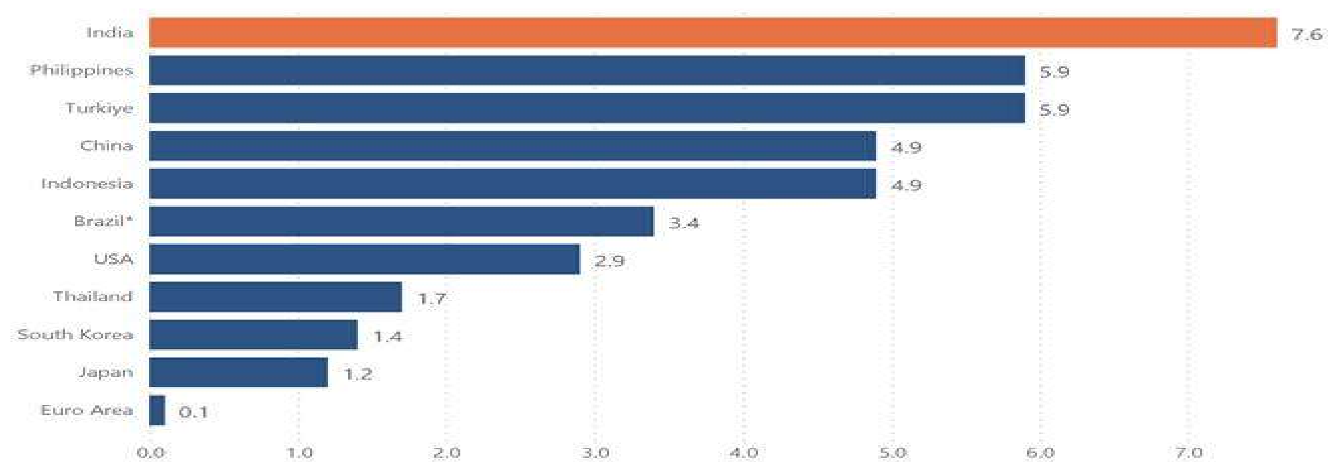


Source: MoSPI, CEIC, ISec

Owing to the strength of the economy, India's fiscal deficit was reined in and reached only 45% of the FY2024 target after 7 months of the fiscal year (Apr-Oct'23). Generally, the fiscal deficit exceeds the full-year target in the first 6-8 months of the fiscal year, as tax revenue is strongest in the final quarter.

S&P Global Ratings revised India's economic growth forecast, for current FY2024, to 6.4% from 6% earlier. This brings S&P forecast closer to World Bank's forecast of 6.3%, IMF 6.3%, ADB 6.3% and RBI 6.5% (upside risk to RBI forecast cannot be ruled out).

Fig: Real GDP growth (September quarter. YoY%)



Source: IndiaDataHub

India's foreign exchange reserves increased by USD2.538bn to touch USD597.935bn. Gold reserves were up USD296mn million to $46.338 billion during the week.

Other indicators which point to resilient growth:

- Core sector growth for October 2023 up 12% YoY on the back of robust expansion in coal, electricity, cement and steel sectors.
- November 2023 PMI-manufacturing reading at 56 versus 55.5 in October.
- Passenger vehicle sales growth in November was 3.9% YoY at 335,354 units (this growth is over the stellar 32% YoY growth seen in November 2022).
- Electricity consumption was up 9% YoY
- Railway freight was up 4.3% YoY at 128.4MT
- Coal production was up 9% YoY
- UPI digital transactions crossed 11bn mark for the second month in a row.
- Mobile phone manufacturing in India touched USD44bn with USD11bn exports (ten years ago 98% mobiles were imported, today 99.2% are manufactured in India). The sector employs 250,000 people directly.

Our view:

As we sit down to write our monthly market commentary, results of the elections to four states of India are trickling in. Early indications show Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) has a clean sweep and is all set to form Governments in three important central India or heartland states namely - Madhya Pradesh (MP), Rajasthan and Chhattisgarh. Please note these solidly positive results will be extrapolated by public, experts and particularly markets as "Mood of the Nation" towards upcoming April 2024 general election. It is noteworthy to see Indian electorate voting overwhelmingly in favour economic performance and growth as indicated through the result of MP state. MP had the same party ruling for last 18 years (natural to expect anti-incumbency) and has seen the fastest growth in per capita GDP among all India's states over the past 10 years. Clearly, economic progress has been chosen over everything else and a pro-growth, pro-reforms oriented pro-incumbency wave may well be blowing across India.

On the back of strong macroeconomic data, robust monthly GST collections, and other lead indicators, benchmark Nifty50 index scaled back the 20,000 mark in November 2023. Foreign fund flows, encouraged by easing inflation in US, decline in US bond yields and weakening of USD apart from India's own macroeconomic data have been turned positive, particularly in the primary markets.

However, amidst all this positive data our attention is drawn towards the euphoria witnessed particularly in the primary market (IPOs) and within the mid and small cap space in the secondary market. Recently, primary market has been on fire with some IPOs getting oversubscribed by 70 times/40 times/66 times/50 times/220 times etc of the issue size. Some of these companies got listed at a whopping 140% premium/75% premium/28% premium to IPO price. Midcaps and smallcaps have been hugely outperforming large caps for three years now. One of the reasons for this large divergence can be attributed to increased participation of retail Indian investors with monthly

SIP (systematic investment plans) crossing Rs.169bn (~USD2bn) which majorly flows into mid and small cap mutual funds.

We believe that India's strong economy (and the normal seasonal spurt tax revenue in the final quarter) should enable the fiscal deficit to moderate to 5.5% of GDP in FY2024. Government's investment led approach, particularly in infrastructure, has been a mainstay of the past three years, and is starting to show results in terms of better productivity and overall growth. Once the new labour laws are notified, they should accelerate employment generation, particularly in labour-intensive manufacturing for export, accelerating the shift of global supply chains from their China-centricity to a greater focus on India. The financial sector malaise in China (exacerbated by a deepening crisis of confidence among property buyers) and spreading scandals in the banking system in Vietnam make India look even more attractive as a paragon of relative economic and financial stability, after 8 years of external and domestic deleveraging. The fiscal prudence of the past decade, especially relative to much of the world's fiscal profligacy, will likely have payoffs for India in the medium-term as well.

While the manufacturing and construction sectors have shown resounding growth numbers, as they say 'the devil lies in the details.' Our attention is drawn towards the agriculture and trade, hotels, and transport sectors. These two sectors provide livelihood to large sections and have performed poorly (agriculture growth 1.2% and trade 4.3% only). Fall in private consumption (grew 3.1% whereas GDP grew 7.6%) also points towards likely stress at the bottom of the pyramid suggesting that fears of a K-shaped recovery may not be entirely baseless.

Lastly, and as we have highlighted in our previous notes, India's commercial services exports have been on the rise and now command 4.4% global market share. India's services exports rose 10% YoY in October whereas imports declined for the fifth consecutive month by modest 0.4%. Consequently, the services trade surplus rose by over 20% to over USD14bn, the second highest on record. October had seen the highest merchandise trade deficit at over US$30bn. Hence, part of the reason why INR held up despite higher goods deficit was due to partial offset by higher services surplus.

<u>Fig: Services Trade Balance (USD bn)</u>

Source: IndiaDataHub

Given this backdrop and knowing well there would be pockets in the markets where prices would have run ahead of fundamentals, we remain focused on our portfolio and on bottom-up approach. We maintain our bias towards domestic sectors viz banks, infrastructure, defence manufacturing, engineering and construction, and consumer goods. We believe India's long term 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 (including RBI), inflation, Ukraine war and West Asia crisis.

Ashish Wakankar
Director and Investment Adviser
EquiPoise Investment Advisers
(A division of EquiPoise Capital Management Pvt. Ltd.)

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