FAITH & *PATIENCE*

December 2023

Helping You Achieve Your Goals

Overview:

Calendar year 2023 and the month of December brought in much cheer for investors in Indian equities. Nifty 50 closed 7.94% higher over previous month's close for the month ended December 29, 2023. Midcaps and smallcaps underperformed large caps marginally. NSE Midcap 100 index was up by 7.63% and NSE Smallcap 100 index was up 6.86% over the previous month. Within sectors realty, banks, oil & gas, metals, and technology outperformed Nifty 50 whereas healthcare, consumer durables, and media lagged.

Sr No.	Index Name	Dec-23 M-o-M Change
1	NIFTY 50	7.94%
2	NIFTY Midcap 100	7.63%
3	NIFTY Smallcap 100	6.86%
4	NIFTY Auto	6.08%
5	NIFTY Bank	8.57%
6	NIFTY Financial Services	7.14%
7	NIFTY FMCG	7.50%
8	NIFTY IT	9.00%
9	NIFTY Media	3.99%
10	NIFTY Metal	13.69%
11	NIFTY Pharma	3.65%
12	NIFTY Private Bank	7.52%
13	NIFTY PSU Bank	13.34%
14	NIFTY Realty	9.73%
15	NIFTY Consumer Durables	5.75%
16	NIFTY Oil & Gas	12.03%
17	NIFTY Healthcare Index	3.39%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were significantly large net buyers in December 2023 at USD7bn. This is highest single month inflow into Indian equity market in last 35 months. Domestic institutional investors too were net buyers at USD1.6bn. For CY2023, foreign funds have been net buyers at USD21.4bn and domestic institutions at USD22bn taking their combined net inflows to ~USD43.5bn versus USD15bn in CY2022. With the rising participation by domestic Indian investors, Indian mutual fund holdings of Indian equities is now at an all-time high of 9% (~4% in 2014) whereas foreign fund holdings has dropped to 18% (~22% in 2014).

Fig: Flows

(USD mn)	Curr	MTD	CYTD
FII - Cash	254	7,024	21,427
DII - Cash	49	49	22,047
FII - Debt	164	2,373	8,445

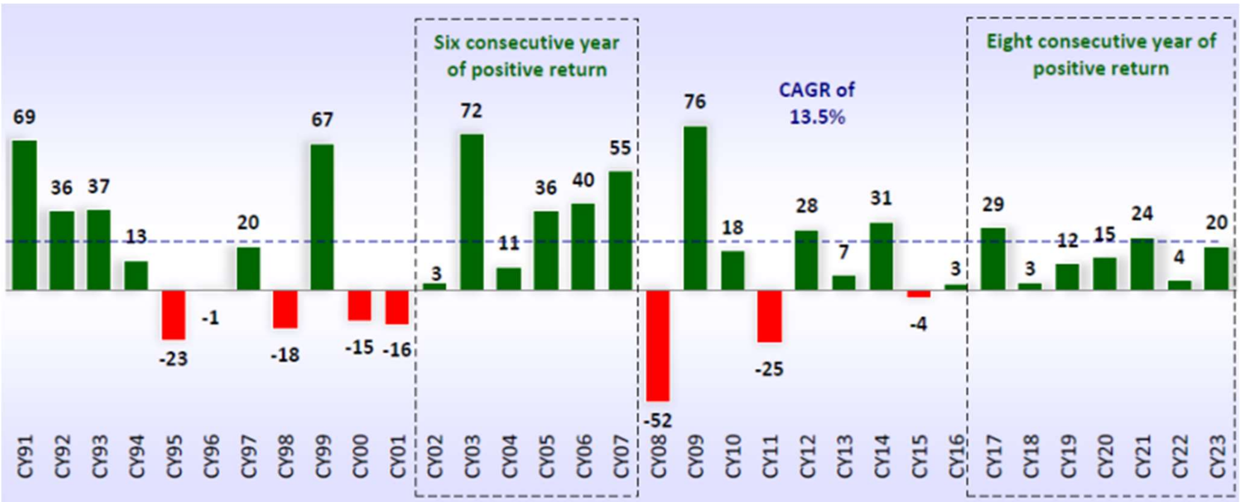
Source: Axis Capital, Bloomberg

Indian markets ended the calendar year 2023 on a strong note with Nifty 50 index up 20% and outperformed China and most of the emerging markets. Midcaps and small caps sharply outperformed large caps with Nifty Midcap 100 index up 46% and Nifty Smallcap 100 index up 56%. In our September 2023 note we had highlighted strong domestic flows into mutual funds wherein bulk of the investments by Indian retail investors going into small and midcap funds.

Fig: Performance of the MSCI India index vs. MSCI US, MSCI World, MSCI Emerging Market, and MSCI China Indices, in USD terms

Source: Motilal Oswal Research

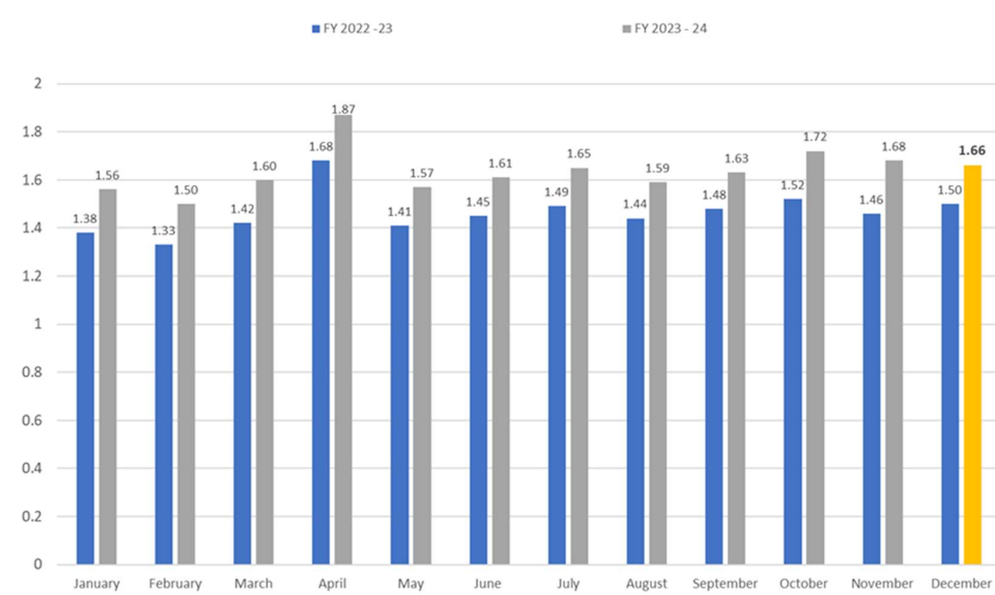
Fig: Eight consecutive years of positive returns



Source: Motilal Oswal Research

On the macroeconomic front, India's GST collections in December 2023 touched Rs.1.65 trillion and surged 10% YoY. GST collections crossed Rs.1.60 trillion for the seventh time in the current financial year. FY2024 GST collections till December 2023 now stand at Rs.14.97trillion averaging Rs.1.66 trillion per month. GST receipts in December are lower than October peak of Rs.1.72 trillion, which was FY2024's second highest after a record Rs.1.87 trillion in April. This indicates a moderation after businesses replenished supply chains in the pre-festive months, but receipts could see a further increase closer to March, which is the financial year end. Except for May and August, GST receipts have remained above Rs.1.6 trillion this fiscal.

<u>Fig: GST Collections trend (in INR trillion)</u>



Source: Government of India, EquiPoise Capital research

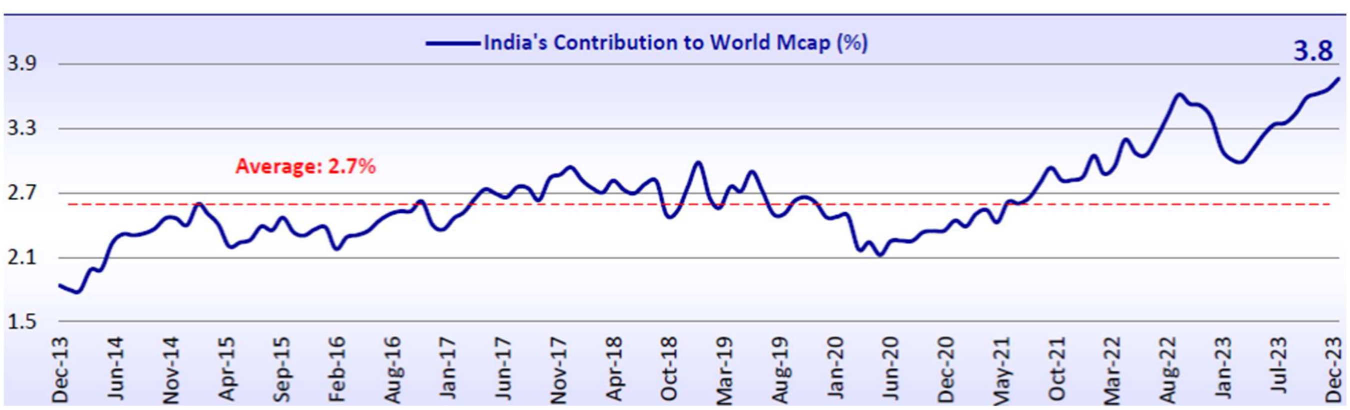
India's economy is estimated to grow at 7.3% in current FY2024 as per National Statistical Office (NSO). India remains the fastest growing economy in the world. India's nominal GDP or GDP at current prices in the year 2023-24 is estimated at Rs.296.58 trillion (USD3.57tn). India's foreign exchange reserves increased by USD2.76bn to touch USD623.2bn. India's forex reserves rise is the highest level in last 21 months.

Other indicators which point to resilient economy:

1. India's car sales crossed 4mn (41.1 lakh) mark for the first time. This marks 8.4% YoY growth over the previous two consecutive years of 23% and 27% growth.
2. India's UPI transactions were up 42% in December and touched Rs.18 trillion mark with daily average transactions crossing 400mn. This is setting the stage for huge long-term benefits to the economy.
3. A record 4.2mn new demat accounts were opened in December 2023 taking total demat accounts to +139mn and demonstrating the rising participation of retail Indian investor but more importantly points to the incremental shift towards financial savings.
4. India's services industry closed the year on a strong note. HSBC India Services Purchasing Managers' Index (PMI) for December surged to 59.0 from 56.9 in November.
5. A record 81.8mn income tax returns were filed in December 2023 marking a 9% rise over the previous year. GST returns filers are up 65% in 5 years.
6. Government of India declared that by 2025 India's thermal coal imports will drop to zero as domestic production crosses 1bn ton mark. Huge forex savings.
7. India's toys exports rose exponentially by 239% while imports dropped sharply by 52% over last 9years. Foreign exchange savings plus employment generation.
8. India's defence ministry has put 3500 defence items so far in non-import list which is showing significant success in terms of indigenisation.
9. An unprecedented 128 luxury cars (price Rs.5mn and above) were sold per day through CY2023.
10. Indian airline majors will be getting delivery of more than 150 planes in CY2024 to meet growing civil aviation demand in India.

<u>Our view:</u>

Fig: India's contribution to World Market Cap (%)



Source: Motilal Oswal Research

2023 was a bumper year for equity investors. Particularly mid-caps and small-caps made a strong comeback and outperformed large-caps by a wide margin. A healthy, broad-based earnings recovery following pandemic-related disruptions, along with decreasing commodity costs and active retail participation, propelled mid-caps and small caps to all-time highs. Strong momentum in the economy, a pickup in government-led capex and infrastructure spending, healthy order books, and a better earnings growth outlook have been drivers of earnings.

We believe the headwinds to Indian equities include:

1. On going Ukraine and West Asia crisis
2. To add to the woes, now there is Red Sea pirate attack crisis and its impact on global logistics cost and productivity.
3. Likely slowdown in developed markets impacting India's export prospects, likely to be offset by continued global interest to Make-in-India as China+1 strategy accelerates.
4. El Nino effects into 2024 threatening agriculture output, rural wages, food inflation etc.

We believe the tailwinds to Indian equities include (apart from the ones listed above):

1. Current account deficit narrowing.
2. Investment led growth and heavy lifting of last few years showing up as resilient economy.
3. Tax buoyancy.
4. Stable strong government for last nearly 10 years (India will see general elections in April/May 2024).

We firmly believe that the single most challenge to the Indian economy hence Indian markets is 2024 general elections result. While all indicators from the ground including recent elections to 4 states point towards continuity or pro-incumbency however, we would like to refrain from second guessing the Indian voters. Given this backdrop we are cautious 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.

WISH YOU HAPPY, HEALTHY AND PROSPEROUS 2024!

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

January 8, 2024.

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