Overview:

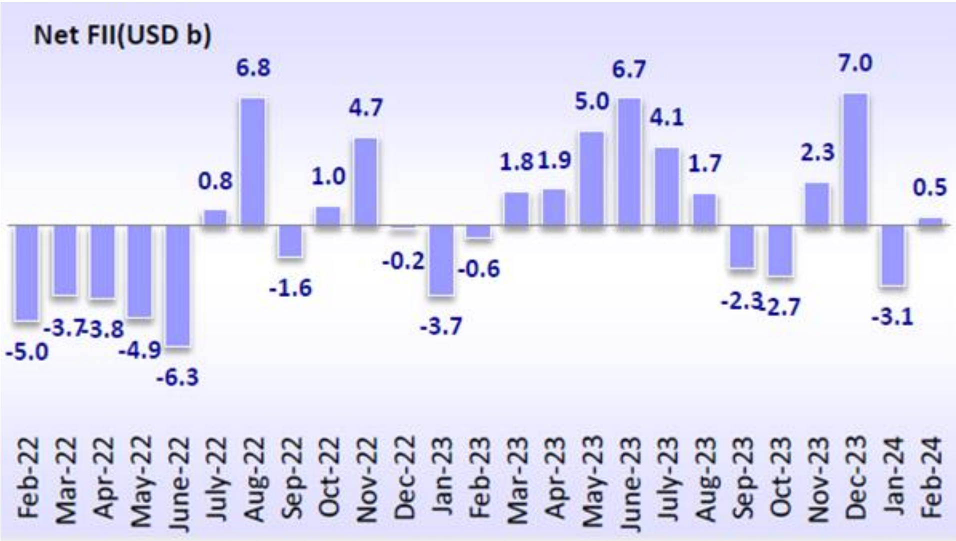
For the month ended February 2024 Nifty 50 index closed 1.18% higher over previous month's close. Large caps outperformed midcaps and smallcaps. NSE Midcap 100 index was down by 0.48% and NSE Smallcap 100 index was down by 0.31% over the previous month. Within sectors auto, realty, oil & gas, information and technology and healthcare outperformed Nifty 50 whereas metal, banks and media lagged.

Sr. No.	Index Name	Feb-24 M-o-M Change
1	NIFTY 50	1.18%
2	NIFTY Midcap 100	-0.48%
3	NIFTY Smallcap 100	-0.31%
4	NIFTY Auto	6.16%
5	NIFTY Bank	0.27%
6	NIFTY Financial Services	-0.44%
7	NIFTY FMCG	-1.92%
8	NIFTY IT	2.95%
9	NIFTY Media	-4.70%
10	NIFTY Metal	-0.64%
11	NIFTY Pharma	5.93%
12	NIFTY Private Bank	-2.08%
13	NIFTY PSU Bank	10.49%
14	NIFTY Realty	6.35%
15	NIFTY Consumer Durables	1.83%
16	NIFTY Oil & Gas	6.79%
17	NIFTY Healthcare Index	4.63%

Source: National Stock Exchange of India

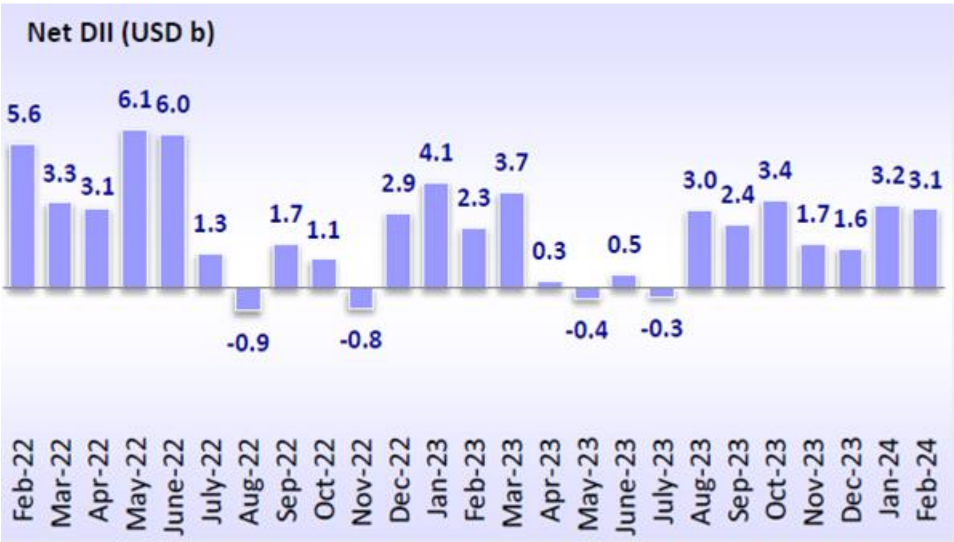
Foreign funds (FIIs/FPIs) were net buyers in February 2024 at USD0.5bn. For CY2024 foreign funds are net sellers at USD2.7bn. As has been witnessed out of the last seven years, domestic institutional investors (DII) have been net buyers for six years and have more than compensated for foreign fund outflows, thereby reducing market volatility. DII flows were strong in February 2024 at USD3.1bn and are net buyers in CY2024 at USD6.3bn.

Fig: Monthly foreign fund flows



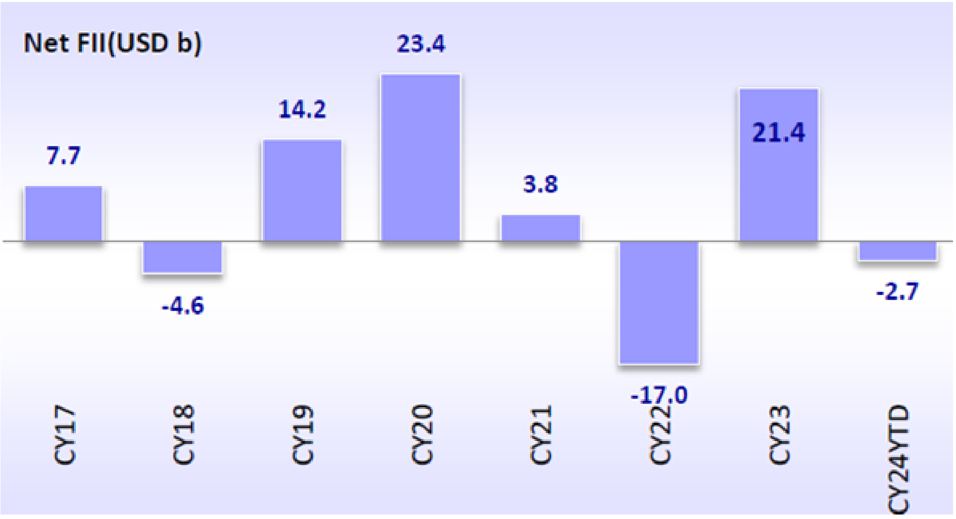
Source: Motilal Oswal Securities

Fig: Monthly Domestic fund flows



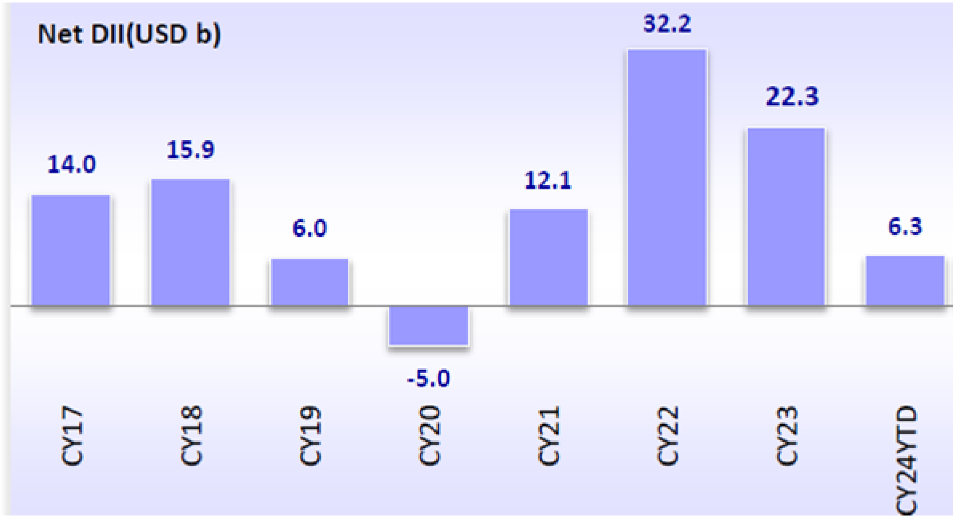
Source: Motilal Oswal Securities

Fig: Yearly foreign fund flows



Source: Motilal Oswal Securities

Fig: Yearly Domestic fund flows



Source: Motilal Oswal Securities

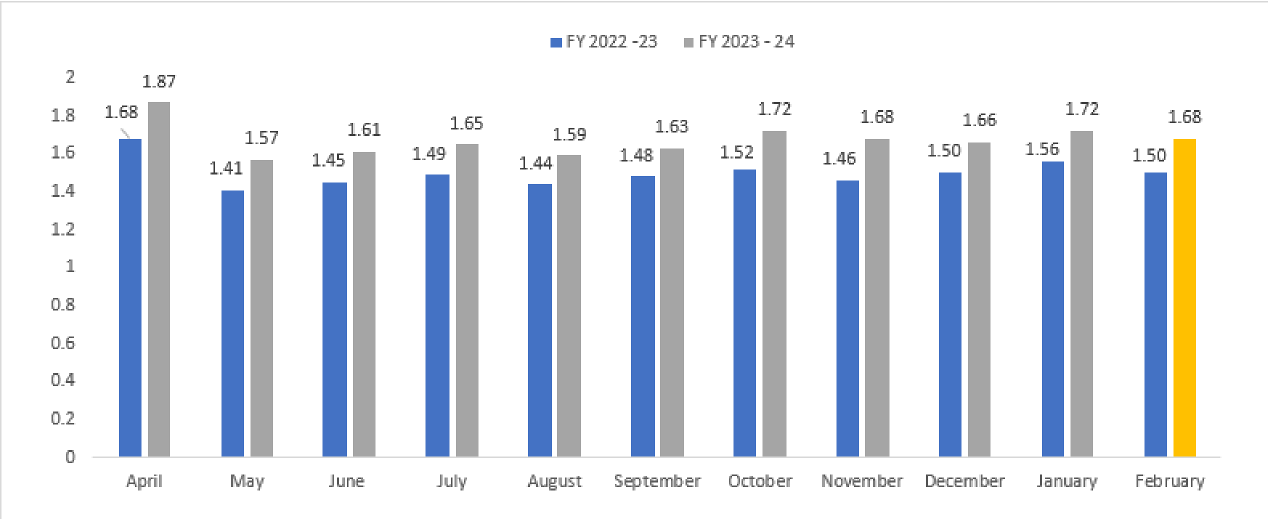
Monthly SIP (Systematic Investment Plan) of domestic mutual funds touched Rs.188.38bn (USD2.27bn) per month. This is indeed an awakening moment of India as retail shifts towards financial savings (steadily moving away from physical savings - real estate & gold and bank fixed deposits). Net addition of systematic investment plan (SIP) rose to a record high of 2.8mn (28lakhs) in January 2024, nearly 2.5 times more compared with the monthly average in the past two years. Assets under management of SIP-linked funds rose to Rs.10.26 lakh crore (Rs10.26 trillion or USD123bn) in January 2024, crossing the psychological milestone of Rs. 10 lakh crore or Rs.10 trillion (USD123 billion) for the first time, show the data. SIPs accounted for 19.5% of total mutual fund AUM at the end of last month. This implies nearly one-fifth of India's total AUM is contributed by SIP-linked funds, which are presumed to be far more stickier than lumpsum investments. This is just the beginning and long long way to go for financial savings rise in general and mutual funds in particular.

Fig: MSCI India versus MSCI US/World/EM/China

*Indices rebased to 100

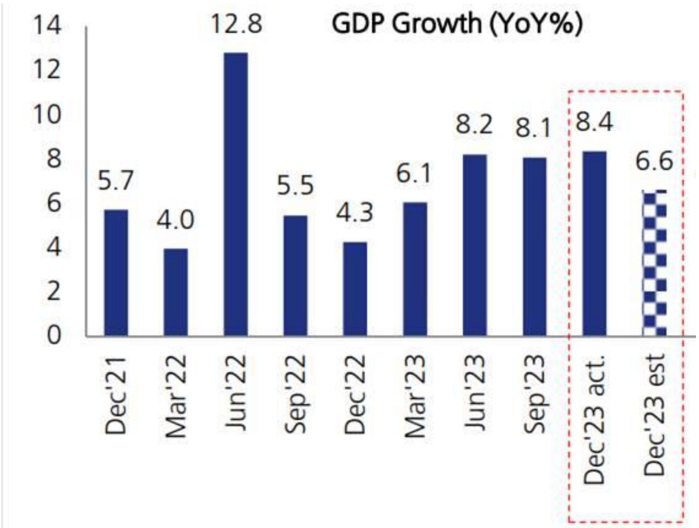
On the macroeconomic front, India's GST collections in February 2024 were 1.68 trillion, up 12% YoY. GST collections crossed Rs.1.60 trillion for the eighth time in the current financial year. Gross GST collections are up 11.7% at Rs 18.40 trillion for FY2023-24.

Fig: GST Collections trend (in INR trillion)



Source: Government of India, EquiPoise Capital research

Real GDP grew 8.4% YoY in Q3FY24, and 8.2% YoY in Apr-Dec'23 (the first 3 quarters of FY24). What is clear is that fixed investment spending (up 10.5% YoY in Apr-Dec'23) is propelling growth for the second consecutive year. On the production side, manufacturing (10.3% YoY) and construction (10.4% YoY) contributed to the economic acceleration in Apr-Dec'23, while services grew 7.9% YoY, slightly below their 8.1% pace over the past 26 years. The 12-month moving average of the fiscal deficit was 5.2% of GDP in Jan'24 (well below the official revised estimate of 5.8% for FY24). With a lower government borrowing requirement, private investment will be crowded-in. We will not be surprised if the market revises up forecasts of real GDP growth to 8.2% for FY24 and 8.5% for FY25.



<u>Our view:</u>

Indian economy is the only large economy growing above 7% and that too without any fiscal or monetary stimulus (fiscal and monetary policy aligned). Indian economy is driven by government led capex for last 3 years and now private capex green shoots are visible. This trend is expected to gather momentum post May 2024 general elections. Rise of domestic investors, broad based market rally across large, mid and small cap companies (unlike Magnificent Seven and median broad market returns negative in US) and a bias towards financial savings is driving market volatility lower. There are ample indications that the expectations from India and Indian markets are running high. We believe, Lower volatility plus ROE conscious companies plus rising breadth and depth of investible companies generally result in (or may even warrant) **<u>HIGHER PE</u>** for Indian equities.

Apart from supply challenges (read as Ukraine/Red Sea crisis), slower global growth particularly China should see lower commodity prices hence lower external inflation for India. Rise of Government owned companies or Public sector companies (PSUs) is a favourable change plus Indian Unicorn listing going forward should see steady supply of good paper through the IPO/FPO market. We believe China + 1, Atmanirbhar Bharat or “Make in India, Make for the World” coupled with Production Linked Incentives (PLI) and other such initiatives of Government of India are multiyear themes. Latest addition to that list is SemiConductor Mission India with an aspiration to become the world’s leading producers of chips in next 5 years.

We remain cautious and knowing well there is crucial national general election in May 2024. Around 1 BILLION Indians are expected to vote or are eligible to vote this time. We are also aware there are pockets in the markets where prices may have run ahead of fundamentals.

Given this background, we remain focused on our portfolio and on bottom-up approach. We continue to focus on domestic sectors viz infrastructure, defence manufacturing, engineering and construction, and capital goods. We maintain that India's long term growth story is getting only better by the day and corrections may present an opportunity for long term investors.

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

February 5, 2024.