Overview:

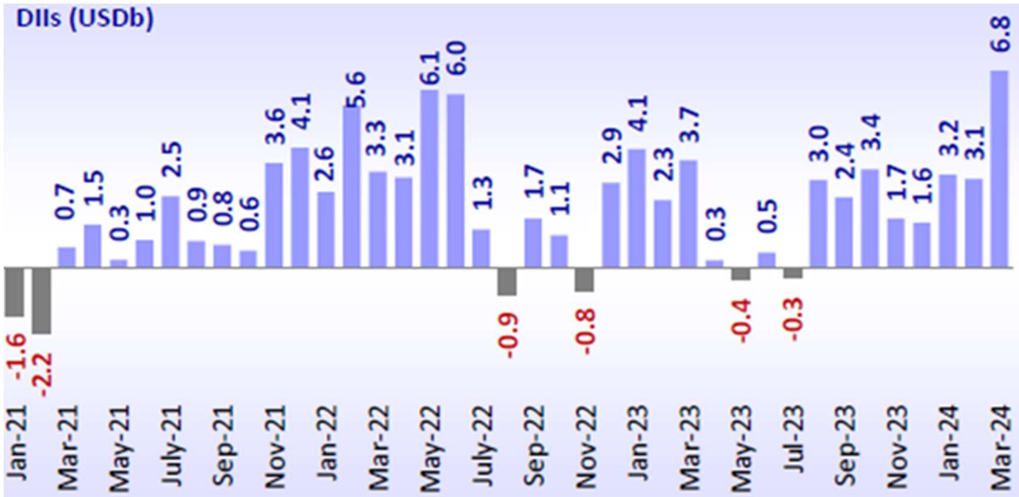
For the month ended March 2024, Nifty 50 index closed 1.57% higher than the previous month's close. Large caps outperformed midcaps and smallcaps. NSE Midcap 100 index was down by 0.54% and NSE Smallcap 100 index was down by 4.42% over the previous month. Within sectors auto, metal and banks outperformed Nifty 50 whereas information and technology, realty, oil & gas, and media lagged.

Sr No.	Index Name	March - 24 M-o-M Change
1	NIFTY 50	1.57%
2	NIFTY Midcap 100	-0.54%
3	NIFTY Smallcap 100	-4.42%
4	NIFTY Auto	4.93%
5	NIFTY Bank	2.18%
6	NIFTY Financial Services	2.85%
7	NIFTY FMCG	-0.12%
8	NIFTY IT	-7.48%
9	NIFTY Media	-12.40%
10	NIFTY Metal	4.23%
11	NIFTY Pharma	-0.04%
12	NIFTY Private Bank	1.95%
13	NIFTY PSU Bank	1.12%
14	NIFTY Realty	-1.09%
15	NIFTY Consumer Durables	0.91%
16	NIFTY Oil & Gas	-0.14%
17	NIFTY Healthcare Index	0.91%

Source: National Stock Exchange of India

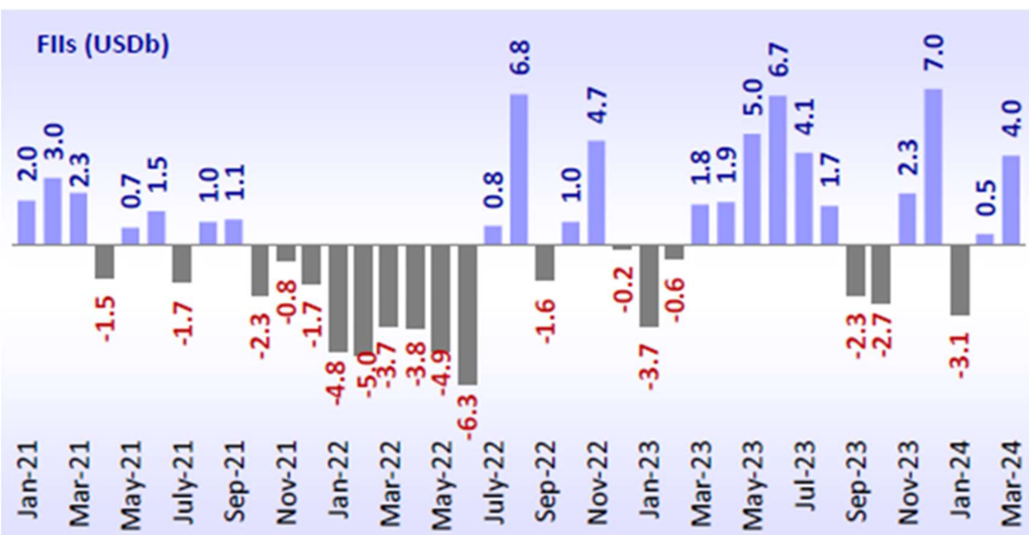
Foreign funds (FIIs/FPIs) were net buyers in March 2024 at USD4.2bn whereas domestic institutions were net buyers at USD6.8bn. In FY2024, foreign funds were net buyers at USD25.6bn and domestic funds at USD28bn.

Fig: Monthly Domestic fund flows



Source: Motilal Oswal Securities

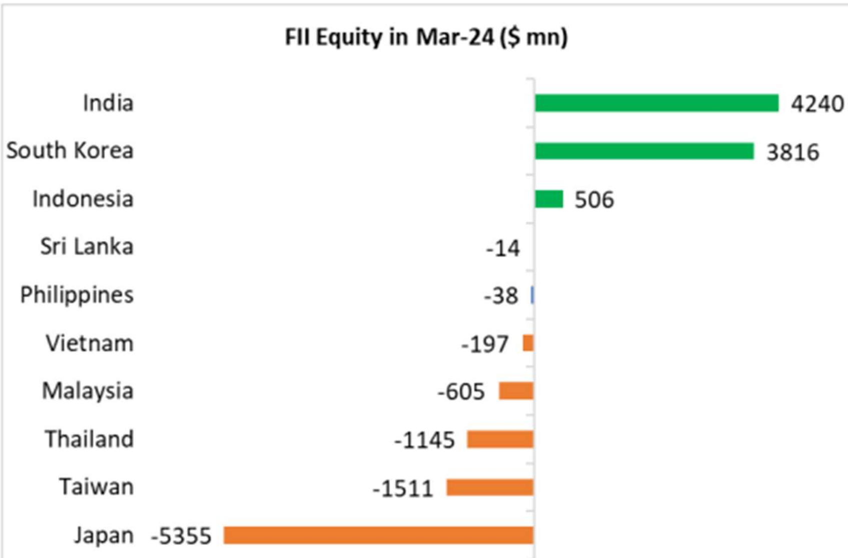
Fig: Monthly foreign fund flows



Source: Motilal Oswal Securities

Foreign fund inflows into India were the strongest amongst other Asian markets in March 2024.

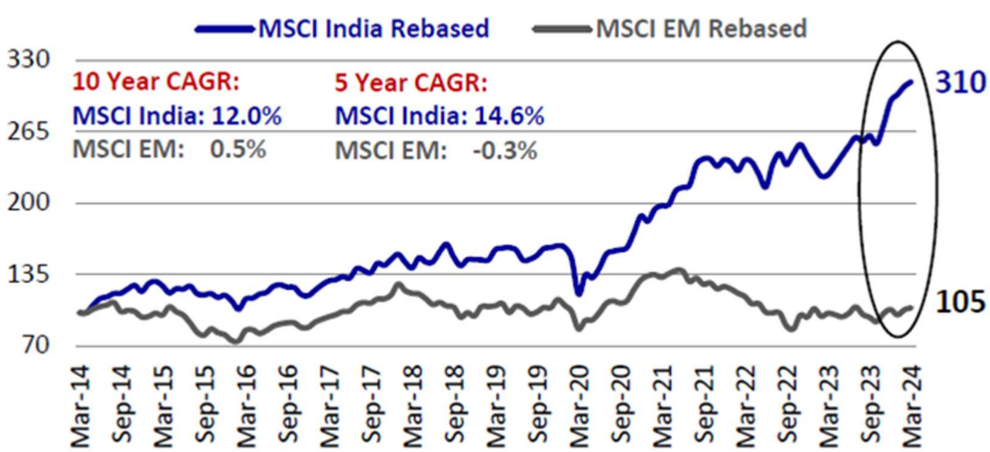
Fig: Foreign fund flows in Asia in March 2024 (USD million)



Source: MoneyControl

Indian equity market ended financial year 2024 on a very strong note with MSCI India Index up 38% significantly outperforming the MSCI EM Index which was up 5%. Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by 205%.

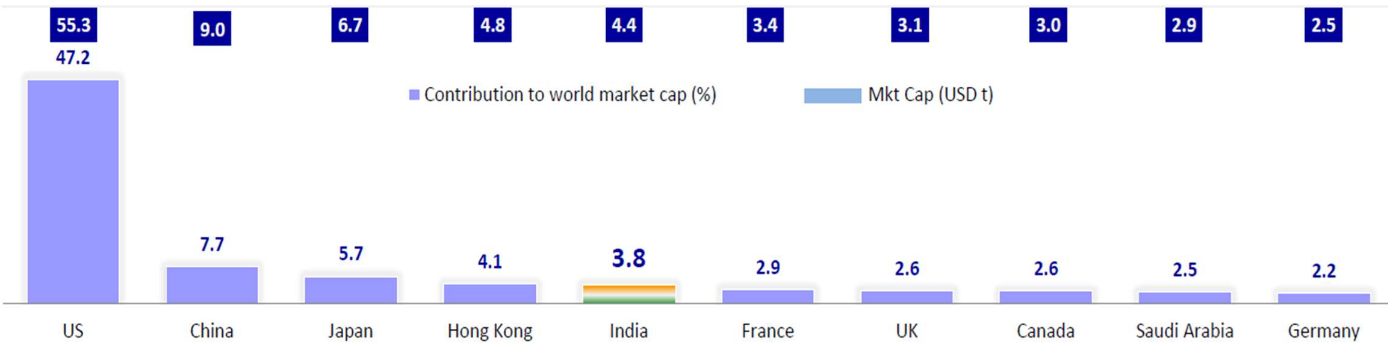
Fig: MSCI India versus MSCI Emerging Markets



*Indices rebased to 100

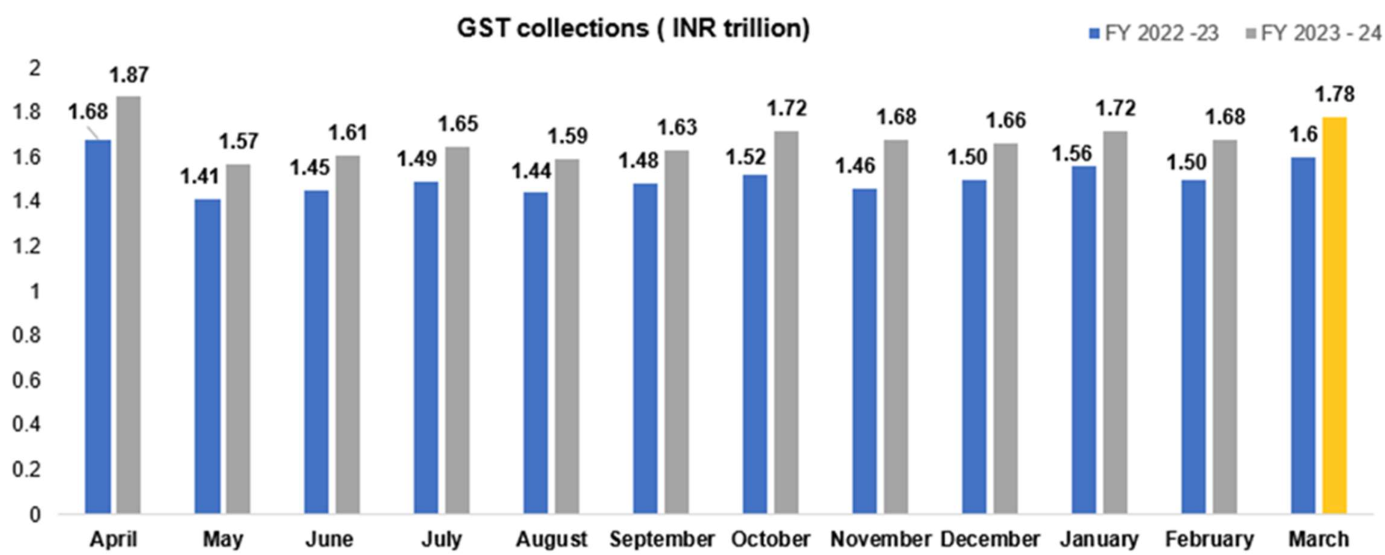
With a market capitalisation of USD4.4 trillion and a historical high contribution/weight of 3.8% to world market cap, India is now among top 5 markets in the world. Top 5 contributors in world market cap, which includes India, accounted for ~69% of the global market cap in March 2024. Both, India's market cap and India's weight in global market cap are now ahead of France, UK, Canada and Germany.

Fig: India among top 5 global markets



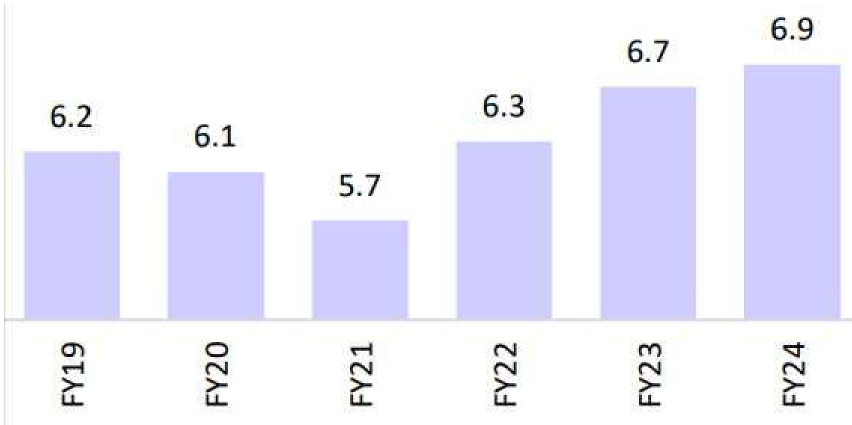
On the macroeconomic front, Good and Services Tax (GST) revenue for March 2024 witnessed the second highest collection ever at INR1.78 trillion, with a 11.5% YoY growth. This surge was driven by a significant rise in GST collection from domestic transactions at 17.6%. FY2024 marks a milestone with total gross GST collection of INR20.18 trillion. The average monthly collection for this fiscal year stands at INR1.68 trillion, surpassing the previous year's average of INR1.5 trillion. GST revenue net of refunds as of March 2024 for the current fiscal year is ₹18.01 lakh crore which is a growth of 13.4% over same period last year.

Fig: GST Collections trend (in INR trillion)



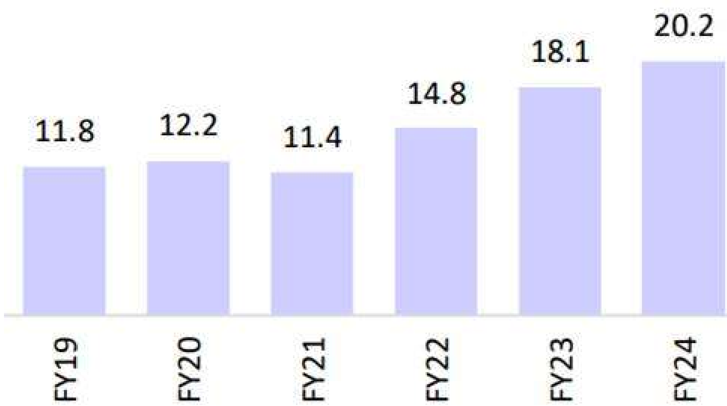
Source: Government of India, EquiPoise Capital research

Fig: GST Collection as % of GDP



Source: Ministry of Finance

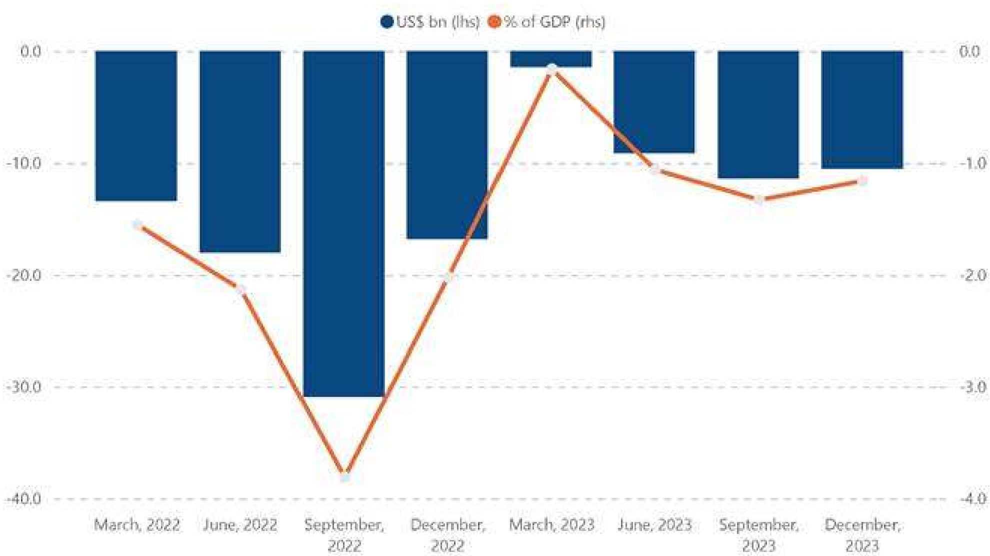
Fig: GST Collection INR trillion



Source: Ministry of Finance

India's current account deficit (CAD) moderated to 1.2% of GDP during the December quarter (3QFY24) from 2% from a year ago**.** In absolute terms, the CAD moderated significantly from almost USD17bn during the 3QFY23 to USD10.5bn during 3QFY24. Almost this entire moderation was due to a higher services trade balance. India fast emerging as the "office of the world" as global majors open (and also expand) their global capability centres (GCC) and advanced capability centres (ACC) in India.

Fig: Current Account Deficit (CAD)



Source: IndiaDataHub

Capital flows were higher than the CAD and thus for the fifth consecutive quarter, India had a surplus on the Balance of Payments - implying money that came into India through the capital account (FDI, Borrowings, Portfolio Flows etc.) was more than the money that went out of India due to the deficit on current account (trade, remittances, investment expense etc.). Consequently, there has been an increase in the foreign exchange reserves (USD642.63bn as on March 22, 2024), during the current quarter also implying that 4QFY2024 is also likely to see a surplus on the balance of payments. This is in large part why the rupee has remained remarkably stable in recent months.

Fig: Quarterly trend in Net Personal Transfers received by India

Source: RBI, BCCL

Last month India's real GDP numbers were released, and GDP grew 8.4% YoY in Q3FY24, and 8.2% YoY in Apr-Dec'23 (the first 3 quarters of FY2024). A closer look at the various macroeconomic indicators show a robust economy.

1. Auto sales grew by 9% in FY2024 and touched 4.23mn units making India the third largest passenger market in the world.
2. Another indicator is rail freight growth. Railways achieved a 13% growth in iron ore transportation (at 180.95 million tons) and an 8% growth in coal transportation (at 787.61 million tons). Total freight carried by Indian Railways in FY2024 crossed 1.59 billion tons.
3. Road construction broke previous records as India built 6,644 kilometers of national highways in FY2024 a jump of 20% over FY2023.
4. India's manufacturing activity hit a 16 year high in March 2024 with the HSBC India PMI climbing to 59.1 on the back of stronger growth in new orders as well as renewed job creation.
5. Another indicator is the rush by global and domestic hospitality majors looking to aggressively add rooms across India based on rising tourism opportunities, including spiritual tourism.
6. India's eight core infrastructure sectors - coal, crude oil, steel, cement, electricity, fertilizers, refinery products and natural gas - clocked 6.7% growth in February which is a three-month high. Three of the eight core sectors, namely coal, cement and natural gas, have in fact shown double digit growth.
7. Since the launch of the production-linked incentive (PLI) scheme for smartphones in August 2021, the Apple ecosystem has directly employed over 150,000 individuals, according to a report by The Economic Times. This makes Apple, India's top blue-collar job creator. Most of these employees are first-time job seekers aged between 19 and 24 years. The report also states that around 300,000 additional jobs have been generated indirectly. Apple manufactured iPhones worth Rs.1trillion upto February in FY2024.
8. Indian Public Sector Undertakings - which were a decade ago struggling and considered an absolute drag on Indian taxpayers have turned around remarkably in the last 5-6 years. They have contributed to the rise in Government of India's wealth through stellar rise in their market capitalization and are now paying hefty dividend to the Government which has crossed Rs.637.49bn, a surge of 27.5%.

Our view:

We believe India is in a unique position today thanks to the heavy lifting and difficult reforms during last decade, selecting the long and arduous path of investment led growth and remaining steadfast to its vision 2047. So, while the world is facing a slowdown, Indian economy remains the fastest growing large economy in the world. While commenting on India's growth, we believe, the important aspect to appreciate is that the growth has come on the back of macro stability i.e. a stable currency, falling current account deficit, falling core inflation, stable interest rates, steady decline in fiscal deficit despite a difficult global environment which has an impact on India's exports. hence

Hence, we maintain that Indian markets are attractive even now with a long-term view. The rise of domestic investors and the increasing move towards financial savings is, we believe, driving market volatility lower. In addition to that, a stable currency thanks to India's rising share in global services exports as well as capital flows, is driving lower volatility in the markets. It can be explained that India's valuations are a manifestation of the factors we have listed in this note.

The concerns about stretched valuation in the Indian small and mid-cap underwent a correction in March 2024. The correction was triggered by regulator expressing concern over valuation froth down the capitalization curve and suggesting the mutual fund industry to undertake and publish a stress test on its funds.

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 mindful of the ongoing West Asia crisis, Red Sea crisis, Ukraine Russia crisis, and a tough global macro environment.

We maintain that India's long term growth story is getting only better by the day and corrections present an opportunity for long term investors.

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

April 4, 2024.

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