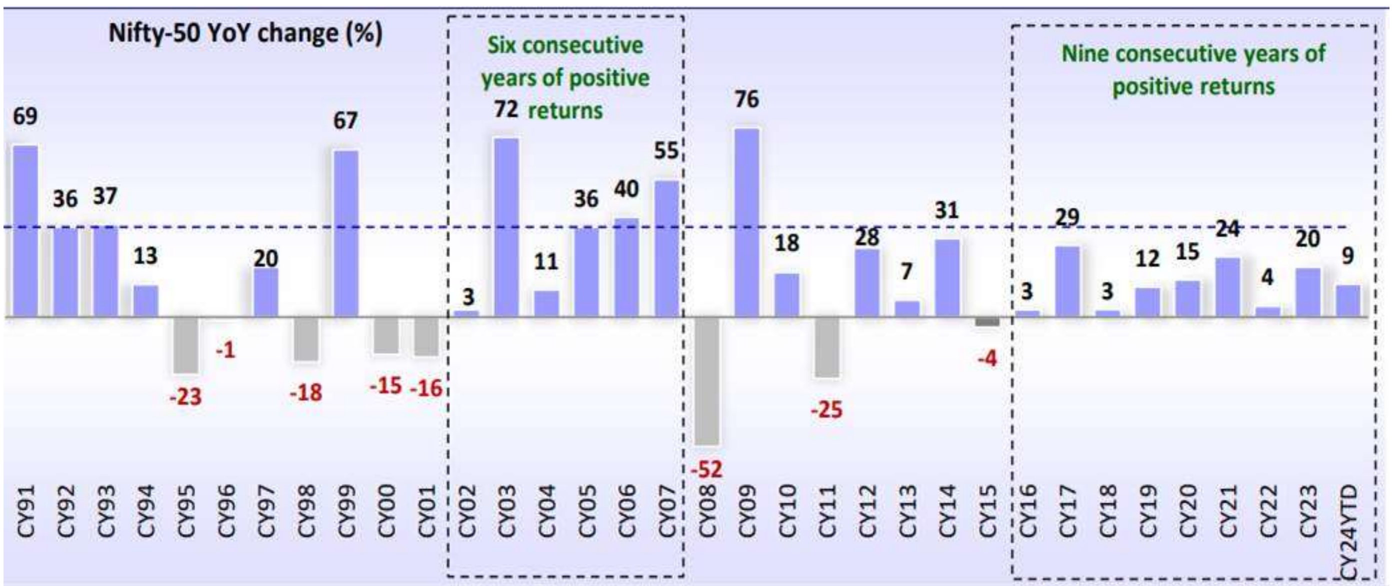
Overview:

Calendar year 2024 concluded with yet another year of positive returns for the Indian markets, marking nine consecutive years of growth. During the last 12 months, midcaps and smallcaps both have gained 24% and outperformed largecaps, which have risen 9%. During the last five years, midcaps have significantly outperformed largecaps by 140%, while smallcaps have outperformed largecaps by 128%. Over the last 12 months, the MSCI India Index (+14%) has outperformed the MSCI EM Index (+5%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by a robust 168%.

Fig: Indian equity market delivers 9 years of consecutive positive returns for the first time in history!



Source: Motilal Oswal research

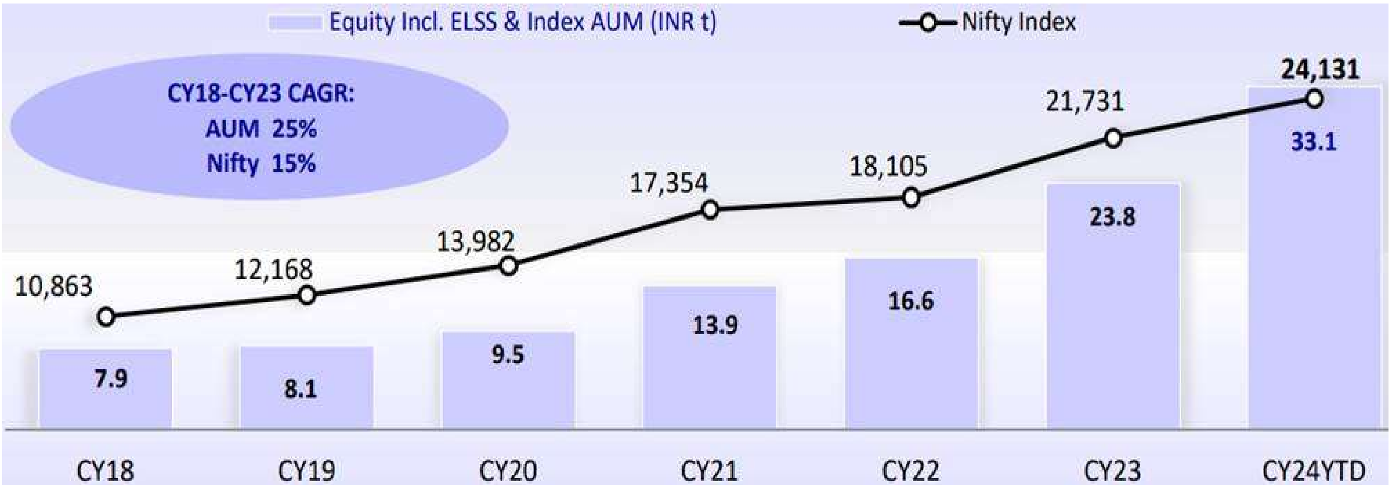
For the month ended December 2024, the Nifty 50 index was down 2% over the previous month. Mid-caps, represented by the Nifty Midcap 100, outperformed smallcaps and largecaps. The Nifty Midcap 100 index was up 1.4%, while the Nifty Smallcap 100 index was up 0.6%. Within sectors banks, oil & gas, metals, auto, and media underperformed Nifty 50, whereas information technology, healthcare and consumer outperformed.

Sr No.	Index Name	Dec-24
		M-o-M Change
1	NIFTY 50	-2.02%
2	NIFTY Midcap 100	1.43%
3	NIFTY Smallcap 100	0.63%
4	NIFTY Auto	-2.29%
5	NIFTY Bank	-2.30%
6	NIFTY Financial Services	-2.07%
7	NIFTY FMCG	-1.97%
8	NIFTY IT	0.44%
9	NIFTY Media	-8.96%
10	NIFTY Metal	-4.25%
11	NIFTY Pharma	5.27%
12	NIFTY Private Bank	-2.16%
13	NIFTY PSU Bank	-4.01%
14	NIFTY Realty	3.16%
15	NIFTY Consumer Durables	4.06%
16	NIFTY Oil & Gas	-3.24%
17	NIFTY Healthcare Index	5.84%

Source: National Stock Exchange of India

Foreign funds (FIIs/FPIs) were net buyers in December 2024 at USD1.83bn and domestic institutions were net buyers at USD4.05bn. For CY2024, foreign funds have been net buyers at USD0.12bn and domestic institutions at USD62.9bn (USD22.3bn in CY2023) taking their combined net inflows to USD63.2bn versus USD43.5bn in CY2023. Domestic institutional investors (DIIs), supported by an increasingly active base of retail investors, have been the primary drivers of market activity this year. In CY2024, foreign funds demonstrated a strong preference for the primary market, investing USD14.50bn compared to USD5.24bn in CY2023. This surge in foreign investments supported the launch of 335 IPOs during the year, raising an impressive INR1.72 trillion (USD20.24bn). These developments underscore the growing maturity of the domestic investor base and the attractiveness of the Indian capital markets for global investors.

Fig: Domestic mutual funds assets at an all-time high



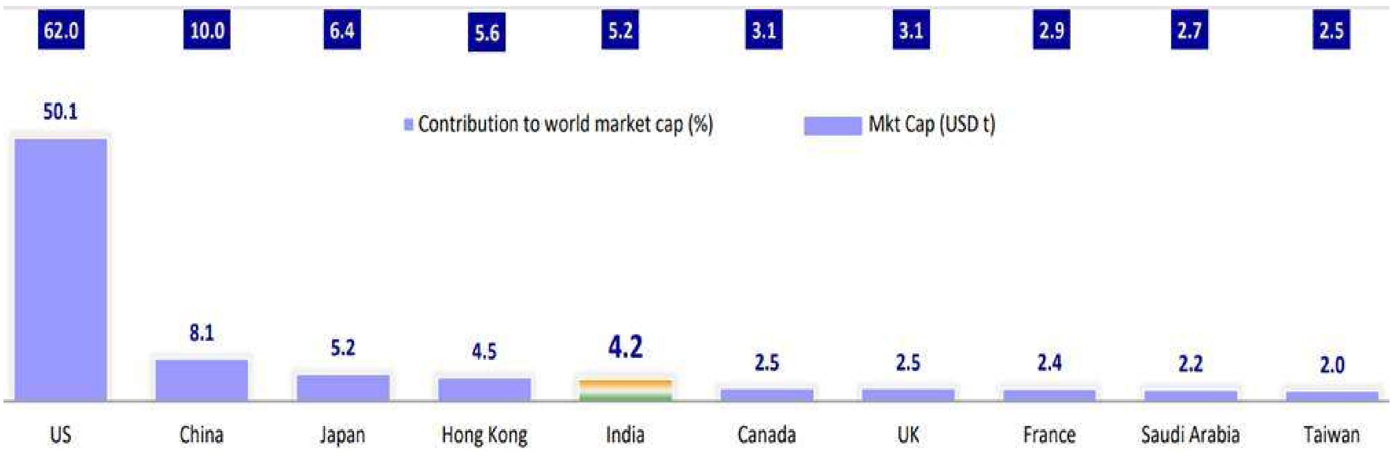
During CY2024, global market cap increased 10.9% i.e. by USD12.2 trillion, whereas India's market cap surged nearly 24% and touched USD5.2trillion. Barring Brazil, Korea, the UK, and Indonesia all key global markets have witnessed a rise in market cap over the last 12 months.

Fig: CY2024 India's market capitalisation at USD5.2 trillion

India's market capitalization-to-GDP ratio is now at 138% of FY25E GDP, above its long-term average of 85%.

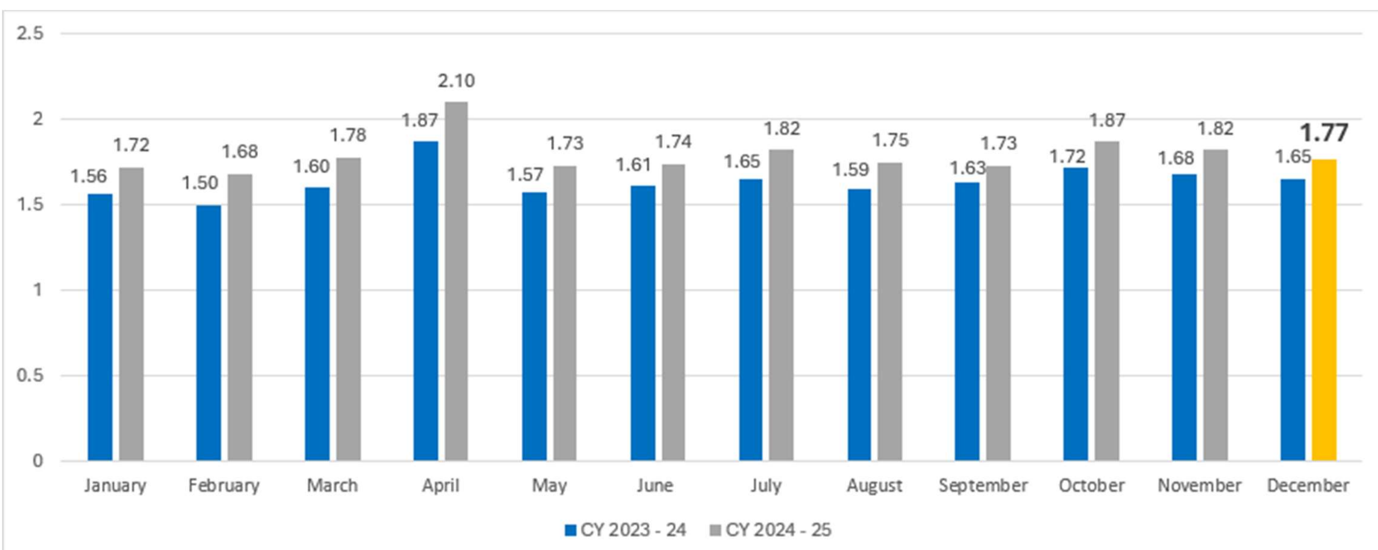
India's share of the global market cap stood at 4.2%, above its historical average of 2.7%. India is among the top 10 contributors to the global market cap. The top 10 contributors accounted for ~84% of the global market cap as of Dec'24.

Fig: Top 10 global markets as per market cap as on December 2024



On the macroeconomic front, Good and Services Tax (GST) revenue for December 2024 were INR1.77 trillion, up 7% YoY. India's GST collections for CY2024 stood at INR21.51 trillion, reflecting a 10% increase from INR19.63 trillion in CY2023. This growth highlights sustained economic activity and improved compliance.

Fig: GST Collections trend (in INR trillion)



Source: Government of India, EquiPoise Capital research

India continues to exhibit robust real GDP growth compared to other major economies, driven by strong economic activity and improving capacity utilization. The India Manufacturing Purchasing Managers' Index (PMI) remains in expansionary territory above 50, reflecting steady manufacturing activity. Core sector growth improved to 4.3% in November, supported by better performance in key infrastructure industries. Rural demand has shown positive trends, as evidenced by increased domestic tractor sales and rising agricultural wage growth.

India's cutting edge and pathbreaking digital technology innovation Unified Payments Interface (UPI) - a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood - recorded an all-time high of 16.73 billion transactions in December 2024, marking an 8% month-on-month increase from November's 15.48 billion. Transaction values also rose by 8% to staggering INR23.25 trillion, compared to INR21.55 trillion in November 2024. For the entire year, UPI transactions surged 46 per cent to approximately 172 billion in 2024, up from 118 billion in 2023. The total transaction value for 2024 climbed by 35 per cent to INR247 trillion, significantly higher than the INR183 trillion recorded in 2023. This shows the ability of Indians to easily adopt digital transactions and has led to better transparency and lower need for currency notes.

Net direct tax collections rose by 16.45%, with Stock Transaction Tax (STT) collections achieving 97% of the budget target. Government revenues grew by 32% year-on-year during April-July FY2025. However, capital expenditure (capex) declined by 18% in the same period, partly due to election-related adjustments. A rebound in capex is expected in the coming months. Inflationary pressures have eased, with the Consumer Price Index (CPI) moderating to 5.5% YoY in November from 6.2% in October. Similarly, the Consumer Food Price Index (CFPI) declined to 9.0% YoY in November from 10.9% in October. However, the Reserve Bank of India has revised its FY2025 inflation forecast upward from 4.5% to 4.8%.

Our view:

Indian stocks have outperformed global and emerging markets equities over 10-year and 5-year periods (in USD terms), lagging only the US. Over the past year, they have outperformed the US too. Remarkably, the growth has been meaningfully more broad-based than the US, which has been dominated by the 'magnificent seven'. The share of BSE500 market cap of the top 10 stocks has declined to 26% in 2024 from 35% in 2020 and 40% in 2007. The share of the Nifty50 is now down to 56%, versus 71% in 2007. As many as 525 companies now have a market cap > USD1 bn (versus 176 in 2012 and 222 in 2020), and these come from a diverse set of sectors. India now accounts for 5.1% of +USD1 bn stocks globally versus 3% in 2020. The growth in the +USD1 bn stocks is also accompanied by healthy liquidity (370 have average daily trading volumes of >USD5 mn). Increased number of stocks with +USD1bn market cap and healthy liquidity also results in rising institutional participation, hence coverage, thereby improving earnings visibility, diversity of views, and some comfort on governance, improving the depth of the market. We believe, underlying drivers of India's outperformance - like a steady rise in flows into equities from retail investors, domestic pension funds, and insurance together can be +USD35 bn annually - affect the overall market, while a more diversified market makes it resilient to sectoral or stock-specific risks. The resultant stability further attracts more capital over time leading to a virtuous cycle.

Fig: Indian stock market more broad-based and less concentrated vs 2015

Source: Axis Capital research

We believe domestic cyclical sectors dependent on investment rate may well benefit in CY2025 given Government commentary on capital expenditure and the economy overall may re-emerge from the effects of an election slowdown (in investment rate) in CY2024. Corporate capex continued to grow despite election-related slowdown and may eventually fire up the re-leveraging cycle (nascent signs visible in mid and small corporates). Also, election fervour-related social spending may abate going forward (only two states go to polls in CY25 – Delhi and Bihar). Moreover, high-end discretionary spending continues to rise structurally. However, we remain watchful of external sector and global trade environment could become challenging as Donald Trump's policies start kicking in. We are also aware that Union Finance Budget 2025 will be presented on February 1, 2025. We believe markets would be keenly watching two dates - January 20, 2025 (new Government in US) and February 1, 2025 (Finance Budget India).

Despite global challenges, India continues to be the fastest-growing economy among major nations, reflecting its resilience. Factors such as sustained growth, political stability, prudent reforms, infrastructure investment, healthy corporate finances, ample foreign reserves, controlled twin deficits, stable crude prices, and lower commodity inflation protect India from external shocks and position it for future growth. The past year experienced a slowdown in earnings and consumption, global interest rates, geopolitical uncertainties, and high valuations in some mid- and small-cap sectors. CY2025 may well alleviate some concerns, with a gradual recovery in corporate earnings and consumption expected due to increased government spending in early CY2025 and improved rural incomes after a successful harvest season. However, there may be some volatility in global trade and currencies after the new US administration takes charge, and persistent inflation could slow anticipated interest rate cuts.

Our portfolio reflects our conviction in our bottom-up approach and on exports and domestic sectors viz textiles, pharma, infrastructure, telecom, manufacturing, engineering, construction, and capital goods. We maintain underweight on technology services, metals, energy, and real estate.

We maintain that India's long term growth story is intact, corrections present an opportunity for long term investors.

Ashish A. Wakankar
Founder and Chief Investment Officer
EquiPoise Capital Management Private Limited

January 06, 2025.

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