

Overview:

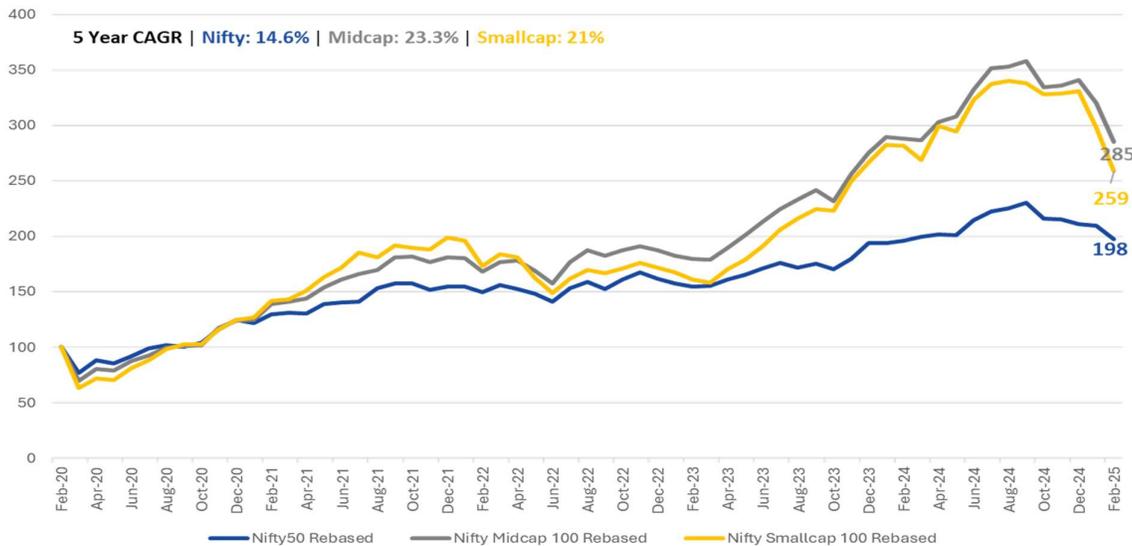
For the month ended February 2025, the Nifty 50 index declined 6%. The Nifty Midcap 100 index was down 11%, while the Nifty Smallcap 100 index declined 13%, indicating a sharper correction in broader markets. Within sectors, auto, consumer goods, IT, media, government owned banks, and realty were among the worst-performing sectors, significantly underperforming the Nifty 50. On the other hand, financial services, private banks, and metal demonstrated relative resilience and outperformed.

Sr.No.	Index Name	Feb-25
		M-o-M Change
1	NIFTY 50	-5.89%
2	NIFTY Midcap 100	-10.79%
3	NIFTY Smallcap 100	-13.07%
4	NIFTY Auto	-10.36%
5	NIFTY Bank	-2.51%
6	NIFTY Financial Services	-0.83%
7	NIFTY FMCG	-10.59%
8	NIFTY IT	-12.53%
9	NIFTY Media	-12.24%
10	NIFTY Metal	-2.15%
11	NIFTY Pharma	-7.58%
12	NIFTY Private Bank	-0.66%
13	NIFTY PSU Bank	-10.53%
14	NIFTY Realty	-13.40%
15	NIFTY Consumer Durables	-8.33%
16	NIFTY Oil & Gas	-9.42%
17	NIFTY Healthcare Index	-8.00%

Source: National Stock Exchange of India

Despite the recent correction in mid and small-cap stocks over the past two months, their long-term performance remains strong. Over the last five years, mid-caps have significantly outpaced large-caps, delivering an 87% higher return, while small-caps have outperformed large-caps by 61%.

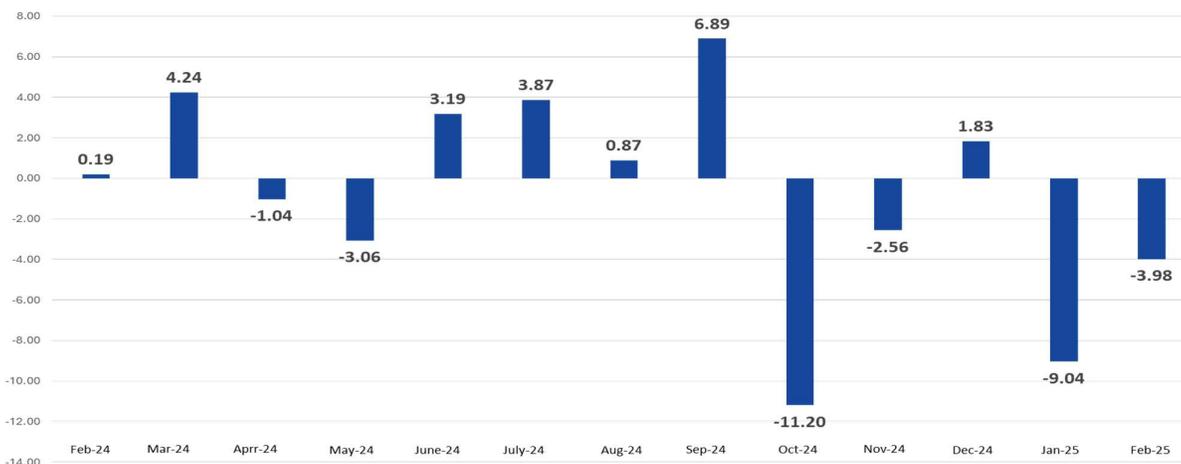
Fig: Performance of midcaps and smallcaps vs. largecaps over the last five years



Source: Investing.com, EquiPoise Capital Research

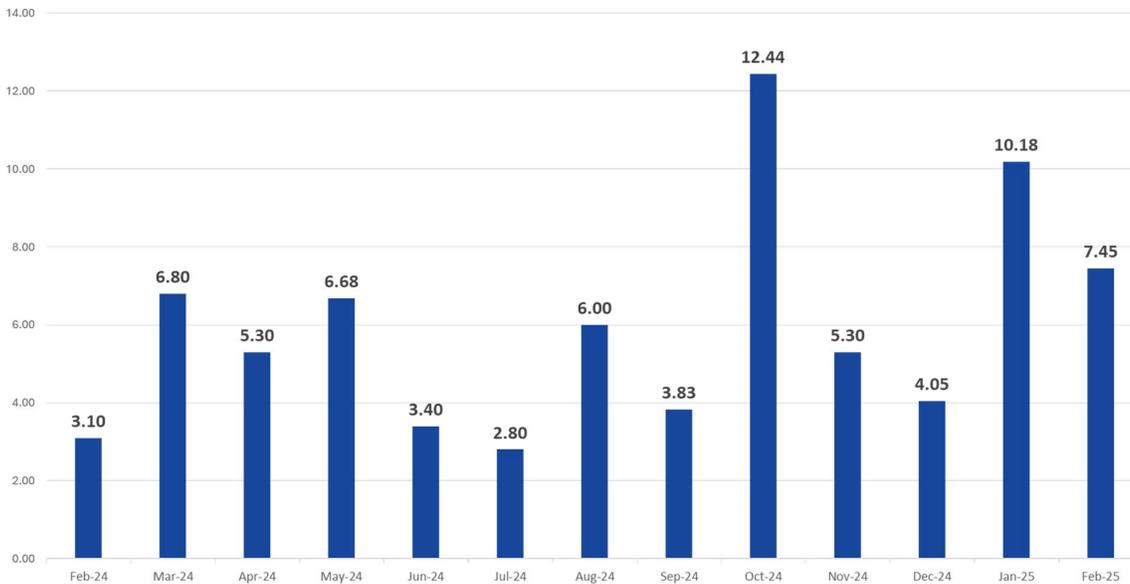
Foreign funds (FIIs/FPIs) were net seller in February 2025 at USD3.98bn and domestic institutions were net buyers at ~USD7.45bn. Over the past five months, foreign institutional investors (FIIs/FPIs) have recorded a net outflow of approximately USD25bn, reflecting a continuous withdrawal of foreign capital from Indian markets. In contrast, domestic institutional investors (DIIs) have been consistently deploying capital for the last 19 months, accumulating net purchases of around USD92.03bn. Notably, 43% of this inflow - equivalent to USD39.42bn - has occurred in the last five months alone. This trend highlights the growing influence of domestic institutions in stabilizing the market and offsetting the impact of sustained foreign outflows.

Fig: Monthly foreign fund flows (In USD bn)



Source: NSDL

Fig: Monthly Domestic fund flows (In USD bn)



Source: Money Control

Over the last 12 months, the MSCI India Index has underperformed the MSCI EM Index. Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM Index by a robust 124%.

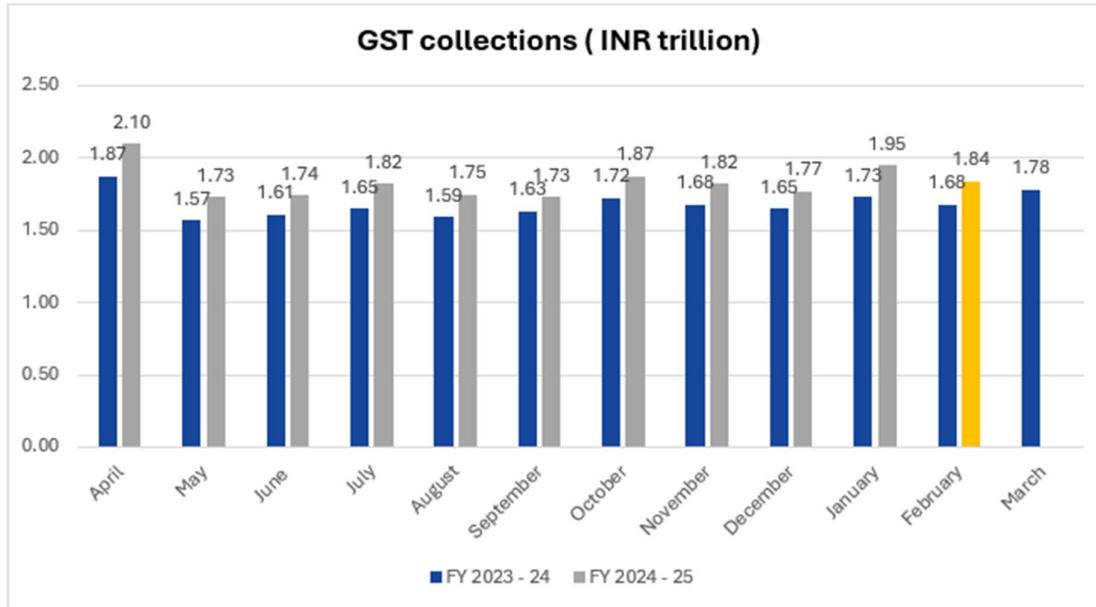
Fig: MSCI India notably outperforms MSCI EM by 124% in the last 10 years



Source: Motilal Oswal Research

On the macroeconomic front, Good and Services Tax (GST) revenue for February 2025 was INR1.84 trillion, up 9.1% YoY.

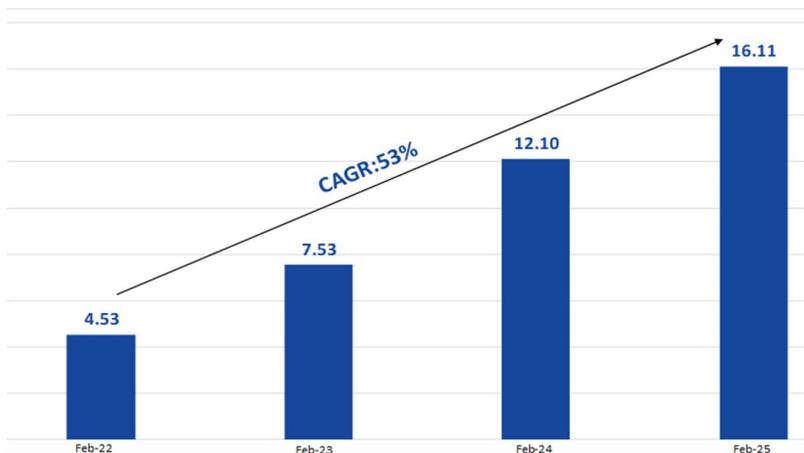
Fig: GST collection trends



Source: EquiPoise Capital Research

India's Unified Payments Interface (UPI) has established itself as a key driver of the country's digital payments ecosystem. Over the past three years, UPI transaction volumes have grown at a remarkable compound annual growth rate (CAGR) of 53%, highlighting a structural shift away from cash-based transactions. This rapid adoption of digital payments has several macroeconomic benefits. A lower reliance on cash reduces the circulation of unaccounted money, improving transparency in financial transactions. Additionally, the widespread use of UPI has contributed to higher tax compliance, positively impacting government revenue. Notably, the steady rise in UPI transactions has played a role in boosting Goods and Services Tax (GST) collections, as more transactions are recorded within the formal economy.

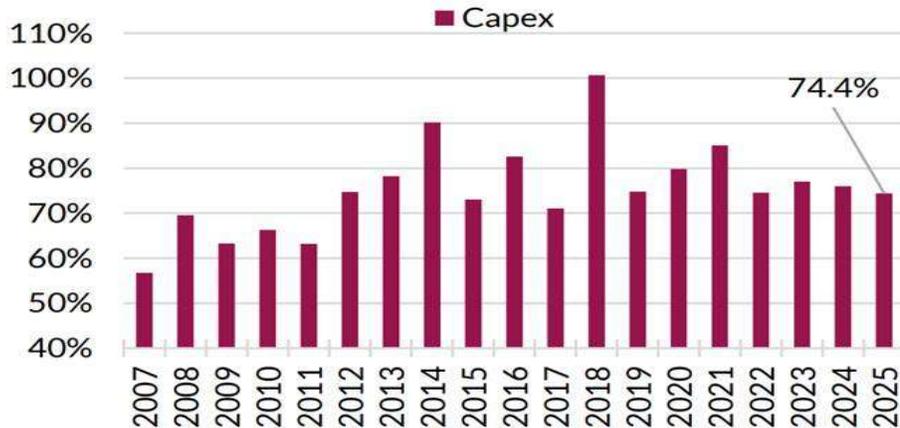
Fig: UPI digital payment transactions monthly volume trend (in INR billion)



Source: NPCI, EquiPoise Capital Research

January 2025 central fiscal deficit was 16% of FY25 budget, vs. 11% median, taking 10 months deficit to 75% of FY2025 vs. 84% normally. Overall spending in January grew 12% YoY; capex continues to catch up (+51% YoY, FYTD 74% of budget revised estimates versus 10-year median of 77%). With capex incrementally a higher share of total spending than in prior months, the overall impact on growth is larger. Augurs well for economy’s growth.

Fig: Capex spending catching up: +51% YoY in January 2025 (YTD % of actual)



Source: Axis Capital Research

Our view:

An eventful month of February is behind us. A Union Finance Budget which can be termed pro-consumption, pro-capital expenditure, pro-growth yet steadfast on fiscal consolidation while maintaining social welfare was presented by Government of India last month. This budget saw an unprecedented and unimaginable individual income tax incentive which is nearly 5x (five times) the per capita GDP of the country i.e. in a country with per capita GDP of USD2,940/- (or INR2,55,000/-) income tax exemption limit was raised to USD14,700 (or INR12,75,000/-) thus getting nearly 78% of the salaried tax-payers out of the income tax bracket. This measure is expected to boost consumption and act as a motivation for the private sector to get on with their share of capital expenditure.

Despite this, India is the only G20 country with a declining government debt to GDP thereby providing another incentive to private sector to take risk or “unleash animal spirits” as Government steps away from borrowing and leaves ample room for private sector to crowd in thereby furthering growth. The government seems to be moving towards wiping out primary deficit by 2028 if it maintains this trajectory. Fiscal consolidation is a major driver of macroeconomic stability now. Government’s deep understanding of inflation and its propensity to hurt the economy, particularly the poor and weaker sections of the society, has ensured that the central bank remains an inflation hawk. This again bodes well for real growth.

During general election years, the central government’s capex spending tends to be back-ended and FY2025 is unfolding in a manner reminiscent of such years. Core capex in transportation infrastructure (rail, road), housing, atomic energy and space surged till December 2024 and has now surpassed the spending rate seen in FY2024, after lagging significantly in first half 2025. Transfer to states (loans for capex) has also outpaced last year’s rate;

although defence capex has been soft, but we see no cause for alarm. With FY2025 capex spends turning out to be skewed to the latter half of the year, FY2026 capex spends could come out swinging in the first half itself - being a non-election year. On balance, we envisage strong government capex in H1CY2025 which should start showing up in GDP growth data.

Coming back to markets and the current sharp fall particularly in the broad markets, we would like to add that in the past, we have seen sharper declines. The 2007-08 global financial crisis led to a nearly 60% market correction, while the COVID-19 led market fall resulted in a 37% decline. In comparison, the current fall does not appear exceptional, especially given the global news flow originating out of Washington DC and the USD25bn foreign fund selling in just 5 months. Moreover, the impact of foreign fund outflows has been cushioned by strong domestic participation, particularly from retail investors and mutual funds.

For the first time since 2006, domestic investors - including mutual funds and retail participants - hold a larger share of the Indian stock market than foreign funds (FII's/FPI's). This shift is primarily due to persistent foreign fund selling and consistent buying by domestic institutions. As of December 2024, foreign ownership of NSE-listed stocks has fallen to a 13-year low of 17.4%, while mutual funds' share has reached an all-time high of 10%, supported by sustained Systematic Investment Plan (SIP) inflows. Mutual funds invested a net INR1.5 lakh crore (USD17.16bn) in the December quarter and INR 71,000 crore (USD8.12bn) in the first one-and-a-half months of the current quarter, bringing total net inflows to INR4.2 lakh crore (USD48.05bn) in FY2025 (up to February 14, 2025). Additionally, direct non-promoter ownership by individual investors has reached an 18-year high of 9.8%, with fresh investments of INR56,000 crore (USD6.41bn) in the December quarter. The combined direct and indirect (via mutual funds) individual ownership has now increased to 18.2% of total market capitalization, surpassing foreign funds 17.4% for the first time since 2006.

Over the last five years, household wealth in equities has surged by INR46 lakh crore (USD526.32bn), with INR30 lakh crore (USD343.25bn) added in just the past two years. Despite concerns over a slowdown in earnings growth, global economic uncertainty, and foreign fund outflows, the Indian market continues to offer long-term value. While near-term volatility may persist, strong domestic liquidity and growing retail participation provide structural support for the market. Add to this, Government too has stepped up capital expenditure and is creating right conditions for private sector to take over.

We remain focused on portfolio and believe India's equity market is in a bright spot despite ongoing corrections. 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

March 06, 2025.

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