Monthly Equity Market Insight

June 2024

MIRAE ASSET Mutual Fund

EQUITY UPDATE

- The nifty 50 Index ended flat amid increased volatility due to Lok Sabha elections 2024, geopolitical tensions and significant FPI outflows.
- Sectoral indices closed mixed. Capital goods (+11.2%), Power (+6.6%) and Metals (+4.7%) were the major gainers and IT (-2.6%), healthcare (-1.5%) and oil & gas (-1.2%) were the major losers.
- Global markets ended on a mixed note. Taiwan (+3.8%), US SPX (+3.4%) and Germany (+3.2%) were the major gainers, whereas Russia (-5%), the Philippines (-4%) and Indonesia (-3.6%) declined the most.

Global Macros

- **Bond yield:** The US 10-year bond yield moderated from 4.68% on April 30, 2024 to 4.5% on May 31, 2024.
- **Crude:** Dated Brent crude future prices fell from around US$87.9/bbl on April 30, 2024 to around US$81.6/bbl on May 31, 2024. In the same period, spot prices fell from US$87.9/bbl to US$80.1/bbl.

Domestic Macros

- **S&P India Ratings Upgrade:** Rating agency S&P Global has upgraded India's sovereign rating outlook to positive from stable and affirmed the 'BBB-' long-term local currency sovereign credit ratings.
- **RBI Record Dividend:** RBI has announced highest ever dividend transfer of INR 2.1trillion for FY2024. This is almost double the amount pencilled in govt's FY2025 interim budget (0.6% of GDP vs 0.3% budgeted).
- **GST Collection:** GST revenue for the month of May 2024 stood at ₹1.73trillion. This represents a 10% YoY growth, driven by a strong increase in domestic transactions (up by 15.3%) and slowing of imports (down by 4.3%).
- **Growth:** 4QFY24 real GDP growth at 7.8%YoY was again stronger than consensus (7%). In FY24, real investment growth outpaced real consumption growth at the highest pace in post-Global Financial Crisis period.
- **Inflation:** Headline inflation remained stable at 4.83%YoY in April-2024. Core inflation hit a new low at 3%YoY in Apr-2024 with weakness across goods and services. Retain our FY25 average headline inflation forecast at 4.5%YoY.
- **Currency:** INR was under pressure in the first half of May2024, falling to record lows against the US Dollar on hawkish rhetoric US FOMC members amid robust US macro data: INR fell to Rs 83.53/US$ on May 13,2024 before appreciating to around Rs83.1/US$ (in the absence of RBI intervention). However, towards the end of the month, the INR came under pressure yet again, and ended the month lower at Rs83.47/US$ on May 31, 2024.

Regulatory, policy and market developments

- **General Election:** PM Modi led NDA returns to power for the third consecutive term, but the BJP failed to cross the simple majority on its own. NDA lost 64 seats in just four states led by 29 seats in Uttar Pradesh.
- **Equity trading trends:** FPIs sold US$3.9 bn (until May 30) of Indian equities in the secondary market, whereas DIIs bought US$6.4 bn (until May 30,2024).

Nifty 4QFY24 Interim Results - Broadly in-line

- The 4QFY24 corporate earnings ended on a strong note. Domestic cyclicals, such as Autos and Financials, along with Healthcare, Capital Goods, and Cement drove the beat. Conversely, global cyclicals (Metals and Oil & Gas) dragged down overall profitability. Earnings for Nifty-50 grew by 12/24% YoY for 4QFY24/FY24 respectively.
- Nifty Earnings Per Share for FY25 and FY26 remains stable. Upgrades have been seen in Auto and Infra/ Industrials offset by downgrades in financials and IT.
  - **IT** – Results largely weak on growth. Poor guidance (<5% revenue growth) projected. Employee count down across board in 4Q despite high utilizations suggest no near term uptick.
  - **Private Banks** – Loan growth has been cut down following RBIs dictat driving 2-6% cuts in FY25 earnings. NIMs bottoming out. Asset quality holding up well.
  - **Non Banking Financial Companies lenders** broadly in line to small beats led by loan growths, asset quality. Margins decline here too.
  - **Non Lending financials** – Strong numbers by AMCs, wealth management etc following inflows / market rally.
  - **Consumer** – Weak as expected; hopeful outlook on good monsoon forecast;
  - **Property** – Strong pre-sales trend across board.

Outlook

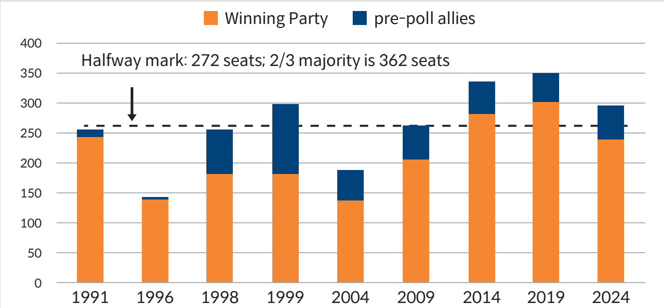
- **NDA is expected to return for 3rd consecutive term:** As the single largest party, the BJP will likely be invited to form the government first, a feasible task with the NDA's 292 seats (272 needed for a majority in the 543-seat parliament). This marks the first time in 10 years the BJP may form a government without an absolute majority, raising questions about India's future reforms and economic outlook. We assume the NDA will maintain a stable government despite the slimmer victory.
  - **Policy and Reforms:** A reduced mandate for the NDA is unlikely to reverse the reforms of the past decade. However, tough reforms like labour-related reforms, etc will need broader political consensus. Economic growth and reforms remain critical for job creation, ensuring policy continues to align with political objectives.
  - **Economic Growth Prospects:** We see no significant risk to India's long-term growth prospects, projected at 6.5% real GDP growth and 10-11% nominal GDP growth, which could double the economy's size in about seven years.
  - **Consumption and Fiscal Policies:** The new government may prioritise boosting private consumption, particularly for lower-income groups, to perform well in upcoming state elections. Supporting inclusive consumption growth could positively impact overall growth prospects. The investment expense percentage has increased from 10% to 18%. We expect the capex push to align with nominal GDP growth, and more reallocation to mass consumption. In addition, a normal monsoon could further revive mass consumption.
  - **Financial Stability:** The government aims to reduce the fiscal deficit to 5.1% of GDP in FY25 and 4.5% in FY26. It is unlikely that the fiscal deficit will exceed these estimates or that the FY26 target will be missed. Increasing the fiscal deficit target could harm the fiscal consolidation credibility built over the years.
  - **Strong Balance Sheets:** The strength of bank and corporate balance sheets is notable. Banks' net NPA is below 1%, the lowest in two decades, and large corporates have robust balance sheets. While government debt has increased post-COVID, fiscal discipline should ensure it remains manageable. Household debt levels are also reasonable compared to global standards. India's aggregate debt to GDP is lower than in 2010, while it has risen globally.
  - **Demographic and Job Creation:** India benefits from a growing young population, unlike aging societies in advanced countries. The workforce is expected to grow for the next two decades, requiring at least 8-10 million new jobs annually. High growth is essential even for future state elections (and not a choice anymore) to meet the demand for non-farm jobs.
- **Multiple sectors driving India corporate earnings:** Nifty earnings have risen at a 17% CAGR over FY20-24E, matching pace with the Nifty 50 index rising by ~80% during the past 4 years. Earnings outlook is still robust for FY25/CY24 as rising corporate spending and strong bank balance sheets anchor earnings growth in mid-teen over the medium term. Compared with the other EMs/major economies, India has shown more robust and consistent earnings performance. Visibility of India's cyclical upturn, full-blown capex cycle, robust demand and expected interest rate easing gives confidence in Indian companies to deliver healthy earnings growth next year.
- **Key things to watch out are:** (a) Upcoming Finance Budget, (b) Oil price trend, (c) rate trajectory by the central banks (d) Russia-Ukraine & Middle-East war impact on global supply chain and (e) Progress of Monsoon in 2024.

Valuation and view: The Nifty 50 Index's valuation at 19.7x FY25E and 17x FY26E is reasonable given the consensus earnings growth of 16% CAGR over FY23-FY26. Earnings growth is broad-based, providing better certainty. Over the last 12 months, midcap/small-cap indices have outperformed the Nifty 50 by 30/40% respectively, with some sectors particularly amongst industrials trading at a premium. Mean reversion is expected in these richly valued sectors. Overall, we don't see much deviation in current policy construct and expect earnings momentum to continue.

Recommendation: Investors should invest based on their risk profile and may continue allocating via Systematic Investment Plans. We prefer large-cap oriented funds and hence any fresh allocations may be made in diversified funds like largecap, Flexicap and Multicap. Hybrid funds, given their flexibility in asset allocation could also be part of core portfolio. In thematic funds investor may prefer consumption fund for expected mass consumption recovery and BFSI fund given the decent risk-reward.

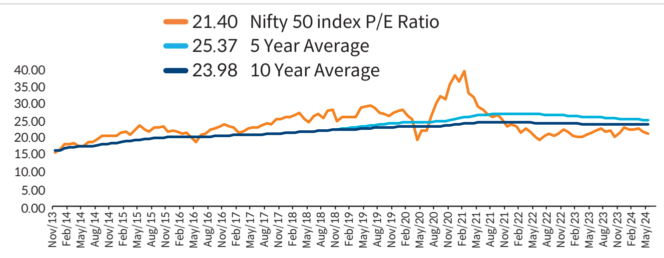
Chart of the month: Capex growth has been robust post-covid driven by Govt and Household

Chart of the month: The importance of allies had shrunk, but now up again



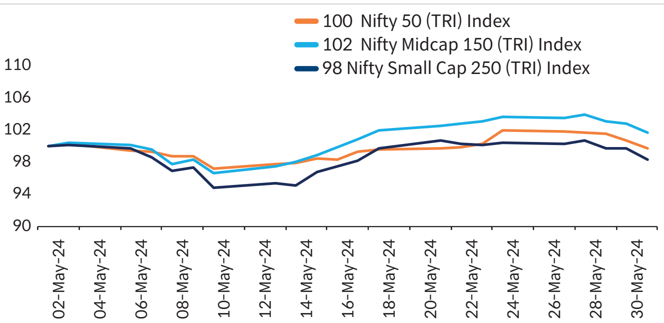
Source: Election Commission of India, Axis capital, data as on 4th June, 2024.

Nifty 50 Valuation Chart



Values as on 31st May, 2024

Index Movement Last Month



Values as on 31st May, 2024

Performance of Global and Regional Indices

Name	Performance (%)			
	1m	3m	6m	1Yr
Global and regional indices				
Brazil (Bovespa)	-3.0%	-6.2%	-4.1%	3.4%
Shanghai (SHCOMP)	-0.7%	3.8%	2.4%	-6.8%
Germany (DAX)	3.2%	5.1%	14.1%	14.6%
Hong Kong - HSI	1.8%	9.3%	6.1%	-4.4%
Japan (Nikkei)	0.2%	-1.8%	14.9%	16.0%
Korea (Kospi)	-2.1%	-0.6%	4.0%	2.8%
Russia (MOEX)	-7.3%	-0.3%	1.6%	15.0%
UK (FTSE)	1.6%	8.5%	11.0%	9.9%
US (Dow Jones)	2.3%	-0.7%	7.6%	12.4%

Source: Bloomberg Data as on 31st May, 2024

Performance in May of Major Indian Indices

Major indian Indices	Apr 24	May 24	Performance (%)			
			1m	3m	6m	1Yr
BSE SENSEX - TRI	114269.05	113901.87	-0.32	2.40	11.00	19.63
NIFTY 50 - TRI	33276.41	33285.90	0.03	2.86	12.51	23.02
Nifty Midcap 150 - TRI	23797.41	24327.24	2.23	8.36	21.18	54.00

Source: AceMF, Data as on 31st May,2024

Performance of Indian Sector Indices

Name	Performance (%)			
	1m	3m	6m	1Yr
NSE Sector Indices				
NIFTY AUTO - TRI	4.18	14.75	33.51	66.19
NIFTY BANK - TRI	-0.29	6.79	10.73	11.99
NIFTY ENERGY - TRI	-0.28	3.65	38.11	71.05
NIFTY FMCG - TRI	-0.12	0.33	2.75	7.29
Nifty Infrastructure - TRI	1.08	7.20	31.87	60.19
NIFTY IT - TRI	-1.61	-13.40	0.56	13.34
NIFTY MEDIA - TRI	-1.18	-8.71	-18.41	6.93
NIFTY METAL - TRI	5.97	22.74	38.68	65.70
NIFTY PHARMA - TRI	-0.90	-1.06	16.03	49.43
NIFTY REALTY - TRI	4.75	11.97	42.88	113.75

Source: AceMF, Data as on 31st May, 2024

High Frequency Indicators

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Industry													
PMI manufacturing	55.5	54.0	54.9	55.9	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8
Credit growth (industry)	10.0	7.5	8.3	9.1	6.3	7.7	8.5	9.4	10.3	11.4	12.3	11.8	7.5
Petroleum products consumption (industrials)	9.6	13.2	15.2	2.6	28.1	24.2	19.2	19.1	28.8	7.5	12.8	12.6	0.3
Bitumen consumption	(9.8)	0.7	3.6	(6.8)	(2.1)	12.4	21.0	(21.6)	1.5	(8.7)	(10.5)	54.7	(7.1)
Diesel consumption	1.5	(6.5)	(0.9)	6.6	7.8	31.7	23.9	8.1	13.2	13.4	5.6	19.3	6.6
Core infrastructure	4.1	4.0	5.9	4.8	9.5	19.3	13.1	4.8	4.2	8.3	0.7	5.7	8.3
IIP mining	2.6	3.0	4.6	3.9	8.4	11.2	7.8	(3.3)	(3.9)	5.2	2.6	9.7	10.1
IIP manufacturing	0.6	1.9	0.2	1.4	5.6	20.7	12.9	3.1	(0.5)	2.0	(5.8)	6.7	3.6
IIP electricity	2.8	0.9	4.5	6.1	11.8	23.5	16.4	2.3	1.4	11.6	1.2	12.7	10.4
IIP coal	5.2	8.2	6.6	0.3	30.1	33.5	32.1	11.4	7.7	12.1	3.8	12.3	12.3
Railways freight traffic	7.2	7.8	6.6	6.7	9.4	14.6	11.3	8.3	7.9	9.2	1.4	5.2	3.0
Steel production	1.7	6.3	6.0	4.9	3.9	18.0	7.7	10.1	6.6	4.0	2.2	9.0	9.7
Services													
PMI services	55.5	51.5	51.8	53.6	57.9	58.9	59.2	55.5	57.2	54.3	55.1	56.4	58.5
Credit growth (services)	12.9	9.8	10.2	12.8	12.1	14.1	14.1	18.0	18.6	21.3	23.8	22.6	20.6
Airport passenger traffic	52.7	(16.8)	(1.3)	36.4	86.8	463.0	247.2	98.2	54.6	50.1	29.8	11.5	14.2
Airport cargo	10.6	2.3	(2.2)	3.5	11.9	73.7	52.6	29.9	8.8	7.7	(1.9)	7.7	(1.3)
Foreign tourist arrivals	250.8	128.1	130.7	167.6	422.1	2,154.9	1,416.7	823.4	465.9	376.9	243.2	191.3	204.2
Demand													
Credit growth (personal loans)	17.4	15.2	14.9	14.8	15.2	16.8	18.5	19.2	19.9	19.9	20.5	19.9	20.4
Center's expenditure (net of interest payments)	20.1	25.5	6.6	(9.5)	18.5	28.3	(3.6)	(12.5)	(5.1)	27.8	67.3	25.5	(30.0)
Fuel consumption (retail)	1.2	(4.4)	1.1	6.7	8.5	27.7	17.5	5.5	9.6	9.1	3.7	13.0	5.3
Passenger vehicle sales	(13.3)	(8.1)	(6.5)	(3.9)	(3.8)	234.4	38.6	11.1	21.1	92.0	28.6	28.1	7.2
Two wheeler sales	(10.8)	(21.1)	(27.3)	(20.9)	15.4	255.3	24.0	10.2	17.0	13.5	2.3	17.7	3.9
Non-oil imports	31.6	23.3	26.6	8.6	14.6	51.6	44.5	34.0	25.0	16.0	0.5	4.8	(4.5)

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Industry																
PMI manufacturing	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.9	59.1	58.8
Credit growth (industry)	8.7	7.0	5.7	7.0	6.0	8.1	5.7	6.6	7.1	5.9	6.6	8.6	7.3	9.3	8.5	7.4
Petroleum products consumption (industrials)	(2.6)	7.5	17.3	(8.8)	14.9	6.9	(1.3)	13.7	12.2	(2.9)	(2.0)	10.2	13.7	3.3	(10.6)	9.8
Bitumen consumption	(14.3)	(9.2)	4.3	9.6	17.6	9.5	50.6	58.5	37.5	26.6	(19.6)	10.9	10.5	3.3	(6.8)	(5.3)
Diesel consumption	12.8	7.4	1.1	8.6	12.7	3.1	3.8	5.2	3.8	9.3	(3.0)	2.6	8.1	5.9	(0.6)	6.1
Core infrastructure	9.7	6.0	4.2	4.3	5.0	8.3	8.5	12.5	9.2	12.7	7.9	4.9	4.1	7.1	6.0	6.2
IIP mining	9.0	4.6	6.8	5.1	6.4	7.6	10.7	12.3	11.5	13.1	7.0	5.2	5.9	8.1	1.2	
IIP manufacturing	4.5	5.3	1.2	5.2	5.8	3.1	5.0	9.3	4.9	10.2	1.2	4.5	3.6	4.9	5.2	
IIP electricity	12.7	8.2	(1.6)	(1.1)	0.9	4.2	8.0	15.3	9.9	20.4	5.8	1.2	5.6	7.5	8.6	
IIP coal	13.6	8.5	11.7	9.1	7.2	9.8	14.9	17.9	16.0	18.4	10.9	10.7	10.2	11.6	8.7	7.5
Railways freight traffic	3.8	4.7	3.0	(0.6)	(2.1)	(7.6)	(3.5)	2.2	4.2	8.5	4.3	6.4	6.4	10.1	NA	1.4
Steel production	11.5	14.3	11.6	6.5	15.3	13.8	14.6	16.6	14.6	14.1	18.5	12.9	6.4	13.5	7.2	5.7
Services																
PMI services	57.2	59.4	57.8	62.0	61.2	58.5	62.3	60.1	61.0	58.4	56.9	59.0	61.8	60.6	61.2	60.8
Credit growth (services)	21.2	20.7	19.8	21.7	21.4	26.7	23.6	24.8	25.0	23.6	25.4	22.9	23.6	23.6	23.4	21.7
Airport passenger traffic	95.8	56.8	21.4	22.2	15.2	18.8	24.7	22.8	18.4	10.8	9.0	8.3	4.6	4.8	3.7	2.4
Airport cargo	8.2	9.8	7.0	6.0	3.6	1.9	5.0	15.3	4.8	11.5	14.0	11.5	10.3	13.9	2.9	0.0
Foreign tourist arrivals	330.8	259.4	132.5	53.7	41.3	24.0	13.6	22.6	17.5	19.8	16.8	7.8	10.4	15.8		
Demand																
Credit growth (personal loans)	20.7	20.4	20.6	19.4	19.2	20.9	31.2	30.8	30.3	29.7	30.1	28.5	28.8	28.3	27.5	27.1
Center's expenditure (net of interest payments)	22.5	(4.7)	9.6	9.7	5.0	22.0	121.6	7.1	(1.5)	(22.2)	(17.1)	9.3	(22.2)	25.5	(10.1)	15.2
Fuel consumption (retail)	8.8	5.3	1.0	5.3	11.3	3.4	3.7	4.3	4.9	7.2	0.5	(0.9)	5.7	7.2	5.0	5.5
Passenger vehicle sales	17.2	11.0	4.5	31.7	13.5	2.0	19.2	27.7	17.7	33.9	21.0	21.7	31.9	27.0	26.0	1.3
Two wheeler sales	5.0	8.8	9.0	16.5	17.4	1.7	(7.2)	0.6	0.8	20.2	31.3	16.0	26.2	34.6	15.3	30.8
Non-oil imports	(8.1)	(9.6)	0.1	(13.5)	(7.0)	(10.7)	(8.9)	2.0	(11.6)	13.8	(2.7)	3.4	2.4	17.8	(6.6)	6.4

Notes:
(a) Petroleum products consumption comprise naphtha, NGL, LDO, furnace oil, LSHS, etc.
(b) Fuel consumption comprise LPG, kerosene, gasoline and diesel.

Source: CEIC, Kotak Institutional Equities

The above chart shows a heat map for various indicators from December 2021 to April 2024 where greener cells signify positive movement, and negative as it moves to red.

Source: Bloomberg. All the above data is as on 1st June 2024 unless stated otherwise. Past Performance may or may not be sustained in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund.

Past Performance May or May not sustain in future