

Pranitya Wealth LLP

Market Outlook

January 2023 | Volume 32

Disclaimer: The information provided herein is based on publicly available information and other sources believed to be reliable. The document is given for general information purpose and is neither an investment advice nor an offer to sell nor a solicitation. Any calculations made are approximations and are for illustrative purposes based on assumed figures, meant as guidelines only, which you must confirm before relying on them. The statements herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in such statements. This message (including any attachments) is solely for the addressee(s) and may contain confidential information. If you have received this document in error, please destroy and notify sender immediately. Sender does not intend to waive confidentiality or privilege. If you have received this document in error and / or are not the intended recipient, you are notified that reading, using, copying, printing, forwarding, or distributing of this email is strictly prohibited.

Summary / Key Highlights for the Month

We may see muted first half of the calendar year 2023 on account of global recession if any. Also, the fact that there is no scope for rerating and the market is pricing in everything

2023 offers a lot of promise if we are able to avoid Covid, war and inflation to get beyond control

Stable politics, steady reform policies, and strong banking system makes India even more attractive. Recent show of retail participation with 5 Crores plus demat accounts and over Rs. 13,000 Crores of monthly SIP flow into equities is just a beginning. We feel equities and debt both will offer great opportunity going ahead.

If you analyze the situation based on the current scenario India offers a long-term opportunity of wealth creation. We have no view for traders as market will be volatile in the short term.

Large cap orientation and desirable allocation to equities along with debt will help you ride over the current volatility.

WE WISH ALL OF YOU A VERY HAPPY AND PROSPEROUS NEW YEAR!!!

Overview

We at Pranitya, take this opportunity to thank all our clients, friends, mentors, supporters and well-wishers. 2022 was one of the more difficult years for generating returns from any of the asset classes. Nifty and Sensex ended up generating just 4.40% throughout the entire year.

We lost majority of the year to Covid, war and global inflation. Interestingly, the Indian stock market was best in terms of returns where other markets ended up in huge losses for the calendar year 2022.

The India story is completely different on many counts and that's why we remained resilient when the other economies suffered. We feel it is important to connect few dots to understand India's story and discussions on the following key points to give us the answer.

Key Global Factors

1. The Fed's policy

The US Fed is expected to carry out a few more hikes of 50 bps until they see inflation come firmly under control. Indication of terminal rate of 5% plus and hikes throughout 2023 demonstrated the hawkish stance of the US Fed in the last policy. The Fed will see inflation moving to 2% which is their comfort zone.

We do see mild recession in the US in 2023 and the US market may remain under pressure for some more time before making a comeback, though looking attractive at the current stage.

Higher interest rates in the US mean more outflows from the emerging markets back to the US.

2. The Ukraine – Russia War

It is likely that the world will see the anniversary of the Ukraine Russia conflict before it ends, causing more pain to Europe than India. Supply logistic issues are slowly getting sorted out but any dramatic actions by Russia will put the entire world into trouble. India has found its way to deal with the issue for the time being.

3. Global Recession

Global GDP may drop below 3% in the coming year and in that case, the Bank of England, the European Central Bank, and the Fed may embrace more rate hikes next year. They acknowledge that economies that are weakening, their stance to persist and depends upon the buckling of economies, employment may fall, thus they will certainly avoid the risk of doing too much. India will also face slow down in exports if global recession becomes a reality.

4. Foreign Portfolio Investors

FPIs have sold nearly Rs. 1.20 trillion in this year but Mutual Funds, retail investors,HNIs and DIIs have invested Rs. 2.74 trillion in the market. Thus, Indian market remained unperturbed by the exodus of foreign investors.

5. Covid

The Covid situation in China remains a worry for the whole world. Though much data is not available, and we feel impact will likely be muted this time around not leading to any lockdowns in India.

Key Domestic Factors

Budget 2023

This is going to be an important event to watch. As last year, Hon. Finance Minister allocated almost 35.40% more funds to capital expenditure. Estimated capex was Rs. 10.6 Lakh Crore for 2022-23. We feel back tracking reforms is not impossible and Government will remain committed to cut fiscal deficit, prune subsidies and allocate more to capital expenditure.

Possible hike in tax eligibility limit coupled with almost 1.5% hike in small savings rate will leave a lot of money in the hands of Indian spenders.

1. Make in India 2

Much talked about second PLI is on its way. The Department of Industrial Policy and Promotion ('DPIIT') has identified 27 sectors – 15 from manufacturing and 12 from services. This includes sectors like furniture, electronics, textiles and auto etc. to boost manufacturing. Till now, Rs. 47,000 crore of actual investment is made in the PLI Scheme leading to production of Rs. 3.75 Lakh Crore. Employment generated is about 2,50,000.

2. Indian Banking Industry

Banking in India has shown remarkable improvement. The net NPA have reached a 10 year low. Current year deposit growth is 9.56% and credit growth is of 17.22% till December 2022.

PSU Banks saw 50% rise in their profit in Q2 and private sector recorded growth of around 64%. Sharp decline in NPAs with rise in credit cost made growth possible as most of them moved to personal loans and retail loans.

Some interesting facts to notice are about growth rate in loans. Individual loans grew at 29. 31%, consumer durables loans grew by 25.5% and credit card outstanding grew 45%. Interestingly, housing loans and education loans saw a decline. Gross NPA levels have dropped significantly to 10.3% in case of PSU banks and 7.6% in case of private banks.

3. Tax Collections

Direct tax collection till December 2022 has shown a rise of 26% which exceeded the estimated collection by Rs. 3 Lakh Crore. Total collections stood at Rs. 13.64 Lakh Crores compared with Rs. 10.83 Lakh crores of last year. It has already touched 96% of the budget estimate in December 2022 itself. Total estimate for the tax collection for FY 2022-23 was Rs. 14.2 Lakh Crore which was doubted due to the war and Covid situation last year. The reasons attributed to better tax collections are contributions of better profitability and salary increments. GST collection too have stabilized around Rs. 1.5 Lakh crore a month and attempt to bring everyone under this regime with better compliance will take this number up.

4. Micro Finance Industry

This is a very critical part of Indian economy and it is important to track it. We have seen slight rise in NPAs of this Rs. 3 Lakh Crore industry. NPAs have touched 10% mostly coming from re structured loans. Loans given post Covid are performing very well and overall growth in the industry is seen at 23% Y-o-Y. Usually when inflation goes up and there is economic stress we have seen this industry do well.

5. Indian IT Industry

One of the biggest employment generator and growth driver is the IT industry. Accenture usually leads this industry in terms of growth and expectations. Interestingly, in the November quarter an income growth of 9.9% in the operating margin expansion guidance for FY 2022-23.

Discretionary spend in the IT industry is about 15% to 20% that has seen some pressure. Most of the Indian IT companies are expecting moderate growth with slowdown in Europe and US, which are major markets for them. Overall wage hike or increments is expected to be in single digits this year.

6. Auto Industry

The demand for SUVs and cars with a price tag of over Rs. 10 Lakh has comprised of 44% of the total demand. Industries only recovered and will surpass the pre Covid sales soon. Thus, it indicates the demand is intact and it can only grow from here.

7. Foreign Exchange Reserve

Remittances inward saw USD 100 Billion by the end of 2022. Forex reserve saw a dip in the reserves after a large outflow from FIIs – our forex reserves stood at USD 564 Billion. The Centre's fiscal deficit came in at Rs. 9.78 trillion or 58.90% of budget estimate of Rs. 16.6 trillion as on December 2022. Current Account Deficit is more of a concern as it

surged to USD 36.40 Billion in the September quarter. This is 4.40% of GDP; last seen in 2013 during the taper tantrum. Q1 Current Account Deficit was USD 18.20 Billion or 2.2% of GDP. Merchant imports have gone up with inflation and currency depreciation. Oil imports are climbing and exports are slowing. With global slowdown, commodity prices will come off. Slowdown in domestic demand will help bring down the imports. With sufficient amount of forex reserves, RBI Governor is comfortable with the situation. For fiscal deficit to come down to 2.5% in 2023, we will need USD 100 Billion of funding through large debt & equities flow to insulate from current account deficit.

8. Indian Economy

India will become the third largest economy by 2027 with over USD 5 Trillion of GDP. India also holds promise of becoming an economic superpower 2037. It is forecasted that India will be a USD 10 Trillion economy by 2037. This growth will be derived from demographics and it will benefit India by 2050.

Consumption is expected to lead growth for India and we will have the largest working population globally. Usually, the thumb rule is that GDP equates the market capitalization of the equity stock markets of the country. This parameter shall indicate India's potential going forward.

Opportunity Going Ahead

1. The Next Big Hope

The efforts of PLI, export promotions, China plus one, and other geographical factors, have made India as a preferred production hub. India's share in global trade may be around 2 to 2.5% and any 0.50% addition to it will mean USD 100 Billion for India. What happened to China in its golden era where their expanded their share in exports to 15% eventually, such kind of shift in manufacturing exports from India is real.

Usually, IT business is easy to shift but manufacturing takes 2- 3 years to move its base. India is definitely gaining out of this Make in India 2, PLI and now G-20 opportunity which will help India to increase its share of global trade.

2. G-20 Leadership

India is hosting the G-20 summit which will provide an excellent opportunity for India to showcase its strongest capabilities, regional diversities, natural resources and preparedness to become trusted manufacturing hub and market space. This will help tourism, crafts and export of services as the world has limited awareness about India even now.

These are few points where India is likely to score over other countries. Stable politics,

steady reform policies, and strong banking system makes India even more attractive. Recent show of retail participation with 5 Crores plus demat accounts and over Rs. 13,000 monthly Crores of SIP flow into equities is just a beginning. We feel equities and debt both will offer great opportunity going ahead.

Equity Market

Through the last calendar year was nearly flat for the Indian Equity Market there were 3 to 4 stocks which grew over 40% in the last year. Market valuation was expensive when Nifty touched 18,800 in December 2022. It gave a good correction to midcap and small-cap stocks.

We may see a muted first half of the calendar year 2023 on account of global recession if any. Also, the fact that there is no scope for rerating and the market is pricing in everything. Only positive earnings growth will drive market further up from here. Looking at decent economic growth we don't expect any negative surprises except for **Covid and escalation in the Russian war.**

Our optimism is coming from the fact that even after a negative outflow of 25 Billion USD from the FPIs under extreme geopolitical situation, we saw good domestic flows. We feel SIP amounts of USD 20 Billion, USD 20 Billion NPS and PF money and almost similar amounts can come from HNIs, retail and DII directly.

This itself (without FPIs) will bring in Rs. 2,600 Crores every day, considering 20 trading sessions in a month. One may see some volatility in SIP flows in the short term but this number is good enough to keep Indian equity market in good health.

Fixed Income

RBI during its last MPC meeting raised the repo rate by 30 bps as expected and there were some members who opposed this hike. Again, the November data for inflation was around 5.70% indicating that inflation is coming down.

On the other hand, RBI is watching Fed action. Where Fed stance was hawkish making RBI's job difficult, RBI has to keep one eye on growth and also keep in mind the texture of inflation in India is different from US. We have more of imported inflation through oil and global commodities. We have short term rates that have moved up, a lot from what they were a 1.5 years ago. Yield curve was initially flat has now converted a bit. The 10 Year GSEC remained at 7.25% even after the last hike by the RBI. The repo rate and reverse repo rate influenced all short-term rates.

Looking at the trend of inflation we expect rates to peak out soon. Central banks will start holding rates by Q1 of 2023 through cutting rates will happen in 2024. It is a great opportunity to lock in yields at higher rates for a longer tenor like 5 to 6 years and there are some AMCs with target maturity plans for seven to ten years. We feel it makes good sense to lock in yields at these rates with combination of dynamic bond or long term debt in Jan or Feb 2023. Arbitrage Fund offers good opportunity and we hope these returns will continue till March end.