6th April 2024

FUND MANAGERS COMMUNICATIONS

Global Market: The global economy continues to remain stable on growth side, IMF revised up its global growth forecast for CY24 to 3.1% (from 2.9%). Global markets continued their upwards momentum in March with resilient economic data and relatively strong earnings contributing to the gains. During the month of March 2024 – US markets has closed on positive note with Dow Jones gaining 2.47%, S&P 500 up by 3.10%, European Indices FTSE gained 4.30% & DAX was up by 5.06%.
International Energy Agency (IEA) raising its 2024 Oil Demand Forecast: World oil demand is expected to rise by 1.3 million bpd. It also forecast a slight supply deficit this year – should OPEC+ members sustain their output cuts.

Central Banks: US FED has kept interest rates unchanged for a fifth straight meeting. Though rates may be nearing to end of rate hike cycle in US, markets have started assigning probability of rates cuts by end of this year, led by US FED. Central banks action would be data dependent on inflation and growth. China's Central Bank has left policy rate unchanged, as authorities continued to prioritise currency stability. Bank of Japan (BOJ) ended eight years of negative interest rates and first rate hike was done in 17 years.

Domestic Market: During the month Nifty 50 main index was higher by 1.6% m-o-m, while Nifty Midcap 100 was down 1.47% and Nifty small cap was down close to 4%. Regulatory caution has created some volatility in the month and some correction was witnessed in certain stocks in mid and small cap space.

RBI Policy meet: RBI in its policy meet on 5th April 2024 has kept repo rate unchanged, as expected. GDP forecast is at 7% and CPI inflation projection for FY25 is at 4.50%.

Fund Flow: FII flows turned positive in March'24 with inflows of Rs.32,927 crores. DII flows remained healthy with inflows of Rs.45183 crores during the month.

Consumer price Inflation (CPI): FEB CPI Inflation came in at 5.1% (RBI Target is for 4%), Core inflation continued to fall in Feb'24, slipping below the 4% mark. The cumulative impact of rate cuts and weak personal demand likely drove deceleration in the core. Despite anticipated rate cuts by major Central banks in advanced economies by mid-year, the RBI is expected to continue its stance of withdrawing "accommodation". The Central bank is concerned about the risk of repetitive food-price shocks in the disinflation trend. Better-than-expected GDP growth this year—and hearty expectations for the next—would hold the RBI on a wait-and-watch mode for the near term.

IIP: Jan'24 industrial production came at 3.8%. The weaker growth stemmed from the strong base last year along with a sequential contraction in production. Growth in the first ten months is now 5.9%, higher than 5.5% recorded in the corresponding period last year. Reiterating our view, growth in industrial production is likely to slow down. The government's capex push has yet to crowd in private sector investments, which is still cautious ahead of elections. Further, while poor weather and high inflation have hampered Indian consumers' purchasing ability, improvement on both fronts and hand-outs from the government could support consumption in the near term.

Trade Data: During Feb month Merchandise Exports surged 11.9% y-o-y to $41.40 Billion an 11 month high, while Imports increased 12.2% y-o-y to $60.11 billion. Trade Deficit widened to $18.71 Billion. Exports have grown despite many global issues like Ukraine war, Suez canal issue, Red sea crisis, thus showing India's resilience. If there is recovery in Global markets than exports may see better optimism. Government is working on Free trade agreements (FTAs), which would be positive for growth in exports over long term.

PMI: The HSBC India Manufacturing PMI rose to a 16-year high of 59.1 in March, from 56.9 in February. This number was the highest since February 2008. India's manufacturing output rose for the 33rd consecutive month in the final month as growth quickened across consumer, intermediate and investment goods sectors. PMI services rose to 61.2 last month from February's 60.6, on the back of strong demand that spurred sales and business activity.

GST Collection: The GST collection in March grew 11.5 per cent to over ₹1.78 lakh crore, second highest collection, indicating robust demand. The fiscal year 2023-24 has witnessed a strong performance in GST collections, with total gross GST collection reaching an impressive ₹20.18 lakh crore as of March 2024. This represents a notable 11.7% increase over the same period in the previous fiscal year. The average monthly gross collection for FY 2023-24 stands at ₹1.68 lakh crore up by 17.6% y-o-y.

Monthly Auto Sales Data: Mar'24 2W wholesale volumes grew by strong double digits but less than our expectations due to less channel filling for the upcoming festival season. PVs grew in high single digit, in line with our expectations. CV volumes fell by high single digit, below our expectations due to lower LCV volumes owing to less inventory filling. Also, tractor volumes fell in double digits, below our expectations. Ahead, we expect good volume trajectories for 2Ws/PVs due to the wedding/festival seasons and rise in government's pre-election spending. CVs and tractors would be muted in the near term due to the high base. We retain our optimistic view on the auto sector.

Railway Freight: During FY23-24 Railways record highest ever loading of 1591 Million Tonnes, 5% higher than last year. During FY23-24 Railways electrified 7188 route km (6565 km last year), laid new lines at 14 km a day and replaced 5950 km of tracks. Since 2014-15 Indian Railways has completed electrification of 40,000 route km. There has been a substantial jump in electrification from about 1.42 km per day between 2004-2014 to about 19.6 km per day in 2023-24.

Roads: NHAI spent a record Rs.207,000 crore on construction of National Highways in FY23-24, 20% higher y-o-y. Construction was 6644 km as against 5544 km a year earlier.

Outlook: The Indian economy grew by 8.4% during the October-December quarter of FY 24, GDP growth was fuelled by strong performance of the manufacturing and construction sectors of the country, while private consumption growth was muted. Investment activity is being supported by both central and state governments, with front-loaded capital expenditure spending, while household real estate activity continues to show resilience. Although private capital expenditure remains somewhat subdued, there is potential for it to pick up given conducive conditions such as low leverage, increasing capacity utilization, steady corporate profitability, and the robust balance sheet of the banking sector. Looking ahead over the medium term, outlook for the Indian economy remains optimistic. This is driven by several factors, including Strong GDP growth, high forex reserves, the favourable policy environment, the positive effects of Production-Linked Incentive (PLI) schemes, opportunities arising from the global supply chain's shift, the government's emphasis on infrastructure spending, the potential for a recovery in private sector capital expenditure, and the resilience of personal consumption, among others. As anticipated we have witness a correction in broader market, with this correction valuations in mid and small cap have now been reasonable. FY24 is now over and factoring two year earnings growth for FY25 & FY26, markets are trading at reasonable valuations. Nifty 50 is now trading at 19.5xFY25e EPS, Nifty midcap 100 at 23.2xFY25e and Nifty 250 Small cap at 18x FY25e Earnings. Uncertainty with respect to election might keep market nervous for one or two months however overall long term outlook on Indian Economy and Indian Equity markets remain constructive. Correction if any should be used to create the long term Equity Portfolio.

Regards,
Mayur Shah
(Fund Manager-Anand Rathi Advisors Ltd.)

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