

EYE POPPER: India's capital expenditure has grown fourfold to ₹10 Trillion from ₹2.5 Trillion during of FY16BE to FY24BE, while the budget size has only increased by 2.5 times during the same period.

MARKET ROUNDUP

February 6, 2023

Exhibit 01: Recovery across the globe

Major Global Indices	Close	1M %	YTD %
NIFTY 50	17,854.0	-2.5%	-1.9%
DJI	33,926.0	2.8%	2.4%
NASDAQ	12,566.1	10.6%	15.7%
FTSE	7,901.0	4.3%	4.5%
DAX	15,476.4	8.7%	10.0%
CAC	7,233.9	10.3%	9.8%
NIKKEI 225	27,640.0	6.5%	7.0%
SHANGHAI COMPOSITE	3,263.4	5.4%	4.7%
HANGSENG	21,660.5	10.4%	7.5%

Exhibit 02: Broader Indian market remained in pressure

Indian Broader Market	Close	1M %	YTD %
NIFTY 500	14,962.4	-3.3%	-3.6%
NIFTY MIDCAP 100	30,378.1	-2.6%	-4.4%
NIFTY SMALLCAP 100	9,415.6	-2.4%	-3.9%

Exhibit 03: Sectors with exposure to Adani group saw correction

Sectoral Performance	Close	1M %	YTD %
AUTO	13,378.0	5.7%	5.6%
IT	30,597.6	3.9%	6.5%
FMCG	46,037.2	0.7%	4.2%
PHARMA	12,184.6	-1.9%	-2.9%
METAL	5,902.0	-3.4%	-14.3%
REALTY	405.9	-4.7%	-6.9%
MEDIA	1,848.4	-4.7%	-8.3%
PVT BANK	21,195.3	-5.2%	-3.7%
BANK	41,499.7	-5.4%	-3.9%
PSU BANK	3,888.6	-7.2%	-10.6%
ENERGY	22,638.4	-8.3%	-13.0%
OIL & GAS	7,220.8	-10.1%	-14.7%

Source: Ace Equity, Trading View, Prices as on Feb 03, 2023

Overview

• Where is Our Participation in Global Rally?:

Equity markets across the globe saw a resilient bounce back in a fresh CY month with leading gains from Nasdaq 100 and DAX. However, Nifty 50, a strong athlete of last CY didn't participated much, its struggle of Dec. continued in Jan. and was fueled by Adani Saga towards end resulting a YTD knockdown of 1.9%. The FI's quantum & direction of trade hasn't changed as they sold Rs 41,464 Cr in Jan-23 itself (Highest in 6 months). DI's remained supportive with buying of Rs 33,411 Cr in same period.

• Growth gear is Still ONN:

As expected, populist reforms didn't find place in budget. The foot on growth accelerator not just remained firmed rather pushed, capital expenditure at Rs 10 trn comprised 22% vs 19% earlier of total expenditure. In order to keep consumers healthy amid global headwinds, The deceleration in India CPI left headroom for Govt to propel consumption without impacting RBI's fights by incentivizing salaried class towards new regime of Tax slabs. With a positive surprise, The 10 yr G-sec cooled despite of 8% jump in fiscal deficit as the Market borrowings through G-sec route budgeted with 6% growth only. The F. Deficit pegged at 5.9% vs 6.4% earlier shows prudence in leverage.

• The Adani Saga:

The group shares including recently acquired ones crashed massively post Hindenberg report/Accusations. The release was made just before the opening of group's Rs 200 Bn FPO. On last day the FPO subscribed largely from UHNI bids, however group took decision to return the money on morality background as ADANIENT crashed as much as 35% on the very next day. Indices with Adani shares as constituents saw correction. We remains watchful on the happenings and await for things to get crystal clear.

• Q3 Results, How the 'Josh'?:

As expected, earnings momentum in banks continued with some of banks hitting all time high NIM's, IT sector as well come up with better than expected reports with flat to cooling attrition rates,

the slowdown impact is key watchful thing in this CY. Falling commodities post sharp moves reflected in FMCG's inventory with margins gains sequentially across sector. Automobile sales remained robust despite of price hikes suggest sustainability of the uptrend.

• Glance at Commodity Action:

Bullions continued positive trend in Jan, Gold rallied 3.28% YTD & made a high of 58895, Silver remained sideways. In Base metal, Aluminum rallied 6.92%, copper, Zinc gained 7.38%, 6.69%, Nickel traded with 5.36% loss, and Lead lost 2.52% YTD. Natural gas corrected significantly by 46%, Crude oil remains below \$80/bbl.

Outlook Ahead

• No More Limelight on Rates & Inflation:

CPI indices in India and USA tapered-off from recent highs, Pace of rate hikes witnessed reduction, bringing some assuagement to the markets. Both this events seem to be out of limelight for market as of now.

• Impact on Demand Remains Key Monitorable:

Rate hikes remained prevalent in whole CY 2022, and the impact of the same on demand along with earnings downgrade remains key watchful for this CY2023.

• India's Premium over Emerging markets cools off:

The staggering premium of Indian markets over EM saw correction as Indian markets consolidates where as EM saw rally in last 3 months. The correction in premium is a positive for Indian equities and could see resumption in FPI inflows, (exhibit: 07).

• 3 Positive Factors for Market Ahead:

Nifty 50 trading at 1 yr **forward PE(x) of 18.5 lower than 12 yr median of 19.3**. (Exhibit 04) and at -2.6 points discount to 10 yr median PE. We expect, slow rate hikes to curb volatility, **Backlog of Non-participation in recent global rally** along with **correction in premium over EMs** with reasonable forward valuations augurs well for accumulation at current juncture.

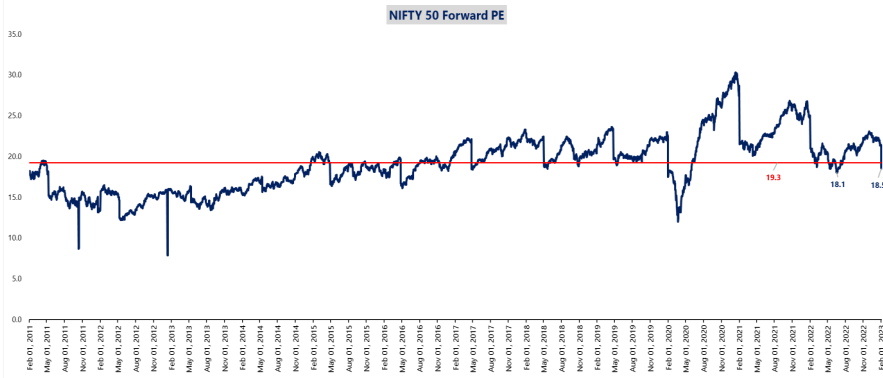
Key Development

Ahead of USA and China,

India has Implemented T+1

Settlement across the board.

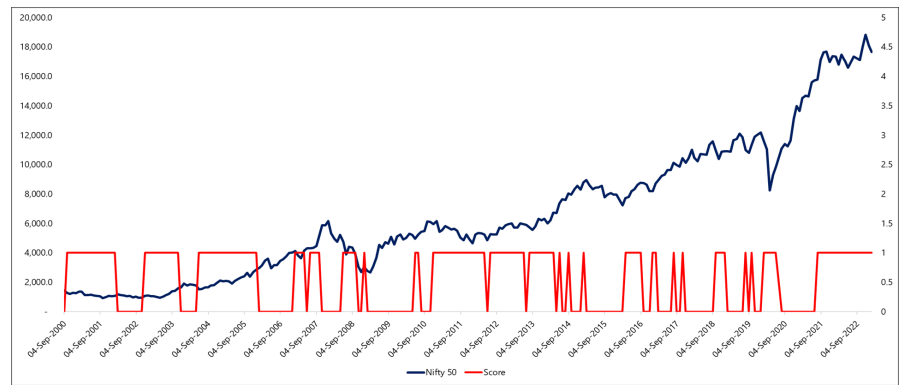
Exhibit 04 : Nifty 50 Forward PE(x)



.....Nifty 50 Trading at 18.5(x) 1 yr forward PE,
 Below 12 yr median of 19.3(x).

Source: Bloomberg, GEPL Capital Research

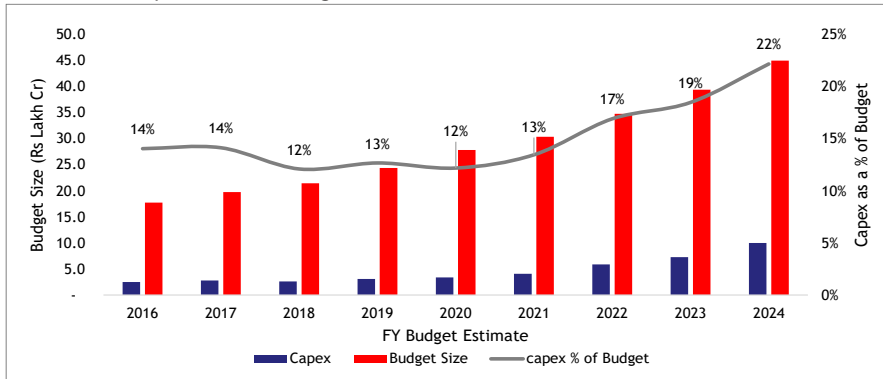
Exhibit 05 : Valuation Score on Nifty



A Score based on Earnings and multiple indicates reasonable valuations.....

Source: NSE India, GEPL Capital Research

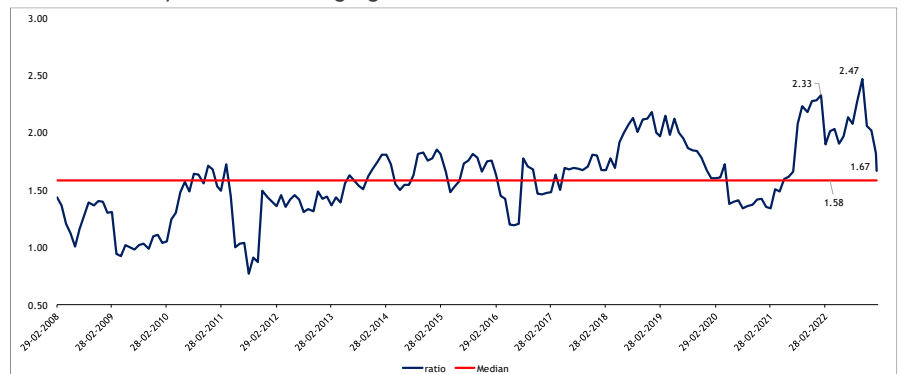
Exhibit 06 : Capex as % of Budget



.....Expenditure on capital account saw continues higher allocation post 2020.

Source: Budget at a Glance, GEPL Capital Research

Exhibit 07 : Nifty PE/ MSCI Emerging Market Index PE



India's Premium over Emerging Markets fall near Median, positive for FII Inflows.....

Source: Bloomberg, GEPL Capital Research

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