

MONTHLY NEWSLETTER

DECEMBER 2023



Manish Goel

Founder & Director,
Research & Ranking

“Indian corporates are expected to sustain strong financial performance. They are in a good position to invest more in their businesses given the low leverage. Overall, barring some volatility in the markets, the outlook for 2024 and beyond looks favourable.”



Nilesh Shah

MD and CEO,
Kotak Mahindra AMC

“As we approach 2024, India looks poised to create new milestones and play its role as the north star to the global economy. With the 3Gs of growth, governance and green squarely on its side, India stays the course to progress with confidence”

WHAT'S INSIDE

- Sectoral Indices Performances
- Trends That Can Dominate In 2024
- Business Updates Q3FY24
- What Caught Our Attention This Month

SECTORAL INDICES PERFORMANCE

The Indian markets closed 2023 up 20%. This was the 8th consecutive year of Nifty closing with positive returns. After a nearly flattish performance in 2022, analysts predicted a low single-digit performance in 2023. But the market surprised on the upside. The midcap and small-cap indices performed even better, with 47% and 56% returns, respectively. Major world indices witnessed a rebound after double-digit negative returns in 2022. The Russian, Japanese, and American markets saw more than 20% rally. Most markets saw their central banks continuing the rate hike cycle in the first half of the year and rate pause in the second half. Central banks have saddled the growth and inflation concerns quite well and remained away from a sustained recessionary environment.



Source: Yahoo Finance, Equentis Research

2019	2020	2021	2022	2023	5 Year CAGR
REALTY 28%	PHARMA 61%	METAL 70%	METAL 22%	REALTY 81%	REALTY 28%
FINANCIAL 26%	IT 55%	IT 60%	BANK 21%	PSE 80%	METAL 20%
BANK 18%	CONSUMPTION 19%	REALTY 54%	NIFTY FMCG 18%	AUTO 48%	IT 20%
NIFTY 12%	METAL 16%	PSE 37%	AUTO 15%	INFRASTRUCTURE 39%	ENERGY 18%
ENERGY 11%	NIFTY 15%	INFRASTRUCTURE 36%	ENERGY 14%	PHARMA 34%	PSE 18%
IT 8%	NIFTY FMCG 13%	ENERGY 34%	PSE 14%	ENERGY 29%	INFRASTRUCTURE 18%
INFRASTRUCTURE 3%	INFRASTRUCTURE 12%	NIFTY 24%	FINANCIAL 10%	NIFTY FMCG 29%	AUTO 15%
CONSUMPTION -1%	AUTO 11%	CONSUMPTION 19%	CONSUMPTION 7%	CONSUMPTION 27%	NIFTY 15%
NIFTY FMCG -1%	ENERGY 6%	AUTO 19%	INFRASTRUCTURE 6%	IT 24%	CONSUMPTION 14%
PSE -5%	REALTY 5%	FINANCIAL 14%	NIFTY 4%	NIFTY 20%	PHARMA 14%
PHARMA -9%	FINANCIAL 4%	BANK 13%	REALTY -11%	METAL 19%	NIFTY FMCG 13%
AUTO -11%	BANK -3%	PHARMA 10%	PHARMA -11%	FINANCIAL 13%	FINANCIAL 13%
METAL -11%	PSE -13%	NIFTY FMCG 10%	IT -26%	BANK 12%	BANK 12%

Source: Ace Equity, Equentis Research

Sectoral Indices 2023 Snapshot

Realty outperformed significantly in 2023 as the demand sustained in the first half and accelerated considerably in the second half after RBI paused the interest rate hikes. Real estate players have reported a significant jump in sales, and many have announced new projects looking at the demand and possibility of rate cuts in 2024. Interestingly, realty has outperformed every alternate year in the past 5 years.

PSE has continued its rally in 2023, generating ~80% returns. Strong fundamentals, better earning visibility, and cheap valuation caused the rally in the PSE stocks.

Auto continued its rally in 2023 with passenger vehicle companies coming up with new model launches boosting sales and continued cool off in input cost helping improve margins. Two-wheeler companies saw rural demand pick up in the second half of 2023, helping boost their sales.

Infrastructure outperformed with most companies witnessing pick-up in their order book ahead of the general elections 2024. The government's focus and significant capex on road, railways, energy, and water projects has acted as a catalyst to the infrastructure players.

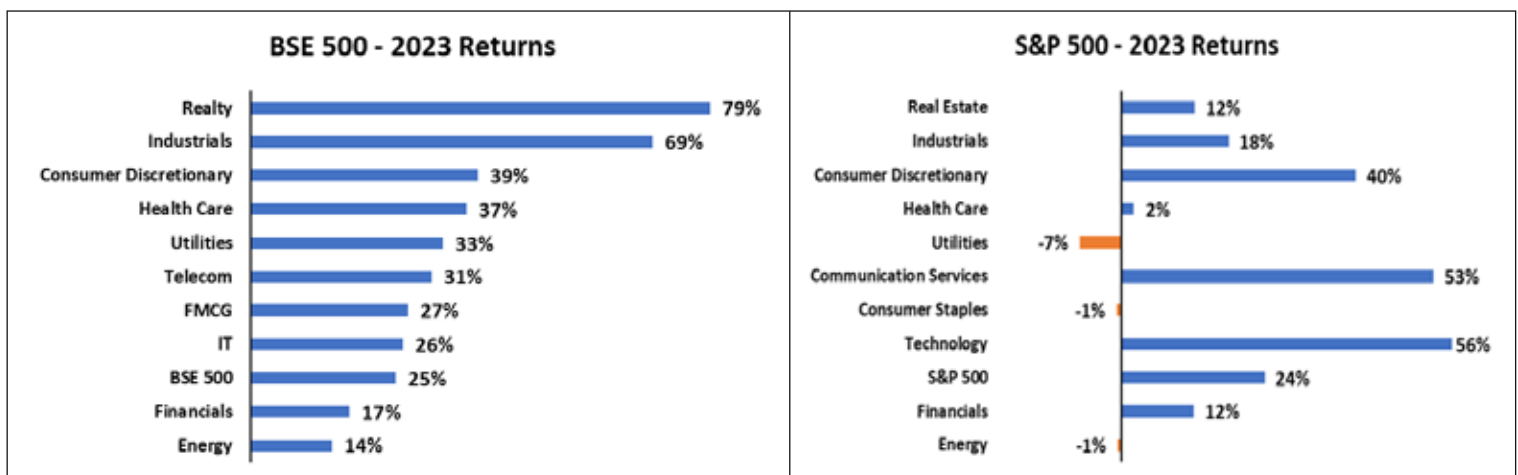
IT remained subdued for most of the year but saw a significant pick-up after the second half of November. One of the key reasons could be the Fed's indication of possible rate cuts in 2024. While fundamentally, large-cap IT reported muted performance, Mid and small-cap IT saw strong all-round performance.

Bank has been the biggest underperformer in 2023. While most banks saw sustained growth in advances with better asset quality and capital adequacy, the same has not translated in returns, especially for private-sector banks. The year also saw the biggest private sector bank, an index-heavy weight, completing its merger, which would have attributed to underperformance of the sector.

Other Key Trends

- Infra, Energy, PSE, IT, Metals, and Consumption have outperformed three of the past 5 years.
- None of the sectors have been consistently in the top 5 or bottom 5 for all 5 years.
- Financials, Energy, and Infra are the only sectors with positive returns in all the 5 years. Realty, Metals, and IT are the top sectors that have outperformed Nifty on a CAGR basis in the last 5 years.

Difference in Sectoral Performance of Indian and US markets



Source: Ace Equity, Equentis Research

Source: S&P Global, Equentis Research

Indian markets have performed at par with the US markets. S&P 500 has rebounded after -19% returns in 2022. Consumption and manufacturing-related sectors such as Realty, consumer discretionary, Industrials, and utilities have performed well in the Indian markets. Technology, telecom, and consumer discretionary sectors have significantly outperformed in the US markets.

In 2024, it is anticipated that most large economies will see rate cuts, thus reviving the economies and alleviating the growth concerns. While the India and US elections can impact in the short term, corporate India is on a strong footing with the leverage at an all-time low and RoE at an all-time high.

TRENDS THAT COULD DOMINATE 2024

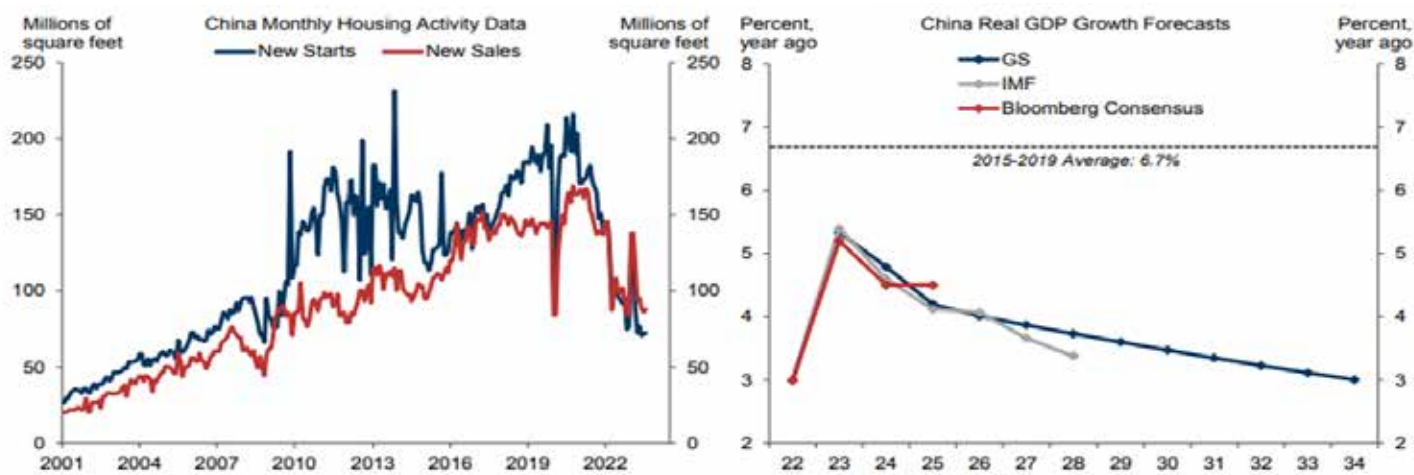
2023 passed through geopolitical rifts, US Fed rate hikes, recession worries, state assembly elections, and much more. Despite all the challenges, India came out as a true warrior. The market also rewarded the investor community with good returns. With the arrival of the new year 2024, upcoming events this year which will keep Indian markets and economy on the edge of their seat. Let us look at some of the key events that we need to watch out for this year.

Trends to watch out for in the New Year

Macro-economic

- In its December policy meeting, the US Fed held its rates steady at 5.25%-5.5% for the third time. The Fed **signaled that it would slash rates around 3 times by 2024-end, although the cuts are expected to be more towards the second half of the year.** The US Fed said these rate cuts result from inflation cooling off from its high in 2022. Also, the reason why the central bank adjusted its 2024 US inflation outlook to 2.4%, down from 3.4% in 2023.
- RBI, in its monetary policy meeting (MPC), had indicated that there is an **uncertain inflation outlook for 2024** amidst volatile food prices and unpredictable weather conditions. Hence, it **kept its FY24 inflation forecast unchanged at 5.4%** and indicated that the goal of reaching 4% CPI (Consumer Price Index) is distant. Meanwhile, the central bank has reiterated the **FY24 GDP growth forecast to 7% against the earlier projected 6.5%**, given India's strong fundamentals, resilience, and momentum.
- **China's economy is expected to grow at 4.6% in 2024**, as per IMF, due to the continued weakness in the property sector and subdued external demand. This guidance has been revised upwards from the previously provided 4.2% on the back of China's approval of a 1 trillion yuan (\$137 billion) sovereign bond issue in its efforts to support the economy. According to IMF's First Deputy Managing Director Gita Gopinath, while **China has introduced numerous measures to support the property market, but more is needed to secure a quicker recovery** and lower economic costs to bring it down to a more sustainable size.

An Ailing Property Sector and a Long Slide for Trend Growth in China



Source: Haver Analytics, Bloomberg, IMF, Goldman Sachs Global Investment Research

- **Geopolitical risks are expected to remain elevated** with the heightened trade tensions between the US and China and the ongoing conflicts in the Middle East, which is on the back of the Russia-Ukraine war. The Israel-Hamas war, which has now continued for over 14 weeks, if it continues this year, will possibly result in global oil price volatility. According to the World Bank, oil prices could soar as high as a record \$150/barrel if the war escalates.

Equity / Bond Markets

- Investors may remain cautiously optimistic this year as they expect India's robust macro fundamentals combined with strong earnings delivery to offset the concerns around inflation and geopolitical risks. Sectors to watch out for this year are financials and IT. Given the domestic macro environment remains supportive, **themes that look constructive** are manufacturing, public-sector enterprises, healthcare, and consumer discretionary.

- India's **10-year G-Sec** has been trending in a broad range of 7-7.5% for almost 2 years, indicating stability and expectations of stable interest rates. This year, JP Morgan announced that it will be adding Indian government bonds to its emerging markets bond index starting from June 2024. The inclusion is expected to reach the maximum weight of 10% in the Government Bond Index (GBI) - Emerging Market (EM) Global Diversified Index (GBI-EM GD) and about 8.7% in the GBI-EM Global index. Analysts estimate this could potentially attract approximately \$25 billion into the country.



Source: Trading View

- Just like the past year, **2024 is expected to sustain the IPO exuberance**. It has a long queue of IPOs lined up, including Ola Electric, OYO, Swiggy, FirstCry, Portea Medical, MobiKwik, NSDL, Hero Fincorp, Park Hotels, Aakash Education, Ebixcash, PayU, Go Digit, Waaree Energies, PayMate, Ashirwad Micro Finance, and several others.

Business



- The introduction of Open AI's ChatGPT about a year ago marked a significant milestone for the rapid technological progress in Artificial Intelligence (AI) and its fast integration within our daily lives. **Fast moving from being a novel concept, AI is on the verge of revolutionizing various sectors and industries and will be a key trend to watch in 2024.** Given its transformative capabilities, companies are reworking their strategies with increased emphasis on allocating resources toward AI integration to reduce costs and build higher efficiencies.

- India's consumption pattern has evolved over the years due to rising income levels, rapid urbanization, digital connectivity, lifestyle preferences, and other factors. The **'consumerism/premiumization' trend**, which can already be seen across categories like watches, mobile phones, apparel, electronic items, and much more, is expected to continue. Another driving factor for this trend in India is the high influence of Western culture. According to Standard Chartered report, the per capita income will touch \$4,000 levels by 2030 compared to \$2,500 in 2023.
- Revival in manufacturing, supply chain diversification globally, and public-led infrastructure investments are expected to create multiple investment opportunities. Post strong government spending, **private sector investments are expected to increase** in 2024, backed by healthy balance sheets, government incentives like PLI (production-linked incentive), and lower tax rates to drive the next leg of growth.

Selling Like Hot Cakes
Premiumisation trend seen across lifestyle, electronics and appliances

KEY FACTORS

- Aspirational demand
- Deeper ecommerce penetration
- 1.4m Sellers onboarded for Amazon's event this year
- 100,000 temporary direct, indirect jobs created

We are seeing that increasing disposable incomes are leading to customers showing very strong preference to premiumise

SAURABH SRIVASTAVA
VP, Amazon India

Source: Economic Times

Key Events

- 2024 will be a global election year in history with a record number of 60+ countries and regions**, including India, the US, Indonesia, Taiwan, and the European Union holding elections. Representing half of the world's population and some of the biggest world democracies, geopolitical volatility is expected to remain elevated. In April and May 2024, in India, an eye-popping 900 million voters head towards the ballot box whereas about 160 million registered voters cast votes in November 2024 for a showdown between Democrats and Republicans in the US Presidential Election.
- Budget FY24-25** will be the last one from the present government before the General Elections begin in April-May 2024 and will be an interim budget. Finance Minister Nirmala Sitharaman has said that the forthcoming Budget will not contain any spectacular announcements. A full Budget will be presented and passed after the General Elections.
- Post the successful landing of Chandrayaan-3 on the Moon last year, **India's space exploration programs are expected to reach new heights** with several space odysseys planned by ISRO in 2024. One of the key programs is its collaborative space mission with NASA, i.e., NISAR (NASA-ISRO Synthetic Aperture Radar). Other noteworthy space missions this year include Gaganyaan-1 (the country's first manned spaceflight program), Mangalyaan-2 (the study of Mars), and Shukrayaan-1 (the study of Venus), amongst others.



KEY BUSINESS UPDATES FOR Q3FY24

Bajaj Finance	AUM grew strongly by 35% YoY to Rs 3,11,000 cr. Customer franchise stood at 80.41 mn v/s 66.05 mn, a growth of 22% YoY. New loans grew by 26% YoY to 9.86 mn compared to 7.84 mn.
APL Apollo Tubes	APL Apollo reported flat volume growth on a YoY basis at 6,03,659 tons. The Value Added Products (VAP) share has increased to 59% .
UltraTech Cement	Ultratech Cement reported volume growth of 6% YoY .
CSB Bank	Deposits grew by 21% YoY and 8% QoQ, reaching Rs 27,345 cr. Advances grew by 24% YoY and 2% QoQ to Rs 10,836 cr.
Avenue Supermarts	Standalone revenue increased by 17% YoY . During the quarter, the company expanded its network by adding 5 stores (net) , bringing the total number of stores to 341.
HDFC Bank	Merged gross advances grew by 62% YoY and 5% QoQ while deposits saw a growth of 28% YoY and 2% QoQ. The YoY numbers are not comparable as this does not include HDFC Ltd's numbers in the base quarter.
AU Small Finance Bank	Deposits surged by 31% YoY and 6% sequentially, while gross advances rose by 20% and 4% QoQ. CASA ratio stood at 33% vis-à-vis 38% YoY and 34% QoQ.
Nykaa	As per the management, Nykaa has witnessed consistent growth across all three business verticals. The management expects Net Sales Value (NSV) growth to be in the mid-twenties and revenue to grow in the low twenties on a YoY basis .
Dabur	As per the management, revenue growth is expected to be within the mid to high single-digit growth range, with gross margins likely to expand , led by moderating inflation and cost-saving initiatives.
Titan	Titan reported revenue growth of 22% YoY . The Jewellery business expanded by 23% YoY, led by double-digit buyer growth and moderate improvement in average selling prices , while the watches and wearables segment rose by 21% YoY . During the quarter, the company increased its footprint by adding 90 stores, bringing the total number of stores to 2,949.
Tata Steel	Tata Steel reported record-high domestic deliveries of 4.88 million tons, up ~10% YoY on the back of continued strength in India's steel demand. Due to subdued demand, Europe deliveries de-grew 7% YoY and 2% QoQ.
Bank of Baroda	Advances growth momentum slowed to 14% YoY and 2% QoQ, while deposits increased by 8% YoY.

Source: Company Reports

"The securities mentioned above are for illustration & education purpose only and should not be construed as recommendation/advice."

WHAT CAUGHT OUR ATTENTION THIS MONTH!



Source: The Economic Times

India's gross GST revenue in Dec falls to 3-month low despite on-year jump

India's Goods and Services tax revenue maintained its annual increase, grew 10% to Rs 1.64 lakh crore, but dipped to a three-month low in Dec.

The collections in December stood lower than the Rs 1.68 lakh crore collected in November and the Rs 1.72 lakh crore collected in October, the second-highest collection recorded since the GST rollout.

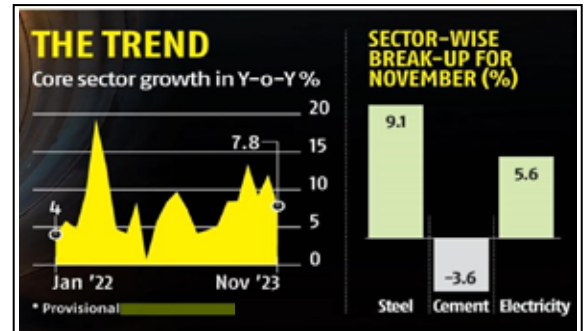
It marks the seventh occasion in the fiscal year 2023–24 that gross GST collection has surpassed the Rs 1.60 lakh crore mark.

Core sector growth at 7.8% in November, slowest in six months

In Nov, India's key infrastructure sector showed resilience, led by coal, refinery products and steel segments but exhibited a slowdown compared to the previous month's double-digit growth.

The eight core sectors grew 7.8% in Nov, marking the slowest pace since May, where the core sector saw a growth of 5.2%.

The decline in core sector growth in Nov was mainly due to the cement sector, which witnessed a decline of 3.6% YoY after a surge of 17.4% in October.



Source: Business Standard



Mumbai's real estate soars to an 11-year high with over 1.27 lakh property registrations in 2023

Despite higher interest rates and increased property prices, Mumbai's real estate market surged in 2023, breaking records with 127,139 property registrations from January to December.

It marked the most successful year since 2013, surpassing the previous year's peak by 4%. The total stamp duty collected also hit a new 10-year high at ₹10,889 crore, according to Knight Frank India.

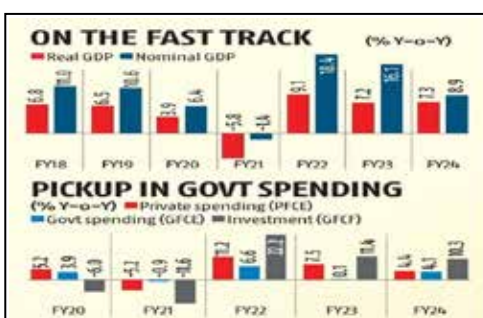
This surge was fuelled by rising income levels, improved affordability, and a favourable homeownership outlook.

PLI schemes attracted over Rs 95,000 cr investment till Sep 2023

The government's PLI schemes spurred investments exceeding Rs 95,000 crore till Sep, generating goods worth Rs 7.8 lakh cr.

The PLI schemes launched across 14 sectors have fostered employment for over 6.4 lakh directly and indirectly. Exports surged by Rs 3.20 lakh crore, while incentives of ~ Rs 2,900 crore have been disbursed in FY 22-23.

The goal is to bolster India's manufacturing capacities and exports.



Source: Business Standard

India's GDP growth pegged at 7.3% for FY24: Govt's first advance estimates

The Indian economy is expected to expand by 7.3% in the FY 2023-24, a slight uptick from 7.2% a year ago, primarily attributed to good performances in mining and quarrying, manufacturing and certain segments of services sectors.

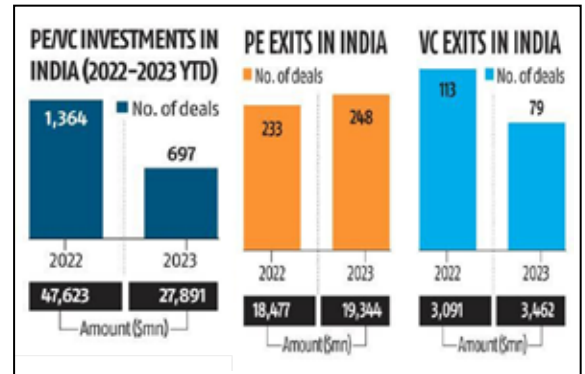
The upward revision in the annual GDP estimates was broadly expected following RBI's recent revision of its growth forecast for the current fiscal year to 7% from its initial estimate of 6.5%.

Inflows from private equity, venture capital funds to domestic companies plunge to \$27.9 billion in 2023

Investments by private equity and venture capital funds to domestic companies saw a decline of 40% to \$27.9 bn across 697 transactions this year (as of December 20), compared to \$47.62 bn across 1,364 deals in 2022 as per Venture Intelligence.

Despite this, industry observers foresee signs of increased funding opportunities emerging in the following year.

The sectors driving investments were healthcare, life sciences and advertising & marketing. Conversely sectors that witnessed declined funding activity include IT & ITES sector, BFSI and engineering & construction.



Source: Business Standard



Red Sea crisis impacts India's exports on higher shipping, insurance costs

The Red Sea crisis is impacting India's exports, with increased shipping and insurance expenses for shipments to the EU, eastern US coast, parts of Africa, and the Middle East, as per officials.

Shippers are now redirecting consignments via the Cape of Good Hope, due to these attacks, causing delays of approximately 14 days and raising both freight and insurance charges.

According to GTRI, this conflict may lead to heightened shipping costs (40-60%), delays from rerouting, higher insurance premiums (15-20%), and potential cargo losses due to piracy and attacks.

UPI transactions cross 100-billion mark in 2023

In 2023, the Unified Payments Interface (UPI) platform exceeded the 100 billion-mark in 2023, reaching approx. 118 billion transactions for the year.

For Dec 23, UPI payments totalled 12.02 billion transactions, processing payments worth Rs 18.23 lakh crore during the month, marking a 54% YoY increase in terms of volume and a 42% YoY growth in transaction value.

The popularity of UPI is a result of various government initiatives that have streamlined and enhanced the convenience of these transactions in recent times.



Source: CNBC TV18



India a 'star performer'; projected to contribute over 16% to global growth: IMF

India is expected to contribute over 16% to global growth due to its economic reforms, particularly in infrastructure and digitalization, making it stand out among nations, according to the International Monetary Fund (IMF).

Nada Choueiri, the Mission of India at IMF highlighted "a "strong push" by the government in logistics and infrastructure could navigate the economy through global headwinds".

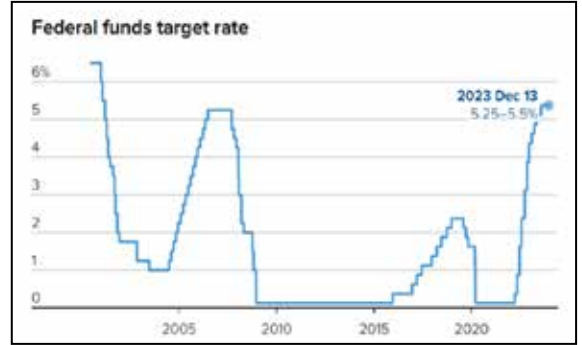
She further added that "India has a very large, young and growing population and thus has the potential to grow at stronger rates if this potential is harnessed through structural reforms."

Global News Of This Month

US Fed keeps key interest rate unchanged, foresees three rate cuts in 2024

The Fed maintained its key interest rate unchanged for the third straight time and indicated the potential for future cuts in 2024 and beyond.

The Fed kept its benchmark rate at about 5.4%, its highest level in 22 years. The market had largely predicted this decision, potentially concluding a phase marked by 11 consecutive increases that propelled the fed funds rate to its highest level in more than 22 years.



Source: CNBC TV18



Oil reports biggest annual drop since 2020, declines 10% in 2023 on demand-supply concerns

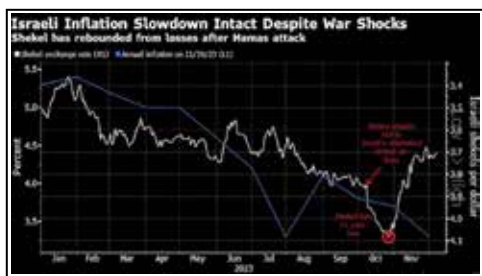
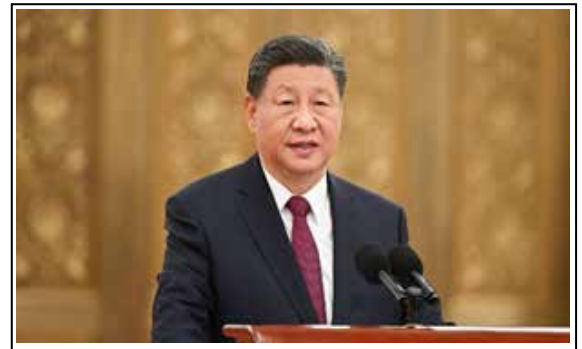
In a volatile year of trading influenced by geopolitical unrest and worries regarding major global oil producers' output levels, crude futures experienced a decrease of over 10% in 2023.

Brent crude ended the year's final trading day at \$77.04 per barrel, down 0.14%, while U.S. West Texas Intermediate settled at \$71.65 per barrel, down 0.17%. Both contracts saw a decline of more than 10% in 2023, marking their lowest year-end values since 2020.

Xi Jinping rings in 2024 with rare admission that China's economy is in trouble

President Xi Jinping acknowledged that "China's businesses are struggling and job seekers have trouble finding work". This situation arises at a crucial point for the economy, facing a structural deceleration characterized by diminished demand, escalating unemployment, and severely affected business confidence.

President further highlighted "We will consolidate and strengthen the momentum of economic recovery."



Source: Business Standard

Israel delivers first rate cut since pandemic as war rages

The Bank of Israel cut interest rates for the first time since 2020's peak of the global pandemic, indicating increased confidence in market stability after nearly three months into the conflict with Hamas.

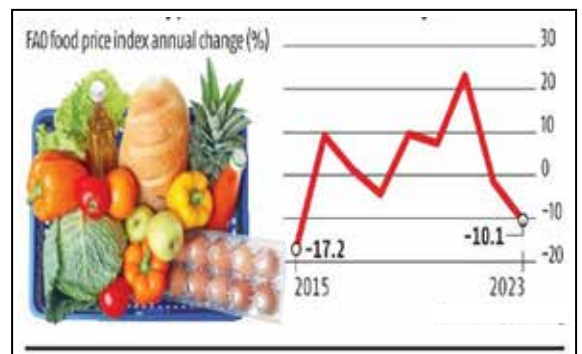
The committee reduced the key rate from 4.75% to 4.5%, ending a pause since July. Policymakers reiterated their November guidance, focusing on stabilizing markets, reducing uncertainty, ensuring price stability, and supporting economic activity.

Global food prices post the biggest annual drop since 2015

Global food prices saw their most significant annual decline since 2015, signalling a trend of decreasing wholesale prices that may soon affect supermarket shelves.

The United Nations' Food and Agriculture Organization recorded a 10% drop in its food-commodity price index in 2023.

While the index tracks raw commodity costs and not retail prices, the significant decrease hints at potential relief for consumers as food prices ease from their 2022 peak following Russia's invasion of Ukraine, contributing to a global cost-of-living crisis.



Source: Business Standard



THANK YOU

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