1st January, 2024

Dear Investor,

Greetings! Wish you and your family a very Happy New Year!

Indian markets continued on the northward journey in December, with the Nifty benchmark index closing at a new high of 21731. The market was triggered by two events. The outcome of state elections results which gave a sense of continuity and secondly the Fed made a statement of cutting rates in the calendar year 2024.

India has grown non-stop for 8 consecutive years in Nifty 50

- The Indian markets remained resilient and strong amid weak global macros, rising interest rates, and geopolitical uncertainties that kept global markets volatile. The Nifty-50 clocked eighth successive years of positive returns. The benchmark index hit an all-time high in Dec’23 and surged 20% YoY in CY23 (vs. only 4% growth in CY22).
- …navigating tough times…..: High interest rates, geopolitical tensions, volatility in crude oil prices, slowing growth, and a recessionary environment in developed markets remained the key concerns during the year, India’s strong economic growth, healthy corporate earnings, moderate inflation, waning crude oil prices, reinforced FII and DII inflows, and strong retail participation propelled the Indian markets to greater heights.
- The year witnessed broad-based growth with all indices and sectors delivering positive returns. Nifty Midcap 100 (+47% YoY) and Nifty Small cap 100 (+56% YoY) outperformed the benchmark by a wide margin of 27% and 36%, respectively. Primary market activity picked up in CY23 with a total equity fund raise of INR1.2t (vs. INR885b in CY22). Stake sales accounted for the entire incremental funds raised during the year, as funds raised through QIPs amounted to INR483b (vs. INR117b in CY22).

India Markets on a Solid Footing…..

The uptrend in the Indian equity market was driven by robust macro and micro factors, alleviating concerns on political continuity, and the expectation of improving liquidity going ahead.

- Strong macros: Indian economic indicators remain strong as real GDP has grown faster than expected in the last three quarters, registering 7.7% YoY growth in 1HFY24. Moreover, inflation is in a comfortable range and the RBI has raised its GDP growth projections for FY25, under pinning the continued momentum in the economy.
- Federal Reserve (FED) interest rates near its peak: As the US inflation continues to ebb and the FED maintains the benchmark rates for the third consecutive time, the likelihood of a rate cut remains high in H1CY24. This could drive liquidity towards global markets, as evidenced by the rally in global equity markets during Nov-Dec’23.

- FII flows rebound while DII flows remain strong: Resilient domestic inflows of USD22.3b in CY23, with monthly SIP inflows of ~USD2b/month (hitting new highs), easily cushioned the major shocks caused by global volatility and uncertainties in the past two years. FII flows bounced back during the year. FIIs turned buyers with inflows of USD21.2b in CY23 vs. outflows of USD17b in CY22.
- Solid corporate earnings: Corporations continue to show good financial performance with positive guidance of growth. High-frequency data (GST collections, auto monthly numbers, power demand, PMI data, et al.) indicates that earnings momentum will continue to remain intact in 2HFY24. The sectors that lagged in their earnings for the past several years, such as Automobiles, Real Estate, Capital Goods, Infrastructure, Industrials, Utilities, Hotels, and PSUs have also made a strong comeback. The pick-up in government Capex and the growth in order books provided a fresh boost to the sectors such as Railways, Defence, Capital Goods and Utilities.
- Expectations of a political continuity: The recent outcome of the state elections in four states, which overwhelmingly favoured the incumbent BJP government, has increased market confidence in the current administration and political continuity after the 2024 general elections.

Reasonable Valuation and Growth.

Strong growth, prudent policy reforms, the government's focus on infrastructure and CAPEX, healthy corporate books, comfortable forex reserves, and lower commodity cost inflation could protect India from any external shocks and position it to outpace other countries in the coming decade. With global liquidity tightening nearing its end, a healthy domestic macro and micro environment, strong domestic and retail participation, and expected political continuity post-2024 General Elections, bode well for policy momentum in India. Further, the country is currently experiencing the highest growth among major economies. Hence, despite fair valuations, the above factors augur well with potential for further upside. We anticipate continued optimism in the market and maintain a positive outlook in numerous sectors. The new private and public CAPEX and improving utilization should provide good operating leverage across sectors and keep equities strong. We try to capture companies with reasonable valuations with potential high growth to get the alpha.

Happy Investing!

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

KRIIS – The Portfolio Management Company