TATA MUTUAL FUND

Round up 2023 & Outlook 2024

India shining bright in an uncertain world

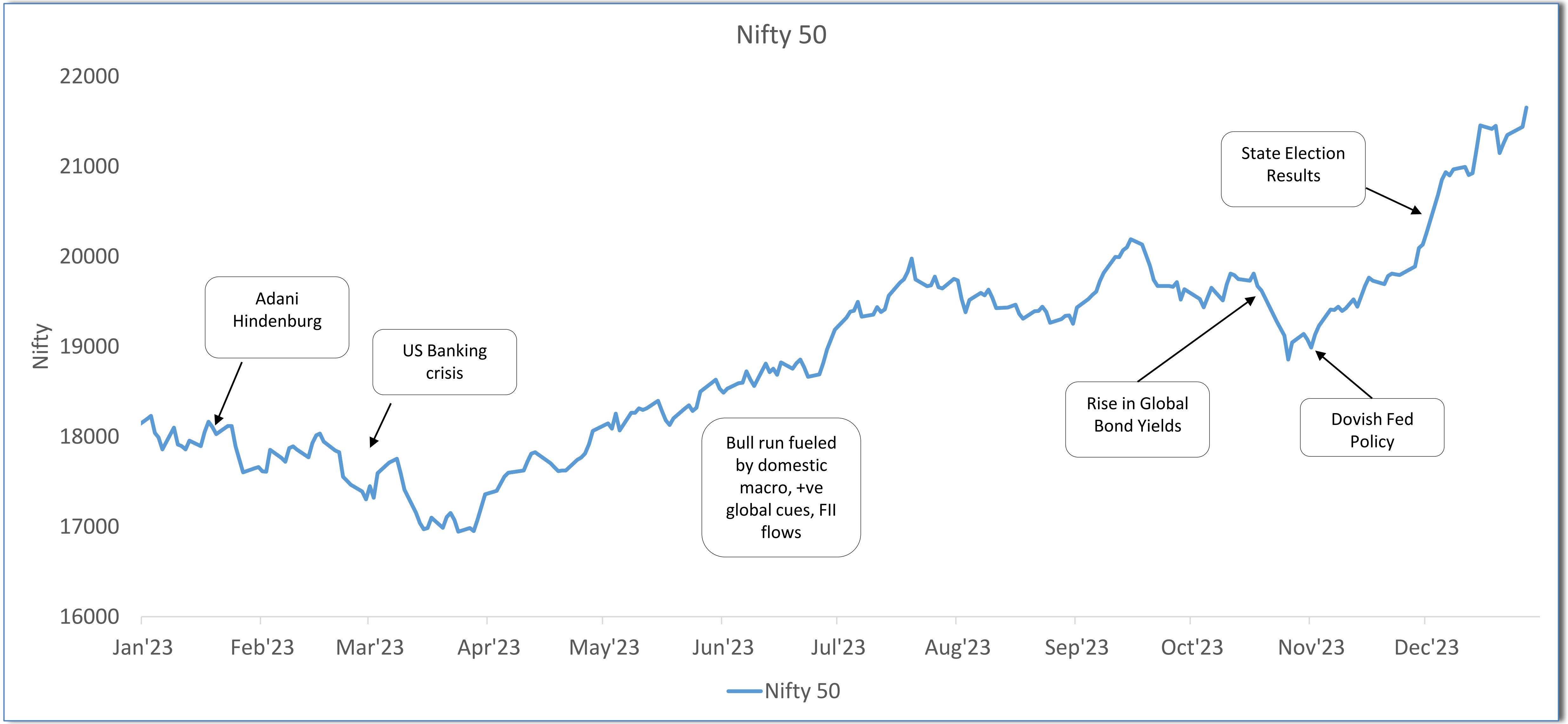
January 2024

Markets in 2023

OUTLOOK

Major market shaping news 2023

TATA MUTUAL FUND

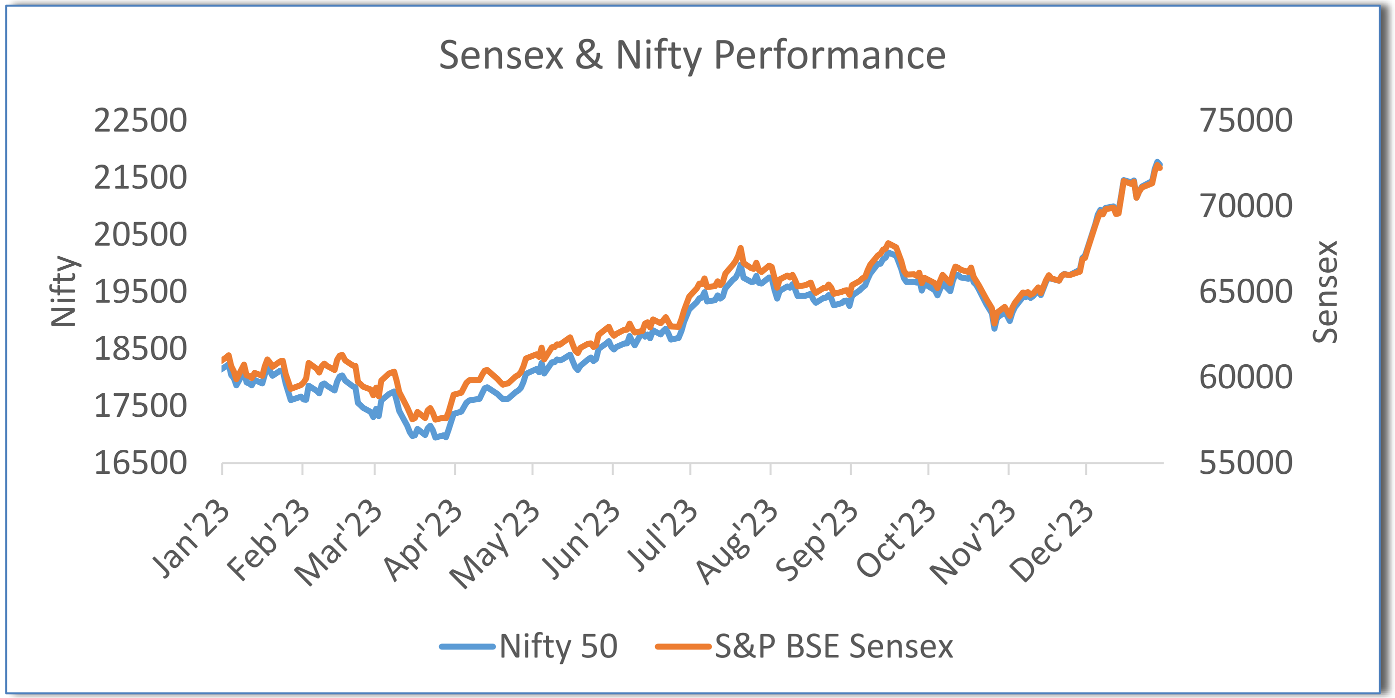


SOURCE: Bloomberg

Data as on 27th Dec 2023

MARKET PERFORMANCE

BROAD MARKET UPDATE



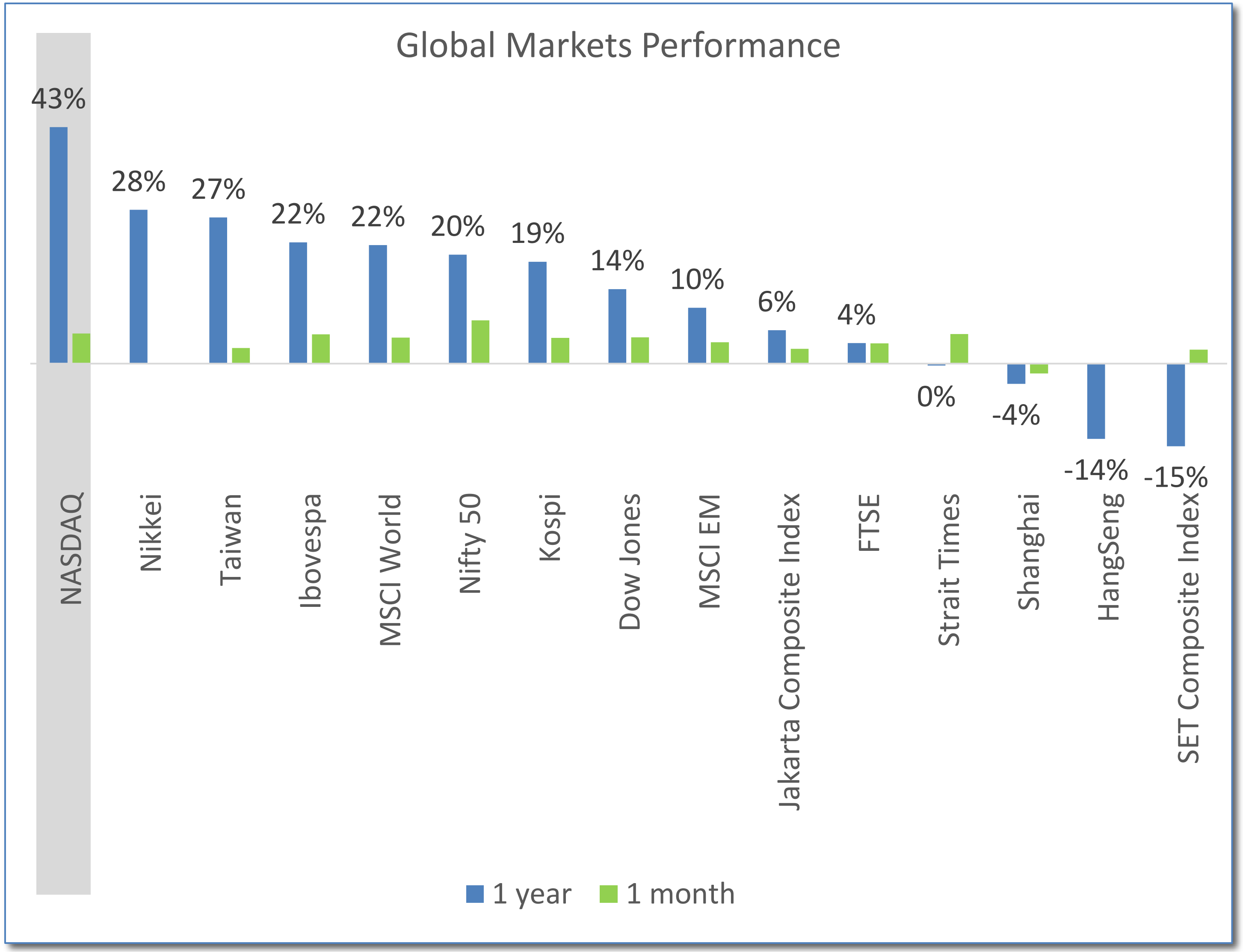
	Nifty 50	Sensex
FYTD	25.18%	22.46%
CYTD	20.03%	18.74%
1 Year	20.03%	18.74%
1 Month	7.94%	7.94%

- Domestic equity market soared in CY 2023 (~20%) after a modest CY 2022 (~4%).
- The year 2023 had a lackluster start due to Adani Hindenburg report and US banking crisis.
- Markets made a sharp recovery from the 2nd quarter fueled by domestic macro, +ve global cues, FII flows and moderation in crude prices.
- Domestic equities ended the year on a high with a dovish Fed policy and favorable state election results.

SOURCE: Bloomberg

Data as on 29th Dec 2023

GLOBAL MARKETS PERFORMANCE

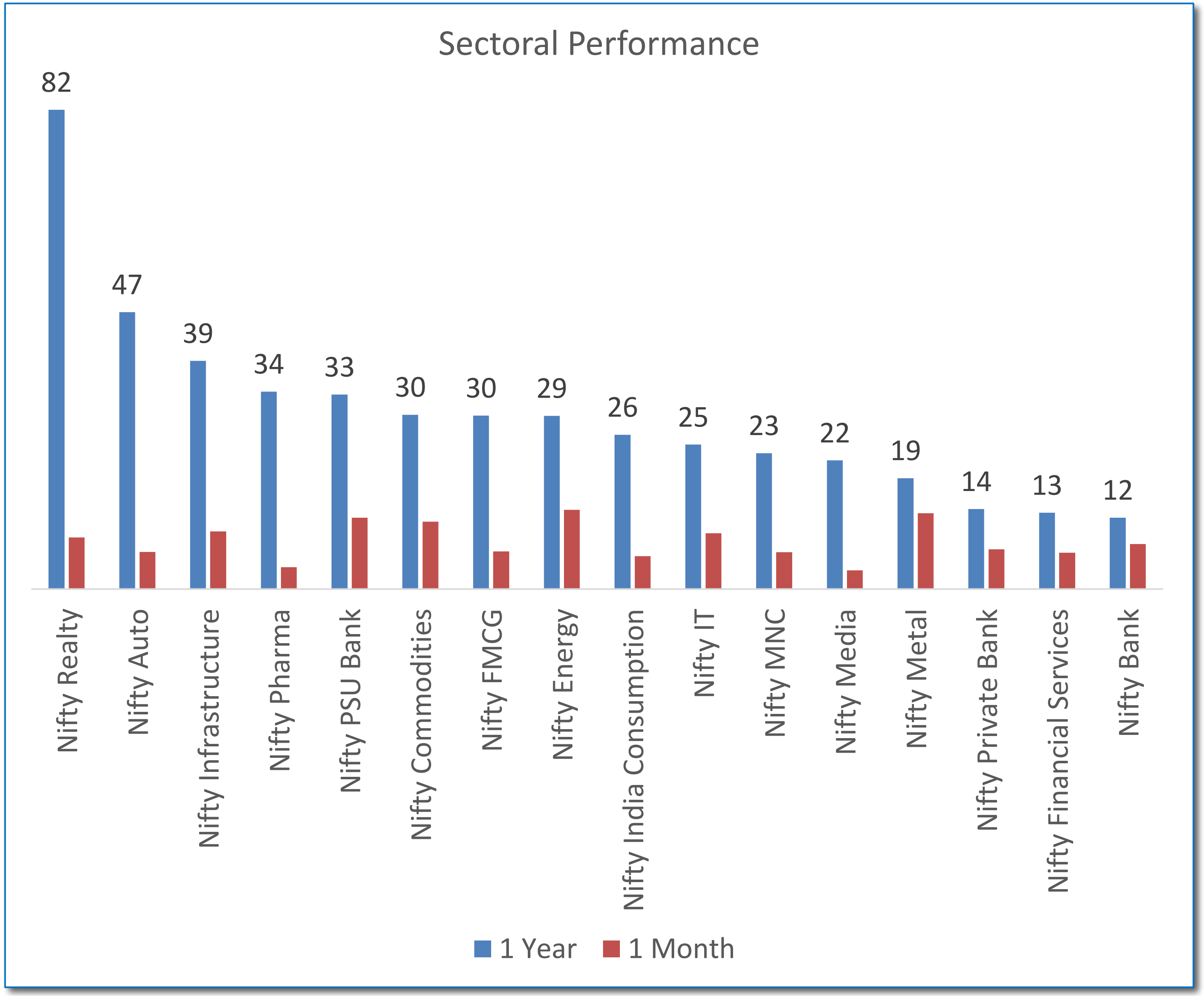


- 2023 was a tremendous year for global equity markets with developed market equities outperforming the emerging market equities.
- Geopolitical risks continued to dominate news throughout the year with Russia-Ukraine war and Israel Hamas conflict.
- Global equities were primarily impacted by global monetary policy, collapse of key banks in US and Euro region, optimism around artificial intelligence, global bond yields and slowdown in China.

SOURCE: Bloomberg

Data as on 29th Dec 2023

SECTORAL PERFORMANCE



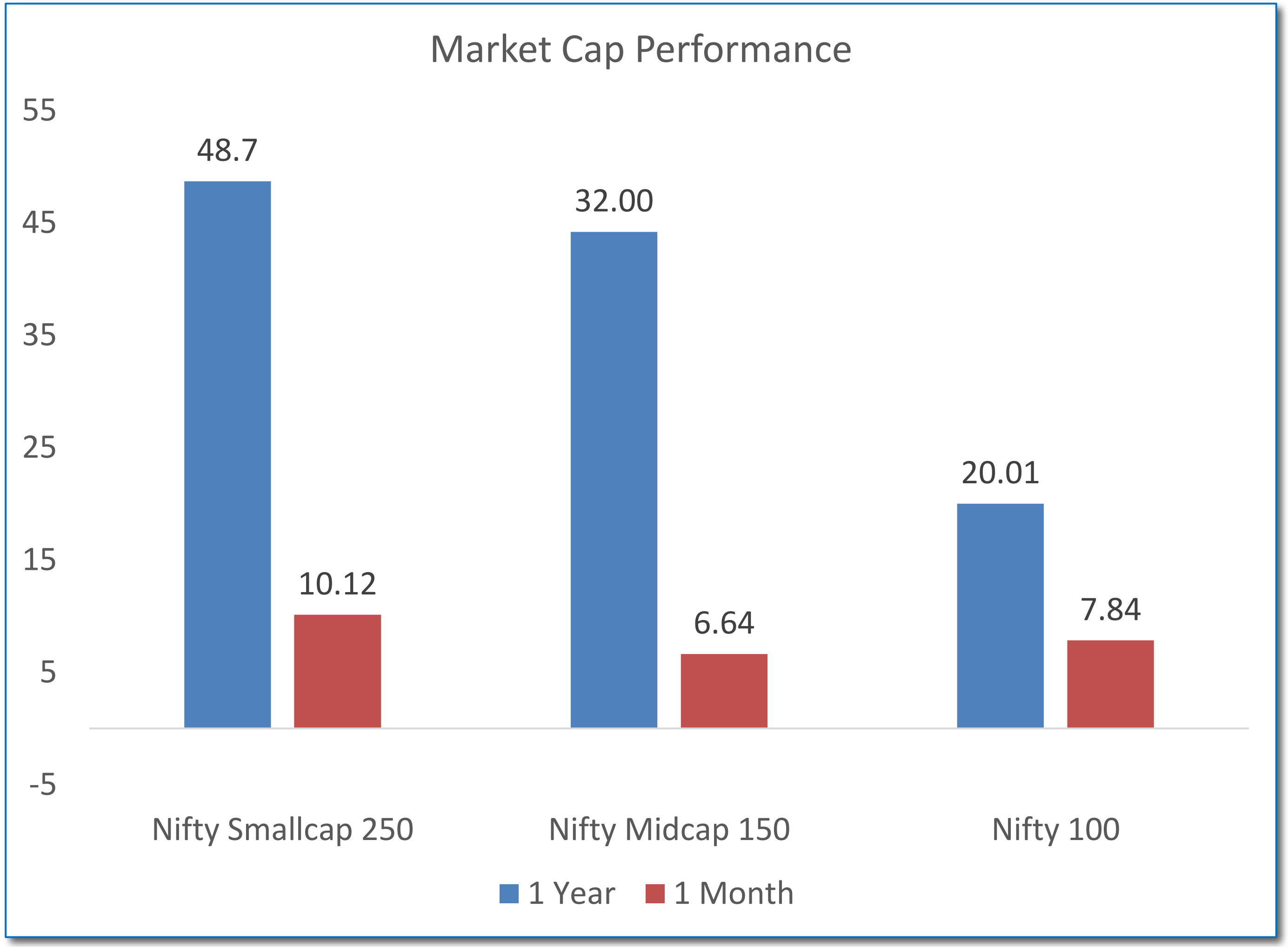
- All major sectors gained in 2023. Realty gained the most for the month.
- Realty (82%) and Auto (47%) made the highest gains while Bank (12%) was the lowest performer.
- The bulk of stock performance for banks was driven by earnings growth with little or no expansion in P/E multiples.

SOURCE: Bloomberg

Data as on 29th Dec 2023

MARKET PERFORMANCE

MARKET CAP PERFORMANCE



- 2023 was the year of mid and small caps.
- Mid-cap and small cap indices significantly outperformed the large cap index.

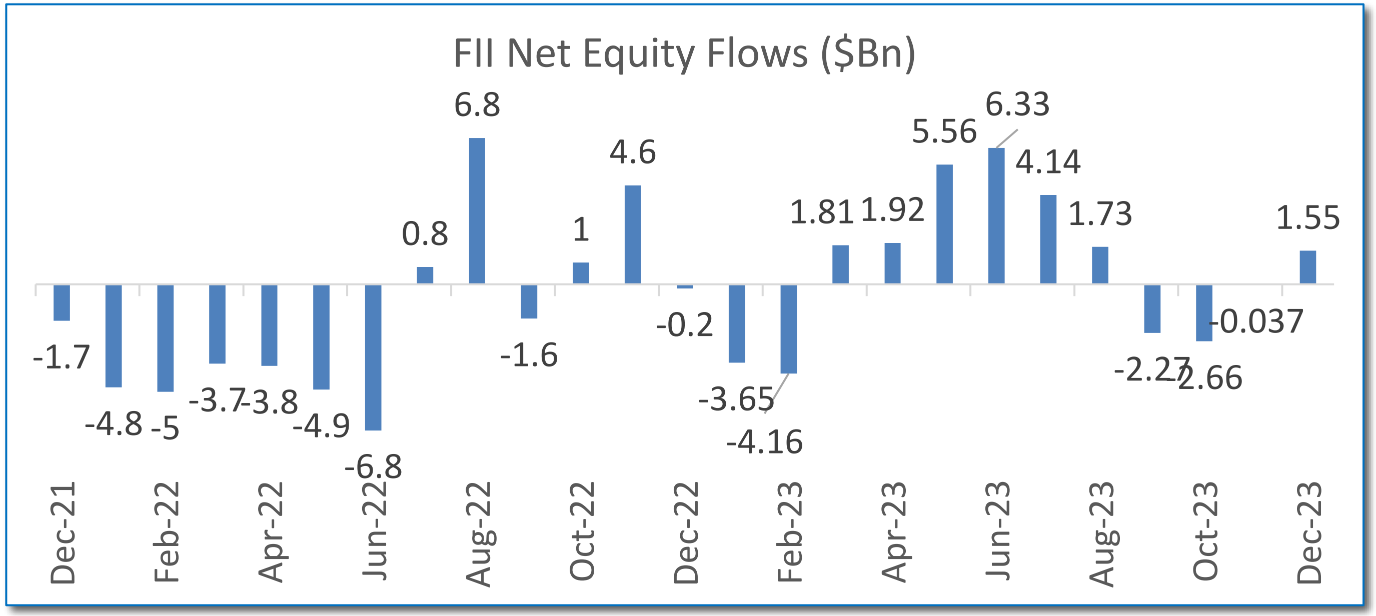
SOURCE: Bloomberg

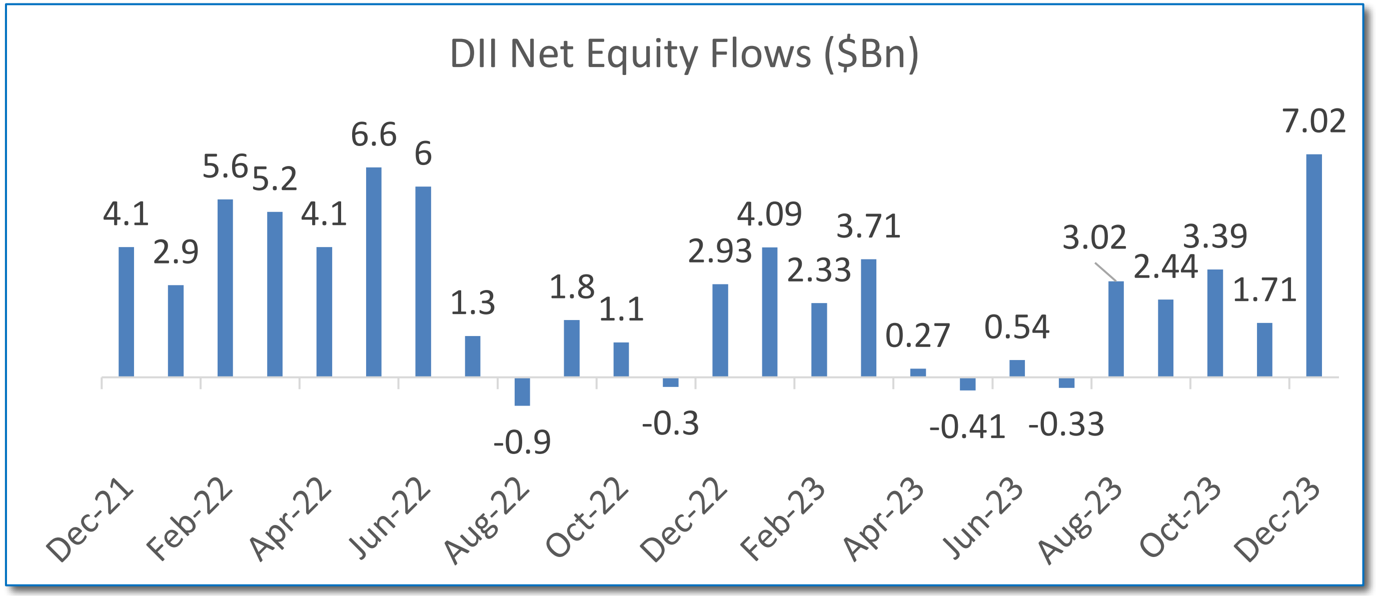
Data as on 29th Dec 2023

FLOWS

FLOWS

EQUITY FLOWS – FIIs & DIIs





- Foreign institutional flows were marginally negative in Nov 23.
- DIIs continued healthy inflows in third consecutive month.
- For FY23 the FII were net sellers with outflows of close to USD ~10 bn. While the DII inflows were robust at USD ~33 bn.
- For FY24TD, the FII flows is USD ~14.7 bn. And the DII flows is USD ~10.6 bn.

SOURCE: Bloomberg, J.P. Morgan

Data as on 29th Dec 2023

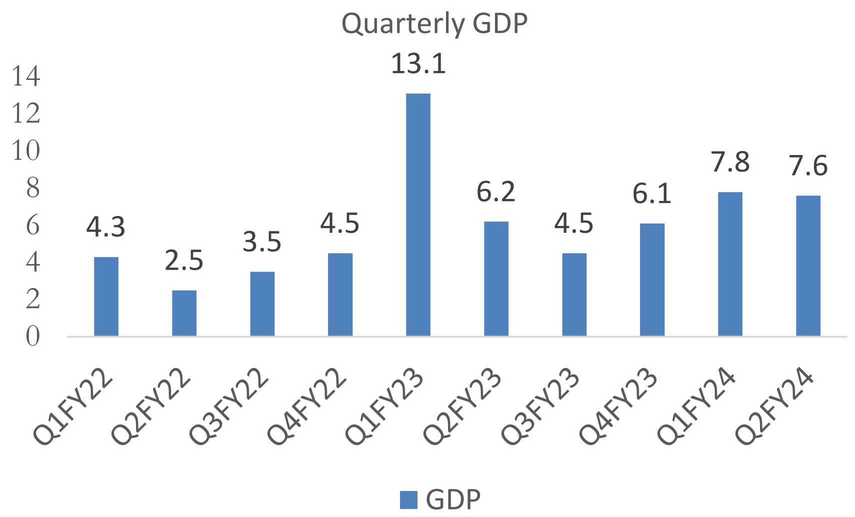
MACRO

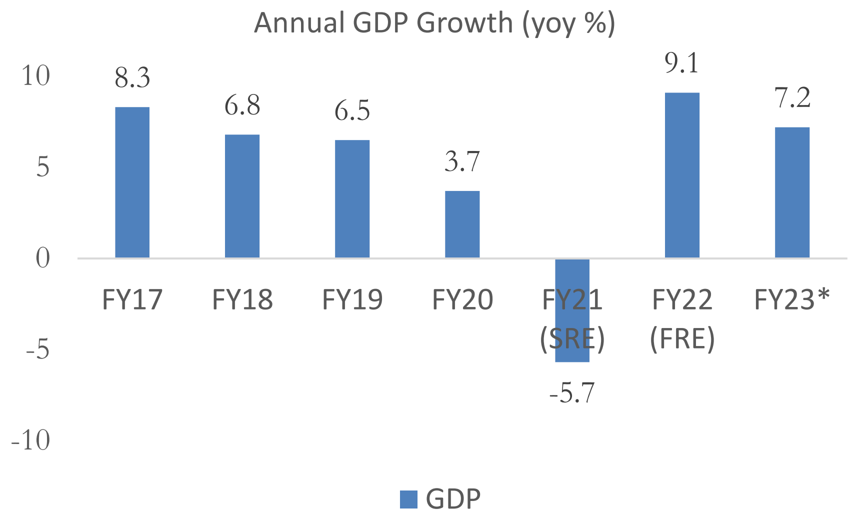
Domestic Macros Resilient

Fiscal Year end	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	Latest*
GDP Growth (%)	6.6	7.2	7.9	7.9	7.3	6.1	4.2	-7.4	4.5	7.2	7.6
CPI Inflation (%)	9.5	5.9	4.9	3.8	3.6	3.4	5.8	5.5	7	5.7	5.6
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.2	-2	-1.0
Fiscal Deficit (% of GDP)	4.5	4.1	3.9	3.5	3.5	3.4	4.6	9.3	6.7	6.4	6.4
Crude Oil (USD/Barrel)	107	53	39	60	58	65	23	59	111	80	78
Currency (USD/INR)	60	63	66	65	65	70	75	73	76	82	83
Forex Reserves (USD bn)	304	342	356	370	424	413	490	579	606	579	620
GST collections (INR billion)							1222	1239	1421	1601	1648

Source : Bloomberg

*GDP data for Q2FY24, Current Account and Fiscal Deficit data is as of FY23, CPI data as on 30-Nov-2023,Crude oil, Currency, Forex Reserves and GST collections as on 31 Dec 2023

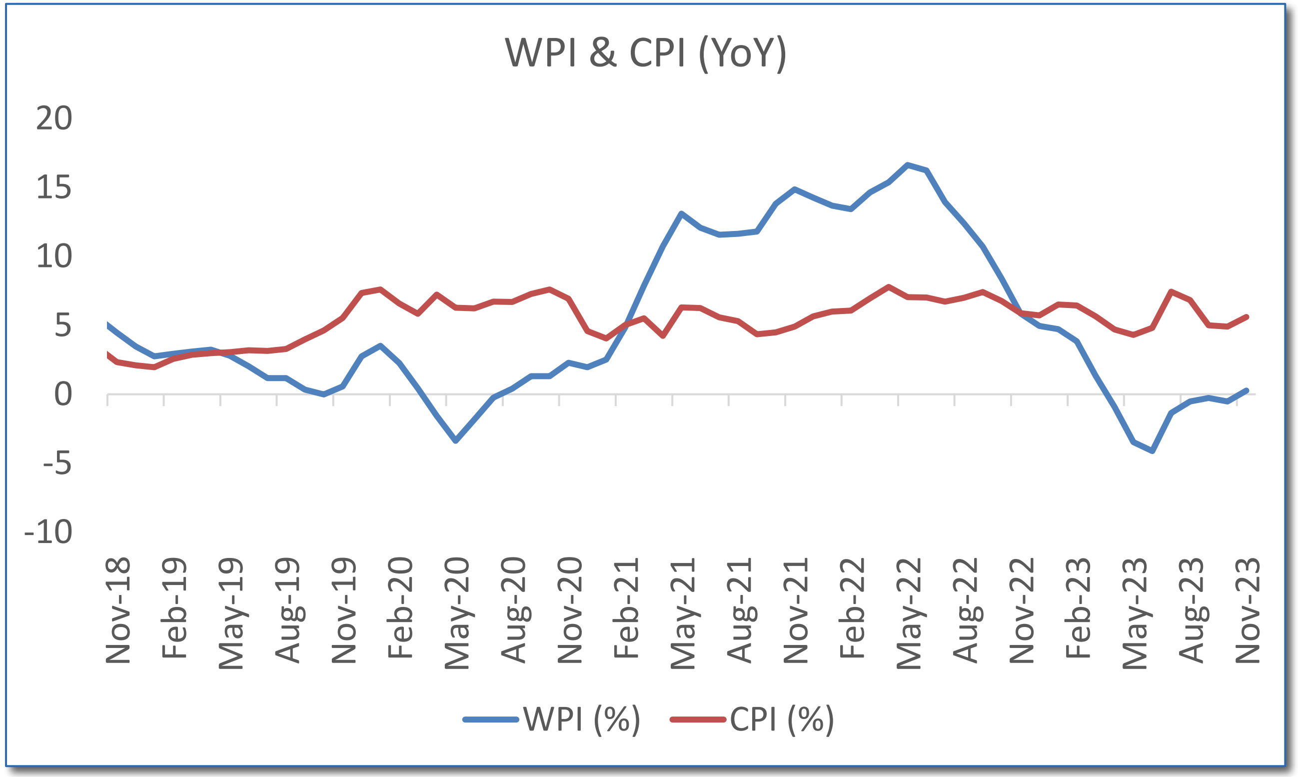




- 4QFY23 real GDP growth improved to 6.1% (3QFY23: 4.5%), led by investment (GFCF) growth at 8.9% and a sharp improvement in net exports. Private consumption growth remained weak at 2.8% (3QFY23: 2.2%).
- India's economic growth accelerated in Q1FY24 to 7.8%, a supportive base along with continued strength in services and construction activities supported the growth.
- India's economic growth-maintained momentum in Q2FY24 to 7.6%, mainly driven by investments and government consumption. This was supported by higher capital expenditure at both the central and state government level.

Source: MOSPI, SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advanced Estimates; FY23* Provisional Estimate, GFCF: Gross fixed capital formation

Latest available data

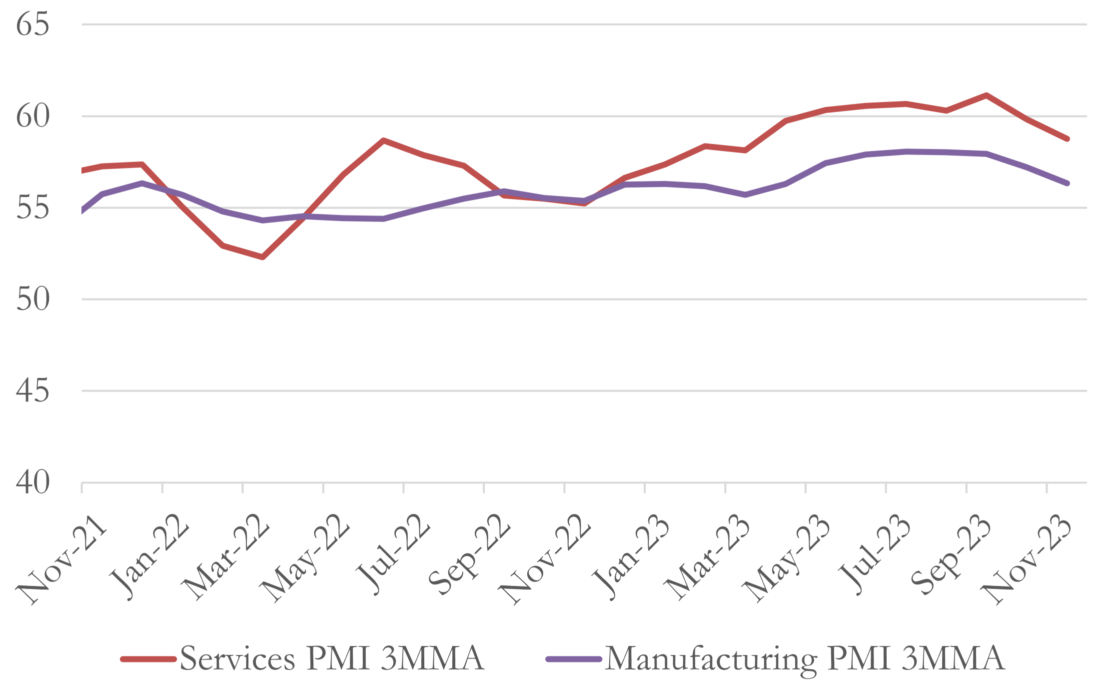


- India's retail inflation ranged from 4.31% to 7.44% YoY for the year. The inflation breached the RBI's tolerance band for 4 out of 11 months.
- Food and beverages inflation was the primary driver for the inflation.
- India's Wholesale price-based inflation ranged between -4.12% to 4.73% YoY. WPI was in deflationary zone for 4 out of 11 months of 2023.

SOURCE: Bloomberg

Latest available data

PMI & IIP

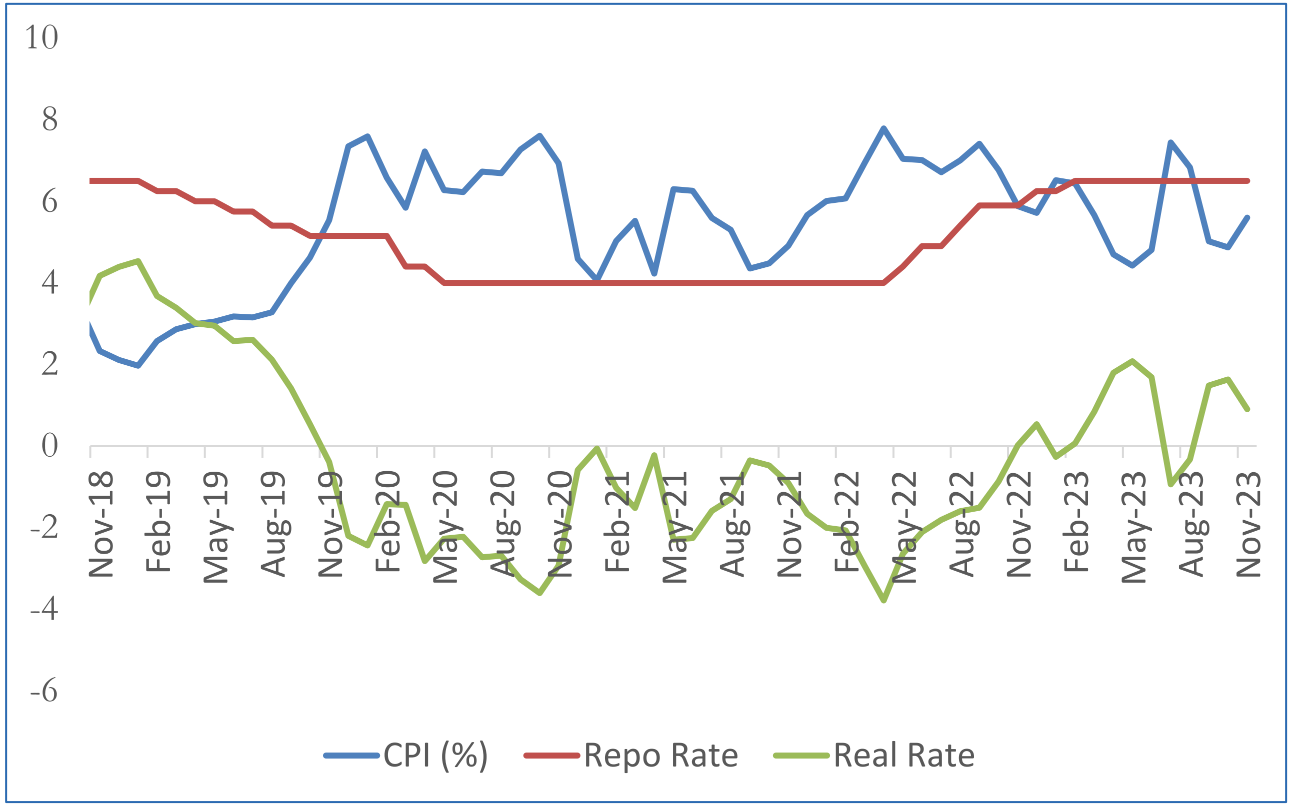


- India's Manufacturing PMI was in the expansionary zone throughout the year with ranging between 55.3 to 58.7.
- India’s Services PMI was in the expansionary zone throughout the year with ranging between 56.9 to 62.3.
- India’s industrial activity saw positive YoY growth for every month in 2023.

SOURCE: Bloomberg

Latest available data

Real Rates

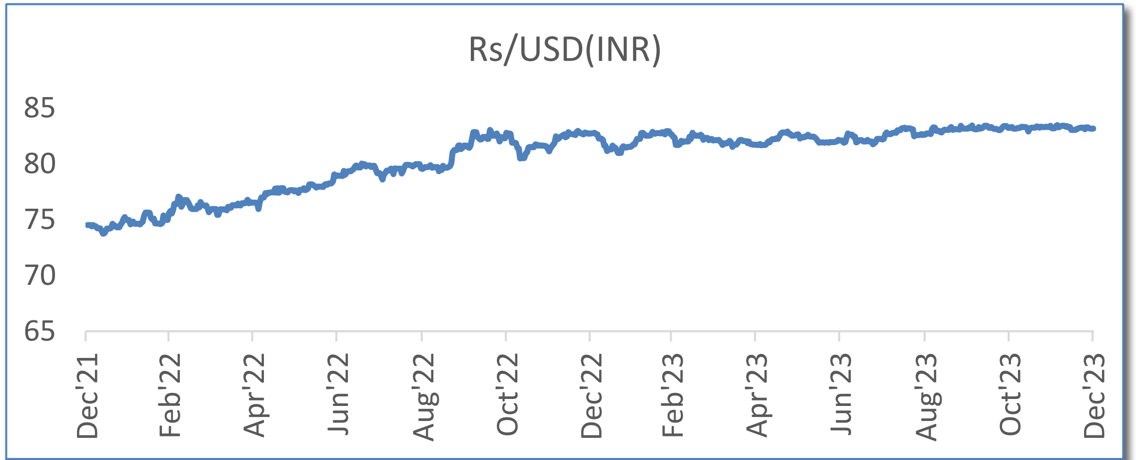


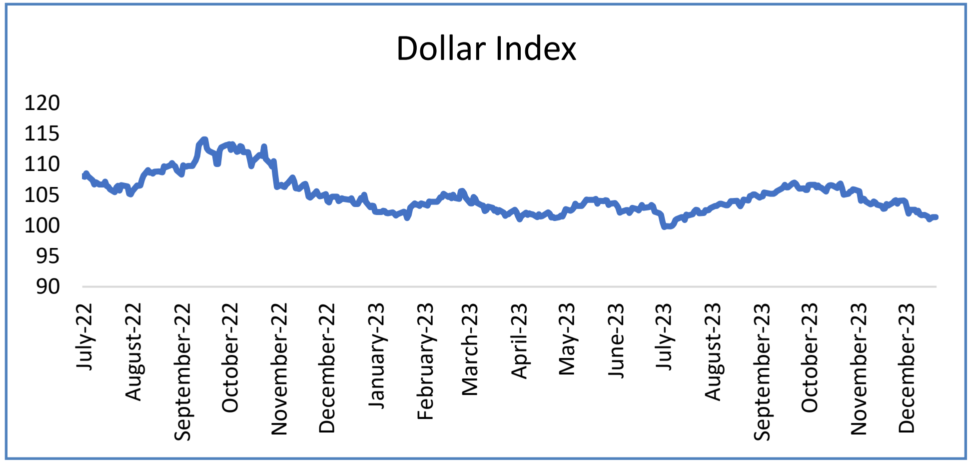
- After 5 rate hikes of a total of 225 bps in 2022, there was 1 rate hike of 25 bps in 2023.
- RBI continued to maintain the stance as withdrawal of accommodation.
- Real rates were in the positive territory for most of the year (8 out of 11 months).
- RBI revised its Real GDP forecast upwards at 7.0% for FY24.
- RBI maintained the CPI projections for FY24 at 5.4%.

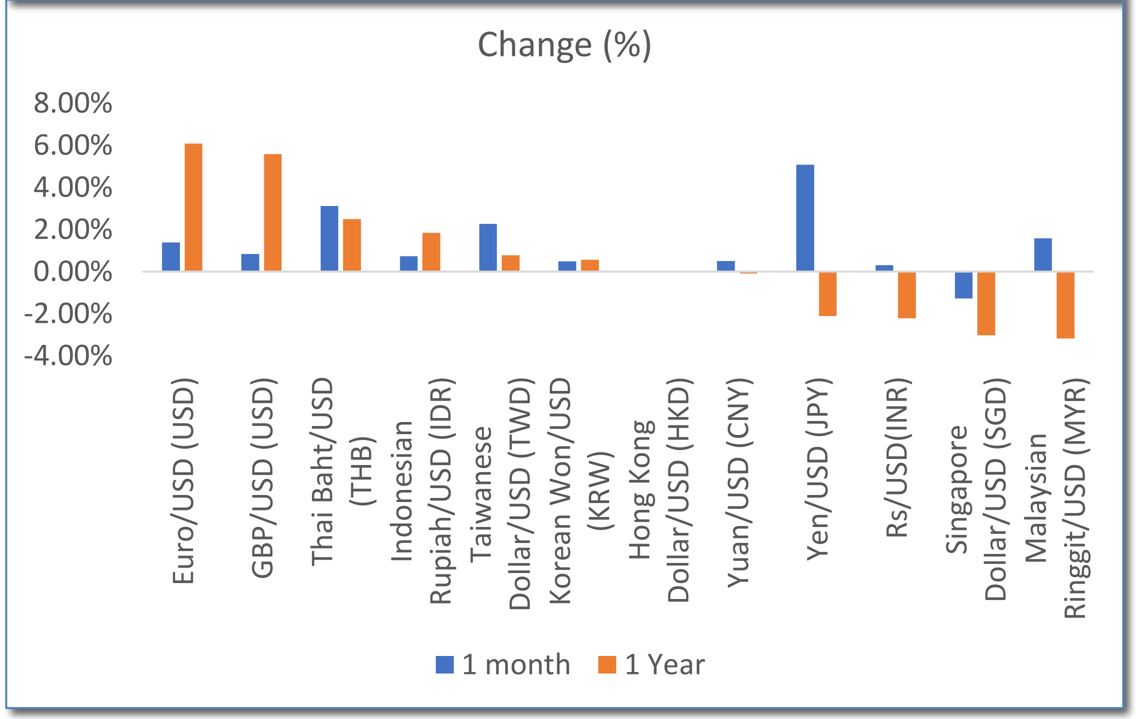
SOURCE: Bloomberg

Latest available data

TATA MUTUAL FUND





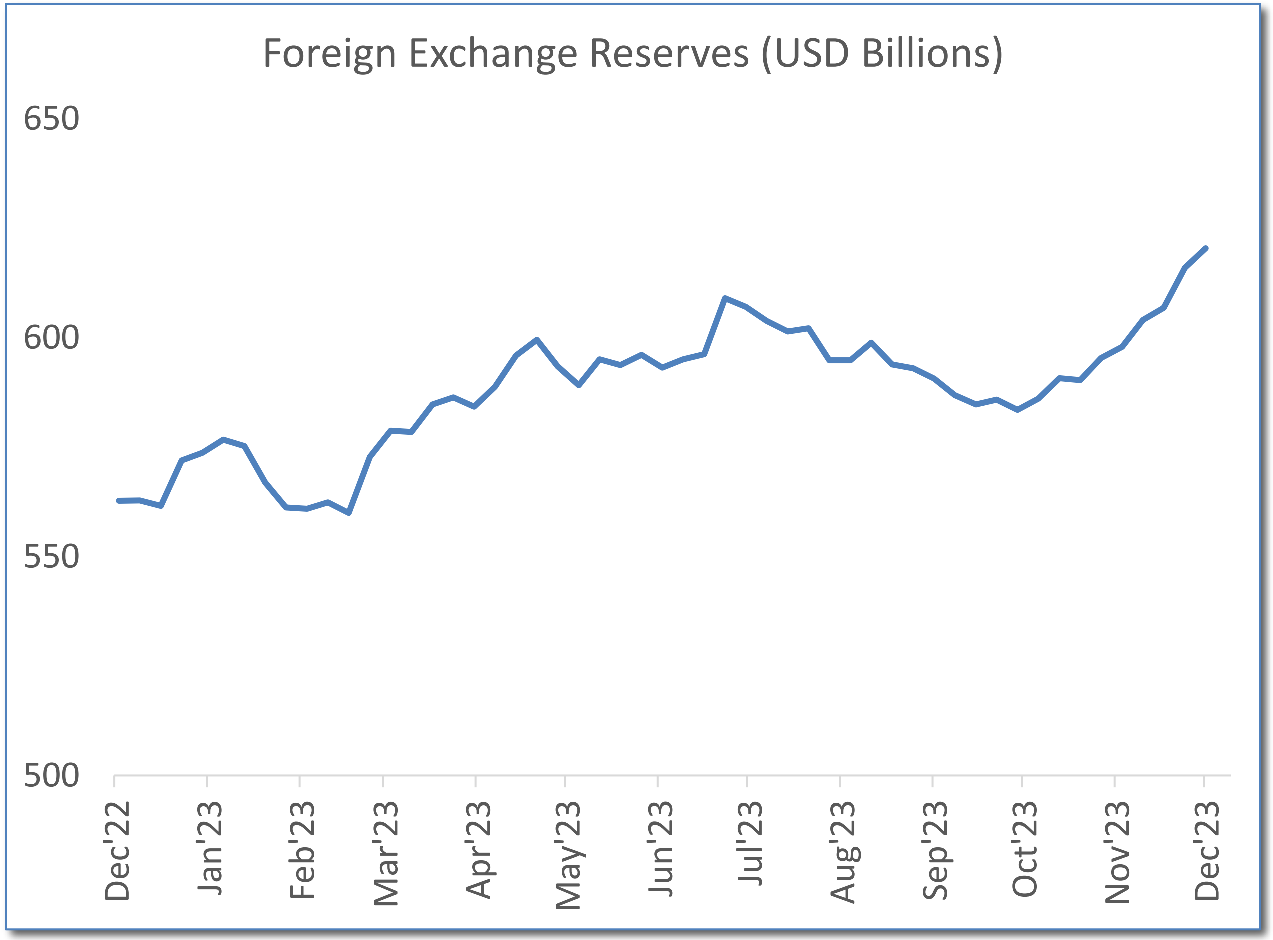


- After depreciating by ~10% against USD in 2022, 2023 was a better year for INR (-2.22%) .
- Rupee depreciated to its lowest level in 2023 amidst a narrowing yield differential with US, slowing FPI flows and a rise in oil prices.
- RBI's FX intervention expected to continue to reduce volatility in rupee going ahead.

SOURCE: Bloomberg

Data as on 29th Dec 2023

FOREX RESERVES

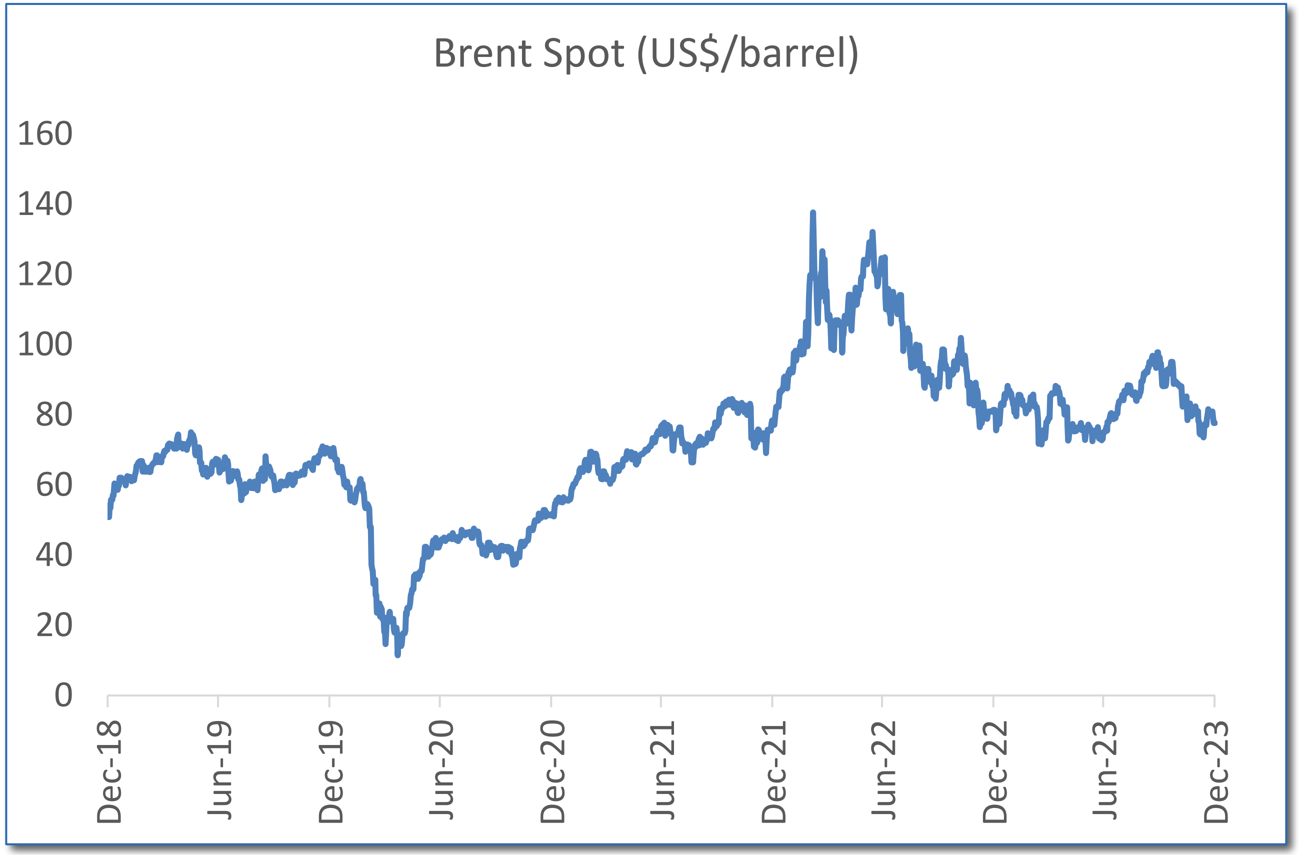


- Foreign exchange reserves rose to USD 620 bn in Dec 23 from USD 562 bn in Dec 22.
- The central bank intervenes in the spot and forwards markets to prevent runaway moves in the rupee.
- Apart from the central bank's intervention, changes in foreign currency assets, expressed in dollar terms, include the effects of appreciation or depreciation of other currencies held in the RBI's reserves.

SOURCE: Bloomberg

Data as on Dec 2023

CRUDE OIL



- Oil prices were very volatile for the year and traded between 71.5 – 97.8 USD/barrel before ending the year at 77.6 USD/barrel.
- Oil prices for the year were majorly impacted by Russia Ukraine war, OPEC+ output, demand from US and China and middle east conflict.
- Crude prices remain critical for India as they directly affect the country's macro parameters much more than the other emerging markets

SOURCE: Bloomberg

Data as on 29th Dec 2023

INTEREST RATES

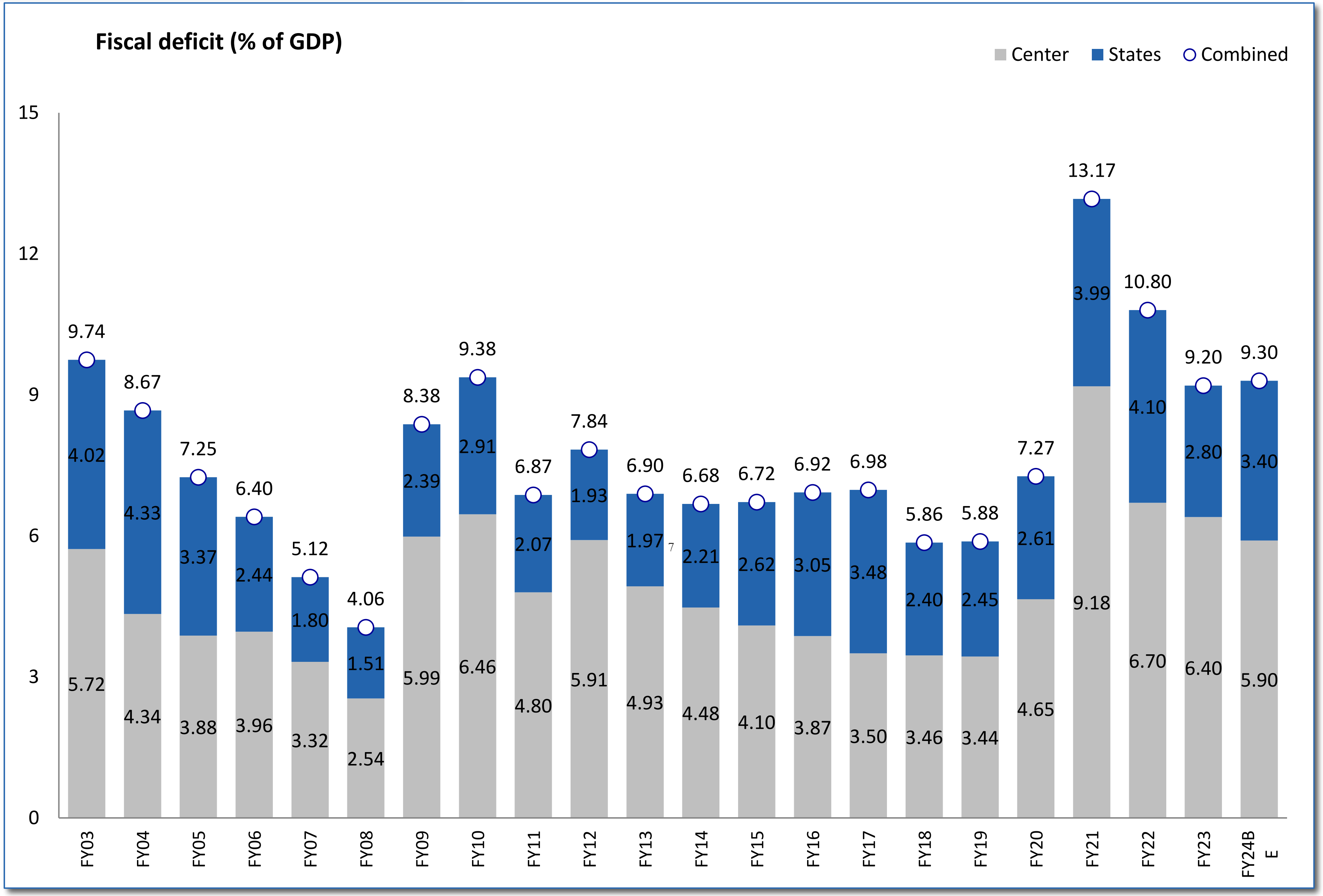
Country	Rate	Central Bank Rate	CPI YoY	Real Rates
US	Fed funds	5.38%	3.1%	2.28%
UK	Bank Rate	5.25%	3.9%	1.35%
Canada	Overnight	5.00%	3.10%	1.90%
Switzerland	Target Rate	1.75%	1.40%	0.35%
Eurozone	Deposit rate	4.00%	2.40%	1.60%
Japan	Policy rate	-0.10%	3.30%	-3.40%
Australia	Cash rate	4.35%	4.90%	-0.55%
South Korea	Repo rate	3.50%	3.30%	0.20%
Taiwan	Discount rate	1.88%	2.90%	-1.02%
China	Loan Prime rate	3.45%	-0.50%	3.95%
India	Repo rate	6.50%	5.60%	0.90%
Russia	Key Policy rate	16.00%	7.50%	8.50%

- Global central banks continued with policy tightening in 2023.
- **US Fed** - After 7 rate hikes of a total of 425 bps in 2022, there were 4 hikes of a total of 100bps in 2023.
- **BOE**- After 8 rate hikes of a total of 325 bps in 2022, there were 5 hikes of a total of 175 bps in 2023.
- **ECB** - After 4 rate hikes of a total of 200 bps in 2022, there were 6 hikes of a total of 200 bps in 2023.

SOURCE: Bloomberg

Data as on 21 Dec 2023

FISCAL DEFICIT



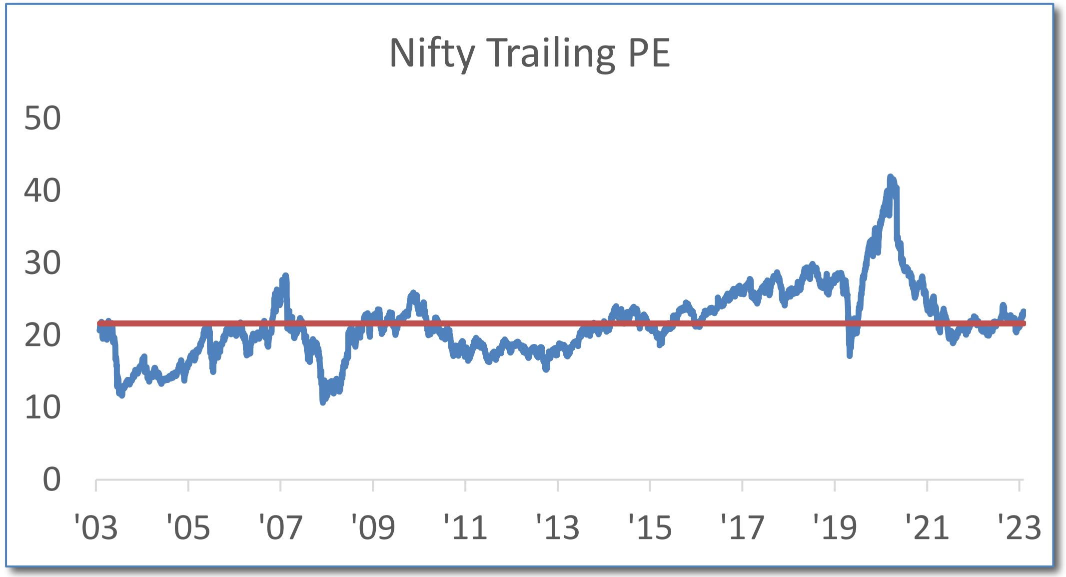
- The revised estimate or the budget deficit for FY23 was pegged at 6.4 per cent.
- The government reiterated its stated objective of bringing down the Fiscal to 4.5% of GDP by FY26.
- This budget takes a step in that direction with the proposed reduction of 50bps down to 5.9% of GDP for FY24.

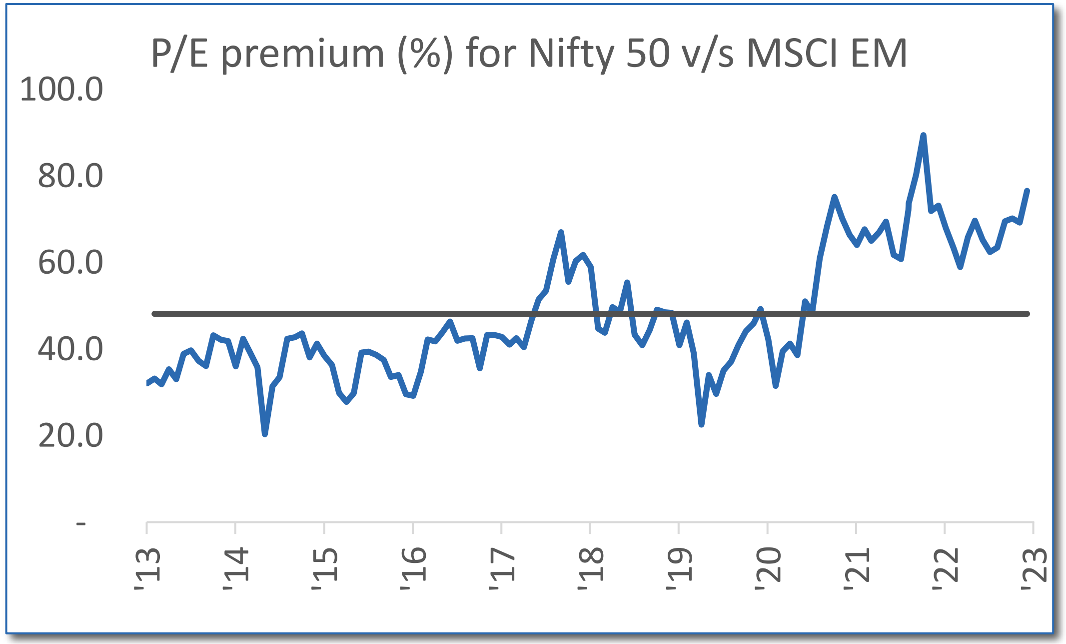
SOURCE: Bloomberg ; BE- Budgeted Estimate, RE – Revised Estimate

Latest available data

VALUATION

INDIA VALUATION VS EMERGING MARKETS



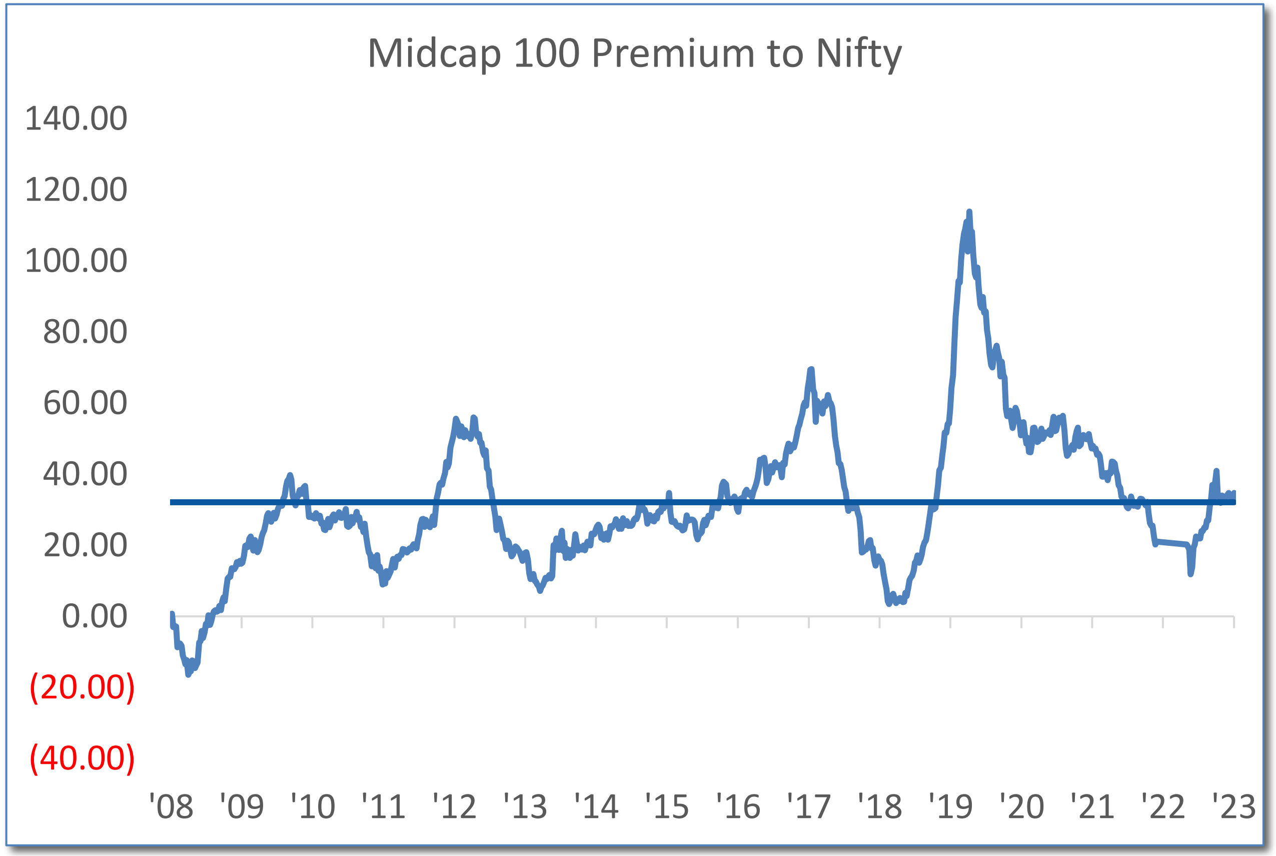


- 1-year forward PE stands at 20x, higher than the historical average.
- Expected earnings for FY24 is 15.0% and FY25 is at 15.8%
- Over the last 12 months, the Nifty 50 (20.03%) has outperformed the MSCI EM index (10.27%).
- In P/E terms, the Nifty 50 is trading at 77% premium to the MSCI EM index, above its historical average of ~48%.
- The premium however has reduced from peak of 80-85% about twelve months back.
- Stable macros, broad based earnings growth and robust banking/corporate sector health driving the premium. Risk from electoral event has reduced post recent state election results
- Crude price remains a key risk but chances of escalation in the Middle East conflict seems to be contained

SOURCE: Bloomberg

Data as on 29th Dec 2023

MID CAP VALUATION



- The headline valuations for Nifty Midcap 100 suggest that we are in an acceptable zone which can act as a platform for the broader markets to continue to do well in the current economic scenario.
- Midcaps in a growing market with market leadership and low leverage may be considered on par with large caps.
- Broad-based economic recovery (investment cycle revival) would also result in more investment opportunities in mid and small caps.

SOURCE: Motilal Oswal

Data as on 29th Dec 2023

2024 outlook

GLOBAL ECONOMY

TATA MUTUAL FUND

Inflation poses a common challenge to the Global Economy

Bringing inflation down without causing too much collateral damage to economy and labour markets

Although inflation has moved down from its peak, its still way above the target

Monetary Policy to tackle inflation

The direction of monetary policy in advanced economies is increasingly unambiguous now:

- Bringing down inflation within target range
- Avoiding a wage-price spiral
- Bringing consistency in inflation expectations

SOURCE: JP Morgan, India Monthly Wrap

CORRELATION TO GLOBAL ECONOMY

	Slow Recovery in China	Sharp Recovery in China
Sharp Slowdown in US/UK/EU	**Earnings:** Impact likely, especially in sectors with global linkages offset slightly by lower input costs **Valuation**: Premium can sustain but risk-off will reduce absolute valuations	**Earnings:** Impact on global sectors, cushion in input prices **Valuation**: Premium can reduce meaningfully as flows to China increase
Gradual Slowdown in US/UK/EU	**Earnings:** Limited impact on India's GDP/Profit Growth **Valuation**: Growth Premium will sustain	**Earnings:** Limited impact, some impact on commodity prices **Valuation**: Premium will shrink although absolute valuations might sustain

Sweet Spot

Based on Internal Views and subject to change

PROFITABILITY TRENDS IMPROVED MARGINALLY

Positive

Banks, Capital goods, Manufacturing

Pharma/Healthcare

Neutral

Fundamentals

IT, Rural Consumption

Urban consumption, Commodities

Negative

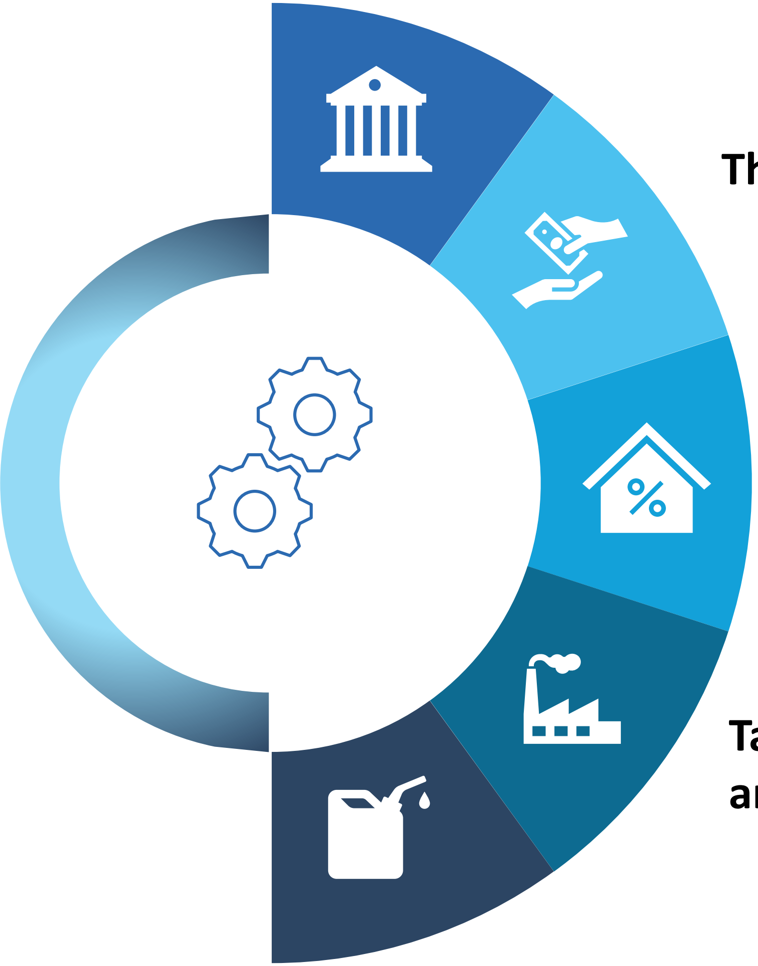
- India has outperformed given the expectation of strong earnings momentum this quarter.
- Corporate earnings downgrade risk has reduced.
  - Banks and Capital goods lead the positive earning upgrade cycle.
  - Urban consumption after significant growth in 2022 is slowing due to impact of inflation and interest rates. In contrast, rural consumption is picking up, albeit gradually. Pharma recovery underway especially in US generics
  - Sectors with topline risk (e.g. IT, FMCG) have stabilized; margins to be supported by lower input costs or easing attrition & wage pressure.
- The biggest risk to the market of crude prices has eased as chances of spreading of the conflict in Middle East appears less. This could sustain India's valuation premium

Based on Internal Views and subject to change

DRIVERS FOR INDIA

The longer term drivers of earnings in India

The pickup in the investment cycle



The pickup in the credit cycle

The pickup in real estate

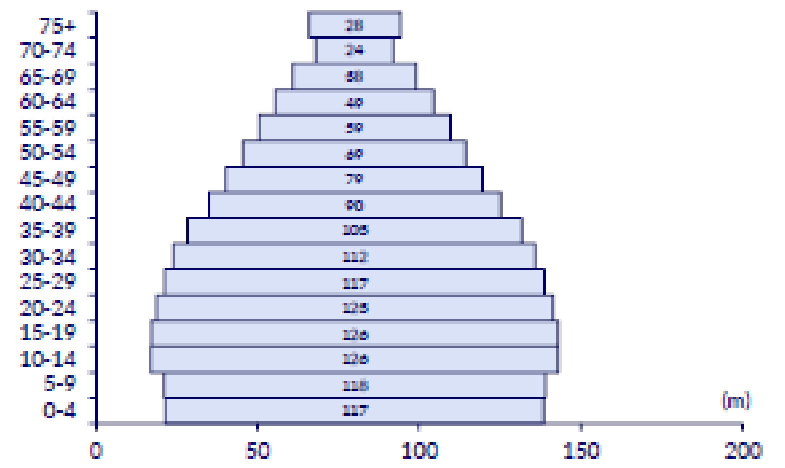
Tailwinds for Indian manufacturing sector and the industrial sector

Commodity prices coming down in case of global soft landing

Based on Internal Views and subject to change

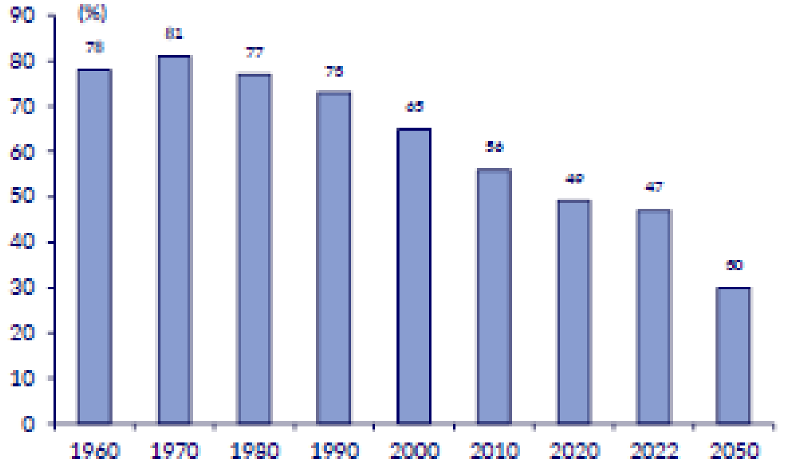
INDIA'S DEMOGRAPHIC DIVIDEND

India population pyramid - 2020



Source: UNDP, CLSA

India's dependency ratio

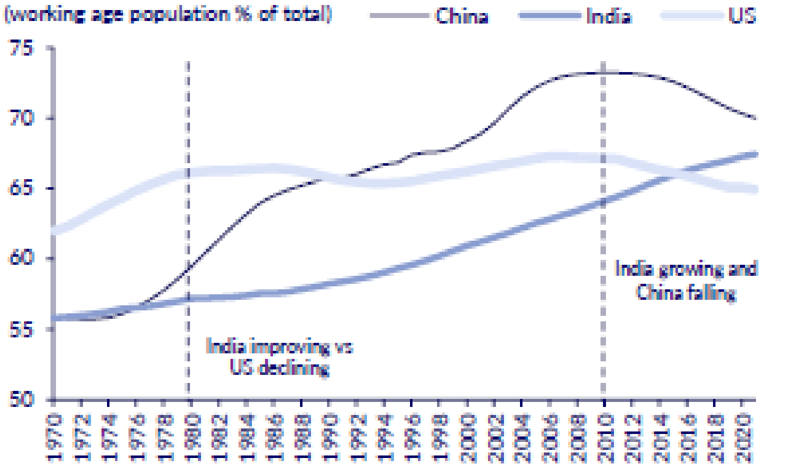


Source: World Bank, CLSA

Working age population projection for India

Source: UNDP, CLSA

India's working age population in comparison to China and the US



Source: UNDP, CLSA

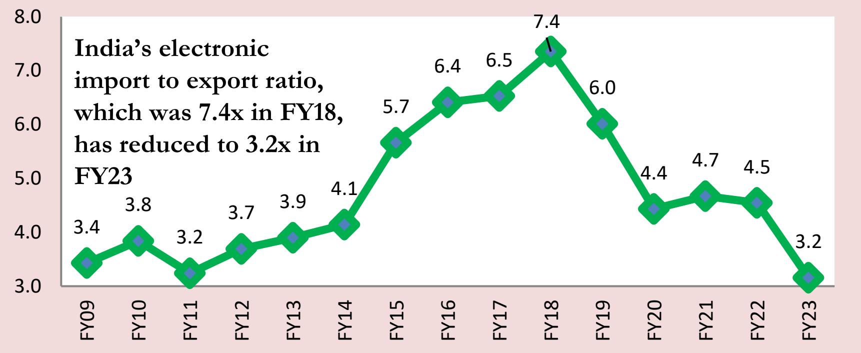
- India's dependency ratio (children and elderly population / total population) has consistently fallen from 73% in 1990 to 47% in 2022. It is expected to further fall to 30% in 2050.
- India's working population has been on a steady increase while US and China are facing a decline.

PLI scheme to drive Pvt. sector capex with twin goals of Make in India/create export champions

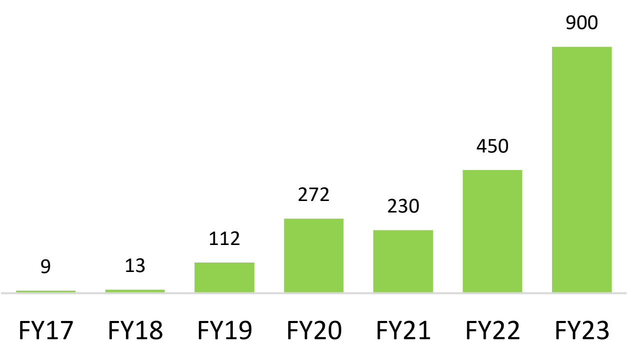
PLI should attract total capex of ~Rs.4.4tn over next 4-5 years and could fast-track the capex plans of private sector by at least two years

Category	Overall PLI Incentive committed (Rs. Bn)	Committed/ Likely Investment/ Capex (Rs. Bn)	Asset Turnover (x)	Incremental Revenue over 5-year period (Rs. tn)	Employment (Direct + Indirect)	Duration
Mobiles/Electronics	410	110	~25x	10.5	5,00,000	FY22-FY27
Pharma	150	100	~3x	2.9	1,00,000	FY21-FY29
Pharma – API/KSM	69.4	54				
Pharma - Medical Devices	34.2	9				
White Goods & LED	62	79	3-4x	1.7	4,00,000	FY22-FY27
Solar PV	45	175	~4x	3.5	1,50,000	5 years
Telecom	122	30	~20x	2.4	40,000	FY22-FY27
Food	109	61	~4-5x	1.2	2,47,730	FY22-FY27
Automobile & Auto Components and drone	261	425	~4-5x	2.3	7,50,000	FY23-FY28
IT Hardware 2.0	243	48	~20x	3.3	2,25,000	FY21-FY25
Speciality Steel	63	400	~1x	2.0	5,25,000	FY23-FY28
Textile	107	190	~3x	3.0	7,50,000 (2,40,134 Direct Employment)	FY23-FY28*
EV Battery	181	450	~1x	~2.2	-	FY23-FY28
Semiconductor	760	2300	~0.4x	~4.6	1,35,000	FY23-FY27
Specified Electronic Components (Round -2)	21	-	-	-	-	-
Total	**2,638**	**4,451**		**39.6**	**38,22,730**	

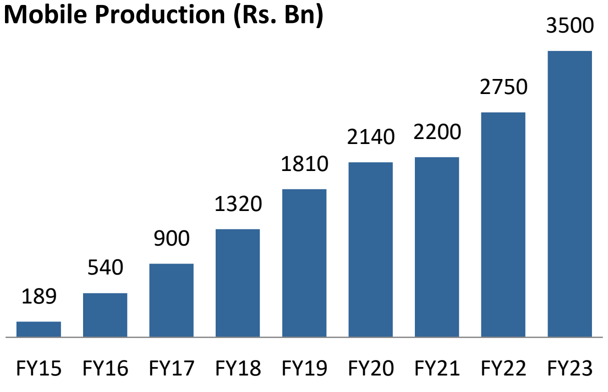
India's Electronic Sector Import to export Ratio (%)



Mobile Phone Exports from India (Rs. Bn)



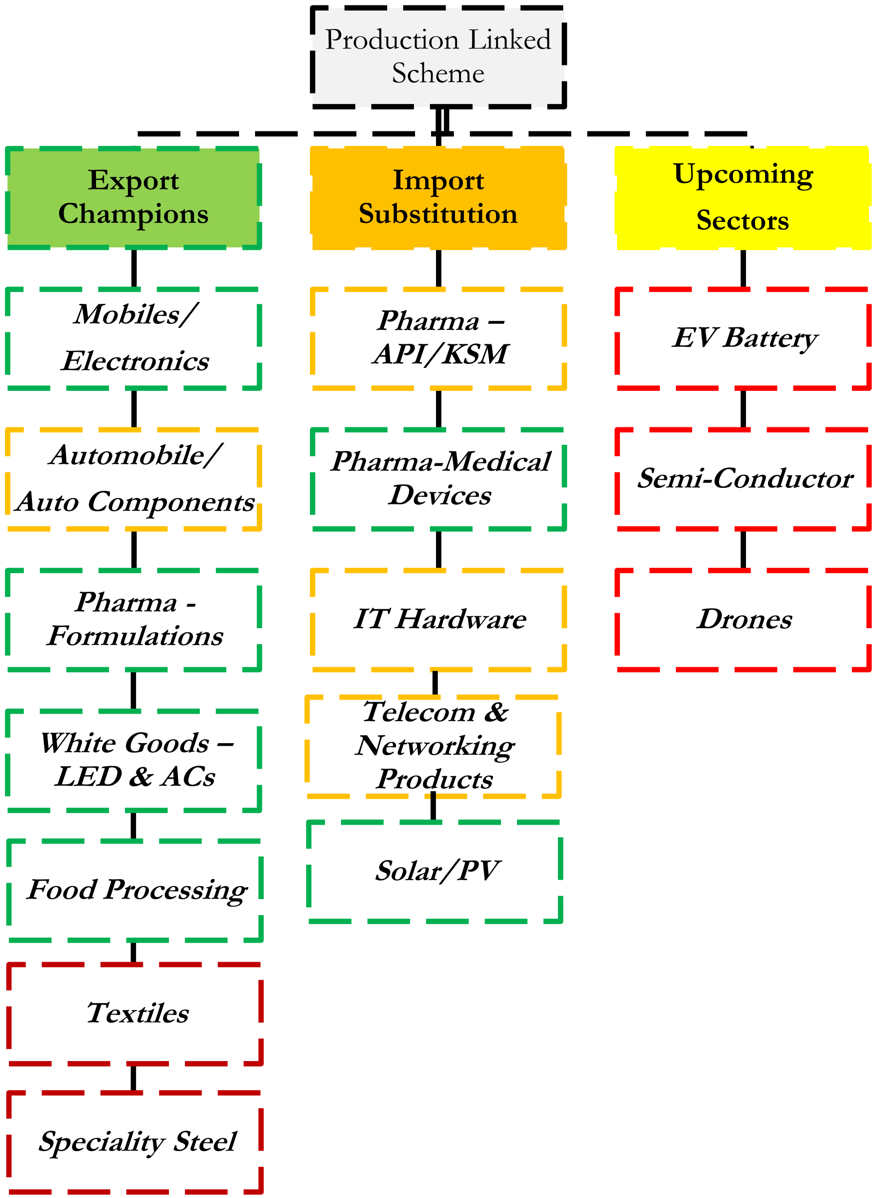
Mobile Production (Rs. Bn)



*Source: Sector PLI Gazette Notification, News Article, Avendus Spark Research, * current PIB notice has not mentioned the specific year, Dependency Ratio = Export/Imports*

Updates on Production-Linked Incentive Scheme

TATA MUTUAL FUND



FDI inflows related to PLI sectors

Sectors ($, mn)					Growth	
FDI	FY18-FY20	FY21-FY23	Q1 FY23	Q1 FY24	FY21-FY23 vs. FY18-FY20	Q1 FY24
Automobile Industry	7,537	10,533	691	405	40%	-41%
Drugs and Pharmaceuticals	1,794	4,963	497	90	177%	-82%
Non-Conventional Energy	4,044	4,898	949	735	21%	-23%
Chemicals, excl Fertilizers	4,346	3,663	960	186	-16%	-81%
Electrical Equipment	2,037	3,005	196	137	48%	-30%
Food Processing Industries	2,438	1,999	680	830	-18%	22%
Telecommunications	13,325	1,773	386	618	-87%	60%
Electronics	1,071	1,332	509	97	24%	-81%
Information and Broadcasting	2,714	932	730	NA	-66%	NA
Textiles Incl Dyed, Printed	976	701	164	155	-28%	-6%
Mining	459	681	618	235	48%	-62%
Medical and Surgical Appliances	516	674	256	177	31%	-31%

Recent updates on Production Linked Scheme

Investment in electronic manufacturing under PLI

The production-linked incentive (PLI) scheme for large-scale electronics manufacturing has attracted investments of Rs. 69bn till June 2023. The number has breached the ministry's target which had aimed for an investment of Rs. 55bn till the end of FY24.

Disbursement under PLI

Incentives amounting to Rs. 29bn have been disbursed in FY23 under PLI schemes for eight sectors, which include large-scale electronics manufacturing, IT hardware, bulk drugs, medical devices, pharmaceuticals, telecom and networking products, food processing, and drones and components.

The commerce ministry is projecting a near-350% jump in disbursals to Rs. 130bn, significantly higher than the Rs. 29bn crore given so far.

Imports Substitution/Investment in Semi-Conductor

As many as 27 companies, including Dell, HP, and Lenovo, have been given approval for the IT hardware PLI scheme with a commitment to make personal computers, laptops, tablets, servers and other equipment worth USD 42 bn during the scheme period.

OUTLOOK

Multiple drivers are in place for investment cycle to strengthen

TATA MUTUAL FUND

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
	Downcycle	Cycle Bottom / Early Recovery	Midcycle	Late Cycle	Downcycle	Cycle Bottom / Early Recovery
	1998-2002	2003 – 2005	2006 – 2008	2009 – 2012	2013 – 2020	2021 – 2024
	▪ Lower commodity prices ▪ NPA cycle was bottoming out; Banking system had excess liquidity ▪ Real Estate slowdown; Uncertain global market outlook	▪ Early signs of commodity price increase ▪ Electricity Act- Opening-up of power sector ▪ Higher Govt. Spend	▪ Strong private participation in power, steel and cement ▪ Commodity prices on strong up-move globally, triggering capex ▪ Pickup in residential real estate	▪ Excess capacity starts building up post '08-'09 crisis ▪ Leveraged private players especially in power and steel sector ▪ Demand drops due to global slowdown and domestic policy paralysis	▪ Lower commodity prices ▪ Adverse real estate cycle with massive excess inventories ▪ Excess supply across sectors ▪ Balance sheet repair with gradual consolidation in market share with a few players	▪ Balance sheet strengthens across large companies ▪ Large assets under NCLT resolved ▪ Falling corporate NPA cycle ▪ Residential Realty, Govt spend and favorable global demand ▪ PLI incentives system might pre-empt/fast track potential capacity addition
Govt Capex CAGR (%)	4%	23%	8%	11%	12%	**Start of an upcycle led by:** ▪ Deleverage trend across sectors ▪ Demand-led Inflation should drive utilization and capex ▪ Rising trend of Environmental clearances granted; More brownfield capex to follow
GFCF CAGR (%)	9.0%	12.5%	21.5%	14.4%	8.5%	
Metal prices CAGR (%)	0%	24%	21%	5%	-4%	
WPI Inflation (%)	4.6%	5.5%	5.5%	8.1%	1.6%	
Cost of Debt (%)	10.5%	6.7%	9.3%	9.2%	8.1%	
Leverage (D/E)	Deleverage in 2002	Releveraging	Releveraging	Releveraging	Deleverage in 2021	
Slippages (%)	6.7%	3.6%	1.8%	2.2%	6.0%	
Corporate Credit growth (%)	12%	23%	24%	22%	3%	
Liquidity/Excess SLR (%)	7.8%	16.3%	4.9%	4.7%	7.2%	
Capacity Utilization (%)	~80%	~85%	>90%	~75%	~70%	
Private sector in Public Infra	Low	Low	High	Very High	Low	
Residential Real Estate	Slowdown ⇩	Strong Growth ⇧	Moderate Growth ⇔	Strong Growth ⇧	Slowdown/Consolidation ⇩	
Global Outlook	Negative	Positive	Very Positive	Negative	Positive since Oct-20	

Note: *Government Capex is the Central & State Government spend CAGR during the specific periods, GFCF – Gross fixed capital formation; Metal price is USD price of Copper and Steel; WPI – Average inflation during that period; Cost of debt is 10 yr AAA corporate bond yield; Capacity Utilization is average utilization of steel, cement and aluminum capacity ; Source: RBI, Ministry of Commerce, Avendus Spark Research*

PORTFOLIO STRATEGY

Active exposure in Mid & Small Caps to capitalise on investment cycle led economic growth

Actively seeking GARP opportunities (Value with Triggers, Earning Upgrade Cycle) on bottom-up basis; valuation discipline key in high interest rate regime

Based on Internal Views and subject to change

PORTFOLIO STRATEGY

- Balanced portfolio strategy to capitalise on the various pockets of strong earnings recovery and outlook
- Drivers of growth cutting across manufacturing, capital goods, power and real estate
  - Recovery in investment cycle led by healthy cash flows in the corporate sector and government's counter-cyclical fiscal policy makes us incrementally positive on the industrial/capital goods sector leading us to progressively increase the exposure to this segment.
  - Recovery in power demand, capex in generation (renewable + thermal) and transmission implies over-weight stance on the associated sectors/stocks.
  - In Financials, after a period of margin expansion and lowering credit costs, growth will normalise. Mid/small caps re-rating has been significant in last 6-12 months, future upside likely to be more bottom-up based on execution as regulatory changes on unsecured lending reduces the growth differential vs. large banks. Large cap banks still reasonably priced.
  - With an increasing number of companies seeking digital solutions, IT spends have gone up structurally. Global uncertainty over next 6 months however has led us to be on the sidelines even though the sector underweight on IT has come down slightly in portfolios. Gradual interest rate cuts could support sector valuations.

Based on Internal Views and subject to change

MARKET OUTLOOK

- We are positive on general broad market direction driven by the Investment cycle and manufacturing recovery. The risk-reward in large caps is now reasonably attractive vis-a-vis mid and small caps. Some consolidation in mid and small caps over the next 6 months or so is probable and will be healthy

- The forward PE for nifty is about 20x which is 5-10% higher than the 10-year average. The reason for this premium is because of the quality of growth which is now being led by investment and manufacturing revival that provides greater sustainability.

- In addition, gradual global slowdown puts India in a sweet spot due to
  I. Higher economic growth vs. EMs/China and
  II. Lower commodity prices which protects Indian corporate sector's margins

Based on Internal Views and subject to change

MAJOR RISKS

- Global
  - War in Ukraine and Middle east
  - Elections around the world add to geopolitical uncertainty
  - Potential for a hard landing in the US, stagnation in the EU, and slowing growth in China

- Domestic
  - Energy Prices
  - General elections
  - the global risks of a sharp slowdown (as a result of high interest rates) which coupled with any financial accidents can cause a contagion and will be a risk-off event for the EMs

Based on Internal Views and subject to change

THANK YOU

Disclaimer: The views expressed in this article are personal in nature and in is no way trying to predict the markets or to time them. The views expressed are for information purpose only and do not construe to be any investment, legal or taxation advice. Any action taken by you on the basis of the information contained herein is your responsibility alone and Tata Asset Management Private Limited will not be liable in any manner for the consequences of such action taken by you. Please consult your Financial/Investment Adviser before investing. The views expressed in this article may not reflect in the scheme portfolios of Tata Mutual Fund. This is for information only and is not to be considered as sales literature. Not to be used for solicitation of business in schemes of Tata Mutual Fund. There are no guaranteed or assured returns under any of the scheme of Tata mutual Fund