TATA MUTUAL FUND

EQUITY OUTLOOK

February 2024

GLOBAL ECONOMY

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

OUTLOOK

PROFITABILITY TRENDS IMPROVED MARGINALLY

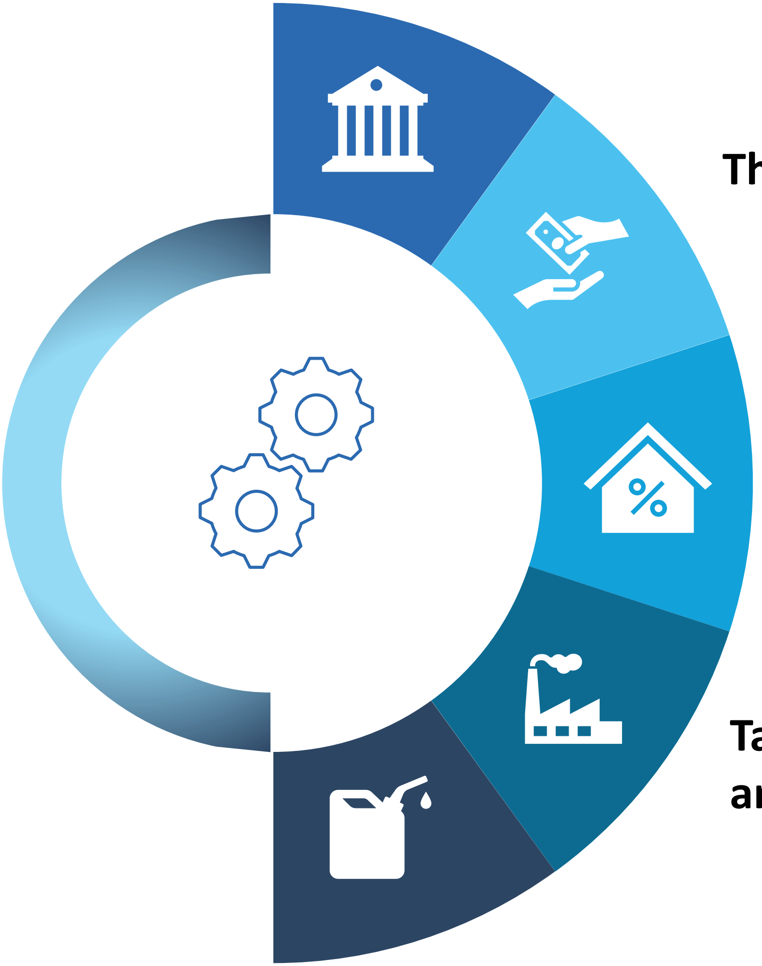
Outlook	Fundamentals	Sectors
Positive	↑	Banks, Capital goods, Manufacturing
		Pharma/Healthcare
Neutral		IT, Rural Consumption
		Urban consumption, Commodities
Negative	↓	

- 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

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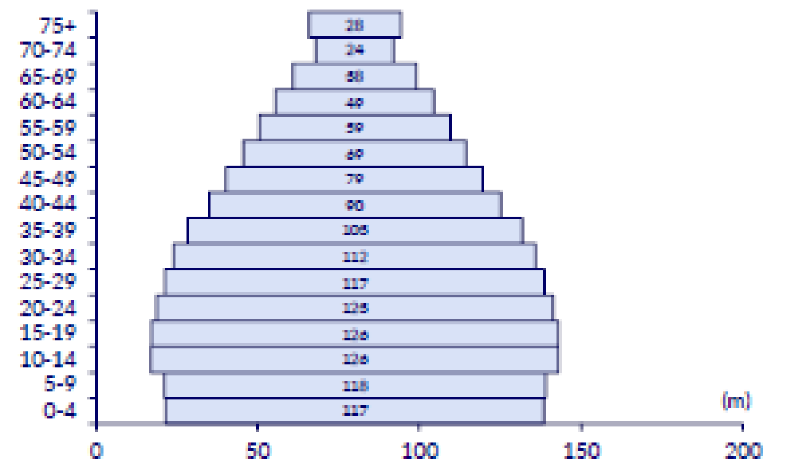
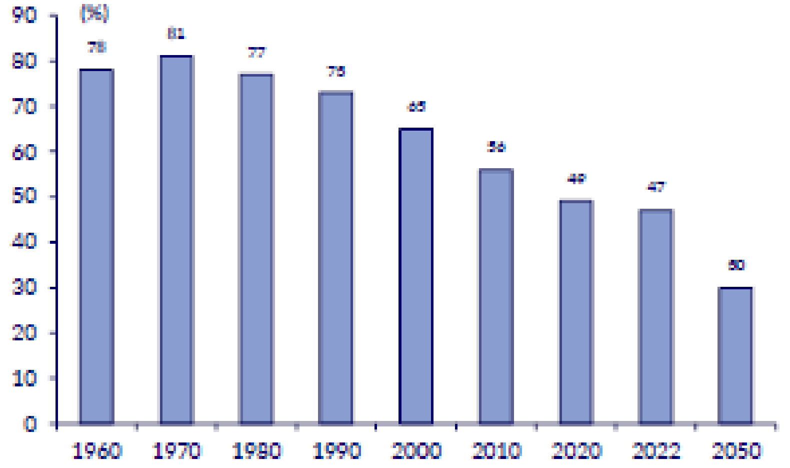
India population pyramid - 2020



Source: UNDP, CLSA

India's dependency ratio

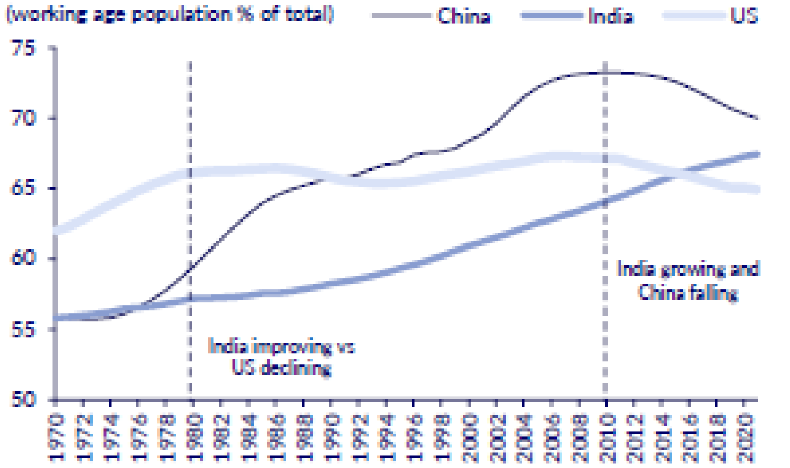


Source: World Bank, CLSA

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.

OUTLOOK

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

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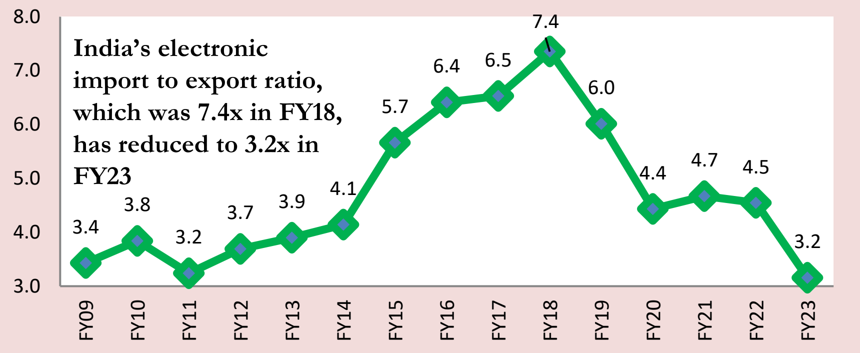
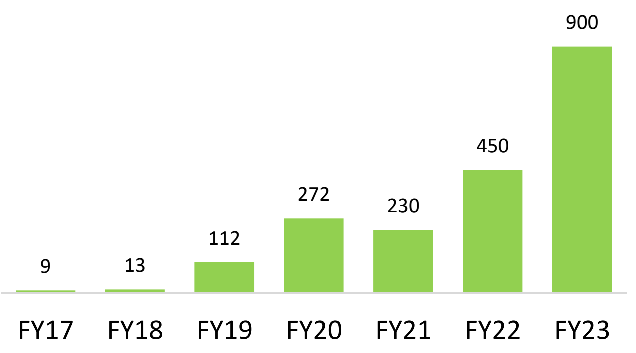
PLI should attract total capex of ~Rs.4.4tn over next 4-5 years and could fast-track the capex plans of private sector by at least two years

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**	

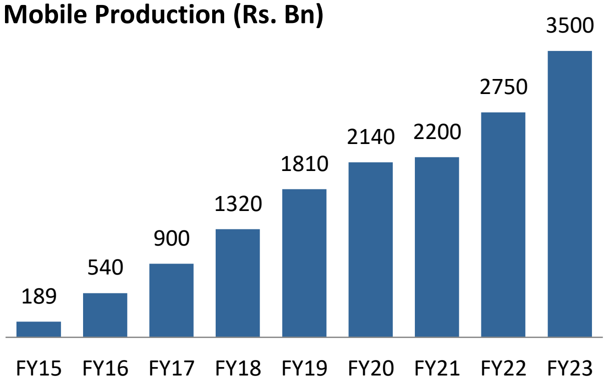
India's Electronic Sector Import to export Ratio (%)



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*

OUTLOOK

Updates on Production-Linked Incentive Scheme

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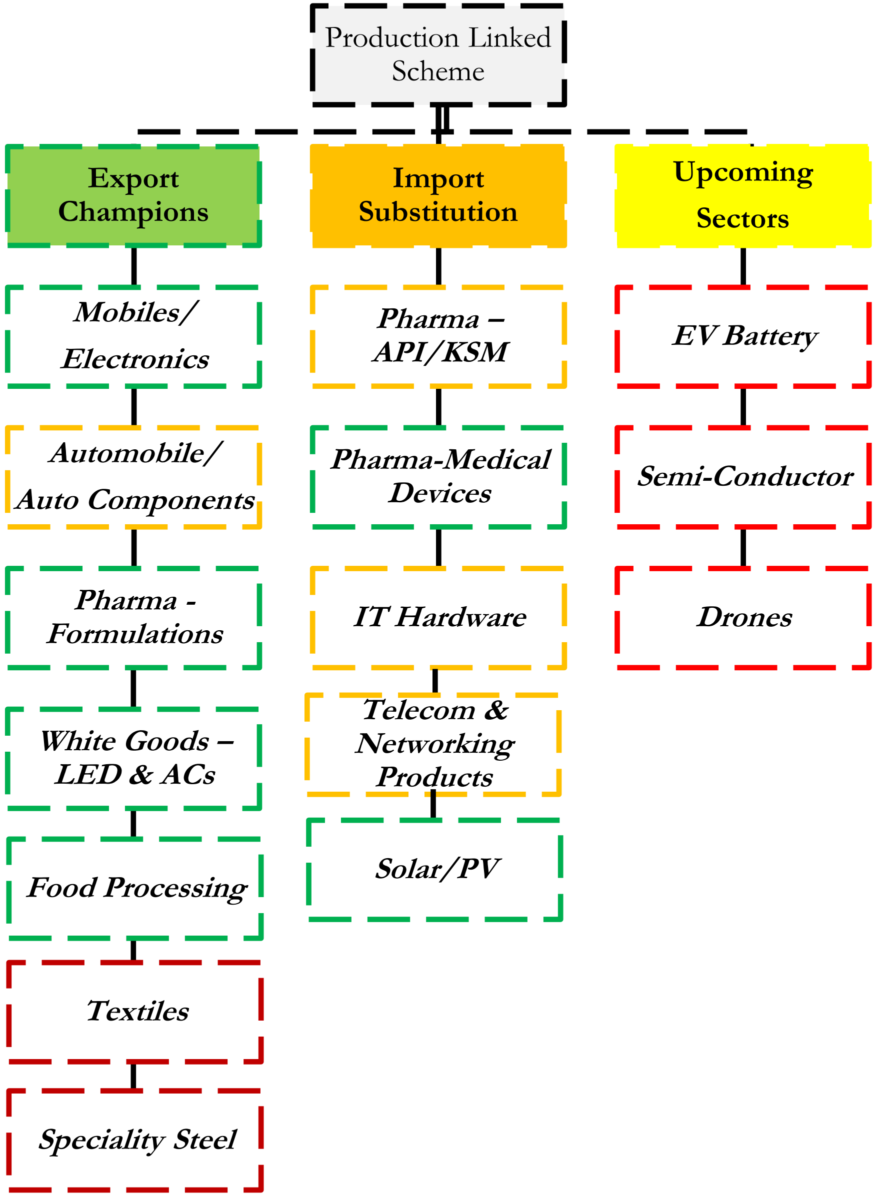


FDI inflows related to PLI sectors

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 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.

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

BALANCED PORTFOLIO STRATEGY TO CAPTURE THE ECONOMIC CYCLE

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 Investment Cycle, Power, Capital goods 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 despite margin headwinds.
  - 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

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	5.7
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.2	-2	-1
Fiscal Deficit (% of GDP)	4.5	4.1	3.9	3.5	3.5	3.4	4.6	9.3	6.7	6.4	5.8
Crude Oil (USD/Barrel)	107	53	39	60	58	65	23	59	111	80	83
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	622
GST collections (INR billion)							1222	1239	1421	1601	1669

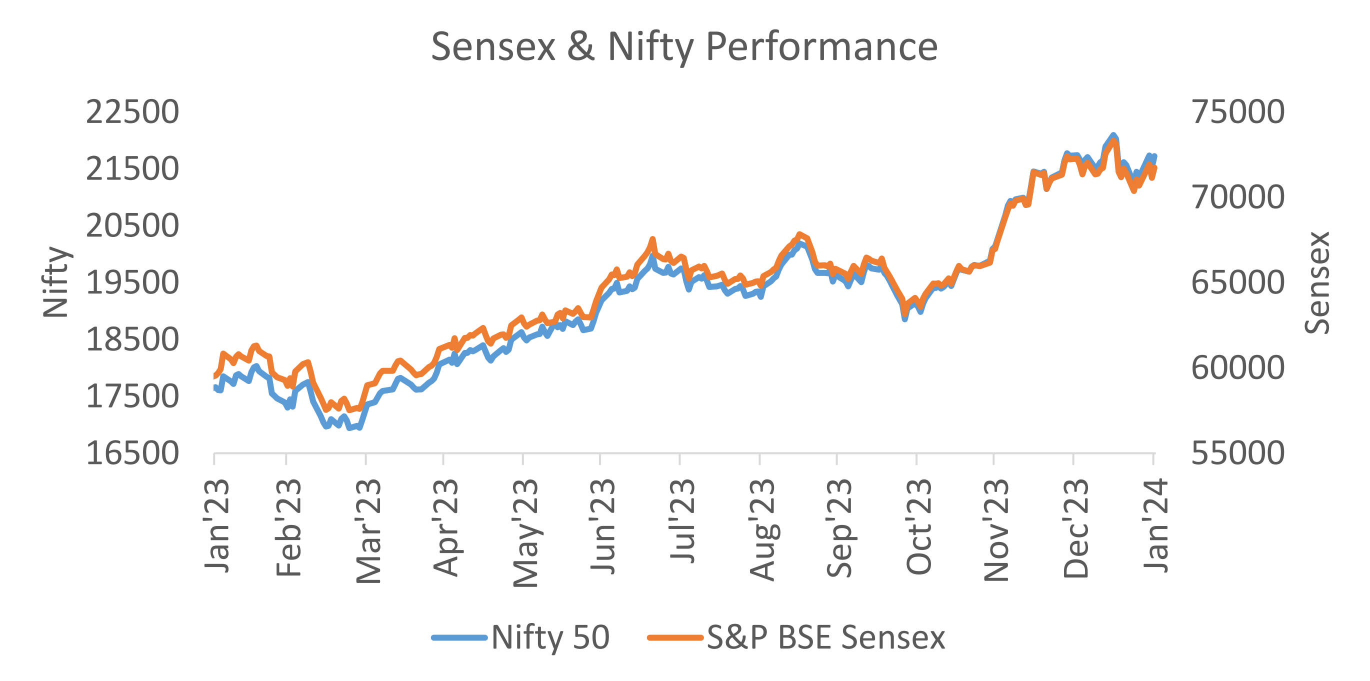
Source : Bloomberg

*GDP data for Q2FY24, Current Account Deficit is as of 30 Sep 23, Fiscal Deficit data is FY23RE, CPI data as on 31-Dec-2023,Crude oil, Currency, Forex Reserves and GST collections as on 31 Jan 2024

MARKET PERFORMANCE

BROAD MARKET UPDATE

TATA MUTUAL FUND



	Nifty 50	Sensex
FYTD	25.15%	21.63%
CYTD	-0.03%	0.68%
1 Year	23.01%	20.49%
1 Month	-0.03%	-0.68%

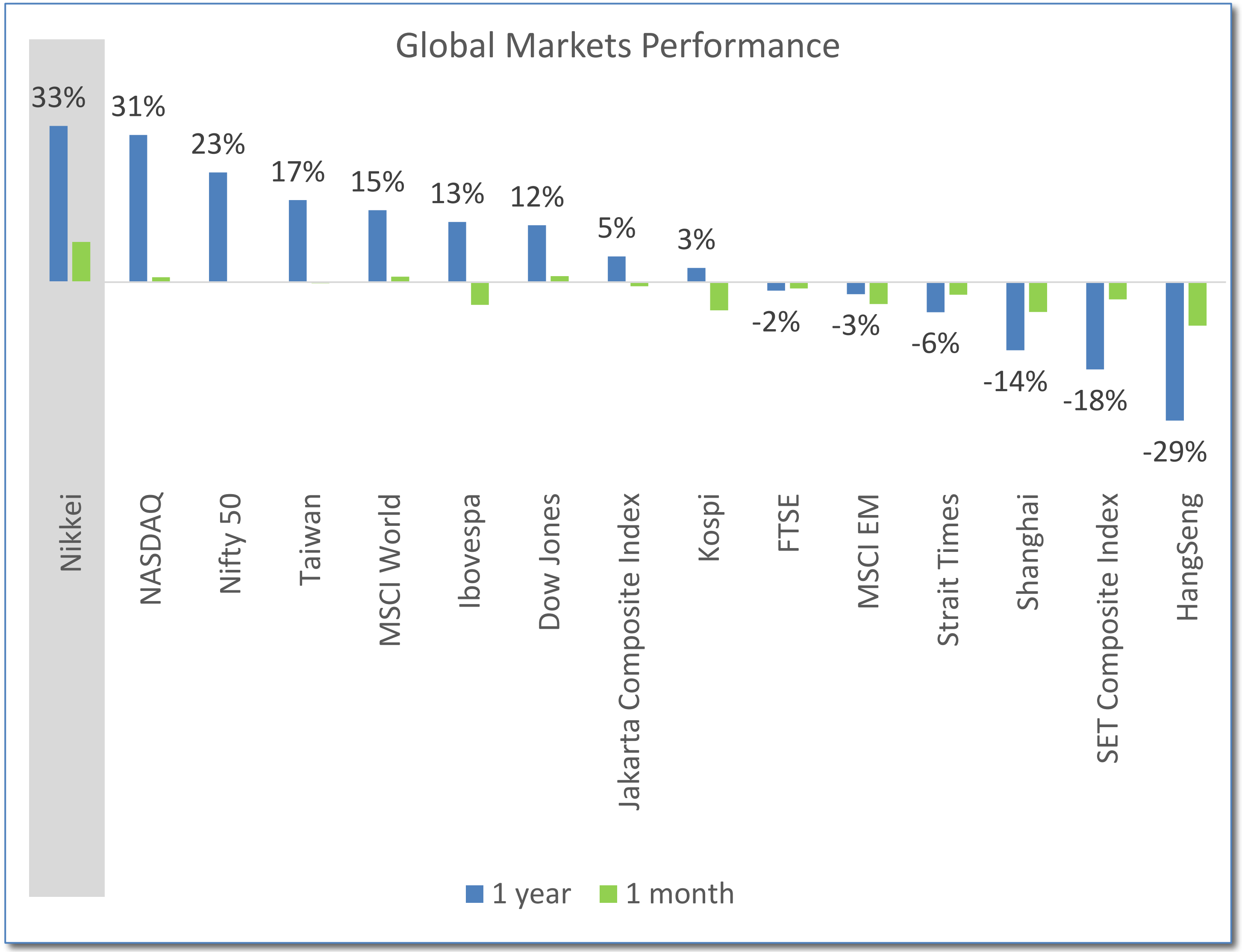
- Indian benchmark equity indices broke a two-month gaining streak on back of mixed corporate earnings results, profit booking and easing expectations of rate cuts by the US Fed, Nifty was flat in Jan 2024 (-0.03%) .

- Notably, the index was extremely volatile and swung around 860 points before closing 6 points lower.

SOURCE: Bloomberg

Data as on 31st Jan 2024

GLOBAL MARKETS PERFORMANCE

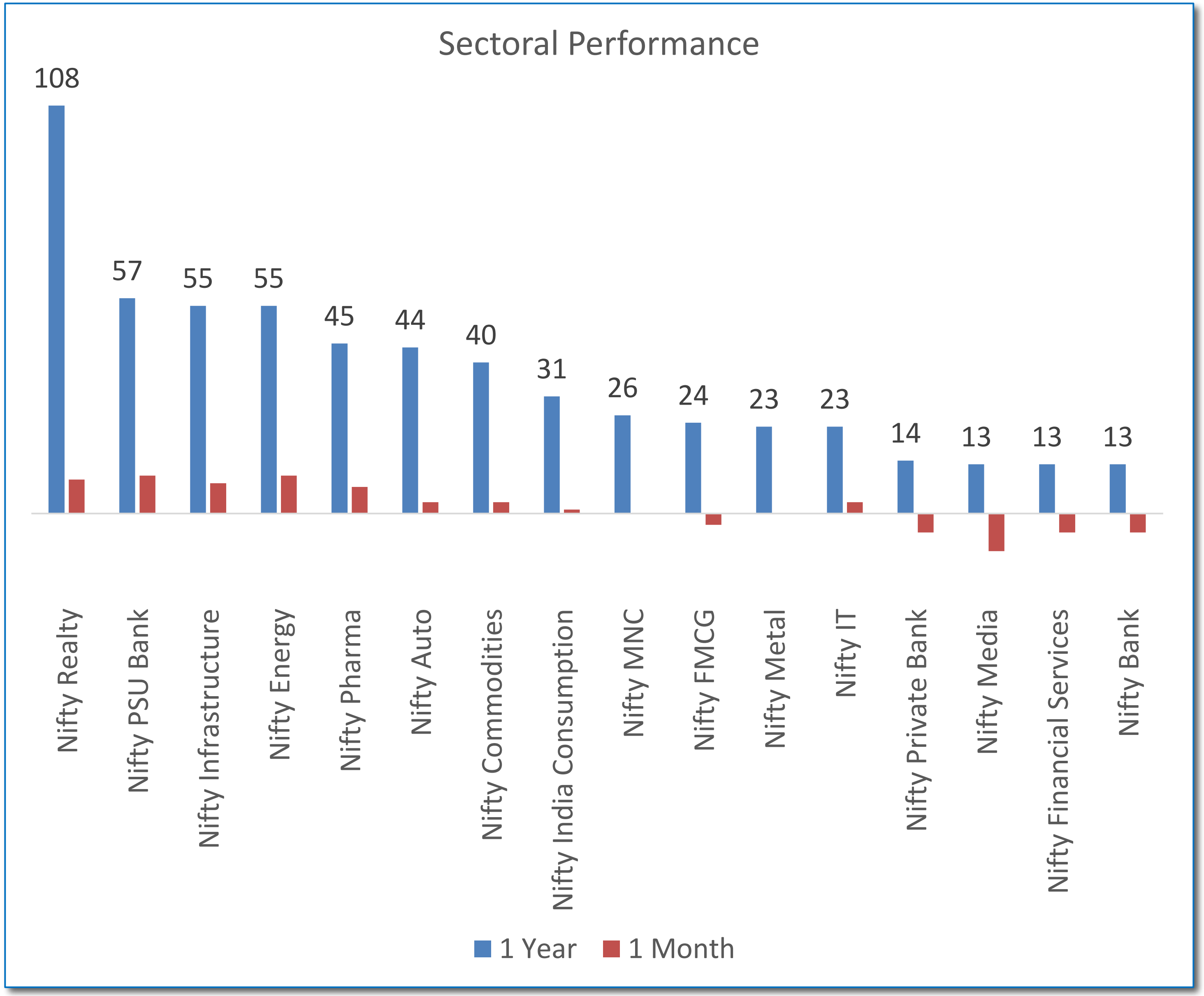


- Following the 'almost everything rally' that characterized the final quarter of 2023, performance was mixed in January 2024.
- Segments of risk assets were buoyed as economic data further fueled hopes for a 'soft landing'. This optimism was slightly tempered at the end of the month when the struck a less dovish tone at its January meeting.
- In China, the domestic economy continued to struggle, with weak retail sales and deterioration in housing activity. Although the PBOC announced a number of stimulus measures, they were insufficient to re-ignite activity.

SOURCE: Bloomberg

Data as on 31st Jan 2024

SECTORAL PERFORMANCE

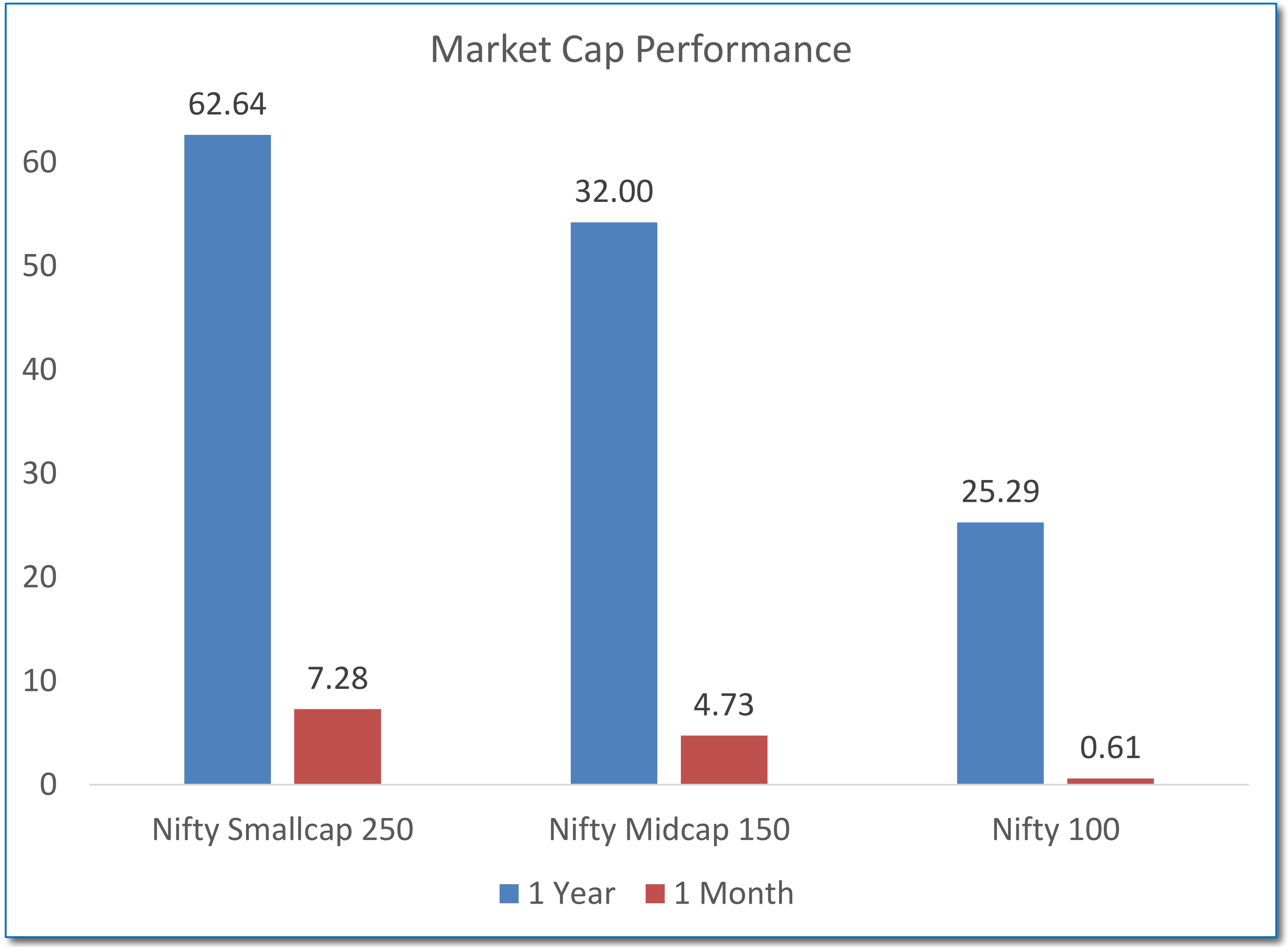


- All major sectors except media, private bank, bank, financial services, FMCG gained in Jan 2024.
- For the year ending Jan 24, Realty (108%) and PSU Bank (57%) made the highest gains while Bank (13%) was the lowest performer.

SOURCE: Bloomberg

Data as on 31st Jan 2024

MARKET CAP PERFORMANCE



- Mid-cap and small cap index continue to outperform the large cap index on both 1 month and 1 year period.

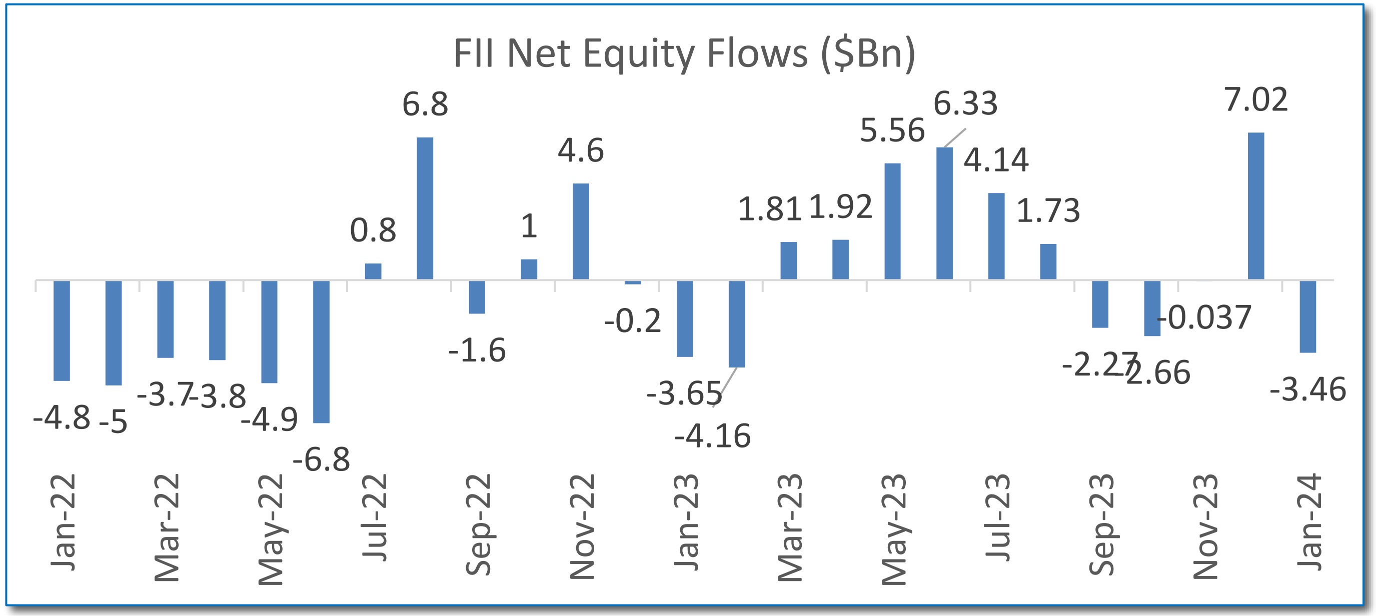
SOURCE: Bloomberg

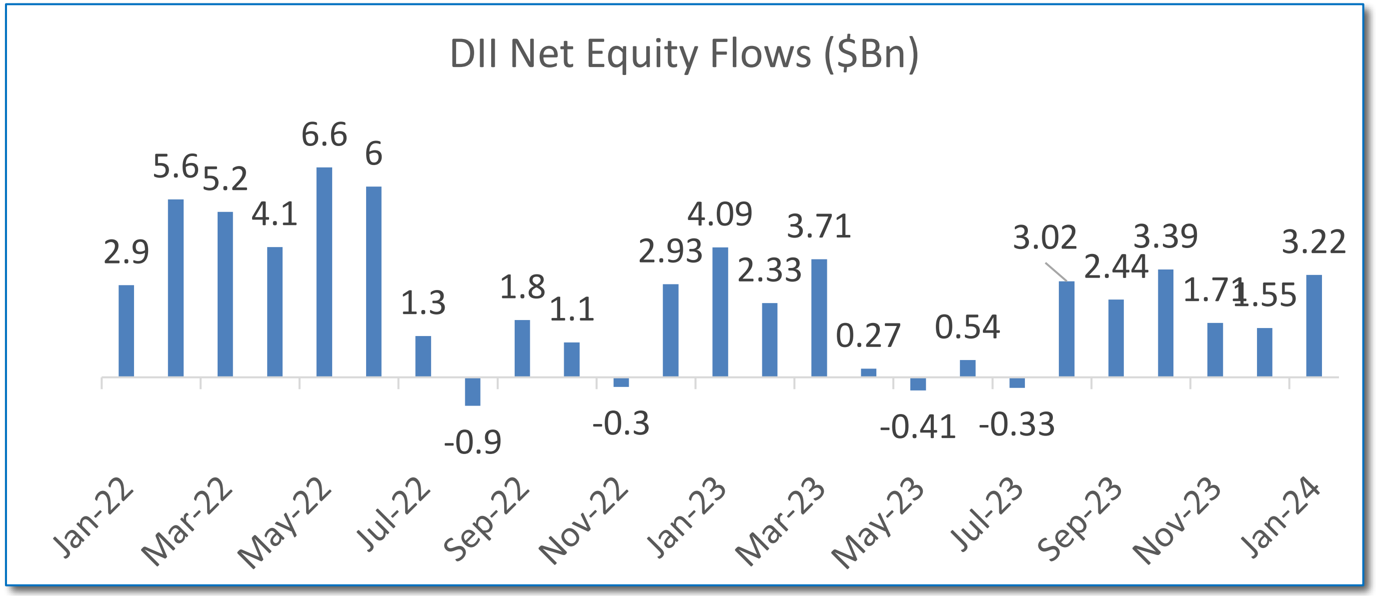
Data as on 31st Jan 2024

FLOWS

FLOWS

EQUITY FLOWS – FIIs & DIIs





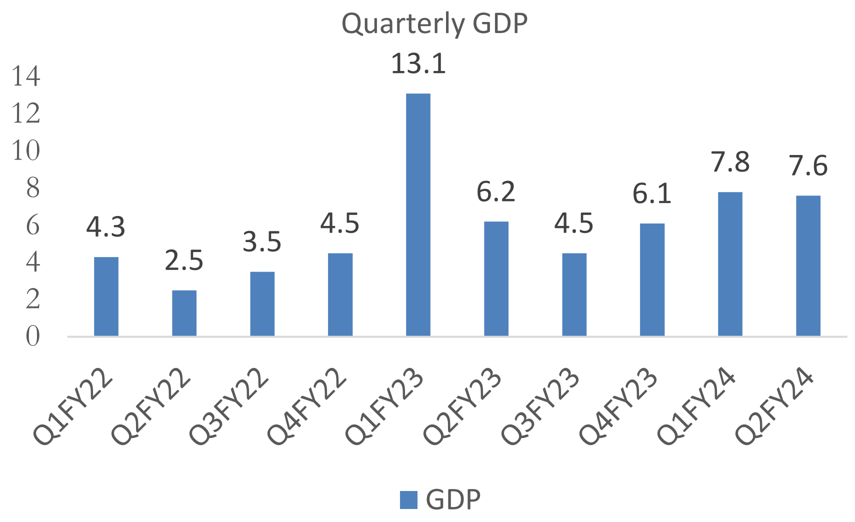
- Foreign institutional flows were negative in Jan 24.
- DIIs continued healthy inflows in sixth consecutive month.
- For FY23 the FII were net sellers with outflows of close to USD ~10 bn. While the DII inflows were robust at USD ~33 bn.
- For FY24TD, the FII flows is USD ~18.3 bn. And the DII flows is USD ~15.4 bn.

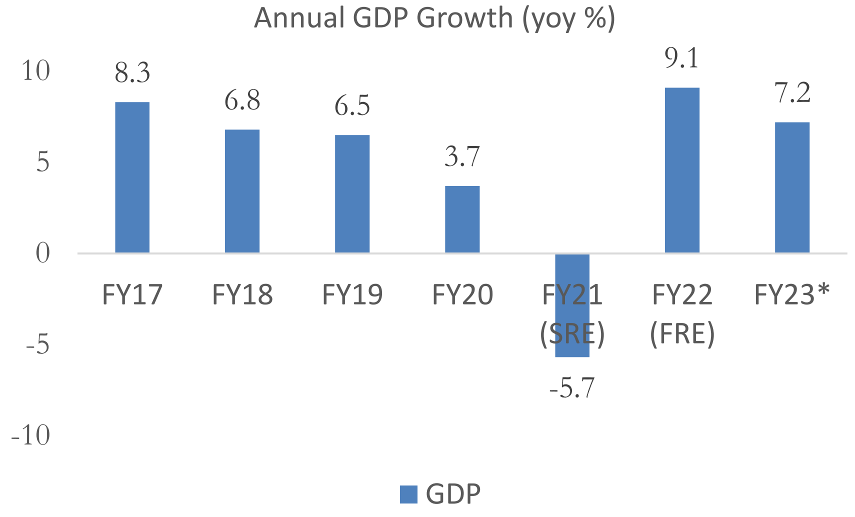
SOURCE: Bloomberg, J.P. Morgan

Data as on 31st Jan 2024

MACRO

GDP





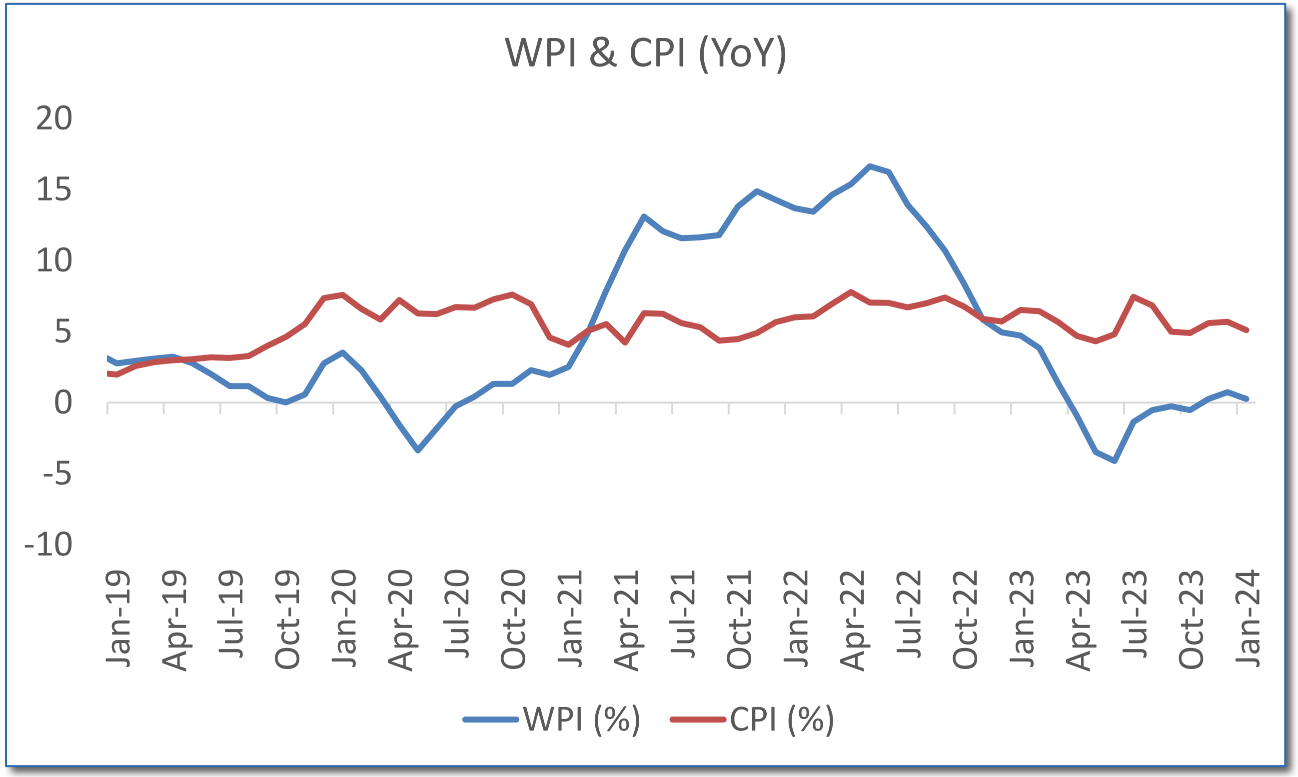
- 4QFY23 real GDP growth improved to 6.1% (3QFY23: 4.5%), led by investment (GFCF) growth at 8.9% and a sharp improvement in net exports. Private consumption growth remained weak at 2.8% (3QFY23: 2.2%).

- 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

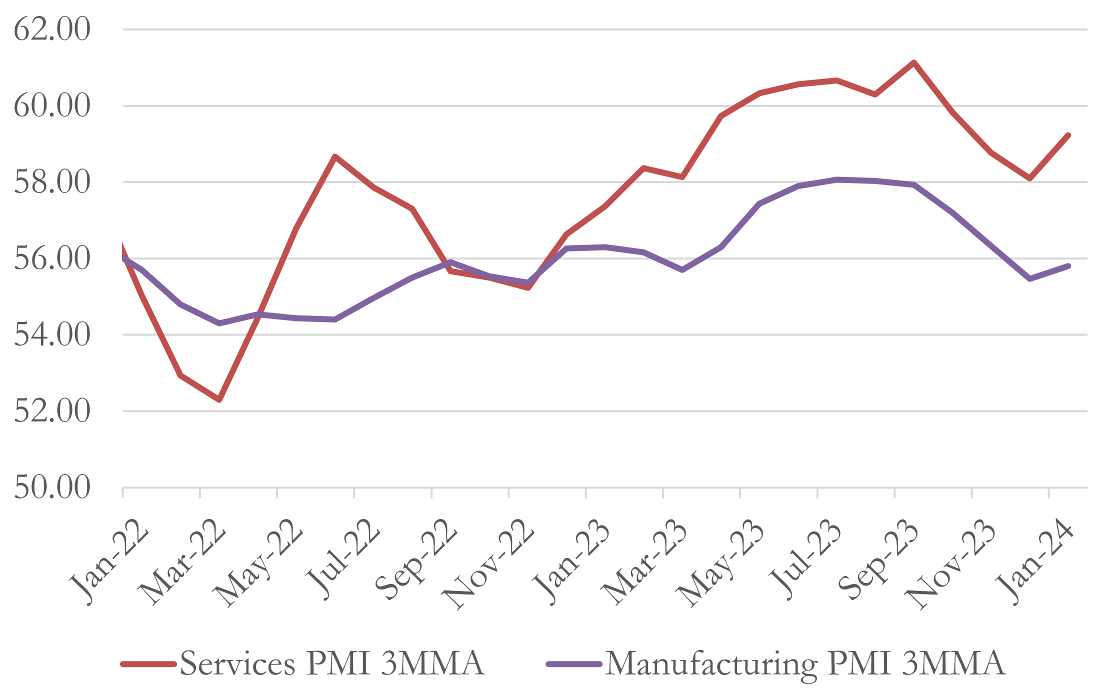


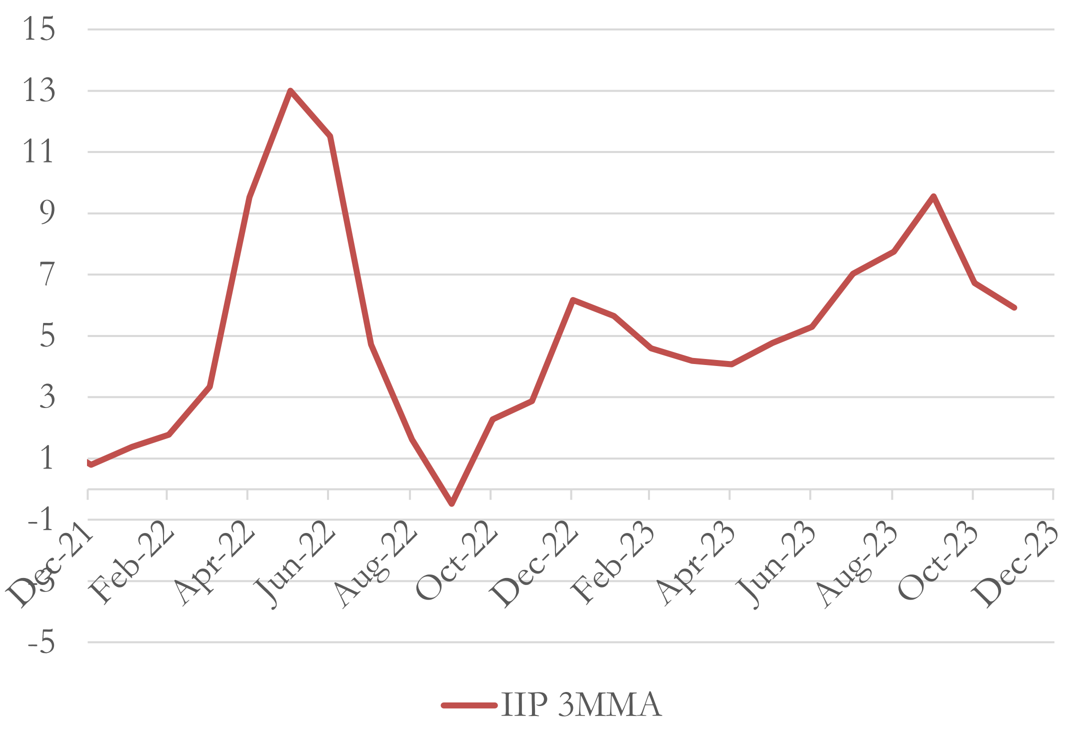
- India’s retail inflation which had been on an upward trajectory in the previous two months, reversed course in January 2024, moderating to 5.1% yoy (5.7% yoy in Dec 23), due to a favorable base and a gradual sequential easing, particularly in the food basket.
- The food and beverage inflation has eased from 8.7% in December to 7.6% in January on the back of a favorable base and sequential easing of prices of pulses, vegetables and fruits.
- India’s Wholesale price-based inflation was at 0.27% in Jan 24 (0.73% in Dec 23).
- The slower pace of wholesale price growth was attributed to decreased food prices and a dip in the prices of manufactured goods.

SOURCE: Bloomberg

Latest available data

PMI & IIP



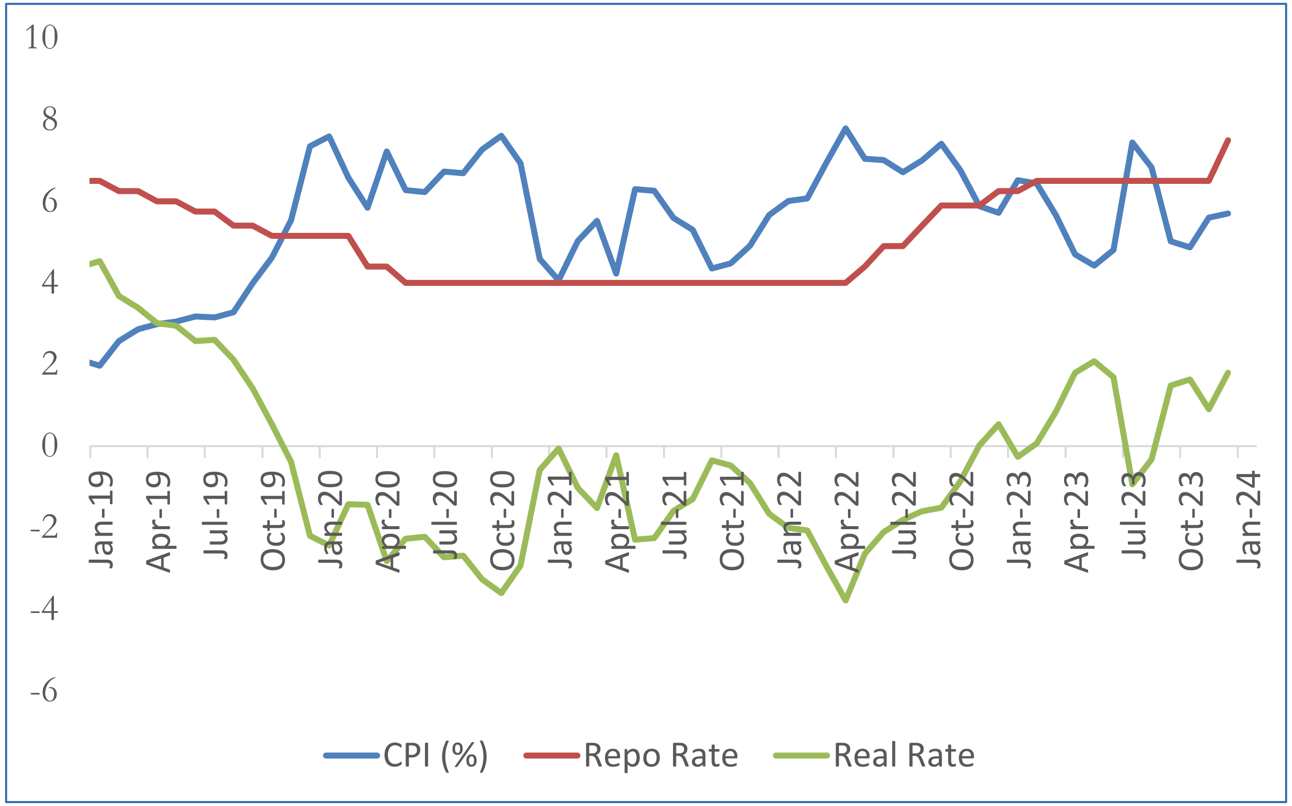


- India's manufacturing sector activity recovered to hit a four-month-high in January, with Manufacturing PMI rising to 56.5 (54.9 in December) driven by a sharp uptick in orders amid mild input cost inflation.
- India’s service sector activity inched up to a six month high in January (61.8 in January from 59 in December), driven by buoyancy in demand, productivity gains and rising intakes of new work.
- India’s industrial activity grew at 3.8% in December (2.4% in November). Manufacturing output, which accounts for 78 per cent of total production, advanced by 3.9 per cent, accelerating from a 1.2 per cent gain.

SOURCE: Bloomberg

Latest available data

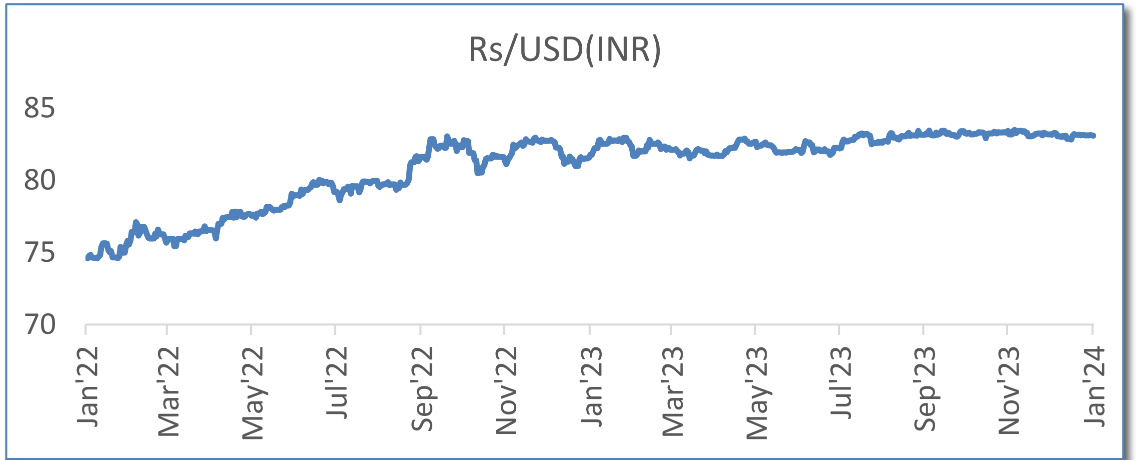
Real Rates

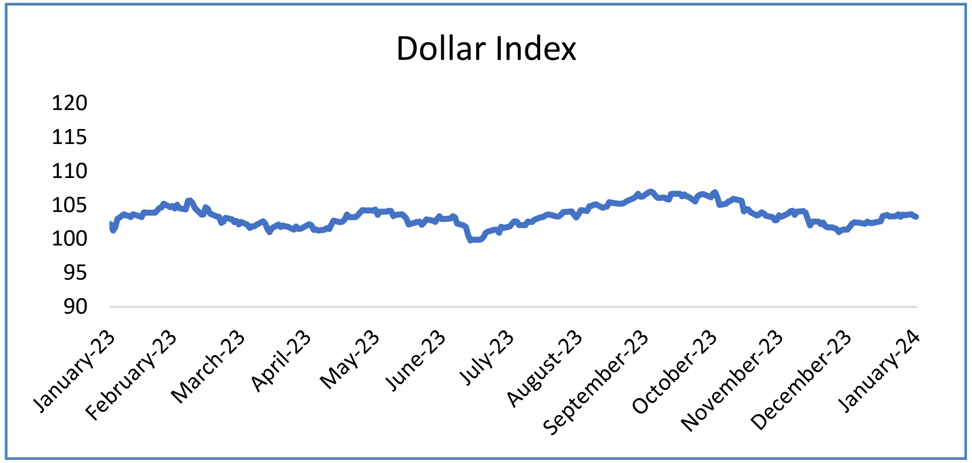


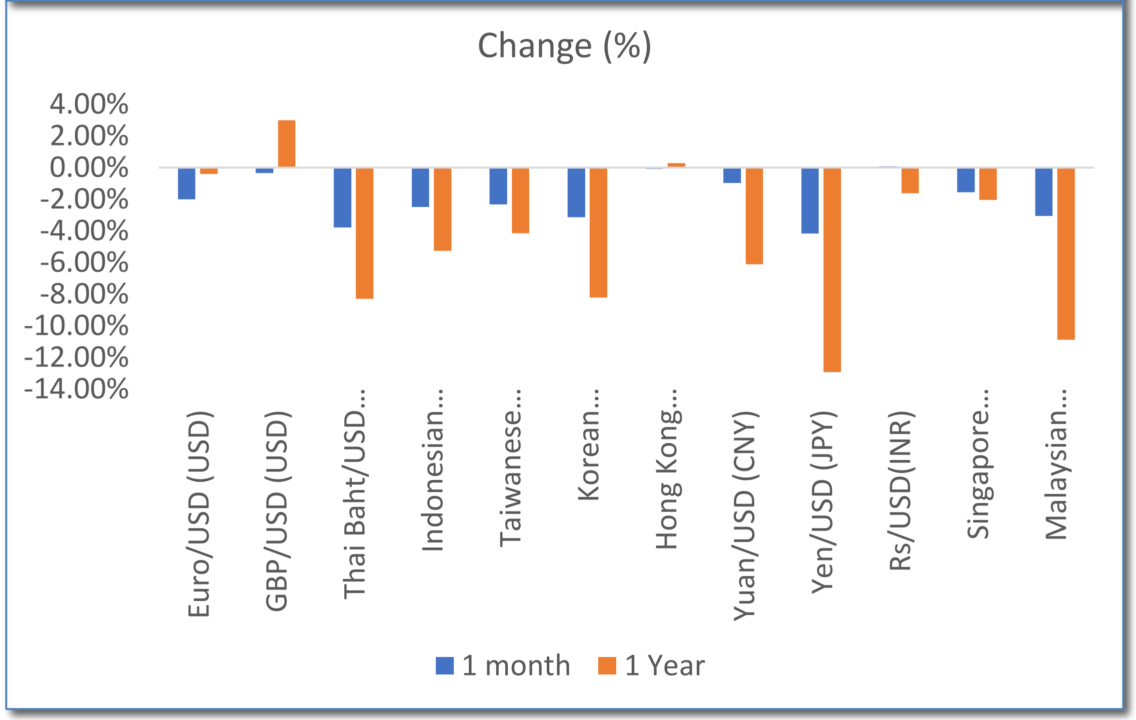
- In the Dec MPC RBI maintained a status quo on the repo rate keeping it unchanged at 6.5%. MPC decided with a 5 1 majority to maintain stance as withdrawal of accommodation
- The recent fall in inflation bought the real rates in positive territory.
- RBI revised its Real GDP forecast upwards at 7.3% for FY24 and projected the FY25 real GDP at 7.00%.
- RBI maintained the CPI projections for FY24 at 5.4% and projected the FY25 CPI at 4.50%.

SOURCE: Bloomberg

Latest available data







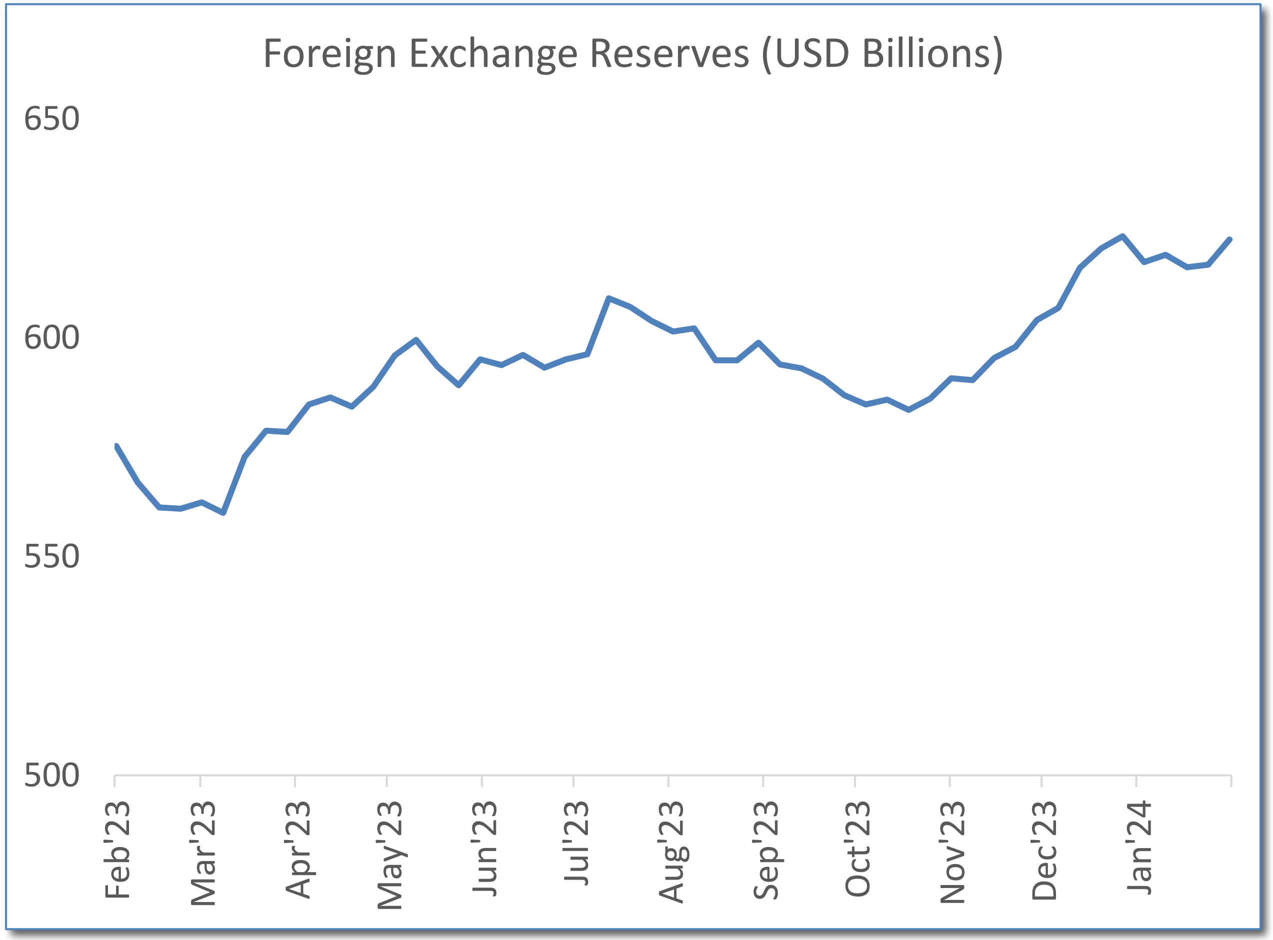
- Rupee continued to trade in a narrow range and volatility was confined to a range of 82.90 and 83.30 for the month despite broader strength on the dollar and as market participants remained cautious ahead of the interim Union Budget.

- RBI continued its FX intervention to reduce volatility in rupee.

SOURCE: Bloomberg

Data as on 31st Jan 2024

FOREX RESERVES

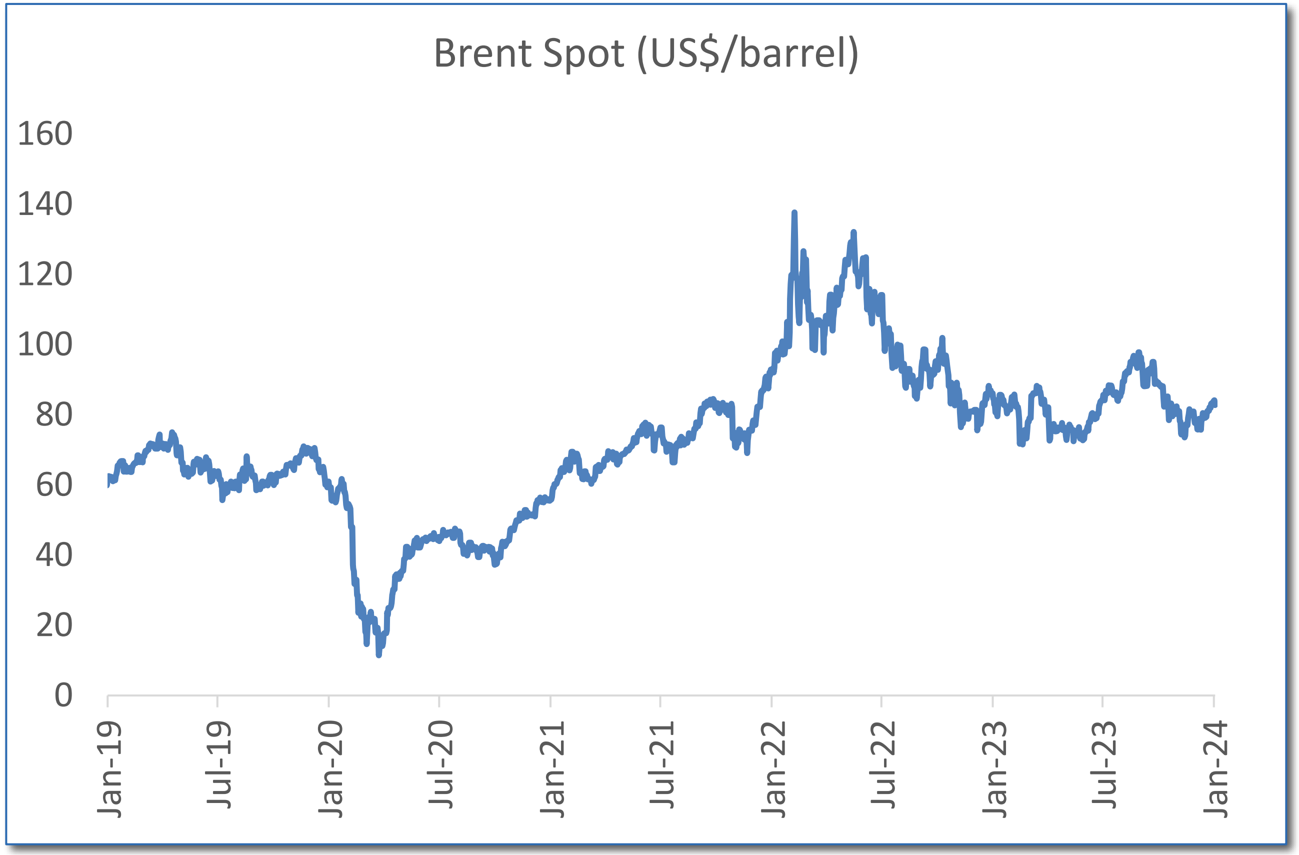


- Foreign exchange reserves fell to USD 617 bn in Feb 24 from USD 623 bn in Dec 23.
- The central bank intervenes in the spot and forwards markets to prevent runaway moves in the rupee.
- Apart from the central bank's intervention, changes in foreign currency assets, expressed in dollar terms, include the effects of appreciation or depreciation of other currencies held in the RBI's reserves.

SOURCE: Bloomberg

Data as on Jan 2024

CRUDE OIL



- Oil prices were very volatile for the month and traded between 76 – 84 USD/barrel before ending the month at 82.7 USD/barrel.
- Oil ended last month on a negative note as OPEC+ output cuts announced failed to dispel the market's gloom over swelling global supplies.
- Crude Oil prices started the month lower after Saudi Arabia slashed prices of its Asian crude exports to over two-year lows although escalation of the Israel-Hamas conflict continued to keep prices buoyed.

SOURCE: Bloomberg

Data as on 31st Jan 2024

INTEREST RATES

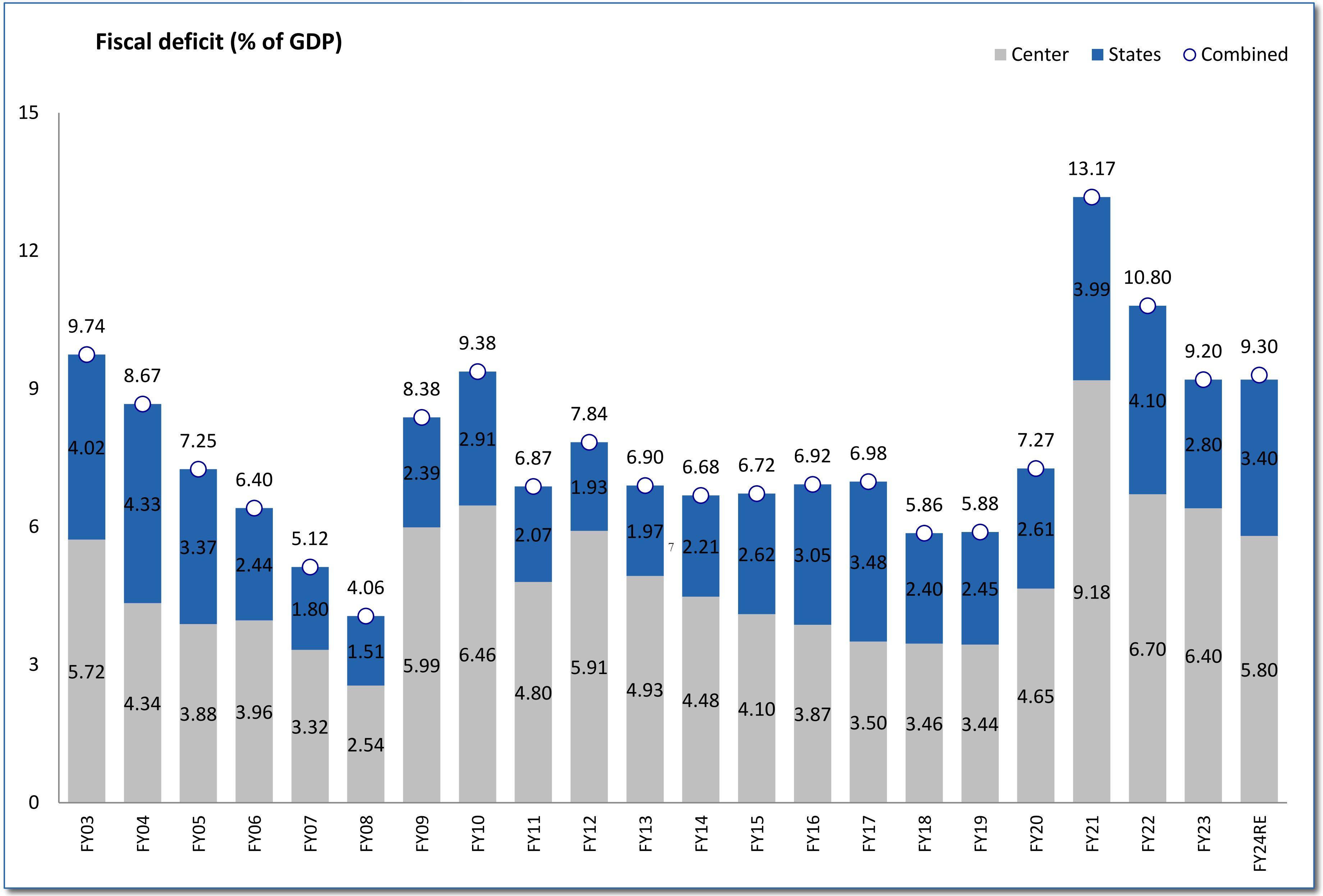
Country	Rate	Central Bank Rate	CPI YoY	Real Rates
US	Fed funds	5.38%	3.4%	1.98%
UK	Bank Rate	5.25%	4.0%	1.25%
Canada	Overnight	5.00%	3.40%	1.60%
Switzerland	Target Rate	1.75%	1.70%	0.05%
Eurozone	Deposit rate	4.00%	2.90%	1.10%
Japan	Policy rate	-0.10%	2.60%	-2.70%
Australia	Cash rate	4.35%	4.10%	0.25%
South Korea	Repo rate	3.50%	2.80%	0.70%
Taiwan	Discount rate	1.88%	1.80%	0.08%
China	Loan Prime rate	3.45%	-0.30%	3.75%
India	Repo rate	6.50%	5.70%	0.80%
Russia	Key Policy rate	16.00%	7.40%	8.60%

- Federal Open Market Committee (FOMC) in its Feb meeting, agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%.
- This was the fourth consecutive pause and the fifth in the Fed's current rate hike cycle after having raised rates for ten meetings in a row before taking a first pause in Jun followed by another 25-bps hike in Jul.
- The European Central Bank and Bank of England also kept their deposit rates unchanged.

SOURCE: Bloomberg

Data as on 11 Feb 2024

FISCAL DEFICIT



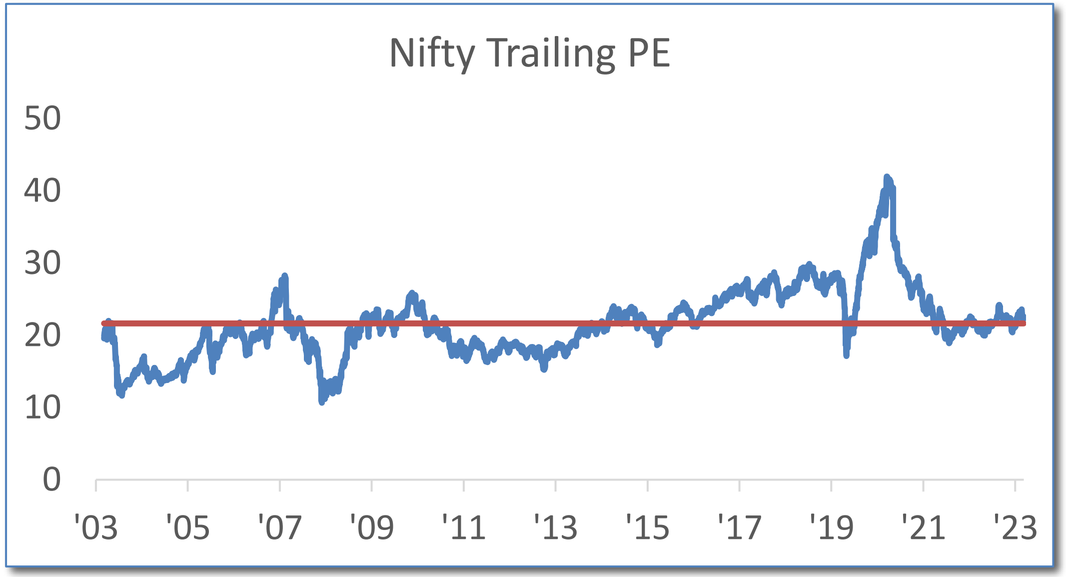
- The revised estimate or the budget deficit for FY23 was at 5.8% of GDP adjusted downwards from a budgeted estimate of 5.9% .
- The government reiterated its stated objective of bringing down the Fiscal to 4.5% of GDP by FY26.
- This budget takes a step in that direction with the proposed reduction of 70bps down to 5.1% of GDP for FY25.

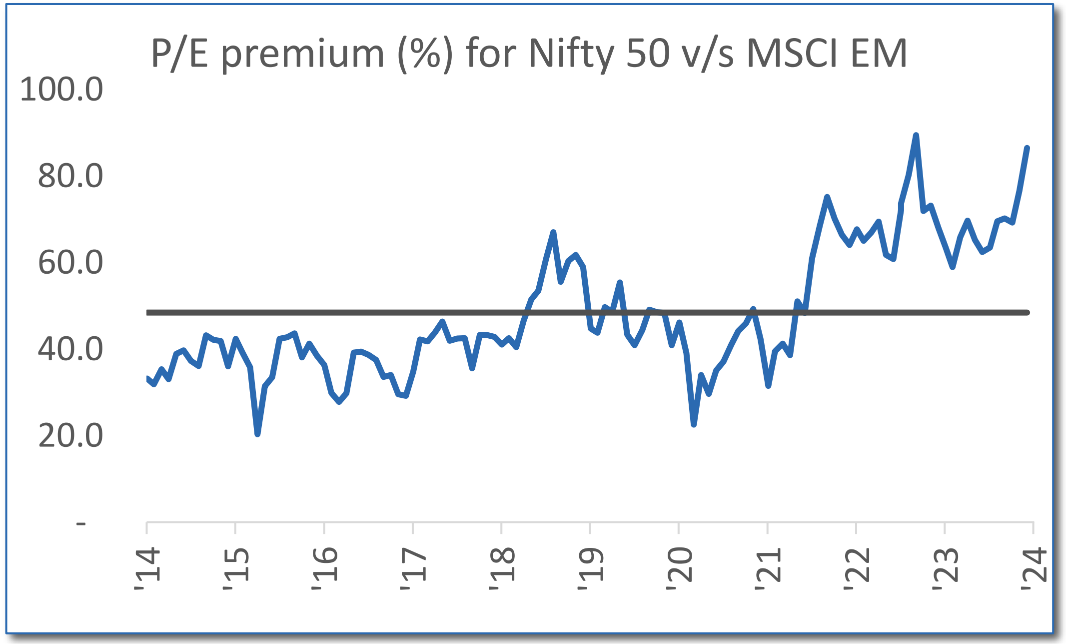
SOURCE: Bloomberg ; BE- Budgeted Estimate, RE – Revised Estimate

Latest available data

VALUATION

INDIA VALUATION VS EMERGING MARKETS



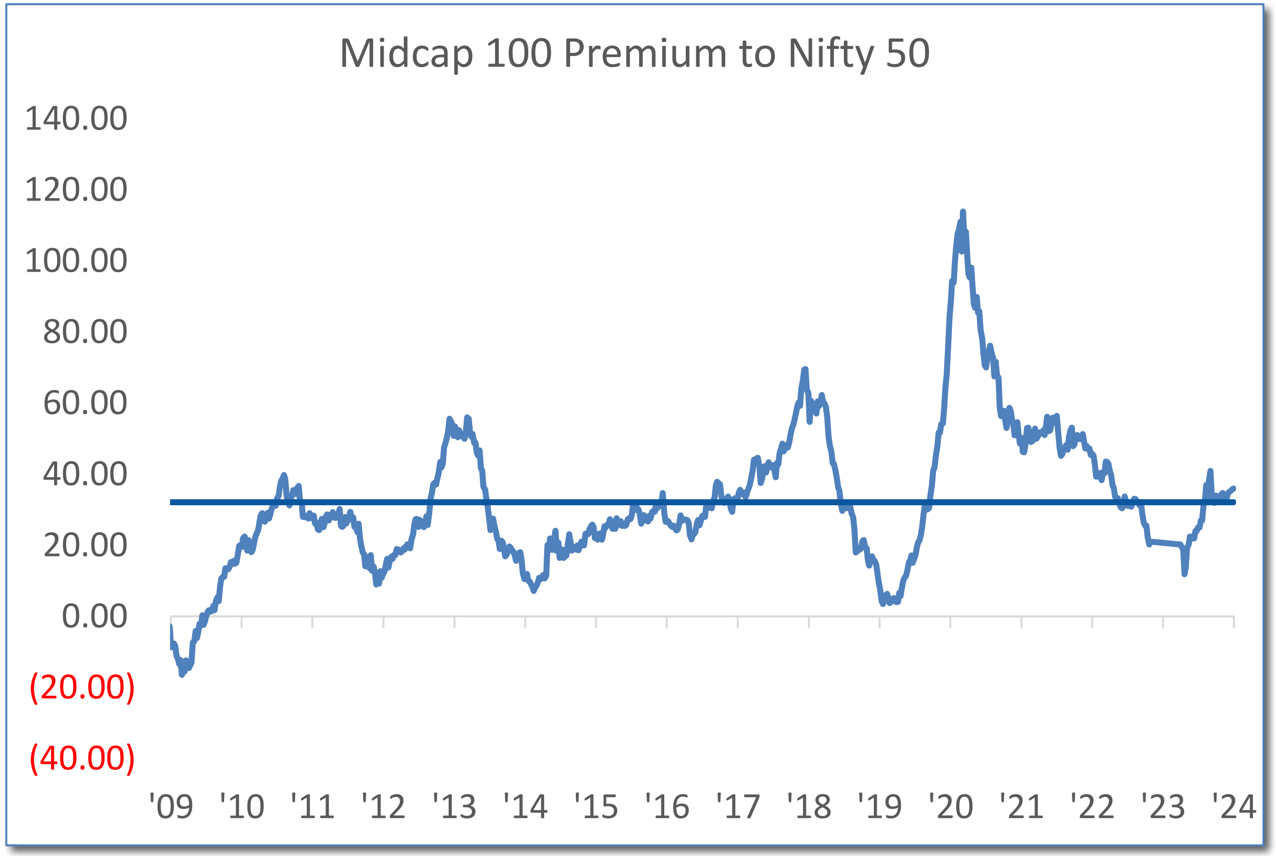


- 1-year forward PE stands at 20x, higher than the historical average.
- Expected earnings for FY24 is 15.0% and FY25 is at 15.8%
- Over the last 12 months, the Nifty 50 (23.01%) has outperformed the MSCI EM index (-2.55%).
- In P/E terms, the Nifty 50 is trading at ~80% premium to the MSCI EM index, above its historical average of ~49%.
- Stable macros, broad based earnings growth and robust banking/corporate sector health driving the premium. Risk from electoral event has reduced significantly
- Crude price remains a key risk but chances of escalation in the Middle East conflict seems to be contained

SOURCE: Bloomberg

Data as on 31st Jan 2024

MID CAP VALUATION



- The headline valuations for Nifty Midcap 100 has increased to ~35% premium but below the peak implying broader markets can remain supportive despite sharp outperformance vs. Nifty50.
- However, risk reward in large caps is more favorable now
- Broad-based economic recovery (investment cycle revival) would imply more investment opportunities in mid and small caps in the long term.

SOURCE: Motilal Oswal

Data as on 31st Jan 2024

THANK YOU