

EQUITY UPDATE

- Nifty was up ~1% in February 2024 after flattish January 2024.
- All sectoral indices ended positive, except for Fast-moving consumer goods (FMCG), which was down 2.2%. Oil & gas (+6.7%), auto (+6.4%) and realty (+6.3%) were the top gainers. The mid-cap. (-0.5%) and small-cap. (-0.3%) indices underperformed the Nifty Index.
- Most of the global markets ended positive. Shanghai (+8.1%), Japan (+7.9%) and Hong Kong (+6.6%) were the major gainers; US SPX and Nasdaq soared to a record high and were up 5.2% and 6.1% in February; the latest rally was propelled by investor optimism about artificial intelligence

Global Macros

- US Fed Reserve:** The minutes of the US Federal Open Market Committee (FOMC) meeting highlighted that members were not in a rush to start cutting interest rates. Expectations of fed rate cut has been cut by half for CY'24 with 150bps of rate cut expected at the start of the year to just 75bps currently.
- Bond yield:** The US 10-year bond yield increased from 3.88% (as on February 1, 2024) to 4.25% (on February 29, 2024) led by robust labor market prints and upside surprise to CPI inflation
- Crude:** Dated Brent crude spot price increased to US\$84.55/bbl as on February 29, 2024, from US\$78.90/bbl as on February 2, 2024 and future prices increased to US\$83.62/bbl as on February 29, 2024 from US\$78.70/bbl on February 1, 2024.

Domestic Macros

- GDP Growth:** GDP growth for 3QFY24 at 8.4% YoY was at a 6-qr high. There have been positive revisions to the 1H FY24 data as well. The strong GDP growth of 8.2% YoY in 9MFY24 was driven by capex (GFCF) growth of 10.2%. Construction was the fastest growing component, rising at 10.4% in the 9MFY24 period, corresponding well with the capex jump. Rural/agricultural growth remains benign, agriculture Gross value added (GVA) was -0.8% year on year for Q3FY24 which is a 19 quarter low.
- GST Collection:** GST collections for January 2024 (collected in February 2024) was at Rs 1.68 lakh crore, up by around 12.5% on an annual basis. With this, the monthly GST revenues has remained over Rs 1.5 lakh crore for 12 consecutive months.
- Credit Growth:** As per latest RBI data, system credit growth stood at 20.3% YoY (16.3% YoY excluding the impact of the HDFC-HDFC Bank merger) for the fortnight ended February 9, 2024.
- Inflation:** January 2024 Consumer Price Index inflation moderated to 5.1% - in line with expectations. Sequentially, headline inflation contracted by 0.1% (December 2023: (-)0.3%) led mainly by vegetables, followed by fruits, spices, pulses, and oils and fats. January 2024's Wholesale Price Index inflation moderated to 0.3% from 0.7% in December 2023
- Currency:** USD-INR came under pressure in the first part of February 2024 from rising US Dollar strength (amid robust macro data). USD-INR depreciated to Rs83.04/US\$ on February 15, 2024 (from Rs82.98/US\$ on February 1) before appreciating to Rs82.91/US\$ on February 29, 2024 aided by steady Foreign Portfolio Investment (FPI) inflows. Overall, the INR has appreciated by 0.2% in February 2024.

Regulatory, policy and market developments

- Equity trading trends:** Foreign Portfolio Investment (FPIs) sold US\$88 mn (until February 29) of Indian equities in the secondary market, whereas DIIs bought US\$3.1 bn (until February 29).

Nifty 3QFY24 Results – In-line driven by cyclicals

- The 3QFY24 corporate earnings ended on a strong note, with widespread outperformance across aggregates driven by continued margin tailwinds. Domestic cyclicals such as Autos and Financials, along with global cyclicals (i.e., Metals and O&G) drove the growth. Technology posted a marginal decline in earnings, its first in 26 quarters.
- Earnings for the Nifty-50 jumped 17% YoY during 3QFY24 and by 26% over 9MFY24. Excluding Oil Marketing Companies OMCs, Nifty reported 15/19% YoY earnings growth during 3QFY24/9MFY24 respectively

Sectoral Summary:

- Technology:** The IT Services companies exhibited a median revenue growth of 1.0% Quarter on quarter (QoQ) in CC. With continued weakness in key verticals and pressure on 4Q execution, the companies have either narrowed their revenue guidance band or expect to achieve the lower end of the range. Throughout 3QFY24, softness persisted in key verticals and geographies, with BFSI, Consumer, and Communications reporting muted growth.

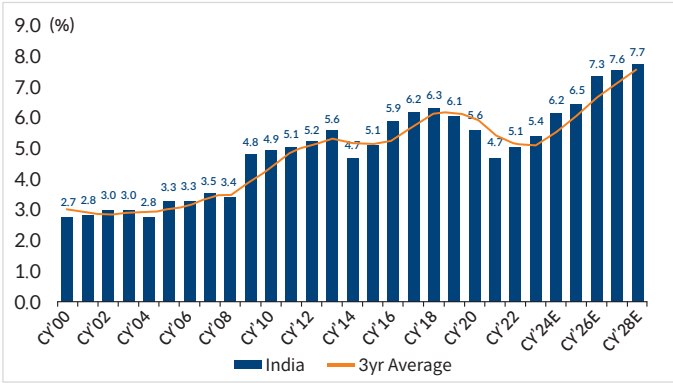
- Banks:** The banking sector exhibited a mixed performance in 3QFY24, characterized by healthy business growth, controlled provisions, persistent Net interest Margin (NIM) pressure, and high opex. Credit growth was primarily driven by retail growth. The corporate sector saw a gradual pickup, aided by Ministry of Micro, Small & Medium Enterprises. (MSME growth). Most of the banks witnessed stagnant or a slight dip in margins, barring select PSU banks.
- Autos:** In 3QFY24, Auto volumes (ex-tractors) grew 16% YoY (flat QoQ) led by a healthy recovery in 2Ws, stable growth across other segments, and a lower base due to the festive mismatch. 2Ws witnessed the sharpest growth of ~19% YoY during the quarter.
- Consumer:** The consumption trend and management commentary about rural recovery remained unchanged in 3Q. Local competition, a delayed rural recovery, and price cuts continued to hurt revenue performance during 9MFY24 (4% revenue growth). Volume growth improved a bit sequentially, but revenue growth was muted due to price cuts.

Outlook

- Election heavy 2024, advantage India:** Large part of the global economies will undergo elections in 2024 including India. However for India, likely continuity of incumbent will ensure continuation of supportive policy actions. For India, all the three elements of the capex cycle (Housing, Corporate Capex & Govt Capex) are now firing and hence the potential global slowdown should have limited impact on India. Over the medium term, we continue to remain constructive on equities and believe India is on the cusp of achieving robust growth over the next few years.
- Corporate earnings continue to remain strong:** Nifty earnings have risen at a 21% CAGR over FY20-24E, matching pace with the Nifty 50 index rising by 77% during the past 4 years. Earnings outlook is still robust for FY25/CY24 as rising corporate spending and strong bank balance sheets anchor earnings growth in mid-teen over the medium term. Compared with the other Emerging markets/major economies, India has shown more robust and consistent earnings performance. Visibility of India's cyclical upturn, full-blown capex cycle, robust demand and expected interest rate easing in 2HCY24 gives confidence in Indian companies to deliver healthy earnings growth next year
- Key things to watch out are:** (a) News flow on Indian elections, (b) Oil price trend, (c) rate trajectory by the central banks and (c) Russia-Ukraine & Middle-East war impact on global supply chain.
- Valuation and view:** Mid/small cap indices have outperformed the Nifty 50 by 30-50% in last 1 year and could be due to strong flows in funds focused on mid/small caps (at a cyclical high). On the other hand large cap stocks have seen outflows (flows are at a cyclical low). As a result, Mid/Small cap stocks are trading at a significant premium to large cap. Nifty 50 is at reasonable valuation of ~20x on FY25 earnings with good earnings growth outlook. In this context, currently large cap focused funds appear well placed.
- Recommendation:** Investors should invest based on their risk profile and continue allocating via SIPs. We prefer large-cap oriented funds and hence any fresh allocations can be made in diversified funds like large cap, Flexicap and Multicap. Hybrid funds, given their flexibility in asset allocation can also be made part of core portfolio. In thematic funds, financial sector is trading at attractive valuations and hence can invest in Banking, Financial Services and Insurance (BFSI) fund.

Chart of the month: Government has continued with its fiscal consolidation plan

India's contribution to World's GDP growth (Real)



Source: Jefferies, Data as on Feb 2024

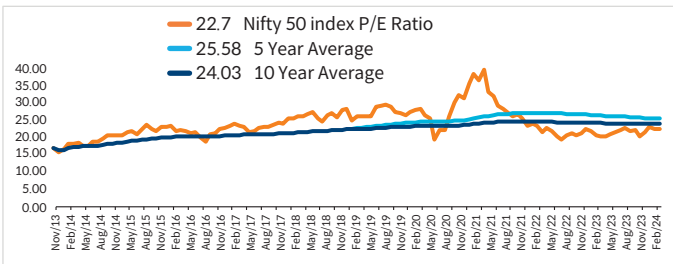
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Performance of Global and Regional Indices

Name	Performance (%)			
	1m	3m	6m	1Yr
Global and regional indices				
Brazil (Bovespa)	1.0%	1.3%	9.3%	2.0%
Shanghai (SHCOMP)	9.4%	0.6%	-8.5%	-0.1%
Germany (DAX)	4.6%	9.0%	9.5%	10.5%
Hong Kong - HSI	6.6%	-3.1%	-12.7%	-4.9%
Japan (Nikkei)	7.9%	17.0%	18.0%	17.2%
Korea (Kospi)	5.8%	4.2%	3.0%	4.8%
Russia (MOEX)	1.3%	2.9%	16.4%	1.9%
UK (FTSE)	0.0%	2.4%	1.3%	2.3%
US (Dow Jones)	2.2%	8.5%	13.3%	10.1%

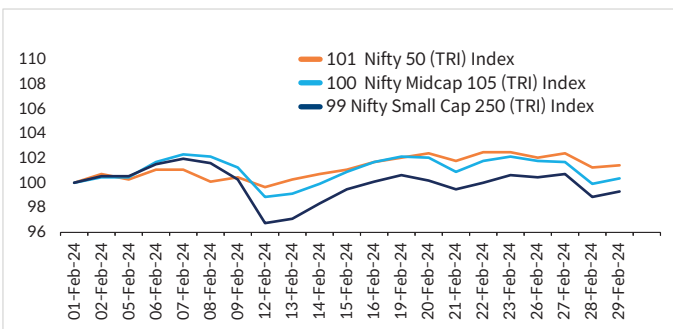
Source: Bloomberg Data as on 29th February, 2024

Nifty 50 Valuation Chart



Values as on 29th February, 2024

Index Movement Last Month



Values as on 29th February, 2024

High Frequency Indicators

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	
Industry																												
PMI manufacturing	55.5	54.0	54.9	55.9	54.7	54.6	53.9	56.4	56.2	55.1	57.8	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.5	56.9	
Credit growth (industry)	10.0	8.7	9.5	10.2	8.1	8.9	9.6	10.6	11.5	12.5	13.5	13.0	8.6	8.7	7.0	5.7	7.0	6.0	6.1	5.7	6.6	7.1	5.9	6.6	8.6	8.3		
Petroleum products consumption (industrials)	(8.0)	(0.6)	0.2	(3.4)	20.9	19.5	15.2	13.1	26.0	2.1	8.8	5.2	11.7	3.4	7.5	17.3	(8.8)	14.9	6.9	(1.3)	13.7	12.2	(2.9)	(2.0)	10.2	9.9		
Bitumen consumption	(8.6)	18.6	20.2	(1.0)	(3.1)	10.8	19.9	(21.6)	1.4	(10.9)	(11.0)	52.5	2.7	(18.2)	(9.2)	4.3	9.6	17.6	9.5	50.6	58.5	37.5	26.6	(19.6)	10.8	20.0		
Diesel consumption	1.7	(6.5)	(0.7)	6.7	7.8	31.7	23.9	8.1	13.1	13.4	5.6	19.2	6.6	12.7	7.4	1.1	8.6	12.7	3.1	3.8	5.2	3.8	9.3	(3.0)	(2.3)	3.4		
Core infrastructure	4.1	4.0	5.9	4.8	9.5	19.3	13.1	4.8	4.2	8.3	0.7	5.7	8.3	9.7	6.0	4.2	4.3	5.0	8.3	8.5	12.5	9.2	12.7	7.9	4.9	3.6		
IIP mining	2.6	3.0	4.6	3.9	8.4	11.2	7.8	(8.9)	(8.9)	5.2	2.6	8.7	10.1	9.0	4.6	6.8	5.1	6.4	7.6	10.7	12.3	11.5	13.1	7.0	5.1			
IIP manufacturing	0.6	1.9	0.2	1.4	5.6	23.7	12.9	3.1	(0.5)	2.0	(5.8)	6.7	3.6	4.5	5.3	1.2	5.2	5.8	3.1	5.0	9.3	4.9	10.2	1.2	3.9			
IIP electricity	2.8	0.9	4.5	6.1	11.8	23.5	16.4	2.3	1.4	11.6	1.2	12.7	10.4	12.7	8.2	(1.6)	(1.1)	0.9	4.2	8.0	15.3	9.9	20.4	5.8	1.2			
IIP coal	5.2	8.2	6.6	0.3	30.1	33.5	32.1	11.4	7.7	12.1	3.8	12.3	12.3	13.6	8.5	11.7	9.1	7.2	9.8	14.9	17.9	16.0	18.4	10.9	10.7	10.2		
Railways freight traffic	7.2	7.8	6.6	6.7	9.4	14.6	11.3	8.3	7.9	9.2	1.4	5.2	3.0	3.8	4.7	3.0	(0.6)	(2.1)	(7.6)	(3.5)	2.2	4.2	8.5	4.3	6.4	6.4		
Steel production	1.7	6.3	6.0	4.9	3.9	18.0	7.7	10.1	6.6	4.0	2.2	9.0	9.7	11.5	14.3	11.6	6.5	15.3	13.8	14.6	16.6	14.6	14.1	18.5	12.9	6.4		
Services																												
PMI services	55.5	51.5	51.8	53.6	57.9	58.9	59.2	55.5	57.2	54.3	55.1	56.4	58.5	57.2	59.4	57.8	62.0	61.2	58.5	62.3	40.1	61.0	58.4	56.9	59.0	61.2		
Credit growth (services)	12.9	8.5	9.0	11.5	11.4	12.9	12.9	16.7	17.3	20.0	22.5	21.3	19.4	21.4	20.7	19.8	21.7	21.4	26.7	23.6	24.8	25.0	23.6	25.4	22.9	23.9		
Airport passenger traffic	52.7	(16.8)	(1.3)	36.4	86.8	463.0	247.2	98.2	54.6	50.1	29.8	11.5	14.2	95.8	56.8	21.4	22.2	15.2	18.8	24.7	22.8	18.4	10.8	9.0	8.3	4.6		
Airport cargo	10.6	2.3	(2.2)	3.5	11.9	73.7	52.6	29.9	8.8	7.7	(1.9)	7.7	(1.3)	8.2	9.8	7.0	6.0	3.6	1.9	5.0	15.3	4.8	11.5	14.0	11.5	10.3		
Foreign tourist arrivals	250.8	128.1	130.7	167.6	422.1	2154.9	1416.7	823.4	465.9	376.9	243.2	191.3	204.2	330.8	259.4	132.5	53.7	41.3	24.0	13.6	22.6	17.5	19.8	16.8	7.8			
Demand																												
Credit growth (personal loans)	17.4	15.2	14.9	14.8	14.9	16.8	18.5	19.2	19.9	19.9	20.5	19.9	20.4	20.7	20.4	20.6	19.4	19.2	20.9	31.2	30.8	30.3	29.7	30.1	28.5	28.8		
Center's expenditure (net of interest payments)	20.1	25.5	6.6	(9.5)	18.5	28.3	(3.6)	(12.5)	5.1	27.8	67.3	25.5	(30.0)	22.5	(4.7)	9.6	9.7	5.0	22.0	121.6	7.1	(1.5)	(22.2)	(17.1)	9.3	(22.2)		
Fuel consumption (retail)	1.3	(4.3)	1.3	6.7	8.4	27.6	17.5	5.4	9.4	9.0	3.6	12.9	5.2	8.7	5.3	1.0	5.3	11.3	3.4	3.7	4.3	4.9	7.2	0.5	(0.9)	5.7		
Passenger vehicle sales	(13.3)	(8.1)	(6.5)	(3.9)	(3.8)	234.4	38.6	11.1	21.1	92.0	28.6	28.1	7.2	17.2	11.0	4.5	31.7	13.5	2.0	19.2	27.7	17.7	33.9	21.0	21.7	31.9		
Two wheeler sales	(10.8)	(21.1)	(27.3)	(20.9)	15.4	255.3	24.0	10.2	17.0	13.5	2.3	17.7	3.9	5.0	8.8	9.0	16.5	17.4	1.7	(7.2)	0.6	0.8	20.2	31.3	16.0	26.2		
Non-oil imports	31.6	23.3	26.6	8.6	14.6	51.6	44.5	34.0	25.0	16.0	0.5	4.8	(4.5)	(8.1)	(9.6)	0.1	(13.5)	(7.0)	(10.7)	(8.9)	2.0	(11.6)	13.8	(2.7)	3.4	2.4		

Notes: (a) Petroleum products consumption comprise naphtha, NGL, LDO, furnace oil, LSHS, etc. (b) Fuel consumption comprise LPG, kerosene, gasoline and diesel.

Source: CEIC, Kotak Institutional Equities

The above chart shows a heat map for various indicators from December 2021 to February 2024 where greener cells signify positive movement, and negative as it moves to red.

Source: Bloomberg. All the above data is as on 29th February, unless stated otherwise. Past Performance may or may not be sustained in future. The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund.

Past Performance May or May not sustain in future

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