TATA MUTUAL FUND

EQUITY OUTLOOK

December 2023

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

OUTLOOK

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

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Positive

Banks, Capital goods, Manufacturing

Pharma/Healthcare

Fundamentals

Neutral

IT, Rural Consumption

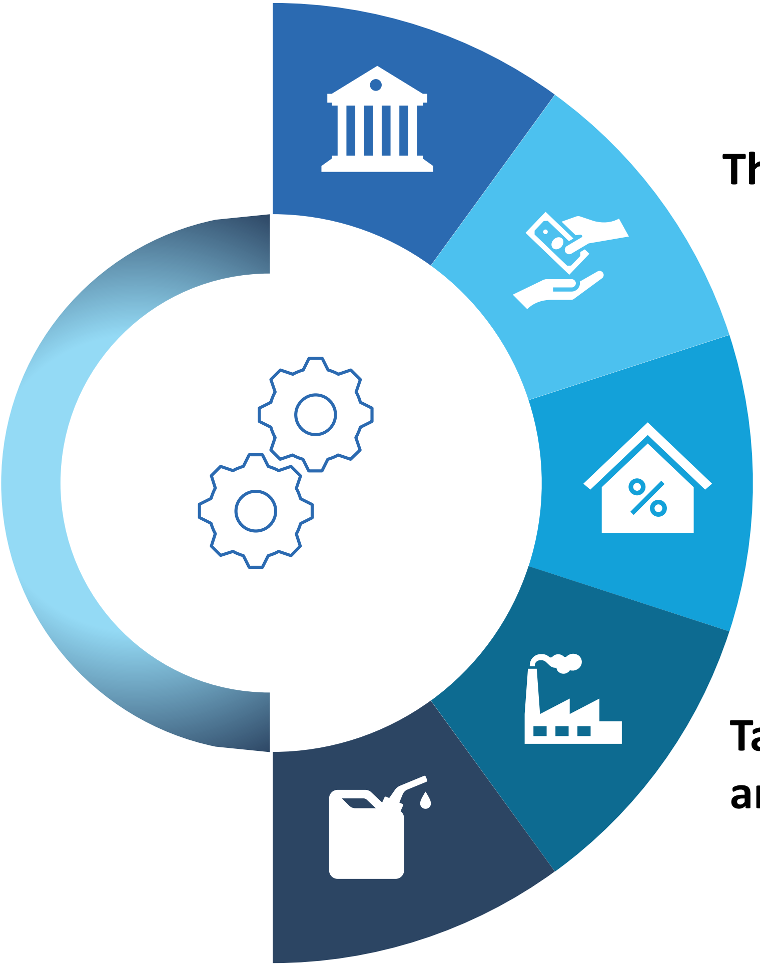
Urban consumption, Commodities

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

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

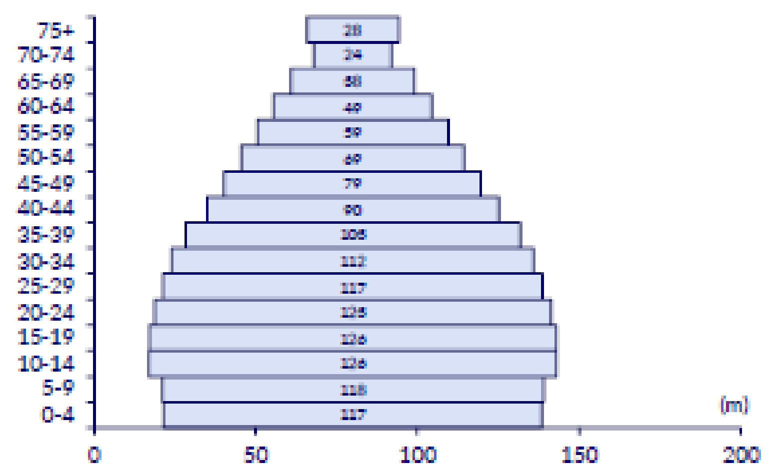
Based on Internal Views and subject to change

OUTLOOK

INDIA'S DEMOGRAPHIC DIVIDEND

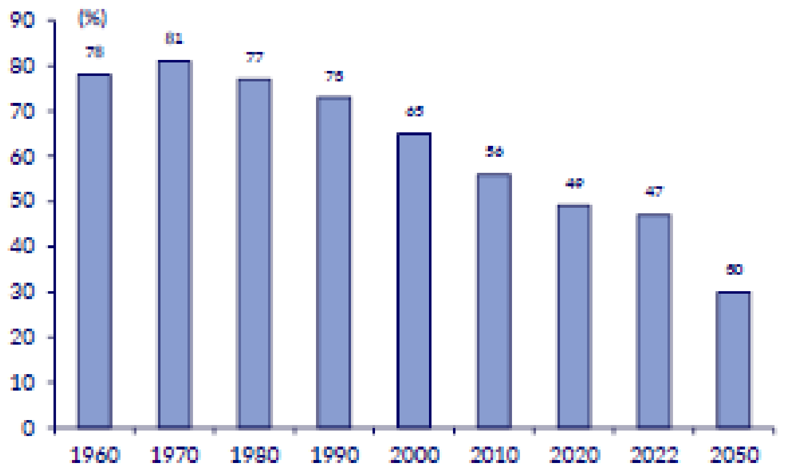
TATA MUTUAL FUND

India population pyramid - 2020



Source: UNDP, CLSA

India's dependency ratio

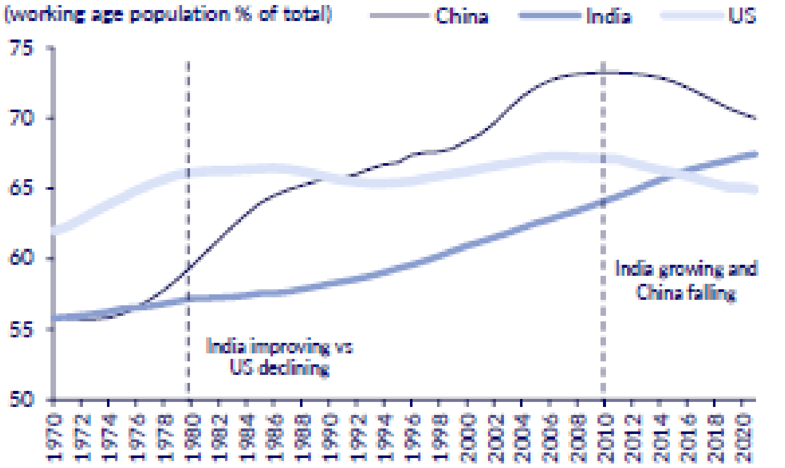


Source: World Bank, CLSA

Working age population projection for India

Source: UNDP, CLSA

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



Source: UNDP, CLSA

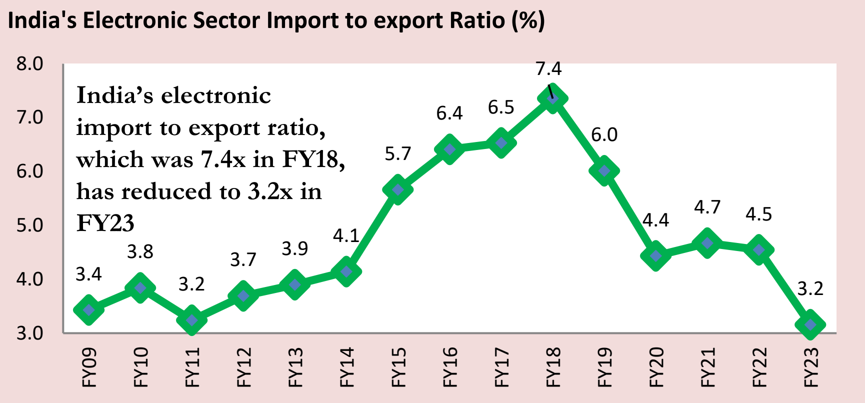
- India's dependency ratio (children and elderly population / total population) has consistently fallen from 73% in 1990 to 47% in 2022. It is expected to further fall to 30% in 2050.
- India's working population has been on a steady increase while US and China are facing a decline.

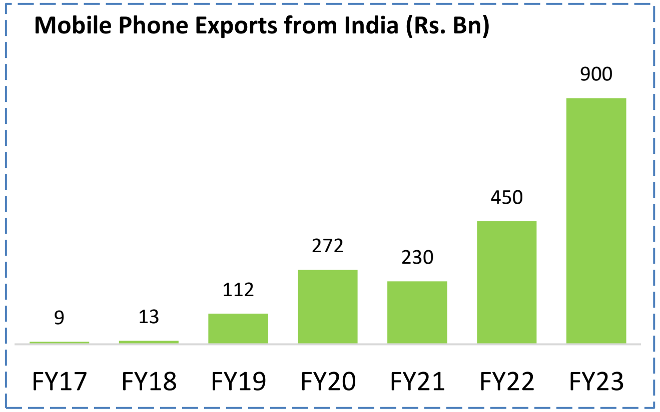
OUTLOOK

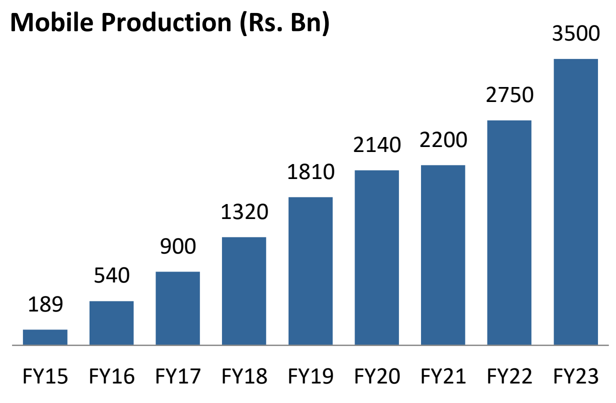
PLI scheme to drive Pvt. sector capex with twin goals of Make in India/create export champions

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**	

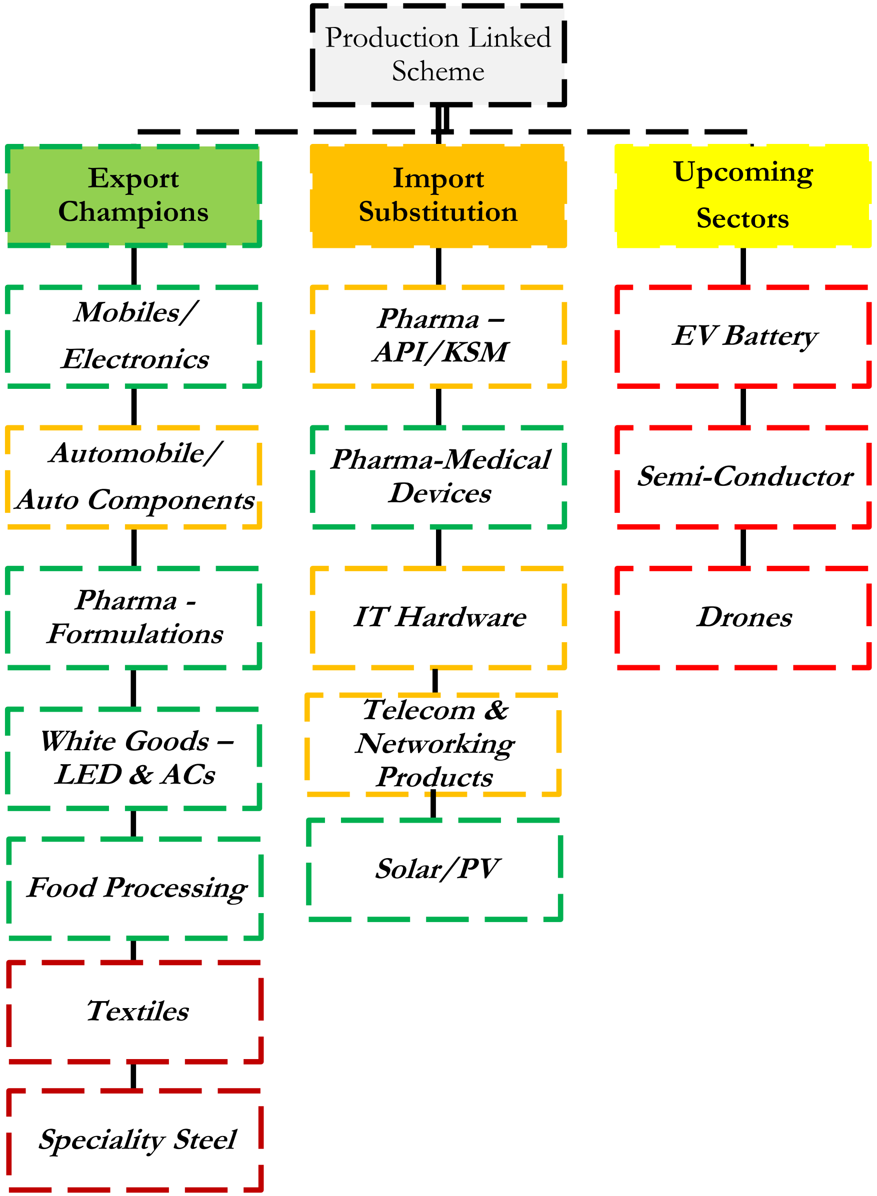






*Source: Sector PLI Gazette Notification, News Article, Avendus Spark Research, * current PIB notice has not mentioned the specific year, Dependency Ratio = Export/Imports*

Updates on Production-Linked Incentive Scheme



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

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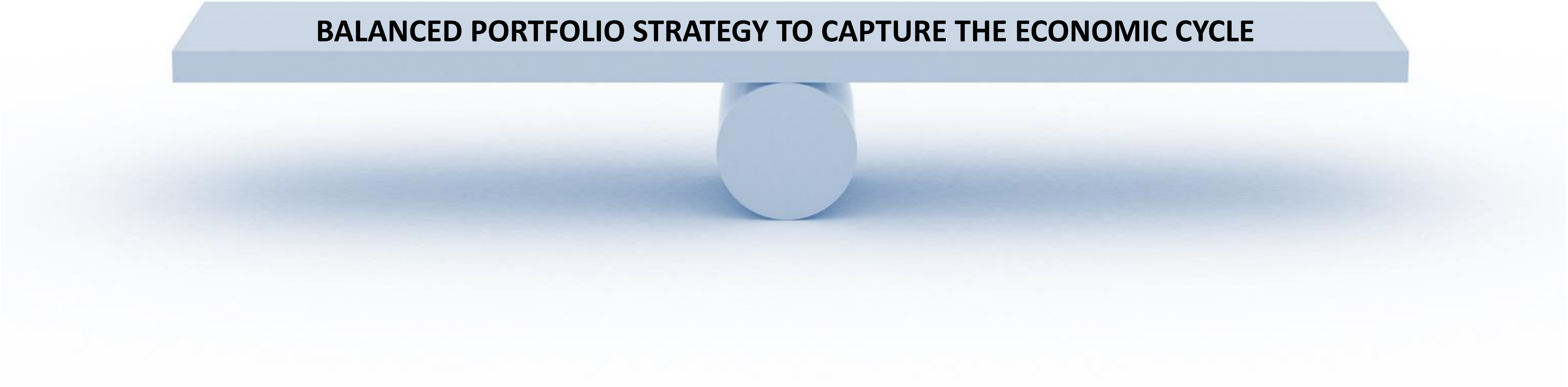
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
	Downcycle	Cycle Bottom / Early Recovery	Midcycle	Late Cycle	Downcycle	Cycle Bottom / Early Recovery
	1998-2002	2003 – 2005	2006 – 2008	2009 – 2012	2013 – 2020	2021 – 2024
	▪ Lower commodity prices ▪ NPA cycle was bottoming out; Banking system had excess 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 Financials (ROE normalisation), 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.
  - 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.

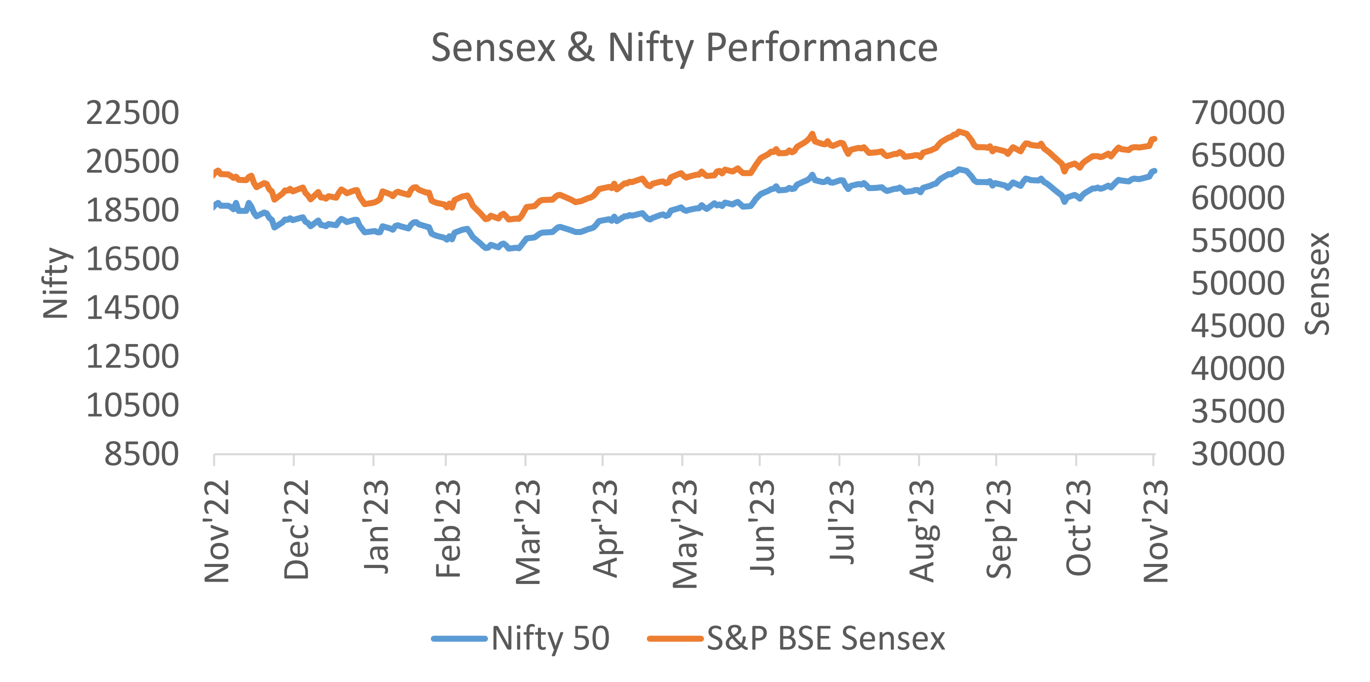
Domestic Macros Resilient

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	4.90
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.2	-2	-1.1
Fiscal Deficit (% of GDP)	4.5	4.1	3.9	3.5	3.5	3.4	4.6	9.3	6.7	6.4	6.4
Crude Oil (USD/Barrel)	107	53	39	60	58	65	23	59	111	80	81
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	597
GST collections (INR billion)							1222	1239	1421	1601	1679

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

MARKET PERFORMANCE

BROAD MARKET UPDATE



	Nifty 50	Sensex
FYTD	15.98%	13.56%
CYTD	11.20%	10.10%
1 Year	7.33%	6.16%
1 Month	5.52%	4.87%

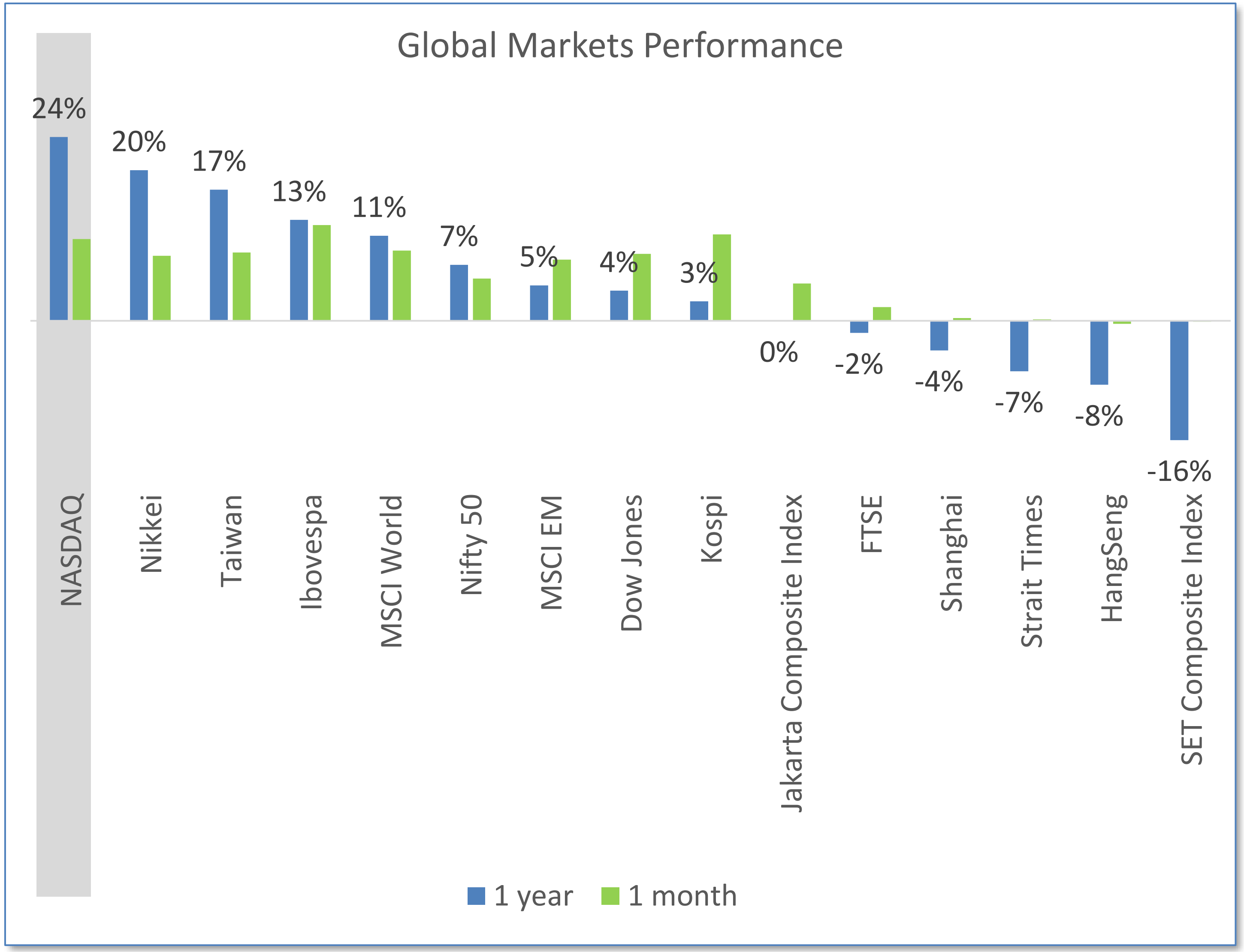
- The Nifty, after consolidating in October 2023, bounced back in November 2023 with a 5.5% MoM gain. Notably, the index was extremely volatile and swung around 1,185 points before closing 1,054 points higher.

- The global and domestic markets made a smart comeback as investors remained convinced that the US Federal Reserve was done with its rate-hike cycle, coupled with strong institution flows.

SOURCE: Bloomberg

Data as on 30th Nov 2023

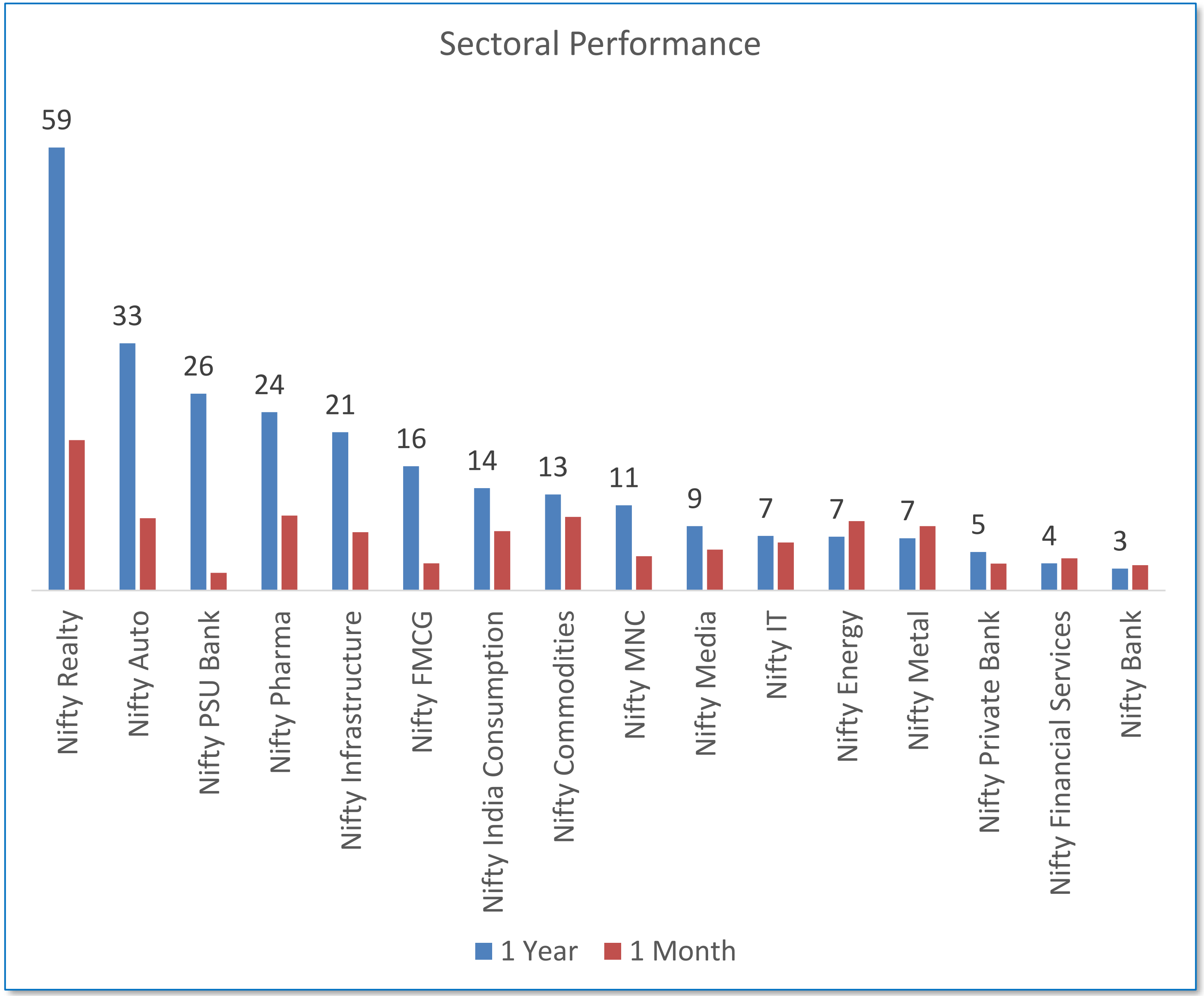
GLOBAL MARKETS PERFORMANCE



- Markets closed November in a positive mood thanks to tentative signs of economic moderation in the US and falling inflation across developed markets.
- Major stock indexes gained over the month, with the US's S&P 500 index rising the most (up 9.1%) and growth stocks – in particular the technology sector - outperforming their value counterparts globally.

SOURCE: Bloomberg

Data as on 30th Nov 2023

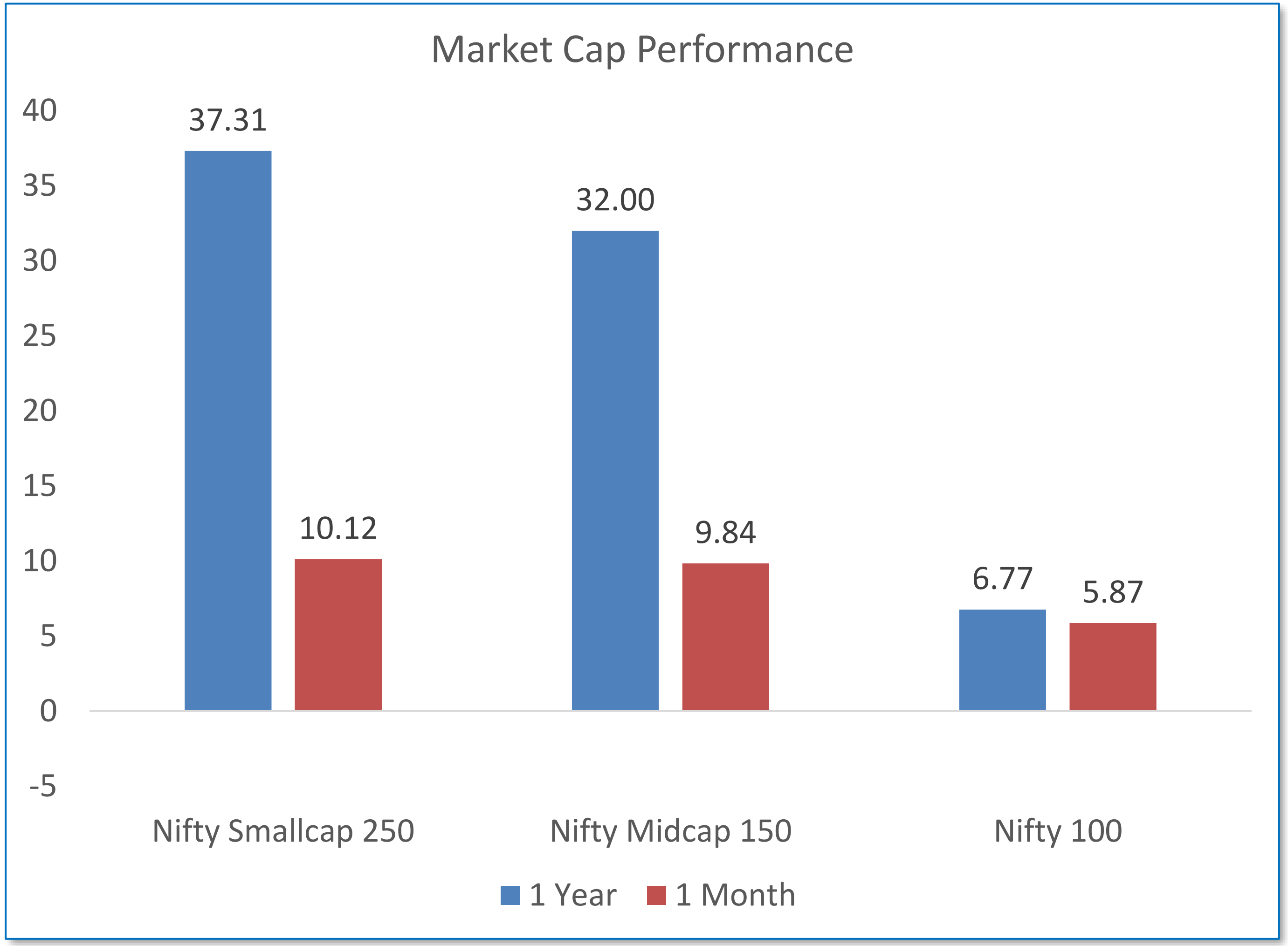


- All major sectors gained in Nov 23. Realty gained the most for the month.
- For the year ending Nov 23, Realty (59%) and Auto (33%) made the highest gains while Bank (3%) was the lowest performer.

SOURCE: Bloomberg

Data as on 30th Nov 2023

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

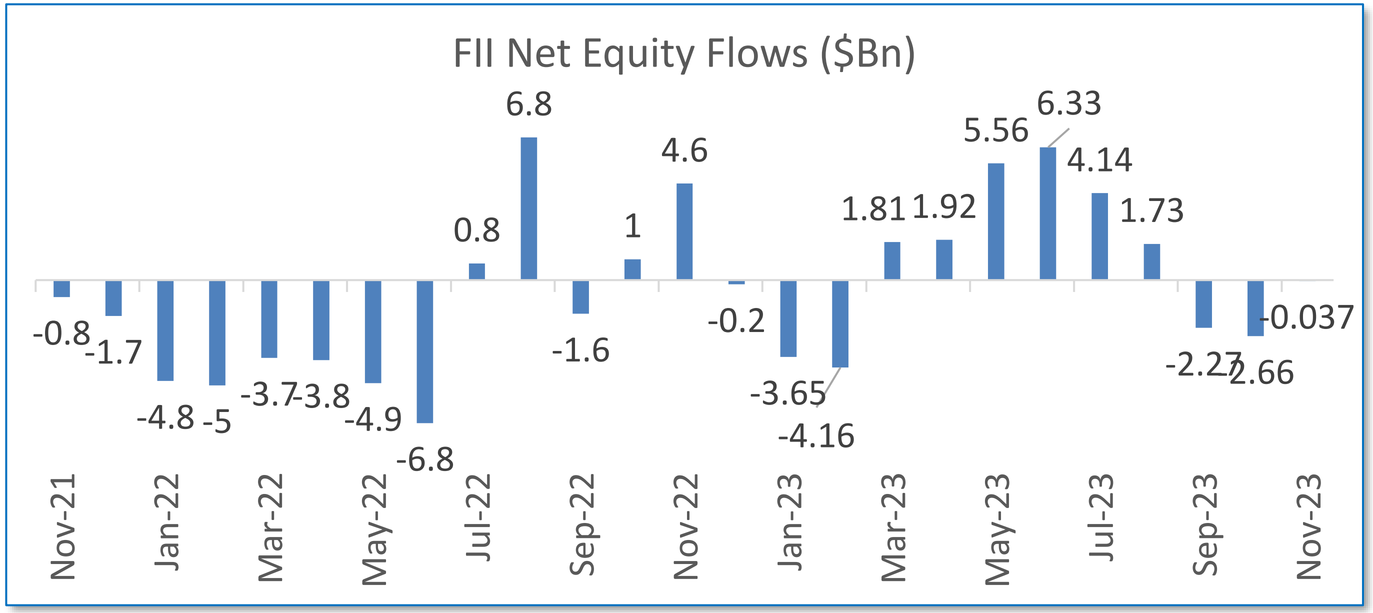
Data as on 30th Nov 2023

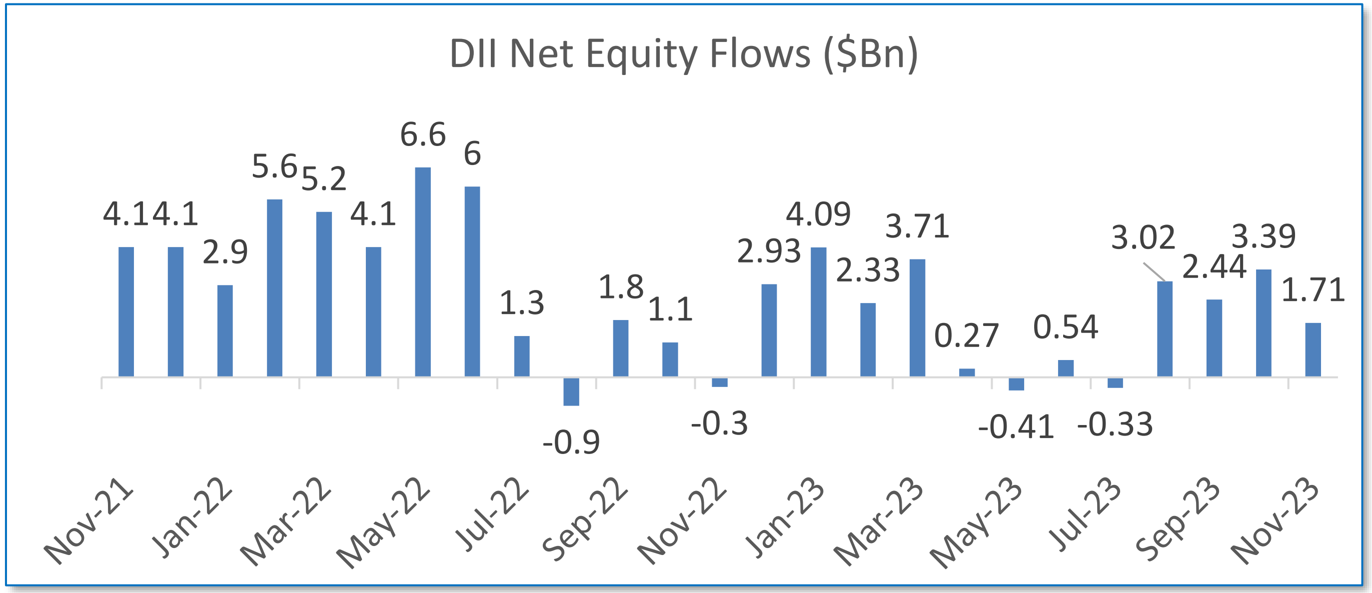
FLOWS

FLOWS

EQUITY FLOWS – FIIs & DIIs

TATA MUTUAL FUND





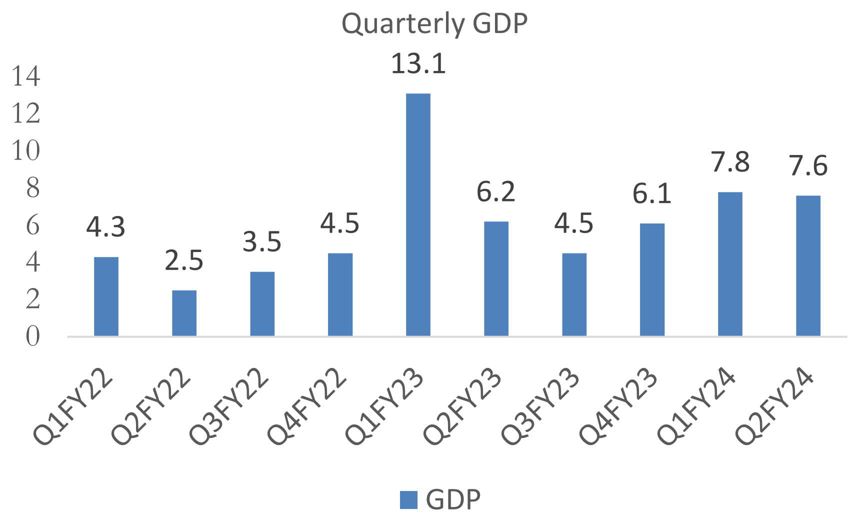
- Foreign institutional flows were marginally negative in Nov 23.
- DIIs continued healthy inflows in third consecutive month.
- For FY23 the FII were net sellers with outflows of close to USD ~10 bn. While the DII inflows were robust at USD ~33 bn.
- For FY24TD, the FII flows is USD ~14.7 bn. And the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

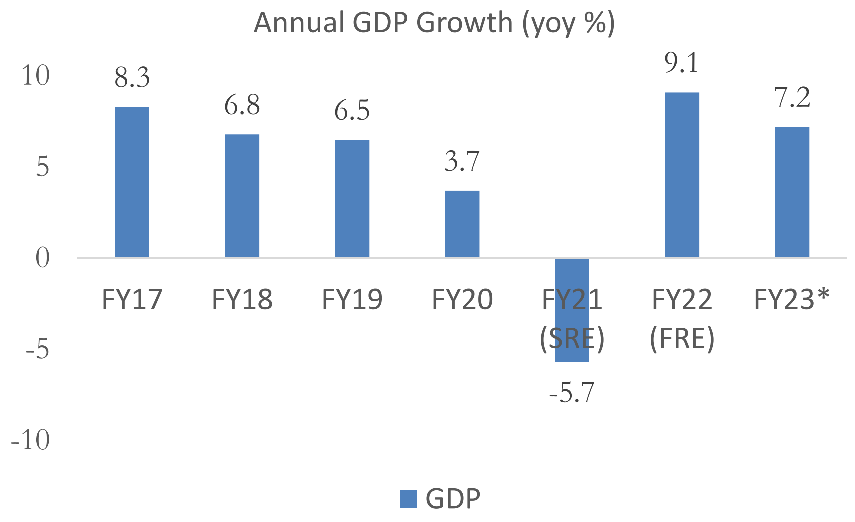
SOURCE: Bloomberg, J.P. Morgan

Data as on 30th Nov 2023

MACRO

GDP

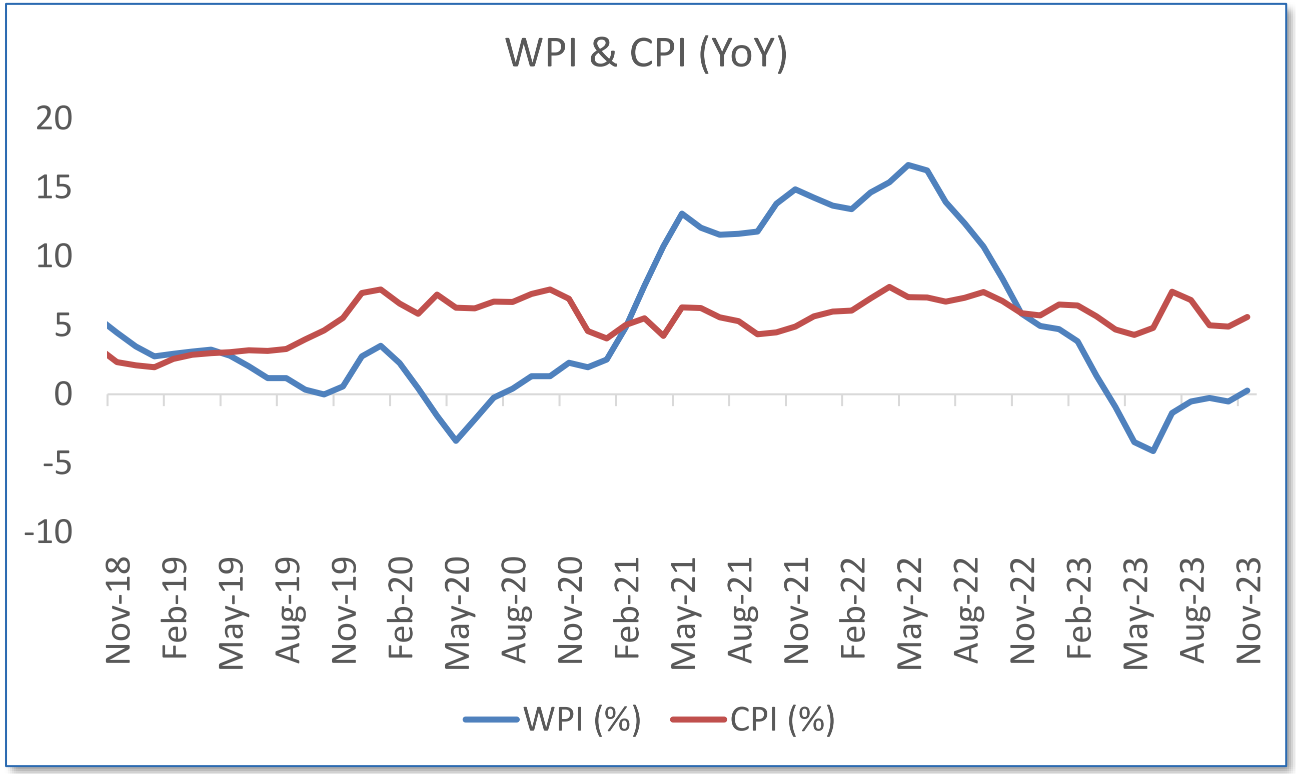




- India's economic maintained momentum in Q2FY24 to 7.6% (Q1FY24: 7.8), mainly driven by investments and government consumption. This was supported by higher capital expenditure at both the Central and state government level.
- Private consumption growth faltered in Q2 to 3.1% from 6.0% growth in Q1 FY24.
- Services sector growth in Q2 moderated to 5.8% from 10.3% a quarter ago partly due to base effect and dilution in discretionary demand.
- The agriculture sector expanded at a slower pace of 1.2% in Q2FY24 compared with 3.5% a quarter ago.
- The industrial sector picked up momentum with manufacturing and construction activities witnessing significant acceleration. The sector grew by 13.2%, up from 5.5% growth a quarter ago..

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

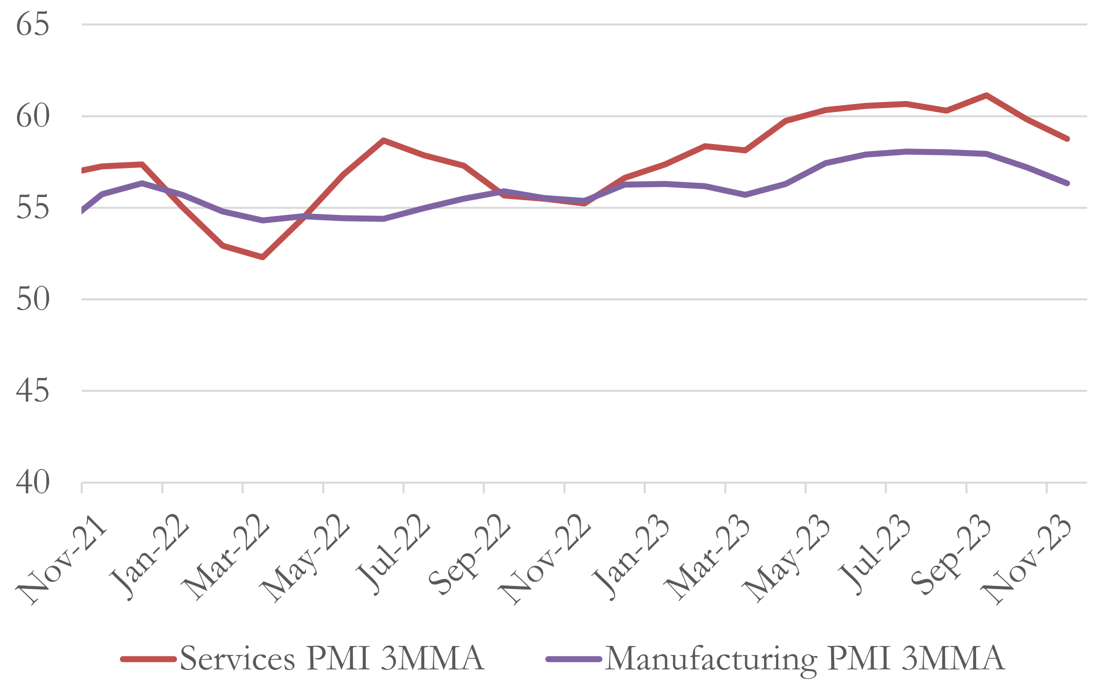


- India's retail inflation rose to 5.6%yoy in Nov 23 from 4.9% yoy in Oct 23 primarily due to spike in agri inflation.
- Food and beverages inflation increased sharply to 8% from 6.3% in October.
- The fuel and light category continued in deflation for the third consecutive month (-0.8% in November).
- India's Wholesale price-based inflation increased by 0.26 per cent in November compared to (-0.52) per cent in October.
- ositive rate of inflation in November 2023 is primarily due to increase in prices of food articles, minerals, machinery & equipment, computer, electronics & optical products, motor vehicles, other transport equipment and other manufacturing etc.

SOURCE: Bloomberg

Latest available data

PMI & IIP

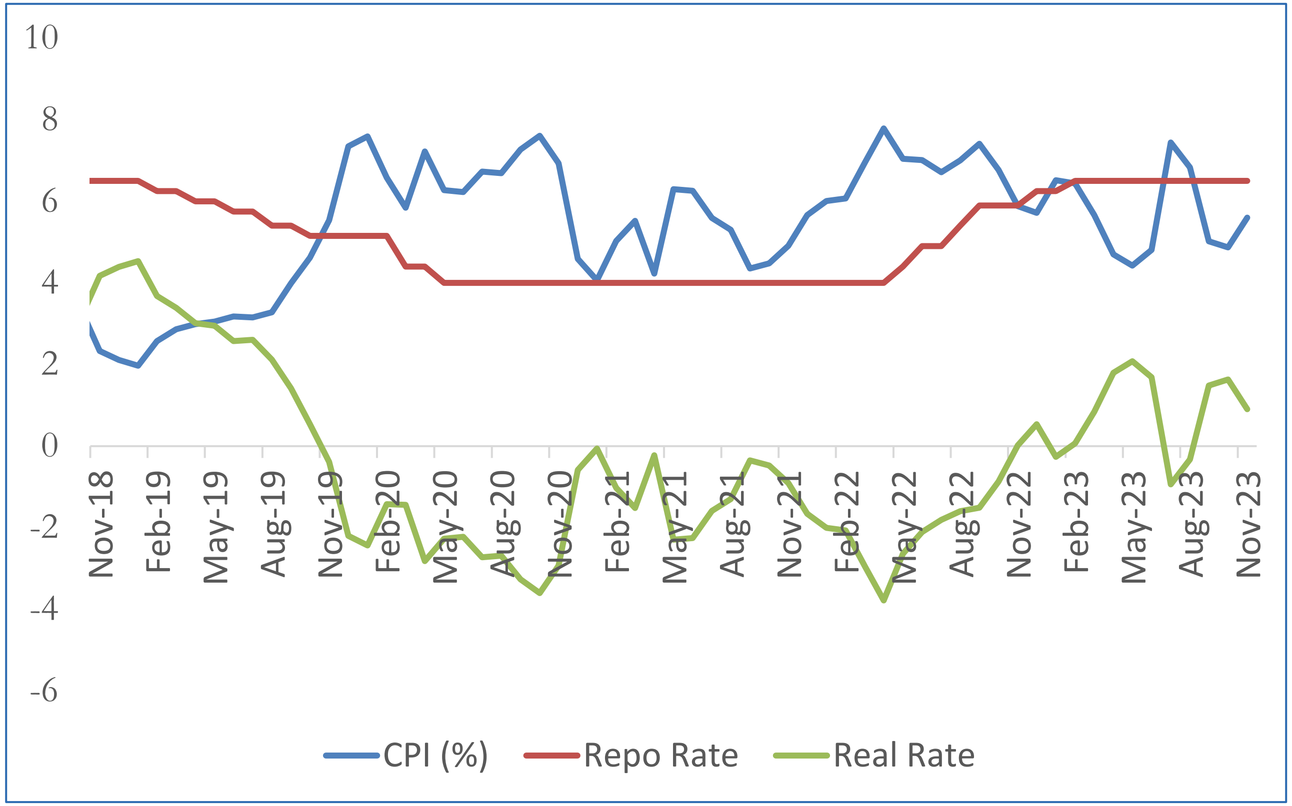


- India's manufacturing sector activity continued to expand in November, with Manufacturing PMI rising to 56.0 (55.5 in October) as strengthening client demand and more favorable input supply boosted production volumes.
- India’s service sector activity in November slowed to the lowest levels over the previous 12 months (56.9 in November from 58.4 in October), owing to slowing growth for both new orders and output across key services.
- India’s industrial activity accelerated to a 16-month high of 11.7% in October (following 6.2% growth last month). This is primarily due to base effect and improvement in the manufacturing, power and mining sectors.

SOURCE: Bloomberg

Latest available data

Real Rates

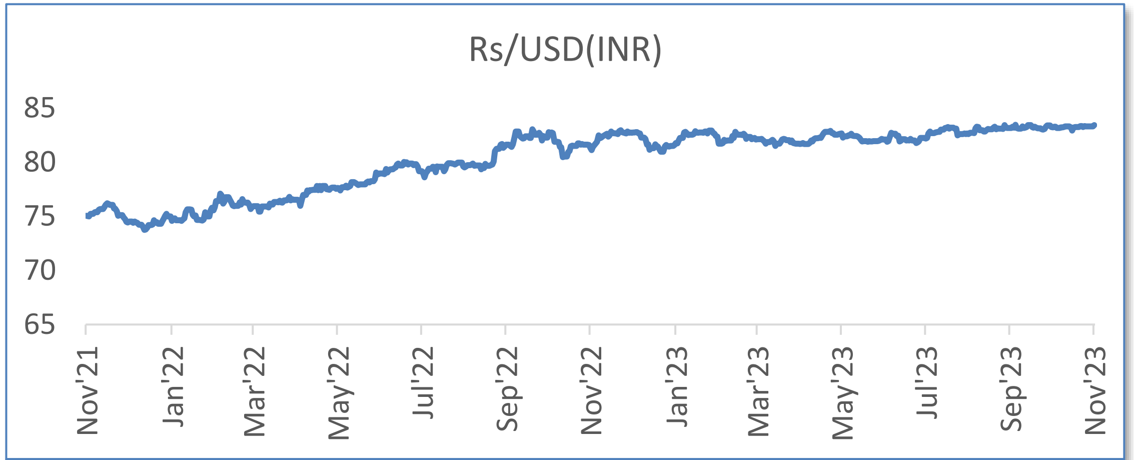


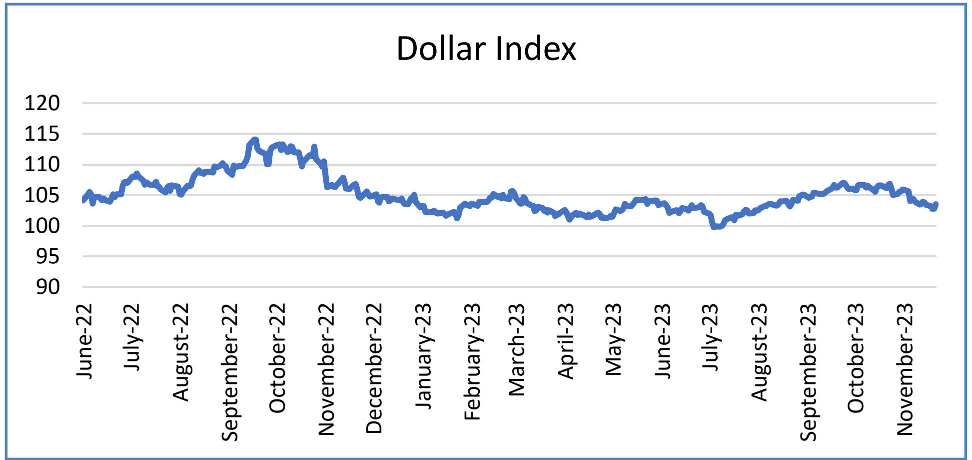
- In the Dec MPC RBI maintained a status quo on the repo rate keeping it unchanged at 6.5%. MPC decided with a 5 1 majority to maintain stance as withdrawal of accommodation
- The recent fall in inflation bought the real rates in positive territory.
- RBI revised its Real GDP forecast upwards at 7.0% for FY24.
- RBI maintained the CPI projections for FY24 at 5.4%.

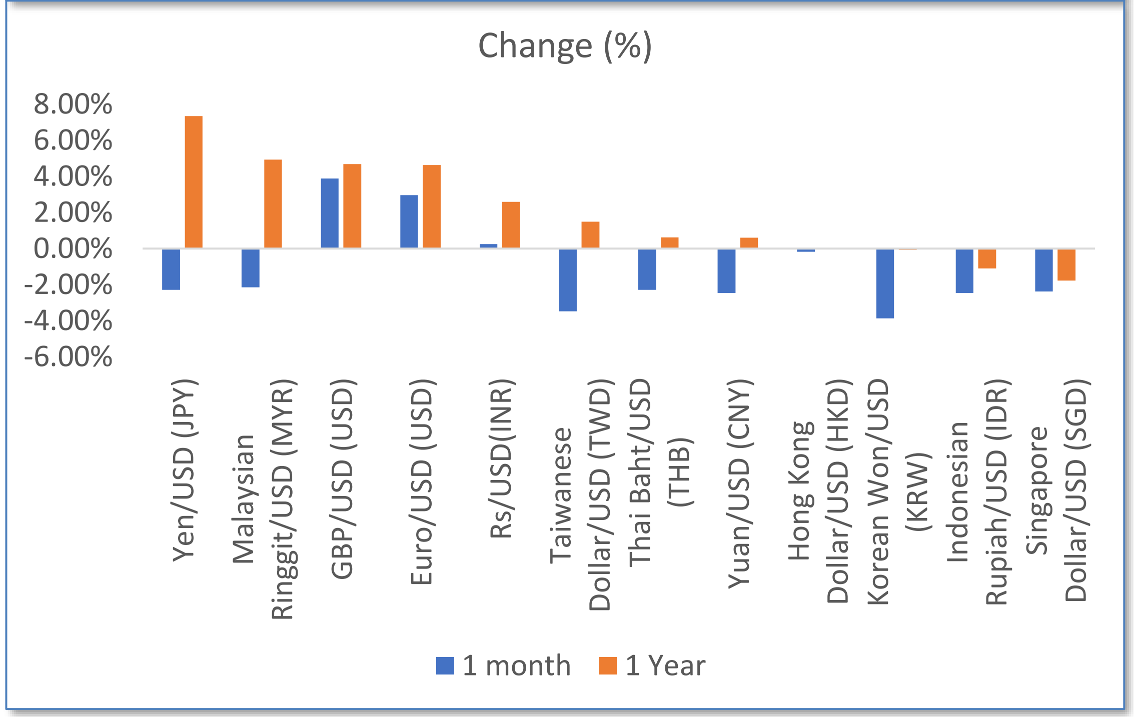
SOURCE: Bloomberg

Latest available data

CURRENCY





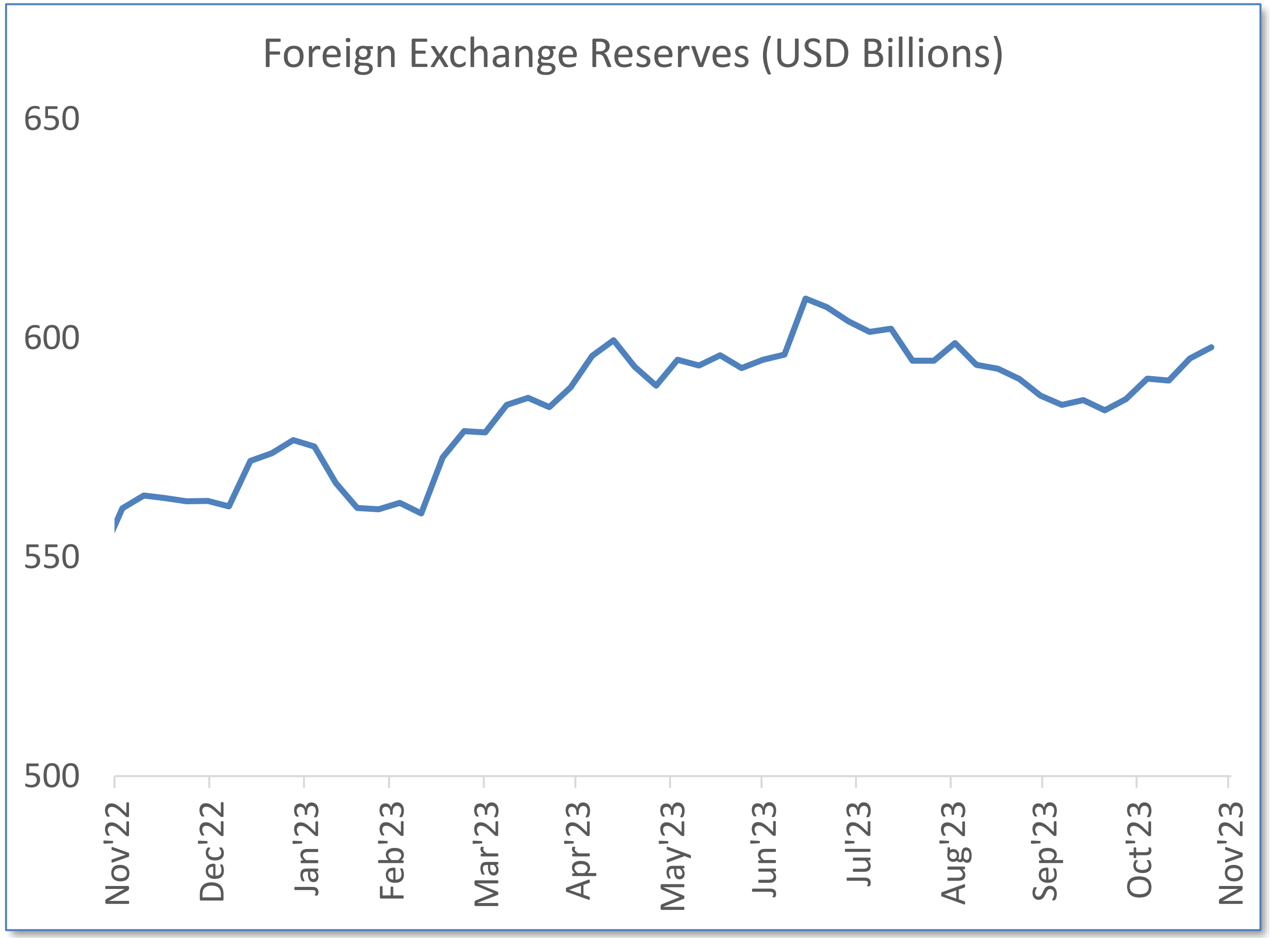


- Rupee depreciated to its lowest level in 2023 amidst a narrowing yield differential with US, slowing FPI flows and a rise in oil prices.
- RBI's FX intervention expected to reduce volatility in rupee going ahead.

SOURCE: Bloomberg

Data as on 30th Nov 2023

FOREX RESERVES

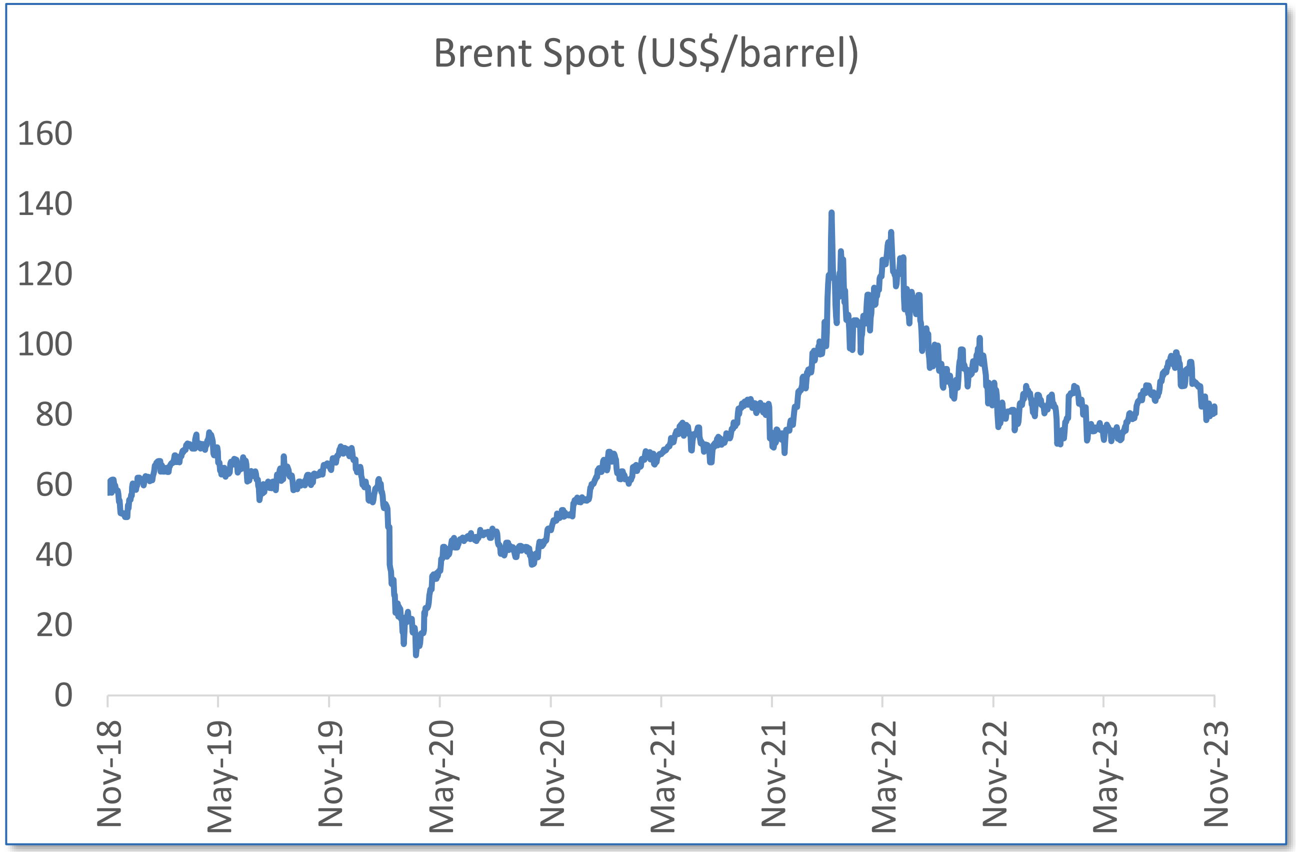


- Foreign exchange reserves rose to USD 598 bn in Nov 23 from USD 586 bn in Oct 23.
- The central bank intervenes in the spot and forwards markets to prevent runaway moves in the rupee.
- Apart from the central bank's intervention, changes in foreign currency assets, expressed in dollar terms, include the effects of appreciation or depreciation of other currencies held in the RBI's reserves.

SOURCE: Bloomberg

Data as on Nov 2023

CRUDE OIL



- Oil prices were very volatile for the month and traded between 78 – 89 USD/barrel before ending the month at 80.6 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 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 30th Nov 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%	4.6%	0.65%
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%	3.20%	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	15.00%	7.50%	7.50%

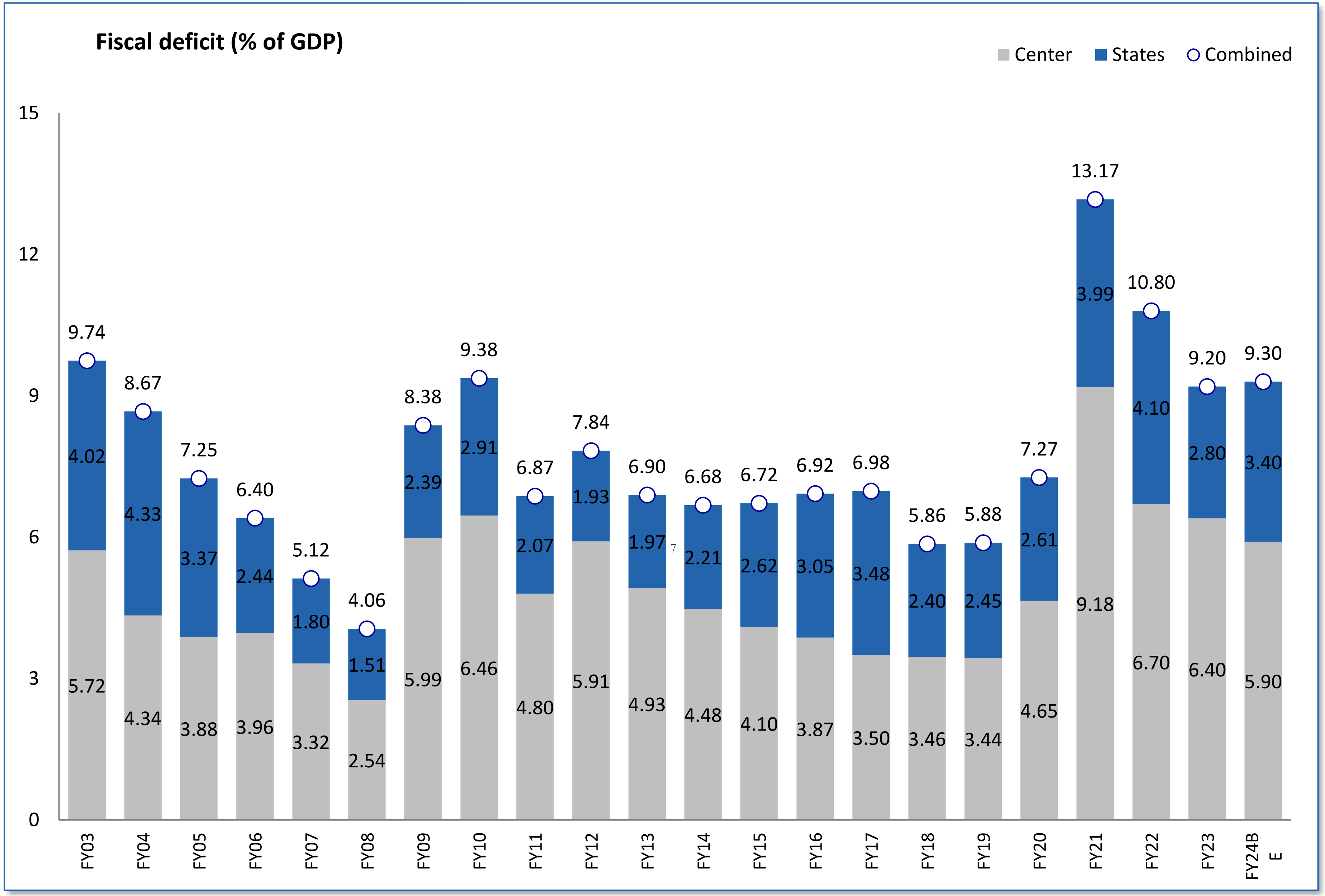
- Federal Open Market Committee (FOMC) in its Dec meeting, agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%.
- This was the third consecutive pause and the fourth in the Fed's current rate hike cycle after having raised rates for ten meetings in a row before taking a first pause in Jun followed by another 25-bps hike in Jul.
- The European Central Bank held interest rates, bringing an end to its unprecedented streak of 10 consecutive increases in borrowing costs amid rising concerns over eurozone growth.

SOURCE: Bloomberg

Data as on 14 Dec 2023

MACRO

FISCAL DEFICIT



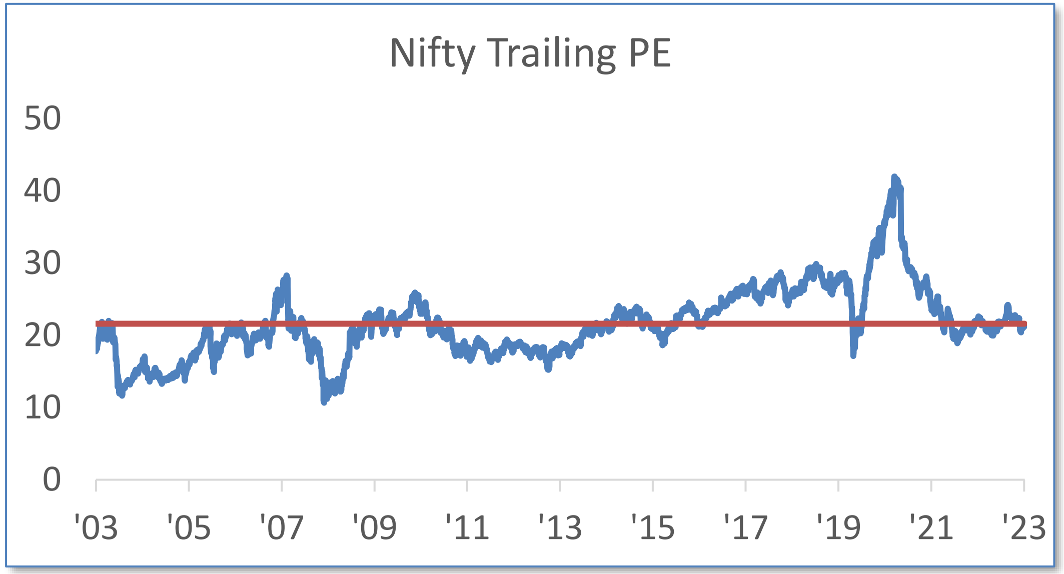
- The revised estimate or the budget deficit for FY23 was pegged at 6.4 per cent.
- The government reiterated its stated objective of bringing down the Fiscal to 4.5% of GDP by FY26.
- This budget takes a step in that direction with the proposed reduction of 50bps down to 5.9% of GDP for FY24.

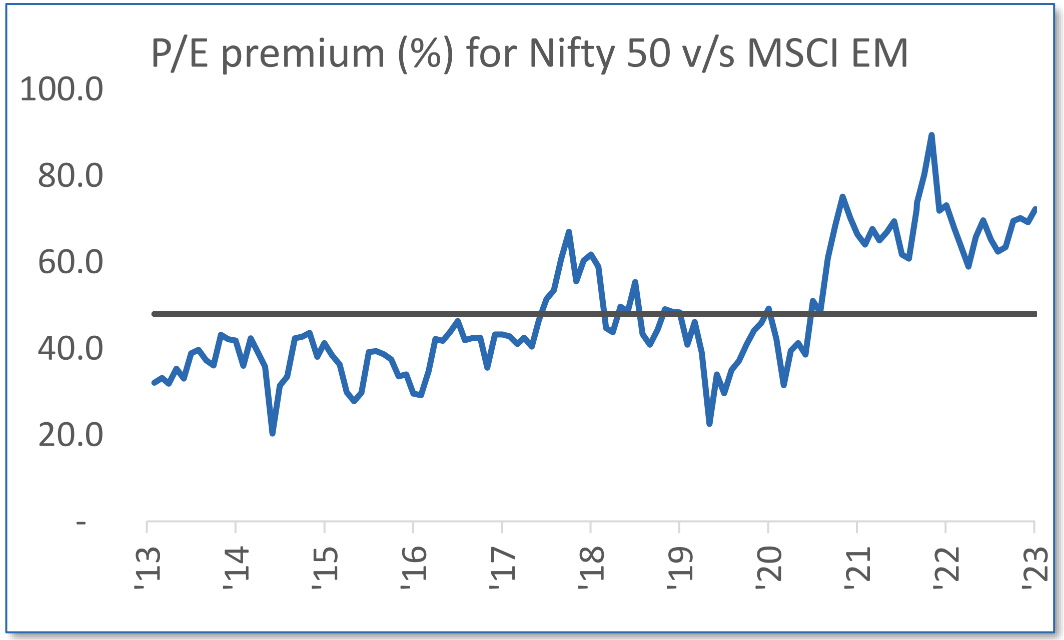
SOURCE: Bloomberg ; BE- Budgeted Estimate, RE – Revised Estimate

Latest available data

VALUATION

INDIA VALUATION VS EMERGING MARKETS



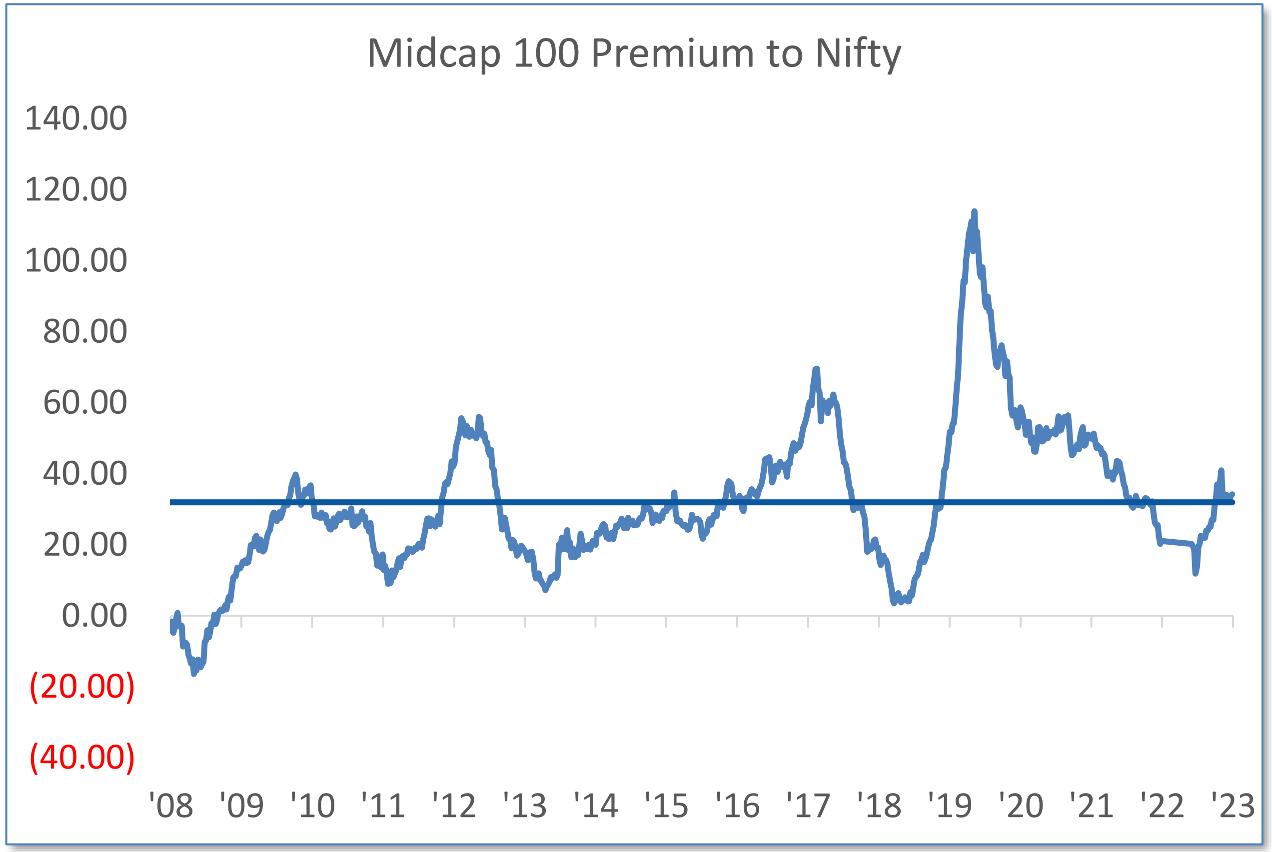


- 1-year forward PE stands at 20x, higher than the historical average.
- Expected earnings for FY24 is 15.0% and FY25 is at 15.8%
- Over the last 12 months, the Nifty 50 (7.33%) has outperformed the MSCI EM index (4.65%).
- In P/E terms, the Nifty 50 is trading at 69% premium to the MSCI EM index, above 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 30th Nov 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 30th Nov 2023

THANK YOU