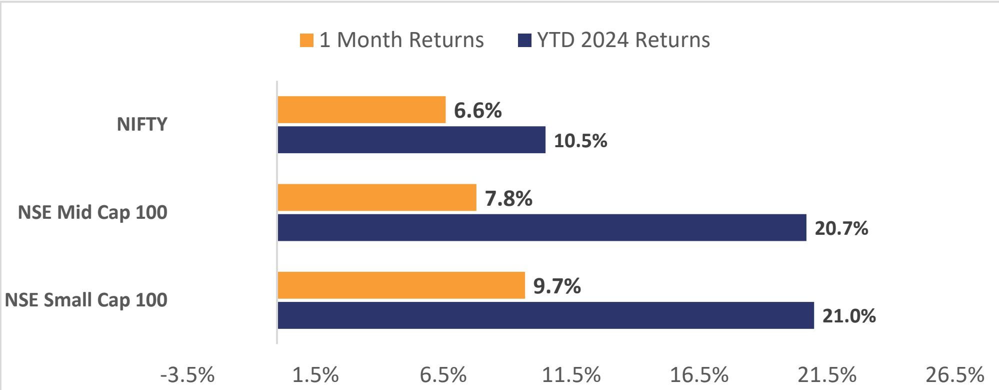
FINGINE Report

ISSUE NO. 4 | July 2024

The previous month was exceptionally positive for India's equity markets with every major index delivering superlative performance. Supported by continuing strong inflows, Mutual Funds were once again net buyers in Indian equities (~Rs. 29,000 crore) while Foreign Portfolio Investors turned back their recent negativity to add ~ Rs. 26,000 crore to their Indian assets. After a short blip from the results of the general elections, investors' subsequent reaction was largely based on comfort from continuity in the political framework and stability in economic policies. Also, the upward bias in global markets supported the local markets sentiment during the period.



Soon after the elections indicated a weaker mandate for the ruling dispensation, there are already signs that political appeasement is likely to be a key reality over the coming years. Further clarity will emerge as the government puts into action its much-anticipated 100-day agenda. With the centre's revenues expanding from strong tax collections and additional sources of income, the focus is likely to turn towards more policies and decisions that support the common Indian. The upcoming state elections in the later part of this year also make this an immediate political imperative. More on-the-ground spending support will certainly be a positive for consumption growth in India that has been lagging the country's overall GDP growth over the last few years. While corporate profits have expanded rapidly and now represent about 5% of GDP, a multi-year high level, this improvement has been led to a larger extent by banking, financial services, insurance, oil and gas and automobile sectors. The next leg of corporate profit momentum could see a more substantial contribution from the country's FMCG companies that have established strong brands and widespread distribution networks. Real estate and retail may also remain positive in line with the ensuing growth in Indian consumption.

Over the last two years, the increase in commodity prices resulted in margin weakness across the broad corporate framework. It is expected that margins should now normalize and revenue growth should align with profit expansion for Indian companies. Nifty EPS is expected to grow at ~13% in FY25 and then accelerate to ~17% in FY26, providing further support to stock market valuations that are seen to be at the higher end of the historical range. However, predictions from market observers indicate the likelihood of much slower expansion in valuations for the rest of the current financial year that should allow earnings to catch up.

Going forward, an important driver of near-term sentiment would be the policy direction around interest rates. The expectation is of a rate cut cycle in the coming months, which could provide a key support for Indian corporate profitability. However, the upcoming first quarter results could see slower earnings growth as certain economic activities may have temporarily slowed down during the period of the elections. Historically, the second quarter has tended to be a positive period for the Indian capital markets. With the continuous liquidity flow being maintained, any correction could once again be seen as an accumulation opportunity as India gets recognised as a significant contributor to global growth over the next few years.

FINGINE

For any further queries, please be in touch with us.

Phone/WhatsApp: +91-98335-57572

Email: support@fingine.in