



Citrus Advisors

Asset Management Services - PMS

“Market Outlook for October 2023”

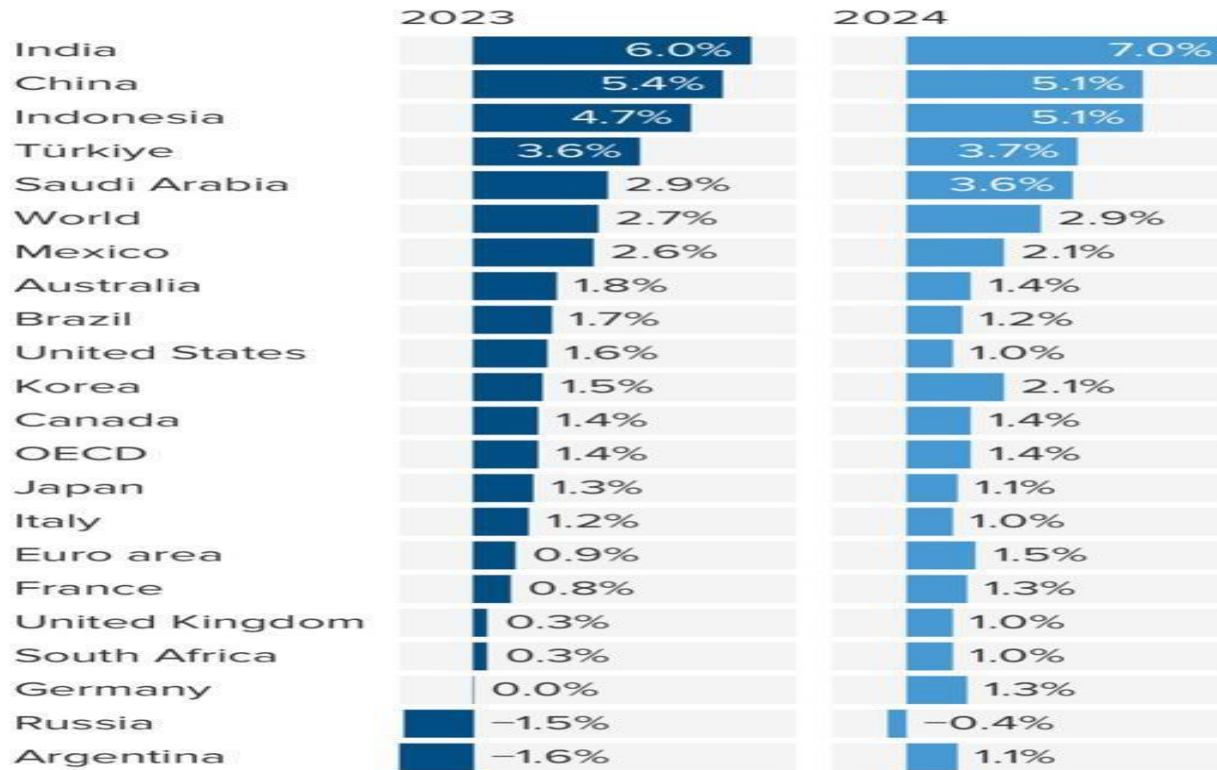
Market Outlook

- Structural changes in favor of Indian Equities
- Near-term Macro Factors
- Emerging Themes

India is the fastest growing large economy

GDP growth projections

%, year-on-year



Source: [OECD Economic Outlook, June 2023](#)

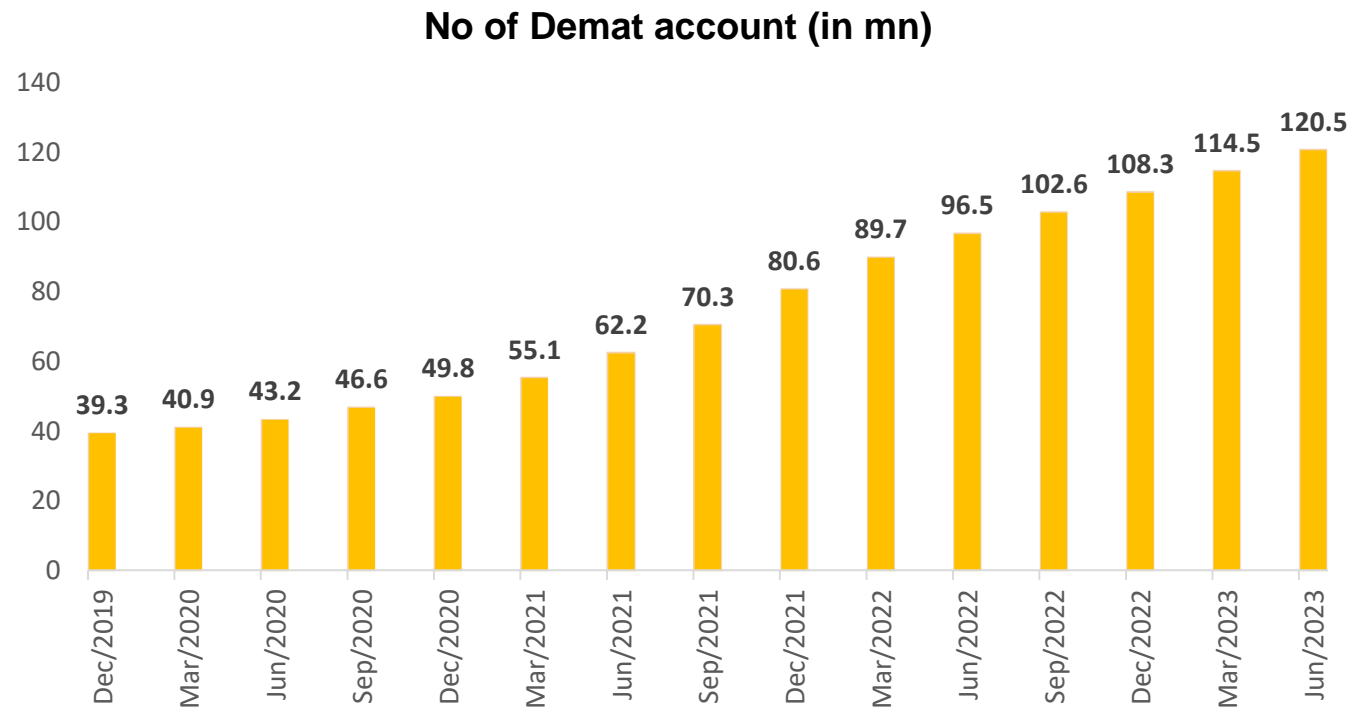




Structural change 1 – Rising domestic retail participation in equities

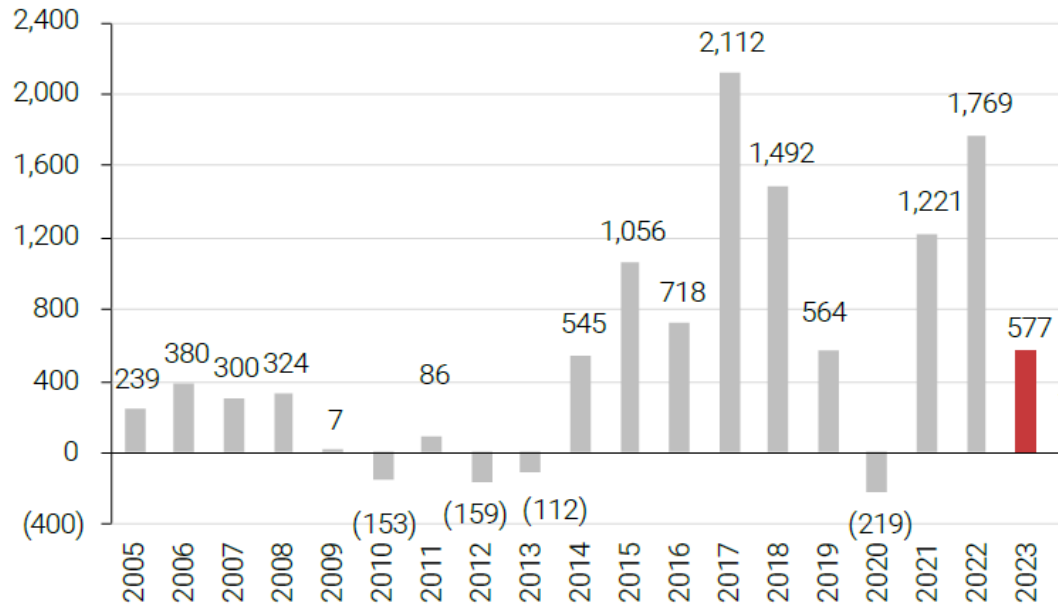
Exponential rise in demat accounts

Growth in number of Demat accounts - Nearly 3x since pre-covid



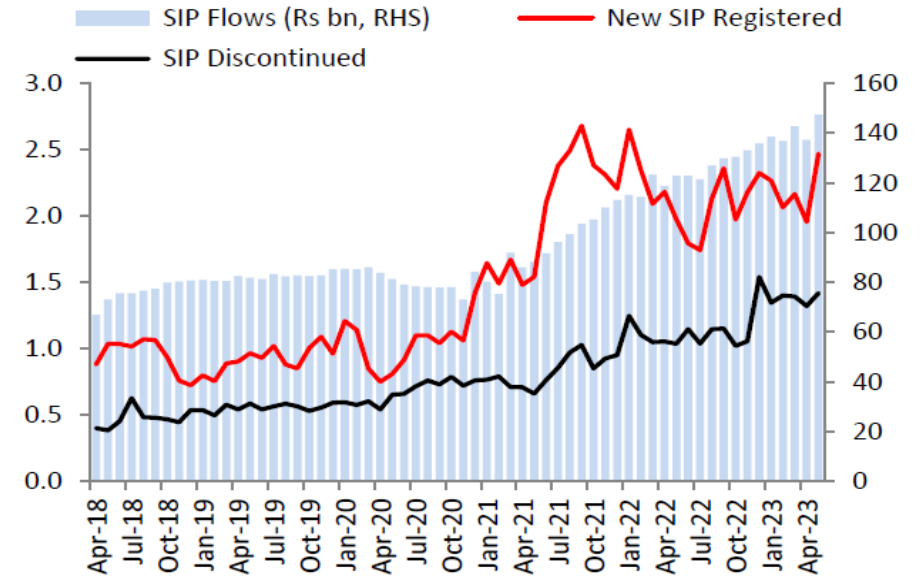
No looking back for Mutual Funds' mobilisation

Net Equity Mutual Fund Inflows (in Rs bn)*



Source: AMFI, Kotak Institutional Equities

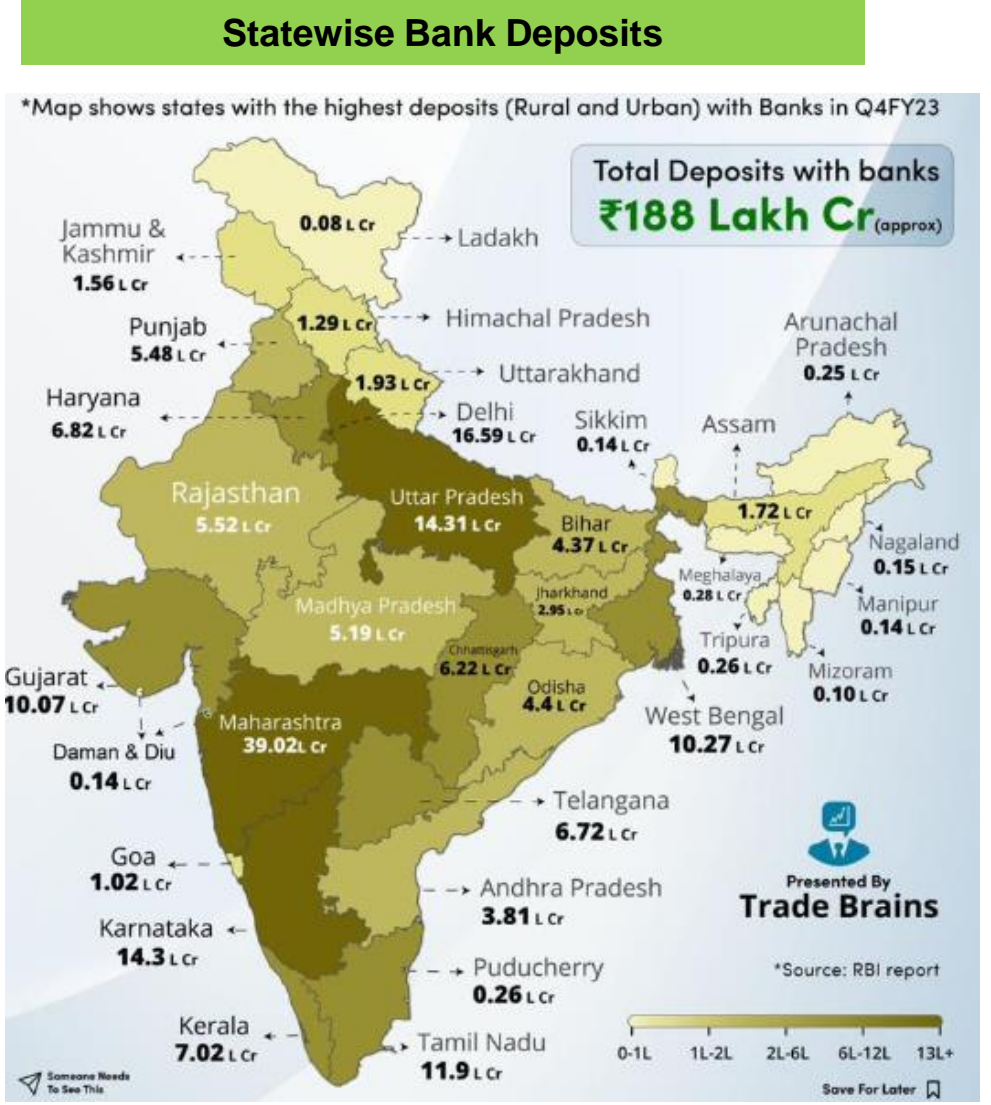
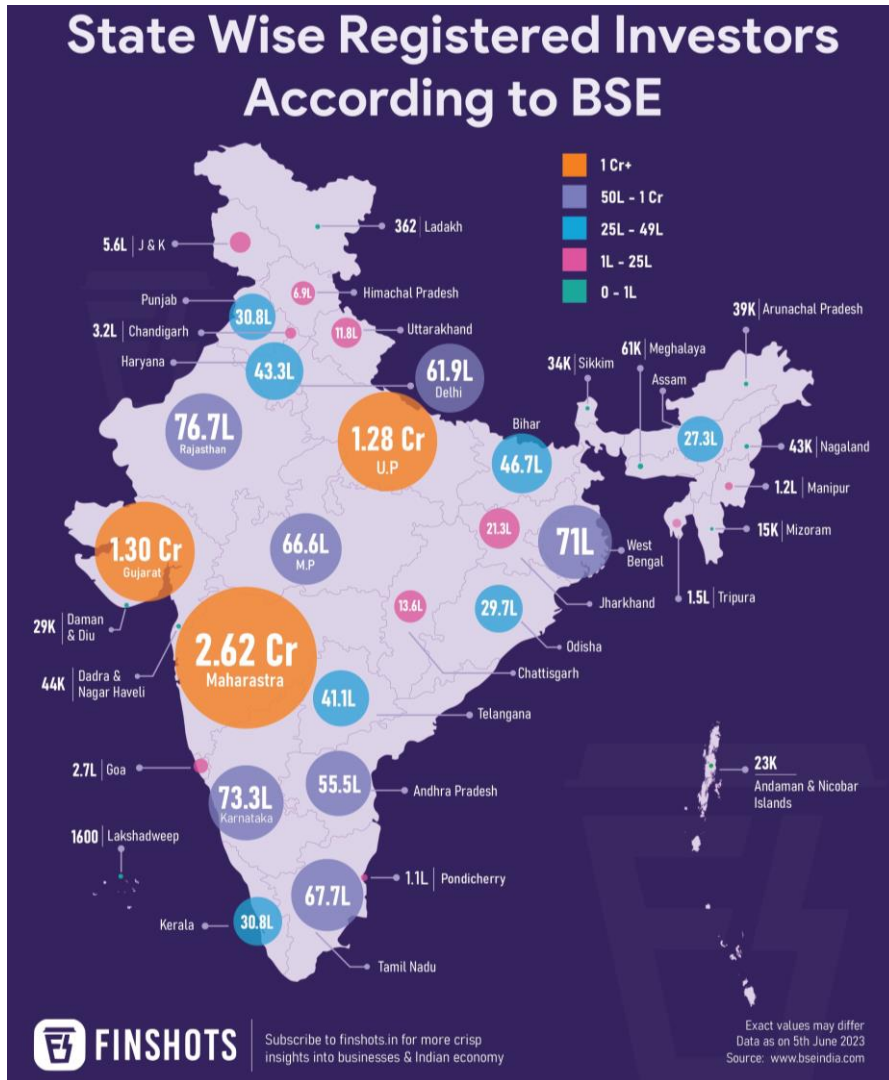
SIP Net Equity Inflows



Source: Philip capital, AMFI

* Equity includes Equity Mutual funds, ELSS and 70% Balanced
Source: AMFI, Kotak Institutional Equities

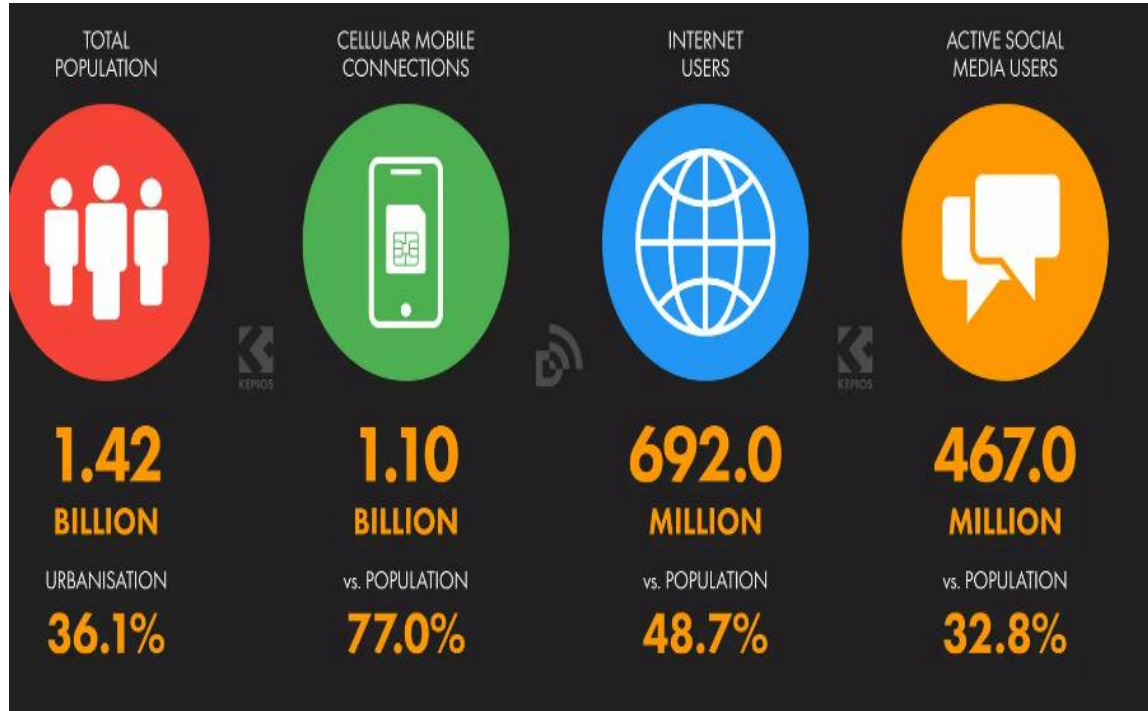
Regional concentration of shareholding population



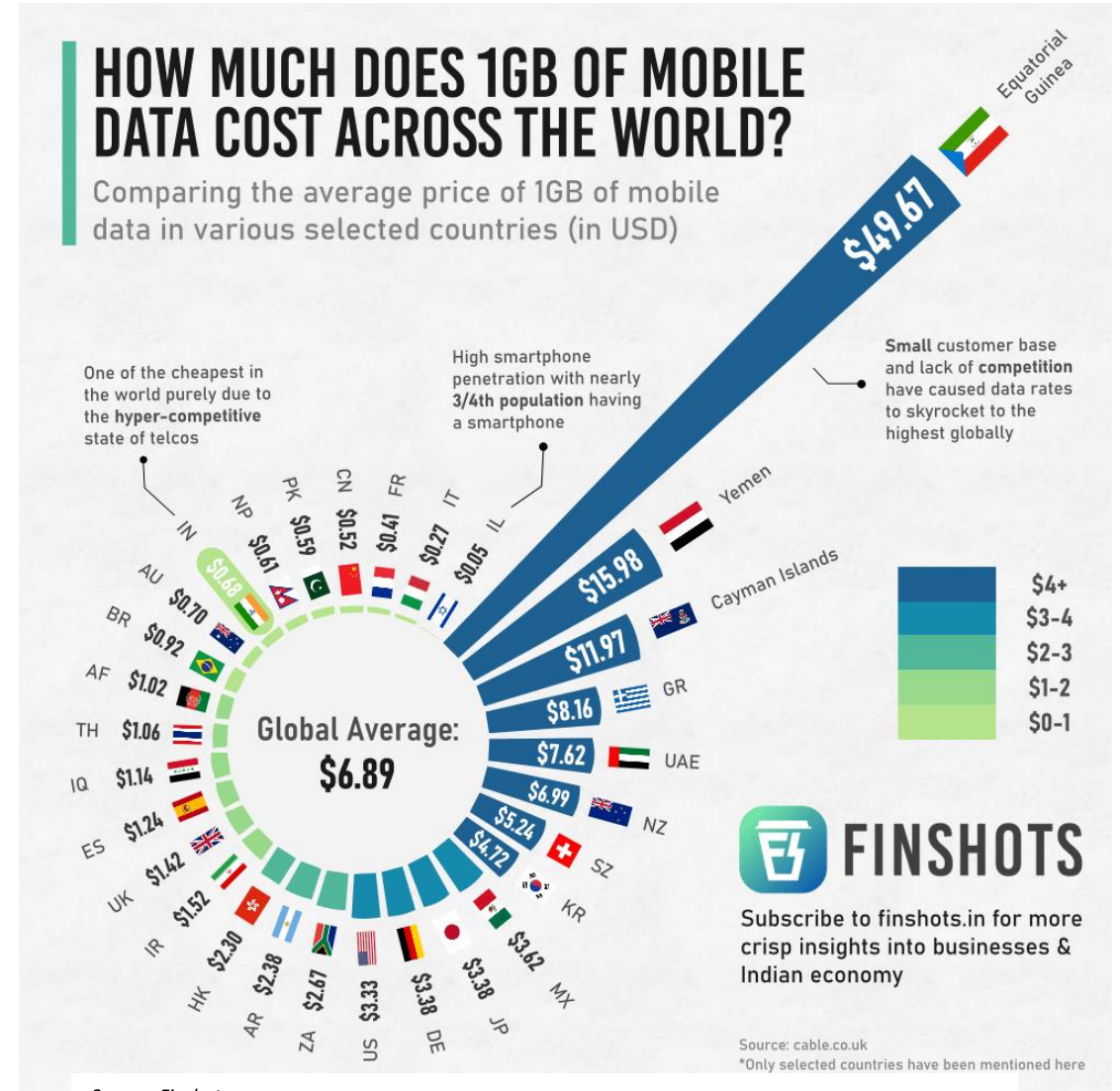


Structural change 2 – Digital transformation of India

Data revolution

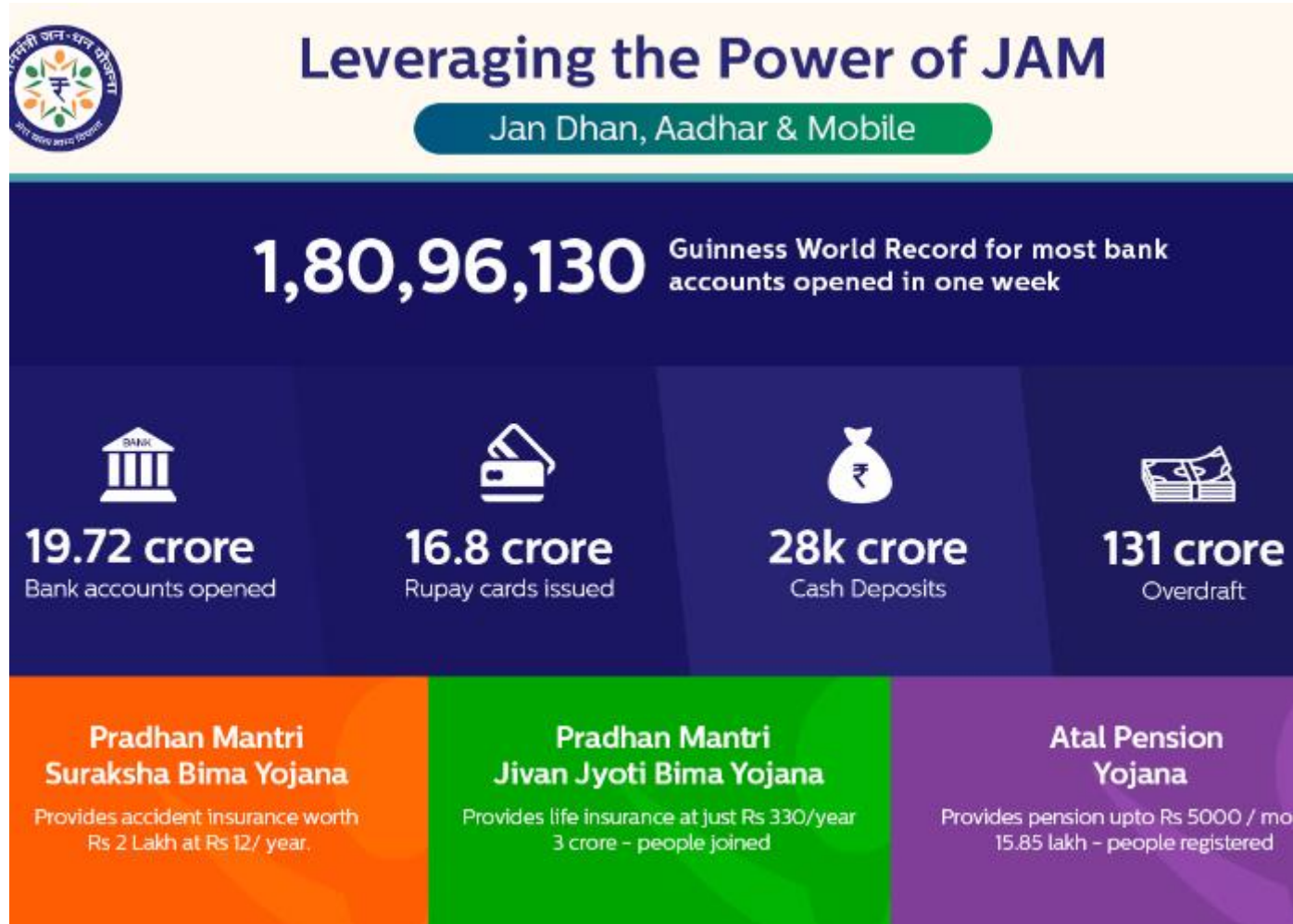


Source: Digital India 2023 report, United Nations, GSMA Intelligence



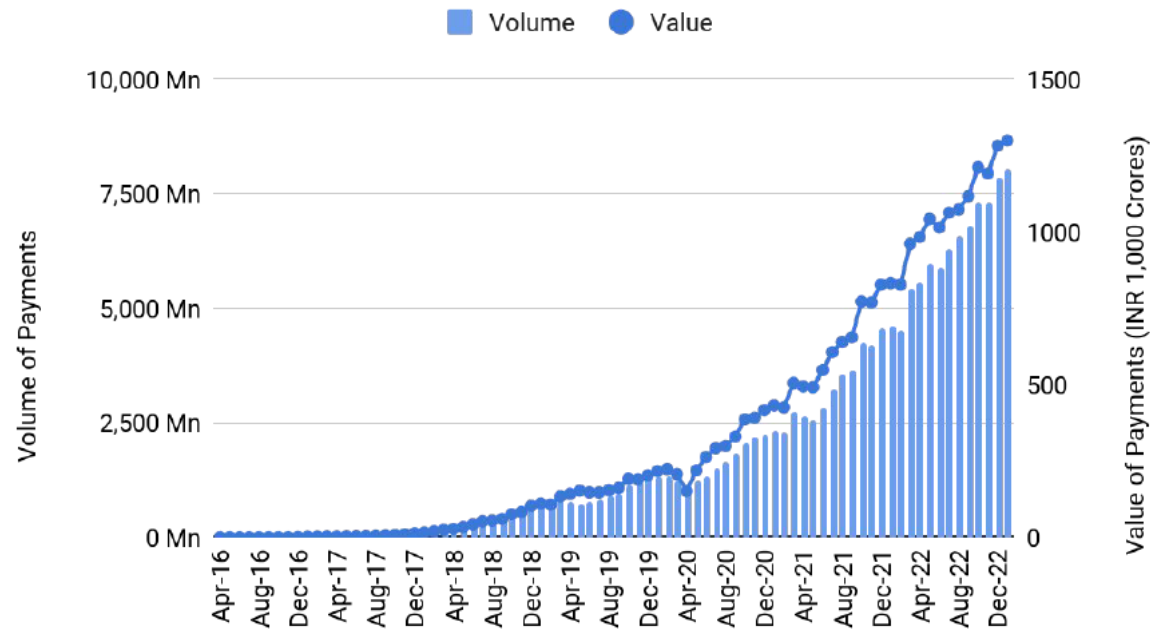
Source: Finshots

India Stack



Digitalisation of financial sector

UPI Growth



Month	Number of banks live on UPI	Volume (in million)	Value (in crore)
Jun-23	458	9,335.06	14,75,464.27
May-23	445	9,415.19	14,89,145.50
Apr-23	414	8,898.14	14,07,007.55
Mar-23	399	8,685.30	14,10,443.01
Feb-23	390	7,534.76	12,35,846.62
Jan-23	385	8,036.89	12,98,726.62

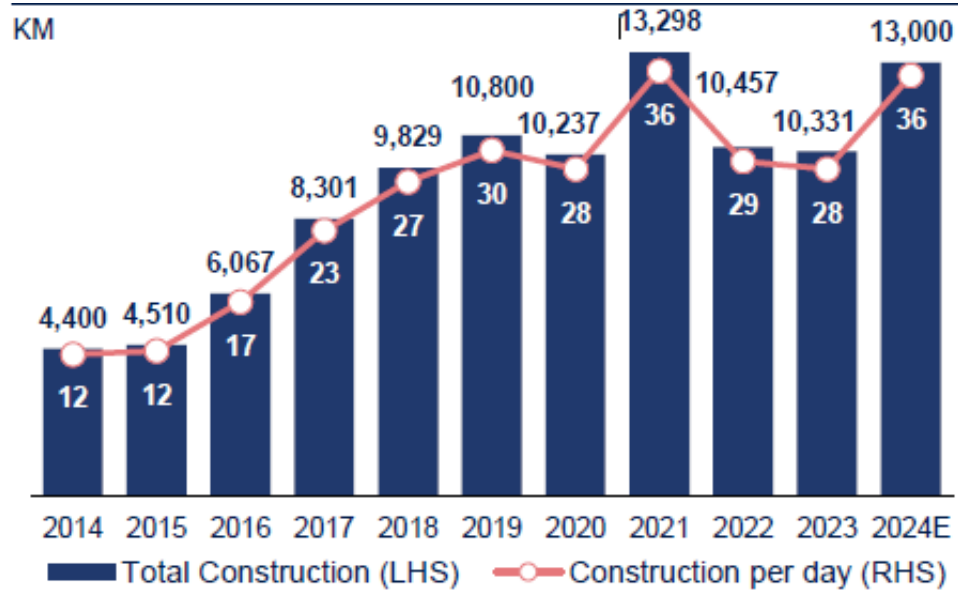


Structural change 3 – Infrastructure

Build up and resurgence of domestic manufacturing

Infrastructure

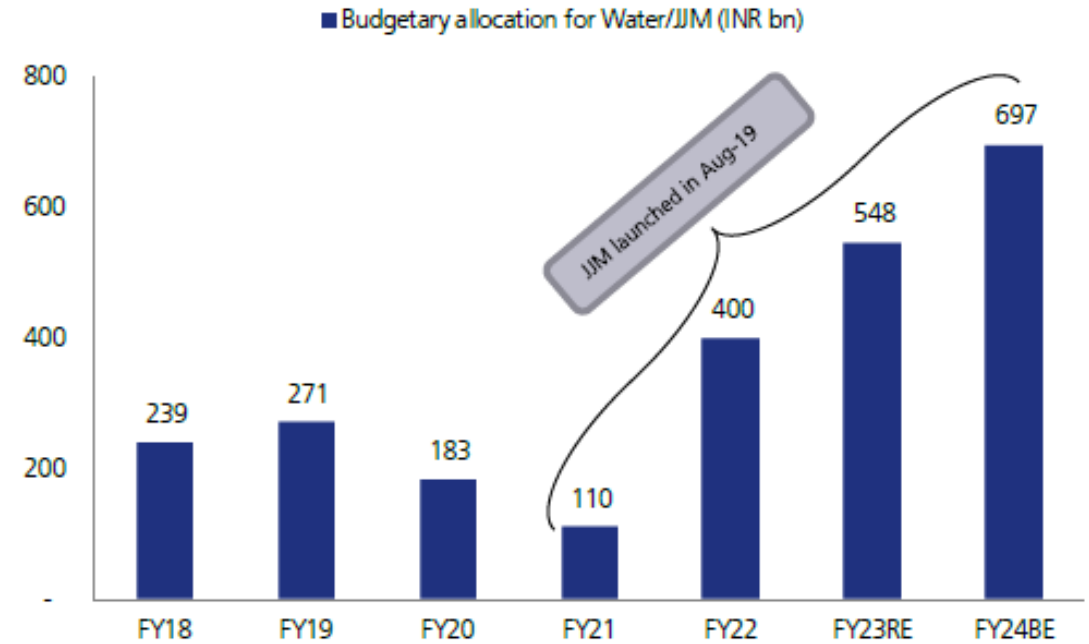
Construction Activity FY14 to FY23.



Source: IRB Infra Corporate presentation, MoRTH (Ministry of Road Transport & Highways),
Ests: IRB Infra.

**Government targets 45 kms per day in FY24, i.e. 16,400 kms for FY24

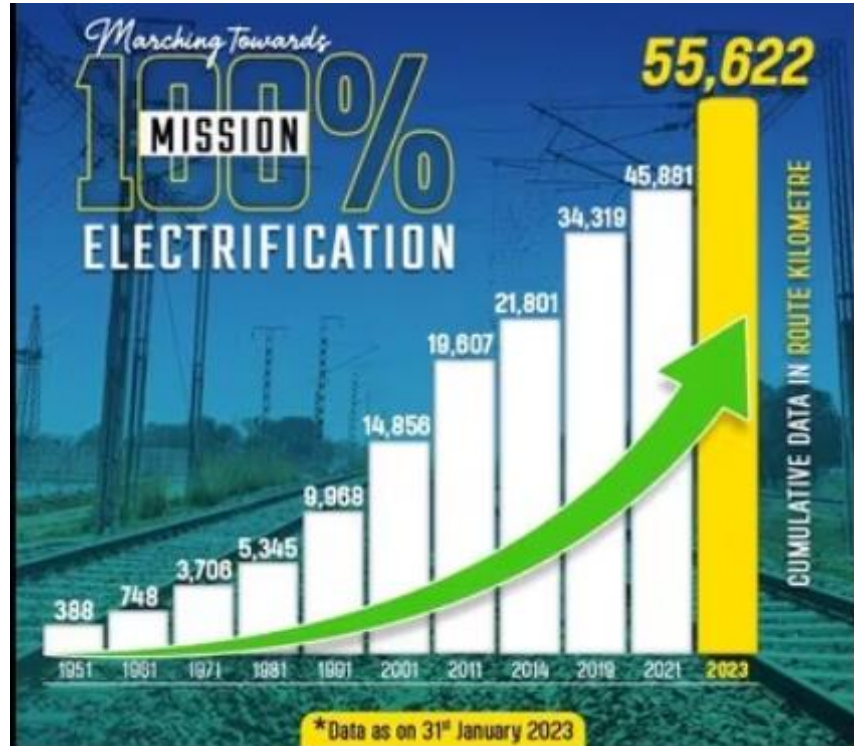
Budgetary Allocation for Water/Jal Jeevan Mission (JJM)



Source: JM Financial Infra Report, Budget documents

Infrastructure

Railways Electrification (in Kms)



Source: HT, Indian Railways

ELECTRIFIED RAILWAY NETWORK

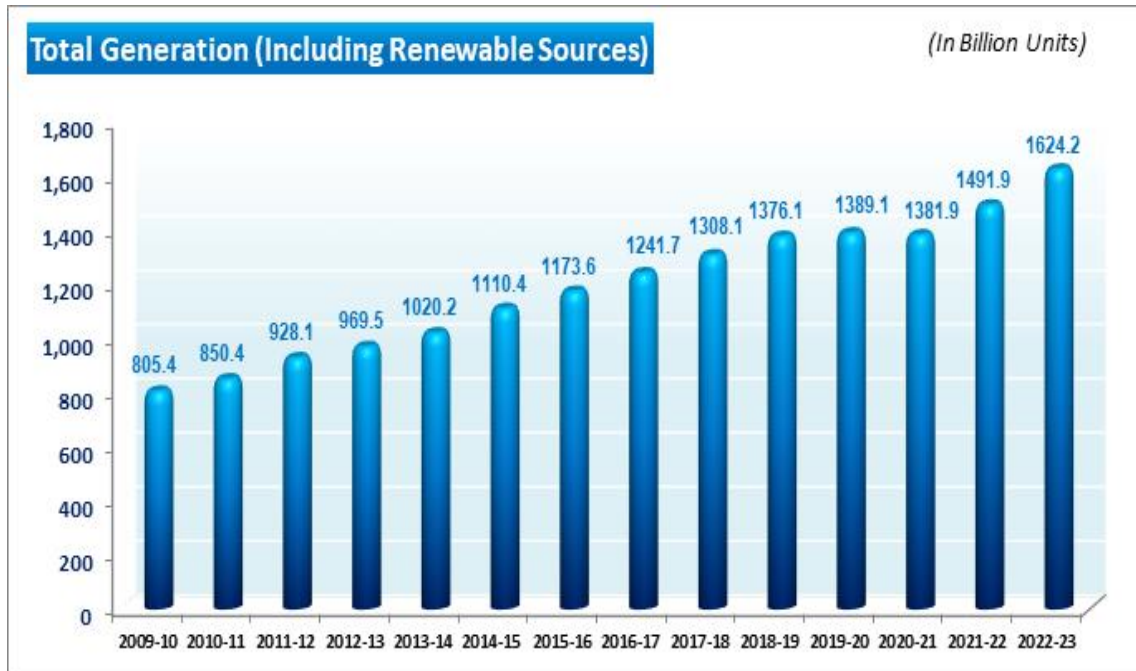
STATES/ UTs	TOTAL NOS.	% ELECTRIFIED
U.P, UKD, TELANGANA, ODISHA, M.P, JHARKHAND, J&K, H.P, C.G, HARYANA, DELHI, CHANDIGARH, PUDUCHERRY, MEGHALAYA	14	100%
BIHAR, ANDHRA, T.N, MAHARASHTRA, W.B, KERALA	6	90%+
GUJARAT, PUNJAB	2	80%+
RAJASTHAN, GOA, KARNATAKA	3	70%+
ASSAM	1	30%+

#As on June 30, 2023

Source: Indian Railways

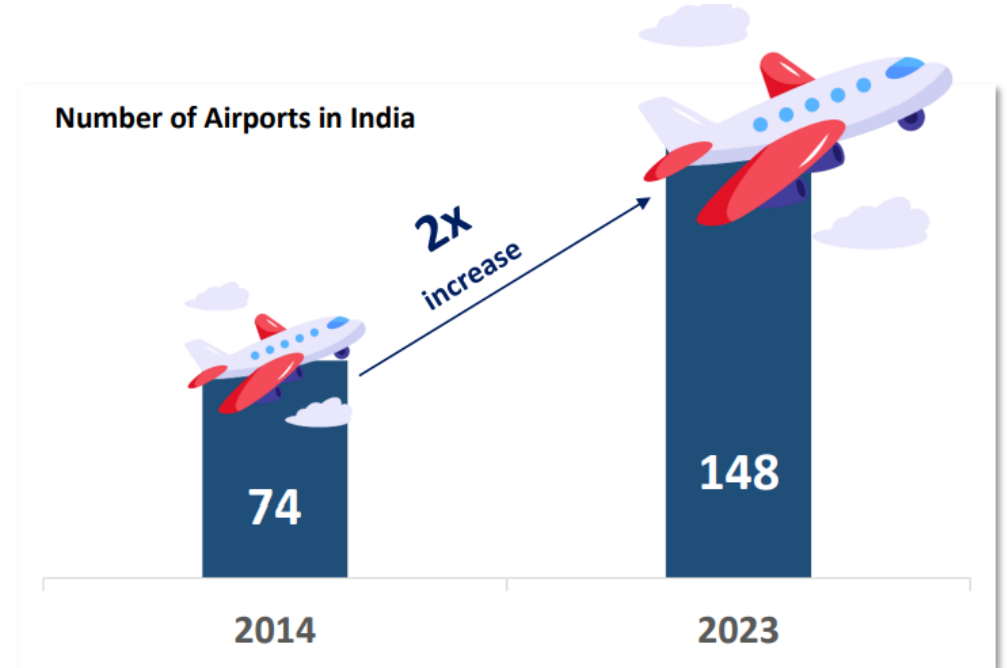
Infrastructure

Power generation Capacity



Source: Power ministry

Airports added in the last 9 years



Source: GoI (Press Information Bureau)

Resurgence of Domestic manufacturing

- PLI (Production Linked Incentives) Schemes launched by the government have been effective to boost domestic manufacturing and promote “Make in India”
- Launched in FY21 targeting 14 sectors today like Mobile Devices & Electronics, Auto components, APIs, Food Products, Textiles, Medical Devices, Solar , etc..
- As per ICRA, PLI Capex deployment expected to surge from FY24 onwards

	FY23	FY24	FY25	FY26
Expected capex (Rs trillion)	0.2-0.4	0.9-1.1	1.2-1.4	1.5-1.7
% of the total capex	5-10%	20-25%	30-35%	35-40%

Source: ICRA Research (Nov 2022)

Production linked incentive (PLI) – a big catalyst for revival of manufacturing

The govt's PLI scheme covers the following 14 sectors:

Sector	Total Outlay (in Rs cr)
Advanced chemistry cell (ACC) battery	18,100
Automobiles & auto components	25,938
Drones & drone components	120
Electronic Products (mobiles & other components)	40,951
Food Products	10,900
Solar PV modules	24,000
Key starting material/drug intermediaries & APIs	6,940
Medical devices	3,420
IT Hardware (Laptops, tablets, PCs, servers)	7,325
Pharmaceutical drugs	15,000
Specialty steel	6,322
Telecom & networking products	12,195
Textile Products: MMF segment & technical textiles	10,683
White Goods (ACs and LEDs)	6,238

Source: BQ Prime

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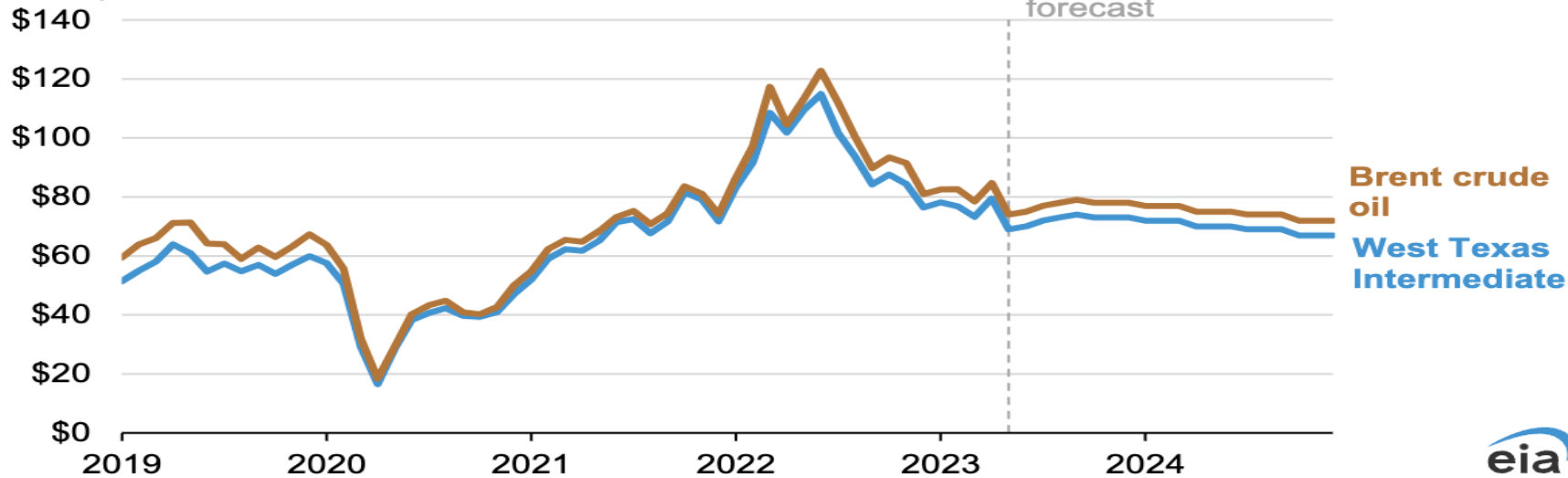


Near Term Macro factors

Rising Crude Oil Prices

Short-Term Energy Outlook monthly crude oil spot prices (Jan 2019–Dec 2024)

dollars per barrel



Data source: U.S. Energy Information Administration, *Short-Term Energy Outlook*, May 2023



- Oil prices remained supported by tightening global crude supply after Saudi Arabia and Russia extended supply cuts to the end of the year. The US inventory data showed that crude inventories fell by about 4.2 million barrels last week, far exceeding forecasts for a 92,000 barrel draw.
- As crude prices hover around \$89 per barrel, the market has remained cautious over the OPEC+ meeting & policy outlook in near term.

Dollar Index seeing increasing strength

Movement in US Dollar Index vs. S&P 500



- Risk aversion reflected in the strong dollar index. US Dollar Index up ~11.6% in the last 1Y
- Rise in Dollar index and increasing yields also having a bearing on Equity markets (S&P down >3% in the last 1 Y). This also has a near term bearing on Indian Equities

Fed Outlook – Maintained a Hawkish stance

- The FOMC (Federal Open Market Committee) maintained US Fed rate at 5.25-5.5% in its last FOMC meeting
- US GDP forecasts were revised upwards to 2.1% for 2023 from 1% earlier and 1.5% for 2024 (from 1.1% earlier)
- The dot plot (expectations of each member of the committee) point to one more 25bps rate hike by CY24
- For 2024, the median Fed rate is estimated at 5.1%, pointing to ~50 bps rate in CY24. However, the fed rate is ~50 bps higher than the 4.6% estimate in the June committee
- The key takeaway was that the US fed rates might stay higher for a longer period – we saw the US Treasury yields hardening and the dollar Index strengthening (a sign of Risk aversion)

Lower than Average Monsoon

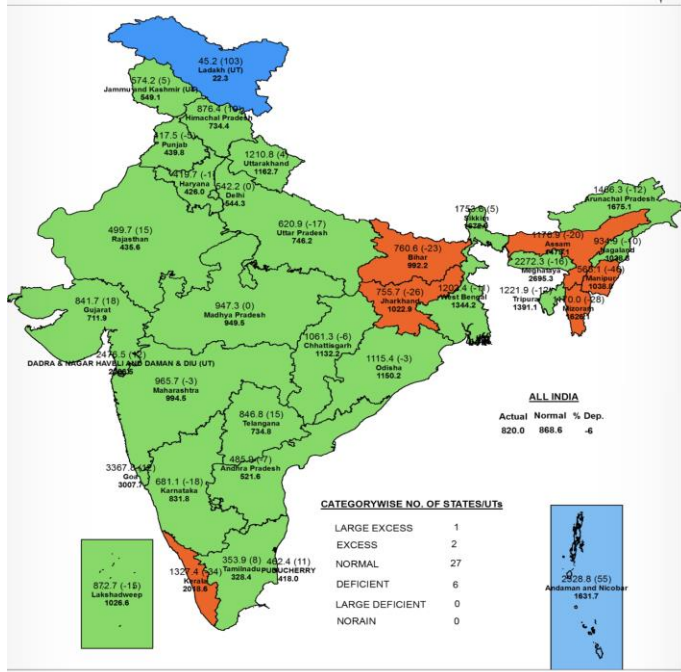
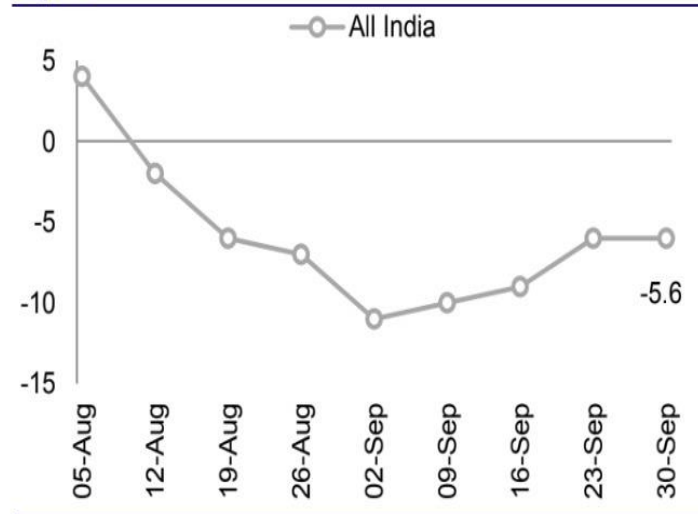


Exhibit 1: All India cumulative rainfall at 5.6% deficit as of 30th Sep'23



Data around 30th September for all years

Exhibit 2: Two out of the four regions have received normal rainfall as of 30 Sep'23

Cumulative rainfall (% deviation from normal)	All India	North-West	Central	South Peninsula	East and North-East
13-Aug	-3	13	1	-9	-18
20-Aug	-7	6	-2	-13	-20
27-Aug	-8	7	-6	-16	-16
03-Sep	-11	0	-12	-14	-18
10-Sep	-10	-2	-9	-10	-19
17-Sep	-8	1	-4	-10	-21
24-Sep	-6	2	0	-9	-17
30-Sep	-5.6	0.9	0.4	-8	-18

Data around 30th Sep for all years

Source: IMD, CEIC, MOFSL

- All India cumulative rainfall deficit until 30th Sep'23 stands at 5.6% below normal, with two out of the four regions receiving above normal rainfall.
- Cumulative Rainfall has been deficient in the South Peninsula (-9%) and more sharply in East and North East regions (-18%)
- As a result there are again doubts on revival of rural consumption

Preparations for the State Elections

Upcoming Elections

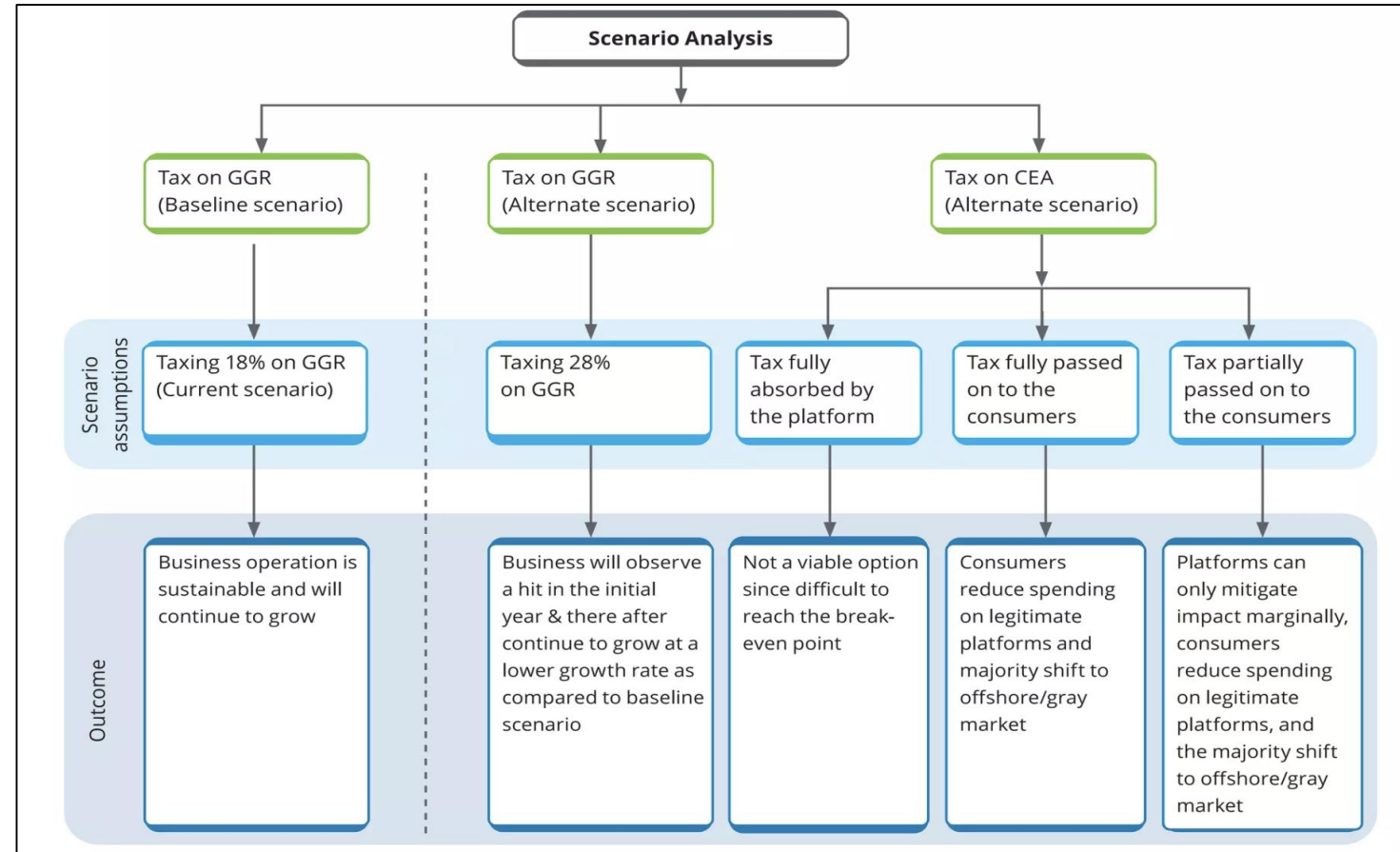
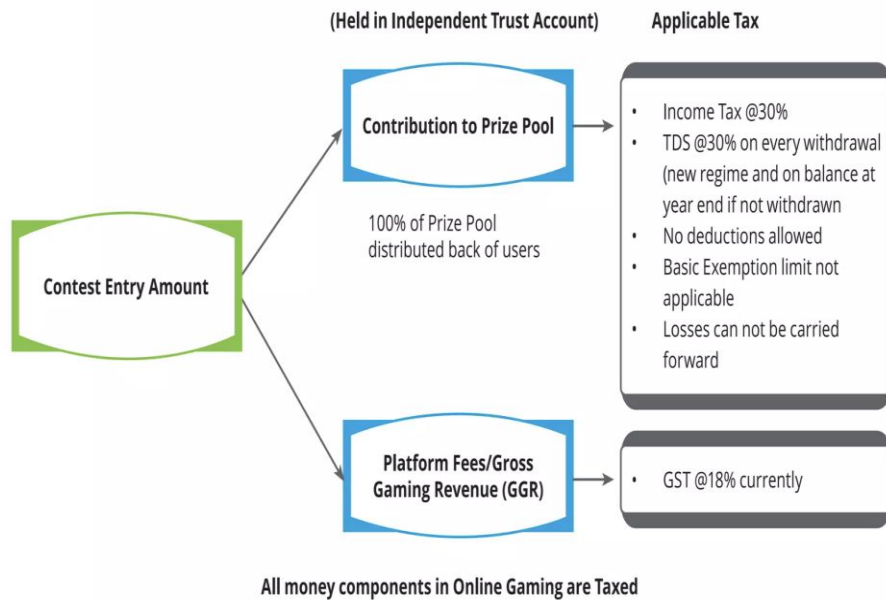
HOUSE/STATE	FROM	TO	LOKSABHA SEAT	ASSEMBLY SEAT	RAJYA SABHA SEAT
MIZORAM	18.12.2018	17.12.2023	1	40	1
CHHATISGARH	04.01.2019	03.01.2024	11	90	5
MADHYA PRADESH	07.01.2019	06.01.2024	29	230	11
RAJASTHAN	15.01.2019	14.01.2024	25	200	10
TELANGANA	17.01.2019	16.01.2024	17	119	7

Detail of Terms of the Houses of Upcoming Election States

- In the run-up to the 2024 Lok Sabha elections, five states are set to hold elections in 2023. Earlier this year, successful elections were conducted in Tripura, Meghalaya, Nagaland and Karnataka.
- Assembly elections are scheduled to take place in Rajasthan, Chhattisgarh, Mizoram, Madhya Pradesh and Telangana during H2 of CY2023 and in Jan'2024
- This may set the tone for General Elections in 2024

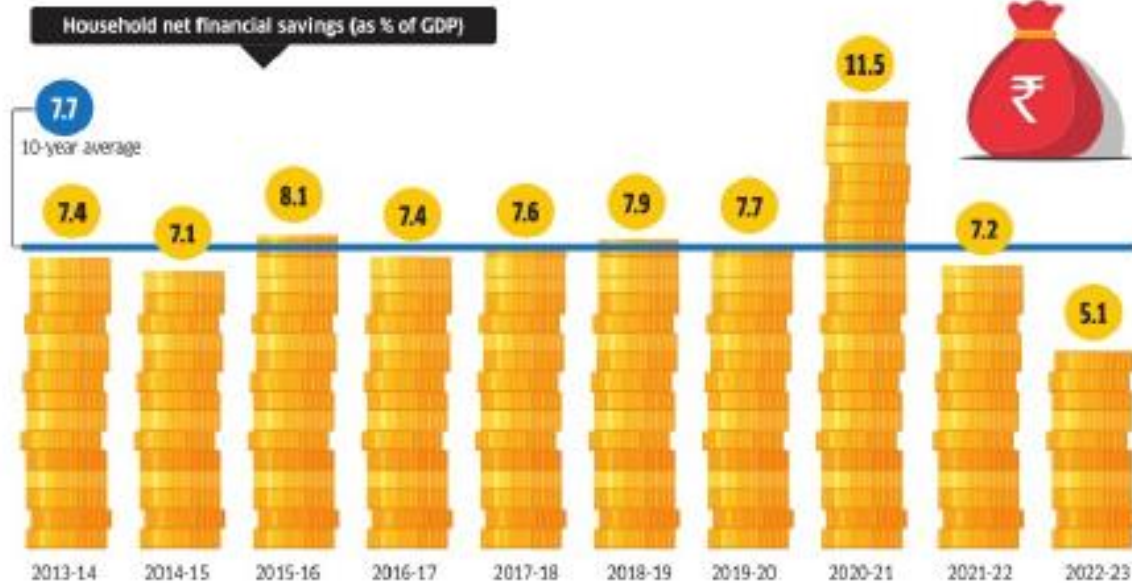
Impact of GST on Online Gaming

Income tax and GST taxing policies on the Online gaming industry



Household Savings

Household savings saw a sharp decline



Household liabilities



- Net Financial savings declined by ~19% yoy in FY23, while Household net financial savings as % of GDP declined to 5.1%. Fall in savings pose risk for consumption growth in future and also affects the fiscal position

Household liabilities saw a sharp surge. Breakup of data highlights sharp rise in mortgage lending and personal loans too.

Q2 Result expectation strong

Sector	Remarks
Autos	Strong topline and EBITDA growth driven by a) Price increase and Improving mix (premiumisation continues with higher SUV mix) b) Softer commodity prices
Banks	a. Strong earnings growth on the back of sustained credit growth (as highlighted in Q2 pre-release), stable asset quality and lower credit costs b. NIMs could compress on sequential basis (QoQ) c. Growth in Operating profit to see some slowdown due to higher Opex from branch expansions, tech spend
IT Services	While seasonally Q2 is a strong quarter, we see muted growth for the Tier-1 IT services companies. Revised guidance for FY24 and recovery in H2 needs to be watched for.
NBFCs	Strong core earnings growth despite some compression in NIMs as cost of funding goes up on back of strong loan growth and stable asset quality
Pharma	See improvement in generics pricing in the US to aid growth for India Pharma export players. Volume growth for domestic branded generic player has been weak.
FMCG	Sector facing headwinds from weak & untimely monsoon and rising food inflation. We see single digit growth for the FMCG companies. Revised guidance for FY24 and recovery in rural consumption needs to be watched out.

FII/DII Flows and Mutual Fund Flows

FII/ DII Flows

Flows	Sept'23	Aug'23	2023 YTD	2022
FII Flows	-26,692	-20,621	-21,519	-2,78,430
DII Flows	20,313	25,017	1,29,200	2,76,699

Source: Stock edge

Equity Mutual Fund Flows (MoM)

Flows	Aug'23	July'23	June'23	May'23
MF Flows	20,245	7,626	8,637	3,240

Source: AMFI

Equity Mutual Fund Flows (Aug'23)

Scheme Name	No. of Schemes as on August 31, 2023	Net Inflow (+ve)/Outflow (-ve) for the month of August 2023 (INR in crore)	Net Assets Under Management as on August 31, 2023 (INR in crore)	As % to overall equity flows
Growth/Equity Oriented Schemes				
Multi Cap Fund	21	3,422	90,065	17%
Large Cap Fund	30	-349	2,62,299	-2%
Large & Mid Cap Fund	26	2,113	1,59,363	10%
Mid Cap Fund	29	2,512	2,39,462	12%
Small Cap Fund	24	4,265	1,94,020	21%
Dividend Yield Fund	9	416	17,732	2%
Value Fund/Contra Fund	23	1,365	1,12,731	7%
Focused Fund	27	-471	1,11,637	-2%
Sectoral/Thematic Funds	136	4,806	2,12,651	24%
ELSS	42	-27	1,76,214	0%
Flexi Cap Fund	36	2,193	2,83,765	11%
Total Equity MF	403	20,245	18,59,940	100%

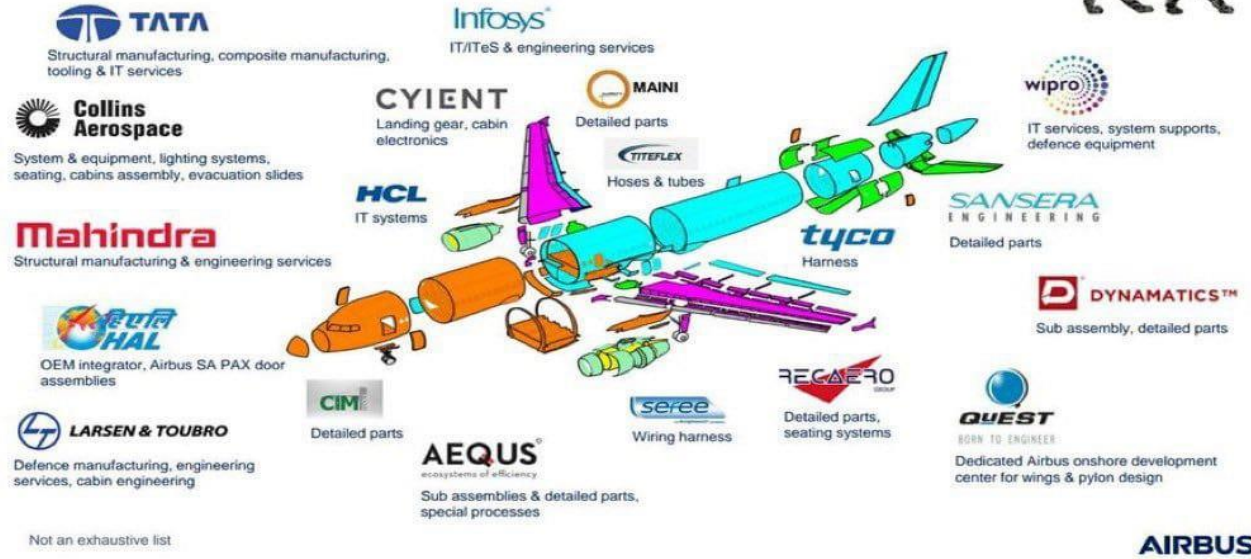
Source: AMFI

- September saw a steep FII selling mainly because of the rising US bond yields, increasing crude prices and concerns over interest rates staying high.
- Whereas, in August 2023, equity mutual funds experienced a significant surge in net inflows, reaching a five-month high of ₹20,245 crore.
- The Small Cap Mutual Funds in India saw an inflow of ₹4,265 crore. Mid and Small cap Funds accounted for 33% of all net inflows into equity funds



Emerging Themes

Airbus 'Make in India' Partnerships

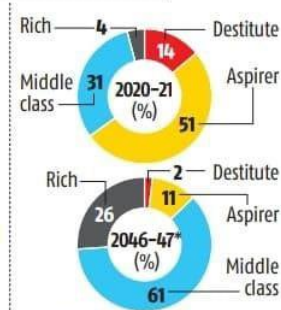
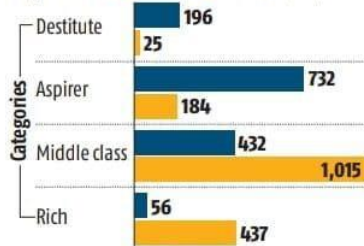


Not an exhaustive list

INDIA'S CHANGING INCOME MIX

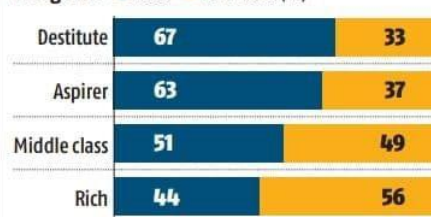
INCOME PYRAMID

Population ■ 2020-21 ■ 2046-47* (mn)



CONSUMPTION BASKET IN 2020-21

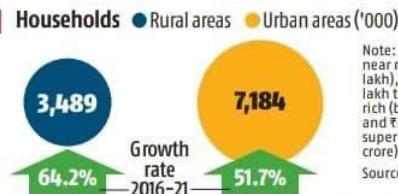
Categories ■ Food ■ Non-food (%)



Note: *projections; destitutes refers to those with household annual income of less than ₹1,25,000, aspirers ₹1,25,000 to ₹5,00,000, middle class ₹5,00,000 to ₹30,00,000, and rich more than ₹30,00,000

GROWTH OF THE RICH

(in 2020-21)



Note: Rich includes near rich (₹30-50 lakh), clear rich (₹50 lakh to ₹1 crore), sheer rich (between ₹1 crore and ₹2 crore), and super rich (over ₹2 crore)
Source: PRICE report



ORDER BOOK OF THE LEADING DEFENCE COMPANIES

(All figures in INR Crores)

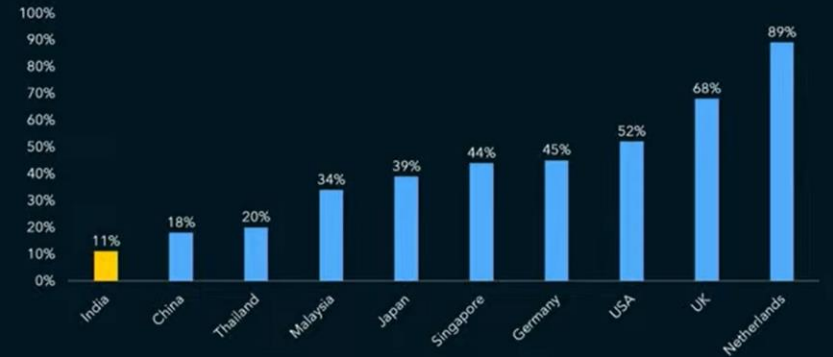
Company	Order Book (INR Crores)
HAL	84,800 Cr
Bharat Electronics	55,450 Cr
Mazagon Dock	43,500 Cr
Bharat Dynamics Ltd	13,000 Cr
Cochin Shipyard	20,000 Cr
Astra Microwave	1,650 Cr
MTAR	766 Cr

www.finmedium.com

Data Source - Moneycontrol



MORTGAGE AS A % OF GDP



India has one of the lowest mortgage as percentage of GDP. Its lower than some of the Asian countries like Thailand and Malaysia. One of the key to increase the same is to reduce red tape which in turn can reduce price of the property

Emerging Themes

A. Move Towards Premiumization

- Shift in mix seen in demand for premium real estate, luxury cars and increasing average realization in the Travel & Tourism industry

B. Tailwinds in PSU across different sectors

- Seeing strong tailwinds in PSU Banks, Defence, Mining and Infra
- Robust loan growth in PSU Banks, strong order book of the large Defence players and increasing capex by government owned mining players (Coal India, NMDC, etc..)

C. Strong growth in Capital goods and EPC

- Beneficiary of strong government and private capex in Infra, Electricity, Mining, etc..

Emerging Themes

D. Power Sector

- See huge headroom in the Electricity consumption in India with Avg per capita consumption today at ~850 units vs ~9000 units for a developed country
- Massive investment in Generation (esp Renewable energy), Transmission, Distribution; Recent announcement of large investment in Smart meters an example of this

E. Railway Modernisation

- Strong Capex outlay in budget for railways, of which nearly 33% spent in June Quarter
- Leading Engineering, Infra and wagon manufacturers have seen strong performance and have robust order books

F. Auto OEMs and ancillaries

- See many tailwinds for the industry - semiconductor issue subsiding, huge shift in Electric vehicles, focus on premium vehicle launches, increase in content per vehicle
- See high single digit volume growth and ~100-200bps margin expansion in FY24

Where do we see headwinds?

A. Tech Spending outlook is weak in North America and Europe

- Slowdown in Discretionary IT spending by large corporates in North America and ramp down in large sized projects have plagued the sector in the last few quarter
- Industry expects demand to pick up in H2 but lacks clear visibility

B. Specialty and Agrochemicals seeing weakness in demand and price erosion

- Weak global demand and huge inventory build up and dumping by Chinese players
- Some end-markets viz. domestic agrochem, Dyes, Pigments, Textile chemicals more impacted than other

C. Consumer Spending yet to pick up and weak rural demand

- Weak monsoon in the populous regions of North and North East and Southern Peninsula to adversely affect purchasing power
- FMCG, Two Wheelers and some Agrochem Sectors, more impacted than other

Outlook

- Optimistic on the outlook of India Inc. We could however see some correction in Broader markets, esp Mid and small caps
- Indian markets will continue to be expensive:
 - Largely due to strong domestic demand
 - Attractiveness of Indian markets vis a vis other Emerging Markets
- Our approach stays the same - *Stay nimble footed and adopt a stock specific bottom-up approach* in building our portfolios





Welcome to Citrus Advisors



Knowledge
Sharing

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- 🌿 [A\(dani\),B\(udget\),C\(redit_Policy\)-_ABC_Analysis_of_](#)
- 🌿 [Top_10_issues_for_2023](#)
- 🌿 [Dark_Clouds_with_silver_linings](#)
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STUDIES

Our recent views

- Brace_for_Volatility_April_2023 : 13th April 2023
- The A B C Analysis of the market (Adani Budget and Credit Policy): 10th Feb 2023
- Top 10 Issues for 2023: 16th Jan 2023
- Dark Cloud with Silver Linings: 7th July 2022
- Debt Investment Strategy: June 2022
- Crystal Ball Gazing- How do we see the next decade shaping up? : May 2022
- Russia Military Action in Ukraine (First-Cut Views) – 24th Feb 2022
- Top 10 issues for 2022 : 25th Jan 2022
- Q1FY22 takeaways – Not too many surprises – 29th August 2021
- Does it make sense to invest with Nifty at almost 16000 points – 29th June 2021
- The Rally of 2020 – how irrationally exuberant – 22nd June 2021
- Covid 2nd wave – an Update: 20th May 2021
- Covid 2nd Wave : The Road Ahead: 19th Apr 2021
- Sensex at 50K – Does the rally have more legs: 12th Feb 2021

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