



Citrus Advisors

Asset Management Services - PMS

“Outlook - Diwali 2023”



Happy Samvat 2079

Happy Diwali to you.

As we set out to celebrate Diwali 2023, we thought we will also wear our thinking caps and try to foresee what can we expect by next Diwali. This is a hazardous exercise under normal circumstances, but more so in the VUCA (volatile, uncertain, confusing and ambiguous) world that we live in today.

We have divided our analysis into three parts

- a. A look at the past – both in numbers and events*
- b. A set of assumptions that we could make with the available information today.*
- c. And finally trying to forecast who could be the winners by next Diwali*

We hope you find the study useful.



Contents

- **Between last Diwali and now:**
 - How did the BSE Sensex, Mid and Small cap perform
 - Which sectors outperformed or underperformed the BSE Sensex
 - The top 10 events between last Diwali and now
- **Top Five Assumptions**
 - Elections
 - Interest Rates
 - China + 1 Consumption
 - Commodity prices
- **The winning sectors**



Between Last Diwali and now

Performance of Indices between Diwali'22 and Diwali'23

Company Name	Performance between Diwali'22 and Diwali'23
S&P Bse Sensex	8.60%
S&P Bse Midcap	30.13%
S&P Bse Smallcap	32.89%

Company Name	Performance between Diwali'22 and Diwali'23
S&P BSE Industrials	55.15%
S&P Bse Realty	51.80%
S&P Bse Capital Goods	47.46%
S&P CPSE	44.18%
BSE - PSU	37.32%
S&P Bse Auto	25.88%
S&P Bse Metal	22.74%
S&P Bse Healthcare	21.87%
S&P BSE Consumer Discretionary	21.73%
S&P BSE Telecommunication	17.43%
S&P Bse Fast Moving Consumer Goods	17.40%
S&P Bse Information Technology	9.55%
S&P BSE Private Bank Index	5.81%
S&P Bse Bankex	4.26%
S&P BSE Utilities	-5.31%

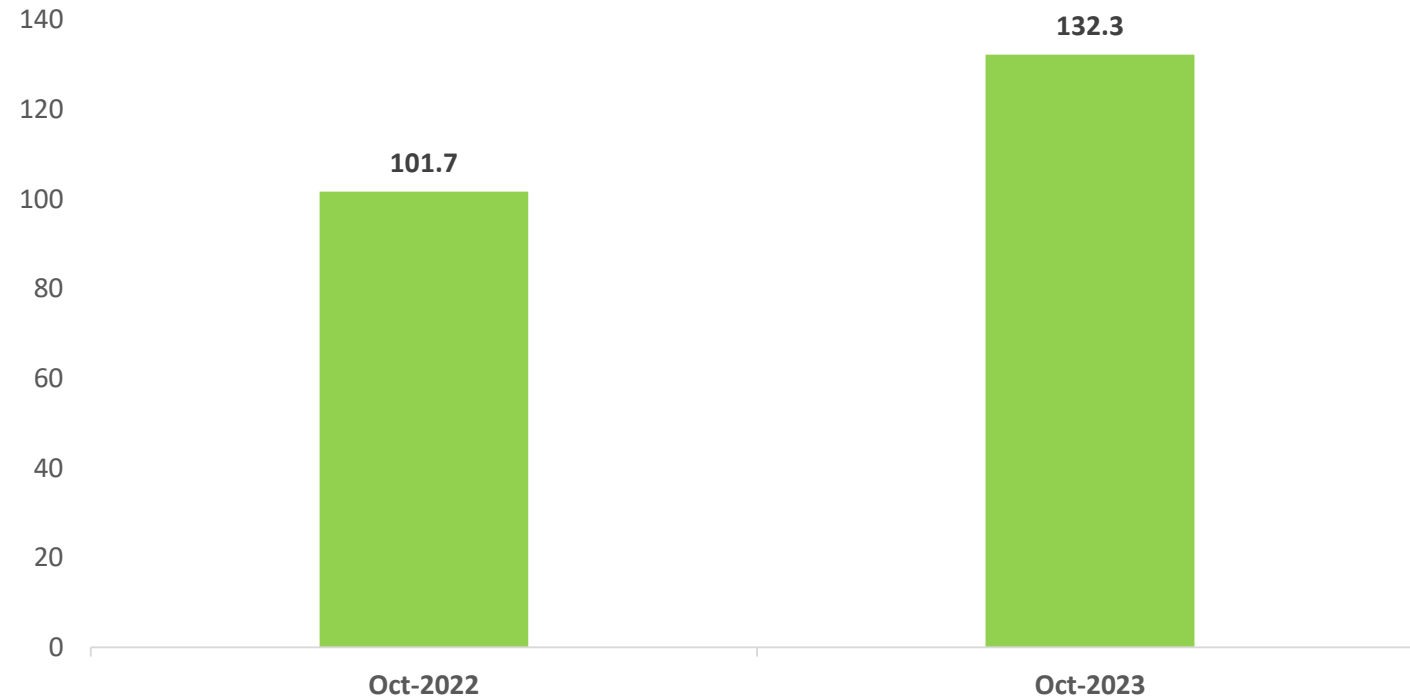
- Sensex gave a return of 8.6% between last Diwali and this Diwali. Whereas, midcap as well as smallcap indices were significantly higher than Sensex
- Within the sectoral indices, Industrials gave the highest return followed by Realty. The only negatively performed index in the list was Utilities



Major Events Between Last Diwali and now

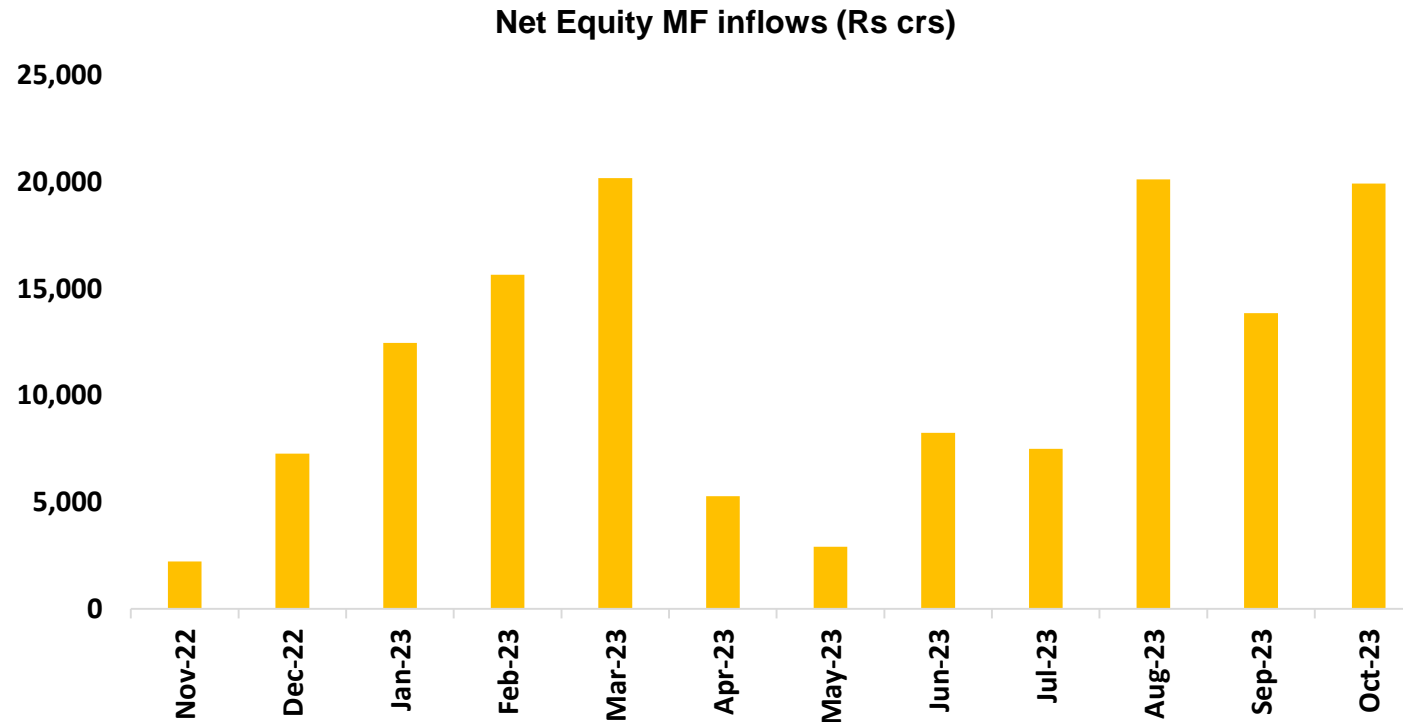
1. Year of the Retail Investor

Strong growth seen in number of Demat accounts (million)



Source: CDSL, NSDL

Year of the Retail Investor (2) – Strong Mutual Fund Flows



Net Equity Mutual Funds Inflows of ~1.35 lakh crores over the last 12 months

2. Mid and Small caps ruled the markets.

Performance of Top 2,000 Stocks between Diwali'22 and Diwali'23

% Change	No. of stocks above Mcap 40,000 cr	% of total stocks	No. of stocks below Mcap 40,000 cr	% of total stocks
More than 200%	3	2%	78	4%
Between 100% - 200%	3	2%	197	11%
Between 50% - 100%	21	14%	300	16%
Between 10% - 50%	78	52%	545	29%
Less than 10%	44	30%	731	39%
Total Stocks	149	100%	1851	100%

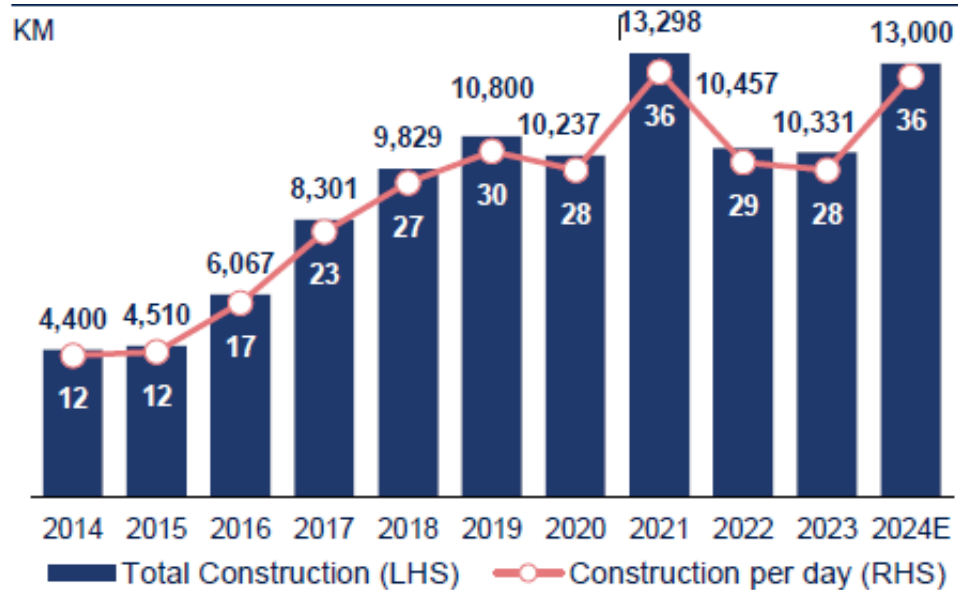
- Around 27 (18%) of the large cap companies gave over 50% while 30% gave returns less than 10%
- On the other hand, cumulatively, 575 (31%) of the small and mid cap companies gave returns over 50%
- 39% of the small and midcap companies grew by less than 10%
- Clearly, small and mid caps ruled the market

3. Geopolitical Tensions rocked the world

- Russia invaded Ukraine in February 2022, almost 18 months have passed but still the tremors are felt in the global markets. The spillover effect fell upon India as well.
- Indian stock markets tumbled, inflation soared to record highs, rupee plunged against US dollar, foreign exchange reserves took a hit and more.
- India recovered well after the war commenced and still considers to be a bright spot for investors
- Exports slowed as global demand waned
- Another tension started last month with the Israel-Hamas conflict. As India imports around 1.6 billion barrels of oil annually, Indian economy might get affected if the oil prices see a significant jump because of the war
- A weaker rupee can lead our imports to become more expensive, which might lead to higher inflation here and affect consumer spending during the festival season.
- One of the main reasons for India's strong economy is a strong urban consumption and a front footed government capex

4. Infrastructure progress impressive – Roads

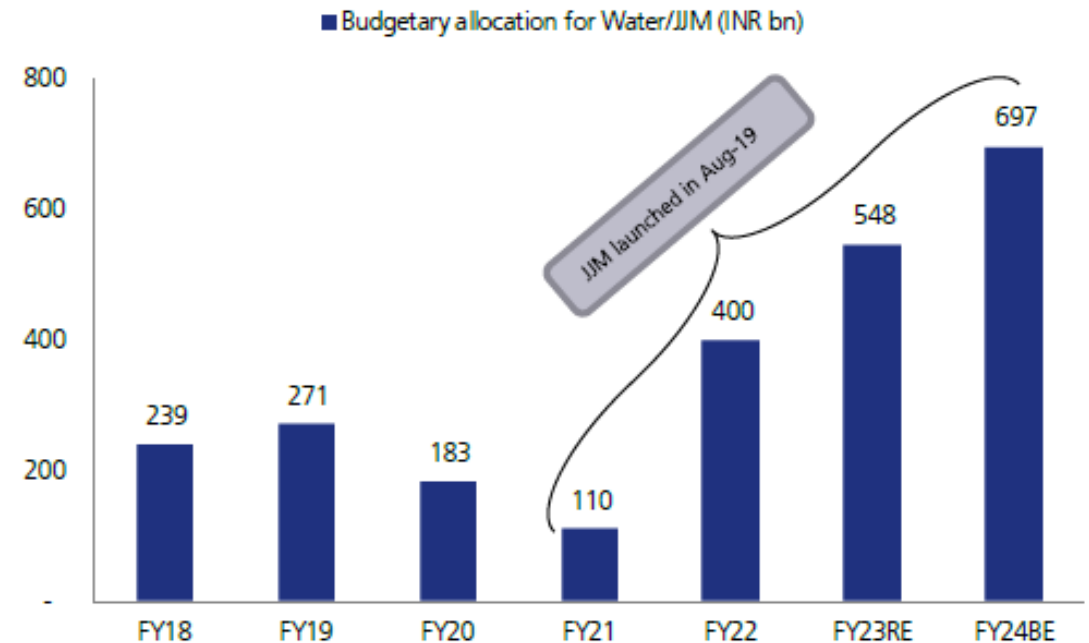
Construction Activity FY14 to FY23.



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

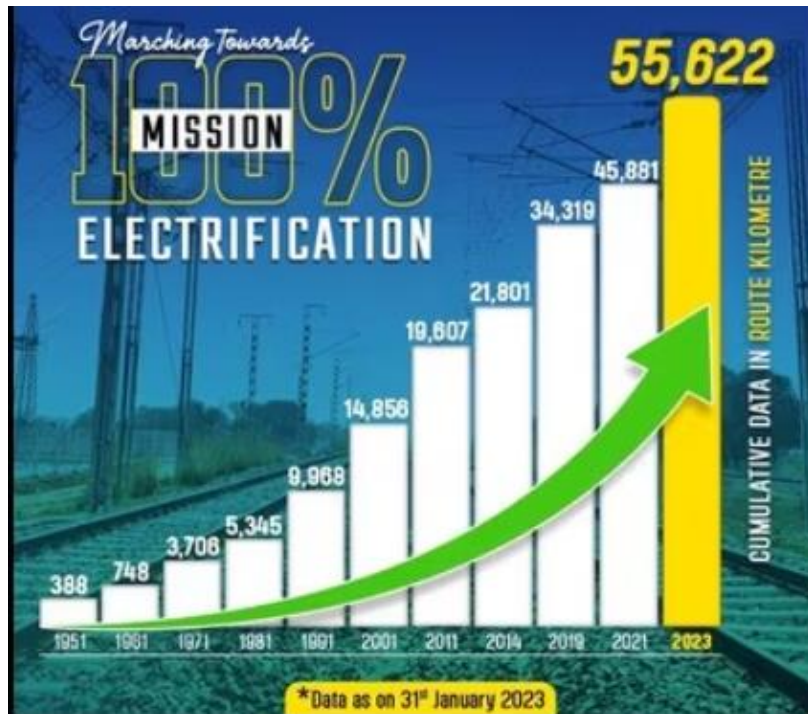
Budgetary Allocation for Water/Jal Jeevan Mission (JJM)



Source: JM Financial Infra Report, Budget documents

Infrastructure progress impressive - Railways

Railways Electrification (in Kms)



Source: HT, Indian Railways

IMEEC Work Begins With ₹3.5 Lakh Crore Railways Plan To Link 8 Ports On West Coast

IMEEC is a strategic project aimed at transporting goods from Indian ports to Fujairah in the UAE by ship, then by train to Haifa in Israel, and onward to Europe with multiple nations in the alliance

INDIAN COMPASS
23 October 2023

A REVOLUTIONARY PROJECT TO COUNTER CHINA'S BELT AND ROAD INITIATIVE

ELECTRIFIED RAILWAY NETWORK

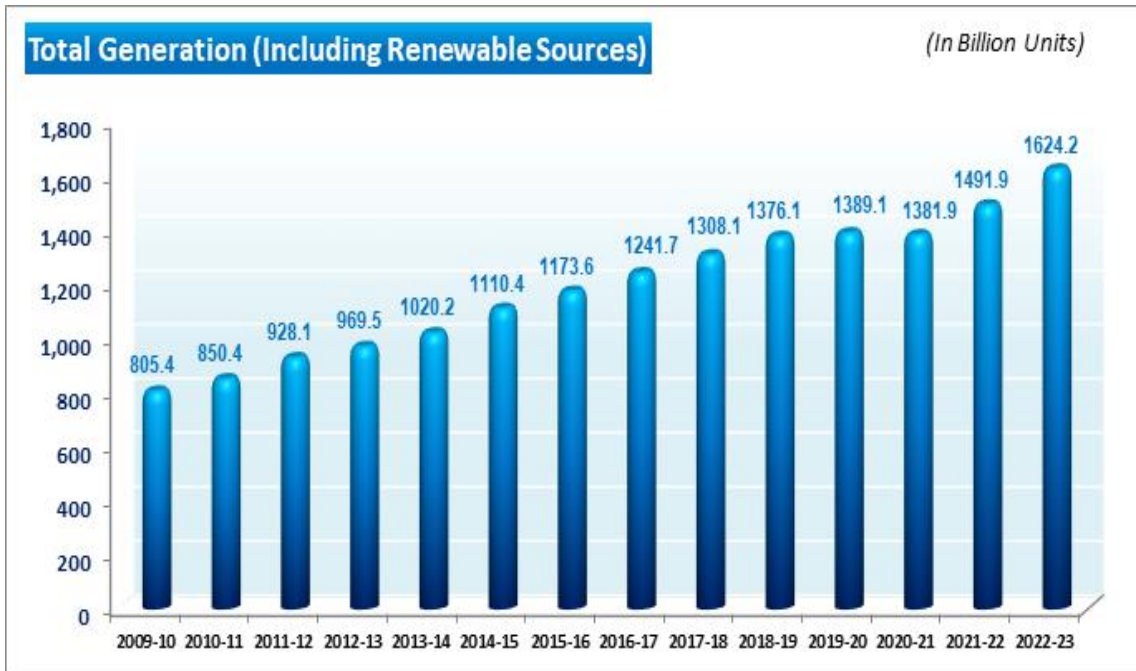
STATES/ UTs	TOTAL NOS.	% ELECTRIFIED
U.P, UKD, TELANGANA, ODISHA, M.P, JHARKHAND, J&K, H.P, C.G, HARYANA, DELHI, CHANDIGARH, PUDUCHERRY, MEGHALAYA	14	100%
BIHAR, ANDHRA, T.N, MAHARASHTRA, W.B, KERALA	6	90%+
GUJARAT, PUNJAB	2	80%+
RAJASTHAN, GOA, KARNATAKA	3	70%+
ASSAM	1	30%+

#As on June 30, 2023

Source: Indian Railways

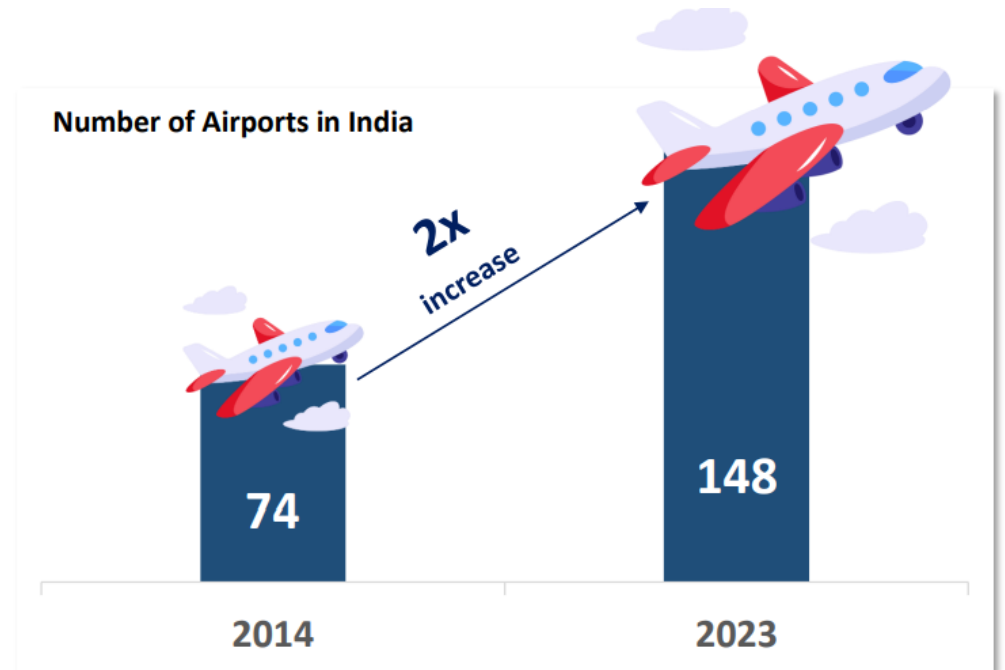
Infrastructure growth – Power and Airports

Power generation Capacity



Source: Power ministry

Airports added in the last 9 years



Source: GoI (Press Information Bureau)

5. Weakness in consumer spending

- Rising inflation, particularly in essential goods and services, is contributing to a decline in consumer purchasing power, constraining discretionary spending.
- As the global tensions continue rise in the ongoing disruption in supply chain have have led to shortages and increased prices for various goods leading to lower demand in markets.
- Most of the FMCG companies have reported flat profits & lack lustre volume growth . The weakness in the consumer spending is clearly visible in the Indian markets.

6. Inflation cooling down globally

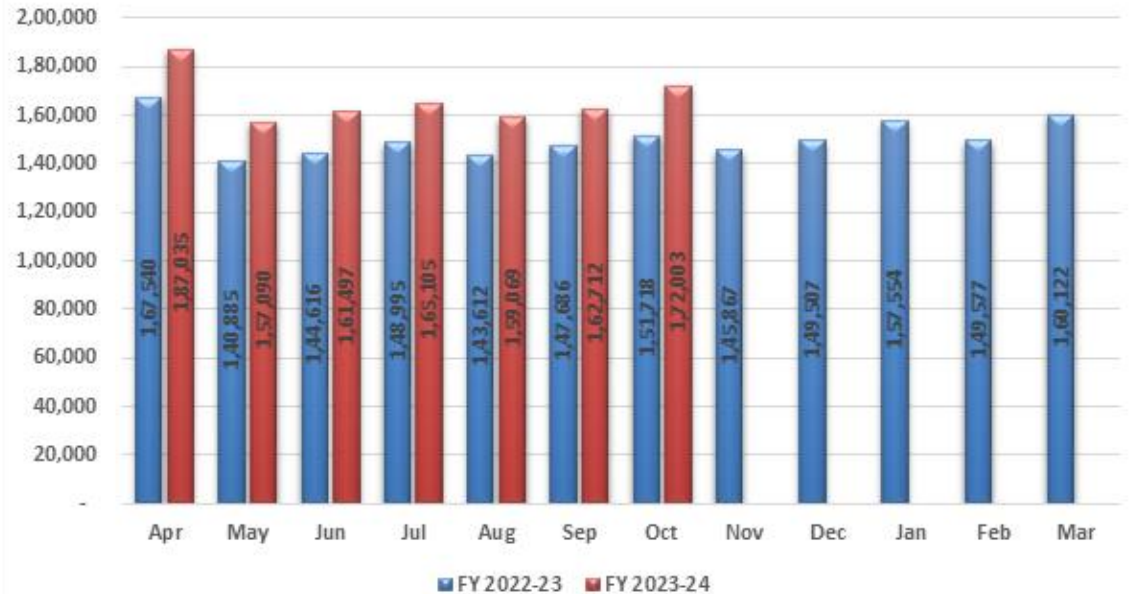
Timeline	US Consumer Inflation	India CPI
Oct 2022	7.7%	6.77%
Nov 2022	7.1%	5.88%
Dec 2022	6.5%	5.72%
Jan 2023	6.4%	6.52%
Feb 2023	6.0%	6.44%
March 2023	5.0%	5.66%
April 2023	4.9%	4.7%
May 2023	4.0%	4.25%
June 2023	3.0%	4.81%
July 2023	3.2%	7.44%
August 2023	3.7%	6.83%
September 2023	3.7%	5.02%

7. High Frequency Data (GST, Tax Collections) strong

FIN MIN

- Gross direct tax collection reaches ₹12.37 lk cr up to November 9
- Gross direct tax collection shows 17.59% growth YoY
- Direct tax collection stands at ₹10.60 lk cr, up 21.82% YoY
- Direct tax collection at 58.15% of total Budget estimates of direct taxes for FY24

Trends in GST Revenue Collection (Rs. in crores)



8. 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)

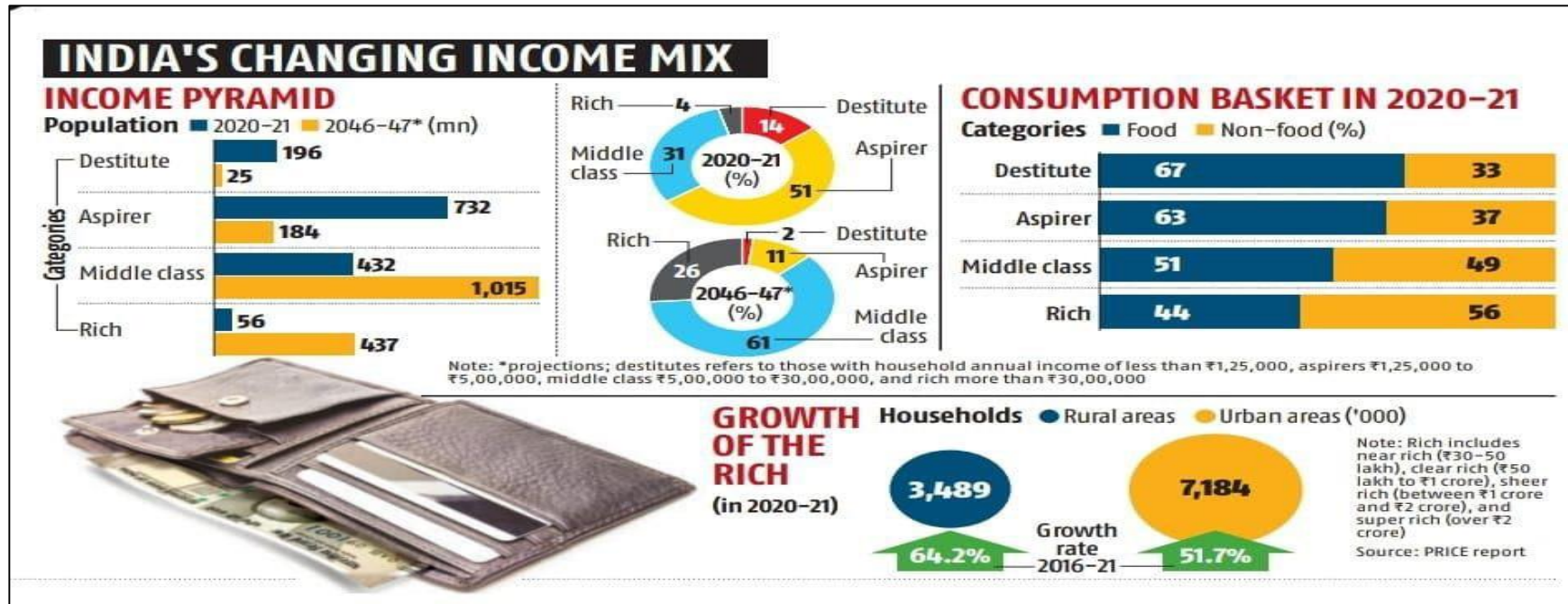
PLI Scheme across sectors

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

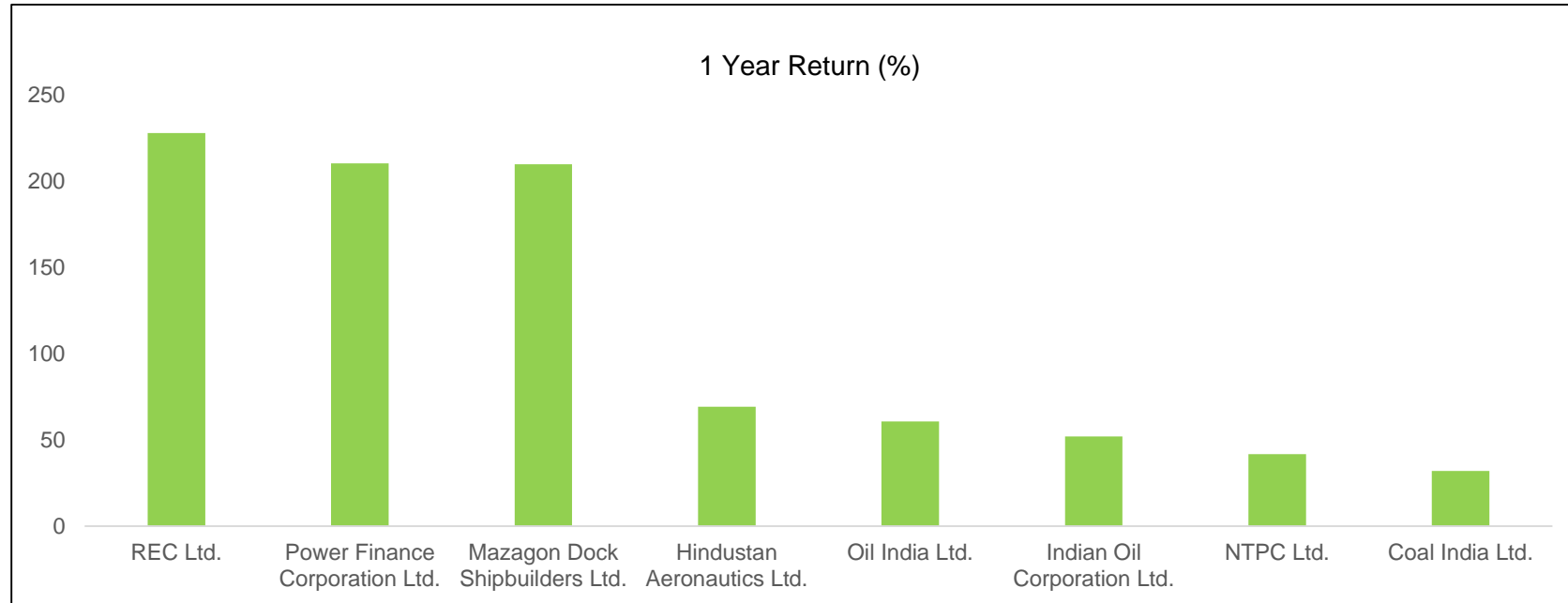
Source: BQPrime

9. Premiumization was the theme across sectors



- The premiumization trend in India reflects a growing consumer preference for higher-quality and premium products across various industries, driven by rising disposable incomes, evolving lifestyles, and an increasing focus on quality and brand image.
- This trend is particularly notable in sectors such as food and beverages, consumer electronics, and fashion, where consumers are willing to pay a premium for enhanced experiences and superior products.

10. PSU stocks become market favourites



- PSU companies have witnessed a strong rally in recent past due strong tailwinds across sectors.
- Seeing strong tailwinds in Defence, Infra & Mining .
- 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..)



Major Events and Assumptions between this Diwali and next

Eyes set on General Elections in 2024

- Outcome of state elections in large Hindi speaking states such as Rajasthan, Madhya Pradesh & Chattisgarh will be extrapolated to indicate the anti-incumbency factor in favour or against NDA
- Outcome of Telangana will be indicative of BJP regaining foothold in South
- Mizoram elections will signify if BJP continues to gain popularity in the North East after the recent events in Manipur
- Opinion polls conducted in August'23 seem to suggest clear majority for NDA in 2024

Important States go to Elections

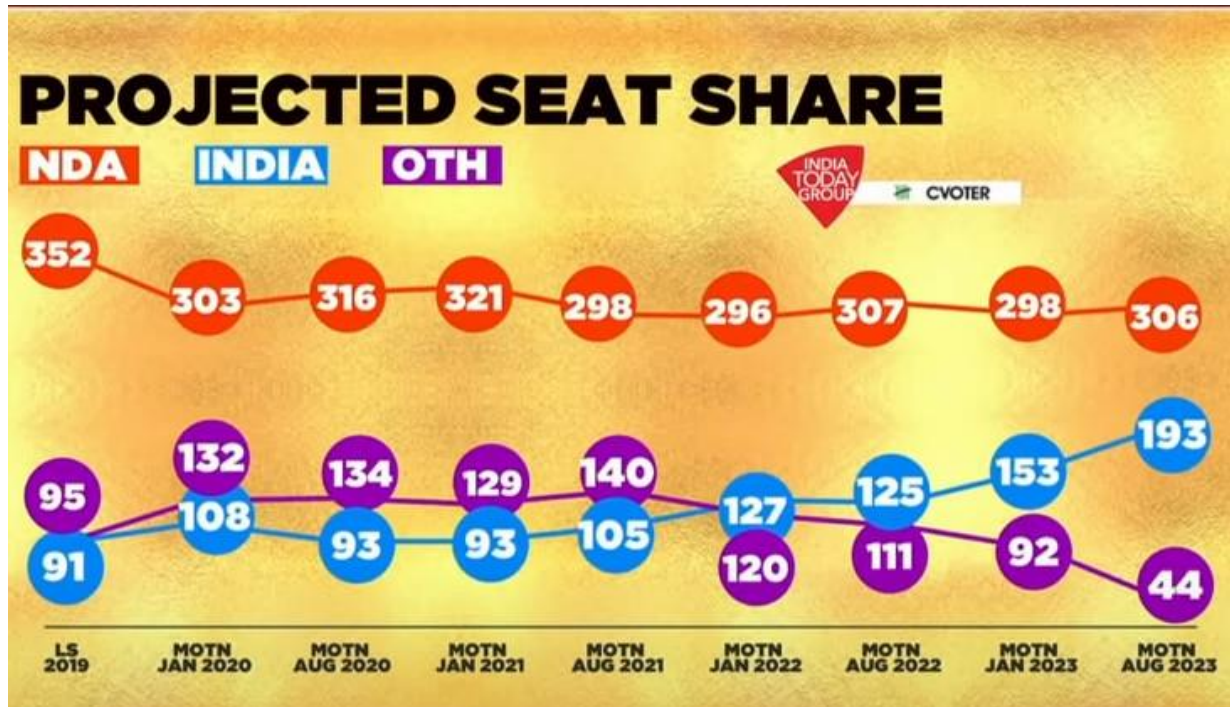
Upcoming Elections

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

- Assembly elections have started to take place in Chattisgarh from Nov 7th, Mizoram already finished on Nov 7th. MP, Rajasthan & Telangana will go to the polls from Nov 17th
- Counting of votes for State elections is scheduled on 3rd December'23

Opinion Poll on 2024 Election



All opinion polls suggest a clear majority for the NDA

General Elections: what do we expect?

- Any disappointment with the outcome of state elections will cause some volatility in the markets
- As we come closer to the general Elections (Apr – May '24) all sorts of speculation will start.
- PSU, Infra, Railway and Defence stocks may be more vulnerable
- Much will depend on the way the INDIA Coalition takes shape.
- As of now PM Modi's popularity enjoys the TINA Factor (there is no alternative)
- We expect the NDA to come back to power in 2024

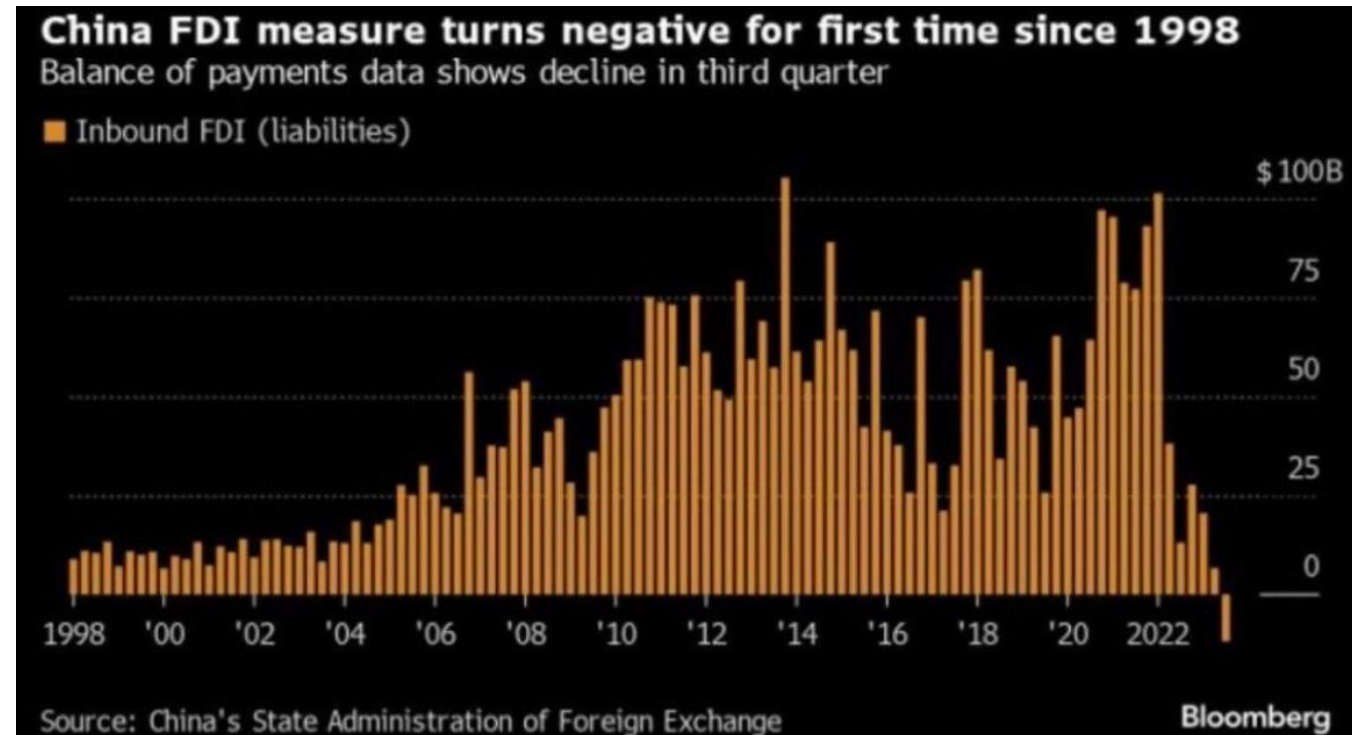
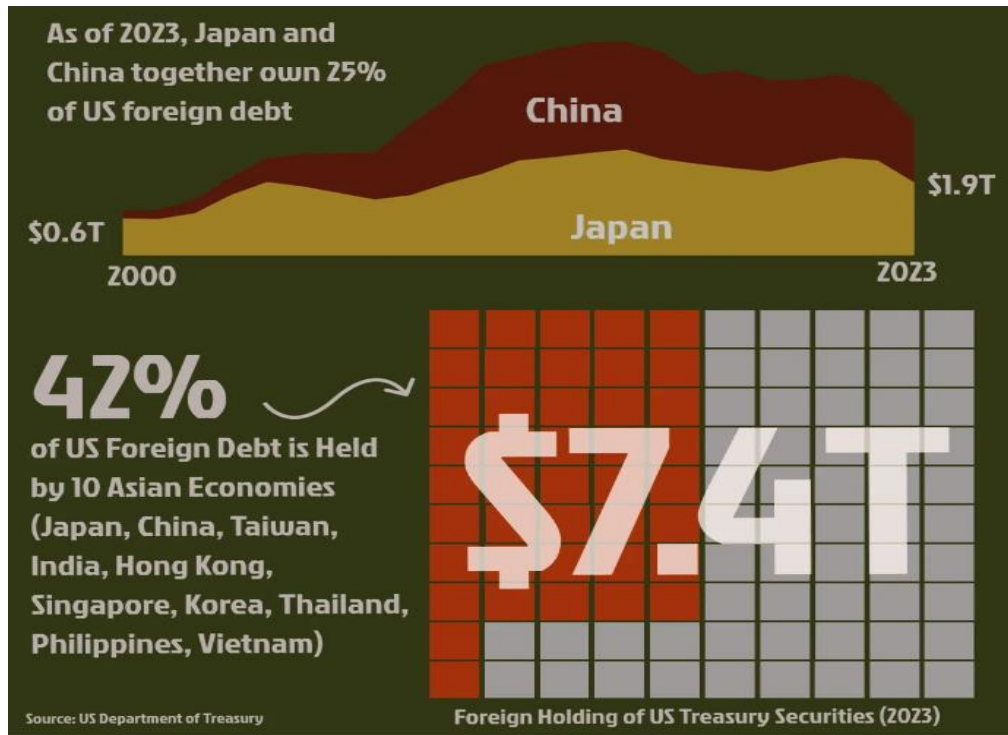
Interest Rates

- The street now expects the rate hike cycle to come to an end in the near term
- Globally, we saw central banks pausing rates (US, Bank of England, ECB). We saw US treasury yields cooling off post the recent Fed meeting and the Non farm payroll data.
- A Reuters poll of 100 economists suggest that the US Fed is done with hiking interest rates and might keep rates steady during Q1 of CY24 and expect rate cuts by mid-CY2024
- On the domestic front, RBI has maintained status quo on Repo rate since the June 2023 meeting. Inflation cooled down much below estimates to 5%.
- RBI's inflation forecast and GDP growth forecasts remain largely unchanged. Given RBI's focus on keeping inflation close to the mid-point of 4%, street expect the rate cut cycle to take place by mid to later half of CY24

Interest rates: what do we expect?

- We expect the Fed rates to be elevated in the next 2 quarters, thereafter there is a strong possibility of a dovish statement followed by a gradual decline from the 4th quarter.
 - This will be influenced by how softly does the US economy land
 - Also by the inflation trajectory, which is expected to stabilise at the current levels and then decline
- RBI is expected to hold its rate steady and begin the reduction cycle post March '24
 - Crude price trajectory, FDI and FPI flows will be key factors
 - Food inflation also needs to be watched

China + 1 to accelerate in the coming year

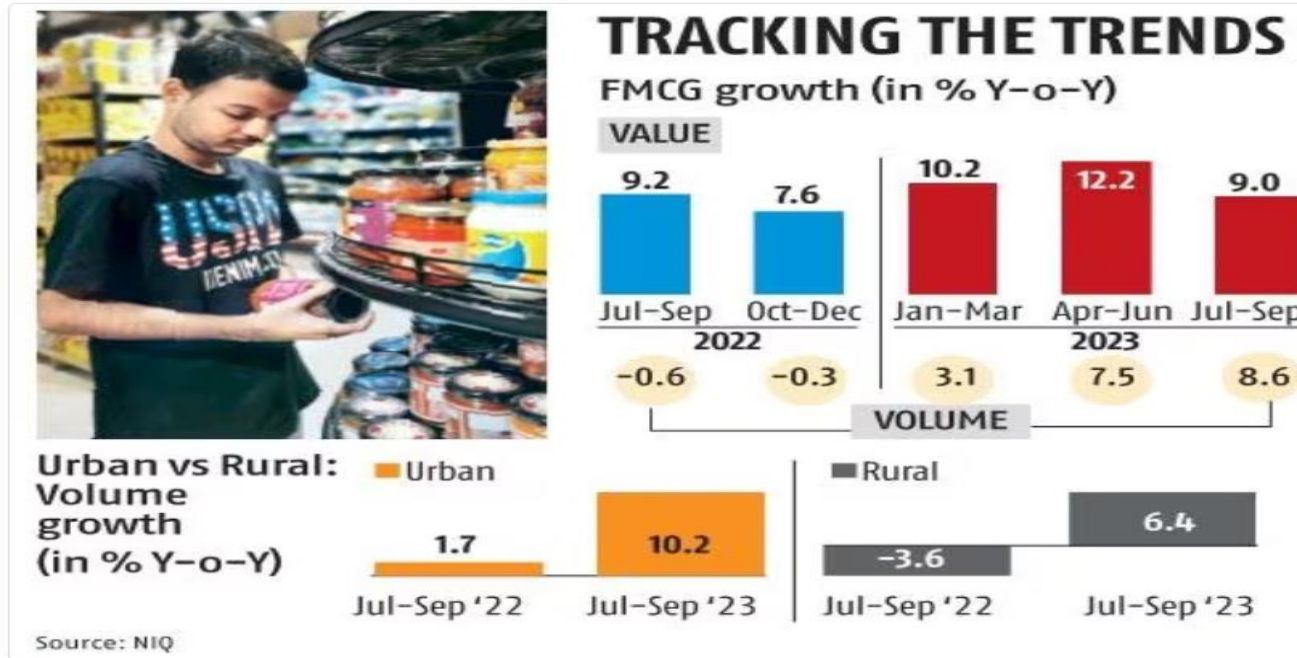


- China saw FDI outflows of \$11.8bn in Q3CY23; the first time foreign investment in China went negative in decades

China + 1: what do we expect?

- India will be a major beneficiary of the disenchantment with China
 - Recent crackdown by China has made investors very wary of putting more capital in China
 - India offers a large workforce and also a captive market which attracts industry
 - PLI has been major pull
 - Variety of novel industries have set up major plants in India
 - iPhone 15 is now manufactured in India
 - Micron is setting up semiconductor plant in Sanand in Gujarat
 - Tesla is in talks with the government for fast track approvals

Rural Demand



- As the rural markets were affected by the second wave of the COVID-19 pandemic . Further exacerbating the situation, unseasonal rainfall during the first quarter of 2023-24 led to substantial crop damage and reduced output which led higher costs & lower incomes .
- However, with the core inflation moderating the rural markets have shown signs of recovery in on YoY basis.

Rural demand: what do we expect?

- Most FMCG companies have stated that they are seeing green shoots of demand recovery in rural areas
- Sale of 2 Wheelers has also picked up
- Monsoon was by and large normal with only 6% variation from its long term average and minimum support prices of cane has been favourable in states such as UP which did not receive adequate rains
- Centre has extended the free ration scheme by another 2 years which largely benefits the rural population
- With elections approaching we will see more populism from the Government and thrust of goodies to the rural areas.
- We expect rural demand to pick up significantly by the 1st quarter of 2024

Commodity prices

Commodity	Price Trends	Upside risks	Downside risks
Energy	<p>Energy Price Index Jan 2020-Oct 2023 2010=100</p>	Deepening crude oil supply cuts by OPEC+	Lower demand amid weaker global economic growth, rising efficiency and demand reduction efforts
		Gas supply disruptions due to labour strikes in Australia and maintenance in Norway	Favourable levels of gas storage in Europe
		Potential soft landing in the US, leading to higher demand	Weaker-than-expected economic recovery in China
Food	<p>Food Price Index Jan 2020-Oct 2023 2010=100</p>	Intensifying El Niño conditions and extreme weather events	Weaker consumer demand amid persisting cost-of-living pressures
		Elimination of Black Sea grain deal, lower supply from Ukraine	Higher supply on greater harvests and plantings
		Export restrictions, such as curbs of rice exports from India	Normalising input costs
Metals	<p>Metals Price Index Jan 2020-Oct 2023 2010=100</p>	Geopolitical risks and supply disruptions	Lower demand due to economic slowdown in China
		Accelerating demand for EV metals	China's real estate sector problems
		Reduction of steel production capacity in Europe	Tighter monetary policies and slowing capital spending

Source: Euromonitor International from World Bank

Note: Data from September 2023 are forecast

Commodity prices: what do we expect?

- Commodity prices have softened significantly following a slowdown in China and Europe
- Surprisingly despite the Israel – Hamas conflict, crude prices have come off
- We expect commodity prices to remain soft as long as there is uncertainty over the recovery of the US and European region
- We expect this trend to start reversing in the second half of 2024 as we start seeing confirmation of an enduring recovery in global economy and China stabilising after its recent course correction.



Likely Winners

Winning Sectors

Sector	Remarks
Autos	<ul style="list-style-type: none"> • 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
Banks	<ul style="list-style-type: none"> • Robust credit growth, stable asset quality, strong balance sheet, contingency buffers by large private sector banks – all bode well for Banks. • NIMs could peak with rising cost of deposits but that would be more than offset by strong loan book growth, operating leverage and lower credit costs. • Valuations also look reasonably attractive.
IT Services	<ul style="list-style-type: none"> • While a decline in tech spending from North America and Europe are some of the headwinds, the long term growth outlook looks positive on Cloud related deployment and digital transformation. • Deal win momentum of Tier-1 and many mid-cap IT vendors are robust that could drive growth in FY25 and beyond.
Infra	<ul style="list-style-type: none"> • Higher infrastructure spending, healthier balance sheets, capacity utilisation rate near 75 per cent and no major domestic issues gives this industry a much needed comfort • Government initiatives like Gati Shakti National Master Plan for multimodal connectivity and dedicated freight corridors will help in creating seamless logistics infrastructure.

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