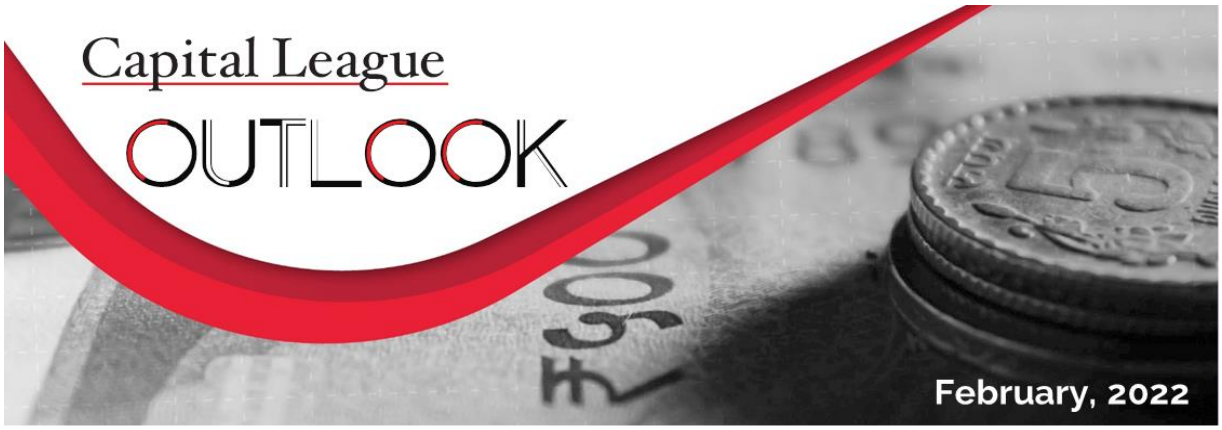
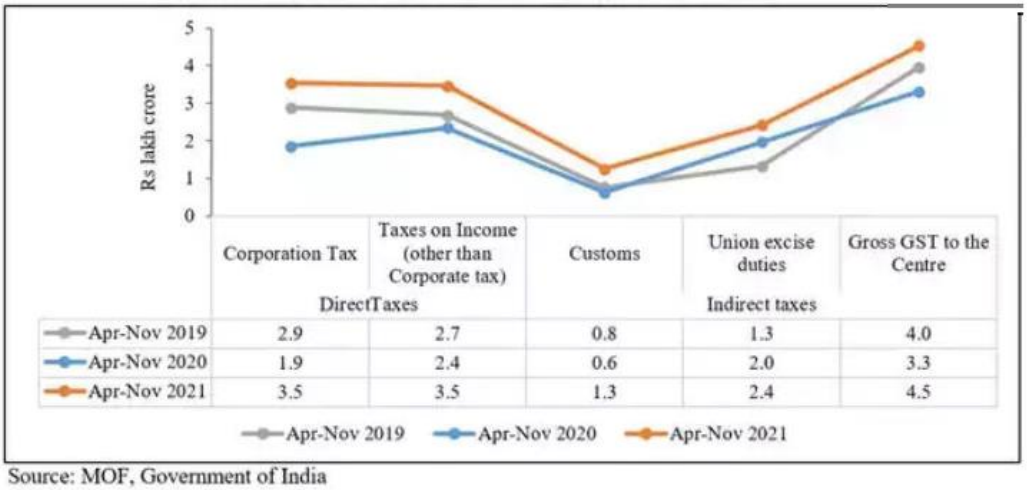


Indian Economy

- The real GDP growth during FY 21-22 is estimated at 9.2% as compared to the contraction of 7.3% in FY 20-21.
- This has resulted in higher indirect tax and Direct tax revenue.

Higher than expected nominal GDP means a higher Tax Revenue



	Corporation Tax	Taxes on Income (other than Corporate tax)	Customs	Union excise duties	Gross GST to the Centre
	DirectTaxes		Indirect taxes		
Apr-Nov 2019	2.9	2.7	0.8	1.3	4.0
Apr-Nov 2020	1.9	2.4	0.6	2.0	3.3
Apr-Nov 2021	3.5	3.5	1.3	2.4	4.5

Source: MOF, Government of India

- The gross GST collections hit a record of INR 1.41 Lac Cr in Jan'22. Economic recovery, price increase by companies on account of inflationary pressures, plugging loopholes through efficient administration among other factors are responsible for consistently higher collection.
- Corporate earnings in Q3Fy22 show sustained growth momentum. For 1540 companies that have announced results till now, Net sales up 21% while Net profit has grown by 36% though operating margins have been under pressure due to an increase in input/raw material costs which have gone up by 4-5%.

3Q ENDED	SALES (INR CR)	OPERATING PROFIT (INR CR)	NET PROFIT (INR CR)
DEC 2021	2,229,784	614,845	225,527
DEC 2020	1,835,244	539,511	165,421
% CHG	21.50	13.96	36.34

Source: Business Standard

- RBI kept the policy repo rate unchanged at 4% and has retained its accommodative stance.

Budget Highlights

- Union Budget 2022: High on **continuity, predictability, and transparency** and focus on 4 pillars – **productivity, climate action, financing investments & PM Gati Shakti plan.**
- **Capital Expenditure –** Budget was pro-growth with a big push on Capital Expenditure (35.4% up) with announcements for the Infrastructure sector and Production Linked Incentive schemes which should lead to a virtuous cycle of employment generation, demand enhancement, and private sector investment.
- **Fiscal Deficit** - Govt. leveraged the fiscal space provided by the pandemic to enhance Capex rather than revenue expenditure. Revenue collection buoyant but fiscal deficit at 6.9% in FY22 and 6.4% in FY23. Numbers more transparent as below the line items have been subsumed into the primary fiscal deficit. Bond prices are reacting negatively to higher Govt borrowing program.
- Further impetus to **Atma-nirbhar Bharat, Agriculture, Financialisation (of Post office deposits) with futuristic, forward-looking** outlays on various areas related to leveraging technology including **climate-friendly tech.**
- **Digital currency** to be launched by RBI. Cryptocurrency to be taxed at 30%, no deduction allowed, 1% TDS on every transaction – given legitimacy to investment in this asset class and making sure that govt. is able to track all transactions.
- Corporate surcharge reduced from 12% to 7% and max. surcharge on LTCG to brought down from 37% to cap of 15%.

Global Economy

- Global equities fell sharply in January (-5.0% MoM) led by highly valued tech stocks as the likelihood of potential interest rate hikes by the Fed, higher inflation and geopolitical concerns w.r.t Russian invasion of Ukraine leading to higher oil prices weighed on the market. Indian equities declined 1.4% (USD terms) outperforming broader markets in Jan'22.
- US: Strong employment data leading debt markets to believe that Fed can be more aggressive on an interest rate hike in Mar'22 – 50 bps vs 25 bps, and may accelerate shrinking its nearly USD 9 Tn balance sheet.
- Crude prices hovering around USD 90 per barrel. Escalating oil prices has played a massive role in elevating inflation globally. As the US and Iran resume talks surrounding the 2015 nuclear deal, a successful resolution could see the return of Iranian oil into the market, which is likely to have the desired effect of lowering oil prices.

Outlook

Equity

- Overall corporate fundamentals in listed space continue to be strong. The corporate sector and its profitability, especially the cyclical economy is coming out of a trough and is expected to contribute significantly to the total profit pool of BSE 500 companies.
- India's Market cap to GDP (based on CY23E GDP) is around 90% i.e. in the range of 60-100% it has trended during the past 10 years. However, the gap between 10Y G-sec and 1Y-Forward NIFTY 50 Earning yield is higher than its long-term average. Most indicators indicate that on overall basis markets are no longer cheap.
- The third wave in India seems to be waning now. With various Covid curbs being removed, further opening up of workplaces and services, the business confidence is expected to rebound.
- The imbalance in vaccination availability, as well as global coverage, remains a key risk for economic prospects globally. Geopolitical developments leading to high oil prices and supply constraints are expected to keep markets on edge.
- Volatility to continue for next 2-3 months looking at global cues on interest rates/inflation – FII selling.
- It is recommended to maintain neutral asset allocation and buy the dips or stagger investment in Equity oriented funds over the next 3-4 months.

Debt

- On fixed income, 10 yr G-sec hardened to 6.90% from 6.77% in Feb'22; rates have hardened across the yield curve and may inch up to 7.25% based on global cues.
- MPC/RBI outlook and guidance will further direct the debt markets in the short term.
- Based on current trends, accrual at the shorter end of the money markets is expected to improve. We continue to recommend arbitrage funds and shorter duration debt funds for shorter-term deployment along with Target Maturity products (4-5 years) for the staggered deployment of long-term surplus from a hold-to-maturity point of view.