

Year 2023 A Brief Market Outlook



Indbank
Merchant Banking Services Ltd
(A Subsidiary of Indian Bank)

MARKET OUTLOOK 2023

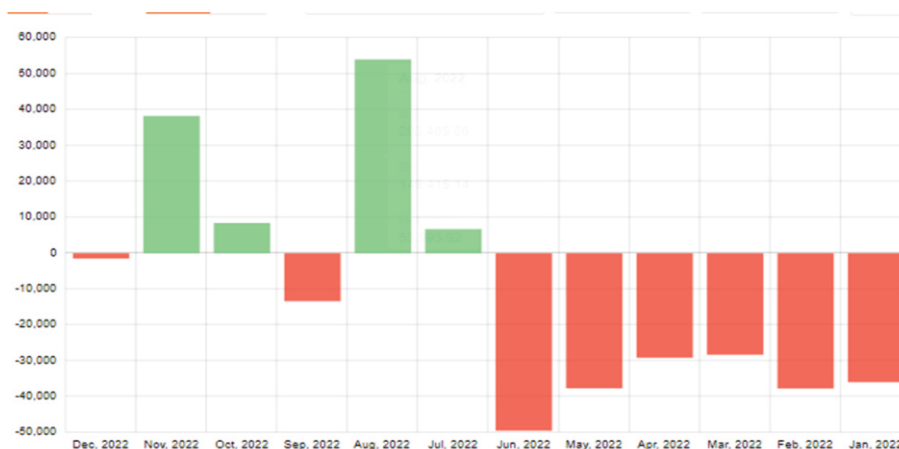
The year 2022 was fraught with challenges including inflation, high interest rates, lockdown in China and the geopolitical tensions arising from the Russia-Ukraine war. Although these headwinds have impacted markets globally, India remains to be the least affected over the last year.

Indian indices ahead of global peers

Name	1 Month	YTD	1 Year	3 years
Nifty 50	-2.41%	4.70%	5.55%	48.37%
BSE Sensex	-2.64%	4.76%	5.57%	46.79%
Dow Jones	-1.80%	-8.52%	-8.90%	16.05%
S&P 500	-3.24%	-19.66%	-20.11%	18.19%
Nasdaq	-5.74%	-33.82%	-34.33%	14.95%
S&P/TSX	-3.80%	-8.09%	-8.61%	13.62%
Bovespa	-2.10%	3.58%	4.29%	-6.83%
DAX	-2.62%	-12.00%	-11.82%	4.81%
FTSE 100	0.22%	1.95%	1.45%	-1.53%
CAC 40	-1.76%	-8.41%	-8.52%	8.51%
AEX	-2.46%	-12.26%	-12.06%	14.58%
Nikkei 225	-6.02%	-8.51%	-8.88%	10.50%
Shanghai	-1.98%	-15.18%	-14.17%	2.74%
Hang Seng	9.39%	-14.89%	-13.74%	-29.45%

FII inflows bolstering Indian indices since July 2022

The second half of the year saw resurgence in the FII inflows. We can expect the inflows to continue owing to superior performance of Indian markets amidst negative global cues.



Upcoming budget expectations

The Union budget 2023 is expected to have announcements which could attract more investments into the country amid uncertainty prevalent in global markets. The performance of the IT sector is vital in the growth of the country. On this regard, a recent forecast by Gartner indicates that IT spending in India is projected to increase at 2.6% in 2023. The government also plans to simplify the capital gains tax regime, which is currently complex in nature.

In 2022, the government laid emphasis on bolstering renewable energy capacity and set a target of achieving 500 GW in capacity by 2030. At present, the clean energy capacity of the country is 173 GW and projects of 80 GW are under construction. It is expected that a capacity addition of 30-35 GW would be made in 2023.

The budget is expected to provide some relief to the middle and lower middle class, who have been hit by two consecutive years of pandemic, global inflation and rising interest rates.

At present, the tax rates are different for different sectors. To enable India to be a manufacturing as well as a service industry hub, the corporates expect there to be a similarity in tax rates.

THEMES TO WATCH FOR THE YEAR 2023

Banking & Financials

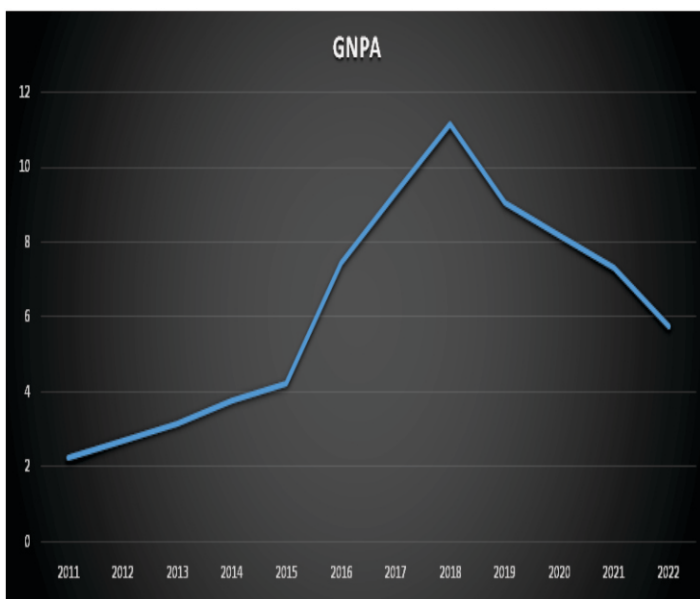
As per the Reserve Bank of India (RBI), India's banking sector is adequately capitalised and well-regulated. The economic situation of the country is better than other nations of the world. Indian banks are generally resilient and have responded well to global headwinds.

The fintech services have been a major growth driver for the banking sector, making banking and finance more streamlined through automation.

The Indian economy is expected to grow at 6-7%, and is likely to be unaffected by a global economic slowdown. This calls for enhanced spending on infrastructure, speedy implementation of projects which offer tremendous growth potential for the banking sector. Pickup in corporate credit cycle, extensive fintech adoption, rising NIM owing to repo rate hikes present an upbeat outlook for the Indian banking sector.

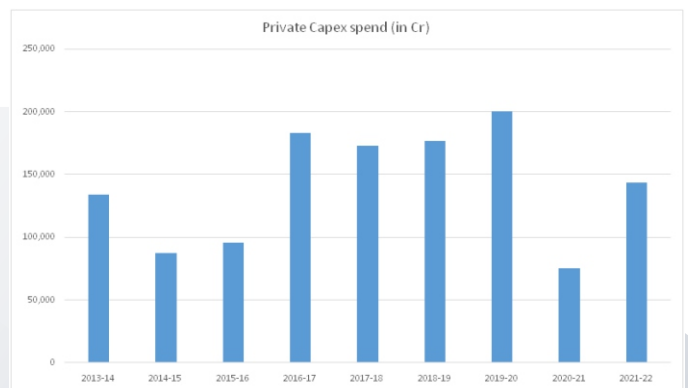
Scaling down in NPA's to improve asset quality

After peaking in 2018, the GNPA's of banks have been consistently decreasing over the last four years, which has been driving the banking sector's robust performance.



Pickup in private capex activity

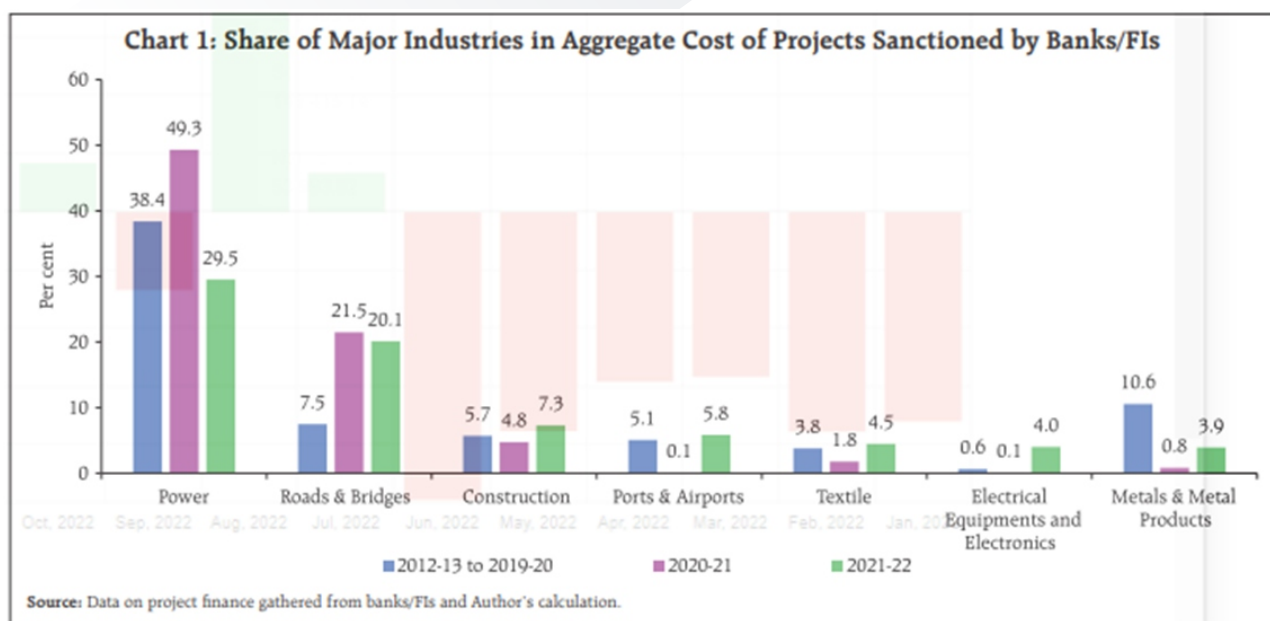
Capital expenditure (capex) of the private corporate sector is one of the main lead indicators of the investment scenario in the economy. If India grows as per estimated rate of 6-7%, it would require addition in the capacity utilisation and increased investment. The banking sector would be direct beneficiaries of the massive capex spend by the corporates. Also, a lot of potential lies hidden in the form of non-performing assets and as they get released, there will be a substantial change in the capex front.



Capital goods

The capital goods sector comprises of machinery and equipment which is used for production of other goods to be utilised by consumers or other businesses. These goods are mainly used for technological upgradation and expansion in the fields of packaging, power generation, construction, automobiles, research and development.

The Capital Goods industry contributes about 12% to the total manufacturing activity in India. The sector has a major role to play in the growth of other industries as it provides critical input, i.e., machinery and equipment to the remaining sectors which fall under the realm of manufacturing.



Defence

Under the 'Atmanirbhar Bharat' initiative, the Government of India has identified the defence and aerospace sector as a focus area. This would require the establishment of indigenous manufacturing infrastructure supported by a requisite research and development ecosystem.

Over the next 5-7 years, the Government of India plans to spend \$ 130 Bn for fleet modernisation across all armed services. The Ministry of Defence has also notified three 'Positive Indigenisation lists' which includes 310 defence equipment to be manufactured domestically. Additionally, to promote export and liberalise foreign investments FDI in defence sector has been enhanced up to 74% through the automatic route and 100% by Government route.

As for the international market, India's exports, which stood at Rs 900 cr., in 2014, have leapfrogged to Rs 14,000 cr in 2021-22 and is expected to achieve the target of Rs 25,000 cr by 2025.

STOCK PICKS

ICICI Bank

ICICI Bank is the second largest private banking entity of the country. The company offers a range of financial products and services to retail, rural, small and medium enterprises and corporate customers. The Bank delivers products and services through various channels including branches, ATMs, mobile phones and the internet.

ICICI Bank has the second highest market share in the private banking domain –

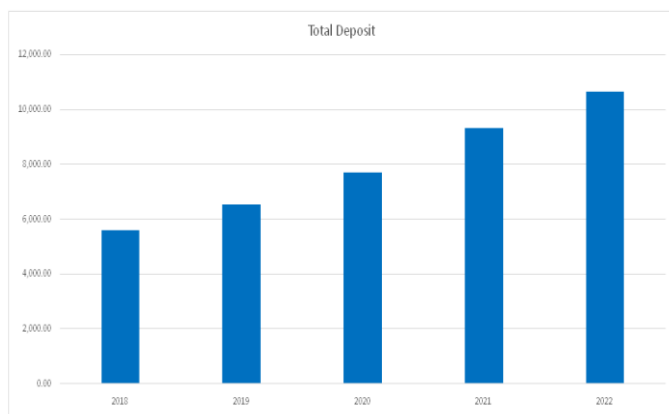
Quarterly Highlights:

The Bank witnessed healthy numbers in the past quarter –

- NII increased by 26.5% yoy
- Total period-end deposits grew by 11.5% yoy
- Total advances grew by 22.7% yoy

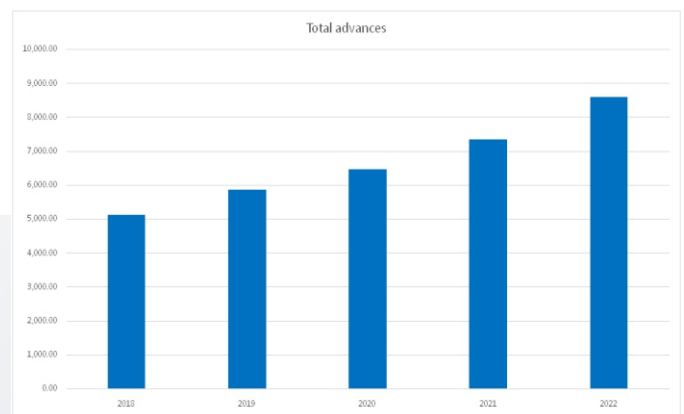
Consistent growth in deposit franchise

Total deposits increased by 14.2% during the fiscal year owing to digital platforms and process simplification to provide a hassle-free banking experience to customers.



Steady growth in advances

Total advances increased by 17.1% from 7,337.29 billion at March 31, 2021 to 8,590.20 billion at March 31, 2022 primarily due to an increase in domestic advances by 17.5%.



Outlook

ICICI Bank witnessed strong topline and bottom line growth due to cost efficiency achieved through digitalization and growth across verticals. Its asset quality continued to improve owing to moderation in slippages.

A more accelerated rise in retail FD rates recently, is expected to increase the bank's retail FD inflows in the upcoming quarter. A consistently flourishing loan book, improving asset quality and promising fintech story provides a strong outlook for the bank in the 3-5 year horizon.

Technical Outlook



Stock has seen broad consolidation for almost a year and has broken out of the range. Given the positivity in banking and financial space, this breakout is expected to take stock towards levels of 1000 -1100 in short term.

CMP	Target	Stop loss	Potential Upside
900	1000	825	11%

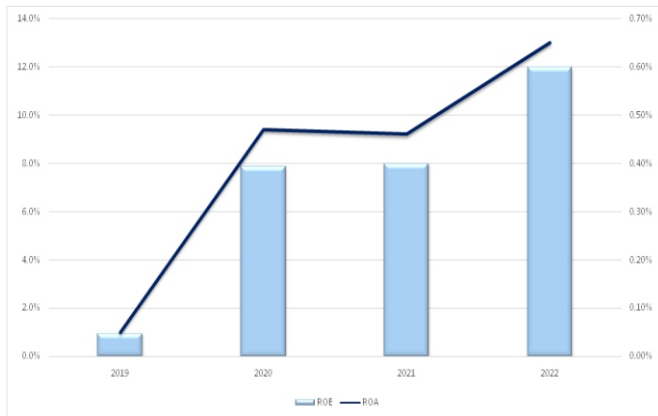
* Price as on 04.01.2023.

STATE BANK OF INDIA

State Bank of India is a Fortune 500 company and the largest Indian Bank with 46.8% market share among PSU banks in terms of total assets.

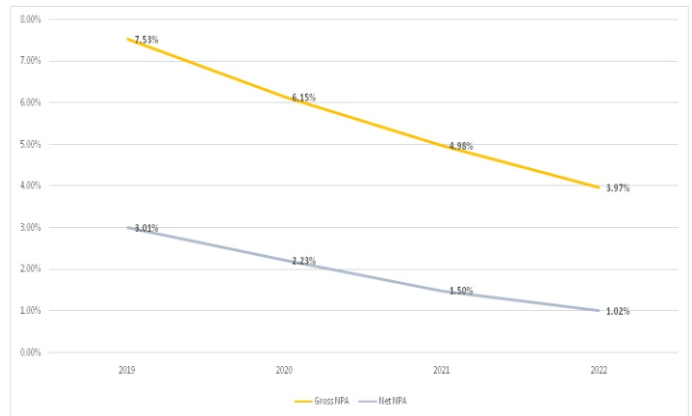
ROE AND ROA Trend

Company's ROE and ROA have constantly been growing for the last four years –



Improving asset quality

The last four years have witnessed significant improvement in asset quality with a constant reduction in NPA's.



Banks key strengths

- 15.15% market share in no. of POS
- 27.58% market share in debit card spends
- The bank has reported its highest ever net profit of Rs 35,373.88 cr in 2022, which translates to a growth of 57.9% over the previous year.

India Ratings and Research said that they have revised the outlook on the overall banking sector to improving for FY23 from stable, as the banking system's health is at its peak in decades. The improving health trend that began in FY20 is likely to continue into FY23 owing to a booming credit demand outlook with an expected commencement of the corporate capex cycle.

The housing loan interest rates have gone up, but this has not impacted the demand for credit. SBI's loan book has grown almost 15% in FY22, the highest ever growth it has witnessed. Its asset quality is consistently improving owing to drop in NPA ratios. In FY23, it is expected that both deposits and credit will continue to show growth.

Technical Outlook

State Bank Of India



Stock has seen broad consolidation for more than a year. Stock on monthly charts is forming a bullish pole and flag breakout. This range consolidation and breakout can give further momentum on the upside. Given the positivity in banking and financial space, this breakout is expected to take stock towards levels of 660-680 in near term.

CMP	Target	Stop loss	Potential Upside
605	660	550	9%

* Price as on 04.01.2023.

RELIANCE INDUSTRIES

Reliance Industries Limited (RIL) is a Fortune 500 company and the largest private sector corporation in India. It is engaged in a range of businesses such as oil refining (57% of revenues), retail operations (23% of revenues), and digital services (11% of revenues).

RIL is India's largest group of companies

- By Market Cap - Rs 17,81,841 cr
- By Revenue - Rs 7,92,756 cr
- By Net Profit - Rs 67,845 cr
- RIL's quarterly revenue was up 37.3% to Rs 2,30,055 cr, which is an all-time high for the company. The growth was led by increase in oil prices. Also, its highest EBITDA of Rs. 31,149.00 cr., up 19.7% yoy came during this period.
- Reliance Retail rapidly grew in scale owing to new store expansion to the tune of 2,500 and favourable product mix resulting in highest sales and operating profit among peers. Through organic growth and acquisitions, Reliance Retail continues to be India's largest, most profitable and fastest growing retailer.
- Digital Services posted robust revenue and EBITDA growth in FY 2021-22 owing to traction in connectivity platform and tariff hikes in mobility services.
- Reliance Jio's broadband network has over 50% share in the data traffic in India. It is now ready to roll-out its 5G services by end of 2023.
- JioFiber with 5 million+ connected homes has become the largest fixed broadband provider in India within two years of launch.
- RIL to achieve more value through demerger and listing of its financial services business, which will be known as Jio Financial Services post demerger
- The creation of green energy value chain over the next couple of years expected to surpass performance of existing growth engines

India is currently high on refining capacity with 23 refineries. It plans to double its capacity to 450 MT in the next 10 years to meet the rising local demand and to cater to its export market. Being the market leader in the oil refining space, Reliance's growth story is to be adequately benefitted by the expected demand.

The retail sector's growth fundamentals seem to be strong driven by rapid digitalisation and benefits of technology. Reliance retail will look to expand its presence through physical stores and digital commerce platforms.

Technical Outlook



Reliance charts are showing bullishness on medium term outlook. Stock has been forming various bullish patterns and positively breaking out of each pattern formations on weekly chart. Off late there has been various positive news flow surrounding the stock and also the stock is breaking out of a bullish falling wedge pattern, which can take the stock to levels of 3000 in near-term.

CMP	Target	Stop loss	Potential Upside
2515	3000	2375	19%

* Price as on 04.01.2023.

MAHINDRA & MAHINDRA

Mahindra & Mahindra Ltd is an automobile company with its core specialty in mobility products and farm solutions segments. Its product offering includes a wide range of products and solutions ranging from SUVs, pickups, commercial vehicles and tractors, to electric vehicles, two-wheelers, gensets and construction equipment.

- World's largest tractor company by volume.
- Quarterly revenue up by 57% yoy, while profit up by 46%.

Outlook

- Management expects tractor sales growth to be in the region of 5% for FY23.
- Effects of commodity price reduction evident in Q2 numbers to continue to bolster growth in Q3
- Order book going strong with bookings in the range of 8000-9000 per month for the XUV 700 and Scorpio with 18-20 months wait period for most of the versions.

Technical Outlook



M&M stock is forming a bullish falling wedge pattern in daily charts. With union budget expected in early February, possible positive announcements for rural & agriculture sector can have positive triggers for tractor segment of the company being a dominant player. A breakout of this range can take the stock prices to new high of more than 1400 levels.

CMP	Target	Stop loss	Potential Upside
1236	1400	1190	13%

* Price as on 04.01.2023.

HINDUSTAN AERONAUTICS LTD

Hindustan Aeronautics (HAL) is engaged in the business of manufacture of aircraft and helicopters and repair, maintenance of aircraft and helicopters. As the only Indian company specializing in aircraft manufacturing and providing its maintenance and related services, it plays a crucial role in India's defence program.

- In the financial year 2021-22, your Company recorded the highest ever turnover of Rs. 24,36,166 Lakh
- Our Order Book position stood at a healthy Rs. 82,15,400 Lakh as on 31st March, 2022.
- In a major boost to Atmanirbhar Bharat Mission, HAL has bagged a contract for production and supply of 15 Light Combat Helicopters (LCH) on 30th March, 2022.

Outlook

- It is expected that advancements in UAVs, Aero-engines and EHPA (Electric and Hybrid Propulsion Aircraft) technologies are going to set the future path for the industry, whereas Industry-4.0, Additive Manufacturing, Digitalization, Artificial Intelligence, Augmented and Virtual Reality tools are going to be efficiency drivers.
- The company maintains a healthy order book of almost at Rs. 84,000 crore and with the accretion of almost Rs. 10,000 crore of contracts which has been concluded in the last half year.
- HAL's successful bagging of Polar Satellite Launch Vehicle contract (PSLV) to pave the way for securing more contracts in the satellite launch vehicle segment in future.
- Capacity expansion by up to 20 to 24 numbers in the next 2 years from current levels of 16 for light combat aircraft Tejas to drive revenue growth.

Risks

- Emergence of a pandemic like situation
- Inflationary pressure resulting in central banks adopting a further hawkish approach
- Expanding trade deficit
- Persistent FII outflow
- Currency rate fluctuations

Technical Outlook

Hindustan Aeronautics Ltd



Defence sector in India is witnessing many positive triggers such as Make in India initiative, government's efforts to make India a defence manufacturing hub, indigenisation of defence, reducing dependence on imports of arms and make our country a defence equipment exporter. All these triggers augur well for HAL and stock price to further see positive movement in future. Stock is taking support at 2400 levels in higher time frame charts and seeing reversal from these levels. Stock can test previous highs of 2800 registered in the month of December 2022.

CMP	Target	Stop loss	Potential Upside
2480	2800	2200	12%

* Price as on 04.01.2023.

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