MIRAE ASSET
Mutual Fund

re:VIEW

NEW YEAR.
NEW OPPORTUNITIES.

Passive & Domestic Market Update & Outlook

Passive Market

Asset Under Management (AUM) Update:

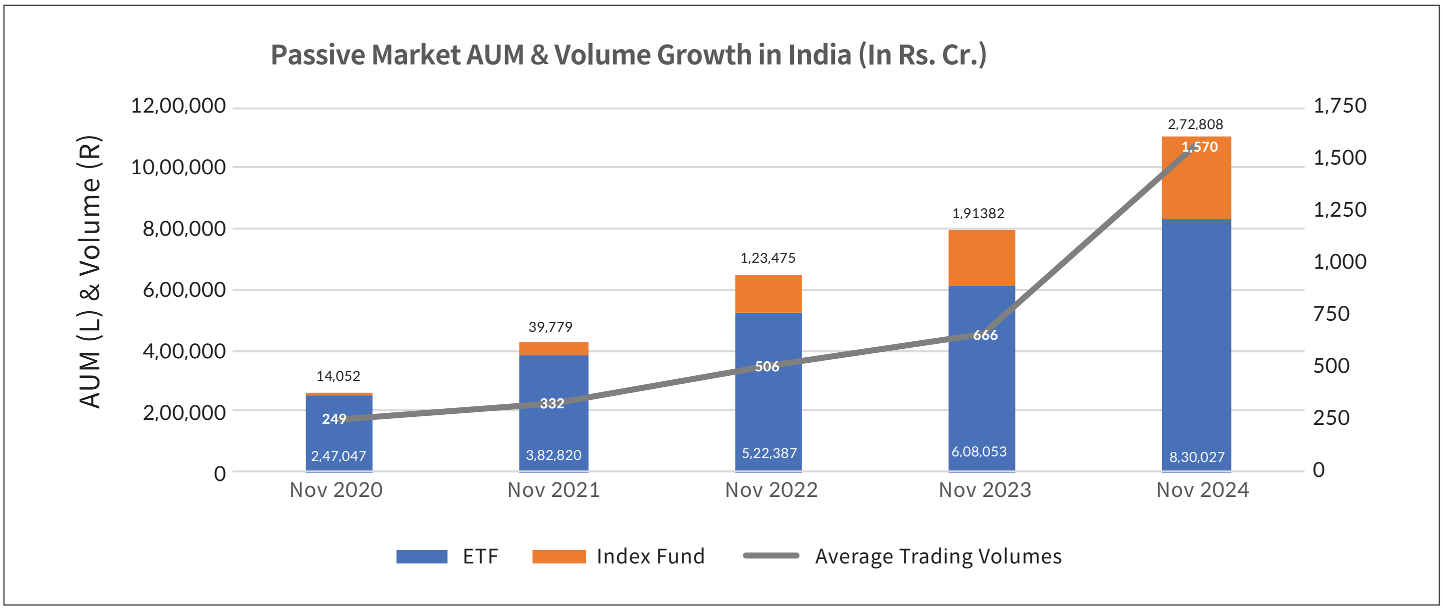
- The passive market in India has built up phenomenal momentum over the past five years. The AUM of passive funds in India now stands at ₹ 11.02 Lakh Crores, witnessing more than 2.5 times increase over past three years.
- The proportionate share of passive schemes is now 16.1% of the industry assets in Nov 2024, up from 11.7% in past 3 years.
- The total number of passive schemes in India now stand at 506, with 236 Exchange Traded Funds (ETFs) managing assets worth ₹ 8.30 Lakh Crore and 270 index funds grossing total assets worth ₹ 2.72 Lakh Crore.

Data as on November 30, 2024, Source ACE MF. 1,3,5 year trends are based on November 2024 ending data

Inflow Update:

- In light of the above, it is perhaps unsurprising that passive market in India have seen inflows worth ₹ 1,40,710 Crores in the past one year and passive AUM has almost increased 38% from ₹ 7.99 lakh crore in November 30, 2023 to over ₹ 11.02 lakh crore in November 30, 2024.
- Much of this growth may be attributed to Nifty 50, Sensex, smart beta and commodity ETFs and Index Funds.
- The number of passive schemes have almost tripled from 175 in Nov 30, 2021 to 506 as of Nov 30, 2024.
- 35 new Index Funds and 29 new ETFs were launched in the past 1 year which are collectively managing total assets worth ₹ 17,827 Crore.
- Within ETFs, apart from the usual names like Sensex and Nifty 50 Index based funds which saw an inflow of ₹ 54,618 Crore and ₹ 23,288 Crore respectively during the past one year (as on November 30, 2024), smart beta passive funds saw record inflows worth ₹ 23,478 Cr during the same period. Commodity funds on the other hand gathered inflows worth ₹ 19,153 Cr in the past one year.
- The year also saw a meteoric rise in trading volumes of ETFs. The average traded volume of ETFs as of Nov 30, 2024 grew to ₹ 1,570 Cr witnessing a rise of 135% compared to previous one-year period.
- The total number of folios in passive funds has skyrocketed nearly 12x, growing from 29.7 lakh in March 2020 to an impressive 3.68 Cr by Nov 2024. A staggering 1.32 Cr new investor folios were added in passive funds in the past one year.
- We are seeing an evolution in investors behaviour towards passive, where conversation is now also about innovative products like smart beta and new age themes, apart from low cost plain vanilla products like Nifty 50 ETFs.

Data as on November 30, 2024, Source ACE MF based on November 2024 ending data



Source: Bloomberg, ACE MF & AMFI, Data as on November 30, 2024

Indian Economy

India's economic growth slowed down with a sharper than expected drop in H1FY25 (FY2025: Apr 1, 2024 -Mar 31, 2025, H1: First 6 Months). The country's GDP (Gross Domestic Product) growth in the second quarter of FY25 eased to 5.4%, a seven-quarter low, which is the slowest growth since late 2022. A subdued performance by corporates in Q2FY25 H1FY25 (FY2025: Apr 1, 2024 - Mar 31, 2025, Q2: Quarter 2) and slowdown in economic activity may be attributed to this muted GDP growth.

The H1FY25 corporate results were weaker with consumption emerging as a weak spot. On an aggregate level, in Q2FY25, Nifty 50 index reported a single-digit growth of just ~4% in EBITDA/ PAT (EBITDA: Earnings before taxes, interest and depreciation; PAT: Profit After Tax), with commodity dragging the earnings down. Excluding, metals and oil & gas, Nifty posted ~11% earnings growth, with largest contribution coming from BFSI where PSU bank and Non-lending NBFC and other sectors like Health care & capital goods contributing to the growth. The slowdown in consumption in urban areas, weak government capex spending and unexpected rainfall contributed the woes of H1 earnings. The lingering inflation and regulatory-driven slowdown in credit growth also impacted the economic and consumption activity.

Capex growth also slowed to 6.8% in H1FY25 from 9% in FY24, largely driven by contraction in government capex spending in H1FY25 due to general elections. Though India's capex as a % of nominal GDP reached a decade high of 30.8% in FY24, but it still far from the past peak of 35% in FY08 (FY08: Apr 1, 2007 -Mar 31, 2008). We expect government capex to pick up significantly in H2 FY 2025 in effort to meet the budgeted target. With housing cycle remaining strong (inventories at 14 years low) and rise in jump for bank approvals for private capex, signals to the rise and revival of private capex in coming time.

Table III.1: High Frequency Indicators- Services

(y-o-y, per cent)

Sector	Indicator	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Urban demand	Passenger Vehicles Sales	33.9	21.0	21.7	31.9	27.0	26.0	1.3	4.0	3.1	-2.5	-1.8	-1.4	0.9	4.4
Rural demand	Two-Wheeler Sales	20.1	31.3	16.0	26.2	34.6	15.3	30.8	10.1	21.3	12.5	9.3	15.8	14.2	-1.1
	Three-Wheeler Sales	42.1	30.8	30.6	9.5	8.3	4.3	14.5	14.4	12.3	5.1	8.0	7.1	-0.2	-1.3
	Tractor Sales	-4.3	6.4	-19.8	-15.3	-30.6	-23.1	-3.0	0.0	3.6	1.6	-5.8	3.7	22.4	-1.3
Trade, hotels, transport, communication	Commercial Vehicles Sales		3.2			-3.8			3.5			-11.0			
	Railway Freight Traffic	8.5	4.3	6.4	6.4	10.1	8.6	1.4	3.7	10.1	4.5	0.0		1.5	
	Port Cargo Traffic	13.8	16.9	0.6	3.2	2.1	2.7	1.3	3.8	6.8	5.9	6.7	5.8	-3.2	-5.0
	Domestic Air Cargo Traffic*	10.6	9.0	8.7	10.0	11.5	8.7	0.3	10.3	10.3	8.8	0.6	14.0	8.9	-28.5
	International Air Cargo Traffic*	15.0	4.9	12.2	19.3	30.2	22.5	16.2	19.2	19.6	24.4	20.7	20.5	18.4	3.2
	Domestic Air Passenger Traffic *	10.7	8.7	8.1	5.0	5.8	4.7	3.8	5.9	6.9	7.6	6.7	7.4	9.6	13.6
	International Air Passenger Traffic *	17.5	19.8	18.1	17.0	19.3	15.0	16.8	19.6	11.3	8.8	11.1	11.2	10.3	8.7
	GST E-way Bills (Total)	30.5	8.5	13.2	16.4	18.9	13.9	14.5	17.0	16.3	19.2	12.9	18.5	16.9	16.3
	GST E-way Bills (Intra State)	30.0	22.7	14.2	17.9	21.1	15.8	17.3	18.9	16.4	19.0	13.1	19.0	18.3	5.4
	GST E-way Bills (Inter State)	31.2	-16.2	11.4	13.8	15.0	10.7	9.6	13.6	16.3	19.6	12.5	17.7	14.4	44.1
	Hotel occupancy	9.3	-8.6	1.6	2.6	1.8	2.7	-1.4	-2.6	-3.1	3.6	0.7	2.1	-5.3	
	Average revenue per room	14.8	15.9	12.8	11.0	4.1	6.7	4.8	1.8	2.8	7.6	5.2	3.5	4.8	
	Tourist Arrivals	19.8	16.8	7.8	10.4	15.8	8.0	7.7	0.3	9.0	-1.3	-4.2			
Construction	Steel Consumption	15.3	14.5	13.7	12.3	7.0	12.5	11.5	13.0	21.1	13.8	10.3	11.8	8.9	10.0
	Cement Production	17.0	-4.8	3.8	4.0	7.8	10.6	0.2	-0.6	1.9	5.5	-3.0	7.2	3.3	
PMI Index#	Services	58.4	56.9	59.0	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4

<< Contraction ------------------------------------- Expansion >>

Note: #: Data in levels. *****: November 2024 data are based on the monthly average of daily figures. The Heat-map is constructed for each indicator for the period July-2021 till date.

Source: RBI Monthly Bulletin, November 30, 2024

Indian Equity Market Performance

The Indian equity markets showcased resilience for most of the first 9 months of CY 2024 with few sharp volatility events due to general election results, yen-carry trade event, foreign institutional investor(FII) outflows etc, though recoveries were swift due to strong domestic inflows but last 2 months have been challenging due to muted GDP growth, lingering inflation, disappointing Q2FY25 earnings, FII outflows, expected slowdown in US Fed easing and geopolitical uncertainties. In 2024, Indian benchmark indices have given decent returns even with uncertainties surrounding the markets. The BSE Sensex has gained 9.4 per cent while the Nifty 50 rose 9.8 percent on a year-to-date (YTD 2024). Mid and small-caps shined the brightest in 2024. The Nifty Midcap 150 Index and Nifty Smallcap250 Index have registered returns of ~23-27% respectively in 2024 on a year to date basis (as on December 20, 2024).

Broad-based Indices	10 Years	7 Years	5 Years	3 Years	2 Years	1 Year	6 Months	3 Months
Nifty 50 Index	12.5%	13.7%	15.3%	13.7%	14.5%	12.8%	0.6%	-8.4%
Nifty Next 50 Index	15.5%	13.3%	20.3%	20.5%	26.7%	36.0%	-3.7%	-8.9%
Nifty Midcap 150 Index	19.1%	17.7%	28.5%	25.2%	32.7%	29.7%	1.7%	-5.3%
Nifty SmallCap 250 Index	17.0%	15.1%	31.2%	25.4%	35.6%	32.6%	4.2%	-4.1%
Nifty 500 Index	14.1%	14.5%	18.9%	17.2%	20.2%	20.0%	0.5%	-7.6%

Source: NSE Indices & Bloomberg Data as on Dec 20, 2024. Past performance may or may not sustain in future.

Sectoral & Thematic Indices	10 Years	7 Years	5 Years	3 Years	2 Years	1 Year	6 Months	3 Months
Nifty Auto Index	11.8%	10.7%	23.9%	30.6%	33.4%	29.8%	-10.2%	-14.4%
Nifty Bank Index	11.3%	10.9%	10.0%	14.8%	9.1%	7.9%	-1.7%	-5.6%
Nifty Financial Services Index	13.2%	13.1%	10.8%	13.1%	11.9%	12.4%	2.8%	-4.8%
Nifty FMCG Index	12.5%	12.9%	14.8%	17.6%	12.1%	3.8%	-1.5%	-15.3%
Nifty IT Index	16.9%	23.8%	24.9%	8.9%	26.0%	28.5%	26.2%	4.3%
Nifty Metal Index	15.3%	14.9%	28.6%	20.2%	14.8%	19.4%	-11.0%	-6.2%
Nifty Pharma Index	8.4%	14.3%	23.7%	20.4%	34.5%	40.5%	15.6%	-2.2%
Nifty Realty Index	19.0%	18.6%	29.9%	33.2%	56.1%	44.2%	-6.8%	-3.8%
Nifty Consumer Durable Index	20.8%	16.6%	21.6%	15.7%	27.7%	37.1%	9.4%	-5.6%
Nifty Oil & Gas Index	15.7%	13.0%	17.0%	15.5%	12.0%	18.0%	-11.1%	-15.1%
Nifty EV & New Age Automotive Index	X	X	31.5%	28.5%	30.6%	27.6%	-8.5%	-13.6%
Nifty India Manufacturing Index	14.1%	14.3%	25.2%	23.5%	29.0%	31.9%	-5.2%	-9.6%
Nifty New Age Consumption Index	14.3%	12.1%	23.3%	24.4%	36.8%	41.8%	5.1%	-6.8%

Source: NSE Indices & Bloomberg Data as on Dec 20, 2024. Past performance may or may not sustain in future.

The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund

Strategy Smart Beta Indices	10 Years	7 Years	5 Years	3 Years	2 Years	1 Year	6 Months	3 Months
Nifty 100 Low Vol 30 Index	14.7%	15.0%	18.4%	16.5%	20.5%	17.1%	2.4%	-10.7%
Nifty 200 Alpha 30 Index	22.8%	20.1%	28.5%	24.9%	39.0%	32.4%	-4.3%	-7.2%
Nifty Smallcap250 MQ 100 Index	21.0%	17.9%	31.5%	23.2%	34.1%	28.8%	0.1%	-5.1%
Nifty 200 Quality 30 Index	13.6%	15.0%	18.1%	15.1%	21.4%	19.1%	1.6%	-10.4%
Nifty MidSmallcap400 MQ 100 Index	20.5%	18.7%	30.2%	24.5%	35.9%	32.0%	0.4%	-4.5%

Source: NSE Indices & Bloomberg Data as on Dec 20, 2024. Past performance may or may not sustain in future.

The above is performance of the Index and does not in any manner indicate the performance of any individual scheme of Mutual Fund

2024 was good for most of the sectors apart from Bank and FMCG (Fast Moving Consumer Goods) for reasons mentioned earlier with FMCG Index dipping almost 15% in last 3 months primarily due to poor earnings and weak commentary. Lower 4-wheeler and Commercial vehicle sales dragged down Auto index also in last 3 months, but index is still up 29.8% in last 1 year. Q3 CY 2024 (CY: Calendar Year) was good period of Information Technology (IT) Index, which has risen more than 26% in past 6 months.

While Nifty 200 Alpha 30 index has given 32.4% return in last one year, last 6 months have been patchy with no consistent trend emerging in the market on stock or sector outperformers.

Sector and Theme Review:

Q2FY25 was a decent quarter for Information Technology services sector reinforcing the recovery trajectory. Nonetheless, outlook remains slightly guarded, signalling persisting uncertainties. Going forward in 2025, a certain recovery is expected with gradual return of modernization and discretionary spending in selected pockets. The Banking and Financial Services (BFSI) sector looks one of the most promising sectors given the cyclical and structural upside. With RBI tightening played out, the outlook for banks, especially larger banks looks positive with valuations below the long-term averages, as credit growth for banks is expected to outperform further. Volumes for metal and mining companies witnessed a Q-o-Q decline given the muted demand and rising import costs. Going forward, recovery in China and capacity expansion remain the key triggers to watch out in the next year. FMCG companies remained under pressure this year as companies face slack in urban demand and inability to pass the rising input costs to maintain volume growth has adversely affected growth for companies, putting pressure on operating margins. Within other factors, the rapid growth in E-Commerce and quick commerce channel has impacted the traditional channel of FMCG companies across industry. Cement sector is expected to do well in 2025 as demand is expected to rise due to real estate activity, government infrastructure spending, and rural housing initiatives. 2024 was a good year for India's real estate sector as the sector witnessed record-breaking leases, strong sales and robust investment growth in H1CY24. However, the second half slowed as mid-year sales dropped alongside a post-election. But going forward, as RBI announces rate-cuts and housing inventories near 14-year lows, the real estate sector may be considered the key beneficiary. Pharma sector earnings is expected to remain resilient for the next 2-3 quarters on the back stable demand and better pricing power, although input costs might start rising. Telecom sector saw a strong quarter in Q2FY25 with revenue and EBITDA grew by 8/10% with partial benefits of tariff hike factored in. However, the full effect of tariff hike is expected to factor-in by Q4 while subscriber flow stabilizes across telecom players.

After witnessing a K-Shaped demand recovery in FY 2024, the consumption sector is expected to face challenges in the near term. Urban middle-class consumers, a key driver of demand for mass-market brands, are curbing their spending, while inflation continues to affect purchasing power. Although rural demand remains strong, it is unlikely to offset the decline in urban consumption. The consumption data for next few quarters may be keenly watched to see if there is any longer-term weakness in urban areas and if there is recovery especially during festive seasons and if recovery in rural economy continues.

Auto earnings were mixed with 2w posting better earnings than Passenger Vehicles/Commercial Vehicles segments, due to higher volumes. PV drop was somewhat buffered by higher SUV sales. EBITA margin was under pressure due to higher raw materials, discounts and operational cost. 2-Wheeler demand is expected to remain steady with 4W volume growth may remain muted.

For India's manufacturing sector, order inflow growth was mixed bag with government spending picking up post 2Q while power, renewable energy, data centres, real estate and defence continue to provide momentum. Exports which were soft due to global inventory destocking and weakness in developed markets are showing signs of bottoming out. Commentary from most players on order pipeline remains optimistic. Stable commodity prices, healthy pricing environment and improving product mix may continue to provide support to margins in near term.

2025 Outlook

Pickup in government capex along in H2 2025 with improved liquidity is expected to drive recovery in India's H2 FY 2025 GDP to 6.5% to 7% with FY 2025 GDP in the range of 6.3%-6.6%. Strong housing cycle and private investment is expected to drive next round of capex cycle. With RBI stance supportive of liquidity infusion, reduction in drag on credit growth, stronger rural consumption due to good monsoon and reservoir levels aiding Kharif and Rabi crops along with welfare income transfer scheme and festive season is expected to drive recovery in consumption especially in rural economy, though data for urban economy may be keenly tracked to look for any longer slowdown.

Domestic inflows have supported the markets (annualizing at around USD 100 Bn in 2024), though equity supply has also increased. With marginally positive Foreign portfolio investment (FPI) flows in 2024 (after significant outflow in October and November 2024), FPIs ownership in India equity market is just below 20%, which may act as a buffer in case of corrections.

Additional risk for Indian equities comes from outward specially the new policy era of United States (US). The dialling back of Fed in terms of rate cuts, any potential tariff impacting India, stronger dollar, higher US treasury yields and stronger expectations of earning growth in US potentially act as drag on Indian markets,

On debt side, we expect RBI to ease in 2025 due to concerns around GDP growth and attempt to push private capex and revive consumption. Inflation might not be a bigger concern with good kharif and Rabi crop expectation. While much of the easing may happen on the shorter end of the curve, due to duration effect, there is higher return potential on the longer end of the curve. Investor looking to take advantage of the same, may look at our longer duration index funds and ETFs for allocation.

Nifty 50 Index earnings growth are projected to rise ~9%-10% in FY25 and ~13%-15% in FY26. The valuations for Nifty 50 Index are trading at 22.3x one-year forward P/E (Price-to-earnings ratio) trading at a premium of 3%-5% above the past 5-year average is reasonable. We expected markets to remain volatile due to the aforementioned reasons especially at the start of 2025. We find comfort in Nifty 50 valuations and ideal expectation in the near term might be in line with the earnings growth, hence expect returns to moderate. In sectors, we prefer allocation to BFSI segment due to lower valuations and favourable liquidity. Among smart beta products, we think alpha strategy may be volatile and may not significantly outperform due to lack of consistent market trend, but any drawdowns might be good opportunity to invest for the medium to long term. We continue to prefer MidSmallcap product due to its multi factor approach with quality playing an important role. Apart from Nifty 50, we continue to prefer Multicap, which provides diversified exposure to large, mid and smallcap segment with an ideal weightage of 50%; 25%; 25% each. We suggest investors to expect moderate returns in 2025 and use volatility to invest for the medium to long term wealth creation.

Source (All the above data): Bloomberg, Jefferies Market Outlook, Goldman Sachs, JPMC Market Outlook, Internal and external research reports as on 20th December 2024. The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector(s)/stock(s)/issuer Pursuant to Clause 2.7 of Part IV of SEBI Master Circular dated June 27, 2024. the universe of "Large Cap" shall consist of top 100 companies, "Mid Cap" shall consist of 101st to 250th company and "Small Cap" shall consist of 251st to 500th companies in terms of full market capitalization NSE Nifty methodology link: https://www.niftyindices.com/Methodology/Method_NIFTY_Equity_Indices.pdf