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FUND MANAGERS **COMMUNICATIONS**

The Indian Equity market iin the month of March continued to be volatile however ended positively with most of the event uncertainty being out. Benchmark Indices NIFTY and broader indices NIFTY 500 rose more than 3-4%, Midcap and small-cap too recovered by more than 5%%. FII continued to be net sellers to the tune of Rs 43,281 cr whereas the DII continued to be Net buyers of Rs 39,677 cr.

Global Market : The current war between Russia and Ukraine seems to be restricted between the two countries and no other country directly entering into war. The oil and metal prices which had elevated to a new high has seen some pause, especially after the overall demand environment remained at the lower end due to a fresh round of Covid variant forcing lockdowns in a select part of china and in some European country. US Federal Reserve has begun the rate hike with 25 bps vs the expected 50 bps which was worrying the global financial market. However, the fed has made it clear to have at least 7 series of rate hikes by 2023. The liquidity scenario remains reasonable worldwide. The war between Russia and Ukraine continues with no definite indication of an end. Supply chain disruption due to the war and sanctions imposed by many countries against Russia have pushed up global commodity prices. This has created concern for the already alarming global inflationary situation, especially in the US and Europe. Major central banks have started increasing policy interest rates. At the same time, the growth indicators suggest a loss of momentum in some geographies.

Indian Macro : India too is impacted by the adverse global developments. Particularly, high crude oil prices increase India's import bill and have a negative impact on growth and exert inflationary pressures. If such price rises are not fully transmitted to domestic prices, government finances deteriorate. The raw material to sales ratio for Indian non-financial companies is around 50%. With the sharp rise in global commodity prices, this ratio has gone up considerably resulting in margin pressure. India is facing some domestic challenges too. Subdued rural income, sluggish demand for consumer durables including automobiles, low consumer confidence, and slow recovery in passenger transportation and hospitality industry are some of the problems being faced by the country.

The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) was at 54 in March, down from 54.9 in February, signaling slower growth in the sector's health. On the price front, manufacturers reported another increase in input prices at the end of the fiscal year 2021/22. Chemical, energy, fabric, foodstuff and metal costs were all reportedly greater than in February. Output prices rose in March as goods producers sought to share part of the additional cost burden. The March data pointed to subdued optimism toward growth prospects among Indian manufacturers, with the overall level of sentiment slipping to a two-year low.

India's merchandise exports spurted to a record high of USD 418 billion in the 2021-22 fiscal on higher shipments of petroleum products, engineering goods, gem and jewelry and chemicals, according to official data released on Sunday. Outbound Shipments touched an all-time monthly high of USD 40.38 bn in March 2022. India's trade deficit rose 87.5 percent to USD 192.41 billion in 2021-22 as against USD 102.63 billion in the previous year.

GST collection in March touched an all-time high of over Rs 1.42 trillion, an increase of 15% annually, on the back of rate rationalization and anti-evasion steps.

In Auto in Mar'22, domestic CVs maintained an uptrend with double-digit growth on a YoY basis, while PVs were flat. In comparison, 2Ws/Tractors saw a decline due to muted customer sentiments and a high base of last year. Most companies saw sequential improvement and reported higher-than-estimated volumes, aided by better retail/production and year-end sales/inventory push. After making a high of 8.1% in February CMIE reported the unemployment rate fell to 7.6% in March with the economy slowly returning to normalcy.

Earnings Expectation : Corporate earnings are likely to be under margin pressure owing to high Crude and Metal price and some supply disruption. The challenges with respect to high crude might reside to some extent. If the Indian crude basket cost do not move in tandem with global prices assuming some lower-cost supply arrangement with Russian crude makes sense for Indian refiners. This would be beneficial for corporate. Also India does have an opportunity in some sectors, especially in exports where supply disruption are there from Russia- Ukraine as well as China. IT, Chemical, API, Metals, Capital goods, Fertilizers, Defense are expected to show decent growth. Pressure could be seen in Consumer durables, Auto, FMCG, and Paints. Banking and financial might start seeing the credit growth improvement as well as provisioning coming down, However, the NIMS could still remain on the lower side.

Outlook: : Markets have passed all the events which were there in last month related to State Election, US Fed Announcement. Also discounted the impact of war between Russia and Ukraine as our trade relationship with Russia and Ukraine is around 2% only. The challenges related to elevated oil prices persist which need to absorb by the economy and might impact earnings for 1st half of FY23. Most analysts have already revised the broader market earning at the lower side for FY23. Corporates are likely to absorb this second round of higher crude and commodity prices as the economy is almost back to normalcy.

According to International Monetary Fund, India will remain the fastest-growing major economy of the world during 2022 as well as 2023. Despite some hardening, the increase in inflation level in India is far lower as compared to the US or Europe. Government finances are in much better shape versus most of the peers. The banking system remains stable with signs of modest acceleration in credit growth. With close to $650 billion in foreign exchange reserves, India's external sector also remains resilient. Markets are to be range bound and very stock specific in the medium term.

Once the earning season start will get more clarity on the impact on business with respect to margins and demand environment. As a strategy, we are trying to exit and avoid the sectors which are highly sensitive and have a negative impact with the rise in commodity prices. Sticking to companies where impact is lesser and have the better pricing power to pass on the impact. Markets seem to be consolidating and have time-wise corrections rather than price corrections. Any dips should be considered as a buying opportunity.

Regards,
Mayur Shah
(Fund Manager-Anand Rathi Advisors Ltd.)

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