6th July 2022

FUND MANAGERS COMMUNICATIONS

The Indian Equity market in June continued to be volatile with broader indices ending negatively. Benchmark Indices NIFTY was down by -4.9% and broader indices NIFTY 500 down by -5.2%%, NIFTY Midcap Index was down by -6.4%, and NIFTY small-cap Index down by -8.29%. FII continued to be net sellers to the tune of Rs 58,112 cr whereas the DII continued to be the Net buyer of Rs 46,599 cr.

Global Market : Amidst the ongoing geopolitical tension between Ukraine and Russia the challenges concerning supply disruption and higher inflation due to high commodity Metals, Oil and food seem to be topping out. Elevated inflation, aggressive policy tightening, and the possibility of a significant decline in growth rate are factors that are impacting the financial markets globally. In the bond markets yield rates have gone up, annual equity returns have turned negative, and most currencies are depreciating against the US dollar. This has led to the flight of money to a haven. Markets globally are adjusting themselves with earnings revision and equity risk premiums.

Indian Macro : Measure taken by RBI and Government to target inflation has started to help keep in check the rising prices. The current market seems to have discounted most of the negative noises. Although with increasing interest rates, there are talks concerning a slowdown in the global market, the positives are being seen for Indian Market. In Commodities, metals have corrected and some are near 1 year low, Oil is struggling to cross the $120/bbl mark and is now below $110/bbl. Wheat, Sugar, Cotton, and Edible oil all have started the downward journey and with the supply chain normalizing, we believe the inflation is likely to come under control very soon. The demand environment to date in the Indian market is quite strong if we look at Data concerning IIP, PMI both Manufacturing and Service, Electricity generations, GST Collection Trend, E-way bills, and Exports data. The funding indicators including bank credit growth and bank deposit growth also suggest the restoration of normalcy after the pandemic as employment creation in urban India.

The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index (PMI) fell to 53.9 in June from 54.6 in May, the weakest pace of growth since last September. The June PMI data pointed to an improvement in overall operating conditions for the twelfth straight month. In PMI parlance, a print above 50 means expansion while a score below 50 denotes contraction. Factory orders and production rose for the twelfth straight month in June, but in both cases, the rates of expansion eased. The Indian manufacturing industry ended the first quarter of the fiscal year 2022/23 on a solid footing, displaying encouraging resilience in the face of acute price pressures, rising interest rates, rupee depreciation, and a challenging geopolitical landscape

The seasonally Services PMI Business Activity Index rose to 11 year high of 59.2 in June, up from 58.9 in May. Activity growth in India's service sector moved up a gear again in June, reaching its strongest in over 11 years and surpassing that seen in manufacturing for the third month running. Demand for services improved to the greatest extent since February 2011, supporting a robust economic expansion for the sector over the first quarter of the fiscal year 2022/23 and setting the scene for another substantial upturn in output next month.

Merchandise exports grew 16.8% in June from a year before even on a high base but a 51% surge in imports, thanks to high prices of oil and other commodities, drove up the trade deficit to a fresh monthly peak of $25.6 billion. The import bill was driven substantially by a massive 242% year-on-year jump in coal imports to $6.4 billion and a persistent surge in purchases of crude oil & petroleum products (94%) and gold (169%). A spurt in prices of crude oil and coal just served to inflate the import bill of a net commodity importer like India.

India's Goods and Service Tax, or GST collection in June 2022 increased 55.8% on year to hit Rs 1.44 lakh crore. It is the second-highest monthly gross GST revenue. Revenues from import of goods rose 55%, while domestic transactions and import of services were 56% higher in the month. In Auto Jun'22 volumes saw sequential growth. PV and 2W volumes were better due to an improvement in production/dispatches. 2Ws were also supported by a pickup in demand from salaried/student segments. CV volumes rose on better demand for buses/cargo vehicles, while Tractors trended higher in a seasonally strong month.

Corporate Earnings : June Quarter corporate earnings are likely to showcase strong growth on revenue front although would get benefit of lower base however the macro data suggesting the demand environment going quiet robust. Margin related challenges would be the key to be watched for many of the industries which are sensitive to Commodity and fuel related inflation. We believe with strong earnings growth most of the corporates would be able to absorb the margin shock and still would be able to showcase a decent profitability. With inflationary challenges started to reduce and many of the corporates with good bargaining power able to pass on the price rise to end consumer we believe by September quarter profitability to improve.

Outlook : Indian Equity markets although last year's returns are flat they have outperformed the global equity market by showing resilience on the downside.

Global market markets still struggling with challenges of higher inflation and have expectations of a slowdown in demand and recession. Indian markets are not seeing any major slowdown, the macro demand environment in India remains strong only risk led by higher trade deficit putting pressure on Rupee. The rising interest rates in India are mainly to target inflation. With the supply chain normalizing and food, fuel, and commodity prices getting in control would.

Any further deterioration of the global economic or geopolitical situations could be an upside risk to the recovery. Risk aversion by global investors has resulted in considerable capital outflow from emerging market economies. India too has experienced an outflow of foreign portfolio investment in the last seven-eight months. Indian Markets have corrected and now trading near historical average valuation. Also, markets seem to have discounted most of the negative noises. We might consolidate for a month more, however, do not expect a further substantial correction. The current period of consolidation should be used to add to your equity exposure for the long term.

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

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