**4th August 2022**

# FUND MANAGERS **COMMUNICATIONS**

**The Indian Equity market** in July markets bounced back sharply. Benchmark NIFTY Index was up 8.73%, NIFTY 500 up by 9.55%, NIFTY Midcap Index up 12.03%, and Nifty Small Cap Index up 8.6%. FII selling slowdown and is lowest in last 10 months with NET Sell of Rs. 6765 cr in July 2022. DII continued to be the Net buyer of Rs. 10,546 cr.

**Global Market :** Challenges with respect to inflationary pressure and rising interest rates globally seems to be discounted by the equity markets. Most of the world markets have halted their downward journey. With the cooling of Metal, Oil, and Agri Commodity prices globally there seems to be relief on the inflation front which might not increase further, in fact, it may start cooling off once even the base becomes higher. The US fed has made the rate hike of 75 bps and maybe one more hike in September, however, there is no indication of the recession yet. With inflation coming under control faster than later Interest rate upcycles to peak out. The only geopolitical risk is that the market is keeping its close watch.

**Indian Macro :** Inflation seems to have peaked in April 2022 and we expect it to go down to about 5% by end of March 2023. Tax revenues of the Government, both from Direct and Indirect Taxes are showing growth of more than 3 percent and this trend is likely to continue.

There have been worries about increasing trade imbalances and a reduction in Forex Reserves. These are primarily due to a huge FIIs outflow of about $ 40 billion in the last one year and an increase in oil prices due to Russia Ukraine War. Going forward, we expect FIIs flow to become positive and oil prices also to come down. Hence, they are unlikely to have a negative impact on equity markets in the medium term.

India's monthly goods and services tax (GST) collection hit the second highest ever in July at 1.49 lakh crore. The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index (PMI) rose to 56.4 in July from 53.9 in June. Manufacturing activity bounced back to an eight-month high, indicating that economic recovery remained firm as interest rates inched up. On the other hand, India's services sector fell from 59.2 in June to 55.5 in July, marking the slowest rate of growth in four months, according to S&P Global India Services PMI Business Activity Index. Companies that signaled higher business activity mentioned ongoing improvements in sales, the offering of new services, and workers taking on overtime. The rise was reportedly curbed by price pressures and US dollar strength.

India's exports dipped marginally by 0.76 percent to USD 35.24 billion in July, though the trade deficit tripled to USD 31.02 billion during the month The imports in July went up to USD 66.26 billion from USD 46.15 billion in the corresponding month. The top sectors, which led to export growth during the first four months of the fiscal were petroleum products, engineering goods, gems and jewellery, organic and inorganic chemicals, drugs and pharmaceuticals, electronic goods, RMG of all textiles, and rice. The $20 billion YoY increase in imports was led by petroleum products and coal, negating the relief offered by a decline in gold imports.

In July 2022, CVs maintained robust growth momentum, driven by strong demand in both the passenger and cargo segments. PV volumes also witnessed double-digit growth due to large order books and increased production. In addition, 2W volumes were positive due to a ramp-up in production and inventory build-up with dealers in the run-up to the festive season. In comparison, tractor volumes declined notably due to a high base and uneven spread of the monsoon season.

**Corporate Earnings :** June Quarter corporate earnings have come better than expected. The topline revenue growth has been quite strong growth partially could be attributed to the low base. We have seen the margin-related challenges for many of the companies however the numbers are better than expected. IT companies have witnessed some marginal slowdown in growth and margin pressure. Banking and Financial have shown a strong recovery with better loan growth, NIM Improvement, and Stressed assets under control. Metal companies have seen a drop in margins. Capital Goods have seen some margin pressure however on both revenue growth as well as an outstanding order book giving strong visibility. Auto companies have delivered mixed results, but the pain seems to be over in auto, and better growth is expected going forward. FMCG companies have been able to maintain volume momentum amid inflationary challenges. With softening of global commodity prices, signs of recovery in the corporate capex cycle, relatively resilient domestic demand, and companies focus on profitability, analysts expect earnings to improve in FY23 and FY24.

**Outlook :** IIndian Equity Markets, although last year's returns are flat they have outperformed the global equity market by showing resilience on the downside. Indian markets are not seeing any major slowdown. The macro demand environment in India remains strong only risk led by a higher trade deficit which seems to be topped out in July month. 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 is leading to the tapering of inflation and so the interest rate hike is likely to take pause sooner.

Any further deterioration of the global economic or geopolitical situation could be an upside risk to the recovery. FII flow too has turned positive in the later part of July and the beginning of August. USD/INR after making a peak of 80 has corrected. The current move of a pullback in the market is more likely a trend change on the upside. Good opportunity for a long-term investor to add investment with major uncertainties now behind us.

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

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