7th October 2022

FUND MANAGERS COMMUNICATIONS

The Indian Equity market iin the month of September 2022 markets had turned volatile in second half of the month and ended down positive. Benchmark NIFTY Index was down -3.74%, NIFTY 500 down -3.23%%, NIFTY Midcap Index down -2.58%%, and Nifty Small Cap Index down -1.87%. FII turned again negative with NET sell of Rs 18,308 cr in the month of September 2022. DII were net buyers of Rs 14,119 cr.

Global Market : : Inflation still remains a challenge for most world economies. Although many commodities have corrected from their 52 weeks high and many of them are even negative for last one year, Crude and Food prices specially wheat and rice prices still remain elevated and positive for last one year. In order to control inflation, central banks across the world are raising interest rates and withdrawing liquidity aggressively. Added to these, Russia – Ukraine war is continuing for over six months with possibilities of turning uglier.

The further anticipated rate hike in global market likely to slow down growth in these countries impacting the overall global growth. Simultaneously, China one of the major engines of global growth in last two decades, is facing multiple challenges resulting in major growth slowdown. The combined impact is likely to reduce global growth substantially in the current and the next year. There are fears of global recession adversely impacting financial market liquidity, corporate earnings and investor sentiments. We have seen substantial withdrawal of investments from equities by the foreign portfolio investors in last one year. All these factors are taking a toll on global growth outlook. The fear of recession is rising and investors are becoming risk averse, resulting in equity market corrections, and hardening of bond yields and major strengthening of dollar against most other currencies.

Indian Macro : India cannot remain unscathed to the adverse global developments. Deterioration of the global economy is impacting India's growth outlook and financial market performance. Yet, India remains the brightest beacon of hope in today's troubled world. As of now India seems to be decoupling itself from global slowdown for varied reason 1) Indian economy being self-sufficient in order to manage internal demand and supply in multiple sectors 2) Very well and timely policy measure to control inflation in India compare to developed world. 3) China lockdowns favoring Indian Industries 4) Resilience shown by Indian Equity in last one year with absorbing enormous FII outflow and strong domestic inflow of money. 5) Private Capex has increased with strong outstanding order book across various industries.

India's key inflation rate, as measured by the Consumer Price Index (CPI), returned to 7 percent in August from July's five-month low of 6.71 percent. However we expect it to go down to about 5% by end of March 2023.

India's gross Goods and Services Tax (GST) collections in September rose 26% year-on-year to ₹1,47,686 crore, with revenue from goods imports jumping 39% and that from domestic transactions and services imports yielding 22% more than in September 2021. This is the seventh successive month that revenues from the indirect tax have remained above ₹1.4 lakh crore.

India's manufacturing activity lost a bit of momentum in September as it hit 55.1, as against August's 56.2. Despite cooling down from August, rates of expansion remained historically high, said S&P Global India Manufacturing PMI. The S&P report stated that manufacturing PMI was in expansion for the 15th month in a row. Factory orders continued to increase at the end of the second quarter, but has eased to its weakest since June. There was a greater demand from domestic and international clients. Export orders increased too – the sixth in consecutive months, and the fastest since May. India's services sector expanded at the weakest pace since March, survey data released October

6 showed. The sector expanded for a 14th month in a row in September, with the S&P Global India Services Purchasing Managers' Index (PMI) coming in at 54.3 last month. The Indian service sector has overcome many adversities in recent months, with the latest PMI data continuing to show a strong performance despite some loss of growth momentum in September.

India's trade deficit widened to $26.72 billion, while exports decreased by 3.52% to $32.62 billion in September 2022. Sectors like engineering, ready-made garments of all textiles and rice saw a decline in exports in September. The merchandise export during the April-September 2022-23 period rose by 15.54% to $229.05 billion.

India’s foreign exchange reserves are lower by about $100 bn from a year ago. The rupee has also depreciated; it has seen a decline of more than 7% since the start of the financial year in April. Though the Reserve Bank has dipped into the reserves to help stem volatility in the rupee, that is not the only reason that the observed value of reserves has declined. Changes in valuation, given the dollar strengthening brutally against other currencies too have also contributed.

In Sep’22 Auto Sales: Outlook - CVs & PVs positive, 2Ws cautious Of the ~176,000 vehicles sold in Sep’22, Maruti Suzuki sold 32,574 SUVs (up 77% YoY and 21% MoM). This is the second highest monthly dispatch ever, only the third time in the history of the company when they sold over 30,000 SUVs in any month. Nearly all 2W dispatches came much ahead of expectations (Bajaj missed expectations). This could be due to the end of 2Q adjustment and the other being channel filling ahead of festive demand (since Diwali is in October in 2022 compared to November for 2021). Thus, most dispatches have been booked in Sep '22. Channel checks suggest inventories remain high (over 2 months) at the dealers end and festive demand will be very critical. Any slowdown in retail sales will reflect in production cuts (inventory adjustment) going forward. All 2W OEMs reported a sequential decline in exports for Sep’22. We prefer Maruti & M&M, Ashok Leyland as our picks in the auto OEM pack over Bajaj Auto, Eicher Motors and TVS Motors.

Valuations : Along with a relatively strong economy, corporate performance in India continue to remain robust. With strong corporate earnings and equity market corrections since mid-October 2021, valuation multiples for most stocks and sectors have become more reasonable in the last one year. With stronger fundamentals, rising domestic equity allocations and reasonable valuations, Indian equities have corrected less than most other global indices even in dollar terms. Similarly, after marked softening, bond yields in India is rising again but less than the spike witnessed in most major economies. The same is true for exchange rate of rupee, which although trading close to life low versus dollar, has depreciated far less than most other major currencies including euro, pound sterling and Japanese yen.

Outlook : Indian Equity markets although last one year returns are flat they have outperformed the global equity market by showing resilience on downside. The near term outlook of the global economy is not encouraging and these are impacting financial markets. Most of the known uncertainties including possibilities of global recession, continued aggressive monetary tightening, escalation of war in Europe and disruptions in the global energy market seem to be in considered in present market levels. Financial markets, however, overreact both on the upside and downside during the phases of euphoria and panic. Any further deterioration in global market can pose a downside risk to Indian market. At the same time, relative advantages of India versus the peers in most areas cannot be doubted. Therefore, the medium to long term of the Indian equity market continue to be bright. We therefore expect outperformance of Indian equities to continue.

Regards,
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