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FUND MANAGERS COMMUNICATIONS

The Indian Equity market in April continued to be volatile with broader indices ending negative by 1% Benchmark Indices NIFTY was down by 2% and broader indices NIFTY 500 down by 1%, Midcap and small-cap did ended marginally positive. FII continued to be net sellers to the tune of Rs 40,642 cr whereas the DII continued to be the Net buyer of Rs. 29,869 cr.

Global Market : The prolonged war between Russia and Ukraine has led to further uncertainty concerning geopolitical tension which might last a little longer. Also, the rise in covid cases and lockdowns in certain parts of China is leading to supply disruption. The rise in commodities especially metals and Oil and some supply disruption globally in other items including chemicals, Fertilizers, and food items like wheat, edible oil, etc has started boiling down to rising inflationary pressure which is likely to persist for a longer duration along with global demand improvement. Most of the central governments across the board have started resorted to raising interest rates to control inflation. The US central bank has announced its biggest interest rate increase by 0.5% in more than two decades as it toughens its fight against fast-rising prices. The Bank of England has raise the interest rate by 0.25%. Central bankers have already indicated further a few more rate hikes are on cards to curtail inflation. One-year equity returns in many countries have turned negative. There are apprehensions that with the deterioration of macroeconomic and corporate fundamentals, the outflow of liquidity from equity markets, and concerns about the sustainability of the current levels of company valuations, the global equity markets can undergo declines soon.

Indian Macro : India is impacted by the adverse global developments particularly, high crude oil prices, which have increased India's import bill and hurt 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. To a surprise, mid-term policy decision RBI has hiked the Repo rate by 40 bps to 4.4% along with CRR hiked by 50 bps. The move came in on the back of rising CPI beyond the RBI comfort upper band of 6%.

The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) was at 54.7 in April, up from 54 in March, Indian manufacturing activity in April saw a marked increase in new orders and production, with international sales growing strong. On the price front, concerns remained. Manufacturers experienced higher costs for chemicals, electronic components, energy, metals, plastics, and textiles compared to March. The services sector in India recorded strong growth in April, driven by a surge in incoming new work orders that boosted business activity and supported a renewed increase in employment.

India exported merchandise worth $38.19 billion in April 2022, a 24.2% increase from a year earlier but 9.5% lower than the record $42.2 billion shipped out in March. The trade deficit, however, expanded to $20.07 billion from $18.5 billion in March, as imports grew at a faster 26.6% pace to $58.26 billion. Sequentially, goods imports declined 4.1% last month from March's level.

GST collection touched a record high of Rs 1.68 trillion in April, surpassing the Rs 1.5-trillion mark for the first time since the introduction of the tax regime in 2017.

In Auto in April 2022, Tractors witnessed a strong recovery, driven by an improvement in crop realizations. 2Ws saw an improvement in retail due to festive/marriage season demand, but wholesales were restricted by supply issues. CVs maintained an uptrend with double-digit. PV has seen a mixed mag. The large pending order book for PV OEMs provides strong visibility for the next few quarters.

Corporate Earnings : Q4 quarterly earnings started on a good note with IT, Banking, and financial Services showcasing decent growth. On the manufacturing side with the limited number of companies who have declared results so far we have seen margin pressure owing to high Crude and Metal price and some supply disruption which was on expected lines. The challenges concerning high crude might reside to some extent. If the Indian crude basket cost does 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 the corporate going forward. Also, India do have an opportunity in some sectors, especially in exports where supply disruption are there from Russia- Ukraine as well as China. Metals, Capital goods, Fertilizers, and Defense are expected to show decent growth. Pressure could be seen in Consumer durables, Auto, FMCG, and Paints.

Outlook : The challenges related to elevated commodity prices persist in the economy and will impact earnings for 1st half of FY23. Most analysts have already revised the broader market earning to 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 but with a lag of 3-6 months. Global liquidity is likely to get squeeze with the rising interest rate regime to curtail inflation which might limit the overall flow into equity in the near term till the time

Any further deterioration of the global economic or geopolitical situations can result in a noticeable correction in the equity markets. 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. Consequently, the Indian market is likely to move in the same direction as the global market in the short term. Given this, we cannot rule out the possibility of a correction in the Indian equity market. We, however, do not expect the correction to be very substantial.

We are closely watching corporate earnings and commentary by the management. As a strategy, we are trying to exit and avoid the sectors which are highly sensitive and have a negative impact on 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 for a quarter more. Any dips should be considered as a buying opportunity.

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

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