Market Outlook

April 2022

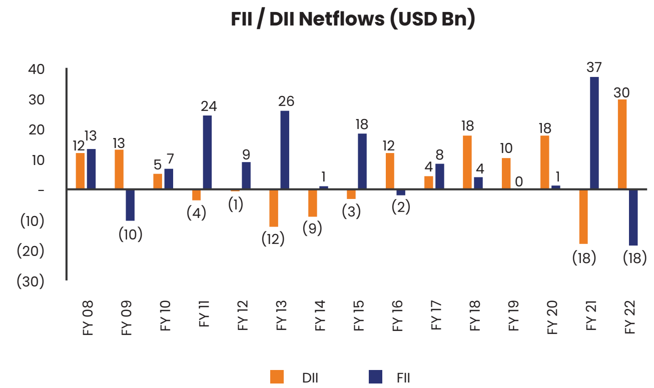
Market Update

The month of March saw the peak of hostilities between Russia and Ukraine. However, surprisingly most global markets recovered sharply from the initial jitters and logged in good gains for the month. Indian markets too recovered with NIFTY 50 index reporting a 4.0% gain. Broader markets represented by S&P BSE Midcap and S&P BSE 250 SmallCap, were up 3.2% & 6.1% respectively. Almost all major global equity markets are higher than where they were just before the Russian intrusion into Ukraine.

In India, markets were also positively enthused by the incumbent BJP party getting re-elected in the biggest state of Uttar Pradesh, apart from three other States. This election outcome was seen as a precursor to the forthcoming central election in 2024, also indicating that PM Modi's popularity seems intact. For the first time in more than three years, the US Federal Reserve raised its federal fund rate by 25 bps to rein in inflationary pressure. This hike was on expected lines and hence was well accepted by the markets without any volatility.

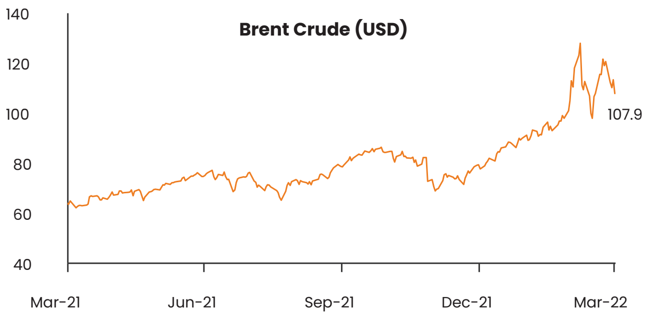
FIIs continued to be net sellers of Indian equities to the tune of ~USD 5.4 bn. However, the selling was broadly absorbed by the domestic institutions being net buyer of ~USD 5.1 bn. On the macro front, CPI inflation surged to an eight-month high of 6.07% YoY in February'22 (vs 6.01% in January'22). WPI also marginally increased to ~13.11%. Core inflation (ex-food and fuel) remained largely flat at ~6% MoM. With crude continuing to trade over USD 100/bl, the risk to higher inflation in the near term seems to be rising. On YoY basis, Non-food credit growth stood at 8.3% while the credit to industry/services strongly grew by ~6.4%/7.3% YoY respectively indicative of a pickup in credit off-take, signaling expansion in economic activity. E-toll volume and collections were higher in March'22, signaling the increase in mobility and economic activity. GST collection for March'22 stood at INR 1.42 lakh cr, registering the highest collection since the introduction of GST.

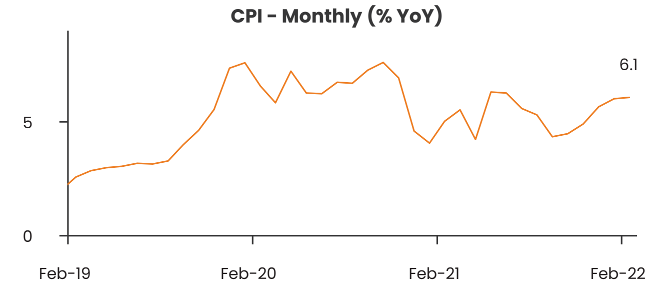
FII secondary market outflows in FY22 was absorbed by DII.



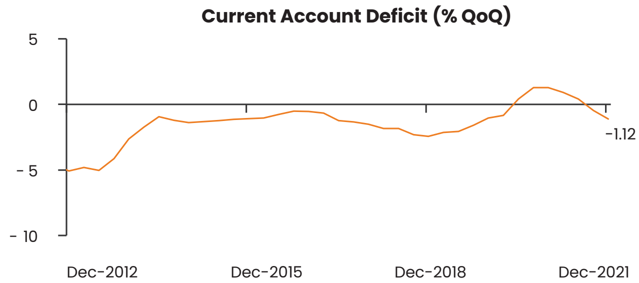
FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors

Source: NSDL, PTI, ANI, Bloomberg, BSE, NSE, Abakkus Estimates, Kotak Securities, RBI





For the first nine months of FY22, the current account deficit came at 1.2% of the GDP as against a surplus of 1.7% in the April-December 2020 period as imports pickup with opening up of the economy.



On the covid front, China has started to see spike in number of infections and imposed fresh lockdowns while in India covid cases have seen a sharp drop promoting authorities to lift most restrictions. This bodes well for the demand and economic activity in India.

The Year That Was

FY22 has been an eventful year and despite all the volatility, NIFTY 50 ended the financial year with a decent 18.9% gain. The markets overcame multiple headwinds like the covid scare, multiple lockdowns, heavy sell off in tech stocks in the Chinese markets due to regulatory intervention, China's Evergrande group default, hawkish policy statements from US Fed and the eventual recent rate hike, new age IPO meltdown and finally the Russian conflict which has resulted in a sharp spike in oil and other commodity prices. Also, these returns have come in a year which has seen highest ever FII selling of ~USD 28 bn, almost entirely absorbed by domestic institutions and retail investors. Amongst global markets too, Indian equities are amongst the top 5 performing and have done well.

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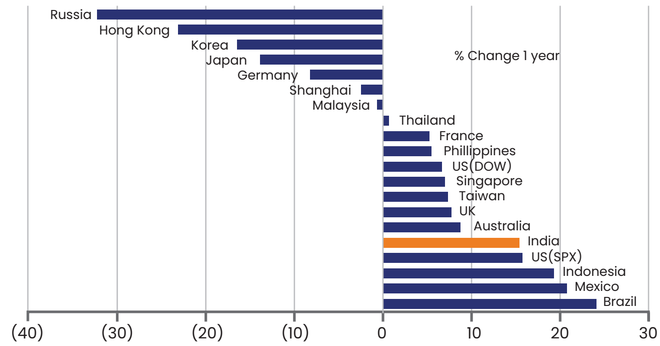
Performance of BSE-30 Index versus Global Indices (adjusted for currency changes) (%)



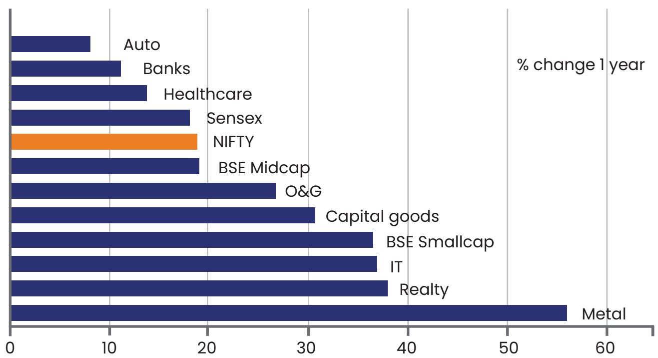
Source: Bloomberg, Kotak Institutional Equities

The traditional factor of earnings growth leading to stock market performance has been very clearly visible in the markets during FY22. Metal sector has given the best return owing to the sharp improvement in profitability. Autos have the worst performer as companies face double headwinds of higher cost of ownership plus margin squeeze from high input prices. Banking has generally underperformed despite excellent profit growth, largely facing the biggest brunt of FII.

Sectoral Indices Performance (%)

In FY22, Metal was the best performing sector while Auto was the worst performing sector.

Source: Bloomberg, BSE, Kotak Institutional Equities



Market Outlook

Despite multiple headwinds, FY22 has ended with decent returns of over 18.9% for NIFTY 50, with the broader markets doing better. Multiple challenges have been met with optimism as investors look forward to a period of good economic and corporate profit growth. Rising inflation and ensuing increasing interest rates come across as the biggest macro-economic factors to track. However, our view on crude oil is quite benign, with prices more likely to be $60-70/barrel by June/July 2022 (our note of Feb 2022 Views on the Current Events). Hopefully, reduction in the intensity in the Russia/Ukraine region will also lead to softening of other commodities and allay the fear of inflation meaningfully.

In the immediate near-term, some companies and sectors will surely face margin pressures. However, demand scenario continues to be very strong, as the country opens up to normalcy after two years of Covid related lockdowns. Agri produce and prices have been very good this year and this makes us believe that the Indian rural economy will witness strong growth over the next year. The China +1 strategy is only getting stronger with India reporting an export of over $400bn for the first time ever in FY22. FIIs have been big sellers in Indian equities in FY22. However, the importance of a stable democracy could not have been more pronounced as in the recent past, with China and Russia giving global investors big shocks. Our view is that it is a matter of time before global investors become net buyers of Indian equities. Domestic investors look like continuing with their confidence in Indian markets and that also bodes well for the performance in the new financial year.

The last couple of years have seen great returns for Indian equity investors. These were unusually high returns and we do not see those kinds of returns being replicated over the next two years. However, given the potential earnings growth, we continue to believe that decent mid-teen returns look possible from a three-year perspective.

In the absolute near-term, news flow from the Russia/Ukraine region will continue to keep the markets volatile. The earnings season will also be an important factor to track. As mentioned earlier, some companies and sectors will surely face margin pressures. However, as a whole, corporate India should report a healthy PAT growth of over 25% for 4QFY22.

Sector wise Sales, EBITDA and PAT growth estimates of NIFTY 50 Index

	Sales growth (%)		EBITDA growth (%)		EBITDA margin (%)			PAT growth (%)	
	YoY	QoQ	YoY	QoQ	Mar-21	Dec-21	Mar-22E	YoY	QoQ
Automobiles & Components	-2	10	-16	29	14	10	12	7	120
Banks	18	5	-	-	-	-	-	49	13
Capital Goods	14	39	19	68	13	12	14	13	87
Commodity Chemicals	17	-9	4	-11	20	18	18	7	-10
Construction Materials	17	20	-11	23	25	19	19	-8	36
Consumer Staples	8	-3	15	3	26	26	28	11	0
Diversified Financials	20	5	-	-	-	-	-	19	-1
Electric Utilities	13	6	24	5	42	46	46	-2	5
Fertilizers & Agricultural Chemicals	18	34	17	27	21	22	21	12	29
Health Care Services	22	-3	19	-16	14	16	14	19	-17
Insurance	-2	-6	-	-	-	-	-	0	-3
IT Services	19	2	8	1	27	25	25	10	1
Metals & mining	45	13	25	5	26	25	23	36	1
Oil, Gas & Consumable Fuels	51	21	52	22	16	16	16	42	22
Pharmaceuticals	13	-4	21	-10	23	27	25	30	-17
Retailing	11	-17	41	-20	11	15	14	46	-22
Telecommunication Services	24	7	31	10	48	49	51	60	59
Transportation	16	10	20	13	63	64	66	32	15
Nifty-50 Index	26	12	22	12	21	21	20	28	12

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

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Abakkus
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April 2022

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https://www.crisil.com/en/home/what-we-do/financial-products/alternate-investment-fundsbenchmarks.html

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