Market Outlook

June 2022

Market Update

May 2022 turned out to be one of the most challenging month in recent times for equity investors globally. Volatility was at its peak with risk-off clearly visible. Worries over a global economic slowdown amid aggressive policy tightening, lockdowns in China and ongoing Russia-Ukraine conflict; dented investor sentiment. Taking a cue from global trends, Indian equity markets also followed the same trajectory. A strong rally towards the last week of the month did help the NIFTY50 end May down only 3.0%. However this does not reflect the sharp correction in broader markets. S&P BSE Midcap and S&P BSE 250 SmallCap were down by 5.2% & 8.1% respectively, with multiple stocks correcting a sharp 15-30%. Export ban on wheat, followed by a sharp export duty on steel dented sentiments, as investors started to speculate more such measures across other sectors too. RBI's out of turn 50 bps rate hike also dented sentiments. During the month, FII selling continued with they pulling out another ~USD 5.2 bn while domestic institutions remained net buyers with a flow ~USD 6.6 bn.

Macro Update

GOI revised its GDP growth estimate for 2021-22 to 8.7%, lower than its earlier estimate of 8.9%. India's fourth quarter GDP growth slowed to 4.1%, as the Covid Omicron variant hampered economic activity in the March 22 quarter. In absolute terms, growth in GDP in 2021-22 was 1.5 % higher than the last pre-pandemic year, showing that the economy has recovered most of the losses suffered during Covid.

India's eight core sectors grew 8.4% in April, quickening from a revised 4.9% in March 2022. It is the highest since October 2021 when the core sector grew by 8.7%. GST collections in May were again strong at Rs. 1.40 lakh crs, up 44% YoY.

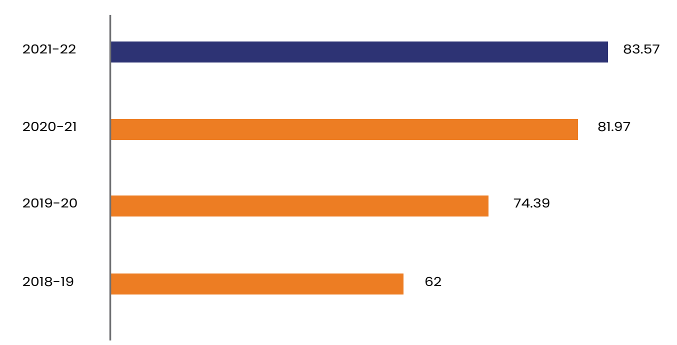
April CPI inflation surged to 8 year high of 7.8% YoY compared to 6.9% in March. Wholesale inflation for April rose to 15.1% YoY, highest in at least 17 years. The RBI MPC in an off-cycle meet increased policy repo rate by 40 bps to 4.4% and CRR by 50 bps to 4.5%, to curb inflation.

With inflationary concerns and crude prices still around USD 110 - 120/bl, Indian government announced measures with respect to excise duty cuts, levying of export duty on some steel products, ban on exports of wheat amid other announcements. This resulted in profit booking in the sector and Metals was the worst performing sector. China announced relaxations on covid related lockdowns creating expectations of normalising of supply chain disruptions over the course of next few weeks.

The 10 Yr US GSec cooled off by around 13 bps to 2.85% while Indian 10 Yr GSec moved more than 25 bps to close at 7.39%, on the back of the 40 bps rate hike by India's central bank, RBI. The dollar index remained flat while awaiting June month FOMC meet.

India received the highest ever annual FDI (foreign direct investment) inflow of ~USD 83.57 bn in FY22 compared with ~USD 81.97 bn in FY21. FDI equity inflow in manufacturing sectors rose 76% YoY in FY22 to ~USD 21.34 bn, reflecting the gains from the China +1 phenomenon, as also the Government push towards "Make in India'.

India's FDI inflows for last 4 financial year (in USD bn)



Source: PTI

Corporate Earnings

The performance on the corporate earnings front continues to be good. Despite headwinds for some companies/sectors because of sharp increases in raw material costs, energy costs and logistics costs; profit growth for the March 2022 quarter has been buoyant. Led by excellent performance from Private Banks, Consumer, NBFCs, Metals, Automobiles, and Capital Goods, Nifty companies PAT grew by 21% for the March 22 quarter. Oil & Gas, Healthcare, PSU Banks, and Consumer Durables reported earnings below estimates, while Technology and Cement's profits were in line with market estimates. Overall Nifty earnings growth for FY22 came in at a strong 35%.

FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors Fed: US Federal Reserve, CRR: Cash Reserve Ratio, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, Inflation numbers released with 1 month lag
Core Sector number released with 1 month lag

Source: NSDL, PTI, ANI, Bloomberg, BSE, NSE, Abakkus Estimates, RBI, Motilal Oswal Research

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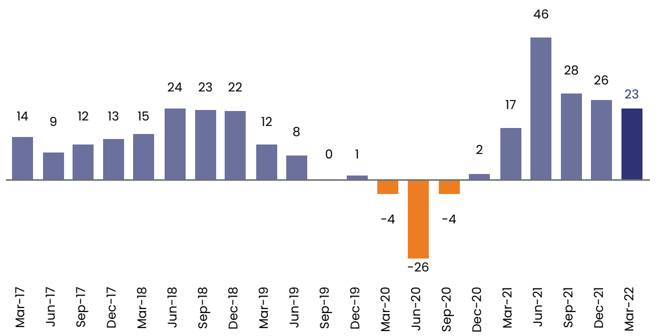
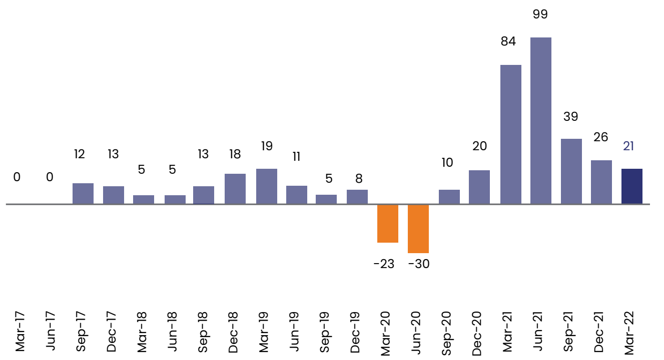
Q4-FY22 Nifty sales up 23% YoY v/s estimate of +28% YoY



Source: Company Data, Motilal Oswal Research, Bloomberg

Q4-FY22 Nifty PAT up 21% v/s our estimate of 23% growth



Source: Company Data, Motilal Oswal Research, Bloomberg

Market Outlook

Equity markets in India after outperforming most other countries, have also reacted on global trends over the last few weeks. While the current reaction has been worrying for all investors, markets have corrected quite a few times in the recent past and have always bounced back as long as the economic and corporate profit growth has been strong. Indian companies too will also selectively face some margin headwinds. However, the demand scenario in the economy remains quite strong. Rural economy, led by good agriculture produce and record agriculture prices, also is looking buoyant. The near-term situation continues to be dominated by news flows as also sharp movements particularly in US markets. However, with fundamentals continuing to be strong for India and now valuations also in line with 10-year averages, the risk reward for investors is only getting better. We continue to remain constructive on the markets.

We continue to maintain our view of softness in oil prices from a medium to long term perspective. Metal and other commodity prices have already started to soften from their highs. Some more correction in oil and commodity prices might allay the inflation fears to some extent and present the trigger for an upmove in the markets.

We believe that we are entering a phase of consolidation in the markets and expect very minimal correction from these levels. Though the markets might remain range bound in the very near-term, opportunities are opening up in selective stocks. We would be constructive and be investors while focussing on our fundamental philosophy of buying companies with profit growth and where fundamentals merit the valuations they are trading at.

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