Fisdom Research

CapView

Insight Beyond Information

Base Camp

Economy & Capital Markets

September 2022

Letter to investors

Government finances are gaining health at a sound pace. Tax collections have been soaring consistently while the trade deficit has been effectively arrested at 20.5% of budget estimates. The GDP expanded by 13.5% in the first quarter of FY23. Though reassuring, the GDP's absolute numbers are far from the summit we aspire for. While shorter-term debt remains a concern, the external debt situation seems well controlled. Forex reserves are at comfortable levels, but the pace of decline amid a challenging interest rate and currency environment is a definite cause for concern. These ropes need to be tightened a bit.

Broad positivity has been resounding through capital markets as well. After a long nine-month period of disinterest, foreign portfolio investors turned net buyers of Indian equities for the first time in July'22. In August 2022, the investments hit a new high for the first time since December'20. However, the waning robustness of DII participation in the same period spared broader markets of the exuberance that could ensue. Probably a breather for domestic institutions that remained resilient through the FPI slump.

The Indian economy and capital markets are at the thrilling crossroad of bewilderment and excitement. The knapsacks are full, ropes tightened but there is so much to figure before the expedition begins. A long but scenic journey to the summit awaits Indian investors. But today is when everyone rounds up at the base camp.

There is so much that has happened and so much more that we anticipate. All of this, is effectively captured in Fisdom Research's latest edition of its monthly outlook on the Indian economy and capital markets – CapView. This month, the report is titled – "Base Camp". You may have already caught onto the reason, but there is so much more. Read on to know more.

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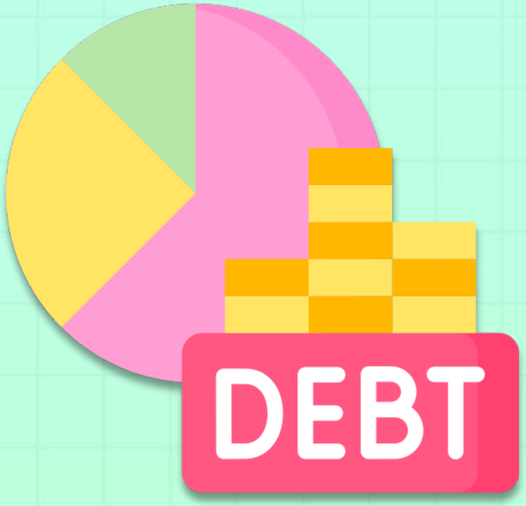
Fisdom
RESEARCH

Indian Economy

Accounts

Government Finances



External debt

Trade Deficit

Government finances are on track; it arrests fiscal deficit at 20.5 per cent of BE till July 2022

April - July 2022	Actual upto July 2022	Budget estimates FY23	% of actuals to budget estimates
Gross fiscal deficit (GFD)	3.4	16.6	20.5
Net tax revenue	6.7	19.3	34.4
Non-tax revenue	0.9	2.7	33.3
Disinvestment	0.3	0.7	37.8
Recoveries of loans	0.1	0.1	39.7
Revenue expenditure	9.2	32.0	28.7
Capital Expenditure	2.1	7.5	27.9

Amounts in rupee trillion

Source: CMIE, Ministry of statistics • Created with Datawrapper

April - July 2022	Actual upto July 2022	Budget estimates 2022-23	% of actuals to budget estimates
Food subsidy	0.6	2.1	31.1
Nutrient based fertilizer subsidy	0.1	0.4	27.6
Urea subsidy	0.3	0.6	53.3
Petroleum	0.0	0.0	2.8
Total major subsidies	1.1	3.1	35.1

Amounts in rupee trillion

Source: CMIE, Ministry of statistics • Created with Datawrapper

- Central Government arrested its gross fiscal deficit (GFD) at 20.5 per cent of the annual budgeted target during the first four months of 2022-23. At the same time last year, the government had exhausted 21.3 per cent of its annual deficit target. In absolute terms, the deficit from April-July 2022 amounted to Rs.3.4 trillion, higher than the last year's Rs.3.2 trillion.

- Government expenditure increased by 12.2 per cent year to Rs.11.3 trillion from April-July 2022. Revenue expenditure rose by 4.8 per cent to Rs.9.2 trillion, and capital expenditure rose by 62.5 per cent to Rs.2.1 trillion.

- On the revenue side, net tax collections rose by 25.9 per cent to Rs.6.7 trillion from April-July 2022. Non-tax revenue receipts declined by 36 per cent to Rs.895.8 billion, while non-debt capital receipts, mainly comprised of disinvestment proceeds, increased by 112.9 per cent to Rs.301.2 billion

- The Central Government's first quarter performance shows that it is well on track to spend the entire budgeted expenditure for 2022-23 without deviating from its fiscal target. Still, We expect its budgetary deficit to rise once the government begins clearing its subsidy dues. The excess net tax revenue of Rs.1.1 trillion will not be able to fully cover the Rs.400 billion shortfalls in non-tax revenue and the additional subsidy liability of Rs.1.25 trillion. The fiscal deficit during 2022-23 will likely amount to Rs.17.4 trillion, nearly Rs.800 billion more than the budget estimate.

GDP grows by 13.5 per cent YoY in Q1FY23; still, a long way to go to recover from the pre-pandemic levels

April June Quarter	GDP (INR Tn)	PFCE (INR Tn)	GFCE (INR Tn)	GCF (INR Tn)	Exports of goods and services (INR Tn)	Imports of goods and services (INR Tn)
2018-2019	33.8	18.7	3.9	12.1	6.8	8.0
2019-20 (Pre Pandemic Year)	35.5	20.1	3.8	2.7	7.0	8.8
2020-21 (Pandemic Year)	27.0	15.3	4.3	6.6	5.2	5.2
2021-22 (Post Pandemic Year)	32.5	17.5	4.1	11.3	7.4	8.3
2022-23 (Post Pandemic Year)	36.9	22.1	4.1	13.5	8.5	11.4
YOY Growth (%)	13.5	25.9	1.3	20.1	14.6	37.3
Growth over pre pandemic years (%)	3.8	9.9	9.6	6.4	20.2	30.3

In Rupee Trillion

Source: CMIE, Ministry of statistics • Created with Datawrapper

- India's gross domestic product (GDP) grew by 13.5 per cent in the first quarter of 2022-23 compared to the year-ago level. It is well below the RBI's estimate of 16.2 per cent. The uptick in YoY growth was mainly because of the low base of FY22 & increase in demand post-pandemic as the economy re-opened.

- Private final consumption expenditure(PFCE), the single most significant component of India's GDP, grew by 9.9 per cent during the June 2022 quarter. The rise in the consumption to GDP ratio is a big positive as it reflects the revival of the consumption demand. Gross fixed capital formation (GFCF), an indicator of investment demand, increased by 20.2 per cent. The investment to GDP ratio rose to the highest since the pre-pandemic period, all thanks to the heavy capital expenditure done by the government. Imports grew at a faster clip of 30.3 per cent than exports which grew by 20.2 per cent in the June 2022 quarter. Consequently, the trade deficit widened to 8.1 per cent of GDP during April-June 2022 as against a little below three per cent of GDP in the same quarter a year ago.

- Reading the national accounts data for the quarter that ended June 2022, three broad messages seem to emerge:

- Investment growth is improving, and an increase in capacity utilisation data & Capex may add more fuel for investments in the future.
- The export growth may moderate as external demand starts losing momentum in June.
- Consumption is picking up, but the recovery is uneven

- The GDP growth may take a backseat in Q2FY23 as the base effect goes out of the picture. On the MPC front, We can also expect a little less aggressive rate hikes than we have seen in the earlier two meetings, as the growth is far from the RBI's estimate

GVA grew by 12.7 per cent YoY due to a favourable base effect

	June 2019 (INR Tn)	June 2020 (INR Tn)	June 2021 (INR Tn)	June 2022 (INR Tn)	Growth YoY	Growth over pre-pandemic year
Gross Value Added at Constant Basic Prices	32.9	25.8	30.5	34.4	12.7	4.7
(I) Agriculture, forestry and fishing	4.5	4.6	4.7	4.9	4.5	9.9
(II) Industry	9.9	6.5	9.6	10.4	8.6	5.5
(i) Mining and quarrying	0.8	0.7	0.8	0.9	6.5	3.3
(ii) Manufacturing	5.7	3.9	5.8	6.1	4.8	7.0
(iii) Electricity, gas, water supply and other utility services	0.8	0.7	0.8	0.9	14.7	11.2
(iv) Construction	2.6	1.3	2.3	2.6	16.8	1.2
(III) Services	18.5	14.7	16.2	19.1	17.6	3.0
Trade, hotels, transport, communication and broadcasting services	6.6	3.3	4.5	5.6	25.7	−15.5
Financial services, real estate and professional services	8.0	7.9	8.1	8.8	9.2	10.5
Public administration, defence and other services	3.9	3.5	3.7	4.7	26.3	18.9

Source: CMIE, Ministry of statistics • Created with Datawrapper

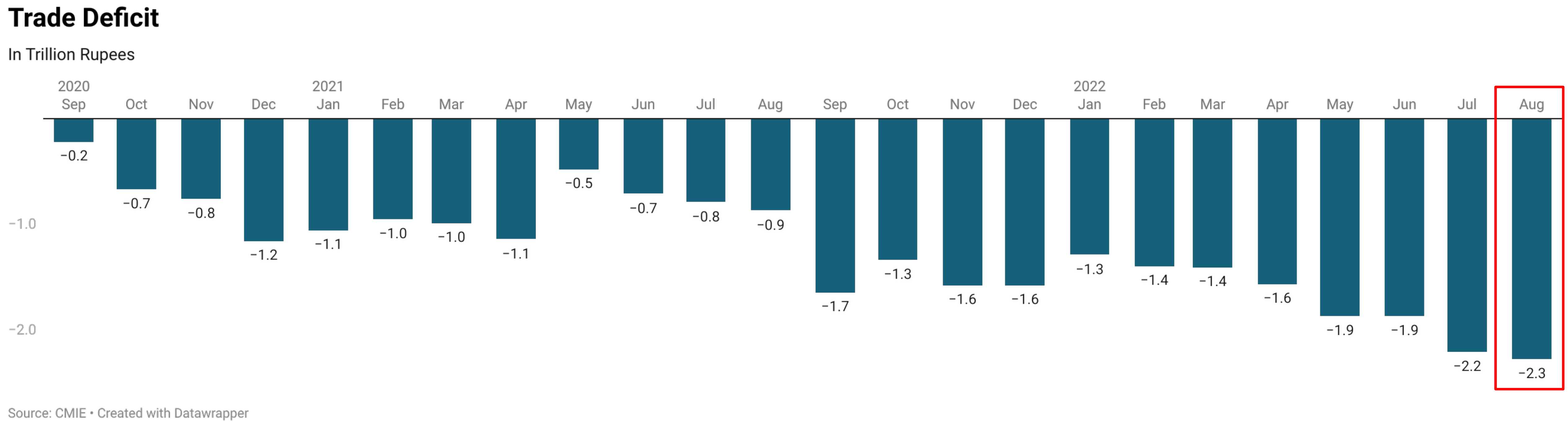
- In absolute terms, India's gross value added (GVA) grew by 12.7 per cent from April-June 2022 compared to the same period a year ago. It is the steepest growth recorded in the last four quarters, majorly driven by the low base effect. The services sectors led the growth.

- The agricultural sector continued with its good performance, clocking a 4.5 per cent rise in real GVA on top of a 2.2 per cent growth reported in the June 2021 quarter. GVA of the manufacturing sector grew year-on-year by 4.8 per cent and that of mining by 6.5 per cent. Construction and utilities reported a steeper growth in GVA of the order of 16.8 per cent and 14.7 per cent, respectively.

- Value addition by trade, hotels, transport & communication services grew by 25.7 per cent. The growth was because of the favourable base effect. After the pandemic, the sector got a good boost, but the change is still far away from its pre-pandemic numbers. Public administration and defence's GVA grew by 26.3 per cent, while financial, real estate & professional services reported a 9.2 per cent increase in GVA during the June 2022 quarter.

- Reading the national accounts data for the quarter that ended June 2022, two broad messages seem to emerge:
- Slowdown in services, mainly in trade, hotel & transport, may push RBI to continue with its monetary tightening to control the inflation
- All other segments showed an improvement from their pre-pandemic growth

Trade deficit continues to expand



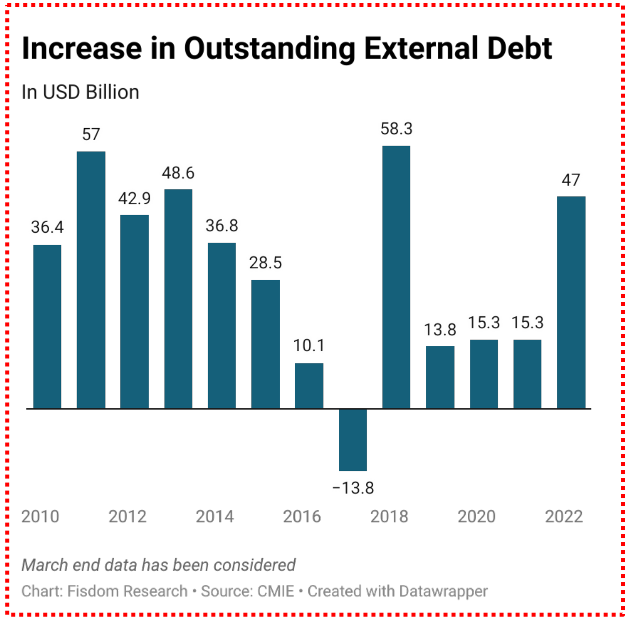
- India's trade deficit widened to Rs. 2.28 trillion, increasing 3.1% compared to July 2022. Both exports & imports went down by 14 per cent & 7 per cent respectively on a sequential basis. The significant decline in exports reflects the weak global demand & also the impact of various measures taken by the government. The government has put some restrictions on the export of wheat, steel & iron along with a delay in order execution amid fears of a slowdown in developed economies.

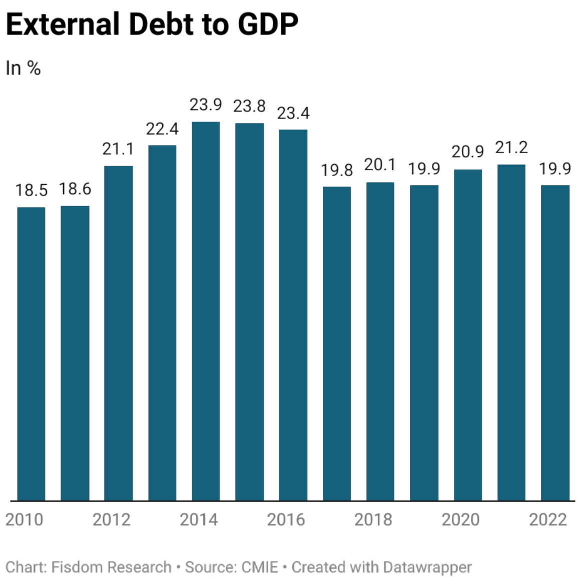
- Engineering goods and petroleum products led to a fall in exports. Their share in India's exports shrunk from 45.4 per cent in March 2022 to 39.9 per cent by August 2022. The shrinkage was prominent in July and August. Had it not been for these two groups, India's exports would have remained almost stable sequentially and escaped the year-on-year fall in August 2022. These are the items that the Centre had slapped with export duties to improve their domestic availability and affordability. Besides, the drop in exports, when imports remain stubbornly high, is also denting India's economic growth

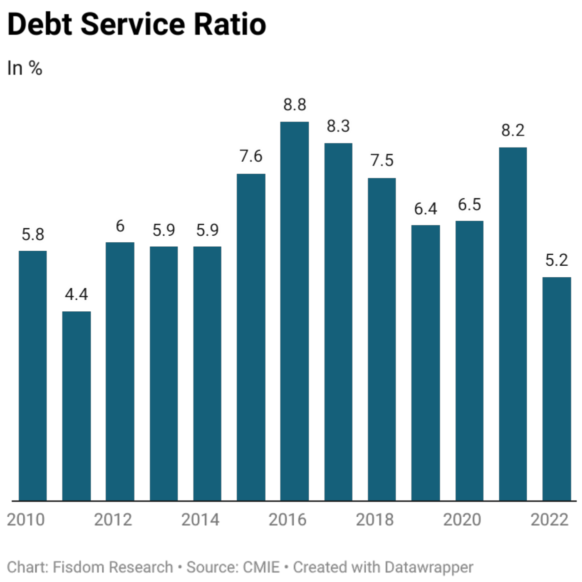
- The widening trade deficit has put the Indian rupee under pressure and substantially drained the country's forex reserves. India's foreign currency assets shrunk by USD 18 billion in July 2022 and USD 12.6 billion in August 2022.

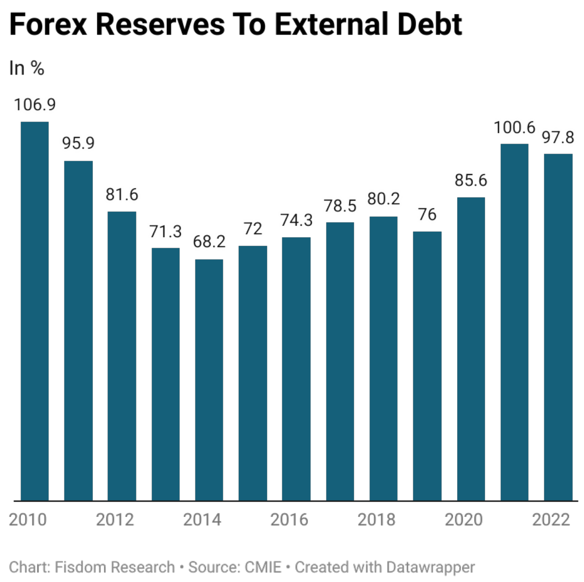
- We expect India's merchandise trade deficit to remain elevated in the next two quarters - those ending in September and December 2022. The deficit will likely ease in the March 2023 quarter following the decline of imports due to an expected easing of global commodity prices.

India’s external debt situation seems reasonably placed; short-term debt still a concern









- Of the total outstanding external debt, 43.1 per cent will mature in the next year. Almost 96-98 per cent of short-term debt by original maturity is trade-related credit raised by non-financial corporations. The 20 per cent increase in outstanding trade-related credit is due to the steep rise in India’s imports during 2021-22, led by the sharp increase in global commodity prices, including energy and food prices.

- The debt service ratio of interest payments and principal repayments to current receipts - dropped to an 11-year low of 5.2 per cent by end-March 2022. It is because of a sharp increase in current receipts to USD 798.7 billion during FY22. The ratio of foreign exchange reserves to total debt was 97.8 per cent by end-March 2022. A quicker increase in outstanding external debt compared to forex reserves is the critical reason for a lower ratio. The ratio will likely deteriorate further, given the drop in foreign exchange reserves.

- Most indicators determining external debt sustainability appear to align with the past trend. However, there are troubles regarding short-term debt; given the pressure, it can exert on the sharply depreciated rupee.

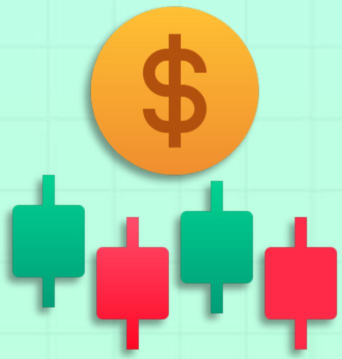
Indian Economy

Capital Flow

Foreign portfolio investments

Foreign direct investments

Domestic institutional investments



Forex reserves

FPIs had turned into net buyers for the first time; August received the highest inflows since December 2020

Foreign Investment in Equity

In Crores

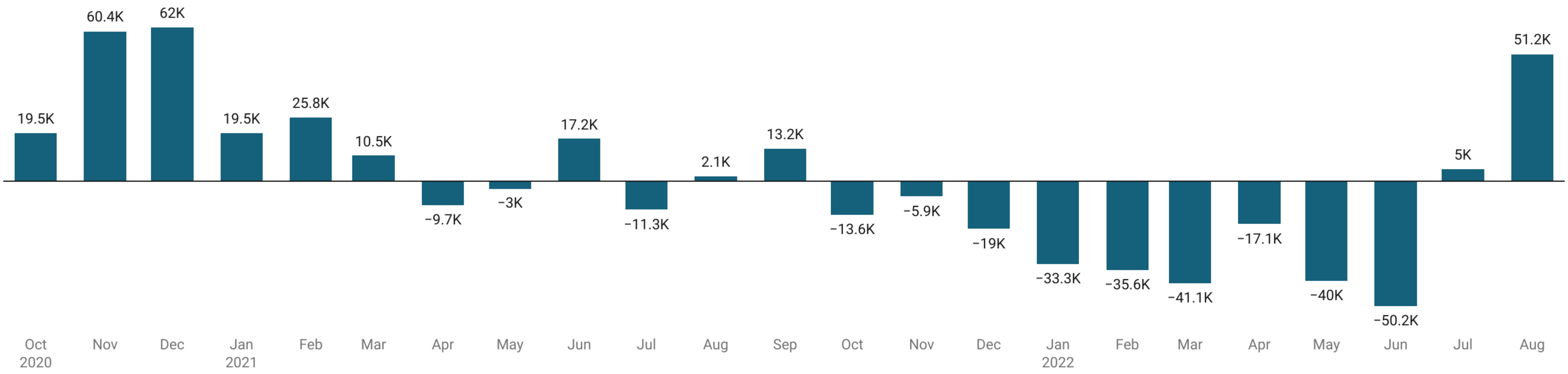
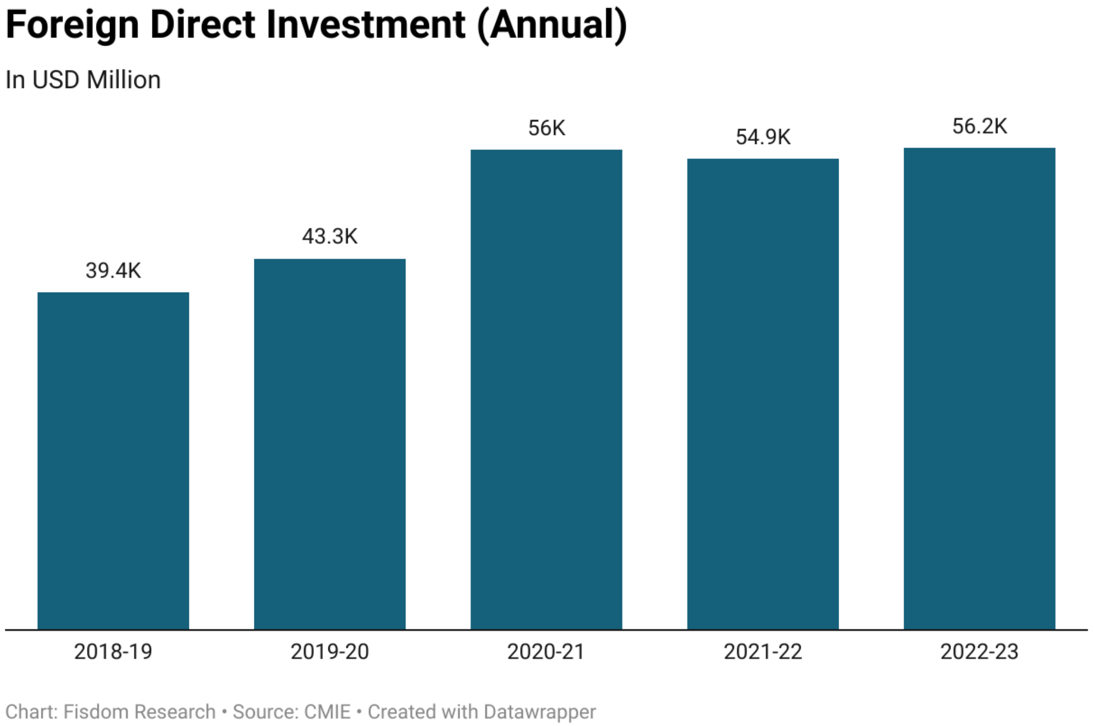
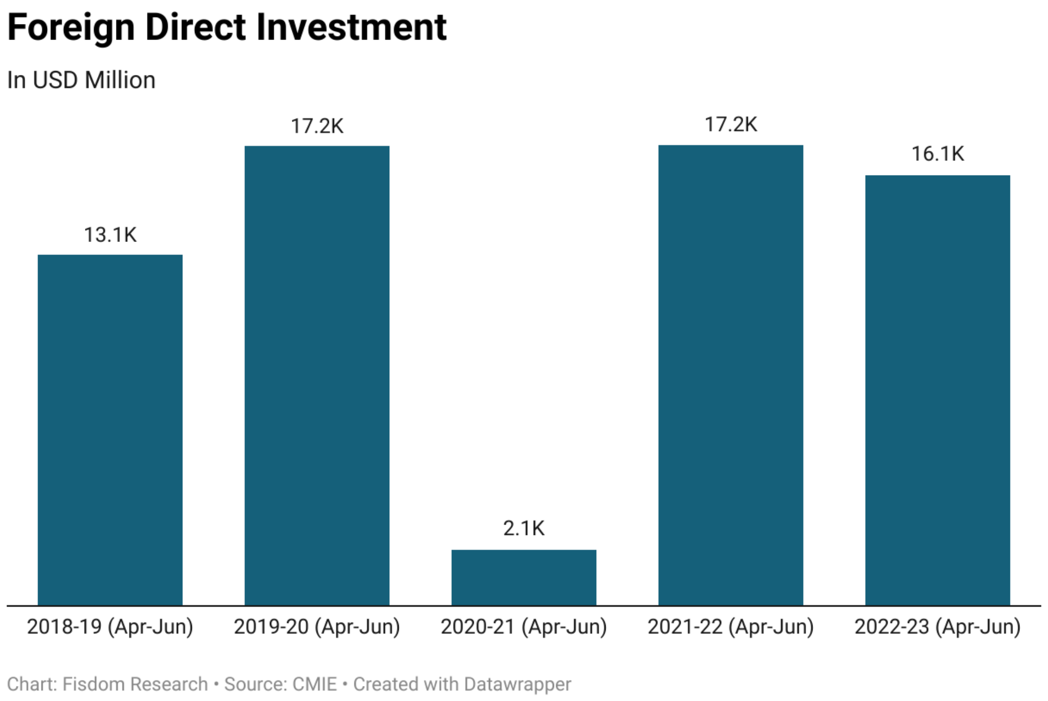


Chart: Fisdom Research • Source: ACE MF • Created with Datawrapper

- FPIs had turned net buyers for the first time in July 2022 after dumping Indian equities for nine months starting October last year. In August 2022, FPIs intensified their buying in the Indian capital market and infused Rs.51,204 crore. It was the highest investment made by foreign investors since December 2020, when they had invested Rs. 62,015 crore.
- Along with India, all other emerging countries like Brazil, South Korea, Thailand, Indonesia & Malaysia have also received positive flows in August'22. India received the highest inflows in August after consistently witnessing outflows for the first five months of CY22.
- Softening dollar index & good corporate earnings were the key reasons for the inflows. Additionally, the commentary by the US chairman stating that the country is not in a recession helped improve the sentiment globally. The recent correction in the Indian equity markets gave them an excellent opportunity to enter.
- Going forward, FPI flow may moderate compared to August, given ongoing rate hikes by the US Federal Reserve along with quantitative tightening.

FDI Inflows moderate in Q1FY23; India received highest ever FDI Inflows in FY22



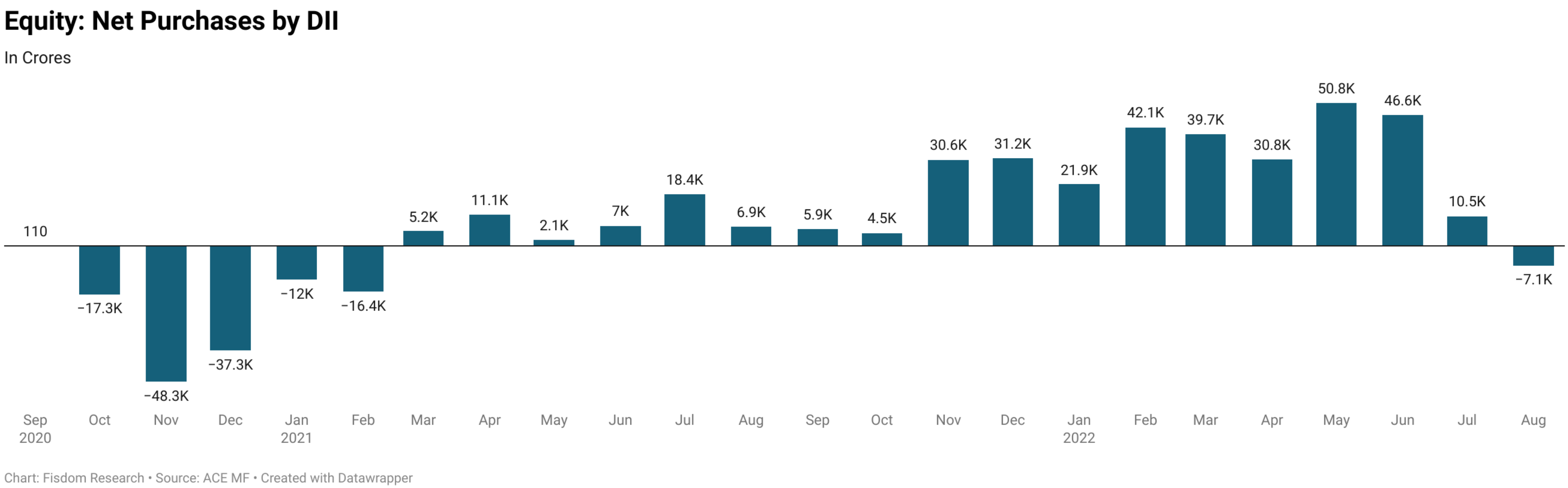


- Foreign Direct Investments equity inflows declined by 6 per cent to USD 16.1 billion from April to June 2022. While looking back at the previous financial year, India received the highest annual Foreign direct investment (FDI) inflows of almost $56 million in FY22.

- Among investors, Singapore emerged as the top investor for the April-June quarter with USD 5.7 billion, followed by Mauritius with USD 2.4 billion. Among the sectors, the computer hardware and software sector attracted the highest inflows during the three months.

- Even during global uncertainty, India has successfully attracted higher FDI inflows than pre-pandemic years of 2018-2019. The government has, in recent years, implemented an investor-friendly policy, wherein most sectors, except specific strategically essential sectors, were opened for 100 per cent FDI under the automatic route.

Domestic institutional investors shown an aversion towards the equity



- Domestic institutional investors turned net sellers in August'22 after being net buyers for the last eighteen months. DIIs have infused a total of Rs. 1.58 trillion from March till July'22 and sold Rs. 7,000 crores in August. Selling came amid a reversal in FPI inflows.
- Domestic investors have decided to pull out some money from the market following the sharp rally in the equity market from their June lows. Key benchmark indices nifty and Sensex recovered 15 per cent from their lows in June'22,
- Among the key DIIs, mutual funds sold Rs.1,120 crore in August. Sectoral, large-cap, gold & smallcap funds have significantly affected the overall flows.
- Along with this, we have also seen strong demand for physical properties; hence, some flows shift from equity markets to the property market. It may also impact the DII's flows. We may see some moderation in the inflows in the near term.

Forex reserves remain at comfortable levels; pace of decline a cause of concern

Foreign Exchange Reserves

In Trillion Rupees

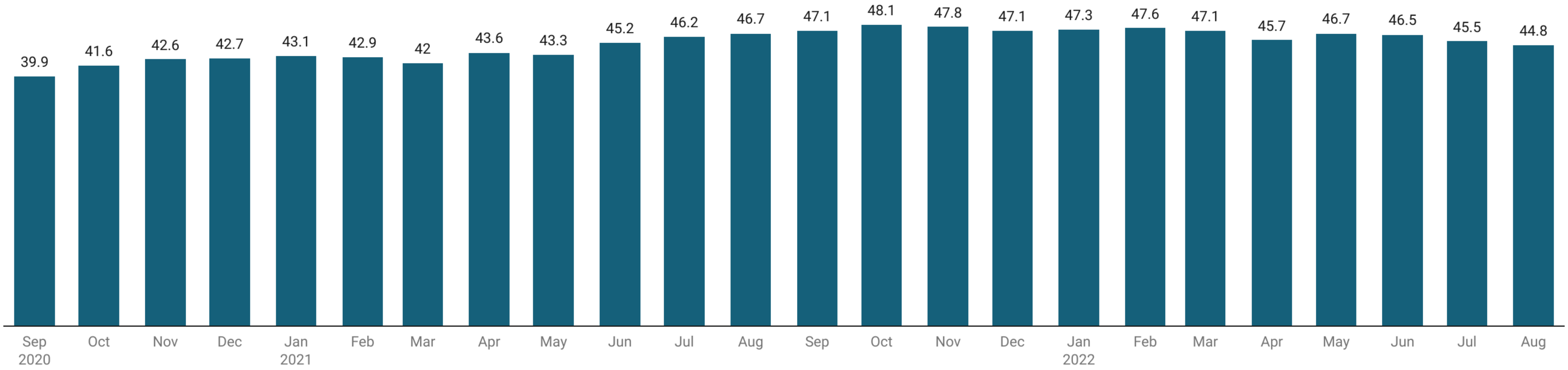


Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- Central bankers across emerging Asia have depended on reserves to safeguard their currencies against a resurgent dollar as aggressive Federal Reserve policy tightening spurred flows back to the US. India's foreign exchange reserves fell by ~Rs 0.7 Tn to Rs 44.8 Tn in August 2022. This month's fall was lower as compared to July 2022. The reserves were at the weakest since June 2021.

- Even though the reserves fell by ~Rs. Three trillion from the peak of October'21, it is still adequate to cover the 8-9 months of the import bill, and it is double the reserves that we have seen during the taper tantrum period of 2013.

- We expect foreign exchange reserves to deplete further due to the widening current account deficit, near-term sovereign debt obligations and interventions by the reserve bank of India to support the rupee depreciation.

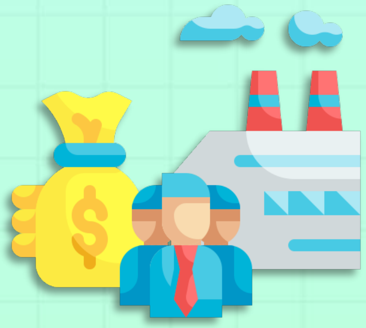
Fisdom RESEARCH

Indian Economy

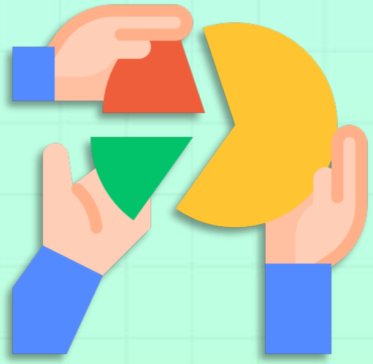
India Incorporation

Corporate earnings

Funds raised from the primary market

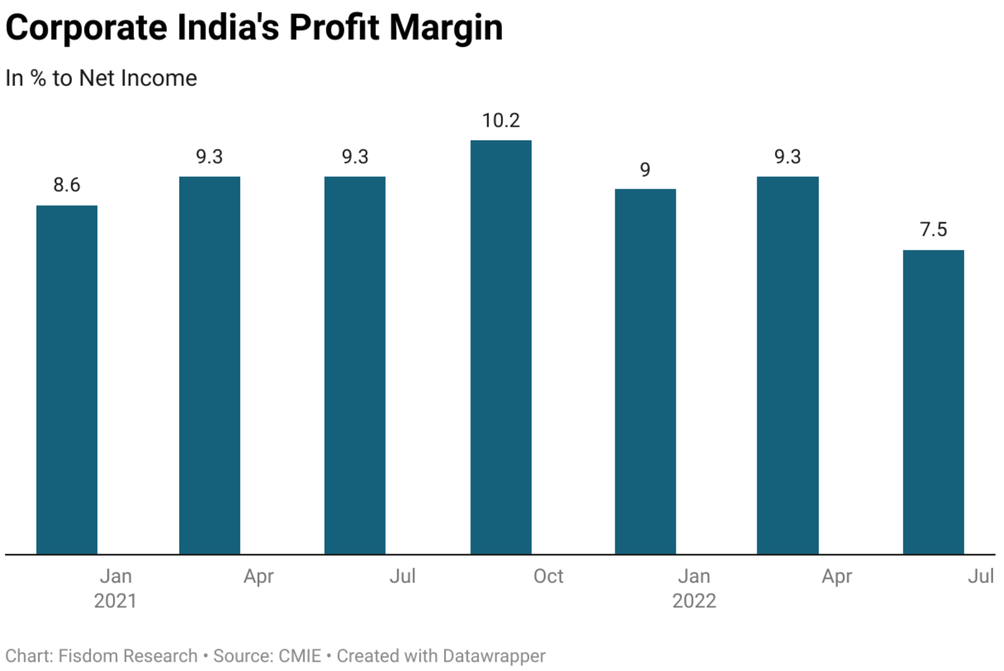


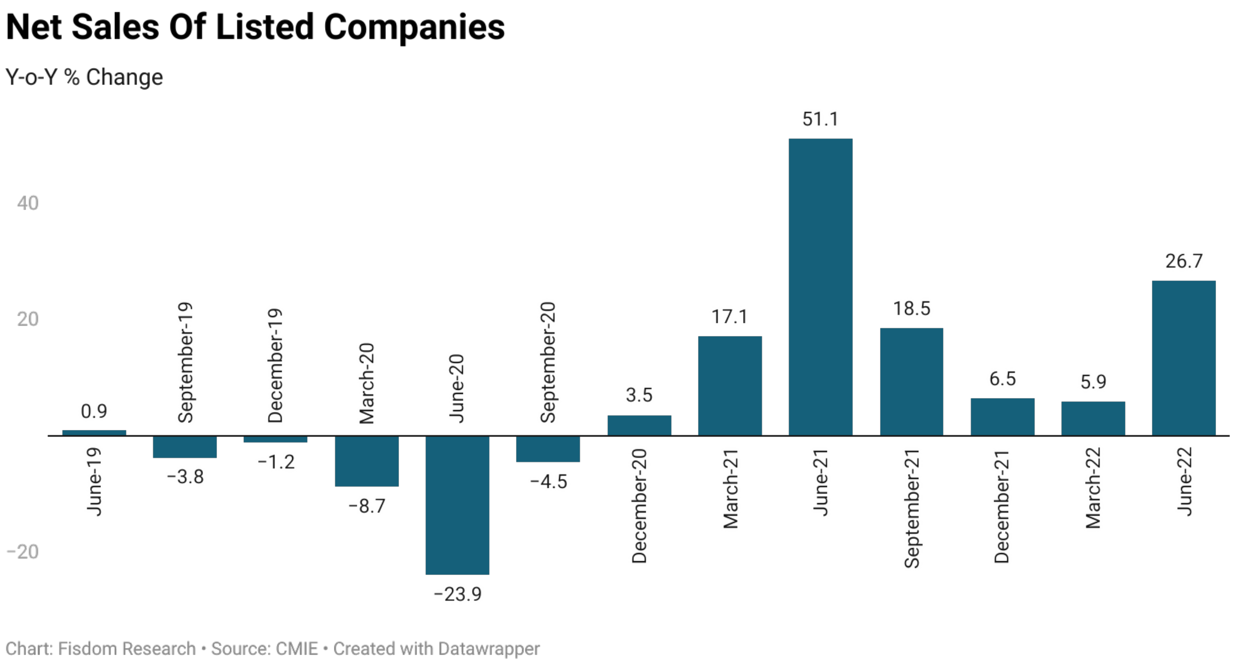
Investment projects by Industry



Merger & acquisition activity

Corporate profitability was under pressure in Q1FY23 but the total income was 40 per cent higher Y-o-Y





- Net profit margins consistently have been more than 8.5 per cent for each of the last seven quarters but have marginally gone down to 7.5 per cent for Q1FY23. Margins had peaked at 10.2 in the quarter that ended September 2021. In the ongoing earning season, downward surprises have outnumbered the upside surprises.

- The increase in commodity prices inflated sales and pressed margins. The overall earnings drove by the BFSI sector, which has gone 124 per cent of incremental YoY earnings growth. Oil, Gas, automobiles, metal and cement industries posted weak earnings.

- The notable thing this earning season was that the total income was up 40.1 per cent higher than in the June 2021 quarter. This is an impressive growth rate by any standard. It is among the highest quarterly y-o-y growth rates seen in the recent history of the corporate sector. The June 2022 quarter has no advantage of a low base like the June 2021 quarter had. This makes the growth in total income during the quarter genuinely extraordinary. This growth in real revenue is a continuation of exceptional growth rates pencilled in the recent past during the period of the pandemic

- Further, the growth in profits has been fueled by sales growth more than profitability growth. In each of the last three quarters that ended June 2022, the contribution of growth in profitability to growth in profits has been negative. The real growth in profits is fuelled by growth in sales. Corporates seem to have been required to focus less on improving profitability and raising and deploying fresh capital. This was like a free ride during challenging times for the economy.

Merger, acquisitions & primary activities continued its sluggish trend

Funds Raised From Primary Market

In '000 crores

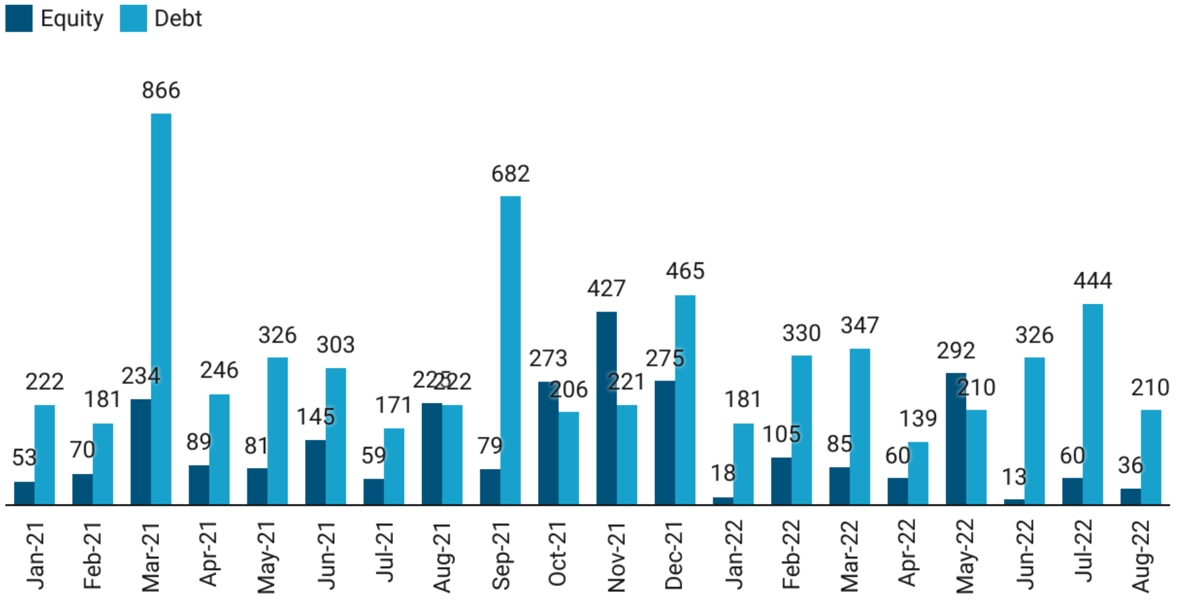


Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

Mergers & Acquisition Activity

In Numbers

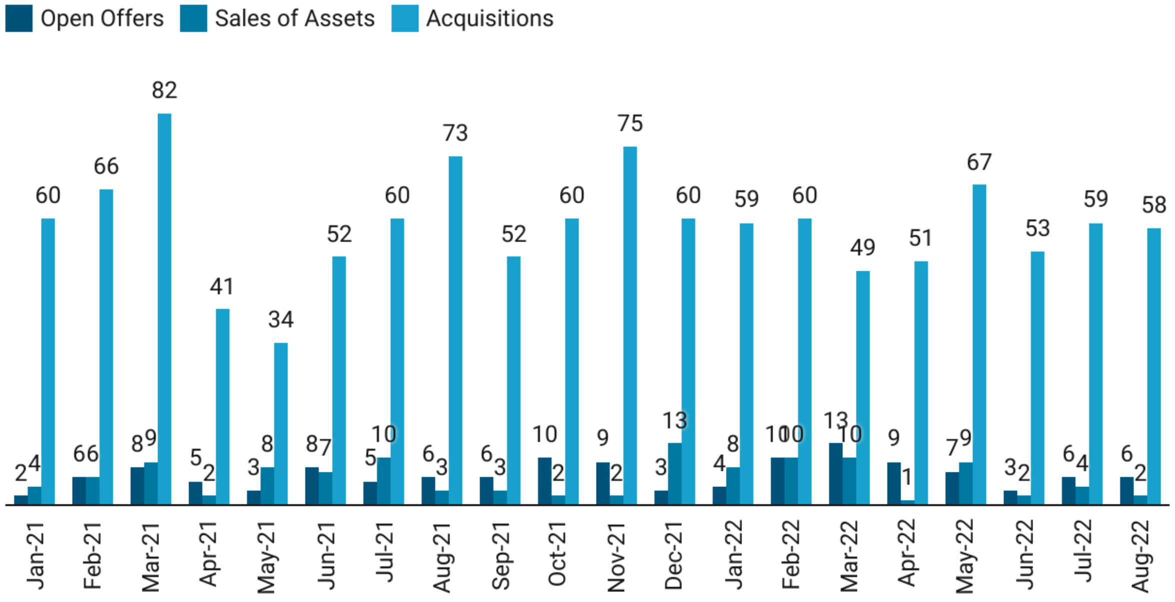


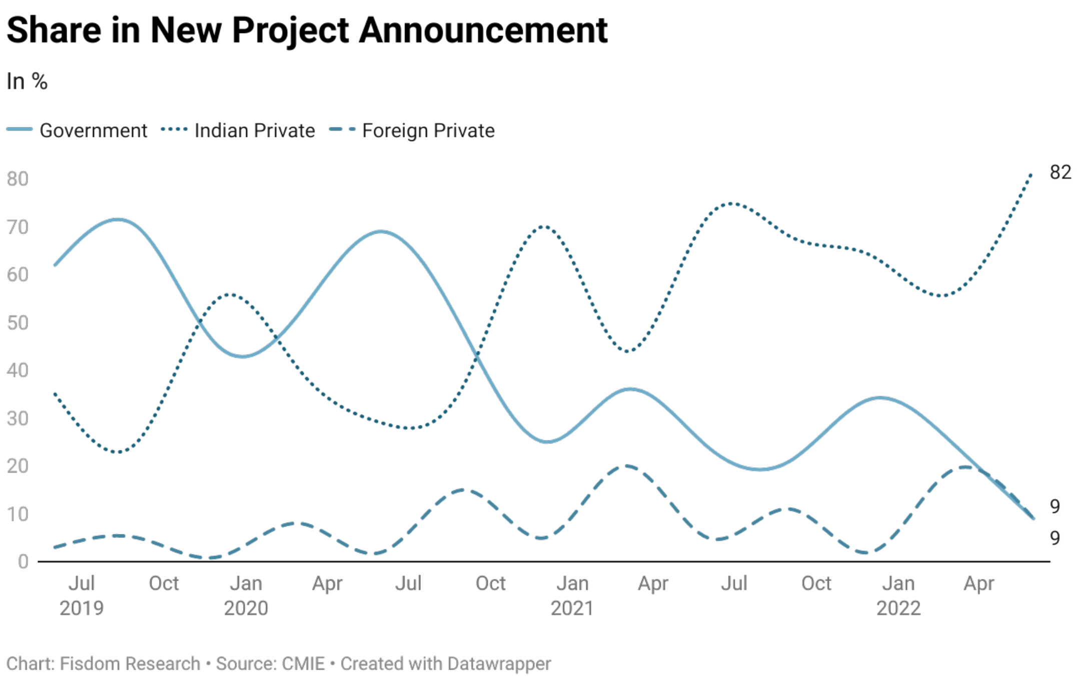
Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

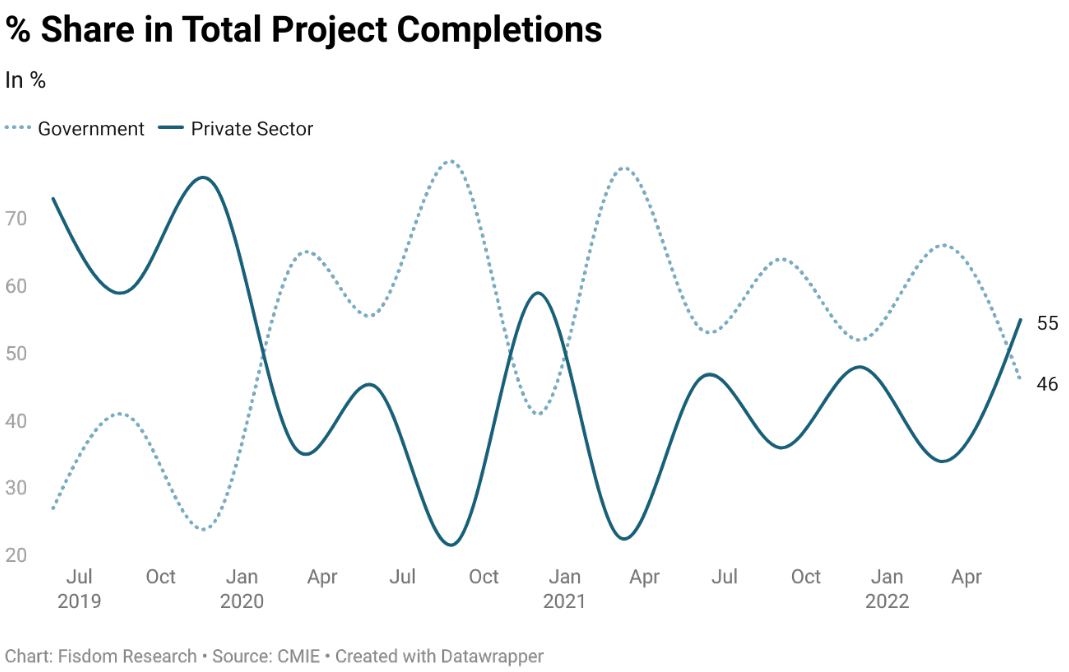
- The merger and acquisitions trend slowed down even in August. It seems like investors became cautious of aggressive rate hikes and rupee depreciation. The same sluggish trend has been witnessed across the globe. Reduction in activities from the private equity players was the key reason for such a trend.

- Even the equity primary markets have been out of favour for the last few months, and there is not much noise around any issues hitting the street in the near term. We have only seen traction in primary fundraising of debt instruments as long-term benchmark yields have shown more resilience in the last few months.

- We expect primary activities in equity markets and merger acquisition activities to moderate until clarity emerges around the macro environment.

Investment momentum kickstarted; private capex leads





- Investment momentum has picked up in Q1FY23. Despite global headwinds, monetary tightening by international central banks & increase in commodity and raw material prices, a YoY growth of 30% has been witnessed in a new investment project announced by both government & private companies.

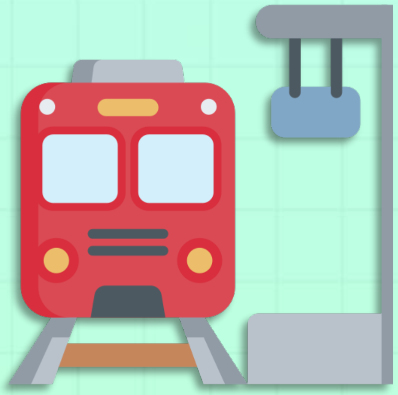
- A notable thing was the per cent share of Indian private companies in total projects announced. It went up to 82% in Q1FY23 compared to 56% in Q4FY22. On the other hand, new project announcements by the foreign private sector declined in June 2022 quarter as compared to the previous quarter as caution prevailed owing to the ongoing geopolitical tensions.

- Completion of Capex projects has recovered to reach its pre-lockdown level. But, it hasn't yet, surpassed levels of completions seen in previous years. The private sector rarely contributed more to the completions than the government. The reason for it was the growth in the manufacturing industry. The share of manufacturing sector projects shot up to 25 per cent. This is mainly because of the PLI scheme under which three Apple iPhone manufacturing units were commissioned during the quarter. These were by Wistron Infocomm (Rs.29 billion), FIH India (Rs.25 billion) and Pegatron Corporation. (Rs.11 billion).

Indian Economy

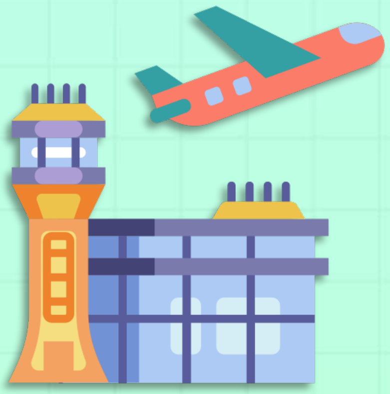
Fisdom RESEARCH

Trade

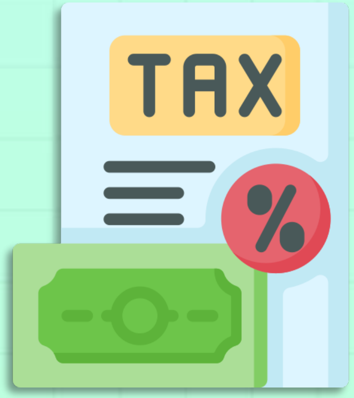


Railway freight traffic

Cargo traffic at major ports



Airport traffic

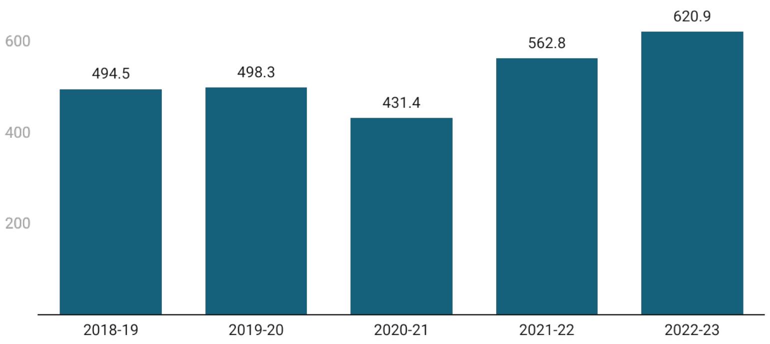


GST collection & E-way bill

Though YTD freight traffic at its highest level it is dropped to their respective lows in the current fiscal so far

Railways : Revenue Earning Freight Traffic of Major Commodities

'000 tonnes

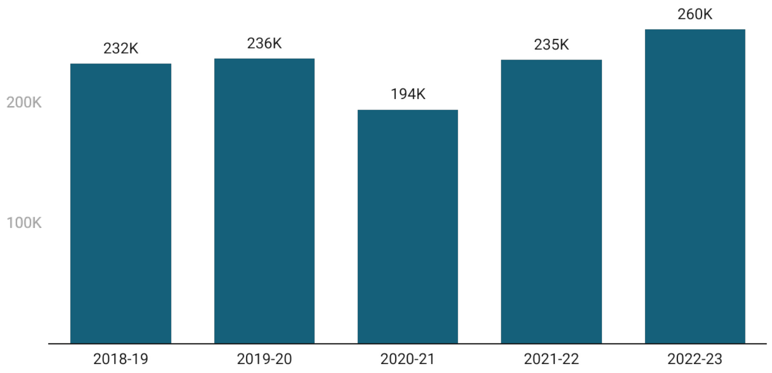


April to August of every financial year has been considered

Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

Commodity-wise Traffic at All Major Ports

'000 tonnes

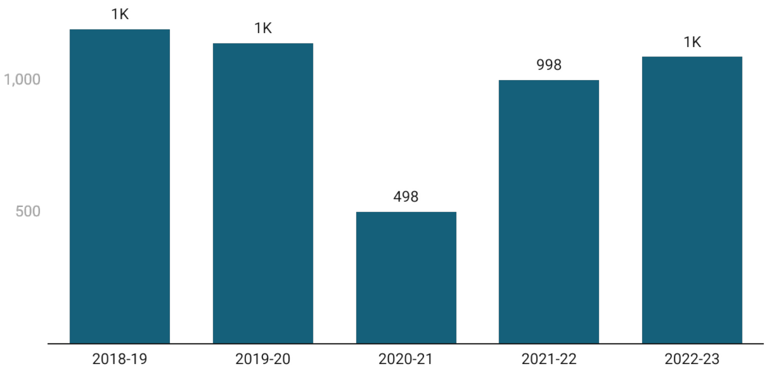


April to July of every financial year has been considered

Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

Cargo Handled At Airports

'000 tonnes



April to July of every financial year has been considered

Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- The transportation industry in India seems to have started feeling the heat of high inflation and global slowdown. In July 2022, cargo traffic on the railways at major significant dropped to their respective lows in the current fiscal year. Indian Railways carried freight of 122.1 million tonnes, which was 2.7 per cent lower than in June 2022. This was the second sequential fall.

- Cargo traffic at major ports declined by 3.9 per cent to 63.4 million tonnes in July 2022 over June 2022. The fall was led by fertilisers, coking coal, petroleum products, containerized cargo and other miscellaneous cargo. In contrast, traffic of raw materials for the manufacture of fertilisers, thermal coal, iron ore and other liquids increased.

- Passenger movement on airways slowed further in July 2022. About 10.42 million passengers boarded domestic flights during the month, compared to 12.02 million in May 2022 and 10.51 million in June 2022. Passenger bookings on the Indian Railways during the first 20 days of July 2022 remained almost stable at 339.3 million compared to June 2022.

- We expect high inflation and the global slowdown will hurt traffic.

Government collected Rs. 1.44 trillion GST in August 2022; the straight six months of over Rs. 1.4Tn mop-up

GST Collection

In Trillion Rupees

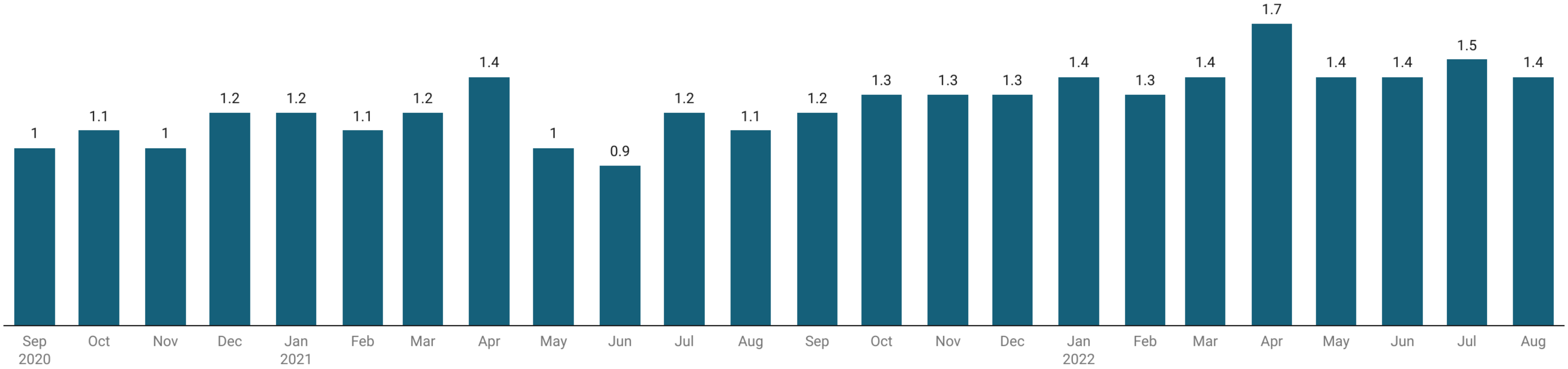


Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- Good and services tax (GST) collection retained its momentum & rose 28 per cent year-on-year to Rs.1.44 trillion in August 2022. It was lower than the Rs.1.49 trillion collections made in July 2022. Central goods and services tax (CGST) amounted to Rs.247.1 billion, state goods and services tax (SGST) amounted to Rs.309.5 billion and integrated goods and services tax (IGST) amounted to Rs.777.8 billion. The balance of Rs.101.7 billion as compensation cess.

- During the month, revenues from import of goods was 57% higher, and the revenues from the domestic transaction (including import of services) were 19% higher than the revenues from these sources during the same month last year.

- The move is seen to be the result of various steps taken by the GST council to improve compliance along with a pick up in economic activity with higher prices for several goods and services aiding collections.

- These collections certainly reflect the strength of the underlying economic factors as they have established a new normal of Rs.1.4 Tn. We expect GST collections to continue this momentum as the festive season consider a significant revenue driver for all businesses.

Indian Economy

Consumption

Consumer sentiments

Employment & unemployment

Motor vehicle registration

India did not do very well on the employment front in August 2022

Employment Rate

In %

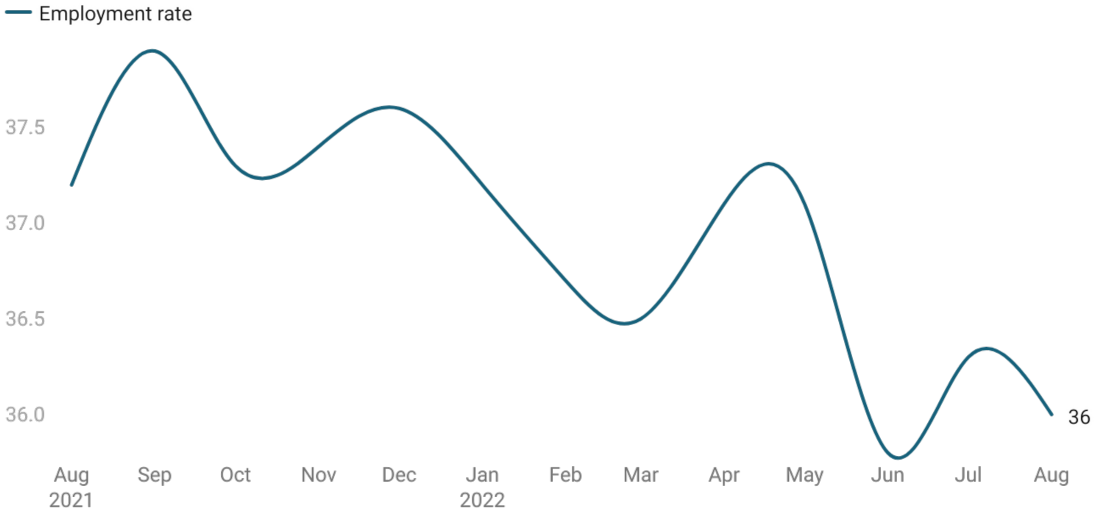


Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

Unemployment Rate

In %

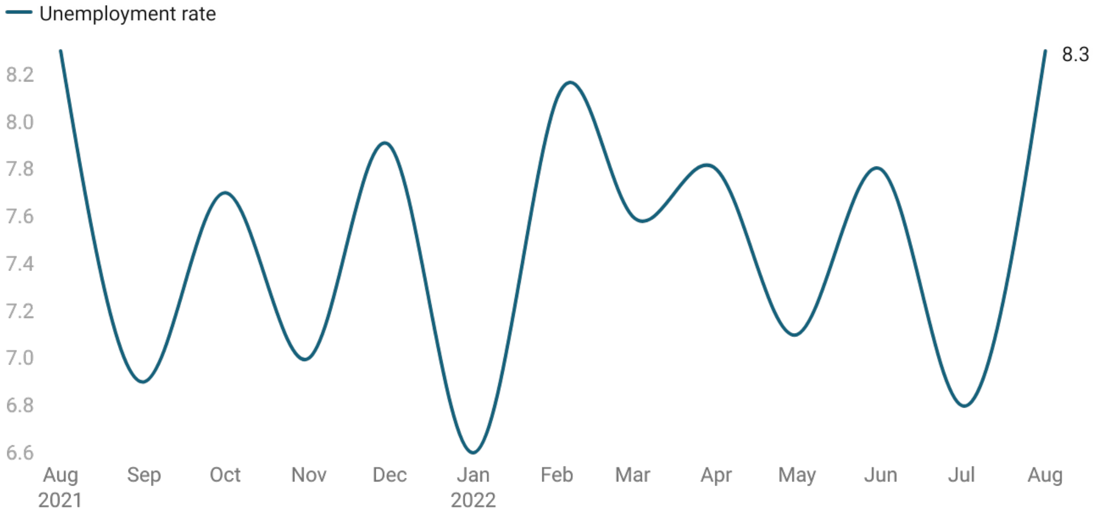
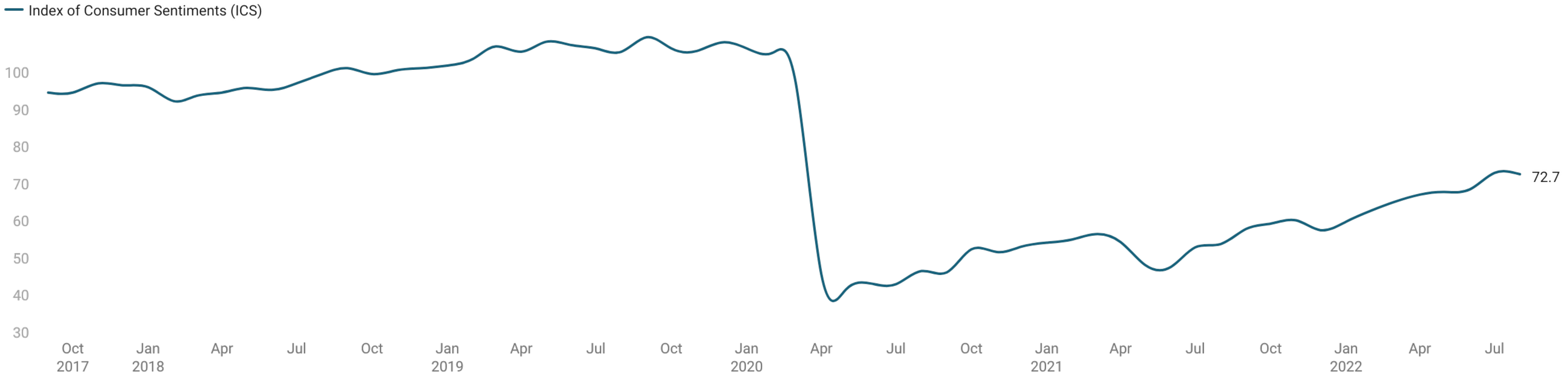


Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- The unemployment rate shot up to 8.3 per cent, which was the highest compared to the past 12 months. This rise in the unemployment rate reflects the inability of the economy to provide adequate jobs when the demand for employment from people increases.
- Agriculture shed 11 million jobs. A little over half of these were farmers. The rest were farm labourers. However, most seem to have found jobs in the non-farm services sectors, principally in providing non-professional personal services. This appears to be a churn of employment within the informal sectors. On a net basis, casual or non-salaried jobs increased by 2.1 million in August.
- The somewhat worrisome part of the fall in employment in August is that salaried jobs fell by 4.6 million. This is a substantial 5.6 per cent decrease from 80.8 million in July to 76.2 million in August. This is the lowest level of salaried jobs seen in 15 months. Past patterns suggest that salaried employment in August 2022 was expected to fall. However, the fall was more than the expected value. Salaried jobs are expected to rise back to over 80 million in September.
- Fall in employment in August is not unusual in quantum. But, the composition of the fall is a bit worrisome.

Consumer sentiments in India deteriorated in August 2022

Index of Consumer Sentiments



Index values has been considered

Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- Consumer sentiments in India deteriorated in August 2022 after substantially improving in the previous month. The Index of Consumer Sentiments (ICS) shrunk by 0.5 per cent in August after having risen by an impressive 6.7 per cent in July. The ICS had been growing every month from 2022 till July. The August fall, therefore, broke a seven-month record of steady gains. Household perceptions do not seem poised for a quick recovery in consumer sentiments. The first week of September saw the ICS fall by a substantial 3.1 per cent.

- The fall in the ICS in August reflects the recent problematic journey of consumer sentiments in India. There was particular weakness in consumer sentiments. We have believed, thus far, that the weakness in consumer sentiments was primarily the result of the erratic progress of the southwest monsoon and the consequent delay in Kharif sowing activities. But, the complete data for August reveals a substantial weakness in urban sentiments.

- The fall in the ICS in August is just 0.5 per cent. But, rural India’s steep fall in willingness to spend on consumer durables and urban India’s scepticism regarding their future well-being is worrisome. The 4.7 per cent fall in the ICS in the first week of September amplifies this worry.

Motor vehicle registrations went up ~9% YoY

Motor Vehicles Registered

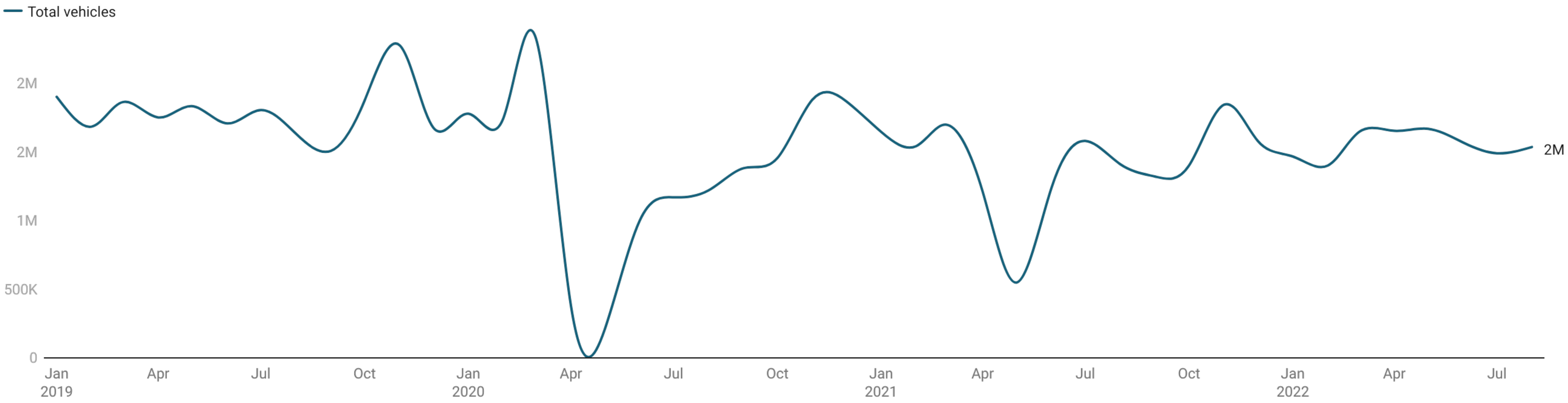


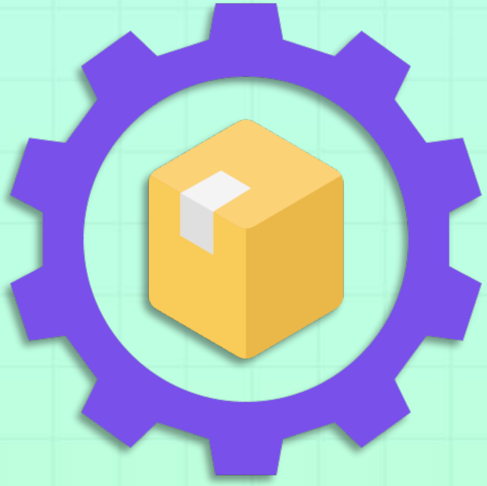
Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- Despite growing concerns around inflation & rising interest rates, motor vehicle registrations have increased by 9% YoY.
- Though we have seen some improvement in CY2022 registrations, the numbers are still 30-35% away from the pre-pandemic numbers. The rise in wholesale deliveries was mainly driven by an increase in demand for SUVs and the revival of personal mobility
- Even though we expect registration to go up on the back of the upcoming festive season, the industry may face challenges delivering the same to retail investors due to supply-side challenges. The industry currently has a bloated waiting list of six lakh units that still need to be delivered to retail investors.

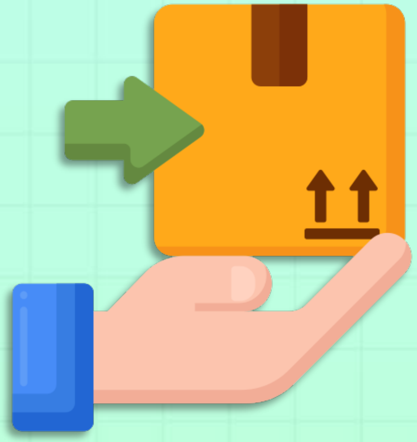
Indian Economy

Manufacturing

Core 8 industries

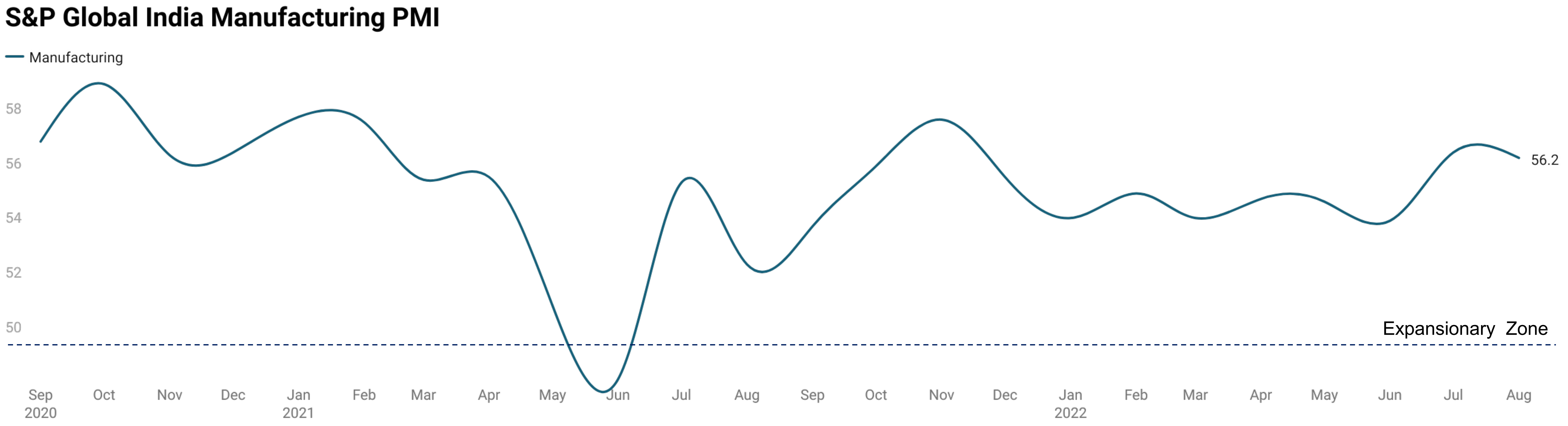


PMI manufacturing



PMI Services

Manufacturing PMI shows expansion for 14th straight month in August 2022



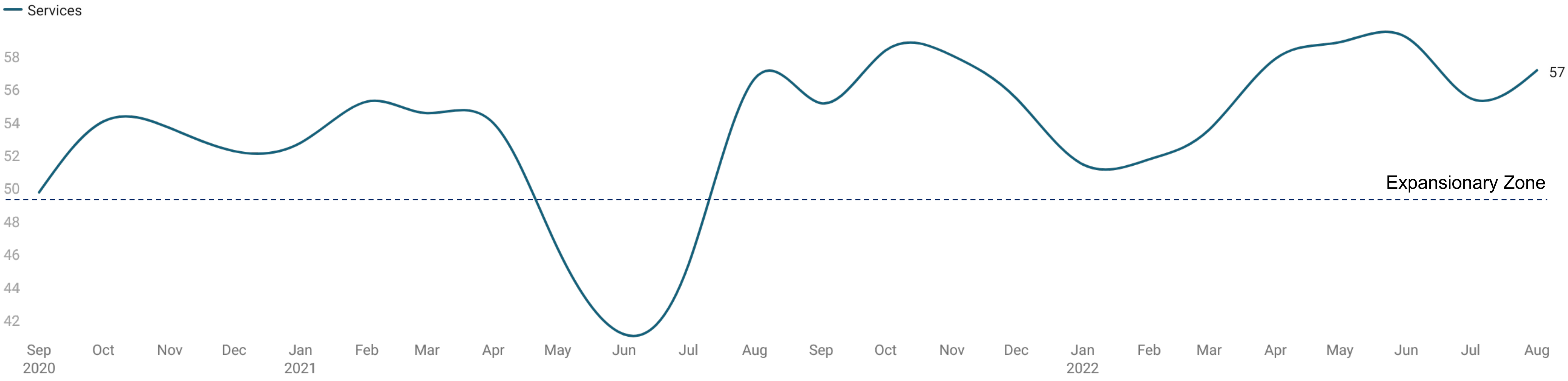
Index values have been considered

Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index (PMI) increased to 56.2 in August 2022 from an 8-month high of 56.4 in July 2022. Nonetheless, this was the 14th consecutive month when the index reported an expansion in manufacturing activity.
- Production by Indian manufacturers in August 2022 recorded the highest growth in the last nine months, backed by a rise in demand amid fewer Covid-19 restrictions. Orders inflows increased at their fastest pace since November 2021. Manufacturers credited new client wins, fruitful advertising, product diversification and recent efforts to enhance capacities for the increase in business. Inflation concerns eased, and business confidence jumped to a six-year high in August 2022. Despite this, progress on employment remained weak.
- The Indian economy has fairly remained resilient, despite various concerns like an increase in interest rates, consistent outflows by foreign investors, a depreciating rupee and a much-anticipated slowdown in the US. We expect the manufacturing PMI to remain in the expansionary zone in the future.

Services activity bounces back in August; optimism at highest level since 2018

S&P Global India Services PMI



Index values has been considered

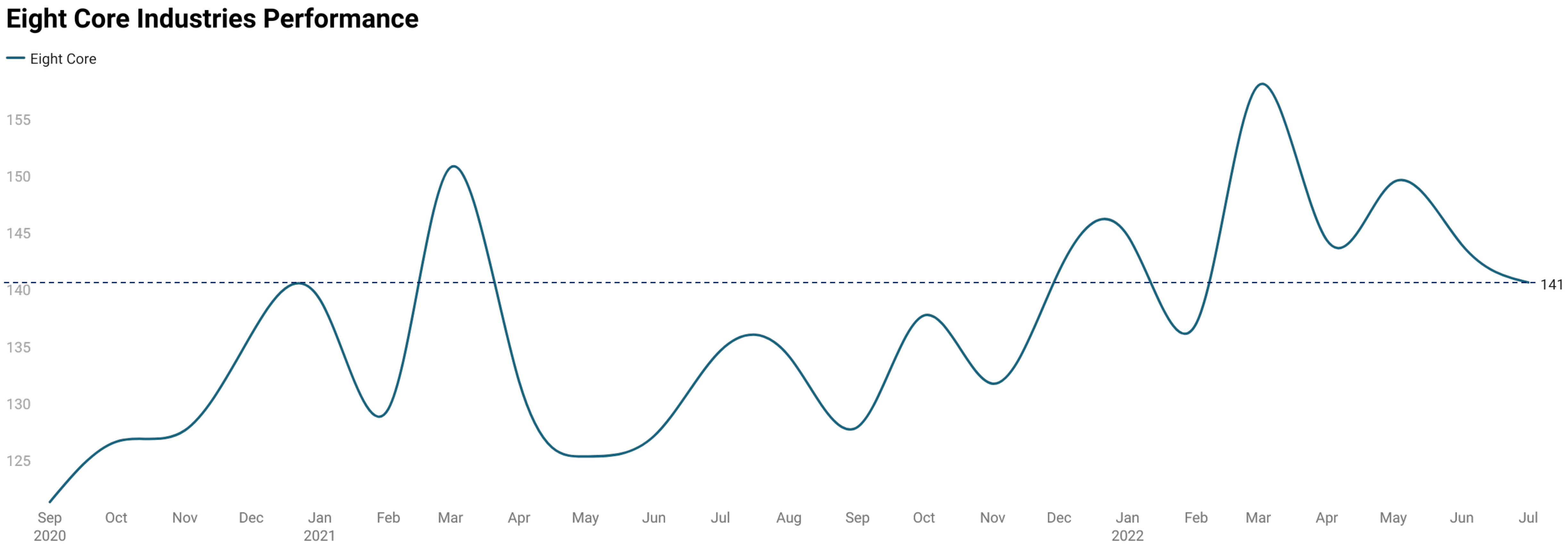
Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- The seasonally adjusted S&P Global India Services Purchasing Managers' Index rebounded in August from a four-month low in July. The services sector has also created the highest jobs in 14 years as input cost pressures eased to the slowest pace in 11 months. Services PMI expanded from 55.5 in July to 57.2 in August.

- Transportation, Information and Communication reported a jump in new business volumes and output, while Finance and Insurance outperformed all other sub-sectors. The pickup in growth was on the back of a rebound in further business gains as companies continued to benefit from the lifting of Covid-19 restrictions and continuous marketing efforts.

- The performance of the service sector in August was accompanied by decelerating input costs along with lifting sentiments amid strong demand revival. With demand showing considerable resilience, service providers maintained a degree of pricing power while helping to maintain margin pressures.

The output of core industries slowed in August



Index values has been considered

Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- The combined index of eight core industries increased by 4.5 per cent on YoY but fell by 2.3 per cent sequentially. The sequential decline was majorly attributed to lowering in coal, cement & electricity production. They were down by 10 per cent, 11 per cent & 4 per cent respectively. Even though the YoY growth of 4.5 per cent is much lower compared to the 9.9 per cent growth recorded in the same month last year.

- We expect the growth to moderate as the base effect wanes.

Equities Roundup

Asian Indices maintains a brisk momentum; Western Indices feel the brunt

Global Indices Performance

In %

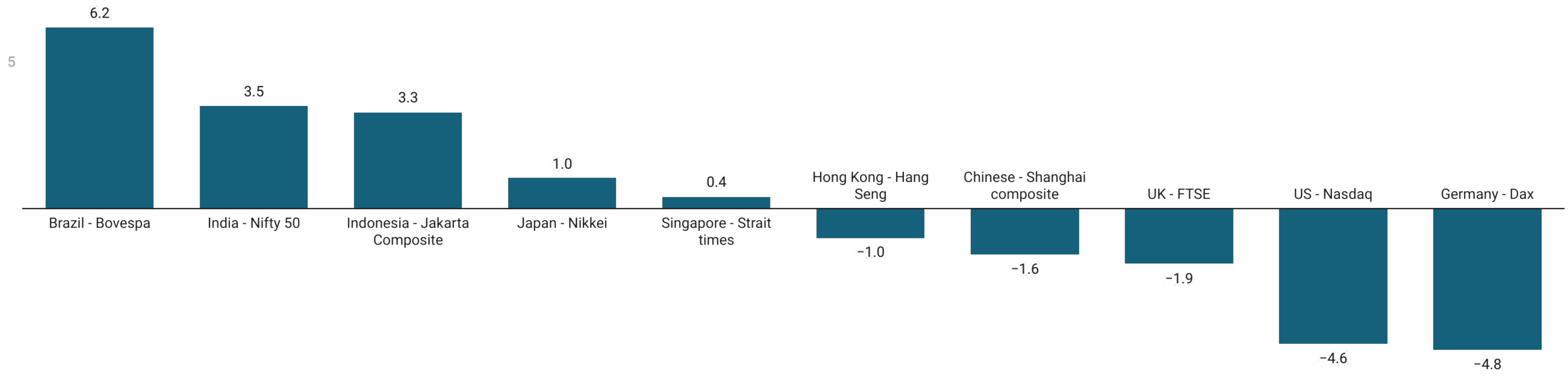


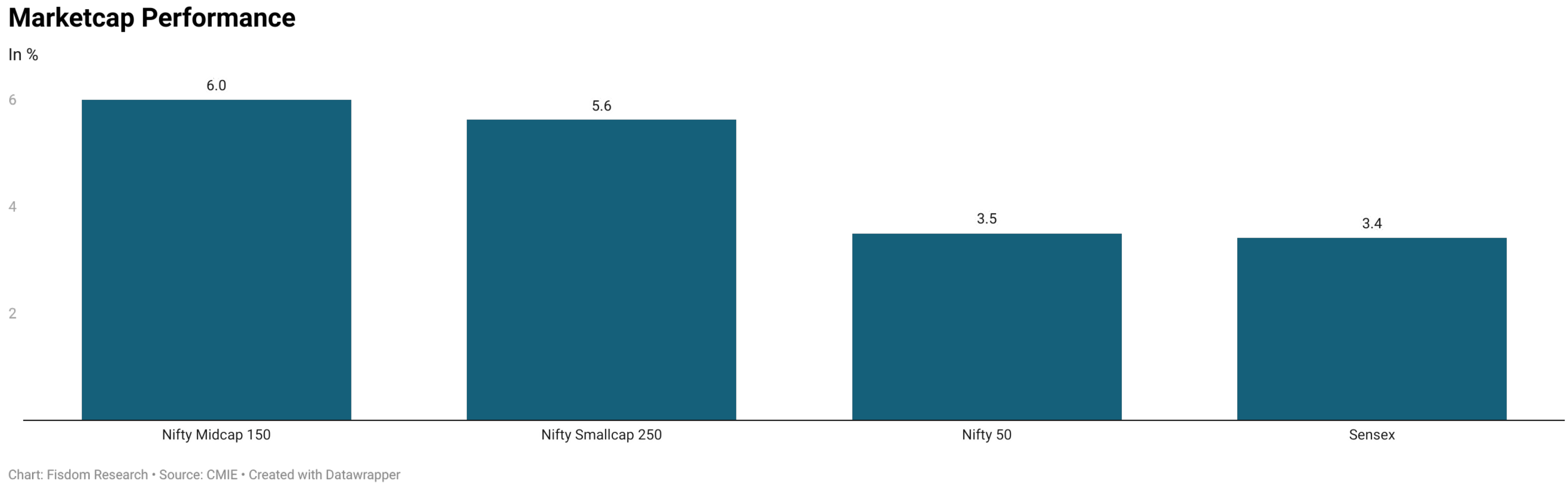
Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- The Indian stock market rose for the second consecutive August 2022. The benchmark indices NIFTY 50 and S & P BSE Sensex rose by 3.5 and 3.4 per cent, respectively, after rising by 8.7 and 8.6 per cent in July 2022. Indian markets recovered almost 15 per cent from their lows of June'22. Positive inflows by the FPIs, robust corporate earnings, correction in the commodity prices, solid macros & normal monsoon boosted the market sentiments.

- Brazilian stocks could continue to rise in a more peaceful political atmosphere while market participants wait for the outcome of October's presidential election and vital economic indications.

- German markets underperformed on the ECB's expectation of aggressive rate hikes amid persistent high inflation. Even US markets reversed gains from July and ended sharply lower in August because of hawkish comments from Federal Reserve Chairman Jerome Powell.

Broader market recovery continues; mid and small caps preferred by investors



- Mid & small cap indices continued their recovery even in August'22. It has outperformed the benchmark indices by a wider margin. Both midcap & smallcap indices recovered 22 per cent & 18 per cent, respectively, from their lows in June'22.

- Most midcap companies have achieved capacity expansions and are sitting on lean balance sheets, generating healthy cash flows, and trading at reasonable valuations after the correction. It looks like, Investor's risk appetite has improved, and their focus shifted toward beaten-down small & midcap companies with scope for more growth in the future. As developed markets struggle for change and the domestic investment environment gains buoyancy, a clear transition into higher-risk assets is observed.

- India's economic growth period of revival, along with the global macro environment, will be crucial for the broader rally to sustain.

Except IT, all other sectors ended in green

Sectoral Performance

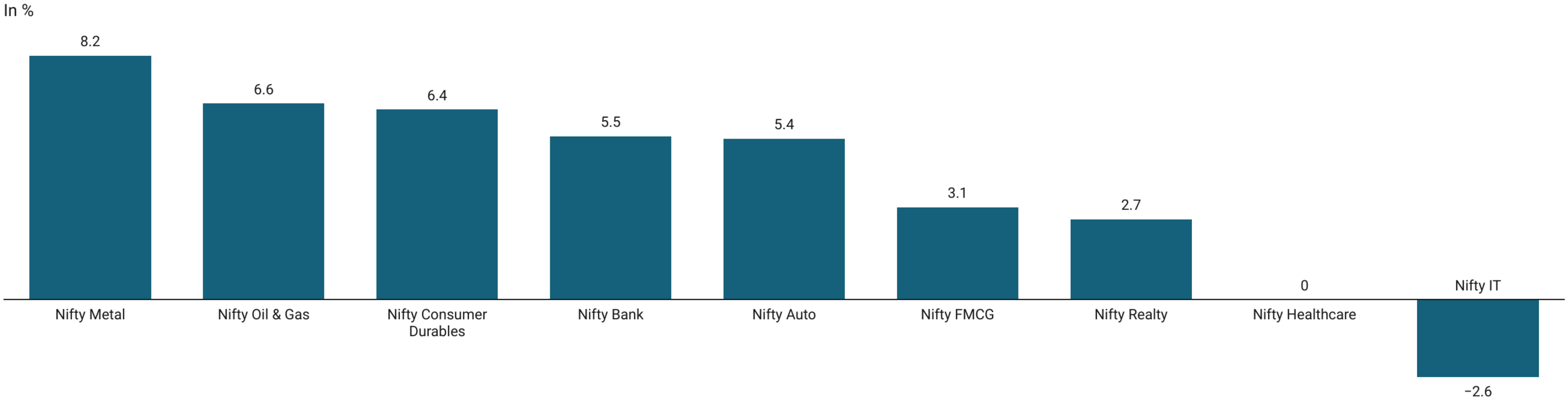


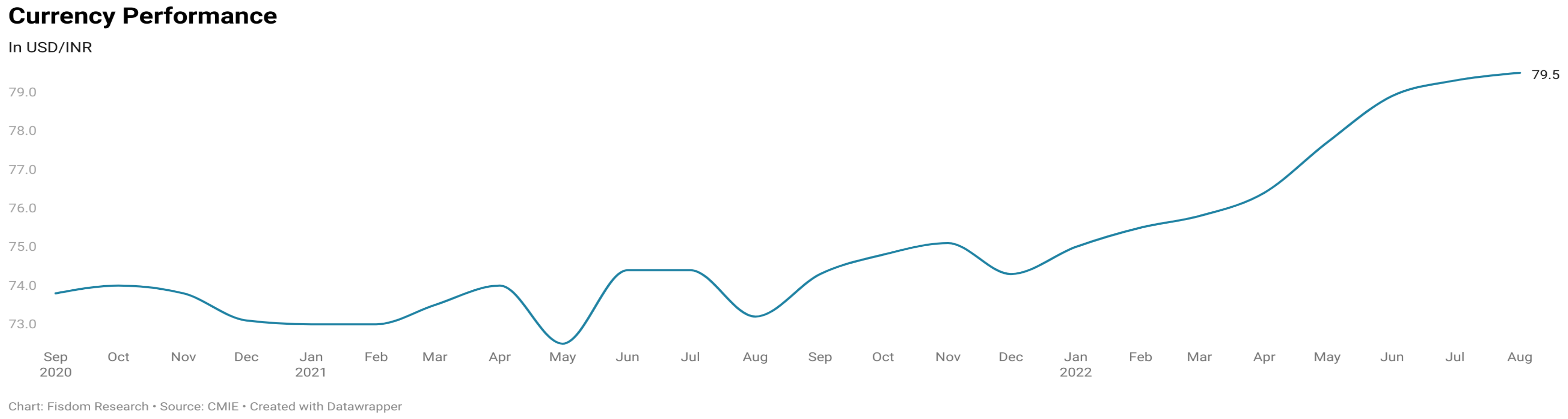
Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

- The loosening monetary policy in China might be contrary to what other global central banks are doing, but this has undoubtedly helped metal stocks. Nifty Metal indices were up by a whopping 8.2 per cent during August. While trimming down the export taxes on metals has helped, the soft rate policy adopted by China has also been an essential factor.

- Within the banking space, PSU banks are finally seeing re-rating post-strong June quarter earnings along with a sharp fall in gross NPAs. While the banking sector is expected to lead the recovery in GDP, the latest quarter results have shown clear improvement in banking profits due to lower provisioning and improved asset quality. Lower credit costs helped the private banks and even PSU banks to expand net interest margins (NIMs) in the quarter.

- For the second consecutive month, Nifty IT has remained a laggard against Nifty 50. July had seen most IT companies facing margin pressures and higher attrition in Q1FY23. However, August was the month when the impact began to show.

The Indian rupee held steady against USD



- INR breached the psychologically critical threshold of 80 per USD and flashed a glimpse of a record low, albeit for a brief period on the morning of 29 Aug'22. This record depreciation followed a series of events including a spike in global bond yields and strengthened dollar index. The events are largely attributable to U.S. Federal Reserve Chairman Jerome Powell's definitively asserted and aggressively hawkish stance.

- A combination of aggressively pursued rate hikes in the U.S. and lethargic monetary action by other countries to rein in inflation could contribute to a stronger USD which may exert significant pressure on the INR as well. Considering the expected inflation print in the U.S., pricing by the bond markets and expected headroom for an aggressive rate hike, an uptick of 2.5% to 3% on the dollar index seems highly probable.

- India's expanding trade deficit and RBI's conservative stance on forex intervention expose the INR as vulnerable to external threats. PBOC's recent policies on the Yuan and the weakening currency may result in an adverse and cascading impact on the INR. The gradually increasing inflow of foreign capital through the FDI/FPI route and hopes of a turnaround in the balance of payment situation amid softening commodity and energy prices may cushion the depreciation to some degree.

- Going ahead, in the near term and considering the risks and insulations, we view the INR as exhibiting a depreciative bias and have good reason to believe that the currency will consolidate in the range of a rupee within the 79.5 and 80.5 mark versus USD.

Thematic category witnesses profit booking

Net Inflow(+) & Net Inflow(-): Equity Categories

In Crore

Category	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Multi Cap Fund	891	585	9.7K	1.3K	1.3K	970	524	393
Large Cap Fund	1.9K	2.3K	3.1K	1.3K	2.5K	2.1K	1.1K	44
Large & Mid Cap Fund	1.7K	2K	3.2K	2.1K	2.4K	2K	1.1K	1K
Mid Cap Fund	1.8K	2K	2.2K	1.6K	1.8K	1.9K	1.2K	1.5K
Small Cap Fund	1.5K	1.4K	1.7K	1.7K	1.8K	1.6K	1.8K	1.3K
Value Fund/Contra Fund	-163	837	770	744	1.2K	847	427	354
Focused Fund	1.8K	2K	2.3K	1.3K	1.5K	1.2K	773	886
Sectoral/Thematic Funds	2.1K	3.4K	307	3.8K	2.3K	1.7K	215	-1.3K
ELSS	805	1.1K	2.7K	307	747	640	328	-131
Flexi Cap Fund	2.5K	3.9K	2.5K	1.7K	2.9K	2.5K	1.4K	2.1K
Aggressive Hybrid Fund	1.5K	910	1.2K	701	1.4K	1.1K	686	745
Balanced Advantage Fund	2.8K	2.1K	1.7K	1.5K	2.2K	1.8K	554	851
Multi Asset Allocation Fund	195	205	193	210	240	144	178	127
Index Funds	4.9K	5.7K	12.3K	6.1K	5.7K	7.3K	6.8K	7.8K
Gold ETF	-452	-248	205	1.1K	203	135	-457	-38

Table: Fisdom Research • Source: CMIE • Created with Datawrapper

Fixed Income Roundup

Yields fell across the maturity spectrum in August'22

Interest Rate

In %

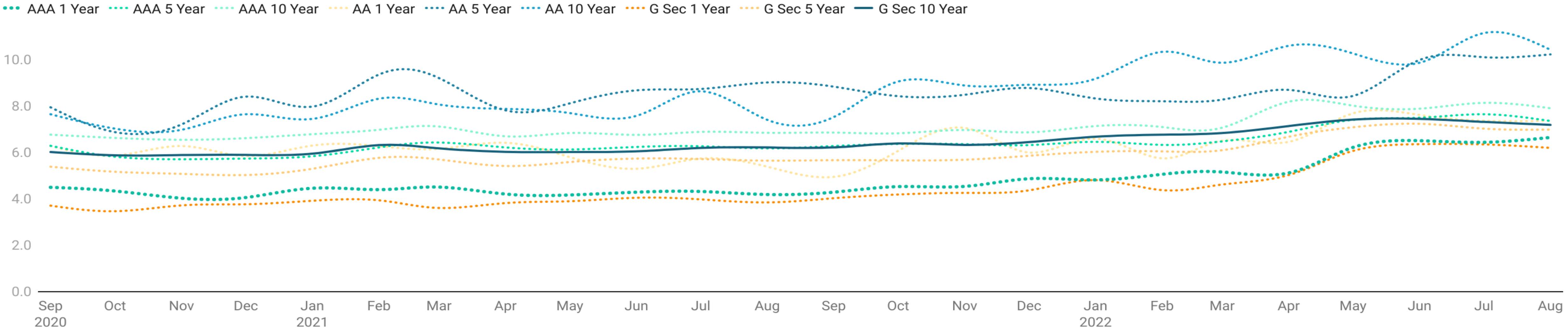
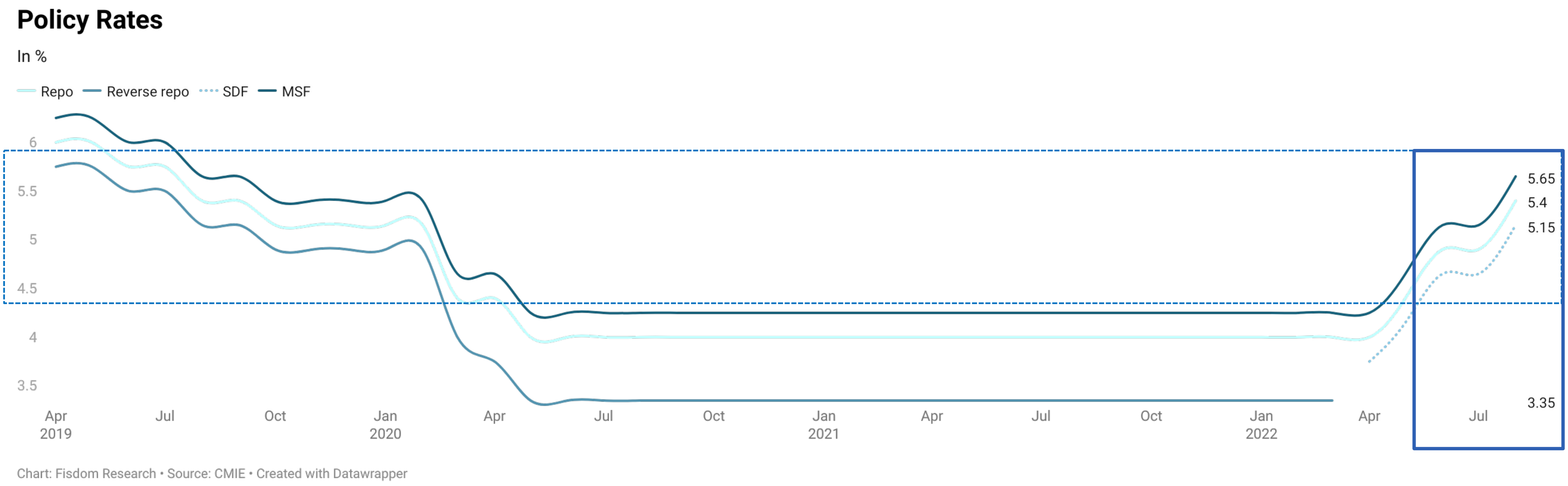


Chart: Fisdom Research • Source: CMIE • Created with Datawrapper

Change in interest rates

Date	AAA 1 Year	AAA 5 Year	AAA 10 Year	AA 1 Year	AA 5 Year	AA 10 Year	G Sec 1 Year	G Sec 5 Year	G Sec 10 Year
Yield Change Since July'22 (bps)	21	−29	−23	0	12	−72	−15	−4	−13

Policy rates back to pre-pandemic levels



- The Reserve Bank of India (RBI) hiked the policy repo rate by 50 basis points (bps) to 5.4 per cent in its third monetary policy statement of FY23. The standing deposit facility (SDF) is now at 5.15 per cent, and the Bank rate and marginal standing facility (MSF) now stand revised to 5.65 per cent. The RBI has stated that the policy of withdrawal of accommodation will continue ’to ensure that inflation remains within the target in the future while supporting growth.
- to impact inflation and the exchange rate adversely

- The central bank spelt out the upside risks to inflation, such as revisions in electricity tariffs across many states, high animal feed costs, persistently high crude oil prices and continuing trade and supply chain bottlenecks.

- A mixture of international and domestic factors seem poised to impact inflation and the exchange rate adversely. It will pressure RBI to hike rates in its forthcoming policy reviews.

India is well positioned when it comes to real rates; Inflation remains the key focus for all the countries

Country	Central bank rate	CPI YoY	Real central bank rate	Last move	Last move date
Brazil	13.8	10.1	3.7	Hike	Aug, 2022
China	3.7	2.7	1.0	Cut	Aug, 2022
India	5.4	6.7	−1.3	Hike	Aug, 2022
US	2.4	8.5	−6.1	Hike	Jul, 2022
UK	1.8	10.1	−8.4	Hike	Aug, 2022
Eurozone	0.0	8.9	−8.9	Hike	Jul, 2022

In %

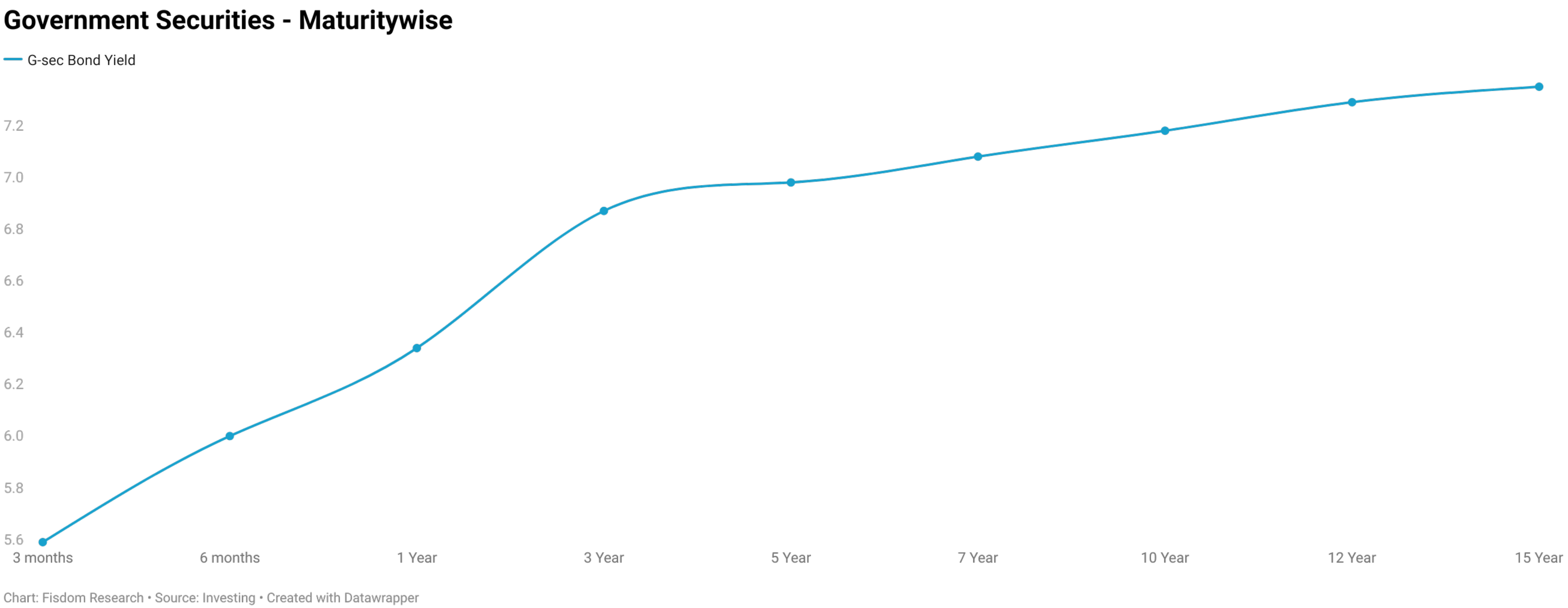
Source: Kotak AMC • Created with Datawrapper

- Inflation across the globe will remain a hot topic for the market for several months now. Especially in the US & UK, where inflation has reached an all-time high, the central banks adapted more than standard hawkish monetary policies in the first six months of CY22. Central banks of the US & UK acted lately and were behind the curve to manage the same.

- Indian central banks managed the inflation situation well by acting proactively to control the situation. Despite its accommodative policies, the economy contracted by 6.6 per cent in FY21 and recovered to barely above the pre-pandemic levels in FY22, stressing a shift in policy management to focus on inflation even 3-4 months before April 2022 was not apt.

- Even though the inflation numbers are still hovering above RBI's upper threshold band of 6 per cent, it is much lower than inflation in US, UK & other developed economies. Also, if we compare the real central bank rates, India is well positioned among other countries.

Three year to five year yield curve offering better trade off



Months	3 months	6 months	1 Year	3 Year	5 Year	7 Year	10 Year	12 Year	15 Year
G-sec Bond Yield	5.6	6.0	6.3	6.9	7.0	7.1	7.2	7.3	7.4

Debt category witnesses highest inflows in CY22

Net Inflow(+) & Net Inflow(-): Debt Categories

In Crore

Category	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Liquid Fund	-14.4K	40.3K	-44.6K	28.7K	1.8K	-15.8K	-7.7K	50.1K
Ultra Short Duration Fund	3K	-1.3K	-2.8K	15.1K	-7.1K	-10.1K	3.7K	6.4K
Low Duration Fund	-2K	-5K	-8.9K	1.5K	-6.7K	-8.5K	-646	3K
Money Market Fund	4.7K	-655	-5.5K	16.2K	-14.6K	-8.1K	2.6K	5.9K
Short Duration Fund	-2.9K	-12.1K	-9.1K	-4.5K	-8.6K	-6.6K	-1.9K	2.6K
Medium Duration Fund	-748	-1.1K	-800	-1.4K	-1.2K	-1.2K	-546	-102
Medium to Long Duration Fund	-27	-2.9K	-1.1K	-410	-248	-167	-164	-60
Long Duration Fund	3	-58	-12	27	-2	37	33	97
Dynamic Bond Fund	-478	-1.7K	-885	-197	-2.4K	-738	-91	899
Corporate Bond Fund	-936	-10.2K	-12K	-2.6K	-2.1K	-9.1K	-2.6K	673
Credit Risk Fund	-197	-388	-399	-283	-730	-482	-213	-88
Banking and PSU Fund	-2.5K	-3.7K	-8K	-3.1K	-1.1K	-3.9K	-2.8K	-1.4K
Gilt Fund	-332	-464	-500	-106	176	-28	-113	369
Gilt Fund with 10 year constant duration	-47	-20	-73	38	447	221	23	-503
Floater Fund	2.6K	-10.3K	-7.3K	1.5K	-5.3K	-7.1K	-4.7K	-2.3K

Table: Fisdom Research • Source: CMIE • Created with Datawrapper

Investor Actionable

Way ahead: possible scenarios

Optimistic Scenario	**Base Case Scenario [CURRENT]**	**Difficult Scenario**
• Inflation remains in RBI's threshold limit • Growth holds up • Robust corporate earnings • Policy normalization on autopilot but flexible • Supply chain normalization by H2 FY23	• Inflation nears RBI's upper target band • Stable corporate earnings • Policy normalization on autopilot • Supply chain normalization by H1FY24	• Inflation above RBI's threshold limit • Rate hikes • Prolonged supply chain difficulties • Lower than expected corporate earnings
• Equity MFs with exposure to cyclical & value stocks • High Yield Bonds & EM Currencies	• Equity MFs with exposure to growth stocks & Mild cyclical stocks • Quality Bonds, i.e. with high SOV & carry strategies • Gold & EM Currencies	• Equity MFs with exposure to Defensive stocks • Quality Bonds, i.e. with high SOV • Gold & Safe-haven currencies

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