MONTHLY NEWSLETTER

AUGUST 2022

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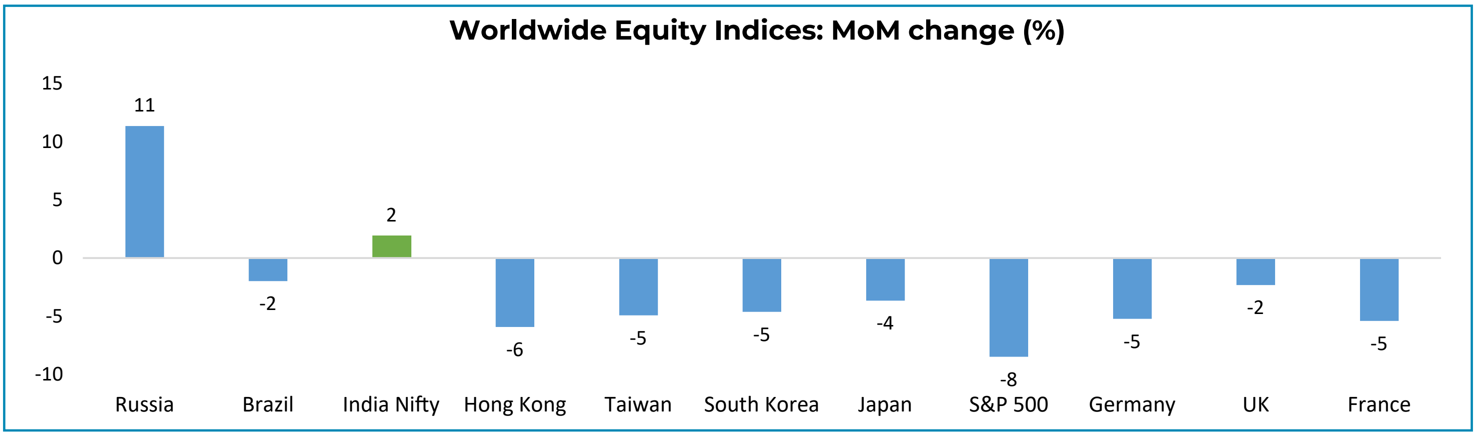
INDIAN EQUITIES SHINE

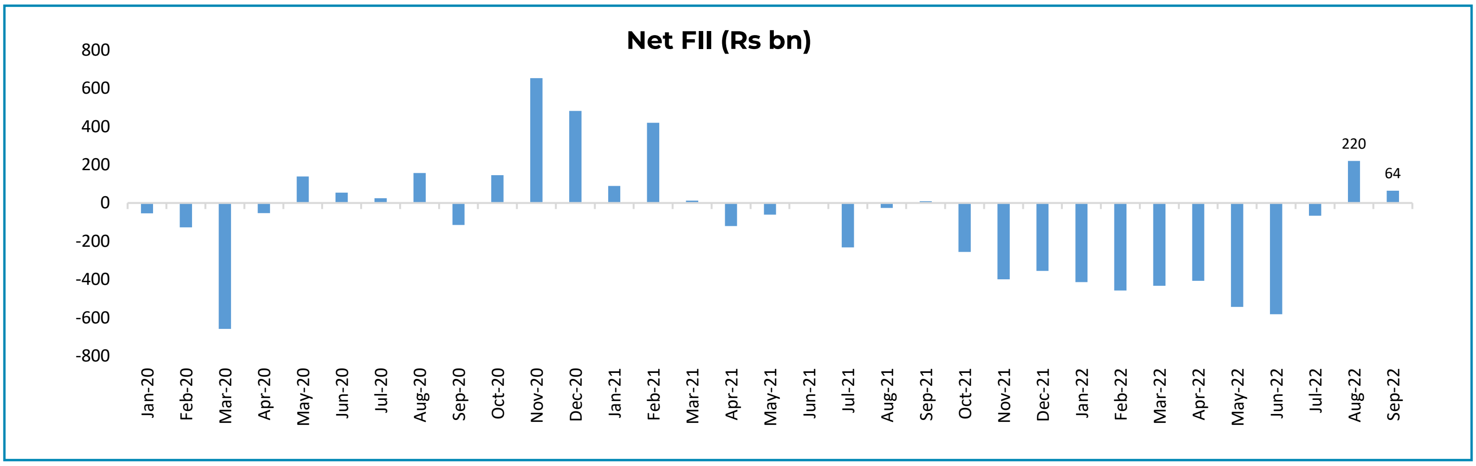
AMONGST THE BEST PERFORMING CAPITAL MARKETS IN PAST ONE MONTH, AND YTD 2022

FIIs return to domestic markets with record inflows in August 2022

Indian equities have outperformed most of the global indices over the past one-month (between 12 Aug to 13 Sep 2022) and for the month of Aug-22. Nifty-50 delivered a strong positive performance and was up 2% MoM compared to key global markets which were down by an average of about 5% over the past one month. Two driving factors during the month which led to Indian equities outperformance were 1) Improved investor sentiments due to weakness in commodities, and 2) FIIs turning net buyers during the period in August 2022.



In Aug-22, FIIs returned with gusto driving domestic equities outperformance. FIIs invested Rs. 220 bn in Aug-22 vs Rs. 66 bn of outflows in the previous month. This was the highest since Dec-20. For Sep-22 month to date, FIIs net inflow stood at Rs. 64 bn.

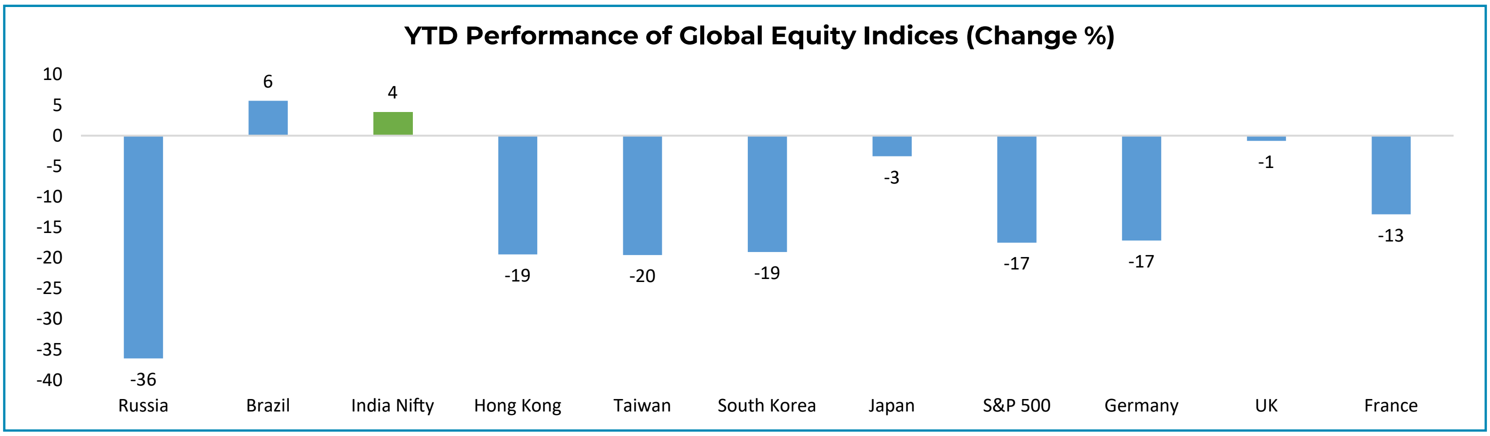


***Sept 22 data is for month to date period**

India stands strong, as western economies race towards recession driving YTD market performance

Indian equites outperformed the other key markets with 4% year-to-date (YTD) return to emerge as one of the best performing capital markets driven by improved domestic macro environment scenario vis-à-vis global economic factors.

Developed and mature markets are grappling with either an economic slowdown or recessionary pressures mainly due to high inflation in most countries, Russia's invasion of Ukraine and disruptions caused by the Covid-19 pandemic. India, however, is better placed with zero probability of slipping into recession which has resulted in outperformance in the domestic equities markets. India has been able to control inflationary pressures better than many advanced and emerging market economies who are starting at a multi-decade high retail inflation.



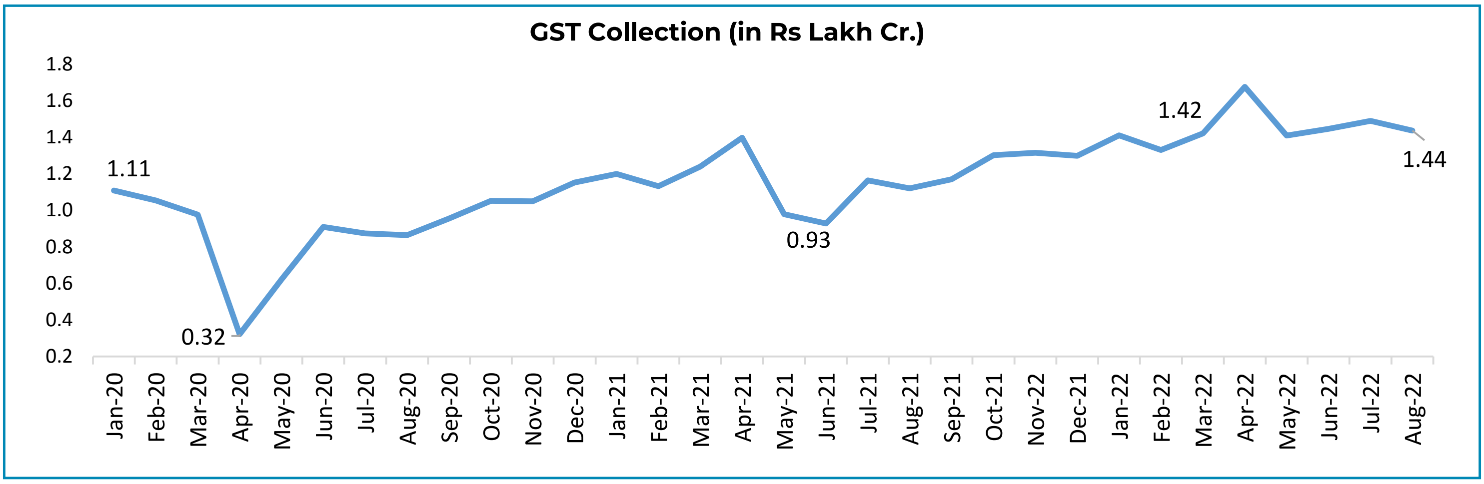
We believe India's out performance will continue given that the economy is relatively better placed thanks to the improving macro environment. On the other hand, the global outlook is increasingly becoming more uncertain with further risks to the downside. Globally central bankers are likely to further raise interest rates till early next year (Mar'23). Whereas reducing supply chain pressures and easing commodity prices will help improve India's macros and corporate margins.

India remains one of the fastest growing economies; Q2 22 GDP grew strong at 13.5% YoY

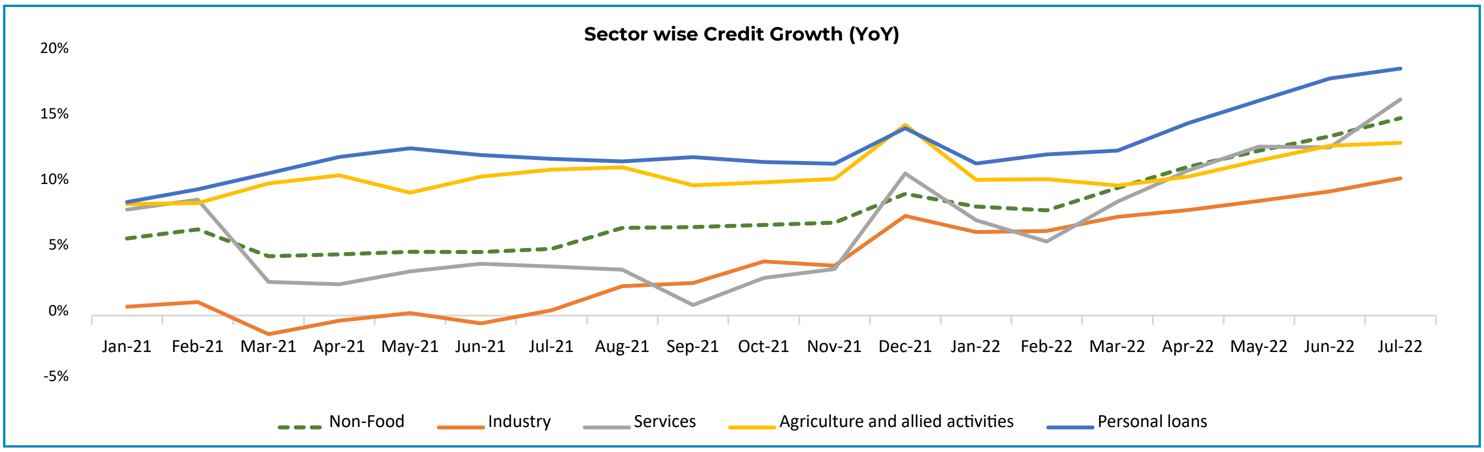
Real GDP Growth Rate (YoY %)	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Developed Markets												
US	2.3	2.6	0.6	-9.1	-2.9	-2.3	0.5	12.2	4.9	5.5	3.5	1.7
UK	1.6	1.2	-2.1	-21.2	-7.8	-6.4	-5	24.6	7	6.6	8.7	2.9
Japan	0.4	1.1	-1.4	-2.1	-10.1	-5.5	-0.9	-1.3	7.6	1.2	0.4	0.2
Germany	1.3	0.9	-1.9	-11.3	-3.7	-2.9	-2.7	10.4	2.9	1.8	3.6	1.7
Emerging Markets												
India	**4.6**	**3.3**	**3**	**-24.4**	**-7.4**	**0.5**	**1.6**	**20.1**	**8.5**	**5.4**	**4.1**	**13.5**
China	5.9	5.8	-6.8	3.2	4.9	6.5	18.3	7.9	4.9	4	4.8	0.4
Brazil	1.3	1.1	1.4	-0.1	-10.7	-3.7	-0.9	1.3	12.3	4	1.6	1.7
Philippines	6.3	6.6	-0.7	-17	-11.6	-8.3	-3.9	12	6.9	7.8	8.2	7.4
Malaysia	4.4	3.6	0.7	-17.2	-2.7	-3.4	-0.5	16.1	-4.5	3.6	5	8.9

The Indian economy's resilience was clearly visible in some of the key high frequency macro data points including GST collections, PMI, bank credit growth etc. which has improved over the past few months providing headroom to the RBI for better managing inflationary trends via aggressive repo rate hikes. Bank credit growth of commercial banks touched a nine year high of 15.5 % YoY in last week of August 22.

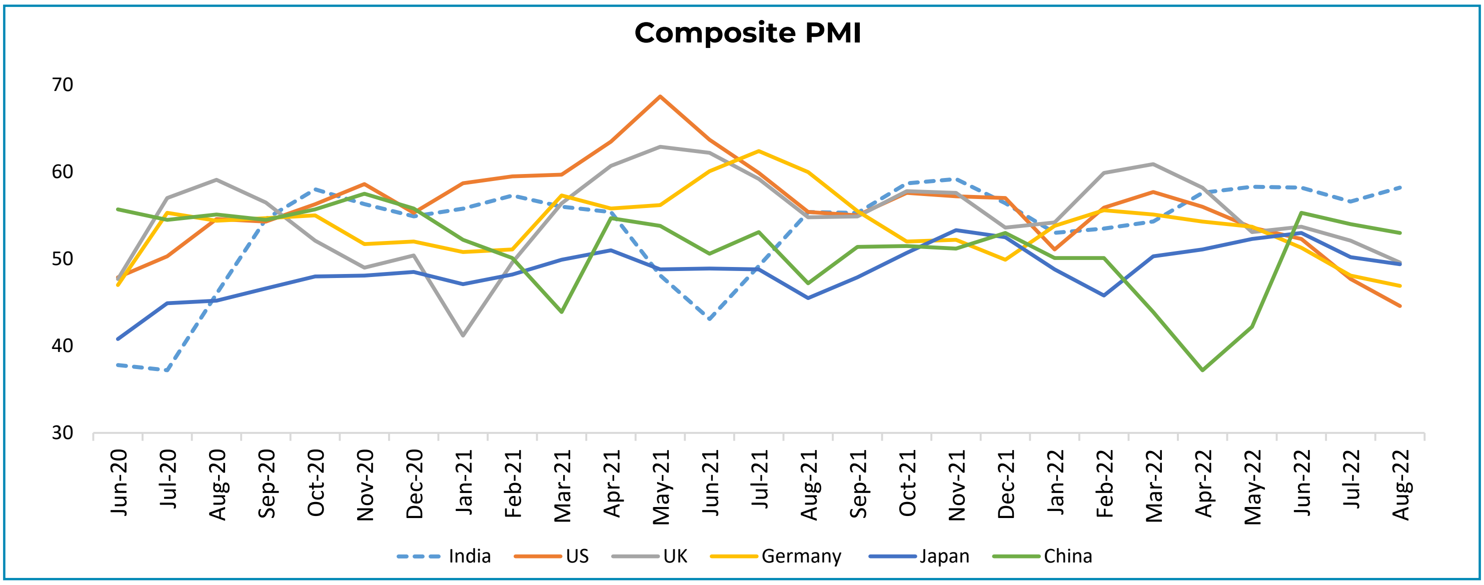
GST collections witnesses a healthy YoY up-trend



Sustained uptrend in loan growth



India's PMI trends higher compared to developed market's PMI, which is entering contraction



India's share in the global market capitalisation hit an all-time of 3.5% in Aug-22 (higher than its long-term average of 2.5%) driven by relative outperformance. In the last 12 months, India's market capitalization increased by about 3% compared to a 16% fall in global market cap.

	Market Cap.($ bn)	% of Global Market Cap.
World	**97,942**	
United States	42,543	43.4%
China	10,497	10.7%
Japan	5,116	5.2%
Hong Kong	5,034	5.1%
India	3,433	3.5%

**Figures as of 8 Sept 2022*

Conclusion

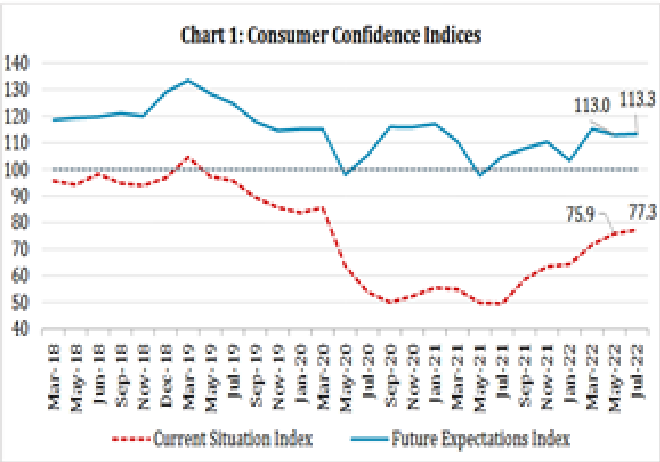
To summarise, the Indian stock market held steady in YTD 2022 whereas global equities have collapsed due to multiple factors including shutdowns due to Covid-19 pandemic, the Russia-Ukraine war and rising fear of recession. In the last 12 months, MSCI India index has outperformed the MSCI Emerging Market index by 27%.

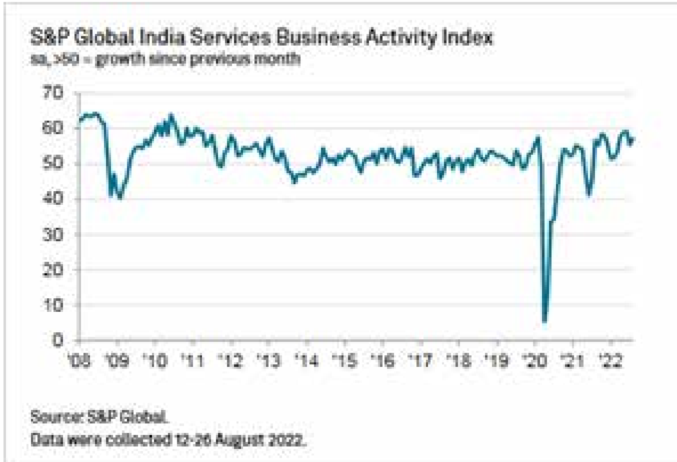
India has not only overtaken UK to become the fifth largest economy in the world, but also is globally the fifth biggest equity market as well. India remains one of the world's fastest growing economy which makes a strong case for continued capital market outperformance in the long term.

FESTIVITIES LIGHT UP CONSUMPTION TRENDS

The festive season is back with vigor post 2 years of interruptions

The domestic consumption story has been witnessing a strong momentum which is further likely to be fueled by the festival season till year-end. This is reflected in the RBI's Consumer Confidence Index which has been witnessing an uptrend in recent months (bi-monthly with last published data for period July 07 to July 14, 2022) aided by improving supply chain conditions. The S&P Global India Services PMI Index also rose to 57.2 in August vs July's four-month low of 55.5, an indication of resilient demand trends.





The sentiment is further expected to have improved post the onset of the festive season thus bringing in additional cheer.

Spotting the early signs

- **According to a survey by the Retailers Association of India, retail businesses across India reported a growth of 15% in sales as compared to pre-pandemic levels (Aug 2019).**
  - Sales across categories show a steady increase with sports goods posting a strong performance followed by Footwear, QSR and Jewellery performing better than other categories in August 2022.
- **Strong consumption trends witnessed by mall operator Phoenix mills**
  - Their retail consumption in Aug-22 was 125% of Aug-19 (pre-Covid) levels (114% on LTL basis).
- **RateGain's (SaaS player) PULSE Report looks forward to a Booming Festive Season for Travel**
  - Demand for travel continues to be strong.
  - Starting Sep-22, the two largest International Hubs of India, Delhi and Mumbai are witnessing an increase in arrivals from all international markets with arrivals from North America predicted to rise ~20% MoM till Nov-22.
- **As per RedSeer, online festive sales are projected to grow 2x this year compared to pre-pandemic sales.**
  - Overall online shoppers in the festive week are expected to grow 4x from 2018
  - With the mounting excitement around festive sales, the online retail market is projected to reach $68 bn in CY22, a growth of 30% YoY.
- **As per the Federation of Automobile Dealers Associations of India, car sales may hit decadal high this festive season**
  - PV registrations jumped 41% in Aug-22 compared to the pre-Covid baseline
  - Total domestic sales increased 17.7% YoY in Aug-22 as chip availability aided a ramp-up in production

Rising UPI and credit card payments also signals an increase in consumption.

- As per the RBI's monthly data, Unified Payments Interface (UPI) transaction increased from Rs 9.83 lakh crore in Apr-22 to Rs 10.73 lakh crore in Aug-22.
- Similarly, credit card spends through PoS (Point of Sale) terminal increased from Rs 29,988 crore in Apr-22 to Rs 32,383 crore in Aug-22.
- The credit card spending on e-commerce platforms rose to Rs 55,264 crore in August from Rs 51,375 crore in April.

Growing familiarity with online payments and e-commerce shopping are fueling consumption trends. A wave of premiumization across categories and omni channel capabilities have emerged as key winning trends post Covid. Customers are willing to splurge on certain categories and want greater convenience. The accessibility provided by e-commerce platforms has been a significant advantage.

Most consumption players upbeat about upcoming festive season

Company	Management commentary from Q1FY23
IHCL	• Strong trends continuing. Q3 has been traditionally the strongest quarter and see no change in that going forward.
ADITYA BIRLA GROUP	• Looking forward to a strong festive, especially with the early wholesale bookings for Onam looking very strong. For Durga Puja also the indications are very strong. • Expect momentum to accelerate further in the coming wedding season and beyond.
metro BRANDS	• This wedding season and festive season looks promising. Overall, demand remains robust.
TITAN COMPANY	• Entry level customers will come whenever there is a festive season and there is a reason to purchase.
PVR CINEMAS	• Q3 is a festive period when a lot of advertisers begin to advertise. Hence, believe that ad revenues will be close to pre-COVID levels.

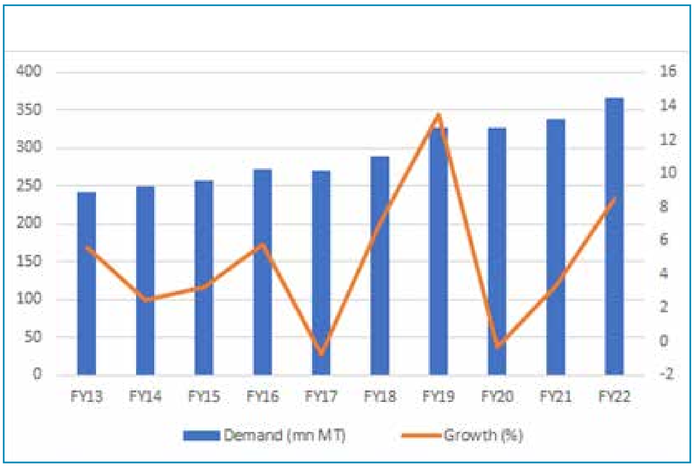
Conclusion

Consumption remains an important piece in India's growth story and emerging trends like premiumization, digital payments, omni channel shopping etc. are fuelling its growth. The onset of the festive season has led to a strong momentum which is expected to continue given that inflation concerns are easing. India's domestic consumption remains a large opportunity propelled by expected growth in per capita incomes and increasing penetration of organized players.

SECTOR DEEP DIVE
INDIA CEMENT SECTOR- IN THE THICK OF ACTION

India's cement industry is the backbone of its growing real estate and infrastructure sector. With an annual production capacity of around 550 mn ton, we have the second largest cement industry in the world after China. Over the last ten-year period (FY13-22), demand has grown at a CAGR of around 5% to 375 mn MT. After remaining subdued on account of the Covid-19 pandemic in FY20 and FY21, demand grew by 8.5% YoY in FY22.

All India cement demand and growth

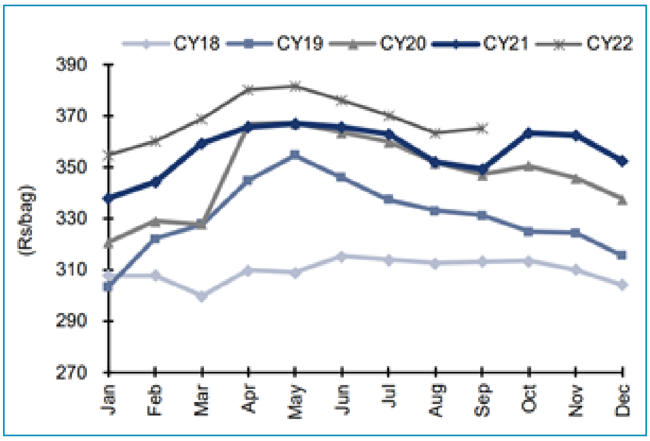


Short Term Outlook

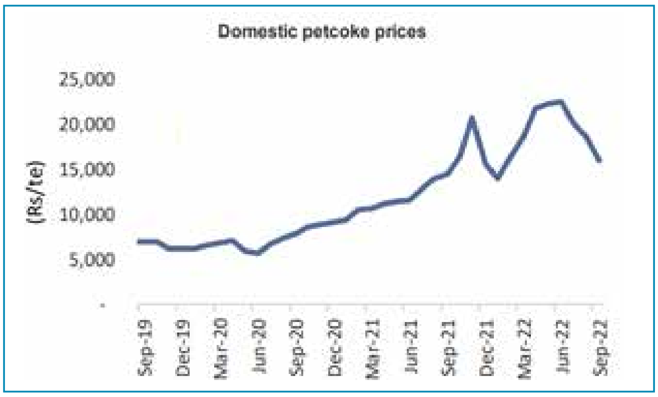
While demand remained resilient last year, the challenge for the cement industry was the unprecedented inflation on all its key inputs. Power and fuel costs rose on back of a sharp increase in thermal coal and pet coke prices. Freight expenses jumped on back of higher diesel prices. Packaging costs rose as polymer prices raced ahead. Key raw materials like gypsum, slag and fly ash became more expensive. The industry tried to overcome the situation by cutting down on operational costs and gradual price hikes. However, the overcapacity situation in the industry did not make it easy as a result of which operating margins took a knock. However, there is good news around the corner.

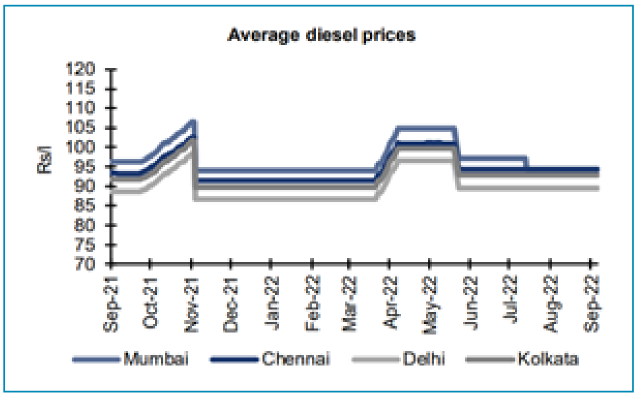
Pet coke prices have corrected by around 30% from their peak in Jun-22 following the recent correction in crude oil prices. Domestic bulk diesel prices have recently seen a modest correction and have remained steady since. Since Apr-22, we have also polymer prices retracing from their recent peaks. This correction in input costs will coincide with a seasonal pickup in demand during the second half of FY23. In Sep-22, cement prices across India have also risen by 2-3% on an average after declining steadily during since May-22. (Chart 2). Thus, in our assessment, operating profitability for the industry is set to recover going into H2FY23.

Average pan-India cement prices (Rs per 50 kg bag)



Domestic pet coke (Rs/MT) and diesel price (Rs/litre) trend





Corporate Developments

The most talked about development in the domestic cement industry was the acquisition of Holcim's stake in ACC and Ambuja Cement by the Adani Group in May-22. The acquisition brings in 70 mn MT of capacity and catapults the Adani's to the second largest position after Ultratech. The Adani Group will first acquire Holcim's 63.1% stake in Ambuja and a 4.5% stake in ACC for US$ 6.5 billion. Ambuja already holds a 50% stake in ACC. Thereafter, the Adani Group will make a mandatory open offer for acquiring up to 26% of the share capital of Ambuja and ACC which will require another ~US$ 3.5 bn. Thus, the total spend on the buyout will be around US$ 10 bn. The transaction was debt funded with the group raising $5.25 billion.

The news of this acquisition initially sent jitters through the industry and for good reason. As is well known in the case of Adani's, size does matter and it will be not surprising if they announce plans for further expanding capacity. This will not be difficult as they already have an environment approval for setting up a 10 mn MT per annum plant in Gujarat. This will force peers to respond as many of them will not want to be felt left out in the race for gaining market share. The Board of Ambuja Cement is meeting on 16th September 2022 to decide on fund raising plans which is another indicator of how things will pan out in the days to come.

Secondly, with an Indian promoter at the helm and no royalty payouts, both ACC and Ambuja's operations will become more efficient. This will further sharpen their competitive edge in an already intensely competitive industry. However, the flip side to this argument is the fact that the acquisition has been debt funded which logically should lead to a more rational market behaviour. Analysts also suggest that capacity utilization at both ACC and Ambuja's units are close to optimum and aggressive pricing will not bring in much additional volumes.

Given the significance of this transaction, all future developments will be keenly watched as it has the potential to shape the industry's future.

Demand in line with long term GDP trend

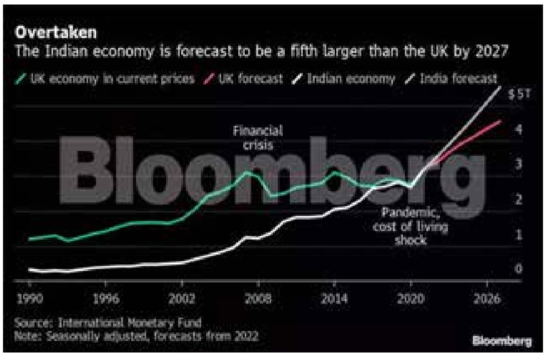
Whatever the Adani's may have up their sleeve, at least when it comes to long term cement demand in India the prospects seem bright. Even if a part of the government's National Infrastructure Plan is implemented over the next few years, it bodes well for cement demand growth. The last few years has seen a pickup in road construction activities both at the national and state level. Many Tier I and Tier 2 cities are also seeing the implementation of metro rail projects. Investments in new capacities have been announced in sectors like oil and gas, renewable power, chemicals and pharmaceuticals. The PLI scheme is likely to bring in new capacities in sectors like textiles, electronics, consumer durables, chemicals, pharmaceuticals etc.

On the real estate front, the sector has come out of a long rut and demand currently is strong in key urban clusters. In the long term, given the government's plans to increase farmer incomes, cement demand should benefit from growth in rural housing.

Conclusion

If demand growth remains in the 7-8% per annum range, which in our view should be the case over the next decade, then the current overcapacity in the industry will be gradually absorbed. However, industry profitability will also depend on how leading players shape their future growth strategies and this is where all eyes will be on the Adani Group and Ultratech which today control around one-third of the industry's capacity.

WHAT CAUGHT OUR ATTENTION THIS MONTH !



India overtakes UK to become fifth largest economy in the world

The IMF's own forecasts show India overtaking the UK in dollar terms on an annual basis this year, putting the Asian powerhouse behind just the US, China, Japan and Germany.

On an adjusted basis and using the dollar exchange rate on the last day of the relevant quarter, the size of the Indian economy in "nominal" cash terms in the quarter through March was $854.7bn whereas UK was $816bn.

A decade ago, India ranked 11th among the largest economies, while UK was 5th.

EPFO calls for increasing retirement age to ease pressure on pension funds

By 2047, India is expected to become an ageing society as around 140 million people are estimated to be above the age of 60 years.

The EPFO has almost 60 million subscribers and it has a cumulative pension and provident fund corpus of more than Rs 12 trillion

The EPFO in its Vision 2047 document said, "Increasing the retirement age, going forward, could be considered in line with the experience of other countries and will be key to the viability of pension systems."

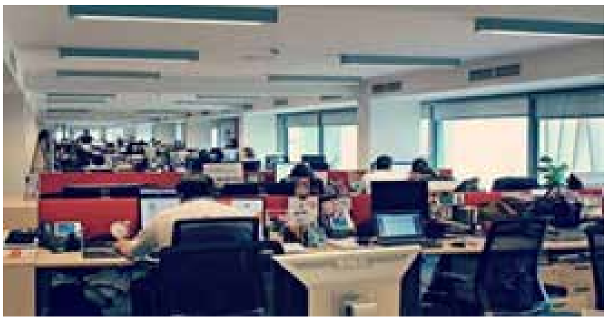
FM: India to grow at 7.4% in FY23

Union Finance Minister Nirmala Sitharaman said, Indian economy will grow at 7.4 % in this fiscal and continue at the same level in the next fiscal as well.

The IMF and the World Bank have projected India's growth to be the fastest for the next two fiscal years, and their estimates are in sync with that of the RBI as well.

The export sector will face difficulties as the global growth slows down, and the government will work with such entities to face the headwinds

Services sector sees sharp upturn in Aug on improved biz activity, softer cost pressure



The dominant services industry grew faster than expected thanks to a solid expansion in demand and a continued easing in cost pressures, encouraging firms to hire at the quickest pace, a private survey showed.

The Services PMI Business Activity Index rose to 57.2 in August 2022 from 55.5 in July 2022 surpassing the 55.0 estimate in a Reuters poll.

For the thirteenth straight month, the services sector witnessed an expansion in output.

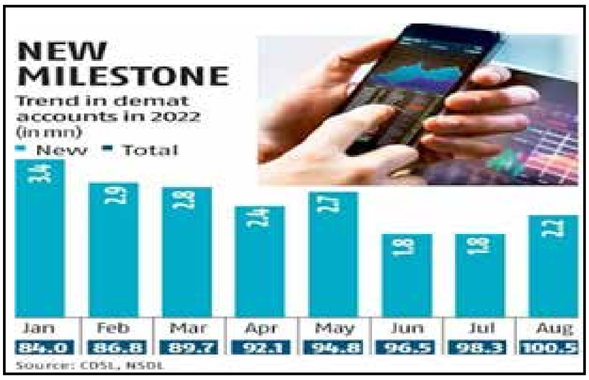
India pips China, becomes 2nd-largest smartwatch market globally for 1st time

Smartwatch shipments in India grew 347% year-on-year (YoY).

India's growth was largely driven by shipments by homegrown brands Fire-Boltt and Noise, who made it to the list of global top five smartwatch brands for the first time.

As expected, China's economic slowdown resulted in a YoY decline in its market.

Demat accounts surpass 100 million for the first time



Over 2.2 million new accounts -- most in four months -- were opened in August, taking the cumulative figure to 100.5 million, according to (NDSL) & (CDSL).

The tally was less than 41 million before Covid-19 pandemic.

The sharp surge in the market, greater lean hours due to the lockdown and mobility restrictions, shift to the work-from-home set-up, ease of account opening, increase in mobile and data penetration, and a drop in brokerage rates have led this growth.

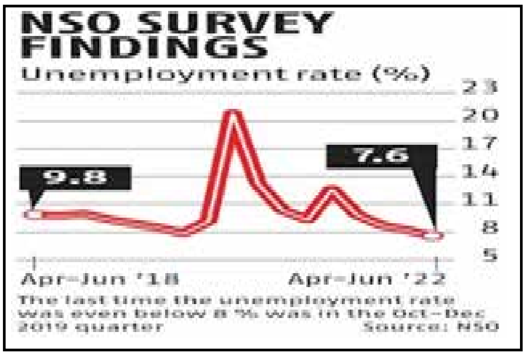
Forex reserves fall to lowest in nearly two years, drop below $560 billion

The reserves fell by $7.94 billion to $553.1 billion in the week ending September 2, 2022 - the lowest levels seen since October 9, 2020.

The central bank has been using its forex reserves to stem the rupee's slide, especially after currency hit a new low of 80.1288 against dollar in late August.

Economists attribute the fall to sales of dollars by the RBI to help arrest the slide in the rupee.

India's urban unemployment rate drops to lowest level in 4 years



India's urban unemployment rate fell to 7.6% in April-June quarter, the lowest in 4 years, as per (PLFS) conducted by (NSO).

The rate has been showing a continuous decline since the June 2021 quarter, when it was estimated at 12.6%.

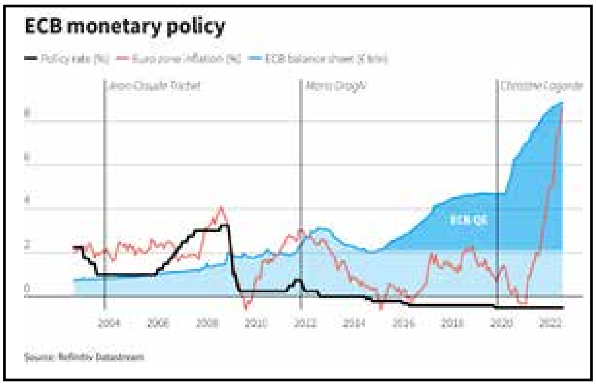
The worker to population ratio (WPR) also saw a marginal increase of 0.5% points from 43.4% in the March quarter.

Retail inflation rises to 7% in August 2022 as food prices surge

India's retail inflation based on consumer price index (CPI) snapped a 3-month downward trend in August 22 and surged to 7%.

Food inflation, which accounts for nearly half the consumer price index (CPI) basket, soared as prices of essential crops like wheat, rice and pulses were driven higher.

With inflation soaring to 7% yet again, central bank is almost certain to hike benchmark lending rates yet again in its next policy meeting.



ECB lifts rates by unprecedented 75 bps to fight inflation, hints more rate hikes

With inflation at a half-century high and approaching double-digit territory, policymakers are worried that rapid price growth is getting entrenched.

The ECB raised its deposit rate to 0.75% from zero and lifted its main refinancing rate to 1.25%, their highest levels since 2011, with further moves anticipated in October and December 2022.

The ECB's growth projections, sharply cut for next year, expect economic stagnation over the winter months.

Liz Truss Is the New UK PM

Conservative Party leader Liz Truss was appointed as Britain's new Prime Minister post defeating former Chancellor Rishi Sunak, to become the third female premier of the country.

Ms. Truss faces the enormous tasks ahead of her being curbing soaring prices, boosting the economy, easing labour unrest and fixing a national health care system burdened by long waiting lists and staff shortages.

The G7's price cap on Russian oil begins to take shape

The Group of Seven countries are working to cap the price of Russian oil in an attempt to limit Moscow's ability to fund its invasion of Ukraine a plan analysts say could work in the long term but might boost oil prices in coming months.

Officials in G7 countries, including U.S. Treasury Secretary Janet Yellen, say the unprecedented measure, set to begin Dec. 5, will cut the price Russia receives for oil without reducing its petroleum exports to world consumers.

Russian President Vladimir Putin could push back, causing stress in oil markets even as the plan comes together.

Fed Chairman Powell warns of 'some pain' ahead as the Fed fights to bring down inflation

In his much-anticipated annual policy speech at Jackson Hole, he affirmed that the Fed will "use our tools forcefully" to attack inflation that is still running near its highest level in more than 40 years.

Powell added that higher interest rates likely will persist for some time.

He cautioned that the Fed's focus is broader than a month or two of data, and it will continue pushing ahead until inflation moves down closer to its 2% long-range goal.

THANK YOU

We would love to hear from you...

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