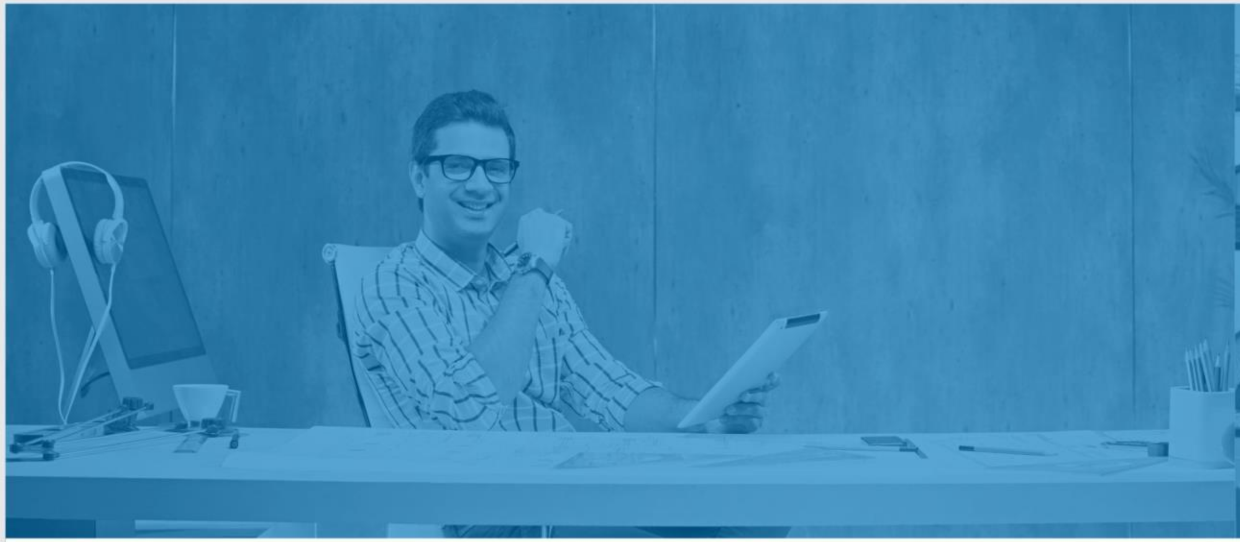

Impact of Russia – Ukraine Conflict & Market Outlook

March 2022

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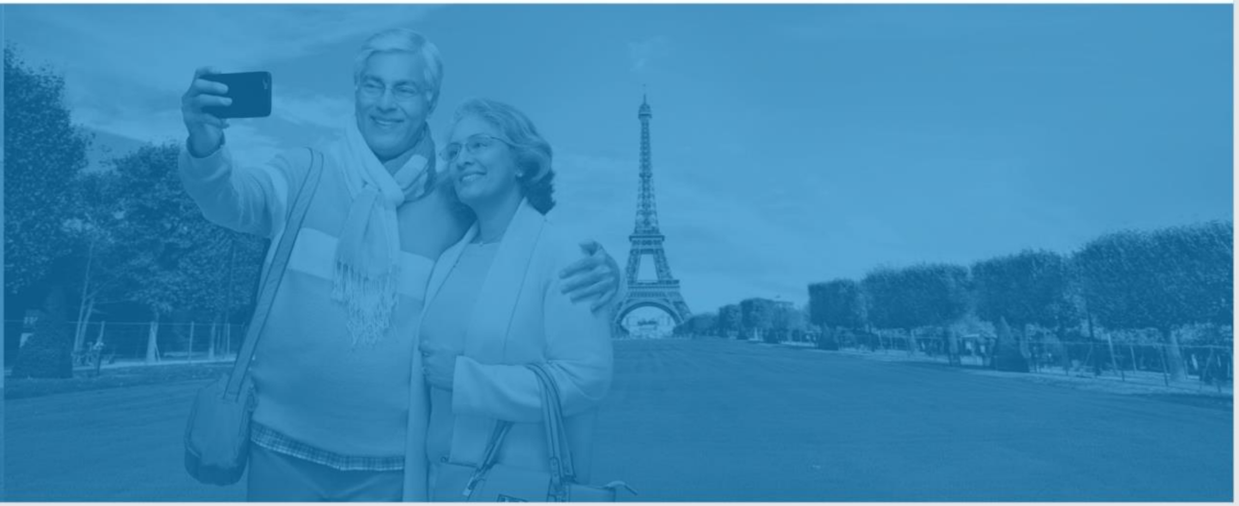
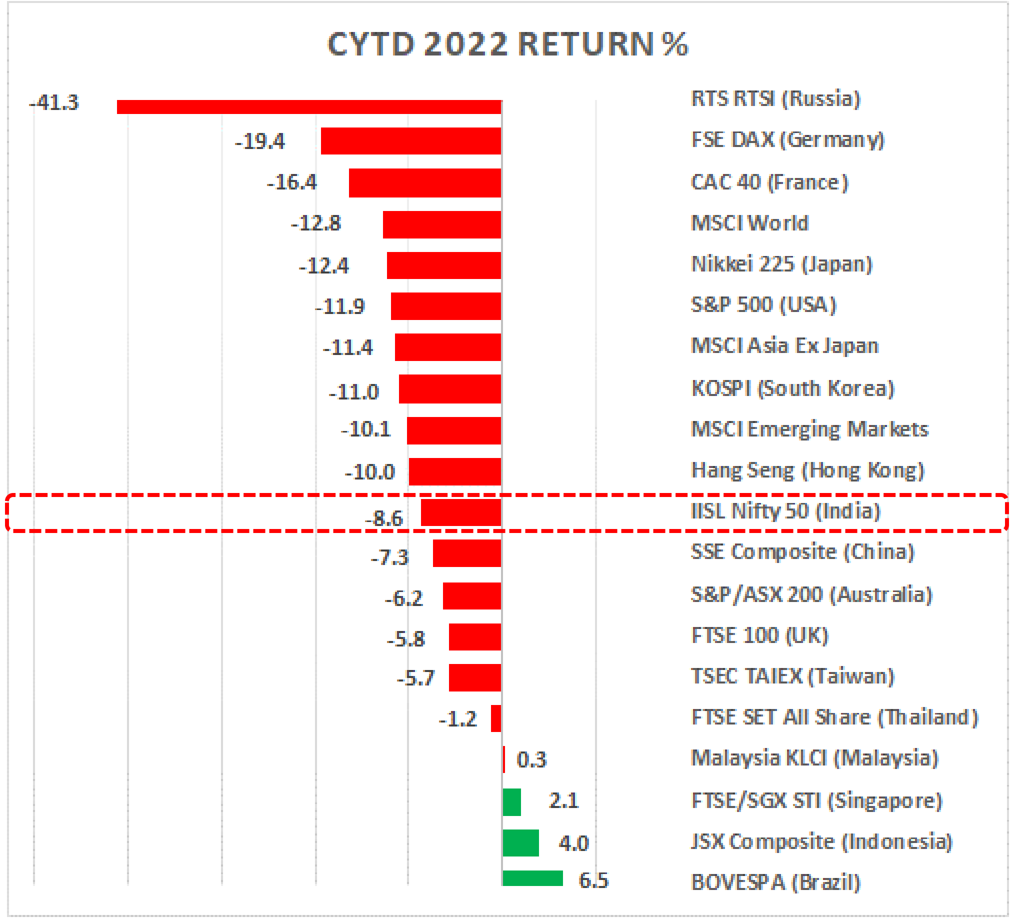
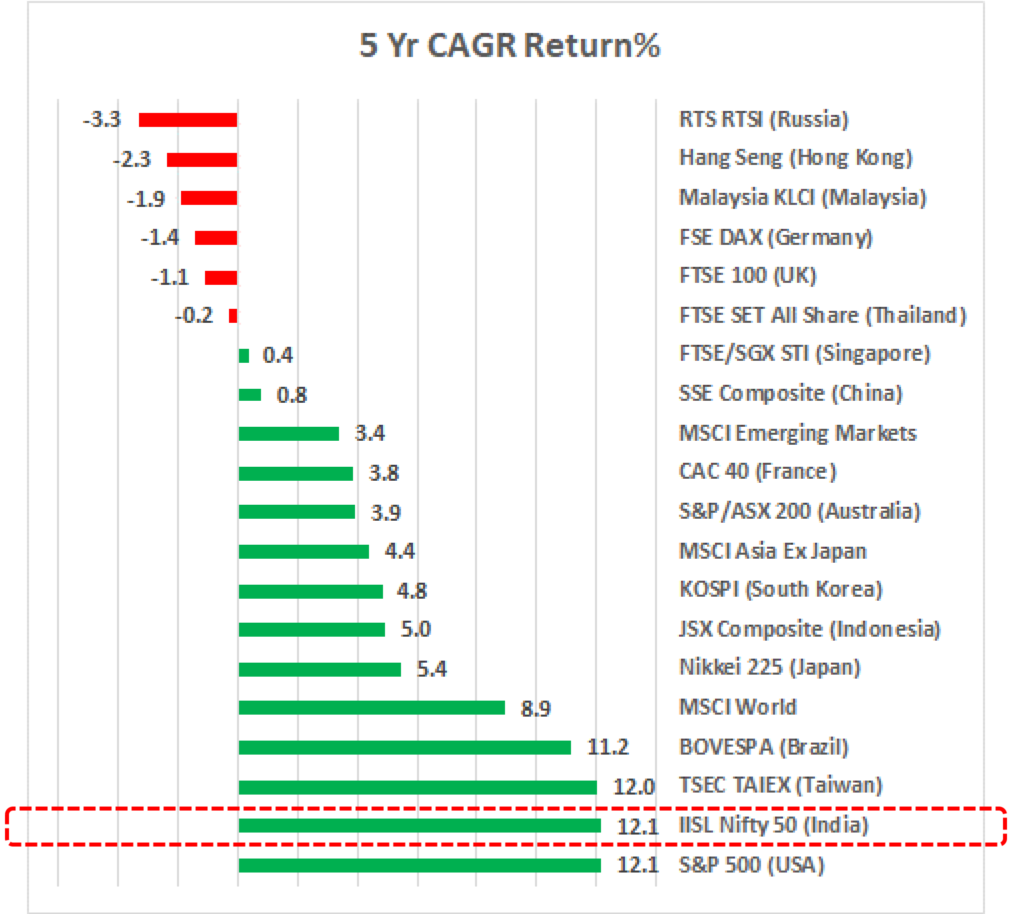


The Russia – Ukraine conflict further increases equity market volatility





- Global markets have seen volatility YTD in 2022, with Russia being the bottom performer. India has not corrected as much as some other markets.
- Over the long term (5 yrs) India is among the top performing global markets.

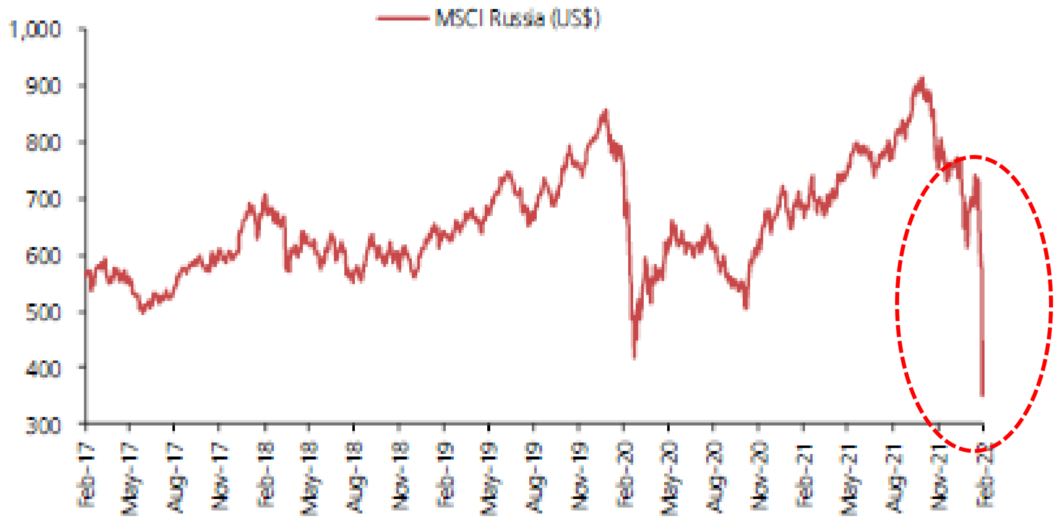
Source: Morningstar Direct. Data sorted in descending order.

Impact on Russia due to economic sanctions of West

Movement of USD / Ruble

Source: Marketwatch

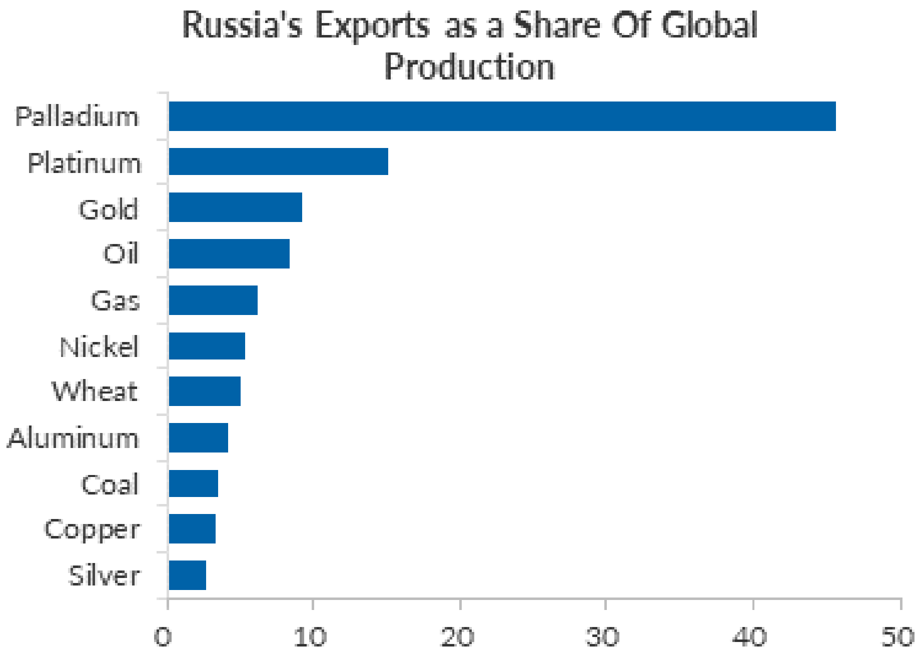
Movement of MSCI Russia Index

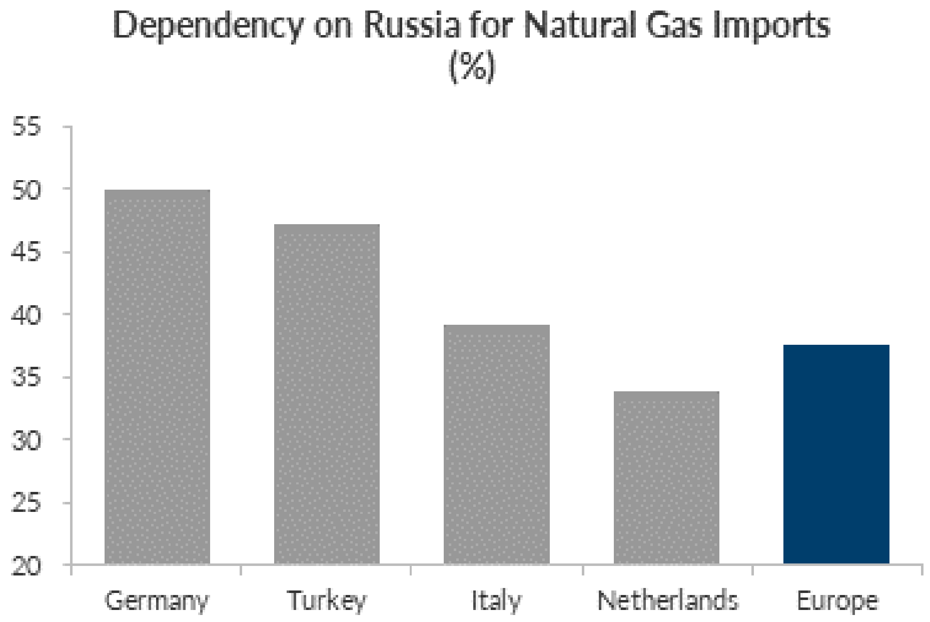


Source: Bloomberg, Kotak Institutional Equities

- Russian banks banned from SWIFT. Prohibited transactions with Russia's central bank & frozen its assets. Many global MNC's exit Russia operations. US embargo on Russia oil & gas imports, EU gas import cuts and further sanctions expected from west.
- Russian Ruble has plunged to record lows. Also difficult for Russia to use its large forex reserves of ~$630 bln due to sanctions.
- Russia's central bank has hiked interest rate from 9.5% to 20% to deal with Ruble depreciation and inflation prospects.
- Global Rating agencies downgrade Russia to near default rating.

Russia has material contribution in global commodities, particularly energy related



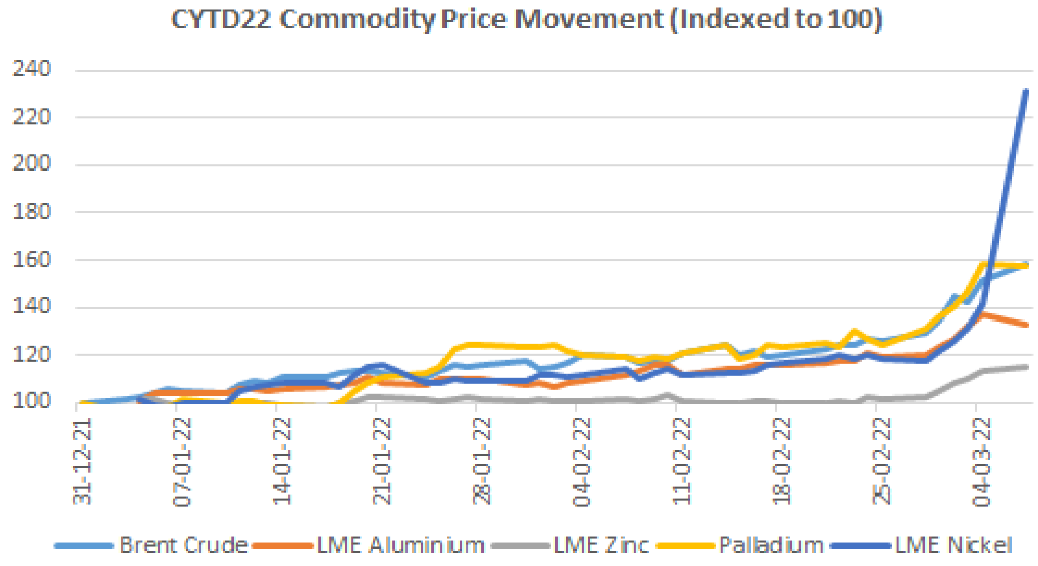


Source: Yes Securities

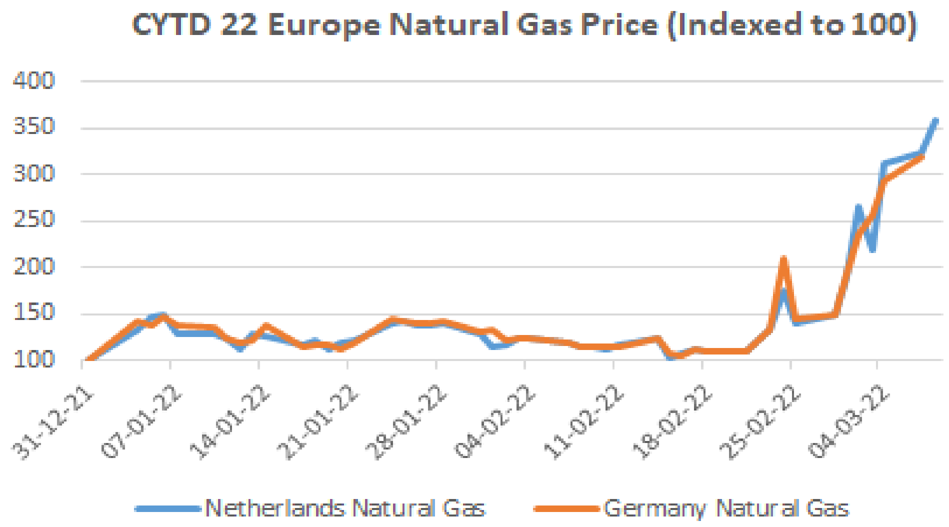
- Russia accounts for ~10% of global crude production and ~16% of global natural gas production. Exports share of Russia quite material for certain commodities and also for food items (esp. wheat)
- Europe has high dependency on Russia for gas imports.

Commodity prices spike post Russia – Ukraine conflict due to global supply chain disruption

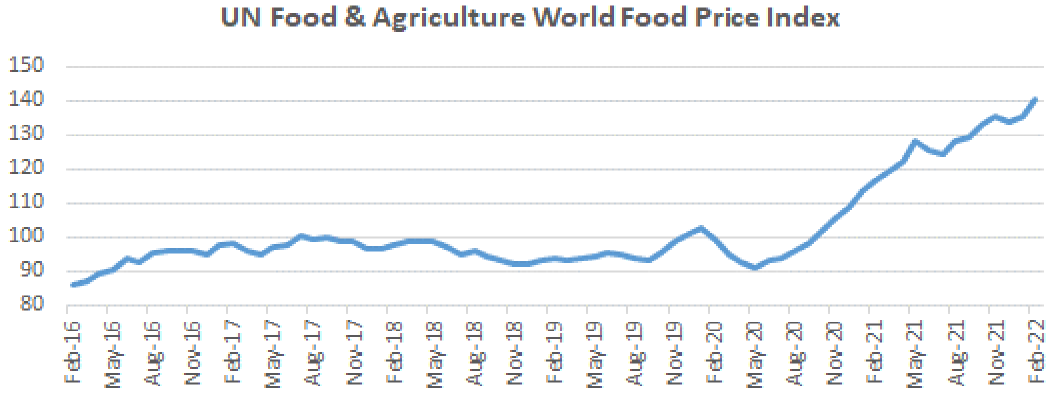
Crude oil at 14-yr high; metal prices also rise



Europe Natural Gas prices see severe spike due to large import dependence on Russia



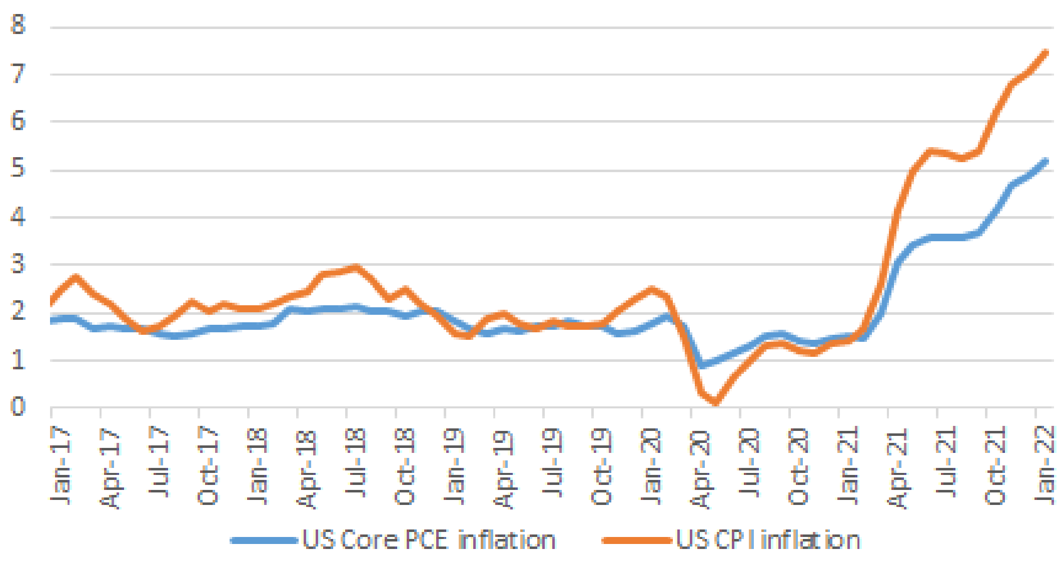
Global food prices have also risen



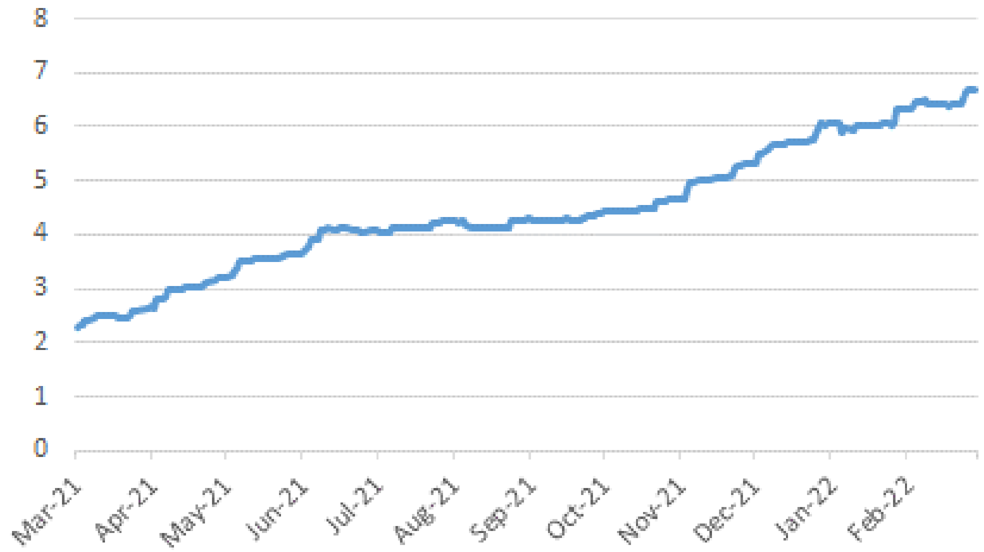
Source: Bloomberg

Globally, inflation is now a cause of concern

US Inflation (% YoY)



World Inflation (% YoY)



Source: Bloomberg

- US consumer inflation hits a high of 7.9%. US Fed's preferred inflation gauge (Core PCE inflation) also rises to 5.2% (highest since 1983)
- Recent rise in commodity prices to further fuel inflationary pressure in the near term.

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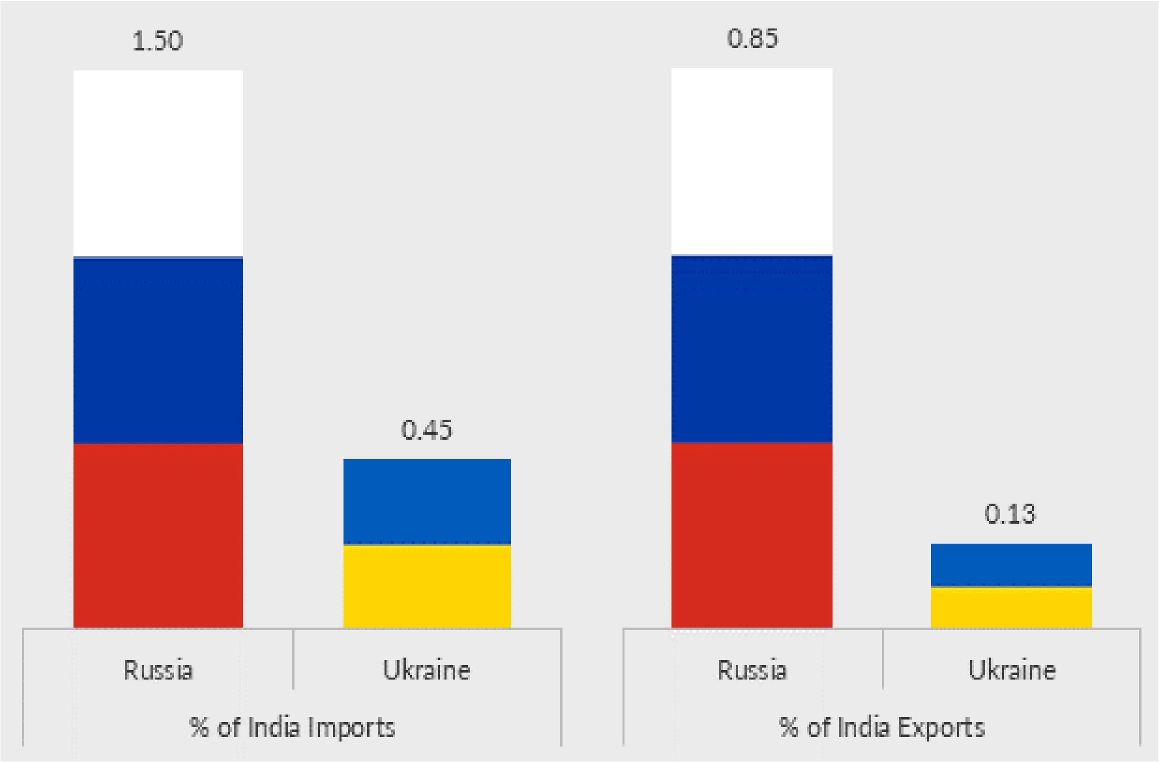
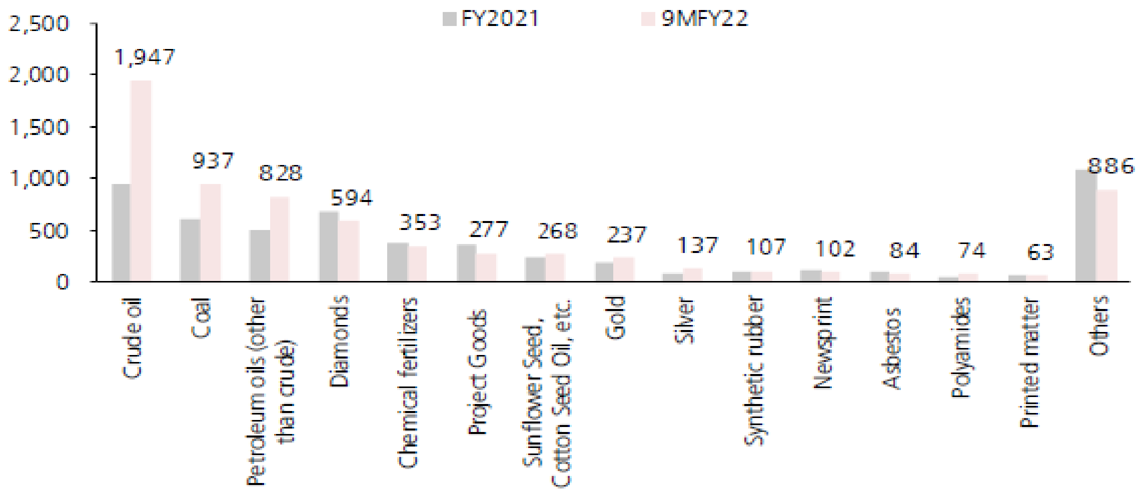
India’s trade exposure with Russia & Ukraine is limited

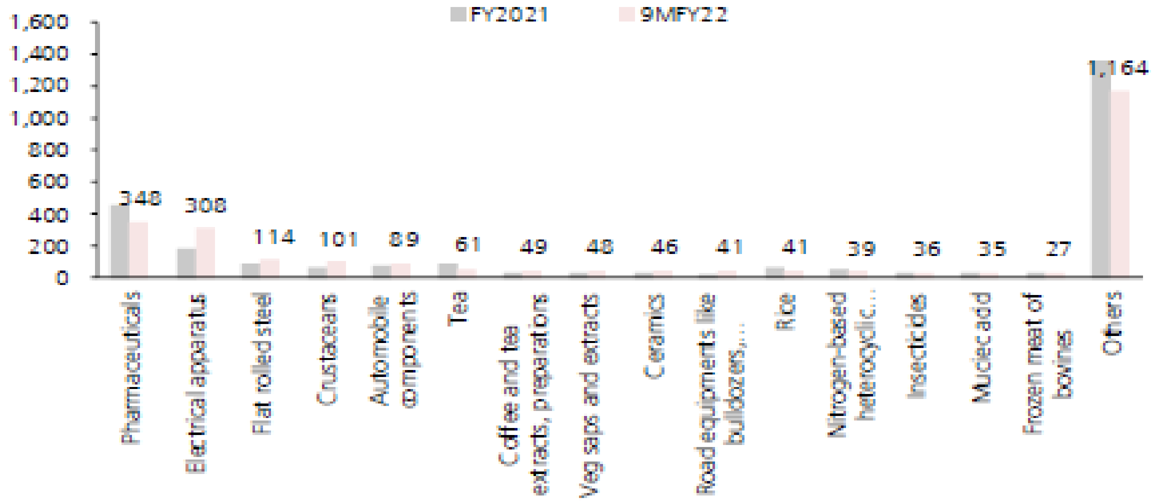
Russia & Ukraine Trade Exposure with India (in %)



India Imports from Russia ($ in Mln) – Primarily Oil & Coal



India Exports to Russia ($ in Mln) – Primarily Pharma & Electrical equip.



India’s dependency on Russia / Ukraine is more in energy sector and less on agri commodities

Source: Bloomberg, Yes Securities, Kotak Institutional Equities

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Higher commodity prices to increase inflationary pressure

CPI (% yoy)	Wts.	Jan-22	Dec-21	Nov-21	Oct-21	Sep-21	Aug-21
Headline CPI	**100**	**6.0**	**5.7**	**4.9**	**4.5**	**4.3**	**5.3**
Food	39.06	5.4	4.0	1.9	0.8	0.7	3.1
Beverages	1.26	6.6	8.2	9.7	11.4	13.0	13.9
Intoxicants	2.38	2.5	3.2	4.0	4.3	4.2	4.0
Prepared Meals	5.55	6.4	6.6	6.5	6.7	6.6	6.1
Fuel	6.84	9.3	11.0	13.3	14.3	13.6	12.9
Clothing	6.53	8.7	8.4	7.9	7.4	7.0	6.8
Housing	10.07	3.5	3.6	3.7	3.5	3.6	3.9
Miscellaneous	28.32	6.5	6.6	6.7	6.8	6.4	6.4
Household goods and services	3.80	7.1	6.8	6.4	6.2	5.9	5.4
Health	5.89	6.9	7.1	7.3	7.6	7.7	7.8
Transport and communication	8.59	9.4	9.7	10.0	10.9	9.5	10.2
Recreation and amusement	1.68	7.0	7.4	7.6	6.9	7.6	6.5
Education	4.46	3.3	3.3	3.1	3.3	3.3	3.7
Personal care and effects	3.89	3.5	3.7	3.2	2.5	1.9	1.0
Core CPI (ex-food, ex-fuel)		**6.0**	**6.0**	**6.1**	**6.1**	**5.8**	**5.8**

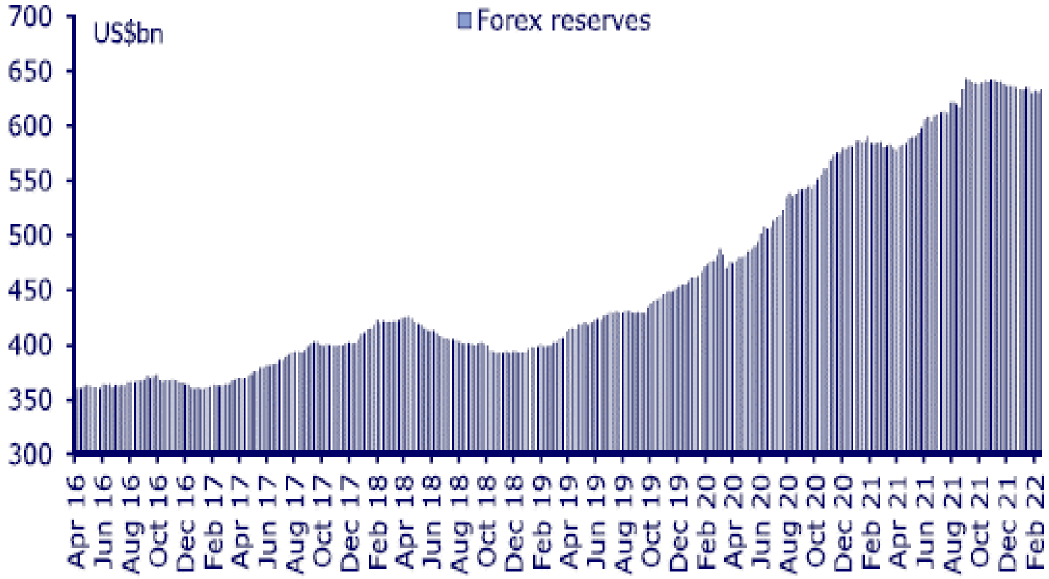
- Fuel and transport/communication inflation, although at elevated levels, had started to normalize
- Recent spike in crude oil prices to be inflationary
- 10% rise in global crude oil prices leads to ~40 bps rise in headline inflation
- Upside risk to RBI's CPI projection of 4.5% for FY23

CAD to deteriorate due to higher crude imports; forex reserves provide cushion

India Current Account Balance & Balance of Payment Trends ($ in billion)				
			FY23E	
	FY21	FY22E	Oil @ 80/bbl	Oil @ 120/bbl
Current Account Balance (CA)	**23.9**	**-56.4**	**-76.9**	**-143.9**
CA as % of GDP	**0.9%**	**-1.8%**	**-2.2%**	**-4.0%**
Trade Balance	-102	-198	-222	-289
Exports	296	414	422	441
Imports	398	612	644	730
Capital Account	**64**	**84**	**57**	**57**
FDI (Foreign Direct Inv)	44	36	35	35
FPI (Foreign Portfolio Inv)	36	-13	0	0
Balance of Payments (BOP)	**87.3**	**27.5**	**-19.9**	**-86.9**

Source: RBI, Kotak Institutional Equities

India Forex Reserves ($ in billion)



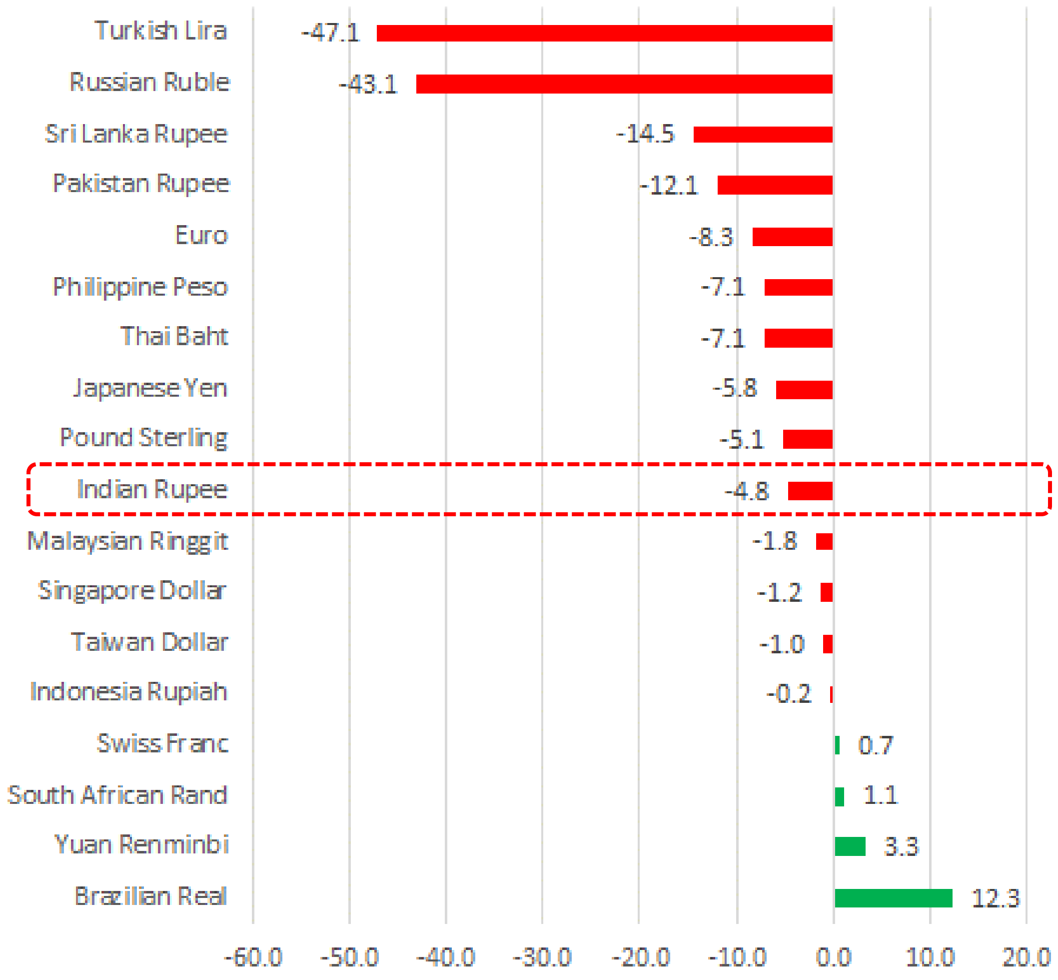
Source: Bloomberg, CLSA

- In optimistic scenario CAD is projected at 2.2% of GDP in FY23 and but with elevated crude prices CAD can rise to 4% of GDP
- BoP to turn negative after being in surplus in FY21
- India forex reserves at ~$630 bln to provide support

CAD: Current Account Deficit

Indian rupee has not depreciated as much as some of the other currencies

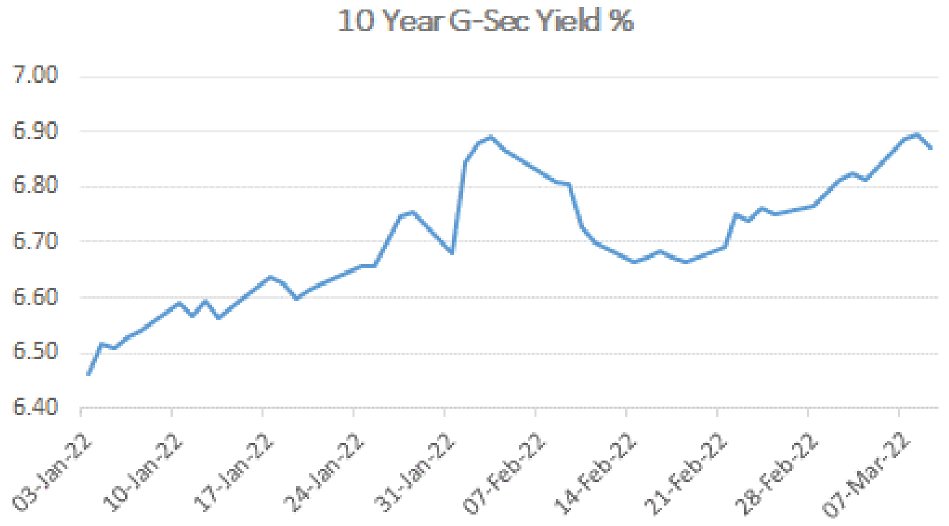
1 Year Performance of Currencies (Vs USD) – in %

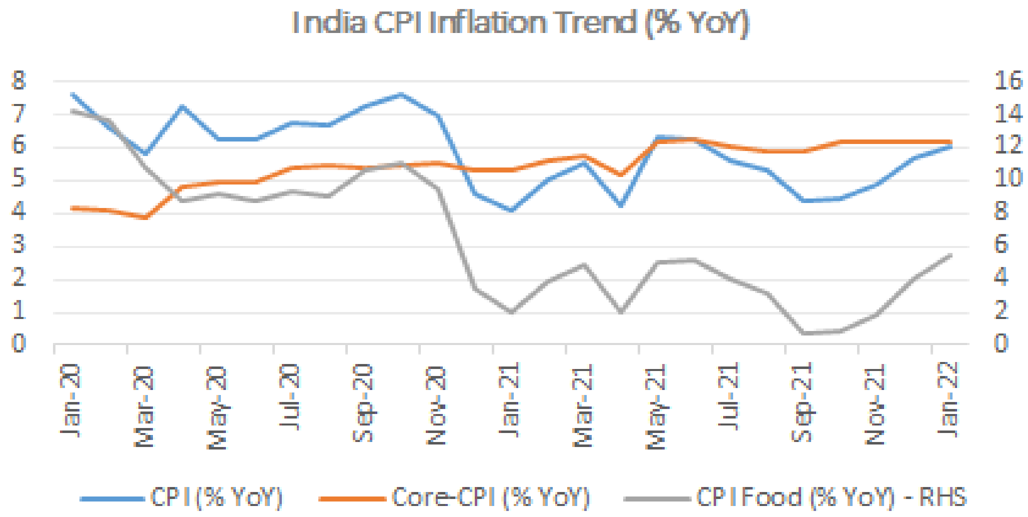


Source: Morningstar Direct. Data sorted in descending order.

- INR felt impact of worsening CAD – depreciated by ~5% in last 1 year
- However, performance better than many other countries' currency
- Going forward, forex rate will be function of interest rate differentials

Bond yields harden in India; rate hikes expected later in the year



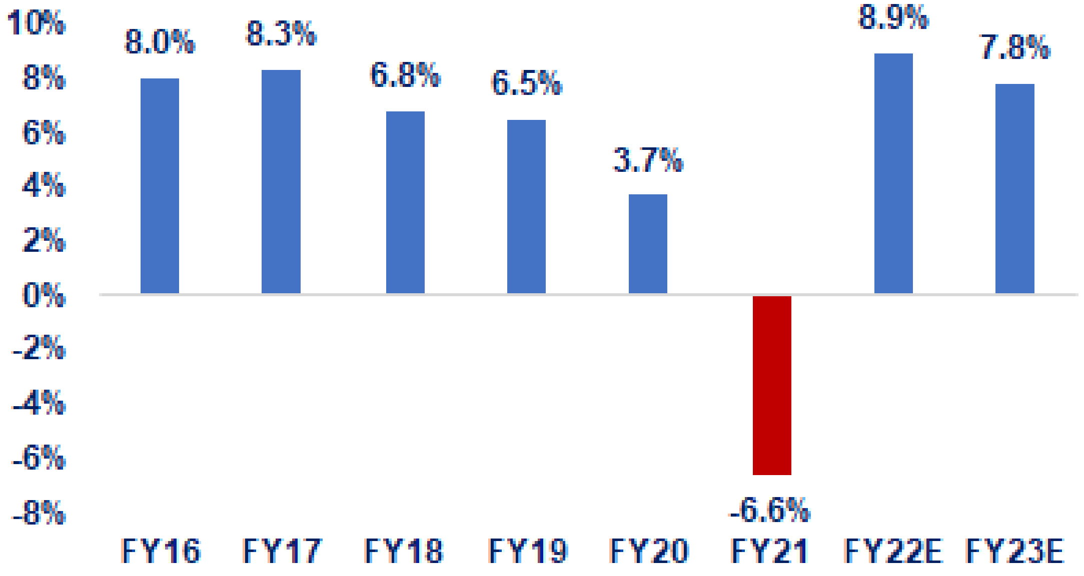


- RBI has started liquidity normalization.
- RBI delivered a dovish policy in Feb 2022. Inflation forecast for FY23 was below market expectations, but maybe revised upwards now.
- Bond yields have hardened due to large market borrowing announced in Union Budget & recent spike in commodity prices.
- We expect repo rate hikes later in the year.

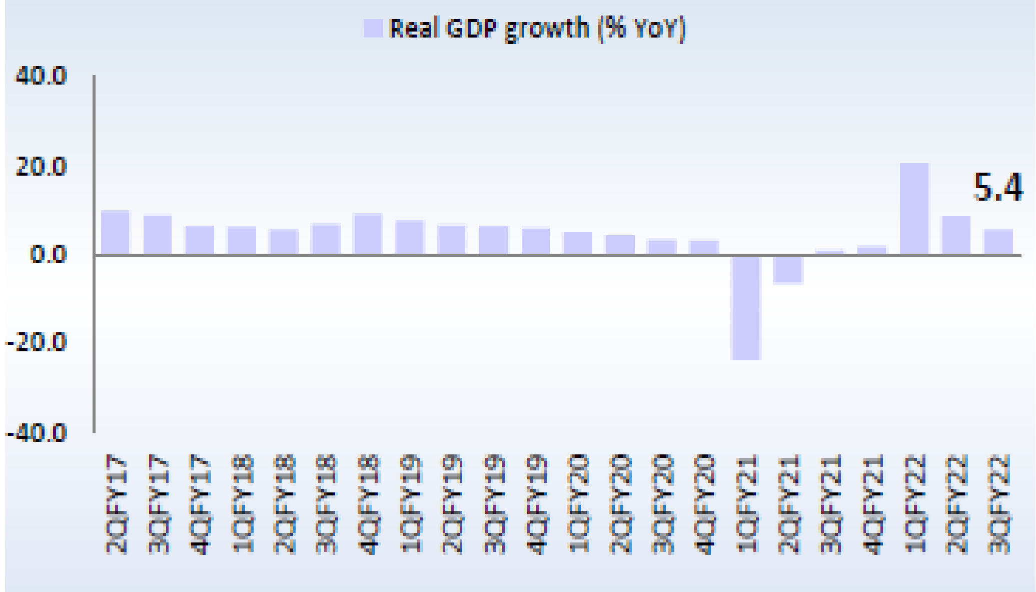
Source: Bloomberg

India's GDP growth to recover in FY22/FY23

India Annual GDP Trend (% YoY)



India Quarterly GDP Trend (% YoY)

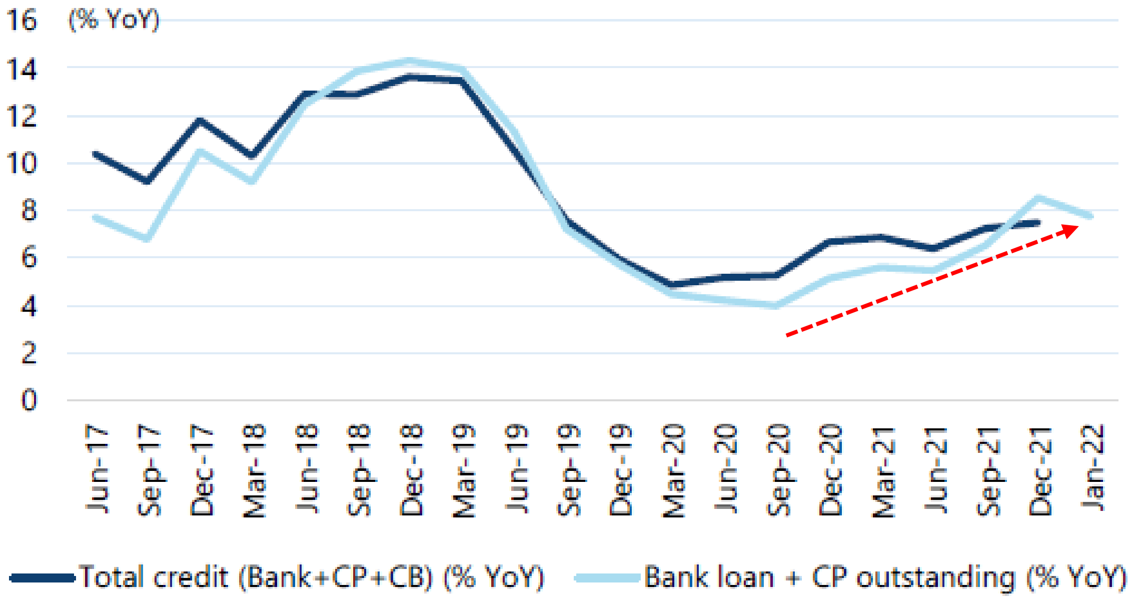


- After registering a record GDP contraction of 6.6% in FY21 , India's GDP forecasted to grow by 8.9% in FY22
- In several sectors of the economy, pre-pandemic levels of output has been crossed, and nominal GDP is also now above pre-pandemic levels.
- RBI projects 7.8% GDP growth in FY23. Recently, Q3 FY22 GDP growth came in at 5.4% (below market expectations).

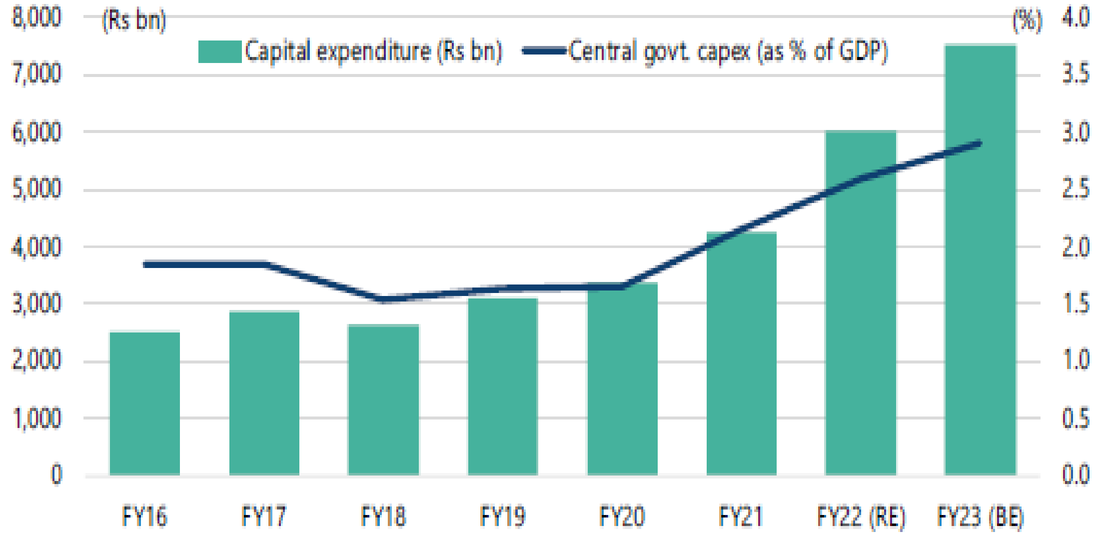
Source: RBI, MOSPI, Motilal Oswal

India credit growth picking up and capex cycle recovery on the cards

India Credit Growth Trend (% YoY)



India Central Govt. Capex Trends

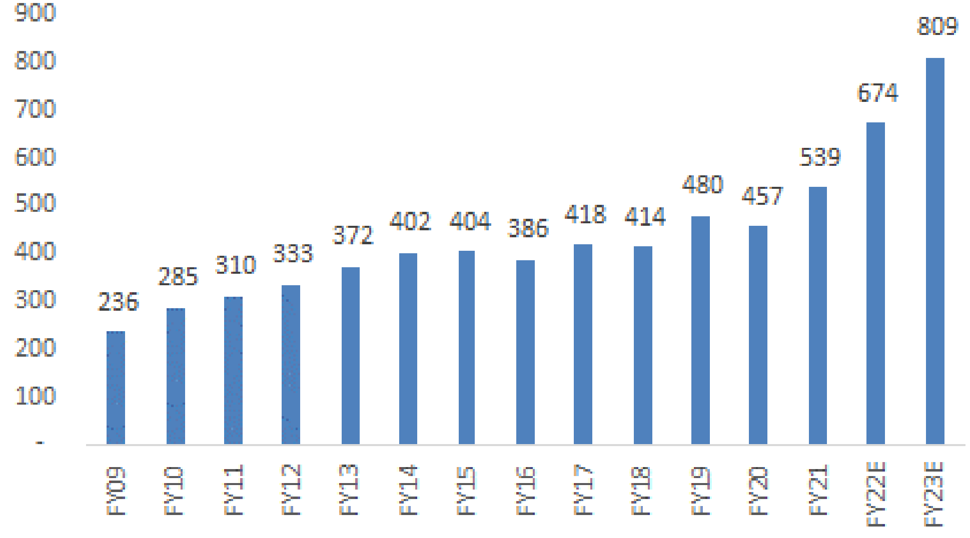


- With economic recovery, bank credit growth expected to recover gradually
- Indian government has budgeted strong capital expenditure for FY23. The PLI scheme also to provide a boost to domestic manufacturing.
- A gradual capex recovery cycle on the cards in India.

Source: RBI, Ministry of Finance, Jefferies

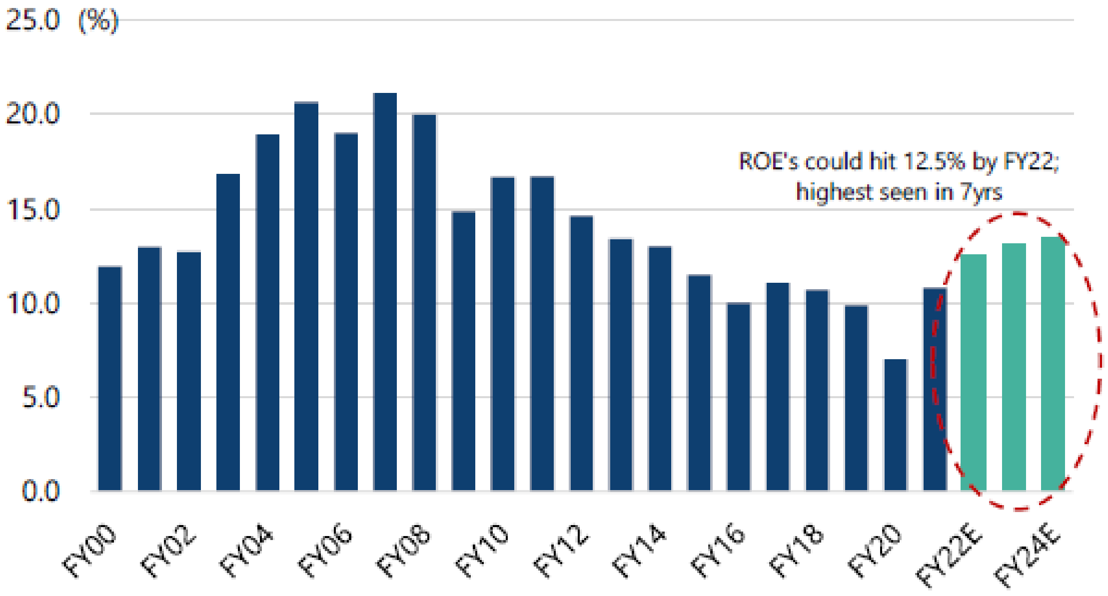
Corporate earnings & ROE have surprised with strong growth amidst the pandemic

Nifty EPS Trend



Source: Bajaj Allianz Life Estimates

India – ROE Trend of Listed Companies (in %)

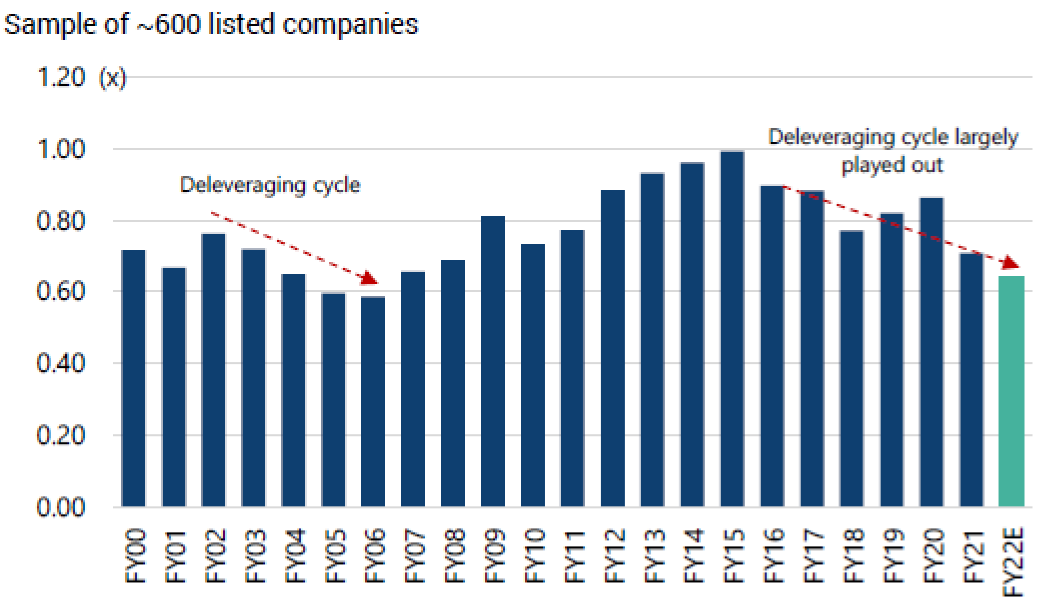


Source: Ace Equity, Jefferies

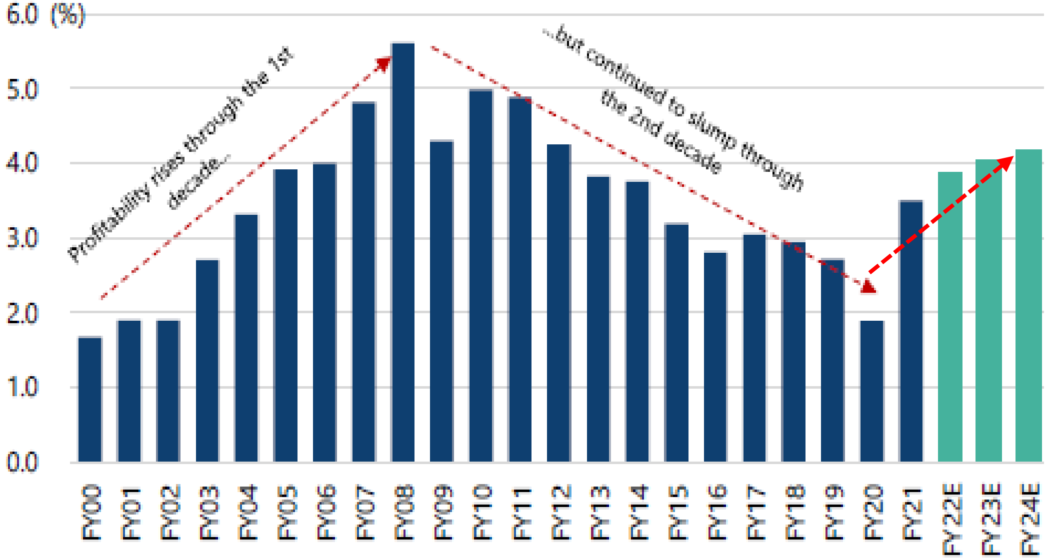
- Nifty EPS registered healthy growth of 18% in FY21 despite Covid shock & GDP contraction, which is a positive surprise.
- Robust Nifty earnings growth of around 25% and 20% expected in FY22 and FY23 respectively. Despite margin pressure, Q3 FY22 earnings came in line with expectations.
- Pick-up in earnings growth also driving a surge in ROE (Return on Equity) to 7-year high in FY22.

Corporate earnings cycle on an up-trend & corporate balance sheets have also de-leveraged

India – Debt to Equity Ratio of large listed companies



India – Corporate Profits as a % of GDP Trend

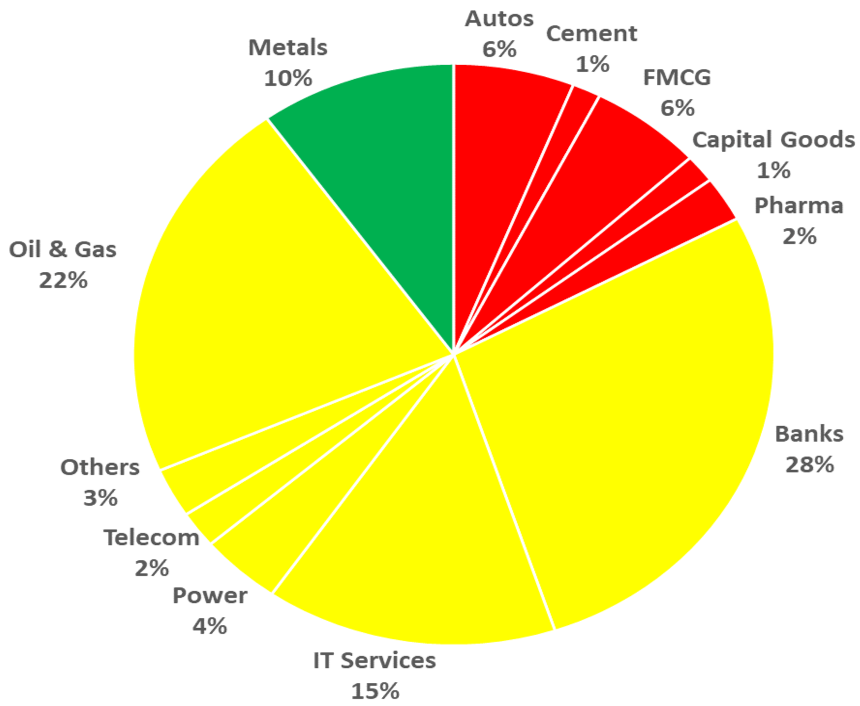


Source: Ace Equity, Jefferies

- Corporate earnings cycle (corporate profits as % of GDP) on an uptrend after more than a decade of moderation.
- Corporates have also de-leveraged (reduced debt to equity ratio) creating capacity to kick-start the capex cycle again.

Limited impact on Nifty earnings due to war

Nifty – Earnings impact due to war

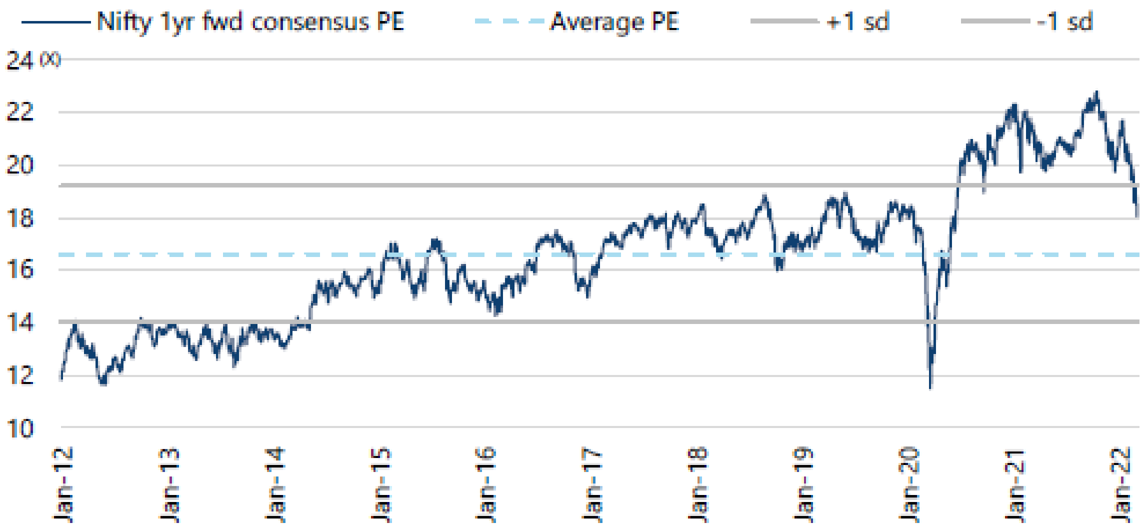


- Earnings for Autos, Cement, FMCG, Capital goods companies (16% of Nifty50 earnings) to be negatively impacted due to higher commodity prices following the war.
- BFSI, IT, Power & Telecom companies (73% of Nifty50 earnings) should not see any meaningful impact on earnings.
- Impact on Oil & Gas to be neutral with the Producer benefiting while OMC earnings to be hit.

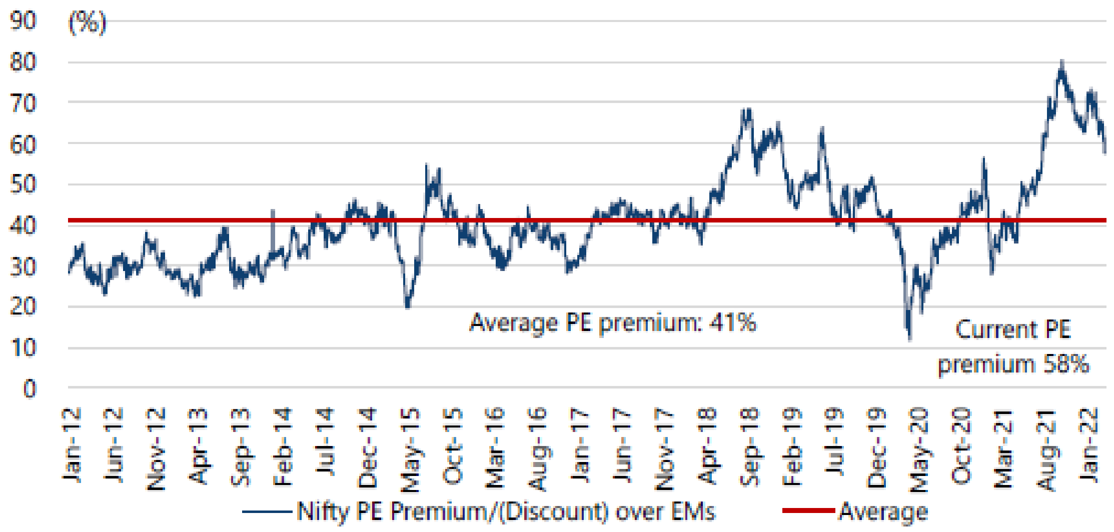
Source: IIFL, BALIC

Market valuations have moderated from their highs, but still above long term average

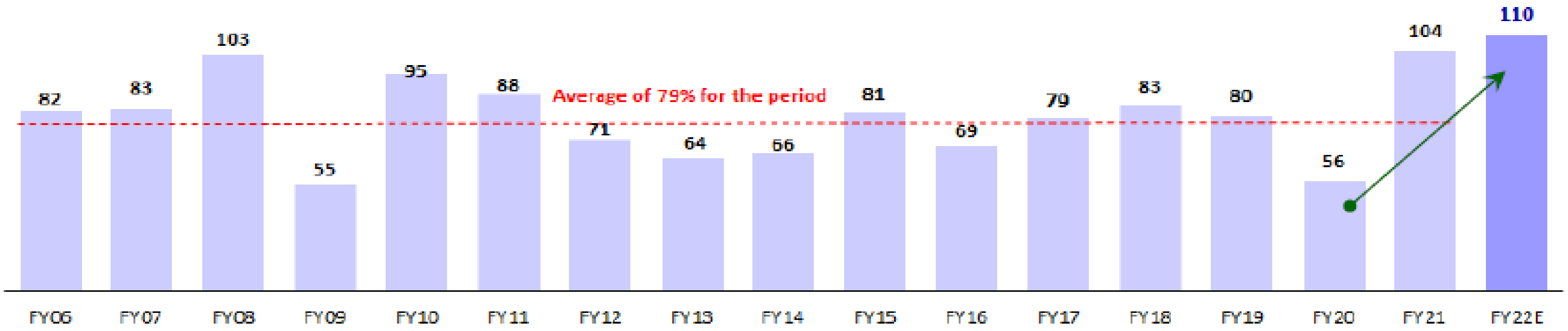
Nifty 1 Year Fwd Consensus P/E Ratio



Nifty PE Premium / (Discount) to Emerging Mkts



India Market Cap to GDP Trend (in %)



Source: Bloomberg, Jefferies, Motilal Oswal

FPI flows turn negative in FYTD 22, while DII flows see a strong pick-up

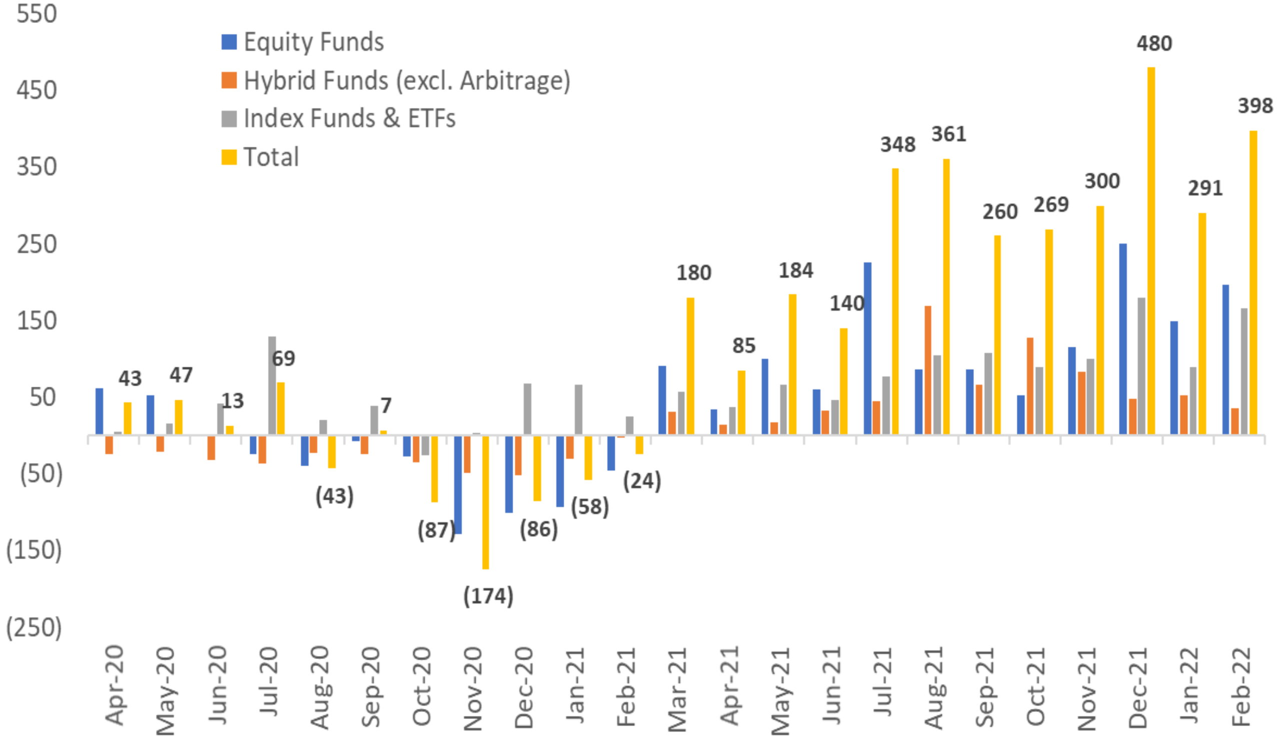
Source: NSDL, Axis Capital	Rs in Crore	
Month-end	**FPIs**	**DIIs**
28 February 2021	21,960	-16,358
31 March 2021	19,519	5,204
30 April 2021	-12,810	11,089
31 May 2021	5,360	2,067
30 June 2021	10,932	7,044
31 July 2021	-12,622	18,394
31 August 2021	7,455	6,895
30 September 2021	8,348	5,949
31 October 2021	-16,584	4,471
30 November 2021	-5,710	30,560
31 December 2021	-13,150	31,231
31 January 2022	-37,689	21,928
28 February 2022	-35,975	42,084

Source: NSDL, Axis Capital	Rs in Crore	
Year	**FPIs**	**DIIs**
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	1,13,258
FY2019	-90	72,115
FY2020	6,151	1,29,301
FY2021	2,74,897	-1,34,056
FYTD22 (upto February)	-1,02,445	1,81,712

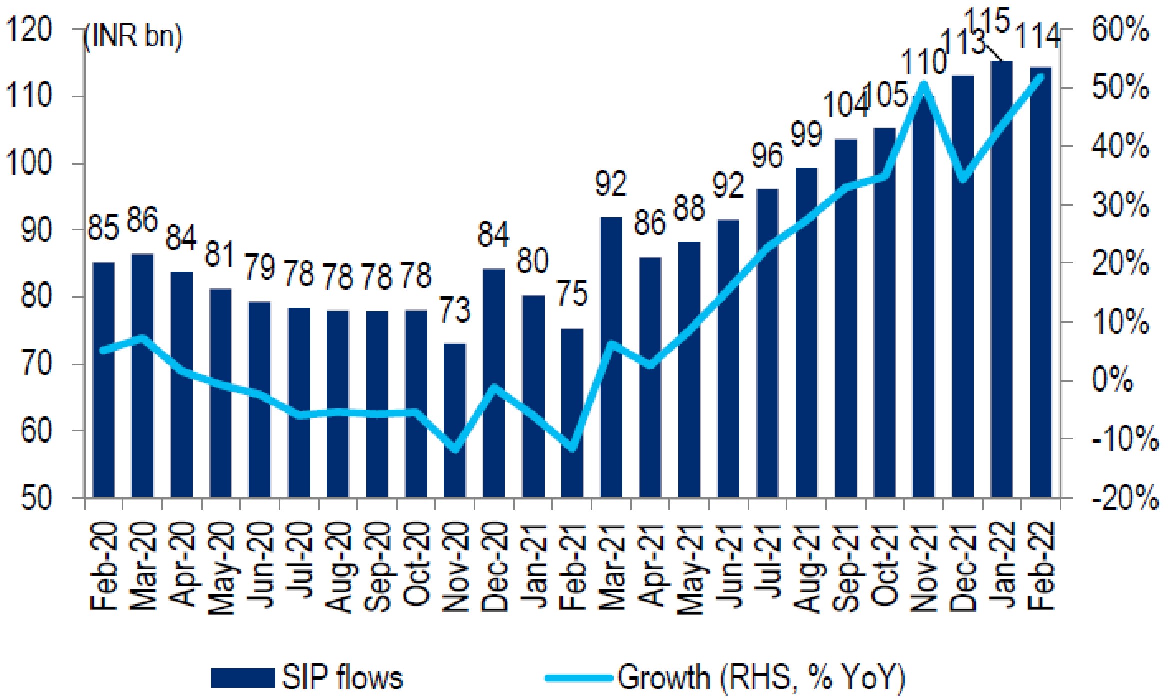
- After seeing record FPI equity inflows in FY21, FPI flows have turned significantly negative in FYTD22.
- Meanwhile, DII equity flows picked-up strongly in FYTD22 (helping to counter FII outflows), after seeing record outflows in FY21. MF monthly SIP inflows breached the record Rs. 11,000 crore mark.

Domestic Mutual Funds witnessing robust inflows

Mutual Funds – Equity inflows (INR billion)



Mutual Funds – Monthly SIP trend



Source: Citi

- Domestic Mutual funds have been witnessing a steady inflow in their Equity schemes since Mar'2021.
- In addition, money is also coming in via the Index Funds / ETFs.
- Monthly run-rate of SIP investments now stand at ~Rs. 11,500cr (~USD 1.5bn).

Market Outlook

- **Geo-political tensions rise globally:**
  - **C**ommodity prices such as Crude may impact inflation

- **Market Valuations have moderated,** but still above the long term average.

- **Economic Growth recovery is well in place, Corporate Earnings growth trajectory may come-off**

- **Global unwinding of monetary policy stimulus is likely to impact valuations**

- **Equity Investment Strategy**:
  - Equity market returns expected to be moderate in CY2022
  - Companies with strong cash flows would outperform

- **Debt Investment strategy:**
  - Bond yields have already moved up, expected to further harden as RBI starts reversing easy monetary policy

THANK YOU

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