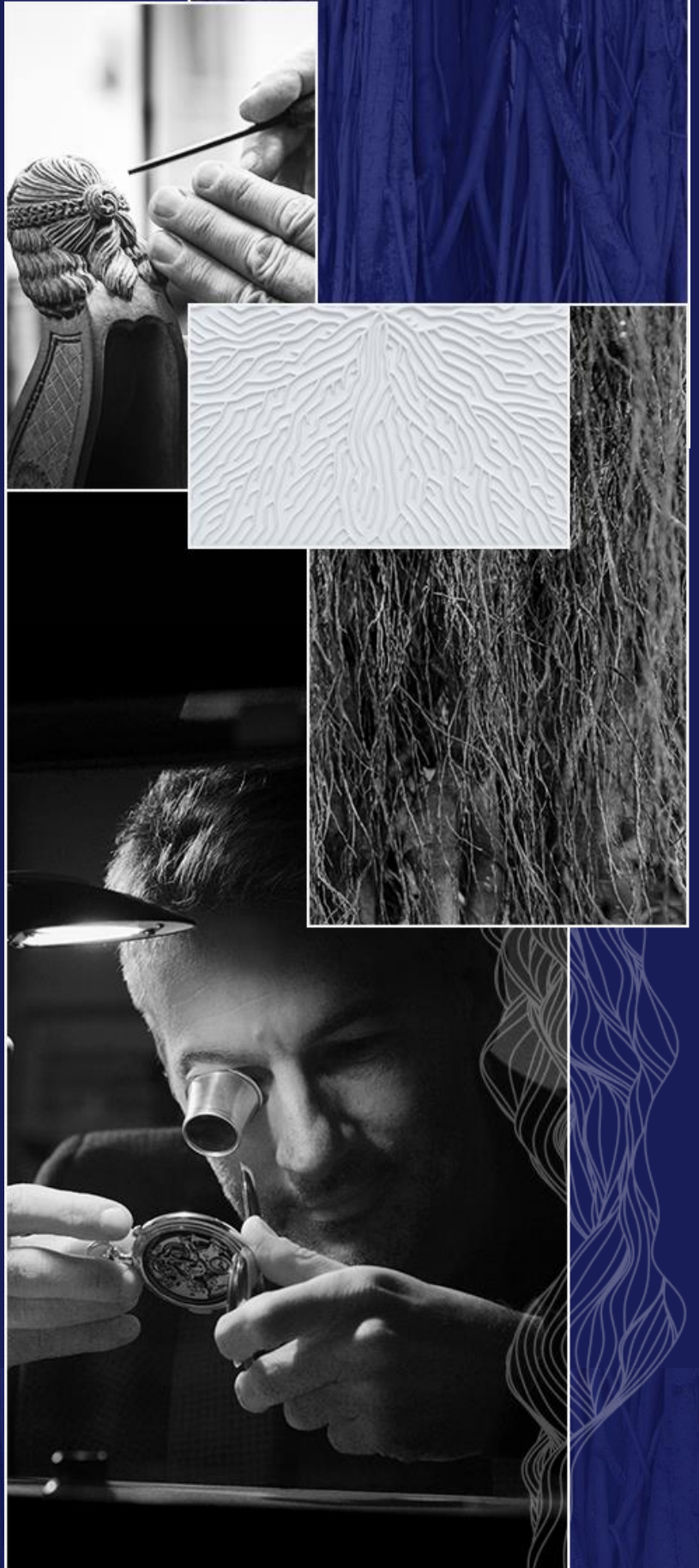


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W.I.N.
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WORLD M&A
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India - Market Outlook

Introduction

A tale of rising interest rates and falling equity markets

The World is at a triple frontier - tackling a geopolitical crisis unfathomable since the end of the Cold War with Russia's invasion of Ukraine, Central Banks across the world unable to wind down the inflationary effects of an expansionary monetary policy and the ongoing struggles to tackle supply chain issues lagging from the pandemic leading to partial re-allocation of capacities from China across the world. The renewed threat of Covid blanketing China and increased shipping times are not likely to go down soon, and logistics and supply issues for major commodities could continue to persist.

India had taken a neutral stance, born of its historic strategic partnership with Russia. This alliance, harking back to Cold War times, spans several fronts—diplomacy, defense, nuclear energy, and technology—making Russia a pivotal part of India's nation-building process, especially during its infancy. In the global geopolitical context, both India and Russia today find themselves ever more closely linked to two other powers, China, and the US.

Moody's Investors Service lowered its GDP growth forecast for India to 8.8% YoY for CY22 from its March 2022 estimate of 9.1% YoY, holding that rising inflation and interest rates will temper the economic growth momentum. The rise in crude oil, food, and fertilizer prices will weigh on household finances and spending in the coming months. Rate increases by RBI to prevent energy and food inflation from becoming more generalized which in return would slow down the demand recovery's momentum.

Market Watch							
Indian Equities	Jun-22	May-22	1 Month	Currency	Jun-22	May-22	1 Month
Nifty50	15,832	16,170	-2.09%	INR/USD	78.42	77.63	-1.02%
S&P BSE Sensex	53,161	54,253	-2.01%	INR/EUR	82.94	83.32	0.46%
S&P BSE Mid Cap	21,992	22,143	-0.68%	INR/GBP	96.17	97.93	1.79%
S&P BSE Small Cap	24,906	25,318	-1.63%	INR/JPY (100)	57.91	61.11	5.24%
Global Equities				Economic Data			
Dow Jones (US)	31,440	32,637	-3.67%	10-year G-Sec (%)	7.41	7.29	-1.60%
Nasdaq (US)	11,987	11,741	2.10%	CPI Inflation (%)	7.04	7.79	-9.63%
FTSE 100 (UK)	7,258	7,565	-4.05%	Export Growth (%)	N/A	15.4	-
Nikkei 225 (Japan)	26,871	26,605	1.00%	US Dollar Index (DXY)	103.68	101.76	1.88%
Hang Seng (Hongkong)	22,230	20,116	10.51%	IND Volatility Index (VIX)	21.01	22.72	-7.55%
Commodity				Deposit Rates (SBI)			
Gold (INR/10 gms)	50,681	50,945	-0.52%	1-Year (%)	5.10	5.10	-
Silver (INR/10 gms)	599	616	-2.69%	3-Years (%)	5.45	5.45	-
Brent Crude (\$/bbl)	115	114	0.96%	5-Years (%)	5.50	5.50	-

Source: Investing.com, SBI.

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Global Inflation Rates & Outlook:

Geo political tensions leading to rise in crude & agri and non agri commodity prices, supply chain bottle necks, rising consumer demand have resulted in upward trajectory in inflation across economies. As a result, global central banks have resorted to tightening of monetary policy thus giving more priority to inflation over growth. In global bond markets, this has led to hardening of global bond yields across the curve and negative bond yielding assets at a low of \$ 2.4 Tn.

Inflation worries & tightening of monetary policy has led to hardening of yields across economies

Country	Month (2022)	Inflation (%)	How Severe?
Germany	April	7.4	41 Year High
U.S.	April	8.3	40 Year High
Sri Lanka	April	29.8	33 Year High
Italy	March	6.2	31 Year High
U.K.	April	7	30 Year High
Turkey	April	70	20 Year High
Brazil	April	12.1	19 Year High
South Korea	April	4.8	13 Year High
Taiwan	May	3.4	10 Year High
India	April	7.8	08 Year High
Russia	March	16.7	07 Year High
Ukraine	April	16.4	05 Year High
Indonesia	May	3.5	4.6 Year High
Japan	March	1.2	3.6 Year High
Philippines	April	4.9	3.4 Year High
China	April	2.1	06 Year High
Hong Kong	March	1.7	04 Year High

Source: WCA Research, Secondary Research Reports, Bloomberg
(Data as on 8th June 2022).

RBI Raises Policy Rates with Focus on “Withdrawal of Accommodation”

In order to contain inflation worries, the Monetary Policy Meeting (MPC) unanimously voted for:

- Unanimously voted for 50 bps Repo Rate hike to 4.90%, in line with market expectations.
- For FY23, inflation projected at 6.7% from 5.7% earlier and Real GDP growth projection retained at 7.2%.
- RBI expects inflation to remain at elevated levels, hence want to take calibrated steps to contain inflation and its effects.

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**War Impact: Indian Economy**

Source: Ministry of Commerce & Industry, S&P Global (Feb'2022), CRISIL.

Direct Impact:

- Higher international commodity prices (energy, edible oils, agricultural products, and metals).
- Impact on India's overall trade flows is lesser owing to the low share of trade with Russia and Ukraine. Top exports to both countries are necessary goods, so unlikely to be impacted.
- Import cost is set to rise owing to higher prices of crude and edible oils.
- Rise in export insurance cost and global shipping rates.

Indirect Impact:

- External demand for exports may be affected as Europe (India's 2nd largest export destination) is expected to be one of the hardest hit regions as growth slows down.
- Supply-chain disruptions: India's major trading partners (US, Europe, China) have high import-dependency on Russia and Ukraine for select commodities.

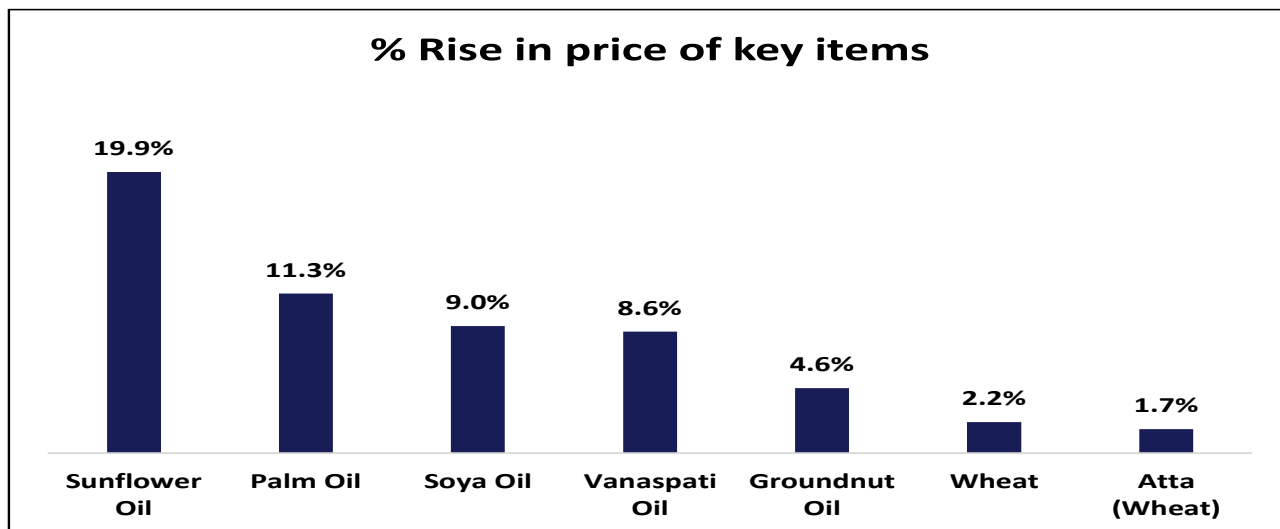
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What's affecting India's growth story?

1. Shortage of food items

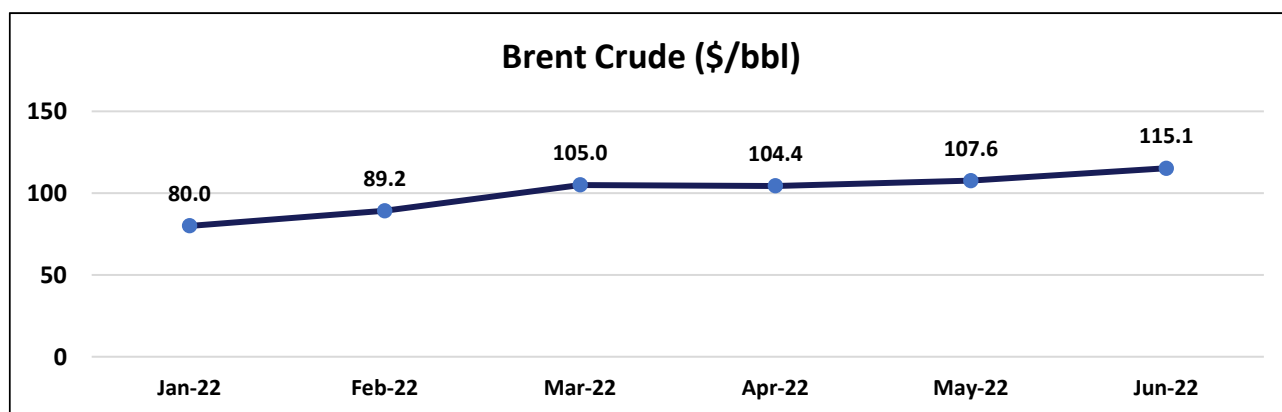
The ongoing war and the consequent supply chain disruptions have aggravated concerns about food affordability in India. Sanctions on Russia, one of the world's largest wheat and sunflower oil producers, have led to a spike in wheat and edible oil prices in India as well.



Source: Department of Consumer Affairs (data as of March 27, 2022).

2. Ban On Russia's Crude Exports

Russia is the world's third-largest crude oil producer, and the ongoing sanctions on the country have sent strong headwinds into the global oil market, hurting global growth. India's trade, however, comprises only 1% of oil imports from Russia, but there could be a spillover impact in the form of high inflation and sluggish growth.



Source: Investing.com.

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3. Inflationary Concerns

India depends on imports to meet up to 85% of its crude oil needs. The surge in international oil prices to a 14-year high will now result in broader price pressures. The impact on India's economy will be felt mostly through higher cost-push inflation weighing in on all economic agents—households, businesses, and government. WPI in Apr'2022 increased by 0.55% MoM to 15.1%.

4. Depreciating Rupee

Rising inflation has increased the risks of a higher import bill and, in turn, a widening of India's current account deficit (CAD). The CAD is expected to widen to 2.6% of the GDP in the financial year 2023, up from 1.7% last year, according to a report by Nomura Research. This is likely to dent the rupee, which recently plunged to its record low of 79.00 a dollar.



Source: Google.

5. Gold prices skyrocketing

During the conflict, the equity market became volatile, so many of the investors shifted from equity & other investments to gold investments as gold is considered a haven during such situations. Such market sentiments were also one of the factors which lead to an increase in the gold prices & fall in the equity & other markets. Gold prices spiked to INR 55,558/10 gms in Apr'2022.



Indian Capital Markets

Equity Markets: Indian equities have remained under pressure over the last few months, tracking adverse global cues, but have meaningfully outperformed the broader emerging market as well as developed market packs. Continuing geopolitical tensions between Russia and Ukraine and resultant surge in global commodity prices and worsening of supply-side bottlenecks, coupled with expectations of faster rate hikes by the US Fed, has weighed heavily on global risk appetite. This has led to huge sales by FIIs over the last several months. That said, Indian markets have found support from strong participation by domestic institutional investors as well as direct buying by retail investors that have partly made up for huge foreign capital outflows.

Debt Markets: India fixed income markets have seen a steep jump in yields across the board over the last month or so, overshooting the movement in global bond yields by a wide margin. With this, the Indian debt market has finally got aligned with global markets, which otherwise was outperforming its global counterparts this year until March 2022, thanks to RBI's dovish policy stance. However, intensifying inflationary pressures, followed by an aggressive rate hike action by RBI early this month, took investors by surprise, resulting in a huge sell-off. Additionally, negative global cues pertaining to ongoing geopolitical tensions between Russia and Ukraine, rising oil and commodity prices, and expectations of faster rate hikes by the US Fed have continued to keep investors at bay.

WCA Outlook

As uncertainty within the markets continues to prevail due to rising geopolitical tensions, Omicron, global macro-level factors, and rising inflation, we expect equity markets to remain range bound in the near term. However, the medium-term outlook remains positive as corporate earnings have improved on account of demand recovery post pandemic. On the debt front, it is likely that RBI would continue to hike rates in the coming quarters to keep up with the central banks across the globe. We expect the debt markets to remain choppy for the next 18-24 months.

Overall, we continue to hold faith in the thesis of multi-year upcycles in the Indian economy along with healthy growth in corporate earnings. The long-term outlook remains quite positive, and the prevailing volatility would seem like an opportunity in hindsight. That's been the case many times in the past too. This time is no different.

WCA Outlook			
Asset Class	View		Recommendations
	Short Term	Long Term	
Equity	Neutral	Positive	Bias towards Large & Multi cap strategies with select Mid and Small cap strategies in MF/PMS/AIF platform
Fixed Income	Negative	Neutral	High quality accrual funds (Short and Medium term maturity)
Gold	Neutral	Positive	Sovereign Gold Bonds, Gold ETF/FoF

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How can Wodehouse Capital Advisors help?

Wodehouse Capital Advisors has extensive network and prior experience across each of the service vertical



Family Office Services

- Investment Management
- Succession Planning
- Real Estate Advisory
- Business Consulting
- India Entry Strategy



Merger & Acquisitions

- Buy Side Representation
- Sell Side Representation
- Bolt- On- Acquisitions



Debt

- Structured Finance
- Refinancing
- Additional Funds for Set-up



Equity

- Growth Capital
- Strategic Capital

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