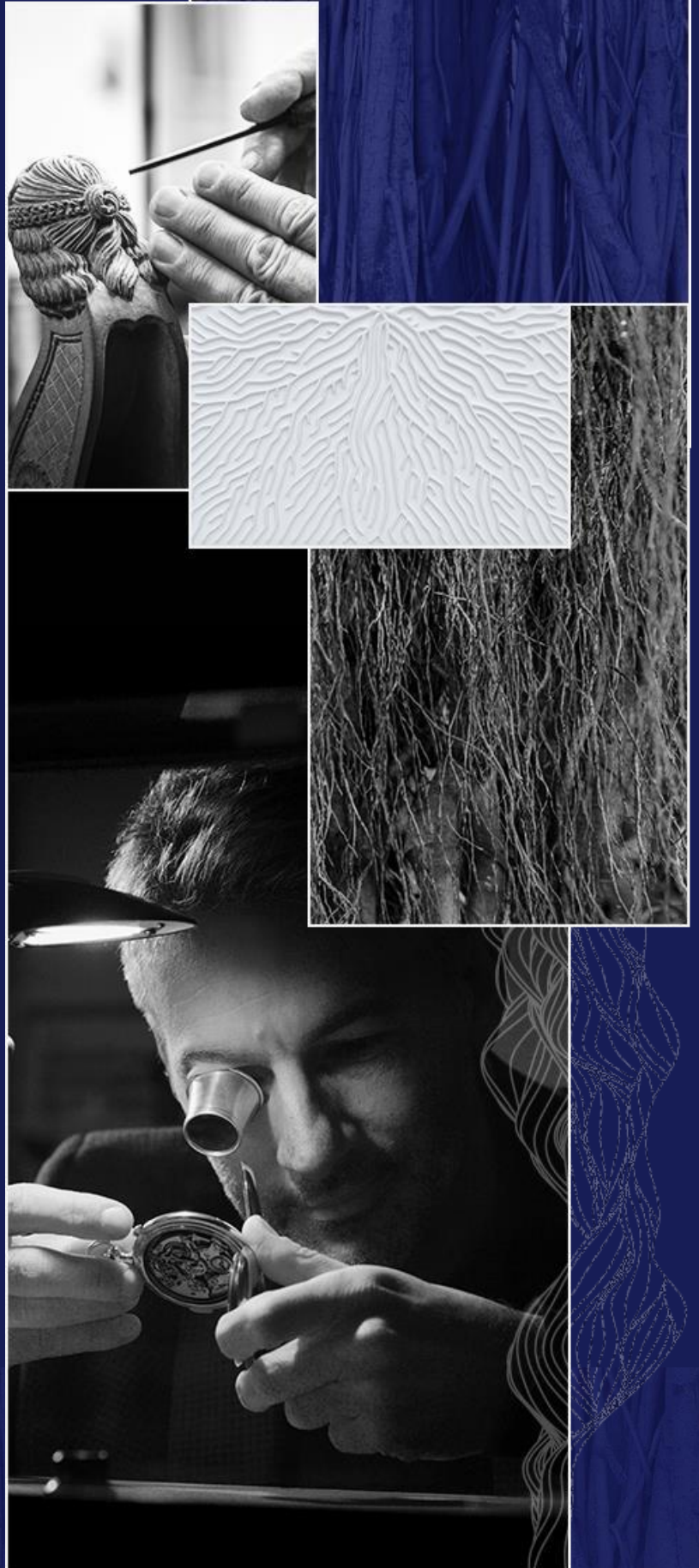


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Can El Nino play spoilsport?

Introduction

El Nino, or the little boy in Spanish, is marked by warmer ocean temperatures across the Pacific, it has often been linked to lower monsoon rains in India.

According to the Indian Meteorological Department (IMD), rainfall between 96 and 104 percent of a 50-year average of 87cms is considered 'normal'.

RBI on EL-Nino

- El Nino has been blamed for 60% of the Indian droughts in the past 130 years.
- On June 2, paddy acreage was 2. 17 lakh hectares, a decline of 26. 5% in relation to the previous year. The delay in the onset of the monsoon is bound to have influenced the low acreage.

Against this backdrop, it's pertinent that GOI accepted the recommendation of the commission for agricultural costs and prices to enhance paddy's MSP for the current Kharif season by 7% to Rs 2,183/quintal.

- What's certain is that the regional pattern of rainfall and its volume in July & August will have a significant bearing on food inflation.
- The prospects of the Kharif crop would depend on the progress of the rainfall.

Besides the monsoon, RBI's policy statement also showed that firms expect inflation to trend upwards. In short, the economy is not yet past the point where inflation is no longer a threat to macroeconomic stability.

A testing time for latecomers into the markets?

- A deficit in monsoon rains from July to September could adversely impact India's crop output, leading to further restrictions on the export of vital commodities.
- Monsoon rains are critical for the farm sector, which accounts for about 15% of India's US\$ 2.5tn economy and employs more than half of the country's 130 crore people.
- Rural India constitutes 36% of the sales pie for a typical consumer company and is a weighty focus area given the much lower per-capita consumption.

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- The fear of less-than-optimal rainfall due to El Nino this year, analysts believe, is the biggest short-term risk for the markets. Autos and FMCG could be the worst impacted sectors.
- Valuations on a 1-year forward basis stand at 21.8, in line with the last five-year average.
- Equity markets react to positive and negative events in a more symmetrical fashion.

While El Nino certainly affects India's agricultural and economic prospects, the broad market performance seems less impacted.

- In the last two decades (since 2002), there have been four El Nino years in India – 2002, 2004, 2009 and 2015. Barring 2015 when the S&P BSE Sensex and the Nifty50 slipped 5 per cent and 4.1 per cent respectively during the calendar year, the markets on all other occasions have been in positive territory, data shows.

EL Nino Year	3 Month	6 Month	1 Year
2002	-0.78%	8.65%	23.67%
2004Nino	9.47%	26.06%	41.66%
2006	19.12%	29.89%	44.08%
2009	1.62%	5.30%	15.77%
2014	7.78%	14.09%	10.51%
2015	-5.47%	-11.36%	1.24%

Understanding the intricate dynamics of El Niño

Uncertainties, however, remain on the spatial and temporal distribution of monsoon and on the interplay between El Nino and the Indian Ocean dipole.

India has 2 advantages this time.

- To begin with, The Indian Ocean Dipole Factor could be more profound this year henceforth it can partly offset the warm effect of EL Nino.
- Additionally, India has had two years of record production which now stands at 331 MT. So, we believe even if rain were to reduce by ~10% inventory levels should take care of the country for 2023, the issue could aggravate if EL Nino worsens in 2024.

Wrapping up

Hence, it can be concluded that monsoons have a direct impact on the inflation rate prevalent in the economy. This spirals into the public investments rate, government savings, and foreign exchange reserves of the nation. When such a high stake in the economy in monsoon, it is obvious that the share market's performance will be affected by the monsoon.

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