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Index

PCG Communique

From the Desk of the PCG Head

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Consolidation with Volatility Ahead!!!

May month was a Mayhem in the India Equity market. From 17400 on the top, we tested the bottom of 15750 and then moved back to 16400. The oscillation was quite wide and tidy. FIIs as usual were net sellers in the market to a tune of INR 54,292CR whereas DII has bought to a tune of 50,835 CR.

Over the last 3 years, financial markets have gone through a lot of turbulence with multiple unexpected events. At the beginning of the 2020 calendar year, we have gone through the Covid-19 virus followed by the Delta Virus, by the time the world could recover from the Covid-19 crisis, the Russia – Ukraine war has started which has inflated the prices of almost all commodities resulting in crippling the world economy by rising Inflation and now the world is worried about aggressive monetary policy tightening by all central banks, lower consumption, and prediction of Stagflation.

Supply chains got disrupted due to the pandemic have been further strained owing to the conflict and countries around the world are increasingly averse to the idea of economic dependence on countries with divergent security interests and differing ideologies. In this regard, India stands out as one of the natural alternatives to fill the void left on the front of food security by Russia and Ukraine, and in manufacturing, by the post-pandemic China+1 tilt.

Apart from the threat to food security, another major fallout from the war has been the threat to energy security. The sharp spike in energy prices has had a crippling effect on many economies. Consequently, this could compel everyone to rethink how energy is produced and consumed and more importantly, lay emphasis on the reduction of dependence on fossil fuels. This, in turn, could accelerate tailwinds for renewable energy at a time when concern over climate change is already making the world sweat. Goes without saying that this change will not happen overnight as the immediate focus will be on energy security instead of clean energy. For instance, the recent power crisis has made India turn once again to coal. Notwithstanding the recent softening of commodity prices, years of underinvestment may keep prices structurally elevated. Higher commodity prices, energy transition, supply chain re-alignment, along with the political desire for higher defense spending, by almost every country, could trigger a significant CAPEX push.

Crude prices are at a 10-year high of USD 120 per barrel in early March, the price of black gold has dropped to USD 100 per barrel mark, but once again has breached the $100 mark and current trading near $117-$120 mainly on account of China opening up from a prolonged lockdown in the key cities which might again raise the global oil demand.

Inflation in the US has catapulted to 8.3% in April, recording a four-decade year high. The war between Russia and Ukraine has a cascade effect across commodities, and Agri, driving up energy costs across the globe. The US Federal Reserve is expected to hike interest rates in the future and the world economy is likely to plateau at 3.6 percent.
Meanwhile, India's retail inflation jumped to an 8-year high of 7.79% percent up from 6.95% in

March. This is the 4th consecutive month in which inflation has come in above the Reserve Bank of India's mandated 6 percent upper bound. The acute rise in inflation was primarily driven by an increase in prices across almost all major groups of the basket. This trend is indicative of the strong build-up in price pressures across the board. RBI has made an unexpected announcement of the rise in rates in May and is inspecting another 25-50 bps hike in the June MPC policy meeting.

Growth in the Indian economy slowed in the January-March quarter of 2022, as the third wave of the Covid-19 pandemic disrupted activity, and supply chain, followed by risings in prices in March. For the full financial year, India's GDP grew 8.7% year on year after it contracted 6.6% in the pandemic year. While the recovery in 2021-22 has meant that the Indian economy has surpassed the levels it was at before the pandemic, cumulatively, growth over these two years is low. India's GDP grew by 4.1% in the fourth quarter of FY22. The slowdown seen in India's GDP growth to a four-quarter low in January-March period of 2021-22 was a result of the adverse impact of the third wave and high commodity prices on margins, as well as the unfavorable base effect. Meanwhile, the overall growth recorded for the financial year 2021-22 is estimated at 8.7% as against the contraction of 6.6% in FY21.

The government's goods and service tax revenue remained above Rs 1.4 lakh crore for the third straight month. That is an increase of 44% over the year-earlier but a decline of 15.9% from the previous month. Revenue from import of goods was 43% higher and the revenue from domestic transactions (including import of services) was 44% higher than the year earlier.

The ongoing geopolitical tensions between Russia and Ukraine, aggressive monetary policy tightening by central banks of major world economies, multi-year high inflation levels in various countries, wild swings in crude oil and other commodities as well as mixed quarterly results have kept global equity markets on edge during May 2022. The last one-year return from the Equity market has completely got wiped off with this recent correction and consolidation.

A poor start to the earnings season by IT incumbents reporting substandard results and mixed results by the big private banks such as HDFC Bank has led to heavy selling by FIIs in these index heavyweights. Results from the companies indicate that rising cost pressure will be the key theme during this earnings season. After consecutive earnings upgrades over the last few quarters, higher costs and ailing demand could lead to cuts in FY23-24 estimates and possible downgrades for some companies operating in sectors such as consumer staples, building materials, cement, automotive ancillaries, and oil marketing companies. If one introspects the corporate result one can visualize that the operating margins of most of the companies have taken a hit due to higher raw material cost and poses a challenge to the recovery in private investment.

What lies ahead?

The soaring commodity prices owing to the ongoing Russia-Ukraine war have taken a toll on people's pockets. The retail inflation landed at an eight-year high of 7.79% in April 2022, breaching the upper limit of RBI's tolerance band for the fourth consecutive month. The pass-through of this inflationary pressure could hit private consumption which is one of the key drivers of the Indian economy.

Therefore, to curb the accelerating price rise situation, the Reserve Bank announced a rate hike of 40 bps in the repo rate making it 4.40%. RBI had revised the GDP growth rate to 7.2%, from 7.8%, in its April resolution for FY23 due to higher oil prices causing a threat to private consumption. RBI governor Shaktikanta Das stated that more rate hikes could be witnessed in the coming months as the central bank is now focusing on the removal of the accommodative stance gradually. The increased cost of borrowing will have an impact on growth rates and end consumption by the India Household.

IMF is currently revising India's growth forecast for 2022, which may be lower than 8.2 percent. The IMF is in the process of revising India's growth projection for 2022, which could be lower than its earlier forecast of 8.2 percent, amid risks of global stagflation. By 2023, the country is expected to grow at 6.9 percent, it said.

China's central bank announced it would cut a key interest rate as the country fights to boost its virus-hit economy and Covid-19 restrictions rip across major cities. Prolonged virus lockdowns have constricted supply chains, quelled demand, and stalled manufacturing in the last major economy welded to a 'zero-Covid' approach to the pandemic.

To conclude, India’s sizeable forex reserves should help stave off a significant threat to rupee stability. While India won’t remain insulated from global developments, India continues to remain better positioned as compared to other emerging markets at this point. Rapid digitalization, strong tax buoyancy, Services exports at a record high (FY22), healthy balance sheets of corporates and banking sector, policy reforms, formalization of the economy, and push for privatization & CAPEX hold India in good stead. On the flipside, key risks to watch out for happen to be the spike in commodity prices (particularly oil), the impact of tightening global liquidity, and an increase in food and fertilizer subsidy bills.

There could be an opportunity for investors to review their portfolios to factor in high levels of inflation and volatility which are expected to persist in the coming quarters. Typically, rising inflation leads to lower consumption and affects the majority of the sectors about revenues and margins. Sectors such as banks, metals, energy, real estate, and defense are not likely to see much of an impact on their earnings estimates. Investors should stay focused on market leaders with formidable pricing power, established brands, robust balance sheet, and high free cash flow generation. That is because such companies possess the distinctive ability to pass on the rise in input cost to clients during inflationary phases.

The current market valuation is quite compelling. We are forecasting the Nifty EPS for FY-23E @ 839 & FY-24E at 921 driving to a PE of 19.5 for FY23 & 17.8 for FY24. The last10-year mean average PE for the NIFTY stood @ 19.2. There can be a possibility of a 5% downside on the Index but the room for upside is quite visible and high. Any halt in the FII’s selling, improvement of the supply chain, and fall in crude prices below $100 can see a bounce in the market.

For Indian equities, strong retail participation (63% increase in De-mat accounts in FY22) and Mutual Fund SIP accounts stood at 5.39 CR. the total amount collected through SIP during April 2022 was ₹ 11,863 CR. Robust Mutual Fund flows have cushioned the downside of the recent FPI selling spree. However, it’s equally noted worth the y that the last couple of years have sharp resolution solutions in financial markets and numerous unforeseen events have kept investors on their toes. Considering the rapidly evolving political landscape, change in course of globalization; and Central Banks retreating
into their role of reining in inflationary expectations instead of doing ‘whatever it takes to support asset markets, volatility is likely to remain elevated. Investors’ equanimity and patience will continue to be tested going forward. A sound investment, with a long long-Verizon & patience, will be the key to bonding Wealth.

Happy Investing !!!

Market Commentary

The Nifty index ended the May month at 16,585 with a negative return of 2.8%. However, Sensex ended the May month at 56,976 with a negative return of 2.5%.

Indian markets made a nightmarish start to the month as sentiments remained dampened throughout the holiday truncated week as traders remained concerned over raining rate hikes, selling by foreign investors, increasing inflation, and the Russia-Ukraine war. Markets made a pessimistic start to the week as traders remain concerned after the growth of eight core infrastructure industries slowed down to 4.3percentt in March against 12.6percentt in the year-ago period due to a decline in the output of coal and crude oil.

The major weakness came in due to inflation data around the world and continuous selling of foreign funds as per a report foreign funds' ownership in domestic equities fell to pre-COVID lows and hit a multi-year low of 19.5percentt in March this year in NSE500 companies valued at $619 billion. However, During mid-month markets made an optimistic start as traders took encouragement from Commerce and Industry Minister Piyush Goyal's statement that the comprehensive trade agreement between India and the UAE will help in creating huge job opportunities and boost the growth of the domestic economy. The bilateral pact is expected to increase the bilateral trade in goods to over $100 billion and trade in services to over $15 billion within five years. Some support also came in as data provided by the Centre for Monitoring Indian Economy (CMIE) showed that in one of the largest expansions in the labor market since the beginning of the pandemic, 8.8 million people joined the country's workforce in April. Markets extended gains as sentiments got a boost with Sanjiv Bajaj, the newly-elected president of industry body CII, stating that the Reserve Bank's decision to raise benchmark interest rates and the likelihood of a good monsoon will help in containing inflation.

Extending the previous week's jubilation, Indian equity markets ended the passing week in green terrain as traders took encouragement with a report that Federal Reserve minutes showing a pause to its rate hikes is on the cards later this year. Markets started the week on a pessimistic note with traders remaining cautious with reports that the outflow of funds from domestic markets has continued as Foreign Portfolio Investors (FPI) remain net sellers.

Traders overlooked the report that Moody's Investors Service slashed India's economic growth projection to 8.8 percent for 2022 from 9.1 percent earlier, citing high inflation. It stated the rise in crude oil, food, and fertilizer prices will weigh on household finances and spending in the months ahead. Sentiments remained upbeat as the economic research think-tank Centre for Monitoring Indian Economy (CMIE) has estimated that the labor participation rate (LPR) was higher in rural India during the period January to April 2022. LPR, defined as the number of persons inf the labor force employed as a percentage of the working-age population, is 40.9 in rural India as compared to 37.4 in urban India during the period January to April 2022.

In terms of economic performance, the IHS Markit India Manufacturing Purchasing Managers' Index (PMI) was at 54.6 in May, a little change from 54.7 in April, which pointed to a sustained recovery across the sector. The above-50.0 reading was the eleventh in as many months and consistent with a solid improvement in operating conditions. Demand showed signs of resilience in May, improving despite spite of another uptick in selling prices.

Companies reported a marked increase in total new orders that were broadly similar to April.

The IHS Markit India Services PMI continued its strong recovery as it came in higher at 58.9 in May up from 57.9 indicating indicated the fastest rate of expansion in over 11 years. Anecdotal evidence suggested that the upturn in output reflected better underlying demand and strong inflows of new work. The increase was sharp and the quickest since July 2011. Service providers mentioned that demand continued to strengthen following the lifting of COVID-19 restrictions and the resumption of events.

India’s retail inflation measured CPAN rose to an 8-month high at 7.79% in April as compared to 6.07% in the previous month. The food price inflation (combined for rural and urban) surged to a 17-month high of 8.38% in April from 7.68% in March. Rural inflation rose to an 8-year high of 8.38% in April, while urban inflation was at an 18-month high of 7.09%.

India’s monthly exports grew by 15.5% year over year to $37.3 billion in May 2022 vs $32.3 billion in May 2021. At the same time imports increased by 44.7% year over year to $60.6 billion in May 2022 vs $38.8 billion in May 2021. The Goods and Services Tax (GST) collection in May 2022 stood at ₹1.41 lakh crore up 44% YoY however was QoQ down 16% QoQ.

Also, India's foreign exchange reserves rose by $4.23 billion to $597.51 billion during the week ended May 20. Foreign currency assets (FCA) reserves were at $533.378 billion up by $3.825 billion in the week ending May 20, compared to the previous week. Additionally, Foreign Portfolio Investors (FPIs) seller st Sellers of Rs. 36,518 crores in May, driven by net outflows in equity of Rs. 39,993 crore.

The U.S. markets ended higher during the passing week as traders continued to pick up stocks at reduced levels. Sentiments were positive after the minutes of the latest Federal Reserve meeting offered few surprises, although the central bank indicated it intends to move expeditiously to a more neutral monetary policy stance. The minutes revealed the Fed plans to use both interest rate increases and reductions in the size of its balance sheet to achieve a neutral posture. At the meeting, the Fed decided to raise the target range for the federal funds rate by 50 basis points to 0.75 to 1.0 percent, marking the biggest rate hike since May 2000. The central bank also decided to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities on June 1. The minutes of the meeting showed most participants agreed additional 50 basis point increases would likely be appropriate at the next couple of meetings.

European marketers ended the passing week on a strong note. After a positive start to the week, markets cut some gains, as France's economic activity slowed in May as manufacturing morale weakened amid falling demand and rising inflationary pressures, while services continued to underpin the economy after restrictions linked to the Covid-19 pandemic were relaxed. Besides, the UK private sector grew at the weakest pace in more than a year in May amid escalating inflationary pressures and heightened geopolitical uncertainty. The flash survey results from S&P Global showed that the Chartered Institute of Procurement & Supply composite output index fell sharply to 51.8 in May from 58.2 in April. The expected score was 56.5. The pace of monthly fall was the fourth-largest on record. Nonetheless, a reading above 50.0 indicates expansion. Service providers signaled the greatest loss of momentum in May as economic and geopolitical uncertainty contributed to a slowdown in client demand.

Meanwhile, The US manufacturing signal signaled a further improvement in operating conditions during May. The S&P Global US Manufacturing PMI posted 57 in May 2022 down from 59.2 in April and below the earlier released 'flash' estimate of 57.5. The latest reading was the lowest in four months. Output growth at manufacturers was strong overall, as greater client demand and a further uptick in new orders supported the upturn in production. The rate of expansion was the slowest for three months, however, as material shortages, delivery delays, and a softer rise in order book inflows began to stymie growth momentum.

Eurozone manufacturing fragility was once again clear in the survey for May as manufacturing new orders fell for the first time since June 2020. The S&P Global Eurozone Manufacturing PMI fell to 54.6 in May, down from 55.5 in Ap signaling a weaker improvement in the health of the euro area manufacturing sector. Overall, the headline index fell to its lowest ink in 8 months. By sub-sector, the latest data showed weaker upturns across each of the three monitored market groups. The strongest-growing euro area constituent in May was once again the Netherlands, although the expansion here slowed to an 18-month low. Weaker rates of growth were also seen across the next-best performing manufacturing economies in Austria and Ireland. The only monitored nations to record stronger improvements were Germany and Spain.

The final au Jibun Bank Manufacturing PMI dipped slightly from 53.5 in April to 53.3 sign signaling a solid albeit softer improvement in the health of the sector. Moreover, the increase marked the softest improvement in manufacturing conditions since February The latest test data pointed to a mild expansion in output. While growth was recorded for the third month in a row, the rate of increase was the slowest in this sequence. Higher production levels were often associated with rising new orders, although some firms noted that higher prices and material shortages had dampened growth.

Regarding China, The National Bureau of Statistics Manufacturing PMI for China rose to 49.6 in May of 2022 from April's 26-month low of 47.4, amid an easing of COVID-19 curbs in major key cities, including Shanghai and Beijing.

Going Ahead

As inflation continues to scale higher and central banks in most countries are tightening monetary policies. The major part of the jump in global inflation has been led by supply-side factors such as supply disruptions in China due to zero covid policy, inadequate supply of crucial materials such as microchips, and bottlenecks due to the Russia Ukraine war. However, most of these factors show signs of improvement, and inflation rates are likely to come down in the next few quarters.

In the meanwhile, global growth has started falling. Lowering policy accommodation, the end of pent-up demand, rising commodity prices, increasing interest rates, and lowering business, consumer, and investor optimism are major factors. The combined impact of high inflation, rapid monetary tightening, and the slowdown of growth rate are negative for financial markets. Major equity indices are down around 15% from the peak of 2021. Most of the negative factors seem to be already factored in by the financial markets. Moreover, we expect softer growth and the likely meaningful reduction in inflation to slow down monetary tightening and liquidity withdrawal during the last quarter of 2022.

As markets continue to tread in volatility, we advise investors to remain invested in healthy growth and value-oriented companies with quality management to create long-term sustainable wealth.

Commodities Outlook

Bullion slipped for the second month in a row on hawkish Fed outlook

(Source: Bloomberg)

Spot gold declined for the second back-to-back month and dropped by 3.13% to $1,836.3 an ounce in May as investors weighed recession fears in the US and an easing of China's virus outbreak that's damping its haven appeal. In the US, concerns that aggressive rate hikes by the Federal Reserve will cause a recession have seen the greenback and Treasury yields rallying this month, hurting the non-interest-bearing bullion. The latest euro-zone inflation data Tuesday also intensified the debate at the European Central Bank about how rapidly to raise interest rates. MCX Gold August future ended with 1.75% losses at Rs. 50,847 per 10 gram. MCX Silver July future closed with a fall of more than 5% at Rs. 61,125 per kg. Holding the world's largest gold ETF, SPDR Gold Trust hardly moved to 1,068.4 tonnes as of 31st May 2022 from 1,094 tonnes as of 30th April 2022.

Spot silver dropped by approx. 5.3% to around $21.54 an ounce in May, hitting the lowest since July 2020, as industrial demand declined sharply because of a forced lockdown in China. Moreover, investors remained concerned about soaring inflation and supply chain issues exacerbated by the Ukraine war, as well as a Covid outbreak in China that clouded the outlook further for global economic growth.

We continue to remain bearish on the bullion commodities. Gold may extend its downward momentum into June and may test the $1,810 - $1,825 an ounce region, as investors have been recalibrating the higher possibility of an aggressive pace of Fed tightening. Fed policymakers look poised to deliver a series of interest rate hikes this year to tame inflation, likely starting with a 50bps on 15th June, and bringing rates up to around 3% by the end of the year. MCX Gold August may decline to Rs. 49,500 per 10 gram in June, but around those levels, we may see a strong buying momentum. MCX Silver July is expected to rebound to Rs. 65,000 per kg owing to a short covering.

Base metals declined as China's demand diminished

Industrial metals posted a second straight monthly loss as uncertainty over China's plans to ease lockdowns weighed on investors, while Covid-19 restrictions continue to dampen demand. On the LME Copper, aluminum and nickel retreated, concluding a second monthly loss, while lead, and zinc advanced. The mixed picture we are seeing could be attributable to uncertainty about what the Chinese authorities are going to do in the event of another Covid breakout, especially now that people will start to move around.

China's factories struggled in May with the official manufacturing purchasing managers' index showing a contraction for a third month. Still, the rate of contraction has slowed, suggesting that the worst of the economic fallout from a resurgent virus may be coming to an end. Shanghai said it will resume transportation and allow free movement of most residents from 1st June, a major step toward dismantling a bruising two-month lockdown.

Still, the effects of the restrictions on production and supply chains will likely be felt for months as businesses struggle to restart. The threat of further virus-related lockdowns in the event of more outbreaks has weighed on business confidence, resulting in less investment in expansion. Consumers are also more likely to save, rather than spend, amid the uncertainty.

China's reopening might very well have a 'stop-go' type of feel to it as authorities clamp down on case spikes as and when they occur. The LMEX Index plunged 6.1% in May after tumbling 6.6% in the prior month. Before the lockdowns in China, metals had been trading at the highest since 2008 as Russia's invasion of Ukraine roiled global markets.

Base metals have been under pressure in the second quarter as the US Federal Reserve's tightening policies amid stubbornly high inflation and China's restrictions have fueled concerns over a global recession.

The outlook is mixed for the industrial metals, with the People's Bank of China asking local banks to help struggling real estate players. The move represents increasing concern from officials following repeated so-called window guidance for faster property lending in previous months. Yet developers' cash flows from bank loans have plunged almost 30% in recent months, undermining President Xi Jinping's efforts to arrest a property slump that's worsening a slowdown in the world's second-largest economy. Hence Copper may rebound amid rising demand from the industry, MCX Copper June' suture my rise to Rs. 845 per kg in this month.

Supply concerns pushed the black gold higher

Crude oil saw the longest run of monthly gains in more than a decade as European Union leaders agreed to pursue a partial ban on imports of crude from Russia while China further eased anti-virus curbs, aiding demand. WTI Crude oil surged more than 9%, towards $115 per bbl on concerns of tighter global supplies and rising demand ahead of the US Summer driving season. Gasoline demand in the US remained at record levels despite record record-high

European leaders approved the sixth package of sanctions including a partial ban on Russian oil imports after Hungary dropped objections that had been holding it up for weeks. The measures would forbid the purchase of crude oil from Russia delivered to member states by the sea in the six months and refined petroleum products in eight months. Pipeline crude would be temporarily spared as a concession to Hungary and other landlocked countries, which rely on Russian supplies through the Druzhba pipeline. The package includes a ban on insurance related to shipping oil to third countries, which will take effect six months after the formal adoption of the measures, and aims to restrict Moscow's options to divert its supplies elsewhere in the world.

The EU's decision to also block insurers from covering Russian oil shipments was unexpected and that would affect tankers that travel the world and could undermine Russia's efforts to sell its oil in Asia to countries including India and China. This might lead to fain a Russian output, which has already fallen by almost 1 million barrels per day since the inception of the war.

On the demand side, demand recovery is expected from China after the authorities moved to stimulate the country's faltering economy and eased some of its strictest virus controls as the number of new local Covid-19 cases fell to the lowest level in almost three months. Lockdowns in China perfectly hit more than 1 mbpd of crude oil demand. Meanwhile, US gasoline and jet fuel demand gathered pace as consumers get set for a busy summer travel season, even with record highs.

Meanwhile, OPEC+ agreed to production hikes of 648,000 barrels a day for July and August, about 50% larger than the increases seen in recent months. The decision came after the European Union approved a partial ban on Russian oil imports and after months of pressure by Washington on Saudi Arabia. There were doubts the group would be able to fully deliver on the pledged increases, given they will be spread across its members, many of whom have struggled to raise output. The move disappointed as Russia was not exempted from the supply pact.

Henry Hub Natural gas futures rose 12.4% in May, rising for the 3rd consecutive month, as hotter than expected weather in the US coupled with drought conditions dampened hydropower generation and kept domestic natural gas demand buoyed. US output fell below 96 Bcf/day during spring, owing to the maintenance season and robust LNG exports to Europe and Mexico kept demand buoyed.

EIA Natural gas inventories stayed 15% below the5-year average during the inventory injection season owing to tight supply and elevated demand, leading to a rally in prices.

The black gold surged more than 3.5% in June and might continue the positive momentum amid strong fundamentals. OPEC+ increased the output for July, but in effect, we might not see the actual addition of barrels into the market, as Russia was not exempted from the supply pact. Russian output might fall in the coming days after the EU approved a phased ban on Russian oil in the next six months, at a time when US Summer driving season coupled with reopening from China adds to market tightness, a perfect cocktail for the bullish view. Having said that, crude oil might witness some profit booking ahead of a slew of central bank meetings for the next 2 weeks, but we believe every dip is a buying opportunity, as the market remains extremely tight.

Agro commodities slid on monsoon vibes

Agro Commodities Price Performance so far in 2022				
	April	**May**	**MOM Chg %**	**YTD Chg %**
Guarseed	6331	5836	-7.8	-3.2
Guargum	12172	11262	-9.9	4.7
Cocud	3175	2802	0.4	-9.9
Cotton	42600	49160	7.6	45.0
ICE Cotton	132.07	21195	-3.2	30.4
Jeera	21530	7918	-7.0	-17.6
Turmeric	8774	11178	-8.2	27.1
Corriander	11196	7402	1.0	25.9
			-10.7	
Castor seed	7288	130.08	2.0	17.7
				Source: Bloomberg, Price as on 31st May,

The record prices rally in many agricultural commodities stalled last month on a favorable monsoon forecast. Particularly talking about, prices of which more than doubled in the last year and breached Rs 50,000 per bale level in mid-May saw more than 12% fall from its highs. Other Kharif-grown commodities like Guar and Turmeric too came under downside pressure on expectations that early and normal rains this season may lead to early sowing and higher productivity in the upcoming season.

The onset of the southwest monsoon over the Kerala coast was declared on 29 May by the India Meteorological Department (IMD). The met department also said that monsoon rains this year will be more than predicted by it in April, at 103% of the benchmark long period average with an 81% chance of the rainfall being either "normal" or above. The rains due to the annual phenomenon will also be well-distributed spatially across the four broad regions and most parts of the country. But, after entering the Kerala coast on Sunday, the progress of the southwest monsoon has been slow and as per the officials from the Ministry of Earth and Science, it is expected to pick up the pace from June 17. The current pace of monsoon progress is sluggish, but, from June 17-23, large parts of the country are expected to receive intense rainfall.

Thus, Agro commodity prices which were nosedived later last month after the declaration of monsoon onset, reversed in the last few sessions as the monsoon progress slowed. Prices of guar, cotton, and spices rebounded from their lows and may remain firm at least in the first half of this month.

Cotton sowing has begun on a brisk note in the irrigated belts of North India while in Central and Southern India, the same will kick start with the progress of the monsoon. As of now, the sowing area is likely to increase substantially for Cotton. Meanwhile, record-high prices have led to a drop in demand as many mills have shut down operations. Also, import shipments would arrive in full swing from mid-July onward. Any delay in monsoon will bring in temporary upside in prices, but sell on rising strategy is advisable.

Talking about the Guar complex, prices have seen a fall of around 10% last month due to a favorable monsoon forecast. But the broader fundamental picture is still supportive of an upward trend in guar considering the lower production and improved exports this season. In the Spice complex, Turmeric prices should bottom out this month as arrival pressure will start dwindling. Sowing of Turmeric has started in Southern India, but sowing is likely to be on the lower side as farmers might shift to more remunerative short-duration crops like Cotton and Soybean. Also, production of Turmeric has fallen by around 20% in 2022, and thus supply tightness could be seen later in the season.

Currency Outlook

Rupee pulled lower by surging crude oil prices

Indian rupee spot witnessed the fifth consecutive monthly decline in a row and dropped 1.6% in May to close at 77.64 against the dollar index. The domestic currency posted its biggest monthly loss since September 2021 and touched an all-time low of 77.79 against the dollar on 17th May 2022 amid persistent FII outflows and selloff in equities, tracking a jump in global crude oil prices. India imports nearly 85% of its oil needs and high crude prices are set to push up inflation and widen the country's trade and current account deficit. The government's recent cut on fuel excise duty and increased subsidies on food and fertilizers also weighed down on Rupee, as it might lead to further widening of fiscal balance. However, weakness in the dollar index limited the downside in Rupee.

In an off-cycling held on 4th May, RBI unexpectedly raised its key repo rate by 40 bps to 4.4%. It was the first rate hike since 2018 as persistent inflation pressures are becoming more acute and there is a risk that inflation remains elevated for too long. Policymakers pledged to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward while supporting growth. The central bank also raised the cash reserve ratio by 50 bps to 4.5%. Meanwhile, RBI's meeting minutes showed that an off-cycle rate hike was done to avoid tougher a move in June.

Both the benchmark indices, Nifty and Sensex fell almost 3% for May, amid broad risk of risk-offers emanating from rising crude oil prices and stagflation fears, prompting central banks to be aggressive with rate hikes, pushing global economies into a recession. FPI Net investments witnessed an outflow of more than Rs.1.75 trillion for the year 2022, as investors stayed away from emerging markets ahead of tough times.

On the economic front, retail inflation in India increased to 7.79% in April, the highest since May 2014, as food inflation accelerated for the 7th straight month to 8.38%. India's economy grew 4.1% on year in the quarter ending March 2022, the least in a year as virus curbs dragged activity while the war in Ukraine added a new inflation hurdle to recovery. Despite lower growth, prospects of aggressive rate hikes by the country's central bank loom as the RBI governor pledged to bring 8-year high inflation of 7.8% down closer to RBI's target range of 4-6%.

The dollar index ended the month 1.17% lower, easing from a 20-year 105 hit in mid-May, as investors repositioned for the possibility of a slower pace of US interest rate hikes amid fears of a recession. A bout of disappointing US economic data, including falling consumer sentiment, slowing manufacturing data, and weak retail earnings also weighed on the dollar, particularly as they come when UK retail sales and Eurozone GDP beat expectations. Investors have scaled back forward expectations about Fed rate hikes amid hints the central bank might slow or even pause its tightening cycle later this year after raising interest rates aggressively over the next two months. Hawkish comments from ECB also weighed down on the dollar when Fed hawkishness is plateauing.

Going forward, Indian Rupee might continue to weaken amid a rising dollar index, elevated crude oil prices, and persistent FII outflows. Surging commodity prices might widen the trade deficit further, while expectations of faster Federal Reserve rate hikes ahead should amplify capital outflows. This will cause the balance of payments to swing to a large deficit in the current fiscal year. Strong Labour market data coupled with hawkish comments from Fed officials for multiple 50 bps hikes mike keep the dollar index and US treasury yields buoyed. US CPI data due on 10th June would be very crucial ahead of FOMC Meeting on 15th June, where Fed might hike rates by 50 bps. Meanwhile, RBI is expected to hike rates by 40 basis points for the June meeting which should help Rupee hold the ground until tell. We expect Rupee to eventually depreciate towards 78 levels, post the RBI meeting on 8th June, following weak fundamentals.

Anand Rathi PMS

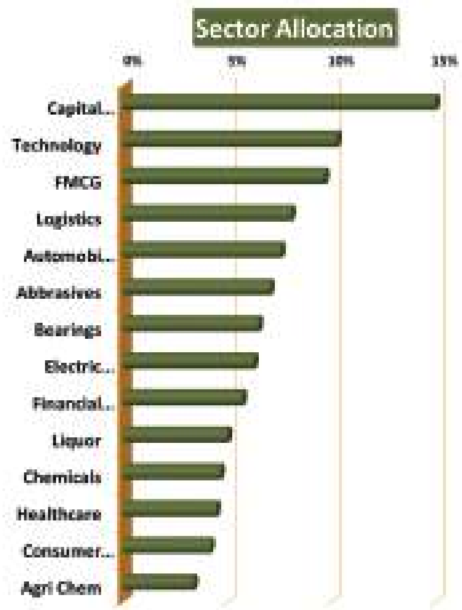
MNC Portfolio

Focus on consistency of return and risk moderation by investing in Multinational Companies listed in India. Investments into listed companies in India in which the foreign shareholding is over 50% and/or the management control is bestowed in foreign company and/or the technological and managerial know-how brought in by foreign partner/investor.

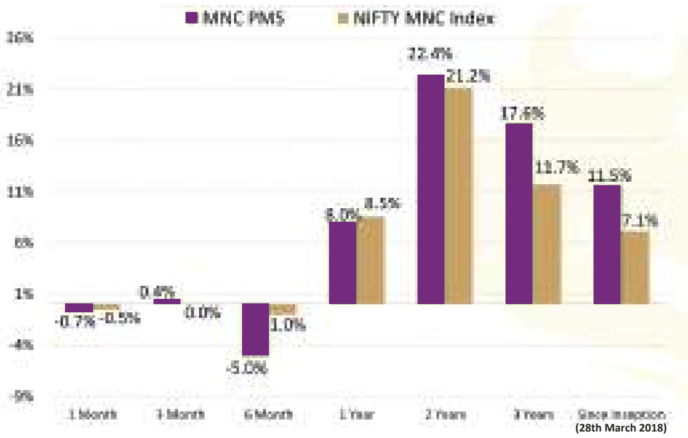
Strong Business model	MNC benefits from a) Innovation b) Strong R&D c) Advanced Technology d) Strong Brand/Product e) Economies of scale
Strong Corporate Governance	MNC's are generally rated high for their corporate governance standard. They depict high transparency and accountability with well laid out policies and regulatory framework, internal control and risk management
Healthy Balance Sheet	Most MNC's have a) Better operating ratios b) Zero Debt or Low debt /Equity c) Positive Free Cash flow d) Healthy Return ratio
Special opportunity	MNC companies sometime carries an additional trigger for value appreciation in form of corporate actions like open offers, Buybacks and Delisting etc. This usually add substantial appreciation to the share price enhancing investors ROI

Top Holdings and Allocation

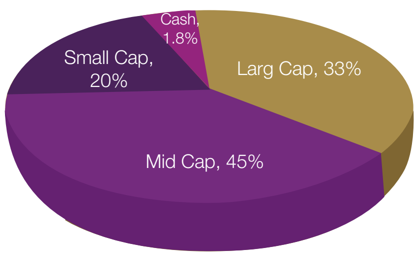
Sr. No.	Top 10 Holdings	% Holdings
1	KSB Limited	8.4%
2	Blue Dart Express Ltd	8.1%
3	Maruti Suzuki India Limited	7.6%
4	Grindwell Norton Ltd	7.1%
5	SKF India Ltd	6.5%
6	Siemens Ltd	6.3%
7	Coforge Limited	5.8%
8	CRISIL Ltd	5.7%
9	Hindustan Unilever Limited	5.3%
10	United Spirits Limited	5.0%



Performanceas on 31st May 2022



Market Cap Allocation



Data as on 31st May 2022

Source: *Anand Rathi Internal Research.*

Note: *Returns above one year are annualized. Returns are net of fees and expenses.*

Disclaimer: *Past Performance is not necessarily indicative of likely future performance. Performance mentioned above are not verified by SEBI. We have shown the performance as Aggregate performance of all clients on TWRR basis.*

Anand Rathi PMS

Decennium Opportunity

Focus on return optimization by investing in multicap portfolio of companies with good corporate governance, strong emerging business or companies entering into next business upcycle.

Emerging business of ongoing Industrial Revolution

Opportunity - Accelerated Growth from Business Upcycle

- Indian economy has found its place among the key global players in many of the sectors.

  India increasing its share and becoming a part of the global supply chain and also a reliable partner.

- Government focus on building capabilities, scale and good manufacturing practices.

PLI, Export incentive and Atmanirbhar Bharat Initiative very well supportive to strengthen India's private players/ Enterpreneurs to scale up their business.

With overall economic growth both at macro and micro level and favorable policy many sectors enters into their next business upcycle

Opportunities at every level of emerging business

Stock Selection Process

Structure Product Idea

Nifty Accelerator

Product Name	Nifty Accelerator - 100%	
Issuer	Anand Rathi Global Finance Limited	
Underlying	Nifty 50 Index	
Capital Guarantee	Principal is not protected	
Tenor(days)	1875 Days	
Initial Fixing Level	150 pointscontingent from closing nifty then rounded to next 100	
Final Fixing Level	Average of Closing NIFTY on last Thursday of 50th, 53rd & 56th Month.	
Nifty Performance (NP)	(Final Fixing Level/Initial Fixing Level)-1	
Contingent Coupon (CC)	100%(IRR –~14.45%)	
Participation Rate1 (PR1)	100%(From 108% to 133% of Initial Fixing Level)	
Participation Rate2 (PR2)	2500%(From 130% to 133% of Initial Fixing Level)	
Decay Multiple (DM1) Knock-In Put @ 84.99%	1.10x (below -15% till -30% fall with catch-up)	
Decay Multiple (DM2) Nifty @ 70% of initial	0.10x (Beyond -30% fall decay decreases)	
Payoff	If Final Fixing Level is at or above 133% of Initial Fixing Level	Contingent Coupon
	If Final Fixing Level is Above 108% & below 133% of Initial Fixing Level	(NP-8%)* PR1+ Max (0%,(NP-32%)*PR2
	If Final Fixing Level is above 85% & at or below 108% of Initial Fixing Level	Principal Protection
	If Final Fixing Level is below 85% of Initial Fixing Level	MAX(-100%,MAX((-30%*DM1),NP*DM1)+MIN(0%,(NP+30%)*DM2))

PAYOFF (Market Linked Debentures Idea)

Nifty Values	Nifty Perf.	Product Return	Nifty IRR	Product IRR
37170	110.00%	100.00%	15.50%	14.40%
35400	**100.00%**	**100.00%**	**14.40%**	**14.40%**
26550	50.00%	100.00%	8.20%	14.40%
23541	**33.00%**	**100.00%**	**5.70%**	**14.40%**
23364	32.00%	74.00%	5.60%	11.40%
23187	31.00%	48.00%	5.40%	7.90%
23010	**30.00%**	**22.00%**	**5.20%**	**3.90%**
21240	20.00%	12.00%	3.60%	2.20%
19116	**8.00%**	**0.00%**	**1.50%**	**0.00%**
17700	**0.00%**	**0.00%**	**0.00%**	**0.00%**
17465	-1.30%	0.00%	-0.30%	0.00%
15930	-10.00%	0.00%	-2.00%	0.00%
15045	**-15.00%**	**0.00%**	**-3.10%**	**0.00%**
15043	-15.01%	-16.51%	-3.12%	-3.45%
14160	-20.00%	-22.00%	-4.30%	-4.70%
13275	-25.00%	-27.50%	-5.40%	-6.10%
12390	**-30.00%**	**-33.00%**	**-6.70%**	**-7.50%**
11505	-35.00%	-33.50%	-8.00%	-7.60%

Product IRR* **14.45%**

Tenor
1875 Days

Target Nifty Perf.
33%

Product Explanation

NP >= 33%	100% (Contingent Coupon)
32% < NP < 33%	Max(0%,(NP-32%)*PR2
8% < NP < 33%	(NP-8%)* PR1
-15% <= NP <= 8%	Principal Protection
-30% <= NP < -15%	1.10x Decay with Catch-up
Nifty falls beyond -30%	Decay decreases to 0.10x

*Product IRR assume to be Pre-Tax IRR
• NP: Nifty Performance
^ Initial Fixing Level is taken as 17465, adding 150 points contingent: 17615, rounded off to next 100: 17700.
**Historical Standard Deviation is calculated for 1710 days daily rolling NIFTY (Working Days Only) return from 1st Jan' 2001 - 31st Mar' 2022

Source: Anand Rathi Internal Research.
Note: Such representations are not indicative of future returns.

Technical Analysis

NIFTY: JUNE 2022

LEVELS TO WATCH OUT FOR: 16900 – 17200 / 16300 – 16000

The month of May 2022 belonged to the bears since they dominated the bulls during the first half. Initially during the first couple of weeks; the index NIFTY kept inching lower and breached the support of 16400 – 16200. The selling pressure was such that the index sneaked below the 16000 mark and almost retested the swing low of 15670. However; this was followed by a decent recovery in the markets during the second half of the month and the index closed back to the 16600 mark. Although the index rallied around 1000 points frt eventually it lost around 3% from the April month's close.

In our previous edition, we discussed the possibility of 16400 – 16200 acting as a support for the markets. But the index breached the same and the view got negated. Now on the weekly chart, we are witnessing a 'Double Bottom' kind of formation near the 15700 mark. Thus 15700 would be a make or break level for the markets in the coming months. A breach of 15700 support could drag the index towards the 14300 mark gradually which is the 38.2% retracement of the entire rally which started from the 2020 year's low of 7500. On the contrary; the death crossover of 50 200-day averages is still intact and hence traders should not be complacent about the market actions. For the coming weeks; 16900 – 17200 might be a strong hurdle since they are the 50% and 61.8% retracement level of the entire fall from 18100 to 15700. The immediate support is placed at 16300 and a breach of the same might bring in further nervousness in the markets. Traders are advised to avoid aggressive bets and trade on both sides. For the time being, we do not expect any one-sided in the markets due to the events like RBI policy and US FED meet.

With regards to the NIFTY BANK index; it lost around 2% on a monthly closing basis but it recovered sharply from the zone of 33000 and reclaimed the 35000 mark. Similar to the NIFTY index; even the NIFTY BANK index has a 'Death Crossover' on the daily scale. Thus for the coming weeks; 37000 would be a strong hurdle for the index. Only a sustainable move above the same might bring in some hope for the banking stocks. On the contrary; we are witnessing a bearish engulfing pattern on the daily chart and hence a breach of 35000 might bring further pressure on the index. Overall; 33000 would be a make or break level for the index in the coming weeks.

Technical Pick - BUY M&M

POTENTIAL UPSIDE 22.50% - 30.00%

- After struggling for more than four years; **M&M** finally confirmed a multiyear breakout above 970 mark

- The breakout has been confirmed on a monthly closes basis and that adds more conviction to the bullish outlook

- Along with the price action; the Lagging Span of Ichimoku indicator has broken its previous high on weekly and monthly time frame

- The stock has outperformed the Auto pack during the recent uncertainty in the markets. Thus; traders are advised to accumulate the stock **in the range of 1030-970** with a stop loss of 850 on closing basis for the upside potential target of 1225 followed by 1300 levels in coming 3 - 6 months

Fixed Income Services

Monetary Policy Update

The Monetary Policy Committee (MPC) unanimously kept the Repo and the Reverse Repo rate unchanged in its April, 2022 review, continuing with the accommodative stance while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, - while supporting growth. These decisions align to achieve the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2% while supporting growth.

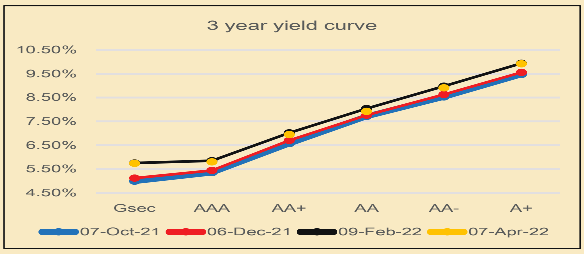
Key Takeaways:

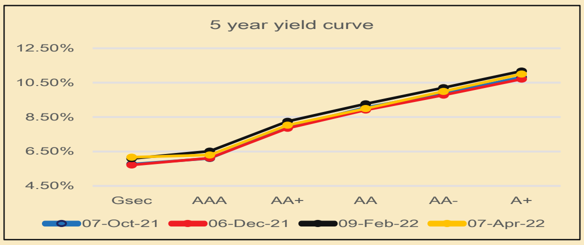
- CPI inflation for 2022-23 is projected at 5.7% with Q1:2022-23 at 6.3%; Q2 at 5.8%; Q3 at 5.4%; and Q4:2022-23 at 5.1%.

- Real GDP growth is projected at 7.2% for 2022-23 with Q1:2022-23 at 16.2%; Q2 at 6.2%; Q3 at 4.1%; and Q4 at 4.0% assuming, assuming crude oil (Indian basket) at US$ 100 per barrel during 2022-23.

While the policy had no direct action on rates as well as stance, the MPC did account for inflation worries instead of rising crude and supply constraints. While the reverse repo was retained at 3.35%, the introduction of the Standing Deposit Facility (SDF) at 3.75%, restored the Liquidity Adjustment Facility (LAF) window to pre-pandemic levels of 50bps. Further, the significant revision in inflation projections could lead to RBI shifting gears, with a priority to inflation over growth, which was hinted at from the change in a statement.**'continuing with the accommodative stance while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward".** Most market participants were surprised by the 'more hawkish than expected' policy which resulted in the market pricing in an earlier than usual rate hike with the 10-year G-S10-yearning up by 20bps to ~7.12%. Going forward, the RBI's actions will be driven by evolving global geo-political developments and the resultant impact on inflation.

The 3 year and 5 year yield curve below shows how yields have moved since the last 3 policies





Source: RBI Press Release, Fixed Income Databases

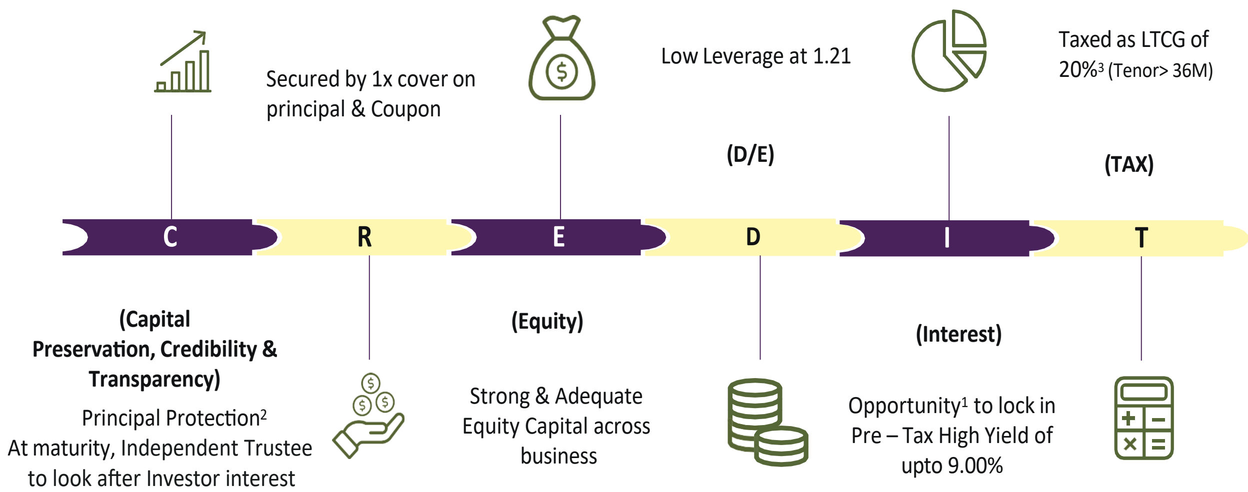
Secondary Market Bond Offers

Security	Maturity/C	IP	Rating	Yield
Tax Free Quotes				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
8.54% PFC Tax Free 2028	16-Nov-28	Annual on 16-Oct	IND AAA/Stable	5.28%
7.39% NHAI Tax Free 2031	09-Mar-31	Annual on 01-Oct	IND AAA/Stable	5.31%
PSB Perpetual Quotes				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
7.72% SBI Perp 2026	03-Sept-26	Annual on 03-Sept	AA+ by CRISIL & IND	7.68%
7.74% SBI Perp 2025	09-Sep-25	Annual on 09-Sept	AA+ by CRISIL & IND	7.30%
PSU Quotes				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
7.50 IRFC 2029	09-Sept-29	Annual on 15-Apr	AAA by CRISIL, CARE & ICRA	7.48%
7.50 PFC 2031	22-Jan-31	Annual on 22-Jan	AAA CRISIL, ICRA & CARE	7.42%
Corporate Bonds				
Security	**Maturity/C**	**IP**	**Rating**	**Yield**
6.75 Piramal Capital & Housing Finance Ltd. 2031	Staggered Maturity (31-Sept-31)	28-Mar & 28-Sept	AA by ICRA & CARE	10.50%
8.05 Mahindra &Mahindra Financial Services Ltd. 2032	24-Jul-32	Annual on 01-Apr	AAA by IND Ratings & CARE	7.78%
7.86 HDFC Ltd. 2032	25-May-32	Annual on 25-May	AAA CRISIL & IND	7.49%
10.25 Shriram Transport Finance Corporation 2024	26-Apr-24	Monthly on 28th	AA+ CRISIL & IND	8.44%
9.70 Tata Motor Fin 2024	19-Dec-24	Annual on 19- Dec	AA- by CRISIL & ICRA	7.70%
7.40 Muthoot Finance Ltd. 2024	05-Jan-24	Annual on 05-Nov	AAA by ICRA & CRISIL	6.80%
7.43 Aditya Birla Finance 2030	27-Dec-30	Annual on 29-Dec	AAA by CARE & IND	7.80%
7.79 LIC Housing Finance Ltd. 2024	18-Oct-24	Annual on 18-Oct	AAA by CRISIL & CARE	6.50%
9.30 L&T Finance Ltd. 2026	23-Mar-26	Annual on 23-Mar	AA+ by CARE & ICRA	7.84%

The above mentioned offer(s) are indicative and subject to changes in market conditions.

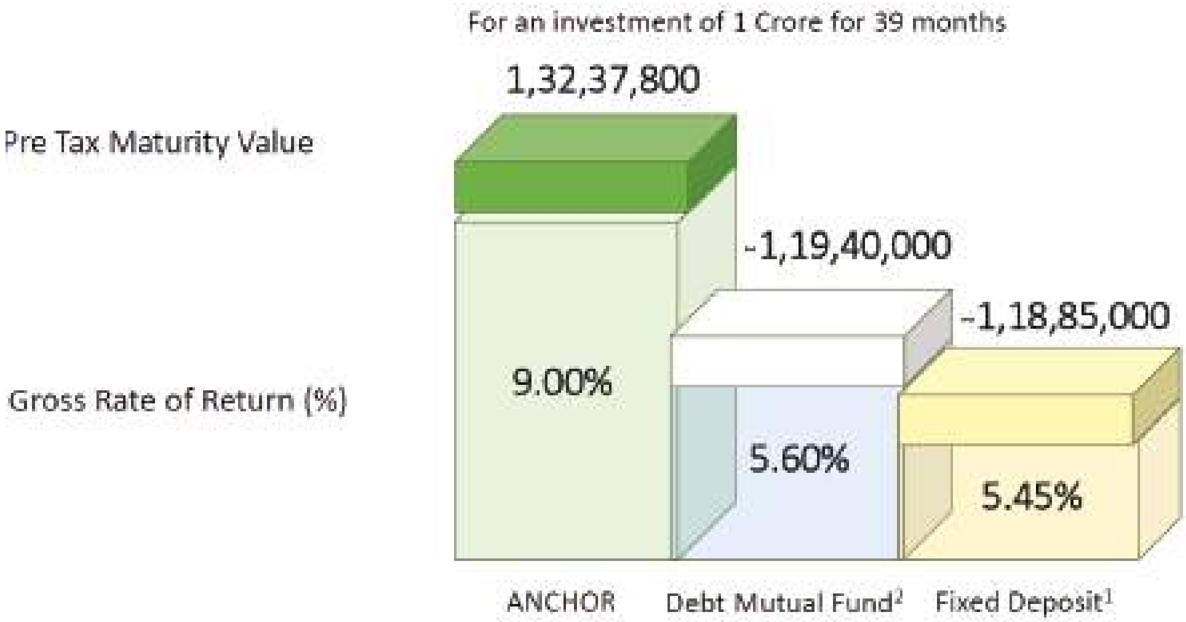
'Please note that investments in these bonds should not be construed as an advice or recommendation however we can facilitate the execution of the same. The bonds are tradeable on the Exchange platform, however we do not provide any assurance or guarantee on the liquidity of bonds. The investment decision shall at all times exclusively remain with the investor. The organisation shall not responsible or liable for any loss or shortfall incurred by the investors.'

ANCHOR (Market Linked Debentures)



1. Realized return on investment may differ depending on the investment timing, due to the difference in purchase value and face value of the security on the date of investment & Return is subject to the credit Risk of the Issuer.
2. Principal protection is at maturity; to the extent of the Face Value of the underlying investment in Market Linked Debenture (MLD) and subject to the credit risk of the Issuer
3. Taxation is pre surcharge and cess and as per our understanding, Investors are requested to solicit personal & professional tax advice on these instruments before investing.

What is ANCHOR?



1. 3 year Fixed Deposit rate effective 15th Feb, 2022, per SBI website https://sbi.co.in/web/interest-rates/deposit-rates/retail-domestic-term-deposits
2. Average Gross Yield to Maturity for Corporate Bond Fund Category as on 31st March, 2022

Product Specification

Product Name	ANCHOR
Entity	Anand Rathi Shares & Stock Brokers
Underlying	10 Year G-Sec (6.54 GS 2032)
Listing/Secured	Unlisted/Yes, with a minimum 1x charge against receivables
Face Value/Min Application	1,00,000 per bond/ Minimum 25 bonds
Type	Conservative G-Sec Linked
Principal Protected	Principal is protected at maturity
Option Tenor	36 Months
Redemption Tenor	39 Months
Entry Level	Primary Trade Date
Exit Level	36th Month from the date of issue
Min Coupon	0 % (0 % IRR)
Max Coupon	32.38 % ~(9% IRR)
Taxation	20% + Cess after 3 years
Coupon Scenario	If Final Level > 25% of Initial Level = Max Coupon,
	If Final Level <= 25% of Initial Level = Face Value Per Debenture

The information provided is this communication is reproduction of factual details. No part of information provided herein should be construed as investment advice by ARSSBL and/or its employee. Investor/Client must make their own investment decisions based on their own specific investment objectives and financial position.
This communication does not constitute an offer or solicitation for the purchase or sale of any financial instrument/security.

Product Payoff - ANCHOR (Illustration)*

G-Sec Entry Price	G-Sec Performance	ANCHOR Return	Redemption Value	ANCHOR IRR
110	10%	32.38%	1,32,37,800	9%
105	5%	32.38%	1,32.37,800	9%
100	0%	32.38%	1,32,37,800	9%
50	-50%	32.38%	1,32,37,800	9%
25.1	-74.90%	32.38%	1,32,37,800	9%
10	-90%	0.00%	1,00,00,000	0%
0	-100%	0.00%	1,00,00,000	0%

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*Returns/IRR showcased are for illustrative purposes only. The returns are pre-tax. G-Sec Entry Price in the entry level of the 10 year G-Sec on Primary Trade Date.

MARCELLUS

THE NETWORKING OF INDIA ALONGSIDE TECH CHANGES IS CREATING POLARISATION

The Indian economy has been 'networked' at a rapid pace over the past decade:

- The length of India's national highways has doubled.
- The number of broadband users has increased from 20 million in FY11 to 687 million at the end of FY20 (CAGR of 48%).
- Airline passenger traffic has grown at a CAGR of 16%.
- 15 years ago, only 1 in 3 Indian families had a bank account; now nearly all Indian families have a bank account.

+

The inception of a single Goods & Services Tax in 2017 has allowed companies to consolidate their supply chains (from multiple state-level structures to unified national supply chains)

+

The rise of low cost SaaS (e.g. Salesforce, SAP) alongside RFID tracking and big data gleaned from 400mn internet connected mobile phones is allowing companies to improve working capital cycles, asset turns, profit margins and hence RoCE

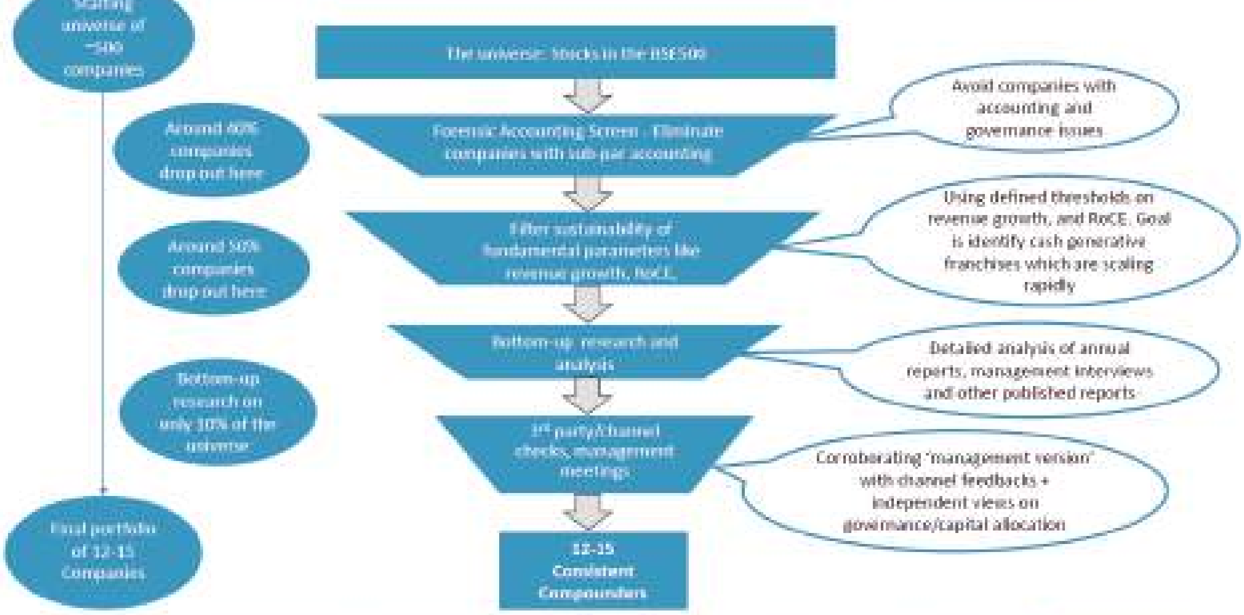
=

The Economist

Source: Marcellus Investment Managers, CMIE, Ace Equity, Bloomberg, Ministry of Aviation, TRAI, Ministry of Road Transport.

Private & Confidential

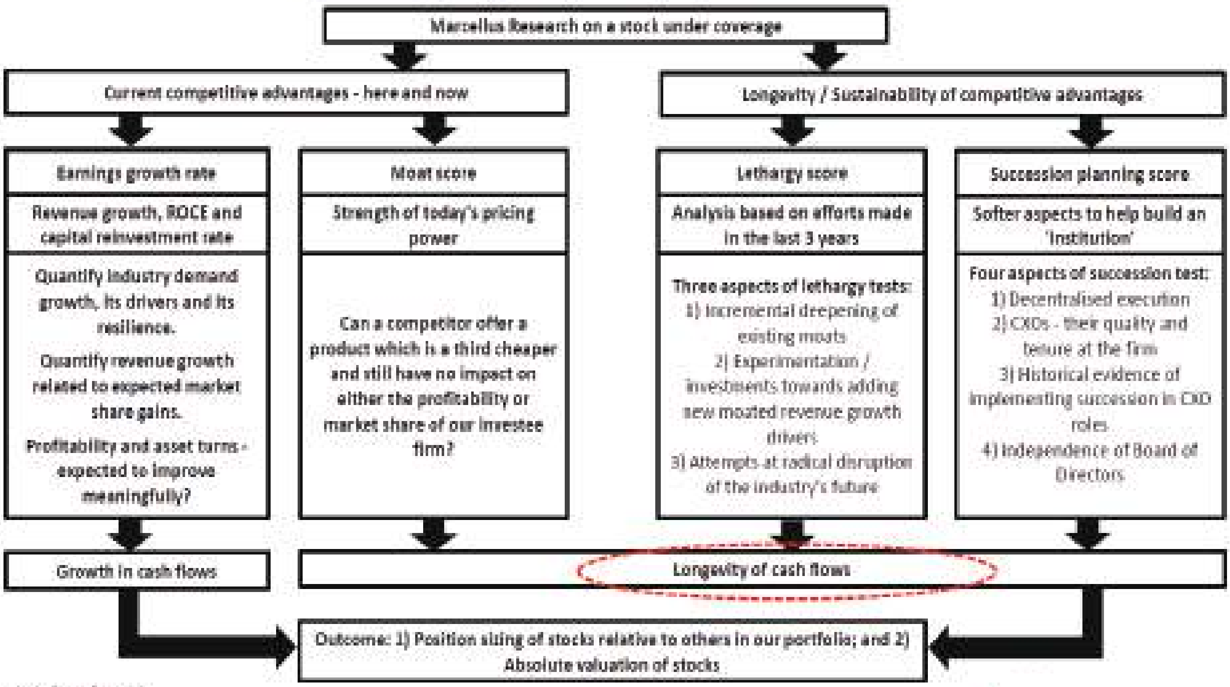
RIGOROUS INVESTMENT PROCESS TO IDENTIFY 12-15 COMPOUNDERS



Note: The fund manager maintains discretion on stock inclusion in the portfolio. In case, a stock does not clear the above filters, the fund manager must record and present to the investment committee for approval, the reasons for such inclusion

Private & Confidential

STEP 3: INVEST IN FRANCHISES WITH HIGH PRICING POWER AND HIGH REINVESTMENT RATES USING MARCELLUS' LONGEVITY FRAMEWORK



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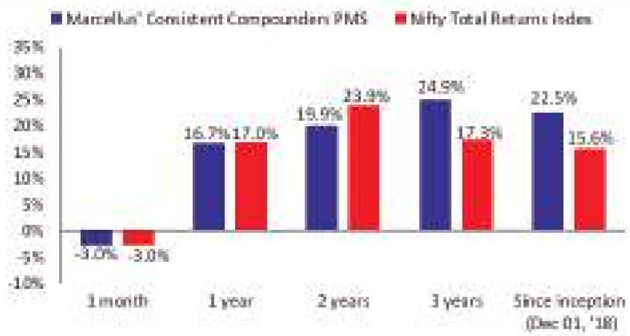
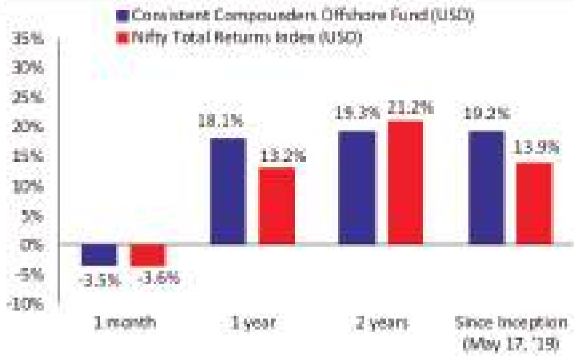
FUND PERFORMANCE (AS ON 28TH FEBRUARY'2022)

Exhibit 1a: Marcellus' Consistent Compounders PMS performance as on 28th February'22 (INR)



Source: Marcellus, Bloomberg; Performance data is net of annual performance fees charged for client accounts whose account anniversary date falls upto the last date of this performance period. Since fixed fees and expenses are charged on a quarterly basis, effect of the same has been incorporated upto 31st December, 2021; Since inception, 2 years & 3 years returns are annualised

Exhibit 1b: Consistent Compounders offshore fund advised by Marcellus as on 28th February'22 (US$)



Source: Marcellus; Performance data is net of annual performance fees charged for client accounts whose account anniversary date falls upto the last date of this performance period. Since fixed fees and expenses are charged on a quarterly basis, effect of the same has been incorporated upto 31st December, 2021; Other time period returns are absolute; NSE /FBIL for USD-INR exchange rate

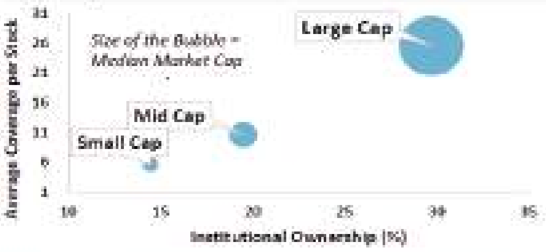
SMALL CAP INVESTING: OPPORTUNITIES

Significant outperformance of stocks before inclusion in BSE 500

- On an average over the last ten years, about ~50 stocks have entered/exited BSE 500 every year indicating a high degree of churn.
- The biggest part of the relative outperformance for a stock entering BSE 500 occurs in the years preceding the inclusion.

Source: Bloomberg, Ace Equity. Relative returns (to BSE 500) are medians CAGR of stocks that have been included in the BSE 500. For prior returns, returns are measured until 1 quarter preceding the quarter of entry. The above returns calculation is for the entries from June 2002 to June 2020

Small Caps are under-researched and "under-owned"...



...resulting in significant valuation gaps vs Large caps

Source: Ace Equity, Bloomberg. Note: (1) We classify companies with market cap of >Rs150bn as Large Cap, between Rs20bn to 150bn as Mid Cap and below Rs20bn as Small Caps; (2) Market cap, analyst coverage and share price data as of July 31, 2020; (3) Institutional ownership data as of June 30, 2020; (iv) EPS and Book value considered for FY20

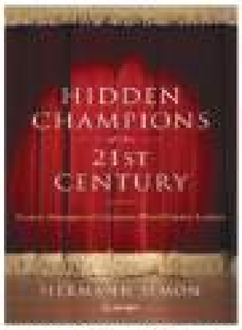
LITTLE CHAMPS: A PORTFOLIO OF NICHE COMPANIES WITH STRONG MOATS & SUSTAINABLE GROWTH

Little Champs

- Identity small-cap companies (market cap <US$500 million) with excellent corporate governance and capital allocation track record and strong sustainable competitive advantages built around brands, business processes and strategic assets.
- Characteristics of a typical portfolio company:
  - Sector leading franchise with stellar track record of capital allocation;
  - Clean accounts and corporate governance; and
  - High growth potential.

Look for Hermann Simon's celebrated 'Hidden Champions'

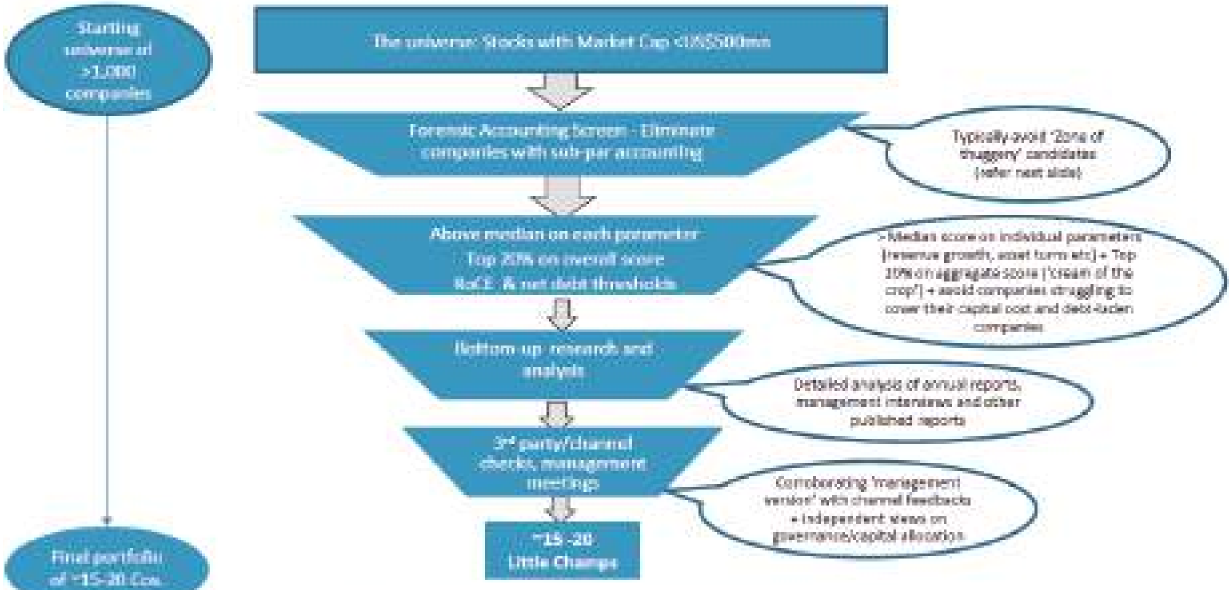
- SMEs, often family owned, producing inconspicuous products but ranked top globally for that product.
- Normally work in niche markets for which they design unique products often using proprietary process.
- Operate extremely close to their customers who depend on their products and cannot easily change their source.
- Competitive advantages of such firms are rarely because of cost leadership but more because of quality, total cost of ownership, high performance, and closeness to the customer.



Source: Hidden Champions of the 21st Century, Hermann Simon

LITTLE CHAMPS PMS*

RIGOROUS SCREENING AND DUE DILIGENCE TO IDENTIFY THE RIGHT STOCKS AND AVOID THE WRONG ONES



Note: The fund manager maintains discretion on stock inclusion in the portfolio. In case, a stock does not clear the above filters, the fund manager must record and present to the investment committee for approval, the reasons for such inclusion.

LIVE PORTFOLIO PERFORMANCE AND COMPARISON WITH BENCHMARK

Little Champs vs. Benchmark BSE Smallcap

Source: Marcellus Investment Managers. Note: (i) Portfolio inception date is August 29, 2019. (ii) Returns as of February 28, 2022. (iii) All returns are net of fixed fees and expenses charged till 31st December, 2021. Since performance fees for Little Champs Portfolio are charged on cumulative gains at the third anniversary of the respective client account, the effect of the same has not been incorporated in the performance returns. (iv) Returns shown above are net of transaction costs and includes dividend income. (v) Total returns index considered for BSE Smallcap above.

Little Champs' returns and drawdowns vs Nifty/BSE smallcap

Performance (Since Inception)	Return since Inception (annualised)	Maximum Drawdown
Little Champs	34.4%	-37%
Performance of benchmarks		
BSE Smallcap	36.6%	-45%
Nifty	19.5%	-38%

Source: Ace Equity Note: Maximum drawdown based on daily returns from Aug 29, 2019 to February 28, 2022

MARCELLUS

LITTLE CHAMPS PMS*

EQUANIMITY

WE PROACTIVELY SEEK TO INFLUENCE CHANGE

	Area of engagement	Desired outcome
Corporate governance	• Our analysts use forensic accounting to keep on eye on the diversion of cash by the 'promoters' of our investee companies	• If we spot diversion on a meaningful scale, we exit • If we spot the beginnings of what look like small scale diversion, we speak to the 'Promoter' and explain to her why her wealth creation can be compromised
Succession planning	• Thirty years from the reforms which opened up the Indian economy in 1991, many of India's leading 'promoters' are aged 70 or over. Hence, they are handing charge to the next generation.	• Through our discussions with suppliers, customers and competitors of a company, we keep a close eye on whether the 'promoter' is on top of his game. • If his successors either do not exist or have not been groomed adequately, we discuss the matter and its consequences with him.
Capital allocation	• Our investment strategy – of investing in dominant franchises with ROCE of around 40% - naturally leads us towards companies which generates heavy Free Cashflow. • If this Free Cashflow is not reinvested wisely, the compounding of the franchise suffers	• If we see a company either hoarding cash or moving into an unrelated, we engage with the 'promoter' to understand her thinking on capital allocation. • If we are not convinced about the fitness of what she's doing, we present our point of view (arguing in favour of a different capital allocation strategy) • If six months later we see that our engagement has made no difference, we consider exiting
Regulatory constructs	• Regulation – both in corporate law and in securities market law – is still evolving in India. This creates risks for the unwary.	• By being a part of multiple regulatory committees, by writing in the press and by being vocal on social and broadcast media about regulatory reform, we have sought to improve transparency in the fund management industry in India

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Key Investment Objectives

- **Capital Preservation*** over a period of time
- **Capital Appreciation** over a period of time

Achieved through...

- Long term investments in high quality companies with strong growth prospects

- Size of pond v/s size of fish
- Dominance
- Resilience
- Liquidity

- High quality of business (Superior RoCE)
- Strong moat. Impregnability
- Sustainability
- Key pivot of strong wealth creation

- Quantum
- Consistency
- Durability
- Predating (Early v/s Later)
- Compounding power

- Favorable Price-Value Gap
- Margin of Safety

ASK IM endeavors to preserve the capital however equity investments are subject to market risks.

Consistently Beating Benchmarks Since Inception

Point to Point Returns

	1 month	3 months	6 months	1 year	3 years	5 years	7 years	10 years	Since Inception
ASK IEP	-9.1%	-5.1%	-9.9%	5.8%	15.0%	13.6%	12.8%	20.3%	18.0%
BSE 500	-4.5%	-1.1%	-3.3%	6.9%	13.2%	11.2%	10.7%	13.6%	10.3%
Nifty	-3.0%	-1.2%	-2.3%	6.4%	11.6%	11.5%	10.1%	12.9%	10.2%

Financial Year-wise Returns – ASK IEP has outperformed BSE 500 in 10 out of 12 Financial Years

	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY20	FY21	FY22	FY23 YTD
ASK IEP	21.7%	2.8%	12.8%	34.5%	73.0%	-4.5%	24.9%	14.5%	10.8%	-17.8%	68.6%	20.9%	-7.2%
BSE 500	7.5%	-9.1%	4.8%	17.1%	33.2%	-7.8%	24.0%	11.8%	8.3%	-27.5%	76.6%	20.9%	-5.1%
Nifty	11.1%	-9.2%	7.3%	18.0%	26.7%	-8.9%	18.5%	10.2%	14.9%	-26.0%	70.9%	18.9%	-5.0%

Calendar Year-wise Returns - ASK IEP has outperformed BSE 500 in 11 out of 12 Calendar Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD 2022
ASK IEP	29.0%	-13.2%	29.8%	22.0%	69.6%	7.6%	6.2%	37.2%	1.8%	12.4%	20.5%	33.7%	-10.7%
BSE 500	19.2%	-27.4%	31.2%	3.3%	37.0%	-0.8%	3.8%	35.9%	-3.1%	7.8%	16.8%	30.1%	-5.5%
Nifty	22.5%	-24.6%	27.7%	6.8%	31.4%	-4.1%	3.0%	28.6%	3.2%	12.0%	14.9%	24.1%	-4.4%

Note : Performance figures are net of all fees and expenses. ASK Portfolio returns are composite returns of all the Portfolios aligned to the investment approach as on May 31, 2022. Returns for individual client may differ depending on time of entry in the Portfolio. Past performance may or may not be sustained in future and should not be used as basis for comparison with other investments. Returns for 1 year or lesser time horizon are absolute returns, while more than 1 year are CAGR. Returns have been calculated using Time Weighted

Consistently Beating Benchmarks Since Inception

1. Identify **large** and **growing** business opportunities.
2. Identify businesses with competitive advantage that are **significant sized** (min Rs.100cr of PBT) : Enables growth from both **market share gains** and **growth of the opportunity size** and can sustain for multiple years.
3. The **quality of the business** should be good to be able to fund strong growth through internal cash generation
   - We seek over 20% compounded growth from each business that we buy and target over 25% growth from the portfolio
   - To fund this growth, the business ROCE should be over 25% so that growth can be funded and there are surpluses for dividend
4. The **management should have the drive** and have skin in the game to deliver **compounded growth** period after period (uncompromised corporate governance is a must)
   - Hence, invest into businesses with an identifiable business house at helm with minimum 25% stake*
5. We seek to identify such businesses **at reasonable discount to value** and stay invested for a length of time and make money as EPS compounds

*Note: Promoter / Family stake of at least 25% is desired in portfolio companies, except in rare and fit cases.

Investment Approach Research Methodology and Filtration

500	• Top 500 as per market capitalization
306	• Only companies > 25% promoter / family holding (except in very rare and fit cases) • Universe of Entrepreneur and/or Family-Owned Business = 306 cos
210	• Condition of minimum PBT of INR 100 cr (USD 14 mn)
123	• Subjective evaluation on management quality, their integrity, vision, past track record, execution, capital allocations and distribution skills, corporate governance standards etc.
59	• Quality of Business (Capital Efficiency) – Minimum ROCE of 25%*
20 - 25	• Two more filters for selection of stocks a) Minimum 20 to 25%* earnings growth over the next 3 to 5 years without capital dilution and b) Price-Value gap (margin of safety) of 20% • ASK Indian Entrepreneur Portfolio

Note: Maximum of 20% of the portfolio may be an exception to the above.
*at the time of 1st purchase of the stock

Overview of ICICI Venture

ICICI Venture, established 1988, is a pioneer in Indian Alt Assets market

ICICI Venture at a Glance

$5bn	600+	100+	81+
AUM/A since inception	Investments since 1988	Investments since 2002	Exits since 2002

Our Existing 4 Verticals

		Private Equity	Real Estate	Infrastructure	Special Situations
AUM/A[1]		$1.6bn[2]	$700mn[2]	$453mn[3]	$1.25bn[4]
Strategies		Growth Equity	Equity	Energy	Debt, Mezzanine
		Joint Control	Debt	Utilities	Distress Buyouts
		Buyouts	Mezzanine	Buyouts	Equity Recaps

Sector Footprint

- Banking, Financial Services, Insurance
- Consumer, Retail/eTail Brands
- Healthcare, Pharmaceuticals
- Media & Entertainment
- Manufacturing, Industrials, Logistics
- RE & Infra

[1] Excluding IC AUM (1988-2002); [2] Includes co-invest capital; [3] Through Resurgent Power which is co-sponsored by ICICI Venture and Tata Power Company; Figure represents equity capital commitments; [4] Through AION which is in a strategic alliance between ICICI Venture and Apollo Global (US). As of April 2020, ICICI Venture and Apollo have jointly agreed to a revised format whereby AION will continue to be managed by Apollo and advised by ICICI Venture until the end of its term. Each of ICICI Venture and Apollo are free to pursue future investment opportunities independently.

Overview of ICICI Group

ICICI Venture leverages ICICI Group linkages

Trusted Brand Name

- Strong brand identity in the Indian ecosystem
- Partner of choice for global and domestic investors

Access to Proprietary Deal flow

- Longstanding relationships across the ecosystem of Indian businesses: owners/promoters, bankers, regulators, policy makers and consultants
- Being one of India's largest banks, well connected across the spectrum of small, medium and large corporates

Deal lifecycle

- Sectoral expertise and information
- Institutional knowledge and experience
- Privileged market insights from networks with key stakeholders
- Relationships across the value chain

Access to a large pool of talent and infrastructure

- Support from the banking, insurance, capital markets intermediation and asset management teams
- Access to financing options / M&A advisory

Our PE exit track record (2009 onwards)

We have a proven, superior exit track record through diverse strategies

Realisation by exit strategy[1]

Examples of different exit strategies

RFCL	GO COLORS!	KIMS	STAR	WABAG
Exit Strategy : Sum of parts sale	*Exit Strategy: IPO*	*Exit Strategy : Sale to PE*	*Exit Strategy: Sale to Strategic PE*	*Exit Strategy : IPO*
Investment : Dec-2009	Investment : Jan-2018	Investment : Jan-2018	Investment : Mar-2010 (IAF3) / Aug -2016 (IAF4)	Investment : Apr-2005
Exit : Feb-2011	Exit: Nov/Dec 21 (Partial)	Exit : Jun-2018	Exit : Mar-2020	Exit : Jul-2011
Gross INR MOIC: 8.2x[4]	Gross INR MOIC : 6x	Gross INR MOIC : 2.8x	Gross INR MOIC : 6.2x/3x	Gross INR MOIC : 29.8x
Gross INR IRR: 81.9%[4]	Gross INR IRR: 59%	Gross INR IRR: 29.6%	Gross INR IRR: 25% / 55%	Gross INR IRR: 118%

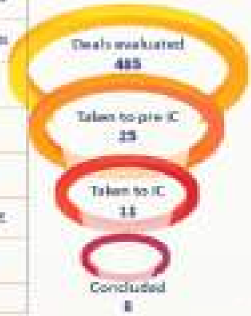
[illegible]

IAF4 Portfolio Overview

Backing leaders and emerging leaders in fast growing sectors in India

IAF4 Portfolio	Entry Year	Investment[1] (INR Mn)	Sector	Strategy	Stake	Exit/Liquidity	Gross INR MOIC[2]	Exit Strategy
STAR	2016	1,000	BFSI	Growth PE	4.15%	Exited	3.03x	Sale to strategic/PE
GO COLORS!	2018	1,000	Consumer	Growth PE	13.70%[3]	Partially Exited	6x-8x	IPO, Capital markets
India1	2019	1,000	BFSI	Joint Control	21.40%[4]	2022-23	2.5x-3x	IPO / strategic
Anthea	2016	1,650	Mfg	Growth PE	26.22%[4]	2022-23	2.5x-3x	Sale to PE / IPO
KIMS	2021	1,800	Healthcare	Growth PE	2.42%	Listed	2.5x-3x	Capital markets
[illegible]	2017	1,250	Consumer	Joint Control	40.99%	2024-25	5.5x-6x	Sale to strategic/PE
DCB BANK	2016	2,358	BFSI	Growth PIPE	4.36%	Listed	2x	Capital markets
[illegible]	2021	1,600	Mfg	Growth PE	23.0%-24.2%	2024-25	2.5x-3x	IPO

IAF4 deal log



[illegible]

[illegible]

Proposed key fund terms (India Advantage Fund S5 II)

Key fund terms*

Indian Fund (Feeder Fund)	Organized as a close-ended, contributory, determinate trust, under registration with SEBI as a Category II AIF (Fund of Funds); ICICI Venture is Settlor, AIF Sponsor, Manager of the Feeder Fund. Will invest solely in India Advantage Fund S5 I which is organized as a close-ended, contributory, determinate trust, registered with SEBI as a Category II AIF (Master Fund). ICICI Venture is Settlor, AIF Sponsor, Manager of the Master Fund
Minimum Capital Commitment	INR 10 Million (or as per extant SEBI AIF Regulations)
Final Closing	18 months from First Closing (excluding extensions, if any)
Investment Period	5 years from First Closing (excluding extensions, if any) for Master Fund. Feeder Fund to be co-terminus with Master Fund
Fund Term	8 years from Final Closing (excluding extensions, if any) for Master Fund. Feeder Fund to be co-terminus with Master Fund
Management Fee	2% p.a. (net of GST) at Master Fund level plus INR 1 Mn p.a. (net of GST) at Feeder Fund level. Master Fund Management Fee to be charged on the basis of Capital Commitment made by Feeder Fund during Investment Period and net invested capital thereafter
Offering Expenses (Class FC1 Unit-holders)	Upto 2% (net of GST) of the capital commitment made by Class FC1 Unit holders. Will form part of overall Capital Commitment
Feeder Fund Expenses	Feeder Fund Set up Expenses and Operating Expenses shall be charged at actuals, subject to a cap of 0.25%^ per annum (net of GST) as percentage of aggregate capital commitments received by the Feeder Fund at it's Final Closing, on an annualized average basis over Feeder Fund's term, plus pro-rata share of Master Fund Expenses
Master Fund Expenses	Master Fund Set up Expenses and Operating Expenses shall be charged at actuals, subject to a cap of 0.75%^ per annum (net of GST) as percentage of aggregate capital commitments received by the Master Fund at it's Final Closing, as calculated on an annualized average basis over the Master Fund's Term or Extended Term as maybe applicable, excluding one-time acquisition and divestment expenses incurred by the Master Fund
Hurdle Rate of Return	Applicable at Master Fund level (12% IRR on INR basis, pre-tax with full catch up)
Additional Return	Applicable at Master Fund level only (20% on whole fund basis)
Application Money (Class FC1 Unit-holders)	10% of Capital Commitment. Will form part of overall Capital Commitment and shall be utilized towards first drawdown

*Subject to legal & tax advice, SEBI Regulations and approvals; for further details please refer PPM; ^ subject to final closing size being equal to target size

ANANDRATHI
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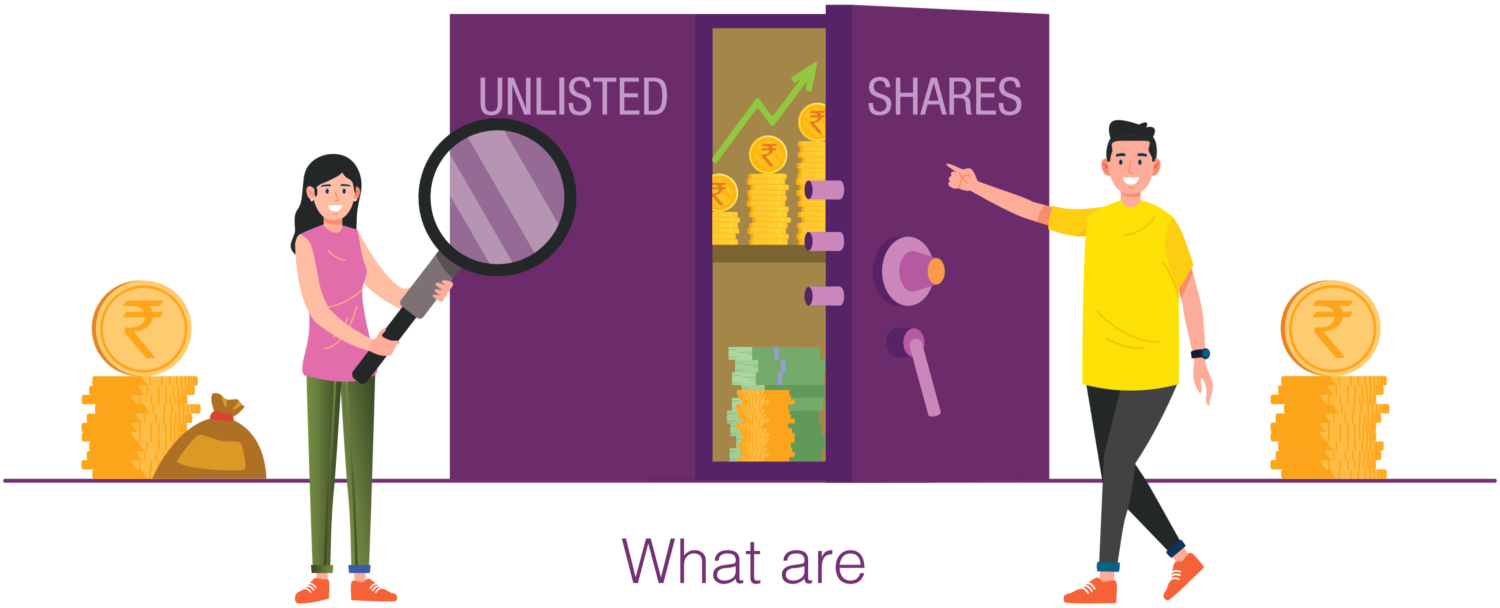
EQUITY

Explore the **Hidden Treasure** of **Unlisted Shares***

With

EQUITY UNICORN

Investment in Unlisted Shares*



What are **Unlisted Shares*?**

Unlisted shares is a financial instrument that is not traded on a formal exchange, Trading of unlisted shares is done in over-the-counter (OTC).

Reliance Retail	Retail
HDB Financial Services Ltd.	Financial Services
Chennai Super Kings	IPL Team
TATA Technologies Ltd.	Engineering
PharmEasy (API holdings Ltd.)	Healthcare Product
Studds Accessories Ltd.	Helmet Accessories
Care Health Insurance	Insurance
Sterlite Power Transmission Ltd.	Power & Transmission
Phillips India Ltd.	Electronics
Mohan Meakin Ltd.	Beverages
Kurlon Ltd.	Mattresses
Hero Fincorp Limited	Financial Services

*These are not Exchange traded products and all disputes with respect to the distribution activity, would not have access to Exchange Investor Redressal Forum or Arbitration mechanism.

FINANCIAL

FLASH

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ANAND RATHI

INVESTMENT SERVICES

The Investments recommended in News letter / research reports, may not be suitable for all investors. Investors must make their own investment decisions based on their own specific investment objectives and financial position and using such independent professional advisors as they believe necessary.

Anand Rathi Share and Stock Brokers Ltd.,

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