

CPI Inflation

Refer to important disclosures at the end of this report

Firmly on the downward path, but risks remain

- **Headline CPI inflation eased to a five-month low of 6.71% in July 2022, led by food – partly amid easing global food prices. While food inflation may further ease across most categories, perishables may be at risk in the near term owing to flooding in select areas. Energy inflation may also find solace in easing both domestic LPG and kerosene ahead.**
- **Core inflation was largely steady at 6.2% with healthy sequential momentum, led by clothing and footwear and education, even as fuel tax cuts helped keep T&C category in check. While some easing in input cost and slowing demand could ease supply-side goods inflation, factors such as GST tax hikes on some goods, higher gold import duty, weaker INR, and upcoming festive season could be near-term tailwinds for core prices.**
- **We are currently tracking August inflation at ~6.8%, with Q2FY23E print roughly 40bps lower than the RBI's forecast of 7.1%. We see downward risk to our FY23 forecast of 6.5% (RBI: 6.7%) and will watch for volatility in global commodity complex. We are closely watching deceleration in the global pace of inflation and how the impending recession will shape DM central bank policies, which could have implications for the RBI. We maintain FY23 could see RBI's policy rates terminating around 5.75%+ with the central bank showing its intent to keep real rates near the estimated natural rate.**

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CPI inflation meets expectations at 6.7%; Moderation in food inflation continues

CPI inflation came in at 6.71% in July 2022, near expectations (Emkay: 6.78%, Consensus: 6.78%), supported by easing food inflation. While this is now the seventh-straight month above the RBI's upper tolerance limit of 6%, July print is also a five-month low. Food inflation (6.75% YoY) eased further in July from 7.6% in June with flat sequential momentum amid easing domestic and global prices. Sequentially, prices of cereals moved up, while pulses and products stayed flat. Healthy monsoon and crop sowing should keep prices of these staples in control. While vegetables prices eased, led by availability of fresh crop, edible oil prices declined sharply, reflecting the pass through of fall in global prices, which have even continued through August. Meanwhile, meat and fish inflation eased owing to seasonal festive led demand fall, which could continue through August. High frequency mandi data suggests pick-up in some perishables crops, reflective of flooding in some parts of India. Energy inflation rose again (11.8% YoY, 2.0% MoM); however with prices of both domestic LPG and kerosene likely to ease ahead, this segment may see some relief.

Core inflation eases mildly to 6.2% with transport costs easing further

Core inflation (ex-food, fuel, and intoxicants) was almost unchanged at 6.25% with sharp pick-up in sequential momentum (+0.66% MoM). Easing transportation costs led by lagged effects of fuel tax cuts were offset by rise in other segments. Clothing and footwear (9.9% YoY, 0.8% MoM) and education (5.0% YoY, 1.4% MoM) were significant contributors, while personal care and effects eased. While some easing in input cost and slowing demand could ease supply-side goods inflation, factors such as GST tax hikes on some goods, higher gold import duty, weaker INR, and the upcoming festive season could be near-term tailwinds for core prices.

IIP eases to 12.3% but with healthy sequential momentum

IIP grew 12.3% YoY in June (Emkay: 10.5%; Consensus: 10.7%; 19.6% prior), as favorable base effect started to fade and led to slower annualized growth across sectors. However, healthy sequential momentum depicts resilient demand. Manufacturing grew by 12.5%, driven by segments such as pharma, electronic equipment, and transport equipment. However, both mining (7.5% YoY) and electricity (16.4% YoY) declined sequentially. In use-based sectors, consumer durables and capital goods showed strong growth, while consumer non-durables rebounded from 13-month low. Going ahead, IIP growth may moderate as demand for global industrial exports eases and tighter domestic financial conditions lower domestic demand as well with a lag.

We see downward risk to our average FY23 CPI of 6.5%; Maintain terminal rate at 5.75%+

Even as India's inflation has peaked, it still warrants caution, with core inflation appearing sticky. While the RBI is still far from its supposed neutral rate, we believe we are near the peak of RBI's hawkishness, led by falling risk premia of the entire commodity price complex. However, the global situation is still fluid, and macro assessments might still require frequent adjustments ahead from a policy perspective. We are currently tracking August inflation at around 6.8%, with Q2FY23E print roughly 40bps lower than the RBI's forecast of 7.1%. We see downward risk to our FY23 forecast of 6.5% (RBI: 6.7%) and will watch for volatility in global commodity complex. We are closely watching deceleration of the global pace of inflation and how the impending recession will shape DM central bank policies. This will potentially have implications for the RBI. We believe FY23 could see the RBI's policy rates terminating around 5.75%+, with the central bank showing its intent to keep real rates near the estimated natural rate. (See: ["Monetary policy - Hikes FOMO: Be careful what you wish for....", Jun 3, 2022](#))

Key Highlights

- **July headline CPI inflation at 6.7%; core at 6.2%.**
- **June IIP grows 12.3%, with manufacturing at 12.5%.**
- **Downside risk to our FY23 inflation estimate of 6.5%**
- **Terminal repo rate to not exceed 5.75%**

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty \(Page 6\)](#)

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Exhibit 1: Breakdown of CPI and its components

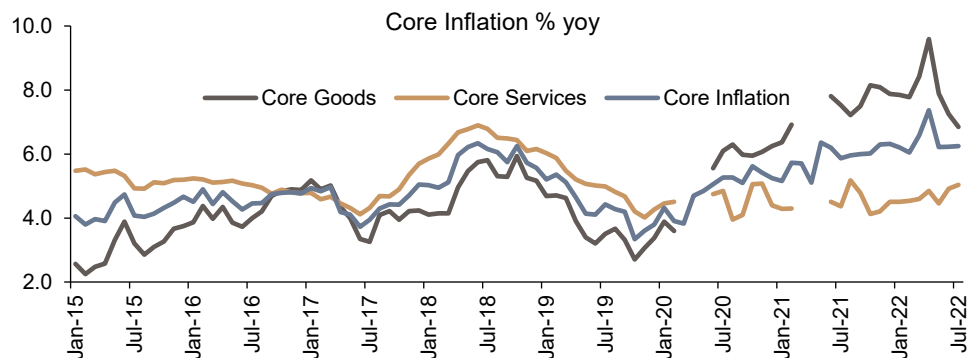
YoY (%)	Wt	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Jul-21
Food & Beverages	45.9	6.71	7.56	7.84	8.10	7.47	4.46
Pan, Tobacco and Intoxicants	2.4	1.78	1.83	1.15	2.70	2.98	4.71
Fuel & light	6.8	11.76	10.14	9.54	10.67	7.52	12.38
Housing	10.1	3.90	3.93	3.65	3.47	3.38	3.86
Clothing, Bedding footwear	6.5	9.91	9.52	8.85	9.85	9.40	6.39
Miscellaneous	28.3	5.91	6.28	6.82	8.03	7.02	6.71
CPI	100.0	6.71	7.01	7.04	7.79	6.95	5.59
Core CPI	47.3	6.25	6.27	6.22	7.37	6.59	5.86
CPI ex vegetables	93.1	6.44	6.37	6.38	7.35	6.67	6.59

Source: MOSPI, Emkay Research

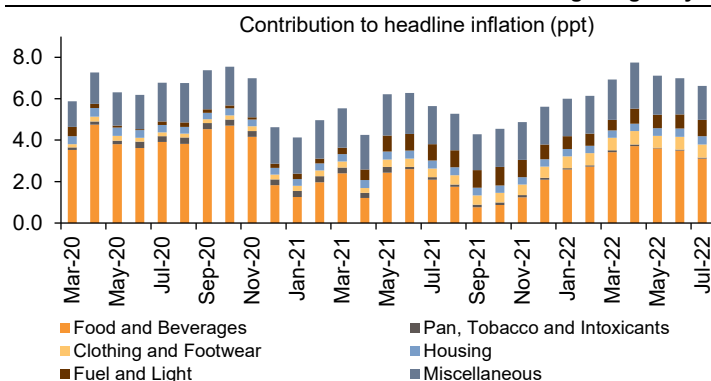
Exhibit 2: Breakdown of food items in CPI

Food Items	Wt	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Jul-21
Food	39.1	6.75	7.75	7.97	8.31	7.68	3.96
Cereals	9.7	6.90	5.66	5.33	5.96	5.00	(1.68)
Meat and Fish	3.6	3.00	8.61	8.23	6.97	9.63	8.33
Egg	0.4	(3.84)	(5.48)	(4.64)	(0.06)	2.44	20.82
Milk & Products	6.6	5.84	6.15	5.64	5.47	4.71	2.74
Oils and Fats	3.6	7.52	9.36	13.26	17.28	18.73	32.53
Fruits	2.9	6.41	3.10	2.33	4.99	2.54	8.98
Vegetables	6.0	10.90	17.31	18.26	15.34	11.64	(7.80)
Pulses	2.4	0.18	(1.02)	(0.42)	1.86	2.57	9.04
Sugar	1.4	4.80	4.17	4.27	5.22	5.51	(0.52)
Spices	2.5	12.89	11.04	9.93	10.62	8.50	5.19

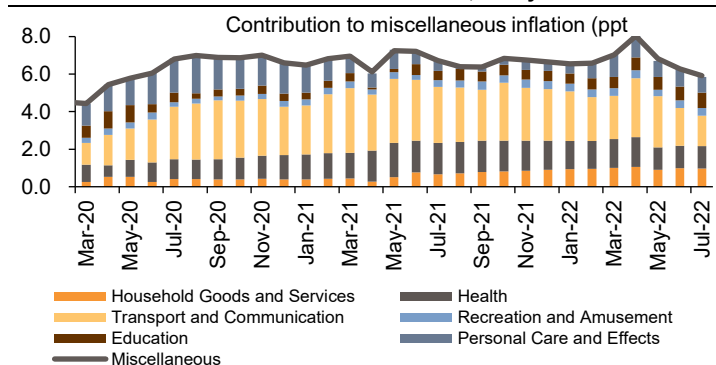
Source: MOSPI, Emkay Research

Exhibit 3: The gap between core goods and services inflation remains elevated, albeit declining

Source: CEIC, Emkay Research estimates

Exhibit 4: Headline inflation moderates with F&B cooling marginally

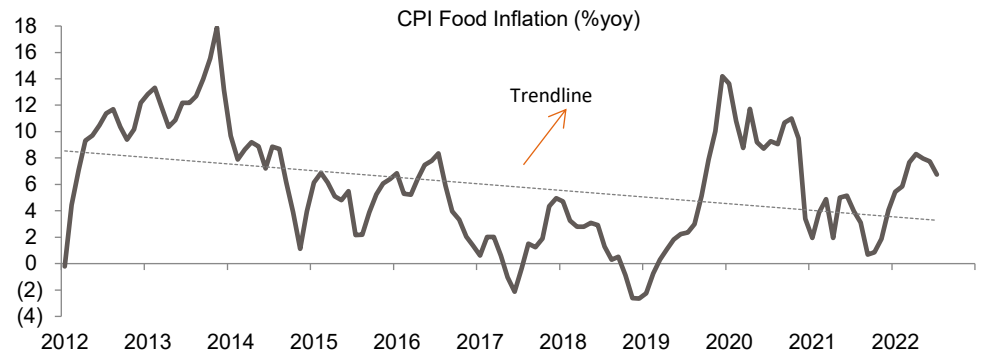
Source: MOSPI, Emkay Research

Exhibit 5: Miscellaneous inflation eases to 6.3%, led by fall in T&C costs

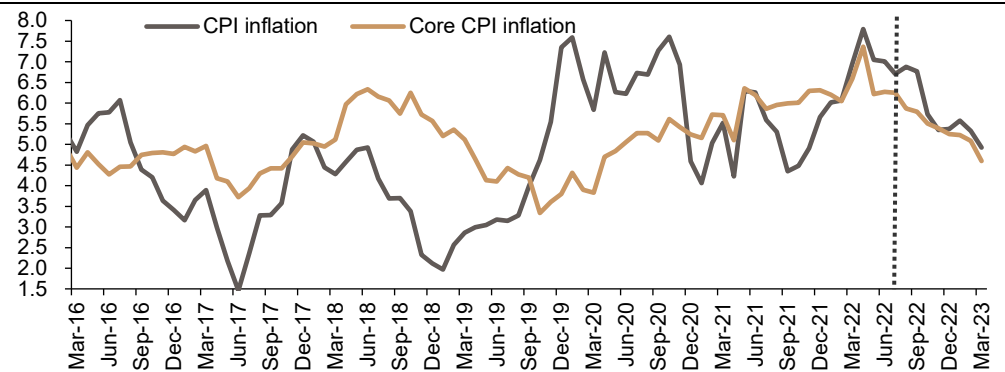
Source: MOSPI, Emkay Research

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Exhibit 6: Food inflation moderated to 6.8% in July 2022 and looks to be trending lower

Source: MOSPI, Emkay Research estimates

Exhibit 7: CPI inflation likely to ease off in the coming months

Source: MOSPI, Emkay Research estimates

Exhibit 8: Industry and use-based classification of IIP

YoY (%)	Wt	Jun-22	May-22	Jun-21
Industry based classification				
Mining	14.4	7.5	11.2	23.1
Electricity	8.0	16.4	23.5	8.3
Manufacturing	77.6	12.5	20.6	13.2
IIP	100.0	12.3	19.6	13.8
Use-based classification				
Primary goods	34.0	13.7	17.8	12.0
Capital goods	8.2	26.1	54.4	27.3
Intermediate goods	17.2	11.0	17.5	22.6
Infrastructure/ construction goods	12.3	8.0	18.1	20.0
Durables	12.8	23.8	58.4	28.0
Non-durables	15.3	2.9	1.0	(3.9)

Source: MOSPI, Emkay Research

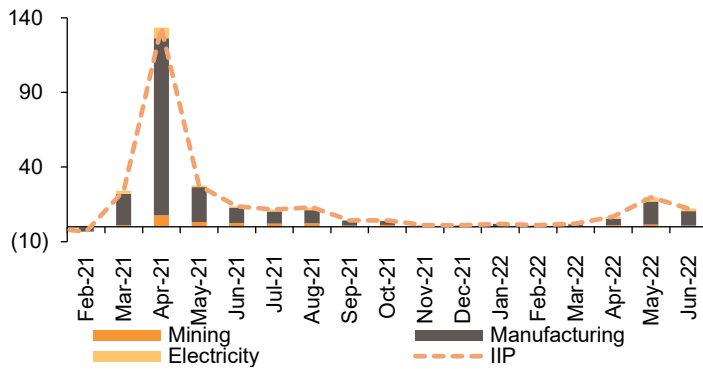
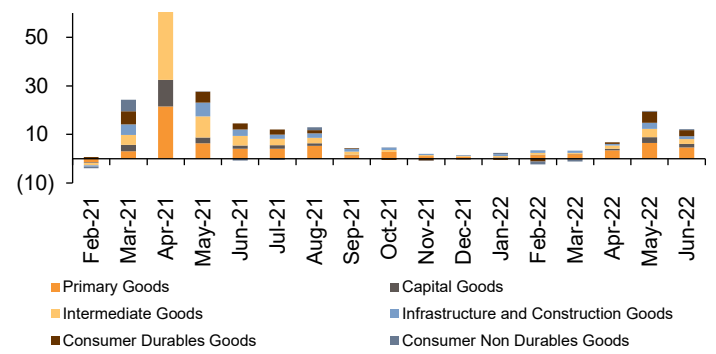
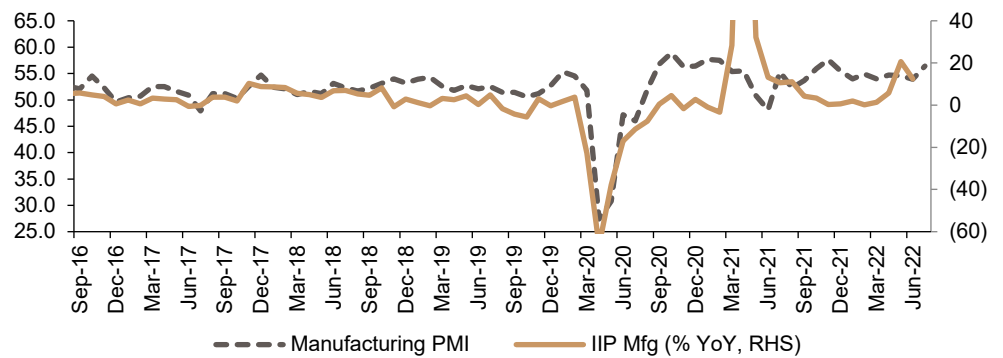
Exhibit 9: IIP grew by 12.3% in June 2022; Manufacturing pick-up continues**Exhibit 10: Primary goods and consumer durables are the major contributors to use-based sectors****Exhibit 11: PMI suggests modest IIP growth ahead**

Exhibit 12: Details of manufacturing side of IIP

Items	Wt.	% YoY		
	(%)	Jun-22	May-22	Jun-21
Food products	5.3	4.5	9.6	8.4
Beverages	1.0	44.8	127.9	(2.3)
Tobacco products	0.8	52.8	21.5	(19.2)
Textiles	3.3	(3.0)	6.2	76.4
Wearing apparel	1.3	32.0	70.0	3.9
Leather and related products	0.5	0.9	47.4	(5.6)
Wood and Wood Products and Cork ex Furniture; Articles of Straw and Plaiting Materials	0.2	13.9	53.5	32.3
Paper and paper products	0.9	7.1	8.8	(8.0)
Printing and reproduction of recorded media	0.7	43.1	41.4	(2.1)
Coke and refined petroleum products	11.8	17.6	18.1	5.4
Chemicals and chemical products	7.9	16.4	24.2	(0.9)
Pharma, Medicinal Chemical and Botanical Products	5.0	(4.1)	(13.5)	(4.3)
Rubber and plastics products	2.4	6.3	9.1	8.5
Other non-metallic mineral products	4.1	19.3	21.8	8.0
Basic metals	12.8	6.1	16.3	24.3
Fabricated Metal Products ex Machinery and Equipment	2.7	15.2	27.6	18.4
Computer, electronic and optical products	1.6	44.0	28.4	9.4
Electrical equipment	3.0	11.8	59.6	36.5
Machinery and equipment n.e.c.	4.8	17.4	38.8	20.1
Motor vehicles, trailers and semi-trailers	4.9	31.2	88.3	63.5
Other transport equipment	1.8	30.2	128.5	43.0
Furniture; Manufacturing N.E.C.	0.1	33.5	68.8	9.1
Other manufacturing	0.9	27.7	19.0	46.4
Manufacturing	77.6	12.5	20.6	13.2
Other Important indicators				
% of manufacturing with de-growth	100	8.7	4.3	30.4
% of manufacturing growing less than 5%	100	17.4	4.3	34.8

Source: MOSPI, Emkay Research

Emkay Alpha Portfolio – Nifty

EAP-Nifty (45 stocks)

Company Name	Nifty Weight	Nifty EAP Weight Based on Current NAV	OW/UW (%)	OW/UW (bps)	Price Performance - 1m
Agri Input & Chemicals	0.54	0.79	47%	25	
UPL	0.54	0.79	47%	25	3.6
Auto & Auto Ancillaries	5.90	7.17	22%	127	
Bajaj Auto	0.68	0.68	0%	0	3.0
Eicher Motors	0.57	0.57	0%	0	2.7
Hero Motocorp	0.47	0.71	52%	24	(1.1)
Mahindra & Mahindra	1.57	2.09	34%	53	8.7
Maruti Suzuki India	1.51	1.76	16%	25	0.5
Tata Motors	1.10	1.36	23%	26	6.0
BFSI-Banks	25.75	27.27	6%	152	
Axis Bank	2.59	2.59	0%	0	4.7
HDFC Bank	8.42	8.68	3%	26	3.6
ICICI Bank	7.72	8.23	7%	51	5.0
Indusind Bank	0.91	1.16	28%	25	3.4
Kotak Mahindra Bank	3.52	3.77	7%	25	2.4
State Bank of India	2.60	2.84	9%	24	(0.7)
BFSI-Insurance	1.38	2.09	51%	71	
HDFC Life Insurance	0.65	0.89	36%	24	(2.5)
SBI Life	0.73	1.21	64%	47	(2.7)
BFSI-NBFCs	9.49	7.29	-23%	(219)	
Bajaj Finserv	1.23	0.00	-100%	(123)	4.6
Bajaj Finance	2.52	1.03	-59%	(148)	1.5
Cholamandalam Investment	0.00	0.27	NA	27	11.0
HDFC	5.74	5.99	4%	25	3.1
Cement & Building Materials	2.12	2.62	23%	50	
Grasim Industries	0.78	0.78	0%	0	1.7
Shree Cements	0.37	0.62	69%	25	3.4
Ultratech Cement	0.98	1.23	25%	25	0.8
Consumer Goods & Retail	11.85	11.91	0%	6	
Asian Paints	1.98	1.98	0%	0	2.2
Britannia Industries	0.55	0.78	41%	23	(6.7)
Hindustan Unilever	3.01	3.01	0%	0	(0.9)
ITC	3.46	3.71	7%	25	1.1
Marico	0.00	0.24	NA	24	(0.9)
Nestle India	0.91	0.00	-100%	(91)	1.7
Titan Company	1.33	1.33	0%	(0)	5.0
Tata Consumer	0.60	0.60	0%	0	(4.7)
United Breweries	0.00	0.24	NA	24	0.7
Engineering & Capital Goods	2.91	3.17	9%	25	
Larsen & Toubro	2.91	3.17	9%	25	3.3
Information Technology	15.27	11.74	-23%	(352)	
HCL Tech	1.32	1.07	-19%	(25)	1.4
Infosys	7.66	6.14	-20%	(152)	4.5
TCS	4.58	3.32	-27%	(126)	3.7
Tech Mahindra	0.88	0.63	-28%	(25)	2.7
Wipro	0.84	0.59	-30%	(25)	3.5
Metals & Mining	3.39	3.39	0%	0	
Coal India	0.59	0.59	0%	0	3.4
Hindalco	0.82	0.82	0%	0	4.4
JSW Steel	0.84	0.84	0%	0	7.0
Tata Steel	1.14	1.14	0%	0	1.3
Oil & Gas	12.62	12.16	-4%	(46)	
BPCL	0.40	0.00	-100%	(40)	(0.7)
ONGC	0.67	0.91	36%	24	(1.1)
Reliance Industries	11.54	11.25	-3%	(29)	3.2
Pharmaceuticals	3.91	4.01	3%	10	
Apollo Hospitals	0.58	0.84	44%	26	5.3
Cipla	0.72	0.98	36%	26	6.2
Divi's Lab	0.65	0.00	-100%	(65)	3.1
Dr. Reddy's Lab	0.67	0.67	0%	0	4.1
Gland Pharma	0.00	0.00	NA	0	3.9
Sun Pharma	1.28	1.52	18%	24	(2.5)
Ports & Logistics	0.74	0.74	0%	0	
Adani Ports	0.74	0.74	0%	0	3.8
Power	1.93	2.92	52%	99	
NTPC	0.94	1.43	52%	49	0.4
Power Grid Corporation	0.98	1.49	51%	51	4.1
Telecommunications	2.21	2.72	23%	51	
Bharti Airtel	2.21	2.72	23%	51	4.7
Cash		0.00			
Nifty	100.00	100.00			2.9
Nifty Index					2.9

Source: Emkay Research

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Sector portfolio NAV

	Base					Latest
	1-Apr-19	12-Aug-21	10-Feb-22	12-May-22	12-Jul-22	11-Aug-22
EAP - Nifty	100.0	136.6	147.8	131.8	135.3	146.8
Nifty50	100.0	140.2	150.9	135.5	137.6	151.3

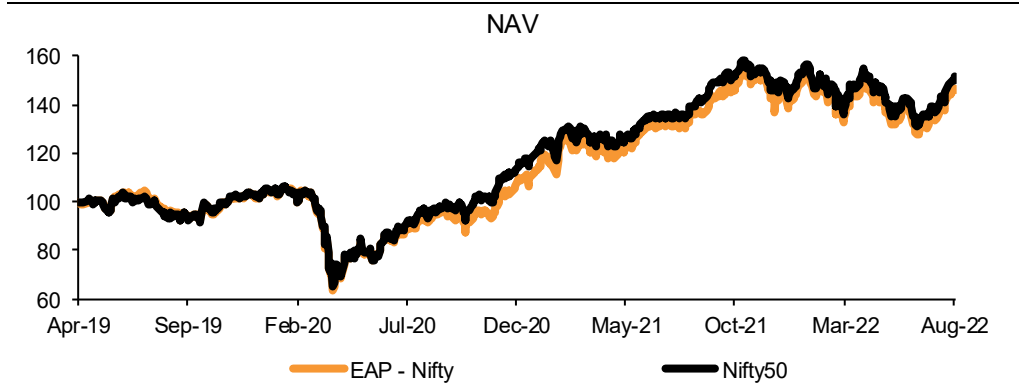
*Performance measurement base date 1st April 2019

Source: Emkay Research

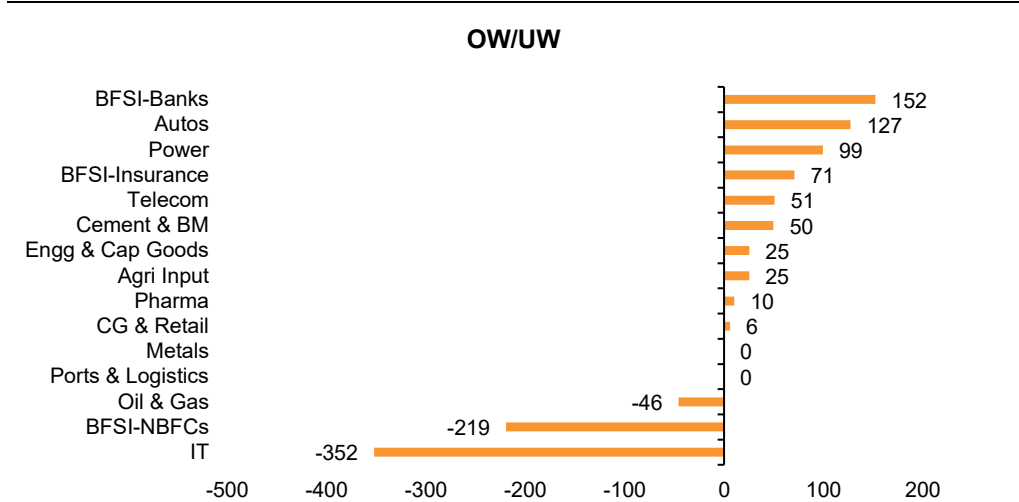
Price Performance (%)

	1m	3m	6m	12m
EAP - Nifty	8.5%	11.4%	-0.7%	7.5%
Nifty50	10.0%	11.7%	0.3%	7.9%

Source: Emkay Research

NAV chart

Source: Emkay Research

Exhibit 13: Sector OW/UW in the revised Nifty EAP

Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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