

Indian benchmark indices end in positive terrain; IT stocks witness relief rally..

Index	Today's Close	Prev. clos	Change	% change	Open	High	Low
Sensex	55,702.23	55,669.03	33.20	0.06	56,255.07	56,566.80	55,613.82
Nifty	16,682.65	16,677.60	5.05	0.03	16,854.75	16,945.70	16,651.85

- 1) Indian equities witnessed swings on either side throughout the day after ending marginally in green. Street participants reactions were mixed after US Fed hiked interest rates by 50 bps. Earlier, RBI came up with a surprise by hiking repo rate by 40 bps which affected investor sentiments. There are headwinds like ongoing war between Russia and Ukraine with no signs of respite, rising crude oil prices, increasing COVID-19 cases in China and lock-down in various parts of China to curb its spread, concerns over high inflation across the globe, hawkish stance of global central banks and rising bond yields globally.
- 2) The Sensex was marginally up by 33.20 points or 0.06 percent to end at levels of 55,702. On the other hand, the Nifty was up by 5.05 points or 0.03 percent to end at levels of 16,682.65. Among the Sensex 30 stocks, Tech Mahindra, Infosys, HCL Technologies, Wipro, Tata Steel rallied in the range of 1.8 percent to 4.1 percent. On the other hand, IndusInd Bank, Nestle India, Ultratech Cement, Sun Pharma, Reliance Industries were down in the range of 1.9 percent to 4.3 percent.
- 3) The broader markets were under pressure today. The BSE Midcap index was down by 0.21 per cent and the BSE Smallcap index was down by 0.32 percent respectively.
- 4) In terms of sectoral performance, the BSE IT index was up by 1.86 per cent, while BSE Realty index fell by 1.57 per cent.
- 5) On Thursday, FIIs sold equities worth Rs.2,074.74 Crore. On the other hand, DIIs bought equities worth Rs. 2,229.31 Crore. In the month of April 2022, FIIs sold equities worth Rs. 40,652.71 Crore. On the other hand, DIIs bought equities worth Rs. 29,869.52 Crore.

Sectors and stocks

- 1) Shares of ABB India on Thursday rallied by 11.80 per cent in intraday trade after the company witnessed strong performance in Q4FY22. The stock ended up by 10.47 per cent to Rs 2,224.70 on the BSE.
- 2) Shares of Gokaldas Exports hit a record high of Rs 485, on rallying 12 per cent on the BSE in Thursday's intra-day trade. The stock of the company has rallied by 38 per cent in the past four trading days after it reported the best quarterly performance driven by growing order book and ability to weather supply chain disruptions. The Company's consolidated profit after tax (PAT) more-than-doubled to Rs 61 crore in March quarter (Q4FY22) as against Rs 16 crore in the corresponding quarter last year. Its consolidated EBITDA margin improved by 170 bps QoQ and 365 bps YoY to 13.1 per cent on account of positive operating leverage. Revenue witnessed a growth of 58 per cent year on year (YoY) basis to Rs 588 crore. The Company has reduced its gross borrowings by Rs.302 Crores to Rs. 63 Cr. as compared to Rs. 365 Cr. as of 31st March 2021. The Company's cash and cash equivalents less borrowing was Rs. 119 Cr. as of 31st March 2022, " In FY2022, the company has incurred a Capex of Rs.84 Cr. towards capacity expansion and modernization of its business infrastructure.

Commenting on the company's performance, Mr. Siva Ganapathi, Managing Director, Gokaldas Exports said, "The Company is currently in the growth phase of its journey and the increase in demand post-pandemic has been beneficial to us. Recording profits quarter-on-quarter has been a big boost to drive our vision of being a globally reputed apparel manufacturer. Our 'People Power' has been our biggest force that steered innovation, quality, consistency, and commitment in this financial year. As a leading manufacturer and exporter of apparel, we would continuously strive to achieve sustainable growth."

Key recent major developments..

- 1) Globally, The Bank of England sent a stark warning that Britain risks a double-whammy of a recession and inflation above 10 percent as it raised interest rates on Thursday to their highest since 2009, hiking by quarter of a percentage point to 1 per cent. The pound fell by more than a cent against the US dollar to hit its lowest level since mid-2020, below \$1.24, as the gloominess of the BoE's new forecasts for the world's fifth-largest economy caught investors by surprise.
- 2) On Wednesday, The Federal Reserve hiked the interest rate by 50 bps (biggest hike in over two decades) pushing the benchmark above 0.75 percent continuing on its approach for policy tightening to control rising inflation that has touched 40-year highs. In its statement, Fed stated that the committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2% objective and the labor market to remain strong.
- 3) Domestically, in a surprise move, RBI Governor Shaktikanta Das announced that the monetary policy committee has unanimously voted to increase the repo rate by 40 bps to 4.40 per cent, adding that the central bank's stance remains accommodative. RBI's rationale behind raising benchmark rates in an off-cycle MPC meeting was the upside risks to India's inflation trajectory because of global factors. Heightened uncertainty surrounds the inflation trajectory, which is heavily contingent upon the evolving geopolitical situation. Global commodity price dynamics are driving the path of food inflation in India, including prices of inflation sensitive items that are impacted by global shortages due to output losses and export restrictions by key producing countries. International crude oil prices remain high but volatile, posing considerable upside risks to the inflation trajectory through both direct and indirect effects. Core inflation is likely to remain elevated in the coming months, reflecting high domestic pump prices and pressures from prices of essential medicines. Renewed lockdowns and supply chain disruptions due to resurgence of COVID-19 infections in major economies could sustain higher logistics costs for longer. All these factors impart significant upside risks to the inflation trajectory set out in the April statement of the MPC. Hence the MPC thought it was necessary to reverse rate action taken in May 2020, where the RBI reduced the policy repo rate by 40 bps, following 75 bps reduction in March, as monetary policy had shifted to an ultra-accommodative mode because of the pandemic. The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

RBI also raised the CRR limit by 50 bps to 4.5 per cent with effect from May 21, which in turn will lead to withdrawal of Rs. 87,000 crore the system, the governor added. In another move, the RBI has hiked the cash reserve ratio of banks by 50 basis points to 4.5 per cent of net demand and time liabilities (NDTL), effective from the fortnight beginning May 21, 2022. This is expected to withdraw liquidity to the tune of Rs. 87,000 crore from the system. The increase in CRR by RBI is in line with its stance of withdrawal of accommodation and in line with its earlier announcement of gradual withdrawal of liquidity over a multi-year time frame.

- 3) According to RBI in its Monetary Policy Statement, domestic economic activity stabilised in March-April with the ebbing of the third wave of COVID-19 and the easing of restrictions. Urban demand appears to have maintained expansion but some weakness persists in rural demand. Investment activity seems to be gaining traction. Merchandise exports recorded double digit expansion for the fourteenth consecutive month in April. Non-oil non-gold imports also grew robustly on the back of improving domestic demand. Overall system liquidity remained in large surplus. Bank credit rose (y-o-y) by 11.1 per cent as on April 22, 2022. India's foreign exchange reserves declined by US\$ 6.9 billion in 2022-23 (up to April 22) to US\$ 600.4 billion.
- 4) The Purchasing Managers' Index (PMI) for April rose to 54.7 from 54 in March. Factory activity picked up in the month, bolstered by a solid increase in demand as pandemic restrictions were eased, but rising energy prices pushed input costs to a five-month high, a private survey showed. "Factories continued to scale up production at an above-trend pace, with the ongoing increases in sales and input purchasing suggesting that growth will be sustained in the near-term," noted Pollyanna De Lima, economics associate director at S&P Global.
- 5) Goods and services tax (GST) collection touched an all-time high of Rs. 1.68 trillion in April. This is the first time the collection has crossed Rs. 1.5 trillion mark. The previous high was recorded in March at over Rs. 1.42 trillion. "The gross GST collection in April 2022 is Rs. 25,000 Crore more than the next highest collection last month, the finance ministry said on Sunday while releasing the monthly collection data. "The robust mop-up could be attributed to improvement in the compliance behaviour, which has been a result of various measures taken by the tax administration to nudge taxpayers to file returns timely, to making compliance easier and smoother, and strict enforcement action taken against errant taxpayers identified based on data analytics and artificial intelligence, the ministry said. This is the 10th month in a row that the GST revenues crossed Rs.1 lakh Crore mark.

- 6) India's net direct tax collections (income tax and corporate tax) touched an all-time high of Rs. 14.09 lakh Crore in 2021-22, growing by 49.02% over the previous fiscal, indicating bouncing back of the economy after the Covid pandemic, chairman of the Central Board of Direct Taxes (CBDT), JB Mohapatra said on Tuesday. The net direct tax collection (after taking I-T refunds into account) was 2.5 lakh Crore more than the Rs. 11.37 lakh Crore achieved in 2018-19, the highest till the 2021-22 figures surpassed it, Mohapatra said on Tuesday. The gross direct tax collections for 2021-22 also touched an all-time high of Rs. 16.34 lakh Crore, showing a growth of over 32.75% over the previous fiscal. "The record tax collection shows the strengthening of Indian economy after the pandemic. This shows the economy has bounced back," said Mohapatra, adding that a new Annual Information System that contains details of all the financial transactions undertaken during a financial year helped the tax authorities shore up the collection.
- 7) Globally, last week on Wednesday, the dollar hit a five-year high on Wednesday before the Federal Reserve next week is expected to hike rates, while the euro weakened on growth concerns after Russia cut off gas supplies to two eastern European nations. The dollar has gained on expectations that the U.S. central bank will be more hawkish than peers. The Fed is expected to increase rates by 50 basis points at its May 3-4 meeting, as well as in June and July. The greenback has also benefited from global growth concerns as Europe struggles with the fallout from Russia's invasion of Ukraine and China imposes lockdowns in a bid to stem the spread of COVID-19. Russia halted gas supplies to Bulgaria and Poland on Wednesday for rejecting its demand for payment in roubles, taking direct aim at European economies in a move that also exposed confusion in the European Union on how to respond to Moscow's invasion of Ukraine. (Reuters)
- 8) Earlier, Federal Reserve Chairman suggested that US Fed could raise interest rates by 50 bps points at their meeting early next month and begin reducing their US\$9 trillion asset portfolio.

Ajcon Global's observations and view..

- 1) Indian benchmark indices ended marginally in green. Nervousness was felt among street participants after US Fed hiked interest rates by 50 bps. Earlier, domestically, RBI hiked the repo rate by 40 bps in a surprise move which has affected investor sentiments. There are headwinds like weak global demand outlook led by hawkish stance of global central banks, ongoing war between Ukraine and Russia, rising crude oil prices, increasing COVID-19 cases in China and subsequent lockdown in various parts of China affecting demand, concerns of high inflation across the globe, rising bond yields globally and rupee depreciation. However, domestically, robust GST Collections and Direct Tax collections depict strong revival in Indian economy which will keep bulls in picture.
- 2) Domestically, investors will continue to track ongoing Q4FY22 earnings season which has been mixed so far (street participants will focus on management commentary with regards to demand outlook, how companies are dealing with input cost pressures and supply chain disruptions which will drive market direction).
- 3) There is a strong line up of IPOs upcoming in the near future. We suggest investors to be careful with IPOs that are look expensive and understand the fundamentals based on risk reward profile before taking a decision to invest. No doubt, IPOs of sectors in limelight like E-Commerce, Insurance, companies engaged in Digital space, Speciality chemicals, Companies business model suited to new age, companies having business model which caters to the demands of Electric Vehicles would always gain maximum attention. However, investors need to be careful with expensive IPOs whose valuations are beyond logic. The carnage witnessed in some of the recently listed companies makes a case for investors to be more cautious.
- 4) Before the significant correction led by war between Russia and Ukraine in Ukraine, the domestic sentiments were upbeat as in third wave of COVID-19 led by Omicron variant did not have a major impact on the economy, growth-oriented Union Budget presented by the Finance Minister (we believe the Budget is growth oriented with significant focus on capex - emphasis is laid on Agriculture, MSMEs, Housing, Digital ecosystem, Defence, Electric Vehicles and Solar Power). In addition, factors like good growth in merchandise exports, RBI's dovish stance in its Monetary Policy, good GDP data, robust GST collections, PLI incentives in various sectors, strong vaccination drive, faster than expected economic recovery in Unlock phase, strong Q3FY22 earnings season and management commentary and good spike in retail participation from Tier II and Tier III cities have supported the bulls.
- 5) It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree amidst the ongoing crisis. History has proved that after any crisis, equities recover strongly and give stellar returns. We recommend investors for the near term to Buy quality names on dips and sell on rise considering the volatility in the market in the near term.
- 6) It would be advisable to avoid companies having exposure to Russia, Ukraine and Eastern European countries for the time being. Additionally, companies dependent on crude oil and crude oil derivatives will face margin pressure.



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Supply chain disruptions would also pose a challenge for companies and hence investors need to be careful in selection of stocks.

- 7) Always remember, steep corrections and crash in a structural bull market will keep markets healthy. Structurally, Indian economy is poised to do well after major reforms like thrust on digital economy after demonetisation, implementation of GST, RERA, Insolvency and Bankruptcy Code, reforms in power sector, one of its kind Union Budget announced last year which focused on investment led spending to drive growth with impetus on Privatisation, thrust on Aatmanirbhar Bharat resulting into Production Linked Incentive (PLI) schemes for various sectors, reforms in Direct Taxes, thrust on renewables sector, Ethanol blending, scrapping policy etc.



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