

Indian equities were buoyant led by falling crude oil prices; Auto, FMCG, Paints stocks rally..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	53,750.97	53,134.35	616.62	1.16	53,170.70	53,819.31	53,143.28
Nifty	15,989.80	15,810.85	178.95	1.13	15,818.20	16,011.35	15,800.90

- 1) On Wednesday, Indian benchmark were buoyant today led by falling crude oil prices. The Sensex witnessed a gap up opening of 36.35 points and further rallied strongly to touch an intraday high of 53,819.31. The Sensex finally ended the day up by 616.62 points or 1.16 percent to end at levels of 53,750.97. On the other hand, Nifty closed up by 178.95 points or 1.13 percent. Among the Sensex 30 stocks, the prominent gainers were Bajaj Finserv, Bajaj Finance, Hindustan Unilever, Maruti, Asian Paints, Titan up in the range of 3.21 percent to 4.54 percent.
- 2) The broader markets too were upbeat on Wednesday. The BSE MidCap index was up by 1.76 percent and the BSE SmallCap index was up by 0.94 percent.
- 3) In terms of sectoral indices performance, the major gainers were the BSE Auto index, BSE Consumer Discretionary Goods & Services index, BSE Fast Moving Consumer Goods index, BSE Consumer Durables index, BSE Realty index up in the range of 2.39 percent to 2.73 percent.
- 4) Today, FIIs net sold equities worth Rs. 330.13 Crore. On the other hand, DIIs net bought equities worth Rs. 1,464.33 Crore. Month till date, FIIs net sold equities worth Rs. 3,508.59 Crore. On the other hand, DIIs net bought equities worth Rs. 4,205.84 Crore.

Sectors and stocks

- 1) Shares of Kansai Nerolac moved up by 8.51 percent to Rs. 399.25 after touching an intraday high of Rs. 402.55. Commenting on the performance in Q4FY22 analyst concall conducted earlier, Mr. Anuj Jain, Managing Director of the Company said "During Q4 we recorded a top line growth of 4.2% and for the year the growth was 24.7% top line. If we look at only for the quarter decorative value growth was almost flat and volume growth was negative. During the year, we had some loss of market share in decorative and we gained market share in industrial segment. Decorative where we had a loss of share we feel that the reduction in marketing and promotion expenditure over the last two years has affected our market share. In terms of other highlights of the quarter, it continues to witness inflationary pressures along with the volatility in crude and exchange rates and overall inflation you all are aware every quarter we are talking about it, has been unprecedented during the year. Now in the situation as we spoke about for the Q4 and for the annual where we had a problem related to our margins in industrial where the inflation is relatively higher than if we compare with the decorative and also like more price increase taken while industrial despite the price increase we are not able to mitigate the inflation, I think clearly we have two task in our hand, one that in industrial which is the strength area we have a good market share, we are on the increasing trend, so we like to continue our focus in the industrial to see that how much better we can achieve, but I think the major problem which we talk about how do we get margins in the industrial, so one obvious effort in getting the price increase which last year also we have taken a good price increase, but still not able to mitigate the inflation so one that we will continue to ask for more price increase, but other than that what can we do so that we are able to better our margins. So one action what we are doing in automotive extending technologically superior products such as monocoat medium solid, which we have started introducing to more number of customers because there we can get a little better margins. In the other non-auto part, performance coating business we are increasing our focus to high technology premium range of products where again relatively the margins are better and the lower end items where the margins are severely impacted there we will play low and soft.
- 2) Shares of Tube Investments ended up by 8.44 percent to Rs. 1976.35 after making an intraday high of Rs. 1998.45 on the BSE. Commenting on the financial results, Mr. M.A.M Arunachalam (known as Arun Murugappan), Chairman, Tube Investments of India Ltd said "The results for the quarter show a steady performance by the Company even in the wake of challenges on account of supply constraints, lower domestic demand, increase in fuel and commodity

price fueling inflation, part of which was also as a result of war in Ukraine. Exports have however consistently delivered good growth in Tubes and Industrial Chains business. The Company is taking various measures to mitigate the impact of the above challenges on the business. Our new initiatives in the Clean Mobility business venture will bring diversification of the existing portfolio of our business to fuel growth." In Q4FY22, the company has incorporated a wholly owned subsidiary viz., TI Clean Mobility Private Limited ("TICMPL") as a vehicle to pursue and engage in Clean Mobility and electric three-wheeler business interests. As part of the Clean Mobility interests, TICMPL acquired 70% stake in Cellestial E-Mobility Private Limited on 4th March 2022 which is in the business of manufacture of electric tractors.

- 3) Shares of ABB India closed up by 6.64 percent to Rs. 2518.85 at the BSE after touching an intraday high of Rs. 2532.55. In a major key development, the Company had announced recently that THINK Gas, one of India's fastest growing companies in the city gas distribution business, has brought ABB on board to deliver a digital solution to maximize efficiency, availability and reliability of its expansive city gas network that incorporates multiple remote terminals across distributed locations. ABB will automate operations across THINK Gas' entire network.

Commenting on the Company's performance, Mr. Sanjeev Sharma, Country Head and Managing Director, ABB India said "I am very proud of the team at ABB India who delivered a good start to the year by not only building but accelerating the growth momentum in the face of multiple external uncertainties. All parameters have posted solid growth in the first quarter of CY2022. The surge in orders and one of the strongest order backlog in recent times, demonstrate the high preference for ABB products and the deep customer connect. Factors like ABB technology advantage, our diverse portfolio, and global leverage have enhanced our resilience amidst geopolitical challenges and inflationary pressures."

The Company's total orders surged to Rs. 2,291 crore, the highest for the first quarter in the last five years. The year also started with a healthy increase in export orders across multiple businesses. This demonstrates consistency in leveraging the growth momentum and customer connect across segments, in domestic markets and globally. Electrification was marked by higher orders across divisions especially in smart power and distribution business. Motion Business Area witnessed uptick in systems drives and HV and LV motors continuing the short cycle opportunities. Process Automation gained from conversions in steel industry and refinery segment with higher focus on resource efficiency and clean energy transitions. Energy management systems was another area for order inflows. Service comprising of system upgrades made up a significant portion of the order basket for Robotics and Discrete Automation.

Key recent major developments..

- 1) Oil extended its drop below \$100 a barrel as fears of a global slowdown outweighed continued supply disruptions and market tightness. West Texas Intermediate fell as much as 4.4% with Brent dropping below \$100 a barrel. The international benchmark dropped more than \$10 on Tuesday, its third-largest ever in dollar terms. (Source: Bloomberg).

OPEC Secretary General Mohammad Barkindo said on Tuesday that the industry was "under siege" due to years of under-investment, adding shortages could be eased if extra supplies from Iran and Venezuela were allowed. (Source: Reuters)

- 2) The Reserve Bank of India (RBI) said the global outlook is clouded by recession risks. Consequently, high risk aversion has gripped financial markets, producing surges of volatility, sell-offs of risk assets and large spillovers, including flights to safety and safe haven demand for the US dollar. As a result, emerging market economies (EMEs) are facing retrenchment of portfolio flows and persistent downward pressures on their currencies. India's growth prospects remain strong and resilient. Despite headwinds from geopolitical developments, elevated crude oil prices and tighter external financial conditions, high frequency indicators point to an ongoing recovery in several sectors. Illustratively, the purchasing managers' index (PMI) relating to services accelerated in June 2022 to its highest level since April 2011. The expansion of the merchandise trade deficit in June 2022 underlines the strength of domestic demand. India's external sector has exhibited resilience and viability on the back of robust exports of goods and services and rising remittances. The current account deficit (CAD) is modest. All capital flows barring portfolio investments remain stable and an adequate level of reserves provides a buffer against external shocks. Reflecting these strong fundamentals, the Indian Rupee has depreciated by 4.1 per cent against the US dollar during the current financial year so far (upto July 5), which is modest relative to other EMEs and even major advanced economies (AEs). India's foreign exchange reserves stood at US\$ 593.3 billion as on June 24, 2022, supplemented by a substantial stock of net forward assets.

The RBI decided to undertake measures listed below to enhance forex inflows while ensuring overall macroeconomic and financial stability:

a) Exemption from Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on Incremental FCNR(B) and NRE Term Deposits

At present, banks are required to include all Foreign Currency Non-Resident (Bank) [FCNR(B)] and Non-Resident (External) Rupee (NRE) deposit liabilities for computation of Net Demand and Time Liabilities (NDTL) for maintenance of CRR and SLR. It has been decided that with effect from the reporting fortnight beginning July 30, 2022 incremental FCNR(B) and NRE deposits with reference base date of July 1, 2022 will be exempt from the maintenance of CRR and SLR. This relaxation will be available for deposits mobilised up to November 4, 2022. Transfers from NonResident (Ordinary) (NRO) accounts to NRE accounts shall not qualify for the relaxation.

In addition, RBI has allowed banks temporarily to raise fresh FCNR(B) and NRE deposits without reference to the extant regulations on interest rates, with effect from July 7, 2022. This relaxation will be available for the period up to October 31, 2022.

b) Interest Rates on FCNR(B) and NRE Deposits

At present, interest rates on Foreign Currency Non-Resident Bank [FCNR(B)] deposits are subject to ceilings of Overnight Alternative Reference Rate (ARR) for the respective currency/swap plus 250 basis points for deposits of 1 year to less than 3 years maturity and overnight ARR plus 350 basis points for deposits of 3 years and above and up to 5 years maturity. In case of NRE deposits, as per extant instructions, interest rates shall not be higher than those offered by the banks on comparable domestic rupee term deposits. It has been decided to temporarily permit banks to raise fresh FCNR(B) and NRE deposits without reference to the extant regulations on interest rates, with effect from July 7, 2022. This relaxation will be available for the period up to October 31, 2022.

c) FPI Investment in Debt

Foreign Portfolio Investors (FPIs) can invest in government securities and corporate bonds through three channels: (a) the Medium-Term Framework (MTF) introduced in October 2015; (b) the Voluntary Retention Route (VRR) introduced in March 2019; and (c) the Fully Accessible Route (FAR) introduced in April 2020. In order to encourage foreign portfolio investment, the following changes to the regulatory regime relating to FPI investment in debt flows are being put in place:

- i. Fully Accessible Route (FAR): Currently, all central government securities (G-Secs) with 5-year, 10-year and 30-year tenors are categorized as “specified securities” under the FAR. In order to increase the choice of G-Secs available for investment by non-resident investors under the FAR as also to augment liquidity across the sovereign yield curve, it has been decided that all new issuances of G-Secs of 7-year and 14-year tenors, including the current issuances of 7.10% GS 2029 and 7.54% GS 2036, will be designated as specified securities under the FAR.
- ii. At present, FPI investment in government and corporate debt under the MTF is subject to a macroprudential short term limit viz., not more than 30 per cent of investments each in government securities and corporate bonds can have a residual maturity of less than one year. It has been decided that investments by FPIs in government securities and corporate debt made till October 31, 2022 will be exempted from this short term limit. These investments will not be reckoned for the short term limit till maturity or sale of such investments.
- iii. As part of the macroprudential framework under the MTF, FPIs can invest only in corporate debt instruments with a residual maturity of at least one year. It has been decided that FPIs will be provided with a limited window till October 31, 2022 during which they can invest in corporate money market instruments viz., commercial paper and non-convertible debentures with an original maturity of up to one year. FPIs can continue to stay invested in these instruments till their maturity / sale. These investments will not be included for reckoning the short term limit for investments in corporate securities.

d) Foreign Currency Lending by Authorised Dealer Category I (AD Cat-I) Banks

At present, AD Cat-I banks can undertake overseas foreign currency borrowing (OFCB) up to a limit of 100 per cent of their unimpaired Tier 1 capital or US\$10 million, whichever is higher. The funds so borrowed cannot be used for lending in foreign currency except for the purpose of export finance. It has now been decided that AD Cat-I banks can utilise OFCBs for lending in foreign currency to entities for a wider set of end-use purposes, subject to the negative list set out for external commercial borrowings (ECBs). The measure is expected to facilitate foreign currency borrowing by a larger set of borrowers who may find it difficult to directly access overseas markets. This dispensation for raising such borrowings is available till October 31, 2022.

e) External Commercial Borrowings (ECBs)

Under the automatic ECB route, eligible borrowers are allowed to raise funds through their AD banks, without approaching the RBI, as long as the borrowing is in conformity with the prudential parameters of the ECB framework such as all-in cost ceiling, minimum maturity requirements and the overall dynamic ceiling. RBI has decided to temporarily increase the limit under the automatic route from US\$ 750 million or its equivalent per financial year to US\$ 1.5 billion. The all-in cost ceiling under the ECB framework is also being raised by 100 basis points, subject to the borrower being of investment grade rating. The above dispensations are available up to December 31, 2022. (Source: RBI)

Ajcon Global's observations and view..

- 1) **Short term view:** Indian equities were buoyant on Wednesday and shrugged off concerns/talks over possible recession in US and slowdown concerns in global advanced economies. We believe falling crude oil prices will augur well for the Indian economy and will aid rally in Indian equities in the near term.

Going ahead, investors will take cues from the minutes of the US Fed meet, crude oil price movement and rupee movement against the US Dollar. Domestically, investors will eye Q1FY23 earnings and management commentary. The onset and progress of monsoon in different parts of the nation is also crucial. The recent fall in prices of commodities like copper, aluminium, steel prices will augur well for Indian companies as it will help in bringing down the raw material cost for many companies.

- 2) **Long term view:** 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.
- 3) **Strong line up of IPOs:** 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. The significant fall in the recently listed companies also provide good entry points at the moment.
- 4) **Approach suggested for investors:** It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree. History has proved that after any crisis, equities recover strongly and give stellar returns. One should also remember that not every fall is worth buying and investors should evaluate the Company based on fundamentals and valuation before taking any decision. 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. Considering there are too many macroeconomic variables, we believe markets would give opportunities to enter quality stocks at reasonable valuation. Sector wise Financial sector (specially banking), Pharma, automobile, auto components, Infrastructure & food processing looks attractive at the current valuations.



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