

Indian equities witness significant fall on Monday led by macroeconomic concerns; IT stocks bleed..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	52,846.70	54,303.44	1,456.74	2.68	53,184.61	53,207.54	52,527.08
Nifty	15,774.40	16,201.80	427.40	2.64	15,877.55	15,886.15	15,684.00

- 1) On Monday, Indian equities were under tremendous pressure led by spike in US Treasury yields and sell off in global markets. Earlier, ECB revised baseline inflation projections up significantly and its intent of a rate hike in the coming policy meet which affected investor sentiments. Indian rupee hitting an all time low against the US Dollar also played spoilsport today. There are headwinds like fresh outbreak of COVID-19 cases in China after reopening, RBI hiking repo rate by 50 bps in the recent monetary policy (earlier hiked the repo rate by 40 bps in a surprise move), ongoing war between Russia and Ukraine and its effect on crude oil, commodities and gas prices, rising bond yields, high global inflation especially in US, slowdown concerns in US, hawkish stance of global central banks, Indian rupee falling to its life-time low against the US dollar, US Fed hiking interest rates by 50 bps.
- 2) The Sensex was down by 1,456.74 points or 2.68 percent to end at levels of 52,846.70. On the other hand, Nifty was down by 427.40 points or 2.64 percent. Among the Sensex 30 stocks, the major losers were Bajaj Finserv, Bajaj Finance, IndusInd Bank, Tech Mahindra, ICICI Bank, Tata Consultancy Services down in the range of 4.31 percent to 7.02 percent.
- 3) The broader markets too ended in red. The BSE MidCap index was down by 2.73 percent, while the BSE SmallCap index was down by 3.15 percent.
- 4) In terms of sectoral performance, BSE Information Technology index fell by 3.92 percent, BSE Metal index fell by 3.39 percent, BSE Industrials index fell by 3.35 percent and the BSE Bankex declining by 3.12 per cent.
- 5) Month till date, FIIs sold equities worth Rs. 22,978.97 Crore. On the other hand, DIIs have bought equities worth Rs. 15,901.19 Crore. In May 2022, FIIs had sold equities worth Rs. 54,292.47 Crore. On the other hand, DIIs bought equities worth Rs. 50,835.54.

Sectors and stocks

- 1) Shares of Life Insurance Corporation of India (LIC) continued its losing streak and hit a new low of Rs. 666.90 and finally ended down by 5.85 percent at Rs. 668.20 on the BSE. The lock-in period for anchor investors is ending on Monday, June 13, 2022. The stock of LIC was trading lower for the tenth straight trading day.
- 2) Shares of information technology (IT) companies were under pressure on Monday. Shares of Tata Consultancy Services (TCS), Infosys, Mindtree, Larsen & Toubro Infotech (LTI), L&T Technology Services (LTTS), Tech Mahindra fell in range of 3 percent and 6 per cent on the BSE today.
- 3) Shares of UltraTech Cement hit a new 52-week low of Rs 5,337.95 and finally ended down by 2.81 percent at Rs. 5,355.95 on Monday. The stock has been under pressure after the Company announced its capex plan.
- 4) The stock price of RBL Bank hit a record low of Rs. 86.25 in intraday trade and finally ended down by 22.45 percent at Rs. 87.90. Earlier, the Reserve Bank of India (RBI) approved R Subramaniakumar's appointment as the Managing Director & Chief Executive Officer (MD & CEO) of the private sector lender. "The Reserve Bank of India ("RBI") vide its communication dated June 10, 2022, has approved the appointment of Mr. R Subramaniakumar as Managing Director & CEO of the Bank for a period of three years with effect from date of his taking charge, under Section 35B of the Banking Regulation Act 1949.," RBL Bank said in a exchange filing on Saturday, June 11, 2022.

Key recent major developments..

- 1) Domestically, the Consumer Price Index slipped to 7.04 percent in May 2022 as against 7.79 percent in April 2022. However, it is still above RBI's upper tolerance band of 6 per cent.
- 2) On Monday, the rupee slipped by 11 paise and touched an all time low of 78.04 against the US dollar led by unabated FII selling, sell off in global markets, rising US bond yields and spiking crude oil prices.
- 3) According to data released by the Ministry of Statistics and Programme Implementation (MoSPI), India's factory output growth accelerated to an eight month high at 7.1 per cent in April 2022. The growth was led by growth in Electricity output by 11.8 per cent in April, followed by mining output and manufacturing output rising by 7.8 per cent and 6.3 per cent respectively.
- 4) Fitch Ratings has revised the Outlook on India's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable, from Negative, and has affirmed the IDR at 'BBB-'. "India's strong medium-term growth outlook relative to peers is a key supporting factor for the rating and will sustain a gradual improvement in credit metrics. We forecast growth of around 7% between FY24 and FY27, underpinned by the government's infrastructure push, reform agenda and easing pressures in the financial sector. Nevertheless, there are challenges to this forecast, given the uneven nature of the economic recovery and implementation risks for infrastructure spending and reforms," Fitch said. Fitch Ratings on Friday revised India's GDP growth forecast to 7.8 per cent for the current fiscal (April 2022 to March 2023) from the 8.5 per cent owing to inflationary impacts of the global commodity price shock which is dampening some of the positive growth momentum.
- 5) Globally, US consumer inflation in May reached its highest level in more than four decades led by rising energy and food prices pushed prices higher. The Labor Department on Friday said that the consumer-price index increased 8.6 % in May from the same month a year ago, marking the highest reading since December 1981. Record gasoline prices and geopolitical factors threaten to keep inflation high in the coming months, suggesting the Fed will have to pump the brakes on the economy for longer.
- 6) The European Central Bank (ECB) intends to hike interest rates by 25 basis points at its July monetary policy meeting. ECB expects to raise the key interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting. In the meantime, the ECB decided to leave the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.50% respectively. ECB in its Monetary policy said, Russia's unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials, and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again.
- 7) The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) on Wednesday unanimously voted to increase the benchmark policy rate by 50 basis points thereby taking the repo rate to 4.90 per cent. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65 per cent and the marginal standing facility (MSF) rate and the bank rate to 5.15 per cent. The MPC also voted unanimously to remain focused on the withdrawal of accommodation to ensure that inflation remains within range going forward, while supporting growth. While the real GDP growth forecast for FY23 has been retained at 7.2 per cent, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent and Q4 at 4.0 per cent.

RBI Governor Shaktikanta Das said "With the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US\$ 105 per barrel, inflation is now projected at 6.7 per cent in 2022-23, with Q1 at 7.5 per cent; Q2 at 7.4 per cent; Q3 at 6.2 per cent; and Q4 at 5.8 per cent, with risks evenly balanced. It may be noted that around 75 per cent of the increase in inflation projections can be attributed to the food group. Further, the baseline inflation projection of 6.7 per cent for 2022-23 does not take into account the impact of monetary policy actions taken today. The MPC noted that inflation is likely to remain above the upper tolerance band of 6 per cent through the first three quarters of FY23. It may be noted that around 75 per cent of the increase in inflation projections can be attributed to the food group. Between February and April, headline inflation increased by about 170 basis points. With no resolution of the war in sight and the upside risks to inflation, prudent monetary policy

measures would ensure that the second-round effects of supply side shocks on the economy are contained and long-term inflation expectations remain firmly anchored and inflation gradually aligns close to the target.

The monetary policy actions, including withdrawal of accommodation, will be calibrated keeping in mind the requirements of the ongoing economic recovery", Das said.

RBI Governor Shaktikanta Das The Indian banking system also remains strong and its health has improved in recent years as reflected in key indicators – capital adequacy, asset quality, provisioning coverage and profitability. Bank credit offtake has gradually improved in the recent months, supported by both resilience of the banking system and progressive normalisation of economic activity. The strength of the banking sector and deleveraged corporate balance sheets will help us in sustaining the economic recovery.

He further added "India's exports have performed exceptionally well despite weakening recovery across major trading partners. The impact of rising crude oil prices on petroleum, oil and lubricants (POL) import bill has been partly offset by export of petroleum products, which also benefitted from better price realisations in recent months. Optimism on exports of both goods and services and remittances should help contain the current account deficit (CAD) at a sustainable level, which can be financed by normal capital flows. As on June 3, 2022, India's foreign exchange reserves were of the order of US\$ 601.1 billion, which are further supplemented by a healthy level of net forward assets of the RBI."

At Ajcon Global, we believe the banks are rather benefitted by the hike in the rates by RBI in its Monetary policy as a large part of credit portfolio is under automatic route of increase linked with Repo and MCLR increase will come into effect soon, whereas the deposit rate increase has a lot of time lag.

Ajcon Global's observations and view..

- 1) **Short term view:** Investors will take cues from the upcoming US Fed meet (expectations of big rate hike) which can dampen sentiments as growth outlook would be affected. Domestically, COVID-19 cases are increasing which will too play on investors mind as after China's reopening from lockdown there has been a fresh outbreak of COVID-19 cases. With CPI Inflation and IIP data out, investors will track WPI data and onset and progress of monsoon in different parts of the nation, and crude oil price movement.

At the time of writing report, US benchmark indices were under significant pressure which indicates a subdued start on Tuesday for Indian indices and other Asian peer indices as well. We expect market to be volatile considering headwinds like rising crude oil prices, high inflation across the globe especially in US, slowdown concerns in US, rupee falling to all time low against the US Dollar and US Fed hiking interest rates by 50 bps. There are other headwinds like weak global demand outlook led by hawkish stance of global central banks, ongoing war between Ukraine and Russia, rising bond yields globally. However, domestically, robust GST Collections in the past few months and Direct Tax collections depict strong revival in Indian economy which will keep bulls in picture. The recent fall and any further steep decline should be considered as a Buying opportunity in quality names.

- 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.
- 4) **Approach suggested for investors:** 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. It would be advisable to avoid companies having exposure to Russia, Ukraine and Eastern European countries for the time being.



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Additionally, companies dependent on crude oil and crude oil derivatives will face margin pressure. Supply chain disruptions would also pose a challenge for companies and hence investors need to be careful in selection of stocks.



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