

US inflation hits fresh 40 year high which results in high probability of aggressive rate hike by the US Fed; Indian equities likely to remain under pressure..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Nifty	15,966.65	16,058.30	91.65	0.57	16,128.20	16,140.00	15,950.15
Sensex	53,514.15	53,886.61	372.46	0.69	54,210.10	54,211.22	53,455.26

- 1) On Wednesday, Indian benchmark indices were under pressure as investors turned cautious ahead of US inflation data which was released after Indian market hours. The Nifty witnessed a gap up opening of 69.9 points led by domestic factors like good IIP data and ease in retail inflation. However, later during the day, the Nifty gave up all the gains and was under pressure throughout the day and finally ended down by 91.65 points or 0.57 percent to end at levels of 15,966.65. Among the Nifty 50 stocks, the prominent losers were IndusInd Bank, HDFC, Bharti Airtel, HDFC Bank, Reliance Industries down in the range of 1.71 percent to 3.13 percent. On the other hand, Sensex closed down by 372.46 points or 0.69 percent.
- 2) However, the broader markets were upbeat on Wednesday. The Nifty Midcap 100 index was up by 0.16 percent and the Nifty Smallcap 100 index was up by 0.22 percent.
- 3) In terms of sectoral indices performance, the major losers were the Nifty Oil & Gas index, Nifty Power Index, Nifty Private Bank, Nifty Financial Services index, Nifty Bank index down in the range of 0.87 percent to 1.32 percent.
- 4) Today, FIIs net sold equities worth Rs. 2,839.52 Crore. On the other hand, DIIs net bought equities worth Rs. 1,799.22 Crore. Month till date, it has been observed that FIIs intensity of selling has reduced and has net sold equities worth Rs. 9,118.83 Crore as against FII selling of Rs. 22,978.97 Crore in the month of June 2022 (upto June 13, 2022). On the other hand, DIIs net bought equities worth Rs. 6,863.98 Crore (month till date) as against Rs. 15,901.19 Crore in the same period of June 2022.
- 5) On Wednesday, the rupee further depreciated and hit a record low of 79.6675 against the US Dollar which will continue to affect investor sentiments and RBI will have its task cut out to control rupee from further depreciating.

Sectors and stocks

- 1) Shares of KEC International moved up by 9.56 percent to Rs. 448.10 on Wednesday on the NSE. KEC International is a global infrastructure Engineering, Procurement and Construction (EPC) major. It has presence in the verticals of Power Transmission and Distribution, Railways, Civil, Urban Infrastructure, Solar, Smart Infrastructure, Oil & Gas Pipelines, and Cables. The Company is currently executing infrastructure projects in 30+ countries and has a footprint in 110+ countries (includes EPC, Supply of Towers and Cables). It is the flagship Company of the RPG Group.

Recently, the Company had secured new orders of Rs. 1,092 crores across its various businesses: Transmission & Distribution (T&D): The business has secured orders for T&D projects in India, Middle East and Americas. Railways: The business has secured an order for 2 x 25 kV Overhead Electrification (OHE) & associated works for speed up-gradation (Mission 'Raftaar') in India. Civil: The business has secured orders in the Residential, Industrial and Defence segments in India. Cables: The business has secured orders for various types of cables in India and overseas.
- 2) Shares of Anupam Rasayan India ended up by 7.37 percent to Rs. 705.55 at the NSE on Wednesday. The Company is a established Custom Synthesis player with 38 years of track record. Specializes in multi-step synthesis undertaking complex chemical reactions to produce key specialty chemicals with focus on developing innovative manufacturing processes. It is catering to globally relevant chemical & agrochemical companies, including 25 MNC



and cumulative 68 clients. The Company has ~27,200 MT Manufacturing Capacity, spread over 6 manufacturing facilities. In addition, the Company has strong supply chain with backward integrated facilities.

Commenting on the performance of the Company, Mr. Anand Desai - Managing Director of the Company in Q4FY22 analyst concall conducted earlier said "We have seen our PAT more than doubling this year vis-a-vis financial year '21 which has culminated into a PAT margin expansion of almost 600 basis points. We continue to deliver value to our stakeholders by the means of increased top line and bottom line which is driven by volume ramp-up, which was a result of enhanced trust of our existing customers and continued financial and operational prudence. We specialize in the synthesis and manufacturing of life science related and other specialty chemicals that need multi-step synthesis and sophisticated technologies for the broad base of Indian and global clients. He added "Our expansion of fluorination chemistry will drive our next phase of growth, which has been strengthened by our successful acquisition of Tanfac's 26% stake from Aditya Birla Group and public open offer on a combined basis. And by the means of this acquisition, we look forward to backward integrate our supply chain in this vertical and further focus on producing high-value high-margin volumes that have application in varied industries which should enhance our margin profile. Initially, we will be focusing on 3 key fluorination segments, especially fluoropolymer. The potential topline addition from this will be at \$100-200 million per annum in the medium to long term. "

We believe the Company's business prospects are good due to the following factors: a) global firms looking to shift from China to India is beneficial to the Company, b) core focus on process innovation through consistent research and development, value engineering and complex chemistries, c) diversified and customized product portfolio with a strong supply chain, d) automated manufacturing facilities, e) continue to focus on custom synthesis and manufacturing by developing innovative processes and value engineering, f) expand its business by capitalizing on industry opportunities and organic and inorganic growth, g) low dependence on raw material imports from China, h) established relationships with multinational corporations, i) automated manufacturing infrastructure and j) decent financial and operational performance.

- 3) Shares of Clean Science Technology closed up by 6.89 percent to Rs. 1,603.55 on the NSE after touching an intra-day high of Rs. 1,613.90. Commenting on the performance of the Company, Mr. Siddharth Sikchi Promoter and Executive Director of the Company in its Q4FY22 analyst concall conducted earlier said "Performance chemicals remains as our key growth driver, and it contributes 70% of our revenue. New products which have been introduced in this segment have started contributing and will gradually start ramping up in the coming quarters. Price hike that have undertaken helped us improve our realization across all products. A little bit on Capex in FY22, we did a Capex of about 140 crores, which was the highest ever Capex in the history of Clean Science. Majority Capex was undertaken at our upcoming unit three where we commissioned two plants, PBQ and TBHQ, which are newer products for us. We doubled our anisole capacity and increased BHA capacity by 50%. We have also increased capacities of MEHQ and Guaiacol by 50% and the plant was commissioned two months ago that is in April. We are also in the process of doubling our PBQ capacity, which should happen in second half FY23. Construction work for our new two plants, is on track in Unit three, which is for HALS Series 701 & 770, and this, we aim to commercialize in H2 FY23."

We believe the Company is a strong play in Speciality Chemicals space as the Company has de-risked business model with product applications across various critical end-user industries, demonstrated resilient performance over business cycles and robust fundamentals like Company being debt free, strong return profile with high ROCE: 51.5% in FY22 and ROE of 29.7 percent in FY22 along with good free cashflows.

Key recent major developments..

- 1) The annual inflation rate in the US accelerated to 9.1% in June of 2022, the highest since November of 1981, from 8.6% in May and above market forecasts of 8.8%. Energy prices rose 41.6%, the most since April 1980, boosted by gasoline (59.9%, the largest increase since March 1980), fuel oil (98.5%), electricity (13.7%, the largest increase since April 2006), and natural gas (38.4%, the largest increase since October 2005). Food costs surged 10.4%, the most since February 1981, with food at home jumping 12.2%, the most since April 1979. Prices also increased significantly for shelter (5.6%, the most since February 1991), household furnishings and operations (9.5%), new vehicles (11.4%), used cars and trucks (1.7%), and airline fares (34.1%). Core CPI which excludes food and energy increased 5.9%, slightly below 6% in May, but above forecasts of 5.7%. (Source: Trading Economics)
- 2) The dollar surged to a 20-year high against a basket of currencies and the euro broke below parity against the greenback after data on Wednesday showed U.S. consumer price inflation surged to a 40-1/2-year high in June. (Source: Reuters)

Ajcon Global's observations and view..

- 1) **Short term and medium term view:** Indian equities were under pressure led by weak global cues, FII selling, and fall in Oil & Gas, Banking and Financial Services stocks today. At the time of writing this report, US benchmark indices were under tremendous pressure led by US inflation hitting a 40 year high and investors now expecting aggressive rate hike by the US Fed which would affect demand outlook. There are also fresh concerns that Europe may get into recession if Russia cuts natural gas supply to European industries which affected market sentiments.

Considering the above factors, Indian equities are again poised for weak opening on Thursday. However, domestically factors like good IIP data and reduced retail inflation will also keep bulls in the hunt which can make markets volatile.

With global demand outlook getting affected, we expect crude oil prices to fall. In the medium term, Indian equities are expected to remain positive led by factors like falling crude oil prices and recent fall in prices of the commodities like copper, aluminium, steel prices augur well for Indian companies and economy as a whole. Fundamentally, the decline in crude oil prices will help rupee to stabilise as it will reduce imported inflation. Sectors like Paints, Oil Marketing Companies, Speciality Chemicals stands to benefit from decline in crude oil prices.

Going ahead, investors will take cues from COVID-19 related developments in China, Russia - Ukraine War, economic developments in US and European countries, crude oil price movement, rupee movement against the US Dollar. Domestically, investors will keep an eye on Q1FY23 earnings and management commentary especially on raw materials price front and its outlook for future considering the recent fall in commodity prices, pricing scenario and supply chain related developments as it has a huge bearing on logistics costs, guidance on growth especially companies having exposure to US and European markets.

- 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) **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 led by too many macroeconomic variables at the moment. We believe markets would give opportunities to enter quality stocks at reasonable valuation. Sectorally speaking, Financial sector (specially banking), Pharma, automobile, auto components, Infrastructure & food processing looks attractive at the current valuations.



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