

Domestic bourses face significant pressure on Ukraine - Russia tensions; jump in crude oil prices affect investor sentiments..

| Index | Today's Close | Prev. close | Change | % change | Open | High | Low |
|---------------|---------------|-------------|-----------------|-------------|-----------|------------------|-----------|
| Sensex | 56,405.84 | 58,152.92 | 1,747.08 | 3.00 | 56,720.32 | 57,191.91 | 56,295.70 |
| Nifty | 16,842.80 | 17,374.75 | 531.95 | 3.06 | 17,076.15 | 17,099.50 | 16,809.65 |

- 1) Indian benchmark under significant pressure today led by Ukraine - Russia tensions which has led to jump in crude oil prices - trading above \$95 per barrel-mark. There are also fears that US Fed soon start hiking interest rates which has also affected sentiments.
- 2) The Sensex was down by 1,747.08 points or 3.00 percent to end at levels of 56,405.84. Among the Sensex 30 stocks, Tata Steel, HDFC, SBI, and ICICI Bank were down in the range of 4.7 - 5.5 per cent, while IndusInd Bank, Kotak Bank, Maruti, L&T, NTPC, Axis Bank, Bharti Airtel, Wipro, ITC, and HDFC Bank dropped in the range of 3 to 4.5 per cent. On the other hand, TCS was up by 1 percent.
- 3) The Nifty was down by 531.95 points or 3.06 percent to end at levels of 16,842.80.
- 4) The broader markets too were bleeding. The BSE MidCap index and the BSE SmallCap index was down by 3.5 percent and 4 percent respectively.
- 5) In terms of sectoral performance, IT and PSB indices declined by around 3 percent and 2 percent respectively.
- 6) Today, FIIs were net sellers and sold equities worth Rs. 4,253.70 Crore. On the other hand, DIIs were net buyers and bought equities worth Rs. 2,170.29 Crore. Month till date, FIIs have sold equities worth Rs. 13,966.30 Crore while DIIs in the same period have purchased equities worth Rs. 8,007.54 Crore.

Sectors and stocks

- 1) Shares of Housing Development Finance Corporation (HDFC Ltd) hit a 52-week low of Rs. 2,321, down 4 per cent on the BSE in Monday's intra-day trade. The stock of the Company has declined by 11 per cent in the last eight trading sessions after the company announced its December quarter (Q3FY22) results on February 2, 2022. The stock fell below its previous low of Rs. 2,354.10 touched on May 5, 2021. In Q3FY22, HDFC witnessed a rise of 11 per cent in net profit at Rs 3,261 crore, on the back of higher income and lower-than-expected credit loss. Net interest income (NII) of the Company increased by 7 per cent to Rs 4,284 crore in Q3FY22 compared to Rs 4,005 crore in the year-ago period and net interest margin stood at 3.6 per cent.
- 2) Shares of Oil & Natural Gas Corporation (ONGC) hit a fresh 32-month high at Rs 176.40, on rallying 5 per cent on the BSE in Monday's intra-day trade as oil prices hit their highest in more than seven years on fears a possible invasion of Ukraine by Russia. The stock surpassed its previous high of Rs 174.80 touched on January 31, 2022. It traded at its highest level since May 2019. In Q3FY22, the Company witnessed around seven-fold jump in December quarter (Q3FY22) net profit after higher oil and gas prices offset a drop in production. ONGC has drawn up plans to increase its capex spend in the next few years. A major part of this spend will be on exploration with acquisition of new acreages; use of latest technology in seismic data acquisition, Processing and Interpretation (API) and on development and infrastructure projects for fast tracking the monetization of discovered resources. ONGC is also in the process of incorporating a wholly owned subsidiary to focus and grow its gas business, the management said. In the past six months, the stock of ONGC has outperformed the market by surging nearly 50 per cent, as compared to 3 per cent rise in the S&P BSE Sensex.

Key recent major developments..

- 1) Auto industry body SIAM said Passenger vehicle dispatches from factories to dealers in India fell 8 per cent in January, mainly due to semiconductor shortage. The total passenger vehicle wholesales dropped to 2,54,287 units in January 2022 as compared to 2,76,554 units in the same month of last year. "Sales in January 2022 again

declined compared to January 2021, due to both Omicron-related concerns and semiconductor shortage. There is clearly a demand issue for two-wheelers due to lower rural off-take of entry level models," Society of Indian Automobile Manufacturers (SIAM) Director General Rajesh Menon said. On the other hand, the passenger vehicle segment is unable to meet the market demand due to supply side challenges, he added. "Three wheelers continue to be severely affected due to lower sales," Menon said.

- 2) India's factory output growth decelerated to its lowest in 10 months at 0.4 percent in December as the third wave of the pandemic led to lockdowns across the country causing disruptions in economic activities. Data released by the statistics department showed manufacturing output contracted 0.1 per cent in December while mining and electricity grew at 2.6 per cent and 2.8 per cent, respectively. During the month, output of capital goods, consumer durables and consumer non-durables contracted while output of intermediate goods remained almost unchanged compared to their levels a year ago.
- 3) The RBI in its Monetary Policy kept the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

In terms of outlook by RBI in the monetary policy - Recovery in domestic economic activity is yet to be broad-based, as private consumption and contact-intensive services remain below pre-pandemic levels. Going forward, the outlook for the Rabi crop bodes well for agriculture and rural demand. The impact of the ongoing third wave of the pandemic on the recovery is likely to be limited relative to the earlier waves, improving the outlook for contact-intensive services and urban demand. The announcements in the Union Budget 2022-23 on boosting public infrastructure through enhanced capital expenditure are expected to augment growth and crowd in private investment through large multiplier effects. The pick-up in non-food bank credit, supportive monetary and liquidity conditions, sustained buoyancy in merchandise exports, improving capacity utilisation and stable business outlook augur well for aggregate demand. Global financial market volatility, elevated international commodity prices, especially crude oil, and continuing global supply-side disruptions pose downside risks to the outlook.

Taking all these factors into consideration, the real GDP growth for 2022-23 is projected at 7.8 per cent with Q1:2022-23 at 17.2 per cent; Q2 at 7.0 per cent; Q3 at 4.3 per cent; and Q4:2022-23 at 4.5 per cent

The MPC notes that inflation is likely to moderate in H1:2022-23 and move closer to the target rate thereafter, providing room to remain accommodative. Timely and apposite supply side measures from the Government have substantially helped contain inflationary pressures. The potential pick up of input costs is a contingent risk, especially if international crude oil prices remain elevated.

The pace of the domestic recovery is catching up with pre-pandemic trends, but private consumption is still lagging. COVID-19 continues to impart some uncertainty to the future outlook. Measures announced in the Union Budget 2022-23 should boost aggregate demand. The global macroeconomic environment is, however, characterised by deceleration in global demand in 2022, with increasing headwinds from financial market volatility induced by monetary policy normalisation in the systemic advanced economies (AEs) and inflationary pressures from persisting supply chain disruptions. Accordingly, the MPC judges that the ongoing domestic recovery is still incomplete and needs continued policy support.

- 4) Finance Minister Nirmala Sitharaman on Thursday said banks have sanctioned loans worth Rs. 3.1 lakh crore under the Emergency Credit Line Guarantee Scheme (ECLGS) for the MSME sector that was impacted by disruptions due to the coronavirus pandemic. The scheme has been extended till March 2023.
- 5) According to Federation of Automobile Dealers Associations (FADA) Retail sales of auto manufacturers in the country declined by 10.70% in January 2022 as compared to the year-ago period. As per the data released by FADA, sales of three-wheeler and commercial vehicles (CVs) were up by 30 percent and 20.5 per cent respectively while sales of two-wheelers, passenger vehicles (PV), and tractors fell by 13 per cent, 10 per cent, and 10 per cent, respectively. According to FADA, the PV inventory at the end of January 2022 was at a 'historic low' of 8-10 days. On the other hand, the 2W inventory has come down to 25-30 days.
- 6) Globally, the European Central Bank kept interest rates unchanged in spite of record inflation levels across the euro zone.

- 7) Globally, US Labour Department data showed that inflation soared over the past year at its highest rate in four decades reinforcing the Federal Reserve's decision to begin raising borrowing rates across the economy. The consumer price index rose 7.5% year over year in January, while the expectation was for an increase of 7.3%.
- 8) After US Fed's hawkish stance, Bank of England (BoE) raised interest rate for the second consecutive time and has raised interest rate to 0.5 percent from 0.25 percent to control surging inflation. The BoE also expects inflation to peak at over 7 percent in April. The BOE also said it would begin slowly reducing the size of its bond-buying program. In another key development, US President Joe Biden announced that ISIS leader Abu Ibrahim al-Hashimi al-Qurayshi died in a counterterrorism mission in northwest Syria.
- 9) GST collection in January crossed Rs. 1.38 trillion in January, a growth of 15 per cent over the year-ago period, on pickup in economic activity and anti-evasion measures, the Finance Ministry said on Monday. Total number of GSTR-3B returns filed up to January 30, 2022, is 10.5 million, which includes 3.6 million quarterly returns. January is the fourth month when Goods and Services Tax (GST) collection has crossed the Rs 1.3 trillion-mark, and seventh month in a row when it crossed the Rs. 1 trillion-mark. In December the collection was over Rs 1.29 trillion. "The gross GST revenue collected in the month of January 2022 till 3 PM on January 31, 2022, is Rs. 1,38,394 crore of which CGST is Rs 24,674 crore, SGST is Rs 32,016 crore, IGST is Rs 72,030 crore (including Rs 35,181 crore collected on import of goods) and cess is Rs 9,674 crore (including Rs 517 crore collected on import of goods)," the ministry said. The highest monthly GST collection has been Rs 1.39 trillion in the month of April 2021.
- 10) Advance estimates suggest that the Indian economy is expected to witness real GDP expansion of 9.2 per cent in 2021-22 after contracting in 2020-21. This implies that overall economic activity has recovered past the pre-pandemic levels. Almost all indicators show that the economic impact of the "second wave" in Q1 was much smaller than that experienced during the full lockdown phase in 2020-21 even though the health impact was more severe.

"With the vaccination programme having covered the bulk of the population, economic momentum building back and the likely long-term benefits of supply-side reforms in the pipeline, the Indian economy is in a good position to witness GDP growth of 8.0-8.5 per cent in 2022-23. The Economic survey said that "The projection is based on the assumption that there will be no further debilitating pandemic related economic disruption, monsoon will be normal, withdrawal of global liquidity by major central banks will be orderly," according to the survey. It also depends on oil price being in the range of \$70-\$75 a barrel and global supply chain disruptions easing.

"Nonetheless, the global environment still remains uncertain. At the time of writing, a new wave in the form of the Omicron variant was sweeping across the world, inflation had jumped up in most countries, and the cycle of liquidity withdrawal was being initiated by major central banks. This is why it is especially important to look at India's macroeconomic stability indicators and their ability to provide a buffer against the above stresses. Despite all the disruptions caused by the global pandemic, India's balance of payments remained in surplus throughout the last two years. This allowed the Reserve Bank of India to keep accumulating foreign exchange reserves (they stood at US\$ 634 billion on 31st December 2021). This is equivalent to 13.2 months of merchandise imports and is higher than the country's external debt. The combination of high foreign exchange reserves, sustained foreign direct investment, and rising export earnings will provide an adequate buffer against possible global liquidity tapering in 2022-23. "said Economic Survey 2021-22 released ahead of the Union Budget.

The Economic Survey 2021-22 said Agriculture and allied sectors have been the least impacted by the pandemic and the sector is expected to grow by 3.9 per cent in 2021-22 after growing 3.6 per cent in the previous year. Advance estimates suggest that the GVA of Industry (including mining and construction) will rise by 11.8 per cent in 2021-22 after contracting by 7 per cent in 2020-21. The Services sector has been the hardest hit by the pandemic, especially segments that involve human contact. This sector is estimated to grow by 8.2 per cent this financial year following last year's 8.4 per cent contraction. Total Consumption is estimated to have grown by 7.0 per cent in 2021-22 with significant contributions from government spending. Similarly, Gross Fixed Capital Formation exceeded pre-pandemic levels on the back of ramped up public expenditure on infrastructure. Exports of both goods and services have been exceptionally strong so far in 2021-22, but imports also recovered strongly with recovery in domestic demand as well as higher international commodity prices.

- 11) US Federal Reserve is likely to raise US interest rates in March and is also expected to end its bond purchase programme before going for significant reduction in its asset holdings.

Ajcon Global's observations and view

- 1) Indian benchmark indices were under pressure led by Ukraine - Russia tensions. There are headwinds like rising crude oil prices and fears of US Fed hiking interest rates, fears of liquidity tightening and hawkish stance of global central banks amidst spike in global inflation, strong FII selling and India-China tensions.

- 2) It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree. Always remember, corrections in a bull market will keep markets healthy. Structurally, Indian equities are 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, 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. India today has emerged as a potential destination for investment.
- 3) There is a strong line up of IPOs. We suggest investors to be careful about the forthcoming IPOs and understand the fundamentals based on risk reward profile. 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 correction, the sentiments were upbeat as in third wave of COVID-19 led by Omicron variant, death rates have been lower so far as compared to devastating Delta variant. Despite significant spike in COVID-19 cases on daily basis, the hospitalisation rates are also lower. The restrictions imposed too by various states so far are not a major dampener to economic activity. In addition, factors like good growth in merchandise exports, RBI's accommodative stance in its Monetary Policy, good GDP data, robust GST collections, strong manufacturing PMI, PLI incentives in various sectors, strong vaccination drive, faster than expected economic recovery in Unlock phase, expectations of strong Q3FY22 earnings season, good Q2FY22 earnings season and management commentary, good economic activity witnessed in the festive season of Navratri, Diwali, Christmas, New Year and good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis.
- 5) With overall domestic sentiments uplifted after dovish stance of RBI in its Monetary policy, 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), strong GST collections, investors will now keenly track global cues, last leg of ongoing Q3FY22 earnings season with management commentary for the future, global inflation data, US Treasury yields and crude oil price movement. The upcoming assembly elections in Uttar Pradesh, Punjab, Uttarakhand, Goa and Manipur will also play in investors mind.



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