

Benchmark indices remain under pressure amidst volatility; midcaps and smallcaps buck the trend and rally..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	52,541.39	52,693.57	152.18	0.29	52,650.41	52,867.73	52,493.36
Nifty	15,692.15	15,732.10	39.95	0.25	15,729.25	15,783.65	15,678.90

- 1) On Wednesday, Indian benchmark continued to be in red amidst high volatility as investors turned nervous ahead of US Fed meet outcome and ECB announcing unscheduled meeting. Later on the day after Indian market closing, the US Fed hiked interest rates by 75 bps, biggest since 1994. Additionally, Wholesale Price Index (WPI) inflation rising to 15.8 percent in May, spike in US Treasury yields and sell off in global markets affected investors sentiments. 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 is also playing in investors mind. The overall mood has been affected led by fresh outbreak of COVID-19 cases in China after reopening, increasing COVID-19 cases in India, 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 with no signs of cooling off, rising crude oil prices, commodities and gas prices, increasing bond yields, high global inflation especially in US, slowdown concerns in US and hawkish stance of global central banks.
- 2) The Sensex was down by 152.18 points or 0.29 percent to end at levels of 52,541.39. On the other hand, Nifty was down by 39.95 points or 0.25 percent. Among the Sensex 30 stocks, the major losers were NTPC, Infosys, Reliance Industries, Wipro, Hindustan Unilever, Tech Mahindra down in the range of 1.01 percent to 2.02 percent. On the other hand, Bajaj Finserv, Bajaj Finance, Tata Steel, Larsen and Toubro, Asian Paints, State Bank of India were the major gainers up in the range of 0.83 percent to 4.23 percent.
- 3) However, the broader markets bucked the trend witnessed in benchmark indices and ended in green. The BSE MidCap index was up by 0.52 percent, while the BSE SmallCap index was up by 0.49 percent.
- 4) In terms of sectoral indices performance, the BSE Auto index was the top gainer, up by 0.90 percent followed by BSE Industrials index moving up by 0.60 percent. On the other hand, BSE Power index declined by 0.91 percent, BSE Energy index fell by 0.82 percent, BSE Oil & Gas index slipping by 0.81 percent were the major losers.
- 5) Month till date, FIIs sold equities worth Rs. 31,012.37 Crore. On the other hand, DIIs have bought equities worth Rs. 22,296.79 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 APL Apollo Tubes Limited ended up by 5.83 percent to Rs. 926.65 on the BSE. It may be noted that the Company had reported good performance in Q4FY22. Commenting on the Company's performance for FY22, Mr. Sanjay Gupta, Chairman, APL Apollo, said, "APL Apollo Tubes Ltd is the dominant leader in Indian structural steel tube industry. I feel proud of the way Team APL Apollo again executed a strong business continuity plan focused on Health, Cost and Cash and demonstrated all round performance. With our continuous focus on working capital and cost efficiencies, we performed better on all fronts in FY22: 1) EBITDA increased 39% and Net profit increased 55%, 2) Net working capital cycle sustained at 7days. 3) A final dividend at the rate of Rs.3.5 per share of the Company has been recommended by the Board of Directors today for the financial year ended 31 March 2022." Mr. Anubhav Gupta - The Chief Strategy Officer in its Q4FY22 analyst concall conducted earlier had said " FY22 has been very eventful year when we started the financial year was a second wave of Corona which hit the nation badly and by the time we close the year there was Russia-Ukraine war which also kind of impacted the year in a big way, but I am very glad to share that we have ended FY22 on a very high note and we were able to make a perfect pyramid with sales volume growth of 7%, EBITDA rising by 39% and PAT rising by 55%. The volumes were soft in the first 9

months, but we picked up very strongly in the Q4 with 27% YoY growth and closed FY22 with the highest ever volume of 1.75 million tons. Our EBITDA per ton improved to Rs. 5,400 from Rs. 4,200 per ton this was drive by value addition, brand premium and market fold which we saw in the first half of FY22 and now we are confident that our margins going forward should be in range of Rs. 4,500 to Rs. 5,500 per ton."

- 2) Shares of Varun Beverages Limited (VBL) hit a record high of Rs. 805.45, 5 per cent on the BSE in Wednesday's intra-day trade and finally ended at Rs. 787.20, up by 2.13 percent. Commenting on the Q1CY22 performance, Mr. Ravi Jaipuria - Chairman of the Company in its analyst concall conducted earlier said " We have started the year on a strong note, delivering notable growth across all parameters. Robust demand in both domestic and international markets also supported by the early onset of summer in India, translated to healthy volumes during the quarter, which grew by 18.7%. This along with improved net realizations resulted in a solid net revenue growth of 26.2% in Q1 2022. On the profitability front as well, we have delivered enhanced performance despite significant increase in input cost witnessed during the quarter. Our EBITDA grew by 39.1% and our margins improved to 18.8% in Q1 2022. On the demand front, we are seeing a solid uptick in consumption. The summer season in the domestic market has begun well and as we enter the peak months, we are well prepared to cater to the anticipated demand by optimizing our capacity Page 2 of 12 utilization across all plants and further enhancing our reach across established and underpenetrated markets. During the quarter, the Board approved the proposal to manufacture "Kurkure Puffcorn" for PepsiCo India, as part of their network of co-packers. The commercial production is expected to begin from quarter three of 2022. As we look ahead, on the back of an improving demand environment, we remain confident of delivering healthy volume growth in the medium to long-term. We are also happy to share that as a token of appreciation to all our shareholders, the Board today has recommended a bonus issue of one equity share for every two shares held by shareholders of the Company as on the record date. Overall, our initiatives towards improving our market share, building infrastructure, and expanding reach continue to hold us in good stead and we are confident of delivering strong and sustainable growth going forward".

Key recent major developments..

- 1) The US Fed hiked interest rates by 75 bps to 1.75 percent, the biggest hike in 28 years since 1994 which was as per expectations of the global investors. The US Fed said in its press release "The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The invasion and related events are creating additional upward pressure on inflation and are weighing on global economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks." It further added "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 1-1/2 to 1-3/4 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective."
- 2) In another key development, The European Central Bank promised fresh support on Wednesday to temper a market rout that has fanned fears of a new debt crisis on the euro area's southern rim but appears to have disappointed investors looking for bolder steps Government borrowing costs have soared on the 19-country currency bloc's periphery since the ECB unveiled plans last Thursday to raise interest rates to tame painfully high inflation that is at risk of becoming entrenched. The sell-off was then exacerbated by the ECB's vague commitment to limit the rise in borrowing costs, raising fears that policymakers were abandoning more indebted nations, such as Italy, Spain and Greece. Keen to avoid the repeat of the debt crisis that almost brought down the single currency a decade ago, the ECB reversed course just six days later, unveiling plans for a new support scheme and directing cash from debt maturing in a recently-ended 1.7 trillion euro (\$1.8 trillion) pandemic support scheme towards indebted nations. (Source: Reuters).
- 3) OPEC has stuck with its forecast that world oil demand will exceed pre-pandemic levels in 2022, although the producer group said Russia's invasion of Ukraine and developments around the coronavirus pandemic pose a considerable risk. In a monthly report released on Tuesday, the Organization of the Petroleum Exporting Countries (OPEC) maintained its forecast that world oil demand would rise by 3.36 million barrels per day (bpd) in 2022, extending a recovery from 2020's slump. The Ukraine war sent oil briefly above \$139 a barrel in March, the highest since 2008, worsening inflationary pressures. COVID lockdowns in China, where a Beijing outbreak has prompted the resumption of mass testing, have curbed oil demand. "Looking ahead, current geopolitical developments and the uncertain roll-out of the pandemic toward the end of the second half of the year continue to pose a considerable risk to the forecast recovery to pre-pandemic levels," OPEC said in the report. (Source: Reuters)
- 4) Fitch Ratings on Tuesday said the Reserve Bank is likely to raise interest rates further to 5.9 per cent by December 2022, on deteriorating inflation outlook. In its update to Global Economic Outlook, Fitch said India's economy faces a worsening external environment, elevated commodity prices, and tighter global monetary policy. "Given the dete-

riorating outlook for inflation, we now expect the RBI to lift rates further to 5.9 per cent by December 2022 and to 6.15 per cent by the end of 2023 (vs. previous forecast of 5 per cent) and to be unchanged in 2024," Fitch said.

- 5) Wholesale price-based inflation surged to a record high of 15.88 per cent in May as crude prices rose and heatwave brought about a spike in prices of vegetables and fruits. The Wholesale Price Index (WPI)-based inflation was 15.08 per cent in April and 13.11 per cent in May last year. The Wholesale Price Index (WPI)-based inflation maintained its increasing trajectory for the third month in a row, and remained in double digits for the 14th consecutive month since April last year.
- 6) Domestically, the Consumer Price Index had 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.
- 7) On Wednesday, the rupee closed at Rs. 78.07 against the US dollar. The rupee has been under pressure led by unabated FII selling, sell off in global markets, rising US bond yields and spiking crude oil prices.
- 8) 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.
- 9) 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.
- 10) 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.
- 11) 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.
- 12) Last week on Wednesday, The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) 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:** We believe that Indian benchmark indices has already factored US Fed hiking interest rates by 75 bps. It would be interesting to see as to how Indian markets behave on Thursday as US benchmark indices ended in positive terrain amidst volatility on Wednesday. Additionally, investors will take cues from the announcements by ECB in its unscheduled meeting. 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 WPI inflation, CPI Inflation and IIP data out, investors will track onset and progress of monsoon in different parts of the nation and crude oil price movement.

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 earlier 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. 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 careful in selection of stocks.



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