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YOUR FRIENDLY FINANCIAL ADVISORS

Market wrap **Jan. 18, 2022**

Rise in US Treasury yields affects investor sentiments; realty, auto and metal stocks fall..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	60,754.86	61,308.91	**554.05**	**0.90**	61,430.77	**61,475.15**	60,662.57
Nifty	18,113.05	18,308.10	**195.05**	**1.07**	18,337.20	**18,350.95**	18,085.90

1) Indian benchmark indices ended in red led by negative global cues. The 10-year US Treasury yield rose to its highest point in two years, topping 1.83 per cent. The yield on Indian 10-year bond, however, was down 0.2 per cent at 6.6 per cent.

1) The Sensex was down by 554.05 points or 0.90 percent to end at levels of 60,754.86. The Nifty was down by 195.00 points or 1 percent to end at levels of 18,113. Among the Sensex 30 stocks, Axis Bank, HDFC Bank, ICICI Bank, Dr Reddy's Labs, Kotak Bank, Titan Company, and Nestle India ended in green. On the other hand Maruti Suzuki (down 4 per cent), Ultratech Cement, Tech Mahindra, HCL Tech, Tata Steel, and IndusInd Bank were the other losers. On the other hand, Nifty was down by 195.05 points or 1.07 percent to end at levels of 18,113.05.

2) The broader markets too were under pressure today. The BSE MidCap and SmallCap indices fell by 2 percent each.

3) In terms of sectoral performance, the Nifty Realty index was down by 2.4 percent, auto and metal indices were down by 2 percent.

Sectors and stocks

1) Shares of Prestige Estates Projects hit a record high at Rs. 553.40, on rallying 8 per cent on the BSE in Tuesday's intra-day trade after the real estate company said it registered highest ever quarterly sales of Rs. 4,267 crore, up 111 per cent year on year (YoY) during October-December quarter (Q3FY22). The company also its clocked highest ever collections of Rs. 2,431.6 crore, up 70 per cent YoY during Q3FY22 backed by the heightened response to newly launched projects viz. Prestige Avalon, Aspen & Eden Park, part of The Prestige City, Bengaluru, Prestige Beverly Hills, Hyderabad and the existing inventories across geographies. For the first nine months (April-December) of the financial year 2021-22 (9MFY22), the company said it sales touched record Rs. 7,113 crore and collections stood at Rs. 5,005 crore. "As we kick off 2022, our business plan will be anchored by a principal focus on revenue expansion as we continue to capitalize on our brand premium, execution track record and market consolidation theme. We are looking forward to further growth in our sales in 2022, backed by the robust launch pipeline of over 15 mn.sqft," the management said.

2) Shares of Tech Mahindra fell by 3.54 per cent to Rs. 1,660.65 on the BSE in Tuesday's after the company announced acquisition of 100 per cent stake in Europe-based Com Tec Co IT (CTC) and 25 per cent stake in two insurtech platforms for a total of EUR 330 million (about Rs 2,800 crore). Tech Mahindra informed the stock exchanges on Monday after market hours that it has approved the proposal to acquire 100 per cent stake in CTC for €310 million (3.8x price to CY21 sales), out of which €210 million will be paid upfront and rest €100 million will be paid over the next four years linked to synergy achievements. CTC specialises in developments of product in insurance and reinsurance industry. CTC revenue grew around 40 per cent CAGR over CY18-20 and it has industry leading EBIT margins and the transaction will be EPS accretive as per management. Tech Mahindra is also acquiring 25 per cent stake in two platforms owned by CTC namely SWIFT and SURANCE for €20 million, with an option to acquire further 20 per cent stake in the platforms over the next two years. SWIFT is SaaS-based digital customer engagement platform. It offers multiple functionalities for insurance sales & distribution while SURANCE is an end-to-end personal cyber insurance solution that focuses on vulnerability assessment, cyber protection, and cyber insurance coverage. Tech Mahindra said the acquisitions will strengthen its digital engineering and insurance technology businesses. "The acquisition will enable Tech Mahindra to tap onto the potential industry disruption in the Insurance sector, expand its offerings to high-end digital engineering services for some of the largest insurance, re-insurance and financial services organizations globally and scale its nearshore delivery presence," the company said in exchange filing.

3) Shares of Indraprastha Gas (IGL) hit a fresh 52-week low at Rs. 453.75 in Tuesday's intra-day trade, and the stock was down 2 per cent in past the two trading days on the BSE after the Delhi government on Saturday said it had become the first State government in the country to notify an "Aggregators' Policy" to mandate electric vehicle (EV) fleets for ride aggregators and delivery services. Ride aggregators and delivery services will have to mandatorily adopt EVs in their newly on-boarded fleets. At least 10% of their new two-wheelers and 5% of four-wheelers in the next three months must be electric. This would be scaled up to 50% of all new two-wheelers and 25% of new four-wheelers by March 2023, the government said. IGL supplies compressed natural gas (CNG) to the transport sector and piped natural gas (PNG) to the domestic industrial and commercial sectors in Delhi and the NCR. In the past one month, the stock of IGL has underperformed the market by falling 8 per cent, as compared to 7 per cent rally in the S&P BSE Sensex. It slipped 25 per cent from its 52-week high level of Rs 604 touched on September 14, 2021.

Key recent major developments..

1) Brent crude futures witnessed a rise of 1.6 per cent to $87.89 a barrel, while US West Texas Intermediate futures jumped more than 2 per cent to hit $85.56. Both oil contracts notched their highest level since October 2014.

2) In a special address at the World Economic Forum's Davos Agenda summit Prime Minister Modi said that India focused on reforms in right way, adding that global experts have praised government's decisions while delivering. "India has given world a bouquet of hope consisting of trust towards democracy, technology to empower 21st century," he added. "In 2014, there were a few hundred registered startups in India. Today their number has crossed 60 thousand with above 10 thousand of them registered in the last 6 months. More than 50 lakh software developers are working in the country today," he said

3) According to the State of the Economy report of the Reserve Bank of India (RBI) released on Monday, the Omicron wave could be a flash flood, rather than a wave, and the Indian economy could recover its march towards a pre-pandemic level. The infection surge due to Omicron has dented recovery temporarily. "The recovery that has been underway in the Indian economy with the ebbing of the second wave of the pandemic is encountering headwinds from a rapid surge in infections in a third wave marked by the rapid transmissibility of the Omicron variant," the report said. Mobility indicators have dropped below the baseline numbers as daily infections surged to over 271,000 on January 13, the highest since mid-May 2021, with active caseload hitting 1.55 million. However, aggregate demand conditions stayed resilient. The issuance of E-way bills surged to 72 million in December, the second highest in its history, indicating "the likelihood of robust collection of the goods and services tax (GST) in January 2022." "With a strong pick-up in manufacturing and construction, highway toll collections soared by 16 per cent month-on-month (MoM) in December. Power consumption rose by 4.5 per cent to 110.3 billion units in December," the report said. "Monetary and credit conditions are improving with bank credit picking up in a gradual but sustained manner. India's digital payment ecosystem is also expanding rapidly," the report said. However, the report noted that the global outlook "remains clouded by considerable uncertainty," as inflation continues to mount across geographies amidst disruptions in production, supply chains and transportation. "There are indications that supply chain disruptions and shipping costs are slowly easing, although the waning of inflation may take longer. This provides a window of opportunity to focus all energies on accelerating and broadening the global recovery," it said.

4) Merchandise exports witnessed nearly 40 per cent growth year-on-year to $37.81 billion in December, as demand for Indian products continues to remain robust, according to data released by the commerce and industry ministry on Friday. On a sequential basis, outbound shipments grew nearly 29 per cent. Engineering goods, petroleum products, gems and jewellery, organic and inorganic chemicals, drugs and pharmaceuticals, continued to remain top exported goods. On a cumulative basis, India's merchandise exports in April-December crossed $301 billion, achieving three fourth of the annual export target of $400 billion in the first nine months of FY22. The number has also exceeded total exports of 2020-21, which was at $290 billion.

5) Wholesale Price Index-based Inflation (WPI) for December moderated slightly compared with November, but stayed in double digits for the ninth consecutive month, data released by the Commerce Ministry showed on Friday. WPI inflation bucked a 4-month rising trend in December 2021 and came in at 13.56 percent, even though food prices hardened. Factory-gate infInflation in November was 14.23 per cent, while in December 2020 it was 1.95 per cent. "The high rate of inflation in December 2021 is primarily due to rise in prices of mineral oils, basic metals, crude petroleum & natural gas, chemicals and chemical products, food products, textile and paper and paper products etc as compared to the corresponding month of the previous year," the Commerce Ministry said.

3) The World Bank retained its FY22 growth forecast for India at 8.3 per cent but upgraded it to 8.7 per cent for FY23, from 7.5 per cent estimated earlier, citing improving growth prospects, especially a reviving private capex cycle.

4) India's retail inflation rate rose to a five month high in December and growth in factory output decelerated to a nine month low in November. Data released by the statistics department showed retail inflation rate as measured by the consumer price index rose to 5.59 per cent in December from 4.91 per cent a month ago. Growth in factory output as measured by the Index of industrial production (IIP), on the other hand, dipped to 1.4 per cent in November compared to 4 per cent in the preceding month.

5) Emerging economies must prepare for US interest rate hikes, the International Monetary Fund said, warning that faster than expected Federal Reserve moves could rattle financial markets and trigger capital outflows and currency depreciation abroad. In a blog published Monday, the IMF said it expected robust US growth to continue, with inflation likely to moderate later in the year. The global lender is due to release fresh global economic forecasts on Jan. 25. It said a gradual, well-telegraphed tightening of U.S.monetary policy would likely have little impact on emerging markets, with foreign demand offsetting the impact of rising financing costs. It said emerging markets with high public and private debt, foreign exchange exposures, and lower current-account balances had already seen larger movements of their currencies relative to the US dollar. The fund said emerging markets with stronger inflation pressures or weaker institutions should act swiftly to let currencies depreciate and raise benchmark interest rates.

6) The US Federal Reserve's minutes suggested that Fed officials thinking about faster rate hikes and gradual reduction of its balance sheet. Earlier, the US Labor Department said that the nation's unemployment rate fell to a healthy 3.9 percent from 4.2 percent in November.

7) India's manufacturing activity lost some momentum in December easing to a three month low after hitting a 10 month high in November, amid fears that the rapidly spreading third wave of the Coronavirus (Covid-19) pandemic may hit consumer sentiment and output. Data released by the analytics firm IHS Markit showed that the Purchasing Managers' Index (PMI) for manufacturing fell to 55.5 in December from 57.6 in November. A reading above 50 indicates expansion in economic activity and a number below that signals contraction. "Companies continued with their stock-building initiatives, as evidenced by another robust upturn in buying levels. Business confidence strengthened, but sentiment was again dampened by concerns surrounding supply-chain disruptions, Covid-19 and inflationary pressures," the data analytics firm said.

8) GST revenue collected in December 2021 was over Rs. 1.29 trillion, 13 per cent higher than the same month last year, the Finance Ministry said on Saturday. Though the collection was lower than Rs. 1.31 trillion mopped up in November, December is the sixth month in a row when revenue from goods sold and services rendered stood at over Rs. 1 trillion. The gross GST revenue collected in the month of December 2021 is Rs. 1.29 trillion, of which CGST is Rs. 22,578 crore, SGST is Rs. 28,658 crore, IGST is Rs. 69,155 crore (including Rs. 37,527 crore collected on import of goods) and cess is Rs. 9,389 crore (including Rs. 614 crore collected on import of goods)," the Finance Ministry said in a statement. The revenues for December 2021 are 13 per cent higher than the GST revenues in the same month last year (Rs 1.15 trillion) and 26 per cent higher than December 2019. The average monthly gross GST collection for the third quarter (October-December) of the current year has been Rs 1.30 lakh crore against the average monthly collection of Rs 1.10 trillion and Rs 1.15 trillion in the first and second quarter, respectively. "Coupled with economic recovery, anti-evasion activities, especially action against fake billers have been contributing to the enhanced GST. The improvement in revenue has also been due to various rate rationalisation measures undertaken by the Council to correct inverted duty structure," the ministry said.

Ajcon Global's observations and view

1) Indian benchmark indices ended in red by rise US Treasury yields. Before today's correction, the sentiments have been 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.

2) 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, 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. However, there are concerns like hawkish stance of global central banks, headwinds like high inflation and valuation concerns.

3) There is a strong line up of IPOs. We suggest investors to be careful about the forthcoming IPOs and understand the fundamentals before riding the boom based on risk reward profile. However, 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 have to be careful with expensive IPOs whose valuations are beyond logic.

4) For the CY 2021, Sensex delivered a good return of 22 per cent or up by 10,503 points, after having touched a new life-time high of 62,245 on October 19, 2021. Nifty has delivered a return of 24.1 per cent for CY 2021. Growth oriented budget, devastating second wave of COVID-19 well managed, strong vaccination drive, faster than expected economic recovery in Unlock phase, PLI incentives in various sectors, strong demand witnessed post lockdown and in festive season, strong Q2FY22 earnings season contributed to the significant rally.

5) It is advisable to stay away from companies which have ran ahead of fundamentals. It would be prudent to stay with quality names at decent valuations in uncertain times. 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.

6) 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 focussed 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.

7) Market participants will keenly track ongoing Q3FY22 earnings season, economic activity in 3rd wave of COVID-19 and state level restrictions, eye on expectations from different stakeholders from the upcoming Union Budget, global cues like COVID-19 cases led by the Omicron variant across the globe, global inflation data, US Treasury yields, oil price movement and developments in China.

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