

High inflation, rising bond yields and geopolitical tensions put pressure on domestic bourses; IT and Banking stocks come under pressure

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	57,166.74	58,338.93	1172.19	2.01	57,338.58	57,420.80	56,842.39
Nifty	17,173.65	17475.65	302.00	1.73	17,183.45	17,237.75	17,067.85

- 1) Indian benchmark indices were under tremendous pressure red led by fall in index heavyweights like HDFC, HDFC Bank and Infosys. In addition, there are concerns over high inflation led by high crude oil prices and commodity prices, rising bond yields globally, war escalation between Ukraine and Russia and rupee depreciation.
- 2) The Sensex closed the day down by 1172.19 points or 2.01 percent to end at levels of 57,166.74. On the other hand, the Nifty was down by 302 points or 1.73 percent to end at levels of 17,173.65. Among the Sensex 30 stocks, Infosys, HDFC, HDFC Bank, Tech Mahindra, Wipro, TCS were under pressure and down in the range of 3.63 percent to 7.27 percent. On the other hand, NTPC, Tata Steel, Nestle India, Titan Company, Maruti Suzuki, HUL and Nestle were up in the range of 1.12 percent to 6.11 percent
- 3) In terms of sectoral performance, the Nifty IT fell by 4.6 per cent, and the Bank Nifty declined 2 per cent.
- 4) The broader markets too were under pressure. The BSE MidCap index fell by 0.95 percent and the BSE SmallCap index fell by 1.01 per cent.
- 5) Today, FIIs sold equities worth Rs. 6,387.45 Crore. On the other hand, DIIs bought equities worth Rs. 3,341.96 Crore. Month till date, FIIs sold equities worth Rs. 17,149.83 Crore. On the other hand, DIIs bought equities worth Rs. 9,114.07 Crore. In the month of March 2022, FIIs sold equities worth Rs. 43,281 Crore. On the other hand, DIIs bought equities worth Rs. 39,677 Crore in March 2022.

Sectors and stocks

- 1) Shares of Infosys fell by 9 per cent to Rs 1,592.05 on the BSE in Monday's intra-day trade after the company reported a weak Q4FY22 result. In Q4FY22, Infosys' earnings before interest and tax (Ebit) margin was down 190 basis points (bps) quarter-on-quarter (QoQ) to 21.6 per cent due to lesser days, lower utilisation, and higher visa costs. The company's revenue in US dollar terms grew 0.7 per cent QoQ to \$4,280 million, and was up 1.2 per cent QoQ in constant currency (CC) terms. Infosys' margin guidance of 21-23 per cent for FY23 is 100bp lower from its earlier guidance in FY22. It has guided for a revenue growth of 13-15 per cent for FY23.
- 2) Shares of paper companies were upbeat led by strong demand in paper segment and growth in packaging board segment. Shares of Seshasayee Paper & Board rallied 14 per cent to Rs 230.65 after registering a jump of over three-fold in trading volumes. Meanwhile, shares of JK Paper hit a new high of Rs 387.40 as it rallied 12 per cent on the BSE. JK Paper has rallied by 74 per cent in the past three months, after the company reported 134 per cent year-on-year (YoY) growth in profit after tax at Rs. 151 crore for the October-December quarter (Q3FY22). The management remained optimistic of the company's growth trajectory due to recovery in paper segment and growth in production and sales volume over higher realisation. "The outlook for the paper sector is optimistic in India due to intrinsic use of paper in education in India. The market for writing and printing paper in India is expected to grow around 4 per cent per annum, higher than the global average," the management said in a statement.
- 3) Shares of NTPC hit over two-year high of Rs 163.10, after rallying 6 per cent on the BSE in Monday's intra-day trade. The stock of state-owned electric utilities company traded at its highest level since October 2018. In the past one month, NTPC has outperformed the market by surging 22 per cent on expectation of strong power demand. In comparison, the benchmark index was down 1.3 per cent. The stock has zoomed 58 per cent in a year as against 17 per cent rise in S&P BSE Sensex.

Key recent major developments..

- 1) Domestically, the wholesale price inflation hit a four-month high of 14.55 percent in March, data released on Monday showed. "The high rate of inflation in March, 2022 is primarily due to rise in prices of crude petroleum and natural gas, mineral oils, basic metals, etc., due to disruption in the global supply chain caused by the Russia-Ukraine conflict," the Commerce and Industry Ministry said in a statement.
- 2) Globally, in a key development, Russia on Saturday announced it was banning entry to Prime Minister Boris Johnson and several other top UK officials, after London imposed sanctions on Russia over its military operation in Ukraine. "This step was taken as a response to London's unbridled information and political campaign aimed at isolating Russia internationally, creating conditions for restricting our country and strangling the domestic economy," the foreign ministry said in a statement. "The British leadership is deliberately aggravating the situation surrounding Ukraine, pumping the Kyiv regime with lethal weapons and coordinating similar efforts on the behalf of NATO," the ministry said.
- 3) Last week, the Japanese yen weakened past the 126 yen per dollar mark on Wednesday for the first time since 2002, while the euro was pinned at a one-month low as investors bought the U.S. currency after hawkish comments by Federal Reserve officials. The prospect of fast and aggressive U.S. interest rate hikes and growing market expectations that the Bank of Japan will keep rates ultra-low in the near term have fueled the Japanese currency's declines against the dollar. (Source: Reuters)
- 4) Globally, US inflation jumped at its fastest pace in more than 40 years, with costs for food, gasoline, housing and other necessities squeezing American consumers and wiping out the pay raises that many people have received. The Labour Department said on Tuesday that its consumer price index jumped 8.5 per cent in March from 12 months earlier the biggest year-over-year increase since December 1981. Prices have been driven up by bottlenecked supply chains, robust consumer demand and disruptions to global food and energy markets worsened by Russia's war against Ukraine. The government's report also showed that inflation rose 1.2 per cent from February to March, up from a 0.8 per cent increase from January to February. The March inflation numbers were the first to capture the full surge in gasoline prices that followed Russia's invasion of Ukraine on February 24.
- 5) Domestically, CPI inflation spiked to a 17-month high in March led by a big jump in prices of food and manufactured goods, official data showed. According to data released by the Ministry of Statistics and Programme Implementation (MoSPI) on Tuesday, inflation based on the Consumer Price Index (CPI) rose to 6.95% in March from 6.07% in the previous month.
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- 7) Earlier, the Monetary Policy Committee (MPC) voted unanimously to keep the policy repo rate unchanged at 4 per cent. The MPC also decided unanimously to remain accommodative while focussing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. The marginal standing facility (MSF) rate and the Bank rate remain unchanged at 4.25 per cent. Further, RBI decided to restore the width of the Liquidity Adjustment Facility (LAF) corridor to 50 basis points, the position that prevailed before the pandemic. The floor of the corridor will now be provided by the newly instituted standing deposit facility (SDF), which will be placed 25 basis points below the repo rate, i.e., at 3.75 per cent.
- 8) Earlier, Defence Minister Rajnath Singh released on Thursday a third "positive indigenisation list" of 101 major pieces of defence equipment that the Ministry of Defence (MoD) will no longer clear for import. Instead, these 101 items will be incrementally procured from indigenous sources in accordance with the provisions of Defence Acquisition Procedure (DAP) 2020. These weapons and platforms will be incrementally banned for import, with some items embargoed from December 2022, and additional items added each December until 2027. "The list, notified by the MoD's Department of Military Affairs, consists of equipment and systems that are close to being fully developed by indigenous agencies and which are likely to translate into firm orders in next five years," stated an MoD release. The third list includes lightweight tanks, 155 millimetre, 52 calibre mounted artillery gun systems, guided extended

range (GER) rockets for the Pinaka multi-barrelled rocket launcher (MLRS), naval utility helicopters (NUH), next generation offshore patrol vessels (NGOPV), multi-function surveillance targeting and acquisition radar (MF STAR), medium range anti-ship missiles (MR-SAM naval variant), advanced lightweight torpedo, high endurance autonomous underwater vehicle, medium altitude long endurance unmanned aerial vehicle (MALE UAV), anti-radiation missiles, and loitering munitions. Import substitution of ammunition, which is a recurring requirement, has been given special emphasis.

- 9) Domestically, Purchasing Managers' Index (PMI) for Manufacturing fell to a six-month low last month. The index dropped to 54.0 in March from 54.9 in February. According to the report released on Monday, escalating oil and commodity prices globally, led by the Russia-Ukraine war, have led to a sharp rise in domestic inflation, which if continues to remain high will impact demand.

"The slowdown was accompanied by an intensification of inflationary pressures, although the rate of increase in input costs remained below those seen towards the end of 2021...For now, demand has been sufficiently strong to withstand price hikes, but should inflation continue to gather pace we may see a more significant slowdown, if not an outright contraction in sales," said Pollyanna De Lima, Economics Associate Director at S&P Global.

- 10) GST collection in March touched an all-time high of over Rs. 1.42 trillion, an increase of 6.8 percent on MoM basis and 15 percent on YoY basis led by economic recovery, rate rationalisation measures and anti-evasion steps. With the record collection, the Centre's Goods and Services Tax (GST) collections has exceeded the revised budget target of Rs. 5.7 trillion set for the previous fiscal ended March 31, 2022. Of the total, Central GST was Rs. 25,830 crore, State GST was Rs. 32,378 crore, Integrated GST was Rs. 74,470 crore, and compensation cess was Rs. 9,417 crore. For FY22 as a whole, total GST collections amounted to Rs. 14.83 lakh crore, up 30 percent from Rs. 11.37 lakh crore in FY21.

Ajcon Global's observations and view..

- 1) Indian benchmark indices ended in red led by fall in IT and banking stocks. There are concerns of high inflation across the globe, rising bond yields globally and war escalation between Ukraine and Russia.
- 2) There are other headwinds like increase in COVID-19 cases in China and lockdown in the city of Shanghai to curb COVID-19 cases which is affecting investor sentiments.
- 3) 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.
- 4) 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 be careful in selection of stocks.
- 5) 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, 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.
- 6) There is a strong line up of IPOs and focus would be on LIC IPO considering its scale. 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.
- 7) Before the significant correction led by war between Russia and Ukraine in Ukraine, the domestic sentiments were upbeat as in third wave of COVID-19 led by Omicron variant did not have a major impact on the economy, growth-oriented Union Budget presented by the Finance Minister (we believe the Budget is growth oriented with significant



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focus on capex - emphasis is laid on Agriculture, MSMEs, Housing, Digital ecosystem, Defence, Electric Vehicles and Solar Power). In addition, factors like good growth in merchandise exports, RBI's dovish stance in its Monetary Policy, good GDP data, robust GST collections, PLI incentives in various sectors, strong vaccination drive, faster than expected economic recovery in Unlock phase, strong Q3FY22 earnings season and management commentary and good spike in retail participation from Tier II and Tier III cities have supported the bulls.

- 8) All eyes would be on Q4FY22 earnings season (focus would be on management commentary with regards to demand outlook, how companies are dealing with input cost pressures and supply chain disruptions) which will drive market direction.
- 9) We expect volatility to continue led by macroeconomic factors which are affecting companies Q4FY22 performance.



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