

Escalating Ukraine - Russia tensions keeps bears alive; volatility to remain ahead of F&O expiry..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	57,232.06	57,300.68	68.62	0.12	57,632.94	57,733.37	57,109.24
Nifty	17,063.25	17,092.20	28.95	0.17	17,194.50	17,220.70	17,027.85

- 1) Indian benchmark indices started the day with decent gains but selling in the later part of the trading sessions as Ukraine declared a state of emergency resulted in domestic bourses closing in red. Escalating Ukraine - Russia tensions and Russia's actions are not going well with the western countries. The tensions has already resulted in sanctions to be imposed on Russia by its western counterparts and a significant jump in crude oil prices which will have a severe impact on global inflation. Brent crude oil price was nearing the \$100 a barrel mark for the first time since September 2014 on Tuesday on the back of escalating tensions between Russia and Ukraine.
- 2) In addition, US Federal Reserve is also likely to raise US interest rates in March amidst spike in inflation and expected to end its bond purchase programme before going for significant reduction in its asset holdings.
- 3) Domestically, Finance Minister Nirmala Sitharaman on Tuesday said the Russia-Ukraine crisis and the ensuing jump in global crude prices are a challenge to financial stability in India. The two issues were discussed at the meeting of Financial Stability Development Council (FSDC), which comprises all the financial sector regulators, Sitharaman told reporters. "It is difficult to say how it (crude prices) will go. Even today, in the FSDC, when we were looking at the challenges which are posed for the financial stability, crude was one of the things. International worrisome situations where we actually voiced that we want a diplomatic solution for the situation that is developing in Ukraine... all these are headwinds, Sitharaman, who is on a two-day visit to the financial capital, said.
- 4) The Sensex finally ended down by 68.62 points or 0.12 percent to end at levels of 57,232.06 after giving up healthy gains in intraday. On the other hand, the Nifty was down by 28.95 points or 0.17 percent to end at levels of 17,063.25.

Sectors and stocks

- 1) Shares of Adani Wilmar (AWL) were in the 10 per cent upper circuit at Rs. 345.80 on the BSE. The stock of the Adani Group edible oil major had closed at Rs.314.40 on Tuesday, correcting 25 per cent from its record high level of Rs 419.90 on February 11, 2022. AWL had made its market debut on February 8, 2022. The company had raised Rs 3,600 through its initial public offer (IPO) by issuing shares at a price of Rs 230 per share. AWL is a joint venture between the Adani group and Wilmar group, and is India's leading manufacturer of edible oil under the Fortune brand. Besides oil, the company offers products like wheat flour, rice, pulses, sugar and packaged food.
- 2) Shares of Butterfly Gandhimathi Appliances (Butterfly) hit a record high of Rs. 1,419, up 2 per cent on the BSE in Wednesday's intra-day trade, after Crompton Greaves Consumer Electricals (Crompton) made an open offer to acquire 26 per cent equity stake (4.65 million shares) of the company at Rs. 1,433.90 per share. Post acquisition, Crompton will hold up to 55 per cent stake in the company. The stock of Butterfly, which is engaged in household appliances business, surpassed its previous high of Rs 1,399.15 touched on February 11, 2022. In the past three months, it outperformed the market by rallying 60 per cent.
- 3) Shares of Crompton Greaves Consumer Electricals rallied 7.87 per cent to Rs. 408.40. It had hit a 52-week high of Rs 512.05 on September 16, 2021. "Crompton has signed definitive agreements on February 22, 2022 with certain members of the promoter group of Butterfly to acquire upto 55 per cent stake at Rs 1,403.00 per equity share, aggregating upto Rs 1,379.68 crore, and certain Butterfly trademarks in allied and cognate classes from promoter group entities for a consideration of Rs 30.38 crore," Crompton said in an exchange filing. The transaction will be subject to completion of customary closing conditions. The transaction is expected to be financed through a mix of internal accruals and debt, the company said. The transaction will accelerate Crompton's long-term strategic goal of becoming a leading player in the small domestic appliances segment. Butterfly's complementary product portfolio, coupled with scale and channel synergies, will drive robust revenue growth and profitability, Crompton's management said.

- 4) Shares of Kansai Nerolac Paints hit a 52-week low of Rs. 468.85, down 3 per cent on the BSE in Wednesday's intra-day trade due to weak demand. The stock fell below its previous low of Rs. 470.75 hit on February 14, 2022. Thus far in the month of February, the stock has witnessed a fall of 17 per cent after the company reported a 34.7 per cent year-on-year (YoY) de-growth in profit after tax (PAT) at Rs. 132 crore due to lower industrial volume offtake and delay in passing of higher raw material prices and higher operational cost.

Key recent major developments..

- 1) Globally, in an emergency speech, Russian President Putin said Ukrainian troops should give up their weapons and 'go home'. Russian military action is to "demilitarize" Ukraine. The US State Department said a Russian invasion of Ukraine remains potentially imminent. US Secretary of State, Antony Blinken has said "Look, I can't put a date or an exact time on when Russia might carry out a major aggression, but everything is in place for Russia to move forward. Meanwhile, United Nations Security Council's meeting on the Ukraine-Russia conflict has also begun.
- 2) Globally, the US benchmark index Nasdaq has declined by more than 15 percent so far this year, while the S&P 500 confirmed a correction in the previous session as 70 percent of its components slipped more than 10 percent from their record highs and over 200 stocks lost more than 20 percent of their value. The Dow Jones Industrial Average declined by 309.45 points, or 0.92 percent, to 33,287.16, the S&P 500 lost 53.36 points, or 1.24 percent to 4,251.4 and the Nasdaq Composite dropped 234.72 points, or 1.75 percent, to 13,146.79.
- 3) UK Prime Minister Boris Johnson on Tuesday said Britain would sanction five Russian banks and three high net worth individuals including Gennady Timchenko after Russian President Vladimir Putin recognised two breakaway regions of east Ukraine. "Today, the UK is sanctioning the following five Russian banks: Rossiya, IS Bank, General Bank, Promsvyazbank and the Black Sea Bank, and we're sanctioning three very high net worth individuals," Johnson told parliament.
- 4) UN Secretary-General Antonio Guterres on Monday voiced great concern over Russia's decision to recognise Donetsk and Luhansk regions of Ukraine as independent, saying Moscow's decision is a violation" of the territorial integrity and sovereignty of Ukraine and inconsistent with the principles of the Charter of the United Nations.
- 5) Globally, Russian President Vladimir Putin ordered forces Monday to "maintain peace" in separatist regions of eastern Ukraine, hours after the Kremlin recognized the area's independence. The announcement raised fears that an invasion was imminent, if not already underway. The Kremlin decree, spelled out in an order signed by Putin, left unclear when, or even whether, troops would enter Ukraine. But it brought swift promises of new sanctions from the U.S. and other Western nations and underscored the steep challenges they face in staving off a military conflict they have portrayed as near-inevitable. Earlier, in a lengthy televised address, Russian President Putin recognised two breakaway regions Donetsk and Luhansk in eastern Ukraine as independent entities and described Ukraine as an integral part of Russia's history and said eastern Ukraine was ancient Russian lands.
- 6) With the muted impact of the third wave of the pandemic on economic activity, the Indian economy may undergo an economic reset by end of the year, clocking 9 per cent growth in 2021-22 (FY22) and around 8 per cent in 2022-23 (FY23), the finance ministry said on Wednesday. "The Budget has targeted a nominal gross domestic product (GDP) growth rate of 11.1 per cent in FY23, with a GDP deflator of 3-3.5 per cent. The implied real growth component of around 8 per cent is close to the forecast in the Economic Survey of FY22, as well as 7.8 per cent projected by the monetary policy committee (MPC) of the Reserve Bank of India in its meeting of February," the finance ministry said in its latest monthly economic review. The report said the unchanged repo and reverse repo rate, along with the MPC's accommodative stance, prioritise growth during these uncertain times and reinforce the investment orientation of the Budget.
- 7) The Indian technology industry crossed the \$200 billion revenue mark, reaching \$227 billion revenue in FY22, witnessing a \$30 billion incremental revenue in the year with an overall growth rate of 15.5 per cent. Recording the highest ever growth since 2011 said Nasscom in its Strategic Review. The industry association is also confident that the industry can achieve the ambitious target of being a \$350 billion by FY26 growing at a rate of 11-14 per cent. Rekha M Menon, chairperson, NASSCOM said, "Fiscal 2022 has been a breakthrough year for the Indian technology industry. We've posted solid, broad-based growth, massively increased jobs, and are proud that we continue to be an engine for India's economic growth, and a beacon for inclusion and diversity. We are excited about the opportunities in the Techade as we enter an era of exponential transformation and technology becomes indispensable to progress. We remain committed to catalysing the trillion-dollar digital economy with our focus on talent, technology, collaboration, and innovation."

- 8) Domestically, India's exports in January rose 25.28 per cent to \$34.50 billion on account of healthy performance by mainly engineering, petroleum and gems and jewellery sectors, even as trade deficit widened to 17.43 billion, according to data released by the commerce ministry on Tuesday. Imports grew by 23.54 per cent to \$51.93 billion during the month under review. Trade deficit, difference between imports and exports, stood at \$14.499 in January 2021. Cumulatively, exports increased by 46.73 per cent to \$335.88 billion during April 2021-January 2022, from \$USD 228.92 billion in the corresponding period a year ago.
- 9) 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.
- 10) 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.
- 11) Earlier, Finance Minister Nirmala Sitharaman 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.
- 12) 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.
- 13) 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%.

Ajcon Global's observations and view

- 1) Indian benchmark indices ended in red led by escalating Ukraine - Russia tensions and sanctions imposed on Russia by its western counterparts. 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 and strong FII selling.
- 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) Before the correction, the sentiments were upbeat as in third wave of COVID-19 led by Omicron variant did not have a major impact on the economy. In addition, factors like good growth in merchandise exports, RBI's accommodative 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, 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.



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- 4) 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.
- 5) Positive factors like 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) and strong GST collections will support bulls. With Q3FY22 earnings season coming to an end, investors will now keenly track global cues like global inflation data, outcome of US Federal Reserve policy and crude oil price movement. The results of assembly elections in Uttar Pradesh, Punjab, Uttarakhand, Goa and Manipur will also play in investors mind.
- 6) Escalating Ukraine and Russia tensions and war like situation will play a spoilsport as it will directly have an impact on crude oil prices affecting global investors stance. We believe volatility would remain and investors can buy on pessimism as any relief in tensions can lead to reversal of crude oil prices.



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