

Domestic bourses turn buoyant; auto stocks rally..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	52,265.72	51,822.53	443.19	0.86	51,972.75	52,516.79	51,632.85
Nifty	15,556.65	15,413.30	143.35	0.93	15,556.65	15,628.45	15,367.50

- 1) On Thursday, Indian benchmark indices were back in green led by falling crude oil prices, decline in commodities prices and investors resorting to value buying especially in Auto sector. Before today's rally, investor sentiments has been affected after US Fed hiked interest rates by 75 bps, the biggest since 1994 amidst high inflation as it can affect overall growth. Domestically, rising bond yields and Wholesale Price Index (WPI) inflation jumping to 15.8 percent in May 2022 had also dampened the mood.
- 2) The Sensex was up by 443.19 points or 0.86 percent to end at levels of 52,265.72. On the other hand, Nifty was up by 143.35 points or 0.93 percent. Among the Sensex 30 stocks, the major gainers were Maruti Suzuki, Mahindra & Mahindra, Asian Paints, Bharti Airtel, Tata Consultancy Services up in the range of 2.70 percent to 6.33 percent.
- 3) The broader markets too were upbeat today. The BSE MidCap index was up by 1.40 percent, while the BSE SmallCap index was up by 1.18 percent.
- 4) In terms of sectoral indices performance, the major gainers were the BSE Auto index, BSE Consumer Discretionary Goods & Services, BSE Information Technology, BSE Telecom up in the range of 1.81 percent to 4.42 percent.
- 5) Month till date, FIIs sold equities worth Rs. 51,246.63 Crore. On the other hand, DIIs have bought equities worth Rs. 39,770.03 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 Maruti Suzuki India Limited rallied by 6.33 percent to Rs. 8,274.60 on the BSE after hitting a high of Rs. 8,319.80 in intra-day trade. The rally is led by depreciating Japanese yen which augurs well for the Company as it reduces its raw materials cost for the Company and improves margins. Moreover, globally, chip shortage concerns are receding and cooling off commodity prices is expected to have a positive effect on the Company's operational performance.
- 2) Shares of Chemplast Sanmar Limited rallied up by 15.54 percent to Rs.452.70 on the BSE. Chemplast Sanmar Limited is part of the SHL Chemicals Group, which in turn is a constituent of The Sanmar Group, one among the oldest and most prominent corporate groups in South India. Chemplast Sanmar Limited is a specialty chemicals company, which is India's dominant producer of Specialty Paste PVC, having significant presence in the custom manufacturing business and through its whollyowned subsidiary, is the 2nd largest producer of Suspension PVC in India. (Source: Company).

In FY22, the Company's revenues grew at a healthy rate owing to strong volume off-take and higher realisation across all key products - Specialty Paste PVC resin, Suspension PVC, Chloromethanes and Caustic Soda. In Q4FY22, revenue grew by 35% on YoY basis due to pick-up in demand coupled with better realisation for most of the products. The Company also liquidated excess inventory of Specialty Paste PVC resin and Suspension PVC built up in Q3FY22. The Suspension PVC prices rebounded in Q4FY22 with a pick-up in demand and supply tightness around the world. Caustic prices continue to remain strong on structural tightness globally. Due to strong demand and commercialization of new products, custom manufactured chemicals saw a significant increase in sales in FY22. Chemplast has recently been upgraded as Development Supplier by one of the innovator companies and they now consider the Company to be a key supplier for their requirements. With the entry into this elite group, the Company

has started to receive additional enquiries for new products. Debt reduction since the IPO continues to drive a pronounced improvement in the credit profile. The Company is debt free on a standalone basis. 10% increase in Suspension PVC capacity through debottlenecking is expected to come fully online by Q1'FY23. This is a phased debottlenecking, part of which is already completed. (Source: Company).

Key recent major developments..

- 1) The rupee fell to a fresh all-time low of 78.32 against the US dollar on Thursday led by unabated FII selling.
- 2) Crude oil prices continued its fall on Thursday led by slowdown concerns in US and steps being considered by the US administration to soften the price of the commodity. Brent crude futures were trading at \$107.58 a barrel at the time of writing this report after opening at \$106.33.
- 3) Globally, Federal Reserve Chair Jerome Powell said the U.S. central bank is "strongly committed" to bringing down inflation that is running at a 40-year high. In his prepared remarks before the Senate Banking Committee, Powell reiterated that ongoing increases in the policy rate would be appropriate, but the pace of the changes will continue to depend on the incoming data and the evolving outlook for the economy.
- 4) Domestically, Reserve Bank of India (RBI) said India witnessed a current account deficit of 1.2% of GDP in 2021-22 against a surplus of 0.9% in FY2020-21 due to a wider trade deficit. For the January-March 2022 quarter, the CAD narrowed on a sequential basis to \$13.4 billion or 1.5% of GDP against \$22.2 billion or 2.6% of GDP in the December 2021 quarter.
- 5) On Tuesday, there was some sigh of relief for investors after US Treasury Secretary Janet Yellen said "Recession isn't 'inevitable' despite 'unacceptably high' inflation".
- 6) The Finance Ministry said on Monday that while India faces a lower risk of stagflation than other nations, there is now an upside risk to gross budget deficit due to additional welfare and subsidy spending and recent cuts in excise duties, and the economy faces slowing growth due to global factors. In its latest Monthly Economic Report (for the month of May), the Finance Ministry stated: "India faces near-term challenges in managing its fiscal deficit, sustaining economic growth, reining in inflation and containing the current account deficit while maintaining a fair value of the Indian currency."
- 7) 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."
- 8) Last week on Wednesday, The European Central Bank promised fresh support 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).
- 9) 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. Last week, 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).

Ajcon Global's observations and view..

- 1) **Short term view:** Indian benchmark indices are likely to mirror US benchmark indices performance after Accenture has delivered good set of numbers. The fall in crude oil prices will improve investor sentiments for Paint stocks. Decline in prices of commodities like steel, copper and aluminium will augur well for auto companies and companies engaged in Cables and Wire industry. However, metal stocks are likely to be under pressure. After today's rally, Investors are likely to follow the pattern of sell on rise and buy on dips in the near term as there are too macroeconomic headwinds at the moment. Globally, investors had turned cautious after US Fed hike of 75 bps, biggest in 28 years which would affect growth outlook. 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.
- 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. The significant fall in the recently listed companies also provide good entry points at the moment.
- 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 turmoil. History has proved that after any crisis, equities recover strongly and give stellar returns. One should also remember that not every fall is worth buying and investors should evaluate the Company based on fundamentals and valuation before taking any decision. 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. Considering there are too many macroeconomic variables, we believe markets would give opportunities to enter quality stocks at reasonable valuation. Sector wise Financial sector (specially banking), Pharma, automobile, auto components, Infrastructure & food processing looks attractive at the current valuations.



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