

Indian equities were back in green amidst volatility; steel stocks rally after being under pressure earlier..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	54,252.53	53,749.26	503.27	0.94	53,950.84	54,346.22	53,425.25
Nifty	16,170.15	16,025.80	144.35	0.90	16,105.00	16,204.45	15,903.70

- 1) Indian benchmark equities were back in green led by short covering as markets were in oversold terrain. There are headwinds like high global inflation especially in US, Indian rupee falling to its life-time low against the US dollar, US Fed hiking interest rates by 50 bps, RBI coming up with a surprise by hiking repo rate by 40 bps. There are other headwinds like ongoing war between Russia and Ukraine and its effect on crude oil, commodities and gas prices, hawkish stance of global central banks and rising bond yields globally.
- 2) The Sensex was up by 503.27 points or 0.94 percent to end at levels of 54,252.53. On the other hand, the Nifty was up by 144.35 points or 0.90 percent to end at levels of 16,170.15. Among the Sensex 30 stocks, Tata Steel, State Bank of India, HDFC Bank, Axis Bank, Nestle India, HDFC, ICICI Bank were the major gainers and up in the range of 2.20 to 5.27 percent.
- 3) The broader markets too ended in red. The BSE MidCap index was down by 1.44 percent, while the BSE SmallCap index was up by 0.78 percent.
- 4) In terms of sectoral performance, the Nifty PSU Bank and Metal indices were up by 3.16 per cent and 2.67 per cent respectively. On the other hand, only the Nifty FMCG index was down by 0.22 per cent.

Sectors and stocks

- 1) Shares of AIA Engineering ended up by 9.63 per cent to Rs. 2,056.10 after touching a high of Rs. 2,079.85 on the NSE on Thursday after the Company witnessed good performance in its Q4FY22 result. The Company witnessed 45 per cent year on year (YoY) growth in its consolidated net profit at Rs 194.6 crore in Q4FY22. However, Company's business continues to face uncertainty in terms of outlook on account of the impact of Covid in some countries of the world like China and Ukraine Crisis. The Company's marketing efforts continue to be hampered by restricted ability of its sales team to travel. The Company said "In line with sharp run-up in commodity prices generally, we have seen our input costs & freight go up significantly which is reflected in our Cost of Goods sold for the quarter. Company will make efforts to pass-through these costs over next few quarters."
- 2) Shares of Sequent Scientific fell by 17 per cent to hit a fresh 52-week low of Rs. 101.30 on the NSE and finally ended down by 11.70 percent to Rs. 107.50. The fall can be attributed to company's consolidated profit after tax (PAT) declined significantly both on YoY and QoQ basis to Rs. 9 crore in Q4FY22 (Rs. 20.6 crore in Q4FY21) as against Rs. 17.1 crore in Q3FY22. Its consolidated revenue grew 6 per cent year on year to Rs 383.7 crore from Rs. 361.8 crore in the corresponding quarter of previous fiscal. EBITDA margin contracted by 360 bps on YoY basis at 10.1 per cent. Commenting on the Company's performance, Rajaram Narayanan, Managing Director stated "Q4 FY22 reflects a strong performance across APIs and formulations. Our API business in this quarter grew by 11% on constant currency basis in a challenging environment. The formulations business grew as per expectations at 12% on constant currency basis, driven by market beating performance in Latam and India. The macro environment continues to be challenging due to volatility in costs and disruptions across supply chains. Our concerted efforts towards building strong partnerships and judicious price increases have started reflecting in our Q4 FY22 financial performance. We remain committed to our strategy to build a unique leader in Animal Health. Towards this goal, we will continue to invest in building capabilities in R&D, manufacturing, and long-term partnerships."

Key recent major developments..

- 1) Domestically, the government levied export duty on 11 iron and steel intermediates and key steel products. The government levied export duty of 15 per cent on few steel intermediates. However, in order to reduce the overall cost of domestic production of steel products, the government slashed import duty on coking coal and anthracite from 2.5 per cent to zero. Meanwhile, import duties for coke or semi-coke and ferronickel were lowered too, from 5 per cent to zero and 2.5 per cent to zero, respectively.
- 2) Earlier, the Union government slashed excise duty on petrol and diesel by Rs 8/litre and Rs 6/litre, respectively.
- 3) Globally, in a key development, China cut its benchmark reference rate for mortgages by an unexpectedly wide margin on Friday, its second reduction this year as Beijing seeks to revive the ailing housing sector to prop up the economy. China, in a monthly fixing, lowered the five-year loan prime rate (LPR) by 15 basis points to 4.45%, the biggest reduction since China revamped the interest rate mechanism in 2019 and more than the five or 10 basis points tipped by most in a Reuters poll. The one-year LPR was unchanged at 3.70%. (Source: Reuters).
- 4) Last week, the rupee hit an all time low of 77.78 per US dollar on Tuesday, led by strengthening of US dollar, unabated foreign fund outflows and rate hike by US Fed.
- 5) India's wholesale price index (WPI)-based inflation rate rose to 15.08 per cent in April from 14.55 per cent in the preceding month on the back of rising commodity and vegetable prices. Wholesale price inflation rate is now in double digits for 13 consecutive months. Data released by the industry department showed that vegetables' inflation picked up in April to 23.24 per cent leading to a food inflation of 8.35 per cent. Fuel inflation rose to 38.66 per cent during the month while inflation for manufactured products increased to 10.85 per cent.
- 6) Domestically, India's retail inflation touched an eight-year high of 7.79 per cent in April on annual basis. The retail inflation witnessed a rise mainly due to high food prices. The retail inflation stayed well above the Reserve Bank of India's (RBI) upper tolerance limit for a fourth consecutive month. In April, the CPI inflation expanded at its highest pace in eight years. The previous high was recorded at 8.33 per cent in May 2014.
- 7) Globally, US consumer price growth slowed sharply in April as gasoline prices eased off record highs, suggesting that inflation has probably peaked, though it is likely to stay hot for a while and keep the Federal Reserve's foot on the brakes to cool demand. The consumer price index rose 0.3 percent last month, the smallest gain since last August, the Labor Department said on Wednesday. That stood in sharp contrast to the 1.2 percent month-to-month surge in the CPI in March, which was the largest advance since September 2005. In the 12 months through April, the CPI increased 8.3 percent. While that was the first deceleration in the annual CPI since last August, it marked the seventh straight month of increases in excess of 6 percent. The CPI shot up by 8.5 percent in March, the largest year-on-year gain since December 1981.
- 8) Globally, The Bank of England sent a stark warning that Britain risks a double-whammy of a recession and inflation above 10 percent as it raised interest rates on Thursday to their highest since 2009, hiking by quarter of a percentage point to 1 per cent. The pound fell by more than a cent against the US dollar to hit its lowest level since mid-2020, below \$1.24, as the gloominess of the BoE's new forecasts for the world's fifth-largest economy caught investors by surprise.
- 9) Earlier, The Federal Reserve hiked the interest rate by 50 bps (biggest hike in over two decades) pushing the benchmark above 0.75 percent continuing on its approach for policy tightening to control rising inflation that has touched 40-year highs. In its statement, Fed stated that the committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2% objective and the labor market to remain strong.
- 10) Domestically, in a surprise move, RBI Governor Shaktikanta Das announced that the monetary policy committee has unanimously voted to increase the repo rate by 40 bps to 4.40 per cent, adding that the central bank's stance remains accommodative. RBI's rationale behind raising benchmark rates in an off-cycle MPC meeting was the upside risks to India's inflation trajectory because of global factors. Heightened uncertainty surrounds the inflation trajectory, which is heavily contingent upon the evolving geopolitical situation. Global commodity price dynamics are driving the path of food inflation in India, including prices of inflation sensitive items that are impacted by global shortages due to output losses and export restrictions by key producing countries. International crude oil prices remain high but volatile, posing considerable upside risks to the inflation trajectory through both direct and indirect effects. Core inflation is likely to remain elevated in the coming months, reflecting high domestic pump prices and pressures from prices of essential medicines. Renewed lockdowns and supply chain disruptions due to resurgence of

COVID-19 infections in major economies could sustain higher logistics costs for longer. All these factors impart significant upside risks to the inflation trajectory set out in the April statement of the MPC. Hence the MPC thought it was necessary to reverse rate action taken in May 2020, where the RBI reduced the policy repo rate by 40 bps, following 75 bps reduction in March, as monetary policy had shifted to an ultra-accommodative mode because of the pandemic. The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

- 11) RBI also raised the CRR limit by 50 bps to 4.5 per cent with effect from May 21, which in turn will lead to withdrawal of Rs. 87,000 crore from the system, the governor added. In another move, the RBI has hiked the cash reserve ratio of banks by 50 basis points to 4.5 per cent of net demand and time liabilities (NDTL), effective from the fortnight beginning May 21, 2022. This is expected to withdraw liquidity to the tune of Rs. 87,000 crore from the system. The increase in CRR by RBI is in line with its stance of withdrawal of accommodation and in line with its earlier announcement of gradual withdrawal of liquidity over a multi-year time frame.
- 12) According to RBI in its Monetary Policy Statement, domestic economic activity stabilised in March-April with the ebbing of the third wave of COVID-19 and the easing of restrictions. Urban demand appears to have maintained expansion but some weakness persists in rural demand. Investment activity seems to be gaining traction. Merchandise exports recorded double digit expansion for the fourteenth consecutive month in April. Non-oil non-gold imports also grew robustly on the back of improving domestic demand. Overall system liquidity remained in large surplus. Bank credit rose (y-o-y) by 11.1 per cent as on April 22, 2022. India's foreign exchange reserves declined by US\$ 6.9 billion in 2022-23 (up to April 22) to US\$ 600.4 billion.

Ajcon Global's observations and view..

- 1) Indian equities were back in green led by short covering as markets were in oversold terrain. Globally, sentiments have improved after China cut its five-year loan prime rate by 15 bps to help its real estate sector. However, there are headwinds like high inflation across the globe especially in US, rupee falling to all time low against the US Dollar and US Fed hiking interest rates by 50 bps. Earlier, RBI hiked the repo rate by 40 bps in a surprise move which had affected investor sentiments. There are other headwinds like weak global demand outlook led by hawkish stance of global central banks, ongoing war between Ukraine and Russia, high crude oil prices, rising bond yields globally. However, domestically, robust GST Collections and Direct Tax collections depict strong revival in Indian economy which will keep bulls in picture.
- 2) Domestically, investors will continue to track ongoing Q4FY22 earnings season which has been mixed so far (street participants will focus 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).
- 3) 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) 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 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.
- 5) 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 be careful in selection of stocks.



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- 6) 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.



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