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YOUR FRIENDLY FINANCIAL ADVISORS

Market wrap **March 31, 2022**

Benchmark indices end in red on F&O expiry day; Pharma, PSU Banks and IT stocks fall..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	58,568.51	58,683.99	**115.48**	**0.20**	58,779.71	**58,890.92**	58,485.79
Nifty	17,464.75	17,498.25	**33.50**	**0.19**	17,519.20	**17,559.80**	17,435.20

1) Indian benchmark indices took a breather on F&O expiry day and ended in red on last day of FY22. Before today's fall, the recent rally can be attributed to fall in crude oil prices and de-escalation talks between Russia and Ukraine.

2) The Sensex was down by 115.48 points or 0.20 percent to end at levels of 58,568.51. On the other hand, the Nifty was down by 33.50 points or 0.19 percent to end at levels of 17,464.75.

3) In terms of sectoral performance, the Nifty FMCG index was up by 1.20 per cent, while the Nifty Private Bank index was up by 0.29 percent and Nifty Realty index was up by 0.26 percent. On the other hand, the Nifty Healthcare index was down by 1.29 percent, the Nifty Pharma index fell by 1.17 per cent, followed by the Nifty PSU Bank index (down 0.77 per cent) and Nifty IT index (down 0.40 per cent).

4) However, the broader markets ended in positive terrain today. The BSE MidCap index was up by 0.29 percent while the BSE SmallCap index was up by 0.31 percent.

5) In FY22, the Nifty rallied by 18.9 percent despite by war between Russia and Ukraine, US Fed plans of rising interest rates, COVID-19 lockdown in second wave and high inflation. In FY22, FPI sold equities worth more than Rs. 1.35 lakh crore. On the other hand, DIIs bought equities worth more than Rs. 1.70 lakh crore.

Sectors and stocks

1) Shares of Hindalco Industries closed down by 5.05 per cent at Rs. 569.50 45 on the NSE. The stock of the largest aluminum player in India has declined by 8 per cent in the last two days on profit booking. The stock has corrected 9 per cent from its record high of Rs. 636 touched on Tuesday, March 29, 2022. However, in the past three months, Hindalco has outperformed the market by rallying 22 per cent as compared to a 0.78 per cent rise on the S&P BSE Sensex. In the last one year, the stock has rallied by 77 per cent, as against a 19 per cent rally on the benchmark index.

2) Shares of Tejas Networks were locked at 5 per cent upper circuit at Rs. 424.90 on the BSE in Thursday's trade after the company said it has signed definitive agreement to acquire 64.4 per cent stake in Saankhya Labs Private Ltd for Rs. 283.94 crore in cash. Saankhya is a premier wireless communication and semiconductor solutions company based out of Bengaluru. "The acquisition is upon procuring all necessary consents and approvals. Tejas Networks also intends to proceed with acquiring the balance 35.6 per cent through a merger process or a secondary acquisition. The initial acquisition of Saankhya shares is expected to close within the next 90 days," the company said. The Company added "The acquisition of Saankhya will enhance the Company's wireless offerings by adding 5G ORAN, 5G cellular broadcast and satellite communication products to its product portfolio. It will add to the company's customer base in India and international markets. The acquisition will enhance our IPR portfolio with 73 patents (41 granted and 32 filed) along with hardware and software design. It will bring in-house, fabless semiconductor chip design expertise for specialized applications.

Key recent major developments..

1) Globally, US President Joe Biden on Thursday launched the largest release ever from the U.S. emergency oil reserve and challenged oil companies to drill more in an attempt to bring down gasoline prices that have soared during Russia's war with Ukraine. The announcement comes as part of a broad effort by the US President to manage spiking inflation that is affecting the US economy. Starting in May, the United States will release 1 million barrels per day (bpd) of crude oil for six months from the Strategic Petroleum Reserve (SPR), he said. "This is a moment of consequence and peril for the world, and pain at the pump for American families," Biden said at an event at the White

House. US President Biden's 180 million-barrel release is equivalent to about two days of global demand, and marks the third time Washington has tapped the SPR in the past six months. It will more than cover oil exports to the United States from Russia, which Biden banned this month. Russia typically produces about 10 per cent of the world's crude, but only accounts for 8 per cent of US liquid fuel imports.

2) Domestically, according to government data released on Thursday, the Centre's fiscal deficit at the end of February stood at 82.7 per cent of the full year budget target, mainly on account of higher expenditure. In the last financial year, the fiscal deficit or gap between the expenditure and revenue was 76 per cent of the Revised Estimate (RE) of 2020-21. In actual terms, the deficit stood at Rs. 13.16 trillion at the end of February this year, as per the data released by the Controller General of Accounts (CGA). The central government's total receipts stood at Rs. 18.27 trillion or 83.9 per of the RE of Budget 2021-22. It was 88.2 per cent of the RE of 2020-21 in the corresponding period. The government's total expenditure was at Rs 31.43 trillion or 83.4 per cent of the current year's RE. It was 81.7 per cent of RE in the corresponding period last financial year.

   The government expects the fiscal deficit to be at 6.9 per cent of the GDP or Rs 15.91 trillion in the current financial year ending March 31, 2022.

3) Ratings agency India Ratings and Research (Ind-Ra) on Wednesday revised India's FY23 forecast downwards to 7-7.2 per cent. Accordingly, the ratings agency believes that its 'FY23 Economic Outlook' released in January 2022 is unlikely to hold in view of the global geo-political situation arising out of the Russia-Ukraine conflict. "Since the duration of Russia-Ukraine conflict continues to be uncertain, Ind-Ra has created two scenarios with respect to the FY23 economic outlook basis certain assumptions." According to Ind-Ra, in scenario-one, crude oil price is assumed to be elevated for three months, and in scenario-two, the assumption is for six months, both with a half cost pass-through into the domestic economy.

   "Ind-Ra expects GDP to grow 7.2 per cent YoY in 'Scenario 1' and 7 per cent YoY in 'Scenario 2' in FY23, compared to its earlier forecast of 7.6 per cent." "However, the size of the Indian economy in FY23 will still be 10.6 per cent and 10.8 per cent lower than the FY23 GDP trend value in 'Scenario 1 and Scenario 2', respectively."

4) Globally, Russia's military said on Tuesday it would "fundamentally" cut back operations near Ukraine's capital and a northern city, as talks brought a possible deal to end a grinding and brutal war into view. Deputy Defense Minister Alexander Fomin said the move was meant to increase trust in the talks after several rounds of failed negotiations to halt the conflict that has devolved into a bloody campaign of attrition. Fomin said Moscow had decided to "fundamentally ... cut back military activity in the direction of Kyiv and Chernihiv" to "increase mutual trust and create conditions for further negotiations." That appeared to be a goodwill gesture, but also comes as Russia's troops have become bogged down and struggled to make major advances on the ground recently in the face of stiff Ukrainian resistance, thwarting Russian President Vladimir Putin's aim of a quick military victory.

5) U.S. consumer confidence edged higher in March from a year-low reading a month earlier, with Americans' assessment of current economic conditions improving on the back of a healthy job market, offsetting concerns over inflation that have further darkened their outlook.

6) Earlier, Moody's Analytics said "The rising caseload of Covid-19 in China is causing local, if temporary, disruptions to some manufacturing locations and transport corridors. China's technology center, Shenzhen, suffered brief shutdowns of manufacturing plants and port facilities last week,".

7) Earlier, S&P Global Ratings said in a note said "The Reserve Bank of India (RBI) would be compelled to signal a neutral policy stance in the Monetary Policy Committee's review meeting in April as average consumer inflation is likely to stay firm at 5.4 per cent in FY23." The RBI will likely raise the repo rate by at least 50-75 basis points through fiscal year 2023, and by another 50 basis points in fiscal 2024, the ratings agency said. The rise in inflation will make RBI signal a neutral stance in its April review meeting, followed by a normalization of the policy-rate corridor (the gap between the repo and reverse repo rate). This will involve an increase of the reverse-repo rate, S&P said. Meanwhile, Moody's Analytics said if the US Federal Reserve accelerates its path to policy normalisation, the RBI may have little choice but to commence policy tightening as inflation remains elevated.

8) Domestically, the central board of the Reserve Bank of India (RBI) met on last Friday and discussed several issues including the fallout of the Russian invasion of Ukraine on the Indian economy. "The Board in its meeting reviewed the various areas of operation of the Bank and the current economic situation, global and domestic challenges including the overall impact of current global geopolitical crises," the central bank said in a statement.

9) India's foreign exchange (forex) reserves fell by $2.59 billion in the week ended March 18, recording a sharp drop for the second consecutive week as the Reserve Bank of India (RBI) heavily sold dollars to prevent slide in the value

of rupee. According to the RBI's weekly statistical supplement, the country's forex reserves slumped by $2.597 billion to $619.678 billion during the week ended March 18. The value of gold reserves as well as foreign currency assets declined sharply. This is the second consecutive week of a sharp drop in the country's forex reserves.

10) Earlier, US and the EU had announced their cooperation on liquified natural gas to reduce Europe's dependence on Russian energy. Under the agreement, US will provide the European Union with extra gas, equivalent to around 10 percent of the gas it currently gets from Russia, by the end of the year. The bloc has already said it will cut Russian gas use in response to Russia's invasion of Ukraine. Russia currently supplies about 40 percent of the EU's gas needs. The new deal will involve the US and other countries supplying an extra 15 billion cubic metres of gas on top of last year's 22 billion cubic metres. The new total will represent around 24 percent of the gas currently imported from Russia.

11) Group of Seven leaders (G7 nations) have announced they are restricting the Russian Central Bank's use of gold in transactions. Russia holds roughly $130 billion in gold reserves, and the Bank of Russia announced Feb 28 that it would resume the purchase of gold on the domestic precious metals market. White House officials said Thursday the move will further blunt Russia's ability to use its international reserves to prop up Russia's economy and fund its war against Ukraine. The G-7 and the European Union also announced a new effort to share information and coordinate responses to prevent Russia from evading the impact of sanctions that western nations have levied since the Feb 24 invasion.

12) Earlier, The Federal Reserve raised interest rates by 0.25 percent for the first time since 2018 as the US economy is facing high inflation amidst the impact of the war in Ukraine and the coronavirus crisis. The rate hike was in line with street expectations.

Ajcon Global's observations and view..

1) Indian benchmark indices ended in red today on F&O expiry day. Overall, the investor sentiments have improved led by de-escalation talks between Russia and Ukraine and fall in crude oil prices. However, there are headwinds like lockdown in the city of Shanghai in phased manner in China to curb COVID-19 cases which is affecting crude oil consumption to some extent and hawkish stance of global central banks. Investors will keep a watch on Monthly auto sales numbers amidst high crude oil prices leading to higher fuel costs and global shortage of semiconductors.

2) 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.

3) 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 careful in selection of stocks.

4) 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.

5) There is a strong line up of IPOs and focus would be on LIC IPO considering its scale. As per media reports earlier, Finance Minister Nirmala Sitharaman's interview suggested that the FM may consider another look at the timing of Life Insurance Corporation of India IPO amidst Russia's invasion of Ukraine which has rattled financial markets. 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.

6) 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.

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, research@ajcon.net, akash@ajcon.net

CIN:L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Registered and Corporate office
408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

AKASH
AJAY
JAIN

Digitally signed by AKASH AJAY JAIN
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