



**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on April 02, 2022

**Indian equities witness buoyancy; all eyes on monthly auto sales, RBI's Monetary policy and Q4FY22 earnings season..**

- 1) Indian equities witnessed good rally led by fall in crude oil prices, peace talks between Russia and Ukraine and FII buying.
- 2) For the week, the Sensex was up by 3.33 percent or 1,914.49 points to end at levels of 59,276.69. On the other hand, Nifty was up by 517.45 points or 3.01 percent to end at levels of 17,670.45.
- 3) The broader markets too were upbeat. The BSE Midcap index was up by 2.7 percent and the BSE smallcap index was up by 3.2 percent in the week gone by.
- 4) In terms of sectoral performance, sectors like telecom, realty and banking were top performers. On the other hand, metals sector was under pressure.
- 5) During the week, both FIIs and DIIs bought equities. FIIs bought equities worth of Rs. 5,590.04 crore and DIIs bought equities worth of Rs. 5,052.50 crore. In the month of March 2022, FIIs sold equities worth Rs. 43,281.31 crore. On the other hand, DIIs bought equities worth Rs. 39,677.03 crore in March 2022.
- 6) In FY22, the Nifty rallied by 18.88 percent and the Sensex rallied by 18.29 percent despite war between Russia and Ukraine, US Fed plans of rising interest rates amidst high inflation and COVID-19 lockdown in second wave. 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.

**Key recent major developments..**

- 1) 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.
- 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 re-

leased by the Controller General of Accounts (CGA). The central government's total receipts stood at Rs. 18.27 trillion or 83.9 per cent 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, 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.
- 5) 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.
- 6) 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.
- 7) 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 shut-downs of manufacturing plants and port facilities last week".
- 8) 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.
- 9) 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.

- 10) 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.
- 11) 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.
- 12) Group of Seven leaders (G7 nations) had 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.
- 13) 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 COVID-19 crisis. The rate hike was in line with street expectations.

#### **Ajcon Global's observations and view..**

- 1) Indian equities were upbeat last week. Overall, the investor sentiments have improved led by peace 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 amidst high inflation.
- 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 be 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



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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.

- 7) Going ahead, investors will keep a watch on Monthly auto sales numbers amidst global shortage of semiconductors and high fuel prices. The upcoming RBI's Monetary policy and Q4FY22 earnings season will drive market direction.

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