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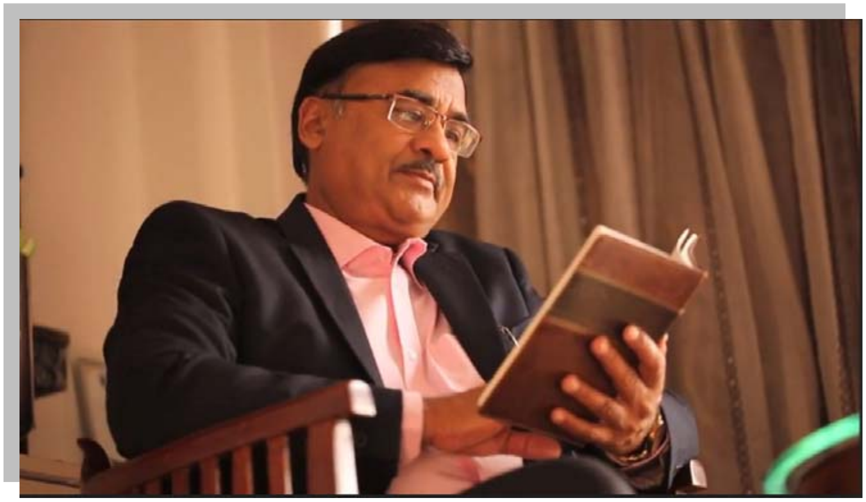

CA (Dr.) Ashok Ajmera, CMD

CA (Dr.) Ashok Ajmera's column as on June 05, 2022

Indian equities were upbeat led by positive global cues; all eyes would be on upcoming RBI's Monetary policy, onset on monsoon and crude oil price movement..

1) Indian equities were upbeat led by positive global cues like end of COVID-19 lockdown in China and dovish tone of US Fed.

2) For the week, the Sensex was up by 1.6 percent or 885 points to end at levels of 55,769. On the other hand, Nifty was up by 232 points or 1.4 percent to end at levels of 16,584.

3) The broader markets too were upbeat. The BSE Midcap index was up by 1.14 percent and the BSE Smallcap index was up by 3 percent in the week gone by.

4) In terms of sectoral performance, sectors like IT, Technology, metals, oil & gas, realty and capital goods and were upbeat. On the other hand, banking sector was under pressure.

5) During the week, FIIs net sold equities worth Rs. 6,653.97 Crore and DIIs bought equities around Rs. 6,845 Crore in the week. In the month of May 2022, FIIs sold equities worth Rs. 54,292.47 Crore. On the other hand, DIIs bought equities worth Rs. 50,835.54 Crore.

Key recent major developments..

1) Crude Oil witnesed sixth weekly gain after OPEC+ meeting resulted in increase in output that were not enough to address concerns over increasing supply deficit. On Thursday, The Organization of the Petroleum Exporting Countries (OPEC) and allies including Russia, known as OPEC+, agreed to raise output by 648,000 barrels per day (bpd) for July and August.

2) The S&P Global India Services Purchasing Managers' Index rose to 58.9 in May from 57.9 in April, its highest since April 2011 and comfortably beating the Reuters poll expectation of 57.5. It stayed above the 50-mark that separates growth from contraction for a tenth consecutive month, the longest streak of expansion since 12 months of growth between June 2018 and May 2019. Overall demand rose at the fastest pace since July 2011 as economic activity continued to normalize with the lifting of pandemic restrictions. "The reopening of the Indian economy continued to help lift growth in the service sector," noted Pollyanna De Lima, economics associate director at S&P Global Market.

3) Domestically, India's trade deficit widened to a record $23.33 billion in May as imports grew at a faster pace compared to exports amid high commodity prices owing to the Russia-Ukraine conflict, the preliminary data released by the commerce and industry ministry showed on Thursday. The previous highest monthly trade deficit was $22.91 billion in November 2021. The deficit stood at $6.28 billion in May last year. Imports were up by

56.14 per cent to $60.62 billion in May on the back of a sharp jump in petroleum products amid rising global crude oil prices. The share of petroleum products in India's total imports was 30 per cent in May, growing 91.6 per cent year-on-year to $18.1 billion. Gold imports witnessed a 759 per cent jump to $5.8 billion; electronic goods rose 28.5 per cent to $5.44 billion; and coal imports grew by 2.6 times to $5.3 billion in May. India's merchandise exports grew 15.46 per cent YoY to $37.29 billion in May. Export growth fell by 7.2 per cent compared to last month, after witnessing record outbound shipments of over $40 billion in March and April.

4) Goods and services tax (GST) collections fell below the Rs. 1.5 trillion mark in May 2022. India's gross GST collections stood at Rs. 1.41 trillion during the month. However, the collections in May are 44 per cent higher than the same month in 2021. In April, GST collections had touched a record high of Rs 1.68 trillion, surpassing the Rs. 1.5-trillion mark for the first time. "The collection in the month of May, which pertains to the returns for April, the first month of the financial year, has always been lesser than that in April, which pertains to the returns for March, the closing of the financial year. However, it is encouraging to see that even in the month of May 2022, the gross GST collection has crossed the Rs. 1.40 lakh crore mark," said Ministry of Finance in a release. "This is only the fourth time the monthly GST collection crossed Rs.1.40 lakh crore mark since inception of Goods and Services Tax (GST) and third month at a stretch since March 2022."the Finance Ministry said.

5) India's manufacturing sector growth steadied in May on the back of rising international orders despite an increase in prices. The S&P Global India Manufacturing Purchasing Managers' Index (PMI) was recorded at 54.6 in May, a minor change from 54.7 in April. New orders and production continued to rise at the pace registered in April. A print above 50 indicates expansion, while a score below 50 suggests a contraction. "The above-50.0 reading was the eleventh in as many months and consistent with a solid improvement in operating conditions," S&P Global said in a statement. Companies secured new work despite lifting selling prices at the fastest rate in over eight-and-a-half years as additional cost burdens continued to be transferred to clients, it said.

   Demand showed signs of resilience in May, improving further despite another uptick in selling prices."…with the sharpest rise in international sales for 11 years, total new orders expanded further. In response to demand resilience, companies continued with their efforts to rebuild stocks and hired extra workers accordingly," said Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence.

   Manufacturers continued to scale up production in May on sustained improvement in demand and looser COVID-19 restrictions; signaling a further increase in output prices.

   "There was little movement in the rate of input price inflation during May, which remains historically high, but output charge inflation surged to its highest in over eight-and-a-half years as companies continued to transfer additional cost burdens to their clients," said De Lima.

6) India's economic growth further slowed during the fourth quarter, hit by Omicron-led restrictions in January, global supply shortages and higher input costs. Gross domestic product in the January-March period grew 4.1%, data released by the Statistics Ministry showed Tuesday. In the third quarter of FY22, GDP growth slowed to 5.4% from 8.5% in the second quarter and 20.3% in the first quarter. The growth in the financial year 2021-22 stood at 8.7%. In its second advance estimate, the government had estimated the GDP to grow at 8.9% in FY22. Growth in private final consumption expenditure, or private spending, decelerated sequentially in Q4 to 1.8 per cent. Government spending, however, picked up to grow at 4.8 per cent, supporting overall growth. Gross fixed capital formation, which represents investment demand in the economy, slowed to 5.1 per cent. Gross value added (GVA) at basic prices grew at 3.9 per cent in the fourth quarter and 8.1 per cent in FY22.

7) Fiscal deficit for 2021-22 improved to 6.71 per cent of the GDP over the revised budget estimate of 6.9 per cent mainly on account of higher tax realisation. Unveiling the revenue-expenditure data of the Union government for 2020-21, the Controller General of Accounts (CGA) said that the fiscal deficit in the absolute terms was Rs 15,86,537 crore (provisional). The finance ministry in February had estimated the deficit at Rs 15,91,089 crore or 6.9 per cent of GDP. According to the data, the tax receipts during the fiscal were at Rs 18.2 trillion as against the revised estimates (RE) of Rs 17.65 trillion. The total expenditure too was higher at Rs 37.94 trillion against the RE of Rs 37.7 trillion presented to Parliament on February 1, 2021. CGA further said the revenue deficit at the end of the fiscal was 4.37 per cent for fiscal 2021-22.

8) Domestically, "Advance action" is underway for the privatisation of two public sector banks (PSBs) as announced by Finance Minister Nirmala Sitharaman in the last Union Budget, Financial Services Secretary Sanjay Malhotra said on Monday. In the Union Budget for 2021-22, Sitharaman had announced privatisation of two public sector banks (PSBs) besides IDBI Bank. However, this year's Budget Speech had skipped the mention of the

progress made for the privatisation of two PSBs. "In so far as banking privatisation is concerned, there is already a statement on the floor of the house by the Finance Minister for making enabling provision. Advance action on this is underway," Malhotra said during the curtain raiser event for celebration of Azadi Ka Amrit Mahotsav.

9) Earlier, 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).

10) Earlier, the rupee hit an all time low of 77.78 per US dollar, led by strengthening of US dollar, unabated foreign fund outflows and rate hike by US Fed.

Ajcon Global's observations and view..

1) Indian benchmark indices ended the week in green led by end of COVID-19 lockdown in China. 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) We expect markets to be volatile and all eyes would be on RBI's Monetary policy, IIP data, onset of monsoon in different parts of the nation and crude oil price movement.

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 careful in selection of stocks.

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

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