



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on Jan. 15, 2022

Indian equities remain buoyant; all eyes on performance of companies in Q3FY22 earnings season..

- 1) India's benchmark indices were upbeat last week. The Sensex was up by 2.47 percent or 1,478.38 points to close at levels of 61,223.03. On the other hand, Nifty was up by 443.1 points or 2.48 percent to end at levels of 18,255.8.
- 2) The broader markets too were buoyant. The BSE Midcap index rose by 2.4 percent and BSE Smallcap index was up by 3 percent in the week gone by.
- 3) In terms of sectoral performance, BSE Power index was up by 7.4 percent, Capital Goods index rose by 6 percent and Realty index were up by around 5 percent.
- 4) During the week, Foreign institutional investors (FIIs) sold equities worth of Rs 4,002.94 crore, and domestic institutional investors (DIIs) bought equities worth of Rs 3,629.03 crore.

Key recent major developments..

- 1) Merchandise exports witnessed nearly 40 per cent growth year-on-year to \$37.81 billion in December, as demand for Indian products continues to remain robust, according to data released by the commerce and industry ministry on Friday. On a sequential basis, outbound shipments grew nearly 29 per cent. Engineering goods, petroleum products, gems and jewellery, organic and inorganic chemicals, drugs and pharmaceuticals, continued to remain top exported goods. On a cumulative basis, India's merchandise exports in April-December crossed \$301 billion, achieving three fourth of the annual export target of \$400 billion in the first nine months of FY22. The number has also exceeded total exports of 2020-21, which was at \$290 billion.
- 2) Wholesale Price Index-based Inflation (WPI) for December moderated slightly compared with November, but stayed in double digits for the ninth consecutive month, data released by the Commerce Ministry showed on Friday. WPI inflation bucked a 4-month rising trend in December 2021 and came in at 13.56 percent, even though food prices hardened. Factory-gate inflation in November was 14.23 per cent, while in December 2020 it was 1.95 per cent. "The high rate of inflation in December 2021 is primarily due to rise in prices of mineral oils, basic metals, crude petroleum & natural gas, chemicals and chemical products, food products, textile and paper and paper products etc as compared to the corresponding month of the previous year," the Commerce Ministry said.
- 3) Prime Minister Narendra Modi on Thursday interacted with the chief ministers of all states and Union territories, as decided before, to take stock of the present Covid-19 situation of the country. He emphasized on local containment measures to curb the virus spread led by Omicron variant as well as ensuring minimum damage to livelihood. In his remarks at the meeting, the prime minister laid emphasis importance of vaccination and the need to further accelerate the 'Har Ghar Dastak' programme to achieve 100 per cent vaccination coverage.

- 4) As many as 300 districts in India are reporting weekly case positivity of more than 5 per cent with Maharashtra, West Bengal, Delhi, Tamil Nadu, Karnataka, Uttar Pradesh, Kerala and Gujarat emerging as states of concern, the Union government said on Wednesday.
- 5) The World Bank retained its FY22 growth forecast for India at 8.3 per cent but upgraded it to 8.7 per cent for FY23, from 7.5 per cent estimated earlier, citing improving growth prospects, especially a reviving private capex cycle.
- 6) India's retail inflation rate rose to a five month high in December and growth in factory output decelerated to a nine month low in November. Data released by the statistics department showed retail inflation rate as measured by the consumer price index rose to 5.59 per cent in December from 4.91 per cent a month ago. Growth in factory output as measured by the Index of industrial production (IIP), on the other hand, dipped to 1.4 per cent in November compared to 4 per cent in the preceding month.
- 7) Emerging economies must prepare for US interest rate hikes, the International Monetary Fund said, warning that faster than expected Federal Reserve moves could rattle financial markets and trigger capital outflows and currency depreciation abroad. In a blog published Monday, the IMF said it expected robust US growth to continue, with inflation likely to moderate later in the year. The global lender is due to release fresh global economic forecasts on Jan. 25. It said a gradual, well-telegraphed tightening of U.S.monetary policy would likely have little impact on emerging markets, with foreign demand offsetting the impact of rising financing costs. It said emerging markets with high public and private debt, foreign exchange exposures, and lower current-account balances had already seen larger movements of their currencies relative to the US dollar. The fund said emerging markets with stronger inflation pressures or weaker institutions should act swiftly to let currencies depreciate and raise benchmark interest rates.
- 8) The US Federal Reserve's minutes suggested that Fed officials thinking about faster rate hikes and gradual reduction of its balance sheet.
- 9) The US Labor Department said on last Friday that the nation's unemployment rate fell to a healthy 3.9 percent from 4.2 percent in November.
- 10) India's manufacturing activity lost some momentum in December easing to a three month low after hitting a 10 month high in November, amid fears that the rapidly spreading third wave of the Coronavirus (Covid-19) pandemic may hit consumer sentiment and output. Data released by the analytics firm IHS Markit showed that the Purchasing Managers' Index (PMI) for manufacturing fell to 55.5 in December from 57.6 in November. A reading above 50 indicates expansion in economic activity and a number below that signals contraction. "Companies continued with their stock-building initiatives, as evidenced by another robust upturn in buying levels. Business confidence strengthened, but sentiment was again dampened by concerns surrounding supply-chain disruptions, Covid-19 and inflationary pressures," the data analytics firm said.
- 11) GST revenue collected in December 2021 was over Rs. 1.29 trillion, 13 per cent higher than the same month last year, the Finance Ministry said on Saturday. Though the collection was lower than Rs. 1.31 trillion mopped up in November, December is the sixth month in a row when revenue from goods sold and services rendered stood at over Rs. 1 trillion. The gross GST revenue collected in the month of December 2021 is Rs. 1.29 trillion, of which CGST is Rs. 22,578 crore, SGST is Rs. 28,658 crore, IGST is Rs. 69,155 crore (including Rs. 37,527 crore collected on import of goods) and cess is Rs. 9,389 crore (including Rs. 614 crore collected on import of goods)," the Finance Ministry said in a statement. The revenues for December 2021 are 13 per cent higher than the GST revenues in the same month last year (Rs 1.15 trillion) and 26 per cent higher than December 2019. The average monthly gross GST collection for the third quarter (October-December) of the current year has been Rs 1.30 lakh crore against the average monthly collection of Rs 1.10 trillion and Rs 1.15 trillion in the first and second quarter, respectively. "Coupled with economic recovery, anti-evasion activities, especially action against fake billers have been contributing to the enhanced GST. The improvement in revenue has also been due to various rate rationalisation measures undertaken by the Council to correct inverted duty structure," the ministry said.

Ajcon Global's observations and view..

- 1) Indian benchmark indices were upbeat last week. Buying was witnessed across the board. The sentiments have been upbeat as in third wave of COVID-19 led by Omicron variant, death rates have been lower so far as compared to devastating Delta variant. Despite significant spike in COVID-19 cases on daily basis, the hospitalisation rates are also lower. The restrictions imposed too by various states so far are not a major dampener to economic activity.

- 2) In addition, factors like good growth in merchandise exports, RBI's accommodative stance in its Monetary Policy, good GDP data, robust GST collections, strong manufacturing PMI, expectations of strong Q3FY22 earnings season, good Q2FY22 earnings season and management commentary, good economic activity witnessed in the festive season of Navratri, Diwali, Christmas, New Year and good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis. However, there are concerns like hawkish stance of global central banks, headwinds like high inflation and valuation concerns.
- 3) There is a strong line up of IPOs. We suggest investors to be careful about the forthcoming IPOs and understand the fundamentals before riding the boom based on risk reward profile. However, 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 have to be careful with expensive IPOs whose valuations are beyond logic.
- 4) For the CY 2021, Sensex delivered a good return of 22 per cent or up by 10,503 points, after having touched a new life-time high of 62,245 on October 19, 2021. Nifty has delivered a return of 24.1 per cent for CY 2021. Growth oriented budget, devastating second wave of COVID-19 well managed, strong vaccination drive, faster than expected economic recovery in Unlock phase, PLI incentives in various sectors, strong demand witnessed post lockdown and in festive season, strong Q2FY22 earnings season contributed to the significant rally.
- 5) It is advisable to stay away from companies which have ran ahead of fundamentals. It would be prudent to stay with quality names at decent valuations in uncertain times. It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree. Always remember, corrections in a bull market will keep markets healthy.
- 6) Structurally, Indian equities are 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 focussed 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.
- 7) Market participants will keenly track ongoing Q3FY22 earnings season, economic activity in 3rd wave of COVID-19 and state level restrictions, eye on expectations from different stakeholders from the upcoming Union Budget, global cues like COVID-19 cases led by the Omicron variant across the globe, global inflation data, oil price movement and developments in China.

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