



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

Dr. Ashok Ajmera's column as on Feb. 19, 2022

**Domestic bourses end in red amidst volatility; all eyes would be on developments related to Ukraine - Russia tensions and crude oil price movement..**

- 1) Bears had an upper hand last week amidst significant volatility led by weak global cues. The Sensex was down by 319.95 points or by 0.55 percent to close at levels of 57,832.97. On the other hand, Nifty was down by 98.45 points to end at levels of 17,276.30.
- 2) The broader markets too were under pressure. The Nifty Midcap index was down by 2.7 percent and Nifty Smallcap index was down by 3.4 percent in the week gone by.
- 3) In terms of sectoral performance, metals, realty, banking and pharma were under pressure. On the other hand, IT sector ended in positive terrain.
- 4) During the week, Foreign institutional investors (FIIs) sold equities worth Rs. 12,200 Crore. Month till date, FIIs have sold equities worth Rs. 21,928.08 Crore. On the other, DIIs purchased equities around Rs. 10,600 Crore. Month till date, DIIs have purchased equities worth Rs. 16,429.46 Crore.

**Key recent major developments..**

- 1) With the muted impact of the third wave of the pandemic on economic activity, the Indian economy may undergo an economic reset by end of the year, clocking 9 per cent growth in 2021-22 (FY22) and around 8 per cent in 2022-23 (FY23), the finance ministry said on Wednesday. "The Budget has targeted a nominal gross domestic product (GDP) growth rate of 11.1 per cent in FY23, with a GDP deflator of 3-3.5 per cent. The implied real growth component of around 8 per cent is close to the forecast in the Economic Survey of FY22, as well as 7.8 per cent projected by the monetary policy committee (MPC) of the Reserve Bank of India in its meeting of February," the finance ministry said in its latest monthly economic review. The report said the unchanged repo and reverse repo rate, along with the MPC's accommodative stance, prioritise growth during these uncertain times and reinforce the investment orientation of the Budget. 2) The Indian technology industry crossed the \$200 billion revenue mark, reaching \$227 billion revenue in FY22, witnessing a \$30 billion incremental revenue in the year with an overall growth rate of 15.5 per cent. Recording the highest ever growth since 2011 said Nasscom in its Strategic Review. The industry association is also confident that the industry can achieve the ambitious target of being a \$350 billion by FY26 growing at a rate of 11-14 per cent. Rekha M Menon, chairperson, NASSCOM said, "Fiscal 2022 has been a breakthrough year for the Indian technology industry. We've posted solid, broad-based growth, massively increased jobs, and are proud that we continue to be an engine for India's economic growth, and a beacon for inclusion and diversity. We are excited about the opportunities in the Techade as we enter an era of exponential transformation and technology becomes indispensable to progress. We remain committed to catalysing the trillion-dollar digital economy with our focus on talent, technology, collaboration, and innovation."



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- 3) Domestically, India's exports in January rose 25.28 per cent to \$34.50 billion on account of healthy performance by mainly engineering, petroleum and gems and jewellery sectors, even as trade deficit widened to 17.43 billion, according to data released by the commerce ministry on Tuesday. Imports grew by 23.54 per cent to \$51.93 billion during the month under review. Trade deficit, difference between imports and exports, stood at \$14.499 in January 2021. Cumulatively, exports increased by 46.73 per cent to \$335.88 billion during April 2021-January 2022, from \$USD 228.92 billion in the corresponding period a year ago.
- 4) Auto industry body SIAM said Passenger vehicle dispatches from factories to dealers in India fell 8 per cent in January, mainly due to semiconductor shortage. The total passenger vehicle wholesales dropped to 2,54,287 units in January 2022 as compared to 2,76,554 units in the same month of last year. "Sales in January 2022 again declined compared to January 2021, due to both Omicron-related concerns and semiconductor shortage. There is clearly a demand issue for two-wheelers due to lower rural off-take of entry level models," Society of Indian Automobile Manufacturers (SIAM) Director General Rajesh Menon said. On the other hand, the passenger vehicle segment is unable to meet the market demand due to supply side challenges, he added. "Three wheelers continue to be severely affected due to lower sales," Menon said.
- 5) India's factory output growth decelerated to its lowest in 10 months at 0.4 percent in December as the third wave of the pandemic led to lockdowns across the country causing disruptions in economic activities. Data released by the statistics department showed manufacturing output contracted 0.1 per cent in December while mining and electricity grew at 2.6 per cent and 2.8 per cent, respectively. During the month, output of capital goods, consumer durables and consumer non-durables contracted while output of intermediate goods remained almost unchanged compared to their levels a year ago.
- 6) Earlier, Finance Minister Nirmala Sitharaman said banks have sanctioned loans worth Rs. 3.1 lakh crore under the Emergency Credit Line Guarantee Scheme (ECLGS) for the MSME sector that was impacted by disruptions due to the coronavirus pandemic. The scheme has been extended till March 2023.
- 7) According to Federation of Automobile Dealers Associations (FADA) Retail sales of auto manufacturers in the country declined by 10.70% in January 2022 as compared to the year-ago period. As per the data released by FADA, sales of three-wheeler and commercial vehicles (CVs) were up by 30 percent and 20.5 per cent respectively while sales of two-wheelers, passenger vehicles (PV), and tractors fell by 13 per cent, 10 per cent, and 10 per cent, respectively. According to FADA, the PV inventory at the end of January 2022 was at a 'historic low' of 8-10 days. On the other hand, the 2W inventory has come down to 25-30 days.
- 8) Globally, US Labour Department data showed that inflation soared over the past year at its highest rate in four decades reinforcing the Federal Reserve's decision to begin raising borrowing rates across the economy. The consumer price index rose 7.5% year over year in January, while the expectation was for an increase of 7.3%.
- 9) Globally, UK's inflation has moved to 5.5 percent (30 year high) in January which can result in hawkish stance of Bank of England and may result in hike of interest rates.

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

- 1) Indian benchmark indices ended in red for the week led by weak global cues. Ukraine - Russia tensions played spoilsport. All eyes would be on key developments related to it. It has to be seen that the tensions between Russia and Ukraine escalates further as it will directly impact crude oil prices. In addition, there are headwinds fears of US Fed hiking interest rates, fears of liquidity tightening and hawkish stance of global central banks amidst spike in global inflation and strong FII selling.
- 2) 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. Structurally, Indian equities are poised to do well after major reforms like thrust on digital economy after demonetisation, implementation of GST,



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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.

- 3) Before the correction, the sentiments were upbeat as in third wave of COVID-19 led by Omicron variant did not have a major impact on the economy. In addition, factors like good growth in merchandise exports, RBI's accommodative 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, 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.
- 4) There is a strong line up of IPOs and focus would be on LIC IPO considering its scale. 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.
- 5) Positive factors like dovish stance of RBI in its Monetary policy, 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) and strong GST collections will support bulls. With Q3FY22 earnings season coming to an end, investors will now keenly track global cues like global inflation data, outcome of US Federal Reserve policy and crude oil price movement. The results of assembly elections in Uttar Pradesh, Punjab, Uttarakhand, Goa and Manipur will also play in investors mind.

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