AJCONGLOBAL
YOUR FRIENDLY FINANCIAL ADVISORS

Market wrap **June 27, 2022**

Domestic bourses end in green; positive momentum likely to continue..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	53,161.28	52,727.98	**433.30**	**0.82**	53,468.89	**53,509.50**	53,120.79
Nifty	15,832.05	15,699.25	**132.80**	**0.85**	15,926.20	**15,927.45**	15,815.50

1) On Monday, Indian equities continued its buoyancy led by rally in Asian equities, recent fall in commodities prices which will help in reducing inflation and investors resorting to value buying. Before the relief rally in last few days, investor sentiments had been affected after US Fed hiked interest rates by 75 bps, the biggest since 1994 amidst high inflation as it can affect overall growth. Domestically, rising bond yields and Wholesale Price Index (WPI) inflation jumping to 15.8 percent in May 2022 had also dampened the mood.

2) The Sensex was up by 433.30 points or 0.82 percent to end at levels of 53,161.28. On the other hand, Nifty was up by 132.80 points or 0.85 percent. Among the Sensex 30 stocks, the major gainers were Larsen & Toubro, Tech Mahindra, HCL Technologies, Infosys, Asian Paints, IndusInd Bank, Bharti Airtel up in the range of 2 percent to 2.69 percent.

3) The broader markets too were upbeat today. The BSE MidCap index was up by 0.87 percent, while the BSE SmallCap index was up by 1.57 percent.

4) In terms of sectoral indices performance, the major gainers were the BSE Capital Goods, BSE Information Technology, BSE Basic Materials, BSE Industrials, BSE Utilities, BSE Power were up in the range of 1.44 percent to 2.26 percent.

5) Month till date, FIIs sold equities worth Rs. 54,878.82 Crore. On the other hand, DIIs have bought equities worth Rs. 43,167.94 Crore. In May 2022, FIIs had sold equities worth Rs. 54,292.47 Crore. On the other hand, DIIs bought equities worth Rs. 50,835.54.

Sectors and stocks

1) Shares of GNFC closed up by 4.51 percent to Rs. 607.85 on Monday at the BSE. Mr. Pankaj Joshi, Managing Director, GNFC while elaborating on the operating and financial performance said : “It gives me an immense sense of satisfaction to announce that FY 21-22 has been the year of unprecedented revenue and profits where the company has delivered ever highest annual Revenue and Profits in its history of 46 years." He further said "Optimisation of profitable product mixes, prudent ‘make or buy’ decisions for captive products, profitable sale of captive products, products pricings discipline are some of the main reasons behind this excellent operational and financial performance even while navigating headwinds of steep input cost pressures. This is possible mainly due to competitiveness especially of Industrial Chemicals. Industrial Chemicals business did extremely well, where some of the chemicals like weak nitric acid, concentrated nitric acid, ammonium nitrate melt, acetic acid etc fared quite well. Production and sales of Ethyl Acetate, Ammonium Nitrate and Nitro Benzene have been highest. Weak Nitric Acid and Methyl Format also recorded highest ever sales volume. On fertilizer front, there has been a commendable Government of India (GoI) support in releasing timely subsidy in spite of spiralling natural gas prices and other input costs by increasing the extra budget allocations. The gas pool price has increased by more than 110% from March-21 to March22. On a weighted average basis, the yearly gas pool price has increased by around 80% YoY i.e. FY 21-22 V/s FY 20-21. GoI’s additional support of continuing the mixed fertilizer subsidy has been a big relief to industry. GoI has also revised the freight subsidy rates from year 2016-17 to 2020-21. All these measures bode well for fertilizers. The production of mixed fertilizer i.e. Ammonium Nitro Phosphate has been lower due to requirement of catering to national priority of enhancing the Ammonium Nitrate Melt production for energy security. Once the situation gets normalised this is expected to start production by this month."

Mr. DV Parikh, Chief Financial Officer of the Company in its Q4FY22 analyst concall said "This year 2021-2022 actually started with a severe impact of pandemic which subsided around Q2 of the financial year, so after the first half when it subsided, the inflationary effect started showing up and which was exacerbated by Russia-Ukraine war somewhere around late February 2022, thereafter the input prices which were already on the high rise have been on the boil especially that of gas and oil. As of now, the run up in the oil still continues but the gas is tempering down, gas prices are depended now for a future on the decision of Europe on the Russian gas supplies, so this is the environment under which most countries and business is operate. This has very severe impact on the country's finances especially those which we are not having based on resources with them. These are affected businesses also in different way although our business was protected one from the input cost rises although it was witnessed but finally a delta is maintained in terms of margin and margin could also be enhanced because of the competitive position and pricing opportunities which were there. He further said "Cash flows have been a very healthy, cash flow has been hovering around 1700 Crores plus during the FY2021-FY2022, this is mainly on account of the time release of subsidy as well as internal accruals. On the capex front, he said during last year and April, there are two facilities which have been operated, one is the TDI to bottlenecking which will increase the volume by around 10,000 metric tonne per annum and seconds is the formic acid which will increase the volume by around 6,800 metric tonnes per annum. This year there are two other projects which are going to be operational, one is the 4 MW Solar power plants, which is around Q3 of calendar year FY2022-FY2023 and another is the CNA-IV with a capacity of 50,000metric tonne which is also likely to be operational around the same time. Apart from that there is a capital outlay of 4,250 Crores which is already identified, out of which capex was 1350 as already gone on course and capex were 2,900 Crores are at an advanced stage of approval, out of 2,900 Crores around 2,500 pertains to polycarbonate and 400 Crores pertain to green hydrogen, so this is by and large the outline of what the company has done and what company intends to do."

Key recent major developments..

1) Asian peer indices were upbeat today. Hong Kong's Hang Seng closed up by 2.35 per cent, South Korea's Kospi rallied up by1.5 per cent and Japan's Nikkei moved up by 1.4 percent.

2) Leaders of the Group of Seven wealthy democracies on Monday pledged to stand with Ukraine "for as long as it takes" by cranking up sanctions on Russia and backing security commitments for Kyiv in a post-war settlement. Russia's invasion of Ukraine and the global economic fallout such as soaring energy and food prices has dominated this year's summit of the leaders of Germany, the United States, France, Italy, Canada, Japan and Britain. "We will continue to provide financial, humanitarian, military and diplomatic support and stand with Ukraine for as long as it takes," said the statement. (Source: Reuters).

3) The current geopolitical situation arising from Russia's invasion of Ukraine threatens to 'snuff out' global economic recovery post the Covid-19 pandemic, Reserve Bank of India Deputy Governor Michael Patra said on Friday. "Emerging markets bearing the brunt of the Russia-Ukraine war despite being bystanders," said Patra, addressing an event by industry body PHD Chamber of Commerce. Patra said that monetary policy decisions by central banks around the world were aimed at their own specific constituencies. But given that inflation is the biggest policy issue right now, it seemed coordinated.

4) Earlier, Federal Reserve Chair Jerome Powell said the U.S. central bank is "strongly committed" to bringing down inflation that is running at a 40-year high. In his prepared remarks before the Senate Banking Committee, Powell reiterated that ongoing increases in the policy rate would be appropriate, but the pace of the changes will continue to depend on the incoming data and the evolving outlook for the economy. Earlier, US Treasury Secretary Janet Yellen said "Recession isn't 'inevitable' despite 'unacceptably high' inflation".

5) Domestically, Reserve Bank of India (RBI) said India witnessed a current account deficit of 1.2% of GDP in 2021-22 against a surplus of 0.9% in FY2020-21 due to a wider trade deficit. For the January-March 2022 quarter, the CAD narrowed on a sequential basis to $13.4 billion or 1.5% of GDP against $22.2 billion or 2.6% of GDP in the December 2021 quarter.

6) The Finance Ministry said on Monday that while India faces a lower risk of stagflation than other nations, there is now an upside risk to gross budget deficit due to additional welfare and subsidy spending and recent cuts in excise duties, and the economy faces slowing growth due to global factors. In its latest Monthly Economic Report (for the month of May), the Finance Ministry stated: "India faces near-term challenges in managing its fiscal deficit,

sustaining economic growth, reining in inflation and containing the current account deficit while maintaining a fair value of the Indian currency."

7) The US Fed hiked interest rates by 75 bps to 1.75 percent, the biggest hike in 28 years since 1994 which was as per expectations of the global investors. The US Fed said in its press release "The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The invasion and related events are creating additional upward pressure on inflation and are weighing on global economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks." It further added "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 1-1/2 to 1-3/4 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective."

Ajcon Global's observations and view..

1) **Short term view:** Indian benchmark indices are likely to maintain its positive momentum. With WPI inflation, CPI Inflation and IIP data out, investors will keep an eye on fiscal deficit data, manufacturing PMI data, onset and progress of monsoon in different parts of the nation and crude oil price movement. The fall in commodities like copper, aluminium, steel prices have improved investor sentiments. Investors are likely to follow the pattern of sell on rise and buy on dips in the near term as there are too macroeconomic headwinds at the moment. Globally, investors had turned cautious after US Fed hike of 75 bps, biggest in 28 years which would affect growth outlook.

2) **Long term view:** 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.

3) **Strong line up of IPOs:** 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. The significant fall in the recently listed companies also provide good entry points at the moment.

4) **Approach suggested for investors:** It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree. History has proved that after any crisis, equities recover strongly and give stellar returns. One should also remember that not every fall is worth buying and investors should evaluate the Company based on fundamentals and valuation before taking any decision. 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. Considering there are too many macroeconomic variables, we believe markets would give opportunities to enter quality stocks at reasonable valuation. Sector wise Financial sector (specially banking), Pharma, automobile, auto components, Infrastructure & food processing looks attractive at the current valuations.

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