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WEEKLY Newsletter

Private Client Group

MARKET
kya lag raha hai?

Global equity markets including stock market of India has been under selloff heat as the Russia-Ukraine conflict further intensified to the worse.

A surge in energy and commodity prices, with a barrel of oil now close to $120, have piled on the inflationary hike that the world was already experiencing as economies recover from the Covid-19 pandemic. Concerns about elevated oil prices also kept investors nervous. Crude oil continued to trade near its recent highs, with the benchmark Brent having touched $120 a barrel recently. **Rising crude prices are also putting pressure on the rupee, as India imports more than 80% of its oil requirements.** Moreover, rising wheat, palm oil, and coal will start hitting the common man hard in the coming days. This may also lead to monetary tightening, which has become the biggest worry for investors.

The Russia-Ukraine conflict is hurting the rupee, bonds, and equities via the three channels of oil prices, the dollar index, and falling global equity prices. **Volatility is likely to stay high because of heightened geopolitical risks. The upcoming state elections results, the US Federal Open Market Committee meeting and accelerating inflation will keep investors on the edge.**

In the coming week, the focus of market participants will remain on the Russia-Ukraine crisis and its impact on crude. Besides, on the domestic front, participants will be closely eyeing state election results of five states—Uttar Pradesh, Uttarakhand, Goa, Punjab and Manipur—on March 10. **The hard fought election, if results in losses for the ruling party in key states, may have a negative bearing on the market.**

Though the near-term concerns remain elevated and volatility is expected to continue, **the steep corrections have made Nifty valuations attractive.** Post the recent correction, the Nifty is trading at 19X 12-months forward price to earnings, which is lower than its 10-year average for the first time since November 2020. Despite the challenges, earnings remain resilient, with December quarter Nifty earnings growing at 25% and forward estimates staying stable. **This will act as a cushion in an otherwise fragile external situation**.

FIIs are still in a selling mood and their behaviour will also play an important role in the direction of headline indices. In just three sessions in March, foreign investors have withdrawn a net Rs 14,721 crore from the equity market. This is on top of around Rs 70,000 crore in the previous two months of the current calendar year. **The consistent rise in bond yields and rising inflation could put more pressure on the Emerging markets including Indian markets as it could result in massive FII outflow.**

ECONOMY ka haal chaal!

India's PMI manufacturing rises to 54.9 in February, but Recovery at stake: Business activity in India's manufacturing sector saw a marginal improvement in February. The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) rose to 54.9 from 54 in January, aided by modest rise in the new orders component as the impact of Omicron on demand conditions faded.

But the threat of inflation is fast worsening. Crude oil prices have risen past $110 per barrel, and with no end to the Ukraine crisis in sight, our central bank may need to move decisively towards policy tightening, even as the 2022-23 budget's core assumptions weaken. **With too many economic variables up in the air, uncertainty stares at us**.

Rupee slumps to near 3-month low vs US dollar, weakens past 76 per USD: The Indian rupee weakened past the 76 per dollar mark, as the deepening crisis in Ukraine amid heightened investor anxiety after reports that Russian forces had attacked a nuclear plant in Ukraine. Russia is one of the world's biggest exporters of key raw materials, from natural gas and crude oil to aluminium and wheat, so the possible exclusion of supplies from the country due to sanctions has sent traders and importers into a frenzy. **India imports more than two-thirds of its oil needs and the surge in crude threatens to push up the country's trade and current account deficit and pressure the rupee.**

On the recovery path, auto sector has a bumpy ride: Domestic sales of vehicles in February do not indicate an overall positive trend. Most of the OEMs have reported fall in sales, for some it is a mixed bag. Chip shortage and supply chain constraints have improved over the past months, however fresh concerns have arisen around the ongoing Russian-Ukraine crisis impacting the supply chains and the semiconductor shortage. **While PVs and CVs have done well, two- wheelers and tractors showed no signs of recovery. The Ukraine war has ignited commodity prices which have a bearing on the automobile sector.**

Freight costs jump as shipping rates, insurance premium soar: The sudden surge in container rates and insurance costs following the Russian invasion of Ukraine is expected to drive up freight costs across the world. **Container rates are up ten-fold in less than a fortnight, while war insurance premiums have risen 5%.** The shipping industry, which plays a major role in global trade, was already fighting a shortage of vessels and containers when American and European sanctions on Russia and its businesses drove up crude prices, increasing shipping costs. Daily rates of tankers and vessels have zoomed from $3,000 per day around 10 days ago to $30,000 now, primarily because there are fewer ships from Russia and Ukraine. Risk premiums for ships have also increased by 3-5%.

CORPORATES
ki khabrein

Banks, NBFCs raise lending rates as tighter liquidity, deposit costs pinch: Banks and non-bank lenders have bumped up lending rates by up to 15 basis points over the past one month on tightening liquidity conditions and higher deposit costs. **Lending rates on outstanding loans have continued to dip, although the cost of fresh loans has increased, indicating that rates have bottomed out**. Most banks such as State Bank of India, ICICI, HDFC Bank, Axis and Canara have bumped up deposit rates for savers. Almost all loans have been re-priced upward keeping in mind the imminent change in the interest rate cycle and the increase in deposit rates. **Impact/View:** **While the central bank may be keeping policy rates unchanged, lenders have to lure depositors with higher rates from real assets such as gold and real estate, considered natural stores of value to beat inflationary pressures.** The central bank has so far maintained the status quo on key rates to underpin growth. But as core inflation remains sticky, the Street expects a reversal in the rate cycle.

A Rs 12 hike in petrol and diesel price is needed to break even: With international oil prices - on which domestic fuel retails are directly benchmarked - spiking in the last two months, state-owned fuel retailers "need a massive price hike of Rs 12.1 per litre on or before March 16, 2022, just to breakeven and a price hike of Rs 15.1 is required" after including margins for oil firms. **Impact/View:** **The basket of crude oil India buys rose to USD 117.39 per barrel on March 3, the highest since 2012.** This compares to an average of USD 81.5 per barrel price of the Indian basket of crude oil at the time of freezing of petrol and diesel prices in early November last year in view of assembly elections in states like Uttar Pradesh.

Steel prices jump up to Rs 5,000 per tonne as supply chains hit amid Russia-Ukraine conflict: Domestic steel makers have hiked the prices of hot-rolled coil (HRC) and TMT bars by up to Rs 5,000 per tonne as supply chain is being impacted amid ongoing Russia-Ukraine conflict. According to industry sources, the prices have been increased in the past few days and are expected to go up further in the coming weeks with the crisis deepening between the two countries. **The war is impacting the supply chain at the international level leading to an increase in input cost. Coking coal is trading at USD 500 per tonne, almost 20 per cent higher compared to the rates a few weeks ago**. India meets 85 per cent of its coking coal, a key steel making raw material, requirement from imports. **Impact/View:** Both Russia and Ukraine are manufacturers and exporters of steel in addition to being suppliers of raw materials including coking coal and natural gas. **The unfolding Russia-Ukraine crisis will impact supply-demand dynamics, input costs and the overall global economy.**

Industry assures government of smooth cooking oil supplies for next 2 months: The edible oil industry has assured the government that it will ensure smooth supply of sunflower and other cooking oils for the next two months, amid concerns over possible disruption in supplies due to the Russia-Ukraine war, sources said on Friday. India imports a large quantity of sunflower oil from Ukraine. A meeting chaired by Food and Consumer Affairs Minister Piyush Goyal on Friday, reviewed the supply situation of cooking oils, including sunflower oil.

GLOBAL NEWS
AND EVENTS

Russia is running out of oil customers: Russia is struggling to sell its oil as buyers flee the stigma, logistical challenges and fears of further sanctions that come with dealing with Moscow in the wake of the Ukraine invasion. **Even without direct sanctions on its energy industry Russia will lose around one million barrels per day (bpd) in oil exports from the 10.5 million bpd it sold last year. That is despite the scarcity of global supplies sending prices soaring.** Brent North Sea crude oil -- the industry benchmark -- rocketed this week to nearly $120 per barrel, while gas and coal hit a record peak.

OPEC and other major oil exporters, including Russia, refused to increase production beyond previously-agreed levels when they met on Wednesday, dashing hopes of easing supply pressures. The price might be working in Russia's favour, but it faces a major freeze-out from buyers. Energy Aspects estimates that 70 percent of its oil exports are paralyzed as brokers and refineries shun Moscow in spite of the red-hot market.

For now, Western sanctions over the Ukraine invasion have avoided Russia's energy sector, since Europe is so reliant on it. Germany imported 55 percent of its gas from Russia last year, and its vows to slash this figure and boost renewables like wind and solar but it will take years to realize. Germany has suspended the controversial Nord Stream 2 gas pipeline from Russia. Western firms have taken swift and decisive action in the past week. Britain's BP and Shell, along with Norway's Equinor, have decided to end their Russian operations entirely.

China and India are still not buying Russian Oil, but they may slowly start to buy the crude once issues around shipping, insurance and payments are navigated. India, which also relies on Russia for military supplies, has called for a ceasefire but has stopped short of condemning the invasion. China, Russia's largest trading partner for more than a decade, has also yet to condemn the attack. Despite their size, however, the pair lack the capacity to make up for all of Russia's energy export losses.

With Russia sidelined, European buyers are turning to oil from the crude-rich Middle East. However the two nations with the most spare capacity -- the United Arab Emirates and OPEC kingpin Saudi Arabia -- are reluctant to hike output. **One uncertain factor is Iran, where last-ditch talks are underway with world powers to lift its own set of sanctions related to its nuclear programme. Tehran has stated that it is ready to step up exports if a deal is reached, though how quickly its oil sales could impact the market has yet to be seen.**

(Source: **AFP**)

TECHNICAL OUTLOOK

From a technical perspective, **in daily scale, NIFTY50 has given a decisive breakdown below its 200 EMA (16700)**.

Since there has been structural damage to the major uptrend, traders should maintain a cautious to bearish bias.

What lies ahead ?

If global cues worsens further, NIFTY50 will continue its downtrend and may correct sharply lower till 15900 levels (**15990 is the 23.6% Fibonacci Retracement Support in weekly scale**). However, major Support for the index is seen around 15,300 levels. **On contrary, if global cues improves in the coming week, short-covering bounces cannot be ruled out. But to sustain any bounce back, NIFTY50 has to reclaim above 16,400 levels on daily closing basis.**

Major Resistance for the NIFTY50 lies at 16,650 levels and above that 16,850 levels, which is the Trend reversal point of the current bearish trend. The index made multiple lows around (16833 on 27 Dec'21), (16837 on 25 Jan'22), and (16839 on 15 Feb'22) respectively. **These Support points earlier will now act as stiff resistance. Additionally, 200 EMA of NIFTY50 is placed at 16700 levels.**

CONVICTION
PICKS

Conviction Picks:

Company	Cmp	View	Support	Target (1-2 Yr)
HDFC Bank Ltd	1366	**Accumulate**	1230-1300	1850

Why HDFC Bank ? – In Q3, Advance (Loan Book) grew strongly by 16.5% YoY. HDFC Bank has the best in class asset quality. The Bank is the leading player in the Payments ecosystem. Every third rupee spent on cards in India happens on an HDFC Bank's issued instrument. **Outlook: Trading at PE 21.5x & P/Bv 3.6x with Industry Leading RoE at 15% & RoA +2% (Long-term Portfolio Pick)**

Kotak Mahindra Bank Ltd	1752	**Accumulate**	1690-1720	2350

Why Kotak Bank ? – In Q3, Advance (Loan Book) grew strongly by 18% YoY (Best in the Industry). Well Capitalized: Capital Adequacy Ratio at 23.3% (Highest among Peers). Kotak Bank has Industry Leading NIM (Net Interest Margin) 4.5% & CASA ratio at 60%. **(Long term Portfolio Pick)**

Bajaj Finance Ltd	6538	**Accumulate**	6200	8400

Why Bajaj Finance ? – Capital adequacy remained very strong at 26.96% as of 31 December 2021. Bajaj Finance has one of the lowest NPA's among the NBFC Industry. BFL has 4.7 MM customers on its wallet as of 31 December 2021. In Q3, it added 2.6 MM wallets. Post pandemic Bajaj Finance is ready to enter into new credit cycle backed by digital transformation, robust risk management framework, strong Liquidity position & Balance sheet. **(Delivery Portfolio Pick)**

A Fund that can help you to invest in companies that are driving change around the World

In the wake of Russia-Ukraine crisis, global equity markets are under heavy selloff stress. However, the recent selloff should be seen as an opportunity by long-term investors as the equity market is providing a chance to enter at discounted levels. We believe that both equity market and equity mutual funds are expected to give stellar returns in the long-term.

The current Russia-Ukraine war has provided an opportunity to long-term mutual fund investors as markets are expected to rebound strongly post-ceasefire in Russia-Ukraine war. However, given the recent geopolitical uncertainty and potential rate hike measures by US Fed and other global central banks in the future, we remain cautious in the short to medium term. Therefore, Investors can consider investing in scheme categories like **Axis Special Situations Fund** which provides opportunity to invest across geographies to get benefit from geographical diversification.

The Fund's Top 10 holdings are: ICICI Bank (6.9%), Bajaj Finance (6.8%), Avenue Supermarts (4.7%), HDFC Bank (3.6%), Tata Elxsi (2.8%), Honeywell Automation (2.8%), Info Edge (2.6%), Reliance Industries (2.6%), ABB India (2.2%), and Kotak Mahindra Bank (2.1%).

The Fund's Top 10 Foreign holdings are: Microsoft Corp (1.47%), Alphabet Inc (1.37%), Apple (1.08%), Taiwan Semiconductor Mfg (1.0%), Visa Inc (0.93%), Royal Dutch Shell PLC (0.92%), Amazon (0.89%), Linde PLC (0.72%), ASML Holdings NV (0.67%), and Amphenol Corp (0.66%).

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CORPORATE ACTIONS

Company	Event Type	Announced Date	Ex- Date	Dividend(Rs.)	Ratio
VIP Industries	Dividend - Interim	17/02/2022	08/03/2022	2.50	-
Wockhardt	Rights	06/01/2022	08/03/2022	-	3:10
Vedanta	Dividend - Interim	23/02/2022	09/03/2022	13.00	-
EID Parry	Dividend - Interim	28/02/2022	10/03/2022	5.50	-
Vishal Fabrics	Bonus	27/01/2022	10/03/2022	-	2:1
Shriram Trans	Dividend - Interim	25/02/2022	11/03/2022	-	-
Arihant Capital	Dividend - Interim	03/03/2022	14/03/2022	0.75	-
DIC India	Dividend - Final	11/02/2022	14/03/2022	3.00	-
DIC India	Dividend - Special	12/02/2022	14/03/2022	2.00	-
Infibeam Avenue	Bonus	31/01/2022	14/03/2022	-	1:1
NLC India	Dividend - Interim	28/02/2022	14/03/2022	-	-
RamkrishnaForge	Splits	18/01/2022	14/03/2022	-	10:2
Brightcom Group	Bonus	25/01/2022	15/03/2022	-	2:3
DRC Systems	Splits	19/01/2022	16/03/2022	-	10:1
Metro Brands	Dividend - Interim	25/02/2022	16/03/2022	-	-
Shriram City	Dividend - Interim	25/02/2022	16/03/2022	-	-
Sun TV Network	Dividend - Interim	03/03/2022	17/03/2022	-	-
Bharat Elec	Dividend - Interim	03/03/2022	24/03/2022	-	-
Ambuja Cements	Dividend - Final	17/02/2022	30/03/2022	6.30	-
Sanofi India	Dividend - Final	23/02/2022	12/04/2022	181.00	-
Sanofi India	Dividend - Special	24/02/2022	12/04/2022	390.00	-
Mahindra CIE	Dividend - Final	22/02/2022	13/04/2022	2.50	-
Huhtamaki India	Dividend - Final	28/02/2022	20/04/2022	1.00	-
Vesuvius India	Dividend - Final	24/02/2022	28/04/2022	8.00	-

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