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WEEKLY Newsletter

Private Client Group

MARKET
kya lag raha hai?

Markets snapped two weeks of consecutive gains, benchmark indices Sensex and Nifty declined by nearly 1 per cent amid no signs of de-escalation between Russia and Ukraine and hawkish statements by the US Fed. **Largely, Indian equity markets are consolidating for the last five trading sessions following a smart rally from panic lows.** Amongst the sectors, metal was the top gainer followed by IT and pharma. On the flip side, FMCG, banking and auto were the top losers. Among all, the broader indices outperformed as midcap and smallcap index ended higher 1% and 0.2% respectively.

Stock markets are likely to witness volatility this week amid monthly derivatives expiry, ongoing Russia-Ukraine conflict and high crude oil prices. **Geopolitical tensions and supply-side concerns would continue to dominate investor sentiment.** This week, we will have March month F&O expiry that may provide a direction to this range-bound market. So far, the March expiry remains good for the market where Nifty and Sensex have gained more than 5% and generally expiry tends to expire in the direction of the prevailing trend. On the global front, updates on the Russia-Ukraine war and its impact on world markets and movement in crude will remain in focus.

Global equity markets are also rebounding and showing some signs of stabilization however there are still uncertainties about the Russia-Ukraine issue that may continue to cause volatility in global markets.

Crude oil prices have again inched higher amid geopolitical issues and supply-side concerns and if it sees further strength then it could be a cause of concern for the Indian equity markets. The oil remains the major factor that needs to be closely watched by the street in coming weeks. Having a price above $100 a barrel is a major concern for India that imports 80-85 percent of oil.

The market movement would also depend on the movement in rupee and investment pattern of foreign institutional investors (FIIs). FII flows remained volatile in last few days as foreign institutional investors started buying Indian equities in small quantities given the reasonable valuations after recent correction which could act as a supportive factor for the market in the week gone by, but net they continued to be net sellers for yet another week to the tune of more than Rs 5,300 crore worth of shares for the week ended March 25.

In the current scenario, large-caps offer more comfort and higher margin of safety versus broader markets. After the relentless selling by foreign institutional investors (FIIs), large-caps are now available at reasonable valuations compared with mid- and small-cap stocks, which are still trading at expensive multiples despite the poor risk-reward.

ECONOMY
ka haal chaal!

Current inflation spike above 6% is only transitory, says RBI governor: The Reserve Bank of India (RBI) does not foresee inflation to breach its upper tolerance limit of 6% and expects it to moderate going forward, , governor Shaktikanta Das said on Monday.

Das's statement comes at a time of highly volatile crude oil prices in the wake of Russia's invasion of neighboring Ukraine. India relies on imports to meet over 80% of its crude oil requirements and any price rise in the global market hurts the economy, undoing its fiscal math. Das said that while remaining accommodative in its stance, the rate-setting committee of the central bank is conscious of its primary responsibility to maintain price stability and target inflation.

However, Das said that the central bank does not see inflation going up beyond 6%. In fact, its expectation was that it will moderate to 4.5%, he said.

Fitch cuts India's growth forecast for next fiscal to 8.5%: Fitch has slashed India's growth forecast for next fiscal to 8.5% on high energy prices due to the adverse impact of the ongoing Russia-Ukraine conflict on the global economy.

Russia supplies around 10% of the world's energy, including 17% of its natural gas and 12% of oil. "The war in Ukraine and economic sanctions on Russia have put global energy supplies at risk. Sanctions seem unlikely to be rescinded any time soon," the agency said. Fitch now sees inflation strengthening further, peaking above 7% in the December quarter of 2022, before gradually easing.

Another global rating agency Moody's last week also lowered India's economic growth estimate for the calendar year 2022 to 9.1% for its earlier projection of 9.5%. Referring to the impact of the Russia-Ukraine conflict on the Indian economy, the rating agency noted "high fuel and potentially fertilizer costs would weigh on government finances down the road, potentially limiting planned capital spending.“

India's forex reserves slump by another $2.59 billion: India's foreign exchange (forex) reserves dipped for a second consecutive week. The forex reserves were declined by $2.59 billion to $619.678 billion during the week ended on March 18. For the week ended March 11, the forex reserves in the country slumped by $9.646 billion, the sharpest decline in nearly two years. The sharp decline in the country's forex reserves coincides with the week during which the rupee hit an all-time low. The Indian rupee plunged to a record low of 77.02 against a US dollar on March 7.

CORPORATES ki khabrein

After a brief relief rally, earnings are back in focus: Elevated oil price and a weaker rupee are bad news for India's macros. Higher commodity prices pose a risk to companies' profit margins as raw material costs rise. Given this, local developments, particularly corporate earnings growth, are again seen as a key trigger for Indian stocks. Commentary on margins, price hikes, and demand outlook is crucial. **Impact/View: The steep increase in prices of raw materials such as crude oil and metals following the Russia-Ukraine conflict has exposed many Indian companies to severe margin pressure.** This is anticipated to lead to an increased risk of earnings downgrades. The FY23 consensus expectation of 18-20% EPS (earnings per share) growth for Nifty50 companies may moderate, depending on how the upcoming earnings season pans out. It remains to be seen how the Russia-Ukraine situation develops, especially with regard to sanctions, which would be a key variable for the global crude price outlook.

Power firms asked to import coal to meet high electricity demand amid surge in fossil fuel prices: Indian Government asked power manufacturers to keep importing coal to meet increasing demand for electricity even as prices of the fossil fuel surged. The power companies need to resolve issues related to rising prices and stick to the power-purchase agreement, the Ministry of Power said in a statement on Saturday. "Not maintaining adequate fuel stocks or not giving availability on any pretext (such as high price of imported coal etc.) is inexcusable," the government said. **Impact/View:** Key coal prices hit record levels in the wake of Russia-Ukraine war as utilities in Europe, along with other major consumers, hunt for alternatives to cargoes from Russia. The fossil fuel contributes nearly 70% of India's electricity supply.

Bharti Airtel to acquire stake in Indus Towers at ₹2,388 crore: Bharti Airtel will acquire Vodafone's 4.7% stake in Indus Towers for ₹2,388 crore as the transaction will be executed at ₹187 per share basis. In February, Airtel has entered into an agreement with British telecom giant Vodafone Plc to buy 4.7% equity in telecom infrastructure company Indus Towers Ltd. **Impact/View:** The acquisition of Vodafone stake in Indus Towers only if it is for infusion in Vodafone Idea and clearing tower company's dues. Before the deal, Vodafone holds about 28% in Indus Towers while that of Bharti Airtel is close to 42%.

Anil Ambani steps down as director from R-Infra, Reliance Power: Anil Ambani stepped down from the board of Reliance Infrastructure Ltd and Reliance Power Ltd on Friday evening, a month after a Securities and Exchange Board of India (Sebi) order asked him and other directors of Reliance Home Finance Ltd to quit as directors in any listed company with immediate effect. In an 11 February interim order passed in the case of Reliance Home Finance Ltd, the regulator barred Ambani, Amit Bapna, Ravindra Sudhalkar and Pinkesh R. Shah from associating with any listed entity, acting as their directors and from associating with any market intermediary.

GLOBAL NEWS AND EVENTS

Europe's energy woes are rerouting global gas flows: Against the odds, extreme market forces and political will are already redrawing the global energy-supply map as Europe looks to end its dependence on Russian gas.

On Friday, the U.S. committed to ship at least an additional 15 billion cubic meters of liquefied natural gas to Europe this year—implying a roughly two-thirds increase in exports to the region—and beyond that at least 50 bcm more annually until 2030. President Biden met European leaders in Brussels this week to discuss the war in Ukraine and how the U.S. could help the region wean itself off Russian energy.

The European Union needs to import an additional 50 bcm of LNG to realize its plan to cut Russian gas imports by ⅔ for next year. American suppliers are the best immediate source as they have the most flexibility in choosing customers. Australia and Qatar, the other big producers, are largely locked into long-term supply contracts.

The global LNG market stretched to about 530 bcm last year, with 31% traded on the spot market, according to Shell. That means there should be sufficient spot supply to meet Europe's demands, but it will be expensive.

While political statements give companies extra encouragement, market forces have done most of the work in sending more gas to Europe. The region's buyers have outbid Asian ones, driving the local benchmark gas price to a new record of €227, or $250, a megawatt hour earlier this month, about 14 times the U.S. price. The market was tight even before Russia's invasion of Ukraine, partly because Moscow kept pipeline flows to Europe at minimum contractual levels last year and let inventories fall.

American producers had 115 bcm of LNG capacity last year. Most exports went to Asia, with only about 22 bcm heading to Europe. U.S. capacity will increase to 130 bcm this year, and producers could probably deliver more to Europe than they currently do to Asia because the trips are shorter, allowing them to do more runs. It takes about 10 to 11 days to ship from the Gulf of Mexico to Northern Europe, versus between 20 and 34 days to Asia.

Eventually, the current global supply system seems likely to be reordered so that the U.S. ships much more gas across the Atlantic while Australia and Qatar supply more to Asia. With such high prices and so much political momentum in Europe, this long-term shift could happen with surprising speed.

(Source: **Reuters / AFP**)

TECHNICAL OUTLOOK

Technically, Nifty is consolidating between its 200-DMA and 100-DMA where 200-DMA is currently placed at 17036 level while 100-DMA is placed at 17340 level. If Nifty manages to sustain above its 100-DMA then we can expect a rally towards 17490/17640 levels while if Nifty slips below its 200-DMA then 16800 is a sacrosanct support level.

If we look at the derivative data then the Put-Call ratio is sitting at 0.94 level which is slightly oversold whereas FIIs' long exposure in the index future stands at 53% level which is neutral. OI distribution indicates a range of 17000-17500 and any decisive move from this range will dictate further direction.

CONVICTION PICKS

Conviction Picks:

Company	Cmp	View	Support	Target (1-2 Yr)
Crompton Greaves Consumer	375	**Accumulate**	355	510

Why CGCEL ? – CGCEL manufactures and supplies consumer electrical goods such as fans, appliances and pumps, and also lighting and luminaries. Its products are sold under the brand Crompton and are available in over 150,000 retail points across the country. The company acquired Butterfly Gandhimati Appliances in 4QFY22, which will further boost its scale of operations.

Strong Market Position, Brand Recall: CGCEL continues to be a leader in the fan and domestic pump markets, with a share of 27% in 9MFY22 (FY21: 25%; FY20: 26%) and 28% (29%; 28%), respectively, and has a strong brand recall in both segments. The company has expanded rapidly in the premium fan segment, which contributed about 16% to the overall revenue from the fan segment in FY21. It is also among the top three companies in the lighting and appliance segments (water heater, air coolers, mixer grinders, among others) with a market share of about 9% in each of these categories as of FY21. The company has demonstrated a swift ramp-up in capturing the market for water heaters, reflecting its strong brand position and a high product acceptance by its customers.

The steady launch of new and innovative products in all segments, and a focus on advertising and increasing distribution reach have helped CGCEL grow its revenue and enhance its brand recall. The management aims to maintain its leadership position across all product categories, and also plans to enter new segments in the electrical consumer industry. The company is also focusing on accelerating its growth by significantly increasing its presence in alternate channels such as rural and e-commerce, which contributed significant revenue growth over FY21-9MFY22.

Acquisition of Butterfly Gandhimati Appliances (BGA) Leading to Business Synergies: BGA is a well-established brand in the domestic kitchen and electrical appliances, primarily dealing in mixer grinders, table top wet grinders, liquefied petroleum gas stoves and pressure cookers, generating revenue of INR8,060 million during 9MFY22 (FY21: INR8,696 million) and EBITDA margins of 9.3% (9.2%). **The acquisition will help CGCEL diversify its product profile, leverage from BGA's manufacturing facilities, and capitalize on the company's distribution network.** CGCEL is acquiring an 81% stake (including 26% open offer) in BGA along with branded trademarks; the total transaction value aggregating to about INR20,766 million, which is likely to be funded through a mix of debt and internal accruals, according to the management. We believe that while the acquisition is likely to enhance the company's scale of operations FY23 onwards.

KNOWLEDGE
COLUMN

How REITs are a good bet for risk takers

With people, especially from the IT industry returning to work-from-office, demand for office space leasing has picked up pace. This has improved business prospects for real estate investment trusts (REITs) that were adversely impacted in the post-covid work world.

A REIT is a trust that owns a pool of income-generating real estate assets that are held as special purpose vehicles (SPVs). Regulations require that at least 80% of these assets must be completed and income-producing. Brookfield India Real Estate Trust (Brookfield REIT), Embassy Office Parks REIT (Embassy REIT), and Mindspace Business Parks REIT (Mindspace REIT) are the three listed REITs in India. Investors can buy units of a REIT either during its IPO or from the stock exchanges once it has been listed.

What investors get:

As a unit holder, you receive a portion of the net distributable cash flow (NDCF) of a REIT, periodically. A REIT generates income in the form of interest and principal repayments on loans extended by it to the project SPVs and dividends in return for its equity stakes in these projects. All expenses at the REIT level are deducted from the total income to arrive at the NDCF.

While Sebi rules mandate REITs to distribute at least 90% of their NDCF to unit holders, there is no certainty on the quantum of the NDCF itself at least once in six months. All existing REITs make quarterly distributions. Going by the current market price and the latest nine-month distributions (April– December 2021), the three REITs have offered yields of 4–5.6%. Apart from this regular income, as REIT units trade on the exchanges like shares, they offer unit holders the possibility of capital gain or loss. REITs are, thus, a hybrid product that can offer high-risk investors attractive yields.

That a portion of the distribution made by REITs can be tax-free, only adds to their appeal. For example, 34%, 83%, and 93% of the distribution (largely dividends) made by Brookfield REIT, Embassy REIT, and Mindspace REIT, respectively, in the December 2021 quarter (Q3 FY22) was tax-free for unitholders. The interest income that you receive from a REIT gets taxed at your income tax slab rate.

Short-term capital gain on sale of REIT units is taxed at 15% and long-term capital gain (exceeding ₹1 lakh a year including those on equity investments) is taxed at 10%. In both cases, surcharge and cess apply. The capital gain is treated as short-term if the units have been held for up to 36 months and as long-term if held for more than 36 months.

CORPORATE ACTIONS

Company	Event Type	Announced Date	Ex- Date	Dividend(Rs.)	Ratio
Goldiam Inter	Splits	08/02/2022	28/03/2022	-	10:2
SAIL	Dividend - Interim	14/03/2022	28/03/2022	2.50	-
Vaxtex	Splits	10/02/2022	28/03/2022	-	10:2
BEML	Dividend - Interim	16/03/2022	29/03/2022	5.00	-
HUDCO	Dividend - Interim	15/03/2022	29/03/2022	0.75	-
SBI Life Insura	Dividend - Interim	15/03/2022	29/03/2022	2.00	-
Sundaram-Clayto	Dividend - Interim	08/03/2022	29/03/2022	44.00	-
Ambuja Cements	Dividend - Final	17/02/2022	30/03/2022	6.30	-
CRISIL	Dividend - Final	16/02/2022	30/03/2022	15.00	-
CRISIL	Dividend - Special	17/02/2022	30/03/2022	7.00	-
Dhampur Sugar	Dividend - Interim	15/03/2022	30/03/2022	6.00	-
SBI Card	Dividend - Interim	16/03/2022	30/03/2022	2.50	-
Gujarat Fluoro	Dividend - Interim	23/03/2022	31/03/2022	2.00	-
ACC	Dividend - Final	09/02/2022	04/04/2022	58.00	-
Disa India	Dividend - Interim	17/03/2022	07/04/2022	-	-
Dwarikesh Sugar	Dividend - Interim	22/03/2022	07/04/2022	-	-
PCBL	Splits	09/02/2022	11/04/2022	-	2:1
Sanofi India	Dividend - Final	23/02/2022	12/04/2022	181.00	-
Sanofi India	Dividend - Special	24/02/2022	12/04/2022	309.00	-
Mahindra CIE	Dividend - Final	22/02/2022	13/04/2022	2.50	-
Schaeffler Ind	Dividend - Final	17/02/2022	19/04/2022	16.00	-
Huhtamaki India	Dividend - Final	28/02/2022	20/04/2022	1.00	-
Nestle	Dividend - Final	17/02/2022	21/04/2022	65.00	-
ABB India	Dividend - Final	10/02/2022	27/04/2022	5.20	-
Vesuvius India	Dividend - Final	24/02/2022	28/04/2022	8.00	-

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