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JRK

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WEEKLY Newsletter

Private Client Group

MARKET
kya lag raha hai?

Indian stock markets are likely to be under pressure when they open on Monday. Apart from worries about surging inflation, the continuing Ukraine-Russia war has added to the uncertainty about the global economic recovery from the Covid-19 pandemic.

Indian markets will react to two major earnings i.e. Infosys and HDFC bank on Monday. Besides, any major development on the global front would also impact the sentiment. In this highly volatile market, Q4 earnings of the companies getting announced this week will be important.

Last week US inflation has hit 40 years high and any rise in crude oil may further spark inflation concern for global equity markets. **Amid floundering peace talks in Russia-Ukraine war, chances of rise in fuel prices are high and it may spark fresh inflation concern for global markets.** Russia turned more aggressive, relentlessly attacking eastern Ukraine and firing missiles in Ukraine's capital Kyiv and other cities on April 16 following the sinking of the flagship missile cruiser Moskva by the Ukrainian forces.

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. Reuters reported that major global trading houses are planning to curtail crude and fuel purchases from Russia's state-controlled oil companies in May. 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). **After a brief respite, foreign portfolio investors (FPIs) have begun selling Indian stocks again, adding to market volatility.** FPIs sold equities worth more than ₹12,000 crore in the past six trading sessions as India's surging inflation made them nervous. The March inflation rate at a 17-month high has soured the FPI mood. **Rising inflation in India, amid looming rate hikes and tapering by the US Federal Reserve, and the Russia-Ukraine crisis have driven the flight of capital from risky emerging markets.** With the hawkish Fed commentary, experts said FPI selling might continue.

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. Instead of basing investment actions solely on quarterly performance, investors should consider the long-term potential of their investee companies and stay put in resilient ones.

ECONOMY ka haal chaal!

Inflation to hit corporate earnings: Corporate earnings are expected to show the scars of raging inflation, as input costs crush manufacturers and individuals cut down on consumption. High inflation may also impact company valuations at a time commodity prices are on a tear following the Russian invasion of Ukraine.

Inflation would be a double whammy for private consumption. Rural consumption is already subdued as nominal rural wages have grown a paltry 3.5% in FY22. **A sharp increase in consumer prices will further eat into rural purchasing power.**

Inflation remaining persistently above RBI's tolerance level is also leading to expectations of a rate hike soon, implying a higher cost of capital for the industry. Discretionary consumption will also be affected due to higher borrowing costs as RBI raises rates. **Rising inflation and interest rates reduce companies' future cash-flow discounting, impacting their valuations.**

IMD says Southwest monsoon in India likely to be normal: India's southwest monsoon seasonal rainfall between June to September is likely to be normal at 96 to 104 % of long period average (LPA), the India Meteorological Department said on Thursday. **It further said that the rainfall is expected to be uniformly distributed.**

In a related development, the IMD is likely to issue an updated forecast for the monsoon season towards the end of May. It said La Niña conditions over the equatorial Pacific region are likely to continue during the monsoon season. Also, neutral Indian Ocean Dipole (IOD) conditions prevailing over the Indian Ocean are predicted to continue till the beginning of the southwest monsoon season. Thereafter, an enhanced probability of negative IOD condition is predicted.

India's forex reserves dip by $2.47 billion, records 5th straight weekly fall: India's foreign exchange (forex) reserves dipped by $2.47 billion in the week ended April 8, registering the fifth straight week of fall, as the Reserve Bank of India (RBI) appears to keep selling dollars to prevent a slide in the value of rupee amid high import bills for petroleum products.

As per the RBI's weekly statistical supplement, India's forex reserves fell by $2.471 billion to $604.004 billion for the week ended April 8. This week's drop comes following the drop in forex reserves by $11.17 billion in the week ended April 1, which was the steepest weekly fall ever. Additionally, the country's forex reserves have declined sharply after touching an all-time high of $642.453 billion on September 3, 2021**. In the last five weeks under review, the country's forex reserves have declined by $28.5 billion.**

CORPORATES
ki khabrein

Infosys reported stress in Margins on high Attrition rate: India's second largest IT service provider, Infosys reported PAT of ₹ 5,686 crore for the Q4 FY22 (UP 12% YoY But Fell 2.1% QoQ). While in the top-line front, the company posted a revenue of ₹32,276 crore (UP 22.7% YoY & UP 1.3% QoQ). **The IT giant's attrition rate zoomed to 27.7% in March quarter, up from 25.5% in the December quarter.** As a result on higher salary hikes, Operating margin was 21.55%, down about 194 bps sequentially and lower than the consensus estimate of 23%. **Valuations: INFY is Trading at 33x of its TTM earnings (vs TCS 35x) & EV/EBIT 26x (vs TCS 27.5x) with Return on Equity of 29% (TCS 42%). Impact/View:** The company's performance fell short with both revenue growth and operating margins missing street's expectations. For FY23 revenue growth guidance of 13-15% is encouraging and reflects strong demand environment, but lower margin guidance of 21-23% for FY23 may drive earnings revisions.

TCS' Q4 result meets expectation, but doesn't excite investors: IT sector giant Tata Consultancy Services, reported PAT of ₹ 9,926 crore for the Q4 FY22 (UP 7.4% YoY & UP 1.6% QoQ). Revenue for the March quarter grew 3.5% QoQ to ₹50,591 crore**. Despite high attrition pressure, TCS's operating margin remained stable at 25%.** Travel costs have also started to make a comeback, adding to rising manpower costs. On a trailing 12-month basis, the attrition rate increased to 17.4% in the March quarter from 15.3% in the preceding three months as supply continues to lag demand for skilled tech talent in the industry. **Impact/View:** TCS is focusing more on driving agility in organizations by using integrated and agile operations. **Margin headwinds will stay in FY23 for the industry, though TCS is much better positioned to navigate the challenges.**

Holcim considers sale of India's $9.6 billion Ambuja Cements: Holcim, the world's biggest cement maker, is considering a potential sale of businesses in India including Ambuja Cements, according to media sources. Holcim controls 63.1% of Ambuja Cements, which has a market value of about $9.6 billion. **Shares of Ambuja have gained more than 20% this month, partially fueled by market speculation about a potential merger.** Ambuja has a cement capacity of 31 million metric tons, and has six integrated manufacturing plants and eight cement grinding units in India. **Impact/View: Holcim has been selling off non-core assets to reduce debt and diversify through acquisitions.** It divested its Brazilian unit for $1 billion in September and is also planning to sell its business in Zimbabwe.

HDFC Bank reported Stable Q4 numbers: HDFC Bank reported PAT of ₹10,055.2 crore in Q4FY22, rising by a whopping 22.8% YoY. The bank's NII stood at ₹18,872.7 crore (Up 10.2% YoY & 2.3% QoQ). In terms of asset quality, gross non-performing assets (GNPA) in percentage were at 1.17% compared to 1.32% in Q4FY21 and 1.26% in Q3FY22. In the quarter, **advances were up 20.8% with growth coming across products and segments.** Core net interest margin was at 4% on total assets. **Valuations: HDFC Bank is Trading at 22x of its TTM earnings (vs Peers 24x) & P/BV 3.4x (vs Peers 2.9x) with Return on Equity of 15.4% (Peers 12.4%). Impact/View:** Operationally the numbers are 'Stable' with CASA deposits comprising 48.2% of total deposits vs 47% in the last quarter and asset quality improved further. **With huge CASA base, the bank can do well in the interest rising scenario. The Bank added 563 branches and 7167 employees during the last quarter, this will position the bank to capitalize on the growth opportunities. Overall, Stable numbers in a very competitive environment.**

GLOBAL NEWS AND EVENTS

Recession risk is rising, economists say: Economists see a growing risk of recession as the relentlessly strong U.S. economy whips up inflation, likely bringing a heavy-handed response from the Federal Reserve. Economists surveyed by The Wall Street Journal this month on average put the probability of the economy being in recession sometime in the next 12 months at 28%, up from 18% in January and just 13% a year ago. **Risk of a recession is rising due to the series of supply shocks cascading throughout the economy as the Fed lifts rates to address inflation.**

High inflation remains the primary economic risk; it erodes spending power and consumer confidence and invites the Fed to tighten. Economists differ on the biggest source of inflationary risk. One-third cited commodity, food and gas prices, while 15% pinpointed Russia’s war with Ukraine.

Citigroup’s first-quarter earnings fell 46%: Citigroup Inc.’s first-quarter profit fell 46%, dragged down by higher expenses and potential losses from its exposure to Russia. Profit fell to $4.31 billion, or $2.02 per share, compared with analysts’ forecast for $1.43 per share. A year ago, Citigroup posted a profit of $7.94 billion, or $3.62 per share. Revenue fell 2% to $19.19 billion but topped Wall Street’s expectations for $18.19 billion, according to FactSet.

Citigroup set aside $1.9 billion for potential loan losses from its exposures in Russia and the broader impact of the war in Ukraine. Citigroup has a bigger presence in Russia, including a retail bank, than other U.S. banks. It has been racing to reduce the exposure to Russia, cutting it to $7.8 billion from $9.8 billion in December.

Wells Fargo quarterly profit falls 21%: Wells Fargo & Co.’s profit declined 21% in the first quarter, despite increased lending and a release of more than $1 billion in funds the bank had set aside for potential losses. The San Francisco-based bank said Thursday that it made $3.67 billion in the first quarter, down from $4.64 billion a year ago. Per-share earnings totaled 88 cents, above the 81 cents expected from analysts polled by FactSet.

The declines in profit and revenue spell the end of the pandemic-era boom in bank profits. **For the better part of two years, frenetic trading, a red-hot market for deals and lucrative mortgage businesses powered earnings at the country’s largest banks. No more.** JPMorgan Chase & Co. on Wednesday reported a 42% drop in its first-quarter profit.

(Source: **Reuters / Bloomberg**)

TECHNICAL OUTLOOK

Technically, Nifty is currently respecting the first line of defence i.e. 20 EMA on the daily chart around 17,400 and its breakdown can push the index to the 17,000 zone. In case of a rebound, the 17,650-17,750 zone would act as immediate hurdle.

On a weekly chart, the index has formed an evening star candlestick pattern, indicating bearishness. After the highs of October 2021, a lower top lower bottom pattern has been forming on the benchmark index. The broader indices also have a similar trend and the overall structure of the market has been shifting to the bearish side. A decisive fall below 17,400 levels can lead to a retest of 16,900 zone.

CONVICTION PICKS

Conviction Picks:

Company	Cmp	View	Support	Target (1-2 Yr)
Crompton Greaves Consumer	378	**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.

EARNINGS CALENDAR

Date	Company	Tentative Time
18-Apr	Mindtree	After Market
19-Apr	ACC	After Market
19-Apr	Mastek	After Market
19-Apr	L&T Infotech	After Market
19-Apr	Phillips Carbon	Time Not Available
19-Apr	Tata Steel Long Products	After Market
20-Apr	Angel One	After Market
20-Apr	Glenmark Life	After Market
20-Apr	ICICI Securities	After Market
20-Apr	JTL Infra	After Market
20-Apr	RIIL	After Market
20-Apr	Tata Elxsi	Time Not Available
21-Apr	CRISIL	After Market
21-Apr	Cyient Ltd	After Market
21-Apr	HCL Tech	After Market
21-Apr	ICICI Lombard	After Market
21-Apr	L&T Tech	After Market
21-Apr	Nestle India	During Market
21-Apr	Rajratan Global Wire	Time Not Available
21-Apr	Rallis India	After Market
21-Apr	Tata Communications	After Market
22-Apr	Aditya Birla Money	Time Not Available
22-Apr	Hind Zinc	During Market
22-Apr	MMTC	After Market
22-Apr	Sundram Fastners	During Market
22-Apr	Tata Metaliks	After Market
22-Apr	Tejas Networks	After Market
22-Apr	Wendt	After Market
23-Apr	ICICI Bank	After Market
23-Apr	BEPL	After Market

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CORPORATE ACTIONS

Company	Event Type	Announced Date	Ex- Date	Dividend(Rs.)	Ratio
Ducon Infratech	Bonus	25/02/2022	18/04/2022	-	1:10
IDFC	Dividend - Interim	06/04/2022	19/04/2022	1.00	-
Jubilant Food	Splits	02/02/2022	19/04/2022	-	10:2
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	-
Nestle	Dividend - Interim	31/03/2022	21/04/2022	25.00	-
Muthoot Finance	Dividend - Interim	04/04/2022	25/04/2022	-	-
Saregama India	Splits	24/02/2022	26/04/2022	-	10:1
ABB India	Dividend - Final	10/02/2022	27/04/2022	5.20	-
HCL Tech	Dividend - Interim	01/04/2022	28/04/2022	-	-
Man Industries	Dividend - Interim	13/04/2022	28/04/2022	-	-
Vesuvius India	Dividend - Final	24/02/2022	28/04/2022	8.00	-
Elantas Beck	Dividend - Final	22/02/2022	29/04/2022	5.00	-

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