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JRK

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WEEKLY Newsletter

Private Client Group

MARKET
kya lag raha hai?

Indian stock markets witnessed profit-taking as the Nifty retraced from the physiological important 18000 mark and the Bank Nifty hit a fresh all-time high as global cues were not supportive at all. Triggered by rising expectations of aggressive rate hikes from the US Federal Reserve in the upcoming policy meetings to tame inflation, domestic benchmark indices ended with more than 1.5 percent loss for the week ended September 16.

Indian markets were showing resilience despite weak global cues but we can't remain isolated for long. The global markets are looking nervous after US inflation numbers, which have caused the dollar index to hover around 110. US 10-year bond yields are at a multiyear high of 3.5%, and **now everyone eyeing the outcome of the upcoming US FOMC meeting, which is scheduled for September 22nd**. On the same day, the Bank of England will announce its interest rate decision.

Investors largely expect a 75 basis point hike in interest rate by Federal Open Market Committee, which is largely priced in by equity markets globally, given the elevated inflation in August at 8.3 percent though it eased from 8.5 percent in previous month, but if there is 100 bps hike then that could dampen equity markets sentiment.

Oil prices continued to trade below $100 a barrel throughout this month and fell below $90 a barrel as well, amid fears that aggressive interest rate hikes can impact global growth and weaken oil demand outlook. The oil remains the major factor that needs to be closely watched by the street in coming weeks. Crude prices 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). Foreign investors have turned sellers after continuous buying for the last month. **Domestic institutional investors are also showing some reluctance to buy at higher levels.** FIIs have net sold Rs 1,900 crore worth of shares and domestic institutional investors (DIIs) offloaded shares worth Rs 2,900 crore in the week gone by, which kept the market subdued.

In the current scenario, the markets have become highly stock-specific. The best way to navigate such markets would be to stay with those stocks which have rising relative strength or at least improving relative strength technically and pockets where there is valuation comfort. Along with staying stock specific and selective in the approach, it is also recommended to keep the overall exposures under control, avoid excessive leverage, and remain moderate and light on the overall exposures.

ECONOMY ka haal chaal!

Direct tax receipts continue to grow at brisk pace: Centre's direct tax revenue receipts continue to grow at a robust pace, with gross collections showing a jump of 30% year-on-year to ₹8.36 trillion in FY23 so far, Central Board of Direct Taxes (CBDT) said on Sunday. It stood at ₹6.42 trillion during the same time last year. **The revenue collection growth is a clear indicator of the revival of economic activity post the pandemic.**

After adjusting for tax refunds, the net tax collections for FY23 as on 17 September stood at ₹7 trillion, compared to ₹5.68 trillion during the same period of FY22. This represents an increase of 23%. The tax authority collected ₹4.36 trillion in gross corporate tax and ₹3.98 trillion in gross personal income tax, including STT, so far this year.

The cumulative advance tax collections for the first and second quarter of FY23 stand at Rs. 2.95 trillion as on 17 September, against advance tax collections of Rs. 2.52 trillion for the corresponding period of FY22, showing a growth of 17%, CBDT said.

There has been a remarkable increase in the speed of processing of income tax returns filed during the current fiscal, with almost 93% of the duly verified income tax returns having been processed till 17 September. This has resulted in faster issue of refunds with almost a 468% increase in the number of refunds issued in the current financial year.

This month, as of September 16, FPIs' investment in the equity market stands at more than ₹12,000 crore: Foreign portfolio investors (FPIs) continue to be net buyers overall in the current month, however, in the last few days, money has been pulled out from equities. Market sentiment turned volatile due to fears of a global economic slowdown currently.

This month, as of September 16, FPIs' investment in the equity market stands at more than ₹12,000 crore. **Foreign investors are expected to be on a wait-and-watch mode ahead of US Fed's policy meeting scheduled later this week.**

Data from NSDL showed that FPIs are net buyers so far in September (up to 16th), with an inflow of ₹12,084 crore in the Indian equity market. They are also net buyers in debt and hybrid markets with an inflow of ₹1,777 crore and ₹268 crore respectively. However, FPIs are net sellers in debt-VRR instruments with an outflow of ₹1,225 crore. Thereby, in the overall Indian market (including equity, debt-VRR, hybrid, and debt), FPIs have pumped in ₹12,904 crore so far in the current month.

CORPORATES
ki khabrein

State Bank of India (SBI) market capitalization breached ₹ 5 trillion mark: State Bank of India's (SBI's) shares have been on the radar of investors for some time. The public sector lender's market capitalization has breached the ₹5 trillion mark on Wednesday, because of the rally in the stock price. **With this, SBI became the third Indian bank to attain this position after HDFC Bank and ICICI Bank.** So far in CY22, the stock has risen by 24%, handsomely beating sector index Nifty Bank and key benchmark index Nifty50. A couple of factors are at play here. **There is optimism around the systemic increase in credit growth translating into increased demand for corporate loans**. Also, the general expectation of a turnaround in private capital expenditure is rekindling investors' confidence in banking stocks. **Impact/View: A scenario of rising interest rates bodes well for the entire banking sector and would benefit all good quality banks.** SBI enjoys a slew of tailwinds but it is inadequately capitalized to participate in the impending private sector capex boom.

For Bajaj Auto, subdued exports make for a bumpier ride: Bajaj Auto has two main concerns. One, chip shortage, and the second, weakening outlook in its export markets. While the issue of chip shortage is expected to ease in the coming months, export concerns seem here to stay. True, this headwind also weighs on Bajaj's two-wheeler (2W) peers, Hero Motocorp and TVS Motor But Bajaj Auto is at a relatively greater risk, as exports account for a much larger part of its total sales volumes. For perspective, in FY22, Bajaj's export volume share stood at 58% versus about 38% for TVS Motor. **Impact/View:** In the past two months, Bajaj's 2W export volumes have dropped sequentially. **Subdued overseas sales are likely to affect overall margin performance as the exports make for higher margins.** Also, rural demand in the domestic market is yet to pick up pace. Even so, softening commodity costs should provide some respite.

Brahmastra can't be the super-weapon for PVR & INOX: For multiplexes, rising movie collections point to better footfalls. Multiplexes have of late felt the heat of the boycott Bollywood trend on social media as audiences reject poor movie content. Therefore, how Brahmastra fared was paramount. However, despite Brahmastra's heavy-lifting, PVR and Inox are unlikely to replicate the solid show of Q1FY23 earnings performance in Q2FY23.

FMCG firms claw back, hope for demand rebound: Shares of fast-moving consumer goods (FMCG) companies such as Hindustan Unilever Ltd (HUL), Dabur India Ltd, and Nestle India Ltd have risen by 18-36% from their 52-week lows seen in the first half of CY22. Prices of key commodities such as crude oil and palm oil have dropped by about 29% and 55% from their respective peaks seen in March. HUL and Godrej Consumer Products Ltd are the key beneficiaries of this softening trend. **Impact/View:** Expectedly, the enthusiasm is around the improved margin outlook of FMCG companies with softening raw material prices. This should bring some respite as companies have faced acute margin pressures in the last few quarters because of high input costs but demand trends need closer tracking.

GLOBAL NEWS
AND EVENTS

Dollar's rise spells trouble for global economies: The US dollar is experiencing a once-in-a-generation rally. For the rest of the world, that is a big problem. **The surge threatens to exacerbate a slowdown in global growth and amplify inflation headaches for global central banks.**

The dollar's role as the primary currency used in global trade and finance means its fluctuations have widespread impacts. The currency's strength is being felt in the fuel and food shortages in Sri Lanka, in Europe's record inflation and in Japan's exploding trade deficit. **In a worrying sign, attempts from policy makers in China, Japan and Europe to defend their currencies are largely failing in the face of the dollar's unrelenting rise.**

Last week, the dollar steamrolled through a key level against the Chinese Yuan, with one dollar buying more than 7 Yuan for the first time since 2020. Japanese officials, who had previously stood aside as the yen lost a fifth of its value this year, began to fret publicly that markets were going too far.

The ICE U.S. Dollar Index, which measures the currency against a basket of its biggest trading partners, has risen more than 14% in 2022, on track for its best year since the index's launch in 1985. **The euro, Japanese yen and British pound have fallen to multi-decade lows against the greenback.** Emerging-market currencies have been battered: The Egyptian pound has fallen 18%, the Hungarian forint is down 20% and the South African rand has lost 9.4%.

The dollar's rise this year is being fueled by the Federal Reserve's aggressive interest-rate increases, which have encouraged global investors to pull money out of other markets to invest in higher-yielding US assets. **Recent economic data suggests that U.S. inflation remains stubbornly high, strengthening the case for more Fed rate increases and an even-stronger dollar.**

Dismal economic prospects for the rest of the world are also boosting the greenback. Europe is on the front lines of an economic war with Russia. China is facing its biggest slowdown in years as a multi-decade property boom unravels.

For the U.S., a stronger dollar means cheaper imports, a tailwind for efforts to contain inflation, and record relative purchasing power for Americans. But the rest of the world is straining under the dollar's rise.

(Source: **The Wall Street Journal Report**)

TECHNICAL OUTLOOK

Technically, Nifty is facing resistance around 18100 levels and formed a kind of tweezers top formation with rise in volume in weekly scale. It has slipped below its 20-DMA which is a sign of caution.

Nifty not breaking out above the important falling trend line pattern resistance is a significant thing that needs to be noted. The said pattern trend line resistance is important as it begins from the lifetime high point of Nifty at 18,600 and joins the subsequent lower tops.

The coming week is likely to see the levels of 17,700 and 18,000 acting as resistance points. The supports will come in at 17,400 and 17,300 levels. The trading range is likely to stay wider than usual. **The weekly RSI is 56.40; it stays neutral and does not show any divergence against the price**. The weekly MACD is bullish and stays above its signal line.

CONVICTION PICKS

Conviction Picks:

Company	Cmp	View	Support	Target (1-2 Yr)
Divi's Laboratories Ltd	3574	**Accumulate**	3455	4655

Why DIVIS ? – Divi’s is the leading manufacturer of APIs (Active pharmaceuticals ingredients), Intermediates and Registered starting materials offering high quality products with the highest level of compliance and integrity to over 100+ countries. Divi’s recently reached the milestone of being one among the top 3 API manufacturers in the world.

✓**Experienced promoter, long track record of operations and proven strong R&D capabilities:** The R&D team at Divi’s is engaged in developing non-infringing processes attaining commercially viable price throughout the lifecycle of the product, infiltrating continuous process improvements. 400 scientists working in three R&D centers across functions.

✓**Manufacturing of Generic APIs, Nutraceutical ingredients and Custom synthesis for Big Pharma:** Divi’s is competent in handling high energetic reactions with high potency to address unmet requirements of the Big Pharma customers, making it one of the top ten custom manufacturers of API in pharma. Divi’s is one of the selected nutraceutical ingredients manufacturer that offers a complete range of carotenoids at a very competitive offering for food, feed and dietary supplements all over the world.

✓**Well-equipped manufacturing facilities accredited by regulatory agencies:** 2 World class manufacturing units with a combined capacity of ~14000 m3 and one of it being the World’s largest API manufacturing facility. A third manufacturing site is proposed to be set up near Kakinada, India in 2021. More than ~2100 employees working in Quality Assurance and Quality Control functions form the backbone of our Quality System.

✓**Diversified market presence with major share of revenue from regulated markets:** Divi’s has been a global leader in more than 10 Generic APIs, supplying 100’s/1000’s of Tonnes every year to customers in more than 95 countries. Divi’s continues to provide highly customized technical solutions to Big Pharma for their needs which include late life cycle APIs, registered starting materials and advanced intermediates.

KNOWLEDGE COLUMN

Under Watch list: EPC (Engineering, Procurement & Construction) Segment

Engineering, Procurement & Construction (EPC) services refer to a form of contracting arrangement used in the construction and engineering industries, when a customer hires a contractor to perform the entire work cycle. The Contractor, within budget, performs the work, manages the project and arranges for the work of sub-contractors.

The EPC contract is concluded between the customer and the contractor. Under the contact the contractor bears all risks and is tasked with the execution of the full scope of works for the project.

Benefits of EPC Services contracts:

✓Fixed budget and timeline.

✓Contractor is responsible for management of all the activities within the construction project chain.

✓Efficient project management as a one contact.

Robust Tax Collection Revenue means Government can continue to spend more on Infrastructure development which augurs well for the EPC players.

Some of the companies catering to different segments under EPC space like Solar, Infra, Engineering etc which we are tracking / studying at the moment are **L&T, ISGEC, Visaka Industries, ITD Cementation India** etc. We will soon release our detailed report in this space.

CORPORATE ACTIONS

Company	Event Type	Announced Date	Ex- Date	Dividend(Rs.)	Ratio
eClerx Services	Bonus	09/08/2022	21/09/2022	-	1:2
Ruby Mills	Bonus	10/08/2022	22/09/2022	-	1:1
Bharat Gears	Bonus	24/08/2022	27/09/2022	-	1:2
Pondy Oxides	Bonus	10/08/2022	28/09/2022	-	1:1
Ram Ratna Wires	Bonus	10/08/2022	28/09/2022	-	1:1
Ruchira Papers	Bonus	30/08/2022	07/10/2022	-	1:10

Company Name	Record Date	Issue Open	Issue Close	Buyback Type	BuyBack price (Per Share)	Current Market Price	Issue Size - Shares (Cr)	Issue Size - Amount (Cr)
SIS Limited	Aug 30, 2022			Tender Offer	550	434.60	0.15	80.00
Granules India Limited	Aug 23, 2022			Tender Offer	400	315.85	0.63	250.00
Quick Heal Technologies Limited	Sep 14, 2022			Tender Offer	300	201.00	0.50	150.00
CARE Ratings Limited	Sep 14, 2022			Tender Offer	515	498.60	0.24	121.95

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