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JRK

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WEEKLY Newsletter

Private Client Group

MARKET
kya lag raha hai?

Indian markets witnessed a strong rally last week with Sensex and Nifty 50 hitting a fresh historic high driven by a slide in crude oil, robust GDP data, and Fed's dovish stance. **However, the week ended in red as investors carried broad-based profit booking.** Both Sensex and Nifty 50 snapped an eight-day winning spree on Friday.

In the coming week, RBI's monetary policy outcome will play a major role in setting the tone for domestic equities, which is expected to moderate its pace of rate hikes. With inflation easing in October, expectations of 25 to 35 basis points instead of the fourth 50 basis points hike in December policy is on cards. **The primary monitorable will be the MPC's forecasts and views on inflation and economic expansion.**

On the macro front, the Indian economy's growth of 6.3% in Q2 was in line with the RBI's forecast, while the manufacturing PMI rose to 55.7 in November. **On the contrary, auto stocks came in lower than expected due to weaker exports and sequential de-stocking.** Meanwhile, Indian forex reserves recorded a rise for the third week in a row. In the week ending November 25, forex reserves came in at $550.14 billion rising by $2.89 billion, as per RBI's data.

As for foreign portfolio investors (FPIs), they infused ₹36,239 crore in the equities market during November -- **which is the second highest monthly buying in the current year after August** when FPIs invested ₹51,204 crore. Also, the start of December has been on a positive note with an inflow of ₹7,437 crore in the equities.

On the global front, investors' concerns were allayed as the Fed chair adopted a dovish stance. Declining manufacturing activity in the US is proof that the central bank's policy tightening has started to show results, which in turn will encourage the Fed to keep rate hikes at bay. Given the underlying high valuation, Geo-political tensions, Fed policy, and stringent Chinese COVID restrictions, the market will remain highly sensitive in the coming weeks.

Going ahead, investors should keep a track of the rupee and the US dollar trend as well as movement of Brent crude oil.

ECONOMY ka haal chaal!

November GST collection up 11% YoY at ₹1.45 lakh crore: Goods and Services Tax (GST) collections for the month of November 2022 stood at ₹1,45,867 crore, according to the data shared by finance ministry on Thursday. The revenue for the month of November are 11% higher than the GST revenue in the same month last year, which itself was ₹1,31,526 crore. **This is the ninth straight month when collections from GST has remained above ₹1.40 lakh crore.**

The sequential dip in collections in November 2022 relative to October 2022, reflects the boost from quarter end payments in the latter month, as the inflows in each month pertain to the activity in the previous month. Moreover, while festive spending is assessed to have been high in October 2022, the generation of GST e-way bills had moderated sequentially given a higher number of holidays in that month.

View: The 48th meeting of the GST Council, chaired by Union Finance Minister Nirmala Sitharaman, will be held on 17 December. The meeting would discuss two reports of a panel of state finance ministers on levy of GST on casinos, online gaming and horse racing and the other on setting up of GST Appellate Tribunal.

India factory activity in November hits 3-month high as inflation cools: India's factory activity expanded at its fastest pace in three months in November, demand despite deteriorating global economic conditions, according to a private survey. The Manufacturing Purchasing Managers' Index, compiled by S&P Global, rose to 55.7 last month compared with 55.3 in October, **marking the seventeenth successive month of expansion in manufacturing production across India.**

View: Demand resilience boosted manufacturing growth in India, with companies noting the quickest increases in new orders and production for three months. **Moreover, firms were strongly confident towards growth prospects, with optimism driving another round of job creation and restocking initiatives.**

Car dispatches robust in Nov, but 2-wheeler volumes soften: Carmakers have logged the best-ever November sales as demand for personal transport continued to remain strong even after the end of the high-selling festive season, driving towards record sales in 2022. However, 2-wheeler wholesale numbers are still lower than retail numbers.

Automakers Maruti Suzuki India, Hyundai, Tata Motors and Mahindra saw double-digit growth in dispatches to dealers last month, making it the best-ever November for the passenger vehicle industry. Kia India, Honda Cars, Skoda and MG Motor also witnessed strong sales momentum last month.

View: Passenger vehicle makers reported a modest drop in dispatches to dealers in November from record sales in the festive month of October, as demand remained strong and companies struggled to fulfill customer orders. In 2-wheeler space, wholesale numbers which are undergoing inventory destocking and are not reflecting the right picture.

CORPORATES
ki khabrein

Story takes a turn for PVR, Inox Leisure after a flop Q2: The September quarter (Q2FY23) was a miserable one for multiplex companies PVR Ltd and Inox Leisure Ltd. **A few months ago, multiplexes were feeling the heat of the boycott-Bollywood trend on social media as audiences rejected poor movie content. Worries about increased competition from over-the-top (OTT) platforms loomed large.** Given this, Q3 is expected to throw some light on whether consumers' behaviour has altered meaningfully. The trends in Q3 so far are encouraging with content performance seeing a good rebound in October and November. **View:** Quarter-to-date box office collections for Q3 have already crossed the previous quarter's collections with a few large movies still lined up for release in December. Against this backdrop, occupancy levels of PVR and Inox are expected to improve in Q3. **However, the inflationary scenario and higher ticket prices have raised the cost of movie-going, which has increased content-quality filtration by patrons.**

Chemical companies take the lead in private sector capex: Private sector capital expenditure, or capex, announcements so far in FY23 are being led by the chemicals sector. In the April-November period, this sector accounted for around 45% of the total capex worth ₹8.5 trillion. **Chemicals companies have been aggressively adding capex driven by robust order inflows and enquiries from domestic and global markets. The capex intensity seen in the sector is the highest ever.** **View:** The increased adoption of the China-plus-one strategy by firms globally has given this sector a boost in recent years. **To reduce the dependence on China, companies are diversifying to alternative destinations such as India, which enjoys an edge over peers as a chemical exporter due to many favourable factors such as cheaper labour, better technology capabilities and various policy initiatives by the Centre.**

The fight for deposits would become intense amongst Lenders: Banks were the cynosure of all eyes at the latest earnings ball. If it wasn't for the stellar show put up by the sector, India Inc's overall corporate earnings in the September quarter (Q2FY23) would have been muted, resulting in a bleak outlook for FY23 earnings estimates. **Robust systematic credit growth, improved traction in retail loans, and a pick-up in corporate loans boosted Q2 earnings of the Banks. However, the challenging part now is that deposits growth is muted and lags credit growth**. **View**: In a rising interest rate scenario, the sector's net interest margin (NIM) expansion was striking, with loans getting repriced faster than deposits. **However, banks are likely to raise deposit rates aggressively to fund credit demand. This means the fight for deposits would become intense.** Overall, investors in banking stocks are in a merry mood taking the sector index Nifty Bank to a new 52-week high. So far in CY22, Nifty Bank has risen 21%, comfortably beating the Nifty 50's 7% returns.

Cement companies walk on a tightrope: The September quarter earnings of cement makers were expected to be muted, and that has played out. In any case, Q2 is a seasonally weak quarter for cement companies as construction activities are slow. Accordingly, price realization was subdued in Q2. **The upshot is that EBITDA margin slipped to a multi-quarter low in Q2 because of severe cost inflation.** As a result, analysts have cut FY23 earnings estimates for most cement companies post-Q2. Cement is one of the sectors that has been a drag on the overall earnings performance of India Inc. last quarter. **View:** What is encouraging now is that input costs are likely to have peaked. **However, the benefits of lower input prices to reflect meaningfully by Q4 but already stretched valuations leave marginal room for stock prices to move significantly higher.**

GLOBAL NEWS
AND EVENTS

Russia rejects West's $60 per barrel oil price cap: Russia has rejected a $60 per barrel price cap on its seaborne crude oil decided by the European Union, the Group of Seven (G7) nations, and Australia a few days ago. Recently, the EU reached a deal Friday for a $60-per-barrel price cap on Russian oil, a key step as Western sanctions aim to reorder the global oil market to starve President Vladimir Putin of funding for his war in Ukraine.

According to TASS Russian News Agency, Kremlin Spokesman Dmitry Peskov said, "We are assessing the situation. Certain preparations for such a cap were made. We won't accept the price cap and we will inform you how the work will be organised once the assessment is over.“

Europe needed to set the discounted price that other nations will pay by Monday when an EU embargo on Russian oil shipped by sea and a ban on insurance for those supplies take effect. Thereafter, G7 nations and Australia also agreed to adopt a $60 per barrel price cap on Russian oil.

Western governments have agreed to cap the price of Russia's’ oil exports in an attempt to limit the fossil fuel earnings that support Moscow's budget, its military, and the invasion of Ukraine. The cap is set to take effect Monday, the same day the European Union will impose a boycott on most Russian oil — its crude that is shipped by sea.

However, Ukrainian President Volodymyr Zelensky has said that the price cap on Russian oil is not "serious" because it is "quite comfortable" for Moscow. "Russia has already caused huge losses to all countries of the world by deliberately destabilizing the energy market," he argued, describing the decision on the price cap as "a weak position". Zelensky complained the world had shown weakness by setting the cap at $60, which he said would swell Russia's budget by $100 billion a year.

(Source: **Inputs from Bloomberg Report**)

TECHNICAL OUTLOOK

In daily scale, **the Index is moving in a higher top higher bottom formation, indicating a sustained-up trend.** At the start of the week, prices register their new lifetime high and later on continued to move higher. On Friday's session, Nifty showed the 1st sign of profit booking when prices slipped below 19,800 levels with a bearish candle on the daily chart. The momentum oscillator RSI (14) on the daily chart has reached the overbought zone and presently has hooked lower below 70.

We expect index to gradually head towards 19400 in coming weeks while small & midcaps to outperform. **Strong support is now placed at 18400 to 18450 levels. Use dips to create long positions.**

CONVICTION PICKS

Conviction Picks:

Company	Cmp	View	Support	Target (1-2 Yrs)
Deep Industries Ltd	259	Accumulate	235-245	375

Deep Industries Ltd (DIL): Pioneered natural gas compression services on charter hire basis in India and are one of the largest Company in India to provide high pressure Natural Gas Compression Services. DIL is also specialized in providing Drilling and Workover Services, Gas Dehydration Services, and also having expertise in Integrated Project Management Services. The Company has grown up to be a "One Stop Solution" provider for every need in Oil and Gas field operations by providing various equipment and services under rental and chartered-hire basis.

Deep Industries is the market leaders in gas compression business in India with an estimated market share of ~75%.

Deep has a strong consolidated order book of over Rs 815 Cr which gives good revenue visibility for around next 2-3 years.

The “Dolphin Offshore” Acquisition will not be immediately value accretive but will start contributing in Financials from FY24.

Reasonable Valuation of 12x (10 Yr Median PE 9x) and **Net Debt Free.** DIL has reduced its long-term debt from Rs 231 Cr in FY18 to Rs 17 Cr in FY22.

Concern: Q2 FY23 numbers were muted but the management has guided that H2 FY23 will be much better than H1FY23.

KNOWLEDGE COLUMN

"Foreign investors upgrade India as dedicated allocation in investment portfolios"

Foreign investors have upgraded India as a dedicated allocation in their investment portfolios given the strong economy, stable government and significant reforms undertaken over the last eight years. According to the experts, who participated in Futures Industry Association (FIA) Asia trade conference held in Singapore from November 29 to December 1, said investment is flowing into India's growth story.

Previously, the investors had grouped India within emerging markets and comparatively only China was a "dedicated allocation" emerging market. **Now, investments being redirected as FPIs reposition their dollars amidst uncertainties in China.** We are seeing the current pickup gaining momentum as FPIs have turned net buyers of India with over USD 5 billion coming in over November and early December relative to the USD 23 billion they pulled out over the first ten months of 2022. **The flip is impressive considering the cost of liquidity has gone up significantly with the Fed Funds Rate, currently at 3.83 per cent, slated to rise an additional 50 basis months this month.**

The Indian stock markets have shown good resilience in recent months, and hit a new growth trajectory though some of the leading global markets are down by 15-20 per cent due to the economic uncertainties. **This resilience has come from good Government regulatory reforms, RBI's sharp eye on the economy with supportive policies and a good level of domestic consumption.** Experts say – it is just a start of a multi-year growth cycle and it is time to stay invested.

A few months back, there was a confusion among international investors as to where to invest when comparing India with China. In China, the valuation looks very good but definitely there are COVID-related uncertainties. But in India there is a political certainty attracting the investments, stability and the Government policies look good. **The Indian stock market is bullish because the economy is doing very well.** As of now, we only have 3-4 per cent of the total population participating in the stock markets while the Government wants more citizen participation in this wealth generation trade. Young professionals, in the 25-30 age group, and some of them from Tier-III cities, have started investing in the stock and shares.

CORPORATE ACTIONS

Company	Event Type	Announced Date	Ex- Date	Dividend(Rs.)	Ratio
Panchsheel Org	Dividend - Interim	14/11/2022	05/12/2022	0.80	-
Hinduja Global	Dividend - Interim	14/11/2022	07/12/2022	5.00	-
APTUS VALUE	Dividend - Interim	28/11/2022	08/12/2022	2.00	-
BLS Internation	Bonus	07/11/2022	08/12/2022	-	1:1
Can Fin Homes	Dividend - Interim	28/11/2022	08/12/2022	1.50	-
Rashtriya Chem	Dividend - Final	27/05/2022	15/12/2022	2.50	-
Rashtriya Chem	Dividend - Interim	29/11/2022	15/12/2022	1.60	-
Precision Wires	Bonus	10/11/2022	22/12/2022	-	1:2

Economic Calendar

Time	Country	Search by event or country	Impact	Actual	Previous	Consensus	Trend
Monday, December 5, 2022							
10:30	IND	S&P Global Services PMI (Nov)	★☆☆	-	55.1	55.4	
10:30	IND	S&P Global Composite PMI (Nov)	★☆☆	-	55.5	-	
Wednesday, December 7, 2022							
10:00	IND	RBI Interest Rate Decision	★★★	-	5.9%	6.25%	
Friday, December 9, 2022							
17:00	IND	Foreign Exchange Reserves (02/Dec)	★☆☆	-	$550.14B	-	

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