

Indian equities come under pressure on weak global cues; selling witnessed in Pharma stocks..

- 1) Indian equities were under pressure led by heavy selloff in Chinese tech giants which affected investor sentiments. In, addition global investors were nervous ahead of the Federal Reserve's two-day monetary policy meeting that kicks off later in the day.
- 2) The BSE Sensex fell by 273.51 points or 0.52 percent to end at levels of 52,579. On the other hand, Nifty declined by 273.5 points and 78 points to end at 52,579 and 15,746 levels, respectively. In the broader markets, BSE MidCap index fell by 0.67 per cent. The BSE SmallCap index, on the other hand, was down 0.11 per cent.
- 3) Shares of pharmaceutical companies were under pressure, with the Nifty Pharma index falling 5 per cent on the National Stock Exchange (NSE) in intra-day trade on Tuesday after Dr Reddy's Laboratories and Alembic Pharmaceuticals reported a disappointing set of numbers for the quarter ended June 2021 (Q1FY22). Alembic Pharma (Rs 805.50) and Dr Reddy's Laboratories (Rs 4,790) declined by 12 per cent and 11 per cent, respectively in intra-day deals. Sun Pharma Advanced Research (SPARC), Lupin, Glenmark Pharmaceuticals, Lincoln Pharmaceuticals, Wockhardt and Panacea Biotech were down between 5 per cent and 8 per cent. Aurobindo Pharma, Cipla and Divis Laboratories were down 4 per cent each.

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	52,578.76	52,852.27	273.51	0.52	52,995.72	53,024.70	52,433.18
Nifty	15,746.45	15,824.45	78.00	0.49	15,860.50	15,881.55	15,701

Sectors and stocks

- 1) Shares of GNA Axles were up by 18 per cent to Rs. 652.95 on the BSE in the intra-day trade on Tuesday, surging 25 per cent in two trading days, after the auto components' company reported a strong set of numbers for the quarter ended June 2021 (Q1FY22). The company posted a consolidated net profit of Rs 29.46 crore in Q1FY22 as against a loss of Rs 6.58 crore in the year-ago quarter on the back of a healthy operational performance. It had posted a net profit of Rs 27.63 crore in the March quarter (Q4FY21). Moreover, revenues from operations in the quarter under study jumped four-fold year on year (YoY) at Rs 328.96 crore from Rs 81.33 crore in Q1FY21. Ebitda margins improved by 935 basis points (bps) YoY at 16.71 per cent from 7.35 per cent. Ebitda margin stood at 15.77 per cent in Q4FY21. GNA Axles reported a record-high Q1FY22 performance, led by market share gains in the domestic market and robust exports (strong demand from North America, followed by South America and Europe).
- 2) Shares of Dr Reddy's Laboratories (DRL) hit over three-month low as they fell over 10 per cent to Rs. 4,844 levels on the BSE on Tuesday, after the company reported a 1 per cent year-on-year (YoY) decline in its consolidated net profit at Rs. 570.8 crore in the June quarter (Q1FY22). The Company had posted a profit of Rs. 579.3 crore in the year-ago quarter. The stock was trading at its lowest level since April 19, 2021. Ebitda margins were down 560 basis points (bps) YoY and 310 bps sequentially at 20.7 per cent during the quarter. Gross profit margin decreased by 380 bps over the previous year and 150 bps sequentially, majorly on account of price erosion and increase in inventory provisions related to few products. The company's revenue grew 11 per cent YoY at Rs 4,919 crore as against Rs 4,418 crore in the corresponding quarter of the previous fiscal. India revenue grew 69 per cent YoY, higher than Street's estimates, aided by better traction in the chronic segment and the addition of the Wockhardt portfolio. However, North American sales were up in single-digit or 1 per cent at Rs 1,739 crore. The sequential decline of 1 per cent was on account of price erosion in some of the products partially offset by volume traction and new products launched, the company said.
- 3) Shares of Alembic Pharmaceuticals fell by 10.73 per cent to Rs. 813.05 on Tuesday after the company reported disappointing numbers for the quarter ended June 2021 (Q1FY22), with consolidated profit after tax (PAT) declining 45.4 per cent year-on-year (YoY) to Rs. 164.50 crore on weak performance of US business. The pharmaceutical company had posted a PAT of Rs. 301 crore in Q1FY21. Ebitda margins declined by 1,258 basis points (bps) YoY to 17.8 per cent due to higher other expenditure. The company's revenues declined 1.1 per cent YoY to Rs 1,326 crore with strong growth in domestic formulations being offset by a 38.1 per cent YoY decline in US sales to Rs 369 crore. Domestic formulations grew 57.2 per cent YoY to Rs 481 crore. The acute and specialty segments grew faster than



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the represented pharmaceutical market, the company said. "India business grew exceptionally well and outpaced the industry and we hope to see this momentum continuing due to the initiatives undertaken recently," the management said. The US business faced price erosion due to increased competition, however, the long term view of the US market remains intact, it added.

Key recent major developments..

- 1) The International Monetary Fund (IMF) has sharply scaled down India's economic growth projection by 300 basis points to 9.5 per cent for the current financial year from 12.5 per cent estimated earlier in April. IMF said the downward revision is owing to "lack of access to vaccines" and possibility of renewed waves of coronavirus. "Growth prospects in India have been downgraded following the severe second Covid wave during March-May and expected slow recovery in confidence from that setback," IMF said in the latest edition of its flagship World Economic Outlook (WEO) report, released on Tuesday.
- 2) Earlier, The Hon. Supreme Court (SC) dismissed the application of telecom companies that sought recomputation Adjusted Gross Revenue (AGR) dues demanded by the Department of Telecommunication (DoT). The rejection of telcos' pleas seeking re-calculation of AGR related dues does not bode well for a recovery in the sector and is likely to protract the same given the backdrop of high debt levels and low tariffs, Icria said on Friday. Icria said to meet high commitment towards debt repayments and the DoT payment obligations, the industry participants will need to explore avenues of fundraising or asset monetisation, besides concentrating on improving the ARPU levels, substantially.
- 3) The Union cabinet chaired by Prime Minister Narendra Modi on last Thursday approved the Rs. 6,322 crore production-linked Incentive (PLI) scheme for specialty steel sector. The decision is part of India's playbook of creating global manufacturing champions in India and bring the country at par with global steel making majors such as South Korea and Japan. "The duration of the scheme will be five years from 2023-24 to 2027-28. With a budgetary outlay of Rs. 6,322 crore, the scheme is expected to bring in investment of approximately Rs. 40,000 crore and capacity addition of 25 MT for speciality steel. The scheme will give employment to about 5,25,000 people of which 68,000 will be direct employment," the government said in a statement. "Speciality steel has been chosen as the target segment because out of the production of 102 million tonnes (MT) steel in India in 2020-21, only 18 MT value added steel/speciality steel was produced in the country. Apart from this out of 6.7 million tonnes of imports in the same year, approximately 4 million tonnes import was of specialty steel alone resulting in forex outgo of approximately Rs. 30,000 crore," the statement added. "It is expected that the speciality steel production will become 42 MT by the end of 2026-27. This will ensure that approximately 2.5 lakh crore worth of speciality steel will be produced and consumed in the country which would otherwise have been imported. Similarly, the export of specialty steel will become around 5.5 million tonnes as against the current 1.7 MT of specialty steel getting forex of Rs. 33,000 crore," the statement added.
- 4) Recently, Global rating agency Standard and Poor's affirmed India's sovereign rating at "BBB-" and maintained a stable outlook on the gradual recovery in the economy. India's recovery will gain pace through the second half of fiscal 2022 and into the following year, helping stabilise the country's overall credit profile, S&P said in a statement. But it warned that the country's fiscal settings are weak, and deficits will remain elevated ahead even as the government undertakes some consolidation. The country's strong external settings help buffer the risks associated with the government's high deficits and debt stock. India's economy is gradually recovering from a deep contraction in fiscal 2021 (year ended March 31, 2021) and a subsequent severe second wave of Covid-19. "We expect real GDP growth to rebound to 9.5% in fiscal 2022 on continued normalization of activity and progressively higher vaccination rates," the rating agency said.
- 5) The Consumer Price Index (CPI) or retail inflation slightly eased to 6.26 per cent in June which was above RBI's tolerance level. The retail inflation during the month of May stood at 6.30 per cent.
- 6) Index of Industrial Production (IIP) or the factory output, grew by 29.27 per cent on yoy basis in May 2021 .
- 7) Earlier, the Finance Ministry said the economy has started showing signs of revival from the impact of the second wave of the COVID-19 pandemic on the back of targeted fiscal relief, monetary policy and a rapid vaccination drive. The broad-based economic relief package, extended to mitigate the second wave, amounted to Rs. 6.29 lakh crore. RBI continues with its efforts to calm the nerves of the market and revive sectors with both backward and forward linkages and multiplier effects on growth, the ministry said in its monthly economic review. To stimulate the economy and ease the financial impact of the coronavirus pandemic and lockdown, Finance Minister Nirmala Sitharaman last month announced eight economic measures amounting to Rs. 6.29 lakh crore to provide relief to individuals as well as businesses in the country. Apart from eight relief measures announced in health and other worst affected sectors, Sitharaman announced a stimulus package for the tourism industry, which included five lakh

tourist visas to be issued free of charge, once the government resumes issuance. The total financial implication of the scheme will be Rs. 100 crore. Resilient tax collections of the central government in the first two months of FY21 and sustained momentum in capital expenditure, particularly in the road and rail sector, the report said, augurs well for continued economic recovery driven by capital expenditures. The report further added that the recently announced economic relief package was expected to further oil the wheels of the Capex cycle via implementation of the PLI scheme and streamlining of processes for PPP Projects and Asset Monetisation.

- 8) Goods and services tax collections fell below the Rs. 1-trillion mark for the first time in nine month in June, 2021 to a 10-month low, as economic activity got disrupted due to the second Covid-19 wave, official data showed. However, the collections are better than expected and will provide a cushion to the government to ramp up spending, going forward. GST collection stood at Rs. 92,849 crore in June compared with Rs 1.02 trillion the previous month and a record high of Rs. 1.41 trillion in April, data released by the ministry of finance showed on Tuesday. These figures pertain to transactions done in May, but collected in June. The collections in May are 2.1 per cent higher than the corresponding month of last year when the national unlocking process began after two months of intense movement curbs due to the pandemic. Meanwhile, May 2021 saw localised lockdowns across the country due to the devastating second wave. The collections in June are on expected lines as e-way bill generation, which indicates supply in the economy, declining to a one year low level average of 1.2 million per day in May.

Global markets

- 1) MSCI's broadest index of Asia-Pacific shares outside Japan declined by 0.97 per cent, while the Hong Kong benchmark fell 2.84 per cent. Chinese bluechips dropped 2.93 per cent. Meanwhile in Europe, the pan-European STOXX 600 index fell by 0.6 per cent.
- 2) Earlier, US witnessed a big spike in inflation and registered highest spike in 13 years (since August 2008) to 5.4 percent. Earlier, US added a solid 850,000 jobs as economy extends its gains. The report from the Labor Department was the latest sign that the reopening of the economy is propelling a powerful rebound from the pandemic recession. Restaurant traffic across the country is nearly back to pre-pandemic levels, and more people are shopping, traveling and attending sports and entertainment events. The number of people flying each day has regained about 80 percent of its pre-COVID-19 levels.
- 3) Globally, investors will keep an eye on Fed meeting amidst high inflation.

Ajcon Global's observations and view

- 1) Indian benchmark indices came under pressure on the second consecutive day led by weak global cues. There are concerns like rise in COVID-19 cases in various countries due to spread of new variants of COVID-19. In addition, there are inflation concerns across the globe which act as headwind.
- 2) Bulls will remain in hunt due to factors like good start to Q1FY22 earnings season with most of the Companies reporting good performance, strong management commentary in Q1FY22 by majority of the Companies, better than expected China's economic data, positive US employment data and other positive US economic indicators, rally in commodities, economic activity picking up at fast pace after unlock in major states, by significant decline of COVID-19 cases in the second wave with recoveries surpassing new cases by a big margin on a daily basis, decent vaccination drive are supporting sentiments. In addition to liquidity provided by FPIs in equities, there is good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis.
- 3) Investors are also hopeful that vaccine shortages will be resolved in some months as vaccine manufacturers' ramp up supplies. The entry of new vaccines is also expected to ease the supply crunch. India has given the first dose of covid antidote to 44.19 crores beneficiaries in the nationwide vaccination till date. According to a government official, two billion doses of Covid-19 vaccines will be made available in the country between August and December, enough to vaccinate the entire population.
- 4) We believe the upcoming monthly expiry of derivatives contracts will keep markets volatile.
- 5) It is advisable for investors to look out for stock specific opportunities and stay away from names which are suddenly rallying for no reason. After strong run up; some profit booking is warranted. We believe intermediate corrections will keep markets healthy. Investors will track global cues, crude oil prices, Q1FY22 earnings season, ongoing monsoon, vaccination drive and economic activity and COVID-19 cases for further direction.



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