AJCONGLOBAL
YOUR FRIENDLY FINANCIAL ADVISORS

Market wrap **July 08, 2022**

Indian benchmark indices remain upbeat; all eyes on Q1FY23 earnings season..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	54,481.04	54,178.46	303.38	0.56	54,574.43	54,627.14	54,278.77
Nifty	16,220.60	16,132.90	87.70	0.54	16,273.65	16,275.50	16,157.90

1) On Friday, Indian benchmark indices were upbeat led by falling crude oil prices and rally in Asian peer indices. The Sensex witnessed a gap up opening of 395.97 points and further rallied strongly to touch an intraday high of 54,627.14. The Sensex finally ended the day up by 303.38 points or 0.56 percent to end at levels of 54,481.04. On the other hand, Nifty closed up by 87.70 points or 0.54 percent. Among the Sensex 30 stocks, the prominent gainers were Larsen & Toubro, Powergrid, NTPC, ICICI Bank, Axis Bank, Dr. Reddy's, Bharti Airtel, Nestle India Infosys up in the range of 1.02 percent to 4.72 percent.

2) The broader markets too were upbeat on Friday. The BSE MidCap index was up by 0.20 percent and the BSE SmallCap index was up by 0.28 percent.

3) In terms of sectoral indices performance, the major gainers were the BSE Capital Goods index, BSE Power index, BSE Basic Materials index, BSE Capital Goods index, BSE Utilities index, BSE Industrials index up in the range of 1.51 percent to 2.23 percent.

4) Today, FIIs net sold equities worth Rs. 109.31 Crore. On the other hand, DIIs net bought equities worth Rs. 34.61 Crore. Month till date, FIIs net sold equities worth Rs. 4,543.12 Crore. On the other hand, DIIs net bought equities worth Rs. 5,221.04 Crore.

Sectors and stocks

1) Shares of Uflex moved up by 7.10 percent to Rs. 635.50 after touching an intraday high of Rs. 641.70 at the BSE on Friday. UFlex is India's largest multinational flexible packaging materials & solutions company and a global player in polymer sciences. Since its inception in 1985, UFlex has grown from strength-to-strength and has created a presence across all verticals of the packaging value chain - Flexible Packaging, Packaging Films, Aseptic Liquid Packaging, Holography, Printing Cylinders, Engineering and Chemicals. The company provides end-to-end solutions to numerous Fortune 500 clients across various sectors such as FMCG, Consumer Product Goods, Pharmaceuticals, Building Materials, Automobile and more, in over 150 countries. Headquartered in Noida, UFlex enjoys a global reach with sophisticated manufacturing facilities in India, UAE, Mexico, Egypt, USA, Poland, Russia, Nigeria and Hungary.

Earlier, in Q4FY22 result, the company posted consolidated EBITDA at 734.4 crore , up by 42.2% YoY whereas the consolidated Net Profit stood at 350.3 crore, witnessing a gain of 32.3% YoY. The consolidated Revenue registered a rise of 52.2% YoY to reach Rs. 3915.1 crore, in the said quarter. The growth in revenue was backed by higher production and sales volumes of Packaging films and Packaging businesses. Total Production volume witnessed a jump of 26.2% YoY to reach 160475 MT in Q4FY22 whereas Total Sales volume jumped by 20% YoY to reach 164079 MT in Q4FY21-22. Speaking on the financial performance, Rajesh Bhatia Group CFO, UFlex Ltd expressed, "Our performance in the quarter is reflective of our determined approach to match the fast paced consumption environment with enhanced production volumes. Across all fronts - be it production/sales volumes, Revenue, EBITDA and PAT, new highs have been achieved in Q4 as well as in full FY21-22. We recently commissioned our new line in Aseptic Liquid Packaging facility at Sanand, Gujarat thereby doubling its capacity to 7 bn packs per annum. He added, "More good news poured in also with Credit rating agency CRISIL upgrading our company's short term rating to A1+ and long term rating to AA- inferring improvement in the business and financial risk profile, thus reinforcing our leadership position in the flexible packaging industry. "

2) Shares of Larsen & Toubro closed up by 4.72 percent to Rs. 1687.40 after touching an intraday high of Rs. 1702. Recently in June 2022, the Hydrocarbon division of L&T Energy had secured three offshore packages from a prestigious overseas client. The scope of work comprises Engineering, Procurement, Construction, and Installation for various new offshore jacket structures. L&T Energy Hydrocarbon (LTEH) has executed orders for this client in the past and repeat business is a testimony to L&T's "Execution Par Excellence" philosophy. LTEH is executing several domestic and international offshore projects and is committed to building its regional presence in geographies that it operates by growing local skills and talent, improving procurement from local vendors, engaging commercially with local contractors on the foundation of a sustainable workload. Organized under Offshore, Onshore, Construction Services, Modular Fabrication and Advanced Value Engineering & Technology (AdVENT) verticals, LTEH offers integrated design-to-build solutions across the hydrocarbon sector to domestic and international customers. With over three decades of rich experience, the company has been setting global benchmarks in all aspects of project management, corporate governance, quality, HSE and operational excellence.

Larsen & Toubro is an Indian multinational engaged in EPC Projects, Hi-Tech Manufacturing and Services. It operates in over 50 countries worldwide. A strong, customer–focused approach and the constant quest for top-class quality have enabled L&T to attain and sustain leadership in its major lines of business for eight decades.

3) Shares of Sobha continued its rally from yesterday and ended up by 5.40 percent to Rs. 675.40 at the BSE. Earlier, the Company in its Q1FY23 operational update said "The Indian economy is poised to achieve a healthy 7.2% real growth in FY 2022-23 with inflation to be 6.7%, according to the RBI forecasts. Consistent monthly GST collection of over 1.4 lakh crore is a good sign of economic activity fostering improved consumer demand including Residential Real Estate. However, high inflation has been a serious concern for India and most global economies. Although Government intervention has resulted in some commodity price reduction, the overall construction cost is still at elevated level, but showing signs of stability. We witnessed series of interest rate hikes by central bankers, including in India to counter the inflation and expect to see further increases. This has increased the home loan rates as well for our customers. Given this backdrop, we have continued our calibrated price increases in all projects & cities to counterbalance the inflationary forces. Despite increase in prices, higher homes loan rates, demand for our homes continues to be strong across segments, particularly in Bengaluru and Gurugram. Improved visibility of GIFT City has seen increased demand for our projects. With the aid of new launches in Bengaluru, consistent sales velocity in ongoing projects, we have achieved the highest ever sales volume, value and price realization in this quarter. Cash flows during the quarter also remained strong resulting in further net debt reduction."

4) Shares of Craftsman Automation Limited (CAL) moved up by 4.29 percent to Rs. 2480.80 after touching an intraday high of Rs. 2575 on the BSE. Recently, CRISIL Ratings has upgraded its rating on the long-term bank facilities of Craftsman Automation Limited (CAL) to 'CRISIL A+/Stable' from 'CRISIL A/Stable' and reaffirmed its rating on the short-term bank facilities 'CRISIL A1'. CRISIL Ratings report said "The upgrade reflects the expected sustained improvement in business performance over the medium term driven by the recovery in offtake from automobile sector, especially the commercial vehicle (CV) segment, and the recovery in industrial sector supported by improving economic activity and private investment. The company is well positioned to capitalise on the uptick in demand scenario given its established clientele, diversified segment exposure and healthy operating capabilities including enhanced production capacities. In fiscal 2022, CAL's revenue has grown by 43% on-year despite challenging conditions in the first half of the fiscal, supported by higher demand from medium and heavy commercial vehicle (MHCV) segment. Although the operating margin declined by 440 basis points to 24% in fiscal 2022 on account of increase in share of lower-margin manufacturing activity Vs machining(job work) income in auto power train segment, and steep increase in raw material prices which could not be fully passed on." The rating continues to reflect the strong position of the company in the engineering contract-manufacturing sector, established customer relationships, healthy operating margin and improving financial risk profile. These strengths are partially offset by large capex and working capital requirement, and vulnerability to slowdown in the automobile (auto) industry." said CRISIL Ratings report.

Key recent major developments..

1) The Tata Motors Group global wholesales in Q1 FY23, including Jaguar Land Rover, were at 3,16,443 nos., higher by 48%, as compared to 01 FY22. Global wholesales of all Tata Motors' commercial vehicles and Tata Daewoo range in Q1 FY23 were at 1 ,03,529 nos., higher by 97%, over 01 FY22. Global wholesales of all passenger vehicles in 01 FY23 were at 2,12,914 nos., higher by 32% as compared to Q1 FY22. Global wholesales for Jaguar Land Rover were 82,587 vehicles (** JLR number for 01 FY23 includes CJLR volumes of 10,772 units). Jaguar wholesales for the quarter were 14,596 vehicles, while Land Rover wholesales for the quarter were 67,991 vehicles. (*Includes sales of Tata Motors Passenger Vehicles Umited, a subsidiary of Tata Motors Umited. **CJLR -It is a JV between JLR and Chery Automobiles and is an unconsolidated subsidiary for JLR) - Source: Company

2) Tata Consultancy Services (TCS) reported its Q1FY23 results on Friday. TCS' net profit witnessed a growth 5.2 per cent on YoY basis and 2.5 per cent on QoQ basis to Rs 9,478 crore in Q1FY23. Revenue in Q1FY23 stood at Rs 52,758 crore, up 16.2 per cent YoY and 4.28 per cent sequentially.

Commenting on the performance, Rajesh Gopinathan, Chief Executive Officer and Managing Director, said: “We are starting the new fiscal year on a strong note, with all-round growth and strong deal wins across all our segments. Pipeline velocity and deal closures continue to be strong, but we remain vigilant given the macro-level uncertainties. Our new organization structure has settled in nicely, getting us closer to our clients and making us nimbler in a dynamic environment. Looking ahead, we remain confident in the resilience of technology spending and the secular tailwinds driving our growth.” Samir Seksaria, Chief Financial Officer, said: “It has been a challenging quarter from a cost management perspective. Our Q1 operating margin of 23.1% reflects the impact of our annual salary increase, the elevated cost of managing the talent churn and gradually normalizing travel expenses. However, our longer-term cost structures and relative competitiveness remain unchanged, and position us well to continue on our profitable growth trajectory.” Samir Seksaria, Chief Financial Officer, said: “It has been a challenging quarter from a cost management perspective. Our Q1 operating margin of 23.1% reflects the impact of our annual salary increase, the elevated cost of managing the talent churn and gradually normalizing travel expenses. However, our longer-term cost structures and relative competitiveness remain unchanged, and position us well to continue on our profitable growth trajectory.”

Ajcon Global’s observations and view..

1) **Short term view:** Indian equities were buoyant today and are expected to remain upbeat as certain macroeconomic factors like falling crude oil prices and recent fall in prices of the commodities like copper, aluminium, steel prices augur well for Indian companies and economy as a whole. However, after the recent run up, some profit booking cannot be ruled out.

Fundamentally, the decline in crude oil prices will help rupee to stabilise as it will reduce imported inflation. Sectors like Paints, Oil Marketing Companies, Speciality Chemicals stands to benefit from decline in crude oil prices.

Going ahead, investors will take cues from crude oil price movement and rupee movement against the US Dollar. Domestically, investors will eye Q1FY23 earnings and management commentary. The onset and progress of monsoon in different parts of the nation is also crucial.

2) **Long term view:** Always remember, steep corrections and crash in a structural bull market will keep markets healthy. Structurally, Indian economy is poised to do well after major reforms like thrust on digital economy after demonetisation, implementation of GST, RERA, Insolvency and Bankruptcy Code, reforms in power sector, one of its kind Union Budget announced last year which focused on investment led spending to drive growth with impetus on Privatisation, thrust on Aatmanirbhar Bharat resulting into Production Linked Incentive (PLI) schemes for various sectors, reforms in Direct Taxes, thrust on renewables sector, Ethanol blending, scrapping policy etc.

3) **Approach suggested for investors:** It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree. History has proved that after any crisis, equities recover strongly and give stellar returns. One should also remember that not every fall is worth buying and investors should evaluate the Company based on fundamentals and valuation before taking any decision. We recommend investors for the near term to Buy quality names on dips and sell on rise considering the volatility in the market in the near term. Considering there are too many macroeconomic variables, we believe markets would give opportunities to enter quality stocks at reasonable valuation. Sector wise Financial sector (specially banking), Pharma, automobile, auto components, Infrastructure & food processing looks attractive at the current valuations.

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