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Market wrap **July 12, 2022**

Domestic bourses were under significant pressure; metal, IT and auto stocks were the laggards..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Nifty	16,058.30	16,216.00	**157.70**	**0.97**	16,126.20	**16,158.75**	16,031.15
Sensex	53,886.61	54,395.23	**508.62**	**0.94**	54,219.78	**54,236.49**	53,824.97

1) On Tuesday, Indian benchmark indices were under pressure led by weak global cues and Indian rupee hiiting record low . The Nifty witnessed a gap down opening of 89.8 points. The Nifty was under pressure throughout the day and finally ended down by 157.70 points or 0.97 percent to end at levels of 16,058.30. Among the Nifty 50 stocks, the prominent losers were Eicher Motors, Hindalco, Infosys, BPCL, Grasim down in the range of 1.99 percent to 3.34 percent. On the other hand, Sensex closed down by 508.62 points or 0.94 percent.

2) The broader markets too were under pressure on Tuesday. The Nifty Midcap 100 index was down by 0.45 percent and the Nifty Smallcap 100 index was down by 0.42 percent.

3) In terms of sectoral indices performance, the major losers were the Nifty metal index, Nifty IT index, Nifty Auto index down in the range of 1.16 percent to 1.22 percent.

4) Today, FIIs net sold equities worth Rs. 1,565.68 Crore. On the other hand, DIIs net bought equities worth Rs. 140.71 Crore. Month till date, it has been observed that FIIs intensity of selling has reduced and has net sold equities worth Rs. 6,279.31 Crore as against FII selling of Rs. 22,978.97 Crore in the month of June 2022 (upto June 13, 2022 - markets were closed on June 12, 2022 - Sunday). On the other hand, DIIs net bought equities worth Rs. 5,064.76 Crore (month till date) as against Rs. 15,901.19 Crore in the same period of June 2022.

5) Today, the rupee depreciated by 15 paise and closed at a record low of 79.59 against the US Dollar which will continue affect investor sentiments.

Sectors and stocks

1) Shares of Supriya Lifescience closed up by 8.18 percent to Rs. 376.40 after touching an intraday high of Rs. 380.90 at the NSE on Tuesday. The Company is one of the key Indian manufacturers and suppliers of active pharmaceuticals ingredients ("APIs"), with a focus on research and development. The has niche product offerings of 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and antiallergic.

The Company is expected to do well due the following factors: a) The Company will be a major beneficiary from increasing demand by companies in regulated markets to reduce their dependence on China led by supply chain disruption in COVID-19 era, b) Significant scale with leadership position across key & niche products - The Company's core strength lies in identifying generic molecules (off-patent) in their existing therapeutic segments which fits in to their existing chemistry and production infrastructure and their ability to develop the product and scale-up production. With their focus on products which are high on value and low on competition, the Company is well positioned to derive relatively higher returns from their investments, c) Niche product basket of 38 APIs, d) Largest exporter of Chlorpheniramine Maleate, Ketamine Hydrochloride, Salbutamol Sulphate from India, e) Backward integrated business model - Company's backward integration of API ensures steady supply of intermediates. Integrated business model helped the Company grow revenue and sustain margins in the last year. Large part of growth and sustainability was driven by these backward integrated products, f) Geographically diversified revenues with a global presence across 86+ countries and low dependence on a specific geography, g) Advanced manufacturing and research and development capabilities, h) Long standing relationships with marquee players across various industries, i) Increasing exposure to regulated markets augurs well for the Company in terms of margin expansion in the longer term, j) Consistent strong financial performance due to de-risked business model, j) Low debt Company and enjoys positive operating cashflows.

2) Shares of HFCL closed up by 5.12 percent to Rs. 65.75 at the NSE on Tuesday. Recently, the Company has received the Purchase Orders ("PO") aggregating to Rs. 59.22 crores, from one of the leading Private Telecom Operators of the Country for providing Services to rollout their Fiber to the Home (FTTH) Network and Long Distance Fiber Network in various Telecom Circles. Earlier, in June 09, 2022, the Company had received the Purchase Orders ('PO') aggregating to Rs.73.39 crores consisting Purchase Orders of Rs.51.09 crores, from one of the leading Private Telecom Operators of the Country for supply of UBRs (Unlicensed Band Radio) along with Accessories and of Rs.22.30 crores, from one of the leading EPC players of India for supply of Optical Fibre Cables. The Company said that the UBRs have been indigenously designed, developed and manufactured in India which are sold not only in India but has also got its presence in global market. This contract demonstrates the confidence of private telecom operators in adoption of HFCL's indigenously manufactured products for expanding their existing network infrastructure. The Company manufactures world class Optical Fibre Cables at the state of the art manufacturing facilities located at Goa, Hyderabad and Chennai.

3) Shares of Balaji Amines closed up by 5.72 percent to Rs. 3106.15 at the NSE on Tuesday. The Company is the largest manufacturer of Aliphatic Amines in India. Balaji Amines is the only manufacturer of Methylamines & Ethylamines in the world using indigenous (India) technology. The size of Aliphatic Amines industry globally is $4.9 billion. Globally, the Amine industry is oligopolistic with two-three producers catering to the majority of demand in a region. Top six companies control around 50% of the global capacities. China is the largest consumer and producer of aliphatic amines accounting for almost 60% of the global production. Globally, ~61% of aliphatic amines and aminebased chemicals get consumed in the pharmaceutical sector, 26% gets consumed in the agrochemicals industry and the rest finds application in other industries. In Q4FY22, the Company's EBITDA was up by 50% which came in at Rs. 199 crores in Q4 FY22 as compared to Rs. 133 crores in the same period last year with EBITDA margin at 25.50% in Q4 FY22 as compared to 31.7% in the same period last year. Despite the challenging inflationary environment, the Company was able to restrict the fall in its operating margins due to improved operating leverage from increased volume offtake and stronger price realization, especially for products of its subsidiary company.

The products of its subsidiary company – Balaji Specialty Chemicals Ltd. – continue to witness robust demand and higher price realization. The Company's subsidiary company recorded total revenue of over Rs. 500 crore in FY22. Unavailability of key raw materials dissuaded it from operating the subsidiary plant at full capacity in FY22. However, the supply bottlenecks have eased, and the Company expects to substantially increase the utilization levels in FY23. Balaji Amines owns 55% in subsidiary Balaji Speciality Chemicals Pvt. Ltd which is strategically located at Solapur, Maharashtra.

Going ahead, the Management expects operating margins to inch upwards in coming quarters on back of moderation in prices of key raw materials, favorable product pricing and better product mix going ahead.

We believe that the Company has a big opportunity in the space it operates in. The Company is expected to well on the growth front led by capacity augmentation and capex which will lead to improved financial performance in the coming quarters.

4) Shares of Indian Bank moved up by 4.13 percent to Rs. 175.10 on Tuesday at the NSE. Commenting on Q4FY22 result, the Bank's MD & CEO Shri S. L . Jain stated that "Indian economy has regained the momentum and is coming back on the growth track. After a phase of deleveraging, we see a revival in capex, increased working capital demand due to a higher output & higher exports. Our prime focus will be to support the Corporates and the Retail customers to grow with ease which will in turn support the Bank's consistent growth." The Bank had taken hit in terms of operating profit growth on QoQ basis led by provisioning for entire Family Pension Liability. However, there are positives like improvement on asset quality, decent cash recoveries, well provided for Stressed Book (PCR-including TWO at 87.38%), strong capital adequacy, no major stress estimated, overall collection efficiency of 95 percent, strong RoE, operational efficiency to improve led by synergies after merger with Allahabad Bank and good growth outlook for future driven by retail, agriculture, MSME's and Corporates. The Bank has given guidance of minimum 10 percent growth in advances in FY23 in its Q4FY22 analyst concall conducted earlier which gives confidence.

We draw comfort from the fact that Bank has a good quality Corporate book with AAA, AA, A rated accounting for 69 percent of the total rated Standard Domestic Credit Exposure as on Q4FY22. In addition, 98 percent of exposure to NBFCs as on Q4FY22 is rated A and above. Credit cost of above 2 percent is a cause for concern and may come down with less requirement of provisioning in the future. The Bank's management has provided an optimistic scenario for the future with good progress on digital front and new initiatives. The stock is trading at a big discount to its Book Value of Rs. 269.98.

Key recent major developments..

1) The Index of Industrial Production (IIP) witnessed a growth of 19.6% in May as against 7.1% in April, data released by the National Statistical Office showed on Tuesday. The manufacturing sector's output grew 20.6% in May this year. In May 2022, the mining output climbed 10.9%, and power generation increased 23.5%.

2) Retail inflation fell marginally to 7.01% in June mainly due to slight easing in food prices but was still above RBI's comfort level. This is the sixth consecutive month that the CPI data has breached the Reserve Bank of India's (RBI) upper margin of 6 per cent. The consumer price index (CPI) based inflation stood at 7.04% in May and 6.26% in June last year. Inflation in the food basket also eased in June 2022 to 7.75% as compared to 7.97% in the preceding month, as per the government data.

Ajcon Global's observations and view..

1) **Short term and medium term view:** Indian equities were under pressure led by weak global cues, FII selling, rupee hitting record low against the dollar and fall in metal, IT, auto stocks today. There was sell off across the board as there were concerns that Europe may get into recession if Russia cuts natural gas supply to European industries which affected market sentiments.

   At the time of writing this report, US benchmark indices were also under pressure as investors expect aggressive rate hike considering high inflation and strong US employment report.

   Considering the above factors, Indian equities are again poised for weak opening on Wednesday. However, domestically factors like good IIP data and reduced retail inflation will also keep bulls in the hunt which can make markets volatile.

   In the medium term, Indian equities are expected to remain positive led by 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. 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 mosoon in timely manner in different parts of the nation is also crucial for the agriculture sector and farmers income dependent on it.

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 led by too many macroeconomic variables at the moment. We believe markets would give opportunities to enter quality stocks at reasonable valuation. Sectorally speaking, Financial sector (specially banking), Pharma, automobile, auto components, Infrastructure & food processing looks attractive at the current valuations.

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