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CPI inflation accelerates along with weak IIP numbers; Nifty ends up 1.5% for the week..

Equity benchmarks rebounded in last hour of trade on Friday, but ended flat supported by index heavyweights Reliance Industries, HDFC Bank and Infosys. The indices were up 1% for the week. On a weekly basis, both the Sensex and the Nifty recorded a significant rise of 585.09 points, or 1.84 per cent, and 150.60 points, or 1.51 per cent, respectively.

CPI Inflation (Consumer Price Inflation) accelerated to 3.36 percent in August from 2.6 percent in July led by higher food prices. Core inflation, a key matrix tracked by the RBI, also inched up to 4.5 percent from 3.9 percent in the previous month. The base effect coupled with the full impact of Pay Commission's house rent allowance revision would keep inflation firm in the foreseeable future. That leaves little room for the RBI to cut rates.

Rainfall has been deficient to the tune of 6 percent overall, but the bad news is that it has been hugely deficient in foodgrain producing states of UP, MP, Haryana and Punjab. This might stoke food inflation in the coming months, while normal rains should support softer prices of oilseeds and cash crops.



The GDP print for Q1 FY17 wasn't the only worrying signal and should not be dismissed as an aberration. The industrial production data, despite its inconsistency, points to a trend that was borne out by the GDP estimates as well. The weak IIP print for July at 1.2 percent compared to -0.2 percent in the previous month indicates that the economy is yet to shake off the fall-out of GST. Manufacturing continues to stagnate and saw a sequential decline in July.

IPOs update

Consumer electronics manufacturer Dixon Technologies and road BOT company Bharat Road Network are set to debut on exchanges on September 18.

The former has fixed issue price at Rs 1,766 per share and the later has set it at Rs 205 per share, the higher end of price band. Both IPOs closed on September 8.

The Rs 600-crore public issue of Dixon Technologies has received strong response from investors, showing a oversubscription of 117.83 times.

The issue received bids for over 28 crore equity shares against issue size of 23.76 lakh shares (excluding anchor investors' portion). The reserved portion of qualified institutional investors was oversubscribed 134.66 times while the portion set aside for retail investors saw a subscription of 10.60 times and non-institutional investors 345.61 times.

The public issue consisted of fresh issue of Rs 60 crore and an offer for sale of upto 30,53,675 equity shares (including anchor portion of 10,18,027 equity shares, through which it already raised Rs 179.78 crore).

Dixon will use issue proceeds for setting up a unit for manufacturing LED TVs at its Tirupati facility; enhancement of backward integration capabilities in the lighting products vertical at Dehradun facility and upgradation of the information technology infrastructure; for repayment of loans; and for general corporate purposes.

The Rs 600-crore IPO of Bharat Road Network, a SREI Infrastructure Finance company, was oversubscribed 1.81 times.

The issue received bids for 5.3 crore shares against the total issue size of 2.93 crore shares. The portion set aside for qualified institutional buyers (QIBs) saw oversubscription of 1.33 times, non-institutional investors 1.63 times and retail investors 5.69 times.

Bharat Road will utilise issue proceeds towards advancing of subordinate debt in form of interest free unsecured loan to its subsidiary (Solapur Tollways Private Limited) for part financing of the project; for acquisition of the subordinated debt given by SREI to three special purpose vehicles i.e. Solapur Tollways Private Limited, Kurukshetra Expressway Private Limited & Mahakaleshwar Tollways Private Limited; and general corporate purposes.

The Rs 400-crore IPO of Capacit'e Infraprojects, a construction firm focused on high-rise residential buildings, garnered a whopping 182 times subscription. The 11.4-million share offering received bids for 2.08 billion shares, worth around Rs 52,000 crore. We believe the high subscription was on the expectation of listing day gains.



Shares of the company were commanding a premium of over 50 per cent in the grey market.

The high net-worth individual (HNI) portion of the issue saw 638 times more demand than shares on offer. Investors in this category bet with leveraged money, in order to benefit from listing day gains. The retail portion of the issue was subscribed 16 times and institutional investor portion was subscribed 131 times.

The offering is likely to be priced at the top end of its price band of Rs 245 to Rs 250 per share. At Rs 250, the company is valued at 19 times its 2016-17 earnings, cheaper than listed peers such as Ahluwalia Contracts and PSP Projects. Capacit'e plans to use the IPO proceeds of Rs 400 crore to meet its working capital requirements and purchase of assets.

ICICI Lombard's Rs 5,700-crore IPO garnered 27% subscription on Friday, the first day of the issue. The 61.7-million share offering has so far received total bids for 16.5 million shares. On Thursday, ICICI Lombard had allotted 24.5 million shares to anchor investors. The allotment was made at Rs 661 per share aggregating to Rs 1,620 crore. Some of the anchor investors include Nomura, BlackRock, HSBC, HDFC Standard Life and SBI Mutual Fund. The price band for the IPO is Rs 651-Rs 661 per share. At the top-end of the price band, ICICI Lombard, a joint venture between private sector lender ICICI Bank and Canada's Fairfax Financial Holdings, will be valued at nearly Rs 30,000 crore. The entire IPO is offer for sale (OFS) by ICICI Bank and Fairfax, who are offloading their 7% and 12% stake respectively.

Sectors and Stocks

Shares of Wadia Group Companies are on roll with Britannia Industries and Bombay Burmah Trading Corporation hitting their respective record highs, while Bombay Dyeing & Manufacturing Company has appreciated over 100% in the past one month on the BSE.

Bombay Burmah Trading Corporation has gained 11% to Rs 1,188 on back of more than two-fold jump in trading volume. The company engaged in tea & coffee business has rallied 36% from Rs 871 on August 3, after it reported a good set of numbers for June quarter (Q1FY18). The company's net losses narrowed to Rs 1.69 crore in Q1FY18 from Rs 3.67 crore in a year ago quarter.

Bombay Dyeing, on the other hand, is locked in upper circuit of 5% at Rs 175 on the BSE. The stock has no sellers on the counter. A combined 1.86 million shares changed hands and there were pending buy orders for 1.36 million shares on BSE and NSE. The company's net loss had narrowed to Rs 33 crore in Q1FY18, against loss of Rs 44 crore in a year ago quarter. Its revenue for the Q1FY18 came in at Rs 623 crore, registering 31% Year on Year (YoY) increase. This was primarily driven by 137% YoY increase in revenues from real estate segment. Earlier, this month, it sold 48.457 acres of freehold land situated at district Pune, Maharashtra for Rs 13.57 crore.

Britannia Industries too hit a new high of Rs 4,380 on BSE in intra-day trade, extending its 12% gain since August 3, post Q1FY18 results. Recently, the company has also launched two new variants in biscuits category. The company entered into a Joint Venture with



Greece's cakes and confectionery major Chipita for developing, producing and selling ready-to-eat croissants.

Global Markets

Global stocks remained subdued after North Korea fired another missile over Japan into the Pacific Ocean on Friday, in a sign that Pyongyang remains defiant despite tightening international sanctions.

The launch happened early on Friday after US markets had been shut for the day. European shares were also trading lower for the day.

Crude oil

US West Texas Intermediate crude briefly broke above \$50 on Thursday, hitting a four-month high, and finished 1.2% higher at \$49.89, its highest close since July 31.

US crude is on track for a nearly 5% gain this week, buoyed by the return of refineries after Hurricane Harvey and stronger indications of demand. Brent is heading for a 2.6% gain and a third consecutive weekly rise. The Organization of the Petroleum Exporting Countries (OPEC) this week forecast higher demand for its oil in 2018 and pointed to signs of a tighter global market, indicating its production-cutting deal with non-member countries is helping to tackle a supply glut. That was followed by the IEA saying the global oil glut was shrinking thanks to strong European and U.S. demand, as well as production declines in OPEC and non-OPEC countries. While US Shale production continues to increase, it is unlikely to upset the demand – supply balance. Coupled with global oil demand of >1.2mb/d pa, we believe crude markets are set to rebalance in the medium term

Ajcon's view

We believe weakness was evident in Q1FY18 earnings. Nifty companies reported high single-digit aggregate sales growth in the June quarter, but margins have contracted sharply leading to a decline in profitability. There has to be a dramatic improvement in the coming quarters if the double-digit profit growth estimates for FY18 have to be achieved.

The investment cycle also has shown no signs of upturn as evident from the fall in capex to GDP ratio. While government spending has gathered pace in pockets like roads, railways etc., private sector is not investing enough. With a million Indians reaching the employment age every month, flagship projects like "Skill India", "Make in India" etc. need to start showing results. The only remaining engine of growth, namely consumption, can only power the economy so much. The services sector will not be able to create enough jobs, since tectonic shifts are taking place in sectors like information technology, an important contributor to India's consumption engine so far.

September has been good for markets as the Nifty moved above the psychological 10,000-mark despite sluggish economic growth in Q1FY18, driven by domestic liquidity. We recommend investors to be stock specific and consider companies with good earnings visibility at a decent valuation.

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