

Domestic bourses come under pressure ahead of the US Fed meet; shipbuilding stocks rally..

Index	Nov. 2, 2022	Nov. 1, 2022	Change	% change	Open	High	Low
Nifty	18,082.85	18,145.40	62.55	0.34	18,177.90	18,178.75	18,048.65
Sensex	60,906.09	61,121.35	215.26	0.35	61,156.89	61,209.65	60,794.39

- 1) On Wednesday, Indian benchmark indices ended in red led by expectations of rate hike of 75 bps by the US Fed which can affect global investor sentiments. The Nifty had witnessed a positive opening and touched an intraday high of 18,178.75. Finally, the Nifty gave up all the gains and ended the day down by 62.55 points or 0.34 percent to end at levels of 18,082.85. On the other hand, the Sensex was down by 215.26 points or 0.35 percent to end at levels of 60,906.09.
- 2) Among the Nifty 50 stocks, the major gainers were Hindalco, Sun Pharma, ITC, ONGC, Tech Mahindra up in the range of 0.80 percent to 1.59 percent. On the other hand, the major losers were Bharti Airtel, Apollo Hospitals, Maruti Suzuki India, Eicher Motors, Britannia down in the range of 1.45 percent to 3.05 percent.
- 3) The broader markets were also under pressure on Wednesday. The Nifty Midcap 100 index was down by 0.08 percent while the Nifty Smallcap 100 index was down by 0.12 percent.
- 4) In terms of sectoral indices performance, the major gainers were Nifty Media index up by 0.85 percent, Nifty Metal index up by 0.64 percent, Nifty Pharma index up by 0.48 percent. On the other hand, the major losers were Nifty PSU Bank index down by 0.80 percent, Nifty Realty index down by 0.80 percent, Nifty Auto index down by 0.74 percent.
- 5) On Wednesday, FIIs net bought equities worth Rs. 1,436.30 Crore. On the other hand, DIIs net sold equities worth Rs. 1,378.12 Crore. In the month of October 2022, FIIs have net sold equities worth Rs. 489.06 Crore and DIIs net bought equities worth Rs. 9,276.97 Crore.

Sectors and stocks

- 1) Shares of Karnataka Bank were up by 19.97 percent to Rs. 112.65 at the NSE on Wednesday led by strong Q2FY23 result. Commenting on Q2FY23 result of the Bank, Shri Mahabaleshwara M.S., Managing Director & CEO of the Bank, said, "Our all-time high Q2FY23 result represents the tipping point of the Bank's reinvigorated trajectory. Our disciplined execution and aggressive digitalisation, combined with our commitment to superior customer experience, is fortifying Karnataka Bank's reputation for delivering sustained profitable growth. The milestone of reaching Rs 411.47 crore of net profit earned during the quarter is the highest-ever quarterly profit earned by the Bank. Similarly, Rs 525.52 crores of half-yearly net profit is also a new high. In just six months of the current year, we have already surpassed the last year's total annual net profit of Rs 507.99 crores. The significant jump in net profit is mainly because of improved earnings, improved asset quality, healthy growth of advances, cost containment, and efficiency enhancement, among others. It is also noteworthy that our core fundamentals across all key performance parameters, such as NIM, PCR, ROI, ROA, and CASA Ratio, among others, have improved materially, signifying the arrival of a 'New KBL' as envisaged in our Transformation Journey 'KBL-VIKAAS'. I am sure that as we cross our 100th year next year, the Bank will continue to create new benchmarks of performance with its ever-growing customer base, user-friendly digital products and committed employees".
- 2) Shares of Mazagon Dock Shipbuilders ended up by 14.60 percent to Rs. 731.25 at the NSE on Wednesday. According to the Company's FY22 Annual Report, the Company's objective is to achieve 20% Post Tax return on equity in line with DPE's guidelines with improved order position and profitability. The Company has been



consistently making profit and distributing dividend for the past 17 years. Mazagon Dock Shipbuilders Limited is one of India's leading shipbuilding yards, having evolved from a single unit, small ship repair company to a multi-unit and multi-product company. Mazagon Dock Shipbuilders Limited, also known as "Ship Builders to the Nation," is one of India's leading Defence public sector undertaking shipyards, operating under the Ministry of Defence. India's only shipyard to have built destroyers and conventional submarines for the Indian Navy; one of the initial shipyards in India to manufacture Corvettes (Veer & Khukri Class) in India.

Over the years, the Company has grown to become the premier Warship building yard in India. By investing in cuttingedge technologies and sophistication of the product line, the Company has institutionalised shipbuilding in the nation and generated opportunities for increasing production capacity to serve both Indian and overseas customers. Vice Admiral Narayana Prasadji retired from Indian Navy and currently CMD at Mazagon Dock in the Company's Q1FY23 analyst concall conducted earlier said "As you are aware Mazagon Dock Shipbuilders Limited is the oldest shipyard in India with the inception in 1774, incorporated in 1934, and taken over by the Government of India in 1960. MDL is the only shipyard in India to build Destroyers a class of ship which is about 7000 tons of displacement and two different types of Submarines for the Indian Navy and is also one of the unique shipyards in the world with such diverse range of products such as Destroyers, Frigates, Conventional Submarines, Corvettes, Missile Vessels, Offshore Patrol Vessels, etc. It is a listed public limited company incorporated and governed under the Companies Act. MDL is also a CPSE under the administrative control of Ministry of Defence having total workforce of approximately 10,000 person. " "From the time it was taken over by the Government of India in 1960 MDL has built around 800 vessels including 26 captive warships, 6 submarines, and 631 commercial vessels, 243 of which were exported to Mexico, France, UK, Iran, Yemen, Mozambique, etc. Besides MDL has also built 63 offshore platforms, three process platforms, and two jack up rigs.", he said.

He further added "For the financial year 2022-2023, the value of order book that we have, it is about 43,343 Crores which essentially comprises of a 4 in number project 15 Bravo a missile guided destroyer, 4 in number project 17 Alpha Stealth Frigate and six Scorpene submarine of which four already delivered similarly one destroyer is already delivered and the second one will be end of this month or mid of next month as I talked before. In a short time horizon, we have almost an order book about 35000 Crores which is available, which essentially majorly constitutes an RFP which is going to come out for construction of 8 in number New Generation Corvettes which is pegged at about 33000 Crores."

- 3) Shares of Cochin Shipyard Limited (CSL) ended up by 5.75 percent to Rs. 582 at the NSE on Wednesday. In the last five decades, the Company has emerged as a forerunner in the Indian shipbuilding & ship repair industry and also a wellknown player on the global shipbuilding front. The Company has built and delivered the prestigious Indigenous Aircraft Carrier for the Indian Navy and has built & repaired some of the largest ships in India. Over the years, CSL has successfully responded to fluctuations in the shipbuilding requirements of the markets and has evolved from building bulk carriers to smaller and more technically sophisticated vessels such as Platform Supply Vessels (PSV) and Anchor Handling Tug Supply Vessels (AHTS).

CSL has worked with several leading technology firms in the industry including Rolls Royce Marine (Norway), GTT (France), Vard Group (Norway) etc. CSL has exported 47 vessels to some of the most demanding clients in Norway, Netherlands, Cyprus, USA, Germany, Demark/Bahamas, Saudi Arabia and UAE. This has added to its credibility in the international market. The Company's key shipbuilding clients on the domestic front include the Indian Navy, the Indian Cost Guard, Ministry of Home Affairs, the Shipping Corporation of India Limited, Lakshadweep Government, various Port Trusts, Inland Waterways Authority of India (IWAI), A&N Administration, Directorate General of Lighthouses and Lightships (DGLL) and Jindal Steel Works (JSW) group. CSL has also undertaken repairs of various types of vessels including upgradation of ships of the oil exploration industry as well as periodical maintenance, repairs and life extension of ships. CSL is presently one of the best performing shipyards in India.

The Company is biggest beneficiary of Atmanirbhar Bharat Abhiyan, one of India's leading public – sector shipyards catering to both commercial clients as well as clients engaged in the defence sector with a multitude of offerings for a broad range of vessels across life cycles, order book with a strong customer base of reputable ship owners and marquee clients, competitive cost structure and efficient operations, building a strong order book by bidding vigorously for projects to be awarded by Indian PSUs and defence sector pursuant to "Make in India" initiative.

Key recent developments

- 1) Oil prices rose more than 1% on Wednesday after industry data showed a surprise drop in U.S. crude inventories, suggesting demand is holding up despite steep interest rate hikes dampening global growth. Brent crude futures rose \$1.13, or 1.2%, to \$95.78 a barrel at 0441 GMT, while U.S. West Texas Intermediate (WTI) crude futures rose



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\$1.26, or 1.4%, to \$89.63 a barrel. Both benchmark contracts rose about 2% in the previous session on a weaker U.S. dollar and after an unverified note trending on social media said the Chinese government was going to consider ways to relax COVID rules from March 2023, potentially boosting demand in the world's second-largest oil user. (Source: Reuters)

Ajcon Global's observations and view..

Short term view:

- 1) On Wednesday, Indian benchmark indices came under pressure as globally investors expect a rate hike of 75bps by US Fed after good US employment report. There are other headwinds like US dollar appreciation against the Indian rupee, rising global bond yields, escalation of war between Russia and Ukraine and recessionary concerns in US and Europe.
- 2) At the time of writing this report, both US benchmark and European benchmark indices were under pressure.
- 3) Going ahead, investors will continue to watch Q2FY23 earnings season and management commentary of the Companies for the future outlook. Till date, majority of the Companies have delivered good set of Q2FY23 results considering global concerns. Street participants will also keep an eye on rupee movement against the US Dollar and global bond yields, crude oil price movement, developments related to ongoing war between Russia and Ukraine and its financial implications on the western world.
- 4) We reiterate that the domestic economy is strongly placed as compared to the global peers which will attract investors. Indian benchmark indices are expected to perform well considering robust GST collections, strong direct tax collections, good manufacturing PMI data and good economic activity amidst macroeconomic challenges. We expect stock specific action in the midcaps and smallcaps space. At the moment sectors like Auto and auto ancillaries, Banking, NBFCs, Capital Goods, Railways, select companies in the infrastructure space and new age business segment can be considered.



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