

PSU Banking stocks continue to rally on expectations of strong Q2FY23 result; Indian equities remain upbeat..

Index	Oct. 18, 2022	Oct. 17, 2022	Change	% change	Open	High	Low
Nifty	17,486.95	17,311.80	175.15	1.01	17,438.75	17,527.80	17,434.05
Sensex	58,960.60	58,410.98	549.62	0.94	58,744.13	59,143.66	58,744.13

- 1) On Tuesday, Indian benchmark indices were buoyant and ended in green. The Nifty had witnessed a gap up opening and later touched an intraday high of 17,527.80. Finally, the Nifty ended the day up by 175.15 points or 1.01 percent to end at levels of 17,486.95. On the other hand, the Sensex was up by 549.62 points or 0.94 percent to end at levels of 58,960.60.
- 2) Among the Nifty 50 stocks, the major gainers were State Bank of India, Adani Ports, Eicher Motors, ITC, SBI Life, up in the range of 2.54 percent to 3.45 percent. On the other hand, the major losers were NTPC, HDFC, Sun Pharma, Britannia Industries, Tech Mahindra down in the range of 0.28 percent to 0.86 percent.
- 3) The broader markets were upbeat on Tuesday. The Nifty Midcap 100 index was up by 1.10 percent while the Nifty Smallcap 100 index was up by 0.76 percent.
- 4) In terms of sectoral indices performance, the major gainers were Nifty PSU Bank index up by 3.97 percent, Nifty Media index up by 2.14 percent, Nifty Realty index up by 1.72 percent, Nifty Auto index up by 1.35 percent, Nifty FMCG index up by 1.23 percent, Nifty Oil & Gas index up by 1.12 percent.
- 5) On Tuesday, FIIs net sold equities worth Rs. 153.40 Crore. On the other hand, DIIs net bought equities worth Rs. 2,084.71 Crore. Month till date, FIIs have net sold equities worth Rs. 10,503.69 Crore and DIIs net bought equities worth Rs. 11,722 Crore.

Sectors and stocks

- 1) Shares of Gujarat Alkalies and Chemicals Limited (GACL) ended up by 6.36 percent to Rs. 930 at the NSE on Tuesday. The Company has recently completed various new Projects for producing new chemicals and expanding the capacities of current product lines. A joint venture company with National Aluminium Company Limited (NALCO) has also completed installation of 800 TPD Caustic Soda Plant, integrated with 130 MW Captive Co-generation Plant. The Company has from time to time informed the Stock Exchanges on updates on commissioning of 105,000 TPA Chloromethanes Project at Dahej, 10,000 TPA Hydrazine Hydrate Project at Dahej, 173,250 TPA Caustic Soda Expansion at Dahej and 267,000 TPA New Caustic Soda Plant with 130 MW Thermal Power Plant at Dahej, put-up as a joint venture between GAOL and NALCO. With the implementation of the above projects, the Company is proud to have taken major step towards "Atmanirbhar Bharat".
- 2) Shares of Indian Bank ended up by 5.43 percent to Rs. 215.55 at the NSE on Tuesday. In Q1FY23, the Bank had witnessed good growth in operating profit growth on QoQ basis. In Q1FY23, the Bank's treasury performance was good as compared to other peer PSU Banks. There were other positives like improvement on asset quality, decent cash recoveries, well provided for Stressed Book (PCR-including TWO at 88.08%), strong capital adequacy, no major stress estimated, overall collection efficiency of 94 percent, strong RoE and RoA, 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 had given guidance of 10 percent growth in advances for FY23. In Q1FY23, the Bank had a good quality Corporate book with AAA, AA, A rated accounting for 71 percent of the total rated Standard Domestic Credit Exposure as on Q1FY23. In addition, 98 percent of exposure to NBFCs as on



Q1FY23 is rated A and above. Credit cost of above 2 percent and is a cause for concern and may come down with less requirement of provisioning in the future. The Bank's management had provided an optimistic scenario for the future with good progress on digital front and new initiatives. Q2FY23 results are expected to be strong.

- 3) Shares of Canara Bank ended up by 5.29 percent to Rs. 249.95 at the NSE on Tuesday ahead of its Q2FY23 results on Oct. 20, 2022. In Q1FY23, the Bank has witnessed good performance on sequential basis. After a long time, in Q1FY23, Corporate credit had witnessed good growth on QoQ basis. The Bank's treasury performance was also good considering the macroeconomic concerns which has led to hardening of bond yields. The Bank's GNPA and NNPA had declined in absolute and percentage terms in Q1FY23, adequate provisioning had made its Balance sheet strong, there was sequential decline in credit cost and it is well capitalized too to meet credit growth requirements. There are no major legacy issues with high visibility on recoveries in coming quarters. We like the fact that the Bank's Outstanding loan book above Rs. 25 Crore worth Rs. 1,93,935 Crore (78% of total) in Q1FY23 is rated A and above. In addition, the Bank's Standard NBFC Domestic Exposure worth Rs. 1,21,168 Crore (98% of Standard NBFC Domestic Exposure) is rated A & above also provides comfort.
- 4) Shares of Mishra Dhatu Nigam Limited ended up by 4.69 percent to Rs. 242 at the NSE on Tuesday. The Company has been supplying strategic materials to the nation for last four decades, serving strategic sectors of nation such as Defence, Energy and Aerospace with its wide range of superalloys and special steel. In the 'strategic materials' (superalloys) category, the Company leverages its distinct manufacturing facilities, homegrown value chain, market share, and long-standing client relationships as competitive advantages. The Company's growth is accelerated by a number of government measures, including the encouragement of indigenisation, new offset policies for Transfer of Technology, improved FDI, and the most recent patent regulations. The Company's R&D division concentrates on technological research, new product development, and indigenisation as part of 'Atmanirbhar Bharat'. For critical applications, the Company has locally sourced a number of products over the past five years, including the high-pressure compressor disc for the Jaguar aircraft, the super alloy blade blanks for the Adour engine, the composite armouring for the MI 17 helicopter, the MIDHANI KAVACH for bulletproof jackets, the crucial Steam Generator (SG) tubes for the energy sector, and many others.

Ajcon Global's observations and view..

Short term view:

- a) On Tuesday, Indian equities continued to be buoyant. As expected, rally was led by PSU banking stocks. Improved demand outlook in the festive season as indicated by good sales reported in the consumer durables, apparels segment and monthly auto sales numbers announced by the companies have led to the recent rally in Indian equities.
- b) However, profit booking can come in at higher levels as there are headwinds like subdued IIP data and CPI inflation data. There are other headwinds like rising bond yields, concerns of US dollar appreciation against the Indian rupee, weak global cues like increasing COVID-19 cases in China, escalation of war between Russia and Ukraine, recent US Fed comments which indicate a hawkish stance going forward and recessionary concerns in US and Europe.
- c) At the time of writing this report, US benchmark indices were trading in green. On the other hand, European equities too were trading in the positive terrain.
- d) 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.
- e) 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 strong direct tax collections, robust GST collections 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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