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YOUR FRIENDLY FINANCIAL ADVISORS

Market wrap **July 30, 2021**

Benchmark indices come under pressure; midcaps and smallcaps rally..

1) The S&P BSE Sensex was down by 376 points in intra-day trade and fell by 66 points, or 0.13 per cent, lower at 52,587 levels dragged by Bajaj Finance (down 2.5 per cent), Bajaj Finance, SBI, Tata Steel, Titan, Asian Paints, Axis Bank, IndusInd Bank, and Nestle India.

2) Nifty was down by 15 points or 0.1 percent to end at levels of 15,763. The broader markets, however, outperformed. The BSE MidCap and SmallCap indices rallied by 0.52 per cent an 0.69 per cent, respectively.

3) In terms, of sectoral performance, fertilizer stocks were in green as Chinese firms were asked to suspend exports in order to ensure domestic supply.

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	52,586.84	52,653.07	**66.23**	**0.13**	52,792.36	**52,910.23**	52,533.91
Nifty	15,763.05	15,778.45	**15.40**	**0.10**	15,800.60	**15,862.80**	15,744.85

Sectors and stocks

1) Shares of Tech Mahindra rallied by 8.5 per cent to Rs. 1,224, also its new high, on the BSE in the intra-day trade on Friday after the IT major reported a 39.17 per cent year-on-year (YoY) jump in its consolidated net profit at Rs. 1,353 crore for the April-June period of financial year 2021-22 (Q1FY22) as against Rs. 972 crore profit posted in the corresponding quarter last year. On quarter-on-quarter (QoQ) basis, the profit rose by 25.13 per cent. The consolidated revenue from operations in Q1FY22 grew 11.98 per cent YoY at Rs. 10,198 crore. The company had posted revenue of Rs. 9,106 crore in the same period a year ago. Sequentially, the figure rose by 4.8 per cent from Rs. 9,730 crore posted in the preceding quarter, led mainly by 4.5 per cent QoQ growth in Enterprise revenues and 2.9 per cent QoQ growth in communications. The dollar revenue for the quarter was at $1,384 million, up 14.6 per cent YoY and 4.1 per cent QoQ. In constant currency terms, the revenue rose by 3.9 per cent QoQ. Order book, meanwhile, increased from $290 million in Q1FY21 to $815 million in Q1FY22.

2) Shares of Sun Pharmaceuticals Industries hit an over four-year high as it rallied by 9 per cent to Rs. 767.50 on the BSE in intra-day trade on Friday after the company reported strong results for the June quarter (Q1FY22), with adjusted net profit up 73 per cent year-on-year (YoY) at Rs. 1,979 crore, mainly due to robust operational performance. The reported net profit for Q1FY22 was at Rs. 1,444 crore. The stock of the drugmaker was trading at its highest level since October 2016. It recorded its sharpest intra-day rally in the past 15 months. The company reported better-than-expected consolidated sales from operations at Rs. 9,669 crore, a growth of 29 per cent over Q1 last year and 14 per cent over Q4 last year. The management said the company witnessed a strong Q1, driven by a combination of robust core business growth, low base and some sale of Covid products. The management is enthused by the all-around growth across all businesses compared to Q4 last year. “We continue to focus on growing our overall business and simultaneously strengthening our global specialty portfolio. The recent in-licensing of Winlevi for the US and Canada is a step forward in this direction,” Dilip Shanghvi, Managing Director of Sun Pharma said.

3) Shares of SRF rallied by 8 per cent to hit a new high of Rs. 8,535.95on the BSE in intra-day trade on Friday, rising 11 per cent in the past two trading days, after the company reported a strong operational performance for the quarter ended June 2021 (Q1FY22). A sharp up move in stock prices pushed market capitalisation (m-cap) of the company past Rs. 50,000 crore-mark for the first time today. SRF is a chemical based multi-business entity engaged in the manufacturing of industrial and specialty intermediates. In Q1FY22, SRF's consolidated net profit more-than-doubled at Rs 395.3 crore against Rs 176.9 crore in Q1FY21. The company reported a 75 per cent year-on-year (YoY) growth in revenue at Rs 2,699 crore compared with Rs 1,545 crore in the corresponding quarter of the previous fiscal. Ebitda margin improved 50 basis points (bps) to 24.6 per cent. The company said during the quarter, the specialty chemicals business which accounts for 42 per cent of total revenue, performed well owing to higher sales from exports and domestic markets. The fluorochemicals business witnessed higher sales volumes in the refrigerants and the blends segments, with better sales realisations, especially from the export markets. In Q1FY22, the technical textiles business reported operating profit of Rs. 134 crore as against a loss of Rs. 14 crore in

Q1FY21. Re-structuring of margin profile with long-term customers has contributed to the overall performance of the technical textiles business. In addition, higher sales volumes from the nylon tyre cord fabrics, belting fabrics and polyester industrial yarn segments augured well for the business, the company said.

Key recent major developments..

1) The output of eight core sectors grew 8.9 per cent in June, mainly due to a low base effect and uptick in production of natural gas, steel, coal and electricity, official data showed on Friday. The eight infrastructure sectors of coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity had contracted by 12.4 per cent in June 2020 due to the lockdown restrictions imposed to control the spread of coronavirus infections. According to the commerce and industry ministry data, production of coal, natural gas, refinery products, steel, cement and electricity jumped by 7.4 per cent, 20.6 per cent, 2.4 per cent, 25 per cent, 4.3 per cent and 7.2 per cent, respectively, in June 2021, as against (-) 15.5 per cent, (-) 12 per cent, (-) 8.9 per cent, (-) 23.2 per cent, (-) 6.8 per cent and (-) 10 per cent in the same month last year. Crude oil output contracted by 1.8 per cent during the month under review as against a negative growth of 6 per cent in June 2020. Fertiliser segment recorded a growth of 2 per cent in June. During April-June period this fiscal, the eight sectors grew by 25.3 per cent against a contraction of 23.8 per cent in the same period last year.

2) Non-food bank credit growth stood at 5.9 per cent in June compared to 6 per cent in the year-ago period, according to RBI data released on Friday. Credit to agriculture and allied activities continued to perform well, registering an accelerated growth of 11.4 per cent in the reporting month compared to 2.4 per cent in the same month of the previous year, as per RBI data on Sectoral Deployment of Bank Credit June 2021. rowth in credit to micro and small industries accelerated to 6.4 per cent in June whereas it was a contraction of 2.9 per cent a year ago. Credit to large industries contracted 3.4 per cent in June 2021. In the year-ago period, there was a growth of 3.6 per cent. Growth in loans to the services sector decelerated to 2.9 per cent in the reporting month from 10.7 per cent in June 2020, mainly due to contraction/deceleration in credit growth to commercial real estate, NBFCs and tourism, hotels and restaurants. "However, credit to trade segment continued to perform well, registering an accelerated growth of 11.1 per cent in June 2021 as compared to 8.1 per cent a year ago," the data showed. Personal loans registered an accelerated growth of 11.9 per cent in June 2021 as compared to 10.4 per cent a year ago, primarily due to accelerated growth in loans against gold jewellery and vehicle loans, the central bank data showed.

3) ArcelorMittal SA boosted its guidance for global steel demand after a record-breaking price rally yielded the company's best quarter since 2008. Steel has surged over the past 12 months, joining a wider commodities boom as producers struggled to meet an unexpectedly strong rebound in demand from the construction and manufacturing industries. After a decade of plant shutdowns and job cuts in Europe's steel industry, demand from the infrastructure and renewable energy sectors is creating optimism about the future, said ArcelorMittal Chief Executive Officer Aditya Mittal. "Looking forward, we see the demand outlook further improving into the second half and have therefore upgraded our steel consumption forecasts for the year," Mittal said Thursday in a statement. The biggest steelmaker outside of China now expects 2021 steel demand -- a key barometer of economic growth -- to increase by 7.5% to 8.5% from last year. In May, the company projected demand to be at or above the upper end of its initial 4.5% to 5.5% forecast, following a contraction in 2020.

4) The Cabinet has approved changes to the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act that will allow depositors to withdraw up to Rs. 5 lakh in 90 days. The announcement will cover 98.3 per cent of all deposit accounts and 50.9 per cent of the deposit value, Finance Minister Nirmala Sitharaman said. This compares with global deposit insurance coverage of 80 per cent for all accounts, and 20-30 per cent coverage by deposit value.

5) The International Monetary Fund (IMF) has sharply scaled down India's economic growth projection by 300 basis points to 9.5 per cent for the current financial year from 12.5 per cent estimated earlier in April. IMF said the downward revision is owing to "lack of access to vaccines" and possibility of renewed waves of coronavirus. "Growth prospects in India have been downgraded following the severe second Covid wave during March–May and expected slow recovery in confidence from that setback," IMF said in the latest edition of its flagship World Economic Outlook (WEO) report, released on Tuesday.

6) Earlier, The Hon. Supreme Court (SC) dismissed the application of telecom companies that sought recomputation Adjusted Gross Revenue (AGR) dues demanded by the Department of Telecommunication (DoT). The rejection of telcos' pleas seeking re-calculation of AGR related dues does not bode well for a recovery in the sector and is likely to protract the same given the backdrop of high debt levels and low tariffs, Icra said on Friday. Icra said to meet high commitment towards debt repayments and the DoT payment obligations, the industry participants will need to explore avenues of fundraising or asset monetisation, besides concentrating on improving the ARPU levels, substantially.

7) The Union cabinet chaired by Prime Minister Narendra Modi on last Thursday approved the Rs. 6,322 crore production-linked Incentive (PLI) scheme for specialty steel sector. The decision is part of India's playbook of creating global manufacturing champions in India and bring the country at par with global steel making majors such as South Korea and Japan. "The duration of the scheme will be five years from 2023-24 to 2027-28.With a budgetary outlay of Rs. 6,322 crore, the scheme is expected to bring in investment of approximately Rs. 40,000 crore and capacity addition of 25 MT for speciality steel. The scheme will give employment to about 5,25,000 people of which 68,000 will be direct employment," the government said in a statement. "Speciality steel has been chosen as the target segment because out of the production of 102 million tonnes (MT) steel in India in 2020-21, only 18 MT value added steel/speciality steel was produced in the country. Apart from this out of 6.7 million tonnes of imports in the same year, approximately 4 million tonnes import was of specialty steel alone resulting in forex outgo of approximately Rs. 30,000 crore," the statement added. "It is expected that the speciality steel production will become 42 MT by the end of 2026-27. This will ensure that approximately 2.5 lakh crore worth of speciality steel will be produced and consumed in the country which would otherwise have been imported. Similarly, the export of specialty steel will become around 5.5 million tonnes as against the current 1.7 MT of specialty steel getting forex of Rs. 33,000 crore," the statement added.

8) Earlier, Global rating agency Standard and Poor's affirmed India's sovereign rating at "BBB-" and maintained a stable outlook on the gradual recovery in the economy. India's recovery will gain pace through the second half of fiscal 2022 and into the following year, helping stabilise the country's overall credit profile, S&P said in a statement. But it warned that the country's fiscal settings are weak, and deficits will remain elevated ahead even as the government undertakes some consolidation. The country's strong external settings help buffer the risks associated with the government's high deficits and debt stock. India's economy is gradually recovering from a deep contraction in fiscal 2021 (year ended March 31, 2021) and a subsequent severe second wave of Covid-19. "We expect real GDP growth to rebound to 9.5% in fiscal 2022 on continued normalization of activity and progressively higher vaccination rates," the rating agency said.

9) The Consumer Price Index (CPI) or retail inflation slightly eased to 6.26 per cent in June which was above RBI's tolerance level. The retail inflation during the month of May stood at 6.30 per cent.

Global markets

1) Globally, equities were under pressure led by regulatory actions in China and spread of new variants of COVID-19. The pan-European STOXX 600 index was down by 0.5 per cent while Dow Jones Futures was down by 100 points, or 0.3 per cent, lower. Nasdaq Future, meanwhile, tumbled 1.1 per cent and those linked to S&P500 declined 0.6 per cent. Earlier in Asia, Nikkei fell by 2 per cent, and Kospi and Hang Seng declined by over 1 per cent each.

2) Eurozone inflation in July rose to 2.2% YoY above European Central Bank's target.

3) Earlier, US Federal Reserve Chair Jerome Powell kept interest rates unchanged and said the US central bank wishes to see "some strong job numbers" in coming months before tapering the bond buying programme.

4) US had witnessed a big spike in inflation and registered highest spike in 13 years (since August 2008) to 5.4 percent. Earlier, US added a solid 850,000 jobs as economy extends its gains. The report from the Labor Department was the latest sign that the reopening of the economy is propelling a powerful rebound from the pandemic recession. Restaurant traffic across the country is nearly back to pre-pandemic levels, and more people are shopping, traveling and attending sports and entertainment events. The number of people flying each day has regained about 80 percent of its pre-COVID-19 levels.

Ajcon Global's observations and view

1) Indian benchmark indices came under pressure led by regulatory action in China. There are concerns like rise in COVID-19 cases in various countries due to spread of new variants of COVID-19. In addition, there are inflation concerns across the globe which act as headwind.

2) Bulls will remain in hunt due to factors like good start to Q1FY22 earnings season with most of the Companies reporting good performance, strong management commentary in Q1FY22 by majority of the Companies, better than expected China's economic data, positive US employment data and other positive US economic indicators, rally in commodities, economic activity picking up at fast pace after unlock in major states, by significant decline of COVID-19 cases in the second wave with recoveries surpassing new cases by a big margin on a daily basis, decent vaccination drive are supporting sentiments. In addition to liquidity provided by FPIs in equities, there is good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis.

3) Investors are also hopeful that vaccine shortages will be resolved in some months as vaccine manufacturers' ramp up supplies. The entry of new vaccines is also expected to ease the supply crunch. India has given the first dose covid antidote to around 45.60 crores beneficiaries in the nationwide vaccination.

4) It is advisable for investors to look out for stock specific opportunities and stay away from names which are suddenly rallying for no reason. We believe intermediate corrections will keep markets healthy. Investors will track upcoming RBI's MPC meeting, monthly auto sales numbers, PMI numbers, global cues especially on spread of COVID-19 variants and key developments in China, movement in crude oil prices and metals, ongoing Q1FY22 earnings season, ongoing monsoon, vaccination drive and economic activity and COVID-19 cases in India.

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