

K STREET

RULE THE MARKET

ISSUE: 126



Budget FY22 – A tight rope walk

Finally the budget the day has come and everyone is on their toes since this is the first union budget since the pandemic. The nervousness in markets is clearly visible. In the run up to the event, India's broader markets have corrected over 4% from their life highs due to a combination of global factors and also due to profit booking ahead of key event. After hitting the life highs of 50000 and 14700 for the first time on Jan 21, both Sensex and Nifty, have breached all major supports. Why not? Expectations are running high and the government has on its part is keeping the expectations high by making promises like 'once in a century' budget and so on. It is a tight rope walk for the Finance Minister and her team to achieve sustainable recovery, achieve growth and come up with an all-inclusive budget without neglecting any segment.

Government should announce realistic fiscal deficit target for FY22 with a need for fiscal deficit range rather than fixed fiscal deficit range. The pre-pandemic target of achieving a fiscal deficit target of 3-3.1% of GDP by FY23 should be revisited or abandoned altogether given the current macro environment. Government should be flexible in relaxing the FY22E fiscal deficit target of 3.3% and should budget for a fiscal deficit of around 6% to 6.5%, which is an improvement over estimated FY21E fiscal deficit of 7% to 9% levels. Government should adopt a more realistic approach in accounting for revenue targets. The government should announce an expansionary budget which is higher than trend with focus on infrastructure, consumption and welfare.

It is estimated that for FY22E total government expenditure would increase to Rs. 32-33 Tn from Rs. 30.4 Tn as per FY21E budget estimates. Of this, Revenue expenditure (accounts for 85% of total expenditure) is estimated to go up by 6%. Government does not have much room to tweak on this side as most of it is towards welfare schemes. Government should focus more on the capital expenditure as this is what entails more productive spending and helps in kick starting the demand recovery. Government's capital expenditure is expected to be around Rs. 5 Tn vs FY21E budget estimates of Rs. 4.1 Tn without accounting for Rs. 250 Bn announced towards Atma Nirbhar relief measures.

Given the abrupt contraction in economy, tax receipts are expected to be at risk of moderation. FY22E receipts are expected to see a YoY increase due to delay in accrual of some budgeted receipts in FY21E including spectrum auction and disinvestments due to the adverse market conditions. Tax revenues are expected to see a moderate increase or even moderation in FY22E due to the need for announcing various tax incentives for households and small corporate to encourage spending and revive private sector consumption, which has been lagging for the past 2-3 years. There is limited room for increase in non-tax receipts. Dividends from RBI, public sector banks (PSBs) and PSUs, which account for around 40% of total non-tax receipts are to be adversely affected by RBI directive against transfer of dividends by banks and expectations of lower dividends from RBI. To sum it up, stakes are pretty high for this budget with high expectations. Even if government falters on one aspect, markets might see a deep cut.

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NEWS

AUTO

- **Tata Motors:** The auto-maker is expected to report double-digit growth in consolidated revenue and operating profit for the December quarter, led by improved sales of Jaguar Land Rover in major markets like China. The street estimates the carmaker is likely to report a 92% year-on-year (YoY) increase in net profit to Rs. 2,957.2 Cr as a result of a 20% jump in net sales to Rs. 86,364.3 Cr.
- **Maruti Suzuki Q3FY21:** Reported a 24% rise in quarterly profit, beating analysts' estimates, aided by strong demand for its vehicles in the festival season. Net profit rose to Rs. 1,941.4 Cr during the December quarter from Rs. 1,564.8 Cr a year ago. That compared with the Rs. 1,859.9 Cr consensus estimate of analysts surveyed by Bloomberg.
- **Auto stocks:** The automobile industry in India is going through a long-term structural slowdown as the compound annual growth rate (CAGR) across all major vehicle segments has witnessed a decline over the past three decades, according to Siam.
- **TVS Motor Q3FY21:** Net profit up 88.3% at Rs. 283.65 Cr Vs. Rs. 150.61 Cr (YoY) and Revenue up 27.9% at Rs. 6094.91 Cr Vs. Rs. 4765.99 Cr (YoY).

BANKING

- **IDBI Bank Q3FY21:** Net profit at Rs. 378.42 Cr Vs. loss of Rs. -5763.04 Cr (YoY) and NII up 18.1% at Rs. 1809.52 Cr Vs. Rs. 1532.36 Cr (YoY). Gross NPA at 23.52% Vs. 25.08% (QoQ) Net NPA at 1.94% Vs. 2.67% (QoQ).
- **AU Small Finance Bank Q3FY21:** Net profit at Rs. 479.02 Cr Vs. Rs. 190.19 Cr (YoY) and NII up 24.9% at Rs. 633.12 Cr Vs. Rs. 506.83 Cr (YoY). Gross NPA at 0.99% Vs. 1.54% (QoQ) Net NPA at 0.24% Vs. 0.45% (QoQ).
- **RBL Bank Q3FY21:** Net profit up 110.2% at Rs. 147.06 Cr Vs. Rs. 69.95 Cr (YoY) and NII down 1.6% at Rs. 908.15 Cr Vs. Rs. 922.65 Cr (YoY). Gross NPA at 1.84% Vs. 3.34% (QoQ) Net NPA at 0.71% Vs. 1.38% (QoQ).

CONSUMPTION

- **Demand still uncertain, difficult to predict normalcy:** Liquor giant United Spirits - the country's biggest liquor maker, said demand remains uncertain due to subdued socializing, making it difficult to give guidance on performance. "Socializing, which is essential to our category, remains subdued. Socializing will not happen in a congested way till people are comfortable about the vaccine and know that there is no risk. We will see continued recovery, but not full recovery as far as socializing in bars, restaurants, and big weddings are concerned. It would be unwise to give short-term guidance because we are just not sure, given the dynamic nature of this environment", Anand Kripalu, CEO of Diageo-controlled USL, said in a conference call after the company announced third-quarter results.
- **ITC grows frozen snack business three times during Covid:** The company's business head for frozen and fresh food Ashu Phakey said the frozen food market got a huge boost due to the pandemic, growing by 40-50% on the back of a higher number of trials. The market was earlier growing at 10-15%. He said in e-commerce while the category doubled, it grew by five times for ITC. The company has added 10 new products during this period.
- **Hindustan Unilever goes for a 2.5% price hike on skin cleansing products:** HUL is raising prices of its skin cleansing products by 2.5%, to ward off inflationary pressures, said a senior company official. This would be the second price hike by the company in the cleansing products after it had increased 2.5% in the December 2020 quarter. HUL is a market leader in skin cleansing products and has popular brands such as Lux and Lifebuoy in the segment. The company is seeing significant inflation into the select categories as skin cleaning and tea.

INFRA

- **Karda Constructions:** Lotus Global Investment Fund bought 3,25,000 shares of the company at an average price of Rs. 111 in a bulk deal on NSE.

IT

- **Coforge Ltd Q3FY21:** Net profit down 1.1% at Rs. 122 Cr Vs. Rs. 123.3 Cr (YoY) and Revenue up 10.9% at Rs. 1190.6 Cr Vs. Rs. 1073.4 Cr (YoY).
- **Persistent Systems Q3FY21:** Net profit up 37.5% at Rs. 120.9 Cr Vs. Rs. 87.9 Cr (YoY) and Revenue up 16.5% at Rs. 1075.3 Cr Vs. Rs. 922.7 Cr (YoY).
- **Route Mobile Ltd Q3FY21:** Net profit up 102.4% at Rs. 37.99 Cr Vs. Rs. 18.77 Cr (YoY) and Revenue up 45.7% at Rs. 384.84 Cr Vs. Rs. 264.16 Cr (YoY).

METAL

- **Hindustan Zinc:** With a marketing plan for every new minor metal being chalked out, Hindustan Zinc, the country's only integrated zinc producer, will have its cadmium metal unit up and running by the first quarter of FY22.
- **NALCO:** The state-owned entity will buy back Rs. 749 Cr worth of shares, DIPAM secretary Tuhin Kanta Pandey said on Thursday. The government currently holds a 51.50% stake in the company and would tender shares proportionate to its holding.

NBFC

- **Shriram Transport Finance Company Q3FY21:** Net profit down 16.8% at Rs. 733.97 Cr Vs. Rs. 882.19 Cr (YoY) and Revenue up 5.2% at Rs. 4438.37 Cr Vs. Rs. 4218.87 Cr (YoY).
- **Mahindra & Mahindra Financial Services Q3FY21:** Net loss of Rs. -226.2 Cr Vs. profit of Rs. 471.65 Cr (YoY) and Revenue down 2.9% at Rs. 2957.96 Cr Vs. Rs. 3046.1 Cr (YoY).

PHARMA & HEALTHCARE

- **Larus Lab Ltd Q3FY21:** Revenue came at Rs. 1,288.4 Cr, grew by a whopping 76.6% YoY. (Rs. 729.6 Cr in Q3FY20). EBITDA came at Rs. 426 Cr, grew by 188% YoY. (Rs. 148.2 Cr in Q3FY20). The company reported a net profit of Rs. 272.8 Cr, increased by 2.7x YoY (Rs. 73.4 Cr in Q3FY20).

FORTHCOMING EVENTS

COMPANY NAME	EVENT	EX-DATE
Castrol India Ltd	Financial Results/Dividend	01-Feb-21
Ajanta Pharma Ltd	Financial Results	02-Feb-21
Escorts Ltd	Financial Results/Other business matters	02-Feb-21
Housing Development Finance Corporation Ltd	Financial Results/Fund Raising	02-Feb-21
Ramco Industries Ltd	Financial Results	02-Feb-21
TATA CONSUMER PRODUCTS Ltd	Financial Results	02-Feb-21
Apollo Tyres Ltd	Financial Results	03-Feb-21
Adani Enterprises Ltd	Financial Results	03-Feb-21
Bharti Airtel Ltd	Financial Results	03-Feb-21
Jubilant Foodworks Ltd	Financial Results	03-Feb-21
The Ramco Cements Ltd	Financial Results	03-Feb-21
V-Guard Industries Ltd	Financial Results	03-Feb-21
Adani Power Ltd	Financial Results	04-Feb-21
Arvind Ltd	Financial Results	04-Feb-21
Hero MotoCorp Ltd	Financial Results	04-Feb-21
Hindustan Petroleum Corporation Ltd	Financial Results	04-Feb-21
NTPC Ltd	Financial Results/Dividend	04-Feb-21
REC Ltd	Financial Results	04-Feb-21
State Bank of India	Financial Results	04-Feb-21
Tata Power Company Ltd	Financial Results/Other business matters	04-Feb-21
Zee Entertainment Enterprises Ltd	Financial Results	04-Feb-21
Britannia Industries Ltd	Financial Results	05-Feb-21
Cadila Healthcare Ltd	Financial Results	05-Feb-21
Equitas Holdings Ltd	Financial Results	05-Feb-21
Mahindra & Mahindra Ltd	Financial Results/Other business matters	05-Feb-21
Divi's Laboratories Ltd	Financial Results	06-Feb-21

GLOBAL NEWS

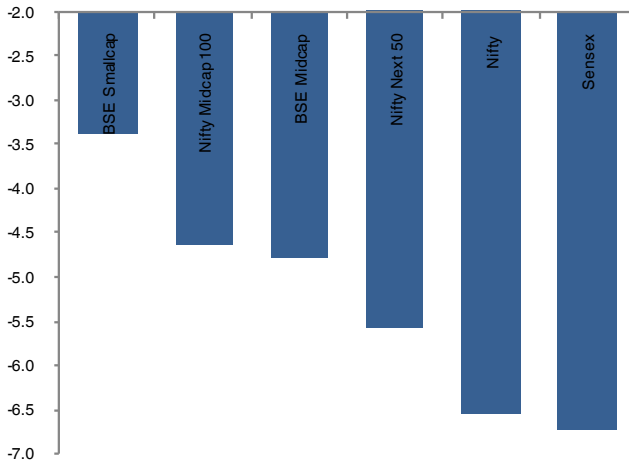
- **US economy contracts in 2020;** worst performance since 1946. The Commerce Department's snapshot of the fourth-quarter gross domestic product on Thursday also showed the recovery from the pandemic losing steam as the year wound down amid a resurgence in coronavirus infections and exhaustion of nearly \$3 trillion in relief money from the government.
- **Global public debt is likely to touch 98 pc of GDP in 2020 amid the COVID crisis:** IMF. The COVID-19 pandemic has posed a severe challenge to public finances, the report said noting that the contraction in output and ensuing fall in revenues, along with emergency lifelines, boosted government deficits and debts beyond levels recorded during the global financial crisis.

- **Granules India Q3FY21:** Net profit up 129.3% at Rs. 146.8 Cr Vs. Rs. 64.02 Cr (YoY) and Revenue up 20% at Rs. 844.51 Cr Vs. Rs. 703.95 Cr (YoY).
- **Eris Lifesciences Q3FY21:** Net profit up 42.1% at Rs. 90.1 Cr Vs. Rs. 63.4 Cr (YoY) and Revenue up 16.6% at Rs. 310.4 Cr Vs. Rs. 266.3 Cr (YoY).

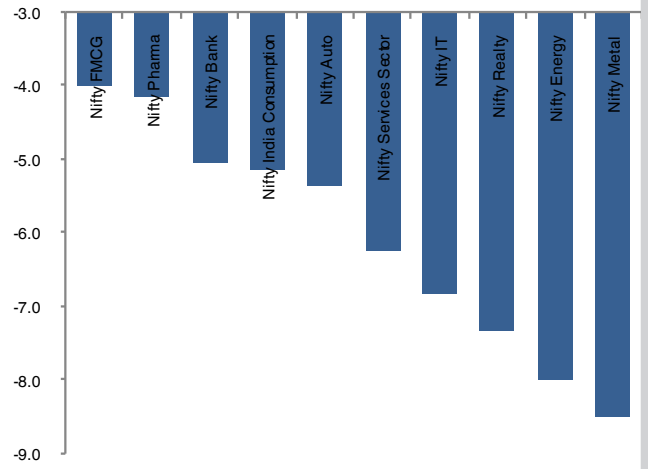
TELECOM & MEDIA

- **Bharti Airtel:** Has announced that it had successfully conducted a live demonstration of 5G service over a commercial network in Hyderabad. The demonstration was conducted over an existing liberalized spectrum in the 1800 megahertz (MHz) band. Separately, it added 4.37 Mn subscribers in November, taking its customer base to 28.97%.
- **Telecom stocks:** While Reliance Jio Infocomm gained 1.93 Mn users in November, Bharti Airtel added 4.3 Mn subscribers and Vodafone Idea lost 2.89 Mn customers, as per data from Telecom Regulatory Authority of India. While Jio remains India's biggest telecom operator by market share at 35.34%, Vodafone Idea's market share shrunk to 25.10%, the data showed. Bharti continues to add subscribers month after month.

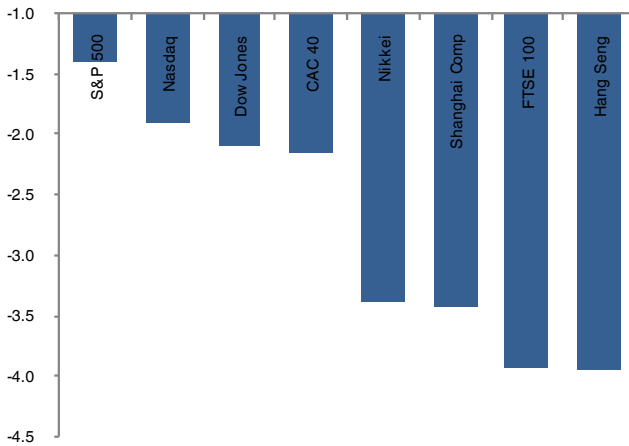
INDIAN INDICES (% CHANGE)



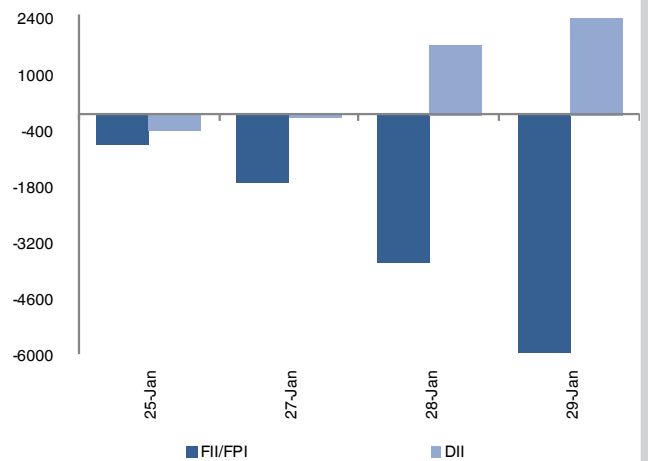
SECTORAL INDICES (% CHANGE)



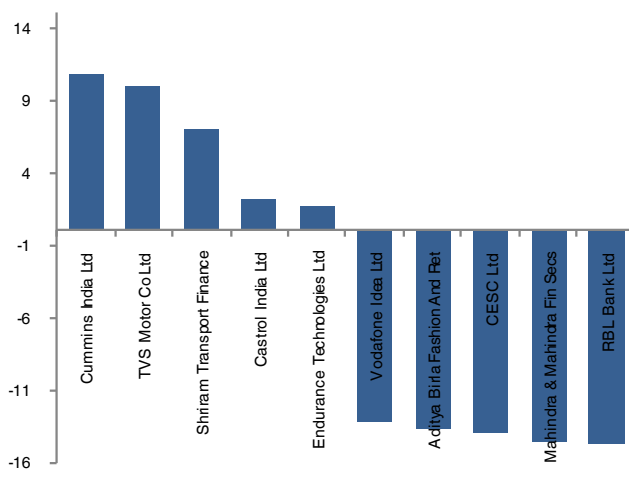
GLOBAL INDICES (% CHANGE)



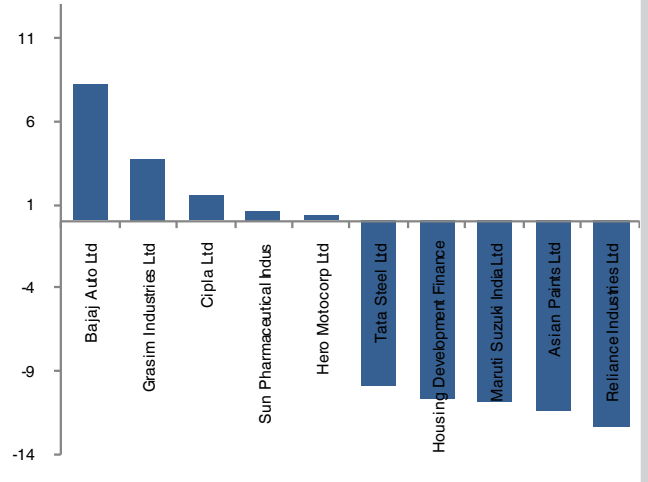
FII/FPI & DII TRADING (IN RS. CRORES)



NIFTY MIDCAP100 TOP GAINERS & LOSERS (1W)



NSE NIFTY TOP GAINERS & LOSERS (1W)



Source: Karvy Research

BEAT THE STREET - TECHNICAL ANALYSIS

Sun Pharmaceutical Industries Ltd



STOCK	SUNPHARMA
CMP	588
ACTION	BUY
ENTRY	582-585
AVERAGE	555
STOP LOSS	519
TARGET 1	660
TARGET 2	700

On the technical front, SUNPHARMA has higher highs and higher lows on the daily charts and is currently placed above the long-term EMAs in the daily frame. In the recent past, after clocking a low of 550 levels, the stock has witnessed a bounce and rallied to the current levels. At the current juncture, the stock has formed a base of around 550-555 levels on the lower side and is all set to move higher. The overall chart structure of the counter looks bullish from current levels and is witnessing a bounce from the support zone around 555 levels. This may trigger a fresh round of buying which may take the stock towards 660 plus levels. The stock is currently performing in line with the broader markets indicating the inherent strength in the counter and is trading well above the major long-term support levels. On the Bollinger band (20,2) the stock price is trading above the mean with the upper band facing in the northward direction indicating the price likely to move higher. Analyzing the recent volume price action, the volumes have been encouraging in the recent up move indicating strong hands have started accumulating the stock at current levels. On the oscillator's side, RSI (14) is trading in a comfortable zone of above 50 levels indicating the intact bullishness in the stock. We expect the counter to continue its outperformance in the coming trading days as well and may move towards 700 levels in the medium-term. Any correction towards the recent support levels of 555 levels may be utilized to average the positions.

ICICI Bank Ltd



STOCK	ICICIBANK
CMP	539
ACTION	BUY
ENTRY	533-536
AVERAGE	515
STOP LOSS	488
TARGET 1	590
TARGET 2	610

On the technical front, ICICIBANK has higher highs and higher lows on the daily charts and is currently placed above the long-term supports. In the recent past, after clocking the high of 561 levels, the stock has witnessed a round of profit booking which dragged the counter towards the short-term moving average of 21- EMA on the daily charts. At the current juncture, the stock is forming a base around 488 levels on the lower side and is all set to move higher. The overall chart structure of the counter looks bullish at the current levels forming higher highs and higher lows. This may trigger a fresh round of buying which may take the stock towards 590 plus levels. The stock's performance is in line with the broader markets indicating the inherent strength in the counter and is trading well above the long-term support levels. On the Bollinger band (20,2) the stock price is plotting above the mean indicating the price likely to trend higher. Analyzing the recent volume price action, the volumes have been encouraging in the recent up move indicating strong hands have started accumulating the stock at current levels. On the oscillator's side, RSI (14) is trading in a comfortable zone of above 50 levels indicating the bullishness in the stock. We expect the counter to continue its outperformance in the coming trading weeks as well and may move towards 610 levels in the short term. Any correction towards the recent support levels of 515 levels may be utilized to average the positions.

INDEX SNIPPETS

NIFTY (13634.60): Indian equity benchmark index Nifty 50 closed lower by 5.13% during the week. During the last ten months, the index witnessed a bounce towards the current levels after correcting from 12150 levels towards the low of 7511 levels. Technically, from March 2020, the index is forming higher highs indicating the strong bullish strength of the index. However, the index may resume its bearish bias if it breaches and sustains below 13130-13150 levels in future sessions. On the global front, stocks in Asia-Pacific were lower in Friday trade, with South Korea's Kospi leading losses among the region's major markets. European markets retreated Friday as market jitters persist over a retail trading frenzy that has rocked Wall Street. Sentiment in Europe has been jolted by a surge in speculative trading from retail investors, and several e-brokers took steps to curb the deliberate buying of heavily-shorted names on Thursday after a week of huge and seemingly synthetic moves in unfavored names like GameStop, spurred by Reddit group WallStreetBets. Stateside, stock futures dropped sharply as a volatile week looks set to continue on Wall Street. Domestically, for the week, on the data front, investors may focus on the RBI's Interest Rate Decision releasing on Feb 05. On the derivatives front, open interest data suggests that the index may find its supports around 13500 followed by 13000 levels while on the higher side, 13800 and 14000 levels may act as resistance.



NIFTY IT INDEX is the worst performing index this week with losses of -7% vs Nifty's loss of -5%. After gaining nearly 144% from covid correction's lows, the index is on to a meaningful correction due to profit booking after such a stellar rally and global sell off. From the peak of 27176 hit on 14 Jan, the index has corrected nearly 10% vs Nifty's losses of 5%. In fact the IT index has started correcting much earlier than broader markets on profit booking despite index heavy weights declared best Q3 growth in the past 8 years with positive demand commentary. The index has started the week on a negative note and had down days on each day of the week to lose 7% for the week. Nifty IT bounced back from support zone of 24500 and bounced back. Next week's tone for the index would be set by the budget. After 10% correction from life highs and absence of fundamentally negative triggers, once the dust settles down after budget, we expect the index to start moving up again. During the week, except L&T Infotech all the index components ended in red with L&T Infotech gaining 1.8%. Info Edge is the biggest loser of the week with losses of -18%. Big Four IT stocks lost around mid single digits for the week. We expect the index to face resistance around 25600 and 26640. On the downside, we expect the index to see some support at 24500, followed by 23650.



NIFTY FMCG outperformed (despite being down by 4%) the benchmark index by 130 bps for the week. This was largely because of the good set of numbers posted by most large cap companies during the week. Key results for the week included HUL, Emami, Tat Coffee, Jyothy Labs, and Marico. All these companies posted good top and bottomline growth as consumption is starting to pick up again but overall with the markets having factored in the same, saw a dip in the share price post announcement of results. Mid caps in the space however witnessed intensified buying on the back of the same as companies continued to grow and hold market share despite the economic troubles. Near term pressures include rising commodity prices but with the large caps not deterred by the same and already continuing with steps to hike prices, it will also help the smaller companies (price followers) to maintain margins. This bodes well for the long term outlook and with the economy expected to show a good revival in FY22 (economic survey puts India's GDP growth rate at 11% for the fiscal), we can expect good performance in the medium term for the FMCG index. However, largely we expect only the good midcap stocks in the space to outperform the index in the near term while the large caps continue to be expensive and expected to consolidate in the coming week. Support levels for the index are 33100 and 31850 while resistance can be seen at 34560 and 35000.

