

K STREET

RULE THE MARKET

ISSUE: 143



CONTENTS

| | |
|---------------------------|---|
| Editorial | 1 |
| News and Corporate Events | 2 |
| Market Snapshot | 3 |
| Beat the Street | 4 |
| Index Snippets | 5 |

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From The Desk Of Research Head

Indian Equities: Improving returns potential for H2CY21

Fundamentally we seem to be ending H1CY21 on a neutral note. While fresh addition of cases seems to be steady at elevated levels, death toll is yet to stabilize. However, pace of recoveries, improving positivity rate, improvement in vaccine supply breathes in air of confidence. Based on the current position of technical and fundamental factors, neutral position of equities when looked at from perspective of cross-asset allocation and leading indicators are increasingly pointing to upside risks to index returns. Key pivots worth monitoring include the pace of deceleration of second wave, improvement in vaccine availability situation and noise around central bank liquidity support and valuation support.

Leading fundamental indicators released till now are painting a positive macro picture. Albeit, partial lockdowns announced across states might weaken the manufacturing output and other leading indicators for the month of May 2021. For instance 75% of auto dealer network and auto OEMs were shut for most part of the May, which would affect auto volumes adversely. Both corporate and household consumption would be severely hit because of partial lockdowns. Fiscal constraints, labour shortages, risk averse lenders and lockdowns would indirectly affect government spending. But now that some states are preparing to lift lockdowns in a phased manner stepping into June, things definitely look upbeat from a fundamental point of view.

While Q4FY21 earnings were better than expected due to a combination of factors including favourable base effect, revenue growth caused by pent up demand, cyclical upturn resulting in outperformance of cyclicals and pandemic induced cost savings having a positive impact on profitability. However, situation is not the same for all the sectors. While metals, IT, banking and financials and pharma reported better than expected earnings for Q4FY21, companies worst effected by pandemic and covid-induced social restrictions reported weak set of numbers. Assuming that second wave would peak out, coupled with improvement in vaccine availability and recovery rate, companies should report an uptick in earnings and profitability growth as we progress into FY22.

Technically, while sentiment indicators are neutral on equities, ongoing consolidation in indices is positive for future. Institutional flows, which is a good contra-indicator is pointing to a positive returns in the near future because institutional flows have still not reached exuberance level. Historically, markets peak when institutional flows are at their best and vice versa. Year-to-date in 2021, FI activity has been very fragile, which is pointing to a potential upside in index returns in the future. Given the way fundamental factors are placed we should see an uptick in FI flows in the coming months, in tandem with improvement in corporate earnings. However, the flows might get stymied with frequent and confusing noise made by central bankers about the liquidity support. While inflation is a big risk in this context, as of now it looks like a structural inflation and not cyclical. The economy is not yet overheating, implying there is still room for continued liquidity support. Central bankers would not dare to hinder the recovery process early on and withdraw liquidity support in a rush.

So given the current scenario, how should an investor be positioned? In this kind of set up it is of utmost importance for investors to rightly position with right kind of exposure to the sectors that are likely to benefit. Our preferred sectors in the order of preference would include cyclicals, rate sensitives, global cyclicals and defensive exporters. Industrials are likely to benefit from sustained government spending, nascent pick up in private capex cycle and inexpensive valuations. Rate sensitives like banks, financials and utilities would benefit as rate cycle is behind us and due to a likely long pause from the RBI. While financials are currently out of favour and lost its leadership status, the bounce from a cyclical pick up in economy could be very strong. Attractive valuations would support price action in utilities even if there is a slightest improvement in their fundamentals.

- DR. RAVI SINGH

Vice President & Head of Research

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NEWS

AUTO

- Eicher Motors: The company's Q4FY21 net profit rose 72.9 percent to Rs. 526.1 Cr from Rs. 304.3 Cr, while revenue increased 33.2 percent to Rs. 2,940.3 Cr from Rs. 2,208.2 Cr, YoY.
- Cummins India Q4FY21: Net Revenue at Rs. 1256.3 Cr, +18.2% YoY and -12.2% QoQ. EBITDA at Rs. 169.4 Cr, +151.1% YoY and -30% QoQ. EBITDA Margin at 13.5%, +714 bps YoY and -343 bps QoQ. Net Profit at Rs. 168.6 Cr, -1% YoY and -29.9% QoQ.
- Gabriel India Q4FY21: Net Revenue at Rs. 580.7 Cr, +36.8% YoY and +8.2% QoQ. EBITDA at Rs. 49.3 Cr, +49% YoY and +25.8% QoQ. EBITDA Margin at 8.5%, +70 bps YoY and +118 bps QoQ. Net Profit at Rs. 27.7 Cr, +4.8% YoY and +18.2% QoQ.

BANKING

- UCO Bank: The bank's board has approved raising Rs. 3,000 Cr equity capital for the financial year 2021-22.
- The Karnataka Bank Q4FY21: Nil at Rs. 459.1 Cr, -13.3% YoY and -25.2% QoQ. Net Profit at Rs. 31.4 Cr, +14.8% YoY and
- -76.8% QoQ. GNPA at 4.91x, Vs 4.82x YoY and 3.16x QoQ. NNPA at 3.18x, Vs 3.08x YoY and 1.74x QoQ.
- ICICI Bank: The lender has collaborated with the National Payments Corp. of India (NPCI) to allow linking its wallet Pockets to a unified payments interface (UPI).
- Jaypee Infratech Resolution: State-owned NBCC, whose bid was rejected by creditors of Jaypee Infratech, asserted that its offer was "legally compliant" though the company will try to address the objections raised by the interim resolution professional if allowed to submit a fresh bid.
- Kotak Mahindra Bank: According to a report in Mint, the lender is eyeing a fundraise for an undisclosed sum via unsecured, redeemable, non-convertible debentures on a private placement basis in Indian or foreign markets, subject to approval by its board, it said in a regulatory filing.

CONSUMPTION

- Dixon Technologies: The company's Q4FY21 net profit rose 60.48 percent to Rs. 44.26 Cr from Rs. 27.58 Cr, while revenue jumped over two-fold to Rs. 2,109.71 Cr from Rs. 857.41 Cr, YoY. t
- Berger Paints India Q4FY21: Net Revenue at Rs. 2026.1 Cr, +49.5% YoY and -4.3% QoQ. EBITDA at Rs. 335.6 Cr, +61% YoY and -19.1% QoQ. EBITDA Margin at 16.6%, +118 bps YoY and -303 bps QoQ. Net Profit at Rs. 208.6 Cr, +102.2% YoY and -24.1% QoQ.
- V-Guard Industries Q4FY21: Net Revenue at Rs. 855.2 Cr, +58% YoY and +2.4% QoQ. EBITDA at Rs. 110.4 Cr, +142.1% YoY and -4.4% QoQ. EBITDA Margin at 12.9%, +448 bps YoY, and -92 bps QoQ. Net Profit at Rs. 68.4 Cr, +112.2% YoY and -12.6% QoQ.
- Burger King India Q4FY21: Net Revenue at Rs. 196.1 Cr, +2.6% YoY and +20.1% QoQ. EBITDA at Rs. 24.5 Cr, +17.1% YoY and +61% QoQ. EBITDA Margin at 12.5%, +154 bps YoY and +317 bps QoQ. Net Loss at Rs. 25.9 Cr vs loss of Rs. 37.4 Cr YoY and loss of Rs. 29.0 Cr QoQ.
- LT Foods Q4FY21: Net Revenue at Rs. 1129.2 Cr, -5.7% YoY and +4.3% QoQ. EBITDA at Rs. 121.1 Cr, -7.9% YoY and -5.4% QoQ. EBITDA Margin at 10.7%, -25 bps YoY and -109 bps QoQ. Net Profit at Rs. 59.7 Cr, +2.4% YoY and -13.7% QoQ.
- Somany Home Innovation Q4FY21: Net Revenue at Rs. 613.3 Cr, +68.2% YoY and +11.2% QoQ. EBITDA at Rs. 64.6 Cr, +396.5% YoY and +16.2% QoQ. EBITDA Margin at 10.5%, +696 bps YoY and +45 bps QoQ. Net Profit at Rs. 22.3 Cr, +863.6% YoY and -40.9% QoQ.
- Ruchi Soya: According to Mint, the edible oil producer, owned by Ramdev's Patanjali Ayurved group, is planning to sell fresh shares through a follow-on public offer (FPO) to cut promoter shareholding as mandated by the markets regulator, said two people aware of the development.

INFRA

- Knowledge Marine & Engineering Works: The company has received a work order from Indian Ports Dredging Private Limited, for 'reuse of dredged material for landfilling arising out of dredging by grab dredger 'River Pearl 2' at Kolkata Port for a period of one year. The additional compensation over and above the per day hire and per hour of operation will be Rs 18,000 per barge load of 1500 MT.

FORTHCOMING EVENTS

| COMPANY NAME | EVENT | EX-DATE |
|--------------------------------|-------------------|-----------|
| Aurobindo Pharma Limited | Financial Results | 31-May-21 |
| ITC Limited | Financial Results | 01-Jun-21 |
| Motherson Sumi Systems Limited | Financial Results | 02-Jun-21 |
| Muthoot Finance Limited | Financial Results | 02-Jun-21 |
| PVR Limited | Financial Results | 02-Jun-21 |
| Bank of India | Financial Results | 04-Jun-21 |
| Bharat Forge Limited | Financial Results | 04-Jun-21 |
| NIIT Limited | Financial Results | 04-Jun-21 |

GLOBAL NEWS

- Only 30% of firms in the US, Europe embrace full office return. While many business leaders are drawn to vaccine passports as a solution to bring their workforces back to the office full-time, global market research firm Forrester predicts that 70 percent of US and European companies will pivot to a hybrid work model post-pandemic.
- US consumers boosted spending in April as inflation surged. Even with the pullback from a 4.7% surge in spending in March, the April increase provided further evidence that consumers are driving a strengthening recovery from the pandemic recession.

- Adani Enterprises: The company has incorporated a wholly-owned subsidiary namely, Mahanadi Mines and Minerals Pvt Ltd.
- Shreyas Shipping & Logistics: The company reported consolidated profit at Rs. 31.48 Cr in Q4FY21 against loss of Rs. 76.23 Cr in Q4FY20, revenue rose to Rs. 168.11 Cr from Rs. 158.61 Cr YoY.
- KPI Global Infrastructure: The company bagged an order for executing a solar power project of 3.50 MW capacity under 'captive power producer (CPP)' category from Prachi Mittal Creations, Surat.

IT

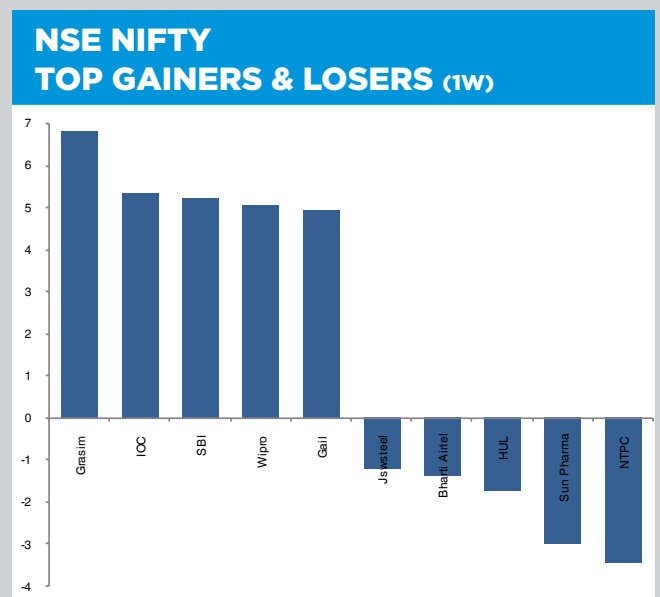
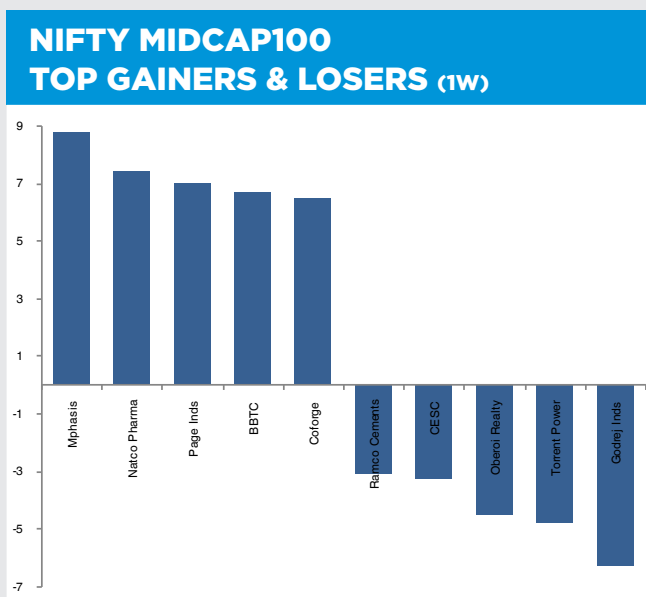
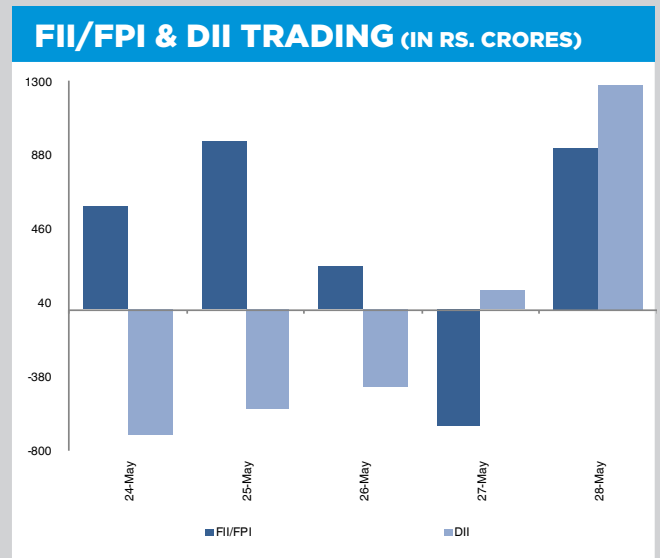
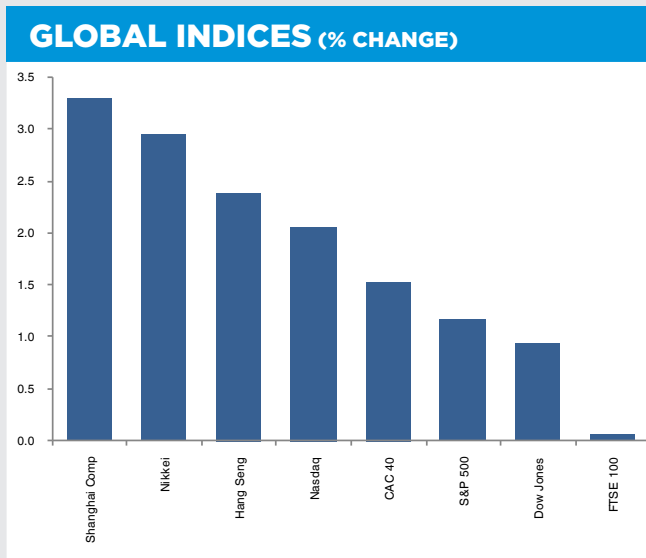
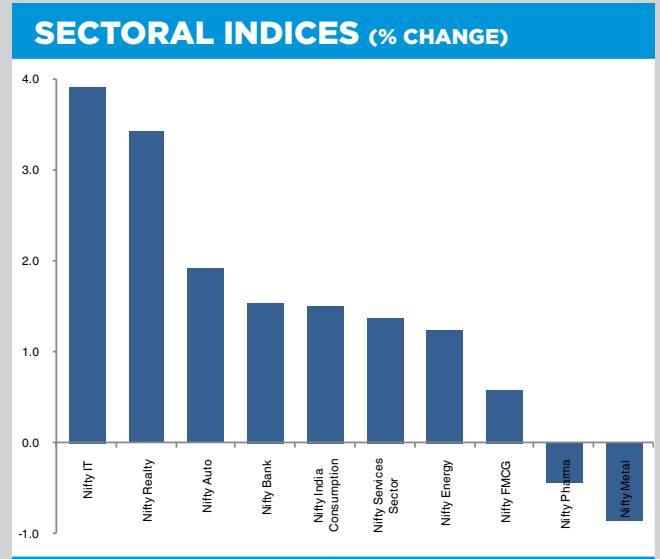
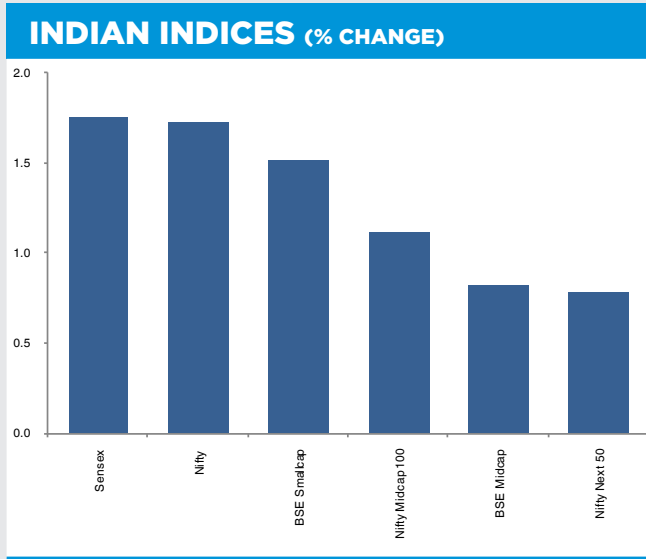
- Tata Consultancy Services: The company completed the acquisition of GE's stake in Tata Consultancy Services Saudi Arabia on May 26.

PHARMA & HEALTHCARE

- Sun Pharmaceutical Industries: The company's Q4FY21 net profit jumped over two-fold to Rs. 894.15 Cr from Rs. 399.84 Cr, while consolidated revenue rose 4.1 percent to Rs. 8,522.98 Cr from Rs. 8,184.94 Cr, YoY.
- Hester Biosciences: The company will provide infrastructure for manufacturing COVAXIN drug substances and has estimated an outlay of Rs. 40 Cr for this project.
- Metropolis Healthcare: The company's Q4FY21 net profit jumped to Rs. 61.3 Cr from Rs. 15.5 Cr, while revenue rose 40.9 percent to Rs. 291.7 Cr from Rs. 207 Cr, YoY.
- Jubilant Pharmova: India Ratings and Research has upgraded Long Term Issuer Rating to 'AA+' from 'AA' while resolving the Rating Watch Evolving (RWE) and has simultaneously withdrawn it. The outlook is stable.

POWER

- NLC India: The company has issued and allotted commercial papers worth Rs. 300 Cr.
- Gujarat Industries Power Company: The company reported a lower profit at Rs. 43.53 Cr in Q4FY21 against Rs. 61.92 Cr in Q4FY20, revenue fell to Rs. 332.34 Cr from Rs. 342.5 Cr YoY.



Source: Karvy Research

ADANI PORTS & SPECIAL ECONOMIC ZONE LTD



| STOCK | ADANIPTS |
|-----------|----------|
| CMP | 777 |
| ACTION | BUY |
| ENTRY | 770-773 |
| AVERAGE | 725 |
| STOP LOSS | 657 |
| TARGET 1 | 900 |
| TARGET 2 | 950 |

On the technical front, ADANIPTS has higher highs and higher lows on the daily charts and is currently placed above the short-term EMAs in the daily frame. In the recent past, after clocking a high of 885 levels, the stock has witnessed a correction to the current levels. At the current juncture, the stock has formed a base of around 660 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 725 levels. This may trigger a fresh round of buying which may take the stock towards 900 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 950 levels in the medium term. Any correction towards the recent support levels of 657 levels may be utilized to average the positions.

TATA CONSUMER PRODUCTS LTD



| STOCK | TATACONSUM |
|-----------|------------|
| CMP | 653 |
| ACTION | BUY |
| ENTRY | 647-650 |
| AVERAGE | 630 |
| STOP LOSS | 577 |
| TARGET 1 | 750 |
| TARGET 2 | 800 |

On the technical front, TATACONSUM 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 698 levels, the stock has witnessed a round of profit booking which dragged the counter towards the medium-term moving average of 50- EMA on the daily charts. At the current juncture, the stock is forming a base around 580 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 750 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 800 levels in the short term. Any correction towards the recent support levels of 630 levels may be utilized to average the positions.



NIFTY (15435.65): Indian equity benchmark index Nifty 50 closed higher by 1.72% during the week. Over a year, 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 turn bearish if it breaches and sustains below 14265 levels in future sessions. Stocks in Asia-Pacific mostly rose in Friday trade, as investors reacted to the market debut of JD Logistics in Hong Kong. European markets closed higher on Friday, hitting record highs as global stocks take heart from strong economic data out of the US. Eurozone economic sentiment climbed more than expected in May to notch a three-year high, data showed Friday, with the European Commission's index rising to 114.5 points from 110.5 in April. British Prime Minister Boris Johnson has warned that the full lifting of England's coronavirus restrictions on June 21 may be delayed as cases in the country of the Covid variant first detected in India doubled over the past week. The S&P 500 climbed slightly on Friday to close its fourth straight positive month amid growing optimism over the US economic recovery. A key inflation indicator the core personal consumption expenditures index rose 3.1% in April, faster than expectations of a 2.9% increase but not as hot as many on Wall Street had feared. Meanwhile, the savings rate remained elevated at 14.9% last month, while consumer spending rose 0.5%, in line with estimates. This week, investors also monitored the back-and-forth in Washington over a comprehensive infrastructure package that could further boost the economic recovery. Senate Republicans unveiled a \$928 billion infrastructure counteroffer to President Joe Biden on Thursday. However, that's well below Biden's most recent proposal of \$1.7 trillion. On the derivatives front, open interest data suggests that the index may find its supports around 15300 followed by 15000 levels while on the higher side, 15500 and 16000 levels may act as resistance.



NIFTY BANK and Nifty have both performed on par as both the indices have gained 2% each for the week. After ending the previous week on a positive note with gains of 4%, Bank Nifty opened the week strongly by gaining 1% on the opening day but soon consolidated around key support zone of 34400-34500 and bounced back 1% to end the week near high point of the week. Technically, Nifty Bank has continued with the pattern of making higher highs and higher lows which started around May 11. As we highlighted during last week's note Nifty Bank's rally is getting stronger and currently the index is trading above all near term moving averages – 25 DMA, 50 DMA and 100 DMA. Fundamentally, RBI Governor, Mr. Shaktikanta Das meeting chiefs of private sector banks during the week had garnered some importance. Mr. Das took note of the situation and requested private banks to continue to provide services during the pandemic situation so as to not hinder the credit activity in the system and hurt economic activity. The governor had also requested private sector banks to strengthen their balance sheet and beef up provisioning buffers on their books so as to deal with the spike in NPAs as collections and recoveries were badly hit due to pandemic-induced lockdowns. Amid news of government directing PSBs to withdraw funds in foreign accounts, government clarified that it has not issued such directives. Other positive developments included Supreme Court's ruling allowing banks to access assets of personal guarantors. Regarding individual index components' performance for the week, PSBs have again performed better than private sector banks as visible in stellar performance of PSU Bank index during the week. PNB is this week's top performer with gains of 11%, followed by SBI which gained 5% on better than expected Q4 numbers and positive management commentary on future outlook. All index components ended the week positively. ICICI Bank is the worst performer of the week which ended flat for the week. Nifty Bank may face resistance at 35150 followed by 37000. Nifty Bank may take support at 34300, followed by 32000.