CHANAKYA

NI POTHI

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Time for healthy correction!!

Indian stocks extended their losses for the fifth straight session on Monday, tailing a rout in global markets, as investor sentiment continued to remain subdued following the introduction of long-term capital gains (LTCG) tax on equities in the Union budget.

BSE's 30-share benchmark Sensex shed 309.59 points, or 0.88%, to close at 34,757.16 points. The National Stock Exchange's 50-share Nifty dropped 94.05 points, or 0.87%, to close at 10,666.55 points.

In intra-day trade, the Sensex was down as much as 545 points but managed to recoup some losses on buying support by domestic investors.

Equity markets across the globe traded weak on Monday, with bond yields rising on concerns that higher US inflation could prompt global central banks to turn more hawkish than earlier expected. Strong US job data also led to speculation that the US Federal Reserve may boost interest rates when its rate-setting panel meets on 21 March.

The latest volatility is attributed to rising bond yields in the developed markets, which is prompting investors to rebalance their asset allocations. Experts say high yields are making risky stock investments look less attractive and also leading to concerns of earnings erosion due to higher borrowing costs.

On Friday, US 10-year bond yields had risen to a four-year high of 2.84%.

On Monday, foreign institutional investors, sold shares worth Rs 12.6 billion, while domestic investors provided buying support to the tune of Rs 11.6 billion.

The India VIX index rose 5.3 per cent to 16, indicating more volatility in the week ahead.

The market breadth, though negative, was relatively better than Friday. On Monday, 1,027 stocks advanced, while 1,753 declined. In comparison, eight stocks declined for every one advance on Friday.

After trading around its historic low level for nearly two years, the VIX spiked to 38.80 from 16.80 as the Dow Jones and S&P, two key US indices, crashed by 4.6 and 4.1 per cent, respectively, on Monday.

Tuesday saw the 'fear gauge' in the US spike to 50 less than two hours before the Dow and S&P opened for trading.

The VIX index in India, which is not yet widely traded but more of a reference point, hit a 15-month high as it rose 30 per cent to touch a high of 23.16 before closing at 20.

The rout continued on Tuesday when the Sensex plunged as much as 1,274 points on Tuesday after a rout in the US and other major markets. The index, however, managed to recoup more than half its losses as investors resorted to value buying following a sharp three-day correction.

The Sensex, after dropping to a low of 33,483, closed 561 points, or 1.6 per cent, lower at 34,196. Similarly, the Nifty touched a low of 10,276 before closing at 10,498, down 168 points, or 1.6 per cent, from the previous close.

In intra-day terms, this was the biggest fall for both the indices since November 9, 2016, when the Sensex had dropped 1,689 points and the Nifty 541 points following the announcement of demonetisation.

All eyes were on the RBI's policy stance on Wednesday. The Reserve Bank of India (RBI) kept policy rates unchanged for the third consecutive time. Governor Urjit Patel indicated that the recent rise in bond yields was beyond the control of the central bank and a result of fiscal profligacy by the government and the rise in rates in advanced economies.

Patel's post-policy statement assumes significance for interest rates in the economy; particularly when his deputy Viral Acharya said RBI was not there to provide liquidity to manage bond prices. According to bond dealers, the statements indicate the RBI was not interested in yield management anymore and the government will have to heed the market.

The RBI revised its inflation forecast up at 5.1 per cent for the March quarter, higher than its earlier forecast of 4.3-4.7 per cent in the second half of 2017-18.

In the first half of FY19, the retail inflation print would be in the range of 5.1-5.6 per cent, but might cool to 4.5-4.6 per cent in the second half, it projected.

On Thursday, the market rebounded 1 per cent on Thursday after seven straight sessions of losses, led by gains in index heavyweights.

The BSE Sensex closed at 34,413.16, up 330 points, or 0.97 per cent — the most this year. The Nifty50 index rose 100 points, or 0.96 per cent, to end at 10,576.85, with 41 of its components ending in green.

Despite weak global cues, the market traded positive through the day, as calm returned after a week and volatility subsided. The India VIX index, a gauge for market volatility, fell 8.7 per cent to 17.8.

However, Friday was again a bad day for the markets. The market reversed all its previous day's gains on Friday, tracking global weakness on worries over US interest rate hikes. Benchmark indices shed more than 1 percent, dragged mainly by banking and financials.

The 30-share BSE Sensex was down 407.40 points or 1.18 percent at 34,005.76 and the 50-share NSE Nifty fell 121.90 points or 1.15 percent to 10,455.

Frontline indices lost another 3 percent during the week, in addition to 2.7 percent loss in the previous week; and this sharp correction was mainly due to global woes.

World Markets

The Dow Jones industrial average rebounded more than 300 points Friday, paring deep losses for investors in what still amounted to the worst week in two years.

The Dow and the S&P 500 both lost 5.2 percent on the week, while the Nasdaq shed 5.1 percent as rising interest rates spooked investors.

European stocks closed lower Friday, as investors monitored global concerns about soaring volatility and rising borrowing costs.

Going Ahead

The good news for the Indian market is that there is a general election coming up in 2019. Narendra Modi will do everything he can to win it.

This means giving out sops and adopting populist measures as well. On the other hand, the Indian stock market has been on a strong footing since quite some time, and the current volatility is expected to continue for sometime.

In a worst-case scenario, the Nifty50 can slip to 9,500 levels.

The Indian markets got hit by due to twin negative news of LTCG and then the bond yields and weakness in the global markets.

Going ahead Nifty will have support at 10408, then 10362 and if that is broken 10280.

Avoid taking new positions at current level as volatility will be great. Sit our for a few days and enter once the turmoil settles down.

Ranchhodbhai's Profitable thoughts

- Formerly known as Adi Finechem, ***Fairchem Speciality*** is a manufacturer of speciality oleo chemicals and has a facility in Chekhala in Gujarat. In Feb 2016, Canada based Fairfax group acquired a portion of the 44.9% equity held by the existing promoter group. Subsequently in Aug 2016, Fairfax took equity stake in Privi Organics, whose business of aroma chemicals is now vested in wholly owned subsidiary company. Company has strong working and results for the past few quarters have been good. Keep in mind.
- Among the leading providers of integrated automation and software solutions, ***Honeywell Automation*** provides process solutions and building solutions and has a wide product portfolio of environmental and combustion controls and sensing and control. Nearly 39% of the sales were from parent US based Honeywell International Inc and 30% from affiliates in FY 2017. Mutual funds hold 15.31% in this debt free company end September 2017. Buy on declines.
- Among the leading global players in the traditional spray-dried instant coffee segment, ***CCL Products*** has now entered the freeze dried coffee segment after foraying into the domestic coffee market in FY 2016. The current focus is on rapidly expanding the market share. in the last couple of yers, volumes grew 15-20%. Volume growth of 20-30% is expected in FY 2018. Medium term holding is required to get good returns.
- Inspite of dismal performance by the borader markets, share of ***Shaily Engineering Products*** have touched a 52 week high of Rs. 1250 on 8th Feb 2018. Company manufactures high precision injection molded plastic components, subassemblies and assemblies and has five facilities in Gujarat, have over 100 injection molding machines in aggregate.Exports contribute 76% to net sales in FY 2017, with key destinations being US, Europe and Middle East. The aim is to achieve revenues of US $100 million in FY 2020. There is a strong buying interest in this stock as of now.
- The loan portfolio of HDFC's subsidiary ***Gruh Finance*** stood at Rs. 14803 cr end Dec 2017, a growth of 18% over end Dec 2016. Gross NPAs of Rs. 108.20 crores or 0.73% of the loan assets, end Dec 2017 were higher compared with 0.67% end Sept 2017. There is a network of 192 retail offices across 11 states. Mutual funds control 8.44% equity shares end Dec. 2017. Budget announcements to be helpful for this company. Can start accumulating.
- ***Hexaware*** posted strong revenue and in-line operating performance as compared to expectations. Revenue stood at USD 156.1mn, 1.3% QoQ (1.1% volume growth) and 12.3% YoY. CY17 rev growth at 15.6%, as compared to 'upper-end' of 14 to 15% band guided (10 to 12% guided at the beginning of fiscal). EBITDA% stood at 15.9%, -154bps QoQ impacted by -280bps at gross margin (onshore wage hike and increase in new account investment). APAT came at Rs 1.21bn, impacted by higher ETR.Recommend buy with target of Rs. 420.
- I had recommended the share of ***City Union Bank*** in Dec 2017 also. Bank's robust 3Q result reaffirms our belief in its growth story. Uptick in advances (+20% YoY) coupled with surprisingly stable NIMs (~4.4%) led to robust core earnings (+19% YoY). Though GNPAs spiked (+10% QoQ), the deterioration is only optical slippages moderated sequentially.No reportable divergence, an insignificant watchlist and shrinking SMA-II reduces the probability of future jolts. Faster growth and a tight leash on costs will lead to oplev benefits hereon.
- I expect ***IGL***'s the volume growth momentum will continue for the company as (1) State government has accepted the proposal to procure 2,000 buses by 1HFY19, and (2) PNGRB has awarded new areas to IGL, namely Karnal, Rewari and part of Gurugram. Guaranteed supply of domestic gas for CNG and Domestic PNG, which accounts for 81% of total sales volumes will provide an adequate cushion . Can buy.

Tata Motors Q3 profit rises nearly 11 times as India business surges

Tata Motors Ltd reported a near 11-fold rise in fiscal third-quarter profit as a surprise turnaround in its India business helped offset a slowdown in its Jaguar Land Rover (JLR) unit. Earnings still missed analysts' estimates.

Net profit, including those of its units, rose to Rs1,214.6 crore for the three months ended December from Rs111.57 crore in the same period a year earlier, the biggest jump in seven quarters. A Bloomberg poll 19 analysts had pegged quarterly profit at Rs2,349.1 crore.

The key reason for the lower-than-expected profit was a weak performance by JLR. Sales in that unit rose just

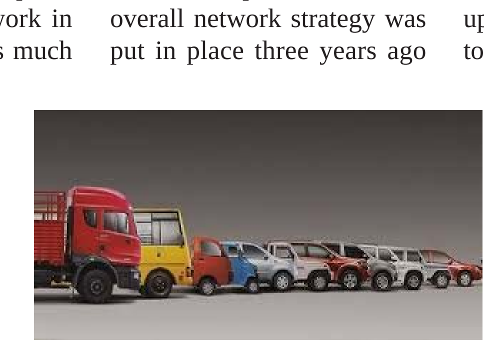
3.45% from a year ago to 154,447 units.

While sales in the US and Europe declined, sales growth in China slowed to 14.6%.

JLR's sales were weighed by few launches and model refreshes during the year, the unit's chief executive officer Ralf Speth said in an investor call. He also cited cyclicality in sales in the US, uncertainty over policy treatment of diesel vehicles in Europe and Brexit as other factors.

Mahindra making a shift from big showrooms to small outlets

Mahindra & Mahindra's automotive division, known for its sports utility vehicles, plans to deepen service network in rural geographies by as much as 50 per cent in 18 months, instead of focussing on dealerships with integrated service centres.



The company will expand its Mahindra Mitra Technician (MMT) network, started threeand-a-half years ago. The assetlight model, which has small two-bay service centres owned by local entrepreneurs, will expand from 3,000 touchpoints to 5,000.

The rural push comes on the back of a three-pronged strategy of increasing presence in rural regions, urban areas and on highways. Around 350,000 villages have access to the MMT network, officials said.

This is part of M&M's overall network strategy was put in place three years ago when officials realised that the addition of 20 large-format dealerships every year was expensive and unable to match demand.

"Showrooms at bigger cities aren't affordable. The days of having a facility with 20 vehicles on display and 40 for testdrives are gone," said Pawan Goenka, M&M managing director. "That doesn't mean traditional showrooms won't exist."

The showrooms are being upgraded to offer virtual reality tours, instant inventory searches, and on-the-fly assistance from tablet-wielding sales executives, but the old-world mode of sales is changing, he said."There's a lot more online research that customers do and, therefore, there are more questions to be answered, and we are adapting to that," Goenka said, adding that the classic hard-sell approach to cars doesn't work anymore.

He's not wrong. A customer may not even visit a showroom in the future, with service centres and online websites driving the way cars are sold.

Chanakya's Take

CV business is expected to be the driving force for the company as of now. Can buy for long term.

JSW Energy net surges on lower finance cost

JSW Energy has reported that its net profit more than doubled in the December quarter to Rs.50 crore from Rs.18 crore on the back of higher power output and reduced finance cost.

Revenue was up five per cent at Rs.1,993 crore (Rs.1,904 crore). Earnings before interest, tax, depreciation and amortisation were down five per cent at Rs.673 crore.

The company's finance cost was down 19 per cent at Rs.341 crore (Rs.423 crore) as it repaid Rs.780 crore during the quarter to reduce the overall net debt to Rs.11,896 crore.

In last nine months, the company's net debt reduced by Rs.2,490 crore while the average cost of borrowing was down to 9.04 per cent from 10.17 per cent in March, 2017.

The company generated 4,944 million units (4,644 mu) during the quarter at its four power plants taking the overall plant load factor to 58 per cent (56 per cent).

The fuel cost increased 18 per cent to Rs.1,171 crore largely on increase in international coal prices.

Prashant Jain, Joint Managing Director, JSW Energy, said the company would continue to deleverage the balance sheet in preparation to tap various opportunities being thrown up in the stressed power sector.

The oversupply situation in the power sector is slowly getting eased out with merchant power price rising to Rs.3.15 per unit from 69 paise logged in same quarter last year.

Support at Rs. 76.02.