श्री LAKSHMISHREE

Gateway to your Financial Goals

Liquidity Burst

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Invest Today, For Better Tomorrow !!

From Managing Director's Desk To Readers

China+1 is here to Stay – Decadal Opportunity for India

India's emergence in the chemicals space a decade ago was influenced by China's environmental drive since 2013, followed by multiple supply chain disruptions. Indian chemical companies benefitted from Global MNCs diversification of sourcing which is also reflected in 11% CAGR in chemical exports over 2009-2019. Although rising domestic consumption story still remains intact for India, we believe India to still remain a favourable destination for chemicals exports due to labor cost advantage, regulatory compliances, favourable policy measures, strong technical/ synthesis capabilities, and Indian entrepreneur's drive for global presence. A part of China+1 has played out, however India is now at a strong footing with ongoing investment momentum which shall accelerate growth further.

Indian specialty chemicals continue to remain in flavor – Investment driven

Our analysis of 10 large specialty chemical companies over the past decade exhibits revenue/ PAT CAGR of 14%/ 15% during FY13-22. Moreover, investments have surged 2.5 x x from Rs17bn in FY13 to Rs61bn in FY22. This capex momentum is further accelerated with ~Rs175bn investments lined up over FY23-24E, signifying ~Rs275bn peak revenue potential. Overall, Indian specialty chemicals market growth is expected to continue taking it to ~USD120bn by 2025 from ~USD70bn by 2020 (growing at ~12% CAGR over 2020-25).

Policy support favoring domestic manufacturing – Awaiting PLI for chemicals

Indian chemical industry's last decade growth was purely driven organically apart from some policy in later years including reduction in corporate income tax rate in 2019, customs duty reduction, BIS standards implementation etc. We believe further policy support from lower tax rate for newly formed companies at 15%, development of PCPIRs, feedstock availability, and expected PLI scheme in chemicals would foster growth for the chemicals sector.

Fluorine – Aspirational Chemistry

Fluorination space remains attractive as the applications are evolving apart from agro and pharma segments which certainly indicates growth potential. Fluorine chemistry has become a buzzword for the Indian chemical industry recently with new entrants. Even some of specchem companies are upping their fluorination capabilities in their area of applications. Despite new players entering the market, the incumbents such as SRF, Navin Fluorine, Gujarat Fluorochemicals will remain go to vendors for global players. We believe Anupam with its synthesis skills and recent Tanfac acquisition is better placed to capitalise on the fluorination opportunity.

Exports rising, imports coming down

During 2010-20, India's exports rose at ~11% CAGR while imports have risen at ~4% CAGR. China+1 is favoring exports while Make in India is favoring import substitution. Deepak Nitrite started import substitution theme through large Phenolics investment and is further banking on through downstream derivatives. Analyzing top 10 specchem companies' exports performance, it can be inferred that their exports contribution has moved up over the past decade which is expected to improve further.

Chemicals for EV, new energy – Opens up a new frontier

Indian government has initiated PLI scheme for Advanced Chemistry Cell (ACC) Battery Storage with incentives of Rs181bn. Although, the sun rising segment is at a nascent stage, it has opened up a new and rapidly growing frontier for the Indian chemical industry.

The new energy value chain encompasses polymer films, fluoropolymers, electrolyte salts, and additives. Some of the Indian companies have initiated their participation in the value chain including Gujarat Fluorochemicals, Neogen Chemicals, Tatva Chintan Pharma Chem, Ami Organics, Himadri Specialty Chemical among others. New energy space, growing exponentially has opened up a new growth avenue for domestic chemical industry with material benefits starting 2025 onwards.

India Chemicals benefitted since 2015, to continue further

Indian chemical industry has emerged as a clear winner of China+1 over the past decade; strong financial performance supported by rise in valuations. We believe that Europe challenges further foster the China+1 and India will be the key beneficiary due to ongoing investments, exports focus, and government support. China's 14th Five Year Plan further emphasizes tight supervision of its chemical industry, relocation of chemical plants, self-sufficiency in high-end chemicals, environment friendly routes, and control on energy consumption. China's forte in low cost manufacturing and global supplier is waning amidst the escalating challenges faced by its chemical industry. Indian specchem segment has taken the mantle over the past decade and is confidently marching ahead.

Specchem shifting gears to accelerate further – Initiate coverage on nine specialty chemical companies

We like Navin Fluorine International and Gujarat Fluorochemicals due to their high growth. Atul Ltd., Galaxy Surfactants, SRF, and Vinati remain compounding stories. Commodity to specialty transformation can provide Deepak Nitrite valuation upside while Anupam Rasayan to benefit from fluorination foray and financial performance improvement remains a key for Aarti Industries.

Salil Shah

Managing Director

Lakshmishree Investments & Securities Pvt Ltd

Look What Our Research Analyst Has To Say…

Nifty Chart
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For The Month Of
December 2022

NIFTY on the weekly chart has broken out of a Cup and handle pattern at 18,111 and has tested the initial target at 19,000. Since we are into Dec which is holiday season for most of the period we expect low volume high volatility lack cluster moves. The month should be spend consolidating and digesting previous gains and building a Launchpad for the month of Jan which could resume the uptrend. Though there are signs of caution visible in terms of Negative Divergence and low volumes and extended from medium term moving averages, but can be ignored considering Dec being a low volume environment.

Fertilizer sector is proof of the honest efforts of the Centre: PM Modi

Prime Minister Narendra Modi on Saturday said that the fertiliser industry demonstrates the central government's sincere efforts.

Recalling the time when India used to depend on foreign countries to meet the demands of fertilizers, the Prime Minister pointed out that many fertilizer plants that were set up earlier were forced to shut down due to obsolete technologies, including Ramagundam Plant, according to a press release issued by the Prime Minister's Office (PMO).

He further added that urea which was imported at exorbitant rates was black-marketed for other purposes instead of reaching the farmers.

After 2014, one of the first steps taken by the central government was ensuring 100% Neem Coating of Urea and stopping black-marketing. He further added that the soil health card campaign ensured the knowledge among farmers about the optimum needs of their fields.

Five big fertilizer plants that were lying closed for years are being restarted. The Gorakhpur plant in Uttar Pradesh has started production, and the Ramagundam plant has been dedicated to the nation. When these five plants are fully functional, the country will get 60 lakh tonnes of urea which will lead to huge savings on imports and ease of availability of urea.

Ramagundam Fertilizer plant will serve farmers in Telangana, Andhra Pradesh, Karnataka, Chhattisgarh and Maharashtra, he informed. The Plant will spur the economy of the surrounding areas and will give a push to logistics-related businesses in the area.

“6000 crore rupees invested by the central government will give several thousand rupees benefit to the youth of Telangana", the PM stated, as per the statement.

The Prime Minister also talked about the technological strides in the fertilizer field and said Nano Urea will bring a massive change in the field. He stressed the importance aatmnirbharta and mentioned how the global price rise of fertilizer due to the pandemic and war was not transferred to the farmers.

Anshul Jain

Research Analyst

Stocks To Watch

1. Aarti Industries

Market Data

Bloomberg	ARTO IN
52 Wk H / L	976/584
Market Cap:	Rs240.8bn
Shares Outstanding	362.5mn
Free Float	55.8%
Avg. Daily Vol. 3mth:	930,843

Shareholding Pattern

	Sep-22	**Jun-22**	**Mar-22**	**Dec-21**
Promoter	44.2	44.2	44.2	44.2
FIIs	12.1	11.8	12.5	12.3
DIIs	14.8	14.8	14.5	14.2
Public/Other	29.0	29.2	28.9	29.4

Our Take…

We like Aarti Industries (Aarti) given (a) among top 3 players in its core chemistries, (b) Chlorotoluenes diversification, and (c) project management skills. Aarti has invested a massive Rs68.6bn over FY13-22 period with major investments of Rs37.5bn during FY20-22. However, due to Covid related issues the utilisation levels have remained subdued without any conversion to profitability. During the last 2 quarters, the operational performance has improved, nonetheless consistent improvement in performance remains a key monitorable. Aarti's capex momentum is expected to continue with ~Rs27bn capex lined up during FY23-24E. Future stock price performance will be dependent on conversion of capex into financial performance. We estimate adj. FY22-25E Revenue/ EBITDA/PAT CAGR of ~15%/21%/22%. We initiate coverage on Aarti Industries with an ADD rating and TP of Rs716 (8% upside) valuing the stock at 30x 1HFY25EPS of Rs23.9.

Outlook & Valuations…

Post demerger of pharma business recently, management guided Rs11bn EBITDA for FY23E and 25% EBITDA CAGR over FY24-25E. Continuous scale up in quarterly performance is necessary if the company were to achieve its FY24E guidance, which only can instill confidence. Post pharma business demerger, the company has restated its FY22 financials. We have valued Aarti Industries (now only the specialty chemicals) at 30x avg. FY24-25E EPS of Rs23.9. We initiate coverage with an ADD rating and TP of Rs716 (8% upside).

Risks – Delays in conversion of capex to revenues/EBITDA, demand challenges on discretionary product portfolio accounting for ~50% of revenues.

Cashflow

YE Mar (Rs mn)	**FY21A**	**FY22A**	**FY23E**	**FY24E**	**FY25E**
Profit Before Tax	6,646	13,722	6,600	9,161	12,211
Depreciation & Amortisation	2,313	2,464	2,843	3,071	3,600
Net Interest	864	1,023	1,644	1,727	1,572
Net Change – WC	2,917	(8,018)	(1,001)	(487)	(2,716)
Direct taxes	(1,062)	(1,639)	(1,221)	(1,741)	(2,320)
Net cash from operations	**11,670**	**7,544**	**8,857**	**11,723**	**12,337**
Capital expenditure	(11,991)	1,504	(11,500)	(13,500)	(10,000)
Acquisitions, net	0	0	0	0	0
Investments	(265)	352	0	0	0
Others	7	8	8	9	10
Net cash from investing	**(12,250)**	**1,864**	**(11,492)**	**(13,491)**	**(9,990)**
FCF	**(580)**	**9,408**	**(2,635)**	**(1,768)**	**2,347**
Issue of share capital	0	941	0	0	0
Increase/(decrease) in debt	6,816	(2,882)	3,250	3,500	(200)
Dividend paid	(467)	(544)	(269)	(371)	(495)
Interest paid	(864)	(1,023)	(1,644)	(1,727)	(1,572)
Others	(6,834)	(10,019)	0	0	0
Net cash from financing	**(1,348)**	**(13,526)**	**1,337**	**1,402**	**(2,267)**
Net change in Cash	(1,928)	(4,118)	(1,298)	(366)	80

Profit & Loss Statement

Y/E March (Rs Mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	**45,061**	**60,855**	**62,114**	**69,853**	**81,120**
Operating Expense	21,823	28,545	34,400	36,402	41,577
Employee cost	3,714	3,570	4,212	4,970	5,865
Others	9,709	11,540	12,423	14,529	16,305
EBITDA	**9,815**	**17,201**	**11,079**	**13,951**	**17,373**
Depreciation & Amortisation	2,313	2,464	2,843	3,071	3,600
EBIT	7,502	14,737	8,235	10,880	13,773
Interest expenses	864	1,023	1,644	1,727	1,572
Other income	7	8	8	9	10
PBT	**6,646**	**13,722**	**6,600**	**9,161**	**12,211**
Taxes	1,293	1,863	1,221	1,741	2,320
Effective tax rate (%)	19.5	13.6	18.5	19.0	19.0
PAT	**5,352**	**11,858**	**5,379**	**7,421**	**9,891**
Minority/Associates	(118)	0	0	0	0
Recurring PAT	**5,235**	**11,858**	**5,379**	**7,421**	**9,891**
Extraordinary items	(1,139)	(6,171)	0	0	0
Reported PAT	**4,096**	**5,687**	**5,379**	**7,421**	**9,891**

Balance Sheet

Y/E March (Rsmn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity share capital	871	1,813	1,813	1,813	1,813
Reserves & surplus	34,158	43,347	48,457	55,507	64,904
Shareholders fund	35,029	45,160	50,270	57,320	66,716
Minority Interest	122	7	7	7	7
Total debt	24,921	22,040	25,290	28,790	28,590
Non-Current Liabilities	2,244	2,385	2,385	2,385	2,385
Def tax liab. (net)	2,339	1,796	1,796	1,796	1,796
Total liabilities	**64,656**	**71,387**	**79,747**	**90,297**	**99,493**
Gross block	51,147	50,000	61,500	75,000	85,000
Less: acc. Depreciation	(15,222)	(13,624)	(16,467)	(19,538)	(23,138)
Net block	35,925	36,376	45,033	55,462	61,862
Capital WIP	12,979	13,030	13,030	13,030	13,030
Net fixed assets	48,905	49,406	58,063	68,492	74,892
Non-Current Assets	3,201	4,152	4,152	4,152	4,152
Investments	635	283	283	283	283
Inventories	9,357	9,341	10,830	11,428	13,048
Sundry debtors	7,937	10,915	11,215	12,612	14,647
Cash & Cash Equivalents	4,123	1,736	438	72	152
Loans & advances	1,875	0	0	0	0
Other current assets	384	4,469	4,469	4,469	4,469
Trade payables	5,763	3,526	4,313	5,821	6,760
Other current liab.	5,596	4,549	4,549	4,549	4,549
Provisions	401	841	841	841	841
Net current assets	11,915	17,546	17,249	17,370	20,166
Total assets	**64,656**	**71,387**	**79,747**	**90,297**	**99,493**

2. Atul Ltd

Market Data

Bloomberg	ATLP IN
52-week high / low	10,849/7,743
Market cap.	Rs 242.1bn
Shares Outstanding	29.5mn
Free Float	55.0%
Avg. daily vol. 3mth:	33,844

Shareholding Pattern

	Sep-22	**Jun-22**	**Mar-22**	**Dec-21**
Promoter	45.1	45.1	45.1	45.1
FIIs	9.2	8.8	9.2	10.0
DIIs	23.0	23.0	23.1	21.9
Public/Other	22.8	23.2	22.7	23.2

Our Take…

We are positive on Atul Ltd. (Atul) owing to (a) rising capex momentum, (b) huge land availability, (c) debt-free balance sheet, and (d) strong R&D skills and adherence to EHS policies. Traditionally, Atul has been a conservative chemical company with capital allocation purely based on strong growth visibility. However, due to change in global chemical industry dynamics with a large domestic as well as exports opportunity, the investment philosophy has changed during last couple of years with capex of Rs5.9bn in FY22 vs. earlier yearly run rate of Rs2.5-3.0bn. Notably, by end-FY22, investments for the projects under implementation stood at ~Rs17bn signifying aggressive capex in place. We estimate FY22-25E Revenue/EBITDA/PAT CAGR of 17%/21%/19%. We initiate coverage on Atul with a BUY rating and TP of Rs9,480 (16% upside) valuing the company at 30x FY24E-25E avg. EPS of Rs316.

Outlook & Valuation…

FY20-22 period was a transition period for Atul with muted financial performance. Post- Covid, in FY22 the performance got impacted due to cost/logistics inflation and company's inability to pass on the increases completely. With alleviating RM inflation and cost concerns, performance is expected to improve going ahead. Partially executed capex of ~Rs4bn along with ongoing capex of ~Rs16bn holds ~Rs23bn revenue potential at optimal utilisation levels, thus providing growth visibility. The stock is available at 28.9x/23.5x FY24E/FY25E EPS of Rs283.6/Rs348.4. We initiate coverage with a BUY rating and TP of Rs9,480.

Financial & Valuation Summary

YE Mar (Rs Mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	37,315	50,809	58,545	68,562	80,862
EBITDA	9,171	9,114	9,864	13,186	16,212
EBITDA margin (%)	24.6	17.9	16.8	19.2	20.0
Adj. Net profit	6,558	6,043	6,392	8,368	10,282
Adj. EPS (Rs)	222.2	204.8	216.6	283.6	348.4
EPS growth (%)	(1.6)	(7.9)	5.8	30.9	22.9
PE (x)	36.9	40.1	37.9	28.9	23.5
EV/EBITDA (x)	26.1	26.6	24.6	18.5	15.0
PBV (x)	6.3	5.5	4.8	4.2	3.6
RoE (%)	18.8	14.6	13.6	15.6	16.6
RoCE (%)	18.3	14.2	13.2	15.2	16.3

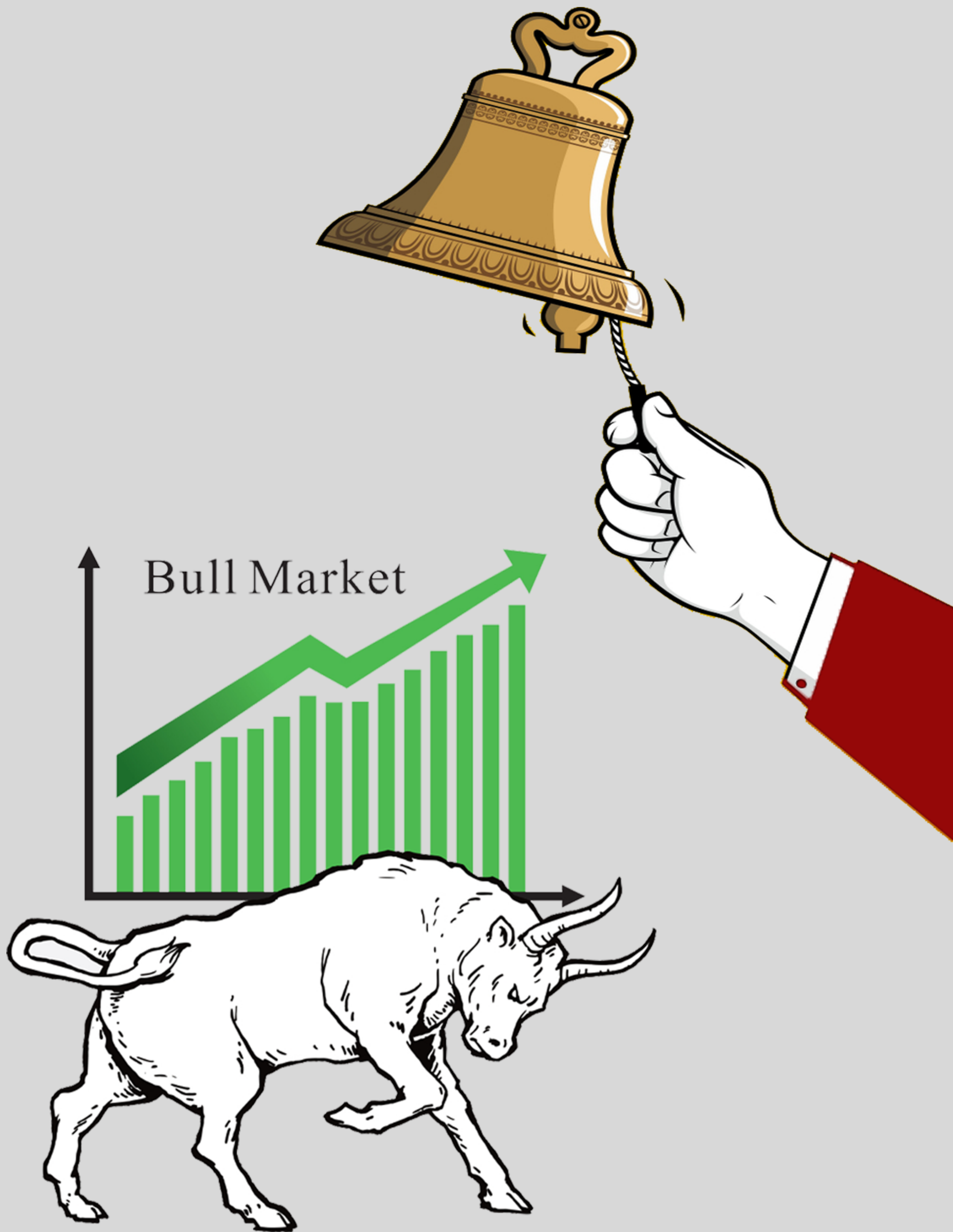
Profit & Loss Account

As at March (Rs Mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	37,315	50,809	58,545	68,562	80,862
Operating Expense	16,952	25,886	29,858	35,309	41,644
Employee cost	3,104	3,425	3,836	4,297	4,812
Others	8,088	12,383	14,986	15,769	18,194
EBITDA	**9,171**	**9,114**	**9,864**	**13,186**	**16,212**
Depreciation & Amortisation	1,363	1,767	2,116	2,874	3,525
EBIT	**7,808**	**7,348**	**7,748**	**10,313**	**12,686**
Interest expenses	94	92	97	90	90
Other income	1,030	760	874	918	1,009
PBT	**8,817**	**8,097**	**8,599**	**11,210**	**13,672**
Taxes	2,217	2,050	2,167	2,803	3,350
Effective tax rate (%)	25.1	25.3	25.2	25.0	24.5
PAT	**6,600**	**6,047**	**6,432**	**8,408**	**10,322**
Minority/Associates	(43)	(5)	(40)	(40)	(40)
Recurring PAT	**6,558**	**6,043**	**6,392**	**8,368**	**10,282**
Extraordinary items	0	0	0	0	0
Reported PAT	**6,558**	**6,043**	**6,392**	**8,368**	**10,282**

Balance Sheet

Year End: March (Rs Mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' funds	**56,317**	**66,058**	**76,635**	**83,812**	**94,429**
Share capital	1,766	1,767	1,767	1,767	1,767
Reserves & surplus	54,551	64,290	74,868	82,045	92,662
Total Debt	**5,243**	**4,671**	**4,833**	**10,301**	**10,301**
Other liabilities	872	850	786	1,502	1,466
Curr Liab & prov	**21,621**	**21,596**	**25,851**	**26,824**	**29,223**
Current liabilities	20,318	19,941	23,972	24,964	27,345
Provisions	1,302	1,655	1,878	1,860	1,878
Total liabilities	**27,736**	**27,118**	**31,469**	**38,627**	**40,990**
Total equity & liabilities	**84,366**	**93,540**	**108,471**	**122,845**	**135,825**
Net fixed assets	19,807	23,477	23,397	24,263	23,439
Investments	26,855	14,608	34,641	54,141	34,642
Other non-curr assets	1,842	6,653	2,674	1,272	2,511
Current assets	**35,862**	**48,802**	**47,759**	**43,168**	**75,233**
Inventories	13,005	13,796	17,343	19,114	20,857
Sundry Debtors	8,336	8,139	5,616	6,462	7,051
Cash and Bank	3,282	8,113	13,290	5,701	35,814
Loans and advances	-	-	-	-	-
Total assets	**84,366**	**93,540**	**108,471**	**122,845**	**135,825**

This Might Impact Your Investments!!



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Sebi asks mutual funds to take action against fake Telegram groups

The Securities and Exchange Board of India (Sebi) has asked mutual funds to regularly monitor social media platforms and take action against entities misusing names of mutual funds to lure investors.

"Mutual funds shall be vigilant and regularly monitor social media to identify entities or groups which camouflage themselves as registered mutual funds or misuse the names of mutual funds to lure the investors," Sebi said in a communication to industry body Association of Mutual Funds in India (Amfi) on Wednesday.

"Mutual Funds should promptly take appropriate actions including issuing a press release/public notice, filing FIR, etc," the letter added.

The directive came after a news article showed that Telegram was rife with dubious groups masquerading as fund houses. Among the most popular ones are Paytm Doubling Mutual Funds, Paytm Doubling Funds Mutual, Tata Mutual Fund Investment, Bitcoin (Mutual Funds), etc. These accounts have a user base of 50,000 to 90,000 each, according to the Sebi letter.

ONGC, Oil India jump up to 3% on sharp cut in windfall tax

Shares of Oil and Natural Gas Corporation (ONGC) and Oil India jumped 3 per cent each to Rs 144.75 and rs 214.10 on the BSE in Friday's intra-day trade in an otherwise weak market after the government on Thursday slashed to less than half the windfall profit tax on domestically produced crude oil and also reduced the levy on diesel.

The tax on crude oil produced by firms such as state-owned ONGC was reduced to Rs 4,900 per tonne from Rs 10,200 per tonne. In the fortnightly revision of windfall profit tax, the government cut the rate on export of diesel to Rs 8 per litre from Rs 10.5 per litre, the PTI report suggested.

Cess has been reduced to $ 8.4/bbl from December 2 in the tenth review of windfall taxes. This will decrease cess of domestic oil production companies like ONGC and Oil India.

At 09:47 am, both stocks were trading higher by 1.5 per cent apiece as compared to 0.54 per cent decline in the S&P BSE Sensex.

WATCH MARKET INSIGHTS: How will the Kirit Parikh panel-gas reforms impact related companies?

Meanwhile, if the proposed revision in the domestic gas pricing formula by the Kirit Parikh committee get implemented, analysts at Emkay Global Financial Services are constructive on both, CGD & upstream players, and see limited downside risks to earnings (in fact, Upstream can see upsides).

"We keep estimates unchanged, awaiting implementation of the recos. A move towards market-linked pricing is structurally positive for Upstream and a floor of USD4/mmbtu will support earnings in case of a downcycle," the brokerage firm said with retained BUY rating on ONGC and Oil India.

Auto shares trade weak post November sales; Eicher, M&M down up to 3%

Shares of automobile companies traded on a weak note amid profit booking on Friday after they reported a mixed set of sales numbers for the month of November.

At 12:19 PM, Eicher Motors, Mahindra & Mahindra (M&M) and Ashok Leyland were down in the range of 2 per cent to 3 per cent, while Hero MotoCorp, Bajaj Auto, Escorts and Maruti Suzuki India (MSIL) slipped between 1 per cent and 1.9 per cent on the National Stock Exchange (NSE).

Nifty Auto index, the top loser among sectoral indices, was down 1.1 per cent, as compared to 0.86 per cent decline in the Nifty 50. The auto index was trading lower for the second straight day. However, since April, in the past eight months, the Auto index had rallied 25 per cent, as against 10 per cent rise in the benchmark index.

Dispatches for passenger vehicles (PVs) and commercial vehicles (CVs) for November were in line, while two-wheelers (2Ws) were below estimates. On the other hand, tractors were above estimates. Miss in 2Ws was largely attributed to weak exports and inventory correction post festive season. Easing of chip shortages, coupled with healthy demand sentiments, is driving PV volumes. Despite inventory correction, tractor wholesales grew 11 per cent YoY, Motilal Oswal Financial Services said.

According to ICICI Securities, the recovery path paused for the domestic three-wheelers (3Ws) space with all players reporting MoM volume decline, with M&M being the only exception reporting marginal growth largely driven by its electric offerings in this space. In the Tractor space, growth came in healthy with both the players in the listed space reporting healthy volume prints in a seasonally weak month, the brokerage firm said.

For PVs numbers for the month came in lower than brokerage expectations and was a negative surprise. Going forward, it expects volumes in the PV space to improve amid healthy order-book across OEMs.

M&HCV segment witnessed mixed performance while LCV segment witnessed near double digit de-growth leading to overall de-growth in CV space. Going forward, with cyclical upswing & greater infra spends, the brokerage firm expects CV volumes to strengthen with expectations set for higher double digit volume growth in FY23E. In the 2-W space, volume prints came in much lower than our expectations amidst healthy retails for the month of November 2022, the brokerage firm said in a note.

Average SIP ticket size shrinks 23% in over 3 years despite rising inflows

The average ticket size of systematic investment plans (SIPs) is on the wane, even as the total inflows through this route have been marching northwards.

According to data compiled by Motilal Oswal Financial Services, the average SIP investment per investor has declined gradually from Rs 2,860 in April 2019 to Rs 2,200 in October this year – 23.07 per cent in three and a half years.

The industry attributes the gradual decline in SIP ticket size to the growing penetration of mutual funds (MFs) on the back of rising ease of investment.

The past few years have seen the emergence of online platforms allowing MF investments in a few clicks and at zero cost. These have helped the industry add a large number of new investors.

In 2021-22, the industry added over 10 million new investors - the highest in a financial year.

The shrinking SIP ticket size is also a result of the 'splitting of transactions' by agents of institutional distributors, such as banks.

They do so to complete their targets, says a senior MF distributor.

The act of splitting or dividing transactions is a practice whereby the distributor registers multiple SIPs of smaller amounts instead of one SIP of the total amount. This is practised by a section of individual MF distributors to earn a higher transaction fee.

In September, the Securities and Exchange Board of India asked the MF industry to identify and block such MF distributors.

ESIC to invest up to 15 per cent surplus funds in equity through ETFs

In a bid to accrue better returns on its surplus funds, the government, on Sunday, allowed Employee State Insurance Corporation (ESIC) to invest up to 15 per cent of its surplus funds into equity through exchange-traded funds (ETFs).

The decision was taken at an ESIC meeting chaired by the Union labour minister Bhupender Yadav at the corporation's headquarters in New Delhi.

A labour ministry statement said that the decision to invest surplus funds into equity was taken due to the low returns on debt instruments and the need to diversify the corporation's portfolio. Initially, the investment will be restricted to exchange-traded funds.

"The initial investment shall start at 5 per cent and increase up to 15 per cent gradually, after review of two quarters. The investment will be confined in ETFs, i.e., Nifty50 and Sensex. It will be managed by fund managers of Asset Management Companies (AMCs). The equity investment will be monitored by existing custodian, external concurrent auditor and consultant looking after the debt investments in addition to the management of the ETF for equity", the statement said.

Besides, the minister also emphasized strengthening the infrastructure at ESIC hospitals and dispensaries and approved the setting up of a new 100 bedded ESIC Hospital at Shyamlibazar, Agartala, Tripura and Idukki.

Further, it was also decided to execute the capital works in ESIC through Central / State PSUs besides the Central Public Works Department (CPWD). A fresh empanelment of such central / state PSU will be invited by the ESIC for empanelment in due course.

Morgan Stanley upgrades Chinese equities as the country eases Covid curbs

Morgan Stanley has upgraded China's equities amidst optimism about the country relaxing restrictions to slow down the spread of COVID-19.

"Multiple positive developments alongside a clear path set towards reopening warrant an upgrade and index target increases for China," the brokerage said in a note.

MSCI China's return on equity (ROE) is likely to rise from 9.4 per cent to 11.1 per cent by the end-2023. The recovery is set to be bumpy "as earnings pressure continues into early next year", it said.

Morgan Stanley upgraded China to overweight from an equal-weight position.

"Our China evaluation framework finally shows the majority of factors improving concurrently, with the latest acceleration of COVID relaxation, property market stabilization, regulatory reset wrapping up, as well as early signs of US/China bilateral communications accelerating. We believe the equity risk premium could also improve," the brokerage said.

Morgan Stanley raised its end-2023 targets for the Hang Seng Index to 21,200, 8 per cent above the current levels.

The brokerage, however, warned that the path ahead could be bumpy following the extreme underperformance of the last two years and the disengagement of certain segments of the global investor base.

Metal index gains over 1% as China eases Covid-19 rules; Hindalco up 4%

Shares of metal companies were in focus on Monday with the Nifty Metal and the S&P BSE Metal index moving up more than 1 per cent on the bourses, in an otherwise subdued market, as reopening of the Chinese economy brightened the outlook of global growth and commodity demand.

At 01:20 PM, the Nifty Metal and the S&P BSE Metal index were up 1.04 per cent and 1.9 per cent, respectively. In comparison, Nifty 50 and the S&P BSE Sensex were down 0.14 per cent and 0.15 per cent, respectively.

Individually, Hindalco Industries, National Aluminium Company (Nalco), Hindustan Copper, Tata Steel, and Hindustan Zinc surged in the range of 2 per cent to 4 per cent. While Steel Authority of India (SAIL), Jindal Steel, JSW Steel, Jindal Steel and Power, and Vedanta gained between 1 per cent and 1.9 per cent.

According to Motilal Oswal Financial Services, the latest easing in quarantine requirements in China is certainly a step in the right direction for metals. However, more needs to be done if this enthusiasm has to be sustained.

The brokerage firm also attributed the ongoing momentum in the metal space to the Chinese government's recently implemented 16 property measures to help the weak property sector. Some of these measures include debt extensions to the industry and relaxing deposit requirements for homebuyers. These could potentially boost the usage of industrial metals, including copper.

"Around 23 per cent of China's copper enduse comes from civil and building construction. Chinese regulators, meanwhile, made it easier for property developers to raise money, a boost for a metals-intensive sector struggling with a debt crisis," the brokerage firm said.

Although recent mine and smelter expansions have seen minimal disruptions, factors such as resource nationalism and stricter environmental oversight are likely to persist in the long term, raising concerns that new mine projects and planned smelter expansions will be insufficient to meet future demand. Demand for copper and industrial metals could stay fairly limp over the next few months as global interest rates peak and China’s economy likely stays weighed down by the property crash and Covid-19. Historically low global inventories of copper could boost prices in the near term, MOFSL said in a report on base metals.

Meanwhile, while announcing the September quarter (Q2) earnings, most of the companies in the ferrous metals space highlighted an increase in input costs, which impacted profitability adversely and reduced ASP due to imposition of export duty. The domestic steel demand continues to remain strong and steel companies under our coverage expect ASP to likely bottom out this quarter, MOFSL said.

Further, reduction in coking coal cost and working capital release should expand margins. Frequent lockdowns in China and high energy costs in Europe have caused demand-supply mismatch in non-ferrous space, the brokerage firm said.

Separately, in a bid to provide a fillip to the domestic steel industry and boost exports, the government, last month, withdrew the 15 per cent export duty on steel products (which was earlier levied during May 2022). Steel products now attract nil export duty compared to 15 per cent earlier. The removal of export duty is a significant relief and a long term positive for the domestic steel sector, according to analysts at ICICI Securities.

Rupee skids 48 paise as corporates, oil firms rush to buy dollars

The rupee weakened sharply against the dollar on Monday as purchases of the greenback by corporations and by nationalised banks on behalf of oil importers dragged the domestic currency lower, dealers said.

The rupee settled at 81.80 per dollar on Monday versus 81.32 on Friday, Bloomberg data showed. So far in 2022, the domestic currency has shed 9.1 per cent against the greenback.

The weakness in the rupee on Monday came despite a softer dollar index and strength in Asian currencies across the board, led by a firm Chinese yuan. The dollar index was at 104.47 at 3:30 pm IST as against 104.55 at previous close, Bloomberg data showed.

Dealers said that corporate outflows related to Vedanta's recent dividend payout and a possible outflow from MSCI (Morgan Stanley Capital International) index stocks had accelerated the rupee's weakness on Monday, despite the decline in the dollar index.

We are hearing some flows on account of MSCI-related outflows and some (dollar) demand from oilers (oil companies). Broad dollar and Indian equities were flat. Selling may again come from around 82 per dollar levels.

On November 30, the rupee had notched up hefty gains versus the dollar as the semi-annual rebalancing of the MSCI India index propelled significant inflows into the currency market, following the inclusion of certain stocks on the index.

With the corporate and importer-related outflows on Monday causing the rupee to weaken past successive technical levels, the losses were aggravated for the domestic currency, traders said.

"Corporate outflows, oil bids, along with several stop losses getting triggered around 81.60 levels pushed the USD/INR pair higher. Irrespective of lower DXY (dollar index) and USD/CNH (dollar-yuan) levels, it did not help rupee as flows continued to dominate the trading session throughout the day," Kunal Sodhani, vice-president, Shinhan Bank (Global Trading Centre) said.

Crude oil prices rose early Monday as the Organization of the Petroleum Exporting Countries and some other oil producers maintained output aims before a ban on Russian oil by the European Union kicks in later this month. Easing COVID-19 restrictions in China also buoyed oil prices.

Brent crude futures climbed 39 cents, or 0.5%, to $85.96 a barrel early on Monday, Reuters reported. Higher crude oil prices pose an upside risk to India's current account deficit as the country is a major importer of the commodity.

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