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Market wrap

April 17, 2018

FMCG and Hotel stocks rally; street participants cheer IMD monsoon forecast..

The domestic indices ended marginally higher on Tuesday, led by gains in FMCG and realty indices. The S&P BSE Sensex ended at 34,395, up 90 points while the broader Nifty50 index settled at 10,549, up 20 points. Among sectoral indices, the Nifty Realty index was over 1% higher led by a rise in the shares of Godrej Properties and Indiabulls Real Estate.

That apart, investor sentiments were positive during the day following the forecast of a normal monsoon this year by the India Meteorological Department (IMD).

Releasing its first forecast for the southwest monsoon, the IMD said rainfall in June-September was projected at 97 per cent of the long period average (LPA), with a model error of plus and minus 5 per cent. If monsoon rains lift farm output, it can boost demand for consumer goods as it raises incomes of rural people.

Sectors and stocks

Shares of Bajaj Electricals have surged 7% to Rs 660 per share on the BSE in early morning trade after the company said it has bagged orders worth of Rs 35.78 billion for rural/urban electrification projects in the state of Uttar Pradesh from Madhyanchal Vidyut Vitaran Nigam Limited (MVVNL). The projects shall be completed within 15 months from the date of issue of LoI, the company said in the filing. The contract is for work of rural/urban electrification and related work on turnkey basis under the Saubhagya Yojna of Government of India, it added.

Shares of fast moving consumer goods (FMCG) companies such as Hindustan Unilever (HUL), Britannia Industries, Nestle India and Jubilant FoodWorks have hit their respective new highs on the BSE on expectation of good profit growth. Thus far in the month of April, all these four stocks have outperformed the market by gaining in the range of 8% to 9% on the BSE. On comparison, the S&P BSE Sensex and S&P BSE FMCG index were up 4% and 5%, respectively.

Jubilant FoodWorks, the largest gainer among the pace, hit a new high of Rs 2,539, up 9% thus far in current month. The stock rallied 44% so far in the calendar year 2018, against 0.96% rise in the benchmark index. Nestle India hit new hit a new high of Rs 8,920, up for the fourth straight trading days on the BSE. Nestle India's recovery is gaining momentum, with recent growth outperforming peers, driven by new CEO's strategy to focus on volume-led growth, drive a faster pace of innovation and expand distribution. With a revitalised core portfolio and increased focus on growth, we believe that Nestle's new strategy can deliver higher growth vs. peers given the huge growth opportunity in its core categories.

Shares of hotel companies have rallied by up to 20% in otherwise range-bound market with 8 out of 15 top gainers from the hotel sector. Taj GVK Hotels, Oriental Hotels, Royal Orchid Hotels, EIH, EIH Associated Hotels, Advani Hotels & Resorts (India), Kamat Hotels (India) and Viceroy Hotels were up between 12% and 20% on the BSE. Revenue per available room (RevPar) across premium hotels inched up by 5% year-on-year (YoY) to Rs 7,400 in February 2018, led by strong growth in demand and higher room rates. RevPar across business destinations like Hyderabad (5% YoY), Delhi & NCR (7% YoY) and Pune (7% YoY) saw strong improvement, backed by strong demand from meetings, incentives, conferences and exhibitions (MICE) segment and increasing number of corporate travelers. Overall, average room rate (ARR) across premium hotels grew by 3% YoY to Rs 8,800 while occupancy (OR) grew by 150bp to 84% in February 2018. This was backed by strong foreign tourist arrivals (FTA) arrivals and increasing domestic & international travelers across leisure destinations.



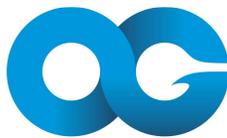
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The first evidence of a revival in India's cyclical hotel industry has hit the shores of tier-I cities, reflected by occupancies crossing the 70% barrier. On an overall market level, occupancies have crossed the 65% threshold after a gap of eight years. The occupancy ratios (OR) of hotels are yet to reach the peak levels seen in FY08. Increasing OR would lead to massive operating leverage, and the incremental benefit would directly flow into the bottom line. A narrowing supply-demand gap bodes well for the industry, with a very favorable gap set to emerge in cities such as New Delhi, Jaipur, and Chennai if demand growth sustains.

Global Markets

Asia stocks rose modestly on Tuesday following data showing China's economy grew a little faster than expected in the first quarter.

MSCI's broadest index of Asia-Pacific shares outside Japan edged up 0.05 per cent. South Korea's KOSPI dipped 0.1 per cent and Hong Kong's Hang Seng gained 0.15 per cent. Shanghai rose 0.15 per cent and Japan's Nikkei was flat.



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