



Market Wrap

Oct. 13, 2017

S&P BSE Metal index hits six-year; early diwali witnessed in domestic bourses..

The benchmark indices extended gains with the Nifty50 closing at record high after Bharti Airtel rallied on a deal to buy the Tata conglomerate's consumer mobile business, while Reliance Industries surged ahead of its results later in the day.

Markets also got a boost after data showed inflation held steady, instead of accelerating as expected, raising tentative hopes the Reserve Bank of India (RBI) would be less hawkish about interest rates.

The data late on Thursday showed annual consumer price inflation rose to 3.28% in September from a year earlier, in line with August and countering expectations for a 3.6% rate. Industrial production grew to a 9-month high of 4.3 percent in August.

For the week, the Nifty and Sensex rallied 1.9 percent each, continuing upmove for the second consecutive week.

Telecom stocks hogged the limelight today. Bharti Airtel soared 7.9 percent after signing a deal to buy consumer telecom business of Tata Sons. Tata Teleservices Maharashtra share price was locked at 10 percent upper circuit for second consecutive session.

Idea Cellular gained 6 percent as its shareholders approved the merger with Vodafone India. Bharti Infratel rallied for fourth consecutive session today, up 4 percent.

Shares of metal companies were in focus with the S&P BSE Metal index hitting six-year high on expectations of strong earnings growth in July-September quarter (Q2FY18). Tata Steel, Jindal Steel & Power (JSPL) and National Aluminium hit their respective fresh 52-week highs, while Hindalco touched a new high on the BSE in intra-day trade on Friday.

Reliance Industries has reported consolidated profit at Rs 8,097 crore for the quarter, lower by 10.8 percent compared with Rs 9,079 crore in previous quarter. Operational performance was far better than analysts' expectations, with the EBITDA at Rs 15,565 crore with margin at 16.4 percent in Q2. "Another quarter of robust performance includes the financial performance of Reliance Jio which had a positive EBIT contribution in its first quarter of commercial operations," Mukesh Dhirubhai. Ambani, Chairman and Managing Director, Reliance Industries said.

He further said the strong financial results of Jio demonstrated the robust business model of Jio and the significant efficiencies that the company has built through its investment in the latest 4G technology and right business strategy. Reliance Jio has posted net loss of Rs 270.6 crore against loss of Rs 21.3 crore in previous quarter. Revenue for the quarter stood at Rs 6,147.06 crore. The loss was much lower than analysts estimates that were at around Rs 2,000 crore.

Jio's EBITDA for the quarter stood at Rs 1,442 crore and margin at 23.45 percent.

Average revenue per user was at Rs 156, which analysts feel more or less looked positive.

Consolidated profit was expected at Rs 8,169 crore and EBITDA at Rs 13,178 crore with margin of 15.4 percent for the quarter, according to average of estimates of analysts.

Gross refining margin for the quarter came in at USD 12 per barrel, against USD 11.9 a barrel in previous quarter. Analysts had estimated at USD 12.5 a barrel. Gross refining margin was below analysts' estimates of USD 12.5 per barrel for the quarter against USD 11.9 a barrel in previous quarter.

Shares of public sector banks (PSBs) erased their intra-day losses and recovered up to 5% in late morning deals on the National Stock Exchange (NSE). Bank of India, Indian Overseas Bank, Central Bank of India, Bank of Baroda, Oriental Bank



of Commerce and Punjab National Bank recovered in the range of 2% to 5% from their respective intraday lows. According to rating agency CRISIL, the operating profitability (pre-provisioning profitability, or PPop) of banks should stabilise by the end of this fiscal, mainly driven by improvement in the net interest income. This will be supported by lower interest reversals on non-performing assets (NPAs), pick-up in credit growth, and reduction in funding costs.

Pressure on the earnings profiles of banks would reduce from next fiscal if banks increase provisioning on large corporate NPAs this fiscal. Stabilization in operating profitability and mitigation of asset quality stress would then set the stage for earnings revival, especially of PSBs, as they focus more on credit growth.

However, with the economic value of assets underlying NPAs eroding with time – resolutions are hard to come by – banks would do well to bite the bullet and step up on provisioning, mainly for large corporate NPAs, and thus facilitate faster clean-up of their balance sheets, the rating agency said in a note. CRISIL estimates this could lead to a net loss of around Rs 60,000 crore for the banking sector this fiscal with public sector banks (PSBs) bearing the brunt of increase in provisions and the resultant impact on profitability because of their higher stock of NPAs. The ability of PSBs to step up on provisioning and hasten clean-up of balance sheets would depend on their capital strength to absorb P&L losses. While larger PSBs are better placed on this count, most of the medium and small ones will require relatively higher capital support from the government to offset such losses and also meet the capital requirements under Basel III regulations.

In broader space, Karnataka Bank was up 6.7 percent after second quarter earnings. Profit fell 24.7 percent YoY due to higher provisions, but non-performing assets fell on sequential basis.

PVR and Inox Leisure gained 3 percent after Tamil Nadu cut entertainment tax to 8 percent.

Sobha, Vijaya Bank, South Indian Bank, DCB Bank, Radico Khaitan, Reliance Communications, Uttam Galva and Jaiprakash Associates up 1-9 percent while Edelweiss Financial, Bombay Dyeing and Reliance Capital were down 1-2 percent.

Global markets

Overseas, World stocks rose for a fourth straight day on Friday on expectations of broad-based global growth, while the dollar headed for its worst week in five as investors awaited US inflation data.

European shares rose to their highest level in nearly four months, helped by some well-received earnings updates. The pan-European STOXX600 rose 0.3% and was set for its fifth straight week of gains as were world stocks.

Germany's DAX index was flat, just below the fresh all-time high hit in the previous session, while Britain's FTSE eased back 0.4 percent after a record close on Thursday.



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