	Close	Percent change	Previous close	Open	High	Low
S&P BSE Sensex	60,747.31	1.41	59,900.37	60,147.07	60,889.41	60,109.94
Nifty 50	18,101.20	1.35	17,859.45	17,952.55	18,141.40	17,936.15
Nifty 500	15,450.10	1.17	15,272.00	15,360.40	15,472.15	15,353.35
Nifty Next 50	42,179.75	0.81	41,841.35	42,093.30	42,244.00	41,906.90
Nifty 100	18,248.55	1.30	18,013.95	18,111.30	18,276.25	18,098.00
S&P BSE Mid-cap	25,401.21	0.93	25,166.71	25,294.67	25,427.89	25,260.54
S&P BSE Small Cap	28,928.06	0.50	28,783.56	28,935.05	29,072.57	28,858.84

MINT SHORTS

Value stocks to lure investors during grim earnings season

Investors are bracing for a miserable stretch of earnings reports that will likely extend the dominance of value shares as Corporate America grapples with high inflation and rising borrowing costs, the latest MLIV Pulse survey shows. The broad view on stocks remains deeply pessimistic as earnings heat up this week, with most of the 424 respondents expecting the S&P 500 Index's slide to deepen. The results signal no relief for equities already reeling from their biggest annual slump since 2008 amid a toxic mix of hawkish central banks, a strong dollar and the specter of recession. Over half of survey takers said they're inclined to invest more in cheaper, so-called value stocks, compared with only 39% three months ago. The sector's outperformance versus growth last year was the greatest since 2000 as rising rates hurt expensive sectors such as technology by increasing the discount for the present value of future profits. BLOOMBERG

Bets against the greenback swelled to 30,457 contracts last week, the most since August 2021. BLOOMBERG

Hedge funds boost dollar shorts on bets for slower Fed hikes

Hedge funds are growing ever more bearish on the dollar, underscoring speculation the Fed will slow the pace of its rate hikes. Bets against the greenback swelled to 30,457 contracts last week, the most since August 2021, according to data from the Commodity Futures Trading Commission on eight currency pairs. Swap contracts show investors now expect the US policy rate to peak below 5%, down from 5.06% after data on Friday showed US wage growth cooled last month. "Pillars of dollar strength are starting to recede," said John Bromhead, a strategist at Australia & New Zealand Banking Group Ltd. in Sydney. "Last week's minutes show the Fed is approaching terminal rate and will be pausing soon." The dollar's fortunes have wilted in recent months as funds from Jupiter Asset Management to JPMorgan Asset Management bet the Fed will rein in the pace of rate hikes. Still, some strategists say the greenback may soon resume its upward momentum as the Fed vows to keep tightening. BLOOMBERG

Tyre cos burn rubber; capex trends are key

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Tyremakers were on a roll in CY22, with shares of most companies rallying by 20-45%. This strong move was fuelled by softening prices of natural rubber and crude derivatives, improving the sector's margin prospects.

Against this backdrop, shares of Apollo Tyres Ltd surged to a new 52-week high this month. Recall that shares of Ceat Ltd and JK Tyre & Industries Ltd scaled new 52-week highs in December.

Investor excitement is understandable given that natural rubber and crude derivatives such as synthetic rubber and carbon black contribute around 70% of the sector's total raw material cost basket. So, input price movements are a crucial determinant of earnings outlook.

With relief on this pain point, the important factor tyre investors need to focus on is the sector's capital expenditure (capex) intensity, which has remained high lately. A ban on tyre imports is also among factors that have given the companies' capex plans a boost.

An analysis of seven listed tyremakers by CareEdge showed that in the last five years, investment in capex pushed the sector's gross block by two times (See chart). Gross block is the total value of all assets that a company owns. A major portion of this capex was greenfield in nature and capex as a percentage of revenue averaged 9-10%, showed the CareEdge study.

Rising capex bodes well for the sector's long-term growth outlook. However, until that fructifies, it weighs on the companies' balance sheet strength and return ratios, especially with fears of a global recession looming.

According to Nithya Debbadi, assistant vice president and sector head - corporate ratings, Icra Ltd, the estimated interest coverage ratio for Icra's sample set of seven tyre companies for FY23 is around 5-7x and total debt/Opbitda at around 2x. Opbitda is operating profit before interest, taxes, depreciation and amortization. While the industry's overall credit profile is currently at a comfortable level, a delayed recovery in margins, rising interest costs and debt-funded capex shall have some impact on the debt metrics, she cautioned.

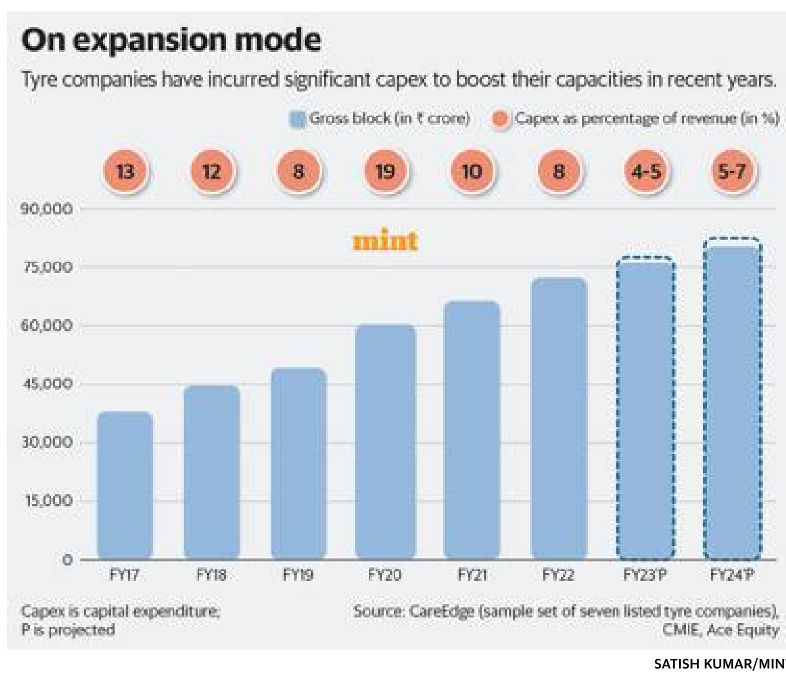
Thankfully, considering the current global macroeconomic backdrop, companies are exercising caution. In the September quarter (Q2FY23) earnings conference call, the management of Apollo Tyres said it has been extremely judicious about capex and has curtailed it in the first half of FY23 given the challenging business environment.

"Elevated capex intensity has pushed the sector's leverage higher and return ratios lower," said Varun Baxi, an analyst at Nirmal Bang Institutional Equities.

Competitor Ceat's management has said that it is tightly monitoring capex and cash flows. The guidance for FY23 project capex remains at Rs750 crore, which the company will review in Q3. The management expects its FY24 capex to be lower than FY23.

According to Baxi, peak capex is behind the sector and any incremental capex would be largely brownfield. So, lowering of capex intensity means that companies will have more money on the table which can be used for deleveraging and leaner balance sheets are a positive for tyre stocks, he said. "Going ahead, capex per tonne is likely to be at ~60-65%, much lower than seen in the previous capex cycle," Baxi added.

Meanwhile, a key near-term lever for tyre stocks is the pace of margin improvement. Q3 results and management commentary should offer more clarity on this front. On the flip side, a fresh covid wave, global recession and lower-than-expected recovery in margins are the potential downside risks. As of now, tyre stocks seem to be capturing a good portion of the optimism.



SATISH KUMAR/MINT

CHARTING THE COURSE

INVESTORS need to focus on the sector's capital expenditure intensity, which has remained high lately

UNTIL the capex fructifies, a key trigger in the near-term is the pace of margin recovery

WHILE the industry's overall credit profile is at a comfortable level, caution is warranted

Titan stock looks for more glitter than just a decent growth update

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Titan Co. Ltd's business update for the three months ended December (Q3FY23) shows that growth has been satisfactory across segments. The jewellery business, which is the company's largest revenue contributor, saw 11% year-on-year growth excluding bullion sales. This performance was led by new buyer growth in the festive period, higher value studded jewellery purchases and unique collections for the season.

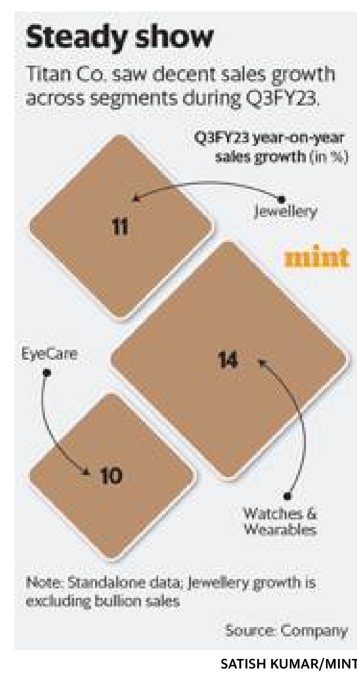
Some analysts point out that the double-digit growth in the jewellery segment reflects market share gains. Titan said studded jewellery sales moderately outpaced plain gold jewellery growth. This should aid Q3 margin. New store expansion (net) in Q3 stood at eight stores in Tanishq and 14 in Mia, taking the total store count to 510 in the jewellery business.

Titan's other key segments, watches and eyecare, also saw a double-digit growth, but these are too small to move the needle. Overall, this meant Titan's standalone sales growth was about 12% on a high base.

Even so, Titan's shares fell by 2% on Monday, a day when the Nifty 50 index was up by 1.4%. The stock's expensive valuations also mean that earnings growth expectations are high. Perhaps, that could explain investors' disappointment with the Q3 update.

The company's jewellery business, the largest revenue contributor, saw a 11% year-on-year growth

Investors will watch how margins pan out when Q3 results are announced. The ongoing quarter (Q4FY23) would see benefits from a favourable base. Recall that last year's March quarter was hurt by the impact of the Omicron covid wave, gold price volatility and a fragile geo-political situation. Accordingly, investors could follow if earnings estimates see upgrades.



SATISH KUMAR/MINT

"With 9-10% retail space addition, low base (Omicron/gold price volatility) and incremental contribution from Mia/other categories, we see scope of upgrade in Street estimates," said analysts from Emkay Global Financial Services.

To be sure, while Titan's earnings growth visibility is robust, any potential shortfall on this front is a risk. "It has compounded earnings by about 20% for an extended period of time. In the jewellery industry, which is organizing at a rapid pace, it is clearly at the vanguard in terms of growth among organized players. Its runway for growth is long, with a market share of about 6%," said a note by Motilal Oswal Financial Services Ltd.

While that augurs well, the stock's pricey valuations may limit sharp near-term upsides. The stock trades at nearly 56 times estimated earnings for financial year 2024, showed *Bloomberg* data.

Mark to Market writers do not have positions in the companies they have discussed here

Inflation likely stayed flat at 5.90% in Dec

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India's retail inflation was likely flat in December at 5.90%, according to the median prediction of a *Mint* poll of 20 economists. Lower food prices, particularly the fall in vegetable prices, supported moderate inflation. However, core inflation, which excludes food and fuel items, likely remained sticky at around 6%.

The inflation expectations in the poll ranged from 5.4% to 6.1%. Six of the 20 economists in the poll expect inflation to have increased in December, while the rest expect it to be the same or fall from the 11-month low of 5.88% in November.

"Sequentially, headline inflation is slowing largely on account of falling food prices... but non-food inflation remains sticky, showing signs of demand-side pressures," noted Rahul Bajoria, economist at Barclays in a report dated 5 January.

If the poll median comes true, inflation would average at 6.2% for the October-December quarter, lower than the RBI's projection of 6.6%. Economists anticipate further easing in inflation in the upcoming months. "We anticipate some easing in the ongoing quarter, which would intensify in January-March," said Aditi Nayar, chief economist at ICRA Ltd.

Healthy rabi crops, favourable reservoir levels, and decline in commodity prices could help bring inflation lower. "The year-on-year rise in commodity prices would decline in the current quarter and may be negative in Q1 FY2024, which should result in less pass-through pressure going forward," Nayar added.

SATISH KUMAR/MINT

Food inflation, which accounts for about 40% of the inflation basket, fell in November and is expected to be low in the coming months. This will provide some relief to the RBI, which has raised interest rates by a total of 225 basis points in 2022. However, it is still widely expected to remain hawkish unless inflation comes closer to the central bank's medium-term mandate of 4%.

"We maintain our call for a 25 basis points repo rate hike to 6.5% in February as core CPI inflation stays sticky at 6%, and as the moderation in inflation has been led by vegetables, which should see a seasonal pick-up from April. After achieving sub-6% inflation, the MPC is likely to shift its focus to the 4% goalpost," said Kanika Pasricha, economist at Standard Chartered Bank.

Oil jumps as China optimism spurs gains

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Oil rallied at the start of the week on hopes of renewed Chinese crude buying and as the dollar extended its decline.

West Texas Intermediate futures surged as much as 3.8% to move above $76 a barrel Monday. China issued a fresh batch of crude oil import quotas in a sign that the world's largest purchaser may be about to boost consumption.

Meanwhile, the Federal Reserve may lean toward smaller interest-rate increases after wage growth cooled in December, another step down in its aggressive campaign of monetary tightening. That's put pressure on the US dollar, which slipped again Monday, and added to tailwinds for commodities priced in dollar.

Crude had a sluggish start to the year, posting a drop of around 8% last week as nearby oil markers flash signs of weakness. For now traders are awaiting signs of a meaningful up-tick in Chinese demand, though there has been improvement in mobility gauges over recent days.

China issued a fresh batch of crude oil import quotas in a sign that it may be about to boost consumption

"China reopening remains the major bullish catalyst story out there," said Keshav Lohiya, founder of consultant Oilytics. "We are generally on the oil bull side, but the price rise will not be a straight line as it was in 2004-08."

This week also marks the beginning of the annual rebalancing of the largest commodity indexes, a period usually characterized by volatile flows across raw materials markets. The period should see more than $1 billion of inflows into the global Brent benchmark, while leading to outflows from WTI, as per separate estimates from Citigroup Inc. and Societe Generale SA.

The Biden Administration is delaying purchases to refill the emergency oil reserve after deciding that the offers it received were either too expensive or didn't meet the specifications, according to people familiar with the matter.

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There are not many concerns there, except for the demerger. Once the demerger is done, and the process of listing the new company gets underway, then financial bids could be invited. Since there's a separation of assets, so there's price adjustment takes place (for) the listing of the shares. Our aim is that financial bids should come within this financial year. The transaction can then be completed in the following two to three months. For BEML also, we would like to follow the same timelines (as SCI), and the order of demerger is already out.

In the case of HLL Lifecare, was the issue with Kerala resolved? What's the progress in the disinvestment process?

The Kerala government (through Kerala State Industrial Development Corp.) wanted to be a bidder and had put in a bid also. Their bid was considered, but it was not meeting the bid conditions, so they were told that their bid had not qualified. HLL's disinvestment is moving forward, and very soon, we will soon be in a position to call for financial bids.

Will the disinvestment of BPCL be revisited?

The Cabinet has given approval for the disinvestment of BPCL; unless and until Cabinet reverses it, it is not off the table, except that the time is not right for us to launch it. You have to see the geopolitics and financial markets among several factors. It is our assessment that we are not yet ready to launch it yet.

What has the government decided on Pawan Hans' disinvestment?

We need to take a decision in the inter-ministerial group. We made a reference to the ministry of corporate affairs, which was to be based on the follow-up of the NCLAT order. I think they have taken a call, we will consider it, and we'll take a decision.

The common criticism has been that Dipam has not been able to meet ambitious targets.

The last two, or three years when the big numbers have been (kept), are precisely the years when it had been most uncertain. In the last two-three budgets, the work was revised three months into the Budget year. Many expenditure lines would become double or triple. You'd never know, for instance, how the subsidy from businesses is going to go. This period has been marked by a tremendous amount of uncertainty, besides added uncertainty of Fed rates.

So, for the coming Budgets, can the targets be much more subdued compared to (previous years)?

That's the finance minister's prerogative, and there's nothing I can comment on. So let's wait for the budget to be announced.

What has been the critical learnings from disinvestment transactions?

It should be looked at from the point of view of reforms. If you have to keep your fiscal deficit under control and still be able to put capex and social sector expenditure, you've got to be raising money apart from revenue. So, non-tax revenue is important, and then disinvestment is a miscellaneous capital receipts. But generating resources is a small part of the story, it's how productivity enhancement takes place in the economy. If any of the public sector assets managed in the government are freed, the government itself will get less burden of management, and it will enable the entity to conjure up the right resources at the right time for industrial development, which comes quite low (in priority) for the government since there are many other demands (for development). Also, the risk metrics of the PSEs are different. PSE managers have additional rules and compliances. In such constraints, the reforms set through the new PSE policy will be a far better thing to do because there's also the opportunity cost on how much you've saved (on not spending on the asset divested) like Air India, which is not even mentioned in the budget. Therefore, to look at purely from the point of view of Budget receipts, which is eventually spent, the opportunity cost of read remaining in the government has never been actually analysed.