MARKET-HUB
NEWS LETTER

Beyond Research,
Beyond Advice

18th February 2023
Issue – 537

Market News

Dr Reddy's Laboratories (DRL) reported a 77 percent surge in net profit for the third quarter of FY23 and a 27 percent growth in consolidated revenue over the last year, but the stock traded lower on February 17.

Global research firm Credit Suisse has an 'underperform' rating on the stock, citing concerns over the potential impact of Apotex's launch of Suboxone on Dr Reddy's Labs' earnings before interest, taxes, depreciation, and amortisation (EBITDA).

According to Credit Suisse, Suboxone constitutes about 7 percent of Dr Reddy's base EBITDA, and the entry of Apotex could potentially impact 40 percent of its EBITDA from Suboxone or 3 percent of consolidated EBITDA.

Maggi and Kitkat maker Nestle India posted a 62 percent year-on-year jump in its net profit at Rs 628 crore for the October-December 2022 quarter.

Net profit stood at Rs 386 crore in the same period last year, after an impact of Rs 236.5 crore exceptional loss.Meanwhile, revenue for operations for the December quarter has jumped 13.8 percent YoY to Rs 4,257 crore from Rs 3,739.3 crore a year-ago. On the operating front, EBITDA (earnings before interest, taxes, depreciation and amortization) came in at Rs 982 crore, higher by 15.4 percent.

Operating margins improved to 23 percent from 22.8 percent YoY.

Gold was trading a tad higher on February 16 from a five-week low in the international market as well as in India. At 10.21 am, gold was up 0.08 percent on the Multi Commodity Exchange (MCX) at Rs 56,170 for 10 grams, while silver was trading higher by 0.44 percent at Rs 65,712 per kilogram.Spot gold rose 0.3 percent to $1,841.32 an ounce, while US gold futures were 0.3 percent higher at $1,850.70 at 0216 GMT.Gains, however, were limited due to stronger-than-expected retail sales data and signs of sticky inflation in the US, which spurred fears of more interest rate hikes by the Federal Reserve, pushing up treasury yields.

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Corporate Action only for information	Company Name	Type & Percentage	Record Date	Ex-Date
SPLIT	IRB Infra	Old fv 5 New fv 1	17-Feb-23	17- Feb -23
SPLIT	Akashdeep Metal	Old fv 10 New fv 2	23-Feb-23	23- Feb -23
SPLIT	KBS India	Old fv 10 New fv 1	24-Feb-23	24- Feb -23
SPLIT	Karnavati Fin	Old fv 10 New fv 1	24-Feb-23	24- Feb -23
RIGHTS	Amal	Rights Ratio 24:77	21-Feb-23	21-Feb-23
DIVIDEND	Cummins	Interim 600	21-Feb-23	21-Feb-23
DIVIDEND	MRF	Interim 30	21-Feb-23	21-Feb-23
DIVIDEND	IRCTC	Interim 175	22-Feb-23	22-Feb-23
DIVIDEND	ITC	Interim 600	15-Feb-23	15-Feb-23
DIVIDEND	Torrent Power	Special 130	22-Feb-23	22-Feb-23
DIVIDEND	Oil India	Interim 100	22-Feb-23	22-Feb-23
DIVIDEND	Metropolis	Interim 400	23-Feb-23	23-Feb-23
DIVIDEND	BEML	Interim 50	24-Feb-23	24-Feb-23
DIVIDEND	CESC	Interim 450	24-Feb-23	24-Feb-23
DIVIDEND	NMDC	Interim 375	24-Feb-23	24-Feb-23
DIVIDEND	ONGC	Interim 80	24-Feb-23	24-Feb-23

Nifty Spot in Last Week:-

As we saw the Price Movement in Nifty Spot in last week that In Upside is 18134.75 in Downside 17719.75.

NIFTY WEEKLY CHART

BANKNIFTY WEEKLY CHART

Nifty Spot in Upcoming Week:-

Nifty up side strong supply zone 18100 to 18150 down side strong demand zone17700 to 17500.

Bank Nifty in Upcoming week:-

Banknifty up side strong supply zone 42100 to 42600 down side strong demand zone 40100 to 39500.

Recommendation for next week

Serial No.	Stock Name Cash segment	Above/Below/Add HOLD	CMP as on 18.02.2023	Trail SL	Buy Stop loss	Sell Stop loss	Target
1	KPRMIIL(BUY)	HOLD 594	598		569		640
2	PAYTM (BUY)	AROUND 600	622		540		700-800
3	MPHASIS(BUY)	HOLD 2124	2235	2099			2400

Commodity Market

COPPER:- :- Investors can sell around 797-805 with sl 815 down side target 730 possibility.

CRUDEOIL:- Investors can Buy in deep around 6200 level with sl 6000 target 6600 possibility.

SILVER:- Investors can Sell on rise around level 67000 with stop loss 68200 down target will be 63200-62000 possibility.

GOLD:- Investors can Sell on rise around level 56500 with stop loss 57500 down target will be 55100 possibility.

Currency Market (Cash Levels)

USDINR:- If Spot close above 83.05 then up side 84.00 to 84.20 level possibility.down side 81.50 is support.

GBPINR: - Investors can sell on rise to 100.65 to 101.00 range with sl 102.20 down side target 96.00 possibility, Investors can buy in deep around 96.00 with stop loss of 95.00 up side target will be 100.00 possibility.

EURINR:- Investors can sell on rise 89.50 to 90.50 range with sl 91.00 down side target 86.00 possibility, Investors can buy in deep around 85.00 with stop loss of 83.50 up side target will be 88.00 possibility.

JPYINR:- Investors can sell on rise 62.00 to 63.00 range with sl 64.10 down side target 60.00 possibility,

Currency CASH LEVEL	DEMAND ZONE LEVEL		CLOSE	SUPPLY ZONE LEVEL	
	D2	D1		S1	S2
USDINR	81.00	82.00	82.80	83.05	84.00
GBPINR	97.00	98.00	98.85	99.50	100.50
EURINR	86.00	87.00	88.05	89.00	90.00
JPYINR	59.00	60.00	61.35	62.00	63.00

Currency Corner

Premium / Discount (USD/ INR) Based on Forward Rates	
Duration	Premium
One month Forward	0.14
Three month Forward	0.40
Six month	0.82
One year	1.60

RBI reference Rates	
Currency	Rates
USD	82.80
GBP	98.85
Euro	88.05
100 Yen	61.45

Exit Traditional Capitalism, Enter 'Capitalism without Capital' (Part II)

In the olden days we use to consider a company with huge buildings and large factories a BIG company. Most of our investment decisions were based on this physical aspect of the wealth. The blog by Marcellus Investment Manager throws some different idea.

(https://mail.google.com/mail/u/0/#advanced-search/subset=all&has=marcellus&within=1d&sizeoperator=s_sl&sizeunit=s_smb&query=marcellus/FMfcgzGrcXhGDTC)

In the last issue we started by looking at TCS v/s ONGC, a study in contrast. We will go deeper in understanding as to why TCS was able to generated superior return for its shareholders.

Over the past decade, TCS' Total Shareholder Return (TSR) has compounded at a CAGR of 20% whilst its net fixed assets, EBIT, and Free Cashflows have grown by roughly 12%, 14%, and 22% p.a. over the same period respectively. If we look at TCS' asset turnover (revenue/average net fixed assets and capital work in progress), it has averaged at around 8x in the last 10 years.

As a result, TCS' Return on Capital Employed (ROCE) has risen from 51% in FY12 to 62% in FY22 with the 10-year average ROCE being upwards of 50%. Given that the typical large cap company in India does not even get close to hitting 15% ROCE over a typical decadal cycle (15% being our estimate of the cost of capital in India), what explains TCS' sustained success on such a large scale?

Our research shows that TCS' relentless rise over the past forty years has been underpinned by:..

- Unmatched muscle in skilling and training programs – especially for "freshers" (TCS was the first to do something of this sort) which leads to the build-up of human capital on a mammoth scale. This is evidenced by TCS' cost structure – the firm has the highest profit margins amongst the leading IT Services companies (around 20% as of FY22) whilst having the lowest attrition rate (17.4% in FY22) in its peer group. TCS' unmatched capabilities in mass hiring, training, and deployment has allowed the firm to out-muscle its competition over the past couple of decades. On the training front, TCS was one of the early players to recognize the importance of training fresh graduates and had started planning for a training campus in Trivandrum as early as 1993. The first batch of trainees joined in 1997. To put this context, Infosys' Mysore training campus started in 2002. Learning and training today is a continuous process at TCS. Its HR policies on continuous learning, lateral movement, and growth planning drive high employee retention i.e., low attrition. At senior levels, the scope of responsibilities and autonomy are the key incentives. Lower attrition means lesser costs of hiring, training, and retraining, which have a direct impact on the firm's profitability. The stability at the top level also drives strong comfort on succession planning. The median time spent by the C-Suite with TCS is 20 years and in its history of 50+ years, the firms has had just four CEOS – all of them were internally selected and groomed over multiple decades before ascending to the top job.
- Robust processes for timely and accurate execution of projects: In the 1990s, TCS created an automated fix for

correcting the Y2K bug. This was easy to plug and play in TCS' applications/software, which helped TCS rectify the situation faster than its competitors could. This further established its stronghold as one of the innovators/leaders in the IT space. Another point worth mentioning is how TCS created a Data Dictionary called ADDICT (later named CASEPAC). This was a centralized repository of data and information with standardized definitions to be used by everyone, no matter where they were physically situated, in order to create coherence in the work done. The data dictionary, therefore, became a tool to dispel ambiguity and doubt about the definitions that the team had to work with. This was crucial for forging technology and learnings that supported its process approach and had a deep impact on many software project managers in TCS, some of whom occupy key positions today in the organization. This standardization and automation of processes gave TCS an operational excellence that their competitors lacked.

- Superior intellectual property creation along with productizing its service and making it fungible across domains: TCS has typically invested ahead of the curve - whether in setting up India's first IT fresher training campus, setting up offices in non-US geographies, investing in new business segments, etc. Some of these initiatives do not payoff, but the ones which payoff give the company a long-term edge in that space. For instance, TCS' focus on IP creation is evident with ~2,300 patents to its credit. TCS has 'productized/platformized' many services (like TCS ADD which is a data handling platform for life sciences organizations and TCS HOBS which is a fully automated device management platform) and the share of platforms and products in its total revenues is substantial (~10% of revenues or US$ 3 bn – read more here). In many cases, the mundane job of coding has also been productized - smaller and generic chunks of codes are saved in a common repository, to be utilized in larger projects efficiently without reinventing the wheel. This process of investing in IP creation and productization helps TCS drive non-linear growth in revenues (which in turn drives superior profit margins) as initial spends on creating the IP or the product can be monetized across multiple clients' projects. TCS has products and platforms in the BFSI space, retail, medical trials, blockchain, etc.

In stark contrast to TCS stands Oil and Natural Gas Corporation (or ONGC), which was the second largest wealth creator in the Indian stock market in the decade ending 2012 (ONGC's market cap addition in that decade was ~Rs. 2 trillion i.e., less than a fifth of the value that TCS created in the decade ending 2022).

ONGC is primarily in the business of upstream crude extraction and operates large oil rigs both onshore and offshore. Just 87 nautical miles (or ~160 km) to the northwest of India's financial capital, Mumbai, is ONGC's crowning glory, the Mumbai High Field. Situated in the middle of the Arabian sea, sits India's largest oil field which is operated by ONGC. Furthermore, on this site, ONGC has also constructed live-able apartments for its employees who have to operate from here

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