CNI Publications; Weekly Plattern

Weekly summary

Editorial

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New settlement and new energy. Last settlement was contained at 700 points and now in Oct we may see 1000 up.

Avantel Mindteck Gulf are quality stocks. Can also have look at Rajshri Poly. All other stocks covered will have bright future. RIL SBI will lead the rally in OCT.

More research ideas will be generated.

ENJOY THE WEEKEND AND READ YMV.

No need to panic. Reason India will be 5 tr $ economy before Dec 2025 and Indian markets too will be 5 tr $ market capitalization before Dec 2025 means we have 33% room for Nifty before Dec 2025. Means 26600 is Nifty by Dec 2025.

This means we will see 10 times returns in mid-caps and small caps.

All temporary corrections are opportunities to buy more with conviction.

We are trying to give you research notes so that your confidence is created while buying and allow you to hold for good time.

Avantel and Lahoti 2 notes we released this week. Every week you will get more and more research notes.

Avantel is defense story. Lahoti is renewable energy story where likes RJ may enter in a big way.

Metal Coating Alpine stands out as best stories. Once the CCT limit changes operation should start as operators never like 5% cct limit. So wait.

New research stock in welding segment DH India Ltd code 517514 cmp 74 break out above 82. Promoters recently added 10% stake.

Bhel is on break out should cross 160.

Change of the week

	07-Oct-23	Rise /Gain
Sensex	65995	164 ↑
Nifty	19653	15 ↑

Net Investments (` Cr)

	FII	DII
03-10-2023	(836.0)	1361.0
04-10-2023	(3956.7)	1769.4
05-10-2023	(337.4)	521.4
06-10-2023	(90.2)	783.2
Total	(5219)	4434

Turnover (` Cr)

	FII	DII	Combined
06-Oct-23	81,598	63,984	1,45,582

06-Oct-23	Advances	Declines	Ratio
BSE	2298	1365	1.68

Tata power should cross 300.

Tata Motors will announce super results and there will be front running before results.

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No need to panic. Avoid THE OCEAN that is for FPI. For us THE POND works. Yesterday someone sold 50000 Metal coating and someone bought. I would like to tell you why this is MUST add.

I have been recommending this stock for a long time and investors are running out of patience. This is what the trade to trade is designed for. Once stock goes in trade to trade investors lose interest and get frustrated. This stock has now come out of trade to trade. But most likely operators start action once they go in 20% circuit limit band. Metal Coating is due for 10% and 20% circuit limit changes and your exit at this juncture will be certainly at bad time. Rather it is time to consolidate your positions.

5 Top Gainers			
Stock	**06-10-2023**	**02-10-2023**	**% Gain**
GODREJ IND	719.7	570	26.2
AUTHUM INV	588.8	482.6	22.0
ECLERX SER	2149.6	1818	18.2
PCBL	196.9	168.7	16.7
EDEL	69.9	61.19	14.2

5 Top Losers			
Stock	**06-10-2023**	**02-10-2023**	**% Loss**
MTNL	504.7	981.9	9.4
DALMIA BHARAT	28.8	31.8	7.2
IBULL FINANCE	2227	2400	7.17
GLENMARK	172.2	185.5	7.15
GUJRATFLO	793.7	854.8	6.37

Top 5 Picks By CNI 'A' Group
Company
GMDC
NALCO
VEDANTA
ADANI PORT
TATA MOTORS

Top 5 Picks By CNI 'B' Group
Company
LAHOTI OVERSEAS
GULF PETRO
ZYDUS WELLNESS
DH INDIA
GTV ENGINERRING

Why Metal Coating is takeover candidate

Metal Coating has good capacities of HR and CR and they supply mainly to AUTO component and white goods sector. White good sector is the new lifeline of India. They have been using imported scrap for manufacturing steel particularly HR and CR where cost is very low compared to industry standards. Scrap is getting costlier and steel making though nonferrous raw material is still costlier. Metal Coating is mainly supplies to white goods players where demand is rising many times. The automotive market continues to look pretty good, and there are new markets such as construction that promise to keep demand strong.

White goods sector has a promising growth potential. The rural penetration of white goods continues to be extremely low in India so far in spite of a surge in the purchasing power in the rural economy. As power availability improves, the demand for white goods in the rural economy shall drive the demand for the same in the country thereby leading to a demand for the products of the Company.

View on Steel Industry

"A mini steel mill melts Scrap to make Steel. Typically, it start with an Electric Arc Furnace required to melt it. In contrast, typical integrated steel plant uses coal and iron ore as input material to make steel. They have Coke Ovens, Blast Furnaces and Basic Oxygen Furnaces to extract the iron and then make steel out of it. From the cost point of view, the input raw materials account for 50% of the cost of production for integrated steel plants while for mini-mills, the raw material share is around 75%. Also mini-mill is more energy intensive in comparison to an integrated steel plant.

Where mini-mills have the biggest advantage is the capital costs. A typical integrated steel plant needs around 1000 to 1100$ per ton of steel per annum production whereas it is in the range of 250 to 300$ for a mini-mill. This means a 1 million ton per annum plant would cost around 1 billion$ for an integrated steel plant whereas for a mini-mill it would be just 250 million$.

A mini steel mill is compact as it needs very less area (15,000 m2 to 25,000 m2) in comparison to integrated steel plant (above 150,000m2).

India Steel Scenario for next 8 years

Domestic Crude steel capacity for FY23 is 157.59 MT

Domestic Crude steel production for FY23 is 124.72 MT

SAIL, RINL, Tata Steel, AM/NS India, JSW Steel & JSPL together produced 76.68 mn tonnes (61% of total production)

Between FY24 & FY26 about 30 MT capacity is expected to be added by Tata Steel, AM/NS India, JSW Steel & JSPL.

Between FY26 & FY31, capacity addition by the big 4 private manufacturers & SAIL is expected to be more than 70 MT.

Vedanta to increase its capacity from 3 MT to 15 MT.

Domestic steel demand to grow by 7-9% in FY24 & 5-6% CAGR for next five years.

India's targeted steel capacity for 2030 is 300 MT (almost double from present).

JSW Steel eyeing 50 MT, Tata Steel 40 MT, SAIL 35 MT, JSPL 25 MT by 2030.

AM/NS India to increase capacity to 15 MT from 9 MT by 2026.

In FY23, Capex done was around Rs. 50,000 crs, top 6 companies account for 75-80%.

In view of the above TATA STEEL, JSW, JSPL SAIL RINL are likely to increase the capacities as given above either through Greenfield projects or through inorganics growth. Given the pace of the economic growth the greenfield facilities will take much longer time as suggested above that is 2030 hence there will be massive spurt in mergers and acquisitions in this space.

We therefore hold our bullish on many mid and small sized mills like USHA Martin, Metal Coating, Jayaswal Neco etc which will help to steadfast in the steel rally. The valuation matrix is shared above which can help you determine the price. Stock at less than 2x BV and just at 67 crs market cap clearly suggest there is big upside. According to me the minimum value of these facilities is 75 mn $ which we should compare with current market capitalization.

Therefore suggest to hold on or add more METAL COATING Ltd and wait for just few weeks.

Dow RSI AT 24. Nasdaq at 36. Nifty RSI at 37. We cannot go below this level. Market is bound to bounce back sharply.

CNI-recommended stock are outperforming the street. Our latest recommendation of DH India up 20%. Same way mafatlal indystries is hitting new highs.

Lahori overseas looks great may hit new highs soon. Keep watch on the stock.

Rattan india ready for a new rally.

As we were saying in our previous 2 notes market has bottomed and we may see an upward trend on the nifty from here on. We hit a high of 20200 and saw nifty correct 900 pts which is a healthy correction.

Tata Motors looks extremely good at current levels. We may soon see stock crossing 700 rupees mark.

Same way Tata Communication has the potential to cross 3000 soon.

Lahoti overseas looks good. Keep watch.

Study Aminies and plasticizers. Technically above 144 stock can go till 180.

Uniqueo organic our new research.

Special feature

When fear looms over the city, it becomes an opportune time for investments, especially for those seeking midcap and small-cap stocks. I reiterate the importance of adhering to our concept of "THE OCEAN, THE RIVER, and THE POND." The Ocean represents F and O and A-grade stocks where FPI, DII, and HNI engage in trading, a space best left for them.

I've emphasized multiple times that A-grade shares may not yield the desired results, although they are considered safe. While these shares offer liquidity and the flexibility to raise cash when needed, the cost may outweigh the benefits. If liquidity is the sole criterion, then one might consider alternative options such as mutual funds, offering at least 15% assured returns and capital safety. Fund managers bear the responsibility of managing the fund and delivering returns, recovering costs from investors.

It's crucial to bear in mind that the market operates on a pyramid system. HNIs play a pivotal role in nurturing companies from 100 crores to 1000 crores and beyond. Once a company enters the 1000 crores club, funds associated with HNIs come into play, attracting larger funds, intermediaries covering the stock, and media discussions. This phenomenon, known as "THE OCEAN," witnesses stocks changing hands at market caps ranging from Rs 2000 to 10,000 crores after completing the journey from Rs 100 to 10,000 crores.

From this point onward, the new normal is established, and any adverse news causes a correction of 30 to 50%, as exemplified by Delta. Retail investors, entering at higher levels, often face the brunt of such corrections. For Ocean players such fall is drop of ocean and they have firewalls to absorb losses which individual investors have no capability to do so.

I advocate for exploring micro caps where these dynamics are less pronounced. In September, the Nifty fell by just 700 points, although historically, it seldom settles at less than 1000 points. It appears that bears are relentless in their pursuit of continued short selling. If we count the fall of Oct first week this is by and large settled in the range of 1000 points alarming possibility of sharp reversals.

The Dow's RSI has fallen to 24, equivalent to March 20 levels, and Nasdaq and Nifty stand at 35 and 36, respectively, all in sync. Theories related to bond yields seem futile and are often used to instill fear. Practically, moving money from Indian equity to the US debt market, even for FPIs, is challenging. The Indian market's volume and capitalization are significantly smaller than the US, making the theory of Indian money flowing to the US for a 5% bond yield less plausible.

I remain skeptical of this theory. While US equity might engage in arbitrage, the same cannot be said for Indian equity. Moreover, the expanding Indian bond market, particularly with its inclusion in the J P Morgan Bond Index, might present arbitrage opportunities within India itself. Despite prevailing negativity and a continuous decline, the Dow remains resilient, hovering around 33,000, well above its lowest point at 29,000. Ordinarily, a 24 RSI at 29,000 would have been appealing, but that's not the current scenario. Over the last 12 months, the Dow has fluctuated between 32,000 and 35,000. Despite a pervasive bearish sentiment, it steadfastly refuses to dip below 33,000. Consequently, a rebound was inevitable, and it took a notably vertical trajectory. Keep an eye on the unfolding of a new rally, often a precursor to reaching new highs.

The perceived weakness in the Dow is attributed to a considerable slowdown in the U.S. economy. This prompts the question: If true, why is the Fed indicating further rate increases? If inflation proves obstinate and rates must ascend, the repercussions on the economy will become evident. Some experts label this as a recession, a claim I disagree with. They assert it's a recession lasting four quarters. I contend that if a recession begins, it persists for decades. The economic slowdown results from monetary measures, such as rate hikes, which are standard and will likely be reversed with impending rate cuts. The daily market speculations on rate changes, whether hikes or cuts, appear to be strategic statements intended to influence market sentiment.

I maintain my bullish stance, whether it's the Dow or Nifty. With the Dow's RSI at 24 and Nifty at 35, there's no other reasonable assumption. In all previous market crashes, the descending axe was never visible to investors. Those who made significant purchases at a 30 RSI have historically earned substantial profits. The current situation mirrors the severity of March 20, although the same level of distress isn't observed in mid-caps and small-caps, thanks to SEBI's introduced margining system. This system prevents over-leveraging and restricts buying on the same day as selling. Consequently, these safeguards shield mid-cap and small-cap markets from free-falling, unless a stock exhibits poor fundamentals. The Ocean remains the only arena where leveraging is permissible, and the system allows for squeezing leveraged positions, primarily due to the options market. I reiterate, if FPIs and HNIs can earn 30%+ monthly through options, there's little incentive for them to shift their funds from India to the U.S. bond market for a 5.5% return. Such a move seems arbitrary and impractical in reality.

I've recently discussed Mafatlal Industries and had the opportunity to review the company's presentation. It was an excellent presentation, shedding light on the company's asset-light approach. They've wisely closed down loss-making denim units, redirecting their focus towards value-added products. There's speculation about a potential demerger of the hygiene business, a sector often misunderstood, as they compete with giants like Procter and HUL. The company is actively selling non-core assets, with prospects of becoming debt-free before March 2024. Despite owning six textile mills, the real estate value seems overlooked by the market at present. Excluding Nocil shares worth Rs 600 crores, the company is currently valued at Rs 300 crores. Notably, the company is experiencing a remarkable 70% growth, evident from Q1 results. It's advisable to keep a close watch until it reaches Rs 163, its new high. After that point, acquiring this stock in significant quantities might become challenging. The company's involvement in producing uniforms for defense, schools, and fire departments adds a significant boost. Once people realize this and gain clarity, there's a strong likelihood of increased interest and investment. I have no doubts about the potential for this stock to be a multi-bagger.

Hindustan Copper is another company that recently presented, indicating a move towards being investor-friendly. Such presentations often signify a desire for an upward shift in market capitalization, usually indicative of a company performing exceptionally well. This facilitates better understanding by FPIs, DIIs, and HNIs, encouraging them to initiate buying.

GMDC, Avantel, and Mindteck have delivered exceptional returns in line with our strategy. We anticipate similar results from Gulf Petroleum and Lahoti Overseas. It's quite rare to find companies like Lahoti available at a 7 PE ratio, with dividend payments and a market size of Rs 800 crores. This is one-third the size of Mafatlal, trading at Rs 900 crores market cap. Power is a key factor in Lahoti's potential, especially with their significant expansion in renewable energy. However, thorough due diligence is recommended at your end. For me it is no brainer at just 111 crs market capitalization.

Leaving aside the PE ratio and market capitalization to GDP two alternative methods of valuing markets let us focus on GST and tax revenues which are essential for growth. The significance of GST collection and income tax collections cannot be ignored, as they have become mainstream sources of government spending, acting as wheels of growth. Notably, private capital expenditure is on the rise, marked by both Greenfield projects and inorganic takeovers. The reduction in corporate tax has resulted in substantial earnings growth, currently at 24%, with the potential to surpass 30% in FY24. However, it is essential for the government to recognize the necessity of creating space for initial public offerings ranging from Rs 50 to 200 crores. This move could lead to a considerable increase in employment and private capital expenditure at the grassroots level, offering better compliance, especially with small MSME promoters approaching banks.

Interestingly, there has been a notable appeal from Mr. Amit Shah, the Home Minister, urging the expansion of capacities and scale of operations. This statement should be read as a message between the lines, suggesting major incentives for the MSME and manufacturing sectors. This is reminiscent of the impact on PSU stocks when the Prime Minister mentioned them in Parliament. Such announcements are likely to result in an expansion of the price-earning ratio for sectors like Engineering, Infrastructure, Capital Goods, Real Estate, Auto, and Ancillary, Cement, and Steel. This positive outlook further strengthens confidence in small-cap stocks, particularly those trading below a PE ratio of 10, making them promising investment candidates.

Vascon Engineering, initially picked at Rs 18 and now trading at Rs 68, has become a noteworthy success story, akin to Bank of Baroda and Bank of Maharashtra. New research findings, such as Lahoti Overseas (PE 7), could potentially follow a similar trajectory as Vascon, given its revenue of Rs 800 crores at a valuation of just 111 crores. The anticipation is that this company, too, might reach Rs 100-120, mirroring the success of Vascon. Investors have a range of choices - The Ocean, The River, or The Pond - but it's crucial to note that returns will align with defined norms for these sectors. Renewable is the mainstream of this textiles co which is profitable and now trailing at 52 week suggesting exit of all weak hands. Face value is Rs 2 hence the price is Rs 200 and not 40 which you can ignore as a penny stock.

In conclusion, I want to reiterate my belief that the Indian markets are poised for growth over the next 5 to 7 years. My target of Nifty 40,700 for 2027 remains intact. India is expected to become a 5 trillion dollar economy by the end of 2025, translating to similar increase in market capitalization. This implies a Nifty target of 26,600 by the end of 2025. It's crucial to focus on stocks that align with our goals, leaving the OCEAN for FPIs, DIIs, and HNIs and concentrating on micro-caps where potential opportunities abound. We have identified many new research ideas and will be sharing research notes on these companies in our website www.cniresearchltd.com. It will be worthwhile to subscribe Chakry comments for just Rs 1416 per month and dip in to the fresh first time content on micro-cap stocks.

Global Indices

Country	Indices	Date	Index	Net Change	Change %
Hong Kong	Hang Seng	7/09	17,485.98	+272.11	+1.58
Singapore	Straits Times	7/09	3,174.39	+19.29	+0.61
United States	NASDAQ	7/09	13,431.34	+211.51	+1.60
United States	DJIA	7/09	33,407.58	+288.01	+0.87
United States	S&P 500	7/09	4,308.50	+50.31	+1.18
Japan	Nikkei 225	7/09	30,994.67	-80.69	+1.18
United Kingdom	FTSE 100	7/09	7,494.58	+43.04	-0.26
Malaysia	KLSE Composite	7/09	1,416.88	+1.28	+0.58
Indonesia	Jakarta Composite	7/09	6,888.52	+13.69	+0.09
Thailand	SET	7/09	1,438.45	-14.10	+0.20
France	CAC 40	7/09	7,060.15	+61.90	+0.88
Germany	DAX	7/09	15,229.77	+159.55	+1.06
Argentina	MerVal	7/09	628,917.75	+15,846.12	+2.58
Brazil	Bovespa	7/09	114,169.63	+885.55	+0.78
Mexico	IPC	7/09	49,666.50	+211.91	+0.43
Austria	ATX	7/09	3,119.98	+28.56	+0.92
Belgium	BEL-20	7/09	3,490.44	+22.51	+0.65
Netherlands	AEX General	7/09	726.70	+4.95	+0.69
Spain	Madrid General	7/09	918.09	+6.91	+0.76
Switzerland	Swiss Market	7/09	10,837.59	+54.44	+0.50
Australia	All Ordinaries	7/09	7,143.04	+25.50	+0.36
China	Shanghai Composite	7/09	3,110.48	+3.16	+0.10
Philippines	PSE Composite	7/09	6,259.95	+81.35	+1.32
Sri Lanka	All Share	7/09	10,987.12	-55.83	-0.51
Taiwan	Taiwan Weighted	7/09	16,520.57	+67.05	+0.41
South Korei	KOSPI	7/09	1,858.98	-5.82	-0.31

CNI Publications, A/120, Gokul Arcade, Sahar Road, Vile Parle (East). Mumbai- 400 057. PH.022- 28220323 / 28383889, Fax– 022-28242220