Pre Market Report July 23, 2013

Disappointing Q1FY14 numbers from Larsen and Toubro as against positive expectations – "SELL" for short term...

Larsen & Toubro LT:IN disappointed the street on every parameter with the first quarter (April-June) net profit falling higher-than-expected 12.5 percent year-on-year to Rs 756 crore. Net sales increased lower-than-expected 5 percent to Rs 12,555 crore in June quarter from Rs 11,955 crore YoY. EBITDA margins shrunk to 8.5 percent from 9.1 percent YoY as big ticket orders were hard to come by.

The firm has already achieved 25 percent growth in its order book to over Rs 25,000 crore in Q1. Analysts on an average had expected it to report net profit of Rs 991 crore on net sales of Rs 13,643 crore. Post earnings announcement, L&T shares declined over 7 percent to Rs 905.85 post earnings announcement. Have loot at segment-wise performance of the heavy enginering and construction major. Power segment: PAT down 44 percent to Rs 1275 crore due to a general slowdown in orders. Infra vertical: PAT up 23 percent to Rs. 5217 crore. Hydrocarbon division: PAT up 44 percent to Rs 1275 crore. We **recommend "SELL" for immediate term with a short term target Rs. 720 owing to steep fall of 13 percent in profitability led by pressure in Power, Metallurgical & Material Handling Segment, depressed growth in Electrical and Automation (E&A) segment and Machinery & Industrial Products segment which was adversely affected due to industrial slowdown.** Going ahead, persistent macro concerns, currency volatility and uncertainty in financial markets has impacted the Indian economy

The market is likely to be rangebound in the absence of any strong global cues or economic stimulator while corporate earnings may continue to keep the market volatile. On Monday, the BSE gained more than 100 points in afternoon trade, but could not hold gains in late trade as L&T's poor numbers soured sentiments .

The 30-share benchmark gained 9.27 points to close at 20159.12, and the NSE Nifty rose 2.60 points to finish at 6031.80

RBI has lifted financing restriction on gold and put quantitative restrictions. The central bank says importers have to park at least 20 percent of imported gold for exports. Data suggests gold imports could fall by as much as 63 percent. However, the jewellery sector is divided in its reactions. They feel exports to a tepid overseas market would be tough.

Stock in news

In stock specific action, after facing off with over a 100 companies who failed to comply with the minimum public shareholding norms, the market regulator Sebi has relaxed terms for Fresenius Kabi, giving a nod of approval to its delisting plans

Agency reports indicate that UK has opened Diageo-USL deal for competition review.

The Bombay High Court has adjourned the hearing in the Bajaj Auto case till August 23. The Bajaj management had filed a case against workers on strike.

L&T will sell 1 percent stake in L&T Finance to meet minimum public shareholding norms.

The Delhi High Court will continue hearing in the Merck-Glenmark case today.

The latest on the Bayer Crop science buyback. It will buy back up to 28.7 lakh shares and fixed the buyback price at Rs 1,580 a share.

Companies that are expected to announce April-June quarter earnings include L&T Finance Holding, Shriram Transport Finance, KPIT Cummins, Coromandel International , Century Textiles, 3M India , Gujarat Heavy Chem, Greenply Ind , Dewan Housing , Mahindra Forg , India Infoline and Tata Elxsi .

Global cues

In US, markets eked out marginal gains in lackluster trading, with the S&P 500 closing at a new high, but a batch of mixed earnings reports and weaker-than-expected existing home sales weighed. The CBOE volatility index slid near 12.

In Europe, major indices pared early gains to close flat. A series of earnings releases boosted stocks in Europe, particularly in the banking sector. Shares of UBS closed 2.50 percent higher in heavy trade, after it posted a net profit for its the second quarter that beat market expectations.

In Asia, government comments reiterated Beijing's commitment to supporting the export and service industry is aiding sentiment. Japanese stocks erased earlier losses to rise above 14,700. Strength in the Japanese yen propped up South Korean exporter.

Asian markets were trading higher. China's shanghai composite rose 1.50 percent or 30.12 points at 2,034.88. Hong kong's hang seng advanced 1.72 percent or 368.88 points at 21,785.38.

Japan's nikkei was up 0.93 percent or 136.62 points at 14,794.66. Singapore's straits times was up 0.26 percent or 8.26 points at 3,242.61.

Other asset class

In the currency space- the euro is steady above 1.31 to the dollar. The dollar index is at 82.20 levels. Meanwhile dollar-yen is around 99 levels.

Gold prices surge to its highest level in nearly a year, currently at above USD 1333 an ounce. Brent crude hovers at around USD 108 per barrel, and Nymex crude slips to sub USD 107 per barrel on profit taking.

Ajcon's view

Indian markets trade at ~14.0x FY14E and ~12.0x FY15E versus historic average of 15.5x. Index formed higher high and higher low thereby maintaining positive bias, however caution is warranted as index is placed near key resistance of 6100 marked by 80% retracement of May-June decline.

We are of the view that during the past week, market deteriorated in terms of market breadth and only few select stocks have shored up the index which is vulnerable to profit booking at current levels.

The Indian government has moved on a number of important policy reforms in the form of FDI in multi-brand retail & aviation, besides unleashing other measures like SEB debt restructuring, diesel price deregulation, gas price hike, Cabinet Committee on Investment (CCI) and direct cash transfer (DCT). The Union Budget has also been balanced and credible one with more emphasis on fiscal correction. A creditable reform from UPA II has been the curtailment of the fiscal deficit, the diesel price deregulation and more recently the proposed gas price hike. The Finance Minister has also promised continuation of the reforms agenda, notwithstanding the political uncertainty surrounding the Lok Sabha elections.

At this junction, we believe markets offer value buying opportunities in midcap space. Investors with a longer term horizon should ideally pick good large cap stocks as well at this moment. We recommend buying Banks like Bank of Baroda, HDFC Bank, ICICI Bank, DCB and Standard Chartered Bank, Union Bank of India, Syndicate Bank and State Bank of India. We recommend selling Kotak Mahindra and IndusInd bank at current levels. In the Oil space, we recommend buying Reliance Industries, Oil India, ONGC and Cairn. In the Commodities space, we recommend investors to accumulate NMDC, Coal India and Manganese Ore. In the Pharma sector, we advise to accumulate stocks like Merck, Glenmark Pharma and Dr. Reddy's, Lupin, Sun Pharma and SPARC. In the Consumption space, we recommend accumulating ITC, Jyothy Labs, and Nestle. In the midcap space, we recommend investors to accumulate Cera Sanitaryware, Astec Lifesciene, Apcotex, Liberty Phosphate, Petronet LNG, VaTech Wabag, Sangam (India), Voltas, Can Fin Homes, United Phosphorous, Tata Chemicals, Havells, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.

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