

Institutional Research: Ajcon's research desk view: 10th June, 2013

“Weaker economic output and pressure on rupee going against markets; optimism seen on good monsoons”...

Benchmark Indices struggling: The Nifty is struggling below 5900 led by rate sensitives and pharma. The Nifty is up 0.20 points to be at 5881.20 while the the Sensex is up 11.47 points at 19440.70. About 910 shares have advanced, 1077 shares declined, and 146 shares are unchanged. Jindal Steel, Bharti Airtel, Sun Pharma, Tata Motors and Maruti Suzuki are major laggards of the day. The midcap index is in the red. Jain Irrigation , Federal Bank , Idea and HDIL are all down.

It is a positive session for most of Asia, as the Japanese market rallies 5 percent on the back of a strong GDP revision and a weaker yen.

According to a recent poll conducted by Reuters, India's industrial output probably rose for a fourth consecutive month in April, but at a slightly slower pace, suggesting economic recovery remains tepid. A weaker reading of factory activity will increase the pressure on the RBI to ease monetary conditions to spur growth at its policy meeting next week while it seeks to balance risks from a high current account deficit and a weaker currency. As per street's consensus forecast, Production at factories, mines and utilities rose an annual 2.4 percent, after a 2.5 percent rise in March. Forecasts ranged from an expansion of 1.5 to 4 percent.

Recent economic data suggest that growth has bottomed out, but no clear evidence yet of setting in of a cyclical revival. IIP (index of industrial production) growth thus likely to stay sluggish.

Bonds sinking: Indian government bonds sank partly because of foreign institutional investors' selling and also because the falling currency is seen preventing the RBI from cutting rates in the June 17 credit policy. Higher prices of crude are adding to the negative sentiment.

Monsoons above expectations: Monsoon arrived on time over the Kerala coast and thereafter is progressing very well. All the southern states are receiving good rainfall in both coastal and interior parts of peninsula. The current level of the northern limit of monsoon is now passing through Gujarat, most parts of Maharashtra, Chhattisgarh, Orissa, north-eastern states and West Bengal. These areas have been covered by monsoon so far. Conditions are very favourable for next entire week. In the next 24 hours, monsoon will be active over Jharkhand, Chhattisgarh, Bihar and remaining areas of Orissa, good chunks in Gujarat and remaining parts of Maharashtra. North India also including large parts of North West India, east Rajasthan, west Madhya Pradesh, Delhi, west Uttar Pradesh, are likely to have the onset of monsoon five-six days ahead of its schedule. Good amount of pre-monsoon showers are occurring here and there. This will have a very significant bearing in terms of agriculture, getting relief from drinking water's perspective and heat.

Concerns on China: Risks are rising that China's economic growth will fall further in the second quarter and that full-year forecasts will be cut further, after weekend data showed weakness in May exports and domestic activity struggling to pick up. China's economy grew at its slowest pace for 13 years in 2012 and so far this year economic data has surprised on the downside, bringing warnings from global market participants that the country could miss its growth target of 7.5 percent for this year. Exports posted their lowest annual growth rate in almost a year in May at 1 percent, exposing a more realistic picture of trade following a crackdown by authorities on currency speculation disguised as export trades to skirt capital controls. That speculation had created double-digit rises in export growth every month this year even as

world growth stuttered. May exports to both the United States and the European Union - China's top two markets - both fell from a year earlier for the third month running. Imports fell 0.3 percent, against expectations for a 6 percent rise, as the volume of many commodity shipments fell from a year earlier. The Chinese market is shut today.

Brent Crude inching up: In commodities, Brent nudges towards the US\$ 105 per barrel level helped by jobs data. Gold hovers below USD 1400/ounce. Top oil exporter Saudi Arabia is selling more crude to India in July as two refiners have asked for additional cargoes, industry and company sources familiar with the plan said, in part to make up for a loss of supplies from Iran. Hindustan Petroleum Corp and Mangalore Refinery and Petrochemicals Ltd. stopped buying Iranian crude from April because local insurers said they cannot cover refineries that process oil from Iran as global reinsurers, mostly based in the West, may not honour claims. HPCL's imports from Saudi Arabia will also rise in July as the company did not buy full volumes it is committed to take from the kingdom for June because a crude processing unit at its Vizag refinery was shut following a fire. The unit may restart by the end of this month. Other Indian buyers of crude from Saudi Arabia - which include Indian Oil Corp and Reliance Industries - will lift the same volumes committed under annual contracts, sources said. India's total imports from Saudi Arabia average a little over 700,000 bpd.

Globally in US, the question on everyone's mind is how soon the Fed will move on QE exit. *We feel that central bank should taper now. The sooner we come to grips with this excessive level of assets on the balance sheet of the Federal Reserve, the better. According to us, bond prices need to fall for the economy to normalize.*

Key Events/Data to Watch

Tuesday: FIPB to consider Jet-Etihad deal

Wednesday: April industrial output, May CPI inflation

Friday: May WPI inflation

Going ahead, we expect markets to remain volatile next week on fears that a weakening rupee may lead foreign investors to pare positions. We feel that markets are in consolidation phase and would take cue from ongoing monsoons. According to LS Rathore of Indian Meteorological the onset of monsoon in parts of India has been favourable till now. North India is expected to receive rainfall ahead of its schedule.

Retail investors should take long positions in the stocks suggested below during this fall/consolidation. At the current levels, the Sensex trades at a PE of 16x FY1E EPS of Rs.1,260 and 14x FY14E EPS of Rs. 1,430. Historically, Indian markets have traded at valuations of 16x one year forward. In the Banking space, we believe there is huge gap in valuations of Private sector and PSU banks. We believe with improving macro economic fundamentals; this gap would narrow down to some extent. We recommend to Buy State Bank of India, Syndicate Bank, Bank of Baroda, Union Bank of India, United Bank of India. In the private sector, we recommend buying Karur Vyasa Bank, ING Vyasa Bank, HDFC Bank, ICICI Bank, DCB and Standard Chartered. In the Realty space, we prefer Godrej Properties, Oberoi Realty, DLF, Prestige, Sobha Developers and Mahindra Lifespace. In the Infrastructure space, we recommend investors to accumulate stocks like Larsen and Toubro (Q4FY13 topline was as per our expectation, it expects sales to rise 15-17 percent for the fiscal year to March 2014 and order inflows to be up about 20 percent this fiscal year), Pratibha Industries, KEC International, IL and FS Engineering and Construction Company, Sadbhav Engineering and GMR. In the Oil space, we recommend buying Oil India, ONGC and Cairn.

In the Commodities space, we recommend investors to accumulate NMDC, Coal India, Manganese Ore and Hindalco Industries. In the Pharma sector, we advise to accumulate stocks like Sun Pharma Advanced Research, Lupin, Merck, Glenmark Pharma and Dr. Reddy's.

In the Consumption space, we recommend accumulating ITC and Nestle. In the midcap space, we recommend investors to accumulate DCW, Cera Sanitaryware, Page Industries, Ramky Infrastructure, Liberty Phosphate, Munjal Auto Industries, Wheels India, Repco Home Finance, VaTech Wabag, Voltas, CanFin Homes, United Phosphorous, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.

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