



Mr. Ajmera's column as on 12th November, 2013

"Rupee under pressure; bears may remain for some more time"...

Indices closed the trading session near 1-month low amid volatile session as investors turned cautious ahead of key economic data due for release today. Meanwhile, selling among metal, auto, and financials shares along with weakness in rupee against dollar too dragged the markets. Investors remained cautious ahead of the September index of industrial production data and inflation based on the Consumer Price Index due for release after market hours today.

The rupee hit a 7 week low yesterday, and even as it has appreciated over 8% since the August all-time low of 68.85/\$, the trend is expected to remain weak as taper concerns re-emerge and oil demand slips back into the market. This depreciation, while not good for the country's import bill, has improved competitiveness of Indian exporters. In a recent research report, India Ratings said garment exporters in particular are running on full capacity and also outsourcing manufacturing on a job work basis as order books are growing ahead of the peak festive season (December).

Domestically, Hindalco Industries, the world's largest aluminium rolling company, disappointed Dalal Street with the second quarter net profit declining marginally to Rs. 357 crore from Rs. 358.9 crore year-on-year, dented by higher finance cost. Bottomline was largely supported by other income; otherwise profit would have much lower than currently reported. Other income, which included Rs. 61 crore non-recurring income and dividend of Rs. 100 crore from subsidiaries, more than doubled to Rs 280 crore in three-month period ended September 2013 from Rs 132.4 crore in a year ago period. Net sales increased over 2 percent year-on-year to Rs 6,245 crore during September quarter, missing analysts' expectations because of lower volumes. Street had expected the aluminium manufacturing company to report net profit of Rs. 425 crore on revenues of Rs. 6,839 crore for the quarter. "Greenfield projects (Mahan smelter and Utkal Alumina Refinery) are ramping up as planned, however, EBITDA streams will take time to scale

up with delayed access to captive coal. With improving TcRc, copper business is expected to have a stable outlook despite a sharp drop in by-product realisation," Hindalco said. EBITDA climbed 3 percent Y-o-Y to Rs 481 crore while operating profit margin improved marginally to 7.7 percent from 7.63 percent during the same period on higher inventory. Street had estimated EBITDA at Rs. 496 crore and margin at 7.25 percent for the quarter. Finance cost surged 6.5 times on a yearly basis to Rs. 183 crore in the quarter gone by, given higher average borrowing, the company said in a release. Revenue from aluminium business grew 11 percent year-on-year to Rs. 2,342.6 crore, driven by higher volumes, but EBIT margin of the same business declined 100 basis points to 7.1 percent during September quarter. "The long spell of subdued LME has adversely affected the global aluminium industry and its margins and production levels significantly," the company reasoned. During the same period, total metal production increased to 1,32,000 tonne (excluding Mahan production) from 1,28,000 tonne while alumina production (excluding Utkal alumina production) rose to 3,34,000 tonne from 3,28,000 tonne year-on-year, but sequentially it was down from 3,48,000 tonne due to a planned ramp down at one of refineries. In case of copper business, revenue slipped 2.2 percent Y-o-Y to Rs 3,974 crore in the quarter gone by, but its EBIT margin expanded 90 basis points to 6 percent. Cathode production declined to 77,000 tonne from 78,000 tonne year-on-year, but increased from 68,000 tonne quarter-on-quarter. Both aluminum and cathode production numbers were lower than market ' expectations of 1,38,000 tonne and 80,000 tonne, respectively.

Domestically, the Finance Ministry expects inflows of US\$25 billion by November end through forex swap windows opened by the Reserve Bank to attract deposits from non-resident Indians and allow banks to borrow overseas. Until yesterday, the RBI had received US\$ 17.5 billion through the special windows for swapping foreign currency non-resident (bank) deposits and overseas foreign currency borrowings by banks.

Globally, conditions in the US and Europe are improving and the UK has done extremely well. Consumer confidence is returning to those markets, jobs data is positive all of which is helping trade grow. Growth in the US and European markets is key as they contribute to 30% of India's overall shipments overseas, but across geographies growth has been strong barring South and Latin America. US stocks edged up on Monday, lifting the Dow to another record closing high in light volume on Veterans Day while investors turned their focus to how soon the Federal Reserve may begin reducing stimulus. Although stocks closed higher on Friday, a robust October jobs report rekindled expectations that the Fed may reduce its stimulus efforts sooner than expected. A Reuters survey showed that more US primary dealers now expect the Fed to trim its \$85 billion of monthly bond purchases before March. The day's slight gains came on light volume, with the US government and the bond market closed for Veterans Day. The S&P 500 also came close to ending the session at a record high. The focus is right again back to the Fed. The thinking is perhaps the taper has been moved forward. Maybe it's not going to be March, maybe December.

Your Friendly Advisor since 1986,

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