



Mr. Ajmera's column as on 24th August, 2013

"RBI's measures to control rupee and ease liquidity, lifts up market sentiments"...

Domestically, RBI has sounded a warning to the government on the viability of the proposed Food Security Bill, a legislation that will ensure cheap food to nearly two-thirds of the population and which the Congress-led UPA is determined to push through Parliament in the ongoing session. The proposed programme – the largest of its kind in the world – will guarantee 5 kg of rice, wheat and coarse cereals each month at highly subsidized rates. The annual cost of providing this has been estimated at Rs. 125,000 crore when fully implemented. The government, which has already announced the food security legislation by way of an ordinance and has launched it in Congress – ruled states, has budgeted just Rs. 10,000 crore this year for it, raising fears about the fiscal impact of this measure when rolled out fully.

According to a data released by RBI for August 16, India's foreign exchange reserves rose US\$ 206 bn to US\$ 278.8 bn on the back of revaluation of non – dollar assets. Foreign exchange reserves dipped by US\$ 13 bn since end – May after the US Fed announced tapering of quantitative easing. The central bank sold US\$ 2.7 bn in spot and US\$ 900 mn in forwards in June. In the domestic market, the rupee opened at Rs. 64.30/31 touched a low of 64.75/76 and closed at 63.20. While liquidity was tight in the bond market, the cut – offs announced by RBI on the sale of securities propped up sentiments. The cut – off rates were close to the yields which have gone up. FII's sold worth Rs. 148 crore, local investors bought Rs. 755.87 crore worth of stocks. The rupee, the strength of which is crucial for a potential rollback of the RBI's liquidity tightening measures, recovered from a record low hit on Thursday after the finance minister said the currency was "undervalued".

The Sensex rallied 206.50 points or 1.13 percent to close at 18519.44, which gained more than 600 points in two days after falling nearly 1500 points in previous four sessions. The Nifty rose 63.30 points or 1.17 percent to finish at 5471.75, helped by oil & gas, private banks, capital goods and metals stocks. For the week, the Sensex lost 0.4 percent and Nifty fell 0.65 percent. The gains also tracked the easing of an emerging markets rout, while global shares headed for a second day of gains as data suggesting the global economy is improving took the edge off concerns about the impact of a cut in U.S. monetary stimulus. However, traders remained wary about foreign flows after overseas investors sold a net \$701.4 million worth of shares in the five sessions through Thursday, ahead of June quarter GDP data and the expiry of August derivatives contracts next week.

Globally, the 10 year US treasury yields are in sight of 3 percent for the first time in two years as investors saw a fed pullback on bond buying as soon as next month. Remember, the yields have risen more than 100 bps since May. On the economic data front, Markit's preliminary reading of US manufacturing PMI rose to 53.9 in August, its best showing since March. Meanwhile, weekly jobless claims rose to 336,000 last week, but still held close to a six-year low and gave a positive signal for hiring during the month. In key data to watch out for in the US today, new home sales are seen slipping to 487,000 in July.

Ajcon's view and Recommendations:

Going ahead, all eyes would be on the following events:

Finance Minister's meeting with Bank Chiefs

27-Aug: Fortnightly Credit Growth Update

30-31 Aug: Aug Centre's Gross Fiscal Deficit and its financing, Quarterly GDP data for Q1FY14, Monthly Old CPI YoY% for July

Indian markets trade at ~13x FY14E and ~12x FY15E versus historic average of 16x. Economists question the panic in markets and the wisdom of government and RBI in intervening aggressively to defend the rupee. The exchange rate has created more panic than it should. The fact that RBI and the government are taking calibrated steps to check exchange rate has to fears as investors feel the authorities are also panicking. This is despite the fact that there have been positive steps in terms of policy. Economists point out that while rupee's depreciation is a bitter pill in the short term, over the longer term it helps address the imbalances built in the economy. It makes exports competitive and gives local manufacturers a level playing field vis-avis imports. It also helps narrow the trade deficit, promotes inflow of remittances and discourages overseas personal spending.

At this junction, we believe markets offer value buying opportunities in fundamentally good stocks including selected midcaps. Investors with a longer term horizon should ideally pick good large cap stocks as well at this moment. We recommend "Accumulate" Banks for long term (above one year horizon) on every decline like State Bank of India, Bank of Baroda, Syndicate Bank, Union Bank of India, State Bank of Bikaner and Jaipur, State Bank of Travancore, Bank of India and in private sector we recommend ICICI Bank, Axis Bank, HDFC Bank, ICICI Bank, Yes Bank, DCB and Standard Chartered Bank. In the NBFC space, we recommend to accumulate IDFC, L&T Finance and Aditya Birla Nuvo. In the IT space, we recommend buying TCS, Wipro (trades at 14x 1-year forward (FY15E) at ~30% discount to TCS) and Persistent Systems. In the telecom sector, we recommend Bharti Airtel and Idea Cellular for long term investors. In the Oil and Gas space, we recommend buying Reliance Industries, Oil India, ONGC and Cairn. In the Commodities space, we recommend investors to accumulate NMDC, Hiondalco, Coal India and Manganese Ore. In the Pharma sector, we advise to accumulate stocks like Dr. Reddy's, Cipla, Merck, Glenmark Pharma, Alembic Pharma, Divi's Lab, Unichem Labs, SPARC and Wockhardt (after the steep fall). In the Consumption space, we recommend accumulating ITC, Jyothy Labs, and Nestle on every declines. 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, Tata Global Beverages, KSB Pumps and Hathway Cable. In entertainment space and gaming, we recommend Eros International and Delta Corp.

Your friendly advisor since 1986,

Ashoka Ajmera

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