



Mr. Ajmera's column as on 31st August, 2013

"Slowdown witnessed in GDP growth; value buying opportunity available"...

Domestically, GDP expanded at 4.4 percent in the first quarter, the third straight quarter of sub – 5 percent growth owing to slowdown in services and manufacturing. The consensus growth estimate for the quarter had been 4.7 percent. Indian economy grew at its slowest pace in over four quarters in the first quarter of the current fiscal. Services grew 6.1 %, industry contracted 0.8 % while agriculture and allied sector rose 2.7 %. The modest growth of 4.4% was helped by a 9.4 % rise in the social, community and personal services segment – a section within the services component of GDP that represents government spending. But the boost provided by government expenditure will not be available in the second half of the fiscal. Fiscal deficit at the end of July stood at 62.8 % of the budgeted amount – indicating front loading of expenditure – and the government will have to slowdown spending in the second half to stay within the budgeted 4.8 percent of GDP. With several positive steps taken by government in last three weeks, the GDP growth for remaining three quarters is likely to be high than first quarter.

According to International Monetary Fund (IMF), India's large fiscal and current account deficits have impacted market confidence; the IMF has said emphasizing that the rupee decline posed both challenges and opportunities for the country. The current situation presents a challenge, obviously, to the government of India, but also an opportunity for the government to continue with its policy efforts on a variety of fronts. The combinations of large fiscal deficit and Current Account Deficit (CAD), reliance on portfolio inflows, among other things, have affected market confidence. But may be just stepping back on the situation in India, the combination of large fiscal and CAD, high and persistent inflation, sizable unhedged corporate foreign borrowing and reliance on portfolio inflows are longstanding vulnerabilities that have now been elevated as global liquidity conditions tighten, and this clearly has affected market confidence.

The Indian economy is battling depreciating rupee and low investor confidence. The currency has dropped over 23 per cent since April and had touched a low of 68.80 to a dollar earlier this week though improved later to Rs. 65.70. The CAD, which is the difference between the inflow and outflow of foreign exchange, scaled to a record high level of USD 88.2 billion or 4.8 per cent of GDP in 2012-13. The government expects to bring it down to USD 70 billion this year. With various fiscal tightening measures, the government was able to restrict fiscal deficit to 4.9 per cent of GDP in 2012-13.

Globally, US stocks fell in a thinly traded session on Friday as the S&P 500 index recorded its steepest decline since May 2012 and investors avoided making large bets before a long weekend with the situation about Syria still uncertain. Afternoon trading was volatile, with indexes swinging between break-even levels and solid losses as US Secretary of State John Kerry said in televised remarks that Syria's government used poison gas against civilians and made the case for a limited military response. President Barack Obama said later he has not made a final decision on a response to Syria.

The S&P 500 fell 3.1 percent in August and lost 1.8 percent for the week in a third decline in the past four weeks. The CBOE Volatility index rose 2.2 percent, bringing its weekly rise to 22 percent. Trading was light ahead of Monday's market holiday for Labor Day. The Nasdaq fell 1.9 percent for the week while the Dow slid 1.3 percent in its fourth straight weekly loss. For the month, the Dow fell 4.4 percent and the Nasdaq lost 1 percent. Only one of the 30 Dow components, Microsoft Corp, ended higher for the month. Almost 70 percent of stocks traded on the New York Stock Exchange closed lower while 73 percent of Nasdaq-listed shares ended in negative territory. Weak data on individual spending and tame inflation painted a picture of a soft economy, keeping investors guessing when the Federal Reserve might start to cut back on stimulus measures. Consumer spending rose only 0.1 percent and inflation was tame in July, with a price index for consumer spending up 0.1 percent. Other data showed the pace of business activity in the US Midwest increased in August, as the Institute for Supply Management-Chicago business barometer rose to 53.0 from 52.3 in July, matching economists' expectations. The Thomson Reuters/University of Michigan's final reading on the overall index on consumer sentiment slipped to 82.1 in August from 85.1 in July, but managed to top economists' expectations for a final read of 80.5.

Ajcon's view and Recommendations:

We believe, in 1991, India was forced to pledge its gold in order to pay its bills as the country's foreign exchange reserve had fallen to US\$3 billion, not enough even to cover three weeks of imports. Today, the foreign exchange reserve is nearly US\$280 billion that can cover seven months of imports. Besides, the central bank has more tools to manage volatility in the currency markets. To recall, 1991 crisis had acted as a trigger for economic liberalisation, and the Indian government must take similar bold reform measures to emerge stronger out of the crisis. The country today holds over 31,000 tonnes (worth US\$ 1.4 trn) of declared gold. Even if 500 tonnes of it is monetised, then in today's value, we think it takes care of CAD." The opening up of retail sector was good for consumers in India and the economy. However, the government must implement the decision and encourage foreign supermarket operators to set up shops.

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-a-vis imports. It also helps narrow the trade deficit, promotes inflow of remittances and discourages overseas personal spending. With the change of guard in RBI next week, things look brighter and chances of faster roll back of recent tightening measures becomes good. This will help building up growth momentum.

At this juncture, 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" Private Banks and some PSU 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 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, Hindalco, 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 Lifescience, Apcotex, Liberty Phosphate, Petronet LNG,

VaTech Wabag, Sangam (India), Voltas, Can Fin Homes, United Phosphorous, 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

Key Statistics as on 31st Aug, 2013

Reporting Date	Debt/Equity	Investment	Gross Purchases(Rs Crore)	Gross Sales(Rs Crore)	Net Investment (Rs Crore)	Net Investment US(\$ million)
		Route				
30-Aug-13	Equity	Stock Exchange	4881	4901.5	-20.5	-3.03
		Primary market & others	107.1	7.2	99.9	14.75
		Sub-total	4988.1	4908.8	79.4	11.72
	Debt	Stock Exchange	1641.3	3295.7	-1654.5	-244.36
		Primary market & others	343.1	10.2	332.9	49.16
		Sub-total	1984.3	3306	-1321.6	-195.2
		Total	6972.4	8214.8	-1242.2	-183.48

Source: Company, Ajcon Research

FII Derivative Trades on 30th Aug 13

Reporting Date	Derivative Products	Buy		Sell		Net		Open Interest at the end of the date	
		No. of Contracts	Amount in Crore	No. of Contracts	Amount in crore	No. of Contracts	Amount in crore	No. of Contracts	Amount in Crore
30-Aug-13	Index Futures	274980	7296.97	253447	6722	21533	575	347099	8953
	Index Options	971000	25650.02	990945	26310	-19945	-660	1504882	40672
	Stock Futures	350796	8562.11	294429	7288	56367	1274	938310	23690
	Stock Options	23608	625.66	20863	552	2745	74	8679	275

The above report is compiled on the basis of reports submitted to SEBI by NSE and BSE on 30-AUG-2013 and constitutes FII trading / position of the previous trading day.

Key NSE indices - 30th Aug 13

Index	Last Traded	Change
Nifty	5,468.40	+1.09%
NIFTY MIDCAP 50	1,766.50	+0.03%
S&P CNX 500	4,175.00	+1.01%
CNX MIDCAP	6,590.85	+0.62%
CNX 100	5,346.05	+1.08%

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Top Nifty Gainers as on 30th August, 2013

Symbol	LTP	%	Traded	Value	Open	High	Prev.
		Change	Qty	(in Lakhs)			Close
BAJAJ-AUTO	1,832.00	5.26	8,99,829	16,091.28	1,740.45	1,850.00	1,708.25
CIPLA	417.75	5.05	28,67,918	11,814.67	397.45	419.7	393
TCS	2,030.00	4.26	26,40,371	52,974.29	1,939.00	2,050.00	1,930.00
HDFC	725	4.24	63,60,715	45,204.33	700	733.25	698.5
HINDUNILVR	632.5	4.2	24,77,060	15,358.27	602	638.75	600.3
ASIANPAINT	419	3.92	15,14,110	6,217.39	408.2	424.95	393.75
HDFCBANK	592	3.49	91,53,249	53,587.70	571	600	570.65
AMBUJACEM	170	3.37	28,67,681	4,774.98	163	174.7	158.85
ULTRACEMCO	1,489.80	2.89	2,72,358	3,970.93	1,441.00	1,498.50	1,428.00
HCLTECH	1,044.90	2.68	15,12,125	15,615.56	1,011.60	1,044.90	1,009.90

Source: Company, Ajcon Research

Top Nifty Losers as on 30th August, 2013

Symbol	LTP	%	Traded	Value	Open	High	Prev.
		Change	Qty	(in Lakhs)			Close
JINDALSTEL	221.05	-9.22	95,87,098	21,784.76	246	246.4	217.6
GRASIM	2,229.00	-3.16	99,070	2,243.26	2,245.00	2,286.65	2,210.00
RANBAXY	407	-2.63	36,23,371	14,772.85	416.25	417.5	396
TATASTEEL	271.3	-2.53	1,21,90,005	34,231.97	280	289.6	270
HINDALCO	104.5	-2.43	1,29,60,790	13,703.44	106.4	109	101.8
TATAMOTORS	298.9	-2.32	63,77,633	19,162.87	308.05	308.7	293.5
SESAGOA	188.7	-1.95	1,34,85,624	25,340.84	187.1	191.5	182.15
TATAPOWER	75.6	-1.69	26,41,019	1,994.50	76.6	76.7	73
M&M	781.1	-1.66	20,30,578	16,033.85	798.95	801.6	768.25
NMDC	118.55	-1.37	47,45,160	5,703.68	121.35	122.25	117.7

Source: Company, Ajcon Research

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