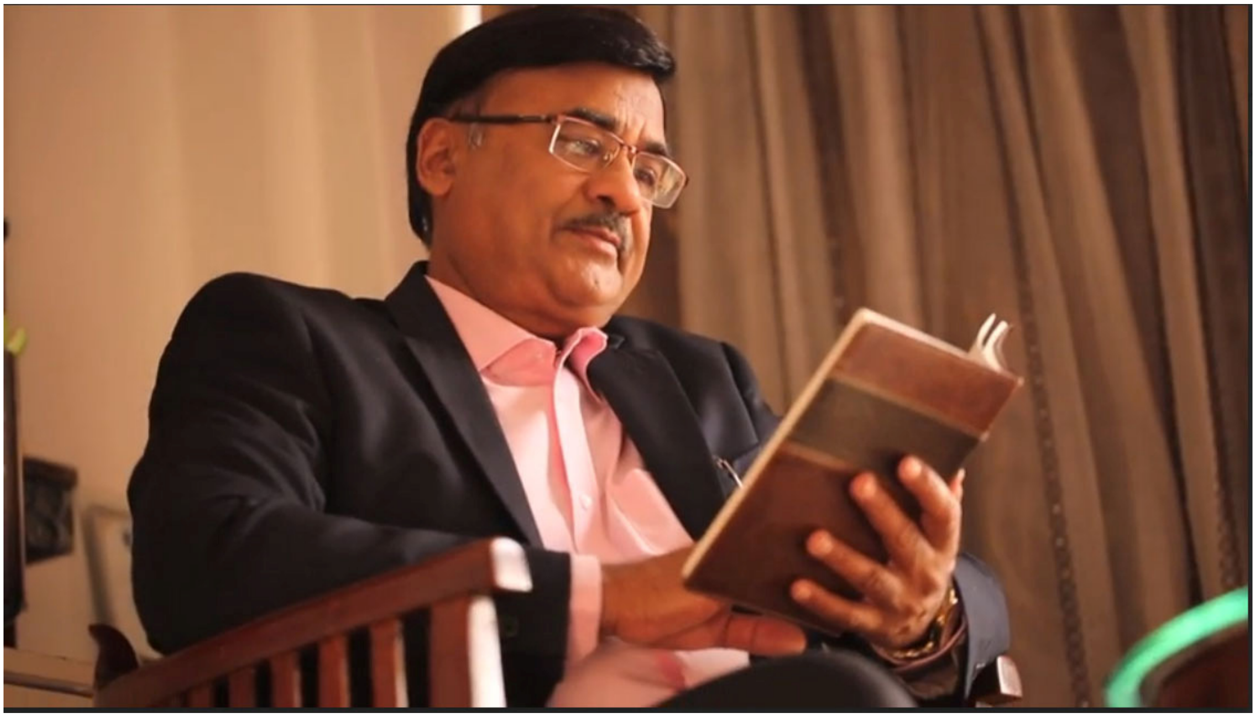

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on Aug. 05, 2017

Pharma stocks bleed; all eyes on progress of monsoons..

On Friday, the market gained strength in last hour of trade amid consolidation and snapped two-day losing streak, led by recovery in most beaten down stocks like banks, autos.

Metals and oil marketing companies also led support to the market but the correction in Reliance Industries and healthcare stocks capped gains. Equity benchmarks opened lower and remained rangebound till recovery in later part of the session.

The 30-share BSE Sensex recovered more than 200 points from day's low to end up 87.53 points at 32,325.41 while the 50-share NSE Nifty closed near its record high, up 52.75 points at 10,066.40 despite weak market breadth and sluggish global cues. About 1,388 shares declined against 1,204 advancing shares on the BSE.

We feel the holding of 10,000-mark by Nifty could be on hopes of better September quarter earnings, especially after stable June quarter numbers (which were expected to be weak). Positive monsoon forecast is also expected to support the growth, they said.

Meanwhile, the Indian Meteorological Department said that the actual cumulative area weighted rainfall for the country as a whole till August 2, equaled normal rainfall and monsoon activity would pick up in next 3-4 days.

For the week, the Sensex was up 0.04 percent and the Nifty gained 0.5 percent. However, among these developments, around 25 stocks added to investors' gains by clocking a fresh all-time high mark.

Key developments

IPOs in action
India's Mahindra Logistics Ltd, a unit of automobile major Mahindra and Mahindra Ltd, has filed for an initial public offering of shares.

The promoter, Mahindra and Mahindra Ltd, will be selling 9.7 million shares while Normandy Holdings Limited will sell 9.3 million shares as part of IPO, according to a filing with market regulator Securities and Exchange Board of India.

Mahindra Logistics provides services such as warehouse solutions and transport management.

Kotak Mahindra Capital Company Limited and Axis Capital Limited are the book-running managers to the IPO.

India's IPO market has been on a roll with money raised through IPOs surging 116.3 percent to $2.6 billion in the first half of 2017, data released last month showed.

Foreign exchange reserves surge..
The country's foreign exchange reserves surged by USD 1.536 billion to touch a fresh life-time high of USD 392.867 billion during the week to July 28, helped by rise in foreign currency assets (FCAs), the RBI data showed In the previous week, the reserves had increased by USD 2.27 billion to USD 391.33 billion.

FCAs, a major component of the overall reserves, rose by USD 1.609 billion to USD 368.759 billion, the data showed. Expressed in US dollar terms, FCAs include effect of appreciation or depreciation of non-US currencies such as the euro, the pound and the yen held in the reserves. Gold reserves remained unchanged at USD 20.35 billion. The special drawing rights with the International Monetary Fund (IMF) went up by USD 3.9 million to USD 1.495 billion. The country's reserve position with the IMF declined by USD 77.2 million to USD 2.263 billion, the apex bank said.

RBI cuts repo rate by 25 bps…

The Reserve Bank of India (RBI) in the monetary and credit policy review earlier this week slashed the repo rate by 25 basis points from 6.25 percent to 6 percent with immediate effect.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 percent and the marginal standing facility (MSF) rate and the Bank Rate to 6.25 percent.

4 MPC members were in favour of a 25bps rate cut, one member sought a 50bps cut in policy rate and one member sought no change in policy rates.

The RBI has however maintained their neutral stance given the likely upward movement of inflation from the current levels during the second half of the year. The RBI remains focused on its commitment to keeping headline inflation close to 4 percent on a durable basis. However, the central banker has also highlighted the fact that slowdown in growth and manufacturing activity is an issue of concern to it.

In terms of inflation, while the trajectory of CPI inflation has been lower than projected, RBI points out to the fact that there are several factors contributing to the uncertainty around the baseline inflation trajectory. Factors such as farm loan waivers by states as well as the implementation of the state of the pay commission could have a bearing on the inflation trajectory for the second half of the year.

RBI projections now incorporate the first round impact of the implementation of the HRA (House Rent Allowance) award by the Centre under the 7th Pay Commission.

While RBI believes that banks have been able to transmit lower policy rates to new loans under the MCLR regime (marginal cost lending rate), the rate transmission for the existing loans has been slow especially under the base rate regime.

The transmission of lending rates under the MCLR regime has been faster than the base rate. RBI is looking into this matter and setting up a committee to do so.

Banks have been facing pressure on Net Interest Margins (NIMs) despite fall in the cost of funds on account of the muted trends in credit growth and the fact that incrementally banks are focusing mainly on lending to better-rated corporates.

The excess liquidity in the system is also adding to pressure on NIMs and the recent cut in savings bank rate by SBI is an outcome of the same.

Ajcon's view

At current levels, Indian markets are trading (P/E of 22x) at a premium of 25 percent above long-period averages and 19 percent premium to January 2008 levels. The index has rallied over 50 percent from its peak seen back in 2008. We believe Q1 quarterly earnings so far has been a mixed bag and growth in Q1FY18 may not be as per expectations.

Nifty has been on a upmove since beginning of this year. There is strong positive sentiment among investors due to ample liquidity, with stable inflow from both domestic and foreign institutions. Institutional buying is expected to continue, as domestic mutual funds still get impressive flow. In addition, the India Meteorological Department (IMD) in its weather report said that so far the south-west monsoons for the country as a whole have been 5% above the long-period average (LPA) which would augur well for fertilser and auto sector. We expect a recovery in corporate earnings to be the key headwind in the medium to long term. Although the markets have scaled new heights in the past two years, growth in earnings per share (EPS) has been flattish and expect earnings to improve in H2FY18. We believe at current levels it is risky to enter expensive midcaps and smallcaps and rather advise profit booking. A sharp correction in the market is not ruled at this junction which we believe will be healthy for markets. We recommend investors to be stock specific and consider companies with good earnings visibility at a decent valuation.

Dr. Ashok Ajmera, FCA

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