Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on December 06, 2014

Fall witnessed in domestic bourses after six weekly gains; midcaps and smallcaps shine..

The Sensex and Nifty fell on Friday, posting their first weekly loss in seven, as investors booked profits in recent outperformers after indices hit record highs, while caution prevailed ahead of US jobs data later on Friday. The Sensex closed down 0.4 per cent at 28,458 points on Friday. After a week of gains, benchmark indexes took a breather this week after domestic institutional investors sold shares to likely offset inflows from foreign institutional investors. Mid- and small-cap stocks, however, continued their outperformance. Market started the week on a weak note, closing in the red for the first three trading days of the week, before registering a bounceback on Thursday, and again closing lower on Friday. On Tuesday, the Reserve Bank of India left monetary policy unchanged, in line with consensus expectations, dashing rising last-minute hopes it would slash rates given the steep fall in consumer inflation lately. But RBI chief Raghuram Rajan indicated a rate cut could follow through early next year if inflation continues to be on the decline. Through the week, the 30-share BSE Sensex fell 0.8 percent while the NSE Nifty 50 closed 0.6 percent lower. The CNX Midcap index, however, advanced 2 percent while the BSE Small Cap index climbed 1.8 percent.

Among sector gainers, FMCG stocks rose 5.6 percent, consumer durables were up 3.2 percent while realty shares added 1.8 percent. The closely-tracked Bank Nifty, too, outperformed the market with a 1.3 percent gain. Among sector losers were oil & gas (down 3.2 percent), IT (3.1 percent) and infrastructure stocks (2 percent). Gainers in the Nifty included JSPL, DLF and ITC, which rose 7.8 percent to 8.7 percent. JSPL were boosted by news it was in the market with a USD 1 billion fund raising plan, an indication economic activity was picking up for economically-sensitive companies. DLF got a breather from the Supreme Court, which allowed it to deposit a Rs 480-crore fine easier than was earlier required, while ITC surged on reports the government had put its plan to ban sale of loose cigarattes on the backburner. While in losers, Hindalco, Dr Reddy's and Infosys fell 5 percent to 6.2 percent. The overall down move was led by selling from DIIs, who net sold (provisional data) stocks worth Rs 1,338 crore in the first four days of the week for which data was available at the time of this writing. FIIs, on the other hand, net bought shares were worth Rs 959 crore.

India remains the best performing equity market in the world YTD, up ~30% in US dollar terms. It has also outperformed the Emerging Market (EM) benchmark by ~30%. The prospects look equally bright amid growing expectations of a rate cut in the next few months, as inflation moderates faster than RBI estimates on the back of falling global commodities.

FII activity

Foreign institutional investors (FIIs) have continued to have faith in the India story this calendar year (2014). Their net investment in the Indian equity market is set to exceed Rs 1 lakh crore for a third straight year.

FIIs, along with foreign portfolio investors (FPI), have made a net investment of Rs 99,413 crore ($16.47 billion) in Indian stocks till December 4, according to data available with the Central Depository Services (India).

The current calendar year will be fourth in the past two decades when the foreign investors have invested more than Rs 1 lakh crore in a year. Cumulatively, the foreign investors have made net inflows of Rs 7,85,297 crore ($162.57 billion) in the Indian equity market since 1992.

Earlier, FIIs had in 2010 made a record net investment of Rs 1,33,267 crore ($29.4 billion). In 2012, they made a net investment of Rs 1,28,361 crore ($24.37 billion) and of Rs 1,13,136 crore ($20.10 billion) in 2013.

Meanwhile, total net investment by FIIs (debt and equity segments) into India so far this year has touched $41.79 billion, while their cumulative total flows into the country have reached $212.79 billion, data show.

Ajcon's view – Sectoral outlook

Paint - The fall in crude oil prices will be beneficial as they use crude oil derivatives as inputs. Given that the entire benefit is not going to be passed on to the end consumer, there will be an expansion in margins. We believe price targets are expected to move up even on current price-earnings (P/E) multiple. However, gains are unlikely to come in the December quarter given that they carry inventory for one-and-a-half months.

Oil Marketing - The decision by the Organization of the Petroleum Exporting Countries (OPEC) to keep output unchanged and its fallout - the sharp fall in crude oil prices - mean a lot for oil marketing companies. As recommended earlier by us the stocks of oil marketing companies have gone up, and there is more upside, given the lower working capital requirement and interest cost savings. Lower working capital will result in better net profit margins, which are yet to be captured in prices.

BFSI- We are positive on select Private Banks. On the other hand, we believe PSU banks are trading at lower valuations on concerns of asset quality. We were impressed by SBI's performance and onward interview with SBI chairperson. Some specific stock picking based on pure fundamentals may give handsome returns. We recommend SBI, Bank of Baroda, Bank of India, Union Bank of India and Canara Bank. The rate cut as suggested by us will give a big boost to credit growth, which is prime concern to banks like SBI.

IT - We remain positive on this sector, as the US economy continues to recover gradually. INR volatility is a cause for concern. We prefer Infosys, TCS and Persistent Systems.

Automobiles - Our outlook is positive. We expect revival in FY15 due to improved policy climate, better consumer sentiment and enhanced infra spending. We believe the CV cycle is near bottom and will revive in the next few months. Hence we recommend Tata Motors, M&M and Maruti at current levels.

Capital Goods - We are bullish on this sector in the medium- to long-term as we are near the bottom of the economic cycle and expect revival in capex in H2 FY15. BHEL, ABB, L&T, Siemens fall in this category to be good investment.

Cement - With a new government at the Centre, there is expectation of a revival in demand for cement as infrastructure activity picks up slowly. We are thus turning bullish on the sector. Ultratech and Birla Corp are the right candidates to be picked up.

Consumption - Although sticky CPI inflation and muted income growth has hurt consumer demand in the past few months, there could be some revival if CPI inflation eases further.

Infrastructure - We are bullish on this sector from a medium term perspective, as a stable and decisive Government at the Centre would bring investment cycle back on track. GMR, IRB, Pratibha, J Kumar can be looked at in this sector from 1-2 years perspective.

Real Estate - We are neutral on this sector. Slow demand environment in most markets (except South India) has impacted sales. Post elections, project approvals could result in increased new launches in the southern market. Still the safe and debt free companies viz. Oberoi Realty and Godrej Properties can be bought.

At current levels, we would recommend buying in stocks in sectors like Banking, NBFCs, Realty, Capital

Goods, Infrastructure, Pharma and OMCs. The entertainment and print media space also looks good.

Pharma – We are bullish on leading pharma companies in recent times on the back of a strong recovery in the domestic formulation business, better traction in the base business, gain market share with new product launches, and drug exclusivity in US markets. The quarterly numbers have been pretty good for the pharma companies. They have shown growth between 16 per cent and around 22 per cent, which is probably the best across industries and a lot of Indian companies are still having good product pipeline, especially in the US generic space. However, compliance issues in the US market will be a key risk. Given the fact, while valuations are slightly on the higher side, the sustainability in terms of earnings growth and that too in the high teens make some of the pharma names pretty good, more secular and sustainable stories even from a medium to long-term perspective despite the recent outperformance. At current level, we recommend Wockhardt which is expected to give much better returns in next two quarters. Among other pharma companies, Cipla, Lupin and Sun Pharma remain the best bet.

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