Mr. Ajmera's column as on March 08, 2014

Markets touch new life time high owing to aggressive FII buying..

Markets surged to end at record closing highs in the week to March 7 amid aggressive buying by foreign institutional investors in battered domestic sectors on the back of improving macro economic data, prospects of BJP-led government coming to power and the stability in the Indian rupee. Sensex surged 800 points or 3.8% to end at 21,920 and the broader Nifty zoomed 250 points or 4% to end at 6,527. The BSE's Sensex rose 405.92 points or 1.89 per cent to a new closing high of 21,919.79 on Friday after touching 21,960.89. The NSE's Nifty rose 125.50 points or 1.96 per cent to close at 6,526.65, off its all- time high of 6,537.80. Market volatility was also on the upswing with India VIX zooming 15.5% to 16.72 on Friday, indicating that traders were buying options as hedge against any possible correction. However, the broader indices underperformed the benchmarks as focus shifted to large-caps and index-based stocks. The BSE Mid-cap index ended up 3% at 6,693 and the BSE Small-cap index closed 2.6% higher at 6,612.

Foreign Institutional Investors have remained net buyers in equities for the past 17 straight trading sessions. During this period, they have bought Indian equities worth Rs. 9,500 crore. On Thursday, they were net buyers to the tune of Rs. 1,273 crore and on Friday net purchases stood at Rs. 2,577 crore.

India's current account deficit (CAD) for the quarter ended December stood at US$4.2 billion, or 0.9 per cent of the gross domestic product (GDP), a sharp fall from US$31.9 billion (6.5 per cent) in the year-ago period. The fall resulted from a pick-up in exports and moderation in imports, especially of gold.

On the global front, the European Central Bank and Bank of England kept their key policy rates unchanged. However, Russia's central bank hiked its key policy rate by 150 basis points to 7% from 5.5% effective from March 3 after the rouble plunged against the US dollar.

The rally during the week was led by rate sensitive sectors except for Auto which ended marginally higher. Foreign funds which had cut exposure to infrastructure and real estate sectors seem to be on a bargain hunt with most of them available at attractive valuations.

The BSE Realty index was the top gainer among the sectoral indices to end 13% higher followed by Bankex, Capital Goods, Metal, Oil and Gas indices which ended up 8-10% each. The improving macro-economic data boosted sentiment for banks which are a proxy to the economy. ICICI Bank was the top gainer up 15% followed by Axis Bank, SBI and HDFC Bank which ended up 6.6-11% each.

In the infrastructure segment, Larsen & Toubro ended up 8% while BHEL ended nearly 10% higher.

Metal shares also witnessed value buying at lower levels with Hindalco emerging as the top Sensex gainer up nearly 19% followed by Tata Steel, Sesa Sterlite.

Reliance Industries which had remained range bound in the previous weeks also witnessed buying activity with the stock rising nearly 9% to Rs 869 in the week under review.

Week Ahead

Market will watch out for the advance-tax payments by corporates due March 15 apart from industrial production data for January and inflation based on consumer price index on Wednesday, March 12. On Friday, the government will also release WPI data for February.

On the global front the US non-farm payrolls data released late Friday will be in focus next week.

At present, we recommend investors to keep a watch on the stocks in the following sectors:

a) Cement

The Indian cement sector is expected to witness positive growth in the coming years, with demand set to increase at a CAGR of more than 8 per cent in the period FY 2013-14 to FY 2015-16)
It is estimated that the country requires about US$ 1 trillion in the period FY 2012-13 to FY 2016-17 to fund infrastructure such as ports, airports and highways to boost growth, which promises a good scope for the cement industry

b) Steel

Steel consumption is expected to grow at an average rate of 6.8 per cent to reach 104 MT by 2017 driven by rising infrastructure development and growing demand for automotives.
In 2014, the demand is poised to grow at even a higher rate of 5.6 per cent; thanks to sped-up efforts to implement structural reforms.

c) Roads, Ports

India's road network, spanning across 4.69 million km, is the third-largest road network in the world, next in line only to the US and China. The country relies heavily on its robust road network that carries almost 65 per cent of freight and 80 per cent of passenger traffic. National Highways (NH), under the jurisdiction of National Highways Authority of India (NHAI), constitute for almost 2 per cent of the network but carry about 40 per cent of the total road traffic.
Thus, India relies heavily on roads to move freight in the most cost-efficient and effective manner. The Indian Government intends to earmark US$ 1 trillion for infrastructure development over next five years.
With a coastline of more than 7,517 km in length, the Indian port sector encompasses 13 major (12 government and 1 corporate) and about 200 non-major ports. A rising need for robust port infrastructure, strong growth potential, favourable investment climate, and sops provided by State Governments provide private players immense opportunities to venture into the sector. The capacity of ports in India by the end of the 12th Five Year Plan is targeted to increase to 2,493.10 million tonnes per annum (MTPA) as compared to 1,245.30 MTPA at the end of the 11th Five Year Plan.

d) Capital Goods

The Capital Goods industry is the "mother" of all manufacturing industry and is of strategic importance to the National security and economic independence. It is in the interest of the User Sectors that the Capital Goods industry should be strengthened since it is a known fact that the presence of a strong domestic industry increases competition and helps in reducing the capital cost of the project and most important, the maintenance of plant and machinery can be done economically.

The government has approved two major proposal of investment in schemes to incentivise the capital goods sector soon after slashing the excise duty on capital goods in the interim budget.

The government proposed a cut in excise duty on capital goods from 10% to 12% in the interim budget.

The schemes are meant to promote tool rooms, technology centers and thus upgrade the capital goods sector through programmes run under two ministries – ministry of heavy industries and ministry of micro, small and medium enterprises (MSME).

The 12th plan envisages increasing manufacturing sector growth to 2-4% more than GDP growth and increases its share to 25% of overall GDP by 2025. In Capital goods, we recommend to accumulate BHEL.

e) FMCG

Indian consumer markets are currently in a transformational stage. Broadly categorized into urban and rural markets, the Indian consumer segment is gaining high attention and pampering from marketers across the world. An expanding middle class, rising incomes and spending power, majority of youth in total population, rapid urbanisation and several other factors have glorified India's consumption story thereby giving everything what an economy would require to mark a growth rate of about 9 per cent.

In the FMCG space, we prefer ITC, Britannia, Zydus Wellness and Jyothy Labs.

f) Banking

Rural and semi urban areas account for only about 20% of bank credit which presents a big opportunity to Indian Banking Sector.

We believe macro concerns of CAD and currency front has eased out to some extent. Post strong poll verdict for any major political party, markets would perceive the news positively and cheap cyclical will in turn do well. PSU banks are attractively priced amidst concerns of high NPA which we feel is already discounted in price. Though it is too early to predict that NPA cycle has changed but do not see sharp deterioration from current levels.

g) Pharma

The Indian pharmaceutical industry would continue to experience strong growth as structural growth drivers continue to remain impervious. The industry is expected to revert a growth of 10-12 percent in 2013-14, according to a study by ICRA.

Pharmaceutical exports from the country during 2012-13 stood at US$14.6 billion, up from US$13.2 billion the previous year, as per P V Appaji, Director General, Pharmexcil.

The Ministry of Commerce has targeted Indian pharma sector exports at US$ 25 billion by 2016. The Government has also planned a 'Pharma India' brand promotion action plan spanning over a three-year period to give an impetus to generic exports.

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