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Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on October 12, 2015

Domestic bourses will take direction from Q2FY16 earnings season, Bihar elections outcome critical..

The BSE 30 Share Sensex increased by 858.56 points or 3.27% to settle at 26,079.51 in the week ended Friday, 09th October 2015. The S&P Nifty increased by 238.80 points or 3.00%, to settle at 8,189.70 in the week. Rising for the second straight week, benchmark indices clinched their biggest weekly gain in nearly four months since June 19, 2015 after the US Fed hinted that it won't raise interest rates soon. Further, rebound in global commodity prices during the week has also aided sentiment. The broader markets, however, underperformed their larger peers. BSE Midcap index finished 1.1% up at 10,938 while the BSE Smallcap index settled 2.7% up at 11,349.

IT bellwether Infosys – Q2FY16 result update

Infosys second quarter earnings surpassed analysts' expectations on every parameter but it has slashed full year dollar revenue guidance. Net profit increased 12.1 percent sequentially to Rs 3,398 crore during the quarter, driven by better operational performance and strong revenue growth.

Profit in dollar terms rose by 9.1 percent. "I am encouraged by our progress. While results in any one quarter are transitory snapshots of a long journey, we do see our focused execution along our strategy starting to produce encouraging results for our clients, shareholders and Infoscions," Vishal Sikka, CEO and MD said.

Rupee revenue in July-September quarter rose 8.9 percent Q-o-Q to Rs 15,635 crore and dollar revenue climbed 6 percent to USD 2,392 million, the highest in last 16 quarters, aided by client worth USD 23 million (which terminated due to merger issue). "We could have reported 5 percent dollar revenue growth if USD 23 million client not terminated," said



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Sikka, adding top 25 accounts grew 7.9 percent in constant currency terms. Dollar revenue growth was 6.9 percent in constant currency.

According to street participants, profit was estimated at Rs 3,244 crore (up 7 percent) and revenue at Rs 15,210 crore (up 5.9 percent). Dollar revenue growth was seen at 3.6 percent. Strong all-round growth during the quarter was driven by recent initiatives around service differentiation, improvement in client mining and higher focus on winning large deals, said UB Pravin Rao, COO. However, the country's second largest IT company has lowered its FY16 dollar revenue guidance to 6.4-8.4 percent from 7.2-9.2 percent (in dollar terms, may be due to currency headwinds), though it has maintained guidance at 10-12 percent in constant currency.

The management expects some headwinds in certain clients in October-March period of FY16, which is traditionally challenging for industry. Pricing challenges are seen by management on large commoditised deals. Per capita revenue increased by 2.6 percent in reported terms and 3.4 percent in constant currency terms.

Additionally, its board has approved 2015 Incentive Compensation Plan, amending the existing 2011 RSU Plan. It also approved issuance of new shares, so as not to cumulatively exceed 2 percent of the shares outstanding, in order to support grants made over time under the 2015 Incentive Compensation Plan, the company said. It has liquid assets (including cash and cash equivalents, available-for-sale financial assets and government bonds) worth Rs 32,099 crore as on September 30, 2015 compared to Rs 30,235 crore in June quarter

Ajcon's view

From global concerns such as the US Federal Reserve's interest rate hike and a slowdown in China subsiding, Dalal Street has turned its attention to the Bihar elections, whose outcome could set the tone for the Narendra Modi government's reform agenda.

The Bihar Assembly elections are scheduled to be held in five stages between October 12 and November 5, with results due on November 8. The Indian markets have turned buoyant ahead of the Bihar elections, with the benchmark indices rebounding eight per cent from their September lows. Bihar is one of the most populous states with a young population. The election outcome could impact capital markets as well as the national economics and politics, according to experts.

Several surveys show it would be a tough battle between the Bharatiya Janata Party (BJP)-led four-party coalition and Nitish-Lalu-Congress alliance. The elections are seen as crucial to the BJP-led National Democratic Alliance (NDA), which won a massive victory in the 2014 general elections and subsequently did well in most state elections except Delhi, aided by the popularity of Prime Minister Modi.

State elections can determine seat shares in the Rajya Sabha. Centre has seen delays in key legislation, including the land Bill and the goods and services tax Bill, due to lack of numbers in the Rajya Sabha. Bihar contributes to 16 Rajya Sabha seats. NDA win could be a big booster for the markets.



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Going ahead, street participants would look forward to the August industrial production data and the September inflation which is scheduled in the coming week. Market would take cues from Q2FY16 results season.

Our recent visit as a part of BBF delegation to various European & London Stock Exchanges has given an insight that India is very hot destination for investment by the foreign investors as compared to China.



Unlike other emerging markets, India stands out as relatively less vulnerable to a slowdown in China, as it is not part of the Asian supply chain yet; it is a domestic demand-driven economy and a net commodity importer. We believe India is “among the least vulnerable”, as an impact on the country’s growth will be minimal and lower commodity prices will positively impact current account deficit and inflation.

We believe the current scenario offers good opportunity for accumulation in fundamentally strong Large Caps available at attractive valuations in Banking, NBFCs, Infrastructure, Real Estate, Engineering, Automobiles, Capital Goods, Packaging, Logistics and Pharma.



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