Mr. Ajmera's column as on October 18, 2014

Growth concerns globally led to sell off in domestic bourses; IT majors led the downfall…

Market succumbed to a global sell-off in equities and commodities due to growth concerns emanating from debt concerns in Europe and end of the US stimulus program in October.

A hawkish comment from a Federal Reserve official James Bullard caused some choppiness in stocks. Bullard on Thursday said that US Fed should consider extending its bond buying beyond October. US markets recovered on Thursday after slipping in opening trades owing to this. While foreign investors continued to sell on global concerns, local investors opened their purse strings to bet on an improving growth outlook and easing inflation. FIIs were net sellers of stocks worth Rs 2,968.55, according to provisional data while domestic funds and institutional investors bought stocks worth Rs 1,726.80 in the week. Among major earnings this week, information technology majors hogged the limelight. IT index bellwether - TCS corrected sharply on Friday after reporting it's September quarter, a day earlier. The consolidated net profit rose 4.6 percent sequentially to Rs 5,288 crore in the quarter, which was below consensus. Profit in the previous quarter was at Rs 5,057.8 crore, according to International Financial Reporting Standards. (According to Indian GAAP, profit of the company fell 5.8 percent Q-o-Q to Rs 5,244 crore from Rs 5,568 crore.). The stock corrected 9 percent this week. Also, the boards of directors of TCS and CMC (a subsidiary of TCS) on Thursday approved the merger of CMC with its parent. Shareholders of CMC will receive 79 equity shares of Re 1 each of TCS for every 100 shares of Rs 10 each held.

Among mid-caps, HCL technologies bore the brunt of investor on Friday, slipping 13 percent in the week. HCL reported lower than expected topline growth in the September quarter. The software services exporter's revenue in the said period stood at Rs 8,735 crore, increasing by 3.7 percent quarter-on-quarter (up 10 percent year-on-year) and dollar revenue rose by 1.85 percent (up 13 percent on yearly basis) to USD 1,433 million.

The losses in the BSE capital goods index stocks were softened due to 1.8 percent recovery on Friday led by index heavyweights L&T and BHEL which surged 2-3.4 percent higher. WPI Inflation for September eased to 5-year low at 2.38 percent against 3.74 percent on a month-on-month basis on lower food and fuel prices. Food inflation, which came in at 33-month low, stood at 3.52 percent against 5.15 percent, while the fuel and power group inflation came in at 1.33 percent against 4.54 percent on a month-on-month basis. Manufactured products inflation came in at 2.84 percent against 3.45 percent. The July WPI inflation has been revised to 5.41 percent from 5.19 percent. This boosted banking stocks as case for a rate cut gets stronger viz record low levels of inflation. The Bank Nifty index zoomed over 3 percent this week on back of gains in PNB, HDFC Bank, ICICI Bank, Axis Bank, and IndusInd Bank, which swelled between 2-6 percent this week. The BSE Realty index got cracked over 10 percent after DLF got razed on the bourses this week. The stock crashed over 27 percent this week and hit its fresh life-time low level of Rs 100. On Tuesday, capital market regulator Sebi barred the real estate major as well as its six top executives, including chairman and main promoter KP Singh, from the securities market for 3 years for "active and deliberate suppression" of material information at the time of its IPO. The Company has however filed an appeal before SAT against the SEBI order.

Market participants hit the sell button on heavyweight oil & gas counters owing to continued weakness in global crude oil prices. The BSE Oil & gas index plummeted 2 percent this week

Macroecnomic data released during the weak was mixed. A feeble industrial growth pulled the capital goods index lower while September wholesale inflation numbers helped the Bank Nifty emerge as the best performing sectoral index this week. The Index of Industrial Production (IIP) grew 0.4% yoy in August 2014 but remained unchanged on a month-on-month basis. This was below the consensus estimates by experts. "The sub-par performance of Industrial output growth over two successive months indicates the fragility of India's industrial recovery," said Ind-Ratings in a report. Ind-Ratings expect IIP growth to regain the momentum witnessed in the first quarter of FY15 as the year progresses.

Ajcon's view:

Opinion polls showed that Bharatiya Janata Party (BJP) was likely to win in Haryana and Maharashtra, unseating unpopular incumbents. We believe the wins should help push key reforms such as gas price hike and goods and services tax (GST). Moreover, the PM who was hitherto busy in overseas travels and elections will get some time to push the reforms.

Shares are expected to remain volatile in the coming week, amid the state election outcome, ongoing July-September corporate results and global events such as China's quarterly gross domestic product on Tuesday. We at Ajcon are, however very optimistic on Indian stocks due to unprecedented reduction in international crude prices which will give a major fillip to Indian Economy. We also feel that inspite of major resistance on the part of RBI governor to reduce the interest rates, good sense will prevail upon him or rather the present economic indicators will force him to cut the interest rates by almost 50 to 75 basis points in immediate future. This move on the part of RBI along with infrastructure boost and other economic reforms will fire the Indian markets.

At current levels, we would recommend buying in stocks in sectors like Banking, NBFCs, Realty, Capital Goods, Infrastructure, Pharma and OMCs. Inspite of SEBI ban we see a good opportunity to enter in DLF at current prices.

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