



Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on April 01, 2017

Petrol and Diesel prices cut, IDS2 disappoints; Q4FY17 earnings to drive market direction..

The emphatic BJP victory in the state elections, strong economic data, stable quarterly earnings despite demonetisation led to the rally. The gains were also backed by good FII inflows while domestic institutional investors also supported the sentiment. Global events like Brexit, Fed rate hike and Donald Trump winning the US Presidential elections also didn't drag the markets enough to have an overall impact.

While the Sensex gained 17% in the financial year till date, Nifty registered a gain of 18% during the same period.

In FY17, the S&P BSE Sensex added 4279 points to end at 29,620.50 levels, while the Nifty50 added 1,435 points to 9,173.96 compared to their respective closing figures on March 31, 2016.

On Friday, The benchmark Nifty50 pared all its initial losses to settle the first day of the April F&O series flat as investors booked profits in recent outperformers.



However, the index along with S&P BSE Sensex logged their third straight month of gains fuelled by Bhartiya Janta Party (BJP)'s crucial victory in Uttar Pradesh and big foreign inflows in the markets to the tune of over Rs 30,000 crore so far this month.

The S&P BSE Sensex ended at 29,620, down 27 points, while the broader Nifty50 remained unchanged at 9,173. The last time the 50-share index closed unchanged on October 27, 2016 at 8615.25 level.

Key developments

Cut in petrol and diesel prices..

The price of petrol is cut by Rs 3.77 per litre and that of diesel by Rs 2.91 a litre, the first change in rates in two-and-a-half months. State-owned oil firms cut rates with effect from midnight tonight. Petrol currently costs Rs 71.14 a litre in Delhi and Diesel is priced at Rs 59.02 per litre.

Petrol price will be cut by Rs 3.77 per litre, excluding state levies, said Indian Oil Corp (IOC). Actual decrease will be larger after taking into account the local levies.

Similarly, diesel rate was cut by Rs 2.91, excluding state levies.

Rates were last revised on January 16 when price of petrol went up by 54 paise. On that date, diesel rates were hiked by Rs 1.20 a litre.

"The current level of international product prices of petrol and diesel and INR-USD exchange rate warrant decrease in selling price of petrol and diesel, the impact of which is being passed on to the consumers with this price revision," IOC said in a statement.

IOC said the movement of prices in the international oil market and INR-USD exchange rate shall continue to be monitored closely and developing trends of the market will be reflected in future price changes.

IDS 2 disappoints

Disclosures under the second tax amnesty scheme (IDS-II), which closed last night, turned out to be a damp squib, with Mumbai region netting under Rs 500 crore while the total added up to less than Rs 13,000 crore from across the country. The low collection is against the Rs 1 lakh crore target set by the government, according to sources in the Income Tax department. Officially, however, no target had been announced. Meanwhile, the CBDT today extended the deadline to file the returns to April 10 for those who have paid the penalty under the scheme. Mumbai tax officials said the low declarations at under Rs 500 crore from the city, which contributes more than 33 percent of total Income Tax collection, is surprising. "We believe the disclosures under the Income Tax Declaration Scheme-II so far would be somewhere near Rs 13,000 crore," a department official from New Delhi told media. An official here attributed the cold response to the scheme to a delayed start.

"The scheme came into effect on December 16, but proper information with details of bank deposits started pouring in only from the last week of February. So we were left with very short time to meet the deadline," he said.



The department today issued a notification extending the last date of filing returns to April 10 considering the rush at banks on the last day of the financial year, which is also the last date for making the declaration under IDS-II. If an assessee has paid the tax along with surcharge and penalty under the scheme in a bank by the closing hours of March 31, he or she shall be allowed to file the tax return under the scheme by April 10, CBDT said in a notification.

The scheme provides an opportunity to declare unaccounted cash and cash deposits and black money in a confidential manner and avoid prosecution by paying up 50 percent of the undisclosed income as fine. An additional 25 percent of the undisclosed income will be invested in the scheme that can be refunded after four years, without any interest.

Not declaring the unaccounted income under the scheme will attract a fine of 77.3 percent if the income is shown in the tax returns. In case income is not shown in the return filing, it will attract a further 10 per cent penalty followed by prosecution.

Sectors and stocks

The Nifty IT index fell nearly 6% in FY17 on Brexit, Donald Trump win and strong rupee, while Nifty PSU Banks gained over 43% despite the sudden demonetisation move put pressure on the index in the latter half of the year.

NSE Metal index was the biggest sectoral gainer in the year, up over 66%, followed by energy, realty and banks while pharma and IT sectors were the only two laggards in the index., both down a little over 5% for the year.

On Friday, Reliance Industries (RIL), State Bank of India (SBI), Adani Ports and and HCL Technologies from the Nifty50 index hit their respective 52-week highs on the National Stock Exchange (NSE). RIL was the top gainer on the Sensex and Nifty both and ended 4% higher at Rs 1320.

Shares of fertiliser companies rallied up to 16% ahead of the Union Cabinet meeting later in the day to discuss change in urea subsidy.

Madras Fertiliser, Rama Phosphates, Rashtriya Chemicals and Fertilizers (RCF) and Fertilizers and Chemicals Travancore (FACT) surged more than 10% each on the BSE.

CL Educate made a tepid debut on the bourses by listing at Rs 398 on the BSE, 21% below its initial public offer (IPO) price of Rs 502. The stock settled the trade at Rs 418, down 17%.

On the National Stock Exchange (NSE), the stock opened at Rs 402, down 20% against the issue price. It closed at Rs 422.

Global Markets

US markets on Friday witnessed a pullback. Major indexes have hit multiple record highs since the election of President Donald Trump on bets that he would improve economic growth by cutting taxes and boosting infrastructure spending. The rally has also benefited from robust economic data and a pickup in corporate earnings growth. For the quarter



ending Friday, the S&P 500 gained 5.5 percent, its strongest quarterly performance since the last quarter of 2015.

Investors are now looking to the upcoming quarterly earnings season to justify price valuations. First-quarter earnings for S&P 500 companies are expected to rise 10.1 percent, according to Thomson Reuters I/B/E/S. The index is trading at about 18 times earnings estimates for the next 12 months, compared to its long-term average of 15.

The Dow Jones Industrial Average fell 0.31 percent to end at 20,663.22 points, while the S&P 500 lost 0.23 percent to 2,362.72.

The Nasdaq Composite slipped 0.04 percent to 5,911.74.

So far in 2017, technology has been the top-performing S&P sector, up 12.2 percent. The weakest has been energy, down 7.3 percent.

Ajcon's view

FY17 started with a lot of worries at the backdrop. There were worries on slowdown in Chinese growth, there was worry on emerging market currency fluctuations. Despite many local and global negative events throughout the year such as Brexit referendum, US elections results, Donald Trump win, US Fed policy, and our own demonetization, market continuously scaled some of these worries and has witnessed fantastic returns at the index as well in the broader markets. Domestic Institutional investors trumped over foreign institutional investors, while FIIs sold over Rs 30,000 crore (excluding block deals) post demonetisation, DIIs bought Rs 35,000 crore and market rallied 12 percent in post that.

Going forward, we believe markets would eye Q4FY17 and FY17 earnings season to understand the actual impact of demonetization on corporate profits. At the moment we are bearish on the IT largecaps owing to rupee appreciation but do not rule investors taking a contrarian view at current attractive valuations. Indian rupee has actually appreciated about 4.5 percent in the first quarter of Calendar year which means that there is going to be pressure on topline as well as profitability for exporters on the whole. Investors may book profits in highly valued smallcaps and midcaps running ahead of their fundamentals. We believe there is more value in largecaps in terms of valuations as compared to smallcaps and midcaps. However, selective midcaps in sunrise industry should be considered.

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