Mr. Ajmera's column as on October 25, 2014

Diwali week remains positive for Indian bourses; long term bull run visible..

Indian stock indices advanced during the Diwali week, as the Government unleashed a slew of economic reform measures and the BJP emerged triumphant in the just concluded Maharashtra and Haryana state elections. Nifty ends positive after 4 weeks near the 8,ooo mark at 7,995.90. The banking sector outperformed by 4% leading by ICICI Bank and Axis Bank. India VIX corrected by more than 20% from 16.8880 to 12.4550 as the uncertainty on global cues settled down and Indian indices showed a sharp rise. WTI Crude breath near $83 after falling for consecutive three weeks from $95 to $80.

FIIs were net sellers in Indian shares at INR 139.63 cr during the week (Oct. 17 & Oct. 20) while the Mutual Funds were net buyers at INR 441.1 cr (Oct. 17 & Oct. 20). The FIIs have poured US$13.2bn into local stocks in 2014 so far while the MFs are net buyers at ~INR 7,000 cr year-to-date (YTD).

The Government pushed ahead with incremental labour reforms, de-regulated diesel prices, increased the domestic natural gas prices and announced plans to re-introduce direct benefit transfer of cash subsidies for subsidized LPG. The Centre also indicated that it will soon issue an Ordinance to facilitate an auction of the coal blocks that the Supreme Court had struck down as illegal last month. These announcements are clearly positive for the Indian economy, which is showing tentative signs of recovery even as uncertainties persist over the global front.

While the inflation data (both CPI and WPI) for September has been better than expected, the trade deficit surprisingly widened last month due to higher gold and oil imports. Industrial production for August was subdued though. So, it remains to be seen what the upcoming data will look like and whether there will be enough juice in it for the RBI to alter its outlook for interest rates.

FII inflows into Indian stocks eased in October and could be on track to mark first monthly outflows in several months unless the trend reverses. On the other hand, inflows into the local debt and Mutual Funds have continued at a steady pace. The rupee has held its own amid recent global volatility and Government bond yields have softened (10-year yield fell to 8.34%, the lowest since Sept. 2013) in the wake of the latest inflation data.

Mahurat Trading Session

The market ended the one hour Mahurat trading session on almost flat note. Though the Nifty remained above the 8000-level, it could not make any substantial gains. The 50-share index ended at 8014.55, up 18.65 points. The Sensex was up 63.82 points at 26851. About 2013 shares advanced, 531 shares declined and 91 shares were unchanged. There more legs to this market rally, feel market experts.

Gold prices fell by Rs 50 to Rs 27,800 per ten grams in special Diwali trading in the national capital today largely in tandem with a weakening global trend. Silver also dropped by Rs 665 to Rs 38,235 per kg on reduced offtake by industrial units. Traders attributed the fall in prices to a weakening global trend as signs of economic growth in China and Europe curbed the demand for the precious metals. They said, however, token buying activity on the Auspicious occasion of Diwali and to mark the beginning of Hindu Samvat Year 2071 restricted the fall. Gold of 99.9 and 99.5 percent purity declined by Rs 50 each to Rs 27,800 and Rs 27,600 per ten grams respectively, while sovereign held steady at Rs 24,300 per piece of eight gram. Globally, gold prices, which determine rates on the domestic markets, were down 0.20 percent at USD 1,239.16 an ounce in London.

Ajcon's view

Sectoral outlook

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.

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.

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.

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.

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.

Infrastructure - We are bullish on this sector from a long-term perspective, as a stable and decisive Government at the Centre would bring investment cycle back on track.

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

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.

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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