Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on 31st December, 2016

2017 to be better than 2016 for equity markets; value picking is the right mantra..

Domestic bourses performance

Benchmark indices settled the last trading session of 2016 over 1% higher to post a yearly gain as they recovered from their recent losses tracking various local and global cues.

The NSE Nifty gained around 300 points in the last 4 sessions but failed to end the year above 8,200 in 2016. On the other hand, Sensex rose as much as 308 points today to settle the year 544 points higher.

The S&P BSE Sensex ended at 26,626, up 260 points while Nifty50 gained 82 points at closing, to quote at 8,186. Among broader markets, BSE Midcap gained 1.15% while BSE Smallcap was up 0.97%.

Markets in 2016

From Donald Trump to demonetisation, Brexit to Rexit, GST blockage to good monsoon; 2016 has truly been a rollercoaster ride for the Indian markets.

Nifty gained 3% while Sensex was up 2% in 2016, a year marked by volatility from global and local events. Globally, Brexit, and Donald Trump getting elected as US President surprised the markets. Back home, where approval of GST tax bill, good monsoon gave a boost to the markets, demonetisation, and declining bank credit growth casted a negative shadow.

With a rise of 7.97% to 12,031 levels, BSE Midcap has outperformed the benchmark indices for the third consecutive year in 2016. Stocks such as Manappuram Finance, Indian Bank, Biocon, Sundram Fasteners, Indraprastha Gas and Balkrishna Industries are among the biggest winners within the midcap pack, with gains of 66-123% in 2016. BSE Smallcap only rose 1.77% to 12,046 in 2016 as compared to 6.7% in 2015.

This year's gains would mark a recovery from a decline recorded in 2015. But we are optimistic for the coming year, with RBI expected to cut rates and annual budget coming up.

At home, concerns about shrinking corporate balance sheets and a slowdown in India's growth rate after the government's shock demonetization move dampened investor mood. A normal monsoon and hopes that government will be able to implement a nationwide Goods and Services Tax lifted market sentiment.

Foreign investors activity

Nov and Dec. witnessed selling by foreign investors. Selling worth US$3.4 billion was registered in domestic equities and debt as rising U.S. yields and the threat of rate increases by the Federal Reserve since Trump's win have weighed on sentiment. However, foreign investors have bought a net of US$3.09 billion in stocks so far in 2016, compared with purchases worth US$3.2 billion in 2015.

Key developments during the week

Fiscal deficit touched the Rs 4.58 lakh crore mark, or 85.8 percent of the budget estimate (BE) for the whole financial year, at the end of April-November. The fiscal situation at the end of November was better this financial year compared to the year-ago period as the deficit then stood at 87 percent of BE. Fiscal deficit, the gap between expenditure and revenue for the entire fiscal, has been pegged at Rs 5.33 lakh crore, or 3.5 percent of GDP, in 2016-17. As per data released by the Controller General of Accounts, tax revenue came in at Rs 6.21 lakh crore, or 59 percent of the full-year BE of Rs 10.54 lakh crore.

Total receipts from revenue and non-debt capital of the government during the eight months read Rs 7.96 lakh crore, or 57.8 percent of BE. The governments Plan expenditure during the period came in at Rs 3.64 lakh core, 66.2 percent of the full-year budget estimate. During the same period last year, it stood at 64.1 percent. The non-Plan expenditure in April-November of 2016-17 was Rs 9.22 lakh crore, or 64.6 percent, of the whole-year estimate. The total expenditure (Plan and non-Plan) was Rs 12.86 lakh crore, 65 percent of the governments' full-year estimate of Rs 19.78 lakh crore. The revenue deficit during April-November stood at Rs 3.48 lakh crore, or 98.4 percent of BE for 2016-17.

Sectors and Stocks

The Nifty IT index fell nearly 7.3% this year post Brexit and Donald Trump win, while Nifty Bank gained 7.4% in the year despite the sudden demonetisation move put pressure on the index in the latter half of the year.

While metal, energy, auto were among the biggest sectoral gainers, telecom, pharma and IT were the biggest laggards for the year. Consumer durables (down 6.1%) and the real estate sector (down 6%), too, would continue to remain under pressure in the near-to-medium term given the impact of demonetisation.

Global markets

US stocks slumped on the last trading day of the year on Friday, led down by Apple and other big tech stocks, but major indexes still posted solid gains in 2016. In subdued holiday trading, the S&P 500 declined for a third consecutive session. But the benchmark index still tallied an annual gain of 9.5 percent. The Dow Jones Industrial Average climbed 13.4 percent for 2016, even as it recorded its first weekly decline since the US election on Nov. 8. Stocks stalled this week after surging in the wake of Donald Trump's presidential election. Investors have bet Trump will cut taxes and regulations and introduce fresh economic stimulus.

Ajcon's view

We expect 2017 to be better than 2016. However, we believe there would be pressure in earnings in first two quarters of CY17 especially in auto, auto ancillary, real estate, cement, jewellery, consumer durables sector but expect to pickup rapidly in H2CY17. The next trigger for the bourses would be the Union Budget 2017-18 on Feb. 01, 2017 and upcoming third-quarter corporate earnings. We expect some relief for corporates in the form of some tax rate cuts, and expect push for housing, infrastructure and railway sector in the forthcoming budget. We can expect a recovery in banking space and growth figures should reflect improvement in the quarters going ahead.

It is advisable to remain stock specific and look for value bargains after recent hammering in domestic bourses due to demonetization and US Fed hike.

CA Ashok Ajmera

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