



Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on 4th February, 2017

Union Budget 2017-18 improves street sentiments post demonetization with all eyes on RBI policy next week; BSE makes stellar debut with 35 percent listing gains..

Domestic bourses performance

A smart rally on the Budget day pushed the market to end the week higher with Nifty reclaiming its crucial 8,700 mark, however, the cautious sentiment ahead of the Reserve Bank of India's policy meeting and US visa woes on the IT sector kept the momentum slow in the last two trading sessions.

During the week ended February 03, the S&P BSE Sensex added 1.3% or 358 points to settle at 28240, while Nifty50 gained 1.2% or 100 points to close the week at 8741.

Midcap and Smallcap stocks outperformed. The BSE Midcap index rose 2.5%, while the BSE Smallcap index surged 2.4%.

Sectors and Stocks

The week saw BSE Realty index gaining 5%, followed by the BSE FMCG index (3.4%), the BSE Bankex index (2.5%), the BSE Healthcare index (1.8%), the BSE Capital goods (1.8%), the BSE PSU (1.6%) and the BSE Consumer Durables (1.1%).



The BSE IT index, on the other hand, shed 1.9% after legislation was introduced in the US House of Representatives, which among other things, calls for more than doubling the minimum salary of H-1B visa holders to \$130,000. The move, will make it difficult for the software services firms to replace American employees with foreign workers, including from India.

Meanwhile, among Sensex stocks, Bharti Airtel, ITC, Cipla and Dr Reddy's advanced 9.3%, 5.8% and 4.8% and 4.5%, respectively for the week. SBI added 4%, Axis Bank 3.6%, while ICICI Bank jumped 3.4%.

Losers included TCS (5.3%), Tata Motors (4%) and NTPC (2.8%) and Wipro (2%).

Gold

India's gold demand has fallen to a seven-year low in 2016 and a sharp decline in smuggling post demonetisation has aided the trend.

Data compiled by the global miners' body World Gold Council (WGC) showed India's gold demand at 675.5 tonnes in 2016, 21.2 per cent lower than 857.2 tonnes in the previous year. Demand by value declined 15 per cent to \$27.2 billion in 2016 from \$32 billion a year ago.

The decline follows several government initiatives to discourage consumers from buying gold. The government last year strengthened the know-your-customer rules by imposing a limit on anonymous cash purchases to Rs 200,000. Finance Minister Arun Jaitley capped all cash transactions at Rs 300,000 in this week's Union Budget. Jewellers said this would hurt rural demand.

India's gold imports declined 39 per cent to 648.3 tonnes in 2016 from 1,065 tonnes in the previous year, WGC data showed. Unrefined gold (dore) imports were 141.9 tonnes in 2016 against 229 tonnes in 2015. Gold recovered from scrap rose 12 per cent to 89.6 tonnes in 2016 from 80.2 tonnes in the previous year.

Global Markets

US stocks climbed on Friday, with the S&P 500 closing just short of a record high, boosted by gains in financial shares as President Donald Trump moved ahead with deregulation action and by a strong payrolls report. The S&P financial sector jumped 2 percent to score its best day since mid-November after Trump signed an executive order to scale back regulations in the industry that were implemented in the wake of the financial crisis, including the Dodd-Frank law. The Dow Jones Industrial Average rose 186.55 points, or 0.94 percent, to close at 20,071.46, the S&P 500 gained 16.57 points, or 0.73 percent, to 2,297.42 and the Nasdaq Composite added 30.57 points, or 0.54 percent, to 5,666.77. Friday's gains helped the indexes recoup most, if not all, of the losses from earlier in the week. The S&P and Nasdaq each gained 0.1 percent while the Dow shed 0.1 percent.

An eventful week back home overshadowed the significant global developments that played quietly in the stock market. The US Federal Reserve kept interest rates unchanged, while Bank of Japan also maintained status quo in their respective policy meetings. Bank of



England also said they are in no rush for rate hikes. They repeated that they could tolerate some overshoot of their inflation target, but only within limits. Meanwhile, People's Bank of China unexpectedly raised the interest rates on open market operations, adding to growing concerns about US President Donald Trump's aggressive policies.

Ajcon's view

We believe the Budget was delivered in a simple manner and was very clear in its intention. The Government was prudent and not populist in this Budget which revived market sentiments. The FM thrust was on to reduce poverty, benefits to farmers in agriculture sector, improve overall infrastructure and housing sector, curbing of black money and tax evasion, promoting cashless transactions. Therefore, a focus on the digital economy, on rewarding the poor for their forbearance, and on tightening the screws on tax evasion. The Union Budget 2017-18 was in line with announcements made by the Honourable Prime Minister on 31st Dec, 2016 focusing on housing for the poor; relief to farmers; credit support to MSMEs; encouragement to digital transactions; assistance to pregnant women and senior citizens; and priority to dalits, tribals, backward classes and women under the Mudra Yojana, address key concerns of the economy.

Budget 2017-18 contains 3 major reforms. First, presentation of Budget advanced to 1st February to enable the Ministries to operationalise all activities from the commencement of the financial year. Second, merger of Railways Budget with General Budget to bring Railways to the centre stage of Government's Fiscal Policy and Third, removal of plan and non - plan classification of expenditure to facilitate a holistic view of allocations for sectors and ministries

We believe the NDA Government presented Growth oriented budget and Government continued on path of fiscal consolidation, without compromising on public investment. However, no major changes in the indirect taxes were announced due to possible introduction of GST from 1st July, 2017.

Going forward, the investors will take cues from the strong US jobs growth data which pushed the Wall Street higher on Friday. Index of Industrial Production (IIP) data due on Tuesday and Reserve Bank of India's policy meeting scheduled for Wednesday will also be under investors' radar. We at Ajcon are bullish on well run PSU Banks.

CA Ashok Ajmera



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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

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Website: www.ajcononline.com

Corporate and Broking Division : 408 – (4th Floor), Express Zone, “A” Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel’s, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office: 101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40