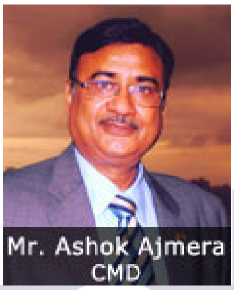
Weekly review as on 6th July, 2013



Mr. Ajmera's column:

Defensives like ITC and HUL help domestic bourses rally; all eyes on Q1FY14 earnings season...

The BSE Sensex rose on Friday to mark its second weekly gain as ITC rose after hiking prices for one of its cigarette brands, while Hindustan Unilever advanced to a record high after parent company Unilever increased its stake in the Indian unit. Hindustan Unilever Ltd. ended 1.3 percent higher, having earlier hit a record 632 rupees, after Unilever said it had acquired a little over two-thirds of the Indian unit, less than the total amount it had offered to buy in the voluntary tender offer. Hopes about Hindustan Unilever's outlook and that Unilever may eventually look to again acquire shares in the Indian unit spurred the gains.

Sentiment was also helped as the indexes closed above their 200-day moving averages for a second day and after foreign investors bought shares worth 1.6 billion rupees and equity derivatives worth 15 billion rupees on Thursday. The benchmark BSE index rose 0.44 percent, or 84.98 points, to end at 19,495.82, rising for a second consecutive week with a gain of 0.51 percent. The index erased its gains for the year at one point this week, but Friday's rise left it up 0.35 percent for 2013. The broader NSE index rose 0.53 percent, or 30.95 points, to end at 5,867.90, also gaining 0.44 percent for the week. The index is down 0.63 percent for the year. Both indexes ended above their 200-day moving averages, an technical indication that is seen as portending support for markets.

Foreign trading has become a key barometer for markets after overseas funds sold 110.26 billion rupees worth of shares in June as part of a sell-off in emerging markets and a slump in the rupee to record lows. Investors are now gearing up for a new earnings season that begins next week when Infosys Ltd unveils its June-quarter results on June 12.

Reliance Industries Ltd. gained 2.2 percent on hopes that recent hefty increase in gas prices would improve its earnings in the medium term. Shares in Indian sugar companies rose after the government decided to raise import duty on the sweetener to 15 percent from 10 percent to discourage overseas buying as ample supplies have sparked a drop in local prices. Bajaj Hindusthan Ltd. gained 1.7 percent while Shree Renuka Sugars Ltd. rose 2.4 percent on hopes that their profitability would improve as a result of reduced import competition. Shares in Firstsource Solutions Ltd. rose 8.2 percent, marking a second day of gains, after billionaire investor Rakesh Jhunjhunwala bought a 3.8 percent stake in the company via a bulk deal on Thursday, according to exchange data.

Global Scenario

US job growth increased more than expected in June, which could draw the Federal Reserve closer to implementing a plan to start scaling back its massive monetary stimulus later this year. Employers added 195,000 new jobs to their payrolls in June, the labour department said on Friday, while the unemployment rate held steady at 7.6 percent as more people entered the workforce. The government revised payrolls for April and May to show 70,000 more jobs created than previously reported. Economists had expected employment to increase 165,000 in June and the jobless rate to fall a tenth of a percentage point to 7.5 percent. The closely watched employment report was released two weeks after Fed chairman Ben Bernanke offered an upbeat assessment of the economy's outlook and said the US central bank expected to start trimming its bond purchases later in 2013. The employment report also showed weekly hourly earnings rose by the most since November. That, combined with other relatively upbeat data on housing, auto sales and manufacturing, makes it more likely the Fed will proceed with its tapering plan in September. The Fed is purchasing USD 85 billion in bonds each month in an effort to keep borrowing costs down and spur stronger growth. Twenty-eight of 60 economists polled by Reuters in late June said they expect the Fed to begin dialing back its purchases in September, with most expecting the program to end by June 2014. The majority also forecast the Fed initially would cut purchases by USD 20 billion a month. The recent signals from Bernanke that a start date for reducing bond purchases is approaching triggered a global selloff in stock and bond markets, which have come to rely on the Fed as a steady source of demand for financial assets. Interest rates on everything from US treasury debt to home mortgage loans moved sharply higher, threatening to curtail credit for consumers and businesses Manufacturing payrolls fell by 6,000 jobs, declining for a fourth straight month. Construction employment rose 13,000 adding to May's 7,000 jobs as the housing recovery pushes ahead, but it remains constrained by a still sluggish non-residential sector. Other details of the report showed average hourly earnings rose 0.4 percent or 10 cents. Tepid wage growth has been holding back the consumer-driven economy.

Ajcon's view

Going ahead, all eyes would be on the following events:

10-15 Jul: Exports and Imports YoY% for June

12-Jul: Monthly New CPI YoY% for June12-Jul 1Q F2014 earnings season starts, Industrial Production YoY for May, Fortnightly Credit Growth Update

15-Jul: Monthly Wholesale Prices YoY% for June

26-31 Jul: Parliament Monsoon Session

27-Jul: Fortnightly Credit Growth Update

30-Jul: RBI Monetary Policy Review

31-Jul: Monthly Old CPI YoY% for June, Centre's Gross Fiscal Deficit and it's Financing

1-Aug: India July Manufacturing PMI

6-7 Aug: Ownership Data for QE

1-12 Aug: India Local Car Sales

12-16 Aug: Exports and Imports YoY% for July

12-Aug: Fortnightly Credit Growth Update, Industrial Production YoY for June, Monthly New CPI YoY% for July

14-Aug: Monthly Wholesale Prices YoY% for July, MSCI Indices Quarterly Index Review

20-21 Aug: Promoter Pledging Data for QE Jun-13

27-Aug: Fortnightly Credit Growth Update

30-31 Aug: Aug Centre's Gross Fiscal Deficit and its financing, Qtrly GDP for 1Q F2014, Monthly Old CPI YoY% for July

Q1 FY14 results will also start trickling in the next week. We expect the earnings season to be disappointing and flattish in growth. At the current levels domestic bourses trade at 14.0x FY14E and 12.0x FY15E versus historic average of 15.5x. The Indian government has moved on a number of important policy reforms in the form of FDI in multi-brand retail and aviation, besides unleashing other measures like SEB debt restructuring, diesel price deregulation, Cabinet Committee on Investment (CCI) and direct cash transfer (DCT). The Union Budget has also been balanced and credible one with more emphasis on fiscal correction. The biggest reform has been the curtailment of the fiscal deficit and the diesel price deregulation. The Finance Minister has also promised that the Government will stick to the reforms agenda, notwithstanding the political uncertainty surrounding the Lok Sabha elections. As a result, the Indian markets could gradually advance over the next 12 months, as the Government's policy measures start to bear fruit. In the Banking space, we recommend buying Bank of Baroda, Karur Vyasa Bank, ING Vyasa Bank, HDFC Bank, ICICI Bank, DCB, Bajaj Finserv, Bajaj Finance and Standard Chartered. In the Infrastructure space, we recommend investors to accumulate stocks like Larsen and Toubro (Q4FY13 topline was as per our expectation, it expects sales to rise 15-17 percent for the fiscal year to March 2014 and order inflows to be up about 20 percent this fiscal year), Pratibha Industries, KEC International, IL and FS Engineering and Construction Company and Sadbhav Engineering. In the NBFC space, we prefer Bajaj Finance, Bajaj Finserv and M&M Financial Services Ltd. In the Oil space, we recommend buying Oil India, ONGC and Cairn. In the Commodities space, we recommend investors to accumulate NMDC. In the Pharma sector, we advise to accumulate stocks like Sun Pharma, Sun Pharma Advanced Research, Lupin, Merck, Glenmark Pharma and Dr. Reddy's. In the Consumption space, we recommend accumulating ITC and Nestle. In the midcap space, we recommend investors to accumulate Petronet LNG, GAIL, DCW, Page Industries, Sangam (India), Rallis India, Ramky Infrastructure, Liberty Phosphate, Wheels India, Repco Home Finance, VaTech Wabag, Voltas, CanFin Homes, United Phosphorous, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.

Your friendly advisor since 1986,

Ashoka Ajmera

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