



Mr. Ajmera's column as on November 08, 2014

Benchmark indices consolidate at higher levels; all eyes on RBI move on interest rates...

The truncated week ended November 7 saw both Sensex and Nifty consolidate at higher levels even as benchmarks managed to close at record levels in two of the three trading sessions this week, building on last week's momentum.

On a weekly basis, Sensex remained flat at 27868 levels while Nifty managed to churn out marginal 0.2 percent gains to close at 8337; broader markets significantly outperformed the benchmarks though. For the week, CNX mid-cap and BSE small-cap gained between 1.3-1.7 percent. On the macroeconomic front, growth in the service sector stagnated in the month of October owing to weaker growth of business orders, according to HSBC PMI index. The index fell to 50 in October from 51.6 a month back.

Among major Nifty losers, GAIL, NMDC, Coal India, Hero Moto, M&M, Hindalco fell 4.6-8.3 percent. Top heavyweight gainers were Bank of Baroda, Lupin, ICICI Bank, Tech Mahindra, Axis Bank, Sun Pharma, DLF and Zee Ent, which gained between 3-8 percent. Bank of Baroda's released its September quarter results on Friday. Net interest income, climbed 17.5 percent on yearly basis to Rs 3,401 crore from Rs 2,895 crore while other income (non-interest income) grew by 1.8 percent to Rs 991.65 crore during the same period. Net profit fell 5.5 percent year-on-year to Rs 1,104 crore due to higher provisions and tax rate. Among sectors, BSE metal index dropped 4.3 percent. A drop in iron ore prices to their multi-year lows dragged metal and mining shares. Fall in prices affect margins of miners. Shares of NMDC dropped over 4 percent during the week. The company reported a revenue growth of 25.2 percent to Rs 3,105.1 crore in the quarter ended September 2014 as compared to Rs 2,480 crore in the same quarter last year. Other notable losers from the metal pack were Coal India and Sesa Sterlite which fell 4-7 percent. Pharma, Media and Realty which hoisted between 3.7-5.7 percent, led the gainers among sectors. Both CNX pharma and BSE healthcare indices touched their all-time high levels on Friday.

Aurobindo Pharma zoomed 6.5 percent this week. The drug manufacturer reported a 58 percent Y-o-Y surge in net profit at Rs 372 crore in the September quarter. Ranbaxy staged a recovery on Friday after a brief sell-off. The company declared in an exchange filing that USFDA has revoked tentative approvals granted for generic versions of two drugs - AstraZeneca's heartburn drug Nexium & Roche's antiviral drug Valcyte. Axis Bank touched its lifetime high levels at Rs 427 on the NSE on Friday.

October auto sale numbers disappointed the street sparking a 1.3 percent sell-off in the BSE Auto index. Shares of M&M, Bajaj Auto and Hero Motocorp fell 0.5-5.7 percent. Despite the festive season, Maruti Suzuki reported a 1.1 percent dip in total sales in October, Mahindra & Mahindra reported 15.39 percent decline in total sales at 42,776 units in October and Tata Motors' sales slumped 17 percent to 42,819 units in October 2014. Hero Motocorp stock came under pressure owing to a block deal: Bain Capital selling 8.5 million shares of the two-wheeler manufacturer on Friday.

MSCI in its semi-annual review on Thursday deleted HDFC Bank, Reliance Capital, JP Associates and Reliance Power and added Zee Entertainment and Mother's Sumi to its India index. Some of the major additions in the MSCI small cap index include CEAT, Info Edge, Jubilant Food, Thomas Cook, Strides Arcolab, said reports. MSCI is a global provider of equity, fixed income, and hedge fund stock market indices. Zee entertainment gained on the news of being added in the MSCI India Index.

Recently Finance Minister Arun Jaitley said that he would be happy if the RBI cuts rates to spur economic activity. Calls for an interest rate cut also reverberated through the World Economic Forum's India Economic Summit, with industry leaders adding their voices to a rising crescendo that Rajan will find difficult to ignore against the backdrop of a shaky economic recovery and a benign outlook for inflation with commodity and energy prices plummeting. All eyes are now on RBI's governor, who will take a call on interest rates in his December 2 monetary policy review.

On the global front, after Bank of Japan's unexpected move to expand the pace of its quantitative easing last week, the European Central Bank (ECB) on Thursday indicated that it may further pursue aggressive stimulus measures if the situation demands so.

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. Some specific stock picking based on pure fundamentals may give handsome returns. We recommend Bank of Baroda, Bank of India, Union Bank of India and Canara Bank.

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 further.

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. In spite of SEBI ban we see a good opportunity to enter in DLF at current prices.

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