



### Mr. Ajmera's column as on July 18, 2014

#### **Benchmark indices remain positive amidst geo political tensions ...**

On Friday, equity benchmarks gained for the fourth consecutive session with the Nifty closing above 7650 level despite weak global cues on geo-political tensions. Finance Minister Arun Jaitley's comments on Budget also aided the market in last hour of trade on Friday. He said the focus of Budget is to boost infrastructure and manufacturing sectors, adding manufacturing is the sector where most jobs need to be created. He saw pick-up in auto sales and manufacturing sector. According to him, there is a need of more incentives for power sector, saying FDI can add to resources in many sectors. "The government should not tax companies retrospectively creating fresh liability. About Rs 4 lakh crore are stuck in tax disputes, he said.

Private banking and financials stocks along with technology counters supported the market in late trade. The Sensex rose 80.40 points to close at 25641.56 and the Nifty climbed 23.45 points to 7663.90 but the broader markets snapped three-day gains. The BSE Midcap and Smallcap indices declined marginally. Experts advise going long on Nifty if it crosses 7700 level, adding the index will not fall below the 7400 level. For the week, the Sensex surged 2.5 percent and Nifty gained 2.7 percent on easing crude prices and monsoon progress, easing worries on inflation. Capital goods, banks and metals led the major support to market while CNX Midcap and BSE Smallcap indices gained around 5 percent.

On the global front, Asian markets closed mixed with the Nikkei falling over a percent after investors turned cautious on news a Malaysian Airlines passenger jet was shot down near the Ukraine-Russia border. On home turf, technology and private banks saw huge buying interest. TCS rallied 2.6 percent after it recorded 5.5 percent sequential growth in dollar revenue of

April-June quarter. CLSA upgraded FY16 EPS of the company with a target price of Rs 2,850/share. Its rival Wipro gained nearly 2 percent as it entered into a strategic alliance with Canada-based ATCO. Private sector lenders ICICI Bank and Axis Bank jumped 2 percent each followed by housing finance company HDFC with 0.8 percent while State Bank of India fell 1.4 percent. Engineering and construction major L&T and two-wheeler maker Hero Motocorp climbed 1 percent and 2.6 percent, respectively. However, shares of BHEL, Tata Power and Hindalco Industries were prominent losers in trade today, down 2-2.6 percent. Maruti Suzuki and Gail were down 1.7 percent each. About 1441 shares advanced while 1507 shares declined on the BSE.

### Monsoon update

The deficit in monsoon rains is expected to narrow next week as the grain bowl in northwest, oilseed areas of central parts and cotton belt of the western region are set to get higher downpours.

The monsoon rains were 15% below average in the past week, against 41% below average rainfall in the previous week, the weather office data showed.

On Thursday, the annual rains covered the entire country two days later than schedule. Last year, monsoon covered the country almost a month ahead of schedule, helping grain output hit a record level.

Rains are vital to the farm sector, which accounts for about 14% of the country's nearly \$2 trillion economy. Two-thirds of its 1.2 billion population live in rural areas.

The late revival of monsoon after six straight weeks of poor rains should speed up plantings of main summer crops such as rice, corn, cane, soybean and cotton.

"This active phase is likely to continue for next ten days," said B P Yadav, head of the National Weather Forecasting Centre at the India Meteorological Department.

Poor rains since the start of the June-September season had raised concerns that India would face its first drought in five years with coverage for most of the main crops slipping below their half way marks.

The predicted wet run in monsoon should improve the level of water in reservoirs that is important for drinking purposes, hydro power generation and irrigation.

### Gold

Gold prices dropped on Friday on fears of higher US rates and as investors took profits after a 1.5% jump on the downing of a passenger plane in eastern Ukraine. Gold, seen as a hedge against risk in times of

geopolitical and financial uncertainty, posted its biggest daily gain in a month on Thursday after the loss of the Malaysian airliner MH17, as Kiev and Moscow blamed each other for the tragedy.

### **Ajcon's view:**

At the global level, market participants will be keeping a close watch on developments in West Asia and its impact on oil prices. On the domestic front, however, corporate results for the quarter ended June 2014 will be key events to track besides progress on monsoon. With the major event of Budget out of the way, the market will likely continue to focus on issues like monsoons, global economy and quarterly results in the short term and market will also look forward to the rate action from RBI in its next policy.

On Monday, HDFC Bank, Hind Zinc, Idea, Hitachi Home, Somany ceramics, Tata Metaliks and Hindustan Media are likely to announce their earnings.

Going ahead, we believe, that the new government has a given blue print for the next five years in Union Budget 2014 -15. FY15 may not be the star year with 10 percent growth but definitely FY16 and FY17 can be pretty strong for earnings. On a longer time frame, the 20 year growth in Sensex EPS is about 15 percent and last six years we have been at a compound annual growth rate (CAGR) of 8 percent. On revival of the economy, earnings will go above the previous trend. Considering the raft of economic data coming across over the last couple of months like Index of Industrial Production (IIP), export growth, Purchasing Managers' Index (PMI), car sales, two wheeler sales, all suggest positive turnaround.

At current levels, we would recommend buying in stocks in sectors like Banking, NBFCs, Metals, Capital Goods and Infrastructure.

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