



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on June 01, 2019

Equities rally amidst volatility; all eyes would be now on new Finance Minister's commentary, onset of monsoons, RBI policy, global cues and upcoming Union Budget..

On a weekly basis, the S&P Sensex and Nifty gained 0.7 and 0.6 percent respectively on the back of mixed earnings from India Inc, swearing ceremony of Modi 2.0 government and allocation of portfolio to the ministers. The Sensex ended 279.48 points higher at 39,714.2, while Nifty ended at 11,922.8, up 78.7 points in the last week.

The S&P BSE Midcap index added 1.01 percent, Smallcap Index rose 1.14 percent and S&P BSE Largecap Index was up 0.77 percent in the last week. The Nifty Auto index underperformed the sectoral indices with a fall of 3.3 percent during the week.

On a weekly basis, the rupee shed 16 paise to end at 69.68 on May 31 against the May 24 closing of 69.52.

In a key development, President Donald Trump has terminated India's designation as a beneficiary developing nation under the key GSP trade programme after determining that it has not assured the US that it will provide "equitable and reasonable access" to its markets. The Generalized System of Preference (GSP) is the largest and oldest US trade preference programme and is designed to promote economic development by allowing duty-free entry for thousands of products from designated beneficiary countries. On March 4, Trump announced that the US intends to terminate India's designations as a beneficiary developing country under the GSP programme. The 60-day notice period ended on May 3. The Trump administration has prioritised working with the Government of India to ensure that US



companies have a level-playing after Shri Narendra Modi was elected as Prime Minister for a second time following his spectacular electoral victory in the general elections.

Meanwhile, auto companies remain under pressure. Mahindra & Mahindra Ltd.'s auto sales fell 3 percent on a yearly basis to 45,421 units in May, due to subdued purchases of vehicles in the election season, according to its stock exchange notification. Its tractor sales fell 16 percent year-on-year to 24,704 units. Maruti Suzuki India Ltd.'s sales declined for the third consecutive month, the most since August 2012. Maruti Suzuki India Ltd.'s sales declined the most in nearly eight years. The company sold 1.34 lakh units last month, a fall of 22 percent from May 2018.

Sectors & Stocks

Shares of Hindustan Petroleum Corporation (HPCL) hit a 52-week high of Rs. 330, up 4 per cent, after surging 20 per cent in two weeks on the BSE, lifted by strong earnings in March quarter (Q4FY19) and fall in crude oil prices. In comparison, the S&P BSE Sensex was up 5 per cent during the same period. The stock surpassed its previous high of Rs 325 touched on June 18, 2018. The oil prices fell to their lowest in nearly three months after US President Donald Trump said he would impose tariffs on imports from Mexico, stoking fears about global economy. HPCL had reported 70 per cent year-on-year (YoY) growth in net profit at Rs. 2,969 crore in Q4FY19, on account of a better-than-expected performance in the marketing segment. EBITDA (earnings before interest tax depreciation and amortization) increased 55 per cent YoY to Rs 4,660 crore in Q4FY19, supported by an inventory gain of Rs 920 crore. The state-owned oil marketing company (OMC's) board has recommended final equity dividend of Rs 9.40 per share for the financial year 2018-2019.

Coal India shares rallied as much as 4.11 per cent in the morning deals on Friday, a day after the company reported an impressive 362.46 per cent jump in its net profit at Rs 6,024.23 crore for the quarter ended March 31, 2019. The coal mining company had posted a net profit of Rs 1,302.63 crore in the corresponding quarter of the previous fiscal year. The company's net revenue rose 7.53 per cent to Rs 28,546.26 crore as against Rs 26,547.58 crore logged in the fourth quarter (Q4) of FY18. "Better average realisation in both coal, Fuel Supply Agreement (FSA) and e-auction sales coupled with operational cost control propelled the company to its best ever financial performance. Importantly, coal quality variance was under control and we have been able to arrest the grade slippage to large extent", a company official said.

Ajcon's view

At Ajcon, we believe the government with full majority will now have to focus on to boost consumption in the economy, ease liquidity in the system, focus on infrastructure development, fasten implementation of policy measures and create an environment to boost employment in the economy and make India vibrant to attract FDI in economy. The recent GDP numbers and jobless data have thrown scare in the equity markets coupled with America's termination of India as a BDN under key GSP programme and comparatively weaker monsoon forecast. Unless, there are some faster and bold initiatives taken by the Government; we may see the markets going down in near future.



However, on a long term basis, Indian equity markets are in a structural bull run as the benefits of implementation of GST, Insolvency and Bankruptcy code, digitization and a stable government coming back to power would augur well for the economy in the long run.

At present, we believe that most of the largecaps have rallied significantly. We believe there is huge value unlocking possible in beaten down quality midcaps and smallcaps. The strategy at present should be to book profits in a few select largecaps and invest in phased manner only in companies which have a robust business model, strong earnings and cashflow visibility, low debt and backed by quality management especially on the corporate governance front.

Dr. Ashok Ajmera, FCA



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