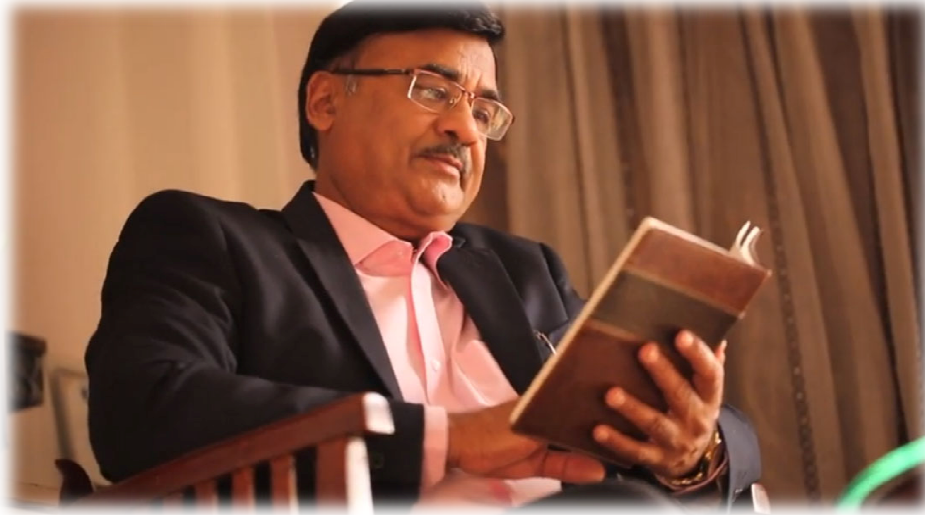




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on Sep. 01, 2018

Markets may come under pressure due to sliding rupee and burgeoning fiscal deficit, recommend a cautious approach..

The benchmark indices ended flat on Friday amid weakness in the rupee, which hit a new low breaching 71 per dollar mark for the first time earlier in the day. The S&P BSE Sensex ended at 38,645, down 45 points while the broader Nifty50 index settled at 11,680, up 4 points. The rupee slumped to a fresh record low of 71 against the dollar for the first time ever on persistent demand for the US currency amid rising crude prices. India reported on Friday a fiscal deficit of Rs 5.40 lakh crore for April-July, or 86.5 percent of the budgeted target for the current fiscal year compared with 92.4 percent a year earlier. Net tax receipts in the first four months of 2018/19 fiscal year that ends in March 2019 were Rs 2.93 lakh crore, government data showed. The Centre expects to trim the deficit to 3.3 percent of GDP this fiscal year, after meeting an upwardly revised fiscal deficit target of 3.5 percent of GDP in 2017/18. The fiscal deficit target for 2018-19 is Rs 6.24 lakh crore. As per the data released by the Controller General of Accounts (CGA), the tax collection (net) at end-July was Rs 2.92 lakh crore or 19.8 per cent of BE (budget estimates). The total receipts of the government during April-July 2018 were Rs 3.49 lakh crore or 19.2 per cent of BE. In the similar period of 2017-18, the collection was 19 per cent of BE.

Sectors and stocks

Shares of pharmaceutical companies were on a roll with the Nifty Pharma index set to post its sharpest rally in past nine years on the back of a strong rally in Sun Pharmaceutical Industries, Aurobindo Pharma, Glenmark Pharma and Dr Reddy's Laboratories. The pharma index hit a fresh 52-week high of 10,390 in intra-day on Friday, rallied 13% thus far in the



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YOUR FRIENDLY FINANCIAL ADVISOR

month of August. In comparison, the Nifty 50 index was up 2.6% during the month. During the month of June, the pharma index had soared 11.6% against a 0.2% decline in the benchmark index. We had recommended the entire pharma pack on June 18, 2018. Earlier, in the month of September 2009, Nifty Pharma index had surged 13.8%, as compared to a 9% rise in the Nifty index. So far in the current month, Sun Pharmaceutical Industries, Dr Reddy's Laboratories, Aurobindo Pharma and Glenmark Pharma from the pharma index outperformed the index by gaining in the range of 14% to 19%, while Divi's Laboratories and Lupin up 13% and 10%, respectively.

Merck, Novartis India, Pfizer, JB Chemicals & Pharmaceuticals, Anuh Pharma, Shilpa Medicare and Apollo Hospital Enterprises from the BSE Healthcare index rallied more than 23% during the month.

Among the individual stocks, Sun Pharma hit a fresh 52-week high of Rs 658, up 2.8% on the NSE in intra-day trade on Friday last week. The stock gained 15% thus in the current month and surged 51% from its 52-week low of Rs 435 touched on May 22, 2018, in intra-day trade. Despite Taro's underperformance, Sun Pharma had reported better than-expected performance in June 2018 quarter (Q1FY19), led by healthy US sales (ex-Taro), strong growth in domestic business and lower year-on-year (YoY) base.

Shares of information technology (IT) companies continued their upward journey with Nifty IT and the S&P BSE IT index hitting their respective new highs on weak rupee against the US dollar.

Nifty IT index (15,796) and the S&P BSE IT index (15,578), up nearly 2% each have touched new high on Friday. In comparison, the benchmark indices were up 0.4% each. Thus far in the calendar year 2018, Nifty IT index rallied 35% against 12% rise in the Nifty 50 index. The rupee hit a new low breaching 71 per dollar mark for the first time today. Thus far in the CY18, the rupee has depreciated by 10.8% against the US dollar. A cheaper rupee bodes well for Indian IT companies, as they derive a huge share of their revenues from exports.

Global Markets

Asian shares came under renewed pressure on Friday as a report US President Donald Trump was preparing to step up a trade war with Beijing sent Chinese stocks lower and partially erased gains made in this week's global rally. Many emerging market currencies were also frail after Argentina's peso sank on Thursday despite the central bank's interest rate hike. MSCI's broadest index of Asia-Pacific shares outside Japan dropped 0.7 per cent, for monthly drop of 1.5 per cent. Japan's Nikkei closed down 0.02 per cent.

Ajcon's view

The Indian economy grew 8.2 percent in April-June this year, the highest in two years, amid signs that households are buying more and companies are adding capacities, shrugging off the disorderly effects of the twin shocks of demonetisation and the goods and services tax (GST). Domestic air passenger traffic, robust rail freight movement, rising sales growth of



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passenger vehicles and strong consumer durables sales also point to a turnaround in the greater household spending. Gross Fixed Capital Formation (GFCF), a useful metric to measure corporate investment activity, grew 10.0 percent in April-June. The agriculture sector grew 5.3 percent, from 3 percent in the same period last year, largely reflecting a strong Rabi or winter sown harvest. The monsoon rains, critical for the summer-sown kharif crop, has been slightly below normal this year so far, particularly in the grain bowl states in north India, but the shortfall isn't alarming enough to pull down growth in the broader economy. India also cemented its status as the world's fastest growing major economy, ahead of China, which grew 6.7 percent in April-June 2018. At the current pace, India looks set to become the world's fifth largest economy, ahead of the United Kingdom. According to latest World Bank data, India edged past France to become the world's sixth largest economy. India's GDP stood at USD 2.597 trillion (Rs 178 lakh crore) in 2017 in current prices in market exchange rates, ahead of France whose GDP stood at USD 2.582 trillion (Rs 177 lakh crore) in 2017.

Despite GDP showing good strength, the perils like Rupee trading at record low against the dollar and high crude prices can have a huge bearing on the Fiscal Deficit which can eventually dent market sentiments. We believe markets may come under pressure due to sliding rupee and burgeoning fiscal deficit. We recommend a cautious approach. Going ahead, we believe, progress of ongoing monsoons, rupee movement against the dollar, volatility in oil prices, trade war tensions, US Fed meeting on rate hike will keep domestic bourses volatile. We believe that the investors can have a stock specific approach. We still believe that there is significant value in midcaps after the recent correction post implementation of ASM and announcement of LTCG in Union Budget 2018-19. Midcap stocks did show some signs of bottoming out in August but it will be difficult to say that the pain is over and stock selection will be the key. With regards to rupee hitting record low against the dollar we believe IT, Pharma, textile and speciality chemicals will be beneficial. The rupee fall will be favourable for ONGC and Oil India as they sell crude to oil marketing companies in dollar terms. Hence, HPCL, BPCL and IOC will be impacted in margin terms as they buy oil in dollars. Even some of metals, power and cement companies which are dependent on coal import will also be impacted. Importers will be badly hit due to this currency war. Companies which have high external commercial borrowings will, too, get impacted, which include telecom sector as well.

Dr. Ashok Ajmera, FCA

Top picks

Cholamandalam Investment and Finance Company Ltd.

CMP: Rs. 1466, FV: Rs. 10, Target Price: Rs. 1,905, Upside: 30%

The company is part of the Murugappa Group – founded in 1900, one of India's leading business conglomerates with 28 businesses including 8 listed companies and workforce of 40,000 employees. The Company operates from 883 branches across 27 states. Cholamandalam Investments is a strong play on the uptick on commercial vehicles cycle as its loan book is dominated by CV financing. The company boasts of a robust operating



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profile with total AUM of Rs. 451 bn as on June 2018 with Net NPA of 1.71 percent and ROA of 4 percent, operating income witnessed a CAGR of 14% over FY14-18.

In Q1FY19, the revival in Commercial Vehicle business cycle was witnessed in the robust disbursement in vehicle Finance business which registered growth of 48 percent on yoy basis to ~Rs. 5,665 crores. HCV and LCV continued to show strong growth, complemented by used vehicles. On recent change in Axle norms, the management remains confident of minimal impact on demand however considering company's higher exposure towards new MHCV, we may see some demand contraction.

Home Equity business saw a yoy growth of 27 percent in disbursement at ~Rs939cr. Aggregate disbursements for the quarter witnessed a growth of 45 percent at ~Rs7,014cr.

Assets under management clocked a growth of 30% in Q1FY19 to Rs. 46,663cr. The management sounds optimistic for strong AUM growth going ahead. NIM in Q1FY19 declined by 50 bps on yoy basis to 7.2% owing to IND AS implementation as loan origination fees spread over to life of assets instead of upfront recognition. Similarly, Opex witnessed a sequential decline as costs involved with loan origination has also been amortized over life of asset. Additionally as overall cost of funds heading northwards (especially for shorter duration liabilities), we expect some pressure on margins to stay in near term. Capital Adequacy Ratio (CAR) of the company as of June 30, 2018, stood at 18.15% as against the regulatory requirement of 15%. Its PCR for the quarter stood at 42.72%. Cost/Income ratio declined by 240 bps on yoy basis to touch 32.5 percent in Q1FY19. ROE stood at 21.8 percent in Q1FY19.

During FY18, India Ratings and CARE have upgraded long-term debt rating from AA to AA+. Return on equity stood at 20.78 percent in FY18. The company is consistently profit making and dividend paying company since 1979 with a strong track record of dividends to shareholders. It operates from around 873 branches across India with assets under management above Rs 42,000 crore. At CMP of Rs. 1,466, the stock trades at a P/BV of 4.45x at FY18 Book Value of Rs. 329. Considering Q1FY19 results and the above factors, we recommend a "BUY" with a target price of Rs. 1905, an upside of 30 percent. (P/BV of 4.45x on estimated FY19 Book Value).

Oil India Ltd.

CMP: Rs. 213, FV: Rs. 10, Target Price: Rs. 250, Upside: 17%

The Company is present in oil & gas sector since last 6 decades. It owns and operates a fully -automated cross country crude oil pipeline. The Company became a Public Sector Undertaking in 1981. GoI ownership stands at 66.13% as on June 2018 and was awarded 'Navratna' status in 2010. The Company has strong reserve base which is as follows: Reserve Replacement Ratio (Dom) consistently > 100%. 2P reserves (Dom): Oil - 78.67 MMT, Gas - 127.59 BCM. 2P reserves (Overseas): Oil-38.06 MMT, Gas-6.90 BCM

In Q1FY19, Oil India reported decent set of numbers. The Company reported a 56 per cent jump in its April-June quarter net profit on back of higher oil prices. Net profit in the first quarter of current fiscal rose to Rs 703.22 crore, from Rs 450.24 crore, or, in the same



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period of previous financial year. Revenue from operations rose by about 45 per cent to Rs 3,390.46 crore.

Crude Oil production for Q1FY19 stood at 0.844 MMT which is same to the crude oil production during Q1FY18 although realization improved. Crude Oil price realisation improved by US\$23.59/BBL to US\$ 72.00/BBL in Q1FY19 as compared to US\$48.41/BBL during Q1FY18. Natural gas production during Q1FY19 declined by 3.87% to 696 MMSCM as compared to 724 MMSCM during Q1FY18 owing to short upliftment by certain consumers.

Oil India in consortium with Assam Gas Company & GAIL Gas Ltd., has been allotted two geographical areas, namely Cachar, Hailakandi & Karimganj Districts and Kamrup & Kamrup Metropolitan Districts in the state of Assam in the recently concluded 9th round of City Gas Distribution (CGD) bidding by PNGRB.

The Company reported whopping increase in PAT by 72% to Rs.2,668 crore in FY 18 from Rs.1,549 crore in FY 17. The Company offers high dividend yield of 7.04 percent return to its equity shareholders. The Company has an aspiration to be an international E&P player with operations at scale in at least two geographical clusters outside India, significantly higher production, reserves and cash flows while being known globally for its capabilities to extract value from mature assets. The stock price has seen decent correction after making peak in January 2018 despite a rise of 5% increase in crude oil prices owing to subsidy burden concern. We believe current share price has discounted the worst case scenario. At CMP, the stock trades at a P/E of 9x at FY18 EPS of Rs. 23.5. We recommend a "BUY" with a target price of R. 250 (9x at estimated FY19 EPS of Rs. 28).



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