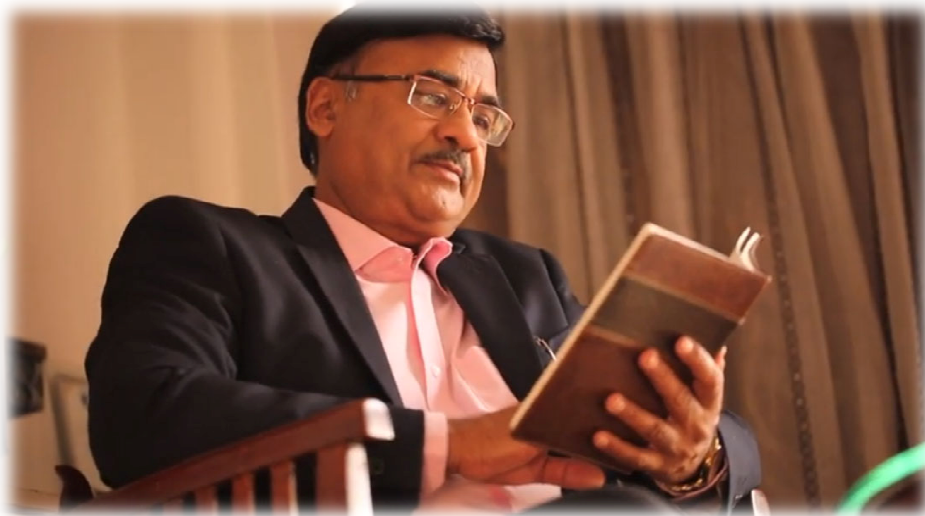




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Dr. Ashok Ajmera (FCA), CMD & CEO

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

Volatility expected ahead of state elections result on Dec. 11; GDP data disappointed, all eyes now on G-20 Summit outcome..

The domestic bourses end marginally higher on Friday but recorded positive close for a fifth consecutive day. Sensex and Nifty were up by more than 3 percent gain. Positive November expiry, falling crude oil prices, appreciating rupee, ongoing polling in five states, and positive global cues are some of the factors that helped the market to close positive in each session of the week. The Sensex rose 3.5 percent this week, or 1213 points, to ending at 36194.30, while Nifty surged 3.3 percent, or 350 points, to close at 10876.76. On a weekly basis, the rupee gained 1.5 percent (Rs 1.08) against the dollar as it ended at 69.59 on November 30 against November 22, closing of 70.67 against the dollar.

Markets completed their best month in four in November, on signs that foreign buying is increasing amid strengthening of the rupee and slipping of crude oil prices into bear territory. The benchmark Sensex rose 5.1 per cent in November — its steepest monthly gain since July. It climbed 0.1 per cent to 36,194.30 on Friday. The Nifty rose 4.7 per cent in the month. Overseas investors bought net Indian shares worth \$720 million through November 28 after three months of selling, according to data compiled by Bloomberg. Domestic stocks and the rupee were already surging higher following a sharp decline in global crude oil prices, India's biggest import item. Brent crude prices have come off by over 30 per cent in the past two months, helping India save billions of dollars in oil bills.

India's gross domestic product (GDP) grew 7.1 percent in July-September, down from 8.2 percent in the previous quarter as high fuel prices, a sliding rupee and relatively weaker rural demand seem to have applied the brakes on the economy.



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On a monthly basis, FIIs were the net buyer for the first time since March. FIIs poured in more than Rs 12,000 crore (Debt & Equity) in Indian markets according to SEBI data.

Sectors and stocks

Shares of United Spirits (USL) hit a five-month high of Rs 675, up 6% on BSE in an otherwise range-bound market, on the expectations of higher volume growth in the current quarter. The stock was trading at its highest level since June 28, 2018. In past five-weeks, USL outperformed the market by surging 33% after the company posted a strong 69% year-on-year jump in net profit at Rs 2.59 billion in September quarter (Q2FY19), on the back of robust sales of its premium brands. In comparison, the S&P BSE Sensex was up 5% during the same period. Diageo Plc-owned USL's standalone operational revenue grew 14.7% to Rs 71.28 billion from the same quarter a year ago. The healthy sales were driven by strong growth in both the Prestige and Above and Popular segments, also benefitting from a relatively lower base last year. The company's reported Ebitda (earnings before interest, tax, depreciation and amortization) margin improved 313 basis points (bps) at 19.4% during the quarter. This improvement was primarily driven by productivity initiatives and pricing that offset the adverse impact of inflation.

It was flashing green for mid- and small-cap non-banking financial company (NBFC) stocks on Friday. Dewan Housing, Indiabulls Housing Finance, Repco Home Finance, Gruh Finance, and Sundaram Finance gained 2-8 per cent on Friday, reacting to the regulatory relief pertaining to securitisation or sell-down of loans. The new norms came in after market hours on Thursday. According to the revised norms, loans of original maturity of more than five years can be securitised after receiving the repayment of six-month instalments or two quarterly instalments. Earlier the norm was to ensure that the loans are serviced for 12 monthly instalments or four quarterly installments.

The momentum spill over to individual stocks in November. As many as 17 stocks rose 20-171 percent return in just one month in the S&P BSE 500 index which includes names like Adani Power, BEML, Infibeam Avenues, Kwality, and 8K Miles Software Services etc. among others.

In the S&P BSE Smallcap index, as many as 50 stocks rallied 20-171 percent in November. Three stocks more than doubled investors' wealth in the same period which includes names like 8K miles, KSK Energy, and Electrosteel Steels.

Stocks which rallied 20-100 percent include names like Ok Play, Vadilal Industries, EIH, Global Offshore, Vakrangee, Eros International, ADF Foods, Kwality, Jaypee Infratech etc. among others.

In the S&P BSE Mid-cap index, only three stocks rose between 20-40 percent which includes names like Adani Power, Kansai Nerolac, and Adani Transmission.

The Sun Pharma stock has declined 19 per cent from its highs touched earlier this month, on a muted performance in the September quarter and corporate governance-related issues as reported by media. The company has, however, clarified to the exchanges that the issues



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mentioned in a recent research house report are in public domain. Street participants are wary on pricing pressures, marketing costs in the US, and the sluggish performance in India are key negatives on the operational front. However, we believe this Company can be accumulated on declines. Remember, this largecap would be available at cheap valuation only at distressed times.

Global markets

Equity markets ticked slightly lower in early Asian trade on Friday as investors await a closely watched meeting between the Chinese and U.S. presidents in Argentina this weekend for signs of a trade war detente.

The mostly muted market moves followed a mixed day on Wall Street, where stocks swung between losses and gains to ultimately end lower, amid conflicting signals on the outlook for trade talks.

The Dow Jones Industrial Average fell 0.11 percent, to 25,338.84, the S&P 500 lost 0.22 percent to 2,737.8 and the Nasdaq Composite dropped 0.25 percent to 7,273.08 at Thursday's close. Investors are waiting for a meeting between Chinese President Xi Jinping and U.S. President Donald Trump, at which the leaders are expected to discuss the countries' bruising trade war. Adding to apprehension ahead of the weekend meeting were comments from a U.S. official, who said White House trade adviser Peter Navarro, who has advocated a tougher trade stance with China, would attend. Mixed signals from Washington about the prospects for a rapprochement with China on trade have led many investors to sit on the sidelines.

Global investors also remain hesitant to shift positions significantly as they seek clarity on Federal Reserve policy direction. Minutes of the latest Fed policy meeting showed that almost all officials agreed another interest rate increase was "likely to be warranted fairly soon," but opened debate on when to pause further hikes and how to relay those plans to the public. The minutes follow comments from Federal Chairman Jerome Powell earlier this week that some took as indicating a dovish shift. The yield on two-year U.S. Treasury notes, seen as sensitive to expectations of higher Fed fund rates, was at 2.8066 percent on Friday, down from a U.S. close of 2.813 percent.

Ajcon's view

We believe Q2FY19 earnings season has been mixed bag. Going ahead, we believe global cues like outcome from G-20 summit and outcome from (both exit polls and actual result) of assembly elections in five states will determine the market trend. Political stability or instability could well impact markets in more than one way. Five states went for polls in the month of November 2018 — Madhya Pradesh, Chhattisgarh, Rajasthan, Mizoram and Telangana — ahead of general elections 2019. Opinion polls suggest very tough fight in Rajasthan, MP and Chhattisgarh for the current government. Telangana also does not seem to be a cakewalk for TRS post congress, TDP alliance. But, the outcome of Madhya Pradesh elections will be important for benchmark indices. Investors can start looking for good companies which have a sustainable business model with good ethical management having



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clearcut strategy for the future at cheap valuation. Importers should be cautious as the rupee may not sustain at these lower levels.

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