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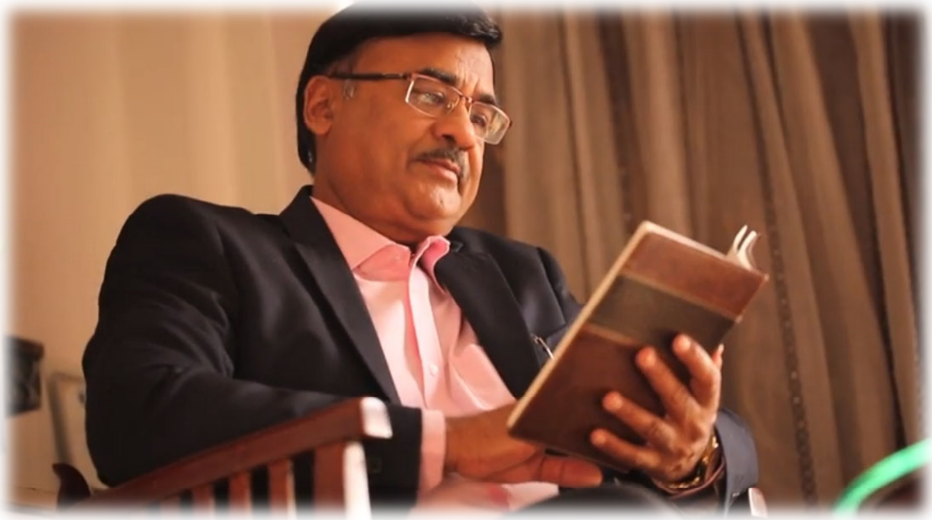

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on November 02, 2019

Strong start to Samvat 2076; FII flows lift domestic bourses up..

For the week, the Sensex was up by 2.33 percent to end at 40,165.03 whereas Nifty added 263.45 points (2.26 percent) ended at 11,890.6 led by decent Q2FY20 earnings season and upgradation of PAT estimates for FY21, 22 owing to tax cuts announced by Finance Ministry.

In the last week, the Sensex touched a fresh all-time high of 40,392.22.

The benchmark indices rose for the six consecutive sessions on November 1, and the Sensex managed to hold above the 40,000 mark, while Nifty finished below the 11,900 mark. The BSE mid-cap index rose 3 percent, while large-cap and small-cap Indices were up 2 percent each in the past week.

FIIs were net buyers last week as they bought equities worth Rs. 10,473.30 crore, while Domestic Institutional Investors (DIIs) sold equities worth of Rs 828.4 crore.

Goods and services tax (GST) collection remained below Rs. 1 trillion for the third straight month in October. It was 5.3 per cent lower than in the corresponding period last year, the steepest fall in the first seven months of the current financial year, indicated rising weakness in consumer demand. Collection stood at Rs. 95,380 crore in October, slightly higher than the Rs. 91,916 crore in the previous month, when it fell to a 19-month low, the finance ministry data showed on Friday. October was the second month when the collection declined year-on-year. In September, it was down 2.7 per cent.

Indian rupee

On a weekly basis, the rupee rose 7 paise at 70.81 on November 1 versus the October 25 closing of 70.88.

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Global markets

The US Federal Reserve cut its benchmark interest rate for the third straight time on October 30. The FOMC lowered the policy interest rate by 25 basis points to a target range of 1.5-1.75 percent.

Ajcon's view

Last week, bulls took charge at Dalal Street. Buying was witnessed across the board. PSU stocks rallied a lot. Signs were encouraging as rally was across sectors with the Nifty PSU Bank and Media indices leading the charge with more than 10 percent gains. Auto, Bank, FMCG, IT, Metal and Pharma indices gained 2-6 percent. The broader markets also participated in the rally as the BSE Mid-cap and Small-cap indices climbed 2-3 percent during the week while the BSE 500 index gained 2.4 percent.

It was good to see strong FII flows last week owing to decent Q2FY20 earnings season, festive sales above street expectations and steps taken by the Finance Ministry. Going ahead all eyes would be on next leg of Q2FY20 earnings season, corporate advances growth etc. After a strong rally in October, 2019, we expect some profit booking to come in largecaps. Midcaps and smallcaps even after this rally offer significant value.

The Government has already taken big steps to improve deteriorating sentiments and tackle economy slowdown. The Finance ministry reduced corporate tax rate to 22 percent without exemptions (after surcharge Effective tax rate to be 25.17). To boost FDI in Country and promote "Make in India", the Government introduced lower tax rate of 15% for new manufacturing companies which will benefit companies looking to set up new capacity in India. Earlier, the Finance Ministry rolled back high taxes on foreign investors to tweak in FDI norms and earlier on August 30, Finance Minister Nirmala Sitharaman unveiled mega merger plan to help India become a US$5 trillion economy and kick start investment cycle. No doubt, the above steps would help in improving economic activity but we still believe some more steps are required from the Government to increase the purchasing power of consumers which can result in revival of demand. In addition, to revive investment led spending, corporate advances growth should happen in PSU banks.

Long term investors with an horizon of more than 2 years should look at building long term portfolio in companies which have weathered the storm in different market cycles, suited to changing dynamics of the economy as business models are changing in new age economy and delivered decent financial performance. The strategy at present should be invest in phased manner only in companies which have a robust business model, strong earnings and cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

Dr. Ashok Ajmera, FCA

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