



**Dr. Ashok Ajmera (FCA), CMD & CEO**

*Dr. Ajmera's column as on February 03, 2018*

### **Bloodbath witnessed in domestic bourses; midcaps and smallcaps crash...**

Higher taxes on equity investments and declining risk appetite among global investors amid an increase in US bond yields saw the benchmark Sensex slide 840 points, or 2.3 per cent, to 35,907 and the Nifty 50 index tank 256 points to 10,760. This was the worst single-day fall since November 2016, when the Centre banned the use of high-denomination currency notes, and the worst after-budget day performance since 2009. The broader market small and mid-cap indices plummeted over 4 per cent each. The market slump eroded investor wealth worth Rs 4.6 trillion, with the total market capitalisation (m-cap) of all listed companies slipping below Rs 150 trillion. We believe that the market was concerned about the reintroduction of the tax on long-term capital gains (LTCG) without the removal of the securities transaction tax (STT). Also, breaching the fiscal deficit targets to allow for higher rural spending ahead of the 2019 general elections dampened sentiment. Weakness in the global markets with the yield on the 10-year US bond increasing to 2.8 per cent put further downward pressure on the markets.

In FY18, so far, the mid- and small-cap indices have outperformed the frontline benchmarks by rising 22.5 per cent and 29.7 per cent, respectively, as compared to the 21 per cent gain in the S&P BSE Sensex till Thursday. As many as 51 stocks from the small-cap index hit their respective 52-week lows on Friday. The list includes Allahabad Bank, Dena Bank, Jubilant Industries, Indo Count Industries, Punjab National Bank, Ugar Sugar, Jubilant Industries, and United Bank of India.



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Most Asian markets closed in the red, the European markets traded more than 1 per cent lower, while the futures market pointed to a lower opening in the US market. As the yield on the 10-year treasury moves towards 3 per cent, investors are forced to rethink their portfolio allocation as bond markets are beginning to look attractive relative to equities. The yield on the domestic 10-year government security rose to as much as 7.68 per cent but managed to settle at 7.56 per cent, 4 basis points (bps) lower than the previous day's close but 13 bps higher than the pre-budget close. Delay in fiscal consolidation and a spike in bond yields could put pressure on the Reserve Bank of India (RBI) to turn more hawkish, experts said. The central bank is set to announce its rate decision on February 7.

Markets had surged in the run-up to the Budget, with the Sensex gaining 5 per cent in January. The gains were on the back of inflows to the tune of \$2 billion from overseas investors. All the BSE sectoral indices ended with losses on Friday, with the Realty index dropping the most at 6.3 per cent. Only 295 stocks gained, while 2,548 ended with losses on the BSE. Among Sensex components, Bajaj Auto, Axis Bank, Maruti and Reliance Industries fell the most at more than 4 per cent each. Overseas investors net bought shares worth Rs 9.50 billion, while domestic investors pulled out Rs 5.10 billion, provisional data showed.

### **Ajcon's view**

We believe the Finance Minister cheered the masses by focusing on the core aspects of the economy and providing relevant allocations. However, the equity markets did not like the introduction of Long Term Capital Gain tax. Investors have taken the Union Budget 2018 - 19 as a bitter pill. However, the Finance Minister has managed to achieve a fine balance between the needs of growth, social development, and investor confidence by focusing on rural and infra sectors, MSME, salaried, and retired classes - while staying on course with fiscal consolidation. We also like the government announcement of a new health protection scheme and allocating Rs 52,000 crore to the sector in the Budget which was also lauded by the WHO which also said they were "significant" steps towards Universal Health Coverage (UHC), something the global health body has been advocating for.

We believe that this Budget has holistically addressing the various priorities of the Indian economy and would be very good for the economy as rural India will have more disposable income in their hands which would spur up the consumption indirectly supporting corporate India. The biggest beneficiaries of this Budget are the medium, small and micro enterprises (MSMEs) – the units which can create massive employment opportunities.

Considering the recent correction, we believe there are many opportunities available to investors. We recommend investors to be stock specific and consider companies with good earnings visibility at a decent valuation.

**Dr. Ashok Ajmera, FCA**



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