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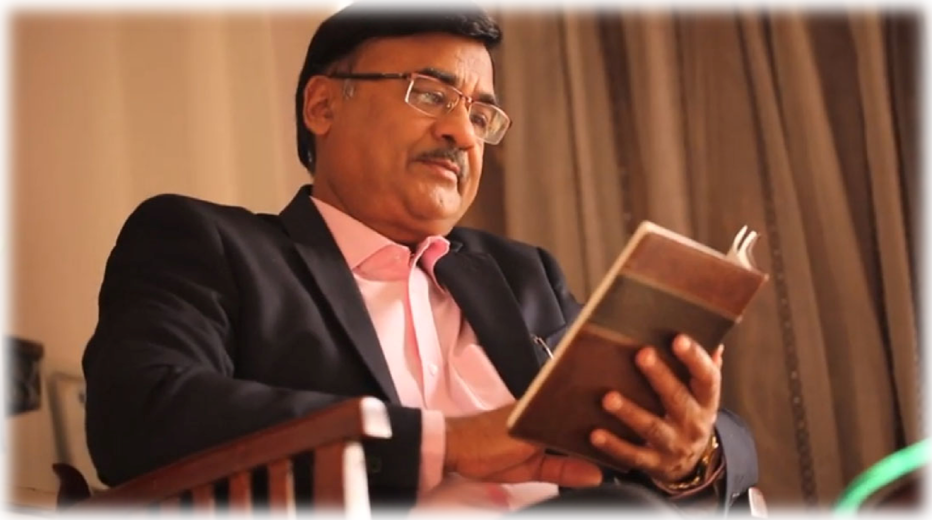

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on Oct. 06, 2018

Investors turn in panic mode on mayhem witnessed in domestic bourses; RBI action not taken well..

The domestic bourses were falling like a pack of cards last week with Sensex closing below 35,000 mark and Nifty 600 points lower owing to continuous rupee depreciation, sustained foreign capital outflows and concerns over widening current account deficit and RBI's surprise action. In the last week the Sensex lost 1850.15 points to close at 34,376.99 (down 5.1 percent), while Nifty shed 614 points to close at 10,316.45 (down 5.6 percent). Foreign investors were net sellers this week, while domestic institutions remained buyers. India's volatility index (India VIX) rose 16 percent last week, while largecaps index fell 5.3 percent, midcaps was down 5.1 percent and smallcaps shed 4.9 percent.

Rupee has depreciated nearly 7 percent and crude prices have soared over 17 percent from the last MPC meet. The monetary policy committee (MPC) of the Reserve Bank on Friday kept the repo rate unchanged at 6.50 per cent in its fourth bi-monthly monetary policy review of 2018-19. The central bank changed the policy stance to 'Calibrated tightening' from 'Neutral'. Calibrated tightening means rate will be maintained or hiked in this cycle. The recent inflation numbers were below RBIs expected levels which has led to status quo on the repo rate which has surprised the markets, as a result of which, the 10 year Government security (G-sec) yield eased by around 10 bps post the policy announcement. At Ajcon Global, we believe that RBI should have hiked repo rate by 25 bps considering the current situation to control the rupe depreciation. Rate sensitive stocks took deep cuts despite RBI's status quo. The Nifty PSU Bank index dropped 4.4 per cent to settle at 2,656 levels, while Nifty Auto index tumbled nearly 3.2 per cent. Nifty Realty, too, slipped 3 per cent.

The total market capitalisation of BSE-listed companies touched Rs 136.61 trillion on Friday, recorded its lowest level since October 11, 2017. Since September 2018, the total market cap of BSE-listed companies declined by Rs 22.74 trillion from Rs 159.35 trillion.

Stocks of oil marketing companies such as HPCL, BPCL and IOCL hit 52-week lows after the government announced that it will cut excise duties on petrol and diesel prices and OMCs will absorb Re 1 per litre. It is estimated that the government's decision to ask oil marketing companies to bear at least partially the burden of fuel price cut is likely to erode their margins by around Rs 7,200 crore in the current financial year. A sharp decline in stock price of six oil & gas companies have seen their combined market capitalisation falling by Rs 1.26 trillion in two days. We believe the government should have absorbed Re. 1 cut rather than forcing OMCs to cut Re. 1. This action has sent a wrong signal to FIIs of government interfering in the reform process of price deregulation announced earlier.

The rupee was quoted 55 paise lower at 74.13 against the dollar soon after the RBI announced its monetary policy. On Friday, rupee closed at 73.77 per dollar against Thursday's close of 73.58 per dollar. It fell 1.8 percent this week, registering sixth consecutive weekly fall against dollar. This is a biggest weekly fall against dollar since week ended August 17. Investors remained concerned over sustained foreign capital outflows and fears of widening current account deficit in the wake of soaring crude oil prices.

Ajcon's view

Going ahead, we believe rupee movement against the dollar, volatility in oil prices, and movement of bond yields will determine the market trend. At current juncture, investors can have a stock specific approach. The current panic provides investors sitting on cash a wonderful opportunity to accumulate great companies backed by strong management at cheap valuation. Investors can gradually start building their long term portfolio in some of the top rung stocks of which many have come down 30-40 percent in the recent fall. We do believe that the market seems to be in oversold zone. However, do not rule out further correction as Mutual Funds may resort to selling if the redemption pressure is witnessed in equity funds.

All said and done, we still believe that equity is a great asset class and these are the times when one should put money in the market from medium to long term perspective.

Dr. Ashok Ajmera, FCA

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