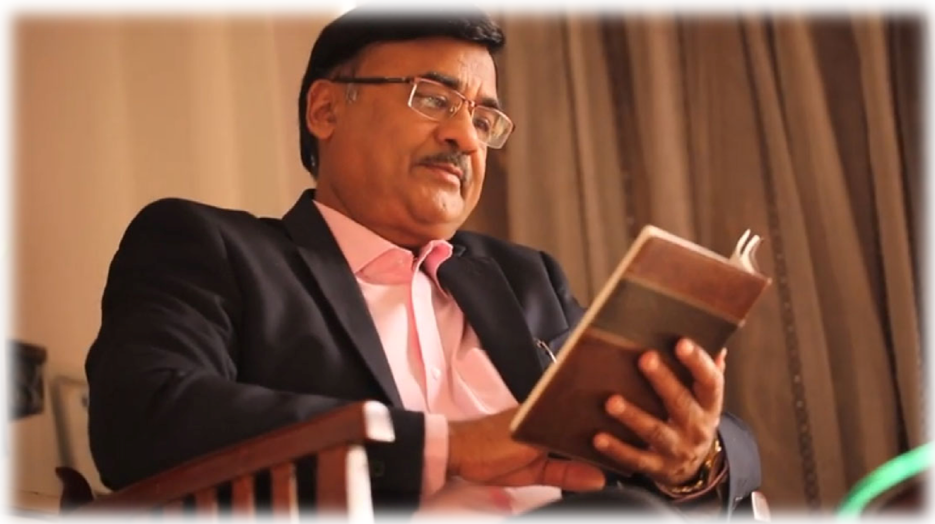
AJCON GLOBAL



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on February 17, 2018

PSU banking stocks witness selling pressure; gold prices at its peak…

The market extended losses in last couple of hours of trade on Friday, falling more than 340 points intraday on the Sensex despite positive global cues. The dip in all sectoral indices as well as mid-smallcaps indicated that sentiment at traders and investors' desk may have remained weak ahead of weekend, especially due to lingering concerns over banking stocks after the PNB fraud case. The index closed down 286.71 points or 0.84 percent at 34,010.76. Volatility in crude oil prices and increase in trade deficit also hit market sentiment.

For the week, Sensex gained more than 200 points in morning on positive global sentiment, but as the day progressed, it wiped out all those gains and shed nearly 500 points from day's high, especially after top PSU lenders SBI and Bank of Baroda declared their exposure to the PNB fraud case that raised concerns over risk management in banking space.

India's benchmark equity indices declined nearly one per cent on Friday even as global peers rallied as widening of the current account deficit, the $2-billion fraud at Punjab National Bank (PNB) and index provider MSCI's warning weighed on investor sentiment. The Sensex fell 0.8 per cent to 34,010, while the Nifty50 index fell 0.9 per cent to 10,452.3, its lowest close since January 3. The losses came despite global markets gaining by more than a per cent as the yield on the 10-year US Treasury softened below 2.9 per cent.

Foreign institutional investors (FIIs) sold shares worth Rs 11 billion on Friday, taking their eight-day selling tally past Rs 10,000 crore. The worst performer among the Sensex components were State Bank of India (SBI) which fell 2.6 per cent, followed by YES Bank and ICICI Bank which declined 2.5 per cent and 2.3 per cent respectively.

Gold

Gold prices on Friday jumped 0.23 per cent in Mumbai to hit the highest point in about 15 months since demonetisation in November 2016. The price of standard gold (995 purity) moved up by Rs 70 to open at Rs 30,645 per 10 gm in Zaveri Bazaar. In November 2016, bullion was traded at Rs 30,600 per 10 gm in official transactions. Unofficially, however, gold was traded even at Rs 45,000 per 10 gm. The movement in gold prices in India is largely dominated by fluctuations in world markets. In the benchmark London spot market, gold was trading at $1,361 an ounce (28 gm) in early trade on Friday afternoon. This is the highest level since August 2016. Investors are switching to gold after the collapse of cryptocurrencies such as bitcoin. There has been a confluence of factors supporting the rise in gold prices, which remained low for more than a year. The US interest rate hike, which kept gold prices subdued over the last one year, has started working in its favour due to inflationary pressure.

Thanks to bitcoin's decline, the investment demand has returned. Additionally, a weaker dollar has also helped gold's upward move. Gold traders see gold's immediate resistance at $1,375 an ounce and thereafter $1,430 an ounce. The fundamentals are supporting the rise in gold prices. The data compiled by the World Gold Council (WGC) showed a 6 per cent increase in the global gold demand during the October-December quarter to 1,095.8 tonnes. Global exchange-traded funds (ETFs) added 202.8 tonnes in 2017.

Sectors and stocks

Shares of public sector banks continues to trade lower for the fifth straight trading session with the Nifty PSU Bank index hitting an over three-month low after the Reserve Bank of India (RBI's) revised framework on resolution of stressed assets and the detection of about Rs 144 billion fraudulent and unauthorised transactions by the Punjab National Bank (PNB) at one of its branches in Mumbai.

Nifty PSU Bank index hit an intra-day low of 3,190, its lowest level since October 24, 2017, a day on which the government unveiled an unprecedented Rs 2.1 trillion package for recapitalisation of the PSU banks. The index had recorded its sharpest single day rally of 30% on October 25, post announcement of recap plan. PNB, Union Bank of India, Corporation Bank, Dena Bank, Bank of Maharashtra and Syndicate Bank hit their respective 52-week lows, while Oriental Bank of Commerce, Allahabad Bank, Andhra Bank and Bank of India were trading close to their 52-week lows on the National Stock Exchange (NSE). In past three trading sessions

AJCON GLOBAL

Global Markets

Most global markets posted their biggest weekly advance in nearly a year but Indian equities ended the week unchanged.

Ajcon's view

Nifty PSU Bank index was down 8%, has fallen 26% from its 52-week high level of 4,335 recorded on October 26, 2017 in intra-day trade. A combined market capitalization (market-cap) of 22 PSU banks has declined by around Rs 300 billion since February 12, 2018. PNB has seen one-fourth or Rs 96 billion market-cap erosion in three trading days after the bank on February 14, 2018, issued a letter to the stock exchanges that it had detected fraudulent and unauthorized transactions at one of its branches in Mumbai of US$ 1.77 billion. RBI announced an overhaul of non-performing assets (NPA) resolution and provisioning late on Monday, February 12, night. According to us, this simplifies the earlier system and, we believe, moves toward comprehensive resolution of most stressed assets by FY20. This will accelerate NPL recognition and provisioning, though the pace of provisioning is still slower than what it would be under IFRS/Ind-AS. It is incrementally negative for PSU banks. There could be an immediate negative reaction to the PSU banks as consensus downgrades on BPS starts to kick in. Our worry is that the provisioning cycle will stay extended to FY20E under the new guidelines and this will act as a cap on re-rating for the PSU banks.

After hitting a panic bottom of 10276, Nifty50 is stuck up in a narrow range of 10,636-10,398 mostly due to domestic factors whereas Global markets witnessed decent rallies. Indices like Brazilian Bovespa, Russian RTSi erased around 60 percent of their losses whereas Dow recouped around 50 percent of its recent losses. Hence, once these domestic concerns are addressed to the satisfaction of the market even Indian indices should take part in the global rally. The fact that market has not seen follow through sell off post 'PNB scandal' is clearly suggesting that bulls are more interested in current market.

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

Disclaimer

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, we and our affliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that CA Ashok Ajmera or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
It is confirmed that CA Ashok Ajmera research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, CA Ashok Ajmera, research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Corporate and Broking Division : 408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office: 101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40