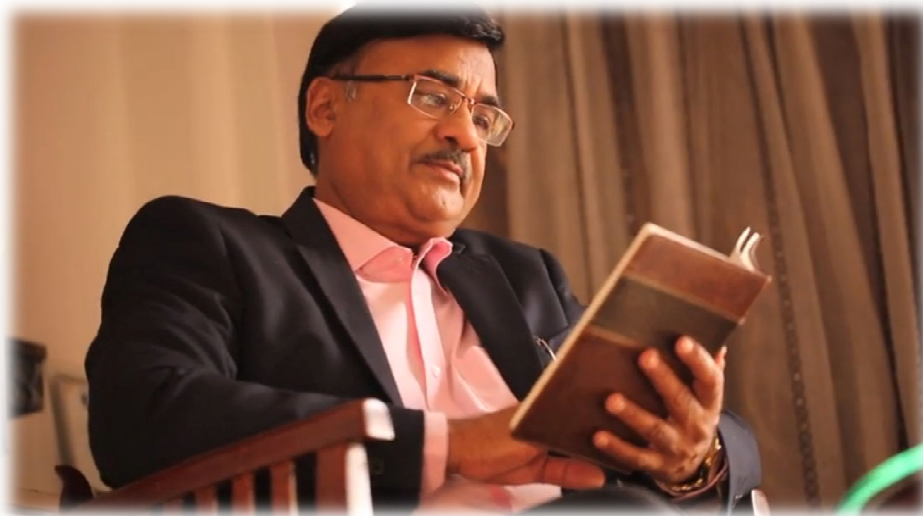




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Dr. Ashok Ajmera (FCA), CMD & CEO

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

Domestic bourses bounceback owing to fall in crude oil prices; volatility expected ahead of state elections result..

The market ended the week on a positive note amidst fall in crude oil prices after being volatile during the week. On a weekly basis, the rupee appreciated around 1 percent and ended at 71.92 to the dollar. Crude oil prices fell by over 4 percent to end at \$66.76 per barrel. The rupee on Friday ended at 71.92 against the dollar, gaining over 3 per cent from its all-time low of 74.4. The yield for the 10-year benchmark government security softened to 7.81 per cent from a high of 8.18 per cent on September 11.

The Sensex and Nifty closed close to 1 percent higher week on week amid a mixed set of results from India Inc, some appreciation in the rupee, weakening crude oil prices and positive global cues.

In the week ended November 16, the Sensex rose 0.84 percent to 35,457, while Nifty rose 0.91 percent to 10,682.2. The benchmark indices have gained more than six per cent in the past three weeks, however, still trade nine per cent below their 2018 highs touched in August 2018.

The equity market bounced back from its recent low on account of continued foreign fund inflow and appreciating rupee. Positive leads from the US markets on optimism that the US and China may resolve their trade dispute too influenced sentiments. Thus far in November, foreign portfolio investors (FPIs) have made net inflow of Rs 29.67 billion in equities till Thursday, provisional data shows. They had reported a record net outflow of Rs 292 billion during the month October. The beaten down stocks from the sectors such as cement,



paints, oil marketing companies, consumption led by fast moving consumer goods, aviation and financials outperformed the S&P BSE Sensex in the past three weeks. Around 226 stocks from the S&P BSE 500 index beat the market by gaining over 7% during the period.

Linde India, Jet Airways, PNB Housing Finance, Adani Transmission, Adani Power, Bandhan Bank and Radico Khaitan were up in the range of 25% to 63%.

The Wholesale Price Index (WPI) for October came in at 5.28 percent, as against 5.13 percent for September. The country's Index of Industrial Production (IIP) for September was at 4.5 percent, as against 4.7 percent for August.

The volatility index (India VIX) was up 3.2 percent this week. The BSE Largecap index rose 0.69 percent, while the BSE Midcap index gained 0.36 percent and the BSE Smallcap fell 1.27 percent.

Sectors and stocks

Shares of ICICI Bank, Larsen & Toubro (L&T), State Bank of India (SBI) and Axis Bank were among the S&P BSE Sensex index stocks, rising over 15% during benchmark index's over 2,000-point rally in three weeks.

Shares of Divi's Laboratories hit a new high of Rs 1,574 per share, up 3% in intra-day trade on Friday, extending their rally in the past three weeks, after the pharmaceutical company reported a healthy 92% year-on-year (Y-o-Y) jump in its net profit at Rs 3.98 billion in the September quarter (Q2FY19). It had a profit of Rs 2.07 billion in the year-ago quarter. The company's revenue from operations during the quarter grew 45% at Rs 12.85 billion against Rs 8.88 billion in the corresponding quarter of previous fiscal. Ebitda (earnings before interest, tax, depreciation and amortization) margin expanded around 890 bps Y-o-Y to 40% during the quarter. This is the highest margin recorded by the company in the last 18 quarters. In the past three weeks, Divi's Laboratories outperformed the market by surging 26%, as compared to a 6% rise in the S&P BSE Sensex. Global index provider MSCI on Tuesday, November 13 announced effective November 30; Divi's Laboratories will be added in the MSCI India index, a key benchmark for India-focused overseas funds.

Shares of Shankara Building Products hit a 52-week low of Rs 858, down 4%, extending their past four days decline in otherwise firm market after the company reported a weak set of numbers for the quarter ended September 2018 (Q2FY19). In the past one week, the stock has underperformed the market by falling 17%, as compared to 1% rise in the S&P BSE Sensex. It has tanked 64% from its record high level of Rs 2,365 touched on December 5, 2017 on the BSE. Shankara Building posted 47% year on year (y-o-y) decline in its net profit at Rs 91 million in Q2FY19, due to higher operational cost. Total income grew 12.6% at Rs 5,716 million on y-o-y basis. Floods and heavy rains, especially in Kerala & South Karnataka, have impacted performance. Kerala revenues were down 40% q-o-q and 15% y-o-y, the company said. Ebitda (earnings before interest, tax, depreciation and amortization) margin was down 240 bps to 4.8% from 7.2% in year ago quarter. The margin contraction



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was on account of increase in raw material costs and a sharp drop in channel & enterprise division EBIT margins. Going ahead, Shankara is planning to focus more on new product category products by offering better pricing to its customers. This could keep margins under pressure in the near-term.

Shares of Rallis India, Deepak Fertilisers & Chemicals, Dixon Technologies (India), Hexaware Technologies, Take Solutions and BASF were among 22 stocks from the S&P BSE Allcap index hitting their respective 52-week lows on Friday in intra-day trade.

V2 Retail, Asahi India Glass, CARE Ratings, Hinduja Ventures, Hotel Leela Ventures, Shankara Building Products and Network18 Media & Investments from the index too hit 52-week lows on Friday.

Global markets

The British pound lay battered and bruised in Asia on Friday after a bout of political turmoil fanned fears the country could crash out of the European Union without a divorce deal.

Asian share markets fared better as hopes for a thaw in Sino-U.S. trade relations gave Wall Street a fillip, though there were duelling reports on the prospects for an actual agreement.

Still, sterling stole the limelight after a rash of resignations rocked Prime Minister Theresa May's government and threw into doubt her long-awaited Brexit agreement just hours after it was unveiled. Fears that May's hard-fought deal could collapse sent British markets into gyrations not seen since the June 2016 referendum on EU membership. The pound suffered its biggest one-day loss against the euro since October 2016 and was last at 88.63 pence. Against the dollar, it was huddled at \$1.2777 after shedding 1.6 percent overnight.

Ajcon's view

We believe Q2FY19 earnings season has been mixed bag. Lately, the market has become very efficient and has witnessed hammering of stocks on poor show and upsurge in stocks owing to strong results. Going ahead, we believe rupee movement against the dollar, volatility in oil prices, movement of bond yields, key global cues, outcome from (both exit polls and actual result) of upcoming assembly elections in five states will determine the market trend. Investors can start looking for good companies which have a sustainable business model with good ethical management having clearcut strategy for the future 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 expect volatility to continue ahead of state elections. All said and done, we still believe that equity is a great asset class and always remember panic time is the best friend of a true investor. It is this time when one should put money in the market from medium to long term perspective.

Dr. Ashok Ajmera, FCA



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