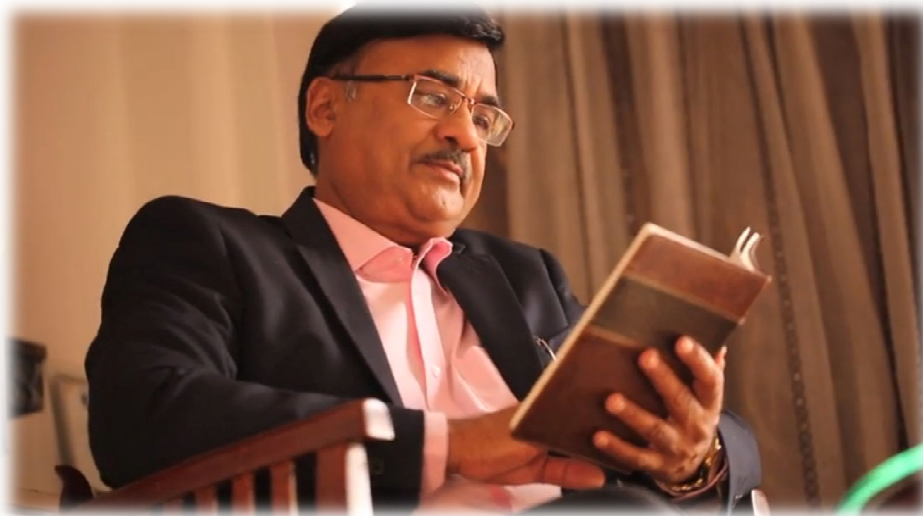




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on April 21, 2018

Rally in aluminium prices and positive outlook on monsoons by IMD keeps domestic bourses in green..

For the week, both the Sensex and the Nifty managed to end with gains of over half a percent and ending the fourth consecutive week in the green, while the Bank Nifty ended over 1 percent lower. The Midcap index was up 1 percent, while the IT index was the highest gainer, having risen 5 percent. India VIX was at 12.93, down by 5.89 percent, and is expected to remain sideways.

Last week, metal stocks were in action owing to rise in aluminium prices. We believe there is room for more upside as the rally in aluminium prices will augur well for its earnings in the coming quarters. On Thursday, aluminium hit its highest in nearly seven years, amid growing supply concerns in the aftermath of US sanctions on Rusal. Mind you, the Company has been grappling with losses in aluminium division and higher prices of aluminium will help it turn around its loss-making aluminium business. In addition, rise in Alumina prices due the output curtailment at Alunorte, the world's largest alumina refinery will also the help the Company. The rally in metal stocks was especially on rising prices of aluminium and alumina after U.S. sanctions on Russia's United Co. Rusal, the largest producer of the base metal outside China. On Friday, Metal and mining stocks declined as copper prices fell in global commodity markets. National Aluminium Company (down 5.09%), Vedanta (down 1.86%), JSW Steel (down 1.1%), Tata Steel (down 1.86%), Steel Authority of India (Sail) (down 1.8%), Hindustan Zinc (down 1.56%), Jindal Steel & Power (down 3.04%), Hindalco Industries (down 3.29%), NMDC (down 1.64%) and Hindustan Copper (down 3.52%) edged lower.

As per the International Monetary Fund, India would re-emerge as one of the fastest growing economies and would see growth of 7.4 percent and 7.8 percent in 2018 and 2019 respectively.

The India Meteorological Department (IMD) predicted this year's southwest monsoon (April-September) to be 'normal', at 97% of the long-period average (LPA) of 89 cm, with a margin of error of +/- 5%.



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However, on Friday markets lower following losses in global markets and hawkish comments by the Reserve Bank of India (RBI) in the monetary policy committee minutes. The minutes of the Reserve Bank's monetary policy showed that some members suggested starting the process of shifting the monetary policy stance from neutral to "withdrawal of accommodation" which led to rise in bond yields. On the currency front, rupee closed weak against the US dollar.

The rupee ended on Friday at its lowest level against the dollar since March 10, 2017, thereby posting its biggest weekly fall against the greenback since January 15, 2016.

Global Markets

The Dow Jones Industrial Average fell 0.82 percent to 24,462.8, while the S&P 500 lost 0.85 percent and ended at 2,670.15. The Nasdaq Composite fell 1.27 percent to 7,146.13.

Despite Friday's decline, the S&P managed to churn out a gain of 0.5 percent for the week, finishing in the green for the second straight week.

A US bond sell-off continued for a second day on Friday, pushing the 10-year Treasury yield to its highest level in more than four years, and steepening the yield curve after two weeks of flattening. Benchmark 10-year yields touched 2.962 percent, surpassing their January 2014 levels.

Crude oil prices dipped on Friday but stayed near their three-year high levels, reached earlier this week. This is because the ongoing OPEC-led supply cuts and strong demand have gradually started drawing down excess supplies. US crude fell 0.4 percent to USD 68.06 per barrel, while Brent was last at USD 73.66, down 0.16 percent on the day.

US leading economic index rose by 0.3 percent in March after climbing by an upwardly revised 0.7 percent in February. Despite the slowdown in the pace of growth, street participants believe that solid growth in the U.S. economy for the rest of the year would be witnessed. US jobless claims edged down to 232,000, a decrease of 1,000 from the previous week's unrevised level of 233,000. Economists had expected jobless claims to dip to 230,000. Meanwhile, the less volatile four-week moving average crept up to 231,250, an increase of 1,250 from the previous week's unrevised average of 230,000. US industrial production climbed by 0.5 percent in March after surging up by a revised 1.0 percent in

February. Economists had expected production to increase by 0.4 percent compared to the 1.1 percent jump originally reported for the previous month.

European equities finished Friday's session relatively flat, as investors digested a fresh batch of corporate earnings while keeping an eye on market movements overseas.

The Chinese economy expanded at a pace of 6.8 percent in the first quarter ending March, higher than the 6.5 percent growth target for the year set by the government. The Japanese stock market closed lower, tracking negative leads from global markets, and on a stronger yen.

Asian shares slipped on Friday as a warning on smartphone demand from the world's largest contract chipmaker slugged the tech sector, while high oil prices stirred inflation fears and undermined sovereign bonds. The Nikkei 225 slipped 0.13 percent, to end at 22,162.24, thereby shedding 2.65 percent for the week. South Korea's benchmark Kospi index fell by 0.39 percent to 2,476.33, but managed to end the week on a positive note, gaining 0.36 percent.

Ajcon's view



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As far as Banking sector is concerned, the earnings trend of the banking sector, marred by higher provisioning, has kept the earnings trajectory volatile and unfathomable in the short-term. However, current developments in NCLT resolutions have been quite encouraging as a good number of cases have seen substantial interest from potential suitors for the assets of these companies. This may lead to lower-than-expected haircuts and a resultant reversal of provisions. The recent bond yield correction and spreading of bond portfolio losses over the next four quarters will provide some cushion to banking sector earnings. In our view, we may revert to a normalised earnings trajectory for banks in H2FY19. This, in turn, will help earnings register CAGR of 21% in FY18E-21E.

A higher supply of government securities, particularly from state governments, along with a further rise in crude oil prices, is a cause for concern in the near term. However, expectation of normal monsoon and lower global bond yields may provide support. In the past, Sensex earnings have looked suppressed mainly due to higher provisioning by banks, which impacted their profitability. The rerating of equity markets from this point onwards shall hinge upon the manner/trend in which the corporate earnings cycle gets skewed. The last quarter's numbers showed some initial signs of corporate profitability limping back but the next few quarters numbers shall define the direction for the markets. Two things that should work in favour of recovery of corporate earnings are a) on a comparative year on year comparison they should reflect better numbers on a low base due to Demonetisation and the disruptions caused by GST last fiscal and b) GST in the next few quarters with expectations of pick up in the reported numbers should have incremental flow of business to the organized sector albeit in a gradual manner but which shall ultimately reflect in better earnings profile for India Inc and ultimately this earnings rub-off should reflect in the Index earnings projections over the next few quarters. Our sense is that corporate earnings should compound at 13-14% CAGR over the next two years and that should give the impetus of justification in forward multiples underpinning Index valuations.

For the year 2019, the equity markets could be driven by a mix of domestic and global factors. Indian economy is likely to go through a political and structural shift in the next few months. It needs to expand spending ahead of elections but needs to keep its fiscal deficit and inflation expectations under control. How the government manages to balance the demands of economics and the reality of politics will eventually determine how the Indian markets pan out during the year.

The result season that has just begun has started on positive note with large companies from Information Technology, Cement, private banks, etc declaring higher than expected earnings. Going next week, quarterly earnings, trend in global markets, investment by foreign portfolio investors (FPIs) and domestic institutional investors (DIIs) will dictate trend on the bourses next week. We believe any sharp correction is a good opportunity for investors with a long term horizon to start building a portfolio of quality stocks to ride the next phase of the larger uptrend. 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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CIN: L74140MH1986PLC041941

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

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