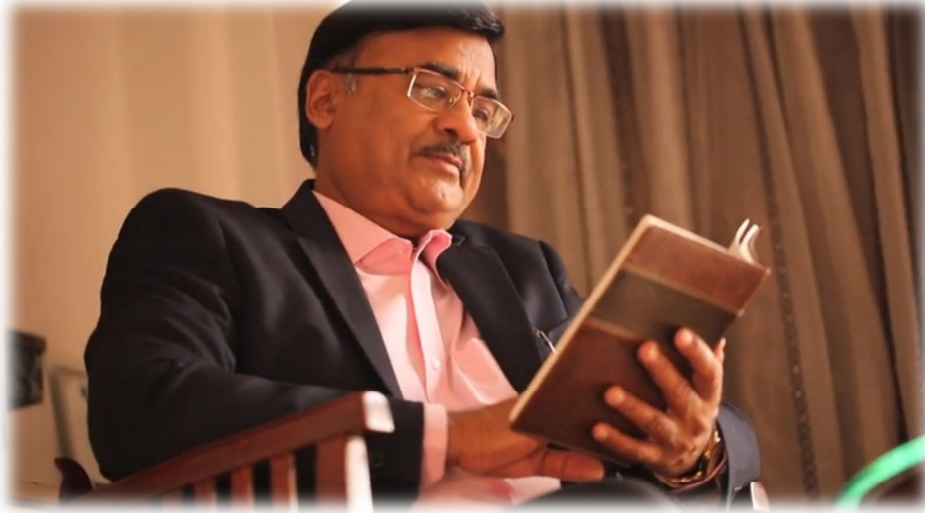




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on December 21, 2019

Sensex and Nifty hit record highs; all eyes on global cues..

During the week, the benchmark Sensex and Nifty hit fresh highs of 41,809.96 and 12,293.90, respectively. For the week, the benchmark S&P BSE Sensex gained 1.6 per cent, while the Nifty50 added 1.5 per cent registering their biggest weekly gains in nearly two months. Besides, Nifty Bank index advanced 1 per cent this week. The Nifty IT index outperformed the sectoral indices with a gain of over 4 percent, followed by Nifty Metal with a gain of 3.07 percent during the week.

The BSE small-cap index rose 0.44 percent, and the BSE large-cap index rose 1.5 percent in the past week.

Foreign Institutional Investors (FIIs) remained net buyers the past week as they bought equities worth Rs. 4,891.7 crore, while Domestic Institutional Investors (DIIs) sold equities worth of Rs. 3,751.47 crore.

In a major key development, the Delhi high court on Friday asked Reliance Industries Ltd. and British Gas to disclose their assets after the Centre sought to restrain them from disposing assets — including RIL's plan to sell a 20% stake to oil giant Saudi Aramco. In an application filed in September, the government had sought curbs citing the failure of the two companies to honour their payment under a US\$4.5-billion international arbitral award in the Panna-Mukta and Tapti (PMT) production-sharing contracts. The Centre further argued that "RIL in future may also liquidate/sell its assets and properties" and there would be nothing left for the government to execute its arbitral award. The government said it has no knowledge of the "business plan" of RIL and neither has any control over the same. The government is already fighting for execution of another arbitral award of \$2 billion against RIL for alleged "undue enrichment" owing to migration of gas from state-run ONGC block to its KG D-6 field off the Andhra coast. We believe this development would act as an



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overhang on Reliance Industries stock and may trigger profit booking in the stock after significant rally witnessed in last 2 years.

Domestically, there was a marginal decline in exports by 0.34 percent to US\$25.98 billion and it continued the trend for the fourth consecutive month. Major sectors such as petroleum products, garments, gems & jewellery, leather and carpets, many of them labour-intensive, have taken a hit. However, export of items such as engineering goods, electronics, chemicals and pharmaceuticals increased in November 2019.

On the other hand, Imports also witnessed a decline of 12.7 per cent in November at US\$38.11 billion as all major items, with the exception of gold and pearls and precious stones, witnessed a decline, as per figures released by the Commerce & Industry Ministry on Friday. The sharper decline in imports helped bridge the trade deficit to US\$12.12 billion, compared to US\$17.58 billion in November 2018.

Meanwhile, the Revenue Department on Friday reaffirmed its commitment to achieve direct tax collection target of Rs. 13.5-lakh crore for the current fiscal. This is despite foregoing Rs. 1.45-lakh crore corporate tax and the widely expected overall shortfall of over Rs. 2-lakh crore this fiscal due to the current economic slowdown.

According to a statement by the Ministry of Commerce and Industry, Wholesale inflation dropped to 0.58 per cent in November 2019, down from 4.47 per cent in November 2018. Sequentially, wholesale inflation reported an increase, rising from 0.16 per cent in October 2019. In the overall index, the highest increase was reported in onion prices. The index representing onion inflation rose to 172.30 per cent in November 2019, compared to November 2018. During November 2018, the index had reported a decline of 47.60 per cent compared to onion prices in November 2017. Since onions represent just 0.16 per cent of the WPI, the spurt could not reflect much in the overall wholesale inflation.

Indian rupee

The Indian rupee ended down by 31 paise at 71.12 on December 20, 2019 as compared to December 13, 2019 closing of 70.81.

Global markets

Globally, US equities remained upbeat and touched fresh highs owing to hopes that US and China would sign their Phase I trade pact in early January 2020.

In a key development, UK Prime Minister Boris Johnson's Brexit bill has passed its first hurdle with UK lawmakers voting by 358 to 234 to back it. The vote sets the country on a path to split from the European Union on January 31, 2020.

The World Bank warned on Thursday that a wave of debt in emerging and developing nations has grown faster and larger than in any period of the last five decades and could end with another crisis and if the wave breaks, it could be more damaging since it would engulf private companies in addition to governments, at a time when economic growth is sluggish, according to a new report that covers four debt surges from 1970-2018. "The size, speed and breadth of the latest debt wave should concern us all," World Bank President David Malpass said in a statement.

Ajcon's view

We expect domestic bourses to consolidate and expect profit booking in large caps after significant rally in last 3 months. The news on Reliance Industries could also be taken



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negative for the Company and may impact its share price. All eyes would also be on global cues especially on the newsflow regarding US – China trade deal, visibility on the case of Trump Impeachment (US President Donald Trump is only the third president in history to be impeached; Andrew Jackson was impeached in the 19th century, Bill Clinton in the 20th, and now Trump in the 21st), Brexit deal, crude oil prices and rupee movement against the dollar.

As of now, there is limited opportunity for investors in the large cap space as there has been significant rally in Sensex and Nifty in last 2 months; however, midcaps and smallcaps are still way behind their previous peaks. Hence, we believe, it would be prudent for investors to look out for quality picks in the midcaps and smallcaps space which have a robust business model, quality growth, consistent earnings although may be affected in the current economic downturn but proved its mettle over the years, business model suited to changing dynamics of the economy, cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

The Government has already taken big steps to improve deteriorating sentiments and tackle economy slowdown. No doubt that the steps taken in last few months would help in improving economic activity but we still believe some more steps are needed from the Government to increase the purchasing power of consumers which can result in revival of demand. There are already talks that FM may look at revising direct tax structure in upcoming Union Budget to boost demand. In addition, we believe, that in Upcoming Union Budget 2020-21, the Government would focus on improving investment led spending and improve capacity utilization of different sectors which are below par in last 18 months or so.

In the near term, we believe with so many negativity surrounding the nation including the domestic unrest in several parts of the Country may dampen the sentiments of street participants which may take down the domestic bourses.

Dr. Ashok Ajmera, FCA



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