Mr. Ajmera's column as on November 01, 2014

Encouraging global cues and reduction in oil prices takes market to a fresh record high..

Markets edged higher by nearly 2% to hit fresh record highs after encouraging data from the US allayed fears of a global growth slowdown while the government's move to ease foreign direct investment norms in construction sector boosted sentiment. Indian companies registering a rise in order inflows also signalled the revival of the investment cycle.

For the week ended Friday, indices hit fresh record closing highs. The 30-share BSE Sensex closed with a gain of 1,015 points, or 3.78%, at 27,865 while the National Stock Exchange 50-share Nifty closed at 8,322, up 308 points, or 3.84%. Nifty index rose above the psychological 8,000 mark and the Sensex topped the psychological 27,000 mark.

Among broader markets, the BSE Midcap and Smallcap indices underperformed their larger counterparts gaining 1.67% and 2.52%, respectively.

On Thursday, foreign institutional investors turned aggressive buyers in Indian equities after they remained net buyers to the tune of Rs 1,257 crore.

This month, mutual funds have been consistent buyers, investing about Rs 5,000 crore in stocks.

Stocks & Sectors

BSE Capital Goods and IT indices were the top performers during the week, both gaining by over 5%. Sectors like Auto, Metal, Power, Oil & Gas, Realty and PSU gained between 3-5%. Among the 30 Sensex shares, 27 rose and the remaining shares declined.

GAIL was the top Sensex gainer last week. The stock surged over 10% to Rs 529 after reporting betterthan-expected 42% year-on-year (yoy) jump in net profit at Rs 1,303 crore for the second quarter ended September 2014 (Q2), on back of strong operational performance. The state-owned company had profit of Rs 916 crore in previous year quarter.

Pharma shares also witnessed smart gains. Cipla and Sun Pharma gained between 4-6%.

From the FMCG segment, ITC gained by over 1% after posting a standalone net profit of Rs 2,425.16 crore for the second quarter ended September 30, 2014.

HUL lost nearly 3% on a weekly basis. The net profit of the company rose 8.13% to Rs 988.16 crore on 10.83% growth in total income from operations (net) to Rs 7639.33 crore in Q2 September 2014 over Q2 September 2013.

Auto stocks rose on buzz of strong sales during the Diwali festive season. M&M gained over 3%. Tata Motors rose 3.62% to Rs 535.65.

Maruti Suzuki India surged by almost 5.5% to Rs 3,338 taking its market value to Rs 1,00,594 crore. The company has become the second auto company after Tata Motors to cross the Rs 100,000 crore mark. The company reported 29% increase in the net profit to Rs 862 crore for the second quarter ended September, on the back of cost reduction efforts and strong growth in domestic sales.

IT stocks rose on positive US economic data. The US is the biggest outsourcing market for Indian IT firms. Infosys, TCS and HCL Technologies gained between 5-6%.

Bharti Airtel was the worst performer during the week. The stock fell 3% to Rs 398. The company's consolidated net profit rose 170.2% to Rs 1383 crore on 7.1% increase in total revenue to Rs 22,845 crore in Q2 September 2014 over Q2 September 2013.

Global markets

US Federal Reserve on Wednesday ended its monthly bond purchase program and signaled that US economic recovery would remain on track despite signs of a slowdown in many parts of the global economy.

In an unexpected move, the Japanese central bank raised its annual bond buying target to 80 trillion yen ($725 billion) from 60-70 trillion yen. Japan also increased the equity holding limit of foreign shares for its pension funds from 12% to 25% of the portfolio.

Japan’s benchmark index, the Nikkei, soared five percent, while the yen fell to a seven-year low against the dollar post BOJ's move. Most Asian markets ended with gains exceeding one percent.

Ajcon's view

Sectoral outlook

BFSI - We are positive on select Private Banks. On the other hand, we believe PSU banks are trading at lower valuations on concerns of asset quality.

Automobiles - Our outlook is positive. We expect revival in FY15 due to improved policy climate, better consumer sentiment and enhanced infra spending. We believe the CV cycle is near bottom and will revive in the next few months.

Capital Goods - We are bullish on this sector in the medium- to long-term as we are near the bottom of the economic cycle and expect revival in capex in H2 FY15.

Cement - With a new government at the Centre, there is expectation of a revival in demand for cement as infrastructure activity picks up slowly. We are thus turning bullish on the sector.

Consumption - Although sticky CPI inflation and muted income growth has hurt consumer demand in the past few months, there could be some revival if CPI inflation eases.

Infrastructure - We are bullish on this sector from a long-term perspective, as a stable and decisive Government at the Centre would bring investment cycle back on track.

IT - We remain positive on this sector, as the US economy continues to recover gradually. INR volatility is a cause for concern.

Real Estate - We are neutral on this sector. Slow demand environment in most markets (except South India) has impacted sales. Post elections, project approvals could result in increased new launches in the southern market.

At current levels, we would recommend buying in stocks in sectors like Banking, NBFCs, Realty, Capital Goods, Infrastructure, Pharma and OMCs. Inspite of SEBI ban we see a good opportunity to enter in DLF at current prices.

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160443 (D)

CIN: L74140MH1986PLC041941

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