Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on November 22, 2014

Banking stocks lead Nifty to touch record high; RBI policy to drive market direction..

After three days of sluggish moves, the Sensex and Nifty were fired up by a bank-led rally, and ended the week at record levels once again. The benchmark Nifty, stopped short of 8,500 mark, ending at 8,477 level and Sensex rose 267 points at 28,334. Both the indices gained 1 percent during the week. Two major mergers during the week and positive global cues helped market to churn out solid gains.

SBI, Kotak Mahindra Bank, PNB, Bharti Airtel, Cipla and Reliance Industries were among the big gainers, climbing 3-10 percent. Second line shares did well during the week, but investors showed a marked preference for the large cap names. Among sectors the week clearly belonged to public sector banks (Bank Nifty was up 2.7 percent while PSU Bank index jumped 4 percent) followed by capital goods, infra, auto and FMCG stocks which logged 1-2 percent gains during the week. Metals, realty and consumer durables remained weak. Despite the strong close to the week, a section of the market advised caution against buying heavily at current levels.

Investors lapped up huge shares of Kotak Mahindra Bank on Friday after the private sector lender announced the acquisition of mid-sized player ING Vysya Bank in an all-share transaction. The stock rallied as much as 9 percent in early trade to touch a record high of Rs 1,260.90. We are largely positive on the Kotak-ING deal, however it may immediately pressure some of Kotak's metrics such as return on equity, it would help it in the long term by boosting its presence in the South where ING is focused, as well as by augmenting its SME lending book.

Shares of Tech Mahindra rose 1 percent during the week; hitting an all-time intraday high of Rs 2,741 on Friday post the acquisition of US-based company Lightbridge Communications Corporation (LCC) by the company in in a USD 240 million deal.

Global markets

Positive global cues lifted world stocks on Friday; comments from European Central Bank (ECB) President Mario Draghi raised expectations for aggressive quantitative easing measures from the ECB going ahead. Also, reassuring data from US lifted the sentiment. Initial U.S. weekly jobless claims fell while factory activity in the mid-Atlantic region grew significantly.

China cut interest rates unexpectedly on Friday, stepping up a campaign to prop up growth in the world's second-largest economy as it heads toward its slowest growth in nearly a quarter century. The cut—the first such move in over two years—came as factory growth has stalled and the property market, long a pillar of growth, has remained weak, dragging on broader activity and curbing demand for everything from furniture to cement and steel. The People's Bank of China said it was cutting one-year benchmark lending rates by 40 basis points to 5.6 percent. It lowered one-year benchmark deposit rates by less—25 basis points. The changes take effect from Saturday.

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. We were impressed by SBI's performance and onward interview with SBI chairperson. Some specific stock picking based on pure fundamentals may give handsome returns. We recommend SBI, Bank of Baroda, Bank of India, Union Bank of India and Canara Bank. The rate cut as suggested by us if takes place will give a big boost to credit growth, which is prime concern to banks like SBI.

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. Hence we recommend Tata Motors, M&M and Maruti at current levels.

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. BHEL, ABB, L&T, Siemens fall in this category to be good investment.

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. Ultratech and Birla Corp are the right candidates to be picked up.

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 further.

Infrastructure - We are bullish on this sector from a medium term perspective, as a stable and decisive

Government at the Centre would bring investment cycle back on track. GMR, IRB, Pratibha, J Kumar can be looked at in this sector from 1-2 years perspective.

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. Still the safe and debt free companies viz. Oberoi Realty and Godrej Properties can be bought.

Pharma – We are bullish on leading pharma companies in recent times on the back of a strong recovery in the domestic formulation business, better traction in the base business, gain market share with new product launches, and drug exclusivity in US markets. The quarterly numbers have been pretty good for the pharma companies. They have shown growth between 16 per cent and around 22 per cent, which is probably the best across industries and a lot of Indian companies are still having good product pipeline, especially in the US generic space. However, compliance issues in the US market will be a key risk. Given the fact, while valuations are slightly on the higher side, the sustainability in terms of earnings growth and that too in the high teens make some of the pharma names pretty good, more secular and sustainable stories even from a medium to long-term perspective despite the recent outperformance.

At current level, we recommend Wockhardt which is expected to give much better returns in next two quarters. Among other pharma companies, Cipla and Sun Pharma remain the best bet.

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