



Mr. Ajmera's column as on 17th August, 2013

"Black Friday in 4 years – Biggest fall of 792 points witnessed by Sensex in a single day; expect a strong recovery"...

Domestically, Sensex witnessed a fall of 769 points, steepest fall owing to rupee touching all time low of Rs. 62.03 against the dollar triggered by fresh concerns on withdrawal of US stimulus and fear of capital controls on foreign investors. The rupee, which has fallen by 12.2 percent this year, closed at 61.71 – down 27 paise from its previous close of 61.44. The rupee fall also pushed up yields on medium and long term bonds with the return on benchmark 10 – year security closing at 8.88 percent – a two year high. Nearly 4/5 of Nifty stocks and 2/3 of Sensex stocks were trading below 200 Daily Moving Average – a trend seen after four years. 178 BSE stocks were trading at 52 week low. Investor wealthy of Rs. 2.2 lakh crore was wiped out by Friday's fall. Bankex witnessed a fall of 5.5 percent as the outlook for banks turned worse after rating agency Moody's downgraded three banks, citing the falling rupee as one of the reasons. FII sold worth US\$ 11.3 bn worth of bonds and equities since May 22, the day the US Fed first hinted at scaling back the stimulus. With bonds and equities under tremendous pressure, investors turned to the safe haven of gold, pushing the price of local gold up by over Rs. 1,175 to Rs. 30,695 per 10 grams. After a brief overnight pause due to the Independence day holiday, gold surged nearly 4 percent and silver gained 6 percent in Friday's trade. Going ahead, we believe that it may still go up as stockists weighed the supply constraint in view of the ensuring festival and marriage seasons in the midst of incessant duty hikes from the government including RBI measures. Globally gold touched a two – month high, but eased as the US dollar firmed, though the yellow metal witnessed short covering amid strong physical demand from China. Silver was up owing to heavy speculation and rising industrial demand.

We believe that the fear of capital control was not there among the well informed FII investors. It looks like there was one kind of selling. Pressure on stocks was owing to MSCI which had removed Axis Bank plus some poor results and for a whole host of reasons several stocks fell which triggered stop losses eventually leading to more selling. Both Index of Industrial Production (IIP) and inflation were very bad data. We believe much of Puts had accumulated over there that the bulls straightaway walked into that trap. There are a whole host of reasons for the fall in the market. Market participants believe that the Reserve Bank of India's (RBI) capital controls and fears that it would be extended were a post facto rationalisation provided by the market that the really knowledgeable FIIs never feared that this would happen. In any case it is very important to take onboard what the RBI is saying. Their point is those who could spend US\$ 200,000 outside India every year can now only spend US\$ 75,000. The point is that this US\$ 200,000

extension itself was given only in 2007 when there was such a huge and unmanageable inflow of FII money. They wanted some outlet of the dollars; otherwise the rupee could have appreciated unmanageably. So, it is only that last bit of liberalised remittance that they have taken off and no other capital control is contemplated at all even for the corporates. It is not as if they have controlled The Overseas Direct Investments (ODI) vehicles to 100 percent of net worth. 100 percent of their net worth expenditure can be automatic. The rest will have to be through the approval route.

Global scenario

US stocks fell slightly on Friday, and the Dow industrials posted the biggest weekly loss this year as rising bond yields hurt shares paying rich dividends and earnings from retailers' disappointed investors. The S&P 500 utilities sector, down 1.1 percent, led the day's decline as the yield on the benchmark 10-year US Treasury note rose to a two-year high, making the highest dividend-paying stocks less attractive. Nordstrom late Thursday was the most recent department store chain to miss revenue estimates. The upscale retailer cut its full-year sales and profit forecasts. Shares fell 4.9 percent to US\$56.43. It was a second week of losses for the major indexes. The Dow fell 2.2 percent for the week, its biggest decline since June 2012, while the S&P 500 and Nasdaq registered their biggest weekly losses since June, 2013. The Dow Jones industrial average was down 30.72 points, or 0.20 percent, at 15,081.47. The Standard & Poor's 500 Index was down 5.49 points, or 0.33 percent, at 1,655.83. The Nasdaq Composite Index was down 3.34 points, or 0.09 percent, at 3,602.78.

For the week, the S&P 500 was down 2.1 percent and the Nasdaq was down 1.6 percent.

It was a third day of declines for the S&P 500, which also ended just below its 50-day moving average of 1,657, while the Dow ended below its 100-day moving average of 15,102. Breaks below these technical levels could add to selling pressure.

Ajcon's view and Recommendations:

Presently we believe there is too much fear in the Indian markets as the Reserve Bank of India (RBI) and the finance ministry took blundering steps to prevent a collapse of the rupee in the face of a high current account deficit. We are of the view that Finance Ministry and RBI should work in tandem to restore investor confidence in back markets. We believe in the old maxim of buying when others are fearful. The current time presents investors with cash a great opportunity to build a strong portfolio with a long term perspective. We are confident on the Indian markets because of the following reasons:

a) We believe the fall in the rupee is too much, too soon, and too inexplicably. Now, though, it is not prudent to keep betting against the rupee. This is not to say the rupee won't go lower, but just that it will be unnatural for it to keep crashing forever. The rupee is now at a level where there is real profit to be made from exports, and domestic sales will be more profitable as import competition is reduced in many areas

Ajcon Global is confident that when markets make up their minds, they take no time adjusting. But at nearly 62 to the dollar, investing in India makes more sense than taking money out. A low rupee means higher profits for domestic companies which will now face less import competition. Since the bulk of Indian companies are focused on domestic sales, corporate profits will rebound sooner than later. The only problem is dollar-denominated debt. Overall, though, the Sensex cannot afford to languish when profits start bottoming out. It doesn't matter whether the rupee touches Rs. 65 or even Rs. 70 in the short run. It only means the rebound will be faster. It does not matter whether the Sensex hits 18,000 or even 15,000. As fear rules, intrepid medium to long-term investors with cash in hand will start investing.

b) Secondly *the* fear of the end of US quantitative easing is overblown. There are two ways to look at a tapering down of QE, assuming it starts happening soon. One is that capital outflows may accelerate, as money heads back to the US. The other point is that an end to US Fed bond buying means the US economy is looking up. And at Rs 61-62 to the dollar, Indian exports will rebound if the US economy is back in action. This is already starting to happen as the July export figures show. They rose 12 percent a 21-month high. Imports fell 6 percent. The trade front may be turning around.

c) Considering the slowdown in economic activity GDP growth is likely to be 5 percent or less this year which would trim down the CAD automatically owing to lower import demand. As that begins to happen, the RBI will start easing interest rates. This may not happen very soon, but the medium-term trajectory of rates is downwards. This means stocks should start rebounding soon. Stocks and rates are inversely related.

Reserve Bank has dismissed rumors that the it may impose capital control measures on foreign institutional investors (FII). For Foreign Direct Investment (FDI) under the Foreign Exchange Management Act (FEMA) itself it will be illegal to stop any such repatriation,

Going ahead, all eyes would be on the following events:

20-21 Aug: Promoter Pledging Data for QE Jun-13

27-Aug: Fortnightly Credit Growth Update

30-31 Aug: Aug Centre's Gross Fiscal Deficit and its financing, Qtrly GDP for 1Q F2014, Monthly Old CPI YoY% for July

Indian markets trade at ~12x FY14E and ~11x FY15E versus historic average of 16x.

At this junction, we believe markets offer value buying opportunities in midcap space. Investors with a longer term horizon should ideally pick good large cap stocks as well at this moment. We recommend "Accumulate" Banks for long term (above one year horizon) on every decline like State Bank of India, Bank of Baroda, Syndicate Bank, Union Bank of India, State Bank of Bikaner and Jaipur, State Bank of Travancore, Bank of India and in private sector we recommend ICICI Bank, Axis Bank, HDFC Bank, ICICI Bank, Yes Bank, DCB and Standard Chartered Bank. In the NBFC space, we recommend to accumulate IDFC, L&T Finance and Aditya Birla Nuvo. In the IT space, we recommend buying TCS, Wipro (trades at 14x 1-year forward (FY15E) at ~30% discount to TCS) and Persistent Systems. In the telecom sector, we recommend Bharti Airtel and Idea Cellular for long term investors. In the Oil and Gas space, we recommend buying Reliance Industries, Oil India, ONGC and Cairn. In the Commodities space, we recommend investors to accumulate NMDC, Hiondalco, Coal India and Manganese Ore. In the Pharma sector, we advise to accumulate stocks like Dr. Reddy's, Cipla, Merck, Glenmark Pharma, Alembic Pharma, Torrent Pharma, Divi's Lab, Unichem Labs and SPARC and Wockhardt (after the steep fall). In the Consumption space, we recommend accumulating ITC, Jyothy Labs, and Nestle on every declines. In the midcap space, we recommend investors to accumulate Cera Sanitaryware, Astec Lifescience, Apcotex, Liberty Phosphate, Petronet LNG, VaTech Wabag, Sangam (India), Voltas, Can Fin Homes, United Phosphorous, Tata Chemicals, Tata Global Beverages, KSB Pumps and Hathway Cable. In entertainment space and gaming, we recommend Eros International and Delta Corp.

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Ashoka Ajmera

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