



Mr. Ajmera's column as on 26th October, 2013

"ITC result disappoints; markets end in red"...

Domestically, markets ended nearly 1% lower in the week ended October 25 as investors turned cautious and booked profits after both the benchmark indices hit 3-year highs. Meanwhile, concerns that the RBI may hike key policy rates at its policy review meet on Tuesday, October 29, also weighed on market sentiment. In the week to October 25, Sensex closed down by 199 points or 1% at 20,684 and the Nifty closed 44 points or 0.7% at 6,145. However, the broader market outperformed the benchmark indices with both the Mid-cap and Small-cap indices on the BSE gaining over 1% each.

Markets witnessed stock specific activity as institutional investors tracked the second quarter earnings performance of large corporates. While some witnessed selling pressure post the results announcement some of them recovered on buying at lower levels.

Five of the eight private banks which have announced their second quarter results have provided for the entire mark-to-market (MTM), the writing down of assets to reflect current values) losses on their bond portfolio to their profit and loss account. This is despite the one-time option provided by the Reserve Bank of India (RBI) to amortise these over three to seven quarters. Banks said not doing so was in tune with prudent accounting practices. The losses ranged from Rs. 18 crore to Rs. 289 crore. ICICI Bank said it had made an MTM provision of Rs. 289 crore on its investment portfolio; transfer to the held-to-maturity (HTM) category was also limited. "We transferred SLR (statutory liquidity ratio) securities with a face value of Rs. 2,311 crore from the available for sale (AFS) and held-for trading (HFT) categories to HTM," said Chanda Kochhar, managing director of ICICI. The three banks which chose to amortise the losses are Kotak Mahindra, IndusInd and Federal Bank. Kotak said it had not transferred any SLR security to the HTM category and chose to amortise the losses. If the bank had transferred all SLR securities from

the AFS or HFT categories, the net depreciation would have been only Rs. 47 crore before considering distribution during the financial year.

ITC ended nearly 4% down after cigarette volumes fell during Jul-Sep quarter on the back of recent price hikes. ITC reported its second quarter net profit at Rs 2,230 crore as against Rs 1,836 crore in the same period last year, up 21.5 per cent. Gross sales grew almost nine per cent, to Rs 7,776 crore. Muted cigarette sales, up 10 per cent over a year before, led to the revenue growth being only in single digit, suggested analysts. Cigarette sales for the quarter rose to Rs 3,724 crore as against Rs 3,385 crore earlier. Profit from the cigarette business, primary vehicle of profit for ITC, was Rs 2,570 crore as against Rs 2,080 crore in the year-ago period, a jump of 23 per cent. However, "but for the move to write off Rs 157.9 crore, profits from the segment would have been (only) around 15 per cent (more)," said an analyst at Sharekhan. Analysts indicated the cigarette volume fell about five per cent against an expectation of two per cent.

Engineering major BHEL was the top Sensex loser down 7.3% in the week under review. In light of execution slowdown, weakening working capital cycle (recent legal action against customer overdues to the extent of Rs.170bn) and limited opportunities (except in UMPPs), we expect a period of negative operating leverage and reducing margins. The company announced that its board will meet on November 6 to consider the unaudited results for the Jul-Sep quarter. However, its peer Larsen & Toubro was the top Sensex gainer up 8.6% after the company last week reported encouraging Jul-Sep performance. The profit after tax for the quarter July-September 2013 grew 7% at Rs. 978 crore over the corresponding quarter of the previous year mainly on the back of strong execution performance and higher-than-expected other income. Net sales grew by 10% year-on-year at Rs. 14,510 crore during the recently concluded quarter.

Metal shares which had gained on expectation of demand revival from China on the back of healthy economic data also witnessed profit taking at higher levels. Jindal Steel & Power slipped 6.7% and Tata Steel lost 2%. Hindalco ended nearly 5% lower amid the controversy over issue of allocation of Talabira coal blocks in Odisha in 2005.

However, Sesa Sterlite ended up 3.5% on hopes of restarting iron ore mining in Karnataka. The company, which had stopped mining following a Supreme Court order two years ago on the industry, recently secured working permit for one year from ministry of environment and forests (MoEF) for its mines in Chitradurga district of Karnataka.

IT majors witnessed a mixed trend during the week. Infosys ended marginally higher while TCS and Wipro ended down 2-5% each on profit taking after recent gains in the run-up to their second quarter earnings.

HDFC ended 1% lower because of slower growth during the Jul-Sep quarter. The mortgage lender registered a 10.3% rise in its standalone post tax profit for the September quarter at Rs 1,266.33 crore. Net profit in Jul-Sep last fiscal was Rs 1,151.12 crore. Net interest income rose 11% to Rs 1,814 crore.

Most auto stocks except Maruti Suzuki ended lower with Bajaj Auto, HeroMoto Corp, Tata Motors down 0.7-3.4% each. Maruti Suzuki ended 2.5% higher ahead of its Jul-Sep earnings on Monday.

GAIL (India) ended up 5.2% on reports that the government may exempt the state-owned company from sharing subsidy burden. The oil ministry has decided to exempt Gail India from paying any compensation to state fuel retailers for selling diesel, kerosene and cooking gas below market rates because it does not

make windfall profits when international crude oil and gas prices soar, the Economic Times report suggests quoting oil ministry officials.

Index heavyweight Reliance Industries ended down 2.1%. Reliance Jio Infocomm Ltd (RJIL), the telecom arm of Reliance Industries, said it has received a unified telecom licence that will enable it to offer voice telephony and high speed data services across the country. The Unified Licence for all 22 Service Areas across India will make the company the first telecom operator in the country to get pan India Unified Licence, the company said in a statement.

Going ahead, the week will be dominated by second quarter Monetary Policy Review by the RBI, outcome of FOMC meet in the US, October F&O expiry. Markets are expected to remain volatile in the week ahead in view of the above events. The RBI monetary policy review is on Tuesday, October 29 while the two-day FOMC meet is on 29-30 October. The expiry of October F&O series is on Thursday, 31 October. Further, there would be stock specific movement as and when corporates announce their second quarter earnings. Hindustan Unilever which will announce its Jul-Sep earnings today will see some action on Monday. Maruti Suzuki, Bharti Airtel, NTPC, Dr Reddys Labs are among the other major corporates that will announce their Jul-Sep earnings. Stock specific action will be seen depending on the roll-over positions by traders to the November F&O series.

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