**Mr. Ashok Ajmera, CMD**

## Mr. Ajmera's column as on January 03, 2014

### Lackluster week for domestic bourses; New Year offers immense opportunities in equities …

The key Indian stock indices advanced in another lackluster trading week, as market participants braced for the year 2015.

Overall, India is less vulnerable to external shocks then it was a year ago due to a modest improvement in its economic fundamentals. Therefore, investors should take a medium-term to long-term view.

Nymex crude oil has dropped ~50% since June 2014 to ~US$56 a barrel. This is the largest fall since the 2008 US financial crisis. India stands to gain from such a steep fall in oil prices.

Separately, there had been some fears that an earlier-than-expected rate hike by the US central bank may cause some damage to EMs. But, Federal Reserve Chairperson Janet Yellen has hinted that the FOMC will be patient while considering interest rate hikes.

FIIs were net buyers in Indian shares at INR 1,065.31 cr during the week (Dec. 26 to Jan. 02). Mutual Funds were net buyers at INR 921.80 cr in the past week. The FIIs poured US$16bn into local stocks in 2014 while the MFs were net buyers at ~INR 17,500 cr.

### Ajcon Global's view

While foreign investors maintained faith in the structural strength of the Indian economy through the cyclical downturn, it is good to see domestic investors' coming back to equity markets. We believe markets are likely to consolidate their gains in the near term. We have a long way to go as India is still in an early stage of a structural long-term bull market.

The Government has introduced symbolic initiatives such as Clean India and Make in India, which set the path of improving India's ranking on parameters such as the Human Conditions Index and ease of doing business. There would be focus on priorities such as general hygiene, higher literacy, skill development, financial inclusion, e-governance driving efficiency and compliance and infrastructure improvement, while steadily introducing structural reforms such as a national Goods and Services Tax and changes in land and labour laws. There is a clear thought to leverage the full potential of India's demographic dividend by improving the social infrastructure, skilling young people and creating jobs that would lead to higher disposable income and spending. Setting the stage for a larger and longer virtuous economic cycle.

Multiple steps, such as diesel deregulation, decision on gas prices, minor labour reforms, business-friendly compliance practices, and initialising a transparent and fair policy for coal mine auctions have been well navigated. Construction sector foreign domestic investment norms have also changed favourably, with focus on affordable housing. These initiatives would gain momentum in the backdrop of recent political gains. Softening of global commodities has reduced fiscal pressure, while improving the odds for a policy rate cut earlier than anticipated.

We must reckon that the world isn't in great shape. Geo-political risks abound, with West Asia and Russia-Ukraine still vulnerable. Sustained low crude oil prices could potentially invite geopolitical risks not envisaged now. The eurozone, Japan, China and several other emerging economies are struggling to keep the growth momentum on. However, it also shows the underlying fragilities in a large part of the developed world. Global markets could witness higher volatility in 2015.

Corporate profit growth is likely to be around 16-17 per cent annually for five years, while a valuation of around 16 times is in line with historical averages. We expect revival in the investment cycle, driven by infrastructure spending, followed by private capex at a later stage. We remain positive on the backdrop of a better outlook on economic variables, earnings outlook and continued liquidity flows. While keeping an eye on macro developments and identifying emerging themes and shifts, our greater focus remains on bottom up stock picking.

**Week Ahead**

Markets are expected to trade range bound. Investors likely to take cues from the banking conference and related reforms announcement. Corporate earnings will be in focus with Infosys starting December-quarter earnings season on Friday. The Nifty is likely to trade between 8,250 and 8,550 levels. Bonds, rupee are likely to trade range bound in absence of fresh triggers. Benchmark 10-year bond yield is seen in a 7.80-7.90 percent band and the rupee in 63.00-63.55/dollar.

Wed: ECB Governing Council meeting. No interest rate announcements scheduled.

Fri: Infosys results

Fri: Finance Minister Arun Jaitley, RBI Governor Raghuram Rajan at a convocation ceremony

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### For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

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