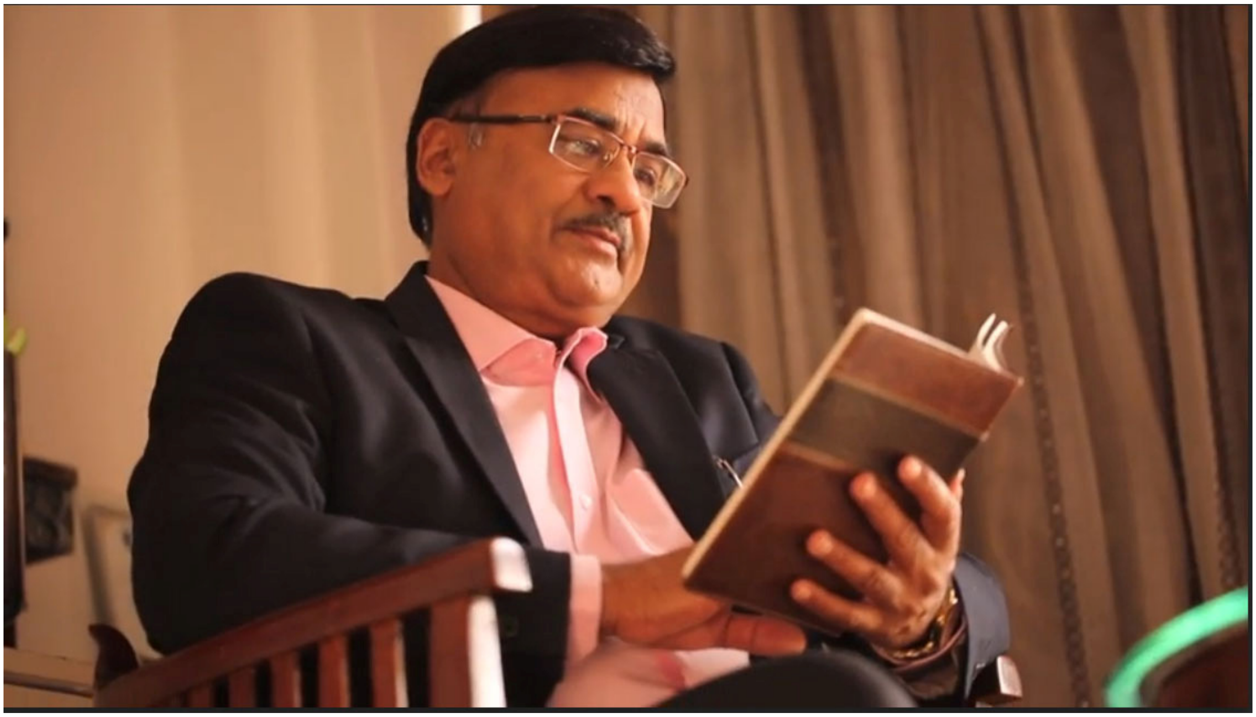

Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on June 03, 2017

Buoyancy in market continues; recommend investors to be stock specific..

The benchmark indices on both major stock exchanges had their fourth straight weekly gain on Friday, both closing at record highs. On the BSE, the Sensex gained 135.7 points or 0.4 per cent to close at 31,273. On the National Stock Exchange, the Nifty closed at 9,653, up 37.4 points or 0.4 per cent.

The broader markets reflected a similar trend, with the BSE mid-cap and small-cap indices going up by 0.7 per cent and 0.5 per cent, respectively. The Sensex gained nearly one per cent during the week and has advanced nearly five per cent in the past month.

The rally was led by Hero MotoCorp's stock, up three per cent on the back of strong sales numbers in May. Shares of Cipla and Adani Ports went up by 2.6 and 2.1 per cent, respectively.

Key developments

After years of decline, Indian exports to China rose sharply in the first four months of this year registering a 20 percent increase to USD 5.57 billion, though the trade deficit continued to persist. Indian exports received a major boost mainly due to China increasing the steel consumption by importing big quantity of iron ore as well as gems and diamonds besides cotton materials. The India-China trade grew by six percent to USD 26.02 billion from January to April this year, according to the data of China's customs accessed by PTI here. As per the data, the Indian exports have gone up to USD 5.57 billion, registering a 20 percent increase. China's exports to India too amounted to USD 20.45 billion, a 14 percent raise.

The government on Wednesday said it has achieved the fiscal deficit target of 3.5 percent of GDP in 2016-17. "Fiscal deficit is 3.51 percent of GDP or Rs 5.35 lakh crore in 2016-17," the Controller General of Accounts (CGA) said while releasing the provisional accounts for the last financial year. For 2017-18, the government aims to further bring down the fiscal deficit gap between expenditure and revenue up to 3.2 percent. The CGA further said that revenue deficit during the last fiscal was 2.02 percent of GDP. As per the provisional data, the fiscal deficit in April 2017 was Rs 2.05 lakh crore, which is 37.6 percent of the Budget estimate, as against 25.7 percent in last year.

RCom’s lenders have agreed to a seven-month moratorium on its debt obligations, giving the company time until December to sell its towers to Canadian asset manager Brookfield Infrastructure Group and merge the wireless business with Aircel, Ambani said. The proceeds for these transactions will help the company reduce debt by 60 per cent, he said.

Global Markets

The best performing countries are mostly beaten down debt-ridden high-risk one like Argentina and Greece while the other performers are emerging markets with Turkey, India and Poland being the respective ones from peripheral Europe and Asia.

The Hang Seng (Hong Kong) index has been a recent performer and showcases the preference for Chinese stocks listed there rather than the Chinese Index which has grossly underperformed.

Ajcon’s view

At current levels, Nifty is valued at a P/E of 23x on trailing twelve months earnings which we believe is on a higher side. Nifty has been on a upmove since seen rally in last 4-5 weeks. We believe this was mainly due to liquidity infused by DIIs.

There is strong positive sentiment among investors inspite of weak macro economic indicators i.e slower GDP growth due to ample liquidity, with stable inflow from both domestic and foreign institutions. Institutional buying is expected to continue, as domestic mutual funds still get impressive flow. As for foreign funds, India is expected to receive good inflow, owing to the positive risk appetite of investors. Mutual funds have purchased shares worth Rs 11,224 crore from the Indian markets in the year so far. Foreign institutions bought shares worth Rs 51,200 crore ($8 billion) in the first five months.

Demonetization proved most critics wrong and turned out to be the blessing in disguise for the mutual fund industry. The flows into SIP (systematic investment plans) from November 2016 after the demonetization event have been the highest ever witnessed since the launch of mutual funds and are gaining traction month on month despite the indices touching new highs.

We expect a recovery in corporate earnings to be the key headwind in the medium to long term. Although the markets have scaled new heights in the past two years, growth in earnings per share (EPS) has been flattish. We believe at current levels it is risky to enter expensive midcaps and smallcaps and rather advise profit booking. A sharp fall in the market is not ruled out after a short term further rally.

We recommend investors to be stock specific and consider companies with good earnings visibility at a decent valuation.

CA Ashok Ajmera

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