



### Mr. Ajmera's column as on April 12, 2014

#### February IIP worsens; markets may see a pullback amidst weak global cues..

The week was engulfed by Sun Pharma's acquisition of Ranbaxy Laboratories. The landmark all-share \$4-billion transaction heralds the merger of two major Indian pharmaceutical companies to create the world's fifth-largest generic drug maker by sales. Under the terms of the agreed deal, Ranbaxy shareholders will get 0.8 Sun Pharma share for each Ranbaxy share held.

Sesa Sterlite ended over 3% after the company released production data for the fourth quarter and financial year ended March 31, 2014. The mined metal production for the year was 880,000 tonnes, marginally higher than the previous year.

In the banking pack, State Bank of India ended up 4.5% after the state-owned banking major tapped the overseas bond market with a dual tranche benchmark issue of 5-year and 10-year maturity to raise up to \$1-billion.

Auto major Maruti Suzuki ended with marginal gains. The company is recalling 103,311 units of its models Ertiga, Swift and DZire made between November 12 and February 4 to replace faulty fuel filler neck.

Tata Motors ended up 4.5% after Jaguar and Land Rover (JLR), its British-based arm, registered a 2.7% year-on-year (yoy) growth in retail sales in March 2014. However, for FY2014, JLR registered a robust growth of 15.9% yoy to 434,311 units riding on the back of strong momentum in recently launched models.

**IIP worsens:** India's index of industrial production (IIP) in February shrunk at -1.9 percent versus an expansion of 0.8 percent (month-on-month). This is a nine-month low for the industrial output; street participants had estimated this macro data to be around 0.34 percent. The mining sector has grown at 1.4% versus 0.7% (MoM), while the manufacturing space has shown a steep degrowth coming in at -3.7% versus -0.7% (MoM). This is the lowest level seen for manufacturing since November 2011 which is a 28-month low. Electricity sector growth strengthened at 11.5 percent versus 6.5 percent and basic goods growth came in at 3.9 percent versus 0.9 percent. January's IIP has also been revised to 0.8 percent from 0.1 percent. February's capital goods grew at -17.4 percent versus -4.2 percent. Consumer durables fell -9.3 percent versus -8.3 as seen in January. The cumulative growth for the period April-February 2013-14 over the corresponding period of the previous year stands at (-) 0.1%. Adding to the economic pessimism

is the March trade deficit that hit a five-month high in March as merchandise exports fell for a second straight month.

**Trade deficit still a concern:** India's trade deficit hit a five-month high in March as merchandise exports fell for a second straight month, making it tougher for policymakers to lift curbs on gold imports that have helped to narrow the country's current account gap. Asia's third-largest economy, which is struggling through its longest period of sub-5 percent economic growth since the 1980s, is seen vulnerable to any shift in capital flows. Among the "Fragile Five" emerging economies, India suffered from massive capital outflows last year, in part on concerns over a bloated current account deficit, after the US Federal Reserve signalled a trimming down of its monetary stimulus. Heavy outflows sent the rupee to a record low in August, prompting the authorities to build up foreign-currency reserves and clamp down on gold imports. India's trade gap in March widened to USD 10.51 billion, its highest since October 2013, data from the Ministry of Commerce and Industry showed on Friday. Overseas sales of goods fell 3.15 percent from a year earlier to USD 29.58 billion in March. Merchandise exports for the 2013/14 fiscal year, however, grew 3.98 percent on year to USD 312.36 billion. Together with a 8.11 per cent decline in annual imports, that helped sharply narrow the country's full-year trade shortfall to USD 138.59 billion from USD 190.34 billion a year ago. As a result of curbs on gold, imports of the metal have almost halved, scripting a dramatic improvement in the current account deficit that is estimated to have narrowed to 2 percent of GDP last fiscal year compared with a record high 4.8 percent a year ago. The import curbs, however, have been deeply unpopular with households who invest in the yellow metal to protect their savings from inflation and to provide gifts at weddings and on other special occasions. Pressure is mounting on political parties to review the restrictions after national elections in May. Such a move could reignite concerns over the current account deficit as structural factors that keep it wide - such as weak manufacturing exports - are yet to be fixed. Meanwhile, a stronger rupee is eroding the competitiveness of Indian exports, which contribute nearly 16 percent to the country's gross domestic product. The rupee touched an eight-month high of 59.5950 on April 2, but has since given up the gains. A rally in domestic shares on the back of heavy foreign buying has helped support the rupee.

**US markets remain under pressure:** Globally, US stocks slid in a volatile session on Friday, with the Nasdaq closing below the 4,000 mark for the first time since early February. Selling accelerated late in the afternoon, with the biotech and other momentum stocks again leading the Nasdaq sharply lower. JPMorgan's disappointing earnings also gave investors a reason to sell some bank stocks. For the week, the S&P 500 fell 2.6 percent and the Nasdaq lost 3.1 percent, the biggest weekly decline for both indexes since June 2012.

**FII activity:** FIIs have been aggressive buyers in Indian equities, having purchased stocks worth nearly Rs 7,000 crore in April so far. During the first three months of the current calendar year, FIIs were net buyers in Indian equities to the tune of Rs 22,196 crore, according to data available on SEBI website.

**Week Ahead:** Markets are likely to remain volatile, with only three trading sessions next week. The voter turnout will be keenly watched as the next phase of elections unfolds. The government will release inflation numbers based on the Consumer Price Index and Wholesale Price Index on Tuesday. IT sector will be focus as Infosys kicks off the fourth quarter earnings season on Tuesday, followed by TCS on Wednesday, and Wipro and HCL Technologies on Thursday. Index heavyweight Reliance Ind will release Q4 earnings on Friday.

Markets will remain closed for trading on 14 April on account of Baba Saheb Ambedkar Jayanti and on 18 April on account of Good Friday.

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