Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on November 15, 2014

Consolidation remains the buzzword; RBI may be forced to cut interest rates…

The week ended November 14 saw Nifty and Sensex eke out 0.7-0.8 percent gains amidst consolidation at higher levels. Both indices continued to smash previous records all through the week and ended the week at all-time high levels; BSE Sensex breached the 28,000 figure for first time ever. The mid-cap and small-cap stocks stole a march over Sensex and Nifty's tepid gains. The BSE small-cap index was up 1 percent and CNX mid-cap swelled 1.7 percent.

Top performing mid-cap and small-cap stocks that gave investors reasons to smile this week were: Subex, Jindal Saw, Hotel Leela, Ashol Leyland and Balrampur Chini which rallied between 15-55 percent. Amongst blue chips, which are considered relatively safe over a long investment period, top weekly gainers were: DLF, BoB, Bajaj Auto, ITC and Asian Paints which swelled between 4-6 percent on the bourses. Amongst frontline losers, Cipla, ONGC, BPCL, Cairn, Sesa Sterlite & Kotak Mahindra Bank fell 2.5-6 percent.

A swathe of upbeat macro-economic numbers released during the week failed to cheer domestic investors, who chose to take some cash off the table. So far this month, domestic Institutional investors (DIIs) have net sold stocks worth Rs 4,709 crore after buying Rs 4,103 crore worth of equities in October.

Inflation based on the Consumer Price Index (CPI) or retail inflation for the month of October eased to 5.52 percent, the lowest since India started computing consumer price index (CPI) in January 2012, triggered by lower food prices and fuel costs. Meanwhile, the index for industrial output (IIP) for the month of September came in at 2.5 percent beating street estimate of 2 percent, against 0.4 percent in August. Furthermore, the August IIP has been upwardly revised from 0.4 percent to 0.5 percent. Owing to reduced inflation and depressed industrial output, Dalal Streeters are now making a case for a rate cut. This may not happen soon, suggests a CRISIL report. But we at Ajcon believe that it is the right time for RBI to cut the interest rates to boost investment since the wholesale price index rose 1.77 percent last month, which is lowest since September 2009. Meanwhile, let us be proactive rather than applying wait and watch policy.

Foreign portfolio investors (FPIs) continued to invest heavily in Indian stocks which has outperformed all others in 2014 (on a year-to-date basis). FPIs have invested Rs 6,923.90 crore in Indian equities so far in the month of November as compared to meager Rs 892.35 crore last month. The sentiment turned positive after Bank of Japan's committed to increase the pace of its quantitative easing and US Federal Reserve stated that it will keep interest rates at record low levels for a 'considerable time'.

BSE FMCG index hoisted 3 percent, leading the sectoral indices on the BSE. Other notable gainers were BSE Auto, Bank Nifty, Realty and Consumer Durables which gained between 1.7-2 percent. Public lender State Bank of India posted second quarter net profit at Rs 3100 crore. Gross NPA fell marginally to 4.89 percent versus 4.90 percent quarter-on-quarter, while net NPA stood at 2.73 percent versus 2.66 percent Q-o-Q. The stock was up 0.2 percent this week.

Tata Motors stock slid 2 percent this week, ahead of its disappointing September quarter earning numbers which were released post market hours on Friday. The automobile maker's consolidated net profit of Rs 3,291 crore, down 7 percent from the year-ago figure of Rs 3,542 crore. BSE Oil & gas slid 2 percent; the government raised the fuel excise duty on diesel and petrol amid sliding global oil prices.

BSE Power index was the other losers this week; the mining sector as well as electricity generation growth decelerated to 0.7 percent and 3.9 percent, respectively in September 2014, according to latest IIP data. BHEL stock slid over 4 percent this week. BHEL on Friday saw its net profit tumble nearly 73 percent to Rs 124.84 crore in three months ended September this year as lower revenues from power and industry segments took a toll on its profitability. Friday marked the end of the September quarter earnings season and market is now likely to follow global cues, crude oil price trend and FPI investments.

On the global front, for the week, the Dow and S&P 500 rose 0.4 percent and the Nasdaq climbed 1.2 percent. US stocks posted a fourth straight week of increases but ended Friday little changed as losses in healthcare shares offset gains in energy. The Dow Jones industrial average fell 18.05 points, or 0.1 percent, to 17,634.74, the S&P 500 gained 0.49 points, or 0.02 percent, to 2,039.82 and the Nasdaq Composite added 8.40 points, or 0.18 percent, to 4,688.54.

Ajcon's view – Sectoral outlook

BFSI - We are positive on select Private Banks. On the other hand, we believe PSU banks are trading at lower valuations on concerns of asset quality. We were impressed by SBI's performance and onward interview with SBI chairperson. Some specific stock picking based on pure fundamentals may give handsome returns. We recommend SBI, Bank of Baroda, Bank of India, Union Bank of India and Canara Bank. The rate cut as suggested by us will give a big boost to credit growth, which is prime concern to banks like SBI.

Automobiles - Our outlook is positive. We expect revival in FY15 due to improved policy climate, better consumer sentiment and enhanced infra spending. We believe the CV cycle is near bottom and will revive in the next few months. Hence we recommend Tata Motors, M&M and Maruti at current levels.

Capital Goods - We are bullish on this sector in the medium- to long-term as we are near the bottom of the economic cycle and expect revival in capex in H2 FY15. BHEL, ABB, L&T, Siemens fall in this category to be good investment.

Cement - With a new government at the Centre, there is expectation of a revival in demand for cement as infrastructure activity picks up slowly. We are thus turning bullish on the sector. Ultratech and Birla Corp are the right candidates to be picked up.

Consumption - Although sticky CPI inflation and muted income growth has hurt consumer demand in the past few months, there could be some revival if CPI inflation eases further.

Infrastructure - We are bullish on this sector from a medium term perspective, as a stable and decisive Government at the Centre would bring investment cycle back on track. GMR, IRB, Pratibha, J Kumar can be looked at in this sector from 1-2 years perspective.

IT - We remain positive on this sector, as the US economy continues to recover gradually. INR volatility is a cause for concern.

Real Estate - We are neutral on this sector. Slow demand environment in most markets (except South India) has impacted sales. Post elections, project approvals could result in increased new launches in the southern market. Still the safe and debt free companies viz. Oberoi Realty and Godrej Properties can be bought.

At current levels, we would recommend buying in stocks in sectors like Banking, NBFCs, Realty, Capital Goods, Infrastructure, Pharma and OMCs. The entertainment and print media space also looks good.

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