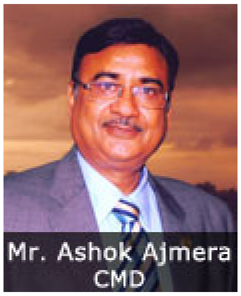
Weekly review as on 18th May, 2013



Mr. Ajmera's column: ITC beats street expectations; markets in upbeat mode..

Indices continued their upward crawl on Friday, but it is clear that the market needs a bigger dose of liquidity to be able deliver meaningful returns from hereon. Capital goods, power and realty shares were in demand, while investors shunned those from the pharma, oil & gas and metal sectors. The 30-share Sensex closed at 20286.12, up 38.79 points over the previous close after touching a fresh 30-month high of 20328 intra-day. The 50-share Nifty gained 17.40 points to close at 6187.30.

Over the last one month, foreign funds have net bought more than Rs. 17,000 crore as India joined the party in emerging markets. Most domestic players are said to have missed out on the rally as they remain worried about the weak macro-environment. Industrial output remains sluggish, RBI's interest rate cuts have not yet translated into lower rates for borrowers, and India's current account deficit continues to be precarious. Buyers continued to chase midcaps, betting that returns in these stocks would be higher, compared to their large cap counterparts. Foreign Institutional Investors bought shares worth USD 226.49 million in equities on May 16.

Meanwhile, Standard & Poor's reiterated its negative rating outlook on India's credit rating, which is one notch above junk status, warning of risks if the government carries out less reform than the agency says is needed to boost growth. The rating agency, which warned of at least a one-in-three chance of a downgrade within the next 12 months, said the major risks for a lower rating are a high fiscal deficit and heavy government borrowing. India's benchmark 10-year yield rose by 4 basis points to 7.41 percent from levels before the statement. The yield closed at 7.39 percent on Thursday.

During the week, India's largest cigarettes company ITC beat street expectations on Friday as fourth quarter net profit rose 19 percent year-on-year to Rs. 1,928 crore, helped especially by strong growth in the other FMCG and agri businesses. The company's net sales for the three-month period were also better-than-expected, up 19 percent from a year ago to Rs. 8,180 crore. Street had expected ITC to report a net profit of Rs. 1,910 crore, on net sales of Rs. 8,025 crore. Among key segments, the company's net FMCG sales gained 16 percent to Rs. 5,659 crore. While cigarette sales were up 11 percent to Rs. 3,623 crore, other FMCG sales rose 26 percent to Rs. 2,036 crore in Jan-March. Cigarette profit (earnings before interest, taxes) was up 20 percent to Rs 2,112 crore. Its other FMCG business, which includes Sunfeast biscuits and personal care products under Fiama and Vivel brands, turned profitable this quarter. Its EBIT was at Rs. 12 crore, compared with a loss of Rs. 17 crore in the year ago quarter and Rs. 24 crore in Oct-Dec. For the full year, other FMCG business loss narrowed to Rs. 81 crore from Rs. 195 crore. Hotels segment reported 10 percent rise in sales at Rs. 315 crore. The overall hotel industry continues to be hit by sluggish growth and that reflected on ITC's hotel segment profit, which halved to Rs. 40 crore. Elsewhere, ITC's agri business sales surged 31 percent to Rs. 1,854 crore and paperboards, paper & packaging sales were up 8 percent to Rs. 1,058 crore in the fourth quarter.

Globally, the broad S&P 500 Index gliding once again into uncharted territory and posting four straight weeks of gains, the talk of Wall Street's rally inevitably hitting a ceiling is starting to get old.

Concerns about a technical correction have been a hot topic for weeks, especially as the rally accelerated in May - the S&P 500 is up 4.4 percent so far this month and up nearly 17 percent for the year. But as the three major U.S. stock indexes inch higher and higher to set record after record, many analysts are shrugging off the pullback worries.

Along with the S&P 500, the Dow Jones industrial average has been setting a string of record highs. The Dow has gained 17.2 percent for the year. The Nasdaq Composite Index is up 15.9 percent for 2013 so far. On Friday, the Nasdaq closed at its highest level since October 2000. Next week's economic indicators include existing home sales for April on Wednesday, followed by weekly jobless claims and new home sales for April on Thursday, and durable goods orders for April on Friday.

At the current levels, the Sensex trades at a PE of 15x FY1E EPS of Rs.1,260 and 13x FY14E EPS of Rs. 1,430. Historically, Indian markets have traded at valuations of 16x one year forward. In the Banking space, we believe there is huge gap in valuations of Private sector and PSU banks. We believe with improving macro economic fundamentals; this gap would narrow down to some extent. We recommend to Buy State Bank of India, Syndicate Bank, Bank of Baroda, Union Bank of India, United Bank of India. In the private sector, we recommend buying Karur Vyasa Bank, ING Vyasa Bank, HDFC Bank, ICICI Bank, DCB and Standard Chartered. The expectation of rate cut would benefit sectors like Realty and Infrastructure. In the Realty space, we prefer Godrej Properties, Oberoi Realty, Sobha Developers and Mahindra Lifespace. In the Infrastructure space, we recommend investors to accumulate stocks like Larsen and Toubro, Pratibha Industries, IL and FS Engineering and Construction Company and Sadbhav Engineering.

In the Oil space, we recommend buying Oil India, ONGC and Cairn.

In the Commodities space, we recommend investors to accumulate NMDC, Coal India, Manganese Ore and Hindalco Industries.

In the Pharma sector, we advise to accumulate stocks like Sun Pharma Advanced Research, Lupin, Merck, Glenmark Pharma and Dr. Reddy's.

In the Consumption space, we recommend accumulating ITC at current market price and Nestle on declines. In the midcap space, we recommend investors to accumulate Wheels India, Repco Home Finance, VaTech Wabag, Voltas, CanFin Homes, United Phosphorous, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.

With regards to Just Dial IPO, we believe the business model is attractive for long term as the Company enjoys advantages like one of its kind and innovative business model, first-mover advantage, strong brand image, strong mindshare among users in the local search space, resilience to the technological changes over the period, 100 percent advance payment from its clients, tis plans to expand & deepen its presence into new territories & existing geographies respectively, quality PE investors already invested in the Company and CRISIL IPO grade 5/5. However, the steep pricing of the IPO factors in the medium term growth expansion. In addition, entering into low-entry barrier business model (Google India & Nokia City lens app biggest threat) - demands rigorous monitoring and also has the risk of technological obsolescence. Moreover, ~ 16 percent of the issue size is an offer of sale by the existing promoters - a move not likely to inspire confidence among investors. We, thus, recommend Avoid to Justdial IPO for listing gains but recommend long term

investors (3-5 years horizon) to Subscribe.

With due consideration to recent rally, we recommend investors to book partial profits in infrastructure and capital goods space. Keep accumulating metal, infrastructure, banking and capital goods for further gains in 3 to 6 months.

Your friendly advisor since 1986,

Ashoka Ajmera

Note: Recipients who do not wish to receive research emails may reply to this email