Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on April 18, 2015

Defensives remain under pressure; global markets decline..

Markets snapped two-week winning streak after investors trimmed positions in information technology shares amid weak revenue growth from TCS while profit taking in pharma shares also added to the losses.

In the truncated week to April 17, the 30-share Sensex dropped 437 points or 1.5% to end at 28,442 and the 50-share Nifty closed 174 points or 2% lower at 8,606. The market was closed on Tuesday on account of Dr. B R Ambedkar Jayanti.

Selling pressure was also seen in the broader markets with the BSE Mid-cap down 2.9% and the Small-cap losing 1.9% during the week.

Sectors and Stocks

In the defensive space, apart from IT sector pharma shares also witnessed profit taking amid stock specific news while rate sensitive sectors such as banks, auto and realty also registered losses after gains in the previous weeks.

IT shares weakened after lower than street expected revenue growth during the fourth quarter by TCS. Constant currency revenue growth came in lower than expected 1.6% in the fourth quarter, against some analysts' expectations of about 2%. Net profit for the quarter took a hit after the IT major rewarded its employees with a huge one-time bonus of Rs 2,628 crore to celebrate 10 years of listing. Infosys and Wipro ended down 2-5% each.

Sun Pharma ended down 7.3% on the back of improved liquidity after 334.96 milllion shares issued by the drug maker on amalgamation of Ranbaxy Laboratories were permitted for trade from Friday.

Lupin also witnessed profit taking on concerns that sales of its largest brand Suprax could take a hit after Aurobindo Pharma got final approval from the US Food and Drug Administration (USFDA) to make and sell the generic version of oral suspension of antibiotic Cefixime. The stock slumped nearly 10%. Among other pharma shares, Cipla slipped 2.8% while Dr Reddy's Labs ended down 3.9%.

Hero MotoCorp ended down 6.7% after US-based sports motorcycle maker Erik Buell Racing Inc (EBR), in which Hero MotoCorp holds 49% stake with an investment of $25 million two years ago, announced closure of operations and filed for bankruptcy protection from creditors. Bajaj Auto ended down 1.7%.

Mahindra & Mahindra which had eased last week on weak March sales extended losses on concerns that weak monsoons could hurt tractor sales. The stock ended down 4.6%. Further,Tata Motors eased 4.7% while Maruti Suzuki ended 0.6% lower.

Investors trimmed postions in private lenders. IndusInd Bank emerging as the top loser down 7.4%. The private lender's net profit surged 27% for the quarter ended March, to Rs 495 crore from Rs 396 crore in the same quarter of 2013-14. Among others, Axis Bank, ICICI Bank, HDFC Bank, Kotak Mahindra Bank, Yes Bank ended down 2-6%.

ONGC emerged as the top Sensex gainer up 6.5%. In his maiden visit to the North-East Petroleum Minister urged the state-owned explorer to contain the decline in crude oil production. The minister also reviewed overall performance so as to initiate measures to ramp up production from Assam asset.

Reliance Industries which had been steadily rising in the run-up to its fourth quarter earnings ended up 2.6%. The oil and petrochemicals major beat street estimates posting its highest quarterly profit in seven years at Rs. 6,381 crore in the fourth quarter ended March 2015 on the back of higher refining margins. Gross refining margin stood at US$10.1 per barrel against US$9.3 a barrel during the corresponding quarter of 2013-14.

Global Markets

The S&P 500 posted its biggest percentage loss since March 25 on Friday as investors shunned risk amid new trading regulations in China, renewed worries about Greece running out of money, and tepid US corporate earnings. Selling followed sharp overseas stocks declines and was broad, with all 10 major S&P 500 sectors losing ground. Among the biggest drags, the S&P financials index was down 1.3 percent, with shares of Dow component American Express falling 4.4 percent to USD 77.32 after revenue missed analysts' estimates, partly due to the currency impact.

Outlook

Fourth quarter earnings will be in focus with Cairn India, HDFC Bank and Yes Bank among others set to announce their numbers this week. On Thursday, the India Meteorological Department is likely to release the monsoon forecast for the year.

Sectoral Outlook

BFSI - We are positive on select PSU banks as we expect concerns on the asset quality to reduce gradually. The valuations of banks have become very attractive.

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.

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.

Cement - There is expectation of a revival in demand for cement as infrastructure activity may picks up with a kickstart. We are thus turning bullish on the sector.

Infrastructure - We are bullish on this sector from a long-term 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.

Pharmaceuticals - We are bullish, as pharma companies continue to do well in the export markets and the domestic market is also likely to pick up in H2FY15.

Disclaimer

The content in this research report has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. The content in the research report should not be research reported or copied or made available to others`. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such.

Ajcon Global Services Ltd. would not be responsible for any loss to the investors; they should verify all the fundamentals before investing. Ajcon Global Services Ltd., its directors and employees, will not in any way be responsible for the contents of this research report. This is not an offer to sell or a solicitation to buy any securities. The securities discussed in this research report may not be suitable for all investors. Investors must make their own investment based on their own investment objectives, goals and financial position and based on their own analysis.

Ajcon Global Services Ltd. proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this research report certifies that all of the views expressed in this research report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this research report. Ajcon Global Services Ltd., may be considered as interested party in view of its relationship as the financial advisors and consultants to some of the companies discussed in the research report.

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