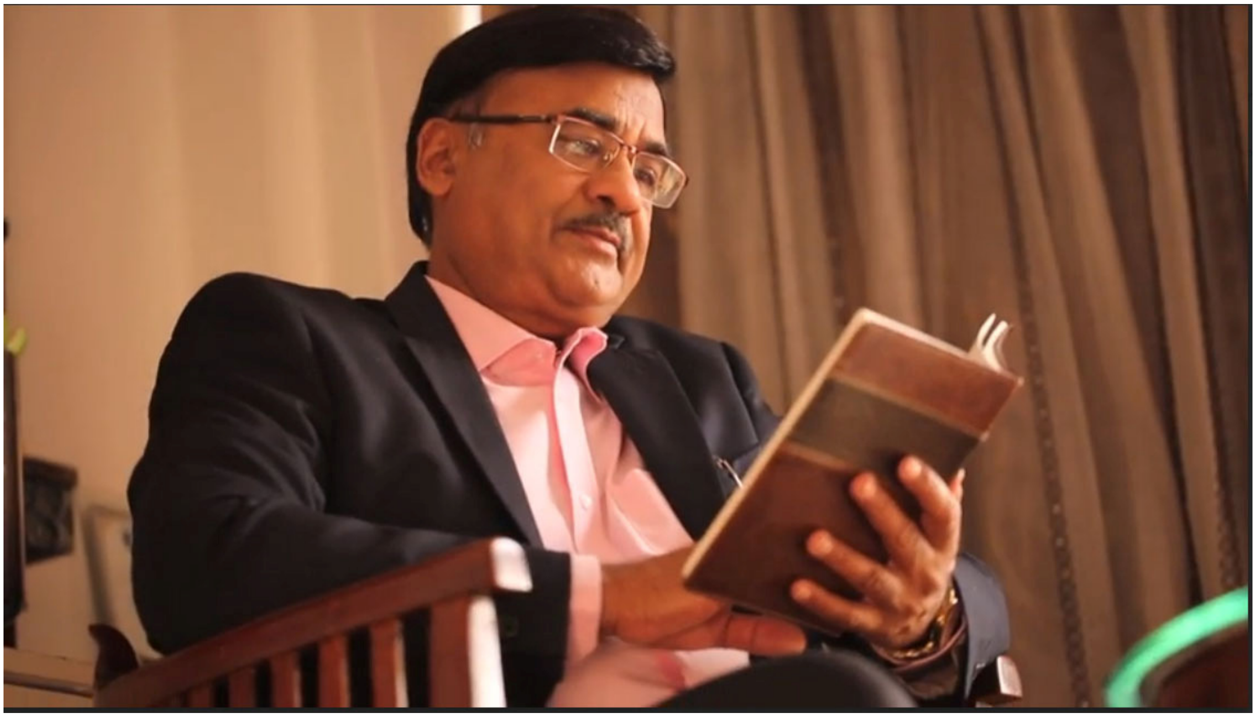

Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on 18th March, 2017

Biggest weekly gains in seven weeks; no major triggers ahead apart from Q4FY17 earnings..

The stock markets posted their biggest weekly gain in seven weeks, buoyed by hope of acceleration in economic reforms after the ruling Bharatiya Janata Party's strong showing in state elections.

Weakening of the dollar against global currencies, amid a dovish stance by the US Federal Reserve, also gave a boost, with foreign investors pouring a little more than $1 billion during the week.

The benchmark Sensex and Nifty indices closed the truncated trading week with 2.5 per cent gains, the highest since the week ended January 27, ahead of the Union Budget. Shares of consumer goods rallied after the Goods and Services Tax (GST) Council cleared five draft Bills, paving the way for a new indirect tax regime. Interestingly, Sensex remained over 350 points away from its all-time high of 30,025-mark, while rupee appreciated against dollar to its multi-month high.

During the week ended March 17, the S&P BSE Sensex added 2.4% or 702 points to settle at 29,649, while Nifty50 gained 2.5% or 225 points to close at 9,160. The Nifty index had reclaimed its crucial 9,200-mark for the first time ever in intraday trade on Friday.

The Sensex index has gained 11 per cent so far in 2017; India's is among the best-performing markets globally. The rupee has risen 3.8 per cent against the dollar so far this year. The Indian market now trades at nearly 20 times its one-year forward earnings estimate. The market capitalisation of all domestic listed companies touched a record 120 lakh crore, nearing nominal gross domestic product (at current prices) of136 lakh crore for 2015-16.

Midcap and Smallcap stocks outperformed the frontline indices to gain 4% and 3%, respectively.

Key developments

The GST Council, headed by Finance Minister Arun Jaitley and comprising representatives of all States, in its 12th meeting on Thursday cleared the SGST and UTGST bills. With this, all five legislations of the GST (CGST, SGST, IGST, UTGST and the compensation bill) now stand formally approved by the Council.

The Council also cleared a proposal to cap the cess on luxury cars and aerated drinks at 15% over the peak rate of 28%. The ceiling for the cess on "sin" goods would be much higher. However, the actual cess would be much lower — equal to the current indirect taxes on these goods, so that the authorities will have headroom to increase the cess in the future.

The four legislations (CGST, IGST, UTGST, compensation bill) would be taken to the Cabinet expeditiously. Then, these would be presented in Parliament. The SGST legislation will be presented to the respective state cabinets and then to the various state assemblies.

Sectors and stocks

Sectorally, all indices ended in positive.

BSE Realty index surged 5%, followed by the BSE FMCG index (up 4.7%), and the BSE Consumer Durables index (up 4.4%). The BSE Capital Goods index and BSE Power index gained 4.3% and 3.3%, respectively, while, BSE Metal index rallied 3%.

Among individual stocks, Adani Ports, Tata Steel, ITC and HDFC advanced 8%, 7.3% and 6.8% and 5.7%, respectively. Sun Pharma gained 4.7%, while Maruti Suzuki, Larsen & Toubro and ICICI Bank jumped 4% each.

Rally in sugar stocks

Sugar stocks gained by up to eight per cent on Friday, in anticipation of a further increase in price in the coming months, following a forecast of lower production and the government's reluctance on import.

The share price of Parrys Sugar jumped by nearly eight per cent to close on Friday at Rs66.95, followed by a 6.8 per cent increase in the stock of Oudh Sugar Mills to Rs140.30. The stocks of Dwarikesh Sugar, Dhampur Sugar and Balrampur Chini rose by 4.6 per cent, 4.3 per cent and four per cent, respectively.

However, those of Bajaj Hindusthan and Shree Renuka Sugars remained stable, rising 0.7 per cent and 0.3 per cent.

Sugar prices have been rising intermittently since the beginning of the current season in October, over lower output estimates. The benchmark price of the medium (M) variety has risen by 7.3 per cent to trade currently at Rs41.16 a kg at the wholesale (APMC) market in Vashi, Navi Mumbai, a slight decline after a high of Rs41.55 a kg on February 13.

Indian Sugar Mills Association (ISMA) expects total output at 20.3 million tonnes for the 2016-17 crushing season (ending September 2017), a 19 per cent decline from the previous year's figure at 25.1 mt. The Union food minister has questioned this but the ministry is yet to issue its authentic figure. The ministry of agriculture in its second advance estimate forecast sugarcane output at almost 310 mt for 2016-17, from 348.5 mt the previous year, a decline of 11 per cent. There was drought in the major producing states of Maharashtra, Tamil Nadu and Karnataka and the rain-fed cane crop was hit.

So, many refineries in these areas wanted import of raw sugar, rejected by the food ministry. Ram Vilas Paswan, the minister, said: "We have enough sugar available and there is no need for import."

There was 7.5 mt of carryover stock from season 2015-16 and sugar supply currently stands at 27.6 mt, substantially higher than the annual consumption at around 24 mt.

Losers included Coal India (down 8.5%), Bharti Airtel (down 5%) and GAIL (down 0.8%). ONGC and TCS were marginally lower.

Global Markets

The Federal Reserve Chair Janet Yellen, in a widely expected move, increased the interest rates in US by 25 basis points to a range of 0.75% to 1% on Wednesday, but appeared less hawkish than expected. This was the first increase in 2017 and third one in the last two years.

The move to lift the target overnight interest rate was taken on the back of steady economic growth, strong job gains and confidence that inflation is rising to the Fed's target.

The Fed also stuck to its outlook for two additional rate increases this year and three more in 2018, which is in line with its outlook from December.

Ajcon's view

We believe markets would consolidate as there are no major triggers ahead. Market participants' eyes would be on developments on GST front and upcoming Q4FY17 and FY17 results. Investors may book profits in highly valued smallcaps and midcaps running ahead of their fundamentals. We believe there is more value in largecaps in terms of valuations as compared to smallcaps and midcaps. However, selective midcaps in sunrise industry should be considered.

CA Ashok Ajmera

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