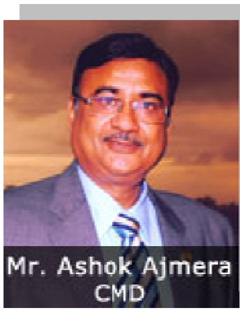
Weekly review as on 1st June, 2013


Mr. Ashok Ajmera
CMD

Mr. Ajmera's column: Fiscal deficit comes lower than market expectations which would cheer the street but RBI's stand may dampen sentiments..

Equity benchmarks plunged Friday as the fourth quarter GDP reading of 4.8 percent, while on expected lines, reinforced concerns that a meaningful recovery in the economy was still some way off.The BSE Sensex tumbled 455.10 points to end the day at 19760.30. The NSE Nifty shed 138.10 points to close at 5,985.95. FIIs bought shares worth US$ 266.85 million on May 30.

Realty and banking shares were the worst hit, and sellers were unsparing of FMCG, auto, oil & gas and metal shares as well. UltraTech Cement, IDFC, Reliance Infrastructure, DLF, Bharti Airtel and Bank of Baroda topped the selling list, losing 5-5.5 percent. The reason for fall in Banking stocks was on account of new provisioning norms stipulated by RBI on restructured advances.

Among midcaps, medical equipment maker Opto Circuits crashed quite badly, shedding nearly 38 percent, after it reported a 94 percent fall in net profit at Rs 12.3 crore during the fourth quarter.Meanwhile, GlaxoSmithKline Pharmaceuticals shares gained 9 percent, as parent GSK Plc is planning voluntary open offer for GSK Pharma as it is likely to increase stake in the company. GSK Consumer surged 10.59 percent.

Sterlite Industries shares rose 2.58 percent to Rs 93.55 after the National Green Tribunal has allowed the firm to resume operations at its Tuticorim copper smelter. Sesa Goa rose 3.6 pecent.

Indian rupee closed at 56.50 to the dollar versus 56.38 on Thursday. The domestic currency touched fresh 11-month low in morning trade (Friday) on strength in US dollar and weakness in equities.

Petrol price is hiked by 75 paise per litre and diesel price is hiked by 50 paise per litre with effect from midnight today following sharp depreciation in rupee. The rupee hit a 10-month low making oil imports costlier for oil marketing companies.

In terms of Indian Economy, Capex has not started yet, because a huge amount of capacity is going under utilised in auto industry, consumer electronics. As a result new factories and new capital expenditure is yet to take off which leads to surplus capacity, almost in every manufacturing activity or every product that is made. In addition, the decline in consumption growth indicates that the weakness in the economy is now spreading to the retail segment as well. According to us, the latest GDP reading indicates that the worst may be over for the economy, but do not see growth picking up any time soon. Also, with the RBI again warning of inflation and current account, expectations of a steep cut in policy rates at the June meet is receding. The Indian Economy is moving from investment slowdown to a consumption slowdown. It is getting reflected in this (weak consumption growth) and that really means that it is now getting into a retail slowdown where we may actually see a proper recessionary phase coming into the market.

Buoyed by non-tax revenue collection, the FY 13 fiscal deficit has come in at 4.9 percent versus budgeted estimate of 5.2 percent. Non-tax revenue was higher by Rs 8000-10,000 crore. The revenue deficit in fiscal 2013 has come in at 3.6 percent. Media had earlier reported that the finance ministry was expecting the fiscal deficit for FY13 to surprise the street. Meanwhile, the economic growth in the fourth quarter has come bang in line with the expected level of 4.8%. The GDP growth figure for the third quarter has been revised to 4.7 percent vs 4.5 percent earlier. FY13 GDP grew at 5 percent, lowest in a decade, versus 6.2 percent year-on-year. The farm sector grew at a slower pace of 1.4 percent while manufacturing picked up to 2.6 percent services saw the community, social and personal services growth to come in at 4 percent.

We feel that markets are in consolidation phase and may soon cross the previous highs once the consolidation is over. Retail investors should take long positions in the stocks suggested below during this fall/consolidation. 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. In the Realty space, we prefer Godrej Properties, Oberoi Realty, DLF, Prestige, Sobha Developers and Mahindra Lifespace. In the Infrastructure space, we recommend investors to accumulate stocks like Larsen and Toubro (Q4FY13 topline was as per our expectation, it expects sales to rise 15-17 percent for the fiscal year to March 2014 and order inflows to be up about 20 percent this fiscal year), Pratibha Industries, KEC International, IL and FS Engineering and Construction Company, Sadbhav Engineering and GMR.

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 and Nestle.

In the midcap space, we recommend investors to accumulate DCW, Cera Sanitaryware, Page Industries, Ramky Infrastructure, Liberty Phosphate, Munjal Auto Industries, Wheels India, Repco Home Finance, VaTech Wabag, Voltas, CanFin Homes, United Phosphorous, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.

Your friendly advisor since 1986,

Ashoka Ajmera

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