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Mr. Ajmera's column as on 20th August, 2016

SBI clears proposal of merger with its associates; value buying witnessed..

Domestic bourses performance

Domestic bourses remained flat during the week. In terms of sectors Metals, Construction and Cement were the winners of the week. IT, Auto Ancillaries and Paints sectors were the notable losers this week.

The Indian rupee on Friday weakened past the 67 mark to over three-week low against the US dollar as traders expect the Reserve Bank of India (RBI) may delay cutting interest rates after recent data showed an increase in inflation. Traders also remained cautious ahead of the announcement of a new governor for RBI expected anytime now.

The home currency closed at 67.06 a dollar—a level last seen on 27 July, down 0.35% from its previous close of 66.81. The rupee opened at 66.96 a dollar and touched a low of 67.06, a level last seen on 29 July.

India's Wholesale Price Index (WPI)-based inflation shot up to 3.55% in July from 1.62% a month ago on the back of rising prices of food and non-food articles, while Consumer Price Index (CPI)-based inflation was at 6.07% in July from 5.77% in June on the back of rising food prices.

The 10-year bond yield closed at 7.102%, compared with its Thursday's close of 7.143%. Bond yields and prices move in opposite directions.

India's benchmark Sensex index fell 0.17%, or 46.44 points, to close at 28,077. So far this year, it has gained 7.5%.

The rupee is down 1.3% till date this year, while foreign institutional investors (FIIs) have bought \$5.77 billion in equity and sold \$1.08 billion in debt markets.



Asian currencies closed lower. South Korean won was down 0.92%, Taiwan dollar 0.84%, Singapore dollar 0.51%, Malaysian ringgit 0.48%, China offshore 0.4%, China renminbi 0.35%, Indonesian rupiah 0.33%, Philippines peso 0.3%, Japanese yen 0.28% and Thai baht 0.2%.

The dollar index, which measures the US currency's strength against major currencies, was trading at 94.403, up 0.26% from its previous close of 94.157.

Minutes of the US Federal Reserve's last meeting struck a more dovish tone than earlier comments by New York Fed president William Dudley, who had flagged the possibility of borrowing costs being increased as soon as next month. US officials have twice cut projections for their rate hike path as economic weakness and volatile financial markets undermine the case for policy to be tightened.

Key developments

The board of State Bank of India (SBI) on Thursday cleared the proposed merger of five associate banks and Bharatiya Mahila Bank (BMB) with itself, taking one step closer to creating the first Indian lender to rank among the world's top 50. India's largest lender also approved the share swap ratio for merging three associates - State Bank of Bikaner and Jaipur (SBBJ), State Bank of Mysore (SBM) and State Bank of Travancore (SBT) - and BMB. SBI will issue 28 shares of Rs 1 each for 10 shares of Rs 10 each for the SBBJ, and 22 shares for 10 shares of the SBT. Likewise, shareholders of SBM will also get 22 shares in SBI for every 10 shares held by them in SBM.

RBL Bank Ltd, the country's first private-sector bank to go public in more than a decade, saw its Rs.1,211 crore initial public offering (IPO) subscribed 66% on the first day, data from the National Stock Exchange showed. The issue saw the portion reserved for qualified institutional buyers (QIBs) subscribed by 66.22%. The retail portion was subscribed 87%, while the portion for high net-worth individuals (HNIs) saw a 19.22% subscription. The issue will close on 23 August. RBL Bank on Thursday raised Rs.363.88 crore by selling shares to anchor investors ahead of its three-day IPO. The anchor book is that portion of an IPO which bankers allot to institutional investors on a discretionary basis.

Anchor book subscription opens a day before the IPO launch and is an indicator of institutional investor interest.

Before RBL, the last private sector bank to launch an IPO in India was Yes Bank Ltd, which raised Rs.315 crore in July 2005. In 2010, state-owned Punjab and Sind Bank Ltd managed to raise Rs.480 crore through its IPO.

Global Markets

US stocks edged lower on Friday, led by declines in utility shares as investors weighed prospects for an interest rate increase in the coming months. Energy shares also weighed on the market, even though US crude oil prices settled higher. The S&P utility index, which tends to fall as investor rate hike expectations rise, ended down 1.2 percent. The telecommunications index, also sensitive to changes in interest rates, fell 0.9 percent. San Francisco Federal Reserve Bank President John Williams late on Thursday said if the US central bank waited too long to raise rates, it could be costly for the economy and that a



possible rate hike in September should be in play. The comments added to statements perceived as hawkish from New York Fed President William Dudley earlier in the week. Investors also are bracing for next week's meeting of global central bankers in Jackson Hole, Wyoming, where Fed Chair Janet Yellen may provide insight on the rate outlook.

The market's recent run-up to record highs has been partly supported by expectations that the Fed will continue to keep rates low, as well as by some upbeat earnings and economic news. Equities are ending this week largely unchanged.

For the week, the Dow was down 0.1 percent, the S&P 500 was down 0.01 percent and the Nasdaq was up 0.1 percent. The benchmark S&P 500 index remains up 6.8 percent for the year so far. The energy index was down 0.8 percent.

Week ahead and Ajcon's view:

The markets will take their cue from the following economic updates. From 22nd Aug 2016: US - New Home Sales (Jul), House Price Index (YoY) (Jun), Manufacturing PMI (Aug), GDP Price Index (QoQ) (Q2).

Earnings season has been a mixed bag so far especially in large caps. Monsoons have been above normal which has aided in domestic bourses moving up strongly.

Overseas funds have been net buyers of Indian shares for 27 days in a row, the longest stretch since 2013, as above-average rainfall after back-to-back droughts improves the outlook on company earnings and global central banks remain supportive of growth. Foreigners bought a net \$117 million of local shares on 16 August, taking this year's inflows to \$5.7 billion, the most in Asia after Taiwan and South Korea.

The Sensex has rallied 22% from a bear market reached in February. The stock gauge is valued at 16.3 times projected 12-month earnings, near the highest since April 2015. The MSCI Emerging Markets Index is valued at a multiple of 11.5.

We advise investors to remain stock specific and look for Companies whose valuations provide Margin of safety.

CA Ashok Ajmera



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