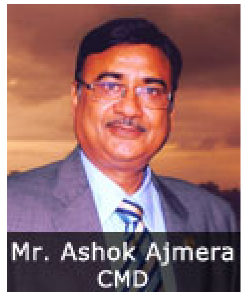
Weekly review as on 26th May, 2013



Mr. Ajmera's column: Tata Steel beats street estimates; SBI disappoints on restructured loans front..

The BSE Sensex snapped a four-day losing streak to edge higher on Friday, rebounding as Tata Steel surged after its March-quarter operating profit beat analyst estimates and as recently beaten-down blue-chips such as Larsen & Toubro recovered. Sentiment improved after foreign institutional investors extended their record net purchases of Indian stocks to a twenty-sixth consecutive session on Thursday, despite worries the Fed may unwind its stimulus earlier than expected. Still, doubts persist about how long foreign investors will continue to buy, while investors are also growing wary ahead of January-March economic growth data next week which will likely confirm whether the economy has gained some traction on the government's reform moves and the central bank's rate cuts.

Both the BSE Sensex and Nifty posted their first weekly fall in six, ending a powerful rally since mid-April. Tata Steel Ltd. shares rose 4.5 percent after its January-March quarterly operating profit beat analysts' estimates despite posting its third straight quarterly loss on Thursday. Larsen & Toubro Ltd. climbed 2.7 percent after falling 12 percent over the previous two sessions on lingering disappointment over its January-March profit and outlook. Shares in United Breweries Holdings Ltd. jumped nearly 10 percent after media reported the Karnataka High Court has allowed UBHL to sell its shares in group company United Spirits Ltd. to Diageo Plc to complete the long-pending deal. However, drug makers continued to reel from individual events. Sun Pharmaceutical Industries Ltd. fell 3.7 percent after its subsidiary Taro Pharmaceutical Industries Ltd's March-quarter results came below estimates. Shares in Wockhardt Ltd. slumped 6 percent continuing their fall after the U.S. Food and Drug Administration imposed an "import alert" on a plant operated by the generic drugmaker. Ranbaxy Laboratories Ltd. fell 1.2 percent, ending down a for a second consecutive session after majority shareholder Daiichi Sankyo Co said it believed former shareholders of the Indian company hid information regarding U.S. regulatory probes.

During the week, Country's largest bank State Bank of India (SBI) reported a 18.54 per cent decline in Q4FY13 net profit at Rs 3,299 crore on account of lower interest income. The standalone total income of the bank rose to Rs 36,331 crore during the quarter, from Rs 33,959 crore in the corresponding period a year ago. The net interest income of the bank declined 4.42 per cent to Rs 11,591 crore during the fourth quarter. Its CASA stood at 46.50 percent and Savings Bank Deposits crossed Rs. 4 lakh crores. ROA witnessed an improvement from 0.88 percent (Mar 12) to 0.91 percent in Mar 13 while ROE declined from 16.05 percent (Mar 12) to 15.94 percent in Mar 13. The gross Non-performing Assets (NPAs), which represents portion of bad loans, stood at Rs 51,189 crore at the end of March, up from Rs 39,676 crore in the year ago period. The gross NPA as a percentage of total loan rose to 4.75 per cent during the quarter, from 4.44 per cent in the year ago period. The net NPA was at 2.10 per cent of loans in the March quarter. The Bank restructured Rs. 8,090 cr (US$1.46 billion) in loans in the January-March quarter, far higher than its earlier guidance of Rs. 3700 cr rupees. The bank's total restructured book now stands at Rs. 431 bn. Total provisioning of the bank stood at Rs

16,977 crore at the end of 2012-13 fiscal, against Rs 19,866 crore in 2011-12 fiscal. The bank declared a dividend of Rs 41.50 per share, for the year ended March 31, 2013. On a consolidated basis, SBI's net profit rose 17 per cent to Rs 17,916 crore during the 2012-13 fiscal. It was Rs 15,343 crore in the year ago period.

In a key market development during the week, the National Stock Exchange announced that it will reduce the securities transaction tax (STT) on equity futures to 0.01 percent from 0.017 percent from June 1. Purchases of a unit in an equity-oriented fund will not attract any STT compared to 0.1 percent earlier, while sale of such units would have STT of 0.001 percent versus 0.1 percent previously. These changes in the STT were included in the budget unveiled for 2012/13 that has subsequently been passed by parliament.

Globally, the Dow Jones industrial average gained 8.60 points, or 0.06 percent, to 15,303.10 at the close. The Standard & Poor's 500 Index edged down only 0.91 of a point, or 0.06 percent, to finish at 1,649.60. The Nasdaq Composite Index dipped 0.27 of a point, or 0.01 percent, to close at 3,459.14. The S&P 500 declined for a third day on Friday, with the three major stock indexes posting their first negative week since mid-April on lingering concern that the central bank may scale back its stimulus measures to support the economy. For the week, the Dow fell 0.3 percent, while the S&P 500 and the Nasdaq each dropped 1.1 percent. The S&P 500 had traded below its 14-day moving average - 1,647.91 - during the day but closed just couple of points above the level.

Going ahead, domestically, normal monsoons are expected which should help boost growth, rural incomes and help in moderating stubborn food inflation. As per the forecast of India's weather department, monsoon rains are expected to be 98.0% of the long-term average during the June-Sept season of FY14. It may, however, be noted that the actual agricultural output depends not only on the total quantum of rainfall during the season but also on the spatio-temporal distribution. Also, the trajectory of food inflation will also be governed by the minimum support prices of major food-grains and the government's spending esp. in rural areas.

At the current levels, the Sensex trades at a PE of 16x FY1E EPS of Rs.1,260 and 14x 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, 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 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 and Nestle.

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.

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 above during this fall/consolidation.

Your friendly advisor since 1986,

Ashoka Ajmera