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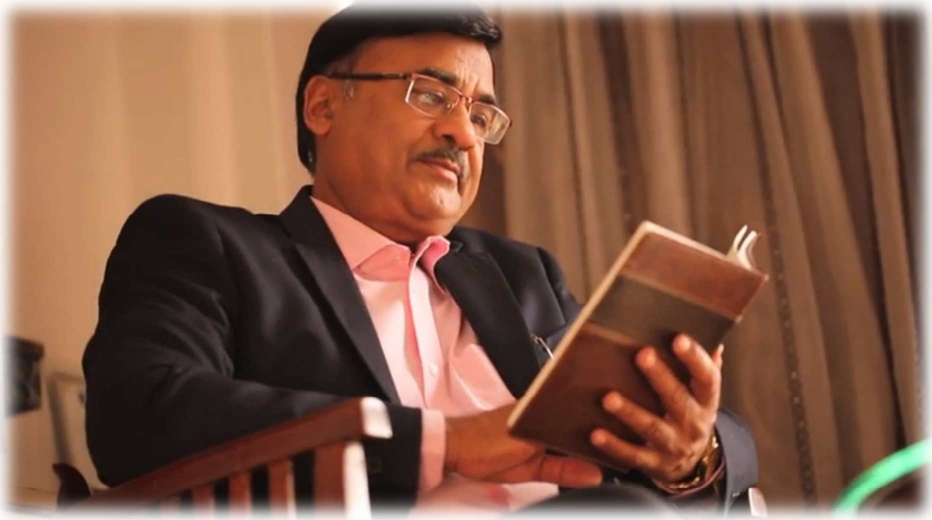

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on December 29, 2018

Domestic bourses bounceback, all eyes now on Q3FY19 earnings season and global cues..

For the week, the Sensex was up 0.93 percent, or 334.65 points, to end at 36,076.72, while Nifty was up 0.98 percent, or 105.9 points, to close at 10,859.9. The S&P BSE Largecap and Midcap index gained 0.94 percent and 0.70 percent, while S&P BSE Smallcap Index was ended down 0.19 percent.

As far as the rupee movement is concerned, the rupee appreciated 1.70 percent (Rs 1.21) against the dollar as it ended at 69.94 on December 29 against December 21, closing of 71.15 against the dollar on weekly basis. Foreign portfolio investors (FPIs) bought net shares worth Rs. 1,731.91 crore on Thursday. On the other hand, for the first time in two decades, India has witnessed higher foreign investment than China. In 2018, India saw more than US$38 billion of inbound deals compared with China's US$32 billion, buoyed by stable fundamentals, a bankruptcy code and fresh opportunities in sunrise sectors.

In a key domestic development, the Finance Ministry will be infusing Rs. 28,615 crore in seven state-run banks by December end to help meet the regulatory norms on maintaining adequate capital buffers. The government last week sought Parliament's approval for infusion of additional Rs. 41,000 crore in state-owned banks through the second batch of supplementary demands for grants. That takes total recapitalisation for 2018-19 to Rs 1.06 lakh crore.

India's foreign exchange (forex) reserves rose by US$167.2 million during the week ended December 21, official data showed on Friday. According to the Reserve Bank of India (RBI)'s weekly statistical supplement, the overall forex reserves increased to US$393.287 billion from US$393.120 billion reported for the week ended December 14. India's forex reserves comprise foreign currency assets (FCAs), gold reserves, special drawing rights (SDRs) and India's position with the International Monetary Fund (IMF). FCAs, the largest component of the forex reserves, edged higher by US$105.2 million to US$367.97 billion during the week ended December 21. Besides the US dollar, FCAs consist of 20-30 per cent of other major global currencies. The RBI's weekly data showed that the value of the country's gold reserves rose by US$37.2 million to US$21.22 billion. Similarly, the SDR value went up by US$8.9 million to US$1.459 billion, while the country's reserve position with the IMF increased by US$15.9 million to US$2.63 billion.

According to media reports, the government has approved share sales in seven central public sector enterprises (CPSEs) to unlock value and raise funds through share sales to meet its disinvestment target. Those approved for listing by the Cabinet Committee on Economic Affairs (CCEA) include RailTel Corp India Ltd, Telecommunications Consultants India Ltd (TCIL), National Seeds Corporation Ltd, Water & Power Consultancy Services Ltd (WAPCOS), FCI Aravali Gypsum and Minerals (India) Ltd and Tehri Hydro Development Corp. All these will list through IPOs. CCEA also cleared a follow-on offer by Kudremukh Iron Ore Co. The alternative mechanism, comprising finance minister Arun Jaitley, minister of road transport and shipping Nitin Gadkari and the minster of the administrative ministry concerned, has been empowered to decide on the extent and mode of disinvestment along with pricing and timing. The Cabinet also expanded the eligibility criteria for listing of CPSEs. Companies with a positive net worth and a net profit in any of the immediately three preceding financial years will be now eligible for listing. The earlier criteria stipulated positive net worth, no accumulated losses and net profits in the three preceding years.

Global markets

Globally, Chinese stock markets have been impacted badly. Stock declines have resulted a fall by US $2.4 trillion off China's market value this year as of Thursday, the biggest on record since Bloomberg started compiling the data in 2002. The closest loss was during the global financial crisis 10 years ago.

Last week, globally, investor sentiments were hampered owing to concerns that US President Donald Trump could fire Federal Reserve Chairman Jerome Powell. However, Trump's key economic adviser Kevin Hassett's reassurances on Wednesday has put the issue to rest. The US President was speculated to sack the Powell, after the US central bank hiked its short-term interest rate.

Ajcon's view

With the state election results and uncertainty at RBI being over, the market would now track global cues and Q3FY19 earnings season. We believe Q2FY19 earnings season has been mixed bag but Q3FY19 could be much better. All eyes would be also on last budget of the current government to be presented before the general elections. We do expect volatility as the Central Government may resort to populist measures to gain back popularity amongst the rural community especially farmers after its loss in key states like Madhya Pradesh, Rajasthan and Chattisgarh which street participants may not prefer. With crucial assembly elections (which were considered as semi - finals to Lok Sabha elections in May 2019) results out, the question now comes to our mind as to which party manages to win the General elections. It may be difficult for both major parties BJP and Congress to get majority. Street participants would not prefer a coalition government as decision making and execution becomes difficult in coalition regime for obvious reasons.

The strategy at present should be to invest in phased manner only in companies which are not connected to any political party, have a robust business model, strong earnings and cashflow visibility, low debt and backed by quality management especially on the corporate governance front. Considering the above factors, investors can have a stock specific approach in midcaps and smallcaps space as there are many companies which are trading at a discount of 50-70% to their peak price in early 2018. On a safer side, we would suggest investors to have a look at Pharma MNCs, Consumption stocks, PSU banks even after recent rally – trading at depressed valuations (looking better after the cleanup of NPA mess, progress made under the NPA resolution framework under IBC, faster resolutions under NCLT and proposed recapitalization), IT sector and Private Insurance Companies at the current moment.

Dr. Ashok Ajmera, FCA

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