



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on July 29, 2017

Pharma stocks facing pressure in earnings; all eyes on RBI policy..

Weakness in pharma stocks following Dr Reddy's disappointing results, saw the benchmark Sensex and Nifty end with losses on Friday, after hitting all-time highs a day earlier. The Sensex closed at 32,309.88, down 0.23 per cent, while the Nifty ended at 10,014, down 0.1 per cent. Shares of Dr Reddy's fell six per cent, Lupin declined 4.3 per cent. Meanwhile, HDFC added another 3.2 per cent, Infosys rose 2.6 per cent and ITC, too, added 0.9 per cent. Both the benchmark indices ended one per cent higher for the week. This was the fourth straight weekly advance for the market.

The benchmark Nifty has gained five per cent so far this month. HDFC and HDFC Bank have been the biggest contributors to the gains this month. So far in July, mutual funds have invested Rs 8,300 crore, while net inflows by overseas investors have stood at Rs 1,300 crore.

Indian equities retreated from record highs on Friday after a global sell-off by investors who were spooked by worse-than-expected earnings reported by firms ranging from American internet giant Amazon.com.Inc. to French automaker Renault SA.



Potential unrest in Pakistan following Prime Minister Nawaz Sharif's disqualification from office, which led to his resignation, also shook investors in South Asia.

India's relatively stable macroeconomic environment will serve as a shield. On Monday, the International Monetary Fund kept its outlook for India's gross domestic product growth rate unchanged at 7.2% in 2017-18 and 7.7% in 2018-19.

Global Markets

US stock index futures were lower on Friday. Europe's benchmark equity gauge headed for a three-month low as automakers also slumped after Renault SA's profit fell short of estimates. The Stoxx Europe 600 Index fell 0.66% as of 5.05pm IST.

ASML Holding NV paced technology-stock losses in the region after Samsung Electronics Co. Ltd and Tencent Holdings Ltd led declines in Asia. These dragged indices such as Kospi by 1.73%, Hang Seng by 0.56% and Japan's Nikkei 0.6%. The MSCI Asia Pacific Index dropped 0.7%, erasing its gain for the week. Technology shares in the gauge fell 1.5%.

The sell-off came after US and global stocks rallied to records amid signs of economic growth and as more than three-quarters of reporting S&P 500 companies delivered earnings that beat forecasts. Technology shares have led the charge, with companies in the sector soaring 22% this year for the best performance among 11 groups in the S&P 500.

Ajcon's view

The Nifty touched a historic mark of 10,000 for the first time in history this week since its inception back in the year 1995. Indices were also trading at record high back in 2008 when the fall happened but this time it is different and any dips should be used to buy into quality stocks. At current levels, Indian markets are trading (P/E of 22.3 x) at a premium of 25 percent above long-period averages and 19 percent premium to January 2008 levels. The index has rallied over 50 percent from its peak seen back in 2008. We believe Q1 quarterly earnings so far has been a mixed bag and growth in Q1FY18 may not be as per expectations.

Nifty has been on a upmove since beginning of this year. There is strong positive sentiment among investors due to ample liquidity, with stable inflow from both domestic and foreign institutions. Institutional buying is expected to continue, as domestic mutual funds still get impressive flow. In addition, the India Meteorological Department (IMD) in its weather report said that so far the south-west monsoons for the country as a whole have been 5% above the long-period average (LPA) which would augur well for fertiliser and auto sector.

We expect a recovery in corporate earnings to be the key headwind in the medium to long term. Although the markets have scaled new heights in the past two years, growth in earnings per share (EPS) has been flattish and expect earnings to improve in H2FY18. We believe at current levels it is risky to enter expensive midcaps and smallcaps and rather advise profit booking. A sharp correction in the market is not ruled at this junction which we believe will be healthy for markets. We recommend investors to be stock specific and consider companies with good earnings visibility at a decent valuation.

Dr. Ashok Ajmera, FCA



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