Mr. Ashok Ajmera, CMD

Mr. Ajmera's column as on November 29, 2014

India's Market Capitalization crosses a milestone of Rs. 100 trillion..

The stock market on Friday achieved a landmark by crossing Rs 100 lakh crore (US$1.66 trillion) in market capitalisation. The feat was achieved when the benchmark BSE Sensex jumped 383 points, or 1.3 per cent, to a life high of 28,822.37. At the day's close, however, the value of listed companies was just shy of the Rs 100-lakh crore mark.

A sharp 35 per cent rally in the benchmark indices, coupled with new paper issuance, have helped India cement its position in the league table of top stock markets worldwide. The market cap has soared Rs 29 lakh crore or 42 per cent, the highest worldwide, so far in 2014. The journey from a market cap of Rs 50 lakh crore to 100 lakh crore took around seven years. India is the ninth biggest in the world in terms of market cap, behind Germany which has one of $1.9 trillion.

Indian economy has grown at 5.3 percent in the second quarter of the fiscal year as against 5.7 percent in the first quarter and 5.2 percent in the second quarter last year, the Central Statistics Office (CSO) data revealed on Friday. The GDP grew at 5.5 percent against 4.9 percent in the first half of the fiscal Y-o-Y. Economic activities which registered significant growth in Q2FY15 over Q2FY14 are electricity, gas and water supply at 8.7 percent, construction at 4.6 percent, community, social and personal services at 9.6 percent and financing, insurance, real estate and business services at 9.5 percent. The growth rates in agriculture, forestry and fishing is estimated at 3.2 percent, mining and quarrying at 1.9 percent, manufacturing at 0.1 percent and trade, hotels, transport and communication at 3.8 percent during the period.

According to latest estimates available on Index of Industrial Production (IIP), index of mining, manufacturing and electricity, registered growth rates of 1.3 percent, 0.1 percent and 9.4 percent, respectively in Q2FY15. The key indicators of construction sector, namely, production of cement and consumption of finished steel registered growth rates of 9.8 percent and 0.3 percent, respectively. The next release of quarterly GDP estimate for October-December, 2014 (Q3FY15) will be on February 9, 2015.

Gold

Easing restrictions on gold imports, the Reserve Bank today scrapped the controversial 80:20 scheme, a move which the industry believes will bring down prices of the precious metal. Under the 80:20 norm, put in place in August 2013 to curb high gold inflows that was widening the current account deficit, at least 20 percent of the imported gold had to be mandatorily exported before bringing in new lots. The surprise move comes a time when the industry was actually expecting more curbs imports of gold which is seen as an unproductive asset attracting household savings away from the financial markets.

Gold imports jumped 280 percent to USD 4.17 billion in October, as per the latest trade data. The in-bound shipments touched 95 tonnes in September this year as against 12 tonnes a year ago. There were apprehensions in the market that government and the Reserve Bank of India (RBI) may clamp more restrictions to curb the rising gold imports.

Ajcon's view – Sectoral outlook

Paint - The fall in crude oil prices will be beneficial as they use crude oil derivatives as inputs. Given that the entire benefit is not going to be passed on to the end consumer, there will be an expansion in margins. We believe price targets are expected to move up even on current price-earnings (P/E) multiple. However, gains are unlikely to come in the December quarter given that they carry inventory for one-and-a-half months.

Pharma – We are bullish on leading pharma companies in recent times on the back of a strong recovery in the domestic formulation business, better traction in the base business, gain market share with new product launches, and drug exclusivity in US markets. The quarterly numbers have been pretty good for the pharma companies. They have shown growth between 16 per cent and around 22 per cent, which is probably the best across industries and a lot of Indian companies are still having good product pipeline, especially in the US generic space. However, compliance issues in the US market will be a key risk. Given the fact, while valuations are slightly on the higher side, the sustainability in terms of earnings growth and that too in the high teens make some of the pharma names pretty good, more secular and sustainable stories even from a medium to long-term perspective despite the recent outperformance.

At current level, we recommend Wockhardt which is expected to give much better returns in next two quarters. Among other pharma companies, Cipla and Sun Pharma remain the best bet.

Oil Marketing - The decision by the Organization of the Petroleum Exporting Countries (OPEC) to keep output unchanged and its fallout - the sharp fall in crude oil prices - mean a lot for oil marketing companies. As recommended earlier by us the stocks of oil marketing companies have gone up, and there is more upside, given the lower working capital requirement and interest cost savings. Lower working capital will result in better net profit margins, which are yet to be captured in prices.

BFSI - We are positive on select Private Banks. On the other hand, we believe PSU banks are trading at lower valuations on concerns of asset quality. We were impressed by SBI's performance and onward interview with SBI chairperson. Some specific stock picking based on pure fundamentals may give handsome returns. We recommend SBI, Bank of Baroda, Bank of India, Union Bank of India and Canara Bank. The rate cut as suggested by us if takes place will give a big boost to credit growth, which is prime concern to banks like SBI.

Automobiles - Our outlook is positive. We expect revival in FY15 due to improved policy climate, better consumer sentiment and enhanced infra spending. We believe the CV cycle is near bottom and will revive in the next few months. Hence we recommend Tata Motors, M&M and Maruti at current levels.

Capital Goods - We are bullish on this sector in the medium- to long-term as we are near the bottom of the economic cycle and expect revival in capex in H2 FY15. BHEL, ABB, L&T, Siemens fall in this category to be good investment.

Cement - With a new government at the Centre, there is expectation of a revival in demand for cement as infrastructure activity picks up slowly. We are thus turning bullish on the sector. Ultratech and Birla Corp are the right candidates to be picked up.

Consumption - Although sticky CPI inflation and muted income growth has hurt consumer demand in the past few months, there could be some revival if CPI inflation eases further.

Infrastructure - We are bullish on this sector from a medium term perspective, as a stable and decisive Government at the Centre would bring investment cycle back on track. GMR, IRB, Pratibha, J Kumar can be looked at in this sector from 1-2 years perspective.

IT - We remain positive on this sector, as the US economy continues to recover gradually. INR volatility is a cause for concern.

Real Estate - We are neutral on this sector. Slow demand environment in most markets (except South India) has impacted sales. Post elections, project approvals could result in increased new launches in the southern market. Still the safe and debt free companies viz. Oberoi Realty and Godrej Properties can be bought.

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