



Mr. Ajmera's column as on May 31, 2014

Investors book profits in large caps; midcaps in infrastructure sector still remain attractive..

Benchmark indices snapped a three-week winning streak to end nearly 2% lower in the week to May 30 as investors booked partial profits in large-cap stocks. The Sensex ended down 476 points or 1.92% to end at 24,217 and the Nifty declined 137 points or 1.86% to close at 7,230. After several weeks of outperformance, broader markets declined during the week. The Mid-cap index slipped 2.3% and the Small-cap index ended 1.2% lower.

Meanwhile, foreign institutional investors were net buyers in equities to the tune of Rs 2,978 crore, as per provisional data on the Bombay Stock Exchange.

There was disappointment on the macro front too with the economy growing at 4.7%, against 4.9% projected in the advance estimates, official data showed on Friday. For the quarter ended March, growth in GDP was the same as in the December quarter at 4.6%.

On the derivatives front, traders rolled over fewer positions into the June derivatives series, signalling that they could have taken some risk off the table following sharp gains in May. The rollover percentage of Nifty futures in the May series onto the next month was 60 per cent, in line with the previous month expiry but lower than its three-month average of 65 per cent. Market wide rollovers stood at 64.5 per cent as against the three-month average of 62.7 per cent.

The markets which slipped into a consolidation mode since May 16, will be looking at the credit policy on June 3, the Budget in the beginning of July and/or some big-ticket reform measures on the part of the new government to give further direction to the markets.

Sectors & Stocks

Defensives were back in vogue during the week with Health Care and FMCG pockets attracting most buyers. The respective indices gained 1-2.4%. IT index finished with a 0.2% gain.

Meanwhile, PSU, Consumer Durables, Oil & Gas, Power, Realty, Bankex and Metal indices were in red, losing ground by 2-6.5%.

FMCG major, Hindustan Unilever up 7% was the top gainer in the Sensex pack.

Dr Reddys and Sun Pharma up 6% and 4% were the major movers from pharma space.

From the auto space, only Mahindra & Mahindra ended up with a 6% gain. During the week, the company declared its Q4 numbers, a stand-alone net profit (including MVML) of Rs 897 crore for the quarter, a growth of 0.95 against Rs 889 crore posted in the same quarter last year.

IT space was in spotlight post a surprising development when Infosys resident and Board member, B G Srinivas, tendered his resignation from the company. Srinivas was widely seen as the top contender for chief executive's position at the Bangalore-based company after incumbent S D Shibulal's retirement by January 2015. As a result, the stock declined 4%. Further, TCS and Wipro added 1-3%.

Engineering giant, Larsen & Toubro up 2.5% was the other major gainer. The company reported a robust set of numbers, surprising the Street with operating margins at 14.4%, against the Street's estimated 11.5%.

Sesa Sterlite, HDFC Bank and Bharti Airtel all ended between 0.5-4% were the only names to end the week in green.

Oil & Gas majors, Reliance Industries and ONGC declined 5-7% on profit taking.

HDFC, Coal India, SBI, BHEL and GAIL were the major draggers, losing 6-11%.

Global markets

Global equity markets traded mostly flat on Friday but the Dow and S&P 500 set fresh closing highs, while the dollar eased on the likelihood the European Central Bank will deliver monetary stimulus next week. Wall Street traded in a tight range as fears of overly high growth expectations offset mostly solid economic data. The S&P 500 set a record closing high for the fourth time in five sessions, but the Nasdaq closed slightly lower. US consumer spending fell for the first time in a year in April, but the decline, following two months of solid gains, did not change expectations for a sharp rebound in economic growth this quarter. Other data on Friday showed US consumer sentiment slipped in May as households worried about income. But a surge in factory activity in the Midwest confirmed growth was bouncing back after a weather-induced contraction in the first quarter.

The Dow Jones industrial average closed up 18.43 points, or 0.11 percent, at 16,717.17. The S&P 500 gained 3.54 points, or 0.18 percent, to 1,923.57, and the Nasdaq Composite dropped 5.329 points, or 0.13 percent, to 4,242.618. The dollar eased against major currencies as traders tidied up books at month's end and warily awaited the ECB meeting next week. The US dollar index of a half dozen currency pairs was last off 0.14 percent at 80.384. The euro rose 0.24 percent to USD 1.3633. Benchmark US Treasuries yields retreated. The yield on 10-year US Treasuries was last at 2.4750 with its price down 8/32. German bond prices fell after Federal Reserve policymaker Esther George said late on Thursday that interest rates should be raised more steeply than many in the market now expect. German 10-year yields rose 3 basis points to a day's high of 1.33 percent. US crude fell as traders took profits at the end of the month, but remained underpinned by supply worries and strong gasoline demand in the United States, the world's top oil consumer. Brent also slid. Brent crude settled 56 cents lower at USD 109.41 a barrel. US light crude oil settled down 87 cents at USD 102.71.

Week Ahead

With the earnings season coming to an end markets will now be looking forward to RBI's policy meet on Tuesday, June 3.

Auto and cement companies will be in focus tracking their May sales numbers.

Ajcon stock picks

We recommend investing in midcaps especially in infrastructure, power and financial services sector. Investors may invest in stocks like Unity Infrastructure, Jyothy Structures, Pratibha Industries, McNally Bharat, KEC International, IFGL Refractories, PFC, REC, PTC India Financial Services, Sadbhav Engineering, Bharat Bijlee, VIP, GSFC, GIPCL and Gujarat Alkali and Chemicals.

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