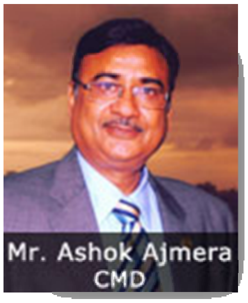

TM

Mr. Ajmera's column as on 3rd August, 2013

"NPA concerns over reacted which makes PSU banks valuations attractive.."

Domestically, the S&P BSE Sensex today fell for the eighth day, dropping 153 points, or 0.79 per cent, reversing early gains that came on the back of liberalized FDI norms. FIIs bought shares worth a net USD 46.28 million on 2nd August, 2013 (Friday). Both indexes posted their worst week since the week ended March 22. Indian shares fell nearly 1 percent on Friday, marking their eighth consecutive session of falls as Power Grid Corp fell after saying it would sell new shares to raise funds, while banks and consumer good companies extended recent falls. Power Grid Corp of India Ltd slumped 11.5 percent after saying it would issue 694.5 million new shares in a secondary share offering, worth 71.43 billion rupees ($1.19 billion). State-run banks continued recent falls on asset quality concerns and restructuring pipeline. Owing to liquidity tightness, Indian banks borrowed 12 billion rupees ($198 million) from the Reserve Bank of India's marginal standing facility (MSF) window on Aug. 1, lower than 25.6 billion rupees on July 31. The RBI had raised the MSF rate by 300 basis points to 10.25 percent under the Liquidity Adjustment Facility (LAF) and also imposed restrictions on daily borrowings by banks under its repo window. Banks usually tap the MSF rate during acute cash tightness. However, we believe the valuations have become attractive for PSU banks. Meanwhile consumer goods shares retreated further from record highs last month. ITC fell 1.9 percent.

Currency watch...

The rupee fell a massive 67 paise to all-time closing low of 61.10 against the dollar despite slew of steps taken by the government and the central bank in the past few weeks to support the battered currency. There was heavy dollar demand from importers, mainly oil refiners, and some banks on behalf of their clients as hopes of a strengthening dollar overseas weighed on sentiment. Better than expected US GDP growth has boosted the US dollar. At the Interbank Foreign Exchange Market, the rupee resumed lower at 60.61 a dollar from the previous close of 60.43 and touched a high of 60.58. As local stocks declined, the rupee continued its downward march and touched a low of 61.17 before closing at an all-time low of 61.10, a fall of 67 paise or 1.11 per cent. The previous record low closing was 60.72 on June 26. However, the rupee touched all-time intra-day low of 61.21 on July 8. The moves by the government to curb rupee volatility and tame the exchange rate have partly worked. As long as there is no matching demand for the rupee, the dollar will always weigh heavy. The current account deficit (CAD) is still a major issue. In another attempt to support the rupee, the Reserve Bank yesterday made it mandatory for foreign institutional investors to obtain the consent of holders of participatory notes and derivative instruments before hedging. Earlier, the central bank tightened liquidity for banks and took steps to curb speculative activity in forex markets, among others.

Global Scenario

US

The Dow industrials and S&P 500 ended at record highs for a second day on 2nd August, 2013 (Friday), posting modest gains despite a mixed employment report that showed hiring slowed in July. All but three of the 10 S&P 500 sectors ended higher, led by gains in the consumer discretionary index, up 0.7 percent. The jobs report showed non-farm payrolls rose by 162,000 in July, below expectations, but the unemployment rate fell to 7.4 percent, its lowest since December 2008. The mixed data could make the Federal Reserve more cautious about rolling back its massive economic stimulus. The tepid report follows a series of better-than-expected data and optimism about strong growth in the second half of the year. The employment number clearly was a surprise on the downside. Among the biggest drags on both the S&P 500 and the Dow was Chevron, the second-largest US oil company. Its shares fell 1.2 percent to USD 124.95. The company posted a steeper-than-expected 26 percent drop in quarterly profit.

The Dow Jones industrial average was up 30.34 points, or 0.19 percent, at 15,658.36, a record close. The Standard & Poor's 500 Index was up 2.80 points, or 0.16 percent, at 1,709.67, also a record. The Nasdaq Composite Index was up 13.84 points, or 0.38 percent, at 3,689.59. Stocks bounced late in the day after trading mostly flat, and both the Dow and S&P 500 also reached intraday record highs.

Europe

Robust insurer earnings helped drive European shares to a two-month high on Friday, while mixed U.S. jobs data supported the view the Federal Reserve may be more cautious about cutting back on its economic stimulus. The STOXX Europe 600 Insurance index saw solid gains, up 0.9 percent, with Europe's No. 2 insurer AXA ahead 2.2 percent after forecast-beating results. Peer Allianz, whose operating profit grew more strongly than expected, rose 0.8 percent. The FTSEurofirst 300 closed up 0.3 percent at 1,224.74 points, its highest close since May 30. The key U.S. jobs report showed non-farm payrolls rose by 162,000 in July, below expectations, although the unemployment rate fell. The mixed data caused a period of index volatility after the release, as investors considered what it may mean for the timing and scope of any pullback in Fed stimulus, before it ended close to its pre-data release level.

China

The growth in China's non-manufacturing sector picked up in July 2013 as Beijing's recent support measures for small firms helped improve sentiment, though companies noted that inflation is picking up and pushing up costs. The government's non-manufacturing purchasing managers' index (PMI) rose to 54.1 last month from June's 53.9, the National Bureau of Statistics (NBS) said in a statement. A reading above 50 indicates activity in the sector is accelerating, while one below 50 indicates it is slowing. The services sector index followed the bureau's manufacturing PMI on Thursday, which showed China's factory activity was slightly stronger than expected in July.

Ajcon's view

Going ahead, all eyes would be on the following events:

Daily commentary /interview by Finance Minister and RBI Governor..

6-7 Aug: Ownership Data for QE
1-12 Aug: India Local Car Sales
12-16 Aug: Exports and Imports YoY% for July
12-Aug: Fortnightly Credit Growth Update, Industrial Production YoY for June, Monthly New CPI YoY% for July
14-Aug: Monthly Wholesale Prices YoY% for July, MSCI Indices Quarterly Index Review
20-21 Aug: Promoter Pledging Data for QE Jun-13
27-Aug: Fortnightly Credit Growth Update
30-31 Aug: Aug Centre's Gross Fiscal Deficit and its financing, Qtrly GDP for 1Q F2014, Monthly Old CPI YoY% for July

Indian markets trade at ~14.0x FY14E and ~12.0x FY15E versus historic average of 16x.

At this junction, we believe markets offer value buying opportunities in midcap space. Investors with a longer term horizon should ideally pick good large cap stocks as well at this moment. We recommend buying Banks like State Bank of India, Bank of Baroda, Allahabad Bank, Union Bank of India, State Bank of Bikaner and Jaipur, State Bank of Travancore, Bank of India and in private sector recommend ICICI Bank, Axis Bank, HDFC Bank, ICICI Bank, Yes Bank, DCB and Standard Chartered Bank, Union Bank of India, Syndicate Bank. In the NBFC space, we recommend to accumulate IDFC.

In the IT space, we recommend buying TCS, Wipro (trades at 14x 1-year forward (FY15E) at ~30% discount to TCS) and Persistent Systems.

In the telecom sector, we recommend Bharti Airtel and Idea Cellular for long term investors.

In the Oil and Gas space, we recommend buying Reliance Industries, Oil India, ONGC and Cairn. In the Commodities space, we recommend investors to accumulate NMDC, Coal India and Manganese Ore. In the Pharma sector, we advise to accumulate stocks like Dr. Reddy's, Merck, Glenmark Pharma, Alembic Pharma, Torrent Pharma, Divi's Lab, Unichem Labs and SPARC. In the Consumption space, we recommend accumulating ITC, Jyothy Labs, and Nestle. In the midcap space, we recommend investors to accumulate Cera Sanitaryware, Astec Lifesciene, Apcotex, Liberty Phosphate, Petronet LNG, VaTech Wabag, Sangam (India), Voltas, Can Fin Homes, United Phosphorous, Tata Chemicals, Tata Global Beverages, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.

Disclaimer

AJMERA AJCON GLOBAL

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

Our research reports are also available on Bloomberg [AGSL<Go]

Corporate and Broking Division

408 - (4th Floor), Express Zone, “A” Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel’s, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160421

City Office

904, Raheja Centre, Plot No. 214, Free Press Journal Marg, Near MLA Hostel and Mantralaya, Nariman Point, Mumbai – 400021. Tel: 91-22-66551960

Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40