Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on October 03, 2015

Defensive stocks outperform despite higher than expected rate cut by RBI..

Benchmark share indices ended higher during the truncated week with defensive shares leading the gains even as rate sensitive shares trimmed gains despite higher-than-expected interest rate cut by the Reserve Bank of India.

In the week to October 1, the 30-share Sensex ended up 357 points or 1.4% to end at 26,221 and the 50-shareNifty ended up 82 points or 1% to close at 7,951. In the broader markets, the BSE MidCap index ended 2.1% higher while SmallCap index ended up 0.9%.

Financial and commodity markets were closed on Friday on account of Mahatma Gandhi Jayanti

The Reserve Bank of India at its fourth bi-monthly monetary policy review reduced the repurchase, or repo, rate by a higher-than-expected 50 basis points to 6.75%. The street had expected a rate cut of 25 basis points. However, the central bank lowered its real GDP forecast for FY16 by 20 basis points to 7.4% compared with 7.6% earlier.

Meanwhile, a private survey showed that India's manufacturing activity eased to a seven-month low in September as expansion in new business and output moderated. The Nikkei purchasing managers' index declined to 51.2 in September compared with 52.3 in the previous month.

Sectors & Stocks

Defensive shares provided the booster dose during the week with Dr Reddy's Labs emerging as the top Sensex gainer up 6.5%. The pharma major announced the launch of Esomeprazole Magnesium Delayed-Release Capsules USP in dosages of 20mg and 40mg which is the generic equivalent of Nexium following the approval of the USFDA. The company in a release said that the Nexium brand and generic had US sales of around $5.2 billion for the 12-month period ended July 2015. Lupin has been on an upswing post the acquisition of GAVIS Pharmaceuticals LLC and Novel Laboratories Inc. The stock ended nearly 6% higher.

FMCG majors witnessed renewed buying interest with Hindustan Unilever gaining 4.2% while ITC ended 1.9% higher.

In the IT pack, TCS ended 2.5% higher after the company announced partnership with National Building Society in the UK for providing ignio neural automation system. Further, Axis Bank has implemented a state of the art enterprise payments hub on a modern architecture powered by TCS BaNCS. Infosys ended 2.8% higher amid media reports that it its Infosys Innovation Fund has invested in US-based venture capital firm Vertex Ventures.

Index heavyweight Reliance Industries ended 2.9% higher amid reports that the company plans to raise $1.5 billion in two tranches to refinance its old loans.

Despite the higher rate cut by the RBI, financials ended mixed while auto share trimmed gains post September sales numbers. HDFC Bank and HDFC gained over 1.5% each while ICICI Bank, Axis Bank and SBI ended lower.

In the auto pack Tata Motors ended down 2.2% while two-wheeler majors Bajaj Auto and Hero MotoCorp ended over 1.3% higher. Select housing stocks such as LIC Housing Finance, Indiabulls Housing Finance and Dewan Housing Finance surged 5-10% after the RBI in its monetary policy statement said it is proposed to reduce the risk weights applicable to lower value but well collateralised individual housing loans. At present, the minimum risk weight applicable on individual housing loans is 50%.

Global Markets

US stock indexes jumped over 1 percent on Friday as worries about the economy after a disappointing jobs report gave way to a robust rally in energy and materials stocks. The three major indexes clawed back losses of more than 1.5 percent as poor payroll data hinted at economic weakness while strengthening the argument for delaying a long-awaited interest rate hike. The recently beaten-down S&P energy index surged 4.01 percent following a rise in oil prices, while the materials index jumped 2.41 percent. The silver lining with this disappointing jobs number is that possibly this could push the rate hike off to the first quarter of 2016. Friday's strong performance follows over a month of turbulence in global markets that has seen the S&P lose 7 percent of its value over fears that troubles in

China's economy could spread around the world. Now, with the third-quarter earnings season starting next week, investors are starting to factor in what might be the biggest decline in profits for S&P 500 companies in six years.

Following a steep selloff since late August, the S&P 500 is trading at 15.1 times expected earnings, slightly below the long-term median of 15.6. The Dow Jones industrial average rose rallied 1.23 percent to end at 16,472.37 points. The S&P 500 gained 1.43 percent to 1,951.36. It bounced about 3 percent from its intra-day low to its closing level. The Nasdaq Composite jumped 1.74 percent to finish at 4,707.78. For the week, the Dow and S&P both rose 1 percent. The Nasdaq added 0.5 percent.

Ajcon's view

Markets are likely to track global cues while weak August jobs data from the US could lead to profit taking in select shares of export-led sectors such as IT and pharma.

Further, data for India's services PMI for September 2015 is scheduled for release by Nikkei India Services PMI on Tuesday, October 6.

Unlike other emerging markets, India stands out as relatively less vulnerable to a slowdown in China, as it is not part of the Asian supply chain yet; it is a domestic demand-driven economy and a net commodity importer. We believe India is "among the least vulnerable", as an impact on the country's growth will be minimal and lower commodity prices will positively impact current account deficit and inflation.

We believe the current scenario offers good opportunity for accumulation in fundamentally strong Large Caps available at attractive valuations in Banking, NBFCs, Infrastructure, Real Estate, Engineering, Automobiles, Capital Goods, Packaging, Logistics and Pharma.

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CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

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