



Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on 4th June, 2016

All eyes on RBI Governor and progress of monsoon; markets may outperform..

Domestic bourses performance

In the week to June 3, benchmark share indices hit 7-month highs driven by an encouraging GDP growth, better-than-expected corporate earnings and above normal monsoon forecast. The S&P BSE Sensex ended up 0.7% at 26,843 and the Nifty50 ended up 0.8% at 8,221.

The Reserve Bank of India (RBI) at its policy meet next week is likely to maintain status quo on interest rates ahead of the US Federal Reserve policy review and the British referendum on EU membership. We expect the status quo in European Union. However, the break by UK, if at all will lead to a crash in world market temporarily.

Further, India Meteorological Department said 96% chances are that the rainfall this year would be normal to excess.

Macroeconomic data

The country's fiscal deficit for 2015-16 was Rs 5.32 lakh crore, about 99.5% of the government's revised target of Rs 5.35 lakh crore, compared with 99.6% for the same period a year before, official data showed on Tuesday. The fiscal management was possible due to falling crude prices. However, with crude going up again, there will be big challenge for FM to manage the fiscal deficit within the targeted numbers this year.

India's gross domestic product (GDP) grew 7.6% in 2015-16, up from 7.2% a year ago.

Growth in the eight core sectors jumped to 8.5% in April, due to a sharp pick-up in refinery products and a commensurate rise in electricity generation.



The Nikkei/Markit India Manufacturing Purchasing Managers' Index (PMI) - a composite indicator of manufacturing sector performance, stood at 50.7 in May as against 50.5 in April.

Growth in India's services industry slowed sharply in May to a six-month low, due to a deceleration in new orders, a private business survey showed.

Global events

Although the OPEC meet remained inconclusive on oil output targets Saudi Arabia's stance not to dump crude oil in the market was taken as positive with global oil prices stabilising around \$50 a barrel.

Further, the European Central Bank decided to maintain status quo keeping key policy rates unchanged.

Stocks

Tata Motors emerged as the top Sensex gainer up 12.5% after robust March 2016 quarter earnings were above street expectations on the back of the performance of the company's Jaguar Land Rover (JLR) unit. For the March 2016 quarter consolidated profit after tax surged over 200% to Rs 5,177 crore against Rs 1,717 crore in the corresponding quarter last fiscal.

Coal India surged nearly 10% higher after the company raised prices by 6.29% across all its subsidiaries for both regulated and non-regulated sectors while higher production and sales in May also aided sentiment.

Axis Bank ended nearly 6% higher after the Reserve Bank of India allowed raising foreign shareholding to up to 62% in the company, from the earlier limit of 49%.

Tata Steel edged 3% higher after its overseas arm Tata Steel UK said it has completed the sale of its 4.5-million-tonne of long products division to Greybull Capital.

Hero MotoCorp gained about 5% after the country's largest two-wheeler maker further augmented its senior leadership team after appointing Malo Le Masson as the head of global product planning.

Hindustan Unilever rose 2.7% following the FMCG major's decision to split its foods and refreshments business into two separate units. Hindustan Unilever said the decision is in line with its global category structure.

Sun Pharma slumped nearly 11% amid weak revenue guidance for the current fiscal and also added that the focus on building specialty business in the US could impact profitability.

BHEL ended down 8% after the state-owned engineering major reported its first-ever annual loss of Rs 896 crore for the year ended March. It had recorded a profit of Rs 1,452 crore in 2014-15.



Week ahead and Ajcon's view:

Sixty-six per cent of the companies in the NSE Nifty 50 index posted earnings in the March quarter that exceeded or matched estimates. This compares with 52 per cent in the three months ended December, data compiled by Bloomberg show. Sales for Sensex companies rose seven per cent year-on-year after five straight quarters of declines, the data show.

Central bank Governor Raghuram Rajan, who is due to review policy rates on Tuesday, said last month that expectations of plentiful rain will boost food output may help temper inflation after a jump in April. Rajan has cut the main rate by 150 basis points since the start of 2015 to a five-year low of 6.50 per cent.

In case the RBI maintains status quo on interest rates at its policy meet markets could take a breather next week.

Further, investors will also await data from the IMD on the southwest monsoon with rains expected to hit the Kerala coast.

Meanwhile, the government is also scheduled to release data on index of industrial production for April 2016.

The Sensex has climbed 2.8 per cent so far this year and is valued at 16.6 times 12-month projected earnings, compared with a multiple of 11.9 for an index of emerging markets.

The monsoon is key to sustain India's world-beating economic growth, which accelerated a faster-than-estimated 7.9 per cent in the March quarter. The data cemented the nation's position as a bright spot among emerging markets as China slows, while Russia and Brazil see contractions.

Although economists expect no rate cut by the Reserve Bank of India's at its second bi-monthly policy, global cues post US jobs data and the progress of the monsoon will set the trend in the week ahead.

We suggest value buying in fundamentally good midcaps.

CA Ashok Ajmera



STOCK BROKING, INVESTMENT BANKING, CORPORATE ADVISORY & INSURANCE

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For research related queries contact:

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

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Website: www.ajcononline.com

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: 91-22-67160400, Fax: 022-28722062

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