



**Mr. Ashok Ajmera, CMD & CEO**

**Mr. Ajmera's column as on April 15, 2017**

**Geopolitical risks to affect market sentiments, all eyes on Q4FY17 earnings..**

Indian market closed negative during the week. Nifty and Sensex down this week by 0.52% and 0.83% respectively. The geopolitical worries, after the United States launched cruise missiles against an air base in Syria last week and fears of a new weapons test by North Korea, also contributed to the losses.

In terms of sectors Energy, Auto Ancillaries and Telecom were the winners of the week. Construction, Metals and Media were the notable losers this week.

Rupee has strengthened to 20 months high against Dollar. Bullions rally as dollar index falls back to 100; Gold & Silver are trading at 5 months high.

Retail Inflation rose to 3.81% in March 2017: Consumer Price Index (CPI) inflation or retail inflation for the month of March 2017 stood at 3.81%, said Ministry of Statistics and Programme Implementation (MOSPI) on Wednesday. In the month of February, CPI stood at 3.65% raising for the first time in seven months from 3.17% in January. The combined CPI in March was 3.81% as against 3.65 in February and 4.83% in the month of March, 2016. The rural CPI was at 3.75% in the month of March as compared to 3.67% in February



and 5.70% in March, 2016. The urban CPI was at 3.88% in March as against 3.55% in February and 3.95% in March, 2016.

On Friday, the S&P BSE Sensex settled at 29,461, down 182 points, while the broader Nifty50 ended at 9,150, down 53 points. In the broader market, the S&P BSE Smallcap index outperformed to gain 0.2%, while S&P BSE Midcap remained little changed.

Nifty IT index (down 2.4%) was the leading sectoral loser on Thursday, dragged by Infosys, which was also the top loser on Sensex and Nifty. The stock shed 3.7% to Rs 933 on NSE after country's second largest software services firm saw 2.8% decline in net profits to Rs 3603 crore for the quarter ended on March 31, 2017.

### **Sectors and stocks**

The midcap universe, which is on cloud nine, is unlikely to disappoint investors for the quarter ended March 2017 while earnings for benchmark indices could lag. The S&P BSE Midcap index which recorded yet another record high of 14,442.59 on Wednesday gave 31 percent positive returns in the FY17, as against nearly 16 percent given by the S&P BSE Sensex and around 19 per cent by Nifty. Midcaps have been consistently been able to outperform benchmark indices not just in last 12 month but in the last five years. But, it is time to tread with caution with respect to small and midcap stocks after a sharp rally in the last 12-24 months. Not all midcap stocks might strike gold for investors at current levels given the frothy valuation and the idea should be to get into those stocks which can deliver growth.

### **Gold**

January-March 2017 has been the best fourth quarter in terms of gold imports since early 2013. Gold imports in the last quarter stood at 230 tonnes, and more than 100 tonnes is estimated to have been imported in March alone.

But for the blip in December, gold imports have gone up significantly following the government's announcement of demonetisation, after being subdued for the first seven months of 2016-17.

Between April and October 2016, only 264 tonnes of gold was imported, while in the next five months, imports went up to 360 tonnes.

The rise in the import bill in the last quarter is also because of unofficial imports falling to very low levels after demonetization and rising prices of gold internationally.

After Prime Minister Narendra Modi announced banning old Rs 500 and Rs 1,000 notes on November 8, 2016, several black money holders bought gold with the old currency after paying a high premium, and this resulted in an import of 100 tonnes of gold in November. Imports moderated to 30 tonnes in December as the government began raids on jewellers indulging in such conversions, while in January there was a revival and imports climbed to 48 tonnes.



With the general consensus that the yellow metal prices would not go down much, imports have been significantly better in February (80 tonnes) and March.

In April too, the demand is expected to be strong. The demand for gold continues to be good on account of festivities as well as the marriage season. The Hindu festival of Akshaya Tritiya, which falls on April 28, is considered auspicious for gold buying.

### **Global tensions**

The number of Islamic State fighters killed by a massive US bomb in eastern Afghanistan has nearly tripled to at least 90, Afghan officials said today.

The GBU-43/B Massive Ordnance Air Blast bomb -- dubbed the "Mother Of All Bombs" -- was unleashed in combat for the first time, hitting IS positions in eastern Nangarhar province on Thursday.

The bomb smashed their mountain hideouts, a tunnel and cave complex that had been mined against conventional ground attacks, engulfing the remote area in towering flames.

"At least 92 Daesh (IS) fighters were killed in the bombing," Achin district governor Esmail Shinwari said on Saturday. Nangarhar provincial spokesman Attaullah Khogyani gave a toll of 90. Afghan officials had earlier said the bombing had killed 36 IS fighters. Shinwari insisted there were "no military and civilian casualties at all".

### **War like situation**

China warned that a war on the Korean Peninsula would have devastating consequences as the US threatened military retaliation against North Korea if it proceeds with a nuclear test this weekend. As US Vice President Mike Pence heads to Asia on a 10-day trip that will include South Korea, Chinese Foreign Minister Wang Yi urged all parties "to stop provoking and threatening each other and not to make the situation irretrievable." "Once a war really happens, the result will be nothing but losing all round and no one could become a winner," Wang told reporters in Beijing on Friday, according to the official Xinhua News Agency.

The world is watching North Korea as speculation mounts that Kim Jong Un's regime will carry out a ballistic missile or nuclear test this weekend to mark the 105th birth anniversary of his grandfather Kim Il Sung, the nation's founder, on Saturday.

A spokesman for North Korea's military warned Friday that "the Trump administration's serious military hysteria has reached a dangerous phase which can no longer be overlooked."

While President Donald Trump's administration is ratcheting up pressure on China to contain its neighbor and ally, the US says it's also willing to act on its own. Administration officials said Thursday it's considering economic sanctions and military options if a provocation by North Korea occurs.

Pence will discuss the US response when he visits South Korea and Japan as part of his Asian tour. He'll arrive in Seoul on Easter Sunday, a day after North Korea's biggest holiday. White House foreign policy aides who requested anonymity to discuss the vice president's



travel say North Korea has telegraphed the possibility of a test to coincide with the occasion. Pence's trip comes after Trump dispatched the USS Carl Vinson aircraft carrier and its battle group to the waters around the Korean Peninsula. Commercial satellite imagery of North Korea's Punggye-ri nuclear test site obtained by 38 North, a program devoted to analysis of the country at the Johns Hopkins University School of Advanced International Studies, showed activity at the site suggestive of preparations for a nuclear test. "North Korea is a problem," Trump told reporters at the White House on Thursday. "The problem will be taken care of."

Any US military strike risks leading to a war between the world's biggest economies that would threaten to devastate South Korea and Japan, two American allies in striking range of retaliatory attacks. China has backed North Korea since the peninsula was last at war in the 1950s, in part to prevent having an American ally on its border.

The Chinese military dispatched 20 submarines in waters around the peninsula. A US strike may prompt North Korea to immediately unleash artillery fire on Seoul and its surroundings, which is home to just more than half of South Korea's 51 million people, according to a report published by Stratfor last year. It then may activate air or naval assets and larger ballistic missiles that can target South Korean, Japanese or American bases in the region with nuclear, chemical and biological weapons.

The White House expects South Korean officials to discuss responses during the vice president's visit, and Pence also plans to meet troops and discuss possible military steps with Army General Vincent Brooks, the commander of United States Forces Korea. He'll promote the deployment of the Thaad missile-defense system in the region, a move that has annoyed China.

Despite the higher tensions, Trump and Chinese President Xi Jinping have shown signs of warmer ties since they met last week in Florida. Trump on Wednesday highlighted China's move to ban coal imports from North Korea, noting that a fleet of cargo ships had turned back.

### **Ajcon's view**

India VIX is trading near 28 months low; should reverse in line with global VIX. The markets will take their cue from the following economic updates. From 17th April 2017

- **US** - US Foreign Buying, T-bonds (Feb), Overall Net Capital Flow (Feb), Capacity Utilization Rate (Mar), Industrial Production (MoM) (Mar), Manufacturing PMI (Apr) , Services PMI (Apr), Existing Home Sales (Mar), OPEC Meeting
- **India** - WPI Food (YoY) (Mar), WPI Fuel (YoY) (Mar), WPI Inflation (YoY) (Mar), WPI Manufacturing Inflation (YoY) (Mar)

FY17 started with a lot of worries at the backdrop. There were worries on slowdown in Chinese growth, there was worry on emerging market currency fluctuations. Despite many local and global negative events throughout the year such as Brexit referendum, US elections results, Donald Trump win, US Fed policy, and our own demonetization, market



continuously scaled some of these worries and has witnessed fantastic returns at the index as well in the broader markets.

Going forward, we believe markets would eye Q4FY17 and FY17 earnings season to understand the actual impact of demonetization on corporate profits. At the moment we are bearish on the IT largecaps owing to rupee appreciation but do not rule investors taking a contrarian view at current attractive valuations. Infosys delivered weaker-than-expected Q4FY17 numbers, pushing back recovery a bit. Key positives in Q4 were (1) Revival in the BFSI vertical (2% QoQ ex-Finacle), (2) Continuity in top account mining (top-10 growth stood at 1.7x overall revenue growth), and (3) Steady execution (utilisation at the highest level in the last 9Q). The Company guided for 6.5 to 8.5% CC YoY growth for FY18E, vs 8.3% CC YoY in FY17. EBIT margin guidance at 23-25% indicates a struggle with revenue growth, effort mix and currency. The Company has revised its capital allocation policy with an increase in the total payout. The payout has been revised to 70% of FCF (effective FY18E) from 50% of profit earlier. Additionally, the Company also announced a USD 2bn payout via dividend/buyback in FY18E.

Indian rupee has actually appreciated significantly in the first quarter of Calendar year which means that there is going to be pressure on topline as well as profitability for exporters on the whole.

We believe Geopolitical tensions described above may affect market sentiments and may give investors a buying opportunity. We believe there is more value in largecaps in terms of valuations as compared to smallcaps and midcaps. However, selective midcaps in sunrise industry should be considered.

## **CA Ashok Ajmera**



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CIN: L74140MH1986PLC041941

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