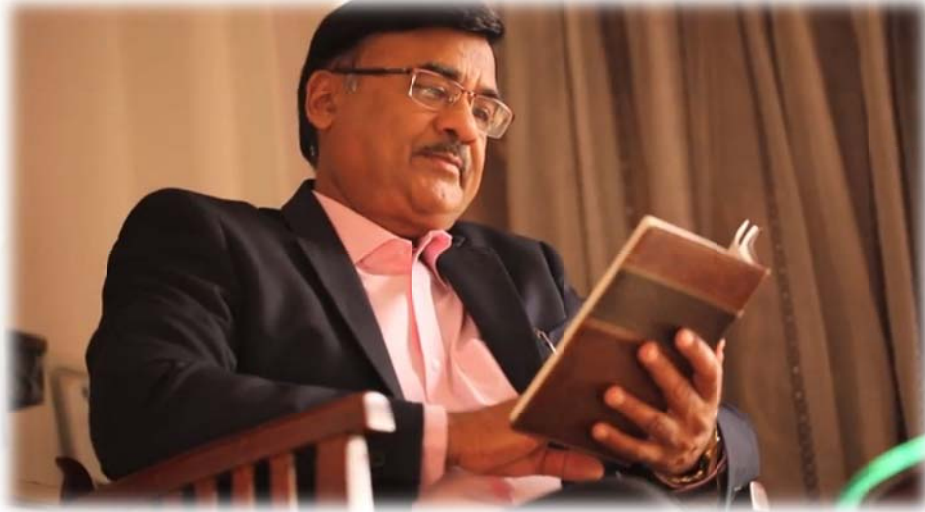




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on Jan 05, 2019

Volatility to remain the buzzword; PSU banks look attractive after recent developments..

For the week, the S&P BSE Sensex fell 1.05 per cent, while the Nifty 50 declined 1.22 per cent. On Friday, the rupee traded on a firm note having risen to 69.75 against the US dollar in intra-day trade. The domestic unit had settled at 70.17 against the greenback on Thursday. The S&P BSE Small-cap index which fell by about 23 percent outperformed Sensex, Nifty as well as the S&P BSE mid-cap index. The index fell by 0.09 percent, compared to a 1.2 percent fall in the Nifty and 1.39 percent drop seen in the S&P BSE Mid-cap index.

India VIX fell by 3.74 percent at 16.16 levels. VIX needs to hold below 16 zones to again get a bounce back move in the market.

In major key developments, Indian sugar mills produced 11.05 million tonnes of the sweetener between Oct. 1 and Dec. 31, up 6.7 percent from a year earlier, as mills started crushing earlier than usual in the western state of Maharashtra, a producers' body said on Friday. Maharashtra, the country's second-biggest producer, churned out 4.4 million tonnes of sugar during the period, up 14.6 percent from a year ago, the Indian Sugar Mills Association (ISMA) said in a statement.

Oil prices rose by more than 1 per cent on Friday, shaking off earlier losses, after China said it would hold talks with the US government on Jan. 7-8 to look for solutions to a trade dispute between the world's two biggest economies. Brent crude futures were at US\$56.60



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per barrel, up 65 cents, or 1.2 per cent, from their last close. US West Texas Intermediate (WTI) crude oil futures were at \$47.61 per barrel, up 52 cents, or 1.1 per cent.

Market regulator Sebi has come out with rules for merger of foreign portfolio investment (FPI) and non-resident Indian/overseas citizens of India routes to bring in a single regime for foreign investors and regulate NRI and person of Indian origin fund inflows. The regulator has also exempted housing finance companies and systemically important NBFCs (non-banking financial companies) from disclosure of increase or decrease in shareholding due to encumbrance or release of encumbered shares, Sebi said in a notification.

Growth in India's services sector slowed slightly in December, but firms hired at a faster clip on continuing optimism as new business and employment remained buoyant, a private survey showed on Friday. The Nikkei/IHS Markit Services Purchasing Managers' Index declined to 53.2 in December from November's four-month high of 53.7, but remained above the 50 mark threshold that separates growth from contraction for the seventh consecutive month.

Domestic institutional investors (DIIs), led by mutual funds, are now playing an active role as anchor investors in initial public offerings (IPOs) apart from the secondary markets, where they have stepped up their purchases. DIIs contributed nearly 51 per cent of the Rs 7,837 crore of anchor money invested in IPOs last year, data from PRIME Database shows. In comparison, foreign portfolio investors (FPIs) invested Rs 3,817 crore. This is only the second time that DIIs have invested more than FPIs as anchors since the anchor book was started in 2009.

Global markets

Asian markets breathe a huge sigh of relief as China opened a new round of trade talks with US amidst tensions among 2 economic giants. U.S. President (Donald) Trump's trade actions against China are now hurting the U.S. as much as they are hitting China. There were fears of recession in both the countries and with new round of talks; there might be a possibility in release of tension to some extent. The slowdown in US and China is quite evident after major US corporate Apple cuts its sales forecast for the first time in 16 years owing to poor sales in China. Mind you, China is Apple's 3rd largest market.

Ajcon's view

We expect volatility to remain in the market and street participants would now track global cues and Q3FY19 earnings season. We believe Q2FY19 earnings season has been mixed bag but Q3FY19 could be much better. The monthly sales numbers of auto Companies have been subdued in Dec. 2018. India's luxury car sales have seen a flattish growth of 4-5 percent as against 17% last year owing to adverse macroeconomic conditions.

All eyes would be also on last budget of the current government to be presented before the general elections. We do expect volatility as the Central Government may resort to populist measures to gain back popularity amongst the rural community especially farmers after its loss in key states like Madhya Pradesh, Rajasthan and Chattisgarh which street participants



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may not prefer. With crucial assembly elections (which were considered as semi - finals to Lok Sabha elections in May 2019) results out, the question now comes to our mind as to

which party manages to win the General elections. It may be difficult for both major parties BJP and Congress to get majority. Street participants would not prefer a coalition government as decision making and execution becomes difficult in coalition regime for obvious reasons.

Globally, the China's central bank took some measures to infuse liquidity in the system. China's central bank cut the amount of cash lenders must hold as reserves by 100 bps. The cut will release net 800 billion yuan (US\$ 116 bn.) of liquidity which will propel demand. This would augur well for global investor sentiments.

The strategy at present should be to invest in phased manner only in companies which are not connected to any political party, have a robust business model, strong earnings and cashflow visibility, low debt and backed by quality management especially on the corporate governance front. Considering the above factors, investors can see a stock specific approach in midcaps and smallcaps space as there are many companies which are trading at a discount of 50-70% to their peak price in early 2018. We believe the falling crude oil prices will benefit paint companies. On the other hand, there would be significant inventory losses for OMCs.

Finance Minister (FM) Shri. Arun Jaitley said on Thursday that creditors are expected to get Rs. 70,000 crore as some of the big cases, including Bhushan Power & Steel and Essar Steel, are likely to be resolved in this financial year. They have already recovered Rs. 80,000 crore from 66 cases resolved by the National Company Law Tribunal (NCLT). According to FM, increase in conversion of NPAs(non-performing asset) into standard accounts and decline in new accounts falling in the NPA category show a definite improvement in the lending and borrowing behavior. All these factors would augur well for PSU banks which are trading at depressed valuations.

For short term investors, the strategy can be sell on rise and buy on declines upto General elections. On a safer side, we would suggest long term investors to have a look at Pharma MNCs, Consumption stocks, Auto stocks, PSU banks – trading at depressed valuations (looking better after the cleanup of NPA mess, progress made under the NPA resolution framework under IBC, faster resolutions under NCLT and proposed recapitalization), IT sector and Private Insurance Companies at the current moment.

Dr. Ashok Ajmera, FCA



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