



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

*Mr. Ajmera's column as on May 06, 2017*

**Markets remain rangebound; book profits in midcaps and smallcaps..**

It was a rangebound week for the Nifty that lost 0.2 percent to end below 9,300 level.

Domestically, the government notified the Banking Regulation (Amendment) Ordinance 2017, kick-starting a new framework to deal with Rs 6 lakh crore worth of non-performing assets in the Indian banking system. The ordinance comes into force immediately and enables the Reserve Bank of India (RBI) to direct banks to initiate bankruptcy proceedings of defaulting companies under the Insolvency and Bankruptcy Code. The banking regulator has also been empowered to decide on dealing with toxic assets and instructing banks to act accordingly. The RBI will also set up multiple oversight committees to direct banks and joint-lending forums to deal with the stressed assets.

India VIX, essentially a fear gauge, closed the day at 11.98, rising over 5% from the previous close. FIIs sold more than Rs 900 crore worth of shares while DIIs bought nearly Rs 1,900 crore worth of shares in the passing week. In last month also, FIIs net sold Rs 2,200 crore (especially after hefty buying of Rs 43,000 crore in previous two months) while DIIs net purchased more than Rs 9,000 crore.



Globally, a slump in commodity prices has triggered risk-off sentiment among global investors, hitting equity markets and pushing up demand for safe-haven assets like gold.

Most Asian and European markets dropped on Friday, while the dollar gained against most emerging market currencies. The benchmark BSE Sensex lost 267 points or 0.9 per cent to end at 29,858.8; the Nifty 50 on the National Stock Exchange fell 74.6 points or 0.8 per cent to 9,285.3. The rupee fell 0.3 per cent to close at 64.37 against the dollar. Foreign investors sold shares worth Rs 364 crore. Commodity and oil stocks witnessed selling.

While oil and other commodity prices were seen stabilising on Friday, the weekly losses were enough to spook investors, raised concerns over the global economy's health. A five per cent drop during the week saw Brent crude prices fall to their lowest level since November 2015, erasing all gains since the Organization of the Petroleum Exporting Countries (Opec) signed a six-month deal to curb production and ease a global glut. Surging shale gas output in the US was seen as the trigger for a slump in oil prices. Higher US output threatened to offset the supply cut by Opec and Russia.

The fall in oil prices spread to other commodities. Iron ore lost 12 per cent during the week in Singapore, its sharpest fall since November, when prices had come off on concerns over the demand in China.

### **Sectors and stocks**

Aviation stocks, SpiceJet and Jet Airways, surged up to 4.5 per cent on Friday following slide in crude prices.

Shares of SpiceJet jumped 4.49 per cent to close at Rs 117.50 and Jet Airways rose by 2.01 per cent to Rs 533.55 on BSE.

The scrip of InterGlobe Aviation went up by 0.75 per cent to close at Rs 1,116.40.

SpiceJet also touched its 52-week high of Rs 121.85 in intra-day trade.

Oil hurtled down to a five-month low of \$43.76 a barrel in New York on Friday.

Lower crude oil prices benefit aviation companies as jet fuel constitutes over 40 per cent of an airline's operating costs.

### **Global Markets**

Coming Monday, globally markets will react to second round of French elections that to be held on May 7. According to media reports, Centrist Emmanuel Macron, who is in favour of keeping French in European Union, is likely to defeat National Front's Marine Le Pen.

US jobs data for April month announced on last Friday was much better-than-expected while unemployment rate also improved to 4.4 (the lowest in 10 years) from 4.5.

Bank of Japan will announce its policy on May 11.



China CPI inflation for April month is expected to announce on May 10 while US April core PPI will be announced on May 11. Europe's March industrial production and US' April core CPI are expected on May 12.

On Friday, the European markets were trading mixed. Britain's FTSE 100 was marginally higher, while CAC 40 of France was down 0.16%. Germany's DAX shed 0.3% and the pan-European Stoxx 600 dipped 0.3%.

Asian markets declined for a third consecutive day on Friday as fresh falls in commodities raised concerns about the health of the global economy,

MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.4% and was trading at its lowest level since April 25 as the fresh falls in commodities raised concerns about the health of the global economy.

### **Ajcon's view**

At current levels, Nifty is valued at a P/E of 22x on trailing twelve months earnings which we believe is on a higher side.

The coming week is expected to see some more consolidation with minor correction as investors await French elections on May 7, more corporate earnings and macro data next week. Metals and oil prices will be closely watched next week after a sharp fall in the passing week. US crude oil prices lost over 6 percent in the week gone by, though rebounded in last session of the week after assurances by Saudi Arabia that Russia is ready to join OPEC in extending supply cuts. Chinese metals prices corrected last week on fears of demand weakening in world's second largest economy. Nifty Metal index lost 4 percent during the week, which is expected to rebound in the coming week.

Coming Monday, Avenue Supermarts (the operator of retail chain D-Mart), Gati, Gillette India, Jayant Agro, LG Balkrishnan, Mangalam Organics, Pfizer and Nitin Spinners will react to their earnings that announced on May 6.

Eicher Motors, Monsanto India, NIIT Technologies and P&G Hygiene are expected to react positively to their March quarter earnings announced on Friday after market hours.

Apollo Tyres, Blue Dart, Dalmia Bharat Sugar, Equitas Holdings, Shoppers Stop, Indag Rubber, GE Shipping and TRIL reported dismal performance in the quarter ended March 2017. Hence, stocks may react negatively on Monday.

ACC and Ambuja Cements will also be in focus on Monday as board of directors of both companies decided to commence an evaluation of a potential merger between them with a view to combine the strengths of both businesses so as to benefit all stakeholders. A special committee of directors, of which majority are independent directors, has been constituted to commence the evaluation, companies say.



Deepak Fertilisers and Petrochemicals Corporation may react to the news that the company completed the demerger of two core businesses fertilisers and technical ammonium nitrate (TAN) into a wholly-owned subsidiary company, Smartchem Technologies.

Patel Engineering is expected to trade positive on Monday as the company decided to transfer real estate parcels worth Rs 2,500 crore to wholly owned subsidiary or SPV proposed to be incorporated. The company also accepted proposal from Eight Capital Group to invest 51 percent in new subsidiary or SPV.

Bedmutha Industries will react positively to its electricity orders worth Rs 198.61 crore received from MP Poorve Keshtra.

The Rs 1,200-crore IPO of Housing and Urban Development Corporation (HUDCO) will open for subscription on May 8, with a price band of Rs 56-60 per share.

Majority of brokerage houses recommended subscribing the issue with a long term view.

Textbook publisher S Chand and Company will list its equity shares on May 9. The listing is likely to be at good premium as the issue oversubscribed 59.5 times.

At the moment we are bearish on the IT sector owing to rupee appreciation but do not rule investors taking a contrarian view at current attractive valuations. We also advise investors to book some profits at these levels and wait to enter again after a short correction.

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. However, we believe that the rupee has bottomed out.

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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