



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

**Mr. Ajmera's column as on 7th May, 2016**

**All eyes on US nonfarm payroll data; markets registered losses amidst global concerns..**

### **Domestic bourses performance**

Indian stock markets registered losses for the second week in a row in tandem with sell-off in global equities amid volatility in crude oil and commodity prices. Meanwhile, mixed macroeconomic data and mixed bag of earnings influenced the sentiments.

In the week to May 6, the BSE Sensex ended down 1.5 per cent at 25,229 and the Nifty50 settled 1.5 per cent lower at 7,733. In the broader markets, BSE Midcap index fell 0.7 per cent and BSE Smallcap index lost 1 per cent.

### **Key event**

The Reserve Bank of India (RBI) on Thursday proposed granting on-tap universal banking licences to individuals, groups or entities and companies.

However, the criterion for corporates will effectively rule out entry for business houses like Reliance, Tata and Birla, which had ambitions of floating universal banks.

According to the draft guidelines, at least 60 per cent of a group's income should come from financial services, as a result of which many large industrial houses are automatically excluded.

Apart from this, RBI said, to be eligible to apply, the corporate entity should have a minimum asset size of Rs 5,000 crore and a successful track record of 10 years. The corporate group has to float the bank through a non-operative financial holding company (NOFHC). Corporate houses or their promoters can hold up to 10 per cent stake in these new banks but are barred from having any controlling interest in the bank.



We have to read between the lines. On the one hand, no corporate house or its promoter can hold more than 10 per cent in the new bank, and at the same time, 40 per cent of the paid-up capital has to be held by the promoter in the bank. Both together are not technically possible. Therefore, corporates have been excluded. Non-banking financial companies (NBFCs) having a track record of at least 10 years can either convert themselves into a bank or promote a new bank. Individuals seeking to float a bank, either singly or jointly, should have banking or financial services experience of at least 10 years. In the case of individuals, they have to set up a NOFHC that will then be registered with RBI as an NBFC. All these NOFHCs will not be allowed to open any new financial services entity for at least three years, but are allowed to have a subsidiary or a joint venture in mutual fund, insurance, stock broking etc.

### **Global Markets**

The Nikkei purchasing managers' index (PMI) survey showed that rate of manufacturing growth decreased to 50.50 in April from the eight-month high of 52.4 in March as rise in new orders lost steam.

Also, growth in India's services firms fell to a four-month low of 53.7 in April from 54.3 in March on the back of new business growing slower than the previous months.

In contrast, the combined output of eight crucial infrastructure sectors jumped to a 16-month high of 6.4 per cent in March due to a double-digit growth in refinery products, fertilizers, cement and electricity.

On the global front, Japanese stocks tumbled as the yen surged to 1-1/2-year high against the dollar while the Chinese shares plunged on deceleration in China's manufacturing activity in April 2016.

### **Sectors and Stocks**

Adani Ports and Special Economic Zone (SEZ) emerged as the biggest loser this week and slumped 18 per cent on reporting lower than expected EBITDA margin for the quarter ended March 2016.

Meanwhile, shares of metal and mining companies fell amid renewed global growth concerns in the wake of weaker-than-expected Chinese manufacturing data. Tata Steel, SAIL, JSW Steel, NALCO and Hindalco slumped between 4 per cent to 11 per cent.

Another prominent loser was ITC ending 2 per cent lower after the tobacco major decided to shut its plants from May 4 to comply with a new stipulated pictorial warnings rule issued by the federal government.

On the flip side, HDFC surged 7 per cent on posting net profit of Rs 2,607 crore for the quarter ended March (Q4FY16), up 40 per cent year-on-year (y-o-y).

Other gainers in the Sensex pack include GAIL, NTPC, BHEL, L&T and Maruti Suzuki ending higher between 1 per cent to 7 per cent.



### **Week ahead and Ajcon's view:**

Trend in global markets, FII and MF stance, the movement of rupee and crude oil price will set the tone for the markets in coming week.

HUL, Zee Entertainment Enterprises, Kotak Mahindra Bank, Asian Paints, Nestle India, Glenmark Pharma, Cadila Healthcare among others will announce their quarterly results next week.

Meanwhile, government is scheduled to unveil industrial production data for March and the consumer price index (CPI) data for April 2016 on Thursday.

Also, participants will watch out for the US nonfarm payroll data for April 2016 due to be released on Friday, 6 May 2016.

On the global front, the Bank of England (BOE) monetary policy committee members will vote on where to set the rate and Germany's Q1 Gross Domestic Product (GDP) data will be unveiled on Friday, 13 May 2016

We believe that the Banking sector is in the clean up mode after RBI's focus for cleaner and healthier balance sheets. We still believe that pain would remain for next 2 quarters as well. Post October, we may see recovery and incremental growth to start trickling in.

We expect the markets to consolidate in the coming weeks and take cue from ongoing Q4FY16 and FY16 numbers and especially management commentary after the results.

### **CA Ashok Ajmera**



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