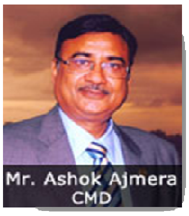

Mr. Ajmera's column as on June 07, 2014

Indian benchmark indices on a dream run; buy midcaps in infrastructure and capital goods sector..

The markets continued their dream run, with the Sensex and Nifty scaling new lifetime peaks on hopes of policy reforms in the upcoming Budget and expectations of governmental initiatives to revive the tottering economy. The Sensex surged 1,179 points or 4.8% to 25,396 and Nifty rallied 353 points or 4% to 7,583, on the back of strong momentum in the oil and metal space. The broader indices outperformed the benchmark indices, with the CNX Midcap rising 8% to a life-time high of 10,952 and BSE Smallcap gaining 8% to 9,774. Five of the 12 BSE sectoral indices ended at 52-week highs.

The benchmark indices rebounded with a bang after correcting about two per cent in the previous week. There was a buying frenzy on hopes of natural gas price hike by July 1, cut in under-recoveries by raising LPG and kerosene prices, rise in import tax for sugar and solution to NPA issues plaguing the PSU banks, among other things. The optimistic manufacturing sector survey that showed a rise in production volumes at Indian manufacturers and the Reserve Bank of India's (RBI) decision to cut the statutory liquidity ratio by 50 basis points in Rajan's first credit policy since the new Modi-led dispensation took charge provided a further adrenalin boost to the markets. The hopes of a normal monsoon, going by the predictions of the India Meteorological Department, added to the gush of liquidity-led buying on Dalal Street. In the process, the Sensex surpassed its previous all-time high of 25,375 registered on May 16 and its previous record close of 25,019 hit on June 5.

Since the Narendra Modi-led National Democratic Alliance government took charge at the Centre on May 26, the markets have gained about three per cent, while foreign investors have pumped in about Rs 6,600 crore ($1.2 billion).

Stocks in Action

Oil & gas stocks were the largest weekly drivers for the markets in what probably marked the beginning of re-rating of this under-valued and under-owned sector. The BSE Oil & gas index surged by a whopping 10% in wake of reports that the oil ministry is looking to clarify the new government's stand on the gas prices by the beginning of July. Metals surged 11%, followed by capital goods and realty (up 9.6% and 12.3% respectively).

Among individual names, ONGC was on the boil, zooming by 23% to touch a life-time high of Rs 461. BPCL rallied 20% on hopes of a hike in LPG and kerosene prices and GAIL spiked by 12% to further catapult the oil index. Reliance Industries ended higher by 3% at Rs 1,121.

In the metal space, Tata Steel galloped by 18% after re-starting most of its iron ore mines in Odisha after getting new permits from the state government. Contemporaries such as Hindalco Industries, Jindal Steel and NMDC raced ahead by 12-14% each due to an improvement in China's factory sector.

Hero Motocorp, UltraTech Cement, Cairn India, DLF and L&T were other prominent gainers in the largecap space, soaring by 10-15% each.

In the midcap space, Triveni Engineering, Suzlon Energy, Amtek Auto, Dhanlaxmi Bank, Orbit Corporation, Bajaj Hindusthan, Brigade Enterprises, Eros International, SAIL and Reliance Capital shot up significantly.

Sugar shares surged after Food Minister Ram Vilas Paswan was quoted as saying on Thursday, 5 June 2014, that the government will examine raising import tax on sugar to support local prices and help mills clear dues to cane growers which is estimated at Rs 11,000 crore. Shree Renuka Sugars, Bajaj Hindusthan, Triveni Engineering & Industries, Dhampur Sugar Mills and Balrampur Chini Mills surged 10-15% each.

The information technology stocks were the only sore point amid the thumping rally and the strong rupee was the culprit. A firm rupee adversely affects operating profit margins of IT companies as the sector derives a lion's share of revenue from exports. HCL Technologies and

TCS were top losers, down 6.5% and 3% respectively. Infosys dropped around 3% on reports of another high-level exit from the company.

Global markets

Globally, US stocks rose on Friday, with the Dow and the S&P 500 closing at records, after the May payrolls report provided the latest confirmation of improving economic conditions. The CBOE Volatility index, Wall Street's so-called fear gauge, ended down 8.1 percent at 10.73, its lowest level since February 2007. The VIX, which tends to rise when volatility increases or the market drops, has been on the decline for months and is well below its historical average of 20, which some see as a sign that investors are ignoring concerns that could derail the rally. The day's gains were broad and led by cyclical sectors, which outperform in times of economic expansion. Industrial shares jumped 1 percent while energy shares rose 0.8 percent. The only S&P 500 sector that fell was healthcare, a defensive group, down 0.1 percent. About 217,000 jobs were added in May, slightly fewer than expected, while the unemployment rate held steady at 6.3 percent. This was the first time job growth has topped 200,000 for four consecutive months since January 2000.

The Dow Jones industrial average rose 88.17 points or 0.52 percent, to 16,924.28, the S&P 500 gained 8.98 points or 0.46 percent, to 1,949.44 and the Nasdaq Composite added 25.17 points or 0.59 percent, to 4,321.40.

With the day's gains, the S&P 500 marked its sixth record close in the past seven sessions.

For the week, the Dow rose 1.2 percent, the S&P 500 rose 1.3 percent and the Nasdaq rose 1.9 percent.

Week Ahead

The April industrial production data and May CPI inflation will be announced on June 12 and these would be important data points to watch out for, going into the next week.

The unbridled optimism is likely to continue atleast till the Budget session scheduled in the beginning of July as investors bet on and markets factor in policy actions by the new government. The easing global liquidity, as evidenced by the European Central Bank's recent action of cutting interest rates to a record low of 0.15%, is also a huge positive for Dalal Street. In this momentum, buy-on-dips market, any dips can be opportunities for taking fresh positions on the long side. However, as a word of caution, the upside may be limited from hereon as expectations on the reform front would have been considerably factored in by the recent runaway spike in stock prices. The risk reward ratio is skewed in favour of risk for short term investors. For medium to long term, we recommend fundamentally good midcap stocks in infrastructure, construction, engineering, chemicals and capital goods sector. Some of the PSU midcap banks also look good.

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