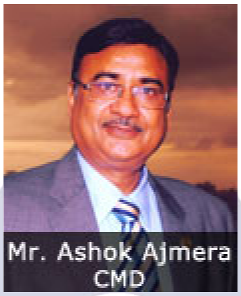
Weekly review as on 8th June, 2013



Mr. Ajmera's column: Rupee falling on global cues; markets to remain volatile

The rupee has been falling sharply since the start of May on concerns about the US Fed withdrawing its monetary stimulus and the Reserve Bank of India not cutting rates as much as previously anticipated. A day after the finance minister tried to downplay concerns over exchange rate depreciation; the Indian rupee's steep fall against the US dollar remained unabated. It closed on Friday at 57.07 per US dollar, down 0.39 percent or 22 paise from its previous close. The local unit breached the 57-mark in the second consecutive day hitting an intraday low of 57.12/USD. Despite repeated regulatory measures, it is almost falling flat. The Indian currency almost touched a record low of 57.33/USD, which was a year ago. It is likely to break the level next week in the absence of any strong fundamental resistance. It weakened more than 5.5 percent against the greenback since May this year.

Inflation and industrial production data would also be key ahead of the Reserve Bank of India's policy review on June 17 for near-term direction. Also on watch, the Foreign Investment Promotion Board, part of the finance ministry, will take up Gulf carrier Etihad's planned stake buy in Jet Airways India.

The Reliance Industries' Annual General Meeting (AGM) has always been a big event for the company's shareholders, prospective investors and traders. However, chairman Mukesh Ambani's plans to invest Rs. 150,000 crore over the next 3 years failed to cheer the Reliance Industries stock as it ended the session on Thursday a percent down. Reliance, India's fourth biggest company by market value, has been under pressure from investors over its slowing gas business and its drive into consumer-focused sectors such as telecoms and retail. Remaining tightlipped, Ambani gave away few details of his plans for the long-anticipated launch of 4G telecommunications services, which was a big disappointment for the street.

Key Events / Data to Watch

Tuesday: FIPB to consider Jet-Etihad deal

Wednesday: April industrial output, May CPI inflation

Friday: May WPI inflation

Globally, the Dow Jones shot up more than 200 points, scoring its best day since January 2, and the S&P 500 ended a two-week losing streak on Friday after US jobs data eased investors' worries that the Federal Reserve may be reducing its stimulus program in the near future. The S&P 500 and the Nasdaq posted their best daily percentage gains since April 16.

All three major US stock indexes rose more than 1 percent for the day, extending gains toward the session's end, with the S&P consumer discretionary and other growth sectors leading the way higher. The consumer discretionary index rose 1.8 percent. The S&P industrials index also advanced 1.8 percent. Microsoft, was up 2 percent at USD 35.67, was among stocks giving the biggest lift to both the S&P 500 and the Nasdaq. Stocks have rallied for most of the year. But the market began to lose ground following Fed Chairman Ben Bernanke's comments on May 22 that the central bank may decide to ease back on its bond-buying programs in the next few policy meetings if data shows the economy is showing improvement. Last Friday, the S&P 500 marked two consecutive weeks of losses for the first time this year. The market earlier this week traded off precipitously, believing the Fed was close to stopping. Today's numbers make it pretty clear the Fed can't stop or even start tapering in September like they'd like to, so ironically the stock market is up.
The Labor Department's data showed job gains of 175,000 in May, slightly above the economists' forecast, while the US unemployment rate increased to 7.6 percent last month from 7.5 percent in April.

The Dow Jones industrial average surged 207.50 points, or 1.38 percent, to close at 15,248.12. The Standard & Poor's 500 Index advanced 20.82 points, or 1.28 percent, to 1,643.38. The Nasdaq Composite Index climbed 45.16 points, or 1.32 percent, to end at 3,469.22. For the week, the Dow gained 0.9 percent, the S&P 500 rose 0.8 percent, and the Nasdaq added 0.4 percent.

The US job market has remained one of the economy's weakest areas since the recent downturn. The Fed, in turn, has linked its monetary policy to improvement in the country's job market. Economists say job gains of at least 200,000 per month over several months are needed to significantly reduce high unemployment. The stock market's rally this year has largely been driven by the Fed's continued bond purchases. The Dow is up 16.4 percent for 2013, while the S&P 500 is up 15.2 percent and the Nasdaq is up 14.9 percent. High dividend-yielding shares, which led this year's rally, have been among the weakest performers over the last two weeks. On Friday, Wal-Mart Stores Inc shares rose 0.9 percent to USD 76.33 and helped lift the Dow after the world's largest retailer said its board had approved a new USD 15 billion stock-repurchase program, the first in two years.

Going ahead, we expect markets to remain volatile next week on fears that a weakening rupee may lead foreign investors to pare positions.

We feel that markets are in consolidation phase and may soon cross the previous highs once the consolidation is over. Retail investors should take long positions in the stocks suggested below during this fall/consolidation. At the current levels, the Sensex trades at a PE of 16x FY1E EPS of Rs.1,260 and 14x FY14E EPS of Rs. 1,430. Historically, Indian markets have traded at valuations of 16x one year forward. In the Banking space, we believe there is huge gap in valuations of Private sector and PSU banks. We believe with improving macro economic fundamentals; this gap would narrow down to some extent. We recommend to Buy State Bank of India, Syndicate Bank, Bank of Baroda, Union Bank of India, United Bank of India. In the private sector, we recommend buying Karur Vyasa Bank, ING Vyasa Bank, HDFC Bank, ICICI Bank, DCB and Standard Chartered. In the Realty space, we prefer Godrej Properties, Oberoi Realty, DLF, Prestige, Sobha Developers and Mahindra Lifespace. In the Infrastructure space, we recommend investors to accumulate stocks like Larsen and Toubro (Q4FY13 topline was as per our expectation, it expects sales to rise 15-17 percent for the fiscal year to March 2014 and order inflows to be up about 20 percent this fiscal year), Pratibha Industries, KEC International, IL and FS Engineering and Construction Company, Sadbhav Engineering and GMR.

In the Oil space, we recommend buying Oil India, ONGC and Cairn.

In the Commodities space, we recommend investors to accumulate NMDC, Coal India, Manganese Ore and Hindalco Industries.

In the Pharma sector, we advise to accumulate stocks like Sun Pharma Advanced Research, Lupin, Merck, Glenmark Pharma and Dr. Reddy's.

In the Consumption space, we recommend accumulating ITC and Nestle.

In the midcap space, we recommend investors to accumulate DCW, Cera Sanitaryware, Page Industries, Ramky Infrastructure, Liberty Phosphate, Munjal Auto Industries, Wheels India, Repco Home Finance, VaTech Wabag, Voltas, CanFin Homes, United Phosphorous, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.

Your friendly advisor since 1986,

Ashoka Ajmera

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