



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

### Mr. Ajmera's column as on October 31, 2015

**Weak Q2 earnings from Banking majors' leads to decline in domestic bourses; all eyes on Bihar elections...**

Benchmark indices snapped four-week winning streak and posted their worst weekly performance in two months amid weak second quarter earnings by blue-chip companies. Investor sentiment was also dampened after the US Fed rekindled hopes of an interest rate hike in the month of December.

In the week to October 30, the 30-share BSE Sensex ended down 814 points, or 2.96%, to end at 26,657. The 50-share Nifty ended lower by 230 points, or 2.77%, to close at 8,066, its worst performance since the week ended Sept 4, 2015.

Selling pressure was also seen in the broader markets, with the BSE Mid-cap down 1.5% and the small-cap losing 1.8% during the week.

#### **Sectors and Stocks**

Sectors like Capital Goods, Banks, FMCG and Realty plunged between 3-4%. BSE Consumer Durables index was the only sector that ended marginally in the positive zone. Among the 30 Sensex shares, 20 declined and the remaining shares rose.

Axis Bank was the biggest Sensex loser last week. The stock fell almost 10%. The bank reported a 19% rise in net profit to Rs 1,916 cr for the July-September quarter against Rs 1,610 cr in the same quarter of the previous financial year. According to us, the fall in the share price was triggered after the bank classified two power sector exposures worth Rs. 1,820 crore as non-performing assets and sold them to asset restructuring companies



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(ARC).

Lupin was the second largest loser during the week, down by over 7%. The company reported a 35% fall in its net profit in the second quarter of FY16 on account of weak revenue growth, delays in product approvals and increased expenses.

L&T, HDFC and ITC also plunged between 6-7% post the announcement of Q2 numbers. Other notable losers included GAIL and Coal India.

ICICI Bank slipped over 3% after the announcement of Q2 numbers. The bank's NPA stood at Rs 6,828 crore, higher than Rs 6,402 crore as on 30 June 2015.

Shares of Vedanta slipped over 2% after the company posted a 40.6% drop in its quarterly net profit, as continued weakness in commodity prices in global markets impacted its earnings from oil and gas and mining operations.

On the positive side, Maruti Suzuki advanced over 1.5% after the car maker reported a 42% jump in net profit for the second quarter on the back of increased volumes, lower material cost, lower discounts and favourable foreign exchange.

Cipla gained after entering into an agreement to sell its entire stake in Biomab Holding to Biomab Brilliant Ltd for a consideration of \$25,775,000 to focus on biological segment under its arm Cipla BioTec.

### **Global Markets**

Oil gained on Friday while stocks on Wall Street closed lower even as major US and European stock indices posted their best month in at least four years, boosted in part by accommodative monetary policies in the euro zone and Japan. Oil prices rose after the US oil rig count fell for a ninth straight week, indicating potentially lower crude output in coming months in the face of a global supply glut. The dollar slipped after data showing US consumer spending in September recorded its smallest gain in eight months as personal income barely rose, suggesting some cooling in domestic demand after recent hefty increases. European shares closed slightly higher, with the pan-European FTSEurofirst 300 index up 0.01 percent at 1,484.46, while the euro zone's blue-chip Euro STOXX 50 index rose 0.14 percent to 3,418.23. The two indices posted their best monthly gains in more than six years. MSCI's all-country world index of stock performance in 46 countries retreated at the close, falling 0.11 percent. But the indice posted its best monthly gain since October 2011, the same as the three major US indices. All four indices posted gains of 7.7 percent or more in October. Financial stocks led the decline on Wall Street as falling prices accelerated at the close. The Dow Jones industrial average closed down 92.26 points, or 0.52 percent, to 17,663.54. The S&P 500 fell 10.05 points, or 0.48 percent, to 2,079.36 and the Nasdaq Composite lost 20.53 points, or 0.4 percent, to 5,053.75.



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Investors have taken in stride indications that the US Federal Reserve will raise interest rates in December, and worries about slowing Chinese growth have subsided. There are no barbarians at the gate at this moment. Everything seems to have calmed, volatility has come down, people seem to comprehend what the Fed is about to do and they got a greater sense of how deep the Chinese problems are. The CBOE Volatility index fell 38.5 percent in October, its biggest monthly drop on record. Energy majors Exxon and Chevron reported better-than-expected results, helped by strong refining margins. Exxon rose 0.6 percent to USD 82.74 and Chevron was up 1.1 percent to USD 90.88. Chevron was the biggest boost to the Dow, and Exxon was the third-largest. US Treasuries prices rose, with benchmark yields retreating from one-month peaks as soft domestic and overseas data renewed traders' focus on tepid global growth. Month-end buying boosted longer-dated Treasuries prices. Some investors added US bonds back to their holdings on expectations of further bond-buying stimulus from the European Central Bank and the Bank of Japan to combat deflation. The dollar index, a measure of the greenback against six major currencies, fell 0.31 percent to 96.980. The greenback fell as low as 120.29 yen after the Bank of Japan announcement, before reversing course. The dollar last traded down 0.39 percent at 120.69 yen. The euro broke the USD 1.10 mark against the dollar, rising as high as USD 1.1072, supported by an unexpected improvement in euro zone economic sentiment and signs of faster-than-expected inflation in Germany. It was last up 0.16 percent at USD 1.0994. US benchmark 10-year Treasury notes rose 7/32 in price to yield 2.1457 percent.

### **Week ahead**

Developments on the progress of Bihar elections would be keenly watched.

Investment trend by foreign investors, movement of the rupee against the dollar and crude oil price will set the tone in the coming week.

Among Q2 corporate earnings, SBI, Tata Steel, Cipla, BHEL, Tata Motors, ONGC, DLF, Indian Oil Corporation, Ashok Leyland, Bank of Baroda will announce the results in the coming week.

Automobile companies will be in focus as companies will start announcing monthly sales volume data for the month of October.

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) data for the month of October 2015 is due on Monday.

On the global front, China's Caixin Manufacturing PMI, US Nonfarm Payrolls report, US Unemployment Rate report will be unveiled next week.



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