Mr. Ajmera's column as on Sept. 27, 2014

S&P upgrade helps in market recovery; all eyes shall be on PM Modi's US visit ..

Benchmark share indices snapped their six week winning streak after the Supreme Court cancelled most of the coal block allocations and the government's decision to postpone hike in gas prices led to a sell off by institutional investors. In the week to September 26, the 30-share Sensex ended down 464 points or 1.7% at 26,626 and the 50-share Nifty ended down 153 points or 1.9% at 7,969.

Foreign portfolio investors were net sellers in equities to the tune of Rs 2,779 crore in the last three trading sessions, as per provisional stock exchange data.

The September derivative contracts also expired during the week under review. Nifty September F&O series ended lower after seven consecutive positive series with Metal Index falling the most.

The Supreme Court cancelled 214 of 218 coal block allocations, made by successive governments over the past two decades, on the grounds of illegality under the Coal Mining Nationalisation Act.

Meanwhile, Coal India Limited has been asked to take over operational blocks after March 15, 2015 deadline.

The Court directed the companies to pay a compensation of Rs 295 per tonnne to the government for the loss of exchequer for all coal mined till date and which will be mined upto 31st March, 2015.

Further, the government also said it had deferred the much-awaited decision on new pricing guidelines till November 15.

Meanwhile, On Friday, global rating agency Standard & Poor's raised the outlook on India's sovereign rating from negative to stable on the grounds that the National Democratic Alliance (NDA) government offered a suitable environment for reforms.

With this, S&P's outlook is in sync with that of two other rating agencies - Moody's Investors Service and Fitch Ratings; all three agencies have the lowest investment grade rating for India, with a stable outlook.

Except for FMCG all other sectoral indices ended in the red with Realty, Capital Goods, Metal, Power, Bankex, Oil and Gas indices down 3.3-4.6% each.

The apex court's verdict on coal block allocations weighed on power and metal companies as they would have to import coal at higher costs while power equipment makers fell on worries of slowdown in orders from power generators.

In the metal pack, Tata Steel, Hindalco, Sesa Sterlite ended down 3-7% each. Jindal Steel & Power slumped nearly 13% as the penalty for the company post the SC verdict translates to around Rs. 3,000 crore.

Power equipment makers L&T and BHEL ended down 4-9.5% each.

State-owned banks fell sharply on concerns their loans to companies whose coal block allocations have been cancelled may turn may become non-performing assets. Bank of Baroda, Bank of India, Canara Bank, SBI, PNB ended down 5-14% each.

ICICI Bank ended nearly 6% down on concerns over the bank's huge advances to the debt-ridden Jaiprakash Group and all the four coal blocks awarded to the group were de-allocated post the Supreme Court verdict.

Reliance Industries ended down 6% after the deferment of hike in gas prices dashed the hopes of private-sector player.

Week Ahead

The Reserve Bank of India's stance on key policy rates at its monetary policy review will be the key event during the truncated week ahead.

Further, HSBC India is scheduled to release manufacturing PMI for September on Wednesday.

Financial markets will remain closed on Thursday, on October 2 for Mahatma Gandhi Jayanthi and on October 3 on account of Dussera.

Automobile stocks will be in focus following release of September sales numbers.

Meanwhile, Prime Minister Narendra Modi will start his five-day US visit early morning on Saturday and every move shall be keenly watched by the market upgrade.

Ajcon's view:

We believe the correction witnessed in last week is healthy for markets. The market mood has become positive post S&P. Any key developments on PM's visit to US would be crucial for domestic bourses. We believe bulls would remain on a longer term basis and recommend investing stock specific basis. At current levels, we would recommend buying in stocks in sectors like Private Banking, NBFCs, Realty, Capital Goods, Infrastructure and Pharma.

Disclaimer

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160443 (D)

CIN: L74140MH1986PLC041941

Website: www.ajcononline.com

Corporate and Broking Division : 408 – (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office: 101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40