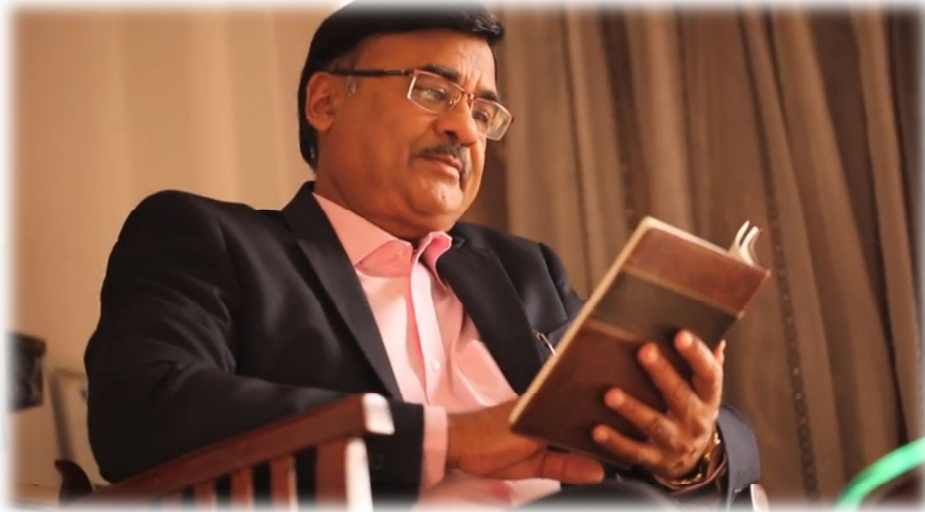




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on Jan 19, 2019

Domestic bourses end up by over one percent; all eyes now on upcoming Interim Budget and ongoing Q3FY19 earnings season..

For the week, S&P BSE Sensex reclaimed 36,000 and closed up by 1.05 percent while Nifty50 closed at 10,907 level registering weekly gains of 1.04 percent. The broader market underperformed with Smallcap index falling by 0.6 percent while the BSE Midcap index slipped a little over 1 percent in the same period. Sectorally, barring IT, all other indices ended in the red with the pharma stocks bleeding the most. The Nifty Pharma pack lost nearly 3 per cent to end the day at 8,690. The broader markets, witnessed higher 52 week lows as compared to higher 52 week highs signaling caution ahead of interim budget.

Derivatives segment would remain affected from Monday owing to higher margin norms. In what may impact volumes and reduce leverage in the market, brokers will collect much higher margins from clients trading in the derivatives segment from Monday. Over the past few months, the Securities and Exchange Board of India (Sebi) has raised the margin requirement thrice, effectively increasing it by 40-50 per cent. Options writers, especially those writing out of the money options, and arbitrageurs, who attempt to profit from price inefficiencies, will be hit the most.

In major key developments, the Central government has removed two Punjab National Bank (PNB) Executive Directors -- Sanjiv Sharan and K.Veera Brahmaji Rao - for the lapses in the Rs. 13,500 crore fraud allegedly perpetrated by absconding diamantaire Nirav Modi. The PNB has intimated the action to the stock exchanges on Friday. "We welcome the Central government's action to dismiss the two Executive Directors. The scam of such



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proportions could not have happened without the knowledge of the top management," C.H. Venkatachalam, General Secretary, All India Bank Employees' Association (AIBEA), told IANS. "Perhaps for the first time, the Centra has removed the Executive Directors of a nationalised bank under the Nationalised Banks (Management and Miscellaneous Provision) Scheme, 1970. All these days it was said the top management of government-owned banks - Chairman, Managing Director, Executive Directors - are governed only by the contract of appointment.

In an another major development, Reliance Industries Ltd. (RIL) CMD - Mukesh Ambani on Friday at the inauguration of the three-day Vibrant Gujarat summit committed to investing Rs. 3 trillion in various projects in the next 10 years in Gujarat that may range from energy and petrochemical to new technology and digital business. Reliance Industries (RIL) is ready to unleash its e-commerce dark horse to take on the likes of Amazon India and Walmart-owned Flipkart. RIL CMD Mukesh Ambani on Friday said Reliance Retail and Reliance Jio Infocomm were set to jointly launch their new e-commerce platform in the country. "Jio and Reliance Retail will launch a unique new commerce platform to empower and enrich our 1.2 million small retailers and shopkeepers in Gujarat, which are part of the over 30-million (retail) community in India," he said. Ambani added the e-commerce business would empower 1.2 million shopkeepers in Gujarat. It was during RIL's 41st annual general meeting last year that Ambani had given a gist of his e-commerce plans. Ambani said, while Jio's network is now fully 5G ready, the telecom arm and the retail division will launch a new commerce platform to connect small retailers and shopkeepers with customers. The twin oil refineries at Jamnagar will produce more value-added products like petrochemicals and less of fuel as the world moves towards electric vehicles. In the past, Reliance Industries has also invested billions of dollars in the rollout of telecom venture, Jio. We had recommended Reliance Industries at Rs. 1,074 with a target price of Rs. 1,342 as one of Samvat 2075 pick on Nov.05,2018. The recent CMD commentary further instills confidence and conviction on Reliance story.

Global markets

Asian stocks advanced on Friday as a report of progress in U.S.-China trade talks stirred hopes of a deal in their tariff dispute and supported risk sentiment. Chinese Vice Premier Liu He will visit the United States on Jan. 30 and 31 for the latest round of trade talks aimed at resolving the dispute between the world's two largest economies. In December, Washington and Beijing agreed to a 90-day truce in a trade war that has disrupted the flow of hundreds of billions of dollars of goods. Indicators released recently have shown signs that the Chinese economy is losing some momentum.

British Prime Minister Theresa May's Brexit deal suffered a heavy defeat in parliament this week but she survived a subsequent vote of confidence, removing some political uncertainty for now.



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U.S. crude oil futures extended gains after rising the previous day on a bounce in Wall Street and news that OPEC sharply curtailed production in December. U.S. crude futures added 1 percent to \$52.61 per barrel. The contracts have gained more than 2 percent this week.

Brent crude was up 0.8 percent at \$61.67 per barrel and on track to gain 2 percent on the week.

Ajcon's view

We believe all eyes would be on ongoing Q3FY19 earnings season and on the Interim budget of the current government to be presented before the general elections. We do expect volatility as the Central Government may resort to populist measures to gain back popularity amongst the rural community especially farmers after its loss in key states like Madhya Pradesh, Rajasthan and Chattisgarh which street participants may not prefer. With crucial assembly elections (which were considered as semi - finals to Lok Sabha elections in May 2019) results out, the question now comes to our mind as to which party manages to win the General elections. It may be difficult for both major parties BJP and Congress to get majority. Street participants would not prefer a coalition government as decision making and execution becomes difficult in coalition regime for obvious reasons. The recent rally in silver imports makes us believe that industrial activity is picking up which is good for equity markets. Silver import has seen a sharp uptick in 2018. Import has seen a jump following higher consumer demand. Even import bill for silver has jumped almost 30 per cent to \$3.934 billion. Average international silver price in 2018 was down by 8 per cent to \$15.7 per ounce.

Globally, all eyes would be on ongoing tussle between US and China and cues from the upcoming meeting between the two economic giants. The recent slowdown in China's economic growth is also a cause of concern for global investors. Clarity on Brexit would also act as a key trigger for investor interest. Global investors would keenly watch the developments of the Davos summit - World Economic Forum's annual meeting at Switzerland next week and International Monetary Fund's new growth forecast to be released next week. The Bank of Japan and European Central Bank also have meetings next week at which policy makers may recast their outlooks.

We believe the Indian equity markets are in a structural bull run as the benefits of implementation of GST, Insolvency and Bankruptcy code, digitization, thrust on Make in India and improving relations with key foreign countries would augur well for the economy in the long run. The strategy at present should be to invest in phased manner only in companies which are not connected to any political party, have a robust business model, strong earnings and cashflow visibility, low debt and backed by quality management especially on the corporate governance front. Considering the above factors, investors can have a stock specific approach in midcaps and smallcaps space as there are many companies which are trading at a discount of 50-70% to their peak price in early 2018. On a safer side, we would suggest investors to have a look at Consumption stocks, top quality NBFCs having strong parentage, Auto and auto ancillary stocks, PSU banks even after recent rally - trading at depressed valuations (looking better after the cleanup of NPA mess, progress made under the NPA resolution framework under IBC, faster resolutions under



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NCLT and proposed recapitalization), IT sector and Private Insurance Companies at the current moment.

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