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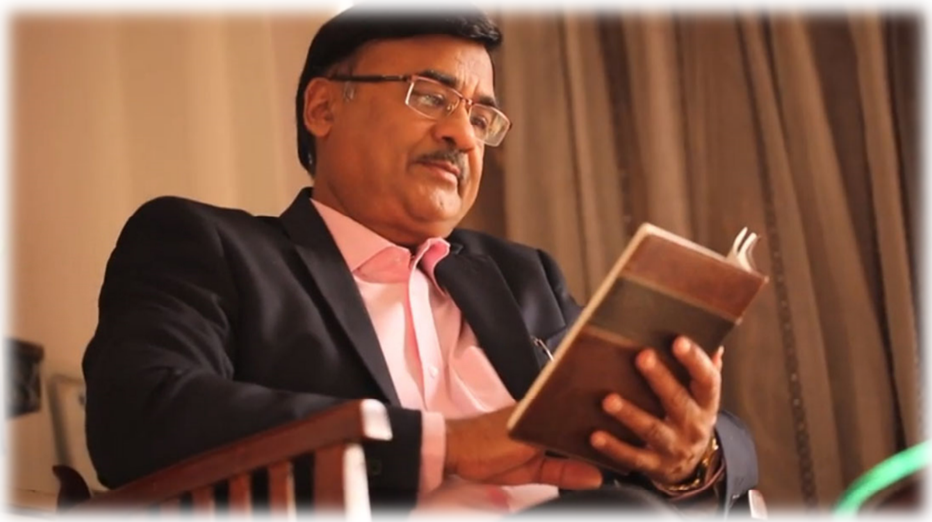

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on November 30, 2019

Q2FY20 GDP data lowest in 6 years - FPIs continue their buying spree; all eyes would be on Monetary policy..

During the week, the benchmark indices were up by over 1%. Sensex rose 437.12 points (1.07 percent) to end at 40,793.81, while the Nifty added 141.6 points (1.18 percent) to end at 12,056. The Sensex and Nifty index touched a fresh record high of 41,163.79 and 12,158.80 respectively on November 28.

India's Q2FY20 GDP growth stood at 4.5 percent (lowest since Q4FY12-13) versus 5 percent quarter-on-quarters (QoQ) and versus 7 percent year-on-year (YoY). Gross Value Added (GVA), which is GDP minus taxes, a more realistic gauge to measure economic activity, grew 4.3 percent in July-September 2019, compared to 4.9 percent in the previous quarter and 6.9 percent in the second quarter of the previous year. The manufacturing sector, which accounts for about 75 percent of the country's factory output, contracted 1 percent in July-September 2019, signaling that consumers are reluctant on discretionary spent. Private final consumption expenditure (PFCE), a proxy to measure household spending, grew 5.06 percent (at constant) prices in July-September 2019 compared to 9.8 percent in the same quarter last year.

According to Society of Indian Automobile Manufacturers (SIAM) data, passenger vehicle sales declined 23.7 percent during July-September.

India's fiscal deficit for the month of October stood at Rs. 68,900 crore against Rs. 53,900 crore, while revenue deficit was at Rs. 61,400 crore versus Rs. 40,800 crore, YoY.

Foreign Institutional Investors (FIIs) remained net buyers the past week as they bought equities worth Rs. 4,798.18 crore, while Domestic Institutional Investors (DIIs) sold equities worth of Rs. 3,218.01 crore.

Investors are awaiting a meeting of OPEC and its allies next week that may result in the extension of an output cut agreement to support the market.

Indian rupee

On a weekly basis, the rupee ended marginally lower at 71.74 on November 29 versus the November 22 closing of 71.71.

Global markets

Asian shares slipped on Friday, knocking a global stock index off its path to hitting an all-time peak as investors turned cautious, fearing a new US law backing Hong Kong protesters could torpedo efforts to end the US-China trade war. MSCI's broadest index of Asia-Pacific shares outside Japan fell more than 1 per cent. Hong Kong led the dip with losses of 2 per cent. South Korean shares lost 1.4 per cent and Japan's Nikkei eased 0.5 per cent. China's blue-chips gave up 1.3 per cent a day before the country reports manufacturing activity.

Ajcon's view

There is limited opportunity for investors in the large cap space as there has been significant rally in Sensex and Nifty in last 2 months with both indices hitting record highs during last week; however, midcaps and smallcaps are still way behind their previous peaks. Hence, we believe, it would be prudent for investors to look out for quality picks in the midcaps and smallcaps space which have a robust business model, quality growth, consistent earnings although may be affected due to economic downturn but proved its mettle over the years, and cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

With Q2FY20 earnings season over, we believe now eyes would be on monetary policy meetings on Dec. 05, 2019 amidst poor GDP data and increased inflation. Apart from this event, there would be lack of triggers for equities and all eyes would be on global cues especially on the newsflow regarding US – China trade tensions, crude oil prices and rupee movement against the dollar.

Going ahead we believe that domestic bourses would remain rangebound. The Government has already taken big steps to improve deteriorating sentiments and tackle economy slowdown. No doubt that the steps taken in last 3 months would help in improving economic activity but we still believe some more steps are needed from the Government to increase the purchasing power of consumers which can result in revival of demand. In addition, to revive investment led spending, corporate advances growth should happen in PSU banks.

Long term investors with an horizon of more than 2 years should look at building long term portfolio in companies which have weathered the storm in different market cycles, suited to changing dynamics of the economy as business models are changing in new age economy and delivered decent financial performance.

Dr. Ashok Ajmera, FCA

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