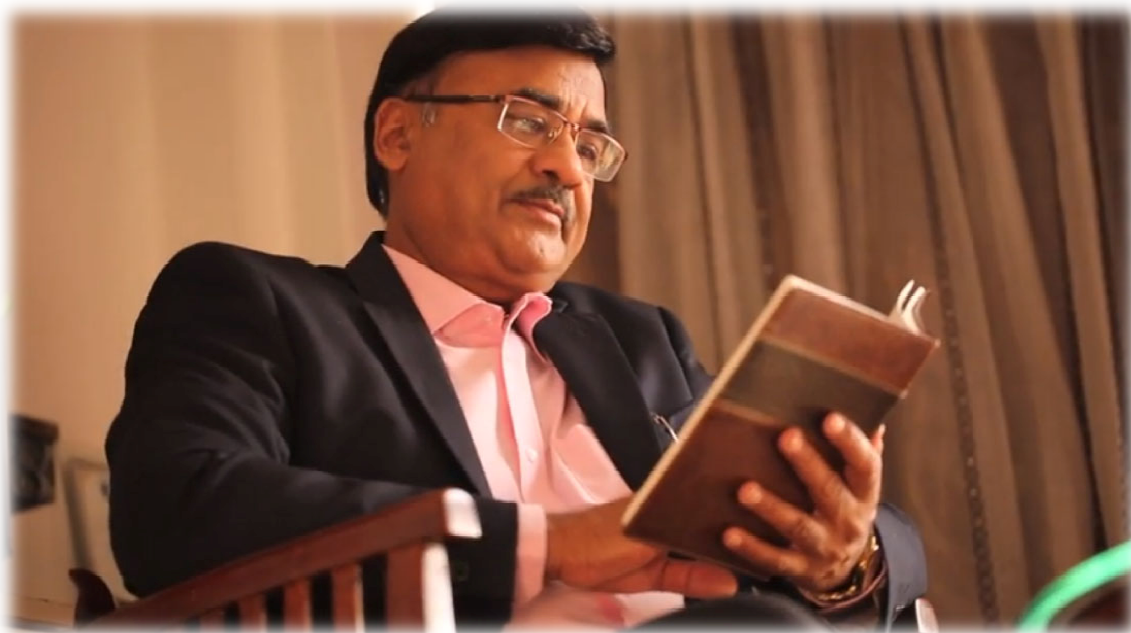




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on Nov. 18, 2017

Benchmark indices bounceback sharply after ratings upgrade by Moody's; Realty stocks rally...

Nifty successfully overcame negative sentiments after touching a low 10,100 mark due to upgrade by Moody's. But this pullback will prove to be shortlived, as fundamentals have not changed overnight. The Nifty closed the week at 10,283, down 0.37 per cent. However, going forward, inflation could prove to be a show stopper, if October WPI data are of any indication. The WPI-based inflation for October was at a six-month high at 3.59 per cent. The continuous rise in inflation since last four months will dash the hope of rate cut and will be a cause of concern.

The primary market continues to show sign of fatigue, as the IPOs listed during the week continued to trade below issue price. Khadim India and New India Assurance were down 7-15 per cent from their issue prices, respectively, while HDFC Life managed to see strong listing based on its strong management pedigree and right pricing.

Banking sector lenders -- IndusInd Bank and Yes Bank -- will make an entry in the BSE's benchmark index from December 18. Drug makers -- Cipla and Lupin -- will be dropped



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from the index. The changes are announced by Asia Index, a joint venture between S&P Dow Jones Indices LLC and BSE. The move is a part of Asia Index's semi-annual reconstitution results. "Effective at the open of Monday, December 18, 2017, changes will be made," the index provider noted. The BSE-100, an index of the top 100 listed companies in the country will see Federal Bank, Grasim Industries, Vakrangee Ltd and Bajaj Holdings & Investment coming in.

However, United Breweries, Steel Authority of India Ltd (SAIL), Canara Bank and Reliance Infrastructure will move out from the BSE-100 index.

Besides, changes have been announced in Sensex 50, Sensex Next 50, BSE 200 and BSE 500, among others. Grasim Industries, Hindalco Industries, Hindustan Petroleum Corp Ltd (HPCL) will join the Sensex 50 index, replacing Ambuja Cements, Aurobindo Pharma and Bosch.

Sectors and stocks

Realty stocks rallied up to 10 percent intraday on Friday after the government on Thursday approved the enhancement of the carpet area of houses for the middle income group (MIG) category under the Pradhan Mantri Awas Yojana-Urban (PMAY-U). The upside was also partly led by positive market conditions after Moody's upgraded India's sovereign rating to Baa2 and changed the outlook to stable from positive.

The Nifty Realty Index gained as much as 4.7 percent today, backed by HDIL, DLF, Indiabulls Real Estate, Unitech, Prestige Estates, Godrej Properties, Brigade Enterprises and Sobha.

In fact, it was the biggest gainer among sectoral indices.

Global markets

US dollar was lower on Friday along with Wall Street stocks as investors pulled back from technology stocks and were skeptical President Donald Trump's Republican party would succeed in its efforts at overhauling US tax law.

US Treasury yields edged lower, in line with declines in US stock indexes and German 10-year bond yields, as risk appetite faded. The yield curve continued to flatten after strong US housing starts data for October.

Stocks and the dollar saw brief boosts on Thursday from the US House of Representatives' vote in favor of its version of a tax overhaul bill that would cut corporate taxes.



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Ajcon's view

With the earnings season coming to an end, the market will keenly look for global events for further direction. It remains to be seen whether rising crude oil prices have paused or the bigger uptick is coming. Metals have entered the correction zone. They can still move higher. All these will impact headline inflation, not only in India but across the world, which will lead to an increase in interest rates.

We believe Q2FY18 has been better than our expectations. GST-related sectors have performed fine. We believe the market could be pricing in the huge shift seen from unbranded to branded segment post GST rollout in the consumer discretionary space.

Among PSU banks, while the recap is a sentimental positive, issues on growth of the banks, among others, have to be addressed first.

Going ahead, two states are heading for polls and any adverse outcome for the ruling BJP could also mean some pullback for markets. Himachal Pradesh witnessed a record turnout. It has 68 assembly segments and currently, BJP has 29 MLAs, Congress 36 and three Independents. Now, all eyes are on Gujarat.

The Gujarat Assembly elections will be held in two phases on December 9 and 14, respectively, the Election Commission (EC) announced earlier this month. 89 Assembly constituencies will vote in phase 1, while 93 will vote in phase 2. Counting of votes will take place on December 18. We believe that if BJP wins fewer seats in Gujarat than last time things could get shaky for D-Street.

We are bullish on Pharma stocks post clearance of plants of certain pharma Companies. In addition, we expect pricing pressure on pharma companies easing in the next two quarters. According to us pharma stocks are the best bet from a little long term perspective.

In case of IT sector, we remain positive and see value in these stocks. US corporate spending will accelerate going forward and this is a tailwind for the sector.

We recommend investors to be stock specific and consider companies with good earnings visibility at a decent valuation.

Dr. Ashok Ajmera, FCA



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