



Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on May 20, 2017

FMCG sector leads the week; advise focus on value picking at current market levels..

Nifty and Sensex were marginally up by 0.29% and 0.92% respectively. In terms of sectors Metals, FMCG and IT were the winners of the week. Media, Textiles and Construction were the notable losers this week. FMCG leads the week gaining 1.6% post GST rates while Media sector was underperformer losing 1%.

Historical data shows that global volatility indices are correlated. Lately the CBOE VIX has seen spurt from sub 10 levels to 14.6 levels while India VIX has not reacted to the same extent till now. The options premiums at this point in time are at the lowest levels in history mainly due to implied volatilities hitting all time low mark. Things to watch for as triggers in the short term are Development in Brazil Crisis, FBI investigation on Trump and North Korea Crisis. Any negative surprise could lead to spurt in volatility.

India's exports grew by 19.77 percent to USD 24.63 billion in April on account of robust performance by sectors like petroleum, textiles, engineering goods as well as gems and jewellery. Imports too jumped 49.07 per cent to USD 37.88 billion last month from USD 25.4 billion in April 2016, according to the data released by the commerce ministry. A huge



jump in gold imports pushed up the trade deficit to USD 13.24 billion during the month under review from USD 4.84 billion a year ago. The imports of the precious metal rose 3-fold to USD 3.85 billion in April compared to USD 1.23 billion in the same month last year.

GST Council Meet

At the end of the 2-day GST council meet, sources said that most of the services would be taxed at the rate of 18% under the GST regime. 81% of the goods are likely to be taxed at 18% or below has come as a comfort and markets might take it in a positive note. The fact that several daily use items such as milk, fruits, vegetables and cereals & food grains will be exempted from all tax makes us believe that in fact inflation may not be an issue post implementation of GST

Besides, there will be no new addition of services in the exempted list under GST. The council has also agreed on 18% rate for telecom & financial service. The Council has still not decided the tax for beedi, cigarette, gold while transportation to fall under 5% bracket. GST rate for branded garments at 18% and all hotel services with tariff over Rs 5,000 to be taxed at 28%.

The Goods and Services Tax (GST) Council on Thursday fixed tax rates on 1,211 items, most of which will likely become cheaper while for some it might be negative news where the effective GST rate is higher than the effective tax rate.

The GST trend does not show any major deviation from the current effective tax rates for most products except in the case of a few consumer products. Companies catering to products in automobiles, cement, beverages, food items, personal care items as well as building material.

Most primary food articles like cereals, meat, fish, and vegetables have been kept in 0-5 percent tax bracket as expected. It would be best to assume that most rate changes will be passed on to consumers. The council will decide on the balance rates and the GST rate for services on May 20.

FMCG companies stand out as key beneficiaries and stocks like Colgate, HUL as well as Pidilite Industries stand out as key beneficiaries.

Most personal care products will be taxed at 28 percent except hair oil, soaps and toothpaste, whose tax rate is 18 percent. Among food and beverage items, aerated water, chocolates, chewing gum, malted food drinks will be taxed at 28 percent, cakes, cornflakes, jams at 18 percent while the rest will be between 5%-12%.

The next meeting of the GST Council will take place on June 3.

Global Markets

Global markets have shown an uptick in volatility in last couple of days. Firstly, US markets witnessed largest single day decline of last 8 months on 17th May followed by Brazil's Bovespa Index, which witnessed a 9% decline yesterday after Brazilian President Michel Temer's involvement was found in authorising bribe payments in silencing a jailed former



party ally. Rise in geopolitical tensions to bring volatility in markets. Indian equities are witnessing lowest level of volatility of last 10 years.

US stocks rose but closed below their session highs on renewed concerns about Donald Trump's presidency, after two new reports related to a federal investigation into possible coordination between Russia and Trump's election campaign.

Trump left on Friday for his first foreign trip since taking office, which the White House hopes will shift the focus away from domestic controversies.

While Wall Street ended higher it failed to fully regain all the ground lost in Wednesday's big selloff after reports earlier this week that Trump tried to interfere in the federal investigation. Investors have been closely following events in Washington as they worry whether Trump will be able to fulfil campaign promises for fiscal stimulus and tax reform. Many investors saw the policy promises as a key reason for the post-election rally.

The Dow Jones Industrial Average was up 141.82 points, or 0.69 percent, to 20,804.84, the S&P 500 had gained 16.01 points, or 0.68 percent, to 2,381.73 and the Nasdaq Composite had added 28.57 points, or 0.47 percent, to 6,083.70. But all three indexes clocked losses for the week with the Dow and S&P falling 0.4 percent and Nasdaq off 0.6 percent. All of the 11 major S&P industry sectors ended the day higher.

The S&P 500 posted 26 new 52-week highs and 8 new lows; the Nasdaq Composite recorded 81 new highs and 58 new lows. About 7.03 billion shares changed hands on US exchanges in line with the average volume for the last 20 sessions.

Ajcon's view

At current levels, Nifty is valued at a P/E of 22x on trailing twelve months earnings which we believe is on a higher side. Nifty has been on a upmove since seen rally in last 4-5 weeks. We believe this was mainly due to liquidity infused by DIIs. Going forward, sector specific buying after GST council finalizing GST rates. A correction at this point would make markets healthier to invest in. We were happy to see PSUs banks like SBI, Bank of Baroda and PNB outperforming in Q4 results and beating our expectations. As recommended earlier, we continue to remain bullish on PSU banks going forward and expect the PSU banking sector to get rerated soon.

The markets will take their cue from the following economic updates. From 15th May 2017

- **US** - Manufacturing PMI (May), Services PMI (May), New Home Sales (Apr), House Price Index (YoY) (Mar), House Price Index (Mar), Manufacturing PMI (May), Services PMI (May), GDP Price Index (QoQ) (Q1), Real Consumer Spending (Q1),
- **INDIA** - M3 Money Supply, Bank Loan Growth, Deposit Growth,

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