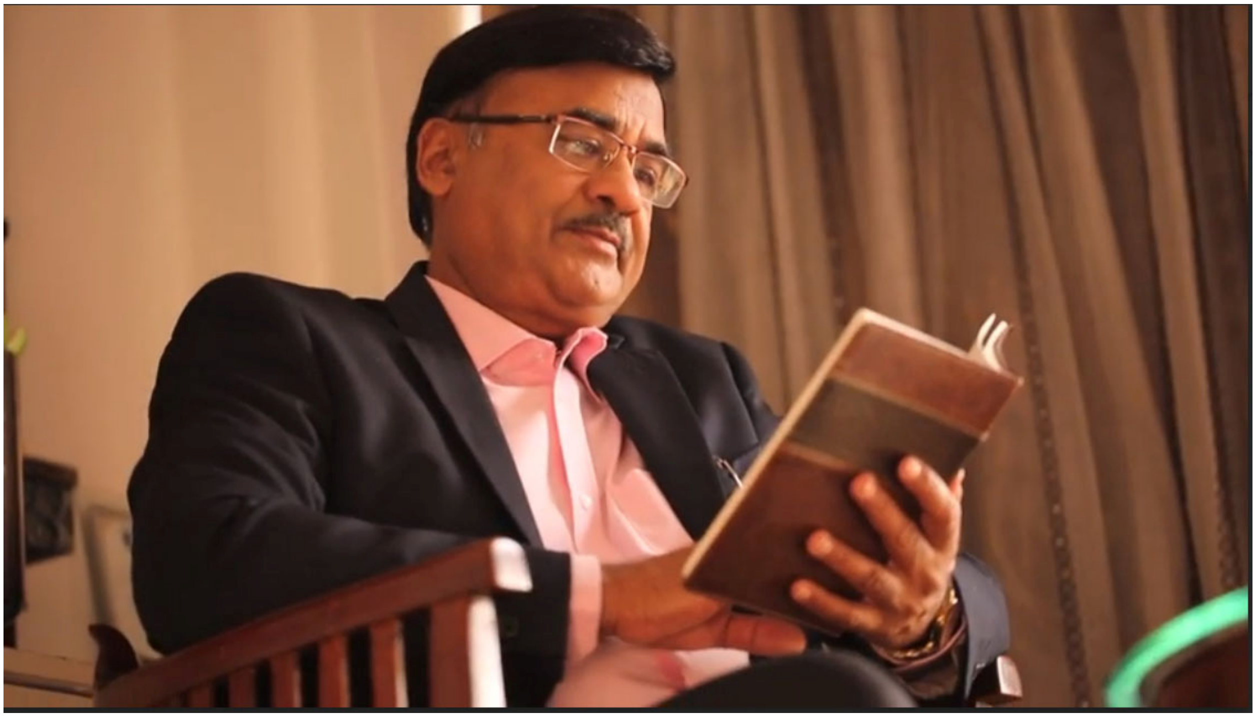

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on July 15, 2017

Bulls take charge; Q1FY18 earnings and monsoon crucial for continuation of this rally..

The broader NSE Nifty retreated after breaching the 9,900-mark for the first time ever. On a weekly basis, the Sensex rose 660.12 points, or 2.1 per cent, and the Nifty 220.55 points, or 2.3 per cent, mainly driven by the successful roll-out of the goods and services tax and consumer price inflation and wholesale price inflation staying soft, giving the Reserve Bank more headroom to snip policy rate at its meeting next month.

This is the biggest weekly gain for the indices since mid-March. The Sensex closed at 32,020.75, down 16.63 points, or 0.05 per cent. The index scaled 32,109.75 on Friday to breach its previous all-time intra-day high of 32,091.52 hit on Thursday.

The Nifty index finished lower by 5.35 points, or 0.05 per cent, to close at 9,886.35. Intra-day, it went past the 9,900-mark to hit a fresh lifetime high of 9,913.30, crossing its previous record 9,897.25 on Thursday.

The Nifty has rallied 225.90 points, or 2.33 per cent, in four straight days of gains.

Nervousness played on investors' minds following muted earnings by the country's largest software exporter Tata Consultancy Services as they took profit in recent blue-chip gainers.

Key developments

Infosys vs TCS Q1FY18 performance – Infosys outperforms expectations

Riding on the back of improved efficiency and earnings from new businesses, software exporter Infosys on Friday saw its first quarter profit grow 1.4 per cent to Rs 3,483 crore and revenue by 1.8 per cent to Rs 17,078 crore, prompting the company to raise its dollar guidance for the year ahead.

The Bengaluru-based information technology major forecast dollar revenue to grow 7.1-9.1 per cent, up from April's guidance of 6.5-8.5 per cent, but still faces headwinds due to uncertainty in large deals from customers in the US and Europe.

The result beat Street estimates, lifting the stock by 3 per cent intra-day on the BSE, but closed 0.44 per cent down at Rs 972.05.

"We grew in new areas much faster than the older areas, which is exactly how we want this to be," said Vishal Sikka, the company's chief executive officer.

"The important thing to keep in mind there is that with advances in automation technology, more and more of the commoditising jobs are going away and we have to move forward towards next generation jobs, new areas of opportunity and building new skills," Sikka said.

He claimed that the earnings from the firm's new services — those which he introduced over the past two years, including platforms such as Nia, Skava, Edge, and Panaya — accounted for nearly 10 per cent of the company's revenue in the first quarter.

"The new services and new software together is approximately 10 per cent of our revenue this quarter. If you look at last two years or so, this has accounted for almost half of the $2 billion we have added. This is why the strong growth," said Sikka.

Infosys had posted a profit of Rs 3,436 crore and revenue of Rs 16,782 crore in the first quarter of the previous financial year. Compared to the fourth quarter of fiscal 2017, the company saw profit dip 3.3 per cent, while revenue was 0.2 per cent down as business from banking and financial services, retail and life sciences and manufacturing clients, which generates revenue of three out of four dollars, remained flat.

Employee utilisation — a metric to indicate the people billed on customers — stood at 84 per cent, the highest so far. Employee count reduced by 1,811 people to 198,553, boosting per employee productivity at $51,900. Infosys' operating margin remained flat at 24.1 per cent compared with the year-ago period.

Infosys has been working on the execution part and is getting closer to Tata Consultancy Services (TCS) in terms of utilization. Infosys' performance was better compared to rival TCS, which reported muted numbers on the back of slower growth from clients in banking and financial services and retail. TCS's first quarter profit dropped 5.8 per cent to Rs 5,945 crore and margins got hit due to currency fluctuations and impact of wage hikes in the quarter.

Revenue grew 1 per cent to Rs 29,584 crore in the quarter to June, on the back of volume growth of 3.5 per cent, the highest in four quarters. TCS had reported profit of Rs 6,318 crore on revenue of Rs 29,305 crore in the April to June period last year

We attribute TCS muted growth to the settling down of its chief executive, Rajesh Gopinathan, and the senior management. TCS had reported 18.9 per cent business from digital services, but four out of five dollars it generates continue to be from the traditional commoditised IT services, which earn lower profits.

"Between the two, we prefer Infosys. Now they have started disclosing the digital and new services businesses, that become an important metric. The North American growth of TCS and Infosys is identical — 1.7 per cent CC growth. In case of Infosys, there is no bad news, they did not cut the guidance.

TCS, Infosys and other IT services companies are facing their worst crisis in a decade as technology shifts towards cloud, automation and also due to growing protectionism in their main markets puts pressure on business.

Sikka has got Ravi Venkatesan, a former Microsoft India chairman and now the Infosys co-chairman, to guide him. The company has also relocated Chief Financial Officer M D Ranganath to the United States to help drive more business.

"I am encouraged by the uptick in revenue per employee for six quarters in a row, and the strong momentum in our new high growth services and software, as we accelerate our focus on innovation-led growth," said Sikka.

BSE to add 48 companies to Group A from July 17

BSE will shift securities of 48 companies including IDFC Bank and InterGlobe Aviation to Group 'A' category, the most tracked segment on the bourse's platform, from July 17.

Aditya Birla Fashion and Retail, Crompton Greaves Consumer, Dr. Lal Pathlabs, Future Retail, GHCL, L&T Technology Services, Lakshmi Vilas Bank, Mahanagar Gas, RBL Bank, Tata Motors Ltd (DVR) and Welspun India are also listed for addition to Group 'A'. These 48 companies would be moved from Group 'B' to Group 'A' and the decision is based on their performance in areas such as compliance, corporate governance and responsible investment. BSE reviews Group 'A' companies every six months.

"The current review of Group 'A' companies has been carried out based on March 2017 numbers," BSE said in a statement.

Group 'A' is the most tracked segment consisting of about 300 scrips, while Group 'B' consists of more than 3,000 stocks.

The classification is based on several factors such as market capitalisation, trading volumes and numbers, track records, profits, dividends, shareholding patterns and some qualitative aspects.

Sun shines for NSE after new leader to take over from Monday..

Vikram Limaye aged 50 would join the National Stock Exchange (NSE) as its managing director (MD) & chief executive officer (CEO) from July 17, the exchange said in a statement.

The Supreme Court on Friday relieved Limaye of his responsibilities at the Committee of Administrators (COA), formed to oversee the Board of Control for Cricket in India (BCCI).

NSE, the country's largest stock exchange, has been without a full-time chief for more than seven months. Limaye's predecessor Chitra Ramkrishna, whose tenure was to end in 2018, had quit unexpectedly on December 2, 2016, amid the "preferential access" controversy.

In the interim, J Ravichandran, who used to serve as group president, has been the interim MD and CEO.

Limaye, was previously the MD and CEO of IDFC, an infrastructure financing firm. He is joining at a time when the exchange is readying to launch an initial public offer (IPO) worth around Rs 10,000 crore to provide an exit to some of the existing investors.

NSE is also looking to settle the allegations of unfair access to certain brokers at its co-location facility with the market regulator Securities and Exchange Board of India (Sebi). On Monday, the exchange saw a massive technical glitch that halted trading for more than three hours. Both Sebi and the Ministry of Finance are probing the incident. NSE is expected to submit a detailed report of the incident to the market regulator soon.

Global Markets

Globally, most Asian stocks ended higher and European shares were mixed in their early deals following another record closing in the US markets on Thursday. US Federal Reserve chief Janet Yellen had indicated a softer approach to raising interest rates in her Congress testimony.

The Dow and S&P 500 hit record highs on Friday after weak economic data dulled prospects of more interest rate hikes this year.

A decline in financial shares limited the day's gains, even though JPMorgan Chase & Co and other big banks delivered quarterly results that beat Wall Street expectations.

Data showed consumer prices were unchanged in June and retail sales fell for a second straight month, pointing to tame inflation and subdued expectations of strong economic growth in the second quarter.
Earlier this week, the market rose after Federal Reserve Chair Janet Yellen said future rate hikes could be gradual in the face of persistently low inflation.

The S&P financials, which benefit from a rising rate environment, fell 0.5 percent, and the group was the only one of the S&P 500 sectors down on the day.

The Dow Jones Industrial Average was up 84.65 points, or 0.39 percent, to 21,637.74, the S&P 500 gained 11.44 points, or 0.47 percent, to 2,459.27, and the Nasdaq Composite added 38.03 points, or 0.61 percent, to 6,312.47.

The CBOE Volatility index closed at its lowest since December 1993.

For the week, the Dow was up 1.1 percent, the S&P 500 was up 1.4 percent, and the Nasdaq rose 2.6 percent.

The Nasdaq's percentage gain for the week was its biggest so far this year. The small-cap Russell 2000 index, which has underperformed the S&P 500 this year, also ended at a record high.

Ajcon's view

We believe Q1 quarterly earnings growth may not be as per expectations and may not support the current premium valuation. However, investors may give more weightage to the prevailing positive macros which will help maintain a positive vibe in the market

Nifty has been on a upmove since beginning of this year. We believe this was mainly due to liquidity infused by DIIs. There is strong positive sentiment among investors due to ample liquidity, with stable inflow from both domestic and foreign institutions. Institutional buying is expected to continue, as domestic mutual funds still get impressive flow.

We expect a recovery in corporate earnings to be the key headwind in the medium to long term. Although the markets have scaled new heights in the past two years, growth in earnings per share (EPS) has been flattish and expect earnings to improve in H2FY18. We believe at current levels it is risky to enter expensive midcaps and smallcaps and rather advise profit booking. A sharp correction in the market is not ruled out after a short term further rally. 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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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

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

ASHOK KUMAR AJMERA

Digitally signed by ASHOK KUMAR AJMERA
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