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**A K Prabhakar, Sr. Vice President – Equity Research, AnandRathi Financial Services in an Exclusive chat with the **Business Standard****

### **Global markets might enter a bearish phase**

**A K Prabhakar**, senior vice-president (equity research), Anand Rathi, in an interview with *Puneet Wadhwa*, says considering the current macroeconomic conditions and the way global equity markets are shaping up, rating downgrades would have long-term implications for equity markets and India Inc. Edited excerpts:

**The US Federal Reserve has maintained rates and disappointed investors with only a limited expansion of the monetary stimulus. Are you in favour of a third round of quantitative easing (QE3)?**  
I don't think QE3 would help in a big way, as these liquidity-driven rallies are doing more bad than good to most global economies.

**The latest HSBC Flash PMI (Purchasing Managers' Index) for China fell to 48.1 in June from 48.4 in May, the lowest since March 2009. How do you interpret this?**

There are clear signs the Chinese economy is slowing and this data is good proof of that. The weak PMI for China and the US Fed not announcing QE3 would be negative for metal stocks and commodities.

**The Nifty has been trading in a broad range of 4,800–5,200. Do you think this scenario would last till the general elections, unless there is any major negative news on the global front?**

I feel this range-bound movement would be short-lived, and the markets would correct soon. The Nifty may slip to 4,500 levels in the next two-three months. Technical charts indicate both the Sensex and the Nifty have formed a 'Dead Cross' pattern.

Over the next few days, it is quite possible global indices like the Dow Jones Industrial Average (DJIA), the Hang Seng and the S&P 500 would also see a Dead Cross formation and enter a bearish phase. In the Indian context, I expect stock-specific action. At their current levels, stocks such as Aditya Birla Nuvo, NBCC and Tata Coffee could be good bets in an overall bearish set-up for the markets.

**Of late, there has been a spate of downgrades with respect to India and select companies from global credit rating agencies. How important are these ratings?**

The downgrades, I feel, would have long-term implications for the markets. However, in the short term, an eye would be kept on corporate earnings, which could provide a trigger. Ratings should be taken seriously, as these are indicative of the headwinds India and select companies face. These are important indicators on how fund flows would pan out. Given these downgrades, fund-raising could become difficult and costly for India Inc.

**How should one play cement stocks after the Competition Commission of India's (CCI) observations? Considering the recent news flow, what do you think about banking and auto counters?**

The CCI has levied a penalty of Rs 6,300 crore on 11 cement companies, including ACC, Ambuja Cements, India Cements and UltraTech, for forming a cartel. Reports suggest the penalty accounts for 50 per cent of their FY10 and FY11 profits and has to be deposited within 90 days.

This is way ahead of our estimate of about Rs 5,000 crore for 14 companies. It would exert pressure on the stocks. The sector is already grappling with excess capacity. With this order, it may lose pricing power, too. Cement stocks have been outperformers and had run ahead of their fundamentals. For now, one should avoid taking fresh positions in these counters.

In the automobile pack, Tata Motors and Maruti Suzuki might correct 8-10 per cent from their current levels. A cut in production of petrol cars would be a clear negative.

**Fast-moving consumer goods and healthcare stocks have gained considerable ground in the past few sessions. Do you think these, too, have run up ahead of their fundamentals?**

On the contrary, I think FMCG and pharma sector stocks have more steam left. Hindustan Unilever can scale up to Rs 500, while Emami can touch Rs 640 levels. In our opinion, Zydus Wellness can climb to Rs 650 levels. Glenmark Pharma, IPCA Laboratories and Cadila Healthcare are other stocks in the pharma pack that have some value left.

**Should one adopt a cautious stance as far as Indian metal stocks are concerned?**

On the contrary, the government has indicated speeding up policies pertaining to the mining sector, which would be positive for MOIL, NMDC and Nalco.

**What is your outlook on the rupee?**

The rupee has touched a new low of 56.55. Going ahead, we expect it to hit 56-58.5.

**Given the inflation and growth projections, how much would the Reserve Bank of India be able to tinker with rates in the July review?**

Our view is the central bank may cut the cash reserve ratio by 50 basis points in the July meet.