



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on May 01, 2021

Ongoing second wave of COVID-19 crisis and Q4FY21 earnings season to drive market direction; remain stock specific..

- 1) Indian bourses ended the week in green amidst significant surge of COVID-19 cases in the second wave and on Saturday crossed 4,00,000 lakhs cases in a single day which was not heard earlier. With this, India became the first country in the world to register over 400,000 infections in a single day. The rally during the week can be attributed to global medical support provided to the country to fight the COVID-19 crisis and good show by majority of companies in Q4FY21 earnings season till date.
- 2) On a weekly basis, S&P BSE Sensex was up by 903.91 points or 1.88 percent to end at level of 48,782.36. On the other hand, Nifty50 was up by 289.75 points or 2 percent for the week ended April 30, 2021. On a monthly basis, Sensex fell 1.5 percent while Nifty50 witnessed a fall 0.4 percent.
- 3) Metal stocks hogged the limelight during the week. Nifty Metal Index was up by whopping 9 percent with Tata Steel, Hindustan Copper, Steel Authority of India, National Aluminium Company, JSW Steel, Vedanta and NMDC trading up in the range of 11-28 percent.
- 4) Smallcaps and midcaps were buoyant during the week. BSE Small-cap index was up by over 3 percent. Smallcap companies especially in segments like Speciality Chemicals, Pharma and sugar which would benefit from ongoing COVID-19 crisis were significantly up. Alkyl Amines, Balaji Amines, Morepen Laboratories and Uttam Sugar Mills were up by 30-52 percent. On the other hand, BSE Mid-cap Index was up by 1.8 percent for the week.
- 5) In the week gone by, foreign institutional investors (FIIs) sold equities worth Rs. 4,456.32 crore, while domestic institutional investors (DIIs) bought equities worth Rs. 3,399.17 crore. In the month of April, the FIIs sold equities worth Rs. 12,039.43 crore and DIIs purchased equities worth Rs. 11,359.88 crore.
- 6) The Indian rupee appreciated against the US dollar. For the week, the Indian Rupee was up by 94 paise at 74.07 per dollar on April 30 as against Rs. 75.01 per dollar on April 23, 2021.

Key recent major developments..

- 1) The gross Goods and Services Tax (GST) revenue collection for the month of April 2021 touched a record high of Rs. 1,41,384 crore, of which CGST was Rs. 27,837 crore, SGST Rs. 35,621, and IGST Rs. 68,481 crore. GST collections have consistently crossed Rs. 1 trillion mark for the last seven months. "Despite the second wave of coronavirus pandemic affecting several parts of the country, Indian businesses have once again shown remarkable resilience by not only complying with the return filing requirements but also paying their GST dues in a timely manner during the month," the government said in an official statement. During April, the revenues from domestic transaction (including import of services) are 21 per cent higher than the revenues from these sources during the

last month. "These are clear indicators of sustained economic recovery during this period. Closer monitoring against fake-billing, deep data analytics using data from multiple sources including GST, Income-tax and Customs IT systems and effective tax administration have also contributed to the steady increase in tax revenue," the government said.

- 2) India's eight key infrastructure industries growth reached a 32-month high of 6.8 per cent in March as compared to a year earlier, mainly due to a low base, data released by the commerce and industry ministry showed. Core sector output had contracted 37.9 per cent in April last year, with the imposition of a nationwide lockdown. While the pace of contraction declined in the subsequent months, positive growth was seen only in December and January. In fact in February, there was a degrowth of 3.8 per cent after mild growth in the previous months. The cumulative growth during April-March (2020-21) was 7 per cent.
- 3) The euro zone economy declined less than expected in the first three months of the year, preliminary data showed on Friday, while headline inflation picked up as expected on a surge in energy prices. The European Union's statistics office Eurostat said gross domestic product in the 19 countries sharing the euro contracted 0.6% quarter-on-quarter for a 1.8% year-on-year fall. The euro zone's first quarter contraction was mainly caused by a 1.7% quarterly slump in its biggest economy Germany, though mitigated by 0.4% quarterly growth in second biggest France.
- 4) US economic growth accelerated in the first quarter, fueled by massive government aid to households and businesses, charting the course for what is expected will be the strongest performance this year in nearly four decades. Gross domestic product increased at a 6.4% annualized rate last quarter, the Commerce Department said on Thursday in its advance estimate of GDP for the first three months of the year. That was the second-fastest GDP growth pace since the third quarter of 2003 and followed a 4.3% rate in the fourth quarter. Personal consumption, the biggest part of the economy, surged an annualised 10.7%, the second-fastest since the 1960s. The United States' economy is reviving rapidly as compared to its global rivals, thanks to two additional rounds of COVID-19 relief money from Washington as well as easing anxiety over the pandemic, which has boosted domestic demand and allowed services businesses like restaurants and bars to reopen. Former President Donald Trump's government provided nearly \$3 trillion in relief money early in the pandemic, leading to record GDP growth in the third quarter of last year. That was followed by nearly \$900 billion in additional stimulus in late December. President Joe Biden's administration offered another \$1.9 trillion rescue package in March, which sent one-time \$1,400 checks to qualified households and extended a \$300 unemployment subsidy through early September.
- 5) The Securities and Exchange Board of India (Sebi) on Thursday extended the timelines for various regulatory filings, including financial earnings, in the wake of the second Covid-19 wave. The deadline to file the March quarter and annual financial results ends on May 15 and May 30 respectively. The market regulator has extended the deadline for both to June 30. "Sebi is in receipt of representations...requesting extension of timelines for various filings and relaxation from certain compliance obligations...due to ongoing second wave of the CoVID-19 pandemic and restrictions imposed by various state governments," Sebi said in a circular.
- 6) Credit rating agency S&P Global said on Wednesday the second wave of COVID-19 infections in India could impede the country's economic recovery and expose other nations to further waves of outbreaks. "In addition to the substantial loss of life and significant humanitarian concerns, S&P Global Ratings believes the outbreak poses downside risks to GDP and heightens the possibility of business disruptions," the rating agency said in a note. India's healthcare system has been overwhelmed, with the world's second most populous country reporting more than 300,000 new COVID-19 cases daily over the past six days and the death toll set to cross 200,000. S&P, which has a long-term credit rating of 'BBB-' on India, just one notch above junk, said it may have to revise its base-case assumption of 11% growth over fiscal 2021/2022, especially if wider containment measures are re-imposed. S&P expects the consumer retail and airport sectors to have a dragged out recovery with localized lockdowns and curfews in several parts of the country, and said the Indian banking sector continued to face a "high level of systemic risk".
- 7) S&P Global Platts has cut India's 2021 demand forecast for oil products by 9 per cent to 400,000 barrels per day (b/d) now, as compared to 440,000 b/d estimated last month. The latest revision, S&P Global Platts said, was done after taking into account the surging Covid cases across the country that have triggered lockdowns and mobility curbs across key economic hubs in India. With several states under lockdown, Platts believes India's gasoline consumption is expected to drop in the near-term to around 700,000 barrels per day in April. "That's down about 11 per cent from March. Hopes of recovery gaining traction are picked from June onwards," Platts said. A silver lining, however, could be railways that still chugs along - transporting key essentials across the country. A Crisil report suggests that the impact of the second Covid-19 wave on industrial activities thus far remains small, aided by movement of goods across the rail network.
- 8) The country's exports jumped by 60.29 per cent to \$34.45 billion in March even as the outbound shipments contracted by 7.26 per cent during the full 2020-21 fiscal to \$290.63 billion. Imports too grew by 53.74 per cent to \$48.38 billion in March, but dipped by 18 per cent to \$389.18 billion during April-March 2020-21, according to the

government data released on Thursday. Trade deficit during March 2021 widened to \$13.93 billion from \$9.98 billion in March 2020. The trade deficit during the full fiscal, however, narrowed to \$98.56 billion as against \$161.35 billion during 2019-20, the data showed.

- 9) The Index of Industrial Production (IIP) which measures industrial output in India fell by 3.6 percent in February. India's industrial output has declined by 11.3 percent in the April-February period of FY21, as compared to the same period of the previous year.
- 10) The wholesale price-based inflation was up to over 8-year high of 7.39 per cent in March on rising crude oil and metal prices. Also, the low base of March last year, when the data was computed with a low response rate due to the nationwide lockdown, contributed to a spike in inflation in March 2021. The WPI inflation was 4.17 per cent in February and 0.42 per cent in March 2020. This is the third straight month of up-tick seen in the wholesale price index (WPI) based inflation. "The annual rate of inflation stood at 7.39 per cent (provisional) for the month of March 2021 over March 2020," the Commerce and Industry Ministry said. Such a high level of WPI was last recorded in October 2012, when inflation was 7.4 per cent.
- 11) Consumer Price Index-based inflation (CPI) for the month of March stood 5.52 percent as against 5.03 percent in February. Official data released on April 12 shows that retail inflation in March stayed within the Reserve Bank of India's (RBI) medium term inflation target of 4(+/-2 per cent) for the fourth consecutive month. The combined food price inflation rose to 4.94 percent in March, as compared to 3.87 percent in February.

Ajcon Global's view

- 1) Indian benchmark indices ended in a positive terrain with 2 percent gains for the week led by foreign medical support to fight the second wave of COVID-19 and optimism on mass vaccination drive for COVID-19 which started from today. Strong set of numbers in Q4FY21 by Reliance Industries, Hindustan Unilever, Bajaj Finserv, Bajaj Finance, Shriram Transport Finance, HDFC Life, SBI Cards, Castrol have aided in rally. No doubt Q4FY21 results have been strong and encouraging but the second wave of COVID-19 would impact Q1FY22 results.
- 2) The sharp spike COVID-19 cases in the second wave with more deaths on daily basis is a serious matter of concern and the country is in war footing to fight this pandemic. The tools and resources are falling short to fight this devastating pandemic and the country is on war footing to save the lives of COVID-19 patients. The vaccination coverage for major population will take lot of time and efforts. Prime Minister Narendra Modi earlier urged all citizens to be vaccinated and exercise caution, saying the "storm" of infections had shaken India. India has given the first dose of covid antidote to 15.49 crores beneficiaries in the nation-wide vaccination till date.
- 3) The mass vaccination drive for above 18 years which started from today will help arrest the significant spike in COVID-19 cases but it will also take a good amount of time to show its effect. Globally, US President Joe Biden proposing to hike the capital gains tax rate for wealthy individuals in the range of 39 - 42 percent to support social spending can also dampen investor sentiments across the globe.
- 4) Going ahead investors will keep a watch on COVID-19 cases number on daily basis amidst significant spike and vaccination drive, Q4FY21 earnings season, movement of US bond yields and FPI liquidity. No doubt the country is facing the second wave of COVID-19 crisis on war footing; there are still positives that the Country has to offer. Key domestic factors like record GST collections in April 2021, positive GDP data, good proposals presented in Union Budget 2021-22 will always keep bulls in the hunt for long term. Improved US GDP data, good stimulus package in US and reduced unemployment rate in US will also support bulls. The Nifty valuations are trading in the range of 35x-40x which looks expensive amidst the high intensity of second wave of COVID-19.
- 5) We recommend investors to look out for stock specific opportunities. The current second wave of rising of COVID-19 cases will give opportunities to investors on corrections led by strict localised restrictions and lockdown in certain states. Investors will track ongoing Q4FY21 earnings season and management commentary on future scenario. The current second wave of rising of COVID-19 cases will give opportunities to investors on corrections. We have still not witnessed a steep correction so far. Going ahead, investors will track monthly auto sales numbers, ongoing Q4FY21 earnings season, management commentary on future scenario and intensity of COVID-19 second wave and resultant situation in the country.

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