



**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on January 02, 2021

**All eyes would be on Q3FY21 earnings season; expect stock specific action to continue in smallcaps and midcaps..**

On a weekly basis, both, the Sensex and Nifty indices were up by nearly 2 per cent with major action being witnessed in midcaps and smallcaps space. The S&P BSE Sensex witnessed a rise of 1.91 percent while the Nifty50 moved up by 1.96 percent for the week as compared to 2.7 jump in the S&P BSE Midcap index, and 3.3 jump recorded in the S&P BSE Small-cap index.

Domestically, investor sentiments have improved owing to robust GST collections in December 2020, PM Modi announcing COVID-19 vaccination drive, better than expected IIP and GDP data for the September quarter, RBI's forecast of positive GDP Growth and dovish commentary by the Reserve Bank of India (RBI) in its Monetary policy. US Stimulus package, United Kingdom's historic trade deal with the European Union and COVID-19 vaccine rollout in various countries have uplifted sentiments across the global financial markets.

**Key recent major developments..**

- 1) Goods and Services Tax collections for December rose to Rs. 1.15 lakh crore, the highest ever since the implementation of the nationwide tax in July 2017, the Finance Ministry said in a statement on January 1. The previous monthly GST collection record was just short of Rs. 1.14 lakh crore in April 2019. This is the fourth consecutive month this year that GST collections have outperformed comparable months from 2019, a clear sign of strong recovery as the Indian economy slowly came out of its biggest ever contraction in the April-June quarter.
- 2) The country's exports declined marginally by 0.8 per cent to USD 26.89 billion in December 2020, due to contraction in sectors like petroleum, leather and marine products, according to preliminary data released by the commerce ministry on Saturday. The trade deficit in December widened to USD 15.71 billion, as imports grew by 7.6 per cent to USD 42.6 billion, the data showed. Exports in December 2019 was USD 27.11 billion, while imports stood at USD 39.5 billion. In November 2020, the exports were down by 8.74 per cent. In April-December 2020-21, the country's merchandise exports contracted by 15.8 per cent to USD 200.55 billion, as compared to USD 238.27 billion in the same period of 2019-20. Imports during the nine months of the current fiscal declined by 29.08 per cent to USD 258.29 billion, as against USD 364.18 billion in April-December 2019-20. "India is thus a net importer in December 2020, with a trade deficit of USD 15.71 billion, as compared to a trade deficit of USD 12.49 billion, widened by 25.78 per cent," the ministry said in a statement.
- 3) Prime Minister Narendra Modi said "Preparations are in the last stages for the vaccination programme against Covid-19. People will get vaccines manufactured in India,". Applications by Serum Institute of India (SII) and Bharat Biotech for emergency use approval of their vaccines were taken up by a government appointed expert panel on Wednesday. The panel is slated to meet again on Friday for another round of discussions on the same. India has the second highest number of infections in the world after the US. The SII manufactured vaccine which can be safely

stored at 2 to 8 degree Celsius offers India the best chance at a successful vaccination drive. Prime Minister Narendra Modi on Thursday laid the foundation stone for All India Institute of Medical Sciences (AIIMS) at Rajkot in Gujarat where he said that people should exhibit caution and strictly abide by coronavirus preventive norms even after vaccines are administered.

- 4) The Health and Family Welfare Ministry has directed all states and union territories to hold a dry-run for the vaccine rollout on January 2, 2021 to ensure that they are well prepared and test their abilities in management of vaccine supply, storage and logistics including cold chain management. The government has trained 96,000 vaccinators for the world's largest immunisation exercise so far. The idea of the dry-run is to assess the feasibility of using the Co-WIN application on field and also test linkages between planning and implementation of the vaccination drive. The states are expected to identify the challenges and fix the gaps before the actual vaccine is made available. The exercise is also being taken up to give confidence to programme managers at various levels. All state capitals will hold the dry run on Saturday at three session sites, some of which might be in difficult terrain with poor logistical support. According to health ministry estimates, 29,000 cold chain points, 240 walk-in coolers, 70 walk-in freezers, 45,000 ice-lined refrigerators, 41,000 deep freezers and 300 solar refrigerators would be required as the vaccine is rolled out across the country. Of the total 239,000 vaccinators consisting of auxiliary nurses and midwives who provide vaccination under the universal immunisation programme, 154,000 will be used for Covid vaccination, health ministry had said earlier.
- 5) UK on Wednesday became the first country in the world to approve a coronavirus vaccine developed by Oxford University and AstraZeneca as it battles a major winter surge driven by a new, highly contagious variant of the virus. AstraZeneca said the authorisation was for a two dose regime, and that the vaccine had been approved for use for emergency supply. Britain has ordered 100 million doses of the vaccine. "The government has today accepted the recommendation from the Medicines and Healthcare products Regulatory Agency (MHRA) to authorise Oxford University/AstraZeneca's COVID-19 vaccine for use," the health ministry said. The pandemic has already killed 1.7 million people around the world, sown chaos through the global economy and upended normal life for billions since it began in Wuhan, China, a year ago. UK and South Africa in particular are grappling with new variants of the coronavirus, which the government and scientists say are more contagious; many countries have responded by banning passenger flights and blocking trade.
- 6) The Union Cabinet on Wednesday approved an interest subvention of Rs. 4,573 crore for new distilleries producing ethanol, which can be used for doping in petrol, Oil Minister Dharmendra Pradhan said. India will need about 1,000 crore litre of ethanol for doping in petrol by 2030 with a view to cut dependency on imports for meeting oil needs, he said adding that the nation currently has a capacity of 684 crore litres. He added that the Cabinet approved a modified scheme to enhance ethanol distillation capacity in the country for producing first-generation ethanol from feed stocks such as cereals (rice, wheat, barley, corn and sorghum), sugarcane and sugar beet.
- 7) According to rating agency ICRA, asset quality pressure on banks in India is likely to moderate with net non-performing assets (NPAs) declining to 2.5 per cent by March 2022 (FY22) from an estimated 3.1 per cent in March 2021. The loan restructuring volume is likely to be lower at 2.5-4.5 per cent of advances than initial estimates of 5-8 per cent of advances, it added. Icra said in a statement that moratorium on loan repayments is over, though the Supreme Court directive on asset classification is awaited. In this backdrop, the Gross NPAs are likely to rise to 10.1-10.6 per cent by March 2021 from 7.9 per cent in September 2020. The Net NPAs would also move up to 3.1-3.2 respectively by March 2021 from 2.2 per cent as of September 2020 on elevated credit provisions during H2FY21 as well. However, Net NPAs and credit provisions will subsequently trend lower in FY22 as the banks have reported strong collections on loan portfolio. Most banks reporting collections of over 90 per cent. The loan restructuring requests much lower than previously estimated due to sharper than expected improvement in economic activities and liquidity support through emergency credit line guarantee scheme.

### **Ajcon Global's view**

- 1) CY20 would always be remembered in the history of Indian Capital markets. The S&P BSE Sensex and Nifty50 rallied by 16 per cent and 15 per cent, respectively, in 2020 (CY20) despite COVID-19 crisis (Lockdown to contain the virus, brought the economy activity to a standstill for nearly three months which affected India's GDP significantly). Indian benchmark indices declined significantly by around 40 percent during February-March from its peak in January but after hitting a four-year low on March 24, 2020. Both the indices have rallied by nearly 87 per cent from March 24, 2020 low. However, the broader index, S&P BSE500, which gained 17 per cent in CY20 has recorded its best performance in the past three years. The S&P BSE Midcap and S&P BSE Small-cap index have rallied 20 per cent and 32 per cent respectively in CY20, after registering negative returns in the past two consecutive calendar years - 2018 and 2019. The rally was led by strong liquidity from foreign portfolio investors who pumped in \$22.4 billion (Rs 1.66 trillion) in equities during the year. The flows in November and December are



one of the highest ever seen in Indian equities. In the last two months alone, FIIs have poured almost Rs 1.18-trillion in Indian equities, data show.

- 2) Domestically, all eyes would be on Q3FY21 earnings season which is expected to be good. Union Budget and budget related stocks will remain focus in January 2021 ahead of Union Budget to be announced in February 2021. Investors would remain stock specific in coming weeks. As we are heading to New Year, equities would consolidate amidst high volatility for some time.
- 3) Globally, all eyes would be on two US Senate races in Georgia next week that will determine control of the chamber and influence Democratic President-elect Joe Biden's ability to enact his agenda. Sentiments have improved after the United Kingdom's historic trade deal with the European Union and US President Donald Trump signed into law a \$2.3 trillion pandemic aid and spending package. All eyes would be on the new strain of coronavirus developments in other parts of the world after its emergence in UK and Europe. Investors will keep an eye on the progress of COVID-19 vaccine roll out and its efficacy in various countries after these new developments.
- 4) Nifty valuations are expensive led by significant spike of FPI liquidity in the last two months. Hence we advise, partial profit booking. However, there is still value in midcaps and smallcaps space.

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### **For research related queries contact:**

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN: L74140MH1986PLC041941

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**Website:** [www.ajcononline.com](http://www.ajcononline.com)

### **Registered and Corporate office**

408 - (4<sup>th</sup> Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062