



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

Dr. Ashok Ajmera's column as on May 08, 2021

**Strong performance by companies in Q4FY21 earnings season and positive global cues support rally in Indian equities; COVID-19 cases continue to spike..**

- 1) Indian bourses ended the week in green amidst significant surge of COVID-19 cases in the second wave and now witnessing around 4,00,000 lakhs cases in a single day. The rally during the week can be attributed to strong global cues especially US, German and China data. In addition, global medical support provided to the country to fight the COVID-19 crisis also raised hopes that India would fight it out.
- 2) On a weekly basis, S&P BSE Sensex was up by 0.87 percent while the Nifty50 was up by 1.31 percent for the week..
- 3) Sectorally, the Metal index remained as a top performer for the second consecutive week in a row rising over 10 percent in just 5 trading sessions. Metal prices have been on a rise ever since there is a strong global demand revival
- 4) Smallcaps and midcaps were buoyant during the week. S&P BSE Midcap index rose 1.4 percent and S&P BSE Smallcap index rallied 2.5 percent. Smallcap companies especially in segments like Pharma and IT which would benefit from ongoing COVID-19 crisis were significantly up. Panacea Biotech, Marksans Pharma, Morepen Laboratories, Poly Medicure, Suven Lifesciences, Axiscades Technologies, Subex were in the range of 10-37 percent.
- 5) In the week gone by, foreign institutional investors (FIIs) sold equities around Rs. 5,500 crore.

**Key recent major developments..**

- 1) The finance ministry on Friday said that the second wave of coronavirus (Covid-19) has posed a downside risk to economic activity in the April-June quarter of financial year 2022. However, it expects a muted economic impact as compared to the first wave. The finance ministry's Department of Economic Affairs (DEA) in its Monthly Economic Review for April said "the second wave in India is witnessing a much higher caseload with new peaks of daily cases, daily deaths and positivity rates and presents a challenge to ongoing economic recovery. With infections forcing localised or state-wide restrictions, there is a downside risk to growth in the first quarter of FY22. However, there are reasons to expect a muted economic impact as compared to the first wave. The experience from other countries suggests a lower correlation between falling mobility and growth as economic activity has learnt to operate with Covid-19," the report said. In April, due to the second Covid-19 wave in India, the momentum in economic recovery since the first wave has moderated. However, agriculture continues to be the silver lining with record foodgrain production estimated in the ensuing crop year on the back of predicted normal monsoons.
- 2) India's manufacturing sector activity was flat in April 2021, as rates of growth for new orders and output eased to eight-month lows amid the intensification of the COVID-19 crisis, a monthly survey said on Monday. The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) was at 55.5 in April, little changed from

March's reading of 55.4. In PMI parlance, a print above 50 means expansion while a score below 50 denotes contraction. "The PMI results for April showed a further slowdown in rates of growth for new orders and output, both of which eased to eight-month lows amid the intensification of the COVID-19 crisis," said Pollyanna De Lima, Economics Associate Director at IHS Markit. Lima also noted that "the surge in COVID-19 cases could dampen demand further when firms' financials are already susceptible to the hurdle of rising global prices."

- 3) 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.
- 4) 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.
- 5) 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.
- 6) 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.
- 7) 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.
- 8) 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.
- 9) 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.

- 10) 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 observations and view..**

- 1) Indian equities were up during the week as companies continue to report strong performance in Q4FY21 and positive global cues lifted investor sentiments. In addition, RBI measures amidst second wave of COVID-19 was taken well by the street. However, there are concerns on slow start to vaccination drive for adults in the age group of 18-45 years owing to shortage in certain states. The continuous sharp spike of COVID-19 cases in the second wave along with more deaths on daily basis is a serious matter of concern. At present, the country is in war footing to fight this pandemic to save the lives of COVID-19 patients. The tools and resources are falling short to fight this devastating pandemic. The vaccination coverage for major population will also take lot of time and efforts which was looking easier earlier. India has given the first dose of covid antidote to 16.49 crores beneficiaries in the nation-wide vaccination till date.
- 2) 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.
- 3) 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.
- 4) Q4FY21 results season has been good so far led by Reliance Industries, Hindustan Unilever, Bajaj Finserv, Bajaj Finance, Shriram Transport Finance, SAIL, Tata Steel, Tata Elxsi, HDFC Life, SBI Cards, Castrol, Sundaram Fastners, Marico, Angel Broking etc. No doubt Q4FY21 results have been strong and encouraging but the second wave of COVID-19 would impact Q1FY22 results to some extent.
- 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. We have still not witnessed a steep correction so far. Investors will track ongoing Q4FY21 earnings season and management commentary on future scenario. 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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