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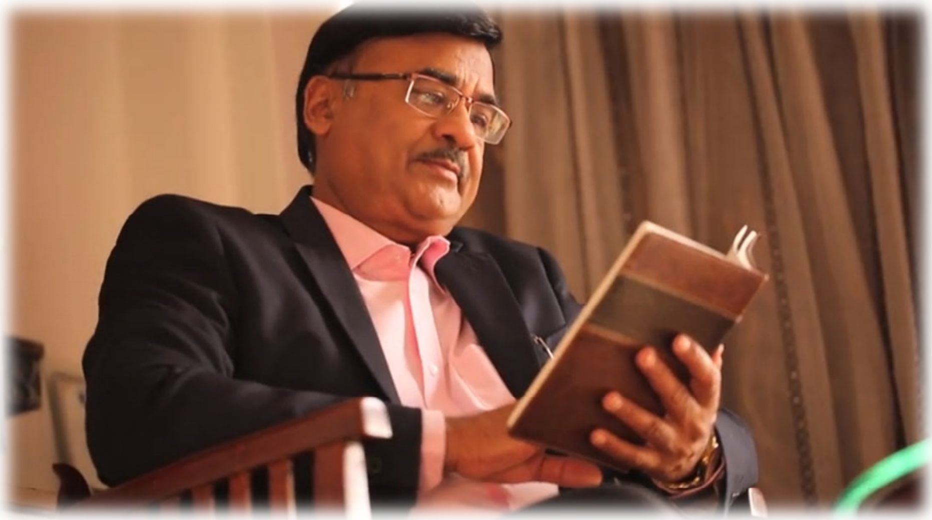

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on January 18, 2020

Rally to continue in midcaps and smallcaps space; all eyes on Q3FY20 earnings season and Union Budget 2020-21..

For the week, the benchmark S&P BSE Sensex was up by 0.9 per cent, while the Nifty50 was up by 0.8 percent. The S&P BSE Sensex hit a fresh record high of 42063 while the Nifty50 rose to a record high of 12,389 last week.

Broader markets outperformed as the S&P BSE Mid-cap index was up 3.6 percent, and the S&P BSE Small-cap index closed with gains of 3.97 percent for the week ended January 17. Nifty mid-cap index, meanwhile, has risen 4 per cent during the week. The Nifty Midcap index rose nearly 4%, supported by gains in IndoStar (Up 25.5%), IRB Infra (up 21.3%), GNA Axles (up 19%), and Rallis India (up 17.2%). More than 100 stocks hit a fresh 52-week high on the BSE that include names like MRF, Nestle India, SRF, Dr Reddy's Laboratories, Torrent Pharma, and Divi's Laboratories.

S&P BSE Small-cap index closed with gains of 3.97 percent for the week ended January 17. As many as 123 stocks in the S&P BSE smallcap index rose 10-60 percent in the past five trading sessions. These include Liberty Shoes, MMTC, VIP Industries, Ramco System, Birla Corp, Simplex Infra and Vipul.

Sectorally, Nifty Media was up 5.5%, followed by Nifty Realty (up 4.3%), Nifty Pharma (up 3.6%), and Nifty FMCG (up 3.3%).

Investors' wealth measured by average market capitalisation of BSE listed companies rose by nearly Rs. 2 lakh crore in just five trading sessions to Rs. 160.57 lakh crore as on January 17.

Foreign institutional investors (FIIs) bought equities worth Rs 63.78 crore, while Domestic Institutional Investors (DIIs) sold equities worth of Rs 3,104.52 crore.

In the past week, the Indian rupee ended 14 paise lower at 71.08 on January 17 against its January 10 closing of 70.94.

Key developments

The Finance ministry has revised its target for goods and services tax (GST) collection in January and February — to Rs 1.15 trillion, from the earlier Rs 1.1 trillion. This would be achieved by detecting fraudulent input tax credit using data analytics. At a meeting convened by the Department of Revenue, under the finance ministry, the target for March was retained at Rs 1.25 trillion. This means the government aims to collect Rs 10,000 crore more than what was targeted earlier at a time when all months till December in the current financial year (FY20) yielded less than Rs 1.1 trillion, except for April. Last month, the target for December, January, February and March was set at Rs 1.1trillion, with one of the months to yield Rs 1.25 trillion. However, the December collection stood at Rs 1.03 trillion. Four of nine months in FY20 so far have delivered less than Rs. 1 trillion in GST collections.

The Supreme Court on Thursday dismissed review petitions of top telecom firms including Bharti Airtel and Vodafone Idea seeking review of its earlier order asking them to pay Rs. 1.47 trillion in past statutory dues by January 23, 2020. The apex court had on October 24, 2019 ruled that statutory dues need to be calculated by including non-telecom revenues in what is known as adjusted gross revenues (AGR) of telcos. Telecom companies are discussing a possible plan to make an upfront part payment, which could be up to 20 per cent of their dues linked to the adjusted gross revenue (AGR).

Reliance Q3FY20 result update..

Reliance Industries (RIL) on Friday posted highest-ever quarterly net profit of Rs. 11,640 crore on consolidated basis, up 13.5 per cent year-on-year (YoY) for the quarter ended December 31, 2019. Revenue; however, decreased by 1.4 per cent YoY to Rs 168,858 crore. Decrease in revenue is primarily on account of 10.6 per cent decline in O2C business revenues, with lower product price realization and 6.6 per cent fall in Brent crude price, the company said in its press release. The fall in revenue was partially offset by continuing growth momentum in consumer businesses. Digital Services and Retail business recorded an increase of 36.2 per cent and 27.4 per cent, respectively, in revenue during the quarter compared to the corresponding quarter of the previous year, the press release added.

“The third quarter results for our energy business reflects the weak global economic environment and volatility in energy markets. Within our O2C chain, downstream petrochemicals profitability was impacted by weak margins across products with subdued demand in well-supplied markets. Refining segment performance improved in a difficult operating environment given our continuous focus on cost positions, high operating rates and product placement," said Mukesh Ambani, Chairman and Managing Director.

The Company witnessed good performance in its new-age digital and retail businesses compared to the traditional oil and petrochemicals has started showing in its numbers with the group announcing a marginal 3.6 per cent year-on-year (YoY) increase in RIL's profit before tax at Rs 14,962 crore for the December-ended quarter. On the planned sale of 20 per cent in the oil-to-chemicals business to Saudi Aramco, officials refused to comment on the timeline for its definitive agreement. "It is not a deal that will get done by March. We cannot comment on the timelines of (definitive agreement)," said V Srikanth, joint chief financial officer, RIL.

Consolidated revenue from the refining segment witnessed a fall of 7.18 percent on yoy basis to Rs 1,03,718 crore in Q3FY20 against Rs 1,11,738 crore reported in the same quarter of the previous financial year. Sequentially, the numbers were up 6.67 percent against Rs 97,229 crore reported in Q2FY20.

Gross refining margin (GRM) during the period stood at $9.2/bbl. In the previous quarter GRM stood at $9.4/bbl while in the year-ago quarter numbers stood at $8.8/bbl.

Consolidated revenue from the petchem segment declined by 19 percent on yoy basis to Rs. 36,909 crore in Q3FY20 against RS 45,619 crore reported in the same quarter of the previous financial year. Sequentially too, revenue declined by 4.23 percent against Rs 38,538 crore reported in Q2FY20. The segment's EBITDA declined 24.43 percent YoY and 18.76 percent QoQ to Rs 7,252 crore.

On consolidated basis, Reliance Jio's revenue increased by 28.2 per cent to Rs. 16,517 crore. Subscriber base as of 31st December 2019 was 370 million (up 32.1 per cent YoY) with net addition of 14.8 million during 3QFY20. Net profit increased by 63.1 per cent to Rs. 1,360 crore. Average revenue per user (ARPU) during the quarter stood at Rs. 128.4 against Rs. 120 in September quarter.

The company's outstanding debt stood at Rs. 3,06,851 crore ($43.0 billion) compared to Rs. 2,87,505 crore as on 31st March 2019.

Global markets

Asian shares rose on Friday after Q4 GDP data in China, for the calendar year 2019, showed pressure on the world's second-biggest economy may be starting to diminish. The news along with easing trade tensions with the United States underpinned riskier assets, even as some markets took a breather in late afternoon trade.

Ajcon's view

We expect rally to continue in midcaps and smallcaps in the run up to Union Budget 2020-21. There are few opportunities in largecaps space after significant rally which have made them expensive. There is optimism about the upcoming Union Budget 2020-21 as PM Modi has personally taken stock of the situation and and has met top industrialists, economists of the country. Prime Minister has been brainstorming over a range of issues affecting the economy and effectively conducted most extensive consultations that PM Modi has made on Matters vere related to the Union Budget and the economy in the past five years. Some bold steps are expected in the Union Budget 2020-21.

All eyes would also be on ongoing Q3FY20 earnings season and global cues. From Januaray 20 – January 24, 20202, more than 160 stocks on the BSE will declare their results for the week. On Monday, street participants will react to TCS, RIL, and HCL Technologies Q3FY20 results declared post market hours on Friday.

Presently, MarketCap to GDP ratio is around 78 percent which looks attractive and provides scope for upside. We believe, it would be prudent for investors to look out for quality picks in the midcaps and smallcaps space which have a robust business model, quality growth, consistent earnings although may be affected in the current economic downturn but proved its mettle over the years, business model suited to changing dynamics of the economy, cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

The effects of big steps taken by the government in last 4-5 months would now start showing effect. In addition, FM may look at revising direct tax structure in upcoming Union Budget to boost demand. We also believe, that in Upcoming Union Budget 2020-21, the Government would focus on improving investment led spending and improve capacity utilization of different sectors which are below par in last 18 months or so.

Dr. Ashok Ajmera, FCA

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