



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on December 19, 2020

Stellar run continues at Dalal Street; stock specific action would be witnessed and profit booking can come in ahead of Christmas and New Year..

On a weekly basis, both, the Sensex and Nifty indices were up by nearly 2 per cent. The Nifty-Mid Cap 100 Index and BSE Small Cap Index have gained 1.9% and 1.4%, respectively. This week, rally was witnessed majorly in Index heavyweights after significant rally in broader markets in past few weeks. Domestically, sentiments improved owing to better than expected IIP data, 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. COVID-19 vaccine rollout in various countries have uplifted sentiments across the global financial markets.

Key major developments during the week..

- 1) Prime Minister Narendra Modi (PM Modi) on Saturday addressed the Foundation Week of the Board of Commerce and Industry of India (ASSOCHAM) through video conferencing and appealed to the industrialists, full strength for Aatma Nirbhar Bharat in the coming years. PM Modi said, during this period of COVID-19 pandemic, there has been a record FDI in India. He said, we have a special focus on manufacturing to achieve the goal of self-reliant India. The PM said that we are constantly doing reforms to encourage manufacturing. The country today stands with Enterprise and Wealth Creators giving opportunities to millions of youth.
- 2) President Donald Trump on Friday signed legislation that could kick Chinese companies off of U.S. exchanges unless American regulators can review their financial audits, a move likely to further escalate tensions between the two countries. The President has long railed against China for what he calls unfair trading practices, and slapped tariffs on billions of dollars in imports.
- 3) China said it has already administered more than 1 million coronavirus vaccines since July and plans a phased rollout going forward that will initially target workers at higher risk of infection, as the country seeks to be at the vanguard of the global Covid-19 immunization effort. Vaccines developed by Sinovac Biotech Ltd. and the state-owned China National Biotech Group Co. have been dispensed in the country since they were granted emergency-use authorization in July.
- 4) Serum Institute of India will seek approval for a two full-dose regimen from the Indian drug regulator after its partner, Oxford University, cited data from early trials and said following such a regimen showed a better immune response. After phase 3 trials, Oxford, which is developing the Covid-19 vaccine Covishield with AstraZeneca, had said a full dose followed by a half-dose regimen showed 90 per cent efficacy, while a full two-dose regimen showed 62 per cent efficacy. However, it had said more work needed to be done to affirm that result.
- 5) Reliance Industries (RIL) and BP announced the start of production from the R Cluster, ultra-deep-water gas field in block KG D6 off the east coast of India. RIL and BP are developing three deepwater gas projects in block KG D6 – R

Cluster, Satellites Cluster and MJ – which together are expected to meet ~15% of India's gas demand by 2023. These projects will utilise the existing hub infrastructure in KG D6 block. RIL is the operator of KG D6 with a 66.67% participating interest and BP holds a 33.33% participating interest.

- 6) S&P Global Ratings on Tuesday raised India's growth projection for the current fiscal to (-) 7.7 per cent from (-) 9 per cent estimated earlier on rising demand and falling COVID infection rates. "Rising demand and falling infection rates have tempered our expectation of COVID's hit on the Indian economy. S&P Global Ratings has revised real GDP growth to negative 7.7 per cent for the year ending March 2021, from negative 9 per cent previously," S&P said in a statement. The US-based rating agency said its revision in growth forecast reflects a faster-than-expected recovery in the quarter through September. For the next fiscal, it projected India's growth to rebound to 10 per cent. India's gross domestic product fell 7.5 per cent in the July-September quarter, against a contraction of 23.9 per cent in the April-June quarter. S&P said India is learning to live with the virus, even though the pandemic is far from defeated and reported cases have fallen by more than half from peak levels, to about 40,000 per day. The feared resurgence following the recent holiday season has yet to materialise. "It is no surprise that India is following the path of most economies across Asia-Pacific in experiencing a faster-than-expected recovery in manufacturing production," S&P Global Ratings Asia-Pacific chief economist Shaun Roache said. Manufacturing output was about 3.5 per cent higher in October 2020, compared to the year-ago period, while the output of consumer durables rose by almost 18 per cent. "This recovery underscores one of the more striking aspects of the COVID-19 shock -- the resilience of manufacturing supply chains. Again, as with demand, some slowing of output momentum has emerged more recently," S&P said.
- 7) The Wholesale Price Index (WPI) based inflation rose to 1.55 percent in November - a nine month high, as manufactured products turned costlier, while food prices eased. WPI inflation in October 2020 was at an eight-month high of 1.48 percent as manufactured products turned costlier. November 2019 WPI inflation was at 0.58 percent, due to increase in prices of food articles. Food inflation for November 2020 is at 4.27 percent compared to 5.78 percent in October 2020. Primary articles inflation is at 2.72 percent, down 0.8 percent month-on-month (MoM) from 4.74 percent in October 2020. Manufactured products inflation is at 2.97 percent, up 0.8 percent MoM compared to 2.12 percent in October 2020, and all commodities index is up 0.3 percent MoM. Fuel and power inflation stood at -9.87 percent, up by 0.2 percent MoM, compared to -10.95 percent in October 2020.
- 8) India's retail inflation for November stood at 6.93 percent against 7.61 percent in October. Vegetables inflation for November came in at 15.63 percent, oils and fat at 17.86 percent, meat and fish at 16.67 percent, and pulses and products at 16.67 percent.
- 9) Industrial production rose 3.6 per cent in October, mainly due to better performance of manufacturing and electricity generation sectors, official data showed on Friday. According to the Index of Industrial Production (IIP) data, manufacturing and electricity generation sectors registered a growth of 3.5 per cent and 11.2 per cent, respectively. The mining sector witnessed a contraction of 1.5 per cent in October. The IIP had contracted by 6.6 per cent in October 2019.

Ajcon Global's view

- 1) Sentiments have improved significantly with RBIs forecast of positive GDP growth. Additionally, Prime Minister Narendra Modi earlier said that experts believe that the wait for a COVID-19 vaccine will not be long and it may be ready in a few weeks, asserting the vaccination drive in India will begin as soon as scientists give the nod also aided in improvement of sentiments.
- 2) We expect Indian equities to now consolidate amidst volatility post stellar run in the past few weeks. Investors, now have become stock specific in midcaps and smallcaps segment and increasing allocation in Companies which are witnessing turnaround in Unlock phase after lockdown and having cost efficiencies.
- 3) Domestically, broader markets continued to witnessing buying which is a good sign for retail investors. Strong up move is being registered in smallcaps space which will bring much needed relief who were caught at the peak of 2018. Real GDP for September quarter contracted by 7.5 percent, but according to us, the Q2 GDP data indicates signs of economic revival from a standstill scenario (owing to nationwide lockdown in April, May, and June 2020). The numbers could have been a disaster had it not been for a fast recovery of economy during various phases of Unlock.
- 4) PSU banks have rallied significantly post festive season of Diwali and most of them were earlier available at Price/Book Value of around 0.5x which was very cheap as compared to valuations of Private Banks and Nifty Bank Index as a whole. With some of the PSU banks gone for QIB issue, stock prices of PSU Banks will now consolidate.



- 5) At present levels, Nifty valuations look expensive led by significant spike of FPI liquidity in the month of November 2020. Hence, we are cautious on Large caps and advise partial profit booking. A short term correction is possible considering the stellar run in past few weeks. All eyes would be on Union Budget and budget related stocks will remain focus in coming weeks and January 2021 ahead of Union Budget to be announced in February 2021. Investors would remain stock specific in coming weeks.
- 6) Globally, all eyes would be on the Brexit front. There is uncertainty as British Prime Minister Boris Johnson's office said trade talks with the European Union were in a "serious situation" and that no agreement would be reached unless the bloc changed its position substantially.
- 7) The news on COVID-19 vaccine coming in various countries has already led to rerating of sectors that were hammered in COVID-19 crisis. Further fall in domestic bourses, will make markets healthy for fresh entry.

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