



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on March 20, 2021

Spike in bond yields, significant rise in COVID-19 cases spoil the show in last week; remain stock specific..

- 1) Indian bourses witnessed pressure throughout the week amidst some respite on Friday. The pressure was owing to concerns like significant surge of COVID-19 cases, high inflation and spike in US bond yields. The US 10-year bond yields spiked to January 2020 highs of over 1.75 percent on March 18, 2021 which led to rise in dollar index and pulling down global equities and commodities.
- 2) On a weekly basis, the S&P BSE Sensex was down by 1.83 percent while the Nifty50 declined by 1.9 percent for the week ended March 19. The top Sensex losers were Larsen & Toubro, Sun Pharmaceutical Industries, Kotak Mahindra Bank, Bajaj Finserv and ICICI Bank whereas the top gainers included ITC, Hindustan Unilever and Power Grid Corporation of India.
- 3) Broader markets too under were pressure. S&P BSE Midcap index was down by 3.8 percent and S&P BSE Smallcap index was down by 3.4 percent. More than 30 stocks in the BSE500 index fell 10-30 percent.
- 4) On the sectoral front, the Nifty realty index fell by 5.8 percent, Nifty pharma index fell by 4.2 percent and the Nifty bank index declined 3.7 percent. On the other hand, the Nifty FMCG index rose by 2.9 percent.
- 5) During the week, foreign institutional investors bought equities worth Rs. 5,893.68 crore, while domestic institutional investors sold equities worth Rs. 3,037 crore. In March 2021 till date, FIIs have purchased equities worth Rs. 9,221.24 crore and DIIs have sold shares worth Rs. 4,433.48 crore.
- 6) The Indian rupee rose against the US dollar during the week. It ended higher by 27 paise at 72.51 per dollar on March 19 against its March 12 closing of 72.78 to a dollar.

Key recent major developments..

- 1) India reported biggest single-day jump in Covid cases since Nov 29, 2020. Till date India has given the first dose of covid antidote to 4.2 crores beneficiaries in the nation-wide vaccination till date. India's Phase II of vaccination drive for those above 60 years of age and within the age bracket of 45 to 59 years with specified comorbidities such as diabetes and heart ailments is gaining strong momentum. About 18-19 vaccine candidates against COVID-19 are in the pipeline and in different clinical trial stages, Health Minister Harsh Vardhan had said earlier.
- 2) Finance Minister Nirmala Sitharaman is expected to introduce the National Bank for Financing Infrastructure and Development Bill, 2021, in Parliament next week, a move expected to give a big push to infra projects as promised in the Budget 2021. The bill will pave the way for the setting up of a government-owned Development Finance

Institution (DFI). Earlier this week, the union cabinet approved a budget proposal for the setting up of DFI, which will have tax benefits to enable fund-raising from investors. The bill seeks to support the development of long-term non-recourse infrastructure financing in India. It also includes the development of bonds and derivatives markets necessary for infrastructure financing.

- 3) Bond markets across the world are hampering the nascent recovery, the Reserve Bank of India (RBI) said in its monthly bulletin for March. The central bank urged the local investors to help it ensure an 'orderly evolution of the yield curve'. "As countries rush to inoculate their populations, the global economy should regain lost momentum in Q2. Bond vigilantes could, however, undermine the recovery, unsettle financial markets and trigger capital outflows from emerging markets," the RBI wrote in its state of the economy report. For the Indian bond market, in particular, the report noted: "The Reserve Bank is striving to ensure an orderly evolution of the yield curve, but it takes two to tango and forestall a *tandav*." The central bank is clearly using all the platforms at its disposal to engage with the bond market. Governor Shaktikanta Das in the past has also asked the market to be cooperative and not combative, but the market has recently started demanding higher yields seeing the US yields and oil prices heading north, and is asking for more secondary market support from the RBI.
- 4) Union minister Nitin Gadkari on Thursday said the vehicle scrapping policy will be a "win-win" policy that will help improve fuel efficiency and reduce pollution. Making a statement regarding the vehicle scrapping policy in the Lok Sabha, the Road Transport, Highways and MSMEs Minister said the policy will also lead to an increase in the country's automobile industry turnover to Rs. 10 lakh crore from the current Rs. 4.5 lakh crore. Announced in the 2021-22 Union Budget, the policy provides for fitness test after 20 years for personal vehicles, while commercial vehicles would require it after the completion of 15 years. Shri. Gadkari has also issued an advisory to automakers, advising them to provide an incentive of a five per cent rebate for those buying a new vehicle after producing a scrapping certificate.
- 5) States have to take "quick, decisive" steps to stop the emerging second peak of Covid-19, said Prime Minister Narendra Modi on Wednesday, urging chief ministers to adopt the test, track and treat as they stop wastage of vaccines. "The confidence we have gained in reaching this point in our fight against the pandemic should not turn to negligence. While we do not want to create any panic, we have to take steps to rid ourselves of this trouble," PM Modi said in a virtual address called as Covid-19 cases rise in states.
- 4) S&P Global Ratings on Wednesday said the recovery across Asia's emerging economies would withstand rising US yields so long as this reflects an improving growth outlook and reflation rather than a monetary shock. US yields are rising mostly due to expectations of higher growth, rather than fears of imminent tightening, or monetary-policy shock. This time around, initial conditions in Asia are sturdier than they were in 2013, the rating agency said. It said current account surpluses, low inflation (for the most part), higher real interest rates, and fatter foreign-exchange reserve buffers give regional policymakers more flexibility and should allow central banks to remain focused on supporting recovery. The US-based agency, however, said that if markets price a policy mistake and US real yields surge higher, risks of a 'taper tantrum' rise, with India and Philippines most exposed. In 2013, US yields leaped after the US Federal Reserve indicated it would begin unwinding its quantitative easing program. The resulting panic over rising credit costs led to sharp outflow from emerging markets, including Asia's, and forced central banks to hike interest rates. Since then, S&P said, the central banks in India and Thailand have been more aggressive in building up reserve buffers. It said the effect of USD 1.9 trillion in stimulus on US inflation and rates remains uncertain and markets can react in a non-linear way if inflation expectations surge above central bank targets and imminent tightening is priced in. "In this case, we may see real yields (rather than inflation expectations) jump and the US dollar appreciate at the same time. In our view, this would trigger disorderly capital outflows from Asia's emerging markets. India and the Philippines are the most vulnerable at the current juncture," S&P added.
- 5) Around 78.27 lakh (7.8 million) domestic passengers travelled by air in February 2021 which is 36.71 per cent lower than the corresponding period last year, Indian aviation regulator DGCA said on Wednesday. As per the Directorate General of Civil Aviation (DGCA), 77.34 lakh people travelled by air within the country in January. While IndiGo carried 42.38 lakh passengers in February, a 54.2 per cent share of the total domestic market, SpiceJet flew 9.62 lakh passengers which is 12.3 per cent share of the market, according to data shared by the DGCA. Air India, GoAir, Vistara and AirAsia India carried 9.16 lakh, 5.81 lakh, 5.4 lakh and 5.21 lakh passengers respectively in February, it showed. The occupancy rate or load factor of the six major Indian airlines was between 67.9 per cent and 78.9 per cent in February, it stated. "The passenger load factor in the month of Feb 2021 has shown increasing trend compared to previous month primarily due to beginning of tourist season," the DGCA said.
- 6) The Cabinet has cleared a Bill to set up a government-owned development financial institution (DFI) with an initial paid up capital of Rs. 20,000 crore so that it can leverage around Rs. three trillion from markets in a few years to fill the space of providing long term funds to infrastructure projects as well as for development needs of the country. To put it in perspective, Rs three trillion constitutes a bit less than three per cent of Rs 111 trillion, which is the cost

of over 7,000 projects in the National Infrastructure Pipeline for 2019-20 to 2024-25. Besides, the government will give Rs 5,000 crore as grants to the institution, Finance Minister Nirmala Sitharaman told media after the Cabinet meeting. The DFI will be fully government-owned initially and the promoter's stake will be brought down to 26 per cent in the next few years, she said. "We have acknowledged that both development and financial objectives will matter for setting up a DFI. We have mentioned it in the Budget and even as the Budget session is on, the Cabinet has already cleared setting up of DFI. With this, we will have an institution and institutional arrangement which will help in raising long term funds," she said. On speculations that infrastructure finance body IIFCL would be merged with the proposed DFI, financial services secretary Debasish Panda said the new institution will start on a "clean slate". Once the institution is set up, its board will decide about acquisition or merger of other companies, he said. The government will provide ten-year tax exemptions to funds invested in DFI to attract long term players such as insurance and pension funds. Besides, concessions from stamp duty would be given for which Indian Stamp Act will be amended.

- 7) The wholesale price-based inflation rose for the second consecutive month in February to 4.17 per cent, as food, fuel and power prices spiked. The WPI inflation was 2.03 per cent in January and 2.26 per cent in February last year. After witnessing months of softening of prices, the food articles in February saw 1.36 per cent inflation. In January it was (-) 2.80 per cent. In vegetables the rate of price rise was (-) 2.90 per cent in February, against (-) 20.82 per cent in January. Inflation in pulses was 10.25 per cent in February, while in fruits it was 9.48 per cent, and in fuel and power basket it was 0.58 per cent. The RBI in its monetary policy last month kept interest rates unchanged for the fourth consecutive meeting and said that the near-term inflation outlook has turned favourable. Retail inflation, based on the consumer price index, was at 5.03 per cent in February, data released last week showed.
- 8) Industrial production growth re-entered the negative territory by contracting 1.6 per cent in January, while retail inflation soared to a three-month high of 5.03 per cent in February on costlier food items.
- 9) Retail sales of passenger vehicles rose by 10.59 per cent in February 2021 to 2,54,058 units from 2,29,734 units in the year ago period, while two-wheeler sales dropped by 16.08 per cent to 10,91,288 units from 13,00,364 units in the corresponding period last year. While the tractor segment reported 18.89 per cent growth in sales, the CV segment saw a fall of by 29.53 per cent, according to data from the Federation of Automobile Dealers Associations (FADA), the apex body of the automobile industry in India. Automobile registrations across the country dropped by more than 13 per cent in February, said FADA. FADA said that the passenger vehicle waiting period continued to remain as high as 8 months as scarcity of semi-conductors continued to linger around. "The global semiconductor outage has impacted the production of several PV models across the brands. This has significantly pushed the waiting period to as high as 8 months for some of the prominent models such as Hyundai Creta, Mahindra Thar & Nissan Magnite to name some," FADA said in a statement. FADA President, Vinkesh Gulati, said that while tractors continued to outperform the broader market, passenger vehicles witnessed double digit growth on a low base of last year as India started transitioning from BS-IV to BS-VI emission norms. This, coupled with the global semiconductor outage, kept the waiting period of PVs as high as 8 months.
- 10) The global economic outlook has brightened as COVID-19 vaccine rollouts speed up in some countries and the United States launches a vast new stimulus package, the OECD said on Tuesday, hiking its forecasts. The world economy is set to rebound this year with 5.6% growth and expand 4.0% next year, the Organisation for Economic Cooperation and Development said in its interim economic outlook. That marked a sharp increase from its last outlook in early December, when the Paris-based policy forum forecast global growth of 4.2% this year and 3.7% next year. But significant risks loom over the improved outlook, notably in the form of how fast authorities get vaccine shots to people, how soon restrictions are lifted and whether new variants of the coronavirus are kept in check. OECD on Tuesday also forecast India's GDP to grow at 12.6% in FY22, the highest among G20 countries. This also marked a sharp turnaround from a 7.4% contraction in previous fiscal. It noted that higher commodity prices will also raise inflation in net commodity importers, such as India and Turkey, relative to commodity exporters.
- 11) Capital expenditure in industrial sectors is expected to rise 45-55 per cent in financial year 2021-22 as the economy gains from a government's scheme to boost productivity, said a report by Crisil Research on Tuesday. The India Outlook Report expects gross domestic product (GDP) growth to be at 11 per cent in fiscal 2022, after an estimated 8 per cent contraction this fiscal. The next fiscal, like the current, will have a low base "optical" growth in the first half and a rebound in the second. The capex rise in pharmaceuticals, chemicals, textiles, cement, auto and ancillary, metals and oil and gas will come on the back of a 35 per cent contraction in capex in the current fiscal. It will be driven by core sectors and the government's productivity linked incentive (PLI) scheme. Led by the oil and gas, that accounted for 30-32 per cent, close to 16000 manufacturing companies spent Rs. 3-3.5 trillion on capex annually over the past three years. "Without PLI, a meaningful recovery would have come only after two years in non-metal and cement sectors," said the report. PLI is directed at sectors that account for 30-35 percent of non-oil import bills.

For instance, automobiles and components worth Rs. 80,000 crore to Rs. 90,000 crore—the highest among all the sectors in value terms-- were imported from China and Korea in FY20. This was 20-25 per cent of India's auto components requirements. The second largest was the IT hardware (laptop, personal computers, tablets and servers) sector that imported goods worth Rs. 25,000 crore to Rs. 30,000 crore from China and Hong Kong in FY20. This was 80-85 per cent of demand for such hard wares in the domestic market.

- 12) Earlier, Prime Minister Narendra Modi said production linked incentive (PLI) scheme, which is aimed at boosting domestic manufacturing and exports, is expected to increase the country's production by US\$ 520 billion in the next five years. Addressing a webinar, Modi said the government is continuously carrying out reforms to boost domestic manufacturing. In this year's Budget, about Rs. 2 lakh crore was earmarked for the PLI scheme for the next five years and "there is an expectation that the scheme would result in increasing the production by about US\$ 520 billion in the next five years", he said. He added that there is also an expectation that the current workforce in the sectors, which will avail the benefits of the PLI scheme, will be doubled and job creation will also increase. The Prime Minister said the government is working to reduce compliance burden, further improve ease of doing business and cut down logistics costs for the industry. "PLI scheme would boost manufacturing in sectors from telecom to auto to pharma. PLI is aimed at expanding manufacturing and boosting exports," he said.
- 13) India's services activity expanded at the fastest rate in a year during February and companies noted the sharpest rise in overall expenses, a monthly survey said on Wednesday. The seasonally adjusted India Services Business Activity Index rose from 52.8 in January to 55.3 in February, pointing to the sharpest rate of expansion in output in a year amid improved demand and more favourable market conditions. The index was above the critical 50 mark that separates growth from contraction for the fifth month in a row during February as the roll-out of Covid-19 vaccines led to an improvement in business confidence towards growth prospects. While, new work intake expanded for the fifth straight month, panellists continued to indicate that the Covid-19 pandemic and travel restrictions curbed international demand for their services. "New export orders declined for the twelfth month running, albeit at the weakest rate since last March," the survey noted. Meanwhile, Indian private sector output rose at the quickest pace in four months during February. The Composite PMI Output Index, which measures combined services and manufacturing output, increased from 55.8 in January to 57.3 in February. "Economic activity is generally expected to recover in the final quarter of fiscal year 2020/21 after coming out of technical recession in Q3, and the latest improvement in the PMI indicators points to a strong expansion in the fourth quarter, should growth momentum be sustained in March," said Pollyanna De Lima, Economics Associate Director at IHS Markit.
- 14) The goods and services tax (GST) collection crossed the Rs. 1 lakh crore mark for the fifth month in a row in February. GST collection in the month stood at Rs. 1.13 lakh crore, 7 percent higher year-on-year, but lower than an all-time high of nearly Rs. 1.20 lakh crore in January, official data showed on March 1. "In line with the trend of recovery in the GST revenues over past five months, the revenues for the month of February 2021 are 7 percent higher than the GST revenues in the same month last year," the Finance Ministry said in a statement. Out of the total for February, Central GST was Rs. 21,092 crore, State GST was Rs. 27,273 crore, Integrated GST was Rs. 55,253 crore (including Rs. 24,382 crore collected on import of goods) and compensation cess was Rs. 9,525 crore (including Rs. 660 crore collected on import of goods).
- 15) The government has an ambitious plan to monetise around 100 government-owned assets as part of the monetisation plan, said Prime Minister Narendra Modi when he spoke about various reforms undertaken in the Union Budget. "With this the government will be aiming to achieve Rs. 2.5 trillion investment, we are going ahead with the mantra of monetise and modernise," PM Modi said. Speaking at a webinar on privatisation by the Department of Investment and Public Asset Management (DIPAM), Modi said state-owned companies in four strategic sectors will be kept at bare minimum and that the government is committed to privatising PSUs in all sectors barring four strategic ones. Further, PM Modi urged for the feedback on the privatisation and monetisation initiative for swift implementation. Outlining the government focus going forward, PM Modi said that the government is working on Rs. 111 trillion national infrastructure pipeline (NIP) fund. "The government has no business to be in business. When government monetises, that space is filled by private sector of the country. Private sector brings investment and best global practices with them," he said.

Ajcon Global's view

- 1) Indian equities witnessed pressure throughout the week with recovery on Friday after some cooling down in US Bond yields amidst significant spike COVID-19 cases especially in Maharashtra. Concerns like high inflation, contraction of IIP, and elevated crude prices too are affecting investor sentiments. Going ahead investors will keep a watch on movement of US bond yields, COVID-19 cases number on daily basis amidst significant spike and vaccination drive, FPI liquidity after new concerns stated above. Globally, Central banks are in the mood of accommodative monetary policy. The US Federal Reserve on March 17, 2021 suggested that it was in no hurry to raise interest rates through all of 2023, even as it talked about a V-shaped recovery in the world's largest economy.

- 2) Key factors like positive GDP data, phase II of COVID-19 vaccinations drive going strongly, strong GST collections in Feb. 2021, good proposals presented in Union Budget 2021-22, RBI's Monetary Policy keeping rates unchanged, stellar show by majority of the Companies in Q3FY21 earnings season will augur well for the bulls. The Nifty valuations are trading around 37-40x which looks expensive but with recent budget proposals one will need to watch out the effect on corporate earnings in Q4FY21 and FY22.
- 3) PSU space as a whole was neglected in the past for many years but with recent announcements re-rating has happened and are also available at fair valuations considering majority of the Companies turning expensive post stellar show. We expect strong rally to continue in PSU space going forward after Prime Minister Narendra Modi announcements earlier while speaking at webinar on privatisation by the Department of Investment and Public Asset Management (DIPAM) regarding monetisation of around 100 government-owned assets as part of the monetisation plan. Investors would continue to look out for PSU names which were not in the limelight during the stellar rally.
- 4) Intermediate corrections which are part and parcel of a big game will keep happening is also good for markets to remain healthy. Benchmark indices have been trading at steep valuations after the recent budget proposals and it needed a reason to correct which was provided by resurgence of COVID-19 cases and spike in US bond yields.
- 5) We believe India economic recovery from COVID-19 crisis will surpass major economies. As India is now one of the few major economies to post positive GDP growth in the last quarter of calendar year 2020, foreign investors will get attracted to Indian equities. Moody's Analytics said India's economy is likely to grow by 12 per cent in CY2021 following a 7.1 per cent contraction last year as near-term prospects have turned more favourable.
- 6) Stock specific opportunities would emerge on corrections and investors will keenly track PSUs which would benefit on Government's impetus on privatisation. In addition, the Government is putting a lot of emphasis and effort to implement the Strong Budget proposals in a timely and efficient manner.
- 7) We recommend investors to be stock specific and suggest investors not to get carried away with unknown names suddenly looking attractive. After the recent fall, most of the PSU companies and select midcaps, smallcaps valuations look decent after last week's fall.



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