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Market wrap

January 08, 2021

Bulls remain in control; midcaps and smallcaps were on fire..

- 1) Bulls were roaring hard led by positive expectations from Q3FY21 earnings and positive global cues. Buying was witnessed across the board. Benchmark indices settled over a per cent higher on Friday. IT stocks led from the front and contributed nearly half of Sensex's 600-point gains today. Reliance Industries, Maruti Suzuki, HDFC Bank, and L&T provided the remaining fillip to Sensex.
- 2) The S&P BSE Sensex notched 689 points, or 1.43 per cent, to end at fresh closing peak of 48,782.5. The index hit a new lifetime high of 48,854.34 levels earlier in the day. The Sensex index gained by 2 per cent during the week and clocked the longest stretch of weekly gains since 2009.
- 3) Maruti Suzuki was up by 6 per cent and remained the top Sensex gainer, followed by Tech Mahindra, up 5 per cent. The IT company today entered the elite Rs 1-trillion market capitalisation club, becoming the fifth IT firm to achieve the feat. At close, its m-cap was Rs 1.01 trillion. Tata Consultancy Services (TCS) hit a record high of Rs. 3,127.55 apiece in the intra-day trade and closed 3 per cent higher ahead of the announcement of Q3FY21 results. The IT firm's revenue in constant currency (CC) terms is expected to rise in the range of 2.4-4 per cent on quarter-on-quarter (QoQ) basis while it may grow between 3-4.5 per cent in dollar revenue.
- 4) The broader Nifty50 too, ended at fresh closing peak of 14,347, closing 210 points or 1.48 per cent higher on the NSE. 41 of the 50 constituents ended the day in the green. The index touched lifetime high of 14,367 in noon deals today. For the week, the index was up 2.3 per cent.
- 5) In the mid-cap space, S&P BSE MidCap index, though underperformed the frontline index, settled 1 per cent higher at 19,138.7 level after hitting a record peak of 19,161 earlier in the day, and clocked a 5-per cent weekly gain. The S&P BSE SmallCap index, on the other hand, ended at 18,908.59 levels, up 0.72 per cent.

Sectors and stocks

- 1) Shares of Mahindra & Mahindra (M&M) hit a 52-week high of Rs. 768.75, up 3 per cent, on the BSE in intra-day trade on Friday after the company announced price increase for its personal & commercial range of vehicles from today, January 8, 2021, due to rise in input costs. The stock surpassed its previous high of Rs. 764.10, touched on December 8, 2020. The price will increase by around 1.9 per cent, resulting in an increase of Rs.4,500 – Rs. 40,000, depending on the model and variant, M&M said in a press release. The company further said that in the case of new Thar, the current price increase will be effective for all bookings done between December 1, 2020 and January 7, 2021. All fresh bookings for new Thar, effective January 8, 2021, will have prices as applicable on the date of delivery, it said. The management said the price increase was necessitated due to the unprecedented increase in commodity prices and various other input costs over the past many months. "We have made all efforts to reduce our costs and deferred price increase for a significant duration, but due to the quantum of the input cost increase, consequently we are taking this price increase effective January 8, 2021," said Veejay Nakra, CEO – Automotive Division, M&M. The Company had already increased the price of its range of tractors, across models with effect from January 1, 2021 due to the increase in commodity prices. The wholesale volumes of tractor continued to be strong, fueled by restoration of channel inventory post the festive season, announcement of hike in tractor prices by major OEMs and anticipation of sustained demand on the back of higher Rabi acreage, government support in Kharif procurement & rural development schemes, the company said.
- 2) Shares of Sun Pharmaceutical Industries rose 3 per cent to hit an over two-year high of Rs. 619 on the BSE in intra-day trade on Friday on expectations of steady earnings visibility. The pharmaceutical company's stock was trading at its highest level since October 2018. The board of directors of Sun Pharma are scheduled to meet on January 29, 2021 to consider and approve the financial results of the company for the quarter ended December 31, 2020 (Q3FY21). Sun Pharma's results for the quarter ended September 2020 (Q2FY21) were above street estimates on all fronts, mainly on account of better-than-expected operational performance, tax gain on the creation of deferred tax assets, higher other income and lower interest expense. The company had said its sales of specialty products have improved sequentially with Ilumya and Cequa reaching pre-Covid levels. The recovery in ex-Taro US business, steady EM and RoW growth, solid domestic chronic biz and visible cost control are likely to provide comfort to base business.

Key recent developments

- 1) The United States Congress on January 7, 2020 certified Joe Biden's election as the 46th President of the US after counting of Electoral College votes. Minutes after the US Congress' certification, President Donald Trump said there will be orderly transition on January 20. "Even though I totally disagree with the outcome of the election, and the facts bear me out, nevertheless there will be an orderly transition on January 20th," Trump said in a statement issued by White House Deputy Chief of Staff Dan Scavino. "I have always said we would continue our fight to ensure that only legal votes were counted. While this represents the end of the greatest first term in presidential history, it's only the beginning of our fight to Make America Great Again!" Trump added.
- 2) The Indian government approved two COVID-19 vaccines - Serum Institute of India's Covidshield, and Bharat Biotech's Covaxin -- for restricted use in an emergency situation.
- 3) Manufacturing sector activities showed a marginal improvement in December compared to the previous month even as employment generation remained low, showed the widely-tracked IHS Markit purchasing managers' index (PMI) survey. PMI inched up to 56.4 in December compared to 56.3 in November. However, it remained lower than 58.9 in October and 56.8 in September, the two months during which the economy saw a gradual lifting of lockdowns. A reading above 50 shows growth, while the print below 50 means contraction. While firms were able to lift input stocks, and did so at the quickest rate in nearly a decade, holdings of finished goods decreased sharply due to the ongoing increase in new work. Output growth eased to a four-month low, but remains strong. Manufacturing, in the Index of Industrial Production (IIP) rose by 3.5 per cent in October, according to the latest figures. However, it might come down going forward in line with PMI results, warned Pollyanna De Lima, Economics Associate Director at IHS Markit.
- 4) 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.
- 5) 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.

Global equities

- 1) European equities were up on Friday, with Germany's DAX hitting a record high on the back of better-than-expected economic data and encouraging earnings updates from chipmakers.
- 2) The pan-European STOXX 600 index rose 0.7% and was on track for a more than 3% weekly gain, with hopes of more US stimulus boosting economically sensitive sectors such as miners, oil & gas and banks. Germany's DAX index jumped 0.8% after data showed both industrial output and exports rose more than expected in November.
- 3) In Asia, Japan's Nikkei was up by 2.36 per cent while South Korea's Kospi rallied by 4 per cent.

Ajcon Global's view

- 1) Last two days fall can be attributed to profit booking and negative global cues with respect to surge in COVID-19 cases globally. Chinese authorities on Wednesday imposed travel restrictions and banned gatherings in the capital city of Hebei province, which surrounds Beijing, to control the virus spread.



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- 2) 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.
- 3) 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.
- 4) 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. Any negative news especially on the new strain of COVID-19 will play spoilsport after massive rally.
- 5) We believe correction will make markets healthy. 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 which has still not reached January 2018 levels. However, advise investors to be careful in smallcaps space as high liquidity may paint fundamentally weak companies as next multibaggers.



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