

Indian equities witness profit booking; PSU Banks, Government Insurance Companies and Housing Finance companies rally significantly..

- 1) Investors have turned to profit booking from yesterday a after a stellar run. That apart, expiry of the weekly F&O contracts also added to the volatility.
- 2) Among key indices, the benchmark S&P BSE Sensex fell by 379 points today to settle at 51,325 levels. From the day's high of 51,904, the index skid over 700 points to hit a low of 51,187. At close, Bajaj Finance, Nestle, M&M, ICICI Bank, and HDFC, down up to 2.5 per cent, ended the day as the top losers.
- 3) On the upside, ONGC remained the outperformer, up 8 per cent on the BSE, after the government announced Rs. 7.5 trillion infrastructure plan in the oil and gas sector over the next 5 years. Besides, NTPC, Asian Paints, Power Grid, Tech M, and IndusInd Bank were the other top gainers.
- 4) NSE's Nifty50, on the other hand, slipped below the 15,150 levels to end at 15,119, down 90 points or 0.6 per cent. The advance to decline ratio remained neck and neck with 27 stocks declining on the Nifty against 23 stocks that advanced.
- 5) Gains in the broader market stocks, however, supported the overall market breadth. The S&P BSE SmallCap index moved closer to record high levels today as it soared on the back of gains in Indian Overseas Bank, Central Bank of India, Bank of Maharashtra, OnMobile Global, Goldiam International, Magma Fincorp, Adani Total Gas, Shankara Building Products, and Majesco. The index, which hit a high of 20,128, ended 0.66 per cent higher today at 20,015 levels.
- 6) The S&P BSE MidCap, on the other hand, closed at 20,376 levels, up 0.7 per cent.
- 7) Sectorally, the Nifty PSU Bank index jumped another 5.6 per cent today, while the Nifty CPSE and Energy indices settled up to 4 per cent higher. On the downside, the Nifty Financial Services, Auto, and Private Bank indices slipped up to 1.5 per cent each.

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	51,324.69	51,703.83	-379.14	-0.73	51,903.96	51,903.96	51,186.68
Nifty	15,118.95	15,208.90	-89.95	-0.59	15,238.70	15,250.75	15,078.05

Sectors and stocks

- 1) Shares of two listed state-owned insurance companies, New India Assurance Company (Rs. 164.20) and General Insurance Corporation of India or GIC Re (Rs. 170.90), were locked in the upper circuit of 20 per cent on the BSE on Thursday on media report that the government is considering privatisation of United India Insurance and General Insurance Corporation which is not confirmed by government officials. As on December 31, 2020, the government held 85.78 per cent stake in GIC RE, and 85.44 per cent in the New India Assurance Company, the shareholding pattern data shows. GIC Re is the largest reinsurer in the domestic reinsurance market in India and leads most of the domestic companies' treaty programmes and facultative placements. The New India Assurance Company, meanwhile, is the largest general insurance company in India. GIC RE and New India Assurance are trading below their respective issue price on the BSE by 63 per cent and 58 per cent, respectively. These companies had made stock market debut in October-November 2017.
- 2) Indian Overseas Bank and Central Bank of India rallied 20 per cent each while Bank of Maharashtra was up 10 per cent on the BSE today. In the past one week, these banks have surged between 64 per cent and 67 per cent on report that the government has shortlisted these mid-sized state-run banks, along with Bank of India, for privatisation. Apart from PSU banks, OnMobile Global, Goldiam International, Magma Fincorp, Adani Total Gas, Shankara Building Products, Majesco, Greaves Cotton, HLE Glascoat, Linde India, Sadbhav Engineering, Mayur Uniquoters and HEG have rallied over 25 per cent in the past one week. The S&P BSE Smallcap index has advanced

2.04 per cent, as compared to a 1.9 per cent gain in the S&P BSE Midcap and 0.44 per cent rise in the S&P BSE Sensex during the period.

- 3) Shares of Dish TV India rallied by 6 per cent to hit an intra-day high of Rs. 12.60 on the BSE in Thursday's session after the company's board approved raising funds of up to Rs. 1,000 crore. With today's gains, the stock has risen 9 per cent in the last two days. "Keeping in mind the requirement for funds in the company, the Board, at its meeting held today, i.e., February 17, 2021 considered various options for fundraising and granted in-principal approval to initiate the process of fund-raising for an amount up to Rs. 1,000 crore, in one or more tranches." the firm said in an exchange filing.
- 4) OnMobile Global shares hit a fresh 52-week high of Rs 113.90, up 9 per cent in intra-day trade today. The stock of the telecom services provider has soared 58 per cent during the week. In the past one month, it has rallied 103 per cent after its net profit more-than-doubled to Rs 12 crore in Q3FY21 from Rs 6.5 crore in Q3FY20. Earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved 500 bps to 12.7 per cent from 7.7 per cent. OnMobile provides end-to-end mobile entertainment solutions that include platform, apps, content partnerships, and professional services to carriers across the globe. Based on current deployments, OnMobile has over 100 million active subscribers and an addressable base of more than 1.68 billion mobile users across several geographies.
- 5) Shares of Tejas Networks were locked in upper circuit for the second straight day, up 10 per cent at Rs. 201, also its 52-week high on the BSE in Thursday's session after the government approved a Rs. 12,195 crore production-linked incentive (PLI) scheme for telecom gear manufacturing in India. The stock has gained 20 per cent in the past two trading days, surging 44 per cent thus far in the month of February. Tejas Networks designs, develops and sells high-performance and cost-competitive networking products to telecommunications service providers, internet service providers, utilities, defence and government entities in over 75 countries. Tejas' products utilise programmable, software-defined hardware architecture with a common software code-base that delivers seamless upgrades of new features and technology standards. It is ranked among top-10 suppliers in the global optical aggregation segment and has filed over 349 patents.

Key recent major developments..

- 1) The Reserve Bank of India (RBI) on Wednesday came out with a slew of directions related to maintenance of liquidity coverage ratio, risk management, asset classification and loan-to-value ratio, among others, for HFCs. All non-deposit taking HFCs with an asset size of Rs. 10,000 crore and above, and all deposit taking HFCs irrespective of their asset size will have to achieve a minimum liquidity coverage ratio (LCR) of 50 per cent by December 1, 2021 and gradually to 100 per cent by December 1, 2025. No housing finance company shall grant housing loans to individuals up to Rs. 30 lakh with LTV ratio exceeding 90 per cent and above Rs. 30 lakh and up to Rs 75 lakh with LTV ratio exceeding 80 per cent. The central bank said these directions, which shall come into force with an immediate effect, are aimed at preventing the affairs of any HFCs from being conducted in a manner detrimental to the interest of investors and depositors.
- 2) The Cabinet approved production-linked incentive (PLI) scheme worth Rs. 12,195 crore for telecom equipment manufacturing, Union minister Ravi Shankar Prasad said. He added that the government is positioning India as a global powerhouse for manufacturing, and has created a conducive environment for ease of doing business.
- 3) The Cabinet has approved the Comprehensive Economic Cooperation and Partnership Agreement (CECPA) between India and Mauritius to encourage and improve trade between the two countries. The Agreement is a limited agreement, which will cover trade in goods, rules of origin, trade in services, technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, dispute settlement, movement of persons, telecom, financial services, customs procedures and cooperation in other areas. The CECPA will be the first trade agreement to be signed by India with a country in Africa, information and broadcasting minister Prakash Javdekar said.
- 4) The Government of India is planning to spend around Rs. 7.5 trillion to build oil and gas infrastructure over the next five years, said Prime Minister Narendra Modi. Strong emphasis has been laid on the expansion of city gas distribution networks by covering 470 districts, the PM said, adding that the government is aiming to increase the share of gas in the energy basket from 6.3 per cent currently to 15 per cent. He said the share of energy from renewable sources will be raised to 40 per cent by 2030.
- 5) India has given the first dose of covid antidote to 94,22,228 beneficiaries in the nation-wide vaccination drive. India became the fastest country in the world to reach the 5 million Covid-19 vaccination mark. About 18-19 vaccine candidates against COVID-19 are in the pipeline and in different clinical trial stages, Health Minister Harsh Vardhan said on Monday. Addressing the media, Vardhan said that in the next 2-3 weeks, vaccinations against



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COVID-19 will be started for people above 50 years of age. "About 18-20 vaccine candidates against COVID-19 are in the pipeline and are in preclinical, clinical and advanced stages," Vardhan said. He further said that India will be supplying vaccines to 20-25 other countries.

- 6) The wholesale price index (WPI)-based inflation rate rose to 2.03 per cent in January from 1.22 per cent in the previous month as fuel and non-food manufactured products faced price pressures. Economists feel there is no further room for rate cuts by the monetary policy committee of the Reserve Bank of India in the current cycle. The WPI inflation rose because it consists of mainly manufactured items which have a weight 64.23 per cent. Besides, fuel and power have 13.15 per cent weight. Both these categories surged in inflation or decreased in the deflation rates. Core inflation rate (that on manufactured items sans processed food products) rose to a 27-month high 5.1 per cent in January.
- 7) The consumer price index (CPI)-based inflation rate, on the other hand, fell to a 16-month low of 4.06 per cent from 4.59 per cent over this period. While the directions of CPI and WPI inflation rates look divergent, a deeper analysis showed that items within each of them moved more or less in tandem.
- 8) The country's exports grew by 6.16 per cent to US\$27.45 billion in January, according to data by the commerce ministry. Imports too grew by 2 per cent to about US\$42 billion, leaving a trade deficit of US\$14.54 billion during the month under review, the data showed. Exports during April-January this fiscal dipped by 13.58 per cent to US\$228.25 billion, while imports declined by 25.92 per cent to US\$300.26 billion.
- 9) Indian tech industry continues to be a net hirer with significant focus on digital upskilling amidst COVID-19 crisis. The industry is expected to add over 138,000 net new hires in FY2020-21, taking total employee base to 4.47 million in FY2020-21. Digital talent pool is expected to cross 1.17 million, growing at 32 per cent over last year.
- 10) Investing in digital continues to rise as an imperative for the industry, with organisations building their capabilities and aligning business models to digital practices--up to 28-30 per cent of the industry revenues was recorded for digital.
- 11) Global rating agency Moody's on last Thursday said that India's economic recovery reduces the risk of a sharp deterioration in public sector banks' (PSBs) mildly improving asset quality. However, the capital shortfalls will remain despite a likely government equity infusion and this makes banks vulnerable to unexpected shocks and restricting credit growth.
- 12) According to the Federation of Automobile Dealers Association (FADA), the automobile registrations declined by 9.66 per cent in January 2021 on YoY basis after showing a year-on-year (YoY) growth in December, 2020. Registration data compiled from the Centre's VAHAN portal reflect retail sales of automobiles. All categories except tractors were in the red, it said, adding that YoY, two-wheeler (2W), three-wheeler (3W), commercial vehicle (CV) and passenger vehicle (PV) registrations fell 8.78 per cent, 51.31 per cent, 25 per cent and 4.46 per cent, respectively. Tractors continued to see strong momentum with a YoY growth of 11.14 per cent, FADA said. The association added that non-availability of vehicles due to scarcity of semiconductors, fading pent-up demand and recent price hikes coupled with no festivities and auspicious days landed January registrations in the negative zone. While dealer inventory for PVs continued to fall and come in the range of 10-15 days, 2W inventory stayed put at 30-35 days, it said. PV retail sales in January were recorded at 2,81,666 units, as a semiconductor shortage impacted the segment, compared with 2,94,817 units in January 2020. Similarly, 2W sales declined to 11,63,322 units (12,75,308 units).
- 13) The Reserve Bank of India (RBI) earlier announced its plan to buy bonds worth Rs. 20,000 crore under Open Market Operations (OMO) to support the government's borrowing programme. "On a review of current liquidity and financial conditions, therefore, the Reserve Bank has decided to conduct purchase of government securities under OMO for an aggregate amount of Rs 20,000 crore on February 10, 2021," the central bank said in a press release.
- 14) The RBI kept the repo rate unchanged at 4 per cent and maintained the policy stance as 'accommodative' in its bi-monthly monetary policy meeting. Besides, it projected the GDP growth of 10.5 per cent in FY22 for India while projection for CPI-based inflation was revised to 5.2 per cent for Q4FY21. RBI governor Shaktikanta Das also announced normalisation of CRR which, he said, would open up space for a variety of market operations to inject additional liquidity. Furthermore, absence of any concrete measures as expected by a set of bond traders weighed on the yields with 10-yr Gsec yields jumping 8bps from 6.07 per cent to 6.15 per cent. In another development, Das announced direct online participation by retail investors in Government securities in both primary and secondary market is a big initiative which will broaden the investor base.
- 15) Activity in India's services sector expanded for the fourth straight month in January as the Covid-19 vaccination roll-out drove business optimism, a private survey showed on Wednesday. The IHS India Services Business Activity



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Index rose to 52.8 in January from 52.3 in December, suggesting the pace of growth was moderate. The 50-point mark separates expansion from contraction. But it should be noted that the PMI is a month-over-month indicator, showing improvement over the previous month, and not over the previous year. "The Indian services sector enjoyed good levels of activity in January, with new business volumes rising for the fourth successive month and growth rates for both measures picking up from December," said Pollyanna De Lima, Economics Associate Director at IHS Markit. "The service sector looks set to sustain growth and confidence towards hiring may improve as COVID-19 concerns diminish," De Lima added.

- 16) In the Union Budget 2021-22, the FM announced capital expenditure of Rs. 5.54 trillion for FY22 (sharp increase of 34.5%) over last year's Rs. 4.39 trillion for FY21. Further, she announced the FY22 disinvestment target at Rs 1.75 trillion. Life Insurance Corporation of India (LIC) will go for an initial public offering (IPO) in FY22 as well. Further, allocation of Rs. 20,000 crore toward setting up a development financial institution (DFI) to have lending portfolio of Rs. 5 trillion over the next three year with the aim to mobilise funding required fulfilling National Infrastructure Plan (NIP).
- 17) FY21 fiscal deficit was pegged at 9.5 per cent of GDP. The optimism despite higher borrowing and a wider fiscal deficit, was on account of the positive measures to revive the Covid-19 hit economy. That said, while the fiscal deficit number and the gross borrowing estimates are a tad higher-than-expected, the money is being put to good use. The government plans to borrow around Rs. 12 trillion in FY22 and has pegged fiscal deficit at 6.8 per cent of the gross domestic product (GDP). Sitharaman said the government will be borrowing an additional Rs. 80,000 crore in this fiscal to meet its deficit for 2020-21, pegged at 9.5 per cent of the GDP. Therefore, the total gross borrowing this fiscal would be Rs. 14 trillion.
- 18) As per the budget proposals, the government plans to start the process of privatisation for two more public sector banks, other than IDBI Bank, and two insurance companies in fiscal 2021-22 which is a bold move. Remember, privatisation of banks has been promised long by successive governments but there has not been much of a progress. PSU stocks have rallied post the announcements as investors cheered the proposal. Privatisation of PSBs has not been taken by governments also because this is a politically sensitive decision.
- 19) Stressed Asset Resolution: Asset Reconstruction Company Limited and Asset Management Company to be set up. This entity, called as a 'bad bank', will give a big reprieve to NPA-ridden banks by absorbing the toxic assets and freeing them to pursue fresh lending. A bad bank will act as an aggregator of all stressed assets in the system. It is set up to buy the bad loans and other illiquid holdings of another financial institution. Once toxic assets are transferred to this entity, attempts for an early resolution by experts begins while originating banks can focus on their business. The bad bank idea has been supported by senior bankers and other financial sector experts citing that the idea will help for quicker bad asset resolution. The recovery through debt recovery tribunals and Insolvency and bankruptcy code (IBC) mechanism has been limited to only a few large cases. A bad bank could help in better bad loan resolution through an ARC model. In May 2020, when the IBA submitted its proposal to a government but the concept didn't take off at that point.
- 20) The extension of tax exemption schemes in Affordable Housing will have a strong positive effect on various sectors related to it.
- 21) The Government provided benefits to sectors which focus "Aatmanirbhar Bharat" or a self-reliant India in difficult times of COVID-19. The Budget would encourage industries to be 'vocal for local' for a future-ready India.
- 22) To make India future ready for any pandemic crisis in future, Healthcare sector got benefits with increased allocation and more specific allocation of Rs. 35,000 crores towards COVID-19 vaccination drive.
- 23) GST collections surged to an all-time high of about Rs. 1.20 lakh crore in January, 2021 as economic activities picked up after the withdrawal of stringent lockdown restrictions. Mop-up from the Goods and Services Tax (GST), which is levied when a consumable item is sold or a service such as travel booking rendered, in January was 8 per cent higher than such receipts in the same month of 2020. In a statement, the Finance Ministry said the January collections were the highest ever since the implementation of the nationwide tax in July 2017. The previous best was in December 2020 when Rs. 1,15,174 crore was collected. This is the fourth straight month of over Rs. 1 lakh crore tax collections, a sign of strong recovery.
- 24) India forecast robust economic growth of 11% for the fiscal year beginning on April 1 in its annual economic survey, on the back of the beginning of a nationwide coronavirus vaccination drive and a rebound in consumer demand. The Indian economy, which the International Monetary Fund singled out as a global bright spot only a few years ago, is set to contract 7.7% in this fiscal year, to March 31, the deepest contraction in four decades, the government said in the survey. But the government predicts the rollout of vaccines against COVID-19 will re-energise Asia's third-



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largest economy with 11% growth next year, putting it on track to post the strongest growth since India liberalised its economy in 1991. "With the economy's returning to normalcy brought closer by the initiation of a mega vaccination drive, hopes of a robust recovery in services sector, consumption, and investment have been rekindled," said the survey.

Global markets

- 1) MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.42 per cent, Australian stocks rose 0.01 per cent, while Japan's Nikkei fell 0.14 per cent.
- 2) However, in signs that global sentiment were still buoyant, Euro Stoxx 50 futures were up 0.22 per cent, German DAX futures were up 0.15 per cent, and FTSE futures rose 0.3 per cent.
- 3) Successful rollouts of COVID-19 vaccines in many countries are raising hopes of further recovery in economic activities hampered by COVID-19 crisis led restrictions.
- 4) U.S. President Joe Biden is also pushing ahead with his plan to pump an extra US\$1.9 trillion in stimulus into the economy, in a further boost to market sentiment. The expectations of low interest rates is helping inflows into equities. The bullish view on the economy lifted bond yields, with the 10-year U.S. Treasuries gaining 5 basis points to 1.252% in early Asian trade, its highest since late March. Investors are keeping an eye for the minutes from the U.S. Federal Reserve's January meeting, due to be published on Wednesday, for confirmation of its commitment to maintain its dovish policy stance over the near future. That in turn is set to keep a tab on bond yields.
- 5) Last week, on Friday, UK's gross domestic product shrank 9.9 per cent in 2020, its biggest decline on record.

Ajcon Global's view

- 1) Overall, benchmark indices continued to be under pressure led by profit booking. However, PSU Banks, Government insurance companies, Housing Finance Companies, select midcaps and smallcaps were on fire. It is a clear indication of portfolio churning and increasing allocation towards midcaps and smallcaps after mega rally in largecaps during COVID-19 crisis and after Union Budget proposals.
- 2) Buoyancy continued in PSU banking space after a media report earlier suggested that Government had shortlisted for privatisation four banks - Bank of India, Central Bank of India, Indian Overseas Bank and Bank of Maharashtra which is not confirmed by the Government officials. Buoyancy was witnessed in select midcaps and smallcaps based on Q3FY21 earnings performance.
- 3) Today, Government insurance Companies also rallied on privatisation buzz.
- 4) Indian equities have witnessed a new euphoria and have rallied significantly after one of its kind of Budget presented with significant outlay for investment led spending across infrastructure building like roads, power, railways, airports, ports, shipping, waterways etc. and with no changes in capital gains taxes or securities transaction tax (STT) or any form of Covid-19 pandemic-related tax which brought happiness at Dalal Street. Various PSUs have been re-rated as Privatisation agenda of the Government has made investors happy as its a bold move. With robust rally of around 10 percent in benchmark indices which reflects upsurge in Largecaps in just a week's time; naturally its turn of midcaps and smallcaps to join the party too which was reflected in today's trading session. Jan. 2018 levels may soon approach fast considering the intensity of the euphoria post the Budget proposals. Sentiments were buoyant post Budget as Government chose to revive growth which is the need of the hour owing to unprecedented crisis of COVID-19 and let fiscal prudence take a backseat (allowed fiscal deficit to remain high). Overall, the FM presented a reformist budget and good measures for the banking sector in 2021 especially with respect to the privatisation agenda. FPIs too cheered Budget announcements and have re-rated various sectors.
- 5) The Nifty valuations are trading around 35x which looks expensive but with recent budget proposals one will need to watch out the effect on corporate earnings in Q4FY21 and FY22. Q3FY21 earnings season has been robust for majority of the players till date and re-rating has already happened in infrastructure, Banks, NBFCs, auto and overall PSUs sector.
- 6) Domestically, ongoing Q3FY21 earnings season which is nearing end has been robust after good results by Companies like TCS, Hindustan Unilever, Maruti, Tata Motors, Colgate, SBI, Central Bank, Bank of India, Union Bank of India, HDFC Bank, ICICI Bank, Shriram Transport Finance, IIFL Finance, Ajanta Pharma, Avenue Supermarts (Dmart), Tata Elxsi, Bajaj Auto, Ceat, JK Tyre, Bajaj Auto, Bajaj Electricals, Polycab, NMDC, BEML,



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Amber Enterprises, Route Mobile, J.B. Chemicals and Pharmaceuticals, Balaji Amines, Neuland Laboratories, Greenply Industries, Voltas, Happiest Mind Technolo and many more.

- 7) With Union Budget 2021-22 presented, RBI's Monetary Policy keeping rates unchanged, stellar show by majority of the Companies in Q3FY21 earnings season; all eyes would be now FPI liquidity after stellar run and COVID-19 cases numbers. The Budget proposals are long term in nature. The implementation of all these budget provisions may take some time. Hence, short term investors are advised to book partial profits.



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