

Significant fall continues at Dalal Street; Auto and auto ancillary stocks remain buoyant..

- 1) Domestic bourses continued to remain under pressure led by profit booking on Friday after markets scaled historic levels a day before, when the S&P BSE Sensex surpassed the 50,000-mark for the first time. The trend to be observed is that market is rewarding Companies with strong Q3FY21 results.
- 2) In the intra-day trade, the benchmark S&P BSE Sensex witnessed a significant fall of 790 points and hit a low of 48,835 levels. The index settled around day's low level of 48,878 levels, down 746 points or 1.5 per cent. Financial bore the maximum brunt with Axis Bank declining 4.4 per cent on the Sensex, followed by SBI (3.5 per cent), ICICI Bank (3.7 per cent), and IndusInd Bank (3.5 per cent). On the flipside, Bajaj Auto, HUL, TCS, Ultratech Cement, and Bajaj Finserv were the only gainers on the Sensex.
- 3) On the NSE, the Nifty50 settled at 14,372 levels, down 218 points or 1.5 per cent.
- 4) The broader markets, however, fared slightly better. The S&P BSE MidCap index ended 1.1 per cent lower at 18,777.46 levels while the S&P BSE SmallCap index closed at 18,442 levels, down 0.93 per cent.
- 5) Sectorally, most of the key indices settled lower. The Nifty Metal index underperformed the benchmark and closed 4 per cent lower. Among individual stocks, SAIL declined by 14 per cent, JSPL fell by 8 per cent, and Hindustan Copper slipped by over 4 percent.

Sectors and stocks

- 1) Shares of automobile and auto ancillary companies were on fire with Nifty Auto and the S&P BSE Auto indices surging nearly 4 per cent at the bourses, hitting their respective 52-week highs, following a strong performance during the quarter ended December 2020 (Q3FY21). Bajaj Auto, Motherson Sumi Systems, Ashok Leyland, Tata Motors, Hero MotoCorp, Exide Industries, Bosch and TVS Motor Company from the indices were up significantly. JK Tyre & Industries, Apollo Tyres, Ceat, TVS Srichakra, Lumax Auto Technologies and Munjal Showa, the non-index stocks, rallied between 5 per cent and 15 per cent.
- 2) Shares of Bajaj Auto hit a record high of Rs 4,130 and finally ending the day at Rs. 4,089 up 10.43 percent on the National Stock Exchange (NSE), after the company reported an expansion in operating Ebitda margin to 19.8 per cent from 18.4 per cent in the year-ago quarter. The operating performance was driven by favorable mix, lower marketing spends, and operating leverage.
- 3) Shares of SBI Cards and Payment Services (SBI Cards) rallied 5 per cent to Rs. 1,026 on the BSE in the intra-day trade on Friday after a sharp improvement in asset quality during October-December quarter (Q3FY21). The stock was trading at the highest level since its listing on March 16, 2020. SBI Cards said the gross non-performing assets (GNPA) were at 1.61 per cent of gross advances as on Q3FY21 as against 2.47 per cent as on Q3FY20. Net non-performing assets (NNPA) were at 0.56 per cent as against 0.83 per cent in a year ago quarter. Proforma GNPA as on Q3FY21 stands at 4.51 per cent and NNPA at 1.58 per cent, it said. However, SBI Cards reported 50 per cent year on year (YoY) decline in net profit at Rs 210 crore, led by 3 per cent YoY decline in operating revenues and 70 per cent YoY increase in provisions.
- 4) Shares of JK Tyre & Industries hit a fresh 52-week high of Rs. 133, soaring 15 per cent in intra-day trade on Friday, after the company reported highest-ever quarterly sales and net profit for Q3FY21. The stock of tyre & rubber products maker has rallied by 52 per cent in the past four trading days. The company's consolidated sales grew 26 per cent YoY to Rs. 2,776 crore, a best-ever for any quarter. Ebitda, meanwhile, doubled to Rs. 507 crore and profit before tax (PBT) recorded a multifold increase to Rs. 343 crore, compared with the corresponding quarter. Ebitda margins came at 18.1 per cent, up 250 basis points on a sequential basis. The strong performance during the quarter was largely driven by the increased demand for passenger, commercial vehicle as well as farm tyres. The continued focus on improvement in operating efficiencies and reduction in interest costs contributed to improved profitability, the management said.
- 5) Shares of metal companies were under pressure at the bourses on Friday, with the Nifty Metal index falling by 4 per cent, after share prices of Steel Authority of India (SAIL) and Jindal Steel and Power (JSPL) declined by up to 14 per cent on account of profit booking by investors.

Key recent major developments..

- 1) India's non-banking finance companies (NBFC) need tighter regulation through creation of a multilayer model, said a discussion paper by the Reserve Bank of India on Friday. The paper proposed a structure to categorise NBFCs, or shadow banks, depending on their size and interconnectedness with the system. NBFCs in the lower layer will be known as NBFC-Base Layer (NBFC-BL). NBFCs in the middle layer will be known as NBFC-Middle Layer (NBFC-ML). An NBFC in the Upper Layer will be known as NBFC-Upper Layer (NBFC-UL) and will invite a new regulatory superstructure. It proposed a NBFC non-performing classification norm of 180 days be "harmonised" to 90 days. "In view of the recent stress in the sector, it has become imperative to reexamine the suitability of this regulatory approach, especially when failure of an extremely large NBFC can precipitate systemic risks," said the paper.
- 2) India has given the first dose of covid antidote to almost 1,043,534 beneficiaries in the nation-wide vaccination drive and also tweaked the Co-WIN software to allow on the spot allotment of those already registered in an ongoing session in order to allow maximum possible number of people to get the jab.
- 3) Joe Biden, hours after being sworn in as the 46th President of US, will send a comprehensive immigration bill to Congress which among other things proposes to eliminate the per country cap for employment-based green cards, a move that would benefit hundreds and thousands of Indian IT professionals in the US, whose current wait period for legal permanent residency runs into several decades. In addition, US President Joe Biden outlined a \$1.9 trillion stimulus package a few days back.
- 4) Last week, Prime Minister Narendra Modi on Saturday launched 'world's largest vaccination drive' against Covid-19, congratulating citizens and scientists for the feat. He cautioned people to ensure that they take both the doses at one month's gap and show patience as the country begins to give the antidote to its huge population. "Don't make the mistake of taking one dose and then forgetting about dose two and don't forget coronavirus appropriate behaviour after getting the dose. The patience with which you fought coronavirus, show the same patience during vaccination now," PM Modi said.
- 5) The Index of Industrial Production (IIP) contracted 1.9 percent for November 2020, showed the data released by the Ministry of Statistics and Programme Implementation (MoSPI) on January 12. The factory output in the country had grown at 3.6 per cent in October. For November 2020, IIP with base 2011-12 stands at 126.3, showed the Ministry's data. The MoSPI in its quick estimate of IIP for November data mentioned that the indices for industrial production for sectors like the mining, manufacturing and electricity stood at 104.5, 128.4 and 144.8 respectively.
- 6) The Union Ministry of Health and Family Welfare said in a media briefing on January 12 that the COVID-19 vaccination process in the country will take more than one year to complete. Responding to a question on whether states and Union territories will get to choose which vaccine they opt for, Union Health Secretary Rajesh Bhushan said: "There is no such option available to any of the beneficiaries in any country." This means, people will not get to choose the vaccine they will be administered. They can get either of the two COVID-19 vaccines that have got emergency use approval in India - Serum Institute of India's Covishield and Bharat Biotech's Covaxin.
- 7) State-owned telecom companies BSNL and MTNL turned EBITDA positive in the first half of financial year 2020-21, DoT said on Monday. The Department of Telecom (DoT) also said that the process for spectrum allocation for 4G services to Bharat Sanchar Nigam Ltd (BSNL) on pan-India basis, including Delhi and Mumbai, has been initiated and funds have been provisioned in FY2020-21. Summing up the developments in the sector in its year-end review for 2020, the DoT in a release said that overall 92,956 employees of both the public sector companies (PSUs) who opted for Voluntary Retirement Scheme (VRS) have retired on January 31, 2020. "The salary expenditure in BSNL and MTNL (Mahanagar Telephone Nigam Ltd) has reduced by around 50 per cent (about Rs. 600 crore per month) and 75 per cent (about Rs 140 crore per month), respectively. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) have become positive in first half of FY 2020-21 in both BSNL and MTNL," it said.
- 8) Automobile dealers' body FADA said passenger vehicle (PV) retail sales in December witnessed a year-on-year increase of 23.99 per cent to 2,71,249 units. According to the Federation of Automobile Dealers Associations (FADA), which collected vehicle registration data from 1,270 out of the 1,477 regional transport offices (RTOs), PV sales stood at 2,18,775 units in December 2019. Two-wheeler sales increased 11.88 per cent to 14,24,620 units last month, as compared to 12,73,318 units in December 2019. Commercial vehicle sales, however, slipped 13.52 per cent to 51,454 units in December 2020, as against 59,497 units a year ago. Similarly, three-wheeler sales fell 52.75 per cent to 27,715 units last month, from 58,651 units in December 2019. Tractor sales, however, grew by 35.49 per cent to 69,105 units last month, against 51,004 units in the same month of 2019. Total sales across categories increased 11.01 per cent to 18,44,143 units last month compared to 16,61,245 units in December 2019.



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- 9) 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.
- 10) 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.

Global equities

- 1) Asian equities slipped off record highs on Friday as investors took profits after a recent rally that was driven by hopes of US economic stimulus by newly inaugurated President Joe Biden.
- 2) MSCI's broadest index of Asia Pacific stocks outside of Japan extended losses in afternoon trading to be last off 0.6 per cent at 720.17 points following three straight sessions of gains. Australia's benchmark index eased 0.3 per cent while Japan's Nikkei fell 0.4 per cent.
- 3) In Europe, stocks fell on Friday, hit by tighter travel restrictions in the euro zone and weak UK retail sales numbers. The pan-European STOXX 600 index fell 0.4 per cent.

Ajcon Global's view

- 1) We have been reiterating several times to be cautious after the mega rally. Last two days significant downfall was warranted. However, auto stocks bucked the trend and continued to rally as Companies are delivering strong Q3FY21 result with good sales numbers and operating margin improvement.
- 2) Before last two today's fall; buoyancy was witnessed after swearing-in of Joe Biden as the 46th President of the United States. The rally was supported by positive China's economic data, lowering of COVID-19 cases being reported domestically and strong Q3FY21 earnings performance by majority of the Companies in the results announced so far. Since November 2020, the Nifty50 index has rallied ~ 25.3 per cent, till last week, led by massive liquidity, strong foreign fund inflows and development on the vaccine front. The rally had taken street participants at a surprise considering the intensity of the rally led by FPI liquidity, GDP growth still in negative amidst faster economic recovery during Unlock phase, festive season. Sentiments continued to remain upbeat as SII's COVID-19 vaccines arrived at different states which were ordered by the Government of India ahead of start of vaccination drive from Jan. 16, 2021. The Companies in sectors which faced the maximum price destruction when the initial lockdown was announced will continue to recover at a rapid pace.
- 3) Domestically, all eyes would be on ongoing Q3FY21 earnings season after strong result by Companies like HDFC Bank, TCS, Avenue Supermarts (Dmart), Tata Elxsi, Ceat, Bajaj Auto etc. Union Budget and budget related stocks especially in Defence and Railways will continue to remain focus in next few days and weeks ahead of Union Budget to be announced in February 2021. Investors would continue to remain stock specific in coming weeks. Pre Budget rally is expected to continue till the actual Union Budget is announced.
- 4) 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



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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.

- 5) Globally, 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. China is also witnessing rise of COVID-19 cases after nearly 10 months. Investors will keep an eye on the progress of COVID-19 vaccine roll out and its efficacy in India and various countries after these new developments. Any negative news especially on the new strain of COVID-19 will play spoilsport after the massive rally.
- 6) We believe further correction will make markets healthy. Nifty valuations are expensive led by significant spike of FPI liquidity in the last two months. Nifty is trading at valuation of around 40x which is quite steep. The combined market capitalisation of all listed companies in India crossed the country's GDP for the first time in more than 10 years. Last week on Thursday, the market-capitalisation on the BSE reached Rs. 197.7 trillion, against India's nominal GDP at current prices of around Rs. 190 trillion during the year ended December 2020. Hence we advise, partial profit booking. On Monday, the RBI governor raised concerns over the growing disconnect between the financial markets and the real economy, saying stretched valuations posed a risk to financial stability. The International Monetary Fund has raised similar concerns in its Financial Stability Report published in June 2020.
- 7) We believe, 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 and suggest to stick with quality names only. Going ahead, all eyes would be on expectations from Union Budget, ongoing Q3FY21 earnings season and FPI liquidity.



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