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Market wrap **February 22, 2021**

Indian equities continue to remain under pressure; metal stocks rally..

1) Indian equities continued to decline for fifth consecutive session as weak global cues, rising bond yields, and increasing Covid-19 cases in Maharashtra made investors cautious. The frontline indices nursed the maximum loss (in absolute terms) in nearly two-months today with the benchmark S&P BSE Sensex declining 1,262 points in the intra-day trade while the Nifty50 declined by 345 points.

2) At close, the BSE Sensex settled at a 3-week low of 49,744 levels, down 1,145 points or 2.25 per cent. Only three counters - ONGC, Kotak Mahindra Bank, and HDFC Bank - were ruling up to 1 per cent higher. On the downside, Tech M (down 5 per cent), M&M and Dr Reddy's Labs (down around 4.5 per cent each), RIL, IndusInd Bank, Axis Bank, and TCS (down 4 per cent each), and Maruti Suzuki (down 3 per cent) were the top laggards.

3) On the NSE, the Nifty50 index managed to end above the 14,650-mark at 14,676, down 306 points or 2 per cent. About 40 stocks cracked on the index while 10 advanced. Adani Ports, JSW Steel, Hindalco, Tata Steel, and ONGC were the winners.

4) The broader markets, too were under some pressure with the S&P BSE MidCap and SmallCap indices closing 1.34 per cent and 1 per cent down, respectively.

5) On the sectoral front, metal stocks rallied significantly amidst improved outlook in the copper market. The Nifty Metal index ended in the green, up 1.6 per cent on the NSE with Hindustan Copper, Ratnamani Metals, Hindalco, JSW Steel, and MOIL closing up to 14 per cent higher.

6) On the downside, the Nifty Realty, PSU banks, Pharma, IT, and Media indices declined by 3 per cent, while the Nifty Private Bank, FMCG, Financial Services, and Banks' index closed 2 per cent down.

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	49,744.32	50,889.76	**-1145.44**	**-2.25**	50,910.51	**50,986.03**	49,617.37
Nifty	14,675.70	14,981.75	**-306.05**	**-2.04**	14,999.05	**15,010.10**	14,635.05

Sectors and stocks

1) Shares of Hindustan Copper hit a fresh 52-week high of Rs. 101 apiece, up 17.4 per cent on the NSE, in an otherwise subdued market. That apart, Hindalco rallied by 5.6 per cent; SAIL (5.2 per cent); and Nalco (3.6 per cent). JSW Steel, Hindustan Zinc, Ratnamani Metals and Tubes, Tata Steel, MOIL, and Jindal Steel were up in the range of 2 per cent and 3 per cent. Last week, iron ore prices surged to near 10-year highs in the global market as China returned to the global market after the lunar new year. As per media reports, iron ore with 63.5 per cent ferrous content gained nearly seven per cent since the beginning of the year; while the 62 per cent ferrous content ore has increased 5.61 per cent. In India, steel prices increased 55 per cent between June and December last year.

2) Shares of state-owned NTPC snapped a four-day winning run and slipped nearly 3 per cent to an intra-day low of Rs 101.60 even as the firm commissioned 5 MW solar capacity at Auraiya plant in Uttar Pradesh (UP). In the last four trading sessions, the stock has risen nearly 10 per cent. The stock opened higher and touched the day's high of Rs 106.3 after the firm announced commissioning of 5 mega watt (MW) solar capacity at a project in Auraiya, UP on Saturday. However, as the session progressed, the shares succumbed to profit-taking and were trading at Rs 102.60, down 1.63 per cent at around 10.30 am. At the same time, the BSE Sensex was down 0.68 per cent down at 50,545.71. "We wish to inform that consequent upon successful commissioning, 5 MW last part capacity for 20 MW Auraiya Solar PV Project at Auraiya has been declared on commercial operation w.e.f (with effect from) 00:00 hours of 20.02.202," NTPC said in a BSE filing. With this, the total installed capacity of NTPC and NTPC group has become 52,115 MW and 64,880 MW, respectively. Earlier this month, the company reported a net profit of Rs. 3,315 crore on a standalone basis for the quarter ended December 31, 2020 (Q3FY21), up 11 per cent year-on-year. The net profit was Rs. 2,995 crore during the same period a year earlier. Sequentially, profit declined 5 per cent.

Key recent major developments..

1) Today , the Monetary Policy committee (MPC) minutes were released. "Growth, although uneven, is recovering and gathering momentum, and the outlook has improved significantly with the rollout of the vaccine programme in the country. The growth momentum, however, needs to strengthen further for a sustained revival of the economy and for a quick return of the level of output to the pre-Covid trajectory," said RBI Governor Shri Shaktikanta Das. He added "The sharp correction in food inflation has improved the near-term headline inflation outlook, although core inflation pressures persist". High frequency indicators suggest that the economic recovery is normalising fast in both rural and urban areas. The agricultural sector has been resilient throughout the pandemic and its prospects appear bright in view of higher rabi sowing and comparatively better reservoir levels. Manufacturing activity is picking up. Although initial revival was propelled by pent-up demand, indications are that growth impulses are now being driven by pick-up in activity across manufacturing and services. Forward looking surveys conducted by the Reserve Bank signal greater optimism from manufacturing with the expectation of an expansion in production volumes and new orders in Q4:2020-21 and the following two quarters. The purchasing managers' index for manufacturing is in expansionary zone and was above its long-period average in January 2021. Trends in railway freight traffic, toll collection, goods and service tax collections, e-way bills and steel consumption suggest that services sector activity is also recovering. The purchasing managers' index for services is in the expansion territory. Services and infrastructure sector reported increase in turnover in Q3 and expected further improvement through Q2:2021-22 as reported by firms participating in the Reserve Bank's services and infrastructure survey.

2) Last week on Saturday, Prime Minister Narendra Modi made a strong case for repealing archaic laws and making it easier to do business in India, stating that the centre and states need to work closely to boost economic growth. Addressing the sixth Governing Council meeting of NITI Aayog, the Prime Minister said that the private sector should be given full opportunity to become a part of government's Aatmanirbhar Bharat programme. "Centre and states should work together for the nation's progress... The government has to respect and give due representation to the private sector for economic progress," Modi said. He said that the positive response to the Union Budget 2021-22 indicates that the country wants to move forward on the path of development at greater speed. Modi said that the initiatives taken by the government would provide opportunity to everyone to participate in nation building to its full potential. Referring to the farm sector, the Prime Minister said that efforts should be made to produce agriculture items like edible oil and reduce their imports. "This can be done by guiding farmers," he said, adding the money being spend on imports can go to the accounts of farmers," he said. The Prime Minister also underlined the need for reducing compliance burden and repealing obsolete laws. He asked the states to form committees to reduce regulations which are no longer relevant in the wake of technology growth. Modi said states should attract investment using production-linked incentive (PLI) scheme.

3) Finance minister Nirmala Sitharaman on last Saturday asked India Inc to exhibit their animal spirits to put Indian economy on a sustainable path of recovery, now that the Budget and the earlier government moves has given clarity on policies and tax rates. She also urged credit rating agencies to grade the economies in relative sense and not as silos. "I have been waiting to see greater investments from the private sector post-the corporate tax rate cuts. Now that the policy is clear, tax rates have been brought down, policy consistency has been underlined and ease of doing business is still going further, I would like now to see private investors and private industry in India coming forward with the so called animal spirit to show that it is possible to pull India up and keep it high as one of the fastest growing economies," she said in her address on the occasion of the foundation day of All India Management Association (AIMA).

4) The Reserve Bank of India (RBI) earlier 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 ffect, are aimed at preventing the affairs of any HFCs from being conducted in a manner detrimental to the interest of investors and depositors.

5) Earlier, 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.

6) The Cabinet had 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.

7) 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.

8) India has given the first dose of covid antidote to 1.08 crores beneficiaries in the nation-wide vaccination drive as on last Staurday. India became the fastest country in the world to reach the 6 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 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.

9) 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.

10) 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.

11) 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.

12) 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.

13) 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.

14) 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.

15) According to the Federation of Automobile Dealers Association (FADA), the automobile registrations declined by 9.66 percent 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).

16) 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.

17) The RBI kept the repo rate unchanged at 4 per cent and maintained the policy stance as 'accomodative' 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 normalisaton 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.

18) 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 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.

19) 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).

20) 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.

21) 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.

22) 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.

23) The extension of tax exemption schemes in Affordable Housing will have a strong positive effect on various sectors related to it.

24) 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.

25) 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.

26) 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.

27) 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-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) Global equities declined on Monday as expectations for faster economic growth and inflation battered bonds and boosted commodities, while rising real yields made equity valuations look more stretched in comparison. data showed euro zone business activity slowing in February, while German and British 10-year bond yields touched multi-month highs, driven up by bets on rising inflation. Earlier, UK's gross domestic product shrank 9.9 per cent in 2020, its biggest decline on record.

2) MSCI's All Country World Index, which tracks shares across 49 countries, was down 0.4 per cent after the start of European trade.

3) The pan-European STOXX 600 index was down 1 per cent, at its lowest in 10 days. Germany's DAX, France's CAC 40 and Spain's IBEX 35 index fell 1 per cent each, Britain's FTSE 100 lost 0.85 per cent and Italy's FTSE MIB index fell 0.9%.

4) S&P 500 futures fell to their lowest since Feb. 4, down 1% on the day.

Ajcon Global's view

1) Today, significant pressure was felt in Largecaps with significant profit booking witnessed across sectors as caution prevailed after weak global cues, increasing bond yields, higher commodity prices and rising COVID-19 cases in Maharashtra which led to new restrictions . The US 10 Year bond yields has seen a rise from below 1 percent to 1.29 percent led by the USD 1.9 trillion stimulus package. In India too, the 10 year bond yields rose from recent low of 5.76 percent to 6.13 percent.

2) Indian equities have been under a pressure since last week and today it went down sharply owing to concerns stated above. Intermediate corrections like today is bound to happen and is part of a bull run. The sharp correction was expected amidst weakness last week after witnessing a stellar run post Union Budget proposals and during COVID-19 crisis. Remember, a new euphoria was created 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 rerated 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.

3) The Nifty valuations are trading around 35-37x 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.

4) Q3FY21 earnings season has been good after strong 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, Amber Enterprises, Route Mobile, J.B. Chemicals and Pharmaceuticals, Balaji Amines, Neuland Laboratories, Greenply Industries, Voltas, Happiest Mind Technolo and many more.

5) 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 especially COVID-19 cases number after sudden spike in Maharashtra. The Budget proposals are long term in nature. The implementation of all these budget provisions may take some time and hence it is wise to take some profits from the table. We have been earlier advising to book partial profits which investors have been doing since last week and selling continued today on fresh concerns.

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