

Selling witnessed across the board led by India - China tensions and on concerns of peak valuations; NBFCs stocks rally..

- 1) Indian equities witnessed significant selling pressure across the board after a gap-up start and declined by 1 per cent on concerns over peak valuations led to profit booking. Sentiments were dampened after a fresh clash between Indian and Chinese troops, which left many injured, in Sikkim.
- 2) The benchmark S&P BSE Sensex settled the session at 48,347.6 levels, down by 531 points or 1.09 per cent, dragged by Reliance Industries (down 5.6 per cent), IndusInd Bank (down 5.5 per cent), HCL Tech (down 3.86 per cent), and HDFC (down 1 per cent). The Nifty50, meanwhile, gave up the 14,250-mark and closed at 14,239 levels, down 133 points or 0.93 per cent.
- 3) In the broader market, the S&P BSE MidCap index declined by 1.14 per cent to end at 18,547 levels, while the S&P BSE SmallCap index ended at 18,211 levels, down 1.15 per cent.
- 4) Sectorally, pharma stocks outperformed the market with the Nifty Pharma index ending up by around 2 per cent. On the downside, the Nifty Realty and the Nifty IT index slipped by 1 per cent.
- 5) The volatility index, India VIX, ended nearly 4 per cent higher today at 23.25 levels.
- 6) The overall market capitalisation of BSE-listed firms declined to Rs. 192.3 lakh crore on January 25 against Rs. 194.4 lakh crore, making investors poorer by Rs 2.1 lakh crore in a single day.
- 7) The market breadth remained firmly in favour of declines as the advance-decline ratio stood at 1:3.

Sectors and stocks

- 1) Shares of non-banking financial companies (NBFCs) were in focus in Monday's session as they rallied up to 8 per cent after the Reserve Bank of India (RBI) released a discussion paper on revised regulations for the sector. Shares of Shriram Transport Finance jumped 8 per cent to Rs. 1,242 on the BSE while Cholamandalam Investment and Finance Company and Mahindra & Mahindra Financial Services were up 6 per cent each at Rs. 449 and Rs. 185, respectively, in intraday trade. Housing Development Finance Corporation (HDFC), Bajaj Finance, Bajaj Finserv and LIC Housing Finance, among large-cap stocks, were up in the range of 3 per cent to 5 per cent. The RBI on Friday proposed to introduce a scale-based regulatory framework for NBFCs to segregate larger entities and expose them to a stricter set of "bank-like" rules. This is aimed at protecting financial stability while ensuring that smaller NBFCs continue to enjoy light-touch regulations and grow with ease.
- 2) Shares of UltraTech Cement hit a record high of Rs. 5,800, up 5 per cent, on the BSE in Monday's opening trade after the company's net profit more than doubled to Rs. 1,584 crore in the quarter ended December 31, 2020 (Q3FY21) on the back of higher volume growth. The company had posted a profit of Rs. 712 crore in the corresponding period of the previous year. The stock surpassed its previous high of Rs. 5,695 touched on January 11, 2021. Higher net profit during the quarter was largely driven by rural and semi-urban housing demand; pick-up in government-led infrastructure also aided incremental cement demand. Moreover, pent-up urban demand is expected to improve with the gradual return of the migrant workforce. The company's consolidated net sales during the quarter grew 17 per cent year-on-year (YoY) to Rs. 12,144 crore as against Rs. 10,261 crore in the year-ago quarter. Volumes rose 14 per cent YoY to 23.9mt, led by an uptick in demand from government projects, infra, and urban real estate. "While rural and semi-urban housing continues to drive growth, pick-up in government-led infrastructure aided incremental cement demand. Pent-up urban demand is expected to improve with the gradual return of the migrant workforce," UltraTech Cement said in its release.
- 3) Shares of Aurobindo Pharma moved up by per cent to Rs. 1023 (up by 10.7 percent) in intra-day trade on the NSE and finally closed at Rs. 998.6 up by 8.10 percent on report that the government has given the company approval under the Production Linked Incentive (PLI) scheme for promotion of domestic manufacturing of critical bulk drugs. The PLI scheme aims at promotion of manufacturing of critical key starting materials (KSMs)/drug intermediates and APIs in the country.
- 4) Shares of logistics companies were in focus at the bourses on Monday, with Gateway Distriparks rallying up to 15 per cent and hitting a fresh 52-week high of Rs. 180 in intra-day deals in an otherwise subdued market. The stock



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has zoomed 55 per cent in the past five trading days, after reporting strong operational performance for the December 2020 quarter (Q3FY21). In Q3FY21, Gateway Distripark's consolidated net profit nearly doubled to Rs 32.62 crore, led by strong operating performance. The company, a leading integrated inter-modal logistics facilitator, had posted a profit of Rs 16.39 crore in the year-ago quarter. The company's Ebitda margins improved 520 basis points (bps) to 26.9 per cent from 21.7 per cent in Q3FY20. The management said the revival in the EXIM trade has been much faster than anticipated. In Q3FY21, the company witnessed a sharp recovery in its overall volumes for both container freight station (CFS) and rail container business. The improvement in volumes has been seen sequentially every month since the beginning of October 2020. With most lead industry indicators pointing to a strong demand revival, the management anticipates continuous month-on-month momentum in the growth of volumes for foreseeable future.

- 5) Among other stocks, Blue Dart Express, too, hit a fresh 52-week high of Rs. 4,457, surging 6 per cent on the BSE in intra-day trade today. Gati soared 7 per cent to Rs. 96, and was trading close to its 52-week high of Rs. 107, touched on December 31, 2020.

Key recent major developments..

- 1) US President Joe Biden will sign a series of executive orders on Monday to promote "Made in America" products and strengthen supply chains, senior officials said, asserting that the new administration remains committed to working with partners and allies to modernise international trade rules. Prominent among the executive orders include a strict enforcement of procuring products made inside the country by federal agencies. This is very significant given that contracting alone accounts for nearly USD 600 billion in federal spending. Biden is taking action to reset the US government's longstanding approach to domestic preferences to create an approach that will remain durable for years to come and grow quality, union jobs, according to a senior administration official. It is long overdue that the US government utilises the full force of current domestic preferences to support America's workers and businesses, strengthening the economy, workers, and communities across the country, the official said.
- 2) The Ministry of Road Transport and Highways on Monday approved a proposal to levy 'Green Tax' on old vehicles which are polluting the environment. It is estimated that commercial vehicles, which constitute about 5% of the total vehicle fleet, contribute about 65-70% of total vehicular pollution. The older fleet, typically manufactured before the year 2000 constitute less than 1 % of the total fleet but contributes around 15% of total vehicular pollution. These older vehicles pollute 10-25 times more than modern vehicles, the ministry added. The proposal will now go to the states for consultation before it is formally notified, said Union Minister for Road Transport and Highways Shri. Nitin Gadkari. Along with that, the minister also approved the policy of deregistration and scrapping of vehicles owned by government department and PSU, which are above 15 years in age. Prasad also said that it would come into effect from 1st April, 2022. The main principles to be followed while levying the Green Tax are:
 - a) Transport vehicles older than 8 years could be charged Green Tax at the time of renewal of fitness certificate, at the rate of 10 to 25 % of road tax;
 - b) Personal vehicles to be charged Green Tax at the time of renewal of Registration Certification after 15 years;
 - c) Public transport vehicles, such as city buses, to be charged lower Green tax;
 - d) Higher Green tax (50% of Road Tax) for vehicles being registered in highly polluted cities
 - e) Differential tax, depending on fuel (petrol/diesel) and type of vehicle;
 - f) Vehicles like strong hybrids, electric vehicles and alternate fuels like CNG, ethanol,LPG etc to be exempted;
 - g) Vehicles used in farming, such as tractor, harvester, tiller etc to be exempted;
 - h) Revenue collected from the Green Tax to be kept in a separate account and used for tackling pollution, and for States to set up state of-art facilities for emission monitoring
- 3) 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.
- 4) India has given the first dose of covid antidote to 1,615,504. 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.
- 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) 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. EBIDTA (Earnings before Interest, Taxes, Depreciation and Amortisation) have become positive in first half of FY 2020-21 in both BSNL and MTNL," it said.
- 7) 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 69,105 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.
- 8) 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.
- 9) 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 jumped to near all-time highs on Monday as concerns over rising Covid-19 cases and delays in vaccine supplies were eclipsed by optimism of a US\$1.9 trillion fiscal stimulus plan to help revive the US economy.
- 2) MSCI's broadest index of Asia-Pacific shares outside Japan rose to 726.46, while Japan's Nikkei rebounded from falls in early trading to be up 0.7 per cent. Australian shares added 0.4 per cent after the country's drug regulator approved the Pfizer/BioNTech COVID-19 vaccine with a phased rollout likely late next month. Chinese shares rose, with the blue-chip CSI300 index up 1.1 per cent. Hong Kong's Hang Seng index leapt nearly 2 per cent led by technology stocks.
- 3) In Europe, stocks rose as gains in technology shares and upbeat earnings reports helped investors look past the possibility of extended lockdowns. The pan-European STOXX 600 index rose 0.4 per cent.

Ajcon Global's view

- 1) We have been reiterating several times to be cautious after the mega rally. Today's significant downfall which was triggered last week was seen today across the board. The fall was warranted as some sectors are trading at a peak valuations. However, NBFCs and select Auto stocks bucked the trend. Select auto stocks continued to rally as Companies are delivering strong Q3FY21 result with good sales numbers and operating margin improvement.
- 2) Before last few days 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



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announced so far. Since November 2020, the Nifty50 index has rallied by more than 25 percent 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 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. Earlier, before the fall 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. Recently, the RBI governor too 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 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 and the actual Union Budget, ongoing Q3FY21 earnings season and FPI liquidity. Any negative surprise in Union Budget can spoil the mood of investor community.



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