

Big sell off witnessed across the board; all eyes on the upcoming Union Budget..

- 1) Indian equities witnessed massive selling across the board after a gap-up start and declined by 1 per cent on concerns over peak valuations, nervousness before the actual Union Budget which led to profit booking. Negative global cues also supported the bears. Globally, investors are also concerned about the US President Joe Biden's \$1.9 trillion Covid-19 relief plan.
- 2) The BSE Sensex declined 938 points to 47,410 while its NSE's Nifty fell below the 14,000 mark to end at 13,968, down 271 points.
- 3) The broader market also witnessed pressure with Nifty Midcap 100 and Nifty 500 indices down 1.58 per cent and 1.68 per cent, respectively, while Nifty Smallcap index added 0.15 per cent.
- 4) The volatility also remained high ahead of the monthly F&O expiry on Thursday, with India VIX rising 4.93 per cent to 24.39 level.

Sectors and stocks

- 1) Shares of L&T Technology Services (LTTS) rallied 9 per cent to Rs. 2,550 in the intra-day trade today after parent-firm L&T posted better-than-expected Q3 results on Monday, January 25, post market-hours. The company said its IT and Technology Services Segment achieved customer revenue of Rs. 6,505 crore during the quarter ended December 31, 2020, registering a YoY growth of 7 per cent. "The Ebitda margin for the segment increased to 25.5 per cent for the quarter ended December 31, 2020 as compared to 21.0 per cent of the corresponding quarter of the previous year, attributed to higher revenues, improved manpower utilisation and lower operational costs," it said in a statement.
- 2) Shares of Route Mobile hit a new high of Rs. 1,304, up 5 per cent, on the BSE on Wednesday supported by heavy volume. The stock was quoting at its highest level since its listing at the bourses and has doubled from level of Rs. 651 hit on September 21, 2020. The company is a cloud communications platform service provider, catering to enterprises, over-the-top (OTT) players, and mobile network operators (MNO). Route Mobile's portfolio comprises solutions in messaging, voice, email, SMS filtering, analytics, and monetization. Meanwhile, the board of directors of Route Mobile is scheduled to meet on Thursday, January 28, to consider and approve unaudited financial results for the quarter ended December 31, 2020. For July-September quarter (Q2FY21), the company's consolidated net profit more-than-doubled to Rs. 32.7 crore on the back of healthy income. The company had posted profit of Rs 13 crore in Q2FY20. Its revenue from operations rose 77 per cent year-on-year (YoY) at Rs. 349 crore as against Rs 197 crore in the-year ago quarter. EBITDA margin expanded 230 basis points to 13.3 per cent in Q2FY21 from 11.0 per cent in Q2FY20. According to the management, Q2FY21 was another quarter of strong performance, backed by better operating leverage, despite the trying circumstances. The pandemic has accelerated CPaaS adoption amongst enterprises, and Route Mobile continues to enable its customers in their digital communication journey, it said. In the past six trading days, Route Mobile has outperformed the market by surging 16 per cent after the shareholding pattern revealed that foreign portfolio investors (FPIs) have increased their stake in the company by 540 basis points (bps) during October-December quarter (Q3FY1). FPIs held 15.74 per cent stake in Route Mobile as on December 31, 2020, as against 10.34 per cent at the end of September 2020 quarter, according to the data filed by the company. They held 4.32 per cent stake in Route Mobile on listing date. Mutual funds, however, reduced their stake in Route Mobile to 4.48 per cent from 8.44 per cent in the previous quarter. Route Mobile had made a stellar debut at the bourses with a gain of 86 per cent against its issue price of Rs. 350 per share. With today's gain, the stock has rallied 272 per cent as against its issue price on the BSE.
- 3) Shares of Reliance Industries (RIL) were quoting lower for the third straight trading day, having lost over Rs 1-trillion market capitalisation (market-cap) following the announcement of October-December quarter (Q3FY21) results on January 22, 2021. The stock shed 2.4 per cent to Rs. 1,893 on the BSE in the intra-day trade on Wednesday, down 10 per cent in the past three trading days. The combined market-cap of RIL's fully paid shares and partly paid shares declined by nearly Rs. 1.4 trillion in the three days. For Q3FY21, RIL clubbed refining and petchem into a single Oil-to-Chemicals (O2C) business (as per ongoing restructuring) and discontinued disclosures of gross refining margins (GRMs) and petchem production breakup. GRM is a key metric to analyse its oil and petrochemicals vertical, which accounts for about 70 per cent of revenue. In Q3FY21, RIL's gross subscriber additions were steady at 25 million quarter on quarter (QoQ) but net adds were low at 5.2 million viz. lower than the 10.2/7.3 million additions during lockdown quarters of Q1/Q2. Churn for the second quarter stood at 1.63 per



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cent. In addition, concerns over the Future Group deal also weighed on the RIL stock. US online retailer Amazon has filed a petition in the Delhi High Court seeking detention of Future Group founders, including CEO Kishore Biyani, and seizure of their assets as it sought to block Future Group from selling retail assets to Reliance Industries. In the petition, Amazon sought enforcement of the Singapore arbitrator's ruling in October against its partner Future's Rs 24,713 crore deal with Reliance.

Key recent major developments..

- 1) 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
- 2) 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.
- 3) India has given the first dose of covid antidote to 20,29,480 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.
- 4) 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.
- 5) 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.
- 6) 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



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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.

- 7) 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.
- 8) 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 were in red on Wednesday as investors looked to the Federal Reserve's guidance on its monetary policy while futures for US tech shares jumped after strong earnings from Microsoft. Global stocks are mostly trading water near record highs as US corporate earnings roll in. Meanwhile, new coronavirus variants that sparked fresh lockdowns and other restrictions are weighing on the market mood.
- 2) Italian Prime Minister described delays in consignments by Pfizer Inc. and AstraZeneca Plc as "unacceptable" while the UK's health minister warned that vaccines may be less effective against new variants of the coronavirus.

Ajcon Global's view

- 1) We have been reiterating several times to be cautious after the mega rally. Today's massive downfall along with Monday's fall was triggered last week. The fall was warranted as some sectors were trading at a peak valuations. FPI selling was witnessed which led to significant downfall. We believe correction would make markets healthy.
- 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 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 TCS, Hindustan Unilever, HDFC Bank, Avenue Supermarts (Dmart), Tata Elxsi, Bajaj Auto, Ceat, JK Tyre, Bajaj Auto etc. Union Budget and budget related stocks especially in Defence and Railways will continue to remain focus in next few days ahead of Union Budget to be announced on 1st February 2021.
- 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.



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- 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 were expensive led by significant spike of FPI liquidity in the last two months. Before the fall, Nifty was 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. 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) Going ahead, all eyes would be on the actual Union Budget, ongoing Q3FY21 earnings season and FPI liquidity. We advise investors to exercise caution till the actual Union Budget is out. Any negative surprise in Union Budget can spoil the mood of investor community.



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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN:L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062