

Bears take charge amidst significant volatility; PSU Banks stocks face pressure..

- 1) Indian equity markets continued to witness massive selling across the board after big sell off in Wall Street. Asian equities too were under significant selling pressure. Domestically, there are concerns over peak valuations, nervousness before the actual Union Budget which led to profit booking. Globally, investors are also concerned about the US President Joe Biden's US\$1.9 trillion Covid-19 relief plan.
- 2) Indian equities ended lower for the fifth straight day with realty and public sector banks' stocks were under tremendous pressure. At the index level, the benchmark S&P BSE Sensex declined by 891 points in the intra-day deals today but managed to settle 535.6 points, or 1.13 per cent, down at 46,874.36 levels.
- 3) HUL (down 3.6%), Maruti Suzuki (3.4%), HCL Tech (2%), and Bajaj Finserv (2%) were the top losers on the Sensex today while gains in Axis Bank (5.5%), SBI (2.7%), and ICICI Bank (1.3%) trimmed losses.
- 4) On the NSE, the Nifty50 closed above the 13,800-mark at 13,817.5 level (trading at a P/E of 37x), down 149.9 points or 1.07 per cent. The index hit an intra-day low of 13,713.25.
- 5) In the broader market, the S&P BSE MidCap index ended 0.4 per cent lower while the smallcap counterpart closed down 0.45 per cent.
- 6) Sectorally, Nifty Realty index ended as the top loser on the NSE, down over 2 per cent. However, Nifty Bank and Private Bank index, up around 0.3 per cent each, were the only gainers.

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	46,874.36	47,409.93	-535.57	-1.13	46,834.57	47,172.02	46,518.48
Nifty	13,817.55	13,967.50	-149.95	-1.07	13,810.40	13,898.25	13,713.25

Sectors and stocks

- 1) Share of multiplex operators PVR and Inox Leisure gained up to 4 per cent on the BSE on Thursday in an otherwise weak market after the government allowed cinema halls, which are operating at 50 per cent limit to occupancy, to operate at higher occupancy. The Ministry of Home Affairs (MHA), on Wednesday, allowed cinema halls and theatres to operate with more people, and it will issue revised SoP for the same. The new guidelines regarding Covid-19 protocols will be effective from February 1 onwards. Following the news, the stock of Inox Leisure was up 4 per cent at Rs. 326, while PVR ticked up 3 per cent to Rs. 1,523 on the BSE in intra-day trade. In the past one month, PVR (up 16 per cent) and Inox Leisure (up 14 per cent) have outperformed the market as compared to 1 per cent decline in the benchmark index. Meanwhile, PVR also launched a qualified institutional placement (QIP) offer on Wednesday, in order to raise funds. The floor price of Rs 1,495.93 per share, a 1.1 per cent premium to closing price of January 27. Issue price will be determined on February 1. The capital raised will be used for either organic/inorganic expansion, to reduce debt obligation or working capital requirements.
- 2) Shares of VRL Logistics were up 6 per cent to Rs. 192 in intra-day deals on the BSE on Thursday after the company said its board will consider the share buyback proposal. The logistic company's board of directors is scheduled to meet on February 2, 2021 to consider a proposal for buy-back of equity shares of the company including matters related/ incidental thereto. The board will also consider and approve the un-audited financial results for the quarter ended December 31, 2020 (Q3FY21), VRL Logistics said in BSE filing on Wednesday after market hours. In the past one year, the share price of VRL Logistics has seen one-third erosion, as compared to 14 per cent rise recorded by the S&P BSE Sensex. As on December 31, 2020, the promoters held 68.05 per cent stake in VRL Logistics. Among public shareholders, mutual funds have 20.14 per cent holding, followed by individual shareholders (7.69 per cent) and foreign portfolio investors (2.74 per cent), the shareholding pattern data shows.

Key recent major developments..

- 1) India provides a "predictable environment" for doing business and its commitment to economic self-reliance will strengthen globalization, said Prime Minister Narendra Modi on Thursday as he addressed World Economic Forum's



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online Davos Agenda Summit. PM Modi said India's Atmanirbhar Abhiyan is committed towards global good and supply chain, adding that the country has the capacity, capability and reliability to strengthen the global supply chain. "Indian government has taken major steps to spur manufacturing. corporate tax was brought down to 15 per cent for new manufacturing units, GST rates have been reduced. Tax structure has been simplified Through GST and faceless assessment and Labour laws have been reformed," said Modi at the virtual summit where more than 400 CEOs from across the globe were in attendance. Hailing India's pandemic response, Modi said the country has transformed fight against coronavirus into people's movement. "Today India is among most successful in saving lives." "Many around the world thought India would be worst-affected country by Covid-19 and face tsunami of corona infections," he said, indicating the country has lined up more vaccines for the disease after using two for its nationwide inoculation. "Right now there are two made in India vaccines. World Economic Forum will be relieved to know that in the time to come many more vaccines will come from India," he said. "India also ensuring a global responsibility; we sent essential drugs to over 150 countries, we're sending Covid vaccines abroad too," PM Modi said.

- 2) India has given the first dose of covid antidote to 23,55,979 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. India has flattened its COVID-19 graph and 146 districts have reported no new case of the viral disease in the last seven days, 18 in 14 days, six in 21 days and 21 districts in the last 28 days, Union Health Minister Harsh Vardhan said on Thursday. This has been achieved due to pro-active testing with more than 19.5 crore COVID-19 tests conducted in the country so far, Vardhan, who chaired the 23rd meeting of the high-level Group of Ministers (GoM) on COVID-19 through a video-conference, said, according to a statement issued by the health ministry.
- 3) 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) 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



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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.

- 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 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) European equities were under pressure on Thursday led by a sell-off in US equity market and no end in sight to pandemic lockdowns. The new coronavirus variants that sparked fresh lockdowns and other restrictions are weighing on the market mood.
- 2) The pan-European STOXX benchmark was down 1.8% at 395.77 points, its lowest since December.
- 3) Asian equities too declined on Thursday while the safe-haven dollar rallied as Wall Street's sell-off and delays in coronavirus vaccines provided an excuse to book profits on recent gains.
- 4) MSCI's broadest index of Asia-Pacific shares outside Japan fell 2%, Japan's Nikkei fell 1.5%, its sharpest drop since October, and Chinese blue chips lost 2.7% as liquidity tightened before the Lunar New Year holidays.

Ajcon Global's view

- 1) We have been reiterating several times to be cautious after the mega rally. Last five days significant fall was expected and warranted as some sectors were trading at a peak valuations. FPI selling was witnessed which led to this price destruction. We believe the ongoing 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.
- 2) Before the start of massive sell off; 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



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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, Maruti, Colgate, 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.
- 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) 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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