



**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on April 17, 2021

**All eyes on COVID-19 situation in the country and Q4FY21 earnings season; domestic bourses end in red..**

- 1) Indian bourses ended the week in red amidst significant surge of COVID-19 cases in the second wave and now crossing 2,00,000 lakhs cases in a single day which was not heard earlier. In addition, the recent IIP numbers and inflation data announced were also weak. As a result, investors are sitting on fence and have resorted to profit booking after a stellar rally post Union Budget proposals.
- 2) On a weekly basis, the S&P BSE Sensex fell by 1.5 percent while the Nifty50 was down by 1.4 percent for the week ended April 16, 2021.
- 3) Broader markets too were under pressure. S&P BSE Midcap index fell by 2.9 percent while S&P BSE Smallcap index was down by 2.6 percent.
- 4) On the sectoral front, S&P BSE Realty fell by 6 percent followed by IT that was down by 4.4 percent for the week ended April 16.
- 5) During the week, foreign institutional investors were net sellers and sold around Rs. 2,600 crore from the cash segment of the Indian equity markets.

**Key recent major developments..**

- 1) The country's exports were up by 60.29 per cent to \$34.45 billion in March 2021 even as the outbound shipments contracted by 7.26 per cent during the full 2020-21 fiscal to \$290.63 billion. Imports too grew by 53.74 per cent to \$48.38 billion in March, but fell by 18 per cent to \$389.18 billion during April-March 2020-21, according to the government data released on Thursday. Trade deficit during March 2021 widened to \$13.93 billion from \$9.98 billion in March 2020. The trade deficit during the full fiscal, however, narrowed to \$98.56 billion as against \$161.35 billion during 2019-20, the data showed.
- 2) The wholesale price-based inflation was up to over 8-year high of 7.39 per cent in March on rising crude oil and metal prices. Also, the low base of March last year, when the data was computed with a low response rate due to the nationwide lockdown, contributed to a spike in inflation in March 2021. The WPI inflation was 4.17 per cent in February and 0.42 per cent in March 2020. This is the third straight month of up-tick seen in the wholesale price index (WPI) based inflation. "The annual rate of inflation stood at 7.39 per cent (provisional) for the month of March 2021 over March 2020," the Commerce and Industry Ministry said. Such a high level of WPI was last recorded in October 2012, when inflation was 7.4 per cent.
- 3) The Index of Industrial Production (IIP) which measures industrial output in India fell by 3.6 percent in February. India's industrial output has declined by 11.3 percent in the April-February period of FY21, as compared to the same period of the previous year.

- 4) Consumer Price Index-based inflation (CPI) for the month of March stood 5.52 percent as against 5.03 percent in February. Official data released on April 12 shows that retail inflation in March stayed within the Reserve Bank of India's (RBI) medium term inflation target of 4(+/-2 per cent) for the fourth consecutive month. The combined food price inflation rose to 4.94 percent in March, as compared to 3.87 percent in February.
- 5) The net direct tax collection for the fiscal ended March 31 stood at Rs. 9.45 lakh crore, an increase of 5 per cent over the revised estimates in the Union Budget. Central Board of Direct Taxes (CBDT) Chairman P C Mody said the income tax department has exceeded the revised estimates despite issuing substantial refunds in the 2020-21 fiscal. During the fiscal, the net corporate tax collection stood at Rs. 4.57 lakh crore, while net personal income tax was Rs. 4.71 lakh crore. Another Rs. 16,927 crore came from securities transaction tax (STT). The direct tax collection target set in the revised estimates (RE) for 2020-21 was Rs. 9.05 lakh crore. The collection was 5 per cent higher than the RE, but was 10 per cent lower than the mop up in 2019-20.
- 6) The country has now adding more than 200,000 Covid cases which is a matter of serious concern. At a press conference earlier, NITI Aayog Member (Health) Dr. V K Paul said the pandemic situation in the country worsened with a sharp rise in cases and a large part of the population is still susceptible to the virus. The tools to fight the pandemic remain the same. COVID-appropriate behaviour, containment measures, testing have to be implemented more efficiently, medical infrastructure has to be ramped up and vaccination drive intensified, he said. India has given the first dose of covid antidote to 11.99 crores beneficiaries in the nation-wide vaccination till date.
- 7) India's drug regulator, the Drugs Controller General of India (DCGI) on Tuesday approved Russian Covid-19 vaccine Sputnik V for 'restricted use in emergency situations' in India. This was a day after the Subject Expert Committee (SEC) gave its thumbs up to the vaccine. Hyderabad-based Dr Reddy's Laboratories (DRL) has collaborated with the Russian health ministry to obtain regulatory approval for import of the vaccine in India. The health ministry said in an official statement: "After detailed deliberation, the SEC recommended for grant of permission for restricted use in emergency situations subject to various regulatory provisions. DRL has collaborated with National Research Center for Epidemiology and Microbiology of the Ministry of Health of the Russian Federation for obtaining regulatory approval for import for marketing in India."
- 8) The second wave of Coronavirus (Covid-19) infections is credit-negative and poses threat to economic recovery in India, according to global rating agency Moody's. The second wave of infections presents a risk to growth forecast as the reimposition of virus management measures will curb economic activity and could dampen market and consumer sentiment. However, given the focus on "micro-containment zones" to deal with the current wave of infections, as opposed to a nationwide lockdown, the impact on economic activity will be less severe than that seen in 2020. India's very low Coronavirus death count (only about 170,179 deaths have been recorded as of April 12) and relatively very young population also help mitigate risks. Gross Domestic Product (GDP) is still likely to grow in double digits in 2021 given the low level of activity in 2020. Retail and recreation activity across India had dropped by 25 per cent as of April 07, 2021 compared to February 24, 2021, according to Google mobility data. This was mirrored in the Reserve Bank of India's March consumer confidence survey which showed a deterioration in perceptions of the economic situation and expectations of decreased spending on nonessential items, it added.
- 9) Foreign portfolio investors (FPI) put in a record amount of Rs. 2.74 trillion (US\$37 billion) during the 12 month ended March 2021. The previous best for the highest-ever FPI flows in a financial year was in FY13, when overseas investors had pumped in Rs. 1.4 trillion (US\$25.8 billion), data provided by NSDL showed. The Finance Ministry said on Tuesday the sharp inflows last fiscal were due the government's policy initiatives and economic recovery. "The robust FPI flows came on the back of faster-than-expected economic recovery supported by multiple tranches of innovatively designed stimulus packages. The government and regulators had also undertaken major policy initiatives directed at improving ease of access and investment climate for FPIs in the recent past," it said in a press release. "The increase in aggregate FPI investment limit in Indian companies from 24 per cent to the sectoral cap has been a catalyst for increase in weightage of Indian securities in major equity indices, thus mobilising massive equity inflows, both passive and active, into Indian capital markets," said the ministry.
- 10) The International Monetary Fund (IMF) has raised its projection for India's economic growth in the current financial year by one percentage point to 12.5 per cent. The forecast, published in the IMF's World Economic Outlook, suggests India would again become the fastest-growing large economy in the world. In fact, India is the only country among major world economies that is projected to grow at a double-digit rate during FY22. China comes closest, with a forecast of 8.4 per cent economic expansion. The IMF also sees India's gross domestic product (GDP) growing by 6.9 per cent, a rate 10 basis points higher than its earlier projection, in the next financial year. Should that happen, India would become the most rapidly expanding large economy in the world; the closest competitor, China, is projected to grow by 5.6 per cent. The IMF's projection for India in the current financial year is the upper end of a range that the World Bank's forecast recently. Considering the uncertainty caused by Covid-19 cases, the



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World Bank gave a range for India's economic growth – from 7.5 per cent to 12.5 per cent – in FY22. However, it also said India was likely to grow by 10.1 per cent during the year.

- 11) The goods and services tax (GST) collection crossed the Rs. 1 lakh crore mark for the sixth month in a row in March 2021 and a new record of Rs. 1,23,902 crore (GST) collected in the month of March 2021 was created. "The gross GST revenue collected in the month of March 2021 is at a record of Rs. 1,23,902 crore of which CGST is Rs. 22,973 crore, SGST is Rs. 29,329 crore, IGST is Rs. 62,842 crore (including Rs. 31,097 crore collected on import of goods) and cess is Rs. 8,757 crore (including Rs 935 crore collected on import of goods)," an official release stated. GST collection in the month of February stood at Rs. 1.13 lakh crore. In line with the trend of recovery in the GST revenues over past five months, the revenues for the month of March 2021 are 27 percent higher than the GST revenues in the same month last year. During the month, revenues from import of goods were 70 percent higher and the revenues from domestic transaction (including import of services) were 17 percent higher than the revenues from these sources during the same month last year, the Ministry of Finance said. The GST revenue witnessed growth rate of (-) 41%, (-) 8%, 8% and 14% in the first, second, third and fourth quarters of this financial year, respectively, as compared to the same period last year, clearly indicating the trend in recovery of GST revenues as well as the economy as a whole.

### **Ajcon Global's view**

- 1) For the week, overall Indian equities were under pressure. Strict restrictions and lockdown in few states to curb the spread of virus and ramp up medical infrastructure has led to investors sitting on the fence which lead to profit booking. The rise in COVID-19 cases at a very fast pace in the second wave is creating uncertainty in the mind of investors. However, one should remember this time situation is different as there is availability of vaccines and good pipeline of vaccines coming up in future, vaccination drive growing strongly which would help mitigate the COVID-19 crisis. In addition, the Government and Central Bank too have learnt to deal with the COVID-19 crisis.
- 2) The RBI recent measures shows that the central bank will be proactive to deal with the crisis in a strong manner. RBI's accommodative stance in the monetary policy and its bold move of a secondary market G-Sec acquisition program (G-SAP 1.0), whereby the central bank will commit upfront to a specific target for bond purchases will lend confidence to investors community. This bold move will remove uncertainty for market participants given the commitment for absorption of G-Sec supply and will help in flattening the yield curve. Under the first tranche of the programme - G-SAP 1.0, the RBI will purchase government bonds (G-sec) worth Rs. 25,000 crore. The central bank eyes bond purchases worth Rs. 1 trillion during the April-June quarter of FY22 (Q1FY22).
- 3) Key domestic factors like record GST collections in March 2021, positive GDP data, good proposals presented in Union Budget 2021-2 will keep bulls in the hunt. Positive global cues like US President Joe Biden's proposed \$3 trillion infrastructure package, improved US GDP data and reduced unemployment rate in US will also support bulls. The Nifty valuations are trading in the range of 35x-40x which looks expensive but with recent budget proposals one will need to watch out the effect on corporate earnings in Q4FY21 and FY22. In addition, the monsoon forecast is also good.
- 4) Going ahead investors will keep a watch on COVID-19 cases number on daily basis amidst significant spike and vaccination drive, Q4FY21 earnings season, movement of US bond yields, FPI liquidity after new concerns stated above. Globally, Central banks are in the mood of accommodative monetary policy. The US Federal Reserve on March 17, 2021 suggested that it was in no hurry to raise interest rates through all of 2023, even as it talked about a V-shaped recovery in the world's largest economy.
- 5) We believe India economic recovery from COVID-19 crisis will surpass major economies. As India is now one of the few major economies to post positive GDP growth in the last quarter of calendar year 2020, foreign investors will get attracted to Indian equities. Moody's Analytics said India's economy is likely to grow by 12 per cent in CY2021 following a 7.1 per cent contraction last year as near-term prospects have turned more favourable.
- 6) Investors will now continue to focus on quality names in Defensive sectors like Pharma, FMCG and ITC amidst significant spike of COVID-19 cases on daily basis in second wave.
- 7) We recommend investors to take a breather for some time. The current second wave of rising of COVID-19 cases will give opportunities to investors on corrections. The resurgence of COVID-19 cases is a serious matter of concern which can lead to further correction amidst strict localised restrictions and lockdown in certain states. We have still not witnessed a steep correction so far. However, once vaccination drive covers major part of the population with more vaccines coming up, things will start to improve. Going ahead, investors will track ongoing Q4FY21 earnings season, management commentary on future scenario and intensity of COVID-19 second wave and resultant situation in the country.

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