Market Update

February 2021

January began on a positive note as India approved emergency use of two Covid-19 vaccines, the UK government announced a US$6.2 bn support package, US President announced US$1.9tn Covid-19 relief plan and Mr Joe Biden took over as new President of USA. Towards the second half of the month, global markets corrected sharply, partly due to concerns over new strains of the Covid-19 virus and fresh lockdowns and general profit booking. Indian markets corrected bit more as apprehensions over new taxes in the upcoming budget started to do the rounds. The Sensex and Nifty50 indices closed January down 3.1% and 2.5% for the month. The BSE Midcap index gained 0.8% while the BSE Smallcap 250 index was up 0.7%.

Foreign investors continued to be big buyers with flows of US$3 bn worth of equities during the month while DIIs sold US$2 bn. December CPI inflation moderated to 4.59% as against 6.93% in November. November IIP fell 1.9% compared to 4.2% in October.

Economic Survey called for higher deficits to spur growth with FY20 GDP growth revised lower to 4% from 4.2% earlier. The budget announcements on 1st February 2021 were inline with this call.

Budget

India's Union Budget announcement was received positively by the market rallying ~5% on the headline indices. What was lacking over the last decade was a capex cycle building up. In a move away from the fiscal consolidation and clear focus on growth, the Finance Minister announced significant increase in allocations to various infrastructure categories including roads, railways, shipping, etc. What was also heartening was that most of these proposals laid down a roadmap of three to five years and potentially would lead to big capital formation and a virtuous cycle of capex coming back.

The fiscal deficit would rise to 9.5% for FY21, falling to 6.8% for FY22. Though much higher than the recent past, the financial markets took it very positively as the extra spending was mainly on capital expenditure and would re-ignite the economy, even as it recovers from the challenging last one year. No tinkering with direct tax proposals was also welcomed by the financial markets.

With this event out of the way, Focus will now shift to fundamentals.

Quarterly Earnings

The 3QFY21 earnings season has maintained the momentum of the 2QFY21 results season – continued big beats and upgrades, and upbeat corporate commentaries have been reported across sectors and companies. Nifty profits for the 30 companies that have posted their results have grown 23% YoY significantly higher than the analyst expectations of a 4% growth.

What is driving the beat?

- Sharp demand recovery is seen with the opening up of the economy and the number of COVID-19 cases being contained, coupled with continued cost-saving initiatives.
- The festive season has boosted consumption demand across the Staples/Durables/Discretionary sectors.
- Sharp rebound is observed in the cyclical sectors – Metals and Cement reported better-than-expected performances on higher demand and strong prices.
- IT companies reported another quarter of solid beats and upbeat commentaries, with bulging deal pipelines and strong global demand.
- The BFSI sector saw robust operational delivery, especially in the large-cap banks, with 70%+ PCR and minimal restructuring in the loan books.

Source*: NSDL, PTI, ANI, Bloomberg, BSE

Interesting Learnings

India's Cricket Test Series Win in Australia

- Everyone can have a bad day. But cannot lose hope and desire to perform.
- It is all about belief and passion. Off course, before that is ability and hard work.
- It is not about an individual but the team that matters. Everyone has a role to play. Back each other in the team.
- Hunger to perform and hard work is as important as talent and past glory.
- Every profession is competitive. If one does not perform there are many waiting to squeeze themselves in.
- Change is the essence of life. New young talent adds freshness to the team and also lifts the energy level.
- This is the age of being fearless. Play and work to win, not to do a job.
- One who does not hope to win has already lost.
- There is no better joy than that of having accomplished a task with flying colours.
- Love your country and be emotional.

Gamestop: Individual investors rout hedge funds

- Never underestimate collective power, howsoever small individually one might be.
- We are in a world of fearless millennials who don't get overawed by anyone irrespective of how large or powerful they might be.
- There is no longer advantage of information asymmetry, news is published by newsmakers themselves (read social media).
- Markets can surprise on either ways, always have risk mitigating factors in place.
- Never over-leverage or take concentrated bets.

Market Outlook

With most challenges turning around positively, the most important question in the minds of investors and prospective investors is valuations. With Sensex at 50,000 and Nifty50 at 15,000, what should we do? Yes, markets are at an all-time high and stocks are not exactly cheap. However, given the possibility of sharp improvement in earnings for the next few years on the back of expansionist government policies, sharply improving demand, low interest rates and ample liquidity; there is room for decent returns from equity markets from a medium to long term perspective. After years, we are witnessing big earnings upgrades and more importantly these upgrades are across sectors and company sizes.

There is a possibility that we go back to the trajectory of 7-7.5% sustainable GDP growth. With the earnings trajectory for corporates on an upswing, the Nifty50 on FY23 basis trades at a reasonable 18.5 times, a level not cheap but not very expensive either. We believe that the broader markets have decent opportunities even now and that is the space we are focussing on. We continue to believe that the "Bubble in Quality" stocks will underperform and hereto neglected stocks will start to attract attention backed by faster growth and attractive valuations (Click here to read our report published in Oct 2019).

Our focus at Abakkus continues to back companies that have visibility in terms of profit growth and discipline as far as capital allocation is concerned.

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Source*: NSDL, PTI, ANI, Bloomberg, BSE