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Market wrap **Sep. 01, 2020**

Metal stocks rally; Indian equities end in green led by positive global cues especially Chinese factory data..
Indian equites ended in the positive territory amidst high volatility led by buying in FMCG, auto, and metal counters. Telecom stocks were in focus after the Supreme Court ruled that telecom companies will be allowed 10 years for staggered payment of adjusted gross revenue (AGR) dues.

The S&P BSE Sensex was up by 273 points or 0.71 percent and ended at 38,900.80 withBharti Airtel (up over 6 per cent) being the top gainer and ONGC (down over 3 per cent) the biggest loser. NSE's Nifty ended at 11,470, up 83 points or 0.73 per cent.

In the broader market, the S&P BSE MidCap index ended over 1 per cent higher at 14,832 levels while the S&P BSE SmallCap index ended at 14,413, up 77 points, or 0.54 per cent.

Sectorally, Nifty IT ended in the red-down 0.64 per cent to 17,814 levels, with 6 out of 10 constituents declining. On the other hand, Nifty Metal index rallied the most-up over 3 per cent to 2,496.75 levels, followed by Nifty Pharma - up over 2 per cent.

India VIX declined over 5 per cent to 21.67 levels.

Sectors and stocks
Shares of metal companies were in focus on Tuesday, with Nifty Metal index surging 3 per cent on the National Stock Exchange (NSE) on the expectation of demand recovery. Jindal Steel and Power (JSPL) and JSW Steel were up 6 per cent each at Rs. 217 and Rs. 285, respectively on the NSE. Hindalco, Tata Steel, Steel Authority of India (SAIL), and National Aluminium Company were up 3 per cent to 5 per cent. Base metals prices rallied for the second consecutive week as lower supply concerns, demand growth optimism, and dollar weakness boosted prices for the week. Nickel prices at LME rose to a nine-month high on demand from China and fear of lower supply of nickel ore from the Southeast Asia region over lower shipments. Copper prices rose to the two-year high at LME.

Shares of Maruti Suzuki were up by as much as 2.63 per cent to Rs. 7,018 on the BSE on Tuesday after the carmaker's sales in August grew 17 per cent on a year-on-year (YoY) basis to 1.24 lakh units. Sequentially, sales grew 15.3 per cent. Total sales include domestic sales of 115,325 units and 1,379 units for other original equipment manufacturer (OEMs). In addition, the Company exported 7,920 units in August 2020, a drop of 15.3 per cent over August 2019, the company said in an exchange filing. In the mini segment, Maruti Suzuki sold 19,709 vehicles in August 2020, up 94.7 per cent YoY from 10,123 units sold in August 2019. In the compact segment, including Wagon R, Baleno, Swift and Dzire models, sales grew 14.2 per cent YoY to 61,956 units. The sales of its mid-size Ciaz model declined 23.4 per cent to 1,223 units. The sales of utility vehicles rose 13.5 per cent to 21,030 units. "The Company remains committed to the health, safety and well-being of all members across the value chain. All production and sales continue to take place fully consistent with all safety requirements for employees and customers.

Shares of Biocon rallied 6 per cent to Rs. 397 on the BSE on Tuesday after the company’s subsidiary Biocon Biologics India and its partner Mylan N.V. launched insulin glargine injection under the brand Semglee in the US market. Biocon Biologics India and Mylan have launched the product in vial and pre-filled pen presentations in the US. It is approved to help control high blood sugar in adult and pediatric patients with type-1 diabetes and adults with type-2 diabetes, Biocon subsidiary said in a press release.

Shares of Bharti Airtel were up by 6 per cent to Rs. 543 on the BSE. The Company continues to do well in tough times by riding on the digital theme and is able to withstand competition.

Shares of Vodafone Idea (VIL) declined by 20 per cent to Rs. 8.16, down 25 per cent from intra-day’s high of Rs. 10.95 on the BSE after the Supreme Court (SC) allowed 10 years for staggered payment of adjusted gross revenue (AGR) dues. “The Supreme Court in its judgment in the matter of adjusted gross revenue (AGR) allowed telcos to pay their outstanding dues in 10 years. Telcos can pay 10 per cent of their dues by March 31, 2021, and the remaining installments by 7 February every year.” Vodafone Idea had sought 15 years to pay its AGR dues, including spectrum usage charge, license fee, interest, penalty, and interest on the penalty. The AGR dues for VIL aggregated to Rs. 58,250 crore up to FY2016-17 on basis of preliminary assessment by the Department of Telecommunications (DoT). VIL has already paid Rs. 7,854 crore towards AGR due to DoT as on date. The company had pleaded for staggered payment of balance dues to DoT. “With a negative net worth of the company as on June 30, 2020, there is very limited headroom for the company to incur any capital expenditure and raise funds to support the operation of the company. In order to improve the liquidity position of

VIL, the expected monetisation of stake sale in Indus Towers is delayed due to the extension of the long stop date to August 31, 2020. VIL continues to avail moratorium on principal and interest payment on term borrowings from Banks," CARE Ratings said in a press release on the company's ration action on August 24, 2020.

Shares of Future Retail hit the lower circuit of 10 per cent at Rs. 146.10 on the BSE on Tuesday in firm market. The fall comes after foreign portfolio investors (FPIs) sold 9.5 million equity shares of the company through open market on Monday. The world's largest sovereign wealth fund The Government Pension Fund Global sold 9.5 million shares, representing 1.75 per cent stake of Future Retail at Rs. 158.61 per share on the NSE, bulk deal data show. The sovereign wealth fund held 12.35 million shares, or 2.28 per cent stake in the company at the end of June, shareholding pattern data revealed. The name of the buyers was not ascertained immediately. In past three trading days, the stock had rallied 38 per cent from Rs. 117 to Rs. 162 on Monday. On Saturday, August 29, Reliance Industries (RIL) and Future Enterprises announced deal where Reliance Retail will acquire the retail & wholesale, logistics & warehousing business from Future Group. "Future Enterprises will subsequently sell by way ofa slump sale the retail and wholesale business that includes key formats such as Big Bazaar, fbb, Foodhall, Easyday, Nilgiris, Central and Brand Factory to Reliance Retail and Fashion Lifestyle (RRFLL), a wholly owned subsidiary of Reliance Retail Ventures(RRVL). It will also sell the logistics and warehouse business to RRVL by way of a slump sale. RRFLL and RRVL will take over certain borrowings and current liabilities related to the business and discharge the balanceconsideration by way of cash," Future Group said in a press release.

Global markets

Chinese equities were up on Tuesday led by new energy vehicle-related and mining shares, as strong factory data reflecting a bounce-back in its economy from the coronavirus crisis lifted sentiment. The Shanghai Composite index ended 0.44 per cent higher at 3,410.61. The blue-chip CSI300 index was up 0.54 per cent, with financial sector sub-index gaining 0.08 per cent, the consumer staples sector rising 0.21 per cent, the real estate index falling 0.25 per cent and the healthcare sub-index. China's factory activity expanded at the fastest clip in nearly a decade in August, bolstered by the first increase in new export orders this year, the Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) showed.

Ajcon Global's view

We were consistently advising investors to be ready for a sharp sell off as Indian equities were running ahead o fundamentals with bleak ground economic reality. Our conviction on the same proved right today after depressing Q1GDP data yesterday. We maintain our same stance to maintain great caution. Exponential rise in COVID-19 cases and India – China tensions will always remain an overhang.

No doubt, the economic activity has picked up but not at the same intensity of Pre – COVID era in different phases of Unlock period but the cashflow situation for MSMEs is still an issue. Presently, caution is warranted as Indian investors are not connected to ground realities of economic situation being tough which is evident by the fact that Companies are looking to raise capital via QIP, Rights issue, Preferential Allotment and FPOs to absorb the shock of COVID-19. Although there are relaxations in lockdown, exponential rise in COVID-19 cases can force for tighter lockdown.

We believe cooling of Indian equities which has started from today will be healthy for investors as the sharp rally in lockdown period and different phases of Unlock was led by liquidity through FPIs. Last 2 months rally can be attributed to positive developments related to COVID-19 vaccine, relaxations in Unlock 1.0, 2.0 and 3.0 and better than expected Q1FY21 result of majority companies announced so far. Exponential rise in COVID-19 cases amidst high recovery rate, US – China, India – China tensions would always remain an overhang on Indian equities. Equities rallying along with Gold make us uncomfortable as it is clear case of global liquidity as big economies have resorted to printing money as part of stimulus package. Progress of ongoing monsoon, global cues and management commentary in Q1FY21 earnings season will drive market direction. The FPI inflows came amidst rush of liquidity in the markets globally after central banks around the world announced stimulus measures to help their economies. The stimulus measures given by the G4 central banks such as the US Federal Reserve, Bank of England, European Central Bank, and Bank of Japan, have helped fill the global markets with liquidity, marquee Indian companies tapping the secondary stock market by raising funds also contributed towards the increase in FPI flows.

We like the measures announced by RBI in its Monetary Policy to address the issues faced by the Indian industry. The central bank announced measures to support NBFCs, HFCs, corporate debt market, and announced a relaxation on the loan-to-value (LTV) ratio for gold loans. RBI provided relief to stressed MSME borrowers by making them eligible for restructuring their debt under the existing framework, provided their accounts with the concerned lender were classified as standard as on March 1, 2020. This restructuring will have to be implemented by March 31, 2021. Further, the RBI introduced special resolution window under its June 29 circular. In addition, The Reserve Bank of India constituted the expert committee to oversee the resolution of stressed assets created by COVID-19 under the chairmanship of KV Kamath. The committee will recommend financial parameters factored in the resolution plans, along with sector specific benchmark ranges. The Expert Committee will undertake the process validation for the resolution plans to be implemented under this framework, without going into the commercial aspects, in respect of all accounts with aggregate exposure of Rs. 1,500 crore and above at the

time of invocation. The "Prudential Framework on Resolution of Stressed Assets" dated June 7, 2019 provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. "The resultant stress can potentially impact the long-term viability of a large number of firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate, relative to their cash flow generation abilities," RBI said.

The details regarding the policy for restructuring of NPA accounts is still awaited from the expert committee to oversee the resolution of stressed assets caused by COVID-19 under the chairmanship of KV Kamath. The guidelines on the KV Kamath committee recommendations will be out by September 6,Reserve Bank of India (RBI) Governor Shaktikanta Das said in a television interview on Friday. The committee on business loan resolution would submit its recommendations within one month and the central bank will soon release its final guidelines on the issue. Both the process will be done within 30 days from the date of original notification on August 6, Das said. We believe the restructuring measures announced by RBI will help PSUs to protect themselves from capital erosion as they are loaded with NPAs.

Considering the sharp rally in the last five months including the Lockdown period and various phases of Unlock – Reopening of economy, we advise investors to book profits who have entered at levels during the announcement of initial Lockdown.

We once again advise caution to the investors specially the traders as many of the stocks are running much beyond the fundamentals and the current rally is in contrast to the economic reality. SEBI from its side is tightening the goose and making margining more tough to take care of any eventuality like March which has uprooted many brokerages and their clients including the largest debt credit fund. A great deal of maturity is required in dealing with the prevailing market situation. With Q1GDP data out, all eyes would be on newsflow related to COVID-19 vaccine development across the globe, US PMI data along with Non-farm payroll data, developments related to US-China trade deal, domestic monthly auto Sales numbers and progress of ongoing monsoon.

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