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Market wrap **Nov. 02, 2020**

Banking and NBFCs stocks rally; benchmark indices marginally up amidst volatility..

The Indian benchmark indices closed marginally higher in Monday's volatile session during which heavy losses in index-heavyweight Reliance Industries were offset by gains in financial stocks.

The S&P BSE Sensex ended the session 144 points, or 0.36 per cent, higher at 39,757.58. The index hit an intra-day high and low of 39,968 and 39,335, respectively. The advance decline ratio among the index's constituents was 3:2.

IndusInd Bank, ICICI Bank, and HDFC rose between 6 per cent and 7 per cent after the announcement of its September quarter results. On the other hand, Reliance Industries was at over 3-month low levels of Rs. 1,876.90, down over 8 per cent after its Q2FY21 result failed to impress street participants.

The broader Nifty50 index ended the day 27 points higher at 11,669.15. The Nifty sectoral indices were mixed, with Nifty Bank index leading the list of gainers. The index closed 992 points, or 4.15 per cent, higher. In the broader market, the S&P BSE MidCap index closed up 0.36 per cent while the SmallCap index tumbled 0.7 per cent.

Crude oil
Brent crude oil prices fell to a low of $35.74 per barrel, a level not seen since late May.

Key developments
India's factory activity expanded at its fastest pace in over a decade in October as demand and output continued to recover strongly from coronavirus-related disruptions, but firms cut more jobs, a private survey showed. Asia's third-largest economy is healing after shrinking a record 23.9 per cent in the April-June quarter. The Indian government has removed most restrictions imposed to control the spread of the virus, though infections continue to climb and now number over 8 million people.The Nikkei Manufacturing Purchasing Managers' Index, compiled by IHS Markit, rose to 58.9 in October from September's 56.8. The reading was the highest since May 2010 and above the 50-level separating growth from contraction for the third straight month. "Levels of new orders and output at Indian manufacturers continued to recover from the Covid-19 induced contractions seen earlier in the year," said Pollyanna De Lima, economics associate director at IHS Markit. "Companies were convinced that the resurgence in sales will be sustained in coming months, as indicated by a strong upturn in input buying amid restocking efforts." Both output and new orders, which tracks overall demand, grew at their sharpest rates in more than 12 years and foreign demand expanded at its quickest pace since December 2014.

Last week, Finance Minister Nirmala Sitharaman said that there were visible signs of revival in the economy but the GDP growth may be in negative zone or near zero in the current fiscal. This is primarily because of a huge 23.9 per cent contraction in the economy in the first quarter of current fiscal (April-June), she added. The focus for the government is on public spending to boost economic activity, Nirmala Sitharaman added.

In a relief to borrowers at the onset of the festive season, the government earlier announced waiver of interest on interest for loans up to Rs. 2 crore irrespective of whether moratorium was availed or not. The Department of Financial Services came out with operational guidelines in the backdrop of Supreme Court's direction to implement the interest waiver scheme, which is likely to cost the exchequer Rs. 6,500 crore. The apex court on October 14 directed the Centre to implement "as soon as possible" interest waiver on loans of up to Rs. 2 crore under the RBI moratorium scheme in view of the COVID-19 pandemic saying the common man's Diwali is in the government's hands. As per the guidelines, the scheme can be availed by borrowers in specified loan accounts for a period from March 1 to August 31, 2020. "Borrowers who have loan accounts having sanctioned limits and outstanding amount of not exceeding Rs. 2 crore (aggregate of all facilities with lending institutions) as on February 29 shall be eligible for the scheme," it said. As per the eligibility criteria mentioned in the guidelines, the accounts should be standard as on February 29 which means that it should not be Non-Performing Asset (NPA). Housing loan, education loans, credit card dues, auto loans, MSME loans, consumer durable loans and consumption loans are covered under the scheme. As per the scheme, the lending institutions shall credit the difference between compound interest and simple interest with regard to the eligible borrowers in respective accounts for the said period irrespective of whether the borrower fully or partially availed the moratorium on repayment of loan announced by the RBI on March 27, 2020. The scheme is also applicable on those who have not availed the moratorium scheme and continued with the repayment of loans.

Earlier, Prime Minister Narendra Modi warned people against complacency in fighting COVID-19 ahead of festival season. Experts have warned that infections could rise in India as the holiday season nears, with celebrations for the Hindu festivals of Durga Puja and Diwali due this month and in mid-November, respectively. Prime Minister Narendra Modi last week suggested developing a vaccine delivery system on the lines of conduct of polls and disaster management while involving all

levels of government and citizen groups. Chairing a meeting to review the COVID-19 pandemic situation and the preparedness of vaccine delivery, distribution, and administration, the Prime Minister also noted a steady decline in the daily cases and the growth rate. At the same time, he also cautioned against any complacency at the decline and called for keeping up the efforts to contain the pandemic.In a statement, the PMO said three vaccines are in advanced stages of development in India, out of which two are in Phase II and one is in Phase-III. It further said Indian scientists and research teams are collaborating and strengthening the research capacities in neighbouring countries such as Afghanistan, Bhutan, Bangladesh, Maldives, Mauritius, Nepal and Sri Lanka. PM Modi further directed that keeping in view the geographical span and diversity of the country, the access to the vaccine should be ensured speedily. He stressed that every step in the logistics, delivery, and administration should be put in place rigorously. "It must include advanced planning of cold storage chains, distribution network, monitoring mechanism, advance assessment, and preparation of ancillary equipment required, such as vails, syringes etc," the statement said.

Earlier, Credit rating agency Moody's Investors Service said that India's fiscal position "remains very weak". The government's latest fiscal measures, it said, will have a minimal impact on the country's growth prospects and that the government's 'small scale' package is actually a credit negative as it reflects the country's 'limited budgetary firepower to support the economy'. Moody's expects India's GDP to drop 11.5 per cent in 2020-21, so the 0.5 per cent of GDP gain expected by the government from these stimulus measures will provide only 'a small boost', it pointed out.

Sectors and stocks

Shares of ICICI Bank were up by 7 per cent to Rs. 418.65 on the BSE on Monday after the Bank reported six-fold jump in standalone net profit at Rs. 4,251 crore in quarter ended September 2020 (Q2FY21) on account of growth in net interest income (NII) and lower credit cost as the bank did not make Covid-related provisions. It had posted a net profit of Rs 654.9 crore in the July-September 2019 (Q2FY20). The bank's net interest income (interest income minus interest expended) grew 16 per cent to Rs 9,366 crore in Q2FY21 from Rs 8,057 crore. However, the Net Interest Margin (NIM) saw a dip to 3.57 per cent in Q2FY21 as against 3.64 per cent in Q2FY20. Sequentially, NIM was at 3.69 per cent in Q1FY21. The bank's assets quality improved with gross non-performing assets (NPAs) declined to 5.17 per cent in September 2020 from 6.37 per cent in September 2019. The net NPAs declined to 1.0 per cent from 1.6 per cent. The Management clarified that in most retail segments, the level of collection has reached 97 per cent of pre-Covid levels and corporate overdues are just 3 per cent of loans

Shares of DLF were up by 7 per cent to Rs. 170 on the BSE in intra-day trade on Monday after real estate developer said the residential business was witnessing green shoots of demand with consumer interest witnessing rising trends. The real estate developer believes that consistent quality supply in conjunction with affordability will lead to the overall recovery in demand. Covid-19 has impacted the economy and the market sentiment in the short term. However, DLF remains optimistic about its business and its growth returning to normalcy. In the July-September quarter (Q2FY21), the development business demonstrated strong operations. New sales bookings for the quarter rose to Rs 853 crore as compared to Rs 152 crore in the previous quarter, it said. Meanwhile, in Q2FY21, DLF reported a nearly three-fold sequential jump in its consolidated revenue at Rs. 1,723 crore, as compared to Rs. 646 crore in Q1FY21. The company posted a net profit of Rs. 236 crore against a net loss of Rs. 72 crore in the previous quarter. EBITDA stood at Rs. 576 crore compared to Rs. 100 crore in the previous quarter.

The retail segment is witnessing gradual recovery with the luxury segment exhibiting better trends. With all DLF's retail properties now open and restrictions lifted for multiplexes and entertainment zones, the management expects an increase in footfalls leading to recovery. The festive season might provide the required fillip for this segment, it said.

Shares of Route Mobile were locked in the 10 per cent upper circuit band at Rs. 1,095.85 on the BSE on Monday, rallying 38 per cent in the past one week, after the company reported a strong set of July-September quarter (Q2FY21) numbers. The company is a leading cloud communication platform service provider to enterprises, over-the-top players and mobile network operators. The stock was trading at its highest level since it got listed on September 21, 2020. With the past week's rally, the stock is currently trading 213 per cent higher as against its issue price of Rs. 350 per share. Since listing, it has outperformed the market, by gaining 68 per cent compared to 5 per cent rise in the S&P BSE Sensex. Route Mobile's consolidated net profit more-than-doubled to Rs 32.7 crore in Q2FY21 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 (earnings before interest, taxes, depreciation, and amortisation) 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. As per Gartner estimates, by 2023, 90 per cent of global enterprises will leverage AP/ enabled CPaaS offerings to enhance their digital competitiveness, up from 20 per cent in 2020. The management said the company is optimally positioned to be at the forefront and drive this transformation. Meanwhile, foreign portfolio investors (FPIs) such as Goldman Sachs and Kuwait Investment Authority acquired shares worth of Rs 210 crore of Route Mobile post listings on September 22. We had earlier recommended Route Mobile IPO.

Shares of Shriram Transport Finance Company were up 10 per cent to Rs. 762 on the BSE on Monday after Company posted decent and encouraging Q2FY21 results. The stock recorded its sharpest intra-day gain in the past six months. Earlier, on April 30, 2020, it had rallied 15 per cent in intra-day trade on the BSE. Shriram Transport is the largest asset financing non-banking finance company (NBFC) in the country and holistic finance provider for the commercial vehicle industry and seeks to partner small truck owners for every possible need related to their assets. The auto companies have reported strong set of sales numbers in the October month. For Q2FY21, Shriram Transport reported a better-than-expected net profit at Rs. 685 crore, on back net interest income (NII) of Rs. 2,022 crore and lower-than-estimated provisioning. Asset quality improved sequentially as gross non-performing assets (GNPA) ratio declined to 6.42 per cent from 8 per cent and NNPA ratio declined to 3.64 per cent from 5.1 per cent in Q1FY21. GNPA and NNPA stood at 8.8 per cent and 6.15 per cent as of Q2FY20. Assets under management (AUM) grew 4.8 per cent year on year at Rs 1.13 trillion during the quarter.

Global markets

Global equities recovered from one-month lows on Monday as upbeat Chinese data offset new lockdowns in Europe, while investors prepared for more volatility arising from the US presidential election.

MSCI world equity index, which tracks shares in 49 countries, rose 0.2 per cent, following a strong performance in Asia after data showed Chinese factory activity expanded at its fastest pace in a decade.

Europe was off to a more cautious start after the UK became the latest country in the region to announce a fresh lockdown as a second wave of COVID-19 infections threatened to overwhelm its health service.

The FTSEurofirst 300 benchmark fell early but managed to find some footing as investors bet the lockdowns wouldn't last as long as the previous round. The index, which reached a five-month low last week, was last up 0.2 per cent.

Ajcon Global's view

Spike in Covid cases across the globe is taking a toll on investor sentiments. Domestically, investors have become stock specific in midcaps and smallcaps segment and increasing allocation in Companies which are witnessing turnaround in Q2FY21, Unlock phase and having cost efficiencies.

We maintain our stance to be cautious as Indian equities are running ahead of fundamentals led by FPI liquidity and improved sentiments led by pent up demand after lockdown ahead of festive season. Results announced by companies in Q2FY21 have been encouraging, surpassed our expectations and showing signs of turnaround.

Buying was earlier witnessed in some sectors on hopes that the upcoming festive season would be beneficial for some sectors. In addition, greenshoots like improved Auto sales numbers, improved occupancy in airlines, normal monsoons, economic activity catching up in some sectors to Pre-COVID19 levels is cherished by street participants. However, there are still supply chain bottlenecks, availability of labour is also an issue which has resulted in lower capacity utilisation, working capital requirements have also stretched which are forcing Companies to look out for alternate revenue streams and various fund raising avenues.

We are cautious on Large caps at present valuations as we believe they are running ahead of fundamentals led by high FPI liquidity and advise partial profit booking. Earnings will take time to catch up to reach Pre – covid levels apart from sectors like Pharma, FMCG, Speciality Chemicals, E-Commerce and IT. However, there is opportunity in select midcaps and smallcaps for investors with a two year horizon. Further fall will make markets healthy for fresh entry as Indian equities were in overbought zone for quite some time. Going forward, all eyes would be on Q2FY21 earnings season, festive season sales, COVID-19 related developments and upcoming US Presidential elections in the wake of COVID-19 crisis.

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