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Market wrap

Sep. 03, 2020

Indian benchmark indices end flat; all eyes on Hon. PM Modi's speech at US – India Summit..

The Indian equities ended flat with negative bias on Thursday after fluctuating between minor gains and losses during the session. The S&P BSE Sensex ended 95 points, or 0.24 per cent lower at 38,991 levels, with ICICI Bank (down over 2 per cent) being the top loser and Titan (up nearly 6 per cent) the biggest gainer.

On the NSE, the benchmark Nifty50 settled at 11,527, down 7.5 points, or 0.065 per cent.

The broader market, however, fared better than the benchmarks. The S&P BSE MidCap index ended 0.4 per cent higher at 15,079 levels while the S&P BSE SmallCap index settled at 14,761 points, up 0.74 per cent.

Nifty Bank declined by 1.5 per cent to 23,531 levels. Nifty IT, on the other hand, was up by 1.5 per cent to 18,348.5 levels, with 9 out of 10 constituents advancing.

India VIX dropped nearly 3 per cent to 20.53 levels.

According to widely-tracked IHS purchasing managers' index (PMI), activities in services, the biggest sector of India's economy, fell for the sixth month in August even as the rate of contraction came down compared to July's reading as the process of unlocking intensified. PMI for services rose to 41.8 in August compared to 34.2 in July.

Key developments

Supreme Court on Thursday said that the bank accounts which were not termed as Non-Performing Asset (NPA) till August 31 will not be declared as NPA till disposal of this case and defers the hearing to September 10.

Finance Minister Nirmala Sitharaman told banks in a meeting on Thursday to put in place a loan restructuring scheme for rescuing all viable business units affected by the Covid-19 pandemic by September 15. "During her interaction, the Finance Minister focused on lenders immediately putting in place board-approved policy for resolution, identifying eligible borrowers and reaching out to them and quick implementation of a sustained resolution plan by lenders for revival of every viable business," the Finance Ministry said in a statement.

The meeting was held with the chief executives of all scheduled commercial banks and non-banking financial companies to "review their state of preparedness for implementation of the loans resolution framework for Covid-19 related stress." The FM stressed that banks should keep in mind the Covid-19 related distress of borrowers which should not come in the way of assessing their credit-worthiness at the time of giving loans.

During the meeting, the FM impressed upon the lenders that as and when moratorium on loan repayments is lifted, borrowers must be given support and Covid-19 related distress must not impact the lenders' assessment of their creditworthiness.

The banks were told to put in place FAQs (frequently asked questions) on the debt restructuring on their websites in multiple languages.

"The lenders assured that they are ready with their resolution policies, have started the process of identifying and reaching out to eligible borrowers, and that they will comply with the timelines stipulated by the Reserve Bank of India (RBI)," the ministry added. The finance ministry is also in touch with the RBI to ensure that the regulator provides assistance to lenders in the resolution process. "The Finance Minister also exhorted the lenders to proactively respond to needs of companies and businesses, as well as those of individual borrowers, and to spearhead the efforts for rebuilding businesses desperate for help owing to Covid-19 related distress," the finance ministry said.

Sectors and stocks

Vodafone Idea ended 27 per cent higher at Rs 12.56 on the BSE after media reports said Verizon Communications Inc and Amazon.com Inc may invest more than \$4 billion for a stake in the company.

Shares of Central Depository Services (India) (CDSL) hit an all-time high of Rs. 514 on the National Stock Exchange (NSE) on Thursday after the stock rallied 6 per cent. In the past two trading days, the stock has rallied by 18 per cent on the back of heavy volumes. In the past two months, the stock has soared 87 per cent from the level of Rs. 275 on the back of strong June quarter earnings. CDSL's consolidated net profit jumped 67 per cent year-on-year (YoY) at Rs 46.72 crore in April-June quarter (Q1FY21), on the back of steady operational revenue and higher other income. Revenue grew 11.75 per cent YoY at Rs. 65.26 crore, other income up 38 per cent at Rs 20.74 crore over the previous year quarter. Adjusted for one-offs last quarter, EBIT (earnings before interest tax) margin was up 186bps to 54.5 per cent.

Aviation stocks gained in the trade after the government allowed airlines to increase flights up to 60 per cent of their total capacity. InterGlobe Aviation ended nearly 2 per cent higher at Rs 1,270.95 on the BSE while SpiceJet settled at Rs 52.65, up over 3.5 per cent.

Shares of Jubilant FoodWorks hit a fresh record high of Rs. 2,305, up 2.3 per cent, bouncing back 4 per cent in the intra-day trade, on the BSE on the expectation of margin improvement going forward. The stock settled at Rs. 2,292.75, up nearly 2 per cent.

Global markets

European equities were upbeat on Thursday. The pan-European STOXX 600 index rose over 1 per cent in early trade, tracking Wall Street's latest peaks and gains in parts of Asia after data showed China's service sector grew for a fourth straight month in August.

Ajcon Global's view

All eyes would be on Hon. Prime Minister Narendra Modi's special keynote address at the US-India Strategic Partnership Forum's (USISPF's) 3rd annual leadership summit today. The Prime Minister will address the summit at 9 pm through a video conference.

We maintain our same stance to maintain great caution after depressing Q1GDP data. Exponential rise in COVID-19 cases and escalating India – China tensions will always remain an overhang. India has banned 118 more apps said to be either based in or linked to China. PUBG Mobile, Alipay, and Baidu are among the biggest names on the list. India had earlier banned TikTok, WeChat, and more than 50 other China-based apps in June, suggesting they were a security issue. This comes amid the escalating tensions between India and China over an ongoing border dispute.

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.



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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, developments related to India – China tensions and domestic monthly auto Sales numbers.

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