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Market wrap **Nov. 03, 2020**

Indian equities rally as greenshoots visible of economy recovering; all eyes on the US Presidential poll outcome..

The Indian benchmark indices ended over one per cent higher on Tuesday, on the back of favourable global cues, ahead of the US presidential poll outcome. The S&P BSE Sensex was up by 504 points, or 1.2 per cent, to 40,261 levels and the Nifty50 index reclaimed the 11,800-mark to end at 11,813.50, up 144 points, or 1.24 per cent.

Sectorally, barring Nifty Realty and Nifty Media, all other indices ended in the green. Nifty Bank was up by over 3 per cent or 790 points to 25,683 levels while Nifty Metal rose over 2 per cent to 2,391 levels.

In the broader market, the S&P BSE MidCap index gained 0.42 per cent to settle at 15,021 levels while the S&P BSE SmallCap index ended at 14,834, up 52 points, or 0.35 per cent.

India VIX dropped nearly 4 per cent to 24.2 levels.

Key developments
Globally, US manufacturing activity accelerated more than expected in October 2020, with new orders jumping to their highest in nearly 17 years. Chinese factory activity expanded the fastest in a decade and eurozone manufacturing also sped up.

Domestically, Steel companies have increased prices by around Rs. 1,000 a tonne effective November, bringing it closer to peak levels of 2018. In November 2018, prices of hot rolled coil (HRC) – a benchmark for flat steel – were at Rs. 46,250 a tonne. Subsequently, however, prices were reduced the following month. Prices of HRC were around Rs. 44,500 a tonne after the current increase. While HRC prices were increased by around Rs. 1,000 a tonne, the increase in prices of galvanized and colour coated products were higher but widely varying. JSPL managing director, V R Sharma, said, that the company had increased prices by Rs. 1,000-1,200 a tonne. Sharma said, JSPL's exports were now at 15-17 per cent of total produce. He added that the company had decided not to export semi-finished steel and would be exporting finished steel as realisations were higher. The Covid-19 pandemic saw a record export of semi-finished steel from India, most of which were headed for China. During April to September, exports of semis were at 4.439 million tonnes compared to 1.095 million tonnes in the year ago period. On a cumulative basis, steel mills have increased HRC steel prices by Rs 8,000-8,500 since July. The increase in prices reflected a recovery in domestic demand. Senior vice president at Icra, Jayanta Roy, said, domestic steel (HRC) prices have been through a roller coaster ride in the last two years. "While steel prices ruled at Rs. 46,500 per tonne the beginning of November 2018, they dropped sharply to the recent low of Rs. 32,250 per tonne in the next one year till November 2019. Prices however took a u-turn thereafter, reaching the current level of close to Rs 44,500 per tonne. At current levels, domestic prices are aligned with international steel prices," he added.

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 Cadila Healthcare were up by 9 per cent to Rs. 445.60 on the BSE on Tuesday as the company reported strong results in the September quarter (Q2FY21), with net profit after adjusting for exceptional items jumping 73 per cent year-on-year (YoY) at Rs. 562 crore, on the back of healthy revenue. The pharmaceutical company's stock was trading close its 52-week high level of Rs. 447.95, touched on October 9, 2020. The company’s consolidated revenues during the quarter grew 13.5 per cent YoY to Rs. 3,820 crore against Rs. 3,367 crore in Q2FY20. US sales grew a robust 18 per cent YoY to Rs. 1,709 crore, while domestic formulations grew 11.2 per cent YoY to Rs. 1,087 crore. In Q2FY21, the Ebitda margins stood at 22.6 per cent during the quarter, which improved significantly by 370 basis points compared to 18.9 per cent registered in Q2FY20. The margins improvement was due to lower employee and other expenses. During the quarter, the company launched 6 new products in the US. The Company received approval for 10 new products (incl. 2 tentative approvals) and filed 5 additional Abbreviated New Drug Applications (ANDAs) with the U.S. Food and Drug Administration (USFDA) during the quarter.

Shares of Housing Development Finance Corporation (HDFC) were up by 4 per cent at Rs. 2,116 on the BSE on Tuesday, thus gaining 10 per cent in past two days after the company reported higher than estimated September quarter (Q2FY21) numbers, led by improvement in asset quality and steady assets under management (AUM) growth. The stock of the housing finance company was trading at its highest level since March 13, 2020. In past one month, it outperformed the market by gaining 18 per cent, as compared to 3.7 per cent rise in the S&P BSE Sensex. However, HDFC’s net profit dipped 27.6 per cent to Rs. 2,870 crore in Q2FY21 from Rs. 3,962 crore in the corresponding period a year ago, due to lower other. The numbers for Q2FY21 were not directly comparable with the previous year because it had huge income from dividend and sale of investments in Q2FY20. The net interest income (NII) rose 21 per cent in Q2 to Rs. 3,647 crore from Rs. 3,021 crore the previous year. The assets under management (AUM) grew 10.2 per cent to Rs. 5.40 trillion in Q2FY20 from Rs. 4.90 trillion a year ago. Individual loans comprise 75 per cent of AUM. Asset quality improved with gross non-performing assets (GNPA) improved 6 basis points quarter on quarter to 1.81 per cent. Adjusted for the Supreme Court (SC) order on asset quality classification, GNPL improved by 4 basis points. In the individual lending book, overall collection efficiency (CE) was 96.3 per cent, while that of the non-moratorium book was 99.5 per cent. With the unlocking of the Indian economy, traction in individual loans gained momentum with successive month-on-month improvements. The prevailing low interest rates, softer property prices, reduction in stamp duty in certain states and inherent strong demand for home loans bodes well for the housing finance sector, the management said. The months of September and October 2020 have seen the strongest recovery since the outbreak of the pandemic, it said.

Shares of Tata Motors were up by over 3 per cent to Rs. 137.35 apiece on the BSE on Tuesday, a day after the auto major reported 27 per cent growth in its total domestic sales to 49,669 units in October. The company had sold 39,152 vehicles in October 2019. Passenger vehicle sales during the previous month rallied by 79 per cent to 23,617 cars as compared to 13,169 units in October 2019. Total commercial vehicle (CV) sales grew 2 per cent to 28,472 vehicles in October as against 28,002 vehicles in the year-ago period, the company said. Commercial vehicle exports, too, grew 20 per cent during October to 2,420 units against 2,019 a year ago, according to the statement. For the quarter ended September 30, Tata Motors reported a consolidated net loss of Rs. 307.3 crore as compared with a net loss of Rs. 187.70 crore a year ago. The total revenue from operations during the period crimped. It was 18.19 per cent to Rs. 53,530 crore, from Rs. 65,431.95 crore a year ago. JLR's retail sales during the three-month period rose 53.3 per cent QoQ to 113,569 units, but sales in most markets continued to be impacted by Covid-19. They were down 11.9 per cent year-on-year (YoY). But China showed an encouraging sales trend – up 14.6 per cent in the prior quarter and 3.7 per cent YoY.

Shares of Hero MotoCorp (HMCL) were up by 4 per cent to Rs. 2,937 on the BSE on Tuesday, extending its previous day's 1 per cent gain after the company's volumes rose 34.6 per cent year-on-year (YoY) to an all-time high in the month of October. The world's largest two-wheeler manufacturer sold 806,848 units of motorcycles and scooters in October 2020 – its highest-ever sales in any single month. The company had sold 599,248 units in the corresponding month of the previous year (October 2019). A positive turnaround in customer sentiments – particularly for motorcycles across markets, continued government policy support and a credible resumption of supply chain, logistics and business operations have enabled the company to achieve record numbers during the auspicious festive period. HMCL was the leader in domestic motorcycle segment (52 per cent market share of FY20) with 50 per cent sales contribution from rural geographies was an outsized beneficiary of the trend in June-August (retail market share 37-41 per cent vs. 34-39 per cent YoY, backed by consistently lower de-growth than 2-W industry).

Havells India has regained the Rs. 50,000-crore market valuation, after the consumer electronics company's stock rallied 6 per cent to hit a record high of Rs. 827.65 on the BSE on Tuesday. The stock has surpassed its previous high of Rs. 806.90, touched on June 28, 2019. The stock was up for the third straight trading day, soaring 14 per cent after the company reported a strong 80 per cent year-on-year (YoY) growth in its standalone net profit at Rs 325 crore in September quarter (Q2FY21). Net revenue grew 10 per cent YoY at Rs 2,452 crore. Ebitda was up by 79 per cent YoY at Rs 421 crore, due to lower advertisement and sales promotion and other expenses. Ebitda margins improved 670 basis points at 17.2 per cent from 10.5 per cent in previous year quarter. The company said the effective price and cost management enabled contribution margin improvements, especially in ECD and Lighting. The lower advertisement and SG&A costs have further supported EBIT margins, it said. Havells India's Q2FY21 results were significantly better than expected on strong demand recovery from consumer and residential portfolios, while 56 per cent growth in Lloyd was major positive.

Global markets

European equities rose in early trading on Tuesday as investors bet on a clear win for Joe Biden as the United States votes in its most polarised presidential election in living memory. Recently, with sudden spike in COVID-19 cases, European countries have been tightening restrictions. In US, reports showed new pandemic cases hit record highs last week.

The Federal Open Market Committee (FOMC) will begin its two-day meeting on interest rate policy on Wednesday, with policymakers expected to reaffirm its commitment to support the pandemic-struck economy and keep interest rates unchanged.

In Asia, South Korea's main index advanced 1.7 per cent and Hong Kong's index sprinted 2.2 per cent higher.

The MSCI China index hit a 23-year high after Chinese factory activity expanded the fastest in a decade. Japanese markets were closed for a holiday.

Ajcon Global's view

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. Globally, sudden spike in Covid cases across the globe in second wave is taking a toll on investor sentiments.

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 cap-

ital 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 US Presidential elections poll outcome in the wake of COVID-19 crisis as Joe Biden expected to give tough fight to Donald Trump.

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