

Indian equities rally after RBI's forecast of positive GDP growth; interest rate sensitive sectors stocks and Aviation stocks rally..

Indian equities were buoyant on Friday as the benchmark indices scaled fresh all-time highs after the Reserve Bank of India (RBI) revised upwards the economic growth projections for the fiscal year 2020-21 (FY21) and assured ample liquidity for the stressed sectors.

The S&P BSE Sensex hit a new milestone today as the index breached the crucial 45,000 level for the first time ever to end at 45,080 levels, up 447 points, or 1 per cent. On similar lines, NSE's Nifty ended at 13,259, up 125 points, or 0.95 per cent.

In the broader market, the S&P BSE MidCap index ended 0.44 per cent higher at 17,389 levels while the S&P BSE SmallCap index settled at 17,317, up 72 points, or 0.42 per cent.

On the NSE, all sectoral indices ended in the green with Nifty Bank surging the most - up 2 per cent or 604 points to 30,052 levels.

Volatility index, India VIX, declined by over 5 per cent to 18 levels.

On a weekly basis, Nifty gained 2.2 per cent while Sensex added 2 per cent.

Key highlights of Monetary Policy

- 1) The Reserve Bank of India (RBI) on Friday revised its forecast of economic growth for the current fiscal year (2020-21) to minus 7.5 per cent compared to its earlier forecast of minus 9.5 per cent. RBI governor Shaktikanta Das said the change in forecast has been prompted by a surge in demand in both rural as well as urban areas. The second half of the fiscal year is expected to show positive growth despite disruptions caused by coronavirus pandemic, he added.
- 2) The RBI kept the policy repo rate unchanged at 4 per cent amidst high inflation. CPI inflation rose sharply to 7.3 per cent in September and further to 7.6 per cent in October 2020, with some evidence that price pressures are spreading. Food inflation surged to double digits in October across protein-rich items including pulses, edible oils, vegetables and spices on multiple supply shocks. Core inflation, i.e., CPI excluding food and fuel, also picked up from 5.4 per cent in September to 5.8 per cent in October. Both three months and one year ahead inflation expectations of households have eased modestly in anticipation of the seasonal moderation of food prices in the winter and easing of supply chain disruptions. The RBI governor said inflation is likely to remain elevated with some relief in the winter months. "CPI inflation is seen at 6.8 percent for Q3FY21 and projected CPI inflation is at 5.8 percent for Q4FY21. For H1FY22, projected CPI inflation is seen at 5.2-4.6 percent with risks broadly balanced," said Das.
- 3) Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The Monetary Policy Committee (MPC) also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
- 4) Real GDP for the September quarter contracted 7.5 per cent year-on-year, on the back of the steep contraction in manufacturing, construction, and services, data released by the National Statistical Office showed on November 27. The real GDP for April-June 2020 had contracted 23.9 per cent, the steepest fall ever (and the first contraction in 40 years). The July-September 2019 quarter had witnessed a GDP growth of 4.4 per cent.
- 5) Turning to the growth outlook, the recovery in rural demand is expected to strengthen further, while urban demand is also gaining momentum as unlocking spurs activity and employment, especially of labour displaced by COVID-19. Fiscal stimulus is increasingly moving beyond being supportive of consumption and liquidity to supporting growth-generating investment. On the other hand, private investment is still slack and capacity utilisation has not fully recovered, RBI Governor Shaktikanta Das said in Monetary Policy Statement.



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- 6) Domestic financial conditions remained easy in October-November and systemic liquidity continued to be in large surplus. Reserve money increased by 15.3 per cent (y-o-y) (as on November 27, 2020), driven by a surge in currency demand. Money supply (M3), on the other hand, grew by only 12.5 per cent as on November 20, 2020. A noteworthy development is that non-food credit growth accelerated and moved into positive territory for the first time in November 2020 on a financial year basis – hitherto, the large inflow of deposits into the banking system was being predominantly deployed in SLR investment. Corporate bond issuances stood at Rs. 4.4 lakh crore during April-October 2020 as against Rs. 3.5 lakh crore during the same period last year. India's foreign exchange reserves were US\$ 574.8 billion (as on November 27), up from US\$ 545.6 billion on October 2 at the time of the MPC's last resolution.
- 7) The Reserve Bank of India (RBI) has decided to put in place a comprehensive framework to strengthen and improve the efficacy of the internal grievance redress mechanism of the banks and to provide better customer service. Accordingly, it has decided for enhanced disclosures on customer complaints by the banks and undertaking intensive review of grievance redress mechanism and supervisory action against banks that fail to improve their redress mechanism in a time bound manner. A system of monetary disincentive in the form of recovery of cost of redress of complaints from banks when maintainable complaints are comparatively high has also been proposed. The Ombudsman mechanism instituted by the Reserve Bank is an alternate grievance redress mechanism. The fresh measures would further strengthen the mechanism. The framework would be put in place during January 2021, RBI said in a statement.
- 8) RBI will put in place criteria for declaration of dividends and their regulatory regime will be reviewed to take a scale-based approach. "The current regulatory regime of NBFC sector warrants a review," he said. "For the overall financial sector, the RBI will introduce risk-based internal audits in large urban co-operative banks and NBFCs. The RBI will also issue 'Digital Payments Security Control Directions'. We will also form a comprehensive mechanism for complaints against lenders," he said.
- 9) The central bank has slashed the repo rate by 115 basis points since late March to cushion the shock from the COVID-19 crisis and sweeping lockdowns across the country to check its spread.

Key recent developments

- 1) Prime Minister Narendra Modi on Friday said that experts believe that the wait for a COVID-19 vaccine will not be long and it may be ready in a few weeks, asserting the vaccination drive in India will begin as soon as scientists give the nod. In his remarks here at an all-party meeting held virtually, he said healthcare workers involved in treating COVID-19 patients, frontline workers, who include police personnel and municipal staff, and old people suffering from serious conditions would be inoculated on priority. Noting that there have been questions about the price of the COVID-19 vaccine, the prime minister said it is natural to have such queries and asserted that public health will be accorded top priority in the matter and states will be fully involved. In his concluding address at the meeting called by the Union government to discuss the pandemic situation, Modi sought to address most burning aspects of the issue, ranging from India's vaccine readiness to its pricing, and reiterated that the country has done better than even some developed countries and those with better health infrastructure in tackling the pandemic.
- 2) Earlier Prime Minister Narendra Modi in a meeting with chief ministers on Tuesday said that, India's priority is to make a coronavirus vaccine "safe on all scientific standards" available to all its citizens. The central government and states have to "work together" in controlling the coronavirus pandemic and "no one can impose any view", PM Modi told the chief ministers of eight states worst affected in the pandemic. Modi held two meetings through video with Chief Ministers and Lieutenant Governors to discuss the coronavirus situation in the states and preparations for vaccine delivery.
- 3) Earlier, UK became the first western country to approve a Covid-19 vaccine, with its regulator clearing Pfizer Inc. and BioNTech SE's shot ahead of decisions in the U.S. and European Union. The emergency authorisation clears the way for the deployment of a vaccine that's expected to play a significant role in the global effort to halt the coronavirus. Pfizer and its German partner said in November that the shot, relying on novel technology called messenger RNA, was 95% effective in a final analysis of clinical-trial data. "The government has today accepted the recommendation from the independent Medicines and Healthcare products Regulatory Agency (MHRA) to approve Pfizer-BioNTech's COVID-19 vaccine for use. This follows months of rigorous clinical trials and a thorough analysis of the data by experts at the MHRA who have concluded that the vaccine has met its strict standards of safety, quality and effectiveness," the UK government said in a statement. "The vaccine will be made available across the UK from next week. The NHS has decades of experience in delivering large scale vaccination programmes and will begin putting their extensive preparations into action to provide care and support to all those eligible for vaccination," the statement added. Britain's approval of BioNTech-Pfizer's vaccine against Covid-19 marks a "historic moment" in the battle against the pandemic, the US pharma group's chief executive said. "Today's Emergency Use Authorisation in the UK marks a historic moment in the fight against Covid-19," said Pfizer CEO Albert Bourla.

- 4) Goods and service tax (GST) collections for November 2020 stood at Rs. 1.04 lakh crore, marginally lower than Rs 1.05 lakh crore collected in October this year, but higher than Rs. 1.03 lakh crore collected in the same month last year. Economic recovery is clearly evident from improved GST collections data. GST Collections crossed the Rs. 1 lakh crore mark for the second time since April, after last month's Rs. 1.05 lakh crore.
- 5) India's manufacturing sector activity lost momentum and fell to a three-month low in November amid slower increases in factory orders, exports and buying levels, a monthly survey said on Tuesday. The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) fell from 58.9 in October to a three-month low of 56.3 in November, indicating that the manufacturing sector growth remained strong, despite losing traction. In PMI parlance, a print above 50 means expansion, while a score below that denotes contraction. "The Indian manufacturing sector remained on the right path to recovery, with strong growth of new orders and output sustained during November," Pollyanna De Lima, economics associate director at IHS Markit, said.
- 6) The Serum Institute of India (SII) will seek emergency use authorisation for the AstraZeneca Covid-19 vaccine in about two weeks. Adar Poonawalla, Founder and CEO, SII said on Saturday that SII is in the process of submitting the data for the clinical trials to the DCGI and will seek emergency use authorisation. Poonawalla said the vaccine will first be distributed in India before it starts dispatching to "Covax countries" in Africa. PM Modi, as part of Covid-19 vaccine review tour in Ahmedabad, Hyderabad and Pune, visited SII on Saturday evening to discuss the manufacturing and supply of Covishield, the vaccine developed against coronavirus by the institute.
- 7) Hyderabad-based Hetero Labs would be working with the Russian Direct Investment Fund (RDIF) to produce 100 mn doses per year of the Sputnik V vaccine. The parties intend to start the production of Sputnik V in the beginning of 2021, the statement said. Earlier this week Kirill Dimitriev, CEO of RDIF, Russia's sovereign wealth fund, said that the fund was planning to supply 1 bn doses of Sputnik V across the globe in 2021 and had forged partnerships in India, China, Brazil, Korea, Hungary and some other locations. Requests for more than 1.2 billion doses of Sputnik V vaccine came from more than 50 countries, RDIF claimed. Dr Reddy's Laboratories (DRL) is RDIF's partner in India for conducting clinical trials and distribution of the vaccine. It had indicated this month that the process of technology transfer had begun at its partner site (for manufacturing) in India. The first batch of Sputnik V vaccines have also arrived for clinical trial purposes. "We are delighted to announce the agreement between RDIF and Hetero that will pave the way for production of the safe and highly effective Sputnik V vaccine on Indian soil. The vaccine's interim clinical trial results show 95% efficacy on the 42nd day after the first dose. I am confident that Sputnik V should become an integral part of the national vaccine portfolio of every country willing to protect its population from the coronavirus. Thanks to our co-operation with Hetero, we will be able to significantly increase production capacity and provide people of India with an efficient solution in this challenging period of the pandemic," Dimitriev said. B Murali Krishna Reddy, director – International Marketing, Hetero Labs, said that manufacturing the product locally is crucial to enable swift access to patients. The Sputnik V vaccine has been priced at \$10 per dose. It is a two-dose course.
- 8) Reserve Bank of India (RBI) Governor Shaktikanta Das on Thursday said the country's economy had recovered stronger than expected from the initial impact of the Covid-19 pandemic, but there is a need to be watchful of demand sustainability after the end of festivities. The governor also assured the financial markets that the regulator will continue to work in a nimble-footed manner to ensure orderly functioning of the markets. "The Reserve Bank remains committed to fostering orderly functioning of financial markets and will continue to evaluate incoming information having a bearing on the financial markets and act, as needed, to mitigate any downside risks," he said. "Today, the capital account is convertible to a great extent," he said. "Inward FDI is allowed in most sectors and outbound FDI by Indian incorporated entities is allowed as a multiple of their net worth. The external commercial borrowing framework has also been significantly liberalised to include more eligible borrowers, even as maturity requirements have been reduced and end-use restrictions have been relaxed."
- 9) US biotech company Moderna said it is having discussions with a number of countries and parties about rolling out its vaccine candidate against COVID-19. The company didn't specify whether India is among the countries it is having discussions with. Moderna hinted about the possibility of joining Covax and said the discussions are ongoing. Covax is a World Health Organization-backed facility, which aims to supply low and middle-income countries (LMICs), with proven COVID-19 vaccines, while ensuring equitable global access. "We are seeing enormous interest and are having discussions with a number of countries about Moderna's vaccine candidate against COVID-19," a Moderna spokesperson said in an email to queries about its plans for India. On partnerships with Indian drug companies or hospital chains for distribution of the vaccine in India, Moderna said it is holding discussions, but has no new specific agreements to announce at this point of time.
- 10) Last week, AstraZeneca said that the late-stage trials showed its coronavirus vaccine was up to 90 per cent effective, giving public health officials hope they may soon have access to a vaccine that is easier to distribute than some of its rivals. The results are based on interim analysis of trials in the UK and Brazil of a vaccine developed by

Oxford University and manufactured by AstraZeneca. No hospitalisations or severe cases of Covid-19 were reported in those receiving the vaccine. "These findings show that we have an effective vaccine that will save many lives," Oxford University Professor Andrew Pollard, chief investigator for the trial, said in a statement. "Excitingly, we've found that one of our dosing regimens may be around 90% effective." AstraZeneca is the third major drug company to report late-stage results for its potential Covid-19 vaccine as the world anxiously waits for vaccines that will end the pandemic that has killed almost 1.4 million people. Pfizer and Moderna last week reported preliminary results from late-stage trials showing their vaccines were almost 95 per cent effective. Unlike the Pfizer and Moderna vaccines, the Oxford-AstraZeneca candidate doesn't have to be stored at ultra-cold temperatures, making it easier to distribute, especially in developing countries. All three vaccines must be approved by regulators before they can be widely distributed.

- 11) The experimental COVID-19 vaccine of American pharma company Pfizer and BioNTech SE has proved to be 95 percent effective in final results from a pivotal study. It is also showing signs of being safe, key pieces of data as the companies prepare to ask health regulators to authorize use. Out of 170 adult volunteers in the nearly 44,000-subject trial who developed Covid-19 with at least one symptom, 162 received a placebo, while eight got the vaccine, Pfizer and BioNTech said. This 95 percent effectiveness rate makes the experimental candidate be on par with the likes of shingles and measles vaccines. Last week, All India Institute of Medical Sciences (AIIMS) director, Dr Randeep Guleria had said, "Pfizer vaccine has to be kept at minus 70 degrees Celsius which is a challenge for developing countries like India."
- 12) India is seeing a "strong recovery" taking root in the economy, as seen by increased goods and service tax collections and other metrics, Finance Minister Nirmala Sitharaman had said earlier. Sitharaman announced a new set of stimulus measures to boost employment under Atmanirbhar Bharat Rozgar Yojna to incentivise the creation of new employment opportunities. The new announcements aim at benefiting companies and individuals, who lost their jobs due to Covid-19 induced lockdown. The new announcements came after the government approved a Rs 1.45-trillion package by extending the production-linked incentive (PLI) scheme to 10 more sectors. The latest approval is in addition to the already announced Rs. 51,311-crore PLI for three sectors. With this, the total incentives under the PLI schemes come to Rs. 2 trillion.

Sectors and stocks

Shares of interest rate sensitive sectors, mainly financials and automobiles, were trading firm on the National Stock Exchange (NSE) on Friday after the Monetary Policy Committee (MPC) of the Reserve Bank of India decided to keep repo rate unchanged at 4 per cent while maintaining the 'accommodative' stance.

Shares of pharmaceutical companies were in a focus on Friday with the S&P BSE Healthcare index hitting a fresh record high on the back of a strong rally in Sun Pharmaceutical Industries and Laurus Labs which gained over 3 per cent on the BSE.

Among individual stocks, Sun Pharmaceutical Industries hit a 52-week high of Rs. 568.50, up nearly 4 per cent, rallied by 11 per cent in the past four trading days on the BSE. The stock surpassed its previous high of Rs. 564.90, touched on August 28, 2020.

Laurus Labs, on the other hand, rallied 5 per cent to Rs. 333.95 on the BSE in the intra-day deals. The stock was trading close its record high price of Rs. 345 touched on October 30, 2020. In the past 10 trading days, it has rallied by 25 per cent as compared to a 3-per cent rise in the S&P BSE Sensex. On November 25, Laurus Labs said it has signed a definitive agreement to acquire 72.55 per cent stake in Richcore Lifesciences Pvt Ltd (Richcore) from Eight Roads Ventures and VenturEast for a value of Rs. 246.7 crore. This acquisition marks Laurus Labs' entry into the broader biologics and biotechnology segments, providing the company access to its high growth areas, globally and in India.

Shares of aviation companies were flying high at the bourses on Friday, rallying up to 13 per cent on the BSE, after the government lifted cap on domestic flights to 80 per cent of pre-Covid levels.

Shares of SpiceJet rallied by 13 per cent to Rs. 91.85 on the back of heavy volumes.

Shares of InterGlobe Aviation-run IndiGo airline gained 5 per cent to Rs. 1,731 on the BSE. The stock was trading close to its 52-week high level of Rs. 1,744, touched on November 20, 2020. The cap on the number of domestic flights that Indian airlines are permitted to operate was increased from 70 per cent to 80 per cent of their pre-COVID levels on Thursday, said Civil Aviation Minister Hardeep Singh Puri.

Shares of UltraTech Cement rallied by 4 per cent to hit a fresh record high in the early morning trade on the BSE on Friday. The stock crossed Rs 5,000 mark to scale the peak of Rs. 5,104 after the company said its board has approved increasing the firm's capacity by 12.8 mtpa (MT), with a mix of brown field and green field expansion at a capex of Rs. 5,477 crore.

The company surpassed its previous high of Rs. 4,998, touched on December 2, 2020. The additional capacity will be created in the fast-growing markets of the east, central and north regions in the country, UltraTech Cement said in a press release. This capacity addition will not impact the ongoing deleveraging program which is on track to make UltraTech debt-free by the time the expansion program is completed, it added. The management said the cement industry has been witnessing healthy volumes post relaxation of lockdown, on the back of the government's thrust on infrastructure, underlying demand from the rural economy and individual home builders.

Global markets

Asian equities were trading at record high on Friday on growing prospects of a large US economic stimulus package, while hopes that coronavirus vaccine rollouts will boost the global economy underpinned investor sentiment.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.78 per cent while Japan's Nikkei dipped 0.22 per cent on profit-taking.

Earlier, globally, sentiments have improved as the formal go-ahead for US President-elect Joe Biden to begin his transition added to an already brighter mood from progress made on Covid-19 vaccines and the prospects for a speedy global economic revival.

Ajcon Global's view

Sentiments have improved significantly with RBIs forecast of positive GDP growth. Additionally, Prime Minister Narendra Modi on Friday said that experts believe that the wait for a COVID-19 vaccine will not be long and it may be ready in a few weeks, asserting the vaccination drive in India will begin as soon as scientists give the nod also aided in improvement of sentiments.

With COVID-19 vaccine coming in UK; sentiments of global investors have already improved.

Domestically, broader markets continued to witnessing buying which is a good sign for retail investors. Strong up move is being registered in smallcaps space which will bring much needed relief who were caught at the peak of 2018. Real GDP for September quarter contracted by 7.5 percent, but according to us, the Q2 GDP data indicates signs of economic revival from a standstill scenario (owing to nationwide lockdown in April, May, and June 2020). The numbers could have been a disaster had it not been for a gradual recovery of economy during various phases of Unlock.

Sectorally, PSU bank stocks rallied in the trade with the Nifty PSU Bank index surging nearly 5 per cent to 1,673 levels. SBI ended around 4 per cent higher at Rs 256.40 on the NSE.

Samvat 2077 has already started on a positive note with Indian equities continue to remain buoyant. Investors confidence on economic recovery is improving day by day led by COVID-19 vaccine related developments. Earlier, in Samvat 2076, the benchmark indices index rallied by 10.68 per cent. Samvat 2076 witnessed a roller coaster ride with India entering into a nationwide lockdown from the mid-night of March 24 owing to COVID-19 pandemic. Fears of a disrupted economy made S&P BSE Sensex and the Nifty50 indices fall steeply by over 39 per cent to hit a low of 25,639 and 7,511, respectively on March 24, 2020 which was nerve testing. However, since then, the benchmarks have defied gravity and hit new highs on November 11, 2020 as hopes of potential Covid-19 vaccine and reduction of COVID-19 cases domestically from its peak calmed the nerve of investors.

Globally, investor sentiments have improved on expectations of better global trade ties and more monetary stimulus under US President-elect Joe Biden supported risk appetite.

Domestically, investors sentiments have improved led by strong earnings performance in majority of the Companies which has surpassed our expectations as well. Clearly, there are visible signs of economic recovering fast. After significant rally witnessed in Largecaps space since the announcement of initial Lockdown to control COVID-19 pandemic, investors have become stock specific in midcaps and smallcaps. Investors are increasing allocation in Companies which are witnessing turnaround in Q2FY21, Unlock phase and having cost efficiencies. 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.

At present levels, Nifty valuations look expensive led by significant spike of FPI liquidity in the month of November 2020. Hence we are cautious on Large caps and advise partial profit booking. The news on COVID-19 vaccine coming in UK has already led to rerating of sectors that were hammered in COVID-19 crisis. Further fall in domestic bourses, will make markets healthy for fresh entry.

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