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Market wrap **Nov. 05, 2020**

Indian equities remain buoyant as Q2FY21 earnings season indicates economy activity nearing pre COVID-19 levels; investors mood upbeat ahead of Diwali..

Domestic bourses continued to remain upbeat and ended nearly 2 per cent higher on Thursday ahead of the US election results. The S&P BSE Sensex ended at 41,340, up 724 points, or 1.78 per cent while NSE's Nifty ended above the crucial 12,000 level at 12,120, up 212 points, or 1.78 per cent.

With today's rally, the S&P BSE Sensex erased all its 2020 losses and turned positive for the year. On a year-to-date (YTD) basis, the index is now up 0.2 per cent while NSE's Nifty is still down 0.4 per cent from its December 31, 2019 level of 12,168.45.

The broader market rallied in-line with the frontline indices. The S&P BSE MidCap index ended 263 points, or 1.74 per cent higher at 15,349 points while the S&P BSE SmallCap index closed the session at 15,136, up 253 points, or 1.7 per cent.

Sectorally, barring Nifty Realty, all other indices ended in the green. Nifty Metal jumped 4.4 per cent to 2,488.65 levels while Nifty Bank added over 2 per cent to 000026,313 points.

Volatility index, India VIX, today dropped a whopping 10 per cent to 20.96 levels.

Crude oil
Crude oil prices declined as Democrat Joe Biden edged closer to the White House in a nail-biting US presidential election, but the Republicans look likely to retain Senate control, decreasing the chances of any huge Covid-19 relief package.

Key developments
Reliance Industries (RIL) said Saudi Arabia's Public Investment Fund (PIF), one of the world's largest sovereign wealth funds, will invest Rs. 9,555 crore, or roughly US$1.3 billion, in its retail unit in exchange for a 2.04 percent. Founded in 1971, is the sovereign wealth fund of Saudi Arabia. It was founded for the purpose of investing funds on behalf of the Government of Saudi Arabia. PIF is developing a portfolio of high quality domestic and international investments diversified across sectors, geographies and asset classes. PIF operates through six investment pools comprising local and global investments in line with its objectives to actively invest over the long term to maximize sustainable returns, be the investment partner of choice for global opportunities, and enable the economic development and diversification of the Saudi economy.

This investment a record eighth investment by marquee global investors— values Reliance Retail Ventures Limited (RRVL) at a pre-money equity value of Rs. 4.587 lakh crore (around $62.4 billion).This investment will further strengthen PIF's presence in India's dynamic economy and promising retail market segment. The investment in RRVL follows PIF's earlier acquisition of a 2.32 percent stake in Jio Platforms, the digital services subsidiary of RIL.RIL has so far sold 10.09 percent in RRVL, India's largest retailer, for a combined Rs 47,265 crore. A clutch of investors such as Singapore's sovereign wealth fund GIC, global alternative asset firm TPG Abu Dhabi Investment Authority, Mubadala Investment Co, General Atlantic, KKR and Silver Lake (twice) have purchased stakes in the company.

Mukesh Ambani, Chairman and Managing Director of Reliance Industries, said, "We at Reliance have a long-standing relationship with the Kingdom of Saudi Arabia. PIF is at the forefront of the economic transformation of the Kingdom of Saudi Arabia. I welcome PIF as a valued partner in Reliance Retail and look forward to their sustained support and guidance as we continue our ambitious journey to transform India's retail sector for enriching the lives of 1.3 billion Indians and millions of small merchants."

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.

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Sectors and stocks

Shares of multiplex operators such as PVR and Inox Leisure gained by up to 8 per cent on the BSE in the intra-day trade on Thursday after the Maharashtra government permitted cinema halls to operate from today. The state government on Wednesday permitted theatres including single-screen, multiplex and drama halls to re-open from Thursday, adding that they could function outside containment zones only. This will benefit multiplex companies as box office revenue from Maharashtra state constitutes around 30 per cent of total revenue for Hindi films. Following the development, the stock of PVR rallied 8 per cent to Rs. 1,212, while Inox Leisure soared 6 per cent to Rs. 279 on the BSE.

Shares of Hindustan Petroleum Corp (HPCL) were up by 8.64 per cent to Rs. 202.90 on the BSE on Thursday after the company announced it will buy back up to 100 million shares for no more than Rs. 250 apiece. The company's management said it felt the share price was lower than the value it deserves. Besides, HPCL yesterday reported a twofold jump in its second quarter (July-September 2020, or Q2) net profit at Rs 2,477 crore on the back of a surge in refining margins and inventory gains. "The significant improvement in the profitability in spite of challenges including lockdown due to Covid-19 pandemic was a result of strategic planning in refinery and marketing operation, containing the contraction to less than the industry, efficient inventory management and effective production placement," HPCL Chairman and MD Mukesh Kumar Surana told in concall. Gross sales revenue at Rs 61,340 crore was lower than Rs 66,165 crore of Q2 of the previous financial year due to lower oil prices.The firm earned $5.11 on turning every barrel of crude oil into fuel in the second quarter of 2020-21 fiscal year as compared to a gross refining margin of $2.83 a barrel. This included a $2.33 per barrel inventory gain from buying cheaper crude oil earlier and processing in Q2. This translated into Rs. 1,780 crore of gain. Besides, the firm also had a forex gain of Rs 524 crore, he said.

Global markets

Asian equities scaled a near three-year peak on Thursday and bonds extended their blistering rally as investors wagered the prospect of US policy gridlock would greatly favour some industries while also restraining government borrowing.

MSCI's broadest index of Asia-Pacific shares outside Japan climbed 2 per cent to reach its highest since February 2018. Japan's Nikkei rose 1.7 per cent to a more than nine-month top and South Korea put on 2.4 per cent.

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. Indian equities have turned buoyant owing to 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.

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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