

**HDFC twins leads rally in benchmark indices; improved PMI lifts sentiments of Dalal Street participants..**

Indian equities ended over one per cent higher on Tuesday, led by healthy buying in counters such as HDFC, HDFC Bank, ICICI Bank, Infosys, and Asian Paints.

The S&P BSE Sensex rallied by 601 points, or 1.54 per cent to settle at 39,575 levels and the Nifty50 index ended above the 11,650 mark at 11,662, up 159 points, or 1.38 per cent.

HDFC (up over 8%) and IndusInd Bank (up over 3%) were the top Sensex gainers, followed by M&M (up 3%), and Asian Paints (up 3%). On the other hand, Tata Steel (down over 1 per cent) ended as the biggest loser on the index.

Foreign institutional investors were net buyers in the capital market as they purchased shares worth Rs. 1,632.25 crore on a net basis on Thursday, according to provisional exchange data.

**Crude oil**

Crude oil prices were up due to fears that refineries could be hit by a storm brewing in the Gulf of Mexico. Gold, on the other hand, eased as equities gained.

**Key development**

The seasonally adjusted India Services Business Activity Index rose for the fifth straight month in September, from 41.8 in August to 49.8. The latest reading was indicative of broadly stable output across the sector. Monitored companies that observed growth commented on the reopening of business units amid the loosening of lockdown rules. Firms that reported a contraction mentioned the damaging impact of the pandemic on demand. Signs of stabilisation in services are likely to provide more comfort to policymakers after a sister survey on Thursday showed India's manufacturing expanded at its fastest pace in over eight years, suggesting business conditions were gradually returning to normal in Asia's third-largest economy. The Nikkei/IHS Markit Services Purchasing Managers' Index bounced to 49.8 in September from August's 41.8, a touch below the 50 mark that separates expansion from contraction on a monthly basis. But September was the seventh straight month that activity had contracted, the longest such stretch since a 10-month run to early 2014. "The relaxation of lockdown rules in India helped the service sector move towards a recovery in September. Participants of the PMI survey signalled broadly stable business activity and a much softer decline in new work intakes," Pollyanna De Lima, economics associate director at IHS Markit, said in a release.

**Sectors and stocks**

Shares of Mahindra & Mahindra (M&M) moved higher by 4 per cent to Rs. 633 on the BSE in the intra-day trade on Tuesday after the company's All-New Thar crossed 9,000 bookings in four days. "The company's legendary SUV, the All-New Thar has already crossed 9,000 bookings, since its launch on October 2, 2020. This, despite only 18 cities being part of phase one markets where test drive and demo vehicles are available," M&M said in a press release today. The All-New Thar becomes the only SUV in the 4X4 lifestyle category to record this booking milestone in such a short span of time, it said. The company further said test drives for All-New Thar has begun in phases, starting with 18 cities. The company will add 100 more cities on October 10, 2020, and test drives for the rest of the county will be available from October 15, 2020.

Shares of Thyrocare Technologies were up by 15 per cent to Rs. 883, also its record high on the BSE on Tuesday, after the company reported nearly 37 per cent year-on-year and over 100 per cent sequential growth in aggregate revenue for the quarter ended September 2020 (Q2FY21). The stock of healthcare services provider has now surpassed its previous high of Rs. 845.25 touched on August 17, 2020. "Q2FY21 has witness a motivating numbers and increased turnover of Covid-PCR and Covid-Antibody testing, and the aggregate revenue for the quarter, has increased by about 37 per cent compared to Q2FY20. The low revenue in Q1FY21 has bounced back in Q2FY21 with a very healthy growth of 171 per cent over trailing quarter," Thyrocare Technologies said in statement. "The company has done more than 4 lakh Covid-19 RT-PCR test and more than 3.20 lakh Covid antibody test as on September 30, 2020. The Company has also started RT-PCR tests from its laboratory situated at Gurgaon, Delhi and will create the same kind of facilities at Bangalore and Kolkata. With non-Covid tests coming back to track, we anticipate a need for more capacity and facilities," it said. The Covid-19 RT-PCR test is a real-time reverse transcription polymerase chain reaction (rRT -PCR) test. Meanwhile on outlook, Thyrocare Technologies in its 2019-20 annual report said that 2021 is likely to be a challenging year, as the novel coronavirus is spreading rapidly in India. It will have an impact on business directly or indirectly, despite us being engaged in providing essential medical services. "Resumption of full-fledged operations for tests other than COVID-19, will highly depend upon how the situation pans out in our nation and subsequent directive from the Government of India. This, along with disruption in supply chain, reduced workforce availability, decrease in market prices and reduced demand will lead to capacities remaining under-utilised, and in some cases, completely shut down," it said.



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Shares of Sobha Limited were up by 14.2 per cent to Rs. 273 apiece on the BSE on Tuesday after the real estate major reported improved sequential sales in September quarter. Sales volume, total sales value and Sobha share of sales value during Q2FY21 were up by 37 per cent, 41 per cent, 35 per cent, respectively as compared to Q1FY21, the company said. "During Q2FY21, we have achieved a total sales volume of 891,700 square feet valued at Rs. 6.90 billion, with a total average realization of Rs. 7,737 per square feet. This performance was achieved despite lockdown being imposed in Bengaluru in the month of July, no new launch during the quarter, uncertain macro-economic outlook and tough real estate sector scenario," the company said in a statement. Price realization of Rs. 7,737/square feet achieved during Q2FY21 is the highest price realization achieved by the company as compared to past 5 quarters. The Bengaluru-based real estate developer's dependency on the city in terms of sales volume also reduced from 74 per cent during Q1FY21 to 60 per cent during Q2FY21. "We continue to enjoy sufficient liquidity from banks/FI to meet our obligations. We remain focused on cash flow management and cost optimization which has helped us to manage our cash flows efficiently during the quarter. We continue to bring down our average cost of borrowing and as a result, cost of borrowing as of 30th Sep 2020 came down meaningfully. As informed during Q1FY21 operational update, enquiry levels are almost at the pre-Covid levels, which will help us to perform better in the second half of the FY 20-21," the company said.

### **Global markets**

Asian equities advanced to a more than two-week high on Tuesday after US President Donald Trump was discharged from hospital following treatment for Covid-19, and as prospects for a fresh US stimulus package appeared to brighten.

In Europe, stocks eased from a two-week high as a slide in technology and healthcare stocks along with mixed corporate updates took some shine off equities.

### **Ajcon Global's view**

Today's rally in benchmark indices was led by HDFC twins. Indian equities continue to witness broad based buying. 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, slump in demand, 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. Exponential rise in COVID-19 cases is however a big concern. As Indian economy has opened up partially in various phases of Unlock and with increase in testing for COVID-19 cases, the sudden massive spike was expected. At present, the country is witnessing high recovery rate and low fatality rate which gives some relief. Meanwhile, clinical trials for the AstraZeneca and Oxford University coronavirus vaccine have resumed after green light from safety watchdogs. The late-stage trials of the experimental vaccine, one of the most advanced in development, were suspended last week after an illness in a study subject in Britain. Billionaire philanthropist Bill Gates has said India's willingness to play a "big role" in manufacturing COVID-19 vaccine and allow it to supply to other developing countries will be a critical part in containing the pandemic globally. The Microsoft co-founder said the world is looking to India for large scale production of COVID-19 vaccine once it is rolled out. "Obviously, all of us want to get a vaccine out in India as fast as we can, once we know that it's very effective and very safe, and so the plans are coming into focus that sometime next year, it's very likely that roll-out will take place and take place in fairly big volume," he said. "The world is also looking to India for some of that capacity to be available to other developing countries. Exactly what that allocation formula looks like will have to be figured out," Gates added. "This is not like a world war, but it's the next biggest thing after that that we've ever had," he said. The Bill and Melinda Gates Foundation, one of the world's largest charities, has been involved in global efforts to contain the pandemic. In India, the foundation has entered into a partnership with the Serum Institute to accelerate the manufacturing and delivery of COVID-19 vaccines.

We still believe the economic situation is 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. RBI's response to the situation arising out of Covid has been unprecedented. The measures taken by the RBI are intended to deal with the specific situation of Covid and cannot be permanent. In the wake of the pandemic, RBI has stepped forward and has so far announced various liquidity, monetary, regulatory and supervisory measures in the form of interest rate cuts, higher structural and durable liquidity, moratorium on debt servicing, asset classification standstill and recently a special resolution window within our Prudential Framework for Resolution of Stressed Assets. RBI has acknowledged the difficulties faced by the economy and is constantly bringing in new measures. In order to continue to ensure orderly market conditions and congenial financial conditions, the following measures were announced by RBI: 1 The Reserve Bank will conduct additional special open market operation involving the simultaneous purchase and sale of Government securities for an aggregate amount of Rs. 20,000 crore in two tranches of Rs. 10,000 crore each. The auctions would be conducted on September 10, 2020 and September 17, 2020. The RBI remains committed to conduct further such operations as warranted by market conditions. 2 The Reserve Bank will conduct term repo operations for an aggregate amount of Rs. 100,000 crore at floating rates (i.e., at the prevailing repo rate) in the middle of September to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing these transactions before maturity. Thus, the banks may reduce their interest liability by returning

funds taken at the repo rate prevailing at that time (5.15 per cent) and availing funds at the current repo rate of 4 per cent. Details are being notified separately.

Currently, banks are required to maintain 18 per cent of their net demand and time liabilities (NDTL) in SLR securities. The extant limit for investments that can be held in HTM category is 25 per cent of total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR securities within an overall limit of 19.5 per cent of NDTL. SLR securities held in HTM category by major banks amount to around 17.3 per cent of NDTL at present. However, there are inter-bank variations with some banks close to the 19.5 per cent of NDTL limit. Accordingly, it has been decided to allow banks to hold fresh acquisitions of SLR securities acquired from September 1, 2020 under HTM up to an overall limit of 22 per cent of NDTL up to March 31, 2021 which shall be reviewed thereafter. Details are being notified separately.

4 The RBI stands ready to conduct market operations as required through a variety of instruments so as to ensure orderly market functioning. Earlier, 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 has identified 26 sectors including auto, aviation, construction, hospitality, power, real estate and tourism, among others, impacted by COVID-19 for a loan restructuring scheme to be rolled out by banks and nonbanking financial companies. The Committee listed specific financial parameters for the 26 sectors and the recommendations have been broadly accepted by RBI. The committee has identified five key ratios with different limits across sectors as a threshold for implementing a resolution plan. The five key ratios are: total outside liability/adjusted tangible network (TOL/Adjusted TNW), total debt/EBITDA, current ratio, debt service coverage ratio (DSCR) and average debt service coverage ratio (ADSCR). The committee will scrutinise restructuring of loans above Rs. 1500 crore. The term of the committee has been extended till June 30 2021. The resolution under this framework is applicable only to those borrowers who have been impacted on account of Covid. Only those borrowers which were classified as standard and with arrears less than 30 days as at March 1, 2020 are eligible under the Framework. According to RBI, the resolution framework may be invoked not later than December 31, 2020 and the plan needs to be implemented within 180 days from the date of invocation. We believe the restructuring measures announced by RBI will help PSUs to protect themselves from capital erosion as they are loaded with NPAs. To address the concern of poor lending growth in the current crisis of COVID-19, Finance Minister Nirmala Sitharaman told banks 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 boardapproved 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 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. The Finance Ministry said that 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 Finance Ministry is also in touch with the RBI to ensure that the regulator provides assistance to lenders in the resolution process. India – China tensions will always remain overhang after Chinese aggression at the LAC. India had earlier 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. In June 2020, apps like TikTok, WeChat, and more than 50 other China-based apps in were banned. However, there are some talks happening between the two countries to de – escalate tensions which can provide some relief. Both India and China have earlier agreed on a five-point plan to resolve the border tensions in eastern Ladakh, and now all eyes will be on the actual disengagement of forces on the Line of Actual Control. We maintain our same stance to maintain caution especially for Large caps at present valuations after depressing Q1GDP data and exponential rise in COVID-19. Industrial production shrank by 10.4 percent in July, mainly due to lower output of manufacturing, mining and power generation sectors, official data showed on Friday.

There is a strong pipeline of IPOs in the near future. We believe there would be mad rush for the upcoming IPOs after stellar listing of IPOs that have come in COVID-19 era.

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