

Buoyancy continues in Indian equities led by index heavyweight Reliance Industries; investor sentiments improves as economic activity picks up in Unlock phase..

Indian benchmark indices ended nearly a per cent higher on Wednesday, led by buying in Reliance Industries (RIL) and HDFC Bank.

The S&P BSE Sensex was up by 304 points, or 0.77 per cent higher at 39,879 levels and the Nifty50 index settled above the 11,700-mark at 11,739, up 76 points, or 0.66 per cent.

The trend among Nifty sectoral indices was mixed. Nifty Auto gained the most - up 1.4 per cent while Nifty Media was the biggest loser (down over 2.5 per cent).

The broader market, meanwhile, underperformed. The S&P BSE MidCap index slipped 0.6 per cent while the S&P BSE SmallCap index ended 0.4 per cent lower at 15,049 levels.

India VIX rose over 2 per cent to 20 levels.

Crude oil

Crude oil prices continued its downfall after US President Donald Trump dashed hopes for a fourth stimulus package to boost the coronavirus-hit economy and on a larger-than-expected increase in US crude inventories.

Key developments

Abu Dhabi Investment Authority (ADIA) will invest Rs. 5,512.50 crore in Reliance Industries Limited subsidiary Reliance Retail Ventures (RRVL) for 1.2-per cent stake. RIL's stock had hit a record high of Rs. 2,368.80, hit on September 16, 2020. This is the seventh deal to be announced by the Mukesh Ambani-led firm in four weeks, stepping up its stake-sale process that has seen marquee investors back the firm so far. With this investment, RRVL has raised Rs. 37,710 crore from leading global investors including Silver Lake, KKR, General Atlantic, Mubadala, GIC, TPG, and ADIA in less than four weeks. Reliance Retail, a subsidiary of RRVL, operates India's largest, fastest growing and most profitable retail business serving close to 640 million footfalls across its around 12,000 stores nationwide. "Reliance Retail has rapidly established itself as one of the leading retail businesses in India and, by leveraging both its physical and digital supply chains, is strongly positioned for further growth. This investment is consistent with our strategy of investing in market leading businesses in Asia linked to the region's consumption-driven growth and rapid technological advancement," said Hamad Shahwan Aldhaheeri, Executive Director of the Private Equities Department at ADIA.

Yesterday, 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

RIL was up by over 2 per cent to Rs. 2,257 after the company said Abu Dhabi Investment Authority (ADIA) will invest Rs. 5,512.50 crore into the company's subsidiary Reliance Retail Ventures (RRVL) for 1.2-per cent stake.

Titan (up 4.5 per cent) ended as the biggest gainer on the Sensex after the company said its jewellery business did very well in the September quarter (Q2FY21), with a recovery rate of around 98 per cent (excluding sale of raw gold), compared to the revenue of the corresponding quarter in the last year.

Shares of Bajaj Finance declined by 5.4 per cent to Rs. 3,286 on the BSE in the morning deals on Wednesday after the non-bank finance company (NBFC) reported weak July-September quarter (Q2FY21) business figures. The company's assets under management (AUM) grew 13 per cent year on year (YoY) at approximately Rs. 1.37 trillion as of Q2FY21 as compared to Rs. 1.36 trillion as on Q2FY20. New loans declined sharply to 3.6 million from 6.5 million YoY and 5 million quarter-on-

quarter (QoQ). Business volumes in the quarter were at 50–60 per cent of YoY levels in terms of number of loans disbursed and number of new customers acquired. The company acquired 1.2 million new customers in the quarter (compared with 1.9 million YoY), taking the overall customer base to 44.1 million. Shares of Vedanta witnessed its sharpest intra-day fall in over six months, declining by 15 per cent to Rs. 117.60 in the intra-day trade, on the BSE on Wednesday on the back of heavy volumes. Vedanta's delisting offer through the reverse book-building process began on Monday, October 5, 2020 and will close on Friday, October 2020. The indicative floor price for the bidding process has been set at Rs. 87.25 per share. The promoter holding in Vedanta is currently at 50.14 per cent. Under Sebi's delisting regulation, the promoter will have to acquire at least 39.86 per cent stake (1.48 billion shares) from public shareholders to ensure that the delisting bid is successful. Vedanta Group said that delisting of Vedanta is the next logical step in this simplification process and will provide the Group with enhanced operational and financial flexibility in a capital intensive business.

Global markets

European equities rose on Wednesday, as initial dismay at US President Donald Trump's decision to cancel fiscal stimulus negotiations with lawmakers in Washington was replaced by optimism about an aid package after the US elections.

Asian equities too were upbeat and hit two-week highs.

Ajcon Global's view

Today's rally in benchmark indices was led by Reliance Industries and Titan Industries. 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



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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 networth (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 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 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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