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Market wrap **Sep. 08, 2020**

Benchmark indices end flat amidst escalating tensions between India and China; IT stocks rally..

The benchmark indices settled flat with a negative bias on Tuesday amid selling in blue-chip counters such as Bharti Airtel, Axis Bank, HDFC, and Hindustan Unilever (HUL).

The S&P BSE Sensex today slipped 52 points, or 0.14 per cent to settle at 38,365. HCL Tech (up over 2 per cent) ended as the top gainer on the index while Tata Steel (down over 4 per cent) was the biggest loser. Of 30 constituents, 21 declined and the rest 9 advanced.

Nifty50 was down by 38 points or 0.33 percent to end at 11,317. Barring Nifty IT, all the other indices ended in the red. Nifty IT gained over 1 per cent to 18,396 levels. On the other hand, Nifty Media slipped the most - down 3 per cent to 1,604 while Nifty Metal cracked 2.99 per cent to 2,377.

In the broader market, the S&P BSE MidCap index slipped 1.5 per cent to 14,483 while the S&P BSE SmallCap index ended 0.93 per cent lower at 14,437.53 levels.

India VIX gained over 3 per cent to 22.72 levels.

Sectors and stocks
Shares of information technologies (IT) companies were in focus with Nifty IT index hitting an all-time high of 18,653 on the National Stock Exchange (NSE) on Tuesday on expectation of a swift recovery in BFSI (banking, financial services and insurance) sector to pre-Covid growth levels through FY21. The optimism comes on the back of receding supply challenges and steady technology budgets at large US banks.That apart, the KV Kamath Committee, which identified 26 sectors most affected by Covid-19, recognised IT sector as "mostly unaffected". Tata Consultancy Services (TCS), Infosys, Wipro, Larsen & Toubro Infotech (LTI), Coforge and HCL Technologies from Nifty IT index were up in the range of 2 per cent to 4 per cent on the NSE. Meanwhile, Mastek, Birlasoft, Cyient, Ramco Systems, Nucleus Software Exports and Newgen Software Technologies, the non-index stocks were up between 4 per cent and 7 per cent. Thus far in the financial year 2020-21 (FY21), Nifty IT index has rallied 46 per cent, led by the strong surprise on cost and cash management by the sector in April-June quarter (Q1FY21). The benchmark index, in comparison, gained 33 per cent during the same period.

Shares of Indian Railway Catering and Tourism Corporation (IRCTC) gained 3 per cent to Rs. 1,460 on the BSE on Tuesday, rising 7 per cent in the past two trading days on operation of additional special trains with effect from Saturday, September 12. The stock has recovered 88 per cent from its low of Rs. 775, touched on March 26. Its market price more than halved from the all-time high level of Rs. 1,995, hit on February 25, after cancellation of all Indian Railways passenger train services as well as all passenger ticketing due to the novel Coronavirus outbreak. Vinod Kumar Yadav, the chairman of Railway Board, announced on Saturday that the Indian Railways will run 80 new special trains from September 12. The reservation for the same will begin from September 10.

Global markets
Asian equities rallied on Tuesday following a small bounce in European markets and shrugging off concerns over the latest US-China tensions, as investors looked to whether high-flying US tech shares could recover from their recent rout. China's blue-chip index and Hong Kong's Hang Seng gained 0.7 per cent and 0.5 per cent, respectively. The newly launched Hang Seng tech index fell 1.1 per cent.

Ajcon Global's view
Indian equities are disconnected to ground realities with exponential rise in COVID-19 cases which is extremely worrisome. As Indian economy has opened up partially and increase in testing, the rise in COVID-19 cases is expected to go up. At present, the country is witnessing high recovery rate and low fatality rate which gives some relief.

The economy has been stagnating in the COVID-19 era which was evident from the depressing Q1FY21 GDP data. It has to be seen as to how fast economy rebounds from a standstill scenario.

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 can not 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.

3. 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 non-banking 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 in a meeting last week 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.

We maintain our same stance to maintain great caution after depressing Q1GDP data. Exponential rise in COVID-19 cases and escalating India – China tensions will always remain an overhang. India has 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. India had earlier banned TikTok, WeChat, and more than 50 other China-based apps in June, suggesting they were a security issue. This comes amid the escalating tensions between India and China over an ongoing border dispute.

No doubt, the economic activity has picked up but not at the same intensity of Pre – COVID era in different phases of Unlock period but the cashflow situation for MSMEs is still an issue. Presently, caution is warranted as Indian investors are not connected to ground realities of economic situation being 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. Although there are relaxations in lockdown, exponential rise in COVID-19 cases can force for tighter lockdown.

We believe cooling of Indian equities which has started from today will be healthy for investors as the sharp rally in lockdown period and different phases of Unlock was led by liquidity through FPIs. Last 2 months rally can be attributed to positive developments related to COVID-19 vaccine, relaxations in Unlock 1.0, 2.0 and 3.0 and better than expected Q1FY21 result of majority companies announced so far. Exponential rise in COVID-19 cases amidst high recovery rate, US – China, India – China tensions would always remain an overhang on Indian equities. Equities rallying along with Gold make us uncomfortable as it is clear case of global liquidity as big economies have resorted to printing money as part of stimulus package. Progress of ongoing monsoon, global cues and management commentary in Q1FY21 earnings season will drive market direction. The FPI inflows came amidst rush of liquidity in the markets globally after central banks around the world announced stimulus measures to help their economies. The stimulus measures given by the G4 central banks such as the US Federal Reserve, Bank of England, European Central Bank, and Bank of Japan, have helped fill the global markets with liquidity, marquee Indian companies tapping the secondary stock market by raising funds also contributed towards the increase in FPI flows.

Considering the sharp rally in the last five months including the Lockdown period and various phases of Unlock – Reopening of economy, we advise investors to book profits who have entered at levels during the announcement of initial Lockdown.

We once again advise caution to the investors specially the traders as many of the stocks are running much beyond the fundamentals and the current rally is in contrast to the economic reality. A great deal of maturity is required in dealing with the prevailing market situation. With Q1GDP data out, all eyes would be on newsflow related to COVID-19 vaccine development across the globe and developments related to escalating India – China tensions.

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

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Website: www.ajcononline.com

Registered and Corporate office
408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062