



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap

October 08, 2020

IT stocks rally after TCS reports stellar Q2FY21 result; buoyancy in midcaps and smallcaps continues..

The Indian benchmark indices continued to remain upbeat on Thursday, led by buying in information technology (IT) counters and HDFC Bank. The S&P BSE Sensex ended 304 points, or 0.76 per cent higher at 40,183 levels while NSE's Nifty added 96 points, or 0.82 per cent to settle at 11,835 levels.

Among sectoral indices, barring Nifty Media and Nifty FMCG, all other indices ended in the green. The Nifty IT index rallied over 3 per cent to 21,697 levels while Nifty Pharma jumped 2.47 per cent.

In the broader market, the S&P BSE MidCap index was up by 0.29 per cent to 14,827 and the S&P BSE SmallCap settled 0.26 per cent lower at 15,010 levels.

Foreign institutional investors (FIIs) net bought shares worth Rs. 1,093.81 crore in the Indian equity market on October 7, as per provisional data available on the NSE.

Key development

The World Bank on Thursday said India's GDP may contract 9.6 per cent this fiscal. The bank has advised the country to continue with critical reforms to reverse the sudden and steep impacts of Covid-19 on its economy. In June, it had projected contraction to be 3.2 per cent. The latest projection is higher than S&P's forecast of 9 per cent but less than 11.5 per cent by Moody's. In its South Asia Economic Focus report, released on Thursday, the World Bank forecast a sharper-than-expected economic slump across the region, with regional growth expected to contract by 7.7 per cent in 2020, after topping 6 percent annually in the past five years. "India's economy, the region's largest, is expected to contract by 9.6 per cent in the fiscal year that started in March 2020. India's growth is projected to rebound to 5.4 per cent in FY22, mostly reflecting base effects, assuming Covid-related restrictions are completely lifted by 2022," the report mentioned. Further, weak activity, domestically and abroad, is also likely to depress both Indian imports and exports.

Sectors and stocks

Shares of information technology (IT) companies were on a roll on Thursday with the S&P BSE IT index surging over 1,000 points on the BSE. Shares of Tata Consultancy Services (TCS) hit a fresh record high of Rs. 2,875, up 5 per cent on the BSE in early morning deal on Thursday, after the company reported a healthy set of July-September quarter (Q2FY21) numbers that were above street estimates. The TCS board has also approved a buyback of Rs. 16,000 crore to buy back 53.3 million shares at Rs. 3,000 per share. The company has also declared an interim dividend of Rs. 12 per share. The record date for interim dividend is October 15, 2020 while payment date is November 3, 2020. TCS, the country's largest IT services company, on Wednesday beat Street expectations in its Q2FY21 financial results, led by a rebound in growth in key verticals and geographies. The company reported 4.8 per cent quarter on quarter (QoQ) growth in dollar revenues (in constant currency terms) that was above street estimate of 2.6 per cent QoQ growth. Margins increased 260 basis points mainly due to improvement in gross margins and lower SG&A expenses. In Q2 management added two new clients in USD 100+ million, three clients to USD 20+ million and 11 clients to USD 5 million and 44 clients USD 1 million band. According to the management of TCS, retail cluster outperformed during the quarter despite continuous weakness in discretionary retail CPG and travel and hospitality sub vertical. In addition to increase digital investment management is benefited from the ongoing flight quality resulting in market share gain. The company's portfolio award winning products and platforms continued to report strong demand and business expansion in Q2FY21. Ignio cognitive automation software acquired 10 new logos in Q2 and in this period 12 customers went live on the product. The management continues to expand digitate channel partnerships adding four new partners in Q2. During the quarter, the digitate academy trained and certified 449 professions from customers as well as partner organization which is an indicator of strong demand of Ignio skills in the market. This is banks or flagship sweet product in the financial services domain at five new wins and 10 go lives in Q2, it said. Management had two new wins for digital banking platform, two for security platform and one for payment. NG Subramaniam, COO, TCS, said the company is helping clients realise and accelerate the value of tech investments they have made by offering micro services, building partnerships and ecosystems. The kind of growth the company has seen is reflective of its ability to cater to the changing customer needs, the leadership added.

Shares of Mindtree and Larsen & Toubro Infotech rallied 11 per cent in the intra-day trade on the BSE today. Meanwhile, TCS, HCL Technologies, Infosys, Mphasis, Sasken Technologies, Wipro, Aptech, KPIT Technologies, Sonata Software, Coforge, Ramco Systems and Persistent Systems were up 5 per cent to 8 per cent.

Shares of UltraTech Cement hit a seven-month high of Rs. 4,334, up 3 per cent on the BSE, in the intra-day trade on Thursday on expectation of improvement in demand. The stock of the cement major was trading higher for the third straight day, rallying 7 per cent during the period and was trading at its highest level since March 6, 2020. In the past three



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

months, UltraTech Cement outperformed the market by gaining 14 per cent after the company reported better-than-expected operational performance in the April-June quarter of FY21 (Q1FY21). The company reported a consolidated EBITDA of Rs. 2,353 crore, as against an average analyst estimate of Rs. 1,702 crore. Ebitda margins improved to 31 per cent from 27 per cent in the previous year quarter. A volume decline of 22 per cent year on year (YoY) at 14.65 MT was also better than analyst estimates of around 34 per cent. CARE Ratings believe rural demand will be the major driver for cement considering monsoons have been favourable in most part of the country and the outlook for Kharif crop too looks promising. This could translate in an inflow of cash in the rural economy which could commensurate in infrastructure creation, thus, augmenting cement demand. On the flipside demand for the commodity has been subdued in urban India. India's cement industry has shown resilience amid the phase-wise opening up of the economy in a seasonally weak quarter. The volume recovery seen in May and June, driven by strong demand from the rural and semi-urban areas, has largely sustained in 2QFY21 (adjusted for monsoon seasonality).

Shares of Cadila Healthcare was up by 4 per cent to hit a 52-week high of Rs. 428 on the BSE on Thursday after the company launched India's first pressurized Metered Dose Inhaler (pMDI) for patients suffering from chronic obstructive pulmonary disease. The pharmaceutical company's stock surpassed its previous high of Rs. 423.50, touched on October 6, 2020. Zydus Cadila announced that it is launching Forglyn pMDI, India's first pressurized Metered Dose Inhaler (pMDI) with a combination of Long Acting Muscarinic Antagonist (LAMA) and Long Acting Beta Agonist (LABA) for patients suffering from Chronic Obstructive Pulmonary Disease (COPD) in India. Forglyn pMDI is priced at Rs. 495 per pack and has been developed in-house using Zydus' innovations in formulation technology. The administration of the two drugs Formoterol fumarate (LABA) + Glycopyrrolate (LAMA) in a single inhalation will improve outcomes due to the desired synergistic effect of the two drugs and a better adherence to the treatment, the company said in a press release. In the past month, the stock has outperformed the market by gaining 17 per cent, as compared to 5 per cent rise in the S&P BSE Sensex.

Global markets

Asian equities touched one-month high on Thursday on renewed hopes for more US stimulus, while investors decided a key US political debate ahead of November elections had not altered the odds much.

In Europe, too, stocks inched higher, joining a global rally.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.6 per cent for its fourth straight session of gains to a level not seen since early September.

Ajcon Global's view

Today's rally in benchmark indices was led by rally in IT stocks. 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 can take a toll on investors' sentiments. As Indian economy has opened up partially 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.

No doubt, the economic activity has picked up but the economic situation is still tough which is evident by the fact that Companies are looking to raise capital via QIP, Rights issue, Preferential Allotment, Debentures issue and FPOs to absorb the shock of COVID-19. According to data available with the markets regulator Sebi, Indian companies have already raised a total of Rs 1.1 lakh crore in August as compared to Rs. 66,915 crore in July 2020 by way of issuing equity and debt securities to meet business expansion plans, loan repayments and working capital requirements.



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

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.
- 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 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 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



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

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.

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

Disclaimer

Ajcon Global Services Limited is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Limited research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Limited is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Limited or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and within five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Limited or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Limited and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Limited. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Limited is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Limited from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Limited will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Limited accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Limited or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Limited encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Limited or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Limited nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Ajcon Global Services Limited or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Limited may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Limited have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Limited by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

For research related queries contact:

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

CIN:L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

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