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Market wrap **Sep. 09, 2020**

Negative global cues push Indian equities in red; Financials lead the downfall..

Indian benchmark indices ended in the negative territory on Wednesday; although they recovered from the intraday low amid buying in Reliance Industries (RIL), Bharti Airtel, and Tata Steel. Negative newsflow that AstraZeneca Pharma has "voluntarily paused" a randomized clinical trial of its coronavirus vaccine after a volunteer developed an unexplained illness dampened investor spirits. The S&P BSE Sensex declined by 171 points, or 0.45 per cent to settle at 39,194 while the NSE's Nifty50 index ended at 11,278 levels, down 39 points, or 0.35 per cent.

SBI (down over 4 per cent) ended as the biggest loser on the Sensex while Tata Steel (up 3 per cent) was the top gainer. Of 30 constituents, 12 advanced and the rest 18 declined.

The trend among the Nifty sectoral indices was largely negative, led by Nifty Bank index, down 2 per cent. On the other hand, Nifty Pharma index was the top gainer - up nearly 2 per cent at 11,304 levels.

In the broader market, the S&P BSE MidCap ended 0.28 per cent lower at 14,443 levels while the S&P BSE SmallCap index ended 0.94 per cent lower at 14,302 mark.

India VIX dropped nearly 3 per cent to 22.05 levels.

Sectors and stocks
RIL was up by 2.5 per cent to Rs. 2,161 on the BSE after the company announced that Silver Lake will invest Rs. 7,500 crore into Reliance Retail Ventures Limited (RRVL), a subsidiary of RIL.

Shares of financial service providers were trading lower for the fifth straight day on Wednesday. The Nifty Bank, Nifty PSU Bank, and Nifty Financials indices have fallen over 5 per cent, as compared to 2.5 per cent decline in the Nifty 50 index, during the period. In the past week, Nifty PSU Bank index slipped 8 per cent, while Nifty Bank and Nifty Finance indices were down 6.7 per cent and 5 per cent, respectively. Shares of State Bank of India (SBI), IDFC First Bank, Federal Bank, RBL Bank, Axis Bank, ICICI Bank, Bajaj Finserv, Shriram Transport Finance, Canara Bank of India, Bank of India, and Central Bank of India were down in the range of 3-4 per cent on the NSE.

Shares of Bharat Dynamics (BDL) declined by 5 per cent to Rs. 315 on the BSE on Wednesday, falling 18 per cent in the past two trading days after the government on Tuesday launched a share sale to divest 15 per cent stake. The stock has fallen below the base price of Rs. 330 per share set for the share sale. “The Promoter proposes to sell up to 18.33 million equity shares of the Company on September 8, 2020, (for non-retail investors only) and on September 9, 2020 (for retail investors and for un-allotted non-retail Investors who choose to carry forward their bids) with an option to additionally sell 9.16 million equity shares (representing 5 per cent of the total issued and paid-up equity share capital of the company),” Bharat Dynamics said in an exchange filing.

AstraZeneca Pharma declined by 13 per cent during the day after the company's parent firm abruptly paused global trials of its Covid-19 vaccine candidate. The development came after a volunteer showed signs of "potentially unexplained" illness. In a statement issued on Tuesday evening, the company said its "standard review process triggered a pause to vaccination to allow review of safety data". AstraZeneca Plc didn't reveal any information about the possible side effect except to call it "a potentially unexplained illness". The stock settled at Rs 4,074, down over 3 per cent.

Shares of Jubilant Life Sciences declined for the third straight day, down 8 per cent to Rs 686 on the BSE on Wednesday after reporting weak earnings for the quarter ended June 2020 (Q1FY21). The pharmaceutical company also informed that Alok Vaish, Chief Financial Officer (CFO) and Key Managerial Personnel, has tendered his resignation from services of the Company which has been accepted by the Company. He shall continue in his current role until September 11, 2020. In the past three trading days, the stock has declined 17 per cent.

Global markets
Asian equities were in red on Wednesday after a rout in technology shares sank Wall Street for a third consecutive day and a major drugmaker delayed testing of a coronavirus vaccine. MSCI's broadest index of Asia-Pacific shares outside Japan slid 1 per cent, with indexes in Australia, China and Japan all skidding.

European shares, however, shrugged off heavy losses for US tech stocks as investors kept faith in an economic recovery from the coronavirus pandemic.

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 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 key developments related to escalating India – China tensions.

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CIN:L74140MH1986PLC041941

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

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