AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **October 09, 2020**

Financials rally on positive measures in RBI's monetary policy; buoyancy continues across the board..

The benchmark indices ended nearly a per cent higher on Friday after the monetary policy committee (MPC) of the RBI left the repo rate unchanged at 4 per cent but announced a slew of liquidity measures to support the economy.

Further, RBI Governor Shaktikanta Das said the stance of the policy would remain "accommodative," for "as long as necessary – at least during the current financial year and into the next year – to revive growth.

The S&P BSE Sensex today ended 327 points, or 0.81 per cent higher at 40,509 levels while the Nifty50 index settled above the 11,900-mark at 11,914, up 80 points, or 0.67 per cent. On a weekly basis, Sensex rallied 4.6 per cent and Nifty gained 4.3 per cent. ICICI Bank and Axis Bank (both up 3.64 per cent) were the top Sensex gainers, followed by SBI, and HDFC Bank (both up 3.5 per cent).

The Nifty sectoral indices were mixed. While Nifty Bank gained nearly 3 per cent to 23,847 levels, Nifty Pharma ended as the biggest loser - down over 1.3 per cent.

In the broader market, the S&P BSE MidCap index slipped 0.42 per cent while the S&P BSE SmallCap ended 0.29 per cent lower at 14,966 levels.

Key development

The monetary policy committee (MPC) of the Reserve Bank of India (RBI) kept policy rates unchanged, and the governor assured that the worst was possibly over for the economy and it can now hope for steady recovery towards pre-pandemic growth rates. The newly-appointed six member MPC voted unanimously to keep the policy repo rate at 4 per cent, and said the real gross domestic product (GDP) growth rate in 2020-21 could be a negative 9.5 per cent, with "risks tilted to the downside."

The stance of the policy would remain "accommodative," for "as long as necessary – at least during the current financial year and into the next year – to revive growth on a durable basis and mitigate the impact of Covid-19, while ensuring that inflation remains within the target going forward," RBI governor Shaktikanta Das in his streamed monetary policy address on Friday morning.

The RBI governor also assured adequate liquidity support for the bond market, including promise of more open market operations (OMO) through which the central bank buys and sells bonds from the market. For the first time, the RBI will also conduct OMO on state development loans, or bonds issued by states, to contain their spreads over equivalent maturity government securities. The RBI governor urged to cooperate with the central bank on conducting the centre's and states' borrowing programme, and said the RBI and the bond market can be "competitive without being combative."

The shorter and longer tenure bonds rallied. The 10-year bond yield fell 8 basis points to 5.937 per cent, while the three-year bond yield fell 16 basis points. The breakup given was the GDP of negative 9.8 per cent in the second quarter ended September, negative 5.6 per cent for the third quarter ended December, and a positive 0.5 per cent in the fourth quarter ended March. The economy contracted by a record 23.9 per cent in the first quarter ended June.

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

Financial sector stocks including banks, non-banking financial companies (NBFCs) and housing finance companies (HFCs) gained ground at the bourses after the Reserve Bank of India (RBI) announced liquidity boosting measures while keeping the key rates unchanged. In 2018, the RBI put in place a framework for co-origination of loans by banks and a category of Non Banking Financial Companies (NBFCs) for lending to the priority sector, subject to certain conditions. In Friday's policy, the central bank decided to extend the scheme to all NBFCs, including HFCs, in respect of all eligible priority sector loans, and allow greater operational flexibility to the lending institutions. That apart, in recognition of the role of the real estate sector in generating employment and economic activity, the RBI has decided to rationalise the risk weights applicable to

individual housing loans, based on the size of the loan as well as the loan-to-value ratio (LTV), and link them to LTV ratios only for all new housing loans sanctioned up to March 31, 2022. The measure, according to the central bank, is expected to give a fillip to the real estate sector.

Shares of Lakshmi Vilas Bank (LVB) rallied by 16 per cent to Rs. 20.60 on the BSE on Friday after the private sector lender said that it had received an indicative non-binding offer from the Clix Group. The offer suggests the private equity firm comprising Clix Capital Services Private Limited, Clix Finance India Private Limited and Clix Housing Finance Private Limited would be amalgamated with LVB. "Further to the process of considering and evaluating the proposed amalgamation with Clix Capital Services Private Limited ("Clix Capital"), Clix Finance India Private Limited ("Clix Finance") and Clix Housing Finance Private Limited ("Clix Housing") (collectively, the "Clix Group"), we are glad to inform that, the Bank has received an indicative non-binding offer from Clix Group," LVB said in exchange filing. The Bank will continue to share information on material developments as and when they materialize, it said. The bank had received investor interest from the Clix group, comprising Clix Capital Services Private Limited, Clix Finance India Private Limited and Clix Housing Finance Private Limited, in June 2020, and the mutual due diligence was completed as of 15 September 2020. LVB's stock had tanked 36 per cent from its recent high of Rs 24.55, touched on September 17 to Rs 15.66 on the BSE in intra-day trade on Thursday. On Wednesday, October 7, Brickwork Ratings (BWR) downgraded the rating of the bank's long-term bonds of Rs 50.50 crore. The rating downgrade necessarily factors in the rejection of seven directors of the bank, including the interim managing director and chief executive officer of the bank, by the bank's shareholders; the bank's substantially weak capital position; very high levels of gross non-performing assets (NPAs) and continuous losses reported by the bank for the past 10 quarters, except Q4FY20, the rating agency said in rationale. The proposed amalgamation is expected to address the concerns on the bank's capital, reduce net NPAs and initiate efforts to exit the PCA required for its business growth. BWR shall also continue to monitor the bank for any restrictions by the regulator on the servicing of the coupon or debt obligations on any of its existing bond issues, and this shall remain a key rating monitorable. The bank has met its coupon servicing due on BWR-rated bonds due on 30 September 2020, and the debenture trustee has confirmed its payment, it said.

Global markets

Global equities slipped from one-month highs while Asian equities touched two-and-a-half-year highs, as expectations grew of a Democratic victory in US elections next month, reviving hopes for more US stimulus.

The pan-European STOXX 600 index rose 0.3 per cent, set for its second straight week of gains. Wall Street futures were up 0.4 per cent.

Ajcon Global's view

Today's rally in benchmark indices was led by rally in Financial stocks as RBI' tweaked the retail lending norms in today's monetary policy and said the risk weights will now be adjusted based on the loan-to-value ratio and not the ticket size of the loans.

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.

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.

The RBI governor in today's monetary policy announcement said, the economic recovery would likely to predominantly be a "three speed recovery," with individual sectors showing varying paces, depending on sector-specific realities. Sectors that have shown resilience to the pandemic, and are labour intensive will be the first to recover. These include agriculture and allied activities; fast moving consumer goods; two wheelers, passenger vehicles and tractors; drugs and pharmaceuticals; and electricity generation, especially renewables, Some sectors would open up gradually, while the third category are facing 'slog overs', "but they can rescue the innings." These are the sectors most severely affected by social distancing and are contact-intensive, the RBI governor said. The rural economy has remained resilient, and early indications suggest food grain production is set to cross another record in 2020-21. The inflation too, should start to come within the target 2-6 per cent from the third quarter, the RBI governor said, as against 6.7 per cent recorded during July to August. The MPC projected CPI inflation at 6.8 per cent for the quarter ended September, 5.4-4.5 per cent for the second half of the current financial year and and 4.3 per cent for the first quarter of the next fiscal, "with risks broadly balanced."

Earlier, 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 enhance credit flow, the central bank tweaked the retail lending norms and said the risk weights will now be adjusted based on the loan-to-value ratio and not the ticket size of the loans. Earlier to address 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.
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.

AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

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 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