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Market wrap **Nov. 09, 2020**

Bulls remain in control led by positive global cues and strong performance of Companies in Q2FY21 earnings season..

Buoyancy continued at Dalal Street and the benchmark indices were up by around 1.6 per cent to settle at record high levels on Monday. The S&P BSE Sensex was up by 704 points, or 1.68 per cent to end the day at 42,597 levels. In the intra-day deals, the index hit a high of 42,645.33 levels. NSE's Nifty index, too, surpassed its previous high of 12,430.5 to settle at 12,461, up 198 points, or 1.61 per cent.

ICICI Bank, HDFC Bank, Infosys, and Reliance Industries (RIL) were the major contributors to the Sensex's gain today. Of 30 constituents, 27 advanced and three declined.

The broader market, however, underperformed the headline indices. The S&P BSE MidCap index gained 1 per cent to 15,560 levels and the S&P BSE SmallCap added 0.57 per cent to 15,305 levels.

Among sectoral indices on the NSE, all the indices advanced while Nifty Media remained unchanged.

Foreign portfolio investors (FPI) have put in a net Rs. 8,381 crore into Indian markets in first five trading sessions of November, with participants growing more confident in view of resumption of business activities and better than expected quarterly numbers, among others. According to depositories data, FPIs invested a net Rs. 6,564 crore into equities and Rs. 1,817 in the debt segment, taking the total net inflow to Rs. 8,381 crore during November 2-6. In October, overseas investors were net buyers with Rs. 22,033 crore investment in Indian markets.

Key developments

Pfizer said an early peek at its vaccine data suggests the shots may be 90% effective at preventing COVID-19, indicating the company is on track later this month to file an emergency use application with U.S. regulators. The Monday's announcement doesn't mean a vaccine is imminent: This interim analysis, from an independent data monitoring board, looked at 94 infections recorded so far in a study that has enrolled nearly 44,000 people in the U.S. and five other countries. Pfizer Inc. did not provide any more details about those cases, and cautioned the initial protection rate might change by the time the study ends. Even revealing such early data is highly unusual. "We're in a position potentially to be able to offer some hope," Dr. Bill Gruber, Pfizer's senior vice president of clinical development, told The Associated Press. "We're very encouraged." The phase 3 trials have involved more than 43,000 people and across diverse backgrounds. According to the company, gathering the required safety data will take until the third week of November this year.

Globally, investor sentiments were uplifted by Democrat Joe Biden's victory to become the 46th US President. The announcement came after Biden clinched the White House with a victory in Pennsylvania, the state where he was born Biden promises to be different, to reverse some of Trump's more controversial policies including on climate change, and to work more closely with America's allies. On China, he says he'll continue Trump's tough line on trade, theft of intellectual property and coercive trade practices by co-opting rather than bullying allies as Trump did. On Iran, he promises Tehran will have a way out of sanctions if it comes into compliance with the multinational nuclear deal he oversaw with Obama. And with NATO, he is already trying to rebuild confidence by vowing to strike fear in the Kremlin. Earlier, US manufacturing activity accelerated more than expected in October 2020, with new orders jumping to their highest in nearly 17 years. Chinese factory activity expanded the fastest in a decade and eurozone manufacturing also sped up.

Domestically, earlier Reliance Industries (RIL) said Saudi Arabia's Public Investment Fund (PIF), one of the world's largest sovereign wealth funds, will invest Rs. 9,555 crore, or roughly US$1.3 billion, in its retail unit in exchange for a 2.04 percent. Founded in 1971, is the sovereign wealth fund of Saudi Arabia. It was founded for the purpose of investing funds on behalf of the Government of Saudi Arabia. PIF is developing a portfolio of high quality domestic and international investments diversified across sectors, geographies and asset classes. PIF operates through six investment pools comprising local and global investments in line with its objectives to actively invest over the long term to maximize sustainable returns, be the investment partner of choice for global opportunities, and enable the economic development and diversification of the Saudi economy. This investment a record eighth investment by marquee global investors— values Reliance Retail Ventures Limited (RRVL) at a pre-money equity value of Rs. 4.587 lakh crore (around $62.4 billion).This investment will further strengthen PIF's presence in India's dynamic economy and promising retail market segment. The investment in RRVL follows PIF's earlier acquisition of a 2.32 percent stake in Jio Platforms, the digital services subsidiary of RIL. RIL has so far sold 10.09 percent in RRVL, India's largest retailer, for a combined Rs 47,265 crore. A clutch of investors such as Singapore's sovereign wealth fund GIC, global alternative asset firm TPG Abu Dhabi Investment Authority, Mubadala Investment Co, General Atlantic, KKR and Silver Lake (twice) have purchased stakes in the company. Mukesh Ambani, Chairman and Managing Director of Reliance Industries, said, "We at Reliance have a long-standing relationship with the Kingdom of Saudi Arabia. PIF is at the forefront of the economic transformation of the Kingdom of Saudi Arabia. I

welcome PIF as a valued partner in Reliance Retail and look forward to their sustained support and guidance as we continue our ambitious journey to transform India's retail sector for enriching the lives of 1.3 billion Indians and millions of small merchants.

Domestically, Steel companies have increased prices by around Rs. 1,000 a tonne effective November, bringing it closer to peak levels of 2018. In November 2018, prices of hot rolled coil (HRC) – a benchmark for flat steel – were at Rs. 46,250 a tonne. Subsequently, however, prices were reduced the following month. Prices of HRC were around Rs. 44,500 a tonne after the current increase. While HRC prices were increased by around Rs. 1,000 a tonne, the increase in prices of galvanized and colour coated products were higher but widely varying. JSPL managing director, V R Sharma, said, that the company had increased prices by Rs. 1,000-1,200 a tonne. Sharma said, JSPL's exports were now at 15-17 per cent of total produce. He added that the company had decided not to export semi-finished steel and would be exporting finished steel as realisations were higher. The Covid-19 pandemic saw a record export of semi-finished steel from India, most of which were headed for China. During April to September, exports of semis were at 4.439 million tonnes compared to 1.095 million tonnes in the year ago period. On a cumulative basis, steel mills have increased HRC steel prices by Rs 8,000-8,500 since July. The increase in prices reflected a recovery in domestic demand. Senior vice president at Icra, Jayanta Roy, said, domestic steel (HRC) prices have been through a roller coaster ride in the last two years. "While steel prices ruled at Rs. 46,500 per tonne the beginning of November 2018, they dropped sharply to the recent low of Rs. 32,250 per tonne in the next one year till November 2019. Prices however took a u-turn thereafter, reaching the current level of close to Rs 44,500 per tonne. At current levels, domestic prices are aligned with international steel prices," he added.

India's factory activity expanded at its fastest pace in over a decade in October as demand and output continued to recover strongly from coronavirus-related disruptions, but firms cut more jobs, a private survey showed. Asia's third-largest economy is healing after shrinking a record 23.9 per cent in the April-June quarter. The Indian government has removed most restrictions imposed to control the spread of the virus, though infections continue to climb and now number over 8 million people. The Nikkei Manufacturing Purchasing Managers' Index, compiled by IHS Markit, rose to 58.9 in October from September's 56.8. The reading was the highest since May 2010 and above the 50-level separating growth from contraction for the third straight month. "Levels of new orders and output at Indian manufacturers continued to recover from the Covid-19 induced contractions seen earlier in the year," said Pollyanna De Lima, economics associate director at IHS Markit. "Companies were convinced that the resurgence in sales will be sustained in coming months, as indicated by a strong upturn in input buying amid restocking efforts." Both output and new orders, which tracks overall demand, grew at their sharpest rates in more than 12 years and foreign demand expanded at its quickest pace since December 2014. Earlier, Finance Minister Nirmala Sitharaman said that there were visible signs of revival in the economy but the GDP growth may be in negative zone or near zero in the current fiscal. This is primarily because of a huge 23.9 per cent contraction in the economy in the first quarter of current fiscal (April-June). The focus for the government is on public spending to boost economic activity, Nirmala Sitharaman added.

In a relief to borrowers at the onset of the festive season, the government earlier announced waiver of interest on interest for loans up to Rs. 2 crore irrespective of whether moratorium was availed or not. The Department of Financial Services came out with operational guidelines in the backdrop of Supreme Court's direction to implement the interest waiver scheme, which is likely to cost the exchequer Rs. 6,500 crore. The apex court on October 14 directed the Centre to implement "as soon as possible" interest waiver on loans of up to Rs. 2 crore under the RBI moratorium scheme in view of the COVID-19 pandemic saying the common man's Diwali is in the government's hands. As per the guidelines, the scheme can be availed by borrowers in specified loan accounts for a period from March 1 to August 31, 2020. "Borrowers who have loan accounts having sanctioned limits and outstanding amount of not exceeding Rs. 2 crore (aggregate of all facilities with lending institutions) as on February 29 shall be eligible for the scheme," it said. As per the eligibility criteria mentioned in the guidelines, the accounts should be standard as on February 29 which means that it should not be Non-Performing Asset (NPA). Housing loan, education loans, credit card dues, auto loans, MSME loans, consumer durable loans and consumption loans are covered under the scheme. As per the scheme, the lending institutions shall credit the difference between compound interest and simple interest with regard to the eligible borrowers in respective accounts for the said period irrespective of whether the borrower fully or partially availed the moratorium on repayment of loan announced by the RBI on March 27, 2020. The scheme is also applicable on those who have not availed the moratorium scheme and continued with the repayment of loans.

Earlier, Prime Minister Narendra Modi warned people against complacency in fighting COVID-19 ahead of festival season. Experts have warned that infections could rise in India as the holiday season nears, with celebrations for Diwali due this month and in mid-November, respectively. Prime Minister Narendra Modi earlier suggested developing a vaccine delivery system on the lines of conduct of polls and disaster management while involving all levels of government and citizen groups. Chairing a meeting to review the COVID-19 pandemic situation and the preparedness of vaccine delivery, distribution, and administration, the Prime Minister also noted a steady decline in the daily cases and the growth rate. At the same time, he also cautioned against any complacency at the decline and called for keeping up the efforts to contain the pandemic.In a statement, the PMO said three vaccines are in advanced stages of development in India, out of which two are in Phase II and one is in Phase-III. It further said Indian scientists and research teams are collaborating and strengthening the research capacities in neighbouring countries such as Afghanistan, Bhutan, Bangladesh, Maldives, Mauritius, Nepal and

Sri Lanka. PM Modi further directed that keeping in view the geographical span and diversity of the country, the access to the vaccine should be ensured speedily. He stressed that every step in the logistics, delivery, and administration should be put in place rigorously. "It must include advanced planning of cold storage chains, distribution network, monitoring mechanism, advance assessment, and preparation of ancillary equipment required, such as vails, syringes etc," the statement said.

Credit rating agency Moody's Investors Service earlier said that India's fiscal position "remains very weak". The government's latest fiscal measures, it said, will have a minimal impact on the country's growth prospects and that the government's 'small scale' package is actually a credit negative as it reflects the country's 'limited budgetary firepower to support the economy'. Moody's expects India's GDP to drop 11.5 per cent in 2020-21, so the 0.5 per cent of GDP gain expected by the government from these stimulus measures will provide only 'a small boost', it pointed out.

Sectors and stocks

Shares of Divi's Laboratories hit a record high of Rs. 3,432.70, up 6 per cent on the BSE in the early morning trade on Monday after the company witnessed a strong 45.6 per cent year-on-year (YoY) jump in its net profit at Rs. 520 crore, on the back of healthy operational performance for September quarter (Q2FY21). The stock of the pharmaceutical company surpassed its previous high of Rs 3,888, touched on September 18, 2020. In Q2FY21, the company's revenues grew 21 per cent YoY to Rs 1,749 crore. EBITDA margins expanded 843 bps YoY to 42.4 per cent due to significantly better gross margin performance and lower other expenditure. The company said apart from the existing capex programs, it is taking up a new capex for an aggregate amount of Rs. 400 crore for meeting new business opportunities in the custom synthesis projects; and needed to be completed on the fast track.

Shares of Astral Poly Technik were trading 4 per cent higher at Rs. 1,211 on the BSE on Monday after the company reported 220 basis points improvement in EBITDA margins at 21.02 per cent in the September quarter (Q2FY21), led by various cost optimisation measures. The company's sales during the quarter grew 10 per cent year-on-year (YoY) at Rs. 747 crore, on the back of healthy 29 per cent YoY growth in adhesives business at Rs. 190 crore. Profit after tax was up 6.6 per cent YoY to Rs. 88 crore, supported by better margin and saving in interest costs. The management said the recovery in pipe segments has picked up momentum from September 2020 onwards. The adhesives business is also doing better from July 2020 and further picked up from October 2020, it said.

Global markets

Global equities hit a record high on Monday and the dollar stayed weak as expectations of better global trade ties and more monetary stimulus under US President-elect Joe Biden supported risk appetite.

E-mini futures for the S&P 500 jumped more than 1.4% on Monday. MSCI's broadest index of Asia Pacific shares outside of Japan jumped 1.3% after hitting its highest since January 2018. European stocks, too, rallied in the trade.

Last week, MSCI China index hit a 23-year high after Chinese factory activity expanded the fastest in a decade. Japanese markets were closed for a holiday.

Ajcon Global's view

Domestically, investors sentiments have improved led by strong earnings performance in majority of the Companies which has surpassed our expectations as well. Clearly, there are visible signs of economic recovering fast. After significant rally witnessed in Largecaps space since the announcement of initial Lockdown to control COVID-19 pandemic, investors have become stock specific in midcaps and smallcaps. Investors are increasing allocation in Companies which are witnessing turnaround in Q2FY21, Unlock phase and having cost efficiencies. In addition, 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.

We are cautious on Large caps at present valuations as we believe they are running ahead of fundamentals led by high FPI liquidity and advise partial profit booking. Further fall will make markets healthy for fresh entry as Indian equities were in overbought zone for quite some time.

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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