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Market wrap **August 10, 2020**

Pharma and Defense stocks rally; positive global cues support today's upmove..
Indian benchmark indices ended in green on Monday on the back of positive global cues, encouraging quarterly numbers by select pharma companies and the government's push for Atmanirbhar Bharat (Self-Reliant India), where the Ministry of Defence (MoD) announced a phased, year-wise embargo on the import of 101 items of defence equipment.

The S&P BSE Sensex today ended at 38,182, up 141.5 points or 0.37 per cent, with L&T (up nearly 5 per cent) being the top gainer and Reliance Industries Limited (RIL) the biggest loser. During the day, the index hit a high and low of 38,430.69, and 38,073.29, respectively.

Nifty ended at 11,270, up 56 points, or 0.50 per cent.

The broader market, however, outperformed the frontline indices. The S&P BSE MidCap index gained 1.42 per cent to 14,421 levels and the S&P BSE SmallCap ended at 13,869, up 1.47 per cent.

Crude oil and Gold
Crude oil rose, supported by an improvement in Chinese factory data and rising energy demand. Gold prices, on the other hand, fell as the dollar held onto gains made after better-than-expected US payrolls data, while investors kept a close eye on Sino-US relations ahead of scheduled trade talks.

Sectors and stocks
Shares of defence equipment manufacturers and suppliers rallied in the trade after the Ministry of Defence (MoD) announced on Sunday a phased, year-wise embargo on the import of 101 items of defence equipment, invoking the Prime Minister Narendra Modi's Atmanirbhar Bharat (Self-Reliant India) initiative. Bharat Dynamics hit an all-time high of Rs. 465.10 during the trade. The stock ended at Rs 437.30. Bharat Electronics gained over 9 per cent to Rs. 108.30.

Pharma stocks rallied led by healthy quarterly numbers by Cipla, and Divi's Lab. Shares of Divi's Laboratories hit a record high of Rs. 3,228.05 on the BSE after reporting 80.61 per cent year-on-year (YoY) rise in consolidated net profit for the June quarter of 2020-21 (Q1FY21). At the close, the share price of the company stood at Rs. 3,117, up nearly 12 per cent.

Cipla, too, hit a record high after the firm posted a 20 per cent growth in profit before tax (PBT) for the first quarter of the current financial year to Rs. 799 crore, on a 9 per cent year-on-year (YoY) growth in revenues to Rs 4,346 crore. The stock ended at Rs 795.65, up over 9 per cent.

Global markets
European equities were up on Monday as industrial activity in China gained strength, another sign of recovery from the coronavirus pandemic that added to hopes the global economy would also return to health.

The broader Euro STOXX 600 rose 0.6 per cent, with London's FTSE buoyed 1 per cent and European oil and gas shares climbing 2 per cent on rising oil prices.

Ajcon Global's view
We believe cooling of Indian equities will be healthy for investors as whopping rally in last four months was led by liquidity through FPIs. July 2020 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, 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.

We like the measures announced by RBI in its Monetary Policy to address the issues faced by the Indian industry. The central bank announced measures to support NBFCs, HFCs, corporate debt market, and announced a relaxation on the loan-to-value (LTV) ratio for gold loans. 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, last week The Reserve Bank of India said it constituted the expert

committee to oversee the resolution of stressed assets created by COVID-19 under the chairmanship of KV Kamath. The committee will recommend financial parameters factored in the resolution plans, along with sector specific benchmark ranges. It shall also undertake a process validation of resolution plans for accounts above a specified threshold, said the RBI press release. The central bank announced a 'Resolution Framework on COVID-19 related Stress', as a special window under the Prudential Framework on Resolution of Stressed Assets. "The Expert Committee shall also undertake the process validation for the resolution plans to be implemented under this framework, without going into the commercial aspects, in respect of all accounts with aggregate exposure of Rs. 1,500 crore and above at the time of invocation," added the statement. The "Prudential Framework on Resolution of Stressed Assets" dated June 7, 2019 provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. "The resultant stress can potentially impact the long-term viability of a large number of firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate, relative to their cash flow generation abilities," RBI said.

The details regarding the policy for restructuring of NPA accounts is still awaited from the expert committee to oversee the resolution of stressed assets caused by COVID-19 under the chairmanship of KV Kamath. We believe the restructuring measures announced by RBI will help PSUs to protect themselves from capital erosion as they are loaded with NPAs.

Presently, caution is warranted as Indian investors are not connected to realities of economic situation being tough which is evident by the fact that Companies are looking to raise capital via QIP, Rights issue and FPO. Although there are relaxations in lockdown, exponential rise in COVID-19 cases can force for tighter lockdown. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating US- China, India – China tensions after banning of Chinese mobile apps; global cues especially the spike in COVID-19 cases across the globe in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in Q1FY21 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied in last 4 months, investors will keep an eye as to how far the sectors revive from a standstill scenario. The disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis will also remain an overhang. We like the agriculture reforms announced; major announcements made in sectors like Coal, Mining, Aviation, Defence and Power sector were also good and long term in nature. However, certain announcements by Finance Ministry were not taken well by street participants with regards to measures like MSME loan not being interest free, ambiguity with regards to MSMEs who do not have an existing credit facility, market sentiments getting affected as the reduction in rate of TDS to increase liquidity in the system were announced as part of stimulus package etc.

Any news of faster discovery and launch of vaccine for COVID-19 may fuel the market. However, those who have entered at the lower levels especially in last week of March 2020 last week and first week of April 2020 may book short term partial profits.

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