AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **Sep. 10, 2020**

Indian equities comeback in green led by Reliance Industries; Paints stocks rally..

Indian benchmark indices ended in positive terrain with gains of over 1.5 per cent higher on Thursday, thanks to healthy buying in Reliance Industries (RIL).

RIL shares hit a fresh record high of Rs. 2,343.90 apiece on the BSE in the intra-day session after media reports said the company is offering to sell stake in its retail arm, Reliance Retail, to Amazon. The market-capitalisation (m-cap) of the company crossed Rs 15 trillion mark during the trade. The stock settled at Rs 2,314.65 on the BSE, up 7 per cent.

The S&P BSE Sensex today settled at 38,840 levels, up 646 points, or 1.69 per cent while NSE's Nifty ended at 11,449, up 171 points, or 1.52 per cent.

Barring Nifty Metal, all the other indices ended in the green. Nifty PSU Bank rallied the most - up 2.5 per cent. Nifty Metal, on the other hand, slipped over 1 per cent to 2,369.80 levels.

In the broader market, the S&P BSE MidCap index gained 0.92 per cent to 14,575 levels while the S&P BSE SmallCap index rallied 1.27 per cent to 14,483 points.

Volatility index, India VIX, declined over 4 per cent to 21.27

Sectors and stocks
Shares of paint companies were in focus with sector leader Asian Paints hitting an all-time high of Rs. 2,028, up 2.5 per cent on the BSE in the intra-day trade on Thursday, on expectation of higher demand. The stock surpassed its previous high of Rs. 2,016 touched on August 25, 2020. Berger Paints India, Kansai Nerolac Paints and Shalimar Paints were up 2 per cent each during the day. In the past one month, Asian Paints beat the market by gaining 14 per cent after it surprised the Street with better-than-expected revenue recovery in April-June quarter (Q1FY21) and clocking 14 per cent volume growth for domestic decorative portfolio in the month of June.

Shares of Syngene International rallied nearly 9 per cent on the BSE on Thursday, a day after the company and HiMedia Laboratories, which have collaborated to manufacture ELISafe 19, an IgG based ELISA test kit for Covid-19, received the approval by the Indian Council of Medical Research (ICMR). The product will be launched once it receives approval from the Central Drugs Standard Control Organisation (CDSCO) next. The test kits, developed indigenously by Biocon's research arm Syngene, test the presence of SARS-COV-2 antibodies which confirm that a patient has been exposed to the coronavirus. It has the capacity to test samples together in a single run and generates results within three hours. "We appreciate the prompt response of the ICMR in reviewing and approving the ELISafe 19 kit. The kit is a result of a unique combination of skills: Syngene's expertise in viral research and HiMedia's ability to manufacture and commercialise the product," said Vishal G Warke, Director R&D, Cell Culture and Immunology, HiMedia Laboratories.

Shares of Laurus Labs hit a record high of Rs. 1,263, up 4 per cent on the BSE in the intra-day trade on Thursday. The stock of the pharmaceutical company was trading higher for the fourth straight day, gaining 7 per cent during the period. It surpassed its previous high of Rs 1,263 touched on August 24, 2020, in the intra-day trade. Laurus Labs has outperformed the S&P BSE Sensex in the past four months. Since June, it rallied 171 per cent on strong quarterly earnings. Laurus Labs is a leading research-driven pharmaceutical manufacturing company in India. The company has grown to become one of the leading manufacturers of API for anti-retroviral (ARV), oncology, cardiovascular, anti-diabetics, anti-asthma, and gastroenterology. The board of directors of the company has fixed September 30, 2020, as the record date for the sub-division of equity shares of the company from the existing face value of Rs 10 each to Rs 2 each. The company announced, on April 30, its stock split plan to make the stock more affordable for the small retail investors and increase liquidity. For the April-June 2020 quarter (Q1FY21), Laurus Labs posted consolidated revenue of Rs. 974 crore, up 77 per cent year-on-year (YoY) while EBITDA stood at Rs. 285 crore, up 288 per cent YoY. EBITDA margin came in at 29 per cent while net profit or profit after tax (PAT) zoomed 1,047 per cent YoY to Rs. 172 crore.

Global markets
The tech-led reboot of stock markets stalled in Europe on Thursday as traders pulled back to hear just how twitchy the European Central Bank has become about the euro's run-up in recent months.

In Asia, Hong Kong equities ended in red, tracking broad weakness in the mainland market dragged down by a slump in China's start-up stocks. China's main Shanghai Composite index closed down 0.61 per cent at 3,234.82, while the blue-chip CSI300 index ended down 0.06 per cent.

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 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 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.

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 affliates, 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