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Market wrap **August 11, 2020**

Positive global cues especially with regards to COVID-19 vaccine developed by Russia support today's rally..
Indian benchmark indices continued its rally into the fourth session in a row. The S&P BSE Sensex was up by 0.6 per cent, or 225 points higher at 38,407.01 levels on Tuesday, led by buying in financial counters. Nifty gained for the fifth straight day to settle at 11,322.50, up 52 points or 0.46 per cent. India VIX declined 5.57 per cent to 21.25 levels.

Further, positive global cues and Prime Minister Narendra Modi's statement that the number of active Covid-19 cases has come down also boosted investor sentiment.

In a key development, Russian President Vladimir Putin said that a coronavirus vaccine developed in the country has been registered for use and one of his daughters has already been inoculated. Speaking at a government meeting on Tuesday, Putin said that the vaccine has proven efficient during tests, offering a lasting immunity from the coronavirus.

In the broader market, the S&P BSE MidCap index ended at 14,392 levels, down 0.2 per cent while the S&P BSE SmallCap index fell 0.23 per cent to settle at 13,837.

Among sectoral indices on the NSE, Nifty Bank rallied 1.5 per cent to 22,227.20 and Nifty Metal advanced 1.66 per cent to 2,370.65.

Crude oil and Gold
Brent crude was up by 0.6 per cent, to $45.28 a barrel while West Texas Intermediate US crude rose 38 cents, or 0.9 per cent, to $42.32 a barrel at the time of writing of this report.

Gold prices fell more than 1 per cent, breaking below the $2,000 level for the first time in a week, as the dollar's relative value against other currencies strengthened and spurred investors to lock in profits following a record run.

Sectors and stocks
Axis Bank (up 4 per cent) ended as the top gainer on the Sensex while Titan Company emerged as the biggest loser (down nearly 4 per cent) after reporting weak set of numbers for the quarter ended June 2020.

Shares of ICICI Bank were up by 3 per cent to Rs. 374.15 on the BSE on Tuesday after the private lender launched its qualified institutional placement (QIP), setting the floor price at Rs. 351.36 per share. The bank plans to raise up to Rs. 15,000 crore to support business growth and create a buffer to absorb any shock from the economic disruption caused by the coronavirus pandemic. Its board will meet on August 14 to decide the QIP issue price. The floor price is a 3.4 per cent discount to Monday's closing of Rs 364.20.

Shares of Bank of Baroda was down by 3 per cent to Rs. 47 apiece in the early morning deals on the BSE on Tuesday after the lender reported a surprise net loss of Rs. 864 crore for April-June quarter of FY21 due to rise in provisions for standard assets, including those under moratorium and government-guaranteed loans. Slippages, too, rose to Rs. 3,500 crore from Rs. 3,200 crore QoQ. While domestic slippages declined, there was a sharp increase in overseas slippages from Rs. 790 crore to Rs. 2,100 crore. The Bank had reported a net profit of Rs. 710 crore in the corresponding quarter a year ago. Besides, the lender posted pre-tax loss of Rs. 1,308 crore compared to profit before tax (PBT) of Rs. 991 crore in Q1FY20. The profit was hit by provisions and contingencies, which rose by 71.32 per cent to Rs. 5,628 crore in Q1FY21 from Rs. 3,285 crore in Q1FY20. "BoB made a provision of Rs 1,900 crore for standard assets. Of this, half was for a loan which carries government guarantees and balance for loans under moratorium," said its managing director (MD) and chief executive officer (CEO) Sanjiv Chadha said. On the asset quality front, the gross non-performing assets (GNPAs) declined to 9.39 per cent in Q1FY21 from 10.28 per cent in Q1FY20. GNPAs were at 9.4 per cent at end of March 2020. Meanwhile, net NPAs declined to 2.83 per cent in June 2020 from 3.95 per cent in June 2019. Net NPAs were at 3.13 per cent in Mach 2020. Provision coverage ratio (PCR) improved to 83.3 per cent in June 2020 from 77.34 per cent a year ago. Capital adequacy ratio (CAR) of the bank stood at 12.84 per cent as on June 30, 2020, with tier I at 9.08 per cent. The bank has approval in place to raise up to Rs. 9,000 crore via equity shares.

Global markets
Global equities inched to 5-1/2 month highs on Tuesday, lifted by bets a US fiscal stimulus package will be reached and by signs Sino-US tensions have eased ahead of a crucial round of trade talks.

MSCI's global equity index rose 0.4 per cent while a benchmark of Asian shares outside Japan gained nearly 1 per cent. Japan's Nikkei climbed 1.9 per cent.

Ajcon Global's view
We have been always reiterating that any news related to COVID-19 vaccine development would fuel market which was the case today. Considering the ferocious rally in the tough economic environment, we believe cooling of Indian equities will be

healthy for investors as the sharp rally in lockdown and different phases of Unlock was led by liquidity through FPIs. Last 10 days rally and 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 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.

We like the measures announced by RBI in its Monetary Policy last week 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 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 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.

Considering the sharp rally in the Lockdown period, we advise investors 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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