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Market wrap **August 12, 2020**

Indian equities consolidate and end flat; PSU Banking stocks rally..
The Indian benchmark indices ended Wednesday's rangebound session on a flat note with a negative bias, amid selling in private banks, FMCG, pharma, and metal counters. Further, weak global cues, too, weighed on investor sentiment.

The S&P BSE Sensex ended 37 points or 0.1 per cent lower at 38,370 levels. Reliance Industries (RIL),HDFC Bank, TCS, and HUL were among the major contributors to the index's loss. On the other hand, HCL Tech, SBI, and Infosys lent support to the market.

Nifty ended at 11,308, down 14 points or 0.12 per cent.

The trend in the broader market also remained subdued. For instance, the S&P BSE MidCap index ended 0.26 per cent lower at 14,355 levels while the S&P BSE SmallCap index fell 0.02 per cent to end at 13,834 points.

Nifty Bank rallied 1.5 per cent to 22,227.20 and Nifty Metal advanced 1.66 per cent to 2,370.65.

Nifty Pharma declined the most-down 1.5 per cent to 11,590. The Nifty Metal index fell 0.67 per cent while Nifty FMCG ended at 31,636.70, down, 0.41 per cent. Nifty PSU Bank, on the other hand, rallied 2.7 per cent to 1,477.70 levels.

Volatility index, India VIX, dropped over 2 per cent to 20.89 levels.

Crude oil and Gold
Crude oil prices were up after a bigger-than-expected drop in US inventories. Gold swung from being down 2 per cent to being up 1.7 per cent at $1,935 per ounce, a day after it suffered its biggest daily fall in seven years.

Sectors and stocks
Shares of public sector banks were trading higher on the National Stock Exchange (NSE), in an otherwise weak market, on Wednesday. Among individual stocks, State Bank of India was up by 4.23 percent, Punjab National Bank was up by 2.89 per cent, Bank of Baroda (up 3.18 per cent), UCO Bank (1.83 per cent), and Bank of Maharashtra (1.67 per cent) on the NSE.

Shares of JMC Projects shares were up by 13.5 per cent to Rs. 55 on the BSE on Wednesday after the engineering firm on Tuesday informed it has secured new orders worth Rs 1,363 crore. JMC Projects (India) is a subsidiary of Kalpataru Power Transmission and one of the leading contracting companies in the country. In a filing to the BSE, the company said it has won Rs. 1,169 crore building projects order in southern India; while in Bihar, it has won a water supply project of Rs. 194 crore. "We are happy with the new order wins in the face of challenging market conditions. We continue to focus on scaling up our operations and improving our cost competitiveness. We are witnessing continuous improvements in operations and expect execution to normalise at pre-Covid levels by the end of Q2FY21. With our order book of over Rs. 11,400 crore and L1 of Rs. 1,700 crore, we remain confident to deliver positive and profitable growth for full-year FY21," said S K Tripathi, CEO, and Deputy Managing Director.

Shares of Hindustan Aeronautics(HAL) rallied as much as 5.8 per cent and hit fresh 52-week high of Rs. 1,078 on the BSE on Wednesday after the Ministry of Defence (MoD) on Tuesday approved the acquisition of 'Make in India' equipment worth Rs. 8,722 crore. Of this, bulk will go towards purchasing the first fixed wing aircraft that HAL has designed and developed in decades. "The Defence Acquisition Council (DAC), in its meeting held [with] Defence Minister Rajnath Singh, accorded approval for capital acquisitions of various platforms and equipment required by the Indian Armed Forces. Proposals for an approximate cost of Rs 8,722.38 crore were approved... [With] prototypes and certification process underway, the DAC approved procurement of 106 basic trainer aircraft (BTA) from HAL to address the basic training requirements of the IAF. Post certification, 70 BTA will be initially procured from HAL and balance 36 after operationalisation of HTT-40 fleet in IAF," stated the MoD.

Shares of PVR were up by 8.8 per cent on the BSE on Wednesday after the multiplex-chain owner's successfully raised Rs. 300 crore via its right issue. The rights issue was over-subscribed by 2.24 times.

Shares of InterGlobe Aviation was up by 8 per cent to Rs. 1,015 on the BSE on Wednesday amidst media reports that the airline is in talks with with two lessors to sell and lease back 12 of its ATR 72-600 aircraft and their engines. During the analysts' call post Q1FY21 results, Ronojoy Dutta, chief executive officer of the airline had said that the airline was working on the sale and lease back of their unencumbered assets which are in advanced stages of discussion. "We are also in discussions with export credit agencies for obtaining moratorium towards principal repayment for aircraft on finance leases," he had said. These moves could help the airline raise up to Rs. 2,000 crore which is very important during these Covid-19 times, he had explained. During its board meeting on August 10, the airline had approved to raise Rs. 4,000 crore through

an issue of equity shares by way of a qualified institutions placement. In Q1FY21, the airline reported a record loss of Rs 2,844 crore, while revenue plunged 92 per cent on a yearly basis to Rs 766.7 crore during the quarter under review. At the end of the quarter, the Company had 274 aircraft in its fleet, up from 235 in the same time last year. Of these, it owns 29 aircraft. As of June 30, 2020, the Company had 25 ATRs in its fleet, in comparison with 18 ATRs at the same time last year.

Global markets

European equities were steady Wednesday after doubts emerged about fresh US stimulus, while it was shaping up to be another wild day for gold and silver and Turkey's troubled lira.

In Asia, Chinese equities declined for a second straight session after global market sentiment soured on the prospect of a swift US stimulus boost and as domestic data showed softer growth in bank lending.

Ajcon Global's view

After the ferocious rally in the tough economic environment, the domestic bourses have begun to consolidate. Profit booking was witnessed in Pharma counters. 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 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.

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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