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Market wrap **October 13, 2020**

Indian equities turn lacklustre; all eyes on Q2FY21 earnings season..

Indian equities ended flat with a positive bias on Tuesday. Among headline indices, the S&P BSE Sensex ended at 40,626 levels, up 32 points, and the Nifty50 index settled at 11,934.5 levels, up 3.5 points, or 0.03 per cent.

The trend among Nifty sectoral indices was largely negative. Barring Nifty IT and Nifty Metal, all the other indices ended in the red.

The volatility index, India VIX, dropped over 2 per cent to 20.63 levels.

Key developments

The Supreme Court (SC) has adjourned its hearing on a batch of petitions seeking interest waiver during the loan moratorium period to October 14 (tommorow). The bench on October 5 heard pleas seeking waiver of accruing interest during the six-month loan moratorium period. The apex court granted Centre and the Reserve Bank of India (RBI) time to file additional affidavits which were likely be addressed today. The SC had on September 3 instructed banks not to declare accounts as non-performing assets (NPAs) until further orders after the Centre on October 2 told the apex court that it would waive compound interest on the repayment of loans of up to Rs 2 crore, a move that would provide relief to individual and micro, small and medium enterprise (MSME) borrowers. The SC has previously said there is "no merit in charging interest on interest". The RBI had in March announced a moratorium on repayment of term deposits for three months, which was later extended till August 31. The move was intended to provide borrowers relief during the COVID-19 pandemic and expected to give them more time to clear payments of EMIs amid the economic fallout of the lockdown, without being classified as NPAs. On June 4, the central bank said lenders will lose Rs. 2 lakh crore if interest is waived during the moratorium period.

Yesterday, the Finance Minister (FM) Nirmala Sitharaman announced a Rs. 12,000 crore interest-free 50-year loan to states for spending on capital projects in a bid to boost the economy. She further announced a one-time Rs. 10,000 interest-free festival advance to all its officers and employees as part of plans to increase consumer spending to spur demand in the economy. The FM announced the LTC Cash Voucher and Festival Advance Schemes to encourage government employees to spend more and boost demand in the economy. As part of the announcement, central government employees who get Leave Travel Concession (LTC) for their travels will get an equivalent of the amount even without travelling. They could use the allowance to make purchases of their choice. This will apply to the purchase of goods that attract 12 per cent GST or more and can be spent on buying goods worth three times the fare and equal to the cash encashment. The spending will have to be done by digital mode only. The scheme is being introduced against a backdrop where people are not travelling, so not encashing their LTC. The payment will remain tax-free and is to be done before March 31, 2021. The Centre also revived a one-time festival advance scheme giving Rs. 10,000 to every gazetted, non-gazetted government employee as a prepaid RuPay card to be used in any festival till March 31, 2021. The festival advance was ended in the 7th pay commission. The FM announced enhanced budget provision of Rs. 25,000 crores for capital expenditure by the Centre. The additional budget will be provided for expenditure on roads, defence, infrastructure, water supply, urban development, defence infrastructure and domestically produced capital equipment.

Last week, RBI in its Monetary Policy tweaked the retail lending norms and said the risk weights will now be adjusted based on the loan-to-value ratio and not the ticket size of the loans. However, the Central Bank was bearish on GDP and forecasted negative growth above 9 percent which was in line with World Bank's expectations. Last week, The World Bank said India's GDP may contract 9.6 per cent this fiscal. The bank has advised the country to continue with critical reforms to reverse the sudden and steep impacts of Covid-19 on its economy. In June, it had projected contraction to be 3.2 per cent. The latest projection is higher than S&P's forecast of 9 per cent but less than 11.5 per cent by Moody's. In its South Asia Economic Focus report, released on Thursday, the World Bank forecast a sharper- than-expected economic slump across the region, with regional growth expected to contract by 7.7 per cent in 2020, after topping 6 percent annually in the past five years. "India's economy, the region's largest, is expected to contract by 9.6 per cent in the fiscal year that started in March 2020. India's growth is projected to rebound to 5.4 per cent in FY22, mostly reflecting base effects, assuming Covid-related restrictions are completely lifted by 2022," the report mentioned. Further, weak activity, domestically and abroad, is also likely to depress both Indian imports and exports.

Sectors and stocks

Shares of cement companies continued its upmove with most of the frontline stocks trading higher on Tuesday on demand recovery hope. The cement industry demand is slowly improving from the disruption created from Covid-19 due to pent up demand and improved rural demand. UltraTech Cement, Ramco Cement, JK Cement, Ambuja Cement, India Cements, Orient Cement, Heidelbergcement India, ACC and Shree Cement from the S&P BSE500 index were up in the range of 2.2

per cent to 4 per cent on the BSE. In the past month, the share prices of JK Cement, ACC, Ambuja Cements and UltraTech Cement have rallied 14 per cent to 19 per cent, against 5 per cent gain in the benchmark index.

Shares of pharmaceutical companies were in focus at the bourses on Tuesday with Cipla rising 1.7 per cent to hit a fresh record high of Rs. 829 on the National Stock Exchange (NSE). Lupin also rose 4 per cent to Rs. 1,088, close to its 52-week high price of Rs. 1,121.85, touched on September 18, 2020. In the past month, Cipla and Lupin have outperformed the market by gaining 12 per cent each, against 8 per cent rise in Nifty Pharma index. The pharma index hit a 52-week high of 12,529 in intra-day trade on September 18, 2020.

Shares of Rane Brake Lining were up by 13 per cent to Rs. 659 on the BSE in the early morning trade on Tuesday after the company said its board will meet on Thursday to consider share buyback proposal. In the past six months, the stock of the auto ancillary company rallied 62 per cent, as compared to a 30 per cent rise in the S&P BSE Sensex. However, in the past three years, it has under performed the market by falling 46 per cent, against 26 per cent gain in the benchmark index. As of September 30, 2020, the promoters held 66.99 per cent stake in Rane Brake Linings. Individual shareholders held 21.61 per cent stake, while insurance companies have 9.52 per cent holding in the company, shareholding pattern data shows.

Shares of Kopran were locked in the 5 per cent upper circuit band at Rs. 97.35 on the BSE on Tuesday, gaining 10 per cent in the past four trading days, after rating agency Crisil revised its outlook on the long term bank facilities of the company to 'Positive' from 'Stable'. The rating agency reaffirmed its 'CRISIL BBB' rating on long term bank facilities, while short term ratings has been reaffirmed at 'CRISIL A3+'. The stock of the pharmaceutical company was trading at its 52-week high level. In the past one month, it has rallied 39 per cent as compared to 4.4 per cent gain in the S&P BSE Sensex. Meanwhile, in the past three months, the stock has witnessed a whopping rally of 157 per cent, as against 10.6 per cent rise in the benchmark index. "The revision in the outlook reflects improvement in Kopran group's business risk profile expected over the medium term. Improved demand from export market, addition of new geographies and new products under development, should result in higher revenue and profitability over the medium term," Crisil said in a detailed rationale.

The manufacturing operations were not significantly impacted by lockdown and other measures taken by central and state governments to contain the spread of the Covid-19, since the company operates in the essential segment. "Group's revenue improved by 43.6 per cent in first quarter of fiscal 2021 (year-on-year) and net profits grew by 238 per cent; sustenance of revenue growth and profitability shall remain key monitorable," it said.

"The ratings continue to reflect the extensive experience of promoters in the pharmaceutical industry, and the above-average financial risk profile despite debt funded capex in the past. These strengths are partially offset by the working capital-intensive operations, and susceptibility to volatile input prices," it added.

Meanwhile, Kopran in 2019-20 annual report said the new products like Nitroxiline and Ticagrelor have been commercialised. Atenolol DMF has been approved by the US Food and Drug Administration (USFDA) and commercial supplies are commencing to various customers. The company has received approval for Pregabalin from the EU-GMP- and will be able to market the API in Europe. Company has filed USDMF for Azithromycin and Pregabalin.

Global markets

European equities fell on Tuesday as worries over the coronavirus pandemic overshadowed Chinese trade data that pointed to a buoyant recovery, while the US dollar edged away from a three-week low.

Chinese equities also gained 0.3 per cent after dipping early in the day. The MSCI world equity index, which tracks shares in nearly 50 countries, fell 0.1 per cent.

Ajcon Global's view

Indian equities gave up gains as the measures announced by Finance Minister failed to lift investor sentiments. Last week, broad based buying was witnessed in midcaps and smallcaps after largecaps turning expensive. 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. However, there are still supply chain bottlenecks, slump in demand, availability of labour is also an issue which has resulted in lower capacity utilisation, working capital requirements have also stretched which are forcing Companies to look out for alternate revenue streams and various fund raising avenues.

Exponential rise in COVID-19 cases can take a toll on investors' sentiments. As Indian economy has opened up partially and with increase in testing for COVID-19 cases, the sudden massive spike was expected. At present, the country is witnessing high recovery rate and low fatality rate which gives some relief.

No doubt, the economic activity has picked up but the economic situation is still tough which is evident by the fact that Companies are looking to raise capital via QIP, Rights issue, Preferential Allotment, Debentures issue and FPOs to absorb the shock of COVID-19. According to data available with the markets regulator Sebi, Indian companies have already raised a total of Rs 1.1 lakh crore in August as compared to Rs. 66,915 crore in July 2020 by way of issuing equity and debt

securities to meet business expansion plans, loan repayments and working capital requirements. 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.

The RBI governor in its recent monetary policy announcement said, the economic recovery would likely to predominantly be a "three speed recovery," with individual sectors showing varying paces, depending on sector-specific realities. Sectors that have shown resilience to the pandemic, and are labour intensive will be the first to recover. These include agriculture and allied activities; fast moving consumer goods; two wheelers, passenger vehicles and tractors; drugs and pharmaceuticals; and electricity generation, especially renewables, Some sectors would open up gradually, while the third category are facing 'slog overs', "but they can rescue the innings." These are the sectors most severely affected by social distancing and are contact-intensive, the RBI governor said. The rural economy has remained resilient, and early indications suggest food grain production is set to cross another record in 2020-21. The inflation too, should start to come within the target 2-6 per cent from the third quarter, the RBI governor said, as against 6.7 per cent recorded during July to August. The MPC projected CPI inflation at 6.8 per cent for the quarter ended September, 5.4-4.5 per cent for the second half of the current financial year and 4.3 per cent for the first quarter of the next fiscal, "with risks broadly balanced."

Last week, the monetary policy committee (MPC) of the Reserve Bank of India (RBI) kept policy rates unchanged, and the governor assured that the worst was possibly over for the economy and it can now hope for steady recovery towards pre-pandemic growth rates. The newly-appointed six member MPC voted unanimously to keep the policy repo rate at 4 per cent, and said the real gross domestic product (GDP) growth rate in 2020-21 could be a negative 9.5 per cent, with "risks tilted to the downside." The stance of the policy would remain "accommodative," for "as long as necessary – at least during the current financial year and into the next year – to revive growth on a durable basis and mitigate the impact of Covid-19, while ensuring that inflation remains within the target going forward," RBI governor Shaktikanta Das in his streamed monetary policy address on Friday morning.

The RBI governor also assured adequate liquidity support for the bond market, including promise of more open market operations (OMO) through which the central bank buys and sells bonds from the market. For the first time, the RBI will also conduct OMO on state development loans, or bonds issued by states, to contain their spreads over equivalent maturity government securities. The RBI governor urged to cooperate with the central bank on conducting the centre's and states' borrowing programme, and said the RBI and the bond market can be "competitive without being combative."

Earlier, 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 enhance credit flow, the central bank tweaked the retail lending norms and said the risk weights will now be adjusted based on the loan-to-value ratio and not the ticket size of the loans. Earlier, to address address the concern of poor lending growth in the current crisis of COVID-19, Finance Minister Nirmala Sitharaman told banks 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.

There is a strong pipeline of IPOs in the coming days. We believe there would be mad rush for the upcoming IPOs after stellar listing of IPOs that have come in COVID-19 era. We recommend investors should book partial profits in sectors like Pharma, IT and Speciality Chemicals. Going ahead, the sectors that have not participated like NBFCs may witness rally. Going forward, all eyes would be on Q2FY21 earnings season, festive season sales, COVID-19 related developments and US elections.

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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