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Market wrap **August 14, 2020**

Financials and Auto stocks decline; domestic bourses remain under pressure..

The Indian benchmark indices ended over 1 per cent lower on Friday amid selling in financial counters. Further, weak global cues such as lacklustre Chinese economic data and confusion over US fiscal stimulus, too, weighed on investor sentiment.

The S&P BSE Sensex today declined by 433 points or 1.13 per cent to settle at 37,877 levels. HDFC Bank, ITC, ICICI Bank, Axis Bank, and Reliance Industries (RIL) were the major contributors to the index's loss. Nifty ended at 11,178, down 122 points or 1.08 per cent.

In the broader market, the S&P BSE MidCap index fell over 1 per cent to 14,434 levels while the S&P BSE SmallCap index declined 0.6 per cent to 13,855.18 points.

Among sectoral indices on the NSE, Nifty Auto slipped 2.56 per cent while Nifty Bank fell over 2 per cent.

On a weekly basis, Sensex slipped 0.4 per cent while Nifty lost 0.3 per cent.

Sectors and stocks

Shares of telecom stocks were in red on August 14 as the Supreme Court was expected to deliver an order on an appeal by Vodafone Idea, Bharti Airtel and others to allow staggered payments of their adjusted gross revenue dues. In its last hearing on August 10, the Supreme Court had adjourned its hearing in the AGR matter and had asked the Centre to prepare a plan for recovering AGR dues from bankrupt telecom operators -Reliance Communications (RCom), Aircel, and Videocon Telecommunications. The amount recoverable from RCom is Rs. 31,000 crore, while that from Aircel is Rs. 12,389 crore. Insolvency proceedings had begun following claims made by operational creditors Ericsson and China Development Bank. In an affidavit filed with the Supreme Court, Sistema Shyam Teleservices (SSTL) had said RCom was liable to pay its AGR dues. The Department of Telecommunications has arrived at a combined AGR liability of Rs 25,195 crore for RCom and SSTL as on March 6, 2020. RCom had filed for insolvency back in February 2019. Meanwhile, on July 20, the apex court had reserved its order allowing a staggered payment schedule to telcos for paying up their AGR dues. It had further made it clear it will not hear "even for a second" the arguments on reassessment or re-calculation of the AGR related dues of telecom companies which run into about Rs. 1.6 lakh crore. According to the DoT's calculations, Bharti Airtel owes Rs. 43,780 crore in AGR dues, of which the company has paid Rs. 18,004 crore, with the balance at Rs. 25,776 crore. Vodafone Idea has so far paid Rs. 7,854 crore of its total Rs. 50,399 crore in dues, while Tata Teleservices has paid Rs 4,197 crore with the balance at Rs 12,601 crore. The apex court had asked Bharti Airtel and Vodafone Idea to come out with a "reasonable payment plan", make some payment to "show their bona fide", and also file their books of accounts for the last 10 years.

Shares of Eicher Motors declined by over 7 per cent on Friday after the company reported a loss of Rs. 55 crore in the June quarter of FY21 (Q1FY21). It had posted a profit of Rs. 452 crore in the corresponding quarter last year. The company's revenue from operations in the quarter under review declined to Rs. 818 crore from Rs. 2,382 crore in Q1FY20. The company's revenue from operations in the quarter under review declined to Rs. 818 crore from Rs. 2,382 crore in Q1FY20. EBITDA were at Rs. 4 crore in the quarter as compared to Rs. 614 crore in the same quarter of previous financial year. "The previous quarter put forth unprecedented challenges for the industry and for Eicher Motors, However, the long-term potential for both Royal Enfield and VE Commercial Vehicles (VECV), the truck and bus making company of Eicher Motors, is promising," said Eicher Motors' Managing Director Siddhartha Lal. Royal Enfield sold 58,383 motorcycles during the June quarter, down 68 per cent from 181,966 motorcycles sold over the same period in FY20.

In a post earnings call, top officials of Royal Enfield (RE) said that despite the rapid recovery in demand seen across all the key markets of the company, the Covid-19 pandemic-induced lockdowns have been impacting production. "Towards the end of the quarter we've witnessed encouraging consumer sentiment which was evident in our sales for the month of June. We believe that this trend will continue into this quarter as well," Lal said, adding that the motorcycle business was doing very well in international markets.

Royal Enfield's manufacturing units resumed operations on May 6 after being suspended on March 23. Retail operations resumed through the unlock phases in a staggered manner. The company is presently operating at 50 per cent of its installed capacity and has a backlog of 40,000 orders."We are quite excited on the demand side, but frustrated on the production side," said Vinod Dasari, CEO, Royal Enfield. Meanwhile, the company yesterday announced that VECV will acquire Volvo Group's bus business in India for Rs. 100.5 crore. Definitive agreements have been signed for the integration of Volvo Bus India (VBI) business into VECV, Eicher Motors said in a statement. The transaction would be completed over the next two months. As part of the deal, VECV will carve out a separate bus division housing both Eicher and Volvo branded products. The bus division would be responsible for manufacturing, assembly, distribution and sale of both Volvo

and Eicher buses in India. Consequently, the bus manufacturing facility at Hosakote, Bengaluru, and all employees of VBI will be transferred to VECV.

Shares of MRF declined by almost 4 percent after the company posted weak numbers for the June quarter.

Global markets

Global equities declined on Friday after lacklustre Chinese economic data and worries about a delay in US fiscal stimulus discouraged some investors from taking on risk. European shares were also dragged lower by a hit to travel stocks after Britain added more European countries to its quarantine list. The pan-European STOXX 600 was down 0.7 per cent, although on track to gain for a second straight week.

MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.1 per cent, although shares in Japan rose 0.2 per cent.Chinese shares rose 1.5 per cent in choppy trade, with the data suggesting domestic demand is still struggling after the COVID-19 outbreak. E-mini futures for the S&P 500 were flat.

Ajcon Global's view

After the ferocious rally in the tough economic environment, the domestic bourses are finally beginning to see pressure. 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, management commentary in Q1FY21 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied in last 5 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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