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Market wrap **October 14, 2020**

Financials rally; buying witnessed in some sectors ahead of festive season..

The Indian benchmark indices witnessed a sharp recovery in the last hour of the session, supported by buying in financial counters. Among the headline indices, the S&P BSE Sensex was up by 169 points, or 0.42 per cent to end at 40,795 levels while the NSE's Nifty50 index ended at 11,971, up 37 points, or 0.31 per cent. India VIX slipped nearly 2.5 per cent to 20.21 levels.

ICICI Bank, HDFC and HDFC Bank contributed the most to the Sensex's gains.

In the broader market, the S&P BSE MidCap index gained 0.5 per cent while the S&P BSE SmallCap index ended 0.19 per cent lower.

Sectorally, action was seen in finance, banks, realty, and capital goods space while some profit-taking was visible in utilities, power, IT, and oil & gas space.

Key developments

The Supreme Court has adjourned its hearing on a batch of petitions seeking interest waiver during the loan moratorium period to November 2. The bench on October 5 heard pleas seeking waiver of accruing interest during the six-month loan moratorium period. 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.

Earlier, 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. Earlier, 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 SBI Cards and Payments rose 4 per cent and hit a new high of Rs. 892 on the BSE on Wednesday in an otherwise weak market after the company said it has kick-started festive season offers in line with the changing shopping trends and customers will be offered discounts as well as cashback across a host of brands. The State Bank of India (SBI)-promoted company's stock traded at the highest level since its listing on March 16, 2020. It surpassed its previous high of Rs 867.50, hit on September 30, 2020. SBI Cards is a non-banking financial company that offers extensive credit card portfolio to individual cardholders and corporate clients which includes lifestyle, rewards, travel & fuel and banking partnerships cards along with corporate cards covering all major cardholders' segments in terms of income profile and lifestyle. Presently, the brand has a wide customer base of over 10 million. "With over 1,000 offers across 2,000 cities, SBI Card endeavors to bring customers a rewarding shopping experience on their festive season purchases", the company said in a release. Offers are available nationally across marquee brands such as Amazon, Brand Factory, Croma, Caratlane, Fabindia, FirstCry, Grofers, Homecentre, Samsung Mobile, Lloyds, More Hypermarket, More Supermarket, Pantaloons and Tata Cliq. These strategic partnerships will enable the customers to derive benefits across all the relevant shopping categories. Offers include attractive cash backs as well as instant discounts ranging upto 10 per cent it said. As per Reserve Bank of India (RBI) data, monthly credit card spends have reverted back to pre-Covid levels with banks reporting Rs. 50,311 crore worth of credit card spends in August 2020 against Rs. 50,574 crore in March 2020. However, this was still lower than Rs. 60,011 crore in February 2020. The upcoming festive season will boost credit card spends. Meanwhile, CRISIL pegs the growth in credit card spends in India at 20 per cent CAGR between FY19-24E on rising government's support for a cashless economy, improvement in payment infrastructure and an increase in organized retail penetration including e-commerce. That apart, SBI Cards' parent's distribution network is another key strength.

Shares of NTPC declined by 5 per cent to Rs. 78.20 on the BSE on Wednesday after more than three-million equity shares of the company changed hands through multiple block deals. The stock of the state-owned electric utility company was trading close to its 52-week low of Rs. 74, touched on March 23, 2020. NTPC, after market hours yesterday, announced that the company has decided to raise Rs. 4,000 crore on October 15, 2020, through private placement of unsecured non-convertible bonds in the debentures at a coupon of 5.45 per cent p.a. with a door to door maturity of 5 years on October 15, 2025. The proceeds will be utilized for, inter alia, funding of capital expenditure, refinancing of existing loans and other general corporate purposes. The bonds are proposed to be listed on both NSE & BSE. Bond Trust Deed for these bonds will be duly executed as per the requirements of and within the period of time prescribed under the Companies Act and rules specified therein, it said. "In its endeavour to become a 130 GW Company by 2032, the Company has envisaged an aggressive capital expenditure plan which is also aligned with the National Infrastructure Pipeline of the Government of India. An action plan has been prepared by the Company for capital expenditure of over Rs 1 trillion for the period of 2019-2024. The Company has adopted a dynamic debt strategy for raising long term debt at optimal cost for meeting its capital requirement", NTPC said in 2019-20 annual report. In the past year, NTPC has underperformed the market by falling 33 per cent, as compared to 5.6 per cent rise in the S&P BSE Sensex.

Ajcon Global's view

It was a mixed day for broader markets and buying was witnessed in some sectors that would benefit from the upcoming festive season. In addition, 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, 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 economic recovery. 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.

The economic activity has picked up in various Unlock phase 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.

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 are cautious on Large caps at present valuations as we believe they are running ahead of fundamentals led by high FPI liquidity and advise partial profit booking. Earnings will take time to catch up to reach Pre – covid levels apart from sectors like Pharma, FMCG, Speciality Chemicals, E-Commerce and IT. However, there is opportunity in select midcaps and smallcaps for investors with a two year horizon.

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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