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Market wrap **Sep. 15, 2020**

Midcaps and smallcaps continue to outperform; Pharma and Financials rally..

Indian benchmark indices ended in positive terrain with over half a per cent higher on Tuesday, led by buying in financial counters. The S&P BSE Sensex ended 288 points, or 0.74 per cent higher at 39,044 levels, with IndusInd Bank (up nearly 5 per cent) being the top gainer and Titan (down around 1.5 per cent) the biggest loser. HDFC Bank, Reliance Industries (RIL), ICICI Bank, HDFC, and Axis Bank were the major contributors to the Sensex's gain. Of 30 constituents, 21 advanced and the rest 9 declined.

Nifty50 was up 82 points or 0.71 percent to end at 11,522.

Meanwhile, the broader market continued to outperform the frontline indices. The S&P BSE SmallCap index settled nearly 1.5 per cent higher at 15,363.57 levels while the S&P BSE MidCap index ended at 15,015, up 127 points, or 0.85 per cent.

On the sectoral front, pharma stocks rallied the most. The Nifty Pharma index ended nearly 2 per cent higher at 11,450.50 levels. Nifty Private Bank index gained 1.85 per cent to 12,431.90 levels while Nifty Bank added 1.65 per cent to 22,466 points. On the other hand, Nifty Realty slipped the most - down over 0.7 per cent to 221 levels.

Key developments

The Asian Development Bank (ADB) has projected a 9 percent decline in the Indian economy in the current financial year 2020-21. The Asian Development Outlook (ADO) 2020 update released by the ADB on Tuesday said that the economic activity in India has been badly affected due to coronavirus. This has also impacted consumer sentiment, which will cause a nine percent drop in the gross domestic product (GDP) during the current financial year. However, the ADB estimates that there will be a big boom in the Indian economy in the next financial year 2021-22. ADB said that India's economic growth rate will be 8 percent in the next financial year due to the movement and opening of business activities. ADB chief economist Yasuyuki Sawada said, "India imposed a strict lockdown to prevent the spread of the epidemic." This affected economic activities badly.

Earlier, S&P Global Ratings on Monday slashed its FY21 growth forecast for India to (-) 9 per cent, from (-) 5 per cent estimated earlier, saying that rising COVID-19 cases would keep private spending and investment lower for longer. "One factor holding back private economic activity is the continued escalation of the COVID-19," S&P Global Ratings Asia-Pacific Economist Vishrut Rana said. Rising COVID-19 cases in India will keep private spending and investment lower for longer. The Rating Agency said risks to the growth outlook include a weaker recovery in informal sectors of the economy and deeper economic losses for micro and small enterprises. "In addition, if credit quality worsens materially following the expiration of loan moratoriums, the recovery will slow. One factor that presents potential upside to growth is the availability of a widely-distributed COVID vaccine earlier than our current estimate around mid-2021," S&P added.

Last week, Ratings agency Moody's on Friday projected India's economic growth would contract 11.5 per cent this fiscal due to the coronavirus pandemic. "India’s credit profile increasingly constrained by low growth, high debt burden and a weak financial system," said Moody's.

Sectors and stocks

Shares of JB Chemicals and Pharmaceuticals rallied 16 per cent to hit an all-time high of Rs. 965 apiece on the BSE on Tuesday, a day after the company reported a 92.6 per cent year-on-year (YoY) jump in its consolidated net profit at Rs. 119.42 crore for the quarter ended June 2020 against Rs. 62 crore profit in the year-ago period. The company's revenue came in at Rs 522.28 crore, up 17 per cent against Rs 446.11 crore in the corresponding quarter of the previous fiscal while total income rose 18.7 per cent YoY at Rs 544.97 crore. JB Chemicals is engaged in the business of manufacturing and marketing of a diverse range of pharmaceuticals formulations herbal remedies and APIs. It has its headquarters in Mumbai. The company manufactures a range of innovative specialty products that include various pharmaceutical dosage forms like tablets, injectable (vials, ampoules, form fill seal), creams & ointments, lozenges, herbal liquids and capsules. We had earlier recommended JB Chemicals and Pharmaceuticals Limited on February 29, 2020 at Rs. 538, with a target price of Rs. 663. Investors have witnessed an upside of 79 percent from our recommended price.

Shares of Adani Green Energy (AGEL) hit a fresh record high of Rs. 670.65 on the BSE, thereby entering the elite club of firms with Rs. 1 trillion market-capitalisation (m-cap). The firm joins the ranks of Titan Company, UltraTech Cement, Sun Pharmaceutical Industries, Larsen & Toubro (L&T), and Avenue Supermarts.

Shares of ADF Foods were frozen at the upper circuit limit (up 5 per cent) for the second straight day on the NSE on Tuesday. The stock has surged 11 per cent in two days after investor Ashish Kacholia bought nearly one percentage point stake in the packaged foods company through the open market. On Monday, Ashish Kacholia bought 148,871 shares or 0.74 per cent equity of ADF Foods at Rs 377.99 each on the NSE, the bulk deal data shows. ADF is a consumer-focused company and a leader in prepared ethnic food offering ready-to-eat (RTE) items, ready-to-cook (RTC) items, sauces, pickles, pastes, dips, and frozen foods under its seven flagship brands.

Shares of Tata Motors Differential Voting Rights (DVRs) continued their northward movement, hitting an over six-month high of Rs 63.95, up 5 per cent in intra-day trade on the BSE on Tuesday. The stock of the Tata group company was trading at its highest level since February 24, 2020. In the past six-weeks, it has rallied 63 per cent, as against 3 per cent rise in the S&P BSE Sensex. Thus far in the month of September, Tata Motors DVR has gained 26 per cent after its promoter Tata Sons acquired more than 5 million shares worth Rs 30 crore, via open market. At the company's 75th Annual General Meeting (AGM) on August 25, Tata Motors chairman N Chandrasekaran said that the company is eyeing "near-zero" debt in the next three years as it looks to significantly deleverage its business, reduce expenses and put the leash on non-core investments. "The target to be near net debt zero by FY24 is built on three key pillars; business-level free cash flow (FCF) generation, the monetization of non-core assets, and top-up equity (if required). Business-level FCF generation is the key part of the plan and pivoted on, revenue improvement, cost-cutting, and capex control plans laid out for four key businesses (incl. NBFC)," he said.

Global markets

Global equities rose on Tuesday on the back of upbeat Chinese data and optimism about novel coronavirus vaccines, as a struggling dollar kept the hot streaks for the euro and some of the biggest emerging market currencies sizzling.

In Asia, China stocks ended higher. The blue-chip CSI300 index rose 0.8 per cent to 4,688.48, while the Shanghai Composite Index gained 0.5 per cent to 3,295.68. China's industrial output accelerated the most in eight months in August, while retail sales grew for the first time this year, suggesting the economic recovery is gathering pace.

Ajcon Global's view

As expected the broader market outperformed today and the rally in midcaps and smallcaps is expected to continue on renewed optimism led by new SEBI rules for Multicap Funds in asset allocation. As we have been reiterating several times, that Indian equities are disconnected to ground realities. Exponential rise in COVID-19 cases is extremely worrisome. 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. Meanwhile, clinical trials for the AstraZeneca and Oxford University coronavirus vaccine have resumed after green light from safety watchdogs. The late-stage trials of the experimental vaccine, one of the most advanced in development, were suspended last week after an illness in a study subject in Britain. Billionaire philanthropist Bill Gates has said India's willingness to play a "big role" in manufacturing COVID-19 vaccine and allow it to supply to other developing countries will be a critical part in containing the pandemic globally. The Microsoft co-founder said the world is looking to India for large scale production of COVID-19 vaccine once it is rolled out. "Obviously, all of us want to get a vaccine out in India as fast as we can, once we know that it's very effective and very safe, and so the plans are coming into focus that sometime next year, it's very likely that roll-out will take place and take place in fairly big volume," he said. "The world is also looking to India for some of that capacity to be available to other developing countries. Exactly what that allocation formula looks like will have to be figured out," Gates added. "This is not like a world war, but it's the next biggest thing after that that we've ever had," he said. The Bill and Melinda Gates Foundation, one of the world's largest charities, has been involved in global efforts to contain the pandemic. In India, the foundation has entered into a partnership with the Serum Institute to accelerate the manufacturing and delivery of COVID-19 vaccines.

However, the economy has been stagnating in the COVID-19 era which was evident from the depressing Q1FY21 GDP data. It has to be seen as to how fast economy rebounds from a standstill scenario. 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.

No doubt, the economic activity has picked up but not at the same intensity of Pre – COVID era in different phases of Unlock period but the cashflow situation for MSMEs is still an issue. 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.

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.

In order to continue to ensure orderly market conditions and congenial financial conditions, the following measures were announced by RBI:

1. The Reserve Bank will conduct additional special open market operation involving the simultaneous purchase and sale of Government securities for an aggregate amount of Rs. 20,000 crore in two tranches of Rs. 10,000 crore each. The auctions would be conducted on September 10, 2020 and September 17, 2020. The RBI remains committed to conduct further such operations as warranted by market conditions.

2. The Reserve Bank will conduct term repo operations for an aggregate amount of Rs. 100,000 crore at floating rates (i.e., at the prevailing repo rate) in the middle of September to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing these transactions before maturity. Thus, the banks may reduce their interest liability by returning funds taken at the repo rate prevailing at that time (5.15 per cent) and availing funds at the current repo rate of 4 per cent. Details are being notified separately.

3. Currently, banks are required to maintain 18 per cent of their net demand and time liabilities (NDTL) in SLR securities. The extant limit for investments that can be held in HTM category is 25 per cent of total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR securities within an overall limit of 19.5 per cent of NDTL. SLR securities held in HTM category by major banks amount to around 17.3 per cent of NDTL at present. However, there are inter-bank variations with some banks close to the 19.5 per cent of NDTL limit. Accordingly, it has been decided to allow banks to hold fresh acquisitions of SLR securities acquired from September 1, 2020 under HTM up to an overall limit of 22 per cent of NDTL up to March 31, 2021 which shall be reviewed thereafter. Details are being notified separately.

4. The RBI stands ready to conduct market operations as required through a variety of instruments so as to ensure orderly market functioning.

Earlier, 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, 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 address the concern of poor lending growth in the current crisis of COVID-19, Finance Minister Nirmala Sitharaman told banks in a meeting last week 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.

We maintain our same stance to maintain caution especially for Large caps at present valuations after depressing Q1GDP data and exponential rise in COVID-19. Industrial production shrank by 10.4 percent in July, mainly due to lower output of manufacturing, mining and power generation sectors, official data showed on Friday.

India – China tensions will always remain overhang after Chinese aggression at the LAC. India had earlier banned 118 more apps said to be either based in or linked to China. PUBG Mobile, Alipay, and Baidu are among the biggest names on the list. In June 2020, apps like TikTok, WeChat, and more than 50 other China-based apps in were banned. However, there are some talks happening between the two countries to de – escalate tensions which can provide some relief. Both India and China last week agreed on a five-point plan to resolve the border tensions in eastern Ladakh, and now all eyes will be on the actual disengagement of forces on the Line of Actual Control.

Later this week, the US Federal Reserve will hold its two-day policy meeting where it is expected to hold rates while elaborating on the already-announced shift to inflation targeting. The Bank of Japan and the Bank of England will announce their respective policy decisions on Thursday.

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