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Market wrap **Sep. 16, 2020**

Indian equities end in green; buoyancy in midcaps and smallcaps continue..

Indian benchmark indices ended in the positive territory for the second straight day on Wednesday, thanks to buying in blue-chip counters such as HDFC Bank, Infosys, Mahindra & Mahindra (M&M), and ICICI Bank.

The S&P BSE Sensex gained 258.5 points or 0.66 per cent to settle at 39,303 levels while the Nifty50 index surpassed the 11,600-mark to end at 11,605, up 83 points, or 0.72 per cent. India VIX fell nearly 5 per cent to 19.6 levels.

M&M (up over 4 per cent) ended as the top Sensex gainer, followed by Bajaj Auto (up 3.4 per cent). On the other hand, IndusInd Bank (down nearly 2 per cent) was the biggest loser.

The trend among Nifty sectoral indices was largely positive. The Nifty Pharma index gained over 2 per cent while the Nifty Auto ended over 1.5 per cent higher at 8,156 levels. Nifty Realty index also ended over 2 per cent higher at 226 levels.

In the broader market, the S&P BSE MidCap index ended 0.21 per cent higher at 15,046 levels while the S&P BSE SmallCap index settled at 15,431, up 0.44 per cent.

Sectors and stocks

Shares of JB Chemicals & Pharmaceuticals (JB Chemicals) moved higher by 10 per cent to Rs 985 on Wednesday, thereby surging 19 per cent in the past two trading days after the company reported strong earnings driven by growth in exports, API, and chronic therapies in the domestic market, along with lower sales and marketing costs during the lockdown. The stock was trading at its fresh all-time high level, gaining 25 per cent in past four days. In the past six-months, the stock has soared 82 per cent against 25 per cent rise in the S&P BSE Sensex. JB Chemicals' consolidated net profit for the quarter ended June 2020 (Q1FY20) nearly doubled to Rs 119 crore. The pharmaceutical company had posted a profit of Rs 62 crore in the year-ago period. Sales during the quarter grew 18.4 per cent at Rs 515 crore against Rs 435 crore in the corresponding quarter of the previous fiscal. Operating EBITDA margin expanded by 800 basis points to 30.1 per cent from 22.07 per cent in the year-ago quarter. The management said the strong growth in EBITDA during the quarter was primarily driven by higher growth in the export markets and API business along with an increased share of higher-margin chronic business in the domestic market. Margin expansion was further aided by the weakening of rupee against the US dollar and lower than normal sales and marketing expenses, it adds. Meanwhile, on July 2, 2020, Global investment firm KKR & Co. Inc entered into an agreement to acquire 41.7 million equity shares of JB Chemicals, representing 54 per cent, from the promoters of the company. As part of the deal, KKR acquired the stake from the founding Mody family at Rs. 745 per share.

Shares of automobiles companies were in focus at the bourses on Wednesday, with the Nifty Auto index, the top gainer among sectoral indices, rising 2 per cent on the National Stock Exchange (NSE) on expectation of higher demand in festival season. Among individual stocks, Mahindra & Mahindra (M&M) surged as high as 5 per cent, while TVS Motor Company, Bajaj Auto and Tata Motors up 3 per cent each. Ashok Leyland, Hero MotoCorp and Eicher Motors also gained in the range of 1 per cent to 2 per cent on the NSE. The last four months of 2020 include various auspicious occasions such as Navratri, Dussehra, Diwali, etc. and additionally marks the wedding season. Hence, consumer's discretionary purchases rise in such months. The upcoming festive and wedding season brings hope for the automobiles OEMs and hence August 2020 witnessed a rise in production and domestic wholesales (sales from OEMs to dealers). Domestic wholesales for three - tractors, passenger vehicle and 2-wheeler - of five segments of automobiles noted a positive growth.

Global markets

European equities were mixed at the opening, but then rose, with the Stoxx 600 up around 0.3 per cent, pushed up by gains in retail stocks.The MSCI world equity index, which tracks shares in 49 countries, was up 0.2 per cent at the time of writing of this report, while MSCI's main European Index was up 0.3 per cent.

Ajcon Global's view

Broader markets continue to outperform 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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