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Market wrap **October 16, 2020**

Indian equities inch up led by buying in financials; consumer electronics and steel stocks rally..

Indian equities regained some lost ground on Friday, a day after benchmark indices witnessed a major fall of around 2.5 per cent. The S&P BSE Sensex ended 255 points, or 0.64 per cent higher at 39,983 levels, thanks to healthy buying in the financial counters. NSE's Nifty ended at 11,762 levels, up 82 points, or 0.7 per cent. India VIX declined nearly 2 per cent to 21.64 levels.

In the broader market, the S&P BSE MidCap index gained 1 per cent to 14,621 points while the S&P BSE SmallCap index settled nearly 1 per cent higher at 14,787 levels.

Key developments

Credit rating agency Moody's Investors Service said on Thursday that India's fiscal position "remains very weak". The government's latest fiscal measures, it said, will have a minimal impact on the country's growth prospects and that the government's 'small scale' package is actually a credit negative as it reflects the country's 'limited budgetary firepower to support the economy'. Moody's expects India's GDP to drop 11.5 per cent in 2020-21, so the 0.5 per cent of GDP gain expected by the government from these stimulus measures will provide only 'a small boost', it pointed out.

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 steel companies were in demand on Friday, rallying by up to 6 per cent on the BSE on expectation of demand recovery. JSW Steel advanced 6 per cent to Rs. 308, hitting a fresh 52-week high on the BSE. The stock surpassed its previous high of Rs. 298 touched on October 9, 2020. Tata Steel, Jindal Steel and Power and Steel Authority of India (SAIL), on the other hand, were up 3 per cent to 6 per cent on the BSE. Operational data released by domestic steel companies earlier this month suggested that domestic volume off-take has improved, particularly, for the flat steel segment. Domestic steel producers have ramped up production to optimum capacity utilization.

Shares of consumer electronics companies rallied up to 15 per cent intra-day at the bourses on Friday after the government banned import of air conditioners with refrigerants. Amber Enterprises India rallied by 15 per cent to hit a 52-week high of Rs. 2,300 on the BSE. The company is a market leader in Indian Room Air Conditioner (RAC) industry and air conditioning industry for mobile application such as railways, metros, buses etc. "Currently around 30 per cent of Finished RAC are being Imported in India which is valued at Rs. 4,200 to Rs. 4,500 crore in FY2019. The equal values of components are being imported in India with respect to Room Air Conditioners. Estimating the current industry growth & moderately developed component eco-system currently in India for RAC industry, the Rs. 9,000 crore worth of Imports is expected to reach Rs. 2.5x-3.0x of current levels in FY25E," Amber Enterprises said in investor presentation. Various initiatives under consideration by the government under Atmanirbhar Bharat will help boost the local manufacturing. We believe the component industry eco-system will be created to support domestic manufacturing & reduce dependence on imports, the company said. The China + 1 strategy is firming up, not only in the Indian market but also globally. This has opened up domestic as well as huge export opportunities and we have already started receiving enquiries for manufacturing of RAC & various components from companies across the globe, it said.

IFB Industries, Blue Star, Johnson Controls-Hitachi Air Conditioning India, Voltas and Whirpool of India were up in the range of 2 per cent to 6 per cent on the BSE.

Shares of IDBI Bank were up by 18 per cent to Rs.39.65 on the BSE in the intra-day trade on Friday on the back of heavy volumes. The government currently owns a 47.11 per cent stake in IDBI Bank. In January 2019, Life Insurance Corporation (LIC) completed the acquisition of 51 per cent controlling stake in the lender. The state-owned life insurer infused Rs. 21,624 crore into the bank. Meanwhile, on September 30, ICRA upgraded short-term ratings of IDBI Bank and revised outlook to stable from negative. The ratings remain supported by the majority sovereign ownership of the bank with the demonstrated track record of capital infusion by LIC and the GoI to shore up the bank's capital ratios above the regulatory levels. However, the GoI (47.11 per cent shareholding) has already announced its intention to fully divest its stake in IDBI. Furthermore, the principal shareholder's (LIC) ability to infuse capital is restricted by the regulatory constraints regarding an increase in its shareholding in the bank beyond the current level of 51 per cent. Accordingly, the mode of future capital raising by the bank remains to be seen, ICRA said.

Shares of UPL declined by 9 per cent to Rs. 458.85 on the BSE in the early morning trade on Friday after KPMG resigned as the auditor with effect from October 8 for the company's material arm in Mauritius – UPL Corporation, in order to re-organise the Audit Process to improve productivity, at the request of the company. BSR & Co. LLP is a sub-licensee of KPMG in India. BSR & Co. LLP, Chartered Accountants, who were appointed as Statutory Auditors of the Company for the period of five years at the AGM held on July 8, 2017, contnue to remain the Statutory Auditors of the Company, including for the consolidated financial statements of UPL, India, it said.

Shares of the three recently listed companies – Angel Broking, Chemcon Speciality Chemicals and Happiest Minds Technologies – hit their respective new lows since listing on the bourses in the intra-day deals on Friday. Individually, Chemcon Speciality Chemicals slipped 5 per cent to Rs 398.65 on the BSE today. The stock of the speciality chemicals has slipped 46 per cent from its listing day's high of Rs 743.80 hit on October 1, 2020. The company had made a stellar debut and had listed at Rs 731, a 115 per cent premium against the issue price of Rs 340 per share on the BSE. Chemcon Speciality Chemicals is a manufacturer of specialised chemicals, such as HMDS (hexamethyldisilazane) and CMIC (chloromethyl isopropyl carbonate), which are predominantly used in the pharmaceuticals industry. Further, the company also manufactures inorganic bromides namely Calcium Bromide, Zinc Bromide and Sodium Bromide, which are predominantly used as completion fluids in the oilfields industry. It is the only manufacturer of HMDS in India and is the third-largest manufacturer of HMDS worldwide in terms of production.

Shares of Angel Broking, on the other hand, were down 3 per cent to Rs. 248.55, trading lower for the third straight day. With past three day's decline, the stock of the broking firm has declined by 19 per cent against the issue price of Rs. 306 per share. The company had made a weak debut at the bourses on October 5 and had listed at Rs. 275, a 10 per cent discount against the issue price.

Global markets

Globally, investors sentiments are subdued owing to rising Covid-19 cases across US and EU. Vaccine for the pandemic which is still far away and delay in US stimulus package dimmed recovery hopes.

However, European equities bounced back after being under pressure. To deal with second wave of COVID-19 cases, French President Emmanuel Macron on Wednesday declared a public health state of emergency and said that nine of the country's largest cities, including Paris, will have to abide by a curfew from 9 pm to 6 am, starting Saturday for four weeks. Besides, German Chancellor Angela Markel has given states free-hand to decide their own strategy to curb rising cases.

Germany's 10-year bond yield was set for its biggest weekly drop since August as doubts grew about the economic recovery in the euro zone.

Ajcon Global's view

Indian equities managed to regain some lost ground after blood bath yesterday at Dalal Street. We main our stance to be cautious as Indian equities are running ahead of fundamentals led by FPI liquidity. The on ground economic reality is not so good both from consumer and corporates side. The rally in Indian equities has painted a good picture which is not a reality. Our conviction on the same has been proved after Rating agencies and RBI forecasting a high negative GDP growth with recovery only in FY22 onwards.

Before the fall yesterday, buying was witnessed in some sectors on hopes that the upcoming festive season would be beneficial for some sectors. 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.

Further fall will make markets healthy for fresh entry as Indian equities were in overbought zone for quite sometime. 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)

CIN:L74140MH1986PLC041941

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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