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Market wrap **August 17, 2020**

Domestic bourses bounceback amidst being range bound; Infrastructure and Auto stocks rally..
Indian equities ended in positive terrain after being rangebound for the most part of the session with sharp upmove in the last hour of the trade. At the close, the S&P BSE Sensex stood at 38,050.78 levels, up 173 points or 0.46 per cent while NSE's Nifty added 69 points or 0.61 per cent to end at 11,247.

NTPC, Maruti, Larsen & Toubro (L&T), and HUL were among the major contributors to the Sensex's gain while Reliance Industries (RIL), and Bharti Airtel were the top drags. Of 30 constituents, 24 advanced while the rest 6 declined.

Volatility index, India VIX, declined 1.68 per cent to 21.31 levels.

Crude oil
Crude oil prices were steady on reports that China planned to ship large volumes of US crude in August and September countered rising tensions between the two countries and a delay in the review of their trade pact over the weekend.

Sectors and stocks
Shares of infrastructure stocks such as Larsen & Toubro (L&T), NCC, Ashoka Buildcon, among others traded in the green on Monday after the Prime Minister Narendra Modi, in his Independence Day speech on Saturday, unveiled plans for a push to the infrastructure sector. The goal, he said, is to make India a global manufacturing hub. While a Rs 110 trillion pipeline of national infrastructure projects is being created to boost the economy and create jobs, nearly 7,000 projects in different sectors had been identified. In a way, it will be like a new revolution in infrastructure, the Prime Minister said.

Shares of Glenmark Pharmaceuticals rose as high as 7 per cent to Rs. 508.50 on the BSE after the company posted an over two-fold increase in consolidated net profit at Rs. 254.04 crore for the quarter ended June 2020 (Q1FY21). Consolidated revenue stood at Rs. 2,344.78 crore for the first quarter, as compared to Rs 2,322.87 crore in the year-ago period, Glenmark Pharmaceuticals said in a regulatory filing. Other income for the quarter rose to Rs 58.5 crore from Rs 1.7 crore. On the operational front, Glenmark Pharma's EBITDA rose 39.8 per cent YoY while margins rose to 20.4 per cent from 14.7 per cent last year."It has been a challenging quarter across all markets due to the ongoing pandemic. Despite the difficult operating environment, we managed to record sales growth for the organisation. We focussed on controlling costs on all fronts and will continue with these efforts for the remaining part of the financial year," Glenmark Pharmaceuticals Chairman and MD Glenn Saldanha said. The company was the first entity in the country to launch Favipiravir for the treatment of mild to moderate Covid-19, he said. The company's formulation sales in the domestic market during the first quarter rose to Rs. 779.89 crore from Rs. 752.21 crore in the same period of previous fiscal, up 3.68 per cent. Further, US-based Glenmark Pharmaceuticals Inc reported revenue of Rs 742.64 crore for the first quarter as against Rs 730.89 crore in the year-ago period. The stock, however, pared its gains later and ended over 1 per cent up at Rs. 480.90.

Sun TV ended around 6.5 per cent higher at Rs 425.85 on the BSE after the company shared a healthy subscription outlook going forward and said that revenues were already close to 75 per cent of the pre-Covid levels.

NTPC ended nearly 8 per cent higher at Rs 95.40 after the company's profit before exceptional item and tax rose 16.10 per cent to Rs 4,280 crore.

Global markets
Shares inched toward recent peaks on Monday as Chinese markets swung higher, while investors waited to see if the recent sell-off in longer-dated US Treasuries would be extended and perhaps take some pressure off the dollar.

Chinese blue chips led the way with gains of 2.35 per cent, as the country's central bank provided more medium term loans to the financial system. China also granted a patent for CanSino Biologics Covid-19 vaccine candidate Ad5-nCOV.

Japan’s Nikkei fell by 0.6 per cent as Japan became the latest country to confirm its biggest economic contraction on record.

Ajcon Global’s view
We believe cooling of Indian equities will be healthy for investors as the sharp rally in lockdown period and different phases of Unlock was led by liquidity through FPIs. Last 2 months 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 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, 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 will recommend financial parameters factored in the resolution plans, along with sector specific benchmark ranges. The Expert Committee will 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. 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.

No doubt, the economic activity has picked up in different phases of Unlock period but the cashflow situation for MSMEs is still tough. 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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