AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **August 18, 2020**

Indian equities rally; Midcaps and smallcaps outperform..
Rally was witnessed across the board with benchmark indices ending in green with over a per cent gains on Tuesday. The S&P BSE Sensex was up by 478 points or 1.26 per cent to settle at 38,528 levels while NSE's Nifty closed the session at 11,385 levels, up 138 points or 1.23 per cent.

HDFC Bank, Reliance Industries(RIL), ICICI Bank, and Infosys contributed the most to the Sensex's gains. UltraTech Cement (up over 3 per cent) was the top gainer on the index while Tech Mahindra (down over 1 per cent) was the biggest loser.

In the broader market, the S&P BSE MidCap index gained over 1 per cent to 14,656.68 levels while the S&P BSE SmallCap index gained 1.3 per cent to 14,154 points.

Sectorally, the S&P BSE Realty index rose 4 percent, followed by the S&P BSE Bankex which was up 2.1 percent, and the S&P BSE Finance index closed with gains of 1.8 percent.

India VIX declined over 4 per cent to 20.43 levels.

Crude oil

Crude oil prices were steady as production cuts from members of the OPEC+ producer group restricted the downfall.

Key development

Fitch Ratings expects India's electricity demand to drop by 4% during the financial year ending March 2021. The fall in demand is likely to result in lower load factors, mainly for coal-based power plants. The weak demand, along with higher coal inventory, led to India's coal imports falling by 22% yoy in 1H20. The Rating agency expects credit profiles of state-owned distribution companies (discoms) to worsen further against weak demand from high-paying industrial customers, due to the economic slowdown. The central government's recent Rs. 900 billion liquidity facility for discoms should help them pay the huge outstanding amount owed to generation and transmission companies.

Sectors and stocks

Shares of SBI Cards and Payment Services hit fresh 52-week high, up 1.4 per cent, at Rs. 815 on the BSE on Tuesday after the State Bank of India subsidiary raised Rs. 500 crore via debt instruments. "The company has approved the allotment of 5,000 Fixed Rate, Unsecured, Rated, Taxable, Redeemable, Senior, Non-Convertible Debentures ("NCDs") of the face value of Rs. 1,000,000 each, at par, under Series 21, aggregating to Rs. 500 crores on private placement basis," it said in a regulatory filing. The debentures offer coupon rate of 5.75 per cent and will mature on November 17, 2023, it added. For June quarter of FY21, SBI Cards had posted a 13.80 per cent year-on-year (YoY) growth in net profit at Rs. 393.29 crore for the quarter ended June 30. It had posted a net profit of Rs. 345.59 crore in the corresponding quarter last year. Besides, total revenue from operation increased 4 per cent YoY to Rs. 2,152.20 crore during the quarter under review as against Rs. 2,068.28 crore in the corresponding quarter last year.

Shares of consumer durable companies, including household appliance manufacturers, witnessed sharp rally on Tuesday. The S&P BSE Consumer Durables index surged as much as 2.23 per cent during the trade. Among individual stocks, Butterfly Gandhimathi Appliances was up by 15 per cent to Rs. 157.90 on the BSE during the day. Other stocks that were trading with decent gains included Crompton Greaves Consumer Electricals (up over 4 per cent), Voltas (up over 2 per cent), VIP Industries (up 3 per cent), and Blue Star (up nearly 2 per cent).

Shares of PNB Housing Finance were up by 11.7 per cent to Rs. 268.85 on the BSE on Tuesday as the company's board is set to meet tomorrow to consider fund raising. The housing financier, promoted by Punjab National Bank, had, on August 14, 2020, announced that its board will meet on August 19 (Wednesday) to consider fund raising. " A meeting of the Board of Directors of PNB Housing Finance Limited (the "Company") is scheduled to be held on Wednesday, August 19, 2020 to consider fund raising by the Company, and the mode thereof, by issue of Equity Shares and/or other securities through any permissible modes, as may be considered appropriate, subject to such approvals as may be required," the company had said to exchanges in a filing. Meanwhile, Punjab National Bank had, on July 31, announced that it will infuse up to Rs. 600 crore in PNB Housing Finance through preferential issue/rights issue etc. subject to regulatory approval as and when PNB

Housing Finance decides to raise capital. For the June quarter of 2020-21 (FY21), PNB Housing Finance reported a consolidated net profit of Rs. 257.18 crore, down 9.6 per cent year-on-year (YoY), mainly due to lower disbursement amid Covid-19 pandemic. The company's net interest income also slipped 22 per cent YoY to Rs. 487.8 crore during the quarter, as against Rs. 625.5 crore in the year-ago period, it said in a regulatory filing. Total revenue from operations declined 16.1 per cent YoY to Rs. 1,872.33 crore. Total borrowings stood at Rs. 67,283 crore as on June 30, 2020 compared to Rs. 72,261 crore a year ago, registering a decline of 7 per cent during the period. However, the deposit portfolio grew by 5 per cent to Rs. 16,203 crore during the quarter as against Rs. 15,446 crore with expanding retail penetration, PNB Housing said. Its total assigned loans outstanding as on June 30, 2020 stood at Rs. 15,486 crore. PNB Housing's loan assets shrank by 10 per cent to Rs. 68,009 crore at end of June 2020 from Rs. 75,933 crore in June 2019. The disbursements were hit hard by lockdown and economic slowdown during the quarter. HFC disbursed loans worth Rs. 694 crore during Q1 FY20-21 compared to Rs. 7,634 crore during Q1 FY19-20. The disbursements, however, registered an increase on a month on month basis. Retail disbursements were at Rs. 674 crore and Corporate disbursements at Rs. 20 crore during Q1 FY20-21.

The Assets under Management (AUM) stood at Rs. 83,495 crore in June 2020 as compared to Rs. 88,333 crore in June 2019. The Capital Adequacy Ratio (CAR) stood at 18.05 per cent as on at end of June 2020 (15.13 per cent in Q1FY20).

Global markets

European shares slipped on Tuesday as simmering political tensions between the United States and China escalated, while concerns over a deadlock on further US fiscal stimulus drove the dollar towards a two-year low against its rivals.

US stock futures were down 0.2 per cent, pointing to a weaker start on Wall Street and inching back slightly after tech stocks had pushed sister index the Nasdaq to a record high on Monday.

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.

AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Disclaimer

Ajcon Global Services Limited is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Limited research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Limited is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Limited or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and within five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Limited or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Limited and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Limited While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Limited is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Limited from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Limited will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Limited accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Limited or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Limited encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Limited or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Limited nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Limited or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Limited may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Limited have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Limited by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN:L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

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