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Market wrap **August 19, 2020**

Benchmark indices end in green; Infrastructure stocks rally..
The benchmark indices ended in the positive territory for the third consecutive session on Wednesday, led by buying in Reliance Industries (RIL), HDFC Bank, ICICI Bank, and Bharti Airtel.

The S&P BSE Sensex ended at 38,615 levels, up 86 points, or 0.22 per cent with Tech Mahindra (up around 2 per cent) being the top gainer and Bajaj Auto (down over 1 per cent) the biggest loser. NSE's Nifty ended at 11,408, up 23 points or 0.20 per cent.

The sectoral trend on the NSE was mostly positive. Nifty Media rallied the most- up over 5 per cent to 1,550.50 levels. Nifty PSU Bank gained over 2 per cent to 1,462.45 points. On the other hand, Nifty FMCG slipped 0.44 per cent to 31,586.05 points.

In the broader market, the S&P BSE MidCap index ended at 14,741.42, up 0.6 per cent while the S&P BSE SmallCap index gained over 1 per cent to 14,318 levels.

India VIX, the volatility gauge, dropped another 2 per cent to 19.96 levels.

Crude oil

Crude oil prices eased on concerns that US fuel demand may not recover as quickly as expected amid stalled talks on an economic stimulus package, overshadowing a bigger-than-expected drawdown in US crude stocks.

Key development

The World Bank on Wednesday said that it is likely to project a steeper contraction of India's economy than 3.2 per cent it has forecast for the current financial year due to the increasing number of Covid-19 cases and the resultant regional lockdowns. It cautioned India against using its tariff policy to attract the firms wanting to shift from China.

In its report on India Development Update, 2020, the Bank also warned that credit risks play out as firms and households find it more difficult to service their interest and repayment obligations in a slowing economy. It suggested full privatisation of some public sector banks and private capital injections in some others once market conditions improve.

"In our revised projections, which would be available in October 2020, we would likely project a steeper contraction in the economy," the Bank said.

It said by that time new information will be incorporated, especially as the daily number of coronavirus cases continues to increase resulting in several states and districts re-imposing lockdowns; and available high frequency indicators show that the economy has not yet reverted to baseline.

On credit risks, the World Bank said collateral values could decline, and non-banking finance companies (NBFCs) would be particularly vulnerable since they lend to sectors susceptible to economic and asset price cycles -personal, auto, housing, real estate loans. Banks may need to make higher provisioning, and additional infusions of capital which would be hard to mobilize under a situation of fiscal stress, and subdued valuations in financial markets. There is a concern regarding liquidity challenges turning into solvency challenges. The Bank projected the Centre's fiscal deficit to increase to 6.6 per cent of GDP during 2020-21 and remain at a high of 5.5 per cent in the following year. "Assuming that, the states' deficit is contained within 3.5-4.5 per cent of GDP, the deficit of the general government may rise to around 11 per cent in FY20/21," it said. While there is a significant level of uncertainty around the projections, the general government debt-to-GDP ratio is projected to peak at around 89 percent in 2022-23 before gradually declining thereafter. In alternative scenarios, the deficit and debt numbers may turn out to be even higher, it said.

Sectors and stocks

Most industrial stocks were trading in the positive territory on Wednesday with the S&P BSE Industrial index advancing over 1 per cent to 2,628.30 levels. Among individual stocks, IRB Infrastructure Developers was up by nearly 17 per cent to hit a 52-week high of Rs. 138.80 on the BSE during the day after the company informed it has received unanimous Arbitral award of Rs. 73.86 crore for one of its earlier projects in Punjab. Other stocks that were buzzing in the trade were Texmaco

Rail (up 11 per cent), Capacite Infraprojects (up around 10 per cent), Adani Enterprises (up over 8 per cent), Dilip Buildcon (up 8.5 per cent), NCC (up 7.5 per cent), and Uflex up nearly 8 per cent).

Shares of Dilip Buildcon was up by 10 per cent to Rs. 418.05 on the BSE after the company announced that its Joint Venture with Hindustan Construction Company (HCC) has received a letter of acceptance (LoA) from Rail Vikas Nigam Limited for a new project worth Rs. 1,334.95 crore in Uttarakhand. The stock ended at Rs. 405.20, up over 6.5 per cent.

CSB Bank rallied by 14.4 per cent to Rs. 227.85 on the BSE after the bank's net profit grew 174.1 per cent on a yearly basis to Rs. 53.56 crore in June quarter of FY21, as against Rs. 19.54 crore in Q1FY20. In the March quarter of FY20, the bank had incurred net loss of Rs. 59.68 crore. The stock settled at Rs. 225.45, up over 13 per cent.

Global markets

European equities were up on Wednesday as a record high for US stocks outweighed simmering worries over a resurgence in coronavirus cases that could undermine a nascent recovery. The broad Euro STOXX 600 gained 0.1 per cent in choppy trading, with indexes from Frankfurt to London making slim gains.

MSCI's broadest index of Asia-Pacific shares outside of Japan fell 0.2 per cent, after initial support from an S&P 500's charge to a record high powered by looser policy and charging tech stocks.

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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