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Market wrap **October 19, 2020**

Domestic bourses rally on improved sentiments led by festive season; Private Banks, PSU Banks and metal stocks rally..

The Indian benchmark indices ended around one per cent higher on Monday on the back of gains in financial and FMCG stocks. Positive global cues also boosted investor sentiment.

Among headline indices, the S&P BSE Sensex was up by 449 points, or 1 per cent higher at 40,432 levels and the Nifty50 index topped the 11,850-mark to settle at 11,873, up 111 points, or 0.94 per cent. ICICI Bank (up 5 per cent) ended as the biggest gainer on Sensex while Bajaj Auto (down nearly 2 per cent) was the biggest loser.

In the broader market, the S&P BSE MidCap index ended at 14,706, up 0.58 per cent while the S&P BSE SmallCap index ended at 14,851, up 0.43 per cent.

Key developments
Last week on Thursday, Credit rating agency Moody's Investors Service said 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 last week had 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.

Sectors and stocks
Banking stocks were in focus at the bourses on Monday, after two private sector banks - HDFC Bank and Federal Bank - reported a healthy operational performance for July-September 2020 quarter of the current fiscal (Q2FY21). Among PSU Banks, Central Bank was up by 9.99 percent and Bank of Baroda was up by 8.05 percent.

Shares of Amber Enterprises India have rallied by 17 per cent to Rs. 2,545 on the BSE on Monday, rallying by 28 per cent in two days after the government banned the import of air conditioners with refrigerants. The consumer electronics company's stock was trading at its fresh record high level. The government on Thursday banned imports of air conditioners with refrigerants with a view to promote domestic manufacturing and cut imports of non essential items. Amber Enterprises is the market leader in Indian Room Air Conditioner (RAC) industry and air conditioning industry for mobile application such as

railways, metros, buses etc. Currently, India imports around 1.6 million units (Rs. 3,500 crore) of finished RAC that is 22 per cent of total volume sold in India in FY20.

Shares of Cosmo Films were up by 9 per cent to Rs. 468 on the BSE on Monday after the company announced a share buyback plan. "A meeting of board of directors of the Company is scheduled to be held on Monday, October 26, 2020 to consider the proposal for buy-back of equity shares of the Company and other matters necessary/incidental thereto," Cosmo Films said in a exchange filing today. The stock of container and packaging company has rallied 17 per cent in the past seven trading days. It hit a record high of Rs. 491 on August 20, 2020. Cosmo Films is a global leader in speciality films for packaging, lamination, labeling and synthetic paper.

Shares of Bharti Airtel were under pressure on Monday, hitting a seven-month low of Rs. 394 on the BSE, in an otherwise weak market. The stock of the telecom services provider declined by 2 per cent in the intra-day trade and was trading at its lowest level since March 19, 2020. In the past one month, the stock has declined by 20 per cent, as compared to 3.8 per cent rise in the S&P BSE Sensex. Notably, Bharti Airtel's share price has declined sharply, by around 30 per cent, since the Adjusted Gross Revenue (AGR) verdict on September 1, 2020.

Global markets

Globally, European equities rallied on Monday as rising hopes of a coronavirus vaccine by the end of the year and a US fiscal package before elections offset concern over record daily infections in the region. To deal with second wave of COVID-19 cases, French President Emmanuel Macron last week 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 last Saturday for four weeks. Earlier, German Chancellor Angela Markel has given states free-hand to decide their own strategy to curb rising cases.

Ajcon Global's view

We maintain our stance to be cautious as Indian equities are running ahead of fundamentals led by FPI liquidity and improved sentiments led by pent up demand after lockdown. The on ground economic reality is not so good both from consumer and corporates side except improvement in sentiments led by optimism owing to gradual opening of the economy. The rally in Indian equities has painted a very good picture which is not a reality as it has started picking momentum from a standstill scenario. 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.

Earlier, before the fall during the week, 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 an 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 phases 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.

There is a strong pipeline of IPOs in the coming days. We believe there would be mad rush for the upcoming IPOs after the 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 some time. Going forward, all eyes would be on Q2FY21 earnings season, festive season sales, COVID-19 related developments and US elections.

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