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Market wrap **October 20, 2020**

IT stocks rally; Indian benchmark indices end in green..

The benchmark indices ended in the green for the third straight session on Tuesday, led by gains in HDFC Bank, and information technology (IT) stocks. The S&P BSE Sensex was up by 113 points, or 0.28 per cent higher at 40,544 levels and the Nifty50 gained 24 points, or 0.2 per cent at 11,897 levels.

HCL Tech (up 4 per cent), Tech Mahindra (up 3 per cent), and Asian Paints (up over 2 per cent) were the top Sensex gainers.

Among Nifty sectoral indices, Nifty IT gained nearly 1.5 per cent while Nifty PSU Bank slipped around 1.5 per cent.

In the broader market, the S&P BSE MidCap index ended 0.47 per cent higher at 14,775 levels while the S&P BSE SmallCap index ended at 14,896, up 0.3 per cent.

India VIX rallied 4 per cent to 22.69 levels.

Key developments

In his address to the nation, Prime Minister Narendra Modi warned people against complacency in fighting COVID-19 ahead of festival season. In the speech that lasted 12 minutes, the PM said that the lockdown may be over, but the virus persisted in India. This was PM Modi's seventh such address to the nation since the beginning of the novel coronavirus pandemic besides promising vaccine for every citizen once it is available. This latest address was on on a day India reported around 46,700 new COVID-19 cases – the lowest single-day rise in nearly three months. New coronavirus infections in the country have fallen significantly and consistently since the end of September. Experts have warned that infections could rise in India as the holiday season nears, with celebrations for the Hindu festivals of Durga Puja and Diwali due this month and in mid-November, respectively.

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

Shares of Just Dial rallied 14 per cent to Rs. 574 on the BSE on Tuesday, on the back of heavy volumes. The stock was trading higher for the fourth straight day, surging 40 per cent during the period. In the past 17 trading days (since September 25), the market price of Just Dial has rallied by 67 per cent after its promoter & director, Anita Mani acquired more than 1 per cent stake in the company through open market. Between September 25 and September 30, 2020, Anita Mani purchased 679,677 equity shares of Just Dial for Rs. 25.33 crore, according to disclosure made by the company to the stock exchange. The names of sellers were not ascertained immediately. Anita Mani bought these shares at an average price of Rs. 373 per share. Post acquisition, her holding in Just Dial has increased to 3.12 per cent from 2.02 per cent, data shows. The company provides local search related services to users in India through multiple platforms such as Desktop/ PC website, mobile site, mobile apps, over the telephone and text (SMS). The latest version of its JD App, is an All-in-one App, replete with features like Map-aided Search, Live TV, Videos, News, Stock quotes, etc "to make the life of the consumer infinitely smoother and more engaging". For April-June quarter (Q1FY21), Just Dial reported 32.4 per cent year on year (YoY) decline in its total operating revenue at Rs. 162 crore on account of lockdown imposed by the Government owing to Covid-19. However, net profit grew 45.5 per cent YoY at Rs. 83 crore, due to higher other income of Rs 76.9 crore aided by MTM gains on investment portfolio due to decline in bond yields.

Shares of cement companies were in focus at the bourses on Tuesday, gaining up to 4 per cent, after ACC managed to improve its sales volumes to pre-Covid levels along with expansion in margins during the July-September quarter (Q3CY20) despite localised lockdowns and monsoon impact. ACC's revenues for Q3CY20 grew 0.3 per cent year on year (YoY) to Rs. 3,537 crore. Net profit increased 20.3 per cent to Rs 364 crore over the previous year quarter. EBITDA margins for the quarter improved 328 bps YoY to 19 per cent. Efficiency and cost reduction drives EBITDA margin during the quarter, the company said. The management said that "despite Covid-19 headwinds, Indian economy is witnessing early signs of recovery. At ACC, this recovery has been reflected in our Q3 results where our volumes and sales have bounced back to prior year levels". "Our efficiency and cost reduction plans have helped drive significant margin expansion during the quarter. We continue to manage working capital effectively resulting in healthy cash flow delivery," it said. Recovery in cement demand in the North, Central and East regions surprised positively after the easing of lockdown norms, though demand remained under pressure in the South and West regions. The demand recovery in the beginning was led by strong rural demand, though infrastructure demand too has started improving recently.

Global markets

Globally, European equities recovered from early losses on Friday, following a bearish Asian session where investors adjusted their risk exposure before the US elections two weeks away. Record Covid-19 cases in Europe also weighed on sentiment.

MSCI world equity index, which tracks shares in 49 countries, slipped as much as 0.2 per cent.

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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