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Market wrap **October 21, 2020**

Profit booking witnessed amidst high volatility; metal stocks rally..

Indian equities witnessed profit booking after a good start. The S&P BSE Sensex and Nifty 50 touched an intra-day low of 40,150.48 levels and 11,775.75 levels, respectively. Both these indices had hit an intra-day high of 40,976.02 and 12,018.65, respectively on Wednesday.

Metal and realty stocks led from the front in trade on Wednesday - a day that was marked with volatility.

At close, the benchmark indices settled higher for the fourth consecutive session. The S&P BSE Sensex was at 40,707 levels, up 163 points or 0.4 per cent with PowerGrid, Bharti Airtel, and Tata Steel ending the day as top gainers on the 30-share index. IT counters such as TCS and HCL, on the other hand, ended as top drags.

NSE's Nifty50, on the other hand, ended at 11,938 levels, up 41 points or 0.38 per cent.

India VIX ended nearly a per cent higher at 22.92 levels.

Key developments
SEBI chairman Ajay Tyagi today said that it sees no merit in increasing the 10 per cent investment cap on a single stock for actively-managed mutual fund (MF) schemes. “The 10 per cent cap is meant for diversification cap. Just because some scrip is outperforming doesn’t mean you raise the ceiling. For the sake of diversification, the 10 per cent ceiling is something which stays,” said Ajay Tyagi, chairman, Sebi while addressing the media at a market summit organized by industry body CII.

Union Minister Prakash Javadekar said, "Union Cabinet has approved productivity linked bonus and non-productivity linked Bonus for 2019-2020. Over 30 lakh non-gazetted employees will benefit by this and total financial implication will be Rs. 3,737 crores."

In his address to the nation yesterday, 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.

Sectors and stocks
Shares of metal companies were trading higher at the bourses on Wednesday on expectation of higher demand due to recovery in global economic activity, and China's infrastructure spends. That apart, domestic steel demand improved notably in July-September quarter (Q2FY21) compared to April-June quarter (Q1FY21) with the opening up of the economy. This has aided capacity utilisation of domestic steel players. Individually, Jindal Steel and Power and Tata Steel were up 4 per cent, while Hindalco, Vedanta, Steel Authority of India (SAIL), NMDC, Coal India and JSW Steel were up in the range of 2 per cent to 3 per cent on the National Stock Exchange (NSE). The base metal prices on the London Metal Exchange (LME) have sharply rebounded from April lows. Prices of base metals - copper, aluminium, lead, zinc and nickel exceeds prepandemic levels (March 2020) owing to rising demand, particularly from China and weaker US dollar. The prices have rallied in recent months mainly due to a pick-up in Chinese demand even as recovery in the rest of the world remains weak. China, which produces and consumes roughly half of the world's industrial metals, recovered from the pandemic much earlier than other countries. "After contracting in March 2020 quarter China's economy registered 3.2 per cent growth in the June 2020 quarter from a year-earlier while all other major economies reported contraction. China's industrial output growth accelerated to 5.8 per cent in September 2020 when compared to a year earlier, hinting at strong underlying demand," CARE Ratings said in sector report. Over the next 6 months, prices may remain firm at the current levels as demand recovery in China and the rest of the world continues to gather pace. Increase in raw materials prices may push

prices upwards. An anticipated infrastructure development-led stimulus package by some of the other large economies like US, UK and India may spur demand for industrial metals and rally in metal prices," the rating agency added. However, slower than expected recovery in the rest of world, delay in vaccine for Covid-19, health and economic concern, escalation of US-China trade tensions are considerable headwinds for base metals. The resurgence or a second wave of Coronavirus in China could lead to fall in all base metal prices, it said.

Shares of UltraTech Cement were up by 2 per cent to Rs. 4,636 on the BSE on Wednesday, after the company reported robust operating margins at 27 per cent in July-September quarter (Q2FY21), driven by both revenue growth and cost management. UltraTech's consolidated net profit more than doubled at Rs. 1,234 crore in Q2FY21, as against Rs. 579 crore in Q2FY20. Net sales however, grew a modest 1 per cent to Rs. 10,231 crore from Rs. 9,486 crore in the corresponding quarter of the previous fiscal. EBITDA margin improved to 27.7 per cent from 21.8 per cent. EBITDA/tonne improved 30 per cent year on year due to benefit of cost rationalisation initiatives taken by the company in the previous quarter. Street participants expected EBITDA/tonne to improved 23.5 per cent YoY during the quarter. "The Company's strong quarterly performance is on the back of operational efficiencies and its ability to serve all India markets. For the second quarter in a row, the Company has reduced net debt substantially," UltraTech Cement said in a press release. "Going forward, the Company's capital and financial resources remain entirely protected and its liquidity position is adequately covered. UltraTech expects demand for cement to grow on the back of Governments thrust on infrastructure and the expanding rural economy. The recent policy measures announced by the Reserve Bank of India to support the real estate sector will also aid demand," it said.nvn Tuesday, ACC was up by 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

Global equities and bond yields rose on Wednesday as US moved closer to agreeing a coronavirus stimulus package, pinning the dollar at its lowest for a month.

The MSCI world equity index, which follows shares in nearly 50 countries, gained 0.1 per cent, buoyed by a 0.5 per cent gain for Asia-Pacific shares outside Japan.

Earlier, 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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