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Market wrap

Sep. 23, 2020

Domestic bourses end flat; telecom stocks decline..

The domestic bourses ended Wednesday's volatile session on a flat note ahead of the monthly derivative contracts expiry due tomorrow.

The S&P BSE Sensex declined by 0.17 percent or 66 points at 37,668 levels. The index had hit an intra-day high and low of 38,140 and 37,313.09, respectively. The broader Nifty50 index, meanwhile, settled above 11,100 levels at 11,132, down 22 points, or 0.2 per cent.

Bharti Airtel declined by nearly 8 per cent and was the top Sensex loser, followed by Tata Steel and IndusInd Bank (both down over 3 per cent). On the other hand, Axis Bank (up nearly 2 per cent) ended as the top gainer on the index.

In the broader market, the S&P BSE MidCap index fell 0.33 per cent to 14,238 levels and the S&P BSE SmallCap index settled 0.07 per cent lower at 14,500 levels.

Among sectoral indices on the NSE, Nifty Media declined the most - down 2.47 per cent to 1,481.50 levels. Nifty Pharma slipped 1.6 per cent to 11,686 levels and Nifty PSU Bank index dipped 1.5 per cent to 1,290 levels. On the other hand, Nifty Realty gained 0.79 per cent to 212 levels.

Sectors and stocks

Shares of Reliance Industries (RIL) settled around 1 per cent higher at Rs. 2,229.5 on the BSE after the company announced that global investment firm KKR will invest Rs 5,500 crore in Reliance Retail for 1.28 per cent equity share.

Shares of Route Mobile rallied by 18 per cent to Rs. 818 on the BSE in the intra-day trade on Wednesday after making a stellar debut earlier this week. On Monday, the stock made a strong debut and ended at Rs. 650, clocking a gain of 86 per cent against the issue price of Rs. 350 per share. With today's rally, the stock has rallied by 134 per cent against the issue price. A chunk of foreign portfolio investors (FPIs) like Goldman Sachs and Kuwait Investment Authority acquired shares worth of Rs. 210 crore of the company on its debut. Goldman Sachs India Fund Limited, Goldman Sachs Trust Emerging Markets Equity Fund and GS FDS Sicav GS Global Emg Mkts EQ Portfolio bought a combined 2.41 million equity shares worth of Rs. 170 crore. These investors purchased shares at price of Rs. 705.95 per share on the NSE on bulk deal, data show. Meanwhile, Kuwait Investment Authority A/C Kuwait Investment Auth FD 225 lapped up 578,504 shares of Route Mobile at Rs. 697.25 per share, data show. Route Mobile is a leading Cloud Communication Platform provider, catering to enterprises, over-the-top (OTT) players and mobile network operators (MNO). The company's product portfolio includes smart solutions in messaging, voice, email, and SMS filtering, analytics and monetisation. "The impact of Covid-19, unlike in many other industries, has been extremely positive for the digital marketing and digital communication industry. Digital communication roadmaps which enterprises originally planned to implement over a few years timeframe, were accelerated, and implemented over a period of weeks, to ensure that enterprises continue to engage and interact with their consumers," Route Mobile said in its FY2019-20 annual report. Digital transformation projects were accelerated by practically all large enterprises across the globe, and significant investments have already been made to ensure customer retention and engagement through this challenging phase. In certain surveys conducted across industry segments, results indicate that over 97 per cent of enterprises have sped up their digital transformation projects, and accelerated their digital communication strategy by almost 6 years, it said.

Telecom stocks were under pressure since morning after Reliance Jio launched a range of postpaid plans. The share price of Bharti Airtel was down over 8 percent while Vodafone Idea was down by 9.07 percent.

Global markets

Global equities stabilised and the dollar rose on Wednesday after US stocks gained in overnight trade led by tech shares. The rally in US shares helped balance concerns that new restrictions to counter resurging coronavirus infections will hurt economic recovery.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.2 per cent for its first gain this week, but the mood was hardly bullish. Japan's Nikkei returned from a two-day holiday to slip 0.1 per cent.

European equities, too, gained better-than-expected euro zone manufacturing data. The pan-European STOXX 600 rose 1.3 per cent, with Germany's DAX, London's FTSE 100 and France's CAC 40 gaining between 1.6 per cent and 2 per cent.



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Ajcon Global's view

In current markets we are witnessing rally in companies whose business model is suited to meet requirements in COVID-19 era and is least impacted or rather beneficiary of it. The rally in Reliance Industries, Pharma, FMCG, IT and recent stellar listing of IPOs proves this ideology. However, Indian equities as a whole are likely to be under pressure. We have been reiterating several times, that Indian equities were disconnected to ground realities and were rallying on global liquidity. The ongoing correction will make markets healthy for investors. Exponential rise in COVID-19 cases is now taking a toll on investors' sentiments. As Indian economy has opened up partially and with 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. Meanwhile, clinical trials for the AstraZeneca and Oxford University coronavirus vaccine have resumed after green light from safety watchdogs. The late-stage trials of the experimental vaccine, one of the most advanced in development, were suspended last week after an illness in a study subject in Britain. Billionaire philanthropist Bill Gates has said India's willingness to play a "big role" in manufacturing COVID-19 vaccine and allow it to supply to other developing countries will be a critical part in containing the pandemic globally. The Microsoft co-founder said the world is looking to India for large scale production of COVID-19 vaccine once it is rolled out. "Obviously, all of us want to get a vaccine out in India as fast as we can, once we know that it's very effective and very safe, and so the plans are coming into focus that sometime next year, it's very likely that roll-out will take place and take place in fairly big volume," he said. "The world is also looking to India for some of that capacity to be available to other developing countries. Exactly what that allocation formula looks like will have to be figured out," Gates added. "This is not like a world war, but it's the next biggest thing after that that we've ever had," he said. The Bill and Melinda Gates Foundation, one of the world's largest charities, has been involved in global efforts to contain the pandemic. In India, the foundation has entered into a partnership with the Serum Institute to accelerate the manufacturing and delivery of COVID-19 vaccines.

However, the economy has been stagnating in the COVID-19 era which was evident from the depressing Q1FY21 GDP data. It has to be seen as to how fast economy rebounds from a standstill scenario. There are still supply chain bottlenecks, slump in demand, 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.

No doubt, the economic activity has picked up but not at the same intensity of Pre – COVID era in different phases of Unlock period but the cashflow situation for MSMEs is still an issue. 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.

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. RBI has acknowledged the difficulties faced by the economy and is constantly bringing in new measures.

In order to continue to ensure orderly market conditions and congenial financial conditions, the following measures were announced by RBI:

1. The Reserve Bank will conduct additional special open market operation involving the simultaneous purchase and sale of Government securities for an aggregate amount of Rs. 20,000 crore in two tranches of Rs. 10,000 crore each. The auctions would be conducted on September 10, 2020 and September 17, 2020. The RBI remains committed to conduct further such operations as warranted by market conditions.
2. The Reserve Bank will conduct term repo operations for an aggregate amount of Rs. 100,000 crore at floating rates (i.e., at the prevailing repo rate) in the middle of September to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing these transactions before maturity. Thus, the banks may reduce their interest liability by returning funds taken at the repo rate prevailing at that time (5.15 per cent) and availing funds at the current repo rate of 4 per cent. Details are being notified separately.
3. Currently, banks are required to maintain 18 per cent of their net demand and time liabilities (NDTL) in SLR securities. The extant limit for investments that can be held in HTM category is 25 per cent of total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR securities within an overall limit of 19.5 per cent of NDTL. SLR securities held in HTM category by major banks amount to around 17.3 per cent of NDTL at present. However, there are inter-bank variations with some banks close to the 19.5 per cent of NDTL



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limit. Accordingly, it has been decided to allow banks to hold fresh acquisitions of SLR securities acquired from September 1, 2020 under HTM up to an overall limit of 22 per cent of NDTL up to March 31, 2021 which shall be reviewed thereafter. Details are being notified separately.

4. The RBI stands ready to conduct market operations as required through a variety of instruments so as to ensure orderly market functioning.

Earlier, 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 has identified 26 sectors including auto, aviation, construction, hospitality, power, real estate and tourism, among others, impacted by COVID-19 for a loan restructuring scheme to be rolled out by banks and non-banking financial companies. The Committee listed specific financial parameters for the 26 sectors and the recommendations have been broadly accepted by RBI. The committee has identified five key ratios with different limits across sectors as a threshold for implementing a resolution plan. The five key ratios are: total outside liability/adjusted tangible network (TOL/Adjusted TNW), total debt/EBITDA, current ratio, debt service coverage ratio (DSCR) and average debt service coverage ratio (ADSCR). The committee will scrutinise restructuring of loans above Rs. 1500 crore. The term of the committee has been extended till June 30 2021. The resolution under this framework is applicable only to those borrowers who have been impacted on account of Covid. Only those borrowers which were classified as standard and with arrears less than 30 days as at March 1, 2020 are eligible under the Framework. According to RBI, the resolution framework may be invoked not later than December 31, 2020 and the plan needs to be implemented within 180 days from the date of invocation.

We believe the restructuring measures announced by RBI will help PSUs to protect themselves from capital erosion as they are loaded with NPAs.

To address the concern of poor lending growth in the current crisis of COVID-19, Finance Minister Nirmala Sitharaman told banks to put in place a loan restructuring scheme for rescuing all viable business units affected by the Covid-19 pandemic by September 15. "During her interaction, the Finance Minister focused on lenders immediately putting in place board-approved policy for resolution, identifying eligible borrowers and reaching out to them and quick implementation of a sustained resolution plan by lenders for revival of every viable business," the Finance Ministry said in a statement. The FM stressed that banks should keep in mind the Covid-19 related distress of borrowers which should not come in the way of assessing their credit-worthiness at the time of giving loans. The Finance Ministry said that the lenders assured that they are ready with their resolution policies, have started the process of identifying and reaching out to eligible borrowers, and that they will comply with the timelines stipulated by the Reserve Bank of India (RBI). The Finance Ministry is also in touch with the RBI to ensure that the regulator provides assistance to lenders in the resolution process.

India – China tensions will always remain overhang after Chinese aggression at the LAC. India had earlier banned 118 more apps said to be either based in or linked to China. PUBG Mobile, Alipay, and Baidu are among the biggest names on the list. In June 2020, apps like TikTok, WeChat, and more than 50 other China-based apps in were banned. However, there are some talks happening between the two countries to de – escalate tensions which can provide some relief. Both India and China have earlier agreed on a five-point plan to resolve the border tensions in eastern Ladakh, and now all eyes will be on the actual disengagement of forces on the Line of Actual Control.

We maintain our same stance to maintain caution especially for Large caps at present valuations after depressing Q1GDP data and exponential rise in COVID-19. Industrial production shrank by 10.4 percent in July, mainly due to lower output of manufacturing, mining and power generation sectors, official data showed on Friday.

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