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**Market wrap** **Sep. 24, 2020**

**Indian equities decline significantly owing to spike in COVID-19 cases globally; Index heavyweights remain under pressure..**

Indian equities witnessed a massive sell off on the last day of F&O expiry for September series, as potential second wave of Covid-19 in the UK and Europe, and concerns over delay in economic recovery soured sentiment. The S&P BSE Sensex witnessed a significant decline of 1,172 points in the intra-day deals on the BSE, while Nifty50 index declined by 342 points on the NSE. The markets were at their lowest since July 1, 2020.

The S&P BSE Sensex ended the day at 36,554 levels – down 1115 points, or nearly 3 per cent. Nifty50, on the other hand, ended at 10,806 levels, down 326 points or around 3 per cent.

Index heavy-weights like Infosys, Reliance Industries (RIL), TCS, ICICI Bank, HDFC Bank, Bajaj Finance, HDFC and ITC contributed the most towards Sensex's fall. Infosys, RIL, TCS, and ICICI Bank each contributed over 100 points towards the slide. Information Technology (IT) stocks were the biggest losers on the NSE today with the Nifty IT index sinking 4.5 per cent as investors booked profit after a sharp rally in the current financial year.

**Sectors and stocks**

Shares of Apollo Hospitals Enterprise hit a fresh record high of Rs. 1,938, up 6.5 per cent on the BSE on Thursday in an otherwise weak market on expectation of improved earnings going forward. In the past two weeks, the healthcare facilities company's stock has rallied 21 per cent, after reporting good operational performance in the April-June quarter (Q1FY21). Apollo Hospitals Enterprise reported consolidated (EBITDA) loss adjusted for IND AS116 of Rs. 43 crore against estimated of a loss of Rs. 110 crore.

Shares of HSIL hit a fresh 52-week high of Rs 83.40, up 6.5 per cent on the BSE on Thursday in an otherwise weak market. The stock of the container and packaging company recovered 14 per cent from its intra-day low of Rs 73 touched in the early morning deal today. In the past three trading days, shares of HSIL have surged 17 per cent after its board on Monday approved the buyback of shares at Rs 105 per share for an aggregate amount of Rs 70 crore via open market. "At the maximum buyback price and for maximum buyback offer size, the indicative maximum number of equity shares to be bought back would be 6.67 million equity shares which are 9.22 per cent of the total number of equity shares of the company," HSIL said in an exchange filing. HSIL, engaged in containers & packaging business, is one of the leaders in glass, PET and caps and closures business. With the growing demand of the pharmaceutical sector and the rise of online businesses in the retail and food and beverage sector, packaging is receiving renewed attention from all sectors. In the past one week, the stock has soared 26 per cent against a 5 per cent decline in the S&P BSE Sensex. In the last three months, the stock has rallied 66 per cent, as compared to a 5 per cent gain in the benchmark index.

**Global markets**

Global equities declined and the dollar rose on Thursday on investor concern about another economic hit from the coronavirus pandemic. The MSCI World index slipped 0.6 per cent, its fifth day in the red out of the last six, and hovering near a two-month low. Asia-Pacific shares outside Japan fell 1.93 per cent, chalking up their worst day in two months after economic warnings from US Federal Reserve (US Fed) officials. In Europe, the STOXX Europe 600 was down 1 per cent.

Investor sentiments took a hit after Prime Minister Boris Johnson has announced a slew of coronavirus restrictions for England in the wake of a fresh spike in the number of Covid-19 infections. These new measures may last for six months, if there is no improvement in the pandemic situation, Boris Johnson told UK Parliament on September 22. Investors fear that more such restrictions could be put in place across major global economies as the cases continue to rise.

**Ajcon Global's view**

As expected, Indian equities continued to witnessed massive sell off across the board which was due. 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 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 networth (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.

There is a strong pipeline of IPOs in the coming days. We believe there would be mad rush for the upcoming IPOs after stellar listing of IPOs that have come in COVID-19 era.

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