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Market wrap **August 25, 2020**

Benchmark indices remain lacklusture; stock specific rally witnessed in midcaps and smallcaps space..

Domestic bourses were moderately up owing to selling in counters such as Reliance Industries (RIL), and Infosys. Further, continuous rise in Covid-19 cases, too, weighed on investor sentiment.

The S&P BSE Sensex today ended 45 points or 0.12 per cent higher at 38,844 levels, with Bajaj Finance (up over 4 per cent) being the top gainer and NTPC (down over 1 per cent) the biggest loser. NSE's Nifty settled flat at 11,472, up around 6 points or 0.05 per cent. Earlier, the benchmark indices scaled the highest level in the last six months, on the back of firm global cues. The S&P BSE Sensex hit an intra-day high of 39,009 levels. The Nifty50 index also dipped below the 11,500 after holding on to the psychological level for the first one hour.

The Nifty sectoral indices were mixed, with the Nifty PSU Bank index, up over 1 per cent, leading the list of gainers.

In the broader market, the S&P BSE SmallCap index ended 0.11 per cent higher while the S&P BSE MidCap index gained 0.5 per cent.

India VIX increased over 2 per cent to 19.6 levels.

Sectors and stocks

Shares of LIC Housing Finance were up by 11 per cent on the BSE on Tuesday, a day after the company reported a 35.34 per cent rise in its consolidated net profit at Rs. Rs 824 crore for the quarter ended June 2020 (Q1FY21). The company had posted a profit of Rs. 608.85 crore in the corresponding quarter of the previous fiscal. The company's net interest income (NII) rose marginally to Rs. 1,220.61 crore in Q1FY21 from Rs. 1,181.86 crore in Q1FY20. The net interest margin (NIM) declined to 2.32 per cent from 2.41 per cent for the same period in the previous year. The company said in a statement that due to the nationwide lockdown, there was significant impact on business during the quarter. However, with the gradual opening up of the economy, business activity began improving, especially since June. The loan portfolio stood at Rs. 2,09,817 crore at end of June 2020, as against Rs. 1,97,768 crore at end of June 2019. For the month of June, the retail disbursements were approximately 62 per cent of the corresponding figure of the previous year. Total disbursements were Rs. 3,560 crore in Q1 FY2021 as against Rs. 10,261 crore for the corresponding period in FY2020.

Max Financial Services ended around 13 per cent higher at Rs.620.60 after Axis Bank said it has reduced the size of the stake that it plans to buy in Max Life Insurance to 17 per cent from 29 per cent.

Shares of Allcargo Logistics were locked in the 20 per cent upper circuit band at Rs. 130.8 per share - also its 52-week high on the BSE on Tuesday after the company said its promoters Shashi Kiran Shetty and Talentos Entertainment Pvt Ltd intend to voluntarily delist the company.

Nocil ended 9.5 per cent higher on the BSE at Rs. 132.45 even as the company reported a 64 per cent decline in its consolidated net profit at Rs 11.95 crore against Rs. 32.88 crore profit in the year-ago period. Revenue from operations stood at Rs. 106.51 crore, down 53.6 per cent year-on-year (YoY).

Shares of IndiaMart InterMesh hit a fresh record high of Rs. 3,883 apiece on the BSE on Tuesday, up over 10 per cent against Monday's close of Rs 3,519.50. With today's gain, the stock of the company has rallied 62.6 per cent in the past two months. Shares of IndiaMart InterMesh were listed on the bourses in July 2019. The initial public offering (IPO) of the company had received a strong response with bids for 97 million shares. The IPO was subscribed 36 times. The qualified institutional buyers (QIBs) category was subscribed 31 times. The non-institutional investor’s category was subscribed 62 times. The retail individual investors (RIIs) category was subscribed 14 times. For the quarter ended June 2020, IndiaMart had posted a 128.7 per cent jump in its consolidated net profit at Rs. 74.1 crore against Rs. 32.4 crore in the year-ago period. Total income came in at Rs. 186.8 crore, up 15.59 per cent against Rs. 161.6 crore in June 2019 quarter. Revenue from operations was Rs. 153.1 crore, up 4 per cent year-on-year (YoY).

Shares of Deepak Nitrite rallied by 9 per cent to a fresh 52-week high of Rs 825 on the BSE on Tuesday. The stock had already risen 18.5 per cent in the last two session. The stock has more than doubled in stock price from the beginning of the year. The stock had risen from Rs. 375.20 to Rs. 756.05 (till Monday, August 24) gaining 101.5 per cent in that period. The latest rally in the stock came after the Directorate General of Trade Remedies (DGTR), on August 20, recommended imposing provisional anti-dumping duty on phenol imports from Thailand and the United States. For the June quarter of 2020-21 (FY21), Deepak Nitrite's standalone revenues de-grew by 36 per cent year-on-year (YoY) to Rs. 355 crore. The

company attributed the dip to nationwide lockdown caused by Covid19 pandemic, saying "effective capacity utilisation in the quarter was around 65 per cent,". Net profit dipped 40.7 per cent YoY to Rs. 63.61 crore. Standalone EBITDA came in at Rs. 102 crore, lower by 46 per cent YoY as against Rs. 188 crore in the corresponding period last year. "Within the segments, the PP segment witnessed lower EBITDA margin as one of the chemical intermediates - DASDA, which enjoyed an extraordinary run up in prices during last year witnessed demand drop in end-use segments i.e. paper and textiles owing to Covid-19," the company said.

Global markets

Asian equities were mostly higher after the US and China indicated progress in trade talks, and as hopes of new coronavirus treatments boosted broader sentiment among global investors.

European stocks, too, gained in trade with Frankfurt shares hitting a one-month high.

Ajcon Global's view

We advise investors to exercise great caution while building fresh long positions at the present level. According to us, as COVID – 19 situation is getting bad to worse, the markets may see a major profit booking and selling bouts. 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. Although there are relaxations in lockdown, exponential rise in COVID-19 cases can force for tighter lockdown. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating US- China, India – China tensions after banning of Chinese mobile apps; global cues especially the spike in COVID-19 cases across the globe in second wave, on ground domestic economic situation. However, selective Pharma, IT, Chemicals, Fertilisers, Low end consumer products Companies may be still looked at.

We believe cooling of Indian equities will be healthy for investors as the sharp rally in lockdown period and different phases of Unlock was led by liquidity through FPIs. Last 2 months rally can be attributed to positive developments related to COVID-19 vaccine, relaxations in Unlock 1.0, 2.0 and 3.0 and better than expected Q1FY21 result of majority companies announced so far. Exponential rise in COVID-19 cases amidst high recovery rate, US – China, India – China tensions would always remain an overhang on Indian equities. Equities rallying along with Gold make us uncomfortable as it is clear case of global liquidity as big economies have resorted to printing money as part of stimulus package. Progress of ongoing monsoon, global cues and management commentary in Q1FY21 earnings season will drive market direction. The FPI inflows came amidst rush of liquidity in the markets globally after central banks around the world announced stimulus measures to help their economies. The stimulus measures given by the G4 central banks such as the US Federal Reserve, Bank of England, European Central Bank, and Bank of Japan, have helped fill the global markets with liquidity, marquee Indian companies tapping the secondary stock market by raising funds also contributed towards the increase in FPI flows.

We like the measures announced by RBI in its Monetary Policy to address the issues faced by the Indian industry. The central bank announced measures to support NBFCs, HFCs, corporate debt market, and announced a relaxation on the loan-to-value (LTV) ratio for gold loans. 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 will recommend financial parameters factored in the resolution plans, along with sector specific benchmark ranges. The Expert Committee will undertake the process validation for the resolution plans to be implemented under this framework, without going into the commercial aspects, in respect of all accounts with aggregate exposure of Rs. 1,500 crore and above at the time of invocation. The "Prudential Framework on Resolution of Stressed Assets" dated June 7, 2019 provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. "The resultant stress can potentially impact the long-term viability of a large number of firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate, relative to their cash flow generation abilities," RBI said.

The details regarding the policy for restructuring of NPA accounts is still awaited from the expert committee to oversee the resolution of stressed assets caused by COVID-19 under the chairmanship of KV Kamath. The guidelines on the KV Kamath committee recommendations will be out by September 6,Reserve Bank of India (RBI) Governor Shaktikanta Das said in a television interview on Friday. The committee on business loan resolution would submit its recommendations within one month and the central bank will soon release its final guidelines on the issue. Both the process will be done within 30 days

from the date of original notification on August 6, Das said. We believe the restructuring measures announced by RBI will help PSUs to protect themselves from capital erosion as they are loaded with NPAs.

Going ahead, management commentary in Q1FY21 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied in last 5 months, investors will keep an eye as to how far the sectors revive from a standstill scenario. The disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis will also remain an overhang. We like the agriculture reforms announced; major announcements made in sectors like Coal, Mining, Aviation, Defence and Power sector were also good and long term in nature. However, certain announcements by Finance Ministry were not taken well by street participants with regards to measures like MSME loan not being interest free, ambiguity with regards to MSMEs who do not have an existing credit facility, market sentiments getting affected as the reduction in rate of TDS to increase liquidity in the system were announced as part of stimulus package etc.

Considering the sharp rally in the last five months including the Lockdown period and various phases of Unlock – Reopening of economy, we advise investors to book profits who have entered at levels during the announcement of initial Lockdown.

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