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Market wrap **November 26, 2020**

Indian benchmark indices witness smart rally on F&O expiry day; sugar and steel companies rally..
Indian benchmark indices ended around 1 per cent higher on Thursday, the last day of the futures and options (F&O) contracts for the November series, amid broad-based buying.

The S&P BSE Sensex was up by 432 points, or 0.98 per cent to settle at 44,260 levels and the Nifty50 index gained 129 points, or 1 per cent to 12,987 levels.

Sectorally, all the indices ended in the green with Nifty Metal index rising the most - up 3.85 per cent to 2,925 levels.

Broader market, too, participated in the rally. The S&P BSE MidCap index was up by 0.94 per cent to 16,598 levels while the S&P BSE SmallCap index rose 0.71 per cent to 16,480 levels.

India VIX, declined by around 13.5 per cent to 20 levels.

Key recent developments
Reserve Bank of India (RBI) Governor Shaktikanta Das on Thursday said the country's economy had recovered stronger than expected from the initial impact of the Covid-19 pandemic, but there is a need to be watchful of demand sustainability after the end of festivities. The governor also assured the financial markets that the regulator will continue to work in a nimble-footed manner to ensure orderly functioning of the markets. “The Reserve Bank remains committed to fostering orderly functioning of financial markets and will continue to evaluate incoming information having a bearing on the financial markets and act, as needed, to mitigate any downside risks,” he said. “Today, the capital account is convertible to a great extent,” he said. “Inward FDI is allowed in most sectors and outbound FDI by Indian incorporated entities is allowed as a multiple of their net worth. The external commercial borrowing framework has also been significantly liberalised to include more eligible borrowers, even as maturity requirements have been reduced and end-use restrictions have been relaxed."

US biotech company Moderna said it is having discussions with a number of countries and parties about rolling out its vaccine candidate against COVID-19. The company didn't specify whether India is among the countries it is having discussions with. Moderna hinted about the possibility of joining Covax and said the discussions are ongoing. Covax is a World Health Organization-backed facility, which aims to supply low and middle-income countries (LMICs), with proven COVID-19 vaccines, while ensuring equitable global access. "We are seeing enormous interest and are having discussions with a number of countries about Moderna’s vaccine candidate against COVID-19," a Moderna spokesperson said in an email to queries about its plans for India. On partnerships with Indian drug companies or hospital chains for distribution of the vaccine in India, Moderna said it is holding discussions, but has no new specific agreements to announce at this point of time.

India's priority is to make a coronavirus vaccine "safe on all scientific standards" available to all its citizens, said Prime Minister Narendra Modi in a meeting with chief ministers on Tuesday. The central government and states have to "work together" in controlling the coronavirus pandemic and "no one can impose any view", PM Modi told the chief ministers of eight states worst affected in the pandemic. Modi held two meetings through video with Chief Ministers and Lieutenant Governors to discuss the coronavirus situation in the states and preparations for vaccine delivery.
Tata Motors said the company had witnessed a strong growth during the festive period. “Our bookings have increased by 95 per cent and retail sales have gone up by 90 per cent compared to the FY20 festive season,” a Tata Motors spokesperson said, adding that traction was equally good for both cars and SUVs.

AstraZeneca said on Monday that late-stage trials showed its coronavirus vaccine was up to 90 per cent effective, giving public health officials hope they may soon have access to a vaccine that is easier to distribute than some of its rivals. The results are based on interim analysis of trials in the UK and Brazil of a vaccine developed by Oxford University and manufactured by AstraZeneca. No hospitalisations or severe cases of Covid-19 were reported in those receiving the vaccine. “These findings show that we have an effective vaccine that will save many lives,” Oxford University Professor Andrew Pollard, chief investigator for the trial, said in a statement. “Excitingly, we’ve found that one of our dosing regimens may be around 90% effective.’’ AstraZeneca is the third major drug company to report late-stage results for its potential Covid-19 vaccine as the world anxiously waits for vaccines that will end the pandemic that has killed almost 1.4 million people. Pfizer and Moderna last week reported preliminary results from late-stage trials showing their vaccines were almost 95 per cent effective. Unlike the Pfizer and Moderna vaccines, the Oxford-AstraZeneca candidate doesn’t have to be stored at ultra-cold temperatures, making it easier to distribute, especially in developing countries. All three vaccines must be approved by regulators before they can be widely distributed.

Reserve Bank of India on November 20 released a report on the internal working group (IWG) recommendations on private bank ownership and corporate structure. Among other things, the report recommends promoter stake cap in long run - 15 years - be raised to 26 percent from 15 percent if paid-up voting equity share capital. The IWG in its recommendations had

also said that non-promoter shareholding may be capped at 15 percent of paid-up voting equity share capital for all shareholders. Large Non-banking Finance Companies (NBFCs), with an asset size of Rs. 50,000 crore and above, may be considered for conversion into banks subject to completion of 10 years of operations and meeting due diligence criteria and compliance with additional conditions specified in this regard. Track record of 3 years of experience as Payments Bank may be considered as sufficient for Payments Banks intending to convert to a Small Finance Bank. Small Payments Banks and Small Finance Banks may be listed within '6 years from the date of reaching net worth equivalent to prevalent entry capital requirement prescribed for universal banks' or '10 years from the date of commencement of operations'. The minimum initial capital requirement for licensing new banks should be enhanced from Rs. 500 crore to Rs. 1000 crore for universal banks. The minimum initial capital requirement for licensing new banks should be enhanced from Rs. 200 crore to Rs. 300 crore for small finance banks.

The experimental COVID-19 vaccine of American pharma company Pfizer and BioNTech SE has proved to be 95 percent effective in final results from a pivotal study. It is also showing signs of being safe, key pieces of data as the companies prepare to ask health regulators to authorize use. Out of 170 adult volunteers in the nearly 44,000-subject trial who developed Covid-19 with at least one symptom, 162 received a placebo, while eight got the vaccine, Pfizer and BioNTech said. This 95 percent effectiveness rate makes the experimental candidate be on par with the likes of shingles and measles vaccines. Last week, All India Institute of Medical Sciences (AIIMS) director, Dr Randeep Guleria had said, "Pfizer vaccine has to be kept at minus 70 degrees Celsius which is a challenge for developing countries like India."

Last week, US biotech firm Moderna released early results from a clinical trial of its Covid-19 vaccine candidate, mRNA-1273. The vaccine candidate, Moderna said, was found to be 94.5% effective. However, in what could be a potential hurdle for India, mRNA candidates need extremely cold environment for storage and transport.

Bharat Biotech too last week started phase 3 clinical trials of its vaccine candidate, COVAXIN. Phase 3 trials will involve 26,000 volunteers and will be conducted in partnership with the Indian Council of Medical Research (ICMR). This is the largest clinical trial for a Covid-19 vaccine candidate in India as well as the country's first phase 3 efficacy study of a vaccine candidate. Bharat Biotech is developing COVAXIN in collaboration with ICMR and National Institute of Virology (NIV), Pune.

India is seeing a "strong recovery" taking root in the economy, as seen by increased goods and service tax collections and other metrics, Finance Minister Nirmala Sitharaman had said earlier. Sitharaman announced a new set of stimulus measures to boost employment under Atmanirbhar Bharat Rozgar Yojna to incentivise the creation of new employment opportunities. The new announcements aim at benefiting companies and individuals, who lost their jobs due to Covid-19 induced lockdown. The new announcements came after the government approved a Rs 1.45-trillion package by extending the production-linked incentive (PLI) scheme to 10 more sectors. The latest approval is in addition to the already announced Rs. 51,311-crore PLI for three sectors. With this, the total incentives under the PLI schemes come to Rs 2 trillion.

Domestically, Steel companies have increased prices by around Rs. 1,000 a tonne effective November, bringing it closer to peak levels of 2018. In November 2018, prices of hot rolled coil (HRC) – a benchmark for flat steel – were at Rs. 46,250 a tonne. Subsequently, however, prices were reduced the following month. Prices of HRC were around Rs. 44,500 a tonne after the current increase. While HRC prices were increased by around Rs. 1,000 a tonne, the increase in prices of galvanized and colour coated products were higher but widely varying. JSPL managing director, V R Sharma, said, that the company had increased prices by Rs. 1,000-1,200 a tonne. Sharma said, JSPL's exports were now at 15-17 per cent of total produce. He added that the company had decided not to export semi-finished steel and would be exporting finished steel as realisations were higher. The Covid-19 pandemic saw a record export of semi-finished steel from India, most of which were headed for China. During April to September, exports of semis were at 4.439 million tonnes compared to 1.095 million tonnes in the year ago period. On a cumulative basis, steel mills have increased HRC steel prices by Rs 8,000-8,500 since July. The increase in prices reflected a recovery in domestic demand. Senior vice president at Icra, Jayanta Roy, said, domestic steel (HRC) prices have been through a roller coaster ride in the last two years. "While steel prices ruled at Rs. 46,500 per tonne the beginning of November 2018, they dropped sharply to the recent low of Rs. 32,250 per tonne in the next one year till November 2019. Prices however took a u-turn thereafter, reaching the current level of close to Rs 44,500 per tonne. At current levels, domestic prices are aligned with international steel prices," he added.

Sectors and stocks

Shares of steel companies continued their northward movement with sector giants such as Tata Steel and JSW Steel hitting their respective 52-week highs on Thursday after they reported a strong earnings during the recently concluded quarter. "Capacity utilisation levels of crude steel improved with the unlocking of the economy and recovery in demand initially on the back of higher international demand before domestic demand began to pick-up which eventually moderated export. After hitting bottom in April 2020 at 27 per cent, capacity utilisation rate of crude steel returned to year-ago level of 76 per cent in October 2020," CARE Rating said in October month steel update report. As regards the sector outlook, the rating agency said the domestic steel production and consumption is expected to remain steady going forward in October-March (H2FY21). "For the whole year FY21, we expect crude steel production to be lower by 10-12 per cent and consumption to be lower by 14-17 per cent, mainly impacted by poor first half. While large players have reported faster return to normalcy after covid-19 impact, the recovery by smaller players are expected to be long and protracted due to their limited diversification and weaker financial flexibility," it said.

JSW Steel was up by 5 per cent to quote at Rs. 354 and Tata Steel rallied 4 per cent to Rs. 565 in their intra-day trade today while Steel Authority of India (SAIL) and Jindal Steel and Power (JSPL) were up 7 per cent and 6 per cent, respectively.

Tata Steel has rallied 38 per cent in the past one month, as against a 10 per cent rise in the benchmark index. The company delivered strong results in India with broad-based, market-leading volume growth, and strong cash flow generation in September quarter (Q2FY21). The company's EBITDA from India operations surged 4.1 times sequentially and 49 per cent year-on-year (y-o-y) to Rs.h 6,025 crore driven by higher volumes, improved realisations, and cost efficiencies.

Shares of sugar companies were in focus in an otherwise range-bound market with EID Parry hitting a 52-week high of Rs. 342.60, up 5 per cent, while Triveni Engineering Industries surging 6 per cent on the BSE in the intra-day deals on Thursday. KCP Sugar & Industries, Uttam Sugar Mills and Avadh Sugar & Energy were up between 8 per cent and 18 per cent, while Dalmia Bharat Sugar and Industries, Dwarikesh Sugar Industries, Dhampur Sugar Mills and Balrampur Chini Mills were in the range of 3 per cent to 6 per cent on the BSE. The performance of the sugar companies was better-than-expected in July-September quarter (Q2FY21) as compared to corresponding quarter of the previous year on account of better realisation and the cost reduction measures which continued from the Q1FY21. The most significant factor in the September quarter results was a significant increase in operating cash flow & reduction in working capital debt. Meanwhile, on 29 October 2020, the Cabinet Committee on Economic Affairs (CCEA) increased the ethanol prices in the range of 4 per cent-6 per cent on y-o-y basis for the ethanol supply year (ESY) December 2020-November 2021. The primary aim behind the move is to divert sugar towards production of ethanol so as to reduce the supply glut of sugar in the country and to achieve the target of 10 per cent blending of ethanol with petrol set for the Ethanol Blended Petrol (EBP) Programme. The higher ethanol prices will encourage sugar diversion towards ethanol (which is need of the hour). This will support the sugar industry's revenues and, in turn, will result in payment of sugarcane arrears, CARE Ratings said in a note.

Shares of Siemens were up by 8 per cent to Rs. 1,472 on the BSE in the early morning trade on Thursday led by improvement in EBITDA margin by 180 basis points (bps) YoY to 12.9 per cent, largely led by a 210bp YoY expansion in gross margins. However, the company reported a 4.7 per cent year-on-year (YoY) fall in consolidated net profit at Rs. 330 crore for the September quarter mainly on higher expenses due to lockdown. The company said the profit was impacted due to expenses incurred during the lockdown period amounting to Rs 285 crore. Revenue from continuing operations fell 9.2 per cent to Rs 3,422 crore over the corresponding quarter of the previous year. The company follows October-September financial year. The board recommended a dividend payment of Rs. 7 per equity share of Rs 2 each. Siemens said it has a strong order backlog of over one year's revenue, partially on account of the period of lockdown in the country, which resulted in reduced revenues. The company's new orders grew by 8.7 per cent YoY at Rs. 3,220 crore during the quarter, it said. "A major part of the financial year 2020 was impacted on account of the Covid-19 pandemic. However, despite the volatility in the business environment with core industrial sectors being negatively impacted, there are now initial signs of an uptick across some market segments post lockdown," MD&CEO Sunil Mathur said. The company sees increased interest in its technological and digitalisation solutions across all businesses and is working closely with customers in these areas to support them by adopting the latest technologies, solutions, and services, Mathur said.

Shares of Dixon Technologies (India) were up by 4 per cent and hit a new high of Rs. 11,325 on the BSE on Thursday. The stock was trading higher for the fifth straight day. In the past one week, the consumer electronics company's stock has rallied 12 per cent, against 1 per cent rise in the S&P BSE Sensex. It has seen a whopping rally of 291 per cent from its 52-week low of Rs. 2,900, touched on March 24, 2020. Dixon Technologies has operations in consumer electronics, lighting, home appliance, and mobile phone segments and also undertakes reverse logistics operations. Besides, the company undertakes manufacturing of security surveillance equipment through a JV company. Despite the disruption in operations due to the Covid-19 pandemic-related lockdown, Dixon Technologies has witnessed strong recovery in business post easing of Covid-19-related curbs as reflected in the 17 per cent year-on-year growth in revenues along with an improvement in the operating profitability for the quarter ended September 2020 (Q2FY21). On Tuesday, the company informed the stock exchanges that rating agency ICRA had, on November 23, 2020, revised the long-term rating and reaffirmed the short term rating as well as rating assigned to commercial paper instrument of the company. The outlook was revised to 'stable' from 'positive'. "The rating upgrade takes into account robust performance of Dixon Technologies in the recent past, as well as the expected significant increase in its scale of operations with the receipt of approval of its subsidiary's application under the Production Linked Incentive (PLI) scheme by the Ministry of Electronics and Information and Technology (MeitY)," ICRA said in rating rationale. The Stable outlook on the rating reflects ICRA's expectation that the company will continue to report a healthy growth in its scale of operations, along with diversification in customer profile, product profile and supply chain, it said.

Global markets

European shares were mixed on Thursday and world shares held near all-time highs after a strong Asian session in which market euphoria around Covid-19 vaccines outweighed worsening US data.

In Asia, China's main stock indexes ended higher, rebounding from two days of losses as gains in financial and consumer shares offset drops in health care, tech and new energy vehicle firms.

Earlier on Wednesday, global equities rallied to a record peak on Wednesday following an overnight surge that saw the Dow Jones benchmark crack 30,000 for the first time as investors cheered a dramatically improved global outlook. Globally sentiments have improved as the formal go-ahead for US President-elect Joe Biden to begin his transition added to an already brighter mood from progress made on Covid-19 vaccines and the prospects for a speedy global economic revival.

US President Donald Trump has virtually conceded defeat to Joe Biden agreeing to begin the transition to the Democrat's administration while also making claims that he will be the ultimate winner of the November 3 election. In a Monday evening tweet, Trump said that he was asking General Services Administration head Emily Murphy to cooperate with Biden to facilitate his transition to become the 46th President of the United States. The announcement came 16 tension-filled days after the media had declared Biden winner of the election, while Trump has refused to concede citing the vote-counting that is still going on.

Ajcon Global's view

Indian equities witnessed a smart recovery after initial fall on F&O expiry day. Rally was witnessed in sugar and steel companies. Selective PSU Banks also rallied as valuations were very cheap considering decent performance in Q2FY21 and rally in all major sectors in Unlock phase.

Samvat 2077 has already started on a positive note with Indian equities continue to remain buoyant. Investors confidence on economic recovery is improving day by day led by COVID-19 vaccine related developments. Earlier, in Samvat 2076, the benchmark indices index rallied by 10.68 per cent. Samvat 2076 witnessed a roller coaster ride with India entering into a nationwide lockdown from the mid-night of March 24 owing to COVID-19 pandemic. Fears of a disrupted economy made S&P BSE Sensex and the Nifty50 indices fall steeply by over 39 per cent to hit a low of 25,639 and 7,511, respectively on March 24, 2020 which was nerve testing. However, since then, the benchmarks have defied gravity and hit new highs on November 11, 2020 as hopes of potential Covid-19 vaccine and reduction of COVID-19 cases domestically from its peak calmed the nerve of investors.

Globally, investor sentiments have improved on expectations of better global trade ties and more monetary stimulus under US President-elect Joe Biden supported risk appetite.

Domestically, investors sentiments have improved led by strong earnings performance in majority of the Companies which has surpassed our expectations as well. Clearly, there are visible signs of economic recovering fast. After significant rally witnessed in Largecaps space since the announcement of initial Lockdown to control COVID-19 pandemic, investors have become stock specific in midcaps and smallcaps. Investors are increasing allocation in Companies which are witnessing turnaround in Q2FY21, Unlock phase and having cost efficiencies. 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.

We are cautious on Large caps at present steep valuations led by high FPI liquidity and advise partial profit booking. Any news on COVID-19 vaccine coming will led to rerating of sectors that were hammered in COVID-19 crisis. Further fall will make markets healthy for fresh entry as Indian equities were in overbought zone for quite some time.

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