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Market wrap **October 28, 2020**

Indian equities fall again after rebound yesterday owing to surging COVID-19 cases across the globe; stock specific action witnessed on Q2FY21 earnings performance..

The Indian benchmark indices declined by around 1.5 per cent on Wednesday as fears of strict lockdown measures in many European countries spooked investors after coronavirus cases surged at a rapid pace. Selling was witnessed across-the-board with financial stocks taking the biggest knock. The S&P BSE Sensex declined by 600 points to 39,922 levels while NSE's Nifty ended at 11,730, down 160 points, or 1.34 per cent. On the NSE, all the sectoral indices ended in the red.

In the broader market, the S&P BSE SmallCap index ended 0.76 per cent lower at 14,976 levels while the S&P BSE MidCap index ended at 14,814, down 0.93 per cent.

India VIX, rose nearly 5 per cent to 23.2 levels.

Key developments
Finance Minister Nirmala Sitharaman on Tuesday said there were visible signs of revival in the economy but the GDP growth may be in negative zone or near zero in the current fiscal. This is primarily because of a huge 23.9 per cent contraction in the economy in the first quarter of current fiscal (April-June), she added. The focus for the government is on public spending to boost economic activity, Nirmala Sitharaman added.

Last week, Bharat Biotech said it was aiming for a June 2021 launch of its COVID-19 vaccine candidate COVAXIN, which has received approval for Phase-3 clinical trials.

In a relief to borrowers at the onset of the festive season, the government last week on late Friday night announced waiver of interest on interest for loans up to Rs. 2 crore irrespective of whether moratorium was availed or not. The Department of Financial Services came out with operational guidelines in the backdrop of Supreme Court's direction to implement the interest waiver scheme, which is likely to cost the exchequer Rs. 6,500 crore. The apex court on October 14 directed the Centre to implement "as soon as possible" interest waiver on loans of up to Rs. 2 crore under the RBI moratorium scheme in view of the COVID-19 pandemic saying the common man's Diwali is in the government's hands. As per the guidelines, the scheme can be availed by borrowers in specified loan accounts for a period from March 1 to August 31, 2020. "Borrowers who have loan accounts having sanctioned limits and outstanding amount of not exceeding Rs. 2 crore (aggregate of all facilities with lending institutions) as on February 29 shall be eligible for the scheme," it said. As per the eligibility criteria mentioned in the guidelines, the accounts should be standard as on February 29 which means that it should not be Non-Performing Asset (NPA). Housing loan, education loans, credit card dues, auto loans, MSME loans, consumer durable loans and consumption loans are covered under the scheme. As per the scheme, the lending institutions shall credit the difference between compound interest and simple interest with regard to the eligible borrowers in respective accounts for the said period irrespective of whether the borrower fully or partially availed the moratorium on repayment of loan announced by the RBI on March 27, 2020. The scheme is also applicable on those who have not availed the moratorium scheme and continued with the repayment of loans.

In a relief to taxpayers, the government further extended the deadline for filing returns by individual taxpayers for FY 2019-20 by a month till December 31. Also, the due date of furnishing Income Tax Returns (ITRs) for taxpayers whose accounts require to be audited has been extended till January 31, 2021. The government had earlier in May extended various due dates for filing ITRs for FY 2019-20 from July 31 to November 30, to give compliance relief to taxpayers due to the Covid-19 pandemic. In a statement, the Central Board of Direct Taxes (CBDT) said, "The due date for furnishing of Income Tax Returns for the other taxpayers [for whom the due date (i.e. before the extension by the said notification) as per the Act was July 31, 2020] has been extended to December 31, 2020." The due date for furnishing of ITRS for "the taxpayers (including their partners) who are required to get their accounts audited [for whom the due date as per the I-T Act is October 31, 2020] has been extended to January 31, 2021", it added. Separately, the government on Saturday also extended the due date for furnishing GST annual returns for FY2018-19 by two months till December 31. Furnishing of the GST annual return is mandatory only for taxpayers with aggregate annual turnover above Rs 2 crore while reconciliation statement is to be furnished only by the registered persons having aggregate turnover above Rs 5 crore.

Last week, 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. Prime Minister Narendra Modi last week suggested developing a vaccine delivery system on the lines of conduct of polls and disaster management while involving all levels of government and citizen groups. Chairing a meeting to review the COVID-19 pandemic situation and the preparedness of vaccine delivery, distribution, and administration, the Prime Minister also noted a steady decline in the daily cases and the growth rate. At the same time, he also cautioned against any complacency at the decline and called for keeping up the efforts to contain the pandemic. In a statement, the PMO said three vaccines are in advanced stages of development in India, out of which two are in Phase II and one is in Phase-III. It further said Indian scientists and research teams are collaborating and strengthening the research capacities in neighbouring countries such as Afghanistan, Bhutan, Bangladesh, Maldives, Mauritius, Nepal and Sri Lanka. PM Modi further directed that keeping in view the geographical span and diversity of the country, the access to the vaccine should be ensured speedily. He stressed that every step in the logistics, delivery, and administration should be put in place rigorously. "It must include advanced planning of cold storage chains, distribution network, monitoring mechanism, advance assessment, and preparation of ancillary equipment required, such as vails, syringes etc," the statement said.

Earlier, 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 Bharti Airtel were up by 10 per cent to Rs. 476 on the BSE in early morning deals on Wednesday, after the company reported strong operating performance with beat on average revenue per user (ARPU), subscriber addition and margins for the July-September 2020 quarter (Q2FY21). Bharti Airtel’s India business, monthly ARPU, an important matrix to gauge the telco's performance, rose to Rs 162 from Rs 128 a year ago and Rs 157 in the June 2020 quarter. 4G data customers at 152.7 million were up by 14.4 million for the quarter, the company said in a press release. EBITDA margin was up 366 basis points (bps) year on year (YoY) at 46 per cent — the highest in at least five quarters. Bharti Airtel's consolidated net loss for the Q2FY21 has narrowed sharply to Rs 763 crore, a decline of 97 per cent YoY. The company had posted a consolidated net loss of Rs 23,045 crore in the same quarter last year, after provisioning for the adjusted gross revenues (AGR) dues. The company posted the highest ever quarterly revenue, mainly on account of customer addition and higher data consumption. Revenues increased 22 per cent YoY to Rs. 25,785 crore compared to Rs. 21,131 crore a year ago. Data consumption grew by 58 per cent YoY, which reflects strong engagement of customers on its network. In India, revenues rose 22 per cent YoY to Rs. 18,747 crore.

Shares of Angel Broking were up for the second straight day, up 8 per cent at Rs. 321 - its highest level since listing earlier this month. In the past two trading days, the stock of broking firm has rallied 29 per cent after the company reported the highest-ever quarterly profit after tax (PAT) at Rs. 74.6 crore in the September quarter (Q2FY21). It had posted profit of Rs. 48.3 crore in June quarter of the current fiscal (Q1FY21). A sharp rally has seen the counter trade above its issue price of Rs. 306 for the first time ever since listing on bourses on October 5, 2020. The stock had made a weak debut and listed at Rs. 275 on the BSE, a 10 per cent discount against the issue price. In Q2FY21, Angel Broking said its total income grew 29 per cent quarter on quarter (QoQ) at Rs. 318 crore against Rs. 247 crore in previous quarter. Average Daily Turnover (ADTO) has grown by 107 per cent QoQ to Rs. 1,281 billion in Q2FY21, it said. Earnings before depreciation and taxes (EBDT) margin improved 629 basis points QoQ at 49.3 per cent in Q2FY21 from 43.0 per cent in Q1FY21. The asset light model backed by digital first approach has led to operating leverage benefits. The board has declared interim dividend of Rs. 4.15 per share. The company fixed November 3, 2020 as record date for interim dividend and same shall be paid on and from November 20, 2020. Angel Broking said it aims to become the largest retail broking firm in India, both by broking revenue and active clients. The company continues to focus on acquiring and retaining clients, product innovation and leveraging its web and digital broking platforms. The management said it continues to maintain high growth and profitability by increasing scope and intensity of company’s existing investment advisory business. The company continues to engage with third party providers to widen the products bouquet, it said.

Shares of Castrol India were up by 8 per cent to Rs. 118 on the BSE on Wednesday after the company reported a good set of results for September quarter (Q3CY20) with Ebitda increasing 17.9 per cent year on year (YoY) to Rs. 288 crore. Ebitda margin improved 386 basis points to 32.63 per cent from 28.77 per cent in the year-ago quarter. The company’s revenue increased 4 per cent YoY to Rs. 883 crore. Sales were led by growth across segments on account of revival in pent-up demand and a robust supply/distribution network. The profit after tax (PAT) grew 8.6 per cent at Rs 205 crore in Q3CY20 against Rs. 188 crore in Q3CY19. The management said partial revival of pent up demand, a robust supply chain and distribution network, investment in the company’s brands along with judicious working capital management contributed to delivering a good set of numbers, including growth across all spaces. The robust working capital management which saw the company to generate Rs. 624 crore net cash from operations in first nine months (January-September) of 2020 which is more than 150 per cent of PAT, along with judicious cost and efficiency management programmes have helped to maintain a current strong liquidity and financial position to be able to meet any near-term challenges, it said.

Shares of KPR Mill hit a fresh 52-week high of Rs. 783, ralling 15 per cent on the BSE in the intra-day trade, on Wednesday after the company reported consolidated net profit of Rs 113 crore in September quarter (Q2FY21), as against Rs 60 crore in June quarter of FY21. The textiles company had clocked a profit of Rs 109 crore in the year-ago quarter. Revenue from operations grew 74 per cent sequentially to Rs. 906 crore as against Rs. 522 crore reported in Q1FY21. Ebitda margin, meanwhile, stood at 20.1 per cent, as compared to 22.21 per cent in June quarter and 21.31 per cent in the previous year quarter.
Enquiries, according to the management, from the current clientele as well as from the new markets are much encouraging and "there exists a bright prospects to be explored aggressively focusing on the US and other potential markets".
"In order to cater to the growing market demand and towards stepping up of efforts tapping the potential markets, KPR is venturing into expansion of its garment segment by establishing a new garment factory with 42 million garments per annum at an estimated project cost of Rs 250 crore," it said. Among the emerging markets, India was quickly becoming a preferred destination for international apparel brands. Indian apparel market was calculated to grow at a CAGR of 13 per cent. There are several ingrained factors such as the industry being independent and self-reliant; availability of resources ensuring competitive advantage etc. Initially, due to the coronavirus outbreak, market scenarios had changed for the Indian exporters. This was because European customers, who were traditionally sourcing from China, started discussions with Indian exporters for new orders. But ever since the Corona virus started spreading to Europe, things have turned upside down, KPR Mill said in 2019-20 annual report. In the past three months, the stock of KPR Mill has outperformed the market by zooming 75 per cent, as compared to 5 per cent rise in the S&P BSE Sensex.

Global markets
Global equities were under pressure on Wednesday as coronavirus infections grew rapidly in Europe and the United States, igniting fears of possible strict lockdown measures that could damage already fragile economic recoveries. German shares declined by 3.2 per cent to their lowest since June, after a report Chancellor Angela Merkel wanted to close restaurants and bars to curb new infections.

In Europe, automakers and banks led the losses, falling 4.2 per cent and 3.9 per cent, respectively.

Ajcon Global's view
Spike in Covid cases across the globe is taking a toll on investor sentiments. Profit booking was witnessed at Dalal Street ahead of the expiry of futures and options (F&O) contracts for the October series on Thursday. Selling was witnessed across-the-board with financials taking a big hit.

Domestically, investors have become stock specific in midcaps and smallcaps segment and increasing allocation in Companies which are witnessing turnaround in Q2FY21, Unlock phase and having cost efficiencies.

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.

Buying was earlier 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.

The economic activity has picked up in various Unlock phases led by pent up demand 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 its Prudential Framework for Resolution of Stressed Assets.

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 small-caps 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 upcoming US Presidential elections in the wake of COVID-19 crisis.

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