



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap

August 31, 2020

GDP declines significantly in Q1 led by disruptions caused by COVID-19; Indian equities witness a sharp correction after being in overbought zone for quite sometime..

Indian equities declined sharply on Monday owing to SEBI's new margin norms, expectation of poor GDP which eventually turned out to be disaster, broad-based sell-off after the government said the Chinese troops 'carried out provocative military movements in Eastern Ladakh to change the status quo' but they were blocked by Indian soldiers. The incidents took place in between August 29-30 night.

The S&P BSE Sensex declined 839 points or 2.13 per cent to settle at 38,628 levels. Of 30 constituents, 28 declined and just 2 advanced. Reliance Industries (RIL) was the biggest contributor to the index's loss, followed by ICICI Bank, and HDFC.

Nifty settled at 11,387.50, down 260 points or 2.23 per cent.

All the sectoral indices on the NSE ended in the red. Nifty Bank slumped over 750 points, or 3 per cent to 23,754.35 levels, with all the 12 constituents declining. Nifty PSU Bank index slipped nearly 5 per cent to 1,525 levels.

The broader market fared worse than the headline indices. The S&P BSE SmallCap index plunged over 4 per cent to 14,336 levels while the S&P BSE MidCap index settled at 14,661, up 3.8 per cent.

India VIX jumped over 24 per cent to 22.84 levels.

Key development

The Indian economy contracted significantly 23.9 percent during the April-June quarter led by COVID-19 impact on various industries. National income accounts data released on August 31 showed that India's "real" or inflation-adjusted gross domestic product (GDP) contracted 22.6 percent, the sharpest drop in 41 years, compared to a growth of 8.1 percent in the same quarter last year. The agriculture sector which was supported by good monsoon stood out and witnessed a growth of 3.4 percent in the first quarter of 2020-21. The manufacturing sector contracted 39.3 percent from a growth of 3 percent last year, while the mining sector shrank by 23.3 percent from a growth of 4.7 percent last year, reflecting the collective shuttering of operations forced by lockdowns. Gross Value Added (GVA), which is GDP minus taxes contracted by 22.8 percent in April-June 2020 compared to 4.8 percent growth last year.

Sectors and stocks

Shares of Future group rallied on retail business deal with Reliance Industries Limited (RIL). On August 29, 2020 RIL said it was acquiring the retail and wholesale business and the logistics and warehousing business of rival Future Group for a cash consideration of Rs. 24,713 crore in a deal which is likely to give the oil and telecom conglomerate a stronghold in grocery and apparel segments.

Shares of NMDC declined by as much as 10 per cent on the BSE on Monday. The company on Friday announced that its board had approved a proposal to demerge NMDC Iron & Steel Plant (NISIP). The three-million-tonne (mt) steel plant is the only greenfield project slated for commissioning in the near term. In a separate development, Minister of Coal, Mines & Parliamentary Affairs, Pralhad Joshi, highlighted the arrangement that the Centre has reached with Karnataka regarding the restarting of NMDC's Donimalai mines. The two facets of the arrangement are: A committee under the chairmanship of mines secretary has been formed to look into how much premium, a state or central public sector unit (PSU) should pay on renewal of the mines – the decision is expected in three months (earlier it was zero under MMDR).

Global markets

Global equities were trading near record highs on Monday and were set to end August with five consecutive months of gains, as investors bet on central banks keeping up the policy punchbowl for years to come. An upbeat reading on China's service sector added to the positive mood, with MSCI's broadest index of Asia-Pacific shares outside Japan touching its highest since March 2018.

Ajcon Global's view

We were consistently advising investors to be ready for a sharp sell off as Indian equities were running ahead of fundamentals with bleak ground economic reality. Our conviction on the same proved right today after depressing Q1 GDP data. We maintain our stance to maintain great caution even after today's correction as it is just the start. Exponential rise in COVID-19 cases and India – China tensions will always remain an overhang.



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

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 cooling of Indian equities which has started from today 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.

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.

We once again advise caution to the investors specially the traders as many of the stocks are running much beyond the fundamentals and the current rally is in contrast to the economic reality. SEBI from its side is tightening the goose and making margining more tough to take care of any eventuality like March which has uprooted many brokerages and their clients including the largest debt credit fund. A great deal of maturity is required in dealing with the prevailing market situation. With Q1GDP data out, all eyes would be on newsflow related to COVID-19 vaccine development across the globe, US PMI data along with Non-farm payroll data, developments related to US-China trade deal, domestic monthly auto Sales numbers, AGR case developments and progress of ongoing monsoon.

Disclaimer

Ajcon Global Services Limited is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Limited research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Limited is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Limited or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and within five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Limited or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Limited and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Limited While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Limited is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Limited from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Limited will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Limited accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Limited or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Limited encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Limited or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Limited nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Limited or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Limited may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Limited have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Limited by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN:L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062
