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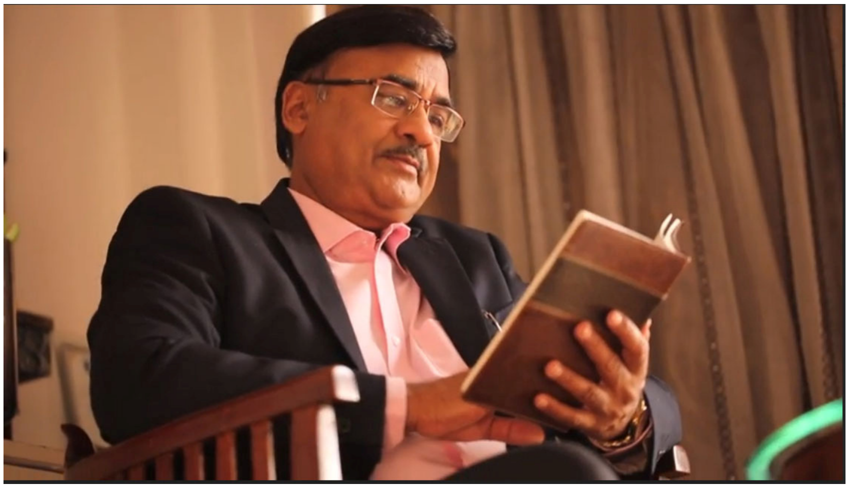

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on October 24, 2020

Investors have become stock specific amidst largecaps turning expensive; all eyes on ongoing Q2FY21 earnings season, festive sales, COVID-19 related developments and US Presidential elections..

On a weekly basis, Sensex was up by 1.75 per cent while Nifty added 1.42 per cent after being in red last week. Last week, rally was witnessed in Cement and Tyre Companies. Buoyancy was witnessed midcaps and smallcaps space. S&P BSE Midcap index was up by 2.4 percent while the S&P BSE Smallcap index was up by 2.35 percent during the week.

Globally, equities bounce backed amidst rising Covid-19 cases across US and EU affected economic growth outlook. Vaccine for the pandemic which is still far away and delay in US stimulus package slashed recovery hopes. To deal with second wave of COVID-19 cases, French President Emmanuel Macron last week declared a public health state of emergency and said that nine of the country's largest cities, including Paris, will have to abide by a curfew from 9 pm to 6 am, starting on Oct.17, 2020- Saturday for four weeks. Besides, German Chancellor Angela Markel has given states free-hand to decide their own strategy to curb rising cases. Germany's 10-year bond yield was set for its biggest weekly drop since August as doubts grew about the economic recovery in the euro zone.

Key major domestic developments during the 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 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 on Saturday 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.

The minutes of Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) meeting of October 7-9 suggests that the Committee is very concerned about falling economic growth, rather than high inflation, and will look for room for rate cuts if inflation eases to support growth. "I recognise that there exists space for future rate cuts if the inflation evolves in line with our expectations. This space needs to be used judiciously to support recovery in growth," said RBI Governor Shaktikanta Das in the policy minutes. The MPC kept the repo rate, the key lending rate unchanged, at 4 per cent in the last policy review and continued is "accommodative" monetary policy stance as long as necessary.

Earlier, SEBI chairman Ajay Tyagi said while addressing the media at a market summit organized by industry body CII that it sees no merit in increasing the 10 per cent investment cap on a single stock for actively-managed mutual fund (MF) schemes. The Union Cabinet had approved productivity linked bonus and non-productivity linked Bonus for 2019-2020. Over 30 lakh non-gazetted employees will benefit by this and total financial implication will be Rs. 3,737 crores.

In his address to the nation on Tuesday, 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.

Last week on Thursday, Credit rating agency Moody's Investors Service said on Thursday 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.

Ajcon Global's view

Investors have become stock specific in midcaps and smallcaps segment and increasing allocation in Companies which are witnessing turnaround in Unlock phase after lockdown and having cost efficiencies.

We maintain our stance to be cautious as Indian equities are running ahead of fundamentals led by FPI liquidity. 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 economy and pent up demand ahead of Diwali. 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.

Earlier, buying was 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 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.

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.

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 smallcaps for investors with a two year horizon.

Correction will make the 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, key developments related to India – China tensions and upcoming US presidential elections. US Presidential Elections are interesting amidst COVID-19 crisis.

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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