

Stellar bull run continues at Dalal Street; PSU Banks rally on re-rating after Budget proposal on Privatisation..

- 1) Benchmark indices continue to hit new milestones on Thursday as economic recovery hopes, on the back of growth-driven Budget, positive global cues, and healthy FII buying, and hopes of status-quo in the Reserve Bank of India's February monetary policy, due on Friday continued to please investors. Indian equities continued to witness stellar rally post an extraordinary Union Budget presented by Finance Minister Nirmala Sitharaman to meet challenging demands of extraordinary times owing to COVID-19.
- 2) Investor wealth reached a new peak today as market capitalisation of all the firms listed on the BSE hit Rs. 200-trillion milestone.
- 3) Robust buying in shares of ITC, Kotak Mahindra Bank, State Bank of India, Bajaj Finance, ICICI Bank, and M&M helped the benchmark S&P BSE Sensex scale a fresh lifetime peak of 50,687.51 level. At close, the index was 358.54 points, or 0.71 per cent, up at 50,614 levels.
- 4) The broader Nifty50, on the other hand, continued its march towards the crucial 15,000-mark and ended at a new closing high of 14,896 levels, up 106 points or 0.7 per cent. The index hit a lifetime high of 14,914 in the intra-day trade today.
- 5) In the broader markets, midcap stocks such as Jubilant Foods and BHEL (up 7 per cent each), Tata Power (up 6.5 per cent), Sun TV and Balkrishna Industries (up 6 per cent each), and Canara Bank, ABFRL, ABB, and Adani Green (all up between 5 per cent and 5.5 per cent) dazzled at the bourses. Effectively, the S&P BSE MidCap Index settled 1.4 per cent higher on the BSE while the S&P BSE SmallCap index ended 1.2 per cent up.
- 6) Sectorally, Nifty PSU Bank index outran the markets and closed up by nearly 6 per cent on the NSE. Financial sector stocks, especially banks, have been in the limelight since Finance Minister Nirmala Sitharaman proposed to divest stake in two PSBs while unveiling Budget 2021 proposals. That apart, the FM set aside Rs. 20,000 crore for recapitalisation of PSBs. Individually, Indian Bank, Bank of Baroda, Bank of India, SBI, Canara Bank, and Punjab National Bank ended higher between 6 per cent and 18 per cent.
- 7) That apart, the Nifty Bank index clocked a new closing high of 35,345, up 586 points or 1.7 per cent. The index hit a record high of 35,413 earlier today.

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	50,614.29	50,255.75	358.54	0.71	50,212.25	50,687.51	49,926.45
Nifty	14,895.65	14,789.95	105.70	0.71	14,789.05	14,913.70	14,714.75

Sectors and stocks

- 1) Shares of public sector banks (PSBs) continued their upward movement for the fourth straight day on Thursday after the government on Monday announced plans to privatise two PSU banks in the financial year 2021-22 (FY22).
- 2) State Bank of India (SBI) too hit a 52-week high of Rs 358 on the NSE in intra-day trade today and finally closed at Rs. 355.10, up by 5.70 percent following strong Q3FY21 result. SBI had hit a record high of Rs 374 on July 18, 2019. On QoQ basis, both Operating Profit and Net Profit have increased despite higher overall provisions though loan loss provisions declined significantly on QoQ. Bank registered a Net Profit of Rs. 5,196 Crores in Q3FY21 as compared to Rs.4,574 Crores in Q2FY21, an increase of 13.60% sequentially. Operating Profit of the Bank increased by 5.31 percent on QoQ basis Rs. 17,333 Crores in Q3FY21. The bank reported a 6.9 per cent YoY drop in standalone net profit at Rs. 5,196 crore in Q3FY21. The fall was largely driven by a marginal increase in provisions against bad loans. Credit growth stood at 6.73 percent YoY, mainly driven by retail (personal) advances (15.47 percent YoY), SME (5.62 percent YoY) and corporate advances (2.23 percent YoY). Including the YoY growth in corporate bonds / commercial papers of Rs 44,161 crore, the loan book has grown by 8.16 percent YoY. Total deposits grew at 13.64 percent YoY, out of which current account deposit grew by 11.33 percent YoY, while saving bank deposits rose by 15.99 percent YoY, the bank added. The net interest margin remained stable at 3.12 percent

sequentially, but contracted 21 bps year-on-year. Excluding the one-off interest income and other income during Q3FY20, the YoY growth in net profit and operating profit for Q3FY21 would be 133.78 percent and 26.23 percent respectively. Provisions and contingencies increased significantly by 42.6 percent year-on-year to Rs 10,342.39 crore in Q3FY21, though sequentially saw a 2.2 percent rise in the same. The Bank had proactively made an additional provision of Rs. 6,247 crore as at December 2020 towards the possible impact of COVID-19 pandemic. "Bank's management is not expecting any significant impact on Bank's liquidity or profitability." Provision coverage ratio at 90.21 percent in Q3FY21 improved by 848 bps YoY and 202 bps sequentially. The gross non-performing assets (NPA) as a percentage of gross advances at 4.77 percent in Q3FY21 declined 51 bps sequentially and the net NPA at 1.23 percent fell 36 bps QoQ, said the SBI in its BSE filing. All segments of loan books reported decline in NPA QoQ with NPA from corporate book down 35 bps and retail 62 bps. On proforma basis without reference to the Supreme Court interim order, the gross NPA would have been at 5.44 percent and net NPA at 1.81 percent in Q3FY21. The Supreme Court in September last year, in the case of Gajendra Sharma versus Union of India and another, had directed that "the accounts which were not declared as NPA till August 2020 shall not be declared as NPA till further orders". Accordingly, the bank has not declared any domestic loan account as NPA which was standard as on August 2020. The fresh slippages were sharply lower at Rs. 237 crore for the quarter ended December 2020, compared with Rs. 3,085 crore in previous quarter, but proforma slippages for Q3FY21 were at Rs. 2,073 crore and proforma slippages for 9 months at Rs. 16,461 crore. Slippages ratio declined significantly to 0.04 percent at the end of December quarter 2020, compared with 0.46 percent in Q2FY21 and 2.94 percent in Q3FY20. The credit cost fell by 108 bps year-on-year and 56 bps quarter-on-quarter to 0.38 percent in Q3FY21.

- 3) Indian Bank hit a 52-week high of Rs. 120, up 18 per cent on the NSE in intra-day trade on the back of heavy volumes. The stock has rallied 37 per cent in the past four trading days.
- 4) Canara Bank rose 6 per cent to Rs. 162, up 22 per cent in the last four, while Bank of India was up 7 per cent to Rs. 57.95 today, having gained 16 per cent thus far in the week. Punjab National Bank and Bank of Baroda soared 23 per cent and 19 per cent, respectively, during the same period.
- 5) Shares of Mahindra & Mahindra hit a fresh 52-week high of Rs. 893 on the BSE after rallying 7 per cent on Thursday. The stock has witnessed rally of 19 per cent in the past four days after reporting strong tractor sales volume of 35,000 units for January 2021, up 50 per cent over the same month previous year. The stock is 10 per cent away from its all-time high level of Rs. 992, touched on August 30, 2018. The tractor demand continues to be strong with expansion in Rabi acreage, very high reservoir levels and higher liquidity in the hands of farmers with timely Kharif procurement. The management expects demand to remain robust on account of these factors and Government's focus on agriculture & rural sector.
- 6) Shares of Apollo Tyres were locked in the 10 per cent upper circuit band at Rs. 250, which was also its fresh 52-week high, on the BSE in the intra-day trade on Thursday after the company's consolidated net profit more-than-doubled to Rs. 443.8 crore in December quarter (Q3FY21) on the back of healthy operational performance and other income. The auto tyres & rubber products company had clocked a profit of Rs. 173.9 crore in Q3FY20 and had posted a net loss of Rs 246.20 crore in Q2FY21. Total consolidated operating income rose 17.1 per cent year-on-year (YoY) to Rs 5,154 crore. The company attributed the robust topline performance to strong demand recovery across segments in India, which was driven by strong growth in both replacement and OEM segments. "Consolidated margins were at a decade high 19.2 per cent, up 297 basis points (bps) quarter-on-quarter and 710 bps YoY. The margin performance was helped by recovery in topline, subdued raw material cost, and control over costs," the company said. That apart, the tyre manufacturer generated free cash flow (consolidated) of Rs. 1,200 crore during YTD FY21, helped by recovery in topline performance and control over costs, control over capex, and working capital optimization.

Key recent major developments..

- 1) Foreign portfolio investors (FPIs) continue to bet big on 'India story' with their net investment in Indian equities already hitting \$31.7 billion mark thus far in financial year 2020-21 (FY21) – the highest investment in a financial year since fiscal 2012-13 (FY13) when they had invested a net \$25.8 billion (Rs 1.40 trillion) in Indian equities, data show. After remaining on the sidelines during the last week, FPIs have pumped in over \$1 billion (Rs. 8,030 crore) in equities in past two days alone, after Finance Minister Nirmala Sitharaman presented Budget proposals for FY22. On Tuesday, February 2, they put in an additional \$847 million (Rs 6,182 crore) as per stock exchanges' provisional data.
- 2) Activity in India's services sector expanded for the fourth straight month in January as the Covid-19 vaccination roll-out drove business optimism, a private survey showed on Wednesday. The IHS India Services Business Activity Index rose to 52.8 in January from 52.3 in December, suggesting the pace of growth was moderate. The 50-point



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mark separates expansion from contraction. But it should be noted that the PMI is a month-over-month indicator, showing improvement over the previous month, and not over the previous year. "The Indian services sector enjoyed good levels of activity in January, with new business volumes rising for the fourth successive month and growth rates for both measures picking up from December," said Pollyanna De Lima, Economics Associate Director at IHS Markit. "The service sector looks set to sustain growth and confidence towards hiring may improve as COVID-19 concerns diminish," De Lima added.

- 3) The Supreme Court on Tuesday directed Franklin Templeton Mutual Fund to disburse Rs. 9,122 crore to unitholders of its six shut debt schemes. The money has to be distributed to unitholders in 20 days and the parties are at liberty to move applications in case of difficulties arising out of the process. The six schemes have received total cash flows of Rs. 14,391 crore till January 29, 2021 from maturities, coupons and prepayments. The total number of cash positive schemes stands at five. These schemes have Rs. 9,770 crore cash available to return to unitholders, subject to fund running expenses. The balance Rs. 4,621 crore has been used to repay borrowings and interest thereon of the six schemes. Individually, Franklin India Low Duration Fund, Franklin India Ultra Short Bond Fund, Franklin India Dynamic Accrual Fund, Franklin India Credit Risk Fund and Franklin India Short Term Income Plan have 65 per cent, 53 per cent, 41 per cent, 27 per cent and 11 per cent of their respective AUM in cash. The asset manager had shut six debt schemes on April 23, 2020 citing redemption pressures and lack of liquidity in the debt market.
- 4) On Monday, the FM announced capital expenditure of Rs. 5.54 trillion for FY22 (sharp increase of 34.5%) over last year's Rs. 4.39 trillion for FY21. Further, she announced the FY22 disinvestment target at Rs 1.75 trillion. Life Insurance Corporation of India (LIC) will go for an initial public offering (IPO) in FY22 as well. Further, allocation of Rs. 20,000 crore toward setting up a development financial institution (DFI) to have lending portfolio of Rs. 5 trillion over the next three year with the aim to mobilise funding required fulfilling National Infrastructure Plan (NIP).
- 5) FY21 fiscal deficit was pegged at 9.5 per cent of GDP. The optimism despite higher borrowing and a wider fiscal deficit, was on account of the positive measures to revive the Covid-19 hit economy. That said, while the fiscal deficit number and the gross borrowing estimates are a tad higher-than-expected, the money is being put to good use. The government plans to borrow around Rs. 12 trillion in FY22 and has pegged fiscal deficit at 6.8 per cent of the gross domestic product (GDP). Sitharaman said the government will be borrowing an additional Rs. 80,000 crore in this fiscal to meet its deficit for 2020-21, pegged at 9.5 per cent of the GDP. Therefore, the total gross borrowing this fiscal would be Rs. 14 trillion.
- 6) As per the budget proposals, the government plans to start the process of privatisation for two more public sector banks, other than IDBI Bank, and two insurance companies in fiscal 2021-22. Remember, privatisation of banks has been promised long by successive governments but there has not been much of a progress. The present government has taken a bold step. PSU stocks have rallied post the announcements as investors cheered the proposal. Privatisation of PSBs has not been taken by governments also because this is a politically sensitive decision.
- 7) Stressed Asset Resolution: Asset Reconstruction Company Limited and Asset Management Company to be set up. This entity, called as a 'bad bank', will give a big reprieve to NPA-ridden banks by absorbing the toxic assets and freeing them to pursue fresh lending. A bad bank will act as an aggregator of all stressed assets in the system. It is set up to buy the bad loans and other illiquid holdings of another financial institution. Once toxic assets are transferred to this entity, attempts for an early resolution by experts begins while originating banks can focus on their business. The bad bank idea has been supported by senior bankers and other financial sector experts citing that the idea will help for quicker bad asset resolution. The recovery through debt recovery tribunals and Insolvency and bankruptcy code (IBC) mechanism has been limited to only a few large cases. A bad bank could help in better bad loan resolution through an ARC model. In May 2020, when the IBA submitted its proposal to a government but the concept didn't take off at that point.
- 8) The extension of tax exemption schemes in Affordable Housing will have a strong positive effect on various sectors related to it.
- 9) The Government provided benefits to sectors which focus "Aatmanirbhar Bharat" or a self-reliant India in difficult times of COVID-19. The Budget would encourage industries to be 'vocal for local' for a future-ready India.
- 10) To make India future ready for any pandemic crisis in future, Healthcare sector got benefits with increased allocation and more specific allocation of Rs. 35,000 crores towards COVID-19 vaccination drive.
- 11) GST collections surged to an all-time high of about Rs. 1.20 lakh crore in January, 2021 as economic activities picked up after the withdrawal of stringent lockdown restrictions. Mop-up from the Goods and Services Tax (GST), which is levied when a consumable item is sold or a service such as travel booking rendered, in January was 8 per cent



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higher than such receipts in the same month of 2020. In a statement, the Finance Ministry said the January collections were the highest ever since the implementation of the nationwide tax in July 2017. The previous best was in December 2020 when Rs 1,15,174 crore was collected. This is the fourth straight month of over Rs 1 lakh crore tax collections, a sign of strong recovery.

- 12) India forecast robust economic growth of 11% for the fiscal year beginning on April 1 in its annual economic survey on last Friday, on the back of the beginning of a nationwide coronavirus vaccination drive and a rebound in consumer demand. The Indian economy, which the International Monetary Fund singled out as a global bright spot only a few years ago, is set to contract 7.7% in this fiscal year, to March 31, the deepest contraction in four decades, the government said in the survey. But the government predicts the rollout of vaccines against COVID-19 will re-energise Asia's third-largest economy with 11% growth next year, putting it on track to post the strongest growth since India liberalised its economy in 1991. The survey's projections form the basis for key figures in the budget, due to be delivered on Monday by Finance Minister Nirmala Sitharaman. While the survey forecast a "V-shaped" economic recovery, it also cautioned that it would take at least two years to revert to pre-pandemic gross domestic levels. "With the economy's returning to normalcy brought closer by the initiation of a mega vaccination drive, hopes of a robust recovery in services sector, consumption, and investment have been rekindled," said the survey.
- 13) India provides a "predictable environment" for doing business and its commitment to economic self-reliance will strengthen globalization, said Prime Minister Narendra Modi on last Thursday as he addressed World Economic Forum's online Davos Agenda Summit. PM Modi said India's Atmanirbhar Abhiyan is committed towards global good and supply chain, adding that the country has the capacity, capability and reliability to strengthen the global supply chain. "Indian government has taken major steps to spur manufacturing. corporate tax was brought down to 15 per cent for new manufacturing units, GST rates have been reduced. Tax structure has been simplified Through GST and faceless assessment and Labour laws have been reformed," said Modi at the virtual summit where more than 400 CEOs from across the globe were in attendance. Hailing India's pandemic response, Modi said the country has transformed fight against coronavirus into people's movement. "Today India is among most successful in saving lives." "Many around the world thought India would be worst-affected country by Covid-19 and face tsunami of corona infections," he said, indicating the country has lined up more vaccines for the disease after using two for its nationwide inoculation. "Right now there are two made in India vaccines. World Economic Forum will be relieved to know that in the time to come many more vaccines will come from India," he said. "India also ensuring a global responsibility; we sent essential drugs to over 150 countries, we're sending Covid vaccines abroad too," PM Modi said.
- 14) India has given the first dose of covid antidote to 44,49,552 beneficiaries in the nation-wide vaccination drive. India became the fastest country in the world to reach the 4 million Covid-19 vaccination mark, achieving this feat in 18 days.
- 15) The Ministry of Road Transport and Highways on Monday approved a proposal to levy 'Green Tax' on old vehicles which are polluting the environment. It is estimated that commercial vehicles, which constitute about 5% of the total vehicle fleet, contribute about 65-70% of total vehicular pollution. The older fleet, typically manufactured before the year 2000 constitute less than 1 % of the total fleet but contributes around 15% of total vehicular pollution. These older vehicles pollute 10-25 times more than modern vehicles, the ministry added. The proposal will now go to the states for consultation before it is formally notified, said Union Minister for Road Transport and Highways Shri. Nitin Gadkari. Along with that, the minister also approved the policy of deregistration and scrapping of vehicles owned by government department and PSU, which are above 15 years in age. Prasad also said that it would come into effect from 1st April, 2022. The main principles to be followed while levying the Green Tax are:
 - a) Transport vehicles older than 8 years could be charged Green Tax at the time of renewal of fitness certificate, at the rate of 10 to 25 % of road tax;
 - b) Personal vehicles to be charged Green Tax at the time of renewal of Registration Certification after 15 years;
 - c) Public transport vehicles, such as city buses, to be charged lower Green tax;
 - d) Higher Green tax (50% of Road Tax) for vehicles being registered in highly polluted cities
 - e) Differential tax, depending on fuel (petrol/diesel) and type of vehicle;
 - f) Vehicles like strong hybrids, electric vehicles and alternate fuels like CNG, ethanol,LPG etc to be exempted;
 - g) Vehicles used in farming, such as tractor, harvester, tiller etc to be exempted;
 - h) Revenue collected from the Green Tax to be kept in a separate account and used for tackling pollution, and for States to set up state of-art facilities for emission monitoring
- 16) India's non-banking finance companies (NBFC) need tighter regulation through creation of a multilayer model, said a discussion paper by the Reserve Bank of India on Friday. The paper proposed a structure to categorise NBFCs, or shadow banks, depending on their size and interconnectedness with the system. NBFCs in the lower layer will be known as NBFC-Base Layer (NBFC-BL). NBFCs in the middle layer will be known as NBFC-Middle Layer (NBFC-ML).



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An NBFC in the Upper Layer will be known as NBFC-Upper Layer (NBFC-UL) and will invite a new regulatory superstructure. It proposed a NBFC non-performing classification norm of 180 days be "harmonised" to 90 days. "In view of the recent stress in the sector, it has become imperative to reexamine the suitability of this regulatory approach, especially when failure of an extremely large NBFC can precipitate systemic risks," said the paper.

- 17) State-owned telecom companies BSNL and MTNL turned EBITDA positive in the first half of financial year 2020-21, DoT said on Monday. The Department of Telecom (DoT) also said that the process for spectrum allocation for 4G services to Bharat Sanchar Nigam Ltd (BSNL) on pan-India basis, including Delhi and Mumbai, has been initiated and funds have been provisioned in FY2020-21. Summing up the developments in the sector in its year-end review for 2020, the DoT in a release said that overall 92,956 employees of both the public sector companies (PSUs) who opted for Voluntary Retirement Scheme (VRS) have retired on January 31, 2020. "The salary expenditure in BSNL and MTNL (Mahanagar Telephone Nigam Ltd) has reduced by around 50 per cent (about Rs. 600 crore per month) and 75 per cent (about Rs 140 crore per month), respectively. EBIDTA (Earnings before Interest, Taxes, Depreciation and Amortisation) have become positive in first half of FY 2020-21 in both BSNL and MTNL," it said.
- 18) Manufacturing sector activities showed a marginal improvement in December compared to the previous month even as employment generation remained low, showed the widely-tracked IHS Markit purchasing managers' index (PMI) survey. PMI inched up to 56.4 in December compared to 56.3 in November. However, it remained lower than 58.9 in October and 56.8 in September, the two months during which the economy saw a gradual lifting of lockdowns. A reading above 50 shows growth, while the print below 50 means contraction. While firms were able to lift input stocks, and did so at the quickest rate in nearly a decade, holdings of finished goods decreased sharply due to the ongoing increase in new work. Output growth eased to a four-month low, but remains strong. Manufacturing, in the Index of Industrial Production (IIP) rose by 3.5 per cent in October, according to the latest figures. However, it might come down going forward in line with PMI results, warned Pollyanna De Lima, Economics Associate Director at IHS Markit.

Global markets

- 1) Global equities were weak on Thursday as a spike in short-term Chinese interest rates raised worries about policy tightening in the world's second-largest economy.
- 2) MSCI's ex-Japan Asian-Pacific index fell 1.2 per cent, led by drops in South Korea and China, while Japan's Nikkei lost 1.1 per cent.
- 3) In Europe, shares paused after a three-day rally. The STOXX 600 index was flat in early trading, while Milan's FTSE MIB index fell 0.2 per cent.
- 4) Asian equities and US stock futures rose on Wednesday as governments around the world looked poised to boost spending to help economies recover from the coronavirus and vaccine roll-out programmes accelerated.

Ajcon Global's view

- 1) Investors continued their enthusiasm into fourth day on Thursday after one of its kind of Budget presented with significant outlay for investment led spending across infrastructure building like roads, power, railways, airports, ports, shipping, waterways etc. and with no changes in capital gains taxes or securities transaction tax (STT) or any form of Covid-19 pandemic-related tax which brought happiness at Dalal Street. Today buying was witnessed in PSUs especially in PSU Banks' after the Government's thrust on privatisation agenda. The BSE Sensex has rallied by massive 4,328 points or 9.4 percent in four days to end at a record closing high of 50,614.29 levels. The Nifty50 too has seen a great rally of 9.2 percent to end at a record closing high of 14,895.70 just shy of 104 points from its new milestone of 15,000. With robust rally in benchmark indices which reflects upsurge in Largecaps; we believe its turn of midcaps and smallcaps. Jan. 2018 levels may soon approach fast considering the intensity of the euphoria post the Budget proposals.
- 2) Sentiments were buoyant post Budget as Government chose to revive growth which is the need of the hour owing to unprecedented crisis of COVID-19 and let fiscal prudence take a backseat (allowed fiscal deficit to remain high). Overall, the FM presented a reformist budget and good measures for the banking sector in 2021 especially with respect to the privatisation agenda. We rate this Union Budget as 8.5/10 and will be remembered for a long time.
- 3) FPIs too cheered Budget announcements and were on a buying spree on Thursday after selling heavily in the last week. Previous week's significant fall was covered in Monday's trading session.



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- 4) The Nifty valuations are trading around 35x which looks expensive but with recent budget proposals one will need to watch out the effect on corporate earnings. Q3FY21 earnings season has been good for majority of the players till date and re-rating has already happened in infrastructure, Banks, NBFCs, auto and overall PSUs sector.
- 5) Domestically, all eyes would be on ongoing Q3FY21 earnings season after strong result by Companies like TCS, Hindustan Unilever, Maruti, Tata Motors, Colgate, SBI, Union Bank of India, HDFC Bank, Shriram Transport Finance, Ajanta Pharma, Avenue Supermarts (Dmart), Tata Elxsi, Bajaj Auto, Ceat, JK Tyre, Bajaj Auto, ICICI Bank etc.
- 6) Globally, sentiments have improved after the United Kingdom's historic trade deal with the European Union and US President Donald Trump signed into law a \$2.3 trillion pandemic aid and spending package. All eyes would be on the new strain of coronavirus developments in other parts of the world after its emergence in UK and Europe. China is also witnessing rise of COVID-19 cases after nearly 10 months. Investors will keep an eye on the progress of COVID-19 vaccine roll out and its efficacy in India and various countries after these new developments. Any negative news especially on the new strain of COVID-19 will play spoilsport after the massive rally.
- 7) With Union Budget 2021-22 presented; all eyes would be on RBI's Monetary Policy, ongoing Q3FY21 earnings season which has been robust and FPI liquidity.



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