AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **August 06, 2020**

Investors cheer RBI measures in its Monetary policy; midcaps and smallcaps rally..

Indian equities ended around 1 per cent higher on Thursday after the Reserve Bank of India (RBI) decided to keep the benchmark repo rate unchanged at 4 per cent, and reverse repo rate at 3.35 per cent. Further, the central bank also announced measures to support NBFCs, HFCs, corporate debt market, and announced a relaxation on the loan-to-value (LTV) ratio for gold loans. A LTV ratio is the proportion of the gold value that a lender can finance through a loan. By hiking the LTV against gold loan, the RBI has tried to up the credit disbursal activity in the economy via gold financing as borrowers look to mitigate the financial exigencies caused by the coronavirus crisis. "It has been decided that stressed MSME borrowers will be made 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," RBI governor Shaktikanta Das said. Further, the RBI introduced special resolution window under its June 29 circular. "The Reserve Bank is constituting an Expert Committee, under the chairmanship of K.V. Kamath, which shall make recommendations to the RBI on the required financial parameters, along with the sector specific benchmark ranges for such parameters, to be factored into resolution plans. The Expert Committee shall also undertake a process validation of resolution plans for borrowal accounts above a specified threshold," Das said in his statement.

The S&P BSE Sensex today ended 362 points or 0.96 per cent higher at 38,025 levels while NSE's Nifty ended at 11,200, up 98.5 points or 0.89 per cent. India VIX dropped nearly 2 per cent to 23.14 levels.

Infosys, HDFC Bank, TCS, and ICICI Bank were the major contributors to the Sensex's gains.

In the broader market, the S&P BSE MidCap index ended 0.77 per cent higher at 14,017 while the S&P BSE SmallCap index ended 1 per cent higher at 13,562 points.

On the sectoral front, barring Nifty PSU Bank index, all the other sectoral indices on the NSE ended in the green. The Nifty Bank gained over 0.6 per cent while Nifty Realty rallied over 1 per cent. The Nifty IT index gained 1.8 per cent to 18,189 levels.

Crude oil
Crude oil prices declined just below five-month highs, with support from a weak dollar and falling US crude inventories undermined by bearish sentiment about fuel demand.

Gold
Gold prices raced towards a record high as poor US jobs pushed the dollar to a two year low and raised serous concerns regarding economic recovery in US from COVID-19 crisis.

Sectors and stocks
Alkem Laboratories shares were up by as much as 4.5 per cent to quote at Rs. 2,972.6 on the BSE after the company launched Favipiravir in India under the brand name 'Alfluenza' for the treatment of mild to moderate Covid-19 patients. "The cases of Covid-19 is increasing significantly across the globe. India too is affected with around 50,000 new cases being added on a daily basis. In this backdrop, Alkem Laboratories has launched Favipiravir under the brand name 'Alfluenza' in India for the management of mild to moderate cases of Covid-19. Favipiravir is approved by DCGI (Drug Controller General of India) for restricted emergency use in India," it said in a statement.

Shares of Eveready Industries gained 3 per cent to Rs. 137 apiece on the BSE on Thursday after rating agency India Ratings and Research upgraded the company's Long Term Credit Ratings to 'IND BB+' from 'IND BB'. Moreover, the outlook has been changed to 'positive'. According to the latest ratings upgrade, Eveready's Term Loans are rated 'IND BB+' with a 'Positive' outlook. That apart, reaffirmed Fund-based Limits Long Term/Short Term rating as 'IND BB+' with 'Positive/IND A4+' outlook, and Non-fund based Limits Long Term/Short Term rating as 'IND BB+' with 'Positive/IND A4+' outlook. "The upgrade reflects EIIL's improved liquidity position aided by deleveraging in 2HFY20, coupled with sustained profitability in FY20. The Positive Outlook reflects Ind-Ra's expectations of a further improvement in EIIL's business profile and its liquidity position in FY21, backed by the improving performance of its battery and flashlight segments, a possible resolution of the contingent liability issue and the possibility of a managerial/board representation by EIIL's largest shareholder the Burman family," the agency said in a press release.

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Global markets
Stocks declined on Thursday as investors waited for signs of agreement on a US stimulus package, while the US dollar slumped to a two-year low on fears that the recovery in the world's biggest economy was lagging others.

European stocks edged down in volatile trading, with Frankfurt gaining 0.2 per cent as investors digested a fresh batch of corporate earnings reports.

Ajcon Global's view
We believe cooling of Indian equities will be healthy for investors as whopping rally in last four months was led by liquidity through FPIs. July 2020 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 and escalating 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. According to data on NSDL, the inflows in January 2020 stood at US$1.3 billion against the June inflow of US$2.73 billion. The inflows have currently become higher than the pre-Covid-19 levels in January where the markets were at all-time highs with the benchmark Sensex and Nifty trading at the 42,000 and 12,300 mark respectively. After hitting a record high in January 2020, Indian equity benchmarks crashed 40 percent to hit around four-year low level on March 24, 2020. The indices in June 2020 quarter witnessed a sharp and fast rally of 20 percent in both Sensex and Nifty which is very sharp led by liquidity (by global central banks) and gradual re-opening of economies despite virus risk.

Presently, caution is warranted as Indian investors are not connected to realities of economic situation being tough which is evident by the fact that Companies are looking to raise capital via rights issue and FPO. Although there are relaxations in lockdown, exponential rise in COVID-19 cases can force for tighter lockdown. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating India – China tensions after banning of Chinese mobile apps; global cues especially the spike in COVID-19 cases across the globe in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in Q1FY21 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied in June 2020 quarter, investors will keep an eye as to how far the sectors revive from a standstill scenario. The disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis will also remain an overhang. We like the agriculture reforms announced; major announcements made in sectors like Coal, Mining, Aviation, Defence and Power sector were also good and long term in nature. However, certain announcements by Finance Ministry were not taken well by street participants with regards to measures like MSME loan not being interest free, ambiguity with regards to MSMEs who do not have an existing credit facility, market sentiments getting affected as the reduction in rate of TDS to increase liquidity in the system were announced as part of stimulus package etc.

Sectors like Pharma and Healthcare, Speciality Chemicals, Insurance, E-Commerce, Companies with innovative business models especially in facility management, housekeeping and digital space would benefit from the COVID-19 crisis while sectors like over leveraged NBFCS including micro finance, real estate, construction, hospitality, tourism and aviation sector would be affected significantly. We advise investors to not lose hope in Indian equities as historically it is proven that market do witness recovery post an epidemic. Historically, Indian equities have always bounced back strongly post a Black swan and key events like Global Recession (1986-88), Gulf War/India Fiscal Crises (1990-91), Harshad Mehta Scam (199293), Stock Market fall (1994-96), 97 Market Meltdown (1997-98), Dot-Com Bubble (2000-01), Central Election Results (2004), High Inflation (2006), Global Financial Crisis (2008), European Sovereign Debt Crises (2010-11) in the past ranging from a fall of 11 percent to 65 percent and bouncing back in three years' time frame by ~73 percent to 300 percent in the above events. Globally in the past, during the Great Depression, the US market declined steeply and made record highs later on. Any news of faster discovery and launch of vaccine for COVID-19 may fuel the market. However, those who have entered at the lower levels especially in last week of March 2020 last week and first week of April 2020 may book short term partial profits.

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