AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **October 15, 2020**

Bears take charge as Indian equities were running ahead of fundamentals; second wave of COVID-19 cases in Europe and US dent investor sentiments..

Indian equities declined by over 2.5 per cent lower on Thursday – snapping a 10-day rally – with the S&P BSE Sensex falling by whopping 1,066 points to end the day at 39,728 levels. On the other hand, the Nifty50 index declined significantly by 291 points to settle at 11,680 levels. In addition, weak global cues dampened investor sentiments as renewed restrictions in European countries to control the possible second wave of Covid-19 infections will affect economic growth. In the intra-day deals, the benchmark S&P BSE Sensex tumbled 1,127 points, or 2.7 per cent, at 39,684 levels. The broader Nifty50 had witnessed a fall of 310 points or 2.5 per cent to hit a low of 11,661 levels before recovering a bit.

Shares of information technology (IT) companies came under selling pressure on Thursday, with Nifty IT and S&P BSE IT indices slipping over 3 per cent on profit booking.

Key developments

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.

The Supreme Court has adjourned its hearing on a batch of petitions seeking interest waiver during the loan moratorium period to November 2. The bench on October 5 heard pleas seeking waiver of accruing interest during the six-month loan moratorium period. The SC had on September 3 instructed banks not to declare accounts as non-performing assets (NPAs) until further orders after the Centre on October 2 told the apex court that it would waive compound interest on the repayment of loans of up to Rs. 2 crore, a move that would provide relief to individual and micro, small and medium enterprise (MSME) borrowers. The SC has previously said there is "no merit in charging interest on interest". The RBI had in March announced a moratorium on repayment of term deposits for three months, which was later extended till August 31. The move was intended to provide borrowers relief during the COVID-19 pandemic and expected to give them more time to clear payments of EMIs amid the economic fallout of the lockdown, without being classified as NPAs. On June 4, the central bank said lenders will lose Rs. 2 lakh crore if interest is waived during the moratorium period.

Earlier, the Finance Minister (FM) Nirmala Sitharaman announced a Rs. 12,000 crore interest-free 50-year loan to states for spending on capital projects in a bid to boost the economy. She further announced a one-time Rs. 10,000 interest-free festival advance to all its officers and employees as part of plans to increase consumer spending to spur demand in the economy. The FM announced the LTC Cash Voucher and Festival Advance Schemes to encourage government employees to spend more and boost demand in the economy. As part of the announcement, central government employees who get Leave Travel Concession (LTC) for their travels will get an equivalent of the amount even without travelling. They could use the allowance to make purchases of their choice. This will apply to the purchase of goods that attract 12 per cent GST or more and can be spent on buying goods worth three times the fare and equal to the cash encashment. The spending will have to be done by digital mode only. The scheme is being introduced against a backdrop where people are not travelling, so not encashing their LTC. The payment will remain tax-free and is to be done before March 31, 2021. The Centre also revived a one-time festival advance scheme giving Rs. 10,000 to every gazetted, non-gazetted government employee as a prepaid RuPay card to be used in any festival till March 31, 2021. The festival advance was ended in the 7th pay commission. The FM announced enhanced budget provision of Rs. 25,000 crores for capital expenditure by the Centre. The additional budget will be provided for expenditure on roads, defence, infrastructure, water supply, urban development, defence infrastructure and domestically produced capital equipment.

Last week, RBI in its Monetary Policy tweaked the retail lending norms and said the risk weights will now be adjusted based on the loan-to-value ratio and not the ticket size of the loans. However, the Central Bank was bearish on GDP and forecasted negative growth above 9 percent which was in line with World Bank's expectations. Earlier, The World Bank said India's GDP may contract 9.6 per cent this fiscal. The bank has advised the country to continue with critical reforms to reverse the sudden and steep impacts of Covid-19 on its economy. In June, it had projected contraction to be 3.2 per cent. The latest projection is higher than S&P's forecast of 9 per cent but less than 11.5 per cent by Moody's. In its South Asia Economic Focus report, released on Thursday, the World Bank forecast a sharper- than-expected economic slump across the region, with regional growth expected to contract by 7.7 per cent in 2020, after topping 6 percent annually in the past five years. "India's economy, the region's largest, is expected to contract by 9.6 per cent in the fiscal year that started in March 2020. India's growth is projected to rebound to 5.4 per cent in FY22, mostly reflecting base effects, assuming Covid-related restrictions are completely lifted by 2022," the report mentioned. Further, weak activity, domestically and abroad, is also likely to depress both Indian imports and exports.

Sectors and stocks

Shares of Tata Elxsi rallied by 5 per cent and hit a record high of Rs. 1,533.55 on the BSE on Thursday after reporting 56 per cent year on year (YoY) growth in profit before tax (PBT) at Rs. 110 crore in the July-September quarter (Q2FY21). The company's operational revenues grew 11.5 per cent YoY at Rs. 430 crore. On sequential basis, revenues and PBT jumped 7.4 per cent and 17 per cent, respectively. "We are going into the second half of FY21 with a strong deal pipeline across geos and verticals, and a significant number of large deals that we are pursuing. We are back to our pre-Covid momentum and expect this momentum to continue into H2 FY21", said Manoj Raghavan, CEO and Managing Director. Tata Elxsi is amongst the world's leading providers of design and technology services across industries including automotive, broadcast, communications, healthcare and transportation.

Shares of Infosys declined by over 2.5 per cent on the BSE in the morning deals on Thursday after hitting a fresh record high of Rs. 1,185 in the early trade. The IT major on Wednesday reported healthy set of July-September quarter (Q2FY21) numbers on revenue and profitability front. The company has also revised its FY21E revenues guidance upwards from 0-2 per cent year on year (YoY) to 2-3 per cent YoY in constant currency basis and operating margin guidance to 23-24 per cent from 21- 23 per cent. For Q2FY21, the Company's revenues rose by 3.8 per cent quarter on quarter (QoQ). The biggest surprise for Infosys, however, came from margin gain — a healthy 260-basis points (bps) improvement over the preceding quarter and 360 bps over the corresponding period in the previous financial year at 25.4 per cent. This narrowed the margin gap with industry leader TCS whose margin at the end of Q2 stood at 26.2 per cent. The large deal pipeline increased by 80.7 per cent QoQ mainly due to addition of Vanguard deal.

Global markets

Global equities were under pressure as rising Covid-19 cases across US and EU affected investor sentiments. Vaccine for the pandemic which is still far away and delay in US stimulus package dimmed recovery hopes. Japan's Nikkei ended half a per cent lower while Asia Dow declined by 1.6 per cent. Hong Kong's Hang Seng witnessed a fall over 2 per cent.

European equities were under pressure to.The pan-European STOXX 600 was down 1.7 per cent to a near two-week low, with markets in London and Paris lower 1.4 per cent-1.7 per cent and Frankfurt and Milan 2 per cent-2.5 per cent weaker. To deal with second wave of COVID-19 cases, French President Emmanuel Macron on Wednesday 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 Saturday for four weeks. Besides, German Chancellor Angela Markel has given states free-hand to decide their own strategy to curb rising cases.

Ajcon Global's view

As expected by us, blood bath was witnessed at Dalal Street across the board after a 10 day rally. We were consistently advising investors to be ready for a sharp sell off as Indian equities were running ahead of fundamentals with on ground economic reality not so good which Indian equities were painting through its rally on high FPI liquidity. Our conviction on the same proved right today after Rating agencies and RBI forecasting a high negative GDP growth with recovery only in FY22 onwards.

In the last 10 trading sessions, 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.

Exponential rise in COVID-19 cases can take a toll on economic recovery. As Indian economy has opened up partially and with increase in testing for COVID-19 cases, the sudden massive spike was expected. At present, the country is witnessing high recovery rate and low fatality rate which gives some relief.

The economic activity has picked up in various Unlock phase 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 our Prudential Framework for Resolution of Stressed Assets. RBI has acknowledged the difficulties faced by the economy and is constantly bringing in new measures.

The RBI governor in its recent monetary policy announcement said, the economic recovery would likely to predominantly be a "three speed recovery," with individual sectors showing varying paces, depending on sector-specific realities. Sectors that have shown resilience to the pandemic, and are labour intensive will be the first to recover. These include agriculture and allied activities; fast moving consumer goods; two wheelers, passenger vehicles and tractors; drugs and pharmaceuticals; and electricity generation, especially renewables, Some sectors would open up gradually, while the third category are facing 'slog overs', "but they can rescue the innings." These are the sectors most severely affected by social distancing and are contact-intensive, the RBI governor said. The rural economy has remained resilient, and early indications suggest food grain production is set to cross another record in 2020-21. The inflation too, should start to come within the target 2-6 per cent from the third quarter, the RBI governor said, as against 6.7 per cent recorded during July to August. The MPC projected CPI inflation at 6.8 per cent for the quarter ended September, 5.4-4.5 per cent for the second half of the current financial year and 4.3 per cent for the first quarter of the next fiscal, "with risks broadly balanced." Last week, the monetary policy committee (MPC) of the Reserve Bank of India (RBI) kept policy rates unchanged, and the governor assured that the worst was possibly over for the economy and it can now hope for steady recovery towards pre-pandemic growth rates. The newly-appointed six member MPC voted unanimously to keep the policy repo rate at 4 per cent, and said the real gross domestic product (GDP) growth rate in 2020-21 could be a negative 9.5 per cent, with "risks tilted to the downside." The stance of the policy would remain "accommodative," for "as long as necessary – at least during the current financial year and into the next year – to revive growth on a durable basis and mitigate the impact of Covid-19, while ensuring that inflation remains within the target going forward," RBI governor Shaktikanta Das in his streamed monetary policy address on Friday morning.

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.

Today's correction and further fall will make markets healthy for fresh entry as Indian equities were in overbought zone for quite sometime. Going forward, all eyes would be on Q2FY21 earnings season, festive season sales, COVID-19 related developments and US elections.

AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

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 affliates, 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