AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

**Market wrap** **Sep. 28, 2020**

**Buying witnessed across the board after being under pressure last week; stock specific action witnessed..**

The benchmark indices ended over 1.5 per cent higher on Monday, lifted by across-the-board gain.

The S&P BSE Sensex rallied 593 points, or 1.59 per cent to 38,982 levels. Of 30 constituents, 27 advanced and the rest 3 (Nestle India, Infosys, and Hindustan Unilever) declined. The Nifty50 index reclaimed the 11,200-mark to settle at 11,228, up 177 points, or 1.6 per cent. In the broader market, the S&P BSE MidCap index rallied 2.68 per cent to 14,721 while the S&P BSE SmallCap index ended at 14,863.25, down 368 points, or 2.54 per cent.

On the NSE, all the sectoral indices ended in the green. Nifty Bank gained 3.26 per cent to 21,665.50 levels while Nifty Metal index rose nearly 3 per cent to 2,237 levels.

The S&P BSE power index rose by 3.4 percent, the BSE Bankex was up by 3.3 percent and the BSE public sector was up by 3 percent.

India VIX declined by over 5 per cent to 19.57 levels.

**Key development**
The Parliament approved Rs. 20,000 crore for PSB capital infusion as part of the first batch of Supplementary Demands for Grants for 2020-21 which sought additional spending of a record Rs. 2.35 lakh crore primarily to meet expenses forcombating the COVID-19 pandemic.

The global rating agency, S&P affirms India's 'BBB-/A-3' rating with a stable outlook. India's outlook remains stable as the economy is expected to recover post-COVID. The global rating agency expects India's real GDP growth to recover from fiscal 2021 onwards.

**Sectors and stocks**
Shares of Indoco Remedies rallied by 9 per cent to Rs. 284 on the BSE on Monday after the pharmaceutical company announced the launch of Fevindo (Favipiravir) 400 mg tablets in India. Fevindo-400 (Favipiravir) is an antiviral drug, effective against the RNA-based influenza virus. The drug has been approved by DCGI in the treatment of Covid-19. The drug reduces pill burden by 50 per cent and ensures convenient dosing and better patient compliance, Indoco Remedies said in press release on Saturday. Fevindo-400 will be made available at all government approved Covid-19 care centres and selected medical practitioners across the country. Indoco has set up dedicated helplines to ensure accelerated access to Fevindo 400. In addition to Fevindo, Indoco has two more new products for launch in Covid Care range, i.e., Povidone Iodine Gargle and Immunity booster chewable tablets with Zinc, Vitamin C and Vitamin D.

Shares of multiplex companies, PVR and Inox Leisure, were trading firm in the morning deals on Monday as West Bengal Chief Minister Mamata Banerjee said on Saturday that cinema halls and open-air theatres will be allowed to operate in the state from October 1 with a limited number of participants.

Shares of Surya Roshni rallied by 10 per cent to Rs. 212.85 on the BSE on Monday after the company received orders worth Rs. 273 crore from state-owned oil & gas companies. The stock was also trading close to its 52-week high of Rs. 214, hit on September 21, 2020. "The company has obtained orders aggregating to Rs. 272.86 crore (excluding GST) for the supply of coated API line pipes to GAIL (India) and Indradhanush Gas Grid (IGGL) for North-East gas grid pipe line project," Surya Roshni said in an exchange filing. IGGL awarded a contract worth Rs 221.29 crore, which is to be executed in 60 weeks. Other contract worth Rs 61.57 crore from GAIL (India), which is to be executed in 8 months, the company said. Earlier this month, Surya Roshni had obtained orders aggregating to Rs 287.45 crore (excluding GST) for the supply of API Grade 3LPE Coated line Pipes to Indian Oil Corporation for LPG pipeline projects and Bharat Gas Resources (BGRL) for CGD. The company said that post the unlock, both the divisions - steel pipes & strips and lighting and consumer durables - are witnessing V-shaped recovery from June 2020 onwards (overall double digit growth in revenue and substantial bottom line improvement) owing to strong presence in the rural and semi-urban markets, growth in agriculture, consolidation of businesses post COVID and better export prospects owing to increasing preference of India-based manufactures over China. The government's thrust on projects like increasing the share of gas in energy mix, city gas distribution network and improved focus on domestic water segment, irrigation projects, 'Har Ghar Jal' scheme etc. will further boost the growth of steel pipes segment. The stock has outperformed the market by surging 64 per cent in past three months, against 7 per cent rise in the S&P BSE Sensex.

Shares of Ratnamani Metals and Tubes were up by 5 percent intraday on September 28 after the company bagged domestic order worth Rs. 216 crore. The company has received a domestic order of Rs. 216 crore in Carbon Steel Division of the company for the supply of coated CS Pipes for oil & gas sector. The order to be executed between January, 2021 to January, 2022.

**Global markets**

Asian equities were up on Monday amid signs China's economic recovery was gaining momentum with pent-up demand, fiscal stimulus and surprisingly resilient exports boosting sentiment across the region. MSCI's broadest index of Asia-Pacific shares outside Japan advanced 0.7 per cent to 551.48, but stayed within striking distance of a two-month low of 543.66 hit last week.

In Europe, stocks partially recovered from last week's hefty losses, helped by upbeat industrial profits data from China and as banking stocks bounced off record lows.

**Ajcon Global's view**

Indian equities witnessed broad based buying today led by hopes of another round of stimulus package. Investors are also cheering positive factors like economic activity nearing pre COVID-19 levels in some of the sectors, improvement of auto sales and normal monsoons which would result in good farm output.

Exponential rise in COVID-19 cases can take a toll on investors' sentiments. 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. Meanwhile, clinical trials for the AstraZeneca and Oxford University coronavirus vaccine have resumed after green light from safety watchdogs. The late-stage trials of the experimental vaccine, one of the most advanced in development, were suspended last week after an illness in a study subject in Britain. Billionaire philanthropist Bill Gates has said India's willingness to play a "big role" in manufacturing COVID-19 vaccine and allow it to supply to other developing countries will be a critical part in containing the pandemic globally. The Microsoft co-founder said the world is looking to India for large scale production of COVID-19 vaccine once it is rolled out. "Obviously, all of us want to get a vaccine out in India as fast as we can, once we know that it's very effective and very safe, and so the plans are coming into focus that sometime next year, it's very likely that roll-out will take place and take place in fairly big volume," he said. "The world is also looking to India for some of that capacity to be available to other developing countries. Exactly what that allocation formula looks like will have to be figured out," Gates added. "This is not like a world war, but it's the next biggest thing after that that we've ever had," he said. The Bill and Melinda Gates Foundation, one of the world's largest charities, has been involved in global efforts to contain the pandemic. In India, the foundation has entered into a partnership with the Serum Institute to accelerate the manufacturing and delivery of COVID-19 vaccines.

However, the economy has been stagnating in the COVID-19 era which was evident from the depressing Q1FY21 GDP data. It has to be seen as to how fast economy rebounds from a standstill scenario. There are still supply chain bottlenecks, slump in demand, 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.

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.

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.

In order to continue to ensure orderly market conditions and congenial financial conditions, the following measures were announced by RBI:

1. The Reserve Bank will conduct additional special open market operation involving the simultaneous purchase and sale of Government securities for an aggregate amount of Rs. 20,000 crore in two tranches of Rs. 10,000 crore each. The auctions would be conducted on September 10, 2020 and September 17, 2020. The RBI remains committed to conduct further such operations as warranted by market conditions.

2 The Reserve Bank will conduct term repo operations for an aggregate amount of Rs. 100,000 crore at floating rates (i.e., at the prevailing repo rate) in the middle of September to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing these transactions before maturity. Thus, the banks may reduce their interest liability by returning funds taken at the repo rate prevailing at that time (5.15 per cent) and availing funds at the current repo rate of 4 per cent. Details are being notified separately.

3 Currently, banks are required to maintain 18 per cent of their net demand and time liabilities (NDTL) in SLR securities. The extant limit for investments that can be held in HTM category is 25 per cent of total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR securities within an overall limit of 19.5 per cent of NDTL. SLR securities held in HTM category by major banks amount to around 17.3 per cent of NDTL at present. However, there are inter-bank variations with some banks close to the 19.5 per cent of NDTL limit. Accordingly, it has been decided to allow banks to hold fresh acquisitions of SLR securities acquired from September 1, 2020 under HTM up to an overall limit of 22 per cent of NDTL up to March 31, 2021 which shall be reviewed thereafter. Details are being notified separately.

4 The RBI stands ready to conduct market operations as required through a variety of instruments so as to ensure orderly market functioning.

Earlier, 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 has identified 26 sectors including auto, aviation, construction, hospitality, power, real estate and tourism, among others, impacted by COVID-19 for a loan restructuring scheme to be rolled out by banks and non-banking financial companies. The Committee listed specific financial parameters for the 26 sectors and the recommendations have been broadly accepted by RBI. The committee has identified five key ratios with different limits across sectors as a threshold for implementing a resolution plan. The five key ratios are: total outside liability/adjusted tangible networth (TOL/Adjusted TNW), total debt/EBITDA, current ratio, debt service coverage ratio (DSCR) and average debt service coverage ratio (ADSCR). The committee will scrutinise restructuring of loans above Rs. 1500 crore. The term of the committee has been extended till June 30 2021. The resolution under this framework is applicable only to those borrowers who have been impacted on account of Covid. Only those borrowers which were classified as standard and with arrears less than 30 days as at March 1, 2020 are eligible under the Framework. According to RBI, the resolution framework may be invoked not later than December 31, 2020 and the plan needs to be implemented within 180 days from the date of invocation.

We believe the restructuring measures announced by RBI will help PSUs to protect themselves from capital erosion as they are loaded with NPAs.

To address the concern of poor lending growth in the current crisis of COVID-19, Finance Minister Nirmala Sitharaman told banks to put in place a loan restructuring scheme for rescuing all viable business units affected by the Covid-19 pandemic by September 15. "During her interaction, the Finance Minister focused on lenders immediately putting in place board-approved policy for resolution, identifying eligible borrowers and reaching out to them and quick implementation of a sustained resolution plan by lenders for revival of every viable business," the Finance Ministry said in a statement. The FM stressed that banks should keep in mind the Covid-19 related distress of borrowers which should not come in the way of assessing their credit-worthiness at the time of giving loans. The Finance Ministry said that the lenders assured that they are ready with their resolution policies, have started the process of identifying and reaching out to eligible borrowers, and that they will comply with the timelines stipulated by the Reserve Bank of India (RBI). The Finance Ministry is also in touch with the RBI to ensure that the regulator provides assistance to lenders in the resolution process.

India – China tensions will always remain overhang after Chinese aggression at the LAC. India had earlier banned 118 more apps said to be either based in or linked to China. PUBG Mobile, Alipay, and Baidu are among the biggest names on the list. In June 2020, apps like TikTok, WeChat, and more than 50 other China-based apps in were banned. However, there are some talks happening between the two countries to de – escalate tensions which can provide some relief. Both India and China have earlier agreed on a five-point plan to resolve the border tensions in eastern Ladakh, and now all eyes will be on the actual disengagement of forces on the Line of Actual Control.

We maintain our same stance to maintain caution especially for Large caps at present valuations after depressing Q1GDP data and exponential rise in COVID-19. Industrial production shrank by 10.4 percent in July, mainly due to lower output of manufacturing, mining and power generation sectors, official data showed on Friday.

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.

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**For research related queries contact:**

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

CIN:L74140MH1986PLC041941

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**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