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Market wrap **October 29, 2020**

Indian equities end in red for consecutive two sessions owing to surging COVID-19 cases across the globe; Paint companies and midcaps rally..

Domestic bourses ended nearly 0.5 per cent lower on Thursday, the last day of the futures and options (F&O) contracts for the October series. The S&P BSE Sensex ended 173 points, or 0.43 per cent lower at 39,750 levels while NSE's Nifty ended at 11,671, down 59 points, or 0.5 per cent. India VIX gained over 3.5 per cent to 24 levels.

HDFC Bank, HDFC, and L&T were the major contributors to the Sensex's fall today while Reliance Industries (RIL), and Asian Paints gave the much-needed support.

In the broader market, the S&P BSE MidCap index ended flat at 14,812 levels while the S&P BSE SmallCap index dropped 0.5 per cent to 14,893 levels.

On the NSE, barring Nifty IT, all the other sectoral indices ended in the red.

Key developments

Finance Minister Nirmala Sitharaman on Tuesday said there were visible signs of revival in the economy but the GDP growth may be in negative zone or near zero in the current fiscal. This is primarily because of a huge 23.9 per cent contraction in the economy in the first quarter of current fiscal (April-June), she added. The focus for the government is on public spending to boost economic activity, Nirmala Sitharaman added.

Last 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 last week 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 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.

Last week, 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.

Earlier, Credit rating agency Moody's Investors Service said 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.

Sectors and stocks

Shares of paint companies were in the limelight on Thursday with sector giants Asian Paints and Berger Paints surging 3 per cent each to hit their respective fresh highs of Rs 2,232 and Rs 625 at the bourses in an otherwise weak market on expectation of higher volume growth. In the past three months, Asian Paints and Berger Paints have rallied 28 per cent and 19 per cent, respectively, as compared to 4.6 per cent rise in the benchmark Sensex. Asian Paints reported continuous improvement in demand from May to September and October continues to maintain the trend. The demand in Tier 2,3 and 4 cities are back to pre-Covid levels while urban centers are witnessing continuous improvement.

Shares of Orient Electric rallied by 9 per cent to Rs. 221 on the BSE in the early morning deals on Thursday after the company reported a nearly seven-fold jump in its net profit at Rs. 32.4 crore for the September quarter (Q2FY21), on the back of strong operational performance. The CK Birla Group company had posted a profit of Rs. 4.8 crore in Q2FY20. It had posted a net loss of Rs. 27.3 crore in the previous quarter (Q1FY21). However, revenue remained flat at Rs. 434 crore during the quarter. Ebitda more than doubled over last year and expanded by 830 basis points to 13.3 per cent year-on-year (YoY) during the quarter. The management said the gross margin expansion of 150 basis points and cost optimisation across all spends, especially with substantially lower discretionary spends of advertisement and promotion expenses helped deliver better Ebitda margins. Hardening of commodity prices and competitive forces may pose a challenge to maintain this expansion rate going forward and will depend on the market scenario. With normalcy gradually regaining, the marketing expenses and brand investments are likely to increase, and therefore the Ebitda expansion of 830 bps YoY will not be sustainable, the company said. With renewed consumer sentiments post-Unlock, the festive season sales are expected to be better than last year owing to pent up demand from previous quarters.

Shares of Ajanta Pharma rose by 4 per cent to Rs. 1,646 on the BSE on Thursday in an otherwise subdued market after the company announced share buyback plan. Intra-day, the stock had rallied 6 per cent to Rs. 1,683 in early morning trade. Earlier, on October 23, 2020, Ajanta Pharma had informed that the board meeting of the Company scheduled to be held on November 03, 2020 to consider, the unaudited consolidated financial results for the quarter and half year ended September 30, 2020 and interim dividend. “The company has now informed BSE that at the aforesaid board meeting, the board of directors will also consider a proposal for buy-back of the equity shares of the company,” Ajanta Pharma said in regulatory filing on Wednesday after market hours. As on September 2020, the promoters held 70.51 per cent stake in Ajanta Pharma. Institutional investors led by mutual funds (9.93 per cent) and foreign portfolio investors (7.71 per cent) have collectively held 19.15 per cent, while individual shareholders have 8.57 per cent holding in the company, the shareholding pattern data shows. In the past six months, the stock has underperformed the market by gaining 8.9 per cent. In comparison, the S&P BSE Healthcare index rallied 26 per cent, while the benchmark the S&P BSE Sensex gained 21.7 per cent during the same period. Earlier, in March 2019, Ajanta Pharma had bought back 769,230 equity shares of the company at Rs 1,300 per share via tender offer.

Global markets

European stocks equities were up on Thursday after strong earnings reports from companies including oil major Royal Dutch Shell and chip equipment supplier ASM, but sentiment remained fragile a day after a broad selloff on lockdown fears.

Asian equities were in red. MSCI’s broadest index of Asia-Pacific shares outside Japan fell 0.6 per cent, with the heaviest drops in Australia, down 1.6 per cent, and South Korea, down 1 per cent.

Japan's Nikkei fell just 0.3 per cent, Chinese blue chips rose 0.5 per cent and the yuan led a gentle bounce in Asian currencies against the greenback.

Ajcon Global's view

Spike in Covid cases across the globe is taking a toll on investor sentiments. Profit booking was witnessed at Dalal Street on expiry day of futures and options (F&O) contracts for the October series.

Domestically, investors have become stock specific in midcaps and smallcaps segment and increasing allocation in Companies which are witnessing turnaround in Q2FY21, Unlock phase and having cost efficiencies.

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

Buying was earlier 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 led by pent up demand 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 its Prudential Framework for Resolution of Stressed Assets.

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. Further fall will make 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 and upcoming US Presidential elections in the wake of COVID-19 crisis.

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