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Market wrap **July 09, 2020**

Financials and metal stocks lead today's rally; PM Modi's speech at the India Global Week Summit support sentiments..

Indian equities ended in the positive territory on Thursday, led by buying in the financial counters. Further, investor sentiment also got a boost after Prime Minister Narendra Modi, at the India Global Week Summit, said India was seeing green shoots of economic recovery. "Story of global revival will have India playing a leading role," he said at the event.

The S&P BSE Sensex today gained 409 points or over 1 per cent to settle at 36,738 with SBI (up 4 per cent) being the top gainer and ONGC (down over 1 per cent) the biggest loser. HDFC, RIL, HDFC Bank, and Bajaj Finance contributed the most to the Sensex's gains. Nifty was up by 108 points and ended at 10,813, up 108 points or 1 per cent.

IT major TCS settled 0.3 per cent lower on the NSE at Rs. 2,213 ahead of its June quarter results due later in the day.

On the sectoral front, the Nifty Metal index rallied the most-up 2 per cent, followed by Nifty Financial Services and Nifty Bank indices. Nifty FMCG, on the other hand, was the only index that ended in the red-down 0.33 per cent to 30,672 levels.

The broader indices underperformed the benchmarks. The S&P BSE MidCap ended flat at 13,493, up 0.07 per cent while the S&P BSE SmallCap index gained 0.49 per cent to settle at 12,848 points.

India VIX, the volatility index, declined over 5 per cent to 24.75 levels.

Crude oil
Crude oil prices declined on concerns about renewed Covid-19 lockdowns in the United States outweighed signs of a recovery in US gasoline demand. Brent crude futures fell 21 cents, or 0.4 per cent, to $43.08 at the time of writing of this report, after gaining 0.5 per cent on Wednesday. US West Texas Intermediate (WTI) crude futures dipped 25 cents, or 0.6 per cent, to $40.65 a barrel, after rising 0.7 per cent on Wednesday.

Sectors and stocks
Shares of metal companies were up to 6 per cent on the NSE on Thursday. The Nifty Metal index surged around 2.5 per cent and was the top sectoral gainer on the NSE.

Escorts hit a fresh record high of Rs. 1,126, up 3.5 per cent. The stock has rallied 63 per cent in the past three months on the expectation of healthy earnings on the back of higher tractor sales. Tractors are likely to see relatively faster recovery in the second half of this fiscal. The segments benefit from a bumper Rabi production and the forecast of a normal monsoon, which augur well for rural incomes. For tractors, the sentiment is only moderately negative as agricultural activities are exempt from the lockdown, and as the prospects for the crop season are better.

Shares of Granules India were up by by 7 per cent to Rs. 224.70 on the BSE on Thursday. The stock of the pharmaceutical company surpassed its previous high of Rs. 224.60 touched on June 16, 2020. The company's revenue for the quarter ended March, 2020 (Q4FY20), declined 2.2 per cent year on year (YoY) to Rs. 600 crore due to restriction imposed on Paracetamol active pharmaceutical ingredients (API), pharmaceutical formulation intermediates (PFI) and finished dosage (FD). The restriction were removed for PFI and FD on April and API by the end of May. Excluding one-time expenses of Rs. 22 crore due to impairment of investment at Granules Pharmaceutical Inc (GPI), EBITDA grew 25 per cent YoY to Rs. 121 crore and EBITDA margin expanded 437 bps to 20 per cent during the Q4FY20.

Alkyl Amines Chemicals touched a fresh all-time high of Rs. 2,374, up 3 per cent on the BSE. In the past three months, the stock has witnessed a whopping rally 69 percent, against a 17.5 per cent rise in the S&P BSE Sensex. The company had reported strong earnings for the quarter ended March 2020, with profit before tax jumping 93 per cent year-on-year (YoY) to Rs 61.1 crore from Rs 31.56 crore in the year-ago quarter, due to lower raw material cost.

Global markets
Asian equities were higher led by upmove in Chinese equities on improved China macro economic data.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.8 per cent and touched a 20-week high. The Shanghai Composite turned in its longest winning streak in more than two years and is up 16 per cent in eight sessions.

In Europe, too, stocks rose as software giant SAP signalled a rebound in its business from a coronavirus hit, while optimism over China's recovery helped Germany outperform.

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Ajcon Global's view

After whopping rally in last 3 months was led by liquidity through FPIs as global economies have resorted to printing money. We believe caution is warranted as on ground situation is bleak although there are relaxations in Unlock 2.0. 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 in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in ongoing Q4FY20 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. We recommend value buying only in high quality stocks gradually at every decline for building a long term portfolio for 3 – 5 years horizon.

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. We feel that there will be further opportunities to pick up the stocks at lower levels as Q1FY21 results would be a washout for major sectors except FMCG, Agrochemicals, Pharma and Digital/internet.

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