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Market wrap **August 04, 2020**

Rally in Reliance Industries and HDFC Bank contribute to upmove in benchmark indices; IT stocks come under pressure led by profit booking..

The Benchmark indices were up by around 2 per cent higher on Tuesday, led by buying in Reliance Industries (RIL), and HDFC Bank.

The S&P BSE Sensex today rallied 748 points, or over 2 per cent to settle at 37,688, with RIL (up 7 per cent) being the top gainer and Tech Mahindra (down nearly 3 per cent) the biggest loser.

NSE's Nifty ended at 11,095 levels, up 204 points, or 1.87 per cent. Volatility index, India VIX, dropped 6 per cent to 23.67 levels.

In the broader market, the S&P BSE MidCap index was up by 1 per cent higher at 13,856 and the S&P BSE SmallCap rose 1.23 per cent to end the session at 13,317 levels.

On the sectoral front, barring Nifty IT, all the other indices on the NSE ended in the green. Nifty Bank surged over 400 points or around 2 per cent to settle at 21,487.

Crude oil
Crude oil prices declined on concerns that a fresh wave of Covid-19 infections around the world will see a pickup in fuel demand stalling amid tighter lockdowns - just as major producers ramp up output.

Sectors and stocks

HDFC Bank ended nearly 4 per cent higher at Rs. 1,041 on the BSE after the lender named Sashidhar Jagdishan as the successor to Aditya Puri, their chief executive officer once the latter retires in October 2020.

Shares of Jubilant Life Sciences surged 5.5 per cent to hit a 52-week high of Rs. 909.75 on the BSE on Tuesday, a day after the company said it has launched the generic version of antiviral drug remdesivir in India for the treatment of Covid-19 patients. The stock, however, erased its morning gains later and slipped into the negative territory. In comparison, the S&P BSE Sensex was trading 547 points or nearly 1.5 per cent higher at 37,486 levels. The injectable drug, under the brand name 'JUBI-R', is priced at Rs 4,700 per vial of 100 mg. The company will make the drug available to over 1,000 hospitals providing Covid-19 treatment, Jubilant Life Sciences said in a statement.

Shares of Wockhardt extended their gains into third consecutive day, and were locked in the 10 per cent upper circuit band at Rs. 334 apiece, on the BSE on Tuesday after the company said it will supply millions of doses of multiple Covid-19 vaccines, including that being developed by AstraZeneca and Oxford University, under a deal with the UK government. With today's gains, the stock has rallied 28 per cent in the past three days as against 2 per cent decline in the benchmark S&P BSE Sensex. The stock had hit a 52-week high of FRs 411 on the BSE on February 11, 2020. This is the latest step by the UK to secure supplies and production of Covid-19 vaccines after striking four deals with drugmakers to buy their potential shots. “Fill finish is a critical step in the process to get the vaccine in a form to be given to patients. The agreement with Wockhart will boost our capability to ensure that,” Kate Bingham, chair of UK Vaccines Task Force, said in a statement. The UK government has also reserved one fill-and-finish production line at a Wockhardt subsidiary in Wrexham, Wales for its exclusive use for the next 18 months to secure supply. It is expected to start the Wexham line in September. AstraZeneca has indicated it would need 30 million fill-and-finish doses of their vaccine candidate, which the company intends to supply in the next few months, Wockhardt Chairman Habil Khorakiwala said. "The company has a fill-and-finish manufacturing capacity of 400 million doses in the UK and 600 million in India, for a combined capacity of 1 billion," Khorakiwala added. There are over 18 million cases of novel coronavirus across the globe, of which 697,202 have succumbed to the disease.

Shares of VST Industries rallied as much as 11 per cent to Rs. 3,595 apiece on the BSE on Tuesday, a day after the company reported its June quarter numbers for the fiscal year 2020-21 (FY21). The company's net profit rose 0.04 per cent to Rs. 75.71 crore for the quarter under review as against Rs. 75.68 crore logged during the corresponding quarter of the previous fiscal. The company's sales, however, declined 19.4 per cent to Rs. 245.39 crore as against Rs. 304.45 crore in the year-ago quarter. In a separate filing to exchanges on the impact of Covid-19 pandemic on the company's business operations, VST Industries said that the business operations were adversely impacted in the form of disrupted supply chain and decline in consumer demand. "Since mid-May 2020, while the manufacturing operations have gradually started returning to normalcy, we estimate the pandemic to continue having its impact on sales," it said in the press release.

Shares of information technology (IT) companies traded in the negative territory on Tuesday after the US President Donald Trump signed an executive order restricting federal agencies from contracting or subcontracting foreign workers, hurting Indian IT professionals who work in the US on the H-1B visa. "As we speak, we're finalising the H-1B regulation so that no American workers be replaced ever again. H-1B should be used for top highly paid talent to create American jobs, not as inexpensive labour programmes and destroy American job," said the president. Tech Mahindra (down over 1.5 per cent), HCL Technlogies (down over 1.3 per cent), Tata Consultancy Services (TCS), and Mindtree - both down 0.85 per cent. NIIT Tech was the only stock on the index that was trading in the green.

Global markets

European equites declined on Tuesday as disappointing earnings reports from Diageo and Bayer took the shine off a jump in growth-linked cyclical stocks, while investors awaited signs of progress on more US fiscal stimulus.

In Asia, Chinese equities were up as there was improved demand across sectors and investors cheered Beijing's latest move to ease pressure on the country's financial institutions. The blue-chip CSI300 index rose 0.1 per cent, to 4,775.80, while the Shanghai Composite Index also inched up 0.1 per cent to 3,371.69.

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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