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Market wrap **July 13, 2020**

Domestic bourses consolidate and end in green; Reliance Industries continues to be heartthrob of investors..

The Indian markets on Monday were in consolidation mode ended in the positive territory led by upmove in Reliance Industries (RIL), IT and metal stocks.

The S&P BSE Sensex ended at 36,694, up 99 points, or 0.27 per cent having reclaimed the 37,000 levels earlier in the session. The broader Nifty50 index, meanwhile, ended above the crucial 10,800 mark at 10,815, up 47 points or 0.44 per cent. RIL rose over 3 per cent during the day and hit a lifetime high of Rs 1,947 on the BSE after it announced the sale of 0.15 per cent stake in Jio Platforms to Qualcomm Ventures for Rs. 730 crore. The stock ended at Rs 1,934, up 3 per cent.

Besides, IT stocks such as Tech Mahindra, HCL Tech, and Infosys were among the top gainers on the BSE. On the other hand, financial counters such as Bajaj Finance, HDFC Bank, and HDFC ended as the biggest losers.

In the broader market, the S&P BSE MidCap index ended flat at 13,403.74, up 0.05 per cent while the S&P BSE SmallCap index closed the day at 12,784, down 0.15 per cent.

Crude oil
Crude oil prices dropped on big spikes in Covid-19 infections over the weekend in the United States.

Sectors and stocks
Shares of Hindustan Unilever (HUL) hit an over 10-week high of Rs. 2,274 on the BSE during the day after the company announced that its board will meet on July 21 to consider special interim dividend. The stock ended at Rs. 2,264.70, up 1.84 per cent.

Shares of Clariant Chemicals (India) were up by 18 per cent to Rs. 575 on the BSE on Monday after the company announced a special interim dividend on equity shares of Rs. 140 per share (1400 per cent) for the current financial year 2020-21 (FY21). The company has fixed July 18, 2020 as the record date for the purpose of payment of special interim dividend. The dividend shall be paid on or after July 19, 2020, it said. The stock of the specialty chemical was trading at its fresh 52-week high level. In the past three months, it has rallied 106 per cent as compared to 20 per cent rise in the S&P BSE Sensex.For the previous financial year 2019-20 (FY20), Clariant Chemicals (India) had reported a more-than-double net profit at Rs. 71 crore, compared to Rs. 30 crore in the corresponding previous year (FY19). The company's sales from continuing operations, however, grew marginally at 5.4 per cent to Rs. 757 crore for FY20, as compared to sales of Rs. 719 crore in FY19. "The Company's strong bottom line and cash performance is a result of the continued momentum from strategy to drive profitable growth while expanding presence in the market with superior products," the management said.

Shares of Biocon were up by 10 per cent to Rs. 455, also its new high, on the BSE on Monday after the company said it has received the approval of Drugs Controller General of India (DCGI) to market its novel biologic drug Itolizumab for treatment of patients with moderate to severe Covid-19 complications. "Itolizumab is the first novel biologic therapy to be approved anywhere in the world for treating patients with moderate to severe Covid-19 complications. Biocon has repurposed Itolizumab, an anti-CD6 IgG1 monoclonal antibody launched in India in 2013 as ALZUMAb for treating chronic plaque psoriasis, for the treatment of CRS in moderate to severe ARDS patients due to COVID-19," Biocon said in a press release. Itolizumab will be manufactured and formulated as an intravenous injection at Biocon's bio-manufacturing facility at Biocon Park, Bengaluru, it said. "This positions India amongst the leading global innovators in their effort to overcome the Covid-19 pandemic. The randomized control trial indicated that all the patients treated with Itolizumab responded positively and recovered. We plan to take this therapy to other parts of the world impacted by the pandemic," said the company's Executive Chairperson, Kiran Mazumdar-Shaw.

Avenue Supermarts declined by 6 per cent to Rs. 2,182 on the BSE after the firm's consolidated net profit for the June quarter declined 87.61 per cent to Rs. 40 crore compared to a profit of Rs. 323 crore in the same quarter last year. The stock ended at Rs. 2,232, down over 3.8 per cent.

Shares of YES Bank extended its decline second straight day, down 17 per cent to Rs. 21.20 in the intra-day trade, on the BSE on Monday on the back of heavy volumes after the bank on Friday fixed floor price for its proposed follow-on public offer (FPO) at Rs. 12 per share and a cap of Rs. 13 per share. In the past two trading days, the stock has declined by 20 per cent from a level of Rs. 26.65 on the BSE. The fundraising is important for the bank to boost its capital base, especially after it announced last month that it has failed to make interest payments on its bonds, after the RBI said its capital adequacy ratio was below regulatory ratio. On a reported book value basis, YES Bank's FPO is priced below its FY20 book value and the 50 per cent discount to current market price seems. However, on adjusted book value basis (book value minus net NPAs), the FPO is priced at above 1x

Shares of Omaxe were locked in 5 per cent lower circuit at Rs. 75.85, an 11-year low, on the BSE on Monday despite the company issuing a clarification regarding the recent volatility in the stock price. The real estate firm's stock was locked in lower circuit for 12th straight trading day. It has fallen 66 per cent from the level of Rs 220.55 on June 26, 2020. The stock is trading at its lowest level since July 14, 2009. Recently, the company had issued a clarification to the exchanges, saying the movement in the share price is "purely due to market conditions and based on demand and supply principles". On April 3, rating agency Credit Ratings by Credit Analysis and Research Limited (CARE) had downgraded the ratings of the company's long term bank facilities. The ratings continue to remain constrained on account of elevated debt level along with its dependence on debt refinancing, execution and saleability risk for ongoing projects along with new launches. The rating also takes into cognizance the legal petition filed with National Company Law Tribunal (NCLT) by erstwhile Joint Managing Director - Mr. Sunil Goel against Mr. Rohtas Goel for malpractices and financial mismanagement in the company, it said.

Global markets

Global equities were nearing five-month peak and the dollar slipped on Monday as investors wagered the earnings season would see most companies beat forecasts given expectations had been lowered by coronavirus lockdowns.

MSCI's broadest index of Asia-Pacific shares outside Japan added 0.8 per cent as Chinese stocks jumped 2.1% on Monday. Japan's Nikkei gained 2.2 per cent and South Korea 1.7 per cent.

European equities too were trading in green.

Ajcon Global's view

We believe cooling of Indian equities will be healthy for investors as whopping rally in last 3 months was led by liquidity through FPIs. In June 2020, FPIs poured US$2.73 billion in Indian equities, which is the highest this year and importantly surpassed pre-COVID-19 levels. 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 very bleak which is evident by the fact that Companies are looking to raise capital via rights issue and FPO. Although there are relaxations in Unlock 2.0 but the 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, exponential rise on COVID-19 cases which is a matter of serious concern; 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, 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. 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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