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Market wrap **July 20, 2020**

Buoyancy continues in Indian equities; Financials rise on positive cues led by encouraging Q1FY21 result of HDFC Bank..

Indian benchmark indices continued its rally and ended over 1 per cent higher on Monday, led by buying in financial and IT counters. The S&P BSE Sensex was up by 399 points over 1.08 per cent to settle at 37,418.99 levels while Nifty breached the crucial 11,000 level to end the session at 11,022, up 120.50 points or 1.11 per cent.

Telecom stocks were in focus amidst the Adjusted Gross Revenue (AGR) hearing in the Supreme Court in the last hour of the trade. Vodafone Idea witnessed a highly volatile session and ended flat at Rs 8.95, up 0.79 per cent following the observations by the Supreme Court in the case. The Counsel for Vodafone Idea said in the apex court that the total revenues over 10 years were Rs 6.27 trillion, of which Rs 4.95 trillion was spent on expenses. Besides, the entire net worth of the company has been wiped out over the last 15 years.

Among sectoral indices on the NSE, barring Nifty Pharma, all the other indices ended in the green. Nifty IT rallied the most - up 2.6 per cent to 17,258 levels. Nifty Bank gained 1.6 per cent to 22,321.85 levels. Nifty Pharma, on the other hand, slipped 1.6 per cent to 10,304.60 levels.

Broader markets, too, participated in the rally. The S&P BSE MidCap index was up by 0.9 per cent to 13,654 points while the S&P BSE SmallCap index gained 1 per cent to 12,915 levels.

Sectors and stocks

Bharti Airtel ended nearly 2 per cent higher at Rs 578.50 on the BSE while Tata Teleservices was up 5 per cent at Rs 3.66.

HDFC Bank ended 3 per cent higher at Rs.1,132.80 on the BSE after the private sector lender reported a 20 per cent year-on-year (YoY) growth in net profit at Rs 6,659 crore for the April-June quarter (Q1FY21), supported by operational income. On the asset quality front, absolute GNPA increased 9 per cent quarter on quarter (QoQ) as slippages were elevated at 1.2 per cent (annualized). As the bank used an analytical tool to determine slippages, it resulted in a more expedited recognition of NPAs. Thus, GNPA ratio increased 10bps QoQ to 1.4 per cent, the management said in a statement. HDFC Bank has been able to deliver its usual earnings growth trajectory. However, the Covid-19 pandemic has induced volatility on certain operating parameters like fee income and opex, believe analysts. This in turn has heavily dented loan origination across retail segments.The stock was the biggest contributor to the Sensex's gains, followed by Infosys, ICICI Bank, Bajaj Finance, and HCL Tech.

Mahindra & Mahindra Financial Services (MMFSL) ended over 10 per cent higher at Rs. 229.60 after the company said its board approved a 1:1 rights issue at Rs. 50 per share, amounting to Rs.3,089 crore. The record date for the same is July 23, 2020. The rights issue will open on July 28 and close on August 11, 2020. The full amount of the issue price will be payable on application. In a separate regulatory filing, Mahindra & Mahindra (M&M), the promoter of the company informed the stock exchanges that the loans and investment committee of the Company has approved to subscribe to the equity shares of MMFSL to the full extent of the Company's rights entitlement.The board also approved to subscribe to additional shares as well as to any unsubscribed portion of the rights issue, up to the total Issue size of MMFSL subject to compliance of applicable laws including the minimum public shareholding requirements, it said. MMFSL reported a profit after tax (PAT) of Rs. 159 crore, up 128 per cent against Rs. 684 crore in the year-ago quarter. Net interest income (interest earned less interest expended), however, grew 8.7 per cent year-on-year (YoY) to Rs 1,376 crore from Rs 1,266 crore in the previous year quarter. The company's pre-provisioning operating profit (PPoP) up 44.2 per cent YoY at Rs. 843 crore as opex declined 38 per cent YoY to Rs. 350 crore. The decline in opex was largely driven by 47 per cent YoY decline in other expenses. In addition, a 2 per cent sequential decline was seen in headcount.

Shares of Rallis India hit a new high of Rs. 300.50, up 5 per cent in the intra-day trade, on the BSE on Monday after ace investor Rakesh Jhunjhunwala hiked stake by 0.38 basis points during the April-June quarter. The stock of Rallis India has rallied by 136 per cent from its 52-week low level of Rs. 127 touched on March 24, 2020. Meanwhile, the board of directors of the Company is scheduled to meet on Wednesday, July 22, 2020, to consider and approve the financial results of the Company for the quarter ended June 30, 2020 (Q1FY21). The stock has rallied on expectation of positive earnings momentum led by favourable macro, and agrochemicals sector being relatively insulated from Covid-19 impact. Domestic players are expected to benefit from timely onset of monsoon/healthy reservoir levels/ higher degree of acreage sown vs. long period average.

Global markets

Asian equities were up on Monday. MSCI's broadest index of Asia-Pacific shares outside Japan gained 0.14 per cent, reversing loses earlier in the day. Chinese markets rose more than 2 per cent after regulators raised the equity investment cap for insurers and encouraged mergers and acquisitions among brokerages and mutual fund houses.

South Korea's KOSPI pared gains to fall 0.1 per cent. Japan's Nikkei was also down 0.1 per cent after data showed the country's exports suffered a double-digit decline for the fourth month in a row in June.

In Europe, stocks markets were cautious with the pan-European STOXX 600 index falling 0.6 per cent in the early deals.

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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