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Market wrap **July 21, 2020**

Indian equities rally on key developments related to COVID - 19 vaccine; global cues also support rally..

Domestic bourses continued their buoyancy on Tuesday amidst positive news about vaccine trials, broad-based buying and firm global cues. The S&P BSE Sensex was up by 511 points or 1.37 per cent to settle at 37,930, with Power Grid (up over 6 per cent) being the top gainer and Bajaj Finance (down over 4 per cent) the biggest loser. Reliance Industries (RIL) was the major contributor to the index's gains, followed by HDFC, ICICI Bank, Maruti, and HDFC Bank.

Nifty was up by 140 points or 1.27 per cent to end at 11,162 levels. Of 50 constituents, 32 advanced and 18 declined.

Sectors and stocks

Shares of Den Networks and Hathway Cable & Datacom were locked in their 10 per cent upper circuit bands on the BSE at Rs. 109.60, and Rs. 52.70, respectively, on Tuesday after reporting a strong set of numbers for the quarter ended June 2020 (Q1FY21). These stocks also hit their respective 52-week highs on the BSE. Reliance Industries (RIL) holds a majority stake in Den Networks and Hathway Cable and Datacom through group companies. In Q1FY21, Den Networks consolidated net profit jumped an over four-fold at Rs. 58 crore, on the back of strong operational performance by cable business. The company had a profit of Rs. 14 crore in Q1FY20. Consolidated Ebitda margin expanded by 800 basis points (bps) to 21 per cent from 13 per cent in the previous year quarter. Revenues during the quarter under review, however, declined 4 per cent to Rs. 301 crore against Rs 313 crore in the year-ago quarter.

Hathway Cable and Datacom has reported a consolidated net profit of Rs. 66 crore in Q1FY21, against a net loss of Rs. 9 crore in Q1FY20. Operational income declined 7 per cent to Rs. 420 crore from Rs. 450 crore in the corresponding quarter of previous fiscal.

Shares of cement companies rallied up to 6 per cent on the BSE on Tuesday after ACC reported healthy operating margin expansion of over 156 basis points (bps) year on year (YoY) to 20.8 per cent during the June quarter (Q2CY20) despite weak sales volume. The margin expansion was supported by strong cost management and efficiency actions. ACC, post market hours on Monday, reported a 40.6 per cent YoY decline in its consolidated net profit to Rs. 271 crore for the quarter ending June, impacted mainly by a decline in sales during the lockdown. The company, which follows a January-December financial year, had posted a profit of Rs. 456 crore in the same quarter a year ago. ACC's net sales, meanwhile, were down 37.9 per cent to Rs. 2,520 crore during the quarter under review as against Rs. 4,059 crore in the year-ago period. The month of April 2020 was almost a total closure impacting revenue & EBITDA or the quarter with strong recovery in May & June. With strong focus on supply chain efficiencies and cost optimization, the management is confident that the company will emerge stronger from this situation.

Vodafone Idea ended over 8 per cent lower at Rs. 8.31 on the BSE after after the Supreme Court on Monday reserved its order on timeline of staggered payment of adjusted gross revenue (AGR) related dues by telecom operators.

Global markets

Chinese equities were up on on Tuesday, lifted by healthcare stocks as global hopes for a coronavirus vaccine firmed, but profit-taking following the previous session's rally checked gains. Around the region, MSCI's Asia ex-Japan stock index was firmer by 1.89%, while Japan's Nikkei index closed up 0.73 per cent.

European stocks, too, rallied after European Union leaders reached a "historic" deal on a massive stimulus plan for their coronavirus-hit economies.

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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