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Market wrap **July 23, 2020**

Better than expected Q1FY21 results of companies announced so far supports rally; Rossari Biotech makes a handsome debut..

Indian equities continued its rally and ended Thursday's session in the positive territory, supported by buying in select blue-chip counters such as Reliance Industries (RIL), ICICI Bank, ITC, State Bank of India (SBI), and HDFC Bank. The S&P BSE Sensex was up by 269 points or 0.71 per cent to settle at 38,140 levels while Nifty was up by 83 points at 11,215 or 0.74 per cent.

RIL' market capitalisation (m-cap), including the partly paid shares, crossed the Rs 13.5 trillion mark after both the stocks hit their respective new highs on the BSE on Thursday. RIL closed at Rs. 2,060.65 apiece on the BSE. The stock hit an all-time high of Rs. 2,079 in the intra-day deals.

In the broader market, the S&P BSE MidCap index ended 1 per cent higher at 13,783 levels while the S&P BSE SmallCap index gained 0.61 per cent to 12,996 points.

Sectorally, barring Nifty IT, all the other indices on the NSE ended in the green. The Nifty Pharma index gained nearly 1.5 per cent to 10,322 while Nifty Auto ended at 7,301, up 1.35 per cent.

Crude oil and Gold
Crude oil prices were up on the back of a weaker dollar, but gains were capped by concerns about rising US oil inventories and a persistent surge in new COVID-19 cases.

Gold, on the other hand, steadied near a nine-year peak.

Sectors and stocks
Shares of Rossari Biotech made a strong debut today. The shares were up 74.5 percent to end at Rs. 741.65 on NSE. In the morning session, the Company's shares were listed at Rs. 670, a 58 per cent premium against its issue price of Rs. 425 per share on the BSE on Thursday. Rossari Biotech, had received massive investor interest with the IPO getting subscribed 79.37 times. The reserved portion for retail investors witnessed 7.23 times subscription and non-institutional investor's portion was subscribed 240 times. The portion set aside for qualified institutional buyers was subscribed 85 times. As per the objectives of the issue, the company clarified that they may use this proceeds to repay a debt and fund working capital. Further, they mentioned in their strategies that they may also go for inorganic expansion in the years to come. Rossari Biotech is into acrylic polymer business, which finds application into the home & personal care along with paints. The management highlighted that they have witnessed decent traction from the home & personal care products due to the Covid-19. The company has return ratios in the high thirties. We had recommended to Subscribe the IPO for listing gains.

Shares of Eicher Motors were up by 4.4 per cent to Rs. 20,753 on the BSE on Friday, quoting at their highest level since January 29, 2020. The company manufactures the iconic Royal Enfield brand of motorcycles which leads the premium motorcycle segment in India. In the past two months, the stock has outperformed the market by rallying 49 per cent. The company announced, on May 25, its stock split plan to make the stock more affordable for the small retail investors and increase liquidity. In comparison, the S&P BSE Sensex has rallied 24 per cent during the same period. The record date for the purpose of sub-division of equity shares shall be decided after obtaining approval for sub-division from the shareholders at the ensuing Annual General Meeting (AGM) on August 10, 2020. Meanwhile, going forward, Eicher Motors expects increased demand for two wheelers as people would be wary of using public transport amid the coronavirus pandemic, according to the company's annual report. Eicher Motors Managing Director Siddhartha Lal said the last few months have been challenging, but as the lockdown gradually begins to ease out, we are witnessing strong initial customer interest and confidence. "Going forward, we do estimate an increased demand for personal transportation and two-wheelers as people would be wary of using public transport. This we believe will augur well for us and for the industry as a whole," Lal said in the 2019-20 annual report.

Shares of Rallis India were up by 6 per cent and hit fresh record high at Rs. 325 on the BSE on Thursday after the company's consolidated net profit in the April-June, 2020 quarter jumped 53 per cent to Rs. 92 crore. During the same quarter last year, the company's PAT stood at Rs. 60 crore. "We have registered a 13.5 per cent revenue growth during Q1 for domestic crop care business on account of robust demand and a 3 per cent revenue growth in seeds sales over the previous year despite the challenges faced," Rallis India Managing Director and CEO Sanjiv Lal said. The farming and agro-based company involved in manufacturing of soil conditioners and crop protection chemicals, reported an EBITDA of Rs. 128 crore, compared with Rs. 95 crore, logged in Q1FY20.,"Price realization in some products and better product mix leading to improvement in EBIDTA percentage, coupled with lower fixed cost... The company has opted for lower Income tax rate from current year. The effective tax rate is 23.53 per cent as against 30.43 per cent in same period in PY," it said in a statement.

As regards Covid-19, the company said it had above 90 per cent adherence to supply plans despite Covid-19-induced lockdown and labour issues."The company saw 26 per cent top line product growth in Domestic Crop Protection business and improved cash from Operations, due to strong collections despite higher inventory. Deliberate Raw Material Inventory stock up to cope with Covid-19 challenges," it said.

Global markets

European equities were up on Thursday as better-than-expected corporate earnings offset worries about rising cases of the Covid-19 and a sharp escalation in tensions between the United States and China. The pan-region Euro Stoxx 50 climbed 0.42 per cent while the German DAX gained 0.43 per cent and the FTSE 100 by a similar margin. S&P mini-futures added 0.29 per cent, pointing to a stronger open on Wall Street.

Ajcon Global's view

We believe the recent rally has been supported by better than expected Q1FY21 result. However, we still 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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