

Phased wise reopening of economy lifts market sentiments; Hotel and Financials stocks rally ..

Benchmark indices were buoyant by the phased re-opening of the economy post an over two-month lockdown to contain the spread of Covid-19 pandemic. Buying was witnessed across-the-board with PSU bank stocks leading the pack.

The S&P BSE Sensex rallied 879 points or 2.71 per cent to 33,303.52 levels, with 25 of 30 constituents advancing and 5 declining. Bajaj Finance (up over 10 per cent) emerged as the top gainer on the index while Sun Pharma (down 2 per cent) was the biggest loser.

Nifty rallied by 246 points or 2.57 percent to touch level of 9,826.

Volatility index, India VIX, was up by 1 per cent to 30.56 levels.

Sectorally, Nifty PSU Bank index was up by 86 points or 7.6 per cent to 1,215.40 levels while Nifty Bank moved up by 3.5 per cent to 19,960 points.

Key development

The Union Cabinet on June 1, 2020 cleared equity infusion for MSMEs through a Fund of Funds, and a subordinate debt scheme, among other decisions. These decisions were announced at a Cabinet briefing — the first after the Narendra Modi government completed one year of its second term in office. Union Minister Prakash Javadekar said the decisions taken in the Cabinet meeting today will bring about a "transformative change".

Sectors and stocks

Biocon touched a record high of Rs. 389.85 on the BSE during the day after its partner Mylan received a favourable ruling from US Patent and Trademark Appeal Board (PTAB) on Sanofi's four device patents for Lantus SoloSTAR. The stock surpassed its previous high of Rs. 368 touched on April 20, 2020. The stock ended at Rs. 385.65, up nearly 9 per cent.

Shares of IDBI Bank hit 20 per cent upper circuit at Rs 24.35 apiece on the BSE after the bank reported profit in the March quarter of FY20 (Q4FY20) after reporting losses for 13 straight quarters.

Shares of hotel companies were up by 19 per cent on the BSE on Monday in the early morning deals as government on Saturday said that restaurants, hotels, and other hospitality services would be allowed to function from June 8, 2020 along with shopping malls and complexes, as part of 'Unlock 1.0' strategy to resume economic activity. Indian Hotels, Chalet Hotels, EIH, TajGVK Hotels & Resorts, EIH Associated Hotels and Shopper Stop were up in the range of 10 per cent to 19 per cent on the BSE in the intra-day trade. As part of its exit strategy, the Centre has outlined a plan to reopen nearly all activities outside of containment zones starting Monday. Places of worship, hotels, restaurants and malls can resume business by June 8, it has said. Coinciding with this, lockdown would continue in containment zones till June 30

Global markets

European stocks were up by 1 per cent higher led by virus-hit sectors such as travel & leisure, banks and miners but volumes were subdued as Germany, Switzerland and Austria were closed for holidays.

Asian equities were up led by China owing to signal of economy picking up. Hong Kong was up by 3.6 per cent.

Ajcon Global's view

We expect Indian equities to follow global cues and ongoing Q4FY20 earnings season. Although some sectors have rallied on positive sentiments led by relaxations in Lockdown 5.0, investors will keep an eye as to how far the sectors revive from a standstill scenario. As the economic situation is bad, we expect profit booking and expect the rally to fizzle out soon as on ground situation has not improved. The disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis will also remain an overhang. Earlier, the RBI had announced a three-month EMI moratorium on term loans for the people (interest under the EMIs will have to be paid later), but the middle class section wants to be extended. We like the agriculture reforms announce; major announcements made in sectors like Coal, Mining, Aviation, Defence and Power sector were also good and long term in nature.



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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 was announced as part of stimulus package etc.

The announcements with regards to MSMEs in first tranche of Stimulus Package like Emergency Working Capital Facility for MSMEs and small businesses worth Rs. 3,00,000 crores + Subordinate debt for stressed SMEs worth Rs. 20,000 crores + Fund of Funds for MSME worth Rs. 50,000 crores was not implemented in a timely manner. However, big PSU Banks have now formulated their policy which will provide some relief going forward.

We believe the real stimulus would have been:

- 1) Waiver of interest on MSME loans for 4 to 6 months
- 2) Interest subvention of at-least 4 percent on all other borrowers
- 3) Non refundable payroll subsidy equal to at-least 4 months' salary to small business and MSMEs
- 4) Loans up to 4 months of working capital to all the non borrower small businesses and MSMEs at concessional interest rate of 7 percent pa.
- 5) Reduction in the Income Tax rates of flat 15 percent on all non salaried individuals, small businesses and MSME
- 6) Waiver from advance tax payment for FY 20-21 (AY 21-22)
- 7) Deferment of GST payment for small businesses & MSMEs till 30th September, 2020
- 8) No deduction and payment of TDS until 30th September, 2020
- 9) Interest free Working capital assistance equal to 6 months expenses to all the non borrower business enterprises
- 10) Direct credit of at least Rs. 10,000 each to daily wage workers and farmers

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 (1992-93), 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. We recommend value buying only in high quality stocks gradually at every decline for building a long term portfolio.



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