Market wrap **July 01, 2020**

Indian equities turn buoyant; Chemicals and Specialty Chemicals stocks continue to rally..

Indian equities were upbeat on Wednesday amid buying in financial counters. Meanwhile, improved Manufacturing PMI data for May and better June GST collection boosted investor sentiment.

The S&P BSE Sensex was up by 499 points or 1.43 per cent to end at 35,414.45 with Axis Bank (up 6.5 per cent) being the top gainer and NTPC (down over 2 per cent) the biggest loser.

Nifty was up by 128 points or 1.24 percent to end at 10,430, up 128 points or 1.24 per cent.

In the broader market, the Nifty Midcap 100 index gained 0.5 per cent while the Nifty SmallCap 100 rose 0.85 per cent.

Sectorally, PSU bank stocks rallied the most. The Nifty PSU Bank index gained over 3.6 per cent while Nifty Bank climbed nearly 3 per cent to 21,977.60 levels.

Volatility index, India VIX, dropped around 3.5 percent to 28.10 levels.

Sectors and stocks
Shares of chemicals, commodities as well as specialty chemicals companies were trading actively on Wednesday, surging up to 18 per cent in the intra-day trade, on the BSE on expectation of good earnings on back of improved demand. Individually, Clariant Chemicals (India) rallied 18 per cent to Rs 477.90 after the company announced that its board will meet on Saturday, July 4, 2020, to consider and declare the payment of special interim dividend for the financial year 2020-21. The stock of the specialty chemicals was trading close to its 52-week high level of Rs 478.15 touched on February 5, 2020. In the past 10 trading days, it has surged 39 per cent after the company's profit before tax (PBT) grew 158 per cent to Rs 28 crore in the March quarter of FY20 (Q4FY20) as against Rs 11 crore in the corresponding previous year period.

Shares of Balaji Amines hit fresh 52-week high of Rs. 558, up 13 per cent in the intra-day trade on the BSE today. The company's PBT rose 13 per cent to Rs. 45.75 crore in Q4FY20. EBITDA margins improved 280 basis points to 23.65 per cent from 20.76 per cent. The improvement in operating margins, the management had said, was primarily on account of marked increase in volume offtake with improved price realizations largely across all products, increase in operating leverage and benign raw material prices. The management further added agrochemical sector's prospects are likely to brighten on account of highest storage across reservoirs over last 5 years coupled with the recent price hike in minimum support price of key kharif crops and initial indications of normal monsoon expected in 2020.

Navin Fluorine International, meanwhile, touched a fresh all-time high of Rs 1,723, up 6 per cent today. In the past three months, the stock has soared 42 per cent as compared to 25 per cent rise in the S&P BSE Sensex. The company's PBT increased 24 per cent to Rs 62.9 crore in Q4FY20 from Rs 55.8 crore in Q4FY19. EBITDA margins expanded 444 basis points to 24.9 per cent from 20.4 per cent.

Shares of Mahindra & Mahindra (M&M) were up by 2 per cent to Rs. 521, gaining 3 per cent from day's low of Rs. 506, on the BSE on Wednesday after it reported double digit growth in domestic tractor sales in the month of June 2020. In the past three months, M&M has outperformed the market by surging 91 per cent as compared to 25 per cent rise in the S&P BSE Sensex. Mahindra & Mahindra's farm equipment sector (FES) reported 12 per cent year on year (YoY) growth in domestic tractor sales at 35,844 units in June 2020 as against 31,879 units sold in June last year. This is the second highest June sales ever, the company said. Meanwhile, its export shipments declined 42 per cent during the month at 700 units as against 1,215 units in the same month last year. The company's tractors' total sales for the month were at 36,544 units, up 10 per cent from 33,094 units in June last year. "Timely arrival of the south west monsoon, combined benefits of a record Rabi crop, Government support for Agri initiatives and very good progress in the sowing of the Kharif crop have led to positive sentiments among farmers," the management said in its statement. These underlying factors along with better cash flows in rural markets have helped boost tractor demand during June. It is expected that this demand will continue to remain buoyant in the coming months, it said. Overall, M&M's total sales including passenger, commercial and utility vehicles, more-than-halved to 19,358 units compared to 42,547 units sold in June last year. "The automotive industry has started to see recovery both in the passenger and small commercial vehicle segments. This has been led primarily by rising rural demand and movement of essential goods across the country. The company's key brands such as Bolero, Scorpio and Pik-Ups, are all seeing good traction," said Veejay Nakra, Chief Executive Officer, Automotive Division, at M&M.

Shares of Glenmark Pharmaceuticals were trading lower for the second straight day, down 5 per cent at Rs. 428 on the BSE on Wednesday amidst media reports that the company has been charged with manipulating the prices of generic drugs sold in the US. According to a media report, Glenmark Pharmaceuticals USA was charged on Tuesday with conspiring to fix prices for generic drugs, the US Justice Department said in a statement. Glenmark allegedly conspired with pharmaceutical maker Apotex Corp and other generic drug companies to increase the prices of cholesterol medication pravastatin and other generic drugs. The stock of the drugmaker has slipped 8 per cent in the past two trading days. With the past two day's decline, the share price of Glenmark Pharma has corrected 25 per cent from its 52-week high of Rs. 573 touched last month. On June 22, it had rallied 40 per cent in the intra-day trade after the firm received approval for Favipiravir's (Fabiflu), a potential Covid-19 drug, by the Drug Controller General of India (DGCI). The approval of Favipiravir (emergency usage approval) is for mild to moderate patients. Meanwhile, for the January-March quarter (Q4FY20), Glenmark Pharma's US business continued to disappoint, owing to price erosion in the derma segment, a fall in sales of key products, and Ranitidine impurity issue.

Global markets

Global equities struggled on Wednesday as improving economic data was offset by concern that surging COVID-19 cases in the United States could derail the world's recovery before it properly begins.

MSCI's world shares index was 0.1 per cent higher after rising 18 per cent for its biggest three-month gain since 2009 in the second quarter, but it still closed the first half around 8 per cent lower from where it started the year.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.3 per cent, led by gains in China. E-Mini futures for the S&P 500 were down 0.2 per cent.

Ajcon Global's view

The rally of 20 percent in June 2020 quarter is very sharp led by liquidity. As a result, we believe caution is warranted as on ground situation is bleak although there are relaxations in Unlock 2.0. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating India – China tensions after banning of Chinese mobile apps, global cues especially the spike in COVID-19 cases in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in ongoing Q4FY20 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. We recommend value buying only in high quality stocks gradually at every decline for building a long term portfolio for 3 – 5 years horizon.

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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