

Buoyancy continues at Dalal Street as PM Modi's speech revives spirit of investors and confidence on Indian economy; Financials continue to rally..

Indian benchmark indices rallied today after Prime Minister Narendra Modi, in an address to India Inc at the CII's 125th annual session, said that India will return to growth. In addition, phased wise re-opening of the economy boosted investor sentiments and arrival of monsoon before time also fuelled the upside.

Sectorally, barring Nifty FMCG index, all the indices on the NSE ended in the green. Nifty Realty index gained the most - up nearly 5 per cent to 194.75 levels while Nifty Media ended at 1,259.40, up 3.28 per cent. Nifty FMCG index, on the other hand, slipped over 0.7 per cent to 29,360 levels.

In the broader market, the S&P BSE MidCap index ended at 12,303, up over 1 per cent while the S&P BSE SmallCap index climbed 1.83 per cent to 11,428.41 levels.

Volatility index, India VIX, declined by nearly 2.5 per cent to 29.99 levels.

The overall market capitalisation of BSE-listed firms rose to Rs. 131.91 lakh crore on June 2, 2020 against Rs. 130.2 lakh crore on June 1, making investors richer by Rs 1.7 lakh crore in a single day.

Key development

All eyes were on PM Modi's speech today at the annual session of Confederation of Indian Industry (CII), where he said, "India's industry leaders need to invest in building robust local supply chains that will strengthen India's position in the global chain." "India would be completely integrated with the world economy but that doesn't mean it needs to remain dependent on others in strategic sectors," he added. "We need to make made in India products made for the world. The industry needs to set targets to increase productivity," Modi said, adding that the manufacturing sector and Make in India need to be made employment generators.

Crude oil

Crude oil prices were up on expectations that major producers would agree to extend output cuts that have shored up prices, during a video conference likely to be held this week.

Sectors and stocks

Shares of Vodafone Idea rallied by 20 per cent to hit a six-month high of Rs 7.87 on the BSE on Tuesday. The stock has rallied 35 per cent in the past three days after the company on Friday said it was constantly evaluating various opportunities but there was no proposal before the board of the firm as yet. The clarification to the BSE by Vodafone Idea came after reports surfaced that Alphabet Inc's Google was eyeing about 5 per cent stake in the telecom company. The stock was trading at its highest level since December 3, 2019. "As part of the corporate strategy, the company constantly evaluates various opportunities for enhancing the stakeholders' value. As and when such proposals are considered by the board of directors of the company warranting disclosures, the company shall comply with the disclosure obligations," Vodafone Idea said on Friday.

Shares of Bajaj Finance were up by nearly 5 percent on NSE in intraday trade on June 2 and looked on course to extend gains into the fifth consecutive session. The company's Q4 FY20 AUM grew 27 percent YoY to Rs. 147,153 crore. Net interest income rose 38.4 percent YoY to Rs. 4,679 crore in Q4 FY20. However, PAT fell 19.4 percent YoY due to high provisioning (up 377.4 percent YoY).

Shares of Mahindra & Mahindra (M&M) were up 4 per cent to Rs. 477 on the BSE on Tuesday, having rallied 10 per cent in the past two trading days, after the company sold 24,017 tractors in domestic market in May 2020 despite Covid-19 induced lockdown. It had sold 23,539 units during the same month last year. The timely relaxation of the lockdown for the agricultural sector helped ensure speedy recovery of tractor demand during May. With the past two day's gain, the stock of M&M has soared 30 per cent in the last one month, as compared to 0.51 per cent decline in the S&P BSE Sensex. It was trading at its highest level since March 5, 2020. M&M in press release on Monday said, total tractor sales (domestic + exports) during May 2020 were at 24,341 units, as against 24,704 units for the same period last year. "Farmer sentiment is likely to remain positive in the near-term due to several developments including robust Rabi crop production, higher procurement, good price realizations and the forecast of a normal monsoon that bodes well for a good Kharif crop," the management added.



Shares of VST Tillers Tractors were locked in the upper circuit band of 20 per cent at Rs. 1,103 on the BSE on Tuesday ahead of the May 2020 sales numbers. The company, engaged in manufacturing of power tillers and tractors, is expected to report healthy sales numbers for the month. VST Tillers Tractors had posted strong sales in April 2020 with the company's total sales climbing 51 per cent year-on-year (YoY) to 1,089 units from 721 units in April 2019. Besides, power tillers sales jumped to 761 units in April 2020, up 163 per cent YoY, from 289 units sold in April 2019. Tractor sales, however, contracted by 24.07 per cent to 328 units in April 2020 from 432 units in April 2019.

Global markets

Global equities touched three-month highs on Tuesday as the global coronavirus recovery effort won out over US-China tensions and the worst civil unrest in the United States in decades.

European stocks hit their highest levels since early March. Germany's DAX rose by around 4 per cent, while Britain's FTSE gained 1.2 percent and France's CAC rose 2.1 percent.

In Asia, Japan's Nikkei was up by 1.2 per cent to its highest since late February in Asia and markets in Seoul, Taipei and Hong Kong also gained.

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.

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.

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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