AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **June 08, 2020**

Indian benchmark indices give up early gains; OMCs, IT and Financial stocks rally..

The S&P BSE Sensex was up by 83 points or 0.24 percent to end at 34,370.58 and declined by 557 points from day's high while NSE's Nifty ended at 10,167 points, up 25 points or 0.25 per cent. Of 30 stocks on Sensex, 16 ended in the green and rest 14 in the red. IndusInd Bank (up around 7 per cent) ended as the top gainer on the index after the private sector lender said that its promoters would acquire additional shares of the Bank from the secondary market.

Sectorally, IT stocks gained the most, followed by private bank stocks. The Nifty IT index jumped 1.83 per cent to 14,894.60 levels while Nifty Private Bank index ended at 11,545.60, up 1.28 per cent. On the flip side, Nifty Media declined 1.66 per cent while Nifty Pharma dropped 1.41 per cent to 9,939.10 levels.

In the broader market, the S&P BSE SmallCap index rallied around 1 per cent to 11,965.33 levels while the S&P BSE MidCap index ended at 12,583.61, up 0.23 per cent.

India VIX, the volatility index, climbed 3.64 per cent to 29.72 levels.

Crude oil
Crude oil was up after major producers agreed to extend a deal on record output cuts to the end of July and as China's crude imports hit an all-time high in May. Brent crude was up 50 cents, or 1.2 per cent, at $42.80 per barrel while US West Texas Intermediate (WTI) crude rose 31 cents, or 0.8 per cent, to $39.86 a barrel. Both hit their highest since March 6, 2020 earlier in the session, at $43.41 and $40.44, respectively.

Sectors and stocks
Reliance Industries (RIL) hit yet another record high of Rs. 1,624 on the BSE after it announced 1.16 per cent stake sale in Jio Platforms, its digital services subsidiary, to Abu Dhabi Investment Authority (ADIA) for Rs. 5,683.50 crore. The stock, however, reversed morning gains to end at 1,570, down 0.67 per cent.

Shares of oil marketing companies (OMCs) traded firm during the day on likely revival of fuel sales due to relaxations in lockdown. Indian Oil, HPCL and BPCL were up in the range of 4-7 percent. Indian Oil Corp (IOC), the nation's largest oil firm, sees demand returning with the resumption of economic activities. The company said though it is on track to spend the approved capital expenditure for 2020-21, it has "critically examined all capex proposals for rationalisation of cost and time frame." "The company is also conscious of the costs and has also undertaken rationalisation measures in this direction," it said without giving details. "It is expected that with the opening up of lockdown and revival of the economy on the strength of the economic package, the sales would soon get revived," it said. "Further, the recent increase in international prices of crude oil and petroleum products as well as rupee appreciation has to some extent already offset the inventory losses and forex losses." IOC said though there was no closure of any of its refineries due to drop in demand of petroleum products, their operations were curtailed to the level of 39 per cent in April.

Shares of Vodafone Idea continued its rally and were trading higher for the 10th straight session on the National Stock Exchange (NSE). The stock price was up by 20 per cent to Rs. 12.60 on the NSE on Monday in the early morning trade. In the past 10 sessions, the stock price of the telecom services provider has zoomed 129 per cent from level of Rs 5.50 hit on May 26, as compared to 12 per cent rise in the Nifty 50 index. It is trading close to its 52-week high of Rs. 14 touched on June 6, 2019.

Shares of IDBI Bank were locked in the upper circuit of 5 per cent at Rs. 40.30 on the BSE on Monday, and were trading higher for the sixth day, after the bank reported robust earnings for the quarter ended March 2020 (Q4FY20). IDBI Bank has seen its market price nearly double from Rs 20.30 hit on May 29, 2020 in the past six trading days after it earned a profit after tax (PAT) of Rs. 135 crore for the March quarter (Q4FY20) after incurring losses for the past 13 quarters. It had posted a net loss of Rs. 4,918 crore in the corresponding period of last year.

Shares of Exide Industries declined by 8 per cent to Rs. 158.50 on the BSE on Monday in the intra-day trade after the company reported 21 per cent year on year (YoY) drop in net turnover at Rs. 2,055 crore in the March quarter (Q4FY20) due to lockdown. The auto ancillary company had posted net turnover of Rs. 2,598 crore in the year-ago quarter. The company's profit after tax too declined 20 per cent YoY to Rs. 168 crore as against Rs. 211 crore reported in the corresponding quarter of the previous fiscal. The management said the automotive sector is facing a lot of challenges due to regulatory changes, technology shifts and demand uncertainty due to which there was a distinct slowdown in auto OE segment. On the top of it, the year-end sales across all segments of the company were severely impacted after the complete lockdown was imposed in the country as a result of Covid-19.

Global markets
Globally, investors turned cautious after a 42 per cent surge since March, as economies continued to struggle with the effects of the coronavirus pandemic.

Europe's blue-chip stock index opened 0.5 per cent lower after its best weekly gain in more than eight years. US S&P 500 futures inched 0.1 per cent lower, giving up most of the gains made earlier in the day.

In Asia, shares advanced after a surprise recovery in US employment lifted hopes of a quicker global economic revival. MSCI's broadest gauge of Asia-Pacific shares outside Japan rose 0.23 per cent, extending gains to an eighth straight day.

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.

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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