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Market wrap **June 09, 2020**

Selling witnessed across the board; Multiplex and Financials stocks decline..

Domestic bourses declined by over a per cent on Tuesday amid across-the-board sell-off led by financials.

The S&P BSE Sensex witnessed a fall of 414 points or 1.2 per cent to settle at 33,956.69 while NSE's Nifty ended at 10,047, down 121 points or 1.19 per cent. Nifty Bank lost 462 points or over 2 per cent to 20,724.90 levels.

Volatility index, India VIX, climbed over 2 per cent to 30.26 levels.

In the broader market, the S&P BSE MidCap index ended at 12,557.50, down 26 points or 0.21 per cent and the S&P BSE SmallCap index declined 1 per cent to 11,846.05 levels.

Sectorally, barring Nifty Pharma and Nifty FMCG stocks, all the other indices ended in the red. Nifty Metal and Nifty IT dropped over 1 per cent each while Nifty Media slipped over 3 per cent to 1,320.85 levels. On the contrary, Nifty Pharma was up by nearly 2 per cent while Nifty FMCG ended flat at 29,524.90 levels, up 0.08 per cent.

Key development

S&P Global Ratings on Monday said Indian economy will shrink 5 per cent in the current fiscal, saying the fiscal stimulus worth 1.2 per cent of GDP will not be enough to provide significant growth support. S&P said the services sectors, which are large employers, have been severely affected, leading to widespread job losses. "Migrant workers have been geographically displaced, and we expect it will take some time to unwind this process. There will be supply chain disruptions over the transition period," S&P said. The rating agency forecast Indian economy to shrink by 5 per cent in the current fiscal and said growth will rebound to 8.5 per cent in 2021-22. It projected growth to be 6.5 per cent in 2022-23. India's GDP growth hit a 11-year low of 4.2 per cent in 2019-20

Sectors and stocks

Shares of ITC hit an over three-month high of Rs. 206 on the BSE, up 4 per cent on Tuesday in the intra-day trade. The company recently acquired Kolkata-based Sunrise Foods, a packaged spice maker with strong presence in East India. In the past one month, the stock of fast moving consumer goods (FMCG) company has rallied 30 per cent, as compared to 10 per cent rise in the S&P BSE Sensex. The stock was trading at its highest level since February 25, 2020. On May 24, ITC announced that it had entered into an agreement with the spice major Sunrise Foods to acquire a 100 per cent stake in the company. "The proposed acquisition is aligned with ITC’s strategy to rapidly scale up its FMCG businesses in a profitable manner, leveraging its institutional strengths viz. deep consumer insight, a deep and wide distribution network, agri-commodity sourcing expertise, cuisine knowledge, strong rural linkages and packaging know-how," the company said. ITC’s Aashirvaad range of spices is already a market leader in Telangana and Andhra Pradesh and the company is one of India's leading producers and exporters of high-quality food safe spices.

Nifty Pharma was the outperforming sector, up over 2 percent led by Sun Pharma which was up by 4 percent . The other pharma gainers included Aurobindo Pharma, Dr Reddy's Labs, Lupin and Cadila Healthcare which added 2-3 percent each.

Shares of Adani Green Energy (AGEL) hit a new high of Rs. 312.75, up 5 per cent on the BSE after the company said it has bagged the world's largest solar bid worth $6 billion.

Shares of multiplex operators, PVR and Inox Leisure, slipped up to 8 per cent on the BSE on Tuesday after reporting weak earnings for the quarter ended March 2020 (Q4FY20), impacted by the outbreak of Covid-19 in the last month of the quarter.

Inox Leisure declined by 8 per cent to Rs. 261 in early morning deals after it reported a consolidated net loss of Rs. 82 crore in Q4FY20, against a net profit of Rs. 48 crore in the previous year quarter. Operational revenues declined 22 per cent year-on-year (YoY) to Rs. 372 crore from Rs. 479 crore in the corresponding quarter of the previous fiscal. PVR was down 5 per cent at Rs 1,106, extending its Monday’s 7 per cent loss as it reported a consolidated net loss of Rs. 75 crore in the quarter under review, against a net profit of Rs 47 crore in the year-ago quarter. Consolidated revenues were down 22 per cent YoY at Rs 662 crore as compared to Rs 846 crore during the corresponding period of last year. EBITDA margin for the quarter was down 857 basis points (bps) to 28.54 per cent from 19.97 per cent in the previous year quarter. The management said beginning March 11, 2020, the company started closing its screens in accordance with the order passed by various regulatory authorities and within a few days, most of its cinemas across the country were shut down. Since Cinema

Exhibition is the only business segment, The Company is currently not generating any significant operating revenue or cash flow from operations. The company is taking stringent measures to address the situation by implementing cost reduction strategies and conserving liquidity on the balance sheet, it said.

Global markets

Asian remained upbeat on Tuesday. China's blue-chip CSI300 index advanced 0.7 per cent and Hong Kong's Hang Seng index climbed 1.6 per cent. Japan's Nikkei bucked the trend to be down 0.6 per cent. European equities were trading in red. Australia's S&P/ASX 200 was up by 2.6 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.

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 for 3 – 5 years horizon.

However, those who have entered at the lower levels in the recent past may book short term partial profits. We feel that there will be further opportunities to pick up the stocks at lower levels.

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