

Indian equities witness pressure on negative global cues; PSU Banking and metal stocks decline..

Indian benchmark indices ended in red with significant selling pressure owing to rising COVID-19 cases which is a matter of serious concern and negative global cues. In the US Federal Reserve's policy meeting, the US central bank projected a 6.5 per cent decline in the US economy's gross domestic product (GDP) this year and a 9.3 per cent unemployment rate at the year's end which hit hard investor sentiments.

The S&P BSE Sensex declined by 709 points or over 2 per cent to 33,538 while NSE's Nifty ended at 9,902, down 214 points or 2.12 per cent.

Sectorally, all the indices on the NSE ended in the red with the Nifty PSU Bank index taking the biggest knock. The index fell nearly 4 per cent to 1,340.85 levels. Nifty Metal index also declined by ~3 per cent to 1,954.85 levels.

Key development

In a major development, the Supreme Court on Thursday said the Department of Telecommunications' (DoT's) demand for Rs. 4 trillion worth of adjusted gross revenue (AGR) dues from public-sector undertakings (PSUs) was "totally impermissible". The court said DoT must consider withdrawing it. The Bench also asked private telecom operators to file affidavits giving details as to how they will pay the AGR dues.

Crude oil

Crude oil prices continued to decline on record build-up in US crude inventories and the US Federal Reserve's projections that the world's biggest economy would shrink 6.5 per cent this year.

Sectors and stocks

Telecom stocks declined with Vodafone Idea declining by over 13 per cent to Rs 9.39, Bharti Airtel slipped by nearly 3 per cent to Rs 551.60 levels. All the PSU stocks, too, erased their gains and ended in the negative territory.

Shares of Muthoot Finance were up by 3 per cent and hit a new high of Rs. 995 on the BSE on Thursday. The gold finance company's stock was trading higher for the third straight day and has surpassed its previous high of Rs. 954, touched on February 25, 2020. The stock has rallied by 109 per cent from its 52-week low of Rs. 477, touched March 24, 2020. However, the company's share price almost halved between February 25 and March 24, on increased macro-economic challenges for the Indian non-bank financial institution (NBFI) sector. In April, the bank had said that the promoters have applied to the Reserve Bank of India for increasing their permissible holdings to 26 per cent. On a fully diluted basis, the promoters have a holding of 14.68 per cent which is very close to the current regulatory cap of 15 per cent.

Shares of IndusInd Bank were trading higher for fifth straight day, rallying 8 per cent to Rs. 541 on the BSE on Thursday, after its promoters said that they would acquire additional shares of the bank from the secondary market. The stock rallied by 30 per cent in the past one week. It was trading at its highest level since March 18, 2020. Despite the sharp rally seen in the past week, the stock is down 73 per cent from its all-time high level of Rs 2,038, touched on August 3, 2018. The stock hit a 52-week low of Rs 236 on March 24, 2020. The promoters, IndusInd International Holdings Ltd. and IndusInd Ltd., currently hold 14.68 per cent of the paid-up share capital of the bank. "The promoters shall now purchase additional shares from the open market within the overall regulatory limit prescribed for promoter equity holding cap," IndusInd Bank said in an exchange filing on Friday, June 5, 2020.

Global markets

Global equities witnessed biggest hit in five weeks on Thursday as a sobering outlook from the US Federal Reserve challenged market optimism on the global economy, while bonds rallied on bets yet more stimulus would be needed to ensure recovery.

Asian equities ended in red after a 10-day rally and European equities main bourses too were trading in a negative zone.

MSCI's 49-country index of world stocks slid 0.75 per cent in its largest daily loss in five weeks, while E-Mini futures for the S&P 500 fell 1.5 per cent to extend the previous session's pullback on Wall Street.



Ajcon Global's view

The correction in Indian equities which was overdue finally happened as on ground situation is bleak and the recent rally was only on improvement in sentiments owing to relaxations in Unlock 1 and not on economic recovery. As expected Indian equities are following global cues which was evident today. Going ahead, ongoing Q4FY20 earnings season and newsflow related to COVID-19 will dictate market trend. 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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