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Market wrap **May 12, 2020**

Significant volatility witnessed ahead of Hon. Prime Minister's Narendra Modi's speech today; all eyes on Finance Ministry for an economic package..

As expected by us, domestic bourses were highly volatile on Tuesday ahead of Prime Minister Narendra Modi's address to the nation at 8 pm today. In the video conference with the Chief Ministers of various states on May 11, 2020 PM Modi said that reduction of the transmission rate of the novel coronavirus and gradual increase in public activities while adhering to all guidelines are the "two-fold" challenges and now the Centre and states will have to work towards achieving the twin objectives. He further asked the Chief Ministers to share by May 15, 2020 a broad strategy on how they want to deal with lockdown regime in their states.

Index heavyweights such as Reliance Industries (RIL), HDFC Bank, and Asian Paints contributed the most to the benchmark indices' fall while ITC, Bhart Airtel and HDFC gave the much-needed support. RIL came under selling pressure on profit booking. The stock will turn ex-rights tomorrow.

S&P BSE Sensex declined by 190 points or 0.6 per cent lower at 31,371.12. During the day, the index hit a high and low of 31,536.89 and 30,844.66, respectively. However, the index witnessed a smart recovery on expectations of big stimulus package crores coming soon as per media reports.

Nifty was down by 43 points or 0.46 percent to end at levels of 9,196.55, down 43 points or 0.46 per cent.

In the broader market, the S&P BSE MidCap index was down by 0.75 per cent to 11,411 levels while the S&P BSE SmallCap index declined by 0.58 per cent to 10,566 points.

Volatility index, India VIX, gained 0.4 per cent to 38.19 levels.

Key developments
India's industrial output contracts to 16.7 percent in March against a growth of 4.5 percent in February, as per the Index of Industrial Production (IIP) data released by the government on May 12, 2020. The manufacturing sector witnessed a decline of 20.6 percent in March, against a growth of 3.2 percent a month ago. Mining showed no movement in March while electricity production contracted 6.8 percent against a growth of 8.1 percent in February. Primary goods contracted 3.1 percent in March against 7.4 percent in February. Capital goods production in March contracted 35.6 percent against a contraction of 9.7 percent a month ago. Consumer durables contracted 33.1 percent in March against a contraction of 6.4 percent in February.

According to data released by the Ministry of Statistics and Programme Implementation on May 12, 2020, India's retail inflation rate in April eased to 5.84 percent, Retail inflation for the month of March was at 5.91 percent. Food prices, which are a gauge to measure changes in kitchen budgets, remained unchanged at 8.76 percent in April. The ministry said it was not releasing general CPI for April due to inadequate data collection. "In the month of April, 2020, price data was largely collected by telephonic enquiry from the designated outlets. This was supplemented by information collected during the personal purchase of field staff for the items being transacted from neighbourhood outlets keeping in view the travel advisories," it said.

Crude oil
Crude oil futures were up as Saudi Arabia is likely to deepen production cuts to help reduce the glut in the global market.

Sectors and stocks
Shares of Bharti Airtel continued to rally for the third straight day, up 5 per cent at Rs. 563, on the BSE on Tuesday. The stock was trading close to its record high level of Rs. 569 touched on February 17, 2020. The stock of the telecom services provider has rallied 16 per cent in the two weeks. Covid-19 outbreak has shown limited impact on the telecom sector so far. On April 28, 2020 Finnish telecom gear maker Nokia announced signing a deal worth Rs. 7,500 crore with Bharti Airtel to enhance the mobile operator's network capacity in nine circles across the country. The agreement is expected to give a fillip to customer experience, particularly in 4G.

Shares of Reliance Industries (RIL) declined by 6 per cent to Rs. 1,483 on the BSE The stock will turn ex-rights on Wednesday, May 13. RIL has fixed May 14, 2020 as the record date for the Rs. 53,100 crore 1:15 rights issue, which is priced at Rs. 1,257 per share. An investor will be eligible to participate in the rights issue, if one owns the stock as on May 14, 2020. For every 15 shares held, the company will offer 1 share. The promoters will participate in, and are committed to, the success of the rights issue, the company had earlier said. Investors will need to pay only 25 per cent of the share price at the time of application and 75 per cent via calls. "If the shareholding of any eligible equity shareholder is less than 15 equity shares or is not in the multiple of 15 equity shares, the fractional entitlement of such eligible equity shareholder shall be ignored for the computation of the rights entitlement," RIL said in a regulatory filing today.

Shares of Asian Paints hit a seven-week low of Rs. 1,512, down 4 per cent on the BSE on Tuesday on concerns of demand destruction in the near term due to the outbreak of COVID-19. The stock was quoting lower for the 11th straight trading day and was at its lowest level since March 25, 2020. Since April 27, in the past 11 trading days, the stock of Asian Paints has underperformed the market by falling 18 per cent, as compared to a 1.8 per cent decline in the S&P BSE Sensex. The slight improvement in paint demand during January-February was offset by poor sales in March. Also, April-June quarter (Q1FY21) & July-September quarter (Q2FY21) demand will be impacted by lockdown and monsoon.

Shares of Piramal Enterprises declined by 9.68 per cent to Rs. 842 on the BSE on Tuesday after the company reported a net loss of Rs. 1,703 crore in the March quarter of financial year 2019-20 (Q4FY20) compared to a net profit of Rs. 455 crore in the corresponding quarter last year. The company reported a consolidated pre-tax loss of Rs. 1,296 crore during the quarter, as opposed to a pre-tax profit of Rs. 678 crore in the same period last financial year because of incremental provisioning in its financial services business on account of Covid-19. The Company's revenues were down 2 per cent to Rs. 3,341 crore in Q4FY20 from Rs. 3,409 crore in Q4FY19 whereas for the whole year (FY20), the company's revenue was up 10 per cent at Rs. 13,068 crore. Financial services arm saw 8 per cent growth in revenue while the pharma arm registered a 13 per cent growth. The net interest margin, a measure of profitability in the financial services business, stood at 5.2 per cent. The company made provisions in the financial services business to the tune of Rs. 2,963 crore in Q4FY20, up more than 200 per cent, which includes incremental provision of Rs. 1,903 crore for Covid-19. The loan book of the company at the end of the March quarter stood at Rs. 50,963 crore, of which its wholesale real estate is 70 per cent of the book and retail financing is just 11 per cent. However, the wholesale loan book has shrunk 12 per cent in FY20 to Rs. 45,429 crore and the exposure to top 10 borrowers has also shrunk by 23 per cent. It has maintained a capital adequacy ratio of 31 per cent at the end of March quarter, and has also reduced the gross debt to equity ratio to 2.6x as of March 2020, from 3.9x at the end of March, 2019. As far as the pharma business is concerned, the revenue for Q4FY20 was up 10 per cent at Rs. 1,623 crore compared to Rs. 1,476 crore in Q4FY19. The management said, operations continued at all the sites globally and for the whole year revenue was up 13 per cent to Rs. 5,419 crore while EBIDTA touched Rs. 1,400 crore. Moreover, the process of fundraising is on track in the pharma business by issuing a minority stake to potential financial investors and at the appropriate time, stake in the Shriram Group will be monetized, the management said. "We had at the onset said we will strengthen our balance sheet by bringing in equity and in the year, we have brought in Rs 14,500 crore capital in the company. The equity base has increased to Rs. 30,500 crore", said Ajay Piramal.

Global markets

Asian equities declined on Tuesday amidst concerns about a second wave of coronavirus infections after the Chinese city where the pandemic originated reported its first new cases since its lockdown was lifted. MSCI's broadest index of Asia Pacific shares outside of Japan witnessed a fall of more than 1 per cent, snapping two straight sessions of gains.

Hong Kong's Hang Seng index was among the hardest hit, down 1.78 per cent followed closely by Australia, off 1.24 per cent. South Korea's KOSPI faltered 0.85 per cent. China's blue-chip CSI300 index was off 0.5 per cent after the country's factory prices fell at the sharpest rate in four years in April.

In Europe, shares edged higher following a clutch of upbeat quarterly earnings reports, but investors remained cautious of resurgence in new coronavirus cases as hard-hit economies lift lockdowns.

Ajcon Global's view

We believe the markets would remain volatile and will take cues from Prime Minister's Narendra Modi's speech today after his video conferencing meet with State Chief Ministers yesterday. There are talks in media that an economic package would come soon which can give temporary fillip to Indian equities as tremendous losses are suffered by the industry and businesses during the current lockdown.

Sectors like FMCG, Pharma and Healthcare, Specialty 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.

We recommend value buying only in high quality stocks gradually at every decline for building a long term portfolio.

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