

**Indian equities decline on worries of rising COVID-19 cases; Banking stocks continue to fall..**

Indian benchmark indices remained under pressure owing to weak global cues and surge in COVID-19 cases in India which is a matter of serious concern. The S&P BSE Sensex witnessed a fall of 552 points or 1.63 per cent to end at 33,228.80. During the day, the index hit a low of 32,923.74 against Friday's close of 33,780.89. HDFC Bank, ICICI Bank, HDFC, and ITC contributed the most to the index's fall while Reliance Industries (RIL) emerged as an outlier. The stock hit a fresh lifetime high of Rs 1,626.70 during the day, before settling at Rs 1,615, up 1.65 per cent. The company's partly-paid shares issued under rights issue made a strong stock market debut today, surging 10 per cent to Rs 710.65 on the NSE, in the early morning trade.

Nifty ended at 9,813.70, down 159 points or 1.6 per cent. The broader market, however, performed better than the frontline indices. The S&P BSE SmallCap index ended unchanged at 11,844.85 while the S&P BSE MidCap index lost over a per cent to 12,455 levels.

Sectorally, PSU Bank and media stocks gained in the trade while others ended in the red. The Nifty PSU Bank index rallied nearly 1.5 per cent to 1,371.50 levels while Nifty Media ended at 1,298.80, up nearly a per cent.

On the other hand, Nifty Bank declined by over 3.5 per cent to 19,912.90 levels while Nifty Private Bank index fell nearly 4 per cent to 10,946.30.

India VIX was up by over 6 per cent to 32.71 levels.

**Crude oil**

Crude oil prices fell on Monday as there were concerns on second wave of COVID-19 infection across the globe which has started in China, Japan and the United States. The rise in COVID-19 cases will hamper the demand for fuel.

**Sectors and stocks**

Shares of Eicher Motors witnessed a rise of 3 per cent to Rs. 17,367.85 on the BSE even after the company reported a 44.22 per cent decline in March quarter (Q4FY20) consolidated profit after tax (PAT) at Rs. 304 crore. Its consolidated total revenue from operations stood at Rs. 2,208 crore for the quarter under consideration as against Rs. 2,500 crore for the same period of the previous year. Royal Enfield sold 1,63,083 motorcycles in the fourth quarter, a decline of 17 per cent from 1,97,567 motorcycles sold over the corresponding period in the last financial year, the company said. For the financial year 2019-20, the company reported a PAT of Rs. 1,827 crore as compared with Rs. 2,203 crore in 2018-19. Royal Enfield's total revenue from operations was down by 7 per cent to Rs 9,154 crore, compared with Rs 9,797 crore recorded for the year ended March 2019. The company sold 6,97,582 units during the 2019-20, down 15 per cent from 8,22,724 units in 2018-19. Eicher Motors' Managing Director Siddhartha Lal said 2020 has turned out to be a tough year overall for the industry, and the global pandemic during the last quarter brought with it unprecedented challenges and disruptive changes. "Now, as the lockdown is easing out, the company is witnessing strong initial customer interest and confidence," Lal said. Meanwhile, Eicher Motor also announced a stock split of 10 shares for every share held. "The board has approved subdivision of equity shares of the company from the existing one (1) equity share of face value of Rs. 10 each into ten (10) equity shares of face value of Re 1 each," it said in an exchange filing.

Shares of Mahindra & Mahindra (M&M) gained 2 per cent to Rs. 518.50 in the early morning deals on the BSE on Monday, surging 9 per cent in the past two trading days, after it reported a robust operational performance in the January-March quarter (Q4FY20). The company reported a standalone net loss of Rs. 2,500 crore, due to exceptional loss of Rs. 2,800 crore on account of impairment on investments due to Covid-19 and others. It had posted net profit of Rs. 849 crore in the year-ago quarter. The management commentary reiterated robust demand prospects on the rural side with M&M tractor plants currently operating at 80 per cent utilisation levels.

Shares of Jubilant Life Sciences, hit a 52-week high of Rs. 646, up 8 per cent on the BSE on Monday in the intra-day trade on the back of heavy volumes. The company recently signed a licensing agreement with the US-based Gilead Sciences to register, manufacture and sell Gilead's investigational drug, remdesivir, a potential therapy for Covid-19, in 127 countries including India, and is working towards launching the drug in July 2020. Meanwhile, thus far in June, (11 trading days), the stock has rallied by 46 per cent after it reported a 92 per cent year-on-year (YoY) jump in the normalised profit after tax at Rs 260 crore in Q4FY20. Revenue from operations remained flat at Rs 2,391 crore, as compared to Rs 2,386 crore in the previous year quarter. The company's adjusted EBITDA after one-off expenses stood at Rs. 568 crore, and was up 46



percent YoY from Rs. 388 crore in the year-ago quarter. Ebitda margin improved to 23.7 per cent from 16.3 per cent in Q4FY19. The management said despite the Covid-19 led challenges; the company continues to experience strong demand across most of its businesses. "While there is expected to be some decline in revenues and profitability in Q1FY2021 due to Covid related lockdowns, we expect to get back to normal levels once the Covid-19 impact has receded. Based on the assessment to date, the impacts of these disruptions are not expected to have a material financial impact on the full-year financial results," it said.

Shares of Aarti Industries declined by 7 per cent to Rs. 852 on the BSE on Monday after the company said it has received an early termination notice from a customer invoking the "termination of convenience" clause of a long term contract entered on June 15, 2017. The contract was expected to generate revenue of approximately Rs. 4,000 crore over 10-year period. The stock of the specialty chemicals company was trading lower for the third straight day, down 9 per cent during the period. With past three day's decline, the stock has witnessed a fall of 29 per cent from its all-time high level of Rs. 1,192, touched on May 5, 2020. "The company has received a notice from the Global Agrochemical Major, opting to terminate the 10-year contract it had entered on June 15, 2017 to supply a high-value agrochemical intermediary with application into Herbicides," Aarti Industries said in a press release today. The company further said that it understands that the reason for the same is the Customer's change in strategy. "They now are looking to focus on the final formulation and would like to source the Active Ingredient rather than their original plan to manufacture it," it said in an exchange filing. Upon the triggering of this termination event, the guarding provisions for compensation under the contract come into effect. As a result, the compensation to Aarti Industries is estimated to be in the range of \$120 million to \$130 million, the company said. The management said the change in the strategy of the Customer does not significantly undermine the inherent opportunity in this business. "We are fully backward integrated and a strategic player in this value chain. We are confident to be able to cater to the market requirements in this high growing vertical of the agrochemical space," it said.

### **Global markets**

Global equities too were under pressure on fears that a second wave of COVID-19 infections is under way which caused panic across the globe on Monday with stocks and oil under pressure while investors bought into safe havens such as German government debt. In China, Beijing reported its second consecutive day of record numbers of virus cases and hospitalisations rose in some US states. The pan-European STOXX 600 fell 2.5 per cent with all sectors and regional markets trading deep in the red after losses accelerated in the final hours of trading in Asia.

Japan's Nikkei witnessed a fall of 3.5 per cent and South Korean shares declined by 4.8 per cent. Futures for the S&P 500 also extended losses, shedding 2.9 per cent.

### **Ajcon Global's view**

We believe the correction in Indian equities which was overdue will continue as on ground situation is bleak, weak global cues like second wave of COVID-19 infections and the recent rally was only on improvement in sentiments owing to relaxations in Unlock 1.0 and not on economic recovery. 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 especially in March 2020 last week and April 2020 first week 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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