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Market wrap **July 16, 2020**

Indian benchmark indices end in green led by Infosys; US - China tensions escalate..

Domestic bourses end in positive terrain amidst volatility led by a rally in Infosys and select financial counters. In addition, encouraging data regarding COVID-19 vaccine development improved investor sentiments.

The S&P BSE Sensex was up by 420 points or over 1 per cent higher at 36,471.68 levels. Of 30 constituents, 19 ended in the green and rest 11 in the red. Infosys (up 9.5 per cent) ended as the biggest gainer on the index after the company posted better-than-expected numbers for the June quarter of the fiscal year 2020-21 (Q1FY21). The stock was also the major contributor to the Sensex's gains.

Nifty ended at 10,740, up 122 points, or over 1 per cent.

The trend among Nifty sectoral indices was positive. Barring Nifty Media, all the other indices advanced. Nifty IT ended as the biggest gainer - up over 2.8 per cent to 16,926 levels.

In the broader market, the S&P BSE MidCap index ended 0.71 per cent higher and the SmallCap index ended flat with the negative bias.

Crude oil
Crude oil prices declined after OPEC and other producers including Russia agreed to ease record supply curbs from August, though the drop was cushioned by tightening global inventories as economic activity picks up.

Sectors and stocks
Shares of Bajaj Consumer Care were locked in the upper circuit band of 20 per cent at Rs. 181 on the BSE on Thursday after the company reported a strong operational performance in June quarter (Q1FY21) with EBITDA margins coming in at 30.42 per cent which was above street estimates. EBITDA margin stood at 30.93 per cent in June 2019 quarter (Q1FY20) and 25.67 per cent in March quarter (Q4FY20). The personal products company reported a net profit at Rs. 54.19 crore in Q1FY21 against Rs. 24.52 crore in Q4FY20. The company's total revenue from operations grew 11 per cent sequentially at Rs. 196 crore against Rs. 184 crore in the previous quarter. It had posted operational revenue of Rs. 240 crore and profit of Rs. 58.65 crore in the year-ago quarter, down 18 per cent and 7.6 per cent, respectively. The management said the company witnessed significant disruptions during the first fortnight of April but since then the company has been able to steadily revive its operations and reverted to near normal business in May and June'20. In the last one week, the stock has rallied 25 per cent against 0.85 per cent decline in the S&P BSE Sensex. It, however, underperformed the market in past one year by falling 43 per cent as compared to 7 per cent fall in the benchmark index.

Shares of Larsen & Toubro Infotech (LTI) was up by 6.58 per cent to hit a fresh all-time high of Rs. 2,340 on the BSE on Thursday after the mid-size IT services firm reported a 17.1 per cent year-on-year (YoY) rise in consolidated net profit for June quarter (Q1FY21) at Rs. 414.6 crore on account of lower operating expenses. Revenue rose 18.7 per cent year-on-year to Rs. 2,949.2 crore during this period. It, however, declined 2.1 per cent on a quarter-on-quarter basis. In constant currency terms, revenues came in at US$390.3 million, a 4.7 per cent fall on a quarter-on-quarter basis. Operating margin of the Larsen & Toubro group company expanded 90 basis points sequentially to 20.1 per cent in the three-month period. The company has won one large deal in the first quarter, the mid-tier IT firm said in an exchange filing.The company's profit before tax (PBT) was up by 16.9 per cent YoY to Rs. 558.9 crore while it remained flat on sequential basis, it said. The company saw its headcount remain flat at 31,477 employees on a quarter-on-quarter basis. The attrition rate also dropped 130 basis points to 15.2 per cent during the quarter.

Shares of Avenue Supermarts, which runs the DMart chain of stores, were trading lower for the fourth straight day, falling 8 per cent to Rs. 1,981 on the BSE on Thursday after the company reported a sharp 34 per cent fall in revenues in the June quarter (Q1FY20). The stock has fallen below its qualified institutional placement (QIP) issue price of Rs 2,049 per share. Avenue Supermarts shares hit an over three-month low today, trading at its lowest level since March 25, 2020. Thus far in the current week, the stock has fallen 15 per cent, after the company announced its Q1 results on Saturday, July 11, 2020.
The near-term outlook remains challenging given the uncertain scenario and various limitations on store operations due to strict lockdowns enforced by local authorities, which would significantly impact footfalls. The month of July is being impacted by the second phase of lockdown, with nearly 20 per cent of stores being closed once again. The Non-Grocery category is operating at double-digit like to like (LTL) decline. Thus, there is risk of slow recovery, which could extend well beyond H1FY21. Meanwhile, the company's revenue for the quarter de-grew 33 per cent year on year (YoY) to Rs 3,883 crore. High cost of operations and weak sales led EBITDA (earnings before interest, taxes, depreciation and amortization) margins to contract sharply by 740 bps YoY to 2.9 per cent. Profit after tax declined 87.6 per cent YoY to Rs 40.1 crore.

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Global markets

Equities in emerging markets fell to a one-week low on Thursday as investor sentiments were affected amidst rising COVID-19 cases and escalation in tensions between the United States and China.

A broad dispute between Washington and Beijing over the control of advanced technologies and the protection of civil liberties in Hong Kong continued to hit risk appetite.

The MSCI's index for developing world stocks dropped 1.6 per cent, after rising in the previous session.

Ajcon Global's view

We believe cooling of Indian equities will be healthy for investors as whopping rally in last 3 months was led by liquidity through FPIs. In June 2020, FPIs poured US$2.73 billion in Indian equities, which is the highest this year and importantly surpassed pre-COVID-19 levels. The FPI inflows came amidst rush of liquidity in the markets globally after central banks around the world announced stimulus measures to help their economies. The stimulus measures given by the G4 central banks such as the US Federal Reserve, Bank of England, European Central Bank, and Bank of Japan, have helped fill the global markets with liquidity, marquee Indian companies tapping the secondary stock market by raising funds also contributed towards the increase in FPI flows. According to data on NSDL, the inflows in January 2020 stood at US$1.3 billion against the June inflow of US$2.73 billion. The inflows have currently become higher than the pre-Covid-19 levels in January where the markets were at all-time highs with the benchmark Sensex and Nifty trading at the 42,000 and 12,300 mark respectively. After hitting a record high in January 2020, Indian equity benchmarks crashed 40 percent to hit around four-year low level on March 24, 2020. The indices in June 2020 quarter witnessed a sharp and fast rally of 20 percent in both Sensex and Nifty which is very sharp led by liquidity (by global central banks) and gradual re-opening of economies despite virus risk.

Presently, caution is warranted as Indian investors are not connected to realities of economic situation being very bleak which is evident by the fact that Companies are looking to raise capital via rights issue and FPO. Although there are relaxations in Unlock 2.0 but the exponential rise in COVID-19 cases can force for tighter lockdown. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating India – China tensions after banning of Chinese mobile apps, exponential rise on COVID-19 cases which is a matter of serious concern; global cues especially the spike in COVID-19 cases across the globe in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, Q1FY21 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied in June 2020 quarter, 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 (199293), 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. However, those who have entered at the lower levels especially in last week of March 2020 last week and first week of April 2020 may book short term partial profits. We feel that there will be further opportunities to pick up the stocks at lower levels as Q1FY21 results would be a washout for major sectors except FMCG, Agrochemicals, Pharma and Digital/internet.

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