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Market wrap

May 20, 2020

Indian equities rally on Finance Ministry commentary; Financials rebound on positive domestic cues..

The S&P BSE Sensex rallied an impressive 622 points or over 2 per cent to 30,819 levels, with HDFC (up over 5.5 per cent) being the top gainer. Other top index gainers included Mahindra & Mahindra (up over 5 per cent), L&T (up 5 per cent), and Tata Steel (up 4 per cent). Further, Finance Minister - Nirmala Sitharaman's statement that the government was with industry and would do as much as possible to repair the damage when companies were going through the most stressful time, also improved the mood.

Nifty was up by 187 points or over 2 percent to end at levels of 9,066.55 points, up 187 points or over 2 per cent.

Volatility index, India VIX, witnessed a significant decline of 10 per cent at 35.59.

Sectorally, all the indices on the NSE ended in the green. Nifty Pharma topped the list with over 4 per cent gains at 9,456.80 levels. Nifty Bank and Nifty Private Bank gained 2 per cent each.

In the broader market, the S&P BSE MidCap index was up by around 1.5 per cent to 11,278 while the S&P BSE SmallCap added over 1 per cent to 10,472.

Crude oil

Crude oil prices were up amidst signs of improving demand and output cuts agreed by major crude oil producing nations.

Sectors and stocks

Shares of Dr. Reddy's Laboratories were up by 6 percent after the company delivered a strong performance in Q4FY20. The Company witnessed a significant rise of 76 percent year-on-year (YoY) jump in net profit for the March quarter.

Shares of Larsen & Toubro (L&T) Infotech moved up by 7 per cent to Rs. 1,786 on the BSE on Wednesday after the company posted revenue growth of 4.7 per cent in constant currency (CC) terms on sequential basis in March quarter results. In rupee terms, the firm's revenue during the quarter under review grew up 7.1 per cent quarter on quarter (QoQ) at Rs. 3,012 crore while consolidated net profit rose 13 per cent year-on-year to Rs. 427.5 crore. The global technology consulting and digital solutions company reported 10.3 per cent jump in profit before tax (PBT) at Rs. 551 crore over the previous quarter. Net income rose 13.5 per cent at Rs. 428 crore on QoQ basis. The company's board also recommended a final dividend of Rs. 15.50 per equity share of face value of Re 1 each. The company won two large deals in Q4 with net-new TCV in excess of US\$100 million, culminating in a record eight large deal wins in FY20. The management said its resilient business model, comprehensive digital transformation capabilities and flawless execution helped the company deliver fourth consecutive year of industry leading double-digit revenue growth in FY20. "With strong order wins, healthy revenue momentum and client centric growth strategy, the company shall confront near term demand challenges and emerge stronger," it said.

Shares of Reliance Industries – Rights Entitlement (RIL-REL) moved higher by up to 34 per cent to Rs. 211.60 level on the National Stock Exchange (NSE) on Wednesday on the first day of its trading. The stock opened at Rs. 158.05 and hit an intra-day low of Rs. 152 on the exchange so far. "The REs for renunciation of RIL are permitted on the exchange with effect from the date Wednesday, May 20, 2020. The shares shall be settled on T+2 rolling settlement basis and the trades shall be settled on trade-for-trade basis. The REs shall be tradable in dematerialized form only," the exchanges said in their respective notices. The platform allows eligible shareholders to renunciate their shares for a price. Until now, shareholders, who didn't wish to apply, had to let their RE lapse or had to transfer it for free.

Shares of Bharti Airtel were up by 11 per cent and hit record high on Tuesday after it surprised the Street with a better-than-expected performance core operating performance in Q4FY20. The Company added 12.5 million 4G subscribers in the March quarter. The Company provided Rs. 5,642 crore for one-time spectrum charges, resulting in a quarterly net loss of Rs. 5,237 crore for the three months ended March 31, compared with a profit of Rs. 107 crore a year earlier. Bharti Airtel Ltd has seen a surge in demand for home broadband services in the last few weeks as the country went into a lockdown to curb the spread of covid-19, forcing people to work from home, the company's management said in an investor conference call on Tuesday. "We are excited about home broadband. India is an underserved market and there is a very big opportunity to expand home broadband on a structural basis. Having said that, we are seeing a massive surge in latent demand for home broadband... and even during the lockdown there has been a lot of demand to actually get home broadband going," Bharti Airtel India and South Asia chief executive officer and managing Gopal Vittal said. "We believe that an ARPU of Rs. 154 is inadequate to turn a reasonable Return on Capital as a company and remain hopeful that ARPUs



will get to Rs. 200 in the short term and eventually to Rs. 300 which is where it should be for a business like ours. Of course, even at this level of ARPU we believe we will be very well placed to serve all the lower end customers who may have the capacity to pay Rs. 100 or less," Vittal said.

Shares of Vodafone Idea were up by 9 per cent to hit a two-month high of Rs. 5.93 on the BSE on Wednesday amid expectations of an increase in tariff rates in the near term. The telecom services provider's stock was trading at its highest level since March 18, 2020. It has rallied 51 per cent in the past one month from the level of Rs. 3.92, on the back of delivery-based buying.

Shares of Havells India touched its fresh 52 –week low for the fifth straight day, declining by 4.4 per cent on the BSE on Wednesday amid concerns about slower recovery in business as compared to peers. Havells India's standalone revenue during the January-March quarter (Q4FY20) declined by 19.5 per cent year-on-year (YoY) to Rs. 2,216 crore due to significant impact of lockdown and slowdown in infrastructure and real estate (impacting B2B business). The company's profit before tax (PBT) during the quarter down by 34 per cent at Rs 198 crore; while net profit decreased by 12 per cent at Rs. 177 crore over the previous year quarter. Margin pressure was eased by some reversal in provisions in employee costs and lower advertising & promotion (A&P) spends. Thus far in the month of May 2020, the stock has underperformed the market by falling 21 per cent, after reporting weak numbers across all segments.

Global markets

Asian equities were flat on Wednesday owing to absence of positive triggers and concerns of economic recovery post the relaxations in lockdown globally.

MSCI's broadest index of Asia-Pacific shares outside Japan was flat. Stocks in Hong Kong and China idled were also flat as investors wait to hear the government's economic plans, due to be announced during the annual gathering of parliament beginning on Friday. Japan's Nikkei rose 1 per cent.

In Europe, stocks slipped. Europe's STOXX 600 index was 1.6 per cent lower. The blue-chip FTSE 100 was down 0.4 per cent as Rolls-Royce Holdings Plc shed 0.8 per cent after it said it would cut 9,000 jobs and might close some of its factories.

Ajcon Global's view

We believe domestic bourses would continue to remain volatile and range bound. The disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis will also remain an overhang. Earlier, the RBI had announced a three-month EMI moratorium on term loans for the people (interest under the EMIs will have to be paid later), but the middle class section wants to be extended.

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 was announced as part of stimulus package etc. The later part of the measures of Tranche 4 and 5 were long term in nature and street was expecting immediate relief.

We believe the real stimulus would have been:

- 1) Waiver of interest on MSME loans for 4 to 6 months
- 2) Interest subvention of at-least 4 percent on all other borrowers
- 3) Non refundable payroll subsidy equal to at-least 4 months' salary to small business and MSMEs
- 4) Loans up to 4 months of working capital to all the non borrower small businesses and MSMEs at concessional interest rate of 7 percent pa.
- 5) Reduction in the Income Tax rates of flat 15 percent on all non salaried individuals, small businesses and MSME
- 6) Waiver from advance tax payment for FY 20-21 (AY 21-22)
- 7) Deferment of GST payment for small businesses & MSMEs till 30th September, 2020
- 8) No deduction and payment of TDS until 30th September, 2020
- 9) Interest free Working capital assistance equal to 6 months expenses to all the non borrower business enterprises
- 10) Direct credit of at least Rs. 10,000 each to daily wage workers and farmers

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



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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.



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