

Profit booking can be expected in coming days after recent rally; Aviation and Pharma midcaps stocks rally..

The Benchmark indices ended in the positive territory on Thursday, though gains were capped as sell-off resumed in financial stocks in the second half of the session.

The S&P BSE Sensex ended at 30,933, up 114 points or 0.37 per cent while the 50-share index Nifty of NSE held on to the crucial 9,100-level to end at 9,106.25, up 40 points or 0.44 per cent.

Volatility continued to decline as India VIX today dropped nearly 8 per cent to 33 levels.

Broader market, however, fared well and outperformed the headline indices. For instance, the S&P BSE MidCap index gained 0.76 per cent and the S&P BSE SmallCap added 0.72 per cent.

Sectorally, Nifty Private Bank index dropped 0.64 per cent and Nifty Bank lost 0.5 per cent to 17,744.20 levels.

Crude oil

Crude oil prices were up to their highest since March as a drawdown of US crude inventories and output cuts by major producers helped ease concerns about a supply glut, offsetting fears over the economic fallout from the Covid-19 pandemic.

Sectors and stocks

ITC rallied by over 7 per cent to Rs. 188.90 on the BSE and emerged as the biggest gainer on Sensex. The company has resumed cigarette production and distribution, after a hiatus of over a month. The category leader in the country, ITC has a market share of 77 per cent in cigarettes.

Shares aviation companies - InterGlobe Aviation and SpiceJet - rallied up to 10 per cent on the BSE on Thursday in early morning trade after the government on Wednesday announced that domestic airline operations would resume on May 25, more than two months after all flights were halted. The stock of the country's largest passenger airline InterGlobe Aviation, which operates its flights under the IndiGo brand, has rallied 10 per cent to Rs 1,002 in the opening deals. The Civil Aviation Ministry has said that the domestic flight will resume operations May 25th 2020 onwards in a calibrated manner. The ministry also stated that the government has intimated all airports and airline companies to gear up for starting their operations from the scheduled date and the Standard Operation procedures for passenger movement will be followed shortly. Commercial flights have been suspended since March 25th 2020 and only cargo flights and special flights were allowed to operate.

Shares of J.B. Chemicals & Pharmaceuticals hit its respective all-time highs on the BSE on Wednesday. JB Chemicals, it hit a new high of Rs. 685, up 6 per cent on the BSE in the intra-day trade today, surpassing its previous high of Rs. 659 touched on May 11, 2020. Thus far in the current calendar year 2020, the stock has outperformed the market by surging 61 per cent. Last month, the company had received approval from the US health regulator to market Carbamazepine tablets used in the treatment of epilepsy. The company plans to commercialise this product in third quarter of this financial year and is expected to boost the company's US sales. We had come out with a research report on February 29, 2020 on J.B. Chemicals & Pharmaceuticals Limited (JBCPL) at Rs. 538 with a target price of Rs. 663.

Syngene International hit its respective all-time highs on the BSE on Wednesday. Syngene International rallied 9 per cent to Rs. 382 in intra-day trade on the BSE today, and surpassed its previous high Rs. 368 touched on June 14, 2019. The stock of the pharmaceutical company has rallied 24 per cent during the past month. Furthermore, in the past seven trading days, Syngene International gained 20 per cent after the company reported strong Q4FY20 result. The company reported a yoy growth of 13 percent on yoy basis to Rs. 628 crore. The Company registered 24 per cent year on year (YoY) growth in EBITDA at Rs. 225 crore in the March quarter of FY20 (Q4FY20). Ebitda margin, too, expanded by 300 basis points to 36 per cent from 33 per cent in year ago quarter. Profit after tax witnessed a rise of 20 per cent to Rs. 120 crore relative to last year's profit of Rs 100 crore. The fourth quarter performance was driven by strong growth in its discovery and development services divisions. During the quarter, the company commissioned a new research facility at Biocon Park in Bengaluru.

Global markets

Global equities declined on Thursday on worsening US - China relations. In Asia, Chinese equities were in red led by media reports that US regulators are open to making changes to close a possible loophole in a new rule aimed at curbing global chip sales to Chinese firm Huawei Technologies Ltd.



MSCI's Asia ex-Japan stock index was weaker by 0.23 per cent, while Japan's Nikkei index closed down 0.21 per cent.

European equities, too, were under pressure as investors are keeping an eye on business activity data to underline the blow to the euro zone economy from sweeping lockdown measures imposed to curb the virus spread.

Ajcon Global's view

We believe after the recent run up some profit booking is expected and 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.

The announcements with regards to MSMEs in first tranche of Stimulus Package like Emergency Working Capital Facility for MSMEs and small businesses worth Rs. 3,00,000 crores + Subordinate debt for stressed SMEs worth Rs. 20,000 crores + Fund of Funds for MSME worth Rs. 50,000 crores has not been yet implemented and the Cabinet has approved the same yesterday. The Bankers are still formulating their policy. This delay in reaching the money in hands of MSMEs and small businesses is causing great inconvenience and problem to MSMEs.

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 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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