

Domestic bourses remain under pressure as Financials decline on RBI's commentary..

The Benchmark indices declined after RBI's commentary with regards to extension of moratorium on loan repayments by three more months and finally ended in the negative territory on Friday.

The RBI today decided to cut the policy rate by 40 basis points from 4.4 per cent to 4 per cent. The reverse repo rate has been reduced to 3.35 per cent to reduce the impact of COVID-19 on the economy. For the working capital facilities, the interest payment has been deferred by another three months, in-line with extension of moratorium on term loans. The accumulated interest for the deferment period can be covered into a funded interest term loan payable by end of the current fiscal. Thus, borrowers need not pay accumulated interest in one shot immediately after the deferment period, which is a big relief for them.

The S&P BSE Sensex declined by 260 points or 0.84 per cent to settle at 30,672.59. HDFC, HDFC Bank, ICICI Bank, and Axis Bank contributed the most to the Sensex's fall. On the other hand, IT majors, Infosys and TCS, supported the index.

Nifty ended at 9,039, down 67 points or 0.74 per cent.

Nifty Bank today declined by over 2.5 per cent to 17,279 levels while Nifty Private Bank declined around 3 per cent to 9,421.55 points, with 8 out of 10 constituents ending in the red.

On a weekly basis, Sensex was down by 1.36 per cent and Nifty declined by 1 per cent.

Markets will remain closed on Monday, May 25 on account of Eid al-Fitr.

Crude oil

Crude oil prices declined over 5 per cent towards \$34 a barrel on worsening relationships between the United States and China, and doubts grew about the pace of demand recovery from the coronavirus crisis.

Sectors and stocks

Reliance Industries Limited (RIL) on Friday announced that KKR will invest Rs. 11,367 crore in Jio Platforms. This transaction values Jio Platforms at an equity value of Rs. 4.91 trillion and an enterprise value of Rs. 5.16 trillion. This is KKR's largest investment in Asia and will translate into a 2.32 per cent equity stake in Jio Platforms on a fully diluted basis. Over the last month, leading technology investors, such as, Facebook, Silver Lake, Vista, General Atlantic and KKR have announced aggregate investments of Rs 78,562 crore into Jio Platforms. "I am delighted to welcome KKR, one of the world's most respected financial investors, as a valued partner in our onward march to growing and transforming the Indian digital ecosystem for the benefit of all Indians," said RIL Chairman Mukesh Ambani.

Shares of Escorts hit 52-week high of Rs. 919, up 4 per cent on the BSE on Friday, on expectations that the tractors sales could recover sooner than other segments. The stock price breached its previous high of Rs. 914.40 touched on February 19, 2020 in the intra-day trade. The stock of the commercial vehicle maker has rallied 16 per cent in the past six trading days after the company delivered strong operating performance in the January-March quarter (Q4FY20) amid a tough environment. The Company's EBITDA witnessed a rise of 2.5 per cent year-on-year (YoY) basis to Rs. 194 crore, while EBITDA margin, adjusted for one-offs, expanded 50bps YoY to 12.1 per cent against analyst estimate of around 10.5 per cent during the quarter. Revenue, however, fell 15 per cent YoY to Rs 1,380 crore in Q4FY20 due to poor performance by construction equipment segment. The management said good harvest, increased procurement by respective governments and their focussed support to farming and prediction of good monsoon will enable quick revival across farm ecosystem. Moreover, the management is optimistic for the forthcoming quarters and hopes that the collective efforts will help in containing the crisis and the global economy will be on its strength soon again.

Shares of SBI Cards and Payment Services declined by 9 per cent to Rs. 495 on the BSE on Friday after the Reserve Bank of India (RBI) today announced an extension of the moratorium on loan EMIs by three months. The RBI commentary indicates that the stress in the economy on both demand and supply is likely to continue. The non-banking finance company's stock was trading at its lowest level since listing on March 16, 2020. It has fallen below its previous low of Rs 501 touched on April 16, 2020. The stock has now fallen 34 per cent against its issue price of Rs 755 per share. SBI Cards witnessed a 71 per cent year-on-year (YoY) decline in pre-tax profit at Rs. 112 crore in March 2020 quarter (Q4), due to additional bad loan provisioning of Rs 489 crore factoring in Covid-related disruption. The management of the company said the current quarter will get impacted because they are not able source new cards, and the collections are also down.



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Shares of Bandhan Bank declined by 6.5 per cent to Rs. 197 on the BSE on Friday after the private sector lender said its services have been impacted in some areas of West Bengal and Odisha due to Amphan and the cyclone is likely to impact business worth Rs. 260 crore. The stock has declined by 11 per cent in the past two trading days. Cyclone Amphan struck five districts in southern West Bengal and northern coastal Odisha starting in the afternoon of May 20 and lasting till the wee hours of the morning of May 21. "As per the initial assessment, in our areas of operations, 49 banking units (micro banking outlet) in five districts were impacted of which 45 are operational today," the Kolkata-headquartered Bandhan Bank said in a regulatory filing on Tuesday after market hours. The bank further said, it could continue operations in all but five branches in the affected districts. Where the outlets could not continue services, it was due to issues in accessibility. The bank expects these outlets to resume operations shortly. As per Bank's estimate, the business of around 65,000 of its micro banking borrowers, amounting to an exposure of approximately Rs. 260 crore, could be impacted due to the cyclone. The major impact has been in the district of South 24 Parganas. In our experience of Fani, the cyclone that caused large scale damage in Odisha in May 2019, the impacted portfolio took 3 to 6 months to achieve normalcy, aided by the committed workforce and customer loyalty. On the back of this experience, we expect the Amphan affected portfolio to regularise by Q3 of FY21, it added.

Shares of India Cements have been rallying since the Damani's family increased their stake in the company by over 15 percentage points in the January-March quarter. The stock today hit a 2-year high of Rs. 134.40, up 6 per cent, on the BSE in an otherwise weak market and was trading at its highest level since May 9, 2018. In the past six trading days, it has rallied 33 per cent. On May 14, 2020, India Cements announced that Radhakishan S Damani, promoter of D-Mart supermarkets' chain, along with Gopikishan S Damani, has increased the stake in the company to 19.89 per cent at the end of the March quarter.

Global markets

Global equities declined on Friday as China moved to impose a new security law on Hong Kong after last year's pro-democracy unrest, further straining fast-deteriorating US-China ties. Additionally, news that China has dropped its annual growth target for the first time added to concern about the fallout from the COVID-19 pandemic.

Hong Kong's Hang Seng index declined by more than 5 per cent to a seven-week low, MSCI's broadest index of Asia-Pacific shares outside Japan fell 2.7 per cent.

Japan's Nikkei was down by 0.8 per cent, while US stock futures fell almost 1 per cent -- pointing to a weak open for Wall Street.

Ajcon Global's view

As expected the domestic bourses were under pressure and will continue to remain volatile. 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



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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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