AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **June 22, 2020**

Benchmark indices continue to rally; Reliance Industries and Pharma stocks rally.

Indian equities ended in green with significant rally in Pharma stocks after Drugs Controller General of India's (DCGI) approval to select pharma companies to manufacture and market "potential" Covid-19 drugs lifted investor sentiment, resulting in broad-based buying.

S&P BSE Sensex was up by 180 points or 0.52 per cent to end at 34,911.32, with Bajaj Auto (up around 7 per cent) being the top gainer and HDFC (down over 1 per cent) the biggest loser.

Nifty ended above 10,300-mark at 10,311, up 67 points or 0.65 per cent. of 50 constituents, 37 advanced and 13 declined.

In the broader market, both mid and small-cap indices outperformed the benchmarks. The S&P BSE MidCap index was up by 2 per cent and the S&P BSE SmallCap rose by around 1.4 per cent.

Sectorally, barring IT stocks, all the other indices ended in the green. Nifty Bank jumped by 1.74 per cent while Nifty PSU Bank rose by nearly 4 per cent to 1,473.60 levels.

Crude oil
Crude oil prices were firm owing to tighter supplies from major producers. Brent crude rose 10 cents, or 0.2 per cent, to $42.29 a barrel at the time of writing of this report, while US crude for August delivery was at $39.87 a barrel, up 4 cents, or 0.1 per cent.

Sectors and stocks
Reliance Industries (RIL) hit a fresh lifetime high of Rs 1,804.10 on the BSE during the day. It became the first Indian firm to hit a market valuation of US$150 billion, helped by a continuous rally in its share price. The stock, however, ended 0.7 per cent lower at Rs 1,747.

Glenmark Pharmaceuticals was the stock of the day as the scrip ended 27 per cent higher at Rs 520 on the BSE after the company said it has launched antiviral drug Favipiravir, under the brand name FabiFlu, for the treatment of patients with mild to moderate Covid-19. The stock hit a 52-week high of Rs 572.70 during the session.

IT stocks were under pressure as the US President Donald Trump said late on Saturday he would announce new restrictions on visas within a couple of days to block the entry of certain foreign workers and protect Americans struggling with a job market devastated by the coronavirus pandemic. Nifty IT index ended 0.25 per cent lower at 14,464 levels.

Cipla hit a fresh 52-week high of Rs. 696 on the BSE after the company launched the generic version of Gilead Sciences' Remdesivir, lyophilized powder for injection, 100 mg under its brand name 'Cipremi'. The stock ended at Rs 655.80, up 3 per cent on the BSE.

Shares of SBI Cards and Payment Services were up by 6 per cent on Monday to hit 12-week high of Rs. 655, on the BSE on the back of heavy volumes. The stock was trading at its highest level since March 30, 2020. In the past month, it has rallied 28 per cent. SBI Cards is the second largest credit card issuer in India. It offers various types of credit cards considering the need of retail clients (viz. Lifestyle Cards, Rewards, Shopping, Travel and Fuel). It also offers corporate cards and is the largest co-brand credit card issuer in India. It also issues card in partnership with smaller or regional banks. SBI Cards made its stock market debut on March 16, 2020. The stock hit an all-time low of Rs. 495 on May 22, had fallen 34 per cent against its issue price of Rs .755 per share. For the January-March quarter (Q4FY20), the company had reported a 71 per cent year-on-year decline in pre-tax profit to Rs 112 crore in March 2020 quarter (Q4), due to additional bad loan provisioning of Rs 489 crore factoring in Covid-related disruption. Had it not been for Covid-19 impact, the company would have reported a sharp 80 per cent year-on-year jump in its pre-tax profit to Rs. 692 core. SBI Cards' May-month business update threw a few positive surprises. Amidst lockdown challenges, around 27,000 new card additions in April 2020, increase in new card additions per day to 2,500 in May’20 from 1,000 in Apr’20, spends per day at Rs. 2000 million in last 7 days of May’20 (Rs. 2900 mn in Q4), online spends share up to 55 per cent in May’20 (44 per cent in Q4) and moratorium customers stood steady at 12 per cent between Apr-May’20.

Global markets

Global equities were lacklusture on Monday as the threat of rising coronavirus infections in parts of Europe and the United States in its second wave hurt investor sentiments.

European stocks fell 0.3 per cent at the open after Germany's coronavirus reproduction rate rose over the weekend to 2.88 on Sunday from 1.06 on Friday, health authorities said.

US stock futures were up 0.8 per cent, continuing to shrug off a spike in infections. In Asia, Japan's Nikkei fell 0.2 per cent and MSCI's broadest index of Asia-Pacific shares outside Japan was almost flat.

Ajcon Global's view

After a strong rally in last few days, we believe Indian equities will take cues from India – China tensions, global cues especially the spike in COVID-19 cases in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in 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 (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. 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 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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