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Market wrap **June 24, 2020**

Indian equities end in red amidst profit booking and weak global cues; Financials, Auto and Pharma stocks decline…

Indian equities ended in red ahead of the expiry of futures and options contracts (F&O) for June series, due tomorrow led by selling in financial, auto, and pharma counters. Further, weak global cues due to a spike in coronavirus cases, too, added to the investors' woes.

The S&P BSE Sensex witnessed a fall of 561 points or 1.6 per cent to 34,869 levels, with ICICI Bank (down 7 per cent), IndusInd Bank (down over 6 per cent), and Power Grid (down around 5 per cent) being the top losers. Of 30 constituents, 24 ended in the red and rest 6 in the green.

Nifty was down by 166 points or 1.6 percent and ended at 10,305.

Sectorally, all the indices on the NSE, barring Nifty FMCG, ended in the red. Nifty Bank declined838 points or 3.76 per cent to end at 21,426.80 while Nifty Private Bank index declined 4 per cent to 11,739.45 levels. Nifty FMCG, on the other hand, ended around 0.5 per cent higher at 29,487.40 levels.

In the broader market, the S&P BSE MidCap index fell 1 per cent while the S&P BSE SmallCap index slipped 1.24 per cent.

Volatility index, India VIX, gained over 2 per cent to 29.99 levels.

Crude oil
Crude oil price declined reversing the previous session's surge as worries about a second wave of the COVID-19 pandemic outweighed support from a gradual reopening of global economies.

Gold
Gold, on the other hand, climbed to its highest level in nearly eight years.

Sectors and stocks
Shares of state-owned Bank of Baroda was up by 9 per cent to Rs. 55 on the BSE on Wednesday on Rs. 507 crore net profit in the March quarter of FY20 (Q4FY20), helped by lower provisions. The bank had reported a net loss of Rs. 1,407 crore in the December quarter of FY20. The numbers are not comparable year-on-year due to its merger with Dena Bank and Vijaya Bank effective April 1, 2020. Fresh slippage for the quarter stood at Rs 3,050 crore. "In terms of slippages ratio, we do anticipate some stresses due to Covid but our current assessment is that our slippages in FY21 should be lower than in FY20," the bank's managing director and CEO Sanjiv Chadha said. As regards loans under moratorium, the management said approximately 65 per cent of the bank's book was under moratorium but has come down to 55 per cent in May. "We expect the overall moratorium to come down to 35 per cent in the quarter going ahead," it said in a statement.

Shares of Asian Paints, market leader in domestic Paints industry, rallied by over 7 per cent on the BSE on Wednesday, a day after the company reported its March quarter results for the financial year 2020-21 (FY21). The stock was the top gainer on the S&P BSE Sensex. "Loss of sales due to the lockdown in March'20 impacted the Decorative business segment in an otherwise strong quarter with double-digit volume growth in the first two months of the quarter. Even with the loss of sales, the Decorative business segment in a tough year has registered double-digit volume growth for the year and strong profit numbers," Asian Paints said in a press release. For the quarter under review, the paint company posted a profit before tax (PBT) of Rs. 699 crore on a consolidated basis, down 5.68 per cent year-on-year (YoY). Its net profit or profit after tax (PAT) stood at Rs. 461.89 crore, down 2 per cent from Rs 471.65 crore logged in the corresponding quarter of the previous fiscal. Revenue from operations of the company slipped 7 per cent to Rs. 4,635.59 crore while total income came in at Rs. 4,691.39 crore, down 7 per cent from Rs 5,048.71 crore reported in the March quarter of FY19. Segment-wise, revenues from Paints vertical declined 7 per cent to Rs 4,532.88 crore, while Home Improvement business logged revenue of Rs 102.71 crore, down 13.7 per cent from the year-ago quarter. For the fiscal year ended March 2020, consolidated revenue from operations increased by 5 per cent to Rs 20,211.25 crore while net profit for the year increased 25.5 per cent to Rs. 2,705.17 crore.

Shares of Glenmark Pharmaceuticals witnessed a fall of 7 per cent to Rs. 459 in the intra-day trade on the BSE on Wednesday, having fallen 13 per cent in the past two trading days on profit booking. On Monday, the stock of the drug maker had rallied 27 per cent to Rs. 520 after the firm received approval for Favipiravir's (Fabiflu), a potential Covid-19 drug, by the Drug Controller General of India (DGCI). In an optimistic scenario, Favipiravir can generate revenue of Rs 50 crore with EBITDA (earnings before interest, taxes, depreciation and amortization) margin of 15 per cent and EPS contribution would be between Rs 0.19-0.22. We would wait for more clarity from GNP management during Q4FY20 earnings call, it said.

Global markets

European equities too fell from a two-week high on Wednesday as investors turned cautious following a surge in the number of coronavirus cases globally. The pan-European STOXX 600 fell 1.5 per cent, with the economically sensitive sectors such as travel & leisure, automakers and banks leading declines.

Asian stocks, too, ended in the red. Dow Junes 30 Futures were trading around 300 points or over 1 per cent lower, suggesting a negative start for the US market.

Ajcon Global's view

After a strong rally in last few days, we were expecting selling which finally happened today. 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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