



Significant volatility witnessed on F&O expiry day; weak global cues dent sentiments..

Benchmark indices witnessed significant volatility throughout the day and ended the day the last day of the June series derivative contracts in red.

The S&P BSE Sensex ended at 34,842, down 27 points or 0.08 per cent having earlier fallen to as low as 34,500 and as high as 35,082 in intra-day. The Nifty50 index ended below the 10,300-mark at 10,289, down 16 points or 0.16 per cent.

ITC (up around 5.5 per cent) was the top gainer on the Sensex, followed by Bajaj Finance (up over 2 per cent) and HUL (up 2 per cent). On the other hand, Asian Paints (down 3 per cent) ended as the biggest loser.

Key development

The International Monetary Fund Wednesday said the Covid-19 pandemic was causing wider and deeper damage to economic activity than first thought, prompting it to slash its 2020 global output forecasts further to (-) 4.9 per cent, 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast. The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast.

Sectors and stocks

Shares of General Insurance Corporation of India (GIC RE) surged as much as 8.5 per cent to Rs. 165.75 on the BSE on Thursday after the company's net profit jumped 98 per cent to Rs. 1,197 crore in Q4FY20 compared to Rs. 603 crore in the same period a year ago due to lower tax provisions. The reinsurer's pre-tax profit for the March quarter stood at Rs.1,101 crore compared to Rs. 1,194 crore in Q4FY19. Besides, Combined Ratio of the reinsurer for FY20 stood at 114 per cent compared to 106 per cent in FY19. If the combined ratio is less than 100, then insurer is making underwriting profits. The company recorded underwriting losses to the tune of Rs. 6,367 crore in FY20 compared to a loss of Rs. 2,211 crore in FY19. The insurer reported a 14 per cent increase on gross premium to Rs 9,217 crore from Rs 8,089 crore while for the full year, gross premium rose 15.35 per cent to Rs 51,030 crore in FY20 from Rs 44,238 crore in FY19. Among various business segments, life insurance reported a 75 per cent jump in premium, while fire segment reported a 17 per cent jump in premiums, marine recorded a 19 per cent jump and premiums in the miscellaneous segment rose 14 per cent in FY20. At the end of March quarter, the solvency ratio of GIC Re stood at 1.53. The regulatory requirement is 1.5. "FY20 has seen the insurance industry register severe claims world-wide as well as in India. The explosion of the Covid-19 pandemic has further aggravated the situation leading to an impact on the financial markets and the economy in general", said Devesh Srivastava, Chairman and Managing Director of GIC Re.

Shares of GAIL (India) were up 5.5 per cent to Rs. 106.90 on the BSE on Thursday, surging 8 per cent in the past two trading days after the company reported a 47 per cent year-on-year (y-o-y) growth in profit before tax (PBT) at Rs. 2,556 crore for the quarter ended March 2020 (Q4FY20). EBITDA came in at Rs. 2,475 crore, up 47 per cent YoY due to better profitability from gas transmission and gas trading segments. The company's reported profit after tax more than doubled to Rs 3,018 crore from Rs 1,122 crore mainly due to tax reversal as the company shifted to a lower tax rate. Revenues, however, fell 5.4 per cent YoY to Rs 17,753 crore during the quarter.

Shares of IOL Chemicals & Pharmaceuticals hit a new all-time high of Rs. 464.65 in the intra-day trade on the BSE. It ended at Rs. 466, up 7.7 per cent.

Shares of IIFL Group companies were in focus. On an individual basis, shares of IIFL Finance were locked in 10 per cent upper circuit at Rs. 82.20 on the BSE after its promoter & director Nirmal Jain increased stake in the company through open market purchases.

Shares of Indian Overseas Bank were up by 10 percent after the company posted a net profit in the quarter ended March 2020.

Canara Bank declined by over 4 per cent as its losses widened during March quarter of FY20 (Q4FY20). Canara Bank reported weak earnings for the fourth quarter of fiscal 2020 amid widening loss, lower net interest income and higher provisions. The bank reported a net loss of Rs 3,259.33 crore for the quarter ended March 2020 as against a net loss of Rs 551.53 crore in the year-ago period. Net interest income during Q4FY20 declined 5.2 percent to Rs 3,318.52 crore from Rs 3,500.2 crore, YoY. Pre-provision operating profit dropped 31.4 percent to Rs 2,040.87 crore. Provisions during the quarter rose 198.2 percent sequentially to Rs 5,375.38 crore. The provision coverage ratio improved to 75.86 percent at the end of March 2020 from 70.97 percent as of December 2019. On the asset quality front, gross non-performing assets (GNPA) rose 1.1 percent to Rs 37,041.2 crore from Rs 36,645 crore while gross NPA as a percentage of gross advances fell 14.5 bps to



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8.21 percent from 8.36 percent, QoQ. Net NPA declined 14.5 percent to Rs 18,251 crore from Rs 21,337.7 crore while net NPA ratio fell 83 bps to 4.22 percent sequentially. The bank said that it had availed the option for deferment of the provision in respect of frauds reported for Rs 2,349.59 crore requiring the additional provision of Rs 1,989.26 crore. "Accordingly, an amount of Rs 497.31 crore has been charged to profit and loss account and an amount of Rs 1,491.95 crore charged to reserves & deferred for adjustment in subsequent quarters," Canara Bank said in a regulatory filing. LV Prabhakar, MD & CEO of Canara Bank, said that 17 percent of its total loan book is under the moratorium. Of this, 38 percent of SME book and 6 percent of the corporate loan book is under moratorium. The bank plans to raise Rs 6,000-8,000 crore of capital in Q3FY21. It expects net interest margin to remain around 2.35 percent while credit cost between 2.2-2.5 percent.

Shares of Bank of India declined by over 7 percent after the public-sector lender reported a massive loss for the March quarter. Asset quality and PCR has improved sequentially. Provisions have gone up significantly on qoq basis. However, Operating Profit has declined on qoq basis. Higher provisions have led to reporting of Net Loss in Q4FY20. Gross NPAs declined from Rs. 61,730 crore in December 2019 to Rs. 61,550 crore in March 2020. The Net NPAs level, with higher provisions, significantly brought down from Rs.20,113 crore in December, 2019 to Rs.14,311 crore in March, 2020, i.e. by 28.85%(QoQ).mThe Gross NPA ratio reduced both sequentially and on y-o-y basis. From 15.84% in March, 2019 and 16.30% in December, 2019, it has come down to 14.78% in March, 2020. The Net NPA ratio declined over 200 bps from 5.97 % in December, 2019 to 3.88% in March, 2020. Provision Coverage Ratio takes a quantum jump from 77.15% in December 2019 to 83.75% in March 2020.

Bharti Infratel also declined after the company pushed the deadline for completion of merger with Indus Towers by over two months.

Global markets

Global equities declined to their lowest level in over a week on Thursday, as a surge in US coronavirus cases and an IMF warning of a nearly 5 per cent plunge in the global economy this year spooked investors. Most Asian markets were closed today for holidays. In the overnight trade, Wall Street's three major indexes tumbled.

Ajcon Global's view

After a strong rally in last few days, we were expecting selling pressure which has happened in last two 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 (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 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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