

**Benchmark indices end in red amidst volatility and may continue to fall further as COVID-19 cases rise; agrochemicals, auto and metal stocks rally..**

The S&P BSE Sensex declined by 477 points from day's high to settle at 30,609.30, down 63 points or 0.21 per cent. Bharti Airtel ended was down by 6 per cent lower at Rs. 559 apiece on the BSE after its promoter, Bharti Telecom, sold 2.75 per cent stake in the telecom services provider through open market deals today.

Nifty was down by 10 points or 0.11 percent and ended at 9,029.05. Volatility index, India VIX, dropped over 3 per cent to 31.37 levels.

Broader market, however, outperformed the frontline indices. The Nifty Midcap100 index surged over 1.3 per cent to 12,836 points and the Nifty SmallCap index added 0.76 per cent to 3,880-mark.

On the sectoral front, IT and pharma stocks declined while auto and metal stocks advanced. The Nifty IT index declined by nearly 2 per cent to 13,575 levels. The Nifty Metal index, on the other hand, gained 2.7 per cent to 1,756.

Nifty Metal was up over 2 percent amidst positive global cues as more economies are re-opening post COVID-19 lockdown. In addition, encouraging March quarter numbers by some of the companies boosted investor sentiment.

**Crude oil**

Crude oil prices rose, supported by growing confidence that producers are following through on commitments to cut crude supplies while fuel demand picks up with more cars back on the road as coronavirus lockdowns ease.

**Sectors and stocks**

Shares the D-Mart retail chain operator - Avenue Supermarts was down by 5 per cent on the BSE on profit-booking after the company's January-March quarter (Q4FY20) results disappointed investors on the margin front. EBITDA margin contracted 68 basis points to 6.67 per cent in Q4FY20 from 7.35 per cent in Q4FY19, hit by higher depreciation and employee costs.

Shares of ITC were up nearly 3 per cent higher after the company announced it had entered into an agreement with the spices major Sunrise Foods to acquire a 100 per cent stake in the company.

Shares Jindal Steel & Power rallied by over 12 percent on May 26, 2020 after the company reported a consolidated net profit of Rs. 305.62 crore during the quarter ended March 31, 2020. It had posted a net loss of Rs. 2,713.34 crore in the year-ago quarter, JSPL said in a BSE filing. However, its total income during the quarter under review was lower at Rs. 8,835.23 crore as against Rs. 10,158.95 crore in the same period a year ago. Other metal companies like Tata Steel, JSW Steel, SAIL, NMDC, Hindalco Industries and NALCO were up by 2-3 percent.

Shares of Astec LifeSciences hit a 52-week high of Rs. 719, up 8 per cent on the BSE on Tuesday after the rating agency ICRA reaffirmed the long-term and short-term outstanding rating of Rs. 455 crore line of credit (LOC) of the agrochemicals company. Godrej Agrovet, which is the promoter of the company, currently holds 61.18 per cent stake in the company. In the past month, the stock has rallied by 84 per cent. It was trading close to its all-time high level of Rs. 783 touched on June 2018. "The reaffirmation of ratings factors in the established track record of Astec LifeSciences (Astec) in the manufacture of Triazole fungicides (technical grade), its reputed clientele and backward-integrated operations. The ratings note Astec's strong parentage and financial flexibility that it enjoys as a part of the Godrej Group," ICRA said in a rating rationale. Astec has demonstrated a healthy performance during FY2017 to FY2020, as reflected by nearly 26 per cent compounded annual growth rate in its revenues, which was primarily driven by exports. ICRA notes that the domestic agrochemical industry has benefitted from the global supply-chain disruptions caused by the tightened environment regulations in China, which is one of the largest producers and exporters of agrochemicals globally.

Shares of Bayer CropScience were up by 10 per cent to Rs. 4,875, also its fresh 52-week high, on the BSE on Tuesday after the company reported profit before exceptional items and tax (PBET) of Rs. 54.3 crore for the quarter ended March 2020 (Q4FY20), on the back of strong operational performance. The agrochemicals company had posted a loss before exceptional items and tax of Rs. 95 crore in the corresponding quarter of the previous year. The stock surpassed its previous 52-week high of Rs. 4,665, touched on May 11, 2020. It is trading close to its all-time high level of Rs. 5,050, hit in intra-day deal on



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the BSE on June 2, 2017. The management said a good monsoon in 2019 ensured sufficient water reserves for Rabi sowing. "This coupled with stable commodity prices, favorable climate and strong portfolio performance in corn and horticulture,

helped us achieve strong growth in Q4", they said. With the ongoing Covid-19 situation, the external business environment remains uncertain in the short term. However, agriculture and food production will continue to be essential for good health and nutrition. The transformational agri-reforms announced by the government will help India become more self-reliant and food secure, they said. The management further said that going forward, the company will focus on new business models and value chain collaborations to expand the reach of our agri-solutions, support scale-up of FPOs and digital farming solutions.

### **Global markets**

Asian equities were up on Tuesday amidst global economies opening post lockdown and stimulus announcement in China.

Japan's Nikkei was up by 1.7 per cent to its highest since early March. MSCI's broadest index of Asia-Pacific shares outside Japan advanced 1.6 per cent, while South Korea rose 1.5 per cent.

### **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. We like the agriculture reforms announce; major announcements made today 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 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 in a timely manner and 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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