



AJCON GLOBAL
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Market wrap

June 26, 2020

Indian equities end in green; IT stocks support today's rally..

Domestic bourses ended in green led by up move in information technology (IT) stocks, HDFC Bank, and Reliance Industries (RIL). The S&P BSE Sensex was up by 329 points or 0.94 per cent gains at 35,171 levels on Friday.

Nifty rallied 94 points or 0.91 per cent to end at 10,383.

IT stocks advanced in the trade after Accenture posted a better-than-expected quarterly numbers. The S&P BSE Information Technology index jumped over 5 per cent to end at 15,125 levels. Among individual stocks, Infosys gained 7 per cent, TCS rose 5 per cent while Wipro ended over 3 per cent higher

Volatility index, India VIX, dropped over 4 per cent to 28.50 levels.

Key development

S&P Global Ratings has said Indian economy is in deep trouble with growth expected to contract by 5 per cent this fiscal. "India's economy is in deep trouble. Difficulties in containing the virus, an anemic policy response, and underlying vulnerabilities, especially across the financial sector, are leading us to expect growth to fall by 5 per cent this fiscal year before rebounding in 2021," S&P said in a report. In its report titled 'Asia-Pacific losses near USD 3 trillion as balance sheet recession looms', S&P projected the region's economy to shrink by 1.3 per cent in 2020, but grow by 6.9 per cent in 2021. This implies a loss nearing USD 3 trillion output over these two years.

Sectors and stocks

Shares of Future Group companies extended its rally with Future Consumer and Future Market Networks rallying over 100 per cent, while flagship Future Retail surging 94 per cent in the past one month on media reports that Mukesh Ambani-led Reliance Industries will buy a stake in some units of Future Group. Future Market Networks has soared 104 per cent, while Future Enterprises surged 88 per cent in the past one month. Future Retail (Rs. 142.45), Future Consumer (Rs. 18.79), Future Market Networks (Rs. 30.90), Future Lifestyle Fashions (Rs. 149.70) and Future Enterprises (Rs. 16.67) were locked in the upper circuit band of 5 per cent on the BSE. The rating agency Care Ratings on May 29 had revised bank facilities of Future Consumer and continues to be on credit watch with negative implications. The revision of ratings assigned to the bank facilities and instruments of Future Consumer primarily factors in continuous weakening of business and financial risk profile of its key customer which is also the flagship entity of the Future Group i.e. Future Retail, it said. "The increase in the volume of shares of the Company is purely driven by the market forces and is not within the control of the Company and we cannot comment on increase in volume of shares of the Company," Future Retail said on Thursday. The company made a clarification on query raised by the BSE related to increase in volume.

Shares of PNC Infratech rallied as much as 16.5 per cent to Rs. 155 apiece on the BSE on Friday after the company announced it has received Letter of Award (LOA) from National Highways Authority of India (NHAI) for HAM Project of Rs. 1,412 crore. The price bids were opened on Wednesday, May 13, 2020, with PNC's bid being the lowest (L1), the filing added. The company further informed that the project is to be constructed in 24 months and operated for 15 years post construction. This is the eleventh hybrid annuity highway project secured by the company so far.

Shares of Indian Overseas Bank (IOB) were locked in the upper circuit band of 10 per cent, at Rs. 13.18 - also its 52-week high for second straight day on the BSE on Friday after the bank reported a net profit of Rs. 144 crore for the quarter ended March 2020 (Q4FY20) on the back of lower provisioning for bad loans. The Bank had posted a net loss of Rs. 1,985 crore in the year-ago quarter. The stock has rallied 21 per cent in the past two trading days on the BSE. After making losses continuously for the last 18 quarters, the public sector lender IOB reported profit as bad loans declined significantly. This will, the management says, help the bank to come out of the prompt corrective action (PCA) imposed by the Reserve Bank of India (RBI) some five years ago. Net Interest income (NII) during March quarter of FY20 grew 3.6 per cent to Rs. 1,532 crore as compared to Rs. 1,479 crore in the corresponding quarter of the previous fiscal. Provisioning for bad loans and contingencies during the quarter under review fell to Rs. 1,060 crore as against Rs. 4,502 crore in the year-ago quarter. On the asset quality front, there was a huge improvement in gross non-performing assets (NPA) which stood at 14.78 per cent of the gross advances as on March 31, 2020, as against 21.97 per cent at the end of March 2019. Net NPA declined to 5.44 per cent from 10.81 per cent in previous year quarter.

Global markets

European equities were up despite a record number of new COVID-19 infections in the United States. The MSCI world equity index, which tracks shares in 49 countries, was up 0.3%, extending gains from late on Thursday. MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.5 per cent, for a weekly gain of around 0.7 per cent. Japan's Nikkei rose 1.3 per cent to sit 0.4 per cent higher for the week.



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Ajcon Global's view

We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, 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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SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

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