

Indian equities rise ahead of F&O expiry and expect rally to fizzle out soon; agrochemicals and banking stocks rally..

Domestic bourses were up by over 3 per cent on Wednesday led by buying Banks and NBFCs, ahead of the upcoming derivative contract expiry. In addition, positive global cues like gradual opening of global economies supported rally.

The S&P BSE Sensex rallied by whopping 996 points to 31,605, and the Nifty50 index was up by 286 points to level of 9,315. Axis Bank (up 13 per cent) and ICICI Bank (up 9 per cent) were the top Sensex gainers. Besides, HDFC Bank, IndusInd Bank, Bajaj Finance, and Kotak Mahindra Bank were all up 5 per cent.

The Nifty sectoral indices were largely in the green, led by the Nifty Bank index, up over 7 per cent.

Broader indices, however, underperformed compared to their frontline peers. The S&P BSE MidCap index ended the session 0.54 per cent higher and the S&P BSE SmallCap index was up 0.28 per cent.

Crude oil

Crude oil prices were under pressure owing to tensions between US and China declined. Brent crude futures declined by 1.5 per cent to US\$35.62 a barrel.

Sectors and stocks

Shares of Axis Bank rallied by 13.46 per cent to Rs. 387.35 on the BSE on media reports that private equity (PE) firm Carlyle was looking to pick around 8 per cent stake in the lender which the Bank later clarified in a press release to exchanges that that the news item is speculative and the Bank has not taken any such decision in this regard.

Bajaj Finance and Bajaj Finserv were up from their multi-year lows and were up by 5 per cent and 3 per cent higher on the BSE. Earlier, the Bajaj twins had hit an over two-year low on the BSE amid concerns that these companies would be the worst affected by COVID-19 crisis.

Shares of agrochemical manufacturers were on a roll, with Bayer Cropscience (up 7 per cent at Rs. 5,356) and Coromandel International (up 8 per cent at Rs. 700) hitting their respective all-time highs in the intra-day trade on Wednesday after reporting strong results for the quarter ended March 2020 (Q4FY20). Dhanuka Agritech touched a 52-week high of Rs. 578, rallying 17 per cent on the BSE today. Besides, UPL, Rallis India and Sumitomo Chemical India were up 5 per cent each. Fertiliser stocks such as Coromandel International, Zuari Industries, Nagarjuna Fertilizers and Chemicals, Rama Phosphates and Basant Agro Tech (India) jumped up to 5 percent.

Shares of Torrent Pharmaceuticals declined by 6 per cent to Rs. 2,420 on the BSE on Wednesday on profit-booking after the company's EBITDA for the quarter ended March 31, 2020 (Q4FY20) increased by 26 per cent to Rs. 562 crore against Rs. 486 crore during the corresponding quarter last year. EBITDA margin expanded 300 basis points (bps) to 29 per cent from 26 per cent in Q4FY19. The management said Q4 margins expansion was largely from the synergies of the acquired Unichem portfolio, incremental productivity, and cost control. Revenues; however, grew in single digit by 5 per cent to Rs. 1,946 crore from Rs. 1,856 crore in the year-ago quarter. The stock of the pharmaceutical company fell nearly 8 per cent from the opening level of Rs. 2,618 on the BSE. In the past two months, it has rallied 42 per cent.

Global markets

Asian equities were in negative after unrest in Hong Kong over Beijing's proposed national security laws weighed on global shares and oil prices on Wednesday, offsetting optimism about the re-opening of the world economy. MSCI's ex-Japan Asia-Pacific index fell 0.4 per cent, as Hong Kong and mainland China shares extended declines.

Hong Kong's Hang Seng fell 1 per cent and mainland shares were down 0.8 per cent, amid fears the protests would worsen tensions between the United States and China.

European equities were upbeat on hopes for a post- COVID-19 recovery. The STOXX 600 added 0.4 per cent to reach its highest level since March 10. Britain's FTSE gained 1 per cent and the domestically focused FTSE 250 hit an 11-week high as thousands of retailers prepared to re-open on June 1 from a months-long shutdown.



Ajcon Global's view

We expect the rally to fizzle out soon as on ground situation has not improved and Indian equities are taking cues from news flow globally.

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 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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