

Positive global cues support rally of Indian equities led by Financials; profit booking may come in..

Indian benchmark indices rallied by around 2 per cent higher on Thursday - the last day of the futures and options (F&O) contracts for May series led by positive global cues like Euro 750 billion stimulus plan by EU and gradual opening of global economies. In addition, partial resumption of economic activities in India has also supported rally amidst rising COVID-19 cases. However, rising US – China tensions would remain an overhang.

Financial stocks continued its upmove with the Nifty Bank index climbing 2.45 per cent to 19,170 levels. Of 12 constituents, 8 advanced and 4 declined. Besides, auto, IT, and metal stocks too lifted the indices higher.

The S&P BSE Sensex was up by 595 points or 1.88 per cent to 32,200.59 levels, with L&T (up 6 per cent) being the top gainer and ITC (down around 1 per cent) the biggest loser.

Nifty was up by 175 points or 1.88 per cent to 9,490.10 levels. In the May F&O series, Sensex declined by 4.5 percent while Nifty was down by 3.75 percent.

Volatility index, India VIX, dropped over 4 per cent to 30 levels.

In the broader market, the S&P BSE MidCap index ended over 1.3 per cent higher at 11,622 while the S&P BSE SmallCap index settled at 10,769, up 150 points or 1.42 per cent.

Key development

S&P Global Ratings on Thursday forecast Indian economy to contract 5 per cent in the current fiscal as the lockdown imposed to contain Covid-19 pandemic has curtailed economic activity severely. "We have lowered our growth forecast for fiscal year ending March 2021 to a 5 per cent contraction... We currently assume that the outbreak peaks by the third quarter," S&P said in a statement. Earlier this week rating agencies Fitch and Crisil too had projected a 5 per cent contraction for the Indian economy. "The Covid-19 outbreak in India and two months of lockdown — longer in some areas — have led to a sudden stop in the economy. That means growth will contract sharply this fiscal year. Economic activity will face ongoing disruption over the next year as the country transitions to a post-Covid-19 world," S&P said in a statement.

Crude oil

Crude oil prices declined today after US industry data showed a steep increase in crude oil inventories.

Sectors and stocks

Shares of Eicher Motors were up by over 8 per cent to Rs. 16,216.90 on the BSE after after the company announced stock split plan to make the stock more affordable for the small retail investors and increase liquidity. The company manufactures the iconic Royal Enfield brand of motorcycles which leads the premium motorcycle segment in India.

Shares of Sun Pharma were up by about 2 percent. In Q4FY20, the Company's consolidated profit declined by 37.1 percent on yoy basis to Rs. 399.8 crore due to one-time loss of Rs 260.6 crore.

Shares of Tube Investments of India were locked in the 10 per cent upper circuit band at Rs. 341 on the BSE on Thursday after the company reported 26 per cent YoY growth in its standalone profit before exceptional items and tax (PBET) at Rs. 108 crore for Q4FY20. Total revenue from operations, however, declined 19 per cent YoY at Rs. 935 crore during the quarter, compared with Rs. 1,224 crore in Q4 of last year mainly due to de-growth in auto industry. During the year, the company implemented voluntary retirement schemes in certain locations at a cost of Rs. 21.97 crore to improve the productivity and competitiveness of its business. "With the easing in the lockdown/curfew and the governments permitting operations to be resumed with necessary permission from the local authorities, the Company from May 2020 onwards has resumed operations, in a partial manner," the management said. Meanwhile, the Board approved to raise fresh long-term borrowing to meet the company's financial needs during financial year 2020-21, for a sum not exceeding in the aggregate Rs. 200 crore, including by way of issue of privately placed secured non-convertible debentures, in one or more tranches.

Shares of Ujjivan Financial Services were up by over 8 percent after the Company witnessed good performance in Q4FY20. PAT was up by 48.41 percent to Rs 64.04 crore in Q4FY20.



Shares of UFlex were up by 17 per cent to Rs. 203 in the early morning deals on the BSE on Thursday after the company announced that it has developed a Personal Protective Equipment (PPE) Coverall 'Flex Protect' in joint collaboration with IIT-Delhi and INMAS, DRDO, Delhi. "Flex protect, that comes with four-layered protection and has anti-microbial coating, has been approved by the Defence Research and Development Organisation (DRDO) for use by the front-line health workers who are fighting the battle against Covid-19. The PPE Coverall developed by UFlex and IIT-Delhi has been tested well for being anti-microbial," it said in an exchange filing. Uflex is the country's largest multinational flexible packaging company and a global player in polymer sciences. The management said that amid the rising cases of coronavirus and scarcity of PPE Coverall, UFlex and IIT-Delhi recognised the opportunity towards playing a vital part in battle against Covid-19. UFlex is participating in the tender of various government requirements to supply the PPE Coveralls which will be retailed via chemists and e-commerce platforms, it added.

Global markets

European equities were up for the fourth straight session on Thursday and the euro perched at a two-month high, as businesses returning to work and a 750 billion euro EU stimulus plan.

Asian equities were weak after US Secretary of State Mike Pompeo had warned Hong Kong no longer warranted special treatment under US law, but there was no stopping Europe.

Shares in Hong Kong declined by 1.75 per cent initially before ending down a 0.7 per cent as Chinese shares managed to close positive. Japan's Nikkei had jumped 2.3 per cent though US stock futures lost momentum in Europe to trade only 0.1 per cent higher.

Ajcon Global's view

We expect Indian equities to follow global cues and ongoing Q4FY20 earnings season. As the economic situation is bad, we expect profit booking and expect the rally to fizzle out soon as on ground situation has not improved.

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



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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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