

Buoyancy continues at Dalal Street amidst worsening economic scenario; party may not last and will end soon..

Indian equities remained buoyant led by sectors such as Pharma, Auto and FMCG, pharma, and auto counters. Going ahead, all eyes would be on the release of GDP data for January-March quarter of 2019-20 (Q4FY20) and US President's Donald Trump speech. Positive global cues like Euro 750 billion stimulus plan by EU and gradual opening of global economies has been supporting the rally. 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.

The benchmark S&P BSE Sensex recovered a good 600 points from day's low to settle at 32,424.10, up 223.15 points or 0.7 per cent. ONGC (up 5.5 per cent) was the top gainer on the index while IT major Infosys (down 2 per cent) ended as the biggest loser.

Nifty was up by 90 points or 1 percent to level of 9,580 with 36 of 50 constituents advancing and 14 declining.

On a weekly basis, the Sensex was up by 5.7 per cent while the Nifty rallied by 6 per cent.

Crude oil

Crude oil prices declined and were on the verge to register its first weekly fall in five weeks after build up in US inventory amidst poor demand and worsening US-China tensions.

Sectors and stocks

Shares of pharmaceutical companies were in focus with Nifty Pharma index gaining over 3 per cent on expectation of strong demand scenario from both domestic and export market. Among individual stocks, Dr Reddy's Laboratories, Aurobindo Pharma, Divis Laboratories, Biocon, JB Chemicals & Pharmaceuticals, Caplin Point Laboratories, Aarti Drugs, Indoco Remedies, RPG Lifesciences and Glenmark Pharmaceuticals were up in the range of 3 per cent to 5 per cent on the National Stock Exchange (NSE). Cipla hit a 52-week high of Rs 651, up 4 per cent in the intra-day trade. The stock has surged 60 per cent in the past three months. The stock has been under investor radar as the company's respiratory product pipeline for US Generics has been shaping up well. Sun Pharmaceutical Industries Limited said on Friday it has received Indian regulatory approval to start clinical trials of a pancreatitis drug in Covid-19 patients. The company joins other Indian drugmakers Glenmark Pharmaceuticals Ltd and Strides Pharma Science Ltd that are conducting trials in India for potential drugs for Covid-19, which currently has no approved treatment or vaccine. Sun Pharma said here the pancreatitis drug, nafamostat mesilate, has been "identified as a potential candidate for Covid-19 patients by scientists at University of Tokyo and Leibniz Institute for Primate Research, Germany". The company said it has initiated manufacturing of the active pharmaceutical ingredient (API) and the finished product of the drug using technology from its unit, Pola Pharma Japan.

Vodafone Idea rallied 35 per cent to Rs 7.85 in the intra-day deals on the BSE, after media reports suggested that the global technology giant Google is in talks to buy a 5 per cent stake in the company, owned by Vodafone Plc of the UK and Aditya Birla Group. The stock, however, wiped off gains and ended around 13 per cent higher at Rs 6.56 after the company clarified on the report, saying there is no proposal as reported by the media that is being considered at the Board.

Shares of Bharti Infratel was up by 8 percent and hit an over three-month high of Rs. 243, on the BSE on Friday. The stock was trading at its highest level since February 14, 2020. With today's rally, Bharti Infratel stock has zoomed 100 per cent from its 52-week low level of Rs 121 touched on March 19, 2020. In the past one month, it has soared 46 per cent as against a 2 per cent decline in the S&P BSE Sensex. Bharti Infratel deploys, owns and manages telecom towers and communication structures for various mobile operators. The Company's consolidated portfolio of over 95,000 telecom towers, which includes over 42,000 of its own towers and the balance from its 42 per cent equity interest in Indus Towers, makes it one of the largest tower infrastructure providers in the country with presence in all 22 telecom circles.

Wipro was up by 6.65 per cent to Rs. 212.55 after the company named Thierry Delaporte as the new chief executive officer (CEO) and managing director (MD) of the company, replacing Abidali Neemuchwala. Delaporte was most recently the chief operating officer of French consulting and technology firm Capgemini Group.

Global markets

Global equities declined and safe havens such as bonds and the Japanese yen gained on Friday, as investors awaited Washington's response to China tightening control over the city of Hong Kong. US President Donald Trump said he would hold a news conference on China later on Friday.

In Asia, MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.2 per cent. Japan's Nikkei retreated from a three-month high and the yen rose to a two-week high of 107.06 against the dollar.

In Europe, stocks opened lower with the pan-European STOXX 600 index down 0.86 per cent. Germany's DAX fell 1.2 per cent, Britain's FTSE 100 by 7 per cent and France's CAC 40 by 1 per cent. Futures for the S&P 500 slipped 0.4 per cent.

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 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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