AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap **July 29, 2020**

Selling pressure witnessed led by profit booking; Maruti Suzuki Q1FY21 result severely impacted by COVID-19 crisis..

The Indian benchmark indices were under pressure today and ended in red. Profit booking was visible in Reliance Industries (RIL), and information technology (IT) counters.

The S&P BSE Sensex was down by 422 points or over 1 per cent lower at 38,071 levels with RIL (down nearly 4 per cent) being the top loser, and IndusInd Bank (up 4.5 per cent) the biggest gainer. Further, RIL was also the major contributor to the Sensex's loss, followed by HDFC Bank, TCS, Infosys, and HDFC.

Nifty was down by 98 points or 0.86 percent to end at 11,203.

The sectoral trends on the NSE remained mixed. Nifty Pharma advanced the most - up over 3 per cent to 10,441 levels while Nifty PSU Bank index gained over 1.5 per cent to 1,419 points. Nifty Auto, on the other hand, fell over 1 per cent 7,330 levels.

In the broader market, the S&P BSE MidCap index ended at 13,763 levels, up 0.68 per cent while the S&P BSE SmallCap gained over 0.4 per cent to 12,972 points.

Volatility index, India VIX, rose nearly 2 per cent to 24.09 levels.

Sectors and stocks
Shares of Dr Reddy's Laboratories hit a record high of Rs. 4,334 on the BSE after the company reported a better-than-expected operational performance in April-June quarter (Q1FY21), on the back of strong revenue growth. The stock ended at Rs. 4,300, up over 6 per cent.

Tata Coffee rallied by over 12 per cent higher at Rs. 93 on the BSE after the company reported robust performance for the April-June (Q1FY21) quarter. The Tata Group company's consolidated net profit increased by 77 per cent to Rs 62 crore on the back of strong volumes growth, as against Rs 35 crore profit clocked in the previous year quarter.

Shares of Nestle India were down by 3 per cent on the BSE on Wednesday after the fast-moving consumer goods (FMCG) major announced its June quarter numbers for the fiscal year 2020-21. For the quarter under review, Nestlé India on Tuesday reported an 11.14 per cent increase in net profit at Rs. 486.60 crore for the quarter ended June 2020, helped by an increase in sales.

Maruti Suzuki on Wednesday reported a consolidated loss of Rs. 268.3 crore for the June quarter of FY21 (Q1FY21) as compared to profit of Rs. 1,376.8 crore reported in the corresponding quarter last year. This was the company's first quarterly loss since becoming public 17 years ago. The numbers, according to the company, were 'adversely impacted' by the outbreak of Covid-19 pandemic and the consequent lockdown announced to contain its spread. Although, the company's losses were partially off-set by lower operating expenses and higher fair-value gain on the invested surplus. Maruti's revenue also dipped 78.67 per cent on a year-on-year (YoY) basis to Rs 4,110.6 crore, down from Rs 19,273.2 crore reported in Q1FY20. In the April-June quarter, Maruti Suzuki India sold a total of 76,599 vehicles, down 81 per cent from 4,02,600 units sold in Q1FY20. Sales in the domestic market stood at 67,027 units while exports were at 9,572 units, down 82 per cent and 66 per cent, respectively, on a YoY basis. Maruti said Q1FY21 was an "unprecedented quarter" owing to the global pandemic of Covid-19 "wherein a large part of the quarter had zero production and zero sales in compliance with a lockdown stipulated by the government. Production and sales started in a very small way in the month of May....the production in the whole Quarter was equivalent to just about two weeks' of regular working. The results have to be viewed in this context." On the operational front, Maruti reported EBITDA loss of Rs. 863.4 crores.

Global markets
European equities were marginally up on Wednesday after mixed earnings reports, but a resurgence of Covid-19 cases kept investors cautious while they waited to hear from the US Federal Reserve.

In Asia, Japan's Nikkei declined on a rising yen and weak start to the earnings season. But the MSCI world equity index, which tracks shares in 49 countries, was up around 0.1 per cent.

Ajcon Global's view

As expected, we witnessed a decent correction today led by profit booking and poor Q1FY21 result of Maruti owing to impact of COVID-19 pandemic. Before today's correction, July 2020 rally was supported by rally in Reliance Industries and better than expected Q1FY21 results announced by Financials and Insurance Companies so far. However, correction in Indian equities will be healthy for investors as whopping rally during April – June 2020 was led by liquidity through FPIs. In June 2020, FPIs poured US$2.73 billion in Indian equities, which is the highest this year and importantly surpassed pre-COVID-19 levels. The FPI inflows came amidst rush of liquidity in the markets globally after central banks around the world announced stimulus measures to help their economies. The stimulus measures given by the G4 central banks such as the US Federal Reserve, Bank of England, European Central Bank, and Bank of Japan, have helped fill the global markets with liquidity, marquee Indian companies tapping the secondary stock market by raising funds also contributed towards the increase in FPI flows. According to data on NSDL, the inflows in January 2020 stood at US$1.3 billion against the June inflow of US$2.73 billion. The inflows have currently become higher than the pre-Covid-19 levels in January where the markets were at all-time highs with the benchmark Sensex and Nifty trading at the 42,000 and 12,300 mark respectively. After hitting a record high in January 2020, Indian equity benchmarks crashed 40 percent to hit around four-year low level on March 24, 2020. The indices in June 2020 quarter witnessed a sharp and fast rally of 20 percent in both Sensex and Nifty which is very sharp led by liquidity (by global central banks) and gradual re-opening of economies despite virus risk.

Presently, caution is warranted as Indian investors are not connected to realities of economic situation being very bleak which is evident by the fact that Companies are looking to raise capital via rights issue and FPO. Although there are relaxations in lockdown, exponential rise in COVID-19 cases can force for tighter lockdown. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating India – China tensions after banning of Chinese mobile apps; global cues especially the spike in COVID-19 cases across the globe in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in Q1FY21 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied in June 2020 quarter, 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 (199293), 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. 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 except sectors like Insurance, FMCG, Agrochemicals, Pharma and Digital/internet would be disappointing.

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