



AJCON GLOBAL  
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap

June 30, 2020

### **Benchmark indices remain volatile after witnessing sharp rally in June 2020 quarter; caution warranted..**

Indian equities were volatile and ended flat on a negative note. In June 2020 quarter till date, both S&P BSE Sensex and Nifty 50 index have rallied by around 19 per cent and 20 per cent, respectively and are on its way to record their sharpest quarterly gain in past one decade. Earlier, in June 2009 quarter, both these indices had rallied 49 per cent and 42 per cent, respectively. The liquidity-driven rally also lifted shares of smallcap and midcap companies that are poised for their biggest quarterly gain in six years. Thus far in April- June quarter, the S&P BSE Smallcap index has rallied 29.8 per cent and S&P BSE Midcap index soared 23.7— the most since June 2014 quarter when it had gained 35.6 per cent and 32.4 per cent, respectively after the NDA government assumed power at the centre. Meanwhile, foreign portfolio investors (FPIs) have pumped in a net amount of \$3.9 billion (Rs 29,621 crore) in Indian equities during the June quarter, NSDL data show. Mutual funds, on the other hand, were net sellers to the tune of Rs. 4,801 crore.

Reliance Industries (RIL), HDFC Bank, ITC, and TCS were the major contributors to the Sensex's fall. Power Grid (down 2 per cent) ended as the biggest loser on the index while Maruti Suzuki India (MSIL) was the top gainer - up 2.8 percent. Tata Steel climbed over 4 per cent in the early deals after the announcement of its March quarter results. The stock ended at Rs 327, up 1.7 per cent on the BSE.

The trend among Nifty sectoral indices was mixed, with the Nifty Auto index ending over 1 per cent higher, leading the list of gainers. On the flip side, PSU bank stocks fell the most, followed by pharma, and media stocks.

In the broader market, small cap index underperformed the benchmarks and midcap pack. The S&P BSE MidCap index shed 0.14 per cent while the S&P BSE SmallCap index lost 0.75 per cent.

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### **Crude oil**

Crude oil prices declined as Libya's state oil company flagged progress on talks to resume exports, potentially boosting supply.

### **Sectors and stocks**

Shares of Bharat Dynamics were up by 16 per cent to Rs. 349.70 in the early morning deals on the BSE on Tuesday after the company reported more-than-double net profit at Rs. 309.72 crore in March quarter (Q4FY20) on the back of strong operational income. Bharat Dynamics is one of the leading defence PSUs in India engaged in the manufacturing of Surface to Air missiles (SAMs), Anti-Tank Guided Missiles (ATGMs), underwater weapons launchers countermeasures, and test equipment. It is the sole manufacturer in India for SAMs torpedoes ATGMs. It is also the sole supplier of SAMs and ATGMs to the Indian armed forces. Additionally, it is engaged in the business of refurbishment and life extension of missiles manufactured. It is also the co-development partner with the DRDO for the next generation of ATGMs and SAMs. In the past four trading days, the market price of Bharat Dynamics has appreciated by 34 per cent from level of Rs. 261 on the BSE. It was trading close to its 52-week high level of Rs. 365 touched on November 13, 2019. The company's revenue from operations during the quarter under review rose 64 per cent to Rs. 1,435 crore from Rs. 877 crore in the corresponding quarter of the previous fiscal. The company said it did not have any significant impact on the sales and operations of the company for the financial year 2019-20 on account of the Covid-19 pandemic.

Shares of Gujarat Gas were up by 5 per cent and hit a fresh all-time high of Rs. 324 on the BSE on Tuesday after the oil regulator sanctioned the transfer of two geographical areas (GAs) from Gujarat State Petronet to the company. "The Petroleum and Natural Gas Regulatory Board (PNGRB) vide letter dated June 29, 2020 had accepted proposal for transfer of authorization of Amritsar District GA and Bhatinda District GA from Gujarat State Petronet to Gujarat Gas," the company said in an exchange filing. The company is required to submit revised financial closure, gas supply agreement and PBG (performance bank guarantee) to PNGRB to complete the process of transfer. Accordingly, PNGRB has permitted the company to take over activities of laying, building, operating or expanding CGD (city gas distribution) network of Amritsar District GA and Bhatinda District GA, it said. In the last one month, the stock has appreciated by 35 per cent, against 8 per cent rise in the S&P BSE Sensex.



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Tata Steel shares were up by 4 per cent on the BSE on Tuesday, a day after the company posted a consolidated pre-tax loss of Rs. 1,499.45 crore for the quarter ended March 31, 2020. The company had registered a profit before tax (PBT) of Rs. 4,252.50 crore in the corresponding period last year. The loss, the company said, was due to weak revenue and a slew of exceptional items, which further dented the earnings of the company. The consolidated earnings before interest, taxes, depreciation, and amortisation (EBITDA) was up 28 per cent sequentially on improved performances from Europe and Tata Steel BSL. Tata Steel shares had hit a 52-week high of Rs.514.75 on July 1, 2019 while its 52-week low stands at Rs. 250.90, touched on March 30, 2020. The stock had hit an all-time high of Rs. 924 on October 29, 2007. For the quarter under review, Tata Steel's top line stood at Rs. 32,866 crore, down 20 per cent year-on-year (YoY) due to weak demand amid the slowing economic growth which impacted domestic as well as overseas operations. The company's margin, however, improved on the back of stronger performance in the early part of the quarter. Tata Steel Europe showed a turnaround in performance with positive Ebitda for the quarter, said T V Narendran, chief executive officer (CEO) and managing director (MD). Other metal stocks, too, were trading in the green. The S&P BSE Metal index was trading over 2 per cent higher at 7,364.76 levels. Among individual stocks, SAIL was up 5 per cent, Jindal Steel gained around 4.5 per cent.

### **Global markets**

Asian equities were up on Tuesday as positive economic data from China and the United States helped to close out a strong quarter, though a renewed surge in global coronavirus cases underlined a challenging investment climate.

MSCI's broadest index of Asia-Pacific shares outside Japan was up 0.51 per cent, on course for its highest quarterly gain in nearly 11 years. Shares in Australia were also up 1.43 percent, Korea jumped 1 per cent and Japan rose 1.33 per cent.

European equities were down as markets took stock at the end of the first half of 2020.

### **Ajcon Global's view**

The rally of 19-20 percent in June 2020 quarter is very sharp led by liquidity. As a result, we believe caution is warranted as on ground situation is bleak although there are relaxations in Unlock 2.0. 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 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 (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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