

Market sentiments have turned positive post announcement of Unlock 1.0

US Fed induced global risk on rally to provide tailwinds to Indian equities

Significant relaxations under unlock 1.0 will help restart the economy

Further relaxations will be allowed in July if pandemic doesn't worsen

Unprecedented Monetary stimulus of USD 2.9tn by US Fed driving global risk on rally

Significant easing of restrictions by Government is positive for markets

The Ministry for Home Affairs (MHA) announced further relaxations in restrictions on the 30th of May 2020. As a result we expect that restrictions will be lifted significantly in most parts of the country which should lead to increased economic activity from June onwards.

Markets have reacted positively to the Government's announcement on unlock 1.0 especially on the back of a global risk on which is providing tailwinds to our markets. The global risk on rally has been triggered by large fiscal and monetary stimulus by major countries especially the US where the Fed has done unprecedented monetary stimulus of USD 2.9tn since March 2020.

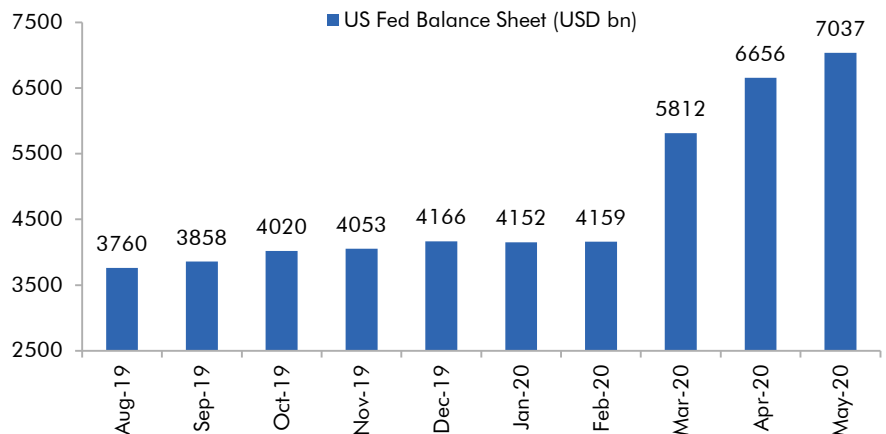
Easing of restrictions should help restart the economy

The Government had earlier extended the lockdown till the 31st of May 2020 though with greater relaxations which had led to increase in economic activities in May as compared to April. The Government has now allowed more relaxations which should provide further impetus to the economy. Some of the key changes are listed below:

- Unrestricted inter and intra state movement of people and goods except for containment zones. Requirement of permission (e-pass) has been done away with.
- Resumption of passenger train service and domestic passenger air service.
- Hotels, restaurants, other hospitality services and shopping malls will also be allowed to open in the first phase from the 8th of June'20 except for containment zones and subject to state approvals.

While there has been significant relaxations allowed by the Government some section of the economy including cinema halls, educational institutions, international air travel, gymnasiums, theaters bars auditoriums and metro rail services will remain closed in the first phase of the unlocking. The central Government in consultation with state Governments will take a call on further opening up of the economy in the month of July.

Exhibit 1: US Fed stimulus driving global equity rally



Source: Company, Angel Research

We expect cyclical sectors like Auto, banking etc. to outperform given beaten down valuations

Sharp increase in new Covid-19 cases in India is key risk for markets going forward

View and outlook

As restrictions will be eased significantly from June onwards we believe that the economic recovery should gradually improve from here on. Given the US fed fuelled liquidity driven rally globally we believe that Indian markets will outperform in the near term after underperforming rest of the global markets in May 2020. We expect the rally to be more broad based and expect cyclical sectors like Auto, banking, construction, consumer goods to outperform in the near term given beaten down valuations.

However there has been a mass movement of migrant workers from urban to rural areas over the past few weeks as they returned to their hometown. This is leading to an increase in new cases over the past few weeks which is coinciding with the opening up of the economy. While rural areas have largely remain unaffected from the virus there is a possibility that there could be further increase in new cases down the line if there is a spread of the virus from urban to rural areas.

While India had managed to contain the virus by enforcing one of the strictest lockdown globally there is a possibility of a jump in new cases down the line given increased movement of people. In that case the economic recovery will get pushed back as the Government will be forced to roll back some of the relaxations. This may result in increased market volatility especially in cyclical sectors which are leading the current leg of the rally.

Exhibit2: Top Picks Performance

	Return Since Inception (30th Oct, 2015)
Top Picks Return	41.4%
BSE 100	18.4%
Outperformance	23.0%

Source: Company, Angel Research

Note: Top picks performance is as of 29th May, 2020

Exhibit3: List of stock recommendations

	CMP (₹)	Target Price (₹)	Sales (₹)		OPM (%)		PAT (₹)		ROE (%)		P/E (x)		EV/Sales (x)	
			FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
FMCG														
Britannia Ind.	3,435	3,780	13,255	14,863	16.3	16.7	1622	1901	30.2	29.6	51.2	43.8	5.7	5.2
Colgate-Palmolive	1,381	1,620	4,566	4,931	26.6	27.9	786	900	40.4	37.7	47.8	41.7	8.1	7.5
Hindustan Unilever	2,106	2,364	40,778	44,855	24.6	24.8	7024	7809	64.3	61.7	63.0	56.7	12.0	10.9
Nestle India	17,157	20,687	13,235	14,558	23.3	23.4	2151	2382	66.9	50.4	67.7	61.2	12.4	11.3
P & G Hygiene	9,982	12,230	3,365	3,802	22.2	22.6	549	637	29.0	24.6	59.0	50.8	9.8	8.7
Other Consumer Goods														
Avenue Supermarts	2,305	2,735	27,781	33,730	8.4	8.8	1419	1825	17.5	17.7	105.0	81.6	5.4	4.4
Chemicals/Agro Chemicals														
Aarti Industries	981	1,284	4,822	5,886	21.7	22.2	538	711	16.8	19.6	32.5	24.5	3.5	2.9
Galaxy Surfactants	1,362	1,610	2,672	2,886	14.0	14.3	221	223	18.3	17.8	21.7	19.5	1.9	1.7
PI Industries	1,582	1,784	3,877	4,992	21.5	22.5	555	770	17.4	20.0	39.3	28.4	5.5	4.2
IT														
Infosys	699	841	90,650	102,857	21.3	20.5	16200	17870	28.1	30.5	18.3	16.6	2.8	2.5
L&T Infotech	1,842	2,038	11,588	13,085	18.9	19.6	1611	1867	23.0	22.4	19.9	17.2	2.5	2.1
Pharma & Healthcare														
Dr Reddy's Lab	3,950	4,570	18,840	20,855	23.5	24.8	2705	3137	30.5	31.7	23.7	20.5	3.4	3.1
IPCA Labs.	1,525	1,900	5,360	6,111	22.5	23.0	821	976	18.8	18.6	23.2	19.5	3.6	3.1
Telecom/ Others														
Bharti Airtel	559	629	101,322	114,360	43.1	44.4	4046	8056	3.3	7.0	101.8	44.7	3.7	3.1
Reliance Industries	1,520	1,748	373,215	457,539	13.8	13.3	30272	37510	6.4	7.8	31.8	25.7	5.2	4.2
Larsen & Toubro	928	1,093	62,140	85,369	6.1	9.7	3589	7605	5.8	10.8	37.4	17.1	2.8	2.0
Banking														
ICICI Bank	339	410	35,063	36,508	3.4	3.3	8,814	11,909	7.0	9.0	25.0	19.0	1.9	1.8
HDFC Ltd.	1,738	2,000	12,216	13,421	3.4	3.4	7,978	10,260	10.0	12.0	37.0	29.0	3.2	2.9
Auto														
Escorts	972	1,150	5,825	6,628	11.0	11.5	526	615	20.3	22.5	22.6	19.3	1.9	1.6

Source: Company, Angel Research

 Note: CMP is Closing price as of 1st June, 2020

For banking stock Price to book provided instead of Ev/sales

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Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

*Accumulate (5% to 15%)
Reduce (-5% to -15%)*

*Neutral (-5 to 5%)
Sell (< -15)*