



**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on May 02, 2020

**Expect a steep fall as the whopping rally in April 2020 was beyond logic; major fiscal package required to undo damage caused by COVID-19 crisis..**

On a weekly basis, the S&P BSE Sensex and Nifty rallied significantly by nearly 8 percent in the holiday truncated week.

In the month of April 2020, Indian equities bounce back strongly on announcements of major stimulus packages by developed economies across the world, RBI in India also announcing various measures, expectations of major fiscal package for SMEs by the Indian Government, newsflow related to some drugs helpful in reducing the load of COVID-19 on patients (media reports suggested that Gilead's drug to treat COVID-19 had shown encouraging results) and easing of lockdown measures gradually from May 04, 2020. Sensex and Nifty50 have witnessed a whopping rally of more than 14 percent each during the lockdown. The S&P BSE Sensex reclaimed 33,000 while the Nifty50 is back above 9,800. The broader markets performed largely in line with benchmark indices. The S&P BSE Smallcap index was up 15.54 percent while the S&P BSE Midcap index gained 13.66 percent during the same period.

Investors' wealth witnessed a rise by nearly Rs. 16 lakh crores in a month. The average market capitalisation of the BSE-listed companies grew from Rs. 113.48 lakh crores as on March 31 to Rs. 129.41 lakh crores recorded as on April 30, 2020.

**Key developments**

The national coronavirus lockdown in India has been extended beyond May 04, 2020 for another two weeks with relaxations in different zones. New guidelines were outlined on Friday with regards to zones - red, green and orange. Red zones are considered hotspots, while considerable relaxations will be permitted in areas considered less dangerous.

Nifty futures contracts traded on Singapore Exchange (SGX) declined by around 6 per cent on Friday after capping their highest monthly gain in 11 years. The fall came amid sharp declines in markets such as Australia, Japan and the UK. India and most other Asian and European markets were shut. The fresh tensions between the US and China triggered risk-off bets among global investors with safe-haven assets such as developed world bonds, US dollar and Japanese yen posting gains.

Reliance Industries Limited (RIL) on Thursday witnessed fall in its consolidated net profit by 38.7 per cent year-on-year (YoY) to Rs. 6,348 crore for the quarter ended March 2020. It had posted profit of Rs. 10,362 crore in the year-ago period. The company said that oil prices have declined 73 per cent, thus impacting the inventory valuation. This has led to Rs 4,245 crore, net of tax (tax Rs. 899 crore) exceptional loss for the quarter. Revenue from operations stood at Rs. 139,283 crore, down 2.30 per cent from Rs. 142,565 crore in the year-ago period while value of sales & services (revenue) declined 2.5 per cent YoY to Rs. 151,209 crore. Total income of the company stood at Rs 143,416 crore, down 1.35 per cent YoY. Commenting on the results, Mukesh D Ambani, Chairman and Managing Director, said: "As India and the world grapple with the biggest challenge faced by our generation, I am heartened by the robust response of Reliance to the extraordinary circumstances created by the COVID-19 pandemic." "Our O2C (Oil to Chemicals) businesses delivered sustained earnings



due to its integrated portfolio, cost-competitiveness, feedstock flexibility and product placement capabilities. We continue to operate all our major facilities at near normal utilisation levels," Ambani added.

RIL's Q4 revenue from the Refining & Marketing segment declined by 3.4 per cent YoY to Rs. 84,854 crore (\$ 11.2 billion) while Segment EBIT increased by 28.2 per cent YoY to Rs. 5,706 crore (US\$ 754 million) with higher throughput and better gross refining margins (GRMs). Segment EBIT improved on YoY basis with maximized crude throughput and better light distillate cracks. GRM for 4Q FY20 was at \$ 8.9/bbl, remarkably outperforming Singapore complex margins by \$ 7.7/bbl, the company said in its press release.

Revenue from the Petrochemicals segment decreased by 24.1 per cent YoY to Rs 32,206 crore (\$4.3 billion) due to lower price realizations along with disruptions in local and regional markets.

"Petrochemicals segment EBIT was at Rs. 4,553 crore (\$ 0.6 billion), down 42.8 per cent YoY, with significant decline in margins. The impact of lower product margins was mitigated to some extent by optimizing feedstock mix during the quarter," the company said.

Revenue for the Oil & Gas segment decreased by 41.5 per cent YoY to Rs. 625 crore. On the other hand, Reliance Retail stellar performance against the backdrop of a challenging environment. The segment's revenue grew by 4.2 per cent YoY to Rs 38,211 crore while EBITDA for the quarter under review grew by 32. per cent YoY to Rs 2,556 crore.

Reliance Jio's standalone revenue from operations, including access revenues, have increased to Rs 14,835 crore, with standalone EBITDA of Rs. 6,201 crore translating into EBITDA margin of 41.8 per cent. Standalone net profit came in at Rs. 2,331 crore during the quarter and at Rs. 5,562 crore for the full year, showing an annual increase of 88 per cent. Subscriber base as on March 31, 2020 was at 387.5 million (26.3 per cent YoY growth), with average revenue per unit (ARPU) during the quarter of Rs 130.6 per subscriber per month. Total wireless data traffic during the quarter was 1,284 crore GB (34.3 per cent YoY growth) and total voice traffic during the quarter was 87,634 crore minutes (21 per cent YoY growth).

Further, the company also announced that the board has considered and approved the issuance of equity shares of Rs. 10 each of the Company on rights basis to eligible equity shareholders of the Company as on the record date (to be notified later), of an issue size of Rs. 53,125 crore.

The Board also approved the following terms of the Issue:

Rights Issue Price: Rs. 1,257 per fully paid-up equity share (including a premium of Rs. 1,247 per equity share).

Terms of payment of Issue Price: 25% on application and balance in one or more calls as may be decided by the Board / Committee of the Board from time to time

Rights Entitlement Ratio: 1 equity share for every 15 equity shares held by eligible shareholders as on the record date.

The proposed Rights Issuance will be the first by RIL in three decades. The issue will be structured as partly paid shares and will enable shareholders to phase out the outlay on their investment over a period of time. Diversified earnings streams and conservative Balance Sheet place Reliance at an advantaged position to face the ongoing macro challenges. S&P and Moody's have both reaffirmed Reliance's investment grade ratings. Transformative strategic investments in Consumer facing business have firmly re-positioned Reliance as India's preeminent Consumer/Technology company. Jio and Retail platforms underpin Reliance's participation in the next leg of value creation in India. As new strategic investors look to partner and add-value to these growth engines, the rights issue enables all shareholders to participate in growth of Consumer/Technology business. The promoters have confirmed that in addition to subscribing to their aggregate entitlement in full, they will also subscribe to all the unsubscribed portion.

RIL's board has approved a Scheme of Arrangement for transfer of O2C Undertaking (as defined in the Scheme) of the Company to Reliance O2C Limited as a going concern on slump sale basis for a lump sum consideration equal to the income tax net worth of the O2C Undertaking as on the appointed date of the Scheme. O2C undertaking of the Company comprises of entire oil-tochemicals business of the Company consisting of refining, petrochemicals, fuel retail & aviation fuel (majority interest only) and bulk wholesale marketing businesses together with its assets and liabilities. The Scheme is subject to necessary statutory / regulatory approvals under applicable laws including approval of National Company Law Tribunal.

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

As I have been saying for some time now, COVID - 19 indeed seems to fast-forward the future of humanity. It does not matter what is your physical age now. The new yardstick is one's ability to adapt to technology. The truth of hard work leading to success may have a new meaning. One can be sitting at home and yet become very rich or lose everything. An individual's talking and demonstrating skills on line will be the key to success in selling any product or services. In this era of COVID-19, if one is not successful in marketing to a customer online in Jhumri Tallaya or Amsterdam, one will not



succeed. The three Ps i.e. Product, Price & Parity will be paramount and not brand loyalty. Gone are the days when you walk into a Louis Vuitton Show Room, at least for next one year.

The current crisis of Pandemic - COVID -19 has forced global economy to come to a standstill. India is no exception as the economic has to come a grinding halt amidst the ongoing lockdown and will affect India's GDP significantly. MSMEs would be the worst affected as there would no cashflow as income would be missing. RBI has already announced various measures to improve liquidity in the system but its impact will take its own time. Government of India has already announced Humanitarian package of Rs. 1,70,000 crores to help the needy. We believe the Government will need to come with a major fiscal package for economic revival targeted towards SMEs and Industry as a whole. As per media reports, there are talks of Rs. 1,00,000 crore fiscal package for SMEs.

The fear of unknown has created panic amongst investor community. These are unprecedented times and uncertainty is very high. The current crisis has left investors anxious and tensed as this type of crisis has never occurred before. Always remember, tough times never last but tough people do. As it is said, that change is only constant in this world. We believe, that this phase of crisis, uncertainty will change too. We advise investors to not lose hope in Indian equities as historically it is proven that market do witness recovery post an epidemic. Having said that, we would advise investors not to time the markets as no one knows the bottom as the whole world is worried as to how long it will take the dust to settle now. In an uncertain scenario, it would be prudent for the investor to stay in liquidity to meet immediate requirements and the balance can be used to build a portfolio. We believe there would be ample opportunities for the investors at rock bottom prices in the current turmoil as Q4FY20 and Q1FY21 results expected to be very poor. Negative newsflow related to economy will always give opportunities to investors to cheery pick quality companies at distressed valuations. We expect improved earnings performance in FY22. Going ahead in the near term, newsflow regarding COVID-19, Q4FY20 earnings season, hope of fiscal stimulus package will determine Benchmark indices direction.

We believe market is yet to bottom out as there would be severe losses for the Companies in next six months and ground realities becoming very tough. Steep correction would always be on cards whenever Indian equities bounces back from an oversold zone. Right now, Dalal Street matches criteria for traders and investors will have to stay away for some while. We believe there would be ample opportunities for the investors at rock bottom prices in the current turmoil as Q4FY20 Q1FY21, Q2FY21 results expected to be very poor. Negative newsflow related to economy will always give opportunities to investors to cheery pick quality companies at distressed valuations. We expect improved earnings performance in FY22.

We expect heavy selling from next week after the whopping rally in April 2020 with ground situation very bleak, absence of major fiscal package so far, Q4FY20 results of Reliance Industries, HUL below expectations, monthly auto sales to be the worst. In addition, media reports suggesting that US is considering imposing tariffs on Chinese products would add fuel to US-China tensions that will affect market sentiments.

It is said that justice delayed is justice denied. The same is applicable on economic and fiscal package. The sooner we get, the better it would be for Indian companies in different industries. These are absolutely unprecedented times which we have not seen in our career and we definitely require unprecedented measures to fight economic crisis caused by COVID-19. The RBI has at least started with some measures but we believe these are half hearted measures. Unless some kind of financial guarantee is given by Government/RBI to the lenders, the money is not going to flow to the needy businesses which is required for their sustainability.

In an uncertain scenario, it would be prudent for the investor to stay in liquidity to meet immediate requirements and the balance can be used to build a portfolio. There is a silver lining even in this unprecedented crisis and that is a great opportunity to pick up the quality stocks at 30 to 50 % cheaper then what it used to be. Investors having surplus cash with horizon of at-least 3 years can start fresh and add stocks in a staggered manner on every steep fall comprising of quality companies. Sectors like FMCG, Pharma and Healthcare, 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.

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