



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on June 06, 2020

Robust rally witnessed on relaxations in Lockdown 5.0 and positive global cues; suggest investors to be cautious as the rally is owing to change in sentiments and not on economic recovery..

On a weekly basis, the Sensex was up by 5.7 per cent while the Nifty rallied by 5.86 per cent. The recent run in Indian equities is owing to relaxations in Lockdown 5.0 which has resulted in partial resumption of economic activities, positive global cues like strong payroll data from US, additional stimulus by ECB and gradual opening of global economies. However, rising US – China tensions would remain an overhang.

Last week there was a buzz in financial stocks and even PSU banks rallied on good Q4FY20 result by SBI. State Bank of India (SBI) on Friday reported standalone net profit of Rs. 3,581 crore in the March quarter of FY20 (Q4FY20). On qoq basis, the Net Profit declined by 35.85 per cent. The profit grew 326.93 per cent from Rs. 838 crore clocked in the year-ago quarter (Q4FY19). The profit was supported by one-time gain of Rs. 2,731.34 crore from the stake sale in SBI Cards done during the quarter. On a consolidated basis, the bank's net profit came in at Rs. 6,909.95 crore. For the full year FY20, net profit stood at Rs. 14,488 crore, as against net profit of Rs. 862 crores in FY19. This was the bank's highest-ever yearly profit. Operating Profit, on the other hand, increased to Rs. 68,133 crores in FY20 from Rs. 55,436 crores in FY19, an increase of 22.90 per cent YoY. Net NPA ratio stood at 2.23% which was down by 78 bps YoY and 42 bps QoQ. Gross NPA ratio stood at 6.15% which was down by 138 bps on yoy basis and 79 bps on qoq basis. Provision Coverage Ratio (PCR) has improved to 83.62%, up 489 bps on yoy basis and 189 bps on qoq basis. The bank made provisions worth Rs 13,495.08 crore, of which provisions for non-performing assets stood at Rs. 11,893.73 crore. "The bank has made provisions aggregating Rs. 938 crore against the accounts with the outstanding amount of Rs. 6,250 crore, which are standard, but would have slipped to NPA/sub-category on March 31, 2020 had the RBI debt servicing relief as above not been reckoned," the management said in a statement in respect of Covid-19 provisions. Besides, it added that total provisions for IBC-related accounts stand at Rs. 5,767 crore. "Moratorium has been availed by 21.8 per cent of customers," said Rajnish Kumar, chairman, SBI. Slippages Ratio for FY20 has declined to 2.16% from 2.42% as at the end of 9MFY20. Cost to Income Ratio has improved from 55.70% in FY19 to 52.46% in FY20, an improvement of 324 bps. Capital Adequacy Ratio (CAR) has improved by 34 bps YoY to 13.06% as on Mar 2020. Return on Assets (RoA) increased by 36 bps YoY to 0.38% in FY20 against 0.02% in FY19.

Ajcon Global's view

The crisis caused by COVID-19 has been very harsh and unimaginable. Threat to life and threat to livelihood have rattled people. This crisis has spared no one and affected every common man. The situation has become so scary that even after COVID-19 era people would be reluctant to move freely, meet people, travel in public transport and eat in restaurants etc. Naturally, containment measures like the lockdown of the entire country to break the chain of virus will have significant effects on the global economy. 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 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 believe 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.

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 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 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 was not implemented in a timely manner. However, big PSU Banks have now formulated their policy which will provide some relief going forward. Domestically, disappointing GDP data would always remain an overhang on Indian equities which is expected to clock negative growth during COVID-19 crisis. The GDP growth for FY2019-20 stood at 4.2 percent as against 6.1 percent in FY 2018-19. India's gross domestic product (GDP) witnessed a growth of 3.1 percent during January-March 2020. At 3.1 percent, India's "real" or inflation-adjusted GDP growth was the lowest in 44 quarters, national income data released by the Central Statistics Office (CSO) on May 29, 2020 showed. According to RBI, economic activity Q2FY21 may remain subdued due to social distancing measures and the temporary shortage of labour. Recovery in economic activity is expected to begin in Q3FY21 and gain momentum in Q4 as supply lines are gradually restored to normalcy and demand gradually revives. Domestic economic activity has been impacted severely by the lockdown which has extended over the past two months.

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.

Going ahead, all eyes would be now on cues from OPEC+ meeting that could take place as soon as this weekend where major oil producers will discuss whether to extend record production cuts.

The intensity of the recent run up in the last two weeks makes us nervous as on ground situation is bleak. We advise investors to remain cautious and be stock specific. The stocks which have rallied are owing to relaxations in that particular sector which has improved sentiments and not on earnings recovery. Investors will keep an eye as to how far the sectors revive from a standstill scenario.

We believe domestic bourses would take cues from global equities which has been the case majority of the time since last 3 months. Any newsflow regarding reduction in COVID-19 cases in India would improve sentiments. In addition, faster discovery and launch of vaccine for COVID-19 may fuel the market. 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.

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