



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on May 09, 2020

India Inc. needs a major fiscal package soon to withstand ongoing COVID-19 crisis; gradually build portfolio in quality companies for long term..

As expected by us, domestic bourses were under pressure in last week after a whopping rally witnessed in April 2020 with ground situation very bleak. On a weekly basis, S&P BSE Sensex was down by 6.15 percent while the Nifty50 declined by 6.17 percent for the week ended May 08, 2020 owing to rise in COVID-19 related cases thus raising fears of extension of lockdown, weak global cues, mixed Q4FY20 earnings season so far with poor outlook in Q1FY21 and absence of major fiscal package till date in lockdown period affecting investor sentiments.

S&P BSE Mid-cap index witnessed a fall of 4.9 percent whereas S&P BSE Small-cap index declined by 4.17 percent. There are as many as 87 stocks in the S&P BSE 500 index which fell 10-30 percent for the week ended May 8 that include names like ITC, Tata Motors, Maruti Suzuki, Titan, Power Finance Corp., Qess Corp, Havells India, SIS, AU Small Finance Bank etc.

On the sectoral front, apart from Nifty Pharma index which was in positive territory all sectors were in negative. Nifty Bank declined by 10 percent followed by Nifty Metal Index (down 9.8 percent) and Nifty Realty Index (down 9.5 percent).

Indian rupee

The rupee depreciated against US dollar by 45 paise at 75.55 on May 8, 2020 against its April 30, 2020 closing of 75.10.

Key developments

Reliance Industries announced that US-based private equity firm Vista Equity will invest Rs. 11,367 crore into Jio Platforms, a wholly-owned subsidiary of the company. Vista's investment will translate into a 2.32 per cent equity stake in Jio Platforms on a fully diluted basis, making Vista the largest investor in Jio Platforms, only behind Reliance Industries and Facebook. Jio Platforms has now raised Rs. 60,596.37 crore from leading technology investors in less than three weeks. This is a third major equity deal for Jio Platforms in three weeks — it previously sold a 9.9 per cent stake to Facebook for Rs. 43,534 crore, and then 1.5 per cent to Silver Lake for Rs. 5,655 crore. Vista is a global investment firm focused on empowering and growing enterprise software, data and technology-enabled companies. "Like our other partners, Vista also shares with us the same vision of continuing to grow and transform the Indian digital ecosystem for the benefit of all Indians. They believe in the transformative power of technology to be the key to an even better future for everyone," said Mukesh Ambani, Chairman and Managing Director - Reliance Industries.

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.

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. 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.

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.

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. All the economic indicators will take a major hit. Indicators like Monthly Auto and Cement sales, IIP, Core sector, Bank advances/credit growth, GDP data, Transport Movement will see a significant and worrying decline in the coming months. Consumption will take a massive hit in COVID-19 era unless a vaccine is discovered. The only silver lining for India would be reduction of import bill owing to crash in Crude oil prices. 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.

Sectors like FMCG, Pharma and Healthcare, Specialty 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.

In the near term, we believe the markets would remain volatile and will continue to remain under pressure. It would be difficult for Indian equities to rally as tremendous losses by the industry and businesses would be a reality with no major fiscal stimulus in sight apart from talks of MSME package. 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 percent cheaper than 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.

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