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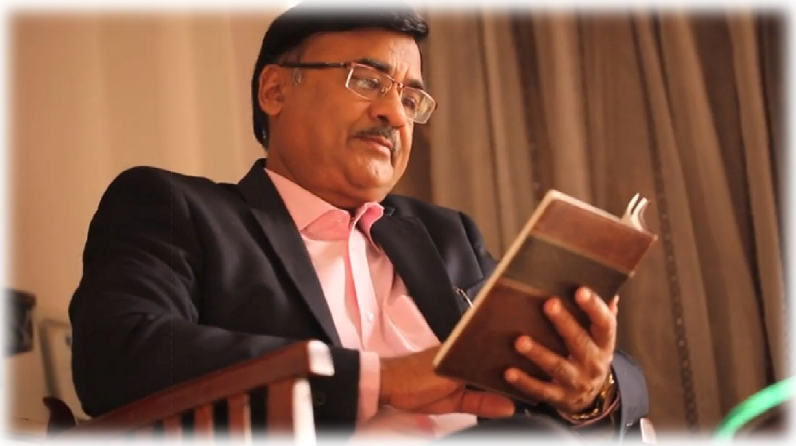

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on April 11, 2020

Robust rally witnessed in Benchmark indices led by uptick in Pharma, FMCG and Auto stocks; all eyes on crude oil price movement and COVID-19 developments..

The last week was a holiday truncated week with only three trading sessions. On a weekly basis, both Sensex and Nifty added around 13 per cent led by short covering and increased allocation towards Pharma, FMCG as investors churned their portfolio. Additionally, expectations of FII money moving towards India post-MSCI rejig, peak out of COVID-19 cases in the United States as well as Europe and expectations of stimulus package from the Government to bail out the economy from the current crisis supported this rally.

Domestically, though Benchmark indices rallied significantly as it was earlier in oversold territory, COVID - 19 cases kept rising in India which is a matter of serious concern. Domestically, an ongoing 21 - day lockdown to break the chain of COVID-19 has already brought the economy to a halt and has raised concerns of the economic repercussions owing to it.

S&P BSE Mid-cap index was up 11.3 percent while the S&P BSE Smallcap index closed 9.4 percent higher. Shares of automobile companies were trading higher for the third straight day on Thursday with the Nifty Auto index rallying 20 per cent in the past three days on value buying. Prior to April 3, in one month, the Nifty Auto index slipped 35 per cent, as compared to a 28 per cent decline in the Nifty 50 index. There are as many as 186 stocks in the S&P BSE 500 index which outperformed Nifty50.

Foreign institutional investors who were net sellers in March and most part of April also turned net buyers in the last three sessions pouring over Rs. 4,000 crores.

Volatility index India VIX declined over 5 per cent to 49.56 levels.

Globally, Europe, the most affected by the coronavirus pandemic globally at present, has finally agreed upon a relief package totalling 500 billion euros ($560 billion). This marks the end of a long deadlock — mostly on a video conference — among finance representatives of European nations. The main component of the rescue plan is 240 billion euros worth of credit lines to indebted countries hit by Covid-19. Apart of the money will also go to European Investment Bank, which has been asked to increase lending to recovery initiatives.

During the week, US also had announced an additional US$2 trillion stimulus package - eligible taxpayers who filed tax returns for either 2019 or 2018 will get refund rebates of up to US$1,200 for individuals or US$2,400 for married couples.

The Japanese government also approved the stimulus package worth 108 trillion yen ($990 billion) — equal to 20% of Japan's economic output — to cushion the impact of the epidemic on the world's third-largest economy. That exceeds the equivalent of 11% of U.S. output for the stimulus package laid out by President Donald Trump and 5% of output for Germany's package.

Key development

The Securities and Exchange Board of India (Sebi) has relaxed its guidelines for foreign portfolio investors (FPIs) seeking a Category-I licence, a move seen giving a boost to overseas investment in stocks. Investors from countries which are not Financial Action Task Force (FATF) members can still qualify for such registrations if the countries are specified by the Indian government. The move may benefit funds and investments routed through countries, such as Mauritius and those from West Asia, and aid overseas flows coming into India, said experts. At present, the FATF has 39 members, including Australia, Singapore, Luxembourg, South Korea, the US, the UK, and China. West Asian nations, such as Bahrain, Oman, Qatar, Kuwait, and the UAE are not its members. Nearly 80 per cent of FPIs were put under Category-I after the reclassification of three categories into two in September last year. Being part of Category I implies lower compliance burden, simplified know-your-customer (KYC) norms and documentation requirements, and fewer investment restrictions. Such investors can subscribe and issue offshore derivative instruments and are not subject to indirect transfer provisions. Most funds coming from Mauritius, Cayman Islands, Cyprus, and the British Virgin Islands are currently classified as Category-II. Despite its treaty amendment with India, Mauritius remains the second-largest source of FPI money.

Crude oil

Crude oil prices rose on expectations the world's largest oil producers would agree to cut production at a meeting later in the day as the industry grapples with a coronavirus-driven collapse in global oil demand.

Ajcon Global's view

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. Though RBI has announced moratorium on loan / interest but with no income, balance sheet's liability is still with SME. Government will need to come with more packages for this segment.

Impact of the current pandemic will be seen on financial sector. RBI has already announced 3 months moratorium so India may not see sharp jump but need to watch post 3 month moratorium is over. All the economic indicators will take a major hit. Indicators like Monthly Auto and Cement sales, IIP, Core sector, Bank advances/credit growth, Transport Movement will see a significant and worrying decline in the coming months. The Economic indicators in true sense will not help investors to get a future outlook as these above indicators are impacted by a Black Swan event which would have been very different in case of a normalcy. The economic indicators down the line have to be looked in conjunction with the announcements already made and to come in future by the Government of India and RBI.

We believe the recent crisis caused by pandemic COVID-19 and the 21 day country lockdown to the break the chain of COVID-19 virus has created concerns regarding the economy as it has come to a standstill. 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. The recent destruction caused by COVID-19 is ideal for value pickers. The recent crisis has made investors to rethink their strategy about allocation in a basket of equities. Last week, buying interest was witnessed in sectors which would have minimal impact of COVID-19 crisis. As a result, investors were increasing allocation towards Consumption, healthcare and pharma stocks and as expected heavy selling pressure was witnessed in Banks, NBFCS, IT, and metal stocks.

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. Investors having surplus cash with horizon of at-least 3 years can start fresh and add stocks in a staggered manner on every declines comprising of quality companies. Ideally, one should look at Companies which has seen massive destruction in their share price, companies that can survive due to the side effects of country lockdown, have strong portfolio of brands, strong management integrity, monopoly kind of presence, competitive advantage, have weathered the storm in different market cycles, low debt and debt free, able to generate positive cashflow consistently.

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