



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on June 13, 2020

Correction expected to continue as on ground situation bleak; investors should book profits that have entered at lower levels..

On a weekly basis, Sensex declined by 1.47 per cent while Nifty fell by 1.66 per cent. As expected by us, domestic bourses were under pressure during the later part of the week as the recent rally was owing to change in sentiments and not on economic recovery. US – China tensions would continue to remain an overhang. S&P on Wednesday retained India's sovereign rating at 'BBB-' with a stable outlook, saying that while risks to growth are rising, the economy and fiscal position will stabilise and begin to recover from 2021 onwards. "While risks to India's long-term growth rate are rising, ongoing economic reforms, if executed well, should keep the country's growth rate ahead of peers," S&P said in a statement. S&P has forecast India's economy to shrink by 5 per cent this fiscal. "The stable outlook reflects our expectation that India's economy will recover following the containment of Covid-19 pandemic and the country will maintain its sound net external position," S&P said while affirming India's rating at 'BBB-' and maintaining a stable outlook.

In the US Federal Reserve's policy meeting, the US central bank projected a 6.5 per cent decline in the US economy's gross domestic product (GDP) this year and a 9.3 per cent unemployment rate at the year's end which hit hard investor sentiments.

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. 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.

We advise investors to remain cautious and be stock specific. We believe the correction in Indian equities which was overdue will happen as on ground situation is bleak and the recent rally was only on improvement in sentiments owing to relaxations in Unlock 1.0 and not on economic recovery. Going ahead, ongoing Q4FY20 earnings season and newsflow related to COVID-19 will dictate market trend. Although some sectors have rallied on positive sentiments led by relaxations in Lockdown 5.0, investors will keep an eye as to how far the sectors revive from a standstill scenario. The rising COVID-19 case makes us worried and can have a big impact on the economy.

At present, 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. Only investors having surplus cash with horizon of at-least 3 years after taking off money to manage COVID-19 crisis can start fresh and add stocks in a staggered manner on every steep fall comprising of quality companies.

Correction is expected to continue as on ground situation bleak and investors should book profits that have entered at lower levels.

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