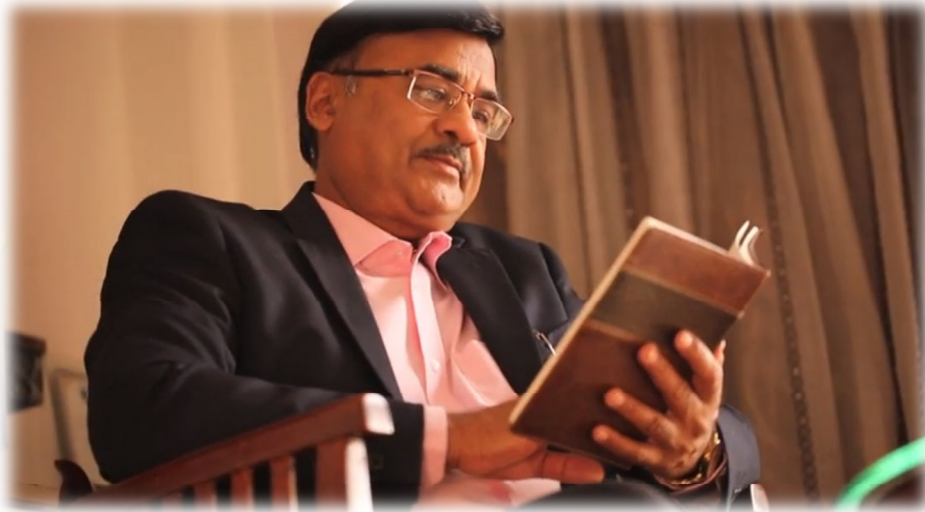




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Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on February 15, 2020

Stock specific action to be witnessed; all eyes on telecom blues..

Nifty and Sensex were up by 0.12 percent and 0.28 percent respectively during the week owing to negative global cues especially outbreak of Coronavirus in China, mixed Q3FY20 earnings season so far and IIP numbers below expectations.

The S&P BSE Mid-cap index shed 1.53 percent, while the S&P BSE Small-cap index fell 1 percent for the week ended February 14.

India's retail inflation rate in January stood at 7.59 percent against 7.35 percent seen in December 2019. However, the January core inflation was at 4.8 percent versus 3.7 percent in December.

The wholesale price inflation (WPI) for January stood at 3.1 percent against 2.59 percent during December and 2.76 percent in January 2019.

Index of industrial production (IIP) contracted in December at 0.3 percent versus 1.8 percent a month ago.

S&P retained India's rating with a stable outlook and expects a gradual recovery in the economy with GDP growth reaching 7 percent in two years.

Domestic Institutional Investors (DIIs) sold equities worth of Rs 792.91 crore, while foreign institutional investors (FIIs) bought little over Rs 11 crore.



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For the week, the Rupee ended marginally higher at 71.36 on February 14 against February 7 closing of 71.40.

Key developments

Coming down heavily on the Department of Telecommunications (DoT) for not taking coercive action against telcos for failing to repay, the apex court ordered contempt proceedings against Bharti Airtel and Vodafone Idea. Vodafone Idea, Bharti Airtel and Tata Teleservices had filed modification applications on the time schedule to make payments of over Rs. 1 trillion that they owe to DoT as AGR. The apex court also pulled up the DoT desk officer who wrote to the Attorney General asking him to not insist on payment of dues. The SC issued a contempt notice to the officer to explain why no action should be initiated against him. The court summoned managing director, director of all telcos including Bharti Airtel, Vodafone Idea and others on March 17 to explain why these dues were not deposited despite orders and why contempt action must not be taken against them for non-compliance of order.

As a result on Friday, Vodafone Idea tumbled over 23 per cent to Rs. 3.44 apiece on the BSE post the AGR verdict. Vodafone Idea's net worth (or shareholders' equity) was down 73 per cent year-on-year to around Rs. 17,600 crore at the end of the December 2019 quarter after the company reported a net loss of around Rs. 6,400 crore during the quarter. Cumulatively, the company has lost nearly Rs. 45,000 crore in the last four quarters, eroding its net worth to its lowest level in three-year. After its third-quarter results, Vodafone Idea's long-term debt-to-equity ratio shot up to 5.7x, making it one of the most indebted companies in the country.

The World Health Organisation (WHO) on February 11 officially named the disease caused by the novel coronavirus as COVID-19. A mixed trend was seen in the global markets amid uncertainties about COVID-19. The death toll in China has climbed to 1,523 with 143 new fatalities, while the confirmed cases jumped to over 66,000.

Ajcon's view

There are fewer opportunities in largecaps space now after significant rally which have made them expensive. In addition, Q3FY20 earnings season has been mixed so far. All eyes would be on global cues.

With the recent verdict of Supreme Court on AGR case for telecom companies, Banking stocks are expected to remain under pressure as they have significant exposure to telecom sector.

We believe, it would be prudent for investors to look out for quality picks in the midcaps and smallcaps space which have a robust business model, quality growth, consistent earnings although may be affected in the current economic downturn but proved its mettle over the years, business model suited to changing dynamics of the economy, cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

Dr. Ashok Ajmera, FCA



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