



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on May 16, 2020

Stimulus package fails to impress street participants; recommend investors to select quality companies for their basket of equities..

On a weekly basis, Sensex declined by 1.72 per cent while Nifty lost 1.23 per cent. With regards to broader markets, the S&P BSE Mid-cap index rose 0.67 percent while the S&P BSE Small-cap index was up 0.47 percent for the week ended May 15, 2020. Around 30 stocks in the S&P BSE 500 index witnessed a rise of 10-30 percent for the week ended May 15, 2020 including names such as Bharat Electronics, Bharti Infratel, Bharat Electronics, Vedanta, Jubilant Life Sciences, Hathway Cable & Datacom, Vodafone Idea, Edelweiss Financial Services, Mahindra Holidays & Resorts and many more

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.

On May 12, 2020, Hon. Prime Minister Narendra Modi announced an economic package of Rs. 20 lakh crore "Atmanirbhar Bharat" package. The package revolves around five pillars like Economy, Infrastructure, System, Vibrant Demography and Demand. The Package will cater to various sections including cottage industry, MSMEs, labourers, middle class, industries, among others. The main theme of the package was to make India self reliant and become vocal for India's local products and make them global. The PM said the stimulus package would help the country achieve the objective of self-reliance through five pillars - an economy geared for quantum jumps, not incremental changes; modern infrastructure; technology driven systems and processes; demography; and a strong demand and supply chain.

The Finance Ministry announcements made so far in four tranches which is part of mega economic package were encouraging especially with respect to MSMEs which would instill confidence and boost morale of the industry. As we have



been saying earlier that loan guarantee (which will not create NPA for the lenders) is effective in improving the credit flow which the Government has announced in its package will augur well for advances growth to revive investment led spending. We like the agriculture reforms announced yesterday; major announcements made today in sectors like Coal, Mining, Aviation, Defence and Power sector were also good and long term in nature.

However, there is disappointment of no relief package for middle class who are also affected significantly in COVID-19 crisis which was also expected along with announcements which were focussed on farmers, migrant labourers, workers and street vendors. Earlier, the RBI had announced a three-month EMI moratorium on term loans for the people (interest under the EMIs will have to be paid later), but the middle class section wants to be extended.

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.

We believe the real stimulus would have been:

- 1) Waiver of interest on MSME loans for 4 to 6 months
- 2) Interest subvention of at-least 4 percent on all other borrowers
- 3) Non refundable payroll subsidy equal to at-least 4 months' salary to small business and MSMEs
- 4) Loans up to 4 months of working capital to all the non borrower small businesses and MSMEs at concessional interest rate of 7 percent pa.
- 5) Reduction in the Income Tax rates of flat 15 percent on all non salaried individuals, small businesses and MSME
- 6) Waiver from advance tax payment for FY 20-21 (AY 21-22)
- 7) Deferment of GST payment for small businesses & MSMEs till 30th September, 2020
- 8) No deduction and payment of TDS until 30th September, 2020
- 9) Interest free Working capital assistance equal to 6 months expenses to all the non borrower business enterprises
- 10) Direct credit of atleast 10,000 each to daily wage workers and farmers

All eyes would be now on announcements in Tranche - 5 of the economic package and relaxations in Lockdown 4.0 as Prime Minister Narendra Modi, had said that the lockdown 4.0 will have a "completely different form", with new rules. Mood of investors may change after easing of lockdown restrictions in few days time as economic activity would pick up.

We believe domestic bourses would continue to remain volatile and may fall further on negative global cues, worsening relations between USA and China, street participants. Any newsflow regarding reduction in COVID-19 cases in India especially in majorly affected states of Maharashtra, Gujarat, Tamil Nadu, Delhi would improve sentiments.

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 Q1FY21 results expected to be very poor and Q4FY20 also being bad for companies. 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.

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. Sectors like 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.

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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