



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on October 17, 2020

Bears and Bulls fight it out ahead of festive season amidst weak global cues; correction healthy for investors..

On a weekly basis, the benchmark indices declined by around 1 percent after witnessing rally in last 2 weeks. On the broader market front, the S&P BSE Mid-cap index rose 0.8 percent while the S&P BSE Small-cap index closed with gains of 0.6 percent.

Weak global cues affected investor sentiments. Globally, rising Covid-19 cases across US and EU affected economic growth outlook. Vaccine for the pandemic which is still far away and delay in US stimulus package slashed recovery hopes. To deal with second wave of COVID-19 cases, French President Emmanuel Macron on last Wednesday declared a public health state of emergency and said that nine of the country's largest cities, including Paris, will have to abide by a curfew from 9 pm to 6 am, starting on Oct.17, 2020- Saturday for four weeks. Besides, German Chancellor Angela Merkel has given states free-hand to decide their own strategy to curb rising cases. Germany's 10-year bond yield was set for its biggest weekly drop since August as doubts grew about the economic recovery in the euro zone.

Key major domestic developments during the week

Prime Minister Narendra Modi on Saturday suggested developing a vaccine delivery system on the lines of conduct of polls and disaster management while involving all levels of government and citizen groups. Chairing a meeting to review the COVID-19 pandemic situation and the preparedness of vaccine delivery, distribution, and administration, the Prime Minister also noted a steady decline in the daily cases and the growth rate. At the same time, he also cautioned against any complacency at the decline and called for keeping up the efforts to contain the pandemic. In a statement, the PMO said three vaccines are in advanced stages of development in India, out of which two are in Phase II and one is in Phase-III. It further said Indian scientists and research teams are collaborating and strengthening the research capacities in neighbouring countries such as Afghanistan, Bhutan, Bangladesh, Maldives, Mauritius, Nepal and Sri Lanka. PM Modi further directed that keeping in view the geographical span and diversity of the country, the access to the vaccine should be ensured speedily. He stressed that every step in the logistics, delivery, and administration should be put in place rigorously. "It must include advanced planning of cold storage chains, distribution network, monitoring mechanism, advance assessment, and preparation of ancillary equipment required, such as vials, syringes etc," the statement said.

Credit rating agency Moody's Investors Service said on Thursday that India's fiscal position "remains very weak". The government's latest fiscal measures, it said, will have a minimal impact on the country's growth prospects and that the government's 'small scale' package is actually a credit negative as it reflects the country's 'limited budgetary firepower to support the economy'. Moody's expects India's GDP to drop 11.5 per cent in 2020-21, so the 0.5 per cent of GDP gain expected by the government from these stimulus measures will provide only 'a small boost', it pointed out.

The Supreme Court had adjourned its hearing on a batch of petitions seeking interest waiver during the loan moratorium period to November 2. The bench on October 5 heard pleas seeking waiver of accruing interest during the six-month loan moratorium period. The SC had on September 3 instructed banks not to declare accounts as non-performing assets (NPAs)



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until further orders after the Centre on October 2 told the apex court that it would waive compound interest on the repayment of loans of up to Rs. 2 crore, a move that would provide relief to individual and micro, small and medium enterprise (MSME) borrowers. The SC has previously said there is "no merit in charging interest on interest". The RBI had in March announced a moratorium on repayment of term deposits for three months, which was later extended till August 31. The move was intended to provide borrowers relief during the COVID-19 pandemic and expected to give them more time to clear payments of EMIs amid the economic fallout of the lockdown, without being classified as NPAs. On June 4, the central bank said lenders will lose Rs. 2 lakh crore if interest is waived during the moratorium period.

Earlier, the Finance Minister (FM) Nirmala Sitharaman announced a Rs. 12,000 crore interest-free 50-year loan to states for spending on capital projects in a bid to boost the economy. She further announced a one-time Rs. 10,000 interest-free festival advance to all its officers and employees as part of plans to increase consumer spending to spur demand in the economy. The FM announced the LTC Cash Voucher and Festival Advance Schemes to encourage government employees to spend more and boost demand in the economy. As part of the announcement, central government employees who get Leave Travel Concession (LTC) for their travels will get an equivalent of the amount even without travelling. They could use the allowance to make purchases of their choice. This will apply to the purchase of goods that attract 12 per cent GST or more and can be spent on buying goods worth three times the fare and equal to the cash encashment. The spending will have to be done by digital mode only. The scheme is being introduced against a backdrop where people are not travelling, so not encashing their LTC. The payment will remain tax-free and is to be done before March 31, 2021. The Centre also revived a one-time festival advance scheme giving Rs. 10,000 to every gazetted, non-gazetted government employee as a prepaid RuPay card to be used in any festival till March 31, 2021. The festival advance was ended in the 7th pay commission. The FM announced enhanced budget provision of Rs. 25,000 crores for capital expenditure by the Centre. The additional budget will be provided for expenditure on roads, defence, infrastructure, water supply, urban development, defence infrastructure and domestically produced capital equipment.

Ajcon Global's view

We maintain our stance to be cautious as Indian equities are running ahead of fundamentals led by FPI liquidity. The on ground economic reality is not so good both from consumer and corporates side except improvement in sentiments led by optimism owing to gradual opening of economy. The rally in Indian equities has painted a very good picture which is not a reality as it has started picking momentum from a standstill scenario. Our conviction on the same has been proved after Rating agencies and RBI forecasting a high negative GDP growth with recovery only in FY22 onwards.

Earlier, before the fall during the week, buying was witnessed in some sectors on hopes that the upcoming festive season would be beneficial for some sectors. In addition, greenshoots like improved Auto sales numbers, improved occupancy in airlines, normal monsoons, economic activity catching up in some sectors to Pre-COVID19 levels is cherished by street participants. However, there are still supply chain bottlenecks, availability of labour is also an issue which has resulted in lower capacity utilisation, working capital requirements have also stretched which are forcing Companies to look out for alternate revenue streams and various fund raising avenues.

Exponential rise in COVID-19 cases can take a toll on economic recovery. As Indian economy has opened up partially and with increase in testing for COVID-19 cases, the sudden massive spike was expected. At present, the country is witnessing high recovery rate and low fatality rate which gives some relief.

The economic activity has picked up in various Unlock phases but the economic situation is still tough which is evident by the fact that Companies are looking to raise capital via QIP, Rights issue, Preferential Allotment, Debentures issue and FPOs to absorb the shock of COVID-19. According to data available with the markets regulator Sebi, Indian companies have already raised a total of Rs 1.1 lakh crore in August as compared to Rs. 66,915 crore in July 2020 by way of issuing equity and debt securities to meet business expansion plans, loan repayments and working capital requirements. RBI's response to the situation arising out of Covid has been unprecedented. The measures taken by the RBI are intended to deal with the specific situation of Covid and cannot be permanent. In the wake of the pandemic, RBI has stepped forward and has so far announced various liquidity, monetary, regulatory and supervisory measures in the form of interest rate cuts, higher structural and durable liquidity, moratorium on debt servicing, asset classification standstill and recently a special resolution window within our Prudential Framework for Resolution of Stressed Assets. RBI has acknowledged the difficulties faced by the economy and is constantly bringing in new measures. The RBI governor in its recent monetary policy announcement said, the economic recovery would likely to predominantly be a "three speed recovery," with individual sectors showing varying paces, depending on sector-specific realities. Sectors that have shown resilience to the pandemic, and are labour intensive will be the first to recover. These include agriculture and allied activities; fast moving consumer goods; two wheelers, passenger vehicles and tractors; drugs and pharmaceuticals; and electricity generation, especially renewables. Some sectors would open up gradually, while the third category are facing 'slog overs', "but they can rescue the innings." These are the sectors most severely affected by social distancing and are contact-intensive, the RBI governor said. The rural economy has remained resilient, and early indications suggest food grain production is set to cross another record in 2020-21. The inflation too, should start to come within the target 2-6 per cent from the third quarter, the RBI governor said, as against 6.7 per cent recorded during July to August. The MPC projected CPI inflation at 6.8 per cent for the quarter ended September, 5.4-4.5 per cent for the second half of the current financial year and 4.3 per cent for the first quarter of the



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next fiscal, "with risks broadly balanced." Last week, the monetary policy committee (MPC) of the Reserve Bank of India (RBI) kept policy rates unchanged, and the governor assured that the worst was possibly over for the economy and it can now hope for steady recovery towards pre-pandemic growth rates. The newly-appointed six member MPC voted unanimously to keep the policy repo rate at 4 per cent, and said the real gross domestic product (GDP) growth rate in 2020-21 could be a negative 9.5 per cent, with "risks tilted to the downside." The stance of the policy would remain "accommodative," for "as long as necessary – at least during the current financial year and into the next year – to revive growth on a durable basis and mitigate the impact of Covid-19, while ensuring that inflation remains within the target going forward," RBI governor Shaktikanta Das in his streamed monetary policy address on Friday morning.

There is a strong pipeline of IPOs in the coming days. We believe there would be mad rush for the upcoming IPOs after stellar listing of IPOs that have come in COVID-19 era.

We are cautious on Large caps at present valuations as we believe they are running ahead of fundamentals led by high FPI liquidity and advise partial profit booking. Earnings will take time to catch up to reach Pre – covid levels apart from sectors like Pharma, FMCG, Speciality Chemicals, E-Commerce and IT. However, there is opportunity in select midcaps and smallcaps for investors with a two year horizon.

Further fall will make markets healthy for fresh entry as Indian equities were in overbought zone for quite sometime. Going forward, all eyes would be on Q2FY21 earnings season, festive season sales, COVID-19 related developments and US elections.

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