



Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on April 18, 2020

RBI's booster package helps domestic bourses end in positive terrain; unprecedented times require unprecedented measures from the Government..

On a weekly basis, the S&P BSE Sensex witnessed a rise of 1.38 percent while Nifty rose by 1.7 percent for the week ended April 17 compared to 4.9 percent rally seen in the S&P BSE Smallcap index and the S&P BSE Midcap index was up 3.96 percent in the same period. Nifty mid-cap and small-cap gained 4 percent and 7 percent, respectively. Sectorally, all major indices ended in green led by financials, Metals, Infra, Auto and Pharma. As many as 133 stocks in the S&P BSE 500 index witnessed a rise of 10-40 percent in a truncated week. This included names such as Sun Pharma, Axis Bank, NCC, Supreme Industries, Deepak Fertilisers, Shree Cement, Finolex Industries, PVR and Equitas Holdings. In the S&P BSE Smallcap index, there are more than 260 stocks that rose 10-70 percent in the week gone by that include names such as Andhra Bank, DCB Bank, Jindal Saw, Force Motors, Rain Industries, Bajaj Consumer Care and BEML among others.

Last week's rally was mainly supported by positive global cues and RBI's additional measures, including reducing reverse repo rate, to support the economy hit by COVID-19 on April 17. This was the RBI Governor's second press briefing since the spread of COVID-19 in India. In his previous address on March 27, Das had announced a rate cut of 75 basis points and several other measures to support the Indian financial system. RBI governor said, Targeted Long term repo operations (TLTRO) worth Rs. 50,000 crore will be conducted to begin with, in tranches of appropriate sizes. "Based on our assessment, the RBI will increase the size of the TLTRO. The funds availed by banks should be invested in investment-grade bonds companies and at least half of the funds should go to small NBFCs and MFIs," RBI Governor Shaktikanta Das said. Reserve Bank of India relaxed NPA classification norms and announced more liquidity measures to support NBFCs, HFCs, and MFIs. In order to ease the liquidity position at the level of individual institutions, the RBI has brought down liquidity coverage ratio requirement for scheduled commercial banks from 100 percent to 80 percent with immediate effect. "The requirement shall be gradually restored back in two phases – 90 percent by October 1, 2020 and 100 percent by April 1, 2021. Liquidity coverage ratio (LCR) is basically the amount of high-quality assets, basically government-backed securities that are required to be maintained by the banks as a percentage to their total net cash outflows over the 30 days period. RBI has injected funds equalling 3.2 percent of GDP into the economy to tackle the liquidity situation.

Key development

The government has amended the Foreign Direct Investment (FDI) policy to discourage opportunistic investment in Indian companies by neighbouring countries in the midst of the COVID -19 pandemic. This comes after China's central bank recently raised stake in Housing Development Finance Corporation (HDFC) to a little over 1 percent. As per the new amendment, FDI investments into Indian companies from the neighbouring countries will now require a nod from the government. This will be applicable to all countries that share a land border with India – such as China among others. The amendment specifies that transfer of ownership of Indian companies arising out of FDI investments from neighbouring countries will now also be subject to government approval.



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 the financial sector. RBI has already announced 3 months moratorium so India may not see sharp jump. In addition, RBI in its second press briefing also relaxed NPA criteria - 90 day classification will exclude the moratorium period. The bank will have to maintain additional 10% provisions on these standstill accounts over next 2 quarters these provisions can later be adjusted against the provision requirement for slippage requirement. The impact of COVID-19 would have to be seen post moratorium and relaxation. All the economic indicators will take a major hit owing to lockdown. 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 and 19 day extension of 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.

After the recent rally, we expect profit booking. 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.

It is said that justice delayed is justice denied. The same is applicable on economic and fiscal package. The sooner we get, the better it would be for Indian companies in different industries. These are absolutely unprecedented times which we have not seen in our career and we definitely require unprecedented measures to fight economic crisis caused by COVID-19. The RBI has at least started with some measures but we believe these are half hearted measures. Unless some kind of financial guarantee is given by Government/RBI to the lenders, the money is not going to flow to the needy businesses which is required for their sustainability.

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