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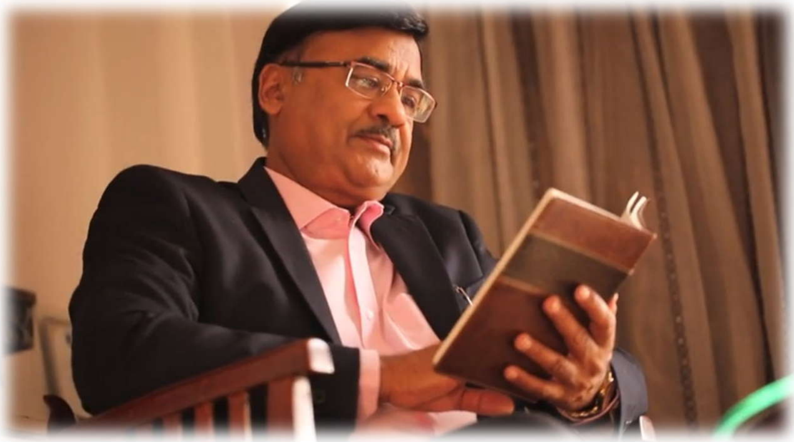

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on June 20, 2020

Indian equities remain upbeat; investors entered at lower levels should book profits..

On a weekly basis, Sensex was up by nearly 3 per cent while Nifty was up by 2.7 per cent led by Reliance Industries, Financials and PSU stocks across various sectors. After a strong rally in last 2 days, we believe Indian equities will take cues from India – China tensions, global cues especially the spike in COVID-19 cases in second wave, on ground domestic economic situation. Going ahead, onset and progress of monsoon, management commentary in 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. 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 as the rally was steep in last two days of the previous week.

Ajcon Global's view

The crisis of 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 ple would be reluctant to move freely, meet people, travel in public transport and eat in restaurants etc. like the lockdown of the entire country to break the chain of As I have been saying for some time now, COVID - 19 indeed seems to fast . 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 y rich or lose everything. An individual's talking and demonstrating skills on line will be the key to In this era of COVID-19, if one is not successful in marketing to a succeed. The three Ps i.e. Product, Price & Parity will be paramount and not brand into a Louis Vuitton Show Room, at least for next one year

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, Indian equities as historically it is 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 (199293), 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.

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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 s 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 three months.

Fitch Ratings revised its outlook on India's sovereign ratings on Thursday to 'Negative' from 'Stable', citing a weakened growth outlook and challenges from a high public debt burden due to the Covid-19 pandemic. Fitch retained its rating at 'BBB-', the lowest investment grade. This comes just weeks after Moody's cut its rating for India. As things stand, all three major global ratings agencies – Moody's, Fitch and Standard & Poor's – have the lowest investment grade rating on India. Fitch and Moody's have a negative outlook while S&P has a 'stable' outlook which it reaffirmed days ago. "The coronavirus pandemic has significantly weakened India's growth outlook for this year and exposed the challenges associated with a high public-debt burden. Fiscal metrics have deteriorated significantly, notwithstanding the government's expenditure restraint, due to the impact of the severe growth slowdown on revenue, the fiscal deficit and public-sector debt ratios," the agency said in a report. To add to the woes, the US central bank projected a 6.5 per cent decline in the US economy's gross year and a 9.3 per cent unemployment rate at the year's end which is negative for global equities.

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 expect Indian equities to consolidate amidst volatility. 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. Investors that have entered at the lower levels especially in last week of March 2020 last week and first week of April 2020 may book short term partial profits. We feel that there will be further opportunities to pick up the stocks at lower levels as Q1FY21 results would be a washout for major sectors except FMCG, Agrochemicals, Pharma and Digital/internet.

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