

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ashok Ajmera's column as on April 25, 2020

The delay in announcing a major package is baffling; all eyes are on North Block..

On a weekly basis, the S&P BSE Sensex witnessed a fall of 0.8 percent while Nifty declined by 1.2 percent for the week ended April 25. S&P BSE Smallcap index declined by 1.5 percent and the S&P BSE Midcap index fell by over 3 percent in the same period.

However, there were many stocks in the S&P BSE 500 which were up and included names like Alembic Pharma, Aurobindo Pharma, Muthoot Finance, Navneet Education, IFB industries, HEG, Graphite India, and Reliance Capital among others. There are nearly 100 stocks in the S&P BSE Smallcap index which rose 10-40 percent in a week that include names like Suven Life, Ruchi Soya, Den Networks, Future Enterprises, Unitech, Kwality, and Eros International Media, etc. among others.

Key development

The decision of Franklin Templeton Mutual Fund (MF) to wind up six of its debt schemes has eroded market sentiments significantly. Sanjay Sapre, President at Franklin Templeton MF said "In the current environment, it has been difficult to generate liquidity, especially for credit papers, which are low on the credit curve. As the cost of generating liquidity in such funds would have had a negative impact on the existing investors, the fund house decided to take the call. "Significantly reduced liquidity in the Indian bond markets for most debt securities and the unprecedented levels of redemptions following the Covid-19 outbreak and the lockdown have compelled us to take this decision," Sapre said. The schemes being wound up are Low Duration Fund, Dynamic Accrual Fund, Credit Risk Fund, Short Term Income Fund, Ultra Short Bond Fund, and India Income Opportunities Fund.

However, to calm the panic caused by this event, The Association of Mutual Funds of India (AMFI) assured investors that majority of Fixed Income Mutual Funds AUM is invested in superior credit quality securities and schemes have appropriate liquidity to ensure normal operations and hence, investors should remain invested in Mutual Funds to create wealth over the long term.

Ajcon Global's view

What a roller coaster week it has been? US crude oil was trading below zero dollar or rather at negative pricing, Facebook promoted by Mark Zuckerberg taking a minority stake of 9.99 per cent equity stake in Reliance's Jio Platforms, US becoming a global concern on COVID-19 with more than 50,000 deaths, one of the best managed mutual fund closing 6 of its schemes. Maybe it is an opportune time to step back a little and understand what could be a new norm in future. 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 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. RBI has already announced various measures to improve liquidity in the system but its impact will take its own time. Government of India has already announced Humanitarian package of Rs. 1,70,000 crores to help the needy. We believe the Government will need to come with a major fiscal package for economic revival targeted towards SMEs and Industry as a whole.


On Friday, we witnessed selling in Banks, NBFCs, Insurance and AMC companies after Franklin Templeton fiasco and rally till April 23 from bottom in March 2020 and the selling is expected to continue in the absence of major fiscal package. As per media reports, there are talks of Rs. 1,00,000 crore fiscal package for SMEs.

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.

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. 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. Going ahead in the near term, newsflow regarding COVID-19, Q4FY20 earnings season, hope of fiscal stimulus package will determine Benchmark indices direction.

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 % cheaper then what it used to be. Consider this as an opportunity to build a strong portfolio gradually over next 3 months for your three generations to reap the benefits of it. 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.

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 market is yet to bottom out as there would be severe losses for the Companies in next six months and ground realities becoming very tough. Steep correction would always be on cards whenever Indian equities bounces back from an oversold zone. Right now, Dalal Street matches criteria for traders and investors will have to stay away for some while. We believe there would be ample opportunities for the investors at rock bottom prices in the current turmoil as Q4FY20 Q1FY21, Q2FY21 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. Sectors like FMCG, Pharma and Healthcare, 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.

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 as we firmly believe that **"with the right Company, there is only one way to go...Up"** .

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