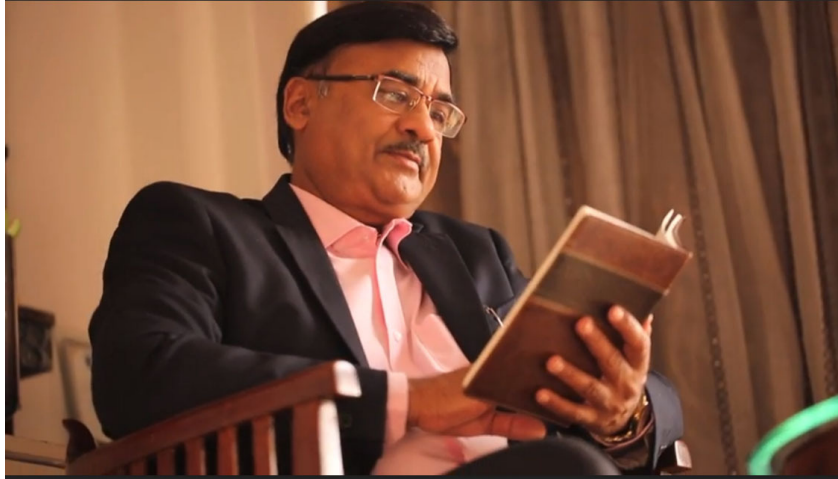




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YOUR FRIENDLY FINANCIAL ADVISOR



**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on August 29, 2020

**Investors not connected with ground realities; caution warranted as Indian equities running ahead of fundamentals on FPIs liquidity..**

On a weekly basis, Sensex was up 2.6 per cent while Nifty moved up 2.4 per cent. Indian equities turned buoyant on expectations of economic recovery and positive developments related to COVID-19 vaccine. Street participants are also expecting another set of fiscal reforms and RBI's support in Monetary policy. Financials witnessed a stellar run last week. Both Private and PSU Banks delivered handsome returns. NBFCs too were on upmove. Nifty Bank rallied by 10 percent in last week.

Stock specific action was witnessed on Q1FY21 earnings announcement and management commentary. Midcaps and smallcaps too were on fire as largecaps are expensively valued after rally in last five months.

FPI inflows has been robust in the month of August 2020 too. As per data available with NSDL, FPIs have infused about Rs. 50,688 crore in the Indian financial market in August so far.

**Ajcon Global's view**

We advise investors to exercise great caution while building fresh long positions at the present level. The current situation is such that retail money is chasing smallcaps and ignoring fundamentals. Investors should avoid fresh entry in high risk smallcaps as in correction phase, smallcaps bleed the most. No doubt, the economic activity has picked up but not at the same intensity of Pre - COVID era in different phases of Unlock period but the cashflow situation for MSMEs is still an issue. Presently, caution is warranted as Indian investors are not connected to ground realities of economic situation being tough which is evident by the fact that Companies are looking to raise capital via QIP, Rights issue, Preferential Allotment and FPOs to absorb the shock of COVID-19. Although there are relaxations in lockdown, exponential rise in COVID-19 cases can force for tighter lockdown. We believe Indian equities will take cues economic activity pickup during relaxations in Lockdown, escalating US- China, India - China tensions after banning of Chinese mobile apps; global cues especially the spike in COVID-19 cases across the globe in second wave, on ground domestic economic situation.

We believe cooling of Indian equities will be healthy for investors as the sharp rally in lockdown period and different phases of Unlock was led by liquidity through FPIs. Last 2 months rally can be attributed to positive developments related to COVID-19 vaccine, relaxations in Unlock 1.0, 2.0 and 3.0 and better than expected Q1FY21 result of majority companies announced so far. Exponential rise in COVID-19 cases amidst high recovery rate, US - China, India - China tensions would always remain an overhang on Indian equities. Equities rallying along with Gold make us uncomfortable as it is clear case of global liquidity as big economies have resorted to printing money as part of stimulus package. The FPI inflows came amidst rush of liquidity in the markets globally after central banks around the world announced stimulus measures to help their economies. The stimulus measures given by the G4 central banks such as the US Federal Reserve, Bank of England, European Central Bank, and Bank of Japan, have helped fill the global markets with liquidity, marquee Indian companies tapping the secondary stock market by raising funds also contributed towards the increase in FPI flows.



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We like the measures announced by RBI in its Monetary Policy to address the issues faced by the Indian industry. The central bank announced measures to support NBFCs, HFCs, corporate debt market, and announced a relaxation on the loan-to-value (LTV) ratio for gold loans. RBI provided relief to stressed MSME borrowers by making them eligible for restructuring their debt under the existing framework, provided their accounts with the concerned lender were classified as standard as on March 1, 2020. This restructuring will have to be implemented by March 31, 2021. Further, the RBI introduced special resolution window under its June 29 circular. In addition, The Reserve Bank of India constituted the expert committee to oversee the resolution of stressed assets created by COVID-19 under the chairmanship of KV Kamath. The committee will recommend financial parameters factored in the resolution plans, along with sector specific benchmark ranges. The Expert Committee will undertake the process validation for the resolution plans to be implemented under this framework, without going into the commercial aspects, in respect of all accounts with aggregate exposure of Rs. 1,500 crore and above at the time of invocation. The "Prudential Framework on Resolution of Stressed Assets" dated June 7, 2019 provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. "The resultant stress can potentially impact the long-term viability of a large number of firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate, relative to their cash flow generation abilities," RBI said.

The details regarding the policy for restructuring of NPA accounts is still awaited from the expert committee to oversee the resolution of stressed assets caused by COVID-19 under the chairmanship of KV Kamath. The guidelines on the KV Kamath committee recommendations will be out by September 6, Reserve Bank of India (RBI) Governor Shaktikanta Das said in a television interview on Friday. The committee on business loan resolution would submit its recommendations within one month and the central bank will soon release its final guidelines on the issue. Both the process will be done within 30 days from the date of original notification on August 6, Das said. We believe the restructuring measures announced by RBI will help PSUs to protect themselves from capital erosion as they are loaded with NPAs.

The crisis caused by COVID-19 has been very harsh and unimaginable as it is a once in a life time event. 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, the containment measures like the lockdown of the entire country to break the chain of virus will have significant effects on the global economy. While this current situation is unique in many ways, fear and greed are still the common denominators of every crisis. India is no exception as the economy has to come to a grinding halt amidst the ongoing lockdown. The lockdown to curb virus spread has forced permanent damage in exports markets for all the major economies except to some extent Indian Pharma. MSMEs would be the worst affected as there would no cashflow as income would be missing.

India was already in bad shape with India's GDP taking massive hit in last 2-3 years due to miniscule credit growth and slowdown in consumption. Investment led spending also took a hit. Various crisis and scams like IL&FS, PMC Bank, DHFL and Yes Bank tore apart the Indian Financial System and questions were raised on the regulatory front and on basic survival of Non Banking Financial Companies. Affecting Credit off-take: Bank credit growth was shattered to an over five-decade low of 6.14 percent in the fiscal ended March 31, 2020, amid a faltering economy, lower demand and risk aversion among banks, RBI data showed.

Bank advances growth in FY20 was the slowest since the fiscal ended March 1962, when loans had grown by 5.38 percent. In the week ended March 27, 2020, advances stood at Rs. 103.71 lakh crore as against Rs. 97.71 lakh crore as on March 29, 2019, according to Reserve Bank data. During FY20, bank deposits grew by 7.93 percent to Rs. 135.71 lakh crore as against Rs 125.73 lakh crore, the RBI data showed. The growth in deposits was slowest since FY18, when it had increased by 6.21 percent. In FY19, credit offtake was 13.29 percent while deposits grew by 10.04 percent.

The Government announced various measures in its 20 lakh crore package which RBI measures as well. 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 announced; 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, no benefit 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 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. The package is so ill designed that till date only about Rs. 1.00 Lakh Crore is sanctioned and about Rs. 50,000 Crores is disbursed under the package of Rs. 3.00 lakh crores. The subordinate debt scheme of Rs. 20,000 Crores and fund of funds of Rs. 50,000 Crores are not yet even formulated.

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



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2018-19. India's gross domestic product (GDP) witnessed a 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 in 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.

S&P Global Ratings had said Indian economy is in deep trouble with growth expected to contract by 5 per cent this fiscal. "India's economy is in deep trouble. Difficulties in containing the virus, an anemic policy response, and underlying vulnerabilities, especially across the financial sector, are leading us to expect growth to fall by 5 per cent this fiscal year before rebounding in 2021," S&P said in a report. In its report titled 'Asia-Pacific losses near USD 3 trillion as balance sheet recession looms', S&P projected the region's economy to shrink by 1.3 per cent in 2020, but grow by 6.9 per cent in 2021. This implies a loss nearing USD 3 trillion output over these two years.

Considering the sharp rally in the last five months including the Lockdown period and various phases of Unlock – Reopening of economy, we advise investors to book profits who have entered at levels during the announcement of initial Lockdown.

We once again advise caution to the investors specially the traders as many of the stocks are running much beyond the fundamentals and the current rally is in contrast to the economic reality. SEBI from its side is tightening the goose and making margining more tough to take care of any eventuality like March which has uprooted many brokerages and their clients including the largest debt credit fund. A great deal of maturity is required in dealing with the prevailing market situation. Going ahead all eyes would be on newsflow related to COVID-19 vaccine development across the globe, US PMI data along with Non-farm payroll data, developments related to US-China trade deal, domestic monthly auto Sales numbers, much awaited GDP data, AGR case developments, progress of ongoing monsoon,

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