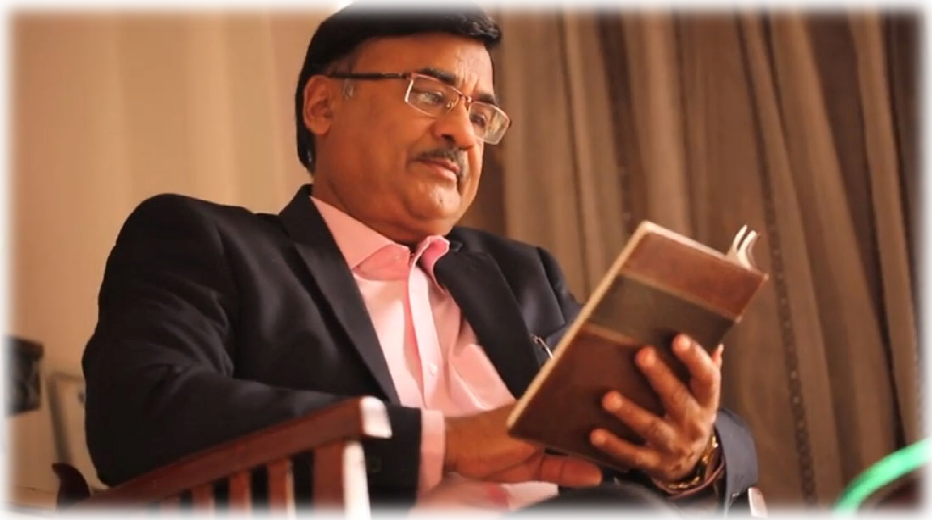

Dr. Ashok Ajmera (FCA), CMD & CEO

Dr. Ajmera's column as on Sep. 29, 2018

Bloodshed witnessed in equity markets led by crash in NBFCs and smallcaps; advise building long term portfolio..

The benchmark indices ended marginally lower on Friday, weighed down by automobile and information technology (IT) stocks. The S&P BSE Sensex ended at 36,227, down 97 points, while the broader Nifty50 index settled at 10,930, down 47 points. On a weekly basis, the benchmark index ended lower by 1.91 percent.

Investors have lost a whopping amount of more than Rs. 14 lakh crores in the stock market during the month of September as the benchmark index down 6% led by financials amid the ongoing crisis at IL&FS. Total investor wealth, measured in terms of the cumulative market value of all listed stocks on BSE, fell by Rs 14.48 trillion in September to Rs 144.86 trillion, the exchange data shows. On August 31, 2018, the market capitalisation (market-cap) of BSE listed companies stood at Rs. 159.35 lakh crores.

On Friday, the S&P BSE Sensex ended at 36,227, down 6.3% or 2,418 points from 38,645 levels at the beginning of the month. The benchmark index has reported its worst monthly fall in percentage terms since February 2016, when it's fell 7.5% during the month. The S&P BSE Midcap and S&P BSE Smallcap index tanked 13% and 16%, respectively, in the month of September.

The BSE Smallcap and Midcap indices have plunged 16 per cent and 13 per cent, respectively, in September — their biggest monthly fall since October 2008.

Amongst the F&O stocks, Infibeam has created history by falling 71 percent in a day to Rs. 58 as against its previous close of Rs. 180 on NSE. "There is no pending information or announcement from the Company which may have a bearing on the price behaviour in the scrip," Infibeam Avenues said on a clarification on current movements in share price. Reacting to the steep fall in stock price, the management of the company in a stock exchange filing clarified "all the material information, that have a bearing on the operation/performance of the Company which includes all price sensitive information under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), have always been disclosed by the company within the stipulated time". "Further, the Company has always provided timely clarification/information sought by the Stock Exchanges. The clarification given by the Company's management did not help the stock to recover. Infibeam is a leading online retailer in India and is also the world's fastest growing e-commerce Technology Company. Infibeam offers cloud-based ecommerce platform service in B2C and B2B verticals and is recognised globally for its innovative approach towards delivering business values and responsive to changing customer needs.

The broader markets have marked with mayhem the 10th anniversary of the collapse of Lehman Brothers in the very month it happened. Unlike in 2008, when the Sensex too had crashed 24 per cent, the headline indices fell 6.3 per cent this month, their worst monthly performance in 31 months.

The genesis of the fall this month has been sell-offs in the emerging market, fall in the rupee, rising bond yields, and waning risk investor appetite. Also, lofty valuations — the Sensex and Nifty touched all-time highs in end-August — coupled with deteriorating macroeconomic fundamentals amid rising crude prices, provided little comfort even to perennial stock market bulls.

The velocity of the market correction in September was so fierce that nine stocks declined for every one that advanced. The BSE Smallcap index saw 877 of its 952 components end with losses during the month, while 102 of 110 stocks in the BSE Midcap index saw negative returns. The breadth wasn't any better for the Sensex, where 26 components ended with losses and only five, most of them technology stocks, managed to deliver positive returns.

Sectors and stocks

The mayhem in NBFCs is led by liquidity crisis in IL&FS and has a domino effect on other NBFCs as well. IL&FS Financial Services defaulted on interest payment and fixed deposits. This was fourth in a series of defaults by the group entity. Debt defaults by certain group entities of diversified IL&FS have triggered fears of a liquidity crisis in the financial markets and the RBI has been taking steps to improve the overall cash situation. IL&FS, where LIC is the largest shareholder with 25.34 per cent stake, has a debt load of over Rs 90,000 crore. IL&FS is planning to divest non-core assets to meet short-term funding requirement. The Company may sell 14 out of its existing 19 road projects. It's working with the RBI and the government for legal approval to the asset sale. It also plans to raise Rs 16,000 crore from sale of asset in its transport arm. The government is monitoring the situation of the debt-ridden IL&FS and would take appropriate action to ensure there is no undue impact on the financial system, Economic Affairs Secretary Subhash Garg said on Friday.

Ajcon's view

To resolve the liquidity crisis, the government will cut gross market borrowings by Rs 700 billion for 2018-19 to finance its fiscal deficit, which is expected to remain within the targeted 3.3 per cent of gross domestic product (GDP). The move, along with measures of the Reserve Bank of India (RBI), is expected to ease pressure on bond yields and liquidity. For the second half, the government will mop up Rs 2.47 trillion as market borrowings, which will include issuances of inflation-linked bonds.

Meanwhile, the Indian economy grew 8.2 percent in April-June this year, the highest in two years, amid signs that households are buying more and companies are adding capacities, shrugging off the disorderly effects of the twin shocks of demonetisation and the goods and services tax (GST). Domestic air passenger traffic, robust rail freight movement, rising sales growth of passenger vehicles and strong consumer durables sales also point to a turnaround in the greater household spending. Gross Fixed Capital Formation (GFCF), a useful metric to measure corporate investment activity, grew 10.0 percent in April-June. The agriculture sector grew 5.3 percent, from 3 percent in the same period last year, largely reflecting a strong Rabi or winter sown harvest. The monsoon rains, critical for the summer-sown kharif crop, has been slightly below normal this year so far, particularly in the grain bowl states in north India, but the shortfall isn't alarming enough to pull down growth in the broader economy. India also cemented its status as the world's fastest growing major economy, ahead of China, which grew 6.7 percent in April-June 2018.

Going ahead, we believe, rupee movement against the dollar, volatility in oil prices, movement of bond yields, RBI policy in October will keep domestic bourses volatile. We believe that the investors can have a stock specific approach. The recent destruction provides investors sitting on cash a wonderful opportunity to accumulate great companies backed by strong management at decent valuation. Investors can gradually start building their long term portfolio in some of the top rung stocks of which many have come down between 20-30 percent in the recent fall. All said and done, we still believe that equity is a great asset class and these are the times when one should put money in the market from medium to long term perspective.

Dr. Ashok Ajmera, FCA

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CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

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